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Wednesday, 12 January 2011

Asian Daily (Asia Edition)

EPS, TP and Rating changes

(% change)	EPS T+1	EPS T+2	TP Chg	Up/Dn	Rating
Crompton Greaves	(3)	1	14	19	O (O)
BRI	(50)	(50)	(50)	41	O (O)
Axiata	3	9	3	23	O (O)
Amtek Engineering	Initiation			36	O (NA)
Acer	(7)	(5)	(6)	(4)	N (N)

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Hong Kong

"China in 2015" report luncheon
Date: 13 January, Hong Kong
Coverage Analyst: Vincent Chan

"Consumer Survey" report luncheon
Date: 17 January, Hong Kong
Coverage Analyst: Vincent Chan/Arief Wana/Ashish Gupta

Yue Yuen Industrial Holding (0551.HK)
Date: 25-27 January, Hong Kong
Coverage Analyst: Adrian Chan

US

JinkoSolar Holding
Date: 13-14 January, US
Coverage Analyst: Satya Kumar

Esprit Holdings
Date: 17-28 February, US
Coverage Analyst: Gabriel Chan

Others

Taiwan Conference 2011
Date: 13-14 January, Taiwan

12th Annual Financial Services Forum
Date: 09-11 February, Miami

14th Asian Investment Conference
Date: 21-25 March, Hong Kong

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Value creation expectation to take Hutch to the next level

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Still bullish

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India Oil and Gas Sector – Maintain UW — Sanjay Mookim (14)
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Asian indices - performance

(% change)	Latest	1D	1W	3M	YTD
ASX300	4,724	0.0	(0.7)	2.2	(0.8)
CSEALL	6,993	1.1	4.3	7.0	5.4
Hang Seng	23,760	1.0	0.4	2.8	3.1
H-SHARE	12,918	0.9	(0.8)	(0.5)	1.8
JCI	3,455	(0.7)	(8.1)	(2.6)	(6.7)
KLSE	1,563	0.0	0.7	5.1	2.9
KOSPI	2,088	0.4	0.2	11.8	1.8
KSE100	12,267	(0.3)	1.3	18.8	2.0
NIFTY	5,754	(0.2)	(6.4)	(6.2)	(6.2)
PCOMP	4,032	(2.0)	(4.4)	(3.2)	(4.0)
RED CHIP	4,231	0.1	(1.7)	(1.4)	1.5
SET	1,013	(0.5)	(2.8)	3.7	(1.9)
STI	3,241	0.4	(0.3)	2.9	1.6
TWSE	8,931	1.3	(0.7)	10.4	(0.5)
VNINDEX	477	(0.6)	(1.8)	5.1	(1.5)

Thomson Financial Datastream

Asian currencies (vs US$)

(% change)	Latest	1D	1W	3M	YTD
A$	1.0	(0.5)	(1.3)	0.7	(3.0)
Bt	30.5	(0.5)	(1.1)	(1.8)	(1.8)
D	19,499.0	0.0	0.0	0.0	0.0
NT$	29.2	(0.3)	0.1	6.1	(0.2)
P	44.1	(0.5)	(0.7)	(1.0)	(1.1)
PRs	85.7	0.0	0.1	0.4	0.0
Rp	9,088.0	(0.3)	(1.2)	(1.6)	(1.2)
Rs	45.1	(0.6)	0.4	(1.0)	(0.9)
S$	1.3	(0.5)	(0.2)	1.2	(0.8)
SLRs	110.6	0.0	0.2	1.2	0.3
W	1,124.0	(0.3)	0.2	0.5	(0.3)

Thomson Financial Datastream

Global indices

(% change)	Latest	1D	1W	3M	YTD
DJIA	11,697	0.5	0.1	6.2	1.0
S&P 500	1,276	0.5	0.5	9.5	1.5
NASDAQ	2,721	0.5	1.5	13.3	2.6
SOX	432	0.4	3.9	22.4	4.8
EU-STOX	2,645	1.0	0.5	4.9	2.3
FTSE	6,014	1.0	0.0	6.0	1.9
DAX	6,942	1.2	(0.5)	10.0	0.4
CAC-40	3,862	1.6	(1.4)	2.5	1.5
NIKKEI	10,511	(0.3)	2.8	12.0	2.8
TOPIX	927	0.1	3.1	12.4	3.1
10 YR LB	3.36	2.5	1.1	40.7	2.2
2 YR LB	0.59	4.2	(3.9)	72.9	(0.1)
US$:E	1.30	0.3	(2.0)	(6.1)	(3.0)
US$:Y	83.4	(0.3)	(1.5)	(1.7)	(2.5)
BRENT	97.0	1.9	4.3	16.5	2.8
GOLD	1,381.7	0.4	0.1	2.0	(2.8)
VIX	16.8	(4.2)	(3.3)	(18.8)	(5.3)

Thomson Financial Datastream

MSCI Asian indices – valuation & perf.

	EPS grth.		P/E (x)		Performance		
MSCI Index	10E	11E	10E	11E	1D	1M	YTD
Asia F X Japan	39	13	14.8	13.2	0.0	2.2	(0.2)
Asia Pac F X J.	31	15	15.2	13.2	0.0	1.5	(1.2)
Australia	6	20	13.2	11.8	(0.6)	(1.1)	(4.6)
China	24	19	14.6	12.3	0.6	1.3	2.2
Hong Kong	25	6	19.8	18.6	1.0	5.0	5.0
India	24	22	18.2	14.9	0.3	(2.1)	(7.4)
Indonesia	20	21	15.6	12.9	(1.0)	(10.3)	(9.1)
Korea	56	6	11.0	10.4	0.3	6.7	2.4
Malaysia	28	15	18.1	15.8	0.3	6.1	3.4
Pakistan	27	14	9.2	8.0	0.1	6.6	2.2
Philippines	23	12	17.1	15.2	(1.2)	(2.9)	(4.9)
Singapore	21	11	16.0	14.4	0.7	3.0	0.5
Sri Lanka	11	109	27.6	21.9	(0.2)	3.7	1.9
Taiwan	93	11	15.0	13.5	1.5	5.6	(0.4)
Thailand	19	18	14.3	12.1	(0.3)	(4.6)	(3.6)

* IBES estimates

Hindalco (HNDL IN) – Maintain O — Anubhav Aggarwal (15)
Alcoa's results imply Novelis should achieve US$240 mn EBITDA in 3Q11

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December CPI down 0.3% MoM but still up 15.7% YoY; policy rate could rise 50 bp in the January statement

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NDR takeaways: Old becomes new again

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CS IPO watch: 2011 starting slowly after a very active 4Q 2010

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Hyflux (HYF SP) – Maintain O — Gerald Wong (22)
Awarded three BOT projects worth US$45 mn in China

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LG Electronics (066570 KS) – Maintain U — John Sung (23)
4Q10 earnings preview and company visit – our cautious stance unaltered

Samsung Card (029780 KS) – Maintain O — Sokmo Yun (24)
Regulator plans to rein in reckless promotion cost by credit card issuers; positive

Taiwan

KGI Securities — Chung Hsu, CFA (25)
Reported a preliminary 2010 profit of NT$3.44 bn (EPS of NT$1.1)

Polaris Securities — Chung Hsu, CFA (26)
Reported NT$2.27 bn preliminary profit in 2010

Taiwan Component Sector — Pauline Chen (27)
Better December sales due to early pull-in ahead of the Chinese New Year

Taiwan Handset Component — Pauline Chen (28)
Better December sales put 4Q above guidance

Acer (2353 TT) – Maintain N — Robert Cheng (29)
Impacts from weak consumer PC demand and currency

China Steel (2002 TT) – Maintain N — Sidney Yeh (30)
Market expects 5% ASP increase for March

O=Outperform N=Neutral U=Underperform R=Restricted OW= Overweight MW=Market Weight UW=Underweight

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Top of the pack ...

Amtek Engineering ------------------------------------Initiating Coverage with OUTPERFORM

New report: Aggregation and beyond

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Christopher Chang / Research Analyst / 65 6212 3024 / christopher.chang@credit-suisse.com

- Amtek is a precision engineering specialist that has successfully leveraged its core metal stamping capabilities into manufacturing complex mechanical modules, progressive cold forging, as well as 3D forming processes.
- With global manufacturing outsourcing intact, we see growth for Amtek being driven by demand from its 100-plus strong customer base, diversified across six industry sectors. We expect Amtek's revenues to outpace the growth projections for most of its product segments, and forecast 46% EPS CAGR from FY10 to FY12.
- Our S$1.75 target price is based on 2011x P/E, in line with Singapore-listed Venture. Strong earnings delivery and greater investor awareness should help Amtek trade up to the higher P/E range of the precision engineering peer group. We initiate at OUTPERFORM.
- Key risks are a potential slowdown in global manufacturing outsourcing, loss of market share by key customers, raw material cost inflation to the extent that any increase in costs cannot be passed on to customers, and limited order book visibility.
- For full report click here.

Bbg/RIC	AMTK SP / AMEL.SI	Price (10 Jan 11 , S$)			1.29
Rating (prev. rating)	O (NA) [V]	TP (Prev. TP S$)			1.75 (NA)
Shares outstanding (mn)	543.21	Est. pot. % chg. to TP			36
Daily trad vol - 6m avg (mn)	12.0	52-wk range (S$)			1.29 - 0.96
Daily trad val - 6m avg (US$ mn)	9.9	Mkt cap (S$/US$ mn)			700.7/ 539.9
Free float (%)	—	Performance	1M	3M	12M
Major shareholders	—	Absolute (%)	32.3	—	—
		Relative (%)	30.5	—	—

Year	6/09A	6/10A	6/11E	6/12E	6/13E
Revenues (US$ mn)	624.6	638.0	714.4	771.6	826.8
EBITDA (US$ mn)	65.7	83.2	108.3	124.4	136.7
Net profit (US$ mn)	(12.4)	21.7	59.7	74.4	85.9
EPS (US$)			0.11	0.14	0.16
- Change from prev. EPS (%)	n.a.	n.a.			
- Consensus EPS (US$)	n.a.	n.a.	0	0	0
EPS growth (%)	n.a.	n.a.	175.0	24.5	15.5
P/E (x)	—	—	9.0	7.3	6.3
Dividend yield (%)	0	2.0	5.5	6.9	8.0
EV/EBITDA (x)	10.5	7.8	5.3	4.3	3.5
P/B (x)	—	—	3.2	2.5	2.0
ROE (%)	(9.0)	22.7	43.1	38.5	35.8
Net debt (net cash)/equity (%)	145.8	90.5	20.7	(2.8)	(20.0)

Note 1: Amtek Engineering offers design and manufacturing services for precision components, casings and enclosures. The company provides design, protoyping, tool and die and mould making, precision metal stamping, plastic and rubber moulding.

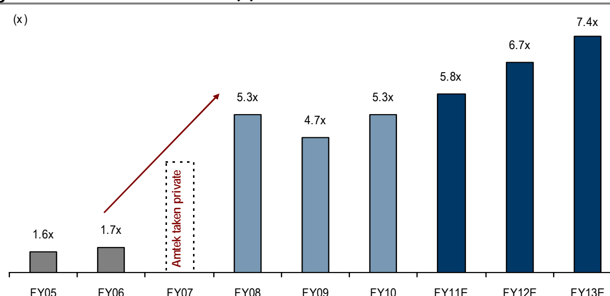
New and improved

Amtek was incorporated in 1970 as a metal stamping specialist, and subsequently listed on the Stock Exchange of Singapore in 1987; it was then taken private through a consortium buyout in August 2007. After the acquisition, various operational and strategic changes implemented by Amtek's current management have expanded its capabilities to include manufacturing complex mechanical modules, progressive cold forging, 3D forming processes and offering end-to-end precision engineering solutions.

Diversified growth profile

With global manufacturing outsourcing intact, we see growth for Amtek going forward being driven by demand from its 100-plus strong customer base, which is diversified across six core industry sectors: casings and enclosures, mass storage, consumer electronics, automotive, electrical and electronic components, and imaging and printing. Against the backdrop of a muted September quarter for PC sales, Amtek achieved 11% YoY revenue and 147% YoY core earnings growth. Consensus estimates project an average 10.5% YoY sales growth in 2010/2011 for Amtek's top customers – this supports to our 12% YoY revenue growth estimates for Amtek for FY June 2011. We forecast core earnings to rise at 46% CAGR from FY10 to FY12. Our forecasts, which are customer-led, should see Amtek outpace the growth projections for most of its product segments; further ahead, we believe that Amtek's competencies in precision engineering should gain traction among existing and potential customers, which are increasingly seeking to outsource complex manufacturing parts; this could provide upside to earnings.

Figure 1: Fixed asset turns (x)



Source: Credit Suisse estimates.

Target price of S$1.75 implies 36% upside

We derive our target price of S$1.75 based on 2011x P/E, in line with the much larger Singapore-listed Venture Corp, even as Amtek commands superior margins and a stronger earnings profile. Going forward, we believe that strong earnings delivery, coupled with increasing investor awareness, should help Amtek trade up to the P/E valuation of its precision engineering services peer group. We believe our valuation is conservative, as, given the strong EPS growth profile for Amtek, our valuation would still imply 9x P/E on CY12 earnings. This is the three-year historical average P/E multiple that Amtek traded prior to its privatisation in 2007, which does not factor in benefits from the rationalisation of its operations going forward. With 36% upside, we initiate coverage with OUTPERFORM.

Risks

We believe that risk of a potential slowdown in global manufacturing outsourcing is low. Other key risks for Amtek are loss of market share by its key customers, raw material cost inflation to the extent that any increase in costs cannot be passed on to customers, and limited order book visibility.

BRI --- Maintain OUTPERFORM

Supported by strong CASA franchise and relatively undemanding valuations

EPS: ▼ TP: ▼

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- BBRI has underperformed the market due to concerns on inflation and potential uptrend in policy rate. However, our analysis indicates that the impact of a higher policy rate is relatively neutral on BBRI's earnings.
- With every 100 bp increase in policy rate, BBRI's earnings may only be curbed by 0.8%. BBRI exhibits relatively sticky cost of funds due to its strong CASA franchise. BBRI's past expansion into corporate loans also reduce the stickiness of its yield on IEA against changes in policy rates.
- We believe that BBRI's valuations are relatively undemanding. BBRI is trading at the lowest 11E P/E of all Indonesian banks under our coverage.
- We maintain our OUTPERFORM rating on BBRI, but reduce our target price to Rp6,750 (from Rp13,500) and adjust our EPS downwards due to the bank's 2:1 stock split.

Bbg/RIC	BBRI IJ / BBRI.JK	Price (11 Jan 11 , Rp)			4,800.00
Rating (prev. rating)	O (O)	TP (Prev. TP Rp)			6,750 (13,500)
Shares outstanding (mn)	24,422.50	Est. pot. % chg. to TP			41
Daily trad vol - 6m avg (mn)	15.8	52-wk range (Rp)			12500 - 4800
Daily trad val - 6m avg (US$ mn)	18.0	Mkt cap (Rp/US$ bn)			117,227.9/ 13.0
Free float (%)	43.2	Performance	1M	3M	12M
Major shareholders	Government of	Absolute (%)	(56.4)	(55.6)	(37.7)
	Indonesia (56.8%)	Relative (%)	(52.7)	(54.4)	(52.5)

Year	12/08A	12/09A	12/10E	12/11E	12/12E
Pre-prov Op profit (Rp bn)	11,190	14,360	18,705	21,635	25,483
Net profit (Rp bn)	5,958	7,308	8,983	11,234	13,006
EPS (Rp)	242	296	364	456	527
- Change from prev. EPS (%)	n.a.	n.a.	(50)	(50)	(50)
- Consensus EPS (Rp)	n.a.	n.a.	733	899	1,060
EPS growth (%)	22.4	22.7	22.9	25.1	15.8
P/E (x)	19.9	16.2	13.2	10.5	9.1
Dividend yield (%)	2.2	2.2	2.7	3.3	3.8
BVPS (Rp)	907	1,105	1,342	1,664	2,026
P/B (x)	5.3	4.3	3.6	2.9	2.4
ROE (%)	28.5	29.5	29.8	30.3	28.6
ROA (%)	2.7	2.6	2.6	2.8	2.7
Tier 1 (%)	12.2	12.2	11.0	11.2	11.6

Note1:Ord/ADR=20.0000.Note2:BRI provides commercial banking activities and its related services. BRI also provides banking activities based on syariah principles..Note3:0.

Supported by robust CASA

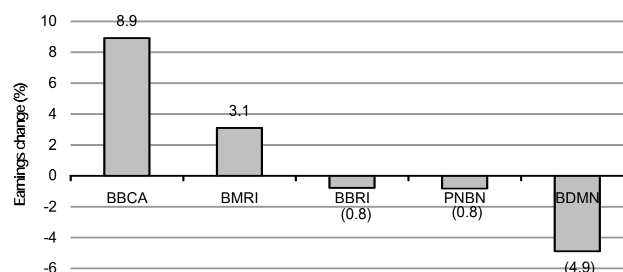
BBRI's share price has corrected by 11% versus JCI's 9% correction in the past five trading days, on the back of market's concern on the potential uptrend in Indonesia's inflation rates and, in turn, policy rates. However, our analysis indicates that BBRI's earnings may potentially be curbed by 0.8% for every 10 bp increase in policy rate.

The negative sentiment on BBRI's share price has been largely induced by market's perspective that BBRI's yield on IEA is stickier than its cost of funds. While such a perspective remains true, we believe that the magnitude of imbalance may be exaggerated given:

1. BBRI exhibits strong CASA franchise, which implies that its cost of funds is relatively sticky. Indeed, BBRI exhibits the second-highest CASA as contribution to total deposits of all the Indonesian banks under our coverage.

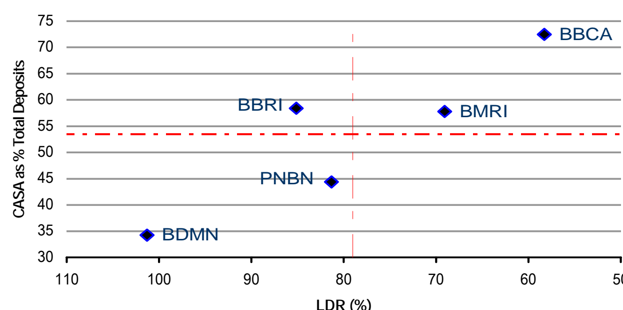
2. In the past 12 quarters, BBRI has been expanding its corporate loan segment, which is largely a variable rate. Thus, we believe that BBRI's yield on IEA is less sticky than what the market has credited the bank to.

Figure 1: Earnings sensitivity to 100 bp increase in policy rate



Source: Company data, Credit Suisse estimates

Figure 2: LDR versus CASA



Source: Company data, Credit Suisse estimates

Relatively undemanding valuations

We believe that BBRI's relatively higher LDR is compensated by the bank's strong CASA franchise. In addition, BBRI also exhibits relatively undemanding valuations. The bank is currently trading at the lowest 11E P/E of all Indonesian banks under our coverage. We maintain our OUTPERFORM rating on BBRI and reduce our target price to Rp6,750 and adjust our EPS downwards due to the bank's 2:1 stock split.

Valuation metrics

Company	Ticker	CS	Price		Year	P/E (x)		P/B
		rating	local	target	T	T+1	T+2	(x)
BCA	BBCA IJ	N	5,900	6,900	12/09	17.5	16.1	4.5
BRI	BBRI IJ	O	4,800	6,750	12/09	13.2	10.5	3.6
Bank Mandiri	BMRI IJ	O	6,000	8,400	12/09	14.7	10.8	3.1
Bank Danamon	BDMN IJ	N	5,100	6,300	12/09	14.4	10.6	2.3
BNI	BBNI IJ	R	3,375	—	12/09	—	—	—
Panin Bank	PNBN IJ	N	1,050	1,040	12/09	16.8	15.2	2.1

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM
Source: Company data, Credit Suisse estimates

Hutchison Whampoa-- Maintain OUTPERFORM

Value creation expectation to take Hutch to the next level EPS: ◄► TP: ◄►

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Joyce Kwock / Research Analyst / 852 2101 7496 / joyce.kwock@credit-suisse.com

- While Hutch's share price has been strong and reached a new high recently, we try to map out what will take its share price to break the all-time high it achieved in 2000 by comparing our NAV estimates and earnings between then and now.
- The conclusion is that our NAV estimate for Hutch was no major different from now but its ex. TMT value and core earnings are significantly higher now. Its 17% premium to NAV in 2000 was all driven by the value-creation expectation, in our view.
- To create the same value-creation expectation now, we believe the turnaround of the 3G operation will leave management focusing on what it used to do best, i.e., M&A and restructuring, which could help drive the expectation premium to return.
- We believe the spin-off of assets is one of the ways to create shareholder value. Take the retail operation for example: its EBIT contribution has increased by 5.2x over the past ten years but our NAV estimates have only increased 2.2x, which implies there could be some potential value enhancement.
- Hutchison Whampoa is a CS Focus List stock.

Bbg/RIC	13 HK / 0013.HK	**Price (11 Jan 11, HK$)**			93.00
Rating (prev. rating)	O (O)	**TP (Prev. TP HK$)**			105 (105)
Shares outstanding (mn)	4,263.37	Est. pot. % chg. to TP			13
Daily trad vol - 6m avg (mn)	15.1	52-wk range (HK$)			93.00 - 46.65
Daily trad val - 6m avg (US$ mn)	1,065.5	Mkt cap (HK$/US$ bn)			396.5/ 51.0
Free float (%)	50.1	Performance	1M	3M	12M
Major shareholders	Cheung Kong: 49.9%	Absolute (%)	15.2	22.4	63.7
		Relative (%)	12.3	19.5	54.4

Year	12/08A	12/09A	12/10E	12/11E	12/12E
Revenues (HK$ mn)	235,478	208,808	236,663	260,276	281,116
EBITDA (HK$ mn)	84,152	60,794	54,293	65,475	72,502
Net profit (HK$ mn)	12,681	14,168	16,694	20,496	23,929
EPS (HK$)	2.97	3.32	3.92	4.81	5.61
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (HK$)	n.a.	n.a.	3.62	4.87	6.09
EPS growth (%)	(58.6)	11.7	17.8	22.8	16.8
P/E (x)	31.3	28.0	23.7	19.3	16.6
Dividend yield (%)	1.9	1.9	2.2	2.2	2.2
EV/EBITDA (x)	7.7	9.5	10.6	8.8	7.8
P/B (x)	1.5	1.4	1.4	1.3	1.2
ROE (%)	4.5	5.2	5.8	6.9	7.7
Net debt (net cash)/equity (%)	73.3	56.5	53.4	51.0	46.0

Note 1: Ord/ADR=5.0000. Note 2: Hutchison is Hong Kong's largest conglomerate and an associated company of the Cheung Kong group. It is engaged in five core businesses: 1) property; 2) ports; 3) telecom; 4) retail & manufacturing; and 5) energy & infrastructure.

