



ASIA

Emerging Leaders

21 August 2009



Inside

Unapologetically exclusive	5
Our cyclical picks continue to outperform	12
Watch earnings certainty	13
Secular growth	15
Cyclical	18
MacVisit – Golden Meditech	22
MacVisit – China Shineway Pharma Group Ltd.	26
MacVisit – Sumarecon Agung	30
MacVisit – Bumi Serpong Damai	34
Key research	37

Unapologetically exclusive

The party is not yet over, just getting more exclusive

In our last regional report (*Don't get carried away*, 17 June 2009), we lowered beta in our portfolio and noted that the stellar 1H (where almost all small caps surged) would be followed by the need for stock-picking in 2H. We stand by that view. The MSCI Asia Ex-Japan small cap index has stalled in its outperformance against the large cap index since June. While P/BV discounts for Asian small caps remain larger than the long-term average, we think small caps as an asset class will at best perform in line with large caps in 2H09. Asian ex-Japan small caps have already booked the largest outperformance against large caps in the past 15 years.

But investors need not despair. Stock-picking is what small caps are all about and we continue to sift through nearly 400 covered small caps in Asia ex-Japan to find the best. We drop five stocks from our model portfolio and add nine.

Performance and discount by country – wide variances

Breaking down small cap outperformance by country, the gaps are striking. HK and China have led the pack (followed by Indonesia and Taiwan). But in Korea and Taiwan, there has been minimal outperformance by small caps. We also compare P/BV discounts by country and see HK/China and Singapore still at high discounts relative to historical levels.

Earnings season – pull out the trusty certainty score

During the last earnings season, our Quant team's earnings certainty score served us well in avoiding some of the worst misses. Some well-followed small caps have surprisingly low scores. We publish Asia's earnings schedule inside, along with our Quant team's earnings certainty score – one of the strongest ICs for Asian small caps.

Expanding China medical scope

Last week, we downgraded a former top pick, Mindray (MR US), to Neutral as international sales continue to slump. However, China medical spending remains robust and in this issue, we present two fresh MacVisits on China medical – Golden Meditech and China Shineway Pharma Group Ltd.

Indonesia small cap rising – two property plays

A recent visit to Indonesia left us impressed with the property market there. In this issue, we present two fresh MacVisits on Indonesian property – Sumarecon Agung and Bumi Serpong Damai.

Top picks

	Ticker	Rec	Mkt Cap US\$m	Price (lc)	TP (lc)	Up(down) %	3m ADTV US\$m
Wasion Group	3393 HK	Outperform	813	6.92	8.60	24	6.0
Alliance Global Group	AGI PM	Outperform	846	4.20	6.40	52	1.2
Cheng Loong	1904 TT	Outperform	334	10.65	14.50	36	2.5
Esso Thailand	ESSO TB	Outperform	706	6.95	10.00	44	2.3

Pricing as of 18 August 2009. Source: Bloomberg, Macquarie Research, August 2009

Analyst

Jake Lynch
86 21 2412 9007 jake.lynch@macquarie.com

Charlie Chen
86 21 2412 9041 charlie.chen@macquarie.com

Please refer to the important disclosures and analyst certification on inside back cover of this document, or on our website www.macquarie.com.au/research/disclosures.

Fig 1 Top picks and stocks to avoid

Rec	Mkt Cap US\$m	Price (loc)	TP (loc)	Up (down) %	3m ADTV US\$m	P/BV CY09	ROE CY08	ROE CY09	Div Yld %	PER CY09	PER CY10	EPS CY09E	EPS CY10E	EPS Δ (%)	Sector	Analyst		
Secular growth basket																		
Inspur International	596 HK	Out	465	1.17	2.00	71	6.5	3.7	54.9	32.9	1.7	13.6	10.3	0.09	0.11	31.8	Software	Jake Lynch
Wasion Group	3393 HK	Out	813	6.92	8.60	24	6.0	3.2	20.1	20.6	1.6	16.7	13.3	0.41	0.52	26.1	Electronic Equipment &	Jake Lynch
China Gas	384 HK	Out	955	2.22	2.50	13	4.8	2.0	8.6	12.5	0.6	19.0	12.2	0.12	0.18	55.6	Gas Utilities	Carol Cao
Yuhan Corp	000100 KS	Out	1,470	182,500	257,000	41	10.7	1.9	15.5	15.5	0.5	13.1	11.0	13,976	16,661	19.2	Pharmaceuticals	Christina Lee
Energy Develop	EDC PM	Out	1,325	4.30	5.10	19	3.0	1.4	17.3	14.8	9.4	10.3	8.0	0.42	0.54	27.9	Independent Power Producers	Haj Narvaez
Sichuan Express	107 HK	Out	974	2.95	4.80	63	4.0	0.9	9.8	11.9	0.0	8.5	6.2	0.35	0.47	36.6	Highways & Railtracks	Wei Sim
St Shine Optical	1565 TT	Out	214	140.00	180.00	29	1.9	3.4	30.6	28.7	5.7	12.4	11.0	11.31	12.76	12.8	Health Care Supplies	Kylie Huang
ICSA	AURFI IN	Out	165	171.35	260.00	52	3.8	1.1	39.6	34.1	1.8	4.3	3.0	40.15	57.31	42.7	Application Software	Inderjeet Bhatia
Alliance Global	AGI PM	Out	846	4.20	6.40	52	1.2	0.9	8.8	7.0	0.0	12.9	5.3	0.33	0.80	145.2	Conglomerate	Nadine Javellana
Cyclical survivors basket																		
Minor International	MINT TB	Out	888	8.90	11.00	24	1.9	2.3	19.9	13.2	2.6	18.3	12.5	0.49	0.71	46.6	Hotels, Resorts & Cruise Lines	David Gambrell
Gujarat NRE Coke	GNC IN	Out	513	52.70	87.00	65	7.8	1.1	13.6	12.3	3.3	9.9	7.8	5.34	6.76	26.6	Diversified Metals & Mining	Rakesh Arora
Ju Teng	3336 HK	Out	775	5.45	9.50	74	3.8	1.4	25.9	20.4	0.9	7.8	5.7	0.70	0.95	36.4	EMS	Zona Chen
VST Holdings	856 HK	Out	186	1.20	1.70	42	1.4	1.1	22.6	22.0	2.4	5.2	4.4	0.23	0.27	19.1	Technology Distributors	Charlie Chen
Venture Corp	VMS SP	Out	1,585	8.39	9.80	17	4.7	1.2	9.9	11.0	6.0	10.9	10.2	0.77	0.82	6.8	EMS	Patrick Yau
Everlight	2393 TT	Out	964	88.70	117.70	33	14.3	3.2	13.5	14.7	2.8	21.9	15.0	4.04	5.91	46.3	Electronic Components	Nicholas Teo
Mermaid Maritime	MMT SP	Out	311	0.84	1.80	116	2.2	1.0	17.2	12.0	0.0	8.7	5.8	0.10	0.14	48.7	Oil & Gas Equip & Services	Edward Ong
Young Fast	3622 TT	Out	1,249	313.00	500.00	60	42.7	6.4	43.6	52.2	1.5	15.8	13.1	19.85	23.95	20.6	Electronic Components	Tammy Lai
Cheng Loong	1904 TT	Out	334	10.65	14.50	36	2.5	0.7	3.3	2.6	0.0	25.7	10.6	0.41	1.01	142.7	Paper Packaging	Corinne Jian
SPG Land	337 HK	Out	381	2.88	4.25	48	1.5	0.8	4.1	5.3	2.0	14.7	7.4	0.20	0.39	99.2	Real Estate Development	Chris Cheng
Esso Thailand	ESSO TB	Out	706	6.95	10.00	44	2.3	0.9	-30.3	34.7	7.2	3.0	3.7	2.30	1.90	-17.6	Integrated Oil & Gas	David Johnson
Lumena Resources	67 HK	Out	794	3.17	4.70	48	NA	2.8	79.1	41.2	0.0	9.7	6.8	0.33	0.47	42.8	Specialty Chemicals	YeeMan Chin
Aces Electronic Co.	3605 TT	Out	341	131.00	181.00	38	4.2	3.5	32.9	34.3	2.3	11.1	9.4	11.78	13.87	17.8	Electrical Components	James Chiu
Stocks to avoid																		
Major Cineplex	MAJOR TB	Under	177	6.85	4.60	-33	1.0	1.1	9.7	6.2	9.3	18.3	12.6	0.37	0.54	45.5	Movies & Entertainment	Bunlung Waiyanont
Aban Offshore	ABAN IN	Under	869	1,127	605	-46	98.3	2.3	40.3	39.1	0.4	7.6	5.5	148	204	37.8	Oil & Gas Drilling	Jal Irani
Melco	200 HK	Under	682	4.30	3.00	-30	9.2	0.8	-7.1	-12.4	0.0	-5.7	-16.5	-0.75	-0.26	-65.4	Gaming	Gary Pinge
Ming An Holdings	1389 HK	Under	682	1.82	1.10	-40	1.3	1.5	-10.4	2.8	0.0	55.2	39.8	0.03	0.05	38.7	Multi-Line Insurance	Mark Kellock
Prime View	8069 TT	Under	1,007	40.80	30.40	-25	17.8	3.0	-11.4	-10.8	0.0	-28.8	242.7	-1.42	0.17	-111.9	Semiconductors	Tammy Lai
Ralink Technology	3534 TT	Under	330	93.40	63.00	-33	16.9	2.3	19.9	8.7	3.0	27.2	26.6	3.44	3.51	1.9	Semiconductors	Stefan Chang
Charoen Pokphand	CPF TB	N	1,302	5.90	6.00	2	4.2	0.8	7.1	15.1	1.4	5.5	6.1	1.07	0.97	-9.5	Packaged Foods & Meats	Bunlung Waiyanont
Chinese Gamer	3083 TT	Under	1,028	393.50	374.00	-5	32.4	12.7	34.6	56.8	1.6	26.0	19.9	15.16	19.77	30.4	Home Entertainment Software	Kylie Huang
Digitech Systems	091690 KS	Under	283	26,000	24,000	-8	11.8	4.3	19.5	29.5	0.0	16.5	13.3	1,578	1,958	24.1	Computer Peripherals	Michael Bang
Comba Telecom	2342 HK	Under	631	5.13	4.10	-20	2.8	1.9	12.4	17.4	1.2	11.7	10.9	0.44	0.47	7.8	Communications Equipment	Lisa Soh
True Corporation	TRUE TB	Under	309	2.34	0.95	-59	3.5	1.0	0.9	-3.0	0.0	-45.0	-92.0	-0.05	-0.03	-51.1	Integrated Telecommunication	Rama Maruvada
Alpha Networks	3380 TT	Under	333	23.95	21.00	-12	6.5	1.4	13.2	8.9	6.5	16.0	11.4	1.49	2.10	40.5	Communications Equipment	Chialin (Birdy) Lu

Share price as of 18 August 2009

Source: Bloomberg, Company data, Macquarie Research, August 2009

Fig 2 Top picks and stocks to avoids, cont.

		Free Float %	FCF Yld (%) CY08	FCF Yld (%) CY09E	Net Debt/ Equity % CY08	Net Debt/ Equity % CY09E	1m ttl return	3m ttl return	Working Cap Days CY09	Quant Alpha Score	Current auditor
Secular growth basket											
Inspur International	596 HK	48.8	10.9	7.5	-67.4	-61.4	-18.8	-20.9	50.6	NA	DELOITTE TOUCHE TOHMATSU
Wasion Group	3393 HK	42.4	1.1	1.3	1.1	1.4	-4.9	73.0	74.4	1.6	DELOITTE TOUCHE TOHMATSU
China Gas Holdings	384 HK	64.7	-2.1	3.2	184.2	141.7	11.0	28.3	-48.0	-0.1	DELOITTE TOUCHE TOHMATSU
Yuhan Corp	000100 KS	76.5	5.3	4.4	-15.2	-24.4	1.4	4.8	105.5	6.8	DELOITTE ANJIN
Energy Development Corp	EDC PM	58.8	11.9	10.0	40.1	65.5	4.9	10.3	NA	NA	SGV / ERNST & YOUNG
Sichuan Expressway	107 HK	40.5	9.3	0.4	11.9	-13.9	-9.0	22.9	20.4	NA	ERNST & YOUNG
St Shine Optical	1565 TT	82.7	10.8	7.6	-32.4	-35.4	4.0	14.0	141.7	16.6	PRICEWATERHOUSECOOPERS
ICSA	AURFI IN	79.3	-5.6	1.3	25.7	7.0	-0.8	14.4	92.8	NA	Allani Mahender
Alliance Global Group	AGI PM	56.0	0.0	0.0	-17.9	-4.5	9.1	64.7	NA	NA	Punong. & Aruaullo / Grant Thornton
Cyclical survivors basket											
Minor International	MINT TB	45.2	-0.8	1.2	62.5	62.6	21.1	21.5	15.3	-3.1	PRICEWATERHOUSECOOPERS ABAS
Gujarat NRE Coke	GNC IN	54.9	-23.8	-3.6	13.8	13.7	15.4	42.6	-4.8	5.0	NC BANERJEE & CO
Ju Teng International Holdings	3336 HK	66.1	-15.4	16.6	47.9	-0.8	11.0	32.9	76.7	-5.5	ERNST & YOUNG
Venture Corp	VMS SP	90.0	9.2	6.6	-10.1	-17.2	4.6	24.2	64.2	1.3	DELOITTE & TOUCHE LLP
VST Holdings Limited	856 HK	41.6	50.5	30.2	66.6	40.8	2.3	69.5	32.0	NA	KPMG
Everlight	2393 TT	87.7	-1.9	-2.3	14.7	30.3	-3.2	10.2	42.7	-6.0	KPMG
Mermaid Maritime	MMT SP	42.9	-24.7	-20.9	2.2	29.3	35.2	61.8	90.0	-17.8	PRICEWATERHOUSECOOPERS AB
Young Fast Optoelectronics	3622 TT	71.6	3.4	4.2	-53.6	-57.9	-3.7	-19.0	31.9	-3.0	DELOITTE & TOUCHE
Cheng Loong	1904 TT	82.2	8.4	10.4	28.4	22.4	10.3	0.5	86.5	-3.9	KPMG
SPG Land	337 HK	37.3	-28.2	-16.9	61.2	67.3	-5.3	4.0	NA	NA	KPMG
Esso Thailand	ESSO TB	27.2	12.1	54.9	133.8	65.4	16.8	10.3	25.0	3.6	PRICEWATERHOUSECOOPERS
Lumena Resources Corp.	67 HK	30.0	4.5	3.1	78.7	-5.6	7.1	NA	NA	NA	Grant Thornton
Aces Electronic Co.	3605 TT	87.0	-0.7	4.0	-29.2	-31.0	42.3	34.6	98	-4.7	KPMG
Stocks to avoid											
Major Cineplex	MAJOR TB	49.4	6.8	-2.0	34.3	57.6	3.8	12.3	24.8	-10.5	PRICEWATERHOUSECOOPERS ABAS
Aban Offshore	ABAN IN	39.2	-6.9	9.4	880.4	590.5	31.5	24.4	-375.0	-6.9	Ford, Rhodes, Parks & Co.
Melco	200 HK	65.8	-27.4	-3.6	3.6	6.8	-3.4	-28.8	-15.0	-11.9	DELOITTE TOUCHE TOHMATSU
Ming An Holdings	1389 HK	27.7	0.0	0.0	nmf	nmf	2.2	102.2	NA	-12.3	DELOITTE TOUCHE TOHMATSU
Prime View	8069 TT	67.0	-2.5	-5.7	137.8	110.3	0.4	21.1	95.7	-19.9	DELOITTE & TOUCHE
Ralink Technology	3534 TT	84.3	12.2	11.2	-67.6	-53.5	-12.0	-13.6	44.5	-7.2	ERNST & YOUNG
Charoen Pokphand Foods	CPF TB	49.6	-2.7	12.8	96.7	76.0	22.4	43.2	84.9	12.0	KPMG
Chinese Gamer	3083 TT	41.2	2.2	2.9	-77.2	-68.8	-22.0	35.3	-90.0	2.7	DELOITTE & TOUCHE
Digitech Systems	091690 KS	77.6	-2.2	3.4	-33.0	-31.7	7.6	-8.9	-14.7	-15.6	SAMDUCK
Comba Telecom	2342 HK	38.7	2.3	-6.1	-21.1	-1.7	11.0	57.1	231.2	NA	ERNST & YOUNG
True Corporation	TRUE TB	25.4	43.8	40.6	1,147.1	586.5	8.3	41.8	-35.2	-8.4	PRICEWATERHOUSECOOPERS ABAS
Chaoda Modern Agriculture	682 HK	74.6	8.5	9.3	21.1	4.0	-2.4	-8.9	2.9	-2.0	GRANT THORNTON
Alpha Networks	3380 TT	57.1	11.4	9.8	-36.7	-43.6	-10.9	-2.1	62.9	0.2	KPMG

Share price as of 18 August 2009

Source: Bloomberg, Company data, Macquarie Research, August 2009

Emerging Leaders Team

Jake Lynch –
Head of Emerging Leaders
86 21 2412 9007
Jake.lynch@macquarie.com

Desh Peramunetilleke – Microstrategy
852 2823 3564
desh.peramunetilleke@macquarie.com

Viking Kwok – Quantitative
852 2823 4735
viking.kwok@macquarie.com

Robert Burghart – Japan
81-3-3512-7853
Robert.burghart@macquarie.com

Minoru Tayama – Japan
81-3-3512-6058
Minoru.tayama@macquarie.com

JiEun Kwon – Korea
822 3705 8632
jieun.kwon@macquarie.com

HongSuk Na – Korea
822 3705 8678
hongsuk.na@macquarie.com

Corinne Jian – Taiwan
886 2 2734 7522
Corinne.jian@macquarie.com

Kylie Huang
886-2-2734-7528
Kylie.huang@macquarie.com

Charlie Chen – China
86-21-2412-9041
Charlie.chen@macquarie.com

Patrick Yau – Singapore
65 6231 2835
Patrick.yau@macquarie.com

Sunaina Dhanuka – Malaysia
60 3 2059 8993
Sunaina.dhanuka@macquarie.com

Bunlung Waiyanont – Thailand
66 2 694 7993
Bunlung.waiyanont@macquarie.com

Shubham Majumder – India
91 22 6653 3049
Shubham.majumder@macquarie.com

Inderjeet Bhatia – India
+91 22 6653 3166
Inderjeet.bhatia@macquarie.com

Fig 3 Top picks and thematic

Company	Ticker	New addition?	Mkt cap US\$m	Upside %	Thematic
Secular Growth Basket					
Inspur International	596 HK		465	71	Software upgrading in China
Wasion Group	3393 HK	Yes	813	24	Smart Grid upgrading
China Gas Holdings	384 HK		955	13	Natural gas buildout in China
Yuhan Corp	000100 KS		1,470	41	Health care spending
Energy Development Corp	EDC PM		1,325	19	Alternative Energy
Sichuan Expressway	107 HK		974	63	Go West' in China
St Shine Optical	1565 TT		214	29	Health care spending
ICSA	AURFI IN		165	52	Smart Grid upgrading
Alliance Global Group	AGI PM	Yes	846	52	Manila property & consumption
Minor International	MINT TB		888	24	Asian tourism/Thai consumption
Cyclical Survivors Basket					
Gujarat NRE Coke	GNC IN		513	65	Coking Coal supply discipline
Ju Teng International	3336 HK		775	74	Notebooks getting funky
Aces Electronic Co.	3605 TT	Yes	341	38	Notebook recovery
Venture Corp	VMS SP		1,585	17	Global industrial recovery
VST Holdings	856 HK		186	42	China consumption
Everlight	2393 TT		964	33	LED penetration accelerating
Young Fast Optoelectronics	3622 TT	Yes	1,249	60	Touch screens taking off
Cheng Loong	1904 TT	Yes	334	36	Export recovery
SPG Land	337 HK	Yes	381	48	Shanghai property
Esso Thailand	ESSO TB	Yes	706	44	Post-crash restructuring
Lumena Resources Corp.	67 HK	Yes	794	48	Overlooked niche
Mermaid Maritime	MMT SP	Yes	311	116	Oil Drilling continues

Source: Bloomberg, Macquarie Research, August 2009

Fig 4 Removed from our small cap model portfolio

Ticker	Rec	Mkt Cap US\$m	Price (loc)	TP (loc)	Up (down)%	Rationale	
Mindray Medical	MR US	Neutral	2,329	30.83	32	4	Reached target price, International sales still struggling
Nong Shim	3393 HK	Outperform	813	6.92	8.6	24	Staples expected to lag; don't want to have a defensive play, FY10E will not be as good as FY09E
Woongjin Thinkbig	095720 KS	NA	423	19.850	NA	NA	Dropped coverage
Opto Tech	2340 TT	Outperform	389	24.50	39.7	62	Still looks good, but wanted to make room for a touch screen play
Chenming	1812 HK	Outperform	1,399	5.26	8	52	Getting too big for us, exchanged for cheaper Cheng Loong

Share price date as of 18 August 2009. Source: Macquarie Research, August 2009

Fig 5 Additions to small cap model portfolio

Ticker	Rec	Mkt Cap US\$m	Price (loc)	TP (loc)	Up (down)%	Rationale	
Wasion Group	3393 HK	Outperform	813	6.92	8.60	24	Smart grid future becoming more clear
Alliance Global	AGI PM	Outperform	846	4.20	6.40	52	Initiation, opening casino in August
Mermaid Maritime	MMT SP	Outperform	311	0.84	1.80	116	Gaining traction on sub-sea services
Young Fast	3622 TT	Outperform	1,249	313.00	500.00	60	Touch screen wave just starting
Cheng Loong	1904 TT	Outperform	334	10.65	14.50	36	Big discount to China peers
SPG Land	337 HK	Outperform	381	2.88	4.25	48	Still large discount to NAV
Esso Thailand	ESSO TB	Outperform	706	6.95	10.00	44	High yield; potential for a trade sale
Lumena	67 HK	Outperform	794	3.17	4.70	48	Initiation - under-researched niche
Aces	3605 TT	Outperform	341	131.00	181.00	38	Initiation - NB recovery play

Share price as of 18 August 2009. Source: Macquarie Research, August 2009

Unapologetically exclusive

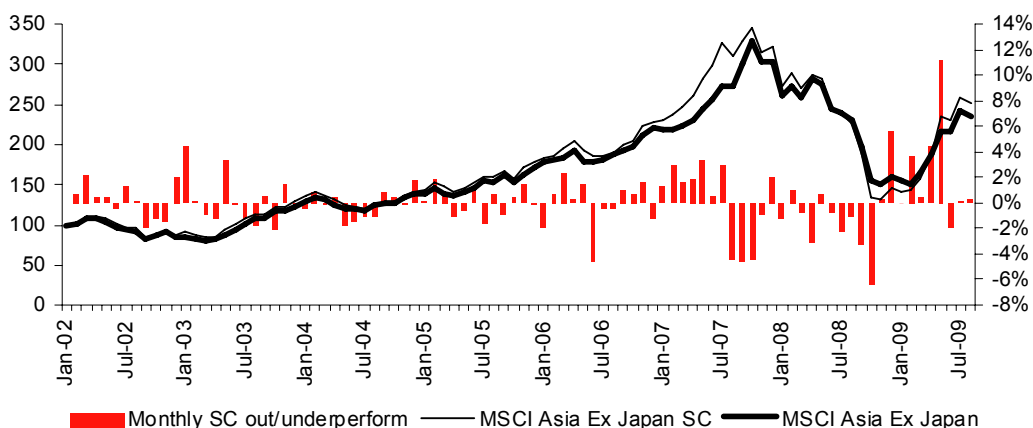
Stalled, but fuel still in the tank

The performance of Asian small caps has been the best in 15 years YTD. The sheer size of the outperformance makes us very cautious through the year-end and, indeed, the last two months have seen small caps trading in line with the larger indices. It is worth noting that there has been substantial variance in small cap relative performance from country to country (see pages 9–11).

2H likely to have to give back some from 1H...

But in the following pages, we show a time series of the P/BV gaps between the MSCI small cap and MSCI large cap indices and these show that Asian small caps have only just started recovering in terms of discounts to large caps. We choose P/BV as our preferred measure as forward earnings for small caps are even more suspect than those for large caps. Trailing earnings for FY08 strike us as too backward-looking. Asian small cap ROEs have lagged those of large caps (by between 3% and 7% for most of the past decade – see our 9 March 2009 report – *Into the jaws of the beast*). Thus a discount is clearly justified in our view. However, as seen in Figures 6 and 7, Asian small caps are now at a 35% discount in terms of P/BV vs 5% at the peak of the last cycle. Indications are that there is still more room to go.

Fig 6 MSCI Asia-ex small cap outperformance has stalled since June



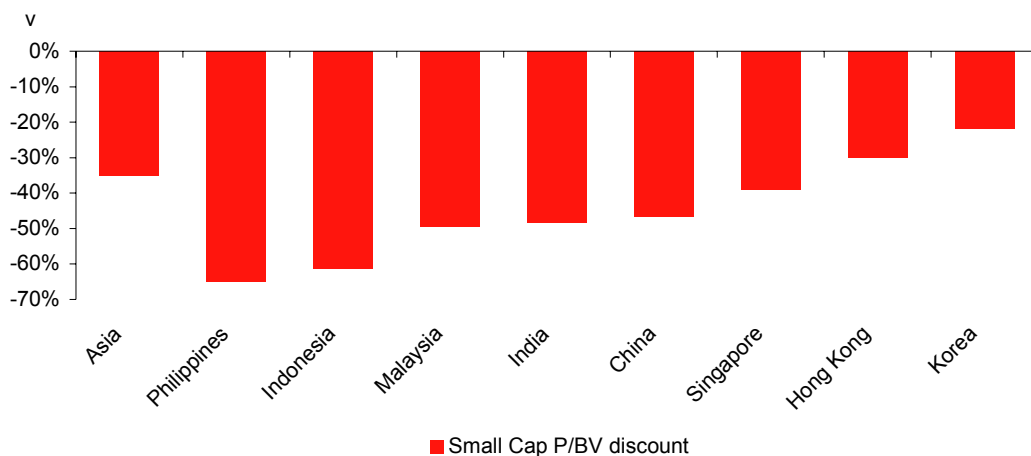
Source: MSCI, FactSet, Macquarie Research, August 2009

Fig 7 YTD small cap outperformance has been impressive – best in 15 years

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 YTD
MSCI Asia ex JP Small Cap	-6.8%	14.6%	-38.3%	-7.1%	40.3%	-40.0%	10.4%	-6.4%	48.6%	9.6%	26.7%	27.9%	40.8%	-54.7%	59.0%
MSCI Asia ex JP Small Cap	5.0%	10.9%	-26.3%	-7.6%	62.5%	-32.1%	-1.3%	-11.7%	45.0%	11.9%	24.1%	28.6%	38.0%	-47.7%	35.9%
Outperform/Underperform	-11.8%	3.7%	-12.0%	0.5%	-22.2%	-7.9%	11.7%	5.3%	3.6%	-2.3%	2.6%	-0.7%	2.7%	-7.0%	23.2%

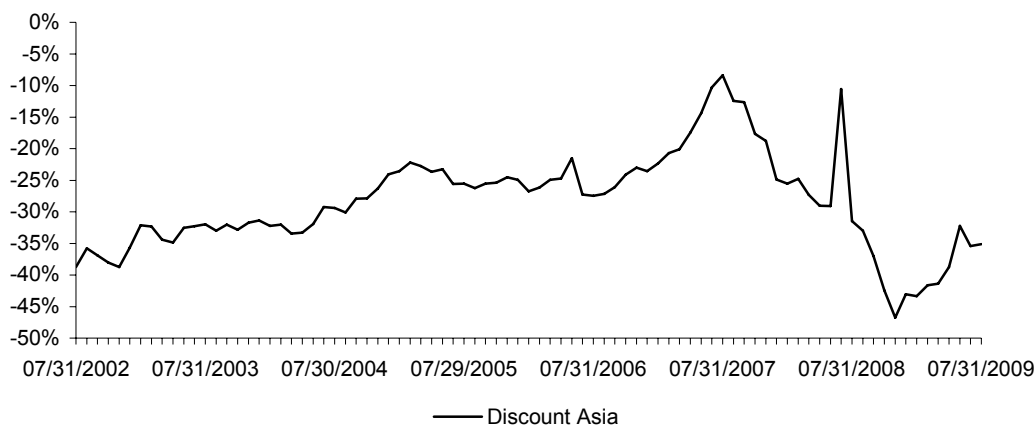
Source: MSCI, FactSet, Macquarie Research, August 2009

Fig 8 P/BV discounts – MSCI country small cap indices vs large cap (31/7/09)



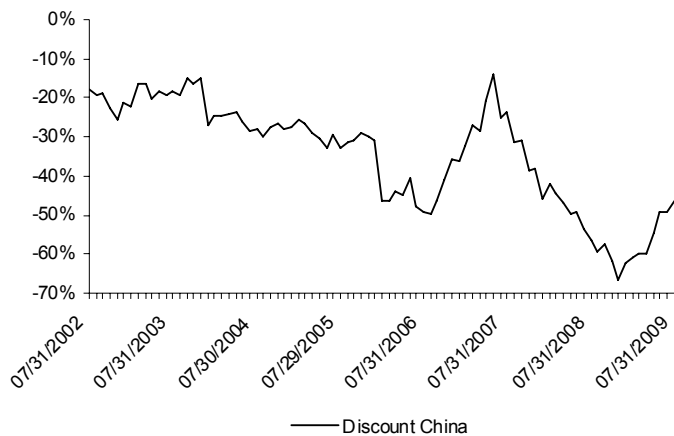
Source: MSCI, FactSet, Macquarie Research, August 2009

Fig 9 MSCI Asia Ex-Japan P/BV discount to large cap index



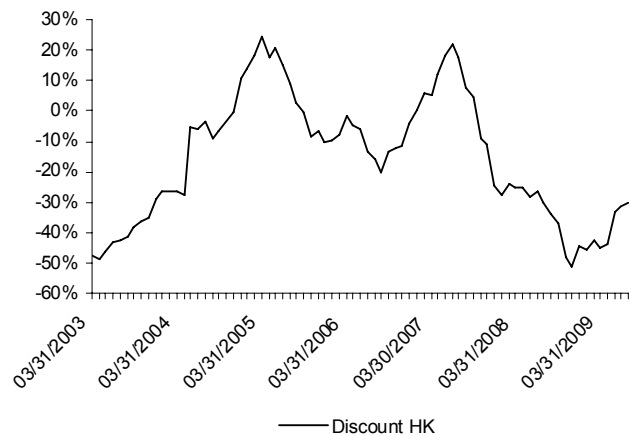
Source: MSCI, FactSet, Macquarie Research, August 2009

Fig 10 MSCI small cap P/BV disc to large cap: China



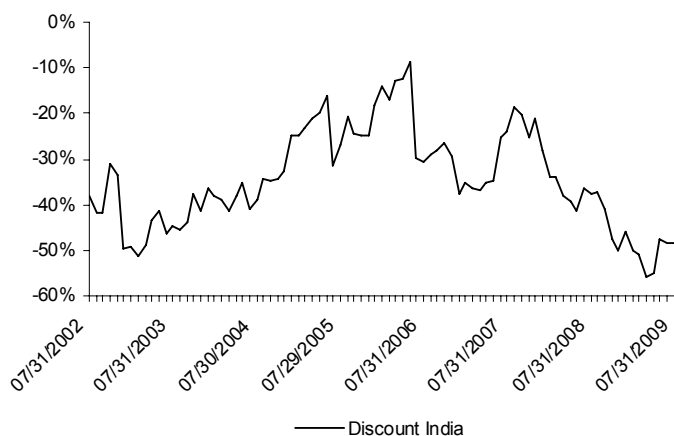
Source: MSCI, FactSet, Macquarie Research, August 2009

Fig 11 MSCI small cap P/BV disc to large cap: HK



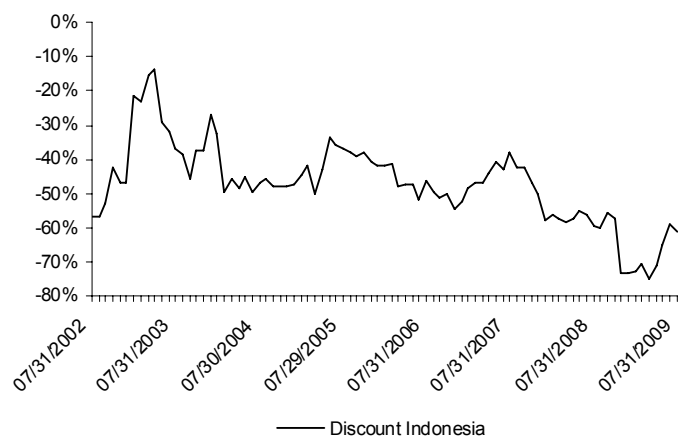
Source: MSCI, FactSet, Macquarie Research, August 2009

Fig 12 MSCI small cap P/BV disc to large cap: India



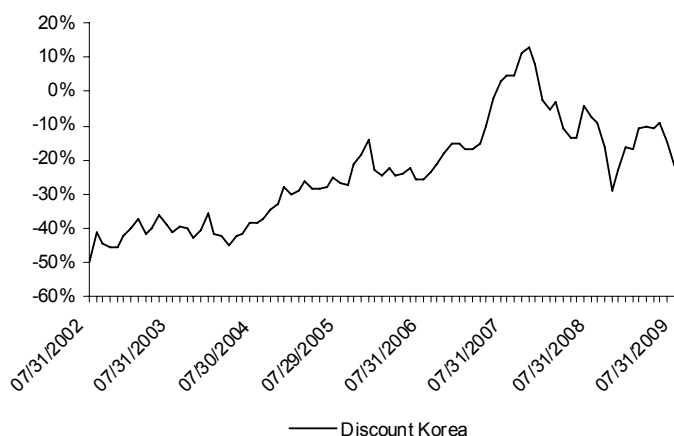
Source: MSCI, FactSet, Macquarie Research, August 2009

Fig 13 MSCI small cap P/BV disc to large cap: Indo



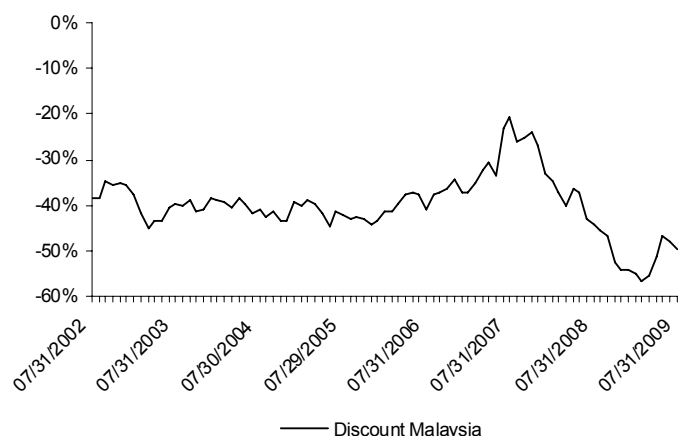
Source: MSCI, FactSet, Macquarie Research, August 2009

Fig 14 MSCI small cap P/BV disc to large cap: Korea



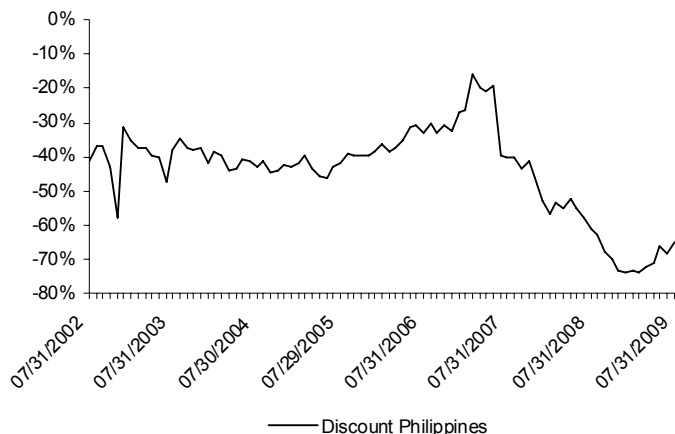
Source: MSCI, FactSet, Macquarie Research, August 2009

Fig 15 MSCI small cap P/BV disc to large cap: Mal



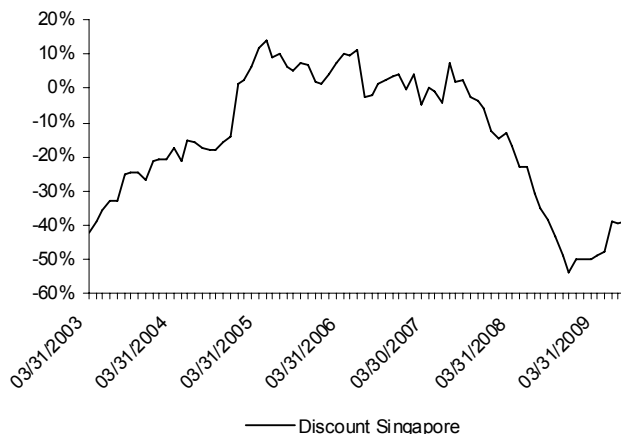
Source: MSCI, FactSet, Macquarie Research, August 2009

Fig 16 MSCI small cap P/BV disc to large cap: Phils



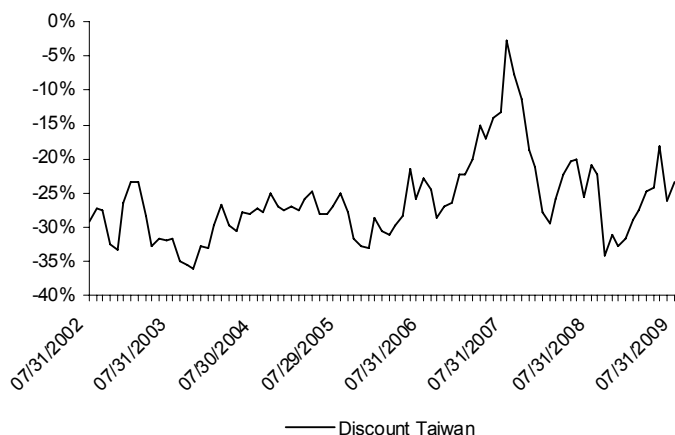
Source: MSCI, FactSet, Macquarie Research, August 2009

Fig 17 MSCI small cap P/BV disc to large cap: Sing



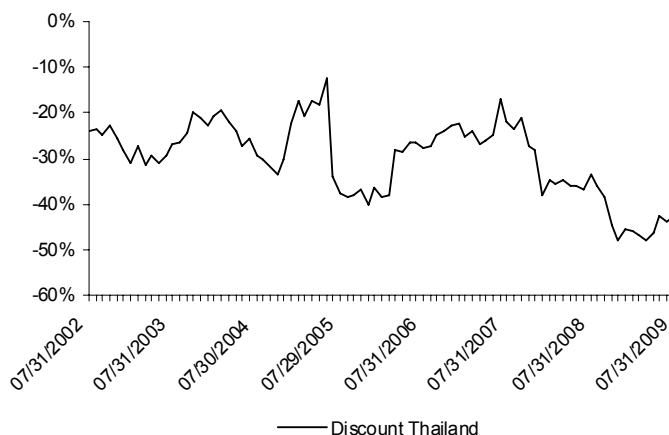
Source: MSCI, FactSet, Macquarie Research, August 2009

Fig 18 MSCI small cap P/BV disc to large cap: Taiwan



Source: MSCI, FactSet, Macquarie Research, August 2009

Fig 19 MSCI small cap P/BV disc to large cap: Thai



Source: MSCI, FactSet, Macquarie Research, August 2009

Wide variance among countries for small cap performance

From a Hong Kong (or Shanghai) base, it is easy to have an exaggerated rosy view of small cap outperformance this year. In Figure 20, we show relative small cap performance for 2008 and YTD 2009. The differences are striking. HK/China is leading the pack in terms of small cap outperformance, though Philippines, Indonesia, Singapore and Taiwan also are on a tear.

Malaysia and India are respectable, but Korea and Thailand stand out as having lagged Asian small caps. We confess relief on the Korea front as we have struggled (and still do) to find strongly attractive Korean small cap names. Our favourite Korean small cap – Yuhan – has been one of the worst performers in our basket. Relative value must certainly be rising there and we will be re-dedicating our efforts to uncover it.

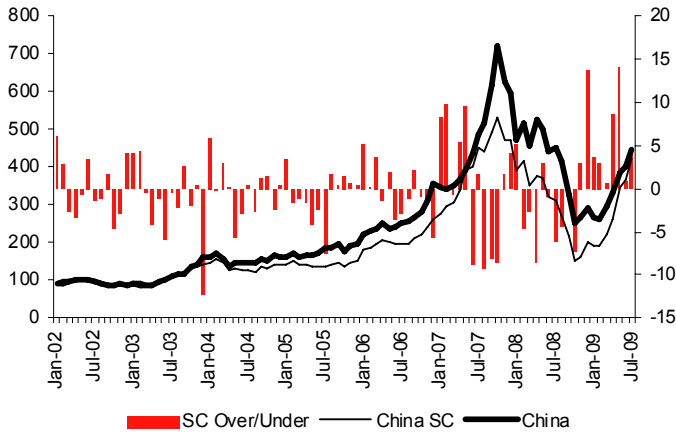
While Thailand and small caps was probably too spicy a mix for most investors in 1H, we see a number of attractive Thai small caps at this point. We are adding Esso Thailand to MINT in our portfolio and would also recommend looking at Bumrungrad Hospital as another strong candidate.

Fig 20 MSCI small cap vs large cap indices by country

	% Change	
	2008	YTD 2009
China	-51	52
China SC	-57	106
Small cap performance relative to large caps	-6	53
Hong Kong	-52	51
Hong Kong SC	-65	83
Small cap performance relative to large caps	-14	32
India	-56	67
India SC	-66	82
Small cap performance relative to large caps	-10	14
Singapore	-47	51
Singapore SC	-59	77
Small cap performance relative to large caps	-12	26
Malaysia	-38	41
Malaysia SC	-48	55
Small cap performance relative to large caps	-9	14
Indonesia	-49	83
Indonesia SC	-60	107
Small cap performance relative to large caps	-11	24
Korea	-40	47
Korea SC	-44	53
Small cap performance relative to large caps	-5	6
Philippines	-45	56
Philippines SC	-61	105
Small cap performance relative to large caps	-17	49
Taiwan	-45	52
Taiwan SC	-46	87
Small cap performance relative to large caps	-1	35
Thailand	-47	56
Thailand SC	-54	64
Small cap performance relative to large caps	-8	8

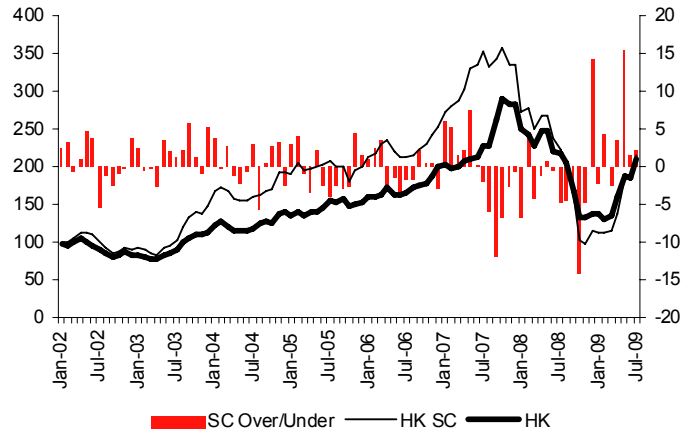
Source: MSCI, FactSet, Macquarie Research, August 2009

Fig 21 MSCI: China small caps vs. index



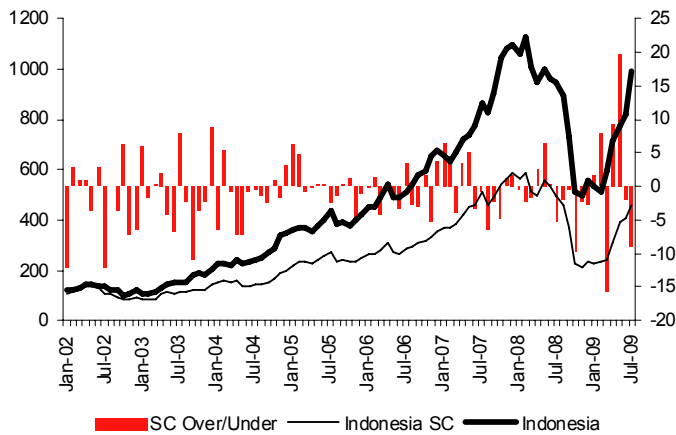
Source: MSCI, FactSet, Macquarie Research, August 2009

Fig 22 MSCI: HK small caps vs. index



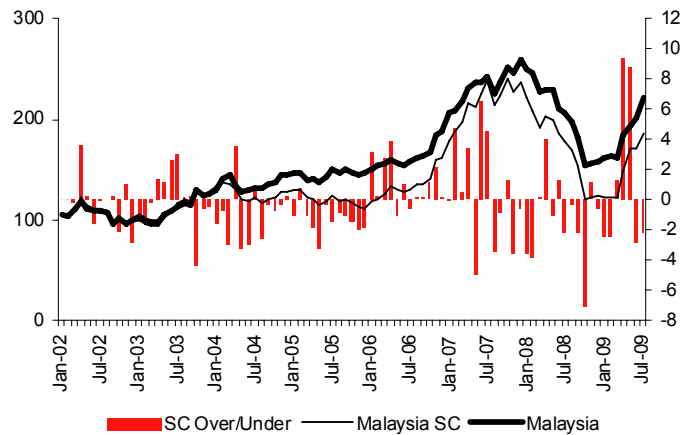
Source: MSCI, FactSet, Macquarie Research, August 2009

Fig 23 MSCI: Indonesia small caps vs. index



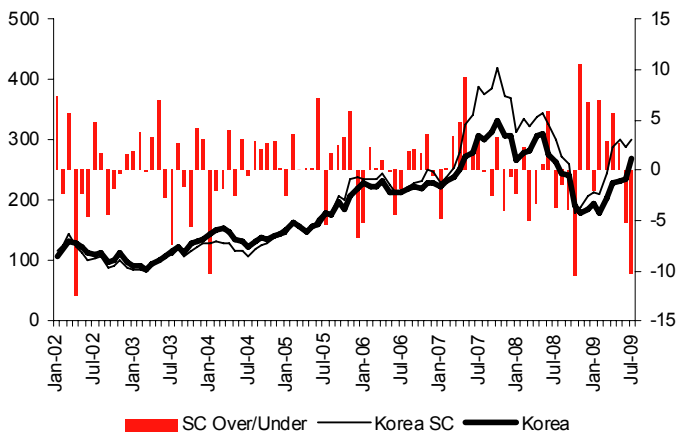
Source: MSCI, FactSet, Macquarie Research, August 2009

Fig 24 MSCI: Malaysia small caps vs. index



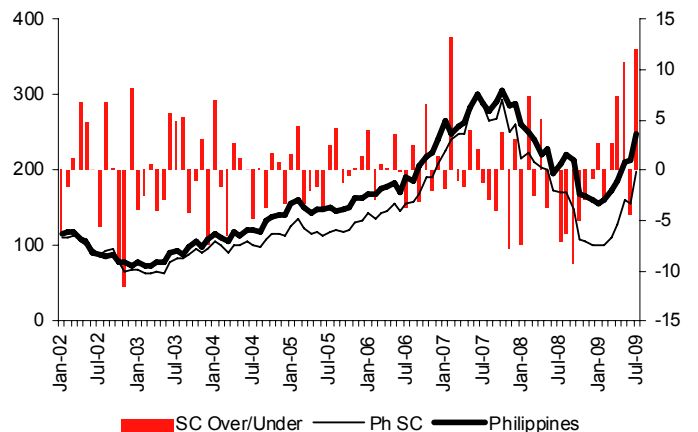
Source: MSCI, FactSet, Macquarie Research, August 2009

Fig 25 MSCI: Korea small caps vs. index



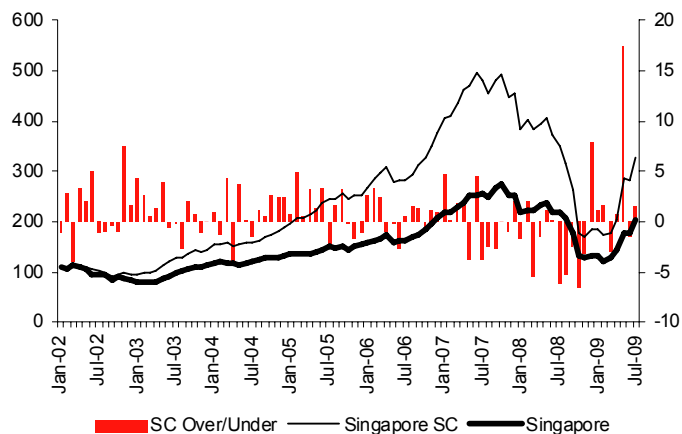
Source: MSCI, FactSet, Macquarie Research, August 2009

Fig 26 MSCI: Philippines small caps vs. index



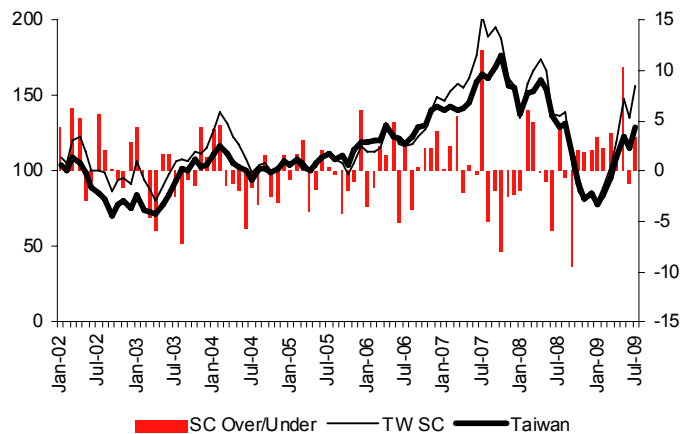
Source: MSCI, FactSet, Macquarie Research, August 2009

Fig 27 MSCI: Singapore small caps vs. index



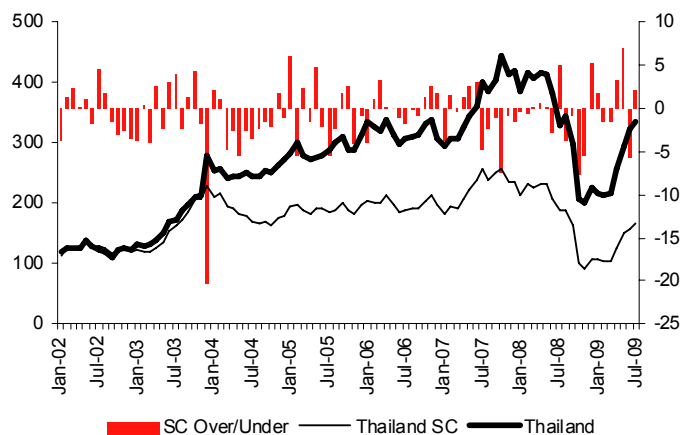
Source:MSCI, FactSet, Macquarie Research, August 2009

Fig 28 MSCI: Taiwan small caps vs. index



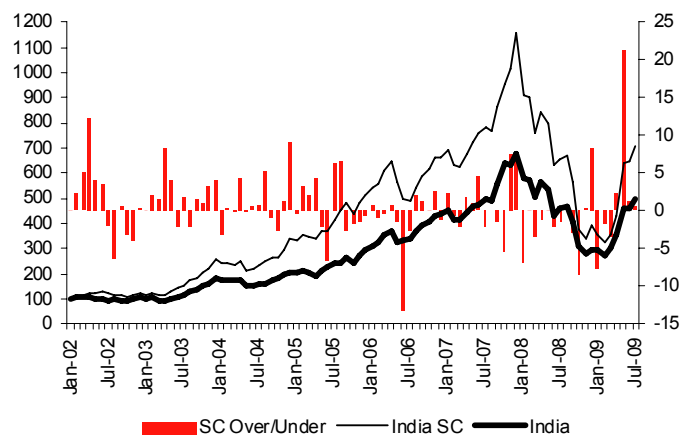
Source:MSCI, FactSet, Macquarie Research, August 2009

Fig 29 MSCI: Thailand small caps vs. index



Source:MSCI, FactSet, Macquarie Research, August 2009

Fig 30 MSCI: India small caps vs. index



Source:MSCI, FactSet, Macquarie Research, August 2009

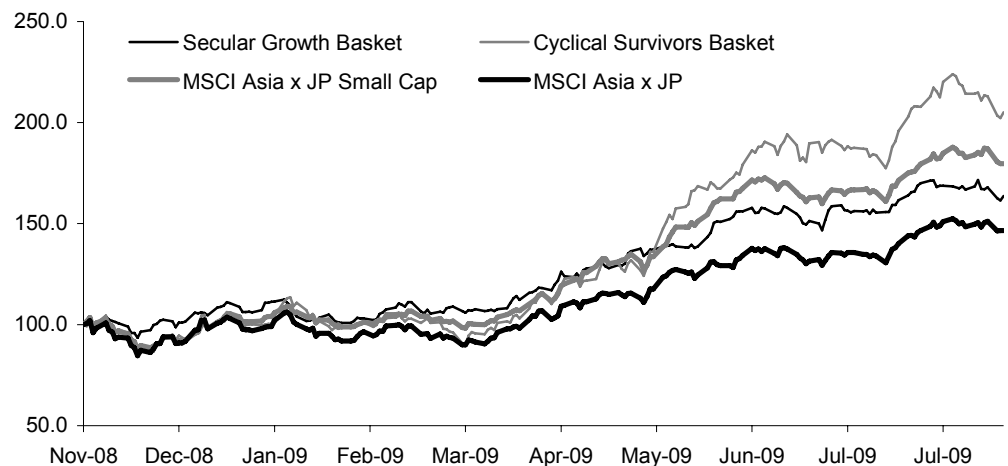
Our cyclical picks continue to outperform

Our model portfolio's relative performance is mirroring the market

Our basket of cyclical survivors continues to dramatically outperform both the MSCI Asia-ex small cap index and our other basket – secular growth. We don't think we are better cyclical stock pickers than secular growth, but rather that the relative performance of the baskets reflects what has been moving most in the market.

Clearly the cyclical names we have chosen are demonstrating higher beta and we would continue to trade between the two baskets depending on our view of the direction on the market.

Fig 31 Our cyclical basket continues to outperform – secular growth lagging



Source: FactSet, Macquarie Research, August 2009

Watch earnings certainty

Each earnings season, we re-highlight one of our Quant team's most powerful tools – its IC on earnings certainty. This measures the variance between consensus prior to results and the actual results (thus beating estimates regularly would also work against you). It is a relative measure and the lower the number, the higher the uncertainty. We noted during the earnings season earlier this year that avoiding those stocks with an earnings certainty score below 1 enabled investors to avoid some of the worst misses of the season.

Fig 32 Earnings schedule and earnings certainty score: Beware earnings certainty <1

Ticker	Company	Mkt cap (US\$m)	Period Ending Month	Macq. reported Result/profit (lc m)	Macq. Adj. EPS (lc)	Macq. Adj. DPS (lc)	Expected reporting date	Quant. earnings certainty
INDIA								
PF IN	Pantaloon	974	6	Full Year	47	30	15 22/09/2009	1.49
HONG KONG								
3311 HK	China State Cons	1,255	6	Half Year	286	11	4 17/08/2009	1.79
1389 HK	Ming An Holdings	682	6	Half Year	74	3	0 18/08/2009	-0.50
405 HK	GZI REIT	375	6	Half Year	114	11	11 18/08/2009	1.80
2337 HK	Shanghai Forte	741	6	Half Year	116	5	0 19/08/2009	1.29
3336 HK	Ju Teng International	765	6	Half Year	292	26	0 19/08/2009	1.91
3898 HK	Zhuzhou CSR Times	1,651	6	Half Year	215	20	0 19/08/2009	2.52
317 HK	Guangzhou Shipyard	1,593	6	Half Year	303	61	0 20/08/2009	1.96
8 HK	PCCW	1,861	6	Half Year	596	9	6 20/08/2009	1.19
2880 HK	Dalian Port	1,250	6	Half Year	236	8	3 21/08/2009	2.07
808 HK	Prosperity REIT	202	6	Half Year	54	6	6 21/08/2009	1.83
995 HK	Anhui Expressway	1,158	6	Half Year	453	27	0 21/08/2009	2.43
743 HK	Asia Cement China	942	6	Half Year	312	20	0 24/08/2009	1.90
904 HK	China Green	950	4	Full Year	253	32	9 24/08/2009	2.84
357 HK	Hainan Int'l Airport	308	6	Half Year	87	18	0 25/08/2009	2.98
246 HK	Real Gold Mining	553	6	Half Year	151	23	0 26/08/2009	NA
861 HK	Digital China Holdings	764	6	1Q	274	11	0 26/08/2009	1.80
589 HK	Ports Design	1,385	6	Half Year	160	29	50 27/08/2009	2.65
669 HK	Techtronic Industries	1,353	6	Half Year	192	12	3 27/08/2009	1.33
1812 HK	Shandong Chenming	1,978	6	Half Year	159	8	2 28/08/2009	1.85
200 HK	Melco	681	6	Half Year	-479	-39	0 28/08/2009	-0.11
315 HK	SmarTone	382	6	Full Year	7	1	10 28/08/2009	0.72
548 HK	Shenzhen Expres	1,551	6	Half Year	258	12	0 28/08/2009	2.21
868 HK	Xinyi Glass Holdings	1,425	6	Half Year	493	29	14 31/08/2009	1.73
697 HK	Shougang Concord I	1,435	6	Half Year	-872	-12	0 02/09/2009	0.62
152 HK	Shenzhen Inter	1,068	6	Half Year	500	4	0 03/09/2009	NA
2342 HK	Comba Telecom	631	6	Half Year	135	16	0 04/09/2009	2.21
3337 HK	Anton Oilfield	235	6	Half Year	78	4	0 04/09/2009	3.02
190 HK	HKC Holdings	630	6	Half Year	15	0	0 09/09/2009	NA
691 HK	China Shanshui	1,671	6	Half Year	379	14	3 09/09/2009	2.04
2688 HK	Xiniao Gas Holdings	1,534	6	Half Year	340	34	0 10/09/2009	3.00
393 HK	Glorious Sun	301	6	Half Year	138	13	4 10/09/2009	3.31
903 HK	TPV Technology	1,100	6	2Q	16	1	0 10/09/2009	2.01
337 HK	SPG Land	381	6	Half Year	81	8	0 11/09/2009	1.89
1205 HK	CITIC Resources	1,764	6	Half Year	555	9	2 15/09/2009	2.22
242 HK	Shun Tak Holdings	1,355	6	Half Year	641	19	4 17/09/2009	0.91
3938 HK	Samling Global	355	6	Full Year	21	0	0 17/09/2009	NA
435 HK	Sunlight REIT	343	6	Full Year	187	10	14 17/09/2009	NA
1200 HK	Midland Holdings	510	6	Half Year	163	22	3 18/09/2009	1.29
27 HK	Galaxy Entertainment	1,016	6	Half Year	644	-1	0 18/09/2009	0.55
596 HK	Inspur International	560	6	Half Year	188	4	0 21/09/2009	1.68
2300 HK	AMVIG Holdings	754	6	Half Year	256	24	5 30/09/2009	1.94
INDONESIA								
UNSP IJ	Bakrie Sumatera	360	6	Half Year	10,038	2	0 22/09/2009	2.07
MALAYSIA								
EON MK	EON Capital	910	6	Half Year	112	16	0 18/08/2009	2.29
GENP MK	Genting Plantations	1,242	6	Half Year	57	7	2 26/08/2009	1.70
KNMG MK	KNM Group	871	6	Half Year	164	4	0 26/08/2009	1.88
MPR MK	Media Prima	352	6	Half Year	39	5	0 27/08/2009	1.41
ASTR MK	Astro	1,811	7	Half Year	-250	-1	5 11/09/2009	1.22
GAM MK	Gamuda	1,766	7	Full Year	96	5	4 23/09/2009	2.09
TJN MK	Tanjong	1,684	7	Half Year	352	87	35 24/09/2009	2.82
KOREA								
091690 KS	Digitech Systems		6	2Q	4,336	319	0 04/09/2009	NA
SINGAPORE								
WINGT SP	Wing Tai Holdings	865	6	Full Year	39	5	3 26/08/2009	1.77

Source: Bloomberg, Company data, Macquarie Research, August 2009

Fig 33 Earnings schedule and earnings certainty score: Beware earnings certainty <1

Ticker	Company	Mkt cap (US\$m)	Period Ending Month	Macq. reported Result profit (lc m)	Macq. Adj. EPS (lc)	Macq. Adj. DPS (lc)	Expected reporting date	Quant. earnings certainty	
TAIWAN									
2441 TT	Greatek Electronics	530	6	2Q	318	61	0	18/08/2009	1.84
2015 TT	Feng Hsin Iron & Steel	1,023	6	2Q	547	-17	0	20/08/2009	1.68
6223 TT	MPI	77	6	2Q	45	64	0	20/08/2009	NA
2006 TT	Tung Ho Steel Enterprise	913	6	2Q	185	-12	0	21/08/2009	NA
2352 TT	Qisda	907	6	2Q	-530	-27	0	21/08/2009	2.27
2439 TT	Merry Electronics	174	6	2Q	130	82	59	21/08/2009	1.21
6281 TT	E-Life Mall	170	6	2Q	80	62	0	21/08/2009	1.46
3031 TT	Bright LED	221	6	2Q	51	28	0	25/08/2009	NA
6244 TT	Motech	941	6	2Q	-397	-159	0	25/08/2009	NA
1716 TT	Yung Shin Pharmaceutical	282	6	2Q	146	58	0	26/08/2009	NA
2207 TT	Hotai Motor Company	1,254	6	2Q	589	108	0	26/08/2009	2.96
2704 TT	The Ambassador Hotel	363	6	2Q	59	16	12	26/08/2009	1.69
2884 TT	E.Sun Financial Holdings	1,213	6	2Q	239	7	0	26/08/2009	0.90
3311 TT	Sillitech Technology	388	6	2Q	275	160	62	26/08/2009	2.37
5483 TT	Sino-American Silicon	614	6	2Q	-281	-127	0	26/08/2009	1.39
6121 TT	Simplo Technology	1,008	6	2Q	590	283	0	26/08/2009	2.74
8105 TT	Giantplus	248	6	2Q	-53	-13	0	26/08/2009	2.09
9933 TT	CTCI	659	6	2Q	494	78	0	26/08/2009	2.10
1504 TT	Teco	818	6	2Q	547	30	0	27/08/2009	2.26
2103 TT	TSRC	742	6	2Q	401	62	0	27/08/2009	3.14
2536 TT	Hung Poo Real Estate	372	6	2Q	358	123	0	27/08/2009	1.59
2856 TT	Masterlink Securities	509	6	2Q	269	19	0	27/08/2009	NA
3019 TT	Asia Optical	446	6	2Q	413	160	0	27/08/2009	1.26
3452 TT	E-TON Solar	291	6	2Q	-702	-586	0	27/08/2009	0.39
5478 TT	Soft-world	601	6	2Q	364	291	224	27/08/2009	1.93
8069 TT	Prime View	1,065	6	2Q	-465	-57	0	27/08/2009	NA
8299 TT	Phison Electronics	1,010	6	2Q	249	195	0	27/08/2009	NA
9917 TT	Taiwan Secom	659	6	2Q	439	101	0	27/08/2009	NA
2911 TT	Les Enphants	142	6	2Q	30	20	0	28/08/2009	2.59
2915 TT	Ruentex Industries	800	6	2Q	354	50	12	28/08/2009	1.15
3010 TT	Wah Lee Industrial	230	6	2Q	274	119	0	28/08/2009	1.28
3083 TT	Chinese Gamer	1,068	6	2Q	247	287	284	28/08/2009	2.26
3518 TT	Paragon Technologies	219	6	2Q	150	191	0	28/08/2009	2.41
3605 TT	Aces Electronic Co.	352	6	2Q	299	372	0	28/08/2009	NA
3622 TT	Young Fast	1,262	6	2Q	749	569	0	28/08/2009	NA
4906 TT	Gemtek	444	6	2Q	275	109	88	28/08/2009	1.76
5347 TT	Vanguard	748	6	2Q	-452	-27	0	28/08/2009	-0.32
5371 TT	Coretronic	873	6	2Q	546	75	0	28/08/2009	1.72
5522 TT	Farglory Land	1,485	6	2Q	854	121	0	28/08/2009	1.51
5534 TT	Chong Hong Construction	397	6	2Q	121	59	0	28/08/2009	NA
6005 TT	Capital Securities	728	6	2Q	606	38	0	28/08/2009	NA
6008 TT	KGI Securities	1,120	6	2Q	851	34	0	28/08/2009	NA
6153 TT	Career Technology	151	6	2Q	58	24	0	28/08/2009	1.46
6176 TT	Radiant Opto-Electronics	555	6	2Q	248	62	0	28/08/2009	1.95
6188 TT	Quanta Storage	496	6	2Q	248	86	0	28/08/2009	NA
6286 TT	Richtek	1,129	6	2Q	367	258	0	28/08/2009	1.78
8008 TT	Lite-On IT	689	6	2Q	298	34	0	28/08/2009	NA
8078 TT	Compal Communications	517	6	2Q	280	46	30	28/08/2009	1.60
9940 TT	SinYi Realty	532	6	2Q	420	138	0	28/08/2009	NA
9945 TT	Ruentex Development	640	6	2Q	242	32	17	28/08/2009	3.39
1434 TT	Formosa Taffeta	1,071	6	2Q	160	10	0	01/09/2009	NA
2605 TT	Sincere Navigation	672	6	2Q	554	97	0	01/09/2009	1.84
2610 TT	China Airlines	1,188	6	2Q	475	-66	0	01/09/2009	0.62
2387 TT	Sunrex Technology Group	381	6	2Q	252	68	0	29/09/2009	3.15

Source: Bloomberg, Company data, Macquarie Research, August 2009

Secular growth

<p>Inspur (596 HK, Outperform)</p> <p>Price: HK\$1.17 Target Price: HK\$2.00 Market Cap: US\$465m ADTV 3 months: US\$6.5m</p> <p>FY09 PER 13.6x FY10 EPS Δ: 30% FY08 P/Bk: 7.0x FY09 FCF Yield: 8% FY08 Net D/E: -67%</p> <p>Jake Lynch</p>	<p>Attractions</p> <ul style="list-style-type: none"> Leading developer of high-end software and solutions in China. Microsoft owns a de facto 25% stake. Government support: government-owned and over 50% of revenues coming from government-related entities. High margins: Core IT Services EBIT margins over 30%, indicating operating at high end of industry. Injections from parent likely. <p>Concerns</p> <ul style="list-style-type: none"> Substantial insider options have been exercised in the past 3 months. 	
<p>Wasion (3393 HK, Outperform)</p> <p>Price: HK\$6.92 Target Price: HK\$8.60 Market Cap: US\$813m ADTV 3 months: US\$6.1m</p> <p>FY09 PER 16.7x FY10 EPS Δ: 17% FY08 P/Bk: 3.7x FY09 FCF Yield: 1% FY08 Net D/E: 1%</p> <p>Jake Lynch</p>	<p>Attractions</p> <ul style="list-style-type: none"> A leading player in the mid-tier to high-end power meter market. High visibility of revenue flow in next few years driven by heavy government investment in power grid upgrade. Sustainable high margin and relatively high entry barrier for competitors due to long-term relationship with key clients (the State Grid). Long-term potential for overseas and gas and water meters business on the back of Chinese urbanisation. <p>Concerns</p> <ul style="list-style-type: none"> Government policy change may have big impact. 	
<p>China Gas Holdings (384 HK, Outperform)</p> <p>Price: HK\$2.22 Target Price: HK\$2.50 Market Cap: US\$955m ADTV 3 months: US\$4.8m</p> <p>FY09 PER 32.6x FY10 EPS Δ: 367% FY08 P/Bk: 2.4x FY09 FCF Yield: -1% FY08 Net D/E: 112%</p> <p>Carol Cao</p>	<p>Attractions</p> <ul style="list-style-type: none"> Natural gas is our pick for the best/most reliable regulatory regime of the utilities in China. Cost pass-through pricing model insulates the company from volatility upstream. China Gas is a local provider of natural gas to 107 cities across China with monopolistic rights. 66% volume in 1H09 from industrial; rest from residential, commercial and CNG stations. High potential growth in LPG business in volume and margin expansion through participation in LPG industry restructuring. <p>Concerns</p> <ul style="list-style-type: none"> Previously, the company had done a number of equity placements. 	
<p>Yuhan Corp (000100 KS, Outperform)</p> <p>Price: Won182,500 Target Price: Won257,000 Market Cap: US\$1,482m ADTV 3 months: US\$10.7m</p> <p>FY09 PER 13.1x FY10 EPS Δ: 19% FY08 P/Bk: 2.2x FY09 FCF Yield: 4% FY08 Net D/E: -15%</p> <p>Christina Lee</p>	<p>Attractions</p> <ul style="list-style-type: none"> 1H09 earnings were up a healthy 15% YoY. Won depreciation hurt on the cost side in 1H; there should be a reversal in 2H09. Strong equity method gains from Yuhan Kimberly (30%-owned, Not listed), which rose by 29% YoY in 1H09. Key drivers were strong domestic and export sales. Yuhan has continued to gain the largest market share in Atorva, Lipitor generic drug, which was the biggest opportunity, under absence of big drug expirations until 2011. <p>Concerns</p> <ul style="list-style-type: none"> Lacklustre Revanex (anti-ulcer, in-house developed) sales, which were down 20% QoQ to Won3bn. Regulatory risk (potential for imposed price cuts). 	

