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Morgan Stanley Asia Limited+

Companies Featured
0005.HK, 0285.HK, 0425.HK, 2343.HK, 2454.TW, 2600.HK, 600276.SS, ANTM.JK, CCL.AX, FGL.AX, GFF.AX, PTT.BK, TAHL.SI

March 2, 2011

Asia/Pacific Morning Meeting Summary

Highlights

The Morning Call

Aluminum Corp. of China Ltd. (China) / 4Q10: Swing Back to Profit on Higher Pricing; Retain OW	Overweight
Minth Group Limited (China) / Moving into the Fast Lane, Upgrade to OW	Overweight
Pacific Basin Shipping Limited (Hong Kong) / In-Line 2H10 Results but Guidance for Weaker 2011; Improving 2Q Rates Is Near-term Positive Catalyst	Overweight
Aneka Tambang (Indonesia) / 4Q10 Results Above; Consensus Forecast to Rise	Overweight
Tiger Airways Holdings (Singapore) / Price Correction Provides Opportunity; Upgrade to Overweight	Overweight

Company/Industry Analysis

Coca-Cola Amatil (Australia) / Taking a Coke Break	Equal-weight
Foster's Group (Australia) / The End Game	Overweight
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Australia Banks / Potential Impact of New Liquidity Requirements	
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PTT Public Company (Thailand) / 4Q11 Results: Core Business Strong; Associates Shine	Overweight

Strategy/Economics Analysis

S. Korea Discovery / Fila Korea: Global Apparel Player with US Turnaround in 2011

Australia Strategy / Views Post Reporting Season

What's Changed

Stock Rating Changes - Upgrades

Ticker	Company	Stock Rating From	To	Price Target From	To	ModelWare Estimate From	To (FY)	Consensus*
0425.HK	Minth Group Limited	E	O	HK$12.50	HK$16.20	Rmb0.69 Rmb0.79 Rmb0.90	Rmb0.76(12/'10) Rmb0.93(12/'11) Rmb1.10(12/'12)	Rmb0.76 Rmb0.93 Rmb1.15
TAHL.SI	Tiger Airways Holdings	E	O	--	S$2.10	S$0.10 S$0.13 S$0.16	S$0.07(3/'10) S$0.10(3/'11) S$0.11(3/'12)	S$0.10 S$0.16 S$0.18

Estimates/Price Target Changes - Up

0005.HK	HSBC Holdings	--	E	HK$100	HK$98.00	--	--	--

Estimates/Price Target Changes - Down

2600.HK	Aluminum Corp. of China Ltd.	--	O	--	HK$8.50	Rmb0.51	Rmb0.43(12/'11)	Rmb0.31
ANTM.JK	Aneka Tambang	--	O	--	Rp2,850	Rp250 Rp228	Rp249(12/'11) Rp227(12/'12)	Rp198 Rp198

* 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

2600.HK, Aluminum Corp. of China Ltd. (HK$7.69) /4Q10: Swing Back to Profit on Higher Pricing; Retain OW

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Morgan Stanley Asia (Singapore) Pte.
Charles.Spencer@morganstanley.com

Rating: Overweight
China Nonferrous Metals & Mining: In-Line
Target: HK$8.50
52-Week Range: HK$9.09-5.66
Mkt. Cap(mn): US$13,344
ModelWare EPS: Rmb0.43 (FY 12/'11), Rmb0.71 (FY 12/'12)

4Q EPS of Rmb0.03 first quarterly profit since 1Q10; Overweight. 2010 EPS of Rmb0.06 was below our Rmb0.09 forecast but not far from consensus of Rmb0.07. Higher unit operating cost from higher coal and energy costs, and lower volume resulted in the shortfall. With only 31% of analysts recommending the stock, and commodity pricing just beginning to rebound, we view Chalco as an out-of-consensus buy call.

Changes in our forecasts: Higher costs from rising coal and energy costs, and lower volume squeezed profitability below levels achieved in 1Q10, despite aluminum pricing being at a similar level. We lower our 2011e earnings by 16% to reflect higher costs, but 2012e is unchanged.

