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Morgan Stanley Asia Limited+

Companies Featured
066570.KS, 1086.HK, 1333.HK, 1402.TW, 2303.TW, JNSP.BO, QAN.AX, REA.AX, SCC.BK, VBA.AX

January 27, 2011

Asia/Pacific Morning Meeting Summary

Highlights

The Morning Call

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Strategy/Economics Analysis

China A-Share Strategy / Distance Breeds Beauty? An A-Share Play on US Recovery

What's Changed

Company Initiations

Ticker	Company	Stock Rating From	Stock Rating To	Price Target From	Price Target To	ModelWare Estimate From	ModelWare Estimate To (FY)	Consensus*
1086.HK	Goodbaby International Holdings	--	O	--	HK$6.10	-- -- --	HK$0.20(12/'10) HK$0.27(12/'11) HK$0.33(12/'12)	-- -- --

Estimates/Price Target Changes - Up

Ticker	Company	Stock Rating From	Stock Rating To	Price Target From	Price Target To	ModelWare Estimate From	ModelWare Estimate To (FY)	Consensus*
1402.TW	Far Eastern New Century	--	E	NT$45.20	NT$58.00	NT$2.41 NT$2.32 NT$2.54	NT$2.70(12/'10) NT$3.17(12/'11) NT$3.30(12/'12)	NT$2.53 NT$2.76 NT$2.94
066570.KS	LG Electronics	--	O	W125,000	W140,000	W8,569 W9,107 W13,345	W9,089(12/'10) W10,858(12/'11) W15,528(12/'12)	-- -- --
REA.AX	REA Group Limited	--	O	A$11.50	A$13.00	--	--	--

Estimates/Price Target Changes - Down

Ticker	Company	Stock Rating From	Stock Rating To	Price Target From	Price Target To	ModelWare Estimate From	ModelWare Estimate To (FY)	Consensus*
JNSP.BO	Jindal Steel & Power	--	O	Rs816.00	Rs799.00	Rs42.51 Rs67.31 Rs73.03	Rs38.28(3/'11) Rs56.52(3/'12) Rs71.67(3/'13)	-- -- --
QAN.AX	Qantas Airways	--	O	A$3.10	A$2.95	A$0.24 A$0.28 A$0.37	A$0.21(6/'11) A$0.27(6/'12) A$0.36(6/'13)	A$0.23 A$0.31 A$0.34
VBA.AX	Virgin Blue	--	O	--	A$0.51	A$0.06 A$0.10	A$0.05(6/'11) A$0.09(6/'12)	A$0.03 A$0.06

Estimates/Price Target Changes - Up/Down

Ticker	Company	Stock Rating From	Stock Rating To	Price Target From	Price Target To	ModelWare Estimate From	ModelWare Estimate To (FY)	Consensus*
1333.HK	China Zhongwang Holdings Limited	--	U	HK$4.00	HK$3.00	Rmb0.54 Rmb0.48 Rmb0.46	HK$0.59(12/'10) HK$0.31(12/'11) HK$0.27(12/'12)	Rmb0.50 Rmb0.44 Rmb0.44
SCC.BK	Siam Cement	--	E	--	Bt305	Bt22.6 Bt25.9	Bt22.8(12/'10) Bt25.3(12/'11)	Bt24.1 Bt27.0
2303.TW	UMC	--	E	--	NT$15.50	NT$1.88 NT$1.70 NT$1.35	NT$1.87(12/'10) NT$1.71(12/'11) NT$1.64(12/'12)	NT$1.83 NT$1.69 NT$1.53

* First Call consensus estimate. *For valuation methodology and risks associated with any price targets above, please email morganstanley.research@morganstanley.com with a request for valuation methodology and risks on a particular stock.*

The Morning Call

1086.HK, Goodbaby International Holdings (HK$5.35) /Rocking the World's Babies; Initiate with Overweight

Angela.Moh@morganstanley.com, Penny.Tu, Dustin.Wei

Rating: Overweight
China Juvenile Products: Attractive
Target: HK$6.10
52-Week Range: HK$6.40-5.27
Mkt. Cap(mn): HK$4,292
ModelWare EPS: HK$0.20 (FY 12/'10), HK$0.27 (FY 12/'11)

Initiate with Overweight: We believe Goodbaby is well-positioned to capitalize on the growth opportunity in China's durable juvenile industry and gain share overseas, given its leading industry position and superior R&D. We forecast a 25% profit CAGR in 2009-12. While near-term valuation is not particularly attractive, we expect long-term value to be unleashed when the company's distribution channel is better distributed in China and captures more growth opportunities.

