

The Asia Investigator

Sell in May and Go Away – It All Depends on When You Return

- **Asia ex: Selling in May requires a generous employer and a four-month holiday** — Selling in May and hoping for a quick return over one, two or three months is futile. Yes, it has worked if one is granted four months of leave. However, a couple of poor periods in 1990, 1998, and 2001-2002 account for all of the outperformance. Since 2003, this strategy has failed to yield positive returns and investors would have underperformed. **Page 3**
- **Malaysia: Still Not Expensive at the Peak** — The Kuala Lumpur Composite Index (KLCI) is up 11.6% in 1Q07 and 23.7% year-to-date, making it the second-best performing market in Asia Pacific after Shanghai. Relative valuations and positive earnings revisions suggest the rally is sustainable, in our view. Nevertheless, Malaysia is not expensive on overall valuations, ie P/BV, P/E, P/CE, EV/EBITDA, EV/Sales and DV. **Page 12**
- **Taiwan: No Relief on Capital Outflow:** The real interest rate gap with the USD has widened over 1Q07, while cross-strait relations have worsened. These are two key drivers to capital outflow. The Central Bank of China's effort lately to prop up interest rates underscores a broader concern regarding capital outflow and the weakening NT dollar. As goes the currency, so goes the market. **Page 17**
- **Fun With Flows: Flows to Asia Turn Negative Amid Decelerating Global Fund Flows** — Redemptions from Asian funds were reported for the first time in six weeks. Although outflows were just US\$19m, on an average 4-week perspective, net flows to Asia have rolled over from their current peak. Outflows from GEM funds also resumed, while inflows to international funds decelerated sharply to US\$0.5bn compared with US\$1.5bn on average in the preceding five weeks. **Page 23**

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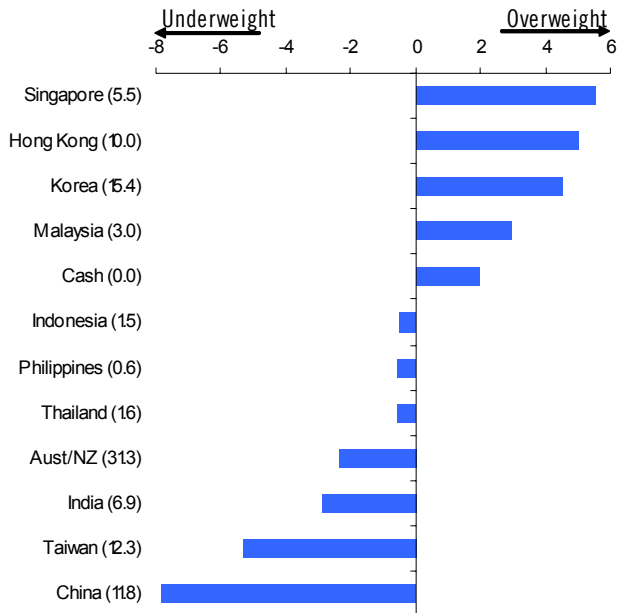
Asia Pacific Strategy Overview

FRESH MONEY IDEAS

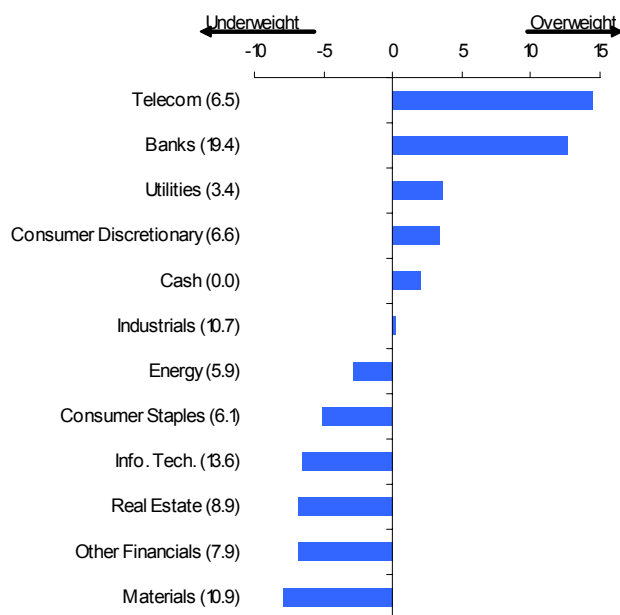
	Bloomberg code	Rating	Price 4-May-07	Target Price	ETR (%)
Buy					
Hyundai Mobis	012330 KS	1L	W78,100.00	W134,000.00	73.5
Noble Group	NOBL SP	1H	S\$1.70	S\$2.28	35.5
Xingda Intl	1899 HK	1M	HK\$4.26	HK\$6.00	42.9
Ping An	2318 HK	1L	HK\$43.10	HK\$50.56	18.3
Wharf Holdings	4 HK	1L	HK\$31.15	HK\$31.00	2.1
Sell					
Cathay Pacific	293 HK	3L	HK\$20.15	HK\$19.00	-1.7
Cosco Corp	COS SP	3L	S\$2.77	S\$2.58	-5.0
CapitalLand	CAPL SP	3L	S\$8.55	S\$7.00	-17.2
Giordano Intl	709 HK	3L	HK\$3.63	HK\$3.00	-10.1
Sino Land	83 HK	3L	HK\$18.00	HK\$10.68	-38.5

