Asia
First to Market

J.P.Morgan

Asia Pacific Equity Research
11 June 2010

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Top Stories

Quantitative, Global

Top Picks in Real Estate

(Robert Smith, Steve Malin)

We ran a broad range of factor back-tests against the GICS 4040 sector in the MSCI All World index from 1993-2010. Stocks that scored well in Asia are New World Development, Kerry Properties, Agile Property, CapitaMall Trust & Lend Lease, among others.

Noble Group Ltd (OW), Singapore

Investment thesis intact

(Ajay Mirchandani)

While we remain bullish on Noble's medium-term growth prospects, we see FY10 less likely to be the blow-out year we previously anticipated. While our earnings estimates remain unchanged, we see potential 6%-8% downside to consensus earnings. Herein, we explain certain preconceived notions vs. reality.

Parkway Holdings Ltd (UW), Singapore

Downgrade to Underweight

(Christopher Gee, CFA)

Since the news of Khazanah's partial takeover offer, Parkway shares have traded above the highest effective price under the various acceptance scenarios. We think the shares impute a 50% probability of a counter-bid at S$4.18, implying a Dec 2010 net earnings multiple of 33.7x on our estimates.

Strategy, Malaysia

10th Malaysia Plan unveiled

(Chris Oh, CFA)

We are encouraged by the slew of upcoming projects in the construction space over the few years and the opportunities under the M$20B facilitation fund for companies to take on PFI projects. Our top pick in the construction space remains IJM. Other key picks remain Public Bank, AMMB, Genting & Tenaga.

PTT Public Company (OW), Thailand

Compressed natural gas: Don't pop the champagne yet

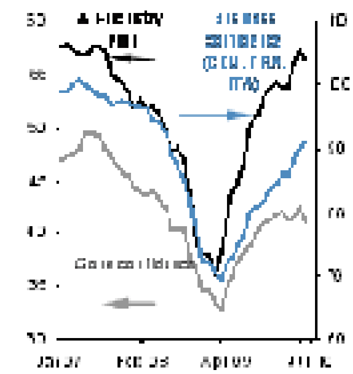
(Sukit Chawalitakul)

We are not hopeful that the premier will approve the proposed price increase. While we do not expect imminent good news on CNG, we remain positive on PTT. This is underpinned by the stock's cheap valuation vs. its robust growth outlook. We rate this AFL stock OW, with a Dec-10 PT of Bt350.

AM perspective

Adrian Mowat, Chief Equity Strategist

Time to add risk



Source: J.P. Morgan Economics

Nerves are frayed. Investors' post traumatic stress disorder symptom of "sell first then check the story" remains strong. The perceived risk reward is poor with expectation that markets will move lower before moving higher. We suspect that this sell off will burn itself out as the economic fundamental data does not support the decline. We advise investors to monitor European PMIs. If PMIs remain elevated, the US financial reform bill is passed, and lower bulk commodity prices confirm a China rebalancing, then investors should regain some confidence. Our advice is to add risk now. For more *please see "Off balance to rebalance: Perspectives and Portfolios", Mowat et al, 3 June 2010.*

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Daily Global Economic Briefing

Link to Other FTMs page

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Recommendation and Forecast Changes

- **Parkway Holdings Ltd (Underweight)**, Singapore *(Christopher Gee, CFA)*
  The bird in hand

Strategy

- **Market Strategy**, Asia Pacific *(Adrian Mowat)*
  Emerging Markets Strategy Dashboards
- **Market Strategy**, China *(Frank Li)*
  Views from the Bund: China Equity Strategy and Economics
- **Market Strategy**, India *(Bharat Iyer)*
  India Equity Strategy: Color of Money - Growing dependence on external capital

Economics

- **Economy**, China *(Qian Wang)*
  May exports rose sharply at 48.5%oya, led by shipment to US and Europe; trade surplus rose to $19.5 bn
- **Economy**, Malaysia *(Sin Beng Ong)*
  10th Malaysia Plan unveiled
- **Economy**, Malaysia *(Sin Beng Ong)*
  April IP suggests expansion continued apace
- **Economy**, South Korea *(Jiwon Lim)*
  BoK on hold: It modestly steps up hawkish rhetoric but still wary of external risks
- **Economy**, TIP Markets *(Matt Hildebrandt)*
  Philippines: exports tumbled in April
- **Economy**, TIPV Markets *(Matt Hildebrandt)*
  Vietnam: not time to panic over sovereign credit fundamentals

Results and Company Views

- **Astra International (Overweight)**, TIP Markets *(Aditya Srinath, CFA)*
  Astra to Raise its stake in 4W Financing unit to 100% - ALERT
- **Cathay Pacific (Overweight)**, Hong Kong *(Corrine Png)*
  May Traffic Monitor - ALERT
- **Ezra Holdings Ltd (Overweight)**, Singapore *(Ajay Mirchandani)*
  EOC's FPSO, Lewek Arunothai, comes back on-line - ALERT
- **Housing Development and Infrastructure Ltd. (HDIL) (Overweight)**, India *(Saurabh Kumar)*
  High court ruling against FSI increase is a positive - ALERT
- **ICICI Bank (Neutral)**, India *(Seshadri K Sen, CFA)*
  Meeting with ICICI Pru Life: still in flux - ALERT
- **Li Ning Co Ltd (Neutral)**, China *(Ebru Sener Kurumlu)*
  Notes from China Conference - ALERT
- **Ports Design (Overweight)**, China *(Ebru Sener Kurumlu)*
  Notes from China Conference - ALERT
- **Woori Financial Group (Overweight)**, South Korea *(Scott YH Seo)*
  Continued realization of heretofore "potential" risks - we recommend buying on the dips
- **Tencent (Overweight)**, China *(Dick Wei)*
  Recent share price weakness in Tencent

Sector Research

- **Cosmetics & Personal Care, Food & Food Manufacture**, India *(Latika Chopra, CFA)*
  India Consumer & Retail: Off the Shelf

