Asia-Pacific Morning Summary

May 9, 2011

The Goldman Sachs Group, Inc.

This document contains comments related to the following stocks:

Baidu.com, Inc. (BIDU)
Bajaj Auto (BAJA.BO)
Bank Rakyat Indonesia (BBRI.JK)
Belle International Holdings (1880.HK)
Bharti Airtel (BRTI.BO)
Cheng Uei Precision (Foxlink) (2392.TW)
China Construction Bank (H) (0939.HK)
China Life Insurance Company (H) (2628.HK)
China Merchants Bank (H) (3968.HK)
China Mobile (HK) (0941.HK)
China Resources Power (0836.HK)
China Shenhua Energy (H) (1088.HK)
China Yangtze Power (600900.SS)
CNOOC (0883.HK)
Ctrip.com International (CTRP)
E Ink Holdings Inc (8069.TWO)
Epistar (2448.TW)
Fanuc (6954.T)
Fast Retailing (9983.T)
GS Engineering & Construction (006360.KS)
Hang Seng Bank (0011.HK)
Honda Motor (7267.T)
HSBC Holdings (0005.HK)
HTC Corp. (2498.TW)
Industrial and Commercial Bank of China (H) (1398.HK)
Infosys Technologies Ltd. (INFY.BO)
Infosys Technologies Ltd. (ADR) (INFY)
K Wah International (0173.HK)
KSK Energy Ventures (KSKE.BO)
KT Corp (030200.KS)
KT Corp (ADR) (KT)
LG Chem (051910.KS)
Lonking Holdings (3339.HK)

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Global Investment Research

Focus Items

Key Data Changes

Investment List Removals

Company	Ticker	Investment List Removals
Epistar	2448.TW	Asia Pacific Conviction Buy List

Rating and price target changes

Company	Ticker	Rating/ Coverage view		Price Target			Estimates		
		New	Old	New	Old	% chg	Current Year	Next Year	Fiscal y/e
Bharti Airtel	BRTI.BO	B/N	unch	↓ Rs410.00	Rs420.00	(2.4%)	Rs20.00	Rs28.77	Mar
Epistar	2448.TW	B/N	unch	↓ NT$127.00	NT$140.00	(9.3%)	NT$5.32	NT$8.16	Dec
KSK Energy Ventures	KSKE.BO	N/C	unch	↓ Rs120.00	Rs128.00	(6.3%)	Rs7.92	Rs9.29	Mar
KT Corp	030200.KS	B/N	unch	↓ W51,000	W53,000	(3.8%)	W6,685	W5,606	Dec
KT Corp (ADR)	KT	B/N	unch	↓ US$24.76	US$25.73	(3.8%)	US$3.09	US$2.75	Dec
United Overseas Bank	UOBH.SI	N/N	unch	↑ S$21.00	S$20.40	2.9%	S$1.57	S$1.80	Dec
Youku.com Inc.	YOKU	N/N	unch	↑ US$57.00	US$54.00	5.6%	(US$0.15)	US$0.10	Dec

Estimate changes

Company	Ticker	Rating/ Coverage view	Current Year			Next Year			Fiscal y/e
			New	Old	% chg	New	Old	% chg	
Bharti Airtel	BRTI.BO	B/N	↓ Rs20.00	Rs24.14	(17.2%)	↓ Rs28.77	Rs31.86	(9.7%)	Mar
Epistar	2448.TW	B/N	↓ NT$5.32	NT$7.29	(27.0%)	↓ NT$8.16	NT$9.97	(18.1%)	Dec
GS Engineering & Construction	006360.KS	B/N	↓ W10,257	W10,266	(0.1%)	↓ W11,876	W12,265	(3.2%)	Dec
KSK Energy Ventures	KSKE.BO	N/C	↓ Rs7.92	Rs10.45	(24.2%)	↓ Rs9.29	Rs11.23	(17.3%)	Mar
KT Corp	030200.KS	B/N	↑ W6,685	W5,445	22.8%	↓ W5,606	W5,867	(4.4%)	Dec
KT Corp (ADR)	KT	B/N	↑ US$3.09	US$2.52	22.8%	↓ US$2.75	US$2.88	(4.4%)	Dec
Union Bank	UNBK.BO	N/N	↓ Rs50.66	Rs52.19	(2.9%)	↓ Rs60.73	Rs62.32	(2.6%)	Mar
United Overseas Bank	UOBH.SI	N/N	↑ S$1.57	S$1.55	1.2%	↑ S$1.80	S$1.75	2.7%	Dec
Youku.com Inc.	YOKU	N/N	↑ (US$0.15)	(US$0.18)	15.5%	↑ US$0.10	US$0.08	23.8%	Dec

Other Headlines

Portfolio Strategy Research

Options Research

Financial Services

Industrials

Technology

Telecom Services

Utilities

Focus Items

GS SUSTAIN: Disclosing Asia's Potential II 1

BIDU, US$141.26		
Market cap		US$49,375 mn
Target price		US$160.00
Fiscal y/e Dec	2011E	2012E
Net inc. (Rmb)	6,077 mn	9,054 mn
EPS (Rmb)	17.74	25.97
EPS growth	71.2%	46.4%
P/E	51.7X	35.3X
Dividend yield	--	--
Investment Lists		
		Americas Buy List
Coverage view		Attractive

BAJA.BO, Rs1,319.05		
Market cap		US$8,522 mn
Target price		Rs1,451.00
Fiscal y/e Mar	2011E	2012E
Net inc. (Rs)	26,618 mn	30,032 mn
EPS (Rs)	91.99	103.78
EPS growth	56.3%	12.8%
P/E	14.3X	12.7X
Dividend yield	2.4%	2.8%
Investment Lists		
		Asia Pacific Buy List
Coverage view		Neutral