Leading supplier with competitive advantage: Goodbaby is the world's largest supplier of baby strollers, selling one out of every 2.9 purchased in China, North America and its European markets in 2009. It is also a leading supplier of car safety seats and cribs. We believe some of its advantages include strong R&D capability, and well as a distinctive business model.

Ride multiple growth drivers: In China, the penetration rate for durable juvenile products is still far lower than in developed markets. Rising income, higher car ownership, increased distribution network and potential enforcement of mandatory car seat use should drive mid/long-term growth. In overseas markets, we expect Goodbaby to maintain solid growth from new category extensions, share gains at existing customers, new customer wins, and geographical expansion.

Indonesia Coal: Reaction to Media Stories Presents Attractive Entry Point

Indonesia Coal: Attractive

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Recent share price retreat is overdone. Indonesian names trade at attractive valuations, in our view, and we see an opportunity for investors to rebuild positions. We reiterate our Overweight rating on ITMG (ITMG.JK, Rp49,400), Adaro (ADRO.JK, Rp2,400) and BORN (BORN.JK, Rp1,650). ITMG is our top pick in the thermal coal space because it should be affected least by the media headlines. BORN is our top pick in the coking coal space, because its exposure to coking coal protects it from the effects of the media stories.

Recent media headlines: Indonesian coal name stocks are down by ~12% since the beginning of the year, due in part to two media reports published on Bloomberg. The first report said that PLN, the Indonesian State IPP, was seeking to demand a lower purchase price for coal from domestic miners, due to the recent sudden rise in coal prices. The second story said that the Indonesian government might ban exports of coal with an energy value of <5,600 kcal.

Our view & expectations: We believe the headline issues are exaggerated and that the lasting impact will be minimal, at most. The price cap on domestic coal to help PLN is unlikely, in our view, because the government receives a 13.5% royalty on the selling price of coal. Ultimately, an enlarged subsidy to PLN is more likely, in our view. An export ban is also unlikely, given that Indonesia does not have enough domestic demand to absorb all low-calorific-value coal, and the remaining coal will have to be exported if the government wants to collect the royalty.

066570.KS, LG Electronics (W121,000) /Handset Biz Has Turned the Corner

Rating: Overweight
S. Korea Hardware Components: In-Line
Target: W140,000
52-Week Range: W130,000-91,400
Mkt. Cap(bn): W17,502
ModelWare EPS: W9,089 (FY 12/'10), W10,858 (FY 12/'11)

Morgan Stanley & Co. International plc, Seoul Branch
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4Q10 results better than expected; Overweight. The loss of W246 bn is more encouraging than expected as we believe ~W100 bn loss incurred on write-down of obsolete handset-related inventory. We conclude first, that 3Q handset OPM of -10% was the handset cycle OPM bottom. Second, stripping out inventory write-offs, the handset business probably recorded -5% OPM in 4Q10. Third, given the rise in smartphone mix, 1Q11 OPM should continue to show improvement.

We now think the handset business could breakeven by 2Q11. This would be one quarter earlier than expected and return to profitability by 2H11. With visible improvement in handset recovery, we lift our 2011 and 2012 net income forecasts by 19% and 16%, respectively, and our price target rises to W140,000.

What's new: Post successful scale-up of the Optimus One smartphones, the company has broadened its product range by offering the Optimus Mach and Optimus 2X for the high-end and Optimus Me for the low-end smartphone segments. Tablet PC (Optimus Tab) should be available for launch by April 2011. With high-end products gaining scale, we expect a rise in ASPs, though we remain a bit cautious on the speed of handset margin recovery still as rising in

R&D costs and associated increase in marketing expenses would have some near-term drag.

Company/Industry Analysis

AUSTRALIA

QAN.AX, Qantas Airways (A$2.46) /Oil Price Fuels FY11 Earnings Revision

Morgan Stanley Australia Limited
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Rating: Overweight
Australia Airlines: In-Line
Target: A$2.95
52-Week Range: A$3.02-2.12
Mkt. Cap(mn): A$5,572
ModelWare EPS: A$0.21 (FY 6/'11), A$0.27 (FY 6/'12)

Higher oil prices drive forecasts down: We lower our F2011e PBT to A$675mn from A$780m as we consider the impact of rising fuel prices (-$83mn) and an assessment of QLD floods (-$22m). Our forecasts are now 13% below consensus. We also reduce our price target to A$2.95 (from A$3.10) by applying a 1.05x P/B to 1 year-forward book value estimate (1.1x previously).

