Strategy Focus

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The Asia Investigator

2008 Outlook: Great Growth Story, But 20-25% Overvalued

- **Asia ex Japan: Yes, it's the Asian century. But why is so much being priced in come year 8?** — Asia has plenty of growth and exciting prospects. But P/E, P/BV and EYG valuations all show that the risks are to the downside. A 20-25% decline in MSCI Asia ex-Japan to 480-510 by mid-08E would bring regional valuations back to their fair-value trendline. *This is a correction in a bull market, not the end of it: we expect MSCI Asia to end 08E at 570.* **Page 3**

- **China: The Easy Money Has Been Made** — We believe headline inflation will remain high given energy/utility price adjustments. Brand-name consumer goods producers and strategic asset holders are best positioned. **Page 13**

- **Hong Kong: Expect Hybrids to Continue to Outperform** — So far in 2007, 17 out of 18 of the constituent stocks that outperformed the HSI have one common theme: China. In our view, China plays will continue to be the focus in 2008. We suggest staying with winners and expect hybrids to continue shining in 2008. **Page 18**

- **India: Remain Constructive, Despite Challenges** — We see 9% investment-led GDP growth in India for FY08 and FY09, with an improving fiscal deficit, ample liquidity in the banking sector and small rate cuts in early 2008. The rupee should continue to appreciate, albeit at a much slower pace than in 2007. **Page 23**

- **Korea: Relatively Positive** — Although there could be near-term turbulence due to external risks such as US sub-prime and China inflation, we believe that Korea will be relatively defensive due to low valuations and a smaller impact from a US growth slowdown compared with other Asian countries. **Page 33**

- **Malaysia: Higher Risk Premium, P/E Contraction Looms & Impact of a US Slowdown** — Fearing that the Malaysian market is in for another round of de-rating and higher risk premiums, we have been turning defensive. Our implied year-end index target is 1,425 points. **Page 38**

- **Singapore: Drive Defensively** — Our bottom-up index target of 3,900 implies 10% upside for 2008, reflecting subdued earnings growth. Downside risks are a slowing global economy, higher inflation and increased risk aversion. **Page 47**

- **Taiwan: Escaping the Value Trap** — With the exception of the aftermath of the 1999 earthquake, Taiwan has been the worst performing market in Asia so far this decade, giving up the entirety of its outperformance during the tech boom of the late 1990s. **Page 52**

See Appendix A-1 for Analyst Certification and important disclosures.

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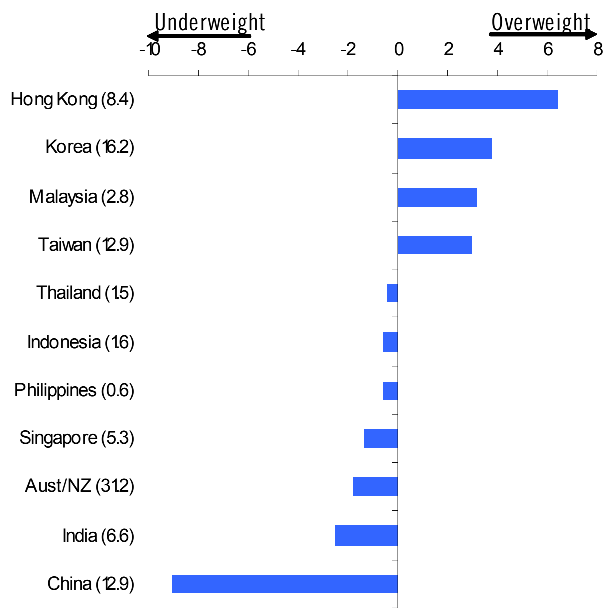
Asia Pacific Strategy Overview

Fresh Money Ideas

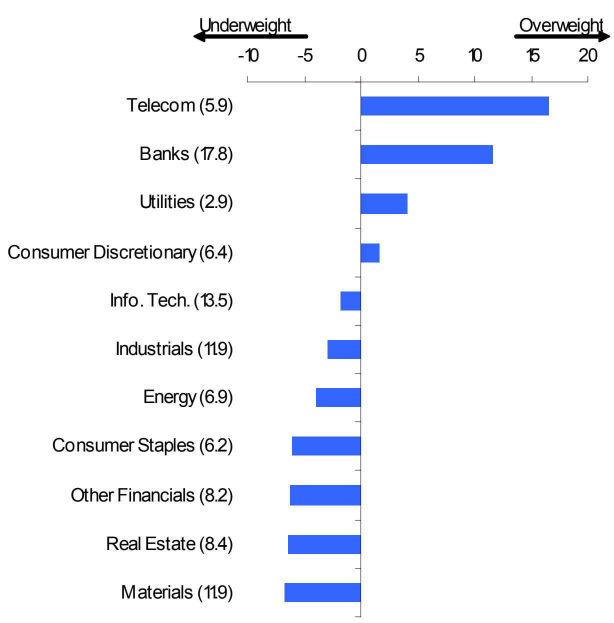
	Bloomberg code	Rating	Price 7-Dec-07	Target Price	ETR (%)
Buy					
Acer Inc.	2353 TT	1L	NT$66.40	NT$100.00	55.1
Dalian Port	2880 HK	1L	HK$5.65	HK$8.60	53.3
Kookmin	060000 KS	1L	W66,000.00	W95,000.00	49.5
China Mobile	941 HK	1L	HK$142.30	HK$196.00	39.2
Huaneng Power	902 HK	1L	HK$8.70	HK$10.00	18.2
Sell					
HKEX	388 HK	3M	HK$236.40	HK$219.20	-5.5
CJ Home Shopping	035760 KS	3H	W53,600.00	W54,000.00	3.0
SGX	SGX SP	3L	S$14.40	S$11.22	-19.2
Bumi Resources	BUMI IJ	3L	Rp6,100.00	Rp3,625.00	-39.5
Anhui Conch	914 HK	3M	HK$67.10	HK$46.50	-30.3

Source: Citi Investment Research

Model Portfolio (Asia/Pacific ex-Japan ex-Pakistan) Percentage Weighting Over / Under MSCI Benchmark*



Model Portfolio (Asia/Pacific ex-Japan ex-Pakistan) Percentage Weighting Over / Under MSCI Benchmark*



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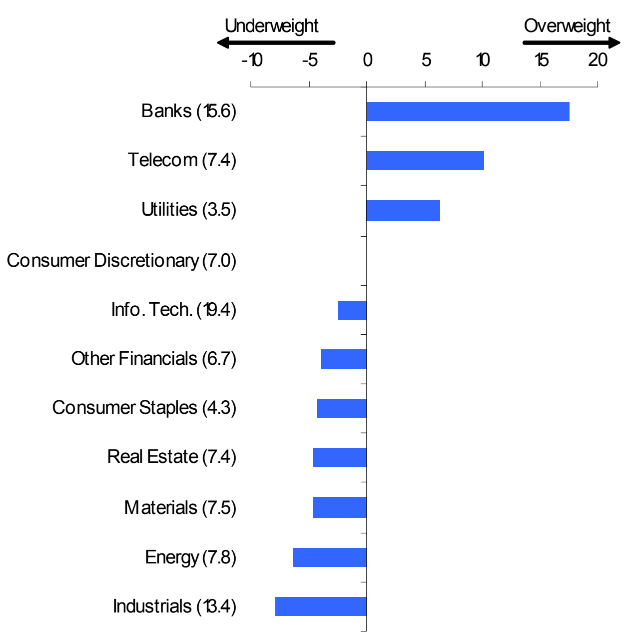

* Numbers in brackets show neutral weights within MSCI AC Asia Pacific ex Japan and Pakistan US$ Index as at 2 Jul 2007

Consumer Staples includes food & staples retailing, food beverage & tobacco, household products, health care equipment & services, and pharmaceutical & biotechnology.

Industrials include capital goods, commercial services & supplies and transportation.

Information Technology includes technology hardware & equipment, semiconductors and semiconductor equipment, software & services.

Other Financials include diversified financials and insurance

Source: MSCI, Citi Investment Research

Asia-ex Equity Strategy

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Great Growth Story, But 20-25% Overvalued

- **Yes, it's the Asian century. But why is so much being priced in come year 8?** — Asia has plenty of growth and exciting prospects. But P/E, P/BV and EYG valuations all show that the risks are to the downside. A 20-25% decline in MSCI Asia ex-Japan to 480-510 by mid-08E would bring regional valuations back to their fair-value trendline. *This is a correction in a bull market, not the end of it: we expect MSCI Asia to end 08E at 570.*

- **Most vulnerable: China A&B, India, Singapore, Industrials, Real Estate** — Neither absolute nor relative valuations (even growth-adjusted) are encouraging. In the case of China, the over-riding support is price momentum. Sector-wise, investors in Real Estate and Industrials are paying 3SD above mean P/BV for 1SD above mean ROE.

- **Hong Kong, Korea, Malaysia and Taiwan offer best risk-reward** — Support comes from low expectations, strong domestic fund flows and reasonable valuations. Korea and Taiwan are the markets currently least liked by consensus, which history suggests is a powerful argument in their favour. For Malaysia, commodities and liquidity are positive angles.

- **Best opportunities: large caps, cash flows, value not momentum** — Large caps have lagged the market, and their relative value is now back to 10-year lows. Yet, they have higher ROEs, margins and free cashflow than small/mid-caps. Now, the consensus trade is reflation; next year, it will switch to cash flow. Momo relative to value currently is as stretched as in 1997; rising volatility and slowing growth are enemies of momo and the friend of value.

Strategist's Top Buys / Sells

					2008E			
	Rating	Price	Target	ETR	EPS Grth	P/E	Yield	ROE
Top Buys		Nov. 30	(Lcl Cur)	(%)	(%)	(x)	(%)	(%)
Bharti Airtel	1L	939.45	1,200	27.7	61.3	25.9	0.6	41.8
Cathay Pacific	1L	20.45	25.20	27.2	12.5	12.7	4	12.8
China Mobile	1L	140.40	196	41.1	37	22.9	2.1	29.2
CITIC Pacific	1L	44.30	55.00	28.2	11.1	16	3	12.3
DBS	1L	20.10	25.50	30.1	13.6	11	3.7	13.6
Hyundai Dept Store	1M	112,500	135,000	20.5	11.2	12.5	0.5	14.6
Kookmin Bank	1L	63,900	95,000	48.6	-3.2	8.2	7.5	16.4
Melco	1M	12.44	19.20	54.9	272.5	93.8	0.6	2.2
Nan Ya Plastics	1L	83.80	102	29.2	7.9	9.7	8.1	23.5
SingTel	1L	3.88	4.40	18.7	5.5	16.6	5.3	17.9
Top Sells								
Aneka Tambang	3M	4,625	1,700	-62.1	-25.9	16.5	3.7	34.8
HK Exchanges	3M	241.40	219.20	-5.5	49.1	34.4	2.6	96.2
Keppel Land	3L	7.50	6.26	-15.7	-21.3	13.4	0.8	19.4
KT Freetel	3M	32,000	25,000	-20.4	56.9	15	1.9	9.1
LG H&H	3L	195,500	122,000	-37.0	29.7	29	0.7	25.3
P Gas	3L	15,800	8,400	-47.9	80.9	20.5	2.4	46.5
Shun Tak	3M	11.80	9.32	-19.7	-35	52.9	1.3	4.8
Singapore Exchange	3L	14.90	11.22	-17.5	54.8	31.1	2.9	70.5
Swire Pacific	3L	104.10	82.40	-18.1	2.7	19.7	3.2	6.5
UMC	3L	19.30	18.50	-1.6	-16.1	16.1	2.6	6.5

Source: Citigroup Investment Research estimates

Great Growth Story, But 20-25% Overvalued

MSCI Asia-ex (Dec 6, 07)......640

Mid-08E target....................480-510

End-year 08E target.............570

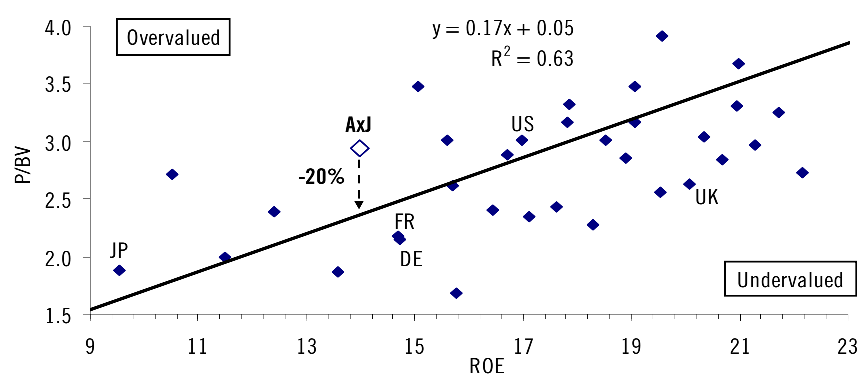
The 19th century belonged to the Brits and the 20th to the Yanks, with the 21st to be claimed by Asia ex-Japan, especially China and India. Nothing wrong with that almost-clichéd view; indeed, have sympathy with it. Our problem is the price of entry to the Asian party. Even after recent corrections, Asian share prices still capture too much good news and disregard the myriad risks – in terms of growth, policy-making or market specifics. Predictably, the cry is that this time it is different: Asia will decouple, and old valuation verities are quaintly outdated. We buy the (long-term) growth story, but currently much has a price but little value.

High multiples, declining liquidity & overbought markets suggest 20-25% downside in 08

High multiples in overbought markets, based on excessively optimistic expectations, are neither healthy nor sustainable, in our view. Using P/BV and ROE, and compared with both emerging and developed markets, Asia is some 20% above the fair-value line (Figure 1). P/BV ought to be 2.2x but instead is 2.7x. If global growth ends up weaker than our house view and ROE falls accordingly, valuations would come off further. Nor, from these levels, do Asian markets ever move sideways – with volatility at 36%, we know why.

Upshot: the region's markets face a 20-25% decline. Corrections of such magnitude are relatively rare, having occurred only twice in 17 years (ie, a 12% probability). But, then, equally rare are the signals coming from key indicators, such as absolute and relative valuations, implied earnings growth, high churn rates by investors, Asian excess liquidity which is rolling over and RSI levels not seen since 1988. The news is not all bad, however. Opportunities abound among Asia's large caps, cashflow rich companies, north Asian markets and value over me-too momentum investing.

Figure 1. Compared With Other Major Markets, Asia Is 20% Above the Fair-value Line



Source: MSCI, Citi Investment Research

Beware of Consensus Thinking

Consensus view #1: Asia economies will decouple from the global growth cycle

Decoupling is way too consensus and unsupported by evidence

Over the next 20+ years, Asia increasingly will become a domestic market with a small percentage of exports, just like Europe and the US. But that is not going to happen in 2008 or 2009. Decoupling can be looked at in four ways:

- *Trade linkages* Direct and intraregional exports are now more tied to US and G3 non-oil import growth than in the 1980s or 1990s.

- *Profit cycles.* Profit cycles (ROE) between Asia and the US and Europe have become more synchronized due to outsourcing and equity market constituents.
- *Consumption.* Asian consumption is growing more rapidly than in the G3. Great news. The kicker is that region's aggregate private consumption is still less than 12% of world domestic demand Relative to other components of GDP, consumption in Asia declined from 67% in 2000 to 59% at end-2Q207. Investments and net exports have expanded more rapidly.
- *Stock markets.* Here the data is conclusive in as much as stock market correlations (rate of change) are the highest in 30 years. In a global world, capital moves freely (more or less) in a quest for the best returns.

Export, profit and stockmarket cycles are the most correlated they've been since the 1980s

Still, the decoupling argument has its apostles and disciples, and has probably been reflected in asset allocation to Asia. When it becomes clear in 2008 that Asia remains part of the global world, disappointment will loom large.

Consensus view #2: Valuation parameters are no longer relevant

Many question the value of historical valuation parameters and hope it will be different this time

After 5 years of upmarkets in Asia, the longest unbroken period since 1990, many investors are ditching the past in order to substantiate the future. Can historical parameters be so readily dismissed as irrelevant? Not in the US since 1871, Japan since 1956 or Asia since 1975. Valuations are mean-reverting, re-ratings are infrequent and short. When valuations no longer seem to matter, the risks rise exponentially and the calendar turns a few more pages to the day when they matter.

Interesting and Overlooked Themes for 2008

The average portfolio is long reflation, short cash flow. De facto, the short spread is widening, the long spread tightening. That's the wrong trade for 08

Cashflow vs. reflation: Emerging Portfolio.Com tracks the movement of US$500bn of assets under management. In 2007, the big theme in Asia has been reflation, with the consensus portfolio long real estate, brokerages and exchanges, consumer services (ie hotels) and, latterly, materials. Sectors least favoured are banks, semiconductors and tech hardware, telecoms, utilities and, latterly, energy. Banks aside, these underweight sectors are all large generators of cash flows/free cash flow. By ranking, telecoms generates the most cash flow, followed by semiconductors and consumer discretionary.

The long-reflation camp can rustle up several plausible arguments, prominent among them being the effect of stronger Asian currencies (or put another way, a weaker US dollar). Intertwined with this are lower interest rates and higher inflation, or the compression of real yields. And as long as an underlying asset such as a property is appreciating in value, it provides access to credit lines, acting as a virtual ATM. Much of this is in the price. Take the real-estate sector. Property stocks are trading at P/BVs more than 1SD above their average, making them more expensive than in early 1997. Yet ROEs are some 170 bps below the 1997 peak and 530 bps below the 1994 peak. And the dividend yield is fast approaching 1SD below the mean, even including the REITS.

Figure 2. Regional Strategy Overview: Key Weightings by Market and Sector based on MSCI

Market	Weighting	Comment
China	Underweight (-889 bps)	Slowing liquidity growth, high valuations, over-exuberance; a pure momentum story
Hong Kong	Overweight (+657 bps)	Benefits of China with lower valuations, beneficiary of lower Fed funds
India	Underweight (-256 bps)	Trades on 65% P/B prem for a 17% ROE prem. Implied EPS growth of 60% is just too high
Indonesia	Underweight (-60 bps)	Unsupportive valuations with weakening earnings revisions bode ill for P/E expansion
Korea	Overweight (+379 bps)	Investors' biggest underweight, structural equity friendly environment. Attractive valuations
Malaysia	Overweight (+316 bps)	Big beneficiary from commodities boom, low implied expectations, fair valuations
Singapore	Underweight (-132 bps)	Consensus overweight with expensive valuations. Most sensitive to any US growth slowdown
Taiwan	Overweight (+315 bps)	Huge progress in capital discipline, historic low multiples relative to Asia with good ROE
Thailand	Underweight (-45 bps)	A cheap market but well owned and has a high degree of policy risk
Sector		
Banks	Overweight (+1166 bps)	Little priced in, negligible CDO exposure, cheap on mid-cycle earnings and P/BV & div yields
Consumer	Overweight (+165 bps)	Growth remains strong as do EPS revisions but valuations increasingly a struggle
Energy	Underweight (-387 bps)	Near-term risk to oil prices is down, esp if the US$ rallies. Expensive vs. rest of the region
Industrials	Underweight (-292 bps)	Most expensive sector on mid cycle & current valuations. Priced as growth no longer cyclical
Info Tech	Underweight (-154 bps)	Increasingly cheap, under-owned but very sensitive to global growth. One to watch in 08
Materials	Underweight (-690 bps	As with industrials, much priced in; multiples expanded fast than ROE
Real Estate	Underweight (-640 bps)	2nd most expensive sector on mid cycle. Consensus overweight; huge multiple expansion
Telecom	Overweight (+1663 bps)	Free cash flow kings which pay it out. Still being de-rated vs ROE. Non-consensus view
Utilities	Overweight (+409 bps)	Boring yes, dependable yes. Asia still has energy shortages and plenty of growth.

Source: Citigroup Investment Research

Note: Weights are relative to MSCI AC Asia ex Japan ex Pakistan

Another fallacy, we fear, is that financial intermediaries will continue to provide credit against hard assets. A quick look at credit or CDO spreads shows there *was* B.A. (before August) and there *is* A.A. (After August). Previous credit dislocations have revealed the tendency of equity investors to underestimate the size of the problem, its impact and the time required to clean up the resulting mess. We may be wrong, but the evidence suggests that this is history in playback.

At times like these, we believe the smart money follows the cashflows. Cashflow allows dividends to be paid, investments to be made and industries to be consolidated. With falling interest rates, dividends become all the more attractive. Telecoms, among others, fits the bill: cashflow/free cashflow are abundant and fairly predicable. Moreover, the sector has de-rated to the extent that it trades below mean on nearly every valuation ratio – and yet its ROE is above mean. As pointed out by Paul Chanin, the head of our Asian quants team, the telecom and utility sectors both benefit from falling interest rates. Our house forecast is that the Fed will cut rates by 100 bps by mid-2008.

Our liking for cashflow stories is not confined to telecoms. Technology is a sector in which we are increasingly interested, though it remains one of our bigger underweights. Capital spending has become significantly more disciplined, and hence free cashflow has turned positive for the first time since 2000. Tech is valued as a cyclical not a growth sector. Valuations, especially relative to the region, are at discounts seen only during downturns.

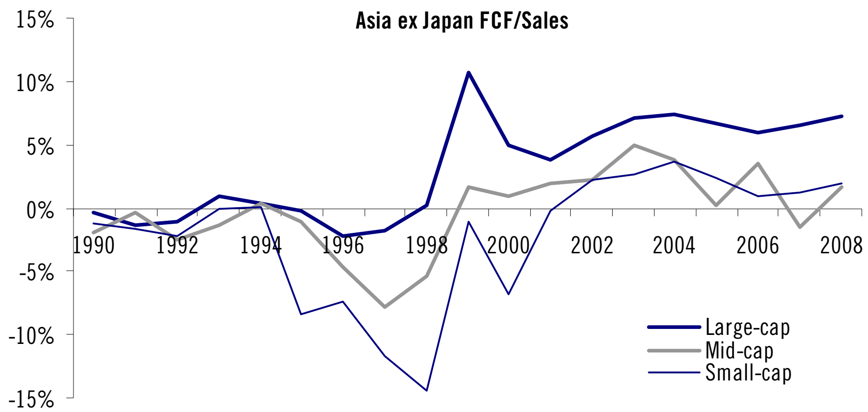
We believe cashflow is undervalued and under-appreciated

This has not been a good year for banks, with investors fleeing for the exits as credit worries escalated in the US. Financials in Asia are now investors' biggest underweight. So, paradoxically, investors appear to believe in reflation (expanding the balance sheet) but not in the banks that would fund it. Both on a fundamental and quants basis, we find that banks are cheap and are pricing in little in the way of earnings expectations.

Large caps remain cheap relative to mid and small caps, enjoy higher margins and more free cashflow

Big need not be lumbering: Since August, Asia has become a big-cap story, with small/mid-caps beginning to underperform after posting strong returns earlier in the year. Investors have flocked back to large caps for their cheaper valuations, and for their stronger fundamentals as economic uncertainly has increased. Large caps continue to look attractive while generating ROEs superior to those of the small/mid-cap space. Margins are higher, earnings are more visible and free cashflow is just oozing out of them (Figure 3). Of course, there are risks. When redemptions are heavy, the most liquid stocks get sold down; portfolio-hedging strategies using index futures may result in large-caps being shorted; and, in parts of Asia, large-caps can get called on for "national service" that compromises their profitability.

Figure 3. Large Caps Have Greater Free Cash Flow Than Small/Mid Caps

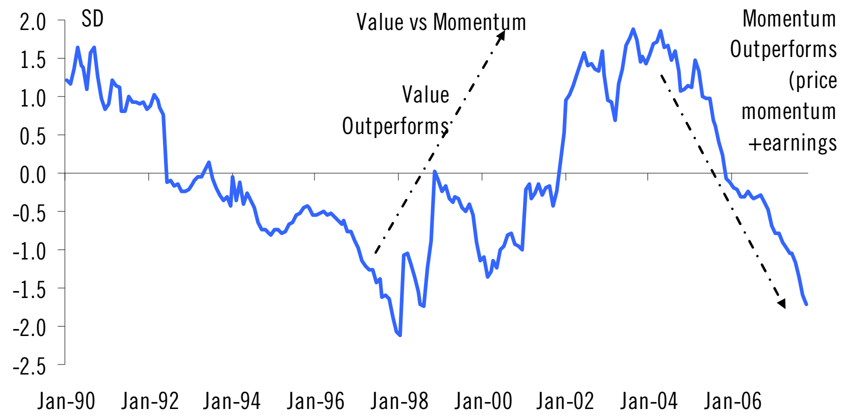


Source: Worldscope, MSCI, Citi Investment Research

Momo has been king for 3 years, emboldened by low volatility and strong growth. In 2008, Value will beat Momo

Value vs. momentum: For over three years, momentum investing (buying what's gone up and what has seen upward earnings revisions) has beaten value investing (Figure 4). Valuations have mattered less than the directional trend of a stock. We expected value to come to the fore in 2008. Annoyingly, we were too early. Low volatility is conducive to momentum investing as it implies blue skies overhead. Global growth is another driver of pro-momentum sentiment. Since the middle of the year, volatility has gone up and growth expectations have gone down – yet momentum continued to do well until November, buoyed by a sharp rise in retail participation domestically and internationally. In recent weeks, however, the shift has been towards value. On the international side, momentum is showing distinct signs of having peaked, with redemptions of US$2.3bn in the past 4 weeks; locally, retail investors have become less active.

Figure 4. For Three Years, Momentum Has Beaten Value Investing



Source: Citi Investment Research

So where can value be found? Still some value in HK (old HK), Korea and Taiwan still look attractively valued, and we overweight all three. Malaysia, with its commodity exposure, also remains attractive. While we are underweight Thailand, we acknowledge that it is looking increasingly appealing. Value-wise, we have problems with China (A&B), India and Indonesia, but they currently have plenty of momentum support.

We find value in old HK, Korea, Taiwan. Not in China, India or Indonesia

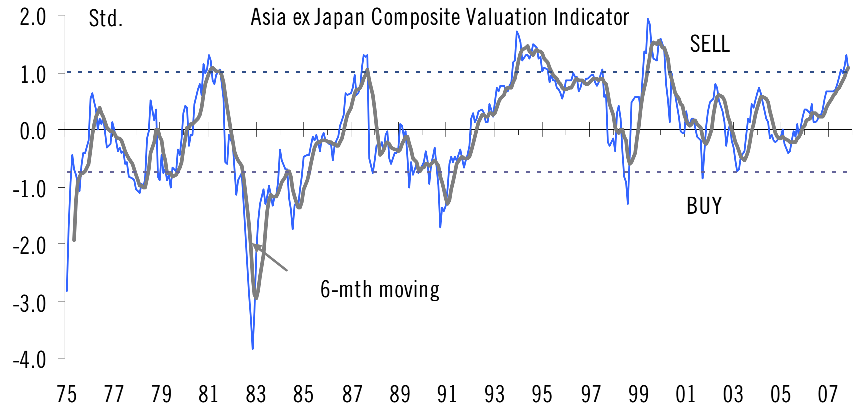
In terms of sectors, the biggest value support is found in semiconductors (though we still underweight it), banks (overweight), metals & mining (predominately the Australians) and real estate. Telecoms (overweight) has suffered a huge de-rating; within the sector we like China, India and Indonesia for growth and Singapore and Taiwan for yield and capital management. Sectors that look expensive (especially on the mid-cycle valuation comparison) are real estate (China and Singapore) at a 76.6% premium to a mid-cycle average, and industrials and energy, at respective premiums of 70% and 54.5%. At the other end of the spectrum, technology is a 13% discount to mid-cycle valuations and telecoms and banks are at only small premiums.

Post 5 years of upmarkets, in which markets were re-rated, Asia is now expensive

Where is Asia in the valuation cycle?

Asian markets have now enjoyed 5 years of positive returns, the longest unbroken period in 35 years, with multiples being re-rated in all but one of those 5 years. In terms of P/BV, valuations are at the top end of their historic range. Our composite valuation model – which equal-weights P/E, P/BV and dividend yield – shows Asia to be expensive, with increasing risks to the downside. As shown in Figure 5, markets do overshoot for periods, but on the whole trading the ranges and avoiding the downside is the formula for making money. The earnings yield gap signalled in July that markets were expensive. Since then, equity markets have fallen and bond yields have rallied, with the result that the EYG needle is now merely on "caution" as opposed to “extreme caution” previously.

Figure 5. Composite Valuation Models Signals That Asia Is Expensive and Risks Are to the Downside



Source: MSCI, Citi Investment Research

Three possible curved balls

1) Being bullish Asian currencies and bearish the US dollar is too consensus. Given their surpluses, Asian currencies are undervalued but policymakers are unwilling to let them appreciate at market rates. The US$ will surprise investors by its strength during 2008. This will hurt Asian markets

2) Policy risk is generally underestimated in Asia; see the "P note" rules in India, the Thai currency debacle

3) Global outsourcing has increased the operational leverage (fixed vs variable costs) not only of Asian equity markets but also of the economies. Earnings/GDP may slow more quickly than expected in 08

Relative to the MSCI World index, Asia ex-Japan is now trading at premiums of 20% on a P/E basis (2SD above the 17-year mean) and 14.6% on P/BV (a little over 1SD) yet ROE is 0.5SD below the historic range. Investors are paying more for Asia yet getting lower ROEs, lower margins and lower divided yields. Yes, EPS growth of 20.8% in 2007E is higher than for MSCI World but in 05 and 06 Asian EPS was lower. Asia has only ever traded at premiums to the rest of the world when its ROEs have been superior; never when they have been inferior, as they are now. For Asia, there are three ways to increase ROE – raise leverage, fatten margin or sweat assets more intensively, all of which look unlikely given current credit and growth conditions.

Retail investors are a great counter-indicator for Asian markets. Today, equity holding periods (number of days shares are held by investors) are shorter than they were in 1993/4, within 5 days of the 1997 lows and close to the 2000 lows. Retail churn and market peaks are highly correlated. Another reliable indicator is equity issuance by the corporate sector, which peaks alongside equity markets. Issuance relative to broad money is nearing its all-time high and is way beyond the 1997 or 2000 levels. In the same vein, the earnings growth implied by the markets is at levels that presage disappoint (only in 1993/4 and in 2000 were expectations higher).

