Asia-Pacific Morning Summary

July 4, 2011

The Goldman Sachs Group, Inc.

This document contains comments related to the following stocks:

AAC Acoustic (2018.HK)
Allgreen Properties (AGRN.SI)
Anhui Conch Cement (H) (0914.HK)
Ascendas Real Estate Investment Trust (AEMN.SI)
AU Optronics (2409.TW)
BYD Electronic (0285.HK)
CapitaCommercial Trust (CACT.SI)
CapitaLand (CATL.SI)
CapitaMall Trust (CMLT.SI)
Chimei Innolux (3481.TW)
China High Speed Transmission Equipment Group (0658.HK)
China Wireless Technologies (2369.HK)
City Developments (CTDM.SI)
Compal Communications (8078.TW)
Dongfang Electrical Corporation (A) (600875.SS)
Dongfang Electrical Corporation (H) (1072.HK)
Far Eastern Department Stores (2903.TW)
Focus Media (FMCN)
Formosa Chemicals & Fibre (1326.TW)
Formosa Petrochemical Corp. (6505.TW)
Formosa Plastics (1301.TW)
Foxconn Int'l Holdings (2038.HK)
Fraser & Neave (FRNM.SI)
Gemdale Corp (600383.SS)
Harbin Power Equipment (1133.HK)
HTC Corp. (2498.TW)
JA Solar Holdings (JASO)
Keppel Land (KLAN.SI)
Largan Precision (3008.TW)
LG Display (034220.KS)
Mapletree Commercial Trust (MACT.SI)
Mapletree Industrial Trust (MAPI.SI)
Nan Ya Plastics (1303.TW)

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Global Investment Research

Focus Items

Key Data Changes

Investment List Removals

Company	Ticker	Investment List Removals
AU Optronics	2409.TW	Asia Pacific Buy List
JA Solar Holdings	JASO	Asia Pacific Buy List
LG Display	034220.KS	Asia Pacific 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
AU Optronics	2409.TW	↓ N/N	B/N	↓ NT$20.00	NT$29.00	(31.0%)	(NT$3.65)	(NT$0.85)	Dec
Chimei Innolux	3481.TW	N/N	unch	↓ NT$23.00	NT$34.00	(32.4%)	(NT$5.24)	(NT$1.35)	Dec
China High Speed Transmission Equipment Group	0658.HK	N/N	unch	↓ HK$8.90	HK$11.00	(19.1%)	Rmb0.75	Rmb0.69	Dec
China Wireless Technologies	2369.HK	N/N	unch	↓ HK$1.90	HK$2.30	(17.4%)	HK$0.15	HK$0.18	Dec
Dongfang Electrical Corporation (A)	600875.SS	N/N	unch	↓ Rmb28.30	Rmb30.10	(6.0%)	Rmb1.57	Rmb1.77	Dec
Dongfang Electrical Corporation (H)	1072.HK	N/N	unch	↓ HK$30.00	HK$31.50	(4.8%)	Rmb1.57	Rmb1.77	Dec
Formosa Chemicals & Fibre	1326.TW	B/C	unch	↓ NT$127.00	NT$138.00	(8.0%)	NT$11.00	NT$12.00	Dec
Formosa Plastics	1301.TW	N/C	unch	↓ NT$104.00	NT$108.00	(3.7%)	NT$8.83	NT$9.56	Dec
JA Solar Holdings	JASO	NR	B/N	--	US$9.30	--	US$1.35	US$1.59	Dec
LG Display	034220.KS	↓ N/A	B/A	↓ W33,000	W45,000	(26.7%)	W294	W1,603	Dec
Nan Ya Plastics	1303.TW	N/C	unch	↓ NT$76.00	NT$82.00	(7.3%)	NT$6.05	NT$6.77	Dec
Xinjiang Goldwind Science & Technology (A)	002202.SZ	S/N	unch	↓ Rmb8.90	Rmb14.60	(39.0%)	Rmb0.56	Rmb0.46	Dec
Xinjiang Goldwind Science & Technology (H)	2208.HK	S/N	unch	↓ HK$7.30	HK$12.00	(39.2%)	Rmb0.56	Rmb0.46	Dec

Poly (Hong Kong) Investments (0119.HK)
Shanghai Electric Group (2727.HK)
Silitech Technology (3311.TW)
Songcheng Tourism Development (300144.SZ)
Suntec REIT (SUNT.SI)
UOL Group (UTOS.SI)
Wing Tai Holdings (WTHS.SI)
Xinjiang Goldwind Science & Technology (A) (002202.SZ)
Xinjiang Goldwind Science & Technology (H) (2208.HK)