Source: Citigroup Investment Research

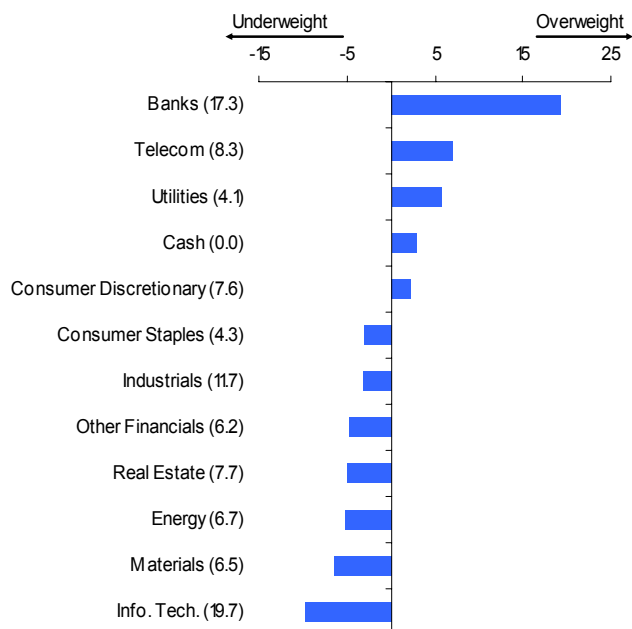
Model Portfolio (Asia/Pacific ex-Japan ex-Pakistan) Percentage Weighting Over / Under MSCI Benchmark*



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



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



* Numbers in brackets show neutral weights within MSCI AC Asia Pacific ex Japan and Pakistan US\$ Index as at 9 Feb 2007

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

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

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

Other Financials include diversified financials and insurance

Source: MSCI and Citigroup Investment Research

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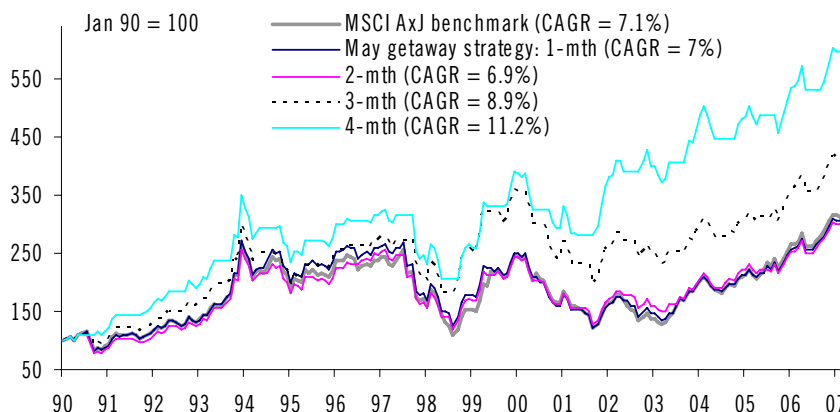
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Asia ex Strategy

Sell in May and Go Away - It All Depends on When You Return

- **Selling in May requires a generous employer and a four-month holiday** — Selling in May and hoping for a quick return over one, two or three months is futile. Yes, it has worked if one is granted four months of leave. However, a couple of poor periods in 1990, 1998, and 2001-02 account for all of the outperformance. Since 2003, this strategy has failed to yield positive returns and investors would have underperformed.
- **Taiwan and Indonesia posted the worst results; India and Australia the best** — Taiwan posted four-month returns from May of -8.5%, and Indonesia posted -7.4% whilst India has shown 7.7% positive returns because the period falls during the monsoon season.
- **Banks and other financials have performed worst; energy and technology best** — For some reason banks and other financials have found the summer particularly difficult with -5% and -4.2% returns. Energy was the only sector that provided positive returns at +0.7% and in technology the loss was slight at -0.4%.
- **The best four-month period is buy at end-September and sell in January** — Asian markets have historically shown 10.2% returns during this four-month period, with Korea, Thailand and the Philippines leading. Top sectors have been tech, banks and media.