Asia's excess liquidity is also showing signs of rolling over. The US current account deficit, the other great global liquidity provider, is beginning to shrink. Hence, fewer US$ are being pushed into the rest of the world. This is not captured in the price of Asian assets.

Finally, the market is very overbought. At the end of October, the 12-month RSI for Asia ex Japan stood at 90.9, which is the highest since the index began in 1987. Indeed, it even surpasses the 1993 peak. The region has moved from being exceedingly undervalued, under-owned and oversold (RSI of 38 oversold) to expensive, over-owned and overbought.

The key is that a 20-25% correction takes the Asian index back to the uptrend that started in 2003. The bull would not be slain, just brought under control. What we are seeing is a typical cycle. Nothing more, nothing less. As ever, the biggest suffering will be in the markets, sectors and stocks that have been overhyped, overpriced and are over-owned.

Asia Pacific Model Portfolio by Country

Name	Price 7 Dec 07	YTD Perf (%)	Ticker	Analyst's Rating	MSCI Wght (%)	Portfolio Wght (%)	FY08E PE (x)	FY08E EPS Gwth (%)	FY08E Div Yield (%)	FY08E P/BV (x)	FY08E ROE (%)	Up/Downside to Target (%)
Australia/New Zealand (-223 bps U/W)					**31.2**	**29.0**						
Aust & NZ Banking	28.5	1.0	ANZ.AX	1L		6.0	12.8	8.3	5.1	2.2	17.2	8.8
Brambles	12.6	-2.2	BXB.AX	2M		5.0	26.2	12.7	2.3	16.4	62.7	3.6
Tabcorp Hld	15.5	-8.0	TAH.AX	2M		3.0	16.3	2.2	6.2	2.4	14.8	5.2
Telecom NZ	4.4	-8.6	TEL.NZ	1M		5.0	12.2	-0.4	6.3	3.2	26.3	12.6
Telstra	4.7	13.8	TLS.AX	2H		5.0	16.3	3.0	5.9	5.1	31.0	6.2
Woodside Pet	48.3	26.8	WPL.AX	3M		2.0	19.4	28.4	3.1	4.1	21.2	-4.4
China (-889 bps Underweight)					**12.9**	**4.0**						
China Netcom	23.4	12.0	0906.HK	2L		1.0	15.7	0.1	2.2	1.7	10.6	0.6
China Tel	6.2	45.8	0728.HK	2L		2.0	19.8	6.6	1.5	2.0	10.0	8.7
CNOOC	13.9	87.8	0883.HK	1L		1.0	15.8	16.3	1.9	3.7	23.5	7.3
Hong Kong (+657 bps Overweight)					**8.4**	**15.0**						
BOC Hong Kong	21.6	2.1	2388.HK	NR		4.0	14.3	9.7	4.5	2.3	16.4	NA
CITIC Pacific	45.0	67.6	0267.HK	1L		2.0	16.4	11.1	2.9	2.0	12.5	22.2
Dah Sing Banking Group	18.2	3.9	2356.HK	NR		2.0	12.4	10.2	4.3	1.6	13.2	NA
Guoco	111.5	16.1	0053.HK	1L		1.0	11.0	16.5	3.6	0.9	8.1	1.3
Hong Kong & China Gas	22.6	42.1	0003.HK	2L		3.0	27.3	-45.2	1.8	4.6	17.0	-2.7
Henderson Land	70.0	60.8	0012.HK	1L		2.0	19.0	18.9	1.7	1.3	7.1	28.7
Li and Fung	31.7	30.8	0494.HK	NR		1.0	26.5	28.9	3.0	10.0	37.8	NA
India (-256 bps Underweight)					**6.6**	**4.0**						
Bharti Airtel	959.7	52.6	BRTI.BO	1L		1.0	20.4	29.6	1.0	6.9	34.0	25.0
State Bank of India	2,436.6	95.6	SBI.BO	1L		1.0	20.1	18.1	0.7	3.1	15.6	-0.3
Wipro	502.6	-16.9	WIPR.BO	1L		2.0	17.8	23.9	1.6	4.8	26.8	12.4
Indonesia (-60 bps Underweight)					**1.6**	**1.0**						
PT Telkom	10,950.0	8.4	TLKM.JK	1L		1.0	15.3	6.7	4.7	6.0	39.1	18.7
Korea (+379 bps Overweight)					**16.2**	**20.0**						
KEPCO	41,300.0	-2.6	015760.KS	1L		3.0	11.2	1.6	2.8	0.6	5.1	9.0
Kookmin Bank	66,000.0	-11.9	060000.KS	1L		5.0	8.1	-3.2	7.6	1.3	15.9	43.9
Samsung Elec	608,000.0	-0.8	005930.KS	1L		5.0	11.5	10.8	0.9	1.6	13.8	29.9
Shinhan Financial	51,300.0	8.0	055550.KS	1L		4.0	7.5	46.4	3.4	1.2	15.9	48.1
Shinsegae	694,000.0	19.7	004170.KS	2L		3.0	20.7	25.0	0.2	3.3	16.1	-9.2
Malaysia (+316 bps Overweight)					**2.8**	**6.0**						
DiGi.com	24.7	62.5	DSOM.KL	1L		2.0	15.6	13.7	6.7	9.8	62.7	13.4
IJM Corp	8.3	12.2	IJMS.KL	NR		1.0	16.1	446.8	2.1	1.5	9.3	NA
Public Bank	10.8	39.4	PUBM.KL	1L		1.0	15.6	12.8	6.9	3.7	23.5	16.0
TA Enterprise	1.3	62.3	TAES.KL	1L		1.0	8.3	26.6	8.8	0.8	9.5	84.5
Tenaga	9.8	-10.1	TENA.KL	3L		1.0	12.8	-7.1	3.5	1.6	12.8	-17.3
Philippines (-62 bps Underweight)					**0.6**	**0.0**						
Singapore (-132 bps Underweight)					**5.3**	**4.0**						
DBS	21.1	-6.6	DBSM.SI	1L		1.5	11.6	13.6	3.5	1.4	12.5	20.9
StarHub	3.0	13.7	STAR.SI	1L		1.5	13.6	24.6	5.7	26.7	196.6	20.4
SPH	4.7	10.7	SPRM.SI	1L		1.0	13.7	8.2	6.3	3.2	23.1	11.8
Taiwan (+315 bps Overweight)					**12.9**	**16.0**						
Acer	66.4	-0.9	2353.TW	1L		1.0	11.3	13.2	4.5	1.6	14.6	50.6
Chinatrust	22.9	-16.1	2891.TW	1L		2.0	10.4	9.6	4.4	1.5	14.9	22.5
Far Eastone	43.0	16.4	4904.TW	1L		2.0	10.7	29.6	7.4	2.0	18.8	16.3
Formosa Plastics	91.2	68.6	1301.TW	1L		2.0	10.7	11.2	7.5	2.3	21.7	15.1
Taishin	13.8	-27.7	2887.TW	1L		3.0	9.4	80.2	-	0.9	10.0	41.3
Taiwan Mobile	43.5	28.7	3045.TW	1L		2.0	9.4	42.0	8.5	3.3	35.0	26.4
TSMC	62.6	-6.8	2330.TW	2L		4.0	13.7	5.8	5.1	3.6	26.5	13.4
Thailand (-45 bps Underweight)					**1.5**	**1.0**						
Thai Airways	38.0	-14.1	THAI.BK	1M		1.0	6.5	26.0	4.8	0.8	12.8	57.9
Total					**100.0**	**100.0**	**13.1**	**13.4**	**4.0**	**2.0**	**15.6**	

Neutral weight as of Jul 2, 2007 Note: Weightings may not add up owing to stocks being restricted for legal reasons

Source: Citi Investment Research estimates and IBES for non-rated stocks

Asia Pacific Model Portfolio by Sector

Name	Price 7 Dec 07	YTD Perf (%)	Country	MSCI Wght (%)	Portfolio Wght (%)	FY08E PE (x)	FY08E EPS Gwth (%)	FY08E Div Yield (%)	FY08E P/BV (x)	FY08E ROE (%)	Up/Downside to Target (%)
Banks (+1166 bps Overweight)				**17.8**	**29.5**						
Aust & NZ Banking	28.5	1.0	AU		6.0	12.8	8.3	5.1	2.2	17.2	8.8
BOC Hong Kong	21.6	2.1	HK		4.0	14.3	9.7	4.5	2.3	16.4	NA
Chinatrust	22.9	-16.1	TW		2.0	10.4	9.6	4.4	1.5	14.9	22.5
DBS	21.1	-6.6	SG		1.5	11.6	13.6	3.5	1.4	12.5	20.9
Dah Sing Banking Group	18.2	3.9	HK		2.0	12.4	10.2	4.3	1.6	13.2	NA
Kookmin Bank	66,000.0	-11.9	KR		5.0	8.1	-3.2	7.6	1.3	15.9	43.9
Public Bank	10.8	39.4	MY		1.0	15.6	12.8	6.9	3.7	23.5	16.0
Shinhan Financial	51,300.0	8.0	KR		4.0	7.5	46.4	3.4	1.2	15.9	48.1
State Bank of India	2,436.6	95.6	IN		1.0	20.1	18.1	0.7	3.1	15.6	-0.3
Taishin	13.8	-27.7	TW		3.0	9.4	80.2	0.0	0.9	10.0	41.3
Consumer Discre. (+165 bps Overweight)				**6.4**	**8.0**						
Li and Fung	31.7	30.8	HK		1.0	26.5	28.9	3.0	10.0	37.8	NA
Shinsegae	694,000.0	19.7	KR		3.0	20.7	25.0	0.2	3.3	16.1	-9.2
SPH	4.7	10.7	SG		1.0	13.7	8.2	6.3	3.2	23.1	11.8
Tabcorp Hld	15.5	-8.0	AU		3.0	16.3	2.2	6.2	2.4	14.8	5.2
Consumer Staples (-617 bps Underweight)				**6.2**	**0.0**						
Energy (-387 bps Underweight)				**6.9**	**3.0**						
CNOOC	13.9	87.8	HK		1.0	15.8	16.3	1.9	3.7	23.5	7.3
Woodside Pet	48.3	26.8	AU		2.0	19.4	28.4	3.1	4.1	21.2	-4.4
Financials , Others (-624 bps Underweight)				**8.2**	**2.0**						
Guoco	111.5	16.1	HK		1.0	11.0	16.5	3.6	0.9	8.1	1.3
TA Enterprise	1.3	62.3	MY		1.0	8.3	26.6	8.8	0.8	9.5	84.5
Industrials (-292 bps Underweight)				**11.9**	**9.0**						
Brambles	12.6	-2.2	AU		5.0	26.2	12.7	2.3	16.4	62.7	3.6
CITIC Pacific	45.0	67.6	HK		2.0	16.4	11.1	2.9	2.0	12.5	22.2
IJM Corp	8.3	12.2	MY		1.0	16.1	446.8	2.1	1.5	9.3	NA
Thai Airways	38.0	-14.1	TH		1.0	6.5	26.0	4.8	0.8	12.8	57.9
Information Technology (-154 bps Underweight)				**13.5**	**12.0**						
Acer	66.4	-0.9	TW		1.0	11.3	13.2	4.5	1.6	14.6	50.6
Samsung Elec	608,000.0	-0.8	KR		5.0	11.5	10.8	0.9	1.6	13.8	29.9
Wipro	502.6	-16.9	IN		2.0	17.8	23.9	1.6	4.8	26.8	12.4
TSMC	62.6	-6.8	TW		4.0	13.7	5.8	5.1	3.6	26.5	13.4
Materials (-690 bps Underweight)				**11.9**	**5.0**						
Formosa Plastics	91.2	68.6	TW		2.0	10.7	11.2	7.5	2.3	21.7	15.1
Real Estate (-640 bps Underweight)				**8.4**	**2.0**						
Henderson Land	70.0	60.8	HK		2.0	19.0	18.9	1.7	1.3	7.1	28.7
Telecommunications (+1663 bps Overweight)				**5.9**	**22.5**						
Bharti Airtel	959.7	52.6	IN		1.0	20.4	29.6	1.0	6.9	34.0	25.0
China Netcom	23.4	12.0	HK		1.0	15.7	0.1	2.2	1.7	10.6	0.6
China Tel	6.2	45.8	CN		2.0	19.8	6.6	1.5	2.0	10.0	8.7
DiGi.com	24.7	62.5	MY		2.0	15.6	13.7	6.7	9.8	62.7	13.4
Far Eastone	43.0	16.4	TW		2.0	10.7	29.6	7.4	2.0	18.8	16.3
PT Telkom	10,950.0	8.4	ID		1.0	15.3	6.7	4.7	6.0	39.1	18.7
StarHub	3.0	13.7	SG		1.5	13.6	24.6	5.7	26.7	196.6	20.4
Taiwan Mobile	43.5	28.7	TW		2.0	9.4	42.0	8.5	3.3	35.0	26.4
Telecom NZ	4.4	-8.6	NZ		5.0	12.2	-0.4	6.3	3.2	26.3	12.6
Telstra	4.7	13.8	AU		5.0	16.3	3.0	5.9	5.1	31.0	6.2
Utilities (+409 bps Overweight)				**2.9**	**7.0**						
Hong Kong & China Gas	22.6	42.1	HK		3.0	27.3	-45.2	1.8	4.6	17.0	-2.7
KEPCO	41,300.0	-2.6	KR		3.0	11.2	1.6	2.8	0.6	5.1	9.0
Tenaga	9.8	-10.1	MY		1.0	12.8	-7.1	3.5	1.6	12.8	-17.3
Total				**100.0**	**100.0**	**13.1**	**13.4**	**4.0**	**2.0**	**15.6**	

Neutral weight as of Jul 2, 2007 Note: Weightings may not add up owing to stocks being restricted for legal reasons

Source: Citi Investment Research estimates and IBES for non-rated stocks

Country

	Mkt Cap	P/E (x)			EPS Growth (%)			Yield (%)	PBV	ROE (%)			US$ Performance		
12/7/2007	USD bil	2006	2007E	2008E	2006	2007E	2008E	2007E	(x)	2006E	2007E	2008E	1W	1M	YTD
Asia Pacific ex Japan	3507.5	17.6	16.0	14.1	17.6	9.1	13.5	2.8	2.8	15.9	15.9	16.2	1.9	-4.3	37.7
Asia ex Japan	2541.1	17.8	16.1	14.0	20.8	10.4	14.2	2.4	2.8	15.3	15.3	15.7	2.1	-3.5	40.6
Australia	947.8	20.4	17.7	15.0	14.0	5.7	11.7	3.9	3.1	17.5	17.5	17.7	1.4	-6.5	31.6
China	613.0	25.3	20.8	17.7	26.9	20.9	16.1	1.7	4.7	17.1	18.1	18.6	1.7	-5.6	73.7
Hong Kong	335.8	16.5	21.4	18.1	40.4	-23.2	16.2	2.5	2.4	14.3	10.4	11.4	-0.3	-1.6	36.9
India	295.2	29.5	22.6	17.8	12.7	20.1	27.2	0.9	5.9	20.0	18.7	19.9	4.6	5.0	66.6
Indonesia	62.5	18.6	16.7	14.3	49.2	10.5	16.3	2.6	5.8	28.8	26.9	26.8	5.4	1.4	57.1
Korea	543.3	14.3	12.3	10.8	9.5	15.7	12.5	1.7	1.9	14.0	14.5	14.5	2.6	-6.0	35.5
Malaysia	88.4	17.0	15.8	14.2	22.2	8.3	11.5	3.5	2.5	14.2	14.4	14.6	3.9	0.6	38.7
New Zealand	18.7	15.4	14.9	14.5	-2.4	-3.1	5.9	4.9	2.4	15.6	16.1	15.9	2.5	-3.1	7.1
Pakistan	5.8	13.3	11.3	10.5	5.9	14.2	11.2	4.7	3.4	33.4	29.4	27.5	4.0	7.6	39.0
Philippines	19.9	19.7	17.1	14.3	2.6	13.8	19.1	2.7	2.8	14.8	15.6	16.5	7.9	1.2	43.3
Singapore	157.7	16.1	15.3	13.3	12.0	5.1	14.2	3.4	2.3	14.4	14.1	14.8	1.4	-3.8	26.0
Taiwan	372.3	14.1	12.2	11.1	30.1	16.4	9.3	4.4	2.2	15.3	16.4	16.5	1.4	-5.9	8.4
Thailand	47.2	13.5	11.6	10.9	1.1	12.3	8.3	3.7	2.3	17.7	18.0	17.7	-0.4	-3.5	37.4

*MSCI Asia Free Ex Japan universe does not cover Australia and New Zealand.

Source: IBES Aggregate, MSCI, FactSet and Citi Investment Research estimates

Sector

	Mkt Cap	P/E (x)			EPS Growth (%)			Yield (%)	PBV	ROE (%)			US$ Performance		
12/7/2007	USD bil	2006	2007E	2008E	2006	2007E	2008E	2007E	(x)	2006E	2007E	2008E	1W	1M	YTD
Energy	290.9	20.0	17.3	15.5	9.2	13.9	11.0	2.0	4.5	19.7	19.4	18.9	1.8	-3.4	83.5
Materials	449.5	15.2	13.6	12.9	16.2	7.3	7.6	2.4	3.5	22.9	22.2	20.4	1.7	-4.5	70.4
Capital Goods	281.0	20.7	19.3	15.2	21.0	5.5	26.6	1.5	2.8	14.4	14.5	15.9	0.4	-8.6	72.1
Comm Serv & Supplies	17.4	23.5	21.1	18.6	-5.2	8.6	12.7	2.9	6.5	33.2	34.0	33.5	1.3	-10.6	7.2
Transportation	130.0	15.8	16.2	13.9	38.5	-6.3	17.2	3.4	2.2	13.8	12.3	13.5	-0.1	-7.5	46.5
Auto & Components	47.0	13.6	11.6	10.0	15.3	18.7	15.8	1.9	1.7	11.4	13.1	13.6	4.5	2.5	15.0
Consumer Durables	31.0	18.6	12.9	10.8	54.8	43.4	16.2	2.5	2.4	14.9	18.4	18.8	4.9	-4.1	26.4
Consumer Services	44.0	19.5	18.4	16.5	8.9	6.0	12.5	3.6	2.8	13.7	13.2	13.6	1.4	-4.8	9.6
Media	17.1	19.5	17.2	15.2	2.6	9.4	15.9	4.9	2.6	10.3	14.0	15.1	3.5	-0.8	11.1
Retailing	50.5	23.9	21.3	18.0	22.6	14.4	17.0	2.4	4.5	15.2	18.8	19.9	-1.1	-7.4	34.9
Food & Staples Retailing	76.7	25.8	22.7	19.9	-6.1	8.4	16.4	3.0	5.8	17.2	15.5	17.0	-0.5	-2.3	45.1
Food Bev & Tobacco	74.1	20.3	17.8	15.7	13.1	14.1	13.3	2.9	3.3	16.3	17.2	17.5	3.3	-2.3	32.5
Household Products	13.5	28.8	24.0	20.4	20.0	19.5	16.5	2.3	7.7	32.4	33.7	33.4	-1.1	-2.1	21.6
Health Care Equip & Serv	12.4	27.2	23.6	20.4	5.5	16.1	16.4	2.9	4.3	17.0	17.8	19.6	-0.1	-5.1	22.6
Pharma Biotech & Life Sciences	27.7	27.0	22.7	18.9	19.4	21.7	20.8	1.3	6.4	23.2	24.7	24.7	4.9	1.3	47.2
Banks	596.6	15.0	13.6	12.2	20.3	11.0	11.2	3.9	2.5	15.8	16.5	16.8	2.2	-5.0	20.4
Diversified Financials	137.7	20.8	18.2	16.4	65.4	11.9	10.9	2.8	4.1	18.4	18.5	18.4	2.7	-4.8	80.0
Insurance	161.0	19.7	18.9	17.3	30.5	3.4	9.6	2.8	3.7	17.8	17.3	17.4	2.7	-7.1	29.7
Real Estate	300.8	20.4	20.5	16.6	15.1	-1.3	23.6	3.0	1.8	8.4	8.2	9.4	1.2	-4.2	32.9
Software & Services	60.2	27.7	22.5	19.1	24.4	24.8	16.5	0.9	10.1	28.7	27.3	25.4	1.4	-1.5	13.8
Technology Hardware & Equip	157.7	15.5	11.5	10.1	78.0	33.3	13.5	2.6	2.5	16.1	18.7	18.4	1.1	-8.4	13.9
Semi & Semi Equipment	179.4	15.1	13.1	11.2	-25.6	15.1	15.9	2.8	2.0	13.9	14.7	15.9	5.3	-0.4	-3.7
Telecom	254.2	17.2	18.2	16.0	32.7	-6.2	13.4	3.0	3.8	21.3	18.3	18.9	1.7	0.2	49.2
Utilities	96.9	16.6	15.8	14.8	4.2	5.1	4.4	2.9	1.7	10.1	10.4	10.4	3.6	1.7	26.3

Note: The above data are compiled based on the MSCI Asia Pacific Free-ex-Japan universe of stocks. The market capitalization for the countries, sectors and the region are free-float adjusted. Also the P/E and EPS Growth are taken from IBES Aggregate estimates for MSCI country, sector and regional indices. P/BV represents 12-months trailing P/BV calculated by MSCI for MSCI country, sector and regional indices. ROE is calculated as trailing P/BV divided by forward P/E estimates for respective fiscal year. With the exception of Australia and New Zealand whose fiscal year ends in June, (ie, 2008E refers to June 2008E), fiscal year for all countries, sectors and the region ends in December. NM = Not Meaningful; NA = Not Available.

Source: IBES Aggregate, MSCI, FactSet and Citi Investment Research estimates

China Equity Strategy

The Easy Money Has Been Made

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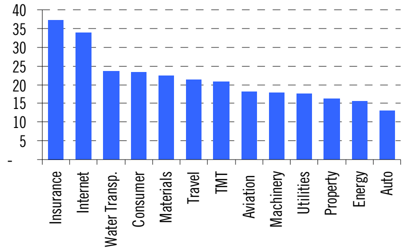
- **Inflationary pressures to persist** — We believe headline inflation will remain high given energy/utility price adjustments. Brand-name consumer goods producers and strategic asset holders are best positioned in this environment.
- **Government to step up effort on policy enforcement** — Government will sharpen its focus on enforcing austerity measures, as inflation remains its top concern. Economic and stock market liquidity will be tighter than in past years.
- **Consumption to remain most resilient** — Consumption should accelerate on rising income growth. This is a potential policy booster for lower income groups given the inflation outlook and wealth effect from property and stock markets.
- **Diverging impact of A share listing** — The predictable pattern of looking for A-share listing candidates is fading. Only companies that used their A-share proceeds productively still command outperformance.
- **Investment strategy** — We believe visible growth is defensive for China. Outperforming financials and commodities are likely to take a break, while we overweight domestic consumption and infrastructure plays.

China — 08E P/E By Sector (CIR Coverage)



Source: Citi Investment Research estimates

China: Top Buys and Sells

	Rating	Price (Nov. 30)	Target Price	ETR (%)	2008E EPS Grth	2008E P/E (x)	2008E Yield	2008E ROE
Top Buys								
Air China	1L	9.83	10.20	4.4	57.2	19.5	1.1	16.5
Best quality air carrier in China, strong earnings momentum and unique access to 08 Beijing Olympics								
China Merchants	1L	50.50	59.60	19.8	27.8	27.6	1.8	18.5
Container tariff hikes and restructuring of west Shenzhen ports; port acquisitions/potential IPOs								
China Mobile	1L	140.40	196.00	41.1	37	22.9	2.1	29.2
Long-term profitability well protected from short-term regulatory uncertainty								
China Resources Land	1L	18.54	23.71	28.3	136.4	28.0	0.7	14
Robust earnings growth in FY2008 and strong parent injection pipeline								
China Yurun	1L	12.78	15.30	20.6	19.4	22.8	1.1	19.7
Good secular play on heightened awareness of food-hygiene standards								
Ctrip	1L	60.11	75.00	25.1	40.8	49.8	0.6	32.1
Leading online travel consolidator benefits from robust China travel demand								
Dalian Port	1L	5.80	8.60	49.4	21.9	19.5	1.4	13.4
Unique exposure to the revitalization of Northeast China and the country's thirst for oil								
Focus Media	1L	56.44	80.00	41.7	20.1	31.4	0	17.4
Dominant out-of-home media company with multiple platforms that effectively reach the middle class								
Intime Dep Store	1H	6.71	10.40	56.0	31.1	25.1	1.2	11.5
Forecasting earnings growth of 31% pa into 2009E on strong presence in Zhejiang								
Lenovo Group	1L	6.91	12.00	78.0	127.6	21.2	0	31.4
Improving global PC growth; restructuring gain start to become visible; improving operating margin								
Mengniu Dairy	1L	27.95	33.00	18.7	31.6	32.5	0.7	20.9
Longer-term growth intact despite near-term shortfall								
Ping An	1L	85.95	102.81	20.4	0.9	39.1	0.8	14.3
More resilient earnings; key beneficiary of China's next wave of wealth management development								
Sinopec	1L	11.72	13.50	16.7	4.5	15.2	1.6	19
Negative earnings momentum in 2H07 priced in, valuation call								
Top Sell								
Denway	3L	5.08	4.43	-10.7	11.4	16	2.3	22.6
Price cuts for the new Accord may be larger than market expectations, disappointing 07-08 volume growth								

Source: Citi Investment Research estimates. Expected total return (ETR) = capital appreciation plus dividend yield

The Going Could Get Tougher

Inflation – More Structure than Cyclical

While many argue that rising inflation since 2Q07 was cyclical food-price driven, we believe structural inflation pressure is more forceful and could lead to a persistent inflationary environment in China for the foreseeable future.

China's high inflation rate is partly a symptom of the rise in global commodity prices, as farm products such as corn and soybeans climb sharply alongside the increase in crude oil and metals. Also low pork prices last year discouraged farmers from raising pigs this year, which has led to a shortage, worsened by an outbreak of a pig disease.

RMB has weakened consistently against currencies other than USD and commodities

More importantly, despite appreciating against the USD since Jul 2005, the RMB has lost substantial purchasing power against other currencies and commodities. As a result, China has experienced increasing inflation pressure due to rising import prices for most commodities it needs.

Subsidized energy prices encouraged irresponsible investment and consumption behavior

The regulated energy price system often receives blame for economic overheating. The government subsidizes basic utility/energy areas, such as electricity, water, natural gas and gasoline/diesel.

Below cost energy/utility prices are unsustainable for the long term as investment growth has been far above government guidelines. The government is introducing energy saving efforts as a main target in its new five-year plan.

1. Scenario Analysis – Biggest Sector Losers From US Growth Slowing to 1% in 2008E

	Base Case: 2008E		Bear Case: 2008E	
	EPS Growth	P/E	EPS Growth	P/E
Metals & Mining	25%	28.6	10%	31.2
Oil & Gas*	5%	15.5	-37%	21.2
Technology	44%	17.0	39%	18.5
Transportation	24%	16.7	23%	18-22x

* Note: Assuming $20/bbl oil price decline. Source: Citi Investment Research estimates

Government to step up policy enforcement

As we foresee a more sticky inflation environment, the government efforts to enforce austerity measures are likely to step up aggressively. In particular, after the March 2008 election, newly elected officials will have even more incentive to cool the economy.

Bank lending will be under tight scrutiny

We expect liquidity to become much tighter. Continued increases in the RRR have finally hit bank lending capabilities, especially for small and medium-sized banks. Some small banks' loan-to-deposit ratios have already risen to 80%-plus, much higher than the 75% stipulated by regulation. Also, smaller banks' restricted network coverage, along with continued declines in deposit growth due to negative real interest rates, limits scope to improve deposit growth. As a result, we believe strong performance for the banking sector, in particular small and medium-sized banks, is unlikely to be repeated in the near future.

We believe the government will enforce the full-year loan growth target. While PBOC's original target for raising loans outstanding is Rmb2.9trn, CBRC's ceiling is Rmb3.5trn. However, in the first three quarters of 2007, loans outstanding already rose Rmb3.36trn. More severely, we could see the PBOC's monitoring of bank lending practices become a monthly exercise rather than the quarterly examination it is now.

2. Scenario Analysis – Sector Losers and Winners from US Dollar Gaining/Falling 10%

	Base Case: 2008E		Dollar ↓ 10%: 2008E	
US dollar falls 10%	EPS Growth	P/E	EPS Growth	P/E
Consumer	29%	29.1	↑1%	29.0
Metals & Mining	25%	28.6	0%-↓5%	28.6-30.0
Oil & Gas	5%	15.5	↓4%	16.1
Technology	44%	17.0	↓3%	17.5
Transportation	24%	16.7	↑15%	8.0-13.0

	Base Case: 2008E		Dollar ↑ 10%: 2008E	
US dollar rises 10%	EPS Growth	P/E	EPS Growth	P/E
Consumer	29%	29.1	↓1%	29.4
Metals & Mining	25%	28.6	0%-↑5%	27.2-28.6
Oil & Gas	5%	15.5	↑4%	14.9
Technology	44%	17.0	↑3%	16.5
Transportation	24%	16.7	↓5%	19.0-24.0

Source: Citi Investment Research estimates

For HK-listed China shares, our forecast market cap weighted EPS growth for 2008 stands at around 25% while the market P/E is around 18x. This is not excessively expensive, and we focus on positioning our investment strategy.

Two outperforming sectors, financials and commodities, to take a break

We believe the market lacks a driving force to rise from current levels. A short-term consolidation is likely. YTD, Financials (including banks, insurance and property) and commodities, have outperformed significantly. Both sectors' run-ups are likely to be halted by a tightening credit environment in China.

