December 14, 2009

ASIA PACIFIC

Key Surprises for 2010

Plausible Scenarios That the Market Is Underpricing

The Way We Do Research

If there is a lesson the markets keep telling us, it is the persistence of uncertainty. Unlike risks, which are known and measurable, uncertainty is difficult to calibrate. We can never know the exact payoff distribution for any given investment.

A single-point forecast may be simple and easily communicated. It may look bold. But it can never capture the multiple facets of reality as it might unfold. And it can never convey the full range of insights of a thoughtful analyst who has delved deeply into the relevant issues.

Morgan Stanley Research has taken a harder path and is providing more than just single-point estimates. As always, we state clearly our basic expectations and our central theme. We have a clear point of view. But our reports also articulate Bull and Bear cases for a range of potential outcomes. They also describe our analysts' thinking behind alternative projections for top-line growth, operating earnings, and capital intensity. Our scenarios enrich the conversation with a full range of possibilities.

We see value in a disciplined effort to understand the market consensus. Our analysts use a variety of analytical tools to identify what assumptions are "in the price." More importantly, they use their dialogue with investors to help define and drive the key investment debates. Progressively, we are comparing our subjective ranges of outcomes with the risk and reward trade-off implied by the options market. We think this approach yields a far better representation of the market consensus than the usual "sell-side" consensus data. And it helps you identify calls where we really differ.

Finally, we have formalized a disciplined approach through Morgan Stanley AlphaWise, a bridge between conventional research and primary research. AlphaWise delivers the best available solutions to help validate investment hypotheses with primary evidence. Our analysts and AlphaWise have already collaborated on over 700 research projects around the world. Client feedback and the success of their recommendations tell us that we need to pursue this path.

Our goal is to provide the best possible value-added information to our clients as they make – and live with – their investment decisions.

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Australia Economics

A weak consumer in 2010

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Our view

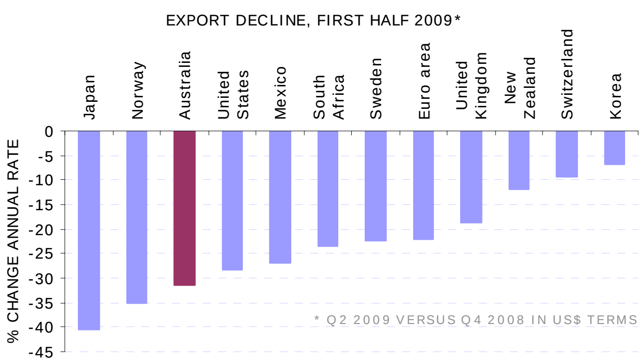
Australia avoided recession, but that will lead to a muted recovery. In particular, the Australian consumer may be the only consumer in the world where income growth will slow over the next year compared to the last year. The RBA is tightening, cash handouts will stop and employment growth will likely be lackluster.

Market view

Domestic investors have swung from being overly pessimistic at the start of 2009 to now expecting a broad, strong expansion in 2010. We think that that is a mistake. In particular, we think that consumer-related sectors, including financials, are under-estimating the downside risks to domestic growth in 2010.

What sort of recovery follows a non-recession?
Avoiding a significant downturn greatly reduces the prospect of a sharp rebound. To take one example: household income increased by 8% over the year to June. Hardly a recession. Without the benefit of declining rates, further fiscal hand-outs, or a big turnaround in the labor market, income growth is set to decelerate. The Australian consumer may be the only consumer in the world where the next 12 months will not be as good as the past 12.

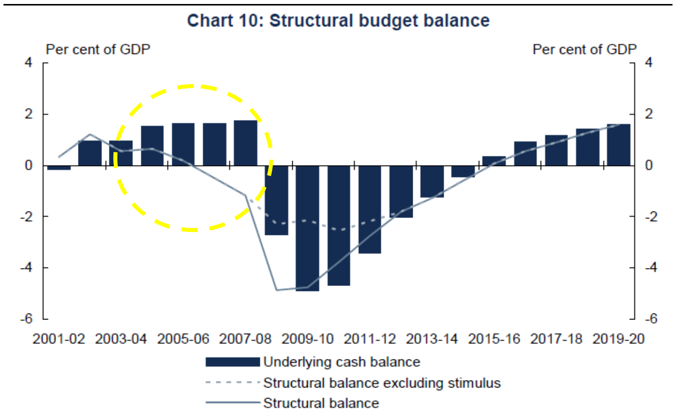
Exhibit 1
Australia's exports took a hit



Source: OECD, Morgan Stanley Research

This does not threaten a belated recession. But it does suggest the acceleration in domestic activity in Australia will be far more muted than in most other developed economies.

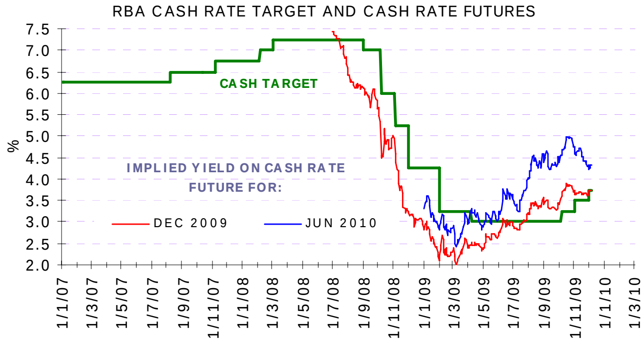
Exhibit 2
Loose fiscal policy in the last cycle



Note: Forecast years are Federal Treasury estimates.
Source: Federal Treasury, Morgan Stanley Research

Looking further out, Australia is likely to face a pronounced lop-sided cycle. Mining-related regions will do well, I think. But in the last cycle much of the bounty of the mining boom was transferred elsewhere by loose fiscal policy. Exhibit 2 shows the headline budget balance and the structural balance. Although headline surpluses were reported in 2003-07, the underlying budget was moving from surplus to deficit. That structural easing reflected the spending of the windfall – spending that narrowed the activity gap between the resource-rich and resource-poor regions. The key point looking ahead is that that transmission mechanism will not operate now that the headline budget is in significant deficit.

Exhibit 3
Markets expect RBA to return rates to 'normal'



Source: Bloomberg, Morgan Stanley Research

RBA: Back to normal?

Recent comments suggest that the RBA is more upbeat than I am. The bank's view seems to be that next year will, in many respects, be a 'back to trend' year. Back to trend for trading partner growth, back to trend for domestic activity, and back to trend for inflation (that is, not below trend). That, in turn, implies that rates should be back to trend – or neutral. Neutral rates are probably around 4.5-5%. This is broadly what short-rate futures are pricing: a cash rate target of a little over 4.5% by mid-2010 and 5% by end-2010 (Exhibit 3).

Given greater caution on the growth outlook, I think that this is too bearish an outlook for rates. With the removal of stimulus – particularly household-related stimulus – likely to soften consumer spending, I don't think a quick return to neutral policy is justified.

However, it seems likely that the RBA will keep tightening in the near term. I expect the cash rate target to be at 4% by the end of the March quarter. But if the domestic economy is showing few signs of breaking above trend, and if other developed economies are as tepid as the global team expects, then I would expect the RBA to put rates on hold.

Australia Strategy

A falling Australian dollar, but banks may underperform

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Our view

A falling Australian dollar (AUD) could trigger banks' underperformance vs. miners. Such a scenario is unusual – usually when the AUD is weakening, risky asset prices are falling as are stock prices for commodities and miners. But, if the AUD drop is triggered by other developed nations starting to lift interest rates – a sign of strengthening growth – commodity prices may recover quickly and banks may be the losing sector more than miners. This has happened before.

Market view

Most investors are positioned for US dollar weakness, not a falling Australian dollar. While the possibility of the short USD trade unwinding is becoming more discussed – we believe the prevailing assumption is that the mining sector underperforms over the long term every time the AUD falls.

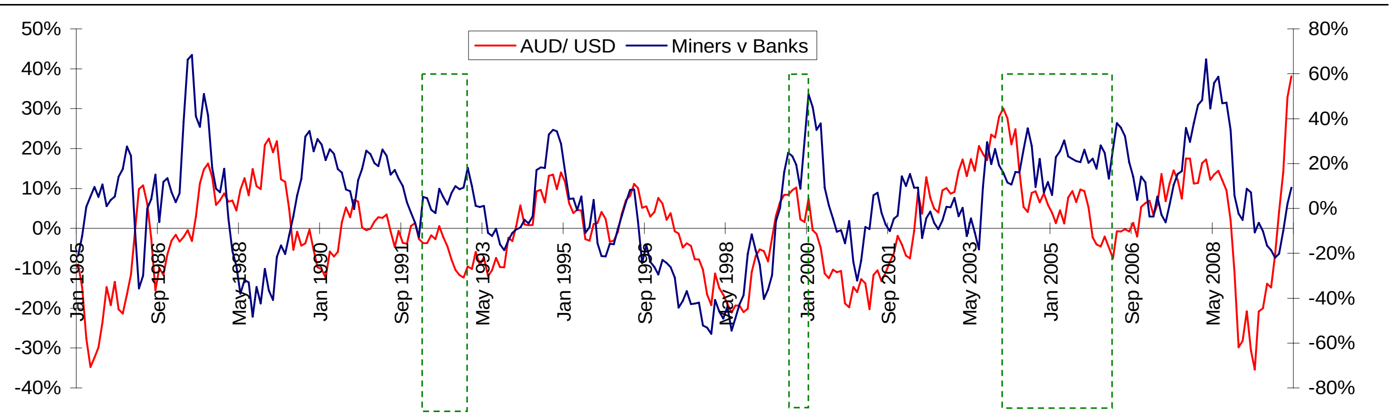
Australian dollar could fall either way, but equity sector performance would be different under each scenario: One way or another, we think the Australian dollar may hit turbulence next year. And, like our prognosis for equity markets, this could come through either macro data disappointment or the start of a Fed (and other developed nations) rate hike cycle/withdrawal of stimulus. Whilst either outcome would have the same overall result for the AUD, in our view (i.e., a decline), the resulting equity sector and stock performance outcome could be vastly different under each of the two scenarios.

Can the miners still outperform if AUD is falling? Of importance to the Australian equity market would be the effect on banks versus miners in particular. With a bit of rotation out of banks into miners underway, one key concern is whether the miners could have resilience to any turbulence next year.

The AUD falling under disappointing macro data, or concerns about a double-dip recession would, in our view, involve a fall in commodity prices and the underperformance of risky assets in general. This would clearly mean the miners underperform relative to the market, and the banks, in our view; a substantial fall in commodity prices would have a strong effect on the mining sector.

However if a fall in the AUD was driven by an increasing expectation of a rate cycle in the US and other developed nations, then it is possible that the AUD falls while commodity prices keep rising over the longer term; and, hence, the mining sector, we believe, would outperform in this environment. Under this scenario, commodities could also undergo a period of weakness and turbulence. But, we would see this as a buying opportunity because longer term we think the fundamentals support real supply and demand. Such an event is not unprecedented, as Exhibit 1 shows.

Exhibit 1
Australian dollar and miners' relative performance to banks



Source: Company data, Morgan Stanley Research

Exhibit 1 shows banks' vs. miners' relative performance since 1985. Most of the time miners underperform the banks when the AUD is falling. This is because, for the most part, the AUD is primarily a function of risk appetite. However, there are times when miners outperform. The green dotted boxes show periods of mining outperformance. Importantly, they all coincide with the start of a Fed tightening cycle. This is because the AUD is falling on strong growth, Fed rate tightening, and inflation expectations, which is an environment conducive to strong commodity demand. Exhibit 2 shows the statistics of periods where miners outperform the banks.

Exhibit 2

Periods when a falling AUD has accompanied mining outperformance

	Start of AUD decline and mining outperformance	Length of AUD decline and mining outperformance	US Short Rates Start Rising
1992	Jan 1992	1 year	Oct 1992
1999	Nov 1999	2 months	Apr 1999
2004	Jan 2004	2.25 years	May 2004

Source: Company data, Morgan Stanley Research

This trend has been evident since the market bottom in March.

We have measured banks versus metals performance on up and down days for the AUD over 1% (a meaningful daily move) since March. On average, since the market lows, the miners have outperformed the banks on >1% down days in the AUD, which is the opposite to the long-term trend.

Given the banks' strong outperformance prior to October, we think the sector may be higher beta to a setback – particularly if the stocks have been used as an equity tool to play the strong AUD theme. In fact, even on strong up days in the AUD since October, banks have also underperformed.

Exhibit 3

Median banks sector performance relative to metals & mining on >1% AUD move days

	Banks	Mining	Relative (annualised)
Long Term			
AUD >1% up	0.26%	0.70%	**-110%**
AUD >1% down	-0.14%	-0.23%	**24%**
Since March			
AUD >1% up	1.12%	0.97%	**39%**
AUD >1% down	-0.31%	-0.01%	**-75%**
Since October			
AUD >1% up	-1.18%	0.46%	**-413%**
AUD >1% down	-1.06%	0.62%	**-423%**

Source: Company data, Morgan Stanley Research

Comments on AUD, USD Carry Trade, and Copper

As our commodity strategist, Peter Richardson, points out, over the near term copper does look vulnerable, with LME stocks at their highest level since April 2009, lower usage/net imports of copper by China and EU over the summer season resulting in a market surplus, and a price apparently driven more by strong investment demand. Please see *"Latest Copper Data Contain Some Warning Signs"*, November 26, 2009. A strengthening USD would not help.

That said, as Peter also points out, clear evidence of an improvement in long-term fundamentals should drive base metals such as copper higher over next year, notwithstanding near-term headwinds. In particular, Peter points to a "clutch of national, regional, and global PMI data" in November, suggesting a broadening scope of recovery. Given these are leading indicators of global and regional output, orders, inventory, and employment, this continues to underpin a constructive outlook for real demand in base metals and bulk commodity prices through 2010. See *"November PMIs Point to Further Improvements in Demand for Raw Materials"*, December 2, 2009.

In our view, this outlook would involve the scenario where strengthening global growth and the expectation of Fed rate hikes would be the driver of any AUD decline, and would be conducive to longer term mining outperformance over the banks, and a buy the dip opportunity.

Portfolio Strategy – we are positioned for strengthening global growth at this point, but turbulence is possible.

Regardless of the two scenarios, even Fed tightening would mean at least some period of indigestion in equity markets. Some defensive rotation would be likely, particularly given a majority of quality defensive names have sharply underperformed this year. In particular, defensive underperformers that are falling AUD beneficiaries could get a double tailwind of flight to safety and currency benefits.

Stocks that we would first look at are **CSL** (A$31.22), **COH** (A$64.00), **SHL** (A$14.50), and **RMD** (A$5.74), as well as **QBE** (A$23.00) and **FGL** (A$5.50). These would receive a double tailwind of defensive rotation and a falling AUD. We continue to favour mining over the longer term for several reasons and are swaying towards a Fed tightening cycle being the driver of equities. With China strength, broadening PMI improvement, our constructive long-term view on key commodities, and a hint of improving US data, we would recommend buying into any mining sector weakness. Stocks in our portfolio, outside the big diversified miners, are **EQN** (A$4.31) and **OZL** (A$1.21).

Australia Strategy

The market could end down in 2010

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Our view

Not our base case, but the market could end down in calendar year 2010. Equity markets this year have enjoyed a sweet spot of low rates and recovering financial markets. Next year however we expect things to be more volatile. What is unclear at this stage is what will be the key driver – either stimulus withdrawal/tightening rates, or macro data disappointment. Either outcome has the ability to at least cause an extended period of indigestion for equities. In addition, the Australian equity market has consistently had one strong recovery year following a downturn, followed by a down year – this happened in the 70s, 80s, and 90s.

Market view

We sense the market is looking for an uninterrupted cyclical recovery over several years. We are also expecting an extended cyclical recovery and long term think equity markets will head higher. However an extended cyclical recovery does not mean an uninterrupted rise in equity markets – in fact, a more conducive environment is lower growth with lower rates and inflation, rather than the opposite. We are now in an established rate hike cycle in Australia – if the Fed were to enter one then this could at least destabilize the boat along the way.

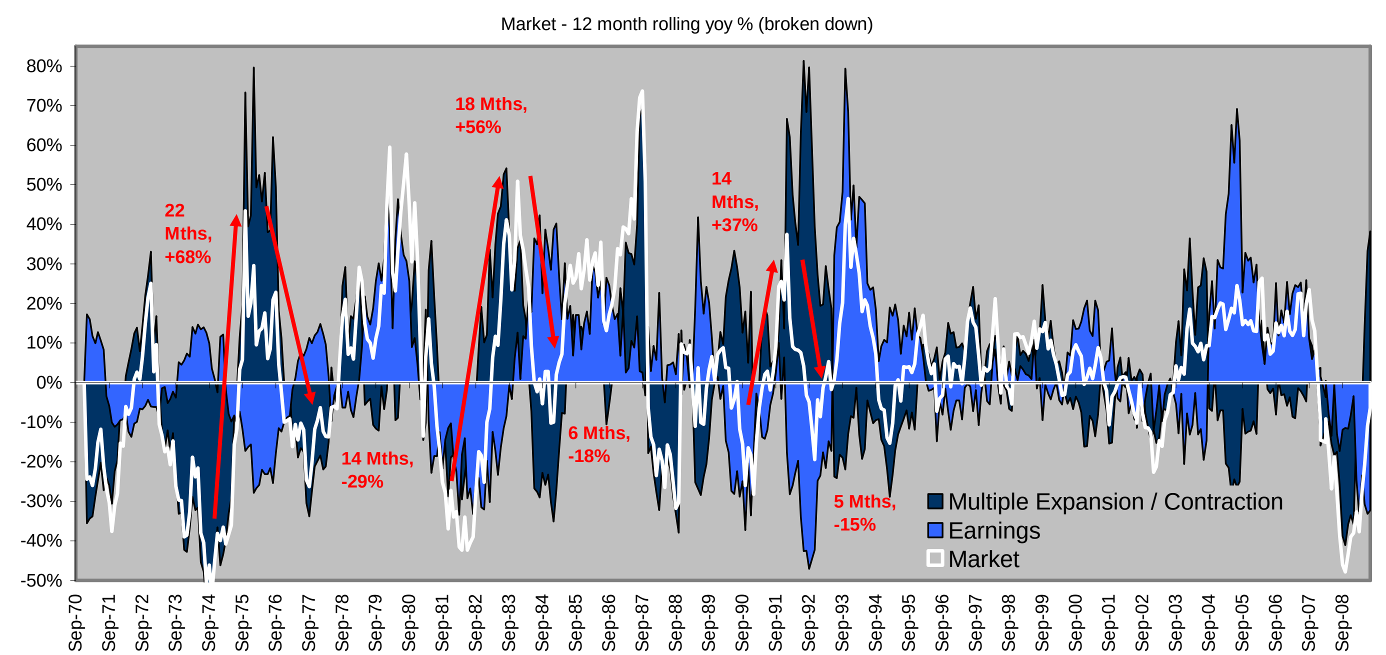
Past market performance

Equity recoveries post a global downturn tend to be volatile affairs. In each of the past three major bear markets in the 70s, 80s, and 90s, the Australian equity market had one up year, followed by one down year in the recovery period.

The average recovery period before a substantial correction lasts around 18-19 months, and generates an average return of 53%. Currently we are 9 months into it and around 52% up. Similar timing would take us to around September next year – it is possible that this rebound beats the average, given the severity of the fall.

Exhibit 1

MSCI Australia rolling 12-month performance – broken down into earnings and multiple expansion



Source: MSCI, Company data, Morgan Stanley Research

Exhibit 2

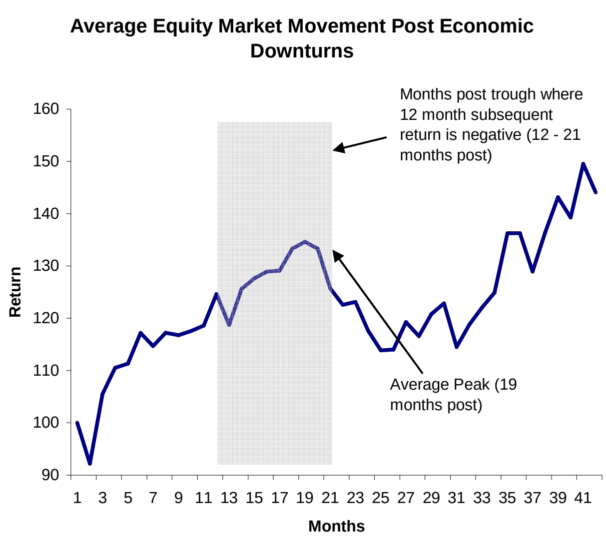
MSCI Australia annual performance history

	Annual Return
15/12/1974	-28.5%
15/12/1975	48.0%
15/12/1976	-0.8%
15/12/1977	1.3%
15/12/1981	-23.6%
15/12/1982	-15.4%
15/12/1983	63.0%
15/12/1984	-8.9%
15/12/1985	40.7%
15/12/1990	-19.1%
15/12/1991	31.2%
15/12/1992	-4.3%
15/12/1993	34.1%

Source: MSCI, Company data, Morgan Stanley Research

Exhibit 3

Markets peak about 18 months post a trough before a correction



Source: Company data, Morgan Stanley Research

Exhibit 1 shows the market's rolling 12-month return history, broken down into multiple expansion and earnings growth. Exhibit 2 shows annual calendar year performance during and post each of the three previous great bear markets that Australia has experienced. Exhibit 3 shows the average 12-month rolling returns from market bottoms. All exhibits point to around an 18-month recovery before a substantial correction.

Catalyst for a set-back

Whilst the catalyst for a correction/rally peak is still unclear – be it stimulus withdrawal or macro disappointment, both could have similar destabilizing effects on equities – at least over a short-term period. Teun Draaisma expects Europe to be down 5% on stimulus withdrawal and the start of Fed tightening. Teun's team is bullish on growth for next year but bearish on the effect on equities. Please see *Tougher Times in 2010*, November 30, 2009. Gerard Minack believes that potential for a double dip will be the unsettling risk. A double-dip would not have to eventuate in Gerard's view, but if the leading indicators that have moved in lock-step with equities start to wobble and falter, then equities could roll over. See *Downunder Daily: Sweet n' Sour*, November 24, 2009.

Multiple contraction could outweigh earnings growth

Multiples would not need to fall by an unrealistically high amount to outweigh our forecast earnings growth. We forecast December 2010 earnings growth for the Australian market of 9% before ramping up in 2011 and 2012, which compares to consensus at 11.5%. With multiples close to 15.5x, a fall in multiples to below the long-term average of 14.4x would outweigh the growth in earnings, and a rising rate environment, such as the one we are in, does bring with it a fall in P/E multiples.

Timing and portfolio implications

Our 2010 S&P/ASX 200 index target is 5,165. We see a chance that we reach the peak by 3Q10, before a weak final quarter. Such a scenario of weakness, in our view, would favour left behind quality defensive names – particularly if they were beneficiaries of a falling AUD. In our portfolio, we would recommend **QBE** (A$23), **Foster's** (A$5.50) (they tick all boxes, including being falling AUD beneficiaries), and **AGL Energy** (A$13.77).

Risk-reward scenarios – June 2010; Index Target 5,165

Bear Case 4,012

14.4x P/E on -15.5% EPS growth

Double dip in the global economy sparking a market sell off. Earnings bottom in June and turn flat year on year by December.

Base Case 4,923

15.5x P/E, flat earnings growth

Earnings trough in March 2010. Market has a period of consolidation while earnings catch up to multiples, before continuing a strong rally into year-end 2010.

Bull Case 6,332

17.4x P/E, 9% earnings growth by June 2010

Earnings bottom this quarter and a strong equity market and economic recovery continue unabated.

Australia Media

Fairfax Media:
Hypothetical – what if FXJ sold/outsourced its printing requirements?

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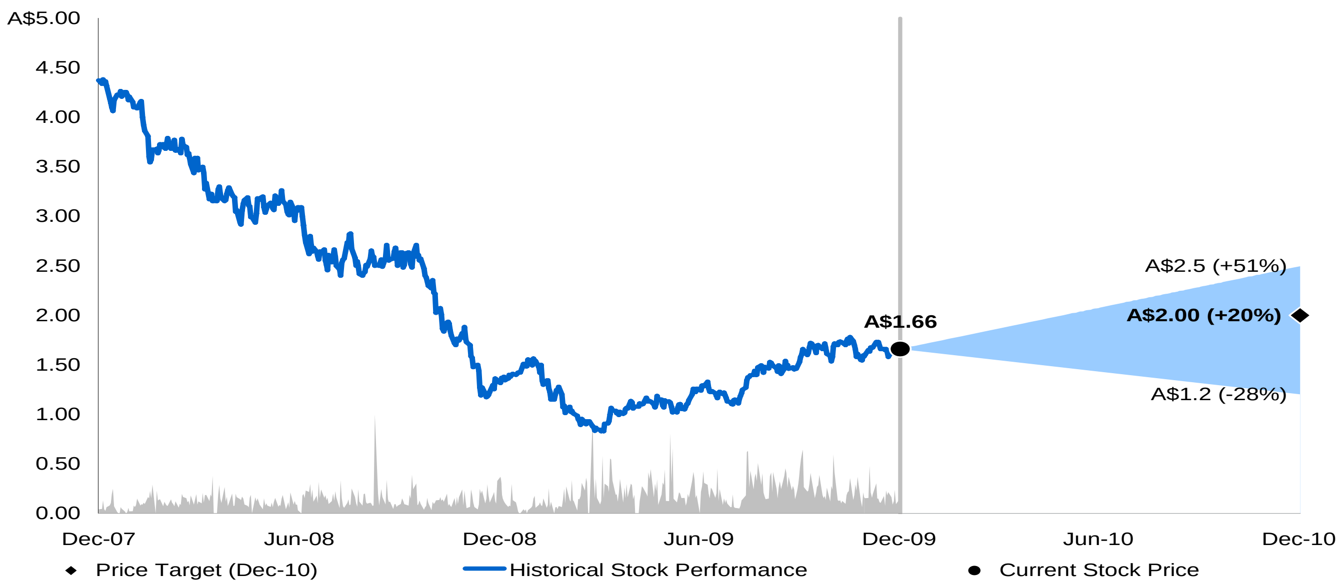
Our view

Hypothetically, Fairfax Media (FXJ) could sell the bulk of its newspaper printing facilities and undertake a long-term contract with a third-party printing company, or negotiate a printing joint venture with another newspaper publisher. This would allow FXJ to focus on becoming more of a pure-content producer – while not neglecting its newspapers, it would be able to devote more attention to creating compelling content, marketing and positioning its print and digital products, and generating advertising revenue.

Market view

Newspaper publishers in Australia will continue to print and distribute their products the same way they always have, according to the prevailing consensus view. We believe, however, that the market is underestimating the opportunity for newspaper publishers such as FXJ to reduce both their capital spending and their operating expenses over time. Less capital-intensive businesses, with higher ROE, would have the potential to be positively "re-rated" by investors.

Advertising cycle dominates



Risk-reward scenarios

OW, PT A$2.00

A$1.20
Bear Case
10x Bear Case F2011E EPS

Extended advertising recession: EBITDA is 25% below base case in F2011E as the ad downturn deteriorates. Bear-case EPS of A$0.115 in F2011E equate to a lower P/E of 10x, reflecting added uncertainty of a prolonged bear market.

A$2.00
Base Case
14x Base Case F2011E EPS

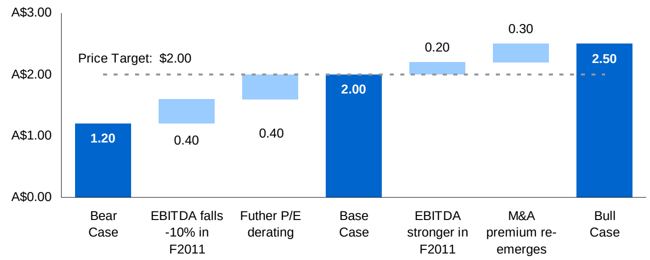
Advertising recovers in C2010E and F2011E: EBITDA rebound approximately 10% from F2009 level by F2011E, and base-case EPS of A$0.142 equate to a P/E of 14x, representing a 20% discount to the broader Australian market.

A$2.50
Bull Case
14x Bull Case F2011E EPS

Advertising rebounds sharply: F2011 EBITDA 10% above base case and EPS of A$0.18, combined with a higher P/E multiple of 14, reflect greater possibility of corporate activity. A restoration of stable credit markets and a revival of confidence in earnings recovery could see some M&A premium return.

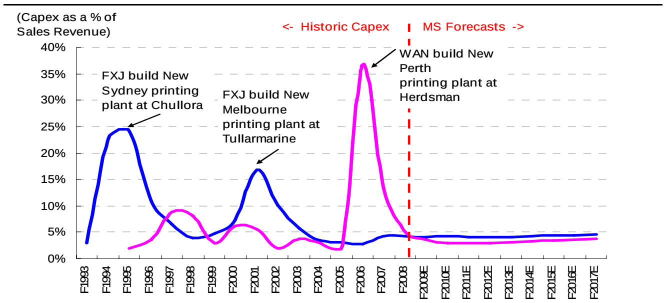
From Bear to Bull Case

Exhibit 1
Ad revenue recovery is key to share price rebound



Source: Morgan Stanley research, FactSet

Exhibit 2
Traditionally high capex demands of newspaper publishing … could be greatly reduced



Source: Company data, FactSet, Morgan Stanley Research

Potential positives we see for FXJ over the medium term are lower Capital Intensity and lower Fixed Costs than it has faced in the past. We see these stemming from a decline in the profit contribution from FXJ's traditional business of Newspaper publishing … and a simultaneous increase in the profit contribution from its Internet/Digital businesses. FXJ's earnings split today is 70% Newspaper publishing vs. 30% Internet/Digital.

The opportunity arises because Newspaper publishing has traditionally been a "capex-heavy" business. We estimate that FXJ's capex/sales ratio is 8-10% annually (Exhibit 2). In contrast, its Internet Media business, such as the online jobs site, SEK, and the online real estate site, REA, and similarly FXJ's Internet/Digital businesses are all "capex-lite." We estimate that SEK and REA's capex/sales ratio has averaged just 2-3% annually since F2001.

The upside of change could include a higher ROE and a re-rating of the stock, we believe, but this change for the better would not happen overnight, and improved returns would not be automatic. To capture the opportunity and achieve tangible gains for FXJ shareholders, the company would have to undertake a major re-configuration of its printing strategy at some point, we think. We see three entirely hypothetical but possible scenarios:

1. **FXJ could sell all of its newspaper printing facilities and sign a long-term contract with a third-party** printing company. This would allow FXJ to focus on becoming more of a pure-content producer: While not neglecting its newspapers, it would be able to devote more attention to marketing and positioning its print and digital products and generating ad revenue for each.

2. **Or, FXJ and its newspaper industry peers could collectively contribute their printing PP&E** (property, plant and equipment) into a separate JV with its own management that has experience in the newspaper industry. The benefits would include improving logistics, reducing transport needs, raising utilization and therefore lowering overall costs.

3. **Or, FXJ could rationalize just its own printing portfolio.** An interesting question: With declining circulation levels, and much lower book sizes, does FXJ still require the state-of-the-art Chullora and Tullamarine printing plants? Or, could some of its peers' printing plants service FXJ's Metro markets? This would allow the company to sell or redeploy these assets/PP&E to other geographic markets where they could be put to better use.

FXJ has made no public comment on this subject that we are aware of. The concept represents our own hypothetical thinking and analysis, and, to be clear, the timing of such changes, even if they occurred, is difficult to forecast. As such, none of this is factored into our FXJ Base Case earnings, valuation, or price target. Still, we consider it an interesting topic for FXJ shareholders and the broader Australian Newspaper industry. Of course, there could be no change for years, or ever, but with the passage of time, we expect this topic to receive more attention and more discussion.

For more details, please see our July 24, 2009, note *Hypothetical: What If FXJ Sold/Outsourced Its Printing Requirements?*

Australia Media

Ten Network Holdings:
Hypothetical – could a PayTV operator see strategic value in an FTA licence?

Morgan Stanley Australia Limited+

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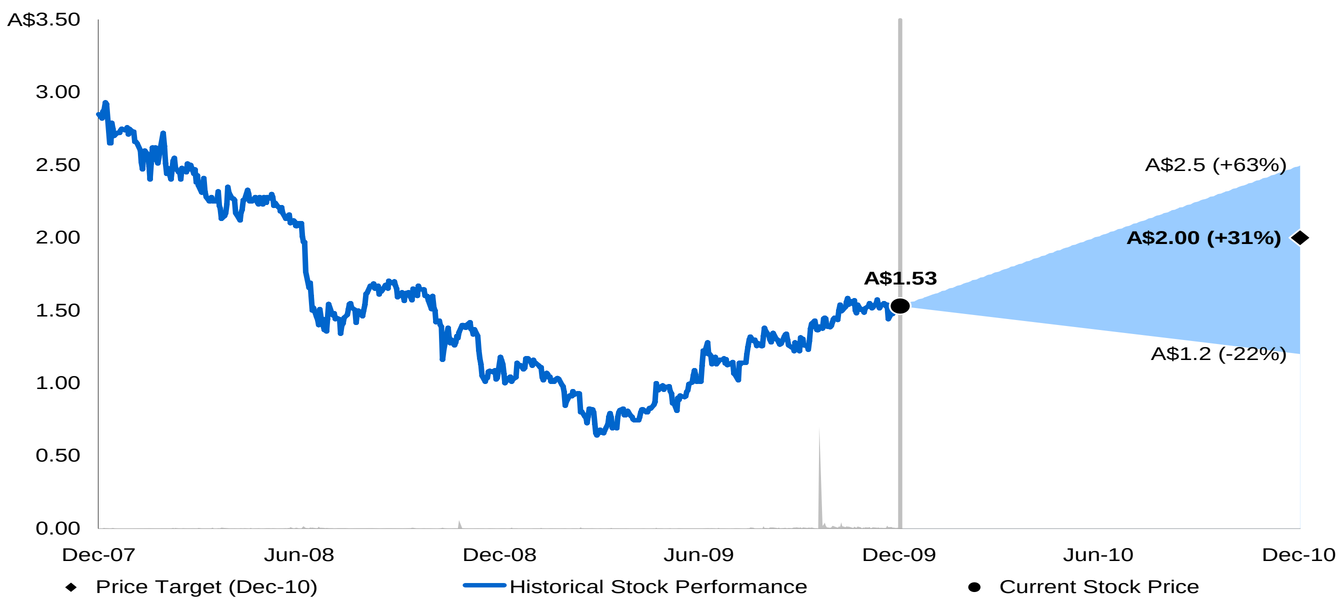
Our view

We consider some of the pros and cons of a hypothetical FOXTEL + TEN combination: Positives include a formidable single bidder for all forthcoming PayTV and free-to-air TV sports rights; opportunity to extract more value from TEN's 3x digital terrestrial channels; substantial cost savings; broader advertising relationships; and the opportunity to cross-promote PayTV to 100% of Australian households and drive faster subscriber growth. Risks include ACCC/regulatory approval.

Market view

The consensus expects PayTV and FTA TV in Australia to continue competing head-to-head for TV viewers and ad revenue market share. But what if they worked more closely together? … or what if a PayTV operator such as FOXTEL were to acquire an FTA TV broadcaster such as TEN? We argue that the cost savings and revenue synergies would be considerable. Strategically, we see merit, too.

Outlook is for improving TV advertising revenue



Risk-reward scenarios

OW, PT A$2.00

A$1.20
Bear Case
20x Bear Case F2011E EPS

Ad market remains negative for all of F2010, with no uptick. TV ad revenue declines 10% in F2010E; TEN's TV ad market share is 1% lower at 29%. Total TEN EBITDA falls to A$100m (-30% on pcp, 50% below Base Case), and EPS drop to 6c.

A$2.00
Base Case
17x Base Case F2011E EPS

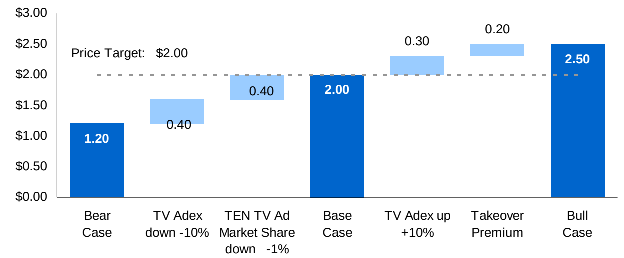
Ad market turns positive in 2H F2010, TEN picks up market share. TV ad market revenue grows 1% in F2010E and 8% in F2011E; TEN's ad market share increases to 30-31.5%. TEN EBITDA is A$165m (+9%) in F2010 and A$220m (+33%) in recovery year of F2011. EPS of 8c in F2010 and 12c in F2011.

A$2.50
Bull Case
15x Bull Case F2011E EPS

Sharper rebound in ad Market + M&A bid. TV ad mkt revenue grows 10% in F2011; TEN's ad mkt share is 1% higher at 32.5%. TV EBITDA A$270m (30% above base case) and EPS of 18c. Bull Case could also be achieved if an M&A bid were to emerge. Implies 12x EV/EBITDA using our Base Case EBITDA and 10x based on our Bull Case EBITDA.

From Bear to Bull Case

Exhibit 1
TV advertising revenue is critical earnings driver

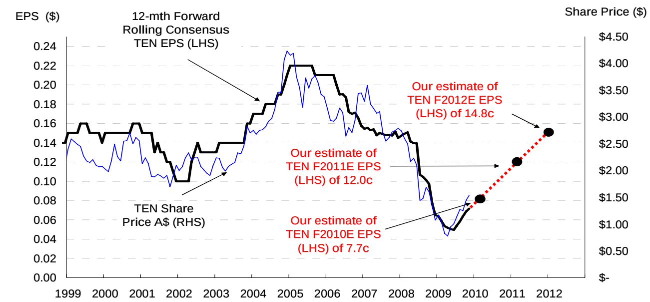


Source: Morgan Stanley Research, FactSet

For further discussion and industry analysis surrounding this hypothetical scenario, please see our report, "Hypothetical: Could A PayTV Operator See Strategic Value In TEN?", dated April 7, 2009.

What's in the Price?

Exhibit 2
TV ad cycle is key: hypothetical bluesky scenario



Source: Company data, FactSet, Morgan Stanley Research

Why FOXTEL might have a strategic interest in an FTA TV broadcaster

We stress that this is a hypothetical scenario. To the best of our knowledge, there has been no public comment on the subject by either TEN or FOXTEL or by any other PayTV operator in Australia.

The basis for exploring a hypothetical combination with FOXTEL is clear:

1) There is already a template for the union of a PayTV operator and a free-to-air broadcaster. New Zealand's monopoly PayTV operator, Sky Network Television, acquired the New Zealand free-to-air TV broadcaster Prime New Zealand back in 2006. In our view, because NZ and Australia are relatively similar markets, many of the apparent drivers of NZ's Sky/Prime deal could be said to apply equally in Australia. Actually, because of the oddity of "anti-siphoning" legislation that applies only to sports programming in Australia (not New Zealand or other countries), we would argue that a PayTV plus free-to-air union might potentially be even more compelling in the Australian market than in NZ;

2) Sky Network Television and FOXTEL are controlled by the same shareholder, News Corporation. NWS has a 44% stake in Sky Network and a 25% interest in FOXTEL. NWS management has operational control of both companies. A third PayTV operator controlled by NWS has invested in an FTA TV broadcaster – BSkyB acquired an 18% stake in ITV plc in 2006. To be clear, that stake has never translated into a full bid for ITV. At the time, industry observers discussed the possibility that BSkyB took the stake to effectively block a hostile bid for ITV by rival UK PayTV operator NTL/Virgin Cable.

We believe this pattern of behaviour supports our view that NWS would keep a close watch on the same opportunities should they arise for its Australian-controlled PayTV business, FOXTEL.

We see two main reasons to consider this combination at this point: 1) Since CanWest's exit from the TEN share register, TEN no longer has a controlling shareholder; 2) the share prices of TEN and other media assets have plunged over the past 12-18 months. We note that when NWS Chairman and CEO Rupert Murdoch was asked in 2006 about his potential interest in Australian FTA TV networks, he commented that they were "extremely expensive, so it is unlikely that we would do anything." TEN shares were then trading at A$4, and the company had an Enterprise Value of A$4.6bn. Its stock has fallen in value by 80-90% over the past two years, to A$1.50, and TEN currently has an Enterprise Value of A$2.0bn. Obviously, even at these levels, NWS and the FOXTEL partners may not see value, but things can change.

Potential advantages of FOXTEL + TEN combination:

1. Substantial cost savings
2. Anti-siphoning list
3. Extracting maximum value from TEN's free-to-air digital spectrum
4. Broader advertising relationships
5. Cross-promotion

Australia Property

Dexus: Restructuring could drive re-rating towards our bull case

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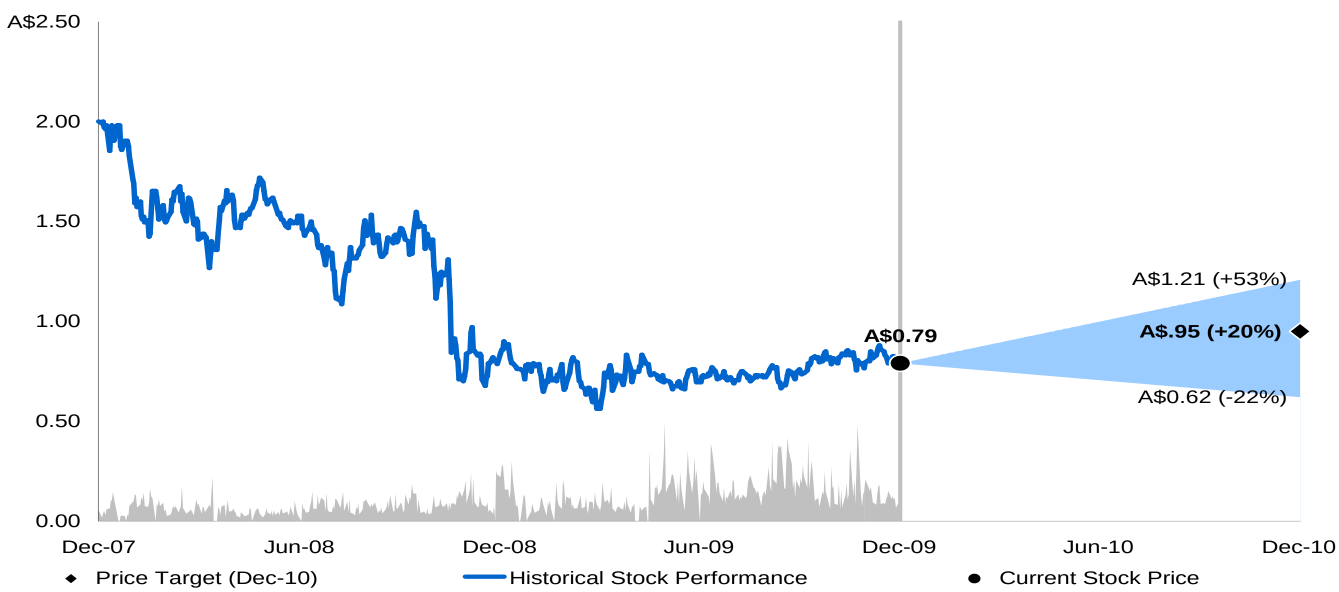
Our view

The combination of improving property fundamentals and Dexus executing on its short- to medium-term strategy would help close the +20% gap with our price target or even the +53% gap with our bull case. Dexus would benefit more than its peers would from a pick-up in Australian and US property fundamentals (occupancy, rents, asset values) and transaction volumes, as it is trading at a more significant NAV discount, and this would allow the group to accelerate its planned restructuring.

Market view

Despite its strong domestic office and industrial portfolio, DXS continues to trade at a discount to the peer group due to its international (US and European) exposure and confusion about strategy in these markets. The shares are trading on a 21.8% discount to NTA, versus a 0.7% discount for peers. DXS is at 12.4x FY2010E P/E, vs. 15.4x for the peer group, yet we believe DXS may have been more conservative in its guidance than most.

We see valuation upside from current levels



Risk-reward scenarios

OW, PT A$0.95

A$0.62
Bear Case
10% discount to bear case F10E NAV

Fundamentals weaken significantly. Global growth is negative, and office fundamentals weaken appreciably. Portfolio vacancies peak at 12.5%, and cap rates move to 8.2%, 20bps higher than the June 2009 level.

A$0.95
Base Case
Nil discount to base case F10E NAV

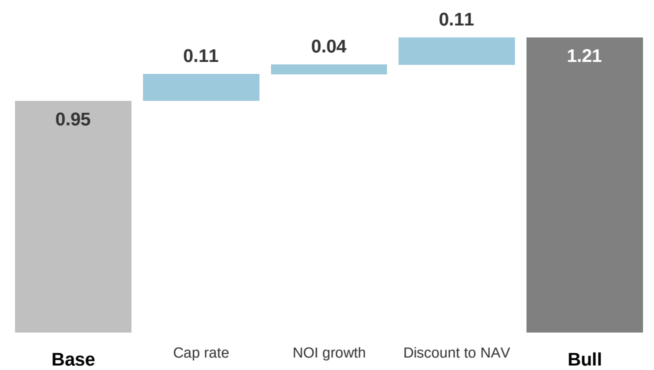
Stabilisation and recovery. Fundamentals continue to deteriorate, but there are improving signs before the end of FY10. Vacancies peak at 10%, and market rents decline a further 9%. Cap rates compress to 7.7%, 30bps below the June 2009 level.

A$1.21
Bull Case
10% premium to bull case F10E NAV

Strong recovery. Fundamentals stabilise in 1H10, with troughs in rents and asset values occurring by early 2010. Cap rates compress 70bps, to 7.3%, and after a pick-up in asset transactions, investors start to apply a 10% premium to NAV in anticipation of an asset price recovery.

From Base to Bull Case

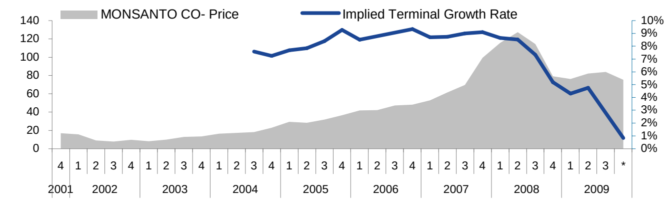
Exhibit 1
Upside from cap rate compression, NOI growth and 0% discount to NAV



Source: Morgan Stanley research, FactSet

What's in the Price?

Exhibit 2
Lack of clarity about strategy and US and European industrial portfolio concerns



Source: Company data, FactSet, Morgan Stanley Research

Based on valuation, DXS is one of the cheaper stocks under coverage, more than reflecting some of the strategic issues. However, the following themes may surprise the market in 2010, we believe:

1. **Quicker-than-expected restructuring.** Dexus could trade up to our bull case if property fundamentals improve, transaction volumes pick up, and, most importantly, it executes its ongoing asset-restructuring program. Some 70% of Dexus' asset base is high-quality Australian commercial assets, for which asset values and rents have come under significant pressure in the past two to three years. We believe improving credit markets and a pick-up in demand will return asset values to mid-cycle levels, driving a 10-15% rally in gross asset values and a 25-30% increase in NAV.

2. **Potential M&A upside.** If the group were able to sell all its European assets and most of its US assets to reinvest the proceeds in accretive M&A opportunities in its core markets, DXS could become a focused manager of high-quality office and industrial assets, according to management. Execution of its restructuring would likely drive a further re-rating of the shares. Moreover, with most recapitalized companies now looking for ways to improve their growth profiles, we would not be surprised to see single asset and corporate M&A pick up in the sector over the coming 12 months. This should provide more support for DXS' NTA and our NAV valuations and could accelerate the trough in the asset cycle.

3. **Key negatives fixed sooner.** We believe the main reason for DXS' underperformance has been the lack of clarity about short- and medium-term strategy. Management is working on addressing this issue. A clear message on strategy should help close the valuation gap between DXS and its peers.

4. **Better-than-expected evidence of demand and transactions.** We have yet to price any of this asset value recovery into our base case, but any evidence of demand and transaction volumes picking up would be a main driver for rising NAV. Historically, improving asset values have led to property stocks trading above NAV, versus Dexus' current 16.8% discount.

5. **Earlier evidence of cyclical upside from Office and Industrial sub-sectors.** DXS' exposure to office and industrial positions it well for a cyclical recovery. These asset classes have seen the biggest drops in asset values and earnings. With cap-rate compression to come, in our view, DXS offers one of the best cyclical recovery plays in the sector.

6. **Improvement in US and UK property fundamentals.** DXS has one of the highest-quality office portfolios in Australia (~50% of its asset base) and a good-quality Australian industrial portfolio (~20% of its portfolio). While we are less comfortable with the US and European industrial portfolios, which are a key reason for market concerns, DXS seems to have been very cautious in its asset values and earnings guidance, suggesting little risk of significant downside, especially as we already reflect 100bps of further cap-rate expansion in our sum-of-the-parts valuation.

Australia Retail

JB Hi-Fi Ltd: Bull case is realised

Morgan Stanley Australia Limited+

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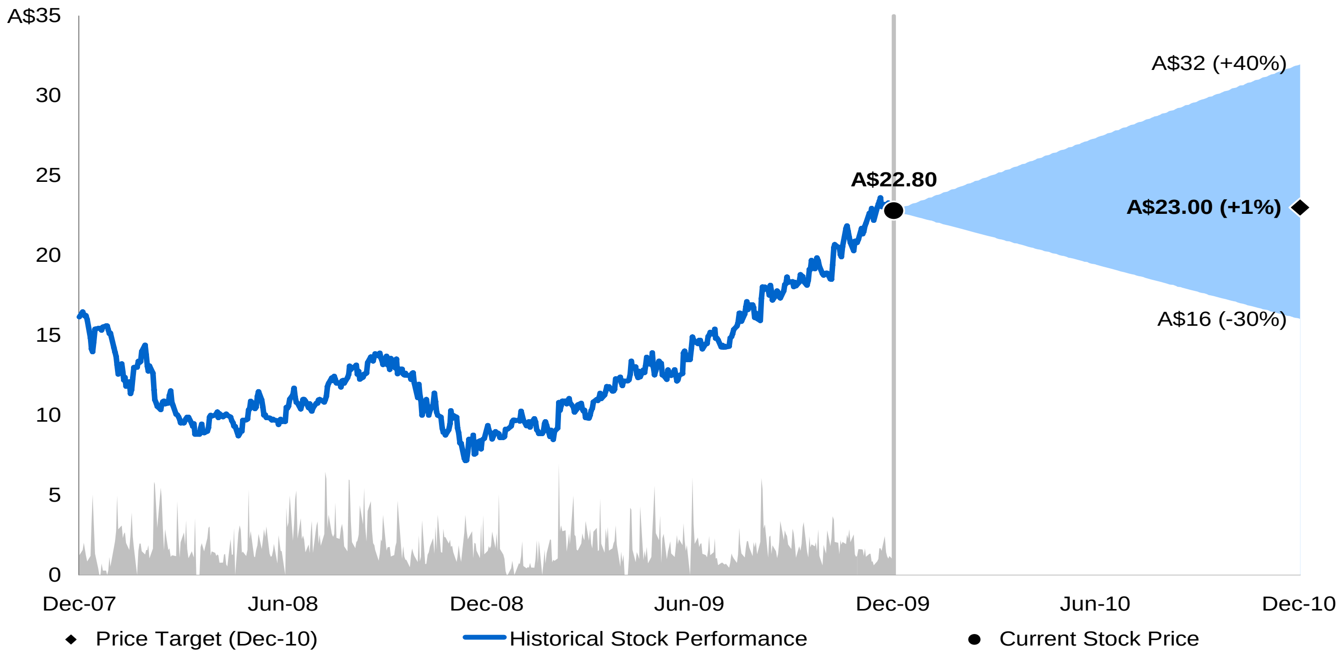
Our view

Key drivers: Faster-than-expected space growth, via new store roll-outs, is a critical driver of our bull case. Additional new stores also contribute to like-for-like (LFL) sales growth via the natural store maturation process. Stronger-than-expected consumer spending is a further key contributor to our bull case.

Market view

The consensus has an A$21.50 price target but is overlooking three key positives, in our view: 1) "in-built" LFL growth via store maturation; 2) sales resilience associated with store locations skewed to shopping centres, and 3) industry consolidation whereby weaker players are closing stores.

Competitive advantage provides cycle immunity



Risk-reward scenarios

OW, PT A$23.00

A$16.00
Bear Case
14x Base Case 10e EPS

Consumer spending contracts; only five new stores are opened p.a. in F2010-11. LFL sales fall 5% in F2010 as gross margins are crunched.

A$23.00
Base Case
20x Base Case 10e EPS

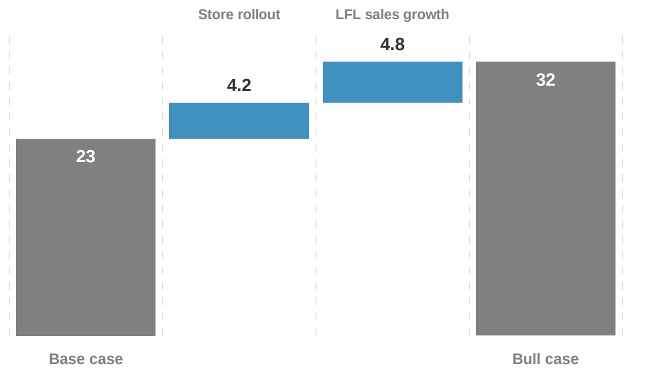
JBH betters F2010 sales guidance, achieving ~23% growth in F2010 as it opens 22 new stores per guidance and expands its EBIT margins by 31bps.

A$32.00
Bull Case
28x Base Case 10e EPS

JBH branded stores reach 210 early; LFL sales growth exceeds expectations. JBH opens 22 new stores p.a. to achieve guidance of 210 JB Hi-Fi stores. 15% LFL sales growth in F2010.

From Base to Bull (or Bear) Case

Exhibit 1
Store rollout helps fuel LFL sales growth



Source: Morgan Stanley Research, FactSet

Our bull case assumes ~70% space growth over the next five years (base case 55%) as 15 stores p.a. are opened in F2011-F2014 (base case 11 stores p.a.). Three main factors could drive this higher level of new store openings:

- Industry consolidation is continuing, and weaker players are closing stores. This could lead to better site availability for JBH;
- JBH is a tenant that landlords want to get into sites, and
- The JB Hi-Fi format has proven itself to be adaptable by being successful in both high-street and mall locations. This means a greater number of sites could be suitable for JBH.

We estimate that immature stores, on average, should achieve LFL sales growth approximately 850bps stronger than that of mature stores. Obviously, having a high proportion of new (immature) stores in the total store portfolio would provide a material boost to overall LFL sales growth. Along with better-than-expected consumer spending, our bull case assumes 15% LFL sales growth in F2010 (base case 8%).

Morgan Stanley

China Strategy

Inflation shock the key negative surprise to remove Goldilocks

Morgan Stanley Asia Limited+

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Our view

Growth, inflation and policy will jointly drive equity prices in 2010. The key debate is how these three drivers will interact with each other, and what will be net result be. We think 2010 growth will be high, inflation will be mild and policy exit will be moderate (ie, interest rates will not be hiked until 2H10). For equities, this means a temporary Goldilocks bullish condition before inflation eventually bites (probably in 2011). Rerating will be associated with earnings estimate upgrades and push the market to overstretched levels in 2010, until it peaks in expectation of inflation, in our view. In short, we think 2010 will be a year of Goldilocks followed by overheating, and that 2011 will be a year of inflation and rebalancing, ie, the market will peak in 2010

Market view

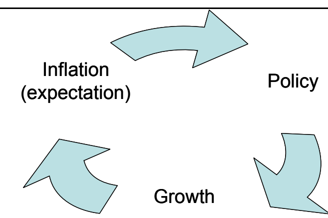
There is strong consensus on China's robust growth in 2010, but little agreement on the subjects of inflation outlook and interest rates (and policy exit in general). Indeed, other than pricing in high growth, we think the market is pricing in a high level of uncertainty in the other two major outstanding issues (policy exit and inflation timing) rather than taking a view on them. This is why analyzing the potential surprises relating to these two issues is very important at this time of great uncertainty.

Consensus is missing two facts regarding policy exit and inflation in China: China's stimulus came in physical asset building form, with many infrastructure projects having construction periods of several years, rather than being simply monetary. This means policy exit in 2010 will be quite moderate because aggressive tightening would leave some infrastructure projects under-funded and unfinished, thus creating large NPLs on banks' balance sheet – a likely unwelcome outcome for the government. Also, China's domestic grain price is more than 80% higher than in the international market, which gives China an "inflation buffer" as food accounts for the majority of its CPI. These two facts support our Goldilocks scenario – high growth and low inflation in 2010.

Whatever is in the share price cannot move the share price: In other words, any information that the stock market has good visibility on and / or strong consensus on does not move the stock market in the future. Equities move on expectations and it is always what moves the expectations, i.e., the surprises to the consensus view, or the developments in the uncertainty, that move the stock markets. While we have confidence in our difference from the consensus view, it is also important to highlight what could logically develop to surprise the consensus and even ourselves, to move the market beyond our current expectations. We start with a potential surprise for 2010:

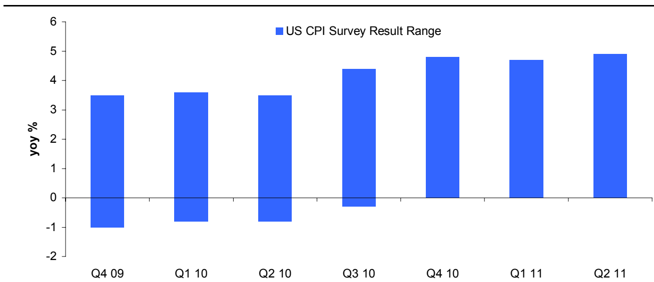
The downside surprise – an inflation shock: Our base case is built on the assumption that inflation will remain moderate in 2010 (our economist expects 2.5% inflation in 2010). This is a very important assumption because if inflation surprises, so will everything else (policy and growth). In fact, we think inflation is the most important macro call for 2010.

Exhibit 1
Three equities drivers interact



Source: Morgan Stanley Research

Exhibit 2
Diversified 'consensus' on inflation



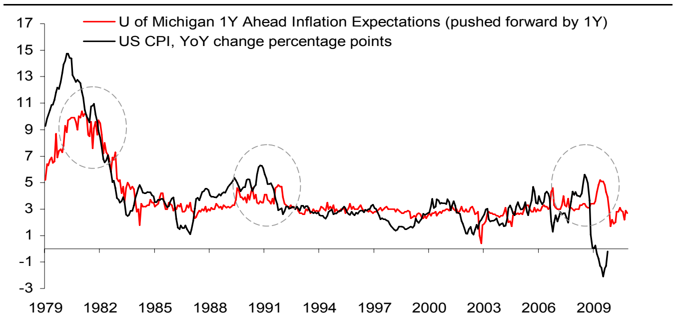
Source: Bloomberg, Morgan Stanley Research

There are three reasons, we think, that inflation could shock. First of all, there is simply very little consensus regarding the inflation outlook, globally – that, by itself, tells us that this is a key source of uncertainty and the stock market will move as the uncertainties settle. The bullish view is that inflation will not be a worry until 2011 or later, and the bearish view is that the world central banks will have to deal with it very soon in 2010.

Second, past experience (Exhibit 3) tells us inflation forecasts are rarely useful to predict high inflation. In other words, high inflation has often come earlier than expectations.

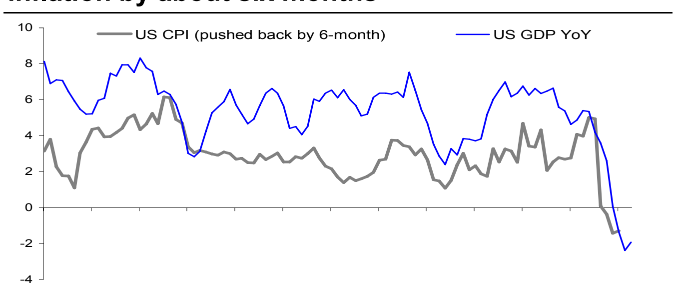
Finally, a global growth shock, if any, is likely to be followed by an inflation shock. Money growth is, so far, trapped in high asset prices, but the end of recession should change that. The G4 money base has grown 62% and China's M2 has grown 29% YoY in 2009. So far, such money supply is reflected in high asset prices, not high inflation. The reason? Recession. Demand has been so weak globally this year, that it does not translate high asset prices, mainly a result of low cost of capital, into inflation in the mainstream economy. History shows that as demand starts to pick up, so does inflation. Our China economist Qing Wang also believes that a strong G3 recovery will "likely result in higher GDP growth and stronger inflationary pressures" (for details see Qing's report, *Five Potential Surprises for 2010,* published December 8, 2009). We would view such a scenario as highly negative for the pricing of China equities.

Exhibit 3
US CPI inflation: Reality shocks expectations



Source: CEIC, Bloomberg, Morgan Stanley Research

Exhibit 4
US example: GDP growth leads consumer price inflation by about six months



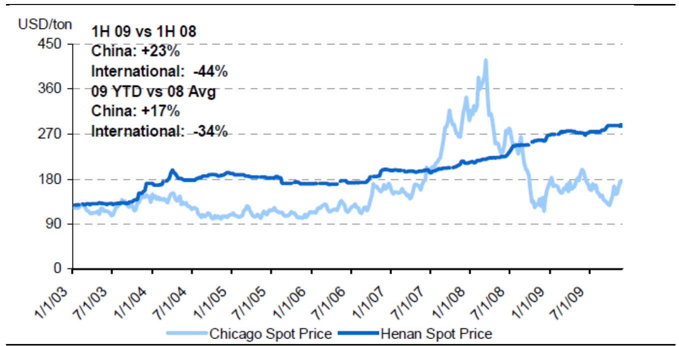
Source: CEIC, Factset, Morgan Stanley Research

Inflation shock implications – premature tightening and double dip: We believe regulators would have to tighten aggressively if inflation does indeed shock in 2010. This scenario would have a few highly unfavorable results in the economy and the stock markets. 1) Premature tightening would raise the cost of capital and directly impact risky asset prices, such as stocks and properties. 2) Many of the government's infrastructure and other public projects could run short of funding for completion; fixed asset investment growth would fall sharply. 3) Banks would enter a credit down cycle and see NPLs rise sharply. 4) In the early stage of tightening, energy and commodities prices would not be falling, so enterprise margins would be doubly squeezed by high input costs and high financing costs.

The good news is that China will probably be lagging global inflation rather than leading it, because of its high food prices.

Estimating the downside in such a surprise case: Although this inflation shock scenario sounds quite unlikely today, we try to calculate the worst-case downside in the stock market. On our calculations, if premature tightening leads to a double dip, the 2010 MSCI China EPS could decline by 7.4% (versus growth consensus of 21.1%), and the FY1 PE could fall below the long-term average minus one standard deviation, which is 9.8x (versus 17.2x now). These two downward forces could push the MSCI China down to 34.7, 47% below the current level.

Exhibit 5
China's high food prices might be a good buffer to inflation shocks – wheat example



Source: Bloomberg, CEIC, Morgan Stanley Research

Conclusions: 1) A weak global economy is most favorable for China's equity pricing, because it means low cost of capital and low inflation (our base case view). 2) Chinese equities will fall, even if growth shocks on the upside, if inflation becomes visible. 3) The extent of a peak in Chinese equities is largely dependant on global inflation and global growth in 2010 (changes to cost of capital and risk appetite), given that China's domestic growth looks buoyant.

China Airlines

Renminbi appreciation and fuel cost correction could surprise the market

Morgan Stanley Asia Limited+

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Our view

Renminbi appreciation and jet fuel cost correction would surprise the market: We think faster-than-expected renminbi appreciation could surprise the market and introduce upside risk to China's airline industry. This is because Chinese airlines would pay less for financial and fuel costs if the renminbi appreciated. Assuming renminbi appreciation of 10% in 2010, CSA, CEA and Air China would book increases in foreign exchange gains of 85%, 91% and 95%, respectively.
For crude oil prices, a correction from US$85/bbl to US$65/bbl would boost CSA, CEA and Air China net profits by 243%, 272% and 90% in 2010, respectively (Exhibit 3).

Market view

Renminbi appreciation of 5% and crude oil at US$85/bbl: The market consensus believes the current renminbi exchange rate arrangement will be unchanged, at least through to mid-2010, and any subsequent renminbi appreciation against the US dollar is expected to be modest and gradual. For full-year 2010, the renminbi is forecast by consensus to appreciate by 5%.
For crude oil prices, the market consensus is an assumption of US$85/bbl for 2010. This estimate implies a 42% jet fuel price increase versus 2009.

Surprise 1 – Faster-than-expected renminbi appreciation: Of the three Chinese airline operators, CSA is the most sensitive to renminbi appreciation in terms of earnings, followed by CEA and Air China. Our sensitivity analysis below suggests that if the renminbi appreciates by 10% in 2010, rather than 5% as the market expects, net income for the three airlines would rise by 31%-109% (Exhibit 1). If the renminbi appreciates 15%, the positive impact would rise to 60%-203% (Exhibit 2).

Exhibit 1

Sensitivity test: 10% Rmb appreciation in 2010E

	Market 2010E (Rmb ↑5%)		**Surprise 2010E (Rmb ↑10%)**	
	FX Gain	Net Earnings	FX Gain	Net Earnings
CSA	2,030	1,262	3,762	2,637
CEA	1,286	1,516	2,455	2,711
Air China	1,411	3,341	2,749	4,381

	Absolute Change		Percentage Change	
	FX Gain	Net Earnings	FX Gain	Net Earnings
CSA	1,732	1,375	85%	109%
CEA	1,169	1,196	91%	79%
Air China	1,338	1,040	95%	31%

Source: Company data, Morgan Stanley Research (E) estimates

Exhibit 2

Sensitivity test: 15% Rmb appreciation in 2010E

	Market 2010E (Rmb ↑5%)		**Surprise 2010E (Rmb ↑15%)**	
	FX Gain	Net Earnings	FX Gain	Net Earnings
CSA	2,030	1,262	5,258	3,824
CEA	1,286	1,516	3,522	3,803
Air China	1,411	3,341	3,970	5,331

	Absolute Change		Percentage Change	
	FX Gain	Net Earnings	FX Gain	Net Earnings
CSA	3,227	2,563	159%	203%
CEA	2,236	2,288	174%	151%
Air China	2,559	1,990	181%	60%

Source: Company data, Morgan Stanley Research (E) estimates

Surprise 2 – Lower fuel cost: Although the market consensus expects the crude oil price to be US$85/barrel in 2010, a price correction would produce a positive earnings impact on the airlines. Based on our sensitivity analysis, if the crude oil price declines to US$65/barrel in 2010, CSA, CEA and Air China would enjoy a 90%-272% earnings increase. If the oil price further declined to US$55/barrel, earnings would rise by 136%-408%, all else being equal.

Exhibit 3
Sensitivity test: Crude oil price at US$65/b in 2010E

	Market 2010E (Crude Oil at US$85/b)	Surprise 2010E (Crude Oil at US$65/b)
	Net Earnings	Net Earnings
CSA	1,262	4,325
CEA	1,516	5,642
Air China	3,341	6,360

	Absolute Change	Percentage Change
	Net Earnings	Net Earnings
CSA	3,063	243%
CEA	4,126	272%
Air China	3,019	90%

Source: Company data, Morgan Stanley Research (E) estimates

Exhibit 4
Sensitivity test: Crude oil price at US$55/b in 2010E

	Market 2010E (Crude Oil at US$85/b)	Surprise 2010E (Crude Oil at US$55/b)
	Net Earnings	Net Earnings
CSA	1,262	5,857
CEA	1,516	7,705
Air China	3,341	7,870

	Absolute Change	Percentage Change
	Net Earnings	Net Earnings
CSA	4,595	364%
CEA	6,190	408%
Air China	4,529	136%

Source: Company data, Morgan Stanley Research (E) estimates

Surprise 3 – Rising ticket prices: The market is looking for 10-12% volume growth in 2010 following a global economic recovery and sustainable demand growth in China. However, if traffic growth were faster than expected, ticket prices could see upside risk in 2010. In our model, we assume 9-12% ticket price/yield rises in 2010. If the ticket price/yield increased by 1%, net profit would increase by 119%, 61% and 13% for CSA, CEA and Air China, respectively, which would be a positive surprise to the airline industry.