Asian markets – Sell in May, return in September strategy yielded 11.2% vs 7.1% p.a. for MSCI AxJ



Source: MSCI, Citigroup Investment Research

Sell in May only if you can take four months off. Otherwise its best to stay employed!

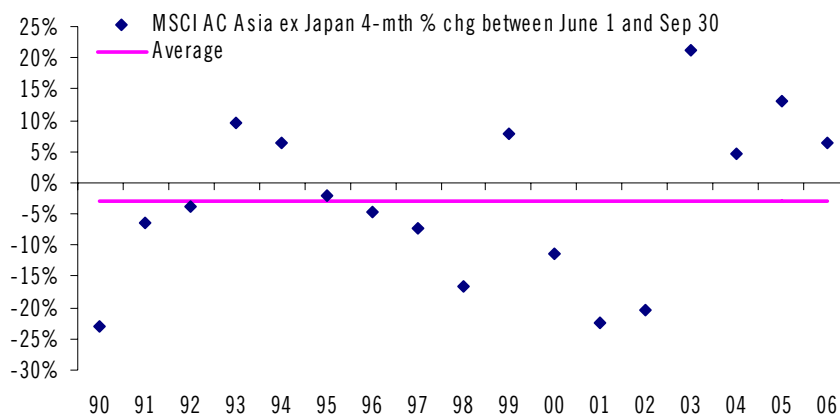
Beware, four years – 1990, 1998, 2001 and 2002 – account for all of the outperformance of this strategy

Sell in May and go away ... but how long for

"Sell in May and go away" is one of these stock market truisms that we all know. Intuitively it seems to make sense and hence is seldom questioned. We've decided to question the truth of this truism. As with so many truisms, if tortured long enough, the data yields the required results and the truism proves correct. Torturing the data just a little, we find that "sell in May and go away" does not work if you only get four weeks of annual leave. Even the Europeans with six or eight weeks of annual leave can't afford to sell in May and go away. No, for the "sell in May and go away" strategy to work, one needs a very understanding boss: one willing to give you (and me too, please) four months off. A strategy of Sell in May and come back in late September has worked best for the region as a whole. "Sell in May, don't come back until St Ledger's¹ day" is the old UK saying and has more validity than the simpler version. The time to re-introduce risk to an Asian portfolio is in September. The best 4-month returns – 10.2% on average – come in the September-to-January period. This captures the run up to three festive events: Christmas, New Years and Chinese New Year.

Before investors put on this trade, a word of warning: In the long run – in this case since 1990 – sell in May and return at the end of September has worked, with 11.2% compound annual return vs 7.1% for long only. However, during significant periods such as post-2003, it has not worked at all. And in terms of the probabilities since 1990 (17 data points), these have been 9/17 down (53% of the time) vs 8/17 up (47% of the time). If the strategy was not put in place during 2000-02, it would have been lossmaking.

Figure 1. Beware, four bad years 90, 98, 01 and 02 account for all out performance of this strategy



Source: MSCI, Citigroup Investment Research

¹ *(The St. Leger Stakes is a Group 1 flat horse race in the United Kingdom for three-year-old thoroughbred colts and fillies run over a distance of 1 mile 6 furlongs and 132 yards (2,937 metres) at Doncaster Racecourse in September. First held in 1776, it is known as "the oldest classic turf race", having eclipsed the even older Doncaster Cup as the most important race run at the course).

Sadly, we lack sufficient long-term valuation data for all sectors and countries to do a valuation overlay. With the region at 2.4 times trailing book and 6 of 10 markets at more than 1 standard deviation above their 17-year mean book, valuations were only higher in only one period since 1990. If one swallow does not make a spring, surely one data point does not make a trend.

Sold in May came back in June ... Oops, way too soon!

Selling for a one-month return is futile and on average June is an up month.

Don't bother chasing a strategy of selling in May, hoping to reap a quick return from a market tumble in June. Since 1990, the worst single month in Australia is August; in China (data since Dec 1992), December and February have historically been equally poor, July for Hong Kong; and February for India. May is not the worst month on average for any Asian market. Five markets show small negative declines on the month, but on average May is an up month. Figure 2 offers details. Based on a single month's performance in the region as a whole, September is the best month to ignore with -1.9%. Whilst one is at it, August at -1.6% holds little joy either.

The single best months are November up 3.7% and September and January, both up 2.4%. September's good returns come on the back of a poor July and August. For individual countries, the tail end of the year has a tendency to be best, with November and December showing the strongest returns in 9 of 12 markets.

Figure 2. Asian markets – If one wants to sell in May and expects to reap a quick return on the back of a market drop in June then forget it...