What will take Hutch to break its all-time high?

Hutch's share price has reacted positively to the recent news flow on the possibility of spin-off of retail operations. We believe the most important question is what will break its all-time high share price of HK$136 in 2000. To answer this question, we examined our NAV estimates for the company during the peak of its share price in 2000. Ignoring any 'option value for future investment opportunities,' our estimate for the company was only at HK$116 versus our estimate of HK$105 now. Our NAV estimate for Hutch now is about 0.9x that in 2000s. However, it is interesting to note that the core earnings of Hutch is estimated to be about 1.8x higher than ten years ago. If Hutch were to trade at the same 17% premium level, its share price would be at HK$123.

All depend on value creation expectation

We believe Hutch's past premium was attributed to the expectation that the company would continue to create value by redeploying its cash flow from the sale of Orange. If Hutch can convince investors that 3G operation is not a concern and management can focus on its other businesses and what it used to do best, i.e., M&A and restructuring, we believe this sort of expectation premium is likely to come back.

Figure 1: Estimated NAV of Hutch

	Jan-11 Est.			May-00 Est.			
	HK$ mn	HK$	% of NAV	HK$ mn	HK$	% of NAV	Diff (x)
Properties	116,565	27.3	19.9%	42,018	9.9	9.2%	2.8
Container ports	167,066	39.2	28.5%	120,375	28.2	26.4%	1.4
Retail	87,651	20.6	15.0%	39,802	9.3	8.7%	2.2
Energy/infra	129,481	30.4	22.1%	35,981	8.4	7.9%	3.6
TMT	85,455	20.0	14.6%	217,271	51.0	47.7%	0.4
Telco	16,840	4.0	2.9%	173,097	40.6	38.0%	
3G	68,615	16.1	11.7%	-	-	0.0%	
Internet	-	-		33,559	7.9	7.4%	
Others	-	-		10,615	2.5	2.3%	
Gross NAV	**586,218**	**137.5**	**100.0%**	**455,447**	**106.8**	**100.0%**	**1.3**
Net debt	-137,341	-32.2		40,000	9.4		
NAV	**448,877**	**105.3**		**495,447**	**116.2**		**0.9**
Share price - High		93.0			136.0		0.7
Prem/(disc) to NAV		-12%			17%		

Source: Company data, Credit Suisse estimates

Figure 2: Earnings breakdown of Hutch (HK$ mn)

	1999	2010E	Diff (x)
Properties	2,334	5,990	2.6
Container ports	4,823	12,531	2.6
Retail operations	1,313	6,826	5.2
Energy and infrastructure	4,442	9,959	2.2
TMT	563	-677	-1.2
Others	2,990	2,799	0.9
Total EBIT	**16,465**	**37,428**	**2.3**
Net interest	-6,011	-12,378	2.1
PBT	**10,454**	**25,050**	**2.4**
Exceptional	109,532	2,472	0.0
Taxation	-1,251	-6,494	5.2
MI	-1,390	-4,335	3.1
Reported profit	**117,345**	**16,694**	**0.1**
Core Profit	**7,813**	**14,222**	**1.8**

Source: Company data, Credit Suisse estimates

What are the M&A possibilities?

While 3G not being a burden to the company is not a surprise to the market anymore, we believe the possibility that Hutch could spin off its retail and property assets sometime down the road could be the next catalyst for its shares. Take the retail operation for example: its EBIT contribution has increased 5.2x over the past ten years but our NAV estimate has only increased 2.2x, which implies there could be some potential value enhancement.

Axiata -- Maintain OUTPERFORM

Still bullish

EPS: ▲ TP: ▲

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- We raise our FY10-12E net profit for Axiata by 3-9% to reflect higher estimates for XL, Celcom and Dialog. Our new target price is RM5.98 (versus RM5.80 previously). We maintain an OUTPERFORM on Axiata.
- Axiata has seen the strongest street earnings momentum for FY10E among Malaysian telcos; EBITDA estimates have risen 25% YTD.
- We expect analyst EBITDA forecasts to be met when Axiata reports final FY10 results in end-Feb. However, any potential impairment for India could be substantial and will likely dent net profit, but will be non-cash in nature. Thus, our DCF-based valuation will not be affected.
- We believe there is upside risk to our FY12 estimates for Celcom from a potential network infrastructure sharing agreement with DiGi due to be finalised by end-Jan.
- Axiata's foreign shareholding has risen the most among Malaysian telcos, but at 17.3%, is still below the market average of 22%.

Bbg/RIC	AXIATA MK / AXIA.KL	Price (10 Jan 11 , RM)			4.88
Rating (prev. rating)	O (O)	TP (Prev. TP RM)			5.98 (5.80)
Shares outstanding (mn)	8,445.15	Est. pot. % chg. to TP			23
Daily trad vol - 6m avg (mn)	14.7	52-wk range (RM)			4.91 - 3.13
Daily trad val - 6m avg (US$ mn)	21.4	Mkt cap (RM/US$ bn)			41.2/ 13.4
Free float (%)	37.2	Performance	1M	3M	12M
Major shareholders	Khazanah (44.5%)	Absolute (%)	3.0	6.8	54.4
		Relative (%)	(0.7)	1.2	27.7

Year	12/08A	12/09A	12/10E	12/11E	12/12E
Revenues (RM mn)	11,348	13,105	15,062	16,503	17,522
EBITDA (RM mn)	4,348	5,157	7,141	7,692	8,076
Net profit (RM mn)	765	598	2,311	2,881	3,309
EPS (RM)	0.09	0.07	0.27	0.34	0.39
- Change from prev. EPS (%)	n.a.	n.a.	3	9	9
- Consensus EPS (RM)	n.a.	n.a.	0.31	0.36	0.40
EPS growth (%)	(51.2)	(21.8)	286.6	24.7	14.8
P/E (x)	53.9	68.9	17.8	14.3	12.5
Dividend yield (%)	0	0	0	2.1	2.4
EV/EBITDA (x)	13.3	10.0	6.6	5.8	5.2
P/B (x)	3.7	2.3	2.0	1.8	1.7
ROE (%)	7.3	4.1	11.9	13.3	13.9
Net debt (net cash)/equity (%)	142.7	54.6	25.0	13.5	3.9

Note1:Axiata is a telecommunication company with significant presence in Malaysia, Indonesia, Sri Lanka, Bangladesh and Cambodia, and investments in India, Singapore, Iran, Pakistan and Thailand..Note2:Divdend yield is net.Note3:Core net profits only..

Kicking off the new year by raising estimates

We raise our FY10-12E net profit for Axiata by 3-9% to reflect higher estimates for XL, Celcom and Dialog. Our new target price is RM5.98 (versus RM5.80 previously), which implies 23% potential upside from current levels.

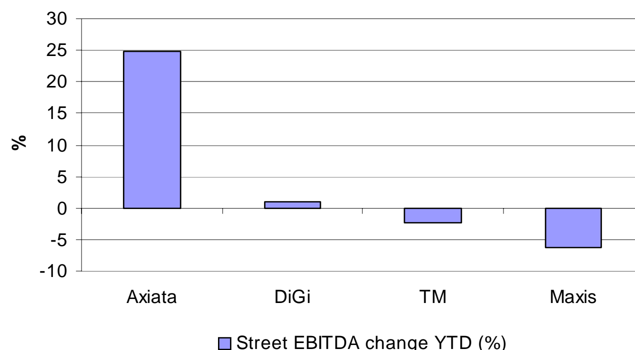
Axiata is a high beta Malaysian large cap, with a beta of 1.5x. Axiata is also a liquid proxy for XL in Indonesia.

Final FY10 results due end-Feb

Axiata has seen the strongest earnings momentum for FY10E among Malaysian telcos. Street FY10E EBITDA for Axiata has risen 25% YTD.

We expect analyst EBITDA forecasts to be met when Axiata reports final FY10 results in end-Feb. However, any potential impairment for India could be substantial and will likely dent net profit, but will be non-cash in nature. Thus, our DCF-based valuation will not be affected. The risk of an impairment has been well-flagged and should not be a surprise to the market.

Figure 1: Malaysia telco FY10E street EBITDA momentum (%)



Source: Thomson Reuters

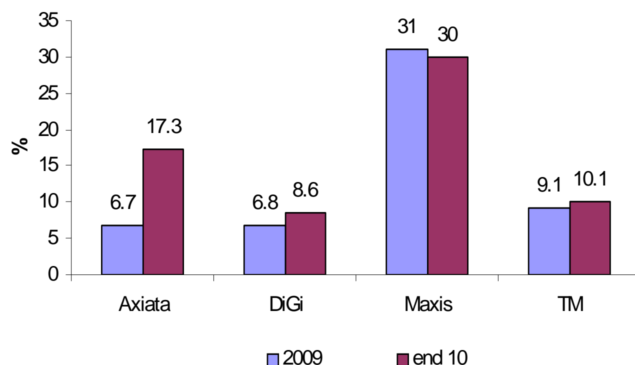
Upside risk to Celcom from 2012

We believe there is upside risk to our FY12 estimates for Celcom from a potential network infrastructure sharing agreement with DiGi. The companies have extended their MoU with a view to conclude a final agreement by 31 Jan 2011. Initial endeavours could involve the decommissioning of towers to facilitate site sharing. Our current estimates have built in EBITDA margin slippage from FY10E through FY12E.

Rising foreign shareholding

All telcos (except Maxis) saw an increase in foreign shareholding, but Axiata's foreign shareholding rose the most, from 6.7% at the start of 2010 to 17.3% in Nov 2010. However, this is still below the market average of 22%.

Figure 2: Malaysian telcos: foreign shareholding end-2009 vs end-2010



Source: Company data, Credit Suisse estimates

Regional

Non-Japan Asia Economics ---

Which countries' trade balance are more vulnerable to a food price hike?

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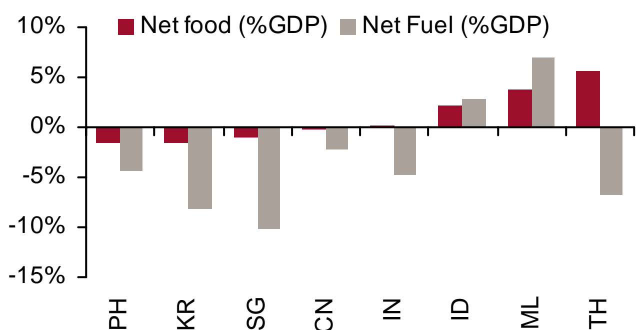
- As a follow-up to our last report, Feeding Asia inflation: assessing the food price risk, we explore which countries are the winners and losers from rise in global food prices in terms of trade balance and GDP.
- Judging by the net export position for food, Thailand, Malaysia, and Indonesia stand out as the countries that are likely to benefit from higher global food prices.
- Most countries that are net food importers are also net fuel importers, except Thailand, and to a lesser extent India.
- In the event that both fuel and food prices edge higher, trade balance of Korea, the Philippines and Singapore will be the most vulnerable.

Figure 1: Net export position for food and fuel of NJA economies (2009)



Source: World Development Indicators, Credit Suisse estimates

The winners and losers from global food price hike

Our recent report, Feeding Asia inflation: assessing the food price risk, which analysed the impact of higher global food prices on inflation in NJA economies has generated many interesting follow-up questions. One of the key questions is, looking beyond the impact on inflation, which NJA countries are the potential winners and losers from a global food price hike? Here we tackle this question by analysing the NJA's economies' net food export position, which captures the vulnerability of a country's trade balance and GDP to food price acceleration.

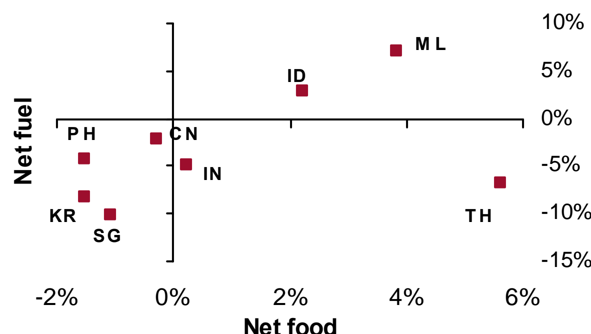
Thailand, Malaysia, and Indonesia potential beneficiaries of higher global food prices

Figure 1 shows, judging by the net export position for food (normalised by GDP), Thailand, Malaysia and Indonesia stand out as the countries that are likely to benefit from higher global food prices. At the other end of the spectrum, trade balance of the Philippines, Korea and Singapore is the most vulnerable to a food price hike. All else being equal, Figure 1 also maps out the relative winners and losers from food price changes in terms of GDP. However, in reality, the exact impact on a country's GDP depends on various other factors, such as the linkage between export prices and other components of GDP such as consumption and government spending, and government policies.

Taking into account fuel net export position

Higher food prices may not pose a serious problem for net importing countries if they are net fuel exporters and oil prices are also moving higher. Unfortunately, as Figure 1 shows, most countries that are net food importers are also net fuel importers, except Thailand and to a lesser extent India. Based on the net export position, countries most susceptible to higher oil prices are Singapore, Korea and Thailand.

Figure 2: Winners and losers from different oil and food price scenarios



Source: World Development Indicators, Credit Suisse estimates

Malaysia and Indonesia as winners should both oil and food prices rise

Combining the two metrics together, Figure 2 gives us the potential winners and losers under different oil and food price scenarios. For example, the north-east quadrant shows Malaysia and Indonesia stand as relative winners, should both oil and food prices move higher while Thailand, being in the south-east quadrant, will lose out from higher oil prices. In the event that both fuel and food prices edge higher, trade balance of Korea, the Philippines and Singapore trade balance will be the most vulnerable.

Asia Oil and Gas Sector

Energy in 2011: Themes for Asia

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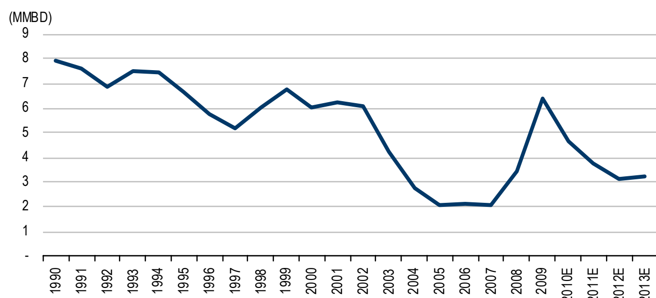
- Growth in Asia is back on track. However, demand growth for Asia energy could yet mean flat oil pricing, as spare capacity overhang continues and markets appear to be running ahead of eventual tightness.
- In this environment, we prefer to play through refining over oil exposure. The oil price-to-refining margin ratio is currently 1 SD above the historical average. Historically, refining margins tend to rise and lead oil prices in the second phase of a global recovery.
- Global refining capacity additions in 2011 are likely to remain below the historical average, weighed down by capacity shutdowns. A demand growth of 1.9 mbd in 2011 should continue to outstrip capacity growth. Surplus capacity is likely to keep a lid on refining margins. That said, a regional demand skew and product skew towards distillates are likely to limit the effect of spare capacity on refining margins.
- Our top picks for the Asia energy space in 2011 are Sinopec, Reliance and SK Energy.

Figure 1: Global refining surplus capacity



Source: BP Statistics, industry data, Credit Suisse estimates

We prefer refiners over oil names

Growth in Asia is back on track, and we look at ways investors can benefit from growing Asian demand for Energy. Demand growth for Asia energy could yet mean flat oil pricing, as spare capacity overhang continues for the oil markets and markets appear to be running ahead of eventual tightness.

In this environment, we prefer to play through refining over oil exposure. The oil price-to-refining margin ratio is currently 1 SD above the historical average. Historically, refining margins tend to rise and lead oil prices in the second phase of a global recovery (where global IP momentum has peaked and is flatlining). We see room for refining to do better in the second phase.

Global refining capacity additions in 2011 are likely to remain below the historical average, weighed down by capacity shutdowns. A demand growth of 1.9 mbd in 2011 should continue to outstrip capacity growth. Surplus capacity should remain above the historical average and is likely to keep a lid on refining margins. That said, recent demand data suggests demand is showing a regional skew, with a product skew towards distillates. Both these factors are likely to limit the effect of spare capacity on refining margins.

Warming up on petrochemicals

We are also bullish on petrochemicals beyond 2011. Beyond 2011, global supply growth is set to be one of the slowest in the last 20 years, setting the tone for the next upcycle. Petrochemical stocks have done well in 2010. P/B multiples are not low and face risks over the next 12 months from accelerating capacity growth and above-trend China demand. That said, outlook is brighter beyond this. We have used HOLT to quantify expectations – our HOLT analysis suggests Asia petrochemical names generally discount a 2005-07-type upcycle, but not a 1988-type megacycle.

Top picks for Asia energy space in 2011

Figure 2: Top picks for Asia energy space in 2011

						Mkt cap	P/E (x)		EV/EBITDAX	
Company	Ticker	Rat.	FX	Price	TP	US$ bn	10E	11E	10E	11E
Sinopec	0386.HK	O	HK$	7.65	8.34	85.3	8.5	7.9	5.5	5.2
Reliance Ind.	RELI.BO	O	Rs	1,014	1,183	73.1	16.2	13.3	9.7	7.8
SK Energy	096770.KS	O	W	188k	175k	15.8	13.7	12.5	10.2	10.1

Source: Company data, Credit Suisse estimates

Sinopec - H (0386.HK, OUTPERFORM, TP HK$8.34)

Sinopec now trades at 8x 11E P/E based on US$85/bbl oil for 2011. It is among the cheapest oil stocks globally, and cheap relative to the China market. The NDRC's recent price hike in December 2010 once again reaffirms its commitment to the domestic product pricing policy, despite concerns about inflation and talks on price controls in China. With this round of price hike in the bag, the market should have more confidence in the pricing policy, helping Sinopec close the valuation gap. It also has the optionality on petrochemicals that could potentially play out beyond 2011.

Reliance Industries (RELI.BO, OUTPERFORM, TP Rs1,183)

Reliance is witnessing improvement in its refining and petrochemical businesses, which currently form 60% of EBITDA. Recent disappointments in natural gas production volumes and lack of clarity on the reasons for the decline have led to share price under performance. We believe production declines should stop; RIL still maintains peak production guidance of 89 mmscmd. As and when this happens, the underperformance should correct. We also expect RIL to generate large amount of free cash flow. Clarity on redeployment plans for this cash would improve medium-term earnings outlook. RIL currently trades at 13x P/E, at about 20% discount to MSCI India.

SK Energy (096770.KS, OUTPERFORM, TP W175,000)

SK Energy should benefit from each of the improving margin outlook in refining and petrochemicals. Annualised E&P production volumes increase from Peru and Yemen. We expect additional results from its exploration activities in Brazil, Vietnam and possibly Columbia. The expansion and/or restructuring in each affiliate may accelerate post the split-up of the company. The battery business for electric vehicles still has some way to go to become a meaningful earnings contributor, but announcement of some long-term supply contracts could show its potential in this new business. In addition, the expansion of the battery separator (which is already a lucrative product) should enhance competitiveness in the battery business.

China

China Banks Sector -- Maintain OVERWEIGHT

New report: 2010 loan growth exceeds target by 6%; tighter liquidity drives asset yields

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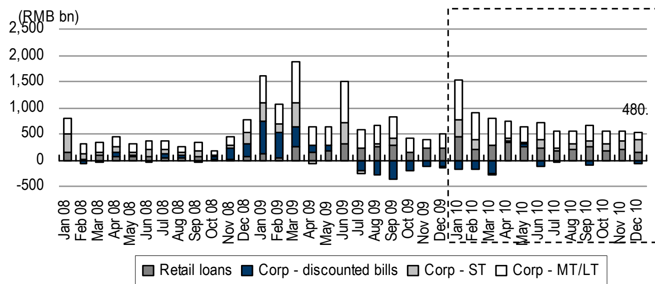
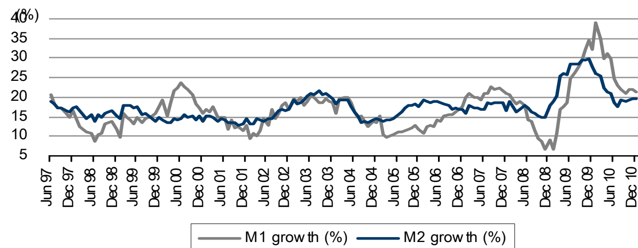
- Dec new loans of Rmb480 bn came in above expectations, taking full-year incremental loans to Rmb7.95 tn, 6% above the quota. New year loan growth is said to target 12-14% (versus 19.9% in 2010), likely below the expectations of some market participants.
- New loan growth during the month was primarily channelled into fairly strong short-term working capital loans, indicating strong private sector credit demand. ST corporate loans took up almost half the new loans in Dec while project loans and retail loans both showed a softening sequential trend.
- Higher investment yields at the short end. Short-term yields (i.e., one to three years) improved 85-110 bp MoM, as they were pulled up by tighter liquidity in the interbank market.
- Negative real rate will probably continue to support strong wealth management (WM) sales momentum. Bank-issued WM products (in terms of numbers) touched a historical high in Dec.
- We favour big banks with better capital position and more liquidity in balance sheet. CCB, ICBC, ABC are our sector top picks.