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Global trends accelerating, Asia a sweetspot

In our recent report “The die has been cast: A new age of accelerating consumption, constraints and competition” April 19, 2011, we revisit many of the macro themes reshaping the global economy and conclude that they are accelerating, increasing the value of well positioned business models relative to those less well placed to exploit these themes. Despite this, the equity market remains reluctant to adequately value the companies capable of delivering industry leading returns over the long term. Located at the epicenter of many of these structural shifts, we feel Asian corporates remain well placed to outperform over the long term

Increased confidence in using GS SUSTAIN framework for long-term stock selection

GS SUSTAIN integrates objective analysis of return on capital, industrial positioning, and management quality to identify the companies most likely to succeed in delivering long-term industry leading returns. Our Focus List has outperformed the MSCI ACWI by 39% since June 2007 increasing our confidence in using this integrated approach for long-term stock selection.

Asia Watch List outperforms 10.4% LTD

Despite their high returns and strong industry positioning many Asian corporations are still falling behind developed market peers on demonstrating management engagement with stakeholder risks facing their businesses. On June 4, 2010 we introduced the Asia Watch List to identify the Asian companies most likely to be added to the Focus List were they to increase disclosure of the performance on ESG (environmental, social, and governance factors) given world class performance on return on capital and industry positioning. In the 11 months since inception this list has outperformed the MSCI AC Asia by 10.4%.

We restrike the list to reflect an expanded universe and updated scorecard

Having increased our global coverage from 800 to 1,000 stocks and updated all our returns, industrial positioning, and ESG data, we restrike the Asia Watch List and highlight the 24 companies best placed to make the Focus List should they improve performance on ESG factors.

Epistar (2448.TW): In recovery but near-term pressure from lower yield rates; off CL 2

2448.TW, NT$90.20		
Market cap		US$2,666 mn
Target price		NT$127.00
Fiscal y/e Dec	2011E	2012E
Net inc. (NT$)	4,556 mn	6,986 mn
EPS (NT$)	5.32	8.16
EPS growth	(25.7%)	53.3%
P/E	16.9X	11.0X
Dividend yield	5.6%	4.4%
Investment Lists		
		Asia Pacific Buy List
Coverage view		Neutral

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What happened
We remove Epistar from our Conviction Buy List but retain our Buy rating. Our Buy thesis remains intact on our view that UT rates will keep improving from 2Q11 on order increases. Epistar began shifting to higher performance chips for LED TVs in January; however the pace of yield rate improvements for new products appears to be slower than we expected. We attribute this and Epistar's sluggish 1Q11 results to the stock's underperformance. Since we added Epistar to CL-Buy on Jan 24, the stock has fallen 14% vs. the TAIEX's +1%. Over the past 12 months, Epistar fell 10% vs. TAIEX +17%.

Current view
We are still positive on Epistar and our structurally constructive view is mainly driven by: 1) Improving competitiveness through the down cycle. For example, its 1Q11 OPM (6%) was close to one of its key competitors, Cree (9%), in US. Moreover, its strong 2Q11 revenue guidance of up 20% qoq is higher than its peers' guidance range of 0-12%. 2) Gradual increasing penetration rate of LED TVs in 2011. Although the industry is relatively conservative on LED penetration rates this year, we continue to believe 2011 LED TV penetration rate for the overall market will rise to 50%. 3) Secular growth in general lighting and the recent price drop could narrow the gap with traditional lighting.
Valuation: We lower our 2011E/12E/13E EPS by 27%/18%/15% to NT$5.32/NT$8.16/ NT$9.65 to factor in our lower yield rate assumptions wherein we reflect the recent slower than expected progress. We revise down our Director's cut based 12-m target price to NT$127 from NT$140 (based on 0.79X unchanged ValRatio- historical avg multiple) on earnings revision and rolling over our TP calculation base by one quarter.
Risk: Delays of LED TV launches and incandescent lamp ban policy changes.

Other Headlines

Portfolio Strategy Research

Asia-Pacific Weekly Kickstart: A sharp decline in equities amid global growth concerns; oil dropped below $100 3

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Price performance
- MXAPJ -3%; Thai -5%, India, Sing, Phils -3%; Indonesia and Taiwan were most resilient
- Energy underperformed in the week of sharp oil price drop (-5%)
- China utilities gained 5% on the newsflow of tariff hike
- A plunge in commodities: WTI futures dropped 14% to below $100/barrel; metals lost 5%

Flows, positioning and risk appetite
- Muted flow in EM Asia; India had US$500mn of foreign selling
- Cash activities further dropped in China; futures turnover rose in Korea, fell in Hong Kong
- Risk appetite continued to reduce from high levels

Earnings and valuations
- MXAPJ's forward P/E at 11.9X, trailing P/B at 2.0X

• Phils and Australia were revised down most
• Most defensives earnings were downgraded

Rates and currency
• Large pullback on Asia's FX: AUD -3% vs. USD

Upcoming events
• US PPI, retail sales (May 12); CN money and credit (May 10-15), trade (May 10), CPI, IP, FAI (May 11); KR central bank meeting (May 13); TW trade (May 9); HK GDP (May 13); ID central bank meeting (May 12)
• Earnings: HLL (May 9), NTPC (May 10), Tencent (May 11), Genting Intl, Sing Air, Sing Tel (May 12), MMTC, Wilmar Intl, UOL (May 13)

Korea Weekly Kickstart: KOSPI retreats by 2% wow to 2147, on moderating global growth momentum 4

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Performance
KOSPI ended at 2147, -2% wow & +4.7% ytd; KOSDAQ at 506, -0.9% wow & -0.8% ytd. Utilities outperformed the most (+13.2%) while Shipbuilding underperformed heavily (-9.8%).