ICBC best positioned

For banks, more restrictive measures may cap loan growth momentum. Declining A-share trading volume will likely also dent high-margin fee income growth potential. Under this scenario, bigger banks, particularly ICBC, should fare better than competitors.

Insurance companies – impacted by A share uncertainty; we prefer Ping An

Insurance companies have traded with close correlation to the A share market performance in the past year or so. We remain positive on long-term recurrent yield trend on rising interest rate cycle, but expect A share-related earnings growth uncertainty remains a key issue going into FY08. Our insurance analyst, Bob Leung, notes that based on weaker A-share gains in the next 6-12 months and stronger unit-linked sales, Ping An is our preferred play in the Chinese insurance sector, where the more diversified financial group is expected to provide more resilient earnings into FY08.

Premium to NAV may shrink for property names.

While we remain positive on underlying property demand on the back of rising living standards and negative real interest rates, we believe certain property stocks may be vulnerable to their rich valuations.

Quite a few property stocks trade at a premium to NAV on three assumptions: 1) unlimited access to capital markets; 2) open channels to bring money back to China; and 3) continued ability to deploy funds for landbank acquisition that would yield good returns.

However, all three assumptions may be up for challenge going forward.

- Financial market uncertainty has already halted debt issues for Agile and Country Garden.
- Government is cracking down on overseas investment into China, in particular property-related investments.
- Increasingly landbank is being acquired in remote areas where income levels are low.

Transaction volumes started to show signs of decline in some cities

Also, rising property prices and restrictive mortgage lending held back transaction volumes. Most evidently in Shenzhen, property transaction volume fell to less than 60 units in October, down 50% from September.

Government-backed developers and investors, such as COLI, CR Land, Sino Ocean and Franshion, are better positioned.

We expect some premiums to NAV could narrow as these doubts surface. Meanwhile, government-background developers and investors, such as China Overseas Land, CR Land, Sino Ocean Land and Franshion Property, may be better positioned in this environment.

What to overweight...

Amid fears of a domestic slowdown and sub-prime woes, sectors with reliable growth are likely to outperform in the next few months. The market is likely to refocus on fundamental earnings growth and growth visibility. We overweight a broadly defined Consumer sector and Infrastructure.

Why overweight Consumer

We overweight Consumer to reflect rising income growth and inflation-induced return of pricing power. Also, consumer stocks would be less affected by any slowdown in investment growth. Our top picks are Mengniu, Li Ning, Intime Department Store and Golden Eagle Department Store.

Also, the advertising and travel segments should benefit from rising consumption momentum. Our preferred plays are Air China, Baidu, Ctrip, Home Inns, and Sina.

Mobile telecom operators, in particular China Mobile, will continue to deliver the most resilient growth. We believe even if we saw 3G licences issued to fixed line operators now, it would probably not have any meaningful earnings impact on CMHK until at least 2009.

Why overweight Infrastructure

We are overweighting infrastructure plays on the back of asset price appreciation along with RMB appreciation and rising tariff potential as inflation remains high. Our top picks within this sector are China Merchants, Dalian Port, Tianjin Port and Beijing Airport.

3. Scenario Analysis – Biggest Sector Losers If Valuations Revert to 3-year Mean

	Base Case: 2008E		3-year Mean	
	P/E	ROE	P/E	ROE
Consumer	29.1	26%	20.3	34%
Insurance	35.9	20%	16.1	15%
Internet & Media*	45.9	26%	31.7	20%
Metals & Mining	28.6	20%	8.0	5%
Oil & Gas	15.5	22%	9.4	26%
Telecom	20.4	23%	13.0	17%
Transportation	16.7	15%	25.4	15%
Utilities	17.1	15%	23.4	14%

*Note: 3-yr historical data or since IPO. Source: Citi Investment Research estimates

China Market Intelligence

	Mkt Cap	P/E (x)			EPS Growth (%)			Yield (%)	PBV	ROE (%)			US$ Performance		
12/7/2007	**USD bil**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**	**2008**	**(x)**	**2007**	**2008**	**2009**	**1W**	**1M**	**YTD**
China	**613.0**	**25.3**	**20.8**	**17.7**	**26.9**	**20.9**	**16.1**	**1.7**	**4.7**	**17.1**	**18.1**	**18.6**	**1.7**	**-5.6**	**73.7**
Energy	129.1	21.5	19.8	17.4	8.5	13.6	6.6	1.9	4.7	21.9	23.7	27.0	3.1	-2.7	72.5
Materials	43.6	25.9	23.0	20.1	12.4	14.6	12.5	1.5	4.6	17.8	20.0	23.0	2.1	-7.9	111.3
Capital Goods	36.8	27.5	26.5	24.4	3.9	8.5	21.6	1.3	3.4	12.2	12.7	13.7	1.7	-7.1	108.9
Transportation	39.9	52.1	24.0	19.5	116.9	23.2	16.7	1.9	4.5	8.6	18.6	22.9	-0.1	-6.8	121.7
Auto & Components	5.6	22.6	16.8	14.0	34.7	19.9	14.5	2.0	2.7	12.0	16.2	19.4	-1.1	-4.4	54.2
Consumer Durables	2.6	28.1	23.2	18.0	21.0	29.4	23.6	1.4	4.2	14.8	17.9	23.2	1.8	-8.5	78.9
Consumer Services	2.3	56.1	37.5	28.3	49.7	32.2	26.0	1.2	3.1	5.6	8.4	11.1	4.1	-10.2	68.7
Retailing	8.5	32.7	26.6	31.1	23.0	-14.5	19.8	1.3	4.6	14.2	17.5	14.9	2.2	3.6	74.6
Food Bev & Tobacco	8.5	24.6	20.0	16.3	22.9	22.5	27.1	1.4	3.3	13.5	16.6	20.3	-0.9	-9.5	38.2
Household Products	2.6	50.9	38.7	30.2	31.4	28.4	22.0	2.2	7.6	14.9	19.6	25.1	-3.1	2.1	NA
Banks	77.9	32.7	23.0	17.0	43.1	35.3	21.6	2.5	3.8	11.7	16.6	22.4	0.8	-8.2	24.1
Diversified Financials	2.6	50.4	15.4	17.8	228.1	-13.6	-5.2	0.3	5.1	10.1	33.2	28.7	10.8	-21.6	210.3
Insurance	62.0	62.0	34.9	33.3	77.8	4.7	16.0	0.7	6.8	10.9	19.4	20.4	4.0	-8.3	81.1
Real Estate	37.9	40.3	29.0	19.9	39.2	45.5	36.1	1.5	5.7	14.0	19.5	28.4	2.4	-14.8	62.9
Software & Services	4.7	28.9	25.8	22.7	12.3	13.6	10.5	0.1	29.7	102.8	115.4	131.1	-14.8	-5.8	47.8
Technology Hardware & Equip	4.4	26.3	18.7	14.9	40.7	25.7	18.6	1.6	3.4	12.8	18.0	22.7	4.4	-7.2	64.3
Semi & Semi Equipment	1.6	-5.4	-39.3	6.0	NA	NA	104.6	0.0	0.6	-11.6	-1.6	10.3	8.1	-10.5	-22.0
Telecom	127.9	36.2	30.8	24.1	17.5	27.9	15.8	1.9	6.4	17.8	20.9	26.7	0.6	-0.6	100.3
Utilities	14.5	25.0	21.8	18.5	14.5	18.1	15.7	2.3	3.0	11.9	13.6	16.1	3.3	-6.2	63.3

Note: The above data are compiled based on the MSCI Asia Pacific Free-ex-Japan universe of stocks. The market capitalization for the countries, sectors and the region are free-float adjusted. Also the P/E and EPS Growth are taken from IBES Aggregate estimates for MSCI country, sector and regional indices. P/BV represents 12-months trailing P/BV calculated by MSCI for MSCI country, sector and regional indices. ROE is calculated as trailing P/BV divided by forward P/E estimates for respective fiscal year. With the exception of Australia and New Zealand whose fiscal year ends in June, (ie, 2008E refers to June 2008E), fiscal year for all countries, sectors and the region ends in December. NM = Not Meaningful; NA = Not Available.

Source: IBES Aggregate, MSCI, FactSet and Citi Investment Research estimates

Hong Kong Equity Strategy

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Expect Hybrids to Continue to Outperform

- **Strategy** — So far in 2007, 17 out of 18 of the constituent stocks that outperformed the HSI have one common theme: China. In our view, China plays will continue to be the focus in 2008. We suggest staying with winners and expect hybrids to continue shining in 2008. Our Top Buys list includes three hybrid names – Cheung Kong, CITIC Pacific and Henderson Land.
- **Conglomerates** — We remain positive on both CITIC and Wharf. CITIC continues to restructure, whilst Wharf has now amassed a 70m sqft PRC property portfolio.
- **Property** — Approaching negative real rates, a fall in unsold inventory and rising wages could revitalize the appetite for physical property in HK. The mass residential market has done little over the last decade, but could be worth considering late in the cycle. Top picks: CKH, Henderson and MTRC.
- **Utilities & Financials** — The utilities suffer from unexciting local profit increment, keen competition for overseas expansion and high 2009E P/Es against historical averages. The financials — especially following their recent rally — could struggle due to pressure from the Prime-HIBOR spread and a possible decline in IPO margin financing.
- **Valuations** — Our analysts' target prices suggest c.6.5% upside potential to the HSI to 31,250. The index is now trading at 15.6x 08E P/E (mean valuation of 12.4x). We remain neutral on HK, as we expect little upside in the next 12 months.

Sensitivity Analysis - If Interest Rates Increase by 100bps

	Base Case: 08E		Bear Case: 08E	
	P/E	ROE	P/E	ROE
Conglomerates	31.8	9.5	40.2	8.5
Property	22.2	10.1	24.6	9.4
Utilities	15.9	15.7	16.1	15.5

Source: Citi Investment Research estimates

Hong Kong: Top Buys and Sells

	Rating	Price (Nov. 30)	Target Price	ETR (%)	2008E EPS Grth	2008E P/E (x)	2008E Yield	2008E ROE
Top Buys								
Cheung Kong	1L	150.10	181.88	26.0	-17.2	15.9	1.8	9.1
Leads the HK property sales league table in 2007 1-3Q								
CITIC Pacific	1L	44.30	55.00	28.2	11.1	16	3	12.3
Has been executing its focused strategy of growing core businesses								
Henderson Land	1L	71.20	90.00	32.7	18.9	18.6	1.7	7.4
Best capable of capturing a fast growing residential market in HK								
Melco	1M	12.44	19.20	54.9	272.5	93.8	0.6	2.2
VIP market share could reach ~30% upon completion of the AMAX deal								
MTR Corporation	1L	26.15	28.90	11.7	65	20.1	1.6	13.2
A play on the mass residential property market in HK								
Top Sells								
Shun Tak	3M	11.80	9.32	-19.7	-35	52.9	1.3	4.8
More of a property play but currently priced as a gaming stock								
Swire Pacific	3L	104.10	82.40	-18.1	2.7	19.7	3.2	6.5
Overvalued; market pricing in overly bullish property rental rises								

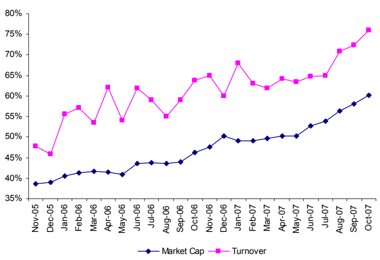
Source: Citi Investment Research estimates

Expected total return (ETR) = capital appreciation plus dividend yield

Expect Hybrids to Continue to Outperform

The 15 constituent stocks that outperformed the Hang Seng Index have one common theme – China. Either they are pure China plays (China Mobile, CNOOC, Ping An etc), companies with heavy investments in China (New World Development, Hang Lung Property, CITIC Pacific etc) or a beneficiary of the proposed "through train" policy from China (i.e. HKEx). By the same token, nine of the 10 worst performers are not regarded by the market as China plays.

Mainland Enterprises as a % of Hong Kong Stock Market



Source: HKEx

Mainland enterprises represent 60% and 76% of HK's stock market in terms of market cap and turnover, respectively. China plays will continue to be the focus in 2008, in our view. Therefore, we suggest staying with winners and expect hybrids to continue shining in 2008. Our Top Buys list includes three hybrid names – Cheung Kong, CITIC Pacific and Henderson Land.

HSI Constituents – Absolute and Relative Performance

		12/31/06	11/28/07	YTD Price Change	Relative Performance	% Weight
0388.HK	HKEx	85.50	224.00	162%	91%	4.47%
0941.HK	China Mobile	67.20	134.50	100%	46%	15.08%
0883.HK	CNOOC	7.39	13.84	87%	37%	3.99%
2318.HK	Ping An	43.05	78.00	81%	32%	2.05%
0017.HK	New World Development	15.66	27.55	76%	28%	1.24%
0016.HK	SHK Props	89.35	152.10	70%	24%	3.89%
0101.HK	Hang Lung Props	19.50	31.95	64%	20%	1.24%
0386.HK	Sinopec	7.20	11.02	53%	12%	3.45%
0267.HK	CITIC Pacific	26.85	40.75	52%	11%	0.93%
0939.HK	China Construction Bank	4.95	7.46	51%	10%	4.69%
2628.HK	China Life	26.55	39.95	50%	10%	5.55%
0012.HK	Henderson Land	43.50	64.10	47%	7%	1.05%
0001.HK	Cheung Kong	95.75	139.90	46%	7%	3.93%
0004.HK	Wharf	28.75	40.55	41%	3%	1.02%
0144.HK	China Merchants Holdings	31.90	44.90	41%	3%	0.91%
0083.HK	Sino Land	18.16	24.70	36%	-1%	1.11%
0762.HK	China Unicom	11.40	15.50	36%	-1%	0.99%
0011.HK	Hang Seng Bank	106.30	143.70	35%	-1%	2.05%
0291.HK	China Resources Enterprise	22.35	30.00	34%	-2%	0.67%
0330.HK	Esprit Holdings	86.85	113.90	31%	-4%	2.23%
0066.HK	MTR Corporation Ltd	19.56	25.35	30%	-5%	0.66%
0003.HK	Hong Kong & China Gas	17.50	22.00	26%	-8%	1.49%
3328.HK	Bank of Communications	9.44	11.86	26%	-8%	3.32%
0494.HK	Li & Fung	24.20	30.35	25%	-9%	1.27%
1398.HK	ICBC	4.83	6.02	25%	-9%	4.20%
1038.HK	Cheung Kong Infrastructure	24.15	29.00	20%	-12%	0.24%
0019.HK	Swire	83.55	97.05	16%	-15%	1.66%
1199.HK	Cosco Pacific	18.26	20.10	10%	-20%	0.42%
0013.HK	Hutchison Whampoa	79.05	86.45	9%	-20%	3.44%
0906.HK	China Netcom	20.85	22.65	9%	-21%	0.85%
0006.HK	Hongkong Electric	38.10	39.55	4%	-24%	1.02%
0023.HK	Bank of East Asia	44.05	45.70	4%	-24%	1.34%
0293.HK	Cathay Pacific	19.18	19.60	2%	-25%	0.43%
0551.HK	Yue Yuen Industrial	24.70	24.50	-1%	-28%	0.30%
0008.HK	PCCW	4.73	4.69	-1%	-28%	0.45%
3988.HK	Bank of China	4.27	4.01	-6%	-32%	2.28%
0002.HK	CLP Holdings	57.50	52.45	-9%	-33%	1.77%
0005.HK	HSBC	142.60	129.60	-9%	-34%	12.27%
2388.HK	BOC Hong Kong	21.10	19.00	-10%	-34%	1.31%
2038.HK	Foxconn	25.60	19.04	-26%	-46%	0.75%
.HSI	**Hang Seng Index**	**19,964.72**	**27,371.24**	**37%**		**100.00%**

Source: Powered by dataCentral, Bloomberg

CITIC Pacific – A top China hybrid in the Conglomerates space

CITIC Pacific

CITIC continues to focus on its strategy of sticking to its newly defined core businesses: Steel and Property in China. Despite the recent spin-offs, less than 25% of CITIC's NAV is separately listed. We continue to believe there is upside to the NAV as we currently value assets such as Macau Telecom and HACTL on relatively conservative multiples. We anticipate the next targets for divestment include its Air China Cargo JV, HACTL, The HK Tunnels and Macau Telecom. We also believe the group will attempt a secondary A-share listing in 2008.

The group has exercised its rights to develop a second 1bn tonnes in its Western Australia iron ore mine for around US$200m. Phase 1-2 should have the ability to provide up to 28m tonnes of concentrate.

Wharf

We also like Wharf, a defensive hybrid that continues to execute well in China. The group continues with its shopping spree by jointly acquiring with COLI a residential site in the Nan'an District in Chongqing for RMB7.5bn. or RMB3,575psm. Wharf will take a 40% stake in the project, with a sharing ratio of 40:60. The site provides a total GFA of 2.1msm and will be developed into high-end residential buildings.

Wharf's attributable footage in the PRC has risen to around 70m sqft GFA. The Group has expressed ambitions to expand the portfolio to around 100m sqft. Wharf's China property portfolio currently represents 32% of our NAV.

Dachan is close to launching its first berth by the end of this year. We believe this terminal will give Yantian a run for its money as a credible deepwater port.

Bullish on Domestic Property

Mortgage rate cuts during the year have aided affordability and it shows in the number of residential unit transactions that took place in Hong Kong during the year. Total number of both primary and secondary transactions as of early November already significantly exceeded that of full-year 2006.

Hong Kong Residential Property Transaction Volume

Type	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 YTD*
Private – Primary	19,780	21,123	31,398	21,997	16,379	20,563	26,489	27,378	25,874	15,071	12,158	15,948
HOS/PSPS/HS	16,110	31,526	17,941	14,614	8,979	12,647	1,300	0	0	0	0	1,063
Private + HOS/PSPS/HS	35,890	52,649	49,339	36,611	25,358	33,210	27,789	27,378	25,874	15,071	12,158	17,011
Private – Secondary	109,538	145,859	53,041	58,239	50,767	50,983	48,095	46,131	76,668	88,337	70,209	91,927
Total	**145,428**	**198,508**	**102,380**	**94,850**	**76,125**	**84,193**	**75,884**	**73,509**	**102,542**	**103,408**	**82,367**	**108,938**

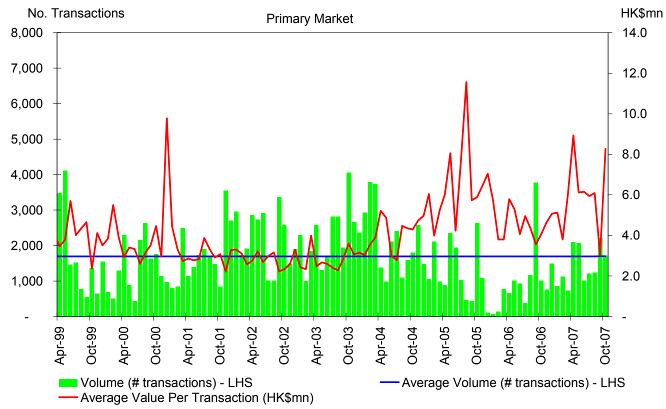
* 2007 YTD up to Nov 27, 2007

Source: Midland Realty

Tony Tsang, our property analyst, noted that sellers in the secondary market raised their asking prices by 2-15% after the banks cut their prime and mortgage rates on Nov. 9. He believes that the strong secondary prices should help narrow the primary-secondary prices gap. In addition, he expects a drop in supply in the secondary market as more sellers withdraw their holdings from the market. These should channel more prospective homebuyers to the primary market, so he expects a more active primary market going forward.

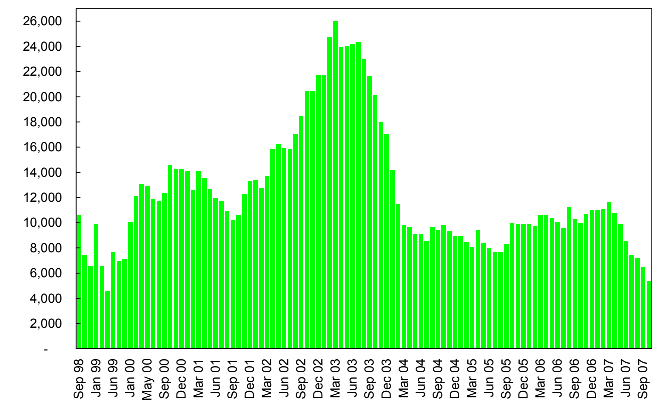
Unsold inventory also reached 6,470 units, lowest since mid-1999. This should further strengthen primary prices in the next few years.

Hong Kong Primary Residential Market – Vol and Value per Transaction



Source: Land Registry

Hong Kong Primary Market – Unsold Inventory



Source: HKSAR government, Midland Realty, Citi Investment Research estimates

We believe Cheung Kong, Henderson Land and MTRC will benefit from the strong HK property market.

Cheung Kong

We expect the mass market to continue catching up with the luxury residential market in prices, which should benefit CKH's imminent launch of Lohas Park Ph 1, which provides 2,096 units. We see upside potential to our assumed list price of HK$4,800psf, and thus our NAV estimate.

Henderson Land

With over 3.7m sqft (or 3,300 units) immediately available for sale now, HLD is the best capable to take advantage of an expected fast primary residential market. HLD has lately launched The Sparkle in Cheung Sha Wan and already has about 250 units (or 60% of total) committed, at an average price of about HK$6,500psf, about 51% higher than nearby transacted averages, reflecting HLD's strong property sales capabilities.

MTRC

MTRC is a mass property play that is often overlooked. We have aligned our price assumptions for MTRC, with numerous projects at Tseung Kwan O and the Shatin area, to those we use for Cheung Kong and Henderson Land.

Remain Cautious on Utilities

We are cautious on the investment outlook for Hong Kong power companies in 1H08 given (i) unexciting local profit increment amid slow power demand growth (up 1-2% p.a.) and high reserve margins (38% for CLP and 43% for HKE in 2006), (ii) keen competition for overseas expansion, and (iii) high 2009E P/Es against historical averages, assuming lower rates of return for Scheme of Control assets (down from 13.5% currently to 10.0% in 2009E). But if the market corrects sharply, the following factors could attract attention:

- Both CLP and HKE are targeting not to cut their DPS in 2009E despite lower SOC returns; and

Their dividend yields would be sustainable backed by high recurrent cash flow yield (average 4.8% in 2008E) mainly from Hong Kong, which would become more attractive if HK$/US$ interest rates are declining.

Hong Kong Market Intelligence

	Mkt Cap	P/E (x)			EPS Growth (%)			Yield (%)	PBV	ROE (%)			US$ Performance		
12/7/2007	**USD bil**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**	**2008**	**(x)**	**2007**	**2008**	**2009**	**1W**	**1M**	**YTD**
Hong Kong	**335.8**	**16.5**	**21.4**	**18.1**	**40.4**	**-23.2**	**16.2**	**2.5**	**2.4**	**14.3**	**10.4**	**11.4**	**-0.3**	**-1.6**	**36.9**
Capital Goods	26.9	16.8	11.3	34.9	49.1	-67.7	88.2	2.0	1.3	7.5	11.2	3.6	-3.5	-1.2	7.1
Transportation	17.3	14.7	8.1	10.3	82.6	-21.4	-14.4	3.4	1.6	10.9	19.8	15.6	-1.1	-6.5	25.5
Consumer Durables	3.6	12.3	15.1	11.7	-18.6	29.5	24.4	2.4	1.9	15.4	12.5	16.2	2.3	-2.5	-13.7
Consumer Services	3.3	35.8	31.9	27.3	12.3	16.6	17.5	1.6	2.5	7.1	8.0	9.3	-0.4	-10.4	11.0
Media	1.7	17.3	15.9	14.4	8.7	10.6	10.3	4.3	4.4	25.2	27.4	30.3	-1.7	-2.4	-1.5
Retailing	29.7	37.9	29.2	23.7	36.0	23.3	21.1	3.1	10.5	27.6	35.9	44.2	-2.2	-10.6	27.4
Food Bev & Tobacco	2.6	57.2	45.0	37.1	27.0	21.2	20.7	1.3	9.6	16.8	21.3	25.8	8.0	4.3	NA
Banks	38.8	21.5	18.7	17.8	14.9	5.3	10.8	3.8	3.6	16.9	19.4	20.4	9.3	7.0	25.3
Diversified Financials	32.4	99.7	47.3	33.3	110.8	42.1	15.2	2.9	39.8	39.9	84.1	119.5	-0.1	-7.3	175.9
Real Estate	125.5	24.3	21.7	24.5	12.3	-11.7	25.0	1.9	1.7	7.0	7.9	6.9	-2.4	-0.8	52.4
Software & Services	6.6	95.3	69.7	49.1	36.6	42.2	39.8	0.5	23.0	24.1	33.0	46.9	-1.6	1.3	NA
Technology Hardware & Equip	8.9	10.1	18.4	14.5	-45.2	27.4	20.5	0.8	3.8	37.8	20.7	26.4	6.0	-2.5	-2.9
Semi & Semi Equipment	1.3	18.0	16.6	14.2	8.9	16.3	6.2	6.0	7.8	43.0	46.8	54.4	-2.9	-11.2	12.5
Telecom	4.5	43.3	1.6	22.2	NA	-92.8	10.7	2.9	2.1	4.8	130.2	9.4	1.3	-4.3	-4.7
Utilities	28.9	15.9	14.5	15.5	9.6	-6.5	-14.5	3.5	2.7	16.7	18.3	17.1	0.7	5.1	12.9

Note: The above data are compiled based on the MSCI Asia Pacific Free-ex-Japan universe of stocks. The market capitalization for the countries, sectors and the region are free-float adjusted. Also the P/E and EPS Growth are taken from IBES Aggregate estimates for MSCI country, sector and regional indices. P/BV represents 12-months trailing P/BV calculated by MSCI for MSCI country, sector and regional indices. ROE is calculated as trailing P/BV divided by forward P/E estimates for respective fiscal year. With the exception of Australia and New Zealand whose fiscal year ends in June, (i.e., 2008E refers to June 2008E), fiscal year for all countries, sectors and the region ends in December. NM = Not Meaningful; NA = Not Available.

Source: IBES Aggregate, MSCI, FactSet, Citi estimates.

India Equity Strategy

Remain Constructive, Despite Challenges

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- **Macro growth to remain strong** — We see 9% investment-led GDP growth in India for FY08 and FY09, with an improving fiscal deficit, ample liquidity in the banking sector and small rate cuts in early 2008. The rupee should continue to appreciate, albeit at a much slower pace than in 2007.

- **Earnings growth to be around 20%** — Strong Sep-07 quarter (profit growth of 31% vs. 21% forecast) has driven another round of upgrades. Adjusting for index changes, we see a possibility of earnings continuing to grow at ~20%.

- **Key challenges** — National elections may be called earlier than scheduled (2Q09), but that would be only a brief setback for the market. New p-note rules, together with moderating global risk appetite, have already significantly slowed foreign flows, which will remain subdued till early 2008 as FII registrations build up. Talent shortages and wage inflation remain key hurdles for most businesses in India.

- **Remain constructive** — Valuations are not cheap after a four-year run-up, but they look less expensive once embedded asset values are accounted for, so we continue to suggest a constructive approach to the market. With prospects of only moderate foreign flows near term and a potential disruption from early national elections, we recommend a strong large-cap bias in India portfolios.

India: Top Buys and Sells

		Price	Target	ETR	2008E			
	Rating	(Nov. 30)	Price	(%)	EPS Grth	P/E (x)	Yield	ROE
Top Buys								
Bharti Airtel	1L	939.45	1,200	27.7	61.3	25.9	0.6	41.8
Concerns on regulatory developments overdone; towerco value-unlocking possibilities								
Bharat Heavy	1L	2,681	2,936	10.1	37.1	39.6	0.5	33
Supercritical and advance class gas turbine wins underline earnings revision momentum								
ICICI	1L	1,185	1,235	5.1	13.5	30.3	0.9	12.1
Relative valuations compelling vis-à-vis private banks; exposure to the consumer sector								
Everest Kanto	1M	341.70	437.00	33.8	43.4	31.1	0.5	28.4
Well-positioned to benefit from high-growth global CNG market; leveraged play on city gas in India								
Tata Consult	1L	1,014	1,290	28.6	27.1	19.2	1.4	47.8
Currency appreciation-driven underperformance is priced in; strong volume growth momentum								
Top Sells								
Ambuja Cements	3M	150	108	-26.2	-9.7	16.5	1.8	27.8
Expensive valuations; vulnerable to rising capacity in North India and higher costs								
Cipla	3L	183.45	165	-8.8	-7.7	23.1	1.3	17.9
Supply-based business model at risk, leading to lower profitability and return ratios								
MTNL	3L	177	125	-24.2	-13.1	21.6	2.9	4.4
New business revenues unable to negate decline in core revenues. Erratic real-estate monetization								

Source: Citi Investment Research estimates

Expected total return (ETR) = capital appreciation plus dividend yield

Remain Constructive, Despite Challenges

India's equity market may find early 2008 a little challenging, given both a significant drop-off in foreign flows after new p-note rules and global factors. There is also an even chance, we think, that national elections scheduled for 2Q09 will be held in 2008, which would be at most a temporary setback. More positively, India's fundamental and growth story remain robust, with our forecasts being for GDP to expand +9% and earnings to rise ~20%. We also expect some rate cuts in early 2008, which would help the markets. Valuations are certainly not cheap after a run-up spanning more than four years, but they also are not as expensive as they look once embedded asset value is accounted for. Returns are unlikely to be as spectacular as in recent years (07ytd US$ returns ~50%), but we believe a constructive stance is still justified given the growth momentum.

Macro growth to remain appealing

Our economist, Rohini Malkani, sees ~9% GDP growth sustaining through FY08 and FY09. The fiscal deficit should continue to improve. With inflation well 'managed' (high oil prices still are not reflected in retail prices and WPI) and the banking sector comfortably liquid, we expect small rate cuts in India starting early-2008. The primary objective for the central bank, though, will remain liquidity management in light of high capital inflows.