Figure 1: New loan growth breakdown



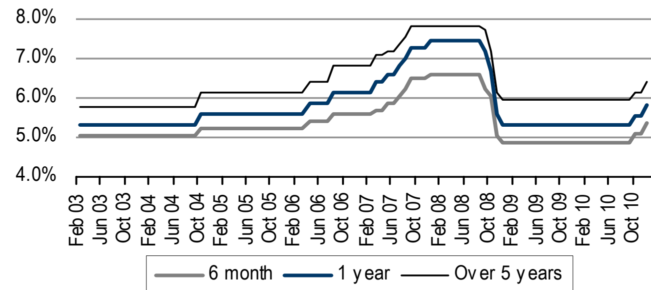
Source: PBC

Figure 2: M1 and M2 growth remained high



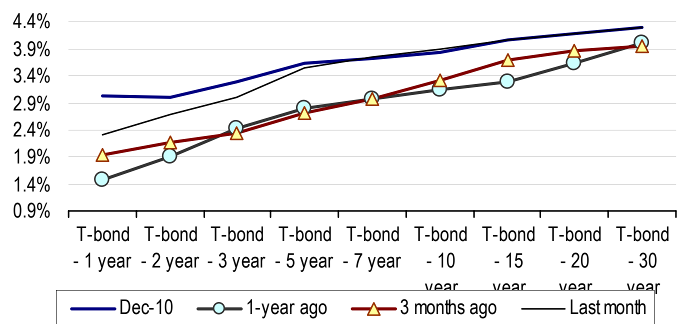
Source: PBC

Figure 3: Lending interest rates moved higher



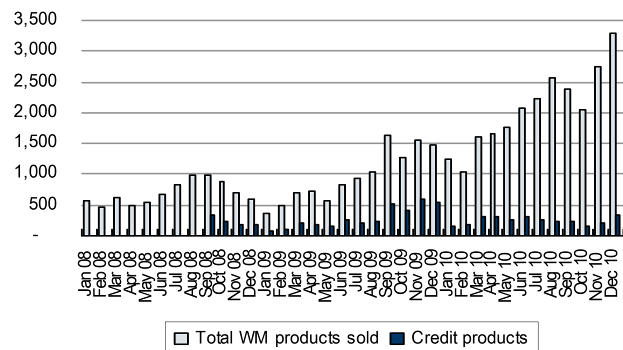
Source: CEIC, PBC

Figure 4: Flattening yield curve triggered by tighter short-term liquidity



Source: Chinabond, Credit Suisse estimates

Figure 5: Strong WM sales momentum



Source: CIEC, Wind, Credit Suisse

Valuation metrics

Company	Ticker	CS	Price		Year	EPS chg. (%)		TP (%)	Up/dn	EPS		EPS grth (%)		P/E (x)		Div. yld	ROE	P/B
		Rating	Local	Target	T	T+1	T+2	Chg	(%)	T+1	T+2	T+1	T+2	T+1	T+2	T+1	(%)	(x)
ICBC	1398 HK	O	5.81	8.06	12/09	0	0	0	39	0.4	0.5	2	39	12.6	9.1	3.5	18.7	2.2
CCB	939 HK	O	7.04	9.06	12/09	0	0	0	29	0.5	0.6	(1)	43	13.3	9.3	3.8	10.6	2.2
BOC	3988 HK	O	4.13	5.22	12/09	0	0	0	26	0.3	0.4	(11)	33	12.4	9.4	3.4	13.5	1.6
ABC	1288 HK	O	3.92	4.66	12/09	0	0	0	19	0.3	0.4	10	40	12.2	8.7	3.7	18.3	2.0
BoCom	3328 HK	N	8.00	8.30	12/09	0	0	0	4	0.5	0.6	(13)	20	12.7	10.6	2.6	17.3	2.3
China Merchants Bank	3968 HK	N	19.88	24.13	12/09	0	0	0	21	1.0	1.6	3	63	17.2	10.6	1.5	18.8	2.8
CNCB	998 HK	N	5.13	5.96	12/09	0	0	0	16	0.4	0.5	10	32	10.6	8.1	2.0	14.6	1.5
CMBC	1988 HK	U	6.73	7.13	12/09	0	0	0	6	0.5	0.6	(6)	19	11.2	9.4	2.7	14.2	1.5

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM Source: Company data, Credit Suisse estimates

China Taiping--- Maintain NEUTRAL

FY10 premium: CBRC ruling impacting bancassurance sales

EPS: ◄► TP: ◄►

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- China Taiping's life division (60% of FY10 profit), reported premiums of Rmb33 bn, up 46% pcp, in 2010. December premiums were Rmb2.4 bn, up only 2.9% pcp.
- The slow growth in December was mainly driven by low quality single premium and unit-linked product sales, hence on an APE (*better measure of profitability = regular premium + 10% single premium*) basis, growth was still comfortably at 28% (see Figure 1).
- However, we do highlight the weakness in bancassurance sales after the stringent regulatory ruling on this channel, i.e., on an APE basis, sales only grew by 14% pcp in December compared to the 47% growth in FY10. Going forward, we caution that China Taiping as an insurer who relies more on bancassurance sales will see volume and quality deterioration.
- China Taiping trades at 2.5x P/EV and 32x VNB (12-month forward), which implies very high growth expectations. We maintain our NEUTRAL rating at this stage, as we do not see sufficient growth coming through to warrant higher rating.

Bbg/RIC	966 HK / 0966.HK	Price (10 Jan 11 , HK$)	23.95
Rating (prev. rating)	N (N)	TP (Prev. TP HK$)	30.00 (30.00)
Shares outstanding (mn)	1,703.82	Est. pot. % chg. to TP	25
Daily trad vol - 6m avg (mn)	2.3	52-wk range (HK$)	30.00 - 22.30
Daily trad val - 6m avg (US$ mn)	7.5	Mkt cap (HK$/US$ mn)	40,806.4/ 5,247.1

		Performance	1M	3M	12M
Free float (%)	40.0				
Major shareholders	China Insurance Holdings 52%, ICBC Asia (6.9%).	Absolute (%)	(6.8)	(10.5)	(8.1)
		Relative (%)	(8.2)	(11.2)	(10.3)

Year	12/08A	12/09A	12/10E	12/11E	12/12E
Net profit (HK$ mn)	(486)	826	1,165	1,440	1,806
EPS (HK$)	(0.31)	0.53	0.68	0.85	1.06
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (HK$)	n.a.	n.a.	0.75	0.98	1.29
EPS growth (%)	n.a.	n.a.	29.9	23.6	25.5
P/E (x)	NM	45.5	35.0	28.3	22.6
Dividend yield (%)	0	0	0	0	0.4
P/B (x)	4.8	4.0	3.2	2.9	2.6
ROE (%)	(7.7)	8.7	8.7	9.5	11.6

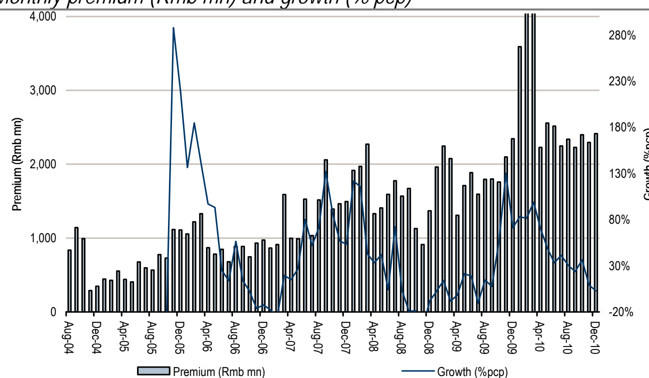
Note1:CHINA TAIPING ORD.

Figure 1: Bancassurance regular premium showed weakness in Dec.
Premium breakdown (Rmb mn) and growth (%pcp)

	Dec-10	YoY	FY10	YoY
Agency regular	906	42.9%	9,024	53.8%
Bancassurance regular	735	23.1%	8,182	47.7%
Agency single	6	-25.2%	90	-9.3%
Bancassurance single	599	-39.9%	14,207	43.1%
Unit linked	7	-27.2%	103	-52.8%
Group	161	61.2%	1,418	51.1%
Total	**2,414**	**2.9%**	**33,025**	**46.2%**
APE*	**1,718**	**28.0%**	**18,787**	**50.0%**

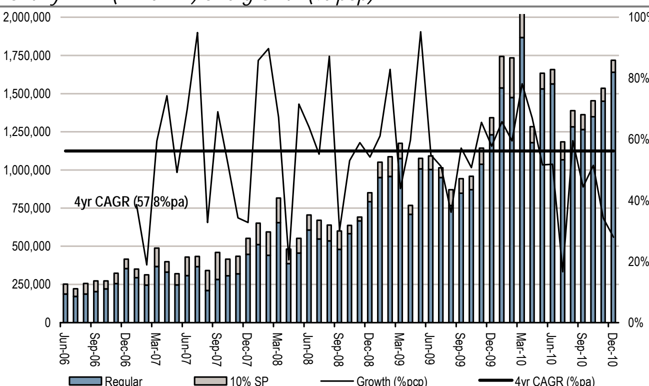
(*APE = RP + 10% SP); Source: Company data, Credit Suisse estimates

Figure 2: December premium only grew by 2.9% …
Monthly premium (Rmb mn) and growth (% pcp)



Source: Company data, Credit Suisse estimates

Figure 3: … but grew 28% on an APE basis
Monthly APE (Rmb mn) and growth (% pcp)



Source: Company data, Credit Suisse estimates

Valuation metrics

Company	Ticker	CS	Price		TP (%)	Up/dn	P/E	EPS		EV (BV*)		P/EV (P/BV*)		VNB multiple		EV growth	VNB growth
T = Dec 09		rating	local	target	chg.	(%)	T+1	T+1	T+2	T+1	T+2	T+1	T+2	T+1	T+2	T+1	T+1
China Life	2628.HK	NTRL	32.00	37.00	0.0%	16%	21.8x	1.47	1.71	13.38	14.88	2.4x	2.2x	23.2x	18.7x	17%	13%
Ping An	2318.HK	RSTR	83.30	n.a.	0.0%	n.a.	30.7x	2.71	3.42	30.44	34.86	2.7x	2.4x	22.0x	15.5x	27%	31%
China Pacific	2601.HK	OPFM	32.65	41.00	0.0%	26%	25.2x	1.30	1.72	17.19	19.16	1.9x	1.7x	18.8x	13.7x	32%	25%
China Taiping	0966.HK	NTRL	23.95	30.00	0.0%	25%	35.0x	0.68	0.85	9.43	10.70	2.5x	2.2x	32.2x	22.6x	26%	38%
PICC*	2328.HK	UPFM	10.74	8.50	0.0%	-21%	22.7x	0.47	0.49	2.72	3.22	3.9x	3.3x	n.a.	n.a.	23%	n.a.

*PICC does not publish Embedded Values as is P&C, hence we use book value instead; Source: Company data, Credit Suisse estimates,

India

India Capital Goods Sector

T&D cycle strengthening

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- Our channel checks suggest that although the pace of ordering for T&D products in 3Q may disappoint with only Rs14 bn worth orders awarded by Powergrid, overall tendering activity has strengthened with about 15 tenders for transformers and reactors worth about Rs30 bn released in the past quarter, the highest in recent history.
- Order recovery likely to sustain in FY12/13 as XIIth plan orders commence. Furthermore, these tenders include domestic manufacturing clauses and require the bidder to compulsorily have a JV or subsidiary in India for manufacturing 765 KV at the time of bidding or within six months of notification of award.
- Rising volumes, administrative bottlenecks for foreign bidders and already low pricing should ensure that the pace of price declines would be slower than in the past two years.
- We believe that Crompton Greaves will be able to capture a large share of the upcoming contracts by virtue of being the only domestic competitor that can supply 100% content from India in HV transformers. In the tower segment, KEC is our pick given strength in international ordering and likely earnings upgrades. On the domestic front, we expect tower orders to recover in 2H FY12.

Valuation metrics

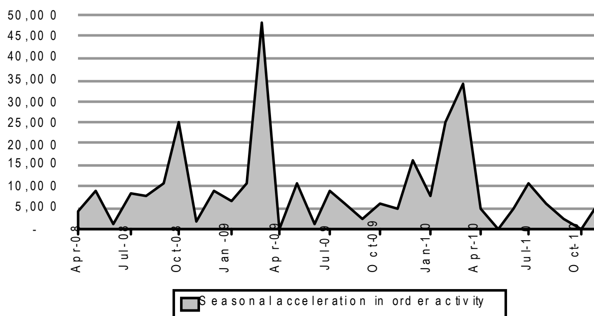
Company	Ticker	CS rating	Price local	Price target	Year T	P/E (x) T+1	P/E (x) T+2	P/B (x)
Crompton Greaves	CRG IN	O	296.8	354.3	03/10	20.6	17.8	5.8
Siemens	SIEM IN	N	770.0	652.6	09/09	30.4	29.5	7.2
ABB	ABB IN	U	745.0	602.7	12/08	44.0	34.1	6.5
Areva T&D	ATD IN	U	307.5	206.5	12/09	38.1	28.7	7.2

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM
Source: Company data, Credit Suisse estimates

Ordering muted, though improved tendering visible

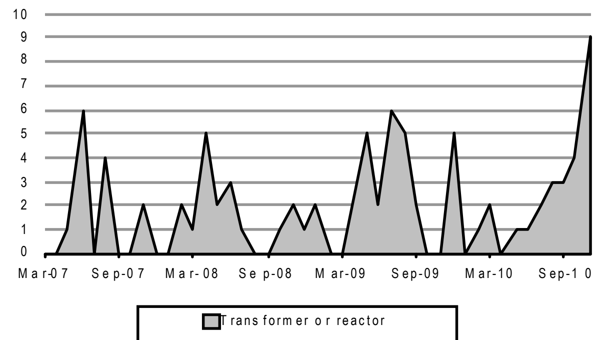
The T&D cycle has been weak over the past two years due to decline in ordering from the private sector, delay in setting up of generation capacities and heightened competitive activity (in HV segment) led by entry of foreign competitors and excess capacity in India. Our channel checks, however, suggest that although pace of ordering in 3Q remains weak, overall Powergrid tendering has strengthened.

Figure 1: Ordering in 3Q was weak – only Rs14 bn worth awards



Source: Powergrid

Figure 2: Volume of tenders (transformers/reactors) strengthening



Source: Powergrid

XIIth plan spend to strengthen orders from FY12

Spend on transmission sector in the XIIth plan is expected to be double that of the current plan, as per preliminary comments from Powergrid management. We believe that orders for 12th plan will commence in FY12, ensuring that order momentum accelerates sharply. Ordering initially will be skewed to transmission tower/lines followed by substation EPC and transformer/reactor orders. Powergrid management has already highlighted likely spend on nine transmission corridors worth Rs550 bn and apart from that Rs500 bn spend is expected on central grid and evacuation of power in other projects.

Management tone improving

Areva T&D. Our interaction with Areva T&D's management suggests a pick up in order activity. Management cited strength in volume of tenders from powergrid. On private sector bids, management highlighted no major order visibility in the near term. Ordering from various states remains in line with expectations, as per management. For 765 KV state orders, orders from Rajasthan state have got delayed. Another order from UP state is anticipated. Management highlighted that competition from China and Korea is expected to remain strong and apart from Hyosung, even Hyundai has expressed interest in some bids in India; however it highlighted that domestic manufacturing clauses have been introduced in powergrid tenders.

Siemens. Siemens India management highlighted in our recent meeting that they expect order recovery in the domestic T&D market, however, believe that pricing pressure remains.

Crompton Greaves. Management (Mr Madhav Acharya CFO), in our recent meeting highlighted optimism on T&D ordering next year. Management highlighted that some execution issues at Powergrid were responsible for slower pace of new tender release and conversion of tenders into orders.

Hyosung. Hyosung's management highlighted that it is seeing an unusual strength in ordering from Powergrid. Management also highlighted that there were no major large private sector bids under consideration currently.

India Capital Goods Sector

Powergrid introduces domestic manufacturing clauses

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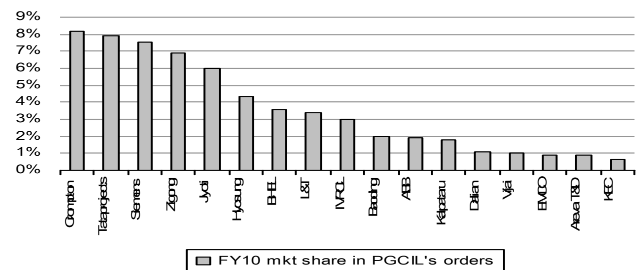
- Power grid has introduced domestic manufacturing clauses in the current set of tenders for transformers and reactors, as per the new qualification requirements notified in the new tenders. These require a bidder to have a subsidiary or a JV in India at the time of bidding or within six months from the date of notification of award. About 25% of the project value will have to be deposited as bank guarantee against any default in meeting deadlines.
- Furthermore, our channel checks suggest that there are two more criteria: (1) 50% content from a factory with requisite qualification still remains, suggesting that CGL would continue to have a better cost structure relative to peers (Indian factory qualified for supply) and (2) these tenders require at least one transformer to be supplied from the Indian facility.
- These new qualification requirements , while not a major deterrent, could likely increase market share of domestic manufacturers such as CGL. It is also likely that Hyosung, Tianwei Baobian Baoding and other foreign bidders would have to set up JVs and smaller Indian manufacturers — such as TRIL, Emco, Voltamp — could be targets as potential partners.

Valuation metrics

Company	Ticker	CS rating	Price local	Price target	Year T	P/E (x) T+1	P/E (x) T+2	P/B (x)
Crompton Greaves	CRG IN	O	296.8	354.3	03/10	20.7	17.8	5.8
ABB	ABB IN	U	745.0	602.7	12/08	46.1	35.8	6.8
Siemens	SIEM IN	N	770.0	652.6	09/09	31.4	30.5	7.5

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM
Source: Company data, Credit Suisse estimates

Figure 1: CRG had the biggest share in FY10 PGCIL's awarded orders



Source: PGCIL, Credit Suisse estimates

New qualifications benefit CGL

Note that for high voltage products (transformers/reactors) Powergrid's requirement in FY10 was for at least 66% of the product (i.e., 66% of transformers in a given tender) to be delivered from a facility which has supplied transformers that have been operating for at least two years. This requirement was eased to 50% last year. These qualification requirements benefitted foreign bidders, and companies such as Hyosung (Korea) managed to gain a large share of the 765 KV transformer market in FY09 and FY10 given that ABB, Areva and Siemens were importing from high-cost European factories, while Hyosung from Korea/china. Chinese manufacturer Tianwei Baobian Baoding also managed to win one of the tenders. CGL managed to be the only Indian manufacturer to get some share of the awards. The introduction of these domestic JV/subsidiary clauses could be some deterrent for foreign bidders (in case they are unable to find a JV partner).

Figure 2: Technical criteria set by PGCIL for foreign and domestic bidders for 765 kV class transformers

Common tech exp criteria for bidder(s): *Bidder should have designed, manuf., tested & supplied >1, 3 ph transformer with >500MVA rating OR >1 transformer in banks of 3 single ph >166MVA each of 715 kV or above voltage level*

Foreign bidders	
Through subsidiary	***Through JVC***
1. Domestic sub should be registered for manuf of 765 kV auto transformers in India. **2.** Bidder should maintain >51% stake for >=7 yrs in the sub **3.** Promoters to have >Rs. 300 mn in paid up share capital.	**1.** Equity participation of Indian manufacturer of 765kV auto transformers. **2.** Indian manuf. Shoud have desiged, tested & supplied >1 transformer of >345kV; >51% stake for >=7 yrs in JVC. **3.** Bidder should have >26% stake for >=7 yrs. **4.** Promoters to have >Rs. 300 mn in paid up share capital.

Indian bidders	
Alone	***Indian JVC***
1. Bidder should have manuf. in India, type tested & supplied >1 transformer, 3 ph of >500MVA OR >1 transformer in banks of 3 single ph >166MVA each of 715 kV or above	**1.** Atleast one of the partner should meet technical exp criteria. **2.** Other partners should either meet tech exp criteria OR ***a.*** Should have designed, manuf, tested & supplied >1, 3ph transformer of >200MVA OR >1 transformer in banks of 3 single ph of >345kV class ***b.*** Should have established manuf & testing facility for 765kV transformer ***c.*** Should have entered into valid tech transfer agreement for 765kV

Source: Company data, PGCIL

Crompton Greaves ---------- Maintain OUTPERFORM

Remains the best play on T&D recovery

EPS: ▲ TP: ▲

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- After a muted 3Q, we expect ordering in the T&D sector to recover, and acceleration in Powergrid tenders in 4Q FY11 is an evidence of that recovery. Furthermore, the introduction of domestic manufacturing clauses in these tenders should benefit CGL by virtue of their cost advantage (please see 11 January note, *Powergrid introduces domestic manufacturing clauses*).
- While domestic revenue booking in 3Q may be muted, we see limited risk to modest growth targets for FY11, as subsidiaries have been tracking ahead of guidance and should support earnings. On the margins front too, with order book fully hedged, we see limited impact of an increase in commodity prices.
- CGL should also benefit from an increase in penetration in industrial space with the likely launch of new products such as drives and components for automation products.
- With order recovery panning out in 4Q and likely market share gains for CGL, we maintain OUTPERFORM. (Revise EPS from -3% to 10% over FY11-13 and raise target price to Rs354 (from Rs310).

Bbg/RIC	CRG IN / CROM.BO	Price (10 Jan 11 , Rs)	296.80
Rating (prev. rating)	O (O)	TP (Prev. TP Rs)	354 (310)
Shares outstanding (mn)	641.49	Est. pot. % chg. to TP	19
Daily trad vol - 6m avg (mn)	0.1	52-wk range (Rs)	342.25 - 223.30
Daily trad val - 6m avg (US$ mn)	0.9	Mkt cap (Rs/US$ bn)	190.4/ 4.2
Free float (%)	59.0		
Major shareholders	Solaris holding 39%		

Performance	1M	3M	12M
Absolute (%)	(7.4)	(8.1)	24.8
Relative (%)	(6.1)	(3.2)	13.8

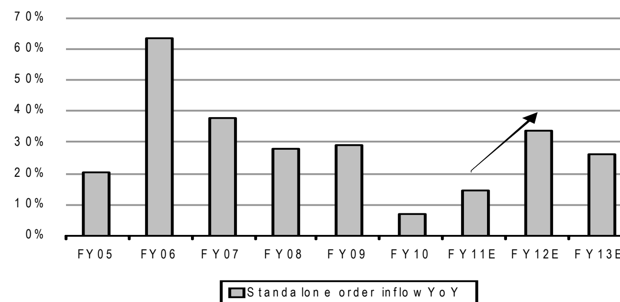
Year	3/09A	3/10A	3/11E	3/12E	3/13E
Revenues (Rs mn)	87,373	91,409	97,711	108,783	136,328
EBITDA (Rs mn)	9,956	12,770	13,953	16,553	21,179
Net profit (Rs mn)	5,751	8,000	8,971	10,773	14,250
EPS (Rs)	9.0	12.5	14.0	16.8	22.2
- Change from prev. EPS (%)	n.a.	n.a.	(3)	1	10
- Consensus EPS (Rs)	n.a.	n.a.	14.2	16.4	19.0
EPS growth (%)	41.4	39.1	12.1	20.1	32.3
P/E (x)	33.1	23.8	21.2	17.7	13.4
Dividend yield (%)	0.4	0.6	0.8	1.0	1.3
EV/EBITDA (x)	19.3	14.8	13.2	10.6	7.7
P/B (x)	10.4	7.6	5.8	4.6	3.6
ROE (%)	36.7	36.9	31.1	29.1	30.0
Net debt (net cash)/equity (%)	8.3	(6.7)	(19.3)	(35.7)	(50.3)

Order recovery in FY12; market share key driver

While we understand that CGL lacks near-term earnings catalysts, order inflow recovery remains the key driver for the stock. We anticipate T&D ordering in India to accelerate in FY12, led by the commencement of the 12th plan ordering and rush orders for pending orders in the 11th plan. CGL enjoys a cost advantage by virtue of being the only domestic supplier with capability of supplying 100% content from India for high-voltage products. We hence anticipate CGL to gain market share at the expense of other domestic peers.

