Goldman Sachs

Asia-Pacific Morning Summary

August 17, 2011

The Goldman Sachs Group, Inc.

This document contains comments related to the following stocks:

Asia Cement (1102.TW)
Asia Cement China Holdings (0743.HK)
ASUSTeK Computer (2357.TW)
Baidu.com, Inc. (BIDU)
Beijing Enterprises Holdings (0392.HK)
Cebu Air (CEB.PS)
Cheng Shin Rubber (2105.TW)
China Coal Energy (H) (1898.HK)
China Gas Holdings (0384.HK)
China Lodging Group, Ltd. (HTHT)
China Medical System Holdings (0867.HK)
China Minsheng Banking (A) (600016.SS)
China Resources Gas Group (1193.HK)
China Shipping Development (H) (1138.HK)
Compal Communications (8078.TW)
Country Garden Holdings Company (2007.HK)
Dangdang (DANG)
ENN Energy Holdings (2688.HK)
Far Eastern New Century Corp. (1402.TW)
Foxconn Int'l Holdings (2038.HK)
Housing Development & Infrastructure (HDIL.BO)
Korea Electric Power Corp. (015760.KS)
Kunlun Energy Company (0135.HK)
Maoye International Holdings (0848.HK)
NavInfo Co (002405.SZ)
Qinghai Salt Lake Industry (000792.SZ)
Taishin Financial Holdings (2887.TW)
Taiwan Cement (1101.TW)
Taiwan Synthetic Rubber

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Global Investment Research

Focus Items

Key Data Changes

Investment List Additions

Company	Ticker	Investment List Additions
Asia Cement China Holdings	0743.HK	Asia Pacific Buy List
China Resources Gas Group	1193.HK	Asia Pacific Conviction Buy List
Taiwan Cement	1101.TW	Asia Pacific Sell List
TCC International Holdings	1136.HK	Asia Pacific Buy List

Investment List Removals

Company	Ticker	Investment List Removals
Asia Cement	1102.TW	Asia Pacific Sell List
ENN Energy Holdings	2688.HK	Asia Pacific Sell List
Far Eastern New Century Corp.	1402.TW	Asia Pacific Buy List
Kunlun Energy Company	0135.HK	Asia Pacific Conviction Buy List

Initiations

Company	Ticker	Rating/ Coverage view	Price Target	Current Year	Next Year	Fiscal y/e
Asia Cement China Holdings	0743.HK	B/N	HK$8.80	Rmb0.83	Rmb0.96	Dec
TCC International Holdings	1136.HK	B/N	HK$6.25	HK$0.64	HK$0.81	Dec

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
Asia Cement	1102.TW	↑ N/N	S/N	↑ NT$46.00	NT$29.00	58.6%	NT$3.16	NT$3.72	Dec
Asia Cement China Holdings	0743.HK	B/N	--	HK$8.80	--	--	Rmb0.83	Rmb0.96	Dec
Beijing Enterprises Holdings	0392.HK	N/N	unch	↑ HK$40.00	HK$39.10	2.3%	HK$2.47	HK$2.95	Dec

Corporation (2103.TW)
TCC International Holdings (1136.HK)
Unitech (UNTE.BO)
Xtep International Holdings (1368.HK)
Zhejiang Huace Film & TV (300133.SZ)

Cheng Shin Rubber	2105.TW	N/N	unch	↓ NT$56.00	NT$56.67	(1.2%)	NT$3.37	NT$4.71	Dec
China Gas Holdings	0384.HK	N/N	CS	HK$2.60	--	--	HK$0.21	HK$0.27	Mar
China Lodging Group, Ltd.	HTHT	B/A	unch	↓ US$26.50	US$29.00	(8.6%)	Rmb2.89	Rmb5.88	Dec
China Medical System Holdings	0867.HK	B/N	unch	↑ HK$12.60	HK$11.90	5.9%	US$0.05	US$0.07	Dec
China Resources Gas Group	1193.HK	B/N	unch	↓ HK$13.60	HK$14.40	(5.6%)	HK$0.54	HK$0.68	Dec
Country Garden Holdings Company	2007.HK	B/A	unch	↑ HK$5.00	HK$4.60	8.5%	Rmb0.34	Rmb0.45	Dec
ENN Energy Holdings	2688.HK	↑ N/N	S/N	↑ HK$25.10	HK$21.90	14.6%	Rmb1.16	Rmb1.38	Dec
Far Eastern New Century Corp.	1402.TW	↓ N/C	B/C	↓ NT$50.00	NT$55.00	(9.1%)	NT$3.28	NT$3.41	Dec
Housing Development & Infrastructure	HDIL.BO	B/A	unch	↓ Rs183.00	Rs216.00	(15.3%)	Rs24.41	Rs27.78	Mar
Korea Electric Power Corp.	015760.KS	N/C	unch	↓ W21,000	W27,000	(22.2%)	(W4,090)	(W2,308)	Dec
Kunlun Energy Company	0135.HK	B/N	unch	↓ HK$14.60	HK$16.00	(8.8%)	HK$0.76	HK$0.98	Dec
Maoye International Holdings	0848.HK	B/N	unch	↓ HK$4.80	HK$5.00	(4.0%)	HK$0.15	HK$0.20	Dec
Taishin Financial Holdings	2887.TW	N/N	unch	↓ NT$16.00	NT$16.50	(3.0%)	NT$1.34	NT$1.37	Dec
Taiwan Cement	1101.TW	↓ S/N	N/N	↑ NT$38.00	NT$32.50	16.9%	NT$2.75	NT$3.77	Dec
Taiwan Synthetic Rubber Corporation	2103.TW	B/N	unch	↓ NT$93.00	NT$102.73	(9.5%)	NT$8.56	NT$8.70	Dec
TCC International Holdings	1136.HK	B/N	--	HK$6.25	--	--	HK$0.64	HK$0.81	Dec
Unitech	UNTE.BO	N/A	unch	↓ Rs36.00	Rs42.00	(14.3%)	Rs2.98	Rs3.25	Mar
Xtep International Holdings	1368.HK	N/N	unch	↑ HK$6.40	HK$6.10	4.9%	HK$0.54	HK$0.67	Dec
Zhejiang Huace Film & TV	300133.SZ	B/N	unch	↓ Rmb59.60	Rmb59.80	(0.3%)	Rmb1.39	Rmb1.92	Dec

Estimate changes

Company	Ticker	Rating/ Coverage view	Current Year			Next Year			Fiscal y/e
			New	Old	% chg	New	Old	% chg	
Asia Cement	1102.TW	N/N	↑ NT$3.16	NT$2.15	47.0%	↑ NT$3.72	NT$2.14	73.9%	Dec
Asia Cement China Holdings	0743.HK	B/N	Rmb0.83	--	--	Rmb0.96	--	--	Dec
Beijing Enterprises Holdings	0392.HK	N/N	HK$2.47	unch	--	↓ HK$2.95	HK$2.96	(0.4%)	Dec
China Gas Holdings	0384.HK	N/N	HK$0.21	--	--	HK$0.27	--	--	Mar
China Lodging Group, Ltd.	HTHT	B/A	↓ Rmb2.89	Rmb3.37	(14.1%)	↓ Rmb5.88	Rmb6.71	(12.4%)	Dec
China Resources Gas Group	1193.HK	B/N	HK$0.54	unch	--	↓ HK$0.68	HK$0.71	(4.9%)	Dec
Country Garden Holdings Company	2007.HK	B/A	↑ Rmb0.34	Rmb0.32	5.3%	↑ Rmb0.45	Rmb0.42	5.6%	Dec
ENN Energy Holdings	2688.HK	N/N	Rmb1.16	unch	--	↑ Rmb1.38	Rmb1.31	4.7%	Dec
Far Eastern New Century Corp.	1402.TW	N/C	↓ NT$3.28	NT$3.54	(7.5%)	↓ NT$3.41	NT$3.54	(3.4%)	Dec
Housing Development & Infrastructure	HDIL.BO	B/A	↓ Rs24.41	Rs28.15	(13.3%)	↓ Rs27.78	Rs34.14	(18.6%)	Mar
Korea Electric Power Corp.	015760.KS	N/C	↓ (W4,090)	(W1,416)	(188.8%)	↓ (W2,308)	(W905)	(155.2%)	Dec
Maoye International Holdings	0848.HK	B/N	↓ HK$0.15	HK$0.17	(9.1%)	↓ HK$0.20	HK$0.21	(0.9%)	Dec
Taishin Financial Holdings	2887.TW	N/N	↓ NT$1.34	NT$1.39	(3.4%)	↓ NT$1.37	NT$1.40	(1.8%)	Dec
Taiwan Cement	1101.TW	S/N	↑ NT$2.75	NT$2.36	16.6%	↑ NT$3.77	NT$3.10	21.9%	Dec
Taiwan Synthetic Rubber Corporation	2103.TW	B/N	↓ NT$8.56	NT$8.62	(0.7%)	↓ NT$8.70	NT$8.89	(2.2%)	Dec
TCC International Holdings	1136.HK	B/N	HK$0.64	--	--	HK$0.81	--	--	Dec
Unitech	UNTE.BO	N/A	↓ Rs2.98	Rs3.56	(16.2%)	↓ Rs3.25	Rs3.91	(16.9%)	Mar
Xtep International	1368.HK	N/N	↑ HK$0.54	HK$0.53	3.3%	↑ HK$0.67	HK$0.65	3.0%	Dec