India Economic Forecasts

Year -end 31 March	FY06	FY07	FY08E	FY09E
Real GDP growth (%)	9	9.4	9.3	9.4
Int rate PLR - year end	10.3	11.5	11.5	11
Combined deficit	7.4	6.2	6.0	5.8
Rs/US$ - annual avg	44.3	44.9	40.2	38
% depreciation	-1.6	1.4	-10.5	-5.5
Rs/US$ - year end	44.6	43.5	39	37
% depreciation	2	-2.5	-10.3	-5.1

Source: Citi estimates

Huge capital inflows driving a rapid and above-expectation appreciation of the rupee have been a major worry since July 2006. The rupee will continue to appreciate, we believe, albeit at a much slower pace, due to moves to control capital flows (curbs on external debt, p-notes).

Earnings growth solid at ~20% in coming years

Earnings upgrades have restarted after an above-expectation Sep-07 quarter, when Sensex ex-oil earnings growth came in at 31% vs 21% forecast. Even before the earnings season, FY08 earnings growth was raised to 22.1%, from 15.5%. Subsequently, the addition of property major DLF to the index has skewed FY08 earnings growth, which now stands at 33%. FY09 earnings growth forecast of ~18% is more representative of the trend. We see 9% GDP growth driving top-line growth of around 15% in coming years, with stable margins and expansions / new businesses sustaining earnings growth of at least 20%. Though not as spectacular as the 30%+ growth of the previous 5 years, it would still position India as a high-growth emerging market.

Sensex Valuations @19363

Year to 31 March	FY06	FY07	FY08E	FY09E
EPS growth (%)	20.9	36.0	33.3	18.0
P/E (x)	38.5	28.3	21.2	18.0
Div. yield (%)	0.8	0.9	1.2	1.4
P/BV (x)	8.3	6.4	5.0	4.2
ROAE (%)	24.6	26.0	26.2	25.0
EV/EBITDA* (x)	23.7	17.8	13.4	11.2
Net Debt/Equity (%)	12.6	11.2	13.1	5.8
EPS growth ex-oil (%)	25.8	41.7	35.2	19.0
P/E ex-oil	44.6	31.5	23.3	19.6
P/BV ex-oil	9.1	6.9	5.4	4.5

Source: Citi Investment Research estimates

Key growth drivers are in place

Capex and urban consumption – two of the key growth drivers – are likely to gather further momentum. Even though capex has risen in recent years, we still see India as being in the very early stages of a prolonged capex boom, given the spending catch-up needed in infrastructure sectors like power, ports, airports and roads. We continue to see capex as a major economic driver for India in 2008. Strong consumption will be underpinned by rising wages, rapid growth creating new jobs, favourable demographics and high consumer confidence. Likely small rate cuts in early 2008 could also help credit-sensitive consumption segments such as housing and autos.

Another key growth driver for India is outsourcing, which has faced a major roadblock from rapid currency appreciation and concerns about a US slowdown. We expect the rupee to appreciate much more slowly in 2008, which should help this segment regroup.

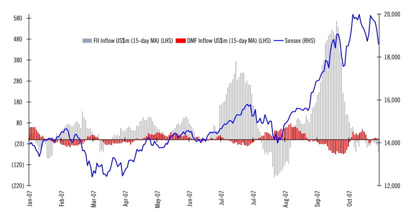
Talent shortages and wage inflation to the fore

Major challenges for all Indian businesses – services as well as manufacturing – remain shortages of skilled manpower and wage inflation that is in the high double-digits. Rapid economic growth and under-investment in training have created this crunch situation, which might last another couple of years. As has been seen in 2007, wage costs will remain a drag on margins, except for businesses that can pass through the costs, out-grow the cost increases or can shift to a higher-margin product mix.

National elections to be held 2008?

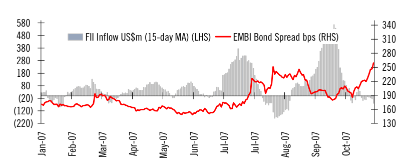
National elections are next scheduled to be held in 2Q09. Owing to rising differences within the ruling Congress-led UPA coalition (contained for now), there is an even chance that the elections will be called earlier, most likely at a timing of Congress' choosing. Earlier-than-scheduled elections might spook the market, but probably only briefly given the market's conviction that growth and reforms will be sustained (with small differences) whatever the result of an election. An earlier-than-expected change in government, however, would adversely impact sentiment in businesses that are reliant on policy decisions, most notably the infrastructure sectors.

Net Buying by FIIs, Local Funds



Source: Citi Investment Research

India FII Flows vs EMBI Spreads



Source: Citi Investment Research

Slow start to 2008 likely on foreign flows

Foreign flows continue to be the most significant drivers of the Indian market, as 20% FII ownership in BSE500 companies is much higher than for local funds (3.7%) and insurance companies (3.9%). Implementation of new p-note norms in late-Oct 2007, together with global trends (rises in bond spreads), have significantly slowed foreign flows into the Indian market. P-notes constitute more than one-third of FII investments in India.

Most key p-note investors will be in the process of applying for FII licenses. Until a significant proportion of them are registered, foreign flows may remain subdued.

In recent years, foreign flows into India have become significantly more correlated with the global risk appetite, and that remains a key risk factor for the market. Ongoing concerns about credit markets could weigh on risk perceptions and thus on foreign flows into India.

Sector preferences: Remain constructive

Valuations are not cheap after a four-year run-up in stocks, but they are not as expensive as they look once embedded asset values are accounted for. Hence, we continue to suggest a constructive approach to the market. Prospects for only moderate foreign flows in the near term and a possible disruption from early national elections argue for strong large-cap bias in India portfolios.

We recommend overweighting Banks (inflation is well in control, system liquidity is comfortable and rates will likely be lower starting 1Q08), Telecoms (strong growth, operating leverage, and margin expansion), IT services (slower rupee appreciation, a big underperformer), and Capital Goods (sustained capex growth momentum). We recommend neutral weightings for Autos and Consumer, and underweights on Materials, Pharma, Utilities, and Energy.

1. Scenario Analysis—Biggest Sector Losers from US Growth Slowing to 1% in 2008E

	Base Case: 2008E		Bear Case: 2008E	
	EPS Growth	P/E	EPS Growth	P/E
Banks	25.1%	18.7	-2-3%	NM
Cement	-10.9%	17.2	-0.2%	17.3
IT Services	22.1%	16.0	-5%	15.2
Metals	11.1%	8.5	-43%	13.9
Textiles	20.0%	9.5x	-6%	9.6

Source: Citi Investment Research estimates

2.. Scenario Analysis—Sector Losers and Winners from the US Dollar Rising 10%

	Base Case: 2008E		Dollar ↑ 10%: 2008E	
	EPS Growth	P/E	EPS Growth	P/E
Banks	25.1%	18.7	-3–4%	18.7
Cement	-17.6%	19.8	-0.9%	20.0
Consumer	22.9%	19.4	-2.0%	19.6
Engineering & Construction	23.6%	28.8	5.0%	27.4
Hotels	14.9%	17.7	NA	NA
IT Services	22.1%	16.0	15.0%	18.4
Media	31.7%	29.4	3.0%	28.8
Metals	11.1%	9.6	37.1%	7.2
Oil & Gas	25.0%	14.3	10.0%	12.7
Pharma	24.1%	15.5	10.0%	15.3
Real Estate	51.4%	14.6	NA	NA
Telecom	21.0%	22.2	-1.2%	22.0
Textiles	30.1%	9.5	9.0%	9.4

Source: Citi Investment Research estimates

3. Scenario Analysis—If Valuations Revert to 5-year Mean

	Base Case: 2008E		5-Year Mean	
	P/E	ROE	P/E	ROE
Autos	14.6	22.3%	12.2	24.5%
Banks	18.7	15.4%	10.0	19.0%
Cement	17.2	19.4%	13.0	20.0%
Consumer	20.3	36.9%	21.8	35.0%
Eng. & Const.	28.8	20.5%	22.0	18.9%
Hotels	17.7	16.6%	18.6	7.0%
IT Services	16.0	30.4%	22.0	34.7%
Media	27.9	24.9%	22.8	19.7%
Metals	8.5	19.2%	7.0	21.0%
Oil & Gas	14.2	22.3%	NA	24.4%
Pharma	16.4	23.8%	23.7	28.0%
Real Estate	14.6	41.8%	NA	NA
Telecom	22.2	23.7%	19.8	11.4%
Textiles	9.1	13.2%	10.0	13.5%

Source: Citi Investment Research estimates

India Market Intelligence

	Mkt Cap	P/E (x)			EPS Growth (%)			Yield (%)	PBV	ROE (%)			US$ Performance		
12/7/2007	**USD bil**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**	**2008**	**(x)**	**2007**	**2008**	**2009**	**1W**	**1M**	**YTD**
India	**295.2**	**29.5**	**22.6**	**17.8**	**12.7**	**20.1**	**27.2**	**0.9**	**5.9**	**20.0**	**18.7**	**19.9**	**4.6**	**5.0**	**66.6**
Energy	56.8	26.2	24.1	20.5	8.9	17.2	31.2	0.9	5.9	22.5	24.5	28.7	0.7	1.0	125.0
Materials	23.6	16.2	14.4	13.3	14.9	7.9	4.0	0.9	4.9	30.0	33.9	36.6	3.7	6.8	78.1
Capital Goods	36.9	40.9	37.5	29.2	9.1	28.1	25.3	0.6	11.6	28.3	30.9	39.5	4.3	4.4	118.8
Auto & Components	8.1	16.5	16.2	14.3	1.8	13.6	18.2	1.7	5.0	30.6	31.2	35.4	2.6	2.7	6.9
Consumer Services	0.9	23.5	18.7	15.7	25.5	19.0	10.4	1.3	4.7	20.0	25.1	29.9	7.8	2.6	4.7
Media	1.8	197.2	76.4	42.8	158.1	78.7	68.5	0.6	5.9	3.0	7.7	13.8	5.2	3.8	39.1
Food Bev & Tobacco	6.5	24.7	22.0	18.3	12.2	20.1	18.4	1.9	6.7	27.1	30.4	36.5	0.3	6.2	20.6
Household Products	4.7	30.3	25.9	22.2	17.3	16.5	15.7	3.6	16.9	55.7	65.4	76.1	1.5	7.9	8.2
Pharma Biotech & Life Sciences	8.0	20.4	22.4	18.8	-8.6	18.9	11.9	1.2	5.3	25.8	23.6	28.0	6.7	4.3	11.9
Banks	56.6	39.5	33.5	26.6	18.1	25.9	33.6	0.9	4.2	10.7	12.7	15.9	4.8	6.2	78.4
Diversified Financials	17.1	59.4	46.1	34.4	28.9	34.1	19.0	0.3	9.2	15.4	19.9	26.7	5.9	25.3	250.2
Real Estate	11.8	52.1	42.4	28.6	31.9	48.2	NA	0.3	15.7	30.1	36.9	54.7	10.8	7.5	NA
Software & Services	33.1	24.0	20.6	17.0	16.5	21.2	12.3	1.2	7.6	31.5	36.7	44.5	6.7	0.3	-9.5
Telecom	13.2	44.6	30.8	24.4	41.7	26.3	26.3	0.5	4.5	10.1	14.6	18.4	8.6	2.9	71.7
Utilities	16.1	28.0	29.0	27.1	-3.3	7.1	2.8	1.1	4.4	15.5	15.0	16.1	9.7	2.0	182.6

Note: The above data are compiled based on the MSCI Asia Pacific Free-ex-Japan universe of stocks. The market capitalization for the countries, sectors and the region are free-float adjusted. Also the P/E and EPS Growth are taken from IBES Aggregate estimates for MSCI country, sector and regional indices. P/BV represents 12-months trailing P/BV calculated by MSCI for MSCI country, sector and regional indices. ROE is calculated as trailing P/BV divided by forward P/E estimates for respective fiscal year. With the exception of Australia and New Zealand whose fiscal year ends in June, (ie, 2008E refers to June 2008E), fiscal year for all countries, sectors and the region ends in December. NM = Not Meaningful; NA = Not Available.

Source: IBES Aggregate, MSCI, FactSet, Citi estimates.

Indonesia Equity Strategy

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Pausing for Breath or Catching a Cold?

- **Robust economy** — We see GDP growth rising to 6.5% in 08 (from an estimated 6.2% this year), driven by ongoing investment strength (+15.7% in 08) and consumption (+5.4% in 08 vs. 4.7% in 07). With exports only 25% of GDP (US exports 11% of total), I believe Indo is relatively immune to external shocks. A fading US economy is thus likely to have only 2nd-order and 3rd-order effects.

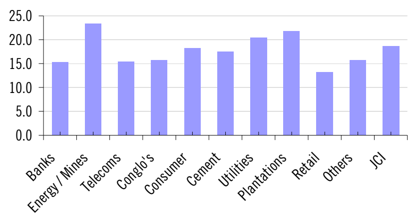
- **Earnings → Focus on Banks / Telcos** — JCI EPS growth of 22% (2yr CAGR) bears the traits of a robust economy. For Banks, we expect 18-20% system loan growth and a corollary 17% jump in EPS. For Telcos, with rising penetration, we see earnings growth of 15% for TLKM and 24% for ISAT. Both sectors are immune from external shocks.

- **2008 JCI target of 3,030 —** Strong economic fundamentals and earnings prospects lend force to the *secular bull* case for Indonesia. Using a two-stage earnings discount model, we roll forward our JCI target to YE08 for a fair value of 3,030 (from 2,600), putting the JCI on a target of 18.1x FY09.

- **Liquidity a key determinant of JCI multiple —** High M2 growth is supportive of valuations, but a sharp steepening in the yield curve in recent months suggests a tighter monetary outlook near-term. Any deceleration in money supply growth would weaken investor sentiment. We expect the market to continue to be choppy through the end of 1Q08 … before the secular bull market continues.

- **Sector views —** We advise investors to pick sectors a) where valuations are below market averages, b) relatively immune from the external environment and c) not impacted by energy-based cost inflation. Buy Telcos and Banks!

Indonesia — 08E P/E By Market



Source: Citi Investment Research estimates; IBES

Indonesia: Top Buys and Sells

	Rating	Price (Nov. 30)	Target Price	ETR (%)	2008E EPS Grth	2008E P/E (x)	2008E Yield	2008E ROE
Top Buys								
Bank Rakyat	1M	7,800	8,150	7.2	20.9	15.3	2.7	28.5
Top bank sector pick; high yield microfinance, low cost funds. Consumer focus… added bonus in 2007								
Gudang Garam	1L	8,400	12,256	50.4	17.3	9.4	4.5	11.7
10% price ↑= margins↑; EPS growth from lower interest expenses; costs stable and unaffected by forex								
Bank Panin	1L	660	970	50.3	21	13.4	4.2	14.9
Top mid-cap bank pick; Possible M&A play								
PT Telkom	1L	10,150	13,000	31.8	6.7	14.2	5	40
Structural and cyclical growth; inevitable sector consolidation; wireless growth should be unimpeded								
Unilever Indon	1L	6,650	7,500	16.8	20.5	20.8	4	80.5
80%+ ROE delivery yoy merits premium; great acquisitions drive growth; product mix offers stable margins								
Top Sells								
Aneka Tambang	3M	4,675	1,700	-62.1	-25.9	16.5	3.7	34.8
We are unconvinced about a successful roll-out of alumina and other expansion projects								
Indocement	3L	7,700	5,734	-25.1	29.7	31.6	0.5	12.8
Valuations appear stretched; P/E wise, INTP is most expensive and thus offers few attractions								
PT Inco	3L	94,250	45,000	-49.7	-45.1	18.9	4.8	21.7
Share price remains strong despite deteriorating Ni prices								

Source: Citi Investment Research estimates

Expected total return (ETR) = capital appreciation plus dividend yield.

Pausing for Breath or Catching a Cold?

Economic Outlook Optimism

Economic direction and positives remain: Indo is at the start of an investment cycle

Indonesia has only just left a recovery phase post a protracted depression. With this recovery, debt to GDP is extremely low (36%) and corporate leverage for the top-25 listed industrials is only 0.58x (debt to ebitda). And with capital and loan-deposit ratios of over 20% and 64% (respectively), the banking sector can finance all manner of growth. We argue that Indonesia is at the start of a multi-year investment cycle (akin to those already witnessed in other parts of Asia). A sharp pick-up in investment in 07 is to a large degree bearing this thesis out – we have seen investment growth of 11.8% (9M07) leading GDP. Moving into 08, we expect investment / GFCF of 15.7% to underpin ongoing growth.

Oil Impact on Budget

(In trillion rupiah)	US$90	US$100
Inc. in income	90.7	124.7
Inc. in spending	-138	-179.4
Inc. in deficit without mitigation	-47.3	-54.7
Budget deficit 08 (% GDP)	-2.8	-3.0
Budget deficit 08 Post-Mitigants (% GDP)	-0.2	-2.6
Budget deficit 08 (% GDP) (Orig.Budget)	-1.7	-1.8

Source: Citi estimates

On the consumption side of the economy, we were reluctant to follow the consensus theme of a sharp pick-up following lower interest rates. Although it can be argued that the usual consumer barometer of motorcycle sales picked up a decent 10% in 07 (10M07 vs 10M06), these were still sharply down on 05. Moreover, consumption continued to lag GDP growth. Going into 08, we see consumption as a more important determinant of growth. Overall unemployment is down and salary levels are rising, meaning consumption should pick up (from 4.7% in 07 to 5.4% in 08), but still be a laggard.

- Unemployment has been our major point of contention with consensus. While still high in absolute terms, it has dropped to 10.6m from 10.9m in 06 (11.9m in 05), despite little tangible labour reform.
- Pump-priming (and the run-on this has to consumption) may be curtailed by budgetary constraints of a rising fuel subsidy (oil now at c. US$100/ barrel vs US$60/barrel in the budget).

Economic outlook positive

We strongly endorse our economists' view that GDP growth will pick up to 6.5% in 08 (from 6.2%), driven by ongoing investment strength (+15.7% in 08) and stronger consumption (+5.4% in 08. The trade balance, though a relatively insignificant proportion of economic growth, should remain in surplus while commodity prices remain high, bolstering growth.

Earnings Growth Robust and Rapid

Loan growth at the banks, telco diffusion, commodity prices holding up stronger than expected

JCI earnings growth of 22% (2-year CAGR) bears all the hallmarks of an improving domestic economy:

- *Banks*: we expect system loans to grow 18-20% (our economists are far more optimistic), and earnings to jump 17% (NPL creation remains low).
- *Telcos*: Telephone penetration continues to rise. Although there is talk of greater competition and a mandatory cut to tariffs, we are not concerned as tariff price elasticity is >1x. As such, we expect double digit-earnings from the two key players (TLKM – 15%, ISAT – 24%).
- *Commodities / resources*: Earnings growth reflects record-high commodity prices and volume growth following rising sector investment . . . although as we move into 08, the impact of high oil prices on cost structures should start to see an impact on cash extraction costs (for the miners).

. . . But beware rising costs

- *Consumer*: Not only are costs impacted by rising oil and soft-commodity prices, but a recently weak IDR also undermines profitability. And while consumption is picking up, it remains weak relative to the rest of the economy and is certainly weak for the low-end of the socio-economic spectrum (where most of the large listed consumer plays focus).

- *Cement*: Demand ex-Java is rising as investment in the commodity-rich regions runs through to cement demand. Increased mortgage lending is seeing a pick-up in construction activity, but rising costs (particularly energy / kiln-related) are likely to drag on profitability.

Relatively Immune to the External Environment?

A degree of disagreement . . .

Our economists argue that most SE Asian economies are strongly inter-linked to US GDP growth and Indonesia is no exception; Huang Yiping *et al* argue there is a 1.6x elasticity of Indo GDP to US GDP. However, one cannot help but feels this overstates the impact this might have on the JCI.

1. *Export links*. Exports total about a quarter of Indonesian GDP; direct exports to the US comprise only 11%. But while overall exposure to the US may be significantly higher given re-exports of Indonesian products / materials, a significant proportion (c.60%) of Indo exports are commodity (or commodity-like), and have fairly ready alternative markets. (NB: This translates to commodity price risk rather than US-exposure risk.)

2. *Domestic-heavy*: The JCI is heavily weighted to the domestic economy (Telco/Utils - 22%, Banks - 24%, Conglos – 8%, Consumer - 7%, Cement - 5%). Even the export-heavy plays should be relatively immune because revenues essentially depend on commodity prices . . . and commodity prices show no sign of weakness while the US$ is weak.

3. *Domestic investment and liquidity*: Domestic liquidity is strong, partly because the banks' capital strength allows loan growth of close to 20%, meaning investment growth should offset any weakness in GDP caused by a US contraction.

Given these arguments, a weakening US economy is likely to have only second-order and third-order effects on the Indonesian market through: a) weaker investment / performance in the predominantly unlisted manufacturing sector, which would have a run-on to weaker job creation / consumption and b) possibly weaker commodity prices. But given that our commodity assumptions are hardly aggressive, the overall risks to our projections are to the upside rather than downside.

PE Variance and Earnings Risk into 2008

Sectors	Wgt	08 EPS Δ %	Sector P/E	Adj PE	Comment on Earnings Variance
Banks	24%	0%	15.4	15.4	Higher NPLs could follow a fuel price hike, but our economists think we underrate loan growth. Changes unlikely
Energy/Mines	23%	23%	23.4	19.0	Upside to Coal assumptions dramatic! Nickel is at our 08 assumption, so downside to earnings on the back of costs
Telecoms	17%	6%	15.4	14.5	Tariff reductions may see sharper volume increases than the market is expecting
Conglo's	8%	0%	15.7	15.7	A wash . . .
Consumer	7%	0%	18.2	18.2	Downside to earnings from higher costs, but channel checks suggest volumes my exceed expectations . . . A wash.
Cement	5%	-8%	17.6	19.1	High coal prices and transport costs could impact cost structure
Utilities	5%	0%	20.5	20.5	Underperformance on volumes offset by tariff hikes
Plantations	4%	18%	21.8	18.5	Upside to our 08 CPO assumptions: 10% up on CPO would impact earnings by c.15%
Retail	1%	0%	13.2	13.2	A wash . . . Upside to volumes or downside from costs depending on the macro response to higher fuel prices
Property	3%	0%	45.2	45.2	No real impact on the index
Others	3%	0%	15.7	15.7	No real impact on the index
JCI	**100%**	**7%**	**18.7**	**17.5**	

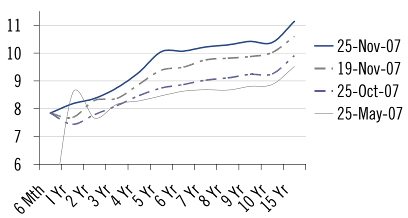
Source: Citi Investment Research

Rising Liquidity Tide

Liquidity is at a peak

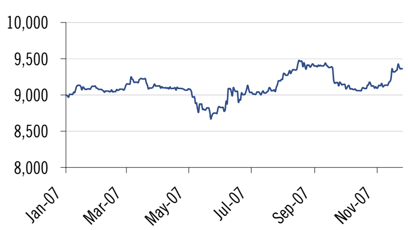
Money supply growth is now closer to 20% than the 10% of the past five years. And this liquidity is having a run-on effect not only on the economy (through higher investment) but the market. It is a crude measure, but the higher the M2 growth, the higher the market PE. Given stronger liquidity, we expect market P/Es to hold up at higher levels than might be suggested by a simple mean reversion. Anyway, as shown below, P/Es have not been mean-reverting in the past 10 years. Obviously, that is not to say that market multiples will rise indefinitely. Rather, that the recent multiple expansion is structural, and any mean-reversion will be at a structurally higher level.

Steepening Yield Curve (%)



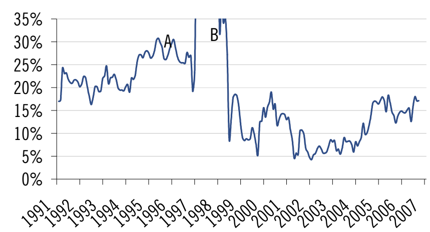
Source: Citi Investment Research

A Weakening Rupiah (Rp/USD)



Source: Citi Investment Research

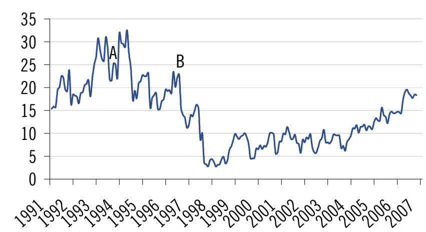
Money Supply – M2 Growth (%)



Source: Citi Investment Research;

A: Asian Tiger Years; B: Monetary Crisis

Market P/E Multiple (x)



Source: Citi Investment Research;

A: M2 growth of 25%+; B: CrisMon EPS collapse

A lot is now being priced in . . . Secular Bulls & Secondary Bears

Economic fundamentals and the earnings story for Indonesia remain extremely strong, lending force to a bull case for the market for a number of years. With that in mind, we roll forward our index target to YE08, raising our target to 3,030, and putting the index on a target of 18.1x FY09. This target is derived using a two-stage earnings discount model (see table below). Near-term, however, we face a number of stark realities:

- *First*, the Indonesian market has held this multiple or higher for very short periods, and certainly not when regional markets are so volatile. While marking our commodity price forecasts to market might see upside risks to our earnings numbers, P/Es would still be at historically high levels.
- *Second*, the market is at risk of being de-stabilised by worsening monetary conditions at the margin – weakness in the currency, strength of inflation, and a corollary steepening of the yield curve.
- *Third,* going into 08 Indonesia's earnings outlook remains for a 23-24% 2-yr CAGR, but the FY is also when downward revisions are most frequent.
- *Fourth*, a target of 3,030 represents a total return of less than 16% (including a yield of 2.8%) – uninspiring given rising emerging market risk.

These lead us to the conclusion that near-term performance of the market will continue to be choppy through to the end of the FY reporting season . . . before the secular bull market continues. We advise investors to pick sectors where valuations are below market averages, that are relatively immune from the external environment and that are not impacted by energy-based cost inflation. And to sell those sectors overly exposed to high oil cost inputs, high P/Es, and a softening in commodity prices.

JCI Target Derivation

	2008	2009	2010	TV
Earnings Proxy	143	167	194	3,753
g	32%	17%	16%	7.3%
t	0	1	2	3
Discount Factor	1.00	0.88	0.78	0.69
PV	143	148	151	2,584
Ke	13.3%	13.3%	13.3%	13.3%
Rf	8.25%	8.25%	8.25%	8.25%
Beta	1	1	1	1
MRP	5%	5%	5%	5%
YE Index Target	**3,030**			
Imputed PE	21.1	18.1	15.6	

Source: Citi Investment Research estimates

Indonesia Market Intelligence

	Mkt Cap	P/E (x)			EPS Growth (%)			Yield (%)	PBV	ROE (%)			US$ Performance		
12/7/2007	**USD bil**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**	**2008**	**(x)**	**2007**	**2008**	**2009**	**1W**	**1M**	**YTD**
Indonesia	**62.5**	**18.6**	**16.7**	**14.3**	**49.2**	**10.5**	**16.3**	**2.6**	**5.8**	**28.8**	**26.9**	**26.8**	**5.4**	**1.4**	**57.1**
Energy	11.8	63.0	21.0	26.7	199.6	-21.3	34.0	3.3	13.5	21.3	64.0	50.3	9.0	14.4	507.7
Materials	5.4	25.6	12.1	13.7	111.7	-12.0	-15.1	5.3	5.7	22.1	46.9	41.3	0.1	-1.1	123.4
Capital Goods	2.7	35.0	25.0	20.2	40.1	23.5	24.4	NA	6.6	18.8	26.4	32.6	2.5	-1.6	68.9
Auto & Components	5.9	NA	NA	NA	NA	NA	NA	NA	4.6	NA	NA	NA	8.5	5.2	65.9
Retailing	0.1	19.4	16.4	14.0	18.4	16.9	14.9	NA	3.2	16.7	19.8	23.1	1.1	-2.8	-4.1
Food Bev & Tobacco	2.8	31.6	20.9	17.0	51.1	23.0	15.1	NA	3.4	10.7	16.1	19.8	3.7	5.0	53.6
Household Products	1.1	30.1	25.7	21.9	17.2	17.4	16.7	NA	21.0	69.8	81.8	96.1	3.3	0.6	-0.1
Pharma Biotech & Life Sciences	0.7	19.7	16.0	13.7	22.9	17.1	13.8	NA	4.1	20.9	25.7	30.1	9.3	-3.8	7.6
Banks	14.2	23.6	18.8	15.2	25.8	23.7	16.0	3.1	4.1	17.3	21.7	26.9	3.4	-2.1	33.1
Telecom	14.4	21.7	17.2	15.0	25.6	14.8	14.6	6.3	6.3	28.9	36.3	41.7	9.8	-4.8	9.2
Utilities	3.4	37.1	37.3	19.3	-0.5	93.6	49.5	4.6	12.2	33.0	32.8	63.5	-7.3	3.4	29.6

Note: The above data are compiled based on the MSCI Asia Pacific Free-ex-Japan universe of stocks. The market capitalization for the countries, sectors and the region are free-float adjusted. Also the P/E and EPS Growth are taken from IBES Aggregate estimates for MSCI country, sector and regional indices. P/BV represents 12-months trailing P/BV calculated by MSCI for MSCI country, sector and regional indices. ROE is calculated as trailing P/BV divided by forward P/E estimates for respective fiscal year. With the exception of Australia and New Zealand whose fiscal year ends in June, (ie, 2008E refers to June 2008E), fiscal year for all countries, sectors and the region ends in December. NM = Not Meaningful; NA = Not Available.