Estimate changes

Company	Ticker	Rating/ Coverage view	Current Year			Next Year			Fiscal y/e
			New	Old	% chg	New	Old	% chg	
AU Optronics	2409.TW	N/N	↓ (NT$3.65)	(NT$0.99)	(267.6%)	↓ (NT$0.85)	NT$1.55	NM	Dec
Chimei Innolux	3481.TW	N/N	↓ (NT$5.24)	(NT$1.13)	(362.3%)	↓ (NT$1.35)	NT$1.73	NM	Dec
China High Speed Transmission Equipment Group	0658.HK	N/N	↓ Rmb0.75	Rmb0.92	(18.6%)	↓ Rmb0.69	Rmb0.87	(20.3%)	Dec
China Wireless Technologies	2369.HK	N/N	↓ HK$0.15	HK$0.19	(18.6%)	↓ HK$0.18	HK$0.27	(31.0%)	Dec
Dongfang Electrical Corporation (A)	600875.SS	N/N	↓ Rmb1.57	Rmb1.67	(5.8%)	↓ Rmb1.77	Rmb1.91	(7.5%)	Dec
Dongfang Electrical Corporation (H)	1072.HK	N/N	↓ Rmb1.57	Rmb1.67	(5.8%)	↓ Rmb1.77	Rmb1.91	(7.5%)	Dec
Formosa Chemicals & Fibre	1326.TW	B/C	↓ NT$11.00	NT$11.97	(8.1%)	↓ NT$12.00	NT$12.53	(4.2%)	Dec
Formosa Petrochemical Corp.	6505.TW	N/N	↓ NT$6.00	NT$6.26	(4.2%)	↓ NT$6.67	NT$6.68	(0.2%)	Dec
Formosa Plastics	1301.TW	N/C	↓ NT$8.83	NT$9.32	(5.3%)	↓ NT$9.56	NT$9.60	(0.4%)	Dec
Harbin Power Equipment	1133.HK	N/N	↓ Rmb0.65	Rmb0.68	(3.6%)	↑ Rmb0.71	Rmb0.69	2.1%	Dec
LG Display	034220.KS	N/A	↓ W294	W3,210	(90.8%)	↓ W1,603	W3,930	(59.2%)	Dec
Nan Ya Plastics	1303.TW	N/C	↓ NT$6.05	NT$6.60	(8.4%)	↓ NT$6.77	NT$7.16	(5.3%)	Dec
Shanghai Electric Group	2727.HK	S/N	Rmb0.24	unch	--	↓ Rmb0.26	Rmb0.27	(3.4%)	Dec
Xinjiang Goldwind Science & Technology (A)	002202.SZ	S/N	↓ Rmb0.56	Rmb0.91	(39.2%)	↓ Rmb0.46	Rmb0.92	(49.3%)	Dec
Xinjiang Goldwind Science & Technology (H)	2208.HK	S/N	↓ Rmb0.56	Rmb0.91	(39.2%)	↓ Rmb0.46	Rmb0.92	(49.3%)	Dec

Other Headlines

Portfolio Strategy Research

Options Research

Basic Materials

Consumer Cyclicals

Energy

Financial Services

Industrials

Technology

Focus Items

Asia: Technology: Hardware: Stress testing the impact of macro deterioration on Asia tech coverage; 10 implications 1

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Stress testing ahead of growing pessimism
Concerns about end-user demand in the Asian technology industry are growing across all shipment destinations and product applications. In this report, our Asia technology team stress tests the earnings estimates of the 110 companies we cover in order to gauge the potential impact of a possible market downturn on the back of a somber economic outlook.

Weighing up stocks under our stress test
Historical analysis suggests a 1% swing in global GDP translates into a 5% swing on average over 110-company sales, and about 20% op. profit leverage against such sales swings. Assuming 2012 global GDP falls by 2pp (worst case scenario), we estimate total 2012 sales would fall 1% yoy (vs. current forecast +10%) and operating profit would fall 29% yoy (vs. current forecast +28%). We evaluate each stock's risk/reward using post-stress test earnings, based on (1) variance from historical midpoint EBITDA valuations; (2) variance from historical P/B and EV/GCI trough levels. We then extract stocks based on absolute CROCI and CROCI direction, and analyst recommendations.

40%-50% of stocks show downside support, 60% still show upside capability
Our stress test indicates that of the 59 Japan and 51 AeJ stocks, (1) around 70% of Japan and 50% of AeJ stocks still show upside capability toward historical EV/EBITDA midpoints and (2) 40%-60% of Japanese and 30% of AeJ (Asia average 40%-50%) are less than 10% from their historical P/B or EV/GCI bottom. Overall risk/reward is relatively resilient, based on downside resistance and upside capability for the 110-stock universe.

10 implications for individual stocks
In Japan, we see attractive risk/reward for: (1) integrated electrical (Hitachi, Fujitsu), (2) precision (FujiFilm, Seiko Epson, Konica Minolta) and (3) components (Nitto Denko, Ibiden), while downside risks remain in (4) SPE (Hitachi Kokusai, DNS and Horiba). In AeJ, we see attractive risk/reward for (5) Lenovo, (6) Samsung Electronics, and (7) ODM/OEM/EMS (Quanta) while downside risk from potential macro deterioration is high in: (8) SPE (ASM Pacific), (9) LED (LG Innotek, Seoul Semi) and (10) Delta Electronics.

Asia Pacific: Technology: LCD: Weak demand in 2011; but capex cuts could be positive for 2H2012 2

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Weaker than expected demand persists
LCD TV demand is weaker than expected especially in developed markets, and we cut our overall 2011E growth forecast to 8% yoy from 10% yoy. Our checks indicate that 2H11 inventory restocking may remain muted. We believe some panel makers have started cutting utilization rates, and low demand means a weak rebound in LCD prices, keeping them close to break-even for the panel makers in 2H2011. We cut our FY11/12/13 EPS estimates for LG display by 90.8%, 59.2%, and 26.9% to reflect weaker utilization rates, slower shipment growth, weaker panel prices, and unexpectedly slow capacity growth in 2012-2013. For the same reasons, we cut AUO EPS to NT$-3.65/-0.85/0.08 from NT$-0.99/1.55/1.68, and Chimei to NT$-5.24/-1.35/-0.83 from NT$-1.13/ 1.73/ 1.81.

Longer-term implications: Capex cuts could be positive for 2012
Weaker cash flow at panel makers coupled with a weak demand outlook is likely to result in lower capex in 2H2011 and 2012, which we expect to become evident over the next couple of quarters. We believe we could see a reason to revisit the LCD sector in early 2012E as a result of capex cuts in 1H12E coupled with stable LCD TV demand growth.

Downgrade LG Display to Neutral from Buy
We downgrade LG Display (LGD) to Neutral from Buy with a new 12M Director's Cut TP of W33,000 from W45,000 which corresponds to a 1.0X FY12 P/B. Although downside may be limited, we do not see significant catalysts for valuations to rise from current low levels as end demand remains weak.