Valuation
KOSPI trades at 11E P/E of 10.4X; 12m P/E of 10.1X(Quantiwise) & 9.5X; 2011E EPS growth of 17.6%; and 2011E P/B of 1.4X (I/B/E/S unless specified).

Flows
Foreigners bought W8bn; Institutions sold W491bn; and Individuals bought W440bn.

FX, KTB & others
KRW depreciated 1.1% wow to 1,083 against the USD. Korea 3-year Treasury Bond yield decreased to 3.75% from 3.77% a week ago. WTI fell sharply by 12.7% wow.

Key events
Earnings Release (tentative): Samsung F&M (11th) / Hyundai M&F, Samsung Life, Samsung Sec, KIH (12th) / Korea Life, Amorepacific (13th) / Kangwon, STX Pan Ocean, Hanhwa Chem, Daewoo Sec, Woori Inv, Hyundai Sec, KEB
Korea: MPC Meeting (13th) – both Bloomberg Consensus & GS forecast: 25bp hike
US: CPI (13th) / China: CPI (11th)

China Weekly Kickstart: May 2-6: Chinese equities trend down on global de-risking; defensives fared well 5

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This week's performance summary
Risk-off sentiment prevailed and thus cyclicals generally underperformed in both onshore and offshore markets. As commodity and oil prices fell, metals/mining and oil/gas sectors tumbled and were down >5% in A/H shares. In contrast, transportation outperformed on oil decline / Rmb appreciation hopes. Utilities rose in both markets on expectations that the power shortage will catalyze IPP tariff hikes/stricter coal price control. Expectations that power shortage will drive up cement / steel prices boosted sentiment in A-shares but did not prevent selldowns in H-shares. Consumer stocks (both staples and retail) outperformed thanks to defensiveness, esp at the latter part of the week. Healthcare was also buoyed by NDRC's plans to nurture

major players during the 12-5 period. Banks and property sectors were mixed on concerns over more tightening policies, although CAR requirements from CBRC were in line and removed a key policy overhang.

Key ideas from GS China Research

We upgraded MXCN utilities to Neutral with the expectation margin recovery as policymakers may need to pre-empt further shortages. We moved MXCN auto to UW on double-digit earnings risk and not yet inexpensive valuations. Our ECS team expects Apr macro data to show lower CPI/PPI, slower activity and money/credit growth mom.

Key China reports: 1) preview of China Apr econ data; 2) Power shortage/utility sector upgrading; 3) Downgraded Auto sector to UW; 4) Banks: CAR regulatory framework; 5) Turning more positive on the airlines, Air China (A) upgraded to Neutral; 6) Steel: de-rating on disappointing earnings

Valuation

MXCN: 11.4X 11E P/E; 19.7% 11E EPS growth.• CSI300: 13.8X 11E P/E; 25.4% 11E EPS growth.

Key upcoming events to watch

CN: CPI (May 11); CN: PPI (May 11).

Options Research

Asia Derivatives Views: Three factors which explain the low HSCEI skew 6

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Commodities sell off; NIFTY lagged in Asia

Commodities led markets lower, with WTI and S&P GSCI having 4 std dev falls, while VIX had a 2.1 std dev rally. In equities, NIFTY was the worst performer on a vol-adj basis, making a 1.2 std dev move lower. Nikkei 225 and TWSE outperformed.

When we measure which assets remain the most std dev above their 1-year lows, KOSPI 200 and AUD/USD continue to stand out, both two std dev above 1-year troughs. Gold stands out among commodities, 1.5 std dev above its 1-year trough.

Why low HSCEI skew makes sense

HSCEI skew has retreated to near historical lows. Given our positive view on China, we do not suggest selling calls to buy puts, and prefer trades such as selling FXI puts to fund HSCEI calls. We look at why HSCEI skew is low, from a structural and historical perspective, and find that in some ways, the low skew is justified. Three reasons:

1) In US and Europe, down-moves tend to be higher vol than up-moves; in HK there is an even balance between high vol up- and down-moves.

2) While implied vol moves and daily return moves have very negative correlation in developed markets, that is less the case in HK.

3) Hedging and overwriting are less common in Asia, while structured products and warrants are more common. Structured products and warrants can depress vol during corrections and increase vol during rallies, particularly in HK/China.

Financial Services

Union Bank (UNBK.BO): Above expectations on higher NII but costs rising as well

UNBK.BO, Rs319.65		
Market cap		US$3,744 mn
Target price		Rs360.00
Fiscal y/e Mar	2012E	2013E
Net inc. (Rs)	26,564 mn	31,841 mn
EPS (Rs)	50.66	60.73
EPS growth	27.7%	19.9%
P/E	6.3X	5.3X
Dividend yield	2.9%	3.6%
Investment Lists		Neutral
Coverage view		Neutral