Index Performance from end of	To end of	Au	Ch	HK	India	Indo	Kr	My	NZ	Ph	Sg	Tw	Th	Asia x Jp
Jan	Feb	0.4%	2.6%	3.3%	3.8%	1.1%	-1.9%	4.7%	-0.6%	1.0%	1.5%	2.8%	-1.6%	2.4%
Feb	Mar	0.1%	-3.0%	-0.8%	-3.3%	1.7%	-0.3%	-1.7%	-0.6%	-1.5%	-0.8%	0.3%	-2.3%	-0.7%
Mar	Apr	2.1%	1.3%	1.1%	-1.1%	2.4%	2.0%	0.7%	2.7%	1.1%	1.4%	-0.1%	1.5%	0.6%
Apr	May	0.0%	1.1%	1.5%	-0.4%	3.5%	-1.1%	0.3%	-0.2%	1.8%	-1.2%	-2.9%	-1.5%	0.6%
May	Jun	0.9%	2.9%	-0.1%	3.2%	1.5%	0.2%	-1.1%	0.1%	-0.2%	0.3%	-0.3%	-0.1%	0.3%
Jun	Jul	0.6%	-1.2%	1.4%	0.9%	-1.3%	1.1%	0.6%	2.6%	-1.1%	0.6%	-2.1%	-0.2%	0.2%
Jul	Aug	-0.5%	-1.7%	-0.9%	2.9%	-4.7%	-0.9%	-3.1%	-1.9%	-4.6%	-2.1%	-3.2%	-1.8%	-1.6%
Aug	Sep	-0.6%	0.9%	-0.6%	-0.1%	-3.0%	-1.6%	-1.5%	-2.2%	0.4%	-1.7%	-4.2%	-1.0%	-1.9%
Sep	Oct	0.8%	-0.7%	3.3%	-1.3%	-0.4%	2.0%	3.4%	1.2%	1.6%	2.6%	0.7%	2.3%	2.4%
Oct	Nov	0.8%	0.9%	1.7%	3.9%	3.5%	4.4%	0.5%	1.0%	1.7%	2.6%	4.4%	0.9%	2.0%
Nov	Dec	2.6%	2.4%	3.0%	5.1%	4.9%	1.2%	4.9%	0.3%	5.3%	4.0%	5.2%	4.7%	3.7%
Dec	Jan	1.1%	-3.0%	0.0%	2.4%	5.1%	6.2%	1.5%	1.5%	5.0%	0.1%	2.5%	6.6%	1.5%

Source: MSCI, Citigroup Investment Research

Note: Average 1-month performance since 1990 except for China and India where data go back to Dec 1992 only

Does a valuation overlay actually help? Given that current P/BV (one standard deviation above the mean for 7 of 11 markets) has only happened once before in 1993-94 we lack sufficient data to make any meaningful statement on the issue. Again, one occurrence does not make a trend!

Amongst sectors, July and August are poor months but May tends not to be so bad. Just make sure to avoid the energy sector in July, ditto for materials, industrials, banks and telecoms. As with the country return distributions, November and December have been the strongest return months for eight of 11 sectors. For the media sector, October has been the strongest month and for banks and utilities it has historically been September.

Sold in May came back in July ... Oops, still too early

Selling in May on a two-month view doesn't lead to great results either (See Figure 3). Based on an eight-week break, the strategy is to sell in July and to

avoid the poor August and September months at -3.4%. Selling in May actually still gave investors a positive return of 0.5%. The best two-month return is November and December at +5.8%.

Figure 3. Asian markets – Selling in May on a two-month view doesn't lead to great results either