TW panel makers also suffer; Downgrade AUO to Neutral
Among Taiwan's panel makers, AUO and CMI have been more conservative on capex. We expect capex at these two companies to decline 9%/11% yoy in 2011E/2012E, with capacity growth of 13%/6%, respectively. We expect these two companies to turn to losses in 2011E/2012E, due to high break-even utilization rates (about 80%). We expect their UT rate will fall to the mid-to-low 80% range again after the China Golden

Week inventory build is over. We downgrade AUO to Neutral from Buy and cut our PB-based 12-M TPs for AUO/CMI to NT$20/NT$23 from NT$29/NT$34, implying 0.8X 3Q12E BVPS, a 20% discount to LGD.

Asia Pacific: Handsets: Quantifying potential downside risk in handset space; stocks to pick 3

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Qualifying the downside risk in handsets due to macro weakness
In this report we quantify the potential downside risk to our handset coverage due to continued negative datapoints on the macro front. Global handset shipment growth since 2005 has a c.90% correlation with global GDP growth, and this is the basis of our scenario analysis and related impact to the stocks we cover. We tested five companies (HTC, Largan, AAC Acoustic, Silitech, and China Wireless) which we think have high exposure to global/China handset/smartphone demand, and leave Compal Comm(CCI), Foxconn Int'l (FIH), and BYD Electronic (BYDE) out of the discussion, as we see their current customer mix and business outlook as relatively less correlated to global demand.

Macro impact on smartphones: replacement cycle longer, mix worse
Specifically on smartphones, we do not think smartphone penetration will decline and progress meaningfully slower than our forecast due to macro weakness, as the ability to access the internet on the go has become increasingly necessary. However, the macro slowdown could impact: (1) the replacement cycle for smartphones (which tend to be high-end products) getting pushed out; (2) smartphone mix shifting faster toward the low end.

Worst case scenario: we see 15%-60% downside risk to valuations
We see Largan (Buy) and AAC Acoustic (Neutral) as relatively more defensive, given leading industry position and new product cycles. We see c.30% variance to HTC's (Buy) current price, as HTC relies on replacement demand to drive ASP/margin sustainability; we see >50% variance to current prices of Silitech (Sell) and China Wireless (CW, Neutral), given their relative small scale and industry challenges (Silitech: declining keypad demand; CW: severe pricing pressure and high cost structure).

Stocks to own in order of preference: Compal Comm, Largan, HTC
We believe CCI and Largan would be better placed to weather a possible downcycle as CCI's new product cycle from Nokia is growing from a low base, and Largan should continue to benefit from an optical industry upcycle. While HTC is still outperforming its global handset peers, the possible accelerating mix shift toward the low end could cause downside risk to our earnings estimates. We see AAC's current valuation as fair relative to our coverage. For China Wireless, we view its margin uncertainty as the key concern.

Other Headlines

Portfolio Strategy Research

Korea Weekly Kickstart: KOSPI rose 1.7% wow to 2126, on 9 week-high foreign inflows 4

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Performance
KOSPI ended at 2126, +1.7% wow & +3.6% ytd; KOSDAQ at 484, +2.2% wow & -5.2% ytd. Machinery outperformed (+4.6%) while F&B underperformed significantly (-3.5%).

Valuation and Earnings
KOSPI trades at 2011E P/E of 10.0X(I/B/E/S); 12m P/E of 9.8X; earnings momentum increased 2.5% up for Machinery but 3% down for F&B (Quantiwise unless specified).

Flows
Foreigners bought W633bn; institutions bought W843bn; individuals sold W1,279bn. Institutions were net buyers of Machinery, and foreigners net sellers of F&B.

FX, KTB & others
KRW appreciated 1.1% wow to 1,067 against the USD. Korea 3-year Treasury Bond yield increased to 3.77% from 3.71% a week ago. WTI rose 3.9% wow.
For June CPI, headline inflation rebounded on rising core inflation, likely prompting hawkish stance in the July 14 MPC (National Statistics Office, Jul 1, 2011).

Key events
Korea: Foreign exchange reserve (4th) / Foreign Direct Investment (3-6th) / Producer Price Index (8th)

India Weekly Kickstart: NIFTY extends rally (+2.9% wow) on lower current account deficit & easing Greece worries 5

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Overview
NIFTY rallied for the second straight week (+2.9%) as sentiment continued to strengthen. Banks (+3.7%) & FMCG (+3.8%) led the rally as risk appetite rebounded despite a fuel price hike after market close last week. Strong foreign inflows helped the INR to a two-month high vs. the USD. The current account deficit (CAD) came in at 1.1% of GDP for Q1CY2011 vs. 2.1% in the previous quarter. This sharp & unexpected fall in CAD signals comfort on a key macro risk but was accompanied by a slowdown in capital inflows.

Foreign and domestic flows
Foreign buying turned positive for the year, (US$ 500mn vs. US$ 6.7bn for 1H 2010). DIIs have bought US$ 3.4bn ytd as of the close of June 29, 2011.

Earnings sentiment
MSCI India Utilities had the strongest EPS sentiment (11.6%) wow.

Commodities
Gold (-2.3%) and Silver (-3.5%) fell wow on improved risk appetite after the Greek parliament okayed the austerity plan. Energy gained 3.9% but Mustard seeds plunged 15.6% wow.

Other Macro data releases this week
June Manufacturing PMI came in at 55.3 vs. 57.5 in May. Exports and Imports increased 56.9% and 54.1% respectively in May.

Options Research

Asia Derivatives Views: Looking "backward" to a trendless summer 6

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Risk assets rebounded; DM impl vol fell

Driven by better readings on US manufacturing activity and a short-term resolution to the sovereign debt crisis in Greece, MSCI World rallied 5.4% from its recent lows. Following the strong rebound, short-dated implied volatility fell significantly on DM indices, with SX5E 1-mo impl vol down 7.6 pts to 16.7%. Across asset classes we track, USD, EUR rates and S&P GSCI indices had the largest vol-adj moves this past week.

Look-back options for range-trading market

Traditional hedging strategies may have been less effective during range-bound trading; e.g. HSCEI 3-mo 95% puts would have been unprofitable at expiration for 90% of the time since 2010.