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What surprised us

Union Bank of India (UNBK) reported 4QFY11 net profit of Rs5.98bn up 1% yoy (3% ahead of GSe), driven by strong NII and lower tax rate that offset higher costs. Key takeaways: (1) NII came in at Rs17.2 (up 23% yoy), 4% ahead of GSe driven by (i) stable margins qoq at 3.44% (ii) advances growth of 27% yoy and a (iii) one-off tax refund of Rs460mn. (2) Other income came in 20% ahead driven by treasury income (1.1bn) but lower fees at Rs2.7bn (6% below Gse) (3) Costs rose 95% yoy and 58% ahead of GSe driven by Employee costs – as UNBK made a Rs3bn provision for retired employees. The company, as per our calculation, has likely made catch up pension provisions (i.e covering shortfall of previous quarters), in the 4Q. Simultaneously, it reversed gratuity provisions of Rs1.25 bn made in first 9M – and now decided to provide for gratuity over five years vs. one year. (4) Loan loss provisions came in at Rs1.9bn (0.5% of loans) 49% below GSe. The bank's gross NPLs remained flat qoq at Rs36bn (2.7% of loans) but net NPLs rose 13% qoq to Rs18bn (1.2% of loans), with the incremental slippage ratio falling down to 1.4% from (3Q:2.9%). However, the bank has reduced the PCR to 67.6% (3Q: 70.2%).

What to do with the stock

We finetune our PAT estimates but our EPS estimates for FY12-14E are lower by 2%-3% due to a capital infusion in 4QFY11 . We retain our Neutral rating and our 12-m GS CAMELOT based price target of Rs360. We expect the bank to deliver 22% growth in credit, see a decline of 20 bps in spreads and report PAT growth of 28% (base of FY2011) in FY2012 as costs remain stable. While on relative basis we find better value elsewhere, we prefer UNBK to BOI (BOI.BO, Sell, Rs421.8) among our PSU banks, given better profitability, a more stable strategy. Risks: Higher (lower) NPL formation

K Wah International (0173.HK): Chantilly to mark the beginning of a strong launch pipeline

0173.HK, HK$2.97		
Market cap		US$975.1 mn
Target price		HK$4.50
Fiscal y/e Dec	2011E	2012E
Net inc. (HK$)	588.4 mn	1,826 mn
EPS (HK$)	0.23	0.72
EPS growth	204.6%	210.4%
P/E	12.9X	4.1X
Dividend yield	2.4%	3.7%
Investment Lists		Asia Pacific Buy List
Coverage view		Attractive

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What's changed

K Wah has officially launched its luxury-end 24-unit Chantilly at Stubbs Road. On Friday (May 6) after market close, K Wah announced it has sold three units (size: 3,600 sqft each) of Chantilly to three investment holding companies controlled or beneficially owned by its executive directors, Ms Paddy Lui, Mr Alexander Lui, and Mr Francis Lui. The aggregate transaction price is HK$256mn (or HK$23,700 psf) and correspondingly, the group will record a pre-tax profit of HK$137mn. On the same day, the group also released a price list of two other units of the project with the same size.

Implications

The average selling price of the first batch (five units) of HK$23,700 psf is in line with our estimate and comparable to another project, Broadwood Twelve developed by Hopewell (0054.HK; NC) in the nearby vicinity. It is also worth noting that a land auction on a luxury residential site in the same area, the Former Lingnan College, will take place on Thursday (May 12), and we believe a good response from the auction could facilitate sales of the project. We believe the Chantilly launch marks the start of K Wah's strong launch pipeline in 2011, reaffirming our view that the group is entering a harvest period in terms of property sales, which in turn may narrow its currently substantial NAV discount gap against its peers. We expect more launches in 2H2011, including the Welfare Rd and Providence Bay projects in HK, and The Palace Ph.1 in Shanghai Xuhui district.

Valuation

At HK$2.97, K Wah trades at 67% disc to Dec-11E NAV (vs 35% for the developer sector). Excluding its Galaxy stake, the market is only paying HK$2.09/shr for its property business, putting the stub at the low end of its trading range since mid-09. Maintain Buy and 12-month NAV-based TP of HK$4.50.

Key risks

1) Launch delays resulting in missed profit numbers; 2) unexpected policy tightening in HK/China; and 3) unexpected interest rate hike.

United Overseas Bank (UOBH.SI): In line with expectations: 1Q loan/fee income boost, still weak NIM 9

UOBH.SI, S$18.80		
Market cap		US$23,702 mn
Target price		S$21.00
Fiscal y/e Dec	2011E	2012E
Net inc. (S$)	2,452 mn	2,808 mn
EPS (S$)	1.57	1.80
EPS growth	2.9%	14.5%
P/E	12.0X	10.4X
Dividend yield	3.8%	3.8%
Investment Lists		Neutral
Coverage view		Neutral

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What surprised us

1Q11 core net profit S$612m, -1% yoy, +5% qoq was in-line with GSe/ Bloomberg consensus S$614/612mn respectively. Main positives: 1) very strong all region loan growth, +6.7% qoq, well above GSe, with S$ loans +5% (though still below sector's 6.4%), 2) relatively stable NIMs - fell only 1bps qoq, vs GSe' 3bps, 3) strong fee income, +17% yoy, boosted by large loan fees, 4) strong cost control, with 41% cost to income vs GSe 42%. The only setback was higher-than-expected provision costs, though mainly GP on stronger loan growth. Loan loss cover remains high at 134%, with NPL ratio improving to 1.6%. Key call highlights: 1) Surprisingly strong loan momentum in Singapore, above UOB's expectations, still, UOB retains a more positive outlook on growth outside Singapore, with 2011 group loan growth guidance unchanged at mid-teens, 2) Low yield Sing loans (mainly corporate) did somewhat weigh on 1Q NIMs, but UOB sees growth in higher yield non-Sing loans more supportive of future NIMs, and 3) While UOB does see near-term funding pressures (partly also due to recent new sub-debt issue), it should bottom by mid-year, that said, likely low S$ rates may mean unlikely strong NIM recovery anytime soon.