Index Performance from end of	To end of	Au	Ch	HK	India	Indo	Kr	My	NZ	Ph	Sg	Tw	Th	Asia x Jp
Jan	Mar	0.5%	-0.5%	2.6%	0.3%	2.9%	-2.3%	3.0%	-1.2%	-0.3%	0.8%	3.4%	-3.9%	1.7%
Feb	Apr	2.2%	-1.4%	0.5%	-4.3%	4.2%	1.9%	-1.1%	2.1%	-0.3%	0.7%	0.5%	-0.6%	0.0%
Mar	May	2.1%	2.1%	2.6%	-2.2%	6.1%	0.7%	0.9%	2.5%	3.1%	0.1%	-2.9%	0.1%	1.1%
Apr	Jun	0.9%	4.2%	1.3%	2.9%	5.2%	-0.7%	-0.6%	-0.2%	1.7%	-0.9%	-2.8%	-1.3%	0.9%
May	Jul	1.5%	1.5%	1.3%	4.2%	0.2%	1.4%	-0.3%	2.6%	-1.2%	1.0%	-2.5%	-0.5%	0.5%
Jun	Aug	0.1%	-2.3%	0.5%	3.9%	-6.2%	0.0%	-2.3%	0.5%	-5.5%	-1.5%	-5.4%	-2.7%	-1.4%
Jul	Sep	-1.1%	-1.5%	-1.4%	2.8%	-7.1%	-2.6%	-4.9%	-4.0%	-4.3%	-3.7%	-7.0%	-3.4%	-3.4%
Aug	Oct	0.2%	0.8%	2.9%	-1.4%	-3.3%	0.3%	1.9%	-0.9%	2.4%	0.8%	-3.9%	1.6%	0.6%
Sep	Nov	1.5%	0.5%	5.1%	2.6%	3.5%	7.0%	4.2%	2.2%	3.5%	5.3%	5.5%	3.7%	4.5%
Oct	Dec	3.4%	3.9%	4.8%	9.3%	8.6%	6.0%	5.6%	1.3%	7.0%	6.7%	10.0%	5.5%	5.8%
Nov	Jan	3.7%	-0.8%	3.0%	7.8%	10.0%	7.6%	6.4%	1.8%	10.3%	4.2%	7.6%	11.0%	5.2%
Dec	Feb	1.9%	-1.0%	2.9%	6.3%	5.1%	4.2%	6.1%	1.2%	6.3%	1.5%	5.3%	5.3%	3.7%

Source: MSCI, Citigroup Investment Research

Note: Average 2-month performance since 1990 except for China and India where data go back to Dec 1992 only

Sadly as with the one-month strategy and valuation overlay we have insufficient data points on both the country and sector side to derive any meaningful conclusions because for many countries and sectors, valuations have only been at these levels a few times.

Selling on a two-month basis is not the way to riches either

For individual sectors, the same applies with the two worst months being August and September. The exception was utilities where July and August were the weakest months. The worst returns during this period are to be found in the technology space (-4.4%) and the other financials and telecom space with -4.2%. No sector showed positive returns during the August-September period.

Bottom line, selling in May and taking two months off is not a strategy that will ensure ample financial reward.

Let's try again: Sell in May come back in August ... better, but still not optimal

Sell in May and return in August prevents investors from making a loss as the region was down an average of 1% during this period. Still, it fails to capture the worst of the declines. To do this, its best to work in June and take the July to September period off, as this strategy would have avoided a 3.2% loss. Historically, Taiwan at -9.1% and Indonesia at -8.7% have shown the worst returns during this period whilst for India posted positive returns of 4.2% during the July to September period.

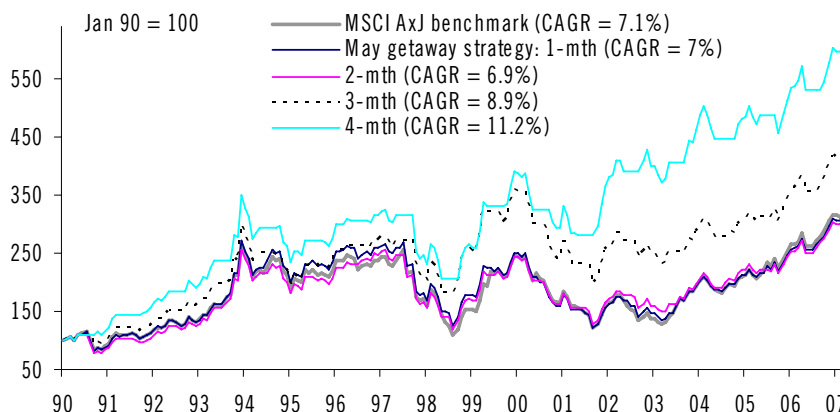
The best three-month period is October through end-December with three-month rolling returns of 8.7%. November to end-January is also reasonably good at +7.4%.

The same rule applies to sectors with a sell in May not being the optimum time for a three-month holiday. Whilst returns in many sectors are negative for the three months of June, July and August, this is not so for media +0.8% or energy where returns are positive 0.9% and in the technology sector where returns are a positive 3.2%. As with countries, the return profile improves as we move towards the latter part of the year.

Finally, the break we deserve: Sell in May, return in September

Finally, we have tortured the data enough to get the required result. Taking a four-month holiday makes the "Sell in May" strategy work. Had an investor followed this truism religiously since 1990, the strategy would have yielded a CAGR of 11.2% vs 7.1% for the MSCI AxJ benchmark. Not bad for eight months of work. Work less with higher returns; this is what we call a productivity miracle!