Improved aluminum outlook: Our commodity team forecasts the global supply surplus will narrow to 0.23mnt in 2011 from 1.17mnt last year. Aluminum prices should be positively impacted by potential supply disruptions from Middle East instability, as ~8% of world supply comes from that region, and strong US PMI last night, which indicates that US manufacturing is rebounding.

0425.HK, Minth Group Limited (HK$11.82) /Moving into the Fast Lane, Upgrade to OW

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Rating: Overweight
China Autos & Auto Parts: Cautious
Target: HK$16.20
52-Week Range: HK$16.20-8.34
Mkt. Cap(mn): Rmb10,662
ModelWare EPS: Rmb0.76 (FY 12/'10), Rmb0.93 (FY 12/'11)

Growth for 2011-12 becoming visible; Upgrade to Overweight. In our view, Minth is well positioned in next 12 months despite an industry growth slowdown. We cite its business diversification from three areas: 1) non-J3 new customers – sales to US and European brands, which are major market share gainers; 2) new product categories such as seat frame systems and vent-pipes to deliver 88% growth CAGR in 2010-12e; 3) new overseas market with transplants in Thailand and Mexico.

Laying a solid foundation for medium/long-term growth. Minth's strong balance sheet with over Rmb2.5 bn net cash on hand should support funding for its future business plan. At 2011-12e P/E of 10.7x and 9.1x with a 21% earnings CAGR over 2010-12, valuation looks compelling. Our HK$16.20 price target implies 36% upside.

2010 earnings may beat consensus. We forecast 2010 earnings to rise 30% on the back of 39% revenue growth. We estimate GP and OP margins were down slightly by 2.6ppt and 1.1ppt, to 36.5% and 22.4%, respectively, due to product mix change and rising raw material price.

2343.HK, Pacific Basin Shipping Limited (HK$4.78) /In-Line 2H10 Results but Guidance for Weaker 2011; Improving 2Q Rates Is Near-term Positive Catalyst

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Rating: Overweight
Target: HK$6.90
Hong Kong Transportation: In-Line
52-Week Range: HK$6.72-4.50
Mkt. Cap(mn): US$1,184
ModelWare EPS: US$0.05 (FY 12/'10), US$0.05 (FY 12/'11)

Still our preferred dry bulk shipping stock. 2H10 operating profit of US$77mn was 15% ahead of our estimates on higher revenue days and stronger than forecast time charter rates. PB's exposure to the smaller ship segment benefits from a better supply/demand balance relative to the Capesize and Panamax vessels. PB also enjoys lower daily operating costs due to purchase of ships at low prices.

What we liked: Profitability of the Handysize and Handymax segments despite volatile BDI and positioning of the existing fleet to capitalize on China Minor Bulk demand growth; b) ~56% of 2011 revenue days secured at above market rates; and c) Strong balance sheet with cash balances of US$690 mn and US$364 mn capital commitments fully funded, allows for opportunistic vessel acquisition.

What we disliked: a) No surprise on guidance for a weaker 2011 dry bulk market but, at 56%, combined contract cover for 2011 appears low; with management indicating this was partially due to shippers holding back contracts; b) Continued losses from the Ro-Ro segments, with negative ROA, and c) Weak FBSL operations leading to downsizing and impairment of US$19mn in 2H10.

ANTM.JK, Aneka Tambang (Rp2,200) /4Q10 Results Above; Consensus Forecast to Rise

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Rating: Overweight
Indonesia Nickel: In-Line
Target: Rp2,850
52-Week Range: Rp2,775-1,650
Mkt. Cap(bn): Rp20,985
ModelWare EPS: Rp249 (FY 12/'11), Rp227 (FY 12/'12)

4Q results above expectation; Overweight. 4Q EPS of Rp74 was above consensus and our forecast of Rp58 and Rp65, respectively. 2010 EPS of Rp173 (up 173%) also beat consensus of Rp153. While most of the beat came from higher dividend income, YoY growth in earnings is supportive of our thesis that Antam is benefitting from higher nickel prices. We see room for consensus 2011-12 forecasts to rise and the stock to trade higher.