What to do with the stock

Recent outperformance reflected investors' belief that the UOB would beat results; however that outperformance is likely to reverse on in-line results.We fine-tune our FY11-13E EPS by 1-3%, on stronger topline growth, partly offset by higher provisions, in line with UOB's 30-50bps guidance. On EPS revisions, we raise our 12-m CAMELOT-based TP to S$21 (prior S$20.40). Remain Neutral. Risks: downside: sharper NIM decline, poor asset quality; upside: strong core banking ops

Industrials

Asia Pacific: Conglomerates: Conglo Catch-up: Your 2-min guide to estimates, valuations, events 10

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Stocks of the week: Macau Gaming and Shun Tak

Macau Gaming: We study the different industry drivers to gauge what factors could double the market's size

to US$50 bn and by when. Our conclusion is that Macau's GGR has the potential to double in three years, if China's economy and property sector sustain their 2005-2010 growth rates, i.e. 21% nominal GDP growth and 15% property price increase per year. Our analysis also shows that the pipeline of infrastructure build-out should be able to cope with such demand. If so, our sensitivity analysis shows additional 14%-40% uplift to our base-case valuations which are based on the assumption that the market will double by 2015.
We prefer operators with greater exposure to the mass-market and Cotai. We reiterate our Buy rating for Sands China. Parcels 5&6 will underpin 28% EBITDA CAGR in 2011-13E. Our DCF calculation suggests that Sands and SJM shares have not priced in their long-term growth potential, with an implied WACC of 14%-15% vs. 11% in our base case. We downgrade Wynn Macau from Neutral to Sell for its demanding valuation and our expectation that its earnings momentum will decelerate on Cotai competition and greater exposure to the volatile VIP segment. We also unwind our relative call and upgrade Melco from Sell to Neutral, with stub valuation down to its historical low.
Shun Tak (242.HK, Buy): Further to our visit to sales offices in late Apr, we expect Shun Tak to launch the first phase of its Taipa Hills Memorial Garden (Columbarium project) with a starting price of HK$38,000 per niche vs. our previous ASP assumption of HK$30,000 per niche, and expect to see sales progress accelerate as it nears completion in 3Q11. As per our sensitivity analysis, every HK$10,000 increase in ASP could lead to 1.7% increase in our base case NAV estimate. Situated in Taipa, Macau, the 50,000-niche project is 79% company-owned, with land deed and operation licenses.
We see Shun Tak as an inexpensive way to gain leverage to Macau's booming economy though indirectly through its exposure in the property sector. With the imminent project launches in both Macau and Hong Kong (e.g., Columbarium, Chatham Garden in late 2011), positive newflow could serve as a catalyst in narrowing its valuation discount over the coming months, in our view. The stock is trading at a 54% discount to 2011E NAV, 1 standard deviation below its historical average of 35%.

GS Engineering & Construction (006360.KS): Marginal EPS revisions to reflect 2010 audited results 11

006360.KS, W124,000		
Market cap		US$5,883 mn
Target price		W133,000
Fiscal y/e Dec	2011E	2012E
Net inc. (W)	523 bn	606 bn
EPS (W)	10,257	11,876
EPS growth	28.4%	15.8%
P/E	12.1X	10.4X
Dividend yield	2.0%	2.0%
Investment Lists		
		Asia Pacific Buy List
Coverage view		Neutral

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Changes and Implications
We have marginally cut our 2011E/2012E/2013E EPS by 0.1%/3.2%/2.8% to reflect 2010 audited results. We do not view these changes as material, and there is no change to our investment thesis, rating or price target.

Lonking Holdings (3339.HK): We reaffirm our view of growth deceleration 12

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Negative News – Estimates Unchanged

News
We held conference calls with major Chinese construction machinery companies (Sany, Zoomlion, Liugong, and Lonking) on May 4, and the main takeaways are:
Companies see yoy growth slowing down for major product types in April.
Loaders: Liugong sees flat yoy growth for loaders in April and agrees that the industry may even see small negative yoy growth for Q2 (after 43% yoy growth in Q1 for the industry). Lonking also expects single digit growth in April.
Truck crane: Both Liugong and Zoomlion see a significant slowdown in truck crane sales (after 48% yoy

growth in Q1).
Excavator: Liugong and Lonking are looking for 40-50% yoy growth in April (both achieved 100% yoy growth in Q1). Sany still expects over 100% yoy growth in April though.
Concrete machinery: Sany and Zoomlion look for around 50% yoy growth in April (both achieved 100% yoy growth in Q1).

Analysis

We reaffirm our view that growth is likely to have peaked in Q1 and will decelerate into Q2 and H2, and that as a result valuation may come under pressure.

Implications

We see potential for further weakness in share price performance for stocks in this sector. We maintain our ratings, target prices and estimates unchanged ahead of release of official April volume numbers by the industry association in coming weeks.

Technology

E Ink Holdings Inc (8069.TWO): April sales decline does not alter our long-term thesis; CL-Buy 13

8069.TWO, NT$58.60		
Market cap		US$2,145 mn
Target price		NT$100.00
Fiscal y/e Dec	2011E	2012E
Net inc. (NT$)	7,496 mn	8,726 mn
EPS (NT$)	6.95	8.09
EPS growth	81.1%	16.4%
P/E	8.4X	7.2X
Dividend yield	3.7%	5.9%
Investment Lists		
		Asia Pacific Buy List Asia Pacific Conviction Buy List
Coverage view		Neutral

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What's changed

After market close on May 6, E Ink reported April sales of NT$2.5 bn (-27% mom, +45% yoy), substantially below our expectation of down 10%-15% mom. April sales account for 28% of our 2Q forecast.