Look-back options could be beneficial in trendless markets as investors can potentially achieve a more favorable strike during market swings. Indicatively, investors can buy 3-month 95/85% look-back put spreads with 4 additional weekly observations on HSCEI for 2.85%, which cost the same as 3-month 95% vanilla puts on HSCEI.

If entered at current levels, 3m 95/85% look-back put spreads would have outperformed both 95% vanilla puts and 95/85% vanilla put spreads on an average return on premium basis from 2005 to 2011 (excluding 2008). Buyers of look-backs would have achieved a higher put strike than vanillas for about 80% of the time in our study, a key factor for outperformance.

Basic Materials

Asia Pacific: Chemicals: Reducing 2Q estimates on shutdown and weak margins, better 2H 7

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Forecast 25%-38% qoq decline in 2Q earnings for the Group

We forecast Formosa Group's 2Q11E earnings to decline 25%-38% qoq due to the impact of the shutdown (on May 28, Yulin County Government ordered the Formosa Group to shut down six petrochemical plants due to a series of fire-related accidents in Formosa Group's Mai-Liao Complex on May 12 and May 18) as well as the weak performance on petrochemical products due to the policy tightening in China. The details relating to the duration of the Formosa shutdown remain uncertain, but we think most capacities are likely to resume production during mid-July/August. In our view, the shutdown has more to do with relatively weak demand currently.

Positive 2H11 macro outlook likely to lead to restocking demand

Our China economics team forecasts that China CPI yoy growth may slow down in 2H11 which could result in easing of policy tightening in China (for details, refer to the report China A-share strategy: 2H2011 A-share Outlook: Appealing risk/reward, dated July 1, 2011). Meanwhile, our US economics team also forecasts US consumer spending to see a rebound in 2H11 (for details, refer to the report US Daily: Consumer Spending: A Better Second Half?, dated June 30, 2011). We think the improving 2H11 macro outlook could lead to restocking demand in petrochemical products in late July/August.

Continue to favor FCFC (CL-Buy) relative to its Formosa peers

We expect operating income growth to be the key driver of FCFC's earnings in 2012 on the back of higher proportion of PTA capacity addition than that of PX. In addition, FCFC also has the highest dividend yield among Formosa peers of 9.3% versus average 6.8% of peers.

Valuation

We maintain Buy (on CL) on FCFC, Neutral on NYPC, FPC and FPCC. We lower our 2011E-2013E EPS for these stocks by up to 8% and our 12-month target prices by up to 8% to reflect the impact of the shutdown of facilities and weak prices/margins of chemical products.

Key Risks

Upside: Better-than-expected demand leading to recovery in chemical product prices. Downside: Weaker-than-expected demand growth, execution risk.

Consumer Cyclicals

Focus Media (FMCN): Business on track; advertising demand growing solidly; retain Buy 8

FMCN, US$31.80		
Market cap		US$4,613 mn
Target price		US$45.00
Fiscal y/e Dec	2011E	2012E
Net inc. (US$)	233.6 mn	298.7 mn
EPS (US$)	1.63	2.04
EPS growth	34.6%	24.9%
P/E	19.5X	15.6X
Dividend yield	--	--
Investment Lists		Asia Pacific Buy List
Coverage view		Neutral

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What's changed
We recently met with Focus Media and several China-focused ad agencies.

Implications
(1) Focus' ad revenue momentum appears solid and largely unaffected by the slowing economy, as consumption remains strong (FMCG is Focus' largest category at 35%-40% of revenue), supporting our 32% 2011E revenue growth. Autos is more subdued (15%-20% of revenue), though we see signs of recovery from Japanese brands in 3Q. The e-commerce/group buying sector (about 10% of revenues) is growing rapidly, but less aggressively into 2H than in 1H. Focus controls each segment to 10%-15% of revenues.
(2) We see material room for utilization improvement to drive revenues growth across networks. The LCD network post January optimization had overall utilization of about 55% in 1Q; Tier 3-4 cities only at 10%-20% due to less mature network build-out (fewer buildings) limits reach relative to TV. Focus has stated previously it will raise its rate card in July, but benefits will be limited in 2H as framework contracts would lock in lower rates.
(3) Focus will start deploying next-generation interactive screens for its LCD network in 7 cities in October, to be completed by year-end. The company targets 2011 capex of US$30-$35mn. The focus over the next 12m will be on building users, with meaningful monetization not until 2H12.
(4) The poster frame network is the most competitive of core businesses (underpinning our approx. 25% yoy cost increase in 2011), but competition is still rational. The network is adding 5-8 cities per year to the current 35.
(5) Focus' share buyback program was recently expanded to US$450mn (US$240mn used) and extended to end-2013.

Valuation
Our 12m P/E-based target price of US$45 is unchanged (on 22X 2012 P/E).

Key risks
Poster frame competition and cost inflation.

Far Eastern Department Stores (2903.TW): Lee's comment might not change FEDS' mgmt control of Sogo TW 9

2903.TW, NT$57.50		
Market cap		US$2,488 mn
Target price		NT$60.00
Fiscal y/e Dec	2011E	2012E
Net inc. (NT$)	2,641 mn	3,107 mn
EPS (NT$)	2.13	2.50
EPS growth	2.9%	17.6%
P/E	27.1X	23.0X
Dividend yield	1.4%	2.0%
Investment Lists		Asia Pacific Buy List
Coverage view		Neutral

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Negative News

News
Sogo TW, a key subsidiary of Far Eastern Dept Stores (FEDS), postponed its AGM yesterday (June 30), stating that it plans to add proposals for a capital injection plan and expansion projects to the agenda. The Commercial Times (July 1) reported that Lee Heng-lung, a shareholder of Pacific Liu Tung (PLT), claimed he is still the major shareholder of PLT, post a Department of Commerce (DOC) 2010 decision, and hence has controlling rights in Sogo TW (PLT has a 78% stake in Sogo TW). Accordingly, Mr. Lee plans to participate in Sogo TW's board election and also claimed the Far Eastern Group had postponed the AGM out of concern that they could lose the board seats.