Fundamentals remain positive: Nickel prices have stayed near US$13/lb on strong fundamentals. Gold has benefitted from political uncertainty in the Middle East and exceeded US$1,400/oz in February. With nickel and gold prices trending positively relative to our forecast, we are comfortable with our earnings forecast for Antam.

Valuation: Antam has underperformed its nickel peer PT Inco and the MSCI Indonesia Index by 30% and 2%, respectively, over the past 3 months, on concerns over weak 4Q earnings. Valuation looks cheap at just ~10x P/E and 1.7x P/B on our 2012 forecasts, 18/38% below MSCI Indonesia, respectively.

TAHL.SI, Tiger Airways Holdings (S$1.39) /Price Correction Provides Opportunity; Upgrade to Overweight

Morgan Stanley Asia (Singapore) Pte.
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Rating: Overweight
Singapore Airlines: Attractive
Target: S$2.10
52-Week Range: S$2.25-1.35
Mkt. Cap(mn): S$737
ModelWare EPS: S$0.07 (FY 3/'10), S$0.10 (FY 3/'11)

Worst may be behind; Overweight. Unusually high turnover in senior management and pilots last year hurt Tiger's strategic execution, leading to lower profit expectation for this fiscal year. However, we believe the worst could be behind Tiger, and after six months of relative underperformance vs. the STI Index, we think the shares could be re-rated again.

F2010–11 EPS estimates down 23% and 18%. However, we view underlying earnings growth of 20+% for the next 3-5 years as still achievable, despite trimming our operating earnings outlook, as long as jet fuel prices do not remain stubbornly high above US$120/bbl. Our price target of S$2.10 is unchanged and implies ~50% upside.

We would add to positions up to ~S$2.00 After three months of relatively flat MoM growth from September to November, the carrier began to register positive normalized growth in December 2010 and January 2011, with the stabilization of its pilot crew and a new management team on board for F2011. We believe Tiger shares can outperform the local market and its LCC peers as the carrier focuses on execution of its low cost strategy.

Company/Industry Analysis

AUSTRALIA

CCL.AX, Coca-Cola Amatil (A$11.85) /Taking a Coke Break

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Rating: Equal-weight
Australia Food, Bev. & Tobacco: Attractive
Target: A$12.25
52-Week Range: A$12.74-10.67
Mkt. Cap(mn): A$8,959
ModelWare EPS: A$0.74 (FY 12/'11), A$0.81 (FY 12/'12)

Remain Equal-weight; Price target unchanged. While we continue to view CCL as an excellent long-term investment, it looks fully priced at current levels. We don't envisage much scope for earnings upgrades, particularly as we expect the company to prioritize consistency of earnings delivery over short-term profit maximization. On 16.1x F2011e, we also struggle to see substantial near-term re-rating, given CCL's average long-term multiple of circa 16.5x.

What's new: In the short-term, poor 1H weather may prove an earnings risk, despite a solid start to the year. Meteorologists expect the current cold and wet weather to continue until August. This is more of a depressant to volumes in the warmer months, however, much of the impact should have already been felt.

Where we differ: We like CCL's growth options in beer and in Indonesia, but don't see either as being large enough to affect the group's near-term trajectory.

FGL.AX, Foster's Group (A$5.72) /The End Game

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Rating: Overweight
Australia Food, Bev. & Tobacco: Attractive
Target: A$7.00
52-Week Range: A$6.44-5.11
Mkt. Cap(mn): A$11,042
ModelWare EPS: A$0.35 (FY 6/'11), A$0.39 (FY 6/'12)

Investment conclusion: We are transitioning lead analyst coverage on Fosters Group. While we continue to believe the stock is substantially cheap, the risk of a lack of immediate catalysts makes us think that the stock might take some time to perform in accordance with our rating. While we remove Fosters from the Morgan Stanley Asia Best Ideas list, we remain Overweight.

Where we differ: We don't believe that corporate interest is really factored into the stock. We think the asset value of wine underpins a valuation of A$3.5-4.0 billion, and expect a corporate acquirer to pay 12x EBITDA or more for beer. While we don't think action is imminent, we feel this underpins fundamental value at more than A$7.

What's next: Fosters is now into a slower news period, so the main focus will continue to be the demerger. We expect this to be completed by May.