Surprise 4 – Less diversion from high-speed railway: China is building its high-speed railway network aggressively. By end-2009, the first high-speed railway from Wuhan to Guangzhou will start operation. With a speed of 350km/h, it will take only 3 hours from Wuhan to Guangzhou, versus over 12 hours before. In light of the significant speed upgrade, most analysts worry that high-speed rail will significantly divert passenger traffic from airlines, especially on domestic routes. However, if the Wuhan-Guangzhou high-speed railway does not dilute airline traffic significantly, it would be a positive surprise to the market and possibly a catalyst to re-rate the airline industry.

Despite the possibility of a re-rating, we continue to believe that high-speed rail is a long-term fundamental threat to China's airline industry. With the ongoing network expansion and service upgrades, high-speed rail could become increasingly competitive to airlines in terms of convenience, comfort and affordability.

Surprise 5 – Valuations re-rate: Chinese airline stocks are currently trading at a 2010E P/B of 3.0x on average, which is above the historical mean of 1.6x. However, if risk appetite continues to favor airlines following a traffic recovery, the entire sector's valuation multiple could be further re-rated in 2010, which would be another surprise.

China Airlines

China Southern Airlines: Oil price stays below US$85/bbl in 2010E, boosting CSA's earnings

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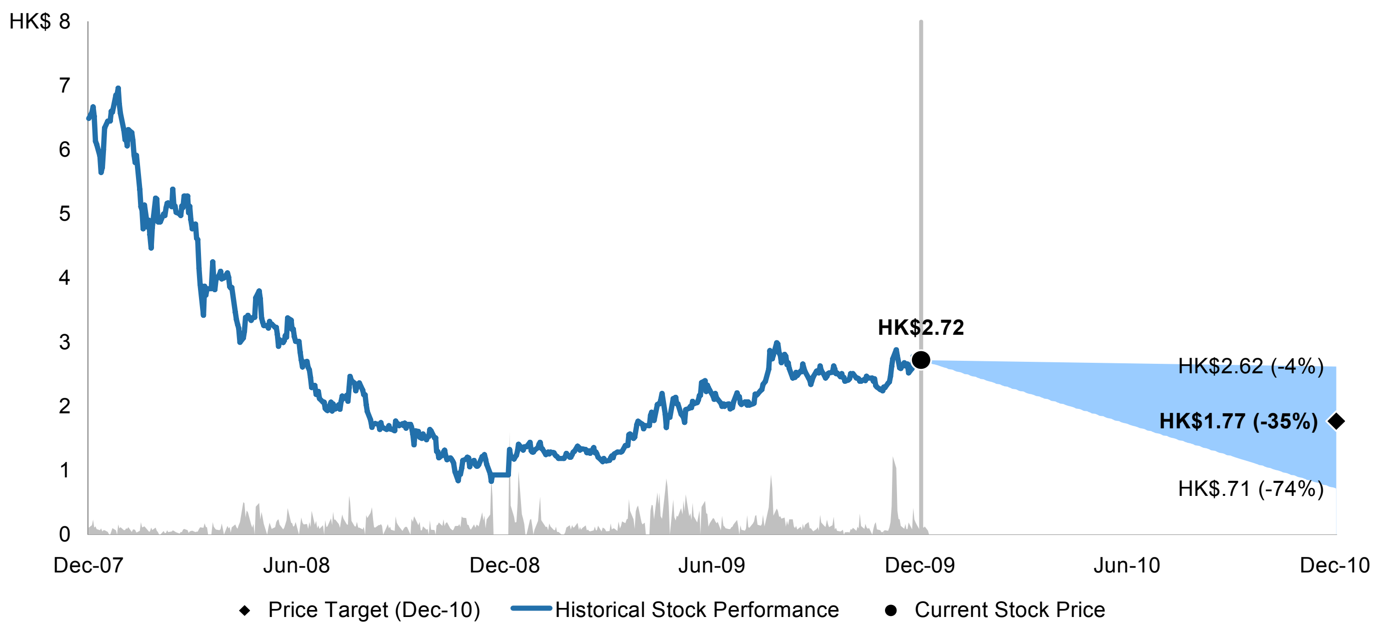
Our view

Upside surprise if crude oil prices decrease significantly: If the crude oil price corrected from current levels to below US$85 in 2010, this would be a positive surprise for CSA's earnings, as the company is the largest beneficiary of lower jet fuel cost. Our sensitivity analysis implies that CSA's net profit would increase by 938% and 1,407% if the average crude oil price stood at US$65/bbl and US$55/bbl, respectively.

Market view

Crude oil price assumption at US$85/bbl in 2010: The market expects the average crude oil price to be US$85/bbl in 2010, which would be 42% higher than that in 2009. CSA, the only Chinese airline that does not hedge against oil price fluctuations, faces the most cost pressure under a rising jet fuel cost scenario.

Risk-reward profile skewed to the downside



Risk-reward scenarios

UW, PT HK$1.77

HK$0.71
Bear Case
0.9x Bear Case 10e P/B

Lower traffic demand: RPK 3% below base case estimate; **3% lower pax yield** led by ongoing global recession; and **3% depreciation in Rmb** versus the US dollar.

HK$1.11
Base Case
0.9x Base Case 10e P/B

Jet fuel at US$70-110/bbl for international pricing and Rmb4,600-6,796/ton for domestic pricing; 2010-11 volume growth for RPK of 11.7-10.9% and 8.0-9.4% for RFTK; and yield growth at 2.0-11.7% for passengers and 3.9-13.0% for cargo.

HK$2.62
Bull Case
0.9x Bull Case 10e P/B

Macroeconomic recovery stimulates overall demand for air traffic and boosts valuation (+15% RPK and +15% pax yield); 3% appreciation in Rmb vs. the US dollar; and sharp correction in the crude oil price to US$65/bbl.

Surprise 1 – Crude oil price correction: Although the market consensus expects the crude oil price to be US$85/bbl in 2010, a price correction would likely produce a positive earnings impact for CSA. Based on our sensitivity analysis, if the crude oil price declines to US$65/bbl and US$55/bbl in 2010, CSA's net profit would increase by 938% and 1,407%, respectively.

CSA's sensitivity test: Crude oil price corrections

	2010E earnings	Absolute Chg	Percentage Chg
Base case (US$85/b)	**327**		
Crude oil at US$65/b	3,390	3,063	938%
Crude oil at US$55/b	4,922	4,595	1407%

Source: Company data, Morgan Stanley Research

Surprise 2 – Margin recovery in 2010: Based on our estimate, CSA's EBITDA margin will drop slightly from 15.7% in 2009 to 15.0% in 2010 due to rising fuel costs and less stringent expense management. However, if the company successfully improved operational efficiency with greater cost synergies, margins might enjoy recovery in 2010. If the EBITDA margin improved by 1 ppt, net profit would rise 140%, all else equal.

Surprise 3 – Less traffic diverted to Wuguang high-speed railway: By end-2009, the first high-speed railway from Wuhan to Guangzhou will start operations. The market expects the launch of the high-speed railway to dilute CSA's passenger traffic as its headquarters is located in Guangzhou. However, if the operation of Wuhan-Guangzhou high-speed railway does not dilute the airline's traffic significantly, it could be a positive surprise for CSA.

Other industry positives to watch for: 1) Renminbi appreciation; 2) valuation re-rating; and 3) rising ticket prices (refer to our China Airlines industry surprises section for more detail).

China Autos and Auto Parts

Best is behind us, limited upside

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Our view

Margins are peaking in 2H09 and will decline in 2010: We believe industry profitability in 2H09 was the highest in the past five years. We do not expect industry margins to be maintained in 2010, when we expect more car brands to face downward price pressure because of a demand slowdown and a 26% YoY increase in supply, based on aggregate production plans, as well as sequentially rising raw material prices.

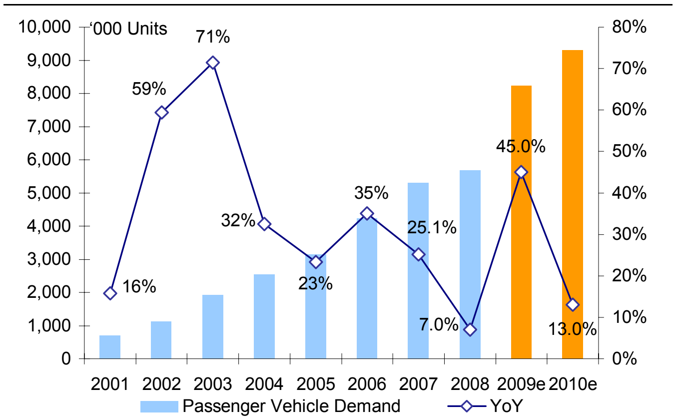
Market view

Margin improvement because of tight capacity and stable pricing: The market view is that industry margins should rise further in 2010 as demand will keep growing, prices will stay stable because of capacity constraints, and costs will be well controlled.

Passenger Vehicle Demand Growth Slowdown

We expect China's passenger vehicle demand growth to slow from 45% in 2009 (8.24mn units) to 13% in 2010 (9.31mn units). After a big sales surge in 2009 – reflecting the favorable policy drive, demand pickup from inner China, and a low base in 2008 – we expect normalization in 2010.

China: Passenger vehicle demand outlook



e = Morgan Stanley Research estimates.
Source: Company data, Morgan Stanley Research

OEMs' Aggressive 2010 Plans Driving Down Utilization

Buoyed by the demand jump in 2009, OEMs – especially the local brands – have become aggressive in setting 2010 production (sales) targets. The aggregate industry production (sales) target of 26% YoY growth is significantly ahead of our 13% YoY estimate. We expect the industry utilization rate to fall from 82.3% in 2009 to 77.5% in 2010, which impairs both industry pricing and margins, in our view.

Exhibit 1

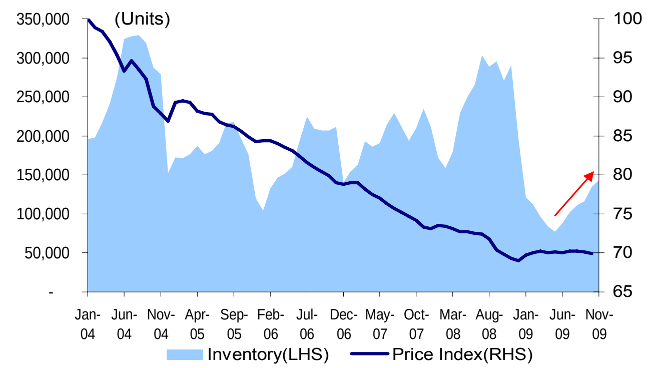
Key OEMs' 2010 production plans in China

(Units '000)	2009 Target	2009 Estimate	Achieve Rate	2010 Target	YoY
Shanghai GM	470	690	147%	850	23%
Shanghai VW	495	710	143%	850	20%
FAW VW	515	680	132%	800	18%
Beijing Hyundai	360	570	158%	670	18%
DF Nissan	388	520	134%	600	15%
FAW Toyota	380	410	108%	480	17%
Guangzhou Honda	340	360	106%	390	8%
Chang'an Ford Mazda	220	310	141%	350	13%
DF Yueda Kia	185	230	124%	330	43%
DF PSA Citroen	210	266	127%	330	24%
Guangzhou Toyota	189	210	111%	260	24%
DF Honda	180	210	117%	240	14%
Chang'an Suzuki	70	150	215%	170	13%
FAW Car (Mazda)	90	90	100%	110	22%
Changhe Suzuki	108	80	74%	80	0%
SAIC-GM Wuling	45	65	144%	70	8%
Brilliance BMW	40	46	115%	52	13%
Zhengzhou Nissan	19	17	89%	23	35%
BBDC	35	17	49%	20	18%
Daihatsu	5	6	110%	10	82%
Global Brand Subtotal	**4,343**	**5,637**	**130%**	**6,685**	**19%**
Chery	420	460	110%	650	41%
BYD	400	430	108%	650	51%
Geely	250	310	124%	400	29%
JAC PV	105	130	123%	300	131%
Great Wall	78	125	160%	230	84%
Tianjin Xiali	170	215	126%	220	2%
Shanghai Auto	40	90	225%	180	100%
Brilliance PV	97	130	134%	160	23%
ChangAn PV	59	100	171%	150	50%
FAW Car (Besturn)	62	85	137%	100	18%
South east	88	72	82%	100	39%
Haima	70	77	110%	81	5%
Zotye	85	60	71%	80	33%
DF Fengshen	15	17	113%	60	253%
Lifan	20	42	210%	55	31%
Youngman	50	20	40%	50	150%
Huatai	21	50	238%	40	-20%
ChangFeng	31	31	100%	33	6%
Hafei Group	42	35	83%	28	-20%
DF Future	30	23	77%	25	9%
Local Brand Subtotal	**2,309**	**2,668**	**116%**	**3,759**	**41%**
Total	**6,652**	**8,305**	**125%**	**10,444**	**26%**

Source: Company data, Morgan Stanley Research

Rising Pressure from Inventory Build-up
We highlight the growing risk of downward pressure on pricing in 2010. Industry-wide inventory should start to rise sequentially as most OEMs are raising their production plans. We have already observed a sequential rise from the trough level of 77,000 units in May 2009 to 143,000 units in November 2009. After nine months of stabilizing pricing in a healthy supply/demand environment, the Chinese passenger vehicle price index started to trend down in November – off 0.3ppt MoM.

Exhibit 2
China PV industry inventory vs. pricing trend



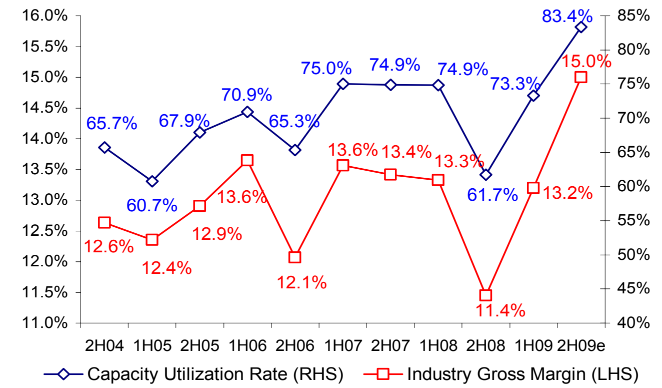
Source: Company data, Morgan Stanley Research

Tougher Competition in a Fragmented Market
We believe continuous pricing deflation is a structural problem for the Chinese car industry. We cite its fragmented market landscape, a result of local government protection (the goals being local tax income and GDP growth). Meanwhile, a large number of local brands are expanding capacity aggressively and also focusing on moving up their product mix by launching mid-size, but low-priced cars (BYD G3/L3, Brilliance A3, Chang'an Zhixiang HB, Dongfeng H30, Changfeng CP21, Besturn B30, Great wall CH041 and MG6). We expect this to intensify market share competition in the 1.6L segment and trigger price competition.

2H09 Profitability a Five-Year High
We estimate industry profitability peaked in 2H09 and will start to move down in 2010. We expect industry pricing to deteriorate, reflecting aggressive production plans in the face of a demand slowdown. Also, we expect costs to rise.

We estimate that industry gross margins will reach 15.0% in 2H09, 1.7ppt above the five-year average of 13.3%, thanks to strong volume growth, which drives up utilization rates and pricing levels. Given the sharp increase in demand growth in 2H09 (up 74% YoY), we expect the industry utilization rate to jump from 61.7% in 2H08 to 83.4% in 2H09, thus pushing up industry gross margins by 3.6ppt from 11.4% to 15.0%.

Exhibit 3
Historical trend: Utilization rate and profit margin

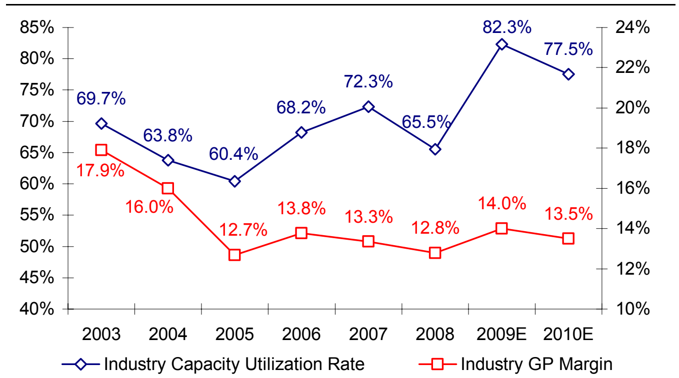


Source: Wind, Morgan Stanley Research

Lower Margin Outlook from Declining Capacity Utilization
Looking to 2010, we expect industry margins to face downward pressure with lower utilization rates, which means tough competition. Declines in profitability in 2004, 2005, and 2008 all stemmed from lower capacity utilization rates – we expect a similar trend in 2010. Given our forecast of slower demand growth, we project the capacity utilization rate will move from 82.3% to 77.5% in 2010, hurting the industry margin outlook.

We Look for Costs to Move Against Margins in 2010 Too
We expect the sequential upward trend in raw material prices will also hurt industry margins in 2010. After a 24.2% YoY drop in 2009, our basic materials team estimates that Chinese steel prices will rise continuously YoY in 2010-12.

Exhibit 4
China auto industry margin trending down in 2010



E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

China Banks

Capital replenishment in 2010 – market seems overly worried

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Our view

The main debate surrounding the China Banks sector is whether the banks will come under pressure to raise capital, and if so, would this have negative implications for the sector? We believe the banks will face such pressures as we expect loan growth to be in the high-teens in 2010, following ~30% in 2009, and the regulators are increasing their focus on the quality of capital. In contrast to the market, 1) we do not see this as a negative as the funds would be for long-term business growth, not repairing the balance sheet; 2) pressure would probably not be across the board, with ICBC and CCB the least likely to seek funds (Tier-1 of ~10% and ~9.5% by end-2010E); and 3) we think any equity raising would be spread among different markets and types of investors/shareholders.

Market view

There are concerns in the market that large state-owned banks will raise equity in 2010, potentially resulting in a substantial offering pipeline and equity dilution. This follows fund-raising announcements by several mid-sized banks. Banks' Tier-1 and CAR have declined in 2009 due to strong loan growth. Investors are worried that banks will need additional capital to maintain this loan growth momentum into 2010. Pressure from regulators for a higher level and greater quality of capital adds to the concerns.

Our top picks are ICBC (HK$6.52) and CCB (HK$6.97), based on their capital positions and generating ability (Exhibits 1-2). With the lowest Tier-1 among the Big Four banks, BoComm looks the most likely to seek equity funds, followed by BOC. Tier-1 for the industry declined in 2009 mainly due to the robust loan growth, which we think will be followed by loan growth in the high teens in 2010. We continue to see strong ROE in relation to RWA growth for ICBC and CCB (Exhibit 2), and believe that both banks could issue subordinated debt to enhance capital positions, before raising equity (Exhibit 3).

Capital plans by mid-sized banks point to Tier-1 of 7% and CAR of 10% as the new capital thresholds: The CBRC sent a strong message to the sector in 2H09 about the quality of capital. Several mid-sized banks have formed medium- to long-term plans to increase their capital positions to allow a buffer above the normal comfort level in view of their growth prospects (Exhibit 4). Banks can issue either equity or subordinated debt to increase CAR. However, applying the new cap on sub-debt of 25% (vs. 50% previously), BoComm is running out of sub-debt capacity, in addition to potentially having the lowest 2010E tier 1 among Hong Kong-listed peers (Exhibits 5-6).

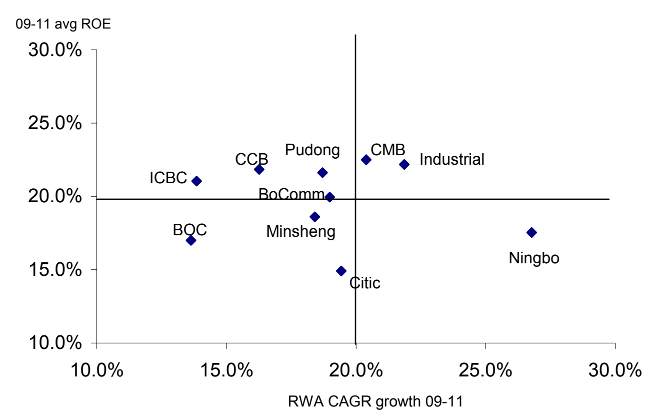
Equity issuance – it's for growth: The capital pressure is not an indication that 1) banks' capital positions have fallen below regulatory requirements or 2) banks need to repair their balance sheets. There is pressure but there is no panic. Over 2006-09, the 10 Chinese banks under our coverage increased total assets by ~21% CAGR and net profit by ~34% CAGR.

Exhibit 1
China banks: Movement of tier-1

	2009 Tier-1	2010E Tier-1	Diff
ICBC	10.0%	10.1%	5 bps
CCB	9.7%	9.5%	-20 bps
BOC	9.3%	9.1%	-24 bps
BoComm	**8.1%**	**7.9%**	**-16 bps**
CMB	6.6% (8.4%)	6.7% (8.5%)	14 bps
Citic	8.8%	8.3%	-44 bps
Minsheng	5.8%(8.3%)	5.6% (8.1%)	-20 bps
Pudong	6.7%	6.8%	10 bps
Industrial	7.9%	7.3%	-54 bps
Ningbo	10.1%	8.9%	-114 bps

Note: The () # is the Pro-Forma Tier-1 after CMB's rights issue and Minsheng's H-share offering Source: Company data, E = Morgan Stanley Research Estimates

Exhibit 2
China banks: ROE vs. RWA, 2009-11E



Source: Company data, E = Morgan Stanley Research Estimates

Exhibit 3
ICBC and CCB: Incremental CAR from sub-debt capacity

(%)	09E CAR	Pro-forma CAR with sub-debt capacity added	Incremental CAR
ICBC	12.89	14.26	1.37
CCB	11.56	12.89	1.33

Source: Company data, E = Morgan Stanley Research Estimates

Exhibit 4
China banks: Medium/long-term capital plans

	Target Tier-1	Target CAR	Date of Announcement
Pudong	>=7%	>=10%	18-Sep-09
Industrial	>=8%	>=12%	23-Nov-09
Ningbo	>=9%	>=12%	13-Oct-09

Source: Company data, Morgan Stanley Research

Exhibit 5
China banks: Pro-forma CAR (with sub-debt to the 25% tier-1 ceiling level)

	2009 Tier-1	Max Sub-Debt Level	Tier-2 Debt outstanding	Sub-Debt Capacity	09E CAR	09E Pro-Forma CAR*	09E Pro-Forma CAR (Add sub-debt capacity)
ICBC	618,660	154,665	**75,000**	**79,665**	12.9%	12.9%	**14.3%**
CCB	519,595	129,899	**60,000**	**69,899**	11.6%	11.6%	**12.9%**
BOC Group	529,303	132,326	**73,930**	**58,396**	11.5%	11.5%	**12.5%**
BoComm	148,820	37,205	**50,000**	**0**	12.0%	12.0%	**12.0%**
CMB	77,610	24,402	**27,233**	**0**	10.1%	11.9%	**11.9%**
Citic	99,938	24,984	**12,000**	**12,984**	10.4%	10.4%	**11.6%**
Pudong	63,825	15,956	**18,800**	**0**	9.7%	9.7%	**9.7%**
Minsheng	60,895	20,974	**16,552**	**4,422**	8.3%	10.9%	**11.4%**
Industrial	57,590	14,398	**14,000**	**398**	10.4%	10.4%	**10.5%**
Ningbo	9,762	3,691	**0**	**3,691**	11.0%	15.8%	**19.6%**

Note: The pro-forma CAR includes 1) Rights issue for CMB 2) CIFH acquisition for Citic 3) H-share offering for Minsheng 4) Private placement for Ningbo.
Source: Company data, E = Morgan Stanley Research Estimates

Exhibit 6
China banks: Loan growth and tier-1

	2010E Loan Growth	2009E Tier-1	2010E Tier-1	Diff	Due to dividend (bps)
ICBC	14.4%	10.0%	10.1%	5 bps	-93
CCB	17.6%	9.7%	9.5%	-20 bps	-83
BOC	15.9%	9.3%	9.1%	-24 bps	-59
BoComm	20.8%	8.1%	7.9%	-16 bps	-45
CMB	23.4%	6.6% (8.4%)	6.7% (8.5%)	14 bps	-33
Citic	18.7%	8.8%	8.3%	-44 bps	-26
Minsheng	22.5%	5.8% (8.3%)	5.6% (8.1%)	-20 bps	-11
Pudong	23.7%	6.7%	6.8%	10 bps	-17
Industrial	26.0%	7.9%	7.3%	-54 bps	-26
Ningbo	29.3%	10.1%	8.9%	-114 bps	-44

Source: Company data, E = Morgan Stanley Research Estimates

China Building Materials

Restructuring theme re-emerging

Morgan Stanley Asia Limited+

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Our view

Cement offers significant restructuring potential. With China's economy growing strongly again, we see the government refocusing on its ambitious efforts to restructure energy-intensive/highly polluting industries. Within the Materials sector, the Cement industry offers the most favorable restructuring potential in the next five years, we believe, with possible increases of 200-300% in profit/ton. Valuations look attractive on near-term earnings and downright inexpensive based on 2015 estimates.

Market view

The consensus fears that over-supply due to excessive new capacity may limit pricing and profits. In focusing on near-term drivers of China Cement stocks, however, investors are ignoring the potential for higher pricing and profitability that consolidation should bring.

Key surprise to come from effective industry restructuring. The Chinese government has issued draft guidelines aimed at curbing new capacity growth, accelerating the closure of obsolete capacity, and spurring consolidation in the Cement industry. The government is determined to build a long-term supply/demand balance in the industry, we believe. Based on the State Council's target, we forecast that production capacity by vertical kilns will be fully closed down by 2015 (~100mn tons p.a.).

Consolidation to drive pricing/ profits. China's cement market is one of the world's most fragmented and lowest-priced. With the VK closures, however, we foresee consolidation increasing and the top four players holding at least 30% market share by 2015e, up from 19% today. M&A should provide a further boost. We find a clear linkage to higher cement pricing/profits from increased consolidation.

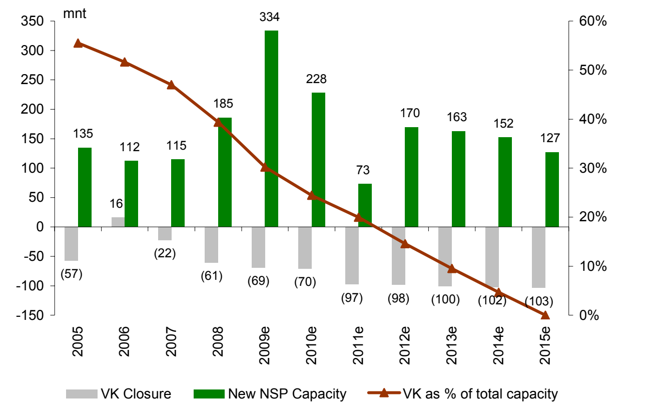
Pricing and profit potential. Looking at cement prices around the globe, we observe that the key driver of high prices and profits is industry consolidation, rather than demand growth, as seen in many other commodity industries. Cement is a bulk low-value product that has an economic radius of about 200km by truck, making consolidation a key driver of pricing and profit trends. For example, the Thai cement market has not grown in more than 10 years and has massive overcapacity approaching 50%. Yet, because it has high consolidation from just two dominant players, this market has among the highest prices and profits in the region.

China is at the other end of the spectrum, with a selling price of just over $40/t and industry profitability of under $5/t. This presents investors with a huge opportunity if they believe – as we do – that the industry will see increased consolidation. We estimate that for every percentage point increase in industry consolidation, pricing and profits per ton rise by roughly $0.50.

As such, we forecast that Chinese national average cement prices will climb from $41/ton today to $53/ton (in 2008 dollar terms) in 2020. We suggest that our five- and ten-year views on consolidation, pricing and profits are conservative. We have not included any M&A activity in our 2015 forecast and just minor consolidation activity in our 2020 forecast.

Long-term valuations favor cement: Our call offers significant upside potential in both the short term and beyond our 12-month price targets. We find valuations attractive based on near-term earnings and inexpensive based on forecasts for 2015, when restructuring benefits should be more apparent. We forecast that industry profitability will more than double from current levels, with P/Es falling to just 5x on that basis. Within our China Cement coverage, we prefer CNBM (HK$16.80) for its higher expected margin expansion and CR Cement (HK$3.99), which is the largest producer in South China, one of our favorite markets in terms of the restructuring potential it offers. Both stocks trade at 8.5x our 2011e EPS, compared with the group average of 10x.

Exhibit 1
Vertical kilns dwindling from 40% in 2008



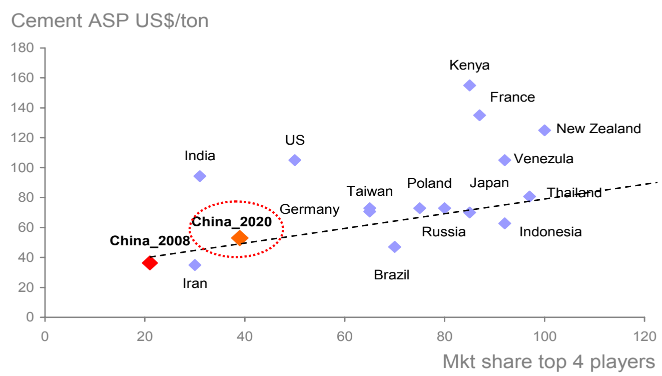
e = Morgan Stanley Research estimates   Source: Company data, Morgan Stanley Research

Exhibit 2
Market to consolidate after VKs are eliminated

	2008e	2015e	2020e
VK % of total	40%	0%	0%
Top 4 market share	19%	32%	40%

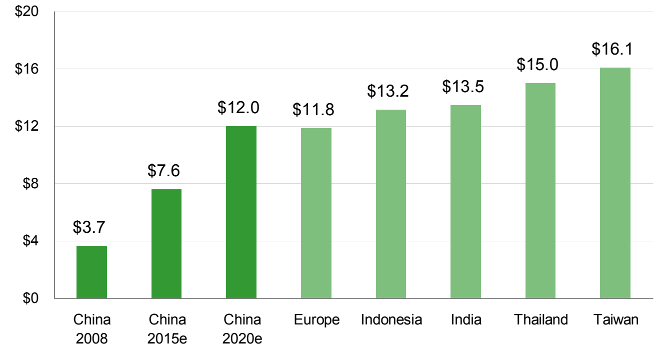
e = Morgan Stanley Research estimates
Source: Company data, Morgan Stanley Research

Exhibit 3
China cement:
Pricing to improve as supply growth moderates



Note: China price is ex-VAT.   Source: CEIC, company data, Morgan Stanley Research

Exhibit 4
China cement: NI/ton to roughly double in 2015, Still trailing other regions



Note: 2008 net income per ton for regions outside China.
e = Morgan Stanley Research estimates
Source: company data, Morgan Stanley (e) estimates

Exhibit 5
We prefer CNBM and CR Cement, which should benefit from margin expansion

China Cement Sector	**2011e**	**2015e**
China National Building Material Co	7.5	3.3
China Resources Cement Holdings	8.0	4.1
China Shanshui Cement Group	7.4	5.1
China National Materials (Sinoma)	9.2	7.0
Anhui Conch Cement Co. Ltd	11.7	7.2
Cement Average	**9.1**	**5.8**

e = Morgan Stanley Research estimates
Source: Company data, Morgan Stanley Research

China Building Materials

China Resources Cement: Key beneficiary of industry restructuring

Morgan Stanley Asia Limited+

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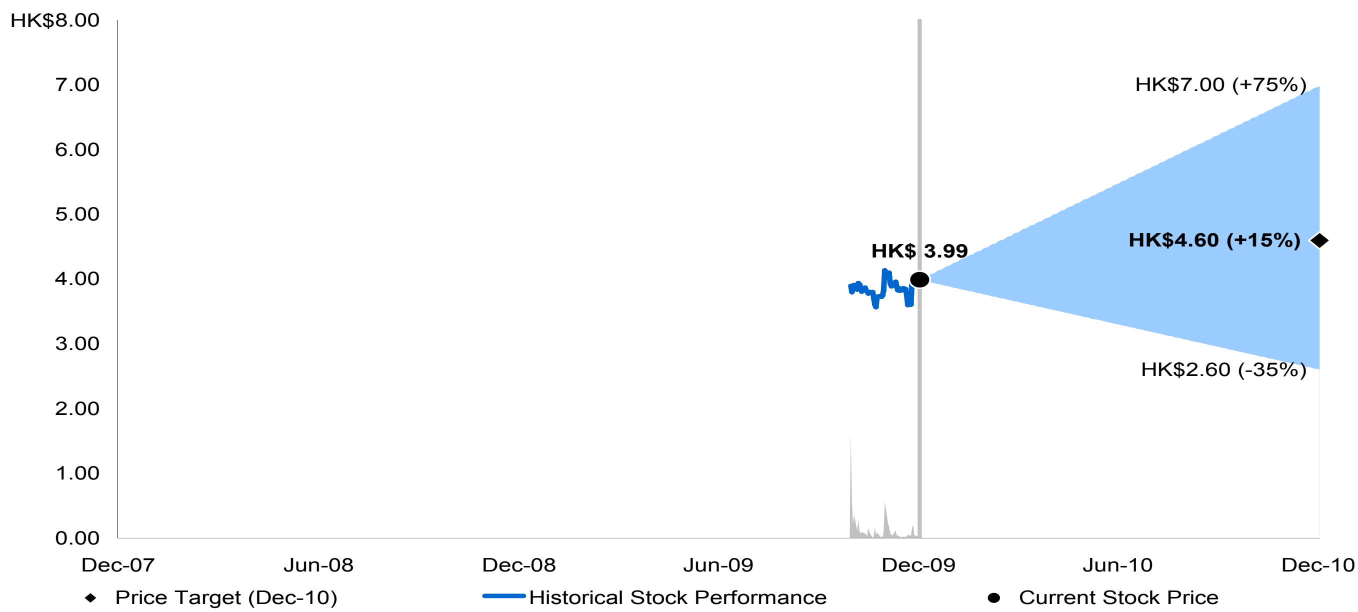
Our view

Cement offers significant restructuring potential. With China's economy growing strongly again, we see the government refocusing on its ambitious efforts to restructure energy-intensive/highly polluting industries. Within the Materials sector, the Cement industry offers the most favorable restructuring potential in the next five years, we believe, with possible increases of 200-300% in profit/ton. CR Cement is the leading player in South China, one of our favorite markets, since it has one of the highest regional percentages of vertical kilns (VK), enabling it to benefit as these are phased out.

Market view

Focused on the near term. The consensus fears that over-supply due to excessive new capacity may limit pricing and profits. In focusing on the near-term drivers of China cement stocks, however, investors are ignoring the potential for higher pricing and profitability that consolidation should bring.

Faster industry restructuring and potential M&A to drive upside



Risk-reward scenarios

OW, PT HK$4.60

HK$2.6
Bear Case
13.7x 2011 Bear EPS

Slower closure of VKs; expansion delayed: We assume all VKs are shut down by 2020 and the market remains fragmented; hence, CRC's ASP improves more modestly, from US$36/t in 2009 to US$45/t in 2020 as NI/t increases from US$5.5 to US$6.1. All organic expansion is delayed by one year due to poor execution or government policy.

HK$4.6
Base Case
11.5x 2011 Base EPS

Restructuring and expansion on track: We assume all VKs are shut down by 2015 and the market undergoes further consolidation. CRC's ASP rises from US$36/t in 2009 to US$48/t in 2010, and net income/ton increases from US$5.5 in 2009 to US$9.7 in 2020. All expansion remains on track, and the company reaches 44mt in cement capacity by end-2010.

HK$7.0
Bull Case
13.7x 2011 Bull EPS

Faster industry restructuring and potential M&A: All VKs are closed by 2012, and major players consolidate the market, allowing CRC's ASP to rise from US$36/t in 2009 to US$57/t in 2020 as NI/t increases from US$5.5 to US$11.6. CRC levers its balance sheet to net gearing of 50% to acquire 7-8mt of capacity. We see potential coal cost saving through joint procurement.

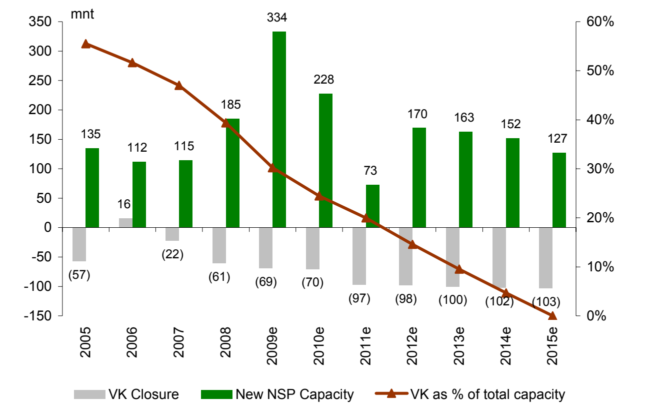
Key positive surprise to come from effective closure of vertical kilns: The Chinese government recently announced a broad restructuring across the Cement industry with the aims of curbing new capacity growth, accelerating the closure of obsolete capacity, and fostering consolidation in the industry. The government is determined to build a long-term supply/demand balance in the industry, we believe, and to de-emphasize production by highly polluting, energy-consuming VKs. Based on the State Council's target, we forecast that VK capacity will be fully closed down by 2015 (~100mn tons p.a.).

Faster VK closure and consolidation in South China to drive value: In South China, the National Development and Reform Commission has targeted the closure of 15mt in Guangdong and 5mt in Guangxi in 2009-10, leading us to forecast that VK capacity will shrink 13-15% during this period. South China has VK capacity of c85mt (end-2008), or 45% of the provinces' total capacity, higher than the national average of 39%.

China's cement market is one of the world's most fragmented and lowest-priced. With VK closures, however, we see consolidation increasing. Taiwan Cement recently acquired cement assets from Prosperity Minerals Holdings Ltd, enabling it to overtake Anhui Conch as the largest cement producer in Guangdong province, with total China cement and clinker capacity of 43mt by end-2010. Factoring this into our forecast, China's top 3 players should control 48% of the market in 2010, and we expect this number to increase to 71% by 2015. Looking at cement prices around the globe, we observe that the key driver of high prices and profits is industry consolidation.

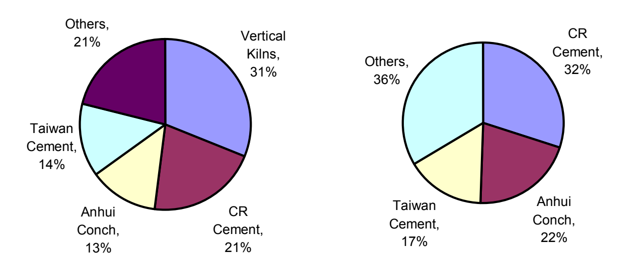
As such, we forecast that Chinese national average cement prices will climb from $41/ton today to $53/ton (in 2008 dollar terms) in 2020. We believe this offers investors the potential for profit increases of 200-300% per ton. CR Cement is poised to benefit substantially, we believe, given its market leadership in South China, where the number of VKs to be shut down exceeds the national average.

Exhibit 1
Vertical kilns dwindling from 40% in 2008



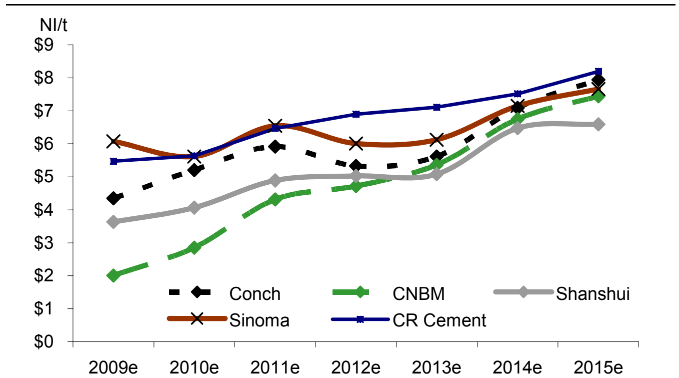
e = Morgan Stanley Research estimates
Source: Company data, Morgan Stanley Research

Exhibit 2
Consolidation to advance in South China as vertical kilns are eliminated



Source: Company data, Morgan Stanley Research estimates

Exhibit 3
CRC poised to benefit from rising net income/ton



e = Morgan Stanley Research estimates
Source: Company data, Morgan Stanley Research

China Property

It's all about policy

Morgan Stanley Asia Limited+

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Our view

The extension of monetary easing into 2010 will provide continued support for the Property sector. The government's plans to maintain an appropriately loose monetary policy and sustainable growth in domestic consumption imply relatively abundant liquidity and supportive bank lending for 2010. We view this as positive for the property sector, which is largely driven by policy direction and is particularly sensitive to banks' stance on credit. We see the possibility of interest-rate hikes in 2H, and further fine-tuning of mortgage restrictions, but we would expect the main impact of such measures to be on the mass residential market and peripheral geographic regions.

Market view

The consensus believes that the policy outlook remains uncertain. While policy direction can affect the demand/supply picture in the physical market as well as stock price performance, we think most property stocks have already priced in concerns that monetary policy may be tightened severely (as occurred in late 2007). What's more, we consider extreme tightening unlikely.

Given a favorable macro backdrop of continued abundant liquidity and timed inflationary pressure in 2010, we remain positive on the outlook for the China Property sector. Surprises could come from the following:

Disappointing GDP growth: The central government strives to deliver sustainable GDP growth, primarily driven by domestic consumption. Property, labeled as a big-ticket consumption item, is set to benefit from this supportive tone. If GDP growth fails to meet expectations, however, this could have a negative impact on home-buying demand. Should export demand fail to come through, continued woes in the manufacturing sector might lead to a weakening of the labor market.

Stronger-than-expected inflationary pressure: Under a rising inflationary environment, people tend to buy property as a hedge. However, this increase in demand and the subsequent squeeze on property prices would raise the government's concerns about an asset bubble and affordability. Policy responses could include an interest-rate hike or even direct implementation of austerity measures specific to the property market.

An abrupt change in policy direction: We expect an unwinding of supportive measures that were put in place towards the end of 2008 to revive the property market, but we believe the government will maintain at least a neutral bias for most of 2010. Should there be a drastic shift to a tightening stance, our investment case for the sector would be challenged. Rapid deterioration of home-buying sentiment would hurt both volumes and prices, and the risk premium in stock valuations would rise significantly.

Cut-throat sales to re-emerge: We expect there will be a noticeable increase in availability of new projects in 2Q 2010, as most developers began stepping up their construction activity back in 2Q 2009. The rise in supply may lead to inventory stocking, and in the event of a tighter monetary policy, price wars could break out as developers scramble to defend their financial positions. This might create a vicious cycle of weakening prices and falling volumes.

Low-cost housing supply adding to the problem: The government has shown a strong determination to build out the low-cost housing program across the country, but if it were to press ahead with this initiative despite rapidly weakening dynamics in private housing, it could put significant pressure on developers.

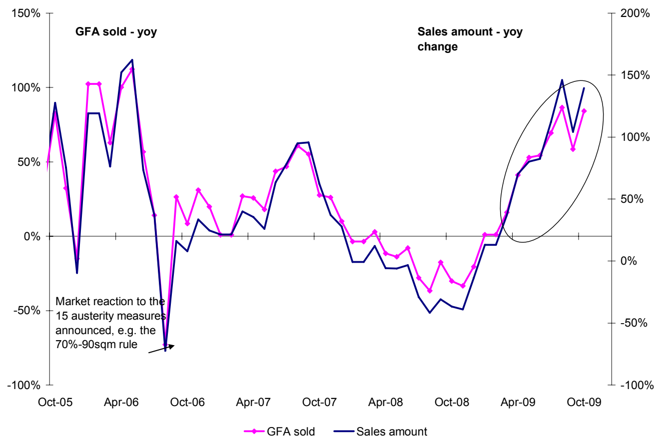
Overloading of land banks may plague even the SOEs: Land sales have been extremely active since the market recovery was confirmed in 2Q. Thanks to improved cash flows, developers have been bidding up land prices, in some cases to record levels, and those backed by state-owned enterprises (SOEs) have been the most aggressive. If prices and volumes weaken, such acquisitions may erode NAVs.

2010 revenue security is high for now, but … there could be downside to our forecast. While we estimate that the sector average revenue lock-in ratio is high at 50% as of end-October 2009, any material deterioration in market conditions in 2010 would force developers to adopt a more conservative strategy. As was the case in 2008, companies might deliberately delay delivery to engineer some earnings security for the forward year.

Dividends could be cut: We expect dividend payouts to rise on the back of decent earnings growth forecast for 2010. In the event of a surprise market deterioration, though, companies could well switch to conserving cash.

Exhibit 1

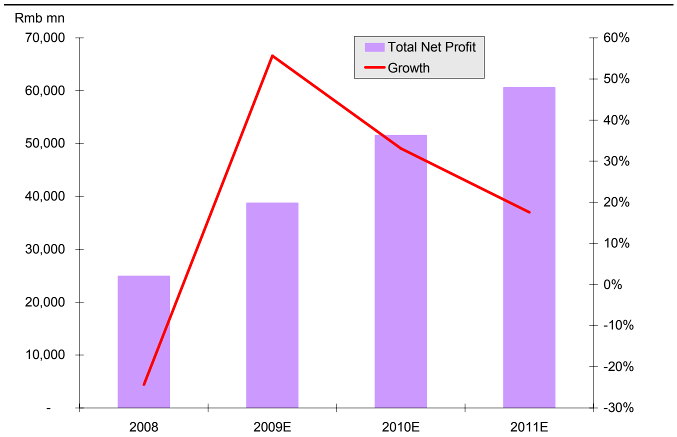
China national residential sales have rebounded



Source: CEIC, Morgan Stanley Research

Exhibit 2

China property earnings and growth, 2008-2011E



Note: Morgan Stanley universe, including A-shares.
E = Morgan Stanley Research estimates Source: Company data, Morgan Stanley Research

China Shipping

Excess capacity removed; balanced fundamentals and strong freight rates

Morgan Stanley Asia (Singapore) Pte.+

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Our view	Market view
Container and dry bulk shipping capacity lower than expectations: Should impending ship capacity growth be lower than expected for 2010-11, this could result in stronger demand/supply fundamentals and higher freight rates. Given the close correlation between **freight** rates and stock prices, shipping stocks could thus rally to our bull-case values.	**The market is concerned about excess ship capacity for both containerships and dry bulk ships.** Concerns on excess ship supply have resulted in an overhang for the shipping stocks.

Setting the stage for a surprise: Much uncertainty surrounds the order book, with little transparency on potential order cancellations and delivery deferrals due either to shipyards facing technical or cash flow difficulties in constructing the ship, or to shipping companies facing financing difficulties. The current order book represents ~60% and ~40% of the dry bulk and containership fleet, respectively. In addition, 12% of the containership fleet is laid up, which can be quickly reactivated should demand recover.

What could lead to lower ship capacity? 1) *Financing constraints*: Increase in the cost of borrowing as governments implement credit tightening policies. This could result in either shipyards having difficulties securing financing to commence or complete a shipbuilding project, or shipping companies being unable to secure financing for milestone payments or to take delivery of the ship.

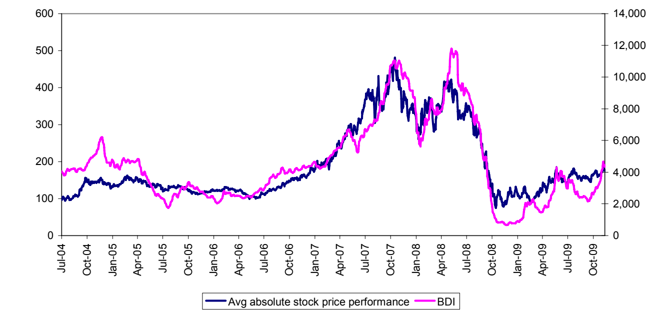
2) *Liquidity constraints in the industry, leading to the withdrawal of a major shipping company or ship owner*: This would be positive in reducing ship supply, as it could result in effective removal of the outstanding order book, for which the shipyard has not commenced building – shipbuilding typically takes 9-12 months, which implies that 2011 scheduled deliveries could be cancelled. In addition, customers would be reluctant to ship cargos with vessels belonging to potentially fund-short owners, as their cargo could be seized if the ship is repossessed; this would leave some ships temporarily unutilized, reducing ship capacity. We note that two of Germany's largest KG (Kommanditgesellschaft) funds, Peter Dohle Schiffahrts and Redderei Claus-Peter Offen (Offen), applied for state loans under the KfW-Sonderprogramme, which was set up by the German government as part of the economic stimulus package to provide liquidity for companies, but the application by Offen was rejected. The German KG funds have ~1.4mn TEU on order, which comprises ~30% of the total containership order book.

CSCL (HK$2.81) and China COSCO (HK$10.12) would be our top picks under this surprise scenario. Should ship capacity be lower than expected, this will result in stronger than forecast demand/supply fundamentals and higher than expected freight rates, which could imply shipping stocks trade on our bull-case scenarios.

In this scenario, our top pick in the container shipping space is CSCL. CSCL would be the key beneficiary as: a) freight rate recovery will be led by the Asia-Europe trade lanes, given the short duration of rate contracts (quarterly) and spot freight rate pricing; b) CSCL has economies of scale from its high proportion of large ships; and 3) CSCL is not a member of any shipping alliance, allowing it rapid flexibility to reactivate its laid-up ships. Under this surprise scenario, we could see CSCL reporting strong profits for 2010-11 (our base-case scenario is for losses in 2010 and mild profits in 2011), and given the improved outlook for the container shipping market, CSCL could trade on peak-cycle multiples, as indicated in our bull-case of HK$4.50.

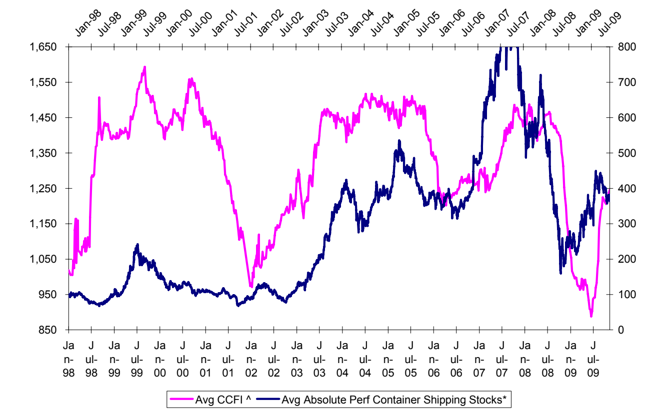
Our top surprise pick in the dry bulk shipping space is China COSCO. With expectations of stronger freight rates in 4Q09 and 2010, China COSCO has locked in only 81% of total 2009 revenue days (including completions in 1-3Q09) and has much of 2010 revenues days unsecured. This implies that China COSCO's dry bulk shipping performance is highly leveraged to spot dry bulk shipping rates. With its strengthened balance sheet post the A-share IPO in late 2007 and strong parentage and financial support – China COSCO Group is the largest shipping group in China and a globally recognized shipping brand – we believe the company is well positioned to acquire distressed ships and companies. Under our surprise scenario, we could see China COSCO reporting strong profits for 2010-11 on stronger BDI based on tighter supply and demand fundamentals. China COSCO could trade to our bull case of HK$15.10, in our view.

Exhibit 1
Dry bulk shipping: Strong correlation between freight rates and stock price performance



* Comprisesstock price performance of CSD, Pacific Basin, STX Pan Ocean and China COSCO (from Sept 2007). Source: Datastream, Morgan Stanley Research

Exhibit 2
Container shipping: Strong correlation between freight rates and stock price performance



^ Average freight rates based on China-Europe, China-Mediterranean, China-US East Coast and China-US West Coast as provided by the Shanghai Shipping Exchange
* Includes stock price performance of NOL, EGM, YMM, OOIL, Hanjin and CSCL (from IPO in June 2004).
Source: Shanghai Shipping Exchange, Datastream, Morgan Stanley Research

Risk-reward scenarios: China Shipping CL — EW, PT HK$2.50

HK$1.00
Bear Case
SOTP valuation; 0.4x Bear F2010E P/BV for container shipping

Average freight rates decline further due to sharper-than-expected demand contraction and prolonged global recession, leading to deeper losses for the next two years

HK$2.50
Base Case
SOTP valuation 1.1x Base F2010E P/BV for container shipping

Average freight rates decline 39% in 2009 and improve 26% in 2010. Container volume growth declines 3% in 2009 and improves by 12% in 2010. Terminal assets valued at cost.

HK$4.50
Bull Case
SOTP valuation 1.7x Bull F2010E P/BV for container shipping

2010 rates improve sharply, leading to CSCL posting breakeven profitability in 2010 instead of losses and rerating of P/BV multiple. China liquidity results in re-rating of H-share valuations to A-share levels.

Risk-reward scenarios: China COSCO — EW, PT HK$8.90

HK$3.70
Bear Case
SOTP

Implied BDI of 1,000 on commodities demand collapse. Ship values by end-2010E decline by 20% from current levels.

HK$8.90
Base Case
SOTP

Implied BDI of 3,000. Ship values at end-2010E increase 5-10% from current levels. Container shipping operations valued at 1x P/BV, similar to regional container shipping peers.

HK$15.10
Bull Case
SOTP

Implied BDI of 5,000 on tighter-than-expected supply and demand. Second-hand ship values at end-2010E increase 50% from current levels. COSCON turns profitable from 2010. Accretive injection of tanker and other shipping assets by parent.

China Steel

China to be short of longs

Morgan Stanley Asia (Singapore) Pte.+

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Our view

Positive on price recovery and long product makers: Despite concerns about regional steel pricing stemming from China's high inventory, we expect price recovery to continue in 2010. As Chinese HRC pricing has dropped below cash costs, we see little downside here. Rising spot ore prices, now over US$100/t, are set to force marginal mills to cut output, so over-production should gradually recede. Most importantly, we believe the market is overlooking the continued strength in demand for China property construction, as well as China's under-investment in long product capacity. We expect long product operating rates to rise to 100% and meet our demand forecast in 2010.

Market view

Consensus is cautious: We note widespread concern among investors about over-production. Many expect that demand, whilst strong, will not keep pace with production growth, and that this may lead to **weaker** pricing. However, this negative view is ignoring rising costs and negative cash margins. In the past, we have observed that cautious mill comments are actually bullish signs.

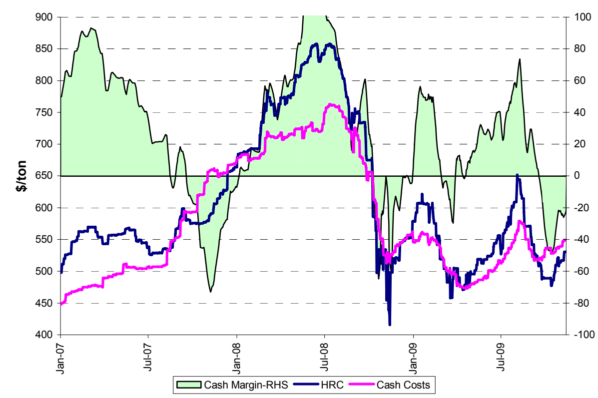
Key surprise to come from long product: Long products should benefit from the strong demand in the property and infrastructure sectors. In addition, because China has under-invested in long product capacity, industry operating rates will need to increase to 100% to meet our demand forecast in 2010. Exports will have to be eliminated, and imports may be necessary. We see 15% growth in flat capacity for 2010e while long capacity remains mostly unchanged. Despite market concerns about the impact of over-production on near-term pricing, we see no such risk, given capacity limitations, and we expect a positive surprise from long product.

We see little downside to pricing: Production costs are being squeezed by rising spot iron-ore prices. We estimate that with spot iron-ore prices now above US$100/t, marginal mills are operating below cash costs, and this could force closures and cap over-production if pricing corrects in coming weeks. We see additional cost pressures later in the year from the reversal of VAT rebates that were temporarily added after the financial crisis and from the reinstatement of export taxes as the government once again focuses on de-emphasizing energy-intensive/highly polluting industry.

Production downtime to be positive: As over-production is in focus, a slowdown in output would be a positive catalyst. A decline in weekly inventory and a pick-up in spot pricing would also support our positive view. The combination of a decline in Chinese exports of long product, better price movement for long product than for flat product, and robust property construction indicators such as property sales should trigger outperformance by long product makers.

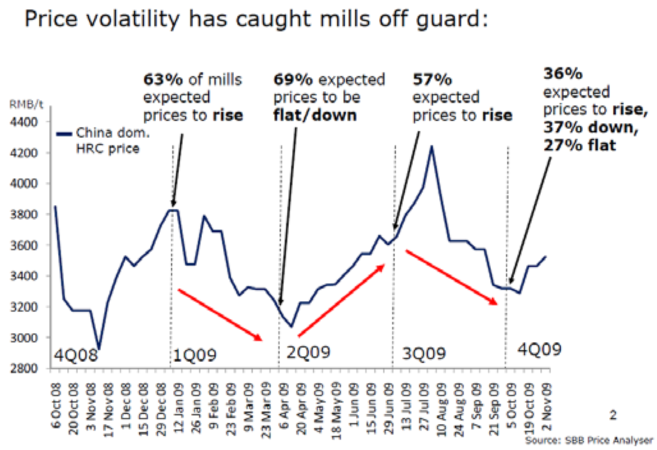
Market likely to focus on long product once inventory starts to level off. Concern about over-production, stemming from high Chinese steel inventory, has been weighing on our Overweight-rated names, Baosteel (Rmb9.18) and Maanshan (HK$5.34), which offer favorable risk-reward, we believe. We note that Maanshan has greater exposure to long product than peers do and may benefit the most from potential upside surprises in the long product market.

Exhibit 1
Marginal mills below cost, squeezing over-production



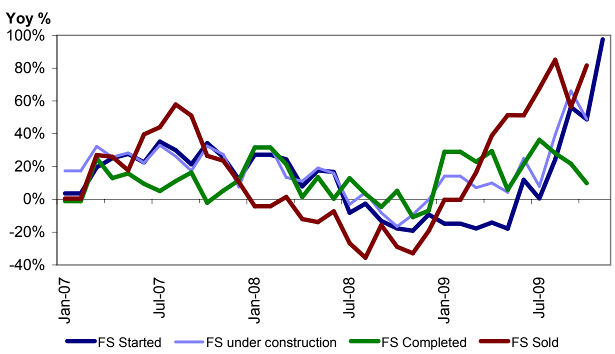
Source: SBB, Morgan Stanley Research

Exhibit 2
Mills are bearish, which is bullish



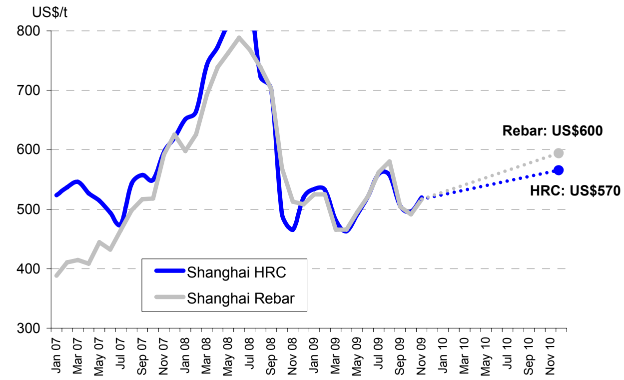
Source: SBB, Morgan Stanley Research

Exhibit 3
Increased property sales positive for long steel demand



Source: CEIC, Morgan Stanley Research

Exhibit 4
Rebar pricing to outperform flat product pricing in 2010e



e = Morgan Stanley Research estimates Source: Company data, Morgan Stanley Research

Exhibit 5
Maanshan has highest exposure to long products in our China steel coverage

	2010e	2011e
Maanshan	**49%**	**49%**
China Steel	18%	19%
Angang	10%	10%
Baosteel	9%	8%

e = Morgan Stanley Research estimates Source: Company data, Morgan Stanley Research

China Steel

Maanshan Iron & Steel: Positive outlook for long products in 2010

Morgan Stanley Asia (Singapore) Pte.+

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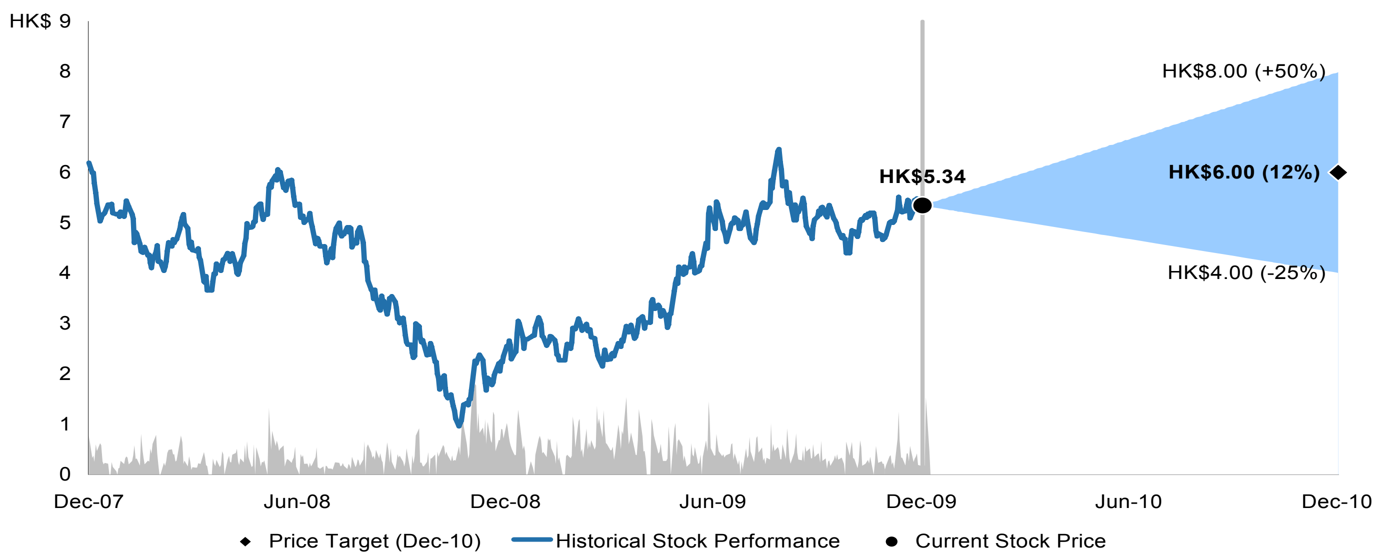
Our view

Positive on price recovery and favors long product makers. Despite some concerns about regional steel pricing due to China's high inventory, we expect the price recovery to continue in 2010. As Chinese HRC pricing has dropped below cash cost, we see little downside to pricing. The rising spot ore price, which is now over US$100/t, is set to force marginal mills to cut production, so that over-production should gradually recede. Most of all, we believe the market is overlooking the fact that China property construction demand remains strong, and that China has under-invested in long product capacity. We estimate that long product operating rates will increase to 100% to meet our demand forecast in 2010.

Market view

Market cautious. At the recent Steel Business Briefing Annual Steel Market Asia conference, we heard widely shared concerns about over-production. Many seemed to expect that demand, whilst strong, would not be as high as production growth, which may lead to weaker pricing. However, we believe this negative view ignores rising costs and negative cash margins. In the past, we have witnessed that cautious comments by mills are actually bullish signs.

Overweight on more positive outlook for long products



Risk-Reward Scenarios

OW, PT HK$6.00

HK$4.00
Bear Case

13.7x P/E on Bear Case 2011e EPS

Continuing low profitability on low steel pricing: Maanshan merely breaks even for 2009-10e, two years in a row on low margins and high interest expense. Stock trades near its book value of ~Rmb4.0 per share.

HK$6.00
Base Case

10x P/E on Bull Case 2011e EPS

Discount normalized EPS of Rmb0.53 in 2011e: Government stimulus could lead to an improvement in long product prices and profit recovery (as we saw in the 1H09 results), with normalized EPS of Rmb0.53 by 2011e.

HK$8.00
Bull Case

6.8x P/E on Bull Case 2011e EPS

Improvements in new plants: We envisage further improvements in Maanshan's new plants raising the gross margin on flat products to 10%, similar to Baosteel's or Angang's level. This adds a further Rmb0.12 to EPS, or accretive value of HK$1.0 per share. Bull-case steel price would add a further Rmb0.12 to EPS.

Key positive surprise to come from long product demand… We expect China's strong construction market in 2010 to tighten long-product steel markets to 100% capacity utilization and even a modest net import position. We see this trend driving up pricing for rebar more than for flat products. Long products will likely benefit from strong demand from the property and infrastructure sectors, owing to government stimulus. Forward indicators for these sectors have been very strong. In addition, China has under-invested in long product capacity, with little growth in new capacity in the last few years. Industry operating rates will need to increase to 100% to meet our demand forecast in 2010; exports will have to be eliminated and some imports may also occur. Shares of Maanshan, which has the highest exposure to long products among our Chinese coverage, are trading at just 1.3x 2010e BV versus the peer average of 1.6x. We believe potential gains from increased long product demand are yet to be priced into the stock.

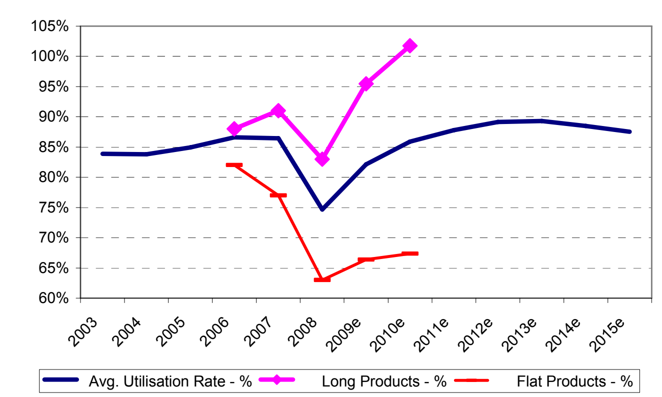
…which should benefit long steel producers, such as Maanshan: We believe this trend is beneficial for Maanshan, whose product mix is geared towards construction-oriented long steel. Maanshan has 50% exposure to long products, significantly higher than that of its Chinese peers Angang (10%) and Baosteel (9%).

On our earnings forecasts, Maanshan shares trade at just 7-8x on 2011e EPS, a 20-40% discount to Chinese peers and the market's 12x. While our 10-11e estimates are above consensus, they are not excessive relative to the company's historical earnings trends and are below the peak in 2003-04. We see an attractive risk-reward scenario, with lower downside vs. its peers, as the shares trade at a forward P/B ratio of just 1.2x, the lowest among the Chinese steel mills under our coverage.

Catalysts include higher long product and spot iron ore prices, and increased property sales, leading to greater demand for construction steel.