Asia Analysts' Focus List

Company Name	Ticker	Analyst	Rating	Mkt. Cap (Mil)	Mkt. Cap (US$ Mil)	Focus List Add Date	Focus List Add Price	Close 06/10/10	Target Price	Date Target Price Set
Australia										
Aristocrat Leisure Limited (A$)	ALL AU	Stuart Jackson, CFA	OW	2160	1820	30-Oct-08	4.52	4.05	5.5	23-Feb-10
Campbell Brothers Limited* (A$)	CPB AU	Alexander Mees, ACA		1756	1479	9-Sep-08	24.33	27.88		23-Feb-10
GrainCorp Ltd (A$)	GNC AU	Stuart Jackson, CFA	OW	1088	917	26-Nov-08	6.29	5.49	7.25	27-May-10
Intoll Group (A$)	ITO AU	Kirsty Mackay-Fisher, CFA	OW	2431	2048	17-Apr-08	1.35	1.08	1.80	3-Feb-10
Myer Holdings Limited (A$)	MYR AU	Shaun Cousins	OW	1791	1509	5-Feb-10	3.25	3.08	4.05	14-May-10
Wesfarmers Limited (A$)	WES AU	Shaun Cousins	OW	32953	27759	6-May-10	27.98	28.48	33.39	28-May-10
Westfield Group (A$)	WDC AU	Rob Stanton	OW	29770	25078	27-Jan-10	12.91	12.90	13.92	3-Jun-10
China										
AAC Acoustic (HK$)	2018 HK	Charles Guo	OW	13189	1692	8-Sep-08	6.91	10.74	17.50	11-May-10
Air China (HK$)	753 HK	Corrine Png	OW	129301	16590	27-Aug-08	3.93	7.75	7.8	23-May-10
Bank of China 'H' (HK$)	3988 HK	Sunil Garg	OW	1013689	130064	4-Mar-09	2.16	3.86	5.1	24-Mar-10
Bank of Communications Co (HK$)	3328 HK	Samuel Chen	OW	383650	49225	31-Mar-10	8.73	8.45	11.7	7-Jun-10
China Citic Bank - H Share (HK$)	998 HK	Samuel Chen	OW	227284	29162	23-Nov-09	5.73	4.90	7.70	30-Apr-10
China High Speed Transmission (HK$)	658 HK	Boris Kan	OW	20220	2594	6-May-10	18.42	16.24	24.30	6-May-10
China Merchants Bank Co., Ltd - A (HK$)	600036 CH	Samuel Chen	OW	284875	41705	29-Apr-10	13.82	12.68	20.60	14-Apr-10
Focus Media (US$)	FMCN	Dick Wei	OW	2069	2069	3-Jun-10	15.44	15.80	22.00	3-Jun-10
Industrial and Commercial Bank of China - A (Rmb)	601398 CH	Samuel Chen	OW	1453910	212846	30-Oct-08	4.96	4.14	6.5	26-Mar-10
Shandong Chenming Paper (HK$)	1812 HK	Leon Chik, CFA	OW	14277	1832	30-Mar-10	5.31	5.50	12	5-May-10
Zhejiang Expressway (HK$)	576 HK	Karen Li, CFA	OW	31270	4012	20-Apr-10	6.83	7.20	8.1	20-Apr-10
Hong Kong										
Cosco Pacific (HK$)*	1199 HK	Karen Li		23889	3065	26-Aug-08	10.64	8.81		31-Mar-10
HSBC Holdings plc (HK$)	5 HK	Sunil Garg	OW	1262446	161981	24-May-10	71.65	72.10	115.00	22-Apr-10
Ju Teng International Holdings Limited (HK$)	3336 HK	Alvin Kwock	OW	6372	818	29-Nov-09	5.62	5.70	10	29-Nov-09
K Wah International Holdings (HK$)	173 HK	Sunny Tam, CFA	OW	5900	757	13-Apr-10	2.98	2.38	4.7	14-Apr-10
Japan										
Citizen Holdings (¥)	7762 JT	Hisashi Moriyama	OW	183585	2013	29-Jan-10	596	524.00	750.00	28-May-10
FUJIFILM Holdings (¥)	4901 JT	Hisashi Moriyama	OW	1318986	14460	26-Jan-10	2,942	2563.00	4,500.00	28-May-10
Hitachi (¥)	6501 JT	Yoshiharu Izumi	OW	1540690	16890	29-Jul-09	293	341.00	590.00	23-Apr-10
Honda Motor (7267) (¥)	7267 JT	Kohei Takahashi	OW	4812755	52762	19-Jan-10	3,370	2623.00	3,600.00	29-May-10
Nintendo (¥)	7974 JO	Eiji Maeda	OW	3442557	37741	23-Mar-10	27,970	24300.00	37,000	7-May-10
Tokyo Electron (¥)	8035 JP	Hisashi Moriyama	OW	962656	10554	6-Apr-06	8,050	5330.00	9,100	10-May-10
Tokyo Seimitsu (¥)	7729 JT	Hisashi Moriyama	OW	55758	611	12-Jan-10	1,150	1352.00	1,800.00	12-Jan-10
Philippines										
Philippine Stock Exchange Inc (Php)	PSE PM	Harsh Wardhan Modi	OW	8047	173	9-Oct-07	820	262.50	700.00	27-Jun-08
Singapore										
CapitaLand (S$)	CAPL SP	Christopher Gee	OW	15085	10687	29-Sep-08	3.26	3.54	5.30	18-Jan-10
DBS Group (S$)	DBS SP	Harsh Wardhan Modi	OW	30684	21737	8-Aug-08	14.36	13.44	19.00	9-May-10
Genting Singapore (S$)	GENS SP	Nicole Goh	OW	12779	9054	10-May-10	0.96	1.05	1.35	14-May-10
Noble Group Ltd (S$)	NOBL SP	Ajay Mirchandani	OW	10655	7549	12-Nov-09	2.83	1.78	3.50	12-Nov-09
Olam International (S$)	OLAM SP	Ajay Mirchandani	OW	5091	3607	2-Oct-08	1.80	2.52	3.70	10-Aug-09
Singapore Airlines (S$)	SIA SP	Corrine Png	OW	17309	12262	23-May-10	14.60	14.52	17.00	2-Feb-10
Singapore Exchange (S$)	SGX SP	Harsh Wardhan Modi	OW	7915	5608	22-Jul-09	7.62	7.39	10	22-Jul-09
Wilmar International Limited (S$)	WIL SP	Ying-Jian Chan	OW	36568	25909	25-Jan-10	6.69	5.72	9	25-Jan-10
South Korea										
LG Display (W)	034220 KS	JJ Park	OW	14419870	11571	15-Mar-10	35900.00	40300.00	60,000.00	23-Apr-10
LG Innotek (W)	011070 KS	Marcus Shin	OW	3340973	2681	23-Mar-10	115000.00	169000.00	210,000.00	27-Apr-10
Samsung SDI (W)	006400 KS	Marcus Shin	OW	7949931	6379	23-Jun-09	95100.00	174500.00	210,000.00	25-Sep-09
SK Energy Co Ltd (W)	096770 KS	Brynjar Eirik Bustnes	OW	9847583	7902	5-Oct-07	147,500	106500.00	150,000.00	19-Oct-09
Hyundai Department Stores (W)	069960 KS	Jinah Lee	OW	2634560	2114	3-Mar-10	100,500	116000.00	120,000.00	23-Apr-10
Woori Financial Group (W)	053000 KS	Scott YH Seo	OW	11929030	9572	26-Mar-10	15,400	14800.00	22,000.00	26-Mar-10
Taiwan										
Chinatrust Financial Holdings (NT$)	2891 TT	Dexter Hsu	OW	157189	4862	24-Aug-09	18.75	16.75	26.00	24-Oct-09
Chimei Innolux Corporation (NT$)	3481 TT	Liang-Chun Lin	OW	271111	8358	10-Jan-10	54.1	33.75	63.00	10-Jan-10
Prime View International Co. (NT$)	8069 TT	Liang-Chun Lin	OW	48367	1493	4-Mar-10	53.6	45.05	85.00	28-Nov-09
Tripod Technology Corp (NT$)	3044 TT	Christopher Ma	OW	56112	1732	18-Apr-10	106.0	118.50	160.00	18-Apr-10
Unimicron Technology Corp. (NT$)	3037 TT	Christopher Ma	OW	69943	2159	18-Apr-10	40.75	45.20	60.00	18-Apr-10
Thailand										
PTT Public Company (Bt)	PTT TB	Sukit Chawalitakul	OW	695381	21393	23-Mar-10	256.00	245.00	350.00	19-Jan-10

Source: Bloomberg, J.P. Morgan estimates. *Under applicable law and/or JPMorgan Chase & Co policy, all J.P. Morgan ratings and estimates for this company have been removed.

For details on the AFL methodology, please see the Asia Cash Equities page on mm.jpmorgan.com or contact your J.P. Morgan salesperson/the covering analyst.

Upcoming Events

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Quant top picks in Real Estate

What's scoring well on our new Property model

Global Quantitative

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J.P. Morgan India Private Limited

- The listed real estate sector is often treated separately by investors and for good reasons. Property is, after all, a distinct asset class.
- Historically we have been conscious of the fact that our "regular" technique for stock selection (a technique that relies on balancing earnings based, valuation based, price based and quality based drivers in [relatively] equal measures) has been poor at distinguishing winners and losers in this particular sector. This has prompted us to take a closer look at the drivers of this sector from a quantitative perspective and we detail these results in this report.
- We ran a broad range (75) of factor back-tests against the GICS 4040 (real estate) sector in the MSCI All World index from 1993-2010.
- Over the long term the individual factors that we found that to be most useful for stock selection in the Real Estate sector were:
  - Historical Price/Book
  - Forward PE relative to 3 year history
  - 1-6 month Price reversion
  - Percent off 52-week high (in the reverse, i.e. stocks furthest from their highs did the best)
  - Short term overbought and oversold on Relative Strength Indicators
- As part of this analysis we also built various composites to explore what combinations of strategies were effective. In conclusion we found that a very effective strategy could be based around buying stocks that:
  - had gone down the most in the last month,
  - were cheap on P/B, and
  - were cheap on PE (relative to their own history)
- Stocks that are scoring well on the model in Asia are ***New World Development***, ***Kerry Properties***, ***Agile Property***, ***CapitaMall Trust***, and ***Lend Lease*** among others.
- There is a comprehensive report available in which we have a detailed back-testing analysis of each of the 75 factors, the composite performance and testing within a range of countries & regions around the world. **Please contact us for a copy.**

Noble Group Ltd

Keep the faith

Overweight

NOBG.SI, NOBL SP

Price: S$1.78

Price Target: S$2.26

- **Three-year investment thesis intact; 2010 likely to now be a year of consolidation:** While we continue to remain bullish on Noble's medium-term growth prospects (FY09-FY12 EPS CAGR of 18% with upside risk in our view) on the back of (a) new assets kicking in [Soybean crushing plant (Apr-10), Sugar-ethanol plant (mid-11) and MiddleMount-Coal (FY11/12)], (b) energy platform expansion (increasing share of coking coal, oil & gas trading platform and GCL), and (c) potential CIC-Noble agriculture JV, we see ***FY10 less likely to be the blow-out year we previously anticipated*** with (a) flattish volume growth in FY10 (JPM estimate is -5%), (b) lower exposure to China ore-related business (we see MMO, Logistics volume down 15-20%), and (c) lower energy margins (on oil & gas expenses, lower carbon credit sales and GCL amortization) While our 2010 earnings estimates remain unchanged, we see potential ***6-8% downside to consensus earnings***.
- **China's Indian iron ore and Argentinean soy oil ban not as bad as it seems**: Initial concerns about China's ban on low-grade iron ore (mainly from India) substantially impacting Noble's volumes (for rest of FY10) seem overblown as our channel checks suggest that the ban does not apply to agents of steel mills (Noble supplies 100% to steel mills). While the China ban on Argentinean soy oil is a negative, Noble has been able to lower its impact by oil exports to India/Bangladesh. Moreover, with its China crush presence it should benefit from improved margins.
- **Pre-conceived notions versus reality?** In this Note, we explain certain pre-conceived notions relating to Noble such as: (a) ***commodity prices*** play a major role in earnings growth, (b) Noble is largely a ***China industrial demand play***, and (c) ***capex*** does not seem to impact earnings substantially; what's different now?
- **Retain Overweight; June-11 PT of S$2.26**: At our PT, Noble would be trading at FY11E P/E of 14.9x and 2.5x P/B. Key risks remain execution and steep decline in prices of commodities in which it trades.