Expansion of industrial business: Management highlighted plans to expand presence in the industrial segment. Apart from motors and pumps, CGL plans to enter into drives market for supplying components for automation products. There are though no plans to foray into process automation (EPC) projects, as per management.

Figure 1: Market share gains and T&D recovery to strengthen domestic order inflows in FY12



Source: Company data, Credit Suisse estimates.

Domestic T&D execution issues remain

Management, in a recent meeting, highlighted that delay in conversion of orders into revenues due to customer-specific issues that had impacted domestic T&D revenue booking over the past two quarters would continue into the current quarter (3Q). We however note that overall guidance of 15% growth/flat margins could be supported by a stronger-than-expected international business in 1H. Management also appeared optimistic on the domestic T&D segment in FY12.

International T&D: Scope for margin expansion remains

Management highlighted that international business continues to remain volatile (volatility driven by liquidity issues at customer end and growth uncertainty), but with growth tracking ahead of estimates in 1H (19% growth in Euro terms versus guidance of 5% growth), we see little risk to guidance. With growth environment for T&D remaining stable in Europe, we in fact see room for further margin expansion. Management had earlier indicated that margins for international business has room for growth and the gap between domestic and international margins could narrow to 200-300 bp (European facilities are still running at lower utilisations compared with India/current margins for subsidiaries at 9-10% versus 15-16% for India).

Of the current international order book, 60% stems from power transmission, 15% for wind and rest from distribution. Management highlighted that it does not have a concentrated exposure to countries facing major macro issues but have a broad exposure to Europe (Only about 35% of subsidiary revenues stem from Europe).

Figure 2: Target price methodology

	FY12 EPS	Multiple	Target price
Standalone	13.1	23x FY12 E vs. 20x earlier. This is at 25% discount to peer fwd vals	302
Subsidiaries	3.7	12x	45
Avantha Power stake			7
Target price			354

Source: Company data, Credit Suisse estimates

India Oil and Gas Sector ---------- Maintain UNDERWEIGHT

Likely higher LNG imports in 3Q FY11 should help both PLNG and GAIL earnings

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- Reported gas production at KG D6 should fall 4-5 mmscmd QoQ in 3Q FY11. Output at PMT is expected to increase about 3.8 mmscmd QoQ. Our conversation with GAIL suggests transmission volumes can increase a little QoQ; GSPL is also looking at flat numbers.
- PLNG's imports of gas should therefore increase 2.2 mmscmd, (2-3 cargoes, about 7 TBTU) QoQ. Depending on trading gains made on these spot cargoes, 3Q FY11 EPS can surprise our initial estimate of Rs1.74/share. On run rate, PLNG would be 16x times. GAIL can also benefit from higher volumes, but earnings leverage is lower.
- GAIL transmission capacity increased 11 mmscmd in October 2010; and there is spare LNG import capacity at PLNG / Shell. That total gas consumption remains flat in 3Q FY11 indicates either: (1) a lack of demand at LNG prices, or (2) the time taken to market / sell gas.
- LNG costs about US$11/mmbtu delivered to customers in India, ruling out usage for base load power at least. If domestic volumes (KG D6) remain flat and high prices deter LNG consumption, FY12 volume estimates for each of GAIL / GSPL and PLNG will be at risk. Volumes delivered over the next two to three quarters will be critical.

Valuation metrics

Company	Ticker	CS rating	Price local	Price target	Year T	P/E (x) T+1	P/E (x) T+2	P/B (x)
GAIL	GAIL IN	O	503.4	536.0	03/10	17.2	14.7	3.1
GSPL	GUJS IN	N	110.8	114.0	03/10	15.0	12.3	3.3
Petronet LNG	PLNG IN	N	120.6	109.0	03/10	17.8	14.8	3.5

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM
Source: Company data, Credit Suisse estimates

Domestic gas availability fell QoQ in 3Q FY11

On reported numbers, average gas production at RIL's KG-D6 field would have fallen 4-5 mmscmd QoQ in 3Q FY11. This would have been compensated by volumes at Panna / Mukta, which are reported to have restarted on 24 October 2010. Total PMT production should therefore be up about 3.8 mmscmd QoQ in 3Q FY11. With other volumes relatively stable, total domestic gas production would have fallen a little over 1 mmscmd QoQ.

Transmission companies look to volume growth, though

Our conversation with GAIL suggests that despite the decline in domestic volumes, GAIL expects small growth in gas transmission in 3Q. GSPL expects 3Q volumes to remain close to 2Q numbers. This divergence of falling domestic production and increasing transmission volumes can be explained by higher imports, mostly through PLNG.

As a result, we estimate PLNG 3Q volumes could have increased by about 2.2 mmscmd (approximately 2-3 cargos, about 7 TBTU) QoQ. Reported PLNG volumes could reach 107 TBTU, surprising our initial estimate of 103 TBTU and our EPS estimate of Rs1.74 for the quarter. Assuming gross spreads remain at 2Q level (which include some trading gains), PLNG's 3Q FY11 EPS could be as high as Rs1.85 to Rs2. The stock on run rate would then be between 15-16x. GAIL earnings should also benefit from higher volumes, but have lower leverage. Higher oil prices imply higher earnings in the petchem / LPG businesses. If subsidy payments do not grow as much QoQ, GAIL numbers could surprise as well.

Figure 1: PLNG volumes in 3Q FY11 can increase on the back of a fall in KG-D6 production volumes

		2Q FY11	3Q FY11E	Change
Domestic Supply				
KG-D6	mmscmd	57.9	53.0	(4.9)
PMT	mmscmd	8.5	12.3	3.8
Total (A)	mmscmd	66.4	65.3	(1.1)
Transmission				
GAIL	mmscmd	114.9	116.0	1.1
GSPL	mmscmd	35.3	35.3	0.0
Total (B)	mmscmd	150.2	151.3	1.1
Incremental volume (B-A)	mmscmd			2.2
Implied PLNG volume growth	mmscmd			2.2
Implied PLNG volume growth	TBTU	99.8		107

Source: Company data, Credit Suisse estimates

Improving 3Q LNG volumes, but the jury is still out

That PLNG was able to capitalise on a reduction in domestic gas availability is a good sign, and given low expectations from RIL's gas fields for FY12, augurs well for PLNG's earnings.

GAIL added 11 mmscmd to its transmission capacity in October 2010 in the Dahej-Vijaipur section. With the earlier commissioning of the Vijaipur-Dadri expansion, GAIL would have had at least 11 mmscmd of new capacity throughout its trunk routes. Yet, total gas consumption volumes are likely to have grown only by a small 1-2 mmscmd in 3Q FY11. PLNG has sufficient spare capacity at the Dahej terminal as well. That its import volumes did not grow more in 3Q indicate either (1) a lack of demand at LNG prices, or (2) the time needed to market / sell the gas.

We estimate LNG costs about US$11/mmbtu delivered to customers. For power companies, this implies variable costs of about Rs.3.2/unit, ruling out LNG use for base load. In the absence of firm volume allocations / policy clarity, fertilizer companies may be in no hurry to convert to gas.

If high prices deter LNG consumption, and in the absence of domestic volume growth, FY12 estimates for each of GAIL / GSPL and PLNG are at risk.

Figure 2: Delivered spot LNG can cost close to US$11/mmbtu

USD/mmbtu		Outside Gujarat	Within Gujarat
CIF cost		8.00	8.00
Customs duty	5%	0.40	0.40
Regasification margin		0.66	0.66
VAT	12.50%	1.13	1.36
Marketing margin		0.13	0.13
Transportation		0.70	0.40
Total		11.02	10.95

Note: The state of Gujarat imposes another 2.5% of VAT
Source: Company data, Credit Suisse estimates

Hindalco ---------- Maintain OUTPERFORM

Alcoa's results imply Novelis should achieve US$240 mn EBITDA in 3Q11

EPS: ◄► TP: ◄►

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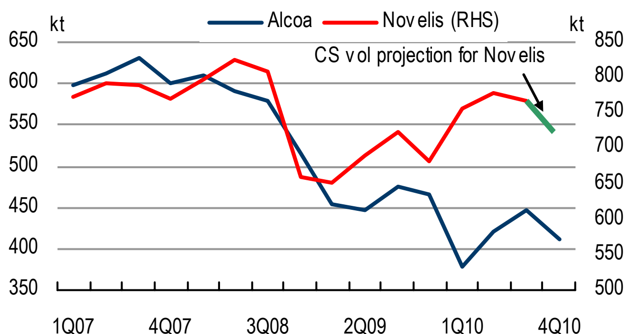
- Historically, Alcoa's flat rolled performance has served as a good indicator to predict Novelis results in the US and Europe (fig 1 & fig 2).
- December quarter is a seasonally weak quarter for both Alcoa and Novelis. The shipments declined 8% QoQ and margins were down 12% QoQ for Alcoa. This is in line with our expectation for Novelis where we expect 7% QoQ decline in volumes and 11% decline in margins. Overall, Novelis should achieve EBITDA of US$240 mn (-17% QoQ) in 3Q11 and US$1,065 mn in FY11.
- Demand outlook for flat rolled segment is positive for the March quarter where Alcoa expects demand to strengthen across most regions coupled with improved price and mix to offset higher energy costs. Alcoa's utilisation has already increased to 80% versus 72% in Dec quarter.
- Hindalco reports standalone results on 10-February. Sequentially, we expect higher profitability (+5%) due to Al volume ramp at Hirakud and 12% price increase in Al QoQ. Our estimates are 15-20% lower than consensus as: 1) the costs should continue to be high even in 3Q11 as Al pots at Hirakud are still stabilising; 2) Insurance claims for Hirakud outage in 1Q11 are not expected in 3Q11.

Bbg/RIC	HNDL IN / HALC.BO	Price (10 Jan 11 , Rs)			221.65
Rating (prev. rating)	O (O) [V]	TP (Prev. TP Rs)			255 (255)
Shares outstanding (mn)	1,914.34	Est. pot. % chg. to TP			15
Daily trad vol - 6m avg (mn)	1.1	52-wk range (Rs)			250.30 - 132.50
Daily trad val - 6m avg (US$ mn)	4.5	Mkt cap (Rs/US$ bn)			424.3/ 9.4
Free float (%)	68.0	Performance	1M	3M	12M
Major shareholders	Promoters- 32%	Absolute (%)	3.2	2.8	28.2
		Relative (%)	4.7	8.3	16.9

Year	3/09A	3/10A	3/11E	3/12E	3/13E
Revenues (Rs mn)	656,252	607,221	717,306	775,558	774,177
EBITDA (Rs mn)	29,774	97,458	81,047	88,356	97,816
Net profit (Rs mn)	4,853	39,255	25,981	34,216	35,549
EPS (Rs)	3.3	22.1	13.5	17.8	18.5
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (Rs)	n.a.	n.a.	18.2	20.5	25.1
EPS growth (%)	(83.5)	578.2	(38.8)	31.7	3.9
P/E (x)	68.0	10.0	16.4	12.4	12.0
Dividend yield (%)	0.8	0.8	0.8	0.8	0.8
EV/EBITDA (x)	21.6	6.0	7.8	7.4	6.8
P/B (x)	2.1	1.8	1.8	1.6	1.4
ROE (%)	2.9	21.0	11.4	13.4	12.4
Net debt (net cash)/equity (%)	127.6	68.3	81.5	79.2	75.5

Note1:Hindalco is the largest private sector Aluminium producer in India and after Novelis acquisition, the largest flat rolled aluminium player globally..

Figure 1: Volumes declined in Dec but now back to 80% utilisation

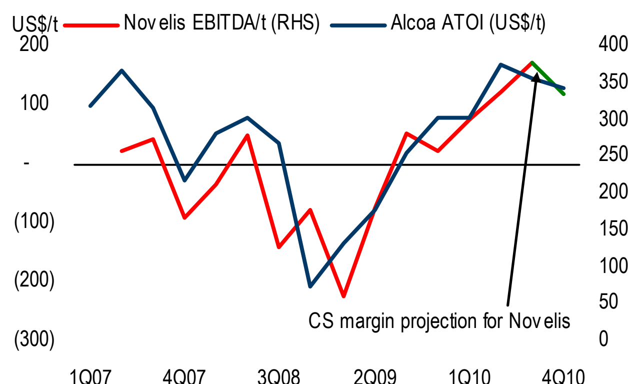


Source: Company data, Credit Suisse estimates.

Alcoa: Positive guidance for flat rolled segment

December quarter is a seasonally weak quarter for both Alcoa and Novelis. The shipments declined 8% QoQ and margins were down 12% QoQ for Alcoa (fig 1 & fig 2). Demand outlook for flat rolled segment is positive for the March quarter where Alcoa expects demand to strengthen across most regions coupled with improved price and mix to offset higher energy costs. Alcoa's utilisation has already increased to 80% versus 72% in December quarter.

Figure 2: Seasonal slowdown in volumes should impact margins



*ATOI= After tax operating income, Source: Company data, Credit Suisse estimates

Alcoa's performance is in line with our expectation for Novelis where we expect 7% QoQ decline in volumes and 11% decline in margins. Overall, Novelis should achieve EBITDA of US$240 mn (-17% QoQ and +21% YoY) in 3Q11 and US$1,065 mn in FY11.

Figure 4: Novelis results expectation

US$ Mn	2Q11E	1Q11A	QOQ	2Q10A	Y/Y
Shipment Volume ('000 T)	716	767	-7%	683	5%
EBITDA/t	335	378	-11%	291	15%
EBITDA	240	290	-17%	199	21%

Source: Company data, Credit Suisse estimates.

Expect EPS of Rs2.4 from standalone results

Hindalco reports standalone results on 10 February 2011. We expect profitability to improve sequentially due to: 1) a pick-up in aluminium sales volume from Hirakud though still lagging behind the full ramped up rate and 2) 12% QoQ increase in aluminium prices. However, the costs should continue to be high even in 3Q11 as the aluminium pots at Hirakud are still stabilising. Therefore, our estimates are 15-20% lower than consensus.

Copper volumes should decline sequentially due to breakdown of the cooling tower at the Dahej copper plant for two weeks. We do not factor in inflow of insurance claim for Hirakud outage in 1Q11.

Figure 3: Standalone results expectation

Rs mn	3Q11E	2Q11A	QoQ	1Q10A	YoY
Revenue	59,082	58,028	2%	52,861	12%
EBITDA	6,847	6,412	7%	7,184	-5%
Net income	4,571	4,338	5%	4,271	7%

Source: Company data, Credit Suisse estimates

Indonesia

Indonesia Telecoms Sector-- Maintain OVERWEIGHT

A guide to catching falling knives

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- Both our regional strategist and our economist believe that it is too early to increase weightings in Indonesia despite the market's 10% fall from its recent highs.
- On the other hand, we believe that the telecoms sector looks interesting after a period of sharp underperformance relative to the broader Indonesian market during 4Q10 on fears of a return to a 2007-08 style price war.
- During much of the recovery phase in 2009 and 2010, Indonesian cellular growth tended to be a "two-horse-race" in any particular quarter, and since 4Q10 a period of what we describe as "closer" competition, with three active players, has commenced. However analysis of recent promotions suggests minimal ARPU impact, and while we expect tighter dispersion in revenue market share, we do not expect a material general decline in revenue growth.
- Given the macro headwinds, we attach a sensitivity to our DCF valuations to various risk-free rates. In our view Indosat already looks attractive, even if bond yields back up all the way to 10%.

Figure 1: Indonesia telecoms sector—Comparative multiples

	Current price (Rp)	Target price (Rp)	Upside (%)	P/E (x) FY11E	P/E (x) FY12E	EV/EBITDA (x) FY11E	EV/EBITDA (x) FY12E
PT Telkom	7,200	10,300	43.1	10.8	10.0	5.1	4.7
Indosat	4,975	8,200	64.8	14.0	10.5	4.7	4.2
Excelcom	5,450	6,700	22.9	12.2	10.6	5.3	4.7
Protelindo	12,850	14,200	10.5	49.7	32.9	13.2	11.0
NJA* integrated				16.9	13.9	4.9	4.6
NJA wireless				11.5	10.4	5.0	4.5

* Non-Japan Asia; Source: Company data, Credit Suisse estimates

Our strategist and economist remain nervous on macro

Indonesia's JCI has fallen by 10% from its recent high of 3,800. Our strategist, Sakthi Siva, continues to prefer to switch out of what she refers to as the 2007 club (the eleven GEM markets that are above their 2007 highs and, within Asia, include Indonesia, India, Philippines Thailand and Malaysia).

Similarly, our economist, Robert Prior-Wandsesford, sees little evidence to suggest that Indonesia has made any progress either in reducing inflation or raising GDP on a structural basis. As such, he is not surprised to see inflation rear its ugly head again, or see the Indonesian government bond yield back up from its recent low of 7.3% to 8.4% as of yesterday.

We see opportunities in the telecoms sector…

Interestingly, Sakthi highlights that the telecom sector is the only sector within Indonesia which trades at a discount to the region—specifically a 2% discount to Asia ex-Japan on her price-to-book versus ROE valuation methodology.

From the regional telecoms perspective, we would tend to agree that there is value within the Indonesian sector, in part because of sharp underperformance of the sector relative to the broader Indonesian market during 4Q10 on fears of a return to a 2007-08 style price war. We acknowledge that during much of the recovery phase in 2009 and 2010 Indonesian cellular growth tended to be a "two-horse-race" in any particular quarter. While Excelcom gained market share steadily, Indosat lost 3.2% market share between 4Q08 and 3Q09, as Indosat's acquisition was completed. After the new management team arrived, Indosat delivered four consecutive quarters of revenue market share gains, and recaptured 2.2% revenue market share between 3Q09 and 3Q10. Excelcom gained a further 2.3% in market share over the period, while Telkomsel (Not listed) lost 3.3% share.

Given this, and difficulties in clawing back market share in 2Q10 and 3Q10 within what is now clearly a "three player market", Telkomsel in 4Q10 changed tactics by attempting to match Excelcom's cleverly-structured offers more directly, and we would certainly acknowledge that the Indonesian cellular market is now exhibiting "closer" competition. All three operators are now run by incentivised management teams attempting to attract revenue share, and so reactions to popular promotions are occurring much faster.

However, we note that the promotions conform with the classic pattern followed since the end of the 2007-08 price war; that is, an attractive-looking headline offer, but several "catches" (off-net pricing, peak hour pricing) to protect both blended average RPM and average ARPU. Thus, we believe that fears of a return to the 2007-08 price war, and the risk of material declines in RPM and ARPU levels are overplayed. Therefore, we expect the result to be a much tighter dispersion in revenue market share, rather than a material general decline in revenue or revenue growth prospects. Within this context our preferred play is Indosat, which we believe can continue to grow market share versus Telkomsel (albeit at a more gradual pace going forward), but which also has the most scope for further capex and opex reductions as the new management team focuses on returns on capital.

...and Indosat looks attractive despite macro headwinds

Notwithstanding this fundamental view, we also acknowledge that Indonesian equities do, of course, react to the broader macro environment, and the cost of money in Indonesia. Indeed, we use DCF valuation, currently based on a risk-free rate of 7.5%, to set our target prices. To help investors select entry points which conform to their view of the appropriate risk-free rate for Indonesia, the table below sets out our DCF valuations based on a range of risk-free rates. We note that Indosat in particular continues to offer attractive upside, even if investors assume that the risk-free rate reaches 10.0%.

Figure 2: DCF-based valuations—Sensitivity to risk-free rate (Rp)

Risk-free rate	7.50%	8.50%	9.00%	9.50%	10.00%
Telkom	10,300	9,488	9,124	8,790	8,483
Indosat	8,200	7,285	6,879	6,502	6,151
Excelcom	6,700	6,129	5,875	5,639	5,419
SMN (Protelindo)	14,200	12,238	11,529	10,873	10,265

Source: Company data, Credit Suisse estimates

Japan

Japan Brokerage Sector -- Maintain MARKET WEIGHT

Warning on brokerage stocks

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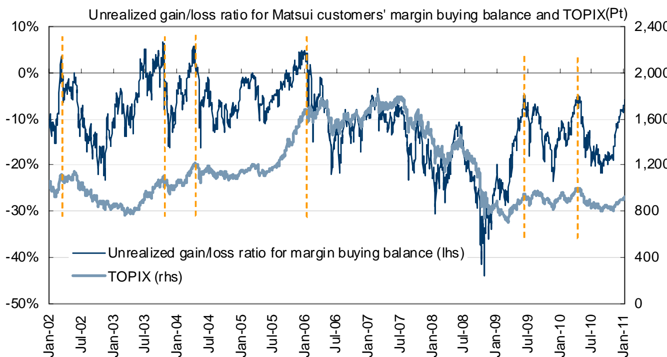
- Matsui Securities' unrealised gain/loss ratio on long margin positions of individual investors improved to -5.9% as of 7 January, suggesting the equity market is beginning to overheat. The brokerage sector therefore looks to have rebounded almost as much as it can.
- High-beta stocks such as securities and life insurance stocks are highly susceptible to stock price corrections, thus we recommend investors to consider shifting to defensives within the sector such as non-life insurance stocks.
- We downgrade Daiwa Securities Group (8601), Mizuho Securities (8606), Matsui Securities (8628) and kabu.com Securities (8703) to NEUTRAL, but our basic view on earnings remains largely unchanged.