Figure 4. Sell in May back in September strategy have yielded 11.2% vs 7.1% p.a. for MSCI AxJ index



Source: MSCI, Citigroup Investment Research

The data has been sufficiently tortured and if four month off can be granted, it finally works: Sell in May, return at the end of September

Please note, not all markets behave the same way. Australia still shows a positive return of 0.5% and the Indian market rose on average by 7.7% over this period. For China (data since Dec 1992) the three months from the end of June are worse at -3.2%, for Indonesia the same is true at -8.8% and for New Zealand, the four months post-July are the worst at -2.0%. In the case of Taiwan, the four months post-June are the worst at -9.1%.

To capture the best four-month returns for Asian markets, be back at the end of September. Since the historic return over the next four months has been 10.2%, the single best four-month return profile available in Asia ex. The three hottest markets over this time have historically been Korea, +14.6%, Thailand +14.3% and the Philippines at +14%. The three laggards are China +0.6%, New Zealand at 4.1% and Australia at +5.3%.

Figure 5. The best four month returns for Asian markets is to be back in at the end of Sept from which the historic return over next 4 months has been 10.2%

Index Performance from end of	To end of	Au	Ch	HK	India	Indo	Kr	My	NZ	Ph	Sg	Tw	Th	Asia x Jp
Jan	May	2.4%	0.8%	5.5%	-1.6%	8.8%	-2.2%	2.9%	1.2%	3.2%	0.6%	0.8%	-4.0%	2.7%
Feb	Jun	2.9%	3.7%	1.8%	-2.8%	8.8%	1.7%	-1.8%	1.7%	1.3%	-0.2%	-1.3%	-1.1%	0.8%
Mar	Jul	3.6%	5.0%	4.0%	2.1%	5.7%	2.6%	1.2%	5.0%	2.2%	1.4%	-4.3%	0.1%	2.0%
Apr	Aug	1.0%	2.2%	1.9%	7.6%	-1.2%	-0.7%	-2.3%	0.4%	-3.8%	-2.1%	-6.9%	-3.4%	-0.2%
May	Sep	0.5%	-0.4%	-0.3%	7.7%	-7.4%	-1.2%	-5.0%	-1.4%	-5.2%	-2.6%	-8.5%	-4.0%	-2.9%
Jun	Oct	0.4%	-3.2%	3.1%	3.0%	-8.8%	0.8%	-0.7%	-0.2%	-3.2%	-0.6%	-9.1%	-1.3%	-0.7%
Jul	Nov	0.4%	-0.2%	3.8%	6.0%	-4.9%	3.8%	-0.5%	-2.0%	-1.0%	1.1%	-3.2%	0.9%	1.2%
Aug	Dec	3.5%	5.9%	7.8%	8.1%	4.3%	7.2%	8.8%	0.4%	10.1%	7.7%	5.8%	8.3%	6.8%
Sep	Jan	5.3%	0.6%	8.5%	10.8%	13.8%	14.6%	11.4%	4.1%	14.0%	9.9%	13.4%	14.3%	10.2%
Oct	Feb	5.4%	1.9%	7.4%	16.6%	13.4%	10.4%	11.3%	2.4%	13.6%	8.2%	14.8%	10.1%	9.5%
Nov	Mar	4.7%	-2.3%	4.6%	9.3%	10.6%	5.1%	9.5%	0.8%	9.9%	4.8%	11.1%	6.3%	6.6%
Dec	Apr	4.8%	-3.3%	3.4%	1.3%	8.7%	6.4%	5.3%	3.8%	6.8%	2.9%	7.0%	3.5%	3.9%

Source: MSCI, Citigroup Investment Research

Note: Average 4-month performance since 1990 except for China and India where data go back to Dec 1992 only

The best four months are end-September to end-January at +10.2%. Korea and Thailand show the best returns

In terms of sectors, banks (-5%), other financials (-4.2%) and telecoms (-3.3%) performed worst. Only the energy sector has given investors positive returns of 0.7%. The least painful other sectors have been media and tech with -0.6% and -0.4% respectively.

For investors wishing to play the sell in May and go away theme, our sell recommendations for the five worst performing sectors are: banks, other financials, telecoms, consumers and industrials.