Singapore
Logistics & Freight

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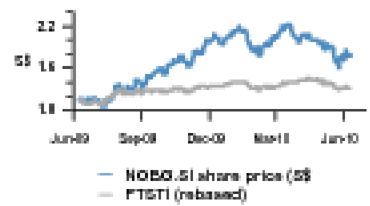
Price Performance



	YTD	1m	3m	12m
Abs	-15.1%	-8.0%	-19.1%	54.5%
Rel	-10.0%	-5.3%	-15.8%	39.7%

Reuters NOBG.SI; Bloomberg: NOBL SP

US$ in millions, year-end December

	FY09	FY10E	FY11E	FY12E
Revenue	31183	41421	47961	54773
Net profit (reported)	556	556	688	785
Net profit (recurring)	430	556	688	785
EPS (diluted) (US$ cents)	7.7	8.89	10.8	12.5
DPS (US$ cents)	2.3	2.3	2.8	3.3
EPS growth (fully diluted)	-23%	16%	20%	18%
ROE	18%	17%	18%	18%
FD P/E (x)	18.4	14.2	11.9	10.1
P/B (x)	2.3	2.3	2.0	1.7
Dividend yield	1.8%	1.8%	2.2%	2.6%

52-week range(S$)	1.04-2.23	Free float (%)	58
Market cap (S$ million)	10655	S$/US$	1.4
Market cap (US$)	7581		
Share outstanding (MM)	5975		
Avg daily value (S$MM)	62.3		
Avg daily value (US$MM)	44.5		
Avg daily volume (MM)	31.8		
Performance	**1M**	**3M**	**12M**
Absolute (%)	-8.0	-19.1	54.5
Relative (%)	-5.3	-15.8	39.7

Source: Company data, Bloomberg, J.P. Morgan estimates.

Parkway Holdings Ltd

The bird in hand

▼ Underweight
Previous: Neutral
PARM.SI, PWAY SP
Price: S$3.87
Price Target: S$3.00

Singapore
Healthcare

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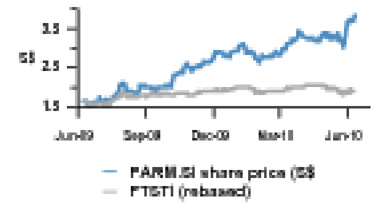
Price Performance



	YTD	1m	3m	12m
Abs	32.1%	19.4%	27.3%	134.5%
Rel	37.2%	22.1%	30.6%	119.7%

- **Downgrade to Underweight with share price implying a significant control premium:** Since the 27 May announcement of Khazanah's partial takeover offer for Parkway Holdings, the share price has traded consistently above the highest effective price under the various acceptance scenarios for the Khazanah offer (S$3.56/share on our estimates which reflect an ex-bid valuation of S$3.00/share, equivalent to 24.0x underlying FY10E EPS). At the current S$3.87 price, we believe the shares impute a 50% probability of a counter-bid at S$4.18, equivalent to 33.7x our FY10 net earnings estimate, and a 39% premium over our ex-bid valuation.
- **Khazanah partial offer document released:** The record date for entitlement to the Khazanah offer is on 24 June (5pm), and the closing date for the offer is on 8 July (5.30pm). Since 31 May, 8.2 million shares have changed hands at a price above the Khazanah offer price of S$3.78 (0.7% of outstanding shares) but the longer the price remains above this level, the more likely it becomes that Khazanah's partial offer does not become unconditional and the partial offer is voted down by shareholders.
- **Key risk to our rating:** The board of directors of Parkway's largest single shareholder Fortis Healthcare Ltd approved equity and debt funding of up to US$1.86 billion, 1.8x Fortis' current enterprise value. If there is a counter-bid (or an improvement in the terms of Khazanah's offer) there may be an opportunity cost in divesting the shares.
- **End Dec 2010 price target of S$3.00 based on an ex-bid scenario** and equivalent to 24x our 2010 EPS estimate. By comparison, Parkway's peer group (see page 2 of this report which includes Apollo Hospitals Enterprise (APHS IN, Not Rated), the largest India hospital operator by market capitalization) is trading at 20.5x FY10 consensus earnings estimates on a weighted average basis.

Parkway Holdings Ltd (Reuters: PARM.SI, Bloomberg: PWAY SP)

S$ in mn, year-end Dec	FY08A	FY09A	FY10E	FY11E	FY12E		
Revenue	945	979	1,134	1,330	1,764	Shares O/S (mn)	1,132
Net Profit	34.8	118.9	140.0	202.4	311.6	Market cap (S$ mn)	4,382
EPS (S$)	0.03	0.11	0.12	0.18	0.28	Market cap ($ mn)	3,095
DPS (S$)	0.06	0.01	0.01	0.02	0.03	Price (S$)	3.87
Revenue growth (%)	8.7%	3.6%	15.9%	17.3%	32.6%	Date Of Price	10 Jun 10
EPS growth (%)	-92.0%	241.3%	17.8%	44.5%	54.0%	Free float (%)	52.0%
ROCE	7.7%	5.1%	5.7%	6.6%	6.9%	3-mth trading value (S$ mn)	14.0
ROE	3.7%	8.7%	9.2%	12.0%	16.2%	3-mth trading value ($ mn)	9.9
P/E (x)	125.3	36.7	31.2	21.6	14.0	3-mth trading volume (mn)	2.6
P/BV (x)	3.4	3.0	2.7	2.5	2.1	FTSTI	2,746
EV/EBITDA (x)	30.0	28.5	26.1	23.2	19.3	Exchange Rate	1.42
Dividend Yield	1.6%	0.3%	0.3%	0.5%	0.7%	Fiscal Year End	Dec

Source: Company data, Bloomberg, J.P. Morgan estimates.

Malaysia Strategy

The 10th Malaysian Plan: Great framework in place, now awaiting implementation

- **The 10th Malaysia Plan (10MP) was unveiled** in Parliament today. The 5-year policy framework builds upon many of the initiatives and strategies highlighted under the recently announced New Economic Model document. In our view, the two most significant points intended to re-accelerate the nation's long-term growth are 1) creating a conducive environment for private sector-led growth; and 2) nurture, retain and attract human talent.
- **Key fiscal highlights** include:- 1) 10MP development allocation of M$230B, equal to 9MP although there is now more emphasis on developing non-physical infrastructure (40% vs 21.8% under 9MP); 2) key challenge to grow private sector investments by 12.8% per annum to sustain average target GDP growth rate of 6%; 3) reduce fiscal deficit from 5.3% in 2010 to 2.8% by 2015; 4) reduce federal debt/GDP from 52.9% in 2010 to 49.9% by 2015.
- **Equity market impact highlights** and initiatives include:- 1) New Energy policy and to remove all energy subsidies by 2015, 2) Competitive bidding for new power plants and highways; 3) Clear delineation between regulator and market players to be introduced for public healthcare, electricity supply and telecommunications to remove distortions and promote healthy competition;
- **Construction sector highlights** include:- 1) 52 high impact projects worth M$63B have been identified for implementation including highways, power plants, township development, regasification plant, aluminum smelters, property development; 2) a M$20B facilitation fund to bridge the viability gap of strategic projects; 3) implementation of high capacity Mass Rapid Transit System with total length of 150km; 4) upgrade of ports and extend railway infrastructure
- **JPM view:** Investors should look at the 10MP as a broad framework to form their views on the market and the implications for the various sectors rather act upon the news flow, as we believe there is still a long lead time before implementation. Nevertheless, we are encouraged by the slew of upcoming projects in the construction space over the next few years and the opportunities under the M$20B facilitation fund for companies to take on Private Financing Initiative (PFI) projects. Our top pick in the construction space remains IJM Corp. In the medium term, should PM Najib's administration prove able to implement the 10MP as laid out, we would expect to see an upward trajectory in the growth of the economy which would augur well for the market at large. Our other key picks for Malaysia remain Public Bank, AMMB, Genting and Tenaga.