Source: Citi Investment Research

Korea Equity Strategy

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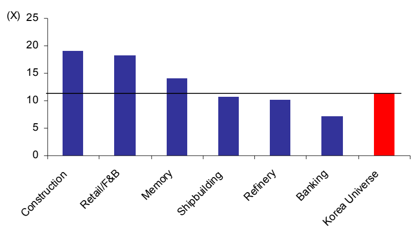
Relatively Positive

- **Defensive player** — Although there could be near-term turbulence due to external risks such as US sub-prime and China inflation, we believe that Korea will be relatively defensive due to low valuations and a smaller impact from a US growth slowdown compared with other Asian countries.
- **Impact of a US slowdown** — In terms of a US economic slowdown, Korea is relatively defensive vs. other countries in Asia, with limited or no impact on sectors such as banks, telecoms, construction, utilities, and shipbuilding. Exporters such as tech and auto companies would suffer some impact, which might in turn have a lagged impact on consumer companies and retailers.
- **Attractive valuation** — While the KOSPI hit record highs in 2007, we believe valuations remain attractive, given that an 08E P/E of 11x is below the historical mean of 13.5x and is still at a 23% discount to Asia ex-Japan. ROE is significantly above the KOSPI's historical average.
- **Impact from Won appreciation** — A further 10% fall in the US dollar would benefit refiners, consumer companies (CJ Cheil Jedang) and utilities, as dollar-denominated debt or raw material costs would be lower. Losers would be the tech, auto, construction, chemical, and machinery sectors.

Korea — 08E P/E By Sector (CIR Coverage)



Source: Citi Investment Research estimates

Korea: Top Buys and Sells

	Rating	Price (Nov. 30)	Target Price	ETR (%)	2008E EPS Grth	P/E (x)	Yield	ROE
Top Buys								
GS E&C	1M	161,500	240,000	49.6	15.3	17.9	1	20.1
Transforming from a general contractor into an overseas developer, resulting in improving margins								
Hana FG	1L	43,350	58,000	36.8	-5.6	7.4	5.8	13.8
Cheapest stock in the bank sector; should reap the benefit of aggressive asset growth in 2006								
Hite Brewery	1M	133,500	177,000	33.7	23.3	14.9	1.3	11
Jinro discounts to fade with gradual m/s recovery and re-listing to come through								
Hyundai Hvy Ind	1M	470,000	840,000	79.6	58.1	12.8	1.3	39.2
Robust shipbuilding prices underpinned by limited global capacity and on-time delivery of Korean shipbuilders								
Hyundai Mipo Dk	1M	319,500	660,000	107.8	0.5	10.4	1.9	27.2
Robust shipbuilding prices underpinned by limited global capacity and on-time delivery of Korean shipbuilders								
Hyundai Mobis	1L	86,200	145,000	70.0	10.8	8.4	2.1	19.6
Strong growth to sustain profitability; huge valuation discount compared to its affiliates and global peers								
LGE	1L	95,800	134,000	40.9	53.4	7.9	1.6	22.6
Stock should re-rate as speedy restructuring delivers earnings spike (50% global OP growth in 08E)								
Modetour Network	1M	50,900	74,000	46.0	45.7	22.6	1	28.8
EPS CAGR of 41%in 07E-09E on the back of a rising share of a booming overseas travel market								
Samsung Electronics*	1L	612,000	790,000	30.0%	10.8	11.6	0.9	14.7
Earnings to bottom in 1Q08 with growth accelerating in 2H08								
Samsung Eng	1M	106,000	153,000	45.8	73.4	17.5	1.7	38.1
Benefiting from the strong commodity cycle as a plant builder in oil-producing countries								
Top Sells								
KT Freetel	3M	32,000	25,000	-20.4	56.9	15	1.9	9.1
No. 2 wireless operator sandwiched between SKT's pioneering service and LGT's price-leading service								
LG H&H	3L	195,500	122,000	-37.0	29.7	29	0.7	25.3
Valuations lofty with downside risks from slowdown in prestige cosmetics and our negative view on Coke deal								

* Rating and target as of Dec. 7, 2007; stock price as of Dec. 6. Source: Citi Investment Research estimates

Expected total return (ETR) = capital appreciation plus dividend yield

Impact from US Growth Slowing

Sectors such as banks, telecoms, construction, utilities, and shipbuilding should have a relatively limited impact from a US slowdown, in our view. Exporters such as tech and auto companies would suffer the biggest impact, while chemical producers and consumer/retail companies might also have a lagged impact on slowing private consumption growth.

Tech – Memory: Given the US accounts for roughly 30% of total LCD and memory products, a consumption slowdown in that market would negatively and directly affect earnings of Korean memory/LCD producers. Our sensitivity analysis suggests that a slowdown in US consumption by 1%pt would lead to EPS falls of approximately 10% for both the LCD and memory sectors.

Auto/Auto Parts: A US growth slowdown would have some impact on Korean auto manufacturers but they could make up for slower sales in the US with sales growth in other regions.

Chemicals: A slowdown in US growth to 1% would hurt Asian spreads by only about 5-10% (US$20/tonne); companies having bigger exposure to electronics materials (LG Chem) would likely be more affected. Overall, we estimate a US slowdown could result in 4-8% EPS declines for 2008 for Asian chemical companies. We believe ethylene demand has a strong correlation with global GDP growth (1-1.2x GDP coefficient based on historical average). While the US accounts for 20-25% of global demand for major chemical products, we believe the Asian spreads outlook will likely be supported by robust demand in China and India.

Consumer – Retail/F&B: If US growth slows and impacts the export environment, it could have a knock-on negative impact on household income expectations and thus on private consumption, albeit with a lagged effect. Plus, high-end consumers might rein in their spending if a hard-landing for the US stock market rippled through to Korea, shredding their net worth in the process.

1. Scenario Analysis – Biggest Sector Losers From US Growth Slowing to 1% in 2008E

	Base Case: 2008E		Bear Case: 2008E	
	EPS Growth (YoY)	P/E	EPS Growth (YoY)	P/E
Tech – Memory	-1%	14x	-10%	16x
Tech – LCD	75%	8x	59%	9x
Auto/Auto Parts	15.3%	7.7x	13.0%	7.8x
Refinery	24.0%	10.2x	18.1%	10.7x
Chemical	17.2%	7.6x	9.2%	8.2x

Source: Citi Investment Research estimates

Impact from US Dollar Gaining/Falling 10%

If the US dollar were to fall another 10%, beneficiaries would be refiners, consumer (CJ Cheil Jedang) and utilities due to their dollar denominated debt or raw material costs. Losers would be the tech, auto, construction, chemical, and machinery sectors.

Tech: Korean memory/LCD names are in a net long position for the US dollar. Our analysis suggests a 10% fall in the US dollar against the Korean won would compress EPS by about 19% for both the LCD and memory sectors.

Auto/Auto Parts: Currency rates are a major risk factor, with 30-70% of total revenues in US dollars and over 85-90% of costs in the local currency.

Refinery: Refiners are beneficiaries of a weaker US$, as domestic sales (40-54% of the total) are denominated in KRW but over 80% of input costs (crude oil) are based on US$.

Chemicals: All chemical products and raw materials are denominated in US$. Hence, 100% of chemical producers' revenue is US$ but part of COGS (labour, depreciation etc) is in the local currency. Hence, a weaker US$ is negative for Asian chemical producers.

Consumer – Retail/F&B: Minimal impact from currency movement on the overall consumer(Retail/F&B) sector. CJ Cheil Jedang stands out as the sector's biggest potential beneficiary of won appreciation against USD. While the impact on the operational line would be limited, the company has USD denominated debts – on our sensitivity analysis, every W10 appreciation against USD should benefit recurring earnings by W8bn.

Utilities: KEPCO is a prime beneficiary of KRW/US$ appreciation. For every 1% appreciation, its 2008E net profit would add 1.7% from our base case.

Construction: EPS growth to cut by 5.0%pt if USD depreciates by 10% given 10~15% of new orders left unhedged.

Industrial – **Machinery**: EPS growth to cut by 4.6%pt if USD depreciate by 10% given 7~10% of sales left unhedged.

2. Scenario Analysis – Sector Losers and Winners from US Dollar Gaining/Falling 10%

	Base Case: 2008E		Dollar ↓ 10%: 2008E	
US dollar falls 10%	EPS Growth(YoY)	P/E	EPS Growth(YoY)	P/E
Tech - Memory	-1%	14x	-9%	16x
Tech – LCD	75%	8x	63%	9x
Auto/Auto Parts	15.3%	7.7x	-2.5%	11.8x
Refinery	24.0%	10.2x	33.6%	9.4x
Chemical	17.2%	7.6x	-2.8%	9.2x
Consumer – Retail/F&B	15.2%	18.3x	19.5%	17.8x
Utility	1.6%	10.3x	18.6%	8.7x
Construction	21.9%	19.1x	16.9%	23.4x
Industrial – Machinery	67.9%	33.6x	63.3%	35.8x

	Base Case: 2008E		Dollar ↑ 10%: 2008E	
US dollar rises 10%	EPS Growth(YoY)	P/E	EPS Growth(YoY)	P/E
Tech - Memory	-22%	18x	-14%	11x
Tech – LCD	75%	8x	87%	7.2x
Auto/Auto Parts	15.3%	7.7x	33.0%	5.7x
Refinery	24.0%	10.2x	14.4%	11.0x
Chemical	17.2%	7.6x	37.2%	6.5x
Consumer – Retail/F&B	15.2%	18.3x	11.0%	19.2x
Utility	1.6%	10.3x	-15.4%	12.2x
Construction	21.9%	19.1x	26.9%	14.7x
Industrial – Machinery	67.9%	33.6x	72.5%	31.3x

Source: Citi Investment Research estimates

Sensitivity on Valuation Reversion to 5-year Mean

Although historical valuations may not mean much when companies and sectors have undergone structural changes, we also compare 2008E valuations with their 5-year means. Banks and shipbuilders have most to gain on this analysis, while tech (memory) would be a loser. Overall, most Korean sectors have higher ROEs in 08E compared with their 5-year means.

Tech (memory) valuations for 08E look relatively high compared with their five-year mean, while ROE is lower. But growth and ROE should accelerate in 2H08, thus tech memory looks attractive.

Construction and **Industrials** have higher 08E P/Es than their 5-year means, but we believe that they are justified by higher ROEs.

Banks and **shipbuilders** stand out in this analysis, 08E valuations look low compared to their past averages but ROEs are higher than the 5-year mean.

3. Scenario Analysis – Sector Winners/Losers If Valuations Revert to 5-year Mean

	2008E		5-year Mean	
	P/E	ROE	P/E	ROE
Tech - Memory	14x	9%	11x	17%
Tech – LCD	7.5x	23%	10x	11.2%
Auto/Auto Parts	7.7x	11.9%	8.3x	9.5%
Shipbuilding	10.4x	37.0%	42.1x	6.6%
Refinery	10.2x	21.1%	9.4x	21.8%
Chemical	7.6x	18.6%	6.0x	21.3%
Consumer – Retail/F&B	18.3x	14.3%	15.4x	14.8%
Consumer – Edu/Travel	24.8x	20.1%	23.9x	9.1%
Telecoms	11.7x	12.6%	9.7x	11.4%
Internet	20.8x	23.4%	40.2x	16.9%
Utility	10.3x	5.2%	9.9x	6.7%
Construction	19.1x	18.0%	8.1x	10.1%
Industrial – Machinery	33.6x	18.1%	25.3x	5.3%
Banks	7.1x	16.8%	11.2x	15.2%
Securities	12.6x	16.8%	13.0x	7.8%
Insurance	13.2x	16.3%	13.2x	12.0%

Source: Citi Investment Research estimates

Korea Market Intelligence

	Mkt Cap	P/E (x)			EPS Growth (%)			Yield (%)	PBV	ROE (%)			US$ Performance		
12/7/2007	**USD bil**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**	**2008**	**(x)**	**2007**	**2008**	**2009**	**1W**	**1M**	**YTD**
Korea	**543.3**	**14.3**	**12.3**	**10.8**	**9.5**	**15.7**	**12.5**	**1.7**	**1.9**	**14.0**	**14.5**	**14.5**	**2.6**	**-6.0**	**35.5**
Energy	15.2	8.8	15.1	11.5	-15.7	31.0	-1.7	2.7	2.5	28.7	16.8	22.0	-5.5	-12.1	115.9
Materials	76.2	14.6	12.6	11.8	16.2	6.3	2.5	1.3	2.0	13.6	15.8	16.8	4.4	-5.7	100.2
Capital Goods	118.6	23.6	19.6	15.6	20.2	25.6	24.7	1.0	2.8	12.0	14.5	18.2	-0.8	-16.4	102.0
Comm Serv & Supplies	0.6	24.0	20.2	17.2	18.8	17.4	14.3	2.2	4.7	19.4	23.0	27.0	5.6	-12.9	33.0
Transportation	8.7	10.3	23.5	12.8	-56.2	83.4	39.2	1.2	1.3	12.9	5.7	10.4	-5.5	-17.8	58.7
Auto & Components	23.6	12.0	11.1	9.2	8.6	20.1	15.8	1.7	1.2	9.7	10.6	12.7	5.8	5.2	3.0
Consumer Durables	16.0	46.4	17.7	11.2	161.4	58.3	14.3	1.3	2.5	5.3	13.8	21.9	8.7	-4.8	71.1
Consumer Services	3.0	22.2	17.0	15.2	30.2	12.0	12.8	2.7	3.8	17.1	22.3	25.0	12.3	13.7	30.2
Media	0.5	17.0	20.6	16.2	-17.5	27.3	7.5	2.9	2.9	17.1	14.1	17.9	4.0	2.1	20.0
Retailing	5.3	14.3	14.3	12.8	0.0	11.9	9.6	0.5	1.5	10.8	10.8	12.1	-0.4	-7.3	7.5
Food & Staples Retailing	10.7	27.7	24.8	20.8	11.5	19.4	14.9	0.2	4.3	15.5	17.3	20.6	-4.3	-5.6	21.1
Food Bev & Tobacco	15.3	15.8	18.0	15.6	-5.8	15.8	11.1	2.5	2.5	15.6	13.6	15.8	4.8	2.3	28.7
Household Products	5.1	32.8	27.4	23.0	19.6	19.6	15.4	0.8	4.7	14.5	17.3	20.7	-3.3	-11.6	33.6
Pharma Biotech & Life Sciences	1.4	23.7	20.8	17.6	14.2	18.1	16.8	0.5	3.2	13.6	15.5	18.3	6.6	-5.7	20.4
Banks	60.3	9.6	7.8	8.0	22.9	-1.7	4.6	3.9	1.4	14.1	17.3	17.0	2.1	-4.7	-2.0
Diversified Financials	24.6	20.6	12.8	11.8	62.1	8.3	10.0	2.0	2.4	11.7	18.8	20.4	3.7	-11.4	62.7
Insurance	12.4	30.5	19.8	16.8	53.7	18.4	13.2	1.2	3.6	11.7	17.9	21.2	3.4	-6.2	52.0
Software & Services	11.4	68.1	40.7	28.9	67.4	41.0	32.9	0.0	17.8	26.2	43.8	61.8	-3.0	-10.8	98.4
Technology Hardware & Equip	11.4	-124.8	101.9	15.2	NA	NA	21.2	0.5	1.5	-1.2	1.4	9.6	-0.7	-12.0	33.8
Semi & Semi Equipment	85.9	11.4	14.0	12.0	-18.1	16.1	14.1	0.9	1.8	15.9	13.0	15.1	8.2	4.4	-0.4
Telecom	23.7	11.1	12.3	12.2	-9.8	1.5	12.3	3.8	1.5	13.4	12.1	12.3	2.6	14.7	12.4
Utilities	13.2	12.5	12.2	10.5	2.4	16.1	13.6	2.7	0.6	4.6	4.8	5.5	5.0	4.4	-3.4

Note: The above data are compiled based on the MSCI Asia Pacific Free-ex-Japan universe of stocks. The market capitalization for the countries, sectors and the region are free-float adjusted. Also the P/E and EPS Growth are taken from IBES Aggregate estimates for MSCI country, sector and regional indices. P/BV represents 12-months trailing P/BV calculated by MSCI for MSCI country, sector and regional indices. ROE is calculated as trailing P/BV divided by forward P/E estimates for respective fiscal year. With the exception of Australia and New Zealand whose fiscal year ends in June, (ie, 2008E refers to June 2008E), fiscal year for all countries, sectors and the region ends in December. NM = Not Meaningful; NA = Not Available.

Source: Citi Investment Research

Malaysia Equity Strategy

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Higher Risk Premium, P/E Contraction Looms & Impact of a US Slowdown

- **Risk and reluctance** — Fearing that the Malaysian market is in for another round of de-rating and higher risk premiums, we have been turning defensive. Our implied year-end index target is 1,425 points.

- **Risk premium is rising** — Rotational sell-down in blue chips and small/mid-cap stocks, which are heavily owned by foreigners, flies in the face of the consensus overweight on Malaysia. Our analysis indicates that the market has been pricing in higher risk premiums — +115bps for Banks, +90bps for Property, and +130bps for Gaming.

- **Malaysia will not be spared from a US slowdown** — If US GDP growth were to slow to 1% in 2008, Malaysia's would be cut by about 1%. Assuming revenue fell by a similar quantum, 2008E EPS growth would fall from 13.5% to 4.9%.

- **Stay defensive —** With the market looking fairly valued, cyclical sectors headed toward mid-cycle corrections and increasing risks of a US slowdown, we expect the Malaysian market to drift lower until valuations become compelling again.

Malaysia: Top Buys and Sells

	Rating	Price 30-Nov	Target (Lcl Cur)	ETR (%)	2008E EPS Grth (%)	2008E P/E (x)	2008E Yield (%)	2008E ROE (%)
Top Buys								
BAT	1L	40.25	44.50	19.5	12.2	13.6	9	138.1
Consensus 6-8% volume contraction assumption too pessimistic. Could surprise from civil servant pay hikes								
DiGi.Com	1L	25.75	28.00	18.3	13.7	16.3	6.5	68.4
Share overhangs removed. Scale economies likely bring improved margins. Low gearing suggests more dividend								
Hong Leong Bk	1L	6.25	7.46	24.8	15	12.8	5.4	14.7
Likely to outpace industry growth in consumer, SME business. NIMs improving with higher LD ratio								
IJM Plantations	1L	2.99	5.43	84.6	133	17.2	3	16.6
Offers most leveraged exposure to CPO up-cycle. Average trees are at prime age of 8 yrs. Valuation is half of IOI								
IOI	1L	6.75	8.07	21.9	24.8	23.4	2.4	22.3
Highest ROE among plantation stocks								
KL Kepong	1L	15.80	18.18	18.3	40.5	17.2	3.2	18.2
KLK offers great exposure to CPO up-cycle as upstream accounts for 90% of EBIT								
Maybank	1L	11.40	13.29	23.5	7.7	12.8	6.9	17.6
Loans growth to rise to 8%. Huge surplus capital of RM1.12/share with Tier-1 capital to reach 10.1% by June-08								
NSTP	1L	2.05	2.65	33.7	105.8	10.1	4.4	4.6
Valuations have fallen to around 10x forward earnings. High chance of being taken private by parent Media Prima								
Public	1L	10.40	12.53	27.6	12.8	15	7.1	23.4
Strong growth in business loans and asset-management business. Dividend yield of 5-7%								
Resorts World	1L	3.80	4.92	31.6	-10	15.8	2	15.4
Good defensive play backed by strong cashflow. Net cash is estimated to hit RM3.6b by end-07 and RM4.7b by 08								
SapuraCrest Petr	1H	1.46	3.02	107.9	828.1	27	1	11.6
Stock has corrected 41% but fundamentals remain intact. Order book now stands at more than RM5b								
Top Sells								
Gamuda	3L	4.38	3.78	-8.4	77.3	26.5	5.3	11.1
Stock prices in all future contracts. Earnings could disappoint should property launches in Vietnam be delayed								
SP Setia	3L	7.60	6.87	-5.2	-13.7	13.5	3.8	15.6
Valuations remain high. Foreign ownership of about 50% posts downside risks should earnings disappoint								

Source: Citi Investment Research estimates

Expected total return (ETR) = capital appreciation plus dividend yield

Higher Risk Premium, P/E Contraction and a US Slowdown

Malaysia continues to underperform, experiencing sell-down in blue chips

We are increasingly becoming more nervous about the Malaysia market, which in our view lacks visible catalysts. We are seeing sell-down in some blue chips and selective small/mid caps stocks that are heavily owned by foreigners. Based on our analysis, equity risk premiums (ERPs) have been rising for the Malaysian market. The market has priced in a 115bp rise in ERP for Banks, +90bps for Property and +130bp for Gaming, on our estimates. We are concerned that funds will be diverted to the bigger North Asian markets, which would lead to valuation contraction for Malaysia even if fundamentals stayed intact.

Raising ERP assumptions across the board

As a result, we recently raised our EPR assumptions by 100bps for all sectors in Malaysia to factor in:

- Earnings risk if GDP growth falls short of expectations. There are potential risks that could undermine growth and bring it below the government's forecast of 6.0-6.5% for 2008; and
- Unquantifiable risk factors such as funds being diverted to bigger markets, which could lead to another round of structural de-rating for Malaysia.

After adjusting our target prices to reflect a 100bp rise in ERP, our 12- month index target is 1,547 points, implying a year-end target of 1,425 points (+1.9% from current levels).

P/E contraction

Malaysia has disappeared from investors' radar screen before. The market was first de-rated in the 1990s, shortly after Korea and Taiwan were recognised by MSCI as investable markets. At its peak Malaysia used to command a weighting of more than 20% in major indexes. Diversion of funds to the bigger North Asian markets could mean valuation contraction even if fundamentals stayed intact in Malaysia. With Hong Kong and China attracting large funds, Malaysia could get very little attention until valuations become more attractive.

Economic Risk

ERP could rise further on economic risks

Risks exist that could undermine growth and bring it below the government's GDP forecast of 6.0-6.5% for 2008. Our GDP growth forecast is 6% for 2008, the low end of the government's forecast range.

- Prospects for exports remain cloudy, given the threat of a sharp pullback in US consumer spending on the back of a protracted US housing recession. Exports may also continue to be hurt by under-investment and a stronger ringgit. Exports have generally underperformed relative to other Asian economies.
- The investment recovery has been slow despite ambitious projects in the Southern, Northern and Eastern Corridors and the spate of government incentives. The government has also reined in public investment targets, reducing its development expenditure forecasts for Budget 2008. It is not totally clear that private investors will fill step up to provide all the necessary funds. There is a risk that tighter global credit conditions and financial turmoil could also discourage foreign investment inflows. Competition from other Asian countries, including Singapore, Vietnam, China and Thailand, for foreign investment remains intense.

- There are also latent inflation risks and unresolved policy decisions. The government has postponed its decisions on fuel subsidies, toll fares, transport charges, electricity charges, and list of price controlled items. Such policy uncertainty increases risks and potential surprises, as many of these decisions will affect the profitability and viability of listed companies, including government-linked companies. Substantial price increases on many of these fuels, transport and food items could potentially increase inflation significantly next year. This could naturally tie or force the hands of Bank Negara.

Malaysia will not be spared from a US slowdown

A 1% slowdown in the US GDP would cut Malaysia's GDP by 0.7%

A 1% drop in the US GDP will cut Malaysia's by 0.7%. If US GDP were to slow to 1% from our current forecast of 2.3% for 2008, Malaysia's would be cut by about 1%. Assuming revenue fell by a similar quantum, 2008 EPS would be cut substantially from 13.5% in 2008 (excluding exceptional gains or loses and one-off items) to just 3.7%.

Malaysia's merchandise exports were 102.9% of GDP in 2006. Exports to the US were around 18.8% of the total, or 19.3% of GDP. Exposure could be much higher taking into account goods that are exported to other Asian countries but which ultimately make their way to the US.

1. Scenario Analysis – Biggest Sector Losers From US Growth Slowing to 1% in 2008E

	Base Case: 2008E	Bear Case: 2008E
	EPS Growth	EPS Growth
Media	63%	46%
Telecommunications	13%	10%
Utilities	4.3%	1.8%
Pulp & Paper	46%	44%
Auto	14%	12%

Source: Citi Investment Research estimates

Malaysia is currently trading at a base-case market PE ex EI of13.6x. The bear-case scenario would see the market PE worsening to 14.9x. But the impact could be more severe if some multiplier effects were to be taken into account.

Malaysia would also be affected should the USD change 10% either way

2. Scenario Analysis – Sector Losers and Winners from US Dollar Gaining/Falling 10%

	Base Case: 2008E	Dollar ↓ 10%: 2008E
US dollar falls 10%	EPS Growth	EPS Growth
Auto	14%	34%
Media	63%	83%
Telecommunications	13%	17%

	Base Case: 2008E	Dollar ↑ 10%: 2008E
US dollar rises 10%	EPS Growth	EPS Growth
Auto	14%	(7%)
Media	63%	44%
Telecommunications	13%	9%

Source: Citi Investment Research estimates

The overall market could decline by as much as 15% should valuations revert back to a 5-year average

Should valuations revert to 5-year averages, the overall market could decline by as much as 15% . The biggest sector losers would be Oil & Gas (-72%), Plantations (-36%), Gaming (-23%), Property (-19%) and Autos (-19%).

3. Scenario Analysis – Biggest Sector Losers If Valuations Revert to 5-year Mean

	Base Case: 2008E		5-Year Mean	
	P/E	**ROE**	**P/E**	**ROE**
Oil & Gas	55.8x	12%	15.9x	(4%)
Plantations	25.8x	21%	16.6x	16%
Gaming	18.9x	23%	14.6x	16%
Property	17.2x	13%	13.9x	17%
Auto	15.4x	17%	13.3x	12%

Source: Citi Investment Research estimates

Strategy

Reduced investor risk appetite could lead to de-rating of the Malaysian market. We expect the market to remain directionless (+1.9% by year-end) amid weak fund flows, but strong company fundamentals should prevent any meltdown.

Overweight Plantation and Telecoms, Neutral on Banks and Media, but underweight Construction and Property

Against this backdrop, we are adopting a defensive strategy. We recommend stocks with a reasonable yield. Our Overweight sectors are Plantations and Telecoms. Higher ERP assumptions have lowered our weightings on Banks and Media to Neutral, and Construction and Property to Underweight.

Stock strategy

We recommend stocks with high yields. Our strategist's top buys are IOI Corporation, Kuala Lumpur Kepong, IJM Plantations, Maybank, Public Bank, Hong Leong Bank, Resorts World, DiGi, BAT, SapuraCrest, NSTP. Top sells are Gamuda and SP Setia.

Malaysia Market Intelligence

	Mkt Cap	P/E (x)			EPS Growth (%)			Yield (%)	PBV	ROE (%)			US$ Performance		
12/7/2007	**USD bil**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**	**2008**	**(x)**	**2007**	**2008**	**2009**	**1W**	**1M**	**YTD**
Malaysia	**88.4**	**17.0**	**15.8**	**14.2**	**22.2**	**8.3**	**11.5**	**3.5**	**2.5**	**14.2**	**14.4**	**14.6**	**3.9**	**0.6**	**38.7**
Energy	2.3	14.7	11.4	12.4	29.5	-7.9	10.1	1.8	2.0	13.8	17.9	16.5	9.1	0.8	54.1
Materials	0.6	26.5	18.3	16.0	45.4	14.4	9.6	3.5	1.7	6.4	9.3	10.6	4.0	-0.5	40.6
Capital Goods	13.6	37.0	31.3	21.1	18.2	48.6	31.5	2.6	2.6	7.1	8.4	12.4	2.8	9.7	86.6
Transportation	6.1	14.8	14.0	12.6	8.8	10.9	11.3	3.5	2.2	14.6	15.4	17.1	1.9	-2.0	13.0
Auto & Components	1.5	-59.2	39.9	25.7	NA	55.5	38.4	2.6	1.0	-1.8	2.6	4.0	3.2	-6.8	25.7
Consumer Services	9.4	19.1	17.0	17.1	12.4	-0.5	7.2	2.4	2.9	15.2	17.1	17.0	-0.8	-3.3	28.2
Media	0.9	21.8	22.7	17.6	-4.0	28.9	21.7	3.6	3.3	15.1	14.5	18.6	9.2	-2.0	-5.9
Food Bev & Tobacco	12.5	32.4	25.0	21.1	29.8	18.5	7.8	3.0	5.3	16.4	21.3	25.3	7.1	-3.0	77.2
Banks	21.2	19.1	14.5	13.6	31.9	6.4	11.3	4.8	2.6	13.6	18.0	19.1	4.2	-0.9	30.3
Diversified Financials	3.8	98.5	18.2	14.8	NA	20.0	8.8	3.5	1.8	1.8	10.0	12.2	6.1	-3.3	54.4
Real Estate	2.3	9.5	18.3	16.9	-48.0	8.2	17.2	3.2	1.7	17.5	9.1	9.8	2.7	-0.5	49.1
Semi & Semi Equipment	0.1	17.0	13.5	12.2	25.5	11.4	15.4	5.4	2.6	15.0	18.8	21.0	7.6	1.8	-8.5
Telecom	4.6	18.0	17.0	15.8	6.2	7.6	11.6	4.7	1.8	10.2	10.9	11.7	2.8	6.7	41.0
Utilities	9.5	13.9	12.9	13.9	7.8	-7.2	7.3	4.0	2.0	14.0	15.1	14.0	5.4	4.3	11.1

Note: The above data are compiled based on the MSCI Asia Pacific Free-ex-Japan universe of stocks. The market capitalization for the countries, sectors and the region are free-float adjusted. Also the P/E and EPS Growth are taken from IBES Aggregate estimates for MSCI country, sector and regional indices. P/BV represents 12-months trailing P/BV calculated by MSCI for MSCI country, sector and regional indices. ROE is calculated as trailing P/BV divided by forward P/E estimates for respective fiscal year. With the exception of Australia and New Zealand whose fiscal year ends in June, (ie, 2008E refers to June 2008E), fiscal year for all countries, sectors and the region ends in December. NM = Not Meaningful; NA = Not Available.

Source: IBES Aggregate, MSCI, FactSet, Citi estimates.

Pakistan Equity Strategy

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Discount to Region to Narrow

- **Market at 27% discount to Asia ex-Japan**— At a consensus-based 08E P/E of 11x, Pakistan is trading at a 27% discount to other Asian markets. Historically, the market has traded at a 30% discount (trailing P/E). EPS growth for FY08 is projected at 14% and ROE at 25.5%. The domestic market is unlikely to be immune to downward pressure on equities regionally, but we believe any retreat would be more modest and thus the valuation gap would narrow.