Exhibit 1

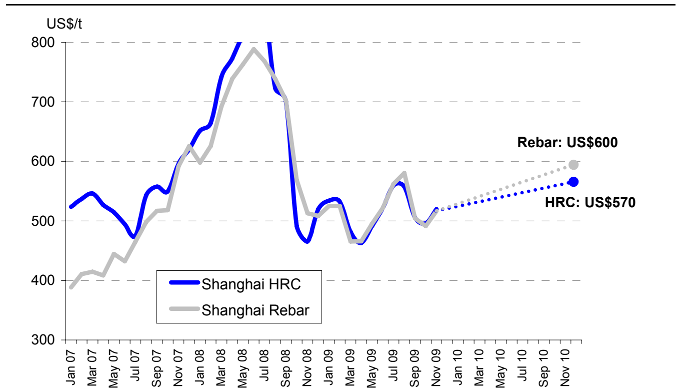
Long product operating rates increasing to 100%



Source: Company data, Morgan Stanley Research E= Morgan Stanley Research estimates

Exhibit 2

We expect rebar pricing to outperform flat product pricing for 2010e



Source: Company data, Morgan Stanley Research E= Morgan Stanley Research estimates

Exhibit 3

Maanshan has one of the highest exposures in our coverage to long products

	2010e	2011e
Hyundai Steel	61%	60%
Maanshan	**49%**	**49%**
Dongkuk	47%	47%
China Steel	18%	19%
Angang	10%	10%
Baosteel	9%	8%

Source: Company data, Morgan Stanley Research E= Morgan Stanley Research estimates

Hong Kong Economics

Be alert for monetary tightening and change in policy stance on land supply

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Our view

Hong Kong remains vulnerable to events and policy changes that alter the prospects for monetary conditions and asset market performance, as we expect a tepid global recovery to bring about only a mild upturn in merchandise trade. The domestic-demand-driven cyclical recovery could be derailed if the threat of inflation necessitates accelerated withdrawal of fiscal stimulus and market support facilities, or a change in government policy on land supply triggers an exaggerated response from the private sector.

Market view

The market consensus appears to be sanguine towards these risks. Indeed, they do not feature in our base-case scenario. But, further sharp rises in asset prices could heighten the odds of these risk events occurring, and we suggest investors stay alert to this possibility.

2010 recovery remains reliant on supportive monetary conditions and buoyant asset prices: With the economy resuming positive sequential growth since 2Q09, and YoY growth likely from 4Q09, our base case for Hong Kong in 2010 encompasses further consolidation of the recovery momentum, bringing economic activity back to pre-crisis levels. We forecast 3.8% real GDP growth in 2010, more than compensating for the estimated 3.1% contraction in 2009.However, in contrast to consensus, we see the Hong Kong economy deriving a larger portion of its growth from domestic demand supported by easy monetary conditions and buoyant asset prices, while we maintain a more conservative outlook than consensus on the recovery in demand from, and hence exports to, developed markets. Specifically, we expect a tepid recovery in the G3 only to bring about mid-to-high-single-digit trade growth for Hong Kong in 2010.

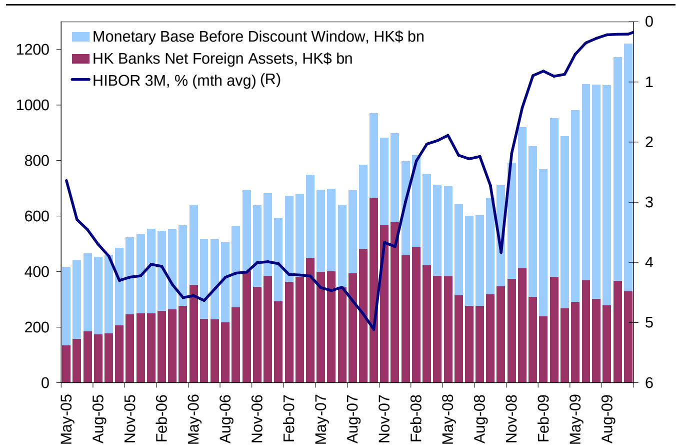
Meanwhile, although our global outlook has already geared up for the gradual removal of fiscal stimulus and market support facilities, we believe the huge stock of excess liquidity accumulated in the Hong Kong monetary system should mean a considerable buffer for capital outflows before we see monetary conditions turning restrictive, or significant upward pressure on money market interest rates. Stable-to-mild gains in asset markets form a part of our base-case scenario, with downside limited by sound fundamentals of the Hong Kong and China economies, but upside capped by the already rich valuations and uncertainties regarding the pace and degree of global monetary tightening. Also, we expect the Hong Kong economy to derive considerable support from further growth acceleration in China, to 10%, from an estimated 9% in 2009, backed by the maintenance of supportive fiscal policies.

Hong Kong economic forecast summary

YoY, %, unless otherwise stated	2008	2009E	2010E	2011E
Nominal GDP	**3.8**	**-1.3**	**4.6**	**5.9**
GDP deflator	1.4	1.9	0.8	2.3
Real GDP	**2.4**	**-3.1**	**3.8**	**3.5**
Domestic demand x-Stocks	1.1	-1.3	3.8	3.7
Private Consumption	1.5	-0.8	3.6	4.0
Public Consumption	1.7	2.3	1.5	1.0
Fixed Investment	-0.5	-4.2	5.5	3.9
Private Investment	-1.1	-6.0	6.0	4.0
Net exports, % of real GDP	12.2	10.2	10.5	10.1
Current Account, US$ bn	30.5	26.4	23.3	20.6
% of GDP	14.2	12.4	10.4	8.7
Trade balance, US$ bn	-24.9	-25.8	-28.4	-31.8
Exports	5.1	-12.8	7.8	9.8
Imports	5.4	-12.0	8.0	10.0
Service exports	8.8	-8.0	6.0	8.0
Service imports	7.5	-7.5	8.0	8.0
Composite CPI	4.3	0.4	2.0	2.5

R = Revised. E = Morgan Stanley Research estimates
Source: Census and Statistics Department, CEIC, Morgan Stanley Research

Generous buffer for capital outflows



Source: HKMA CEIC, Morgan Stanley Research

Possible significant surprises focus on asset-market-related factors: Given the liquidity- and asset-price-driven nature of the Hong Kong economy, big swing factors in growth performance center on events and policy changes, whether external or domestic, that alter the prospects for monetary conditions and asset market performance. This is not to say that other influences are not important, but their incremental impact on overall economic performance will likely be smaller. Looking ahead to 2010, we identify two key risks to our baseline forecasts for the Hong Kong economy.

(1) Inflation mandates accelerated and market-unfriendly exits by global central banks: International commodity and energy prices have staged a strong rebound since bottoming a year ago. The global output gap has so far limited the pass-through of such a rebound to the consumer level. However, an earlier-than-expected return of general-price-level inflation around the world could prompt accelerated "exits" by global central banks, sucking liquidity out of Hong Kong at a faster pace than currently anticipated. Even though, as we mentioned earlier, there is a respectable buffer for capital outflows for Hong Kong before monetary conditions become restrictive, money market interest rates and asset prices could react negatively ahead of the tightening flows. Nevertheless, a precondition for this scenario is a stronger-than-expected recovery in global demand, under which circumstances the negative impact from tighter monetary conditions would be mitigated by a robust upturn in merchandise trade activity.

Of course, the surprise related to global monetary conditions could also turn out to be a positive one. Specifically, prolonged subdued inflation would allow global central banks to hold back or slow their tightening. This, coupled with China’s economic outperformance, would mean Hong Kong asset markets would continue to receive capital inflows and surge higher, powering domestic demand.

(2) Local residential property market correction in response to change in government land supply policy: A significant development in recent months, in our view, is the revival of the role of government policy in Hong Kong’s property market outlook, in contrast to staying on the sidelines of the property market in the past several years, following the painful lessons of the late 1990s. The only policy body that has commented on the housing "boom" is the Hong Kong Monetary Authority, concerned by the overly competitive mortgage lending environment, and excessive volatility in asset markets and the economic cycle. New guidelines to tighten mortgage lending issued in October was the first explicit policy change – albeit on the demand side – with regard to the property market for several years.

In response to increasing dissatisfaction at deteriorating housing affordability, the government has also recently ended its long silence on the supply side of the property market. Initial comments from the government hint at improving the flexibility of land supply, but there is considerable uncertainty as to what measures will be introduced in the months ahead, their timing and the circumstances under which they will be unveiled.

While we admit that, with the experience of the late 1990s, the government is unlikely to roll out drastically negative measures, we suggest investors stay alert to risks from two perspectives. First, there is a risk of policy error based on an inaccurate assessment of the market environment. Second, even if correct and appropriate policies are formulated, there is risk of misunderstanding / misinterpretation should they be introduced or implemented at a wrong time, causing a strong reaction from the private sector, exacerbating asset market volatility and hence the economy. Hong Kong is especially prone to this sort of overreaction and volatility, given the asset-market driven nature of the economy and high asset-value-to-income ratio.

It will always be a challenge for policymakers to balance interests among property owners (hoping for capital gains), the government (dependent on property-related revenue) and non-property owners (hoping for affordable housing). The difficulty of pleasing all is a strong argument for the non-interventionist approach that the government advocates. But the conflict of interest among the groups has become greater over the years with widening income and wealth inequality. While we do not have a strong view on what the government should or will do, we consider changes to the government’s policy stance on the property market over the next 12 months to be a key risk.

Even though the two possible surprises outlined above are not in our base-case for 2010, we see them as distinct risks to our outlook.

Hong Kong Banks

Mid-cap banks facing structural headwinds – could cause sector consolidation

Morgan Stanley Asia Limited+

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Our view

We believe the environment will be very challenging for Hong Kong mid-cap banks in 2010: This will be driven by the impending withdrawal of the deposit protection scheme, which could increase interest costs for these banks. At the same time, with larger banks following the AIRB approach to calculate capital, loan yields will come under pressure. This could push major shareholders of mid-cap banks to sell their stakes to larger banks.

Market view

The market is also building in a possibility of mid-cap banks being acquired: However, given the likely structural pressure from rising competition, the pace of stake sales may be faster than the market expects.

Hong Kong banks will see meaningful compression in loan yields in 2010, in our view. This will be driven by two factors:

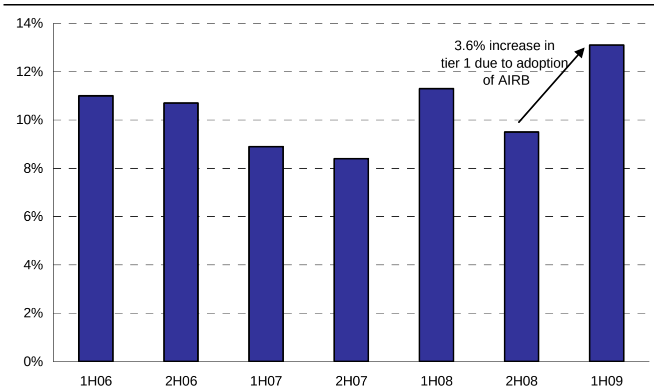
1. HSBC seems to be focused on regaining the market share it has lost in Hong Kong in the last 5-6 years. This, coupled with the increased presence of Chinese banks, is likely to cause a meaningful increase in competition.

2. With large Hong Kong banks following the advanced internal-rating based (AIRB) approach in terms of capital calculation, they can reduce yields significantly and still make similar/higher ROEs.

Large banks benefiting from AIRB approach to capital calculation: In Hong Kong, an uneven playing field has been created by large banks adopting the AIRB approach, while smaller banks are still following the standardized approach for capital calculation under Basel 2. Even Bank of China (Hong Kong) is currently following the standardized approach but is likely to move to the foundation IRB (FIRB) approach in 2010. This has significant implications for competition in Hong Kong banking.

Under AIRB, capital required for loans is significantly lower than under the standardized approach. AIRB requires banks to calculate capital requirement using their own models. This invariably lowers the capital required from these banks for the same asset. For example, Hang Seng Bank (HSB) migrated to AIRB in June 2009. Between December 2008 and June 2009, its total assets were flat, but its risk-weighted assets declined 15%, as AIRB required less capital.

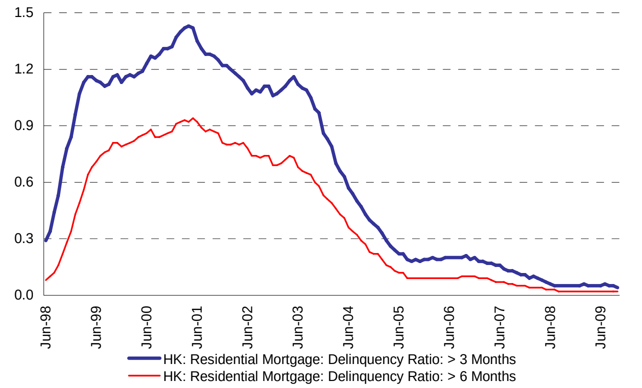
Exhibit 1
HSB: Big jump in tier 1 ratio after adopting AIRB



Source: Company data, Morgan Stanley Research

Why is this important? As a bank needs less capital against a particular asset, it can reduce required spreads to get similar ROE from that asset: The classic case is for Hong Kong mortgages. HSBC, Standard Chartered and HSB have adopted AIRB. In Hong Kong, mortgage delinquencies have historically been extremely low, even in times of severe stress. Hence, under AIRB, the risk weight on mortgages reduces to only about 7-8% compared with 35% under the standardized approach.

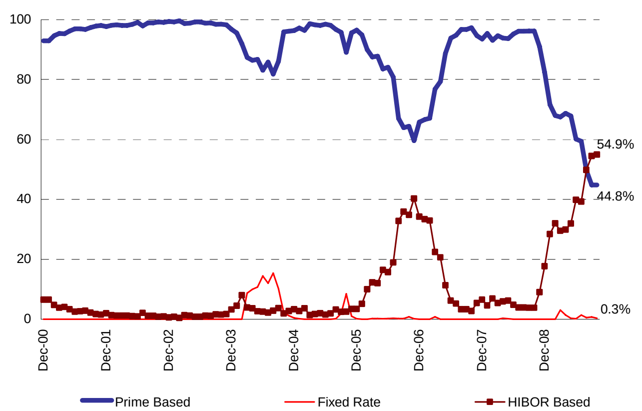
Exhibit 2
Hong Kong mortgage delinquencies very low



Source: CEIC, Morgan Stanley Research

Such low capital requirement means that banks can leverage up much more. For instance, banks can lever up almost 140 times on Hong Kong mortgages. This implies that even if it manages to generate an ROA of 20bp, the incremental ROE on this product is 24% (Exhibit 4). This is exactly what the banks are doing. They have taken down mortgage pricing very aggressively. Banks have been offering HIBOR based loans at as low as 50-70bp over HIBOR. This has caused the take-off of HIBOR loans to spike this year. In fact, now more than 50% of all new loans in Hong Kong are HIBOR based.

Exhibit 3
Hong Kong: 50%+ of new mortgages HIBOR based



Source: Company data, Morgan Stanley Research

Exhibit 4
The alchemy of AIRB:
20bp ROA can equal >20% ROE

(%)	HSBC, STAN, HSB	Others
Yield , assumption	0.60	0.60
Funding Cost	0.10	0.10
NII	0.50	0.50
Operating Cost	0.25	0.25
Operating Profit	0.25	0.25
LLP	0.05	0.05
PBT	0.20	0.20
ROA	0.17	0.17
Risk Weight	7	35
Required Tier 1	10	10
Leverage	143	29
ROE	24.3	4.9

Source: Company data, Morgan Stanley Research

While large banks are making greater than 20% ROE on mortgages, smaller banks are clearly getting hurt: For smaller banks, capital requirement on mortgages is 5x that for larger banks; hence ROE on such a product is only about 5%. In fact, smaller banks are losing higher-yield mortgages, given the repayment of old mortgages. We expect pricing competition to intensify in Hong Kong corporate loans as well next year. This would drive down loan yields for Hong Kong banks.

While loan yields will likely come off, mid-sized banks will likely see an increase in funding costs: This would be driven by the withdrawal of the deposit protection scheme in December 2010, which. This could take up funding costs for the smaller banks.

Hence, from 2010 onwards, the Hong Kong banking space will structurally be very tough for the mid-sized banks. This could cause some of the banks to decide to sell off their businesses to larger players, given the relatively attractive multiples they are trading at now.

Macau Gaming & Property

Commission cap could improve margins

Morgan Stanley Asia Limited+

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Our view	Market view
We believe implementation of the commission cap is inevitable. We believe any increase in margin could support sustained EBITDA growth for operators. The six casino operators have reached consensus on this matter, agreeing to stick to the 1.25% rule.	**The prevailing consensus view is that the commission cap might not get implemented in near future,** and even if it does, the effectiveness cannot be guaranteed because of leakage and difficulty in monitoring / policing the implementation.

We believe the government-mandated commission cap would be positive for operators that have been paying a rate above the cap. Although many market participants are doubtful of the effectiveness of the cap, we believe the cost of avoiding it would be high because of the involvement of the government. For our industry base case, we forecast implementation of the commission cap in 2010 will lift VIP EBITDA margins for most casinos by 300bp. Other upside surprises could include reduction of gaming tax and relaxation of visa restrictions.

Upside surprises could come from:

1) Commission Cap

A commission cap would be positive for operators' margins and profits even though it could discourage some of the junket operators and might dampen volume in the near term. Most market participants believe a commission cap will not improve margins significantly, given the numerous ways to potentially avoid such a cap. However, we are sure there would be significant risk for operators trying to do so. Our base-case assumption of a commission cap implemented in 2010 results in higher EBITDA forecasts than Street consensus for stocks under our coverage.

We believe a commission cap could improve the EBITDA margin by 300bp for casinos currently paying a 1.35% junket commission. Taking Altira for example, the casino's win ratio on baccarat is 2.8%, so for every US$100 bet, the casino is likely to keep US$2.8. The casino then pays the junket operator that brings the customers 1.35% of the wager, resulting in an EBITDA margin of 6%. Should a commission cap of 1.25% be implemented, the EBITDA margin would improve to 9%.

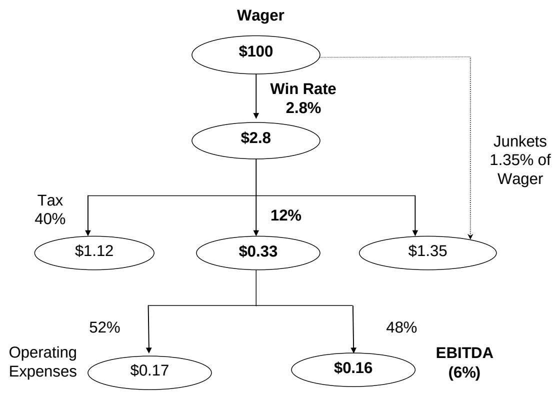
2) Changes to the tax regime

Gaming tax in Macau is currently 39% of the gross gaming revenue, higher than the 12% / 21% (VIP / mass) in Singapore. We see a distant possibility of tax regulation changes in Macau should the competition from Singapore heat up. We do not expect Macau to cut taxes drastically. However, mathematically, VIP / mass EBITDA margins of Macau casinos could increase to 20% / 39% from 6% / 30% should Macau adopt a similar tax regime as that in Singapore.

3) Relaxation of visa restrictions

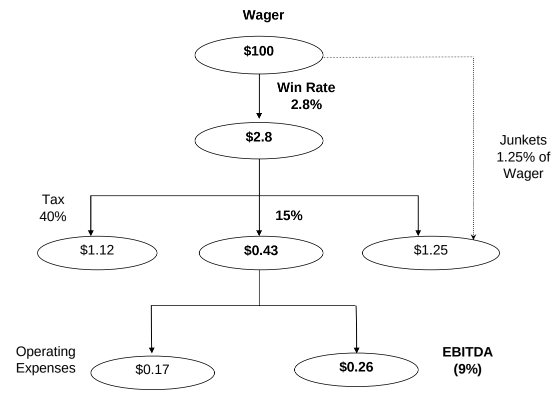
We understand visitors from mainland China have been allowed to visit Macau once every two months for the majority of 2009. Consensus expectations are for the current visa policy to remain in place for 2010, while we see the possibility of relaxation of visa restrictions with the new Chief Executive taking office in December. There is also the possibility for further upside should the government extend the Individual Visitation Scheme (IVS) to more cities. Currently, around 40% of China's visitors to Macau are travelling under the IVS from the selected 49 cities in China, 29 of which are in Guangdong province.

Exhibit 1
Altira VIP margins…



Source: Company data, Morgan Stanley Research

Exhibit 2
…would improve with commission cap



Source: Company data, Morgan Stanley Research

Who will benefit most from the commission cap?
We think implementation of a commission cap would benefit casino operators all in the same fashion, although Galaxy would benefit more because of its reliance on VIP business, as shown below.

Exhibit 3
Impact on casino EBITDA from commission cap

HK mn	VIP Revenue	Gaming Revenue	% of Gaming Revenue	After Cap Gaming EBITDA	Before Cap Gaming EBITDA	% Increase
Galaxy	14,221	20,042	71%	2,785	2,228	25%
SJM	18,833	35,586	53%	3,393	2,996	13%
LVS	19,746	34,431	57%	6,294	5,719	10%
MPEL*	8,115	24,093	34%	2,977	2,706	10%
MGM	3,908	9,595	41%	2,655	2,539	5%

Note: EBITDA estimates are Morgan Stanley Research estimates for 2011.
*MPEL VIP revenue for Altira only; City of Dreams already paying 1.25% commission.
Source: Company data, Morgan Stanley Research

Exhibit 4
Morgan Stanley EBITDA versus consensus

HK$ mn	2009E	2010E	2011E
Morgan Stanley EBITDA estimates			
Galaxy	1,124	1,390	2,786
MPEL	1,301	3,061	3,396
SJM	2,006	3,100	3,545
Wynn Macau	3,135	4,143	4,508
Consensus EBITDA estimates			
Galaxy	1,051	1,204	2,166
MPEL	961	2,623	2,790
SJM	2,033	2,951	3,300
Wynn Macau	3,187	3,798	4,193
Variance			
Galaxy	7%	15%	29%
MPEL	35%	17%	22%
SJM	-1%	5%	7%
Wynn Macau	-2%	9%	7%

Source: Company data, consensus estimates from Factset, Morgan Stanley Research

Hong Kong Property

Make or break: All eyes on liquidity and land supply

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Our view

Liquidity and low land supply anchors a positive market outlook for 2010: As things stand, 2010 looks set to be a year of ample liquidity for the physical property market and the stock market, given relatively loose monetary policy in China and the US, and strong capital inflow into Hong Kong in pursuit of Hong Kong dollar assets. On the policy front, we do not believe there will be much change to the government's high-land-price and hence low-supply policy. Although our Hong Kong economist expects the first interest rate hike to take place in 3Q10, which may dampen buyer sentiment, we believe downside is limited, given a positive demand-supply bias, and assuming healthier economic fundamentals in 2010.

Market view

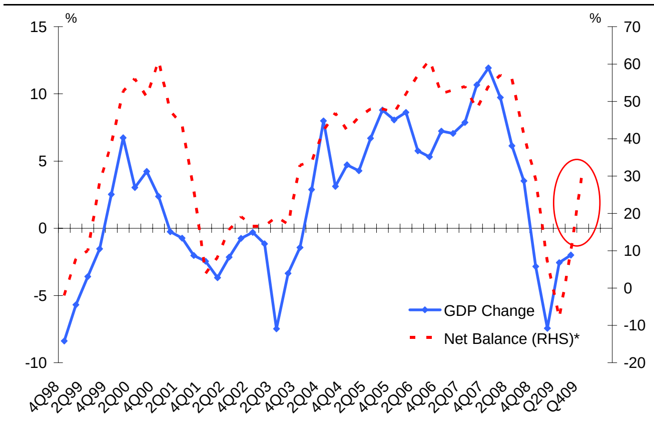
Liquidity remains the wild card largely dependent on external factors; consensus on government policy largely in-line: Liquidity and policy direction can influence the physical market as well as property stocks. We believe the valuation of most Hong Kong property stocks has priced in ample physical market liquidity in the near term and favorable government policies. Current levels offer surprise on the upside should liquidity remain strong throughout 2010, backed by a prolonged period of low interest rates. Tight supply also serves as a key support to the continual property price increases.

Although we are upbeat about the benefit of escalating asset prices backed by ample liquidity and limited housing supply in 2009, pushing stocks to trade beyond normalized valuation metrics, there is always the risk (albeit slim) of a sharp shift in policies relating to land supply, the Home Ownership Scheme, and anti-speculation that could dampen the market. However, the key risk, in our view, is the sustainability of global economic recovery, given that domestic macro conditions are highly contingent on the strength of the US recovery and stability of the mainland China economy.

Key economic risk – will there be a sustainable recovery? The Hong Kong economy grew sequentially in 2Q-3Q09; our economics team expects further growth in 4Q09 and projects 2010 real GDP growth at 3.8%, versus a 3.1% decline in 2009. However, if GDP growth fails to gain momentum, this would have a negative effect on consumer sentiment, dampening housing demand. As mentioned, this hinges on the broader global picture.

Hiccup in labor market recovery: Hong Kong's unemployment rate appears to have peaked at 5.4% in 2009, contrary to our economist's earlier expectation that it could reach 6% by mid-2009. The latest figure is 5.2% in August-October, from 5.3% in July-September, a healthy development that is consistent with a rebound in domestic demand and overall economic growth. However, the main attribute to the easing of the jobless rate was shrinkage in the labor force rather than job creation. Although we believe that many firms appear to have finished downsizing in 2009, most multinational corporations are not yet in expansion mode. Slower-than-expected economy recovery could result in further company downsizing and the unemployment rate creeping back up. This in turn would stagnate the recovery in wages, negatively affecting affordability and housing demand.

Exhibit 1
Hudson employment survey:
Hong Kong hiring expectations on the rise *

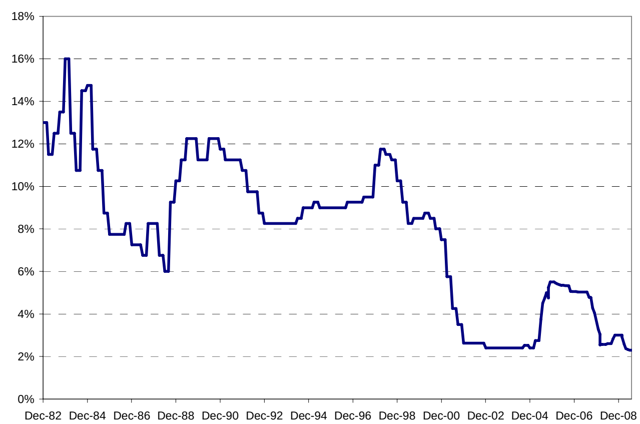


Source: The Hudson Report, Morgan Stanley Research * Net balance = % of expected permanent increase in headcount - % expected decrease in headcount.

Rapid exit of liquidity: Since 2Q09, Hong Kong has enjoyed a strong inflow of liquidity from around the globe, mainly in pursuit of China-related securities and Hong Kong dollar assets. The surge in capital inflow fueled a rather quick V-shaped recovery in the stock market and the property market in early 2009. This excess liquidity is highly susceptible to changes in global economic conditions and any drastic change in overall sentiment. Unwinding of loose monetary measures and the US/EU/China exit strategy may cause a sudden withdrawal of liquidity, quickly pushing down asset prices. Also, domestic credit has remained subdued in 2009. According to our economist, the decline in domestic credit worsened in 3Q09 to 4% YoY, from 3% in 2Q09, reflecting weak demand for credit in a relatively shaky economic recovery. Should the contraction of domestic credit worsen, demand and supply in the property market will be directly affected, hitting transaction volumes and prices.

Interest rates pointing north: Excess capital inflow into Hong Kong and loose monetary policy in the US has caused interest rates to reach all-time lows. Our economist forecasts 3M-HIBOR to remain below 1% until 3Q10, and expects the average mortgage rate to remain below 3% until mid-2010. Historically, low interest rates have supported household affordability, and has induced end-users to buy rather than rent. Rate hikes will erode buying power, put upward pressure on cap rates, and dampen investment demand. In particular, we believe an earlier-than-expected or higher-than-expected rate hike may pose significant downside risk to buyer sentiment, especially in a market mainly driven by investment demand.

Exhibit 2
Nominal mortgage rate in Hong Kong



Source: CEIC, Morgan Stanley Research

Potential significant shift in government land policy: The Hong Kong government's tight control on land supply has been instrumental in maintaining high and stable housing prices in Hong Kong. In response to significant speculation in the housing market and potential threat to mass market affordability, the government may be forced to take strong measures to cool the physical market. An unexpected change in government policy direction, for example, releasing more land supply suddenly, tightening bank credits, and / or introduction of new measures regarding the land auction system), could challenge our bullish industry investment thesis.

India Economics

Watch capital inflows, inflation and government execution on infrastructure

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Our view

We estimate relatively strong GDP growth of 8% in 2010 compared with 6% in 2009. Inflation will probably move higher than the Reserve Bank of India's (RBI) comfort zone of 5% to close to 7% by March 2010. This, coupled with the current trend of strong industrial production (IP) growth, implies that the RBI will begin to hike policy rates from January 2010, cumulatively lifting policy rates by 150bps in 2010, in our opinion.

Market view

Consensus expects GDP growth at 7.5%, lower than our expectation of 8%. On interest rates, consensus expects the 91-day treasury bill rate to reach 4.6% by the end of December 2010 as against our expectations of a 150bps increase to 4.9% from 3.4% currently. Further, consensus expects WPI to register an average YoY increase of 2.9% in F2010, compared to our estimate of 2.6%.

Base Case: Strong growth, manageable inflation pressure
We expect the key feature of 2010 to be the transitioning from policy-driven to private-sector-driven growth. We expect capital inflows into India of US$50-60bn, supporting a steady rise in the business investment cycle. Even as policymakers start withdrawing monetary and fiscal policy support, we believe the recovery trend will be sustained in 2010. The moderation in government spending and household discretionary consumption in 2010 is likely to be offset by an improvement in exports and a moderate pickup in the investment cycle.

Three key areas for potential surprises in 2010
(a) Spike in capital inflows above US$100bn:
As we have been highlighting, India's growth trend is significantly influenced by capital inflows. Unlike in some other Asian countries, India's macro economy is more dependent on capital market funding. Risk capital inflows from the international market tend to influence liquidity conditions, cost of capital, and domestic demand growth. Over the past few years, capital inflows into India have ranged between 1% and 9% of GDP. The trend in capital inflows into India is influenced by global growth and the risk appetite environment. We expect capital inflows US$50-60bn (3.5-4.3% of GDP) in 2010, considering our global growth forecast of 4%. However, we do see the risk of capital inflows potentially surprising on the upside, considering India's growth trend and its likely move ahead of the US and Europe in the rate hike cycle this time around.

Capital inflows rising sharply above US$100bn would produce significant challenges for policymakers, in our view. First, it would make it difficult for the RBI to lift the cost of capital and restrain domestic demand, thereby increasing the chances of overheating and producing inflation risks. In other words, both growth and inflation would surprise on the upside. Second, it would likely raise asset bubble risks. We believe that, in such a situation, the probability of the government implementing some kind of restrictions on capital inflow would be high. What type of policy measures could be initiated? The three key sources of capital inflows are foreign direct investment, portfolio equity inflows, and external debt. If capital inflows rise above US$100bn, we believe the government/central bank would initially focus on restricting external debt inflows (corporate sector and non-resident Indian deposits). Note, the government already has in place strong restrictions on the purchase of local government or corporate debt by foreigners, and the risk of rate-arbitrage-related inflows through this route is not an issue in India, unlike in some other countries in the region. We see a low probability of the government putting a tax on portfolio equity inflows. However, if portfolio equity inflows rise above US$40bn and total capital inflows increase above US$125bn, we see the risk of the government imposing cash reserve ratios on such inflows.

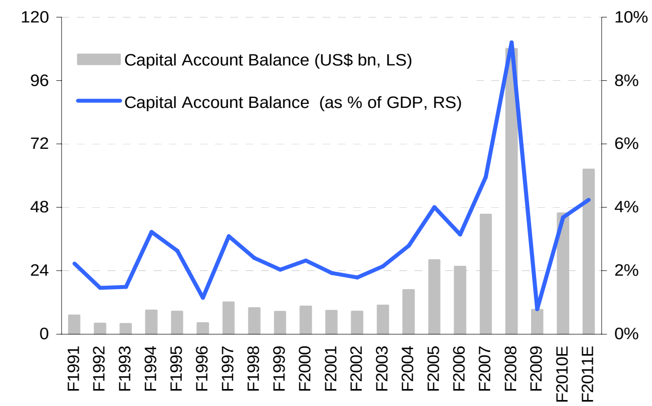
(b) Inflation rising to double digits in 2010
We expect inflation (wholesale price index, WPI) to reach close to 7% by March 2010 from 1.3% currently, but then decelerate to the RBI's comfort zone of under 5% by the end of 2010. Note that WPI inflation is akin to the producer price index (PPI) in the US and reflects the trend in intermediate and raw material prices. The RBI typically evaluates the inflation risks considering the trend in WPI in the context of capacity utilization levels. In other words, the RBI would respond in the form of major policy actions if WPI inflation were above 5% YoY and capacity utilization high. In such a situation, the risk of pass-through of WPI inflation to finished goods inflation is high.

With IP growth expected to be close to double digits over the next six months, we believe capacity utilization will be near levels that need a careful watch from an inflation outlook perspective. Three key factors could cause inflation to reach double digits in 2010, forcing the RBI to initiate aggressive tightening. **First,** capital inflows rise sharply, resulting in an increase in liquidity and acceleration in IP growth to 15% YoY. In such an environment, the aggregate demand growth in the economy could start to push up inflation significantly. **Second,** oil prices increase above US$120-130/bbl (also influencing other global commodities), compared with our base-case forecast of US$85/bbl in 2010. India imports about 80% of its oil requirement, and domestic fuel prices are marked to US$56-57/bbl. A rise in oil prices above US$100/bbl would force the government to consider faster hikes in domestic fuel prices, as we believe the fiscal deficit is already very high. If the government were to choose to increase the deficit, pressure in the bond market could make it difficult to adopt that option. **Third,** there is a major crop failure in 2010. Primary food inflation has already been running at double digits for the past six months. As of November 28, primary food inflation was 19% YoY. Another major crop failure could cause a full-blown food price shock, increasing the risk of a second-round impact in terms of higher wages and inflation expectations.

(c) Pace of execution on infrastructure

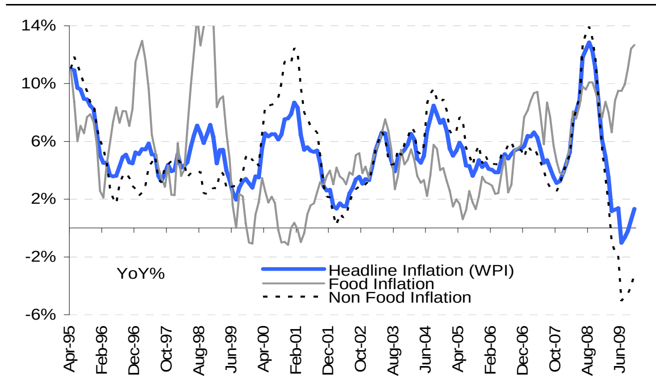
We have always argued that a key hurdle to India's GDP growth accelerating to 9%-plus on a sustainable basis is low infrastructure investment. Although infrastructure spending increased to 5.8% of GDP in F2009 from 3.7% in F2005, it needs to be at 8.5-9% of GDP for sustainable GDP growth of 9%. In our base-case forecast, we expect infrastructure spending to rise 6% in 2010. We expect the government to continue to initiate policy measures to gradually lift infrastructure investment to close to 7% of GDP in 2011. The actual pace of execution on infrastructure may surprise on the upside, particularly regarding investment in highways, electricity, and railways. India is adding about 1,500km of highway per annum on average. The transportation ministry is targeting to increase this to 7,000km per annum. The ministry has initiated major changes in the regulatory environment to achieve this target. However, so far, the pace of issuance of new orders does not reflect a big change. The ministry recently announced that it intends to issue orders for road construction worth US$21bn (1.5% of GDP) by June 2010. If the ministry does manage to issue the orders as per its target or even 75% of the target, it would be a major surprise for the market, in our view.

Exhibit 1
Trend in capital inflows



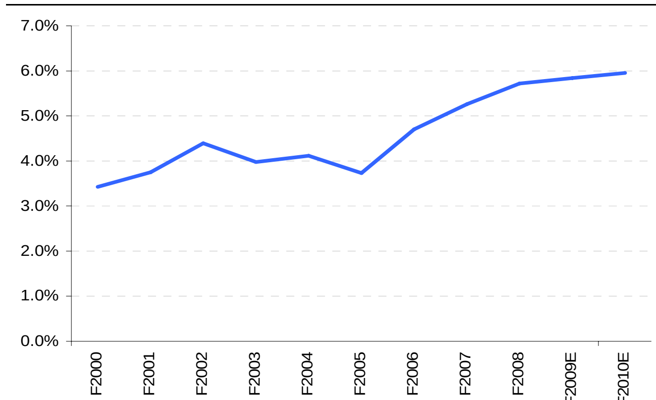
E = Morgan Stanley Research estimates; Source: RBI, CEIC, Morgan Stanley Research

Exhibit 2
WPI: Headline, food and non-food Inflation, YoY%



Source: CEIC, Morgan Stanley Research

Exhibit 3
India: Infrastructure investment (% of GDP)



E = Morgan Stanley Research estimates; Source: CEIC, Morgan Stanley Research

India Strategy

Correlations break down

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Our view

Notwithstanding India's outperformance driven by improving growth at home and a favorable political environment, the bulk of India's 110% return from March 2009 is explained by a move in global equities. **The key debate is whether the tight correlations between Indian equity returns and the rest of the world could break down in 2010 and whether this could lead to a significant correction in Indian equities.** Our view is that correlations could break down but this does not mean that Indian equities would underperform.

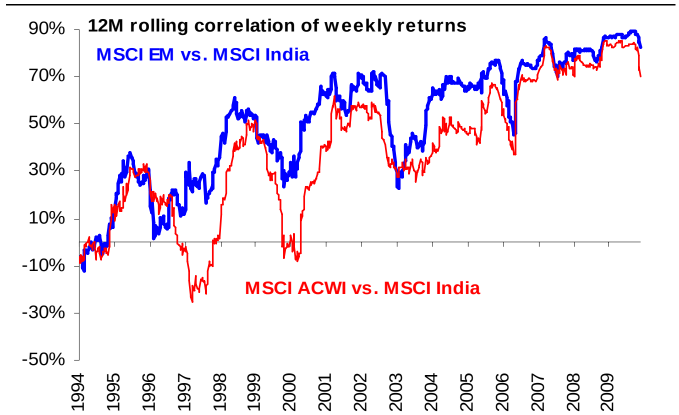
Market view

The prevailing consensus view on the debate is that, if correlations no longer hold, this would be negative for Indian equities. Indeed, several market participants are intensely aware of and focused on the linkages of Indian equities with global equities. We see three scenarios under which a correlation breakdown could have distinct implications for Indian equities unlike the market's seemingly one dimensional view on the debate.

The correlation of returns between Indian equities and the rest of the world is just off all-time highs, comparable to levels at the end of the bull market in early-2008 and during the financial crisis in the second half of 2008 (Exhibit 1). Market participants seem to be especially attentive to the correlation between Indian equities and the DXY, which is 3 sigma above average. Most market participants view a breakdown of correlation as a negative for India. We see three scenarios under which the correlations fail with distinct implications for Indian equities, in contrast to the market's apparently one dimensional perspective on the issue.

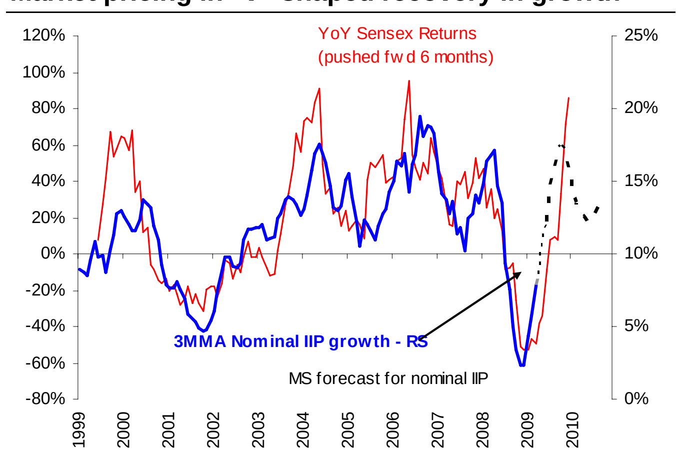
The first scenario under which correlations cease is that India surprises negatively on growth. The market expects GDP growth to be around 7.5% in F2011. If growth comes significantly below expectations, Indian equities could follow an idiosyncratic path in the lower direction. A negative growth surprise could come from the government's failure to kick-start infrastructure spending or pursue tax reforms, a sudden spike up in crude oil prices and consequently higher fiscal deficit, a disorderly exit by the central bank from the stimulus program, including an extra hawkish stance due to rising inflation, a second successive drought, a significant slowdown in capital flows or measures to rein in capital flows (including a review of tax treaties). The market is currently pricing in a V-shaped recovery in industrial growth (Exhibit 2) and, hence, its ability to absorb a negative growth surprise is quite limited. The market's valuations do not appear attractive at current levels but do not seem stretched either. On our estimates, the Sensex is trading at 16x and 13x F2010 and F2011 earnings, respectively. At a 10-year bond yield of 7.4%, investors are realizing a risk premium of 6.4%, which suggests that the market is attractive for long-term returns (Exhibit 3).

Exhibit 1
Correlations running tightly



Source: FactSet, MSCI, Morgan Stanley Research

Exhibit 2
Market pricing in "v"-shaped recovery in growth



Source: CSO, Morgan Stanley Research, E: Morgan Stanley estimates

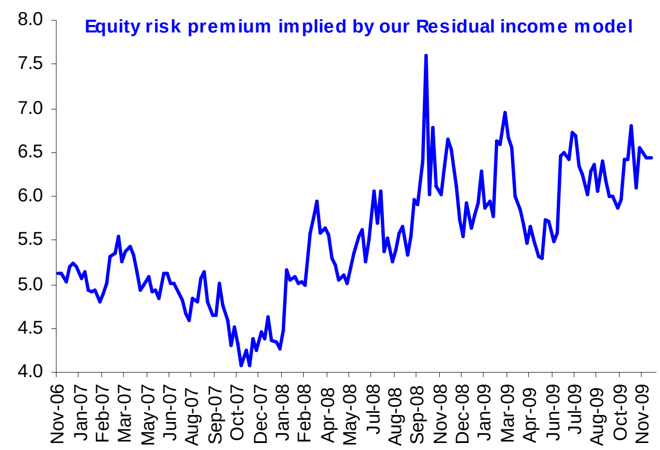
At the same time, the absolute P/E and P/B are 116% and 90%, respectively, off their all-time lows, and the market's 12-month forward P/E is at a 37% premium to EM averages. The prospects of earnings upgrades mean that valuations could, in hindsight, turn out to be attractive but the market may have narrow tolerance to a negative surprise. A negative growth surprise would take the market to our bear-case scenario, implying –16% returns in 2010 (Exhibit 4).

Under the second scenario, correlations no longer hold because of events outside India. An acceleration of growth in the US or threat of inflation could cause US monetary authorities to move on rates, thereby cutting off liquidity to risk assets. India's sweet spot is that its growth continues to accelerate while growth in the developed markets remains modest to allow ample liquidity in the system. A withdrawal of liquidity could cause correlations to collapse since India's macro remains closely tied to flows from global financial markets. The likely outcome for Indian equities in 2010 under this scenario is a muddle-through with a focus on stock picking. Another angle on the second scenario is that growth in the developed world remains anemic, causing a surge in liquidity and a bubble in Indian equities with low correlation with developed world equities.

The third scenario is that India surprises positively on growth. We attach a higher probability to this scenario than the first one (25% vs. 10%). The government puts up more infrastructure than in our base case (8.5% of GDP over the next 12 months), coupled with tax reforms. A smooth exit strategy by the central bank, along with strong capital flows (US$62bn in our base case in F2011) which do not get out of hand, leads to acceleration in growth (ahead of our GDP growth forecast of 8.0% in F2011). Consequently, the output gap closes quickly and private capex also recovers, leading to further growth. Crude oil prices remain range-bound and inflation does not surprise negatively in this scenario. Even under this scenario, correlations weaken. This is our bull case for Indian equities and takes the market past its previous high, with 38% potential upside in 2010.

Exhibit 3

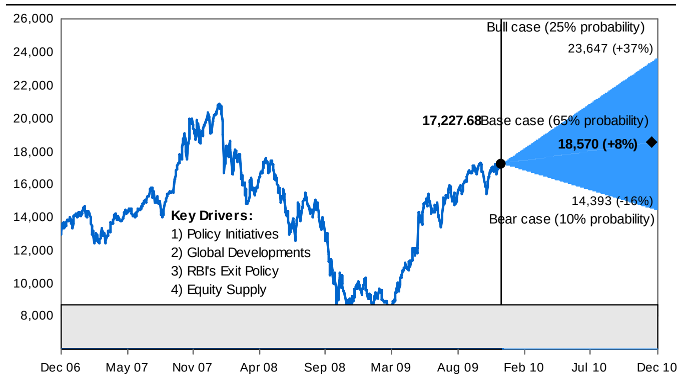
Long-term valuations support case for equities



Source: Company data, Morgan Stanley Research

Exhibit 4

BSE Sensex: Potential outcomes for Dec-2010



Source: Company data, Morgan Stanley Research

Based on these scenarios, the following are the key factors that could determine market behavior: government policies (watch out for infrastructure spending and tax reforms), global markets, crude oil prices (a sharp spike creates problems; the risks are lower if a crude oil price rise is accompanied by strong capital flows), long bond yields (reflecting the fiscal position), the RBI's exit policy (an orderly exit is critical to liquidity), domestic inflation (strong growth can lead to higher inflation) and equity supply (the market may not tolerate more than US$20-25bn in the coming year).

India Cement

Capacity delays + strong demand = stable cement prices

Morgan Stanley India Company Private Limited+

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Our view

Our base case builds in less new capacity addition relative to consensus' expectation. Also, in our view, time to ramp-up utilization rates for new capacity will lead to a moderate increase in effective capacity. The key surprise (our current bull case) would be even less capacity addition supporting cement prices in F2011, leading to stable/marginal decline in prices against our base-case expectation of a 7-8% decline.

Market view

Consensus expectations are for strong capacity addition to lead to a drop in capacity utilization from current high levels, resulting in a sharp decline in cement prices in F2011. Investors are relatively bullish, but are not expecting stable cement prices as in our bull case.

Capacity addition delays would moderate the effect of potential excess supply: In our base case, we estimate industry capacity will increase by 45 million tones (mnt) in F2010 and 29mnt in F2011. However, commissioning might be delayed, as has been the case over the past 12-18 months Also, Indian companies are now adding a larger proportion of greenfield capacity, which is relatively complex. We assume delays in some capacity additions in our base case, but we see the potential for an upside surprise.

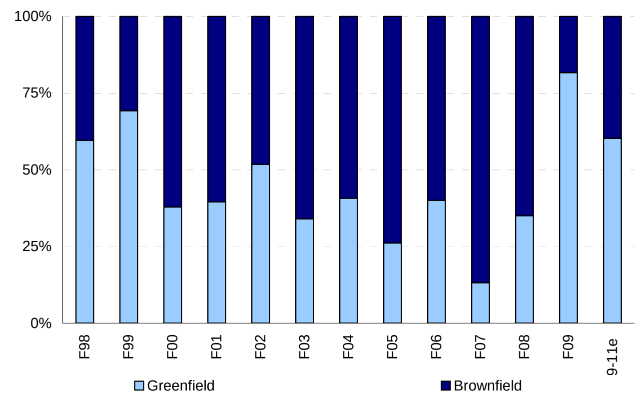
Exhibit 1
New expansion has been delayed

Company	Plant	State	Capacity	Initial Timeline	Actual / Revised
Ambuja	Bhatapara	CTT	2.2	Mar-09	Nov-09
	Rauri	HP	2.2	Jun-09	Dec-09
	Dadri	UP	1.5	Mar-09	CQ409
ACC	Bargarh	Orissa	2.1	early 2009	Dec-09
	New Wadi	KAR	3	middle 2009	Mar-10
Grasim	Shambhupura	RAJ	4.4	Mar-08	Mar-09
	Kotputli	RAJ	4.4	Jun-08	Sep-09
Dalmia	Cuddapah	AP	2.5	C2H08	Mar-09
	Ariyalur	TN	2.5	C1H09	Nov-09

Source: Company data, Morgan Stanley Research

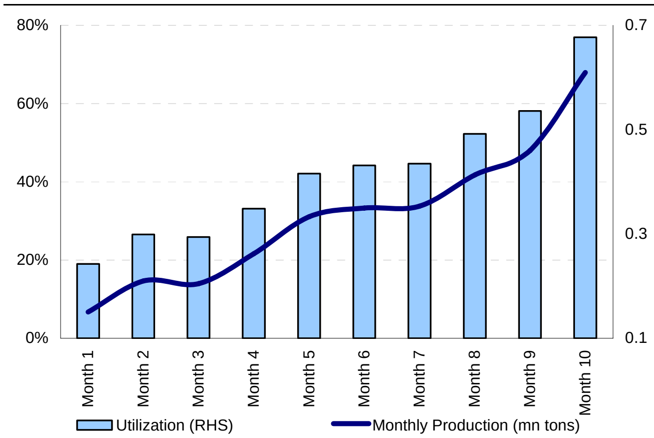
Greenfield capacity will take time to stabilize and reach full utilization: Greenfield capacity will take a while to attain and sustain high utilization (~80%) after commissioning. Capacity added in the past 12-18 months took two to three quarters to reach around 70% utilization. A lag in reaching high utilization would lead to only moderate growth in effective capacity over the next four to six quarters – something consensus views are not currently looking at, we believe.

Exhibit 2
Pickup in greenfield expansion as a percentage of new capacity…



Source: Company data, Cement Manufacturers' Association (CMA), Morgan Stanley Research.
e = Morgan Stanley Research estimates

Exhibit 3
…Greenfield capacity's high utilization has taken two to three quarters



Note: Based on data for capacity that became operational in 2008
Source: Company data, CMA, Morgan Stanley Research

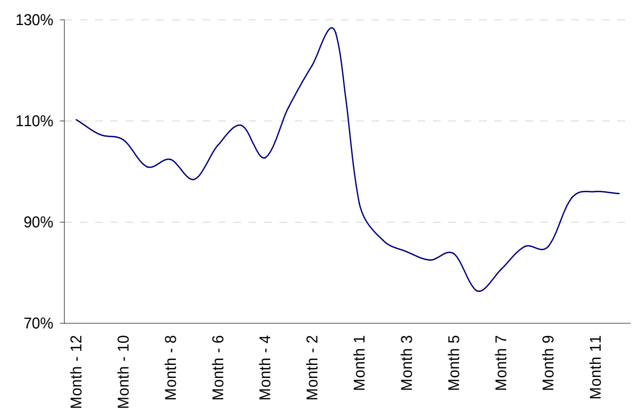
Brownfield expansion should lead to moderation in utilization of existing lines: Around 40% of capacity to be added in F2009-11 will be brownfield. As companies are operating at 90-95% utilization, this should ease some pressure on existing lines. For brownfield capacity added in 2008, utilization initially dropped. As capacity stabilized, utilization increased but was lower than the earlier peak.

Demand could be higher than in our base case – positive for cement prices: We estimate demand growth of 9.5% in F2011. However, from the interplay of housing demand, infrastructure expenditure, and corporate capex there could be potential upside. Higher demand would absorb increased supply, supporting cement prices.

Consequently, capacity utilization could bottom higher than in our base case: In our base case, we estimate utilization will bottom at 85% in F2011. However, if capacity delays are higher than expected, relatively higher utilization could be maintained, leading to stable cement prices.

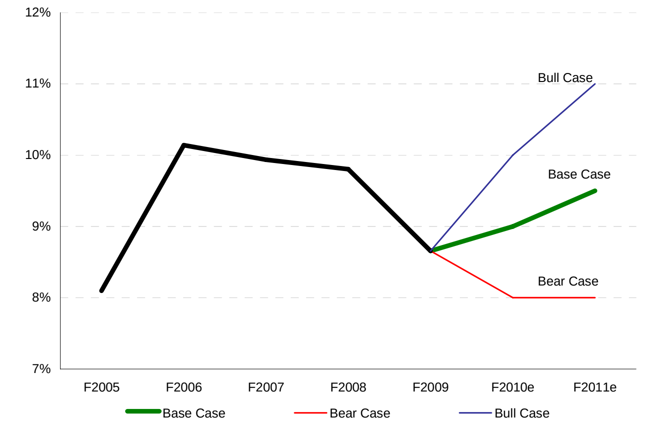
Stock view: We re-iterate Ultratech (OW, Rs845.30) as our top pick in case the upside surprise for the industry materializes. Given Ultratech's geographical exposure (predominantly in the west and south of India, where we expect a greater effect from price declines) we believe it will have higher earnings upside. Also, as the company becomes the largest cement producer in India after the merger with Samruddhi Cement (Grasim's proposed cement subsidiary), the stock is likely to be subject to some re-rating, in our view.

Exhibit 4
Utilization for capacity with brownfield expansion



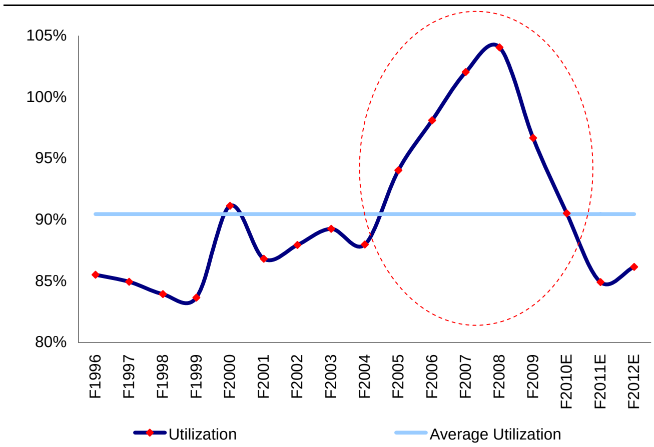
Note: Based on data for capacity with brownfield expansion in 2008. Month 1 denotes the month in which brownfield capacity became operational
Source: Company data, CMA, Morgan Stanley Research

Exhibit 5
Demand growth scenario analysis



Source: Company data, Morgan Stanley Research. e = Morgan Stanley Research Estimates

Exhibit 6
Medium-term utilization to bottom in F2011E



Source: CMA, Morgan Stanley Research. E = Morgan Stanley Research Estimates

India Construction & Infrastructure

Larsen & Toubro: Gains in power equipment market share to drive upside

Morgan Stanley India Company Private Limited+

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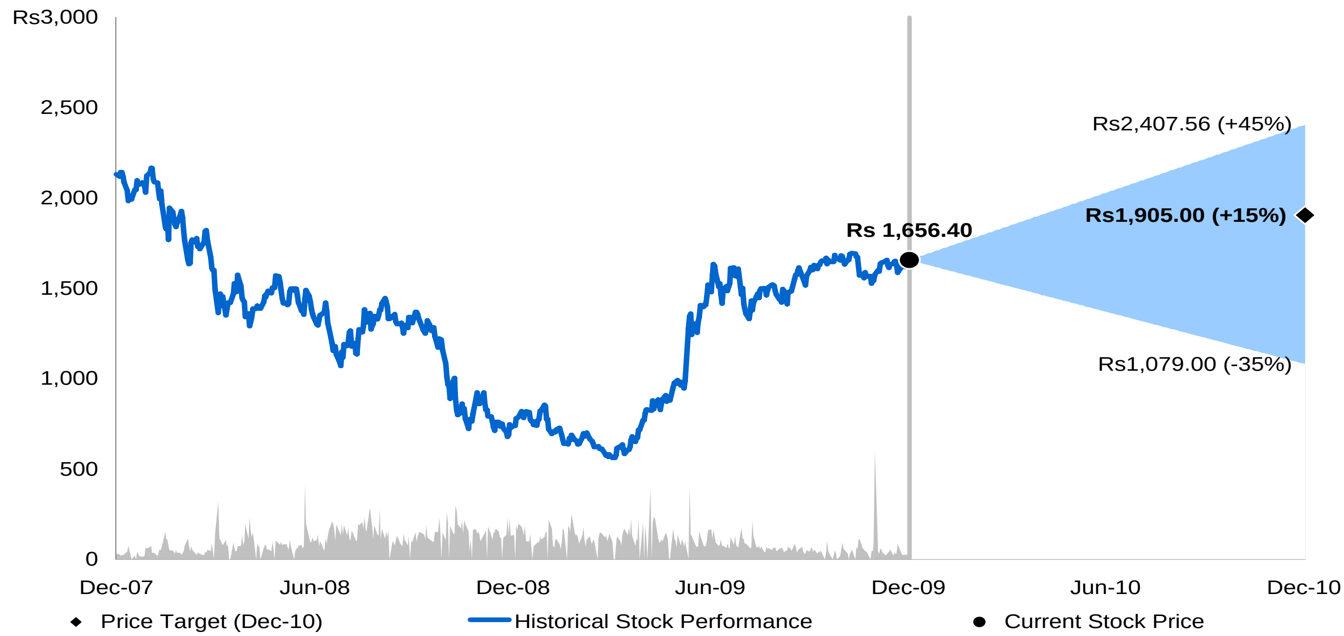
Our view

We expect L&T to take market share from BHEL in the power equipment space. L&T's willingness to operate at global margins (around 500bp below Bharat Heavy Electricals' super-normal margins) in this new segment could drive market share gains in excess of our base-case scenario. This would, in turn, lead to an increase in L&T's margins relative to the base case as the company's share of higher-margin orders from the power sector expands. A unique combination of scale, diversity and growth leads us to rate L&T stock Overweight.

Market view

Market favors the established player. The market continues to underestimate the market share gains that L&T will likely achieve in the power equipment arena. Consensus believes that BHEL, given its long dated experience in the BTG (Boiler Turbine Generator) manufacturing space and its public sector ownership, will continue to garner the lion's share of orders from the central and state governments' spending on power plants.

Scale and diversity lend stability



Risk-reward scenarios

OW, PT Rs1,905.00

Rs1,079
Bear Case
14.1x base case 2011E EPS

Slowdown in capex leads to only 23% order inflow in F2010 and 20% in F2011; revenue growth slows to 26% in F2011 as margins fall to 10.3%. No value is assigned to the uninvested equity of L&T's infra subsidiary.

Rs1,635
Base Case
21.4x Base-case 2011E EPS

E&C order inflows grow 28% in F2010 and 25% in F2011 – closer to the lower end of company guidance; slower execution leads to 29% revenue growth and 10.7% margins in F2011 as Infra subsidiary trades at P/B of 0.5x on uninvested equity.

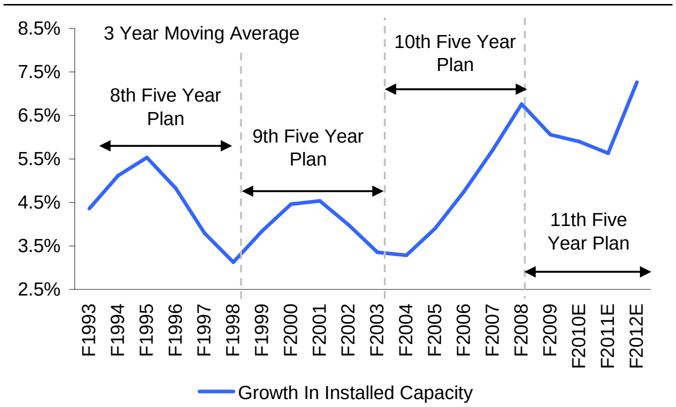
Rs2,407
Bull Case
31.7x P/E on Base Case 2011e EPS

E&C order inflows grow 35% in F2010 and 28% in F2011; execution momentum is maintained, with revenue growing 33% in F2011 as Infra subsidiary trades at 1.5x P/B on uninvested equity and margins expand to 11.4%.

Forthcoming catalysts and milestones: With L&T beginning to win state projects (Koradi and Malwa), our thesis that the company will gain significant public sector market share from BHEL in the short to medium term is starting to play out, we believe. The negotiated order (11X660 MW) that the central government plans to award in April 2010 will be the next trigger for L&T, we expect. The company's prospects of winning a portion of the order are good, we think, and this could end up being the largest order in L&T's history.

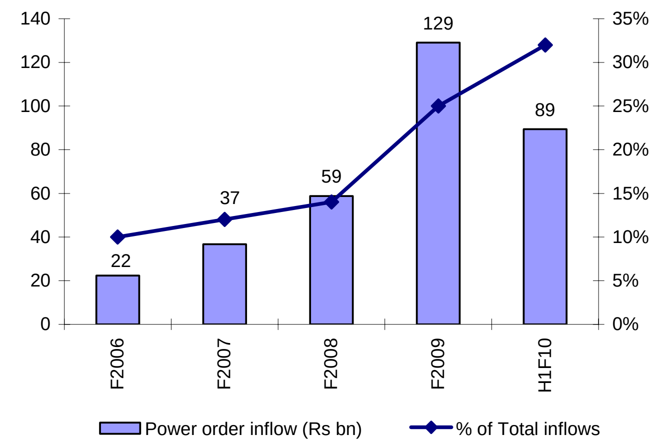
What in the price: While L&T has increased its earnings at a 24% compound annual rate over the past 20 years (Exhibit 3), the current price implies a 16.6% CAGR over the next 10 years, which moves down further to just 13.5% after the strong growth we forecast over the next three years has passed. We attribute this implied slowdown in growth to the consensus view that L&T's revenue base has become too large to grow very fast in the future. While its revenue base does indeed look large when compared with those of its construction peers in India (Exhibit 4), the risk of a growth slowdown is largely mitigated by L&T's entry into the power equipment (Boiler Turbine Generator) manufacturing arena, we believe. L&T's closeness in size to that of BHEL, the current market leader in the power segment, suggests to us the considerable potential of this segment.

Exhibit 1
**Indian Power:
Private sector seizing opportunity to spur growth**



E = Morgan Stanley Research estimates
Source: Company data, Morgan Stanley Research

Exhibit 2
Power segment gaining importance for L&T



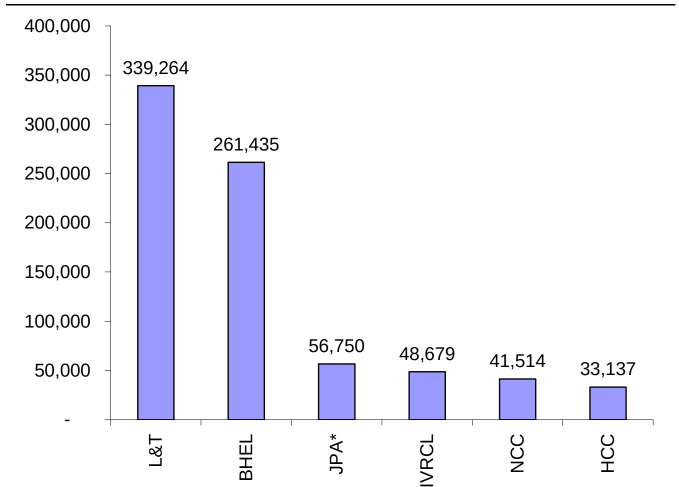
Source: Company data, Morgan Stanley Research

Exhibit 3
L&T: Historical CAGR compares well with current implied growth (%)

Period	CAGR (%)
20 yr (%)	23.7
15 yr (%)	21.2
10 yr (%)	22.1
5 yr (%)	32.4

Source: Company data, Morgan Stanley Research

Exhibit 4
L&T's F2009 revenues are higher than those of the next four constructors in India (Rs mn)



Source: Company data, Morgan Stanley Research

India Consumer

We see competitive intensity increasing

Morgan Stanley India Company Private Limited+

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Our view

Competitive pressures likely to intensify in the FMCG market. Competitive pressures among consumer staple companies are likely to rise over the next 12 months. EBITDA margins driven by input cost savings appear to have peaked, and valuations in general leave little room for upside. We cite four factors likely to boost competitive pressures: (i) Increase in advertising and marketing expenditures; (ii) sharp improvement in gross margins for most companies, which will likely be reinvested; (iii) HUL's further aggression in market-share-led growth; (iv) P&G's potential focus on increasing its consumer base in India. We believe that a potential rise in competitive spending could manifest itself in price cuts, increased levels of promotions, and/or a sustained increase in ad spending.

Market view

Strong rural growth, driven by fiscal stimulus packages, should accelerate FMCG sales growth in F2010. We disagree; revenue growth for FMCG companies is likely to slow in F2010 and F2011 due to a combination of a) lagged effect of the drought on rural consumption, and b) potential price cuts.

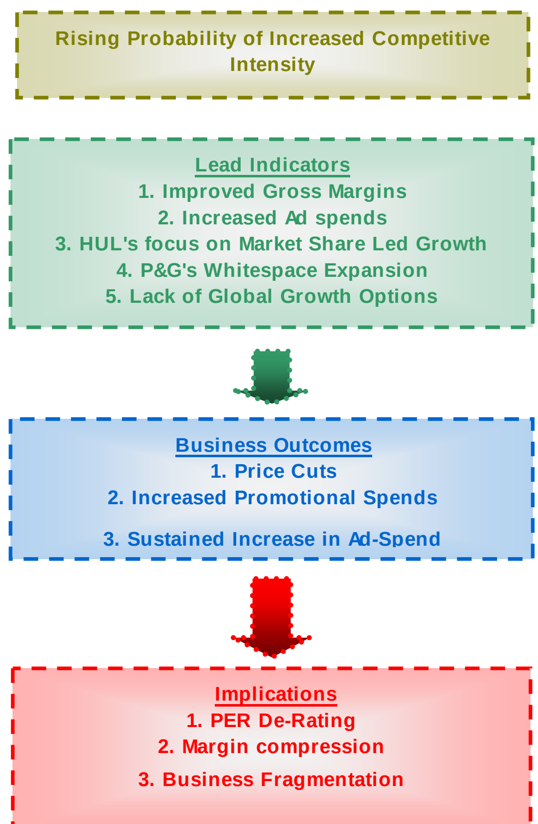
Competitive intensity could slow as companies become reconciled with their existing market shares in their respective segments. We think the likelihood of this scenario is low, as leading indicators point toward a sharp increase in competitive pressures. Marketing spend has significantly increased in the past two quarters, as top players up the ante to drive market-share-led growth.

Coming full circle: After a year of margin improvement driven by reduction in cost pressures, we believe that for most FMCG companies, input cost savings peaked in the September 2009 quarter, while revenue growth is beginning to slow. We regard the next likely theme in the FMCG sector as "Potential Rise in Competitive Pressures." Considering the peak margins and potential slowdown in domestic revenue growth, we believe FMCG companies are likely to intensify their marketing battles to fight for market share. We expect price cuts, along with increased spending on promotion and marketing – which could be sustained over the next one to three years. In particular, we look for competitive pressures to ratchet up in the HPC segment.

The net result – margins could be impaired… We believe that EBITDA margins for most FMCG companies may have peaked. In fact, with potentially rising competitive pressures, we see increasing risk that EBITDA margins may actually fall over the next one to two years, especially for HUL and Colgate.

…revenue growth is likely to slow… We expect industry revenue growth to slow to low double-digit percentages in F2009-12 from the mid-to-high teens over the past few years.

…and stock valuations are likely to compress: Stock valuations appear to have peaked in general, compared with both their own recent history and global consumer companies.



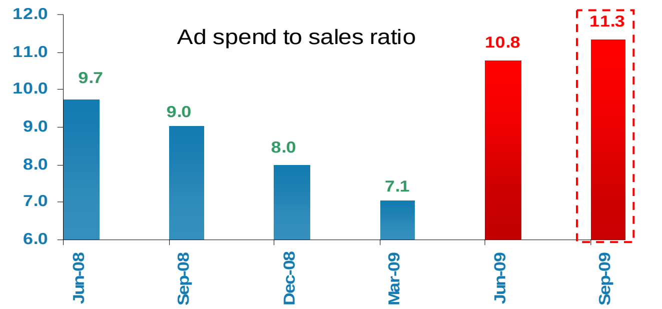
Morgan Stanley Research

We cite four key sources of pressure:

1. ***Increase in advertising and marketing expenditures:*** The ratio of ad spending to sales has risen sharply for most companies – which we view as a good predictor of rising competitive activity in the quarters to come.