Holdings									
Zhejiang Huace Film & TV	300133.SZ	B/N	↑ Rmb1.39	Rmb1.38	0.5%	↓ Rmb1.92	Rmb2.00	(3.9%)	Dec

Other Headlines

Basic Materials

Consumer Cyclicals

Energy

Financial Services

Healthcare

Technology

Transportation

Utilities

Focus Items

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Rising gas supply from Central Asia via the second West-East pipeline is driving the industry growth; three key implications
(1) We estimate gas supply from Central Asia will account for 45% and 31% of incremental supply in China in 2011 and 2012 and acknowledge it will be critical for gas companies to ensure sustainable future growth. (2) The pipeline has potential to trigger pent-up demand in some regions that currently lack piped gas supply, especially in southern cities. (3) We believe the high cost of imported gas will gradually drive up the gas tariff. Our analysis of existing tariffs suggests the southeast region should experience a limited impact, but it may lead to cost pressure for inland provinces. In our view, regulators may consider allocating more supply to southeast regions with greater affordability in order to avoid significant cost hikes in other regions. As such, we believe players with high exposure to southern cities should generally benefit more from the new supply and our project-based analysis indicates CR Gas, ENN, and China Gas are generally well positioned and we expect solid 2012 gas sales volume guidance in the coming months.

Bear case analysis suggests CR Gas offers decent risk-reward
Given the growing concerns regarding a macro slowdown, we have stress tested our earnings outlook. Although overall gas consumption correlates with GDP and industrial output growth, we believe city gas companies should generally see less impact, mainly due to their heavy earnings contribution from residential connection fees and low exposure to cyclical petrochemical and power generation customers. Our stress test suggests pure city gas distributors have lower earnings downside risk than players with diversified asset portfolios. We believe CR Gas offers an attractive risk reward profile, while its strong balance sheet would also provide a valuation buffer during a down cycle, when cash flow and gearing typically come into greater investor focus.

Switch CL-Buy to CR Gas from Kunlun, upgrade ENN to Neutral.
We believe CR Gas offers a visible growth profile and less earnings and share price downside risk in the context of a macro slowdown. We remove Kunlun from our CL but maintain a Buy rating mainly due to its exposure to the oil E&P business. We upgrade ENN to Neutral as we believe the valuation looks less expensive after our earnings revisions and the recent share price pullback. We resume coverage on China Gas with a Neutral rating as we believe earnings visibility on LPG distribution remains low.

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Market reaction: Google-MMI deal positive to MMI supply chain
Most Motorola Mobility (MMI)'s supply chain companies are seeing strong share price movements post the Google-MMI deal, with FIH up 13% as the most noticeable. We believe this is driven by market expectations that MMI's business outlook will improve with Google's direct help, even though there is still an open question as to whether Google is really interested in, and will be aggressive with, MMI's hardware business.

Compal Comm: the best leverage to low-end smartphone growth
Compal Comm's (CCI) share price has corrected by 23% since the weak July sales release, but it has started to recover post the Google-MMI deal. We believe disappointing July sales were mainly on model transition &

key customer product launch delays, and monthly sales should recover from Aug. We don't think MMI will become a significant growth driver for CCI for the time being, as MMI is still restructuring its global operations.
However, we continue to see Nokia as a major growth driver from 4Q11 onwards, driven by the first-ever substantial Windows Phone 7 (WP7) smartphone outsourcing opportunity where CCI is the sole ODM partner. In addition, we expect CCI to remain Nokia's major partner in 2012 when Nokia and Microsoft push WP7 to the entry level segment, potentially driving substantial volume growth. Our view is supported by a media interview by Chris Weber, head of sales of Nokia North America, on Nokia's turnaround strategies. Since CCI has limited legacy business to be diluted by the emerging low-end smartphone business, we consider CCI as the best stock to benefit from low-end smartphone growth.

Foxconn Int'l: turnaround remains illusive; reiterate Sell
The upside scenario for FIH to revive its current struggling business could be (1) white-box makers exiting the market; (2) smartphones becoming widely commoditised so cost structure becomes the main competitive edge. We have started to see (1) happening a bit, but (2) still is not very obvious, as our industry checks indicate FIH's dominant smartphone customer now is MMI for low-end business in China, and FIH is facing resource constraints in working with Nokia on WP7 development. Unless we start to see another round of substantial low-end smartphone outsourcing opportunities from top-tier OEMs, we believe FIH may continue to suffer from lack of economies of scale and high cost structure.

Asia Pacific: Construction: Cement: Pick & choose; initiate HK subs at Buy, Taiwan Cement to Sell 3

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Favorable cement market likely to continue through 2012
We forecast China's 2010-2012 CAGR for cement prices to reach 12% (i.e. 25% in 2011 and 9% in 2012) driven by cement demand (e.g. social housing construction) and capacity constraints from government-supported industry consolidation and power supply issues.
For Taiwan, we expect cement prices will increase as a result of anti-dumping rulings restricting previously cheap Chinese imports. We expect the ruling to come into effect in Sept. 2011, and forecast Taiwan cement prices to average NT$2,306/tonne in 2012, +9% yoy vs. NT$2,123/tonne in 2011.

TCC Intl. and Asia Cement (China) more attractive than Taiwan parent – initiate both at Buy with 45%+ upside potential
We initiate coverage on TCC Intl. and Asia Cement (China) with Buy ratings and 12-month PB/ROE - based target prices of HK$6.25 (48% upside potential), and HK$8.80 (50% upside potential), respectively.
Our 2011/2012 EPS estimates on TCC Intl. are 9%/12% above Bloomberg consensus; and for Asia Cement (China) is 11%/12% above Bloomberg consensus. Current Bloomberg median consensus 2011 estimates imply that Asia Cement (China)'s and TCC Intl.'s 2H11 earnings will decline 15% hoh and rise 19% hoh, respectively, which we think is conservative vs. our forecast for growth of 5% hoh and 39% hoh, respectively. We believe limited sell side analyst coverage and under appreciation of the companies' ROE expansion are key opportunities for further valuation rerating. These two companies have superior ROE vs. P/B compared with regional peers.

Taiwan Cement to Sell, Asia Cement to Neutral
We upgrade Asia Cement to Neutral from Sell with a 12-month SOTP-based target price of NT$46 (from NT$29). We downgrade Taiwan Cement to Sell from Neutral with a target price of NT$38 (from NT$32.5). We believe Taiwan Cement's valuation already factors in a high valuation for its China business via TCC Intl. and, as a result, we would buy TCC Intl. and fund it with the sale of Taiwan Cement. Moreover, given the uncertain macro outlook we think gaining exposure to non-cement subsidiaries would increase the risk profile.

Major risks
Key investment risks include: (1) China construction demand and (2) continued government support on capacity expansion constraints.

Other Headlines

Basic Materials

China Coal Energy (H) (1898.HK): Above expectations; cost inflation remains a concern 4

1898.HK, HK$9.39		
Market cap		US$15,975 mn
Target price		HK$7.40
Fiscal y/e Dec	2011E	2012E
Net inc. (HK$)	10,899 mn	13,113 mn
EPS (HK$)	0.82	0.99
EPS growth	24.2%	20.3%
P/E	11.4X	9.5X
Dividend yield	2.4%	2.9%
Investment Lists		
		Asia Pacific Conviction Sell List Asia Pacific Sell List
Coverage view		Neutral

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What surprised us

China Coal 1H net income came in at Rmb5.6bn (c.62%/64% of Bloomberg/GS FY11 est.) vs. its historical avg. of 59%, up 7.8% yoy vs. Bloomberg/GS est. of +17%/+22% yoy on full-year earnings. Self-produced commercial coal sales volume rose 8.6% yoy, higher than our FY11 estimate of 3%. Despite the 19% yoy top-line growth, EBITDA increased only 5.5%, suggesting persistently high cost pressure (COGS +22% yoy and gross margin -2pp).