GFF.AX, Goodman Fielder (A$1.25) /Challenges Remain

Morgan Stanley Australia Limited
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Rating: Underweight
Australia Food, Bev. & Tobacco: Attractive
Target: A$1.20
52-Week Range: A$1.67-1.21
Mkt. Cap(mn): A$1,725
ModelWare EPS: A$0.13 (FY 6/'11), A$0.13 (FY 6/'12)

Investment conclusion: We are transitioning lead analyst coverage on Goodman Fielder. We still see GFF as a challenged business, as it copes with headwinds to its top-line, at the same time as commodity prices rise. GFF has historically struggled to pass on such cost increases, and despite now having secured 50% cost pass through on its volume, this still leaves it very exposed. Valuation has improved substantially, but earnings risk, rising capex and an uninspiring free-cash flow yield all make us circumspect.

Where we differ: We think this is a 1-3% organic revenue growth business, with structurally high margins (by global standards). Given increasing revenue headwinds, we therefore struggle to see material earnings growth, and our long-term estimates are well below consensus.

What's next: We expect that the company will announce a replacement for its outgoing CEO and a permanent CFO appointment shortly. The risk is that this takes some time, so with commodity costs continuing to rise, we see earnings risk to the company's 'flat normalized profit' guidance.

Australia Banks: Potential Impact of New Liquidity Requirements

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Australia Banks: Cautious

Investment conclusion: Requirements in relation to the level and composition of liquid asset portfolios for Australian banks are yet to be finalized by APRA and remain unclear. However, our simple sensitivity analysis suggests that the reduction in net interest margins for the major banks could range from ~2bp under a bull case scenario to ~12bp under a bear case scenario. All other things being equal, this translates to a profit reduction of between ~1% and ~8%

What's new: APRA has announced that, at this time, there are no assets that qualify as Level 2 in calculating the liquidity coverage ratio (LCR) for Australian banks. Thus, we have estimated the potential impact on major banks' margins and cash profit by calculating the fee payable on the "committed secured liquidity facility" that each of the banks will need to establish with the RBA to meet the minimum LCR requirements by January 1, 2015. This fee is yet to be determined, but APRA has stated that it will be a single, market-based fee applying to all institutions.

Broader implications: We expect the impact on margins and profit will fall somewhere in the middle of the estimated ranges and will be realized over the next four years. Accordingly, our best estimate of the valuation impact is 2-3% for each of the major banks. This is immaterial on its own and we expect banks will adjust their balance sheet management strategies, but it does add to existing headwinds for the Australian banks.

Australia Utilities: Carbon Tax: Risks & Benefits

Australia Utilities: In-Line

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Federal Government announces intention to introduce a carbon tax by July 2012. Very few details of the policy were announced, particularly on the compensation package. While there are only 15 months until the government hopes to implement the tax, we expect both policy announcements and community debate to be vigourous.

Carbon taxes add new risks to Australian utilities, but surprisingly few long-term costs or benefits (given that the electricity sector alone accounts for 30-35% of carbon emissions). The principal risk for listed energy retailers (Origin and AGL) would be state-based regulators' willingness to add carbon costs to retail electricity prices, a potential increase of 15-20% at the retail point. Our base case view is that these costs will be passed on to consumers, but we highlight a ~A$130mn EBIT risk for AGL if carbon costs are only gradually passed on to consumers.

For Victorian brown coal generators, 20-60% of asset value could be destroyed if no compensation is payable. This would fall to 10-30% under the previously debated Electricity Supply Adjustment Scheme (ESAS). AGL has a small exposure to a brown-coal station (Loy Yang A), but the bigger risk is that this disrupts the wholesale power market and it becomes more volatile. Such an outcome could increase electricity hedging costs for AGL and Origin, and crimp margins. (See our published report for details of our views.).