Exhibit 1

Rising marketing investments by FMCG Companies

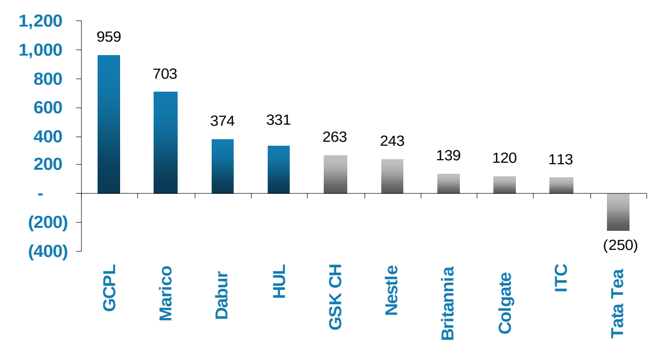


Source: Company data, Morgan Stanley Research
Incl: Colgate, Dabur, HUL, Marico, GCPL, GSK Consumer, Britannia, Emami & Jyothy Lab.

2. ***Sharp improvement in gross margins:*** Expanded margins have provided the flexibility for price cuts and increased promotional spending. They have also fueled ambitions to expand into new categories and build on recent success in market share gains.

Exhibit 2

Sharp Gross Profit Margin Expansion in Q2F2010



Source: Company data, Morgan Stanley Research

3. ***HUL's determination to claw back its lost market share:*** HUL has become increasingly aggressive in seeking growth led by market share. We think this is likely to affect most FMCG companies.

4. ***P&G's focus on increasing its consumer base in India:*** P&G is likely to increase its planned investments in India. The global giant has signaled renewed aggression in emerging economies; it is likely to introduce new products (at various price points) and new categories.

We prefer stocks that are 1) less vulnerable to severe competitive pressures, and 2) attractively valued. Considering the sector's unusual competitive situation over the next one to two years, we prefer stocks that are less vulnerable to the forces we have described and that are attractively valued. ITC, Dabur and Tata Tea are our top picks, whereas Colgate and HUL are our top Underweights.

- In our view, ***ITC (OW, Rs258, PT Rs287) is least vulnerable*** to the potential rise in competitive pressures since over 100% of its EBIT is derived from businesses like cigarettes, hotels, paper, and agri. Moreover, ITC's cigarette business has demonstrated significant resilience despite adverse regulatory changes.
- ***Tata Tea (OW, Rs956, PT Rs988)*** is less vulnerable to aggressive market forces, owing to international diversification; overseas markets contribute around 75% of the company's EBIT. Importantly, Tata Tea is quite attractively valued, in our view.
- **Dabur** ***(OW, Rs166, PT Rs178)*** seems to have carved out a niche in the herbal/natural/ayurvedic product space, which may not be directly affected by an increase in competitive activity (except in shampoo and oral care).
- ***HUL (UW, Rs276, PT Rs241)*** *and* ***Colgate (UW, Rs689, PT Rs606)*** are most vulnerable since they are market leaders in the categories where we expect an increase in competitive activity.
- ***GCPL (EW, Rs280, PT Rs290)*** also is likely to face an increase in competitive pressures, particularly in the soap category. ***Nestle (EW, Rs2608, PT Rs2652)*** and ***Marico (EW, Rs108, PT Rs100)*** are vulnerable to potential competitive threats from regional/local players, but more importantly, their stock upside is capped, in our view.

Our base-case valuation does not fully factor in the potential rise in competitive pressures because there are no current signs of this. However, leading indicators suggest that a rise in competitive activity is likely with price cuts, increased promotional spending, and a sustained rise in marketing expenditures over the next one to two quarters. We use our scenario-based framework to derive our price targets. For companies that are more vulnerable to competitive pressures, we apply a higher probability to our bear-case outcomes.

What's next: Potential price cuts, increases in promotional offers and/or P&G's entry into a new product category or segment are likely to be negative triggers for the stocks. Potential reversal of excise tax cuts could also hurt the sector.

India Financials

Rising interest rates will be good for Indian banks

Morgan Stanley India Company Private Limited+

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Our view

We believe SOE banks will outperform the markets in 2010 despite rising interest rates. Our India economics team expects policy rates to rise by 150bps in the coming year. We believe that this will be beneficial for most banks under our coverage – including SOE banks. Rising rates will imply improving deposit spreads and rising asset yields. This, we believe, will aid margins and hence revenue progression.

Market view

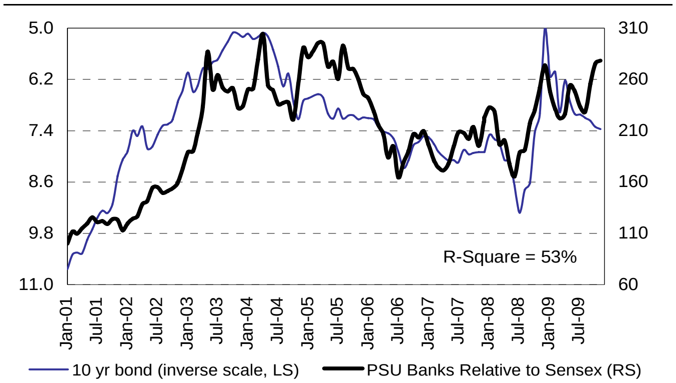
Historically, SOE banks have tended to underperform the markets when interest rates were rising. This was on account of the MTM losses on their bond portfolios. However, over the past few years, SOE banks' negative sensitivity to interest rate moves on their bond portfolio has fallen substantially.

Rising interest rates have historically implied SOE banks' underperformance: Our India economics team expects policy rates in India to rise by 150bps over the coming year. This, coupled with improved growth, will also cause market rates to rise gradually (albeit with a slight lag). We believe that the key surprise will be that SOE banks outperform despite this rise in interest rates.

Historically, SOE banks been considered to be bond proxies, as a large proportion of their balance sheets used to be invested in government bonds, and treasury income used to be a significant proportion of their profits. Indeed, as a result, SOE bank performance tends to be highly correlated (inversely) with Indian government bond yields, and these stocks always used to underperform in a rising rate environment.

Exhibit 1

PSU bank performance vs. 10-year bond yields – has the correlation broken?



Source: Company data, Morgan Stanley Research

Potential MTM impact on bond holdings has been insulated: However, banks have insulated themselves from bond losses by reducing the proportion of investments in the available-for-sale (AFS) portfolio through transferring them to the held-to-maturity category; hence, their sensitivity to interest rate movements has decreased substantially.

Exhibit 2

Rate-sensitive portfolio substantially lower

AFS Portfolio as % of total	F2004	Latest	Change
BOB	91%	17%	-74%
BOI	62%	25%	-37%
Canara	76%	21%	-55%
Corp	83%	38%	-45%
OBC	84%	25%	-59%
PNB	73%	19%	-55%
SBI - Parent	81%	35%	-46%
Union	76%	31%	-45%

Source: Company data, Morgan Stanley Research

Exhibit 3

PBT impact if portfolio is out of the money by 50bp

Impact on PBT	F2004	Now
BOB	50%	3%
BOI	38%	2%
Canara	44%	5%
Corp	35%	6%
OBC	29%	8%
PNB	62%	3%
SBI - Parent	62%	10%
Union	32%	10%

Economic Impact = Change in Yields * Duration * AFS Portfolio
Source: Morgan Stanley Research

Rising rates will be good: We argue that rising rates will be good for most banks under our coverage, including SOE banks. As we detail below, such an environment would result in expanding margins in F2011 and drive robust revenue progression.

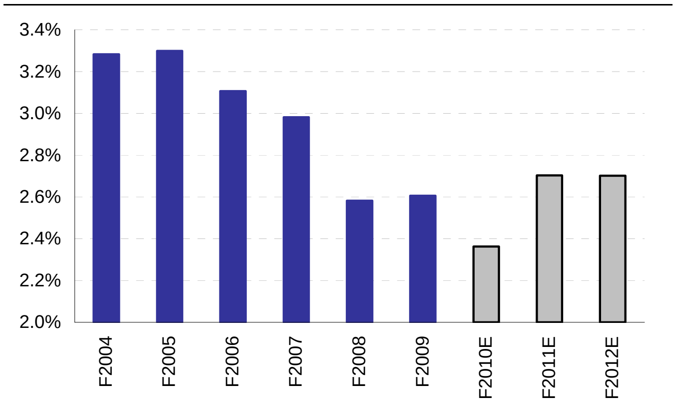
Liability franchises will become valuable again: Most of the banks under our coverage have a substantial proportion of low-cost deposits (current account and savings account), where the funding cost is fixed (0% and 3.5%, respectively). In a rising rates scenario, deposit spreads will open up for banks with a strong low-cost deposit mix; hence, we expect banks with strong deposit bases to report good NIM progression in F2011 and F2012.

Asset yields will improve: Over the last five years, SOE banks faced bond re-investment risk. High-yield bonds were maturing and were replaced by lower-yielding assets. Now, the bond re-investment risk is behind them. The bonds, which are maturing now, have relatively lower yields, and as rates rise, the banks see a higher asset yield. This is likely to be the first time in 10 years that rising rates will cause both loan and bond spreads to increase.

Furthermore, SOE banks have a large amount of funds invested at the short end of the curve (repo and liquid funds) due to a lack of credit pickup. As loan growth picks up, the short end of the curve will rise. This can cause meaningful improvement in NIMs.

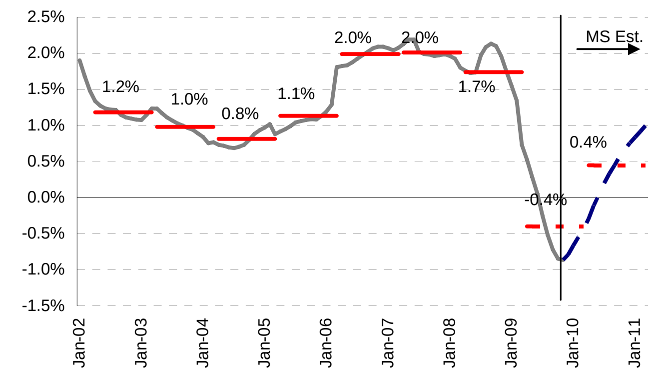
Bottom line: Our macro team forecasts the first rate hike to occur in January 2010; hence, in the near term, rising interest rates could lead to volatility in stock performance. However, from a fundamental perspective, we believe that the earnings progression will be strong and we would be buyers on any weakness. Valuations for SOE banks continue to be attractive at 4.1x PPOP and 1.2x BV, in our view.

Exhibit 4
SOE Banks: NIMs will expand with rising rates



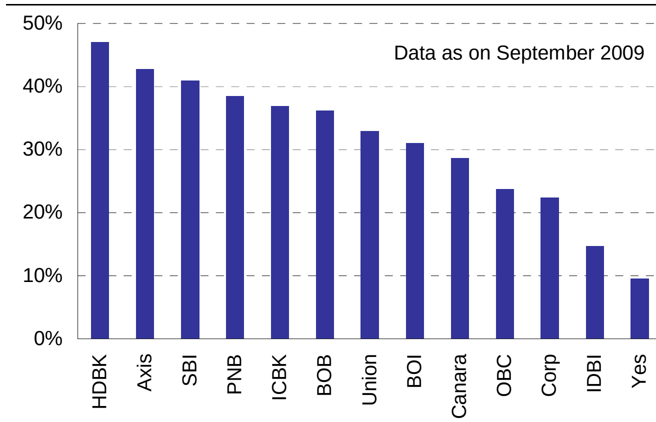
Source: Company data, Morgan Stanley Research, E= Morgan Stanley Research estimates

Exhibit 5
India Banks: Deposit spreads (91-day T-bill – cost of deposits)



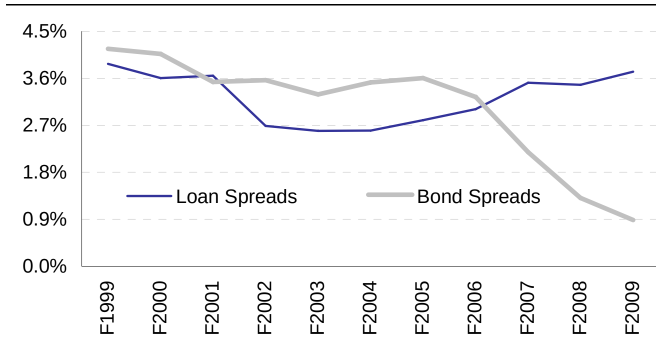
Source: Company data, Morgan Stanley Research: Note: Deposit Spread = Trailing 12M average of the 91-Day T-Bill – Trailing 12M average of Cost of Funds (we use the weighted average cost of funds using SBI's 1 year deposit rate and deposit mix as a proxy)

Exhibit 6
India Banks: CASA ratios



Source: Company data, Morgan Stanley Research CASA = current and savings accounts

Exhibit 7
Bond spreads will get support from rising rates



Source: Bloomberg, Company data, Morgan Stanley Research

India Four-Wheelers: Commercial Vehicles

Tata Motors: Operating leverage & cost cutting drives JLR into profitability

Morgan Stanley India Company Private Limited+

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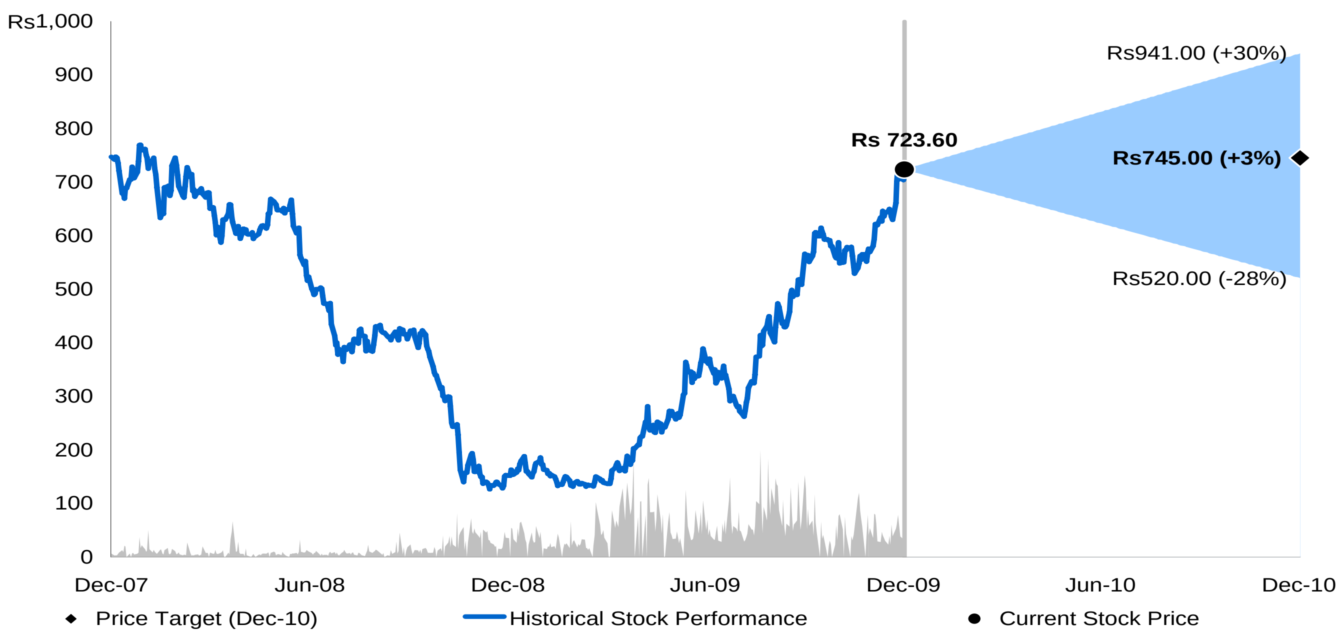
Our view

Operating leverage to surprise on the upside. Driven by positive operating leverage and reducing fixed costs, we believe JLR's return to profitability could be much stronger than our base-case assumptions. We expect JLR to post £650mn EBITDA in FY11e, and aided by strong India CV volume growth in FY11e (20%), the stock to move closer to our bull-case value. Positive operating leverage, in a recovering environment, could result in a strong upsurge in profitability and thus surprise the Street on the positive side.

Market view

Market pricing JLR recovery, not profitability. The market expects JLR's earnings to recover, but believes the company will still post losses at the net income level. In our bull case, we expect JLR to post a £247mn net profit in FY11e, and this forms 40% of the group net income level. Furthermore, as JLR turns profitable, it should be able to generate positive cash flows and improve the group-level balance sheet.

JLR turnaround/global luxury car recovery will drive Tata Motors



Risk-reward scenarios

OW, PT Rs745.00

Rs520
Bear Case
130x P/E on Bear Case F2011E EPS

Slower-than-anticipated recovery: MHCV volumes post moderate 9% growth in FY11e, JLR's volumes, mix and margins show no further recovery, and the current quarterly retail run rate of 47k units continues in FY11e. India business posts a margin of 11.5% in FY11e and Rs43 bn EBITDA, and JLR posts an EBITDA of £200mn.

Rs745
Base Case
18x P/E on Base Case F2011E EPS

MHCV volumes post strong pick-up in F2H10, and growth continues into F2011; JLR posts £470mn EBITDA in FY11e. Driven by changes in emission norms and a recovery in the macro environment, the CV recovery picks up momentum in F2H10 and Tata Motors posts a 13% margin in its India business. JLR posts sales of 180k (down 18% YoY) in FY10e and 200k in FY11e, driven by improved mix and operating leverage. The company posts EBITDA of £470mn in FY11e.

Rs941
Bull Case
13x P/E on Bull Case F2011e EPS

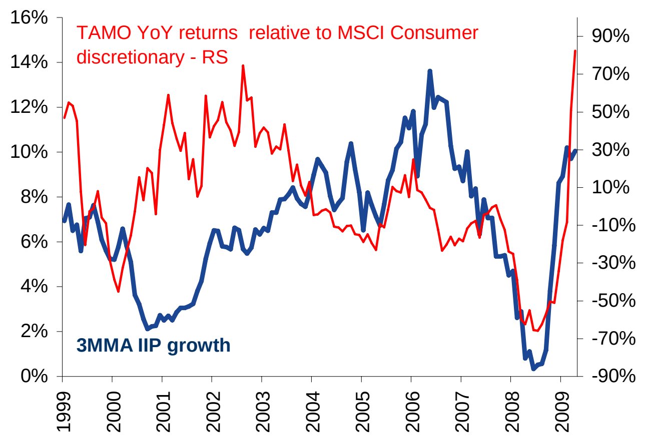
Economic environment recovers faster than anticipated; JLR's earnings drive Tata Motors' growth: JLR's volumes in FY11 reach FY09 level of 220k, aided by improved mix (XJ launch successful) and operating leverage. JLR posts an EBITDA of £574mn, 20% higher than our base case. MHCVs post 20% volume growth, and India business posts an EBITDA of Rs53bn.

Upcoming catalysts: 1) In line with past trends, we expect strong India CV sales ahead of the change in emission norms expected in April 2010 (Exhibit 4). 2) The Jaguar XJ launch, expected in January 2010, could boost volumes, mix and profitability. We believe the new XJ has higher margins than the X type the company is phasing out, and thus we expect improvement in realization at the JLR level in F4Q10.

How would operating leverage drive JLR? Exhibit 3 shows JLR's sensitivity to volume change, assuming constant fixed costs and ASP assumptions. Volume growth of 10% (difference in our assumptions between our base and bull cases) results in 25% jump in EBITDA.

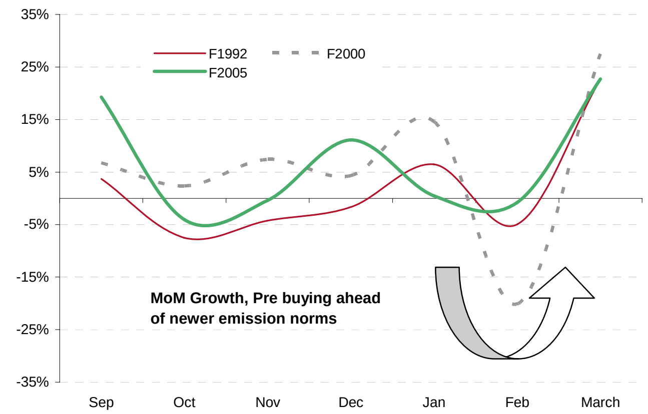
What's in the price – domestic recovery priced in, JLR to add on the upside: The stock has rallied over the last six months, driven, in our view, by reduced balance sheet risk, domestic business showing a sharp recovery, and JLR steering out of losses. Our positive stance on Tata Motors primarily captures the upside that JLR can add to Tata Motors as it moves towards breakeven. Assuming the India business trades at 9x EV/EBITDA (in line with the historical 10-year median), and non-JLR subsidiaries are valued in line with our base case (Rs100), then the current price implies that JLR trades at 5x EV/EBITDA. Given the sharp recovery we expect in JLR's earnings, we believe our JLR base-case numbers could move towards our bull-case assumptions, thus pointing to 34% upside from current levels.

Exhibit 1
Historically Tata Motors has done well in a recovering IIP environment



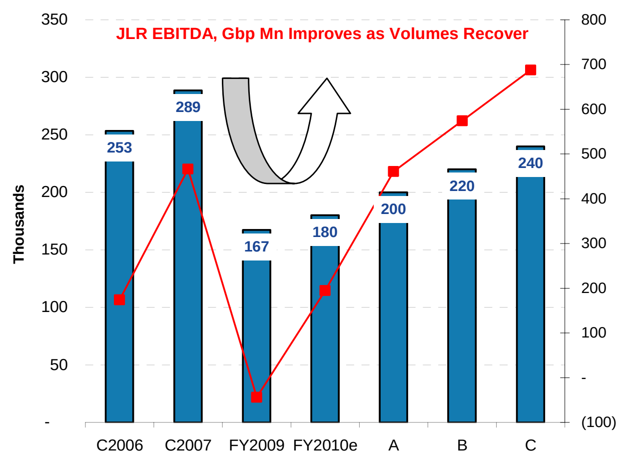
Source: Factset Research Systems, Morgan Stanley Research

Exhibit 2
Emission norms change to act as upcoming catalysts



Source: Company data, Morgan Stanley Research

Exhibit 3
JLR EBITDA across scenarios



e = Morgan Stanley Research estimates, Source: Company data, Morgan Stanley Research

Exhibit 4
Tata Motors' revenue and profitability mix shifting towards JLR by F2012e

Revenues Rs/mn	F2009	F2010e	F2011e	F2012e
Tata Standalone	254,713	326,796	384,704	434,241
JLR	378,020	437,032	502,778	553,055
EBITDA				
Tata Standalone	15,636	41,725	47,243	51,237
JLR	(3,344)	14,823	36,048	40,959

e = Morgan Stanley Research estimates
Source: Company data, Morgan Stanley Research

India Media

Zee Entertainment: Revenue pickup/restructuring may surprise market in 2010

Morgan Stanley India Company Private Limited+

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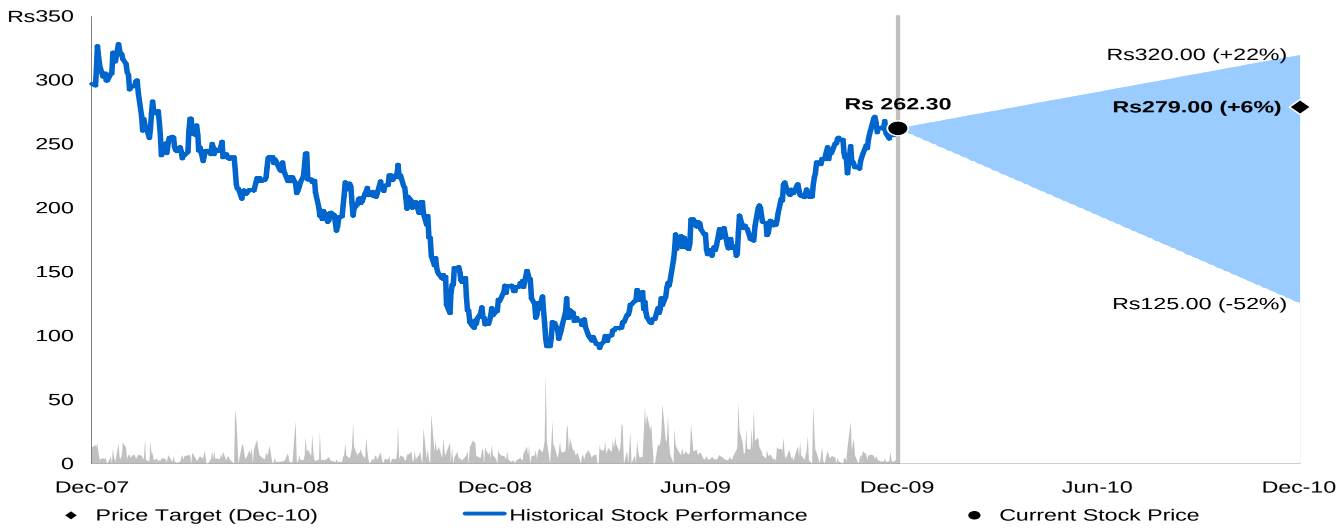
Our view

We believe revenue acceleration may surprise investors in 2010 as advertising budgets get a fresh boost with a quick-paced revival of large advertising sectors, such as autos, banking and financial services, and real estate, and sustained strength in consumer goods and telecom industry advertising spends. We are also encouraged by growing digital TV penetration in India that can increase subscription revenue growth for ZEEL. We forecast advertising revenue and subscription revenue growth at 18% and 21% in F2011. Higher-than-expected India GDP growth for the September 2009 quarter and revival in auto sales during the past two quarters give us confidence in a better-than-expected bounce for stocks such as ZEEL that rely on consumption in the economy. The newly acquired R-GEC channels may also contribute some surprise.

Market view

Investors are modeling a slower revenue recovery, we believe. Both revenue streams for ZEEL, advertising and subscription, decelerated/declined sharply YoY during 3Q F2009-2Q F2010 because of the macro downturn. The Street seems to be pessimistic, as it expects much slower recovery of both revenue streams than we do. We believe the Street's view will come more in line with ours over the next three or four quarters.

Faster-than-expected advertising revenue growth

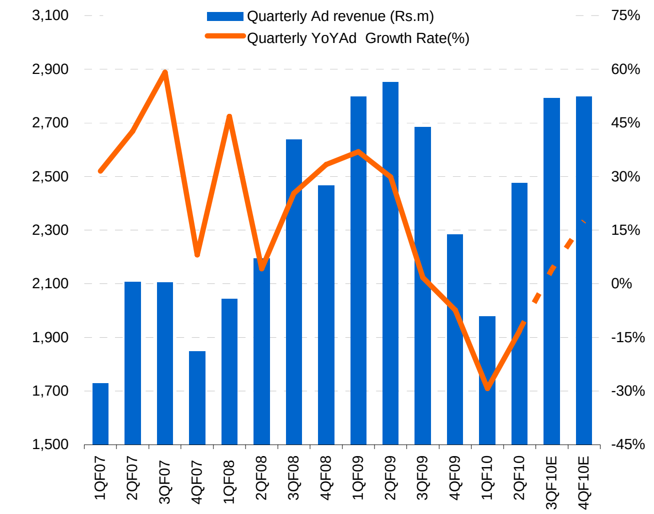


Risk-reward scenarios

OW, PT Rs279.00

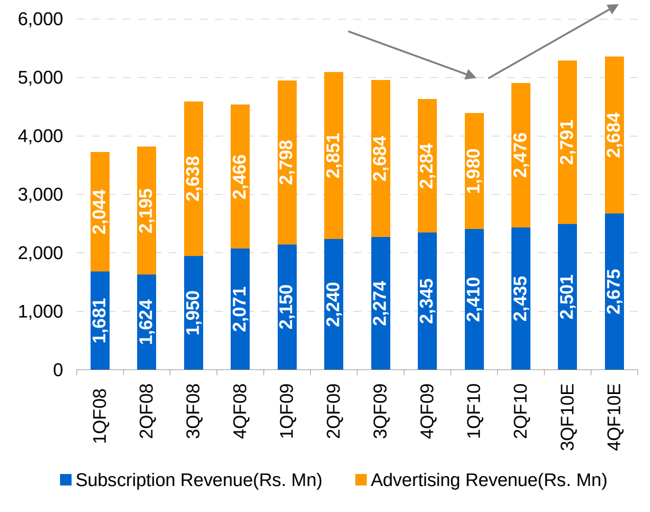
Rs125 Bear Case	Rs279 Base Case	Rs320 Bull Case
9.1x P/E on Base Case F2011e EPS	20.4x P/E on Base Case F2011e EPS	23.4x P/E on Base Case F2011e EPS
1) Slower advertising revenue CAGR of 5% due to muted ad market growth; 2) Increased competition: ZEEL's operational cost grows at a CAGR of 20% and ZEEL's share in ad market decreases; 3) DTH revenue CAGR of a muted 40%.	F2009-12 ad revenue CAGR of 7.7%; 2) F2009-12 subscription revenue CAGR of 18.2% with DTH revenue CAGR at 65%.	1) Advertising revenue CAGR of 10%; and 2) subscription revenue CAGR of 18.1% aided by a strong DTH revenue CAGR of 65%.

Exhibit 1
ZEEL's Ad revenues have started to pick up



Source: Company data, Morgan Stanley Research

Exhibit 2
Revenues are on the rise again



Source: Company data, Morgan Stanley Research

Step-up in subscription revenue trends possibly driving windfall gains for broadcasters such as ZEEL, something we believe the Street is yet to recognize fully: We project YoY increases of 12%, 21%, 22% for ZEEL's subscription revenue in F2010, F2011 and F2012 respectively, and acknowledge that our numbers carry upside risks. Notably, subscription revenue is the higher margin stream for ZEEL and its rising proportion should augur well for the company.

2Q F2010 results – ahead of expectations and improved QoQ performance: EBITDA and PAT were 16% ahead of our estimates. EBITDA at Rs1,508mn was up 29% QoQ, with margins at 27.9% (up 330bp QoQ) driven by improvement in advertising revenue. We are also encouraged by the good 9% YoY growth in subscription revenues. We believe the stock may continue to surprise on the upside over the next three to four quarters, driven by the rebound in revenue growth.

Newly acquired profitable GECs are capable of surprising us too: ZEEL announced that it proposes to acquire the regional entertainment business (R-GEC) of Zee News Limited (ZNL). The channels proposed to be acquired by ZEEL include Zee Marathi, Zee Bangla, Zee Telugu, Zee Kannada, Zee Talkies, and Zee Cinemalu. The channels are profitable and can add 18% and 22% to ZEEL's revenue and EBITDA at the current run rate. In addition, the channels improve ZEEL's bargaining power with distributors because of the better bundling of channels. ZEEL should also be able to offer a wider bouquet to a bigger target subscriber base, which should augur well in a situation where subscription revenues are looking to take off, driven by better addressability in the TV market in India.

India Oil & Gas

Reliance Industries: 2010 to be the turnaround year

Morgan Stanley India Company Private Limited+

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Our view

We believe the following events could be key surprises:

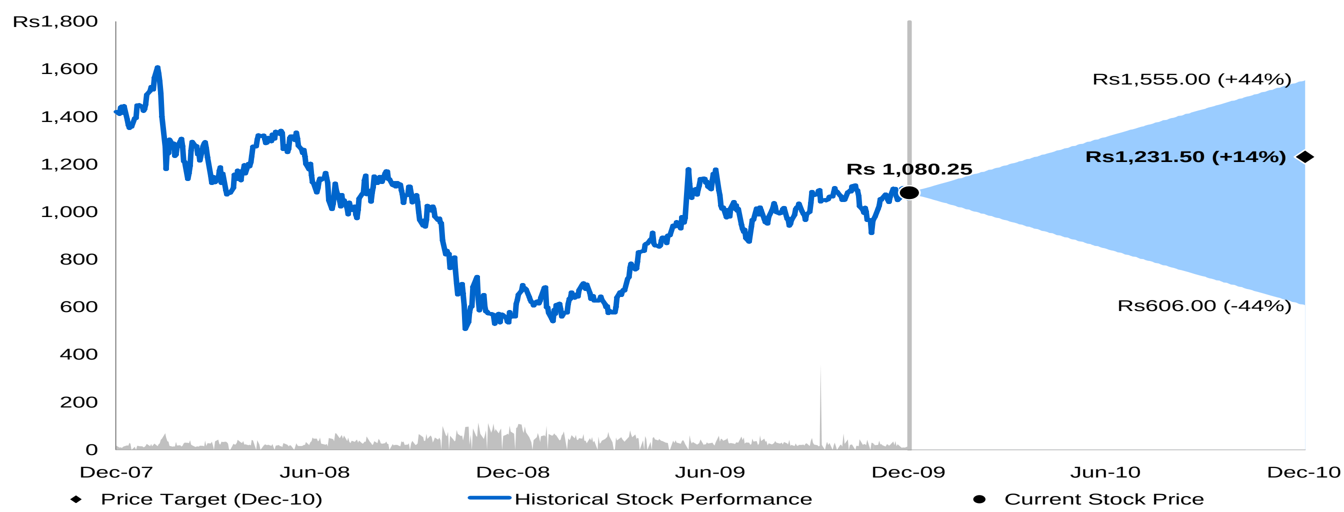
- RIL earns US$4.2/mmbtu for all 80 mmscmd of its KG D6 gas, leading us to raise our long-term EPS forecast by Rs11/share.
- Gross refining margins (GRMs) stabilize as global demand rebounds.
- RIL acquires Lyondellbasell for <US$15bn, enabling it to earn an incremental Rs19/share at a minimum.

We have, however, assumed that RIL earns US$2.34/mmbtu from Reliance Natural Resources Ltd (RNRL) but pays the government based on what its earns in our base case. Our earnings forecast does not reflect the possibility that a global recovery leads to higher GRMs, nor have we assumed that Reliance is successful in its Lyondell bid.

Market view

- We believe the consensus expects RIL to lose the litigation with RNRL pertaining to the supply of natural gas at US$2.3/mmbtu. RIL would, however, have to pay the government a royalty or profit petroleum at US$4.2/mmbtu. The market is missing two points here, we believe: the price paid by the end-consumer and the likelihood that the government will pay a similar price so long as it is negotiated at arm's length. As US$2.34/mmbtu was a discovered price during a global tender by NTPC, we believe it is an arm's length price.
- The market is assuming that GRMs do not recover in the next three to four years due to oversupply (similar to our view).
- The market is attributing no value, positive or negative, to a Lyondell bid, which is also similar to our view.

E&P business to drive growth



Risk-reward scenarios

OW, PT Rs1,231.50

Rs606
Bear Case
16.0x P/E on Bear Case 2011e EPS

1) Refining margins US$1.00/bbl lower than in the base case, reflecting reduced petroleum product demand due to the economic slowdown; 2) US$200/ton petchem netbacks as new capacity comes on stream and supply exceeds demand; 3) gas output falls as RIL has problems ramping up production.

Rs1,232
Base Case
16.4x P/E on Base Case 2011e EPS

1) Refining margins average US$7.2/bbl for F2011; 2) petrochemical margins come under pressure in F2011; 3) E&P business is valued at US$9.3/boe.

Rs1,555
Bull Case
14.3x P/E on Bull Case 2011e EPS

1) Refining margins are US$1.00/bbl higher than in the base case, reflecting increased demand; 2) 5% higher petchem prices due to greater global demand; 3) RIL's reserves are valued at US$7.2/boe, a 70% discount to average global comps; 4) We do not assume RIL takes over Lyondell, which could add Rs240 to our bull-case value, to Rs1,795/share.

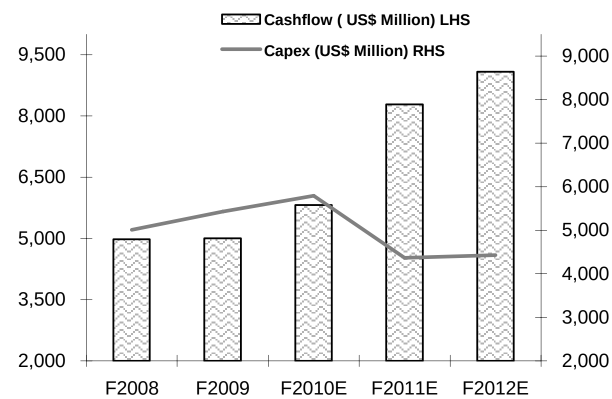
The litigation with RNRL has led to uncertainties and a de-rating of Reliance stock. Our base case assumes RIL earns US$2.34/mmbtu for the 40 mmscmd of gas it sells to NTPC and RNRL from F2013, and US$4.2/mmbtu for the remaining 40 mmscmd. Should RIL win the court case and earn US$4.2/mmbtu for all 80 mmscmd of its KG D6 gas, our long-term EPS forecast would rise by Rs11 (Exhibit 2).

RIL bidding for Lyondellbasell: RIL has submitted a non-binding bid to acquire a controlling stake in Lyondellbasell. We believe the acquisition would make a good fit, as: 1) It should be EPS-accretive for RIL shareholders up to a bid EV value of US$22bn; 2) it would increase RIL's access to the Middle East, US, and European markets; and 3) RIL has US$4bn of cash on hand and 10% T-stock valued at US$9bn at current prices, providing sufficient liquidity to fund acquisitions.

E&P division to drive RIL's growth: With a portfolio of 34 E&P blocks, RELI should be able to capitalize on higher energy prices. The company has had 37 discoveries to date, and is setting its sights on 100 discoveries with reserves of 10bn boe globally. It is currently supplying 46mmscmd of gas and has set up capacity that is almost two and half times the current output. We estimate that RIL's oil and gas business will contribute 56% of net profit by F2012.

Strong earnings growth and free cash flow ahead: We expect RIL to register earnings CAGR of 22% in F2009-11, versus our 10% growth forecast for SENSEX constituents. We project 72% YoY profit growth in F2011. We estimate RIL will be free cash flow positive in F2011 and have FCF of about US$4-5bn a year thereafter.

Exhibit 1
Reliance Industries: Capex to cash flows



E = Morgan Stanley Research estimates
Source: Company data, Morgan Stanley Research

Exhibit 2
Reliance Industries: Scenario Analysis

Scenario 1	KG Basin DCF (Rs/share)	NAV (US$ Millions)	DCF for E&P Business	Impact on EPS (Rs) for F2013	Fair Value (Rs/share)
US$4.2/mmbtu price for 80mmscmd of gas	332	19,719	431	10.63	1,316
Scenario 2					
US$4.2/mmbtu price for first 40mmscmd of gas and US$2.34/mmbtu for the next 40mmsmcd	247	16,833	346	NA	1232
Scenario 3					
US$2.34/mmbtu price for second 40mmscmd of gas; however, RIL pays petroleum profit at US$4.2/mmbtu.	104	11,932	203	(2.85)	1,088
Scenario 4					
Reliance pays a tax of 34% on the E&P business for two years.	447	14,779	634	(9.95)	1,519

Source: Company data, Morgan Stanley Research

India Pharmaceuticals

Ranbaxy Laboratories: Visibility to monetize exclusivities will drive re-rating

Morgan Stanley India Company Private Limited+

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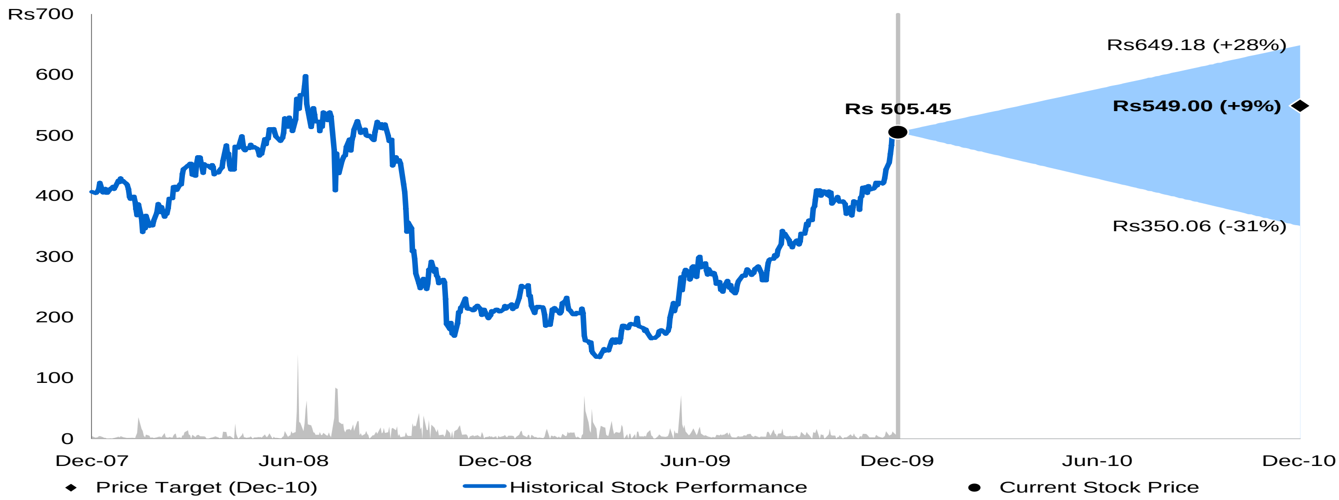
Our view

Ranbaxy's cash flow in the next three to five years is clearly underestimated by the market, in our view. In addition, given the nature of the earnings (combination of 180-day exclusivities and base business), we believe that the market is over-penalizing the company by excluding certain earnings (180-day exclusivities) from the target P/E multiple. We estimate Rs25-30 EPS for the next three years (2010-12), wherein the share of exclusivity will decrease and that of the base business increase. Given the continuity of earnings (i.e., no sharp de-growth in any of the next three years), we believe that the market will be willing to ascribe a target P/E multiple to the entire earnings. At full potential, the 180-day exclusivities could generate $2.5bn in cash flow for Ranbaxy in the next five years, in our view.

Market view

Cash flow skepticism. The market appears to be quite conservative on Ranbaxy's cash flows in the next two years on account of the low profitability of the base business and doubts about the company's ability to monetize its 180-day exclusivities. We are 43% and 20% ahead of the Street for 2010e and 2011e EPS, respectively. The recent launch of Valtrex with 180-day exclusivity affirms our belief that the company should at least be able to monetize exclusivities filed from the Dewas facility.

Recovery of base business and resolution with FDA



Risk-reward scenarios

OW, PT Rs549.00

Rs350
Bear Case
Sum-of-the parts valuation

Loss of Paonta exclusivity and prolonged weak margins: Bear Case assumes sharper deterioration in core business (Rs100 per share), DoJ penalty (Rs48/ share) and loss of Lipitor/Nexium opportunity (Rs51 per share).

Rs549
Base Case
Sum-of-the parts valuation

Recovery in base business and FTF monetization: Base Case assumes 11% sales growth for the base business over 2009-11, OPM at 19.5% for 2011e, resulting in EPS of Rs28.43 for 2011e. We apply a P/E multiple of 17.5x to our 2011e EPS to arrive at our base business value of Rs498 per share. We value Lipitor and Nexium at Rs51 per share.

Rs649
Bull Case
Sum-of-the-parts valuation

All exclusivities are monetized: Our Bull Case assumes Lipitor upside salvaged (Rs30 per share), Nexium upside salvaged (Rs21 per share), re-rating and earnings upside driven by synergy benefits with Daiichi and Poanta/ Dewas resolution (Rs50/share).

Debate #1: FDA issues

Market view: FDA action has impaired US base business, could frustrate 180-day exclusivity, and there could be unknown risks involved.

Our view: There are early signs of mitigation of FDA-related risks. This will be driven by: 1) Alternative manufacturing facilities, 2) some exclusivities are safe (at least those filed from Dewas – the recent launch of Valtrex, affirms this), 3) US customer support has been good, 4) although the Poanta facility is certainly at risk and 5) the DoJ enquiry is ongoing.

Debate #2: Recovery in base business

Market view: Base business repair has poor visibility and could take a long time.

Our view: We believe that the base business appears worse than it truly is, due to high short-term expenses. In addition, the company's ability to turn around business is underappreciated by the markets. We believe the following forces could drive the base business back to health in the next three years: 1) Moderation in high short-term expenses, 2) focus on growing markets, including India, Latin America, South Africa etc.; 3) the US base business could improve rather fast if Ranbaxy is able to hold on to its high market share in the product markets where it wins 180-day exclusivity, and 4) Daiichi synergy benefits. Ranbaxy's management team plans to disclose the multi-year synergy plan in 1Q10, which, if significant, should help strengthen the company's base business.

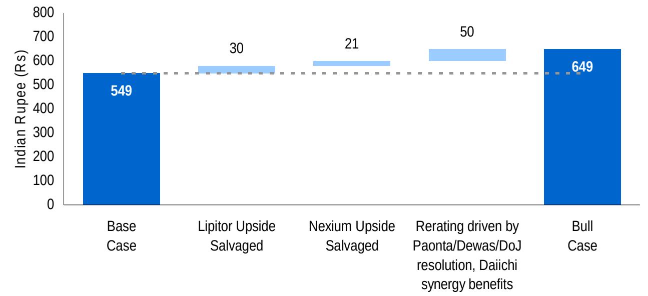
Debate #3: Valuation challenge

Market view: Use 'sum of the parts' – add value of all exclusivities (derived using a low multiple) and the base business (using regular high P/E multiple).

Our view: We believe Ranbaxy has one of the best pipelines of 180-day exclusivity products in the sector. Hence, since these earnings will be recurring at least for the next three years (Rs25-30 EPS for each year – 2010e-2012e) and a declining contribution every year, the markets will start to value these earnings at a regular P/E multiple. However, we do agree that 'sum of the parts' is the correct valuation method, but only for two large opportunities – Lipitor and Nexium – since these earnings are less certain (Paonta filing) and are disproportionately larger (than other exclusivities), and thus cannot be a ascribed higher earnings multiple.

From Base to Bull Case

Monetization of exclusivities and FDA/DoJ resolution



Source: Morgan Stanley research, FactSet

Bull case: Rs649 – driven by resolution of FDA issues/DoJ enquiry and salvage of all exclusivities.

We highlight our Bull Case scenario here. We expect this to be driven by:

1. **Ranbaxy's ability to monetize its large exclusivities** Lipitor and Nexium – Rs51 per share incremental upside.
2. **Further re-rating:** This could happen if the company is able to resolve all its issues with the DoJ and FDA. In addition, the company announces concrete plans to derive synergy benefits with Daiichi.

We are Overweight on Ranbaxy, in view of a strong cash cycle ahead spanning three to five years, driven in large part by exclusivities in the US and a recovery in the base business. Our price target is Rs549 (17.5x 2011e EPS plus Rs51 from Lipitor and Nexium at 50% probability). Our Bull Case valuation is Rs649. The street is still skeptical in its ratings (eight Buys, six Holds and 20 Sells, per Bloomberg excluding MS) and earnings (we are 43% and 20% ahead on 2010e and 2011e EPS). We believe the stock is still under-owned – 5% FII and 12.4% domestic institutional ownership as of September 2009. The key risk to our upgrade is an adverse outcome on the ongoing DoJ enquiry.

Catalysts. Result of Dewas facility inspection by the FDA, commencement of Nexium API sales to AZN, monetization of Flomax exclusivity and commencement of Nexium dosage form supplies to AZN are the key catalysts over next 6-8 months, in our view. The FDA could respond to Paonta issues (including ANDA applications for Lipitor/Nexium) sometime in 2010. Ranbaxy plans to disclose its Daiichi synergy and domestic market plans in January 2010.

India Property

Onset of new property cycle in 2010

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Our view

Strong macro and a new property cycle should drive up property stocks. A strong macro outlook (GDP growth of 8% in F2011, as per Morgan Stanley estimates, steep recovery in industrial production growth, and job creation) and the preparedness of property companies will set the base for the next property up-cycle, in our view. Property companies have witnessed volume recovery in 1H F2010 and have maintained healthy guidance for 2H F2010, which should benefit from a steady demand pick-up and stability in the job market. We expect property stocks to outperform amid the visibility of a sustained recovery in the physical property market.

Market view

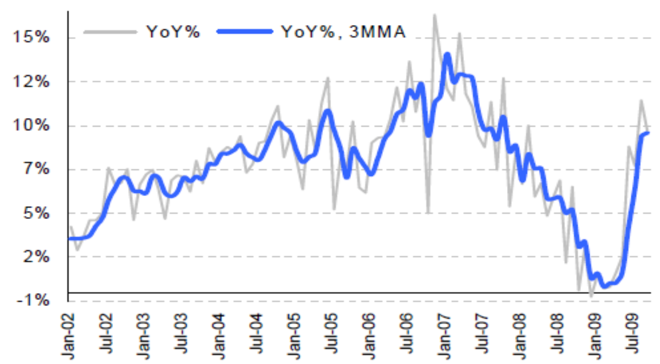
Impending interest rate up-cycle weighs on property stocks. We believe the market is focused on the adverse effect of impending increases in interest rates; our economics team estimates a 150bp increase in policy rates in 2010. This would hurt the demand recovery in the residential sector and increase the cost of capital for property companies. However, we believe the overriding factor will be the expected buoyancy in overall GDP growth, and specifically industrial growth. We think meaningfully repaired balance sheets and ongoing deleveraging should mitigate rising interest rates in 2010.

Overall improving consumption trend: Macro data shows discretionary household consumption on large ticket items is improving (increase in mortgage-stock growth YoY for the first time after four quarters – Exhibit 2; growth rates of auto sales/consumer durable production close to their peak – Exhibits 3, 4). Property companies' residential sales volumes have been healthy in 1H F2010 (DLF: 5.4msf, UT: 10.1msf, Sobha: 0.6msf – all higher YoY). The companies have maintained their new launch guidance for F2010 (UT: about 36msf, DLF: 17-18msf).

Versus monetary tightening in 2011: Although demand for real estate could be affected by a tightening in monetary policy signaled by the Reserve Bank of India (possible increase in policy rates in early 2010); the key demand driver, we believe, will be higher economic activity and affordability (pricing, ticket size, income security). Apart from mid-income/ affordable housing projects (Unihomes, Provident, Casa), well-located projects (DLF Capital Greens 2, UT Worli launch, Ireo Grand Arch) have done well despite price increases.

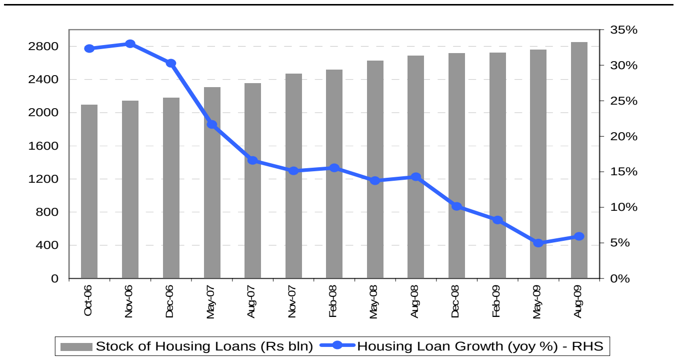
Sustaining a pickup in volumes key to price appreciation: The sales of most property companies (DLF/UT in NCR, HDIL/Orbit in Mumbai, Sobha in Bangalore) have been steady in 1H F2010 across their micro-markets, led by NCR/Mumbai. We believe the key theme in play for F2010 is recovery in volumes. If the volume recovery continues, backed by continued momentum in GDP growth and pricing discipline by developers, we can expect an average 10% property price increase in F2011.

Exhibit 1
Industrial production – steep recovery



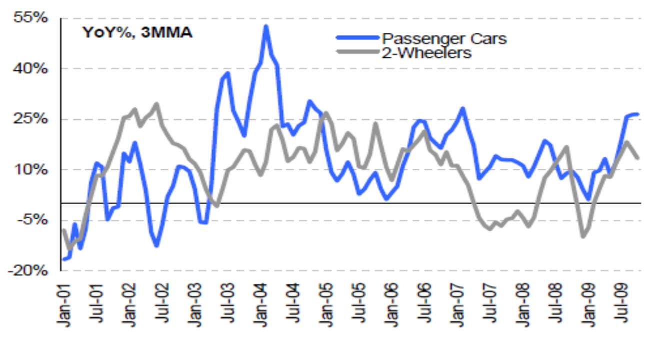
Source: CSO, CEIC, Morgan Stanley Research

Exhibit 2
Growth in stock of home loans



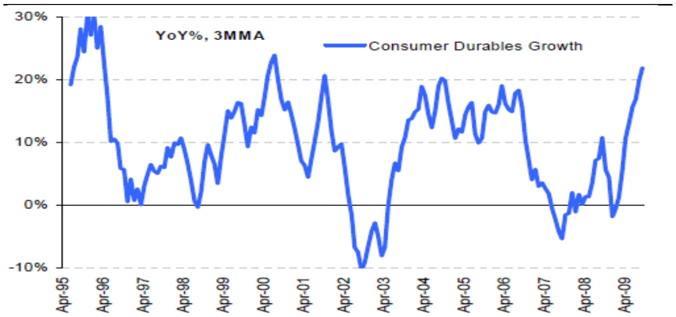
Source: RBI, Morgan Stanley Research

Exhibit 3
Improving discretionary consumption spending



Source: Bloomberg, Morgan Stanley Research

Exhibit 4
Improving consumer durables production



Source: CSO, Morgan Stanley Research

Key events to look for in the coming months: 1) Pace of new launches (DLF F2010 target: 17-18 msf, UT: about 36 msf) and sales contracts; 2) execution of launched projects; 3) pace of deleveraging of the balance sheet backed by internal accruals, sale of non-core assets; 4) discovery of commercial asset value on the balance sheet with the revival in commercial space; and 5) selective acquisition of lucrative land parcels. In effect, monetization of the land bank will be the key valuation driver, we believe.

Investment Implications - UT (OW, Rs91.05) is our preferred property play in view of the head start in execution scale-up, inexpensive valuations, and embedded asset value. UT is trading at a 35% discount to forward NAV, 20x F2011 EPS (18x excl telecom) and 1.9x F2011 P/B, on our estimates. Visibility of value in the telecom business (Uninor) and UCP portfolio will help improve the balance sheet more quickly, in our view.

DLF (EW, Rs382.60) is trading at a 7.5% premium to our forward NAV, 24x F2011 EPS and 2.4x F2011 P/B, on our estimates. Successful monetization of non-core assets (Rs55bn – DLF's target) would unlock value in the balance sheet more quickly. Quicker and deeper recovery in commercial demand would benefit DLF the most and help realize value in DAL (through the Singapore listing).

Risk-reward scenarios - UT

Rs70 Bear Case	Rs127 Base Case	Rs173 Bull Case
Weak demand leading to delay in new launches: Weak demand in NCR, metro suburbs; 12-month delay in execution; liquidity pressure.	**Balance sheet repair enabling execution scale-up:** 10% discount to March 2011 estimated NAV of Rs141/share. NAV valuation assumes 14% discount rate and 10% prices/cost inflation in F2011 and 5% thereafter and 9-13% cap rate.	**Strong execution supported by quicker recovery in property cycle:** Monetization of Mumbai and UCP projects; new land acquisition; private equity upside, and 5% further price/cost inflation.

Risk-reward scenarios - DLF

Rs286 Bear Case	Rs391 Base Case	Rs565 Bull Case
Property market remains sluggish: Flat pricing in F11, execution delay of 3msf pa, and tight liquidity expanding ERP.	**Gradual recovery in physical market:** Includes March 2011 NAV of Rs356 with base case at 10% premium to this forward NAV. NAV valuation assumes 14% discount rate, 10% price/cost inflation in F2011 and 5% thereafter, and 9-13% cap rate	**Booming real estate market:** Average volume over next 11 years moves from 23msf to 25msf, Further 3% price inflation pa, higher liquidity compressing ERP, re-investment premium, 1% cap rate compression.

India Retail

Titan: Potential reversal in business fundamentals may surprise investors

Morgan Stanley India Company Private Limited+

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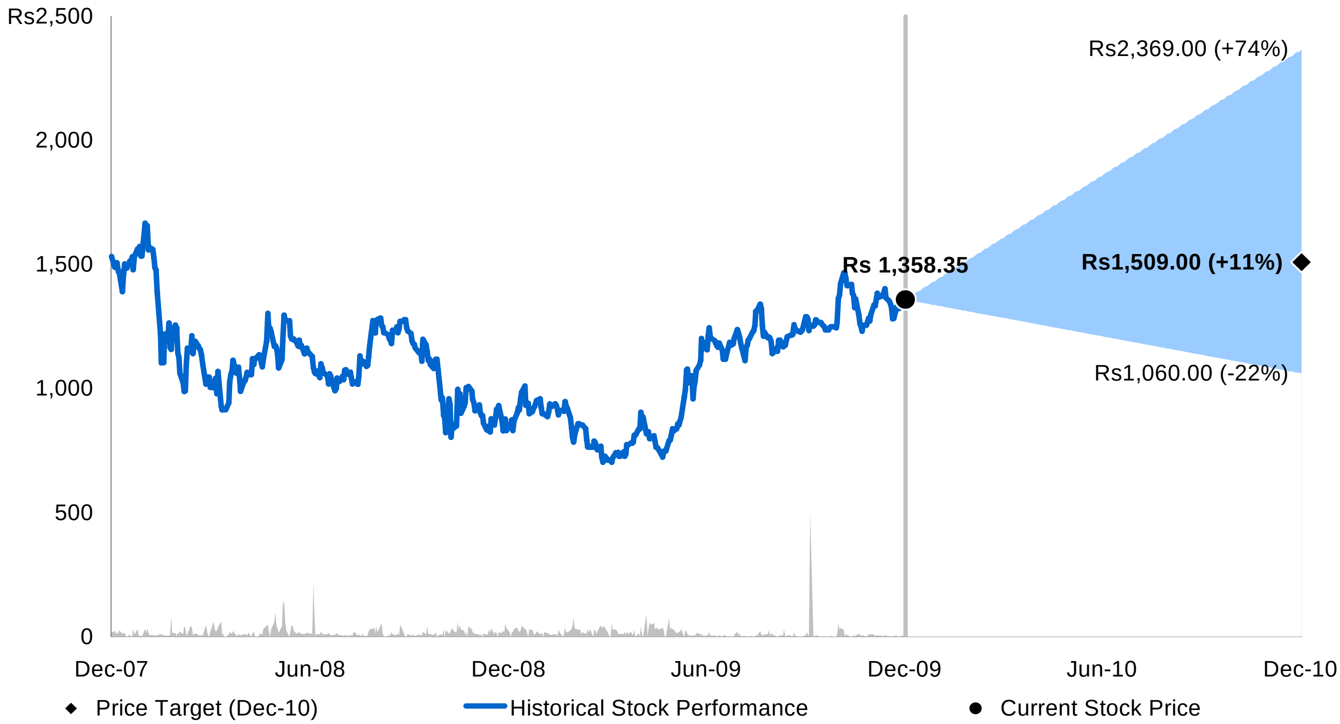
Our view

Titan's potential business reversal may surprise investors in 2010: Macro-led improvement in product mix and operating leverage may drive higher margins that may lead us closer to our bull case. Titan's watch and jewelry businesses lag overall economic growth by 6-12 months, supporting our conviction in a business reversal as India's index of industrial production (IIP) has picked up sharply since April 2009.

Market view

The market is skeptical on a jewelry business reversal because of high gold prices. We believe a couple of quarters with steady gold prices would bring jewelry volume growth back. This may surprise investors. The stock is 43% below our bull-case value, pricing in the prevailing skepticism.

The surprise could imply potential upside of 75%



Risk-reward scenarios

OW, PT Rs1,509.00

Rs1,060
Bear Case
17.2x P/E on Base Case F2011e EPS

Market share loss and margin compression: F2010-22 revenue growth of 11% for watches and 16% for jewelry. EBIT margins for the businesses come down to 15% and 4.2% by F2022. The eyewear business does not succeed.

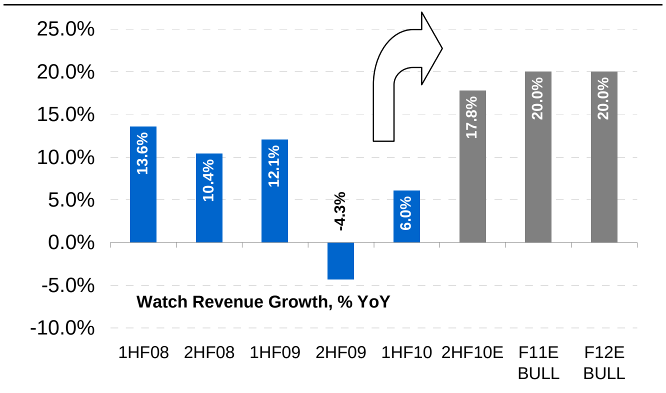
Rs1,509
Base Case
24.5x P/E on Base Case F2011e EPS

Steady margins, market shares maintained: F2010-22 revenue growth of 13.5% for watches and 19.4% for jewelry. Steady EBIT margins for the businesses at 17% and 7% by F2022. Eyewear margin of 5-9% over F2010-22.

Rs2,369
Bull Case
38.4x P/E on Base Case F2011e EPS

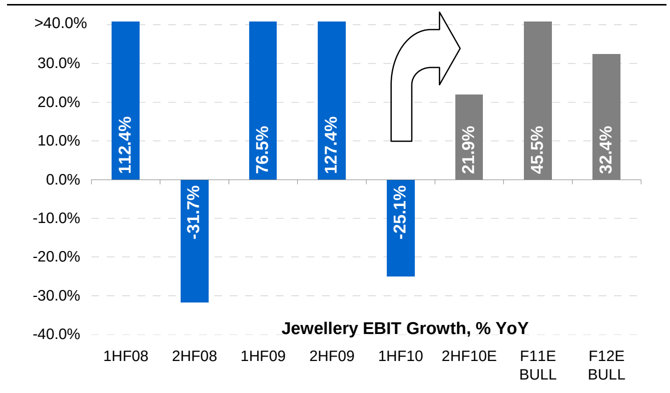
Market share gains and management target margins: Revenue CAGR and EBIT margin for watches of 17.9% and 17.5%, jewelry 24.3% and 7.9%. 23.4% Revenue CAGR for Eyewear business with margin at 8-10% over F2010-22.

Exhibit 1
Double-digit watch revenue growth in 2010E



E = Morgan Stanley Research estimates. BULL = bull-case estimates.
Source: Company data, Morgan Stanley Research

Exhibit 2
Jewelry EBIT growth to recover sharply in 2010



E = Morgan Stanley Research estimates. BULL = bull-case estimates
Source: Company data, Morgan Stanley Research

Watch revenues to pick up on re-stocking and a recovery in disposable income: We forecast Titan's watch revenues will recover sharply through to the end of F2011, having been severely hit by consumer down-trading, trade destocking, and sluggish demand in past one year. In Titan's watch business, revenue rose 1% and EBIT was down 2.4% over the past four quarters. We expect 15% revenue growth and 21% EBIT growth over the next six quarters in our base case, backed by a stronger economy, reflected in improved consumer disposable income and trade restocking. However, our bull case calls for 19% and 28% growth, respectively, and could surprise investors.

Jewelry business volume may surprise investors: Titan's jewelry business volume growth too has been depressed because of a combination of weak consumer sentiment and a sharp rise in gold prices. Following a 10% decline in jewelry volumes over the past three quarters, we would expect a reversal if prices were to stabilize for a couple of quarters. Any jewelry volume reversal may take investors by surprise.

Jewelry EBIT to recover more sharply: We would expect a sharper recovery in Titan's jewelry EBIT than in gold volumes because of a combination of base effect and improvement in operating leverage. Titan's jewelry EBIT has been down 25% in the past four quarters; we expect 26% growth in the next six quarters in our base case, while our bull case calls for 38% growth.

Macro-led improvement in product mix and operating leverage could enhance margins: Our base-case estimates, based on better profitability from the watch business and lower interest costs (from a combination of better asset turns and lower gold lease cost) are already 9% and 12% above F2010 and F2011 consensus estimates. However, we think the stock may move towards our bull case value if the above surprises were to materialize. The fact that growth in Titan's watch and jewelry businesses lags overall economic growth by six-12 months supports our conviction in the business reversal, as mentioned above. Our India economist, Chetan Ahya, expects IIP growth to recover from 2.8% in F2009 to 8.4% in F2011.

Exhibit 3
Bull case EPS and P/E

	F2009	F2010e	F2011e	F2012e
EPS	48.1	50.0	71.3	92.0
PER	28.3	27.2	19.0	14.8

e = Morgan Stanley Research estimates (bull case)
Source: Company data, Morgan Stanley Research

India Steel

Tata Steel: Europe capacity utilization and EBITDA rebound may surprise

Morgan Stanley India Company Private Limited+

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Our view

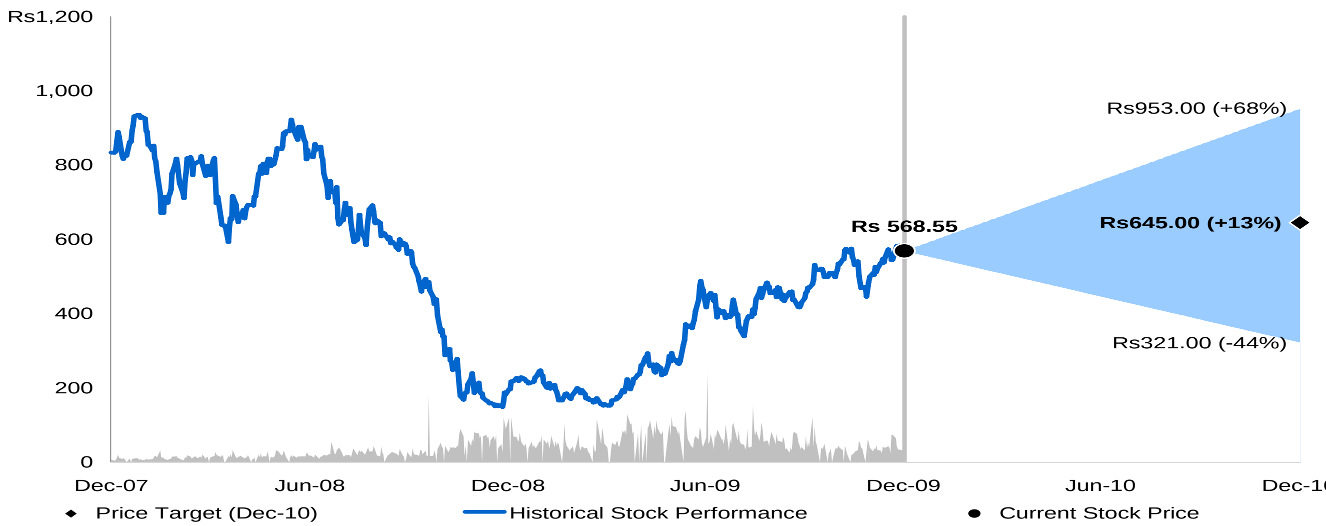
Tata Steel Europe (TSE), which constitutes about 65% of Tata Steel capacity, may surprise investors in terms of capacity utilization and an EBITDA rebound in 2010. TSE is witnessing stable steel demand in Europe supported by industrial orders and manufacturing activities against a backdrop of improving macro environment. We believe this is going to support stable steel pricing and an uptick in capacity utilization, which investors are skeptical about. TSE's operation is already running above 75% capacity utilization compared to 56% in 1Q F2010 and plans to run six of its eight blast furnaces (ex-TCP) in 2H F2010. Buoyed by increased capacity utilization, TSE may surprise investors in terms of an EBITDA rebound. Also, we think China's exports may not increase substantially from hereon to affect prices adversely.