What to do with the stock

We believe the market could view 1H results as an upside surprise to market consensus. However, we expect China Coal's self-produced coal sale volume growth to slow down and overall costs to remain high through 2H11 as it continues to mine on the lower-quality seam. Also, given further delays in the construction of Wangjialing mine, we see downside risk to China Coal's capacity addition guidance of 20mtpa for 2012. Within the Chinese thermal coal space, we continue to prefer Yanzhou Coal (1171.HK, Buy, HK$25.40) over China Coal given its stronger volume/earnings growth potential in 2011E-13E. Share prices of Yanzhou, Shenhua (1088.HK, Buy, HK$35.30), and China Coal declined 5.5%, 7.2% and 22.9% ytd, respectively, vs. HSCEI +13.8%. Though China Coal trades at 42%/49% discount to Yanzhou/Shenhua on P/B valuation, we expect Yanzhou/Shenhua to continue outperforming China Coal as China Coal has fewer catalysts to drive earnings growth in 2011E-13E. Maintain CL-Sell with 12-m Director's Cut-based TP of HK$7.4. Key risks include higher-than-expected sales volume/prices, lower-than-expected production costs.

Qinghai Salt Lake Industry (000792.SZ): Below expectations but ASP hikes drive margin expansion; CL-Buy 5

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What surprised us

Qinghai Salt Lake Industry (QSLI) reported 1H11 net profit of Rmb1.6bn (+8% yoy against restated 1H10 net profit) and a sequential improvement vs. -11% yoy in 1Q11. 1H11 net profit accounted for 41% of our 2011E estimates (46% of Wind consensus), slightly below historical (since 2006) average 46% for a typical 1H. During 1H11, QSLI produced 1.14mn mt and sold 1.42mn mt of potash, driven by robust restocking and demand from compound fertilizer customers. 1H11 ASP was only Rmb2,275/mt (+14% yoy), mainly dragged by lower prices in 1Q11. Current domestic potash spot price is about Rmb3,100-3,300/mt (c. +30% hoh), which should drive further earnings improvement and margin expansion in 2H11 and 1H12.

What to do with the stock

We keep our estimates and 12m price target of Rmb73.30 (based on 7.3X 11E P/B vs. 35% average 11E-12E ROE) unchanged. Our 2011E/12E earnings forecasts are 13%/10% ahead of Wind consensus, and we reiterate our Buy rating (on Conviction List). Key downside risks are demand destruction on higher potash prices and adverse weather.

Far Eastern New Century Corp. (1402.TW): Soft textiles/chemical segment a drag on growth; d/g to Neutral 6

1402.TW, NT$43.90		
Market cap		US$7,219 mn
Target price		NT$50.00
Fiscal y/e Dec	2011E	2012E
Net inc. (NT$)	15,577 mn	16,233 mn
EPS (NT$)	3.28	3.41
EPS growth	21.2%	4.2%
P/E	13.4X	12.9X
Dividend yield	5.6%	5.8%
Investment Lists		Neutral
Coverage view		Cautious

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What happened

Due to our incremental concerns about the slowing textile business, as well as concern over PTA (input material for polyester) margins in 2012 given tight PX prices (input material for PTA), we revise FENC's 2011E/2012E/2013E earnings by -8%/-3%/1%, and lower our target price by 10% to NT$50 from NT$55. We downgrade FENC from Buy to Neutral. Since we added FENC to our Buy list on June 29, 2009, the shares are up 17%, versus TAIEX up 22%; in the past 12-months, the shares are up 1%, versus TAIEX down 1%.The performance of the call reflects weaker than expected textile/chemical performance.

Current view

We believe the weakness in the PTA and textile business since 2Q11 has been largely driven by soft polyester fiber demand and weak overall textile demand. In our view, the sharp decline in cotton price was more of a share price drag for FENC than a negative driver for PTA and polyester pricing. The cotton price has fallen 50% from the March peak of US$2.05/lb to current US$1.02/lb. The cotton price premium over polyester is now at 25%, vs. 115% at the March peak, and an average 11% over the past 5 years. We do not see significant downside for the share price given its stable subsidiaries including Far Eastone (4904.TW, Neutral, NT$45.80), Asia Cement (1102.TW, Neutral, NT$41.20), and its property development business which is focused on the mid-end market segment and should be resilient. The shares currently trade at a 21% discount to NAV, vs. the historical 5 year average discount of 15%.

Valuation

Our revised 12 month sum-of-the-part based target price of NT$50 vs. NT$55 previously reflects the impact of our earnings reductions on our SOTP, with its core textile/chemical business accounting for 27% of GAV, equity investment holdings 57%, and property development business 16%. Risks: Upside risks: Better than expected polyester demand; Downside risks: Raw material prices and weaker product prices and margins.

Consumer Cyclicals

Zhejiang Huace Film & TV (300133.SZ): Above expectations due to revenue mix change; maintain Buy 7

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What surprised us

Huace reported 1H11 net profit of Rmb80.4mn, up 34% yoy, above our expectation of Rmb71.1mn (diff. +13%). This is mainly due to a revenue mix change, as (1) more bought-in TV series were booked in 1H; gross margin for TV series sales rose 9.3pp to 65.7%; (2) embedded advertising revenue was Rmb7.3mn, up from zero in 1H10; this business generally shares COGS with content production/sales.

Other highlights: (1) Rich pipeline. The no. of projects in production/post-production was 4/8. There were 7 bought-in TV series, and only 2 of them booked revenue in 1H11. Huace also plans to invest in 12 new projects, with 443 episodes; (2) Transfer of "risky" project. Huace plans to transfer related rights of Mermaid Empire, which is considered by the company to be risky; (3) Cooperation with talents. Huace will launch an initiative to be more involved in cooperating with well-known directors and screenwriters; (4) Profit distribution plan. The company also announced a profit distribution plan, with cash dividend of Rmb3 for every 10 shares, and common reserve capitalizing of 7 shares for every 10 shares.

What to do with the stock

We believe the company is taking advantage of its position as a tier-1 studio in China. We slightly raise GM for 2011E to 52.9% from 51.3% to reflect revenue mix change and cut the no. of newly distributed projects to 11 from 12. Thus, we revise our 2011E-2013E EPS +1%/-4%/-3%. We slightly adjust our 12-m TP to

Rmb59.6 from Rmb59.8, based on unchanged PEG valuation (1.27X). Maintain Buy. Risks: Slower-than-expected GCI turnover.

Xtep International Holdings (1368.HK): Above expectations; Sales and margin strong, but growth priced-in 8

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What surprised us

Xtep reported 1H11 net income of Rmb466 mn, up 25% yoy, 5% above our forecast. Total revenue was 2% above on higher sales from core Xtep brand (+29% yoy), due to better than expected replenishing orders during 1H11. GM inched up 19bps yoy and was 49bps above expectations driven by 40bps GM expansion at Xtep brand, on the back of double digits ASP growth for both footwear and apparel in 1H11, apart from favorable COGS as a result of early raw material procurement. SGA of Rmb493 mn was in line with our forecast (Rmb495mn). Xtep declared an interim dividend of HK$0.13 per share. The company also reported that 1Q12 sales order grew by 21% yoy with ASP up 8%-10% for both footwear and apparel (volume growth: double digits).

What to do with the stock

Maintain Neutral. Xtep delivered above sector average sales growth and improved GM, thanks to its exposure to lower-tier markets where growth is higher than industry average, as well as its effective brand building. We, however, think strong interim results alone is unlikely to drive the stock to outperform, as the market is anticipating growth to slow down for all sports companies, following Dongxiang and Li Ning's profit warnings. Xtep is currently trading at a 34% premium to 361 Degrees (1361.HK, Neutral, HK$3.61) on CY11E P/E with similar growth outlook. Its above sector-average growth is largely priced-in, in our view. We tweak our '11E/12E/13E EPS by 3%/3%/4% on higher GM and lower SG&A, partially offset by lower sales from other brands. Our new 12m TP goes to HK$ 6.4 (from HK$6.1), based on Director's Cut, implying 12X '11E P/E (unchanged). Risks: better-than-expected order growth (upside); worse-than-expected GM due to cost inflation (downside).