Strategy

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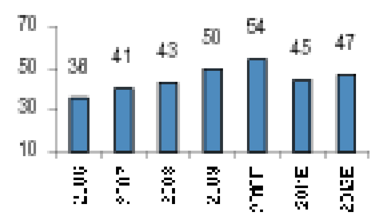
JPMorgan Securities (Malaysia) Sdn. Bhd. (18146-X)

Gross development expenditure (M$B)



Source: EPU

Top picks

	Ticker	Mkt Cap M$ MM	Rating	Price	CY P/E 2010E	CY P/E 2011E	Net yield FY10E	P/NTA FY10E	ROE (%) FY10E	Price target	Upside (%)
Genting	GENT MK	25,883	OW	6.98	15.4	13.4	0.8	1.7	8.0	10.35	48.3
Tenaga	TNB MK	38,294	OW	8.35	12.8	11.3	2.8	1.3	9.7	10.80	29.3
AMMB	AMM MK	14,920	OW	4.95	12.0	10.0	1.8	1.5	11.8	6.00	21.2
Public	PBKF MK	40,688	OW	11.52	13.2	12.1	3.8	3.3	26.5	13.80	19.8
IJM	IJM MK	6,352	OW	4.78	15.4	11.8	1.7	1.2	6.7	5.60	17.8

Source: Bloomberg, J.P. Morgan estimates. Priced as at 10 June 2010.

PTT Public Company

CNG: Don't pop the champagne yet

Overweight

PTT.BK, PTT TB
Price: Bt245.00
Price Target: Bt350.00

Thailand
Integrated Oils

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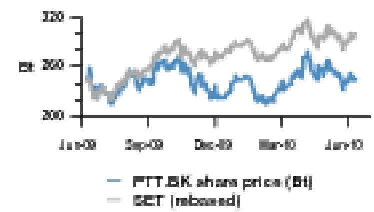
Price Performance



	YTD	1m	3m	12m
Abs	0.0%	-5.0%	3.4%	0.4%
Rel	-4.9%	-3.6%	-3.2%	-22.8%

- **Energy policy review on 28 June:** Energy minister Wannarut Charnukul indicates that the ministry will meet with the National Energy Policy Committee (NEPC), chaired by PM Abhisit, on 28 June. The meeting will review current ST energy policy that will end 31 August. One key proposal, as indicated by Minister Wannarat, would be to raise prices of compressed natural gas (CNG) that have been capped at Bt8.5/kg for several years.
- **Impact on PTT:** PTT indicates that it currently suffers a Bt6 loss for every kg of CNG it sells. We estimate that the firm will sell 158MMcfd (1,600MM kg) of CNG this year. Hence, a price relief of just Bt1/kg would help ease PTT's burden by Bt1.6B—or 1.2% of its pre-tax profits. According to a PTT deputy MD, Nattachat Jarujinda, a Bt2/kg price increase would be fair and affordable (*Krungthep Thurakit,* 10 Jun 10). We calculate that even at Bt10.5/kg (Bt8.5 + Bt2.0), CNG would still be 60% cheaper than diesel, on the equivalent heat rate basis.
- **We are not optimistic:** However, we are not hopeful that the premier will approve this price increase proposal. CNG cars total less than 140,000 units—or 0.5% of nation-wide vehicles. Still, the government appears highly sensitive to this group of car users. We note that CNG prices were scheduled to rise since early 2010 but were postponed until August. Now, given current political situation, as well as possible general elections by early FY11, we see a CNG price hike as unlikely.
- **Ratings and Price target:** While we do not expect imminent good news on CNG, we remain positive on PTT. This is underpinned by the stock's cheap valuation (FY10E P/E of 9.5x) against its robust growth outlook (20% over FY10E-FY11E). Dec-10 PT of Bt350/share is based on SOTP valuation (please see pie-chart breakdown on p.2). Key risks: (1) petroleum prices, (2) gas demand and (3) regulatory risks (such as current price caps on CNG and LPG).

PTT Public Company Limited (Reuters: PTT.BK, Bloomberg: PTT TB)

Bt in mn, year-end Dec	FY09A	FY10E	FY11E	FY12E		
Revenue	1,586,174	1,950,960	2,235,538	2,046,223	Shares O/S (mn)	2,838
Net Profit	59,547.0	72,805.9	88,388.2	95,847.0	Market cap (Bt mn)	695,381
EPS (Bt)	21.01	25.69	31.19	33.82	Market cap ($ mn)	21,331
DPS (Bt)	8.50	9.50	10.00	10.50	Price (Bt)	245.00
Revenue growth (%)	-20.7%	23.0%	14.6%	-8.5%	Date Of Price	10 Jun 10
EPS growth (%)	14.8%	22.3%	21.4%	8.4%	Free float (%)	30.0%
ROCE	15.1%	16.6%	19.8%	20.7%	3-mth trading value (Bt mn)	766.1
ROE	14.7%	16.1%	17.4%	16.8%	3-mth trading value ($ mn)	23.5
P/E (x)	11.7	9.5	7.9	7.2	3-mth trading volume (mn)	2.6
P/BV (x)	1.6	1.5	1.3		SET	768
EV/EBITDA (x)	6.3	5.3	4.3	3.9	Exchange Rate	32.60
Dividend Yield	3.5%	3.9%	4.1%	4.3%	Fiscal Year End	Dec
Adjusted EPS (Bt)	19.65	25.75	31.19	33.82		
Adjusted P/E	12.47	9.52	7.85	7.24		

Source: Company data, Bloomberg, J.P. Morgan estimates.

J.P.Morgan

Emerging Markets Strategy Dashboards

Emerging Markets Equity Strategy Team

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Global Emerging Markets Research

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Country Recommendation

OW: Korea, Taiwan, India, Philippines, Mexico, Turkey, South Africa; Technology, Transportation
UW: China, Brazil; Telecom, Utilities
KEY TRADES: CEMBI Surfers; OW India and Turkey
Growth surprise from DM not EM, OW Mexico, Taiwan and Turkey plus technology and transportation.
QR not QE in EM; UW Brazil, China, energy and commodities

Key Changes

Market performance to 9 June 2010

- Year to date: MSCI Emerging Markets -9.5% outperforming MSCI World by 0.5%
- Year to date: MSCI EM Asia -9.1% outperforming MSCI Emerging Markets by 0.4%
- Top three markets YTD in US$ terms: Colombia, Indonesia and Thailand
- Bottom three markets YTD in US$ terms: Hungary, Poland and Czech Republic

Sector performance

- Year to date: MSCI EM Healthcare 0.9% outperforming MSCI Emerging Markets by 10.5%
- Year to date: MSCI EM Energy -13.3% underperforming MSCI Emerging Markets by 3.8%
- Top three key market sectors YTD in US$ terms: China Telecommunication Services, Mexico Telecommunication Services and Korea Consumer Discretionary
- Bottom three key market sectors YTD in US$ terms: Taiwan Financials, Brazil Energy and Korea Materials

Demand classification sector performance

- YTD: Global Consumer 6.4%, Domestic Demand -6.2%, Global Capex -10% and Global Price Takers -10.9%

J.P. Morgan's revisions to 2010 Real GDP growth forecasts

- Positive: Brazil 7.5% [7.0%], Korea 5.9% [5.8%], Turkey 5.9% [5.1%], Emerging Europe 4.2% [4.1%], Euro area 1.4% [1.3%]

J.P. Morgan's revisions to 2011 Real GDP growth forecasts

- Negative: Korea 4.0% [4.1%], Turkey 5.0% [5.5%], Emerging Europe 4.7% [4.8%]

J.P. Morgan's revisions to Central Bank Policy rate forecasts

- Philippines: Last Change 9 Jul 09 -25bp, Next Change 24 Aug 10 +25bp [3 Jun 10 +25bp], Current 4.00%, Jun 10 4.00% [4.25%], Sep 10 4.25% [4.75%], Dec 10 4.25% [5.00%]
- Thailand: Last Change 8 Apr 09 -25bp, Next Change 20 Oct 10 +25bp [14 Jul 10 +25bp], Current 1.25%, Jun 10 1.25%, Sep 10 1.25% [1.50%], Dec 10 1.75%
- Brazil: Last Change 9 Jun 10 +75bp, Current 10.25% [9.50%], Jun 10 10.25%, Sep 10 11.50%, Dec 10 12.50%
- Turkey: Next Change 14 Oct 10 +25bp [14 Oct 10 +50bp], Current 7.00%, Jun 10 7.00%, Sep 10 7.00%, Dec 10 7.75% [8.5%]

Table of Contents	Page #

Please see Key Trades and Risks, Mowat, Laidler, Gordon, et al, 25 May 2010, for our latest emerging markets equity strategy.

Views from the Bund

China Equity Strategy and Economics

'Views from the Bund' is a monthly publication that gives clients a value-added view on China macro, strategy, and industry insights.