Analysis
Lee Heng-lung's comments follow a DOC decision in Feb 2010 to take PLT's capital back to its original NT$10mn prior to the Far Eastern Group's investment, when Mr. Lee was the major shareholder. However, DOC did not require any change in accounting recognition of FEDS' investments in PLT or Sogo TW, and also stated that the reversal of any investment would not affect the controlling interest in Sogo TW. On this basis, FEDS stated that it believes it still holds the right to appoint Sogo's board and management team.

FEDS has also appealed against the DOC's decision.
FEDS plans to inject more capital into Sogo TW to improve its debt-equity ratio to around 50% from current 80%+ after the company won the court auction of Windance project in HsinChu in May 2010.

Implications
In our view, the uncertainty around FEDS shareholder structure could have a negative impact on its share price. However, as the lawsuit is still in progress, we believe FEDS' management rights relating to Sogo TW are unlikely to change any time soon. Pending further developments, we retain our Buy rating on the stock. Our estimates and 12-month TP are unchanged.

Songcheng Tourism Development (300144.SZ): Taishan project to start construction; reiterate Buy 10

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What's changed
On July 1, Songcheng announced that its board approved the creation of a 100%-owned Taishan subsidiary to launch the Taishan tourism show project. Changes in the current investment project compared with that announced in May include: (1) Taian Tianping Lake Co. will not take part in the project; (2) total investment amount is lowered to Rmb350mn from Rmb500mn, and land area is also lowered to 230 acres from 500 acres. The project is expected to start operating in July 2012, and the company guided for annual revenue of Rmb173mn, tourism receipts of 1.22mn, and net profit of Rmb89.65mn in its first 9 operating years.

Implications
If Songcheng is able to start construction of the Taishan project immediately as we expect and the new theme park starts operating in July 2012, this would be Songcheng's first project outside of its home city, Hangzhou. The fact that a local investment company will not participate in the project is likely due to the recent tide of local government financing platforms to contract from investments, and we do not view it as a negative signal for Songcheng's operations in Taishan. In 2010, Taishan received 3.02mn tourists and the local tourism growth outlook could be promising given the recent launch of the Beijing-Shanghai high speed railway. Thus, we believe Songcheng's guidance on the Taishan tourism show project is achievable. The project's major competitor would be the "Sacrifice to Heaven on Mount Tai" show, which received about 0.15mn tourists in 2010. Given the success Songcheng achieved vs. other local competitors in the last 5 years, we could see a similar outcome in Taishan.

Valuation
We maintain our 12-month target price of Rmb25.91 based on EV/GCI vs. CROCI/WACC and 5% valratio premium (unchanged). Reiterate Buy.

Key risks
Failure to successfully expand outside of Hangzhou.

Energy

China: Clean Energy: Nuclear: Diversified equipment makers: Medium-term nuclear recovery 11

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Uncertainty in timing but not direction of nuclear power in China
China continues to re-examine the safety standards of nuclear plants under operation/construction. We see some potential delay in the construction progress of nuclear islands, as new safety requirements could result in major and expensive rework. We expect China to resume approval of new nuclear projects only after the "National Nuclear Safety Plan" becomes effective, possibly around mid-2012E. However, we do not expect

near-term delay on safety grounds to derail China's long-term development of nuclear power as part of its strategy to diversify energy sources and lower carbon emission. We reiterate our capacity forecasts of 40GW for 2015E and 75GW for 2020E. Even without new project approvals until end-2012E, we think end-2020E nuclear power capacity could still reach 70GW. On June 23, the First Financial Daily quoted Mr. Ouyang Changyu (vice-secretary of the China Electricity Council) as saying that China may set nuclear power capacity targets of 42GW for 2015 and 80GW for 2020E in the upcoming "12th Five-Year Energy Plan".

Stable thermal power plant sales to provide cash support

We expect only limited decline in thermal power plant construction in China until 2013E (about 55GW/year in 2011E and 2012E), which should, in the near-term, partially mitigate the temporary slowdown in nuclear power generation capacity growth. We also believe potential tariff increases could facilitate further growth in thermal power capacity. In this scenario, even if China did not approve any more new nuclear projects, we think it could still maintain a 2010-2020E power capacity CAGR of 7.1%, close to potential power demand growth during that period. We expect thermal power capacity to reach 960GW in 2015E and 1,200GW in 2020E. We expect exports to become relatively more important starting 2013E as domestic sales slow.

Dongfang: still Neutral; Shanghai Electric (Sell): modest downside

For the three diversified equipment makers, we revise our 2011E-2013E EPS estimates by an average -4%. We cut our 12-month P/E-based target prices (TPs) for Dongfang Electric (A/H) by 5%/6%, reflecting revised earnings forecasts, but maintain TPs for Shanghai Electric and Harbin Power (Neutral). We maintain Sell on Shanghai Electric with relatively the largest downside potential. We still think Dongfang Electric has the most balanced product portfolio but see more distant nuclear recovery. Upside/downside risks: sales volume/margins/order book growth different from our assumptions.

JA Solar Holdings (JASO): Moving to Not Rated 12

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Moving to Not Rated

The Asia Investment Review Committee has determined that the ratings and price target for JA Solar (JASO) should be removed. Goldman Sachs is acting as a financial advisor in connection with a strategic transaction that is fundamental to the reasonable analysis of the rating and price target for this stock. This "Not Rated" status will continue until such time as sufficient information is available, and/or contingencies appear resolved, to allow such analysis. Earnings estimates during this period will be made without regard to the proposed transaction.