Source: Bloomberg, Macquarie Research, August 2009

<p>Energy Development Corp (EDC PM, Outperform)</p> <p>Price: P\$4.30 Target Price: P\$5.10 Market Cap: US\$1,328m ADTV 3 months: US\$3.1m</p> <p>FY09 PER 10.3x FY10 EPS Δ: 28% FY08 P/Bk: 1.6x FY09 FCF Yield: 10% FY08 Net D/E: 40%</p> <p>Haj Narvaez</p>	<p>Attractions</p> <ul style="list-style-type: none"> Play on falling yen, due to yen-denominated debt. At ¥95/US\$, would add P900m or 15% to our 2009E earnings Recently signed Renewable Energy Bill should lead to lower corporate tax rates and government share of EDC's sales Asia's largest integrated geothermal play with 1,199MW of capacity Paid down 25% of outstanding yen debt last June, will pay another significant maturity in June 2010 from internal cash. Prime contender for bundled geothermal plants (305MW Palinpinon+Tongonan) to be privatised this September. <p>Concerns</p> <ul style="list-style-type: none"> Yen strengthening has major negative impact on balance sheet. 	
<p>Sichuan Expressway (107 HK, Outperform)</p> <p>Price: HK\$2.95 Target Price: HK\$4.80 Market Cap: US\$974m ADTV 3 months: US\$4.0m</p> <p>FY09 PER 8.5x FY10 EPS Δ: 38% FY08 P/Bk: 1.1x FY09 FCF Yield: 0% FY08 Net D/E: 12%</p> <p>Wei Sim</p>	<p>Attractions</p> <ul style="list-style-type: none"> Completed the acquisition of Chengle Exp, 1H09 results in line with our numbers but +20% consensus. Interim dividend implies 5% yield off yesterday's close, with potential of FY payout, dividend yield is even higher. Traffic on the existing roads has been stronger than our expectations – almost all roads growing at double digits YTD. At a discount to the sector on PER and EV/EBITDA and is the only expressway trading below book. Potential further asset injections would be further catalysts – if occurring by the end of this year, would be sooner than previously expected. <p>Concerns</p> <ul style="list-style-type: none"> Gearing may increase if further acquisitions. 	
<p>St.Shine Optical (1565 TT, Outperform)</p> <p>Price: NT\$140 Target Price: NT\$180 Market Cap: US\$214m ADTV 3 months: US\$1.9m</p> <p>FY09 PER 12.4x FY10 EPS Δ: 13% FY08 P/Bk: 3.7x FY09 FCF Yield: 8% FY08 Net D/E: -32%</p> <p>Kylie Huang</p>	<p>Attractions</p> <ul style="list-style-type: none"> Contact lens business decoupled from global economic headwinds. The shift from non-daily to daily lenses is likely to continue, and the higher turnover should drive St.Shine's growth. Stock tends to perform well on sales momentum – we expect acceleration to continue in 4Q09 and 1Q10 after picking up in July. Solid 5.7% dividend yield. <p>Concerns</p> <ul style="list-style-type: none"> Competition from substitutes, including LASIK and new products such as Silicone Hydrogel contact lens. 	
<p>ICSA (AURFI IN, Outperform)</p> <p>Price: Rs171 Target Price: Rs260 Market Cap: US\$165m ADTV 3 months: US\$3.8m</p> <p>FY09 PER 5.2x FY10 EPS Δ: 29% FY08 P/Bk: 2.3x FY09 FCF Yield: 3% FY08 Net D/E: 38%</p> <p>Inderjeetsingh Bhatia</p>	<p>Attractions</p> <ul style="list-style-type: none"> Expect launch in 3–6 months of new reform programme to cut transmission & distribution losses in the power distribution sector by making energy auditing mandatory. ICSA is set to leverage its patented product portfolio focused on energy auditing/monitoring ICSA has an extremely capital-light model that enables it to achieve ROE of 45% or more. Backlog of Rp19bn, 1.2 years of revenues. <p>Concerns</p> <ul style="list-style-type: none"> Delay in awards from the reform programme. Scale of ICS would attract competition from larger players. Working capital still high and could lead to dilution if growth continues without improvement. 	

Source: Bloomberg, Macquarie Research, August 2009

<p>Alliance Global Group (AGI PM, Outperform)</p> <p>Price: P\$4.20 Target Price: P\$6.40 Market Cap: US\$848m ADTV 3 months: US\$1.2m</p> <p>FY09 PER 12.9x FY10 EPS Δ: 146% FY08 P/Bk: 0.9x FY09 FCF Yield: -28% FY08 Net D/E: -18%</p> <p>Nadine Javellana</p>	<p>Attractions</p> <ul style="list-style-type: none"> ▪ Gaming/resorts unit Travellers to open first gaming IR in the Philippines. ▪ Travellers division can capture large share of the existing domestic grind market on top of some regional VIP gaming business. ▪ Strong net profit growth (143% YoY) in 2010E, likely driven by Travellers. Anti-consensus call – consensus FY10 mean net profit estimate is 55% below our forecast. ▪ Strong brands, Megaworld in property, McDonald's in QSR, Emperador in brandy. ▪ Undemanding valuations and TP multiple, in our view. The stock trades at 5x FY10E vs the market's 13x. TP is based on only 8x PER. <p>Concerns</p> <ul style="list-style-type: none"> ▪ Lack of a track record in running casinos. 	<p>9 P 6 3 -</p> <p>Jan-07 Jul-07 Jan-08 Jul-08 Jan-09 Jul-09</p>
---	--	---

Source: Bloomberg, Macquarie Research August 2009

Cyclical

<p>Minor International (MINT TB, Outperform)</p> <p>Price: HK\$5.15 Target Price: HK\$8.00 Market Cap: US\$1,370m ADVT 3 months: US\$2.3m</p> <p>FY09 PER: FY09 EPS Δ: FY08 P/Bk: FY09 FCF Yield: FY08 Net D/E:</p> <p>David Gambrill</p>	<p>Attractions</p> <ul style="list-style-type: none"> Well positioned for the recovery in Thai tourism. Strong brands in hotels and quick service restaurants. MINT's Anantara continues to win new international hotel management contracts. Minor's Pizza Company is outperforming Pizza Hut in the Thai market. Financing available for acquisitions, either QSR brands or hotels. Second-cheapest hotel stock in the region, 12.5x our 2010 earnings estimate. Generating second-highest ROE (17.1% for 2010E) among the regional hotel plays. <p>Concerns</p> <ul style="list-style-type: none"> We expect 3Q09 will remain weak as improving occupancy would be offset by low ADR. 	
<p>Gujarat NRE Coke (GNC IN, Outperform)</p> <p>Price: Rs52.70 Target Price: Rs87.00 Market Cap: US\$515m ADTV 3 months: US\$7.8m</p> <p>FY09 PER: 11.2x FY10 EPS Δ: 18% FY08 P/Bk: 1.7x FY09 FCF Yield: -13% FY08 Net D/E: 32%</p> <p>Rakesh Arora</p>	<p>Attractions</p> <ul style="list-style-type: none"> India's largest independent coke producer. Transforming itself into one of the top 10 producers of coking coal in the world in next 3 years. Plans on increasing its coke production by 50% and coking coal production by 100% this year. Reaching important milestone with start of longwall mining at its Wongawilli mine. Has 580mt of hard coking coal reserves across three mines in Australia. Looking to increase production seven-fold to 7mtpa in the next 3 years. Has excellent location, as its coke plants are in India, which is totally dependent on imports. <p>Concerns</p> <ul style="list-style-type: none"> GNC will look to raise equity in its subsidiary GNM AU to fund the large capex (US\$400m spread over the next 3 years). 	
<p>VST Holdings Limited (856 HK, Outperform)</p> <p>Price: HK\$1.20 Target Price: HK\$1.70 Market Cap: US\$185m ADTV 3 months: US\$1.4</p> <p>FY09 PER: 5.8x FY10 EPS Δ: 21% FY08 P/Bk: 1.2x FY09 FCF Yield: 69% FY08 Net D/E: 143%</p> <p>Charlie Chen</p>	<p>Attractions</p> <ul style="list-style-type: none"> Track record of good operational management in IT distribution industry. Has constantly maintained higher margins than industry peers. Strong relationship with over 20K customers and over 10-year partnerships with key suppliers. Trading at 4.7x FY10E PER on our estimates, at 50% discount to industry average. 7.8% FY10E div yield (Macq estimate). <p>Concerns</p> <ul style="list-style-type: none"> 62% net gearing at the end of FY09, still higher than industry peers. 	

Source: Bloomberg, Macquarie Research, August 2009

<p>Ju Teng International (3336 HK, Outperform)</p> <p>Price: HK\$5.45 Target Price: HK\$9.50 Market Cap: US\$775m ADTV 3 months: US\$3.8m</p> <p>FY09 PER 7.8x FY10 EPS Δ: 37% FY08 P/Bk: 1.8x FY09 FCF Yield: 17% FY08 Net D/E: 48%</p> <p>Zona Chen</p>	<p>Attractions</p> <ul style="list-style-type: none"> Potential market share gains from Hon Hai and Huan Hsin on plastic casing side. We believe market share is likely to reach 33–35% from 27–30% currently. Progressing well in metal casing business. Capacity set to triple by end-2009. Ju Teng has landed major orders for metal casing. New growth driver for 2010 and beyond – JV with Wistron – is Ju Teng’s ticket into the TV casing space. <p>Concerns</p> <ul style="list-style-type: none"> 2009E PER has reached a relative peak of 8–9x. However, we believe there is room for PER expansion on our 2010 earnings expectations. 	
<p>Venture Corp. (VMS SP, Outperform)</p> <p>Price: S\$8.39 Target Price: S\$9.80 Market Cap: US\$1,585m ADTV 3 months: US\$4.7m</p> <p>FY09 PER 10.9x FY10 EPS Δ: 7% FY08 P/Bk: 1.2x FY09 FCF Yield: 7% FY08 Net D/E: -10%</p> <p>Patrick Yau</p>	<p>Attractions</p> <ul style="list-style-type: none"> Global leader in high-end ODM/OEM services. Cash accretive even in difficult 4Q08 and 1Q09. Strong net cash position, capex-light model. We expect close to 6% dividend yield. Special dividend possible from recovery of CDO investments. 12x FY09E PER/11x FY10E PER (based on Macquarie estimates). <p>Concerns</p> <ul style="list-style-type: none"> Writedown of CDO portfolio is behind the company. 	
<p>Everlight (2393 TT, Outperform)</p> <p>Price: NT\$88.70 Target Price: NT\$117.70 Market Cap: US\$964m ADTV 3 months: US\$14.3m</p> <p>FY09 PER 21.9x FY10 EPS Δ: 46% FY08 P/Bk: 3.3x FY09 FCF Yield: -2% FY08 Net D/E: 15%</p> <p>Nicolas Teo</p>	<p>Attractions</p> <ul style="list-style-type: none"> Low capex, stable margins and earnings, solid returns with normalised ROEs of over 20%. Taiwan's largest packager with diversified exposure to consumer, IT, handsets, NBs, TVs, lighting, etc. Benefits from rapid penetration of LED backlights into NB PCs through outsourcing partnership with Toyoda Gosei. <p>Concerns</p> <ul style="list-style-type: none"> Low barrier to entry, competition from China. May raise money later this year. Valuations relatively more expensive than other stocks in the tech food chain. 	
<p>Mermaid Maritime (MMT SP, Outperform)</p> <p>Price: S\$0.84 Target Price: S\$1.80 Market Cap: US\$311m ADTV 3 months: US\$2.2m</p> <p>FY09 PER 10.1x FY10 EPS Δ: 66% FY08 P/Bk: 1.1x FY09 FCF Yield: -780% FY08 Net D/E: 2%</p> <p>Edward Ong</p>	<p>Attractions</p> <ul style="list-style-type: none"> We believe the stock is cheap at 6x PER based on our estimates, with earnings to double over next two years as new build assets come onstream. Tender rig rates remain robust, and subsea vessel rates and utilisation are also high, given firmer crude oil prices. The recent geographic expansion could foreshadow further capacity expansion, which provides potential upside to earnings. <p>Concerns</p> <ul style="list-style-type: none"> Company has missed estimates before, because it is a small company and outages to just a couple of assets would impact it substantially, so execution is not bullet proof. 	

Source: Bloomberg, Macquarie Research, August 2009

<p>Young Fast (2393 TT, Outperform)</p> <p>Price: NT\$313 Target Price: NT\$500 Market Cap: US\$1,249m ADTV 3 months: US\$42.7m</p> <p>FY09 PER 15.8x FY10 EPS Δ: 21% FY08 P/Bk: 10.4x FY09 FCF Yield: 4% FY08 Net D/E: -5,356%</p> <p>Tammy Lai</p>	<p>Attractions</p> <ul style="list-style-type: none"> Leading play on the upgrade to touch screens and handsets and soon on ND with Windows 7 as the catalyst. 2Q results this week were 20% higher than our and street forecasts. Young Fast is winning orders from competitors that cannot meet demand. Quality an important but overlooked factor where Young Fast shines, in our view. 13x FY10E PER (on our estimates) does not appear demanding. <p>Concerns</p> <ul style="list-style-type: none"> Strong recovery in share price in 1H09 	
<p>Cheng Loong (1904 TT, Outperform)</p> <p>Price: NT\$10.65 Target Price: NT\$14.50 Market Cap: US\$334m ADTV 3 months: US\$2.5m</p> <p>FY09 PER 25.7x FY10 EPS Δ: 10% FY08 P/Bk: 0.7x FY09 FCF Yield: 10% FY08 Net D/E: 28%</p> <p>Corinne Jian</p>	<p>Attractions</p> <ul style="list-style-type: none"> The largest industrial paper company in Taiwan. Also has exposure in eastern China, mostly for export-oriented Taiwanese manufacturers. Industrial paper shipments and prices are highly correlated to export growth and we expect Cheng Loong to benefit from the recovery of exports in both Taiwan and China. Its shipments and ASP started to recover in 2Q09 in both Taiwan and China. Cheap valuations (trades below book), high growth (36% CAGR in recurring earnings over 2008–11E on our estimates) and healthy balance sheet (25–30% net gearing). <p>Concerns</p> <ul style="list-style-type: none"> Late 4Q could be the low season for industrial paper post the Christmas orders. 	
<p>SPG Land (337 HK, Outperform)</p> <p>Price: HK\$2.88 Target Price: HK\$4.25 Market Cap: US\$381m ADTV 3 months: US\$1.5m</p> <p>FY09 PER 14.7x FY10 EPS Δ: 99% FY08 P/Bk: 0.8x FY09 FCF Yield: -15% FY08 Net D/E: 61%</p> <p>Chris Cheng</p>	<p>Attractions</p> <ul style="list-style-type: none"> Shanghai Peninsula project is on track for completion in 2H09. We expect residential unit sales to attract a rich margin. Strong brand name in Shanghai, its base market. Starting to expand outside of Shanghai with new projects in Wuxi, Huangshan, Kunming. YTD sales are on track to meet management's expectations and pricing has been good on Shanghai projects. Recently upgraded f/casts also and appears on track to meet those targets. <p>Concerns</p> <ul style="list-style-type: none"> Still predominantly Shanghai-focused; needs to expand outside of Shanghai. Key focus on upcoming Wuxi project. 	

Source: Bloomberg, Macquarie Research, August 2009

<p>Esso Thailand (ESSO TB, Outperform)</p> <p>Price: Bt6.95 Target Price: Bt10.00 Market Cap: US\$706m ADTV 3 months: US\$2.3m</p> <p>FY09 PER 3.0x FY10 EPS Δ: -18% FY08 P/Bk: 1.1x FY09 FCF Yield: 55% FY08 Net D/E: 134%</p> <p>David Johnson</p>	<p>Attractions</p> <ul style="list-style-type: none"> Competitive assets with refinery complexity of 6.6, yielding 50% middle distillate. Strong nation-wide retail network with 15% market share and highest output per station among peers. Trading at 3.1x 2009E PER and 38% discount to our Bt10 target price based on bid value estimate. We believe it fits the bill as a potential takeover target for company seeking downstream assets. <p>Concerns</p> <ul style="list-style-type: none"> We expect market GRM to remain weak due to oil price volatility and slow demand. Petrochemical supply overhang. 	
<p>Lumena Resources Corp. (67 HK, Outperform)</p> <p>Price: HK\$3.17 Target Price: HK\$4.70 Market Cap: US\$794m ADTV 3 months: US\$m</p> <p>FY09 PER 9.7x FY10 EPS Δ: 43% FY08 P/Bk: 5.4x FY09 FCF Yield: 3% FY08 Net D/E: 79%</p> <p>YeeMan Chin</p>	<p>Attractions</p> <ul style="list-style-type: none"> Company specialises in the high-end segment of the thenardite production and earns high margins on premium products. Lumena is the only certified producer in medical thenardite in China. More stringent regulation and health awareness has increased demand for Lumena's products, and prices of medical thenardite are already up 30% YTD. The thenardite is a small proportion of downstream users' cost structure thus customers are less price sensitive. <p>Concerns</p> <ul style="list-style-type: none"> High margins should attract competition and push margins down in long run. 	
<p>Aces Electronic Co. (3605 TT, Outperform)</p> <p>Price: NT\$131 Target Price: NT\$181 Market Cap: US\$341m ADTV 3 months: US\$4.2m</p> <p>FY09 PER 11.1x FY10 EPS Δ: 17% FY08 P/Bk: 4.2x FY09 FCF Yield: 4% FY08 Net D/E: -29%</p> <p>James Chiu</p>	<p>Attractions</p> <ul style="list-style-type: none"> Riding on NB secular growth with increasing local sourcing. Beneficiary of NB component order reshuffle with Hon Hai's entry into NB ODM. Expanding ASP and margins from the thinner NB trend. Solid balance sheet and positive FCF. Low valuation at 10x 2010E earnings (on our estimates) while generating over 30% ROE with strong profit growth. <p>Concerns</p> <ul style="list-style-type: none"> A sharp rise in raw material prices could erode margins. 	

Source: Bloomberg, Macquarie Research, August 2009

CHINA

MacVisit

21 August 2009

801 HK **Not rated**

Stock price (18 August 2009)	HK\$	1.44
GICS sector		Medical specialties
Market cap	US\$m	296.1
Value traded last 3 months	US\$m	2.2
12m high/low	HK\$	2.38/0.67
Forward PER (Consensus)	x	9.2
P/BV (FY08)	x	0.7

Historical financials

YE March (HK\$m)	2007	2008	2009
Revenue	331	421	498
% growth	18%	27%	18%
EBITDA	307	624	203
% growth	80%	103%	-67%
EPS	0.19	0.35	0.08
% growth	95%	91%	-78%
EBIT Margin	88%	143%	36%

Source: Company data, FactSet, August 2009

Historical business risk/reward*

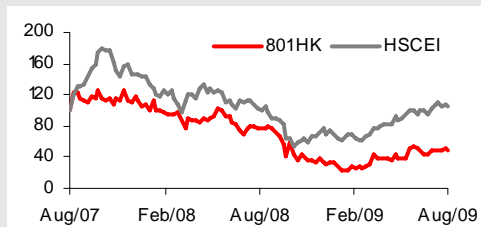
* Relative to the market.

Source: Macquarie Research, August 2009

Share price driver

Thematic
Growth
Value
Event

Source: Macquarie Research, August 2009

801 HK rel HSCEI Index performance

Source: FactSet, August 2009

Analysts

Jake Lynch
86 21 2412 9007 jake.lynch@macquarie.com
Charlie Chen
86 21 2412 9041 charlie.chen@macquarie.com

Golden Meditech

Restructuring continues: Event Horizon

- Golden Meditech (GM) is best-viewed as a small, China-focused medical conglomerate. The company has built a good track record of investing in, and profitably trading out of, medical companies. The group's activities range from medical disposables to equipment and hospital and clinic management. In the coming six months, management expects to execute several significant transactions.
- GM is looking to list its 50.25%-held Cord Blood Corporation (CNDZF US, US\$6.45, NR) on the Nasdaq (currently OTC listed) as soon as is practical (potentially as early as next month). The listing is aimed to raise funds to obtain other geographical franchises for cord blood. Also, the China Cord Blood business has invested in 18.9% of CordLife (CBB AU, A\$0.37, NR), which operates cord blood banks in India, Australia and Asean. Separately, it is looking to spin off its 32.5% stake in Beijing PYPO – a nationwide distributor and retailer of personal electronics and medical devices – into another US listing. GM is entering into a JV with Fenwal (Not listed) in the blood collection and transfusion business (unlikely to generate profits before 2011). In addition, GM recently purchased 70% of the Daopei Hospitals' management company, which comprises two haematology hospitals (Beijing and Shanghai). Daopei also has 60% of Topshine – the first foreign entity granted a nationwide hospital management licence, with an aim to obtain other specialty hospital management contracts nationwide
- Previous transactions – including investing in and then disposing of China Medical Technologies (CMED US, NR, US\$15.89) – have generated sizable profits for GM, but analysts face the usual problems with forecasting for conglomerates that actively trade assets.

Cord blood bank drives near-term growth

- The cord blood bank business registered 61% revenue growth in 2008. The Cord Blood Bank is a service that allows parents to save stem-cell-rich blood from the umbilical cord as safety insurance for their child in case of future blood-related diseases. GM is the first and largest listed play in this business in China and holds exclusive licenses for Beijing and Guangzhou.
- The older medical device business is struggling to restart growth. This poor performance is troubling in light of strong growth for the overall market. Other lines being introduced are the plasma exchange system and accelerated thermostatic infusion pump.
- Hospital management is another area of focus. One of the key purposes of Chinese healthcare reform is to enhance hospitals' operating efficiency and boost quality. As most of the large-scale hospitals are still state-owned, it is questionable how far the private sector can go in the healthcare service sector.
- GM just announced an agreement to set up a 49% JV with Fenwal, a world leading manufacturer of blood collection and transfusion devices. Initially, the JV will leverage GM's hospital and sales network in China and act as a distributor of both GM and Fenwal's products. We believe it is very likely that Fenwal will move its production to the JV in China afterwards because of lower costs.

Ownership

▪ Kam Yuen, Chairman & CEO	372.1 m	22%
▪ Free float	1,221.8 m	73%
▪ Options	77.5 m	5%

Source: FactSet, August 2009

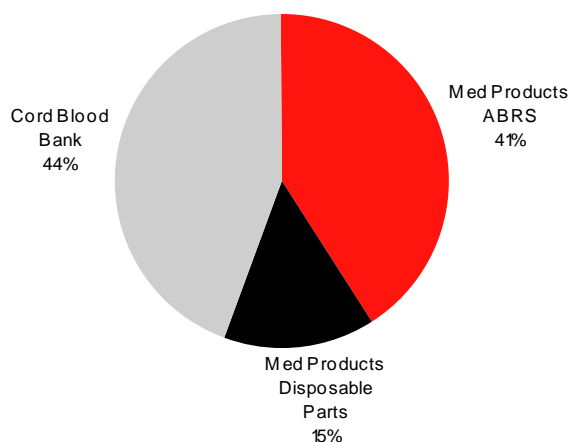
Balance sheet data (ended 31 March 2009)

▪ Cash balance	HK\$811m
▪ ST Debt	N.A.
▪ LT Debt	HK\$346m
▪ Net Debt/Equity	-13%
▪ CB	N.A.

Latest results highlights (FY09 ended 31 March)

- Revenue grew 18% YoY
- Gross margin 71%
- Adjusted operating profit increased 49% YoY
- Net profit down 92% YoY due to high one-offs in last year
- EPS HK¢3.7; no dividend
- Medical devices segment revenue down 2.4%, cord blood bank segment revenue up 61% YoY

Fig 1 Sales breakdown, FY09



Source: Company data, August 2009

History and corporate governance

- Founded in 2000; listed in Hong Kong GEM board in December 2001
- Transferred to main board from GEM on 3 June 2009
- Auditor: KPMG
- Directors: Three executive directors, four independent non-executive directors

Directors and management background

- Mr Kam Yuen, Chairman and CEO, Chinese entrepreneur
- Ms Ting Zheng, CEO of cord blood bank business

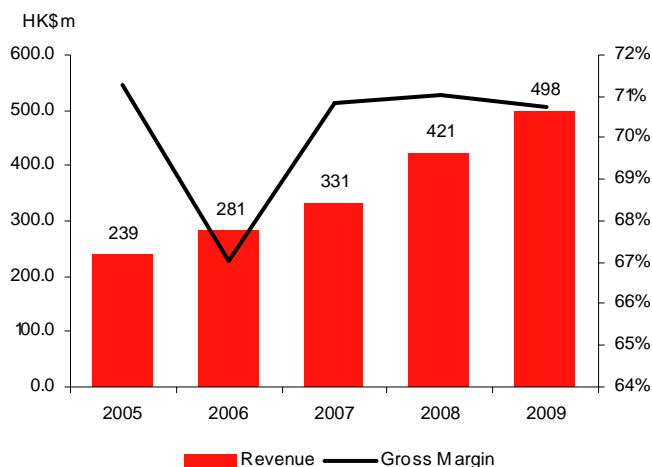
Non-executive board members

- Mr Gang Cao: Accounting professor
- Mr Zongze Gao: Lawyer
- Mr Qiao Gu: Scientist

Latest developments

- Beijing cord blood bank started operations
- Spun off 40% of the herbal medicine business and remains a minority shareholder
- China Cord Blood Corp. (CNDZF US – OTC ticker) IPO on NASDAQ expected soon

Fig 2 Gross margins and revenues



Source: Company data, August 2009

The growth proposition

- The cord blood business is still showing strong growth. Beijing now at 16% penetration vs estimated saturation point of 20%. Guangdong at 2% penetration.
- There are four other Cord Blood Bank licences elsewhere in China. There are 31 other geographical areas that can have licenses issued. Golden Meditech aims to use proceeds from Nasdaq spin-off to acquire other Cord Blood Bank licences.
- Aim of acquisition of Daopei Hospitals is being the launch pad for new business of hospital management in China. Hospital management is an untested business model but skirts many of the regulatory issues associated with opening private hospitals.
- JV with Fenwal to start to contribute to GM in 2010.

Strengths

- High entry barrier for Cord Blood Bank business – no new entrants in Golden Meditech's current areas of operation are likely for several years at least.
- Has 85% market share in China for the ABRS device.
- Management has wide experience in different health-related industries in China.
- Forty patents and high margins demonstrate reasonably strong technical expertise.

Opportunities

- Australia-listed CordLife holds exclusive licence for Indonesia and operates in Asean and India. High growth potential.
- Acquisition of Daopei Hospitals may open up significant new growth opportunity in hospital management, although risks are high for this unproven business model.
- 37.8% interest in Union China National Medical Equipment – the largest medical device distributor in China.

The main risks

- Numerous transaction risks for the stock.
- In early 2008, the Shanghai cord blood storage centre was the focus of an internet campaign. This may yet lead to stricter government regulations regarding paid cord blood storage services.
- A separate issue arose in Shanghai with allegations (denied) that harmful contamination had occurred in the stored blood (GM does not operate in Shanghai, the centre of the allegations).
- Developments in pharmaceutical technology could discover alternative, more economical treatment to cord blood.

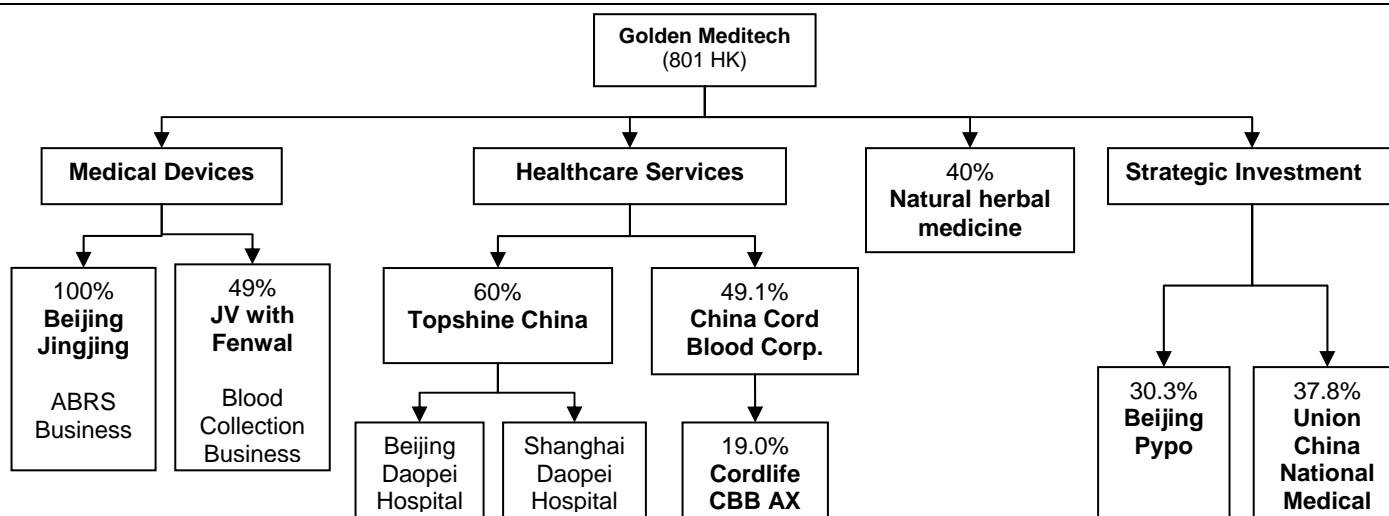
Weaknesses

- Lack of transparency on business structure.
- Over-reach in terms of multiple businesses.
- Current medical device product line is very narrow. The stagnant growth of the medical devices business and the significant lead time before another can replace it show the risk of over-reliance on a single product.
- Sub-scale on manufacturing and management.
- High working capital requirements suggest high dependence on distributors for equipment business.

Threats

- High-margined ABRS device production may attract attention from larger players.
- Cord blood business highly dependent on reputation of the provider. The business is inherently exposed to high reputational risk.

Fig 3 Golden Meditech – organisational chart



Source: Company data, August 2008

Fig 4 Golden Meditech – financial statement (HK\$m)

Year-end March	2006	2007	2008	2009	Quarter Ending	30-Jun-08	30-Sep-08	31-Dec-08	31-Mar-09
Revenue	280.6	331.1	421.1	497.8	Revenue	104.6	136.5	136.6	120.0
Cost of Goods Sold	92.4	96.6	122.0	145.7	Cost of Goods Sold	32.6	38.3	38.2	36.6
Gross Profit	188.1	234.5	299.1	352.1	Gross Profit	72.1	98.2	98.4	83.4
SG&A	112.8	96.4	160.4	103.1	SG&A	32.6	31.4	33.0	6.1
Investment/Interest Income	40.0	62.5	436.7	-88.2	Invest/Interest Income	7.8	22.4	-34.2	-103.1
Other Operating Income	22.1	90.9	28.9	17.2	Other Operating Income	73.9	-7.6	4.7	-77.5
EBITDA	170.3	306.7	623.7	202.7	EBITDA	119.5	80.9	33.4	-101.1
Depreciation & Amortization	32.9	15.3	19.4	24.7	Depre & Amort	4.4	4.8	0.0	0.0
EBIT	137.4	291.4	604.3	178.0	EBIT	115.1	76.0	70.0	-0.1
Forex Gains / Losses	0.0	0.0	0.0	0.0	Forex Gains / Losses	0.0	0.0	0.0	0.0
Other Pre-Tax Income	0.0	0.0	0.0	0.0	Other Pre-Tax Income	0.0	0.0	0.0	0.0
Net Interest Income/(Exp)	-12.4	-10.8	-20.6	-13.1	Net Int Income/(Exp)	0.0	0.0	0.0	0.0
Unusual gain(expenses)	438.8	0.0	55.1	-42.6	Unusual gain(expenses)	0.0	0.0	0.0	0.0
Pre Tax Profit	563.7	280.6	638.8	122.3	Pre Tax Profit	115.1	76.0	33.4	-102.1
Tax Expenses	2.5	15.8	24.2	42.0	Tax Expenses	12.4	14.1	14.2	1.3
Net Profit	561.3	264.8	614.5	80.3	Net Profit	102.6	61.9	19.2	-103.4
Minority Interests	-7.3	-29.9	-23.2	0.0	Minority Interests	-4.0	-13.8	-14.5	9.2
Adjusted Net Profit	115.2	234.8	536.1	122.9	Adjusted Net Profit	98.6	48.1	4.7	-94.3
EPS (rep)	0.46	0.21	0.41	0.05	EPS (adj.)	0.1	0.0	0.0	-0.1
EPS (adj)	0.10	0.19	0.35	0.08	EPS (post Min) YoY%	-53.0%	-66.0%	-97.8%	-172.3%
Total Diluted Shares Out.	1,330	1,592	1,613	1,560	EBIT Margin	110%	56%	51%	0%
					Net Margin	94%	35%	3%	-79%
					Diluted Shares out	1,544	1,556	1,552	1,597
Cash Flow	2006	2007	2008	2009	Balance Sheet	2006	2007	2008	2009
EBITDA	170.3	306.7	623.7	202.7	Cash & ST Investment	482	695	1,130	862
Deferred Tax	0.0	0.0	0.0	0.0	Receivables	373	264	238	302
Chgs in Working Capital	-196.5	-113.1	20.2	-235.5	Inventories	33	36	49	58
Net Interest Paid					LT Investment	30	538	1,409	1,231
Other	-29.3	-132.8	-431.7	86.1	PP&E, Net	304	273	352	415
Operating Cashflow	-55.4	60.8	212.1	53.3	Intangibles	524	517	85	84
Acquisitions & Investments	23.2	-590.2	-717.6	-413.6	Other Assets	780	722	927	1,162
Capex	-11.6	-50.0	-109.5	-82.7	Total Assets	2,527	3,044	4,190	4,114
Sale of Business/Investments	425.5	64.5	583.8	235.5	Payables	157	69	101	101
Sale of Fixed Assets	27.9	41.2	0.1	0.9	Short Term Debt	38	209	75	1
Investing Cashflow	465.0	-534.5	-243.2	-259.9	Long Term Debt	209	0	343	348
Dividend	-24.2	0.0	-38.8	0.0	Minority Interest	49	162	320	357
Equity Raises	3.4	556.5	-92.8	37.7	Other Liabilities	18	44	119	126
Debt Movements	-19.3	-28.9	241.7	-9.0	Total Liabilities	471	484	957	933
Other	-7.7	144.0	176.8	-24.5	Shareholder's Funds	2,056	2,560	3,233	3,180
Financing Cashing Flow	-47.8	671.6	286.9	4.1	Other	0	0	0	0
Net Change in Cash/Debt	363.8	206.6	309.5	-186.4	Total S/H Equity	2,056	2,560	3,233	3,180
Free Cash Flow	-91.2	10.8	63.9	-29.3	Total Liab & S/H Funds	2,527	3,044	4,190	4,114
	2006	2007	2008	2009		2006	2007	2008	2009
Revenue Growth %	17.4%	18.0%	27.2%	18.2%	ROA	27.9%	9.5%	17.0%	1.9%
EBITDA Growth	-3.8%	80.1%	103.3%	-67.5%	ROE	37.3%	11.5%	21.2%	2.5%
EBIT Growth	-12.9%	112.1%	107.4%	-70.5%	ROIC	24.8%	8.8%	17.2%	2.3%
Net Profit (adj) Growth	-18.4%	103.9%	128.3%	-77.1%	Net Debt/Equity	-11.4%	-19.0%	-22.0%	-16.1%
EPS (adj) Growth	-28.4%	94.8%	90.7%	-78.0%	Interest Cover	4.5	-5.6	-10.3	-4.1
EBITDA Margin	61%	93%	148%	41%	Payout Ratio	0.0%	14.6%	0.0%	0.0%
Gross Margin	67%	71%	71%	71%	Working Capital Days	-3	167	52	113
EBIT Margin	49%	88%	143%	36%	Payable Days	618	259	301	254
Adj. Net Profit Margin	41%	71%	127%	25%	Inventory Days	130	135	147	146
Valuation	2006	2007	2008	2009	Receivable Days	486	291	206	221
Sh Price as of 18/8/2009 (loc)	1.47	1.47	1.47	1.47					
PER (adj.)	15.43	7.92	4.16	18.86					
EV/EBITDA	13.69	6.95	3.48	11.91					
P/BV Ratio	0.91	0.87	0.70	0.74					
Div Yield (Current)	0.0%	2.1%	0.0%	0.0%	Fiscal year ends 31 March				

Source: Company data, August 2009

CHINA

MacVisit

21 August 2009

2877 HK **Not rated**

Stock price as of 18/8/2009	HK\$	6.17
GICS sector		Pharma. Generics
Market cap	US\$m	658.6
Value traded last 3 months	US\$m	0.5
12m high/low	HK\$	8.20/2.80
PER FY09 Consensus	x	8.9
P/BV (FY08)	x	2.4

Historical financials

YE Dec (RMBm)	2006A	2007A	2008A
Revenue	841	1,013	1,275
% growth	1%	20%	26%
EBITDA	417	608	512
% growth	13%	46%	-16%
EPS	0.40	0.59	0.48
% growth	-1%	47%	-19%
EBIT Margin	46%	57%	45%

Source: FactSet, Company data, August 2009

Historical business risk/reward*

*Relative to the market.

Source: Macquarie Research, August 2009

Share Price Driver

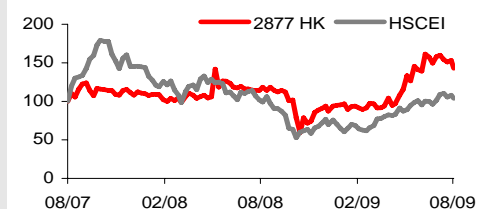
Thematic

Growth

Value

Event

Source: Macquarie Research, August 2009

2877 HK rel HSCEI Index performance

Source: FactSet, August 2009

Analysts

Jake Lynch
86 21 2412 9007 jake.lynch@macquarie.com
Charlie Chen
86 21 2412 9041 charlie.chen@macquarie.com

China Shineway Pharma Group Ltd.

The largest TCM injection manufacturer in China

- Shineway is a leading Traditional Chinese Medicine (TCM) manufacturer in China. It focuses on three main TCM product lines (more than 98% revenue): injections, soft capsules and granules. According to management, Shineway is the largest TCM injection producer in China in terms of volume, serving a market that the *People's Daily* reports as RMB20b with 400m doses per year.

A potential beneficiary of healthcare reform

- Shineway's products are mostly low end and low priced. Under the current Chinese healthcare system, hospitals are heavily dependent on drug sales to subsidize their operations. Therefore, hospitals are more inclined to use high-priced drugs because of the high profit per dose. More economically priced drugs can penetrate hospitals only because of the Chinese Essential Drugs List, which is published by the Ministry of Health to push hospitals to use low-priced alternatives of expensive drugs. It is likely the Essential Drugs List will be enforced more aggressively under healthcare reform, which could benefit low-end drug producers.
- TCM currently accounts for 30–40% of overall drug sales in China.

Policy risk exists – as do entry barriers

- As more than half of its revenue comes from TCM injection products, Shineway is heavily exposed to government policy risks. In 2006, before the Zheng (the former Head of Drug Administration) scandal, hundreds of licenses were granted each year to TCM injection drugs. However, this market is effectively frozen now due to a more stringent approval process and concerns about unknown side effects. There are regular news reports regarding serious side effects of TCM injections. On 20 April 2009, the National Drug Adverse Reaction Monitoring Centre issued a second alert on proper usage of Qing Kai Ling injection, a type of drug manufactured by Shineway (along with many other producers) that accounts for 24% of the company's revenue.
- Rather than expecting TCM injections to be significantly restricted, we believe that the more likely result of safety concerns will be consolidation of the industry to large-scale, high-quality manufacturers. It is already very difficult for newcomers to enter this segment, due to tightened quality control and a stricter approval process. This could benefit cash-rich scale players such as Shineway.

Essential Drug List released

- China's government released the key Essential Drug List on 19 August. Shineway's management appears satisfied with the result, noting that it has 10 drugs named, including its flagship products, Qingkailing injection and Shenmai injection. It notes that there were 102 TCMS and 205 Western drugs included. Shineway states that all drugs on the list will be included in the national reimbursement catalogue automatically, with a reimbursement ratio significantly higher than that of other drugs not on the list.

Ownership

- Mr. Li Zhenjiang 588.0m 71.1%
- Happy Fly Limited 12.0m 1.5%
- Freefloat 226.6m 27.4%
- No options or CBs

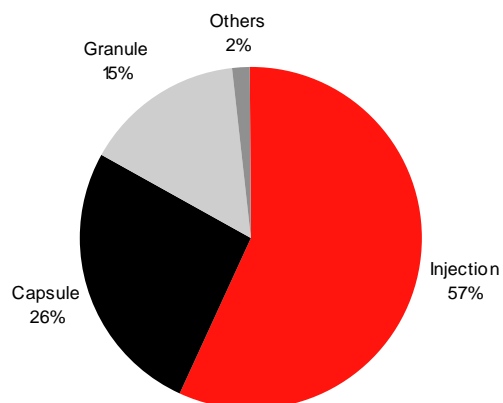
Balance sheet data (ended FY08)

- Cash balance RMB1,568m
- ST Debt N.A.
- LT Debt N.A.
- Net Debt/Equity -74.2%
- CB N.A.

Latest results highlights (FY08)

- 1H09 results expected at the end of August
- 2008 revenue up 26%
- Gross margin decreased slightly from 72.4% to 71.7% due to raw material price increase
- Selling expenses decreased 8% (expense ratio decreased from 14.8% to 10.8%) due to strong drug demand in domestic market
- 2008 dividend 25¢ per share: interim 12¢, final 12¢, special 1¢
- EBIT margins fell sharply

Fig 1 FY08 Sales breakdown



Source: FactSet, Company data, August 2009

History and corporate governance

- Listed in Hong Kong: December 2004
- Shineway was founded from a management buyout around 15 years ago
- Incorporated in Cayman Islands
- Auditor: Deloitte
- Directors: five executive directors, three independent nonexecutive directors

Directors and management background

- Mr. LI Zhenjiang, Chairman and CEO, Chinese entrepreneur, one of the founders
- Ms. WANG Zhihua, Vice GM, ED and one of the founders

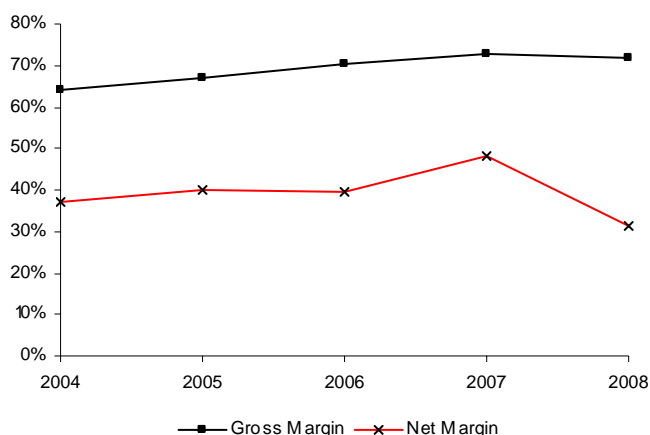
Nonexecutive board members

- Mr. REN Dequan: Former Deputy Head of Chinese Drug Administration during 2003-2005. Non executive director of Neptunus Interlong Biotechnology (8329 HK)

Latest Developments

- New injections line started production in January 2008, increased annual capacity to 2bn doses
- SAP ERP second stage launched, with integrating inventory and purchasing
- Capex RMB100–150bn to further expand injection production line to 3bn doses capacity
- Capex RMB150bn to increase granules capacity from 1.9bn packs to 5.5bn packs

Fig 2 Gross and net margins



Source: Company data, August 2009

The growth proposition

- Growth driven by market consolidation, increasing coverage and penetration into rural areas and aging population
- Not chasing the blockbuster drug market – any new drugs introduced likely to take years to gain traction
- Overall drug market likely to achieve high-teens annual growth in next several years
- Management guided low-20% growth in FY09 due to production capacity bottleneck in 2Q)
- Bloomberg EPS consensus growth 46% in FY09E

The business model

- Traditional Chinese Medicine maker, focusing on TCM injections, soft capsules and granules.
- Largest TCM injections manufacturer in China
- Low end products, large scale, lower margin.
- More than 100,000 points of sale mostly sold through third-party distributors
- Hundreds of sales representatives (vs competitors with thousands) as it is a low-touch seller

Strengths

- Large-scale, mature brand
- High entry barrier for new entrants in TCM market – difficult to obtain licenses
- Strong sales network: hundreds of salespersons handling 100,000 points of sale
- Very strong balance sheet, debt-free, 74% net cash/equity
- Most of Shineway's product licenses are renewed in 2008 (valid for another five years)

Opportunities

- Healthcare reform is likely to increase usage of low-end drugs
- The government will emphasize the use of TCM vs Western, according to the company
- Market consolidation: low-quality, small-scale drug makers will be eliminated from the market due to stricter quality control and license approval process
- Population aging trend favours TCM
- More coverage of social security helps drugs to penetrate into underdeveloped rural markets

The value proposition

- Trading at 13.5x FY08A PER
- 2.9x FY08A PBV
- 3.2% FY08A dividend payout, 40% payout ratio

The main risks

- Government policy: to be listed in the Essential Drugs List is a key to penetrating market much easier; not all of Shineway's drugs are on the Essential List now.
- Recent adverse reaction cases give negative image on TCM injections
- More strict use of TCM injections

Weaknesses

- Low-end, low-priced products – unattractive to hospitals due to low profitability per dose
- Heavily relies on key products:
 - No. 1 product: 24% of revenue
 - Top 3 products: 55% of revenue
 - Top 5 products: 71% of revenue

Threats

- Long-term trend may be toward more Western medicine
- Maintaining brand reputation is key

Fig 3 China Shineway historical financials

Year Ending	2005	2006	2007	2008	Half Ending	30-Jun-07	31-Dec-07	30-Jun-08	31-Dec-08
Revenue	831	841	1013	1275	Revenue	461	551	642	633
Cost of Goods Sold	275	249	275	361	Cost of Goods Sold	127	147	176	185
Gross Profit	557	592	738	914	Gross Profit	334	404	467	448
SG&A	232	252	339	376	SG&A	134	205	148	228
Investment/Interest Income	0	45	150	-99	Invest/Interest Income	16	135	-31	-68
Other Operating Income	18	2	27	37	Other Operating Income	20	7	32	6
EBITDA	368	417	608	512	EBITDA	253	356	337	176
Depreciation & Amortization	26	30	32	36	Depre & Amort	18	15	18	18
EBIT	342	387	576	575	EBIT	235	341	350	225
Forex Gains / Losses	0	0	0	0	Forex Gains / Losses	0	0	0	0
Other Pre-Tax Income	0	0	0	0	Other Pre-Tax Income	0	0	0	0
Net Interest Income/(Exp)	0	0	0	-99	Net Int Income/(Exp)	0	0	-31	-68
Unusual gain(expenses)	0	0	0	0	Unusual gain(expenses)	0	0	0	0
Pre Tax Profit	342	387	576	476	Pre Tax Profit	235	341	319	158
Tax Expenses	5	54	85	78	Tax Expenses	37	49	50	28
Net Profit	337	333	491	398	Net Profit	198	292	268	130
Minority Interests	0	0	0	0	Minority Interests	0	0	0	0
Adjusted Net Profit	337	333	491	398	Adjusted Net Profit	198	292	268	130
EPS (rep)	0.41	0.40	0.59	0.48	EPS (adj.)	0.24	0.35	0.32	0.16
EPS (adj)	0.41	0.40	0.59	0.48	EPS (post Min) YoY%	7.2%	64.5%	35.4%	-55.6%
Total Diluted Shares Out.	829	827	827	827	EBIT Margin	51%	62%	54%	36%
					Net Margin	43%	53%	42%	21%
					Diluted Shares out	827	827	827	827

Cash Flow	2005	2006	2007	2008	Balance Sheet	2005	2006	2007	2008
EBITDA	368	417	608	512	Cash & ST Investment	1,348	1,584	1,678	1,586
Deferred Tax	0	0	0	0	Receivables	155	88	288	352
Chgs in Working Capital	101	45	-230	-200	Inventories	35	38	78	76
Net Interest Paid					LT Investment	0	0	0	0
Other	-17	-44	24	93	PP&E, Net	231	224	279	326
Operating Cashflow	452	417	402	405	Intangibles	6	6	20	19
Acquisitions	0	0	0	0	Other Assets	70	68	66	67
Capex	-73	-23	-93	-84	Total Assets	1,845	2,008	2,409	2,426
Asset Sales	0	0	0	0	Payables	58	77	297	271
Other	-58	34	39	48	Short Term Debt	0	0	0	0
Investing Cashflow	-131	11	-54	-35	Long Term Debt	0	0	0	0
Dividend	-83	-182	-190	-331	Minority Interest	0	0	0	0
Equity Raises	-10	0	0	0	Other Liabilities	157	162	42	19
Debt Movements	0	0	0	0	Total Liabilities	215	238	339	290
Other	-7	0	0	0	Shareholder's Funds	1,630	1,769	2,069	2,137
Financing Cashing Flow	-100	-182	-190	-331	Other	0	0	0	0
Net Change in Cash/Debt	201	234	96	-93	Total S/H Equity	1,630	1,769	2,069	2,137
Free Cash Flow	296	212	119	-10	Total Liab & S/H Funds	1,845	2,008	2,409	2,426

	2005	2006	2007	2008		2005	2006	2007	2008
Revenue Growth %	18.2%	1.2%	20.4%	25.9%	ROA	19.7%	17.3%	22.2%	16.5%
EBITDA Growth	21.6%	13.2%	45.9%	-15.8%	ROE	22.1%	19.6%	25.6%	18.9%
EBIT Growth	22.0%	13.0%	48.8%	-0.1%	ROIC	9.5%	8.1%	7.7%	18.6%
Net Profit (adj) Growth	27.4%	-1.2%	47.3%	-18.8%	Net Debt/Equity	-82.7%	-89.5%	-81.1%	-74.2%
EPS (adj) Growth	62.8%	-0.8%	47.3%	-18.8%	Interest Cover				-4.1
EBITDA Margin	44%	50%	60%	40%	Payout Ratio	54.0%	57.1%	67.4%	40.0%
Gross Margin	67%	70%	73%	72%					
EBIT Margin	41%	46%	57%	45%	Working Capital Days	38	-18	-187	-96
Adj. Net Profit Margin	41%	40%	48%	31%	Payable Days	77	112	395	274

Valuation	2005	2006	2007	2008		2005	2006	2007	2008
Sh Price as of 18/08/09 (loc)	7.00	7.00	7.00	7.00	Inventory Days	47	56	104	77
PER (adj.)	15.20	15.33	10.40	12.8	Receivable Days	68	38	104	101
EV/EBITDA	14.76	12.53	8.60	10.29					
P/Bk Ratio	3.55	3.27	2.80	2.71					
Div Yield (Current)	3.1%	3.1%	3.1%	3.4%	Fiscal year ends 31 Dec				

Source: Company data, August 2009

INDONESIA

MacVisit

21 August 2009

SMRA IJ Not rated

Stock price as of 20/08/2009	Rp	470
GICS sector		Property
Market cap	US\$m	300
Value traded last 3 months	US\$m	0.6
12m high/low	Rp	550/156
PER FY09 Consensus	x	22.6
P/BV (FY08)	x	1.5

Historical financials

YE Dec (Rp bn)	2006A	2007A	2008A
Revenue	965	1,027	1,267
% growth	21%	6%	23%
EBITDA	321	345	328
% growth	10.6%	7.6%	-4.8%
EPS	28.57	25.94	14.60
% growth	6.1%	-9.5%	-43.3%
EBIT Margin	28%	29%	21%

Source: Company data, Bloomberg August 2009

Historical business risk/reward*



*Relative to the market.

Source: Macquarie Research, August 2009

Share Price Driver

Thematic

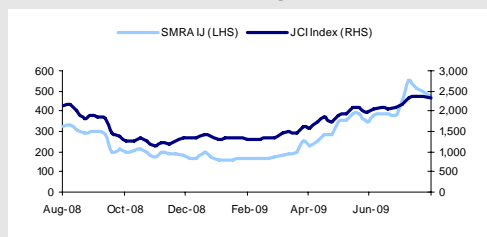
Growth

Value

Event

Source: Macquarie Research, August 2009

SMRA IJ rel JCI Index performance



Source: Bloomberg August 2009

Analysts

Jake Lynch

86 21 2412 9007

jake.lynch@macquarie.com

Sumarecon Agung

Proven in both residential and commercial property

- Sumarecon Agung has a proven track record in both residential and property management. Its most successful project and the most established township in Jakarta is located in Kelapa Gading, North Jakarta established in late 1970s.
- Since then, it has developed the second township at Gading Serpong located in the Western part of Jakarta – around 25km from the Jakarta CBD. Sumarecon still has a significant landbank in this area and the development will be similar to the one in Kelapa Gading.

Diversified Retail investment property owner and residential developer

- About two-thirds of its NAV is retail malls with 98% occupancy mainly located in Kelapa Gading. Rents are linked to the US dollar but they allow flexibility. Subsequently about 35–40% of the revenue is coming from recurring income. Based on its latest calculation, NAV is at Rp760/share, translating to a 40% discount to its current share price.

Beneficiary of lower mortgage rate

- We believe the company will be benefiting from a lower mortgage rate environment as most of its buyers are typically using mortgages. Pre-marketing sales in June apparently have rebounded especially coming from its Serpong townships (30km from Jakarta) where most of the landbanks are. We expect 2H09 pre-marketing sales will likely to exceed its forecast of Rp800bn given the expectation of strong volume in the 2H09 due to lower mortgage rate and higher consumer confidence.
- Banks have been aggressive in offering the mortgage rate and some banks have offered a mortgage rates as low as 7% fixed rate per year with subsidy from the property developer.

To launch its third township in Bekasi

- Sumarecon is currently preparing to launch its third township located in Eastern part of Jakarta and currently it is negotiating with the local government and the toll road operators to build a flyover access to connect to Sumarecon's landbank.
- The company believes the Bekasi townships can start generating revenue in 2010 although this will still be minimal. Currently the total landbank that has been acquired totals 177ha but it could go higher as the company will continue to acquire landbank in its surrounding area.

Balance sheet is decent with net gearing of around 70%

- The company's balance sheet is relatively strong at 70% net gearing and with expectation of positive free cashflow in 2009–10 we expect gearing to come down despite its need to use more capex to acquire landbank in its second (Gading Serpong) and third (Bekasi) townships.

The growth proposition

- Consensus EPS growth 29% for FY09/10E and 36% for FY10/11E.
- Consensus revenue growth of 13% and 12% in FY09E and FY10E.
- Beneficiary of the low mortgage rate.

The business model

- Building a township with everything inside the area both for residential and commercial purposes.
- Specialises in the landed residential property and very good in terms of launching its new residential products.
- Has small portfolio for high rise apartment.

Strengths

- Strong and proven track record in building the residential and townships.
- Very well-known brand name in Indonesia.
- Strong marketing and proven track record in launching products.

Opportunities

- Expectation on higher demand due to lower mortgage rate and banks to start providing mortgage loan.
- Mortgage penetration rate is still low at 10% of the total loan and 2.5% of the total GDP.
- Home penetration rate is still low and the launching of its third township will be a pre-cursor of revenue growth in the near- to medium-term future.

The value proposition

- Trading at 32x consensus FY08E PER and 23x FY09E and 18x FY10E PER.
- FY09 ROA (consensus) 4%.
- FY09 ROE (consensus) 7%.
- Trading at a 40% discount to its NAV of Rp760/share.

The main risks

- Higher interest rate environment.
- Competition from high rise apartments especially located in the central of Jakarta could impact demand for Sumarecon's residential property.

Weaknesses

- Need to acquire more landbanks in both Gading Serpong and Bekasi.
- Dependence upon the interest rate environment

Threats

- More competition from other property developers and the customer preference to switch to high-rise apartment from landed residential property due to better location and traffic.

Sumarecon Agung financials

Year Ending 31 Dec	2005A	2006A	2007A	2008A	Period Ending	30-Jun-08A	30-Sep-08A	31-Dec-08A	31-Mar-09A
Revenue	797,932	965,250	1,027,230	1,267,060	Revenue	307,524.0	278,637.0	431,218.0	257,485.0
Cost of Goods Sold	394,130	545,682	501,418	756,301	Cost of Goods Sold	177,541.9	163,048.1	281,191.0	132,271.1
Gross Profit	403,802	419,568	525,812	510,759	Gross Profit	129,982.1	115,588.9	150,027.0	125,213.9
SG&A	170,727	177,628	255,039	289,896	SG&A	49,199.1	75,228.2	86,130.2	54,658.0
Int/Invest Inc (loss)	7,364	20,488	12,241	16,421	Int/Invest Inc (loss)	13,475.3	8,124.3	-11,653.3	85.2
Other Op Inc. (Exp)	6,365	7,412	19,896	27,473	Other Op Inc. (Exp)	84,027.2	61,764.2	65,417.0	58,287.8
EBITDA	290,379	321,283	345,627	328,940	EBITDA	75,112.8	87,847.9	72,956.7	74,898.3
Depr & Amort	43,575	51,443	42,717	64,180	Depr & Amort	15,682.9	25,899.1	0.0	7,887.1
EBIT	246,804	269,840	302,910	264,756	EBIT	59,430.2	61,949.0	72,956.7	67,011.3
Forex Gains / Losses	0	0	0	0	Forex Gains / Losses	0.0	0.0	0.0	0.0
Other Pre-Tax Income	1	0	0	4	Other Pre-Tax Income	0.3	0.2	0.0	0.1
Net Int. Income/(Exp)	-52,918	-55,531	-69,037	-93,941	Net Int Income/(Exp)	13,028.4	36,175.9	27,659.6	27,757.3
Unusual gain(expenses)	0	0	0	0	Unusual gain(expenses)	0.0	0.0	0.0	0.0
Pre Tax Income	193,886	214,309	233,872	170,819	Pre Tax Profit	46,401.5	25,772.9	45,297.1	39,253.8
Tax Expenses	41,765	45,826	73,164	75,991	Tax Expenses	8,751.7	16,212.7	34,723.5	15,648.1
Eff. Tax Rate	21.5%	21.4%	31.3%	44.5%	Eff. Tax rate	18.9%	62.9%	76.7%	39.9%
Net Profit (Reported)	152,122	168,483	160,708	94,828	Net Profit (Reported)	37,649.8	9,560.2	10,573.6	23,605.7
Minority Interests	93	912	384	869	Minority Interests	209.6	127.9	64.7	252.1
Adjusted Net Profit	152,028	167,571	160,324	93,960	Adjusted Net Profit	37,440.3	9,432.3	10,508.9	23,353.7
EPS (rep). Diluted	27.06	28.72	26.01	14.74	Basic EPS (adj.)	581.8	146.6	1,048.8	362.9
EPS (adj). Diluted	27.05	28.57	25.94	14.60	EPS (post Min) YoY%	-18.4%	79.2%	4.0%	-36.5%
EPS (Rep). Growth yoy	#DIV/0!	6%	-9%	-43%					
Total Shares Out	5,866	5,866	6,426	6,436	Diluted EPS (adj) (cents)	582.7	146.8	163.2	362.9
Diluted Shares Out	5,621	5,866	6,180	6,435	EBIT Margin	19%	22%	17%	26%
Div. per share	6.04	7.04	6.10	11.00	Net Margin	12%	3%	2%	9%
Cash Flow	2005A	2006A	2007A	2008A	Balance Sheet	2005A	2006A	2007A	2008A
EBITDA	290,379	321,283	345,627	328,940	Cash & ST Investment	213,556	115,583	305,473	260,830
Tax Paid	41,765	45,826	73,164	75,991	Receivables	78,420	97,430	223,791	160,882
Chgs in Working Capital	64,211	9,766	13,024	17,916	Inventories	454,587	519,195	394,340	653,761
Net Interest Paid	-53,987	-57,547	-65,644	-82,691	LT Investment	0	0	0	0
Other	-58,308	-487,446	-269,651	-685,168	PP&E, Net	975,778	1,200,515	1,901,065	2,255,436
Operating Cashflow	284,061	-168,118	96,521	-345,011	Intangibles	0	0	0	0
Acquisitions	0	0	0	0	Other Assets	142,419	259,095	204,815	299,061
Capex	-103,945	-149,921	-427,779	-197,076	Total Assets	1,864,760	2,191,818	3,029,483	3,629,969
Asset Sales	390	2,741	2,164	3,006	Payables	111,015	93,783	66,967	60,245
Other	-239,983	-377,127	-772,999	-380,634	Short Term Debt	0	0	0	0
Investing Cashflow	-135,648	-224,466	-343,055	-180,553	Long Term Debt	262,791	542,270	629,048	1,160,858
Dividend	-33,661	-29,432	-35,612	-35,059	Minority Interest	1,468	992	5,959	6,410
Equity Raises	72,599	0	405,484	5,178	Other Liabilities	652,336	579,030	822,248	833,272
Debt Movements	-86,838	323,515	88,615	499,082	Total Liabilities	1,027,609	1,216,076	1,524,222	2,060,785
Other	-825	-239	0	0	Shareholder's Funds	837,150	975,742	1,505,262	1,569,184
Financing Cashflow	-48,725	293,844	458,487	469,202	Total S/H Equity	837,150	975,742	1,505,262	1,569,184
Net Change in Cash/Debt	98,581	-96,806	215,469	-44,643	Total Liab & S/H Funds	1,864,759	2,191,818	3,029,484	3,629,969
Free Cash Flow	146,455	-347,470	-366,871	-577,146					
	2005A	2006A	2007A	2008A		2005A	2006A	2007A	2008A
Revenue Growth %		21.0%	6.4%	23.3%	ROA	16.3%	8.3%	6.2%	2.8%
EBITDA Growth		10.6%	7.6%	-4.8%	ROE	36.3%	18.6%	13.0%	6.2%
EBIT Growth		9.3%	12.3%	-12.6%	ROIC	12.2%	12.6%	8.2%	2.8%
Net Profit (adj) Growth	N.A.	10.2%	-4.3%	-41.4%	Net Debt/Equity	5.9%	43.7%	21.5%	57.4%
EPS (adj) Growth	N.A.	6.1%	-9.5%	-43.3%	Interest Cover	-5.4	3.0	-1.4	367%
Gross Margin	51%	43%	51%	40%	Payout Ratio	23.3%	24.5%	24.4%	74.7%
EBITDA Margin	36%	33%	34%	26%					
EBIT Margin	31%	28%	29%	21%	Working Capital Days	354	321	318	333
Net Profit Margin	5%	17%	16%	7%	Payable Days	103	63	49	29
Valuation	2005A	2006A	2007A	2008A	Inventory Days	421	347	287	316
Share Price as of Today	470.00	470.00	470.00	470.00	Receivable Days	36	37	80	46
PER	17.4	16.4	18.1	31.9					
EV/EBITDA	2.8	3.4	3.5	5.5	Dividend	0.0	35,409.7	41,311.2	39,223.8
P/Bk Ratio	3.3	2.8	2.0	1.9					
Div Yield (Current)	1.3%	1.5%	1.3%	2.3%	Fiscal year ends 31 Dec				

Source: Company data, August 2009

This page has been left blank intentionally

INDONESIA

MacVisit

21 August 2009

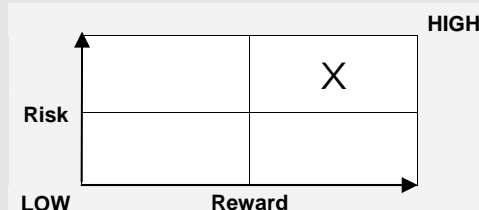
BSDE IJ		Not rated
Stock price (21-Aug-2009)	Rp	560
GICS sector		Property
Market cap	US\$m	610
Value traded last 3 months	US\$m	0.6
12m high/low	Rp	640/71
PER FY09 Consensus	x	NA
P/BV FY08	x	0.5

Historical financials

YE Dec (Rp bn)	2006	2007	2008
Revenue	1,079	1,441	1,386
Rev growth	15%	34%	-4%
EBITDA	178	283	493
EBITDA growth	102%	59%	74%
EPS	7.6	9.7	20.4
EPS growth	91%	27%	110%
EBIT margin	16%	19%	35%

Source: Company data, Bloomberg, August 2009

Historical business risk/reward*



* Relative to the market.