- **Key investment theme:** We stay cautious on MSCI China in the coming months, despite a possible technical rebound because: (1) we see downside earnings risk to MSCI China due to the economic deceleration owing to the combined ripple effect of the crackdown on the property sector and a slowdown in banks' lending to local government-funded investment projects; (2) policy risks such as the resource tax, which may hurt the earnings of and de-rate multiples of energy and upstream resources companies; (3) tight liquidity situation in China, as reflected in the recent rise in short-term interest rate in the repo market as well as inter-bank market; and (4) possible additional tightening measures in property and FAI areas such as raising share capital funds requirement for investment projects, and property tax on tier-one cities on a pilot basis, etc. That said, we firmly believe in China's bright medium-term growth prospects because: (1) China boasts of a strong balance sheet at the country, household, and consumer levels. Total government debt is still below 50% of GDP, which is well below the ratios of many developed countries, whose government debt-to-GDP ratios typically hover above 60%; (2) favorable demographics—China's dependency ratio, a measure showing the degree of dependents (aged 0-14 and over the age of 65) to the total working population (aged 15-64), has declined from around 50% in early 1990s to below 40% towards late 2000s, and is not expected to rise until at least 2015, according to our estimates; (3) we can still find some sectors with low penetration rates and solid secular growth; and (4) a powerful central government with strong execution capability to carry on the necessary economic reforms. We recommend investors to wait for a better entry point until the above-mentioned concerns are addressed before buying China's secular growth sectors.
- ***What* is changing:** The "new resource tax" is now applicable for oil production, natural gas and coal in the Xinjiang Autonomous Region.
- **China model portfolio adjustment:** We are bullish on: (1) consumer staples; (2) expressways with good dividend yields; (3) new economy plays such as high-tech manufacturing and strategic new industries such as new materials, and new energy etc; (4) menswear with strong secular growth; and (5) IPPs. We stay cautious on commodities, property, home appliances, and energy.

China

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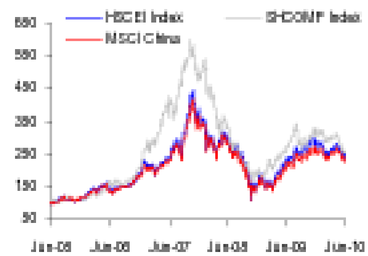
Relative Index performance



Source: Bloomberg.

China top picks

		RIC	Mkt cap	EPS Y/Y growth (%)		P/E (x)		P/BV (x)	ROE (%)	Div. yld (%)
	Rec	ticker	(US$MM)	2010E	2011E	2010E	2011E	2010E	2010E	2010E
China Resources Power Holdings	N	0836.HK	9,423	24.7	28.9	12.3	9.7	1.8	15	2.6
Huaneng Power Int'l - H	N	0902.HK	9,683	35.0	1.7	10.9	10.7	1.0	10	2.1
China Mengniu Dairy Co. Ltd.	OW	2319.HK	5,251	15.2	34.1	26.5	19.7	3.6	15	0.8
Zhejiang Expressway	OW	0576.HK	4,047	13.6	12.2	13.6	12.1	1.9	14	4.9
Huabao International Holdings Ltd	N	0336.HK	3,737	19.0	21.9	21.6	17.7	7.6	40	2.0

Source: Bloomberg, J. P. Morgan estimates. Share prices and valuations as of 3 June 2010.

India Equity Strategy

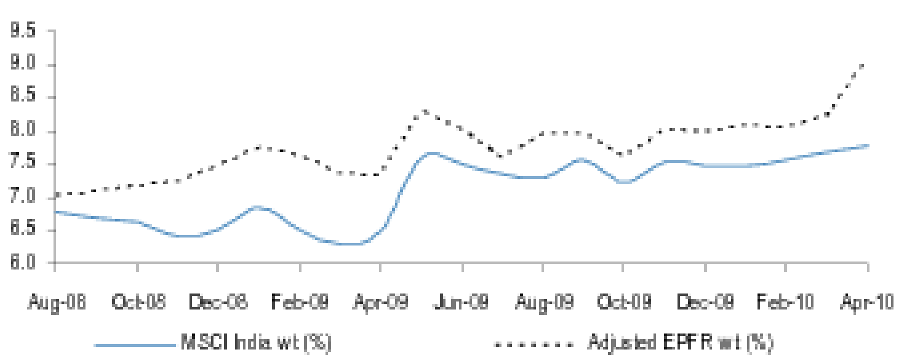
Color of Money - Growing dependence on external capital

- **FIIs increase India overweight stance.** Latest available EPFR data for April indicates that FIIs have significantly raised their relative overweight on India. We have highlighted in earlier reports that India typically outperforms during phases of global commodity price corrections, as the pressure on inflation and the fiscal deficit moderates.
- **Special focus – Growing dependence on external capital.** Foreign investors have been dominant in the Indian equity markets for a while. Over the last 4 years, corporate India has been increasingly relying on the international markets for debt finance as well. After a breather during the global financial crisis last year, the trend is manifesting itself strongly again. We reiterate that while international trade may be a relatively small part of the Indian economy, the dependence on external capital means global issues will have an impact on domestic growth. Emerging trends in international liquidty and risk appetite therefore merit close attention.
- **Liquidity tightens.** The sharp yield curve has begun to flatten. The long end got marginal relief, but the short end rose 110 bps as telecom companies borrowed substantially to fund their bids for the 3G spectrum auctions. The pressure at the short end is expected to continue over the near term as advance tax payments and payouts for the BWA are also due in June.
- **Mixed market indicators**. Trading volumes and values remain depressed, just as the outstanding position in the F&O segment reached an all time high for May. Our money flow monitor suggests outflows from materials and consumer staples and inflows into pharmaceuticals and state owned oil companies.
- **Insider activity.** Insiders were marginal net buyers over the month.

  Net buy: Cipla, Jai Prakash Associate, Wipro, Ambuja Cement

  Net Sell: HCL Tech, United Spirits

India weight in MSCI and EPFR universe (%)



India

Indian Equity Strategy

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Emerging and Asian Equity Strategy

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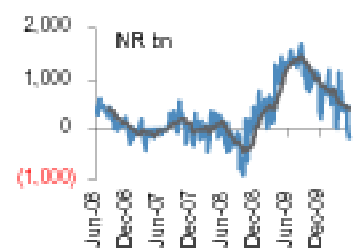
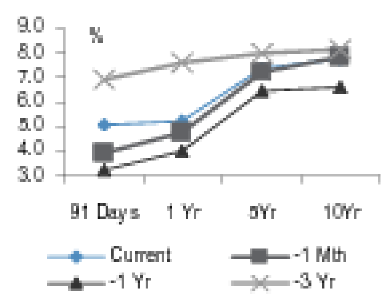
J.P. Morgan Securities (Asia Pacific) Limited

Liquidity with the Indian banking system



Source: Bloomberg. Daily amount in RBI's LAF window

Indian yield curve



Source: Bloomberg

Astra International

Astra to Raise its stake in 4W Financing unit to 100% - ALERT

Overweight

ASII.JK, ASII IJ

Price: Rp42,750

10 June 2010

Auto Parts

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PT J.P. Morgan Securities Indonesia

- **Astra to raise its stake in Astra Sedaya to 100%:** Astra International announced that it had signed a conditional sale and purchase agreement to buy the 47% of Astra Sedaya Finance (ASF) that it doesn't own. Astra Sedaya is Astra's largest 4 wheeler financing outfit, with assets of a little over Rp 11 trn ($1.2bn). This will result in a full exit of its partner GE Capital from the Joint Venture. Astra has not disclosed the acquisition price yet, and a GE spokesperson declined to share the information.

- **The when and why:** GE expects the deal to close in 1HFY10, subject to regulatory requirements. Astra has said that the value is less than 20% of Net Worth and hence will not require shareholder approval. GE clarified that the decision to sell the business is aligned to GE Capital's ongoing efforts to shrink its balance sheet.

- **Permata to acquire cards and joint financing, Astra to own ASF:** After Bank Permata (a 46% owned affiliate of Astra) announced that it was acquiring GE Finance in Indonesia we surmised that an exit of GE from ASF was likely, but we thought that the stake could be held through Permata. It is now clear to us that GE's Indonesian cards & joint financing businesses will move to Bank Permata, while ASF will move to Astra. By Astra buying ASF directly we see a larger economic interest for Astra (100% vs the 74% otherwise) and direct control without some of the regulatory and capital issues that a bank investment could involve.

- **Our hypothesis is a $240-300m price tag:** At the end of 1QFY10, ASF had a Net Worth of Rp 1.9 trn. ASF has generated an ROE of 24-25% in the last 2 years (27% in 1QFY10). With the big banks trading at 3.4x current PBV, we estimate a range of 2.5-3.1x PBV for ASF which would translate to Rp 2.3-2.8 trn ($240-300m) for the 47% stake. Astra International had a net cash position of Rp 2.3 trn at the end of 1Q, and we think funding such a deal should not be an issue.

- **2% positive impact on earnings, strategic value higher:** Based on FY09/1QFY10E, we estimate the acquisition of the additional 47% should add about 2% to Astra's earnings per share. We think the strategic value is more than immediately apparent on earnings. Astra views financial services as part of its Automobile value chain, and can probably work more easily to dovetail strategies of auto and financing without needing to balance the interests of a JV partner. We also think that GE's exit will not increase ASF's funding costs, and believe technical know-how of the partner has been absorbed by ASF.