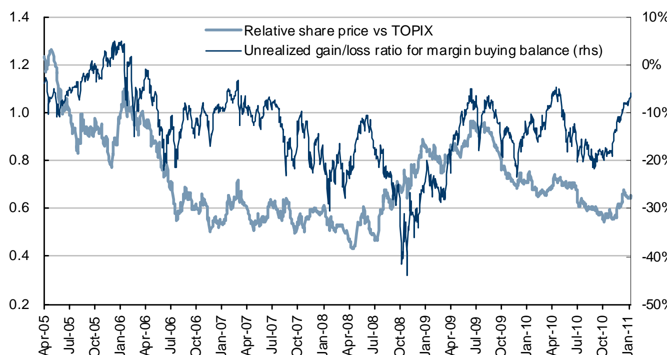
Figure 1: Unrealised gain/loss ratio on margin positions already nearing its post-Livedoor scandal peak



Source: Company data, Credit Suisse

Matsui's share price also indicates brokerage stocks nearing peak: Matsui's relative performance to the TOPIX has tended to peak out roughly in tandem with the unrealised gain/loss ratio. We believe Matsui's relative performance already peaked in mid-December.

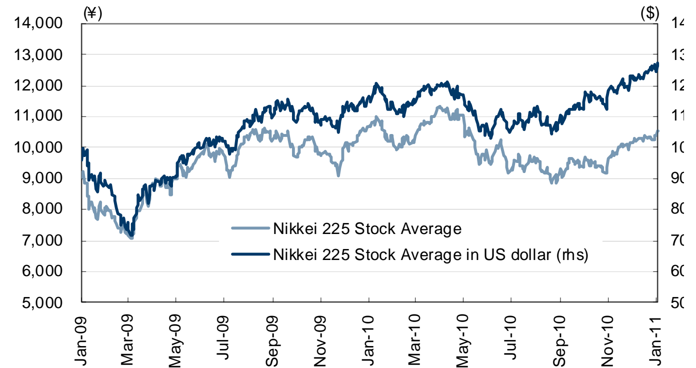
Figure 2: Unrealised gain/loss ratio for Matsui customer's margin buying balance and relative share price vs TOPIX



Note: Relative share price vs TOPIX = Share price / TOPIX
Source: Company data, Credit Suisse

Dollar-based Nikkei Average above previous high: While the Nikkei Average may be slow in returning to its previous high, we note the stock market index has already eclipsed its previous high on a dollar base. This may indicate that Japanese stocks have already fully bounced back.

Figure 3: Trend in Nikkei 225 Stock Average



Source: Thomson Reuters

Daiwa Securities (8601): For 3Q, we anticipate no significant improvement beyond the breakeven point. Earnings seem unlikely to drive up the share price further. We maintain our ¥430 target price. Click here for full company note.

Mizuho Securities (8606): We expect profit to drop significantly from 2Q and possibly fall slightly into the red. Earnings are unlikely to drive up the share price. Our target price remains unchanged at ¥240. Click here for full company note.

Matsui Securities (8628): We do not expect profits to significantly differ from 2Q levels. Earnings are therefore unlikely to drive up the share price further. Our ¥540 price target is maintained. Click here for full company note.

kabu.com Securities (8703): We estimate that 3Q earnings will be slightly higher than 2Q. While earnings should be stronger than those of other online brokerages, we view further share price appreciation as unlikely. Our ¥370 target price remains unchanged. Click here for full company note.

Pakistan

Pakistan Economics

December CPI down 0.3% MoM but still up 15.7% YoY; policy rate could rise 50 bp in the January statement

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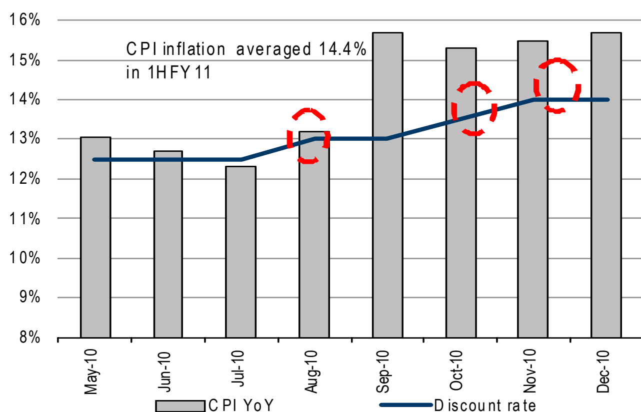
- Federal Bureau of Statistics (FBS) and the central bank (SBP) have released the inflation, trade and remittance statistics for December 2010, which appear to be a mixed bag.
- CPI inflation eased marginally in December 2010, falling 0.32% MoM to 15.7%, lower than consensus estimate of 16%. The YoY inflation was still at a three-month high, mainly on low base effect.
- December trade deficit though widened 20% MoM to US$1.6 bn amid a probable rise in the oil import bill as international oil prices rose 6% MoM. In contrast, remittances continued to surge ahead, up 27% YoY to US$863 mn.
- We expect inflationary pressure to persist in the months ahead, led by higher commodity prices, 2% monthly electricity tariff hike and oil price pass-through. SBP may, therefore, opt for a further 50 bp policy rate hike in January 2011 to 14.5%, at which point the rate cycle is would peak. We, however, don't completely rule out SBP deferring such a decision mainly due to the government's recent retirement of approximately PRs160 bn worth of borrowings from SBP.

Figure 1: Inflation surged ahead, averaging 14.4% in 1H FY11



Source: SBP

December 2010 CPI fell MoM but rose sequentially

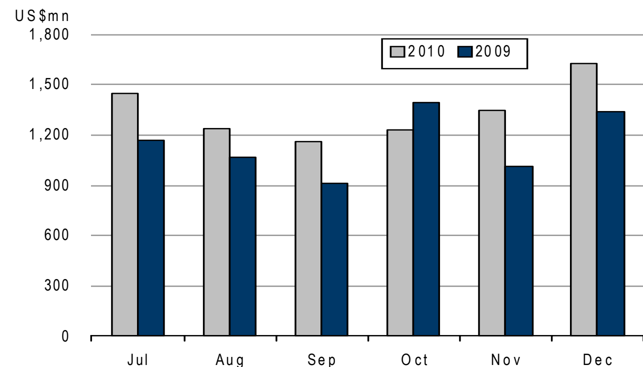
FBS released the CPI inflation numbers for December 2010, which were recorded at 15.7%—marginally higher than 15.5% in November 2010. Encouragingly though, inflation decelerated 0.32% MoM as food prices eased during the period. While the detailed CPI statement has not been released, weekly SPI statistics indicate a 1.2% MoM decline in food inflation. Moreover, the decision by the government to reverse the 5-9% fuel price hike on 1 January 2011 amid political pressure also helped ease the MoM inflationary pressure. Changes in petroleum prices are incorporated one month ahead of the actual price change. The average inflation during 1H (July-December) FY11, therefore, accelerated to 14.4%, versus 10.3% recorded in the corresponding period last year.

December trade deficit widened 20% to US$1.6 bn as imports rose

Trade deficit for December rose 20% MoM to US$1.6 bn, led by a sharp (20%) rise in imports to US$3.8 bn. Although details are unavailable, we believe the sharp rise in imports could be attributed to higher food and oil imports. Oil imports are expected to inch higher due to a combination seasonal jump in furnace oil demand and higher oil prices, which were up 6% MoM. Moreover, 30-70% rise in major grain prices since June contributed to the higher food import bill.

On a positive note, exports too demonstrated an upward trend, rising 20% to US$2.1 bn in December, benefiting largely from booming textile exports. The cumulative trade deficit for 1H (July-December) FY11 reached US$8.1 bn (up 22% YoY). Exports led by the textile sector were up 24% to US$11.0 bn, while imports expanded 23% to US$19.1 bn. With grain prices remaining sticky and our house oil price estimate of US$85/barrel for 2H FY11 (5% higher than 1H FY11), we expect full-year trade deficit to range between US$18-19 bn.

Figure 2: Trade deficit has trended upwards during 1H FY11



Source: FBS

Remittances increased 27% YoY in December and 17% YoY in 1H FY11

After a record inflow of US$929 mn in November 2010, home remittances fell 7% MoM to US$863 mn due to seasonal Eid flows in November 2010. Ignoring the seasonal MoM adjustment, the remittance inflows appear strong, up 27% YoY in December and 17% YoY at US$5.3 bn in 1H FY11. The strong momentum in remittances has really helped contain the current account deficit, which fell 72% YoY to US$504 mn in (July-November) FY11. Despite a likely rise in trade balance in the coming month, we expect continued momentum in remittance flows and receipt of Coalition Support Fund and other assistances to help current account deficit moderate to US$2.5-3.0 bn (1.6% of GDP) in FY11.

SBP may increase policy rate by 50 bp in January 2011

With inflationary pressure unlikely to ease in the short run, SBP may decide to increase the policy rate by a further 50 bp to 14.5% in its January 2011 policy statement. While we maintain our earlier view that inflation has largely peaked, we don't rule out the possibility of another 50 bp hike in the policy stance, at which point we believe the rate cycle will reach an optimal level. Recent retirement by the government of approximately PRs160 bn of SBP borrowings (a key concern of the central bank) would indeed weigh heavily on the policy stance. Hence, we don't completely rule out an unchanged policy stance.

Philippines

Petron Corporation -- NOT RATED

NDR takeaways: Old becomes new again

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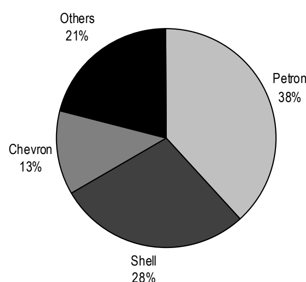
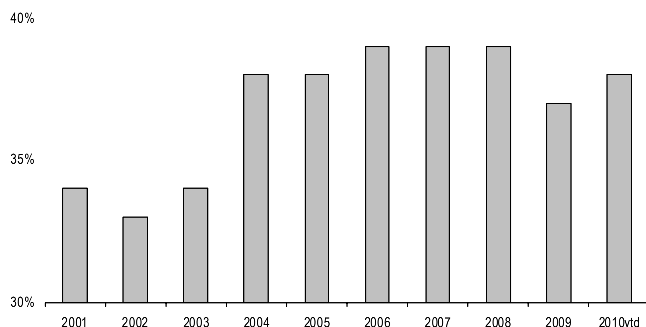
- **Under the radar.** Petron Corporation (PCOR PM) is the dominant oil refiner in the Philippines and has been publicly listed since 1994. Management believes the stock has been largely ignored because of its lack of liquidity and the perception that petroleum product pricing in the Philippines remains politicised.
- **NDR re-introduces Petron to the equity markets.** However, the PCOR story could no longer be ignored with the stock up 262% in 2010. As a result, we took company management out on an NDR, where Petron explained to investors the competitive environment in the Philippines as well as the company's plan to pursue the Refinery Master Plan 2 (RMP-2) upgrade.
- **Lack of share liquidity remains a problem…for now.** As a dominant energy player in a fully deregulated, emerging market economy, Petron is an intriguing story. Moreover, the company has started a major capex programme meant to significantly improve overall competitiveness. Management also publicly disclosed its willingness to address the stock liquidity problem at the soonest.

Figure 1: Petron is tops in market share



Source: Department of Energy (DOE) as of June 2010

Figure 2: PCOR builds on market share after deregulation



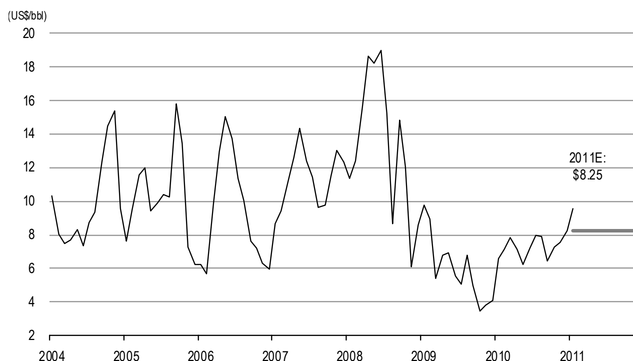
Source: Petron, Department of Energy (DOE)

Entrenched energy player: PCOR is the biggest player in the Philippine downstream oil industry with a 38% market share. PCOR is the owner of a 180,000 bd refinery (by far the largest in the Philippines) and has maintained its dominant market share despite operating in a deregulated environment since 1998 (Figures 1 and 2).

New owner brings new direction. San Miguel Corporation's (SMC) assumption of a 68.2% control of Petron last December 2010 is an important development. For the first time since deregulation, Petron has a private entity acting as majority owner. In this context, Petron gets to finally flex its muscles in an environment where pricing is determined by market forces. SMC is also pushing through with Petron's long-delayed Refinery Master Plan 2 (RMP-2) upgrade to be implemented from 2011 to 2013.

RMP-2 builds on strengths and addresses weaknesses. Via RMP-2, Petron seeks to increase production of the higher-value petroleum and petrochemical products, and eliminate the production of low-value fuel oil. Petron presently operates a simple refiner and therefore makes the bulk of its profits from the marketing side of the business. RMP-2, however, allows Petron to raise the level of complexity of its refinery to that at par with most regional refiners. Management believes this raises the refiner's competitiveness, thereby potentially maximising benefits associated with a possible bottoming out of refining margins (Figure 3). RMP-2 also allows Petron's refinery to produce petcoke, which fuels an adjacent 70 MW co-generation power plant due for commercial operations in 2012. Since the co-generation plant (which Petron partly owns) will be supplying all of Petron's power requirements, management expects the setup to render Petron completely power supply independent, while also significantly reducing the refiners' operating costs. RMP-2 also intends to double the size of PCOR's already extensive marketing and retail network (Petron currently has 1,700 service stations) over the next five years.

Figure 3: Singapore refining margins appear to have bottomed out



Source: Bloomberg, Credit Suisse.

What happens next? The bill for RMP-2 is US$1.7 bn – to be funded by a combination of internal cash and debt and equity issuances. Petron concluded a landmark P20 bn seven-year global peso bond issue recently and publicly mentioned selling shares (equivalent to 24.3% of outstanding shares) held by the Petron Employees' Retirement Plan. Management expects that such a share sale would generate cash that would allow the Retirement Fund to repay advances made by Petron. The transaction also restores liquidity to the stock. PCOR currently ranks 11th as per market cap among the Philippine stocks (at US$3.6 bn), but stands 41st in average daily value turnover.

Singapore

Singapore Market Strategy -- Maintain UNDERWEIGHT

CS IPO watch: 2011 starting slowly after a very active 4Q 2010

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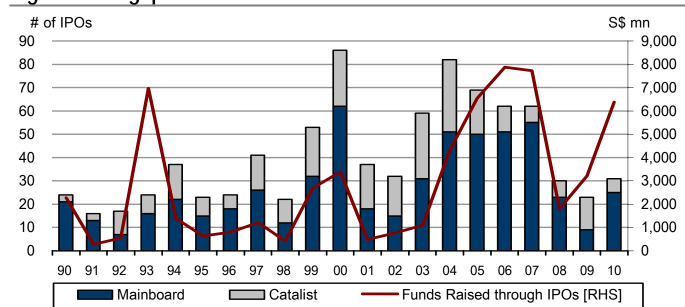
- Despite a slow start, 2010 ended to be a surprisingly active year for IPOs, due to the listing of several major IPOs in 4Q. IPOs in 4Q accounted for 78% of the S$6.4 bn raised in 2010, twice 2009's S$3.2 bn (but still below 2007's S$7.7 bn). But overall equity funding raising in 2010 was lower at S$14.8 bn, versus the whopping S$24.3 bn in 2009 and S$22.9 bn in 2007.
- However, the IPO class of 2010 did not perform very well overall. The average first day performance was 10%. The average 2010 performance was lower at -4%. These compare against the market's (STI) +10% for 2010. Of the 31 IPOs, only four generated returns in excess of 10% from their day one closing prices.
- While it is still early days, 2011 is again starting slowly with only four IPOs lodged so far.
- Notable IPOs in the pipeline (expected in 1Q 2011) include real estate plays, Mapletree Commercial Trust (reported to be raising S$1 bn – *The Wall Street Journal Asia*) and Perennial Real Estate (S$1 bn – *Dow Jones*). *Dow Jones* reported that China Shipyard New Century (S$600-700 mn) is also expected to revive its IPO.

Figure 1: Singapore – number of IPOs



Source: SGX, CEIC, Credit Suisse.

Despite a slow start, 2010 ended to be a surprisingly active year for IPOs, due to the listing of several major IPOs in 4Q. IPOs in 4Q accounted for 78% of the S$6.4 bn raised in 2010, twice 2009's S$3.2 bn (but still below 2007's S$7.7 bn). A total of 31 companies went public—higher than 2009's 23 (but only half of 2007's 62). But overall equity fund raising in 2010 was lower at S$14.8 bn, driven mainly by IPOs (43%), and represented only 2% of the free float market cap. This compares against the whopping S$24.3 bn in 2009 (4.6% of the market cap) and S$22.9 bn in 2007 (3.1%).

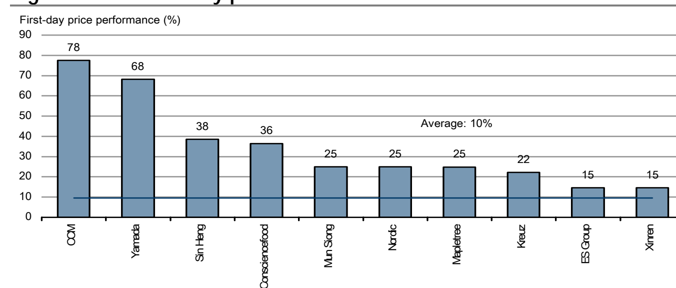
Class of 2010 – mediocre performance

However, the IPO class of 2010 did not perform very well. The (simple) average first day performance was 10%. However, the average 2010 performance was lower at -4%. The average gain from day one closing prices was -11%. These compare against the market's (STI) +10% for 2010. Of the 31 IPOs, only four generated returns in excess of 10% from their day one closing prices.

CCM, STX OSV and Kreuz topped the class

The top first day winner was CCM. CCM, which offers construction services, rose 78% from its IPO price on day one. The best YTD performer from day one closing price was STX OSV. After rising 3% on its listing day (S$0.79 IPO price), the stock price rose another 41%. The top YTD performer was Kreuz. The company, which offers subsea services, has risen a whopping 63% since its listing in July. The worst YTD performers are Debao Property. The largest IPOs (based on funds raised) in 2010 were Global Logistic Prop (S$2.8 bn), Mapletree Industrial Trust (S$553 mn) and Sabana Shari'Ah Compliant Reit (S$533 mn).

Figure 2: Best first-day performance



Source: SGX, Credit Suisse

2011 is starting slowly

2011 is starting slowly with only four IPOs being lodged so far. Notable IPOs in the pipeline (expected in 1Q 2011) include real estate plays, Mapletree Commercial Trust (reported to be raising S$1 bn – *The Wall Street Journal Asia*) and Perennial Real Estate (S$1 bn – *Dow Jones*). *Dow Jones* reported China Shipyard New Century (S$600-700mn) is also expected to revive its IPO (withdrew in May last year).

Figure 3: Anticipated public listings

Name	Expected listing date
Harry's Holdings	Jan 2011
Perennial Real Estate	Mar 2011
Mapletree Commercial Trust	Mar 2011
Sri Trang Agro-Industry	1H 2011
Park Hotel Group	2H 2011
China Green Innovation Holding	Not available
Fortis Healthcare	Not available
Jason Parquet	Not available
New Century Shipbuilding	Not available
PacNet	Not available

Source: The Business Times, The Straits Times, Dow Jones International News, The Wall Street Journal Asia

Figure 4: Credit Suisse Singapore IPO watch – impending IPOs

Company name	Status	Status date	Company description
XMH Holdings Ltd	Lodged	Oct 29	Distributes marine and industrial diesel engines, generators and related components.
UE E&C Ltd	Lodged	Dec 28	Engaged in property development in the public housing and private residential sectors in Singapore, through joint ventures.
Malaysia Smelting	Lodged	Dec 30	Smelts tin concentrates and tin bearing materials as well as produces refined tin metal and by-products.
SEF Group Ltd.	Lodged	Dec 30	Interior decoration, alteration, building addition, electrical and mechanical construction services.

Source: SGX, MAS, Bloomberg, Credit Suisse

CDL -- Maintain OUTPERFORM

Monetises Corporate Building at S$2,789 per sq ft; value unlocking of S$0.8 bn since 2010 EPS: ◄► TP: ◄►

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- Our positive view of the office market continues to bear evidence, with more office block transactions at higher capital values.
- CDL has reportedly sold its 100% stake in The Corporate Building, a smallish freehold office building along Robinson Road, for S$57 mn (S$2,789 per sq ft/NLA), 43% above the peak S$1,956 per sq ft. It sold The Corporate Office two doors away in October 2010, also to the recently-listed Oxley Holdings. We estimate the implied net yield to be 2% or less. With this, CDL has unlocked value from over S$0.8 bn of assets over the past year.
- This price is 40% above our above-market assumption of S$2,000 per sq ft for The Corporate Building in CDL's RNAV, and would raise the RNAV of S$15.60 by 2¢. Maintain earnings and RNAV.
- Another office building along Robinson Road, 112 Robinson (formerly HB Robinson) was sold by a Credit Suisse managed fund to Grace Global for S$168 mn (S$1,822 per sq ft), translating into just 3% net yield. We expect more office transactions to drive rerating of the sector. Our top picks remain CDL and OUE.

