



India Essentials

Wednesday, 25 November 2009

Maruti Suzuki India (Outperform)

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Demand continues to remain strong

Sanjay Doshi

We spoke to a few dealers and key financiers in the auto space to get an indication of demand for passenger cars post the festive season. Our channel checks confirm that car demand remains strong and finance penetration should increase, as some private banks increase their focus on car financing business to improve loan growth. Maruti remains our top pick in the sector. Demand continues to remain strong.

Macquarie Oil and Gas 360

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Asia Pacific Edition – 25 November 2009

Macquarie - Oil & Gas
Research

Commodities Crude oil WTI: Closed at US\$76.02/b (-\$1.69) /overnight: US\$75.87/b (-\$0.15) Brent: Closed at US\$76.46/b (-\$1.00) Dubai: Closed at US\$76.39/b (-\$0.64) Crude oil fell 2% to the lowest close in more than five weeks after a Commerce Department report showed that the U.S. GDP grew at 2.8%, below a previous estimate of 3.5%, and on forecasts that supplies gained. API has reported that U.S crude stockpiles increased 3.35 mmbbls, and a DOE report due to be released tomorrow, which will probably report an increase in crude supplies, is likely to weigh on market sentiment.

Macquarie Commodities Comment

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Chinese coal prices rising

Bonnie Liu

Domestic Chinese thermal coal prices have been increasing in recent months but yet not enough to create an import arbitrage. Base and precious metal prices fell across the complex on Tuesday, following a broad-based rally on Monday. The downward revision of US 3Q GDP growth to 2.8% from the October estimate of 3.5% did not help sentiment; however, US consumer spending rose 2.9% over the same period, while November's consumer confidence index climbed to 49.5.

India Conference 2010, 4-5 February 2010

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Fresh Money Ideas

Company	Rec	Target px (Icy)	Closing (Icy)	Upside/Downside (%)
ABB India (ABB IN)	UP	484.00	759.50	-36
Bharat Petroleum (BPCL IN)	OP	695.00	539.15	29
GAIL India (GAIL IN)	OP	424.00	402.10	5
GMR Infrastructure (GMRI IN)	UP	57.00	68.30	-17
Grasim Industries (GRASIM IN)	OP	3,355.00	2,350.90	43
Idea Cellular (IDEA IN)	UP	35.00	49.35	-29
Maruti Suzuki India (MSIL IN)	OP	1,770.00	1,599.40	11
MTNL (MTNL IN)	UP	51.00	75.20	-32
Tata Steel (TATA IN)	OP	584.00	557.40	5
Zee Entertainment Enterprises Ltd (Z IN)	UP	130.00	262.40	-50

OP = Outperform, UP = Underperform, N = Neutral
Source: Thomson Datastream, Macquarie Research estimates
Data as at 25/11/2009



INDIA

MSIL IN Outperform

Stock price

As of 24 Nov 09 Rs1,600.00

12-month target Rs 1,770.00

Upside/Downside % 10.6

Valuation Rs 1,770.00

- DCF

GICS sector automobiles & components

Market cap Rsm 462,240

30-day avg turnover US\$m 35.4

Market cap US\$m 9,943

Number shares on issue m 288.9

Investment fundamentals

Year end 31 Mar		2009A	2010E	2011E	2012E
Total revenue	bn	204.6	256.7	284.6	310.9
EBITDA	bn	16.2	31.0	36.6	41.5
EBITDA growth	%	-27.8	91.5	18.1	13.2
EBIT	bn	9.1	23.4	29.2	34.0
EBIT growth	%	-45.5	156.6	24.9	16.1
Reported profit	bn	12.2	23.2	28.2	32.6
Adjusted profit	bn	13.5	23.2	28.2	32.6

EPS rep	Rs	42.18	80.39	97.46	112.69
EPS rep growth	%	-29.6	90.6	21.2	15.6
EPS adj	Rs	46.82	80.39	97.46	112.69
EPS adj growth	%	-19.6	71.7	21.2	15.6
PER rep	x	37.9	19.9	16.4	14.2
PER adj	x	34.2	19.9	16.4	14.2