China: Clean Energy: Wind: Still prefer wind farms to equipment makers; Buy Longyuan 13

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Recovery of equipment makers hinges on prospering wind farms

We see widening gaps in the fortunes of wind farms and turbine makers. For turbine makers, we see further declines in their product gross margins and average selling prices (ASPs), down 15%/11%/4% in 2011E/2012E/2013E. They still indirectly fund working capital of wind farms. We expect their fundamentals to stabilize no earlier than mid-2012E, and so we are not buyers of equipment stocks yet.

We think established wind farms would benefit from: 1) rising power grid connectivity from more measured turbine capacity growth; 2) improving turbine technology/reliability; 3) falling construction/operating costs; 4) more stable cash flows from geographic diversification; 5) long-term overseas expansion. Correspondingly, successful wind power equipment makers need to capitalize on the above trends, i.e. 1) optimize inventory/plant utilization levels; 2) own proprietary/reliable turbine technology; 3) balance ASP cuts and warranty extension; 4) offer equipment across a spectrum of wind resources; 5) secure joint ventures with wind farms to invest abroad.

Wind turbine connectivity continues to improve

China connected 4.1GW of wind turbines year-to-May, up 33% yoy, higher than our FY11E forecast of up 2% yoy. We attribute this to: 1) enhanced co-ordination between wind farms and power grids; and 2) diversifying wind turbine locations to eastern/southern China where connectivity has generally not been an issue and demand for wind power is stronger.

Offshore wind farms stimulate breakthrough in technology, not profits

China is planning the second round of concession bidding for offshore wind farms with a total capacity of 1.5-2GW. We are concerned about the bidders' urge to gain market share at the expense of sub-par profitability. Competition in turbine sizes may challenge research capability of turbine makers but distract them from raising the quality of existing products.

Prefer wind farms; reiterate Buy on Longyuan and Sell on Goldwind

We maintain estimates and 12-month P/E-based target price for Longyuan. We cut our 2011E-2013E EPS forecasts by an average 47%/22% for Goldwind/China High Speed (mainly on lower assumed sales volumes, prices and gross margins) and correspondingly their TPs by 39%/19%. Key risks: sales volume, prices and margins varying from our assumptions.

Financial Services

Singapore: Real Estate: Home price rise has yet to fade, Private +1.9% & HDB +2.9% in 2Q11 14

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URA private home prices flash estimates up 1.9% qoq in 2Q11

URA private residential price flash estimates continue to rise, up 1.9% qoq in 2Q11, albeit slower than 1Q11's +2.2%. Home prices have risen 52.1% since bottoming in 2Q09 and 4.1% ytd. Non-landed price rise was led by both mass and prime segments. Read-across from 2Q11: (1) New sales volumes remained firm, especially in the mass-end, but value transacted in 1H11 was about S$6.2bn, only half of S$12.3bn in 1H10, with small-sized units featuring well; (2) Chinese continued dominating foreign buying with 7.5% of all sales, same as in 1Q11, and now accounts for some 23.5% of all foreign transactions; (3) Rental market edged up across all segments after seeing some softness in 1Q11; based on JLL estimates, the Luxury/ Prime/ Mass segments rose 1.3%/2.8%/3.4% qoq. We are in the tail end of the residential cycle and expect to see moderation moving into 2012; we prefer UOL and CapitaLand among the Developers, and MCT, CCT and MIT among the REITs.

Points to note

(1) Overall, the residential price index rise eased in 2Q11, up 1.9% vs. 2.2% in 1Q11, setting a new high at 202.8 points, some 14%/12% above the peaks in 2Q08/2Q96. Landed home prices continued to trend up strongly, +3% qoq (+3.9% in 1Q11), on our estimates.

(2) Across the non-landed segments, mass-end prices led, +1.6% qoq (vs. +3.1% in 1Q11), prime properties rose 1.6% qoq (vs. +1.1% in 1Q11), and mid-segment rose 1.2% qoq (vs. +2.0% in 1Q11). Home prices are now 25%/15%/5% above 1Q/2Q08 peaks in the mass/mid/prime segments. Luxury prices, flat qoq (JLL's estimate), are 8% below peak levels.

(3) The public housing (HDB) resale price index, a key focus in the government's housing agenda, rose sharply, up 2.9% in 2Q11, higher than +1.6% in 1Q11 and +2.5% in 4Q10, and could force its hand on policy.

(4) We estimate developers may have sold 1,000 new homes in June, down from 1,575 in May, which brings 2Q11 sales to about 4,380, 22% above 1Q11, and 1H11 sales to 7,975, 49% of record 2010 sales. The resale market increased in tandem with 4,010 caveats lodged in 2Q11, up 7% from 1Q11. Resales volumes account for 1.0X new sales volumes in 1H11, below the 1.4X average seen in 2010.

Poly (Hong Kong) Investments (0119.HK): Jun presales a positive surprise, reaffirms catch-up path; Buy 15

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What's changed

On July 1, CRIC announced 1H2011 presales for major developers. Based on this data, we estimate Poly HK may have achieved June sales of Rmb2.6bn, which is 30%/40% higher than our estimate of Rmb2.0bn and company guidance of c. Rmb1.8-1.9bn. This implies a mom growth of 139% (excluding Rmb1.2bn of one-off sales in May), and a yoy growth of 420%, above sector median of 21% and 64% respectively. (Note: there could be some discrepancies with the actual data to be released soon).

Implications

1) The strong sales performance in June reaffirms our view that the company could achieve strong sales in June and 3Q, on the back of new launches picking up. (See our reports, “Compelling entry level, position ahead of strong sales pick-up” (May 10), and "Nanning Guiyang trip and new launches affirm sales pick up", (May 31). 2) According to CRIC, the company has achieved Rmb8.2bn in 1H2011, which accounted for 46% of the company’s full year target and 52% of our estimate, better than peers' average of 42% and 44%, respectively. We believe investors have overly discounted Poly HK's lagging contract sales in 1Q and early 2Q (its share price has underperformed peers by 25% ytd) and underestimated the ongoing strong presales pickup; thus we believe investors’ concerns of a stretched balanced sheet should gradually abate. 3) Looking ahead, Poly HK would only need to achieve Rmb1.3bn/month or Rmb 7.8bn in 2H to achieve our FY11 target, hence we think the risk of missing our target is low, especially with more proactive launches ahead (another c.10 new projects in 2H).