Implications

Bottom line: We are not concerned on the sharp monthly sales decline, as we believe this was driven by a combination of e-reader transition and lackluster demand for Samsung tablets (for which E Ink is the major LCD panel supplier), which is we had expected. We maintain our 2Q revenue estimate.
Though our fundamental view on the company does not build on short-term monthly sales, we still expect: (1) monthly sales trend: April could be the trough month of the year, with May picking up slightly and followed by a strong ramp-up in shipment in June, due to customers' new product launches and high seasonality kick-off; (2) 3Q growth outlook: We expect E Ink's 3Q11 sales growth (GSe +22% qoq) to be much stronger than the same period last year (sales +2% qoq in 3Q10), as we think E Ink is not likely to have product yield issues for its Pearl display (that had hurt its 3Q10 sales), given its mass production track record in the past two quarters.
Key swing factor to our forecasts could be its LCD/FFS business with Samsung, as Samsung commented that it is less likely to use its own AMOLED technology on its tablets this year (suggesting E Ink could still be the major panel supplier), but the significant competition from iPad2 could make it difficult for non-iPad tablets, in general, to see strong sell-through momentum. We expect its LCD/FFS revenue to be -2% hoh in 2H11.

Valuation

Maintain our Buy rating (on CL) and 12-m target price of NT$100, on 1.8X NTM EV/GCI, implying 13X NTM P/E.

Key risks

Pricing pressure and customer concentration risk.

Youku.com Inc. (YOKU): Follow-on offering to bolster net cash; up-scaling to HD video 14

YOKU, US$57.60		
Market cap		US$6,114 mn
Target price		US$57.00
Fiscal y/e Dec	2011E	2012E
Net inc. (US$)	(16.1 mn)	11.2 mn
EPS (US$)	(0.15)	0.10
EPS growth	43.0%	168.4%
P/E	--	--
Dividend yield	--	--
Investment Lists		Neutral
Coverage view		Neutral

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What's changed

Youku announced today that it intends to conduct a follow-on offering, composed mainly of primary shares. It also reported strong 1Q2011 results, with revenue of Rmb128 mn (+163% yoy and 16% above our estimate), an EBITDA loss of Rmb30 mn (versus our Rmb59 mn) and a GAAP net loss of Rmb47 mn (better than our Rmb88 mn). Management guided 2Q2011 revenues to grow faster than we expected, by 125%-135% yoy, or Rmb164 mn at the midpoint, 15% above our Rmb142 mn.

Implications

Youku already has $260 mn net cash; we assume its follow-on offering may boost this to over $500 mn. It could increase the free float to c.40%. The good results do not change our view that it may break even in late 2011/12, since it will invest more aggressively in content and bandwidth; it is now making HD its default video setting. Therefore, we materially raise our revenue and cost estimates, assuming faster advertiser adoption of online video, driving a greater increase in advertiser count and revenue per advertiser: our 2011E LPS (loss per ADS) narrows 15% to $0.15; 2012E EPS up 24% to $0.10; 2013E EPS up 13% to $0.56. Rating remains Neutral.

Valuation

Our higher revenue forecasts raise our 12m DCF-based TP from $54 to $57 (still 12% discount rate), about 100X our 2013E non-GAAP earnings.

Key risks

Upside: faster revenue growth from rapid online adoption, market consolidation. Downside: competition driving higher content costs.

Impact on related securities

We believe Youku's actions are negative for online video competitors such as Sohu: (1) Youku will probably possess more cash to invest in content and bandwidth; (2) competitors may follow Youku's new amortization schedule for content rights, depressing reported profitability.

Infosys Technologies Ltd. (INFY.BO): Meeting with management: Revamp in sales, faster execution is key 15

INFY.BO, Rs2,886.90		
Market cap		US$36,999 mn
Target price		Rs3,520.00
Fiscal y/e Mar	2011E	2012E
Net inc. (Rs)	68,231 mn	84,577 mn
EPS (Rs)	119.42	148.02
EPS growth	8.8%	24.0%
P/E	24.2X	19.5X
Dividend yield	2.4%	1.8%
Investment Lists		Asia Pacific Buy List
Coverage view		Neutral

INFY, US$64.82		
Market cap		US$37,209 mn
Target price		US$78.20
Fiscal y/e Mar	2011E	2012E
Net inc. (Rs)	68,231 mn	84,577 mn
EPS (Rs)	119.42	148.02
EPS growth	8.8%	24.0%
P/E	24.3X	19.6X
Dividend yield	2.4%	1.8%
Investment Lists		Asia Pacific Buy List GS SUSTAIN Focus List
Coverage view		Neutral

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News

We met with Infosys Technologies' (INFY) management last week, along with other peer companies under our coverage. We met with Mr. S. Gopalakrishnan (Kris), Co-Chairman, and Mr. Subhash Dhar, Head of global sales and marketing. Post the announcement of management changes on April 30, we look for greater visibility on the impact of the changes, transitional challenges, strategy for the next leg of growth, and future outlook.