Bbg/RIC	CIT SP / CTDM.SI	Price (10 Jan 11 , S$)			12.66
Rating (prev. rating)	O (O)	TP (Prev. TP S$)			17.16 (17.16)
Shares outstanding (mn)	909.30	Est. pot. % chg. to TP			36
Daily trad vol - 6m avg (mn)	1.8	52-wk range (S$)			13.70 - 10.08
Daily trad val - 6m avg (US$ mn)	15.2	Mkt cap (S$/US$ mn)			11,511.8/ 8,891.1
Free float (%)	51.4	Performance	1M	3M	12M
Major shareholders	Hong Leong Group 48%	Absolute (%)	(1.1)	2.1	8.8
		Relative (%)	(2.4)	(0.3)	(1.6)

Year	12/08A	12/09A	12/10E	12/11E	12/12E
EBITDA (S$ mn)	1,081	1,036	1,260	1,340	1,240
Net profit (S$ mn)	568.0	580.5	659.8	672.0	573.5
EPS (S$)	0.60	0.61	0.69	0.70	0.60
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (S$)	n.a.	n.a.	0.68	0.73	0.61
EPS growth (%)	(20.2)	2.2	13.7	1.8	(14.7)
P/E (x)	21.3	20.8	18.3	18.0	21.1
Dividend yield (%)	0.6	0.6	0.6	0.6	0.6
EV/EBITDA (x)	13.8	14.0	10.9	9.5	9.5
ROE (%)	10.7	10.2	10.6	9.8	7.8
Net debt (net cash)/equity (%)	48.0	39.6	26.0	13.5	2.7
NAV per share (S$)			15.3	15.6	
Disc./prem. to NAV (%)			(17.4)	(18.8)	

Note1:Ord/ADR=1.0000.Note2:City Developments Limited develops and owns properties. The principal activities of the subsidiaries are those of property developers and owners, club operators, property and share investments, property management, and hotel owners and operators..Note3:Net profit is adjusted for preferred dividends..

Figure 1: Recent en-bloc office transactions: rising cap values

Date	Building	Val (S$ mn)	S$ per sq ft	NLA (sq ft)
11-Jan-11	112 Robinson Road	168.0	1,822	92,205
11-Jan-11	The Corporate Building	57.0	2,789	20,436
08-Jan-11	16 Collyer Quay (49%)	661.0	2,365	136,984
10-Nov-10	IOI Plaza	139.0	1,381	100,640
08-Nov-10	Prime Centre	103.0	1,415	72,800
26-Oct-10	MBFC 1 (33%/ Cheung Kong)	1495.8	2,568	1,744,500
11-Oct-10	Keppel and GE Towers	573.0	1,332	430,112
11-Oct-10	MBFC 1 (33%/ Kepland)	1,426.8	2,450	1,744,500
01-Oct-10	The Corporate Office (CDL)	215.0	1,956	109,920
31-Aug-10	Chevron House	547.0	2,083	262,650
30-Aug-10	GB Building (23-26 fl.)	30.5	1,415	21,560

Source: CBRE, JLL, Business Times.

It was reported that the Corporate Building price would translate into a more palatable land cost of S$1,280 per sq ft/pr assuming Oxley redevelops the plot to strata offices. We estimate that this would still translate into a high S$2,100 per sq ft/NLA breakeven cost assuming S$400 per sq ft redevelopment cost and 80% efficiency.

According to *Business Times*, other office buildings that could transact in the near term include 1) Finexis Building at 108 Robinson Road – asking price of S$110 mn (S$2,024 per sq ft), 2) Singapore Technologies Building at Tg Pagar – asking S$148 mn (S$1,500 per sq ft); 3) Capital Square, a Grade A building at Church Street, is expected to be put up for sale soon with the vendor, German insurer Ergo, said to be seeking for S$1bn or S$2,700-2,800 per sq ft; 4) NTUC Income is nearing a deal to buy a 49% stake in 16 Collyer Quay (Hitachi Towers) in a deal that values the property at S$661 mn (S$2,365 per sq ft/NLA). We maintain our RNAVs that assume the top prime office buildings at S$2,600-2,750 per sq ft.

Figure 2: CDL has divested over S$0.8 bn of assets over past 14 months

Ann date	Building	Total val (S$ mn)	S$ per sq ft	NLA (sq ft)
10-Jan-11	The Corporate Building	57	2,789	20,436
10-Nov-10	New Tech Park (industrial, 42.8% stake)	131	508	259,049
10-Nov-10	Pantech 21 (industrial)	42	298	139,032
01-Oct-10	The Corporate Office	215	1,956	109,920
30-Aug-10	GB Building (18th floor)	7.6	1,410	5,390
30-Aug-10	GB Building (17th floor)	7.3	1,354	5,390
15-Sep-10	Kuala Lumpur land (M&C)	89	n.a.	n.a.
14-Jul-10	Chinatown Point	250	1403	178,187
12-Jan-10	Office Chamber	13	940	13,830
09-Nov-09	470 North Bridge Road	46	1,194	38,534
Total		**857**		**769,768**

Source: Company data, Business Times.

Figure 3: CDL's RNAV of S$15.60, TP pegged at 10% premium to RNAV

	S$ mn	S$ / sq ft
Total investment properties	8,841	
Republic Plaza	2,163	2,749
City House	292	1,859
Fuji Xerox Towers (formerly IBM Towers)	650	1,824
and others	5,735	
Surplus to book (1)	5,777	
NPV of development profit (2)	3,070.7	
Reference ASPs		
mass makt: Pasir Ris plots		*830.0*
mid-end: Albany, Thomson sites		*1,250*
luxury: Boulevard Hotel site		*3,500*
CS M&C target sh price (£)	6.05	
MTM 557 HK share price (HK$)	0.80	
Surplus/(Deficit) of quoted entities (3)	66.7	
Net book value (4)	5,972.5	
RNAV (Add 1 to 4)	14,894	
Fully diluted no of shares (m)	954.30	
End FY11 RNAV per share (S$)	**15.60**	
Premium/(discount) to RNAV	10%	
Target price (S$)	17.16	

Source: Company data, Credit Suisse estimates

Hyflux -- Maintain OUTPERFORM

Awarded three BOT projects worth US$45 mn in China

EPS: ◄► TP: ◄►

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- Hyflux announced it has signed agreements to develop three water proejcts in Chongqing, China. It will invest US$45 mn (S$59 mn) in these Build-Own-Transfer (BOT) projects, and will operate and maintain the plants over 30 years. The contracts will achieve around 10% of our FY11 contract win forecast of S$600 mn.
- We believe this contract win is significant, as it is the first in China for Hyflux in 32 months, and will allay concerns that it is losing its competitiveness against local players. It will also be the first for Hyflux in Chongqing, reflecting Hyflux's ability to participate in infrastructure investment growth in western provinces.
- In our note, *2011 could be a record year for orders* dated 6 January, we highlighted that contract wins for Hyflux could recover strongly this year. With the JV with Mitsui and delisting of HWT, we believe Hyflux is financially ready to take on new projects.
- We maintain our OUTPERFORM rating and target price of S$2.80. Further catalysts could come from contract wins for desalination plants in Singapore and MENA, as well as more municipal water treatment projects in China.

Bbg/RIC	HYF SP / HYFL.SI	Price (10 Jan 11 , S$)			2.31
Rating (prev. rating)	O (O)	TP (Prev. TP S$)			2.80 (2.80)
Shares outstanding (mn)	571.15	Est. pot. % chg. to TP			21
Daily trad vol - 6m avg (mn)	1.5	52-wk range (S$)			2.43 - 1.79
Daily trad val - 6m avg (US$ mn)	3.3	Mkt cap (S$/US$ mn)			1,319.4/ 1,016.6
Free float (%)	47.9	Performance	1M	3M	12M
Major shareholders	Olivia Lum: 34.0%	Absolute (%)	6.0	8.6	(4.3)
		Relative (%)	4.5	6.1	(13.4)

Year	12/08A	12/09A	12/10E	12/11E	12/12E
Revenues (S$ mn)	554.2	524.8	529.8	719.5	712.9
EBITDA (S$ mn)	85.5	105.5	114.3	148.2	160.4
Net profit (S$ mn)	59.0	73.5	76.3	105.2	116.8
EPS (S$)	0.08	0.09	0.09	0.12	0.14
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (S$)	n.a.	n.a.	0.09	0.10	0.12
EPS growth (%)	78.0	24.2	(0.6)	32.4	11.0
P/E (x)	30.8	24.8	24.9	18.8	17.0
Dividend yield (%)	1.5	2.2	2.2	3.1	3.4
EV/EBITDA (x)	17.4	14.7	13.5	9.6	8.7
P/B (x)	6.1	5.0	3.7	3.3	2.9
ROE (%)	22.0	22.2	17.3	18.9	18.4
Net debt (net cash)/equity (%)	54.4	59.4	40.2	16.3	11.5

Note 1: Ord/ADR=20.0000. Note 2: Hyflux is an integrated water solutions company that designs, fabricates, installs, commissions and maintains treatment systems for water purification, wastewater treatment, water recycling and production of advanced membrane filtration equipment.

Hyflux awarded three projects in Chongqing, China

Hyflux announced that it has signed three concession agreements with the People's Government of Chongqing City to develop three water projects at the Hechuan Industrial Park in Chongqing China. Hyflux will invest approximately US$45 mn in these BOT projects. Through its subsidiaries in China, Hyflux will operate and maintain the plants over the concession period of 30 years. These contracts will achieve around 10% of our FY11 contract win assumption of S$600 mn.

The three plants, comprising two wastewater treatment plants and a portable water treatment plant are:

- Hexin District Wastewater Treatment Plant, designed to treat 20,000m³/day of wastewater for the industrial park
- Weituo Wastewater Treatment Plant, designed to treat 20,000m³/day of wastewater for the industrial park
- Weituo Water Treatment Plant, which will produce 50,000m³/day of water for industrial and domestic use

The plants are projected to complete in end-2012, and we expect the construction of the plants to start in June 2011 based on an 18-month construction period. The BOT projects will be funded by Hyflux's balance sheet.

First contract win in China in 32 months

We believe this contract win is significant, as it is the first contract for Hyflux in China in 32 months and will help allay investor concerns that it is losing its competitiveness in China against more aggressive local players. These projects will also be the first for Hyflux in Chongqing China, reflecting the increasing focus of the Chinese government on developing infrastructure in the western region, as well as Hyflux's ability to participate in the new growth region.

Even though the JV with Mitsui was not involved in these contracts, these assets could still be injected subsequently (even when the project is in the construction phase). In our view, the key factor hindering Hyflux's growth in the past two years in China has been project financing. With the delisting of HWT and JV with Mitsui, we believe Hyflux will no longer be limited by terms of the Trust when injecting assets, effectively increasing its project capacity.

Maintain OUTPERFORM, further catalysts ahead

In our 6 January note, *2011 could be a record year for orders*, we highlighted that contract wins for Hyflux could recover strongly this year and increased our order forecasts in 2011 to S$600 mn. We believe that following a period of reorganisation, Hyflux is financially and operationally ready to take on new projects. Contracts could come from desalination plants in Singapore and MENA, as well as further municipal water treatment projects in China. We maintain our OUTPERFORM rating and target price of S$2.80.

Figure 1: Sum-of-the-parts value

SOTP	S$ mn	S$ / share	Comments
Existing O&M and Tariff	445	0.52	DCF @ WACC of 9.2%
Current & future EPC contracts	792	0.92	12x normalised earnings
Investment in associates	181	0.21	Subtotal of below
HWT	*74*	*0.09*	*Offer price at S$0.78/share*
Souk Tleta	*13*	*0.02*	*FCFE @ COE of 13.4%*
Magtaa	*64*	*0.07*	*FCFE @ COE of 13.4%*
SingSpring	*30*	*0.03*	*Value for CitySpring divestment*
Expected O&M and Tariff	951	1.11	*FCFE @ COE of 13.4%*
Total	2,368	2.76	**SOTP rounded to S$2.80**

Source: Company data, Credit Suisse estimates

South Korea

LG Electronics -- Maintain UNDERPERFORM

4Q10 earnings preview and company visit – our cautious stance unaltered

EPS: ◄► TP: ◄►

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- LG Electronics' (LGE) 4Q10 earnings results would be weaker than expected, not only due to further sequential deterioration of its key products but also due to a likely sizeable kitchen sinking. LGE is scheduled to report its 4Q10 results on 26 January.
- Our recent meeting with LGE to discuss the company's earnings outlook beyond 4Q10 indicates that its 1H11 earnings could continue to be under pressure due to the softer appliance volume seasonality and limited turnaround in handset performance.
- Unlike many on the street, we believe the extent of 2H11 handset turnaround could be very limited, considering: 1) a possibility of aggressive ASP competition from those already with huge scale/platform, 2) wider penetration of variation models from other successful platforms and 3) a potentially accelerating drag still from its feature phones.
- As such, we see no near-term catalysts and we continue to believe its mid-term turnaround would likely be under pressure on the back of the hostile competitive landscape. We reiterate UNDERPERFORM on LGE with a target price of W80,000.

Bbg/RIC	066570 KS / 066570.KS	Price (10 Jan 11 , W)			115,000.00
Rating (prev. rating)	U (U)	TP (Prev. TP W)			80,000 (80,000)
Shares outstanding (mn)	144.60	Est. pot. % chg. to TP			(30)
Daily trad vol - 6m avg (mn)	1.1	52-wk range (W)			128000 - 92800
Daily trad val - 6m avg (US$ mn)	99.1	Mkt cap (W/US$ bn)			16,634.5/ 14.8
Free float (%)	63.2	Performance	1M	3M	12M
Major shareholders	LG Corp., 34.8%	Absolute (%)	0.4	19.9	3.6
		Relative (%)	(4.1)	9.3	(15.6)

Year	12/08A	12/09A	12/10E	12/11E	12/12E
Revenues (W bn)	27,639	30,513	30,992	35,651	37,788
EBITDA (W bn)	1,940	2,371	86	1,634	2,422
Net profit (W bn)	483	2,350	1,476*	1,353	1,918
EPS (W)	2,986	14,520	9,120*	8,362	11,852
- Change from prev. EPS (%)	n.a.	n.a.		0	0
- Consensus EPS (W)	n.a.	n.a.	1,547	8,038	12,192
EPS growth (%)	(60.5)	386.3	(37.2)	(8.3)	41.7
P/E (x)	38.5	7.9	12.6	13.8	9.7
Dividend yield (%)	0.5	0.5	0.5	0.5	0.5
EV/EBITDA (x)	5.2	3.4	88.7	4.6	3.1
P/B (x)	2.0	1.6	1.4	1.3	1.1
ROE (%)	6.2	24.9	13.2	10.9	13.7
Net debt (net cash)/equity (%)	23.6	15.6	14.4	12.7	10.7

*Note1:LG Electronics Inc. manufactures digital display equipment and home appliances. It also produces telecom equipment, such as mobile handsets, networking systems, and other communication products.*2010 net profit and EPS include a W815 bn one-off gain from discontinued operation caused by LG Innotek*

4Q10 earnings preview –further downside risk likely. LGE's 4Q10 results would be weaker than Credit Suisse estimates and the street. Aside the uncertain size of a likely kitchen sinking (to start with a clean slate in FY11 under the new management), we believe that the performances of its key products further worsened sequentially as well in 4Q10. While its appliances would continue to be under the company-specific weak seasonality, its TV and handset saw further drags from ASP pressures. A higher-than-expected set price drop versus that of panel prices has likely turned its LCD TV unit to an operating loss in 4Q10. And, there were ongoing drags from ASP pressure (particularly from feature-phones that still made up 90-95% of its total) and increase in R&D/marketing, likely resulting in a bigger OP loss margin for the company's handset. Its total OP loss in 4Q10 could amount to W400 bn-plus.

Company visit – a seemingly limited earnings turnaround in the near term. We met LGE in mid December to discuss its earnings outlook beyond 4Q10. Considering that: 1) the company-specific seasonality strength in appliance this year may be not as much as 1H10 (due to 1H10's comparatively higher volume base partly from the channel's inventory build and also relatively stronger currency/increased raw material prices likely in 1H11) and 2) earnings contribution from new smartphones should still be in red (due to lower ASP vs. costs, still thin scale/platform and added R&D/marketing expenses), LGE's 1H11 performance would come short of the street expectations, in our view.

Handset markets unlikely to stand still in 2H11 – smartphones to increasingly become a mass-market product. Those who are bullish indicate the possibility of a 2H11 handset margins turnaround. We expect its 2H to show a sequential improvement partly due to the likely lower base in 1H11. But, the extent of improvement could remain very limited, in our view, considering: 1) a possibility of aggressive ASP competition, especially from those already with huge scale per platform, 2) wider penetration of variation models from successful platforms (e.g., CDMA iPhone), and 3) a potentially accelerating drag from its feature-phones (of note, still more than 80% of LGE's total volume would be feature-phones in FY11).

UNDERPERFORM reiterated – no near-term catalysts while a likely delayed turnaround in the medium term. As such, we see no catalysts in the near term and we continue to believe that the company's mid-term turnaround is likely to be limited compared to the street's projections given the fast-changing competitive landscape. We reiterate our cautious stance on LGE with an UNDERPERFORM rating and a target price of W80,000 based on FY11 divisional EBITDA sum-of-the-parts (equivalent to an implied target P/B of 1.0x).

Figure 1: LGE – 4Q10 earnings projection (consolidated)

(W bn, %)	4Q10-CS	% QoQ	% YoY	3Q10A	4Q09A	4Q10-BBG
Sales	**13,732**	**2.3**	**-7.7**	**13,429**	**14,877**	**13,835**
Appliance	3,241	-16.0	5.0	3,858	3,086	n.a.
Display&media	7,305	11.5	1.6	6,551	7,194	n.a.
Handset	3,137	5.6	-19.4	2,971	3,890	n.a.
Operating profit	**-187**	**n.a.**	**n.a.**	**-185**	**110**	**-256**
Appliance	12	-16.0	-81.4	15	67	n.a.
Display&media	110	-5.5	-66.7	116	329	n.a.
Handset	-321	n.a.	n.a.	-304	67	n.a.
Net profit	**-63**	**n.a.**	**n.a.**	**8**	**362**	**-230**
OP margin	**-1.4**	**-**	**-**	**-1.4**	**0.7**	**-1.9**
Appliance	0.4	-	-	0.4	2.2	n.a.
Display&media	1.5	-	-	1.8	4.6	n.a.
Handset	-10.2	-	-	-10.2	1.7	n.a.
NP margin	**-0.5**	**-**	**-**	**0.1**	**2.4**	**-1.7**

Source: Company data, Bloomberg, Credit Suisse estimates

Rating history (066570 KS)

Date	Old rating	New rating	Old TP	New TP
28 Oct 2010	NEUTRAL	UNDERPERFORM	W91,500	W80,000

As of close of business on 10 Jan 2011, Credit Suisse Securities (Europe) Limited, Seoul Branch performs the role of liquidity provider on the warrants of which underlying asset is LGE and holds 20,398,970 of warrants concerned. These may be covered warrants that constitute part of a hedged position.

Samsung Card -- Maintain OUTPERFORM

Regulator plans to rein in reckless promotion cost by credit card issuers; positive EPS: ◄► TP: ◄►

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- System credit sales growth remained resilient for Dec 2010 with 14.5% YoY, despite the high base of 20% a year ago. The strong growth was not only due to favourable macro (i.e., strong consumer sentiment and modest gain in the CPI), but also stepped-up marketing promotion, in our view. Cash-to-credit migration also continues with credit sales at 56% of consumption versus 52.6% in 2009), driven by increased offerings of higher point/mileage and expansion of payment scope (i.e., paying tax, highway toll) .
- Separately, according to *e daily* (on 11 Jan), the regulator might limit promotional expenses (especially point/mileage, gift certificates giveaway), effective from some time in 1H11, blaming overheated marketing competition among credit card issuers.
- The regulator will likely direct them to reduce promotion costs and in return, will likely induce a merchant fee rate cut. Thus, net impact should be marginal, in our view. However, we believe this will likely instil the much-needed discipline in the sector amid expectation of banks stepping up their marketing efforts in 2011.

Bbg/RIC	029780 KS / 029780.KS	Price (11 Jan 11 , W)			59,400.00
Rating (prev. rating)	O (O)	TP (Prev. TP W)			71,000 (71,000)
Shares outstanding (mn)	123.00	Est. pot. % chg. to TP			20
Daily trad vol - 6m avg (mn)	0.2	52-wk range (W)			64400 - 46400
Daily trad val - 6m avg (US$ mn)	11.4	Mkt cap (W/US$ bn)			7,303.8/ 6.5
Free float (%)	32.3	Performance	1M	3M	12M
Major shareholders	Samsung Electronics; 35.3%, Samsung Life; 26.4%	Absolute (%)	(4.8)	3.3	10.8
		Relative (%)	(9.5)	(6.5)	(10.1)

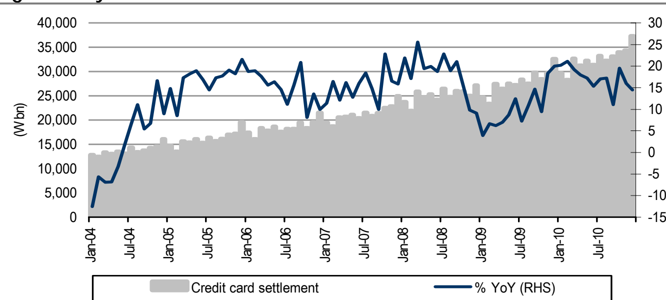
Year	12/08A	12/09A	12/10E	12/11E	12/12E
Pre-prov Op profit (W bn)	609.0	658.8	606.1	731.7	802.2
Net profit (W bn)	258.0	603.8	590.3	557.3	604.3
EPS (W)	2,134	4,911	4,801	4,533	4,915
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (W)	n.a.	n.a.	3,961	4,147	4,747
EPS growth (%)	(56.2)	130.2	(2.2)	(5.6)	8.4
P/E (x)	27.8	12.1	12.4	13.1	12.1
Dividend yield (%)	1.0	2.0	2.0	1.9	2.0
BVPS (W)	26,557	30,873	34,476	37,876	41,562
P/B (x)	2.2	1.9	1.7	1.6	1.4
ROE (%)	7.0	14.8	11.5	9.2	9.2
ROA (%)	1.6	4.0	4.1	3.6	3.7
Tier 1 (%)	26.6	35.0	42.5	42.6	42.5

Note1:Samsung Card offers credit card services such as issuing cards, one time payments, installments, and cash advance services. Samsung Card is one of the top three credit card providers in Korea..