Valuation

We reiterate our Buy rating and 12-month TP of HK$9.70, based on 40% discount to our end-2011E NAV of HK$16.17. Poly HK is trading at a 69% discount to end-2011E NAV and 10X 2011E P/E, vs. H-share peers of 54% discount and 9.2X, respectively.

Key risks

Worse than expected contract sales performance; macro hard landing.

Mapletree Industrial Trust (MAPI.SI): Maiden S$400mn acquisition is a natural fit; accretion comes later 16

MAPI.SI, S$1.18		
Market cap		US$1,405 mn
Target price		S$1.16
Fiscal y/e Mar	2011E	2012E
Net inc. (S$)	115.6 mn	123.8 mn
EPS (S$)	0.08	0.08
EPS growth	132.3%	7.1%
P/E	14.9X	13.9X
Dividend yield	6.8%	7.3%
Investment Lists		Neutral
Coverage view		Neutral

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News

Mapletree Industrial Trust (MIT) announced on July 1 it was awarded Tranche 2 of JTC Corporation’s 2nd phase portfolio divestment valued at S$400.3 mn (S$145 psf GFA). We believe the trade sale of 11 properties (256,251 sqm GFA) comprising 8 flatted factories and 3 amenity centres is a natural fit to its current portfolio and would enhance its dominant position in the flatted factory space. Tranche 2 is one of two tranches of the JTC divestment exercise, with the smaller Tranche 1 concurrently awarded to Soilbuild for S$288.3 mn (S$150 psf of GFA). Upon completion of the transaction, expected by the company in August 2011, MIT would own 81 properties valued at S$2.6 bn, with NLA increased by 17.5% to 1.3 million sqm; flatted factories will account for 63.6% by NLA (from 57.2%) of the enlarged portfolio. An analyst briefing on the acquisition will be held on 4 July.

Analysis

We view the acquisition as positive given the size and strategic fit, though we expect earnings (DPU) accretion could be marginal in the near term. The acquisition portfolio, secured at S$145psf (GFA) is 24%, above the appraised value of its existing flatted factory portfolio (S$117psf), suggesting initial yield on cost is below 6% (vs. the market at 7%). We see opportunities to improve the under-rented portfolio, currently 30% below JTC-posted rents, as MIT implements market-oriented practices, though will be limited in part by rental caps of 5% p.a for a period of three years, suggesting the potential from the portfolio will only feature meaningfully from 2014.

Implications

The acquisition is likely to be part equity funded given the limited debt headroom at current gearing of 36.1%. Assuming a 50:50 Debt/Equity funding structure, gearing would rise to 38% in FY11E, within management's comfort guidance of 35%-40%. We see minimal DPU uplift of only 0%-2% in the near term with cost of capital of 5.0% (7.0% equity and 3.0% debt). Acquisition aside, MIT still offers 6.9%/7.4% FY11E/FY12E div yields. Our target price is unchanged.

Gemdale Corp (600383.SS): Proposed deal a strategic positive to extend financing channel; Buy 17

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What's changed

On July 1 Gemdale (600383.SS, Buy) announced a proposal to acquire a 61.96% stake in Chi Cheung Investment (0112.HK, NC), pending approval from the SFC. Chi Cheung is a HK-listed investment holding company, engaged in property development, property leasing and securities investment and finance. As at end-2010, Chi Cheung had total assets of HK$1,059 mn, including debt of HK$9.5 mn and shareholders equity of HK$1,049 mn.

Implications

(1) We view the proposed deal as a strategic positive for Gemdale as Chi Cheung would offer a new financing channel, which we believe is vital given the current tightening environment, following the suspension of equity refinancing approval by the SAC over the past two years for on-shore listed developers. (2) We think the offshore platform, if successfully acquired, could be used to enhance the development of Gemdale's commercial properties business segment, which we believe could also prove attractive to offshore investors. We believe any potential near term benefit of this proposed financing platform would be limited as Chi Cheung would require expansion by Gemdale, due to the target’s current limited scale. (3) Separately, CRIC has noted Gemdale's June contract sales could reach Rmb2.9bn, up 40% mom and 189% yoy, indicating a strong contract sales catch-up, despite YTD lagging performance. In our view, this has been priced in given Gemdale's large valuation discount. The group’s July contract sales are likely to remain strong as we estimate that over Rmb6bn is available for sale during the month.

Valuation

We reiterate our Buy rating and 12-month TP of Rmb9.10, based on a 40% discount to our end-2011E NAV of Rmb15.17. Gemdale trades at a 53% discount to end-2011E NAV and 8.2X 2011E P/E, vs. A-share peers of 49% and 11.1X, respectively.

Key risks

Worse-than-expected presales driven by tightening.

Industrials

Asia Pacific: Conglomerates: Conglo Catch-up: Your 2-min guide to estimates, valuations, events 18

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Stocks of the week: Swire Pacific (A) and Shanghai Industrial

Swire Pacific (A) (0019.HK, Buy): On June 28, Sing Tao Daily reported that a private fund in Singapore is in discussions with Swire to acquire its Festival Walk rental project in Kowloon Tong for $HK22bn. Based on its total GFA of 1.2 mn sq ft, this would imply a valuation of HK$18,197psf or gross rental yield of 4%-5% by our estimate.