Total DPS	Rs	3.50	6.00	7.50	9.00
Total div yield	%	0.2	0.4	0.5	0.6

ROA	%	7.0	15.6	16.6	16.6
ROE	%	15.2	22.3	22.1	21.0
EV/EBITDA	x	26.8	14.0	11.9	10.5
Net debt/equity	%	-13.3	-24.6	-29.0	-36.8
P/BV	x	4.9	4.0	3.3	2.7

MSIL IN rel BSE Sensex performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, November 2009

(all figures in INR unless noted)

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25 November 2009

Maruti Suzuki India

Demand continues to remain strong

Event

- We spoke to a few dealers and key financiers in the auto space to get an indication of demand for passenger cars post the festive season. Our channel checks confirm that car demand remains strong and finance penetration should increase, as some private banks increase their focus on car financing business to improve loan growth. Maruti remains our top pick in the sector.

Impact

- Demand continues to remain strong.** Most of the dealers we spoke to indicated robust sales for the current month. Demand for cars have remained unexpectedly strong post the festive season, especially so in the larger cities. The waiting period for some of Maruti Suzuki's key models, like 'Swift', 'Ritz', 'Dzire', etc, still range between two weeks to three months.
- Finance penetration should improve further.** Finance penetration has increased to ~72% currently from 62% as of March 2009. Some of the large private sector banks we spoke to indicated that car loan disbursals continue to remain strong, although they have declined from the peak seen in the last couple of months during the festive season. ICICI Bank (ICICIB IN, Rs905.30, Underperform, TP: Rs538.00) has also reduced its rates by 50-100bp. Most of the dealers we spoke to could provide their customers with a range of finance option from both state-owned and private banks.
- Discounts have reduced post the festive season.** Our channel checks indicated that due to the strong demand, Maruti Suzuki has reduced discounts on its models anywhere between 10% and 40% in the last few months. Overall discounts are significantly lower than those seen in the last year, which should help margins in the coming quarters.
- Nominal increase in raw material prices can be passed on.** While increasing commodity prices do pose some risk to margins, we believe that Maruti Suzuki should be able to pass on nominal increases in raw material prices due to the strong demand. Some of the impact of rising material prices should also be offset by the cost-reduction initiatives being undertaken by the company and by leveraging off fixed costs on the back of higher volumes. We thus do not expect any significant decline in operating margins.

Earnings and target price revision

- No change.

Price catalyst

- 12-month price target: Rs1,770.00 based on a DCF methodology.
- Catalyst: Higher sales volumes and a good set of quarterly numbers.

Action and recommendation

- Maintain Outperform.** We continue to prefer Maruti Suzuki in the auto space in India, as we believe it is likely to be a key beneficiary from a revival in demand in the top ten cities (~40% of its sales) on back of improving consumer sentiment and increasing finance penetration. The stock is currently trading at ~16.7x one-year rolling forward PER, well supported by strong earnings growth of ~19% (three-year CAGR).



GLOBAL



Commodities

Crude Oil	Current	Chg.	% Chg.
WTI-Near month (US\$/Bbl)	\$75.87	(\$0.15)	(0.2%)
12 month (US\$/Bbl)	\$80.12	(\$0.02)	(0.0%)
WTI-Lloyd Diff (US\$/Bbl)	\$10.67		
Brent (US\$/Bbl)	\$76.46	(\$1.00)	(1.3%)
Dubai (US\$/Bbl)	\$76.39	(\$0.92)	(1.2%)
Tapis (US\$/Bbl)	78.88	(\$0.78)	(1.0%)

Natural Gas

NYMEX-1m (US\$/mmbtu)	\$4.77	-	-
12 month (US\$/mmbtu)	\$5.24	+\$0.15	+3.0%
US Rockies (US\$/mmbtu)	\$3.65	(\$0.20)	(5.2%)
AECO - Spot (C\$/Gj)	\$3.64	(\$0.33)	(8.3%)
AECO - Fwd Gas Year (C\$/Gj)	\$5.78	(\$0.02)	(0.3%)
UK - NBP spot (US\$/mmbtu)	\$4.29	(\$0.23)	(5.1%)
UK - NBP spot (£/therm)	£25.90	(£1.40)	(5.1%)
UK - NBP 1m (£/therm)	£27.45	(£0.88)	(3.1%)