Market view

The Street view remains divergent from our view of a TSE EBITDA rebound: This is because investors are skeptical about the following:

- Steel demand in Western Europe; many believe this may worsen in the next three years.
- TSE capacity utilization; the general perception is that this will fall substantially from hereon.
- Steel prices because of a feared increase in China's exports.

Faster-than-expected rebound in TSE fundamentals



Risk-reward scenarios

OW, PT Rs645.00

Rs321
Bear Case
6.4x P/E on Bear Case F2011e EPS

Steel prices weaken again: 1) Indian steel prices and Corus Steel prices lower than our base case by 15% in F10 and 5% in F11; 2) Orissa project fails to take off due to non-allocation of mines.

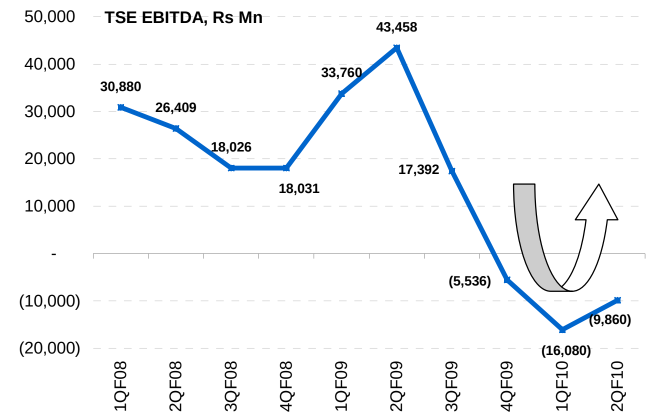
Rs645
Base Case
5.6x P/E on Base Case F2011e EPS

Modest recovery in steel prices: 1) F10 and F11 average prices for Indian steel operations of Rs36,134/t and Rs37,905/t; 2) average realization for Corus Steel to dip by 26% in F10 and rise by 12% in F11; 3) Increase of 5% and 4% in raw materials cost per ton in F11 and F12 after declining by 40% in F10.

Rs953
Bull Case
6.5x P/E on Bull Case F2011e EPS

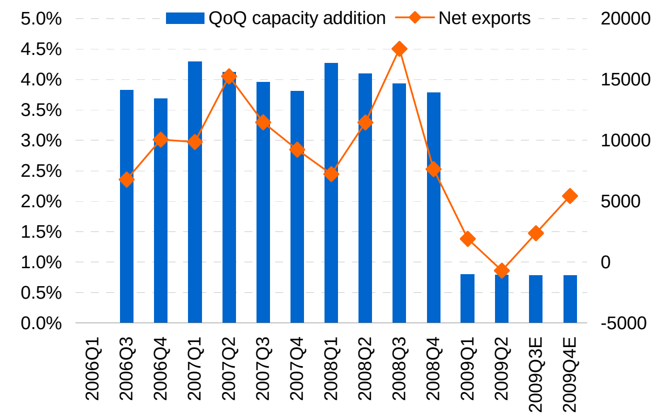
Fresh resurgence in steel prices: 1) Steel prices higher than our base case by 15% for F10 and 5% for F11; 2) Corus Steel manages to curb costs by US$16/t versus our base case of US$12/t; 3) iron ore prices are 10% lower.

Exhibit 1
Adjusted for TCP operations, TSE EBITDA recovery on the way



Source: Company data, Morgan Stanley Research, Note: TSE EBITDA above is ex-TCP

Exhibit 2
Muted capacity addition may hinder China's steel exports



E = Morgan Stanley Research estimates
Source: Company data, Morgan Stanley Research

High capacity utilization and unfavorable steel industry profitability may limit China's steel exports: However, we do not rule out some increase in China's net exports. Recently, Chinese steel makers have ratcheted up capacity utilization to sell incremental volumes in markets where prices are attractive. This brings us to two points:

- If steel prices were to slump (as many believe will happen), then China's steel export juggernaut would come to a halt quickly.
- China's steel exports will depend a lot on China's ability to produce more steel incrementally, which we think is difficult in current circumstances because of substantially increased capacity utilization and falling profitability in China.

TSE recovery is shaping up well, positive EBITDA in October after ten months: The ex-India business losses for 2Q F2010, of Rs6.7bn at EBITDA level adjusted for TCP was a creditable performance, compared with a Rs14.7bn loss in 1Q F2010, led by operational recovery at TSE. Despite 7% lower prices sequentially, TSE's operational performance improved because of lower costs and higher capacity utilization at 76%, versus 56% in 1Q F2010. Importantly, management has guided for higher capacity utilization. TSE plans to run six of its eight blast furnaces (ex-TCP) in 2H F2010.

What's next for TSE EBITDA? We believe TSE's EBITDA should improve much ahead of Street expectations because of the following factors:

- A better-than-expected steel price profile.
- Increased capacity utilization.
- Raw material cost reduction.
- Cost cutting initiatives, such as "Fit for the Future" and "Weathering the Storm".

India Sugar

May enter crisis situation; sugar prices will likely surprise on the upside

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Our view

The key debate is whether the domestic sugar market is in a crisis-like situation? A combination of lower-than-expected production in the current season and limited off-season refining capacity will force the Indian government to import large quantities of white sugar driving prices higher than current market expectations, in our view. With competing crop prices trending higher, the production response from sugarcane may be lower than expected keeping prices higher for longer. Poor weather in India and/or Brazil would exacerbate a fragile demand/supply balance. We accord more than a 50% probability of a crisis-like situation in the domestic sugar market in F2010.

Market view

The market view is that a sharp production response to higher sugarcane prices will likely increase the availability of sugar, driving prices lower. We argue that even with 40% higher production, India will likely remain in a sugar deficit in F2011. A combination of demand supply gap and inventory restocking will mean that sugar prices will trend higher for longer than markets expect them to. In our view, the markets are taking a simplistic view on the crop commodity cycle. Key surprises will likely include poor *kharif* (autumn harvest) crop output, weather concerns in India and Brazil, government intervention, off-season raw sugar refining capacity, and sugar consumption.

Poor rainfall in India's key sugarcane growing areas will likely limit F2010 sugar production to 15mn tons: Even if consumption falls by 5%, India could run out of sugar by August 2010, we estimate. To ensure food security, India would need to import an incremental 5mn tons of sugar in F2010. With limited off-season refining capacity and poor depth in the international white sugar market, domestic sugar prices will likely be higher than current market expectations.

Our estimates suggest to us that farmers will likely be indifferent to sugarcane versus competing crop cultivation at around Rs190/quintal of cane (Exhibit 1). Interestingly, we expect north Indian sugar millers to offer higher prices of around Rs220 per quintal on average for sugarcane for the current season, inducing a strong production response for the 2011 sugar season.

Exhibit 1

Farmers' economics for sugarcane cultivation versus competing crops

Crop	Total Income (Rs.)	Cost of Input (Rs.)	Net Income Per Hect. (Rs.)	Avg. Income Per Hect. (Rs.)
Sugar Cane				
Plant	116,800	58,180	58,620	**74,885**
Ratoon	126,300	35,150	91,150	
Wheat	76,500	23,400	53,100	**72,310**
Paddy (Rice)	49,500	30,290	19,210	

Note: Assuming current prices of wheat and rice, the implied price for sugarcane is Rs190/quintal.
Source: Dhampur Sugar Mills, Morgan Stanley Research

Even with 40% higher production (our base-case estimate), India will likely remain in a sugar deficit in F2011. A combination of demand/supply gap and inventory restocking will mean that sugar prices will trend higher for longer than markets expect. Having said that, with competing crop prices trending higher, the sugarcane production response may surprise on the downside, driving the sugar deficit wider and strengthening our strong buy call on the industry.

In our view, the global sugar balance remains fragile in F2010 and unexpected poor weather in India and / or Brazil would likely exacerbate the situation. We would place more than an even probability for the sugar market in India to be in a crisis-like situation in 2H F2010.

'Open access' a big trigger; overlooked by markets: According to the new energy policy announced by the Uttar Pradesh State cabinet, cogeneration units will be allowed to use coal as fuel feed to generate electricity in the off season (after cane crushing operations stop). Fifty percent of this electricity can be sold at merchant power prices (open access) and the remaining 50% to the state electricity grid at prices that will be fixed in due course (likely higher than the current season price of Rs4/unit). Back-of-the-envelope calculations suggest that, following this notification, sugar mills' profits could double from cogeneration operations. This, in our view, will drive a re-rating of the northern Indian sugar mills' share prices.

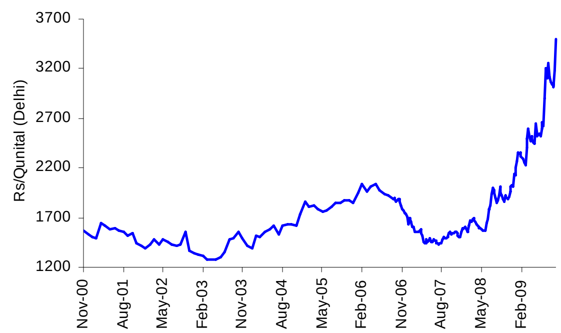
Sugar consumption may surprise on the upside: Our base case estimates factor a conservative 4% YoY decline in sugar production in F2010. However, channel checks suggest that sugar off-take by carbonated beverage and confectionary companies in India is up 15-30% YoY. This, combined with domestic consumption, which is largely inelastic, could drive sugar consumption higher by 5% YoY. Higher-than-expected domestic sugar consumption amid a sharp rise in sugar prices augers well for long-term growth of the industry, in our view.

Markets seem overly concerned by potential negative effect of government intervention: If sugar production is lower than expected on account of competing crop prices or weather related issues, the government will likely be left with little ammunition to control prices. The only way to ensure a secure sugar supply would be to increase acreage under cane cultivation, which will be driven by farmer economics versus competing crops. In our view, any intervention by the government to control sugar prices would impede the ability of mills to pay higher prices for the raw material i.e., sugarcane. If a crisis-like situation precipitates, the government may be left with little option but to let market forces prevail.

We prefer north Indian millers to south Indian millers in the current phase of the cyclical uptrend: Stock prices now seem to be lagging domestic sugar prices and the Street appears to have a relatively benign view on sugar prices hereon. We believe the key variables that will drive stock outperformance will be sugar prices and cane availability in F2011. The market expects sugar production to stagnate in F2011 with the government intervening to control rising sugar prices. However, we have a different view in that we expect sugar prices in India to be driven by international parity prices as India will likely import an incremental 5mn tons in F2010 (for refining in F2011). Moreover, high cane prices in F2010 will likely incentivize cultivation in F2011. In our view, profitability from the sugar milling business in F2011 will likely be higher than that from the sugar refining business. Based on this investment thesis and current valuations we prefer north Indian millers at this stage in the cyclical uptrend. Balrampur Chini (OW, Rs138.95) is our top industry pick.

Exhibit 2

Domestic sugar prices continue to trend upwards



Note: Mill Delivery Prices in Delhi
Source: Bloomberg, Morgan Stanley Research

Exhibit 3

India Sugar: Base-case demand/supply balance

(Million Tonnes)	F2001	F2002	F2003	F2004	F2005	F2006	F2007	F2008	F2009E	F2010E	F2011E
Opening Stock	9.3	10.6	11.2	12.4	8.2	4.6	3.7	9.8	8.9	2.7	3.6
Production	18.5	18.5	20.1	13.5	12.7	19.3	28.3	26.4	14.7	15.0	21.0
Increase in production	2%	0%	9%	-33%	-6%	52%	47%	-7%	-44%	2%	40%
Local Consumption	16.2	16.8	17.5	17.9	18.5	20.4	20.2	22.5	23.0	22.0	22.5
Growth YoY	*0.6%*	*3.7%*	*4.2%*	*2.3%*	*3.4%*	*10.3%*	*-1.0%*	*11.4%*	*2.0%*	*-4.0%*	*2.0%*
Exports	1.0	1.1	1.5	0.2	-	1.1	2.0	4.8	-	-	-
Imports	-	-	-	0.4	2.1	-	-	-	2.0	8.0	-
Closing Stock	10.6	11.2	12.4	8.2	4.6	3.7	9.8	8.9	2.7	3.6	2.1
Months of consumption	7.9	8.0	8.5	5.5	3.0	2.2	5.8	4.7	1.4	2.0	1.1
Stock-to-use ratio	**65.4%**	**66.7%**	**70.9%**	**45.8%**	**24.9%**	**18.1%**	**48.5%**	**39.6%**	**11.5%**	**16.4%**	**9.5%**

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

India Telecommunications

Bharti Airtel Ltd: Tariff wars subside

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Our view

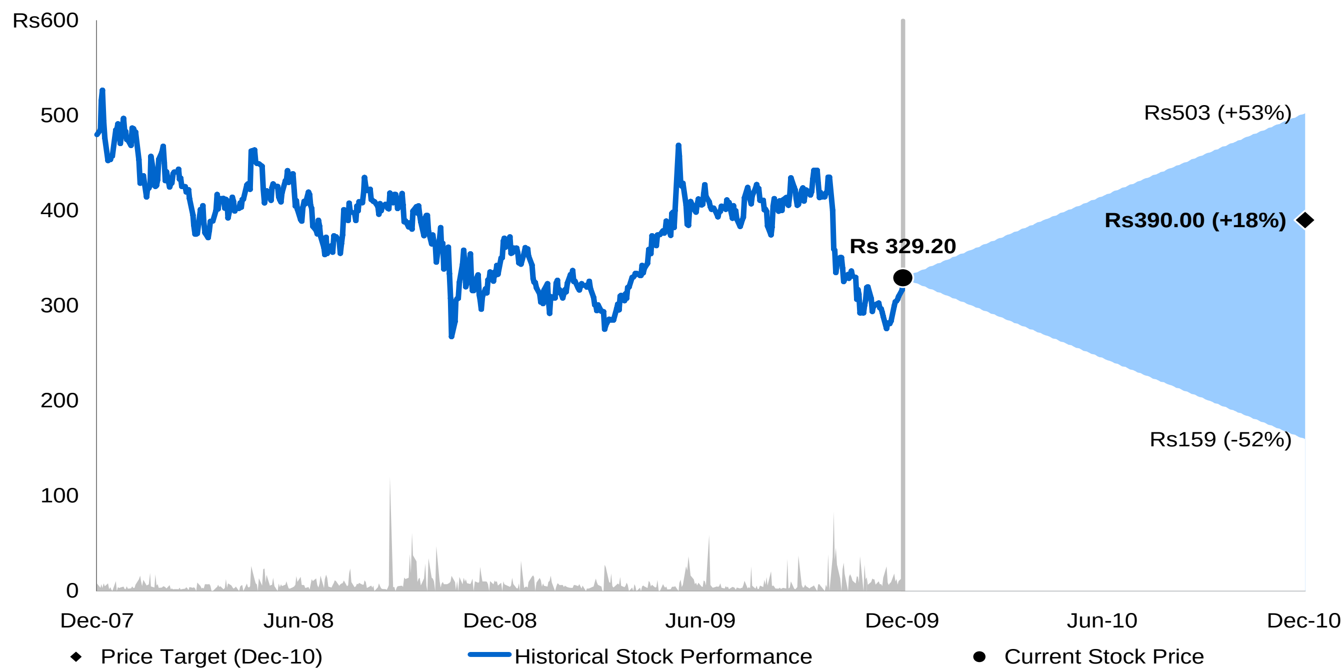
Bharti returns to a growth track with earnings expanding 17% in F2011-12 after tariff wars abate. Thanks to Bharti's incumbency advantage, its EBITDA margins stabilize at 35%. This outcome is largely reflected in our bull case. Bharti could also list Bharti infratel, as the company has mentioned, potentially leading to a re-rating of the stock. Bharti shares have underperformed the market by 50% in 2009, largely on fears that tariff wars would cause a dip in profits.

Market view

The market has been penalizing Bharti and the overall Indian telecom sector because of an increasingly competitive landscape. Consensus expects Bharti to report declining earnings for the next two years and hence is valuing its stock at 30% below historical forward multiples.

We believe that after reporting a dip in earnings for one quarter, Bharti will resume a growth trajectory, albeit at a slower 9-10% pace, thanks to elasticity in the wireless business and, more importantly, a rising contribution from the non-wireless business.

After short-term pain, Bharti resumes growth trajectory



Risk-reward scenarios

OW, PT Rs390.00

Rs159
Bear Case
14.2x P/E on Bear Case 2011e EPS

Intensifying competition affects operations, leading to a 22% annual decline in ARPU during F09-12E; EBITDA margins fall 400bps, to 30%, by F2012E; wireless market share shrinks 160bps, to 19.5%, by F2011E.

Rs390
Base Case
12.2x P/E on Base Case 2011e EPS

Strong operational performance: While ARPU declines 17.6% per annum in F2009-12E as the company expands in rural India; EBITDA margins stabilize at 34% by F2012E; WACC of 11.3%.

Rs503
Bull Case
10.4x P/E on Bull Case 2011e EPS

Competition lessens: ARPU declines 15% p.a. in F2009-12E; long-term EBITDA margins rise 150bps, to 35.5%, by F2012E as wireless market share expands by 150bps, to 22.6%.

Bharti has underperformed the Indian stock market by 50% YTD on fears of tariff cuts due to higher competition and concerns that operators may face deteriorating business models because penetration levels in India are no longer low on an absolute basis. Steeper tariff cuts have led to flat earnings estimates in the short term, but we still expect earnings to grow 8% p.a. over the next five years.

We look for pressure to start easing in F2011E: We believe that Bharti's existing tariff launches will put pressure on wireless revenues, and hence EBITDA, in F3Q10E-F4Q10E. Thereafter, we expect usage elasticity in the wireless business and the non-wireless contribution to more than offset any wireless declines.

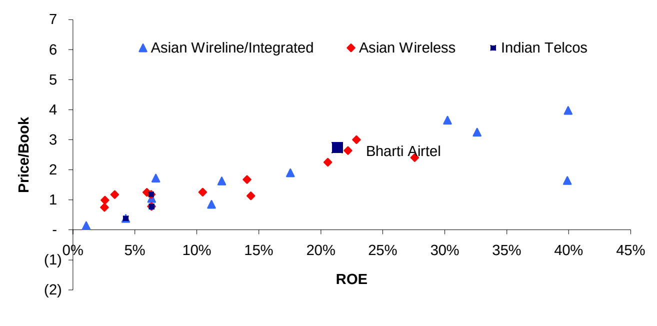
Non-wireless business is on a growth path. We expect 20% CAGR in EBITDA over the next five years, taking the division's contribution up to 58% in F2015e from the current 38%. This will likely be the key driver of Bharti's 11% projected overall EBITDA growth in F2010-15e.

Valuation appears reasonable: Bharti is trading at a historical low of around 0.9x one-year forward valuation relative to the Sensex, and in line with its absolute three-year lows. We find this valuation compelling. Bharti also trades favorably on a P/B vs. ROE basis relative to its Asian peers.

FCF positive: The company is free cash flow positive, and we expect the yield to increase from 5% in F2011E to 12% in F2015E. This compares with 9% for Asian peers and 5-6% for global peers. In its F2Q10 earnings call at the end of October, the company suggested that if it could not find any suitable acquisition targets, it would look at ways to return money to shareholders, which could include dividend and share buybacks.

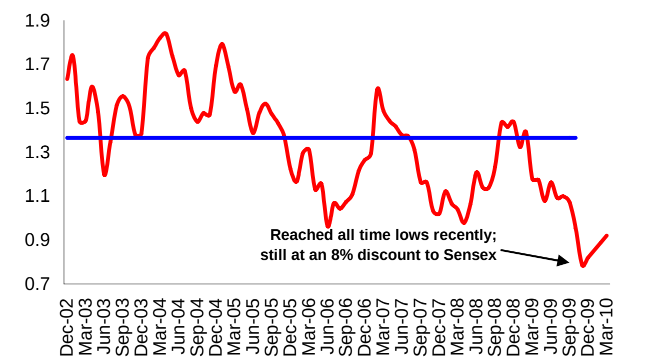
Strong revenue market share: Bharti's market share is almost 30% in revenue terms, compared with its subscriber market share of 24%. Even with its current tariff plans, its charges are some 5-10% higher than those of its local peers, especially for non-local and non-voice calls.

Exhibit 1
Bharti: Reasonable P/B and ROE vs. Asian peers



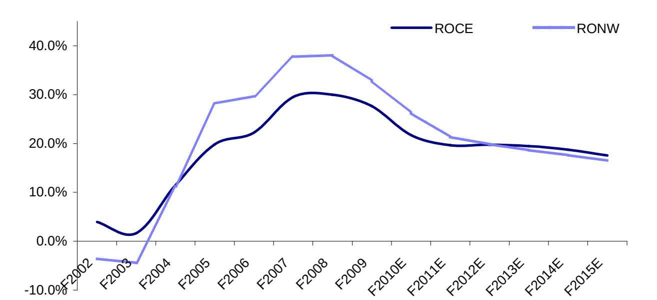
Source: Company data, Morgan Stanley Research

Exhibit 2
Bharti: Still at discount vs. historical premium to BSE Sensex on 1-yr forward P/E basis



Source: Company data, FactSet, Morgan Stanley Research

Exhibit 3
Bharti: Still likely to generate reasonable returns



E = Morgan Stanley Research estimates
Source: Company data, Morgan Stanley Research

India Utilities

Power deficit strengthens spot prices for longer

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Our view

We expect the power supply in India will remain in deficit for at least the next five to seven years, resulting in short-term prices being at a significant premium to long-term contracted prices. As a result, companies with exposure to merchant capacities will generate higher cash flows and hence will command better valuations. While capacity additions are expected to increase (relative to the past) with private utility companies upping the ante, we expect a surprise in the form of higher demand due to strong economic growth in India.

Market view

While the market appreciates the current deficit situation, it seems to be getting overly enthusiastic about expansion plans announced by companies and underestimating demand. In our view, the market assumes: (i) Capacity roll-out will increase due to significant plans revealed by both public and private utility companies, and hence the deficit will continue to decline; and (ii) Spot prices may be strong for the next two to three years but run the risk of a meaningful decline thereafter.

The current deficit in India is around 10%, with a peak deficit of 15%. We believe demand could be under-estimated for the following reasons:

1. Many parts of India are affected by load-shedding, which kicks in if electricity is available. This applies not just to small towns and cities but to large cities as well.

2. Some parts of India are not even electrified and hence the demand there is not considered when determining the deficit. Anecdotally, 16% of villages in India do not have access to electricity.

3. Strong growth in the economy will augur well for industrial and commercial growth. Demand for electricity could thus grow at a faster pace than GDP. In addition, customers may be willing to pay a premium for quality and reliability of the power supply.

Assuming power demand grows in line with GDP, we expect the peak deficit to remain at around 12-13% until F2012. Assuming GDP grows 7.5% for five years beyond F2012, the peak deficit would still be around 10%. This is primarily due to a strong demand scenario, supported by inadequate supply as new capacity will be delayed on account of issues related to land, environmental clearance, equipment supply, funding, fuel, and manpower.

Probable peak deficit assuming 1x GDP multiplier

MW	F2009	F2010e	F2011e	F2012e
Projected Capacity	148,746	157,862	169,330	183,372
Proposed addition by the government		*14,507*	*22,639*	*30,012*
Projected actual addition estimate		*9,116*	*11,469*	*14,042*
Peak requirement	168,937	180,364	194,697	209,542
GDP growth forecast (%)		*6.8%*	*7.9%*	*7.6%*
Projected peak shortfall	**-12%**	**-12%**	**-13%**	**-12%**

Source: CEA, Morgan Stanley Research
e=Morgan Stanley Research estimates
Note: Efficiency and transmission losses have been assumed at 35% of gross capacity.

Long-term price bids are also inching up: Long-term pricing bids (largely Case I bids) have moved up from under Rs2.5/kWh to over Rs3/kWh as the cost of generation has increased and power producers factor in a higher margin of safety. We understand that medium-term bids placed by Reliance Power for supply of power in F2013 and F2014 are around Rs5.20/kWh. Given the deficit scenario, we believe short-term pricing will remain at a premium to both medium- and long-term bids, which should be beneficial for companies that have merchant capacities coming up faster than others.

We believe the market is expecting short-term prices to fall beyond F2012, possibly to a level lower than long-term PPA prices. This is where we think the key surprise could be –any strength in short-term pricing will help stock prices.

We believe that the key elements to watch for in 2010 are:

a. Update on capacity addition versus targeted capacity.

b. Trends in short-term prices on the power exchange and in short-term contracts.

c. Trends in long-term bids, especially on a Case I basis.

Impact on Stocks

A higher merchant rate would have the following impact on our coverage stocks:

Lanco (EW, Rs585.15, Base Case of Rs389): The company is likely to have about 800-1000 MW of capacity in the merchant market, including capacities in Amarkantak, Kondapalli, and Lanco Uttaranchal. A higher merchant rate assumption would increase our base-case fair value by about 33%.

Reliance Infrastructure (OW, Rs1,071.35, Base Case fair value of Rs1,164): The benefit would be through the 45% holding in Reliance Power, which we expect is likely to have about 4,750 MW on the merchant market. A higher merchant rate assumption would increase our base-case fair value by 24%.

Tata Power (EW, Rs1,379.10, Base Case fair value of Rs998): The company has 200 MW of merchant capacity through its Trombay Unit 8 and Haldia plants. Furthermore, the company will have about 200 MW of surplus capacity in the Mumbai License Area from April 2010. Assuming the company sells 400 MW in the merchant market, our base-case fair value could rise by 22%.

NTPC (EW, Rs210.05, Base Case fair value of Rs167): Given that its exposure to the merchant market is limited, we see no meaningful impact.

South Korea Strategy

Market remains attractive: Five key themes for 2010

Morgan Stanley & Co. International plc, Seoul Branch+

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Jason Pyo
Sharon Lam

Our view

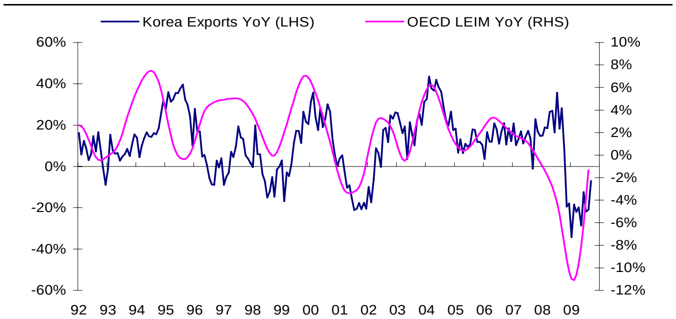
Setting our 12M forward KOSPI target at 1,900, implying 17% upside: Earnings momentum in Korea remains strong, and we forecast 30% growth in 2010 after 56% growth in 2009. Valuations still look undemanding, at 10x 2010E earnings and 1.3x 2010E book value, a 33% discount to MSCI Asia Pac ex Japan. We expect Korea to enter the restocking phase in 2010, while Korean corporates should be the biggest beneficiary of consumption growth in China.

Market view

Consensus is in line with our bullish call on the KOSPI, but we focus more on exporters and China plays. The OECD leading economic indicator, which is a proxy for Korea's export growth, continues to move upward, boding well for Korean exporters, consumer sentiment, and factory utilization. The consensus expects much stronger KRW appreciation and less favorable cross rates over JPY than we do.

Korea's growth potential should continue to be robust in 2010, supported by balanced growth from exports and domestic consumption. We expect Korea to enter the restocking phase with a monetary policy that is still accommodative. Our Korea economist, Sharon Lam, forecasts 5.0% real GDP growth with 1.5ppts of total rate hikes in 2010, after +0.2% GDP growth in 2009. The OECD leading economic indicator, which is a proxy for Korea's export growth, is continuing to move upward, boding well for Korean exporters, and consumer sentiment and factory utilization are also strong. Furthermore, Korea will likely be the biggest beneficiary of consumption growth in China.

Korea exports and OECD LEI



Source: DataStream, Morgan Stanley Research

Earnings momentum in Korea remains strong: The consensus estimates 33% earnings growth in 2010 after 55% growth in 2009, while we assume 30% earnings growth in 2010 after 56% growth in 2009 in our index target. Valuations are still undemanding, at 10x 2010E earnings and 1.3x 2010E book value, a 33% discount to the MSCI Asia Pacific ex Japan. We set our base-case KOSPI target at 1900, which is based on a P/E of 12x, with 56% earnings growth in 2009e and a further 30% earnings growth in 2010e. Our target implies 1.5x 2010e book value.

We set our bull-case value for the index at 2,300 and our bear-case value at 1400. Even after factoring in the recent earnings upgrades by our analysts and the Street, we believe there is further upside risk to earnings for FY09. The rising utilization rate and positive operating leverage should fuel further upgrades in Korea, we believe, especially in Information Technology and Autos.

Sector strategy: First, we focus on the likely beneficiaries of robust China consumption and high operating leverage as a result of the rising manufacturing utilization rate. Second, we recommend high-tech and battery plays for their competitive edge arising from high R&D expenditures and execution capability. Finally, we look to exploit the strong crude oil price outlook. Overall, our high-conviction sectors include Technology, Autos, and Energy. We note that Financials and Telecom should become more appealing as we approach a monetary tightening cycle.

Focus list: We advise investors to buy key Korean blue-chip names for sustainable medium- to long-term returns. These companies have come out of the crisis leaner and stronger with rising competitiveness in the global marketplace.

Our top picks for 2010 are SEC, HMC, Hyundai Mobis, Shinsegae, Amorepacific, Shinhan FG, Samsung F&M, Korea Zinc, POSCO, and LG Chem.

Key surprises in 2010: We have identified five key themes that could dominate the Korean market next year: 1) MSCI upgrade; 2) adoption of K-IFRS; 3) Korea's exposure to

China; 4) an appreciating Korean won, and 5) interest-rate hikes.

1) MSCI's potential upgrade of Korea to developed market status: In September 2009, FTSE upgraded Korea to developed market index, providing a slight boost for local equities. In June 2010, MSCI Barra may follow suit and provide Korea with long-awaited developed market status; this could have an even bigger impact than the FTSE upgrade did because far more fund managers benchmark their portfolios to MSCI indices. However, after examining Greece, Portugal, and Ireland, which have previously been upgraded to MSCI developed market status and have not seen many positive side effects (in terms of price performance and capital flows), we conclude that the significance of the country upgrades is exaggerated.

Nonetheless, developed market status for Korea would improve investor sentiment and could reduce the country's existing market discount versus other developed and emerging markets. Furthermore, the key sectors of Korea's economy, such as Information Technology, Materials, Industrials, and Consumer Discretionary, might see a re-rating, as each makes up a relatively large share of its respective MSCI developed market sector, and investors may better reward the constituents' global competitiveness. We would expect developed market investors around the world to highlight Korea's leading companies, such as Samsung Electronics, POSCO, and Hyundai Motor.

2) Korea's adoption of International Financial Reporting Standards (IFRS): K-IFRS standards will become mandatory for Korean listed companies from 2011, and some companies excluding Financials are adopting the standards early. K-IFRS will encourage principle-based accounting rather than rule-based accounting, and allow for increased financial transparency for global investors.

Companies that could benefit from K-IFRS are those with high research and development (R&D) costs and goodwill. For example, Samsung Electronics spent more than W3.7 trillion on R&D in 2008, and this can be recognized as an asset as opposed to a cost once the company adopts K-IFRS. Similarly, SK Telecom has over W1.4 trillion of goodwill, which used to be amortized but can now be recognized as an asset if the fair value remains unchanged.

3) Korea as a key beneficiary of China's growth: Since the early 1990's, Korea's exports to China have grown much faster than overall Korean exports have. As a result, exports to China (including Hong Kong) currently account for almost 30% of Korea's total exports, compared with 15%~16% in 2000. The latest trade data, for October, indicate that while Korea's overall exports declined 8.5% YoY, its exports to China grew 9.5% YoY.

We expect China to post robust economic growth in 2010, and we believe Korean companies are well positioned to benefit from potential consumption growth in China. In particular, Korea's exports to China have shifted towards high-tech and consumer discretionary products from simple basic products, and this should help Korean companies maintain their competitive advantage and increase market share. In 2009, the top three products exported to China are flat displays, semiconductors, and wireless communication products, where Korea clearly has global leadership in terms of technological advancement.

4) KRW appreciation may be much milder than expected: Thanks to a weak dollar trend, a balance of payments surplus, and a fast economic recovery, further KRW appreciation is widely expected. This marks a sharp contrast from a year ago when the market was expecting a collapse in the Korean economy and its currency market due to the external debt situation. Just as we argued last year that market expectations for the KRW were too pessimistic, we believe the current optimism on the KRW could overshoot. We do expect the KRW to continue appreciating against the USD mainly due to a weak dollar, but we do not rule out the possibility that the pace of KRW appreciation could be much slower than expected, especially in 2H10.

5) Rate hikes could be delayed or be milder than expected: Our base case calls for the first rate hike to be implemented in January 2010 and for a total hike of 150 basis points by the end of next year. On the back of a strong economic recovery, Korea would be justified in starting to normalize its interest rates, we believe.

A surprise could be that interest-rate hikes are delayed and milder than expected next year. The government's commitment to continue supporting the economy could be one major reason for delaying rate hikes. The Bank of Korea recently announced plans to widen its inflation target range from the current 2.5-3.5% to 2-4% for the 2010-2012 period. This gives the central bank more room to keep its monetary policy unchanged. Rate hikes could be delayed to late 1Q10 or, in a more extreme case, to 2H10 following the US Federal Reserve.

South Korea Autos & Auto Parts

New growth drivers to allow earnings to again surprise on the upside

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Our view

We believe 2010 will see good earnings momentum, thanks mainly to a strong upturn in the new model cycle. This could ease much of the concern about forex and weaker demand due to the absence of tax incentives. We believe that the underlying factors that made Korean automakers' impressive share performance possible in 2009 was not just currency moves but successful product and marketing. In other words, i.e., a mix of forex and product recognition favored earnings this year. Next year's earnings growth should come from different sources, e.g., higher utilization backed by new models, with much improved cost structure and higher ASPs. We estimate new models will account for more than 33% of total sales units in 2010.

Market view

Factors that have caused investors to cheer – weaker KRW and scrappage incentives – are now turning around and threaten to constrain earnings growth in 2010. Korean automakers substantial market share gains in key markets around the world have been mainly due to a surge in marketing expenditure, backed by a weaker KRW. Moreover, the automakers are likely to suffer most in markets with no scrappage incentives, which favor compact cars. The market believes that there is a lack of further positive surprises and so outperformance in the industry will be inhibited.

Macro concerns such as the appreciating KRW and weakening demand following the expiry of scrappage incentives continue. Investors tend to be sensitive to negative catalysts, especially after impressive outperformance. They seem to be assuming positives are already priced in and the lack of further catalysts will prevent stocks from outperforming. The following is what we believe will likely surprise the market in 2010.

A stronger won is a concern, but earnings may still increase in 2010. While FX moves are clearly among the most fundamental earnings drivers, our earnings estimates for Hyundai Motor in 2010 should show a sharp increase if we assume 13.6% appreciation of the won against the US dollar (W1,100 in 2010 from W1,273 in 2009). As we have frequently highlighted in our research, utilization matters more than forex. For example, Hyundai Motor exhibited relatively strong earnings in 2007, when the currency stayed at W930/USD and W7.9/JPY because of close to full utilization. We believe a structural economic recovery as well as the successful launch of new models should lead to higher utilization rates for Korean automakers, offsetting much of the negative impact due to currency appreciation.

New model impact underestimated: Another factor that could lead to better earnings performance in 2010 is the launch of new models. Management has been consistently arguing that the cost structure of new models has been overhauled so that they fare well in a strong won environment (e.g., even at W900/USD, companies could make good profits). Also worth noting is that new models come with higher ASPs and the portion of new models among total unit sales should jump to more than 33% and continue to grow. Hyundai Motor's and Kia Motors' shared platforms have contributed to the number of new models doubling, which should further support higher utilization.

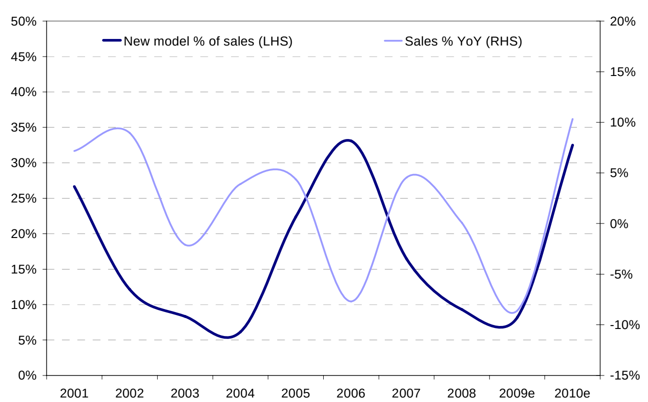
Weaker demand post tax incentives? Many investors are worried that demand in 2010 in Korea, which is the most profitable market for Korean automakers, is set to decline because no measures to boost scrappage incentives have been introduced. The most recent data suggest, however, that the tax incentives for replacing 10-year old cars did not encourage a significant increase in total scrappage this year. The scrappage as a percentage of new car sales should decline to 48% in 2009 from 54% in 2008; the scrappage as a share of total registered cars is likely to be 3.8% this year vs. 3.9% last year. Given that historical scrappage trends are quite stable, we could conclude that cars scrapped under the incentive scheme would have been scrapped anyway. We expect flattish car demand at more than 1.4mn in 2010, thanks to a structural economic recovery and new model effect.

Exhibit 1
Utilization matters more than exchange rate moves

Hyundai Motor	2006	2007	2008	2009e	2010e	% Diff 07 vs. 10e
FX						
KRW/USD	956	930	1,098	1,273	1,100	18%
KRW/JPY	8.2	7.9	10.6	13.7	11.8	50%
Export Ratio	57%	58%	62%	50%	56%	-2%
1. Utilization rate						
Korea	92%	97%	90%	87%	94%	-3%
Global	90%	90%	88%	88%	94%	4%
Sales volume	1,611	1,701	1,669	1,609	1,741	2%
2. ASP						
Domestic	18,868	19,438	20,092	21,371	21,307	10%
Export	11,790	12,637	14,875	14,761	14,970	18%
3. Cost						
SG&A	3,692	4,035	5,254	4,742	4,869	21%
% of revenue	13.5%	13.2%	16.3%	15.1%	14.1%	1%
Warranty prov.	328	440	901	113	345	-22%
% of revenue	1.2%	1.4%	2.8%	0.4%	1.0%	0%
Marketing costs	771	813	1,181	1,652	1,312	61%
% of revenue	2.8%	2.7%	3.7%	5.3%	3.8%	1%
Revenue	27,335	30,489	32,190	31,425	34,536	13%
OP	1,234	1,815	1,877	2,235	2,894	59%
OPM	4.5%	6.0%	5.8%	7.1%	8.4%	
NP	1,526	1,682	1,448	3,112	3,598	114%
EPS	7,008	7,760	6,677	14,636	16,909	118%

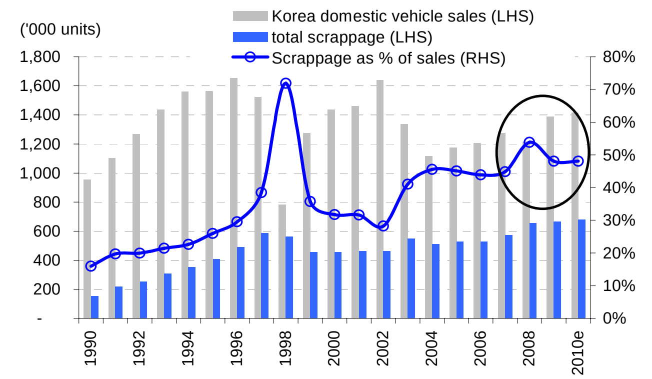
Source: Company data, e = Morgan Stanley Research estimates

Exhibit 2
New models to drive sales growth



Source: Company data, Morgan Stanley Research, e = Morgan Stanley Research Estimates

Exhibit 3
Korea: Scrappage as % of sales falling in 2009 despite tax incentives for replacing old cars



Source: MKE, KADA, Morgan Stanley Research estimates

Hyundai Motor is our top Overweight idea in the sector, as it will experience an upturn in the new model cycle for 2010. We believe the market has not fully considered this factor. New models such as Sonata and Tucson should significantly drive earnings, as they come with much improved cost structure plus higher ASPs. Earnings improvement should be meaningful as new model sales will likely account for more than a third of 2010 total sales volume and the 4Q09 is the first quarter to see the full impact of new model sales. The successful launch of new models would encourage pent-up demand, which in turn should support high utilization, offsetting much of the forex-related negative impact on earnings. The stock trades at 6.2x 2010e earnings and 0.9x 2010e book with 16% ROE. We therefore recommend that investors build positions in Hyundai Motor ahead of 4Q09 results, before the possibility of stronger earnings performance becomes apparent to the market.

South Korea Autos & Auto Parts

Hyundai Motor: New models underestimated

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Our view

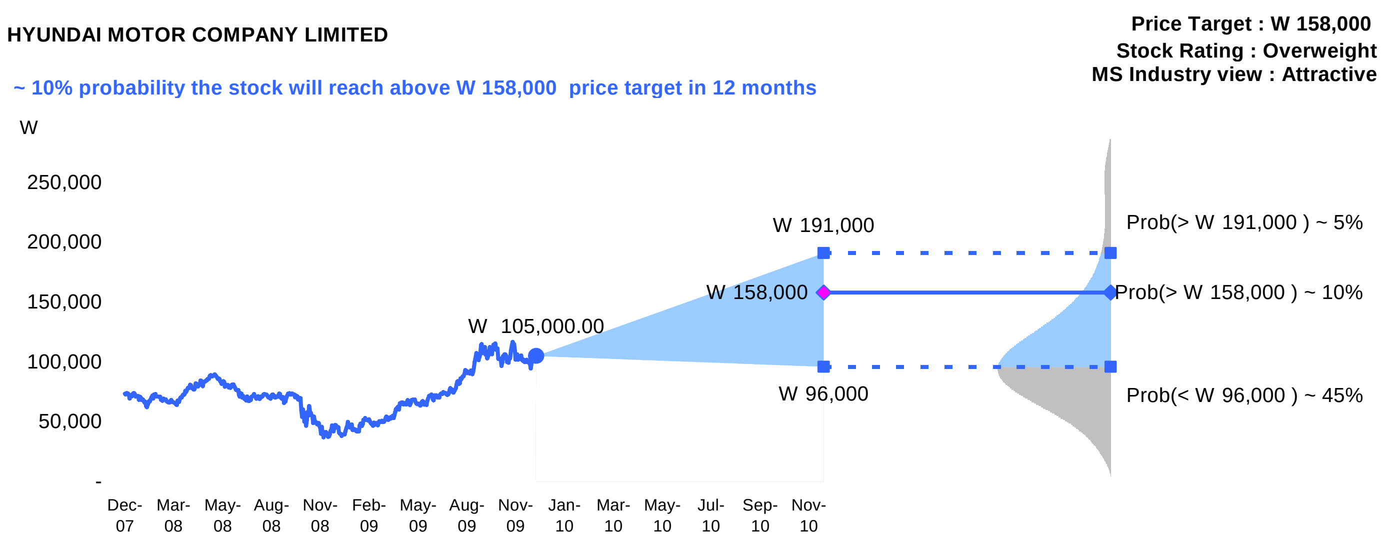
Despite phasing out of government incentives, new models will support auto sales' upward momentum: We are positive on Hyundai Motor because new models should offset any negative impacts. The already launched Sonata and Tucson have demonstrated better-than-expected sales in the domestic market and should start to register higher sales in major export markets from early next year. We expect the new Avante, Verna and Grandeur to improve sales volume, ASPs and even cost structure in 2010, potentially leading to upside earnings surprises. We assign a 70% probability to our base case and a 20% probability to our bull case, which assumes 52k further new model sales.

Market view

Anticipating 8% lower revenue than we are: The consensus is too conservative, we think, about additional sales from new models, and is apparently assuming no growth in Sonata and Tucson sales volume in 2010. The market also remains too bearish, in our view, about future share price movements. Our bear case assumes disappointing sales of new models and KRW/USD below 1,100, but we regard this scenario as unlikely.

Market assigns 45% probability to bear case – too conservative, in our view

Morgan Stanley risk-reward view (left) vs. probabilities implied by options prices (right)



The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of Dec 9,2009. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in one-year's time.

Risk-reward scenarios

OW, PT W158,000

W96,000
Bear Case

7.5x 2010e Bear Case 2010e EPS

No big success with new models: Relatively disappointing new model sales and market share gain pressure HMC's revenue growth and, in turn, its operating margin, which falls below 5%. Historically, 4.5-5% has been HMC's trough margin range. Bear case yields value of W96,000.

W157,000
Base Case

9.3x 2010e Base Case 2010e EPS

Accelerated recovery: Thanks to improved earnings competitiveness from new models as demand gradually recovers, HMC is able to withstand a strengthening KRW environment with a higher utilization rate globally. On the back of solid sales, OPM stabilizes at about 7.5%, slightly higher than its 10-year average.

W191,000
Bull Case

10.2x 2010e Bull Case 2010e EPS

Not just a value brand: We assume HMC fully rides the global auto sales recovery, thanks to its improved brand. Successful execution of new models and effective marketing enhance the HMC brand, leading to continued sales growth. OPM ranges between 8.5% and 9.4%.

2009/2010 new models are key to Hyundai Motor's volume: For the past five years, Hyundai has been so successful with new models that it was able to take global market share even in 2009 as overall demand plunged. New models will likely contribute about one-third of total sales volume in 2010, acting as a key sales/earnings driver. Meanwhile, we believe that an ASP increase and a better cost structure should not be overlooked. Recently robust new model sales support our positive view.

Plenty of new models, plenty of upside catalysts: New model launches in domestic and overseas markets will likely be upside catalysts. Hyundai plans to introduce the new Sonata and Tucson in the US in early 2010 and Avante, Verna and Grandeur in the domestic market in 2H10. China's strong auto demand may also spur new model sales. As a compact SUV, the Tucson appears to be well suited to the Chinese market, where this category is gaining popularity.

Current share price assumes little additional sales from new models: While the market's revenue forecast is implying no growth next year, we note that new models have historically driven higher sales, so we expect the consensus outlook to be revised upward as new models are launched. Thus, we believe the market remains too bearish about future share price performance.

Exhibit 1

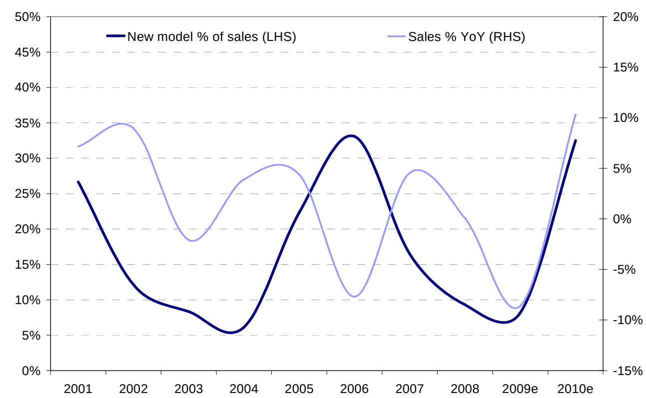
New model launch schedule

Year	Quarter	Region	Segment	Model	Old Model	Features
2010	3Q	Domestic	Small	MD	Avante	August
2010	4Q	Domestic	Small	LC	Verna	November
2010	4Q	Domestic	Middle	HG	TG	YF base, December
2011	1Q	Domestic	MPV	SO	New	Larger than Lavita
2011	1Q	Domestic	CUV	FS	New	Lavita
2011	3Q	Domestic	SUV	DM	Santa Fe	Kia Sorento base
2011	3Q	Domestic	Middle	VF	New	YF Hatchback (I40)
2010	1Q	US	Middle	YF	Sonata	
2010	4Q	US	Small	MD	Avante	
2010	4Q	US	Middle	YF	Avante	Hybrid
2010	2Q	China	SUV	LM	Tucson	April
2010	3Q	China	Small	N/A	Verna	July
2011	NA	China	Middle	YF	Sonata	
2011	NA	US	Small	MD	Avante	
2010	1Q	Europe	SUV	LM	Tucson	
2010	1H	Europe	Middle	YF	Sonata	
2010	4Q	Europe	CUV	FS	Lavita	November
2010	4Q	Europe	MPV	SO	New	December

Source: Company data, Morgan Stanley Research

Exhibit 2

New models to drive sales growth



Source: Company data, Morgan Stanley Research
e = Morgan Stanley Research estimates

South Korea Hardware Components

LG Display: No hard landing in 1H10

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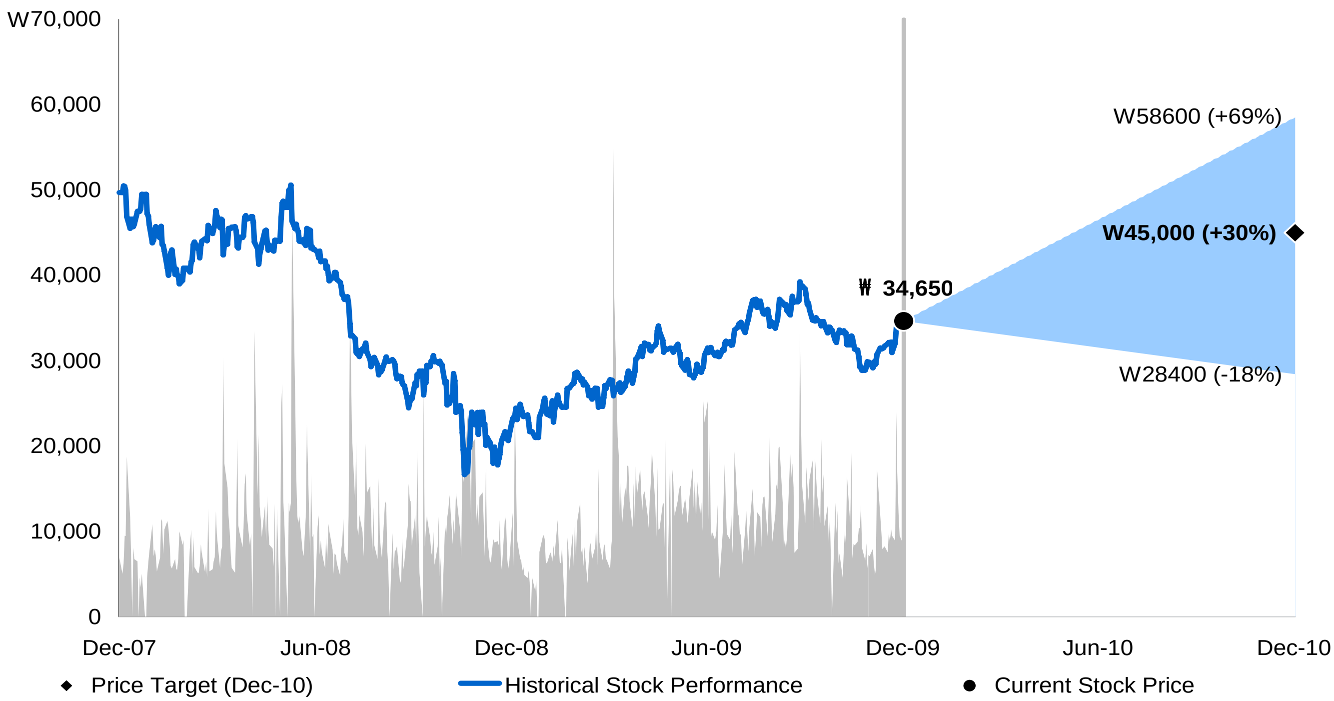
Our view

Industry recovery to benefit LGD: While the TFT-LCD industry will face a slowdown in 1H10, this will be due purely to seasonal factors, and the industry should continue to improve well into 2011. As a result, LCD producers' margins are unlikely to experience a collapse similar to that in 2H08. Any year-end inventory adjustments can be made through simple reductions in utilization during 1Q10. This recovery pattern bodes well for LGD, the industry leader, which commands one of the highest profit margins.

Market view

Hard-landing scenario: Given the rise in utilization and the ramp-up of new capacity, the consensus is forecasting a hard landing for the TFT-LCD industry in 1H10, triggering a sharp margin contraction starting in 4Q09.

Strong upside ahead



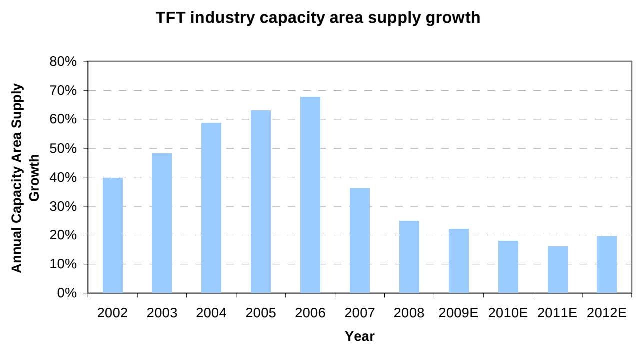
Risk-reward scenarios

OW, PT W45,000

W28,400 **Bear Case** 0.9x Bear Case 2010E BVPS	**W45,000** **Base Case** 1.3x Base Case 2010E BVPS	**W58,600** **Bull Case** 1.5x Bull Case 2010E BVPS
Hard landing in 1H10. Rising utilization and resolution of glass shortage conditions lead to industry oversupply amid low demand, triggering sharp declines in panel prices.	**Normal seasonality.** 1H10 shows simple seasonality traits, and the industry continues to improve into 2011.	**Stronger than normal seasonality in 1H10.** With macro improvements, demand for panels is stronger than expected while the industry manages overall utilization rates to keep supply and demand in balance.

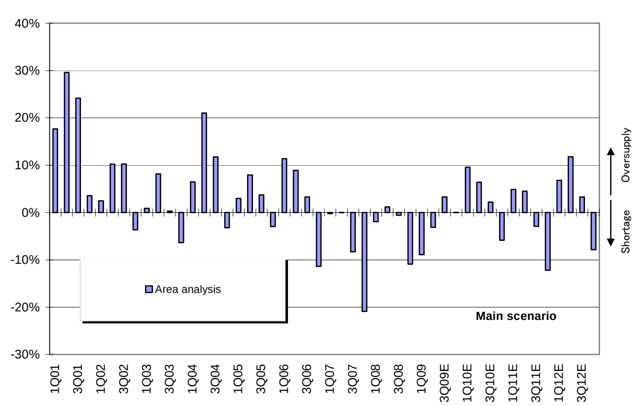
Key surprise to come from better-than-expected industry conditions in 1H10. We think the likely 1H10 industry slowdown will represent an attractive multi-year entry point for LCD stocks as a whole. While this recovery pattern bodes well for LGD as the industry leader, the fundamental story continues to be that for the LCD industry, capital intensity has been falling on lower investments, which has led to much lower capacity growth rates.

Exhibit 1
Limited LCD panel supply growth in 2010-12E



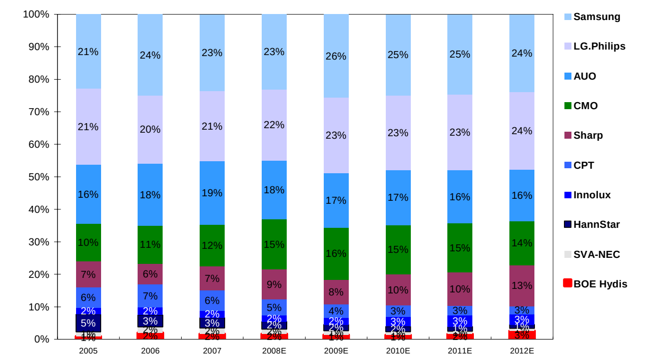
Source: Company data, Morgan Stanley Research
E = Morgan Stanley Research estimates

Exhibit 2
Global TFT-LCD industry outlook



Source: Company data, Morgan Stanley Research
E = Morgan Stanley Research estimates

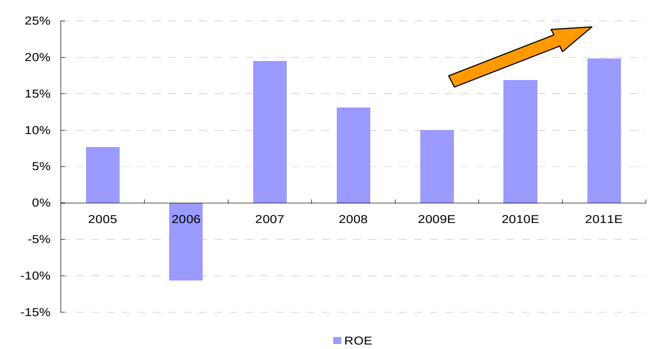
Exhibit 3
TFT-LCD: LGD remains an industry leader



Source: Company data, Morgan Stanley Research
E = Morgan Stanley Research estimates

Solid fundamentals: LGD's key fundamental metrics remain solid, in our view. Directionally, we think the LCD industry will experience a seasonal slowdown in 1H10, but not to the point of driving LGD's operating profit margin into negative territory. As a full-year comparison, we expect LGD's profit margins to improve in 2010 and also into 2011 under our global industry scenario. LGD's balance sheet remains strong, having low leverage and ample liquidity.

Exhibit 4
LGD: Healthy ROE outlook



Source: Company data, Morgan Stanley Research
E = Morgan Stanley Research estimates

Valuation support: Ultimately, catalysts for a higher share price revolve around potential earnings power, strong cash flow growth, low leverage, and attractive valuations. LGD currently trades at 0.9x 2010e P/B on our 16% ROE projection, which we think is a good risk-reward proposition. We do not think our target P/B multiple of 1.3x is demanding, given the upbeat outlook. As well, 1.1x P/B is the normal cyclical bottom valuation, yet the 2009 up-cycle has not brought about multiple expansion – normally to about 2.0x P/B. We think this reflects concerns about what may be the next downturn – which is contrary to our industry view.

South Korea Semiconductors

Samsung Electronics: Stronger DRAM leverage

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Our view

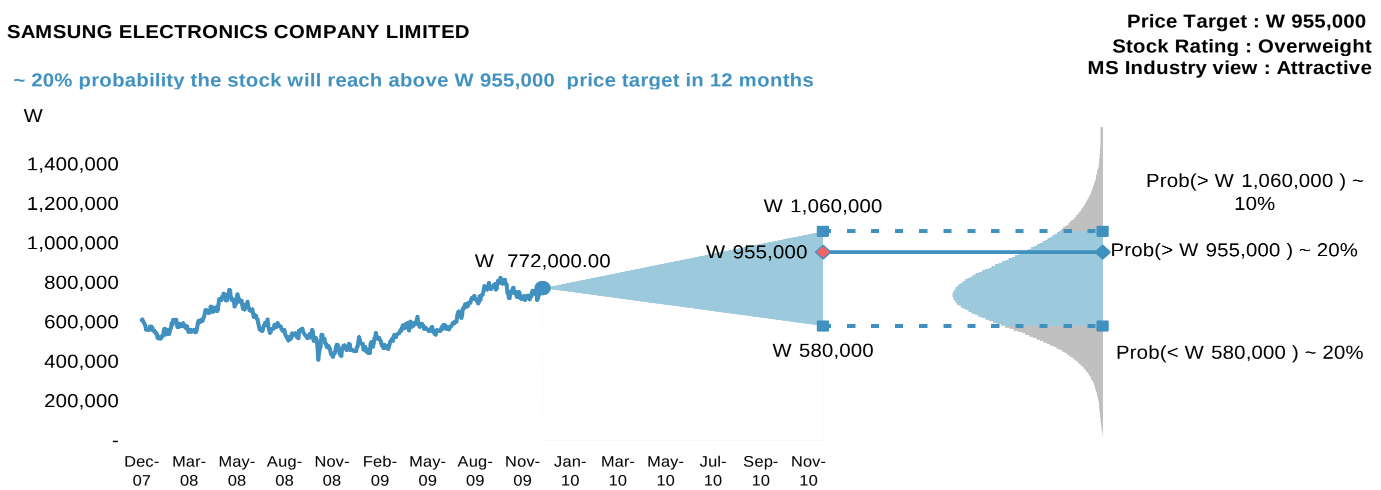
SEC maintains its strong operating leverage, given the company's industry leadership and as all of its cyclical businesses are swinging back to profitability. Breaking the operations down by division – **Memory:** With global DRAM and NAND industry supply/demand conditions much tighter and on their way to recovery, profitability should continue to improve. We expect SEC to continue to widen its market leadership through aggressive technology migration, exhibiting a much stronger cost structure than its peers do. **TFT-LCD:** Contrary to the consensus expectation of another hard landing for the industry in 1H10, we anticipate more seasonal weakness with the industry heading into a shortage in 2011. **Handsets:** We look for SEC to continue to outperform the market's growth and narrow its market share gap with Nokia, given its economies of scale and strong distribution channels.

Market view

Earnings register strong growth in 2010, but outlook for TFT-LCD market dims. Breaking the operations down by division – **Memory:** Similar to our view, consensus is generally looking for recovery of both the DRAM and NAND industries, given significantly reduced capital spending and much tighter industry supply/demand conditions. **TFT-LCD:** Based on the rise in utilization and ramp-up of new capacity, the market is forecasting a hard landing for the TFT-LCD industry in 1H10, triggering sharp margin contraction starting in 4Q09. **Handsets:** Market also expects SEC's market share gains to continue.

Options market assigning equal probability to our base/bear cases; looks too conservative

Morgan Stanley risk-reward view (left) vs. probabilities implied by options prices (right)



The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of Dec 9,2009. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in one-year's time.

Risk-reward scenarios

OW, PT W955,000

W580,000
Bear Case
1.2x Bear Case 2010E BVPS

Hard landing for TFT-LCD industry and muted rebound in consumer spending on electronics trigger slower-than-anticipated overall margin recovery.

W955,000
Base Case
2.0x Base Case 2010E BVPS

Embarking on new, sustainable business growth cycle. With all of its cyclical businesses swinging back to profitability, SEC maintains its earnings growth well into 2010.

W1,060,000
Bull Case
2.2x Bull Case 2010E BVPS

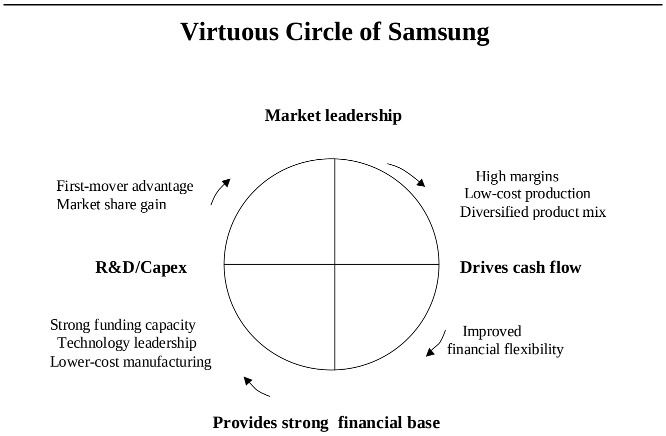
Revival of IT spending triggers stronger-than-expected DRAM and NAND demand. Given SEC's leadership position in both the corporate and consumer markets, it should be one of the biggest beneficiaries of healthier memory demand.

Key surprise to come from DRAM: The three-year DRAM industry downturn is over, and Samsung has emerged stronger and, in our view, the undisputed industry leader. The diversified nature of its business provided the strong cash flow to keep critical investments going during the downturn. The virtuous investment cycle continues, and the technological leadership gap is now wider. Samsung is currently the only DRAM maker mass-producing DDR3 at 46 nm process, which we expect will drive its operating profit margin higher, given more stable DRAM price trends.

As for the global DRAM industry, we now have a positive view for 2010. The industry's pace of recovery has been faster than anticipated, driving Samsung's DRAM margins higher for 2009e and 2010e. Even though much idle capacity exists and tends to operate again when DRAM prices rise, our concerns have diminished, as the pace of technology advancements will keep the most inefficient fab capacity closed permanently. While a seasonal slowdown in 1H10 appears inevitable, the risk of a double-dip in the DRAM industry has decreased, in our view, judging from the aggressive corrective measures that the industry has undertaken in the past two years.

Exhibit 1

DRAM: New profit cycle begins

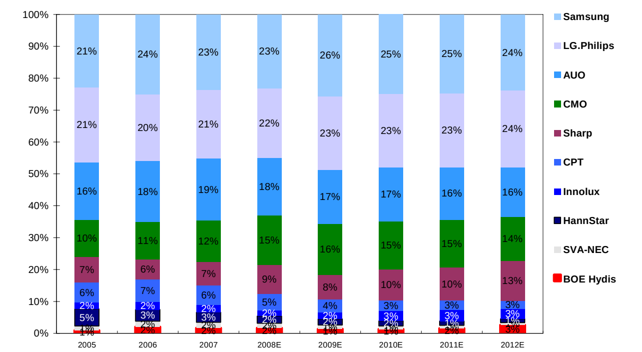


Source: Company data, Morgan Stanley Research

Another surprise to come from TFT-LCD: We expect that a slowdown in 1H10 will be due purely to seasonal factors, and the industry should continue to improve well into 2011. As a result, LCD producers' margins are unlikely to experience a collapse similar to that in 2H08. Any year-end inventory adjustments can be made through simple reductions in utilization during 1Q10. This recovery pattern bodes well for SEC, the industry leader, which commands one of the highest profit margins.

Exhibit 2

TFT-LCD: SEC remains an industry leader

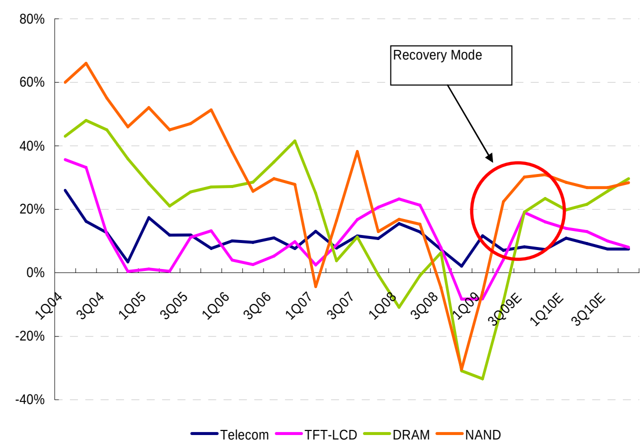


Source: Company data, Morgan Stanley Research
E = Morgan Stanley Research estimates

Business up-cycle continues: Samsung is a tech conglomerate, and its diversified asset base makes the company a long-cycle business. Nearly all of its major operations are in the early stages of the recovery cycle, supporting continued earnings growth. We see an upward earnings trajectory.

Exhibit 3

OP margin by division – firmly in recovery mode



Source: Company data, Morgan Stanley Research
E = Morgan Stanley Research estimates

South Korea Shipbuilding

Restructuring and non-conventional orders could support market leaders

Morgan Stanley & Co. International plc, Seoul Branch+

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Sangkyoo.Park@morganstanley.com

Our view	Market view
The main debates are: will new orders recover and do yards face order cancellation risks?	
New order recovery could come from underinvested segments: The current recession should limit the degree to which new orders recover in 2010 due to oversupply. However, aside from conventional ship types, surprises could come from offshore and special vessel markets, which remain relatively healthy in terms of supply and demand. Korean shipyards continue to be more competitive in these segments than Chinese yards are. Lack of new orders could lead to industry restructuring, marginalizing small-to-medium players, which would be a positive.	*New orders:* While new orders remain key drivers of stock performance, 2010 will be another bleak year as over-investment in commercial shipping segments still weighs on the already depressed industry. The global economy should undergo a minor rebound, which will likely limit recovery of shipping rates. Increasing competition from Chinese peers should keep investors from turning bullish on Korean shipbuilders.
Investor concern about orderbook risk is overdone: While we concede such a risk exists, there have been no cancellations with top Korean yards so far. We think it would be hard to walk away from orders, as costs associated with cancellations could be much higher than shipowners may think.	*Orderbook risk:* As many cancellations have occurred since the global financial crisis began, the market assumes top Korean shipyards should experience the same fate.The ongoing recession should lead to further cancellations in the huge existing orderbook, as shipping companies cannot maintain the backlog.