Taiwan Synthetic Rubber Corporation (2103.TW): Analyst meeting: 3Q sales + qoq guidance surprising given outages 9

2103.TW, NT$71.80		
Market cap		US$1,775 mn
Target price		NT$93.00
Fiscal y/e Dec	2011E	2012E
Net inc. (NT$)	6,118 mn	6,220 mn
EPS (NT$)	8.56	8.70
EPS growth	86.6%	1.7%
P/E	8.4X	8.3X
Dividend yield	7.7%	7.9%
Investment Lists		
		Asia Pacific Buy List
Coverage view		Neutral

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What's changed

We attended TSRC's analyst meeting on August 16. The most surprising comment from the meeting was that 3Q11 consolidated sales would be up qoq, despite heavy maintenance scheduled to avoid buying expensive Butadiene (BD) supply for its China and Taiwan facilities. We estimate 30% of TSRC's synthetic rubber (i.e. SBR+BR) capacity to be under maintenance in 3Q11. We think this is driven by a recent 10% price increase as well as lagging half year contract customer pricing renewals.

Without specific number details, management guided: 1) 3Q11 earnings to be softer due to raw material (BD) cost pressure, 2) 4Q11 profit margin should improve as they expect BD price to decline, and 3) No clear sign of demand slowdown. We have made slight adjustments to our assumptions base on recent data points, and adjust our 2011E-2013E EPS by average of -2%, on slight adjustments to our price assumptions.

Implications

We maintain our favorable view on TSRC given its strategic position in synthetic rubber in India and China while we think its valuation is attractive at 8.3X 2012E P/E and 7.7% 2011E cash dividend yield. At such valuations, we think the share price has factored in 3Q weakness. We continue to believe that heavy maintenance in the petrochemical industry as well as capacity reduction at Formosa are the key, but temporary, reasons for high BD prices. We expect Formosa should be able to fully resume production by 4Q11, which should relieve BD supply tightness.

Valuation
We retain our Buy rating on TSRC and have revised down our 12m P/B-ROE based target price to NT$93 from NT$113 (-18%) as we factor in the recent 10% stock dividend and our earnings change.

Key risks
1) Lower than expected tire demand, and 2) High raw material (BD) prices.

Maoye International Holdings (0848.HK): Core retail business significantly undervalued; reiterate CL-Buy 10

0848.HK, HK$2.80		
Market cap		US$1,960 mn
Target price		HK$4.80
Fiscal y/e Dec	2011E	2012E
Net inc. (HK$)	801.6 mn	1,109 mn
EPS (HK$)	0.15	0.20
EPS growth	16.7%	34.3%
P/E	18.5X	13.8X
Dividend yield	0.7%	1.0%
Investment Lists		
		Asia Pacific Buy List Asia Pacific Conviction Buy List
Coverage view		Neutral

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What's changed
We maintain CL-Buy on Maoye with a revised 12-month TP of HK$4.8 (from HK$5), implying 71% upside. Our TP is now based on 18X 2012E P/E for the retail division (from 22X 2011E P/E, lower multiple as the overall sector valuation has dropped), plus NAV of the landbank of HK$0.6/share (from HK$0.5). We also revise our 2011E/2012E/ 2013E EPS by -9%/-1%/+9% to factor in higher taxes/MI, offset by higher operating profit from core retail.

Implications
Core retail growth is healthy: 1H core retail OP grew 38% yoy, excl. Rmb23mn subsidy from the parent for the new Shenyang Jinlang store. This came against tough comps: OPM was 13.3% in 1H10 vs. 11.1% in 2H10/1H11. Mgmt indicated SSSG remains 20%+ thus far in Jul-Aug, a pickup from the high teens trend seen in May-June, with concessionaire margins trending higher hoh and yoy.
Property arm to enter harvest period: Property division reported a net loss of Rmb59mn, driven entirely by finance costs of Rmb79mn. We expect meaningful launches starting from 2H11 into 2012/13 to drive significant gains and cash inflow in the division. Mgmt expects property sales to be in the “Rmb billions” in the next 2 years.

Valuation
We believe Maoye is significantly undervalued as the market’s tendency to focus purely on a retail company’s headline P/E implies Maoye’s landbank would be trading at a negative valuation given the accounting loss from finance costs that cannot be capitalized. If we assign a zero landbank value rather than a negative value, the stock would be trading at 2011E/2012E P/E of 15.4X/12.2X for core retail. On a landbank value of HK$0.6/share, the current implied 2011E P/E of core retail would be even more attractive at 2011E/2012E P/E of 12.1X/9.6X.

Key risks
Demand may slow down sharper than expected; further govt tightening of property market may lead to postponement in property sales.

Cheng Shin Rubber (2105.TW): Decelerating yoy consolidated July sales growth; maintain Neutral 11

2105.TW, NT$66.90		
Market cap		US$4,768 mn
Target price		NT$56.00
Fiscal y/e Dec	2011E	2012E
Net inc. (NT$)	8,334 mn	11,636 mn
EPS (NT$)	3.37	4.71
EPS growth	(19.2%)	39.6%
P/E	19.8X	14.2X
Dividend yield	3.0%	2.0%
Investment Lists		Neutral
Coverage view		Neutral

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What's changed

Cheng Shin Rubber (CSR)'s July unaudited consolidated sales declined by 8% mom, but increased 8% yoy. In our view, the mom decline is partly due to seasonality as July-August is generally weaker, post a strong March-June high season for tire demand. However, we think the 8% yoy increase, given price increases of 10%-20% over the past 12-month period (depending on tire products), suggests some level of volume weakness. China July sales were -3% mom and +5% yoy.

Implications

We view the decelerating yoy sales growth against the current unfavorable macro backdrop as well as weak auto sales in China. However, we highlight that the relatively weak sales growth could also be due to lack of spare capacity as CSR did not have any new capacity in the past two years. If sales momentum continues to remain lackluster, we think it could impact the company's significant new capacity ramp up in China (i.e., Chongqing, and Xiamen). With increasingly unlikely further price rise and slower volume growth risk, there may be downside risk to 2012 Bloomberg consensus sales (46% yoy) and earnings (29% yoy) growth forecast, in our view. Our recent discussions with CSR and Kenda Rubber (2106.TW, NC, NT$36.45) indicate that sales remain satisfactory. However, Kenda highlighted weak sales growth prospects for rest of 3Q and is conservative on 4Q11, and they see no price hike ability for rest of the year.

Valuation

We revise our 2011E/2012E/2013E EPS to NT$3.37/NT$4.71/NT$5.11 (from NT$4.04/NT$5.65/NT$6.13 pre-dividend) as we factor in a 20% share dividend and consequently revise our 12-month P/B-ROE-based target price to NT$56 (from NT$68 pre-dividend).

Key risks

Downside risk: Lower than expected tire demand. Upside risk: Significant fall in raw material costs.

Dangdang (DANG): First Take: Revenues in-line but slipping into operating loss 12

DANG, US$10.51		
Market cap		US$883.7 mn
Target price		US$14.00
Fiscal y/e Dec	2011E	2012E
Net inc. (US$)	(6.7 mn)	(23.9 mn)
EPS (US$)	(0.08)	(0.28)
EPS growth	(191.7%)	(253.9%)
P/E	--	--
Dividend yield	--	--
Investment Lists		Neutral
Coverage view		Neutral

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News

Dangdang (DANG) reported 2Q11 net revenue of Rmb790.8mn (+53% yoy, +15% qoq), 1%/2% above our/Bloomberg consensus estimates, but non-GAAP net loss of Rmb26mn was below our Rmb7mn profit forecast and consensus' loss of Rmb9mn. Gross profit was 33% below our estimate, as costs of revenues surged by 64% yoy, affected by price competition, leading DANG to slip into an operating loss, of Rmb50mn on a non-GAAP basis. DANG guided 3Q revenue to be Rmb916-928mn, in-line with our estimate and consensus, and implying 52% yoy growth at the midpoint.