Energy Market Indices

North America	Current	Chg.	% Chg.
S&P/TSX Oil & Gas Index	2,890	(7)	(0.3%)
S&P/TSX Oil & Gas Producers	2,998	(5)	(0.2%)
S&P/TSX Oil & Gas Integrates	3,360	(6)	(0.2%)
S&P/TSX Oil & Gas Services	1,572	(19)	(1.2%)
S&P/TSX Energy Index	2,747	(8)	(0.3%)
OSX	193	+1	+0.4%

International

Europe BE500 Energy Index	112	(1)	(0.6%)
UK FTSE O&G Index	8,501	(53)	(0.6%)
UK FTSE O&G Producers	8,132	(48)	(0.6%)
Asia Pacific O&G Producers	516	+3	+0.6%
Australia S&P/ASX300 Energy	16,717	(69)	(0.4%)
Hang Seng Energy Index	12,771	(175)	(1.4%)

Previous Day's Most Active

Region / Ticker	Price	Up/Dn	Vol (m)
United States			
WFT US	\$16.47	▲ 1%	19.6
XOM US	\$75.97	▲ 0%	17.1
VLO US	\$16.01	▼ (1%)	14.9
Canada			
SU CN	\$38.70	▼ (0%)	7.3
TLM CN	\$18.36	▼ (1%)	5.6
HTE-U CN	\$9.91	▲ 0%	4.8
Europe			
BP/ LN	587.00	▼ (0%)	47.7
SOU LN	3.68	-	36.0
ENI IM	16.97	▼ (2%)	15.0
Southeast Asia + Australia			
ENRG IJ	275.00	▼ (4%)	463.1
386 HK	6.64	▼ (1%)	99.7
857 HK	9.84	▼ (2%)	86.7

Source: Bloomberg, Macquarie Research, November 2009

Macquarie Oil and Gas 360

Asia Pacific Edition – 25 November 2009

WPL AU, Korea Petrochemical, 857 HK, 386 HK, EXXI US, US Refining, LNG Weekly, CNH CN, HSE CN, NXY CN, OEX CN, SFE/A CN, GTE US, European Gas Market, AUL LN, PFC LN, FPM LN, DES LN

Commodities

Crude oil

WTI: Closed at US\$76.02/b (-\$1.69) /overnight: US\$75.87/b (-\$0.15)

Brent: Closed at US\$76.46/b (-\$1.00)

Dubai: Closed at US\$76.39/b (-\$0.64)

- Crude oil fell 2% to the lowest close in more than five weeks after a Commerce Department report showed that the U.S. GDP grew at 2.8%, below a previous estimate of 3.5%, and on forecasts that supplies gained. API has reported that U.S crude stockpiles increased 3.35 mmbbls, and a DOE report due to be released tomorrow, which will probably report an increase in crude supplies, is likely to weigh on market sentiment.

- Venezuela's Energy Minister stated that the OPEC aims to keep oil prices stable.

Natural gas

NYMEX: Closed at US\$4.77/b (+\$0.29)

- Gas futures fell 0.5% after the US government reported lower-than-expected 3Q GDP numbers. This reversed the upward trend in gas prices in the past four days which was supported by cold weather.

Currency

USD/AUD: Closed at US/A\$0.9192 (-0.0030) /overnight: US/A\$0.9209 (+0.0017)

USD/GBP: Closed at US/£1.6587 (-0.0024) /overnight: US/£1.6581 (-0.0006)

Yen/USD: Closed at ¥/US88.50 (-0.43) /overnight: ¥/US88.54 (+0.04)

USD/RMB: Closed at US/RMB6.8311 (+0.0025) /overnight: US/RMB6.8304 (-0.0008)



GLOBAL

LME cash price

	US ¢/lb	% Change day on day
Aluminium	90.3	-0.6
Copper	310.3	-1.1
Lead	104.6	-3.3
Nickel	757.0	-0.9
Tin	680.1	-1.4
Zinc	100.0	-1.6