Figure 6. Analysts sell recommendations for the five worst performing sectors, banks, other financials, telecoms, consumers and industrials

Name	Rating	Price (local curr., May 3 07)	Expected Price Return
Hanjin Shipping	3H	41000	-61%
Beijing Enterprises	3L	20.95	-52%
NOL	3M	3.68	-51%
China Resources Enterprise	3L	28.15	-50%
China Shipping Container	3M	3.94	-49%
Shanghai Int'l Airport	3H	34.95	-47%
Jet Airways	3H	721.5	-46%
SMRT	3L	1.91	-43%
Tingyi	3L	8.3	-41%
China Merchants Holdings	3L	34.9	-37%
Shanghai Industrial	3L	22.95	-35%
Hyundai Securities	3M	15100	-34%
AirAsia	3H	1.99	-33%
Shipping Corporation of India	3M	215.3	-33%
Indiabulls	3M	503.7	-31%
Resorts World	3L	3.46	-30%
Hengan International Group	3L	25.35	-29%
KT Freetel	3M	29350	-22%
LG Household & Health Care	3L	123000	-21%
Public Bank	3L	9.65	-21%

Source: Citigroup Investment Research estimates

Asia Pacific Market Intelligence

Country

4 May 2007	Mkt Cap USD bil	P/E (X)			EPS Growth (%)			Yield (%) 2007	PBV (X)	ROE (%)			US\$ Performance		
		2006	2007	2008	2006	2007	2008			2006	2007	2008	1W	1M	YTD
Asia Pacific ex Japan	2620.8	16.9	15.2	13.8	9.2	11.6	9.8	3.1	2.6	14.8	15.4	15.5	1.8	4.3	10.1
Asia ex Japan	1762.2	16.6	14.8	13.3	6.7	12.0	10.9	2.7	2.4	13.0	14.4	14.5	2.2	4.7	7.8
Australia	837.0	18.5	16.7	15.6	22.5	13.2	6.9	3.7	3.2	19.2	18.4	18.3	0.9	3.5	15.7
China	301.3	18.8	17.0	14.5	18.8	8.7	17.0	2.2	3.1	17.9	15.8	16.5	2.4	4.1	4.3
Hong Kong	242.3	18.0	15.0	17.5	10.4	19.4	-14.4	3.4	2.0	11.0	12.2	9.9	2.1	2.2	5.5
India	171.9	18.2	18.5	15.7	24.4	11.7	17.6	1.4	5.0	25.7	19.8	19.9	1.5	15.6	9.7
Indonesia	42.7	18.7	14.1	11.9	19.9	28.5	17.9	3.0	4.3	23.5	25.4	25.8	0.7	5.2	8.9
Korea	406.6	13.0	12.1	10.6	-4.3	5.1	13.8	1.9	1.8	13.0	13.5	13.8	1.9	4.8	9.4
Malaysia	82.2	20.2	17.9	15.9	14.7	13.9	12.4	3.2	2.6	13.0	13.6	14.2	2.9	8.0	29.9
New Zealand	21.6	15.9	15.9	15.6	-2.4	0.0	2.1	4.7	3.1	20.3	17.0	17.1	0.0	2.9	5.5
Philippines	13.9	18.1	17.0	14.8	16.5	3.6	14.9	2.6	2.7	14.8	14.5	15.2	-1.3	-0.2	12.2
Singapore	146.1	19.1	18.3	16.4	26.4	3.5	11.2	2.9	2.5	12.7	12.5	13.0	2.8	4.6	19.2
Taiwan	310.8	18.3	14.0	12.1	5.1	26.8	15.5	3.9	2.2	12.5	14.6	15.6	2.6	1.3	-0.3
Thailand	38.1	10.8	10.8	9.6	-19.2	0.2	11.6	4.3	2.0	17.7	16.6	16.7	3.6	3.2	10.4