Analysis

Key takeaways from our meetings are: 1) Infosys is reorganizing itself to be a much faster decision maker than before. Management changes are aimed towards being relevant to clients and maintaining leadership; 2) Hiring plans for this year show a much more aggressive go-to-market strategy. Delayed hiring last year may have resulted in leaving some deals on the table; 3) Revamp in sales structure and incentivization to enhance client acquisition and reduce cycle time to conversion. A regional sales structure is created within which country head positions are given increased independence. Increase in the balance of the incentives in favor of growth and creation of a sales group only for large deals; 4) Gearing up for technology challenges ahead. Major drivers over the next 3-5 years would be mobility, cloud, and sustainability. Traditional outsourcing will remain strong, but will likely decline as a share of revenues; 5) Recent marginal slowdown in revenue growth was a result of slower hiring, and holding the operational levers for a little longer, which has more to do with timing; 6) Results of the changes should start becoming visible in the near-term.

Implications

We reiterate our Buy rating on Infosys, and believe it is an undervalued stock that presents an attractive opportunity compared to its peers, backed by an industry-leading 24%/23% revenue/EPS CAGR over FY11-FY13E. INFY is trading at 19.5X FY12E P/E, at an 8% discount to its historical 7-year average and at a 10% discount to its closest peer, TCS (TCS.BO, Neutral, Rs1,144.55). Our target price is unchanged.

Cheng Uei Precision (Foxlink) (2392.TW): Robust April sales further strengthens our positive view 16

2392.TW, NT$66.20		
Market cap		US$1,078 mn
Target price		NT$80.00
Fiscal y/e Dec	2011E	2012E
Net inc. (NT$)	2,215 mn	2,621 mn
EPS (NT$)	4.78	5.66
EPS growth	28.3%	18.3%
P/E	13.9X	11.7X
Dividend yield	3.2%	3.8%
Investment Lists		Asia Pacific Buy List Asia Pacific Conviction Buy List
Coverage view		Neutral

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What's changed

Foxlink reported consolidated April sales of NT$5.9bn (+4% mom, +56% yoy), implying 36% of GSe 2Q11 forecast and also above our 2011 sales growth forecast of 33% yoy. The stronger-than-expected April sales may show upside risk to our 2Q11 forecast. Strong April sales were mainly driven by (1) "hot" sales of Apple products, especially the high demand for iPad 2 after the easing in component shortage and Hon Hai's yield rate improvement in the final assembly stage, 2) larger-than-expected contribution from Studio A, which rose to 12%-13% of Foxlink's total sales in April, and (3) rising contribution from HTC. We also introduced our 2013 sales/PAT growth of +15%/+11% with EPS of NT$6.28

Implications

We continue to see strength in Foxlink's core business on key components (cable/connect) for Apple's iPhone/iPad/iPod/Mac and (power module) for the iPhone and iPads. Apart from solid performance in the component business, we also see upside from Studio A's revenue contribution vs. GSe 2011 forecasts of 10%. Also due to good margins on Apple's products/accessories, GP margin for Studio A is above 10% + and

OPM is above 4%+, and both are higher than Foxlink's blended margins. We expect Foxlink's 2Q sales to grow 10% qoq (with potential upside) even from a high 1Q base, driven by Apple products and rising exposure to HTC. We believe strong April sales is just one of the signs indicating Foxlink should follow other Apple plays such as Catcher, Largan, TPK, Foxconn Tech, etc. and sync strong top line growth with possible margin expansion, in our view. We recommend adding to positions as Foxlink has not experienced the same share appreciation of other Apple plays.

Valuation

We maintain Buy (on CL) with a 12mTP of NT$80, based on 15X NTM EPS.

Key risks

Low company transparency and higher costs from wages, forex, relocation.

Telecom Services

KT Corp (030200.KS): Above expectations on one-off gain; weak wireless; solid fixedline 17

030200.KS, W39,850		
Market cap		US$9,605 mn
Target price		W51,000
Fiscal y/e Dec	2011E	2012E
Net inc. (W)	1,745 bn	1,464 bn
EPS (W)	6,685	5,606
EPS growth	49.4%	(16.1%)
P/E	6.0X	7.1X
Dividend yield	6.9%	7.7%
Investment Lists		Asia Pacific Buy List Asia Pacific Conviction Buy List
Coverage view		Neutral

KT, US$20.63		
Market cap		US$10,773 mn
Target price		US$24.76
Fiscal y/e Dec	2011E	2012E
Net inc. (US$)	1,612 mn	1,435 mn
EPS (US$)	3.09	2.75
EPS growth	58.9%	(11.0%)
P/E	6.7X	7.5X
Dividend yield	6.2%	7.2%
Investment Lists		Asia Pacific Buy List Asia Pacific Conviction Buy List
Coverage view		Neutral

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What surprised us

KT Corp's IFRS consolidated 1Q11 results were above our expectations; EBIT was 26% above our estimate due to an unexpected one-off asset revaluation gain of W187bn from KT Skylife. However, wireless operation disappointed us. Wireless billing ARPU declined 3.3% qoq and W30,247 yoy mainly due to 1) weak seasonality in 1Q, with fewer business days; and 2) implementation of a per-second voice charge since Dec. 2010. Marketing expense to sales ratio (parent GAAP basis) dropped to 15.7% from 16.4% in 4Q10 due to slower sales of feature phones compared to smartphones. Fixedline results were strong: 1) IPTV sales rose 5.3% qoq and 84% yoy on the back of strong subscriber growth (60% market share), 2) VoIP market share surpassed that of LG Uplus (39.4% vs. 38.8%) for the first time; and 3) the pace of PSTN subscriber decline slowed further to -1.1% qoq (vs. -1.8% qoq in 4Q10). We believe the key reason for the strong fixedline business is successful bundling efforts, which dropped churn rate to 1.1% from 1.4% in 1Q10. Mgmt expects PSTN sales decline to stop in 2012, and maintained its dividend payout ratio guidance of 50%, normalizing one-off gains or loss.