Cathay Pacific

May Traffic Monitor - ALERT

Overweight

0293.HK, 293 HK

Price: HK$15.60

11 May 2010

Airlines

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J.P. Morgan Securities (Asia Pacific) Limited

- **Passenger traffic growth accelerated in May**, up 10% y/y and 4% m/m, pushing its YTD traffic growth to 5% y/y even though May is seasonally a softer month. The results were boosted by passengers whose trips were postponed from April to May owing to the European airspace closure in April. Traffic on European routes rose 16% m/m but was 1% lower y/y. Traffic on flights to the Americas rose an impressive 12% m/m and 15% y/y. Traffic surged y/y on the China (+34% boosted by the Shanghai Expo), NE Asia (+24%) and SE Asia (+13%) routes, partly due to the low base last year which was impacted by the global economic downturn and Swine flu. Management said that yields also improved y/y. ***Compared to the pre downturn levels in May 2008, passenger traffic was already 3% higher.*** Premium traffic demand continued to grow and management is optimistic on the segment. Management added that "although still below pre-crisis levels, the pick-up in demand in our premium cabins continued (in May) and the overall outlook for the summer peak still remains solid".
- **Passenger load factor (PLF) rose 6ppts y/y to 81%,** as demand continued to outstrip Cathay's 3% y/y capacity increase. YTD load factor was 84%, +5ppts y/y. Northeast Asian flights reported the strongest improvement with load factors up 18ppts y/y to 79%. This was followed by China flights where loads rose 13ppts y/y to 78% and Southeast Asian flights where loads rose 9ppts y/y to 82%. North American flights were extremely full, with load factors running at 93%, +7ppts y/y.
- **Cargo traffic growth surged in May**, up 39% y/y vs its ytd growth of 26%. Consequently, this pushed up cargo load factor by 11ppts y/y to 79%. According to Cathay's management, May is not usually a strong season for air cargo but this year, there was a continuation of the high demand out of key markets seen in the first four months. Demand across the network remained strong and a general shortage of capacity in the industry helped to keep the load factor high. Cathay boosted capacity (which was 20% higher y/y and 8% m/m) by adding a number of extra services and charters in response to high demand, together with the return of freighters parked in the desert last year. ***Compared to the pre downturn level in May-07, cargo traffic is already 19% y/y higher.***
- **Other recent developments**: 1) Raised stake in Air China to 18.48% (through open market purchases) to offset the dilution effect of Air China's recent share placement. 2) Will raise fuel surcharges for long haul flights to HK$524 (+21%) and short haul flights to HK$110 (+20%) with effect from June. 3) Faces a c.HK$26MM fine on charges related to air cargo pricing practices by Korea's Fair Trade Commission, along with other carriers including SIA Cargo (which was fined W2.3B, less than CX). 4) In response to tightening safety regulations, CX has started to introduce seatbelt-mounted airbags in its economy-class cabins. The device costs US$1200 a piece as compared to US$25 for a regular seatbelt. 5) New code sharing agreement with Mexicana Airlines, boosting services to Mexico City and Guadalajara.

Ezra Holdings Ltd

EOC's FPSO, Lewek Arunothai, comes back on-line - ALERT

Overweight

EZRA.SI, EZRA SP

Price: S$1.77 (intraday)

10 June 2010

Oil Services & Equipment

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J.P. Morgan Securities Singapore Private Limited

- **EOC's Lewek Arunothai FPSO comes back on-line**: In a press release last night, EOC (Ezra owns 48% stake) confirmed that it has resumed the operations of FPSO, Lewek Arunothai, after suspending production activities for a scheduled maintenance and upgrading program. Thus, EOC has completed the maintenance and modifications program and has restarted production. In a press release on May 1st 2010, EOC had highlighted that the scheduled maintenance would last approx. 45 days. In our estimate the overall down time lasted for approximately 40 days. ***We see this as positive as concerns remained on this issue being prolonged leading to higher than expected earnings impact to Ezra.***
- **Why was the maintenance undertaken and what was the earnings impact from the downtime?** Our discussions with management suggested that the maintenance of 45 days was being undertaken to ensure gas flow for the FPSO. However given the downtime of 45 days, it was expected to have an earnings impact of ***approx. US$8-10 million*** (Ezra impact is estimated to be at ~US$4-5 million) in our calculations (based on a day rate of US$228,000 and daily opex of US$60,000).
- **Recent US$80 million contract should improve Marine segment margins in 2H10**: The offshore accommodation structure contract worth US$80 million (for deployment in West Africa) should play a key role in improving Ezra's FY10E margins closer to its targeted 18-24% range versus the 13% achieved in 1H10.
- **Subsea assets delivery (targeted by Aug 2010 / March 2011) remains next key catalyst:** At its 2Q10 results, Management indicated that it expects delivery of 2 of its subsea assets (DP3 heavy lift and one of its MFSVs) in Aug'10 and the third subsea asset (the 2nd MFSV) in Mar'11. While this is slightly later than initially targeted by Ezra, this **'anticipated delay' is fully factored in our estimates** for 2011. These three assets remain the key earnings drivers for Ezra over next 2-3 years and any further delay would negatively impact earnings estimates.

Reuters EZRA.SI; Bloomberg: EZRA SP

US$ in millions, year-end August

	FY08A	FY09A	FY10E	FY11E
Revenue	268	329	400	513
Net profit (reported)	175	70	83	109
Net profit (recurring)	50	70	83	109
EPS (reported) (US$)	0.33	0.12	0.12	0.16
EPS (recurring) (US$)	0.09	0.12	0.11	0.15
DPS (US$)	0.03	0.02	0.02	0.03
P/E (x)	3.8	10.4	10.1	7.6
P/E (fully diluted) (x)	14.5	10.4	10.9	8.3
P/B (x)	2.0	1.4	1.5	1.3
Dividend yield	2.0%	1.2%	1.6%	2.4%

52-week range(S$)	1.11-2.61	Free float (%)	57
Market cap (S$ bn)	1.175	S$/US$	1.4
Market cap (US$ mn)	827		
Share outstanding (MM)	663.8		
Avg daily value (S$MM)	19.9		
Avg daily value (US$MM)	13.7		
Avg daily volume (MM)	16.9		

Performance	1M	3M	12M
Absolute (%)	-7.8	-25.2	+41.3
Relative (%)	-5.1	-21.9	+24.5

Source: Company, Bloomberg, J.P. Morgan estimates.

J.P.Morgan

Housing Development and Infrastructure Ltd. (HDIL)

High court ruling against FSI increase is a positive - ALERT

Overweight

HDIL.BO, HDIL IN

Price: Rs219.90

10 June 2010

Property

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Gunjan Prithyani

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J.P. Morgan India Private Limited

- **High court ruling against FSI increase is a positive, removes one overhang:** As per CNBC, Bombay high court today set aside Maharashtra government's decision to increase FSI to 1.33x from 1x in Mumbai suburbs. This comes as a positive surprise to us and bodes well incrementally for TDR demand as a number of developers were likely holding back their TDR purchase pending clarity on this decision.
- The impact of the ruling is likely to be beneficial both for TDR pricing and volumes. Mumbai suburbs in 2009 absorbed ~25 msf of residential/commercial space. We calculate that this in turn could support 8-9 msf of annual TDR demand. Assuming a 25-30% volume drop on account of a slowdown in transaction volumes, we estimate stabilized annual TDR demand levels would fall to ~6-7 msf. HDIL controls most of the TDR inventory (>80%) in the market and hence we think it should be in a position to achieve 5-6 msf of sales on an annual basis.
- **Impact on financials**- We currently model sales of 5 msf in FY11 and 5.6 msf in FY12 vs 6.5msf achieved in FY10. Further we currently assume 0%/5% price growth in FY11/12. Our FY11 volume assumption is at the lower end of management guidance of 5-6 msf. Assuming a 6 msf run rate for FY11/12, our EPS would rise by 15%/4% respectively for FY11/12. As a sensitivity, a 1 msf increase in absorption per annum over our base case increases our NAV by Rs 13/Share.
- **Please see below for TDR volume and quarterly price movement Q/Q from FY09.**

Table 1: HDIL: TDR sales

Sales trends							
Rs MM, YE March	**2QFY09**	**3QFY09**	**4QFY09**	**1QFY10**	**2QFY10**	**3QFY10**	**4QFy10**
TDR Volumes (msf)	1.5	0.3	1	1.8	1.7	1.5	1.475
% ch		-80%	233%	80%	-6%	-12%	-2%
Average price	2,300	1,400	1,100	1,500	2,000	2,500	2,700
% ch		-39%	-21%	36%	33%	25%	8%
Total Realization	**3,450**	**420**	**1,100**	**2,700**	**3,400**	**3,750**	**3,983**
Total Sales	4,776	3,138	3,579	2,954	3,537	4,089	4,341
TDR as % of total sales	**72%**	**13%**	**31%**	**91%**	**96%**	**92%**	**92%**