CHINA

0285.HK, BYD Electronics (HK$4.95) /2H10 Preview; Uptrend on Track and Still Cheap

Rating: Overweight
China Hardware Technology: In-Line
Target: HK$5.70
52-Week Range: HK$7.18-3.66
Mkt. Cap(mn): Rmb9,489
ModelWare EPS: Rmb0.43 (FY 12/'10), Rmb0.49 (FY 12/'11)

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Remain Overweight ahead of upcoming 2H10 results. We view the recent share price softness reflects great market concerns over uncertainty from the Nokia/Microsoft Smartphone alliance as well as profit taking after the 35%+ rally in the year to early February. We read Nokia's move as a neutral factor to BE in the short run and the long term impact depends on whether Nokia has any follow-up strategic change on outsourcing, which we think will take time. At 8x 2011e P/E or 20%+ discount to peers coupled with improving earnings visibility, we think the stock still looks cheap.

2H10 preview: We maintain our 2H10e EPS of Rmb0.27, +69% HoH (+15% YoY), better than the handset supply-chain average of ~30% HoH earnings growth. We forecast 2H10 OpM to grow 1.7ppt HoH to 7%, mainly from GM expansion on stronger component sales in 2H10. As 3G phones drive into the mass market, we expect BE to be better differentiated with cost advantage and a further broadening of its customer base via ODM share gains, while presence remains solid at existing customers, like Nokia, Moto and Huawei.

Nokia impact neutral in the short run: The market has raised concerns over BE's business outlook in the wake of Nokia / Microsoft's Smartphone alliance. We view Nokia's change in OS to Windows as neutral to BE; in the next 1-2 years it remains to be seen if Nokia's mid-to-low end Symbian based phones will lose ground quickly. On the downside, it could adversely affect volume, but on the bright side, Nokia's upgrade in offerings from feature phone to Smartphones drive up value content to component names which is a plus for blended ASP.

600276.SS, Jiangsu Hengrui (Rmb51.49) /Industry Steward Investing for Future Success

Rating: Overweight
China Pharmaceuticals: Attractive
Target: Rmb66.60

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52-Week Range: Rmb64.28-34.91
Mkt. Cap(mn): Rmb38,354
ModelWare EPS: Rmb1.00 (FY 12/'10), Rmb1.34 (FY 12/'11)

2010 results slightly below our estimates but we remain Overweight. We believe top-line growth of 24% is still impressive and its net income of Rmb724mn exceeded profit goal of Rmb700mn for exercising of management stock rights. With major catalysts coming up in 2011, we see positive momentum for Hengrui shares once price cut overhangs are removed.

2010 earnings snapshot: Hengrui reported total sales of Rmb3,744mn (up 24%) and slightly below our estimate of Rmb3,790mn. EPS of Rmb0.97 were slightly lower than our estimate of Rmb1.00, on much higher-than-expected G&A expenses. Core oncology products saw modest sales growth of 12-13%, anesthesia products, radio-opaque agents, and irbesartan sales grew approximately 60%, 90%, and 50%, respectively.

Catalysts: Hengrui received FDA inspection of its Liangyungang facility for irinotecan ANDA in July 2010. After submitting responses, it has not heard from FDA yet. In 2010, Hengrui submitted two more ANDAs and four DMF for APIs. If it receives ANDA approval in 1H11, this will be a huge step forward in its going-global efforts. With amrecoxib having completed all pre-manufacturing clearances, Hengrui is poised to receive final approval of the product in 1H11, which would transform the company into one selling genuine innovative product in a large arthritis pain market.

HONG KONG

0005.HK, HSBC Holdings (HK$90.40) /Costs, ROE Target & Basel 3 in focus

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Rating: Equal-weight
Hong Kong Financial Services: In-Line
Target: HK$98.00
52-Week Range: HK$91.90-68.95
Mkt. Cap(mn): US$205,543
ModelWare EPS: US$1.03 (FY 12/'11), US$1.25 (FY 12/'12)

Headline PBT at US$19.0bn. This result was below consensus of US$20.6bn. Excluding ~$0.7bn of one-off costs and a difference in FV of own debt, underlying PBT was ~US$0.6bn below consensus, with costs +5% and revenue +1% vs consensus. The CI ratio was 55% in 2010 and HSBC is guiding 48-52%, but does not expect to get to 52% for a few years.