December system credit sales remain resilient with 14.5% YoY despite high base

Local press (source: *e daily*) reported December 2010 system credit card sales number in the early morning on 11 Jan citing the Credit Finance Association (COFIA). Credit card sales posted W37.3 tn, up 14.5% YoY. The growth itself has somewhat slowed (versus 16% in Nov and 19.5% in Oct), but considering the high base last year at 20%, the growth is meaningful enough to prove continued strong consumer sentiment, in our view. However, we think sales have been further boosted by: (1) credit card companies' aggressive marketing spending, especially through point/mileage offerings and other promotional activities (such as point/mileage, gift certificates giveaway), and (2) the recent surge (3.5% YoY in Dec-10 and 3.3% YoY in Nov-10) in the CPI.

Figure 1: System credit card sales trend



Source: COFIA.

Credit card usage (as % of total private consumption) sequentially increased, posting 56.1% as of 3Q10-end (versus 52.6% at 2009-end, and 49.7% at 2008-end). This is largely attributed to: (1) increased launches of new credit cards, (2) more credit card usage for smaller payments (payment per transaction at W53,000 in 3Q10 versus W59,000 in 4Q09), (3) expansion of Hi-pass card (automatic toll road payment card), and various government-led social welfare cards, and (4) payment scope expansion to tax payments, etc.

Regulator might cap promotional expenses of credit card issuers

Separately, according to *e daily* (on 11 of January), the regulator will roll out a regulation in 1H11 to control the marketing spending of credit card companies concerning intensifying competition among credit card issuers. In fact, system marketing expense-to-sales ratio rose significantly to 24.9% in 3Q10 from 18.8% in 1Q09. Among marketing expenses, we note promotion expenses (especially point/mileage expenses) are key to watch on for Samsung Card, as promotion expenses account for 20% of total SG&A costs (as of 3Q10YTD). The company has been spending about 0.3% of credit card sales for point accumulation; however, due to the launch of higher point saving card (i.e., upto 0.8%), the ratio has risen to 0.5% from 0.3% a year ago. As a result, this promotion cost soared 33% YoY. The company's cost-to-sales ratio is hovering at 70% 3Q10YTD. According to the news article, the new regulation will likely take place in a way of forcing companies to spend marketing expenses within their revenue. With this, the regulator will intend to cool down the overheated volume competition and prevent any possible subsequent deficit. The regulator will likely direct them to reduce promotion costs and, in return, will likely induce a merchant fee rate cut. Thus, actual financial impact should be marginal, in our view. However, we believe the above measures will likely instil the much-needed discipline in the sector amid resilient credit sales growth.

Rating history (029780 KS)

Date	Old rating	New rating	Old TP	New TP
Sep 7, 2010	OUTPERFORM	OUTPERFORM	W60,000	W71,000

KGI Securities -- NOT RATED

Reported a preliminary 2010 profit of NT$3.44 bn (EPS of NT$1.1)

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- We met with KGI Securities to get updates on its operations.
- KGI reported a preliminary profit of NT$3.44 bn, or EPS of NT$1.1 in 2010. Out of the total earnings, 73% came from brokerage, 6% from investment banking and 21% from trading. Geographically, around 20% of its profit came from overseas.
- KGI Securities is the second largest securities broker in Taiwan, after acquiring Taiwan Securities at the end of 2009. Management indicated that the major synergy will come from the top line via improving productivity and profitability, while there will be limited cost saving, as the company will focus on talent retention in 2011.
- A new spotlight of the year is the investment banking operation, which has contributed 6% of the group's profit in 2010 and the companies target to bring the profit contribution to 8-10% in 2011. Besides improving the domestic trading volume, the company is positive on its growth outlook of its overseas operations in HK and Thailand.
- KGI's share is trading at 1.0x FY11 consensus book value (or 1.2x P/B excluding the goodwill) versus average of 1.2x P/B for the sector and its historical range of 0.8x – 2.0x (ex. financial crisis).

Ticker	6008.TW	Price (NT$)	10-Jan-2011		15.9
Share outstanding (mn)	3,207	52 week range (NT$)			10.9-18.4
Daily trade vol - 6m average (mn)	18.2	Market cap. (US$mn)			1,744
Major shareholders		Performance	1M	3M	12M
		Absolute (%)	0.6	9.3 -	12.9
		Relative (%) -	0.5	1.4 -	18.8
Year	2006	2007	2008	2009	9M10
Pretax profit (NT$ mn)	3,432	5,793	438	2,912	3,743
Net profit (NT$ mn)	2,656	5,214	1,866	2,306	2,693
EPS (NT$)	1.1	2.1	0.7	0.9	0.9
P/E (x)	15.0	7.6	21.5	18.7	18.3
Dividend yield	4.4	6.3	0.9	2.8	-
P/B (x)	1.2	1.1	1.2	1.1	1.1
ROE (%)	7.5	12.8	4.8	5.7	7.4

Source:TEJ, Bloomberg

2010 profits at NT$3.44 bn (EPS of NT$1.1)

For 2010, KGI reported a preliminary profit of NT$3.44 bn, or EPS of NT$1.1. Out of the total earnings, 73% came from brokerage, 6% from investment banking and 21% from trading. We note that majority of the trading income was derived from fixed income this year. KGI Securities also holds 6.5% of China Development FHC and 2.9% stake in China Life, the dividend and valuation increase of these holdings also helped the earnings in 2010.

Figure 1: KGI historical P&L summary

(NT$ mn)	2006	2007	2008	2009	9M10
Net interest income	1,134	1,381	975	1,365	1,623
Net fee and commission income	2,540	3,632	2,664	2,750	4,095
Net operating revenue	6,519	8,403	3,248	5,519	7,133
Operating profit	2,737	3,769	73	1,925	2,074
Net non-operating	620	2,203	2,311	693	1,102
Net income	**2,656**	**5,214**	**1,866**	**2,306**	**2,693**

Source:TEJ, Credit Suisse research

Merger synergy from top line; limited cost saving in 2011

After the completion of acquisition of Taiwan Securities at the end of 2009, KGI Securities became the second largest securities broker in Taiwan, in terms of brokerage market share (7.8%) with 88 branches. According to KGI, the major synergy will come from the top line via improving productivity and profitability. There will be limited cost saving from the merger in 2011, as there is no plan to reduce headcount or consolidated branches at this point. In 2011, the key focus will be talent retention and the company has to provide another NT$430 mn pension reserve for the employees from Taiwan Securities by mid-2011.

Expansion in investment banking operations

A new spotlight of the year was its investment banking operation. KGI had an estimated six IPO cases, three TDR cases and 14 SPO cases in 2010, as the government sent out positive policies to encourage overseas Taiwanese corporations to be listed in Taiwan after the signing of the ECFA. In addition, there was one cross border M&A case in 2010 and the companies expect 5-10 cases in the pipeline. Investment banking operation now contribute 6% of group's profit and the companies targets to bring the profit contribution to 8-10% in 2011.

Opportunities in KGI Hong Kong

Management is positive on opportunities in KGI Hong Kong, as China considers to set Hong Kong as a RMB settlement centre. Once there are more RMB denominated financials products, KGI will have more wealth management sales opportunities. KGI Hong Kong currently has six branches and plans to add more branches, one in 2011 and more in the pipeline. Furthermore, as a Hong Kong based entity, KGI Hong Kong is qualified for CEPA and can enter into China to conduct institutional business, future brokerage operations or acquire up to 49% stake in Chinese future brokers/JV.

USD exposure

The company has over NT$8 bn in USD, which is the proceeds from the GDR issuance. Out of the NT$8 bn, less than 15% is in USD, while +40% is in other Asian currencies (proxy hedge) and +40% is in fixed income funds (USD denominated). This lowered KGI's CAR by 15 p.p. to 277%. The company plans to divest some properties on a sales-lease back contract to bring up its CAR to above 280%. We estimate that every 1% of TWD appreciation will have 0.1% negative impact on equity.

Valuation

KGI booked NT$8.4 bn goodwill upon acquiring Taiwan Securities. Out of which, NT$2.9 bn will be amortised in 10 years (NT$290 mn/year), and the remaining NT$5.5 bn will be subject to impairment test. KGI's share is trading at 1.0x FY11 consensus book value (or 1.2x P/B excluding the goodwill) versus average of 1.2x P/B for the sector and historical range of 0.8x – 2.0x (ex. financial crisis).

Figure 2: Sector valuation

Taiwan brokers	Last close (NT$)	Mkt cap (US$ mn)	P/B (x)	2010 mkt share (%)
2885 Yuanta FHC	21.60	5,834	1.54	11.0%
6008 KGI Securities	15.90	1,700	1.08	7.8%
6005 Capital Securities	15.10	1,161	1.31	5.8%
2854 Polaris Securities	18.45	1,315	1.42	4.4%
2856 Masterlink Securities	13.10	645	1.02	4.1%
2855 President Securities	18.75	770	1.14	3.9%

*Capital Securities market share include Taiwan International Securities, **BVPS as of 9M10, Source: Company data, Credit Suisse Research

Polaris Securities --- NOT RATED

Reported NT$2.27 bn preliminary profit in 2010

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- We met with Polaris Securities to get updates on its operations. Polaris is the sixth largest broker with 4.4% brokerage market share.
- Polaris reported a preliminary profit of NT$2.27 bn, or EPS of NT$1.06 in 2010. Management indicated that its brokerage unit can typically generate NT$2.2 bn pre-tax profit a year, and the derivates/bond department can generate +NT$1 bn pre-tax profit in a good year, or around NT$3-3.5 bn total pre-tax profit a year.
- Three key new profit drivers in 2011: 1) investment banking; 2) stock lending and; 3) wealth management. In addition, Polaris had inked an agreement with China's Galaxy Securities on information exchange initially and then expanded the cooperation to ETFs.
- The FSC's new regulations on the sector's M&A activities (including hostile takeover) in September 2010 has prompted Polaris to look into M&A issue more seriously, although pricing remains a key consideration.
- Polaris is trading at 1.3x and 15x FY11 consensus book value and earning estimates, versus average of 1.2x P/B for the sector and historical range of 0.8x – 1.6x (ex. financial crisis).

Ticker	2854.TW	Price (NT$)	10-Jan-2011		18.45
Share outstanding (mn)	2,139	52 week range (NT$)			12.3-19.4
Daily trade vol - 6m average (mn)	13.9	Market cap. (US$mn)			1,349
Major shareholders		Performance	1M	3M	12M
		Absolute (%)	3.9	16.4	- 2.6
		Relative (%)	2.8	8.6	- 8.6
Year	2006	2007	2008	2009	9M10
Pretax profit (NT$ mn)	2,161	4,193	(1,884)	2,191	2,156
Net profit (NT$ mn)	1,366	3,027	(2,612)	1,590	1,671
EPS (NT$)	0.9	1.5	(1.2)	0.8	0.8
P/E (x)	20.7	12.3	(15.0)	24.6	23.7
Dividend yield	-	2.4	0.0	2.7	-
P/B (x)	1.3	1.3	1.5	1.4	1.4
ROE (%)	5.8	10.5	(9.0)	5.7	7.6

Source: TEJ, Bloomberg.

Reported NT$2.27 bn preliminary profit in 2010

Polaris Securities is the sixth largest broker with 4.4% brokerage market share. Polaris reported net profit of NT$2.27 bn, or EPS of NT$1.06 in 2010. Management has indicated that its distribution unit can typically generate pre-tax profit of NT$2.2 bn per year, and the derivates/bond department can generate +NT$1 bn pre-tax profit in a good year, or around NT$3-3. 5bn pre-tax profit per year in total.

Figure 1: Polaris historical P&L summary

(NT$ mn)	2006	2007	2008	2009	9M10
Net interest income	1,020	1,245	1,109	1,156	1,084
Net fee and commission income	3,231	5,060	5,084	4,441	2,554
Net operating revenue	5,117	6,880	1,657	5,667	4,429
Operating profit	1,522	2,508	(1,864)	1,567	1,567
Net non-operating	385	1,218	-511	282	344
Net income	1,366	3,027	(2,612)	1,590	1,671

Source: Company data, Credit Suisse Research

Three news profit drivers in 2011

Besides outlook for a stronger market turnover in 2011, management expects three key new business and profit drivers in 2011, including: 1) investment banking; 2) stock lending; 3) wealth management.

1) IPO/ SPO – according to management, the recent changes in the domestic brokerage industry landscape is the increasing IPO and SPO of overseas Taiwanese corporations after the cross strait liberalisation. On average, Polaris can earn NT$12-20 mn fees plus 2-4% distribution fee on each IPO/SPO cases. The retained position on the SPO shares can also attribute further capital gains. Based on our last conversation with management, Polaris currently has at least 15 SPO cases in the pipeline for 2011.
2) Stock lending – Polaris has 5.5% market share in stock lending business, which generates 1-1.5% fee on average, or +4% for popular stocks. Polaris reported an additional NT$50 mn fee from stock lending (NT$40 mn from external clients, and NT$10 mn from internal clients) in 2010 and management expects further expansion on this front.
3) Wealth management. Polaris will commence its wealth management operations from March 2011. The group can leverage its expertise on derivates products and the strength of its online trading platform. However, it is still too early to gauge the profitability at this point.

Limited cross strait opportunities

Polaris will cooperate with Galaxy Securities on information exchange initially, i.e., the research database, and in the later stage, extend the cooperation to ETFs. On an organic growth front, Polaris hopes that the government will allow brokers to upgrade their representative offices into branches and conduct investment banking/corporate finance operations to service the overseas Taiwanese corporations. Yet, we believe there is limited China related profit impact in the near term.

Potential M&A considerations

Local press (*Economic Daily News*, 30 October 2010) reported Polaris's potential M&A prospects and attributed this to Polaris's shareholder structure, whereby there is no conglomerate behind the company. The management team and Pai family (6% stake) only hold around 20% stake. In addition, the FSC recently passed a regulation that allows FHCs to conduct hostile takeover (acquire over 25% stake in a company), on the condition that the FHC informs the FSC ahead of the transaction. We note that in the market, similar brokerage M&A benchmarks that were set previously include KGI Securities acquiring Taiwan Securities at 1.5x P/B and Capital Securities acquiring Taiwan International Securities at 1.3x P/B.

Figure 2: Sector valuation

Taiwan brokers	Last close (NT$)	Mkt cap (US$ mn)	P/B (x)**	2010 mkt share (%)
2885 Yuanta FHC	21.60	5,834	1.54	11.0%
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*Capital Securities market share include Taiwan International Securities, **BVPS as of 9M10, Source: Company data, Credit Suisse Research

Tawan Component Sector

Better December sales due to early pull-in ahead of the Chinese New Year

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- A quick review of our 25 sample companies' December sales suggests that: 1) components' December sales were generally better than expectations, due to early pull-in of orders before the Chinese New Year, 2) handsets components (flat to down slightly) outperformed PCs (down 5-20% MoM), and 3) Apple/HTC supply chain remained strong.
- Most component companies 4Q10 revenue were at or better than guidance, due to early pull-in before the Chinese New Year. Product wise, Kinect orders were seen the biggest upward revisions in 4Q10, followed by tablets.
- However, most components expected monthly sales to trend down in January/February, while order visibility remained limited after the CNY. Net net, most components expected 1Q11 decline to be smaller than seasonal. Margins are the key concern in 4Q10/1Q11.
- Stock view – we maintain our preference on smartphone/Apple plays, i.e., Catcher, Kinsus, Unimicron, and HTC. We believe Delta is likely to trade in a range, due to near-term downside risks to street's estimates.

Valuation metrics

Company	Ticker	CS rating	Price local	Price target	Year T	P/E (x) T+1	P/E (x) T+2	P/B (x)
Delta	2308 TT	N	138.0	140.0	10-Dec	17.3	14.8	4.3
Chicony	2385 TT	N	63.5	64.0	10-Dec	10.4	9.1	2.9
Unimicron	3037 TT	O	54.6	62.0	10-Dec	10.7	9.3	1.9
Tripod	3044 TT	O	118.5	133.0	10-Dec	11.3	9.8	2.5
NYPCB	8046 TT	N	106.0	100.0	10-Dec	16.4	10.8	1.9
Kinsus	3189 TT	O	93.6	111.8	10-Dec	12.6	11.5	1.8
Topoint	8021 TT	N	33.1	40.0	10-Dec	10.8	9.1	1.3
Catcher	2474 TT	O	109.0	120.0	10-Dec	12.2	11.0	1.9
HTC	2498 TT	O	890.0	1,040.0	10-Dec	12.6	12.7	9.0
Largan	3008 TT	N	785.0	680.0	10-Dec	19.5	17.2	5.7
Silitech	3311 TT	O	88.9	98.0	10-Dec	9.5	8.9	2.6

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM
Source: Company data, Credit Suisse estimates

December sales review

A quick review of our 25 sample companies' December sales suggests that: 1) components' December sales were generally better than expectations, due to orders early pull-in before the Chinese New Year, 2) handsets components (flat to down slightly) outperformed PCs (down 5-20% MoM), (3) Apple/HTC supply chain remained strong.

Figure 1: December 2010 – revenue review

(%)	Dec. (MoM)	Dec. (YoY)	4Q10A (QoQ)	4Q10E (QoQ)
Handset PCB/substrate	-8	11	-1	Down 5
PC PCB/substrate	-11	5	-1	Flat
PC component	-6	78	23	Up 15-20
Handset component	-4	57	9	Up 5
Battery	-16	5	-2	flat to down 5
Power supply	-7	7	-5	Down 5-10
Diversified	2	19	3	Down 5
System	0	24	5	Flat

Source: Company data, Bloomberg I/B/E/S estimates, Credit Suisse estimates

4Q10 better; 1Q11 limited visibility

Most component companies 4Q10 revenue were at or better than guidance, due to early pull-in before the Chinese New Year. Product, wise, Kinect orders were seen the biggest upward revisions in 4Q10, followed by tablets. However, most components expected monthly sales to trend down in January/February, while order visibility remained limited after the CNY. Net net, most components expected 1Q11 decline to be smaller than seasonal. Margins are the key concern in 4Q10/1Q11.

Delta (2308.TW, NT$138.00, NEUTRAL, TP NT$140.00)

December consolidated revenue was NT$14.535 bn, down 10% MoM but up 17% YoY, putting 4Q down 6% QoQ, better. Networking outperformed, while industrial automation, display solution, and solar underperformed. 1Q11 is likely to drop by 10% QoQ.

Chicony (2385.TW, NT$63.50, NEUTRAL, TP NT$64.00)

December consolidated sales was NT$4.857 bn, down 10% MoM/3% YoY, putting 4Q flattish QoQ, below guidance and our estimate. The lack of exposure to Apple and smartphone dampened its outlook. 1Q11 is likely to drop by 5-10% QoQ if ODM is to decline by 5% QoQ.

Catcher (2474.TW, NT$109.00, OUTPERFORM, TP NT$120.00)

December consolidated sales were NT$2.445 bn, down 3% MoM but up 121% YoY, putting 4Q up 24% QoQ, better than guidance and our estimate. Smartphones and high-end NB drove the upside. We model 17% QoQ decline in 1Q11, off a higher base.

Unimicron Technology Corp (3037.TW, NT$54.60, OUTPERFORM, TP NT$62.00)

December consolidated sales were NT$5.321 bn, down 6% MoM but up 5% YoY, putting 4Q down 4% QoQ, better than guidance and our estimate. HDI and GPU (off a lower base) drove the upside. 1Q11 is likely to be down by double-digit QoQ.

Tripod (3044.TW, NT$118.50, OUTPERFORM [V], TP NT$133.00)

December consolidated sales were NT$3.991 bn, up 2% MoM/ 15% YoY, putting 4Q up 1% QoQ, better than guidance and our estimate. HDI and early pull-in demand across-the-board before CNY drove the upside. 1Q11 is likely to be down by 5-10% QoQ.

Kinsus (3189.TW, NT$93.60, OUTPERFORM [V], TP NT$111.8)

December sales were NT$1.328 bn, up 1% MoM/ 47% YoY, putting 4Q substrate sales flattish QoQ, in line with guidance. Smartphones drove the upside. 1Q11 is likely to be down by 5% QoQ.

NanYa PCB (8046.TW, NT$106.00, NEUTRAL, TP NT$100.00)

December revenue was NT$3.07 bn, down 8% MoM but up 14% YoY, putting 4Q up 5% QoQ, in line with guidance, mainly due to early pull-in from PC customers. 1Q11 is likely to be down by 5-10% QoQ.

Topoint (8021.TW, NT$33.10, NEUTRAL [V], TP NT$40.00)

December consolidated sales were NT$193 mn, up 13% MoM/ 28% YoY, putting 4Q down 5% QoQ, better than estimate. Earlier-than-expected revenue contribution from its new JVs drove the upside. We model 16% QoQ revenue growth in 1Q11.

Leading NB component players

Simplo (6121.TWO, Not rated): December -16% MoM. 4Q sales were up 1% QoQ, 4% higher than guidance, and outperforming peers (Dynapack down 2% QoQ, Celxpert down 19% QoQ).

Yageo (2327.TW, Not rated): December -13% MoM, putting 4Q sales down 17% QoQ, below guidance (down 8-12% QoQ).

SZS (3376.TW, Not rated): December -19% MoM, putting 4Q up 33% QoQ (due to different base).

Taiwan Handset Component

Better December sales put 4Q above guidance

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- Taiwan handset stocks' December sales were largely in line with/ or better than expectations, with HTC down 14% MoM, Largan up 2%, Silitech down 3%, Merry down 10%, and Ichia down 9%. Slightly better-than-expected December sales put 4Q revenue back or above their guidance.
- Both Largan and Silitech expected MoM growth in January sales, but double-digit QoQ decline in 1Q11 sales, due to fewer working days.
- HTC's 4Q revenue grew 37% QoQ to NT$104 bn, or 4% higher than guidance. We model 13% QoQ revenue decline in 1Q11, due to less new models in the mix. Valuations at 12.6x FY11E P/E are not stretched for a rising brand in a growing smartphone market.
- Silitech's December sales were better than estimates, due to ease of component supply for its major handset customer. We believe its lukewarm near-term outlook might put the stock in a range.
- Largan's 4Q revenue (up 11% QoQ) and 1Q11 guidance (down double-digit QoQ) are in line with our estimates. Besides smart-phones, Largan also benefits from rising demand for tablet. However, its valuation at 18.1x ex-cash FY11 P/E looks fair to us.
- Our top picks in the space are HTC (for brand) and Unimicron (for component).