Source: Company

ICICI Bank

Meeting with ICICI Pru Life: still in flux - ALERT

Neutral

ICBK.BO, ICICIBC IN

Price: Rs824.55

09 June 2010

Banks

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- **We met the management of ICICI Prudential Life Insurance (unlisted subsidiary of ICICI Bank):** The business is still in a state of flux due to regulatory uncertainty. Recent regulatory measures are expected to put some pressure on earnings. Our cautious view on the company and the sector continues.
- **Surrender charges, pension changes negative:** The IRDA has recently proposed/enacted some regulatory changes. Pension plans (55% of ICICI Pru's sales) cannot offer partial withdrawals before maturity; this will affect sales. There is also a proposal to cap surrender charges on in-force policies; this could lead to some EV pressure.
- **Growth is at risk:** Management believes that industry growth (and that of ICICI Pru) will be reasonably resilient if the current status quo is maintained on the regulatory front. Adjustments to the current policies, focus on greater agent productivity, and resilient markets should drive moderate growth for the industry. The risk is further regulatory tightening, which could then put industry growth under pressure.
- **Persistency has probably seen the worst:** FY10 saw high levels of surrender, putting pressure on persistency. Management believes that premium conservation as well as surrender levels should stabilise going forward. FY10 was probably a one-off increase in surrenders given the sharp recovery in the markets.
- **Margins could adjust downward:** We expect multiple points of pressure on margins – lower charges, a shift to traditional policies, lower ticket sizes. There is also some risk to EV if surrender charges on existing policies are cut. Absolute cost improvements (non-commission opex declined 6% for two successive years) would be difficult to sustain going forward, but opex ratios should continue to improve.
- **Remain cautious:** Our valuation of ICICI Pru remains unchanged at Rs133B (13.2x historic P/NBP), which translates to a contribution of Rs56/share (5%) to ICICI's March-11 sum-of-parts price target of Rs950. We maintain our Neutral rating on ICICI Bank, given the uncertainty around the insurance business and full valuations on the banking business. Key downside risk to our target price is lumpy bad loans from the wholesale lending book. Upside could come from accelerated growth in the domestic book, if retail deposit flows are stronger than expected.

J.P.Morgan

Asia Pacific Equity Research
11 June 2010

Li Ning Co Ltd

Notes from China Conference - ALERT

Neutral

2331.HK, 2331 HK

Price: HK$26.25

10 June 2010

AP Equity Research

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- Sporting goods market in China has seen a rapid increase. Now that phase is over and we are at a stage of slower growth.
- In 2006-2008 the industry CAGR was 34%; we expect it to be 16% in 2009-2013.
- Growth has slowed down because driving force is different and store expansion is not a big driver anymore. At this stage you need to look at niche markets.
- Consumers of sporting goods in China are trading up. In 2003, 57% of the market was focused on footwear products with a ticket size of less than Rmb200, 20% of purchases had a ticket price of Rmb200-500 and 23% of purchases had a ticket price above Rmb500. In 2009, ratios are projected to be 17%, 40%, and 35% for these three respective categories.
- The segment in which the ticket price is more than Rmb500 is dominated by international brands. The main problem local brands are facing is how to break into this segment.
- Major drivers of sports apparel purchases are (in order of importance): quest for new style, losing interest in old style, replace old items, enhance performance, "I want that too!"
- Major drivers of sports footwear purchases are (in order of importance): replace old items, losing interest in old style, enhance performance, quest for new style, recommended by others.
- Management further discussed the trend that lifestyle is taking up space from sportswear, especially at department stores.
- Profitability at retail level is dwarfed as rentals and staff costs have risen.
- Low price brands will find it difficult to survive.
- Li Ning brand has got the right product but needs to increase the price.
- Management is planning a brand relaunch in August 2010 whereby it will communicate the essence of the brand, its characteristics and DNA.
- In the future, markets with a ticket size more than Rmb500 will be the most important market. There will be low-end products as well, but distribution channels will change and they will be mostly in hypermarkets rather than department stores.
- In the next five years, we expect big changes in the retail landscape as well. Retailers will move from mono-brand stores to sports category stores (i.e. multi-brand) as they need to improve efficiencies. They will need to carry multiple brands to attract consumers.

Ports Design

Notes from China Conference - ALERT

Overweight
0589.HK, 589 HK
Price: HK$18.76
10 June 2010

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- Store rationalization exercise was started in 2007 and will be finalized by the end of this year. Initially the company was planning to do it over four years but, given that the market was good in 2009, it decided to speed up the process in 2009.
- Answering questions regarding the corporate gifting market, management noted that May was actually a very robust month for Ports Design. Some categories saw a slowdown, but overall there was no slowdown.
- Continuous gross margin expansion is a reflection of pricing power. Ports Design increased prices by 5% for the spring/summer season of 2010. This increase was intentionally limited to see if its customers were sensitive to price increases. Volumes have held up at the same levels despite this, so management has decided to implement higher price increases for the fall/winter season. It is targeting to increase prices 4-5% above the inflation rate for fall/winter season.
- Companies first need to be successful in tier 1 cities in China and then move onto tier 2 and 3. In tier 2 and 3 Ports Design will have controlled expansion. Many of these cities do not have appropriate channels/ department stores yet. Expect that to change in the next 3-5 years.
- Inventory control was not as good as desired as certain tools of the trade were missing. As there were no outlet malls in the industry earlier, there was not an efficient way of dealing with previous seasons' merchandise. Now that outlet mall chains are being established, expect to see improvement in inventory days naturally.

Woori Financial Group

Continued realization of heretofore "potential" risks - we recommend buying on the dips

Overweight

053000.KS, 053000 KS

Price: W14,800

Price Target: W22,000

- **A fraud case reported:** Before the market opened on June 10, local news (*Korea Economic Daily*) reported that FSS has been investigating a fraud case in Kyungnam Bank (KNB), a wholly owned subsidiary of Woori Financial Group (WFG), involving a "few hundred billion Won" of fraudulently issued PF guarantees. Along with the news that the National Tax Service is conducting the first-ever field audit on WFG (from June 8 to July 1; source: *MoneyToday*), the company's share price was hit hard during the day's trading, falling 3.6% (vs. KOSPI: +0.3% and KRX Bank: -0.2%). While the details remain uncertain, and many legal issues need to be clarified before we can judge the full extent of the fraud, we believe the short-term financial impact on KNB/WFG should be limited, but admit the existence of such a fraud case further hurts the already-weakened investment sentiment for the company.
- **The latest newsflow adds more uncertainty to major issues behind WFG's recent share price weakness,** namely: (1) increasing noise on the method & timing of WFG privatization, and (2) conservative earnings outlook statements by some competitors ahead of 2Q10 results. However, we maintain our positive stance on the company as a "turnaround story" (as part of our "barbell" strategy, along with SFG which we also rate as OW). Our stance that WFG will significantly improve its balance sheet ahead of its announced privatization later this year, and that the company has the means (i.e. proceeds from sale of investment securities) to do so, remains unchanged. Furthermore, we continue to believe the latest newsflow should be seen as the materialization of heretofore "potential" risks, and that investors should be looking to buy on the dips.
- **We maintain our DDM-based Dec-10 PT of W22,000,** which implies 1.1x FY10E BVPS and 8.1x FY10E EPS. Key risks to our PT are unexpected regulatory changes that could negatively/positively affect our view on the company, the group's relatively heavy exposure toward property-related PF loans and shipbuilding companies, and that the financial impact of the fraud case is greater than we expect.

South Korea
Banks/Bank-centric FHCs

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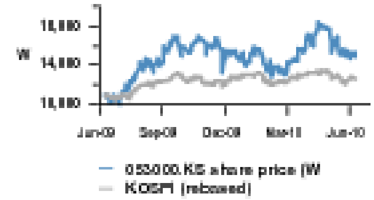
Price Performance



	YTD	1m	3m	12m
Abs	6.9%	-11.4%	2.4%	35.8%
Rel	9.5%	-9.9%	3.0%	19.1%

Reuters: 053000.KS, Bloomberg: 053000 KS

Won in billions, year-end December

	FY09	FY10E	FY11E	FY12E
Reported net profit	1,026	2,179	2,148	2,521
Attrib. net profit	1,026	2,179	2,148	2,521
Fully Diluted EPS (attrib NP) (Won)	1,273	2,704	2,662	3,128
*Cash adj. EPS (Won)	1,201	2,073	2,597	3,064
Cash DPS (Won)	100	300	350	400
EPS (attrib NP) growth (%)	119.4	112.4	(1.5)	17.5
*Cash adj. EPS growth (%)	144.9	72.6	25.3	18.0
ROE (%)	7.9	14.8	12.9	13.6
*Cash adj. ROE (%)	7.5	11.4	12.6	13.3
P/E (x)	11.6	5.5	5.6	4.7
P/E (cash adj.) (x)	12.3	7.1	5.7	4.8
BVPS (Won)	16,923	19,192	21,389	24,004
P/BV (x)	0.9	0.8	0.7	0.6
Div. Yield (%)	0.7	2.0	2.4	2.7

52-week range	W18,700-10,000
Market cap	W11,929B
Market cap	US$9,536MM
Shares issued	806MM
Free float	43.0%
Fiscal Year End	Dec
Price (W)	14,800
Date of Price	6/10/2010
Avg daily value	W102.B
Avg daily value	US$81.5MM
Avg daily volume	6.3MM shares
KOSPI	1,651.70
Exchange rate	W1,251/US$1

ADR	
Reuters	WF
Bloomberg	WF US
Price	36.62
52-wk range	US$50.33-23.35
Ratio	1:3
Avg daily volume	6,843 shares
Current premium (%)	3.2
13-wk avg discount (%)	-0.2
52-wk avg discount (%)	0.0

Source: Company data, Bloomberg, J.P. Morgan estimates. * Adjusted for profits/losses on asset and investment securities sales.