What to do with the stock

We revise our estimates based on IFRS accounting. We adjust our 2011E/12E/13E EPS by 23%/-4%/-2%, reflecting asset revaluation gains in 2011E and cutting wireless ARPU estimates based on 1Q11 numbers. We cut our 12-m TPs to W51,000 (from W53,000) – and US$24.76 (from US$25.73) for the ADR – accordingly, based on 3-yr avg. forward Bloomberg consensus P/E of 9.7X (unchanged) and one-off-gain-adjusted 2011E EPS. We maintain our Buy rating (on CL) on KT due to its P/E at historical lows (7X) and the highest dividend yield of 6.9% among the three Korea wireless operators. Key risk: Regulatory pressure on tariffs on inflationary concerns.

Bharti Airtel (BRTI.BO): Steady momentum in India, Upbeat on Africa outlook; Reit. CL-Buy 18

BRTI.BO, Rs357.60		
Market cap		US$30,314 mn
Target price		Rs410.00
Fiscal y/e Mar	2012E	2013E
Net inc. (Rs)	75,849 mn	109,109 mn
EPS (Rs)	20.00	28.77
EPS growth	14.0%	43.9%
P/E	17.9X	12.4X
Dividend yield	0.3%	0.6%
Investment Lists		Asia Pacific Buy List Asia Pacific Conviction Buy List
Coverage view		Neutral

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What's changed

We reiterate our Buy rating on Bharti after its 4Q con-call. Key takeaways: 1) Mgmt believes pricing power may return in India cellular market and believes that should arrest the EBITDA margin decline; 2) Mgmt stated that tariff readjustments are complete in Africa and expects cost per minute to reduce in coming quarters as outsourcing contracts are now in place. Mgmt stated that MOU/sub for Africa declined 4.2% qoq as there was a regulatory intervention in DRC. Adjusted for that MOU/sub was up 3.5% qoq; 3) Bharti believes in next 12 months almost all of its 6 loss making African markets may turn profitable; 4) Bharti increased its FY12 capex guidance for Africa from around US$ 850 mn to US$1-1.2 bn as it expects higher traffic. Mgmt expects to spend US$ 1.5 bn/US$ 400 mn on capex in India and tower business; 5) Bharti believes LTE rollout and 3G launch will help in the uptake of broadband penetration in India; 6) Mgmt stated that impact of MNP is limited as the proportion of subs base porting/ renegotiating tariffs is relatively small.

Implications

We reduce our EPS estimates for FY12/FY13/FY14 by 17%/10%/9% as we model-in higher net interest expenses (led by expensing of 3G debt as Bharti rolls out 3G services in the remaining circles) and higher tax-rate (accounting for circles coming out of tax holiday). We also reduce our FY12E capex by 9% to US$3.2 bn. This is inline with mgmt guidance of US$ 3.1 bn. Our 12-m SOTP based target price reduces by 2% to Rs410 as we roll forward by 3 months.

Valuation

At a FY12E PE of 17.9X, Bharti is trading at a premium to the Asian telco average of 14.7X, but offers a better EPS FY11-14 CAGR (27%) when compared to the regional telecom average CAGR of 8%.

Key risks

Price wars in India; Weaker than expected KPIs from African operations.

Utilities

KSK Energy Ventures (KSKE.BO): In line with expectations: Fuel uncertainty for Wardha continues 19

KSKE.BO, Rs111.55		
Market cap		US$928.0 mn
Target price		Rs120.00
Fiscal y/e Mar	2012E	2013E
Net inc. (Rs)	2,950 mn	3,462 mn
EPS (Rs)	7.92	9.29
EPS growth	62.3%	17.4%
P/E	14.1X	12.0X
Dividend yield	--	--
Investment Lists		Neutral
Coverage view		Cautious

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What surprised us

KSK Energy (KSKE) reported adjusted FY11 PAT of Rs2.2bn vs GS estimate of Rs2.1bn and Bloomberg consensus of Rs2.3bn. Though results were largely in line with our expectations, we note that margins for the 540MW (60% of operating capacity) Wardha project continue to be under pressure due to delays in receipt of coal allocated under the ‘cost plus’ mechanism. Fuel cost for Wardha was Rs3.40/kwh for 4QFY11 (vs. Rs1.3/kwh for coal from Coal India) as KSKE is plugging coal shortfall using e-auction/ imported sources. While the timing of receipt of ‘cost plus’ mine is unclear, KSKE informed that the Ministry of Coal has decided to provide tapering linkage to the project until issues relating to cost plus mine are resolved. KSKE expects to receive coal under linkage from 2QFY12 onwards. Accordingly, we have now reflected 25% of coal under linkage and 75% from e-auction/imported for FY12E and 50% from linkage for FY13E, for this project.

What to do with the stock

We retain Neutral on KSKE with 12m SOTP-based TP of Rs120 (from Rs128) implying upside of 8%. We cut our TP by 6%, and FY12E/13E EPS estimates by 24%/17% primarily to reflect higher fuel costs for the Wardha project. We believe that more visibility on 1) fuel costs for the Wardha project and 2) timelines for the

Mahanadi project will continue to be key drivers of stock performance. The Ministry of Environment visited the Mahanadi project and it expects to make a decision on environment clearance for the Morga block over the next two months. Risks: Environment clearance (upside); Fuel costs (downside).

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The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

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GS SUSTAIN

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Coverage group(s) of stocks by primary analyst(s)

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Price target and rating history chart(s)

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