- **Politics** — Musharraf will continue as President for a second term and is expected to yield some power to the government elected on January 8. Whatever the political dynamics, we expect no major change in economic policies, given the need for external funding. Any increase in the Pakistan market's discount owing to political uncertainty would be a buying opportunity.

- **Growth story** — Economic growth has averaged 7.5% over the past 4 years and our Citi economist Mushtaq Khan expects it to sustain at 6.5% pa in the future. There is limited vulnerability to a US economic slowdown. Total exports in FY07 were 12% of GDP, of which 22% were to the US.

- **Funding gaps** — Current account and fiscal deficits are projected at 5.3% and 4.2% of GDP respectively, for FY08. We expect these to be met to a large extent through portfolio and FDI flows from Middle East petrodollars. The government has US$17bn of holdings in major listed companies that can be sold through privatizations and GDRs.

- **Inflation** — Inflation is at 9.3% (Oct 07) and could rise to 13% if the full impact of higher oil and wheat prices is passed through. The pain will have to be shared between the government, consumers, oil companies and farmers.

- **ROEs of over 20%** — Pakistan is a sector-selection story with well-managed, high-growth companies available at cheap valuations. ROEs are often over 20%, even in the face of economic and political disturbances.

- **Sector selection** — High interest rates, a weak currency, rising global prices and fiscal pressures should benefit banks, and E&P and fertilizer companies. Demand will be negatively affected for FMCG, cement and telecom companies.

Pakistan:: Top-down Sector Views

	Our View	Comment
Banks	+ ve	High spreads in an under-penetrated market
Cement	– ve	Reliant on exports, and margin pressure likely
Fertilizer	+ v	Rising commodity prices/farmer income
Oil: E&P	+ v	Rising oil prices with favourable policy framework
Oil: Marketing	– ve	Margins to improve but fund fiscal imbalance
Telecoms	– ve	Impact of interest rates and weak currency

Source: Citi Investment Research

Expected total return (ETR) = capital appreciation plus dividend yield

Discount to Region to Narrow

Pakistan's stock market has traded at an average P/E discount to the region of more than 30% since 1994 (using MSCI trailing). Any increase in this discount owing to political uncertainty would be a buying opportunity, in our view.

In recent years, Pakistan's discount to regional markets had narrowed, owing to the re-entry of foreign investors attracted by an improving economy, a government committed to restructuring and deregulation, a revamped banking sector and cheap valuations. These positives are intact. The risk premium has increased, though, owing to political uncertainty.

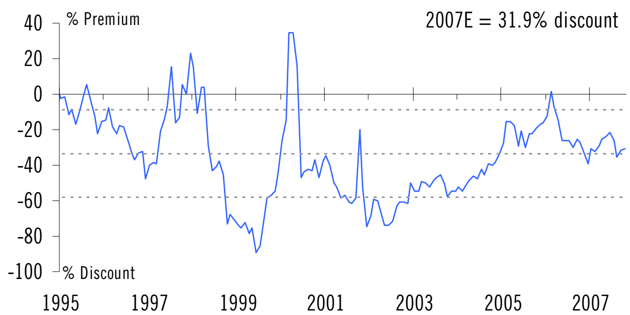
Consensus Valuations

	2006	2007	2008
PER (X)	14.6	12.4	10.7
EPS Growth (%)	12.5	5.9	14.2
Yield (%)	5.8	4	5.1
ROE (%)	30.9	22.4	25.5

Source: Consensus Estimates

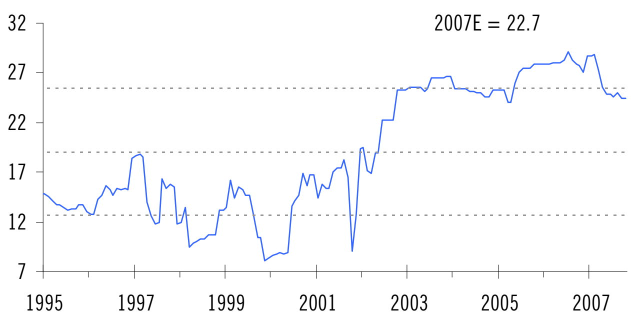
Given our regional strategist's view that Asian markets are overvalued by 20-25%, the expectation might be that more volatile markets such as Pakistan's will fare even worse in an Asian downdraft. Yet we see any correction in Pakistan as being limited. Earnings of large-cap banks and energy companies are relatively immune to political uncertainties, while the energy players will benefit from higher oil prices. Overall, ROE for the Pakistan market is 25.5% (2008), compared with a 10.2% yield for long bonds (10-year).

MSCI Pakistan: Trailing P/E Relative to MSCI AC AP ex JP



Source: Citi Investment Research

MSCI Pakistan: Trailing ROE



Source: Citi Investment Research

Funding Growth

Key Economic Issues

1) Maintain investment momentum to fund growth

2) Source external flows to fund current and fiscal deficits

3) Manage inflation and impact of high oil prices

Pakistan's economy has made significant progress in the last few years. Growth has averaged 7.5% pa, triggered by easy monetary and expansionary fiscal policies that have underpinned a favorable domestic demand-investment cycle.

While domestic savings are expected to rise with a revitalized banking sector, they will not be sufficient to fund the immediate investment requirements (currently, savings are only 18% of GDP). Instead, the economy will remain dependent upon external flows. As such, and whichever government is in power, the current economic policies will continue.

Pakistan's current account deficit is projected at US$8.3bn in CFY08. This includes US$1.2bn received as logistics support for Pakistan's role in the "War on Terror." Excluding this inflow and adding debt amortization, the funding requirement is US$11.5bn (7.3% of GDP). The fiscal deficit adjusted for defence receipts is 4.8% of GDP. Of this, 72% is budgeted to be funded from external borrowings, privatization and defence receipts. Our estimates are based on oil impacts of US$1.5bn on the trade balance and US$0.5bn (Rs30bn) on the fiscal balance. Foreign exchange reserves are reasonably healthy at US$16.4bn, representing more than 6 months' import cover.

Economic Impact on Sectors

	Overall	Rising Interest Rates	Weak Currency	Rising Commodity Prices	Fiscal Pressure
Banks	+ ve	Higher spreads	Borrowers might face pressure; Re-dollarization	Higher credit demand	Forced reduction in govt. borrowing costs
Oil: Exploration & Production	+ ve	Higher other income	Higher revenues in local currency	Higher selling prices	Receivables from govt. and higher dividends
Fertilizer	+ ve	Mixed, depending upon leverage	Higher selling prices	Higher margins/ lower volumes	Gas price increase and cut in subsidy
Telecom	- ve	Cellular sector is leveraged	Expansion costs to rise	Lower telecom spending	Higher dividends
FMCG	- ve	Lower consumption	Increase in cost of imports	Lower volumes	Higher taxes
Cement	-ve	Higher interest expenses	Exports to benefit	Margins to be affected	Lower infrastructure spending
Oil: Marketing	- ve	Higher cost of funding receivables	Higher margins	Higher margins if passed through	Receivables

Source: Citi Investment Research

The two main sources of external inflows for Pakistan are the US and the Middle East. The US is a significant contributor to almost all the accounts, i.e., trade, remittances, investment and logistics support. The Middle East is the major source of remittances and is also a direct investor, linkages that partly mitigate the impact of higher oil prices.

The government will rely heavily on the privatization and divestment of state assets (primarily, banks and E&P companies) to meet the current account and fiscal deficits. With its desire to attract the best possible price for such assets, the government is unlikely to act in ways that hurt their profitability.

Privatization/Divestment Schedule

	Market Cap. (Nov 28) US$ bn	08E P/E x	GoP Holding %	GoP Holding US$ Mn	Current Float %	Status
OGDC	8.5	8.9	85%	7.2	15%	GDR Issued - Privatization planned
Pakistan Petroleum	3.1	8.3	85%	2.6	15%	Privatization & GDR list
National Bank	3.3	9.3	76.8%	2.5	23%	GDR Q1 CY08
PTCL	3.7	12.1	62.0%	2.3	12%	Privatized – poss. further sale to sponsors
HBL Bank	2.9	10.6	41.5%	1.2	7.50%	Privatized GDR planned
PSO	1.2	11.1	56.0%	0.7	44%	Privatization in advance stage
United Bank	2.3	10.9	19.5%	0.4	29.5%	Privatized and GDR issued
Kot Addu Power	0.7	8.6	44.0%	0.3	20%	GDR list
Total	**25.7**			**17.3**		

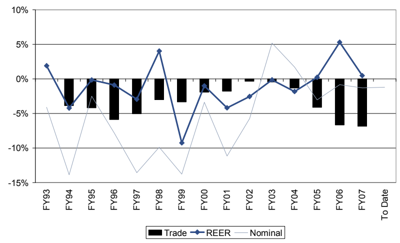
Source: Consensus Estimates from Bloomberg, KSE Website and Citi Investment Research

Inflation, Oil and Wheat Prices

Inflation, in particular food inflation, has become a major challenge for the government. Overall CPI has touched 9.3% (vs. a government target of 6.5%), driven by food inflation of 14.7%. If fully passed through, oil and wheat prices could add another 4-4.5 percentage points to overall CPI. Oil prices have not been revised since January 2007 (US$55/b), *when they were lowered*. If prices are not revised, the impact would be Rs110bn (1.1% of GDP). We believe a 20% price increase is likely and the government will fund the Rs58bn gap through the issue of bonds and/or by cutting expenditure. A 20% increase in prices would add 1.4% to inflation. Wheat prices guaranteed to farmers also need to be raised in line with international prices. Market prices are already up 24% and have added to food inflation

The State Bank of Pakistan will maintain a “tight” monetary policy, with positive real lending rates. Following the recent increase in inflation, the benchmark t-bill yield (real) has again become negative and the lending rate has also declined. While further tightening is expected in January 2008, the SBP is unlikely to raise rates significantly, even if inflation touches the 13% level. Higher oil and food prices would have an automatic impact on domestic demand, though it would be a one-time shock. The key for SBP will be to mop up excess liquidity and keep inflation expectations under control.

Currency and Trade Balance to GDP



Source: IMF REER, SBP & Citi Investment Research

The Pakistan rupee remains weak due to a trade deficit of 7% of GDP and a current account deficit of 5% of GDP. The currency has even weakened slightly against the US dollar, due to concerns about portfolio outflows and rising oil imports. On a REER (real effective exchange rate) basis, the currency is maintaining its value due to higher inflation in Pakistan.

Currency weakness has opened a window of opportunity for exporters, especially for producers of textiles and petroleum products; export growth picked up to 6% in 1QFY08 (compared with 3% in FY07). Imports have contracted due to lower imports of petroleum products and sugar. Encouragingly, imports of chemicals, metals and other raw materials remain strong, indicating resilient levels of domestic production and demand.

Politics

The country is going through a phase of political turmoil, which is not unusual following eight years of one-man rule, of which the last five years were shared with a weak government. The major players are all struggling for power, with the current regime backed by the Army and with the Opposition hoping to mobilize street power. Western Governments are trying to broker a deal between what are seen as the moderate forces, mainly President Musharraf and former Prime Minister Benazir Bhutto.

President Musharraf has resigned as Army Chief and taken the oath for a second term as President. We believe Musharraf will remain in power and will gradually ease his grip as he becomes comfortable with the new Parliament, which will be formed after elections scheduled for January 8. Whatever the political dynamics, we expect no major change in economic policies.

Chronology of Political Events in 2007

9 March	President dismisses Chief Justice
10 July	Mosque in Islamabad stormed by Army (BBC reports 173 killed)
20 July	Supreme Court reinstates Chief Justice
10 Sep	Former PM Nawaz Sharif not allowed to enter country, sent to exile in Saudi Arabia
28 Sep	Supreme Court allows Presidential election with Musharraf but stays declaration of a winner
2 Oct	Some member of Parliament resign to undermine Presidential Election
6 Oct	Musharraf gets 384 out of 389 votes cast, out of a possible 702 votes
18 Oct	Former PM Benazir Bhutto allowed to enter country, following amnesty on corruption charges
3 Nov	**Musharraf imposes Emergency rule, replacing most of Supreme Court Justices**
25 Nov	Former PM Sharif returns with the support of Saudi Government
26 Nov	Both Benazir Bhutto and Nawaz Sharif file papers for Elections
28 Nov	President Musharraf resigns as Army Chief
29 Nov	President Musharraf takes oath as President for a second term
15 Dec	**Emergency to be lifted**
Jan 8, 08	**Elections**

Source: Citi Investment Research

Pakistan Market Intelligence

	Mkt Cap	P/E (x)			EPS Growth (%)			Yield (%)	PBV	ROE (%)			US$ Performance		
12/7/2007	**USD bil**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**	**2008**	**(x)**	**2007**	**2008**	**2009**	**1W**	**1M**	**YTD**
Pakistan	**5.8**	**13.3**	**11.3**	**10.5**	**5.9**	**14.2**	**11.2**	**4.7**	**3.4**	**33.4**	**29.4**	**27.5**	**4.0**	**7.6**	**39.0**
Energy	1.9	11.7	12.3	10.7	0.6	14.8	13.7	2.0	4.6	39.6	37.7	43.3	2.5	6.5	19.5
Materials	0.8	16.2	14.1	11.7	14.7	21.0	2.7	2.4	4.4	27.4	31.5	38.1	0.8	3.8	55.2
Consumer Durables	0.1	NA	10.9	9.1	NA	19.0	27.9	2.5	0.6	NA	5.6	6.7	0.3	9.8	28.7
Banks	2.9	15.9	14.4	12.8	11.8	12.8	11.2	3.9	3.9	24.4	27.0	30.5	6.1	11.2	61.4
Utilities	0.2	NA	13.3	12.3	NA	7.6	19.5	2.9	1.5	NA	11.5	12.4	3.1	2.0	11.7

Note: The above data are compiled based on the MSCI Asia Pacific Free-ex-Japan universe of stocks. The market capitalization for the countries, sectors and the region are free-float adjusted. Also the P/E and EPS Growth are taken from IBES Aggregate estimates for MSCI country, sector and regional indices. P/BV represents 12-months trailing P/BV calculated by MSCI for MSCI country, sector and regional indices. ROE is calculated as trailing P/BV divided by forward P/E estimates for respective fiscal year. With the exception of Australia and New Zealand whose fiscal year ends in June, (ie, 2008E refers to June 2008E), fiscal year for all countries, sectors and the region ends in December. NM = Not Meaningful; NA = Not Available.

Source: IBES Aggregate, MSCI, FactSet, Citi estimates.

Singapore Equity Strategy

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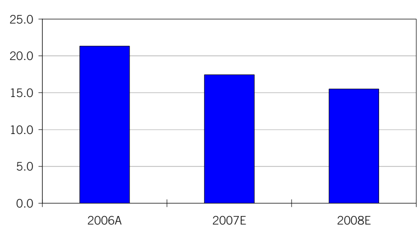
Drive Defensively

- **Volatile outlook** — Our bottom-up index target of 3,900 implies a modest 10% upside for 2008, reflecting subdued earnings growth. Downside risks are a slowing global economy, higher inflation and increased risk aversion.
- **What if?** — If US GDP growth for 2008 slows to 1%, the tech sector would be vulnerable as end-demand weakens. If ROEs declined to their 5-year averages, sectors most affected would include Diversified Financials and Capital Goods. If the US$ were to weaken further, tech might lose and airlines might benefit.
- **Stay defensive** — Telcos, Media and Conglomerates provide earnings visibility, reasonable valuations and attractive yields. We overweight Banks on valuation grounds but US sub-prime concerns may be a short-term overhang.
- **Underweight Property —** Office sector faces formidable supply from 2010-12. Our sector underweight follows rating downgrades for KepLand (Sell) and City Dev (Hold).
- **Theme 1 –** Repricing of risk could benefit bank margins as banks become more selective in their lending. The acceleration in commercial asset prices supported by cheap credit is probably over.
- **Theme 2 –** Lower interest rates amidst a risk adverse environment could see a flight to high yield plays. Well-managed companies with global or regional franchises like Keppel, SingTel and SIA may attract sovereign funds.
- **Theme 3 –** Increased infrastructure spend and tourism boost from F-1 are likely to benefit building materials and services companies and hotels.

Singapore — P/E, 06A-08E (CIR Coverage)



Source: Citi Investment Research estimates

Singapore: Top Buys and Sells

	Rating	Price (Nov. 30)	Target Price	ETR (%)	2008E EPS Grth	2008E P/E (x)	2008E Yield	2008E ROE
Top Buys								
DBS	1L	20.10	25.50	30.1	13.6	11	3.7	13.6
Laggard YTD in price performance on CDO concerns, yet recent results showed broad-based earnings strength								
Keppel Corp*	1L	13.40	15.70	19.3	31.8	15.8	2.5	28.2
Strong order book underpins O&M earnings while property and infrastructure deliver higher contributions								
Singapore Press	1L	4.54	5.30	23.3	8.2	13.1	6.6	24.0
Strong balance sheet and operating cash flows sustain dividends. Undervalued relative to sum-of-parts of S$5.30								
SingTel	1L	3.88	4.40	18.7	5.5	16.6	5.3	17.9
Sustained associate value accretion; solid Singapore driving earnings momentum, and attractive yields								
ST Engineering	1L	3.78	4.40	20.9	15.4	18.8	4.9	41.7
Record order book of almost S$10b should underpin growth. Prospects in all key divisions appear healthy								
StarHub	1L	3.00	3.60	25.7	24.6	13.6	5.7	260.5
Revenue/margin upside from cable TV business; likely capital management effort to expand recurring yield								
UOB	1L	19.80	24.00	24.3	14.6	12	3.6	13.8
Early mover in capturing recovery of Singapore mortgage market, lowest CDO exposure of its peers								
Top Sells								
Keppel Land	3L	7.50	6.26	-15.7	-21.3	13.4	0.8	19.4
Limited upside to office capital values given potential supply from 2010-2012								
NOL	3M	4.16	2.70	-33.3	-33.3	16	1.8	10.4
Cyclical concerns should prevail to undermine recovery until the cycle bottom can be identified								

Source: Citi Investment Research estimates * Target price as of Dec. 6, 2007

Year of Consolidation

We expect continued market volatility for Singapore in 2008 buffeted by a potential slowdown in the global economy, inflationary pressures domestically and increased risk aversion as the fallout from the US sub-prime situation unfolds. Our ST Index target of 3900 suggests moderate upside but downside risks could emerge if earnings growth disappoints.

While we already see earnings decelerating from mid 20s to 12.4% in 2008, a sharply weaker US$ (impacting exporters) and higher input costs (wages, energy costs and commodities) could put further pressure on earnings growth.

Slowing US Growth

We expect the Singapore economy to moderate to 6.2% in 2008, from a buoyant 8% in 2007E. Our economist note that Singapore is sensitive to an economic downturn in the US with GDP slowing by 1.7% point for every 1% point pullback in US GDP growth. The tech sector would be most vulnerable to a US slowdown although property could be affected should sentiment wane and yield expectations rise.

1. Scenario Analysis – Biggest Sector Losers From US Growth Slowing to 1% in 2008E

	Base Case: 2008E		Bear Case: 2008E	
	EPS Growth	P/E	EPS Growth	P/E
Tech *	37%	12.5	16%	14.8
Airlines	11%	11.8	9%	11.9

Source: Citi Investment Research estimates
*Assuming 10% decline in revenues

Singapore Developers – RNAV Sensitivity

Company	RIC	Mkt Cap (S$m)	Price (S$)	08E RNAV (S$)	08E RNAV prem/(disc) %	Impact to RNAV if: Resi Prices fall 10%	% change	Office Prices fall 10%	% change
Allgreen	AGRN.SI	2,370	1.49	2.41	-38%	2.24	-7%	2.36	-2%
Capitaland	CATL.SI	19,078	6.80	6.05	12%	5.96	-1%	5.98	-1%
City Devt	CTDM.SI	12,912	14.20	14.47	-2%	13.92	-4%	14.02	-3%
Keppel Land	KLAN.SI	5,507	7.65	7.83	-2%	7.71	-1%	7.38	-6%
Wing Tai	WTHS.SI	2,142	2.70	3.85	-30%	3.57	-7%	3.78	-2%

Source: Citi Investment Research estimates

Currency impact

The US$ has fallen by 6% against the S$ since the beginning of 2007. Our economist expects the US$ to weaken another 6% yoy by end 2008. US$ weakness will impact the exporters negatively the most but Singapore Airlines will benefit from a weaker US$.

2. Scenario Analysis – Sector Losers and Winners from US Dollar Falling 10%

	Base Case: 2008E		Dollar ↓ 10%: 2008E	
US dollar falls 10%	EPS Growth	P/E	EPS Growth	P/E
Tech	37%	12.5	↓2ppts	12.7
Airlines	11%	11.8	↑13ppts	10.5

Source: Citi Investment Research estimates

Valuations

Singapore Market Valuation

Summary	2006A	2007E	2008E
Turnover Growth (%)	9.1	13.5	9.7
Market EPS Growth (%)	20.7	22.6	12.4
Market PE (x)	21.3	17.4	15.5
Market EV/EBITDA (x)	19.5	16.6	14.3
Market Yield (%)	4.0	4.0	4.0
Price to Book (x)	2.6	2.3	2.2

Source: Citi Investment Research estimates

Our updated bottom up ST Index target for 2008 is 3900 (lowered from 4000) which is a collation of our sector analysts' price targets for FY2008. This index target implies upside of 10% for the market from current levels.

After the recent pullback, market valuations are now looking more reasonable at an 08E P/E of 16x. On a P/B basis, the market is still at upper end of historical trading ranges at 2.2x although ROEs have been supportive.

The Singapore market is at the mature phase of its uptrend. Should ROEs decline as earnings contract, the market is likely to follow. The table below shows the sensitivity of the various sectors should they revert back to the average ROE over the past 5 years.

3. Scenario Analysis – Biggest Sector Losers If Valuations Revert to 5-year Mean

	Base Case: 2008E		5-Year Mean:	
	P/E	ROE	P/E	ROE
Diversified Financials	26.3	85.6	16.8	30.6
Capital Goods	17.0	22.1	12.0	15.7
Real Estate	17.0	8.8	13.0	6.8
Total Market	14.7	13.9	12.2	11.6

Source: Citi Investment Research estimates

Strategy

Against the backdrop of a subdued market outlook, we recommend a defensive stance focusing on earnings visibility, reasonable valuations and attractive yields to bolster returns. We favor telcos, media and conglomerates given their strong cashflows, earnings visibility and yields. We continue to overweight banks from a valuation perspective while earnings growth will be underpinned by good loan growth. In the short term, however, sentiment towards the banks could be affected by the US sub-prime situation.

One key change to our sector strategy is to underweight Property following the recent downgrades by our property analyst Wendy Koh of Keppel Land (to Sell) and City Dev (to Hold). The downgrades were premised on concerns that the office market will face formidable supply by 2010, undermining share price performance as investors build in higher yields expectations. We also underweight transport, tech, consumer staples and healthcare on valuation grounds.

Singapore – Sector Strategy

Overweight	Rationale	Preferred stocks
Conglomerates	Strong earnings outlook from strong O&M order book. ST Eng to benefit from global aerospace outsourcing.	Keppel, SCI, ST Engineering
Media	Lagged play on domestic consumption. Ad spend momentum appears intact while group cash-flow and balance sheet is strong to support generous dividends	SPH
Telcos	Strong cash flows, reasonable valuations and positive capital management initiatives	Sing Tel, Starhub
Banks	Strong loan growth to underpin earnings growth although sentiment continues to be clouded by US sub-prime. Valuation are looking attractive	DBS, UOB, OCBC

Underweight	Rationale	Preferred stocks
Technology	In spite of attractive valuations, there are no catalyst while earnings risk are high in a scenario of weak US$ and weak US economy	CSE Global, Datacraft, Venture
Transport	Outlook for shipping remains sluggish while valuation for SIA is looking rich. The sector will also be hampered by the high oil price.	SIA Engineering, SATS, ComfortDelgro
Property	Looming supply in the office sector by 2010 will put a cap on capital values in office space.	Wing Tai, Allgreen

Source: Citi Investment Research

Themes

Credit crunch: The fallout from the US sub-prime situation has resulted in a widening of spreads for borrowers in Singapore as lenders become more selective and appropriately re-price their loans. Singapore banks which are less constrained by their capital may benefit through the widening of their lending spreads and possibly increased market share. Financially weaker companies may have to face higher interest costs as a result of the repricing.

Buoyant infrastructure and construction spending: The revival in the property market, new investments in tourism projects and on-going upgrading of Singapore's infrastructure has created a construction and infrastructure related boom. This has created lending opportunities for the banks in Singapore. Building materials and services companies like Hong Leong Asia and Tat Hong will also benefit.

F1 – Tourism boost: The tourism sector will receive a boost when the Formula One race will be hosted in Singapore for the first time in Sep 2008. This is likely to further boost hotel occupancy rates and room tariffs in 2008. CDL Hotel REIT is a prime beneficiary of the strength in the hotel sector.

Land transport review: The land transport review report which is expected to be released in 2008 could affect ComfortDelgro and SMRT. Two possible scenarios include the possible sale by Comfort of its rail business to SMRT in exchange for the latter's bus business and the merger of both companies to create a dominant transport company in Singapore.

Sovereign funds – seeking quality investments: The emergence of sovereign funds from Asia and the Middle East could see such funds invest in Singapore companies with strong global or regional franchises like SIA, Sing Tel and Keppel.

Singapore Market Intelligence

	Mkt Cap	P/E (x)			EPS Growth (%)			Yield (%)	PBV	ROE (%)			US$ Performance		
12/7/2007	**USD bil**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**	**2008**	**(x)**	**2007**	**2008**	**2009**	**1W**	**1M**	**YTD**
Singapore	**157.7**	**16.1**	**15.3**	**13.3**	**12.0**	**5.1**	**14.2**	**3.4**	**2.3**	**14.4**	**14.1**	**14.8**	**1.4**	**-3.8**	**26.0**
Energy	0.5	13.7	8.2	7.9	67.0	3.6	-1.1	5.9	2.3	17.0	28.3	29.3	0.4	-9.6	85.6
Capital Goods	25.0	26.6	20.7	17.6	31.3	17.5	15.5	3.0	3.5	13.1	16.9	19.9	0.5	-3.7	55.9
Transportation	15.0	14.4	15.6	13.5	-7.5	15.8	19.0	3.4	2.5	17.4	16.1	18.6	0.1	-7.6	39.8
Consumer Services	1.2	NA	NA	NA	NA	NA	NA	0.0	NA	NA	NA	NA	NA	NA	NA
Media	5.0	17.6	14.8	14.3	18.5	3.6	9.5	6.5	3.8	21.4	25.4	26.3	4.8	3.8	17.9
Retailing	1.9	19.8	15.3	13.3	29.3	15.6	11.3	2.6	2.4	12.0	15.5	17.9	-3.4	-7.5	44.6
Food & Staples Retailing	1.3	51.7	41.4	33.6	25.0	23.2	35.5	1.1	10.4	20.2	25.2	31.0	-5.5	-9.5	45.0
Food Bev & Tobacco	1.3	NA	NA	NA	NA	NA	NA	0.7	NA	NA	NA	NA	NA	NA	-23.6
Health Care Equip & Serv	1.6	50.3	31.9	27.2	57.7	17.0	18.0	3.0	6.5	13.0	20.5	24.0	-1.7	-10.3	26.2
Banks	48.6	13.2	13.7	12.6	-3.9	8.9	9.1	4.0	1.8	13.3	12.8	14.0	3.0	-1.4	8.5
Diversified Financials	8.0	80.2	36.0	32.4	122.4	11.4	13.9	3.0	18.3	22.9	50.9	56.7	2.5	-4.1	169.0
Real Estate	25.2	23.1	14.4	18.6	60.9	-22.8	24.2	2.4	1.7	7.3	11.8	9.1	1.9	-6.0	14.9
Technology Hardware & Equip	2.1	14.6	11.8	10.6	23.6	12.1	14.1	4.1	2.0	13.4	16.6	18.6	2.8	-9.9	-3.7
Telecom	21.2	16.5	16.5	14.9	0.2	10.7	14.5	3.3	2.9	17.8	17.8	19.7	-0.6	-3.2	24.7

Note: The above data are compiled based on the MSCI Asia Pacific Free-ex-Japan universe of stocks. The market capitalization for the countries, sectors and the region are free-float adjusted. Also the P/E and EPS Growth are taken from IBES Aggregate estimates for MSCI country, sector and regional indices. P/BV represents 12-months trailing P/BV calculated by MSCI for MSCI country, sector and regional indices. ROE is calculated as trailing P/BV divided by forward P/E estimates for respective fiscal year. With the exception of Australia and New Zealand whose fiscal year ends in June, (ie, 2008E refers to June 2008E), fiscal year for all countries, sectors and the region ends in December. NM = Not Meaningful; NA = Not Available.

Source: IBES Aggregate, MSCI, FactSet, Citi estimates.

Taiwan Equity Strategy

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Escaping the Value Trap

- **Taiwan is trading at its lowest relative P/E in history** — …with the exception of the aftermath of the 1999 earthquake. The Taiwan market has been the worst performing market in Asia so far this decade, giving up the entirety of its outperformance during the tech boom of the late 1990s.

- **Liquidity is the key to escaping the liquidity trap** — Capital outflow probably peaked in 3Q07 and may begin improving going forward with better monitoring of overseas mutual fund purchases, the largest conduit for outflows. Narrowing USD/NTD interest rate gaps also should reduce outflows.

- **Taiwan's China plays are capital rich but asset poor** — Both retail and industrial China plays in Taiwan trade at significant P/E and P/B discounts to their HK- & China-listed counterparts, but with lower RoEs, suggesting that Taiwanese companies are asset constrained. In other words, lifting China investment restrictions should generate considerable earnings growth potential.