Other prices

		% Change day on day
Gold (\$/oz)	1163.25	-0.5
Silver (\$/oz)	18.57	-1.0
Platinum (\$/oz)	1458.00	-0.4
Palladium (\$/oz)	371.00	0.3
Oil WTI	74.74	-2.3
Cobalt (99.8%)	22.00	0.0
\$US/€ exchange rate	1.50	-0.1
US\$/A\$ exchange rate	0.92	-1.0

LME/COMEX stocks

	Tonnes	Change
LME Aluminium	4,586,550	-3,800
Nymex Aluminium	0	0
Nymex Al. Pieces	0	0
LME Copper	429,650	4,725
Comex Copper	70,544	544
Lead	135,825	700
Nickel	133,230	702
Tin	26,950	60
Zinc	454,200	3,525

Source: LME, Comex, Nymex, SHFE, Metal Bulletin, Reuters, LBMA, Macquarie Research

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25 November 2009

Commodities Comment

Chinese coal prices rising

Feature article

- Domestic Chinese thermal coal prices have been increasing in recent months but yet not enough to create an import arbitrage.

Latest news

- Base and precious metal prices fell across the complex on Tuesday, following a broad-based rally on Monday. The downward revision of US 3Q GDP growth to 2.8% from the October estimate of 3.5% did not help sentiment; however, US consumer spending rose 2.9% over the same period, while November's consumer confidence index climbed to 49.5.
- Freight rates have been falling slightly on the major iron ore routes of late. Tubarao-Beilun rates fell from \$47/t to \$44/t, with Western Australia-Beilun at \$20/t and Tubarao-Rotterdam at \$25/t. However, with 147 Capesize vessels now waiting outside the major ore ports, congestion continues to edge upward, giving rise to robust short-term fundamentals. Despite falling freight, spot prices for iron ore have maintained their upward momentum, with latest 62% Fe fines settlements at \$104.5/t.
- The Chinese government has released details of new standards for lead smelting, following the closure of 180,000t of capacity in Shaanxi and Henan provinces since August due to environmental concerns. It is believed that most idled facilities will be able to comply with the new regulations, which will apply beginning February next year.
- Japan's seasonally adjusted output of rolled copper products rose for the seventh consecutive months in October to 67,927t, boosted by a recovery in automotive and semiconductor demand. This represents a 2.7% increase MoM and a 110% rise from the nadir in March 2009.
- According to Chinese customs, imports of cobalt ore and concentrate fell 30% MoM in October to 30,299 tonnes. For the first 10 months of 2009, imports reached 204,901 tonnes, down 43% year on year. High-grade cobalt prices currently sit at \$22/lb, having plummeted from \$51/lb in March 2008 to \$12/lb in February 2009.
- Cliffs Natural Resources has agreed to the acquisition of interests in three Canadian chromite deposits from Freewest Resources, subject to shareholder and court approval. Combined production from the open-pit operations would total 1–2mt of ore, which would be processed onsite to 400–800,000t of ferrochrome. Currently, the United States relies on around 500,000t of contained chromium imports to feed its 1.9m tonne annual stainless steel output. Recovery in stainless steel production during 2009, led by China, caused ferrochrome capacity utilisation rates to surge from 35% in 1Q to 85% in September; however, recent concerns over stockbuilding have resulted in a number of furnaces being taken offline in recent weeks. Turkish producer Eti Krom is the latest to announce production cutbacks; however, the world's largest producer, ENRC, asserted during its London ferroalloy seminar on Tuesday that its operations continued at virtually 100% of capacity. High-carbon ferrochrome prices have retreated by 5% over the last month on oversupply concerns.

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

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

Macquarie – Asia/Europe

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

Macquarie First South - South Africa

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

Macquarie - Canada

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

Macquarie - USA

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

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definition*

This is calculated from the volatility of historical price movements.