Analysis

(1) Books/media revenue grew 34% yoy in 2Q11, maintained at the same pace from 1Q, despite suggestions last quarter that growth could re-accelerate from website optimization. General merchandise revenue grew 152% yoy (to 24% of the total revenue). In 2Q, DANG added new product categories in apparel and electronics.
(2) Active customers grew 39% yoy to 4.6mn, decelerating from 42% yoy in 1Q. Total orders grew 33% yoy to 9.2mn, also decelerating from 41% the prior quarter. The average order value grew 14% yoy to Rmb86.0.
(3) Gross margin was 14.3% (-5.2pp qoq, -5.6pp yoy), with the significant decline attributed to competitive price promotions. Fulfillment expenses grew 56% yoy, and marketing expenses grew 106% yoy, both ex-SBC.
(4) DANG indicated a "new strategic approach" involving more aggressive investments into fulfillment

capacity, product category expansion and marketing, going forward. We look for more details from management on the magnitude of spend, and on the expected timing of returns, considering 3Q revenue growth was guided to a similar pace as 2Q.

Implications
Our estimates and TP are under review pending the earnings call at 8pm HKT today (August 16).

Energy

China: Clean Energy: Wind: Peer (MY) 2Q11 results lack signs of turbine industry turnaround

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Mingyang (MY, not covered) 2Q11 EPS fell 58% yoy to Rmb0.67
Mingyang, the fifth largest wind turbine maker by 2010 new installation in China, reported its 2Q11 results. Though its output rose by 35% yoy to 367.5MW, its revenue rose by only 7% yoy, beset by a reported 20% yoy fall in average selling prices (ASPs) to Rmb3.8mn/MW. 2Q11 ASP also fell 19% qoq. On profitability, its 2Q11 gross margin fell by 7ppt to 19%, EBITDA margin fell by 9ppt to 13% and net margin fell by 10ppt to 6%.
MY's SG&A rose to 8% of total revenue in 2Q11 (vs. 5% in 2Q10). We think generally rising warranty provisions, tougher competition, and the need to upgrade sold turbines with low-voltage-ride-through (LVRT) technology have raised SG&A and operating costs for the industry. Though MY said that rare earth is still only less than 5% of its SCD (super-compact-drive) turbines' costs, we think margin erosion for the industry from rising rare earth costs is hard to mitigate, especially with potentially slower volume growth.

MY cut sales volume target by 20%; lackluster new order growth
MY has cut its FY2011E sales volume target to 1.8-2.0GW, about 20% below its previous target given in May. It expects China to add 20GW of new turbines in 2011E, vs. our 18GW forecast. We think slowdown in government approval of new turbines for the sake of grid connectivity continues to impact turbine order books. In 2Q11, MY signed new contracts for 429MW wind turbines (down 26% yoy). The 15% qoq rise in 2Q11 new orders was much lower than 46% in 2Q10. Its order backlog remained at around 2.1GW since 3Q10. Generally, we think plateau order book for the industry may cap future revenue growth and limit scope for cost reduction.

MY's working capital pressure rose; net cash fell 36% since 4Q10
MY faces the same rising working capital constraints as peers when wind farms are leveraging the balance sheets of wind turbine makers. Its receivable days rose to 248 days in 2Q11 from only 132 days in 4Q10, though it also lengthened payable days to 265 from 229 over this period.

Prefer wind farms to turbine makers; Buy Longyuan/Huaneng Renew.
We continue to see more favorable fundamentals for wind farms than equipment makers. We think turbine fundamentals may turn around after some major suppliers begin to struggle to make cash profits, thus accelerating consolidation and stabilizing turbine gross margins.

China: Clean Energy: Solar: Setting the right expectations on China demand: Interview w/NDRC

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Last week, we hosted an interview via conference call with Mr. Li Lunfeng, the Deputy Director of the Energy Research Institute from NDRC.

The discussion was focused on details of the announced China solar Feed-in-Tariff (FiT) and its implication on China PV upside demand. Takeaways are:

1. China could reach a market size of 15- 20GW and 50-100GW in 2015/ 2020E, and Mr.Li's base case expectation for 2011/2012E is 2/3GW, respectively.
The overall demand outlook is sustainable and encouraging, and the long-term target for 2020E (70-75GW) as per NDRC exceeds our estimates by 9% to 17%. However, NDRC is taking a cautiously optimistic view on PV's near-term growth rate for upside demand, in our view.

2. What are the possible near-term hurdles for secular growth?
Economic feasibility of the solar projects makes sense in Western China, either under a FiT of Rmb 1.15 or 1/kWh. The grid transmission and distribution systems are still under construction, which could limit the growth rate for the domestic PV market still at its debut.

3. In regions with less attractive IRRs, more local governments might soon establish provincial FiTs.
The faster-than-expected implementation of local provincial FiTs leads us to believe there is upside to Mr.Li's base case 2012E demand expectation of 3GW. Therefore, we maintain our 2012E demand forecast of 4GW.

4. The domestic market could be led by SOE' developers that have access to land and better lending terms.
3- 4GW of SOEs' solar projects are already in the pipeline prior to July 1, per our estimates

Investment Implications
The emerging domestic demand should take some heat away from concerns of demand recovery in Europe, and support valuations of 3X- 9X 2012E P/E for GH solar coverage. The prime beneficiaries of this policy are Suntech Power and Trina Solar under our coverage as they have a better channels in China. However, in the near-term, it is more about clarification of volume upside in 2H11, not profitability as ASPs are likely to remain under pressure on supply and demand imbalance. In the mid-term, we view this policy as a milestone indicating that China could become a major contributor to the global solar market.

Financial Services

China Minsheng Banking (A) (600016.SS): Above expectations on higher loan yield, treasury income and fees 15

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What surprised us
Minsheng reported 1H11 NPAT of Rmb13.9bn, up 57% yoy, and 61%/61% of our/Reuters consensus FY11 est. on higher than expected NII/fee income. Key positives in 2Q11: 1) strong 20% qoq growth in NII driven by 9% earning assets increase and around 40bps of NIM expansion aided by higher loan yield benefiting from continued growth of SDT loans and higher NII from interbank business as Minsheng shifted more funds to repos, which also experienced rapid yield increase as liquidity tightened further in 2Q11; 2) fee income increased 68% qoq in 2Q11 after being up 61% in 1Q11, aided by higher trust fees, credit commitment related fees and settlement fees; 3) relatively good cost control with CIR at 41% for 1H11 down or 6% yoy ; 4) stable asset quality on flattish NPL balance and lower NPL ratio by 3bps qoq with further increase in NPL coverage and LLR/loan ratio to 334% and 2.1%, respectively; and 5) healthy profitability improvement with RORWA and ROE reaching 2.0% and 25%, respectively, in 1H11 vs. 1.5% and 17.5% in 2H10. Negatives: 1) RWA up 16% hoh in 1H11 outpacing 8% loan growth hoh due to more rapid increase in its O/B businesses (e.g. banker acceptance was up 40% hoh); and 2) slower deposit growth of 3% qoq in 2Q11 with 3% shift from demand to time in 1H11.

What to do with the stock
We retain Buy on Minsheng A given: 1) notably improved profitability partly benefitting from the bank's focus on SME business (although the portion of profitability improvement from higher NII from repo business may not be sustainable; 2) inexpensive valuation at 1.0X '12E P/B, or 9% below A-share average, offers attractive risk/reward, and 3) reduced capital overhang for Minsheng A given planned CB issuance. We retain our 12m

P/B-based Rmb7.20/HK$8.50 TPs for Minsheng A/H and Neutral on Minsheng H, given the premium to its A-share. Risks: macro over-tightening/earnings volatility.

Country Garden Holdings Company (2007.HK): Above expectations on margins; Strong presales to continue; Buy 16

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What surprised us

Country Garden (CG) reported strong 1H11 underlying profit (excl. derivative gains) of Rmb2.7bn (49% of our 2011E forecast), up 40% yoy, better than expected. Highlights: 1) Strong margins. 1H11 underlying margin was at 17.5% (16.7% excl. JV), better than our previous 2011E estimate of 16.0% (vs. now 2011-13E at 17.5%/17.7%/18.3%, respectively). We expect improving margins in coming quarters, given 1H11 contract ASP (Rmb6.2k/sqm) is 20% above 1H11 booked ASP (Rmb5.1k/sqm); 2) Strong presales to continue. CG has achieved Rmb27.5bn presales YTD, 63% of our 2011E forecast of Rmb44bn (mgt. guidance: Rmb43bn), ahead of peers' 55%. We're confident of our forecast on the back of 8 new project launches in Aug-Dec vs. 6 launched in Jan-July. 3) Decent earnings lock-in. We estimate 100%/40% of our 2011-12E revenue has been locked in, vs. peers' 100%/30%. 4) B/S weakened but is manageable with 1H11 net gearing of 66% (vs. 1H10 54%, 2011E 64%). We see little solvency risk given current Rmb12bn cash is well above Rmb5bn in short-term loans.