Source: Macquarie Research, August 2009

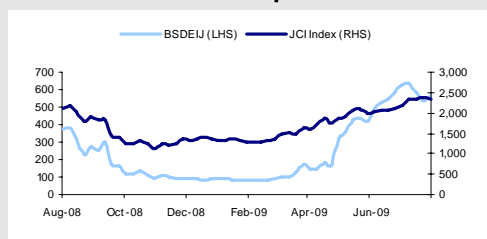
Share price driver

Thematic

Growth
Value
Event

Source: Macquarie Research, August 2009

BSDE IJ rel JCI Index performance



Source: Bloomberg, August 2009

Analysts

Jake Lynch
86 21 2412 9007

jake.lynch@macquarie.com

Bumi Serpong Damai

Company background: Middle-class residential property developers

- Bumi Serpong Damai (BSD City), located about 25km southwest of Jakarta and 20km from the Soekarno-Hatta airport, currently has a land bank of 3,280ha, the largest land bank in a single-location among Indonesian property developers. BSD City plans to acquire an additional 1,000ha in the same vicinity with development to be carried out in three phases: Phase One will cover 1,800ha, Phase Two 2,000ha and Phase Three 2,150ha.
- BSD City comprises various residential and industrial areas, as well as a central business district. It focuses on providing high-quality amenities to its residents, establishing commercial communities and offering facilities to businesses. We acknowledge that BSD City has some of the best (if not the best) infrastructure in the Greater Jakarta area.

Marketing sales to be slightly lower in 2009

- The company's marketing sales target for FY09 is Rp1.6tr and expects a decline over FY08's Rp1.8tr, due to the weak mortgage market early this year. However, it still intends to proceed with the launch of sub-clusters during the rest of the year, in order to boost presales. Around 50% of buyers are paying for their property purchases through mortgages, while the rest are paying either through instalments or with cash.

Beneficiary of lower mortgage rate

- We believe the company will benefit from the lower mortgage rates currently as many of its buyers are paying through mortgages. We expect the proportion of homebuyers paying with mortgages will rise significantly in 2H09 and 2010, given the lower interest-rate environment.
- Additionally, BSD City offers mortgages that are fixed for one year at 5.5–7.9% through several banks, including CIMB Niaga, Bank Mandiri, Panin Bank and BCA. Other banks have also been aggressively developing their mortgage products, with some offering rates as low as 7% (fixed for one year), with property developers offering subsidies. According to a property research company, about 62% of middle-class buyers pay for their property purchases using mortgages.

Balance sheet is decent with a very low gearing

- BSD's balance sheet is relatively strong and is currently in a net cash position. The company has strong free cashflow and expects positive free cashflow in 2009–10. This gives it room to increase its dividend payout and acquire more land to add to its land bank.

The growth proposition

- Likely to benefit from the current low mortgage rates, as 50% of its buyers use mortgages to buy for their properties.
- Has the largest land bank in the booming outskirts of Jakarta.

The business model

- The company is building a township with facilities necessary for residential and commercial purposes.
- Specialises in landed residential property.
- Within the township, the company will provide high-quality residential areas, establish commercial business communities and offer business facilities.

Strengths

- Strong and proven track record in building residential developments and townships.
- Good infrastructure inside the township.

Opportunities

- Demand could rise due to the lower mortgage rate environment and the banks' increased willingness to provide mortgage loans.
- Mortgage penetration rate still low, at 10% of the total loan book and 2.5% of the total GDP.
- Home-ownership is still low, and the launch of BSD's third township should prompt revenue growth in the near to medium term.

The value proposition

- FY08 ROA of 6%.
- FY08 ROE of 13%.
- Currently trading at 60% discount to NAV of Rp1,360/share.

The main risks

- Interest rates could move higher.
- Competition from high-rise apartments, especially those located in central Jakarta, could affect demand for BSD's residential property.

Weaknesses

- Dependent on the interest-rate environment.

Threats

- Increasing competition from other property developers and a switch in customer preference to high-rise apartments from landed residential property, due to better location and traffic.

Fig 1 Bumi Serpong Damai – financial statements (Rp m)

Year Ending Dec 31	2005	2006	2007	2008	Period Ending	30-Jun-08	30-Sep-08	31-Dec-08	31-Mar-09
Revenue	938,526	1,078,830	1,440,720	1,386,110	Revenue	365,612	271,906	413,329	210,509
Cost of Goods Sold	582,788	672,198	992,527	744,459	Cost of Goods Sold	207,744	145,697	202,680	103,755
Gross Profit	355,738	406,633	448,193	641,651	Gross Profit	157,868	126,210	210,649	106,754
SG&A	261,233	221,010	179,897	229,636	SG&A	0	44,669	46,903	47,795
Int/Invest. Income (loss)	23,703	18,167	8,930	53,514	Invest/Int Income	5,761	22,403	21,716	27,300
Other Op Inc. (Exp)	-33,960	-31,763	-5,166	14,957	Other Op Inc. (Exp.)	59,222	85,208	30,988	39,263
EBITDA	88,485	177,774	283,029	493,123	EBITDA	105,160	64,102	211,776	96,110
Depr & Amort	4,237	5,748	10,971	12,637	Depr & Amort	753	697	10,399	1,320
EBIT	84,249	172,028	272,060	480,485	EBIT	104,407	63,405	201,378	94,791
Forex Gains / Losses	0	0	0	0	Forex Gains / Losses	0	0	0	0
Other Pre-Tax Income	-1	-2	-2	1	Other Pre-Tax Income	0	-1	0	1
Net Int. Income/(Exp)	-34,771	-65,438	-131,292	-176,358	Net Int. Income/(Exp)	37,452	40,511	59,147	31,392
Unusual gain(expenses)	0	0	0	0	Unusual gain(expenses)	0	0	0	0
Pre Tax Income	49,478	106,588	140,766	304,127	Pre Tax Profit	66,955	22,894	142,230	63,398
Tax Expenses	6,104	23,645	34,201	80,665	Tax Expenses	16,582	-1,269	45,842	10,531
Eff. Tax Rate	12.3%	22.2%	24.3%	26.5%	Eff. Tax rate	0	0	0	0
Net Profit (Reported)	43,374	82,942	106,564	223,462	Net Profit (Reported)	50,373	24,163	96,388	52,867
Minority Interests	0	0	0	0	Minority Interests	0	0	0	0
Adjusted Net Profit	43,374	82,942	106,564	223,462	Adjusted Net Profit	50,373	24,163	96,388	52,867
EPS (rep). Diluted	3.97	7.58	9.74	20.43	Basic EPS (adj.)	461	221	9,620	483
EPS (adj). Diluted	3.97	7.58	9.74	20.43	EPS (post Min) YoY%		0	32	0
EPS (Rep). Growth YoY	--	91%	28%	110%					
Total Shares Out	10,936	10,936	10,936	10,936	Diluted EPS (adj) (cents)	461	221	881	483
Diluted Shares Out	10,936	10,936	10,936	10,936	EBIT Margin	0	0	0	0
Div. per share	0.00	0.00	0.00	0.00	Net Margin	0	0	0	0
Cash Flow	2005	2006	2007	2008	Balance Sheet	2005	2006	2007	2008
EBITDA	88,485	177,774	283,029	493,123	Cash & ST Investment	388,950	220,715	275,096	951,049
Tax Paid	6,104	23,645	34,201	80,665	Receivables	60,491	77,994	55,362	17,433
Chgs in Working Capital	-337,970	-256,503	-169,440	-156,018	Inventories	1,121,951	1,581,148	1,376,992	1,689,566
Net Interest Paid	0	0	0	0	LT Investment	112,784	137,428	145,207	186,279
Other	472,874	-578,512	-184,112	165,075	PP&E, Net	1,151,738	1,528,980	1,649,590	1,420,975
Operating Cashflow	229,493	-633,596	-36,322	582,845	Intangibles	0	0	0	0
Acquisitions	0	0	0	0	Other Assets	217,529	145,931	105,714	115,784
Capex	-126,279	-57,885	-14,047	-37,052	Total Assets	3,053,442	3,692,197	3,607,961	4,381,086
Asset Sales	0	945	44	41	Payables	30,258	36,858	27,729	40,736
Other	-108,128	-130,769	-40,594	-119,204	Short-Term Debt	246,657	834,982	1,088,912	842,537
Investing Cashflow	18,151	-71,939	-26,503	-82,111	Long-Term Debt	0	0	0	0
Dividend	0	0	0	0	Minority Interest	0	0	0	0
Equity Raises	0	0	0	583,246	Other Liabilities	1,697,639	1,658,499	1,222,898	1,422,683
Debt Movements	0	600,000	250,000	-250,000	Total Liabilities	1,974,553	2,530,339	2,339,539	2,305,956
Other	-39,581	-62,553	-132,874	-158,470	Shareholder's Equity	1,078,889	1,161,858	1,268,422	2,075,130
Financing Cashflow	-39,581	537,447	117,127	174,776	Total Liab & S/H Funds	3,053,442	3,692,197	3,607,961	4,381,086
Net Chg in Cash/Debt	207,695	-168,235	54,381	675,953					
Free Cash Flow	103,214	-691,481	-50,369	545,793					
	2005	2006	2007	2008		2005	2006	2007	2008
Revenue Growth		14.9%	33.5%	-3.8%	ROA	2.8%	2.5%	2.9%	5.6%
EBITDA Growth		100.9%	59.2%	74.2%	ROE	8.0%	7.4%	8.8%	13.4%
EBIT Growth		104.2%	58.1%	76.6%	ROIC	#DIV/0!	7.7%	9.2%	17.6%
Net Profit (adj) Growth	N.A.	91.2%	28.5%	109.7%	Net Debt/Equity	-13.2%	52.9%	64.2%	-5.2%
EPS (adj) Growth	N.A.	91.2%	28.5%	109.7%	Interest Cover (x)	-6.6	9.7	0.3	-330%
Gross Margin	38%	38%	31%	46%	Payout Ratio	0.0%	0.0%	0.0%	0.0%
EBITDA Margin	9%	16%	20%	36%					
EBIT Margin	9%	16%	19%	35%	Working Capital Days	707	865	510	813
Net Profit Margin	1%	8%	7%	16%	Payable Days	19	20	10	20
Valuation	2005A	2006A	2007A	2008A	Inventory Days	703	859	506	828
Share Price as of Today (21-Aug-09)	610.00	610.00	610.00	610.00	Receivable Days	24	26	14	5
PER (x)	153.8	80.4	62.6	29.9					
EV/EBITDA (x)	17.9	13.0	7.3	2.7	Dividend (Rp)	0.0	0.0	0.0	0.0
P/BV (x)	6.2	5.7	5.3	3.2					
Div Yield (Current)	0.0%	0.0%	0.0%	0.0%					

Source: Company data, Macquarie Research, August 2009

Key research

	Pg
Wasion Group	38
Inspur International	40
Mindray Medical Int'l	42
Shandong Weigao	44
Chenming Paper	46
MacVisit – Hollysys Automation Tech	48
China Gas Holdings	52
Ju Teng In'l Holdings	54
Taiwan Emerging Leaders	56
MacVisit – Welldone	60
MacVisit – Pihsiang.....	62
Cheng Loong	64
Chinese Gamer.....	66
St Shine Optical	68
Young Fast	70
Aces Electronic Co.....	72
Aces Electronic Co.....	74
Alpha Networks.....	76
Ralink Technology	78
Prime View.....	80
LG Fashion	82
Digitech Systems	84
Venture Corp.....	86
Parkway Holdings	88
Mermaid Maritime	90
Macq Inter. Infra Fund.....	92
Bumrungrad Hospital	94
Quality Houses.....	96
Charoen Pokphand Foods	98
Home Product Center	100
Esso Thailand	102
Alliance Global Group	104
Gujarat NRE Coke	106
OnMobile Global	108

CHINA

Wasion Group

6 July 2009

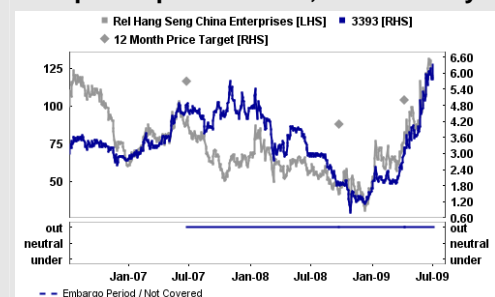
3393 HK **Outperform**

Stock price as of 03 Jul 09	HK\$	6.30
12-month target	HK\$	8.60
Upside/downside	%	+36.5
Valuation	HK\$	8.60
- PER		

GICS sector	technology hardware & equipment	
Market cap	HK\$m	5,330
30-day avg turnover	HK\$m	19.1
Market cap	US\$m	688
Number shares on issue	m	846.1

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Total revenue	m	1,059.4	1,368.4	1,805.5	2,418.4
EBIT	m	298.5	351.1	450.9	572.0
EBIT Growth	%	22.8	17.6	28.4	26.9
Reported profit	m	261.5	308.4	388.9	482.1
Adjusted profit	m	261.5	308.4	388.9	482.1
EPS rep	Rmb	0.31	0.36	0.46	0.57
EPS rep growth	%	9.7	17.4	26.1	24.0
EPS adj	Rmb	0.31	0.36	0.46	0.57
EPS adj growth	%	9.5	17.5	26.1	24.0
PE rep	x	17.9	15.2	12.1	9.7
PE adj	x	17.9	15.2	12.1	9.7
Total DPS	Rmb	0.10	0.11	0.14	0.18
Total div yield	%	1.8	2.1	2.6	3.2
ROA	%	13.4	12.8	14.0	14.5
ROE	%	20.1	20.6	22.1	23.1
EV/EBITDA	x	12.7	10.4	8.3	6.7
Net debt/equity	%	1.1	1.4	-6.2	-9.0
Price/book	x	3.4	2.9	2.5	2.1

3393 HK rel Hang Seng China
Enterprises performance, & rec history

Source: FactSet, Macquarie Research, July 2009 (all figures in Rmb unless noted)

Analysts

Jake Lynch 86 21 2412 9007	jake.lynch@macquarie.com
Charlie Chen 86 21 2412 9041	charlie.chen@macquarie.com

On the cusp of power revolution

Event

- We upgrade our FY10 EPS forecasts by 12% and target price by 72%.

Impact

- China's relentless urbanisation will continue to drive a staggering US\$50bn a year spend on improving its' power grid. Increasingly, the government is realising that spending on more advanced metering and 1st generation smart grid products increases efficiency and lowers overall costs.
- Wasion, as a market leader in power consumption data collection terminals, is poised to benefit from the Rmb82bn spend planned for this area over the next four years. Our revenue forecasts conservatively estimate Wasion gets less than 15% market share of this spend.
- We expect announcements soon on China's plan to upgrade its nationwide transmission and distribution to full 'Smart Grid' by 2020. We see a decade of high visibility profits opening up for Wasion as a leader in an industry on the cusp of a major revolution.
- Wasion has underappreciated growth potential overseas and in water and gas metering, which provides upside optionality to our forecasts.
- Downside risks:** Given the near vertical price rise in past three months, the stock has short term trading risks. 1H results are historically weaker than FY results and are expected in August.
- Upside risks:** News flow likely to be plentiful and positive. The government is expected to issue clarifications on investment into the grid (including a 10 year Smart Grid master plan). Global interest in the Smart grid thematic will only grow. Furthermore, we believe Wasion is exploring alternative methods of accessing the market which may yield new growth avenues.

Earnings and target price revision

- We maintain our FY09 EPS but raise FY10 EPS by 12% on higher growth expected in the market. We upgrade our target price by 72% to HK\$8.60.

Price catalyst

- 12-month price target: HK\$8.60 based on a DCF methodology.
- Catalyst: News flow on smart grid investment, potential new cooperative ventures, 1H results in August.

Action and recommendation

- We are using a DCF approach for our valuation. However, our target price represents 16x FY10 PER. In the past, Wasion has traded around 15x for extended periods and we believe the news flow and growth potential for the next few years is significantly more exciting than in the past.

Wasion Group (3393 HK, Outperform, Target price: HK\$8.60)

Interim Results					Profit & Loss						
		2H/08A	1H/09E	2H/09E	1H/10E		2008A	2009E	2010E	2011E	
Revenue	m	714	479	889	632	Revenue	m	1,059	1,368	1,805	2,418
Gross Profit	m	339	212	394	273	Gross Profit	m	498	606	779	1,012
Cost of Goods Sold	m	375	267	495	359	Cost of Goods Sold	m	562	762	1,026	1,406
EBITDA	m	267	157	292	196	EBITDA	m	369	449	560	693
Depreciation	m	10	16	29	20	Depreciation	m	17	45	56	68
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	34	18	34	18	Other Amortisation	m	53	53	53	53
EBIT	m	222	123	228	158	EBIT	m	299	351	451	572
Net Interest Income	m	-10	-4	-7	-4	Net Interest Income	m	-16	-11	-12	-14
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0	Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	m	212	119	221	154	Pre-Tax Profit	m	283	340	439	558
Tax Expense	m	-17	-11	-21	-18	Tax Expense	m	-21	-32	-50	-76
Net Profit	m	195	108	200	136	Net Profit	m	262	308	389	482
Minority Interests	m	0	0	0	0	Minority Interests	m	0	0	0	0
Reported Earnings	m	195	108	200	136	Reported Earnings	m	262	308	389	482
Adjusted Earnings	m	195	108	200	136	Adjusted Earnings	m	262	308	389	482
EPS (rep)	fen	23.1	12.8	23.7	16.1	EPS (rep)	fen	31.0	36.4	46.0	57.0
EPS (adj)	fen	23.1	12.8	23.7	16.1	EPS (adj)	fen	31.0	36.4	46.0	57.0
EPS Growth yoy (adj)	%	13.0	61.5	2.5	26.1	EPS Growth (adj)	%	9.5	17.5	26.1	24.0
						PE (rep)	x	17.9	15.2	12.1	9.7
						PE (adj)	x	17.9	15.2	12.1	9.7
EBITDA Margin	%	37.4	32.8	32.8	31.0	Total DPS	fen	10.0	11.4	14.4	17.9
EBIT Margin	%	31.2	25.7	25.7	25.0	Total Div Yield	%	1.8	2.1	2.6	3.2
Earnings Split	%	74.6	35.0	65.0	35.0	Weighted Average Shares	m	842	846	846	846
Revenue Growth	%	39.3	38.6	24.6	31.9	Period End Shares	m	846	846	846	846
EBIT Growth	%	25.5	61.5	2.6	28.4						
Profit and Loss Ratios					Cashflow Analysis						
		2008A	2009E	2010E	2011E		2008A	2009E	2010E	2011E	
Revenue Growth	%	31.8	29.2	31.9	33.9	EBITDA	m	369	449	560	693
EBITDA Growth	%	32.1	21.8	24.7	23.7	Tax Paid	m	-15	-32	-50	-76
EBIT Growth	%	22.8	17.6	28.4	26.9	Chgs in Working Cap	m	-59	-173	-107	-142
Gross Profit Margin	%	47.0	44.3	43.2	41.9	Net Interest Paid	m	-16	-11	-12	-14
EBITDA Margin	%	34.8	32.8	31.0	28.6	Other	m	28	-10	0	0
EBIT Margin	%	28.2	25.7	25.0	23.7	Operating Cashflow	m	308	224	391	461
Net Profit Margin	%	24.7	22.5	21.5	19.9	Acquisitions	m	-177	0	0	0
Payout Ratio	%	32.3	31.3	31.3	31.3	Capex	m	-245	-150	-126	-169
EV/EBITDA	x	12.7	10.4	8.3	6.7	Asset Sales	m	0	0	0	0
EV/EBIT	x	15.6	13.3	10.3	8.2	Other	m	41	0	0	0
Balance Sheet Ratios						Investing Cashflow	m	-380	-150	-126	-169
ROE	%	20.1	20.6	22.1	23.1	Dividend (Ordinary)	m	-67	-82	-93	-118
ROA	%	13.4	12.8	14.0	14.5	Equity Raised	m	-21	0	0	0
ROIC	%	28.6	22.7	24.4	27.6	Debt Movements	m	203	0	29	0
Net Debt/Equity	%	1.1	1.4	-6.2	-9.0	Other	m	-92	0	-29	0
Interest Cover	x	19.0	31.4	38.4	40.5	Financing Cashflow	m	23	-82	-93	-118
Price/Book	x	3.4	2.9	2.5	2.1	Net Chg in Cash/Debt	m	-50	-8	171	174
Book Value per Share		1.6	1.9	2.3	2.7	Free Cashflow	m	63	74	264	292
						Balance Sheet		2008A	2009E	2010E	2011E
						Cash	m	439	431	602	776
						Receivables	m	877	1,125	1,385	1,789
						Inventories	m	256	343	444	578
						Investments	m	0	0	0	0
						Fixed Assets	m	533	638	708	809
						Intangibles	m	110	110	110	110
						Other Assets	m	329	286	263	299
						Total Assets	m	2,544	2,933	3,512	4,360
						Payables	m	652	814	1,069	1,464
						Short Term Debt	m	234	227	242	286
						Long Term Debt	m	220	227	242	286
						Provisions	m	0	0	0	0
						Other Liabilities	m	53	53	53	53
						Total Liabilities	m	1,159	1,321	1,605	2,089
						Shareholders' Funds	m	1,385	1,612	1,907	2,271
						Minority Interests	m	0	0	0	0
						Other	m	0	0	0	0
						Total S/H Equity	m	1,385	1,612	1,907	2,271
						Total Liab & S/H Funds	m	2,544	2,933	3,512	4,360

All figures in Rmb unless noted.

Source: Company data, Macquarie Research, July 2009

CHINA

Inspur International

18 August 2009

596 HK Outperform

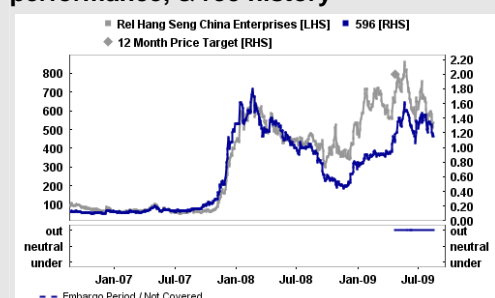
Stock price as of 17 Aug 09	HK\$	1.16
12-month target	HK\$	2.00
Upside/downside	%	+72.4
Valuation - PER	HK\$	2.00

GICS sector	technology hardware & equipment	
Market cap	HK\$m	3,575
30-day avg turnover	HK\$m	35.2
Market cap	US\$m	461
Number shares on issue	m	3,082

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Total revenue	m	1,841.6	2,594.0	3,401.2	4,454.0
EBIT	m	377.4	493.9	713.9	976.7
EBIT Growth	%	708.6	30.9	44.5	36.8
Reported profit	m	311.6	420.5	589.4	763.4
Adjusted profit	m	291.4	405.1	573.2	746.6
EPS rep	¢	7.3	8.9	11.6	14.5
EPS rep growth	%	371.9	23.2	29.5	25.1
EPS adj	¢	6.8	8.6	11.4	14.3
EPS adj growth	%	606.5	26.3	31.8	25.9
PE rep	x	16.0	13.0	10.0	8.0
PE adj	x	17.0	13.4	10.2	8.1
Total DPS	¢	2.0	2.4	3.3	3.2
Total div yield	%	1.7	2.1	2.8	2.7
ROA	%	34.9	26.1	26.2	28.7
ROE	%	54.9	32.9	28.9	27.6
EV/EBITDA	x	10.6	9.3	6.7	5.1
Net debt/equity	%	-67.4	-61.4	-69.1	-67.5
Price/book	x	6.9	3.7	2.8	2.1

596 HK rel Hang Seng China Enterprises performance, & rec history



Source: FactSet, Macquarie Research, August 2009 (all figures in HKD unless noted)

Analysts

Jake Lynch	
86 21 2412 9007	jake.lynch@macquarie.com
Charlie Chen	
86 21 2412 9041	charlie.chen@macquarie.com

1H results: Do or die

Event

- Inspur's share price performance has been disappointing in the past two months as the impact of heavy insider exercising of options (and presumed selling of shares) has been felt.
- 1H09 results are scheduled for 2 September. While the company has been guiding for extremely strong growth for FY09, the recent flurry of option exercising has left us and the market increasingly fretful as to whether that growth will be delivered in 1H results.

Impact

- Since May, the company has seen 78% of its outstanding employee and director options exercised. The exercising has been overwhelmingly skewed to the staff, which has exercised virtually all options. Only 20% of director options have been exercised and it appears to all be one director who we believe is leaving the board (see Figure 1 on next page)
- The scale of the exercising suggests to us either two scenarios – 1) that there is a major problem in the company that is not being seen by the market, or 2) that there has been some sort of pressure or program to force or strongly encourage exercising. Unfortunately, the company has not been forthcoming with any adequate responses to our repeated questioning.
- Nevertheless, the fact that none of the remaining directors have exercised together with continued positive guidance from the company and our own observations of Inspur in the economy leaves us cautiously hopeful that the true situation is closer to the second scenario.
- We think 1H09 results, scheduled for 2 September, will be the litmus test. We are expecting 44% net profit growth (boosted by the acquisitions of the ERP and outsourcing in 1H08) and 32% diluted EPS growth in 1H09.

Earnings and target price revision

- All EPS is fully diluted, so no change in earnings or target price.

Price catalyst

- 12-month price target: HK\$2.00 based on a PER methodology.
- Catalyst: 1H results 2 September.

Action and recommendation

- While we are rattled by the large scale exercising of options, we are maintaining our Outperform into results. Assuming they are as strong as expected and guidance remains positive for 2H, we would be extremely positive on the stock as it appears very cheap to us relative to the growth, ROE and the strength of the product in the sector. Should there be any blemishes, we would likely reconsider our investment thesis.

Inspur International (596 HK, Outperform, Target price: HK\$2.00)

Interim Results					Profit & Loss						
	2H/08A	1H/09E	2H/09E	1H/10E		2008A	2009E	2010E	2011E		
Revenue	m	1,093	1,159	1,435	1,513	Revenue	m	1,842	2,594	3,401	4,454
Gross Profit	m	315	322	399	438	Gross Profit	m	514	721	985	1,333
Cost of Goods Sold	m	778	837	1,036	1,075	Cost of Goods Sold	m	1,327	1,873	2,416	3,121
EBITDA	m	239	245	303	353	EBITDA	m	420	548	794	1,071
Depreciation	m	12	15	19	26	Depreciation	m	19	34	60	73
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	23	9	11	9	Other Amortisation	m	24	20	21	21
EBIT	m	204	221	273	318	EBIT	m	377	494	714	977
Net Interest Income	m	-5	-5	-6	-2	Net Interest Income	m	-13	-11	-4	2
Associates	m	1	0	0	0	Associates	m	3	0	0	0
Exceptionals	m	6	0	0	0	Exceptionals	m	6	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0	Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	m	205	216	267	316	Pre-Tax Profit	m	374	483	710	979
Tax Expense	m	-22	-28	-35	-54	Tax Expense	m	-40	-63	-121	-215
Net Profit	m	183	188	233	262	Net Profit	m	334	420	589	763
Minority Interests	m	-2	0	0	0	Minority Interests	m	-22	0	0	0
Reported Earnings	m	181	188	233	262	Reported Earnings	m	312	420	589	763
Adjusted Earnings	m	168	181	224	255	Adjusted Earnings	m	291	405	573	747
EPS (rep)	¢	4.4	3.9	5.0	4.9	EPS (rep)	¢	7.3	8.9	11.6	14.5
EPS (adj)	¢	4.1	3.8	4.8	4.7	EPS (adj)	¢	6.8	8.6	11.4	14.3
EPS Growth yoy (adj)	%	185.1	37.3	18.7	24.8	EPS Growth (adj)	%	606.5	26.3	31.8	25.9
						PE (rep)	x	16.0	13.0	10.0	8.0
						PE (adj)	x	17.0	13.4	10.2	8.1
EBITDA Margin	%	21.9	21.1	21.1	23.4	Total DPS	¢	2.0	2.4	3.3	3.2
EBIT Margin	%	18.7	19.0	19.0	21.0	Total Div Yield	%	1.7	2.1	2.8	2.7
Earnings Split	%	57.7	44.7	55.3	44.5	Weighted Average Shares	m	4,293	4,700	5,087	5,268
Revenue Growth	%	56.0	54.7	31.4	30.6	Period End Shares	m	4,692	5,282	5,566	5,716
EBIT Growth	%	334.4	27.2	34.0	43.9						
Profit and Loss Ratios					Cashflow Analysis						
	2008A	2009E	2010E	2011E		2008A	2009E	2010E	2011E		
Revenue Growth	%	99.7	40.9	31.1	31.0	EBITDA	m	420	548	795	1,071
EBITDA Growth	%	773.8	30.5	44.9	34.9	Tax Paid	m	-40	-63	-121	-215
EBIT Growth	%	708.6	30.9	44.5	36.8	Chgs in Working Cap	m	-78	-189	-37	-115
Gross Profit Margin	%	27.9	27.8	29.0	29.9	Net Interest Paid	m	0	-1	-2	-2
EBITDA Margin	%	22.8	21.1	23.4	24.0	Other	m	101	0	0	0
EBIT Margin	%	20.5	19.0	21.0	21.9	Operating Cashflow	m	403	295	635	739
Net Profit Margin	%	18.1	16.2	17.3	17.1	Acquisitions	m	-124	-162	0	0
Payout Ratio	%	29.3	27.9	28.9	22.1	Capex	m	-9	-25	-46	-79
EV/EBITDA	x	10.6	9.3	6.7	5.1	Asset Sales	m	0	0	0	3
EV/EBIT	x	11.8	10.3	7.5	5.6	Other	m	4	0	0	0
Balance Sheet Ratios					Investing Cashflow	m	-129	-187	-46	-76	
ROE	%	54.9	32.9	28.9	27.6	Dividend (Ordinary)	m	0	-64	-87	-121
ROA	%	34.9	26.1	26.2	28.7	Equity Raised	m	125	421	0	0
ROIC	%	289.5	165.0	91.5	107.7	Debt Movements	m	67	68	71	72
Net Debt/Equity	%	-67.4	-61.4	-69.1	-67.5	Other	m	-40	-80	-84	-86
Interest Cover	x	29.7	46.7	184.7	nmf	Financing Cashflow	m	153	344	-100	-134
Price/Book	x	6.9	3.7	2.8	2.1	Net Chg in Cash/Debt	m	440	453	489	529
Book Value per Share		0.2	0.3	0.4	0.5	Free Cashflow	m	393	270	589	660
					Balance Sheet		2008A	2009E	2010E	2011E	
					Cash	m	607	1,099	1,650	2,180	
					Receivables	m	126	719	858	976	
					Inventories	m	63	104	135	171	
					Investments	m	1	0	0	0	
					Fixed Assets	m	58	214	211	213	
					Intangibles	m	244	230	219	198	
					Other Assets	m	321	0	-0	0	
					Total Assets	m	1,419	2,367	3,073	3,738	
					Payables	m	94	364	474	513	
					Short Term Debt	m	67	69	72	72	
					Long Term Debt	m	0	0	0	0	
					Provisions	m	0	0	0	0	
					Other Liabilities	m	458	256	242	32	
					Total Liabilities	m	619	689	788	618	
					Shareholders' Funds	m	787	1,678	2,285	3,120	
					Minority Interests	m	13	0	0	0	
					Other	m	0	0	0	0	
					Total S/H Equity	m	800	1,678	2,285	3,120	
					Total Liab & S/H Funds	m	1,419	2,367	3,073	3,738	

All figures in HKD unless noted.

Source: Company data, Macquarie Research, August 2009

CHINA

Mindray Medical Int'l

12 August 2009

MR US Neutral

Stock price as of 11 Aug 09	US\$	33.92
12-month target	US\$	32.00
12-month TSR	%	-5.0
Valuation	US\$	32.00
- DCF (WACC 11.2%)		

GICS sector	health care equipment & services		
Market cap	US\$m	2,562	
30-day avg turnover	US\$m	23.1	
Number shares on issue	m	75.53	

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Sales revenue	m	547.5	609.4	818.3	1,080.2
EBIT	m	117.5	131.6	172.2	226.2
EBIT Growth	%	46.4	11.9	30.9	31.4
Reported profit	m	108.7	120.4	157.3	204.2
Adjusted profit	m	103.8	114.7	150.8	196.8
EPS rep	US\$	0.96	1.06	1.39	1.81
EPS rep growth	%	37.9	10.8	31.2	29.6
EPS adj	US\$	0.92	1.01	1.34	1.74
EPS adj growth	%	35.7	10.5	32.1	30.3
PE rep	x	35.4	31.9	24.3	18.8
Total DPS	US\$	0.20	0.22	0.29	0.37
Total div yield	%	0.6	0.7	0.8	1.1
ROA	%	19.1	18.7	24.1	25.1
ROE	%	23.8	23.2	26.5	27.1
EV/EBITDA	x	26.5	23.4	18.1	14.0
Net debt/equity	%	12.2	-20.8	-25.8	-29.7
Price/book	x	7.3	7.5	5.7	4.6

MR US vs Top 100, & rec history



Source: FactSet, Macquarie Research, August 2009 (all figures in USD unless noted)

Analysts

Jake Lynch	jake.lynch@macquarie.com
86 21 2412 9007	
Charlie Chen	charlie.chen@macquarie.com
86 21 2412 9041	

A great run - now time for a breather

Event

- Mindray posted its 2Q09 results yesterday. The results were largely in line with expectations and we see no need to adjust our current forecasts or price target. The stock surged 14% following results, capping a 52% rise since the 1Q results. The stock has moved 5% past our target and we are downgrading our rating to Neutral.

Impact

- **China growth on track and stimulus impact still ahead:** China sales were up 31% in 2Q and the company confirmed our view that the effect of increased spending will only be felt in 2H09 and into FY10 (we forecast 35% China sales growth in FY10).
- **International sales remain extremely weak.** International sales represented 47% of total sales in 1H and were still declining at a rate of 4.5% in the 2Q (even against a favourable 2Q08 comparable that included only two months of the Mahwah acquisition). Our FY09 numbers are not in danger (and may have slight upside), but we are forecasting a 24% rebound in international sales in FY10. We stand by that forecast, but our level of nervousness is rising as we continue to see no rebound.
- **Non-GAAP gross margins up:** As always, we think the Non-GAAP numbers are more useful (less variance on non-cash items) and non-GAAP gross margins continued to expand from 56.9% in 1Q09 to 58.3% in 2Q09. This likely due to the product mix shifting towards Medical Imaging Devices.
- **GAAP Net profit growth exaggerated:** GAAP net profit growth of 37.2% was exaggerated by a sharp drop in the amortisation of intangibles line. More useful was the non-GAAP net income which showed 7.5% growth and non-GAAP diluted EPS which showed 8.7% growth.

Earnings and target price revision

- No change to earnings or target price.

Price catalyst

- 12-month price target: US\$32.00 based on a PER methodology.
- Catalyst: Recovery in overseas markets necessary to meet FY10 numbers

Action and recommendation

- While we suspect Mindray may yet beat its 10% growth target for FY10 (slightly), we are increasingly mindful that our FY10 forecasts depend upon a very strong recovery in international sales and that by mid-3Q09 the company apparently sees little evidence of that recovery in sight.
- Trading at 33.5x FY09E and 25.4x FY10E PER, we see Mindray as a strong, well-run company, but one that is now fully valued. We think short-covering is driving short-term performance, but we will wait to see concrete evidence of a recovery in international markets before we upgrade our numbers.

Mindray Medical International (MR US, Neutral, Target price: US\$32.00)

Quarterly results					Profit And Loss						
		2Q09A	3Q09E	4Q09E	1Q10		2008A	2009E	2010E	2011E	
Sales Revenue	m	160	152	163	164	Sales Revenue	m	548	609	818	1,080
Gross Profit	m	92	82	79	87	Gross Profit	m	297	327	434	569
COGS	m	69	71	84	77	COGS	m	251	282	384	512
EBITDA	m	46	39	37	41	EBITDA	m	135	158	205	267
Depreciation	m	5	5	4	5	Depreciation	m	12	18	25	34
Amortisation - Goodwill	m	0	0	0	0	Amortisation - Goodwill	m	0	0	0	0
Other Amortisation	m	2	2	2	1	Other Amortisation	m	6	8	7	7
Total EBIT	m	39	33	30	34	Total EBIT	m	118	132	172	226
Net Interest Expenses (income)	m	0	-1	-1	-1	Net Interest Expense (income)	m	-3	-2	-5	-9
Associates	m	0	0	0	0	Share of Associate Profit (loss)	m	0	0	0	0
Exceptions	m	1	1	4	1	Exceptions	m	5	6	7	7
Forex gains (loss)	m	0	0	0	0	Forex gains (loss)	m	0	0	0	0
Other pre-tax income	m	0	0	0	0	Other pre-tax income	m	0	0	0	0
Pre-Tax Profit	m	39	35	35	37	Pre-Tax Profit	m	126	139	184	243
Tax Expense	m	6	5	4	5	Tax Expense	m	17	19	26	36
Net Profit After Tax	m	33	30	32	32	Net Profit After Tax	m	109	120	158	206
Minority Interest	m	0	0	0	0	Minority Interest	m	0	0	0	0
Reported Earnings	m	33	30	32	32	Reported Earnings	m	109	120	158	206
Adjusted Earnings	m	32	29	28	30	Adjusted Earnings	m	104	115	152	199
EPS (rep), dil.	cents	29.3	26.6	27.7	28.1	EPS (rep), dil.	cents	96	106	140	183
EPS (adj), dil.	cents	28.6	25.3	24.2	26.9	EPS (adj), dil.	cents	92	101	134	176
EPS rep. Growth (YOY) rep	%	38.8	8.6	-1.5	24.1	EPS Growth (YOY) rep	%	38.0	10.8	32.1	30.2
Dil. Wtd. Shares out	m	113	114	114	113	PE (rep)	x	35.4	31.9	24.2	18.6
EBITDA Margin	%	28.7	25.9	22.4	25.0	PE (adj)	x	37.0	33.5	25.2	19.3
EBIT Margin	%	24.4	21.6	18.6	21.0	Total DPS	cents	20.0	22.1	28.8	37.2
Earning Split	%	42.4	38.0	36.6	40.0	Total Div Yield	%	0.6	0.7	0.8	1.1
Revenue Growth YOY	%	9.9	4.0	-3.0	22.0	Weighted Average Sh. (Dil.)	m	113	113	113	113
EBIT Growth YOY	%	40.2	9.1	-4.4	17.1	Period End Shares	m	108	109	109	110
Profit & Loss Ratios					Cashflow Analysis						
		2008A	2009E	2010E	2011E		2008A	2009E	2010E	2011E	
Revenue Growth	%	85.4	11.3	34.3	32.0	EBITDA	m	135	158	205	267
EBITDA Growth	%	47.0	16.8	29.7	30.6	Tax Paid	m	-17	-19	-26	-36
EBIT Growth	%	46.4	11.9	30.9	31.4	Change in Working Cap	m	-34	6	-18	-22
Gross Profit Margin	%	54.2	53.7	53.0	52.6	Net Interest Paid	m	-5	-2	0	0
EBITDA Margin	%	24.7	25.9	25.0	24.7	Others	m	14	-2	12	17
EBIT Margin	%	21.5	21.6	21.0	20.9	Operating Cash Flow	m	93	142	172	226
Net Profit Margin	%	19.0	18.8	18.5	18.4	Acquisitions	m	-211	0	0	0
Payout Ratio	%	20.9	20.8	20.5	20.4	Capex	m	-71	-81	-57	-76
EV/EBITDA	x	27.5	22.6	17.0	12.7	Asset Sales	m	0	0	0	0
EV/EBIT	x	31.6	27.1	20.2	15.0	Others	m	66	31	0	0
Balance Sheet Ratios						Investing Cashflow	m	-217	-50	-57	-76
ROE	%	23.8	21.7	22.9	22.8	Dividend (ordinary)	m	-19	-22	-24	-32
ROA	%	19.1	17.8	21.3	21.6	Equity Raised	m	0	0	0	0
ROIC	%	55.0	20.4	34.3	36.1	Debt Movements	m	157	-157	0	0
Net (Cash) Debt/Equity	%	12.2	-23.0	-30.2	-35.6	Others	m	4	0	-1	-1
Interest Cover	x	23	67	NA	NA	Financing Cashflow	m	142	-179	-25	-33
Price/Book	x	5.4	6.4	4.6	3.6	Net Chg in Cash/debt	m	18	-87	90	118
Book Value per Share		6.2	5.3	7.4	9.4	Free Cashflow	m	-124	91	115	150
					Balance Sheet						
		2008A	2009E	2010E	2011E		2008A	2009E	2010E	2011E	
Cash	m	96	129	231	349	Cash	m	96	129	231	349
Receivables	m	90	109	139	163	Receivables	m	90	109	139	163
Inventories	m	57	62	82	98	Inventories	m	57	62	82	98
Investment	m	37	37	39	39	Investment	m	37	37	39	39
Fixed Assets	m	127	128	169	211	Fixed Assets	m	127	128	169	211
Goodwill	m	114	114	122	122	Goodwill	m	114	114	122	122
Other	m	265	112	145	183	Other	m	265	112	145	183
Total Assets	m	786	691	926	1,164	Total Assets	m	786	691	926	1,164
Trade Payables	m	29	35	57	76	Trade Payables	m	29	35	57	76
Short term Debt	m	157	0	0	0	Short term Debt	m	157	0	0	0
Long Term Debt	m	0	0	0	0	Long Term Debt	m	0	0	0	0
Provisions	m	7	7	8	8	Provisions	m	7	7	8	8
Other Liabilities	m	95	88	98	102	Other Liabilities	m	95	88	98	102
Total Liabilities	m	288	130	163	186	Total Liabilities	m	288	130	163	186

All figures in USD unless noted.

Source: Company data, Macquarie Research, August 2009

CHINA

Shandong Weigao

12 August 2009

8199 HK Outperform

Stock price as of 11 Aug 09	HK\$	18.40
12-month target	HK\$	22.00
Upside/downside	%	+19.5
Valuation	HK\$	22.00
- PER		

GICS sector	health care equipment & services		
Market cap	HK\$m	8,126	
30-day avg turnover	HK\$m	16.1	
Market cap	US\$m	2,055	
Number shares on issue	m	1,076.0	

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Total revenue	m	1,514.4	1,963.5	2,721.4	3,551.1
EBIT	m	411.8	581.6	831.8	1,105.7
EBIT Growth	%	58.7	41.2	43.0	32.9
Reported profit	m	482.4	655.5	901.3	1,173.4
Adjusted profit	m	408.2	580.5	826.3	1,098.4
EPS rep	Rmb	0.48	0.61	0.84	1.09
EPS rep growth	%	55.8	25.7	37.5	30.2
EPS adj	Rmb	0.41	0.54	0.77	1.02
EPS adj growth	%	46.1	31.6	42.3	32.9
PE rep	x	34.5	27.5	20.0	15.3
PE adj	x	40.8	31.0	21.8	16.4
Total DPS	Rmb	0.14	0.18	0.25	0.33
Total div yield	%	0.9	1.1	1.5	2.0
ROA	%	15.0	16.1	19.4	21.2
ROE	%	21.5	21.3	25.0	26.9
EV/EBITDA	x	32.6	23.3	16.3	12.4
Net debt/equity	%	-21.0	-39.4	-46.3	-53.1
Price/book	x	7.3	6.1	4.9	4.0

8199 HK rel Hang Seng China Enterprises performance, & rec history



Source: FactSet, Macquarie Research, August 2009 (all figures in Rmb unless noted)

Analysts

Jake Lynch	
86 21 2412 9007	jake.lynch@macquarie.com
Charlie Chen	
86 21 2412 9041	charlie.chen@macquarie.com

Growth today & prepping for tomorrow

Event

- We follow up on our initial post-2Q09 results note of yesterday, *The benefits of diversified offering*.
- We reiterate our preference for Weigao and highlight the potential new avenues of growth.

Impact

- **Positive surprises in stent and dialysis:** Its stent JV revenue grew 43% in 1H, vs our forecast of 15% for the full year. Dialysis revenue doubled to Rmb26m, while infusion/transfusion and medical needles continued to be the main growth engines, showing 44% and 53% growth, respectively.
- **Orthopaedic going through expected start-up pains:** The results for orthopaedic products showed start-up pains as the business shifted to the JV structure in 1H. Overall profitability fell 36% due to conservative accounting on inventories and start-up costs on the new ortho OEM business.
- **Starting to move more overseas:** We have argued before that Weigao has substantial export potential and the company has taken another important step forward. Last week it announced an agreement with 15% shareholder Medtronic (MDT US, not rated) to produce OEM orthopaedic products for export. While the initial cap is low at Rmb30m for FY09, the size of the market implies significant growth potential.
- **Other growth initiatives:** Weigao Blood established a JV with an unnamed European company to produce dialysis machines and market them in Europe. Also, the company is actively looking at domestic M&A opportunities to expand into the mid-range market. These initiatives could add upside to our current forecasts.
- **Focus on growth by region:** We are struck by the fact that 70% of growth is coming from Northern and Eastern regions – essentially the coastal region ex Guangdong/Fujian. Given the economic growth elsewhere in China, we still see substantial domestic markets available for penetration.

Earnings and target price revision

- No change in earnings or target price.

Price catalyst

- 12-month price target: HK\$22.00 based on a PER methodology.
- Catalyst: News flow on domestic M&A possible before the year end.

Action and recommendation

- We see Weigao's high growth trajectory as intact. While there are interesting initiatives revealed in these results, they are still at an early stage and it is too soon for us to raise our price target. We retain our target valuation of 22x FY10E PER.

Shandong Weigao (8199 HK, Outperform, Target price: HK\$22.00)

Interim Results		2H/08A	1H/09E	2H/09E	1H/10E	Profit & Loss		2008A	2009E	2010E	2011E
Revenue	m	817	884	1,080	1,225	Revenue	m	1,514	1,963	2,721	3,551
Gross Profit	m	431	461	563	644	Gross Profit	m	758	1,023	1,431	1,851
Cost of Goods Sold	m	385	423	517	581	Cost of Goods Sold	m	756	940	1,291	1,700
EBITDA	m	277	292	357	408	EBITDA	m	472	650	907	1,191
Depreciation	m	32	29	36	33	Depreciation	m	57	65	72	82
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	2	1	2	1	Other Amortisation	m	3	3	3	3
EBIT	m	244	262	320	374	EBIT	m	412	582	832	1,106
Net Interest Income	m	-17	-0	-0	-1	Net Interest Income	m	-26	-1	-2	8
Associates	m	32	46	56	73	Associates	m	64	102	162	217
Exceptionals	m	60	34	41	34	Exceptionals	m	74	75	75	75
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0	Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	m	320	341	417	480	Pre-Tax Profit	m	524	758	1,067	1,405
Tax Expense	m	-24	-44	-54	-72	Tax Expense	m	-39	-99	-160	-225
Net Profit	m	295	297	363	408	Net Profit	m	485	659	907	1,180
Minority Interests	m	-4	-2	-2	-2	Minority Interests	m	-3	-4	-5	-7
Reported Earnings	m	292	295	361	406	Reported Earnings	m	482	656	901	1,173
Adjusted Earnings	m	232	261	319	372	Adjusted Earnings	m	408	581	826	1,098
EPS (rep)		0.29	0.27	0.33	0.38	EPS (rep)		0.48	0.61	0.84	1.09
EPS (adj)		0.23	0.24	0.30	0.35	EPS (adj)		0.41	0.54	0.77	1.02
EPS Growth YoY (adj)	%	27.5	37.1	27.3	42.3	EPS Growth (adj)	%	46.1	31.6	42.3	32.9
						PE (rep)	x	34.5	27.5	20.0	15.3
						PE (adj)	x	40.8	31.0	21.8	16.4
EBITDA Margin	%	34.0	33.1	33.1	33.3	Total DPS		0.14	0.18	0.25	0.33
EBIT Margin	%	29.9	29.6	29.6	30.6	Total Div Yield	%	0.9	1.1	1.5	2.0
Earnings Split	%	56.8	45.0	55.0	45.0	Weighted Average Shares	m	996	1,076	1,076	1,076
Revenue Growth	%	30.8	26.6	32.2	38.6	Period End Shares	m	1,076	1,076	1,076	1,076
EBIT Growth	%	47.6	56.2	31.0	43.0						
Profit and Loss Ratios		2008A	2009E	2010E	2011E	Cashflow Analysis		2008A	2009E	2010E	2011E
Revenue Growth	%	38.3	29.7	38.6	30.5	EBITDA	m	472	650	907	1,191
EBITDA Growth	%	53.5	37.7	39.6	31.2	Tax Paid	m	-14	-99	-160	-225
EBIT Growth	%	58.7	41.2	43.0	32.9	Chgs in Working Cap	m	-95	-103	-142	-78
Gross Profit Margin	%	50.1	52.1	52.6	52.1	Net Interest Paid	m	0	0	0	0
EBITDA Margin	%	31.2	33.1	33.3	33.5	Other	m	75	88	224	265
EBIT Margin	%	27.2	29.6	30.6	31.1	Operating Cashflow	m	437	536	829	1,153
Net Profit Margin	%	32.0	33.6	33.3	33.2	Acquisitions	m	0	0	0	0
Payout Ratio	%	35.1	33.9	32.7	32.0	Capex	m	-202	-128	-136	-213
EV/EBITDA	x	32.6	23.3	16.3	12.4	Asset Sales	m	3	0	0	0
EV/EBIT	x	36.7	25.6	17.6	13.2	Other	m	-95	6	16	33
Balance Sheet Ratios						Investing Cashflow	m	-294	-122	-120	-180
ROE	%	21.5	21.3	25.0	26.9	Dividend (Ordinary)	m	-115	-162	-222	-299
ROA	%	15.0	16.1	19.4	21.2	Equity Raised	m	783	0	0	0
ROIC	%	25.4	25.8	39.2	47.3	Debt Movements	m	-200	159	68	87
Net Debt/Equity	%	-21.0	-39.4	-46.3	-53.1	Other	m	-35	-9	-21	-27
Interest Cover	x	15.6	840.1	351.4	nmf	Financing Cashflow	m	432	-12	-175	-239
Price/Book	x	7.3	6.1	4.9	4.0	Net Chg in Cash/Debt	m	575	402	534	734
Book Value per Share		2.3	2.8	3.4	4.2	Free Cashflow	m	235	408	693	940
						Balance Sheet		2008A	2009E	2010E	2011E
						Cash	m	830	1,232	1,765	2,499
						Receivables	m	558	753	895	973
						Inventories	m	292	309	389	466
						Investments	m	16	16	16	16
						Fixed Assets	m	922	989	1,056	1,191
						Intangibles	m	230	227	224	221
						Other Assets	m	491	356	354	351
						Total Assets	m	3,341	3,882	4,699	5,716
						Payables	m	476	386	424	466
						Short Term Debt	m	171	0	0	0
						Long Term Debt	m	137	60	73	91
						Provisions	m	32	15	15	15
						Other Liabilities	m	40	443	529	613
						Total Liabilities	m	856	904	1,042	1,185
						Shareholders' Funds	m	2,477	2,970	3,649	4,523
						Minority Interests	m	8	8	8	8
						Other	m	0	0	0	0
						Total S/H Equity	m	2,485	2,978	3,657	4,531
						Total Liab & S/H Funds	m	3,341	3,882	4,699	5,716

All figures in Rmb unless noted.

Source: Company data, Macquarie Research, August 2009

CHINA

Chenming Paper

14 August 2009

1812 HK **Outperform**

Stock price as of 13 Aug 09	HK\$	5.77
12-month target	HK\$	8.00
Upside/downside	%	+38.7
Valuation	HK\$	7.30
- DCF (WACC 11.8%, beta 1.2, ERP 9.0%, RFR 6.5%, TGR 2.0%)		

GICS sector		materials
Market cap	HK\$m	11,898
30-day avg turnover	HK\$m	25.8
Market cap	US\$m	1,535
Number shares on issue	m	2,062

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Total revenue	m	15,431	13,753	15,387	20,681
EBIT	m	2,173	1,326	1,940	2,962
EBIT Growth	%	6.1	-39.0	46.3	52.7
Reported profit	m	1,103	552	950	1,390
Adjusted profit	m	1,237	552	950	1,390
EPS rep	Rmb	0.53	0.27	0.46	0.67
EPS rep growth	%	-11.4	-49.9	72.0	46.4
EPS adj	Rmb	0.60	0.27	0.46	0.67
EPS adj growth	%	1.4	-55.3	72.0	46.4
PE rep	x	9.5	19.0	11.0	7.5
PE adj	x	8.5	19.0	11.0	7.5
Total DPS	Rmb	0.05	0.05	0.08	0.12
Total div yield	%	1.0	0.9	1.6	2.4
ROA	%	9.0	4.7	5.9	7.4
ROE	%	12.2	4.6	7.4	10.1
EV/EBITDA	x	4.9	6.2	4.7	3.5
Net debt/equity	%	41.5	68.1	90.5	108.9
Price/book	x	0.9	0.8	0.8	0.7

1812 HK rel HSI performance, & rec history



Source: FactSet, Macquarie Research, August 2009 (all figures in Rmb unless noted)

Analysts

Andrew Dale	
852 3922 3587	andrew.dale@macquarie.com
Pelen Ji	
852 3922 4741	pelen.ji@macquarie.com

Looking ahead of a tough result

Event

- Chenming Paper will announce full 1H09 results on 28 August. We preview these results below.

Impact

- Tough result well flagged.** Chenming has announced that it expects a NPAT of Rmb160m, down significantly YoY. Despite this profit warning, Chenming's share price has performed relatively strongly over the past few weeks. We think the market has largely priced in a tough 6-12 months and we believe Chenming along with the other large paper plays in China are well placed for a recovery in 2H09. We are already hearing from our channel checks that margins have started to move up gradually and ASP are trending up slowly among the higher end products.
- Downstream starting to see improvement.** Channel checks reveal that downstream box makers are seeing volumes starting to improve since 1Q09. The area of strength comes from primarily the domestic manufacturers that these box makers have been switching to. In addition, some of the box makers in Guangdong were able to raise prices by close to 10% in late June and early July to meet the robust demand. This shows that downstream demand has started to flow in which supports our belief that the packaging plays will continue to perform for the remainder of 2009.
- Given that large paper producers now keep minimal inventory, any fluctuations in raw materials prices will now reflect in paper prices quickly. It is then important for us to focus on margins for the remainder of 2009. We are confident that a demand pick up in 2H09 coupled with stronger seasonality will see substantial margin improvement for these large paper producers.

Earnings and target price revision

- No change to earnings.

Price catalyst

- 12-month price target: HK\$8.00 based on a PER methodology.
- Catalyst: A significant recovery in the export market

Action and recommendation

- We have become incrementally more positive on the demand outlook for the paper producers in China. We think the large paper producers in China should trade towards 10–14X in a mid-cycle analysis and our target price reflects this. Trading on 12x, we think there is reasonable upside potential from current levels. We have an Outperform rating on Chenming with a target price of HK\$8.00. This places it on a forward FY10E PER of 15x which is towards the higher end of range in our view. However we think this is justified given Chenming is primarily a domestic play with clear longer-term strategies to expand into higher end products and integration upstream. We maintain Outperform on Chenming with a TP HK\$8.00.

Shandong Chenming Paper Holding (1812 HK, Outperform, Target price: HK\$8.00)

Interim Results					Profit & Loss						
	2H/08A	1H/09E	2H/09E	1H/10E		2008A	2009E	2010E	2011E		
Revenue	m	6,911	6,221	7,532	7,386	Revenue	m	15,431	13,753	15,387	20,681
Gross Profit	m	1,046	800	1,436	1,446	Gross Profit	m	2,959	2,236	3,012	4,580
Cost of Goods Sold	m	5,865	5,420	6,097	5,940	Cost of Goods Sold	m	12,472	11,517	12,375	16,102
EBITDA	m	1,156	1,164	1,450	1,810	EBITDA	m	3,293	2,613	3,420	4,592
Depreciation	m	578	618	670	711	Depreciation	m	1,120	1,288	1,481	1,629
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	578	546	780	1,099	EBIT	m	2,173	1,326	1,940	2,962
Net Interest Income	m	-190	-263	-265	-291	Net Interest Income	m	-425	-528	-605	-956
Associates	m	-27	0	0	0	Associates	m	-23	0	0	0
Exceptionals	m	-134	0	0	0	Exceptionals	m	-134	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0	Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	m	228	283	515	809	Pre-Tax Profit	m	1,592	798	1,334	2,006
Tax Expense	m	-29	-71	-78	-202	Tax Expense	m	-296	-148	-267	-461
Net Profit	m	199	212	437	606	Net Profit	m	1,296	650	1,067	1,545
Minority Interests	m	-56	-53	-44	-152	Minority Interests	m	-193	-97	-117	-154
Reported Earnings	m	143	159	393	455	Reported Earnings	m	1,103	552	950	1,390
Adjusted Earnings	m	276	159	393	455	Adjusted Earnings	m	1,237	552	950	1,390
EPS (rep)		0.07	0.08	0.19	0.22	EPS (rep)		0.53	0.27	0.46	0.67
EPS (adj)		0.13	0.08	0.19	0.22	EPS (adj)		0.60	0.27	0.46	0.67
EPS Growth yoy (adj)	%	-64.1	-83.4	42.2	185.5	EPS Growth (adj)	%	1.4	-55.3	72.0	46.4
						PE (rep)	x	9.9	19.9	11.5	7.9
						PE (adj)	x	8.9	19.9	11.5	7.9
EBITDA Margin	%	16.7	18.7	19.2	24.5	Total DPS		0.05	0.05	0.08	0.12
EBIT Margin	%	8.4	8.8	10.4	14.9	Total Div Yield	%	0.9	0.9	1.6	2.3
Earnings Split	%	22.3	28.8	71.2	47.9	Weighted Average Shares	m	2,062	2,062	2,062	2,062
Revenue Growth	%	-15.0	-27.0	9.0	18.7	Period End Shares	m	2,062	2,062	2,062	2,062
EBIT Growth	%	-51.2	-65.8	35.0	101.4						
Profit and Loss Ratios					Cashflow Analysis						
	2008A	2009E	2010E	2011E		2008A	2009E	2010E	2011E		
Revenue Growth	%	3.7	-10.9	11.9	34.4	EBITDA	m	2,830	2,151	2,958	4,129
EBITDA Growth	%	9.5	-20.6	30.9	34.2	Tax Paid	m	-433	-148	-267	-461
EBIT Growth	%	6.1	-39.0	46.3	52.7	Chgs in Working Cap	m	189	660	-22	-618
Gross Profit Margin	%	19.2	16.3	19.6	22.1	Net Interest Paid	m	-425	-528	-605	-956
EBITDA Margin	%	21.3	19.0	22.2	22.2	Other	m	-228	0	0	0
EBIT Margin	%	14.1	9.6	12.6	14.3	Operating Cashflow	m	1,934	2,135	2,064	2,093
Net Profit Margin	%	8.4	4.7	6.9	7.5	Acquisitions	m	-87	-87	-87	-87
Payout Ratio	%	8.3	17.9	17.9	17.9	Capex	m	-1,067	-5,649	-5,743	-5,854
EV/EBITDA	x	5.1	6.4	4.9	3.6	Asset Sales	m	0	0	0	0
EV/EBIT	x	7.7	12.5	8.6	5.6	Other	m	-389	-69	-69	-69
Balance Sheet Ratios					Investing Cashflow	m	-1,543	-5,805	-5,899	-6,010	
ROE	%	12.2	4.6	7.4	10.1	Dividend (Ordinary)	m	-155	-103	-99	-170
ROA	%	9.0	4.7	5.9	7.4	Equity Raised	m	2,711	0	0	0
ROIC	%	9.6	5.6	6.5	8.0	Debt Movements	m	-145	3,200	3,500	4,900
Net Debt/Equity	%	41.5	68.1	90.5	108.9	Other	m	-451	0	0	0
Interest Cover	x	5.1	2.5	3.2	3.1	Financing Cashflow	m	1,960	3,097	3,401	4,730
Price/Book	x	0.9	0.9	0.8	0.8	Net Chg in Cash/Debt	m	2,334	-573	-434	812
Book Value per Share		5.8	6.0	6.4	7.0	Free Cashflow	m	867	-3,514	-3,679	-3,761
					Balance Sheet						
	2008A	2009E	2010E	2011E		2008A	2009E	2010E	2011E		
Cash	m	2,853	2,114	1,680	2,493	Cash	m	2,853	2,114	1,680	2,493
Receivables	m	3,450	2,762	2,813	3,529	Receivables	m	3,450	2,762	2,813	3,529
Inventories	m	3,398	3,061	3,423	4,636	Inventories	m	3,398	3,061	3,423	4,636
Investments	m	0	0	0	0	Investments	m	0	0	0	0
Fixed Assets	m	14,943	20,663	26,477	32,402	Fixed Assets	m	14,943	20,663	26,477	32,402
Intangibles	m	0	0	0	0	Intangibles	m	0	0	0	0
Other Assets	m	1,564	1,474	1,474	1,474	Other Assets	m	1,564	1,474	1,474	1,474
Total Assets	m	26,208	30,074	35,867	44,534	Total Assets	m	26,208	30,074	35,867	44,534
Payables	m	3,671	3,307	3,698	5,009	Payables	m	3,671	3,307	3,698	5,009
Short Term Debt	m	4,497	4,497	4,497	4,497	Short Term Debt	m	4,497	4,497	4,497	4,497
Long Term Debt	m	4,019	7,219	10,719	15,619	Long Term Debt	m	4,019	7,219	10,719	15,619
Provisions	m	46	46	46	46	Provisions	m	46	46	46	46
Other Liabilities	m	317	899	1,949	3,185	Other Liabilities	m	317	899	1,949	3,185
Total Liabilities	m	12,551	15,968	20,910	28,357	Total Liabilities	m	12,551	15,968	20,910	28,357
Shareholders' Funds	m	11,912	12,361	13,212	14,432	Shareholders' Funds	m	11,912	12,361	13,212	14,432
Minority Interests	m	1,745	1,745	1,745	1,745	Minority Interests	m	1,745	1,745	1,745	1,745
Other	m	0	0	0	0	Other	m	0	0	0	0
Total S/H Equity	m	13,657	14,106	14,957	16,177	Total S/H Equity	m	13,657	14,106	14,957	16,177
Total Liab & S/H Funds	m	26,208	30,074	35,867	44,534	Total Liab & S/H Funds	m	26,208	30,074	35,867	44,534

All figures in Rmb unless noted.

Source: Macquarie Research, August 2009

CHINA

MacVisit

24 July 2009

HOLI US

Not rated

Stock price as of 22/07/2009	US\$	6.66
GICS sector		Capital Goods
Market cap	US\$m	278.4
ADTV last 3 months	US\$m	0.33
12m high/low	US\$	2.00/7.8999
PB FY08	x	1.9
EV/EBITA FY08	x	27.1

Historical financials

YE June (US\$m)	2006A	2007A	2008A
Revenue	90	102	121
% growth	n.a.	13.3%	19.3%
EBITDA	26	28	9
% growth	n.a.	9.3%	-67.5%
EPS	0.81	0.57	-0.04
% growth	na	-29.7%	-107.8%
EBIT Margin	26.7%	25.9%	6.0%

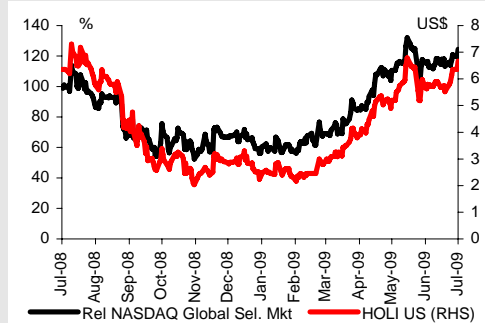
Source: Company data, FactSet, July 2009

Share price driver

Thematic
Growth
Value
Event

Source: Macquarie Research, July 2009

HOLI US rel NASDAQ Global Select Mkt



Source: FactSet, Macquarie Research, July 2009

Analyst

Anderson Chow

852 3922 4773

anderson.chow@macquarie.com

Hollysys Automation Tech

Hidden dragon

Company background – China's leading automation systems provider

- Hollysys Automation Technologies Ltd (HOLI) designs and manufactures automation and control systems and is listed on the NASDAQ Stock Exchange. The company was founded in 1993 and is a leading automation systems provider in China.
- It has three major business segments: industrial automation, railway and subway automation, and nuclear automation. Industrial is its major segment, generating about 70% of total revenue. The company is the only domestic nuclear power plant automation system provider, and is also one of five train control system providers for high-speed railway in China.