- **Overweighting IT hardware and domestic demand names** — We particularly like own-brand manufacturers with more channel control and emerging market exposure as well as the China plays, which will most benefit from relaxed cross-strait commercial restrictions.

- **We maintain our 12,000 index target** — But we push back the target period to YE2008. Target implies a forward P/E of 14x and 49% upside.

Taiwan: Top Buys and Sells

		Price	Target	ETR	2008E			
	Rating	(Nov. 30)	Price	(%)	EPS Grth	P/E (x)	Yield	ROE
Top Buys								
Asustek	1L	101.00	137.00	37.1	19.5	12	1.5	17.8
Strong brand penetration into emerging markets								
Chinatrust	1L	23.40	28.00	23.9	9.6	10.6	4.3	15.5
Among Taiwan's cheapest banks with strong retail franchise								
Far East Dept	1M	38.40	50.00	32.7	0.3	23.9	2.5	6.5
Second-largest department store chain in China								
High Tech Comp	1M	599	850	46.6	19.3	10.6	4.7	48.8
Uniquely positioned in smartphones, and strong brand in emerging and developed markets								
MediaTek	1L	420	675	65.5	-18.8	14.7	4.8	32.6
Growing market share in handset IC								
Top Sell								
UMC	3L	19.30	18.50	-1.6	-16.1	16.1	2.6	6.5
Rising wafer banks suggesting foundry sector capacity utilization has peaked								

Source: Citi Investment Research estimates

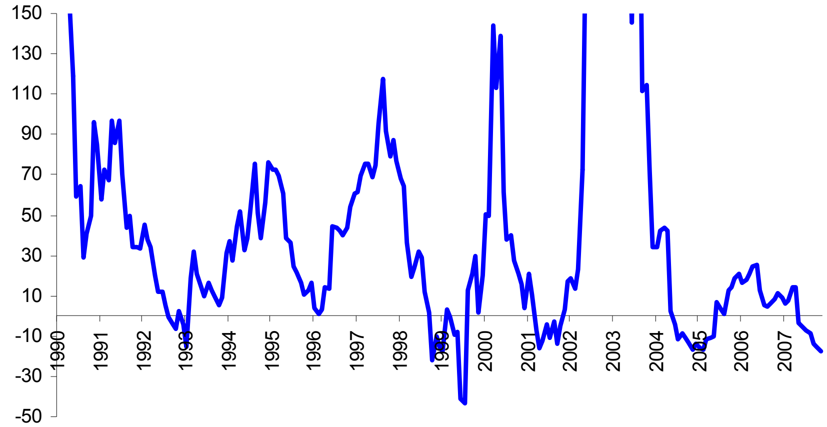
Expected total return (ETR) = capital appreciation plus dividend yield

Escaping the Bear Trap

PE relative for Taiwan market at lowest ever, save the 1999 earthquake

Taiwan has been among the cheapest markets in the region since 2005 and yet it also continues to be among the worst performers, primarily due to the very substantial capital outflows it has suffered since the beginning of this decade. Yet 2008 should be a key turning point for Taiwan. Relative valuations have reached an all-time low, with the exception of the aftermath of the 1999 earthquake, as shown in the chart below. With the exception of 2005, the Taiwan market in the past has always outperformed the region whenever its P/E ratio fallen to or below parity versus Asia ex-Japan.

Taiwan: P/E Premium vs. Asia ex-Japan



Source: MSCI, IBES, Citi Investment Research

6.0% net cash yield, including buybacks and capital reductions

Moreover, the market has been generating significant cash flow. Beyond the 4% dividend yield, share buybacks and capital reductions have generated another 2.5% effective cash yield while cash calls on the market have dropped to near historic lows of just 0.5%.

US dependency mitigated by rising emerging market demand

Yet still there is concern about Taiwan in light of expectations of a significant deceleration in US economic growth. Our view is that Taiwan's exposure to US consumer demand may not be as significant as is being priced into the market. *First*, emerging market penetration by Taiwan tech exporters has increased while demand has also increased in these markets. *Second*, there is strong evidence that corporate IT spending will accelerate next year. According to Rich Gardner, our US PC analyst, 40% of companies surveyed expected at least a slight increase in IT spending next year, while 41% will maintain the same levels as this year. Given the strength of corporate balance sheets and the time-span since their last upgrade, we remain confident that corporate demand will pick up next year.

1. Scenario Analysis – Biggest Sector Losers From US Growth Slowing to 1% in 2008E

	Base Case: 2008E		Bear Case: 2008E	
	EPS Growth	P/E	EPS Growth	P/E
Material	7.2%	10.5x	0.6%	11.2x
Export	34.6%	27.1x	9.9%	33.2x
Semi & FPD	32.4%	13.0x	18.6%	14.6x
IT Hardware	26.8%	14.5x	20.3%	15.3x
Domestic Demand	10.9%	14.5x	8.3%	14.9x

Source: Citi Investment Research estimates

And so it isn't surprising that IT hardware is among the sectors least exposed to a potential US slowdown while the more upstream materials and semiconductor sectors are more exposed. Moreover, some of Taiwan's biggest potential brands are evolving from the IT hardware sector, again largely because of the recent strength in demand from the emerging markets, where entry barriers are lower than in developed markets.

But we give our biggest overweight to the domestic demand sector in Taiwan, in which we include telecoms. Moreover, it is here that we find some relatively cheap plays on the Greater China economy – names such as Far Eastern Department Stores and Uni-President. Taiwan's China plays tend to trade at cheap P/Es and P/Bs versus their HK and China counterparts, though often their ROEs are lower, too. This implies that Taiwanese companies are indeed feeling the effects of China investment restrictions – they are, in effect, capital rich and asset poor. Thus, we expect that with the lifting of these China investment restrictions, as has been promised by candidates of both contending political parties, this sector will be the most direct beneficiary.

2. Scenario Analysis – Sector Losers and Winners from US Dollar Gaining/Falling 10%

	Base Case: 2008E		Dollar ↓ 10%: 2008E	
US dollar falls 10%	EPS Growth	P/E	EPS Growth	P/E
Material	7.2%	10.5x	1.7%	11.1x
Export	34.6%	27.1x	22.7%	29.8x
IT Hardware	26.8%	14.5x	21.5%	15.2x

	Base Case: 2008E		Dollar ↑ 10%: 2008E	
US dollar rises 10%	EPS Growth	P/E	EPS Growth	P/E
Material	7.2%	10.5x	12.7%	10.0x
IT Hardware	26.8%	14.5x	34.2%	13.7x
Semi & FPD	32.4%	13.0x	34.5%	12.7x

Source: Citi Investment Research estimates

Political events next year should slow capital outflows and boost ROEs

Clearly, the upcoming presidential elections will be an important driver to the market, and for several reasons. *First*, we expect that cross-strait policy will be significantly loosened, no matter who wins the election. This is not to say that it doesn't matter who wins – a KMT administration would clearly liberalize cross-strait economic policies more quickly and thoroughly than a DPP administration, but the direction, if not the degree or speed, would be the same. *Second*, liberalizing cross-strait relations will go far to reduce the capital outflows that have been pressuring the market. These restrictions have stifled capital formation, which in turn has depressed local interest rates and capital market returns in general, causing funds to seek higher returns elsewhere. Of course, the improvement in sentiment and the commensurate lowering of political risk will factor in as well. *Third*, lifting China investment restrictions will help boost ROEs for those industries which have been rendered capital rich but asset poor by these rules. Those industries include retail, food processing, and construction materials. *Finally*, we expect the government will try to effect a pre-election market rally, as has been the case in all free presidential elections (there have been three), although the 1996 rally was delayed by PRC missile tests. Typically, property and building materials stocks perform best during these rallies.

1Q08 could be best time to buy financials

Financials also fare well during presidential elections, and given the depth of their sell-off in the wake of the sub-prime panic offer quite good value at these levels. Our analyst Brad Ti reminds us that the rising interest rate cycle will continue to provide headwind to this sector as does the fact that credit card loss provisions have been largely depleted. Brad anticipates new provisions will be required in anticipation of the implementation of the Personal Bankruptcy Law in April. Thus, we expect that 1Q08 should be the ideal entry point for the financials.

3. Scenario Analysis – Biggest Sector Losers If Valuations Revert to 3-year Mean

	Base Case: 2008E		3-Year Mean	
	P/E	ROE	P/E	ROE
Cement	13.1x	13.8	11.5x	13.8
Telco	12.6x	15.0	11.9x	15.0
Chemicals	10.5x	22.3	10.1x	22.3
Networking Equipment	12.8x	15.9	12.3x	15.9

Source: Citi Investment Research estimates

Maintain 12,000 index target

We maintain our index target index of 12,000, but push our target period back to year-end 2008 rather than mid-year. This target represents 40% upside plus a 6.5% gross cash yield (including share buybacks and capital reductions, as well as dividends), giving a total return of not far short of 50%. We set this target based on a trailing P/E of 15.1x, a forward P/E of 14.0x (versus the current forward P/E of 14.7x for Asia ex-Japan), a net total cash yield of 5.0%, and a price-to-money ratio of 3.1 times. The only stretch in our valuation forecast is the price-to-money ratio, which presumes that the ratio will climb to the upper end of its historic range and further assumes that M1B reverts to its 5-year moving average growth rate of 10.5% pa.

But ultimately the key to escaping the value trap is the reversal or at least lessening of the capital outflows that have plagued Taiwan so far this decade. Nearly US$32bn has flowed out in the past four quarters alone, primarily through overseas mutual funds, largely in anticipation of the eventual implementation of the taxation of overseas income, but also in search of higher investment yields. Yet measures by the central bank to monitor these outflows (thus defeating the purpose of avoiding detection from tax authorities) and the narrowing of cross-border interest rate differentials have already significantly slowed the capital flight.

Taiwan Market Intelligence

	Mkt Cap	P/E (x)			EPS Growth (%)			Yield (%)	PBV	ROE (%)			US$ Performance		
12/7/2007	**USD bil**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**	**2008**	**(x)**	**2007**	**2008**	**2009**	**1W**	**1M**	**YTD**
Taiwan	**372.3**	**14.1**	**12.2**	**11.1**	**30.1**	**16.4**	**9.3**	**4.4**	**2.2**	**15.3**	**16.4**	**16.5**	**1.4**	**-5.9**	**8.4**
Energy	5.4	19.8	12.9	12.2	52.8	5.9	-18.9	6.7	4.1	20.8	31.8	33.7	3.5	-1.4	33.8
Materials	52.9	14.8	11.5	11.2	29.1	3.0	-8.0	7.0	2.3	15.6	20.1	20.7	2.8	-4.9	50.2
Capital Goods	6.0	12.9	14.5	12.2	-18.6	18.4	13.7	5.0	1.3	10.2	9.1	10.8	0.0	-9.1	15.5
Comm Serv & Supplies	0.4	13.1	12.7	11.5	3.0	10.6	4.4	6.5	2.8	21.1	21.8	24.1	1.8	0.0	-11.7
Transportation	5.4	36.4	16.8	13.3	116.3	26.8	53.3	5.5	1.6	4.4	9.4	12.0	0.3	-10.5	37.2
Auto & Components	2.3	19.8	14.3	14.6	38.4	-2.0	0.1	3.3	1.3	6.7	9.2	9.0	2.1	-6.1	17.2
Consumer Durables	5.6	12.9	14.3	12.2	-9.0	16.5	11.3	5.4	2.0	15.5	14.0	16.3	1.1	-3.8	-17.5
Retailing	0.9	NA	NA	NA	NA	NA	NA	1.9	NA	NA	NA	NA	NA	NA	NA
Food & Staples Retailing	1.2	20.8	18.3	17.3	13.7	5.6	3.7	4.8	5.4	26.1	29.6	31.3	-0.8	-3.3	11.3
Food Bev & Tobacco	3.3	38.8	19.4	23.2	100.1	-16.6	13.9	2.5	2.6	6.7	13.4	11.2	-5.5	-14.9	29.9
Banks	28.1	46.1	12.2	10.7	285.1	13.5	6.7	4.9	1.2	2.6	9.9	11.3	-0.4	-3.0	-15.2
Diversified Financials	9.3	NA	14.9	13.6	NA	9.5	3.6	4.7	1.4	0.5	9.7	10.6	2.7	-4.7	10.0
Insurance	15.2	44.4	17.0	16.9	160.7	0.8	12.8	3.6	2.5	5.5	14.4	14.5	-0.2	-9.7	-6.6
Real Estate	0.5	22.3	NA	NA	NA	NA	NA	4.4	1.3	5.8	NA	NA	1.4	-10.7	-30.8
Technology Hardware & Equip	130.7	31.0	14.1	11.0	99.9	27.6	12.4	3.0	2.6	8.5	18.7	23.9	0.8	-8.4	12.6
Semi & Semi Equipment	90.4	10.4	15.6	13.7	-33.6	13.5	17.5	4.5	2.4	23.3	15.5	17.6	2.8	-4.2	-4.9
Telecom	14.6	14.7	15.8	12.5	-6.8	25.9	5.2	6.9	2.0	13.4	12.4	15.7	-0.7	5.3	19.9

Note: The above data are compiled based on the MSCI Asia Pacific Free-ex-Japan universe of stocks. The market capitalization for the countries, sectors and the region are free-float adjusted. Also the P/E and EPS Growth are taken from IBES Aggregate estimates for MSCI country, sector and regional indices. P/BV represents 12-months trailing P/BV calculated by MSCI for MSCI country, sector and regional indices. ROE is calculated as trailing P/BV divided by forward P/E estimates for respective fiscal year. With the exception of Australia and New Zealand whose fiscal year ends in June, (ie, 2008E refers to June 2008E), fiscal year for all countries, sectors and the region ends in December. NM = Not Meaningful; NA = Not Available.

Source: IBES Aggregate, MSCI, FactSet, Citi estimates.

Thailand Equity Strategy

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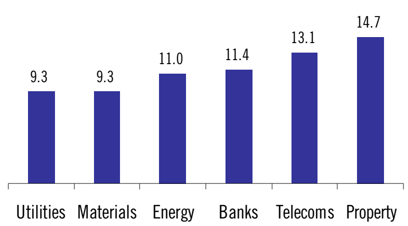
Thailand — 08E P/E By Sector (CIR Coverage)



Source: Citi Investment Research estimates

SET and the Oil Price

- **SET target of 900** — Our index target reflects our analysts' forecasts of EPS growth of 15% for 2008E. Energy stocks will continue to drive overall market earnings and thus the market's direction, given a correlation of about 85% between the SET and oil prices since 2001.
- **Scenario analysis #1: US GDP growth at 1%, oil at US$60/bbl** — If US GDP growth were decline to only 1% in 08E, the sectors most likely to suffer would be Info Tech and Energy. For Energy, we look at a bear-case scenario in which oil prices (WTI) fall to US$60/bbl in 2008, versus our base case of US$70/bbl. PTTEP has the highest earnings sensitivity to lower oil prices.
- **Scenario analysis #2: Stronger baht** — Further appreciation in the baht would have a profound impact on the Info Tech, Energy and Material sectors as they are US$ earners. While a stronger baht would hurt exporters, it would help dampen inflationary pressure from resilient oil prices.

Thailand: Top Buys and Sells

		Price	Target	ETR	2008E			
	Rating	(Nov. 30)	Price	(%)	EPS Grth	P/E (x)	Yield	ROE
Top Buys								
Advanced Info	1M	92.00	110.00	25.7	17.4	14.8	6.7	25
Robust cash flow supports 100% payout policy								
Bangkok Bank*	1L	115.00	133.00	15.5	9.9	10.2	2.8	12.8
High-beta exposure to an expected 2008 rebound in investment capex and loan demand								
BEC World	1M	26.00	33.00	35.1	18.7	18.7	5.7	42
Growth story intact with elections and ITV fall								
Glow Energy	1L	36.00	41.50	21.3	2.9	11.4	4.4	15.3
Well-managed utility with potential growth in both its IPP and SPP businesses								
PTT	1L	356.00	431.00	17.0	14.5	10.4	3.7	26.9
High oil prices and organic volume growth should help sustain high levels of earnings growth in 07E-09E								
PTT Chemical	1M	122.00	163.00	40.0	20.1	9.6	4.2	18.1
Sequential earnings improvement in 2H07E should be followed by 20% NPAT increase in 2008E								
Ratchaburi	1L	47.00	54.00	19.5	41.7	9.3	4.7	18.5
Solid balance sheet and strong cash flow generation are supportive of expansion plans								
Top Sells								
Banpu	3M	424.00	372.00	-12.6	33.6	15.9	2.5	27.5
Share price factors in blue-sky scenarios for coal prices and valuations								
Italian-Thai Development	3S	7.90	5.50	-29.9	29	27.9	0.5	7.4
Ongoing investigations into airport and Ur-Arthorn housing projects likely to cap any upside for the stock								
Land & Houses	3L	7.60	6.20	-11.9	-6.9	20.8	4.6	13.5
Slowdown in sales of single detached houses has not yet reached the inflection point								

Source: Citi Investment Research estimates *Target price as of Dec. 7, 2007

Expected total return (ETR) = capital appreciation plus dividend yield

SET and the Oil Price

Our index target of 900 reflects our analysts' forecasts of EPS growth of 15.1% for 2008E. Upside catalysts that we see for the SET include higher-for-longer oil prices, attractive valuations, and an improving political outlook. Sector outperformers, in our view, will be Banks, Energy, Media, and Utilities.

The performance of the energy stocks is particularly important for the direction of the market, given an 85% correlation in the past seven years between movements in the SET Index and oil prices. Our in-house view is that oil prices will stay high until at least 2010. If oil prices reversed their rising trend (*see scenario analysis below*), the SET could struggle to maintain a strong trajectory.

Moreover, we have likely moved into a more stable period politically. Political parties have been formed and/or merged after several months of speculation and candidate movements, and the military seems content to be back in barracks. While the election in December could be very tightly contested, we do not expect the direction of economic policy to be dramatically changed, whichever party wins. Policies announced to date by the main parties are similar, favoring the populist agenda set by the previous government.

In valuation terms, the companies in our Thai coverage are now trading on P/Es of 12.7x and 10.9x for 2007E and 2008E and respective P/Bs of 2.7x and 2.3x. EPS is forecast to grow at 10.5% in 2007 and 15.1% in 2008. Our forecast dividend yield for 2007 is 3.6%. Thai valuations remain attractive versus the regional market with a 2008E P/E to 2008E growth of less than 0.8x versus an average of 1.5x for regional peers. We believe the current valuation gap is excessive. Other valuation measures such as PBV and dividend yields drive home the point.

Key sector views

Energy — Buy-rated PTT, RRC and PTTCH offer good exposure to high oil prices and outstanding organic growth (via new capacities) at attractive valuations.

Banks — Our positive stance on the Thai banks is premised on an expected cyclical recovery in domestic demand and hence loan growth.

Utilities — IPP bidding has finally started after nearly two years of speculation. We reiterate our stance that this round of IPP bidding will be more competitive than the previous round in mid-1990s. Hence, returns should be less attractive than in the previous round. We like RATCH and GLOW in this space.

Telecoms — We forecast a 11.4% increase to Big Three revenues (ex interconnect) in 2008, from 9.1% in 2007, on improved consumer sentiment from a more stable political environment. Our top pick is AIS, the most leveraged play into an improved pricing and demand environment.

Materials — Cement producers such as Siam Cement are facing a margins squeeze on the back of rising fuel prices. We do not expect a recovery in the sector until 2H08.

Consumer Durables — We underweight this sector given the limited growth prospects over the next 12 months.

Scenario#1—US GDP growth slows to 1%

If US GDP growth were decline to only 1% in 2008, the sectors most likely to suffer would be Info Tech and Energy. In the case of Energy, we look at a bear-case scenario in which oil prices (WTI) fall to US$60/bbl in 2008, versus our base case of US$70/bbl. The energy company with the highest earnings sensitivity to lower oil prices is PTTEP. As for the Info Tech sector, exports of electronics would decline substantially if US GDP growth were to stall.

Sectors such as Utilities, Consumer Durables, Construction & Engineering, Transportation, Banks, and Telecoms would appear to be immune from any US slowdown. In our view, the most defensive sector in the Thai market is Utilities: revenues are secured via guaranteed volumes and tariffs. At the same time, costs can be passed through to end-users.

1. Scenario Analysis—US GDP Growth Slows to 1%

	Base Case: 2008E		Bear Case: 2008E
Sector	EPS Growth	P/E	EPS Growth
Info Tech	15.7%	12.6	-16%
Energy	16.4%	11.1	-11%
Media	23.1%	12.5	-10%
Materials	11.2%	9.2	-6%
Utilities	21.0%	9.4	0%
Cons Durables	9.1%	14.2	0%
Const & Eng	34.6%	23.3	0%
Transport	30.5%	9.6	0%
Banks	12.0%	11.6	0%
Telecoms	19.3%	13.2	0%

Source: Citi Investment Research estimates

Scenario #2—US$ weakens by 10%

Further weakening of the dollar versus the baht would have profound impacts for the Info Tech, Energy and Material sectors, which are US$ earners. With the baht having already appreciated by 5% year-to-date, these sectors have already suffered a negative effect on their bottom lines. Earnings for other sectors, according to our sensitivity analysis, tend to hold up well in the face of currency fluctuations.

Although a weak US$ would hurt Thailand's exports, which account for around 70% of GDP, it would be positive for the country's oil import bills since Thailand is a net importer of crude oil. In 2007, a weak US$ helped constrain pump prices and keep inflation under control.

2. Scenario Analysis—US$ Weakens By 10%

	Base Case: 2008E		Bear Case: 2008E
Sector	**EPS Growth**	**P/E**	**EPS Growth**
Info Tech	15.7%	12.6	-26%
Energy	16.4%	11.1	-23%
Materials	11.2%	9.2	-7%
Transport	30.5%	9.6	9%
Cons Durables	9.1%	14.2	0%
Media	23.1%	12.5	0%
Const & Eng	34.6%	23.3	0%
Banks	12.0%	11.6	0%
Telecoms	19.3%	13.2	0%
Utilities	21.0%	9.4	0%

Source: Citi Investment Research estimates

Scenario #3—P/Es return to 5-yr average

The Thai market appears to be less sensitive than other markets in the region to any reversion of sector P/E multiples to their five-year averages. Political uncertainties since September 2006 mean the SET has not re-rated as much as regional peers. The SET is trading on a 2008 P/E of 11x versus 15% EPS growth, translating to a PEG ratio that is among the lowest in Asia.

If sector P/Es were to return to their 5-year averages, the only two sector losers would be consumer durables (property) and transportation. We currently underweight both sectors as their high valuations are not supported by limited earnings growth.

3. Scenario Analysis—Sector P/Es Revert to 5-year Average

	Base Case: 2008E		5-Year Mean	
Sector	**P/E**	**ROE**	**P/E**	**ROE**
Info Tech	12.6	22.4%	12.4	15.7%
Energy	11.1	21.4%	11.5	26.1%
Materials	9.2	21.0%	12.4	23.7%
Transport	9.6	10.2%	13.7	17.5%
Cons Durables	14.2	16.6%	13.8	23.2%
Media	12.5	21.6%	23.3	22.9%
Const & Eng	23.3	7.9%	29.9	10.1%
Banks	11.6	14.4%	12.1	13.7%
Telecoms	13.2	21.7%	13.9	17.1%
Utilities	9.4	16.8%	9.3	18.4%

Source: Citi Investment Research estimates

Thailand Market Intelligence

	Mkt Cap	P/E (x)			EPS Growth (%)			Yield (%)	PBV	ROE (%)			US$ Performance		
12/7/2007	**USD bil**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**	**2008**	**(x)**	**2007**	**2008**	**2009**	**1W**	**1M**	**YTD**
Thailand	**47.2**	**13.5**	**11.6**	**10.9**	**1.1**	**12.3**	**8.3**	**3.7**	**2.3**	**17.7**	**18.0**	**17.7**	**-0.4**	**-3.5**	**37.4**
Energy	20.0	13.2	12.6	11.5	4.5	10.2	3.5	3.3	3.0	22.8	23.9	26.3	-2.3	-5.1	70.9
Materials	5.0	9.4	10.0	9.8	-6.0	2.5	-3.1	5.3	2.8	30.0	28.2	28.9	2.1	-6.2	18.5
Transportation	1.6	7.9	13.0	12.1	-39.0	7.4	33.8	3.0	1.2	14.6	8.9	9.5	1.7	-4.3	2.0
Consumer Durables	0.6	20.1	23.2	19.7	-13.5	17.8	12.4	NA	3.2	15.8	13.7	16.1	5.0	5.3	34.6
Media	0.7	32.0	23.2	19.5	38.2	18.9	13.9	4.8	8.2	25.7	35.5	42.2	3.3	7.4	33.3
Food & Staples Retailing	0.8	26.6	22.6	12.7	17.6	78.1	10.9	3.9	4.1	15.2	17.9	32.0	1.5	-0.6	41.6
Banks	13.4	13.6	13.0	11.2	4.6	15.5	14.2	3.1	1.7	12.4	13.0	15.0	0.3	-2.1	26.8
Diversified Financials	0.1	13.2	7.6	8.2	73.6	-6.8	3.8	6.4	0.8	6.3	10.9	10.2	1.0	-3.4	18.0
Real Estate	0.5	32.5	29.5	23.9	10.0	23.8	14.3	1.6	4.5	13.7	15.1	18.7	4.5	-5.1	18.5
Technology Hardware & Equip	0.2	8.3	8.7	8.3	-4.7	4.6	16.3	6.6	1.9	23.2	22.1	23.1	4.0	-8.0	-9.6
Telecom	2.6	40.4	25.0	17.0	61.4	47.1	33.3	6.3	4.1	10.2	16.4	24.1	1.0	4.1	26.5
Utilities	1.7	10.1	10.1	9.6	0.4	4.7	-3.0	4.6	1.7	17.1	17.2	18.0	0.3	-2.4	21.1

Note: The above data are compiled based on the MSCI Asia Pacific Free-ex-Japan universe of stocks. The market capitalization for the countries, sectors and the region are free-float adjusted. Also the P/E and EPS Growth are taken from IBES Aggregate estimates for MSCI country, sector and regional indices. P/BV represents 12-months trailing P/BV calculated by MSCI for MSCI country, sector and regional indices. ROE is calculated as trailing P/BV divided by forward P/E estimates for respective fiscal year. With the exception of Australia and New Zealand whose fiscal year ends in June, (ie, 2008E refers to June 2008E), fiscal year for all countries, sectors and the region ends in December. NM = Not Meaningful; NA = Not Available.

Source: IBES Aggregate, MSCI, FactSet, Citi estimates.

Appendix A-1

Analyst Certification

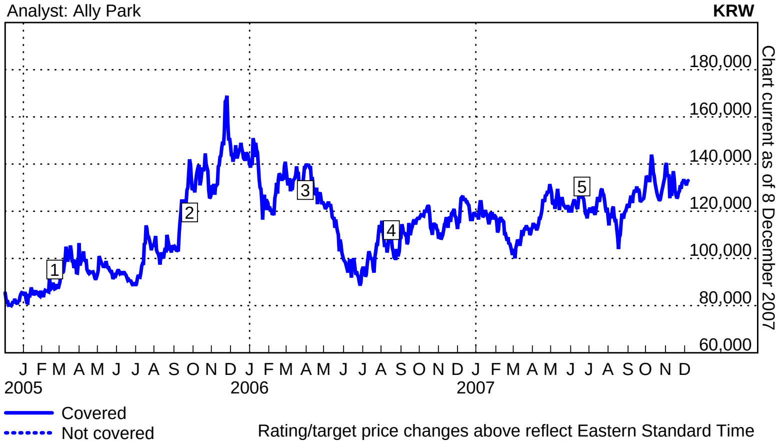
Each research analyst(s), strategist(s) or research associate(s) responsible for the preparation and content of this research report hereby certifies that, with respect to each issuer or security that the research analyst, strategist or research associate covers in this research report, all of the views expressed in this research report accurately reflect their personal views about those issuer(s) or securities. Each research analyst(s) strategist(s) or research associate(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst, strategist or research associate in this research report.

IMPORTANT DISCLOSURES

Hite Brewery (000140.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Ally Park



Rating/target price changes above reflect Eastern Standard Time

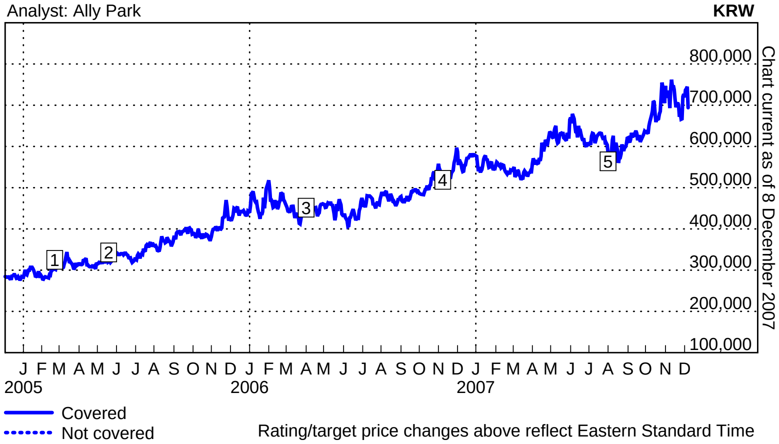
#	Date	Rating	Target Price	Closing Price
1:	22 Feb 05	*3L	*90,000.00	87,100.00
2:	27 Sep 05	*1M	*177,000.00	142,000.00
3:	31 Mar 06	1M	*167,000.00	138,500.00
4:	17 Aug 06	1M	*155,000.00	108,000.00
5:	20 Jun 07	1M	*177,000.00	126,000.00

*Indicates change.