Fuel surcharge likely: We think a re-introduction of fuel surcharges is imminent and should allow Qantas to begin recuperating its costs by 4Q11 and through FY12. We think that Qantas is better positioned than low-cost carriers to pass on these costs as it has ~90% of corporate market share, where demand is less price sensitive.

1H11 expectations: We estimate 1H11 PBT of A$278mn vs A$267mn in 1H10. We allow a net loss of A$120mn due to the grounding of the A380's in our 1H11 estimate, but assume a 100% recovery in 2H11. We are particularly interested in management commentary on dividends, outlook for domestic/international capacity, and an update on A380 and B787 delivery profiles.

REA.AX, REA Group Limited (A$11.95) /We see the industry-funded site realestateVIEW as a competitor … but not a game changer – reiterate Overweight

Morgan Stanley Australia Limited
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Rating: Overweight
Australia Media: Cautious
Target: A$13.00
52-Week Range: A$12.73-8.46
Mkt. Cap(mn): A$1,531
ModelWare EPS: A$0.52 (FY 6/'11), A$0.65 (FY 6/'12)

We stay Overweight. We recently downgraded our overall Media view to Cautious, on concerns of a slowing ad market and rising costs. But REA is one stock we believe can outperform its peers. Its core Australian business enjoys a dominant market share in a fast-growing market. Like most online businesses, having decisive audience leadership provides pricing power, as more ad dollars inevitably migrate from print to online. We believe this pricing power is underestimated, and we forecast revenue growth for the next three years of 18%, 17% and 15%.

But there are risks. REA trades on a F2011E P/E of 23x, and we are mindful that any material change in the competitive environment would likely result in a significant de-rating. With that in mind we take a closer look at the competing website realestateVIEW, which is unique in that it is supported by the real estate institutes. Launched in 2001, it recently increased its growth and is now the #3 player in terms of online audience after REA and FXJ's Domain. Bottom line, yes, there is a risk that realestateVIEW may become a stronger competitor, but we feel this is unlikely in the short term.

VBA.AX, Virgin Blue (A$0.42) /Rain and Fuel Dampen 2H11

Morgan Stanley Australia Limited
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Rating: Overweight
Australia Airlines: In-Line
Target: A$0.51
52-Week Range: A$0.80-0.28
Mkt. Cap(mn): A$928
ModelWare EPS: A$0.05 (FY 6/'11), A$0.09 (FY 6/'12)

1H11 guidance largely in line. Underlying PBT guidance of A$70-75mn is in line with our estimate of A$70mn (excluding the A$15-20mn impact of Navitaire outage and ~A$17mn of ineffective hedging derivatives). However, 2H11 appears to be more challenging, buffeted by the lowest consumer sentiment reading in seven months, a rapidly rising crack spread, and restructuring costs required to position the airline for its scheduling and network overhaul.

Virgin Blue remains poised for a solid F2012 turnaround. However, we do expect investors to exercise caution following the company's guarded outlook, particularly around a slowdown in discretionary retail which could linger for some months. As such, we lower our F2011e PBT to A$82mn from A$101mn (on a combination of QLD flood impact and higher jet fuel expectation for 2H11.

What's changed: We factor in a loss of ~A$11mn from QLD floods, due mostly to fixed costs. We expect the floods and uncertainty over weather patterns to weigh on leisure travel to QLD in coming months, resulting in lower load factors. We have also increased F2011e into-plane jet fuel price to ~A$105/bbl for FY11 to account for recent uptick in oil price. Airline fuel-pass through will likely become a key focus for investors in 2H11.

CHINA

1333.HK, China Zhongwang Holdings Limited (HK$3.94) /Profit Warning & Lack of Clarity: Remain UW

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Rating: Underweight
China Nonferrous Metals & Mining: In-Line
Target: HK$3.00
52-Week Range: HK$7.62-3.86
Mkt. Cap(mn): Rmb18,082
ModelWare EPS: HK$0.59 (FY 12/'10), HK$0.31 (FY 12/'11)

Management's profit warning implies a break-even 4Q. US anti-dumping actions reduced export volumes to a minimal level, and management will book an impairment charge on its older, smaller capacity, which is focused on its commodity construction materials.

Cutting forecasts: We cut our 2011-15 EPS forecasts by 40-50%, and we see an even faster commoditisation of our margin assumption than previously. Our 2011-12e volume assumptions are roughly 15% lower, as we now assume very limited export sales. We cut our EBITDA/t margins to Rmb5–6,000/t in 2011-12e and normalizing in 2013 and beyond at Rmb3,000/t.