Railway and nuclear power to drive future growth

- HOLI's products form a key part of petrochemical plant, high-speed railway and power plant operations:
 - ⇒ Every high-speed train requires an automatic train protection (ATP) system to prevent collision and over-speeding. HOLI is one of the two companies qualified to supply ATP in the 200–300km/h market in China. In addition, all railway lines require a train control centre (TCC), for which HOLI is one of the five qualified providers in China.
 - ⇒ Petrochemical and power plants are required to have an automation system to ensure safety levels and operational performance. HOLI is the only domestic automation system provider for nuclear power plants; it has a 50/50 JV with China Guangdong Nuclear Power Holdings Corporation, China's largest nuclear station operator with 60% market share.

Surge in infrastructure spending to drive growth

- The company is guiding for US\$150–165m in sales for the year ended 30 June 2009, representing 24–36% YoY growth. It expects gross profit margin to be in the 30–35% range, similar to levels in 2006–08.
- Revenue CAGR for the railway and nuclear segments was at 63% in 2006–08. These segments contributed 14% of total sales in FY06, increasing to 29% in FY08. With the surge in spending on railway, subway and new energy as a result of China's Rmb4tr fiscal stimulus plan, the company expects these segments to continue to drive revenue and earnings growth.

Net cash position with R&D capability

- HOLI has strong research & development capability with 600 research engineers stationed in two R&D centres in Beijing and Hangzhou. The company spends over 3% of revenue on R&D in order to enhance its competitiveness with international players. Any potential capital expenditure to increase its research capability or production facility can be funded by its net cash of US\$78.5m as at March 2009.

Ownership

▪ Insider/stake ownership	24.4%
⇒ WangChang Li, Qiao Li and Kerry Propper	
▪ Free float	75.6%
⇒ Top three holders (as of 15 Jul 2009, source: Bloomberg)	
⇒ XushenhhengHeartland	11.2%
⇒ Song Xuesong	9.3%
⇒ Heartland Advisors	8.8%

Current shares outstanding: 43.9m.

Employee stock option and share incentives plan in place.

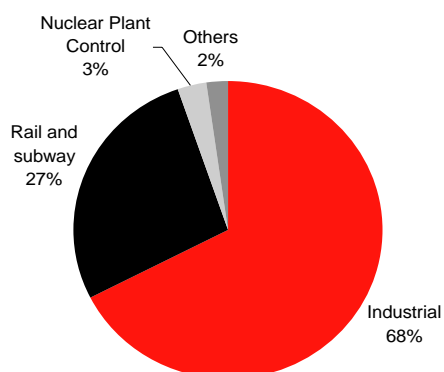
Balance sheet data and refinancing (As of 30-Mar-09)

- Net debt(cash)/equity (Last statement): -45.4%
- Long-term debt: US\$23.4m
- Short-term debt: US\$13.2m
- Cash/cash equivalent: US\$112.4m

Latest results highlights, 3Q09

- Quarterly revenue increased to 24.1% YoY to US\$22.9m.
- Gross profit margin improved from 22.7% in 3Q08 to 36.5%.
- US\$11.3m net cash generated from operations in 3Q09; net cash of US\$75.8m as at 31 Mar 09.
- Backlog of US\$177.7m, vs US\$164.2m as at Dec 08 and US\$153.7m as at Mar 08.

Revenue breakdown, 3 months ended 31 March 2009



Source: Bloomberg, Company data, Macquarie Research, January 2009

History and corporate governance

- Founded in Beijing, China, in 1993 as a business branch of the No.6 Research Institute of China's Ministry of Electronics Industry.
- Initially started as an industrial automation system provider and expanded into railway and nuclear power plant automation systems.
- Listed on the NASDAQ in August 2008
- Auditor: BDO McCabe Lo Limited.

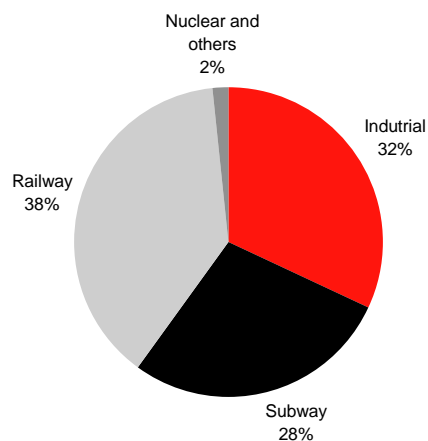
Management and directors' background

- **Chairman:** Qiao Li, 15 years' industry experience, vice president of Beijing Venture Capital Co Ltd over 1999–2000, has been chairman of a subsidiary of HOLI since 1999.
- **CEO:** Changli Wang, 17 years' industry experience, founder of HollySys, one of the subsidiaries of HOLI, PhD in automation from Lancaster University, vice chairman of Chinese Automation Association.
- **CFO:** Peter Li, joined the company in 2009, previously served as international controller of Lenovo Group and CFO of Yucheng Technologies. Master of Education from University of Toronto.
- **5 of 9 directors are independent.**

Latest results highlights, 3Q09

- Secured a follow-on contract to provide its Train Control Center products to the Zhengzhou-Xian High-speed railway project with contract value of US\$15m.
- Days sales outstanding for 3Q09 is 250 days, compared with 289 days in 3Q08 and 114 days for 2Q09.
- Increase in R&D activities with R&D expenses rising from 6.4% of total revenue in 3Q08 to 9.3% in 3Q09.

Backlog breakdown, as at 31 March 2009



Source: Company data, Macquarie Research, January 2009

Investment risks

- Its high margin may not be sustainable in long run as domestic competition intensifies.
- Automation systems for nuclear plant and high-speed railway do not allow for any errors. Any negative news regarding the reliability of the systems would strongly affect contract flow.
- Although HOLI holds a leading position among the domestic players, competition from foreign players in industrial and nuclear segment remains intense.

Strengths

- Strong R&D capability in China with 600 research staff.
- High entry barrier in this industry. Currently competes only with well-established foreign players such as ABB, Siemens, Emerson and Avera, and local players such as Supcon and China Railway Signal & Communication Crop.
- Strong local sales network with sales and services centres in 21 cities in China.
- Solid balance sheet with net cash position.

Opportunities

- Surge in infrastructure spending, especially in railway and clean energy, following the Rmb4tr fiscal stimulus plan.
- Manufacturing Industry Revitalization Plan announced on 4 February 2009 encourages increasing domestic content for machinery parts.
- Nuclear power is a major focus area for power generation as China aims to develop alternative energy sources.
- Looking to broaden its product offering and may expand via acquisition of instrument manufacturers.

Source: Company data, Macquarie Research, July 2009

Investment risks (continued)

- The China government imposes pricing oversight on services and products related to infrastructure projects. This limits HOLI's ability to obtain favourable project pricing.

Weaknesses

- Doubtful debt allowance is relatively high at 9.5% of accounts receivable.
- Increase in R&D expenditures for new products may impact operating margin.
- Lack of government ownership in HOLI could be a risk for the company to gain a significant market share in the railway segment.

Threats

- Domestic competition might intensify when more local competitors enter the market or obtain the technology from foreign partners.
- Foreign players may improve its competitiveness in China market by setting up JVs with local players.
- Infrastructure spending will not be maintained at such high levels in the long run.

Source: Company data, Macquarie Research, July 2009

Fig 1 Hollsys Automation Technologies Ltd – financial statements

Year Ending (US\$m)	2006	2007	2008	Period Ending	30-Jun-08	30-Sep-08	31-Dec-08	31-Mar-09
Revenue	90	102	121	Revenue	31.9	37.3	52.5	22.9
Cost of Goods Sold	58	66	85	Cost of Goods Sold	20.5	24.2	34.4	14.5
Gross Profit	32	36	37	Gross Profit	11.4	13.1	18.2	8.4
EBITDA	26	28	9	EBITDA	n.a	n.a	n.a	2.9
Depreciation	2	2	2	Depreciation	n.a	n.a	n.a	0.6
Amort of Goodwill	0	0	0	Amort of Goodwill	-	-	-	-
Other Amortisation	0	0	0	Other Amortisation	-	-	-	-
EBIT	24	26	7	EBIT	8.1	8.4	-1.9	2.6
Net Interest Income/(Exp)	-1	-8	-5	Net Int Income/(Exp)	-0.4	-	-	-
Associates	0	0	0	Associates	-	-	-	-
Exceptionals	0	0	0	Exceptionals	-	-	-	-
Forex Gains / Losses	0	0	0	Forex Gains / Losses	-	-	-	-
Other Pre-Tax Income	0	0	0	Other Pre-Tax Income	-	-	-	-
Pre Tax Profit	23	19	2	Pre Tax Profit	7.7	8.1	-1.9	2.2
Tax Expenses	1	3	1	Tax Expenses	0.4	0.8	1.4	0
Net Profit (Reported)	22	16	1	Net Profit (Reported)	7.3	7.3	-3.3	2.2
Minority Interests	4	3	3	Minority Interests	1.5	1.2	1.6	0.2
Adjusted Net Profit	18	13	-2	Adjusted Net Profit	5.8	6.1	-5.9	2
EPS (rep)	0.81	0.57	-0.04	Adjusted NP YOY %		5%	-197%	-134%
EPS (adj)	0.81	0.57	-0.04	EPS (rep post mins)	0.13	0.14	-0.13	0.04
Total Shares Outstanding	22	22	44	EBIT Margin	25%	22%	-4%	11%
				Net Margin	23%	20%	-6%	10%
Cashflow	2006	2007	2008	Balance Sheet			2007	2008
EBITDA	25.5	27.9	9.1	Cash			16	69
Tax Paid	1.4	2.5	1.1	Receivables			90	111
Chgs in Working Capital	-16.4	-19.8	-27.5	Inventories			14	25
Net Interest Paid				Investments			9	10
Other	-3.2	-6.8	21.2	Fixed Assets			17	28
Operating Cashflow	7.3	3.8	3.9	Intangibles				
Acquisitions	0	0	-0.3	Other Assets			8	11
Capex	5.5	1.4	10	Total Assets			155	253
Asset Sales	0.4	0.2	0.2	Payables			23	25
Other	11.1	36.1	22.7	Short Term Debt			46	7
Investing Cashflow	6	34.9	12.6	Long Term Debt			3	17
Dividend	1.1	1.9	0	Provisions			13	18
Equity Raises	0	0	57.2	Other Liabilities			32	40
Debt Movements	0.6	31.4	-30.1	Total Liabilities			118	105
Other	-1	-3.8	32.1	Shareholder's Funds			37	147
Financing Cashing Flow	0.7	29.5	59.2	Minority Interest			2.8	0
Net Change in Cash/Debt	1.7	0.7	51.9	Other			0	1
Free Cash Flow	0.7	0.5	14	Total S/H Equity			37	147
				Total Liab & S/H Funds			155	253
Revenue Growth %		2007	2008	ROE			20.8%	0.6%
EBITDA Growth		13.3%	19.3%	ROA			87.3%	1.3%
EBIT Growth		9.3%	-67.5%	ROIC			n.a	2.9%
Net Profit (adj) Growth		9.9%	-72.40%	Net Debt/Equity			89.90%	-30.7%
EPS (adj) Growth		-27.8%	-112.6%	Interest Cover			-50%	-79%
Gross Margin		-30.0%	-107.7%	Payout Ratio			0.0%	0.0%
EBITDA Margin		35%	30%	Working Capital Days			272	334
EBIT Margin		27%	7%	Payable Days			128	106
Net Profit Margin		26%	6%	Inventory Days			77	106
		16%	1%	Receivable Days			323	334
Valuation		2007	2008					
Share Price as of 12/1/09		6.34	6.34					
PER		11.1	-145.2					
EV/EBITDA		11.7	27.1					
P/Bk Ratio		3.8	1.9					
Div Yield (Current)		0.0%	0.0%					
All figures in US\$m unless noted.				Fiscal year ends 30 Jun 09				
Source: Company data, July 2009								

CHINA

China Gas Holdings

23 July 2009

384 HK **Outperform**

Stock price as of 21 Jul 09	HK\$	2.06
12-month target	HK\$	2.50
Upside/downside	%	+21.4
Valuation	HK\$	2.48
- DCF (WACC 9.2%)		

GICS sector		utilities
Market cap	HK\$m	6,868
30-day avg turnover	HK\$m	19.6
Market cap	US\$m	886
Number shares on issue	m	3,334

Investment fundamentals

Year end 31 Mar		2009A	2010E	2011E	2012E
Total revenue	m	6,324	13,071	17,948	23,083
EBIT	m	712	1,062	1,454	1,824
EBIT Growth	%	93.1	49.1	36.9	25.4
Reported profit	m	104	485	721	960
Adjusted profit	m	248	485	721	960
EPS rep	¢	2.8	13.3	19.8	28.8
EPS rep growth	%	-16.4	367.2	48.9	45.5
EPS adj	¢	6.8	13.3	19.8	28.8
EPS adj growth	%	-19.8	95.0	48.9	45.5
PE rep	x	72.4	15.5	10.4	7.2
PE adj	x	30.2	15.5	10.4	7.2
Total DPS	¢	1.4	1.6	2.4	3.2
Total div yield	%	0.7	0.8	1.2	1.5
ROA	%	4.8	5.9	7.6	8.3
ROE	%	7.8	14.1	18.1	18.2
EV/EBITDA	x	13.5	9.0	6.9	5.8
Net debt/equity	%	184.2	141.7	110.7	50.0
Price/book	x	2.1	1.9	1.6	1.1

384 HK vs HSI, & rec history



Source: FactSet, Macquarie Research, July 2009
(all figures in HKD unless noted)

Focus on potential

Event

- China Gas reported its FY3/09 full-year result. The headline result continues to be plagued with one-off provisions, whereas operationally the company is on track. In the long term, we recognise the potential in the newly acquired LPG business, although we believe the realisation of its value requires progress in further industry consolidation. We maintain an Outperform rating on the stock.

Impact

- Natural gas business on track.** China Gas' natural gas business performed on track in FY09. Connection-fee margins saw a drop to 67.4% in FY09 from 72% in FY08 due to a higher connection to more-costly old buildings rather than to new property developments. Meanwhile, piped gas margins saw a pickup to 19.1% from 15.9%, mainly due to the increasing scale of projects. The company is expecting further piped gas sales volume growth of ~60% to 3.3–3.5bn m3 in FY10E and of ~40% to 4.5–5.0bn m3 in FY11E from organic growth from the existing 118 city gas and midstream projects.
- LPG business has great potential but adds risk.** Although the newly acquired LPG business made a small loss in FY09 due to high inventory cost for LPG, management is very confident about the potential of this business in utilising its dominating logistics network to expand market share in the LPG market, which is currently undergoing consolidation. We have conservatively assumed that the GPM of the LPG business will improve to 7% in FY10E from 5.7% in FY09 while lowering our volume growth expectations to 1.3m tons in FY10 from 1.5m tons, more in line with management guidance. The trading nature of the LPG business means that this is intrinsically higher risk than the stable and regulated piped natural gas business.
- Balance sheet could finally improve in coming years.** Management has started to shift its focus from acquisitions to organic growth in its existing city gas projects. Capex is expected to wind down after FY10 from Rmb1.4bn to Rmb1bn in FY11E, while operating cashflow is expected to grow in line with net profit. We expect China Gas to turn free cashflow positive in FY11E and its leverage levels to start to wind down subsequently.

Earnings and target price revision

- We are lowering our FY10E and FY11E earnings by 5% and 10%, respectively, mainly due to lower LPG sales volume assumptions. Our target price is unchanged.

Price catalyst

- 12-month price target: HK\$2.50 based on a DCF methodology.
- Catalyst: Improving margin in the LPG business; gas market reform.

Action and recommendation

- Maintain Outperform for strong organic growth in the natural gas business and potential margin improvement and volume growth in the LPG business.

Analyst

Carol Cao
852 3922 4075

carol.cao@macquarie.com

China Gas Holdings (384 HK, Outperform, Target price: HK\$2.50)

Interim Results					Profit & Loss						
	2H/09A	1H/10E	2H/10E	1H/11E		2009A	2010E	2011E	2012E		
Revenue	m	4,674	5,882	7,189	8,077	Revenue	m	6,324	13,071	17,948	23,083
Gross Profit	m	1,084	1,227	1,500	1,617	Gross Profit	m	1,763	2,727	3,593	4,380
Cost of Goods Sold	m	3,590	4,655	5,689	6,459	Cost of Goods Sold	m	4,561	10,344	14,354	18,703
EBITDA	m	601	699	855	907	EBITDA	m	1,046	1,554	2,015	2,420
Depreciation	m	207	222	271	252	Depreciation	m	334	492	560	597
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	393	478	584	654	EBIT	m	712	1,062	1,454	1,824
Net Interest Income	m	-238	-143	-175	-133	Net Interest Income	m	-356	-318	-295	-226
Associates	m	6	18	22	23	Associates	m	13	39	51	56
Exceptionals	m	-424	0	0	0	Exceptionals	m	-130	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	-11	0	0	0	Other Pre-Tax Income	m	-33	0	0	0
Pre-Tax Profit	m	-273	352	431	545	Pre-Tax Profit	m	205	783	1,211	1,654
Tax Expense	m	-47	-70	-86	-125	Tax Expense	m	-71	-157	-278	-413
Net Profit	m	-321	282	344	419	Net Profit	m	134	626	932	1,240
Minority Interests	m	8	-64	-78	-95	Minority Interests	m	-30	-142	-211	-280
Reported Earnings	m	-313	218	267	325	Reported Earnings	m	104	485	721	960
Adjusted Earnings	m	111	218	267	325	Adjusted Earnings	m	248	485	721	960
EPS (rep)	¢	-8.6	6.0	7.3	8.9	EPS (rep)	¢	2.8	13.3	19.8	28.8
EPS (adj)	¢	3.0	6.0	7.3	8.9	EPS (adj)	¢	6.8	13.3	19.8	28.8
EPS Growth yoy (adj)	%	21.3	58.5	140.1	48.9	EPS Growth (adj)	%	-19.8	95.0	48.9	45.5
						PE (rep)	x	72.4	15.5	10.4	7.2
						PE (adj)	x	30.2	15.5	10.4	7.2
EBITDA Margin	%	12.9	11.9	11.9	11.2	Total DPS	¢	1.4	1.6	2.4	3.2
EBIT Margin	%	8.4	8.1	8.1	8.1	Total Div Yield	%	0.7	0.8	1.2	1.5
Earnings Split	%	44.7	45.0	55.0	45.0	Weighted Average Shares	m	3,646	3,648	3,648	3,336
Revenue Growth	%	179.2	256.5	53.8	37.3	Period End Shares	m	3,336	3,336	3,336	3,336
EBIT Growth	%	72.3	49.9	48.4	36.9						
Profit and Loss Ratios					Cashflow Analysis						
	2009A	2010E	2011E	2012E		2009A	2010E	2011E	2012E		
Revenue Growth	%	147.8	106.7	37.3	28.6	EBITDA	m	1,046	1,554	2,015	2,420
EBITDA Growth	%	87.4	48.6	29.6	20.1	Tax Paid	m	-71	-157	-278	-413
EBIT Growth	%	93.1	49.1	36.9	25.4	Chgs in Working Cap	m	0	0	0	0
Gross Profit Margin	%	27.9	20.9	20.0	19.0	Net Interest Paid	m	-410	-376	-362	-324
EBITDA Margin	%	16.5	11.9	11.2	10.5	Other	m	455	455	249	303
EBIT Margin	%	11.3	8.1	8.1	7.9	Operating Cashflow	m	1,019	1,477	1,623	1,986
Net Profit Margin	%	2.1	4.8	5.2	5.4	Acquisitions	m	-620	-320	0	0
Payout Ratio	%	20.5	12.0	12.0	11.0	Capex	m	-1,073	-1,147	-1,078	-975
EV/EBITDA	x	13.5	9.0	6.9	5.8	Asset Sales	m	0	0	0	0
EV/EBIT	x	19.7	13.0	9.5	7.6	Other	m	-8	-15	220	87
Balance Sheet Ratios					Investing Cashflow	m	-1,702	-1,481	-858	-888	
ROE	%	7.8	14.1	18.1	18.2	Dividend (Ordinary)	m	-40	-47	-53	-79
ROA	%	4.8	5.9	7.6	8.3	Equity Raised	m	0	0	0	0
ROIC	%	6.0	7.4	10.7	12.7	Debt Movements	m	4,516	-1,569	507	175
Net Debt/Equity	%	184.2	141.7	110.7	50.0	Other	m	-835	-877	-243	-167
Interest Cover	x	2.0	3.3	4.9	8.1	Financing Cashflow	m	3,641	-2,494	211	-72
Price/Book	x	2.1	1.9	1.6	1.1	Net Chg in Cash/Debt	m	3,006	-2,498	975	1,027
Book Value per Share		1.0	1.1	1.3	1.9	Free Cashflow	m	-54	330	544	1,011
					Balance Sheet						
	2009A	2010E	2011E	2012E		2009A	2010E	2011E	2012E		
Cash	m	2,896	2,614	3,590	5,153	Cash	m	2,896	2,614	3,590	5,153
Receivables	m	1,286	1,961	2,333	2,834	Receivables	m	1,286	1,961	2,333	2,834
Inventories	m	541	1,227	1,702	2,500	Inventories	m	541	1,227	1,702	2,500
Investments	m	349	349	349	349	Investments	m	349	349	349	349
Fixed Assets	m	9,240	8,007	8,525	9,368	Fixed Assets	m	9,240	8,007	8,525	9,368
Intangibles	m	634	634	634	634	Intangibles	m	634	634	634	634
Other Assets	m	3,142	3,080	3,027	3,011	Other Assets	m	3,142	3,080	3,027	3,011
Total Assets	m	18,087	17,871	20,159	23,848	Total Assets	m	18,087	17,871	20,159	23,848
Payables	m	2,603	4,138	5,024	6,745	Payables	m	2,603	4,138	5,024	6,745
Short Term Debt	m	3,104	3,104	3,104	3,104	Short Term Debt	m	3,104	3,104	3,104	3,104
Long Term Debt	m	7,194	5,625	6,132	5,707	Long Term Debt	m	7,194	5,625	6,132	5,707
Provisions	m	0	0	0	0	Provisions	m	0	0	0	0
Other Liabilities	m	1,168	691	798	974	Other Liabilities	m	1,168	691	798	974
Total Liabilities	m	14,069	13,557	15,058	16,530	Total Liabilities	m	14,069	13,557	15,058	16,530
Shareholders' Funds	m	3,223	3,661	4,329	6,211	Shareholders' Funds	m	3,223	3,661	4,329	6,211
Minority Interests	m	794	653	772	1,107	Minority Interests	m	794	653	772	1,107
Other	m	0	0	0	0	Other	m	0	0	0	0
Total S/H Equity	m	4,017	4,314	5,101	7,318	Total S/H Equity	m	4,017	4,314	5,101	7,318
Total Liab & S/H Funds	m	18,087	17,871	20,159	23,848	Total Liab & S/H Funds	m	18,087	17,871	20,159	23,848

All figures in HKD unless noted.

Source: Company data, Macquarie Research, July 2009

HONG KONG

Ju Teng In'l Holdings

5 August 2009

3336 HK **Outperform**

Stock price as of 04 Aug 09	HK\$	6.14
12-month target	HK\$	9.50
Upside/downside	%	+54.7
Valuation	HK\$	9.50
- PER		

GICS sector	technology hardware & equipment		
Market cap	HK\$m	6,771	
30-day avg turnover	HK\$m	33.5	
Market cap	US\$m	874	
Number shares on issue	m	1,103	

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Total revenue	m	7,249	8,030	10,776	13,103
EBIT	m	894	1,019	1,414	1,675
EBIT Growth	%	53.4	14.0	38.7	18.5
Reported profit	m	689	792	1,136	1,361
Adjusted profit	m	658	751	1,068	1,279
EPS rep	HK\$	0.69	0.73	1.01	1.21
EPS rep growth	%	62.0	6.7	37.5	19.8
EPS adj	HK\$	0.66	0.70	0.95	1.14
EPS adj growth	%	61.1	5.8	36.4	19.8
PE rep	x	8.9	8.4	6.1	5.1
PE adj	x	9.3	8.8	6.5	5.4
Total DPS	HK\$	0.05	0.06	0.08	0.09
Total div yield	%	0.8	0.9	1.2	1.5
ROA	%	14.5	12.7	14.5	15.0
ROE	%	25.9	20.4	20.9	20.3
EV/EBITDA	x	5.6	5.2	3.9	3.4
Net debt/equity	%	47.9	-0.8	-13.3	-18.6
Price/book	x	2.1	1.5	1.2	1.0

3336 HK Share price, & rec history



Source: FactSet, Macquarie Research, August 2009
(all figures in HKD unless noted)

Analyst

Zona Chen
852 3922 3578

zona.chen@macquarie.com

Save the best for later

Event

- We raise our target price on Ju Teng to HK\$9.50 (from HK\$6.50), as we raise our earnings forecasts and roll over EPS to 2010 from 2009. Our new target price is based on a 10x PER, offering 55% upside potential.

Impact

- Expecting 40%:60% or even 35%:65% revenue allocation for 1H09 and 2H09.** We believe that strong NB demand, driven by upcoming holiday sales, the launch of Windows 7 and potential NB replacements, will accelerate Ju Teng's top-line momentum in 2H09. Meanwhile, a favourable product mix (more regular-sized NB contributions and new revenues from metal casing business) provides good support to Ju Teng's blended ASP and GM. Therefore, we expect 2009 revenues to grow 11% YoY. We raise our earnings estimate by 8% on improved GM (to 17.1% from 16.1%).
- Raise our 2010 earnings estimate on better product mix.** We raise our 2010 earnings estimate by 8%, as we expect metal casing to become an important profit contributor providing higher-than-average GM (17.3% vs metal casing's 20%-plus). Meanwhile, we believe that Ju Teng will likely gain market share from the Hon Hai Group (originally a pure EMS) in the plastic casing market, as Hon Hai entered the NB OEM market this year. As a result, we expect Ju Teng to deliver 36% YoY earnings growth in 2010, up 8% YoY.
- 1H09 earnings might surprise the Street.** Although the slower NB ODM shipments in early 2Q09 (due to component shortage) held up Ju Teng's revenue momentum in 1H09, we believe that the company's earnings will beat Street expectations, given improved product mix. We expect Ju Teng to deliver an above-12% OPM and 8–9% net margin vs the consensus of 10.1% OPM and 7.5% net margin.

Earnings and target price revision

- Revise up our 2009 and 2010 earnings forecasts by 8% respectively.
- Raise TP to HK\$9.50 on 10x PER based on rolling over EPS to 2010.

Price catalyst

- 12-month price target: HK\$9.50 based on a PER methodology.
- Catalyst: Strong NB demands and improving profitability.

Action and recommendation

- We believe Ju Teng will strengthen its leadership in plastic casing, with market share expanding to 32–33% in 2009-2010 from 27-30% in 2008. Also, 2010 earnings growth will be enhanced by the fast-growing metal casing. Given 20-21% RoE in 2010, we believe Ju Teng's current valuation 6.6x 2010E PER remains attractive. Maintain Outperform.

Ju Teng International Holdings (3336 HK, Outperform, Target price: HK\$9.50)

Interim Results					Profit & Loss						
	2H/08A	1H/09E	2H/09E	1H/10E		2008A	2009E	2010E	2011E		
Revenue	m	3,821	3,153	4,877	4,872	Revenue	m	7,249	8,030	10,776	13,103
Gross Profit	m	678	528	843	843	Gross Profit	m	1,213	1,372	1,865	2,313
Cost of Goods Sold	m	3,143	2,624	4,034	4,029	Cost of Goods Sold	m	6,036	6,658	8,910	10,790
EBITDA	m	610	521	778	782	EBITDA	m	1,099	1,299	1,722	1,985
Depreciation	m	107	133	147	148	Depreciation	m	205	280	308	310
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	503	388	631	634	EBIT	m	894	1,019	1,414	1,675
Net Interest Income	m	-39	-40	-36	-33	Net Interest Income	m	-75	-76	-62	-55
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0	Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	m	464	348	595	600	Pre-Tax Profit	m	819	943	1,352	1,620
Tax Expense	m	-77	-56	-95	-96	Tax Expense	m	-130	-151	-216	-259
Net Profit	m	386	292	500	504	Net Profit	m	689	792	1,136	1,361
Minority Interests	m	-12	-12	-30	-30	Minority Interests	m	-30	-42	-68	-82
Reported Earnings	m	386	292	500	504	Reported Earnings	m	689	792	1,136	1,361
Adjusted Earnings	m	375	281	470	474	Adjusted Earnings	m	658	751	1,068	1,279
EPS (rep)		0.39	0.27	0.46	0.45	EPS (rep)		0.69	0.73	1.01	1.21
EPS (adj)		0.37	0.26	0.44	0.42	EPS (adj)		0.66	0.70	0.95	1.14
EPS Growth yoy (adj)	%	48.7	-8.1	16.3	61.9	EPS Growth (adj)	%	61.1	5.8	36.4	19.8
						PE (rep)	x	8.9	8.4	6.1	5.1
						PE (adj)	x	9.3	8.8	6.5	5.4
EBITDA Margin	%	16.0	16.5	16.0	16.0	Total DPS		0.05	0.06	0.08	0.09
EBIT Margin	%	13.2	12.3	12.9	13.0	Total Div Yield	%	0.8	0.9	1.2	1.5
Earnings Split	%	56.9	37.4	62.6	44.4	Weighted Average Shares	m	1,000	1,078	1,124	1,124
Revenue Growth	%	22.5	-8.0	27.6	54.5	Period End Shares	m	1,000	1,100	1,100	1,100
EBIT Growth	%	44.3	-0.8	25.6	63.2						
Profit and Loss Ratios					Cashflow Analysis						
	2008A	2009E	2010E	2011E		2008A	2009E	2010E	2011E		
Revenue Growth	%	37.4	10.8	34.2	21.6	EBITDA	m	1,099	1,299	1,722	1,985
EBITDA Growth	%	46.3	18.2	32.5	15.3	Tax Paid	m	0	0	0	0
EBIT Growth	%	53.4	14.0	38.7	18.5	Chgs in Working Cap	m	-1,243	263	-571	-930
Gross Profit Margin	%	16.7	17.1	17.3	17.7	Net Interest Paid	m	0	0	0	0
EBITDA Margin	%	15.2	16.2	16.0	15.1	Other	m	-180	-76	-62	-55
EBIT Margin	%	12.3	12.7	13.1	12.8	Operating Cashflow	m	-324	1,487	1,089	1,000
Net Profit Margin	%	9.5	9.9	10.5	10.4	Acquisitions	m	-87	0	0	0
Payout Ratio	%	7.6	7.9	7.9	7.9	Capex	m	-600	-486	-428	-316
EV/EBITDA	x	5.6	5.2	3.9	3.4	Asset Sales	m	0	0	0	0
EV/EBIT	x	6.9	6.6	4.8	4.0	Other	m	-103	21	25	29
Balance Sheet Ratios					Investing Cashflow	m	-790	-465	-403	-287	
ROE	%	25.9	20.4	20.9	20.3	Dividend (Ordinary)	m	0	-50	-56	-83
ROA	%	14.5	12.7	14.5	15.0	Equity Raised	m	0	390	0	0
ROIC	%	30.5	19.4	27.3	27.8	Debt Movements	m	1,120	-200	-200	-160
Net Debt/Equity	%	47.9	-0.8	-13.3	-18.6	Other	m	21	100	112	-155
Interest Cover	x	11.9	13.4	22.8	30.3	Financing Cashflow	m	1,142	240	-144	-398
Price/Book	x	2.1	1.5	1.2	1.0	Net Chg in Cash/Debt	m	45	1,262	542	315
Book Value per Share		3.0	4.0	5.3	6.1	Free Cashflow	m	-923	1,001	661	684
						Balance Sheet	2008A	2009E	2010E	2011E	
						Cash	m	451	1,712	2,254	2,569
						Receivables	m	2,863	2,886	3,720	4,375
						Inventories	m	822	1,105	1,257	1,494
						Investments	m	33	33	33	33
						Fixed Assets	m	2,280	2,465	2,560	2,537
						Intangibles	m	5	5	5	5
						Other Assets	m	691	691	717	742
						Total Assets	m	7,144	8,898	10,546	11,755
						Payables	m	1,530	2,100	2,514	3,027
						Short Term Debt	m	947	747	547	817
						Long Term Debt	m	930	930	930	500
						Provisions	m	102	102	102	102
						Other Liabilities	m	654	633	613	563
						Total Liabilities	m	4,163	4,512	4,706	5,009
						Shareholders' Funds	m	2,981	4,385	5,840	6,745
						Minority Interests	m	0	0	0	0
						Other	m	0	0	0	0
						Total S/H Equity	m	2,981	4,385	5,840	6,745
						Total Liab & S/H Funds	m	7,144	8,898	10,546	11,755

All figures in HKD unless noted.
Source: Macquarie Research, August 2009



James Chiu
Tech
886 2 2734 7517
james.chiu@macquarie.com



William Chen
Tech
886 2 2734 7533
william.chen@macquarie.com



Kylie Huang
Non-Tech
886 2 2734 7528
kylie.huang@macquarie.com

Theme – electric cars drive battery demand

Electric vehicles were introduced in the early years of the 20th century but the market withered rapidly due to improvement in combustion-powered vehicles. However, with increasing concerns surrounding oil depletion and the environment, the concept of an electric vehicle re-surfaced in the late 1990s. We believe the market for electric vehicles is set for strong growth in the next few years as a result of these increasing environmental concerns, a rising oil price, and government campaigns. Various automobile manufactures are introducing new models of electric cars due to the following advantages:

- **Reduced emissions:** Electric vehicles could reduce pollution of CO₂ by between 50% and 90%.
- **Improved fuel economy:** Electric vehicles are highly efficient compared with the petrol and diesel engines of less than 20%. Fuel economy could easily be boosted by 50-100%.
- **Less dependence on oil:** Petrol-driven engines run on fossil fuels which clearly have limited reserves while the rising oil price is secondary concern. Electric cars will reduce the dependence on oil supply and oil price fluctuations.
- **Lower noise:** Electric cars make less noise than petrol- and diesel-powered cars.
- **Cheaper cost to operate:** Combined with the potential for much cheaper electricity generated from power plants and more efficient motors, it can be much cheaper to operate electric vehicles.
- **Comparable performance:** Automobile manufactures are beginning to introduce electric vehicles capable of delivering similar performance to those with combustion engines. Tesla is an example.

With the evolution of electric car technologies, there are currently three main categories of electric vehicles: hybrid, plugged hybrid, and pure electric.

Hybrid electric vehicle (HEV): An HEV combines some features of the internal combustion engine with electric motors that are powered by batteries. Using technology that is associated with electric trains, these HEVs could potentially achieve better fuel economy without loss of performance. It is this combination of efficiency and performance that led Toyota to introduce the Prius HEV car in 1997, even though the idea has been around since 1917.

Current hybrid cars use mostly NiMH batteries but the trend is toward Lithium-ion batteries as they are able to hold more energy (100% more in energy density), while they are also lighter and have a longer life cycle (in other words, the ability to charge more cycles).

Plug-in hybrid electric vehicle (PHEV): Similar to the HEV, the PHEV has both an internal combustion engine and an electric motor. What differentiates PHEV from HEV is the addition of a plug to connect to the electricity grid for charging. As with the HEV, PHEV improves fuel economy and reduces emissions compared to the conventional gas-powered vehicles. In addition, the addition of a plug could enable PHEV owners to charge their batteries from home or designated charging stations. At the end of 2008, BYD launched F3DM which was the first commercially available PHEV. The potential concerns would be the instalment of special transformers for charging and increasing load to the grid. In addition, garages may be scarce in metropolitan cities with mostly apartment buildings.

Electric vehicle (EV). An EV uses electric motors to propel the vehicle without the use of an internal combustion engine. A battery is used as the medium to store electricity, much the same as the petrol tank is used to store fuel for combustion engines. As an EV runs solely on electricity, emissions are greatly reduced while it also becomes cheaper to operate as it is less dependant on oil. The flip side is that an EV is solely dependant on the battery without another propulsion choice. The storage of electricity in a battery will thus determine the distance that any vehicle could reach and therefore we believe the availability of charging stations are essential before EVs could become popular. We estimate the EV market could improve from around three years from now as time is needed to monitor the safety of EVs, achieve the necessary breakthrough in battery charging technology, as well as the building of infrastructure for charging them.

According to the Metal Industrial Research & Development Centre, global EV production could be as high as 2.5m units, creating a US\$45bn market. This compared to annual production of 60m units for regular vehicles, giving EVs a market share of less than 5%. However, with almost all automobile manufacturers rolling out new electric car models (most with government subsidies) this market share should increase. In addition to this, TARC (Taiwan Automotive Research Consortium) estimates that electric vehicles will create NT\$300bn (US\$9bn) in production value for the supply chain in FY2020.

Despite these advantages, there are several potential hurdles for the EV industry to overcome or improve on before the market could fully reach its potential. And one of these hurdles appears to be battery technology.

- **Safety.** Car manufacturers clearly place safety high on their agenda. And as EVs have replaced combustion engines, battery safety has become a more important issue because of the danger of battery explosion. Lead-acid batteries, used for most of the 20th century, were gradually replaced by nickel metal hydride batteries (NiMH) during the 1990s, and we believe lithium batteries could now be the future given their qualities of holding more electricity, lighter weight and longevity. Indeed, a lithium battery can sustain more than 1,000 recharge cycles compared to a NiMH cycle of 300.
- However, with that said, we believe NiMH batteries could continue to dominate the market for at least the next two years. To date, NiMH batteries have dominated the EV market, especially among hybrids, because of their safety features. The new lithium iron phosphate battery (LiFePO4) is likely to be the long-term substitute - particularly with its stability under high temperatures. However, because lithium iron phosphate batteries are relatively new on the market and not yet fully safety tested, we believe auto manufactures may hesitate in adopting these new battery technologies immediately.
- **Charging time/location.** Charging batteries for electric vehicles created two major problems: the charging time and the location. Battery charging stations are currently scarce as EV penetration is still quite low. This dearth of charging stations will limit the usability of electric vehicles as typical electric vehicles could only travel for 200–400km on a full charge. With limited charging stations, these EVs could only be used for a limited range instead of extended travelling.
- In addition, there is a potential bottleneck in charging supply as it takes many hours to charge with typical household plugs while high voltage/current charging facilities, even if prevalent, could potentially create safety concerns as well as damaging the batteries. The lack of convenience may therefore deter potential consumer interest in switching over to electric vehicles. We believe it is not until there is a sufficient network of charging stations and a breakthrough in battery charging technology that will EVs be attractive to consumers currently driving regular petrol-driven cars. And it will take a few years before such an infrastructure could be built.
- **High battery cost.** Electric vehicles carry a much higher price tag compared with petrol-driven cars, mainly because of the battery costs. Lithium batteries are still a relative new technology with limited scale and are currently one of the most expensive components in an electric car. For an electric car, the cost of a battery can easily exceed US\$15,000 and represent 50% of the total production cost and even for a hybrid, a typical lithium battery can easily cost US\$8,000. Battery prices are likely to gradually decline with increasing scale and in our view, to offset such costs, governments could subsidise electric cars to lower the price tag and stimulate demand.
- **Lack of industry standard.** Since EV have only ever targeted niche markets there is no industry standard, especially for EV-specific components, such as motor, battery and electric control modules. As EV market is still in the early stage of development, every EV manufacturer and its respective supply chain is implementing different specifications and standards for their vehicles. Industry standards would be needed to specify and test these components in order to ensure safety as well as building supporting infrastructure (charging stations).

Sector impact

- **Time is needed due to technology and infrastructure bottlenecks.** We believe it will be another few years before the pure electric vehicle market really blossoms. In addition to the bottleneck on battery technologies, we believe government policy and or subsidies are necessary to stimulate demand for EVs while infrastructure (charging stations and the electricity grid) are essential for the growth of the industry. For example, the Obama administration in the US has a target of 1 million EVs by FY2015. In order to achieve this, the US government is providing US\$2.4bn in subsidies to develop the electric vehicle industry. Also, the US consumer is offered an incentive tax credit of up to US\$7,500 for every EV or hybrid car purchased. During any transition period, we expect hybrid electric vehicles will dominate the electric vehicle market with the Japanese auto manufacturers taking the lead.
- **Batteries are essential but costly.** Observing the potentially vast opportunities in the electric vehicle market, many Taiwanese manufacturers have devoted resources, especially in the battery-related segments. Regardless of the type of the electric vehicle (from HEV to pure EV), batteries are an essential component as a medium to store electricity, in much the same way as a petrol tank in a regular combustion-powered vehicle. They are the single most expensive component in an electric vehicle – currently, lithium batteries account for 40–50% of the manufacturing costs of an electric vehicle or 20–25% of a hybrid.
- **Taiwan makers target the China market.** Given Taiwan's rising exposure to the 3C batteries, in particular NB Lithium batteries, the Taiwan battery supply chain could expand to the electric vehicle sector and explore the opportunity with its promising growth. We believe the Taiwan battery supply chain will not only target the domestic automobile market but also the fast-growing China EV market given the developing automobile supply chain and Taiwan's experience in battery packs. In addition, low automobile penetration, rising GDP and a series of government campaigns is creating a promising growth curve for the China EV market. On the other hand, the Japanese auto makers are likely to form alliances with battery-cell makers because of their cross-holding relationship while the US automakers will likely to source locally despite the pre-mature lithium battery supply chain in the US.

Fig 1 Taiwan Li-battery supply chain

Battery module	Simplo, Dynapack, Celxpert, Welldone, Cheng Uei
Battery cell:	Moli, Pishiang, Synergy ScienTech, Ultralife, High Energy Battery, EXA, PSI
Anode material:	Lico, CAEC, TAK, San Chih, Aleees, Hirose
Cathode material:	China Steel Chemical
Membrane:	Coin chemical industry
Electrolyte::	Taiwan Formosa group
Shell:	Hon Chuan
Others:	Co-Tech

Source: Macquarie Research, July 2009

Stock picks

- Pihsiang: Pihsiang's management says it should benefit from the trend given its manufacturing capability in C-LiFePO₄ batteries. On top of this, Pihsiang's years of experience in small electric vehicles development and manufacturing may provide the edge to better integrate the battery pack into the whole electric car system. Given the huge electric car market potential, the company plans to invest in NT\$1bn in electric car key components developments and targets to provide the e-car power solution module composed of motor, motor controller, and battery pack by the end of 2010 or early 2011.
- Simplo (6121 TT*, NT\$145.5, N, TP: NT\$99.0, downside: 32.0%, James Chiu): Simplo is the largest NB battery pack manufacturer globally. The company has leveraged its expertise in battery pack and started R&D on the electric vehicle market almost two years ago. We expect Simplo to target auto makers in the greater China region but revenue contribution may not be realised until FY10/11.
- Yulong motor (2201 TT*, NT\$30.0, N, TP: NT\$24.0, downside: 20.0%, Linda Huang): Yulong plans to launch its pure electric vehicle by 2010-11 by forming a strategic alliance with ACP. This vehicle will be produced in Taiwan with key electric components from its subsidiary companies. However, our analyst believes that initial volume will be minimal and the EV project will remain in loss for the first two years.

*Note that 6121 TT and 2201 TT are out of line with Macquarie's standard recommendation price range bands.

TAIWAN

MacVisit: Welldone

17 August 2009

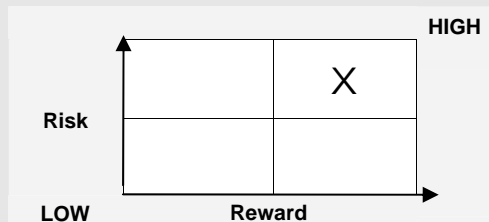
6170 TT	Not rated	
Stock price as of 17/08/2009	NT\$	28.65
Market cap	US\$m	78
Value traded last 3 months	US\$m	1.8m
12m high/low	NT\$	36.5 / 17.4
PER FY09E consensus	x	N/A
P/BV FY08E consensus	x	N/A

Historical financials, consolidated

		2006	2007	2008
Revenue	NT\$m	4,846	6,099	7,782
YoY growth	%	-4.4	25.9	27.6
EBITDA	NT\$m	241	250	295
YoY growth	%	0.4	3.8	18.1
EPS	NT\$	2.09	1.88	2.05
YoY growth	%	-9.5	-10.0	9.0
EBIT margin	%	4.2	4.2	3.3

Source: TEJ, August 2009

Historical business risk/reward*



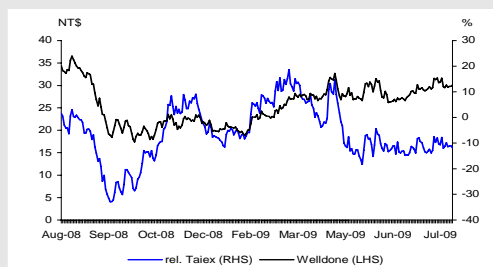
*Relative to the market.
Source: Macquarie Research, August 2009

Share price driver

Thematic
Growth
Value
Event

Source: TEJ, August 2009

6170 TT vs Taixex



Source: TEJ, Macquarie Research, August 2009

Analysts

William Chen 886 2 2734 7533	william.chen@macquarie.com
James Chiu 886 2 2734 7517	james.chiu@macquarie.com
Daniel Chang 886 2 2734 7516	daniel.chang@macquarie.com

Early mover

Early mover in light electrical vehicle (LEV) industry

- Welldone began its business in 1977 as Toshiba's battery trading agent in Taiwan, and it started to assemble rechargeable batteries for 3C products in 1995. In 2005, cooperating with Industrial Technology Research Institute of Taiwan (ITRI), Welldone penetrated the high-power battery module industry and launched the first Taiwanese-made Lithium-ion battery module for e-bike. In 2008, joined by the ITRI battery research team, Welldone split its battery business to establish TD HiTech Energy Inc (TDHE, 100%-owned by Welldone) and to develop the LEV Lithium-ion battery management system (BMS). While most battery-pack makers still focus on 3C products, Welldone has accumulated practical experience and know-how in high power batteries for LEV.

Expects LEV business to ramp in 2009

- The LEV battery business accounted for about 5% of Welldone's total revenue, followed by 25% from handset and NB battery packs and 70% from prepaid cards and some 3C product distribution. Welldone expects the LEV contribution to increase to 10% in 2009 given the strong demand from Germany, the UK and the US. The Taiwan government has announced a subsidy plan with the hope to increase sales of e-scooters to 160k in four years. Welldone expects to be a key beneficiary as it has formed an alliance with NEC-Tokin, a Japanese e-vehicle battery cell maker, and it expects to be ready for mass production in 4Q09. Given the increasing focus on environmental protection, Welldone believes it can leverage its technology and experience to participate in industry growth.

Poised to be a turnkey solution provider

- Instead of competing with large battery-pack makers in manufacturing, Welldone has positioned itself to be an electrical system solution provider. By leveraging the know-how of ITRI's energy team, Welldone focuses on the technology of integrating and managing electrical systems. Welldone has developed a mature BMS to not only provide better protection for the electrical motor module, but also to more-accurately inspect the errors in the system. Welldone believes the BMS could help LEV makers to lower maintenance costs and increase convenience and practicability for end-customers.

Targeting the electrical car market

- Because most global tier-one car makers have formed alliances with Japanese/Korean battery makers in the e-car market, there is limited room for Welldone to penetrate in the early stage. By aiming to benefit from the increasing demand, Welldone has made its BMS product compatible with the e-car system. Welldone expects the e-car market to mature in 2012 and the company to still be a key beneficiary by leveraging its know-how in LEV BMS.

High Li-ion battery price is the downside risk

- Welldone noted that the large price gap between Lithium-ion and NiMH is the main risk for its LEV business. Despite higher capacity and the lighter weight, longer battery life and better protection for the environment, Lithium-ion penetration in the LEV industry is still low as the price of Lithium-ion batteries is three times that of Ni-MH. Welldone expects more government efforts to boost e-vehicle demand before the Li-Ion price falls.

Fig 1 Financial statements

Year end 31 Dec		2005A	2006A	2007A	2008A	3Q07A	4Q07A	1Q08A	2Q08A	3Q08A	4Q08A	1Q09A
Income statement												
Sales	m	5,068	4,846	6,099	7,782	2,754	3,345	1,597	1,924	2,153	2,107	1,622
Gross profit	m	600	647	756	898	358	398	239	216	229	214	183
Operating expenses	m	394	430	561	654	277	284	152	166	149	187	175
Operating income	m	206	217	195	244	80	114	87	51	80	27	8
Non-operating income	m	49	33	78	58	58	20	3	34	13	7	24
Non-operating expenses	m	65	73	111	106	65	46	41	20	-4	49	12
Pretax income	m	190	177	162	196	74	88	49	65	97	-15	20
Income tax	m	60	40	66	46	28	38	9	15	29	-7	11
Extraordinary items	m	0	0	0	0	0	0	0	0	0	0	0
Net Income for Minor	m	129	137	96	150	46	50	39	51	68	-8	10
Minor	m	0	1	42	17	12	31	3	3	1	10	9
Net Income	m	129	138	138	167	58	80	43	54	69	2	19
Share, wgt avg, adj	m	59	66	73	82	73	73	73	82	82	82	82
EPS, adj	\$	2.31	2.09	1.88	2.05	0.78	1.1	0.58	0.66	0.85	0.02	0.23
BVPS, adj	\$	14.71	14.9	15.07	15.06	13.77	15.07	15.55	14.03	15.11	15.06	15.39
% ch YoY												
Sales	%	13.19	-4.38	25.86	27.6	16.46	34.81	--	--	--	--	1.57
Gross profit	%	--	7.83	16.85	18.77	19.39	14.65	--	--	--	--	-23.2
Operating Income	%	--	5.71	-10.47	25.5	-10.17	-10.67	--	--	--	--	-90.8
Net income	%	--	-0.12	-29.99	56.46	-20.79	-36.76	--	--	--	--	-75.86
Margins												
Gross	%	11.8	13.4	12.4	11.5	13.0	11.9	15.0	11.2	10.6	10.1	11.3
Operating	%	4.1	4.5	3.2	3.1	2.9	3.4	5.4	2.6	3.7	1.3	0.5
Net	%	2.7	2.8	1.6	1.9	1.7	1.5	2.5	2.6	3.2	-0.4	0.6
Balance sheet												
Cash & marketable securities	m	259	462	451	213	476	451	371	377	399	213	283
AR & NR	m	1,019	928	1,270	1,073	1,010	1,270	942	1,122	1,379	1,073	953
Inventory	m	742	792	843	1,442	660	843	693	1,056	1,162	1,442	1,052
Total current assets	m	2,310	2,512	2,974	3,136	2,475	2,974	2,405	2,901	3,380	3,136	2,734
Total fixed assets	m	516	650	675	785	665	675	671	678	695	785	810
Total assets	m	2,942	3,426	3,820	4,114	3,371	3,820	3,262	3,746	4,262	4,114	3,735
Current liab.	m	1,840	1,818	2,107	2,092	1,714	2,107	1,501	1,996	2,412	2,092	1,713
Total liab.	m	1,999	2,361	2,657	2,728	2,264	2,657	2,069	2,553	2,981	2,728	2,331
Total equity	m	943	1,065	1,163	1,385	1,107	1,163	1,192	1,193	1,281	1,385	1,404
Statement of cash flow												
Operating	m	-485	137	-302	147	58	-360	320	-231	107	-49	51
Investment	m	-150	-309	-50	-260	-76	26	-2	-34	-69	-156	-64
Financing	m	390	368	272	-130	-27	299	-390	266	-34	28	75
Net	m	-245	202	-65	-223	-37	-29	-79	6	23	-172	70
Key Ratio												
ROA (annualised)	%	9.3	8.0	7.2	8.1	3.4	4.2	5.2	5.1	5.2	4.1	2.0
ROE (annualised)	%	29.1	25.9	23.7	24.2	10.4	13.8	14.3	16.2	17.3	12.1	5.4
AR days		61	73	66	55	64	62	63	49	53	53	57
Inventory days		44	67	56	61	55	46	51	47	52	63	79
AP days		n/a	61	45	41	49	39	37	29	39	46	40
Cash conversion cycle		n/a	79	77	75	71	69	77	66	66	69	96

Source: Company data, August 2009

TAIWAN

MacVisit: Pihsiang

17 August 2009

1729 TT Not rated

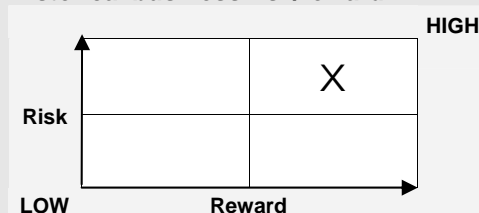
Stock price as of 17/08/2009	NT\$	67.8
GICS sector	Healthcare Equipment	
Market cap	US\$m	371
Value traded last 3 months	US\$m	5.8
12m low/high	NT\$	74.8/39.35
PER FY09E consensus	x	na
P/BV FY09E consensus	x	na

Historical financials

YE Dec (NT\$m)	2006A	2007A	2008A
Revenue	1,929	1,595	1,550
% growth	-4.5	-17.3	-2.8
EBITDA	660	496	304
% growth	-9.9	-24.9	-38.6
EPS	3.08	1.91	1.19
% growth	2.7	-37.9	-37.8
OP Margin	32.4	28.5	17.3

Source: Company data, Aug 2009

Historical business risk/reward*



*Relative to the market.

Source: Macquarie Research, August 2009

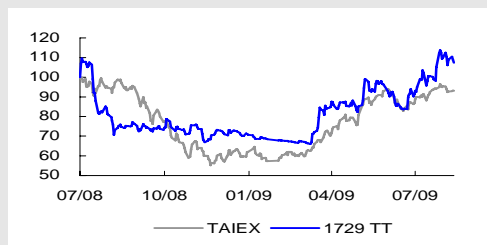
Share price drivers

Thematic

- Growth
- Value
- Event

Source: Macquarie Research, August 2009

1729 TT rel HSCEI Index performance



Source: Bloomberg, Aug 2009

Analyst

Kylie Huang

886 2 2734 7528

Kylie.Huang@macquarie.com

Driving E-car to the future

A leader in electric scooters and powered wheelchairs

- Established in 1983, Pihsiang initiated its business as agricultural transport machines manufacturer. Taking advantage of its strong R&D ability and expertise in agricultural transport products, in 1989, Pihsiang successfully developed the world's first four-wheeled scooter for aging and disabled people and since then it has dedicated itself to the design, manufacturing, sale and distribution of electric scooters and powered wheelchairs. Today Pihsiang is ranked number-three globally with market share around 20%.

Focus on C-LiFePO4 batteries

- New battery a source of optimism.** The C-LiFePO4 battery is a ground-breaking product in the battery industry. Thanks to its characteristics of high temperature tolerance, long-cycle lifetimes, safety and high dischargeable rates, and its relatively light weight, C-LiFePO4 may provide safe and efficient solution for power applications, in particular, for use in electric cars.
- PHET the only mass production player.** Pihsiang Energy Tech ("PHET"), 37.6% owned by Pihsiang, is now the only company that can mass produce C-LiFePO4 batteries, according to management. PHET obtained rights from Phostech, which holds C-LiFePO4 powder production patent authorisation, to manufacture and sell C-LiFePO4 batteries for electric vehicles.
- Company is targeting production growth.** PHET's current C-LiFePO4 capacity is 0.3–0.4m cells/m and has a target to raise this to 2m cells/m by the end of this year. Management indicates PHET will have a fund raising plan in 4Q09 to further increase the capacity to 10m cell/m by early 2011. PHET has obtained battery orders from Apogee (3m /yr), Microcar (2m/yr), and another undisclosed European company (2m/ yr) in addition to its in-house use for e-bikes / motorcycles. PHET should reach breakeven in late 2009 or 2010 dependent on the timing of shipment delivery according to management

Electric car could be the next key growth driver

- Pihsiang stands to benefit from the emergence of e-cars as a trend given its manufacturing capability in C-LiFePO4 batteries. In addition, Pihsiang believes its experience in electric vehicle production provides it with the edge to better integrate the battery pack into the whole car. Given the huge potential in the electric-car market, the company says it plans to invest NT\$1bn in key electric car component developments and wants to provide the e-car power-solution module, composed of motor, transmission, battery pack, and electric control units by the end of 2010 or early 2011.
- If the ramp up is successful, the battery and power solution for e-cars could be the next key growth driver for Pihsiang to add to its (albeit decelerating) growth in electric scooters/wheelchairs business. However, Pihsiang may need to improve its execution and accelerate delivery in order to show commitment to the battery packs/e-car power module plans.

Valuation

- The stock trades at 4.5x 2008 P/BV compared with its historical average of 3.7x (high: 6.0x /low: 2.0x). It expects its core business to recover from 2H09 as it benefits from restructuring efforts on distribution channels in the US and guided to 10–20% revenue growth in 2009 with GM to recover to 30%.

Fig 1 Financial statements

Year end 31 Dec		2005A	2006A	2007A	2008A	3Q07A	4Q07A	1Q08A	2Q08A	3Q08A	4Q08A	1Q09A
Income statement												
Sales	m	2,019	1,929	1,595	1,550	466	279	344	492	405	308	237
Gross profit	m	848	748	555	446	159	77	88	152	119	86	74
Operating expenses	m	162	134	119	154	23	30	37	37	38	41	36
Operating income	m	686	625	454	268	131	64	58	112	69	29	35
Non-operating income	m	55	35	40	36	6	14	5	13	12	6	6
Non-operating expenses	m	112	49	64	90	13	28	52	3	1	35	28
Pretax income	m	628	611	431	214	123	50	11	122	80	1	12
Income tax	m	109	91	108	11	25	21	7	26	-30	8	8
Extraordinary items	m	0	0	0	0	0	0	0	0	0	0	0
Net income	m	519	520	323	203	98	29	4	96	110	-7	4
Share, wgt avg, adj	m	173	169	169	171	168	169	171	171	171	171	169
EPS, adj	\$	3.00	3.08	1.91	1.19	0.59	0.17	0.03	0.56	0.65	-0.04	0.03
BVPS, adj	\$	14.97	14.85	15.27	14.92	13.95	15.27	14.85	13.78	15.15	14.92	15.24
% YoY / QoQ												
Sales	%	2.2	-4.5	-17.3	-2.8	-21.1	-10.1	7.2	-6.9	-13.0	10.4	-31.2
Gross profit	%	1.3	-11.8	-25.8	-19.6	-31.8	-37.6	-19.9	-26.7	-25.3	11.6	-16.1
Operating Income	%		-8.8	-27.3	-41.1	-37.7	-32.9	-30.2	-36.9	-47.1	-54.3	-39.2
Net income	%		0.1	-37.9	-37.0	-51.9	-39.1	-94.1	-20.0	12.2	-125.5	nmf
Margins												
Gross	%	42.0	38.8	34.8	28.8	34.1	27.7	25.7	31.0	29.3	28.1	31.4
Operating	%	34.0	32.4	28.5	17.3	28.0	23.0	16.8	22.7	17.0	9.5	14.9
Net	%	25.7	26.9	20.2	13.1	21.1	10.3	1.3	19.5	27.2	-2.4	1.8
Balance sheet												
Cash & marketable securities	m	1,003	582	1,388	342	507	1,388	962	1,026	768	342	334
AR & NR	m	246	233	118	166	211	118	186	269	142	166	142
Inventory	m	129	151	146	164	158	146	159	188	172	164	169
Total current assets	m	1,405	986	1,663	716	890	1,663	1,328	1,505	1,143	716	724
Total fixed assets	m	845	816	786	756	779	786	775	769	762	756	749
Total assets	m	2,966	2,802	3,825	3,695	2,817	3,825	3,838	3,988	4,084	3,695	3,717
Current liab.	m	306	236	309	202	415	309	360	684	546	202	189
Total liab.	m	376	295	1,249	1,148	471	1,249	1,299	1,631	1,493	1,148	1,143
Total equity	m	2,591	2,507	2,576	2,548	2,346	2,576	2,539	2,357	2,591	2,548	2,574
Statement of cash flow												
Operating	m	702	526	581	191	239	12	-13	62	161	-20	44
Investment	m	-61	-340	-435	-838	-189	-248	-413	2	-389	-39	-34
Financing	m	-669	-617	670	-398	-447	1,117	0	0	-31	-367	-19
Net	m	-28	-431	816	-1,046	-397	880	-426	64	-258	-426	-8
Key Ratio												
ROA (annualised)	%	17.5	18.6	8.4	5.5	14.0	3.0	0.5	9.6	10.8	-0.8	0.5
ROE (annualised)	%	20.0	20.7	12.5	8.0	16.8	4.5	0.7	16.2	17.1	-1.1	0.7
AR days		44	44	27	39	41	38	49	50	32	49	54
Inventory days		40	47	51	54	47	66	56	50	54	67	95
AP days		67	47	54	46	79	68	66	71	66	54	65
Cash conversion cycle		17	44	24	48	9	36	39	29	21	62	84

Source: Company data, August 2009

TAIWAN

Cheng Loong

11 August 2009

1904 TT **Outperform**

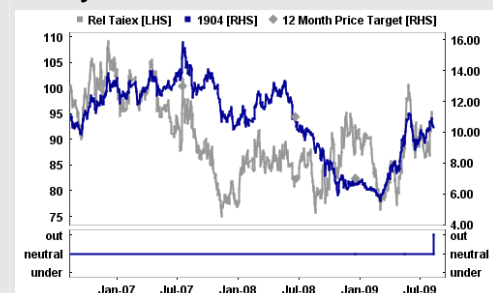
Stock price as of 10 Aug 09	NT\$	10.30
12-month target	NT\$	14.50
Upside/downside	%	+40.8
Valuation	NT\$	14.50
- Sum of Parts		

GICS sector		materials
Market cap	NT\$m	10,640
30-day avg turnover	NT\$m	70.8
Market cap	US\$m	325
Number shares on issue	m	1,033

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Total revenue	m	23,414	18,789	23,072	25,130
Reported profit	m	94	946	1,040	1,304
Adjusted profit	m	519	428	1,040	1,304
EPS rep	NT\$	0.09	0.92	1.01	1.26
EPS rep growth	%	-81.9	932.8	9.9	25.4
PE rep	x	116.2	11.2	10.2	8.2
Total DPS	NT\$	0.00	0.49	0.54	0.68
Total div yield	%	0.0	4.8	5.2	6.6
ROA	%	2.4	2.6	2.8	3.5
ROE	%	3.3	2.6	6.1	7.4
Net debt/equity	%	28.4	22.4	26.9	27.1
Price/book	x	0.7	0.6	0.6	0.6

1904 TT rel Taiex performance, & rec history



Source: FactSet, Macquarie Research, August 2009 (all figures in NT\$ unless noted)

Analyst

Corinne Jian, CFA
886 2 2734 7522 corinne.jian@macquarie.com
Chris Lee, CFA
886 2 2734 7513 chris.lee@macquarie.com

Riding the exporting recovery

Event

- We upgrade Cheng Loong to Outperform from Neutral, and raise our target price to NT\$14.50 from NT\$7.00 to reflect the upward trend in paper shipments and price, along with a recovery in both exports and manufacturing in Taiwan and China. We transfer coverage of Cheng Loong to Corinne Jian.

Impact

- Benefits from China's improving exports.** Based on the PMI survey, new export orders in China improved to 52.1 in July from 51.4 in June and 29 in November 2008, indicating an improving outlook for Cheng Loong's industrial paper business in China, which has mostly export-oriented clients. We expect its investments in China to turn profitable and contribute 42% of total net income in 2009. Based on our SOTP model, its China business accounts for 53% of its NAV before net debt.
- Growing shipments and rising ASP in Taiwan.** In terms of YoY growth, Taiwan's industrial paper shipments hit bottom in 4Q08 and has started to recover in 1Q09. As shown in Figures 13–14 on page 5, industrial paper shipments have a high correlation with GDP and export growth in Taiwan and shipments usually lead the paper price trend. We thus expect the paper price to rise along with shipment growth towards 2010, amidst the expected economic recovery. The paper board price in Taiwan has risen by NT\$1,000/t (~10%) in June and potentially another NT\$1,000/t (~8%) in August.
- Strong earnings growth; cheap valuations.** We expect Cheng Loong's recurring EPS to grow at a 36% CAGR over 2008–11E, thanks to the strong recovery in both Taiwan and China from a low base. Cheng Loong is now trading at 0.64x 2009E P/BV, lower than its long-term average of 0.75x and its HK/China peers' 1.8x. The share prices of the listed Chinese paper companies have climbed 79% over the past three months and we expect Cheng Loong to catch up once it reports good investment income from China. Its plan to list the China business in 2010 should further help unlock value.

Earnings and target price revision

- We upgrade our 2009–10E EPS forecasts by 33% and 138% to reflect the stronger-than-expected recovery in both shipments and ASP. We raise our target price to NT\$14.50 from NT\$7.00.

Price catalyst

- 12-month price target: NT\$14.50 based on a Sum of Parts methodology.
- Catalyst: Good 2Q09 earnings to be announced at the end of August.

Action and recommendation

- We upgrade Cheng Loong to Outperform from Neutral with a new target price of NT\$14.50 based on an SOTP method. We apply a respective EV/EBITDA of 6x and 8x to value its paper business in Taiwan and China, NPV for its development business and a 5.5% cap rate for its commercial buildings.
- Cheng Loong's share price has outperformed the Taiex by only 1% YTD and we expect it to outperform more significantly over the next 6–12 months along with the improving export and industry output in both Taiwan and China.