What to do with the stock

We reiterate our Buy rating. To factor in stronger-than-expected margins, we raise our 11-13E EPS by 5%/6%/12%, respectively, and raise our 12-m TP by 8.7% to HK$5.00 (from HK$4.60), still based on a 30% discount to end-2011E NAV. Our 2011-12E EPS are 16%/22% ahead of Bloomberg consensus. CG is trading at a 50% discount to end-2011E NAV and 8.6X 11E P/E, vs. H-share peers at a 56% discount and 9X. Risks: macro hard landing, worse-than-expected contract sales.

Unitech (UNTE.BO): Below expectations: Revenues miss on slower execution 17

UNTE.BO, Rs29.10		
Market cap		US$1,679 mn
Target price		Rs36.00
Fiscal y/e Mar	2012E	2013E
Net inc. (Rs)	7,800 mn	8,505 mn
EPS (Rs)	2.98	3.25
EPS growth	32.9%	9.0%
P/E	9.8X	9.0X
Dividend yield	1.7%	2.1%
Investment Lists		Neutral
Coverage view		Attractive

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What surprised us

Unitech reported 1QFY12 results with revenues of Rs5.96bn (-28% yoy), and net income of Rs0.98bn (-45% yoy) vs. our expectation of Rs7.9bn and Rs1.8bn, respectively. Revenues were below our expectations despite pre-sales of 17.6mn sqft over the past 7 quarters. The net income miss was a result of slower execution and negative operating leverage. Key takeaways: (1) Unitech reported launches of 3.2mn sqft in 1QFY12 vs. an average of 2.6mn sqft per quarter in FY11. (2) The area sold amounted to 1.5mn sqft in 1QFY12 vs. 2.5mn sqft in 1QFY11, and 1.8mn sqft in 4QFY11. The value sold decreased to Rs10.2bn in 1QFY12 from Rs13bn in 1QFY11. (3) EBIT margins for the real estate segment declined to 26% in 1QFY12 from 43% in 1QFY11, but margins have been volatile. (4) Gross debt declined by about Rs2bn yoy to Rs56.5bn as at the end of June. (5) Outstanding shares pledged by promoters were largely unchanged qoq.

What to do with the stock

We maintain our Neutral rating on the stock, but lower our 12-month RNAV-based target price to Rs36 from Rs42, to factor in slower-than-expected execution. Our target price is set at a 30% discount (unchanged) to our March 12 based RNAV of Rs52. We also lower our FY12-FY14 EPS estimates by 16%-19% to factor in slower-than-expected revenue recognition and reduced asset sales estimates. Risks: Key upside risks to our target price and investment view include: increased pace of execution and clarity on telecom issues;

downside risks include: delays in completion of projects.

China Lodging Group, Ltd. (HTHT): Below expectations: lower guidance anticipated; faster '12E opening 18

HTHT, US$15.91		
Market cap		US$789.6 mn
Target price		US$26.50
Fiscal y/e Dec	2011E	2012E
Net inc. (Rmb)	174.5 mn	354.3 mn
EPS (Rmb)	2.89	5.88
EPS growth	(33.4%)	103.1%
P/E	35.1X	17.3X
Dividend yield	--	--
Investment Lists		
		Asia Pacific Buy List
Coverage view		Attractive

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What surprised us

China Lodging reported 2Q11 net revenues of Rmb548 mn, up 25% yoy, meeting the high end of its guidance, in line with our estimate. EBITDA was RMB95 mn, with a margin of 17%, below our forecast of Rmb119 mn and Reuters consensus of Rmb107 mn, mainly due to higher-than-expected direct operating costs on more L/O (leased & operated) openings.

Analysts' call takeaways: (1) Lower guidance as expected: new revenue growth guidance at 28%-32% yoy (from 34%-38% yoy) as current 4% RevPAR growth was below management's original 7% assumption; (2) 2012E outlook with multiple-brand: guided 240-250 new hotel openings (up from 200 this year) of which 40-50 will be in Seasons and Hi Inns; (3) Margin differences: in 2Q11, matured L/O, new L/O and F/M (franchised & managed) delivered 28%/-13%/82% project level EBITDA margins (i.e. before SG&A) respectively, showing a strong performance for mature hotel portfolios but partially offset by an operating loss for new additions.

What to do with the stock

China Lodging and Home Inns reported a healthy 4% RevPAR growth for mature hotels outside Shanghai in 2Q11 which continued into Jul/Aug, and we see lower guidance was likely to rationalize the previously aggressive RevPAR assumption, instead of anticipating a slowdown in demand. We revise our 2011E-13E EPS by -6% to -14%, mainly on higher pre-opening expenses and direct opex, with our 12-m EV/EBITDA based TP cut to US$26.50 (from US$29.00), factoring in lower EBITDA. Maintain Buy for fast EBITDA growth and attractive valuation at 8x/5x 2012E/13E EV/EBITDA. Key risks include an abrupt macro slowdown in China.

Housing Development & Infrastructure (HDIL.BO): In line with expectations: Making a start on debt reduction 19

HDIL.BO, Rs117.30		
Market cap		US$1,074 mn
Target price		Rs183.00
Fiscal y/e Mar	2012E	2013E
Net inc. (Rs)	10,228 mn	11,640 mn
EPS (Rs)	24.41	27.78
EPS growth	16.0%	13.8%
P/E	4.8X	4.2X
Dividend yield	2.6%	2.6%
Investment Lists		
		Asia Pacific Buy List
Coverage view		Attractive

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What surprised us

HDIL reported 4QFY11 PAT of Rs2.1bn (vs. GSe of Rs1.9 bn, +12% yoy) and sales of Rs5.0 bn (vs. GSe of Rs5.1 bn, down 2%). EBITDA margin of 53% was down 636 bp yoy due to lower TDR realizations of Rs2,500/sq ft. HDIL reported TDR sales of 0.65 mn sq ft and land sales of Rs3 bn in Andheri. Highlights of results, conference call, and management guidance: 1) Gross debt reduction of Rs3 bn (7% of outstanding debt) in Apr-July 2011. 2) Management maintained guidance of debt reduction of 20% (we are assuming a 10% reduction); 3) HDIL continued to generate marginal positive cash flow from operations; 4) HDIL stated it could see revenue recognized from four projects in FY12, as these projects are completed; 5) Management indicated that the approval process in Mumbai remains slow and it intends to launch projects in Panvel, Shahad, and Boisar, likely in the near term; and (6) HDIL intends to sell 15-20 mn sq. ft of FSI in Vasai-Virar region over the next two years at average rate of Rs800-1,000/sq. ft.

What to do with the stock

We retain our Buy rating as launched/forthcoming projects provide cashflow visibility of Rs125 bn, or post-tax around Rs105 bn, against present EV+ net customer advances of Rs100 bn (Exhibit 2). The stock is trading at very attractive valuations, at FY12E P/B of 0.48X against the sector average 1.4X, indicating significant

value erosion. We are reducing EPS estimates for FY12-14E by 13%-19% to factor in continued slower approval process and revise our 12-month RNAV-based target price to Rs183 from Rs216 to reflect this. Our TP is set at a 30% discount (unchanged) to our FY2012E NAV of Rs289. Key catalysts for stock performance include launches and continued debt reduction. Key risks include execution delays inherent in slum rehabilitation projects, sharp correction in prices in Mumbai.

Taishin Financial Holdings (2887.TW): Undifferentiated corp banking franchise; lack of re-rating catalyst 20

2887.TW, NT$13.85		
Market cap		US$3,030 mn
Target price		NT$16.00
Fiscal y/e Dec	2011E	2012E
Net inc. (NT$)	8,353 mn	8,811 mn
EPS (NT$)	1.34	1.37
EPS growth	22.8%	1.9%
P/E	10.3X	10.1X
Dividend yield	2.0%	2.0%
Investment Lists		Neutral
Coverage view		Neutral

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What's changed
Taishin FHC held an analyst meeting to disclose further details on its 2Q11 results, as well its business outlook for 2H11. Its 1H11 net profit reached NT$5.8bn (+48% yoy) on the back of robust loan loss recovery. However, we note Taishin Bank's PPOP dropped 8% yoy in 1H11 due to lower NIM and higher operating expenses.