The market is turning more bearish on Korea shipbuilding: In contrast to our In-Line view on the industry, the consensus is becoming more bearish, due to 1) lack of new orders and 2) Chinese orders' surpassing Korean orders. Share prices reflect these risks. Korean shipbuilders are trading at an average 0.7x 2011e book value, whereas their Chinese and Japanese counterparts are trading at 2.0x and 1.0x, respectively, with similar or much lower ROE projections.

Wait a minute … 75% discount to Chinese shipyards? Is the market pricing Korean yards right? We understand shipbuilding is an industry that has a longer cycle, but such a big discount to companies in the same industry competing for the same customers globally doesn't sound convincing. Why are investors more bearish on Korea, which still leads the global shipbuilding market? Is it because of lack of new orders? But it is the same story for every shipbuilder. Is it because Korean shipyards are likely to lose market share as competition with China increases? But isn't China still dominating low-value-added segments such as bulkers and tankers? Is there any proof that Chinese shipyards can compete in high-value-added vessel segments such as drillships, semi-submersible rigs, or other offshore structures or engineering projects? Can Chinese shipyards beat Korean yards in terms of profitability now or in a couple of years? Are only Korean shipyards' orderbooks at risk? Don't China and Japan face the same cancellation risks? We do not have answers to all of these questions, but the following could provide surprises to the upside.

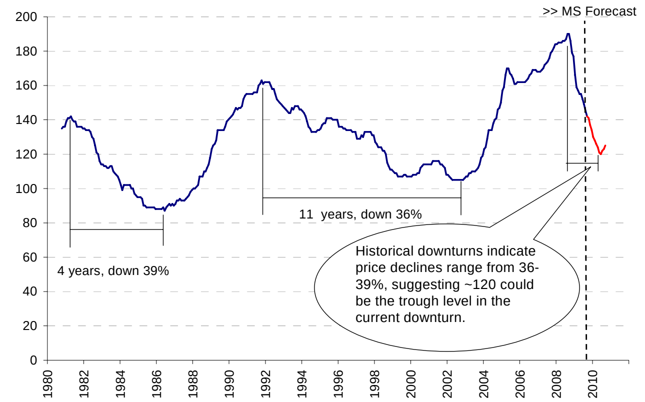
New order recovery in non-conventional vessels: Although we forecast only 41 million dwt of new commercial vessel orders in 2010, which would be far lower than the 10-year average of 115 mn dwt, order recovery in non-conventional vessel segments may provide sufficient leeway for top Korean shipyards to weather falling orderbook years. Besides, non-commercial vessel types usually come with much higher values. Offshore projects involving orders for drillships, semi-submersibles, and FPSOs (Floating, Production, Storage & Offloading vessels) have been delayed for more than a year, for example, Petrobras' deep-sea projects and arctic drilling rigs. Also, many energy majors will likely consider tendering more LNG FPSO projects. High-value-added cruise ship orders that Samsung Heavy is reportedly working on could trigger positive responses from the market. Orders for various other special ship types could also provide upside.

More industry restructuring: We believe 2010 will bring further industry restructuring, as most shipyards will probably report their orderbook years breaking below the two-year level if the current pace of new orders persists. Since new orders remain the only credible source of cash for small-to-medium-size shipyards, they will be more aggressive in seeking orders, resulting in more intense price competition. If we hear more news about shipyards filing for bankruptcy protection or going out of business, the overcapacity issue could be resolved.

Newbuilding prices turning up: Historically, newbuild pricing turnarounds, from either peaks or troughs, have provided critical directional momentum for stock performance. The current price correction from the recent peak is about 26%. Given past price declines ranging from 36% to 39%, newbuild prices could see a further decline of more than 10 percentage points, to a possible trough around mid-2010. Any upturn in newbuild prices should surprise the market and prompt more newbuilding activity from early investors.

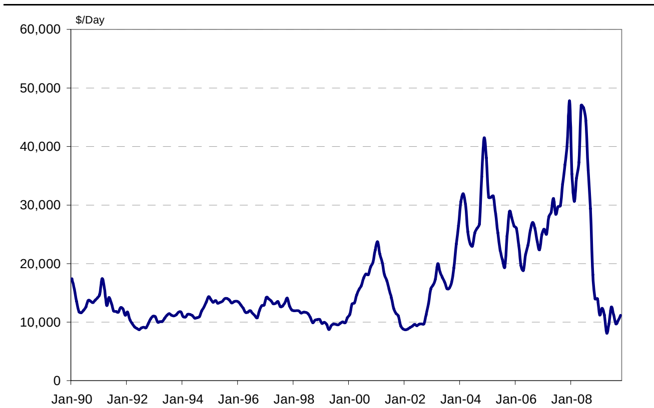
A sustained upturn in shipping rates should reduce orderbook risks: Although we do not assume major cancellations for Korean shipyards, the market is anticipating cancellations. Since orderbook risks emerged as shipping companies and shipowners confronted historically low shipping rates and the financial crisis, an upturn in rates should reduce shipbuilders' orderbook risks.

Exhibit 1
Newbuild price decline to reach trough in 2010



Source: Company data, Morgan Stanley Research

Exhibit 2
ClarkSea index



Source: Company data, Morgan Stanley Research

South Korea Steel

Hyundai Steel: Likely beneficiary of tight supply/demand for China long product

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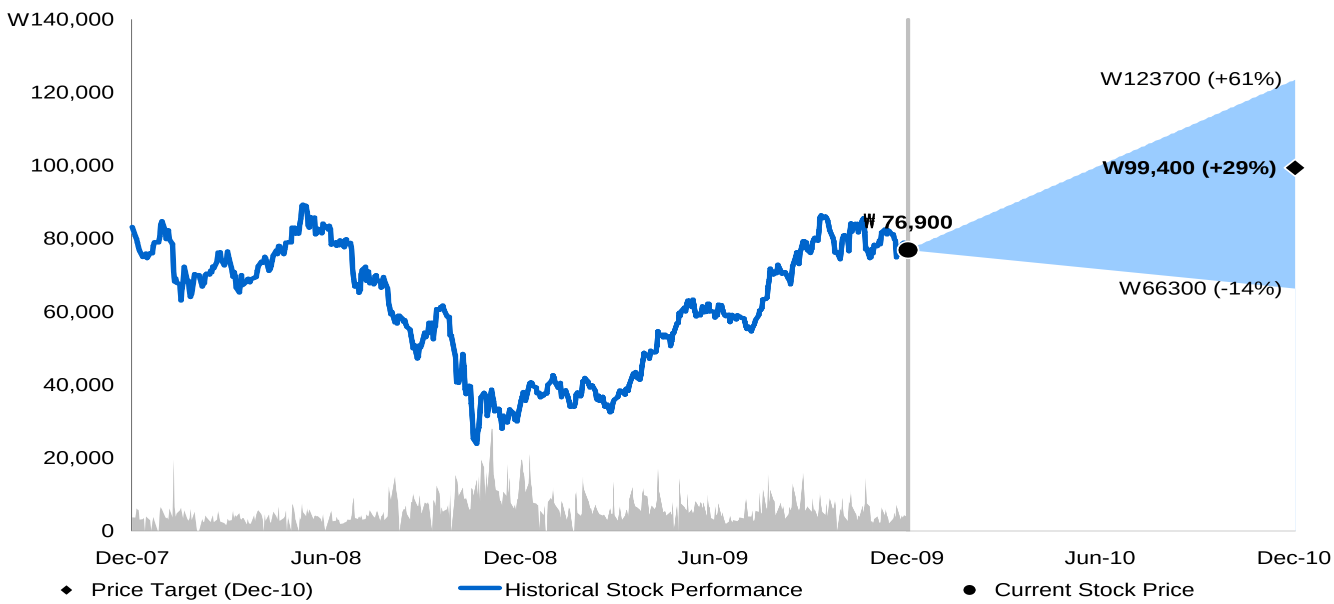
Our view

We favor long product makers and view Hyundai Steel's blast furnace as a likely growth engine. We believe the market is overlooking the potential for China to become a net importer of long product due to strong property construction demand and limited capacity. As Korea is a key Chinese export market, we expect long product makers such as Hyundai Steel to benefit from the tight supply in China. We are Overweight Hyundai Steel, which has the highest exposure to long products among Korean steel companies. Completion of a blast furnace early 2010 should underline its long-term growth potential.

Market view

Lacking confidence in recovery. Post Hyundai Steel's price cut in early November, the market is still not convinced about a long product price recovery in 2010. We agree that high inventory may pressure pricing in the near term, but we see a strong probability that Chinese exports of long product to Korea will plunge, allowing Korean producers to achieve higher operating rates.

Blast furnace and improving construction cycle likely to drive up share price



Risk-Reward Scenarios

OW, PT W99,400

W66,300 13x normalized EPS
Bear Case

Sluggish construction and weak BF: Weaker BF earnings and poor demand from the construction sector slow Hyundai Steel's earnings recovery, and the company does not restore earnings to normalized levels until 2012. Risks related to the blast furnace could intensify, driving up interest expenses/ leverage.

W92,800 9.8x normalized EPS
Base Case

Stronger long product and successful BF: Successful move into BF steelmaking leads to gradual earnings improvement and helps lead to normalized earnings in 2011. Although we do not assume a sharp turnaround in construction and rebar demand, an improving outlook for China steel demand could ease pricing pressure on rebar.

W123,700 7x normalized EPS
Bull Case

Better profitability from BF allows Hyundai Steel to realize normalized earnings in 2010. Our residual income model yields a bull-case fair value of W123,700.

Key positive surprise could come from long product. Most of China's steel investments in the past few years have gone into flat products, in line with government policy to increase market share in this area. The concentration of flat rolling capacity has resulted in rapid production growth for flat products. We estimate 15% growth in flat capacity for 2010, while long capacity should remain mostly unchanged.

As China's demand for long products picks up, we see a tight market with operating rates rising above 90% in 2009. We expect demand from the property and infrastructure sectors to remain robust through 2010. We forecast that operating rates at the long mills will hit 100% next year, given limited capacity growth as mills continue to push production to meet demand.

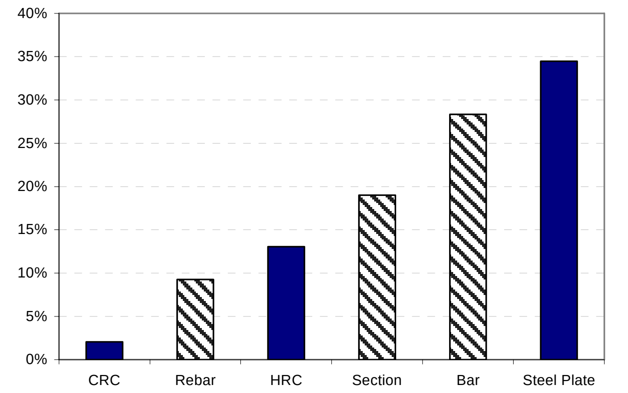
In the past 2-3 years, China's exports of long products have fallen sharply as the domestic market has tightened and government policies have discouraged long exports. Looking into 2010, China could be a modest net importer of long products, as a tight market with strong demand could attract imports from other regions.

Accordingly, we see upside to Hyundai Steel's rebar operating rate, which we forecast to reach 76% in 2010 and 79% in 2011. As the rebar price tends to track the operating rate (Exhibit 2), our rebar price assumptions could prove conservative.

Getting ready for BF. When we visited the Dangjin plant in October, we could see that preparations for the blast furnace were on track. The next two months should bring the start-up of the coke oven and the sintering plant. On the funding side, Hyundai Steel's ample cash balance after the sale of the Hyundai Motor stake will enable it to budget W1.2 trillion in capital spending in 2010. We expect the market's concern to dissipate once the project is launched in January.

Exhibit 1

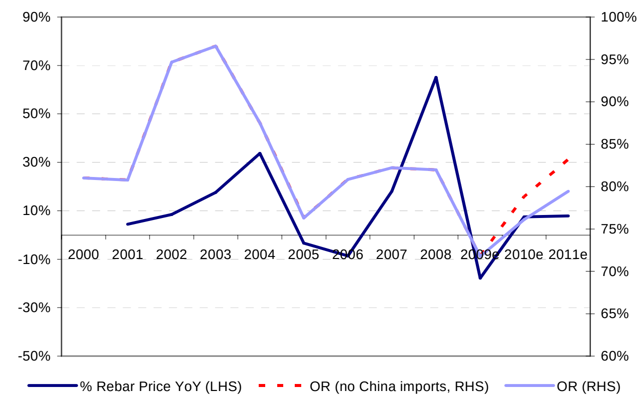
Chinese imports as % of Korean consumption by product, 2008



Source: KOSA, Morgan Stanley Research

Exhibit 2

% YoY change in rebar price vs. operating rate: as Chinese imports fall, operating rate rises



Source: Company data, Morgan Stanley Research
e = Morgan Stanley Research estimates

South Korea Technology

DRAM: Likely winners in global industry upturn

Morgan Stanley & Co. International plc, Seoul Branch+

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Our view

Based on our positive outlook for the global DRAM industry, Korean DRAM companies SEC and Hynix are well positioned to maintain their industry leadership through technology migration and the best cost structures.

Market view

The consensus is less bullish about the magnitude of recovery than we are but also expects Korean DRAM companies to maintain their industry leadership.

Korean DRAM makers to emerge as winners: 2010 should prove to be another year of capacity digestion. DRAM prices have recovered enough for the PC industry to become concerned. Prices will not rise forever, thus making the cost structure the key driver of profit margins. Early adopters of cutting-edge technology such as SEC and Hynix should expand profit margins the quickest while extending their industry leadership. Laggards have to struggle between rebuilding their cash reserves and investing any excess funds in technology just to stay competitive. Lower profitability restrains their ability to invest more aggressively.

Exhibit 1

DRAM: Koreans lead technology migration

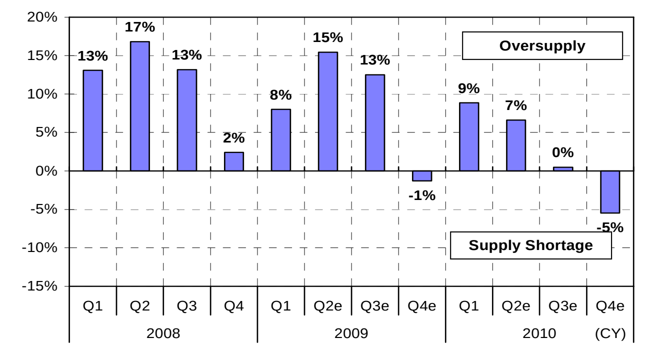
CY	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09e	Q4 09e
Samsung			68nm 6F2			56nm 6F2						46nm 6F2
Hynix			66nm 8F2			54nm 8F2						44nm 8F2
Powerchip	70nm 8F2				65nm 6F2				65nm Shrink			
Qimonda				75nm Trench 8F2			65nm BWL 6F2					
Micron		78nm 8F2				68nm 6F2		58nm 6F2				
Nanya				70/75nm Trench						68nm 6F2	58nm 6F2	
Inotera					70/75nm Trench 8F2							58nm 6F2

Source: Company data, Morgan Stanley Research
e = Morgan Stanley Research estimates

Positive DRAM industry outlook: The industry downturn that began in 2007 is over, we believe. We still see risk of the usual seasonal downturn in 1H10, but nothing near the magnitude of the structural decline the industry has faced in the past three years. The recovery appears to be following general industry trends. The weakest producers have shut down production, the supply curve has moved downward to adjust to a permanently lower demand environment, prices are improving and causing margins to expand, lessons are declared learned, and companies are promising no new capacity, but investments that improve production costs continue. True to its past boom-and-bust cycles, the DRAM

Exhibit 2

Global DRAM supply/demand balance improving



Source: Company data, Morgan Stanley Research
e = Morgan Stanley Research estimates

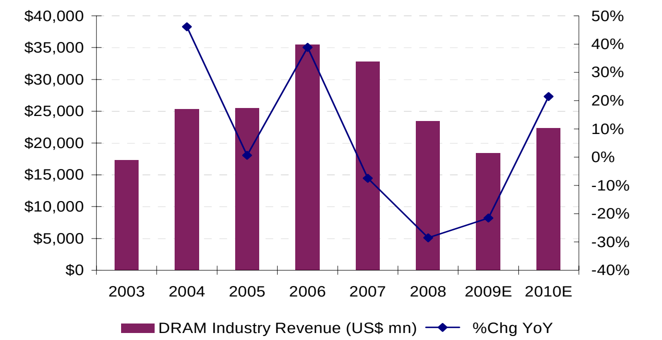
industry is now embarking on a sustainable recovery, we believe. We have a positive view on the industry globally on a one- to two-year horizon.

Industry revenue to rebound in 2010: We forecast DRAM industry revenue to rebound 21% YoY, to about US$22.4bn in 2010, following three consecutive years of decline. YoY comparisons are easy, since industry revenue is likely to shrink to ~US$18bn in 2009 from the most recent cycle peak of US$35.5bn in 2006. The growth in revenue, driven by milder ASP declines and steady demand volume, is an important step towards industry recovery. Although growth in total demand for 2010 still looks a bit tepid at 35% YoY, it continues to accelerate from a 19% YoY rate in 2009.

Our key assumptions include growth in memory content per PC of 27% YoY, below the 34% average rate during the current decade. More importantly, however, according to Morgan Stanley PC analyst, Katy Huberty, the PC industry should rebound to a 9% YoY growth rate after contracting 5% YoY in 2009. PC growth is essential to keep the DRAM industry healthy. We think the worst was over for the DRAM industry in 2Q09. Rising ASPs, improving inventory levels, a new DDR3 cycle, and a corporate PC replacement cycle –

supported by Windows 7 – should assist the DRAM industry's healing process extending into 2011. We do not think that Windows 7 per se is a direct demand driver. Rather, as in other software upgrade cycles, it stimulates the PC replacement cycle.

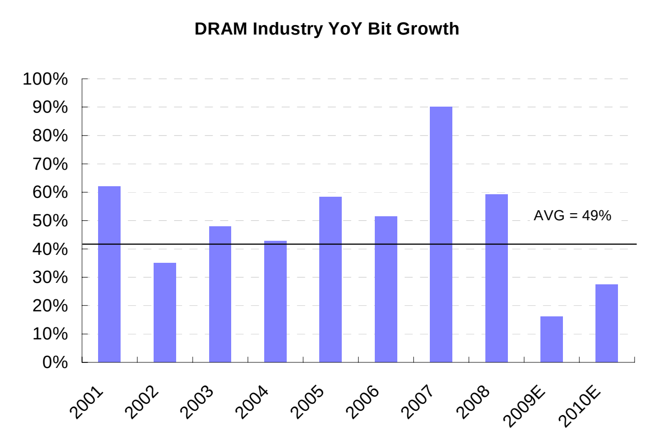
Exhibit 3
Global DRAM industry revenue – new cycle



Source: Company data, Morgan Stanley Research
E = Morgan Stanley Research estimates

Permanent downward shift on the supply side? In our view, the root of the 2007-09 downturn can be traced to anticipation of the Windows Vista launch. We recall that the recommended amount of DRAM to run the software was double that of previous versions of Windows operating systems (OS). With such an anticipated software launch, DRAM producers rushed to double their production capacity, only to realize that the move to Windows Vista required no more memory growth than the normal trend for software upgrades, particularly when the basic content of DRAM per box was already double or sometimes triple the recommended specs to run the OS.

Exhibit 4
Supply-side growth rates have shifted down



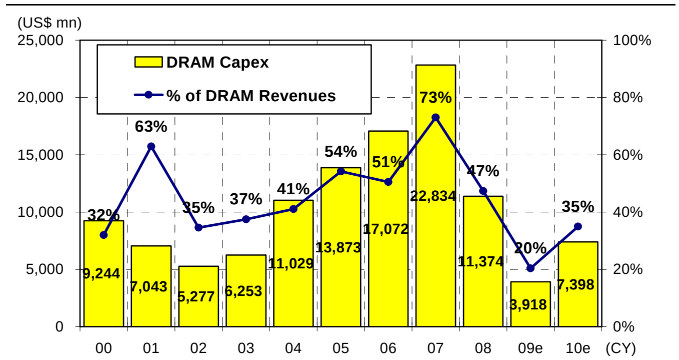
Source: Company data, Morgan Stanley Research
E = Morgan Stanley Research estimates

Feeding the optimism, capital spending in the DRAM industry in 2007 equaled nearly 73% of the industry's total revenues, leading to supply growth of 90% for that year. The disappointment of Windows Vista came after additional capacity had been built. The ensuing global recession drove the DRAM downturn deeper as demand weakened considerably.

Benign capex environment for 2010: We view capital spending as the most important component of the supply-side adjustment. While we expect capex dollars in the DRAM industry to re-accelerate from 2010, we think the most likely target for investments is process geometry migrations. We forecast that about US$7.4bn will be spent in 2010, up fully 90% YoY, but 2009 was a trough year for capex. The estimated US$7.4bn is still some 70% lower than the US$22.8bn spent in 2007. Capex intensity for 2010 remains near the low end of the historical range (since 2000) of 35% compared with the 73% peak (Exhibit 5).

We do not expect any new DRAM fabs to be built in 2010. Instead, during the recovery phase of the up-cycle, we think producers will mostly be concerned with applying the latest process technology in order to cut costs and expand profit margins rapidly. More importantly, laggards' primary concern will probably be narrowing the technology gap with the industry leaders.

Exhibit 5
DRAM industry capex



Source: Company data, Morgan Stanley Research
e = Morgan Stanley Research estimates

South Korea Technology

Handsets: Threatening Nokia's dominance

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Our view

Korean handset makers should continue to expand their market share while maintaining ~10% operating profit margins with rising brand recognition and strengthening of their distribution channels.

Market view

Despite some struggles in smartphone development and with product rollouts, Korean handset makers will likely catch up with their global peers faster than is widely expected once smartphones become commodity hardware.

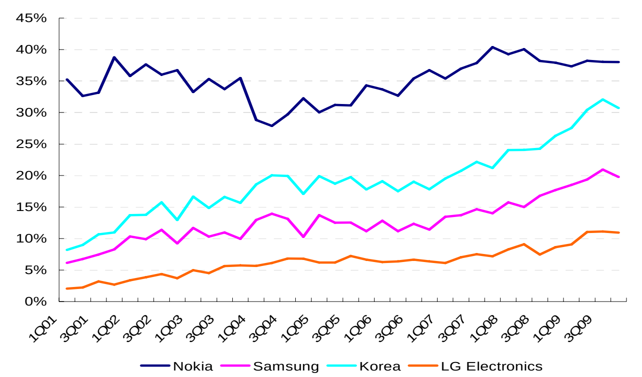
Market share gains should continue. It is not a stretch, in our view, to state that Korea has essentially replicated Nokia's business model of global expansion while learning from Motorola's failures. The Korean handset strategy is a hybrid model of rapid volume expansion while maintaining a target OPM of around 10%. This is a converging trend among diversified handset companies, and it encompasses core operator strategy, broadening out of the product spectrum from ultra-high end to relatively low-end, aggressive investments in distribution, and refocusing on emerging markets that were once ignored due to low price points but are now facing higher-value replacement cycles in the 3G area.

On brand value, Samsung is clearly ahead of LGE, but the latter is gaining a foothold, particularly in Western Europe and China. Smartphone entry has proved difficult for the Korean makers, mainly due to lack of content service provided by operators themselves. We do not think volume production of smartphones, once they become a commodity hardware product, will be difficult, and this would play to the Korean industry's strength in efficient, high-volume output.

Can Korea compete on brand in Nokia's home geography? Samsung Electronics (SEC) has long been established in Europe, home of Nokia, whereas LGE began to emphasize the importance of the region only in early 2009. In the past, low brand recognition and relatively weak GSM technology shut LGE out in Europe. Our proprietary market research indicates that Samsung is holding its ground while LGE is gaining. We note that LGE's European market share has improved from 7% at the beginning of 2009 to 11% currently.

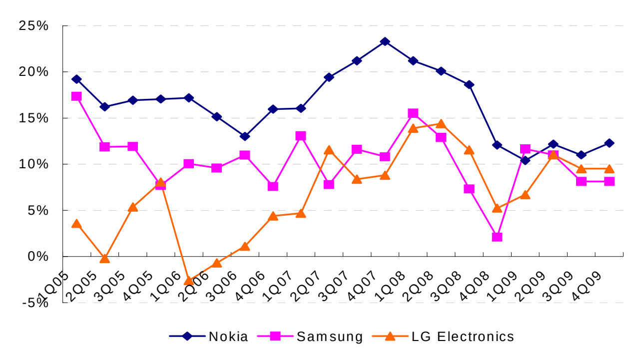
Besides the secular trend of pure smartphone makers gaining ground, LGE has made substantial improvement in carrier penetration with its handsets powered by its "Black Label" series. The target carriers are Vodafone, Orange and T-Mobile, and LGE's phones have now reached 10% market share with each carrier. LGE's brand recognition in Europe, while still weak relative to other established brands, is climbing. Excluding the specialty smartphone makers, SEC is #2 behind Nokia.

Exhibit 1
Global handsets: Korean makers catching up to Nokia



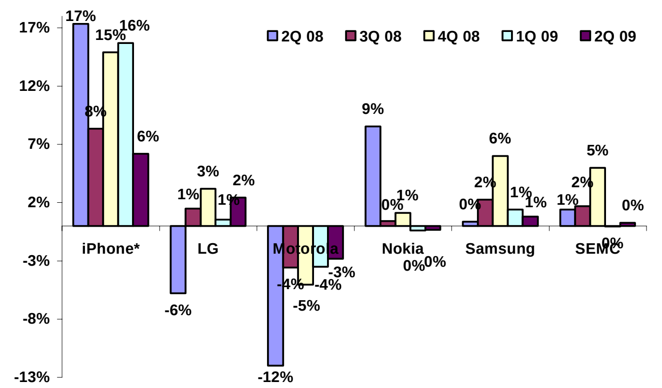
Source: Company data, Morgan Stanley Research

Exhibit 2
OPM trend of Nokia, SEC and LGE



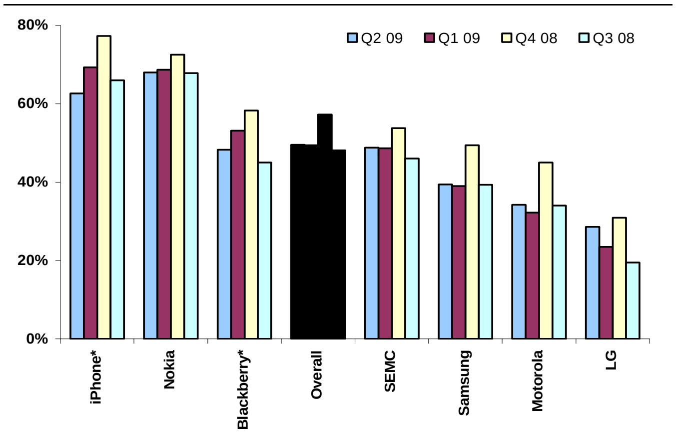
Source: Company data, Morgan Stanley Research

Exhibit 3
Net adds/beginning period users (time series)



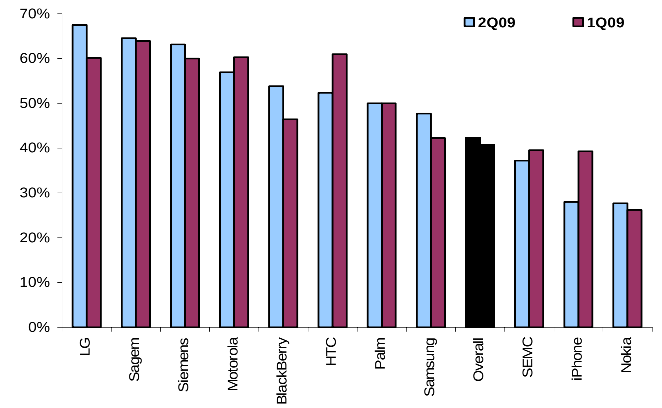
Source: Company data, Morgan Stanley Research

Exhibit 4
Owners considering current brand as ideal



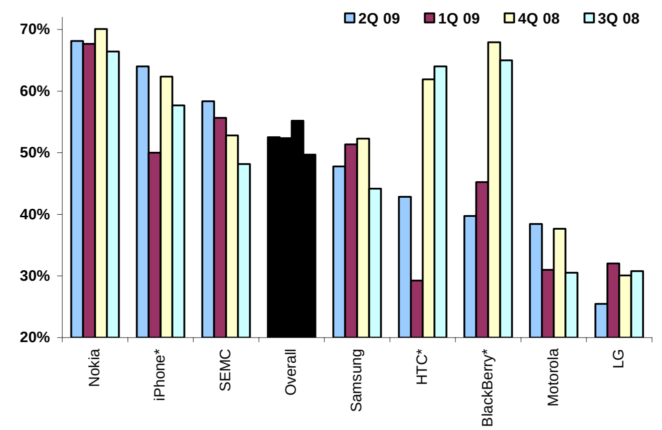
Source: Company data, Morgan Stanley Research

Exhibit 5
% of prospective changers likely to switch brands



Source: Company data, Morgan Stanley Research

Exhibit 6
% of prospective changers likely to retain brands



Source: Company data, Morgan Stanley Research

Taiwan Strategy

Sustained earnings upgrade cycle

Morgan Stanley Taiwan Limited+

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Our view

Earnings risks remain on the upside: Our analysis shows that the earnings risks of Taiwan's tech sector should remain on the upside. This will likely help provide positive absolute returns. This is because our analysis shows that the key bottom-up earnings assumptions remain conservative to date, despite likely activation of pent-up demand and Morgan Stanley estimates of recovery of global GDP growth in 2010 to 3.7% (the mid-cycle level).

Market view

An unprecedented earnings upgrade cycle since early 2009: The earnings revision momentum has rapidly strengthened from historical troughs to 10-year highs in just 10 months. Investors have consequently been concerned about likely weakening performance in the tech sector, or even a potential pull-back.

The unprecedented upgrade cycle: The tech-centric Taiex has appreciated 69% so far in 2009. Despite this, the market has become increasingly cheap. The Taiex trades at 16.0x 10 P/E, on our estimates, against over 30x in early 2009. That said, the Taiex has gone through an unprecedented earnings upgrade cycle. As Exhibit 1 shows, the earnings revision index (measures the difference between the percentage of earnings estimate upgrades versus downgrades) has risen rapidly from an historical trough in January 2009 to about 10-year highs in just 10 months. This is due to the greater demand elasticity of tech products and the significant swing from de-stocking to re-stocking.

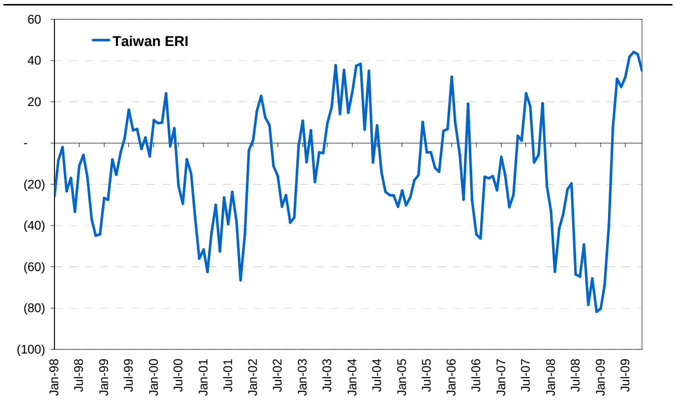
Some investors have consequently argued that tech sector performance could soon peak as earnings estimate revision momentum will likely decelerate. We disagree with such a view and believe that it remains too early to take profits on the tech sector. In our view, the earnings upgrade cycle will likely be sustained to prompt further re-rating, as the market expectations (evidenced by analyst assumptions) remain conservative to date.

Specifically, as we show in Exhibit 2, Taiwan's tech companies under our coverage have historically grown their aggregate top line at a rate of 20-60% since the late 1980s. Average growth is about 40%. However, we note that the current top-line assumptions of our tech coverage universe reflect a two-year CAGR of 17% till 2011, below the low end of historical bands. These top-line assumptions could be too conservative because of the following factors:

- Morgan Stanley expects a global economic mid-cycle recovery in 2010, at a growth rate of 3.7%. This is inconsistent with the top-line assumptions of low-cycle recovery in earnings models.
- The financial crisis could have contributed to the accumulation of pent-up demand in the past couple of years. This demand could be activated by new product introduction or technology innovations such as Windows 7, Android smartphones, LED-backlight TVs, e-readers.

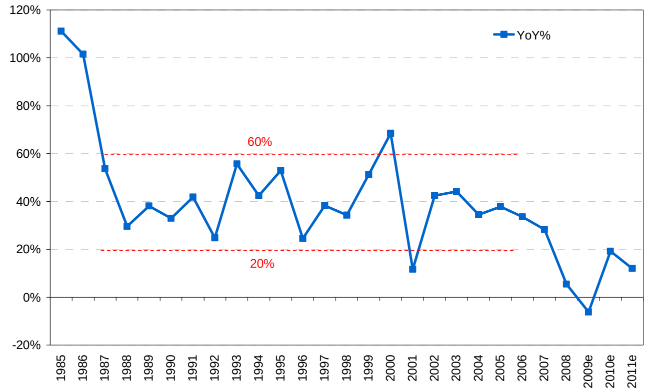
As we show in Exhibit 3, Taiwan's tech companies under our coverage delivered a net margin of 4-11% throughout the previous cycle. The average net margin is about 8%. Despite this, on an aggregate basis, the net margin assumption in our tech coverage universe is forecast to rise to only 6.1% in 2011. The return of the net margin to the mid-cycle level of 8% could happen in 2012 or beyond, if this were to be the case, or a couple of years behind our global GDP assumptions. Therefore, the net margin assumptions appear conservative.

Exhibit 1
Taiwan earnings revision index



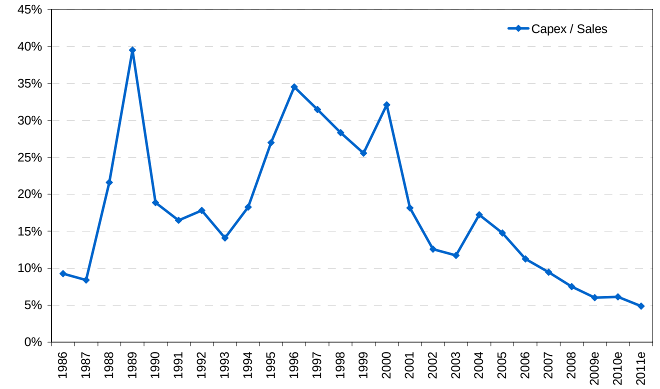
Source: FactSet, Morgan Stanley Research

Exhibit 2
Morgan Stanley Taiwan tech sales YoY%



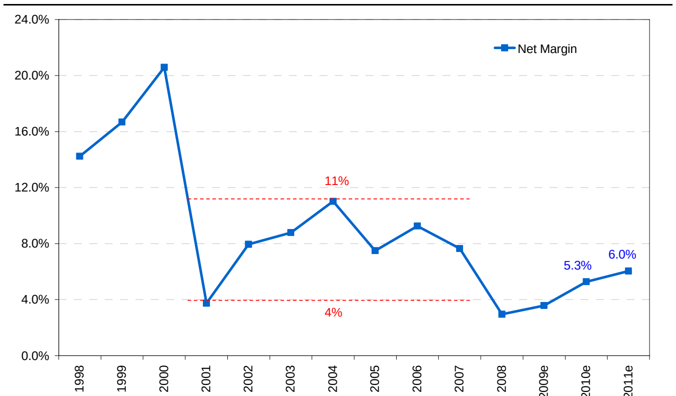
Source: TEJ, Company data, Morgan Stanley Research (e) estimates

Exhibit 4
Morgan Stanley Taiwan capex/sales



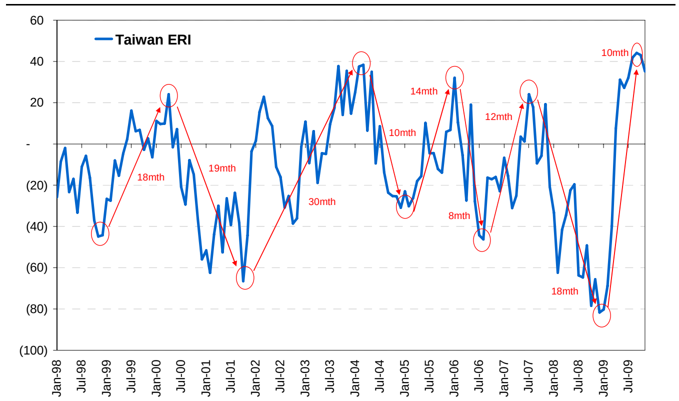
Source: TEJ, Company data, Morgan Stanley Research (e) estimates

Exhibit 3
Morgan Stanley Taiwan tech net margin



Source: TEJ, Company data, Morgan Stanley Research (e) estimates

Exhibit 5
Earnings upgrade cycle



Source: FactSet, Morgan Stanley Research

Indeed, we are not overly concerned about margin erosion from aggressive capex. As shown in Exhibit 5, the capex intensity of Taiwan's tech companies under our coverage has been on a decelerating trend since 2000. We note an exceptional pick-up of capex intensity in 2004, which consequently contributed to net margin contraction in the following year. To date, we see little chance that a similar over-investment scenario is to be played out in 2010. This is best evidenced by corporate guidance that capex will likely rise at the same pace as top lines in 2010.

In short, we think the current earnings estimate upgrade cycle will be extended, as benchmark expectations remain low (Exhibit 5). So, we think it would still be too early to expect an imminent correction in the tech sectors. We present in Exhibit 6 the top-line assumptions for each tech sub-sector.

Exhibit 6
Top-line growth breakdown by sub-sector

	Topline Growth YoY					CAGR	
	2007	2008	2009e	2010e	2011e	2004~2007	2009e~2011e
Semiconductor	2%	-1%	-9%	23%	7%	5%	15%
IC Design	30%	9%	23%	18%	11%	24%	14%
Testing and Packaging	9%	-2%	-8%	12%	11%	15%	11%
PC Foodchain	36%	2%	5%	20%	14%	68%	17%
Handset Foodchain	4%	7%	-6%	20%	13%	39%	16%
LED	41%	7%	11%	16%	11%	50%	14%
DRAM	-9%	-26%	-16%	39%	14%	19%	26%
TFT-LCD	52%	-3%	-10%	13%	5%	46%	9%
Networking Equipment	10%	7%	-9%	21%	11%	56%	16%

Source: TEJ, Company data, Morgan Stanley Research (e) estimates

Taiwan Financial Services

Cathay Financial Holdings: Beneficiary of asset reflation and rate hikes

Morgan Stanley Taiwan Limited+

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Our view

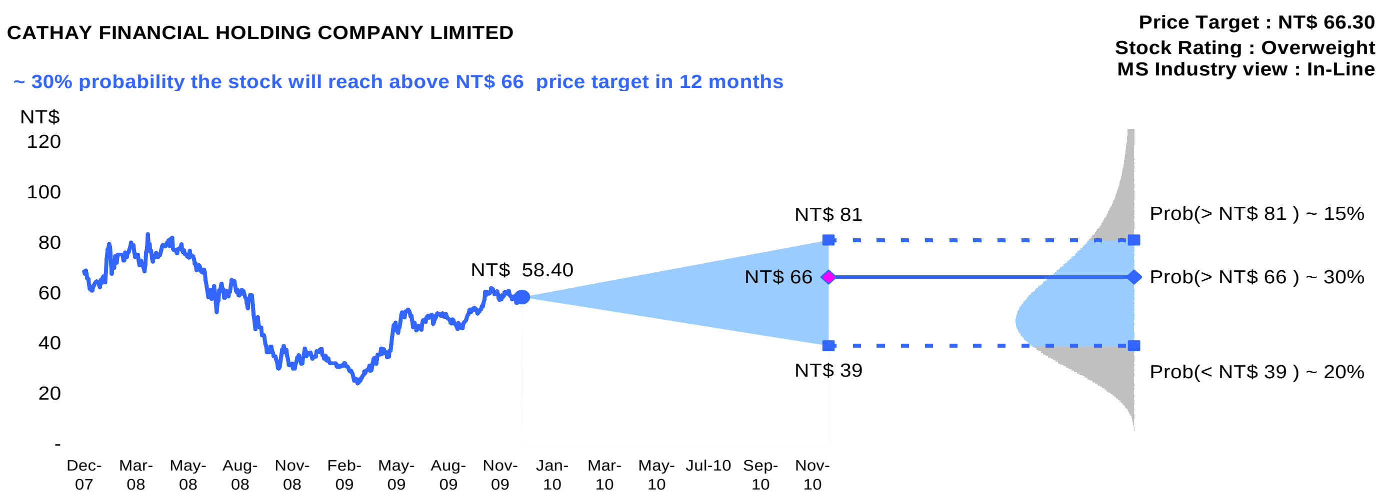
We believe that Taiwan's asset prices will trend up in 2010 amid abundant liquidity while the central bank will gradually raise interest rates alongside a mild macro recovery. Cathay should be a major beneficiary of such asset reflation thanks to its large exposure to domestic real estate and equities. A return of the rate hike cycle would also be positive for Cathay because it could gradually improve the investment yield of its fixed-income portfolio. Cathay is our top pick in Taiwan life insurance space because it keeps a relatively liquid balance sheet compared with its peers', implying that its asset return could rebound faster during a rate hike cycle.

Market view

The market under-appreciates Cathay's earnings or valuation leverage to asset prices and interest rate trends. Investors usually regard Cathay as a proxy for the Taiex, because stock market fluctuations could drive Cathay's earnings and book value. However, in a scenario of asset reflation and consequent rate hikes, we think the potential property appreciation and bond yield improvement will become equally, if not more, important to Cathay's earnings and valuation. While the market has priced in some interest rate increase, we believe it is underestimating both the magnitude of the increase and the potential leverage to Cathay's embedded value.

Interest rate trend is key value driver

Morgan Stanley risk-reward view (left) vs. probabilities implied by options prices (right)



The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of Dec 9,2009. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in one-year's time.

Risk-reward scenarios

OW, PT NT$66.30

NT$39.0
Bear Case
0.9x Base Case 2010e Embedded Value

Worse-than-expected economic slowdown resulting in sustained low-rate environment: We assume interest rates will remain at current low level in 2009/10 and will recover by only 50bp in both 2011/12. For the life sub's EV, we assume an average investment return of 3.7%. We factor in an ultimate loss ratio of 100% for all CDOs and a recap of NT$45bn.

NT$66.0
Base Case
1.7x Base Case 2010e Embedded Value

Mild macro recovery: We assume total rate hikes reach 75bps, 50bps and 50bps in 2010-2012. For the life sub's EV, we assume an average investment return of 4.2%. We assume an ultimate loss ratio of 36% for corporate CDO/CLO and 87% loss ratio for ABS CDO. We incorporate some level of equity capital-raising of NT$28 billion, or equivalent to 6% of the enlarged share base.

NT$81.0
Bull Case
2.2x Base Case 2010e Embedded Value

Strong economic recovery and rapid rate normalization: Policy rate hikes reach 150bps, 100bps, and 50bps in 2010-2012. For the life subsidiary's embedded value, we assume an average investment return of 4.8%. We assume no additional CDO write-down. We do not factor in recapitalization in this scenario.

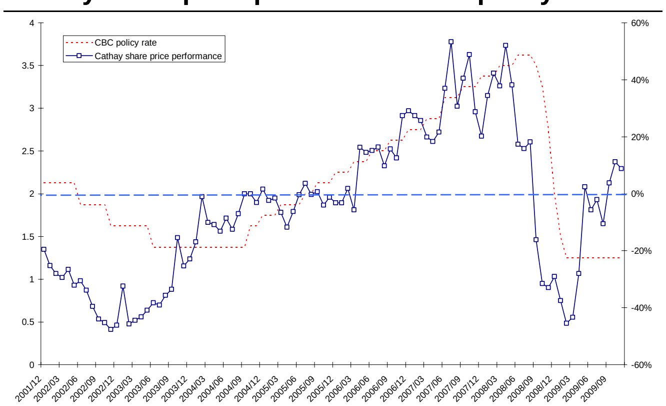
Where we are versus consensus: The market has gradually priced a higher interest rate trend into Cathay's share price given that central banks around the world are talking about exiting their current easing policy. However, we think the market still under-appreciates Cathay's earnings and valuation leverage to rate normalization and asset price trends. Exhibit 1 shows Cathay's share price performance versus the policy rate trend.

Cathay keeps a relatively liquid balance sheet compared with its peers (Exhibit 2). It has higher asset allocation in floating-based loans (14% of total assets) and cash (15% of total assets), which could be re-priced higher or redeployed to other higher-yielding asset classes during a rate hike cycle. We estimate that, for every 1% increase in policy rates, these two asset classes alone could boost Cathay's earnings by NT$7bn, or around NT$0.7/share.

For every 1% increase in the company's total fixed-income yield, which is likely to take longer to materialize given the long duration of the bond portfolio, we estimate that Cathay's embedded value could expand by ~NT$130bn, or NT$13/share. In addition, Cathay's embedded value could increase by 7% if its real estate investments were to appreciate by 10%.

Exhibit 1

Cathay share price performance* vs. policy rate



* Rebase to September 2004, when central bank started the last rate hike cycle
Source: Company data, Morgan Stanley Research

Exhibit 2

Asset allocation, 3Q09

	Cathay	Shin Kong	Fubon
Cash & cash equivalent	15.3%	5.5%	3.7%
Fixed income - Domestic	14.8%	28.5%	43.0%
Fixed income - Overseas	32.9%	34.8%	31.3%
Equity - Domestic	6.0%	6.0%	9.1%
Equity - Overseas	1.5%	3.2%	0.3%
Mortgage & Secured Loans	13.6%	5.6%	3.7%
Policy Loans	8.4%	9.6%	3.9%
Real Estate	5.5%	6.9%	5.0%
Total Investments	100.0%	100.0%	100.0%

Source: Company data, Morgan Stanley Research

Interest rate hike by Taiwan's central bank or events/trends that could lead to the central bank's rate hike decision are potential stock catalysts for Cathay. Morgan Stanley's economics team expects central banks in Australia, India and Korea to raise rates – probably more than once – by March of next year. This should put more pressure on Taiwan's central bank and could trigger its first rate hike at the quarterly meeting next March. Other events, that may increase the likelihood of policy rate hikes, which are not in our base-case assumptions, include a sharp recovery in the macro economy or higher-than-expected inflation, which could be triggered by rising crude oil price.

What's in the price? The stock currently trades at 0.85x 2010e appraisal value. Based on our calculation, the market is pricing in an average investment return of 3.8%, which is slightly below our assumed investment return of 3.9% for 2010e, but meaningfully lower than our mid-term investment return forecast of 4.2%. We think even further upside to our price target and the share price is possible if the magnitude of upcoming rate hikes is stronger than expected, triggered by either a stronger macro recovery or inflation concern.

Key risk? A double dip of the macro economy could trigger a sustained low rate environment, wherein Cathay would continue to see a declining recurring investment return as existing bonds reprice lower.

Taiwan Foundries

The game changes in 2010

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Our view

The foundry sector may see new competitive dynamics in 2010. Whereas many other technology sectors are consolidating, competition in foundry may intensify in 2010. Competition could be manifested in ASP erosion or excess capacity on a fight for market share. In our view, competition will be most intense at the trailing edge. Consequently, while competition will likely affect all players, we think TSMC will be better off thanks to its leading-edge exposure.

Market view

The cycle call versus the secular call. The market appears to be focusing on cyclical fundamentals, such as near-term supply and demand. While we agree that foundry sector revenue could continue to improve next year if the macro environment stays robust, Street expectations of record margins could prove unrealistic if the competitive landscape changes.

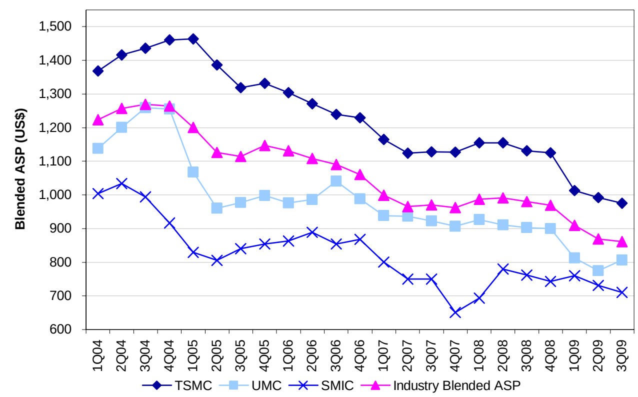
Whereas several technology sectors are going through consolidation, competition in the foundry industry may intensify in 2010. All major players, including TSMC, UMC, GlobalFoundries and SMIC, have gone through changes in management or ownership over the past 12 months. In addition, we believe Samsung could become more aggressive in the foundry sector as well

GlobalFoundries, UMC, and Samsung are all improving more competitively than in the previous upturn compared to TSMC, than in the previous upturn. We believe this could manifest itself in a worse pricing environment.

Exhibit 2 and 3 plot the major foundries' market shares at the leading edge and trailing edge based on reported revenues. UMC has made progress in both leading-edge and trailing-edge market share over the past few quarters, and we expect others to become more aggressive in 2010 judging by public comments and capex budgets.

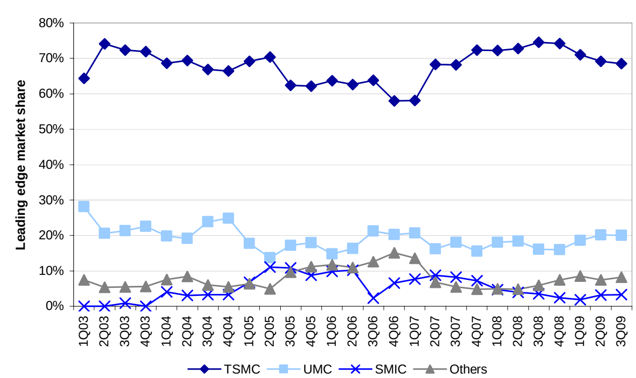
Exhibit 1 shows the blended ASP for the foundry sector over the past five years. Clearly, prices have trended down, even as TSMC's overall market share has steadily increased. We attribute this price erosion to demand-side issues, with the semiconductor industry experiencing lower margins and ROE than in the past. If we are right in assuming that competition will intensify in 2010 and trailing-edge utilization will stay lax, pricing may deteriorate faster.

Exhibit 1
ASP trend



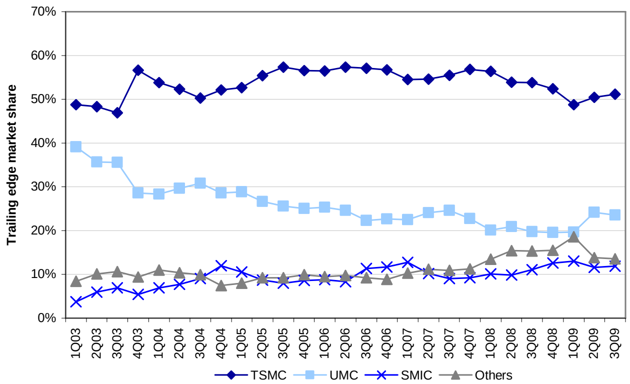
Source: Company data, Morgan Stanley Research

Exhibit 2
Leading-edge market share



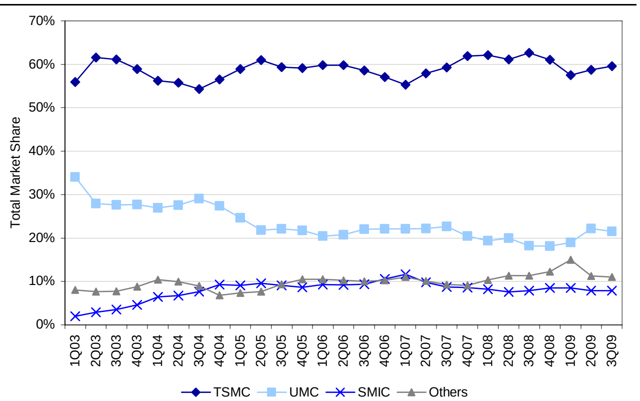
Source: Company data, Morgan Stanley Research

Exhibit 3
Trailing-edge market share



Source: Company data, Morgan Stanley Research

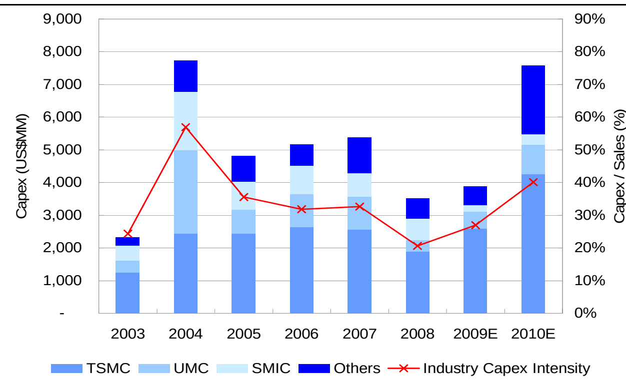
Exhibit 4
Total market share



Source: Company data, Morgan Stanley Research

Capex and trailing-edge capacity utilization an issue for 2010 Exhibit 5 plots our estimates of total foundry capex by year and capex intensity on an annual basis. Using capex forecasts from our US semi equipment analyst, Atif Malik, we believe capex intensity for 2010 will reach 37%, the highest since 2007.

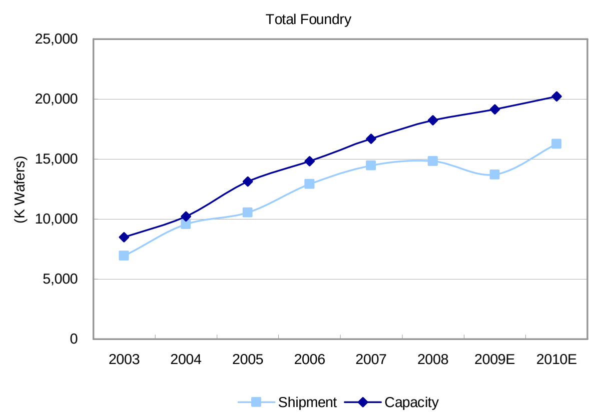
Exhibit 5
Foundry capex vs. capex intensity



Source: Company data, Morgan Stanley Research

Moreover, even if we assume that foundry sector unit volume increases in 2010 by 25% YoY, we forecast total capacity utilization of 80% for the full year. Within that, we believe 40nm, 65nm, and 90nm are likely to remain close to 90% utilization, but 110nm and above may stay at 70%. We base this on two factors: 1) Increased competition implies that foundries can no longer under-supply as fears of market share losses intensify. 2) With leading-edge supply remaining tight while trailing edge is underutilized, foundries need to build leading-edge capacity even if total utilization is not optimal. In our opinion, both factors will lead to lower margins than historical norms.

Exhibit 6
Total foundry capacity vs. shipments



Source: Company data, Morgan Stanley Research

Taiwan Hardware Technology

Demand/supply for PC replacement; components and LED could surprise

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Our view

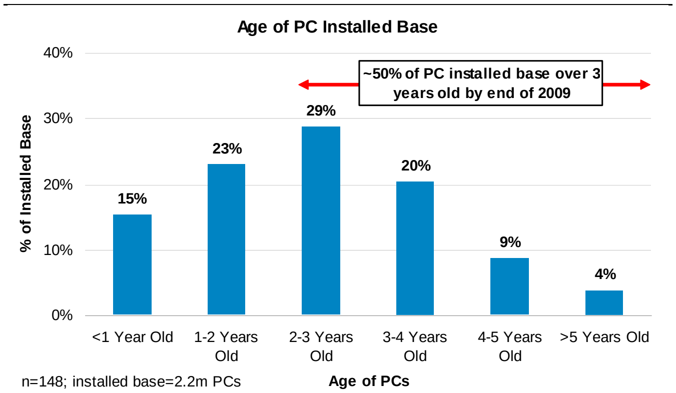
PC replacement demand; component supply/demand and LED demand: We address three key debates in hardware sectors: 1) strength of the PC replacement cycle in 2010 – we think the Street is underestimating desktops; 2) sufficiency of component supply throughout 2010 – our view is that component supply may remain tight, given limited capex increase and possibly stronger-than-expected demand on top of lean inventory; 3) upside potential to LED-backlight TV penetration and/or risk of LED component shortage.

Market view

What is consensus looking for? For the PC replacement cycle, we think the Street is more positive on notebooks, looking for 15-20% YoY volume growth in 2010, but still negative on desktops, estimating a low-single-digit pick-up. For component supply, the market anticipates supply constraint easing from 1Q10; and for LED-backlight TV, our assumptions are more conservative than consensus, which forecasts 10-15% adoption and looks for LED shortage lasting through 2010 vs. our estimate of 10% penetration.

1) Stronger-than-expected PC replacement cycle in 2010e: Our in-house PC forecasts bake in a substantial recovery in corporate PCs in 2010. We forecast that consumer PC (DT+NB) shipments will rise 13% YoY (decelerating from 16% YoY in 2009), corporate PC (DT+NB) shipments will increase 10% YoY in 2010 vs. a 12% YoY drop in 2009. These estimates place us on par with consensus for NB but in the upper range of consensus for DT, looking for a low-single-digit pick-up. We gauge DT is one area that might surprise on the upside for two main reasons: 1) An aging desktop installment base, which has not been upgraded for the past two years: the latest CIO survey shows over 50% of the corporate PC installment base will be nearly three years old by end-2009. 2) Early deployment of cloud computing: if corporate PC replacements are stronger than expected, upside should come mainly from names with heavy exposure to the corporate segment – especially for desktops and servers.

Exhibit 1
~50% of corporate PC installed base is aging



Source: CIO Morgan Stanley Research

Exhibit 2
Morgan Stanley global shipment forecast – new vs. old

	2007	2008	2009e	2010e	2011e
New Global PC Shipment Forecasts					
Shipments K					
NB	107,924	142,523	165,150	192,415	231,184
DT	153,495	144,867	124,946	131,509	141,797
Total	261,419	287,390	290,096	323,924	372,981
YoY					
NB (%)	34	32	16	17	20
DT (%)	5	-6	-14	5	8
Total (%)	15	10	1	12	15
Old Global PC Shipment Forecast					
Shipments K					
NB	107,952	142,423	148,307	169,973	193,884
DT	153,535	144,895	121,777	124,499	131,563
Total	261,487	287,318	270,084	294,471	325,447
YoY					
NB (%)	34	32	4	15	14
DT (%)	5	-6	-16	2	6
Total (%)	15	10	-6	9	11
Diff					
NB (%)			11	13	19
DT (%)			3	6	8
Total (%)			7	10	15

e = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

Implications for OBM & ODM/OEM: Among PC names, Hon Hai (NT$140) should be the best proxy to play corporate desktop via its exposure to HP plus server exposure to almost all key brand names like HP, Dell, IBM and Sun. In addition, the greatest beneficiaries should be Lenovo (~70% of total PC shipments), Compal (30% of 2010e NB as Dell's major corporate NB supplier), Wistron (30% of 2010e NB shipments, as it will supply corporate NBs to Dell, HP and Lenovo, but NB sales will account for <70% of 2010e sales).

Implications for components:

- *Light metal casing:* Stronger corporate replacement cycle would be positive for both Foxconn Tech and Catcher, especially at the gross margin level, since light metal casing for corporate NB still yields higher margin than the rest of the segment.

- *IC substrates:* Nan Ya PCB may benefit most because of its high exposure to the overall PC segment, followed by Unimicron with 15-20% revenue exposure to PC (chipsets and GPU) after PPT acquisition

- *PCB:* Benefit is less significant but still some marginal positive impact for Tripod, Nan Ya PCB and Unimicron

Exhibit 3

Consumer vs. corporate PC forecast

Consumer PC Shipment Forecast					
Shipments K	**2007**	**2008**	**2009e**	**2010e**	**2011e**
Consumer NB	52,996	78,980	106,294	127,060	155,161
Consumer DT	57,832	53,201	47,448	46,244	43,850
Total Consumer PC	110,828	132,181	153,742	173,305	199,012
YoY					
Consumer NB (%)	47	49	35	20	22
Consumer DT (%)	3	-8	-11	-3	-5
Total Consumer PC (%)	20	19	16	13	15
Corporate PC Shipment Forecast					
Shipments K	**2007**	**2008**	**2009e**	**2010e**	**2011e**
Corporate NB	54,928	63,543	58,856	65,354	76,022
Corporate DT	95,663	91,666	77,498	85,265	97,947
Total Corporate PC	150,591	155,208	136,354	150,619	173,969
YoY					
Corporate NB (%)	24	16	-7	11	16
Corporate DT (%)	6	-4	-15	10	15
Total Corporate PC (%)	12	3	-12	10	16

Source: Company data, Morgan Stanley Research

2) Component supply likely to stay tight due to stronger-than-anticipated demand and no major increase in capex

If demand continues to exceed expectations and leads to component shortages, smaller players, which have weaker bargaining power, would be hurt the most. We highlight two key components that are likely facing tightness:

- *Panel, DRAM shortage:* This will squeeze all PC brand names, especially smaller ones (Asustek) or those with higher gearing to direct business model (Dell, and Lenovo).

- *PCB or other components purchased by NB ODMs:* This will squeeze NB ODM's margins first before they can pass on to brands.

- *Impact on other components:* This would further trigger component supply chain disruption and greater shipment volatility. Companies with better operational efficiency/flexibility and diversified end exposure may suffer less, such as Tripod and Unimicron.

3) LED demand stronger than expected

- *Higher LED-backlight TV penetration?* We currently look for 10% penetration for LED as the backlight for TV. Should the price gap between LED and CCFL backlighted TV narrow further and LED-backlight TV have a good sell-through for the holidays, penetration might reach the high-end of the consensus at 10-15% in 2010. Potential beneficiaries are the LED subsidiaries of each panel maker, such as SEMCO, LG Innotek and LEXTAR. The stand-alone LED chip suppliers, like Epistar and ForEpi, should also benefit from an enlarged market but probably at the expense of a tougher pricing environment.

- *LED supply shortage remains throughout 2010?* We currently expect supply-demand to rebalance in 2H10E after new capacity additions and yield improvements. Should the supply shortage extend to the end of 2010, those with capacity on hand and the right client exposure would benefit. For example, Epistar would benefit if Samsung were to sustain the leading position for LED-backlighted TV and Samsung LED is unable to ramp up on time. ForEpi might benefit if LG and Vizio make good progress in the LED-backlighted TV market.

Taiwan Property/Asset Plays

Different mindset for 2010

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Our view

New dynamics in 2010 in Greater Taipei. We maintain our In-Line view on the Taiwan property industry, reflecting our belief that the worst may be over for the sector. The Greater Taipei market has recovered faster than expected, due to increasing liquidity. We believe that market structure has improved, thanks to regulatory changes, a better cross-Strait relationship, taxation reforms, increased financial channels, better visibility on the 2010 economic outlook and a fundamental clean-up following the global economic turmoil. Unprecedented low interest rates, government stimuli boosting liquidity, the change in dynamics causing 1H09 demand to rebound, together with a mild pricing correction, lead us to believe that the industry is now better structured for an early-stage rebound. However, we foresee a slower recovery in areas outside Greater Taipei.

Market view

What if … The market appears to be concerned about what would happen if the mainland Chinese purchase of Taiwan property turns out to be a disappointment. We believe that Taiwan property is still in an early stage of recovery. We shall not dwell on the strong property buying demand from the mainland Chinese, although we do see demand rising as the cross-Strait relationship improves. With land scarcity, we are not overly concerned about Taipei commercial or residential city property. However, we suggest a different mindset for investors on the 2010 Taiwan property market and raise possibilities that could surprise the market on both the upside and the downside.

Asset reflation anticipated on ample liquidity: We anticipate growing property demand longer term, especially on strong repatriation of funds and foreign liquidity pumping into the Taiwan market following improvements in the cross-Strait relationship.

In 1H2010, we believe that the asset reflation story will be supported by low interest rates and NT$ currency appreciation.

In addition, we expect liquidity to increase. The Taiwan government will likely tax overseas capital gains, which would make overseas investment less attractive to domestic investors. Therefore, we believe the repatriation outflow of funds from Taiwan will reverse.

Furthermore, if the Taiex continues to rally on a better cross-Strait outlook, liquidity inflow, both domestic and overseas, should continue, and the property market could recover faster than expected. Ample liquidity is likely to give greatest support to asset players and developers within the Greater Taipei area.

We believe that investors will continue to favor Taifer and Far Eastern Textile due to asset reflation, while Farglory and Huakue should continue to benefit from their landbanks in the Greater Taipei area and the greater discount to NAV of their stocks.

Upside impact on Taiwan property sector: Increasing liquidity along with low interest rates and strong foreign inflows has caused the NT$ to appreciate. This, together with potential Chinese investment post the Economic Cooperation Framework Agreement (ECFA) has changed our view on Taiwan property. Taiwan is in the early stages of a property market cycle recovery, and we believe the following catalysts will support and likely re-rate property stocks higher.

Strong NT$ appreciation: Our Morgan Stanley currency team forecasts that the NT$ will continue to appreciate against the US dollar until year-end 2009 to NT$31.50 and to NT$30.20 in 2010. We believe this will provide upside to earnings of asset players and developers.

Taiex: Property market sentiment tends to improve as stock markets recover. Despite the recent pull back, Morgan Stanley Taiwan Strategist Jesse Wang believes that the Taiex will stay strong over the next 12 months with an index target of 8,500. With strong market sentiment, we think that property stocks will rally as well.

Ample liquidity from life insurance companies: Following government deregulation of life insurance companies, allowing them to invest in a single property, we foresee at least NT$22bn of additional cash for property investment.

Possible landmark deal with Chinese buyers: Any landmark settlement of commercial buildings with Chinese buyers post ECFA should create positive momentum in the Taiwan property market, especially in the Greater Taipei area. However, we believe domestic or overseas Taiwanese buyers rather than mainland investors will continue to be the drivers in Taiwan property.

Downside impact on Taiwan property sector: The re-discount rate was unchanged at 1.25% in September, but Morgan Stanley economist Sharon Lam expects Taiwan to begin hiking rates in 1Q10 by 100bps throughout the year and by 75bps in 2011. The 30-year-average re-discount rate in Taiwan stands at 6.45%. That said, interest rates are likely to remain significantly below the long-term average even after rate hikes. Thus, we believe that the property market will continue to benefit from a low interest rate environment.

Minor impact from end of government stimulus: Since September 2008, the Taiwan government has subsidized mortgage interest rates on household residential property to the tune of NT$400bn. The NT$400bn budget was used up by August 2009. Although the market feared that this would reduce demand in the primary market, we believe the impact will weigh more on the secondary market. If a resident bought a house in Taipei City using a NT$3.5mn (US$109,000) government loan at a mortgage rate of 1.75%, we calculate that termination of the subsidy would incur an additional monthly payment of NT$1,167 (US$31), as shown in Exhibit 1. We consider this additional amount insignificant for a primary house buyer, due to higher income and affordability levels in Taipei.