Cheng Loong (1904 TT, Outperform, Target price: NT\$14.50)

Quarterly Results					Profit & Loss						
		1Q/09A	2Q/09E	3Q/09E	4Q/09E		2008A	2009E	2010E	2011E	
Revenue	m	4,017	4,581	4,946	5,245	Revenue	m	23,414	18,789	23,072	25,130
Gross Profit	m	668	683	632	608	Gross Profit	m	2,909	2,591	2,991	3,403
Operating Expenses	m	-526	-487	-533	-368	Operating Expenses	m	-2,283	-1,914	-2,230	-2,428
Operating Income	m	142	196	99	240	Operating Income	m	626	677	761	975
Net Non-operating income	m	139	92	87	53	Net Non-operating income	m	-490	371	394	474
Pre-Tax Income	m	281	288	186	293	Pre-Tax Income	m	136	1,048	1,155	1,448
Tax Expense	m	-25	-29	-19	-29	Tax Expense	m	-42	-102	-116	-145
Exceptionals	m	318	200	0	0	Exceptionals	m	-425	518	0	0
Minority Interests	m	0	0	0	0	Minority Interests	m	0	0	0	0
Reported Earnings	m	256	259	168	264	Reported Earnings	m	94	946	1,040	1,304
Reported Earnings (bonus exp)	m	256	259	168	264	Reported Earnings (bonus exp)	m	94	946	1,040	1,304
Bonus exp / Reported Earnings	%					Bonus exp / Reported Earnings	%				
Adjusted Earnings	m	-62	59	168	264	Adjusted Earnings	m	519	428	1,040	1,304
EBITDA	m	328	387	290	430	EBITDA	m	1,354	1,435	1,514	1,719
EPS (rep)	NT\$	0.25	0.25	0.16	0.26	EPS (rep)	NT\$	0.09	0.92	1.01	1.26
EPS pcg growth (rep)	%	115.3	-25.7	-17.2	nmf	EPS growth (rep)	%	-81.9	932.8	9.9	25.4
EPS (rep bonus exp)	NT\$	0.25	0.25	0.16	0.26	EPS (rep bonus exp)	NT\$	0.09	0.92	1.01	1.26
EPS pcg growth (rep bonus exp)	%	115.3	-25.7	-17.2	nmf	EPS growth (rep bonus exp)	%	-81.9	932.8	9.9	25.4
EPS (adj)	NT\$	-0.06	0.06	0.16	0.26	EPS (adj)	NT\$	0.49	0.41	1.01	1.26
EPS pcg growth (adj)	%	nmf	-83.1	-0.4	nmf	EPS growth (adj)	%	0.8	-14.6	142.7	25.4
Revenue pcg growth	%	-31.7	-25.0	-18.1	-2.7	PE (rep)	x	116.2	11.2	10.2	8.2
Operating Income pcg growth	%	52.7	-30.6	-62.5	nmf	PE (rep bonus adj)	x	116.2	11.2	10.2	8.2
Reported Earnings pcg growth	%	107.8	-27.7	-19.4	nmf	PE (adj)	x	21.2	24.8	10.2	8.2
Gross Profit Margin	%	16.6	14.9	12.8	11.6	Total DPS	NT\$	0.00	0.49	0.54	0.68
Operating Income Margin	%	3.5	4.3	2.0	4.6	Total Div Yield	%	0.0	4.8	5.2	6.6
Reported Earnings Margin	%	6.4	5.7	3.4	5.0	Weighted Average Shares	m	1,059	1,033	1,033	1,033
EBITDA Margin	%	8.2	8.4	5.9	8.2	Period End Shares	m	1,041	1,033	1,033	1,033
Profit and Loss Ratios		2008A	2009E	2010E	2011E	Cashflow Analysis	2008A	2009E	2010E	2011E	
Revenue Growth	%	-0.6	-19.8	22.8	8.9	Reported Earnings	m	94	946	1,040	1,304
Gross Profit Growth	%	14.7	-10.9	15.5	13.8	Depreciation & Amortisation	m	728	758	753	744
Operating Income Growth	%	205.2	8.1	12.5	28.1	Chgs in Working Cap	m	1,319	410	-981	-453
Reported Earnings Growth	%	-82.1	907.9	9.9	25.4	Other	m	-89	-336	-391	-490
EBITDA Growth	%	14.7	6.0	5.5	13.5	Operating Cashflow	m	2,053	1,778	421	1,104
Gross Profit Margin	%	12.4	13.8	13.0	13.5	Acquisitions	m	-155	-417	-155	-155
Operating Income Margin	%	2.7	3.6	3.3	3.9	Capex	m	-1,131	-634	-634	-634
Reported Earnings Margin	%	0.4	5.0	4.5	5.2	Asset Sales	m	0	0	0	0
EBITDA Margin	%	5.8	7.6	6.6	6.8	Other	m	4	0	0	0
Payout Ratio	%	0.0	118.3	53.6	53.6	Investing Cashflow	m	-1,282	-1,052	-789	-789
EV/EBITDA	x	10.4	7.6	7.1	6.1	Dividend (Ordinary)	m	-424	0	-511	-562
EV/EBIT	x	22.8	12.9	11.5	9.1	Equity Raised	m	0	0	0	0
Balance Sheet Ratios						Debt Movements	m	491	-903	500	0
ROE	%	3.3	2.6	6.1	7.4	Other	m	-288	0	0	0
ROA	%	2.4	2.6	2.8	3.5	Financing Cashflow	m	-222	-903	-11	-562
ROIC	%	2.1	3.0	3.3	4.0	Net Chg in Cash/Debt	m	549	-177	-379	-247
Net Debt/Equity	%	28.4	22.4	26.9	27.1	Free Cashflow	m	922	1,144	-214	470
Interest Cover	x	4.0	6.8	8.2	8.6	FCF per Share	NT\$	0.87	1.11	-0.21	0.45
Price/Book	x	0.7	0.6	0.6	0.6	P/FCF	x	11.8	9.3	-49.8	22.7
Book Value per Share	NT\$	15.1	16.2	16.7	17.4	Balance Sheet	2008A	2009E	2010E	2011E	
						Cash	m	1,075	902	523	276
						Receivables	m	3,138	2,871	3,526	3,840
						Inventories	m	3,452	3,260	4,042	4,373
						Investments	m	0	0	0	0
						Fixed Assets	m	10,168	10,040	9,921	9,811
						Intangibles	m	0	0	0	0
						Other Assets	m	8,209	8,963	9,508	10,154
						Total Assets	m	26,041	26,037	27,520	28,455
						Payables	m	1,944	1,897	2,351	2,544
						Short Term Debt	m	1,152	819	1,319	1,319
						Long Term Debt	m	4,404	3,834	3,834	3,834
						Provisions	m	0	0	0	0
						Other Liabilities	m	2,782	2,782	2,782	2,782
						Total Liabilities	m	10,282	9,331	10,286	10,479
						Total S/H Equity	m	15,760	16,706	17,235	17,977
						Total Liab & S/H Funds	m	26,041	26,037	27,520	28,455

All figures in NT\$ unless noted.

Source: Company data, Macquarie Research, August 2009

TAIWAN

Chinese Gamer

24 July 2009

3083 TT Underperform

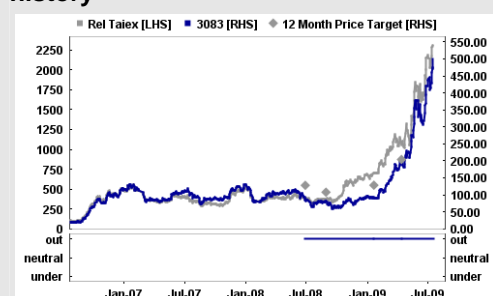
Stock price as of 22 Jul 09	NT\$	485.50
12-month target	NT\$	374.00
Upside/downside	%	-23.0
Valuation - PER	NT\$	374.00

GICS sector	software & services	
Market cap	NT\$m	41,832
30-day avg turnover	NT\$m	1,294.5
Market cap	US\$m	1,276
Number shares on issue	m	86.16

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Total revenue	m	1,426.1	1,996.5	2,096.4	2,201.2
Reported profit	m	656.6	1,306.2	1,703.6	2,029.8
Profit bonus exp	m	656.6	1,306.2	1,703.6	2,029.8
Bon exp/rep prof	%	0.0	0.0	0.0	0.0
Adjusted profit	m	656.6	1,306.2	1,703.6	2,029.8
EPS rep	NT\$	7.62	15.16	19.77	23.56
EPS rep growth	%	11.6	98.9	30.4	19.1
EPS bonus exp	NT\$	7.62	15.16	19.77	23.56
EPS bonus growth	%	22.7	98.9	30.4	19.1
PE rep	x	63.7	32.0	24.6	20.6
PE bonus exp	x	63.7	32.0	24.6	20.6
Total DPS	NT\$	6.40	11.37	14.83	17.67
Total div yield	%	1.3	2.3	3.1	3.6
ROA	%	32.7	47.0	39.3	33.8
ROE	%	34.6	56.8	56.0	53.7
EV/EBITDA	x	50.9	27.6	21.6	18.3
Net debt/equity	%	-77.2	-68.8	-59.9	-48.0
Price/book	x	21.7	15.6	12.3	10.1

3083 TT rel Taiex performance, & rec history



Source: FactSet, Macquarie Research, July 2009 (all figures in NT\$ unless noted)

Analyst

Kylie Huang
886 2 2734 7528

kylie.huang@macquarie.com

Overheating

Event

- Chinese Gamer's share price has rallied by 435%, outperforming the Taiex by 375% YTD, driven by the company's surging contribution from China. We believe the share price is overheating and are downgrading the stock to Underperform from Outperform with a target price of NT\$374 (from NT\$204).

Impact

- Valuation overheating:** We believe Chinese Gamer stock has overrun due to the rising China contribution. Even with our aggressive forecast for 2010 earnings, the stock trades at 24x 2010E EPS and is the most expensive stock among regional peers (Fig 5). NCsoft, one of the largest Korea online game R&D companies, which had a recent impressive success with the game title 'Aion' in China, only trades at a 12x 2010E PER.
- Market expectations for China might be too high, although 2010 should be a better year:** We believe everyone is eyeing Chinese Gamer's harvest in China in 2010. The company has licensed two games (TS2/Norn Sober) to China's top-tier operators this year, while TS2 is expected to launch in late 4Q09 (Fig 3). We agree that 2009 is just a beginning and expect to see more contribution from China in 2010 – licensing revenue plus 20–30% royalty income on launched games. However, based on our sensitivity analysis (Fig 2), even in the most optimistic scenario, which we believe would be very challenging to achieve, assuming the total CCU of the company's games in China reach 1.7m by 2010, 2010E EPS might come in NT\$25, which in our view still would not justify the current rich valuation. We are convinced most of the China positives have been priced in; we see downside risks from here.
- Marching into peak season, but softer 2Q has raised our concerns:** Chinese Gamer's 2Q sales came in NT\$395.6m, down 28% QoQ, and we are trimming our 2Q sales estimate by 15%. The company launched two games – Seek Chin Online (late April) and Journey to the West (June) in 2Q – but could not offset the impact of slow seasonality and the CCU decline of existing popular games. The softer 2Q has raised our concerns about the company's market-leading position compared with its local peers' resilient performance. While we still expect to see a strong 3Q, driven by the student summer vacation effect plus the launch of the highly awaited game, Super Hero (Aug), we are concerned the potential downside risks will be impacted by the more fierce competition in the domestic market.

Earnings and target price revision

- We are raising our 2009/10 EPS estimates by 11%/27% given more aggressive assumptions on the China contribution. In tandem, we are raising our TP to NT\$374 from NT\$204.

Price catalyst

- 12-month price target: NT\$374.00 based on a PER methodology.
- Catalyst: Stretched valuation; market expectation on China too high.

Action and recommendation

- We believe the stock is overshooting and suggest investors take profits on the strong rally YTD. Our TP of NT\$374 is based on a 22x one-year forward PER. Longer term, we remain positive on Chinese Gamer for its strong R&D ability and bright industry outlook. We will revisit the name when we see more evidence on the popularity of its games in China.

Chinese Gamer (3083 TT, Underperform, Target price: NT\$374.00)

Quarterly Results					Profit & Loss						
		1Q/09A	2Q/09E	3Q/09E	4Q/09E		2008A	2009E	2010E	2011E	
Revenue	m	553	396	504	544	Revenue	m	1,426	1,997	2,096	2,201
Gross Profit	m	541	379	494	525	Gross Profit	m	1,358	1,939	2,030	2,125
Operating Expenses	m	-182	-145	-187	-187	Operating Expenses	m	-646	-701	-723	-748
Operating Income	m	359	234	307	338	Operating Income	m	712	1,238	1,306	1,376
Net Non-operating income	m	19	36	56	85	Net Non-operating income	m	7	197	536	806
Pre-Tax Income	m	378	271	363	423	Pre-Tax Income	m	719	1,435	1,842	2,183
Tax Expense	m	-34	-23	-31	-41	Tax Expense	m	-62	-129	-138	-153
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Minority Interests	m	0	0	0	0	Minority Interests	m	0	0	0	0
Reported Earnings	m	344	247	332	383	Reported Earnings	m	657	1,306	1,704	2,030
Reported Earnings (bonus exp)	m	344	247	332	383	Reported Earnings (bonus exp)	m	657	1,306	1,704	2,030
Bonus exp / Reported Earnings	%	0.0	0.0	0.0	0.0	Bonus exp / Reported Earnings	%	0.0	0.0	0.0	0.0
Adjusted Earnings	m	344	247	332	383	Adjusted Earnings	m	657	1,306	1,704	2,030
EBITDA	m	363	239	312	363	EBITDA	m	763	1,276	1,347	1,421
EPS (rep)	NT\$	3.99	2.87	3.86	4.44	EPS (rep)	NT\$	7.62	15.16	19.77	23.56
EPS pcg growth (rep)	%	164.8	118.8	94.1	57.8	EPS growth (rep)	%	11.6	98.9	30.4	19.1
EPS (rep bonus exp)	NT\$	3.99	2.87	3.86	4.44	EPS (rep bonus exp)	NT\$	7.62	15.16	19.77	23.56
EPS pcg growth (rep bonus exp)	%	164.8	118.8	94.1	57.8	EPS growth (rep bonus exp)	%	22.7	98.9	30.4	19.1
EPS (adj)	NT\$	3.99	2.87	3.86	4.44	EPS (adj)	NT\$	7.62	15.16	19.77	23.56
EPS pcg growth (adj)	%	164.8	118.8	94.1	57.8	EPS growth (adj)	%	11.6	98.9	30.4	19.1
Revenue pcg growth	%	83.7	72.1	41.8	0.8	PE (rep)	x	63.7	32.0	24.6	20.6
Operating Income pcg growth	%	162.4	164.8	73.7	9.1	PE (rep bonus adj)	x	63.7	32.0	24.6	20.6
Reported Earnings pcg growth	%	164.8	118.8	94.1	57.8	PE (adj)	x	63.7	32.0	24.6	20.6
Gross Profit Margin	%	97.8	95.9	98.0	96.5	Total DPS	NT\$	6.40	11.37	14.83	17.67
Operating Income Margin	%	64.9	59.3	60.9	62.1	Total Div Yield	%	1.3	2.3	3.1	3.6
Reported Earnings Margin	%	62.2	62.5	66.0	70.3	Weighted Average Shares	m	86.2	86.2	86.2	86.2
EBITDA Margin	%	65.7	60.4	61.8	66.6	Period End Shares	m	86.2	86.2	86.2	86.2
Profit and Loss Ratios		2008A	2009E	2010E	2011E	Cashflow Analysis		2008A	2009E	2010E	2011E
Revenue Growth	%	24.7	40.0	5.0	5.0	Reported Earnings	m	657	1,306	1,704	2,030
Gross Profit Growth	%	23.8	42.8	4.7	4.7	Depreciation & Amortisation	m	51	38	41	44
Operating Income Growth	%	17.6	74.0	5.5	5.4	Chgs in Working Cap	m	87	-175	-2	-2
Reported Earnings Growth	%	12.6	98.9	30.4	19.1	Other	m	-28	-180	-512	-782
EBITDA Growth	%	19.2	67.3	5.6	5.4	Operating Cashflow	m	767	989	1,230	1,290
Gross Profit Margin	%	95.2	97.1	96.8	96.5	Acquisitions	m	-19	-15	-15	-15
Operating Income Margin	%	49.9	62.0	62.3	62.5	Capex	m	-15	-20	-20	-20
Reported Earnings Margin	%	46.0	65.4	81.3	92.2	Asset Sales	m	0	0	0	0
EBITDA Margin	%	53.5	63.9	64.3	64.5	Other	m	-13	-45	-20	-20
Payout Ratio	%	84.0	75.0	75.0	75.0	Investing Cashflow	m	-47	-80	-55	-55
EV/EBITDA	x	50.9	27.6	21.6	18.3	Dividend (Ordinary)	m	-428	-551	-980	-1,278
EV/EBIT	x	54.4	28.4	22.1	18.7	Equity Raised	m	-177	0	-0	0
Balance Sheet Ratios						Debt Movements	m	0	0	0	0
ROE	%	34.6	56.8	56.0	53.7	Other	m	0	0	0	0
ROA	%	32.7	47.0	39.3	33.8	Financing Cashflow	m	-605	-551	-980	-1,278
ROIC	%	129.7	257.2	144.7	93.9	Net Chg in Cash/Debt	m	115	358	196	-43
Net Debt/Equity	%	-77.2	-68.8	-59.9	-48.0	Free Cashflow	m	752	969	1,210	1,270
Interest Cover	x	nmf	nmf	nmf	nmf	FCF per Share	NT\$	8.72	11.24	14.05	14.73
Price/Book	x	21.7	15.6	12.3	10.1	P/FCF	x	55.7	43.2	34.6	32.9
Book Value per Share	NT\$	22.3	31.1	39.5	48.2	Balance Sheet		2008A	2009E	2010E	2011E
						Cash	m	1,486	1,844	2,040	1,996
						Receivables	m	302	328	345	362
						Inventories	m	0	0	0	0
						Investments	m	399	594	1,121	1,918
						Fixed Assets	m	69	71	70	66
						Intangibles	m	21	0	0	0
						Other Assets	m	36	115	117	119
						Total Assets	m	2,313	2,952	3,692	4,462
						Payables	m	42	24	27	31
						Short Term Debt	m	0	0	0	0
						Long Term Debt	m	0	0	0	0
						Provisions	m	0	0	0	0
						Other Liabilities	m	347	250	262	275
						Total Liabilities	m	389	273	290	307
						Total S/H Equity	m	1,924	2,679	3,403	4,155
						Total Liab & S/H Funds	m	2,313	2,952	3,692	4,462

All figures in NT\$ unless noted.

Source: Company data, Macquarie Research, July 2009

TAIWAN

St Shine Optical

18 August 2009

1565 TT **Outperform**

Stock price as of 18 Aug 09	NT\$	140.00
12-month target	NT\$	180.00
Upside/downside	%	+28.6
Valuation	NT\$	180.00
- PER		

GICS sector	health care equipment & services		
Market cap	NT\$m	7,044	
30-day avg turnover	NT\$m	128.8	
Market cap	US\$m	214	
Number shares on issue	m	50.32	

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Total revenue	m	2,102.5	2,225.0	2,498.0	2,875.0
Reported profit	m	561.8	569.1	642.1	740.6
Profit bonus exp	m	561.8	569.1	642.1	740.6
Bon exp/rep prof	%	0.0	0.0	0.0	0.0
Adjusted profit	m	561.8	569.1	642.1	740.6
EPS rep	NT\$	11.16	11.31	12.76	14.72
EPS rep growth	%	5.2	1.3	12.8	15.3
EPS bonus exp	NT\$	11.16	11.31	12.76	14.72
EPS bonus growth	%	16.7	1.3	12.8	15.3
PE rep	x	12.5	12.4	11.0	9.5
PE bonus exp	x	12.5	12.4	11.0	9.5
Total DPS	NT\$	8.00	7.92	8.93	10.30
Total div yield	%	5.7	5.7	6.4	7.4
ROA	%	26.7	26.7	27.6	28.5
ROE	%	30.6	28.7	29.3	30.1
EV/EBITDA	x	8.0	7.3	6.6	5.7
Net debt/equity	%	-32.4	-35.4	-39.3	-46.0
Price/book	x	3.7	3.4	3.0	2.7

1565 TT rel Taiex performance, & rec history



Source: FactSet, Macquarie Research, August 2009
(all figures in NT\$ unless noted)

Analyst

Kylie Huang

886 2 2734 7528

kylie.huang@macquarie.com

Embracing the uptrend

Event

- We talked to St. Shine Optical to get a business update. We reiterate our Outperform rating and raise our target price to NT\$180 from NT\$143 as we roll over our forecast from 2009 to 2010, and factor in our strong revenue momentum expectation.

Impact

- Strong sales momentum starts to kick in:** St. Shine delivered strong July sales of NT\$192m, up 7% MoM and 8%YoY, thanks to its newly launched product (bi-weekly colour cosmetic contact lenses) in Taiwan. In addition, its two long-awaited new products – daily high-humidity contact lenses and daily cosmetic contact lenses – are expected to be launched in Japan in 4Q09 and 1Q10, respectively, after receiving government certification, and should provide a further boost to the company's revenue.
- Double-digit growth expected in 2010:** We expect to see St. Shine deliver 12% YoY sales growth in 2010, benefiting from an improving economy and new product launches. The Japanese and European markets should be key growth drivers, delivering respective YoY sales growth of 16% and 18%, by our estimates, with the help of new product launches as well as market expansion. In particular, the launch of its daily cosmetic contact lenses in Japan should be a major contributor.
- Decent cash yield, strong ROE and attractive valuation:** St. Shine will go ex-dividend on 26 August with cash dividend of NT\$8/sh, implying a 5.5% cash dividend. The stock is trading at 11x 2010E PER, at the lower end of the historical range of 10–16x, which we see as attractive given its strong ROE (~30%), decent cash yield and rising sales momentum, and the ongoing trend among consumers of switching from non-daily to daily disposable contact lenses.

Earnings and target price revision

- We slightly revise down our 2009–10 EPS to NT\$11.31/NT\$12.76, respectively, due to the delay in new product launches. We raise our target price to NT\$180 based on 14x 2010E PER, at the higher end of the historical range of 10–16x given its strong sales momentum.

Price catalyst

- 12-month price target: NT\$180.00 based on a PER methodology.
- Catalyst: New product launches in Japan; expansion of European market.

Action and recommendation

- Embracing the uptrend:** The stock has seen a significant re-rating following the new product launches and new client additions (Figure 1); we expect this to be repeated in 4Q09/1H10, driven by contribution from new product launches in Japan. We suggest that investors accumulate the shares ahead of this expected uptrend. We reiterate our positive view on St. Shine with a target price of NT\$180, implying 28%+ upside.

St Shine Optical (1565 TT, Outperform, Target price: NT\$180.00)

Quarterly Results					Profit & Loss						
		1Q/09A	2Q/09E	3Q/09E	4Q/09E		2008A	2009E	2010E	2011E	
Revenue	m	528	530	565	602	Revenue	m	2,103	2,225	2,498	2,875
Gross Profit	m	293	293	313	330	Gross Profit	m	1,171	1,228	1,361	1,544
Operating Expenses	m	-112	-113	-123	-123	Operating Expenses	m	-462	-472	-510	-564
Operating Income	m	181	180	189	207	Operating Income	m	709	757	852	980
Net Non-operating income	m	15	-10	1	-3	Net Non-operating income	m	17	2	4	7
Pre-Tax Income	m	195	170	190	203	Pre-Tax Income	m	726	759	856	987
Tax Expense	m	-56	-42	-48	-44	Tax Expense	m	-164	-190	-214	-247
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Minority Interests	m	0	0	0	0	Minority Interests	m	0	0	0	0
Reported Earnings	m	139	127	143	160	Reported Earnings	m	562	569	642	741
Reported Earnings (bonus exp)	m	139	127	143	160	Reported Earnings (bonus exp)	m	562	569	642	741
Bonus exp / Reported Earnings	%	0.0	0.0	0.0	0.0	Bonus exp / Reported Earnings	%	0.0	0.0	0.0	0.0
Adjusted Earnings	m	139	127	143	160	Adjusted Earnings	m	562	569	642	741
EBITDA	m	210	209	219	244	EBITDA	m	813	882	979	1,123
EPS (rep)	NT\$	2.77	2.53	2.84	3.17	EPS (rep)	NT\$	11.16	11.31	12.76	14.72
EPS pcg growth (rep)	%	7.8	-10.0	-2.3	10.2	EPS growth (rep)	%	5.2	1.3	12.8	15.3
EPS (rep bonus exp)	NT\$	2.77	2.53	2.84	3.17	EPS (rep bonus exp)	NT\$	11.16	11.31	12.76	14.72
EPS pcg growth (rep bonus exp)	%	7.8	-10.0	-2.3	10.2	EPS growth (rep bonus exp)	%	16.7	1.3	12.8	15.3
EPS (adj)	NT\$	2.77	2.53	2.84	3.17	EPS (adj)	NT\$	11.16	11.31	12.76	14.72
EPS pcg growth (adj)	%	7.8	-10.0	-2.3	10.2	EPS growth (adj)	%	5.2	1.3	12.8	15.3
Revenue pcg growth	%	1.0	-0.3	7.4	15.4	PE (rep)	x	12.5	12.4	11.0	9.5
Operating Income pcg growth	%	-5.4	-0.4	10.4	24.4	PE (rep bonus adj)	x	12.5	12.4	11.0	9.5
Reported Earnings pcg growth	%	7.8	-10.0	-2.3	10.2	PE (adj)	x	12.5	12.4	11.0	9.5
Gross Profit Margin	%	55.5	55.2	55.3	54.8	Total DPS	NT\$	8.00	7.92	8.93	10.30
Operating Income Margin	%	34.2	33.9	33.5	34.3	Total Div Yield	%	5.7	5.7	6.4	7.4
Reported Earnings Margin	%	26.4	24.0	25.3	26.5	Weighted Average Shares	m	50.3	50.3	50.3	50.3
EBITDA Margin	%	39.8	39.5	38.7	40.5	Period End Shares	m	50.3	50.3	50.3	50.3
Profit and Loss Ratios		2008A	2009E	2010E	2011E	Cashflow Analysis		2008A	2009E	2010E	2011E
Revenue Growth	%	21.1	5.8	12.3	15.1	Reported Earnings	m	562	569	642	741
Gross Profit Growth	%	16.0	4.9	10.8	13.4	Depreciation & Amortisation	m	104	125	127	142
Operating Income Growth	%	10.9	6.7	12.6	15.1	Chgs in Working Cap	m	92	-149	-41	-57
Reported Earnings Growth	%	5.6	1.3	12.8	15.3	Other	m	13	6	4	1
EBITDA Growth	%	11.3	8.4	11.0	14.7	Operating Cashflow	m	771	551	732	827
Gross Profit Margin	%	55.7	55.2	54.5	53.7	Acquisitions	m	-7	0	0	0
Operating Income Margin	%	33.7	34.0	34.1	34.1	Capex	m	-13	-16	-150	-80
Reported Earnings Margin	%	26.7	25.6	25.7	25.8	Asset Sales	m	0	0	0	1
EBITDA Margin	%	38.7	39.6	39.2	39.1	Other	m	-5	-17	-7	-8
Payout Ratio	%	71.7	70.0	70.0	70.0	Investing Cashflow	m	-24	-34	-157	-87
EV/EBITDA	x	8.0	7.3	6.6	5.7	Dividend (Ordinary)	m	-377	-403	-398	-449
EV/EBIT	x	9.2	8.5	7.5	6.5	Equity Raised	m	-52	-0	0	-0
Balance Sheet Ratios						Debt Movements	m	-51	-10	17	0
ROE	%	30.6	28.7	29.3	30.1	Other	m	0	0	0	0
ROA	%	26.7	26.7	27.6	28.5	Financing Cashflow	m	-480	-413	-382	-449
ROIC	%	37.3	44.1	47.8	52.3	Net Chg in Cash/Debt	m	266	105	193	290
Net Debt/Equity	%	-32.4	-35.4	-39.3	-46.0	Free Cashflow	m	758	535	582	747
Interest Cover	x	nmf	428.7	nmf	nmf	FCF per Share	NT\$	15.07	10.63	11.58	14.85
Price/Book	x	3.7	3.4	3.0	2.7	P/FCF	x	9.3	13.2	12.1	9.4
Book Value per Share	NT\$	37.8	41.1	46.0	51.8	Balance Sheet		2008A	2009E	2010E	2011E
						Cash	m	964	1,069	1,263	1,553
						Receivables	m	286	427	479	551
						Inventories	m	297	332	379	444
						Investments	m	139	133	129	128
						Fixed Assets	m	933	831	861	806
						Intangibles	m	1	0	0	0
						Other Assets	m	122	136	142	152
						Total Assets	m	2,742	2,927	3,253	3,633
						Payables	m	73	137	156	182
						Short Term Debt	m	52	51	53	53
						Long Term Debt	m	295	287	301	301
						Provisions	m	0	0	0	0
						Other Liabilities	m	419	384	429	492
						Total Liabilities	m	839	858	939	1,029
						Total S/H Equity	m	1,903	2,069	2,313	2,604
						Total Liab & S/H Funds	m	2,742	2,927	3,253	3,633

All figures in NT\$ unless noted.
Source: Macquarie Research, August 2009

TAIWAN

Young Fast

19 August 2009

3622 TT

Outperform

Stock price as of 18 Aug 09	NT\$	313.00
12-month target	NT\$	500.00
Upside/downside	%	+59.7
Valuation	NT\$	500.00
- PER		

GICS sector	technology hardware & equipment		
Market cap	NT\$m	41,204	
30-day avg turnover	NT\$m	1,154.5	
Market cap	US\$m	1,249	
Foreign ownership	%	9.9	
Number shares on issue	m	131.6	

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Total revenue	m	6,886	11,609	16,205	21,190
Reported profit	m	1,160	2,614	3,153	3,751
Profit bonus exp	m	1,160	2,614	3,153	3,751
EPS rep	NT\$	9.82	19.85	23.95	28.49
EPS rep growth	%	239.1	102.2	20.6	19.0
PE rep	x	31.9	15.8	13.1	11.0
PE bonus exp	x	31.9	15.8	13.1	11.0
Total DPS	NT\$	4.82	11.00	11.00	15.00
Total div yield	%	1.5	3.5	3.5	4.8
ROA	%	28.8	41.2	36.5	35.0
ROE	%	43.6	52.2	43.8	41.8
EV/EBITDA	x	23.2	12.1	9.3	7.6
Net debt/equity	%	-53.6	-57.9	-45.7	-50.1
Price/book	x	10.4	6.4	5.2	4.1

3622 TT rel Taiex performance, & rec history



Source: FactSet, Macquarie Research, August 2009 (all figures in NT\$ unless noted)

Analysts

Tammy Lai
886 2 2734 7532 tammy.lai@macquarie.com

Chialin (Birdy) Lu, CFA
886 2 2734 7526 chialin.lu@macquarie.com

Proving strength

Event

- Young Fast (YFO) posted its 2Q09 results. EPS of NT\$5.7 came in 20%+ higher than our and the street's highest forecasts. We maintain our Outperform rating and expect earnings upgrades following the strong set of results.

Impact

- The winner in a growing pie.** While the market is concerned about rising competition, we hold our contrarian view that YFO will maintain its solid footing in the touch panel space with tight links to global brands, accumulated manufacturing know-how and strong execution to improve yield rate and margins. Evidence has been seen in the past quarters. YFO continued to win orders from competitors when they failed to fulfil customers' requirements in volume and quality. Also, with larger economies of scale, YFO has benefited from escalating yield rates and a more favourable cost structure to further differentiate itself from peers.
- Quality matters and differentiates players.** Market now agrees that touch panel is a mega trend in the handset industry. However, we think the importance of touch panel quality is overlooked. When more and more handsets use touch panels as the sole input (ie, without keyboard), the quality of touch panels becomes a big swing factor of user satisfaction, especially with mobile Internet and intuitive browsing (finger swipe and multiple touch zoom in/out etc.) getting popular.
- As such, quality comes first when brand customers choose touch panel vendors at the current stage, as they will not risk product return to get a 5–10% cheaper price, in our view. This partially explains consecutive strong shipments for YFO.
- Excellent 2Q09 results.** Net income grew by 64% QoQ to reached NT\$749m (+210% YoY), or EPS of NT\$5.7, and this is higher than our revised-up projection of NT\$540m (*Young Fast- the going gets stronger*, 22 July). Revenue grew 34% QoQ to NT\$2.9bn (+74% YoY) with, notably, GM/OPM jumping to 38.8%/29.2% on better yield rates for both resistive and capacitive touch panels, and better OPEX control. We estimate YFO's touch panel shipments rose 25–30% QoQ in 2Q09, thanks to SEC (005930 KS, Won730,000, OP, TP: Won900,000, 23.2% upside – Dohoon Lee) and LGE's (066570 KS, Won142,000, OP, TP: Won175,000, 23.2% upside – Michael Bang) hot-selling feature phone models.

Earnings and target price revision

- We raise our 2009/2010 EPS by 17%/7%.

Price catalyst

- 12-month price target: NT\$500.00 based on a PER methodology.
- Catalyst: Rising touch panel adoption and new projects.

Action and recommendation

- Maintain Outperform rating and target price of NT\$500 (21x 2010E PER).

Young Fast Optoelectronics (3622 TT, Outperform, Target price: NT\$500.00)

Quarterly Results		1Q/09A	2Q/09E	3Q/09E	4Q/09E	Profit & Loss		2008A	2009E	2010E	2011E
Revenue	m	2,192	2,936	3,345	3,136	Revenue	m	6,886	11,609	16,205	21,190
Gross Profit	m	741	1,140	1,179	1,043	Gross Profit	m	1,921	4,104	5,045	6,193
Operating Expenses	m	-263	-282	-330	-347	Operating Expenses	m	-611	-1,222	-1,376	-1,767
Operating Income	m	478	857	849	696	Operating Income	m	1,309	2,881	3,670	4,426
Net Non-operating income	m	82	-56	43	13	Net Non-operating income	m	-8	81	40	-13
Pre-Tax Income	m	560	801	892	709	Pre-Tax Income	m	1,302	2,963	3,710	4,413
Tax Expense	m	-104	-50	-107	-85	Tax Expense	m	-146	-347	-556	-662
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Minority Interests	m	-0	-2	0	0	Minority Interests	m	4	-2	0	0
Reported Earnings	m	456	749	785	624	Reported Earnings	m	1,160	2,614	3,153	3,751
Reported Earnings (bonus exp)	m	456	749	785	624	Reported Earnings (bonus exp)	m	1,160	2,614	3,153	3,751
Bonus exp / Reported Earnings	%	0.0	0.0	0.0	0.0	Bonus exp / Reported Earnings	%	0.0	0.0	0.0	0.0
Adjusted Earnings	m	456	749	785	624	Adjusted Earnings	m	1,160	2,614	3,153	3,751
EBITDA	m	538	924	926	782	EBITDA	m	1,501	3,170	4,127	5,068
EPS (rep)	NT\$	3.46	5.69	5.96	4.74	EPS (rep)	NT\$	9.82	19.85	23.95	28.49
EPS pcg growth (rep)	%	51.2	210.2	127.9	54.4	EPS growth (rep)	%	239.1	102.2	20.6	19.0
EPS (rep bonus exp)	NT\$	3.46	5.69	5.96	4.74	EPS (rep bonus exp)	NT\$	9.82	19.85	23.95	28.49
EPS pcg growth (rep bonus exp)	%	51.2	210.2	127.9	54.4	EPS growth (rep bonus exp)	%	246.0	102.2	20.6	19.0
EPS (adj)	NT\$	3.46	5.69	5.96	4.74	EPS (adj)	NT\$	9.81	19.85	23.95	28.49
EPS pcg growth (adj)	%	51.2	210.2	127.9	54.4	EPS growth (adj)	%	145.8	102.4	20.6	19.0
Revenue pcg growth	%	66.6	73.5	89.1	48.6	PE (rep)	x	31.9	15.8	13.1	11.0
Operating Income pcg growth	%	32.0	106.8	131.0	322.8	PE (rep bonus adj)	x	31.9	15.8	13.1	11.0
Reported Earnings pcg growth	%	77.9	239.8	149.7	69.2	PE (adj)	x	31.9	15.8	13.1	11.0
Gross Profit Margin	%	33.8	38.8	35.3	33.3	Total DPS	NT\$	4.82	11.00	11.00	15.00
Operating Income Margin	%	21.8	29.2	25.4	22.2	Total Div Yield	%	1.5	3.5	3.5	4.8
Reported Earnings Margin	%	20.8	25.5	23.5	19.9	Weighted Average Shares	m	118.1	131.6	131.6	131.6
EBITDA Margin	%	24.5	31.5	27.7	24.9	Period End Shares	m	120.2	131.6	131.6	131.6
Profit and Loss Ratios		2008A	2009E	2010E	2011E	Cashflow Analysis		2008A	2009E	2010E	2011E
Revenue Growth	%	911.3	68.6	39.6	30.8	Reported Earnings	m	1,160	2,614	3,153	3,751
Gross Profit Growth	%	1,392.3	113.7	22.9	22.7	Depreciation & Amortisation	m	192	289	458	642
Operating Income Growth	%	1,093.7	120.1	27.4	20.6	Chgs in Working Cap	m	628	-734	-1,106	-264
Reported Earnings Growth	%	985.5	125.4	20.6	19.0	Other	m	-128	275	0	0
EBITDA Growth	%	1,101.1	111.2	30.2	22.8	Operating Cashflow	m	1,852	2,444	2,505	4,129
Gross Profit Margin	%	27.9	35.3	31.1	29.2	Acquisitions	m	0	0	0	0
Operating Income Margin	%	19.0	24.8	22.6	20.9	Capex	m	-448	-723	-1,000	-1,000
Reported Earnings Margin	%	16.8	22.5	19.5	17.7	Asset Sales	m	9	0	0	0
EBITDA Margin	%	21.8	27.3	25.5	23.9	Other	m	34	-25	0	0
Payout Ratio	%	49.1	55.4	45.9	52.6	Investing Cashflow	m	-405	-748	-1,000	-1,000
EV/EBITDA	x	23.2	12.1	9.3	7.6	Dividend (Ordinary)	m	-47	-721	-1,448	-1,448
EV/EBIT	x	26.6	13.3	10.4	8.7	Equity Raised	m	770	878	0	0
Balance Sheet Ratios						Debt Movements	m	-653	-1	0	0
ROE	%	43.6	52.2	43.8	41.8	Other	m	-2	-23	-115	-345
ROA	%	28.8	41.2	36.5	35.0	Financing Cashflow	m	67	133	-1,563	-1,793
ROIC	%	60.9	151.9	115.7	86.6	Net Chg in Cash/Debt	m	1,466	1,779	-57	1,336
Net Debt/Equity	%	-53.6	-57.9	-45.7	-50.1	Free Cashflow	m	1,404	1,721	1,505	3,129
Interest Cover	x	694.5	nmf	nmf	nmf	FCF per Share	NT\$	11.89	13.07	11.44	23.77
Price/Book	x	10.4	6.4	5.2	4.1	P/FCF	x	26.3	23.9	27.4	13.2
Book Value per Share	NT\$	30.0	48.7	60.7	75.6	Balance Sheet		2008A	2009E	2010E	2011E
						Cash	m	1,973	3,752	3,695	5,030
						Receivables	m	1,083	1,742	3,027	3,367
						Inventories	m	793	1,279	2,267	2,687
						Investments	m	0	0	0	0
						Fixed Assets	m	1,050	1,497	2,039	2,397
						Intangibles	m	0	0	0	0
						Other Assets	m	431	400	400	400
						Total Assets	m	5,331	8,670	11,429	13,883
						Payables	m	1,304	1,748	2,916	3,412
						Short Term Debt	m	42	42	42	42
						Long Term Debt	m	0	0	0	0
						Provisions	m	0	0	0	0
						Other Liabilities	m	379	474	474	474
						Total Liabilities	m	1,725	2,264	3,432	3,928
						Total S/H Equity	m	3,605	6,407	7,997	9,954
						Total Liab & S/H Funds	m	5,331	8,670	11,429	13,883

All figures in NT\$ unless noted.

Source: Company data, Macquarie Research, August 2009

TAIWAN

Aces Electronic Co.

20 July 2009

3605 TT **Outperform**

Stock price as of 16 Jul 09	NT\$	92.50
12-month target	NT\$	136.00
Upside/downside	%	+47.0
Valuation	NT\$	123.00-146.00
- PER		

GICS sector		capital goods
Market cap	NT\$m	7,951
30-day avg turnover	NT\$m	55.4
Market cap	US\$m	241
Number shares on issue	m	85.95

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Total revenue	m	3,884.2	4,597.0	5,992.4	7,452.5
Reported profit	m	659.1	748.1	964.5	1,214.3
Profit bonus exp	m	659.1	748.1	964.5	1,214.3
Bon exp/rep prof	%	0.0	0.0	0.0	0.0
Adjusted profit	m	707.9	750.5	964.5	1,214.3
EPS rep	NT\$	8.47	9.12	11.22	14.13
EPS rep growth	%	15.1	7.7	23.0	25.9
EPS bonus exp	NT\$	8.47	9.12	11.22	14.13
EPS bonus growth	%	21.2	7.7	23.0	25.9
PE rep	x	10.9	10.1	8.2	6.5
PE bonus exp	x	10.9	10.1	8.2	6.5
Total DPS	NT\$	3.00	3.50	4.50	6.00
Total div yield	%	3.2	3.8	4.9	6.5
ROA	%	18.4	22.7	23.9	24.8
ROE	%	32.9	27.7	28.8	29.5
EV/EBITDA	x	7.8	5.6	4.4	3.5
Net debt/equity	%	-29.2	-27.3	-27.6	-31.4
Price/book	x	3.0	2.6	2.2	1.7

3605 TT rel Taiex performance, & rec history



Source: FactSet, Macquarie Research, July 2009 (all figures in NT\$ unless noted)

Analyst

James Chiu 886 2 2734 7517	james.chiu@macquarie.com
William Chen 886 2 2734 7533	william.chen@macquarie.com
Daniel Chang 886 2 2734 7516	daniel.chang@macquarie.com

Diamond in the rough

Event

- We are initiating coverage of Aces with an Outperform rating and target price of NT\$136. We believe Aces is a hidden gem, given that it has a strong growth outlook from market share gain and stabilising margin, superior ROE and solid financial structure, while trading at a discount to its peers.

Impact

- **Set for market share gain.** Aces has been expanding its market share at the expense of US/Japan players by increasing penetration to the Taiwan NB ODM, given: 1) established relationship, 2) high vertical integration with design capability, 3) comparable quality products at a reasonable price, and 4) flexibility in productions. We expect Aces' NB connector market share to expand to 6% in FY09 and 7% in FY10, from 5% in FY08.
- **Beneficiary of order reshuffle.** With Hon Hai's (HHP) move into the NB assembly, we expect the NB ODMs to shift their component orders away from HHP to other suppliers. Aces is set to benefit from the structural change and accelerate its share gain given HHP's heavy exposure to the NB connectors.
- **Expanding ASP and margin.** Ace's connector ASP is rising based on the trend toward thinner NBs, which require the use of smaller but more precise connectors with higher ASP due to lower yield. Aces also targets to increase the NB dollar content per box by expanding to other applications such as battery and I/O. In addition, we expect Aces' operating margin to recover to 22% given the stabilising raw material trend, while opex ratio declines from economy of scale.
- **Solid balance sheet and positive FCF.** At the end of 1Q09, Aces had net cash of NT\$1.2bn, for net cash to equity of 41%, due to its high cash and minimal debt. In addition, Aces has been generating positive FCF despite building new plants for capacity expansion. Given the rising cash and positive FCF, the company is considering raising its cash dividend pay-out.
- **Superior ROE at a discount.** We believe Aces is undervalued and that its valuation should catch up with peers. Compared to regional connector companies or Taiwan NB component names, Aces trades at an attractive valuation of 8x PER, despite its unparalleled ROE/ROIC of 28%/44% (Fig 16-17).

Earnings and target price revision

- Initiation, no change.

Price catalyst

- 12-month price target: NT\$136.00 based on a ROE-g/COE-g methodology.
- Catalyst: Market share gain and stabilising raw material prices.

Action and recommendation

- Since its IPO, Aces has underperformed the Taiex by 17%, which we believe is due to a lack of market awareness and the fact that the stock is undervalued. Our target price of NT\$136 is based on an ROE-g/COE-g valuation, and implies FY10E PER of 12x. We believe this is justifiable given Aces' profit growth and its 28-30% ROE in a difficult FY09.

Aces Electronic Co. (3605 TT, Outperform, Target price: NT\$136.00)

Quarterly Results		1Q/09A	2Q/09E	3Q/09E	4Q/09E	Profit & Loss					
						2008A	2009E	2010E	2011E		
Revenue	m	857	1,124	1,273	1,343	Revenue	m	3,884	4,597	5,992	7,452
Gross Profit	m	332	417	472	499	Gross Profit	m	1,300	1,720	2,172	2,662
Operating Expenses	m	-131	-174	-191	-193	Operating Expenses	m	-613	-689	-845	-995
Operating Income	m	201	243	281	305	Operating Income	m	687	1,031	1,327	1,667
Net Non-operating income	m	32	-27	-2	-2	Net Non-operating income	m	139	1	-8	-8
Pre-Tax Income	m	234	216	279	303	Pre-Tax Income	m	826	1,032	1,319	1,659
Tax Expense	m	-67	-79	-70	-68	Tax Expense	m	-166	-284	-355	-445
Exceptionals	m	-2	0	0	0	Exceptionals	m	-49	-2	0	0
Minority Interests	m	-0	0	0	0	Minority Interests	m	-1	-0	0	0
Reported Earnings	m	167	137	210	235	Reported Earnings	m	659	748	964	1,214
Reported Earnings (bonus exp)	m	167	137	210	235	Reported Earnings (bonus exp)	m	659	748	964	1,214
Bonus exp / Reported Earnings	%	0.0	0.0	0.0	0.0	Bonus exp / Reported Earnings	%	0.0	0.0	0.0	0.0
Adjusted Earnings	m	169	137	210	235	Adjusted Earnings	m	708	750	964	1,214
EBITDA	m	251	299	339	364	EBITDA	m	826	1,252	1,607	2,006
EPS (rep)	NT\$	2.14	1.75	2.44	2.73	EPS (rep)	NT\$	8.47	9.12	11.22	14.13
EPS pcg growth (rep)	%	84.7	51.6	-38.7	26.3	EPS growth (rep)	%	15.1	7.7	23.0	25.9
EPS (rep bonus exp)	NT\$	2.14	1.75	2.44	2.73	EPS (rep bonus exp)	NT\$	8.47	9.12	11.22	14.13
EPS pcg growth (rep bonus exp)	%	84.7	51.6	-38.7	26.3	EPS growth (rep bonus exp)	%	21.2	7.7	23.0	25.9
EPS (adj)	NT\$	2.17	1.75	2.44	2.73	EPS (adj)	NT\$	9.08	9.09	11.22	14.13
EPS pcg growth (adj)	%	66.6	34.8	-40.2	13.5	EPS growth (adj)	%	20.4	0.1	23.4	25.9
Revenue pcg growth	%	10.3	19.8	-7.4	69.2	PE (rep)	x	10.9	10.1	8.2	6.5
Operating Income pcg growth	%	99.9	60.8	-16.3	206.8	PE (rep bonus adj)	x	10.9	10.1	8.2	6.5
Reported Earnings pcg growth	%	85.9	52.6	-32.6	39.0	PE (adj)	x	10.2	10.2	8.2	6.5
Gross Profit Margin	%	38.8	37.1	37.1	37.1	Total DPS	NT\$	3.00	3.50	4.50	6.00
Operating Income Margin	%	23.5	21.6	22.1	22.7	Total Div Yield	%	3.2	3.8	4.9	6.5
Reported Earnings Margin	%	19.4	12.2	16.5	17.5	Weighted Average Shares	m	77.8	82.0	86.0	86.0
EBITDA Margin	%	29.3	26.6	26.6	27.1	Period End Shares	m	78.1	86.0	86.0	86.0
Profit and Loss Ratios		2008A	2009E	2010E	2011E	Cashflow Analysis		2008A	2009E	2010E	2011E
Revenue Growth	%	27.0	18.4	30.4	24.4	Reported Earnings	m	659	748	964	1,214
Gross Profit Growth	%	11.4	32.3	26.3	22.6	Depreciation & Amortisation	m	139	221	280	339
Operating Income Growth	%	-6.9	50.0	28.8	25.6	Chgs in Working Cap	m	-137	-340	-402	-422
Reported Earnings Growth	%	24.0	13.5	28.9	25.9	Other	m	-101	150	159	159
EBITDA Growth	%	1.6	51.6	28.4	24.8	Operating Cashflow	m	560	780	1,002	1,290
Gross Profit Margin	%	33.5	37.4	36.3	35.7	Acquisitions	m	13	0	0	0
Operating Income Margin	%	17.7	22.4	22.2	22.4	Capex	m	-643	-500	-500	-500
Reported Earnings Margin	%	17.0	16.3	16.1	16.3	Asset Sales	m	0	0	0	0
EBITDA Margin	%	21.3	27.2	26.8	26.9	Other	m	0	0	0	0
Payout Ratio	%	33.0	38.5	40.1	42.5	Investing Cashflow	m	-630	-500	-500	-500
EV/EBITDA	x	7.8	5.6	4.4	3.5	Dividend (Ordinary)	m	-212	-234	-301	-387
EV/EBIT	x	9.4	6.8	5.3	4.2	Equity Raised	m	0	79	-0	-0
Balance Sheet Ratios						Debt Movements	m	262	-100	-100	-100
ROE	%	32.9	27.7	28.8	29.5	Other	m	64	1	1	1
ROA	%	18.4	22.7	23.9	24.8	Financing Cashflow	m	114	-254	-399	-485
ROIC	%	47.4	43.9	44.5	45.7	Net Chg in Cash/Debt	m	70	26	103	305
Net Debt/Equity	%	-29.2	-27.3	-27.6	-31.4	Free Cashflow	m	-83	280	502	790
Interest Cover	x	nmf	128.6	165.9	208.4	FCF per Share	NT\$	-1.06	3.42	5.84	9.20
Price/Book	x	3.0	2.6	2.2	1.7	P/FCF	x	-87.1	27.1	15.8	10.1
Book Value per Share	NT\$	30.9	34.9	42.9	52.9	Balance Sheet		2008A	2009E	2010E	2011E
						Cash	m	1,046	1,061	1,160	1,469
						Receivables	m	1,318	1,680	2,190	2,723
						Inventories	m	210	351	461	573
						Investments	m	0	11	32	53
						Fixed Assets	m	1,396	1,775	2,092	2,346
						Intangibles	m	0	0	0	0
						Other Assets	m	99	133	167	201
						Total Assets	m	4,069	5,011	6,101	7,366
						Payables	m	498	664	882	1,105
						Short Term Debt	m	342	242	142	42
						Long Term Debt	m	0	0	0	0
						Provisions	m	0	0	0	0
						Other Liabilities	m	820	1,104	1,387	1,670
						Total Liabilities	m	1,660	2,009	2,410	2,817
						Total S/H Equity	m	2,409	3,002	3,691	4,548
						Total Liab & S/H Funds	m	4,069	5,011	6,101	7,366

All figures in NT\$ unless noted.

Source: Company data, Macquarie Research, July 2009

TAIWAN

Aces Electronic Co.

17 August 2009

3605 TT **Outperform**

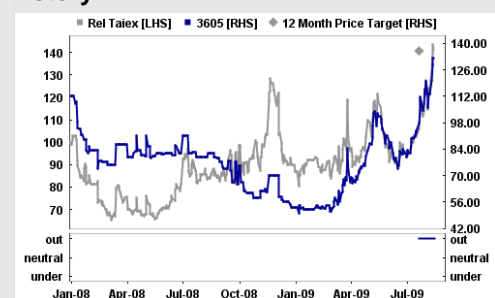
Stock price as of 14 Aug 09	NT\$	141.00
12-month target	NT\$	181.00
Upside/downside	%	+28.4
Valuation	NT\$	165.00-193.00
- PER		

GICS sector		capital goods
Market cap	NT\$m	12,119
30-day avg turnover	NT\$m	254.9
Market cap	US\$m	369
Foreign ownership	%	6.8
Number shares on issue	m	85.95

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Total revenue	m	3,884.2	4,761.3	6,429.9	7,861.5
Reported profit	m	659.1	973.0	1,192.5	1,470.0
Profit bonus exp	m	659.1	973.0	1,192.5	1,470.0
Bon exp/rep prof	%	0.0	0.0	0.0	0.0
Adjusted profit	m	707.9	966.3	1,192.5	1,470.0
EPS rep	NT\$	8.47	11.86	13.87	17.10
EPS rep growth	%	15.1	40.1	16.9	23.3
EPS bonus exp	NT\$	8.47	11.86	13.87	17.10
EPS bonus growth %	%	21.2	40.1	16.9	23.3
PE rep	x	16.6	11.9	10.2	8.2
PE bonus exp	x	16.6	11.9	10.2	8.2
Total DPS	NT\$	3.00	5.01	5.94	7.00
Total div yield	%	2.1	3.6	4.2	5.0
ROA	%	18.4	25.2	26.6	26.5
ROE	%	32.9	34.3	32.9	32.5
EV/EBITDA	x	12.2	8.0	6.0	4.9
Net debt/equity	%	-29.2	-31.0	-30.3	-35.4
Price/book	x	4.6	3.8	3.0	2.4

3605 TT rel Taieix performance, & rec history



Source: FactSet, Macquarie Research, August 2009
(all figures in NT\$ unless noted)

Analysts

James Chiu 886 2 2734 7517	james.chiu@macquarie.com
William Chen 886 2 2734 7533	william.chen@macquarie.com
Daniel Chang 886 2 2734 7516	daniel.chang@macquarie.com

Share gain and margin recovery

Event

- We reiterate our Outperform rating on Aces and lift our TP to NT\$181, as we revise up earning forecast and roll over to FY10 valuations.

Impact

- Macquarie vs consensus.** Aces is a hidden gem with solid fundamentals and a promising outlook, in our view. We believe its valuation should catch up with connector and NB component peers, due to its high ROE and lower valuation.
- Multiple catalysts for market share gain.** Aces has been expanding market share from US/Japan competitors as NB ODM increases sourcing from Taiwan with lower cost but comparable quality products. In addition, we think the component order reshuffle as Hon Hai enters the NB ODM business should benefit Aces as it expands market share in DDR/card slots and battery connectors. We also think the increasing trend toward thinner NBs will fuel Aces' momentum with increasing usage of BTB or FPC connectors. As a result, we expect Aces' revenue to grow 23% and 35% in FY09 and FY10, respectively.
- Strong margin recovery.** We expect Aces' OPM to recover to 24% in FY09 from 17% in FY08, as the copper price has declined to a lower level relative to FY08, thus reducing its costs. In addition, the increasing scale from market share gains has also benefited Aces with reduced fixed costs and expenses. While Aces is already achieving 24% OPM in 1H09, our assumption of flat margin in 2H09 is conservative as we incorporate margin erosion being offset by more than 40% HoH growth in scale and improved product mix.
- 2Q09 EPS of NT\$3.5.** Aces' 2Q09 operating profits were 14% higher than our forecast at NT\$277m, up 37%QoQ, due to rising scale and cost control, which offset our concern about margin erosion from a raw materials price hike. With NT\$130m in one-off deferred tax credits and a Taiwan headquarters tax incentive, 2Q09 net income was NT\$298m, up 79% QoQ, for EPS of NT\$3.5.

Earnings and target price revision

- We are raising our earning estimates by 12% and 11% for FY09 and FY10, respectively due to better than expected margin outlook. We are also raising our target price to NT\$181 from NT\$136.

Price catalyst

- 12-month price target: NT\$181.00 based on a ROE-g/COE-g methodology.
- Catalyst: Market share gain in the connector space.

Action and recommendation

- Aces is our top pick in the NB component space. We expect outperformance to continue as Aces has a strong growth outlook based on its market-share gain from NB component order reshuffling and there is a trend toward thinner NBs. We reaffirm our Outperform stance; our target price of NT\$181 is based on an FY10 ROE-g/COE-g valuation and implies FY10E PER of 13x, supported by strong profit growth and superior ROE of over 30%.

Aces Electronic Co. (3605 TT, Outperform, Target price: NT\$181.00)

Quarterly Results		2Q/09A	3Q/09E	4Q/09E	1Q/10E	Profit & Loss					
						2008A	2009E	2010E	2011E		
Revenue	m	1,119	1,356	1,429	1,280	Revenue	m	3,884	4,761	6,430	7,862
Gross Profit	m	438	517	543	461	Gross Profit	m	1,300	1,831	2,391	2,881
Operating Expenses	m	-161	-190	-191	-169	Operating Expenses	m	-613	-673	-849	-979
Operating Income	m	277	327	352	292	Operating Income	m	687	1,157	1,542	1,902
Net Non-operating income	m	-14	-2	-1	-2	Net Non-operating income	m	139	15	-8	-8
Pre-Tax Income	m	263	325	351	290	Pre-Tax Income	m	826	1,173	1,534	1,894
Tax Expense	m	34	-81	-88	-58	Tax Expense	m	-166	-201	-342	-424
Exceptionals	m	9	0	0	0	Exceptionals	m	-49	7	0	0
Minority Interests	m	2	0	0	0	Minority Interests	m	-1	1	0	0
Reported Earnings	m	299	244	263	232	Reported Earnings	m	659	973	1,192	1,470
Reported Earnings (bonus exp)	m	299	244	263	232	Reported Earnings (bonus exp)	m	659	973	1,192	1,470
Bonus exp / Reported Earnings	%	0.0	0.0	0.0	0.0	Bonus exp / Reported Earnings	%	0.0	0.0	0.0	0.0
Adjusted Earnings	m	290	244	263	232	Adjusted Earnings	m	708	966	1,192	1,470
EBITDA	m	333	384	411	357	EBITDA	m	826	1,379	1,823	2,241
EPS (rep)	NT\$	3.83	2.83	3.06	2.70	EPS (rep)	NT\$	8.47	11.86	13.87	17.10
EPS pcg growth (rep)	%	231.7	-28.8	41.5	26.6	EPS growth (rep)	%	15.1	40.1	16.9	23.3
EPS (rep bonus exp)	NT\$	3.83	2.83	3.06	2.70	EPS (rep bonus exp)	NT\$	8.47	11.86	13.87	17.10
EPS pcg growth (rep bonus exp)	%	231.7	-28.8	41.5	26.6	EPS growth (rep bonus exp)	%	21.2	40.1	16.9	23.3
EPS (adj)	NT\$	3.72	2.83	3.06	2.70	EPS (adj)	NT\$	9.08	11.78	13.87	17.10
EPS pcg growth (adj)	%	186.1	-30.4	27.2	24.8	EPS growth (adj)	%	20.4	29.7	17.8	23.3
Revenue pcg growth	%	19.3	-1.4	80.0	49.3	PE (rep)	x	16.6	11.9	10.2	8.2
Operating Income pcg growth	%	83.5	-2.8	253.9	45.1	PE (rep bonus adj)	x	16.6	11.9	10.2	8.2
Reported Earnings pcg growth	%	233.8	-21.6	55.8	39.3	PE (adj)	x	15.5	12.0	10.2	8.2
Gross Profit Margin	%	39.2	38.1	38.0	36.0	Total DPS	NT\$	3.00	5.01	5.94	7.00
Operating Income Margin	%	24.8	24.1	24.6	22.8	Total Div Yield	%	2.1	3.6	4.2	5.0
Reported Earnings Margin	%	26.8	18.0	18.4	18.1	Weighted Average Shares	m	77.8	82.0	86.0	86.0
EBITDA Margin	%	29.7	28.3	28.8	27.9	Period End Shares	m	78.1	86.0	86.0	86.0
Profit and Loss Ratios		2008A	2009E	2010E	2011E	Cashflow Analysis					
Revenue Growth	%	27.0	22.6	35.0	22.3	Reported Earnings	m	659	973	1,192	1,470
Gross Profit Growth	%	11.4	40.8	30.6	20.5	Depreciation & Amortisation	m	139	221	280	339
Operating Income Growth	%	-6.9	68.4	33.3	23.3	Chgs in Working Cap	m	-137	-385	-490	-416
Reported Earnings Growth	%	24.0	47.6	22.6	23.3	Other	m	-101	137	159	159
EBITDA Growth	%	1.6	66.9	32.2	22.9	Operating Cashflow	m	560	946	1,141	1,552
Gross Profit Margin	%	33.5	38.4	37.2	36.6	Acquisitions	m	13	0	0	0
Operating Income Margin	%	17.7	24.3	24.0	24.2	Capex	m	-643	-500	-500	-500
Reported Earnings Margin	%	17.0	20.4	18.5	18.7	Asset Sales	m	0	0	0	0
EBITDA Margin	%	21.3	29.0	28.3	28.5	Other	m	0	0	0	0
Payout Ratio	%	33.0	42.6	42.9	41.0	Investing Cashflow	m	-630	-500	-500	-500
EV/EBITDA	x	12.2	8.0	6.0	4.9	Dividend (Ordinary)	m	-212	-234	-431	-511
EV/EBIT	x	14.6	9.5	7.1	5.8	Equity Raised	m	0	79	-0	-0
Balance Sheet Ratios						Debt Movements	m	262	-100	-100	-100
ROE	%	32.9	34.3	32.9	32.5	Other	m	64	1	1	1
ROA	%	18.4	25.2	26.6	26.5	Financing Cashflow	m	114	-254	-530	-610
ROIC	%	47.4	56.2	53.8	52.6	Net Chg in Cash/Debt	m	70	192	112	443
Net Debt/Equity	%	-29.2	-31.0	-30.3	-35.4	Free Cashflow	m	-83	446	641	1,052
Interest Cover	x	nmf	197.0	192.8	237.7	FCF per Share	NT\$	-1.06	5.44	7.46	12.24
Price/Book	x	4.6	3.8	3.0	2.4	P/FCF	x	-132.8	25.9	18.9	11.5
Book Value per Share	NT\$	30.9	37.5	46.8	58.5	Balance Sheet					
						Cash	m	1,046	1,242	1,359	1,821
						Receivables	m	1,318	1,648	2,349	2,872
						Inventories	m	210	309	495	605
						Investments	m	0	1	22	43
						Fixed Assets	m	1,396	1,775	2,092	2,346
						Intangibles	m	0	0	0	0
						Other Assets	m	99	133	167	201
						Total Assets	m	4,069	5,107	6,484	7,889
						Payables	m	498	535	932	1,149
						Short Term Debt	m	342	242	142	42
						Long Term Debt	m	0	0	0	0
						Provisions	m	0	0	0	0
						Other Liabilities	m	820	1,104	1,387	1,670
						Total Liabilities	m	1,660	1,880	2,461	2,861
						Total S/H Equity	m	2,409	3,227	4,023	5,027
						Total Liab & S/H Funds	m	4,069	5,107	6,484	7,889

All figures in NT\$ unless noted.

Source: Company data, Macquarie Research, August 2009

TAIWAN

Alpha Networks

10 August 2009

3380 TT Underperform

Stock price as of 07 Aug 09	NT\$	25.00
12-month target	NT\$	21.00
Upside/downside	%	-16.0
Valuation	NT\$	21.00
- PER		

GICS sector	technology hardware & equipment		
Market cap	NT\$m		11,448
30-day avg turnover	NT\$m		125.7
Market cap	US\$m		349
Foreign ownership	%		3.8
Number shares on issue	m		457.9

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Total revenue	m	24,322	17,350	22,557	24,185
Reported profit	m	1,053	721	1,003	1,166
Profit bonus exp	m	1,053	721	1,003	1,166
Bon exp/rep prof	%	0.0	0.0	0.0	0.0
EPS rep	NT\$	2.31	1.49	2.10	2.44
EPS rep growth	%	-25.4	-35.3	40.4	16.3
EPS bonus exp	NT\$	2.31	1.49	2.10	2.44
EPS bonus growth %		11.3	-35.3	40.4	16.3
PE rep	x	10.8	16.7	11.9	10.2
PE bonus exp	x	10.8	16.7	11.9	10.2
Total DPS	NT\$	1.55	0.82	1.26	1.46
Total div yield	%	6.2	3.3	5.0	5.9
ROA	%	12.3	5.6	8.7	9.5
ROE	%	13.2	8.9	11.7	12.7
EV/EBITDA	x	4.0	6.0	4.2	3.6
Net debt/equity	%	-36.7	-43.6	-44.4	-49.7
Price/book	x	1.5	1.4	1.3	1.3

3380 TT rel Taiex performance, & rec history



Source: FactSet, Macquarie Research, August 2009
(all figures in NT\$ unless noted)

Analysts

Chialin Lu, CFA	
886 2 2734 7526	chialin.lu@macquarie.com
Tammy Lai	
886 2 2734 7532	tammy.lai@macquarie.com

Margin disappointment

Event

- Alpha Network's (ANI) share price has enjoyed a 50%-plus rebound since March, thanks to the strong 2Q09 top-line recovery, and it has reached our target price of NT\$25 (stock-dividend adjusted). We trim our target to NT\$21.
- Moreover, ANI's 2Q09 bottom line came in below expectation, due to a sharp GPM decline. We do not expect ANI's GPM to return to 4Q08/1Q09's peak level in the foreseeable future. We downgrade ANI to Underperform from Outperform.