Stay Underweight: Despite recent underperformance, we still view the stock as unattractive, given our view that earnings peaked in 2009 and will likely fall with the impact of US anti-dumping measures. We also note that the impact of new competitors, such as the SAPA/Chalco joint venture, add further uncertainty to the outlook for industry margins. We believe margins for the industry, including Zhongwang's, are likely to see downward pressure as companies attempt to gain market share.

HONG KONG

China Property: Resort to a Master Plan?

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China Property: In-Line

The "new" new measure: The State Council requested local governments to keep property prices in 2011 below a target level, which is set by the local officials themselves based on their own assessment of the economic growth, income per capita growth and people's affordability of the cities. Such targets have to be made public in 1Q11.

Further grips on existing measures: 1) Increasing the down payment requirement for second-home buyers from 50% to 60%; 2) Imposing sales tax on full property value, instead of gain on resale of residential properties within five years' of purchase; 3) Extending purchase restriction to national level; and 4) New land supply for 2011 has to be no less than the average supply of the past two years.

Planning to supersede the market mechanism? While the further actions on existing measures are within our expectations, we are surprised by the introduction of targeted property price levels. This suggests property prices will move according to governments' planning rather than responding to market mechanism, as long as such a measure exists. (See our published note for details and the potential impact.)

INDIA

JNSP.BO, Jindal Steel & Power (Rs688.35) /Lower Prices, Delay in Power; Reduce PT but Remain OW

Morgan Stanley India Company Private Limited
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Rating: Overweight
India Steel: Attractive
Target: Rs799.00
52-Week Range: Rs786.35-572.70
Mkt. Cap(mn): Rs642,919
ModelWare EPS: Rs38.28 (FY 3/'11), Rs56.52 (FY 3/'12)

Remain positive on JSPL's prospects. Our view reflects: (a) strong backward integration will likely fetch premium valuations over its peers even as rising steel prices improve sentiment for the broader steel sector; (b) earnings from pellet plant, new plate mill and Shadeed DRI plant are yet to be properly factored into the stock price; (c) slightly falling merchant power rates and regulatory delays on some of JSPL's projects are already reflected in the stock; and (d) JSPL's project pipeline is amongst the best in class.

Guidance update: Management point to (a) merchant power rates of Rs3.75-4.5 vs our prior estimate of Rs5 for F2012; (b) commissioning schedule for its 1350 MW power plant is about 3-6 months behind our earlier forecasts. We are lowering our merchant tariff estimate to Rs4.2, adjusting the commissioning schedule and increasing our PLF for the power business, leading to EPS cuts of 10%/15%/1% for F11/F12/F13, and a 2% reduction in our price target.

Valuation: At EV/EBITDA of 9x and P/E of 12.2x on our F2012 forecasts, we do not believe the stock fully reflects JSPL's growth opportunities, solid raw materials self sufficiency, consistently healthy margins and return ratios, and the 37% CAGR that we forecast for EBITDA and PAT in F2011–13.

TAIWAN

1402.TW, Far Eastern New Century (NT$48.95) /Old School Textile Now Running the Show; Upgrade to OW

Morgan Stanley Taiwan Limited
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Rating: Equal-weight
Taiwan Mid Cap: No Rating
Target: NT$58.00
52-Week Range: NT$52.20-28.97
Mkt. Cap(mn): NT$228,173
ModelWare EPS: NT$2.70 (FY 12/'10), NT$3.17 (FY 12/'11)

Price target implies ~18% upside; Upgrade to Overweight. We raise our 2011/12e EPS forecasts by 37%/30% to incorporate a stronger-than-expected outlook for the company's polyester and chemical operations. We now value its polyester operation at 15x EV/EBITDA and petrochemical operations at 2.0x P/BV.

No longer a sunset industry. We expect the entire polyester chain to be strong in 2011 thanks to the substitution demand driven by the surging cotton price, which has hit record highs. We forecast polyester ASP to increase by 20% in 2011 to close the 40% price gap with cotton. We look for FENC's polyester OPM to jump from 2.0% in 2010e to 3.4% in 2011e (vs. a 10-year average of -0.8%).

Solid outlook for PTA and MEG: We expect solid earnings for FENC's PTA and MEG (feedstock for polyester) subsidiaries thanks to improving margins. We forecast total polyester and petrochemical incomes to grow 36% from NT$5.1bn in 2010 to NT$6.9bn in 2011, accounting for 46% of FENC's bottom-line (39% in 2010e).]