Shinsegae (004170.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Ally Park



Rating/target price changes above reflect Eastern Standard Time

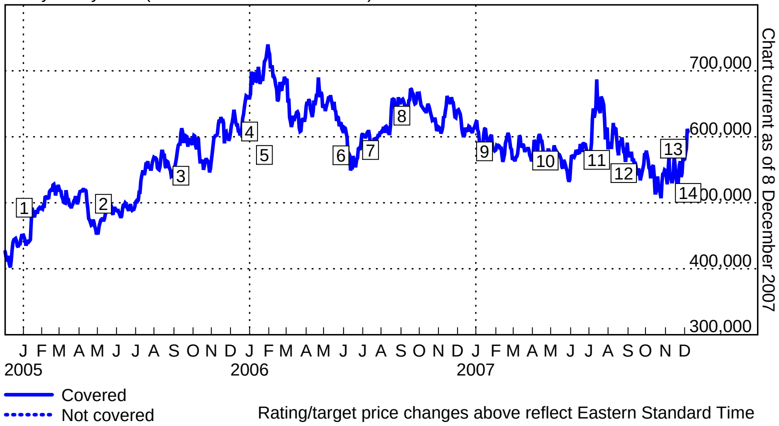
#	Date	Rating	Target Price	Closing Price
1:	22 Feb 05	*1L	*370,000.00	302,500.00
2:	19 May 05	1L	*450,000.00	320,500.00
3:	1 Apr 06	*2L	*456,000.00	450,000.00
4:	8 Nov 06	2L	*560,000.00	534,000.00
5:	1 Aug 07	2L	*630,000.00	584,000.00

*Indicates change.

Samsung Electronics (005930.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Jay Choi (covered since March 1 2005)



Rating/target price changes above reflect Eastern Standard Time

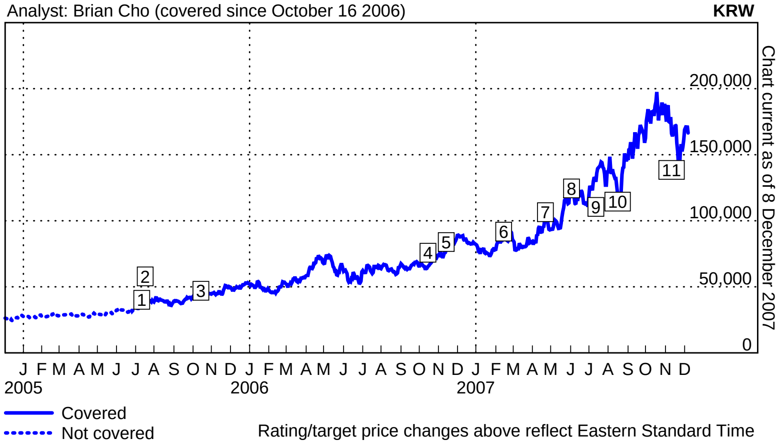
#	Date	Rating	Target Price	Closing Price
1:	4 Jan 05	2L	*464,000.00	447,000.00
2:	11 May 05	*1L	*610,000.00	472,000.00
3:	13 Sep 05	1L	*675,000.00	606,000.00
4:	2 Jan 06	1L	*780,000.00	659,000.00
5:	25 Jan 06	1L	*820,000.00	714,000.00
6:	29 May 06	1L	*800,000.00	622,000.00
7:	14 Jul 06	1L	*770,000.00	584,000.00
8:	3 Sep 06	*2L	*695,000.00	656,000.00
9:	15 Jan 07	*1L	*750,000.00	612,000.00
10:	23 Apr 07	1L	*700,000.00	570,000.00
11:	13 Jul 07	1L	*750,000.00	687,000.00
12:	27 Aug 07	*2L	*620,000.00	577,000.00
13:	14 Nov 07	2L	*584,000.00	547,000.00
14:	7 Dec 07	*1L	*790,000.00	608,000.00

*Indicates change.

GS Engineering & Construction (006360.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Brian Cho (covered since October 16 2006)



Rating/target price changes above reflect Eastern Standard Time

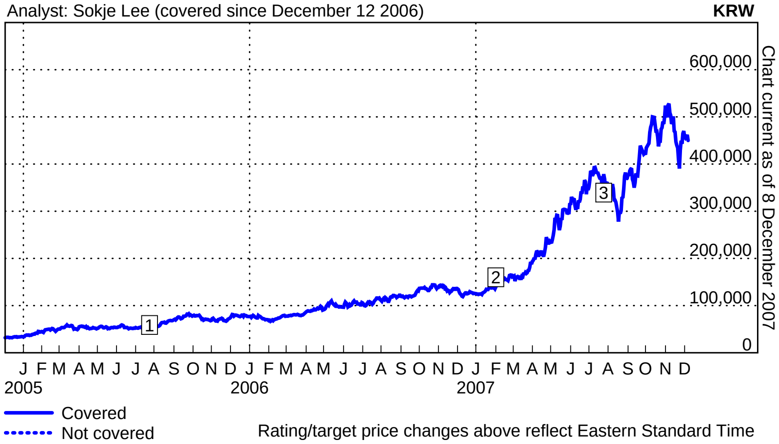
#	Date	Rating	Target Price	Closing Price
1:	12 Jul 05	*2L	*36,300.00	35,000.00
2:	18 Jul 05	2L	*40,000.00	37,550.00
3:	14 Oct 05	*3L	*43,050.00	44,050.00
4:	15 Oct 06	*1M	*83,200.00	65,400.00
5:	14 Nov 06	1M	*92,300.00	77,900.00
6:	14 Feb 07	1M	*106,000.00	88,000.00
7:	22 Apr 07	1M	*130,000.00	106,000.00
8:	4 Jun 07	1M	*150,000.00	124,500.00
9:	12 Jul 07	1M	*170,000.00	129,500.00
10:	16 Aug 07	1M	*185,000.00	120,000.00
11:	12 Nov 07	1M	*240,000.00	166,000.00

*Indicates change.

Hyundai Heavy Industries (009540.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Sokje Lee (covered since December 12 2006)



Rating/target price changes above reflect Eastern Standard Time

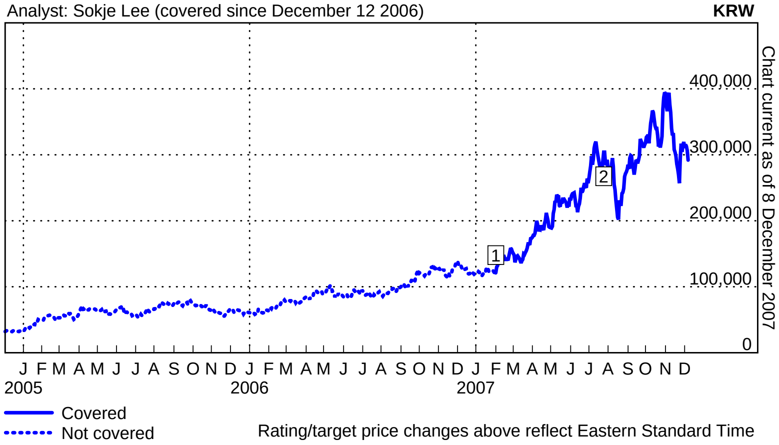
#	Date	Rating	Target Price	Closing Price
1:	25 Jul 05	*3M	32,500.00	55,900.00
2:	1 Feb 07	*1L	*235,000.00	139,500.00
3:	25 Jul 07	*1M	*840,000.00	378,500.00

*Indicates change.

Hyundai Mipo Dockyard (010620.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Sokje Lee (covered since December 12 2006)



Rating/target price changes above reflect Eastern Standard Time

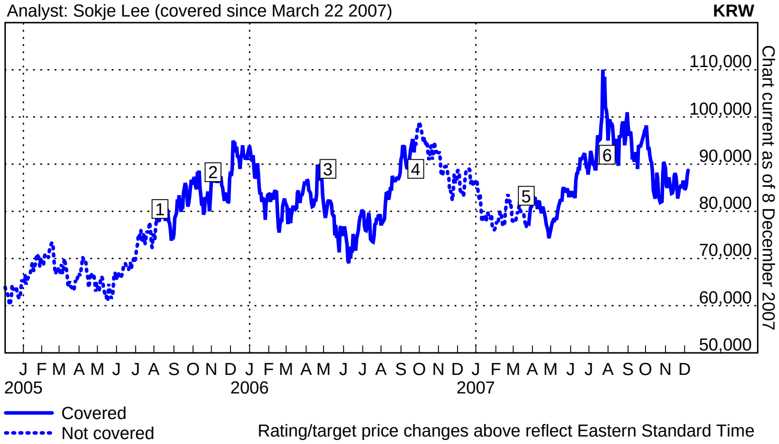
#	Date	Rating	Target Price	Closing Price
1:	1 Feb 07	1M	245,000.00	121,500.00
2:	25 Jul 07	1M	*660,000.00	304,000.00

*Indicates change.

Hyundai Mobis (012330.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Sokje Lee (covered since March 22 2007)



Rating/target price changes above reflect Eastern Standard Time

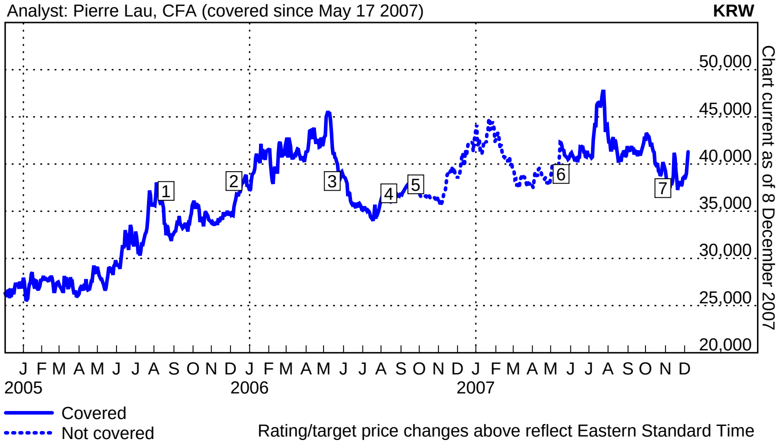
#	Date	Rating	Target Price	Closing Price
1:	10 Aug 05	3M	*68,000.00	79,000.00
2:	3 Nov 05	3M	*82,000.00	88,200.00
3:	7 May 06	*2M	*90,000.00	82,100.00
4:	26 Sep 06	Coverage suspended		
5:	22 Mar 07	*1L	*134,000.00	76,800.00
6:	31 Jul 07	1L	*145,000.00	100,000.00

*Indicates change.

KEPCO (015760.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Pierre Lau, CFA (covered since May 17 2007)



Rating/target price changes above reflect Eastern Standard Time

#	Date	Rating	Target Price	Closing Price
1:	19 Aug 05	*3M	*30,500.00	32,450.00
2:	7 Dec 05	3M	*33,000.00	35,450.00
3:	14 May 06	3M	*37,000.00	41,850.00
4:	13 Aug 06	3M	*33,000.00	36,100.00
5:	26 Sep 06	Coverage suspended		
6:	17 May 07	*1L	*50,000.00	42,250.00
7:	29 Oct 07	1L	*45,000.00	40,200.00

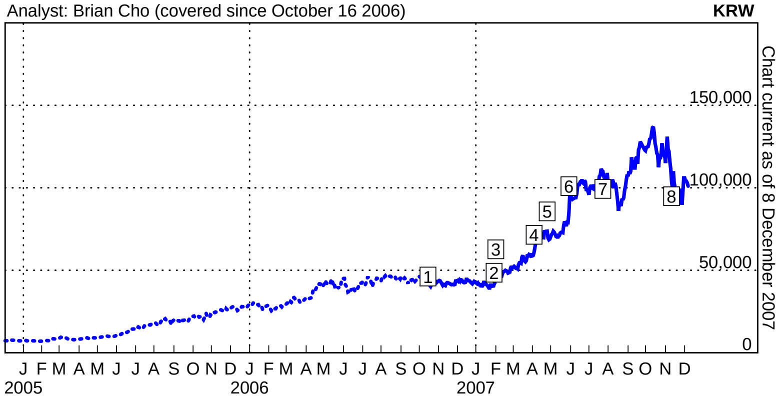
*Indicates change.

Samsung Engineering (028050.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Brian Cho (covered since October 16 2006)

KRW



Covered
Not covered

Rating/target price changes above reflect Eastern Standard Time

#	Date	Rating	Target Price	Closing Price
1:	15 Oct 06	1M	57,200.00	43,100.00
2:	30 Jan 07	1M	*65,000.00	41,400.00
3:	1 Feb 07	1M	65,000.00	44,900.00
4:	4 Apr 07	1M	*74,000.00	61,100.00
5:	25 Apr 07	1M	*90,000.00	73,700.00
6:	30 May 07	1M	*110,000.00	85,000.00
7:	24 Jul 07	1M	*133,000.00	110,000.00
8:	12 Nov 07	1M	*153,000.00	104,000.00

*Indicates change.

KT Freetel (032390.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Charles Uhm (covered since July 3 2007)

KRW

Covered
Not covered

Rating/target price changes above reflect Eastern Standard Time

#	Date	Rating	Target Price	Closing Price
1:	17 Feb 05	*3L	19,500.00	23,100.00
2:	24 Jun 05	*2L	*26,000.00	24,600.00
3:	29 Jul 05	2L	*27,500.00	27,200.00
4:	8 Dec 05	*2M	*26,000.00	23,450.00
5:	26 Jan 06	2M	*27,000.00	23,900.00
6:	18 Aug 06	*3M	*26,000.00	26,500.00
7:	10 Nov 06	3M	*25,000.00	29,900.00
8:	14 Mar 07	3M	*23,000.00	24,700.00
9:	25 Jul 07	3M	*25,000.00	29,400.00

*Indicates change.

CJ HomeShopping (035760.KQ)

Ratings and Target Price History - Fundamental Research

Analyst: Ally Park

KRW

Covered
Not covered

Rating/target price changes above reflect Eastern Standard Time

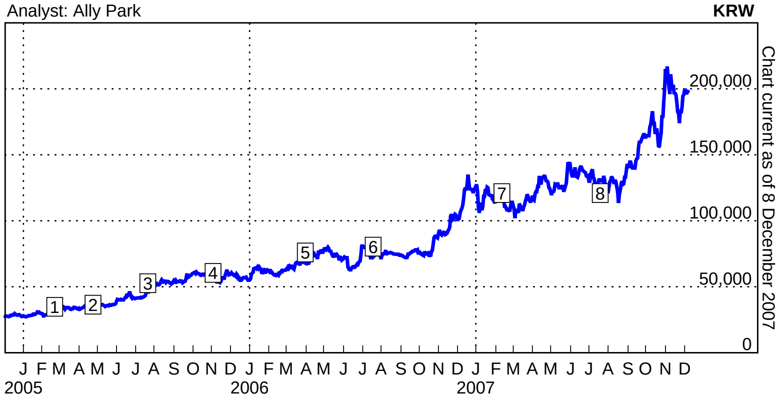
#	Date	Rating	Target Price	Closing Price
1:	22 Feb 05	3H	*66,225.17	62,002.10
2:	31 Mar 06	3H	*88,930.94	99,241.17
3:	17 Aug 06	3H	*73,000.00	75,000.00
4:	7 Nov 07	3H	*54,000.00	62,000.00

*Indicates change.

LG Household & Healthcare (051900.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Ally Park



#	Date	Rating	Target Price	Closing Price
1:	22 Feb 05	*1L	*36,000.00	32,150.00
2:	25 Apr 05	1L	*43,000.00	33,500.00
3:	21 Jul 05	1L	*54,000.00	46,900.00
4:	3 Nov 05	1L	*70,000.00	55,500.00
5:	31 Mar 06	1L	*78,000.00	68,000.00
6:	19 Jul 06	1L	*92,000.00	74,000.00
7:	12 Feb 07	*3L	*97,000.00	120,000.00
8:	19 Jul 07	3L	*122,000.00	129,500.00

*Indicates change.

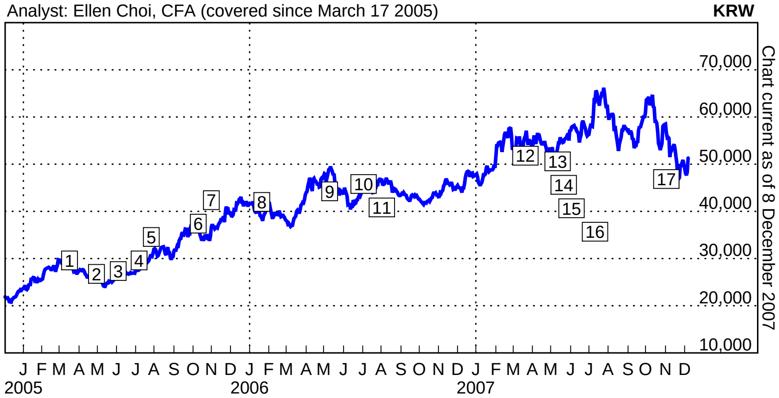
Covered
Not covered

Rating/target price changes above reflect Eastern Standard Time

Shinhan Financial (055550.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Ellen Choi, CFA (covered since March 17 2005)



#	Date	Rating	Target Price	Closing Price
1:	17 Mar 05	*2L	*32,200.00	27,900.00
2:	29 Apr 05	*2M	*30,000.00	25,750.00
3:	3 Jun 05	2M	*28,750.00	25,950.00
4:	7 Jul 05	2M	*30,300.00	27,600.00
5:	27 Jul 05	2M	*33,600.00	30,650.00
6:	11 Oct 05	2M	*39,000.00	37,400.00
7:	1 Nov 05	*2L	39,000.00	36,700.00
8:	20 Jan 06	2L	*41,500.00	38,500.00
9:	10 May 06	2L	*50,400.00	48,950.00
10:	4 Jul 06	*1L	*54,800.00	45,000.00
11:	2 Aug 06	1L	*55,000.00	46,550.00
12:	21 Mar 07	*2L	*61,000.00	56,000.00
13:	11 May 07	*1L	*65,300.00	53,400.00
14:	22 May 07	1L	*67,000.00	54,700.00
15:	4 Jun 07	1L	*72,000.00	57,800.00
16:	11 Jul 07	1L	*77,000.00	63,400.00
17:	2 Nov 07	1L	*76,000.00	56,700.00

*Indicates change.

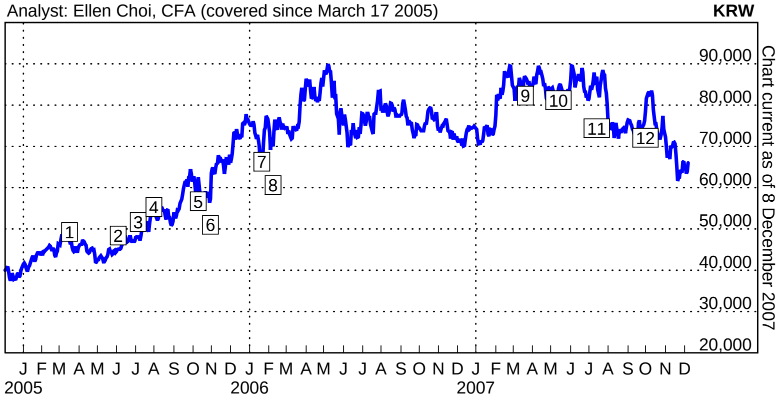
Covered
Not covered

Rating/target price changes above reflect Eastern Standard Time

Kookmin Bank (060000.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Ellen Choi, CFA (covered since March 17 2005)



#	Date	Rating	Target Price	Closing Price
1:	17 Mar 05	*2L	*52,700.00	47,200.00
2:	3 Jun 05	2L	*49,200.00	45,100.00
3:	6 Jul 05	2L	*51,400.00	48,050.00
4:	31 Jul 05	2L	*59,200.00	54,100.00
5:	11 Oct 05	2L	*66,500.00	62,500.00
6:	31 Oct 05	*1L	*70,000.00	57,300.00
7:	20 Jan 06	1L	*80,000.00	66,300.00
8:	8 Feb 06	1L	*82,000.00	70,000.00
9:	21 Mar 07	*2L	*93,000.00	86,700.00
10:	13 May 07	*1L	*94,500.00	84,000.00
11:	13 Jul 07	*2L	*90,000.00	86,900.00
12:	1 Oct 07	*1L	*95,000.00	78,500.00

*Indicates change.

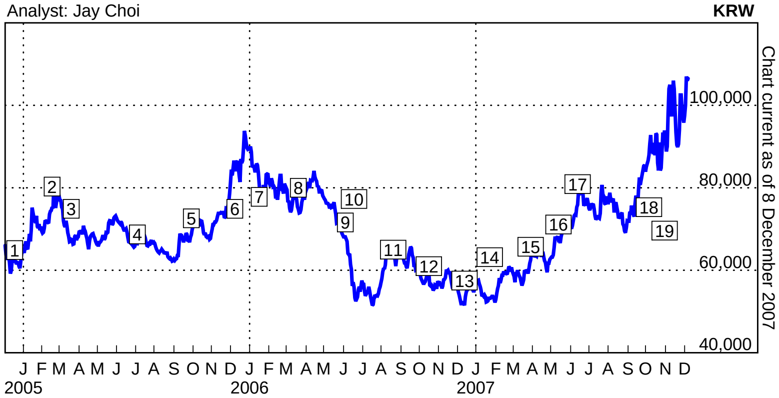
Covered
Not covered

Rating/target price changes above reflect Eastern Standard Time

LGE (066570.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Jay Choi



#	Date	Rating	Target Price	Closing Price
1:	20 Dec 04	1M	*74,000.00	62,200.00
2:	17 Feb 05	1M	*87,000.00	75,300.00
3:	21 Mar 05	1M	*81,000.00	67,500.00
4:	5 Jul 05	*1L	81,000.00	66,500.00
5:	29 Sep 05	1L	*85,000.00	68,600.00
6:	8 Dec 05	1L	*95,000.00	85,300.00
7:	17 Jan 06	*2L	*88,000.00	81,000.00
8:	21 Mar 06	2L	*85,000.00	74,800.00
9:	4 Jun 06	2L	*76,000.00	68,100.00
10:	19 Jun 06	2L	*63,000.00	56,000.00
11:	21 Aug 06	2L	*66,000.00	64,000.00
12:	17 Oct 06	2L	*63,000.00	59,500.00
13:	13 Dec 06	2L	*57,000.00	51,500.00
14:	23 Jan 07	2L	*56,000.00	53,000.00
15:	29 Mar 07	*1L	*73,000.00	62,500.00
16:	14 May 07	1L	*87,000.00	67,300.00
17:	13 Jun 07	1L	*92,000.00	75,900.00
18:	5 Oct 07	1L	*114,000.00	87,900.00
19:	31 Oct 07	1L	*134,000.00	93,900.00

*Indicates change.

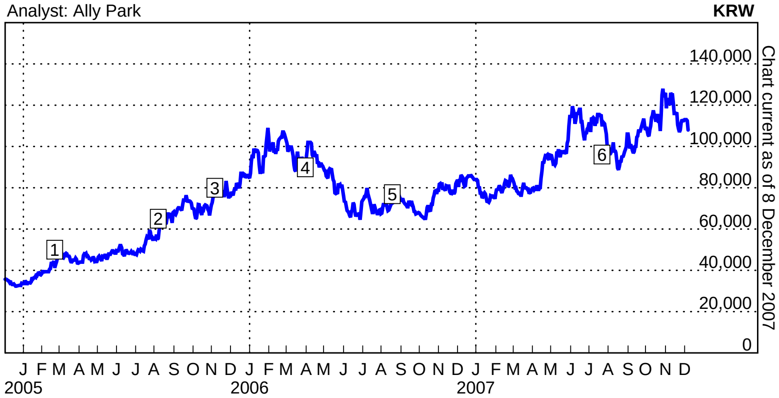
Covered
Not covered

Rating/target price changes above reflect Eastern Standard Time

Hyundai Department Store (069960.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Ally Park



#	Date	Rating	Target Price	Closing Price
1:	22 Feb 05	*1M	*56,000.00	41,200.00
2:	8 Aug 05	1M	*73,000.00	55,500.00
3:	7 Nov 05	1M	*91,000.00	77,400.00
4:	31 Mar 06	*2M	*102,000.00	90,800.00
5:	18 Aug 06	*1M	*116,000.00	72,500.00
6:	23 Jul 07	1M	*135,000.00	110,500.00

*Indicates change.

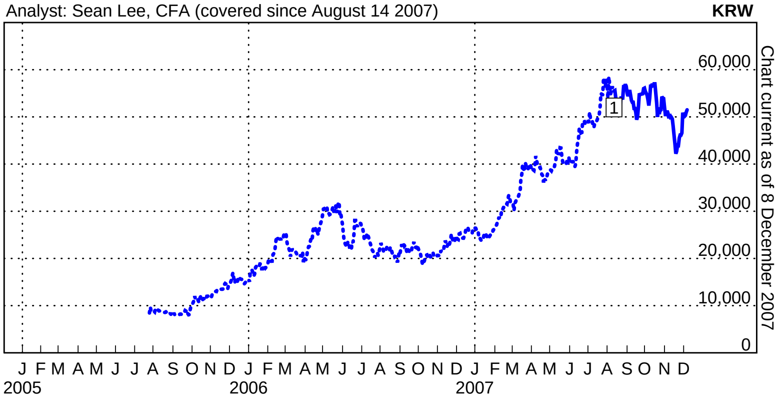
Covered
Not covered

Rating/target price changes above reflect Eastern Standard Time

Modetour Network (080160.KQ)

Ratings and Target Price History - Fundamental Research

Analyst: Sean Lee, CFA (covered since August 14 2007)



#	Date	Rating	Target Price	Closing Price
1:	13 Aug 07	1M	74,000.00	55,500.00

*Indicates change.

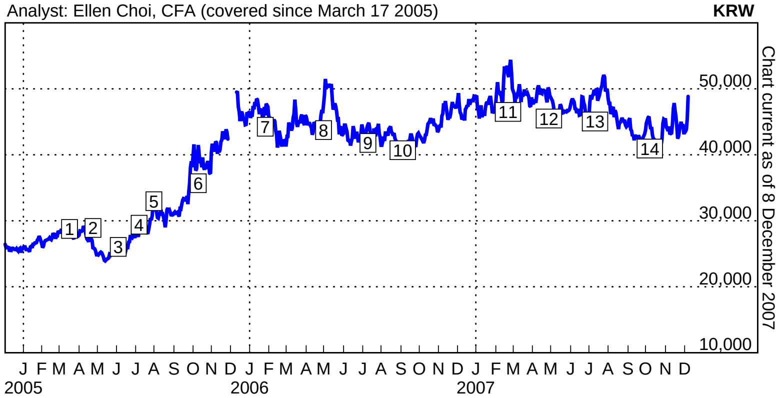
Covered
Not covered

Rating/target price changes above reflect Eastern Standard Time

Hana Financial Group (086790.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Ellen Choi, CFA (covered since March 17 2005)



#	Date	Rating	Target Price	Closing Price
1:	17 Mar 05	*1L	*32,376.24	28,019.80
2:	24 Apr 05	1L	*32,772.28	25,742.57
3:	3 Jun 05	1L	*31,386.14	25,792.08
4:	7 Jul 05	1L	*32,574.26	28,168.32
5:	31 Jul 05	1L	*38,118.81	32,970.30
6:	11 Oct 05	1L	*48,514.85	41,485.15
7:	26 Jan 06	1L	*52,000.00	46,000.00
8:	1 May 06	1L	*54,000.00	NA
9:	11 Jul 06	1L	*55,000.00	44,600.00
10:	5 Sep 06	1L	*54,000.00	41,600.00
11:	21 Feb 07	1L	*59,500.00	52,100.00
12:	27 Apr 07	1L	*58,000.00	49,900.00
13:	11 Jul 07	1L	*60,500.00	49,000.00
14:	8 Oct 07	1L	*58,000.00	44,750.00

*Indicates change.

Covered
Not covered

Rating/target price changes above reflect Eastern Standard Time

This Product does not include a rating and investors should not consider this Product to be making an investment recommendation with respect to the company(ies) identified herein as "Analyzed Non-Rated (ANR)", or the securities of such company(ies). In addition, the company(ies) identified herein as "Analyzed Non-Rated (ANR)", and/or the securities of such company(ies), are not subject to ongoing coverage by Citi Investment Research; accordingly, investors should not expect updated or additional information.

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Jit Soon Lim, CFA holds a long position in the shares of DBS Group.

A member of David Fergusson's team holds a long position in the shares of Kookmin Bank.

A member of Jit Soon Lim, CFA's team holds a long position in the shares of Kookmin Bank.

A member of Markus Rosgen's team holds a long position in the shares of China Life Insurance and HSBC Holdings.

A member of Jit Soon Lim, CFA's household holds a long position in the shares of DBS Group.

A member of Ratnesh Kumar's household holds a long position in the shares of State Bank of India.

A household member of a member of Jit Soon Lim, CFA's team holds a long position in the shares of Singapore Press.

A household member of a member of Markus Rosgen's team holds a long position in the shares of BANK OF CHINA LTD., China Telecom, Hong Kong & China Gas and HSBC Holdings.

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Citi is acting as financial advisor to Acer, Inc. in their acquisition of Gateway, Inc.

Citigroup Global Markets is acting as an advisor to the government of HKSAR on the proposed merger of KCRC and MTRC.

A member of David Fergusson's team received compensation from Samsung Electronics in the past 12 months.

A member of Jit Soon Lim, CFA's team received compensation from Samsung Electronics in the past 12 months.

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LTD., Hongkong Electric, HSBC Holdings, Huaneng Power International, Hutchison Whampoa, INDUSTRIAL & COMMERCIAL BANK OF CHINA (A, INDUSTRIAL & COMMERCIAL BANK OF CHINA LT, KEPCO, Keppel Land, Kookmin Bank, LI & FUNG LTD., MTR Corporation, New World Development, Ping An Insurance, PT Telkom, Samsung Electronics, Samsung Engineering, Shinhan Financial, Sino Land, Sinopec, StarHub, State Bank of India, Sun Hung Kai Properties, Taishin FHC, Telecom Corp Of NZ Ltd, Telstra Corporation Ltd, Thai Airways International, Wipro, Woodside Petroleum Ltd and Yue Yuen Industrial (Holdings).

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