Impact

- Disappointing 2Q09 results:** ANI reported 2Q09 net profits of NT\$73m (down 65% QoQ, down 78% YoY) on sales of NT\$4.4bn (up 38% QoQ, down 27% YoY). Sales beat our expectation by 9% (thanks to its key account's inventory replenishment in June), but net profits missed by 64%, largely due to the sharp GPM erosion (from 23.9% a quarter ago to 17.6%) and, to a lesser extent, a forex loss of NT\$21m.
- Margin unlikely to return to the peak level:** In the prior analyst meeting, ANI hinted that GPM will decline sequentially, but we do not expect a decline of such degree. ANI attributed this decline to a product mix change (sales contribution from high-margin LAN dropped from 44% in 1Q09 to 38% in 2Q09). However, we believe that this is also a result of aggressive price cuts from its key client, D-Link (accounting for 40%-plus of ANI sales). Despite the product mix likely to improve in 2H09, ANI admits that it is very challenging to return to the prior peak levels (20.3% in 4Q09 and 23.9% in 1Q09).
- Recovery continues in 2H09, but the momentum slows down:** On the back of increasing LAN switch orders from North American clients and Wi-Fi/broadband orders from D-Link, ANI expects 3Q09 sales to post high-single-digit growth, slightly below our expectation of 10% growth. As for 4Q09, due to the short order visibility, ANI think that sales might remain flat QoQ, and additional upside will depend on the results of some pending telecom broadband projects. This guidance sounds lukewarm to us.

Earnings and target price revision

- We cut our 2009 and 2010 EPS forecasts by 36% and 29%, respectively. We trim our TP to NT\$21 from NT\$25. Our new TP is based on 12x FW EPS, in line with its historical trading average.

Price catalyst

- 12-month price target: NT\$21.00 based on a PER methodology.
- Catalyst: Slower top-line momentum in 2H09.

Action and recommendation

- Margin expansion (due to product mix change) has been our long-time investment thesis on ANI, and this had worked out well (GPM improved from 15.6% in 2006 to 18.1% in 2007, 18.7% in 2008 and 20.2% in 1H09).
- With the margin expansion trend reverted in 2H09, the top-line momentum slowing down and the valuation being rich (trading at 14x FW PER), we recommend investors reduce positions in ANI shares at current levels.

Alpha Networks (3380 TT, Underperform, Target price: NT\$21.00)

Quarterly Results					Profit & Loss						
		1Q/09A	2Q/09E	3Q/09E	4Q/09E		2008A	2009E	2010E	2011E	
Revenue	m	3,161	4,383	4,741	5,065	Revenue	m	24,322	17,350	22,557	24,185
Gross Profit	m	756	772	853	924	Gross Profit	m	4,552	3,305	4,165	4,475
Operating Expenses	m	-625	-660	-675	-608	Operating Expenses	m	-2,876	-2,568	-2,978	-3,071
Operating Income	m	131	112	178	316	Operating Income	m	1,676	737	1,187	1,404
Net Non-operating income	m	112	-28	15	2	Net Non-operating income	m	-402	101	21	18
Pre-Tax Income	m	243	84	193	318	Pre-Tax Income	m	1,273	839	1,208	1,422
Tax Expense	m	-34	-11	-27	-45	Tax Expense	m	-220	-117	-205	-256
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Minority Interests	m	0	0	0	0	Minority Interests	m	-1	0	0	0
Reported Earnings	m	209	73	166	273	Reported Earnings	m	1,053	721	1,003	1,166
Reported Earnings (bonus exp)	m	209	73	166	273	Reported Earnings (bonus exp)	m	1,053	721	1,003	1,166
Bonus exp / Reported Earnings	%	0.0	0.0	0.0	0.0	Bonus exp / Reported Earnings	%	0.0	0.0	0.0	0.0
Adjusted Earnings	m	209	73	166	273	Adjusted Earnings	m	1,053	721	1,003	1,166
EBITDA	m	318	298	365	503	EBITDA	m	2,132	1,483	2,131	2,469
EPS (rep)	NT\$	0.43	0.15	0.35	0.57	EPS (rep)	NT\$	2.31	1.49	2.10	2.44
EPS pcg growth (rep)	%	59.8	-78.4	-68.8	148.5	EPS growth (rep)	%	-25.4	-35.3	40.4	16.3
EPS (rep bonus exp)	NT\$	0.43	0.15	0.35	0.57	EPS (rep bonus exp)	NT\$	2.31	1.49	2.10	2.44
EPS pcg growth (rep bonus exp)	%	59.8	-78.4	-68.8	148.5	EPS growth (rep bonus exp)	%	11.3	-35.3	40.4	16.3
EPS (adj)	NT\$	0.43	0.15	0.35	0.57	EPS (adj)	NT\$	2.31	1.49	2.10	2.44
EPS pcg growth (adj)	%	59.8	-78.4	-68.8	148.5	EPS growth (adj)	%	-25.4	-35.4	40.5	16.3
Revenue pcg growth	%	-40.8	-27.3	-36.9	-6.9	PE (rep)	x	10.8	16.7	11.9	10.2
Operating Income pcg growth	%	-57.6	-65.4	-68.2	-34.5	PE (rep bonus adj)	x	10.8	16.7	11.9	10.2
Reported Earnings pcg growth	%	71.8	-77.2	-67.1	161.9	PE (adj)	x	10.8	16.7	11.9	10.2
Gross Profit Margin	%	23.9	17.6	18.0	18.2	Total DPS	NT\$	1.55	0.82	1.26	1.46
Operating Income Margin	%	4.1	2.6	3.8	6.2	Total Div Yield	%	6.2	3.3	5.0	5.9
Reported Earnings Margin	%	6.6	1.7	3.5	5.4	Weighted Average Shares	m	455.7	482.7	478.0	478.0
EBITDA Margin	%	10.0	6.8	7.7	9.9	Period End Shares	m	466.8	478.0	478.0	478.0
Profit and Loss Ratios		2008A	2009E	2010E	2011E	Cashflow Analysis	2008A	2009E	2010E	2011E	
Revenue Growth	%	8.8	-28.7	30.0	7.2	Reported Earnings	m	1,053	721	1,003	1,166
Gross Profit Growth	%	12.4	-27.4	26.0	7.5	Depreciation & Amortisation	m	456	746	944	1,065
Operating Income Growth	%	-0.5	-56.0	61.0	18.3	Chgs in Working Cap	m	329	216	-636	-202
Reported Earnings Growth	%	-18.6	-31.5	39.0	16.3	Other	m	-18	7	11	12
EBITDA Growth	%	0.4	-30.4	43.7	15.8	Operating Cashflow	m	1,819	1,690	1,321	2,041
Gross Profit Margin	%	18.7	19.1	18.5	18.5	Acquisitions	m	-119	-40	-40	-40
Operating Income Margin	%	6.9	4.3	5.3	5.8	Capex	m	-565	-617	-550	-550
Reported Earnings Margin	%	4.3	4.2	4.4	4.8	Asset Sales	m	0	0	0	0
EBITDA Margin	%	8.8	8.6	9.4	10.2	Other	m	17	163	-3	-3
Payout Ratio	%	67.1	54.8	60.0	60.0	Investing Cashflow	m	-667	-495	-593	-593
EV/EBITDA	x	4.0	6.0	4.2	3.6	Dividend (Ordinary)	m	-833	-717	-395	-602
EV/EBIT	x	5.1	12.1	7.5	6.4	Equity Raised	m	-128	285	0	-0
Balance Sheet Ratios						Debt Movements	m	112	-116	-18	-211
ROE	%	13.2	8.9	11.7	12.7	Other	m	0	0	0	0
ROA	%	12.3	5.6	8.7	9.5	Financing Cashflow	m	-849	-548	-413	-812
ROIC	%	26.3	12.5	21.1	23.3	Net Chg in Cash/Debt	m	303	648	316	636
Net Debt/Equity	%	-36.7	-43.6	-44.4	-49.7	Free Cashflow	m	1,254	1,073	771	1,491
Interest Cover	x	nmf	nmf	nmf	nmf	FCF per Share	NT\$	2.75	2.22	1.61	3.12
Price/Book	x	1.5	1.4	1.3	1.3	P/FCF	x	9.1	11.2	15.5	8.0
Book Value per Share	NT\$	17.1	17.3	18.6	19.8	Balance Sheet	2008A	2009E	2010E	2011E	
						Cash	m	3,439	4,087	4,402	5,038
						Receivables	m	4,976	4,278	5,562	5,963
						Inventories	m	1,981	1,652	2,164	2,319
						Investments	m	0	0	0	0
						Fixed Assets	m	2,336	2,208	1,814	1,299
						Intangibles	m	184	0	0	0
						Other Assets	m	555	476	530	568
						Total Assets	m	13,471	12,701	14,472	15,187
						Payables	m	3,121	2,694	3,527	3,780
						Short Term Debt	m	134	124	118	87
						Long Term Debt	m	370	353	336	246
						Provisions	m	0	0	0	0
						Other Liabilities	m	1,845	1,242	1,594	1,612
						Total Liabilities	m	5,470	4,412	5,575	5,725
						Total S/H Equity	m	8,000	8,289	8,897	9,462
						Total Liab & S/H Funds	m	13,471	12,701	14,472	15,187

All figures in NT\$ unless noted.

Source: Company data, Macquarie Research, August 2009

TAIWAN

Ralink Technology

13 August 2009

3534 TT Underperform

Stock price as of 12 Aug 09	NT\$	104.00
12-month target	NT\$	63.00
Upside/downside	%	-39.4
Valuation	NT\$	40.00
- (ROE-g)/(COE-g)		

GICS sector	semiconductors & semiconductor equipment	
Market cap	NT\$m	12,133
30-day avg turnover	NT\$m	465.7
Market cap	US\$m	370
Number shares on issue	m	116.7

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Total revenue	m	4,495.8	4,459.6	4,686.2	5,166.2
EBIT	m	764.1	631.2	650.0	726.5
EBIT Growth	%	-29.4	-17.4	3.0	11.8
Reported profit	m	792.3	416.4	424.4	471.0
EPS rep	NT\$	6.56	3.44	3.51	3.89
EPS rep growth	%	-45.4	-47.6	1.9	11.0
PE rep	x	15.8	30.2	29.7	26.7
Total DPS	NT\$	2.79	2.07	2.19	2.43
Total div yield	%	2.7	2.0	2.1	2.3
ROA	%	15.5	10.7	10.3	11.0
ROE	%	19.9	8.7	8.5	9.1
EV/EBITDA	x	10.0	18.0	17.6	15.7
Net debt/equity	%	-67.6	-53.5	-53.6	-53.6
Price/book	x	2.7	2.6	2.5	2.4

3534 TT rel Taix performance, & rec history



Source: FactSet, Macquarie Research, August 2009 (all figures in NT\$ unless noted)

Analysts

Stefan Chang, CFA
886 2 2734 7511 stefan.chang@macquarie.com
Warren Lau
852 3922 3592 warren.lau@macquarie.com

The pain persists

Event

- We maintain Underperform for Ralink with TP of NT\$63 (from NT\$57). Despite strong shipments growth, our concern on margins erosion and single product risk remains solid. Valuation is also not justified on its soft outlook.

Impact

- Margins pressure to continue.** Ralink's GM in 2Q09 dipped by another 1.9ppt as 11n shipment ratio increased to 62% in 2Q09 51% in 1Q09. We have highlighted that GM for 1x1 11n, the current mainstream, only carries low-30% GM, if not lower, while ASP erosion is as high as 5-10% QoQ (sales and shipments growth was +39%/+47% QoQ). Ralink will continue to face a dilemma that whether the company should be aggressive to replace 11g by 11n, as this product upgrade is indeed negative to profitability. Additionally, this also brings negative implication to Realtek as WiFi is the key growth driver for Realtek but the GM is much lower than Realtek's current 40%+.
- 2Q09 EPS of NT\$0.67** (-11%/-64% QoQ/YoY) was 30% higher than our estimates but below consensus of NT\$1.19 despite strong sales/shipments growth. Margins erosion and non-op forex loss were the major reasons. Going forward, Ralink guided 3Q09 shipments to trend up by 15-25% QoQ with flat GM. However, we believe sales growth will be much milder due to ASP erosion and GM guidance is likely at risk given the intense competition.
- Uncertainty for market shares remains high.** Our check showed Ralink remains lacklustre in gaining market shares in the PC space (only 1-2 major PC makers with limited models) given its lack of other communication ICs. Ralink's strength is on the retail and broadband carrier market, while the former is flattish/declining and the latter only has mild growth. Stripping out China (920-930% of Ralink shipments now), we suspect Ralink's shipment will actually be flat or will decline YoY in 2009. Ralink is aggressive on new applications such as TVs and other CEs and has launched a series of new ICs and SoC solutions to target these new markets, but whether the growth in the new consumer field can make up Ralink's growth remains unclear.

Earnings and target price revision

- We lift our 2009/10/11E EPS by 35%/20%/4% on a more aggressive shipment forecast. We lift our TP to NT\$63 (from NT\$57) based on 1.5x P/BV, the trough valuation and rollover to 2010 base. Our TP implies 18x PER.

Price catalyst

- 12-month price target: NT\$63.00 based on a Price to Book methodology.
- Catalyst: Margin erosion and street's downward earnings revision.

Action and recommendation

- Ralink's stock has underperformed severely to its IC design peers (Figure 5), and we expect the underperformance to continue given the severe competition and demanding valuation. We believe the upcoming street earnings downward revision should act as the negative stock price catalyst. In the Taiwan communication IC space, we hold a negative view for both Ralink and Realtek.

Ralink Technology (3534 TT, Underperform, Target price: NT\$63.00)

Quarterly Results		2Q/09A	3Q/09E	4Q/09E	1Q/10E	Profit & Loss					
						2008A	2009E	2010E	2011E		
Revenue	m	1,169	1,331	1,116	1,040	Revenue	m	4,496	4,460	4,686	5,166
Gross Profit	m	421	477	399	374	Gross Profit	m	1,871	1,619	1,679	1,846
Operating Expenses	m	-253	-279	-244	-232	Operating Expenses	m	-1,107	-987	-1,029	-1,120
Operating Income	m	169	199	155	141	Operating Income	m	764	631	650	727
Net Non-operating income	m	-84	-48	-49	-51	Net Non-operating income	m	43	-198	-190	-209
Pre-Tax Income	m	85	151	106	90	Pre-Tax Income	m	807	434	460	518
Tax Expense	m	-4	-8	-6	-7	Tax Expense	m	-15	-17	-36	-47
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Minority Interests	m	0	0	0	0	Minority Interests	m	0	0	0	0
Reported Earnings	m	81	143	101	83	Reported Earnings	m	792	416	424	471
Reported Earnings (bonus exp)	m	81	143	101	83	Reported Earnings (bonus exp)	m	792	416	424	471
Bonus exp / Reported Earnings	%					Bonus exp / Reported Earnings	%				
Adjusted Earnings	m	81	143	101	83	Adjusted Earnings	m	792	416	424	471
EBITDA	m	227	259	205	188	EBITDA	m	958	859	861	959
EPS (rep)	NT\$	0.67	1.18	0.83	0.68	EPS (rep)	NT\$	6.56	3.44	3.51	3.89
EPS pcp growth (rep)	%	-63.7	-45.1	19.0	-9.3	EPS growth (rep)	%	-45.4	-47.6	1.9	11.0
EPS (rep bonus exp)	NT\$	0.67	1.18	0.83	0.68	EPS (rep bonus exp)	NT\$	6.56	3.44	3.51	3.89
EPS pcp growth (rep bonus exp)	%	-63.7	-45.1	19.0	-9.3	EPS growth (rep bonus exp)	%	-45.4	-47.6	1.9	11.0
EPS (adj)	NT\$	0.67	1.18	0.83	0.68	EPS (adj)	NT\$	6.56	3.44	3.51	3.89
EPS pcp growth (adj)	%	-63.7	-45.1	19.0	-9.3	EPS growth (adj)	%	-34.2	-47.6	1.9	11.0
Revenue pcp growth	%	-4.0	4.0	19.4	23.3	PE (rep)	x	15.8	30.2	29.7	26.7
Operating Income pcp growth	%	-25.4	0.8	283.5	29.8	PE (rep bonus adj)	x	15.8	30.2	29.7	26.7
Reported Earnings pcp growth	%	-63.6	-44.9	19.3	-9.3	PE (adj)	x	15.8	30.2	29.7	26.7
Gross Profit Margin	%	36.1	35.9	35.8	35.9	Total DPS	NT\$	2.79	2.07	2.19	2.43
Operating Income Margin	%	14.5	14.9	13.9	13.6	Total Div Yield	%	2.7	2.0	2.1	2.3
Reported Earnings Margin	%	7.0	10.7	9.0	8.0	Weighted Average Shares	m	120.7	121.1	121.1	121.1
EBITDA Margin	%	19.5	19.4	18.4	18.1	Period End Shares	m	120.7	121.1	121.1	121.1
Profit and Loss Ratios		2008A	2009E	2010E	2011E	Cashflow Analysis		2008A	2009E	2010E	2011E
Revenue Growth	%	16.9	-0.8	5.1	10.2	Reported Earnings	m	792	416	424	471
Gross Profit Growth	%	8.6	-13.5	3.7	10.0	Depreciation & Amortisation	m	194	228	211	232
Operating Income Growth	%	-29.4	-17.4	3.0	11.8	Chgs in Working Cap	m	276	331	-29	-47
Reported Earnings Growth	%	-31.9	-47.4	1.9	11.0	Other	m	97	273	-96	-109
EBITDA Growth	%	-19.1	-10.3	0.2	11.4	Operating Cashflow	m	1,359	1,248	510	547
Gross Profit Margin	%	41.6	36.3	35.8	35.7	Acquisitions	m	511	1,291	94	102
Operating Income Margin	%	17.0	14.2	13.9	14.1	Capex	m	-26	-27	-12	-13
Reported Earnings Margin	%	17.6	9.3	9.1	9.1	Asset Sales	m	-12	0	0	0
EBITDA Margin	%	21.3	19.3	18.4	18.6	Other	m	-1,296	-2,667	-188	-203
Payout Ratio	%	42.5	60.3	62.5	62.5	Investing Cashflow	m	-823	-1,403	-106	-115
EV/EBITDA	x	10.0	18.0	17.6	15.7	Dividend (Ordinary)	m	-603	-337	-251	-265
EV/EBIT	x	12.4	30.7	28.1	24.8	Equity Raised	m	1,214	0	0	0
Balance Sheet Ratios						Debt Movements	m	0	-0	0	0
ROE	%	19.9	8.7	8.5	9.1	Other	m	-17	-45	-55	-56
ROA	%	15.5	10.7	10.3	11.0	Financing Cashflow	m	594	-383	-306	-321
ROIC	%	60.0	40.0	26.3	28.1	Net Chg in Cash/Debt	m	1,130	-538	98	111
Net Debt/Equity	%	-67.6	-53.5	-53.6	-53.6	Free Cashflow	m	1,333	1,222	499	534
Interest Cover	x	nmf	nmf	nmf	nmf	FCF per Share	NT\$	11.04	10.09	4.12	4.41
Price/Book	x	2.7	2.6	2.5	2.4	P/FCF	x	9.4	10.3	25.3	23.6
Book Value per Share	NT\$	38.7	40.4	41.9	43.6	Balance Sheet		2008A	2009E	2010E	2011E
						Cash	m	3,158	2,621	2,719	2,830
						Receivables	m	550	543	571	618
						Inventories	m	672	545	575	623
						Investments	m	0	806	806	806
						Fixed Assets	m	78	93	104	118
						Intangibles	m	97	97	97	97
						Other Assets	m	1,121	1,436	1,556	1,686
						Total Assets	m	5,676	6,140	6,428	6,777
						Payables	m	347	544	574	621
						Short Term Debt	m	0	0	0	0
						Long Term Debt	m	0	0	0	0
						Provisions	m	0	0	0	0
						Other Liabilities	m	653	699	784	880
						Total Liabilities	m	1,001	1,244	1,358	1,502
						Total S/H Equity	m	4,674	4,896	5,070	5,276
						Total Liab & S/H Funds	m	5,676	6,140	6,428	6,777

All figures in NT\$ unless noted.

Source: Company data, Macquarie Research, August 2009

TAIWAN

Prime View

14 August 2009

8069 TT Underperform

Stock price as of 13 Aug 09	NT\$	43.20
12-month target	NT\$	30.40
Upside/downside	%	-29.6
Valuation	NT\$	30.40
- Price To Book		

GICS sector	semiconductors & semiconductor equipment	
Market cap	NT\$m	35,168
30-day avg turnover	NT\$m	453.3
Market cap	US\$m	1,067
Foreign ownership	%	3.1
Number shares on issue	m	814.1

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Total revenue	m	12,161	18,058	27,470	31,846
Reported profit	m	-889	-1,070	151	268
Profit bonus exp	m	-889	-1,070	151	268
EPS rep	NT\$	-1.32	-1.30	0.17	0.30
EPS rep growth	%	0.0	1.4	0.0	77.2
PE rep	x	nmf	nmf	257.0	145.1
PE bonus exp	x	0.0	0.0	257.0	145.1
Total DPS	NT\$	0.00	0.00	0.00	0.00
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	-4.4	-3.9	1.6	2.1
ROE	%	-11.4	-10.8	1.2	2.1
EV/EBITDA	x	35.7	39.3	17.7	16.7
Net debt/equity	%	137.8	110.3	107.6	104.6
Price/book	x	3.8	3.2	3.1	3.1

8069 TT rel Taiex performance, & rec history

Source: FactSet, Macquarie Research, August 2009
(all figures in NT\$ unless noted)

Analysts

Tammy Lai	
886 2 2734 7532	tammy.lai@macquarie.com
Chialin Lu, CFA	
886 2 2734 7526	chialin.lu@macquarie.com

Back to reality

Event

- We provide an update of PVI's business. We retain our Underperform rating.

Impact

- 2Q09 likely to disappoint again:** We continue to believe PVI did not turn to profitability in 2Q09. We further raise our LPS estimate to NT\$0.62 (net loss of NT\$465m) from an LPS of NT\$0.37 previously, to reflect slower margin recovery. This is compared to an LPS of NT\$1.03 in 1Q09 and an EPS of NT\$0.18 in 2Q08. OPM should rise to -12% from -34% a quarter ago.
- 3Q09 to reach breakeven:** We expect PVI to reach close to breakeven with a revenue of NT\$5.3bn (+39% QoQ, +22% YoY) and OPM of 0.7%, due to strong e-paper shipments. PVI saw Amazon revising up its order forecast and indicates e-paper will be running at full utilisation until the year end.
- However, the street is too 'E'xcited:** We have been positive on PVI's e-paper business but regard the market's expectation as too high. We have PVI's e-paper shipments at a CAGR of 69% over 2009–11, but derive only an EPS of NT\$0.2/NT\$0.3 for 2010/11. This is due to a higher equity base resulting from consecutive acquisitions, and projected sluggish demand for other business in handset and consumer displays.
- Upcoming fundraising plans:** 80m shares (priced at NT\$29) of rights issue and a domestic CB of NT\$2.6bn in 2Q/3Q09, together with upcoming fundraising plans (such as private placements or GDR), will be used to acquire E Ink (US\$215m) in 4Q09. PVI's balance sheet has deteriorated with net debt/equity climbing to a record high of 142% in 1Q09, notwithstanding the fact that the company has to dilute equity or raise debt to finance the E Ink acquisition.

Earnings and target price revision

- We increase 2009 LPS to NT\$1.3 from NT\$1.0, and trim 2010 EPS to NT\$0.17 from NT\$0.25 on huge Hydis losses and slower margin recovery. No change in our target price.

Price catalyst

- 12-month price target: NT\$30.40 based on a Price to Book methodology.
- Catalyst: TFT-LCD cycle and e-paper demand.

Action and recommendation

- We maintain our Underperform rating on PVI but raise our target price to NT\$30.4, based on a 2010 P/BV of 2.2x, from NT\$15.3 (2009 P/BV of 1.5x) previously due to better e-paper growth prospects and recovering macro economy. The stock is trading at a 2010 P/BV of 3.1x, compared to a historical average of 2.2x, high of 5.0x and trough of 0.9x.
- The e-paper market is expected to rise from US\$127m in 2009 to US\$411m in 2011, according to Displaybank, while PVI's market cap reached over US\$1bn. We believe the market's excitement about e-paper and the valuation premium assigned to PVI are not justified, especially with high debt gearing and ROE of only 1% in 2010.

Prime View (8069 TT, Underperform, Target price: NT\$30.40)

Quarterly Results					Profit & Loss						
		1Q/09A	2Q/09E	3Q/09E	4Q/09E		2008A	2009E	2010E	2011E	
Revenue	m	2,571	3,808	5,304	6,375	Revenue	m	12,161	18,058	27,470	31,846
Gross Profit	m	-410	138	697	986	Gross Profit	m	895	1,411	3,945	4,590
Operating Expenses	m	-457	-600	-660	-726	Operating Expenses	m	-1,739	-2,443	-3,456	-3,947
Operating Income	m	-867	-462	37	260	Operating Income	m	-844	-1,032	490	644
Net Non-operating income	m	-92	-120	-6	-56	Net Non-operating income	m	-347	-274	-229	-224
Pre-Tax Income	m	-959	-582	31	204	Pre-Tax Income	m	-1,191	-1,306	261	420
Tax Expense	m	8	0	-2	-20	Tax Expense	m	-40	-14	-71	-84
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Minority Interests	m	175	116	-6	-37	Minority Interests	m	342	249	-38	-67
Reported Earnings	m	-775	-465	23	147	Reported Earnings	m	-889	-1,070	151	268
Reported Earnings (bonus exp)	m	-775	-465	23	147	Reported Earnings (bonus exp)	m	-889	-1,070	151	268
Bonus exp / Reported Earnings	%	0.0	0.0	0.0	0.0	Bonus exp / Reported Earnings	%	0.0	0.0	0.0	0.0
Adjusted Earnings	m	-775	-465	23	147	Adjusted Earnings	m	-889	-1,070	151	268
EBITDA	m	-293	113	611	834	EBITDA	m	1,115	1,265	2,787	2,941
EPS (rep)	NT\$	-1.03	-0.57	0.03	0.16	EPS (rep)	NT\$	-1.32	-1.30	0.17	0.30
EPS pcg growth (rep)	%	nfm	nfm	nfm	nfm	EPS growth (rep)	%	nfm	1.4	nfm	77.2
EPS (rep bonus exp)	NT\$	-1.03	-0.57	0.03	0.16	EPS (rep bonus exp)	NT\$	-1.32	-1.30	0.17	0.30
EPS pcg growth (rep bonus exp)	%	nfm	nfm	nfm	nfm	EPS growth (rep bonus exp)	%	nfm	1.4	nfm	77.2
EPS (adj)	NT\$	-1.03	-0.57	0.03	0.16	EPS (adj)	NT\$	-1.30	-1.42	0.17	0.30
EPS pcg growth (adj)	%	nfm	nfm	nfm	nfm	EPS growth (adj)	%	nfm	-8.6	nfm	77.2
Revenue pcg growth	%	-16.3	78.9	21.9	144.2	PE (rep)	x	nfm	nfm	257.0	145.1
Operating Income pcg growth	%	nfm	nfm	nfm	nfm	PE (rep bonus adj)	x	nfm	nfm	257.0	145.1
Reported Earnings pcg growth	%	nfm	nfm	nfm	nfm	PE (adj)	x	nfm	nfm	257.0	145.1
Gross Profit Margin	%	-15.9	3.6	13.1	15.5	Total DPS	NT\$	0.00	0.00	0.00	0.00
Operating Income Margin	%	-33.7	-12.1	0.7	4.1	Total Div Yield	%	0.0	0.0	0.0	0.0
Reported Earnings Margin	%	-30.1	-12.2	0.4	2.3	Weighted Average Shares	m	674.5	823.7	901.1	901.1
EBITDA Margin	%	-11.4	3.0	11.5	13.1	Period End Shares	m	678.3	901.1	901.1	901.1
Profit and Loss Ratios					Cashflow Analysis						
		2008A	2009E	2010E	2011E		2008A	2009E	2010E	2011E	
Revenue Growth	%	4.5	48.5	52.1	15.9	Reported Earnings	m	-889	-1,070	151	268
Gross Profit Growth	%	-62.8	57.6	179.7	16.4	Depreciation & Amortisation	m	1,959	2,298	2,298	2,298
Operating Income Growth	%	nfm	-22.3	nfm	31.5	Chgs in Working Cap	m	-1,634	-1,909	-1,082	-1,275
Reported Earnings Growth	%	nfm	-20.4	nfm	77.2	Other	m	664	-396	0	0
EBITDA Growth	%	-57.8	13.4	120.3	5.5	Operating Cashflow	m	100	-1,078	1,367	1,291
Gross Profit Margin	%	7.4	7.8	14.4	14.4	Acquisitions	m	-3,330	0	0	0
Operating Income Margin	%	-6.9	-5.7	1.8	2.0	Capex	m	-922	-812	-1,200	-1,200
Reported Earnings Margin	%	-7.3	-5.9	0.6	0.8	Asset Sales	m	-2,517	-7,202	0	0
EBITDA Margin	%	9.2	7.0	10.1	9.2	Other	m	222	-7	0	0
Payout Ratio	%	nfm	nfm	0.0	0.0	Investing Cashflow	m	-6,548	-8,021	-1,200	-1,200
EV/EBITDA	x	35.7	39.3	17.7	16.7	Dividend (Ordinary)	m	-201	0	0	0
EV/EBIT	x	-46.5	-47.1	100.5	76.5	Equity Raised	m	0	5,987	0	0
Balance Sheet Ratios						Debt Movements	m	7,079	1,303	-200	-200
ROE	%	-11.4	-10.8	1.2	2.1	Other	m	-646	21	0	0
ROA	%	-4.4	-3.9	1.6	2.1	Financing Cashflow	m	6,233	7,312	-200	-200
ROIC	%	-8.3	-5.8	1.4	2.0	Net Chg in Cash/Debt	m	-189	-1,741	-33	-109
Net Debt/Equity	%	137.8	110.3	107.6	104.6	Free Cashflow	m	-822	-1,890	167	91
Interest Cover	x	-2.5	-2.7	1.3	1.8	FCF per Share	NT\$	-1.22	-2.29	0.19	0.10
Price/Book	x	3.8	3.2	3.1	3.1	P/FCF	x	-35.4	-18.8	232.5	427.0
Book Value per Share	NT\$	11.2	13.6	13.8	14.1	Balance Sheet		2008A	2009E	2010E	2011E
						Cash	m	2,018	263	231	122
						Receivables	m	1,247	2,880	3,469	4,163
						Inventories	m	3,308	4,790	5,776	6,938
						Investments	m	101	200	200	200
						Fixed Assets	m	10,849	9,381	8,283	7,186
						Intangibles	m	0	0	0	0
						Other Assets	m	5,750	12,766	12,766	12,766
						Total Assets	m	23,272	30,281	30,725	31,375
						Payables	m	1,995	3,082	3,575	4,156
						Short Term Debt	m	9,070	4,428	4,228	4,028
						Long Term Debt	m	3,446	9,360	9,360	9,360
						Provisions	m	0	0	0	0
						Other Liabilities	m	1,143	1,158	1,158	1,158
						Total Liabilities	m	15,653	18,029	18,321	18,702
						Total S/H Equity	m	7,619	12,266	12,418	12,686
						Total Liab & S/H Funds	m	23,272	30,295	30,739	31,389

All figures in NT\$ unless noted.

Source: Company data, Macquarie Research, August 2009

KOREA

LG Fashion

13 August 2009

093050 KS **Outperform**

Stock price as of 12 Aug 09	Won	24,100
12-month target	Won	29,000
Upside/downside	%	+20.3
Valuation	Won	29,000
- PER		

GICS sector	consumer durables & apparel	
Market cap	Won m	704,684
30-day avg turnover	Won m	4,699.3
Market cap	US\$m	565
Number shares on issue	m	29.24

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Total revenue	bn	790.8	880.5	986.4	1,073.6
EBIT	bn	105.8	85.2	107.4	129.8
EBIT Growth	%	15.3	-19.4	25.9	20.9
Reported profit	bn	72.7	61.3	77.4	94.2
Adjusted profit	bn	73.9	61.6	77.4	94.2
EPS rep	Won	2,486	2,095	2,647	3,222
EPS rep growth	%	10.6	-15.7	26.4	21.7
EPS adj	Won	2,527	2,106	2,647	3,222
EPS adj growth	%	10.4	-16.7	25.7	21.7
PE rep	x	9.7	11.5	9.1	7.5
PE adj	x	9.5	11.4	9.1	7.5
Total DPS	Won	400	600	700	900
Total div yield	%	1.7	2.5	2.9	3.7
ROA	%	17.6	12.9	14.9	16.4
ROE	%	15.8	11.7	13.4	14.6
EV/EBITDA	x	5.1	5.8	5.0	4.2
Net debt/equity	%	-1.9	-6.1	-9.4	-14.7
Price/book	x	1.4	1.3	1.2	1.0

093050 KS rel Kospi performance, & rec history



Source: FactSet, Macquarie Research, August 2009 (all figures in Won unless noted)

Analysts

HongSuk Na, CFA

822 3705 8678

Ji Eun Kwon

822 3705 8632

hongsuk.na@macquarie.com

jieun.kwon@macquarie.com

Look beyond the obvious

Event

- LG Fashion reported disappointing 2Q earnings missing our and consensus forecasts by 20% and 26%, respectively. However, we maintain our Outperform recommendation and raise our target price to Won29,000 (from Won26,000), reflecting the strong earnings turnaround expected in FY10.

Impact

- Lacklustre earnings in 2Q09.** Sales grew 9% YoY to Won220bn in 2Q09, largely on the back of launching and securing new brands (ie. TNGT W, Jill Stuart and five other brands) on top of solid outdoor sportswear sales. However, operating profit dropped 33% YoY with the margin compressed by 6.7ppt YoY to 10.6%. We attribute this to 1) increased advertising cost (up 10% YoY) for outdoor and casual wear; 2) surging rental cost (up 46% YoY) on new specialty store openings; and 3) increased sales commission (up 33% YoY) given to department stores post securing new brands.
- Margin compression likely to continue in 2H09.** Despite a stable revenue stream on the consumption turnaround and new brand/store addition, we forecast LG Fashion to struggle from margin compression due to rising SG&A costs from new brand launches in 2H09. In particular, we expect the company to post a slight operating loss in 3Q09 as the third quarter is seasonally the weakest period.
- But management is looking for opportunities in crisis.** Although earnings will likely be disappointing throughout FY09, we think management will continue to invest in and secure new apparel businesses on the cheap while competitors struggle. We remain positive about the company's expansion strategy as this may leverage on its earnings significantly given the strong elasticity of apparel to consumption. That said, we forecast an earnings turnaround in FY10 on improved cost efficiency after consumption stabilises.

Earnings and target price revision

- We cut our EPs forecast for FY09 by 11%, reflecting increased SG&A costs but raise it for FY10 by 6% on top-line growth recovery and lower cost pressure. We raise our target price to Won29,000 from Won26,000 based on an FY10E PER of 11x, the three-year average since the IPO.

Price catalyst

- 12-month price target: Won29,000 based on a PER methodology.
- Catalyst: Monthly retailers' same-store sales growth for apparel items and updates on multi-sports store set-up.

Action and recommendation

- Despite the sluggish earnings forecast for FY09, we think the stock looks attractive on an expected FY10 earnings turnaround and cheap valuation at 9x FY10E PER with 26% EPS growth (vs the historical average of 11x).

LG Fashion (093050 KS, Outperform, Target price: Won29,000)

Quarterly Results					Profit & Loss						
		2Q/09A	3Q/09E	4Q/09E	1Q/10E		2008A	2009E	2010E	2011E	
Revenue	bn	229	163	294	218	Revenue	bn	791	881	986	1,074
Gross Profit	bn	144	102	180	135	Gross Profit	bn	491	546	613	669
Cost of Goods Sold	bn	84	62	114	84	Cost of Goods Sold	bn	300	334	374	405
EBITDA	bn	31	5	50	30	EBITDA	bn	125	111	130	151
Depreciation	bn	6	6	8	3	Depreciation	bn	18	23	20	20
Amortisation of Goodwill	bn	0	0	0	0	Amortisation of Goodwill	bn	1	0	0	0
Other Amortisation	bn	1	1	1	0	Other Amortisation	bn	0	2	2	1
EBIT	bn	24	-1	41	26	EBIT	bn	106	85	107	130
Net Interest Income	bn	2	1	1	2	Net Interest Income	bn	7	6	8	10
Associates	bn	-1	-0	-0	-0	Associates	bn	-1	-2	-1	-1
Exceptionals	bn	0	0	0	0	Exceptionals	bn	0	0	0	0
Forex Gains / Losses	bn	0	0	0	0	Forex Gains / Losses	bn	-1	1	0	0
Other Pre-Tax Income	bn	-1	-0	0	-0	Other Pre-Tax Income	bn	-5	-1	-1	-1
Pre-Tax Profit	bn	25	-0	43	28	Pre-Tax Profit	bn	106	90	113	138
Tax Expense	bn	-6	-6	-11	-9	Tax Expense	bn	-34	-28	-36	-44
Net Profit	bn	19	-6	31	19	Net Profit	bn	73	61	77	94
Minority Interests	bn	0	0	0	0	Minority Interests	bn	0	0	0	0
Reported Earnings	bn	19	-6	31	19	Reported Earnings	bn	73	61	77	94
Adjusted Earnings	bn	19	-6	31	19	Adjusted Earnings	bn	74	62	77	94
EPS (rep)		641.8	-196.3	1,074	658.9	EPS (rep)		2,486	2,095	2,647	3,222
EPS (adj)		641.8	-196.3	1,074	658.9	EPS (adj)		2,527	2,106	2,647	3,222
EPS Growth YoY (adj)	%	-26.1	nmf	30.3	12.5	EPS Growth (adj)	%	10.4	-16.7	25.7	21.7
						PE (rep)	x	9.7	11.5	9.1	7.5
						PE (adj)	x	9.5	11.4	9.1	7.5
EBITDA Margin	%	13.4	3.4	17.0	13.6	Total DPS		400.0	600.0	700.0	900.0
EBIT Margin	%	10.6	-0.7	14.1	11.9	Total Div Yield	%	1.7	2.5	2.9	3.7
Earnings Split	%	30.5	-9.3	51.0	24.9	Weighted Average Shares	m	29	29	29	29
Revenue Growth	%	9.1	9.9	18.3	12.0	Period End Shares	m	29	29	29	29
EBIT Growth	%	-33.2	nmf	15.0	24.3						
Profit and Loss Ratios					Cashflow Analysis						
		2008A	2009E	2010E	2011E		2008A	2009E	2010E	2011E	
Revenue Growth	%	7.1	11.3	12.0	8.8	EBITDA	bn	125	111	130	151
EBITDA Growth	%	14.1	-11.3	16.6	16.6	Tax Paid	bn	-34	-28	-36	-44
EBIT Growth	%	15.3	-19.4	25.9	20.9	Chgs in Working Cap	bn	11	-21	-27	-20
Gross Profit Margin	%	62.0	62.0	62.1	62.3	Net Interest Paid	bn	7	6	8	10
EBITDA Margin	%	15.9	12.6	13.2	14.1	Other	bn	-3	-9	-8	-7
EBIT Margin	%	13.4	9.7	10.9	12.1	Operating Cashflow	bn	106	59	67	90
Net Profit Margin	%	9.2	7.0	7.8	8.8	Acquisitions	bn	-2	-2	0	0
Payout Ratio	%	15.8	28.5	26.4	27.9	Capex	bn	-37	-18	-19	-20
EV/EBITDA	x	5.1	5.8	5.0	4.2	Asset Sales	bn	0	0	0	0
EV/EBIT	x	6.1	7.6	6.0	4.9	Other	bn	-114	-4	-6	-6
Balance Sheet Ratios						Investing Cashflow	bn	-152	-24	-25	-26
ROE	%	15.8	11.7	13.4	14.6	Dividend (Ordinary)	bn	-12	-23	-12	-18
ROA	%	17.6	12.9	14.9	16.4	Equity Raised	bn	0	0	0	0
ROIC	%	19.5	11.9	14.2	16.1	Debt Movements	bn	1	5	-5	0
Net Debt/Equity	%	-1.9	-6.1	-9.4	-14.7	Other	bn	0	12	-6	-3
Interest Cover	x	nmf	nmf	nmf	nmf	Financing Cashflow	bn	-10	-7	-22	-20
Price/Book	x	1.4	1.3	1.2	1.0	Net Chg in Cash/Debt	bn	-57	28	19	43
Book Value per Share		17,087.4	18,785.6	20,837.1	23,362.6	Free Cashflow	bn	69	41	48	70
					Balance Sheet						
		2008A	2009E	2010E	2011E		2008A	2009E	2010E	2011E	
Cash	bn	10	39	58	101	Cash	bn	10	39	58	101
Receivables	bn	60	67	75	82	Receivables	bn	60	67	75	82
Inventories	bn	156	173	194	211	Inventories	bn	156	173	194	211
Investments	bn	118	124	130	136	Investments	bn	118	124	130	136
Fixed Assets	bn	167	162	160	160	Fixed Assets	bn	167	162	160	160
Intangibles	bn	4	1	1	1	Intangibles	bn	4	1	1	1
Other Assets	bn	117	125	132	138	Other Assets	bn	117	125	132	138
Total Assets	bn	634	691	750	830	Total Assets	bn	634	691	750	830
Payables	bn	88	90	92	96	Payables	bn	88	90	92	96
Short Term Debt	bn	1	5	1	1	Short Term Debt	bn	1	5	1	1
Long Term Debt	bn	0	0	0	0	Long Term Debt	bn	0	0	0	0
Provisions	bn	12	13	13	14	Provisions	bn	12	13	13	14
Other Liabilities	bn	33	33	35	36	Other Liabilities	bn	33	33	35	36
Total Liabilities	bn	134	141	141	146	Total Liabilities	bn	134	141	141	146
Shareholders' Funds	bn	499	548	608	682	Shareholders' Funds	bn	499	548	608	682
Minority Interests	bn	0	0	0	0	Minority Interests	bn	0	0	0	0
Other	bn	1	1	1	1	Other	bn	1	1	1	1
Total S/H Equity	bn	500	549	609	683	Total S/H Equity	bn	500	549	609	683
Total Liab & S/H Funds	bn	634	691	750	830	Total Liab & S/H Funds	bn	634	691	750	830

All figures in Won unless noted.
Source: Macquarie Research, August 2009

KOREA

Digitech Systems

17 August 2009

091690 KS

Underperform

Stock price as of 14 Aug 09	Won	28,500
12-month target	Won	24,000
Upside/downside	%	-15.8
Valuation - PER	Won	24,000

GICS sector	technology hardware & equipment		
Market cap	Won m	390,584	
30-day avg turnover	Won m	15,436.4	
Market cap	US\$m	316	
Foreign ownership	%	20.5	
Number shares on issue	m	13.70	

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Total revenue	bn	44.4	122.2	168.2	212.8
EBIT	bn	11.4	21.9	29.2	38.8
EBIT Growth	%	-17.0	92.3	33.2	32.9
Reported profit	bn	11.8	21.5	26.7	34.7
Adjusted profit	bn	11.8	21.5	26.7	34.7
EPS rep	Won	866	1,578	1,958	2,553
EPS rep growth	%	-12.2	82.3	24.1	30.4
EPS adj	Won	866	1,578	1,958	2,553
EPS adj growth	%	-9.9	82.3	24.1	30.4
PE rep	x	32.9	18.1	14.6	11.2
PE adj	x	32.9	18.1	14.6	11.2
Total DPS	Won	0	200	200	200
Total div yield	%	0.0	0.7	0.7	0.7
ROA	%	15.7	23.9	24.0	24.9
ROE	%	19.5	29.5	28.7	29.4
EV/EBITDA	x	24.7	14.8	10.8	8.3
Net debt/equity	%	-33.0	-31.7	-21.3	-18.3
Price/book	x	6.1	4.7	3.7	2.9

091690 KS rel Kospi performance, & rec history



Source: FactSet, Macquarie Research, August 2009 (all figures in Won unless noted)

Analyst

Michael Bang
822 3705 8659
So Yun Shin
822 3705 8653

michael.bang@macquarie.com
SoYun.Shin@macquarie.com

Concerns outweigh positives

Event

- We downgrade our rating on Digitech Systems to Underperform from Outperform with a lower target price of Won24,000 (previously Won32,000), based on FY09E PER of 15.0x, due to concerns over weaker-than-expected margin recovery stemming from greater-than-expected price pressure.

Impact

- Sales in line but margins disappoint.** 2Q09 sales of Won29.6bn, up 193.0% YoY and 54.4% QoQ, were in line with our expectation on firm handset touch panel and navigation TP shipments. However, operating profit missed our forecast and consensus estimates by 22.7% and 26.4%, respectively, due mainly to ASP pressure from Samsung Electronics (SEC). Digitech's 2Q09 operating margin fell to 15.2% from 18.9% in 1Q09. In comparison, our Taiwan analyst Tammy Lai expects sequential margin improvement for Young Fast, Digitech's touch panel competitor, in 2Q09.
- Concerns over slowing margin improvement.** Despite SEC's still-strong outlook for handset touch panel (accounts for over 60% of Digitech's sales) shipment, we are concerned about slowing operating margin improvement due to handset touch panel ASP pressure. We believe that concerns will linger until Digitech is able to diversify its customer base away from SEC, which seems unlikely to happen in the near term, in our view.
- Downside risk to consensus estimates.** We expect 3Q09 sales of Won35.4bn, up 240% YoY and 20% QoQ, which is roughly in line with consensus estimates. However, we think operating profit may miss again given that the consensus does not appear to have factored in ASP risk yet. Our 3Q09 operating profit estimate of Won6.9bn is 13% lower than market expectations.
- Customer diversification needed.** We believe that customer/application diversification is the key to a re-rating. However, we think that the company is unlikely to achieve this in the near term, given its high dependency on SEC as a local supplier.

Earnings and target price revision

- We cut our FY09–10 EPS estimates by 10.8% and 14.9%, respectively, to reflect larger-than-expected price cuts from SEC and slowing operating margin improvement. We cut our target price to Won24,000 from Won 32,000 using a lower target PER multiple of 15.0x.

Price catalyst

- 12-month price target: Won24,000 based on a PER methodology.
- Catalyst: Limited customer/application diversification in 2H09.

Action and recommendation

- We downgrade Digitech to Underperform as we believe the company is likely to experience margin compression given its limited customer base, and it may not be able to meet the street's high expectations. Digitech is trading at an FY10E PER of 14.6x, which is similar to the level of Young Fast in Taiwan. We believe that Digitech should trade at a discount to regional peers given its limited customer base and slowing margin improvement trend, compared to regional peers.

Digitech Systems (091690 KS, Underperform, Target price: Won24,000)

Quarterly Results					Profit & Loss						
		1Q/09A	2Q/09E	3Q/09E	4Q/09E		2008A	2009E	2010E	2011E	
Revenue	bn	19	30	35	38	Revenue	bn	44	122	168	213
Gross Profit	bn	6	7	9	10	Gross Profit	bn	16	31	41	53
Cost of Goods Sold	bn	13	23	26	29	Cost of Goods Sold	bn	29	91	127	159
EBITDA	bn	5	5	8	8	EBITDA	bn	15	25	34	44
Depreciation	bn	1	1	1	1	Depreciation	bn	4	3	5	6
Amortisation of Goodwill	bn	0	0	0	0	Amortisation of Goodwill	bn	0	0	0	0
Other Amortisation	bn	0	0	0	0	Other Amortisation	bn	0	0	0	0
EBIT	bn	4	4	7	7	EBIT	bn	11	22	29	39
Net Interest Income	bn	0	0	0	0	Net Interest Income	bn	1	1	1	1
Associates	bn	0	0	0	0	Associates	bn	0	0	0	0
Exceptionals	bn	0	0	0	0	Exceptionals	bn	0	0	0	0
Forex Gains / Losses	bn	0	0	0	0	Forex Gains / Losses	bn	1	1	1	1
Other Pre-Tax Income	bn	0	0	0	-0	Other Pre-Tax Income	bn	0	0	0	0
Pre-Tax Profit	bn	4	5	7	7	Pre-Tax Profit	bn	14	24	31	40
Tax Expense	bn	-0	-1	-1	-1	Tax Expense	bn	-2	-3	-4	-6
Net Profit	bn	4	4	6	6	Net Profit	bn	12	21	27	35
Minority Interests	bn	0	0	0	0	Minority Interests	bn	0	0	0	0
Reported Earnings	bn	4	4	6	6	Reported Earnings	bn	12	21	27	35
Adjusted Earnings	bn	4	4	6	6	Adjusted Earnings	bn	12	21	27	35
EPS (rep)		314.6	318.6	471.4	473.6	EPS (rep)		865.6	1,578	1,958	2,553
EPS (adj)		314.6	318.6	471.4	473.6	EPS (adj)		865.6	1,578	1,958	2,553
EPS Growth yoy (adj)	%	7.9	75.8	127.2	155.6	EPS Growth (adj)	%	-9.9	82.3	24.1	30.4
						PE (rep)	x	32.9	18.1	14.6	11.2
						PE (adj)	x	32.9	18.1	14.6	11.2
EBITDA Margin	%	23.8	17.6	21.4	19.8	Total DPS		0.0	200.0	200.0	200.0
EBIT Margin	%	19.5	15.2	19.4	17.9	Total Div Yield	%	0.0	0.7	0.7	0.7
Earnings Split	%	19.9	20.2	29.9	30.0	Weighted Average Shares	m	14	14	14	14
Revenue Growth	%	62.4	193.0	241.1	211.7	Period End Shares	m	14	14	14	14
EBIT Growth	%	-3.9	61.6	160.6	223.5						
Profit and Loss Ratios					Cashflow Analysis						
		2008A	2009E	2010E	2011E		2008A	2009E	2010E	2011E	
Revenue Growth	%	5.9	174.9	37.7	26.5	EBITDA	bn	15	25	34	44
EBITDA Growth	%	-0.9	66.4	37.4	29.9	Tax Paid	bn	-2	-3	-4	-6
EBIT Growth	%	-17.0	92.3	33.2	32.9	Chgs in Working Cap	bn	-9	-21	-29	-30
Gross Profit Margin	%	35.2	25.3	24.3	25.1	Net Interest Paid	bn	1	1	1	1
EBITDA Margin	%	33.6	20.3	20.3	20.8	Other	bn	1	23	33	35
EBIT Margin	%	25.6	17.9	17.3	18.2	Operating Cashflow	bn	6	25	34	43
Net Profit Margin	%	26.5	17.6	15.8	16.3	Acquisitions	bn	0	0	0	0
Payout Ratio	%	0.0	12.7	10.2	7.8	Capex	bn	-13	-13	-28	-26
EV/EBITDA	x	24.7	14.8	10.8	8.3	Asset Sales	bn	0	0	0	0
EV/EBIT	x	32.4	16.8	12.6	9.5	Other	bn	0	-2	-6	-11
Balance Sheet Ratios						Investing Cashflow	bn	-13	-15	-34	-36
ROE	%	19.5	29.5	28.7	29.4	Dividend (Ordinary)	bn	0	0	-5	-5
ROA	%	15.7	23.9	24.0	24.9	Equity Raised	bn	0	0	0	0
ROIC	%	31.6	45.5	44.7	40.9	Debt Movements	bn	1	0	0	0
Net Debt/Equity	%	-33.0	-31.7	-21.3	-18.3	Other	bn	1	1	1	1
Interest Cover	x	nmf	nmf	nmf	nmf	Financing Cashflow	bn	2	1	-4	-5
Price/Book	x	6.1	4.7	3.7	2.9	Net Chg in Cash/Debt	bn	-5	3	-4	2
Book Value per Share		4,669.0	6,047.9	7,606.1	9,759.5	Free Cashflow	bn	-8	12	6	18
						Balance Sheet		2008A	2009E	2010E	2011E
						Cash	bn	22	27	23	26
						Receivables	bn	2	7	10	12
						Inventories	bn	8	13	18	22
						Investments	bn	6	5	9	16
						Fixed Assets	bn	32	42	63	82
						Intangibles	bn	0	0	0	0
						Other Assets	bn	6	13	14	16
						Total Assets	bn	77	107	137	174
						Payables	bn	10	22	30	38
						Short Term Debt	bn	1	1	1	1
						Long Term Debt	bn	0	0	0	0
						Provisions	bn	0	0	0	0
						Other Liabilities	bn	2	1	2	2
						Total Liabilities	bn	13	25	33	41
						Shareholders' Funds	bn	64	82	104	133
						Minority Interests	bn	0	0	0	0
						Other	bn	0	0	0	0
						Total S/H Equity	bn	64	82	104	133
						Total Liab & S/H Funds	bn	77	107	137	174

All figures in Won unless noted.

Source: Company data, Macquarie Research, August 2009

SINGAPORE

Venture Corp

10 August 2009

VMS SP **Outperform**

Stock price as of 10 Aug 09	S\$	8.57
12-month target	S\$	9.80
Upside/downside	%	+14.4
Valuation	S\$	9.80
- PER		

GICS sector	technology hardware & equipment		
Market cap	S\$m	2,350	
30-day avg turnover	S\$m	10.6	
Market cap	US\$m	1,637	
Number shares on issue	m	274.3	

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Total revenue	m	3,784.1	3,350.0	3,583.6	4,083.6
EBIT	m	155.8	200.6	212.0	243.6
EBIT Growth	%	-40.2	28.7	5.7	14.9
Reported profit	m	166.7	192.0	206.4	236.9
EPS rep	¢	60.8	70.0	75.2	86.4
EPS rep growth	%	-44.8	15.2	7.5	14.8
PE rep	x	14.1	12.2	11.4	9.9
Total DPS	¢	50.0	50.0	50.0	50.0
Total div yield	%	5.8	5.8	5.8	5.8
ROA	%	5.2	6.8	7.0	7.7
ROE	%	9.9	11.0	11.4	12.4
EV/EBITDA	x	9.8	8.2	7.9	7.0
Net debt/equity	%	-10.1	-17.2	-19.0	-19.0
Price/book	x	1.2	1.2	1.2	1.1

VMS SP rel Straits Times Index performance, & rec history



Source: FactSet, Macquarie Research, August 2009 (all figures in SGD unless noted)

Analyst

Patrick Yau, CFA
852 3922 1264

patrick.yau@macquarie.com

Further strength in 3Q09

Event

- We raise Venture's net profit forecast for FY09 by 11% following 2Q09 results.

Impact

- **Recovery underway.** Revenue for 2Q09 was S\$846m, up 17% QoQ and down 13% YoY. Four of its five revenue segments registered QoQ gains, with print and imaging the strongest at 37% QoQ (accounting for 41% of total revenue vs 35% 1Q09). Only the test and measurement segment (the most capex-exposed segment) registered a QoQ decline of 3%. While its recovery is described as fairly broad-based, margins have been dampened by the increase in consumer-type print and imaging products.
- **Cash generation remained strong,** with S\$73m being generated from operations this quarter. Venture remained vigilant on working capital management, with its cash conversion cycle at 64 days (vs 75 days at the end of 2008). Its CDO is now booked as S\$21m, about 12.3% of the principal value of S\$168m.
- **Venture alluded to a rapid pace of customer additions in the quarter,** equal to the additions it saw for the whole of 2008. These included for the first time a customer from the aerospace industry.
- **We expect further positive momentum in 2H09,** as Venture has rehired up to one-third of the positions reduced in 4Q08. Better utilisation in 2H09 will likely improve Venture's operating margins, which we believe will lead to a 50% HoH improvement in operating profits. Nearly two-thirds of the 11% rise in our net profit forecast for FY09 (to S\$192m) comes from the CDO gains recorded for 1H09 as we had already raised our FY09 profit forecast by +12% prior to 2Q09 results. (Note: we have assumed nothing on CDO gains/losses for 2H09.)

Earnings and target price revision

- Earnings for FY09 have been raised by 11%.

Price catalyst

- 12-month price target: S\$9.80 based on a DDM methodology.
- Catalyst: Writebacks on its CDO portfolio. Assuming total recovery of the S\$168m in its CDO portfolio would increase our current FY09 net profit forecast by 77%.

Action and recommendation

- Maintain Outperform rating. Our DDM-derived target price of S\$9.80 implies 2009E PER of 14x. We believe that the company's capex-light ODM model enables Venture to pay a S¢50 dividend next year (~6% yield), with an extra bonus via a special dividend likely from a recovery of the amounts invested in the CDO.

Venture Corp (VMS SP, Outperform, Target price: S\$9.80)

Quarterly Results					Profit & Loss						
		2Q/09A	3Q/09E	4Q/09E	1Q/10E		2008A	2009E	2010E	2011E	
Revenue	m	846	922	857	796	Revenue	m	3,784	3,350	3,584	4,084
Gross Profit	m	103	152	158	121	Gross Profit	m	595	510	534	589
Cost of Goods Sold	m	743	770	698	676	Cost of Goods Sold	m	3,190	2,840	3,050	3,495
EBITDA	m	78	82	67	66	EBITDA	m	217	261	270	304
Depreciation	m	10	10	10	11	Depreciation	m	41	41	38	41
Amortisation of Goodwill	m	4	5	5	5	Amortisation of Goodwill	m	20	20	20	20
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	63	67	52	50	EBIT	m	156	201	212	244
Net Interest Income	m	1	-1	-1	-1	Net Interest Income	m	8	-0	0	1
Associates	m	-1	-1	2	-1	Associates	m	0	-1	-1	-1
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	-4	-1	-5	-1	Forex Gains / Losses	m	6	-0	-0	-0
Other Pre-Tax Income	m	0	0	3	1	Other Pre-Tax Income	m	2	4	5	5
Pre-Tax Profit	m	59	65	51	50	Pre-Tax Profit	m	173	203	216	248
Tax Expense	m	1	-3	-9	-2	Tax Expense	m	-5	-10	-9	-10
Net Profit	m	61	63	42	48	Net Profit	m	168	193	207	238
Minority Interests	m	0	-0	-1	0	Minority Interests	m	-1	-1	-1	-1
Reported Earnings	m	61	63	41	48	Reported Earnings	m	167	192	206	237
Adjusted Earnings	m	65	68	46	53	Adjusted Earnings	m	186	212	226	256
EPS (rep)	¢	22.2	22.8	14.9	17.4	EPS (rep)	¢	60.8	70.0	75.2	86.4
EPS (adj)	¢	23.9	24.7	16.7	19.3	EPS (adj)	¢	67.9	77.1	82.4	93.5
EPS Growth yoy (adj)	%	-7.3	50.4	384.1	62.2	EPS Growth (adj)	%	-42.4	13.6	6.8	13.5
						PE (rep)	x	14.1	12.2	11.4	9.9
						PE (adj)	x	12.6	11.1	10.4	9.2
EBITDA Margin	%	9.2	8.9	7.8	8.3	Total DPS	¢	50.0	50.0	50.0	50.0
EBIT Margin	%	7.4	7.3	6.1	6.3	Total Div Yield	%	5.8	5.8	5.8	5.8
Earnings Split	%	30.9	32.0	21.7	23.4	Weighted Average Shares	m	274	274	274	274
Revenue Growth	%	-13.0	-4.5	-5.5	9.8	Period End Shares	m	274	274	274	274
EBIT Growth	%	-0.5	68.3	4,979.4	174.0						
Profit and Loss Ratios					Cashflow Analysis						
		2008A	2009E	2010E	2011E		2008A	2009E	2010E	2011E	
Revenue Growth	%	-2.3	-11.5	7.0	14.0	EBITDA	m	217	261	270	304
EBITDA Growth	%	-33.6	20.7	3.2	12.8	Tax Paid	m	-16	-5	-10	-9
EBIT Growth	%	-40.2	28.7	5.7	14.9	Chgs in Working Cap	m	53	53	-23	-85
Gross Profit Margin	%	15.7	15.2	14.9	14.4	Net Interest Paid	m	7	-0	0	1
EBITDA Margin	%	5.7	7.8	7.5	7.5	Other	m	-18	-134	-133	-133
EBIT Margin	%	4.1	6.0	5.9	6.0	Operating Cashflow	m	243	176	105	79
Net Profit Margin	%	4.4	5.8	5.8	5.8	Acquisitions	m	0	0	0	0
Payout Ratio	%	73.6	64.8	60.7	53.5	Capex	m	-31	-25	-50	-55
EV/EBITDA	x	9.8	8.2	7.9	7.0	Asset Sales	m	44	0	0	0
EV/EBIT	x	13.7	10.7	10.1	8.8	Other	m	-37	-6	-6	-6
Balance Sheet Ratios						Investing Cashflow	m	-23	-31	-56	-61
ROE	%	9.9	11.0	11.4	12.4	Dividend (Ordinary)	m	0	0	0	0
ROA	%	5.2	6.8	7.0	7.7	Equity Raised	m	0	0	0	0
ROIC	%	7.9	11.2	12.6	14.3	Debt Movements	m	-189	-70	0	0
Net Debt/Equity	%	-10.1	-17.2	-19.0	-19.0	Other	m	0	0	0	0
Interest Cover	x	nmf	1,262.6	nmf	nmf	Financing Cashflow	m	-189	-70	0	0
Price/Book	x	1.2	1.2	1.2	1.1	Net Chg in Cash/Debt	m	20	74	49	18
Book Value per Share		6.9	7.1	7.4	7.7						
					Balance Sheet						
		2008A	2009E	2010E	2011E		2008A	2009E	2010E	2011E	
Cash	m	514	588	637	654	Cash	m	514	588	637	654
Receivables	m	537	570	591	674	Receivables	m	537	570	591	674
Inventories	m	539	536	573	653	Inventories	m	539	536	573	653
Investments	m	43	49	55	61	Investments	m	43	49	55	61
Fixed Assets	m	196	180	191	205	Fixed Assets	m	196	180	191	205
Intangibles	m	641	621	601	582	Intangibles	m	641	621	601	582
Other Assets	m	447	446	445	444	Other Assets	m	447	446	445	444
Total Assets	m	2,916	2,989	3,094	3,274	Total Assets	m	2,916	2,989	3,094	3,274
Payables	m	437	519	555	633	Payables	m	437	519	555	633
Short Term Debt	m	202	201	201	201	Short Term Debt	m	202	201	201	201
Long Term Debt	m	120	50	50	50	Long Term Debt	m	120	50	50	50
Provisions	m	0	0	0	0	Provisions	m	0	0	0	0
Other Liabilities	m	259	264	263	264	Other Liabilities	m	259	264	263	264
Total Liabilities	m	1,017	1,035	1,069	1,148	Total Liabilities	m	1,017	1,035	1,069	1,148
Shareholders' Funds	m	2,015	1,950	2,020	2,119	Shareholders' Funds	m	2,015	1,950	2,020	2,119
Minority Interests	m	3	4	5	6	Minority Interests	m	3	4	5	6
Other	m	-119	0	0	0	Other	m	-119	0	0	0
Total S/H Equity	m	1,899	1,955	2,025	2,125	Total S/H Equity	m	1,899	1,955	2,025	2,125
Total Liab & S/H Funds	m	2,916	2,989	3,094	3,274	Total Liab & S/H Funds	m	2,916	2,989	3,094	3,274

All figures in SGD unless noted.

Source: Company data, Macquarie Research, August 2009

SINGAPORE

Parkway Holdings

17 August 2009

PWAY SP Neutral

Stock price as of 17 Aug 09	S\$	1.90
12-month target	S\$	1.90
Upside/downside	%	0.0
Valuation	S\$	1.90
- DCF (WACC 6.8%)		

GICS sector	health care equipment & services		
Market cap	S\$m	2,148	
30-day avg turnover	S\$m	5.0	
Market cap	US\$m	1,487	
Number shares on issue	m	1,130	

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Total revenue	m	945.4	975.4	1,043.1	1,139.5
EBIT	m	168.3	172.1	191.1	217.1
EBIT Growth	%	14.9	2.2	11.1	13.6
Reported profit	m	34.8	105.1	108.6	126.4
Adjusted profit	m	101.6	100.1	115.6	133.4
EPS rep	¢	3.7	9.3	9.6	11.2
EPS rep growth	%	-89.3	153.0	3.4	16.4
EPS adj	¢	11.0	8.8	10.2	11.8
EPS adj growth	%	-0.3	-19.7	15.6	15.4
PE rep	x	51.8	20.5	19.8	17.0
PE adj	x	17.3	21.5	18.6	16.1
Total DPS	¢	3.69	4.00	4.50	5.00
Total DPS growth	%	-50.6	8.4	12.5	11.1
Total div yield	%	1.9	2.1	2.4	2.6
ROA	%	8.3	5.7	6.3	7.2
ROE	%	10.9	7.7	8.9	10.2
EV/EBITDA	x	12.5	11.9	10.9	9.9
Net debt/equity	%	50.1	72.3	82.9	94.0
Price/book	x	1.7	1.7	1.7	1.7

PWAY SP rel Straits Times Index performance, & rec history



Source: FactSet, Macquarie Research, August 2009 (all figures in SGD unless noted)

Analyst

Tuck Yin Soong

65 6231 2838

tuckyin.soong@macquarie.com

Need a pause

Event

- We have upgraded our earnings forecast for Parkway by 22–26% over the next two years, in light of the stronger-than-expected 2Q09 results. Our DCF-based target price increased 17% to S\$1.90 consequently. However, we downgrade Parkway from Outperform to Neutral, given the recent strong share price performance (+48% over three months versus the STI's 23% rise).

Impact

- A strong 2Q09 result.** Parkway reported 2Q09 core net profits of S\$30m (excluding exceptionals), well ahead of our expectations of S\$17–18m and the S\$23.4m reported in 1Q09. The Singapore operations were not as adversely affected by the impact from H1N1 as had been feared. Singapore hospital revenue (46% of total) fell 6% YoY to S\$226m with EBITDA margins steady at 25.5%. International hospitals (23% of total) grew 30%. Healthcare services (30% of total) performed well, with a 46% growth in EBITDA.
- Net revenue per patient day (NRPPD) and costs stable.** NRPPD was S\$1,840 in 2Q09, -1.3% YoY but +1.6% from 1Q09's S\$1,811. Costs were under control, given the impact of the cost savings initiatives as well as the government's cash rebates via the Job Credit Scheme and property tax rebates. As a result of the strong performance, Parkway reinstated the salary cuts for its administrative staff in April 2009.
- Interest in medical suites, arbitration settled.** There was no further progress on plans to sell one-third of the 240-unit medical suites at its Novena project in 2H09, but the group indicated that there had been strong responses from senior specialist doctors. The arbitration regarding an accounts receivable was resolved. The group has fully provided for the S\$34.4m in receivables last year but wrote back half of the amount or S\$17.2m as final settlement in 2Q09. A slight disappointment is that no dividend was announced for this quarter.