ROE target revised down to 12-15% (from 15-19%). While a proposed reduction was well flagged, the low end was below our expectation and appears cautious, assuming no rates normalization (we estimate a 100bp rate increase could add $3bn+ to revenue). HSBC also said Basel 3 on a proforma basis would deduct 250-300 bps on 2010, but this was pre potential mitigation actions (2/3 due to higher RWAs) and phasing of adjustments. HSBC expects to hold 9.5-10.5% CT1, and given strong capital generation, we see upside risks to our DPS.

Revenue pressure: The lack of revenue growth in 2H10 was due to lower GBM and the HSBC Finance run down book. Group loans turned positive for the fist time since 1H08 but ongoing margin pressures eroded most of the strong loan growth in HK. Revenue is likely to remain a headwind.

Hong Kong Financial Services: Loan Growth Momentum Continues Into January 2011

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Hong Kong Financial Services: In-Line

HKMA reports January monetary data for the system. Loan growth grew 3% MoM with loans for use in HK up 3.4% and outside HK up 1.4%. Deposits continued to lag with HK$ deposits flat on a MoM basis. This took the HK$ Loan/Deposit to 79.3% (78% last month).

Rmb deposits continue to grow. Rmb deposits were Rmb371bn, up 17% MoM and now make up about 6% of total deposits and 13% of foreign currency deposits. The growth in Rmb deposits caused total deposits to be up 1.4% MoM, which is a long term positive. However, near term it will be a drag on NIMs as Rmb deposits earn less in the near term compared to HK$ deposits.

We remain lukewarm on Hong Kong banks. We believe that while banks are growing loan books at a very fast pace, underlying profitability is weakening due to spread compression. This, coupled with fairly high multiples will likely keep stock performance under pressure.

S. KOREA

S. Korea Insurance: Auto Loss Ratio Started to Recover in January 2011

S. Korea Insurance: Attractive

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Korean non-lifers announce January monthly results. Second-tier insurers' earnings recovered on improved auto loss ratio and strong investment profits. SFM's earnings declined on higher expenses due to early retirement plans and normalized investment returns. Auto loss ratio at HMF and LIG recovered a strong 12% MoM. HMF's initial premium growth was robust at 45% YoY on good savings-type products growth in bancassurance.

We are positive on Korean non-lifers. Our view reflects the outlook for a recovering auto insurance cycle and solid protection- type products growth. We believe the stocks are undervalued in light of their strong profitability, even after recent market outperformance (15-19% outperformance for the past three months relative to KOSPI). Our top picks are HMF (001450.KS, W27,150, O) and SFM (000810.KS, W223,500, O).

Auto insurance recovery on track: The non-life insurers' January auto loss ratios rose 3-12% MoM due to lower accident rates and rising premium rates. Auto insurance will see a recovering trend due to seasonal improvement and co-payment system implementation in February. We see further loss ratio improvement in F2012 due to further regulatory changes for 15-71% YoY growth in earnings.

TAIWAN

2454.TW, MediaTek (NT$328.00) /Analyst Meeting Takeaways

Rating: Equal-weight
Taiwan IC Design: In-Line
52-Week Range: NT$577.84-325.50
Mkt. Cap(mn): NT$359,337
ModelWare EPS: 28.41NT$ (FY 12/'10), 17.08NT$ (FY 12/'11)

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Remain Equal-weight: MediaTek's analyst meeting does not change our overall view that the company is in transition and that short-term growth will remain challenging. The company focused on long-term product roadmap and differentiation versus peers as themes for the meeting.

Long-term financial model. Management stated that its long-term financial model is 50% GM and >20% OpM. This compares with 1Q11 guidance for 46% GM and OpM of around 15%. Clearly the difference is that MediaTek needs to raise its GM again, which will depend upon the success of its 3G products.

No update on 1Q. While management stated that pricing pressure remains and instability in Middle East (~15% of handset sales) has had an impact, there was no update to 1Q guidance. The company demo-ed its 3G Android solution (officially introduced 2 weeks ago) and talked about a roadmap towards a 2nd gen, 40nm, 1GHz product in 1Q12. To compete with the international chipset makers, MediaTek believes that it can differentiate on: 1) Local services versus what is typically a generic global launch for tier-1's; and 2) Localizing UI and other interface elements.