Exhibit 1

Sensitivity analysis for monthly mortgage payment

20 Years Interest + Principal	NT$3.0mn	NT$3.5mn	NT$5.0mn	NT$10mn	NT$20mn	NT$35mn
Mortgage Rate @ 1.00%	13,797	16,096	22,995	45,989	91,979	160,963
Government Subsidies (2-Years Term Deposit Rate + 0.2% =1.02%)	13,824	16,128	-	-	-	-
Mortgage Rate @ 1.50%	14,476	16,889	24,127	48,255	96,509	168,891
Current Mortgage Rate @ 1.75%	14,824	17,295	24,706	49,413	98,826	172,945
Mortgage Rate @ 2.00%	15,177	17,706	25,294	50,588	101,177	177,059
Mortgage Rate @ 2.50%	15,897	18,547	26,495	52,990	105,981	185,466
Mortgage Rate @ 2.75%	16,265	18,976	27,108	54,217	108,433	189,758
Mortgage Rate @ 3.50%	17,399	20,299	28,998	57,996	115,992	202,986
Additional Payment If Government Subsidies Removed (NT$)	1,000	1,167	-	-	-	-
Additional Payment to Morgan Stanely Estimates of 100bps hike in 2010E (NT$)	1,441	1,681	2,402	4,804	9,607	16,813
Additional Payment to Morgan Stanely Estimates of 75bps hike in 2011E (NT$)	2,575	3,004	4,292	8,583	17,166	30,041

Source: CBC, Morgan Stanley Research Estimates

Impact of future government measures: Despite our anticipation of a rate hike in 2H2010, the increasing affordability gap has made it extremely difficult for "genuine" buyers (as opposed to wealthy individuals buying for investment) or even first-time buyers to purchase property, especially in Taipei City. The Taiwan government is alert to this issue and will, we believe, implement measures to support the property market.

Positive near-term impact on buyers: The Taiwan government is likely to curb property supply through release of land from the National Property Administration. The incremental land supply should help lower inflated asset pricing. The Taipei City Government is providing subsidies for urban renewal. The project "Beautiful Taipei" has eight-focus areas, nearly half of which are related to urban renewal. We believe this is positive for the Taipei property industry.

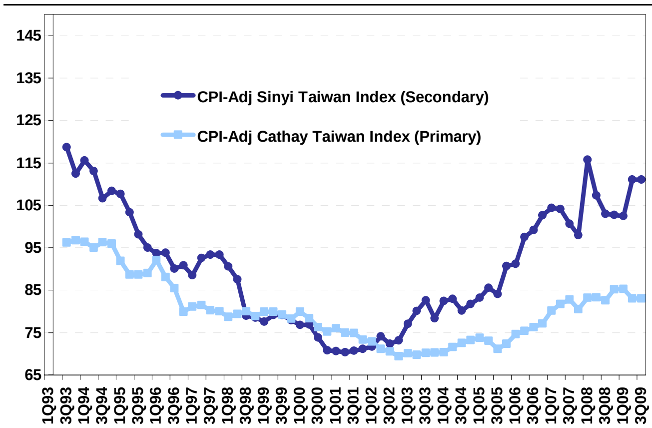
Negative near-term impact on developers: The public will be allowed to use parking at any luxury apartments that employ the plot ratio transfer (a special term in property where government allow developers to increase its area in exchange for others) – we believe that this is negative for primary housing buyers, because they would need to share some of their parking space for public use. Cost of the actual property area will be separated from the plot ratio area. We believe this is negative for buyers, because developers can repackage their projects by adding the incremental cost to buyers.

Positive long-term impact on buyers: The government will aid first-time or "genuine" buyers to purchase property alongside the High Speed Rail, or MRT, in Taipei County, in cities, such as Linkou, Hsin-Chung City or even Taoyuan. It believes the conveniences of public transportation to Taipei City will help property sales outside Taipei City.

Scarcity of land in Greater Taipei area to boost asset plays: We believe companies with a substantial landbank in the Greater Taipei area will benefit from asset price appreciation. Taiwan Fertilizer plans to develop its Nangang land into residential/commercial properties. We believe the vacancy rate of Grade A offices would fall if more Chinese corporations set up offices in Taipei. We hence expect upside to the NAV of Taiwan Fertilizer's commercial properties on the back of a potentially higher rental rate.

Exhibit 2

Taiwan property price trend



Source: Sinyi Realty, Cathay Construction Index, Morgan Stanley Research

Taiwan TFT LCD

Coretronic: Beneficiary of LED proliferation

Morgan Stanley Taiwan Limited+

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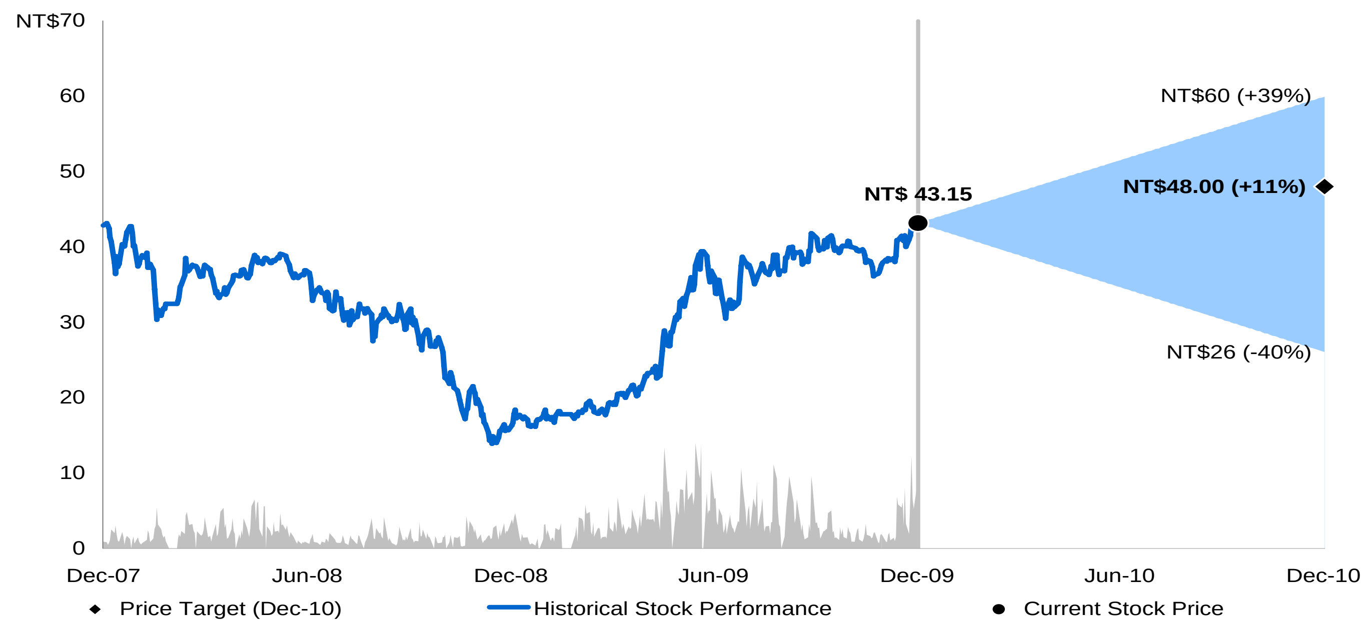
Our view

Coretronic is our top pick in TFT LCD supply chain. Makers of backlight modules (BLM), the bridge connecting the LED and TFT chain, should benefit directly from LED proliferation. Re-use of light guide plates for edging lighting in LED TV and LED monitor backlights should improve margins. LED backlights carry 50-100% price premium over traditional backlights. The transition to higher-ASP LED has added value for existing BLM makers. We believe a cheaper way to gain exposure to LED is via BLM stocks, which, on our estimates, are trading at discounts to P/E or P/B of LED chip supply chain. At 11x 2010e P/E, Overweight-rated Coretronic is significantly undervalued, in our view.

Market view

The market is ignoring backlight module makers as direct beneficiaries of LED proliferation. The market views backlight module makers as assemblers with backward integration threat from panel makers. It also sees threat that LCD TV makers will set up backlight module operations in-house as panel makers begin to sell in open cell form. LED upstream makers are trading above 30x 2010e P/E, while downstream makers are trading above 20x 2010e P/E.

Backlighting and projectors are key drivers



Risk-reward scenarios

OW, PT NT$48.00

NT$26
Bear Case
7x one-year forward P/E
Bear Case EPS

Economic double-dip risk: Panel industry over-optimistic on demand based on customers' pull-in demand. New supply hurts fab utilization, leading to worse-than-expected panel price decline in 2010.

NT$48
Base Case
12x one-year forward P/E
Base Case EPS

LED proliferation beneficiary: Price premium for LED backlights boosts profit growth. Gaining share through Korean panel outsourcing. Improving profit sharing through supply-chain dis-integration with system makers.

NT$60
Bull Case
14x one-year forward P/E
Bull Case EPS

Faster-than-expected LED proliferation in TV and monitors: Government incentives spur LED proliferation. Pico projector growth is faster than expected. Accelerated Korean outsourcing.

Where we are versus consensus: The market views backlight module makers as assemblers with a backward integration threat from panel makers. Our view: 1) BLM is more than assembly to panel makers: Panel makers, including CMO, are now increasing outsourcing after taking production back in-house, as it is more economical to purchase externally than to produce internally after benchmarking, factoring in customer model changes. 2) External backlight makers have larger scale than internal panel makers do, increasing cost efficiency. BLM makers are clearly strong in optical usage, which has greater value-added than pure assembly. 3) BLM is better than panels: While Taiwan panel makers have been losing market share to their Korean counterparts, Taiwan backlight makers have been gaining share on better competitiveness. LED transition has added value for existing backlight makers on higher average selling prices (ASP).

Backlight module makers are direct beneficiaries of LED proliferation. Coretronic is our top pick in TFT LCD supply chain.

Key share price catalysts: 1) Faster-than-expected LED proliferation for LCD TV and monitors in 2010, as happened with notebooks in 2009. 2) Better-than-expected pico projector shipments in 2010.

Near-term risks: 1) Taiwan panel customer shipments could decline sequentially in 4Q09 and 1Q10, partially as a result of the Taiwan power outage that affected Corning's glass factory. Lower panel outputs could hurt backlight module shipments. 2) Christmas sell-through in the US and Europe may be hurt by high unemployment.

LED proliferation trend: LED backlight makers add more value in making light guide plates to improve light transmission. Light guide plates are being reused for LED edge lighting in LCD TV and monitors, rather than diffusers/plates (direct lighting), just as happened with notebooks. Backlight makers achieve higher margins on light guide plates than on backlight module assembly.

As LED backlight becomes mainstream for notebooks, LED TV should become more popular in 2010 thanks to thinner design and less power usage. The same goes for LED-based monitors for the all-in-one PC with multi-touch functions as Windows 7 proliferates.

LED accounted for ~60% of notebook backlight in 2009, up from ~10% in 2008. We expect a similar trend for LCD TV and monitors starting in 2010, when we expect LED to be ~15-20% of LCD TV and ~10-15% of the LCD monitor backlight module mix, up from a minimal amount in 2009.

Coretronic purchases LED wafers and outsources to local LED back-end foundries for packaging. It believes its special design for light bars is key to its success. The company is also working with panel makers and branded customers on customized BLM designs. Coretronic thinks 52"+ LED TVs will still use direct-lit-type BLM for its Japanese customers, given that direct-lit provides a better image on local dimming.

LED BLM ASP is ~2x CCFL-based BLM prices; while LED backlight for LCD TV and notebooks is multiples of the price of LED backlight for notebooks. Adoption of LED in LCD TV/monitors should improve backlight module profitability.

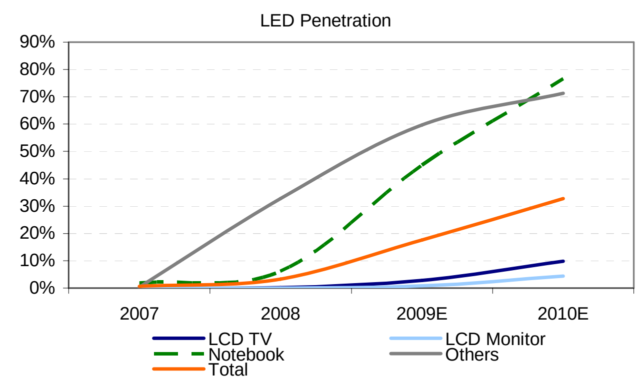
We consider a cheaper way to gain exposure to LED is backlight modules, which, on our estimates, trade at discounts to the P/E or P/B of LED chip supply chain companies.

Exhibit 1
LED vs. CCFL price in BLM - ~2x ASP

BLM Cost (US$)	CCFL	LED	LED vs. CCFL	vs. LED NB
NB 15.4"W	10.1	16.1	1.6	
MTR 22"W	16.5	32.0	1.9	2.0
TV 40"	61.0	155.3	2.5	9.7

Source: DisplaySearch, Morgan Stanley Research

Exhibit 2
LED penetration of TV and monitors starting in 2010 after notebooks



E = Morgan Stanley Research Estimates Source: DisplaySearch, Morgan Stanley Research

Risks to LED proliferation trend: 1) Shortage of LED chip supply to satisfy display backlight module demand. 2) LED TV and monitor proliferation takes longer than expected due to the price differentials.

AP Coverage Universe

Company name	Ticker	Curr.	Share price (12/08/09)	Rec.	Industry	Industry view	Primary Analyst
Genting Singapore PLC	GENS.SI	S$	1.09	OW	ASEAN Gaming	Attractive	Choudhary, Praveen
Qantas Airways	QAN.AX	A$	2.68	OW	Australia Airlines	Attractive	Wensley, Philip
Virgin Blue	VBA.AX	A$	0.54	OW	Australia Airlines	Attractive	Rudland, Michael
ANZ Bank	ANZ.AX	A$	21.93	++	Australia Banks	Cautious	Wiles, Richard
Bank of Queensland	BOQ.AX	A$	11.30	UW	Australia Banks	Cautious	D'Souza, Glen
Bendigo and Adelaide Bank Limited	BEN.AX	A$	8.76	EW	Australia Banks	Cautious	D'Souza, Glen
Commonwealth Bk Aust	CBA.AX	A$	53.09	UW	Australia Banks	Cautious	Wiles, Richard
Nat Aust Bank	NAB.AX	A$	27.89	EW	Australia Banks	Cautious	Wiles, Richard
Westpac Banking	WBC.AX	A$	23.85	EW	Australia Banks	Cautious	Wiles, Richard
Brambles Ltd.	BXB.AX	A$	6.32	EW	Australia Business Services	In-Line	Wensley, Philip
Transpacific Industries Group Ltd.	TPI.AX	A$	1.34	EW	Australia Business Services	In-Line	Moller, Andrew
Centennial Coal	CEY.AX	A$	3.31	OW	Australia Coal	Attractive	Judd, Cameron
Gloucester Coal Limited	GCL.AX	A$	6.36	EW	Australia Coal	Attractive	Judd, Cameron
Macarthur Coal	MCC.AX	A$	9.34	OW	Australia Coal	Attractive	Judd, Cameron
Riversdale Mining Limited	RIV.AX	A$	6.34	EW	Australia Coal	Attractive	Judd, Cameron
Whitehaven Coal Limited	WHC.AX	A$	4.60	EW	Australia Coal	Attractive	Judd, Cameron
Computershare Limited	CPU.AX	A$	10.85	OW	Australia Financial Services	Cautious	D'Souza, Glen
Macquarie Group Limited	MQG.AX	A$	48.35	OW	Australia Financial Services	Cautious	Wiles, Richard
Perpetual Ltd.	PPT.AX	A$	36.63	EW	Australia Financial Services	Cautious	Russell, Scott
Coca-Cola Amatil	CCL.AX	A$	10.81	OW	Australia Food, Bev. & Tobacco	Attractive	Yule, Martin
Foster's Group	FGL.AX	A$	5.50	OW	Australia Food, Bev. & Tobacco	Attractive	Yule, Martin
Goodman Fielder	GFF.AX	A$	1.62	UW	Australia Food, Bev. & Tobacco	Attractive	Yule, Martin
Aristocrat Leisure Limited	ALL.AX	A$	3.80	EW	Australia Gaming	In-Line	Holgate, Ben
Crown Limited	CWN.AX	A$	7.93	OW	Australia Gaming	In-Line	McLeod, Andrew
Tabcorp Holdings Limited	TAH.AX	A$	6.98	UW	Australia Gaming	In-Line	McLeod, Andrew
Tatts Group Limited	TTS.AX	A$	2.41	EW	Australia Gaming	In-Line	McLeod, Andrew
Lihir	LGL.AX	A$	3.36	OW	Australia Gold	Attractive	Judd, Cameron
Newcrest Mining	NCM.AX	A$	35.75	OW	Australia Gold	Attractive	Judd, Cameron
Sino Gold	SGX.AX	A$	8.08	EW	Australia Gold	Attractive	Judd, Cameron
Sino Gold	1862.HK	HK$	57.60	EW	Australia Gold	Attractive	Judd, Cameron
Ansell	ANN.AX	A$	10.20	OW	Australia Healthcare Services & Hospitals	Cautious	Laaman, Sean
Healthscope	HSP.AX	A$	4.88	EW	Australia Healthcare Services & Hospitals	Cautious	Laaman, Sean
Primary Health Care Ltd.	PRY.AX	A$	5.71	OW	Australia Healthcare Services & Hospitals	Cautious	Laaman, Sean
Ramsay Health Care	RHC.AX	A$	10.82	OW	Australia Healthcare Services & Hospitals	Cautious	Laaman, Sean
Sonic Healthcare Limited	SHL.AX	A$	14.50	EW	Australia Healthcare Services & Hospitals	Cautious	Laaman, Sean
Asciano Group	AIO.AX	A$	1.75	OW	Australia Infrastructure	In-Line	Wensley, Philip
Auckland International Airport Ltd	AIA.AX	A$	1.48	EW	Australia Infrastructure	In-Line	Rudland, Michael
Auckland International Airport Ltd	AIA.NZ	NZ$	1.84	EW	Australia Infrastructure	In-Line	Rudland, Michael
Australian Infrastructure Fund Ltd.	AIX.AX	A$	1.67	EW	Australia Infrastructure	In-Line	Moller, Andrew
ConnectEast Group	CEU.AX	A$	0.41	EW	Australia Infrastructure	In-Line	Rudland, Michael
Macquarie Infrastructure	MIG.AX	A$	1.31	UW	Australia Infrastructure	In-Line	Wensley, Philip
MAp	MAP.AX	A$	2.65	EW	Australia Infrastructure	In-Line	Wensley, Philip
Transurban Group	TCL.AX	A$	5.55	EW	Australia Infrastructure	In-Line	Wensley, Philip
AMP Limited	AMP.AX	A$	6.19	EW	Australia Insurance	In-Line	Russell, Scott
AXA Asia Pac Holdings Ltd	AXA.AX	A$	5.74	EW	Australia Insurance	In-Line	Russell, Scott
Insurance Australia Group	IAG.AX	A$	3.76	EW	Australia Insurance	In-Line	Russell, Scott
QBE Insurance Group	QBE.AX	A$	23.00	OW	Australia Insurance	In-Line	Russell, Scott
Suncorp-Metway	SUN.AX	A$	8.60	UW	Australia Insurance	In-Line	Russell, Scott
TOWER Australia	TAL.AX	A$	2.71	OW	Australia Insurance	In-Line	Russell, Scott
Tower Ltd.	TWR.NZ	NZ$	2.03	UW	Australia Insurance	In-Line	Russell, Scott
REA Group Limited	REA.AX	A$	8.55	OW	Australia Internet Media	Attractive	Holgate, Ben
SEEK Limited	SEK.AX	A$	6.36	OW	Australia Internet Media	Attractive	Holgate, Ben
Wotif.com Holdings Limited	WTF.AX	A$	6.31	EW	Australia Internet Media	Attractive	Holgate, Ben
APN News & Media Ltd.	APN.AX	A$	2.33	UW	Australia Media	In-Line	McLeod, Andrew
Austar United Communications Ltd	AUN.AX	A$	1.28	EW	Australia Media	In-Line	Holgate, Ben
Austereo Limited	AEO.AX	A$	1.52	OW	Australia Media	In-Line	McLeod, Andrew
Fairfax Media	FXJ.AX	A$	1.66	OW	Australia Media	In-Line	McLeod, Andrew
Seven Network Limited	SEV.AX	A$	6.40	UW	Australia Media	In-Line	McLeod, Andrew
Ten Network Holdings	TEN.AX	A$	1.53	OW	Australia Media	In-Line	McLeod, Andrew
West Australian Newspapers	WAN.AX	A$	7.71	UW	Australia Media	In-Line	McLeod, Andrew
Cochlear	COH.AX	A$	64.00	EW	Australia Medical Technology	Cautious	Laaman, Sean
Resmed Inc.	RMD.N	US$	51.48	EW	Australia Medical Technology	Cautious	Laaman, Sean
Resmed Inc.	RMD.AX	A$	5.74	OW	Australia Medical Technology	Cautious	Laaman, Sean
Alumina Limited	AWC.AX	A$	1.58	UW	Australia Nonferrous Metals & Mining	Attractive	Campbell, Craig
BHP Billiton Plc	BHP.AX	A$	41.05	++	Australia Nonferrous Metals & Mining	Attractive	Campbell, Craig
Equinox Minerals Limited	EQN.AX	A$	4.31	OW	Australia Nonferrous Metals & Mining	Attractive	Campbell, Craig
Fortescue Metals	FMG.AX	A$	4.21	UW	Australia Nonferrous Metals & Mining	Attractive	Campbell, Craig
Minara Resources	MRE.AX	A$	0.76	UW	Australia Nonferrous Metals & Mining	Attractive	Judd, Cameron
OZ Minerals	OZL.AX	A$	1.21	EW	Australia Nonferrous Metals & Mining	Attractive	Campbell, Craig
PanAust Limited	PNA.AX	A$	0.59	OW	Australia Nonferrous Metals & Mining	Attractive	Campbell, Craig
Rio Tinto Plc	RIO.AX	A$	71.90	++	Australia Nonferrous Metals & Mining	Attractive	Campbell, Craig
Western Areas NL	WSA.AX	A$	5.15	OW	Australia Nonferrous Metals & Mining	Attractive	Judd, Cameron
Australian Worldwide Exploration Ltd	AWE.AX	A$	2.73	OW	Australia Oil & Gas	In-Line	Baker, Stuart
Beach Petroleum Ltd	BPT.AX	A$	0.85	EW	Australia Oil & Gas	In-Line	Baker, Stuart
Caltex Australia Ltd	CTX.AX	A$	9.01	EW	Australia Oil & Gas	In-Line	Baker, Stuart
Eastern Star	ESG.AX	A$	0.80	OW	Australia Oil & Gas	In-Line	Baker, Stuart
Karoon Gas Australia	KAR.AX	A$	8.12	OW	Australia Oil & Gas	In-Line	Baker, Stuart
New Zealand Oil & Gas	NZO.AX	A$	1.37	EW	Australia Oil & Gas	In-Line	Baker, Stuart
Oil Search Ltd.	OSH.AX	A$	5.84	OW	Australia Oil & Gas	In-Line	Baker, Stuart

Source: Company data, Morgan Stanley Research ++Estimates for this company have been removed from consideration in this report because, under applicable law and/or Morgan Stanley policy, Morgan Stanley may be precluded from issuing such information with respect to this company at this time.

AP Coverage Universe

Company name	Ticker	Curr.	Share price (12/08/09)	Rec.	Industry	Industry view	Primary Analyst
Origin Energy Ltd.	ORG.AX	A$	15.77	EW	Australia Oil & Gas	In-Line	Baker, Stuart
ROC Oil Company	ROC.AX	A$	0.65	OW	Australia Oil & Gas	In-Line	Baker, Stuart
Santos	STO.AX	A$	14.68	UW	Australia Oil & Gas	In-Line	Baker, Stuart
Woodside Petroleum	WPL.AX	A$	48.20	OW	Australia Oil & Gas	In-Line	Baker, Stuart
API	API.AX	A$	0.68	EW	Australia Pharmaceutical Distribution & Retailers	Cautious	Laaman, Sean
Sigma Pharmaceuticals	SIP.AX	A$	0.99	EW	Australia Pharmaceutical Distribution & Retailers	Cautious	Laaman, Sean
CSL Ltd	CSL.AX	A$	31.22	EW	Australia Pharmaceuticals	In-Line	Laaman, Sean
CFS Retail Property Trust	CFX.AX	A$	1.90	OW	Australia Property	In-Line	Pirenc, Lou
Commonwealth Property Office Fund	CPA.AX	A$	0.93	EW	Australia Property	In-Line	Pirenc, Lou
Dexus	DXS.AX	A$	0.79	OW	Australia Property	In-Line	Pirenc, Lou
GPT Group	GPT.AX	A$	0.59	EW	Australia Property	In-Line	Pirenc, Lou
ING Office Fund	IOF.AX	A$	0.58	EW	Australia Property	In-Line	Pirenc, Lou
Mirvac Group	MGR.AX	A$	1.46	UW	Australia Property	In-Line	Pirenc, Lou
Stockland	SGP.AX	A$	3.85	UW	Australia Property	In-Line	Pirenc, Lou
Westfield Group	WDC.AX	A$	11.80	UW	Australia Property	In-Line	Pirenc, Lou
Billabong	BBG.AX	A$	11.12	OW	Australia Retail	Cautious	Barwick, Richard
David Jones Limited	DJS.AX	A$	5.44	UW	Australia Retail	Cautious	Barwick, Richard
Harvey Norman	HVN.AX	A$	4.23	EW	Australia Retail	Cautious	Barwick, Richard
JB Hi-Fi Limited	JBH.AX	A$	22.80	OW	Australia Retail	Cautious	Barwick, Richard
Metcash Trading Ltd.	MTS.AX	A$	4.44	EW	Australia Retail	Cautious	Barwick, Richard
Pacific Brands	PBG.AX	A$	1.28	OW	Australia Retail	Cautious	Kierath, Thomas
Wesfarmers	WES.AX	A$	28.87	EW	Australia Retail	Cautious	Barwick, Richard
Woolworths Ltd	WOW.AX	A$	27.43	EW	Australia Retail	Cautious	Barwick, Richard
Toll Holdings	TOL.AX	A$	8.08	EW	Australia Transportation	In-Line	Wensley, Philip
AGL Energy Ltd	AGK.AX	A$	13.77	OW	Australia Utilities	Attractive	Blackwell, Mark
APA Group	APA.AX	A$	3.27	EW	Australia Utilities	Attractive	Blackwell, Mark
DUET Group	DUE.AX	A$	1.83	EW	Australia Utilities	Attractive	Blackwell, Mark
Envestra Ltd	ENV.AX	A$	0.48	EW	Australia Utilities	Attractive	Blackwell, Mark
Geodynamics	GDY.AX	A$	0.81	EW	Australia Utilities	Attractive	Baker, Stuart
SP AusNet	SPN.AX	A$	0.86	EW	Australia Utilities	Attractive	Blackwell, Mark
Spark Infrastructure	SKI.AX	A$	1.26	OW	Australia Utilities	Attractive	Blackwell, Mark
Telecom NZ	TEL.NZ	NZ$	2.36	EW	Australia/NZ Telecommunications	In-Line	Blackwell, Mark
Telstra Corporation	TLS.AX	A$	3.42	OW	Australia/NZ Telecommunications	In-Line	Blackwell, Mark
China Agri-Industries	0606.HK	HK$	10.88	OW	China Agricultural Products	Attractive	Lou, Lillian
Air China Limited	0753.HK	HK$	6.06	EW	China Airlines	In-Line	Xu, Edward
China Eastern Airlines	0670.HK	HK$	2.99	EW	China Airlines	In-Line	Xu, Edward
China Southern Airlines	1055.HK	HK$	2.72	UW	China Airlines	In-Line	Xu, Edward
Brilliance China Automotive	1114.HK	HK$	2.46	UW	China Autos & Auto Parts	Cautious	Zhu, Kate
China Metal International Holdings	0319.HK	HK$	2.45	OW	China Autos & Auto Parts	Cautious	Wang, Bin
Denway Motors	0203.HK	HK$	5.18	OW	China Autos & Auto Parts	Cautious	Zhu, Kate
Dongfeng Motor Group	0489.HK	HK$	12.24	OW	China Autos & Auto Parts	Cautious	Zhu, Kate
Great Wall Motor Company Limited	2333.HK	HK$	9.50	OW	China Autos & Auto Parts	Cautious	Zhu, Kate
Minth Group Limited	0425.HK	HK$	12.48	OW	China Autos & Auto Parts	Cautious	Wang, Bin
Sinotruk (Hong Kong) Limited	3808.HK	HK$	9.34	UW	China Autos & Auto Parts	Cautious	Zhu, Kate
WeiChai Power	2338.HK	HK$	67.30	OW	China Autos & Auto Parts	Cautious	Zhu, Kate
Xinyi Glass	0868.HK	HK$	6.91	OW	China Autos & Auto Parts	Cautious	Wang, Bin
Bank of China Limited	3988.HK	HK$	4.35	EW	China Banks	In-Line	Liu, Minyan
Bank of Communications	3328.HK	HK$	9.32	EW	China Banks	In-Line	Liu, Minyan
Bank of Ningbo Co. Ltd	002142.SZ	Rmb	15.76	UW	China Banks	In-Line	Law, Edmond
China CITIC Bank Corporation Limited	0998.HK	HK$	6.71	EW	China Banks	In-Line	Liu, Minyan
China Construction Bank Corp.	0939.HK	HK$	6.97	OW	China Banks	In-Line	Liu, Minyan
China Merchants Bank	3968.HK	HK$	20.65	EW	China Banks	In-Line	Liu, Minyan
China Minsheng Banking Corp.	600016.SS	Rmb	7.84	UW	China Banks	In-Line	Mak, Eric
Industrial and Commercial Bank of China	1398.HK	HK$	6.52	OW	China Banks	In-Line	Liu, Minyan
Industrial Bank Co. Ltd.	601166.SS	Rmb	40.28	EW	China Banks	In-Line	Mak, Eric
Pudong Development Bank	600000.SS	Rmb	22.47	EW	China Banks	In-Line	Mak, Eric
ANTA Sports Products	2020.HK	HK$	12.00	OW	China Branded Sports Apparel and Footwear	Attractive	Tao, Dennis
China Dongxiang Group Co. Ltd	3818.HK	HK$	5.94	OW	China Branded Sports Apparel and Footwear	Attractive	Tao, Dennis
Li Ning	2331.HK	HK$	26.85	EW	China Branded Sports Apparel and Footwear	Attractive	Tao, Dennis
Anhui Conch Cement Co. Ltd	0914.HK	HK$	50.30	EW	China Building Materials	Attractive	Niu, Sandy
China National Building Material Company	3323.HK	HK$	16.80	OW	China Building Materials	Attractive	Niu, Sandy
China National Materials (Sinoma)	1893.HK	HK$	6.00	OW	China Building Materials	Attractive	Niu, Sandy
China Resources Cement Holdings Ltd.	1313.HK	HK$	3.99	OW	China Building Materials	Attractive	Niu, Sandy
China Shanshui Cement Group	0691.HK	HK$	6.01	OW	China Building Materials	Attractive	Niu, Sandy
Anhui Heli Co., Ltd.	600761.SS	Rmb	14.03	UW	China Capital Goods	In-Line	Meng, Andy
Changsha Zoomlion	000157.SZ	Rmb	26.60	OW	China Capital Goods	In-Line	Meng, Andy
Guangxi Liugong Machinery Co., Ltd	000528.SZ	Rmb	20.29	OW	China Capital Goods	In-Line	Zhu, Kate
Haitian International Holdings Limited	1882.HK	HK$	3.18	OW	China Capital Goods	In-Line	Zhu, Kate
Lonking Holdings Limited	3339.HK	HK$	5.45	OW	China Capital Goods	In-Line	Zhu, Kate
Offshore Oil Engineering Co., Ltd.	600583.SS	Rmb	12.06	OW	China Capital Goods	In-Line	Meng, Andy
Sany Heavy Industry Co., Ltd.	600031.SS	Rmb	36.94	UW	China Capital Goods	In-Line	Meng, Andy
Shanghai Zhenhua Port Machinery Co.	600320.SS	Rmb	10.52	EW	China Capital Goods	In-Line	Zhu, Kate
Shanghai Zhenhua Port Machinery Co.	900947.SS	US$	0.85	OW	China Capital Goods	In-Line	Zhu, Kate
China High Speed Transmission	0658.HK	HK$	18.60	EW	China Clean Energy	In-Line	Gupta, Sunil
GCL-Poly Energy	3800.HK	HK$	2.39	EW	China Clean Energy	In-Line	Gupta, Sunil
JA Solar	JASO.O	US$	4.77	OW	China Clean Energy	In-Line	Gupta, Sunil
LDK Solar	LDK.N	US$	9.05	EW	China Clean Energy	In-Line	Gupta, Sunil
ReneSola	SOL.N	US$	4.40	EW	China Clean Energy	In-Line	Gupta, Sunil

Source: Company data, Morgan Stanley Research ++Estimates for this company have been removed from consideration in this report because, under applicable law and/or Morgan Stanley policy, Morgan Stanley may be precluded from issuing such information with respect to this company at this time.

AP Coverage Universe

Company name	Ticker	Curr.	Share price (12/08/09)	Rec.	Industry	Industry view	Primary Analyst
Suntech Power	STP.N	US$	16.93	EW	China Clean Energy	In-Line	Gupta, Sunil
Trina Solar	TSL.N	US$	47.21	OW	China Clean Energy	In-Line	Gupta, Sunil
Yingli Green Energy	YGE.N	US$	15.93	EW	China Clean Energy	In-Line	Gupta, Sunil
China Coal Energy Co., Ltd.	1898.HK	HK$	13.90	EW	China Coal	Attractive	Tan, Wee-Kiat
China Shenhua Energy	1088.HK	HK$	38.00	OW	China Coal	Attractive	Tan, Wee-Kiat
Yanzhou Coal	1171.HK	HK$	16.24	EW	China Coal	Attractive	Tan, Wee-Kiat
CCCC	1800.HK	HK$	7.12	EW	China Construction & Infrastructure	Attractive	Zhu, Kate
China Railway Group	0390.HK	HK$	6.13	OW	China Construction & Infrastructure	Attractive	Zhu, Kate
China Railway Group	601390.SS	Rmb	6.55	NAV	China Construction & Infrastructure	Attractive	Zhu, Kate
Metallurgical Corporation of China	1618.HK	HK$	5.03	OW	China Construction & Infrastructure	Attractive	Zhu, Kate
WuXi Pharmatech	WX.N	US$	16.86	OW	China Contract Research Organization (CRO)	Attractive	Li, Bin
Golden Eagle Retail Group Limited	3308.HK	HK$	16.88	OW	China Department Stores	Attractive	Lin, Robert
Intime Department Store (Group)	1833.HK	HK$	6.79	OW	China Department Stores	Attractive	Lin, Robert
New World Department Store China Limited	0825.HK	HK$	7.42	EW	China Department Stores	Attractive	Lin, Robert
Parkson Retail Group Limited	3368.HK	HK$	13.30	OW	China Department Stores	Attractive	Lin, Robert
Sinopharm Group	1099.HK	HK$	27.15	EW	China Drug Distribution	Attractive	Li, Bin
New Oriental	EDU.N	US$	72.12	OW	China Education Services	Attractive	Ji, Richard
China BlueChemical Ltd	3983.HK	HK$	4.61	EW	China Fertilizer	In-Line	Chen, Jeremy
Sinofert Holdings	0297.HK	HK$	4.46	OW	China Fertilizer	In-Line	Chen, Jeremy
China Foods Limited	0506.HK	HK$	7.47	OW	China Food, Bev. & Tobacco	Attractive	Lou, Lillian
China Mengniu Dairy	2319.HK	HK$	28.80	OW	China Food, Bev. & Tobacco	Attractive	Moh, Angela
China Yurun Food Group Ltd.	1068.HK	HK$	20.95	EW	China Food, Bev. & Tobacco	Attractive	Lou, Lillian
Homey Aquatic	600467.SS	Rmb	10.16	EW	China Food, Bev. & Tobacco	Attractive	Lou, Lillian
Kweichow Moutai Company Ltd.	600519.SS	Rmb	174.56	OW	China Food, Bev. & Tobacco	Attractive	Lou, Lillian
Luzhou Lao Jiao Co. Ltd	000568.SZ	Rmb	37.40	OW	China Food, Bev. & Tobacco	Attractive	Lou, Lillian
Shanxi Xinghuacun Fen Wine Factory Co.	600809.SS	Rmb	40.90	EW	China Food, Bev. & Tobacco	Attractive	Lou, Lillian
Shuanghui Investment	000895.SZ	Rmb	49.95	OW	China Food, Bev. & Tobacco	Attractive	Lou, Lillian
Tingyi (Cayman Islands)	0322.HK	HK$	20.10	EW	China Food, Bev. & Tobacco	Attractive	Moh, Angela
Uni-President China	0220.HK	HK$	5.56	OW	China Food, Bev. & Tobacco	Attractive	Moh, Angela
Want Want China Holdings Ltd	0151.HK	HK$	5.50	EW	China Food, Bev. & Tobacco	Attractive	Lou, Lillian
Wuliangye Yibin Company Ltd.	000858.SZ	Rmb	29.30	EW	China Food, Bev. & Tobacco	Attractive	Lou, Lillian
Yantai Changyu Pioneer Wine Company Ltd.	200869.SZ	HK$	64.02	OW	China Food, Bev. & Tobacco	Attractive	Lou, Lillian
Yantai Changyu Pioneer Wine Company Ltd.	000869.SZ	Rmb	69.07	EW	China Food, Bev. & Tobacco	Attractive	Lou, Lillian
Yili Industrial	600887.SS	Rmb	27.28	EW	China Food, Bev. & Tobacco	Attractive	Lou, Lillian
Zhangzidao Fishery	002069.SZ	Rmb	33.00	UW	China Food, Bev. & Tobacco	Attractive	Lou, Lillian
Lee & Man Paper Manufacturing Ltd	2314.HK	HK$	19.60	EW	China Forest Products, Paper & Packaging	In-Line	Spencer, Charles
Nine Dragons	2689.HK	HK$	13.20	UW	China Forest Products, Paper & Packaging	In-Line	Spencer, Charles
Sino Forest	TRE.TO	C$	18.04	OW	China Forest Products, Paper & Packaging	In-Line	Spencer, Charles
SMIC	SMI.N	US$	3.11	NAV	China Foundry	Cautious	Lu, Bill
SMIC	0981.HK	HK$	0.48	UW	China Foundry	Cautious	Lu, Bill
Beijing Enterprises Holdings	0392.HK	HK$	53.00	OW	China Gas Distribution	Attractive	Lee, Simon
China Resources Gas	1193.HK	HK$	9.15	EW	China Gas Distribution	Attractive	Lee, Simon
Xinao Gas	2688.HK	HK$	19.30	EW	China Gas Distribution	Attractive	Lee, Simon
BYD Company Limited	1211.HK	HK$	73.15	EW	China Hardware Technology	In-Line	Lu, Jasmine
BYD Electronics	0285.HK	HK$	6.64	EW	China Hardware Technology	In-Line	Lu, Jasmine
Lenovo	0992.HK	HK$	4.50	EW	China Hardware Technology	In-Line	Chen, Grace
ZTE Corporation	0763.HK	HK$	42.20	UW	China Hardware Technology	In-Line	Lu, Jasmine
Gree Electric Appliances, Inc.	000651.SZ	Rmb	27.20	OW	China Home Appliances	In-Line	Wang, Carol
Guangdong Midea Electric Appliances Co.,	000527.SZ	Rmb	22.15	EW	China Home Appliances	In-Line	Wang, Carol
Qingdao Haier Co. Ltd.	600690.SS	Rmb	24.90	EW	China Home Appliances	In-Line	Wang, Carol
BaWang International Holdings	1338.HK	HK$	4.79	OW	China Household & Personal Products	Attractive	Moh, Angela
China Life Insurance Co. Ltd.	2628.HK	HK$	40.30	EW	China Insurance	In-Line	Liu, Minyan
CNInsure Inc.	CISG.O	US$	21.08	OW	China Insurance	In-Line	Law, Edmond
PICC P&C Company Ltd	2328.HK	HK$	7.36	UW	China Insurance	In-Line	Liu, Minyan
Ping An Insurance Company	2318.HK	HK$	72.85	++	China Insurance	In-Line	Liu, Minyan
51job, Inc	JOBS.O	US$	19.25	OW	China Internet	Attractive	Wu, Jenny
Alibaba.com Limited	1688.HK	HK$	18.18	OW	China Internet	Attractive	Ji, Richard
Baidu.com, Inc.	BIDU.O	US$	418.84	EW	China Internet	Attractive	Ji, Richard
Changyou	CYOU.O	US$	30.76	EW	China Internet	Attractive	Wu, Jenny
Ctrip.com	CTRP.O	US$	74.88	OW	China Internet	Attractive	Ji, Richard
Giant Interactive	GA.N	US$	7.21	OW	China Internet	Attractive	Wu, Jenny
Netease.com	NTES.O	US$	36.80	OW	China Internet	Attractive	Ji, Richard
Perfect World	PWRD.O	US$	43.01	OW	China Internet	Attractive	Ji, Richard
Shanda Games	GAME.O	US$	9.99	OW	China Internet	Attractive	Yuan, Lisa
Shanda Interactive Entertainment Limited	SNDA.O	US$	51.94	OW	China Internet	Attractive	Yuan, Lisa
Sina Corporation	SINA.O	US$	43.30	OW	China Internet	Attractive	Ji, Richard
Sohu.com Inc	SOHU.O	US$	51.40	OW	China Internet	Attractive	Wu, Jenny
Tencent Holdings Ltd.	0700.HK	HK$	148.70	OW	China Internet	Attractive	Ji, Richard
AirMedia	AMCN.O	US$	7.87	OW	China Media	Attractive	Wan, Philip
Beijing Gehua CATV Network Co., Ltd.	600037.SS	Rmb	14.26	EW	China Media	Attractive	Wang, Carol
Chengdu B-ray Media Co. Ltd	600880.SS	Rmb	26.79	OW	China Media	Attractive	Wang, Carol
China Digital TV	STV.N	US$	6.00	OW	China Media	Attractive	Wan, Philip
Clear Media	0100.HK	HK$	3.66	OW	China Media	Attractive	Wu, Jenny
Focus Media	FMCN.O	US$	14.47	OW	China Media	Attractive	Ji, Richard
Hunan TV & Broadcast	000917.SZ	Rmb	18.03	UW	China Media	Attractive	Wang, Carol
Phoenix TV	2008.HK	HK$	2.09	OW	China Media	Attractive	Wu, Jenny
Shanghai Oriental Pearl (Group) Co., Ltd	600832.SS	Rmb	11.18	UW	China Media	Attractive	Wang, Carol
SinoMedia	0623.HK	HK$	2.66	OW	China Media	Attractive	Yuan, Lisa
Television Broadcasts Limited	0511.HK	HK$	36.15	EW	China Media	Attractive	Wu, Jenny
VisionChina Media	VISN.O	US$	11.15	OW	China Media	Attractive	Wan, Philip

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Company name	Ticker	Curr.	Share price (12/08/09)	Rec.	Industry	Industry view	Primary Analyst
China Medical Technologies	CMED.O	US$	13.31	EW	China Medical Devices	Attractive	Li, Bin
Mindray	MR.N	US$	30.56	OW	China Medical Devices	Attractive	Li, Bin
Mingyuan	0233.HK	HK$	1.40	EW	China Medical Devices	Attractive	Li, Bin
Shandong Weigao	8199.HK	HK$	26.80	EW	China Medical Devices	Attractive	Li, Bin
Home Inns & Hotels Management Inc.	HMIN.O	US$	36.51	OW	China Mid Cap	No Rating	He, Lin
Huangshan Tourism Development Co., Ltd.	600054.SS	Rmb	17.43	EW	China Mid Cap	No Rating	He, Lin
Huangshan Tourism Development Co., Ltd.	900942.SS	US$	1.34	OW	China Mid Cap	No Rating	He, Lin
Jin Jiang Int'l Hotels (Group) Company	2006.HK	HK$	2.41	EW	China Mid Cap	No Rating	He, Lin
Shanghai Jin Jiang International Hotel	900934.SS	US$	1.64	OW	China Mid Cap	No Rating	He, Lin
Shanghai Jin Jiang International Hotel	600754.SS	Rmb	21.72	EW	China Mid Cap	No Rating	He, Lin
Fosun International	0656.HK	HK$	5.63	EW	China Multi-Industry	In-Line	Chan, Corey
Shanghai Industrial Holdings	0363.HK	HK$	44.05	++	China Multi-Industry	In-Line	Chan, Corey
Aluminum Corp. of China Ltd.	2600.HK	HK$	8.58	UW	China Nonferrous Metals & Mining	In-Line	Spencer, Charles
China Molybdenum	3993.HK	HK$	6.36	UW	China Nonferrous Metals & Mining	In-Line	Spencer, Charles
China Zhongwang Holdings Limited	1333.HK	HK$	7.25	OW	China Nonferrous Metals & Mining	In-Line	Spencer, Charles
Hunan Nonferrous Metals Corporation	2626.HK	HK$	3.02	UW	China Nonferrous Metals & Mining	In-Line	Niu, Sandy
Jiangxi Copper	0358.HK	HK$	19.74	EW	China Nonferrous Metals & Mining	In-Line	Spencer, Charles
Jiaozuo Wanfang Aluminium	000612.SZ	Rmb	26.43	UW	China Nonferrous Metals & Mining	In-Line	Shi, Kevin
Western Mining	601168.SS	Rmb	16.34	UW	China Nonferrous Metals & Mining	In-Line	Shi, Kevin
CIMC	000039.SZ	Rmb	12.26	EW	China Offshore & Marine	In-Line	Meng, Andy
CIMC	200039.SZ	HK$	9.00	OW	China Offshore & Marine	In-Line	Meng, Andy
Singamas Container Holdings Limited	0716.HK	HK$	1.27	OW	China Offshore & Marine	In-Line	Meng, Andy
China Oilfield Services Ltd.	2883.HK	HK$	9.45	UW	China Oil & Gas	Cautious	Tan, Wee-Kiat
China Petroleum & Chemical Corp.	0386.HK	HK$	6.48	EW	China Oil & Gas	Cautious	Tan, Wee-Kiat
CNOOC	0883.HK	HK$	11.88	OW	China Oil & Gas	Cautious	Tan, Wee-Kiat
Honghua Group Ltd.	0196.HK	HK$	1.59	UW	China Oil & Gas	Cautious	Chan, Sara
PetroChina	0857.HK	HK$	9.69	EW	China Oil & Gas	Cautious	Tan, Wee-Kiat
3SBio Inc.	SSRX.O	US$	13.48	OW	China Pharmaceuticals	In-Line	Wu, Sean
China Pharmaceutical Group Ltd	1093.HK	HK$	5.07	EW	China Pharmaceuticals	In-Line	Li, Bin
Guangzhou Pharma	600332.SS	Rmb	12.17	UW	China Pharmaceuticals	In-Line	Li, Bin
Guangzhou Pharma	0874.HK	HK$	5.14	OW	China Pharmaceuticals	In-Line	Li, Bin
Jiangsu Hengrui	600276.SS	Rmb	50.15	OW	China Pharmaceuticals	In-Line	Li, Bin
Simcere Pharmaceutical	SCR.N	US$	8.25	UW	China Pharmaceuticals	In-Line	Li, Bin
The United Laboratories	3933.HK	HK$	4.56	EW	China Pharmaceuticals	In-Line	Li, Bin
Yunnan Baiyao Group	000538.SZ	Rmb	52.90	EW	China Pharmaceuticals	In-Line	Wu, Sean
China Resources Power	0836.HK	HK$	14.44	OW	China Power	In-Line	Lee, Simon
Datang Int'l Power	0991.HK	HK$	3.32	EW	China Power	In-Line	Lee, Simon
Huadian Power Int'l	1071.HK	HK$	2.09	OW	China Power	In-Line	Lee, Simon
Huaneng Power	0902.HK	HK$	4.61	EW	China Power	In-Line	Lee, Simon
SDIC Huajing Power Co	600886.SS	Rmb	10.08	UW	China Power	In-Line	Wen, Helen
Yangtze Power	600900.SS	Rmb	13.40	EW	China Power	In-Line	Wen, Helen
Dongfang Electric	1072.HK	HK$	41.80	OW	China Power Equipment	Cautious	Wen, Helen
Harbin Power	1133.HK	HK$	7.20	UW	China Power Equipment	Cautious	Wen, Helen
Shanghai Electric	2727.HK	HK$	3.63	UW	China Power Equipment	Cautious	Wen, Helen
Agile Property	3383.HK	HK$	13.22	OW	China Property	Attractive	Kwong, Derek
Central China Real Estate Ltd	0832.HK	HK$	2.40	OW	China Property	Attractive	Kwong, Derek
China Aoyuan Property Group Limited	3883.HK	HK$	1.54	EW	China Property	Attractive	Kwong, Derek
China Overseas Land & Inv.	0688.HK	HK$	18.36	EW	China Property	Attractive	Ching, Coral
China Resources Land	1109.HK	HK$	19.66	OW	China Property	Attractive	Ching, Coral
China Vanke Co., Ltd.	000002.SZ	Rmb	12.16	OW	China Property	Attractive	Ching, Coral
China Vanke Co., Ltd.	200002.SZ	HK$	10.23	OW	China Property	Attractive	Ching, Coral
Country Garden Holdings Company Limited	2007.HK	HK$	3.31	EW	China Property	Attractive	Kwong, Derek
Gemdale Corporation	600383.SS	Rmb	16.36	OW	China Property	Attractive	Ching, Coral
Guangzhou R&F Properties	2777.HK	HK$	15.70	OW	China Property	Attractive	Kwong, Derek
KWG Property Holding Limited	1813.HK	HK$	6.99	OW	China Property	Attractive	Kwong, Derek
Poly Real Estate	600048.SS	Rmb	25.98	EW	China Property	Attractive	Ching, Coral
Renhe Commercial Holdings Co. Ltd	1387.HK	HK$	1.66	OW	China Property	Attractive	Liang, Daphne
Shanghai Forte Land	2337.HK	HK$	2.75	OW	China Property	Attractive	Kwong, Derek
Shimao Property	0813.HK	HK$	17.12	OW	China Property	Attractive	Kwong, Derek
Sino Ocean Land	3377.HK	HK$	8.61	EW	China Property	Attractive	Ching, Coral
SOHO China	0410.HK	HK$	4.37	OW	China Property	Attractive	Liang, Daphne
Ajisen (China) Holdings Limited	0538.HK	HK$	6.73	EW	China Restaurant	Attractive	He, Lin
Little Sheep Group Ltd.	0968.HK	HK$	4.20	EW	China Restaurant	Attractive	He, Lin
China Nepstar Chain Drugstore Inc.	NPD.N	US$	7.15	EW	China Retail Pharmacy	In-Line	Li, Bin
China State Shipbuilding Co. Ltd	600150.SS	Rmb	80.01	EW	China Shipbuilding	Cautious	Meng, Andy
Guangzhou Shipyard Intl. Co., Ltd.	600685.SS	Rmb	27.74	EW	China Shipbuilding	Cautious	Meng, Andy
Guangzhou Shipyard Intl. Co., Ltd.	0317.HK	HK$	13.90	UW	China Shipbuilding	Cautious	Meng, Andy
Yangzijiang Shipbuilding (Holdings) Ltd.	YAZG.SI	S$	1.22	UW	China Shipbuilding	Cautious	Meng, Andy
Angang Steel Company Limited	0347.HK	HK$	16.72	UW	China Steel	In-Line	Spencer, Charles
Baoshan Iron & Steel	600019.SS	Rmb	9.18	OW	China Steel	In-Line	Spencer, Charles
Maanshan Iron & Steel	0323.HK	HK$	5.34	OW	China Steel	In-Line	Spencer, Charles
Actions Semiconductor	ACTS.O	US$	2.31	UW	China Technology	In-Line	Lu, Bill
Kingdee International Software Group	0268.HK	HK$	1.86	OW	China Technology	In-Line	Wang, Carol
O2Micro	OIIM.O	US$	4.67	UW	China Technology	In-Line	Chan, Charlie
Shenyang Neusoft Co., LTD.	600718.SS	Rmb	22.84	EW	China Technology	In-Line	Wang, Carol
Spreadtrum Communications Inc.	SPRD.O	US$	5.06	EW	China Technology	In-Line	Lu, Bill
UFIDA Software Co.	600588.SS	Rmb	25.00	OW	China Technology	In-Line	Wang, Carol
China Mobile Limited	0941.HK	HK$	72.35	EW	China Telecommunications	In-Line	Chow, Yvonne
China Telecom	0728.HK	HK$	3.40	EW	China Telecommunications	In-Line	Chow, Yvonne
China Unicom	0762.HK	HK$	10.10	OW	China Telecommunications	In-Line	Chow, Yvonne

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Belle International	1880.HK	HK$	9.49	OW	China Textiles, Apparel and Footwear	Attractive	Tao, Dennis
Bosideng International Holdings Limited	3998.HK	HK$	1.63	EW	China Textiles, Apparel and Footwear	Attractive	Moh, Angela
Daphne International Holdings	0210.HK	HK$	6.31	OW	China Textiles, Apparel and Footwear	Attractive	Tao, Dennis
Pacific Textiles Holdings Limited	1382.HK	HK$	4.96	OW	China Textiles, Apparel and Footwear	Attractive	Tao, Dennis
Pou Sheng International Holdings	3813.HK	HK$	1.20	EW	China Textiles, Apparel and Footwear	Attractive	Tao, Dennis
TPV Technology Limited	0903.HK	HK$	4.43	EW	China TFT LCD	Attractive	Wang, Frank A.Y.
Beijing Capital Int'l Airport	0694.HK	HK$	5.30	EW	China Transportation	In-Line	Xu, Edward
China COSCO	1919.HK	HK$	10.12	EW	China Transportation	In-Line	Loh, Sophie
China Merchants Hldg Intl	0144.HK	HK$	23.85	OW	China Transportation	In-Line	Xu, Edward
China Shipping CL	2866.HK	HK$	2.81	EW	China Transportation	In-Line	Loh, Sophie
China Shipping Development	1138.HK	HK$	12.60	OW	China Transportation	In-Line	Xu, Edward
COSCO Pacific	1199.HK	HK$	10.58	EW	China Transportation	In-Line	Xu, Edward
Guangshen Railway	0525.HK	HK$	3.08	OW	China Transportation	In-Line	Xu, Edward
Guangzhou Baiyun Int'l Airport	600004.SS	Rmb	10.16	OW	China Transportation	In-Line	Xu, Edward
Hainan Meilan Int'l Airport	0357.HK	HK$	9.42	OW	China Transportation	In-Line	Xu, Edward
Hopewell Highway Infrastructure	0737.HK	HK$	4.64	EW	China Transportation	In-Line	Xu, Edward
Jiangsu Expressway Company Limited	0177.HK	HK$	6.91	OW	China Transportation	In-Line	Xu, Edward
Shanghai International Airport	600009.SS	Rmb	15.45	OW	China Transportation	In-Line	Xu, Edward
Shenzhen Airport Company Ltd	000089.SZ	Rmb	7.66	EW	China Transportation	In-Line	Xu, Edward
Sinotrans Limited	0598.HK	HK$	2.04	OW	China Transportation	In-Line	Xu, Edward
TravelSky Technology	0696.HK	HK$	7.79	OW	China Transportation	In-Line	Xu, Edward
Xiamen Airport	600897.SS	Rmb	19.15	OW	China Transportation	In-Line	Xu, Edward
Zhejiang Expressway Company	0576.HK	HK$	7.74	OW	China Transportation	In-Line	Xu, Edward
Beijing Capital Company Limited	600008.SS	Rmb	7.62	UW	China Water Utilities	In-Line	Wen, Helen
China Everbright International Limited	0257.HK	HK$	3.83	OW	China Water Utilities	In-Line	Wen, Helen
Tianjin Capital Environment	1065.HK	HK$	2.94	UW	China Water Utilities	In-Line	Wen, Helen
Tianjin Capital Environment	600874.SS	Rmb	7.99	UW	China Water Utilities	In-Line	Wen, Helen
Cathay Pacific Airways	0293.HK	HK$	14.46	OW	Hong Kong Airlines	In-Line	Lim, Chin
Li & Fung Ltd	0494.HK	HK$	33.70	OW	Hong Kong Consumer	Attractive	Moh, Angela
Samson Holding Ltd.	0531.HK	HK$	1.26	EW	Hong Kong Consumer	Attractive	Moh, Angela
Texwinca Holdings Ltd.	0321.HK	HK$	7.18	EW	Hong Kong Consumer	Attractive	Tao, Dennis
Yue Yuen Industrial	0551.HK	HK$	22.10	EW	Hong Kong Consumer	Attractive	Tao, Dennis
Henderson Land	0012.HK	HK$	57.55	OW	Hong Kong Developers	Attractive	Kwong, Derek
Kerry Properties	0683.HK	HK$	43.25	OW	Hong Kong Developers	Attractive	Ching, Coral
SHK Properties	0016.HK	HK$	117.30	OW	Hong Kong Developers	Attractive	Kwong, Derek
Sino Land	0083.HK	HK$	15.58	OW	Hong Kong Developers	Attractive	Kwong, Derek
Bank of East Asia	0023.HK	HK$	32.40	UW	Hong Kong Financial Services	In-Line	Agarwal, Anil
BOC Hong Kong	2388.HK	HK$	18.22	EW	Hong Kong Financial Services	In-Line	Agarwal, Anil
Dah Sing Financial	0440.HK	HK$	44.95	OW	Hong Kong Financial Services	In-Line	Agarwal, Anil
Hang Seng Bank	0011.HK	HK$	116.10	EW	Hong Kong Financial Services	In-Line	Agarwal, Anil
HK Exchanges & Clearing	0388.HK	HK$	139.00	EW	Hong Kong Financial Services	In-Line	Agarwal, Anil
HSBC Holdings	0005.HK	HK$	90.55	EW	Hong Kong Financial Services	In-Line	Agarwal, Anil
ICBC (Asia)	0349.HK	HK$	18.14	OW	Hong Kong Financial Services	In-Line	Agarwal, Anil
Standard Chartered Bank	2888.HK	HK$	190.10	EW	Hong Kong Financial Services	In-Line	Agarwal, Anil
Value Partners Group Limited	0806.HK	HK$	4.04	EW	Hong Kong Financial Services	In-Line	Agarwal, Anil
Wing Hang Bank	0302.HK	HK$	82.45	EW	Hong Kong Financial Services	In-Line	Agarwal, Anil
G-Resources	1051.HK	HK$	0.49	OW	Hong Kong Gold	Attractive	Campbell, Craig
AAC Acoustic	2018.HK	HK$	12.70	OW	Hong Kong Hardware Technology	Attractive	Lu, Jasmine
Foxconn Int'l Holdings	2038.HK	HK$	8.07	OW	Hong Kong Hardware Technology	Attractive	Lu, Jasmine
Cheung Kong Holdings	0001.HK	HK$	100.70	EW	Hong Kong Multi-Industry	In-Line	Choudhary, Praveen
Hutchison Whampoa	0013.HK	HK$	52.15	OW	Hong Kong Multi-Industry	In-Line	Choudhary, Praveen
Jardine Matheson Holdings Limited	JARD.SI	US$	29.62	EW	Hong Kong Multi-Industry	In-Line	Choudhary, Praveen
Jardine Strategic Holdings Limited	JSH.SI	US$	17.40	OW	Hong Kong Multi-Industry	In-Line	Choudhary, Praveen
MTR Corp.	0066.HK	HK$	26.85	UW	Hong Kong Multi-Industry	In-Line	Choudhary, Praveen
Swire Pacific	0019.HK	HK$	94.40	OW	Hong Kong Multi-Industry	In-Line	Choudhary, Praveen
Wharf Holdings	0004.HK	HK$	41.40	EW	Hong Kong Multi-Industry	In-Line	Choudhary, Praveen
Great Eagle Holdings	0041.HK	HK$	22.90	EW	Hong Kong Property Investors	Attractive	Kwong, Derek
Hang Lung Properties Ltd.	0101.HK	HK$	30.35	UW	Hong Kong Property Investors	Attractive	Kwong, Derek
Hongkong Land	HKLD.SI	US$	4.75	EW	Hong Kong Property Investors	Attractive	Kwong, Derek
Hysan Development	0014.HK	HK$	23.75	OW	Hong Kong Property Investors	Attractive	Kwong, Derek
Esprit Holdings	0330.HK	HK$	52.80	EW	Hong Kong Retail	In-Line	Moh, Angela
Giordano International	0709.HK	HK$	2.22	EW	Hong Kong Retail	In-Line	Moh, Angela
ASM Pacific	0522.HK	HK$	68.35	EW	Hong Kong Technology	Attractive	Lu, Bill
HTHKH	0215.HK	HK$	1.31	OW	Hong Kong Telecommunications	In-Line	Yu, Gary
HTIL	2332.HK	HK$	1.58	OW	Hong Kong Telecommunications	In-Line	Killa, Navin
PCCW Ltd	0008.HK	HK$	1.93	EW	Hong Kong Telecommunications	In-Line	Killa, Navin
SmarTone	0315.HK	HK$	5.60	UW	Hong Kong Telecommunications	In-Line	Killa, Navin
Orient Overseas Int'l Limited	0316.HK	HK$	36.90	OW	Hong Kong Transportation	In-Line	Loh, Sophie
Pacific Basin Shipping Limited	2343.HK	HK$	6.04	OW	Hong Kong Transportation	In-Line	Loh, Sophie
Cheung Kong Infra.	1038.HK	HK$	28.75	EW	Hong Kong Utilities	Cautious	Lee, Simon
CLP Holdings	0002.HK	HK$	51.85	EW	Hong Kong Utilities	Cautious	Lee, Simon
Hong Kong & China Gas	0003.HK	HK$	18.74	UW	Hong Kong Utilities	Cautious	Lee, Simon
Hongkong Electric	0006.HK	HK$	42.15	EW	Hong Kong Utilities	Cautious	Lee, Simon
Bharat Forge	BFRG.BO	Rs	269.65	UW	India Autos & Auto Parts	Attractive	Singh, Binay
BHEL	BHEL.BO	Rs	2,221.60	EW	India Capital Goods	In-Line	Soni, Akshay
ACC Ltd.	ACC.BO	Rs	810.00	EW	India Cement	In-Line	Jain, Ashish
Ambuja Cements Ltd.	ABUJ.BO	Rs	97.30	EW	India Cement	In-Line	Jain, Ashish
Grasim Industries	GRAS.BO	Rs	2,436.90	EW	India Cement	In-Line	Jain, Ashish
Ultratech Cement Ltd	ULTC.BO	Rs	845.30	OW	India Cement	In-Line	Jain, Ashish
United Phosphorus Limited	UNPO.BO	Rs	165.95	OW	India Chemicals	Attractive	Shah, Nillai

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AP Coverage Universe

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Suzlon Energy	SUZL.BO	Rs	85.00	NAV	India Clean Energy	In-Line	Gupta, Sunil
Gammon India	GAMM.BO	Rs	245.05	++	India Construction & Infrastructure	Attractive	Soni, Akshay
GMR Infrastructure Ltd.	GMRI.BO	Rs	72.35	UW	India Construction & Infrastructure	Attractive	Soni, Akshay
IVRCL Infrastructures & Projects LTD	IVRC.BO	Rs	369.95	OW	India Construction & Infrastructure	Attractive	Soni, Akshay
Jaiprakash Associates Limited	JAIA.BO	Rs	230.70	OW	India Construction & Infrastructure	Attractive	Soni, Akshay
Larsen & Toubro	LART.BO	Rs	1,656.40	OW	India Construction & Infrastructure	Attractive	Soni, Akshay
Nagarjuna Construction Company	NGCN.BO	Rs	164.00	OW	India Construction & Infrastructure	Attractive	Swaminathan, Pratima
Colgate-Palmolive India	COLG.BO	Rs	688.60	UW	India Consumer	In-Line	Topiwalla, Hozefa
Dabur India	DABU.BO	Rs	165.50	OW	India Consumer	In-Line	Topiwalla, Hozefa
Godrej Consumer Products Limited	GOCP.BO	Rs	280.20	EW	India Consumer	In-Line	Topiwalla, Hozefa
Hindustan Unilever	HLL.BO	Rs	276.15	UW	India Consumer	In-Line	Topiwalla, Hozefa
ITC Ltd.	ITC.BO	Rs	258.35	OW	India Consumer	In-Line	Topiwalla, Hozefa
Marico Limited	MRCO.BO	Rs	107.55	EW	India Consumer	In-Line	Topiwalla, Hozefa
Nestle India	NEST.BO	Rs	2,608.20	EW	India Consumer	In-Line	Topiwalla, Hozefa
Tata Tea	TTTE.BO	Rs	955.60	OW	India Consumer	In-Line	Topiwalla, Hozefa
Educomp Solutions Ltd.	EDSO.BO	Rs	750.35	EW	India Education Services	Attractive	Khare, Vipin
AXIS Bank	AXBK.BO	Rs	1,040.50	EW	India Financial Services	Attractive	Agarwal, Anil
Bank of Baroda	BOB.BO	Rs	529.50	OW	India Financial Services	Attractive	Sheth, Mihir
Bank of India	BOI.BO	Rs	392.50	OW	India Financial Services	Attractive	Sheth, Mihir
Canara Bank	CNBK.BO	Rs	409.25	EW	India Financial Services	Attractive	Sheth, Mihir
Corporation Bank	CRBK.BO	Rs	443.30	OW	India Financial Services	Attractive	Sheth, Mihir
HDFC	HDFC.BO	Rs	2,793.00	OW	India Financial Services	Attractive	Agarwal, Anil
HDFC Bank	HDBK.BO	Rs	1,829.85	EW	India Financial Services	Attractive	Agarwal, Anil
ICICI Bank	ICBK.BO	Rs	872.05	EW	India Financial Services	Attractive	Agarwal, Anil
IDBI	IDBI.BO	Rs	137.45	UW	India Financial Services	Attractive	Shah, Mansi
IDFC	IDFC.BO	Rs	168.85	OW	India Financial Services	Attractive	Agarwal, Anil
Kotak Mahindra Bank	KTKM.BO	Rs	807.50	UW	India Financial Services	Attractive	Sheth, Mihir
Oriental Bank of Commerce	ORBC.BO	Rs	281.60	OW	India Financial Services	Attractive	Sheth, Mihir
Punjab National Bank	PNBK.BO	Rs	939.00	OW	India Financial Services	Attractive	Sheth, Mihir
Reliance Capital	RLCP.BO	Rs	853.60	EW	India Financial Services	Attractive	Sheth, Mihir
State Bank of India	SBI.BO	Rs	2,307.15	OW	India Financial Services	Attractive	Agarwal, Anil
Union Bank of India	UNBK.BO	Rs	271.50	OW	India Financial Services	Attractive	Sheth, Mihir
Yes Bank	YESB.BO	Rs	271.65	OW	India Financial Services	Attractive	Sheth, Mihir
Ashok Leyland Ltd.	ASOK.BO	Rs	52.55	OW	India Four-Wheelers: Commercial Vehicles	Cautious	Singh, Binay
Mahindra & Mahindra	MAHM.BO	Rs	1,033.55	OW	India Four-Wheelers: Commercial Vehicles	Cautious	Singh, Binay
Tata Motors	TAMO.BO	Rs	723.60	OW	India Four-Wheelers: Commercial Vehicles	Cautious	Singh, Binay
Maruti Suzuki India Limited	MRTI.BO	Rs	1,569.05	OW	India Four-Wheelers: Passenger Cars	In-Line	Singh, Binay
EIH Limited	EIHO.BO	Rs	139.45	UW	India Hotels	In-Line	Gupta, Parag
Hotel Leelaventure Limited	HTLE.BO	Rs	43.75	EW	India Hotels	In-Line	Gupta, Parag
Indian Hotels Company Ltd	IHTL.BO	Rs	96.25	OW	India Hotels	In-Line	Gupta, Parag
Info Edge (India) Ltd.	INED.BO	Rs	812.60	OW	India Internet Services	In-Line	Khare, Vipin
Dish TV India Ltd	DSTV.BO	Rs	43.30	OW	India Media	In-Line	Prasad, Vipul
Entertainment Network (India) Limited	ENIL.BO	Rs	207.75	UW	India Media	In-Line	Prasad, Vipul
New Delhi Television Limited (NDTV)	NDTV.BO	Rs	164.95	NAV	India Media	In-Line	Prasad, Vipul
Zee Entertainment Enterprise Limited	ZEE.BO	Rs	262.30	OW	India Media	In-Line	Prasad, Vipul
Jain Irrigation Systems	JAIR.BO	Rs	799.25	EW	India Multi-Industry	Attractive	Shah, Nillai
Hindalco Industries	HALC.BO	Rs	146.20	UW	India Nonferrous Metals & Mining	In-Line	Prasad, Vipul
National Aluminium	NALU.BO	Rs	391.95	UW	India Nonferrous Metals & Mining	In-Line	Prasad, Vipul
Sesa Goa	SESA.BO	Rs	382.35	EW	India Nonferrous Metals & Mining	In-Line	Prasad, Vipul
Sterlite Industries (India) Limited	STRL.BO	Rs	862.90	OW	India Nonferrous Metals & Mining	In-Line	Prasad, Vipul
Aban Offshore Ltd	ABAN.BO	Rs	1,258.05	OW	India Oil & Gas	In-Line	Maheshwari, Mayank
Bharat Petroleum Corp.	BPCL.BO	Rs	636.85	OW	India Oil & Gas	In-Line	Jaising, Vinay
Cairn India Ltd.	CAIL.BO	Rs	276.00	OW	India Oil & Gas	In-Line	Jaising, Vinay
GAIL (India)	GAIL.BO	Rs	419.35	OW	India Oil & Gas	In-Line	Jaising, Vinay
Hindustan Petroleum	HPCL.BO	Rs	403.45	OW	India Oil & Gas	In-Line	Jaising, Vinay
Indian Oil Corp	IOC.BO	Rs	318.00	OW	India Oil & Gas	In-Line	Jaising, Vinay
Oil & Natural Gas Corp.	ONGC.BO	Rs	1,178.55	EW	India Oil & Gas	In-Line	Jaising, Vinay
Reliance Industries	RELI.BO	Rs	1,080.25	OW	India Oil & Gas	In-Line	Jaising, Vinay
Aventis (India)	AVPH.BO	Rs	1,520.60	OW	India Pharmaceuticals	In-Line	Baisiwala, Sameer
Biocon Ltd	BION.BO	Rs	288.40	UW	India Pharmaceuticals	In-Line	Baisiwala, Sameer
Cipla Ltd.	CIPL.BO	Rs	347.85	OW	India Pharmaceuticals	In-Line	Baisiwala, Sameer
Dr. Reddy's Lab	REDY.BO	Rs	1,098.85	OW	India Pharmaceuticals	In-Line	Baisiwala, Sameer
Dr. Reddy's Lab	RDY.N	US$	23.39	NAV	India Pharmaceuticals	In-Line	Baisiwala, Sameer
GlaxoSmithKline Pharma	GLAX.BO	Rs	1,667.10	OW	India Pharmaceuticals	In-Line	Baisiwala, Sameer
Lupin Ltd.	LUPN.BO	Rs	1,412.85	OW	India Pharmaceuticals	In-Line	Baisiwala, Sameer
Ranbaxy Laboratories	RANB.BO	Rs	505.45	OW	India Pharmaceuticals	In-Line	Baisiwala, Sameer
Sun Pharmaceutical Industries	SUN.BO	Rs	1,466.95	EW	India Pharmaceuticals	In-Line	Baisiwala, Sameer
DLF Limited	DLF.BO	Rs	382.60	EW	India Property	In-Line	Baisiwala, Sameer
Parsvnath Developers Limited	PARV.BO	Rs	115.95	UW	India Property	In-Line	Baisiwala, Sameer
Sobha Developers Ltd.	SOBH.BO	Rs	230.80	NAV	India Property	In-Line	Baisiwala, Sameer
Unitech Corporate Parks Plc	UCP.L	£	23.75	OW	India Property	In-Line	Baisiwala, Sameer
Unitech Limited	UNTE.BO	Rs	91.05	OW	India Property	In-Line	Baisiwala, Sameer
Pantaloon Retail	PART.BO	Rs	354.45	OW	India Retail	In-Line	Topiwalla, Hozefa
Titan Industries Ltd	TITN.BO	Rs	1,358.35	OW	India Retail	In-Line	Topiwalla, Hozefa
Great Eastern Shipping	GESC.BO	Rs	275.05	EW	India Shipping	Cautious	Gupta, Parag
Shipping Corporation of India	SCI.BO	Rs	146.60	UW	India Shipping	Cautious	Gupta, Parag
Genpact Limited	G.N	US$	13.27	EW	India Software	Cautious	Khare, Vipin
HCL Technologies	HCLT.BO	Rs	348.90	OW	India Software	Cautious	Khare, Vipin
Hexaware Technologies Limited	HEXT.BO	Rs	95.75	OW	India Software	Cautious	Khare, Vipin
Infosys Technologies	INFY.BO	Rs	2,440.10	UW	India Software	Cautious	Khare, Vipin