Tencent

Recent share price weakness in Tencent

Overweight

0700.HK, 700 HK

Price: HK$127.40

Price Target: HK$180.00

China
Internet

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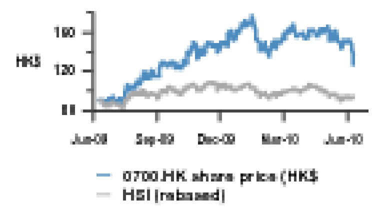
Price Performance



	YTD	1m	3m	12m
Abs	-24.4%	-17.4%	-22.1%	42.7%
Rel	-14.2%	-13.5%	-14.7%	38.2%

- **Tencent's share price has been weak over the past few days:** We believe the reasons are: (1) recent broker downgrade of the stock, on the thesis that game market growth is slowing down; (2) market confusion that the new virtual item trading policy could impact Tencent (we don't believe Tencent will be affected, as Tencent does not have a virtual item trading platform; (3) concerns about the CEO and other members of management reducing their stakes in late May.
- **Tencent's differentiated game products:** Tencent's online game revenue saw 30% QoQ growth in 1Q10, while most game companies reported weak 1Q10 results with a flat to sequential revenue decline. We believe the overall MMORPG market is observing slowing growth due to: undifferentiated content; higher game quality expectations by gamers; homogeneous marketing and promotional campaigns; and high ARPU in selected games. For Tencent, we believe DNF and Crossfire are differentiated from the traditional MMOR games in the market in terms of game-play and genre. With Tencent's large distribution platform and execution capability, we expect the segment to see sustainable growth. With the new game pipeline competing more directly in the traditional MMORPG space, we expect Tencent to gain some market share from existing market players.
- The current stock level looks attractive at 26x FY10E and 20x FY11E adj. diluted P/E, given the company's leading community platform, future revenue potential from social/mobile apps, payment, and eCommerce.
- We expect recent wage inflation for manufacturing and mini-wage workers in China to also benefit spending in Tencent's community and online games platforms, as Tencent has higher exposure in younger, lower-income internet users.

Reuters: 0700.HK, Bloomberg: 700 HK

Rmb MM, YE December	FY08	FY09	FY10E	FY11E
Net sales	7,155	12,440	18,195	23,540
Operating profit (EBIT)	3,246	6,020	8,747	11,182
EBITDA	3,653	6,801	9,914	12,554
Net Profit	2,785	5,158	7,517	9,787
Adj. Net Profit	2,945	5,477	7,971	10,258
Reported EPS (Rmb)	1.51	2.79	4.05	5.23
P/E (x)	74.5	40.0	27.6	21.4
Adj. EPS (Rmb) *	**1.60**	**2.97**	**4.29**	**5.48**
Adj. P/E (x)	70.5	37.7	28.0	20.4
EV/EBITDA	53.8	28.7	19.7	15.5
P/BV (x)	32.8	18.9	11.7	7.9
YE BPS (Rmb)	3.9	6.7	10.9	18.2

	FY08	FY09	FY10E	FY11E
ROE (%)	48	54	47	39
ROIC (%)	48	56	47	38
Qtr GAAP EPS (Rmb)	**1Q**	**2Q**	**3Q**	**4Q**
EPS FY09	0.57	0.65	0.77	0.81
EPS FY10E	0.98	0.94	1.05	1.10
EPS FY11E	1.18	1.26	1.37	1.42
	1M	**3M**	**12M**	
Abs. Perf.(%)	-17.4	-22.1	42.7	
Rel. Perf.(%)	-13.5	-14.7	38.2	
Cash	5,129	11,354	19,261	29,588
Equity	7,021	12,179	19,974	29,919

52-week range	US$84.5-176.5
Shares outstg	1,851MM
Avg daily value	US$ 115MM
Avg dly volume	6.0MM
Index (HSI)	19,833
Free float	~50%
Dividend yld (%)	0.3%
Market cap	US$30.4B
Price target	HK$180
Date of price	June 10, 2010

Source: Company, Bloomberg, J.P. Morgan estimates. * Note: Excluding share-based compensation expenses.

India Consumer & Retail

Off the Shelf

Below are the key developments in Indian consumer over the past month:

- **New product launches and developments.** 1) There have been a number of new launches in the deodorant space (category CAGR of 30% over past 3 years). **HUL**, **L'OReal** and **Wipro Consumer** introduced '*Sure*', '*Garnier Minerals*' and '*Santoor*' range of deodorants respectively in this category, 2) **Dabur** further took selective price hikes in order to mitigate the impact of firm input costs. It raised prices of *Babool Mint Fresh Gel* toothpaste by 10-13% and *200ml Vatika Shampoo* SKU by 2%. Last month it increased prices for Amla hair oil, glucose, skin care and air care portfolio (see details inside), **3) Colgate India** raised prices 3-4% on premium toothpastes – *Colgate MaxFresh Gel* and *Total*, to mitigate the impact of higher input costs, and 4) **Jyothy Lab** has raised prices for its leading fabric whitener *Ujala* by 16% taking up price of 75ml bottle from Rs12 to Rs14 and are test marketing new range of mosquito repellent wipes/cream under *Maxo Safe & Soft* brand.
- **JPM Global Research: P&G Management Meeting Update -** Our US HPC team highlights some ongoing key strategic shifts: fixing strategic gaps, including price tiers, product and country categories. P&G remains committed to increasing its consumer base with lower priced offerings to entice lower income consumers. It is now doing much longer term planning at the country level in order to make sure it is achieving the appropriate focus on the appropriate products in the markets.
- **Key commodity trends. Palm oil** prices were flat and domestic **soy bean** prices fell 4% m/m. **Sugar** prices fell 10% m/m (amidst concerns on higher supply) and **wheat** prices were up sharply 11% m/m. While **crude oil** prices fell 2% m/m, local **LAB** prices fell 3% m/m.
- **Performance and Valuation.** Over the past month, BSE FMCG Index was up 6%, outperforming Sensex by 7%. GCPL and Colgate were the better performers, up 18% and 10% respectively.

Cosmetics & Personal Care, Food & Food Manufacture

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J.P. Morgan India Private Limited

Relative performance of Indian consumer sector (MSCI)

Source: Bloomberg

Table 2: India Consumer Valuations

Company	Price Rs	MCAP US$mn	P/E FY10E	P/E FY11E	P/E FY12E	EV/EBITDA FY10E	EV/EBITDA FY11E	EV/EBITDA FY12E	P/Sales FY10E	P/Sales FY11E	P/Sales FY12E
HUL	252	11,698	25.6	24.4	21.1	18.9	17.9	15.4	3.1	2.9	2.6
ITC	280	22,747	28.3	22.5	19.0	15.9	13.6	11.5	5.9	5.2	4.5
Colgate-Palmolive (India)	811	2,347	27.3	25.9	22.4	22.0	19.4	16.8	5.6	4.9	4.3
Godrej Consumer	355	2,341	32.4	23.9	19.5	26.6	19.0	15.1	5.4	3.0	2.5
Dabur	192	3,539	34.0	29.5	24.9	27.0	22.6	18.9	4.9	4.2	3.6
Nestle India	2892	5,933	40.0	33.2	27.3	26.6	22.5	18.7	5.4	4.6	3.9
United Spirits	1213	3,154	33.0	25.0	19.4	16.1	13.5	11.5	2.4	2.1	1.8

Source: Bloomberg, J.P. Morgan estimates. Prices as of June 10, 2010

Analyst Certification:
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- **Analyst Position:** The following analysts (and/or their associates or household members) own a long position in the shares of ICICI Bank: Sunil Garg, Bijay Kumar. The following analysts (and/or their associates or household members) own a long position in the shares of Parkway Holdings Ltd: Christopher Gee.
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