THAILAND

PTT.BK, PTT Public Company (Bt337.00) /4Q11 Results: Core Business Strong;

Rating: Overweight

Associates Shine

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Thailand Oil & Gas: In-Line
Target: Bt405.00
52-Week Range: Bt351.00-230.00
Mkt. Cap(bn): Bt956
ModelWare EPS: Bt23.54 (FY 12/'10), Bt32.37 (FY 12/'11)

EBITDA in line; Earnings 12% higher: PTT posted a 4Q profit of Bt21.7bn, flat QoQ but up 42.5% YoY and 12% above our estimates, due largely to expected higher profit contributions from the associate refining/petrochemical business. Reported EBITDA increased by 7.5% QoQ and 2.3% YoY and was in line with our expectation.

Core business continued its strong performance. Natural gas EBITDA grew 5% QoQ, on the back of higher gas separation volumes, which increased 4% QoQ and 19% YoY. EBITDA in the quarter was down 20.5% YoY, however, due mainly to an additional expense to compensate customers affected by the change in natural gas quality amounting to Bt782 mn. We believe this is a one-time expense as the company stabilizes operations of the ESP and GSP6.

Remain Overweight. We expect solid earnings momentum ahead for the core business. We forecast GSP EBITDA to achieve a 2009-13e CAGR of 38%, due to: PTT increasing its gas processing capacity by 38% in 2011e; and strong petrochemical prices and margins. We expect PTT to commission the GSP6 (current test running at 80-85% utilization) by 2Q11.

Strategy/Economics Analysis

S. Korea Discovery/Fila Korea: Global Apparel Player with US Turnaround in 2011

Morgan Stanley & Co. International plc, Seoul Branch
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Investment conclusion: We recently visited Fila Korea (FK), an apparel company with exposure around the globe. The company sees strong growth in 2011 thanks to: 1) favorable sales trends and profit turnaround at its US affiliate; 2) continuing robust growth in Korea; and 3) steady growth in royalty income from its global operations, including China. FK guides to 28% consolidated net earning growth YoY in 2011 (excluding one-offs in 2010).

Domestic: Still growing. FK had 20% share of the Korea sports apparel market in 2009 (no. 2 after Nike's 22%). FK has a higher margin compared to other apparel players thanks to the higher efficiency of its business, as well as the high proportion of sales accounted for by original-priced items. The company also plans to launch a premium brand business in 2011.

Concerns over high gearing mitigated: Fila Korea's high gearing had been a concern for investors, but the IPO proceeds substantially lowered its net debt to equity ratio to 54% in 3Q10 (vs. 208% in 2008 and 158% in 2009, K-IFRS based).

Australia Strategy/Views Post Reporting Season

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Our views largely unchanged from what has been a very in-line reporting season: We expect 20% earnings growth for 2011, and our index target implies 11% upside. Conservatively, this includes some multiple contraction despite the market being under-valued on 13x 12 month forward earnings. Among some of the highlights (in addition to those in our published report), we note:

We have a cyclical bias. Key cyclical overweights are energy, industrials (exposure to domestic business spend and capex – despite some poor results), and a mild overweight in consumer discretionary/banks.

REITS are our one key defensive overweight. Poor results versus expectations in staples, health care, utilities, telcos, give us no reason to be there in a meaningful way. REITs provided the earnings certainty (with some cyclical recovery thrown in) that the other sectors largely did not deliver.

Model Portfolio Changes: We are not making wholesale changes. The largest change is our move to overweight banks, funded by moving underweight staples. We add to transportation through MRM (MRM.AX, A$3.14, O) and out of AGK (AGK.AX, A$.67, E), and switch out of SEK (SEK.AX, A$6.46, U) into SUL (SUL.AX, A$6.90, O). We also switch out of IOF(IOF.AX, A$0.61, U) and into GMG (GMG.AX, A$0.68, O) and remaining overweight REITs.

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(as of February 28, 2011)

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Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1175	41%	463	45%	39%

Equal-weight/Hold	1219	42%	439	42%	36%
Not-Rated/Hold	120	4%	23	2%	19%
Underweight/Sell	380	13%	109	11%	29%
Total	2,894		1034		

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