Given Swire's strong balance sheet (19% net debt to equity at end-2010) and cash flow sufficient to fund its existing capital commitments we do not see any imminent need for the group to sell the assets. Sale proceeds, if any, could be used to expand its property investment in China, an area in which Swire plans to commit more resources. In Jan 2006, Swire acquired a 50% interest in Festival Walk for HK$6.18bn, which valued the whole property at HK$12.4bn. Having factored in the rental appreciation over the past years, we value it at HK$17bn in our model. A successful sale at the reported price of HK$22bn would result in HK$3.30 per share or 2% potential accretion to our 2011E NAV of HK$173. We maintain our Buy rating and TP for Swire, which benefits from the strong office market and continued decentralization trend in HK. The stock is trading at a 36% discount to NAV, vs. its average of 23%.

Shanghai Industrial (0363.HK, Buy): Key takeaways from the analyst site visit trip of Shanghai Industrial's water plants: (1) Management expects the water processing capacity to expand to 8mn tonnes in 2011 and 10mn tonnes during 2012-13 from 6.2mn tonnes in 2010. Management believes market consolidation will continue given the fragmented market and rising funding costs. (2) The overall utilization for well-established water plants is around 70%-80% and the government normally offers a minimum utilization commitment of over 70% to ensure returns. (3) Each year, around 15%-20% of the projects undertake tariff increases and the dollar margin is targeted to increase along with the price negotiations of raising the water processing standard. Management forecasts the water business will contribute a net profit of HK$200mn in 2012 and over HK$350mn in 2013.

We believe: (1) the potential upside from the water business lies in the water assets in Shanghai, which are currently owned by the Shanghai municipal government. We estimate the total daily processing volume is close to 5 mn tonnes. (2) The company should benefit from its low funding cost, strong integration ability and synergies from growing economies of scale. The key synergy lies in improved operational efficiency, as well as enhanced bargaining power in negotiating contract terms with the government.

Anhui Conch Cement (H) (0914.HK): First overseas project likely leading to stronger L-T growth; CL-Buy 19

0914.HK, HK$36.40		
Market cap		US$24,790 mn
Target price		HK$46.50
Fiscal y/e Dec	2011E	2012E
Net inc. (Rmb)	11,722 mn	16,272 mn
EPS (Rmb)	2.21	3.07
EPS growth	90.2%	38.8%
P/E	13.7X	9.8X
Dividend yield	1.3%	1.7%
Investment Lists		
		Asia Pacific Buy List Asia Pacific Conviction Buy List
Coverage view		Neutral

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News

According to Securities Times, Anhui Conch Cement (0914.HK) has signed an MOU with the local government of Tanjung, Indonesia, to build a 3,200 tonne per day clinker production line (equivalent to cement production capacity of about 1.3mtpa) with grinding plant and co-generation facilities. The project is at a preliminary stage and subject to regulatory approval. As per the report, Tanjung has rich limestone resources and good infrastructures to facilitate the operation of a large-scale cement plant.

Analysis

Although we judge that this project will have no near-term impact on Conch's earnings, we believe it marks the beginning of Conch's overseas expansion. This, combined with Conch's recent acquisition of Zhuangxiang Cement in Yunnan province, reconfirms our view that Conch will continue to increase its capacity both via acquisitions and via overseas greenfield projects. While most of its peers are unable to increase capacity due to China's restrictive policy on greenfield cement projects, Conch's ability to expand capacity is likely to enable it to sustain industry leadership.

Conch estimates current GP/tonne for a cement producer in Tanjung is about US$50, much higher than Chinese cement producers' average GP/tonne of less than US$20, as a combined result of cheap coal supply and high cement price in the local market. We believe this potential project will be earnings/margins-accretive to Conch long term.

Implications

Conch performed due diligence in Indonesia for months before signing the MOU, which indicated management's discretion in selecting the most value-adding overseas projects. We believe it could also be working on other potential projects at home and abroad. We suspect there are more acquisitions and/or overseas expansion to come, leading to stronger long-term growth and higher shareholder value. Reiterate CL-Buy on Conch-H.

Technology

China Wireless Technologies (2369.HK): Shares seem to have bottomed; clarity needed on upside potential 20

2369.HK, HK$1.56		
Market cap		US$409.8 mn
Target price		HK$1.90
Fiscal y/e Dec	2011E	2012E
Net inc. (HK$)	334.7 mn	408.6 mn
EPS (HK$)	0.15	0.18
EPS growth	(34.1%)	22.1%
P/E	10.3X	8.4X
Dividend yield	2.9%	3.6%
Investment Lists		Neutral
Coverage view		Neutral

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What's changed

We cut our China Wireless (CW) EPS forecasts by 19%-32% mainly on shipment downward revision, due to potentially slower-than-expected 3G handset procurement from Chinese operators, as end demand does not seem strong enough for operators to build channel inventory aggressively. Recent weakness from major handset chipset vendors seems to suggest that overall handset end demand is also weakening. Separately, China Wireless has bought back 85 mn shares since its profit warning on May 19, accounting for 4% of its total shares outstanding.

Implications

CW's share buyback plan suggests to us that the worst is over, and its newly launched high-end Android smartphones (the N950 and 9930), delayed for several months, should help CW recover its margin profile in 2H11. While we are still positive on CW's position to capture the strong China 3G handset upgrade cycle (reflected in our shipment assumptions), our key concerns remain: (1) the 2H11 pricing environment – all three operators in China are eager to launch low-end smartphones with decent hardware spec but without much differentiation, which could result in a further price war; (2) the competitive threat from Apple and Nokia in 2012 – as Nokia could be grabbing market share in China with its low-cost Windows Phone 7 (WP7) smartphones starting 1Q12, and Apple's low-cost iPhone could also be launched in mid-2012, we believe the sub-Rmb1000 3G handset market in China will be even more competitive in 2012, casting uncertainty on its margin recovery. Maintain Neutral.

Valuation

Our EPS cut is driven by handset shipment changes and operating de-leverage. Our new 12-m TP of HK$1.9 (from HK$2.3) is based on 1.6X 2H11-1H12 P/B (vs. 2.2X 2011E P/B prior) on a change in ROE assumptions.

Key risks

Upside: stronger handset demand; downside: pricing pressure.

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

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