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MindTree Ltd.	MINT.BO	Rs	675.00	OW	India Software	Cautious	Khare, Vipin
MphasiS Limited	MBFL.BO	Rs	699.70	UW	India Software	Cautious	Khare, Vipin
Patni Computer Systems	PTNI.BO	Rs	464.35	UW	India Software	Cautious	Khare, Vipin
Tata Consultancy Services	TCS.BO	Rs	698.40	EW	India Software	Cautious	Khare, Vipin
Tech Mahindra Limited	TEML.BO	Rs	989.45	UW	India Software	Cautious	Khare, Vipin
Wipro Ltd.	WIPR.BO	Rs	647.60	EW	India Software	Cautious	Khare, Vipin
WNS Global Services	WNS.N	US$	15.00	EW	India Software	Cautious	Khare, Vipin
Jindal Steel & Power	JNSP.BO	Rs	725.30	EW	India Steel	In-Line	Prasad, Vipul
JSW Steel Ltd.	JSTL.BO	Rs	1,011.80	OW	India Steel	In-Line	Prasad, Vipul
Steel Authority Of India	SAIL.BO	Rs	208.75	EW	India Steel	In-Line	Prasad, Vipul
Tata Steel	TISC.BO	Rs	568.55	OW	India Steel	In-Line	Prasad, Vipul
Bajaj Hindustan	BJHN.BO	Rs	209.45	++	India Sugar	Attractive	Shah, Nillai
Balrampur Chini Mills	BACH.BO	Rs	138.95	OW	India Sugar	Attractive	Shah, Nillai
Shree Renuka Sugars Limited	SRES.BO	Rs	225.00	OW	India Sugar	Attractive	Shah, Nillai
Bharti Airtel Limited	BRTI.BO	Rs	329.20	OW	India Telecommunications	In-Line	Jaising, Vinay
Idea Cellular Ltd.	IDEA.BO	Rs	55.60	UW	India Telecommunications	In-Line	Jaising, Vinay
Mahanagar Telephone Nigam	MTNL.BO	Rs	75.00	EW	India Telecommunications	In-Line	Jaising, Vinay
Reliance Communications Ltd.	RLCM.BO	Rs	179.85	EW	India Telecommunications	In-Line	Jaising, Vinay
Tata Communications Ltd	TATA.BO	Rs	358.15	UW	India Telecommunications	In-Line	Jaising, Vinay
Hero Honda Motor Ltd	HROH.BO	Rs	1,671.80	UW	India Two-Wheelers	In-Line	Singh, Binay
TVS Motors	TVSM.BO	Rs	58.60	EW	India Two-Wheelers	In-Line	Singh, Binay
LANCO Infratech Ltd	LAIN.BO	Rs	585.15	EW	India Utilities	In-Line	Gupta, Parag
NTPC	NTPC.BO	Rs	210.05	EW	India Utilities	In-Line	Gupta, Parag
Reliance Infrastructure Limited	RLIN.BO	Rs	1,071.35	OW	India Utilities	In-Line	Gupta, Parag
Tata Power Co	TTPW.BO	Rs	1,379.10	EW	India Utilities	In-Line	Gupta, Parag
Astra Agro Lestari	AALI.JK	Rp	23,850	OW	Indonesia Agricultural Products	Attractive	Koh, Miang Chuen
Golden Agri-Resources	GAGR.SI	S$	0.49	OW	Indonesia Agricultural Products	Attractive	Koh, Miang Chuen
Indofood Agri-Resources Limited	IFAR.SI	S$	2.10	OW	Indonesia Agricultural Products	Attractive	Koh, Miang Chuen
PT Bank Central Asia	BBCA.JK	Rp	4,725	EW	Indonesia Banks	Attractive	Lum, Roger
PT Bank Danamon Indonesia	BDMN.JK	Rp	4,400	OW	Indonesia Banks	Attractive	Lum, Roger
PT Bank Mandiri	BMRI.JK	Rp	4,600	OW	Indonesia Banks	Attractive	Lum, Roger
PT Bank Rakyat Indonesia	BBRI.JK	Rp	7,900	OW	Indonesia Banks	Attractive	Lum, Roger
PT Indocement Tunggal Prakarsa	INTP.JK	Rp	12,500	OW	Indonesia Cement	Attractive	Chong, Mean Phil
PT Semen Gresik	SMGR.JK	Rp	7,150	OW	Indonesia Cement	Attractive	Chong, Mean Phil
Bumi Resources	BUMI.JK	Rp	2,475	UW	Indonesia Coal	Attractive	Tan, Wee-Kiat
PT Adaro Energy Tbk.	ADRO.JK	Rp	1,700	EW	Indonesia Coal	Attractive	Tan, Wee-Kiat
PT Indo Tambangraya Megah Tbk	ITMG.JK	Rp	28,900	OW	Indonesia Coal	Attractive	Tan, Wee-Kiat
PT Tambang Batubara Bukit Asam	PTBA.JK	Rp	17,500	EW	Indonesia Coal	Attractive	Tan, Wee-Kiat
Indofood Sukses Makmur	INDF.JK	Rp	3,375	OW	Indonesia Consumer	In-Line	Gangahar, Divya
Unilever Indonesia	UNVR.JK	Rp	11,300	UW	Indonesia Consumer	In-Line	Gangahar, Divya
PT Perusahaan Gas Negara (Persero) Tbk	PGAS.JK	Rp	3,950	OW	Indonesia Gas Distribution	Attractive	Lam, Joseph
Aneka Tambang	ANTM.JK	Rp	2,275	EW	Indonesia Nickel	In-Line	Chong, Mean Phil
International Nickel Indonesia	INCO.JK	Rp	3,700	OW	Indonesia Nickel	In-Line	Chong, Mean Phil
Bakrie Telecom	BTEL.JK	Rp	140	EW	Indonesia Telecommunications	Attractive	Killa, Navin
PT Indosat	ISAT.JK	Rp	4,850	OW	Indonesia Telecommunications	Attractive	Killa, Navin
PT Telekomunikasi	TLKM.JK	Rp	9,400	OW	Indonesia Telecommunications	Attractive	Killa, Navin
Galaxy Entertainment	0027.HK	HK$	3.45	OW	Macau Gaming & Property	Attractive	Choudhary, Praveen
Melco Crown Entertainment Ltd	MPEL.O	US$	4.08	OW	Macau Gaming & Property	Attractive	Choudhary, Praveen
Melco International	0200.HK	HK$	4.01	EW	Macau Gaming & Property	Attractive	Choudhary, Praveen
Shun Tak	0242.HK	HK$	4.92	EW	Macau Gaming & Property	Attractive	Choudhary, Praveen
SJM Holdings	0880.HK	HK$	4.26	OW	Macau Gaming & Property	Attractive	Choudhary, Praveen
Wynn Macau, Limited	1128.HK	HK$	10.30	OW	Macau Gaming & Property	Attractive	Choudhary, Praveen
IOI Corporation	IOIB.KL	RM	5.42	UW	Malaysia Agricultural Products	In-Line	Werner, Conrad
Kuala Lumpur Kepong	KLKK.KL	RM	15.74	OW	Malaysia Agricultural Products	In-Line	Werner, Conrad
Sime Darby	SIME.KL	RM	8.94	UW	Malaysia Agricultural Products	In-Line	Werner, Conrad
Air Asia	AIRA.KL	RM	1.30	EW	Malaysia Airlines	In-Line	Lim, Chin
Malaysia Airlines	MASM.KL	RM	3.02	EW	Malaysia Airlines	In-Line	Lim, Chin
CIMB Group	CIMB.KL	RM	12.86	EW	Malaysia Financial Services	In-Line	Lum, Roger
Hong Leong Bank	HLBB.KL	RM	8.00	UW	Malaysia Financial Services	In-Line	Lum, Roger
Maybank	MBBM.KL	RM	6.78	UW	Malaysia Financial Services	In-Line	Lum, Roger
Public Bank	PUBMe.KL	RM	10.92	OW	Malaysia Financial Services	In-Line	Lum, Roger
Axiata Group Berhad	AXIA.KL	RM	3.03	OW	Malaysia Telecommunications	In-Line	Killa, Navin
DiGi.com	DSOM.KL	RM	21.20	UW	Malaysia Telecommunications	In-Line	Killa, Navin
Telekom Malaysia	TLMM.KL	RM	3.00	EW	Malaysia Telecommunications	In-Line	Killa, Navin
MISC Berhad	MISC.KL	RM	8.90	EW	Malaysia Transportation	In-Line	Loh, Sophie
Petronas Gas Berhad	PGAS.KL	RM	9.72	EW	Malaysia Utilities	In-Line	Lee, Simon
Tenaga Nasional Bhd	TENA.KL	RM	8.37	EW	Malaysia Utilities	In-Line	Lam, Joseph
MCB Bank Ltd	MCB.KA	PKR	203.00	++	Pakistan Banks	Attractive	Wilson, Matthew
United Bank Limited	UBL.KA	PKR	54.00	OW	Pakistan Banks	Attractive	Wilson, Matthew
Banco De Oro	BDO.PS	PP	38.00	EW	Philippines Banks	Attractive	Wilson, Matthew
Bank of the Philippine Islands	BPI.PS	PP	47.00	OW	Philippines Banks	Attractive	Wilson, Matthew
Metropolitan Bank & Trust Company	MBT.PS	PP	44.00	OW	Philippines Banks	Attractive	Wilson, Matthew
Globe Telecom	GLO.PS	PP	905.00	EW	Philippines Telecommunications	Attractive	Killa, Navin
Pilipino Telephone Corp.	PLTL.PS	PP	7.40	EW	Philippines Telecommunications	Attractive	Killa, Navin
PLDT	TEL.PS	PP	2,620.00	OW	Philippines Telecommunications	Attractive	Killa, Navin
Asiana Airlines	020560.KS	W	4,040	EW	S. Korea Airlines	In-Line	Lim, Chin
Korean Air	003490.KS	W	53,300	EW	S. Korea Airlines	In-Line	Lim, Chin
Halla Climate Control	018880.KS	W	13,600	OW	S. Korea Autos & Auto Parts	Attractive	Lee, Hyunjae
Hankook Tire	000240.KS	W	24,250	EW	S. Korea Autos & Auto Parts	Attractive	Lee, Hyunjae
Hyundai Mobis	012330.KS	W	159,000	OW	S. Korea Autos & Auto Parts	Attractive	Park, Sangkyoo

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Hyundai Motor Co.	005380.KS	W	105,000	OW	S. Korea Autos & Auto Parts	Attractive	Park, Sangkyoo
Kia Motors	000270.KS	W	17,800	OW	S. Korea Autos & Auto Parts	Attractive	Park, Sangkyoo
Kumho Tire	073240.KS	W	5,000	UW	S. Korea Autos & Auto Parts	Attractive	Lee, Hyunjae
Cheil Industries Inc	001300.KS	W	52,000	OW	S. Korea Chemicals	Cautious	Hwang, Harrison
Hanwha Chemical	009830.KS	W	13,250	UW	S. Korea Chemicals	Cautious	Hwang, Harrison
Honam Petrochemical	011170.KS	W	104,000	UW	S. Korea Chemicals	Cautious	Hwang, Harrison
LG Chem	051910.KS	W	227,000	OW	S. Korea Chemicals	Cautious	Hwang, Harrison
Doosan Heavy Industries & Construction	034020.KS	W	61,200	++	S. Korea Clean Tech	In-Line	Lim, Sung Hee
Hyunjin Materials	053660.KQ	W	24,600	OW	S. Korea Clean Tech	In-Line	Lim, Sung Hee
KCC Corporation	002380.KS	W	355,000	EW	S. Korea Clean Tech	In-Line	Lim, Sung Hee
OCI Company Ltd.	010060.KS	W	219,000	OW	S. Korea Clean Tech	In-Line	Lim, Sung Hee
Pyeong San	089480.KQ	W	29,400	EW	S. Korea Clean Tech	In-Line	Lim, Sung Hee
Taewoong	044490.KQ	W	78,200	OW	S. Korea Clean Tech	In-Line	Lim, Sung Hee
Woongjin Coway	021240.KS	W	36,700	OW	S. Korea Clean Tech	In-Line	Lim, Sung Hee
CJ Cheil Jedang Corp	097950.KS	W	225,000	OW	S. Korea Consumer	In-Line	Kim, Kelly
Hite Brewery	103150.KS	W	161,500	OW	S. Korea Consumer	In-Line	Kim, Kelly
Hite Holdings	000140.KS	W	27,800	EW	S. Korea Consumer	In-Line	Kim, Kelly
Jinro	000080.KS	W	41,100	OW	S. Korea Consumer	In-Line	Kim, Kelly
KT&G	033780.KS	W	68,400	OW	S. Korea Consumer	In-Line	Kim, Kelly
Nong Shim	004370.KS	W	240,000	EW	S. Korea Consumer	In-Line	Kim, Kelly
Orion Corp	001800.KS	W	281,500	OW	S. Korea Consumer	In-Line	Kim, Kelly
Busan Bank	005280.KS	W	13,600	OW	S. Korea Financial Services	Attractive	Seok, Joon
Daegu Bank	005270.KS	W	17,650	EW	S. Korea Financial Services	Attractive	Seok, Joon
Hana Financial Group	086790.KS	W	36,000	EW	S. Korea Financial Services	Attractive	Seok, Joon
Industrial Bank of Korea	024110.KS	W	14,000	OW	S. Korea Financial Services	Attractive	Seok, Joon
KB Financial Group	105560.KS	W	61,000	OW	S. Korea Financial Services	Attractive	Seok, Joon
Korea Exchange Bank	004940.KS	W	14,550	OW	S. Korea Financial Services	Attractive	Seok, Joon
Shinhan Financial Group	055550.KS	W	46,250	OW	S. Korea Financial Services	Attractive	Seok, Joon
Woori Finance Holdings	053000.KS	W	15,300	EW	S. Korea Financial Services	Attractive	Seok, Joon
LG Display	034220.KS	W	34,650	OW	S. Korea Hardware Components	In-Line	Han, Keon
LG Electronics	066570.KS	W	116,500	OW	S. Korea Hardware Components	In-Line	Han, Keon
Samsung Electro-Mechanics	009150.KS	W	98,000	OW	S. Korea Hardware Components	In-Line	Shin, Young Suk
Samsung SDI	006400.KS	W	141,500	OW	S. Korea Hardware Components	In-Line	Shin, Young Suk
Samsung Techwin	012450.KS	W	95,700	OW	S. Korea Hardware Components	In-Line	Shin, Young Suk
Amorepacific	090430.KS	W	874,000	OW	S. Korea Household & Personal Products	Attractive	Kim, Kelly
LG Household & Health Care	051900.KS	W	296,000	EW	S. Korea Household & Personal Products	Attractive	Kim, Kelly
Macquarie Korea Infrastructure Fund	088980.KS	W	5,080	EW	S. Korea Infrastructure	In-Line	Wensley, Philip
Dongbu Insurance	005830.KS	W	34,600	OW	S. Korea Insurance	Attractive	Lee, Sara
Hyundai Marine & Fire	001450.KS	W	20,300	EW	S. Korea Insurance	Attractive	Lee, Sara
LIG Insurance	002550.KS	W	22,350	OW	S. Korea Insurance	Attractive	Lee, Sara
Meritz Fire & Marine	000060.KS	W	7,310	EW	S. Korea Insurance	Attractive	Lee, Sara
Samsung Fire & Marine	000810.KS	W	210,000	OW	S. Korea Insurance	Attractive	Lee, Sara
Tong Yang Life	082640.KS	W	14,450	OW	S. Korea Insurance	Attractive	Lee, Sara
Daum Communications Corp.	035720.KQ	W	64,500	OW	S. Korea Internet Services	In-Line	Lee, HyunTaek
NCsoft	036570.KS	W	156,000	UW	S. Korea Internet Services	In-Line	Lee, HyunTaek
NHN Corp	035420.KS	W	199,500	OW	S. Korea Internet Services	In-Line	Lee, HyunTaek
Daewoo International	047050.KS	W	32,600	OW	S. Korea Multi-Industry	In-Line	Hwang, Harrison
Korea Zinc	010130.KS	W	211,500	OW	S. Korea Nonferrous Metals & Mining	In-Line	Park, Sangkyoo
GS Holdings	078930.KS	W	31,950	++	S. Korea Oil & Gas	In-Line	Hwang, Harrison
SK Energy	096770.KS	W	109,000	OW	S. Korea Oil & Gas	In-Line	Hwang, Harrison
SK Holdings	003600.KS	W	86,100	OW	S. Korea Oil & Gas	In-Line	Hwang, Harrison
S-Oil	010950.KS	W	55,800	EW	S. Korea Oil & Gas	In-Line	Hwang, Harrison
Hyundai Department Store	069960.KS	W	121,000	OW	S. Korea Retail	In-Line	Kim, Kelly
Lotte Shopping	023530.KS	W	360,000	EW	S. Korea Retail	In-Line	Kim, Kelly
Shinsegae	004170.KS	W	557,000	OW	S. Korea Retail	In-Line	Kim, Kelly
Hynix Semiconductor	000660.KS	W	20,100	EW	S. Korea Semiconductors	Attractive	Han, Keon
Samsung Electronics	005930.KS	W	772,000	OW	S. Korea Semiconductors	Attractive	Han, Keon
Daewoo Shipbuilding & Marine Engineering	042660.KS	W	15,950	EW	S. Korea Shipbuilding	In-Line	Park, Sangkyoo
Hyundai Heavy Industries Co. Ltd.	009540.KS	W	161,500	EW	S. Korea Shipbuilding	In-Line	Park, Sangkyoo
Hyundai Mipo Dockyard	010620.KS	W	86,700	OW	S. Korea Shipbuilding	In-Line	Park, Sangkyoo
Samsung Heavy Industries Co., Ltd.	010140.KS	W	24,500	EW	S. Korea Shipbuilding	In-Line	Park, Sangkyoo
Dongkuk Steel Mill	001230.KS	W	25,300	UW	S. Korea Steel	In-Line	Lee, Hyunjae
Hyundai HYSCO	010520.KS	W	14,150	EW	S. Korea Steel	In-Line	Lee, Hyunjae
Hyundai Steel	004020.KS	W	76,900	OW	S. Korea Steel	In-Line	Lee, Hyunjae
POSCO	005490.KS	W	567,000	OW	S. Korea Steel	In-Line	Spencer, Charles
KT Corp	030200.KS	W	38,750	OW	S. Korea Telecommunications	Attractive	Lee, HyunTaek
LG Telecom	032640.KS	W	8,240	++	S. Korea Telecommunications	Attractive	Lee, HyunTaek
SK Telecom	017670.KS	W	173,500	OW	S. Korea Telecommunications	Attractive	Lee, HyunTaek
Kogas	036460.KS	W	47,950	UW	S. Korea Utilities	In-Line	Hwang, Harrison
Korea Electric Power	015760.KS	W	32,350	EW	S. Korea Utilities	In-Line	Lee, Simon
Singapore Airlines	SIAL.SI	S$	13.70	OW	Singapore Airlines	In-Line	Lim, Chin
DBS Group Holdings	DBSM.SI	S$	14.86	UW	Singapore Financial Services	In-Line	Wilson, Matthew
OCBC	OCBC.SI	S$	8.52	UW	Singapore Financial Services	In-Line	Wilson, Matthew
Singapore Exchange Ltd	SGXL.SI	S$	7.96	OW	Singapore Financial Services	In-Line	Horton, Samantha
UOB	UOBH.SI	S$	19.70	OW	Singapore Financial Services	In-Line	Wilson, Matthew
Chartered Semiconductor	CSMF.SI	S$	2.66	++	Singapore Foundry	Cautious	Lu, Bill
Chartered Semiconductor	CHRT.O	US$	18.96	++	Singapore Foundry	Cautious	Lu, Bill
Cosco Corporation	COSC.SI	S$	1.08	UW	Singapore Industrials	In-Line	Werner, Conrad
Keppel Corporation	KPLM.SI	S$	8.49	EW	Singapore Industrials	In-Line	Werner, Conrad
SembCorp Industries	SCIL.SI	S$	3.70	OW	Singapore Industrials	In-Line	Werner, Conrad

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AP Coverage Universe

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SembCorp Marine	SCMN.SI	S$	3.56	UW	Singapore Industrials	In-Line	Werner, Conrad
ST Engineering	STEG.SI	S$	3.14	UW	Singapore Industrials	In-Line	Werner, Conrad
CitySpring	CITY.SI	S$	0.58	OW	Singapore Infrastructure	Attractive	Ling, Xin Jin
Allgreen Properties Ltd.	AGRN.SI	S$	1.15	OW	Singapore Property Developers	Attractive	Bon, Melissa
CapitaLand	CATL.SI	S$	4.17	EW	Singapore Property Developers	Attractive	Bon, Melissa
City Developments	CTDM.SI	S$	10.78	UW	Singapore Property Developers	Attractive	Bon, Melissa
Keppel Land	KLAN.SI	S$	3.21	OW	Singapore Property Developers	Attractive	Bon, Melissa
Wheelock Properties (Singapore) Ltd	WPSL.SI	S$	1.90	OW	Singapore Property Developers	Attractive	Bon, Melissa
Wing Tai Holdings Limited	WTHS.SI	S$	1.78	EW	Singapore Property Developers	Attractive	Bon, Melissa
Ascendas Real Estate Investment Trust	AEMN.SI	S$	1.91	EW	Singapore REITs	Attractive	Wee, Brian
Ascott Residence Trust	ASRT.SI	S$	1.15	EW	Singapore REITs	Attractive	Wee, Brian
CapitaCommercial Trust	CACT.SI	S$	1.18	OW	Singapore REITs	Attractive	Wee, Brian
CapitaMall Trust	CMLT.SI	S$	1.74	OW	Singapore REITs	Attractive	Wee, Brian
CDL Hospitality Trust	CDLT.SI	S$	1.67	EW	Singapore REITs	Attractive	Wee, Brian
Suntec REIT	SUNT.SI	S$	1.29	OW	Singapore REITs	Attractive	Wee, Brian
Mobile One Ltd.	MONE.SI	S$	1.84	OW	Singapore Telecommunications	In-Line	Killa, Navin
Singapore Telecom	STEL.SI	S$	2.99	OW	Singapore Telecommunications	In-Line	Killa, Navin
Singapore Telecom	SGT.AX	A$	2.36	EW	Singapore Telecommunications	In-Line	Killa, Navin
StarHub	STAR.SI	S$	2.03	OW	Singapore Telecommunications	In-Line	Killa, Navin
Neptune Orient Lines	NEPS.SI	S$	1.54	EW	Singapore Transportation	In-Line	Loh, Sophie
Singapore Post	SPOS.SI	S$	0.99	EW	Singapore Transportation	In-Line	Loh, Sophie
STX Pan Ocean	STXPx.SI	S$	13.62	EW	Singapore Transportation	In-Line	Loh, Sophie
STX Pan Ocean	028670.KS	W	11,650	NAV	Singapore Transportation	In-Line	Loh, Sophie
China Airlines	2610.TW	NT$	10.35	EW	Taiwan Airlines	In-Line	Lim, Chin
EVA Airways	2618.TW	NT$	13.15	OW	Taiwan Airlines	In-Line	Lim, Chin
Cheng Shin Rubber	2105.TW	NT$	72.20	OW	Taiwan Autos & Auto Parts	In-Line	Chen, Jeremy
Asia Cement	1102.TW	NT$	33.90	EW	Taiwan Cement	In-Line	Chen, Jeremy
Taiwan Cement	1101.TW	NT$	33.85	EW	Taiwan Cement	In-Line	Chen, Jeremy
Formosa Chemicals & Fibre Corporation	1326.TW	NT$	67.80	EW	Taiwan Chemicals	In-Line	Chen, Jeremy
Formosa Petrochemical Corp.	6505.TW	NT$	82.10	UW	Taiwan Chemicals	In-Line	Chen, Jeremy
Formosa Plastics Corporation	1301.TW	NT$	66.20	OW	Taiwan Chemicals	In-Line	Chen, Jeremy
Nan Ya Plastics	1303.TW	NT$	56.30	EW	Taiwan Chemicals	In-Line	Chen, Jeremy
Far Eastern Department Store	2903.TW	NT$	34.55	EW	Taiwan Consumer	Cautious	Chen, Jeremy
President Chain Store	2912.TW	NT$	75.80	EW	Taiwan Consumer	Cautious	Moh, Angela
Inotera Memories, Inc.	3474.TW	NT$	21.55	OW	Taiwan DRAM	In-Line	Wang, Frank A.Y.
Nanya Technology Corp.	2408.TW	NT$	25.55	EW	Taiwan DRAM	In-Line	Wang, Frank A.Y.
Powerchip	5346.TWO	NT$	3.63	UW	Taiwan DRAM	In-Line	Wang, Frank A.Y.
Transcend Information	2451.TW	NT$	104.50	EW	Taiwan DRAM	In-Line	Su, Jerry
Winbond Electronics	2344.TW	NT$	6.71	OW	Taiwan DRAM	In-Line	Wang, Frank A.Y.
Cathay Financial Holdings	2882.TW	NT$	58.40	OW	Taiwan Financial Services	In-Line	Choi, Lily
Chang Hwa Bank	2801.TW	NT$	15.20	EW	Taiwan Financial Services	In-Line	Choi, Lily
Chinatrust Financial Holding	2891.TW	NT$	19.75	EW	Taiwan Financial Services	In-Line	Choi, Lily
E.Sun Financial	2884.TW	NT$	13.35	EW	Taiwan Financial Services	In-Line	Chou, Bruce
First Financial	2892.TW	NT$	19.15	EW	Taiwan Financial Services	In-Line	Chou, Bruce
Fubon Financial Holdings	2881.TW	NT$	37.55	EW	Taiwan Financial Services	In-Line	Choi, Lily
Mega Holdings	2886.TW	NT$	18.45	EW	Taiwan Financial Services	In-Line	Choi, Lily
Shin Kong FHC	2888.TW	NT$	13.20	EW	Taiwan Financial Services	In-Line	Choi, Lily
SinoPac Holdings	2890.TW	NT$	12.25	EW	Taiwan Financial Services	In-Line	Chou, Bruce
Taishin Financial Holdings	2887.TW	NT$	12.25	++	Taiwan Financial Services	In-Line	Chou, Bruce
Yuanta Financial Holding Company	2885.TW	NT$	22.00	EW	Taiwan Financial Services	In-Line	Choi, Lily
TSMC	2330.TW	NT$	62.40	EW	Taiwan Foundry	In-Line	Lu, Bill
TSMC	TSM.N	US$	10.84	NAV	Taiwan Foundry	In-Line	Lu, Bill
UMC	2303.TW	NT$	16.35	EW	Taiwan Foundry	In-Line	Lu, Bill
UMC	UMC.N	US$	3.51	NAV	Taiwan Foundry	In-Line	Lu, Bill
Taiwan Glass Corp.	1802.TW	NT$	25.75	OW	Taiwan Glass	In-Line	Chen, Jeremy
Acer Inc.	2353.TW	NT$	84.80	OW	Taiwan Hardware Technology	In-Line	Chen, Grace
Asustek Computer Inc.	2357.TW	NT$	64.00	EW	Taiwan Hardware Technology	In-Line	Chen, Grace
Catcher Technology	2474.TW	NT$	86.80	EW	Taiwan Hardware Technology	In-Line	Shih, Sharon
Cheng Uei Precision	2392.TW	NT$	67.70	EW	Taiwan Hardware Technology	In-Line	Shih, Sharon
Compal Communications	8078.TW	NT$	45.15	UW	Taiwan Hardware Technology	In-Line	Shih, Sharon
Compal Electronics	2324.TW	NT$	43.05	EW	Taiwan Hardware Technology	In-Line	Chen, Grace
Delta Electronics Inc.	2308.TW	NT$	90.00	OW	Taiwan Hardware Technology	In-Line	Chen, Grace
D-Link Corporation	2332.TW	NT$	32.25	EW	Taiwan Hardware Technology	In-Line	Shih, Sharon
Epistar	2448.TW	NT$	106.00	UW	Taiwan Hardware Technology	In-Line	Shih, Sharon
Everlight Electronics Co., Ltd.	2393.TW	NT$	105.50	UW	Taiwan Hardware Technology	In-Line	Shih, Sharon
Foxconn Technology	2354.TW	NT$	114.00	OW	Taiwan Hardware Technology	In-Line	Shih, Sharon
Gemtek Technology	4906.TW	NT$	56.00	EW	Taiwan Hardware Technology	In-Line	Shih, Sharon
Hon Hai Precision	2317.TW	NT$	139.50	OW	Taiwan Hardware Technology	In-Line	Lu, Jasmine
HTC Corporation	2498.TW	NT$	347.50	OW	Taiwan Hardware Technology	In-Line	Lu, Jasmine
Kinsus Interconnect Tech.	3189.TW	NT$	81.20	OW	Taiwan Hardware Technology	In-Line	Shih, Sharon
Largan Precision	3008.TW	NT$	425.00	EW	Taiwan Hardware Technology	In-Line	Lu, Jasmine
Merry Electronics	2439.TW	NT$	55.30	UW	Taiwan Hardware Technology	In-Line	Shih, Sharon
Nan Ya PCB	8046.TW	NT$	110.00	EW	Taiwan Hardware Technology	In-Line	Shih, Sharon
Paragon Tech.	3518.TW	NT$	91.10	OW	Taiwan Hardware Technology	In-Line	Chen, Grace
Quanta Computer Inc.	2382.TW	NT$	68.00	OW	Taiwan Hardware Technology	In-Line	Chen, Grace
Silitech Technology	3311.TW	NT$	105.00	EW	Taiwan Hardware Technology	In-Line	Shih, Sharon
Tripod Technology	3044.TW	NT$	85.60	EW	Taiwan Hardware Technology	In-Line	Shih, Sharon
Unimicron	3037.TW	NT$	39.65	OW	Taiwan Hardware Technology	In-Line	Shih, Sharon
Wistron Corporation	3231.TW	NT$	58.50	OW	Taiwan Hardware Technology	In-Line	Chen, Grace

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Faraday Technology	3035.TW	NT$	58.00	EW	Taiwan IC Design	In-Line	Chan, Charlie
Global Mixed-mode Technology	8081.TW	NT$	153.50	UW	Taiwan IC Design	In-Line	Chan, Charlie
Global Unichip Corp.	3443.TW	NT$	161.00	OW	Taiwan IC Design	In-Line	Chan, Charlie
MediaTek	2454.TW	NT$	531.00	OW	Taiwan IC Design	In-Line	Lu, Bill
Ralink Technology	3534.TW	NT$	107.00	EW	Taiwan IC Design	In-Line	Lu, Bill
Realtek Semiconductor	2379.TW	NT$	87.80	UW	Taiwan IC Design	In-Line	Lu, Bill
Richtek	6286.TW	NT$	296.50	OW	Taiwan IC Design	In-Line	Chan, Charlie
Sunplus Technology	2401.TW	NT$	30.30	UW	Taiwan IC Design	In-Line	Lu, Bill
Advanced Semi Engineering	2311.TW	NT$	27.45	EW	Taiwan IC Packaging & Testing	In-Line	Wang, Frank A.Y.
Powertech Technology	6239.TW	NT$	93.20	EW	Taiwan IC Packaging & Testing	In-Line	Wang, Frank A.Y.
Siliconware Precision	2325.TW	NT$	43.10	EW	Taiwan IC Packaging & Testing	In-Line	Wang, Frank A.Y.
Teco	1504.TW	NT$	13.75	EW	Taiwan Industrials	In-Line	Chen, Jeremy
Giant	9921.TW	NT$	89.90	OW	Taiwan Leisure Products	In-Line	Tsai, Jenny
Merida	9914.TW	NT$	52.50	EW	Taiwan Leisure Products	In-Line	Tsai, Jenny
Far Eastern New Century	1402.TW	NT$	37.95	EW	Taiwan Mid Cap	No Rating	Chen, Jeremy
Taiwan Fertilizer Co Ltd	1722.TW	NT$	105.00	OW	Taiwan Mid Cap	No Rating	Chen, Jeremy
Farglory Land Development	5522.TW	NT$	71.60	OW	Taiwan Property	In-Line	Tsai, Jenny
Huaku Development	2548.TW	NT$	82.90	OW	Taiwan Property	In-Line	Tsai, Jenny
Motech	6244.TWO	NT$	138.00	UW	Taiwan Solar Devices	In-Line	Gupta, Sunil
China Steel Corp.	2002.TW	NT$	30.45	EW	Taiwan Steel	In-Line	Spencer, Charles
Chunghwa Telecom	2412.TW	NT$	58.00	OW	Taiwan Telecommunications	Attractive	Yu, Gary
Far Eastone	4904.TW	NT$	37.45	OW	Taiwan Telecommunications	Attractive	Yu, Gary
Taiwan Mobile	3045.TW	NT$	59.50	UW	Taiwan Telecommunications	Attractive	Yu, Gary
AU Optronics	2409.TW	NT$	35.05	EW	Taiwan TFT LCD	In-Line	Wang, Frank A.Y.
Chi Mei Optoelectronics	3009.TW	NT$	21.20	OW	Taiwan TFT LCD	In-Line	Wang, Frank A.Y.
Coretronic	5371.TWO	NT$	43.15	OW	Taiwan TFT LCD	In-Line	Wang, Frank A.Y.
Himax Technology, Inc	HIMX.O	US$	2.86	EW	Taiwan TFT LCD	In-Line	Wang, Frank A.Y.
Innolux Display Corp.	3481.TW	NT$	47.10	EW	Taiwan TFT LCD	In-Line	Wang, Frank A.Y.
Novatek	3034.TW	NT$	93.20	EW	Taiwan TFT LCD	In-Line	Wang, Frank A.Y.
Radiant	6176.TW	NT$	44.20	EW	Taiwan TFT LCD	In-Line	Wang, Frank A.Y.
Young Fast Optoelectronics	3622.TW	NT$	387.00	EW	Taiwan TFT LCD	In-Line	Su, Jerry
Evergreen Marine	2603.TW	NT$	16.75	EW	Taiwan Transportation	In-Line	Loh, Sophie
Wan Hai Lines	2615.TW	NT$	15.85	OW	Taiwan Transportation	In-Line	Loh, Sophie
Yang Ming Marine	2609.TW	NT$	11.55	EW	Taiwan Transportation	In-Line	Loh, Sophie
Thai Airways Int'l	THAI.BK	Bt	18.70	OW	Thailand Airlines	In-Line	Lim, Chin
Siam Cement	SCC.BK	Bt	217.00	OW	Thailand Building Materials	In-Line	Spencer, Charles
Bangkok Bank	BBLf.BK	Bt	112.00	OW	Thailand Financial Services	Attractive	Wilson, Matthew
Kasikornbank	KBAN.BK	Bt	83.75	EW	Thailand Financial Services	Attractive	Wilson, Matthew
Krung Thai Bank	KTB.BK	Bt	9.95	EW	Thailand Financial Services	Attractive	Wilson, Matthew
Siam Comm'l Bank	SCB.BK	Bt	85.75	OW	Thailand Financial Services	Attractive	Wilson, Matthew
TMB	TMB.BK	Bt	1.13	OW	Thailand Financial Services	Attractive	Wilson, Matthew
Esso (Thailand) Plc.	ESSO.BK	Bt	6.15	UW	Thailand Oil & Gas	In-Line	Tan, Wee-Kiat
Big C Supercenter	BIGC.BK	Bt	41.00	OW	Thailand Retail	In-Line	Gangahar, Divya
C P All	CPALL.BK	Bt	21.30	OW	Thailand Retail	In-Line	Gangahar, Divya
Minor International	MINT.BK	Bt	11.20	EW	Thailand Retail	In-Line	Gangahar, Divya
Advanced Info Service	ADVA.BK	Bt	80.75	OW	Thailand Telecommunications	Attractive	Killa, Navin
Total Access Comm.	DTAC.BK	Bt	34.50	OW	Thailand Telecommunications	Attractive	Killa, Navin
Total Access Comm.	TACC.SI	US$	1.03	NAV	Thailand Telecommunications	Attractive	Killa, Navin
True Corporation	TRUE.BK	Bt	3.04	OW	Thailand Telecommunications	Attractive	Killa, Navin

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Valuation Methodology and Risks

Stock	Valuation Methodology	Risks
Bharti Airtel Limited	We value Bharti based on sum of the parts, adding our DCF value for Bharti's core business to the value derived from the tower business. Our DCF model assumes a cost of capital of 11.3% based on cost of equity of 11.4% (risk-free rate: 6%; beta: 0.9; risk premium: 6.0%), cost of debt of 11% and terminal growth of 3%.	*Upside risks:* Unlocking value in the tower business. *Downside risks:* 1) Higher-than-expected fall in tariffs due to aggressive pricing from new operators. 2) increased competition from regional operators; 3) CDMA operators resume major handset subsidies; and 4) regulatory uncertainty regarding spectrum and termination charges.
Cathay Financial Holdings	We derive our price target from a sum-of-the-parts valuation. We value the life insurance business based on its appraisal value, assuming an average investment return of 4.2%. We value the bank business based on a residual income (RI) model. Our RI model for Cathay United Bank assumes a cost of equity of 8.5%, based on a beta of 1.0x, a market risk premium of 5.5%, and a risk-free rate of 3.0%; and a long-term growth rate of 3.0%.	*Upside risks:* 1) Stronger-than-expected equity market; 2) rapid rate rises triggered either by stronger macro recovery or inflation concern; 3) better-than-expected preferential treatment for Taiwan banks to operate in China, resulting in a stronger-than-expected earnings contribution from the potential China operation. *Downside risks:* 1) Deteriorating asset quality of US sub-prime mortgages could trigger more impairment losses against Cathay's CDO portfolio; 2) a falling equity market could again hamper Cathay's capital position; 3) a return to a sustained low interest-rate environment could result in negative spreads; and 4) strong NT$, resulting in large currency losses, as foreign positions are not fully hedged.
China COSCO	Based on a sum-of-the-parts (SOTP) methodology: a. China COSCO's 51% stake in COSCO Pacific based on our price target of HK$11.10 for COSCO Pacific (also SOTP, probability weighted 90% base, 5% for both bull and bear; DCF valuation for ports and assumes disposal of Cosco Logistics) b. Mid-cycle 20010E P/BV of 1.0x for the container shipping business c. 2010E P/E of 10x for the 51% stake in COSCO logistics 2010E P/NAV of 1.0x to owned dry bulk ships and 2010E 5.0x EBITDA to chartered-in ships.	*Upside risks:* • Increased bankruptcies benefiting China COSCO, which is well positioned to ride out the downturn. • Second-hand ship prices rally sharply from current levels, supported by higher dry bulk shipping rates and global liquidity. • Recovery in container shipping freight rates and container shipping earnings contribution. • Accretive injection of tanker assets by the parent company. *Downside risks* • Slower-than-expected recovery in commodity demand in 2010-11, reflecting a slower economic growth trajectory for emerging markets such as China and India as the government stimulus plans tapers off. • BDI collapses to 1,000 and ship values drop a further 20% to 2003 values and stay at this level for the next two-to-three years. • Sharp losses from the container shipping operations.
China Resources Cement Holdings Ltd.	Our price target is derived from our base case residual income model valuation, which discounts 10-years of earnings forecasts and is then normalized. We assume a cost of equity of 11.1% using a risk free rate of 2.1%, risk premium of 6.5% and beta of 1.2.	*Upside risks:* Catalysts include strong property sales and construction starts, and improved pricing in South China. *Downside risks:* Delay in expansion, lower cement prices due to oversupply, and a slowdown in demand in Southern China due to bank tightening.
China Southern Airlines	Our price target is based on a probability-weighted fair value factoring in bull-, bear-, and base-case scenarios, which are derived from a 10e P/B of 0.9x.	*Upside risks:* 1) Better-than-expected volumes and yields; 2) significant Rmb appreciation; and 3) more government subsidies or capital injections. *Downside risks:* 1) Rising domestic jet fuel prices with a strong rebound in the global oil price; 2) Rmb depreciation; and 3) high capex amid weak macro conditions.
Colgate	Our price target is based on residual income and probability weighted, 70% base case and 30% bear case, as we think Colgate will be the second most significantly affected by the increase in competitive pressures.	*Upside risks:* • Continuous market share gains. • Expansion of its tax haven facility, thereby limiting the increase in tax rate. • Sharp reduction in the advertising-to-sales ratio.

Stock	Valuation Methodology	Risks
Coretronic	Our target price of NT$48 is based on a forward P/E of 12x, the historical average.	*Upside risks:* 1) Macro concerns; 2) longer-than expected inventory correction; and 3) more pricing pressure from panel makers. *Downside risks:* 1) Better-than-expected LED proliferation; 2) panel prices continue to rebound; and 3) faster-than-expected economic turnaround increases consumer confidence, fueling new purchases.
China Shipping CL	Based on a sum-of-the-parts methodology: a. 2010E P/BV of 1.1x for the container shipping business, marginally above the historical one-year forward mean P/BV b. Domestic container terminals valued at cost. Although these terminals are unlikely to be profitable near term, we believe that the outlook for China ports is positive longer-term based on improving China domestic consumer demand	*Upside risks:* • Re-acceleration of US and European consumer spending growth. • Sharp rebound in freight rates. • Strong sentiment on the global macro environment. • Bankruptcy of any large container shipping company. • H-share valuations converging with A-share valuations. *Downside risks:* • Sharper and more prolonged slowdown in volumes and freight rates, on domestic China routes in particular. • Irrational pricing strategies by shipping companies focusing on market share instead of profitability. • Unsuccessful cost mitigation efforts leading to higher-than-anticipated losses in an environment of weak freight rates.
Dabur	Our price target is based on a residual income valuation and is probability weighted. Dabur is relatively less impacted by competitive pressures and hence its weight to Bear is significantly lower.	*Downside risks:* • Significant rise in cost pressures and margin expansion • Failure to gain share in shampoo and toothpastes • Large value-destroying acquisition
Dexus	Our price target is based on a detailed NAV-based-sum-of-the parts valuation.	*Upside risks:* • Non-core asset disposals • Accretive M&A opportunities • Office markets hold up better than expected • Accretive developments • Management providing greater clarity about short- and medium term strategy *Downside risks:* • Severe drop in office demand in Australia (50% of EBIT) • Significant slowdown in global industrial demand • Deterioration in credit markets putting pressure on debt refinancing • Disappointing development returns
DLF	Our price target is based on NAV. We calculate F2011E NAV at Rs356, and our base case is set at a 10% premium to this forward NAV. The NAV valuation assumes a 14% discount rate, 10% price/cost inflation in F2011 and 5% thereafter, and 9-13% cap rate. The 10% premium to NAV is due to: 1) Significant improvement in liquidity driven by DAL capitalization and the sale of non-core assets; 2) considerable reduction in and de-concentration of landbank; 3) the strong management team, and 4) investment scarcity (i.e., limited real estate plays in the Indian equity market).	*Upside risks:* 1) Quicker and sharper recovery in the physical property market; 2) a large value-accretive private equity deal; 3) early launch of lucrative projects; and 4) significant sales of assets, de-bottlenecking the balance sheet. *Downside risks:* 1) Faltering residential demand, leading to lower new sales in F2010; 2) slower progress in rental projects; 3) slow take-up of DAL's completed projects; 4) non-core asset sales fall short of Rs55bn target; and 5) a non-accretive DAL-DLF restructuring plan.

Stock	Valuation Methodology	Risks
Fairfax Media	Valuation methods include DCF, EV/EBITDA and P/E. EV/EBITDA relies on 9x target EBITDA multiple. DCF uses WACC of 9% and terminal growth rate of 3%. We have selected a 12-month price target towards the top end of range at A$2.00/share because we remain in the relatively early stage of an advertising recovery and believe as such our medium term earnings/free cash low estimates may prove conservative.	*Upside risks:* Stronger ad revenue improvements than forecast and potential M&A interest. *Downside risks:* Weaker ad revenue than forecast and significant newspaper circulation declines.
Godrej Consumer Products Limited	Our price target is RI probability weighted by assigning 70% to base, 20% to bull and 10% to bear. We assign a 10% bear weight as GCPL's soaps business is quite vulnerable to an increase in competitive activity. This business is estimated to contributed to around 25-30% of F2010 EBIT. However, GCPL could acquire the 49% outstanding stake in Godrej Sara Lee, which could be about 10% EPS accretive. Hence, we assign a 20% probability to bull for this potential value accretive acquisition, resulting in growth acceleration.	*Upside and Downside risks:* • Decline/increase in hair color growth • Further rise/fall in input cost pressures, particularly in the soaps segment • Loss/gain of market share in soaps to new players such as ITC, HUL and Nirma • Failure/success to integrate international businesses
Hindustan Unilever	Probability weighted PT by assigning 65% weight to Base and 35% weight to Bear as we think HUL will be most significantly affected by increase in competitive pressures.	*Upside risks:* • Benign input environment • Sharp recovery in volume growth • Gains in market share • Reduction in competitive activity • Successful portfolio rationalization
Hyundai Motor Co.	We use residual income valuation as the primary valuation tool for HMC. We derive HMC's value from three components: 1) core asset value, 2) investment assets, and 3) net cash. We arrive at our base-case value for HMC at end-2010 of W157,100/share. Our price target of W158,000 is based on a weighted average of our base(70%), bear (10%), and bull (20%) case valuations.	*Upside risks:* 1) Better-than-expected new model sales, 2) Korean won depreciation against the US dollar, and 3) market share gains in major auto markets. *Downside risks:* 1) Worse-than-expected new model sales, 2) more intense industry competition, contracting Hyundai's market share, and 3) Korean won appreciation against the US dollar and Japanese yen.
Hyundai Steel	We use a residual income model as our primary valuation tool for Hyundai Steel. Our residual income model uses a 14.1% cost of equity. Based on our 12-month forward intrinsic value, we apply probabilities of 60% to our base case, 10% to our bear case, and 30% to our bull case, resulting in a weighted averaged price target of W99,400.	*Upside risks:* 1) An earlier-than-expected steel cycle recovery, 2) successful funding and completion of the blast furnace, 3) a construction cycle turnaround, and 4) appreciation of the Korean won against the US dollar. *Downside risks:* 1) An extended demand downturn, 2) greater funding needed for the blast furnace, 3) increased defaults of construction companies, and 4) depreciation of the Korean won against the US dollar.
ITC Ltd.	Our price target is based on a 5% holding discount to our sum-of-the-parts valuation derived from a combination of our base-case residual income values for all its businesses, except cigarettes (derived from a 70% probability weighting of base and a 30% probability weighting to bull case).	*Upside risks:* • Benign tax environment: No ad hoc increases in excise duties/VAT by the central government • Other states do not hike State VAT on cigarettes to 20% and/or Rajasthan, Pondicherry Delhi and Maharashtra roll back the recent increase • Improvement in return on investment in non-tobacco FMCG business • Rise in dividend payouts *Downside risks:* • Imposition of ad hoc increases in excise duties/VAT by the central government and/or implementation of anti-tobacco policies that curb smoking prevalence • Increase in State VAT on cigarettes by other states • Stagnation in market share in recently entered personal care space and in biscuits/snack foods • No improvement in the return ratios for investments in non-tobacco businesses

Stock	Valuation Methodology	Risks
JB Hi-Fi Limited	Our price target is based on a one-year forward DCF-based valuation using a 9.3% WACC and 3% terminal growth.	*Upside risks:* better-than-expected LFL sales growth, faster-than-anticipated new store rollouts, upgrades to F2009 sales guidance, and higher-than-expected F2010 sales guidance. *Downside risks:* weaker-than-anticipated LFL sales growth, slower-than-expected rollout of new stores, and an acceleration in gross margin declines.
Lanco	Our price target is based on a probability weighting of 70% for base case, 20% for bull case, and 10% for bear case fair values. Our base case fair value is based on a sum-of-parts valuation. We use an FCFe model to value the power business, where we assume a cost of equity of 16.3% to arrive at a value of Rs185/share. For the construction business, we apply a 30% discount to the average P/E multiple (target multiple of 10.8x for Lanco) of other construction companies to our F2010 earnings estimate; we value this at Rs204/share.	*Upside risks:* 1) Better-than-expected margins in the construction business; 2) increase in power project portfolio; and 3) pickup in real estate demand in Hyderabad and Chennai. *Downside risks:* 1) Delays in the construction of power projects; 2) decline in margins in the construction business; 3) delay in sale/lease out of real estate projects; and 4) increase in funding costs or unavailability of credit.
Larsen & Toubro	Our price target is based on sum of parts, where 80% of the value (the core business) is based of a residual income model. The other business values (IT, Finance and Infrastructure development) are mainly based on peer benchmarking.	*Upside risks:* New infrastructure development projects won by the company, an increase in the pace of capacity build-up by the corporate sector, and a smaller/slower dip in construction business margins than our estimates. *Downside risks:* A slowdown in infrastructure spending, lack of profitability of infrastructure development projects undertaken by L&T, and a steeper-than-expected margin fall.
LG Display	We base our price target on a residual income valuation. We assume that the company records a revenue CAGR of 5% for 10 years, with its operating margin trending up to 12%. We then assume a terminal growth rate of 3%, slightly above the expected rate of long-term inflation. Our cost of equity assumption is 11%, based on a risk premium of 6.5% and a risk-free rate of 5.0%, with a beta of 0.9.	*Upside risks*: Stronger-than-anticipated panel demand or any supply chain issues, such as a glass shortage, would keep panel price declines at a much more moderate pace. *Downside risks*: Potential capacity additions by competitors could disrupt the overall supply/demand outlook.
Maanshan Iron & Steel	Our price target is derived from our base case valuation of HK$6.0. We use a residual income valuation to discount our earnings forecasts through 2017, and then normalize them thereafter. We assume a cost of equity of 10.9% and long-term RoE of 12%. We use a risk free rate of 2.1%, a risk premium of 6.5% and beta of 1.35.	*Upside risks:* Catalysts include higher steel prices and stronger demand. *Downside risks:* With 50% of its revenue from long products, Maanshan's earnings are highly dependent on volatile long prices.
Marico	We have a probability-weighted residual income price target by assigning a 90% weight to base and 10% weight to bear to incorporate a lack of clarity on the proposal to levy excise duty on CNO. We also see a rise in intensity of competition from small regional local players, which may impact shares.	*Downside risks:* • Sharp uptick in input costs or inability to pass on higher input costs to consumer. • Greater competitive activity. • Inability to improve margins in the international business. • A decline in the hair oiling trend.
Nestle	Derived from the base case intrinsic value per share from our residual income model.	*Upside risks:* • Acceleration in rural-led growth for packaged foods • Sharp decline in input costs *Downside risks:* • A slowdown in market conditions leading to slower-than-expected growth acceleration in the packaged foods space • Sharp increase in input prices leading to volume pressure • Inability to expand product offerings

Stock	Valuation Methodology	Risks
NTPC	Our price target is based on a probability weighting of 70% for base case and 30% for bull case fair values. Our base case fair value is based on a SOP valuation. We have used a residual income model to determine the value of the generation business where we assume a cost of equity of 12.05% and a terminal growth rate of 6% to arrive at a value of Rs126/share. We value total financial assets at the end of F2011 at book to produce Rs41/share.	*Upside risks:* 1) Substantial increase in capacity addition plans beyond the 20,330 MW that we are estimating; 2) higher incentives or efficiency-linked gains; and 3) better gas supply position or increased fuel security that may cause NTPC to add more capacity. *Downside risks:* 1) Slippage in capacity addition; 2) receivables risk due to further deterioration in the financial health of SEBs; 3) adverse interest rate trends in India that may increase the cost of capital; and 4) significant political intervention or change in regulations that could curtail NTPC's activities or hamper its earnings.
Ranbaxy Laboratories	We arrive at our price target of Rs549 by applying a sum-of-the parts valuation. We value base business at Rs498, by applying a P/E multiple of 17.5x (at par with sector valuations) to our 2011 EPSe of Rs28.43. We argue for par valuations for the base business due to a strong cash cycle ahead and affirmation of the company's ability to monetize its large exclusivities (such as Valtrex). We value Lipitor and Nexium opportunity at Rs51 on a discounted cash flow basis, assuming 50% probability since these are filed from Paonta.	*Downside risks:* to our price target: 1) Negative fallout from DoJ inquiry, 2) Ranbaxy is unable to salvage ANDAs for its key 'first to file' opportunities including Nexium and Lipitor, 3) base business growth disappoints, 4) operating margins remain subdued for a prolonged period of time, and 5) adverse currency movements.
Reliance Industries	Our price target is based on a sum-of-the-parts (SOTP) valuation: 1) We value the R&M business on an average one-year forward EV/EBITDA multiple of 7.5x, which is the average of its global refining peers. We value the R&M business (including Reliance Petroleum) at Rs240 per share, implying an EV/bbl/complexity for the company at US$1,014/bpd. 2) The petrochemicals business's valuation is based on an average one-year forward EV/EBITDA multiple of 6.9x. We value the Petrochemical business at Rs185 per share. 3) With the first oil production started and gas production begun at its KG basin fields, we use a P/E target multiple-based valuation for RIL's E&P business. We assign a target multiple of 15.6x to our average projected earnings of US$3.2billion (F2010-15E) for global comps, which is in line with the average global multiples for E&P companies today. We expect the E&P business to generate US$3.2 billion in profit over F2011-15, and we arrive at a fair value of US$50billion, or Rs744 per share, for RIL's E&P business. This equates to an EV/boe of US$9.3/bbl versus global comps, which trade at an EV/boe of US$14-15/boe. 5) We have not assigned an equity valuation to our SOTP for RIL's retail business, since we believe investors are interested only in businesses that are profitable or generate cash flow.	*Upside risks:* Higher than expected improvement in refining margins and petrochemical margins. *Downside risks:* • The removal of the tax holiday for the E&P business. Although Reliance's product-sharing contract entitles it to a seven-year tax holiday, the Ministry of Petroleum recently published a circular suggesting the matter is *sub judice* • The stock's historical correlation with the market of 0.85x • A Supreme Court judgment against RIL in the RIL-RNRL court case • The overhang of Reliance stock held by the company's subsidiaries is currently valued at close to US$8.2bn

Stock	Valuation Methodology	Risks
Reliance Infrastructure	Our price target tops up our base-case fair value with the investment in preference shares. Our base case fair value is based on a sum-of-parts (SOP) valuation. We use a DCF model to value the generation business, where we assume a COE of 16.1%, producing a value of Rs200/share. For the EPC business, we apply a 10% discount to the average EV/EBITDA (target multiple of 7.5x for RELI) of other construction companies to our F2010 EBITDA estimate for RELI's EPC business; we value this at Rs67/share. For the Delhi distribution business, we use an RI model and assume a 15.3% COE with terminal growth of 4%; we value this at Rs36/share. We use a DCF model to value the investment in Reliance Power, where we assume a WACC of 12.9%; we value this at Rs706/share. We value RELI's investment in Urthing Sobla on the same basis as Reliance Power; we value this at Rs5/share. For the Infrastructure business, we use an FCFe model to value metro projects and a DCF model to value road projects. Our COE assumption is 16.3% for each of the projects, while our WACC is in the 12%-15.4% range; we value this at Rs109/share. We include inter-corporate deposits at book at Rs59/share and net debt (excluding liquid assets) at Rs18/share.	*Upside risks:* 1) Increasing visibility on recoverability of liquid assets such as ICDs (balance of Rs13 bn) and investments in preference shares of Reliance Infra Projects International (Rs29bn); 2) positive news flow on execution by Reliance Power; and 3) stronger-than-expected growth in the EPC order book, driven by both internal and external power projects. *Downside risks:* 1) A significant change in regulations that could negatively affect the company's business in Mumbai and Delhi; 2) delays in execution of power projects by Reliance Power or any negative news flow on the existing project portfolio; 3) continued ambiguity on gas purchases from Reliance Industries; 4) slow growth in the EPC order book and/or compression of operating margins; 5) slowdown in capex spending or credit freeze; and 6) significant political intervention.
Samsung Electronics	We set our price target based on the average of P/B and residual income valuation. Given that the company is embarking on a multi-year growth, we apply an up-cycle P/B multiple of 2.2x. Key parameters in our residual income model include cost of equity of 11.5%, terminal growth rate of 5% and beta of 1.0.	*Upside risks:* Faster- and stronger-than-anticipated industry recovery of DRAM, NAND and TFT-LCD. *Downside risks:* Potential capacity additions by competitors could disrupt the overall supply/demand outlook.
Tata Motors	Our price target is based on sum of parts where in we value the India CV business at an historical 9x median EV/EBITDA multiple, JLR at a 5x peer EV/EBITDA multiple and non core subsidiaries at peer multiples.	*Upside risks:* Improve product mix and operating leverage results in positive surprises to our numbers. The Indian CV business recovery and the luxury car market recovery are stronger than anticipated. *Downside risks:* Rising competitive intensity and failure of the new 'XJ' results in delayed JLR recovery. The global macro environment turns adverse in the coming year.
Tata Power	Our price target gives an equal weighting to our base case and bull case fair values. Our base case fair value is based on a sum-of-parts valuation. We use a DCF model to value the Mumbai license area, where we assume COE of 13.3% and a terminal growth rate of 4%, producing a value of Rs500/share. For the Delhi distribution business, we use a residual income valuation and assume an ROE of 16% and a COE of 13.3%, producing a value of Rs28/share. We value the Powerlinks transmission business using the residual income model and assume an ROE of 15.5% and a COE of 13.3%, producing a value of Rs13/share. We value the Mundra UMPP using the residual income model and assume an ROE of 14.2% and a COE of 15.3%, producing a value of Rs123/share. Similarly, we value the Maithon power project using the residual income method, assuming an ROE of 16% and a COE of 13.3%, producing a value of Rs53/share. We value the investment in Indonesian coal assets based on our regional team's fair value for Bumi and then back out net debt, and adjust for the hedge provided by the investment (25%) and a 20% holding company discount. Lastly, for investments in group companies, we accord a 30% discount to the estimated value to arrive at a net realizable value of Rs157/share.	*Upside risks:* 1) Significant increase in generation capacity; 2) additional projects in the transmission or distribution segment; 3) upside to investment in Indonesian coal assets and other investments in group companies; 4) upside to returns from the generation projects; and 5) monetization of investments in the core business. *Downside risks:* 1) Significant changes in regulations that could impair the business in Mumbai and Delhi; 2) continued ambiguity about the company's intentions concerning the monetization of investments in group companies; 3) significant increase in capex; 4) significant downside to earnings for the Indonesian coal assets due to production delays or decline in coal pricing; and 5) political intervention in India and Indonesia.

Stock	Valuation Methodology	Risks
Tata Steel	We value the stock by applying DCF models to three businesses: (i) Jamshedpur plant; (ii) Orissa project; and (iii) Corus (Tata Steel Europe) and other operations, separately. Our DCF valuation assumes a WACC of 12.2%, based on a cost of equity of 14.9% (Rf: 6.4%, ERP: 7.0% and beta: 1.21) and after tax cost of debt of 6.0%, with our long-term steel price assumption at US$410/t. We have assumed steel prices of US$510/t and US$550/t for F10 and F11, respectively.	*Upside risks:* Higher-than-expected steel prices; lower-than-expected raw material costs; and better-than-expected turnaround of Corus operations and profitability. *Downside risks:* Lower-than-expected steel prices; higher raw material costs; sustained pressure on Corus (Tata Steel Europe) profitability; and recent outperformance in the stock limits further gains, especially if the next quarter results falls short of consensus expectations.
Tata Tea	Our residual income price target is probability weighted by assigning an 80% weight to the base case and a 20% weight to the bull case based on global consolidation-led productivity gains and ROE improvement.	*Downside risks:* • Significant value-destructive acquisitions. • UK business declines as black tea consumption falls. • Inability to pass on sharp increase in input tea prices.
Ten Network Holdings	Valuation methods include DCF, EV/EBITDA and P/E. EV/EBITDA relies on 10x target EBITDA multiple. DCF uses WACC of 10.7% and terminal growth rate of 3%. Our PT sits at the top end of this range, selected because we believe risks now skew more to the upside in our F2010-F2011 estimates/valuation.	*Upside risks:* Stronger TV ad market improvement than forecast; higher TV ad market share than forecast; and potential M&A action. *Downside risks:* Weaker TV ad market improvement than forecast; and lower TV ad market share than forecast.
Titan Industries Ltd	We value Titan using a residual income model and assign a 100% weighting to our base value. We assume a cost of equity of 12.4%, a beta of 0.9, a risk premium of 6%, and a risk-free rate of 7%.	*Upside risks:* Rise in volume growth in watch and jewellery businesses, and margin improvement due to product mix and operating leverage. *Downside risks:* Sharp rise in gold prices and subsequent fall in gold jewellery volumes; product mix deterioration in gold and watches due to macro economic headwinds and competition; sharp rise in gold lease rates; and failure in the eyewear business.
Unitech	We arrive at our price target by applying a 10% discount to F11E NAV of Rs141/share. Our NAV valuation assumes 14% discount rate and 10% price/cost inflation in F11 with 5% thereafter and 9-13% cap rate. The 10% discount considers the following factors: 1) significant improvement in the balance sheet as measured by net gearing (50% in F10E versus 163% in F09) – improved liquidity gives UT flexibility to scale up execution; 2) signs of bottoming out of the physical property market; 3) strong branding; and 4) a large land bank with development horizon well beyond 10 years (i.e., low re-investment upside).	*Downside risks:* 1) Early recovery in the business cycle remains elusive, leading to lower contract sales; 2) Mumbai prices correct further; 3) affordable housing business fails to pick up; and 4) poor monsoons and global recession worsen India's macro outlook.
Zee Entertainment Enterprise Limited	To calculate our price target, we use a DCF model with an explicit phase of seven years and a terminal growth rate of 4%. We assume a WACC of 11.6% with a cost of equity of 12.9% (Rf: 6.4%, ERP: 7.0% and beta: 0.93) and after tax cost of debt of 6.7%.	*Upside risks:* Revenue accelerates at a faster-than-expected pace due to quick-paced revival in ad-budgets of large advertising sectors, such as autos, banking and financial services, and real estate. Growing digital TV penetration in India could increase subscription revenue growth for ZEEL. *Downside risks:* ZEEL's top two competitors manage to boost their programming initiatives, leaving ZEEL as a clear and distinct no. 3 player. DTH revenue growth that we are expecting may take longer than we anticipate due to sustainably high subscriber price sensitivity.

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(as of November 30, 2009)

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	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**915**	**38%**	**284**	**41%**	**31%**
Equal-weight/Hold	**1077**	**45%**	**312**	**45%**	**29%**
Not-Rated/Hold	**25**	**1%**	**2**	**0%**	**8%**
Underweight/Sell	**384**	**16%**	**89**	**13%**	**23%**
Total	**2,401**		**687**		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

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Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.
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Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
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