Earnings and target price revision

- Core earnings upgraded by 26% in FY09E and 21% in FY10E to reflect higher revenue and EBITDA margins.
- Target price raised 17% to S\$1.90 as a result.

Price catalyst

- 12-month price target: S\$1.90 based on a DCF methodology.
- Catalyst: Successful sale of medical units at its Novena projects in 2H09.

Action and recommendation

- Parkway has outperformed the STI strongly on a three-month basis with a 48% rise versus the STI's 23% return. We downgrade to Neutral given limited upside to our revised target price of S\$1.90. We prefer Bumrungrad Hospital (BH TB, Bt24.90, Outperform, Bt29.25, covered by David Gambrell) in Thailand.

Parkway Holdings (PWAY SP, Neutral, Target price: S\$1.90)

Interim Results					Profit & Loss						
	1H/09A	2H/09E	1H/10E	2H/10E		2008A	2009E	2010E	2011E		
Net Property Income	m	493	476	513	523	Net Property Income	m	937	969	1,037	1,133
Development Income	m	0	0	0	0	Development Income	m	0	0	0	0
Other Revenue	m	3	3	3	3	Other Revenue	m	9	6	6	6
Total Revenue	m	496	479	517	527	Total Revenue	m	945	975	1,043	1,139
Management Fees	m	0	0	0	0	Management Fees	m	0	0	0	0
Other Expenses	m	0	0	0	0	Other Expenses	m	0	0	0	0
EBITDA	m	118	104	119	123	EBITDA	m	218	222	241	267
Dep & Amortisation	m	28	22	25	25	Dep & Amortisation	m	49	50	50	50
EBIT	m	90	82	94	98	EBIT	m	168	172	191	217
Net Interest Income	m	-6	-7	-8	-8	Net Interest Income	m	-17	-13	-15	-17
Associates	m	8	6	8	8	Associates	m	8	14	16	16
Exceptionals	m	11	1	0	0	Exceptionals	m	-60	12	0	0
Other Pre-Tax Income	m	-21	-22	-22	-22	Other Pre-Tax Income	m	-43	-43	-44	-46
Pre-Tax Profit	m	83	60	72	76	Pre-Tax Profit	m	56	142	147	171
Tax Expense	m	-18	-13	-16	-16	Tax Expense	m	-16	-31	-32	-38
Net Profit	m	65	46	55	59	Net Profit	m	40	111	115	133
Minority Interests	m	-3	-3	-3	-3	Minority Interests	m	-5	-6	-6	-7
Reported Earnings	m	62	43	52	56	Reported Earnings	m	35	105	109	126
Adjusted Earnings	m	54	46	56	60	Adjusted Earnings	m	102	100	116	133
EPS (rep)	¢	5.4	3.8	4.6	5.0	EPS (rep)	¢	3.7	9.3	9.6	11.2
EPS (adj)	¢	4.7	4.1	4.9	5.3	EPS (adj)	¢	11.0	8.8	10.2	11.8
EPS Growth yoy (adj)	%	-25.2	-12.3	4.0	28.9	EPS Growth (adj)	%	-0.3	-19.7	15.6	15.4
						PE (rep)	x	51.8	20.5	19.8	17.0
						PE (adj)	x	17.3	21.5	18.6	16.1
EBITDA Margins	%	23.8	21.7	23.0	23.3	Total DPS	¢	3.7	4.0	4.5	5.0
EBIT Margins	%	18.2	17.1	18.1	18.5	Total Div Yield	%	1.9	2.1	2.4	2.6
Earnings Split	%	53.6	46.4	48.3	51.7	Weighted Average Shares	m	950	1,133	1,133	1,133
Revenue Growth	%	6.8	-0.3	4.1	9.9	Period End Shares	m	1,133	1,133	1,133	1,133
EBIT Growth	%	8.3	-3.7	3.6	19.4						
Profit & Loss Ratios					Cashflow Analysis						
	2008A	2009E	2010E	2011E		2008A	2009E	2010E	2011E		
Revenue Growth	%	8.7	3.2	6.9	9.2	EBITDA	m	209	222	241	267
EBITDA Growth	%	11.7	2.1	8.6	10.8	Tax Paid	m	-25	-16	-31	-32
EBIT Growth	%	14.9	2.2	11.1	13.6	Chg in Working Capital	m	-116	-179	-8	-271
EBITDA Margins	%	23.0	22.8	23.1	23.4	Net Interest Paid	m	-12	-67	-66	0
EBIT Margins	%	17.8	17.6	18.3	19.1	Other	m	-6	-14	-16	-16
Net Profit Margins	%	4.3	11.4	11.0	11.7	Operating Cashflow	m	49	-54	120	-53
Payout Ratio	%	33.5	45.3	44.1	42.4	Acquisitions	m	0	0	0	0
EV/EBITDA	x	12.5	11.9	10.9	9.9	Capex	m	-907	-221	-221	-441
EV/EBIT	x	15.9	15.1	13.6	12.0	Asset Sales	m	0	0	0	0
						Other	m	0	0	0	0
Balance Sheet Ratios					Investing Cashflow	m	-907	-221	-221	-441	
ROE	%	10.9	7.7	8.9	10.2	Dividend (Ordinary)	m	-47	-42	-45	-51
ROA	%	8.3	5.7	6.3	7.2	Equity Raised	m	0	0	0	0
ROIC	%	18.5	6.6	6.3	6.7	Debt Movements	m	0	0	0	0
Net Debt/Equity	%	50.1	72.3	82.9	94.0	Other	m	-3	0	0	0
Interest Cover	x	10.1	13.0	12.5	12.6	Financing Cashflow	m	-50	-42	-45	-51
Price/Book	x	1.7	1.7	1.7	1.7						
Book Value per Share		1.1	1.2	1.2	1.2	Net Chg in Cash/Debt	m	-907	-317	-146	-545
						Free Cashflow	m	-857	-275	-101	-494
						Balance Sheet					
							2008A	2009E	2010E	2011E	
						Cash	m	542	300	150	100
						Receivables	m	137	162	171	178
						Inventories	m	19	20	22	23
						Investments	m	0	221	367	588
						Fixed Assets	m	1,656	1,646	1,637	1,631
						Intangibles	m	286	396	244	198
						Other Assets	m	293	320	367	382
						Total Assets	m	2,934	3,065	2,958	3,100
						Payables	m	152	179	176	183
						Short Term Debt	m	60	50	50	53
						Long Term Debt	m	1,163	1,248	1,244	1,344
						Provisions	m	200	209	109	139
						Other Liabilities	m	0	0	0	0
						Total Liabilities	m	1,575	1,685	1,579	1,720
						Shareholders' Funds	m	1,284	1,304	1,304	1,304
						Minority Interests	m	75	75	75	75
						Total S/H Equity	m	1,359	1,379	1,379	1,379
						Total Liab & S/H Funds	m	2,934	3,065	2,958	3,100

All figures in SGD unless noted.

Source: Macquarie Research, August 2009

THAILAND

Mermaid Maritime

14 August 2009

MMT SP **Outperform**

Stock price as of 13 Aug 09	S\$	0.79
12-month target	S\$	1.80
Upside/downside	%	+129.3
Valuation	S\$	1.80
- PER		

GICS sector		energy
Market cap	S\$m	425
30-day avg turnover	S\$m	4.5
Market cap	US\$m	294
Number shares on issue	m	541.2

Investment fundamentals

Year end 30 Sep		2008A	2009E	2010E	2011E
Total revenue	m	5,285	6,116	10,404	11,067
EBIT	m	867	1,266	2,313	2,656
EBIT Growth	%	47.8	46.0	82.7	14.8
Reported profit	m	1,162	1,060	1,776	2,110
Adjusted profit	m	1,162	1,060	1,776	2,110
EPS rep	Bt	2.15	1.94	3.22	3.78
EPS rep growth	%	46.2	-9.7	65.9	17.6
EPS adj	Bt	2.15	1.94	3.22	3.78
EPS adj growth	%	50.3	-9.7	65.9	17.6
PE rep	x	8.6	9.5	5.8	4.9
PE adj	x	8.6	9.5	5.8	4.9
Total DPS	Bt	0.00	0.00	0.00	0.00
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	9.1	8.9	13.8	13.8
ROE	%	19.3	10.8	15.8	16.0
EV/EBITDA	x	6.6	5.2	3.1	2.9
Net debt/equity	%	2.2	29.3	11.9	-6.0
Price/book	x	1.1	1.0	0.8	0.7

MMT SP rel Straits Times Index performance, & rec history



Source: FactSet, Macquarie Research, August 2009 (all figures in THB unless noted)

Analyst

Edward Ong

60 3 2059 8982

edward.ong@macquarie.com

Playing doubles

Event

- We raise our target price on Mermaid from S\$0.81 to S\$1.80 following a review of its prospects. Outperform rating maintained.

Impact

- Rebound in demand for oil services.** Our latest visit to the company found that in stark contrast to the first half, demand for subsea services has rebounded sharply to 2008 levels. This was to be expected, given that oil prices have also retraced substantially. As a result, we have raised our FY10 and FY11 revenue forecasts by 20%, assuming full utilisation of Mermaid's rigs and support vessels.
- Tax keeps our forecasts flat.** Because Mermaid has expanded out of Thailand more quickly than anticipated, we have raised our average assumed tax rate from 5% to 20%, and kept FY10-11 forecasts unchanged.
- Global footprint expansion could suggest capacity expansion.** We cannot be certain, but a global footprint expansion usually foreshadows capacity expansion. Mermaid's existing fleet and newbuild programme could have easily been absorbed by the Southeast Asian market. Why then expand operations to the Middle East and Brazil? We reckon the company must be planning incremental newbuilds or acquisitions. We have not imputed any earnings upside from any potential changes.

Earnings and target price revision

- We adjust FY09E net profit down by 32% to reflect the weak 1H09 actuals. We tweak FY10E and FY11E down by 1-2%. Target price raised from S\$0.81 to S\$1.80.

Price catalyst

- 12-month price target: S\$1.80 based on a PER methodology.
- Catalyst: Rising utilisation and day rates, rising oil prices, potential newbuilds or acquisitions over 2H09.

Action and recommendation

- We have raised our target price from S\$0.81 to S\$1.80. The current target price is based on the mid-cycle PER of 13x FY10E. We believe that using a mid-cycle multiple is fair, because oil & gas capex cycles are normalising, and could even accelerate in certain geographies like Brazil. In addition, should Mermaid execute any further capacity expansion, there could be further future earnings growth.
- Outperform maintained. We believe earnings are set to double over the next two years, and PERs need to more than double to revert to mean; also, we see further earnings upside from potential capacity expansion.

Mermaid Maritime (MMT SP, Outperform, Target price: S\$1.80)

Interim Results					Profit & Loss						
	1H/09A	2H/09E	1H/10E	2H/10E		2008A	2009E	2010E	2011E		
Revenue	m	2,534	3,582	4,633	5,770	Revenue	m	5,285	6,116	10,404	11,067
Gross Profit	m	581	1,224	1,452	1,789	Gross Profit	m	1,599	1,806	3,241	3,431
Cost of Goods Sold	m	1,953	2,357	3,181	3,982	Cost of Goods Sold	m	3,687	4,310	7,163	7,636
EBITDA	m	612	1,261	1,403	1,739	EBITDA	m	1,437	1,873	3,142	3,485
Depreciation	m	275	331	414	414	Depreciation	m	570	607	829	829
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	337	929	988	1,325	EBIT	m	867	1,266	2,313	2,656
Net Interest Income	m	-38	-79	-57	-57	Net Interest Income	m	-86	-116	-114	-17
Associates	m	-16	52	22	27	Associates	m	32	36	49	45
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	18	-13	-4	-4	Forex Gains / Losses	m	160	5	-9	-20
Other Pre-Tax Income	m	12	14	13	13	Other Pre-Tax Income	m	103	26	27	28
Pre-Tax Profit	m	313	904	962	1,304	Pre-Tax Profit	m	1,076	1,217	2,266	2,691
Tax Expense	m	-74	-72	-192	-261	Tax Expense	m	92	-146	-453	-538
Net Profit	m	239	832	770	1,043	Net Profit	m	1,168	1,071	1,813	2,153
Minority Interests	m	-11	-0	-15	-21	Minority Interests	m	-6	-11	-36	-43
Reported Earnings	m	228	832	754	1,022	Reported Earnings	m	1,162	1,060	1,776	2,110
Adjusted Earnings	m	228	832	754	1,022	Adjusted Earnings	m	1,162	1,060	1,776	2,110
EPS (rep)		0.4	1.5	1.4	1.9	EPS (rep)		2.1	1.9	3.2	3.8
EPS (adj)		0.4	1.5	1.4	1.9	EPS (adj)		2.1	1.9	3.2	3.8
EPS Growth yoy (adj)	%	-35.8	1.7	227.3	21.6	EPS Growth (adj)	%	50.3	-9.7	65.9	17.6
						PE (rep)	x	8.6	9.5	5.8	4.9
						PE (adj)	x	8.6	9.5	5.8	4.9
EBITDA Margin	%	24.2	35.2	30.3	30.1	Total DPS		0.0	0.0	0.0	0.0
EBIT Margin	%	13.3	25.9	21.3	23.0	Total Div Yield	%	0.0	0.0	0.0	0.0
Earnings Split	%	21.5	78.5	42.5	57.5	Weighted Average Shares	m	541	547	552	558
Revenue Growth	%	16.6	15.1	82.9	61.1	Period End Shares	m	541	547	552	558
EBIT Growth	%	74.8	37.8	193.4	42.5						
Profit and Loss Ratios					Cashflow Analysis						
	2008A	2009E	2010E	2011E		2008A	2009E	2010E	2011E		
Revenue Growth	%	27.9	15.7	70.1	6.4	EBITDA	m	1,437	1,873	3,142	3,485
EBITDA Growth	%	31.4	30.3	67.7	10.9	Tax Paid	m	-64	-109	-264	-498
EBIT Growth	%	47.8	46.0	82.7	14.8	Chgs in Working Cap	m	-595	-284	-409	-325
Gross Profit Margin	%	30.3	29.5	31.2	31.0	Net Interest Paid	m	-86	-116	-114	-17
EBITDA Margin	%	27.2	30.6	30.2	31.5	Other	m	103	26	27	28
EBIT Margin	%	16.4	20.7	22.2	24.0	Operating Cashflow	m	795	1,389	2,382	2,672
Net Profit Margin	%	22.1	17.5	17.4	19.5	Acquisitions	m	0	0	0	0
Payout Ratio	%	0.0	0.0	0.0	0.0	Capex	m	-3,107	-4,915	-669	-221
EV/EBITDA	x	6.6	5.2	3.1	2.9	Asset Sales	m	0	0	0	0
EV/EBIT	x	10.8	7.6	4.2	3.7	Other	m	0	0	0	0
Balance Sheet Ratios					Investing Cashflow	m	-3,107	-4,915	-669	-221	
ROE	%	19.3	10.8	15.8	16.0	Dividend (Ordinary)	m	0	0	0	0
ROA	%	9.1	8.9	13.8	13.8	Equity Raised	m	5,637	266	5	6
ROIC	%	19.7	11.3	12.9	14.7	Debt Movements	m	-433	1,461	227	-363
Net Debt/Equity	%	2.2	29.3	11.9	-6.0	Other	m	-20	0	0	0
Interest Cover	x	10.1	10.9	20.3	155.0	Financing Cashflow	m	5,183	1,727	233	-357
Price/Book	x	1.1	1.0	0.8	0.7	Net Chg in Cash/Debt	m	2,953	-1,959	1,946	2,095
Book Value per Share		17.2	19.0	22.0	25.6	Free Cashflow	m	-2,312	-3,526	1,713	2,452
					Balance Sheet						
	2008A	2009E	2010E	2011E		2008A	2009E	2010E	2011E		
Cash	m	1,726	166	2,104	4,178	Cash	m	1,726	166	2,104	4,178
Receivables	m	1,462	1,755	2,597	3,173	Receivables	m	1,462	1,755	2,597	3,173
Inventories	m	148	179	289	393	Inventories	m	148	179	289	393
Investments	m	1,162	0	0	0	Investments	m	1,162	0	0	0
Fixed Assets	m	4,570	8,952	11,848	11,239	Fixed Assets	m	4,570	8,952	11,848	11,239
Intangibles	m	198	282	282	282	Intangibles	m	198	282	282	282
Other Assets	m	3,914	4,006	999	1,043	Other Assets	m	3,914	4,006	999	1,043
Total Assets	m	13,180	15,340	18,117	20,308	Total Assets	m	13,180	15,340	18,117	20,308
Payables	m	327	354	896	1,251	Payables	m	327	354	896	1,251
Short Term Debt	m	421	662	891	529	Short Term Debt	m	421	662	891	529
Long Term Debt	m	1,522	2,746	2,746	2,746	Long Term Debt	m	1,522	2,746	2,746	2,746
Provisions	m	20	56	245	286	Provisions	m	20	56	245	286
Other Liabilities	m	1,215	454	453	453	Other Liabilities	m	1,215	454	453	453
Total Liabilities	m	3,506	4,272	5,231	5,264	Total Liabilities	m	3,506	4,272	5,231	5,264
Shareholders' Funds	m	9,289	10,379	12,161	14,276	Shareholders' Funds	m	9,289	10,379	12,161	14,276
Minority Interests	m	385	689	725	768	Minority Interests	m	385	689	725	768
Other	m	0	0	0	0	Other	m	0	0	0	0
Total S/H Equity	m	9,674	11,068	12,886	15,044	Total S/H Equity	m	9,674	11,068	12,886	15,044
Total Liab & S/H Funds	m	13,180	15,340	18,117	20,308	Total Liab & S/H Funds	m	13,180	15,340	18,117	20,308

All figures in THB unless noted.
Source: Macquarie Research, August 2009

SINGAPORE

Macq Inter. Infra Fund

13 August 2009

MIIF SP **Outperform**

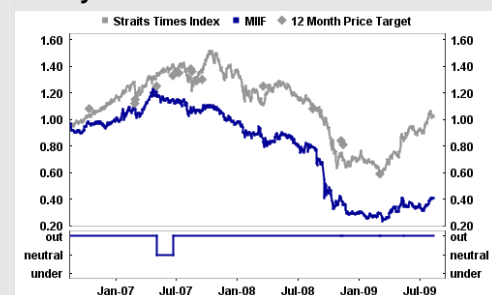
Stock price as of 12 Aug 09	S\$	0.41
12-month target	S\$	0.59
Upside/downside	%	+45.7
Valuation	S\$	0.68
- DCF (WACC 14.4%)		

GICS sector	diversified financials	
Market cap	S\$m	526
30-day avg turnover	S\$m	1.3
Market cap	US\$m	364
Number shares on issue	m	1,298

Investment fundamentals

Year end 31 Dec	2008A	2009E	2010E	2011E
Total revenue	m 134.8	-69.6	61.0	65.7
EBIT	m -279.2	-71.0	53.0	56.9
EBIT Growth	% nmf	74.6	nmf	7.3
Reported profit	m -280.8	-72.3	51.6	55.6
Adjusted profit	m -280.8	-72.3	51.6	55.6
EPS rep	¢ -21.7	-5.6	4.0	4.3
EPS rep growth	% 0.0	74.3	0.0	7.7
EPS adj	¢ -21.6	-5.6	4.0	4.3
EPS adj growth	% nmf	74.2	nmf	7.7
PE rep	x nmf	nmf	10.2	9.5
PE adj	x nmf	nmf	10.2	9.5
Total DPS	¢ 7.3	3.0	4.0	4.3
Total div yield	% 17.9	7.4	9.9	10.7
ROA	% -17.8	-5.8	4.5	4.8
ROE	% -19.3	-6.0	4.5	4.9
EV/EBITDA	x -1.9	-7.5	10.1	9.4
Net debt/equity	% 0.6	1.1	0.5	-0.1
Price/book	x 0.4	0.5	0.5	0.5

MIIF SP vs Straits Times Index, & rec history



Source: FactSet, Macquarie Research, August 2009 (all figures in SGD unless noted)

Analyst

Ian Myles, CFA
612 8232 4157

ian.myles@macquarie.com

Dividend weaker, still expect asset realisation

Event

- MIIF reported its interim result. Ignoring the asset write-downs, net income was S\$28.8m compared to our expectation of S\$32.4m. The difference was principally because there was no dividend from Miaoli Wind (S\$2.4m). The dividend disappointed at S\$0.015 per share, given income of \$0.022 per share.

Impact

- MIIF is focused on its asset review and reiterated that the review should be completed by September. At that point, investors should have clarity on whether a progressive realisation of the assets will occur.
- The fine-tuning of the NAV, with a 9-10% cut of TBC valuation and 30% cut of Miaoli since the March quarter, are possible indicators of the asset realisation process. In the past, MIG has adjusted its asset values prior to divestment (eg Lusoponte). However, there are still gaps, with Arqiva the most obvious. MIIF highlights that using the recent MCG bid price for Arqiva's valuation, MIIF's NAV drops to S\$0.81. Adopting that across the portfolio, the adjusted NAV is S\$0.65, which is still some 80% above the current share price.
- Operationally, the performance of the assets were, on average, better than expected, with Arqiva and Hua Nan the exceptions. The disappointment in the result was Miaoli Wind. The theme that de-leveraging will occur within Arqiva, Leisureworld, MEIF remains. The extent of the de-leveraging, particularly with Arqiva, will influence the dividend rate in coming periods.

Earnings and target price revision

- We have modified our earnings expectations to include no dividend from Arqiva for FY10 and for a reduced dividend from Leisureworld in FY12. Irrespective of these adjustments, we think MIIF should be able generate moderate dividend growth.

Price catalyst

- 12-month price target: S\$0.59 based on a DCF methodology.
- Catalyst: September and management clarifying whether the asset realisation program will be successful.

Action and recommendation

- In our view, MIIF provides a corporate opportunity, namely asset realisation. The improvement in the equity markets and confidence over the recovery should improve the probability of MIIF getting bidders within NAV. Our fair value remains S\$0.68, which is supported by the alternative 25% discount on the NAV. Even at the extreme of a 40% discount similar to MAP/MIG, we think S\$0.52 would be justified. We think MIIF remains attractive to investors.

Macquarie International Infrastructure Fund (MIIF SP, Outperform, Target price: S\$0.59)

Interim Results					Profit & Loss						
	2H/08A	1H/09E	2H/09E	1H/10E		2008A	2009E	2010E	2011E		
Revenue	m	90	-97	28	28	Revenue	m	135	-70	61	66
Gross Profit	m					Gross Profit	m				
Cost of Goods Sold	m	0	0	0	0	Cost of Goods Sold	m	0	0	0	0
EBITDA	m	-262	-99	28	24	EBITDA	m	-279	-71	53	57
Depreciation	m	0	0	0	0	Depreciation	m	0	0	0	0
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	-262	-99	28	24	EBIT	m	-279	-71	53	57
Net Interest Income	m	-0	-1	-1	-1	Net Interest Income	m	-2	-1	-1	-1
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0	Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	m	-263	-100	28	23	Pre-Tax Profit	m	-281	-72	52	56
Tax Expense	m	0	0	0	0	Tax Expense	m	0	0	0	0
Net Profit	m	-263	-100	28	23	Net Profit	m	-281	-72	52	56
Minority Interests	m	0	0	0	0	Minority Interests	m	0	0	0	0
Reported Earnings	m	-263	-100	28	23	Reported Earnings	m	-281	-72	52	56
Adjusted Earnings	m	-263	-100	28	23	Adjusted Earnings	m	-281	-72	52	56
EPS (rep)	¢	-20.2	-7.7	2.1	1.8	EPS (rep)	¢	-21.7	-5.6	4.0	4.3
EPS (adj)	¢	-20.2	-7.7	2.1	1.8	EPS (adj)	¢	-21.6	-5.6	4.0	4.3
EPS Growth yoy (adj)	%	nmf	-450.5	nmf	nmf	EPS Growth (adj)	%	nmf	74.2	nmf	7.7
						PE (rep)	x	nmf	nmf	10.2	9.5
						PE (adj)	x	nmf	nmf	10.2	9.5
EBITDA Margin	%	-289.8	102.1	102.4	85.7	Total DPS	¢	7.3	3.0	4.0	4.3
EBIT Margin	%	-289.8	102.1	102.4	85.7	Total Div Yield	%	17.9	7.4	9.9	10.7
Earnings Split	%	93.5	138.2	-38.2	44.6	Weighted Average Shares	m	1,297	1,298	1,298	1,298
Revenue Growth	%	-59.3	nmf	-69.3	nmf	Period End Shares	m	1,298	1,298	1,298	1,298
EBIT Growth	%	nmf	-484.6	nmf	nmf						
Profit and Loss Ratios					Cashflow Analysis						
	2008A	2009E	2010E	2011E		2008A	2009E	2010E	2011E		
Revenue Growth	%	-69.4	nmf	nmf	7.7	EBITDA	m	124	62	59	64
EBITDA Growth	%	nmf	74.6	nmf	7.3	Tax Paid	m	0	0	0	0
EBIT Growth	%	nmf	74.6	nmf	7.3	Chgs in Working Cap	m	-15	11	0	0
Gross Profit Margin	%	nmf	nmf	nmf	nmf	Net Interest Paid	m	-2	-1	-1	-1
EBITDA Margin	%	-207.1	102.0	86.9	86.6	Other	m	-9	-4	-6	-7
EBIT Margin	%	-207.1	102.0	86.9	86.6	Operating Cashflow	m	99	67	52	56
Net Profit Margin	%	-208.3	103.9	84.6	84.6	Acquisitions	m	0	0	0	0
Payout Ratio	%	nmf	nmf	100.5	100.9	Capex	m	-26	-10	0	0
EV/EBITDA	x	-1.9	-7.5	10.1	9.4	Asset Sales	m	153	0	0	0
EV/EBIT	x	-1.9	-7.5	10.1	9.4	Other	m	0	0	0	0
Balance Sheet Ratios					Investing Cashflow	m	127	-10	0	0	
ROE	%	-19.3	-6.0	4.5	4.9	Dividend (Ordinary)	m	-110	-58	-45	-50
ROA	%	-17.8	-5.8	4.5	4.8	Equity Raised	m	12	0	0	0
ROIC	%	-15.8	-5.6	4.6	5.0	Debt Movements	m	-158	10	0	0
Net Debt/Equity	%	0.6	1.1	0.5	-0.1	Other	m	-17	-3	0	0
Interest Cover	x	-174.5	-54.2	38.4	43.5	Financing Cashflow	m	-273	-51	-45	-50
Price/Book	x	0.4	0.5	0.5	0.5	Net Chg in Cash/Debt	m	-47	6	7	6
Book Value per Share		1.0	0.9	0.9	0.9	Free Cashflow	m	73	57	52	56
						Balance Sheet		2008A	2009E	2010E	2011E
						Cash	m	12	18	25	31
						Receivables	m	14	5	5	5
						Inventories	m	0	0	0	0
						Investments	m	0	0	0	0
						Fixed Assets	m	0	0	0	0
						Intangibles	m	0	0	0	0
						Other Assets	m	1,260	1,145	1,145	1,144
						Total Assets	m	1,286	1,168	1,174	1,179
						Payables	m	3	5	5	5
						Short Term Debt	m	20	30	30	30
						Long Term Debt	m	0	0	0	0
						Provisions	m	0	0	0	0
						Other Liabilities	m	0	0	0	0
						Total Liabilities	m	24	35	35	35
						Shareholders' Funds	m	1,262	1,132	1,139	1,144
						Minority Interests	m	0	0	0	0
						Other	m	0	0	0	0
						Total S/H Equity	m	1,262	1,132	1,139	1,144
						Total Liab & S/H Funds	m	1,286	1,168	1,174	1,180

All figures in SGD unless noted.

Source: Company data, Macquarie Research, August 2009

THAILAND

Bumrungrad Hospital

17 August 2009

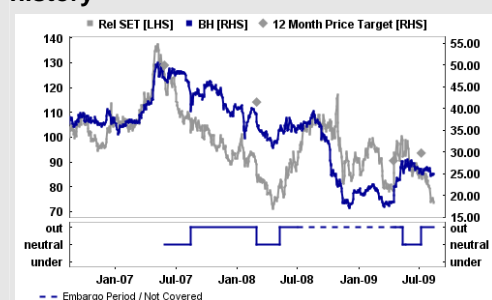
BH TB **Outperform**

Stock price as of 14 Aug 09	Bt	24.90
12-month target	Bt	29.25
Upside/downside	%	+17.5
Valuation	Bt	29.25
- DCF (WACC 9.5%)		

GICS sector	health care equipment & services		
Market cap	Bt m	18,135	
30-day avg turnover	Bt m	32.7	
Market cap	US\$m	533	
Number shares on issue	m	728.3	

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Total revenue	m	8,757	9,215	10,038	11,087
EBIT	m	1,578	1,626	1,788	2,087
EBIT Growth	%	-0.7	3.1	10.0	16.7
Reported profit	m	1,191	1,261	1,417	1,688
Adjusted profit	m	1,191	1,261	1,417	1,688
EPS rep	Bt	1.37	1.45	1.63	1.95
EPS rep growth	%	-39.7	5.9	12.4	19.1
EPS adj	Bt	1.37	1.45	1.63	1.95
EPS adj growth	%	-39.7	5.9	12.4	19.1
PE rep	x	18.1	17.1	15.2	12.8
PE adj	x	18.1	17.1	15.2	12.8
Total DPS	Bt	0.80	0.85	0.95	1.05
Total div yield	%	3.2	3.4	3.8	4.2
ROA	%	20.3	19.4	20.0	21.9
ROE	%	25.9	24.2	24.0	25.1
EV/EBITDA	x	11.1	10.6	9.6	8.3
Net debt/equity	%	30.8	22.5	15.2	1.0
Price/book	x	4.4	3.9	3.4	3.0

BH TB rel SET performance, & rec history

Source: FactSet, Macquarie Research, August 2009 (all figures in THB unless noted)

Analyst

David Gambrell
662 694 7753

david.gambrell@macquarie.com

Positive signs in a slow quarter

Event

- We maintain our Outperform on Bumrungrad Hospital although we have trimmed our earnings projections and reduced our 12-month target price to Bt29.25. These cuts follow a softer-than-expected 2Q09 performance in which BH's net profit of Bt288m (+3% YoY) was 7% shy of our estimate. We still see BH as well positioned for stronger growth as the operating environment improves.

Impact

- Positive signs in a slow quarter.** April is traditionally a slow month and this was exacerbated by the political unrest in Bangkok. However, BH's efforts to expand its domestic volumes have started to bear fruit, with Thai outpatient visits showing growth in May and June, and Thai inpatient admissions recording growth in June. International volumes were down slightly for the quarter, while gains in treatment intensity supported a 2% increase in revenue, and effective cost controls contributed to a 4% increase in EBITDA.
- Outperforming its competition.** BH is coping better with the tough environment than its key high-end domestic competitor Bangkok Dusit (BGH TB, Bt22.7, not rated), which saw sharp contractions in gross profit (9% YoY) and net profit (14%). However, the mid-market is proving more resilient, with Bangkok Chain (KH TB, Bt8.3, not rated) reporting YoY growth in sales of 12% and growth in net profit of 17% for the quarter.
- Ongoing improvements.** BH will continue with promotional events that have drawn a positive response from the domestic market, with Healthy Living Club memberships now up to 16,000. The product offering of its wellness and anti-aging subsidiary Vitallife is to be further enhanced, and BH is now looking to monetise its involvement in global clinical research.

Earnings and target price revision

- We have trimmed our earnings by 3% for each year from 2009-11, and reduced our target price to Bt29.25 from Bt29.75.

Price catalyst

- 12-month price target: Bt29.25 based on a DCF methodology.
- Catalyst: Recovery in patient volumes, new investments or projects

Action and recommendation

- The thesis behind our initiation on BH was that it can leverage off its considerable brand equity to build utilisation of its new capacity over the next two years (see our initiation report: *Bumrungrad Hospital – The HyPE's gone, but quality remains*, 15 April 2009). Apparent gains in market share of patients from the Middle East, and the strong response to promotional activities targeting the Thai domestic market, are early indicators that support our view. BH continues to lay the groundwork that we expect to stimulate volume growth as operating conditions improve. Outperform rating is maintained.

Bumrungrad Hospital (BH TB, Outperform, Target price: Bt29.25)

Quarterly Results					Profit & Loss						
	2Q/09A	3Q/09E	4Q/09E	1Q/10E		2008A	2009E	2010E	2011E		
Revenue	m	2,211	2,373	2,338	2,497	Revenue	m	8,757	9,215	10,038	11,087
Gross Profit	m	863	921	908	981	Gross Profit	m	3,433	3,615	3,941	4,400
Cost of Goods Sold	m	1,348	1,452	1,430	1,517	Cost of Goods Sold	m	5,324	5,600	6,097	6,687
EBITDA	m	502	546	539	598	EBITDA	m	2,037	2,164	2,405	2,756
Depreciation	m	136	134	134	154	Depreciation	m	459	538	617	669
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	366	412	404	444	EBIT	m	1,578	1,626	1,788	2,087
Net Interest Income	m	-19	-27	-30	-28	Net Interest Income	m	-108	-98	-106	-81
Associates	m	0	0	0	0	Associates	m	43	14	0	0
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	10	0	0	0	Forex Gains / Losses	m	32	19	0	0
Other Pre-Tax Income	m	38	39	38	45	Other Pre-Tax Income	m	87	139	180	211
Pre-Tax Profit	m	394	423	413	461	Pre-Tax Profit	m	1,631	1,700	1,862	2,217
Tax Expense	m	-106	-102	-99	-110	Tax Expense	m	-440	-439	-446	-529
Net Profit	m	288	321	313	351	Net Profit	m	1,191	1,261	1,417	1,688
Minority Interests	m	0	0	0	0	Minority Interests	m	0	0	0	0
Reported Earnings	m	288	321	313	351	Reported Earnings	m	1,191	1,261	1,417	1,688
Adjusted Earnings	m	288	321	313	351	Adjusted Earnings	m	1,191	1,261	1,417	1,688
EPS (rep)		0.33	0.37	0.36	0.40	EPS (rep)		1.37	1.45	1.63	1.95
EPS (adj)		0.33	0.37	0.36	0.40	EPS (adj)		1.37	1.45	1.63	1.95
EPS Growth yoy (adj)	%	3.1	5.3	7.4	3.8	EPS Growth (adj)	%	-39.7	5.9	12.4	19.1
						PE (rep)	x	18.1	17.1	15.2	12.8
						PE (adj)	x	18.1	17.1	15.2	12.8
EBITDA Margin	%	22.7	23.0	23.0	24.0	Total DPS		0.80	0.85	0.95	1.05
EBIT Margin	%	16.6	17.4	17.3	17.8	Total Div Yield	%	3.2	3.4	3.8	4.2
Earnings Split	%	22.9	25.5	24.8	24.8	Weighted Average Shares	m	867	867	867	867
Revenue Growth	%	2.3	5.4	9.4	8.9	Period End Shares	m	867	867	867	867
EBIT Growth	%	-4.5	4.8	18.0	0.1						
Profit and Loss Ratios					Cashflow Analysis						
	2008A	2009E	2010E	2011E		2008A	2009E	2010E	2011E		
Revenue Growth	%	3.4	5.2	8.9	10.4	EBITDA	m	2,037	2,164	2,405	2,756
EBITDA Growth	%	2.0	6.2	11.1	14.6	Tax Paid	m	440	439	446	529
EBIT Growth	%	-0.7	3.1	10.0	16.7	Chgs in Working Cap	m	106	-26	54	69
Gross Profit Margin	%	39.2	39.2	39.3	39.7	Net Interest Paid	m	-114	-101	-110	-86
EBITDA Margin	%	23.3	23.5	24.0	24.9	Other	m	-706	-684	-787	-942
EBIT Margin	%	18.0	17.6	17.8	18.8	Operating Cashflow	m	1,762	1,792	2,008	2,326
Net Profit Margin	%	13.6	13.7	14.1	15.2	Acquisitions	m	0	0	0	0
Payout Ratio	%	58.3	58.5	58.2	54.0	Capex	m	-1,722	-925	-991	-653
EV/EBITDA	x	11.1	10.6	9.6	8.3	Asset Sales	m	0	0	0	0
EV/EBIT	x	14.2	14.0	12.9	11.0	Other	m	283	-17	-31	-32
Balance Sheet Ratios					Investing Cashflow	m	-1,440	-942	-1,022	-685	
ROE	%	25.9	24.2	24.0	25.1	Dividend (Ordinary)	m	-583	-567	-655	-728
ROA	%	20.3	19.4	20.0	21.9	Equity Raised	m	0	0	0	0
ROIC	%	20.7	18.9	20.1	22.0	Debt Movements	m	113	-660	-131	-131
Net Debt/Equity	%	30.8	22.5	15.2	1.0	Other	m	-18	362	-161	-433
Interest Cover	x	14.6	16.5	16.9	25.9	Financing Cashflow	m	-488	-865	-948	-1,292
Price/Book	x	4.4	3.9	3.4	3.0	Net Chg in Cash/Debt	m	-165	-15	38	349
Book Value per Share		5.6	6.4	7.2	8.3	Free Cashflow	m	40	867	1,017	1,673
					Balance Sheet		2008A	2009E	2010E	2011E	
					Cash	m	385	369	407	755	
					Receivables	m	494	564	614	678	
					Inventories	m	188	204	220	242	
					Investments	m	2	2	2	2	
					Fixed Assets	m	5,374	5,799	6,207	6,225	
					Intangibles	m	310	293	291	289	
					Other Assets	m	1,351	1,405	1,492	1,602	
					Total Assets	m	8,104	8,636	9,233	9,793	
					Payables	m	504	549	594	651	
					Short Term Debt	m	769	960	831	431	
					Long Term Debt	m	1,116	656	525	394	
					Provisions	m	0	0	0	0	
					Other Liabilities	m	849	935	1,019	1,125	
					Total Liabilities	m	3,239	3,100	2,969	2,602	
					Shareholders' Funds	m	4,309	4,958	5,687	6,614	
					Minority Interests	m	0	0	0	0	
					Other	m	556	577	577	577	
					Total S/H Equity	m	4,865	5,536	6,265	7,192	
					Total Liab & S/H Funds	m	8,104	8,636	9,233	9,793	

All figures in THB unless noted.

Source: Company data, Macquarie Research, August 2009

THAILAND

Quality Houses

11 August 2009

QH TB **Outperform**

Stock price as of 10 Aug 09	Bt	1.74
12-month target	Bt	2.20
Upside/downside	%	+26.4
Valuation - DCF	Bt	2.20

GICS sector		real estate
Market cap	Bt m	14,751
30-day avg turnover	Bt m	368.4
Market cap	US\$m	434
Number shares on issue	m	8,477

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Total revenue	m	10,700	10,347	13,220	14,460
EBIT	m	2,034	1,939	2,334	2,441
EBIT Growth	%	41.5	-4.7	20.3	4.6
Reported profit	m	1,558	1,552	1,996	2,118
Adjusted profit	m	1,558	1,552	1,996	2,118
EPS rep	Bt	0.20	0.18	0.24	0.25
EPS rep growth	%	38.2	-9.8	28.6	6.1
EPS adj	Bt	0.20	0.18	0.24	0.25
EPS adj growth	%	38.0	-9.6	28.6	6.1
PE rep	x	8.6	9.5	7.4	7.0
PE adj	x	8.6	9.5	7.4	7.0
Total DPS	Bt	0.084	0.078	0.100	0.106
Total DPS growth	%	18.74	-7.88	28.61	6.11
Total div yield	%	4.9	4.5	5.8	6.1
ROA	%	7.7	6.8	8.1	8.1
ROE	%	15.2	13.7	16.8	16.1
EV/EBITDA	x	11.0	10.5	8.7	8.3
Net debt/equity	%	122.6	128.9	105.6	98.3
Price/book	x	1.3	1.2	1.0	0.9

QH TB rel SET performance, & rec history



Source: FactSet, Macquarie Research, August 2009 (all figures in THB unless noted)

Analyst

Patti Tomaitrichitr, CFA
662 694 7727 patti.tomaitrichitr@macquarie.com

In the growth stage

Event

- QH announced a 2Q09 net profit of Bt474m, up 62% QoQ and 10% YoY, thanks to better-than-expected project sales, cost control and equity income. We revise up our EPS estimates for 2009–11E by 13–15% to reflect the better-than-expected results and raise our mid-2010E DCF-based target price to Bt2.20 from Bt1.80. Maintain Outperform.

Impact

- 2Q09 results beat expectations.** QH's 2Q09 net profit reached Bt474m, up 62% QoQ and 10% YoY. This was 17% higher than our expectation and 15% above consensus estimates. The good results were due to the company's strong project sales, sustainable gross margin, better cost control and higher equity income.
- Improving project sales QoQ.** 2Q09 revenue totalled Bt3.0bn, up 35% QoQ and 2% YoY. Of the total, 91% was from project sales, 6% from serviced apartment rentals and the remainder from office rentals. High-end demand appears to be recovering at a stronger pace than we expected, and this is supporting the willingness to buy by high-end clients, which is QH's target market. In 2Q09, QH's presales reached Bt2.6bn, flat YoY but up 29% QoQ.
- Stable gross margin.** Gross margin was at 30% vs 29.8% in 1Q09 and 32.4% in 2Q08. The company has managed to sustain its gross margin through a cost-reduction programme, whereby it negotiates bulk purchases of raw materials with major suppliers as opposed to buying in smaller quantities from various suppliers.
- Better cost control and higher equity income.** SG&A-to-sales fell to 10.8% from 14.2% in 1Q09, thanks to a higher sales base and more efficient cost and expense control. QH's equity income rose by 25% YoY and 8% QoQ to Bt105m. The higher equity income was due mainly to the 12% increase in contribution from QH's 21%-owned Home Product Centre (HMPRO TB, Bt6.0, Outperform, TP: Bt7.3, upside: 22%).

Earnings and target price revision

- We raise our EPS estimates by 15% for both 2009 and 2010 and 13% for 2011. We increase our DCF-based target price to Bt2.20 from Bt1.80.

Price catalyst

- 12-month price target: Bt2.20 based on a DCF methodology.
- Catalyst: Strong presales, improving gross margin and lower gearing.

Action and recommendation

- We maintain our Outperform rating on QH with a new DCF-based target price of Bt2.2. Its superior EPS growth of 29% in 2010E, condo revenue recognition in 2010 (on top of its usual low-rise housing sales) and expected lower gearing after the two condo transfers in 2010 form the basis of our conviction.

Quality Houses (QH TB, Outperform, Target price: Bt2.20)

Quarterly Results		2Q/09A	3Q/09E	4Q/09E	1Q/10E	Profit & Loss		2008A	2009E	2010E	2011E
Net Property Income	m	260	303	304	305	Net Property Income	m	1,170	1,154	1,224	1,236
Development Income	m	2,716	2,287	2,170	3,105	Development Income	m	9,450	9,098	11,865	13,084
Other Revenue	m	18	29	28	34	Other Revenue	m	80	95	132	139
Total Revenue	m	2,994	2,619	2,502	3,444	Total Revenue	m	10,700	10,347	13,220	14,460
Management Fees	m	0	0	0	0	Management Fees	m	0	0	0	0
Other Expenses	m	-2,347	-2,050	-1,954	-2,721	Other Expenses	m	-8,410	-8,155	-10,605	-11,720
EBITDA	m	647	569	548	722	EBITDA	m	2,289	2,192	2,615	2,740
Dep & Amortisation	m	58	66	66	70	Dep & Amortisation	m	255	252	281	299
EBIT	m	589	503	482	652	EBIT	m	2,034	1,939	2,334	2,441
Net Interest Income	m	-67	-75	-75	-57	Net Interest Income	m	-197	-294	-230	-233
Associates	m	105	104	99	136	Associates	m	366	405	524	573
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0	Other Pre-Tax Income	m	-80	0	0	0
Pre-Tax Profit	m	627	531	506	731	Pre-Tax Profit	m	2,123	2,050	2,627	2,781
Tax Expense	m	-154	-128	-122	-178	Tax Expense	m	-566	-498	-631	-662
Net Profit	m	474	403	384	552	Net Profit	m	1,558	1,552	1,996	2,118
Minority Interests	m	0	0	0	0	Minority Interests	m	0	0	0	0
Reported Earnings	m	474	403	384	552	Reported Earnings	m	1,558	1,552	1,996	2,118
Adjusted Earnings	m	474	403	384	552	Adjusted Earnings	m	1,558	1,552	1,996	2,118
EPS (rep)		0.06	0.05	0.05	0.07	EPS (rep)		0.20	0.18	0.24	0.25
EPS (adj)		0.06	0.05	0.05	0.07	EPS (adj)		0.20	0.18	0.24	0.25
EPS Growth yoy (adj)	%	-1.4	-24.1	8.7	89.2	EPS Growth (adj)	%	38.0	-9.6	28.6	6.1
						PE (rep)	x	8.6	9.5	7.4	7.0
						PE (adj)	x	8.6	9.5	7.4	7.0
EBITDA Margins	%	21.6	21.7	21.9	21.0	Total DPS		0.08	0.08	0.10	0.11
EBIT Margins	%	19.7	19.2	19.3	18.9	Total Div Yield	%	4.9	4.5	5.8	6.1
Earnings Split	%	30.5	26.0	24.7	27.7	Weighted Average Shares	m	7,674	8,477	8,477	8,477
Revenue Growth	%	1.7	-13.4	5.9	54.3	Period End Shares	m	8,477	7,449	7,449	7,449
EBIT Growth	%	-6.5	-16.1	9.0	78.6						
Profit & Loss Ratios		2008A	2009E	2010E	2011E	Cashflow Analysis		2008A	2009E	2010E	2011E
Revenue Growth	%	3.4	-3.3	27.8	9.4	EBITDA	m	2,210	2,097	2,483	2,601
EBITDA Growth	%	37.9	-4.3	19.3	4.8	Tax Paid	m	-566	-498	-631	-662
EBIT Growth	%	41.5	-4.7	20.3	4.6	Chg in Working Capital	m	5,013	352	9	1,475
EBITDA Margins	%	21.4	21.2	19.8	18.9	Net Interest Paid	m	-213	-302	-237	-242
EBIT Margins	%	19.0	18.7	17.7	16.9	Other	m	-9,644	-197	644	-2,229
Net Profit Margins	%	14.6	15.0	15.1	14.6	Operating Cashflow	m	-3,200	1,452	2,268	942
Payout Ratio	%	41.7	42.5	42.5	42.5	Acquisitions	m	242	-170	50	52
EV/EBITDA	x	11.0	10.5	8.7	8.3	Capex	m	-65	-165	-365	-365
EV/EBIT	x	12.2	11.7	9.6	9.1	Asset Sales	m	0	0	0	0
						Other	m	58	416	-101	-104
Balance Sheet Ratios						Investing Cashflow	m	235	81	-415	-417
ROE	%	15.2	13.7	16.8	16.1	Dividend (Ordinary)	m	-517	-662	-660	-848
ROA	%	7.7	6.8	8.1	8.1	Equity Raised	m	1,382	-1,198	0	0
ROIC	%	7.1	5.7	6.9	7.2	Debt Movements	m	2,334	136	-1,200	500
Net Debt/Equity	%	122.6	128.9	105.6	98.3	Other	m	-41	0	0	0
Interest Cover	x	10.3	6.6	10.2	10.5	Financing Cashflow	m	3,158	-1,724	-1,859	-348
Price/Book	x	1.3	1.2	1.0	0.9						
Book Value per Share		1.4	1.5	1.7	1.9	Net Chg in Cash/Debt	m	193	-191	-6	177
						Free Cashflow	m	-3,265	1,287	1,903	577
						Balance Sheet	2008A	2009E	2010E	2011E	
						Cash	m	876	685	679	855
						Receivables	m	28	27	35	38
						Inventories	m	8,886	9,847	10,038	10,873
						Investments	m	0	0	0	0
						Fixed Assets	m	14,283	13,461	13,680	14,525
						Intangibles	m	0	0	0	0
						Other Assets	m	4,737	4,524	4,836	5,002
						Total Assets	m	28,811	28,545	29,268	31,293
						Payables	m	460	465	592	650
						Short Term Debt	m	6,993	5,789	6,545	6,835
						Long Term Debt	m	7,980	9,320	7,365	7,575
						Provisions	m	1,880	1,782	2,241	2,439
						Other Liabilities	m	0	0	0	0
						Total Liabilities	m	17,314	17,356	16,743	17,498
						Shareholders' Funds	m	11,497	11,188	12,525	13,795
						Minority Interests	m	0	0	0	0
						Total S/H Equity	m	11,497	11,188	12,525	13,795
						Total Liab & S/H Funds	m	28,811	28,545	29,268	31,293

All figures in THB unless noted.

Source: Company data, Macquarie Research, August 2009

THAILAND

Charoen Pokphand Foods

10 August 2009

CPF TB Neutral

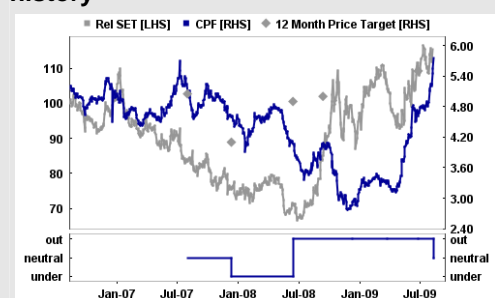
Stock price as of 07 Aug 09	Bt	5.55
12-month target	Bt	6.00
Upside/downside	%	+8.1
Valuation	Bt	6.00
- DCF		

GICS sector	food, beverage & tobacco	
Market cap	Bt m	41,736
30-day avg turnover	Bt m	166.3
Market cap	US\$m	1,229
Number shares on issue	m	7,520

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Total revenue	bn	156.2	164.3	173.7	184.3
EBIT	bn	3.5	8.1	8.0	8.5
EBIT Growth	%	254.1	131.4	-0.2	6.3
Reported profit	bn	3.1	7.2	6.5	7.2
Adjusted profit	bn	3.1	7.2	6.5	7.2
EPS rep	Bt	0.44	1.07	0.97	1.06
EPS rep growth	%	148.0	142.7	-9.5	10.2
EPS adj	Bt	0.44	1.07	0.97	1.06
EPS adj growth	%	148.0	142.7	-9.5	10.2
PE rep	x	12.6	5.2	5.7	5.2
PE adj	x	12.6	5.2	5.7	5.2
Total DPS	Bt	0.09	0.43	0.39	0.43
Total div yield	%	1.5	7.7	7.0	7.7
ROA	%	3.3	7.4	7.0	7.0
ROE	%	7.1	15.1	12.5	12.8
EV/EBITDA	x	7.1	4.6	4.5	4.2
Net debt/equity	%	96.7	76.0	66.1	55.7
Price/book	x	0.8	0.7	0.7	0.6

CPF TB rel SET performance, & rec history



Source: FactSet, Macquarie Research, August 2009 (all figures in THB unless noted)

Analyst

Bunlung Waiyanont

662 694 7993 bunlung.waiyanont@macquarie.com

Enjoy it while it lasts

Event

- We downgrade CPF to Neutral from Outperform, but raise our P/BV-based target price to Bt6.00 from Bt5.50. We raise our 2009 and 2010 EPS estimates by 42% and 21%, respectively. Following its 75% rally YTD, we believe the stock is now close to its fair value of 0.8x 2010E P/BV.

Impact

- Record quarterly profit, up 224% YoY.** CPF reported 2Q09 profit of Bt3.2bn, up 224% YoY and 315% QoQ. Gross margin was at 19.4% (vs 13.4% in 2Q08 and 14.7% in 1Q09), driven mainly by the decline in soft commodity prices (corn -21% YoY and soy -10% YoY). Meat prices were more resilient (chicken -10% YoY and pork +7% YoY) as large producers in concert cut meat supply to boost domestic meat prices.
- Profitability should peak in 2Q09.** In our view, 2Q09 should be the peak quarter for the year for CPF in terms of profitability. We believe the gross margin of 19.4% in 2Q09 is not sustainable and expect this to fall to 14.6% in 2010, for the following reasons:
 - ⇒ We expect soy and corn prices to rise along with the oil price.
 - ⇒ High domestic meat prices may encourage existing meat producers to increase their output, which would then pressure selling prices in the medium term.
- While 3Q is likely to be a strong quarter as well, we do not expect any significant upside to the level of profitability in 2Q09. With the pork price almost at a record high and the corn price at a three-year low, we believe there is a possibility for operations to weaken going into 2010.
- Strong correlation between profitability and share price.** CPF's share price shows a strong correlation with its gross margin. We believe the market has factored in a strong 2Q09 performance given the stock rally of 72% since 1 April 2009. As we expect gross margin to decline next year, we believe the share price upside is now limited.

Earnings and target price revision

- We raise our 2009 and 2010 EPS forecasts by 42% and 21%, respectively, as profit margin and operation efficiency have improved. We also raise our P/BV-based target price to Bt6.00 from Bt5.50, which represents 0.8x 2010E P/BV.

Price catalyst

- 12-month price target: Bt6.00 based on a Price to Book methodology.
- Catalyst: Positive: Falling corn prices, 7.7% dividend yield; Negative: Peak result in 2Q09, producers increase supply to enjoy the high meat prices.

Action and recommendation

- We downgrade our rating on CPF to Neutral from Outperform, with a P/BV-based target price of Bt6.0. We would not recommend chasing the stock at current prices.

Charoen Pokphand Foods (CPF TB, Neutral, Target price: Bt6.00)

Interim Results					Profit & Loss						
	1H/09A	2H/09E	1H/10E	2H/10E		2008A	2009E	2010E	2011E		
Revenue	m	75,393	88,938	78,186	95,561	Revenue	m	156,238	164,331	173,747	184,316
Gross Profit	m	15,275	14,802	13,757	16,814	Gross Profit	m	25,058	30,078	30,570	32,069
Cost of Goods Sold	m	60,117	74,136	64,430	78,747	Cost of Goods Sold	m	131,179	134,253	143,177	152,248
EBITDA	m	7,048	5,775	5,938	7,258	EBITDA	m	8,039	12,823	13,196	14,098
Depreciation	m	2,281	2,486	2,319	2,834	Depreciation	m	4,558	4,767	5,154	5,552
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	4,767	3,289	3,619	4,423	EBIT	m	3,481	8,056	8,042	8,546
Net Interest Income	m	-1,074	-1,316	-1,058	-1,294	Net Interest Income	m	-2,358	-2,390	-2,352	-2,232
Associates	m	645	613	648	792	Associates	m	1,162	1,257	1,439	1,629
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	30	-30	0	0	Forex Gains / Losses	m	82	0	0	0
Other Pre-Tax Income	m	513	562	484	591	Other Pre-Tax Income	m	1,075	1,075	1,075	1,075
Pre-Tax Profit	m	4,881	3,118	3,692	4,512	Pre-Tax Profit	m	3,442	7,998	8,204	9,017
Tax Expense	m	-844	176	-700	-856	Tax Expense	m	-218	-667	-1,556	-1,699
Net Profit	m	4,037	3,294	2,992	3,657	Net Profit	m	3,224	7,331	6,648	7,318
Minority Interests	m	-73	-86	-71	-87	Minority Interests	m	-96	-159	-159	-164
Reported Earnings	m	3,964	3,208	2,920	3,569	Reported Earnings	m	3,128	7,172	6,490	7,154
Adjusted Earnings	m	3,964	3,208	2,920	3,569	Adjusted Earnings	m	3,128	7,172	6,490	7,154
EPS (rep)		0.59	0.48	0.43	0.53	EPS (rep)		0.44	1.07	0.97	1.06
EPS (adj)		0.59	0.48	0.43	0.53	EPS (adj)		0.44	1.07	0.97	1.06
EPS Growth yoy (adj)	%	191.2	101.3	-26.3	11.3	EPS Growth (adj)	%	148.0	142.7	-9.5	10.2
						PE (rep)	x	12.6	5.2	5.7	5.2
						PE (adj)	x	12.6	5.2	5.7	5.2
EBITDA Margin	%	9.3	6.5	7.6	7.6	Total DPS		0.09	0.43	0.39	0.43
EBIT Margin	%	6.3	3.7	4.6	4.6	Total Div Yield	%	1.5	7.7	7.0	7.7
Earnings Split	%	55.3	44.7	45.0	55.0	Weighted Average Shares	m	7,114	6,720	6,720	6,720
Revenue Growth	%	3.4	6.8	3.7	7.4	Period End Shares	m	6,790	6,720	6,720	6,720
EBIT Growth	%	265.5	51.1	-24.1	34.5						
Profit and Loss Ratios					Cashflow Analysis						
	2008A	2009E	2010E	2011E		2008A	2009E	2010E	2011E		
Revenue Growth	%	15.9	5.2	5.7	6.1	EBITDA	m	8,039	12,823	13,196	14,098
EBITDA Growth	%	55.2	59.5	2.9	6.8	Tax Paid	m	-218	-667	-1,556	-1,699
EBIT Growth	%	254.1	131.4	-0.2	6.3	Chgs in Working Cap	m	-1,626	609	-1,536	-1,567
Gross Profit Margin	%	16.0	18.3	17.6	17.4	Net Interest Paid	m	-2,358	-2,390	-2,352	-2,232
EBITDA Margin	%	5.1	7.8	7.6	7.6	Other	m	0	0	0	0
EBIT Margin	%	2.2	4.9	4.6	4.6	Operating Cashflow	m	3,838	10,374	7,751	8,599
Net Profit Margin	%	2.1	4.5	3.8	4.0	Acquisitions	m	-2,070	1,439	1,439	1,629
Payout Ratio	%	19.3	40.0	40.0	40.0	Capex	m	-5,031	-4,697	-5,317	-5,479
EV/EBITDA	x	7.1	4.6	4.5	4.2	Asset Sales	m	0	0	0	0
EV/EBIT	x	14.2	7.0	6.9	6.4	Other	m	1,082	0	0	0
Balance Sheet Ratios					Investing Cashflow	m	-6,019	-3,258	-3,878	-3,850	
ROE	%	7.1	15.1	12.5	12.8	Dividend (Ordinary)	m	-577	-2,621	-2,621	-2,729
ROA	%	3.3	7.4	7.0	7.0	Equity Raised	m	-1,396	-233	0	0
ROIC	%	4.0	8.2	7.3	7.7	Debt Movements	m	3,204	-1,872	4,680	-1,304
Net Debt/Equity	%	96.7	76.0	66.1	55.7	Other	m	-134	-0	0	-0
Interest Cover	x	1.5	3.4	3.4	3.8	Financing Cashflow	m	1,097	-4,726	2,059	-4,032
Price/Book	x	0.8	0.7	0.7	0.6	Net Chg in Cash/Debt	m	-1,083	2,391	5,932	716
Book Value per Share		6.6	7.4	8.0	8.7	Free Cashflow	m	-1,193	5,677	2,434	3,120
					Balance Sheet						
	2008A	2009E	2010E	2011E		2008A	2009E	2010E	2011E		
Cash	m	3,453	7,236	14,243	16,034	Cash	m	3,453	7,236	14,243	16,034
Receivables	m	14,115	14,425	14,753	15,100	Receivables	m	14,115	14,425	14,753	15,100
Inventories	m	27,888	27,218	29,028	30,867	Inventories	m	27,888	27,218	29,028	30,867
Investments	m	0	0	0	0	Investments	m	0	0	0	0
Fixed Assets	m	44,706	44,637	44,801	44,728	Fixed Assets	m	44,706	44,637	44,801	44,728
Intangibles	m	885	885	885	885	Intangibles	m	885	885	885	885
Other Assets	m	16,463	16,557	16,666	16,788	Other Assets	m	16,463	16,557	16,666	16,788
Total Assets	m	107,510	110,957	120,374	124,401	Total Assets	m	107,510	110,957	120,374	124,401
Payables	m	7,607	7,785	8,303	8,829	Payables	m	7,607	7,785	8,303	8,829
Short Term Debt	m	29,117	24,811	28,491	27,987	Short Term Debt	m	29,117	24,811	28,491	27,987
Long Term Debt	m	18,365	20,800	21,800	21,000	Long Term Debt	m	18,365	20,800	21,800	21,000
Provisions	m	0	0	0	0	Provisions	m	0	0	0	0
Other Liabilities	m	6,870	7,035	7,227	7,442	Other Liabilities	m	6,870	7,035	7,227	7,442
Total Liabilities	m	61,959	60,431	65,820	65,258	Total Liabilities	m	61,959	60,431	65,820	65,258
Shareholders' Funds	m	43,148	47,965	51,833	56,259	Shareholders' Funds	m	43,148	47,965	51,833	56,259
Minority Interests	m	498	657	815	979	Minority Interests	m	498	657	815	979
Other	m	1,905	1,905	1,905	1,905	Other	m	1,905	1,905	1,905	1,905
Total S/H Equity	m	45,551	50,526	54,554	59,143	Total S/H Equity	m	45,551	50,526	54,554	59,143
Total Liab & S/H Funds	m	107,510	110,957	120,374	124,401	Total Liab & S/H Funds	m	107,510	110,957	120,374	124,401

All figures in THB unless noted.

Source: Company data, Macquarie Research, August 2009

THAILAND

Home Product Center

17 August 2009

HMPRO TB **Outperform**

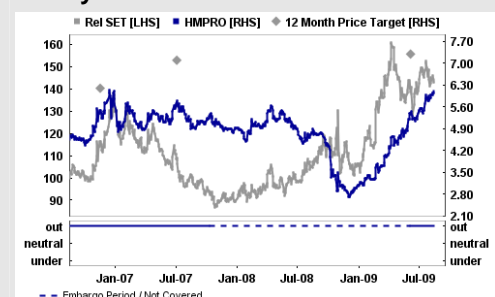
Stock price as of 14 Aug 09	Bt	6.10
12-month target	Bt	7.50
Upside/downside	%	+23.0
Valuation	Bt	7.55
- DCF (WACC 10.1%, beta 1.0, ERP 8.0%, RFR 5.0%, TGR 2.0%)		

GICS sector		retailing
Market cap	Bt m	11,839
30-day avg turnover	Bt m	5.1
Market cap	US\$m	348
Number shares on issue	m	1,941

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Total revenue	m	19,824	22,174	24,367	25,557
EBIT	m	1,486	1,634	1,826	1,964
EBIT Growth	%	28.7	10.0	11.8	7.5
Reported profit	m	959	1,059	1,199	1,301
Adjusted profit	m	959	1,059	1,199	1,301
EPS rep	Bt	0.50	0.55	0.62	0.67
EPS rep growth	%	34.5	10.4	13.2	8.5
EPS adj	Bt	0.50	0.55	0.62	0.67
EPS adj growth	%	34.5	10.4	13.2	8.5
PE rep	x	12.3	11.1	9.8	9.1
PE adj	x	12.3	11.1	9.8	9.1
Total DPS	Bt	0.35	0.38	0.43	0.47
Total div yield	%	5.7	6.3	7.1	7.7
ROA	%	11.6	11.9	12.6	12.9
ROE	%	20.7	20.6	21.5	21.6
EV/EBITDA	x	6.4	6.0	5.3	4.9
Net debt/equity	%	41.3	39.5	36.0	27.9
Price/book	x	2.4	2.2	2.0	1.9

HMPRO TB rel SET performance, & rec history



Source: FactSet, Macquarie Research, August 2009 (all figures in THB unless noted)

Analyst

Patti Tomaitrichitr, CFA
662 694 7727 patti.tomaitrichitr@macquarie.com
Bunlung Waiyanont
662 694 7993 bunlung.waiyanont@macquarie.com

Good, cheap, and still growing

Event

- We maintain our Outperform rating for Home Product Center (HMPRO) and lift our DCF-based target price to Bt7.5 from Bt7.3, having raised our earnings estimates by 2–3% for 2009–11E. Helped by an improving political landscape and a consumption recovery, we expect HMPRO to deliver stronger sales growth and margin expansion in 2H09 and 2010.

Impact

- A strong quarter, 2Q09 results up 26% YoY.** HMPRO's 2Q09 net profits were Bt252m, up 26% YoY and 4% QoQ. This was driven by 3.3% same-store sales (SSS), new store openings and better gross margin. During 1H09, HMPRO opened two new provincial stores, bringing its total number of stores to 35, of which 17 are in Bangkok and 18 in rural areas.
- Same-store-sales growth remains resilient.** Despite the red-shirt protests and H1N1 flu pandemic, HMPRO still managed to deliver total sales growth of 7.5%, of which 3.3ppt was SSS growth and 4.2ppt from new stores opening. Although its stores in tourist destination areas such as Pattaya, Phuket, and Huahin did badly in 2Q09, we expect the situation to improve and its SSS growth to accelerate in 2H09. We forecast HMPRO's SSS growth at 4% and total sales growth at 12.7% for 2009.
- Margin expansion to continue.** HMPRO's 2Q09 gross margin rose to 28.9% from 27.5% in 2Q08, thanks to its increasing focus on house-brand products from direct sourcing (mostly from China), as they offer a gross margin estimated at twice that of the local brands. We expect its house-brand sales mix to reach 14% at end-2009, vs 11.5% in 2008.
- Improving inventory control.** Efficient working capital management remains its key strength. In 1H09, HMPRO's cash cycle days improved to -22 from -24 in 2008, thanks to its cutting inventory days to 64 from 67 in 2008. Better and more flexible demand forecasts help predict more accurately new stock orders and better inventory management efficiency. With a negative cash cycle, HMPRO can use its non-due supplier credit to fund day-to-day operations, fixed capital and new store expansions.

Earnings and target price revision

- We raise our EPS estimates by 2% for 2009 and 3% for 2010 and lift DCF-based target price to Bt7.50 from Bt7.30.

Price catalyst

- 12-month price target: Bt7.50 based on a DCF methodology.
- Catalyst: Continuing store expansion, higher sales growth and gross margins.