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

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

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

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

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

* Applicable to Australian/NZ/Canada stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
 Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / epowa*

ROA = adjusted ebit / average total assets

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

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

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

Recommendation proportions – For quarter ending 30 September 2009

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	45.08%	54.02%	40.00%	42.31%	62.86%	43.61%	(for US coverage by MCUSA, 0.35% of stocks covered are investment banking clients)
Neutral	39.77%	19.10%	45.00%	43.36%	31.90%	39.85%	(for US coverage by MCUSA, 0.35% of stocks covered are investment banking clients)
Underperform	15.15%	26.88%	15.00%	14.34%	5.24%	16.54%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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Matthew Smith (Taiwan)	(8862) 2734 7514
Alastair Macdonald (Thailand)	(662) 694 7741

Chemicals/Textiles

Christina Lee (Hong Kong)	(852) 3922 3571
Jal Irani (India)	(9122) 6653 3040
Shawn Park (Korea)	(822) 3705 8669
Sunaina Dhanuka (Malaysia)	(603) 2059 8993

Conglomerates

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Leah Jiang (China)	(8621) 2412 9020

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Jessie Qian (China, Hong Kong)	(852) 3922 3568
Toby Williams (Japan)	(813) 3512 7392
HongSuk Na (Korea)	(822) 3705 8678
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Alex Pomento (Philippines)	(632) 857 0899
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Emerging Leaders

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Robert Burghart (Japan)	(813) 3512 7853

Industrials

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Christopher Cintavey (Japan)	(813) 3512 7432
Janet Lewis (Japan)	(813) 3512 7475
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David Gambrill (Thailand)	(662) 694 7753

Insurance

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Makarim Salman (Japan)	(813) 3512 7421

Sales

Regional Heads of Sales

Chris Gray (ASEAN)	(65) 6231 2888
Peter Slater (Boston)	(1 617) 598 2502
Thomas Renz (Geneva)	(41) 22 818 7712
Andrew Mouat (India)	(9122) 6653 3200
Stanley Dunda (Indonesia)	(6221) 515 1555
Kenneth Yap (Indonesia)	(6221) 515 1555
JJ Kim (Korea)	(822) 3705 8799
Jason Lee (Malaysia)	(603) 2059 8888
Gino C Rojas (Philippines)	(632) 857 0761
Greg Norton-Kidd (New York)	(1 212) 231 2527
Luke Sullivan (New York)	(1 212) 231 2507
Scot Mackie (New York)	(1 212) 231 2848
Sheila Schroeder (San Francisco)	(1 415) 835 1235

Media

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Shubham Majumder (India)	(9122) 6653 3049
George Hogan (Japan)	(813) 3512 7851
Prem Jearajasingam (Malaysia)	(603) 2059 8989
Alex Pomento (Philippines)	(632) 857 0899

Oil and Gas

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Shawn Park (Korea)	(822) 3705 8669
Edward Ong (Malaysia)	(603) 2059 8982
Sunaina Dhanuka (Malaysia)	(603) 2059 8993
Linda Huang (Taiwan)	(8862) 2734 7521
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Pharmaceuticals

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Abhishek Singhal (India)	(9122) 6653 3052
Naomi Kumagai (Japan)	(813) 3512 7474

Property

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

Resources / Metals and Mining

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Xiao Li (China)	(852) 3922 4626
YeeMan Chin (China)	(852) 3922 3562
Christina Lee (Hong Kong)	(852) 3922 3571
Rakesh Arora (India)	(9122) 6653 3054
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David Gibson (Japan)	(813) 3512 7880
George Chang (Japan)	(813) 3512 7854
Michiko Kakiya (Japan)	(813) 3512 7868
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Daniel Chang (Taiwan)	(8862) 2734 7516
James Chiu (Taiwan)	(8862) 2734 7517
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Bin Liu (China)	(852) 3922 3634
Tim Smart (China)	(852) 3922 3565
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Regional Heads of Sales cont'd

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Charles Nelson (UK/Europe)	(44) 20 3037 4832
Rob Fabbro (UK/Europe)	(44) 20 3037 4865
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Sales Trading

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Michael Santos (Philippines)	(632) 857 0813
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Wei Sim (China, Hong Kong)	(852) 3922 3598
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Alex Pomento (Philippines)	(632) 857 0899

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Alternative Strategies

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Structured Products - Andrew Terlich	(852) 3922 2013