Implications
Its above-trend loan growth (14% yoy) was mostly driven by low-yield corporate loans. Along with the rising funding cost, it reported a 15/11 bp yoy spread/NIM contraction, and mere 5% yoy net interest income growth, despite the rising policy rate environment. Into 2H11, management lowered its NIM guidance, from the previous 5-10 bp expansion in FY11 to staying flat into 2H11. In our view, the company's lack of a strong franchise in foreign-currency and SME loans, coupled with unfavorable funding structure, put it in a disadvantaged position against its competitors. Its wealth management fee income was robust (+22.5% yoy) in 1H11, but whether this can be sustained into 2H11 is largely dependent on global equity markets. Asset quality remained stable with loan loss recovery accounting for 42% of Taishin Bank's pre-tax income in 1H11.

Valuation
We slightly lower our 2011E-13E EPS by 1%-3% to reflect the NIM contraction, and lower our sustainable ROE assumption to 10% (from 11%). In addition, we roll forward our valuation basis to 2012. All of this leads us to lower our 12m SOTP-based TP to NT$16 from NT$16.5. Despite Taishin's undemanding valuation (currently trading at 1.0X '12E BVPS), we do not see catalysts that can drive re-rating for its share price; hence, we still prefer Chinatrust FHC (2891.TW, Buy, Aug 16: NT$23.55) for its better FX lending franchise. Remain Neutral .

Key risks
Weaker-/stronger-than-expected NIM expansion.

Healthcare

China Medical System Holdings (0867.HK): Above expectations: Strong earnings growth on integration synergy 21

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What surprised us
CMS (0867.HK) reported 1H11 sales of US$96.3 mn (up 57.4% yoy, 43.2% of 11E GHe) driven by strong sales of all major products and $12m incremental contribution from TJP in 2Q. 1H11 net income came in above expectation at US$29.9 mn (up 95.0% yoy, 51% of 11E GHe, vs 45% seasonality) thanks to improving operating efficiency and M&A synergy, leading to substantial net margin improvement of 6 pps, despite shrinking GP margin. GP margin decreased 5.6 pps to 55.3% in 1H11, as a net result of rising contribution of low margin products (TJP consolidation and Exacin), higher custom tax due to changes in business practice (trading GP for cash return with its vendors to minimize the price mark-up).

What to do with the stock

We reiterate our Buy rating (on Conviction List) on CMS as we believe the company offers the most earnings upside among our offshore coverage universe as (1) its strong earnings growth momentum is likely to sustain driven by continuous new product introduction (Protein Hydrolysate) and further expansion of its sales network; (2) Limited impact of recent price cut as the company's legacy Deanxit is not on the latest CNS price cut list, while majority of the Ursofalk (EDL) can go through general tendering in many regions other than EDL channel; (3) Strong earnings CAGR of 42% from 11-13E supports its valuation. We keep our sales forecast unchanged and raise EPS forecast for 11E-13E by 5.3%/3.6%/3.5% to reflect lower-than-expected selling expense in 1H11 results. Valuation: We lower our DC-based 12-m TP from HK$11.9 to HK$12.6, implying 34X 2011E diluted EPS to reflect EPS changes. Risk: Further price cuts to CMS' existing products and failure to renew distribution contracts.

Technology

ASUSTeK Computer (2357.TW): ASUSTeK's guidance suggests strong sales and margin upside 22

2357.TW, NT$237.00		
Market cap		US$6,170 mn
Target price		NT$274.59
Fiscal y/e Dec	2011E	2012E
Net inc. (NT$)	15,308 mn	17,150 mn
EPS (NT$)	20.34	22.78
EPS growth	(4.1%)	12.0%
P/E	11.7X	10.4X
Dividend yield	5.0%	4.3%
Investment Lists		
		Asia Pacific Buy List Asia Pacific Conviction Buy List
Coverage view		Neutral

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What's changed

ASUSTeK presented at an analyst meeting held by TWSE on Aug 16, giving an overview on performance over the past two years and detailing management's confidence on its 2H11 outlook. Three key highlights follow. (1) Management has a clear business expansion strategy in emerging markets, which account for 63% of total revenue, such as full gear market share gains in Brazil from a low base, and also working with newly established infrastructure including both local and oversea supply chain makers. (2) Management expects 3Q sales/shipments to show very strong growth in China from a strong PC demand recovery on better summer promotions and a low base in 2Q due to a seasonally weak consumer. (3) Management expects continued margin improvements from a high base in 2Q thanks to better product mix and favorable key component cost trends.

Implications

We believe ASUSTeK's guidance suggests upside from GSe/market consensus (15%/15% qoq sales growth and 5.3%/4.9% OPM) for 3Q sales and profits. Although the overall PC/NB market is weak, we expect ASUSTeK to surprise the market on the upside through (1) improving execution in procurement, (2) innovative, differentiated product design, (3) market share gains in Europe and in China and other emerging markets, (4) more creative sales and marketing activities, and (5) more support from the supply chain, including CPU makers and Microsoft. In addition, given strong in-house R&D, we believe ASUSTeK owns patents which should help it when IP becomes a new area of tough competition in the tech universe. We recommend ASUSTeK as a long-term structural winner in NB sector.

Valuation

We maintain our Buy (Conviction List) and 12-month SOTP-based target price of NT$274.59 (ex-dividend), incorporating 13X NTM core EPS.

Key risks

iPad cannibalization of netbooks and weaker China/Europe demand.

Baidu.com, Inc. (BIDU): CCTV program not a repeat of 2008 history; financial impact limited 23

BIDU, US$144.64		
Market cap		US$50,556 mn
Target price		US$175.00
Fiscal y/e Dec	2011E	2012E
Net inc. (Rmb)	6,494 mn	9,819 mn
EPS (Rmb)	18.56	27.69
EPS growth	79.0%	49.2%
P/E	49.8X	33.4X
Dividend yield	--	--
Investment Lists		
		Asia Pacific Buy List
Coverage view		Neutral

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What's changed
On August 15, CCTV aired a program discussing the quality of Baidu's paid search results. The main points of the program were the potential for consumers to be misled by low-quality companies which were willing to pay for top positions in search results, the risk of search users confusing paid with organic results, and Baidu salespeople's alleged "improper practices".

Implications
(1) We believe the recent program, while reminiscent of the November 2008 CCTV program that focused on Baidu's pharmaceuticals customers and drove Baidu to revise down its 4Q08 revenue guidance, poses much less risk to the company's fundamental performance, because of material improvements in its customer management infrastructure that Baidu has made since then. We do not believe that Baidu will take significant measures that will meaningfully impact its financials near-term as a result. (2) We believe that in China's evolving Internet market, dominant companies such as Baidu may be held to higher standards. We believe Baidu is better positioned today, with more stringent internal audit procedures having been implemented, better alignment of sales force incentives, and Phoenix Nest also in part addressing these quality issues, with a greater demarcation of paid versus organic results and greater weighting placed on the quality and relevance (rather than primarily keyword prices), when ranking paid results. (3) The current program discusses more industries than the one in 2008, including online travel and consumer electronics, in addition to pharmaceuticals. We see this as as reflective of a greater range of e-commerce activities occurring, rather than an expanded scope of scrutiny leading to a broad clean-up.

Valuation
Our $175 6-month, DCF-based target price and estimates are unchanged.

Key risks
Risks: competition from Tencent and Alibaba Group.

Asia Pacific: Technology: Google/MMI deal likely benefits Android tablets; still prefer ASUSTeK 24

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Google to gain access to MMI's patents in wireless technology
On August 15, Google announced it is acquiring Motorola Mobility Holdings (MMI) for US$12.5bn in cash, and that MMI will remain a separate entity after the deal. As a result of the deal, Google will gain around 17,000 patents and 6,000+ pending patents related to wireless technology (e.g, 3G, LTE), underscoring the company's objective to strengthen the Android ecosystem. The US$40 per share purchase price represents a 63% premium to MMI's August 12 closing price of US$24.47.

Google-MMI deal helps to protect the Android partners in tablet
Although Android tablet market is not as big as the Android smartphone market (GS estimates less than 20 mn Android tablets vs 186mn Android smartphones in 2011), we think the Google-MMI deal should be positive for Android tablets, as for Android smartphones (see our tech colleague Robert Yen's report "Google to buy MMI – implications for Asia Android phone makers, August 16"), bolstering the Android camp in its patent disputes with Android's competition, such as Apple and Microsoft.