December sales overview

Co name	Dec sales (NT$ mn)	MoM	YoY	4Q QoQ
HTC	33,087	-14%	+135%	+37%
Largan	1,320	+2%	+51%	+11%
Silitech	1,226	-3%	+41%	-2%
Merry	722	-10%	+10%	+1%
Ichia	856	-9%	+30%	0%

Source: Company data, Credit Suisse estimates for HTC, Largan, Silitech; Bloomberg I/B/E/S estimates for Merry, Ichia

HTC (2498.TW, NT$890.00, OUTPERFORM, TP NT$1040.00)

HTC reported December consolidated revenue of NT$33.087 bn, down 14% MoM but up 135% YoY. Its 4Q10 revenue grew 37% QoQ/153% YoY to NT$104 bn, higher than guidance and our estimate for NT$100 bn but was in line with the street's forecast. For 1Q11, we model 13% QoQ revenue decline, due to less contribution from new smartphone models in 1Q11. We believe the street's estimates for flattish QoQ shipments in 1Q11 may be too aggressive. Nevertheless, our positive view on the stock is based on the faster-than-expected smartphone market growth and HTC's improving brand awareness as one of the top two non-Apple smartphone brands. Valuations at 12.6x FY11E P/E are not stretched for a rising brand in a growing smartphone market. Maintain OUTPERFORM.

HTC's December consolidated revenue

	Dec-10A	Nov-10A	% MoM	Dec-09A	% YoY
Dec sales trend:	33,087	38,484	-14.0	14,064	135.3
Seasonal trend—2004-current:			-12.4		32.4

Source: Company data, Credit Suisse estimates

Quarter-to-date	QTD	Quarter est.	% QTD
Tracking to CS estimates	104,005	100,027	104
Post bubble seasonal trend: 2002—current			100

Source: Company data, Credit Suisse estimates

Silitech (3311.TW, NT$88.90, OUTPERFORM, TP NT$98.00)

Silitech's December consolidated sales were NT$1.226 bn, down 3% MoM but up 41% YoY versus a seasonal decline of 19% MoM. A better December sales led to 4Q10 sales lowering 2% QoQ (but up 24% YoY) to NT$3.855 bn, back to its guidance for flat to low single-digit QoQ decline. Silitech attributed its December strength to the easing component supply for its major customer. For 1Q11, Silitech expects double digit QoQ revenue decline, versus the street's 10-15% QoQ drop. Order visibility is very limited after the Chinese New Year. Its lukewarm near-term outlook might put the stock in a range, but we think its valuation at 9.5x FY11E P/E and 6.5% cash dividend yield, looks attractive for a company with a proven track record of delivering positive EPS growth since 2003 (except for 2008 with 3% EPS decline if we exclude the impact from employee bonus expensing).

Silitech's December consolidated revenue

(NT$ mn)	Dec-10A	Nov-10A	M/M	Dec-10A	Dec-09A	% YoY
Sales trend	1,226	1,259	-2.6%	1,226	870	40.9

Source: Company data, Credit Suisse estimates

Quarter-to-date	QTD	Quarter est.	% QTD
Tracking to CS estimates	3,855	3,731	103
Post bubble seasonal trend: 2002-current			100

Source: Company data, Credit Suisse estimates

Largan (3008.TW, NT$785.00, NEUTRAL, TP NT$680.00)

Largan's December consolidated sales were NT$1.32 bn, up 2% MoM/ 51% YoY, a seasonal decline of 20% MoM. 4Q10 sales reached NT$ 3.879 bn, up 11% QoQ/ 42% YoY. This is in line with the company's previous guidance that 4Q10 will grow sequentially and December will be the peak. For 1Q11, Largan expects double digit QoQ revenue decline, versus the street's 10-15% QoQ drop. We believe Largan remains one of the key beneficiaries of the strong demand for smartphones and tablet PCs. However, we believe its valuation at 18.1x ex-cash FY11 P/E looks fair for an estimated 25% YoY EPS growth in 2011. We are currently NEUTRAL on Largan.

Largan's December consolidated revenue

NT$ mn	Dec-10A	Nov-10A	M/M	Dec-10A	Dec-09A	% YoY
Sales trend	1,320	1,289	2.4%	1,320	874	51.1

Source: Company data, Credit Suisse estimates

Quarter-to-date	QTD	Quarter est.	% QTD
Tracking to CS estimates	3,879	4,016	97
Post bubble seasonal trend: 2002-current			100

Source: Company data, Credit Suisse estimates

Conclusions

We believe smartphones remain one of the most attractive secular trends in the handset space. We expect smartphone industry shipments to see a CAGR of 27% between 2009 and 2015. Our top picks in the space are HTC (for brand), Unimicron (for component).

Acer -- Maintain NEUTRAL

Impacts from weak consumer PC demand and currency

EPS: ▼ TP: ▼

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- We cut our 2010-11E EPS by 7% and 5%, respectively, as we expect Acer to report weaker-than-expected 4Q10 sales and earnings. We maintain a NEUTRAL on Acer and cut our target price to NT$81 from NT$86 to reflect our earnings revision.
- We lower Acer's 4Q10E sales to NT$151.5 bn, down 10% QoQ, lower than its previous guidance of up 5-10% QoQ, on the back of weaker PC demand in Europe, likely market share loss in the US, and currency impacts (the EUR weakness and the NTD appreciation versus the USD). We expect Acer's 4Q10 operating margin to sustain at 3%, down slightly from 3.2% in 3Q10, given Acer's strong execution in cost down.
- We had downgraded Acer to a NEUTRAL in August 2010, given concern about a weak 2H10 consumer PC market. We have also seen slow momentum from its supply chain.
- Acer is ahead of its peers in launching Sandy Bridge PC and is also aggressive in tablet products. However, we remain concerned about product transition and slower earnings growth to bring down valuation. We maintain a NEUTRAL on Acer, with a target price of NT$81 (still based on 13x 2011E EPS).

Bbg/RIC	2353 TT / 2353.TW	Price (10 Jan 11)			84.10
Rating (prev. rating)	N (N)	TP (Prev. TP)			81.00 (86.00)
Shares outstanding (mn)	2,700.20	Est. pot. % chg. to TP			(4)
Daily trad vol - 6m avg (mn)	13.9	52-wk range			103.0 - 73.5
Daily trad val - 6m avg (mn)	40.6	Mkt cap (bn)			227.1/ 7.8
Free float (%)	49.2	Performance	1M	3M	12M
Major shareholders	Stan Shih (2.8%)	Absolute (%)	(11.9)	8.2	(14.8)
		Relative (%)	(12.9)	1.2	(20.0)

Year	12/08A	12/09A	12/10E	12/11E	12/12E
Revenues (bn)	546.3	574.0	631.5	666.2	756.9
EBITDA (bn)	16.3	18.0	19.3	22.1	25.4
Net profit (bn)	11.6	11.4	14.8	16.8	19.2
EPS	4.41	4.22	5.49	6.24	7.13
- Change from prev. EPS (%)	n.a.	n.a.	(7)	(5)	(5)
- Consensus EPS	n.a.	n.a.	5.83	7.03	8.30
EPS growth (%)	(14.9)	(4.1)	30.1	13.5	14.3
P/E (x)	19.1	19.9	15.3	13.5	11.8
Dividend yield (%)	2.4	3.7	4.2	4.8	5.5
EV/EBITDA (x)	13.4	10.3	9.8	8.4	7.4
P/B (x)	2.7	2.4	2.3	2.1	2.0
ROE (%)	14.5	12.9	15.4	16.3	17.3
Net debt (net cash)/equity (%)	(10.5)	(43.8)	(39.0)	(38.4)	(32.8)

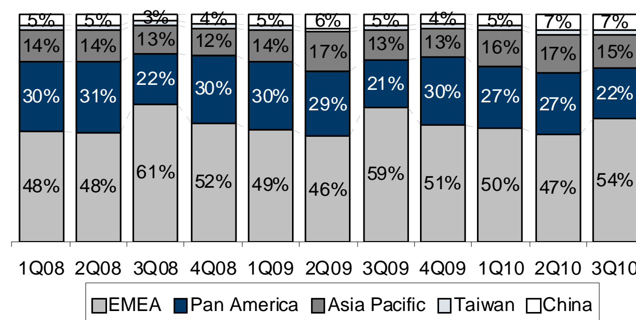
Note1:Ord/ADR=5.0000.Note2:Acer Inc. distributes semiconductor products, personal computers, computer peripherals, multimedia products, and computer software. The Company also provides maintenance and repair services to customers.

Figure 1: Acer – 2010-11E earnings revision

NT$ mn	2010E			2011E		
	New	Old	Diff.	New	Old	Diff.
Sales	631,488	655,703	-4%	666,179	718,930	-7%
Gross profit	62,562	65,121	-4%	66,265	71,099	-7%
Op profit	18,365	19,773	-7%	21,180	22,337	-5%
Net income	14,808	15,934	-7%	16,809	17,735	-5%
Margin						
Gross margin	9.9%	9.9%		9.9%	9.9%	
Op margin	2.9%	3.0%		3.2%	3.1%	
Net margin	2.3%	2.4%		2.5%	2.5%	

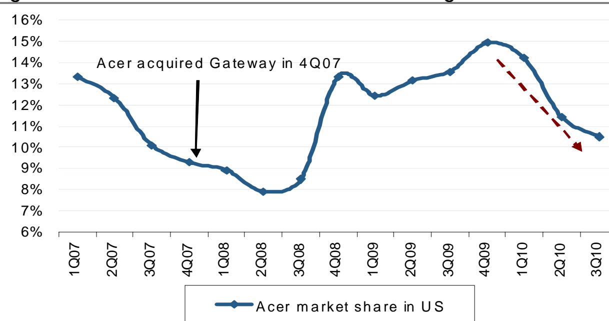
Source: Company data, Credit Suisse estimates

Figure 2: Acer – sales by region



Source: Company data

Figure 3: Acer's market share in US is decreasing



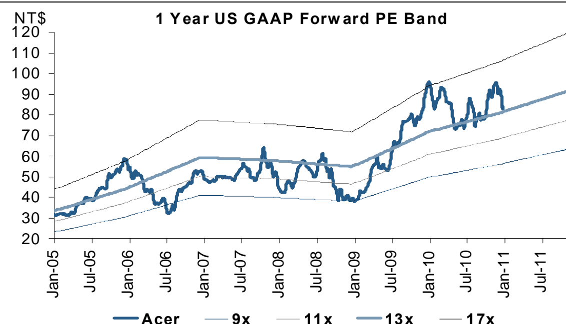
Source: Gartner

Figure 4: Acer – quarterly P&L

NT$ mn	1Q10	2Q10	3Q10	4Q10E	1Q11E	2Q11E	3Q11E	4Q11E
Sales	162,130	150,262	167,552	151,544	147,797	151,458	179,150	187,774
Gross profit	15,714	15,048	16,742	15,058	14,609	14,973	17,909	18,774
OP profit	4,386	4,137	5,291	4,551	4,362	4,472	6,026	6,319
Pre-tax profit	4,159	4,473	5,374	4,486	4,320	4,430	5,984	6,277
Net income-	3,294	3,626	4,299	3,589	3,456	3,544	4,788	5,022
Margins								
Gross margin	9.7%	10.0%	10.0%	9.9%	9.9%	9.9%	10.0%	10.0%
OP margin	2.7%	2.8%	3.2%	3.0%	3.0%	3.0%	3.4%	3.4%
Pre-tax margin	2.6%	3.0%	3.2%	3.0%	2.9%	2.9%	3.3%	3.3%
Net margin	2.0%	2.4%	2.6%	2.4%	2.3%	2.3%	2.7%	2.7%

Source: Company data, Credit Suisse estimates

Figure 5: Acer – forward P/E band



Source: Company data, Credit Suisse estimates

China Steel ---------- Maintain NEUTRAL

Market expects 5% ASP increase for March

EPS: ◄► TP: ◄►

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- China Steel (CSC) will announce its pricing for March shipments on 13 Jan. According to our checks with downstream clients, price is expected to increase about NT$1,000/t (or up about 5%). We believe the price recovery is attributed to: (1) seasonal demand off a low base in year end and (2) higher iron ore and coking coal cost for 1Q11.
- In our view, unit profit bottomed in November and should be improving through 1Q11. Management expects 6% and 8% cost increases for iron ore and coal, respectively, for 1Q11 contract. Given the inventory and CSC's accounting practices, we believe the cost increase should start to filter into its March/April P&L.
- ASP raise is generally viewed as positive for the steel sector for 1Q11. Though unit profit is moving to the mid-cycle level, we do not expect too much upside, as producers do not seem to have strong bargaining power over suppliers or customers, given modest demand growth outlook. We maintain a NEUTRAL on China Steel, which is already at the mid-cycle valuation.

Bbg/RIC	2002 TT / 2002.TW	Price (10 Jan 11)			33.30
Rating (prev. rating)	N (N)	TP (Prev. TP)			33.50 (33.50)
Shares outstanding (mn)	13,527.90	Est. pot. % chg. to TP			1
Daily trad vol - 6m avg (mn)	21.6	52-wk range			35.3 - 29.3
Daily trad val - 6m avg (mn)	22.9	Mkt cap (bn)			450.5/ 15.4
Free float (%)	80.0	Performance	1M	3M	12M
Major shareholders	Government (22.9%)	Absolute (%)	3.9	3.7	(4.4)
		Relative (%)	2.7	(3.0)	(10.3)

Year	12/08A	12/09A	12/10E	12/11E	12/12E
Revenues (mn)	256,358	165,409	239,372	258,909	269,446
EBITDA (mn)	44,935	21,271	47,926	40,073	44,250
Net profit (mn)	24,030	19,603	37,598	30,204	34,609
EPS	1.91	1.50	2.77	2.23	2.55
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS	n.a.	n.a.	2.70	2.63	3.05
EPS growth (%)	(57.1)	(21.8)	85.1	(19.7)	14.6
P/E (x)	17.4	22.2	12.0	15.0	13.1
Dividend yield (%)	3.9	3.0	4.6	3.7	4.2
EV/EBITDA (x)	11.4	23.8	10.9	13.0	11.8
P/B (x)	1.8	1.8	1.7	1.6	1.5
ROE (%)	10.4	8.2	14.7	11.1	12.1
Net debt (net cash)/equity (%)	25.1	23.3	26.1	26.0	23.9

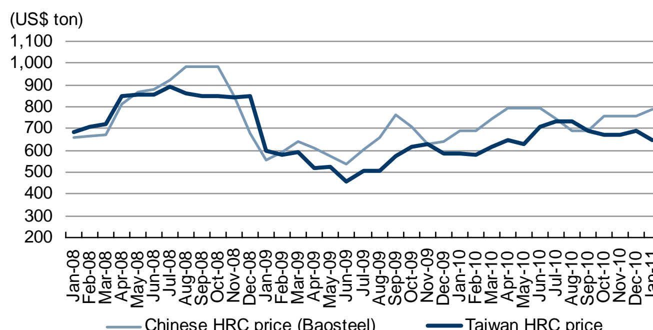
Note1:Ord/ADR=20.0000.Note2:China Steel Corp. (CSC) is the largest steel producer and the only operator of blast furnaces in Taiwan. The main products are HRC, CRC and plates, with export makes up around 75% of sales..

Market expects a 5% price increase for March

China Steel (CSC) will announce pricing for March shipments on 13 Jan. According to our checks with downstream clients, price is expected to move up by about NT$1,000/t (or up about 5%, which will bring HRC to about US$690/t). We believe the price recovery is attributed to: (1) seasonal demand off a low base in year end and (2) higher iron ore and coking coal costs for 1Q11.

On the demand side, we note that demand has improved recently, as downstream clients are restocking and CSC gained more international orders due to its cheap ASP in January and February (CSC cut its Jan and Feb price by 3.2% on average while regional steel prices increased about 4% during the same period).

Figure 1: HRC price comparison between Taiwan and China



Source: Company data

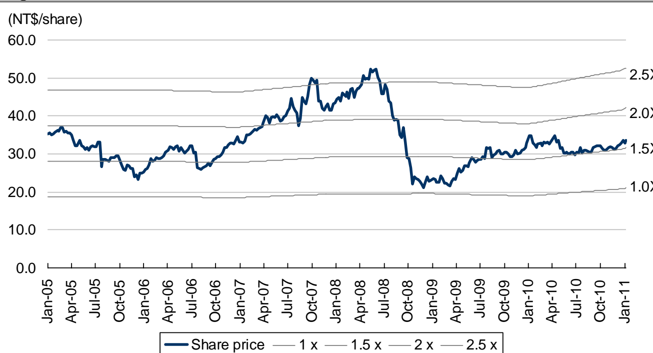
Raw material cost pressure emerging

In our view, unit profit bottomed in November and should improve through 1Q11, given cheaper feedstock procured to be used for Jan and Feb. Management expects 6% and 8% cost increase for iron ore and coal, respectively, for 1Q11 contract. Given the inventory and CSC's accounting practice, we believe the cost increase should start to filter into its March/April P&L. Cost pressure could increase into 2Q11, given the recent coal supply disruption in Australia (due to the flood). On the ASP side, we believe the supply disruption in China has been alleviated, as the power supply limit ended in Dec. Supply resumption could also cap further ASP or profit upside, in our view.

Already in mid-cycle valuation; retain NEUTRAL

ASP increase in steel normally represents a positive sign for the sector. Given the ASP rebound in steel prices recently, share prices of the steel sector have moved up 5-15% in a month. For China Steel, though unit profit is moving to the mid cycle level, we do not expect too much upside, as steel producers do not seem to have strong bargaining power over feedstock suppliers or customers, given modest demand growth outlook. China Steel is trading at 1.6x 2011E P/B, which is at the mid-cycle valuation. We maintain a NEUTRAL.

Figure 2: P/B valuation of China Steel



Source: TEJ, Company data, Credit Suisse estimates

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Companies mentioned

ABB Ltd. (ABB.BO, Rs745.00, UNDERPERFORM [V], TP Rs602.66)
Amtek Engineering Ltd. (AMEL.SI, S$1.29, TP S$1.75)
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Bank Danamon (BDMN.JK, Rp5100.00, NEUTRAL [V], TP Rp6300.00)
Bank Mandiri (Persero) (BMRI.JK, Rp6000.00, OUTPERFORM, TP Rp8400.00)
Bank Negara Indonesia (BBNI.JK, Rp3375.00, RESTRICTED)
Bank Pan Indonesia Tbk (PNBN.JK, Rp1050.00, NEUTRAL, TP Rp1040.00)
Bank Rakyat Indonesia (BBRI.JK, Rp4800.00, OUTPERFORM, TP Rp6750.00)
Baoding Tianwei Baobian Electric Co Ltd (600550.SS, Rmb22.55, NEUTRAL, TP Rmb19.82)
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China Steel (2002.TW, NT$33.30, NEUTRAL, TP NT$33.50)
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EMCO Transformer (EMCO.BO, Rs64)
ES Group (Holdings) Limited (ESGL.SI, S$0.24, NOT RATED)
Formosa Petrochemical (6505.TW, NT$93.80, UNDERPERFORM, TP NT$76.00)
GAIL (India) Ltd (GAIL.BO, Rs503.40, OUTPERFORM, TP Rs536.00)
Global Logistic Prop Limited (GLPL.SI, S$2.14, NOT RATED)
GS Holdings (078930.KS, W67,900, OUTPERFORM, TP W68,000)
Gujarat State Petronet Limited (GSPT.BO, Rs110.80, NEUTRAL, TP Rs114.00)
Hutchison Whampoa (0013.HK, HK$93.00, OUTPERFORM, TP HK$105.30)
Hyflux Ltd (HYFL.SI, S$2.31, OUTPERFORM, TP S$2.80, UNDERWEIGHT)
Hyosung Corp (004800.KS, W102,500)
IVRCL Infrastructures and Projects Ltd (IVRC.BO, Rs115.90, OUTPERFORM [V], TP Rs217.00)
Jyoti Structures Ltd (JYTS.BO, Rs127.50)
kabu.com Securities (8703, ¥373, OUTPERFORM, TP ¥370, MARKET WEIGHT)
Kalpataru Power Transmission (KAPT.BO, Rs161)
KEC International Ltd (KECL.BO, Rs94.00, OUTPERFORM [V], TP Rs122.29)
Kreuz Holdings Limited (KRZL.SI, S$0.445, NOT RATED)
Larsen & Toubro (LART.BO, Rs1781.70, RESTRICTED)
Mapletree Industrial Trust (MAPI.SI, S$1.06, NOT RATED)
Matsui Securities (8628, ¥603, OUTPERFORM, TP ¥540, MARKET WEIGHT)
Mun Siong Engineering Limited (MSEL.SI, S$0.205, NOT RATED)
Nordic Group Limited (NRGL.SI, S$0.185, NOT RATED)
Petron Corporation (PCOR.PS, P17.68)
Petronet LNG Limited (PLNG.BO, Rs120.60, NEUTRAL, TP Rs109.00)
PICC Property & Casualty (2328.HK, HK$10.74, UNDERPERFORM, TP HK$8.50)
Ping An Insurance (2318.HK, HK$83.30, RESTRICTED)
Powergrid Corporation of India Ltd (PGRD.BO, Rs97.3)
Reliance Industries (RELI.BO, Rs1035.35, OUTPERFORM, TP Rs1183.00)
Sabana Shari'Ah Compliant Reit (SABA.SI, S$0.995, NOT RATED)
Samsung Card (029780.KS, W59,400, OUTPERFORM, TP W71,000)
San Miguel Corporation (SMC.PS, P174.00, OUTPERFORM, TP P153.92)
Siemens India (SIEM.BO, Rs770.00, NEUTRAL, TP Rs652.60)
Sin Heng Heavy Machinery Limited (SIHM.SI, S$0.185, NOT RATED)
SK Energy (096770.KS, W188,500, OUTPERFORM, TP W175,000)
STX OSV Holdings Ltd (STXO.SI, S$1.15, NOT RATED)
Thai Oil (TOP.BK, Bt71.00, OUTPERFORM [V], TP Bt88.00)
Transformers and Rectifiers (India) Ltd (TRNF.BO, Rs332)
Venture Corporation (VENM.SI, S$9.55, OUTPERFORM, TP S$10.75)
Voltamp (VOTL.BO, Rs706)
Xinren Aluminum Holdings Ltd (XIRN.SI, S$0.55, NOT RATED)
Yamada Green Resources Limited (YAMR.SI, S$0.33, NOT RATED)

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