2303.TW, UMC (NT$17.40) /Inline 4Q Results, ASP only Surprise

Morgan Stanley Asia Limited

Rating: Equal-weight
Taiwan Foundry: In-Line
Target: NT$15.50
52-Week Range: NT$18.20-12.75

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Morgan Stanley Taiwan Limited
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Mkt. Cap(mn): NT$225,988
ModelWare EPS: NT$1.87 (FY 12/'10), NT$1.71 (FY 12/'11)

4Q results, 1Q11 shipment guidance largely in line with expectations. The only surprise is that 1Q ASP is expected to decline by low/mid single digit versus ASP improvements in past quarters. Management stated that the ASP change is related to customer product transitions and thus one time in nature. Given healthy execution recently, our sense is the ASP surprise will be overlooked for now and we maintain our Equal-weight rating.

Growth likely continues in 2011, but we stay below consensus; 65nm a key swing factor. We raise our estimates slightly but remain below consensus. UMC saw significant growth in 2010 based on its share gains at 65nm. In 4Q, 65nm was 30% of revenue and management believes it could reach 40% in 2011. The key issue we have with this is we believe TSMC was capacity constrained at 65nm in 2010, but has additional capacity coming online at 65nm this year. The node is slated to get more competitive in our opinion and while UMC likely continues to take share, our concern is 40% may be a high target to achieve.

Implications: Foundry share prices have had a significant rally in the past few months. Our view is that the outlook for 2011 is improved, but contributions from IDM and new applications are limited. In addition, we still believe that the big capex and new competition will become more topical as the year goes on. Consequently, we prefer to stay on the sidelines for now.

THAILAND

SCC.BK, Siam Cement (Bt313.00) /4Q EPS In-Line but core EBITDA Below; No Changes to Forecast: Remain EW

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Morgan Stanley Asia Limited
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Rating: Equal-weight
Thailand Building Materials: In-Line
Target: Bt305
52-Week Range: Bt361.00-211.00
Mkt. Cap(bn): Bt376
ModelWare EPS: Bt22.8 (FY 12/'10), Bt25.3 (FY 12/'11)

4Q10 results in line: While 4Q EPS (excluding non-recurring) of Bt5.6 was roughly in line with our forecast and consensus, EBITDA from operations (ex. non-recurring) of Bt9.9bn was down 4% QoQ, falling modestly below our forecast on chemical downtime and seasonality. Management guided for slower cement demand growth and a more cautious outlook on the paper segment in 2011. Our forecasts are largely unchanged and we maintain our Bt305 price target and Equal-weight rating.

EBITDA light, -4% QoQ: Chemical's EBITDA fell 1% QoQ, below forecasts on maintenance shutdowns; Cement EBITDA fell 3% QoQ, below forecasts on flooding; Paper EBITDA fell 30% QoQ, on seasonal factors. However, factors below the line, investment income, came in better than forecast and allowed EPS to achieve our and consensus forecasts.

Positive guidance, but remain Equal-weight: While management called for a recovery in 1Q EBITDA off a low-base in 4Q. However, we note the Ethylene-naptha spread has been falling into 1Q11, and this will likely weaken the 1H11 recovery guided.

Strategy/Economics Analysis

China A-Share Strategy/Distance Breeds Beauty? An A-Share Play on US Recovery

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Investment conclusion. Given the correction of A-shares since December, we think it is time for A-share investors to focus on the US economy. The US is on the demand side of the international trade network, with China on the supply side. Demand, not supply, drives the economy, in our view. Ignoring the US economy in 2007 was a big mistake and we were hurt heavily in the following bear market. Ignoring a recovery of the US economy this year would make us overly-pessimistic about A-shares, especially in the cyclical sectors.

In the A-share market, US recovery is not a story for exporters. Though fundamentally it is exporters that will benefit from US recovery, their shares cannot be winners in the A-share market, in our view, because most China exporters are manufacturers with weak bargaining power, and usually face cost pressures when the global economy blooms. Our preference is to add Marine for the possible international trade recovery.

It is a story of Coal and Metals. In our view, US economic recovery (a demand-side recovery) is positive (or at least, not negative) for all energy and materials. However, regulators in China control gasoline and diesel prices, and most metals are expensive, so for now we add only Coal.

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(as of December 31, 2010)

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	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1145	40%	437	44%	38%
Equal-weight/Hold	1192	42%	422	42%	35%
Not-Rated/Hold	119	4%	25	3%	21%
Underweight/Sell	382	13%	109	11%	29%
Total	2,838		993		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

Analyst Stock Ratings

Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.
Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.
Not-Rated (NR) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country MSCI Index on a risk-adjusted basis, over the next 12-18 months.
Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months.
Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.
For Australian Property stocks, each stock's total return is benchmarked against the average total return of the analyst's industry (or industry team's) coverage universe, instead of the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.
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