Google is unlikely to overly favor MMI against other Android peers
Investors may be concerned that MMI, as a subsidiary, could receive preference over other Android tablet partners. Although MMI might gain access to source codes earlier, as it did on Android 3.0 (Honeycomb) in late 2010, we think the impact on other partners (e.g., ASUSTeK, Acer, Lenovo), should be limited, as: 1) Google has said the deal will help the Android open platform, implying Google will not focus on MMI market

share; 2) MMI was ahead of peers in getting support on Android 3.0, but others (Samsung, ASUSTeK), are catching up and selling more units than MMI in Android tablet; 3) In the smartphone market, Google's own "Google phone" does not seem to affect relations between Google and its smartphone partners. If Google were to favor MMI too much over other partners, we would expect those Android partners could switch to Google's competitors' platforms.

Still prefer ASUSTeK on its R&D ability and possible share gain

We still see ASUSTeK (Buy, CL) as the main beneficiary of Android tablets as it is the only OEM that shows upsides in tablet shipments forecasts. We also believe the EU's ban on SEC selling its tablets there (except in the Netherlands) may also help ASUSTeK to gain market share in Europe.

NavInfo Co (002405.SZ): Inline with expectations: Focus on Nokia sales/new business; Neutral 25

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What surprised us

NavInfo reported 1H11 results, with revenue/net profit up 42%/48% yoy to Rmb443/142 mn, in line with our estimates of Rmb439/147mn. The firm guided 20%-50% increase in Q1-Q3 net profit. Highlights: 1) Revenue in NavInfo's consumer electronics segment rose 135% yoy to Rmb218 mn vs our Rmb209 mn estimate, mainly on the low navigation installation rate in Nokia's handsets in 1H10. We forecast Q3-Q4 domestic sales of Nokia smartphone's to stay largely flat over Q2, but for the 2011E consumer electronics segment revenue to rise 65% yoy to Rmb432 mn; 2) In-dash navigation revenue fell 4% yoy to Rmb197mn, vs. our expectations of Rmb187 mn. Navinfo expects sales at Japanese auto makers to recover in 2H11E following the earthquake. On the back of this, we expect NavInfo's 2011E revenue will rise 8% yoy to Rmb397 mn; 3) Revenue from Dynamic Traffic Information service reached Rmb15.63 mn in 1H11, and NavInfo expects this will continue to grow rapidly and reach a full-year gain; 4) The company signaled its intent to explore the mobile internet market, and set out its product development plan for both Apple and Android platforms.

What to do with the stock

We maintain our EPS estimates of Rmb0.68/0.81/1.06 in 2011-13, and our 12-month Rmb27.56 target price (based on 41X 2011E P/E). We retain our Neutral rating and will continue to monitor Nokia's sales in China and NavInfo's new business development for investment implications. Risks: Stronger than-expected demand (Upside); tougher competition from major competitors (Downside).

Transportation

China Shipping Development (H) (1138.HK): First Take: 2Q earnings drop within estimate, but below consensus 26

1138.HK, HK$5.22		
Market cap		US$2,269 mn
Target price		HK$5.90
Fiscal y/e Dec	2011E	2012E
Net inc. (Rmb)	1,407 mn	2,134 mn
EPS (Rmb)	0.41	0.63
EPS growth	(10.4%)	51.7%
P/E	10.4X	6.8X
Dividend yield	3.2%	4.7%
Investment Lists		
		Neutral
Coverage view		Neutral

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News
After market close on Aug 16, China Shipping Dev (CSD) announced PRC GAAP-based 2Q pre-exceptional profit of Rmb236mn that was trending in-line with our estimate and below Bloomberg consensus (we forecast Rmb1,407mn for FY2011E pre-exceptional profit, vs Bloomberg consensus of Rmb1,633mn), excluding one-off items that bolstered the bottom line to Rmb302mn. Exceptional gains were largely attributable to the sale of aged vessels.

Analysis
(1) Pre-exceptional profit declined 47% yoy for 2Q11, despite a 12% yoy increase in revenue. Earnings declined on lower freight rates, particularly within the international operations of CSD's dry bulk and tanker businesses, and higher bunker fuel prices contributed to the decline in profitability.
(2) Operating margins contracted to 9.7% for 2Q11, down from 13.8% in 1Q11. We expect margins to remain relatively stable in 3Q but earnings should increase on stronger volumes, as demand should pick up seasonally in September.

Implications
We maintain our Neutral rating for the H shares. Our EPS estimates and target price remain unchanged. We see downside risk to Bloomberg consensus estimates. However, we believe the market has already discounted the weak financial performance, with the stock trading at 0.7X 2011E P/B. The stock appears to have been oversold recently, resulting in the CSH (H) stock being close to its 5-year historical trough P/B multiples.

Cebu Air (CEB.PS): In line with expectations: Lower fares fail to induce demand; Sell 27

CEB.PS, P80.35		
Market cap		US$1,162 mn
Target price		P60.40
Fiscal y/e Dec	2011E	2012E
Net inc. (P)	4,571 mn	3,444 mn
EPS (P)	7.45	5.62
EPS growth	(31.0%)	(24.6%)
P/E	10.8X	14.3X
Dividend yield	1.0%	0.7%
Investment Lists		
		Asia Pacific Sell List
Coverage view		Neutral

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What surprised us
On August 15, Cebu Air (CEB) announced its 2Q11 results, posting a pre-exceptional net profit of P1.15 bn, in line with our expectations of P1.14 bn, but below Bloomberg consensus estimates of P1.35 bn. The company's 2Q EBIT margin fell by 12 pp yoy to 15% due mainly to lower yields and load factors. Despite a 7.8% yoy decline in yields, load factors fell to 87%, 1.9 pp decline yoy, weighed down mainly by its international business.

What to do with the stock
We maintain Sell on CEB and expect the trend of deteriorating yields and load factors to continue in 2H11. We expect CROCI to fall to 16% in 2011, vs 23% in 2010, on back of: (1) rising competition from domestic LCCs and (2) net loss of domestic passengers from the full-scale implementation of the Philippines' open skies. In our view, Cebu may fail to induce demand via lower fares due to rising competitive challenges domestically and internationally, causing its cash returns to fall in 2011E-2012E.
Valuation: CEB is trading at an expensive valuation of 1.22X EV/GCI, above the sector average of 0.86X. We maintain our 12-month target price of P60.4 based on a target EV/GCI of 1.01X, derived from an average FY11E-FY12E CROCI of 14.8% over a WACC of 8.5%. Risks: Significant trading down by leisure travelers from full-service carriers to low-cost carriers could boost CEB's traffic and load factors.

Utilities

Korea Electric Power Corp. (015760.KS): Lowering TP to W21,000 on deteriorating balance sheet; Neutral 28

015760.KS, W21,550		
Market cap		US$12,811 mn
Target price		W21,000
Fiscal y/e Dec	2011E	2012E
Net inc. (W)	(2,624 bn)	(1,481 bn)
EPS (W)	(4,090)	(2,308)
EPS growth	(3,536.7%)	43.6%
P/E	--	--
Dividend yield	--	--
Investment Lists		Neutral
Coverage view		Cautious

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What's changed
2Q11 results were very weak with a W804bn operating loss due to tariff increases that were below fuel cost appreciation. A deterioration of generation mix also contributed to weak results; the utilization ratio of nuclear fell to 81% in 2Q from 94% in 1Q and coal utilization also declined, to 89% in 2Qfrom 95% in 1Q. Meanwhile, the utilization ratio of loss-making LNG increased to 77% in 2Q from 75% in 1Q. LNG accounted for 20% of total generation in 2Q11 compared to 18% a year ago. What is more concerning is a potential increase in accounts receivables from 2012E. Fuel cost adjustment is already implemented as of August. However, instead of imposing the fuel cost adjusted tariff on consumers, we expect the company to adjust its working capital instead. As we estimate KEPCO's fuel cost will increase 23%, yoy in 2012E, we think accounts receivable will increase substantially next year.

Implications
Reflecting a disappointing generation mix, we revise our 2011/12/13E EPS estimates to -W4,090/-2,308/-1,162 from -W1,416/-905/-619 . We also raise our accounts receivable estimate by W2.7tn to W6.3tn in 2012E.

Valuation
Based on the historical correlation between EV/GCI and CROCI, we lower our 12m TP from W27,000 to W21,000 (implying 2012E EV/GCI of 0.4x unchanged). Although its 2012E P/BV is at an historical low of 0.26X, we do not consider KEPCO as a defensive domestic or dividend play based on our outlook that the company will likely remain loss-making for the next three years until generation mix meaningfully improves.

Key risks
Upside: Stronger than expected KRW, higher than expected tariff. Downside: Weaker than expected KRW, lower than expected tariff.

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