Action and recommendation

- We maintain Outperform on HMPRO with a new TP of Bt7.5, implying 13.7x 2009E PER. We view HMRO as a 'value for money' retailer that offers decent growth prospects and high yield of 6–8% for 2009–11.

Home Product Center (HMPRO TB, Outperform, Target price: Bt7.50)

Quarterly Results					Profit & Loss						
		2Q/09A	3Q/09E	4Q/09E	1Q/10E		2008A	2009E	2010E	2011E	
Revenue	m	5,098	5,544	6,293	5,970	Revenue	m	19,824	22,174	24,367	25,557
Gross Profit	m	1,471	1,586	1,781	1,722	Gross Profit	m	5,677	6,345	7,027	7,445
Cost of Goods Sold	m	3,627	3,957	4,512	4,248	Cost of Goods Sold	m	14,147	15,830	17,340	18,112
EBITDA	m	582	597	636	660	EBITDA	m	2,214	2,389	2,694	2,932
Depreciation	m	203	189	173	213	Depreciation	m	728	756	867	968
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	379	408	462	447	EBIT	m	1,486	1,634	1,826	1,964
Net Interest Income	m	-28	-30	-31	-28	Net Interest Income	m	-134	-120	-113	-106
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0	Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	m	351	378	431	420	Pre-Tax Profit	m	1,351	1,513	1,713	1,858
Tax Expense	m	-99	-113	-131	-126	Tax Expense	m	-392	-454	-514	-557
Net Profit	m	252	265	300	294	Net Profit	m	959	1,059	1,199	1,301
Minority Interests	m	0	0	0	0	Minority Interests	m	0	0	0	0
Reported Earnings	m	252	265	300	294	Reported Earnings	m	959	1,059	1,199	1,301
Adjusted Earnings	m	252	265	300	294	Adjusted Earnings	m	959	1,059	1,199	1,301
EPS (rep)		0.13	0.14	0.16	0.15	EPS (rep)		0.50	0.55	0.62	0.67
EPS (adj)		0.13	0.14	0.16	0.15	EPS (adj)		0.50	0.55	0.62	0.67
EPS Growth yoy (adj)	%	25.9	15.1	-12.3	21.4	EPS Growth (adj)	%	34.5	10.4	13.2	8.5
						PE (rep)	x	12.3	11.1	9.8	9.1
						PE (adj)	x	12.3	11.1	9.8	9.1
EBITDA Margin	%	11.4	10.8	10.1	11.1	Total DPS		0.35	0.38	0.43	0.47
EBIT Margin	%	7.4	7.4	7.3	7.5	Total Div Yield	%	5.7	6.3	7.1	7.7
Earnings Split	%	23.8	25.0	28.4	24.5	Weighted Average Shares	m	1,934	1,934	1,934	1,934
Revenue Growth	%	7.8	11.8	11.7	13.9	Period End Shares	m	1,934	1,934	1,934	1,934
EBIT Growth	%	17.4	11.7	-5.2	16.5						
Profit and Loss Ratios					Cashflow Analysis						
		2008A	2009E	2010E	2011E		2008A	2009E	2010E	2011E	
Revenue Growth	%	16.5	11.9	9.9	4.9	EBITDA	m	2,214	2,389	2,694	2,932
EBITDA Growth	%	22.2	7.9	12.7	8.9	Tax Paid	m	-392	-454	-514	-557
EBIT Growth	%	28.7	10.0	11.8	7.5	Chgs in Working Cap	m	552	158	114	4
Gross Profit Margin	%	28.6	28.6	28.8	29.1	Net Interest Paid	m	-134	-120	-113	-106
EBITDA Margin	%	11.2	10.8	11.1	11.5	Other	m	0	0	0	0
EBIT Margin	%	7.5	7.4	7.5	7.7	Operating Cashflow	m	2,240	1,973	2,181	2,272
Net Profit Margin	%	4.8	4.8	4.9	5.1	Acquisitions	m	-224	0	0	0
Payout Ratio	%	70.5	70.0	70.0	70.0	Capex	m	-1,002	-1,361	-1,415	-1,089
EV/EBITDA	x	6.4	6.0	5.3	4.9	Asset Sales	m	0	0	0	0
EV/EBIT	x	9.6	8.7	7.8	7.3	Other	m	291	0	0	0
Balance Sheet Ratios						Investing Cashflow	m	-934	-1,361	-1,415	-1,089
ROE	%	20.7	20.6	21.5	21.6	Dividend (Ordinary)	m	-677	-677	-741	-839
ROA	%	11.6	11.9	12.6	12.9	Equity Raised	m	20	0	0	0
ROIC	%	15.0	16.3	17.2	17.4	Debt Movements	m	-280	-300	0	-300
Net Debt/Equity	%	41.3	39.5	36.0	27.9	Other	m	0	0	0	0
Interest Cover	x	11.1	13.6	16.1	18.5	Financing Cashflow	m	-937	-977	-741	-1,139
Price/Book	x	2.4	2.2	2.0	1.9	Net Chg in Cash/Debt	m	369	-365	24	44
Book Value per Share		2.6	2.8	3.0	3.2	Free Cashflow	m	1,238	612	765	1,183
						Balance Sheet		2008A	2009E	2010E	2011E
						Cash	m	604	239	263	307
						Receivables	m	135	135	135	135
						Inventories	m	2,728	3,065	3,349	3,486
						Investments	m	0	0	0	0
						Fixed Assets	m	8,613	9,218	9,766	9,887
						Intangibles	m	0	0	0	0
						Other Assets	m	1,289	1,377	1,470	1,546
						Total Assets	m	13,369	14,034	14,983	15,361
						Payables	m	3,697	4,153	4,539	4,724
						Short Term Debt	m	1,085	1,085	1,085	1,085
						Long Term Debt	m	1,565	1,265	1,265	965
						Provisions	m	0	0	0	0
						Other Liabilities	m	2,066	2,192	2,298	2,330
						Total Liabilities	m	8,413	8,695	9,186	9,103
						Shareholders' Funds	m	4,956	5,339	5,796	6,258
						Minority Interests	m	0	0	0	0
						Other	m	0	0	0	0
						Total S/H Equity	m	4,956	5,339	5,796	6,258
						Total Liab & S/H Funds	m	13,369	14,034	14,983	15,361

All figures in THB unless noted.
Source: Macquarie Research, August 2009

THAILAND

Esso Thailand

17 August 2009

ESSO TB **Outperform**

Stock price as of 14 Aug 09	Bt	6.40
12-month target	Bt	10.00
Upside/downside	%	+57.5
Valuation	Bt	10.00
- DCF (WACC 10.3%)		

GICS sector		energy
Market cap	Bt m	21,976
30-day avg turnover	Bt m	42.4
Market cap	US\$m	646
Number shares on issue	m	3,461

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Total revenue	bn	222.2	155.7	181.7	204.3
EBIT	bn	-8.7	12.6	10.4	10.8
EBIT Growth	%	nmf	nmf	-17.0	3.3
Reported profit	bn	-6.9	8.0	6.6	7.0
Adjusted profit	bn	-6.8	8.0	6.6	7.0
EPS rep	Bt	-2.16	2.30	1.90	2.01
EPS rep growth	%	0.0	0.0	-17.6	6.1
EPS adj	Bt	-2.14	2.30	1.90	2.01
EPS adj growth	%	nmf	nmf	-17.6	6.1
PE rep	x	nmf	2.8	3.3	3.2
PE adj	x	nmf	2.8	3.3	3.2
Total DPS	Bt	0.50	0.81	0.70	0.80
Total div yield	%	7.9	12.8	11.1	12.5
ROA	%	-13.9	22.6	18.1	18.1
ROE	%	-30.3	34.7	23.8	21.9
EV/EBITDA	x	-7.1	3.4	4.0	3.9
Net debt/equity	%	133.8	65.4	54.0	29.2
Price/book	x	1.0	0.9	0.7	0.6

ESSO TB rel SET performance, & rec history



Source: FactSet, Macquarie Research, August 2009
(all figures in THB unless noted)

Analyst

David Johnson
852 3922 4691 david.johnson-hkg@macquarie.com

Strong 2Q09 result

Event

- Esso (Thailand) reported a net profit of Bt3.56bn for 2Q09, up 95% QoQ and down 39% YoY. The result does include a seasonally adjusted substantial inventory gain. We retain our Outperform rating and a target price of Bt10/sh.

Impact

- Refining support by inventory gain:** In 2Q09, Esso achieved a US\$11.9/bbl refining margin. We estimate the gross refining margin (GRM) for the quarter was low at US\$2/bbl and the rest was contributed by inventory gains.
- Petrochemical boost on volume and spread:** Low refining margins kept the feedstock supply for petrochemical tight amid strong demand coming from China. The paraxylene spread averaged US\$400/t, up 28% QoQ. Esso petrochemical plant's utilisation rate increased from 70% in 1Q09 to 90% in 2Q09
- Dividend yield attractive:** The company's board will be considering the payment of an interim dividend at end August. Esso's dividend payout policy is 40% of the net profit, but this could be subject to an adjustment.

Earnings and target price revision

- We raise our 2009 earnings forecast by 25% to Bt8.0bn to reflect the strong 2Q09 result. Our 2010–11 forecasts are unchanged and our target price remains at Bt10/sh.

Price catalyst

- 12-month price target: Bt10.00 based on a Sum-of-the-Parts methodology.
- Catalyst: Improving economic outlook, supply shortage.

Action and recommendation

- The 2Q09 result confirmed a good profit performance by the company. The 2H09 result is likely to show some decline as stock profits are likely to be much lower. However, the restoration of the dividend could be a very positive influence.
- Esso shares are still trading at a 56% discount to our Bt10/sh bid value estimate. We continue to view Esso as the preferred value play in the refinery sector and reiterate our Outperform recommendation.

Esso Thailand (ESSO TB, Outperform, Target price: Bt10.00)

Interim Results					Profit & Loss						
	2H/08A	1H/09E	2H/09E	1H/10E		2008A	2009E	2010E	2011E		
Revenue	m	122,228	70,062	85,632	81,754	Revenue	m	222,234	155,694	181,675	204,332
Gross Profit	m	-2,288	7,501	9,168	6,099	Gross Profit	m	-4,159	16,668	13,554	14,449
Cost of Goods Sold	m	124,516	62,561	76,464	75,655	Cost of Goods Sold	m	226,393	139,026	168,121	189,883
EBITDA	m	-3,676	6,484	7,924	5,499	EBITDA	m	-6,714	14,408	12,219	12,509
Depreciation	m	1,086	833	1,018	806	Depreciation	m	1,944	1,850	1,792	1,738
Amortisation of Goodwill	m	38	0	0	0	Amortisation of Goodwill	m	70	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	-4,800	5,651	6,907	4,692	EBIT	m	-8,728	12,558	10,427	10,771
Net Interest Income	m	-654	-523	-639	-467	Net Interest Income	m	-1,189	-1,163	-1,038	-813
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0	Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	m	-5,454	5,128	6,267	4,225	Pre-Tax Profit	m	-9,916	11,395	9,390	9,959
Tax Expense	m	1,679	-1,538	-1,880	-1,268	Tax Expense	m	3,053	-3,419	-2,817	-2,988
Net Profit	m	-3,775	3,590	4,387	2,958	Net Profit	m	-6,864	7,977	6,573	6,971
Minority Interests	m	0	0	0	0	Minority Interests	m	1	0	0	0
Reported Earnings	m	-3,775	3,590	4,387	2,958	Reported Earnings	m	-6,863	7,977	6,573	6,971
Adjusted Earnings	m	-3,736	3,590	4,387	2,958	Adjusted Earnings	m	-6,793	7,977	6,573	6,971
EPS (rep)		-1.19	1.04	1.27	0.85	EPS (rep)		-2.16	2.30	1.90	2.01
EPS (adj)		-1.18	1.04	1.27	0.85	EPS (adj)		-2.14	2.30	1.90	2.01
EPS Growth yoy (adj)	%	nmf	nmf	nmf	-17.6	EPS Growth (adj)	%	nmf	nmf	-17.6	6.1
						PE (rep)	x	nmf	2.8	3.3	3.2
						PE (adj)	x	nmf	2.8	3.3	3.2
EBITDA Margin	%	-3.0	9.3	9.3	6.7	Total DPS		0.50	0.81	0.70	0.80
EBIT Margin	%	-3.9	8.1	8.1	5.7	Total Div Yield	%	7.9	12.8	11.1	12.5
Earnings Split	%	55.0	45.0	55.0	45.0	Weighted Average Shares	m	3,174	3,461	3,461	3,461
Revenue Growth	%	11.2	-29.9	-29.9	16.7	Period End Shares	m	3,174	3,461	3,461	3,461
EBIT Growth	%	nmf	nmf	nmf	-17.0						
Profit and Loss Ratios					Cashflow Analysis						
	2008A	2009E	2010E	2011E		2008A	2009E	2010E	2011E		
Revenue Growth	%	11.2	-29.9	16.7	12.5	EBITDA	m	-4,890	9,827	8,365	8,709
EBITDA Growth	%	nmf	nmf	-15.2	2.4	Tax Paid	m	-40	0	0	0
EBIT Growth	%	nmf	nmf	-17.0	3.3	Chgs in Working Cap	m	12,311	4,371	-1,518	-1,175
Gross Profit Margin	%	-1.9	10.7	7.5	7.1	Net Interest Paid	m	-1,246	0	0	0
EBITDA Margin	%	-3.0	9.3	6.7	6.1	Other	m	-2,063	0	0	0
EBIT Margin	%	-3.9	8.1	5.7	5.3	Operating Cashflow	m	4,072	14,198	6,847	7,534
Net Profit Margin	%	-3.1	5.1	3.6	3.4	Acquisitions	m	55	75	-3,322	3,225
Payout Ratio	%	nmf	35.2	37.0	39.5	Capex	m	-1,164	-1,000	-1,000	-1,000
EV/EBITDA	x	-7.1	3.4	4.0	3.9	Asset Sales	m	0	0	0	0
EV/EBIT	x	-5.4	3.9	4.7	4.6	Other	m	260	137	570	-861
Balance Sheet Ratios					Investing Cashflow	m	-849	-787	-3,752	1,364	
ROE	%	-30.3	34.7	23.8	21.9	Dividend (Ordinary)	m	-5,192	-2,808	-2,432	-2,754
ROA	%	-13.9	22.6	18.1	18.1	Equity Raised	m	8,110	0	0	0
ROIC	%	-10.4	18.4	17.2	16.5	Debt Movements	m	-6,745	-4,721	-2,500	-4,500
Net Debt/Equity	%	133.8	65.4	54.0	29.2	Other	m	0	0	0	0
Interest Cover	x	-7.3	10.8	10.1	13.3	Financing Cashflow	m	-3,827	-7,529	-4,932	-7,254
Price/Book	x	1.0	0.9	0.7	0.6	Net Chg in Cash/Debt	m	-604	5,881	-1,837	1,644
Book Value per Share		6.4	7.4	8.6	9.8	Free Cashflow	m	2,908	13,198	5,847	6,534
					Balance Sheet						
	2008A	2009E	2010E	2011E		2008A	2009E	2010E	2011E		
Cash	m	642	6,523	4,686	6,330	Cash	m	642	6,523	4,686	6,330
Receivables	m	4,214	4,266	4,977	5,598	Receivables	m	4,214	4,266	4,977	5,598
Inventories	m	12,724	9,522	11,515	13,006	Inventories	m	12,724	9,522	11,515	13,006
Investments	m	453	377	3,700	475	Investments	m	453	377	3,700	475
Fixed Assets	m	27,129	26,279	25,487	24,749	Fixed Assets	m	27,129	26,279	25,487	24,749
Intangibles	m	542	542	542	542	Intangibles	m	542	542	542	542
Other Assets	m	9,366	8,563	8,175	9,195	Other Assets	m	9,366	8,563	8,175	9,195
Total Assets	m	55,070	56,073	59,083	59,895	Total Assets	m	55,070	56,073	59,083	59,895
Payables	m	2,338	3,809	4,606	5,202	Payables	m	2,338	3,809	4,606	5,202
Short Term Debt	m	27,971	17,500	17,500	15,000	Short Term Debt	m	27,971	17,500	17,500	15,000
Long Term Debt	m	0	5,750	3,250	1,250	Long Term Debt	m	0	5,750	3,250	1,250
Provisions	m	0	0	0	0	Provisions	m	0	0	0	0
Other Liabilities	m	4,341	3,425	3,997	4,495	Other Liabilities	m	4,341	3,425	3,997	4,495
Total Liabilities	m	34,650	30,484	29,353	25,948	Total Liabilities	m	34,650	30,484	29,353	25,948
Shareholders' Funds	m	16,272	21,441	25,582	29,800	Shareholders' Funds	m	16,272	21,441	25,582	29,800
Minority Interests	m	7	7	7	7	Minority Interests	m	7	7	7	7
Other	m	4,140	4,140	4,140	4,140	Other	m	4,140	4,140	4,140	4,140
Total S/H Equity	m	20,420	25,589	29,730	33,947	Total S/H Equity	m	20,420	25,589	29,730	33,947
Total Liab & S/H Funds	m	55,070	56,073	59,083	59,895	Total Liab & S/H Funds	m	55,070	56,073	59,083	59,895

All figures in THB unless noted.

Source: Company data, Macquarie Research, August 2009

PHILIPPINES

Alliance Global Group

10 August 2009



All in!

Initiating coverage with an Outperform rating

We initiate coverage on Alliance Global Group (AGI PM, market cap US\$826m) with an Outperform rating and a P6.40 target price, which represents 58.0% potential upside.

AGI is one of the largest conglomerates in the Philippines, primarily involved in real estate development. More recently, AGI has kick-started its gaming venture, providing an additional income stream. AGI is also involved in food and beverage and quick service restaurants. AGI's major subsidiaries are Megaworld, Travellers International Hotel Group, Emperador Distillers and Golden Arches Development.

Travellers: a new growth engine

Travellers should provide a new growth engine for AGI, in our view. Travellers' new integrated resort, Resorts World Manila (scheduled for soft opening in August 2009), is the first of its kind in the Philippines, following the recent liberalisation of the gaming industry. Travellers is tapping a large existing grind (mass market) market, which we estimate at around P16.8bn for Metro Manila in 2008. We estimate that Travellers should be able to capture some 50% market share, due to its strong alliance with the Genting Group, better customer management and superior product. Having assessed its Manila location and attractiveness, as well as its low 15% VIP tax rate and Genting's VIP network, we think Travellers could gain a 2.0% share of the estimated US\$10.9bn FY10E Asian VIP market.

Megaworld: a play on residential recovery

Megaworld continues to be one of the leading property developers in the country, with six extensive township projects in Metro Manila. Aside from being the largest high-rise residential developer, it is also the largest business process outsourcing (BPO) landlord and developer in the country with some 265,000 sqm of office space dedicated to BPO operations. We expect Megaworld to benefit from a recovery of the residential property market, backed up by a resilient overall economy and stable domestic interest rates.

Robust profit growth

We estimate that AGI's net profit will grow 142.7% YoY to P7.8bn in FY10 and 11.6% to P8.7bn in FY11. Our forecast for strong growth is underpinned by revenues of P56.6bn in FY10 (+78.4% YoY) and P62.5bn (+10.4% YoY) in FY11. This will be driven substantially by Travellers, which we forecast will have net profit of P6.4bn in 2010 and contribute 41.1% of AGI's FY10E profit. We believe the market is underestimating the impact of Travellers, with consensus FY10 estimates 55.2% below Macquarie forecasts.

Valuation

AGI is trading at 5.1x FY10E PER, compared to 13.3x FY10E PER for its conglomerate peers and 12.6x FY10E PER for the overall market. We believe this valuation gap is unjustified, because of AGI's strong earnings growth vs average peer profit growth of 8.8% for 2010 based on Macquarie estimates. We believe that this valuation gap should narrow. Our target price of P6.40 is based on 8x FY10E PER, a 36.5% discount to market PER multiples, and represents potential upside of 58.0%.

AGI PM		Outperform
Stock price as of 07 Aug 09	P	4.05
12-month target	P	6.40
Upside/downside	%	+58.0
Valuation	P	6.40
- PER		
GIICS sector	food & staples retailing	
Market cap	Pm	39,466
Market cap	US\$m	826
Number shares on issue	m	9,745

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Total revenue	m	30,153	31,723	56,609	62,496
EBIT	m	4,678	7,333	28,958	31,772
EBIT Growth	%	-2.1	56.8	294.9	9.7
Reported profit	m	3,909	3,210	7,793	8,693
Adjusted profit	m	3,909	3,210	7,793	8,693
EPS rep	P	0.40	0.33	0.80	0.89
EPS rep growth	%	-9.9	-19.4	146.0	11.6
EPS adj	P	0.40	0.33	0.80	0.89
PE rep	x	10.0	12.5	5.1	4.5
ROA	%	4.6	6.2	22.4	22.4
ROE	%	8.8	7.0	15.2	14.6
EV/EBITDA	x	4.5	2.9	0.8	0.7
Net debt/equity	%	-17.9	-4.5	5.1	-0.6
Price/book	x	0.9	0.8	0.7	0.6

Analysts

Nadine Javellana 63 2 857 0890 Edward Ong 60 3 2059 8982 Alex Pomento 63 2 857 0899	nadine.javellana@macquarie.com edward.ong@macquarie.com alex.pomento@macquarie.com
---	--

Alliance Global Group (AGI PM, Outperform, Target price: P6.40)

Interim Results					Profit & Loss						
	2H/08A	1H/09E	2H/09E	1H/10E		2008A	2009E	2010E	2011E		
Revenue	m	15,859	14,066	17,657	27,173	Revenue	m	30,153	31,723	56,609	62,496
Gross Profit	m	4,806	4,461	7,251	16,218	Gross Profit	m	8,819	11,712	33,788	37,070
Cost of Goods Sold	m	11,053	9,606	10,406	10,954	Cost of Goods Sold	m	21,335	20,012	22,821	25,426
EBITDA	m	3,029	3,027	5,698	14,884	EBITDA	m	5,608	8,725	31,009	34,142
Depreciation	m	434	619	671	942	Depreciation	m	830	1,290	1,962	2,291
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	51	49	53	43	Other Amortisation	m	101	103	90	79
EBIT	m	2,544	2,359	4,974	13,900	EBIT	m	4,678	7,333	28,958	31,772
Net Interest Income	m	1,915	402	435	327	Net Interest Income	m	2,933	837	682	836
Associates	m	101	49	53	49	Associates	m	102	102	102	102
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	-107	0	-1,856	-7,313	Other Pre-Tax Income	m	0	-1,856	-15,235	-16,293
Pre-Tax Profit	m	4,453	2,809	3,606	6,963	Pre-Tax Profit	m	7,712	6,415	14,506	16,417
Tax Expense	m	-1,039	-566	-614	-809	Tax Expense	m	-1,607	-1,180	-1,686	-1,869
Net Profit	m	3,414	2,243	2,992	6,154	Net Profit	m	6,106	5,235	12,820	14,547
Minority Interests	m	-1,202	-972	-1,053	-2,413	Minority Interests	m	-2,197	-2,025	-5,027	-5,854
Reported Earnings	m	2,212	1,271	1,939	3,741	Reported Earnings	m	3,909	3,210	7,793	8,693
Adjusted Earnings	m	2,212	1,271	1,939	3,741	Adjusted Earnings	m	3,909	3,210	7,793	8,693
EPS (rep)		0.22	0.13	0.20	0.38	EPS (rep)		0.40	0.33	0.80	0.89
EPS (adj)		0.22	0.13	0.20	0.38	EPS (adj)		0.40	0.33	0.80	0.89
EPS Growth yoy (adj)	%	-1.2	-29.9	-10.0	202.2	EPS Growth (adj)	%	-16.3	-18.9	145.3	11.6
						PE (rep)	x	10.0	12.5	5.1	4.5
						PE (adj)	x	10.1	12.4	5.1	4.5
EBITDA Margin	%	19.1	21.5	32.3	54.8	Total DPS		0.00	0.00	0.00	0.00
EBIT Margin	%	16.0	16.8	28.2	51.2	Total Div Yield	%	0.0	0.0	0.0	0.0
Earnings Split	%	56.6	39.6	60.4	48.0	Weighted Average Shares	m	9,689	9,876	9,745	9,745
Revenue Growth	%	4.8	-1.6	11.3	93.2	Period End Shares	m	9,745	9,745	9,745	9,745
EBIT Growth	%	-4.9	10.6	95.5	489.2						
Profit and Loss Ratios					Cashflow Analysis						
	2008A	2009E	2010E	2011E		2008A	2009E	2010E	2011E		
Revenue Growth	%	8.7	5.2	78.4	10.4	EBITDA	m	5,608	8,725	31,009	34,142
EBITDA Growth	%	0.0	55.6	255.4	10.1	Tax Paid	m	-1,276	-1,180	-1,686	-1,869
EBIT Growth	%	-2.1	56.8	294.9	9.7	Chgs in Working Cap	m	-5,023	1,515	-4,396	-1,555
Gross Profit Margin	%	29.2	36.9	59.7	59.3	Net Interest Paid	m	1,633	1,192	1,109	1,346
EBITDA Margin	%	18.6	27.5	54.8	54.6	Other	m	-1,177	-3,301	-16,670	-18,047
EBIT Margin	%	15.5	23.1	51.2	50.8	Operating Cashflow	m	-235	6,950	9,366	14,016
Net Profit Margin	%	20.2	16.5	22.6	23.3	Acquisitions	m	256	0	0	0
Payout Ratio	%	0.0	0.0	0.0	0.0	Capex	m	-11,108	-18,243	-18,918	-9,769
EV/EBITDA	x	4.5	2.9	0.8	0.7	Asset Sales	m	0	0	0	0
EV/EBIT	x	5.4	3.4	0.9	0.8	Other	m	252	2,486	2,483	2,480
Balance Sheet Ratios					Investing Cashflow	m	-10,600	-15,757	-16,435	-7,288	
ROE	%	8.8	7.0	15.2	14.6	Dividend (Ordinary)	m	0	0	0	0
ROA	%	4.6	6.2	22.4	22.4	Equity Raised	m	8,002	0	0	0
ROIC	%	7.6	9.4	32.5	28.1	Debt Movements	m	6,753	4,592	-2,734	-3,057
Net Debt/Equity	%	-17.9	-4.5	5.1	-0.6	Other	m	-397	-1,354	-1,436	-1,200
Interest Cover	x	nmf	nmf	nmf	nmf	Financing Cashflow	m	14,357	3,238	-4,171	-4,256
Price/Book	x	0.9	0.8	0.7	0.6	Net Chg in Cash/Debt	m	3,522	-5,569	-11,239	2,471
Book Value per Share		4.5	4.9	5.7	6.6	Free Cashflow	m	-11,343	-11,293	-9,551	4,247
						Balance Sheet		2008A	2009E	2010E	2011E
						Cash	m	27,602	22,033	10,794	13,265
						Receivables	m	20,849	20,566	26,618	28,530
						Inventories	m	7,729	7,676	7,503	8,011
						Investments	m	1,835	1,835	1,835	1,835
						Fixed Assets	m	13,572	29,782	45,921	52,499
						Intangibles	m	0	0	0	0
						Other Assets	m	40,505	41,109	42,462	43,815
						Total Assets	m	112,091	123,001	135,132	147,955
						Payables	m	7,011	8,019	9,848	10,943
						Short Term Debt	m	2,927	1,290	290	333
						Long Term Debt	m	10,840	17,069	15,335	12,236
						Provisions	m	0	0	0	0
						Other Liabilities	m	14,030	14,105	14,321	14,559
						Total Liabilities	m	34,809	40,483	39,795	38,071
						Shareholders' Funds	m	47,693	50,904	58,696	67,389
						Minority Interests	m	32,972	34,997	40,024	45,878
						Other	m	-3,383	-3,383	-3,383	-3,383
						Total S/H Equity	m	77,282	82,517	95,337	109,884
						Total Liab & S/H Funds	m	112,091	123,000	135,132	147,955

All figures in PHP unless noted.

Source: Company data, Macquarie Research, August 2009

INDIA

Gujarat NRE Coke

20 July 2009

GNC IN Outperform

Stock price as of 17 Jul 09	Rs	45.70
12-month target	Rs	87.00
Upside/downside	%	+90.4
Valuation	Rs	87.00
- Sum of Parts		

GICS sector		materials
Market cap	Rs m	21,795
30-day avg turnover	US\$m	5.1
Market cap	US\$m	448
Number shares on issue	m	476.9

Investment fundamentals

Year end 31 Mar		2008A	2009E	2010E	2011E
Total revenue	m	8,871	22,361	22,569	26,415
EBITDA	m	2,051	5,404	5,620	7,759
EBITDA growth	%	313.0	163.5	4.0	38.1
Reported profit	m	1,273	2,303	2,717	3,513
EPS rep	Rs	2.58	4.67	5.51	7.13
EPS rep growth	%	134.9	80.9	18.0	29.3
PE rep	x	17.7	9.8	8.3	6.4
Total DPS	Rs	2.20	1.57	1.83	2.52
Total div yield	%	4.8	3.4	4.0	5.5
ROA	%	6.2	8.9	9.6	11.7
ROE	%	16.6	12.6	12.2	14.5
EV/EBITDA	x	12.6	4.8	4.6	3.3
Net debt/equity	%	32.1	13.8	13.7	25.0
Price/book	x	1.5	1.0	1.0	0.9

GNC IN rel SENSEX performance, & rec history



Source: FactSet, Macquarie Research, July 2009 (all figures in INR unless noted)

Analysts

Rakesh Arora, CFA	
91 22 6653 3054	rakesh.arora@macquarie.com
Sanjay Doshi	
91 22 6653 3061	sanjay.doshi@macquarie.com

Signs of recovery

Event

- **1Q FY10 results – return to profitability:** GNC reported standalone 1Q results which were below our expectation, but signs of strong recovery are already visible and we believe GNC is well placed to benefit from it.

Impact

- **1Q results – strong recovery but still weak:** Net sales at Rs3.1bn were up 44% QoQ driven by a 33% increase in sales volume and 32% increase in coke realisation. EBITDA at Rs169m was still down by 34% QoQ as high-priced inventory was taken out. PAT stood at Rs36m.
- **Coke prices – recovery to gather pace:** GNC reported US\$259/t average realisation in 1Q FY10, 32% higher than US\$196/t in 4Q FY09. Currently, coke prices are already around US\$300/t and well on course to meet our full-year assumption of US\$339/t.
 - ⇒ **China turns net importer of coking coal:** Chinese steel production is now reaching an extraordinary 600mtpa annualised rate, leading to large imports of coking coal, pushing spot prices to US\$150/t, much above the contract price of US\$129/t. With Japanese and European steel mills looking to increase production, shortages should increase. This is already being reflected in increased enquiries for coke.
 - ⇒ **Coke suppliers disappearing:** China's government has continued its policy to restrain coke exports with 40% export tax. China exports, which used to be 14mt of coke or around 70% of seaborne trade, would be viable only above US\$360/t; no wonder they are down more than 90% YoY. We think the 'dumping' of coke by Japanese and Poland steel mills to clear huge coke stocks as they reduce steel production is also nearing an end.

- **Volume growth – can be a surprise:** GNC recorded 0.2mt sales in 1Q FY10. It has already completed its 0.25mtpa expansion and is waiting for demand recovery to start the new units. It is also sitting on 0.23mt of coke inventory, which will come in handy if the demand recovers. Our full-year assumption of 0.94mt of coke sales does have some upside risk.

Earnings and target price revision

- No change.

Price catalyst

- 12-month price target: Rs87.00 based on a Sum of Parts methodology.
- Catalyst: Sharp improvement in coke and coking coal outlook. Clarity on its coking coal mine expansion.

Action and recommendation

- **Maintain Outperform:** In our view, GNC is well placed for the recovery, has medium-term triggers as its mine development takes shape and is attractively valued.

Gujarat NRE Coke (GNC IN, Outperform, Target price: Rs87.00)

Quarterly Results					Profit & Loss						
	3Q/09A	4Q/09E	1Q/10E	2Q/10E		2008A	2009E	2010E	2011E		
Revenue	m	5,590	5,590	5,642	5,642	Revenue	m	8,871	22,361	22,569	26,415
Gross Profit	m	0	0	0	0	Gross Profit	m	0	0	0	0
Cost of Goods Sold	m	4,239	4,239	4,237	4,237	Cost of Goods Sold	m	6,819	16,957	16,949	18,655
EBITDA	m	1,351	1,351	1,405	1,405	EBITDA	m	2,051	5,404	5,620	7,759
Depreciation	m	455	455	223	223	Depreciation	m	459	1,820	892	1,091
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	896	896	1,182	1,182	EBIT	m	1,592	3,584	4,728	6,668
Net Interest Income	m	-260	-260	-386	-386	Net Interest Income	m	-476	-1,038	-1,544	-2,524
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	65	65	90	90	Other Pre-Tax Income	m	755	258	358	408
Pre-Tax Profit	m	701	701	886	886	Pre-Tax Profit	m	1,871	2,805	3,543	4,552
Tax Expense	m	-125	-125	-206	-206	Tax Expense	m	-598	-502	-826	-1,039
Net Profit	m	576	576	679	679	Net Profit	m	1,273	2,303	2,717	3,513
Minority Interests	m	4	4	5	5	Minority Interests	m	419	18	18	18
Reported Earnings	m	576	576	679	679	Reported Earnings	m	1,273	2,303	2,717	3,513
Adjusted Earnings	m	580	580	684	684	Adjusted Earnings	m	1,693	2,321	2,735	3,531
EPS (rep)		1.17	1.17	1.38	1.38	EPS (rep)		2.58	4.67	5.51	7.13
EPS (adj)		1.18	1.18	1.39	1.39	EPS (adj)		3.44	4.71	5.55	7.17
EPS Growth yoy (adj)	%	37.1	37.1	17.8	17.8	EPS Growth (adj)	%	202.4	37.1	17.8	29.1
						PE (rep)	x	16.8	9.3	7.9	6.1
						PE (adj)	x	12.6	9.2	7.8	6.0
EBITDA Margin	%	24.2	24.2	24.9	24.9	Total DPS		2.20	1.57	1.83	2.52
EBIT Margin	%	16.0	16.0	20.9	20.9	Total Div Yield	%	5.1	3.6	4.2	5.8
Earnings Split	%	25.0	25.0	25.0	25.0	Weighted Average Shares	m	493	493	493	493
Revenue Growth	%	152.1	152.1	0.9	0.9	Period End Shares	m	493	493	493	493
EBIT Growth	%	125.2	125.2	31.9	31.9						
Profit and Loss Ratios					Cashflow Analysis						
	2008A	2009E	2010E	2011E		2008A	2009E	2010E	2011E		
Revenue Growth	%	72.4	152.1	0.9	17.0	EBITDA	m	2,051	5,404	5,620	7,759
EBITDA Growth	%	313.0	163.5	4.0	38.1	Tax Paid	m	-598	-502	-826	-1,039
EBIT Growth	%	550.6	125.2	31.9	41.0	Chgs in Working Cap	m	1,082	-2,684	266	-717
Gross Profit Margin	%	0.0	0.0	0.0	0.0	Net Interest Paid	m	-476	-1,038	-1,544	-2,524
EBITDA Margin	%	23.1	24.2	24.9	29.4	Other	m	-459	-1,820	-892	-1,091
EBIT Margin	%	17.9	16.0	20.9	25.2	Operating Cashflow	m	1,600	-640	2,624	2,388
Net Profit Margin	%	14.4	10.3	12.0	13.3	Acquisitions	m	-1,938	0	0	0
Payout Ratio	%	64.0	33.3	32.9	35.1	Capex	m	-15,617	-2,632	-2,737	-6,409
EV/EBITDA	x	12.0	4.6	4.4	3.2	Asset Sales	m	0	0	0	0
EV/EBIT	x	15.5	6.9	5.2	3.7	Other	m	0	258	358	408
						Investing Cashflow	m	-17,555	-2,374	-2,379	-6,001
Balance Sheet Ratios					Dividend (Ordinary)	m	-501	-742	-900	-1,240	
ROE	%	16.6	12.6	12.2	14.5	Equity Raised	m	6,805	1,556	1,556	0
ROA	%	6.2	8.9	9.6	11.7	Debt Movements	m	4,385	940	3,121	9,007
ROIC	%	12.8	13.1	13.5	18.1	Other	m	-1,836	3,628	-454	117
Net Debt/Equity	%	32.1	13.8	13.7	25.0	Financing Cashflow	m	8,853	5,382	3,324	7,884
Interest Cover	x	3.3	3.5	3.1	2.6						
Price/Book	x	1.4	1.0	0.9	0.8	Net Chg in Cash/Debt	m	-7,102	2,368	3,569	4,271
Book Value per Share		30.5	44.2	47.0	51.9	Free Cashflow	m	-14,017	-3,272	-113	-4,021
					Balance Sheet						
	2008A	2009E	2010E	2011E		2008A	2009E	2010E	2011E		
Cash	m	2,401	5,522	8,466	14,046	Cash	m	2,401	5,522	8,466	14,046
Receivables	m	2,538	5,419	5,301	6,039	Receivables	m	2,538	5,419	5,301	6,039
Inventories	m	2,620	6,291	5,670	6,038	Inventories	m	2,620	6,291	5,670	6,038
Investments	m	0	0	0	0	Investments	m	0	0	0	0
Fixed Assets	m	15,130	15,942	17,788	23,106	Fixed Assets	m	15,130	15,942	17,788	23,106
Intangibles	m	0	0	0	0	Intangibles	m	0	0	0	0
Other Assets	m	10,448	14,358	13,524	13,663	Other Assets	m	10,448	14,358	13,524	13,663
Total Assets	m	33,136	47,532	50,748	62,892	Total Assets	m	33,136	47,532	50,748	62,892
Payables	m	3,784	10,808	9,873	10,319	Payables	m	3,784	10,808	9,873	10,319
Short Term Debt	m	0	0	0	0	Short Term Debt	m	0	0	0	0
Long Term Debt	m	7,843	8,783	11,904	20,911	Long Term Debt	m	7,843	8,783	11,904	20,911
Provisions	m	2,567	3,321	2,948	3,031	Provisions	m	2,567	3,321	2,948	3,031
Other Liabilities	m	1,996	930	969	1,187	Other Liabilities	m	1,996	930	969	1,187
Total Liabilities	m	16,190	23,841	25,694	35,447	Total Liabilities	m	16,190	23,841	25,694	35,447
Shareholders' Funds	m	15,025	21,788	23,169	25,577	Shareholders' Funds	m	15,025	21,788	23,169	25,577
Minority Interests	m	1,921	1,903	1,885	1,868	Minority Interests	m	1,921	1,903	1,885	1,868
Other	m	0	0	0	0	Other	m	0	0	0	0
Total S/H Equity	m	16,946	23,691	25,054	27,444	Total S/H Equity	m	16,946	23,691	25,054	27,444
Total Lab & S/H Funds	m	33,136	47,532	50,748	62,892	Total Lab & S/H Funds	m	33,136	47,532	50,748	62,892

All figures in INR unless noted.

Source: Company data, Macquarie Research, July 2009

INDIA

OnMobile Global

17 August 2009

ONMB IN **Outperform**

Stock price as of 14 Aug 09	Rs	525.90
12-month target	Rs	700.00
Upside/downside	%	+33.1
Valuation	Rs	700.00
- DCF (WACC 12.5%, beta 1.0, ERP 7.5%, RFR 7.5%, TGR 5.0%)		

GICS sector	software & services	
Market cap	Rs m	30,457
30-day avg turnover	US\$m	2.9
Market cap	US\$m	633
Number shares on issue	m	57.91

Investment fundamentals

Year end 31 Mar		2009A	2010E	2011E	2012E
Total revenue	m	4,064	5,476	8,027	11,037
EBITDA	m	1,274	1,432	2,293	3,346
EBITDA growth	%	21.5	12.4	60.1	45.9
Adjusted profit	m	852	649	1,145	1,697
EPS adj	Rs	14.22	10.18	17.97	26.63
EPS adj growth	%	19.7	-28.4	76.5	48.2
PE adj	x	37.0	51.7	29.3	19.7
ROA	%	9.2	8.2	12.9	16.9
ROE	%	13.0	8.9	13.9	17.6
EV/EBITDA	x	22.9	21.8	13.6	9.3
Net debt/equity	%	-40.2	-41.1	-29.5	-25.2
Price/book	x	4.5	4.4	3.8	3.2

ONMB IN rel SENSEX performance, & rec history



Source: FactSet, Macquarie Research, August 2009
(all figures in INR unless noted)

Analysts

Shubham Majumder	
9122 66533049	shubham.majumder@macquarie.com
Nitin Mohta	
91 22 6653 3050	nitin.mohta@macquarie.com
Tim Smart	
852 3922 3565	tim.smart@macquarie.com

India won, reaching out to the world

Event

- OnMobile has entered into separate strategic deals with two leading international telecom operators – Vodafone (in April 2009) and Telefónica (in July 2009) – to provide a suite of VAS services. We view these developments as extremely positive for the stock, and we are reassessing our financial forecasts to reflect the potential upside from these deals. Our revised EPS estimates are down 38% in FY10 and 13% in FY11 but up 12% in FY12 (see Figure 1 for details of our revisions). **We reiterate our Outperform rating, with a significantly higher TP of Rs700 (vs Rs325 previously). OnMobile is our top midcap pick in the India TMT space.**

Impact

- OnMobile is in the process of making the leap from India's premier VAS company to a global premier VAS company.** Partnerships with two of the world's largest telecom operators will position OnMobile as a global VAS provider of choice and broadens the stage to global markets, in our view.
- OnMobile is one of the top 10 fastest-growing companies in our India coverage universe.** We forecast impressive top-line (42%) and EBITDA (53%) CAGRs for FY3/10–12 (see Figure 2 for the screen of fastest-growing companies in the Macquarie India coverage universe).
- Expect combined revenues from the two international deals that have been announced to cross Rs1.1bn in FY3/11,** making up 14% of overall revenues, based on our detailed analysis of the two deals (installation of VAS in Vodafone's emerging markets and Telefónica's LatAm markets).
- Core revenue and EBITDA growth to remain strong.** We expect OnMobile to deliver YoY growth of 19% in core business revenues and 32.6% in core business EBITDA. Even so, full-year reported FY3/10 EBITDA and profit will be under pressure due an expected Rs257m EBITDA loss due to new business.

Earnings and target price revision

- We have cut our FY10 and FY11 EPS estimates by 38% and 13%, respectively, but have raised our FY12 EPS estimate by 12%. We increased our target price to Rs700 from Rs325.

Price catalyst

- 12-month price target: Rs700.00 based on a DCF methodology.
- Catalyst: Launch of operations in Telefónica markets.

Action and recommendation

- We reiterate our Outperform rating and recommend that investors accumulate the shares with a two- to three-year investment horizon.** Near-term profitability for OnMobile will likely be under pressure due to investments that need to be made for realising the significant growth from the two international deals. We estimate strong revenue and EBITDA CAGRs of 37% and 47%, respectively, for FY3/10–13. Thus, we believe that investors should value OnMobile as a hyper-growth stock and not assign undue importance to the company's near-term quarterly performance.

OnMobile Global (ONMB IN, Outperform, Target price: Rs700.00)

Quarterly Results					Profit & Loss						
	1Q/10A	2Q/10E	3Q/10E	4Q/10E		2009A	2010E	2011E	2012E		
Revenue	m	1,072	1,157	1,396	1,851	Revenue	m	4,064	5,476	8,027	11,037
Gross Profit	m	774	833	1,012	1,342	Gross Profit	m	3,286	3,961	5,940	8,278
Cost of Goods Sold	m	298	324	384	509	Cost of Goods Sold	m	778	1,515	2,087	2,759
EBITDA	m	244	272	370	546	EBITDA	m	1,274	1,432	2,293	3,346
Depreciation	m	133	145	165	189	Depreciation	m	440	632	863	1,100
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	111	127	205	358	EBIT	m	834	800	1,430	2,245
Net Interest Income	m	49	44	44	39	Net Interest Income	m	317	177	193	161
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0	Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	m	160	171	249	397	Pre-Tax Profit	m	1,151	977	1,623	2,406
Tax Expense	m	-71	-54	-78	-125	Tax Expense	m	-299	-328	-479	-709
Net Profit	m	89	117	171	272	Net Profit	m	852	649	1,145	1,697
Minority Interests	m	0	0	0	0	Minority Interests	m	0	0	0	0
Reported Earnings	m	89	117	171	272	Reported Earnings	m	852	649	1,145	1,697
Adjusted Earnings	m	89	117	171	272	Adjusted Earnings	m	852	649	1,145	1,697
EPS (rep)		1.40	1.84	2.68	4.27	EPS (rep)		14.22	10.18	17.97	26.63
EPS (adj)		1.40	1.84	2.68	4.27	EPS (adj)		14.22	10.18	17.97	26.63
EPS Growth YoY (adj)	%	-44.9	-40.0	-41.9	6.5	EPS Growth (adj)	%	19.7	-28.4	76.5	48.2
						PE (rep)	x	37.0	51.7	29.3	19.7
						PE (adj)	x	37.0	51.7	29.3	19.7
EBITDA Margin	%	22.8	23.5	26.5	29.5	Total DPS		0.00	0.00	0.00	0.00
EBIT Margin	%	10.3	11.0	14.7	19.3	Total Div Yield	%	0.0	0.0	0.0	0.0
Earnings Split	%	13.8	18.1	26.3	41.9	Weighted Average Shares	m	60	64	64	64
Revenue Growth	%	37.8	18.7	20.6	60.5	Period End Shares	m	60	64	64	64
EBIT Growth	%	-5.3	-23.5	-29.1	36.5						
Profit and Loss Ratios					Cashflow Analysis						
	2009A	2010E	2011E	2012E		2009A	2010E	2011E	2012E		
Revenue Growth	%	55.2	34.8	46.6	37.5	EBITDA	m	1,358	1,432	2,293	3,346
EBITDA Growth	%	21.5	12.4	60.1	45.9	Tax Paid	m	-417	-328	-479	-709
EBIT Growth	%	5.2	-4.1	78.7	57.0	Chgs in Working Cap	m	-540	71	-946	-1,089
Gross Profit Margin	%	80.9	72.3	74.0	75.0	Net Interest Paid	m	0	0	0	0
EBITDA Margin	%	31.3	26.1	28.6	30.3	Other	m	36	0	0	0
EBIT Margin	%	20.5	14.6	17.8	20.3	Operating Cashflow	m	437	1,174	868	1,547
Net Profit Margin	%	21.0	11.8	14.3	15.4	Acquisitions	m	-734	0	0	0
Payout Ratio	%	0.0	0.0	0.0	0.0	Capex	m	-572	-1,095	-1,605	-1,656
EV/EBITDA	x	22.9	21.8	13.6	9.3	Asset Sales	m	3,122	0	0	0
EV/EBIT	x	35.0	39.0	21.8	13.9	Other	m	-25	177	193	161
Balance Sheet Ratios					Investing Cashflow	m	1,791	-919	-1,412	-1,495	
ROE	%	13.0	8.9	13.9	17.6	Dividend (Ordinary)	m	0	0	0	0
ROA	%	9.2	8.2	12.9	16.9	Equity Raised	m	-5	0	0	0
ROIC	%	13.3	12.7	22.4	25.6	Debt Movements	m	1	46	0	0
Net Debt/Equity	%	-40.2	-41.1	-29.5	-25.2	Other	m	-94	72	0	0
Interest Cover	x	nmf	nmf	nmf	nmf	Financing Cashflow	m	-945	118	0	0
Price/Book	x	4.5	4.4	3.8	3.2	Net Chg in Cash/Debt	m	1,284	374	-544	52
Book Value per Share		116.6	119.9	137.9	164.5	Free Cashflow	m	-135	79	-737	-108
						Balance Sheet					
							2009A	2010E	2011E	2012E	
						Cash	m	2,855	3,136	2,592	2,645
						Receivables	m	1,445	1,641	2,405	3,307
						Inventories	m	0	7	10	14
						Investments	m	87	87	87	87
						Fixed Assets	m	1,047	1,439	2,182	2,737
						Intangibles	m	2,108	2,108	2,108	2,108
						Other Assets	m	1,709	1,797	2,624	3,599
						Total Assets	m	9,251	10,215	12,008	14,497
						Payables	m	845	1,110	1,579	2,164
						Short Term Debt	m	0	0	0	0
						Long Term Debt	m	46	0	0	0
						Provisions	m	47	90	128	171
						Other Liabilities	m	1,323	1,377	1,518	1,682
						Total Liabilities	m	2,261	2,577	3,225	4,017
						Shareholders' Funds	m	6,989	7,638	8,783	10,480
						Minority Interests	m	0	0	0	0
						Other	m	0	0	0	0
						Total S/H Equity	m	6,989	7,638	8,783	10,480
						Total Liab & S/H Funds	m	9,251	10,215	12,008	14,497

All figures in INR unless noted.

Source: Company data, Macquarie Research, August 2009

Important disclosures:

Recommendation definitions**Macquarie - Australia/New Zealand**

Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie – Asia/Europe

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of benchmark return (Russell 3000)
Neutral (Hold) – return within 5% of benchmark return (Russell 3000)
Underperform (Sell) – return >5% below benchmark return (Russell 3000)

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ/Canada stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / *efpowa**

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 June 2009

	AU/NZ	Asia	RSA	USA	CA	EUR
Outperform	40.38%	48.53%	40.00%	44.02%	57.42%	40.20%
Neutral	39.25%	17.08%	45.00%	37.45%	32.90%	39.21%
Underperform	20.38%	34.40%	15.00%	18.53%	9.68%	20.59%

Analyst Certification: The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Macquarie Group Ltd ABN 94 122 169 279 (AFSL No. 318062)(MGL) and its related entities (the Macquarie Group) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclaimers: Macquarie Securities (Australia) Ltd; Macquarie Capital (Europe) Ltd; Macquarie Capital Markets Canada Ltd; Macquarie Capital Markets North America Ltd; Macquarie Capital (USA) Inc; Macquarie Capital Securities Ltd; Macquarie Capital Securities (Singapore) Pte Ltd; Macquarie Securities (NZ) Ltd; and Macquarie First South Securities (Pty) Limited are not authorised deposit-taking institutions for the purposes of the Banking Act 1959 (Commonwealth of Australia), and their obligations do not represent deposits or other liabilities of Macquarie Bank Limited ABN 46 008 583 542 (MBL) or MGL. MBL does not guarantee or otherwise provide assurance in respect of the obligations of any of the above mentioned entities. MGL provides a guarantee to the Monetary Authority of Singapore in respect of the obligations and liabilities of Macquarie Capital Securities (Singapore) Pte Ltd for up to SGD 35 million. This research has been prepared for the general use of the wholesale clients of the Macquarie Group and must not be copied, either in whole or in part, or distributed to any other person. If you are not the intended recipient you must not use or disclose the information in this research in any way. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader. Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. This research is based on information obtained from sources believed to be reliable but we do not make any representation or warranty that it is accurate, complete or up to date. We accept no obligation to correct or update the information or opinions in it. Opinions expressed are subject to change without notice. No member of the Macquarie Group accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research.

Other Disclaimers: In Canada, securities research is prepared, approved and distributed by Macquarie Capital Markets Canada Ltd, a participating organisation of the Toronto Stock Exchange, TSX Venture Exchange & Montréal Exchange. Macquarie Capital Markets North America Ltd., which is a registered broker-dealer and member of FINRA, accepts responsibility for the contents of reports issued by Macquarie Capital Markets Canada Ltd in the United States and to US persons and any person wishing to effect transactions in the securities described in the reports issued by Macquarie Capital Markets Canada Ltd should do so with Macquarie Capital Markets North America Ltd. Securities research is issued and distributed by Macquarie Securities (Australia) Ltd (AFSL No. 238947) in Australia, a participating organisation of the Australian Securities Exchange; Macquarie Securities (NZ) Ltd in New Zealand, a licensed sharebroker and New Zealand Exchange Firm; Macquarie Capital (Europe) Ltd in the United Kingdom, which is authorised and regulated by the Financial Services Authority (No. 193905); Macquarie Capital Securities Ltd in Hong Kong, which is licensed and regulated by the Securities and Futures Commission; Macquarie Capital Securities (Japan) Limited in Japan, a member of the Tokyo Stock Exchange, Inc., Osaka Securities Exchange Co. Ltd, and JASDAQ Securities Exchange, Inc. (Financial Instruments Firm, Kanto Financial Bureau(kin-sho) No. 231, a member of Japan Securities Dealers Association and Financial Futures Association of Japan); Macquarie First South Securities (Pty) Limited in South Africa, a member of the JSE Limited and in Singapore, Macquarie Capital Securities (Singapore) Pte Ltd (Company Registration Number: 198702912C), a Capital Markets Services licence holder under the Securities and Futures Act to deal in securities and provide custodial services in Singapore. Pursuant to the Financial Advisers (Amendment) Regulations 2005, Macquarie Capital Securities (Singapore) Pte Ltd is exempt from complying with sections 25, 27 and 36 of the Financial Advisers Act. Clients should contact analysts at, and execute transactions through, a Macquarie Group entity in their home jurisdiction unless governing law permits otherwise. Macquarie Capital (USA) Inc., which is a registered broker-dealer and member of FINRA, accepts responsibility for the content of each research report prepared by one of its non-US affiliates when the research report is distributed in the United States by Macquarie Capital (USA) Inc. Macquarie Capital (USA) Inc. affiliate research reports and affiliate employees are not subject to the disclosure requirements of FINRA rules. Any persons receiving this report directly from Macquarie Capital (USA) Inc. and wishing to effect a transaction in any security described herein should do so with Macquarie Capital (USA) Inc. The information contained in this document is confidential. If you are not the intended recipient, you must not disclose or use the information in this document in any way. If you received it in error, please tell us immediately by return e-mail and delete the document. We do not guarantee the integrity of any e-mails or attached files and are not responsible for any changes made to them by any other person. MGL has established and implemented a conflicts policy at group level (which may be revised and updated from time to time) (the "Conflicts Policy") pursuant to regulatory requirements (including the FSA Rules) which sets out how we must seek to identify and manage all material conflicts of interest. Disclosures with respect to the issuers, if any, mentioned in this research are available at www.macquarie.com/research/disclosures. © Macquarie Group

Auckland Tel: (649) 377 6433	Bangkok Tel: (662) 694 7999	Calgary Tel: (1 403) 218 6650	Hong Kong Tel: (852) 2823 3588	Jakarta Tel: (62 21) 515 1818	Johannesburg Tel: (2711) 583 2000	Kuala Lumpur Tel: (60 3) 2059 8833
London Tel: (44 20) 3037 4400	Manila Tel: (63 2) 857 0888	Melbourne Tel: (613) 9635 8139	Montreal Tel: (1 514) 925 2850	Mumbai Tel: (91 22) 6653 3000	Perth Tel: (618) 9224 0888	Seoul Tel: (82 2) 3705 8500
Shanghai Tel: (86 21) 6841 3355	Singapore Tel: (65) 6231 1111	Sydney Tel: (612) 8232 9555	Taipei Tel: (886 2) 2734 7500	Tokyo Tel: (81 3) 3512 7900	Toronto Tel: (1 416) 848 3500	New York Tel: (1 212) 231 2500

Available to clients on the world wide web at www.macquarie.com/research and through Thomson Financial, FactSet, Reuters and Bloomberg.

Asia Research

Head of Equity Research

Stephen O'Sullivan (852) 3922 3566

Automobiles/Auto Parts

Kenneth Yap (Indonesia) (6221) 515 7343
Clive Wiggins (Japan) (813) 3512 7856
Dan Lucas (Japan) (813) 3512 6050
ES Kwak (Korea) (822) 3705 8644
Linda Huang (Taiwan) (8862) 2734 7521

Banks and Non-Bank Financials

Ismael Pili (Asia) (813) 3512 5979
Nick Lord (Asia) (852) 3922 4774
Sarah Wu (China) (852) 3922 4068
Jemmy Huang (Hong Kong, Taiwan) (8862) 2734 7530
Seshadri Sen (India) (9122) 6653 3053
Ferry Wong (Indonesia) (6221) 515 7335
Chan Hwang (Korea) (822) 3705 8643
Michael Na (Korea) (822) 2095 7222
Chin Seng Tay (Malaysia, S'pore) (65) 6231 2837
Nadine Javellana (Philippines) (632) 857 0890
Matthew Smith (Taiwan) (8862) 2734 7514
Alastair Macdonald (Thailand) (662) 694 7741

Chemicals/Textiles

Christina Lee (Hong Kong) (852) 3922 3571
Jal Irani (India) (9122) 6653 3040
Sunaina Dhanuka (Malaysia) (603) 2059 8993

Conglomerates

Gary Pinge (Asia) (852) 3922 3557
Leah Jiang (China) (8621) 2412 9020
Kenneth Yap (Indonesia) (6221) 515 7343

Consumer

Mohan Singh (Asia) (852) 3922 1111
Jessie Qian (China, Hong Kong) (852) 3922 3568
Unmesh Sharma (India) (9122) 6653 3042
Toby Williams (Japan) (813) 3512 7392
HongSuk Na (Korea) (822) 3705 8678
Edward Ong (Malaysia) (603) 2059 8982
Alex Pomento (Philippines) (632) 857 0899
Linda Huang (Taiwan) (8862) 2734 7521

Emerging Leaders

Jake Lynch (Asia) (8621) 2412 9007
Minoru Tayama (Japan) (813) 3512 6058
Robert Burghart (Japan) (813) 3512 7853

Industrials

Inderjeetsingh Bhatia (India) (9122) 6653 3166
Christopher Cintavey (Japan) (813) 3512 7432
Janet Lewis (Japan) (813) 3512 7475
Chang Han Joo (Korea) (822) 3705 8511
Sunaina Dhanuka (Malaysia) (603) 2059 8993
David Gambrell (Thailand) (662) 694 7753

Insurance

Mark Kellock (Asia) (852) 3922 3567
Seshadri Sen (Asia) (9122) 6653 3053
Makarim Salman (Japan) (813) 3512 7421

Media

Jessie Qian (China, Hong Kong) (852) 3922 3568
Shubham Majumder (India) (9122) 6653 3049
George Hogan (Japan) (813) 3512 7851
Prem Jearajasingam (Malaysia) (603) 2059 8989
Alex Pomento (Philippines) (632) 857 0899

Sales

Regional Heads of Sales

Giles Heyring (ASEAN) (65) 6231 2888
Peter Slater (Boston) (1 617) 598 2502
Thomas Renz (Geneva) (41) 22 818 7712
Ajay Bhatia (India) (9122) 6653 3200
Andrew Mouat (India) (9122) 6653 3200
Stanley Dunda (Indonesia) (6221) 515 1555
Jason Lee (Malaysia) (603) 2059 8888
Gino C Rojas (Philippines) (632) 857 0761
Greg Norton-Kidd (New York) (1 212) 231 2527
Luke Sullivan (New York) (1 212) 231 2507
Scot Mackie (New York) (1 212) 231 2848
Sheila Schroeder (San Francisco) (1 415) 835 1235
John Sim (Singapore) (65) 6231 2888

Oil and Gas

David Johnson (Asia) (852) 3922 4691
Christina Lee (Hong Kong) (852) 3922 3571
Jal Irani (India) (9122) 6653 3040
Polina Diyachkina (Japan) (813) 3512 7886
Edward Ong (Malaysia) (603) 2059 8982
Sunaina Dhanuka (Malaysia) (603) 2059 8993

Pharmaceuticals

Christina Lee (Hong Kong) (852) 3922 3571
Abhishek Singhal (India) (9122) 6653 3052
Naomi Kumagai (Japan) (813) 3512 7474

Property

Matt Nacard (Asia) (852) 3922 4731
Eva Lee (China, Hong Kong) (852) 3922 3573
Chris Cheng (China, Hong Kong) (852) 3922 3581
Unmesh Sharma (India) (9122) 6653 3042
Hiroshi Okubo (Japan) (813) 3512 7433
Chang Han Joo (Korea) (822) 3705 8511
Tuck Yin Soong (Singapore) (65) 6231 2838
Elaine Cheong (Singapore) (65) 6231 2839
Corinne Jian (Taiwan) (8862) 2734 7522
Patti Tomaitrichitr (Thailand) (662) 694 7727

Resources / Metals and Mining

Andrew Dale (Asia) (852) 3922 3587
Xiao Li (China) (852) 3922 4626
YeeMan Chin (China) (852) 3922 3562
Christina Lee (Hong Kong) (852) 3922 3571
Rakesh Arora (India) (9122) 6653 3054
Adam Worthington (Indonesia) (65) 6231 2981
Polina Diyachkina (Japan) (813) 3512 7886

Technology

Warren Lau (Asia) (852) 3922 3592
Dohoon Lee (Hong Kong) (852) 3922 1119
Patrick Yau (Hong Kong) (852) 3922 1264
Zona Chen (Hong Kong) (852) 3922 3578
Damian Thong (Japan) (813) 3512 7877
David Gibson (Japan) (813) 3512 7880
George Chang (Japan) (813) 3512 7854
Michiko Kakiya (Japan) (813) 3512 7868
Yukihiko Goto (Japan) (813) 3512 5984
Michael Bang (Korea) (822) 3705 8659
Chia-Lin Lu (Taiwan) (8862) 2734 7526
Daniel Chang (Taiwan) (8862) 2734 7516
James Chiu (Taiwan) (8862) 2734 7517
Nicholas Teo (Taiwan) (8862) 2734 7523
Stefan Chang (Taiwan) (8862) 2734 7511

Telecoms

Tim Smart (Asia) (852) 3922 3565
Ramakrishna Maruvada (ASEAN) (65) 6231 2842
Bin Liu (China) (852) 3922 3634
Shubham Majumder (India) (9122) 6653 3049
Kenneth Yap (Indonesia) (6221) 515 7343
Nathan Ramler (Japan) (813) 3512 7875
Prem Jearajasingam (Malaysia) (603) 2059 8989

Transport & Infrastructure

Anderson Chow (Asia) (852) 3922 4773
Jonathan Windham (Asia) (852) 3922 5417
Wei Sim (China, Hong Kong) (852) 3922 3598
Janet Lewis (Japan) (813) 3512 7475
Chang Han Joo (Korea) (822) 3705 8511
ES Kwak (Korea) (822) 3705 8644
Sunaina Dhanuka (Malaysia) (603) 2059 8993

Regional Heads of Sales cont'd

Angus Kent (Thailand) (662) 694 7601
Michael Newman (Tokyo) (813) 3512 7920
Charles Nelson (UK/Europe) (44) 20 3037 4832
Rob Fabbro (UK/Europe) (44) 20 3037 4865
Nick Ainsworth (Generalist) (852) 3922 2010

Sales Trading

Adam Zaki (Asia) (852) 3922 2002
Mike Keen (Europe) (44) 20 3037 4905
Mona Lee (Hong Kong) (852) 3922 2085
Brendan Rake (India) (9122) 6653 3204
Stanley Dunda (Indonesia) (6221) 515 1555
Mario Argyrides (Korea) (822) 3705 8610

Utilities

Adam Worthington (Asia) (65) 6231 2981
Carol Cao (China, Hong Kong) (852) 3922 4075
Kakutoshi Otori (Japan) (813) 3512 7296
Prem Jearajasingam (Malaysia) (603) 2059 8989
Alex Pomento (Philippines) (632) 857 0899

Commodities

Jim Lennon (4420) 3037 4271
Max Layton (4420) 3037 4273
Bonnie Liu (8621) 2412 9008
Henry Liu (8621) 2412 9005
Rakesh Arora (9122) 6653 3054

Data Services

Andrea Clohessy (Asia) (852) 3922 4076
Eric Yeung (852) 3922 4077

Economics

Rajeev Malik (ASEAN, India) (65) 6231 2841
Richard Gibbs (Australia) (612) 8232 3935
Paul Cavey (China) (852) 3922 3570
Richard Jerram (Japan) (813) 3512 7855

Quantitative

Martin Emery (Asia) (852) 3922 3582
Viking Kwok (Asia) (852) 3922 4735
George Platt (Australia) (612) 8232 6539
Tsumugi Akiba (Japan) (813) 3512 7560
Patrick Hansen (Japan) (813) 3512 7876

Strategy/Country

Daniel McCormack (Asia) (852) 3922 4073
Desh Peramunetilleke (Asia) (852) 3922 3564
Mahesh Kedia (Asia) (852) 3922 3576
Michael Kurtz (China) (8621) 2412 9002
Seshadri Sen (India) (9122) 6653 3053
Ferry Wong (Indonesia) (6221) 515 7335
David Gibson (Japan) (813) 3512 7880
Peter Eadon-Clarke (Japan) (813) 3512 7850
Chan Hwang (Korea) (822) 3705 8643
Prem Jearajasingam (Malaysia) (603) 2059 8989
Edward Ong (Malaysia) (603) 2059 8982
Alex Pomento (Philippines) (632) 857 0899
Tuck Yin Soong (ASEAN, Singapore) (65) 6231 2838
Daniel Chang (Taiwan) (8862) 2734 7516
Alastair Macdonald (Thailand) (662) 694 7741

Find our research at

Macquarie: www.macquarie.com.au/research
Thomson: www.thomson.com/financial
Reuters: www.knowledge.reuters.com
Bloomberg: MAC GO
Factset: <http://www.factset.com/home.aspx>
Email macresearch@macquarie.com for access

Sales Trading cont'd

Edward Robinson (London) (44) 20 3037 4902
Thomas Chin (Malaysia) (603) 2059 8888
Robert Risman (New York) (1 212) 231 2555
Matthew Ryan (Singapore) (65) 6231 2888
Isaac Huang (Taiwan) (8862) 2734 7582
Jon Omori (Tokyo) (813) 3512 7838

Alternative Strategies

Convertibles - Roland Sharman (852) 3922 2095
Depository Receipts - Robert Ansell (852) 3922 2094
Derivatives - Wayne Edelist (852) 3922 2134
Futures - Tim Smith (852) 3922 2113
Structured Products - Andrew Terlich (852) 3922 2013