Source: MSCI

Note: Asia Ex Japan universe does not cover Australia and New Zealand

Sector

4 May 2007	Mkt Cap USD bil	P/E (X)			EPS Growth (%)			Yield (%) 2007	PBV (X)	ROE (%)			US\$ Performance		
		2006	2007	2008	2006	2007	2008			2006	2007	2008	1W	1M	YTD
Energy	165.2	12.3	12.9	11.9	4.0	0.2	8.5	3.0	3.1	22.7	19.4	18.3	4.8	9.5	11.6
Materials	302.9	12.0	11.1	10.8	14.3	12.1	4.3	2.9	3.0	24.3	23.1	21.1	1.7	3.9	19.4
Capital Goods	173.8	19.8	15.2	15.2	37.5	27.7	-0.1	2.2	2.5	12.2	15.1	13.6	2.8	10.5	21.6
Comm Serv & Supplies	19.9	23.9	22.5	19.7	35.0	-4.6	15.9	2.2	5.3	27.5	29.5	28.6	-2.0	-1.5	6.3
Transportation	98.6	17.1	15.8	15.8	-12.5	17.0	-4.0	3.4	2.0	10.9	11.3	10.7	1.4	4.2	19.2
Auto & Components	40.7	13.7	11.9	10.0	-30.5	16.6	17.9	2.0	1.6	10.5	12.3	13.2	4.8	0.3	-3.6
Consumer Durables	27.5	19.6	14.7	10.9	-17.2	32.3	37.1	3.2	2.1	11.7	13.9	16.9	2.3	0.5	4.9
Consumer Services	38.3	22.2	20.3	18.0	17.9	8.7	12.9	3.1	3.1	14.4	14.6	15.4	0.9	2.9	13.0
Media	23.2	20.6	21.2	18.5	15.0	3.0	13.7	4.0	3.1	14.0	13.5	15.1	1.1	3.8	9.2
Retailing	37.1	23.0	19.7	17.7	6.5	15.3	13.3	2.7	4.0	17.6	18.3	18.3	0.5	2.7	12.0
Food & Staples Retailing	57.4	27.7	24.0	20.8	14.9	14.3	16.9	2.3	5.7	22.3	23.2	24.5	0.3	5.0	23.0
Food Bev & Tobacco	64.6	19.4	17.5	15.5	17.5	9.7	13.3	3.0	2.9	15.6	15.4	15.9	-0.1	4.9	12.5
Household Products	9.1	27.5	22.5	19.1	20.7	20.8	16.3	2.4	6.4	22.6	33.6	33.8	-1.0	9.6	-0.3
Health Care Equip & Serv	12.9	27.8	24.9	21.5	55.8	6.1	18.4	2.6	4.7	17.9	17.8	19.1	2.8	4.4	10.4
Pharma Biotech & Life Sciences	24.5	29.8	23.5	19.5	36.3	28.0	21.9	1.2	6.1	20.6	20.9	21.2	1.0	6.0	19.9
Banks	491.0	17.3	14.5	13.2	5.9	16.5	10.3	3.7	2.5	15.0	16.4	16.6	0.4	3.2	8.2
Diversified Financials	85.3	22.2	18.7	16.8	1.6	22.3	11.1	2.8	3.0	14.8	14.8	15.3	1.7	7.2	16.2
Insurance	125.2	20.8	19.0	17.4	17.3	12.2	8.9	2.9	3.5	17.6	17.0	17.2	1.0	4.0	2.2
Real Estate	230.8	20.5	18.5	18.3	0.0	8.8	1.5	3.4	1.6	7.8	8.4	8.1	3.6	3.7	12.2
Software & Services	47.0	36.8	24.8	19.7	84.3	11.8	25.3	0.8	10.7	24.5	29.6	28.7	3.3	8.4	8.2
Technology Hardware & Equip	125.8	25.0	16.8	12.4	10.1	44.6	31.3	2.3	2.4	9.8	13.1	15.9	3.7	4.0	-1.5
Semi & Semi Equipment	172.1	12.8	13.8	11.7	27.0	-10.5	17.8	2.5	2.4	16.3	15.5	16.4	0.8	-0.5	-0.9
Telecom	162.3	15.9	15.5	13.7	3.2	5.4	12.6	4.5	3.1	20.2	17.4	18.1	1.7	4.0	5.3
Utilities	85.5	15.7	14.6	13.6	5.5	7.0	7.0	3.3	1.7	10.6	10.7	10.9	0.9	3.9	8.2

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

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

Asia Pacific Model Portfolio by Country

Name	Price 4 May 07	YTD Perf (%)	Ticker	Analyst's Rating	MSCI Wght (%)	Portfolio Wght (%)	FY07E PE (x)	FY07E EPS Gwth (%)	FY07E Div Yield (%)	FY07E P/BV (x)	FY07E ROE (%)	Up/Downside to Target (%)
Australia/New Zealand (-234 bps Underweight)					31.3	29.0						
Aust & NZ Banking	30.7	8.9	ANZ.AX	1L		6.0	14.7	10.6	4.6	2.7	18.6	2.7
Brambles	13.2	2.9	BXB.AX	NR		5.0	28.5	-9.5	1.2	9.7	33.8	NA
Rio Tinto Ltd	86.9	16.9	RIO.AX	1M		3.0	11.6	13.5	1.8	3.6	31.2	8.2
Tabcorp Hld	18.8	11.3	TAH.AX	2M		3.0	18.5	-2.7	4.8	2.9	15.8	-12.0
Telecom NZ	4.9	0.4	TEL.NZ	2M		5.0	13.4	-0.9	6.8	3.1	22.9	2.5
Telstra	4.9	17.4	TLS.AX	1M		5.0	17.1	-1.3	5.8	4.8	27.9	-12.6
Woodside Pet	41.8	9.6	WPL.AX	2M		2.0	19.6	0.3	3.1	4.5	23.2	-1.6
China (-783 bps Underweight)					11.8	4.0						
China Netcom	19.3	-7.2	0906.HK	2L		1.0	11.3	5.6	3.1	1.5	13.5	17.4
China Tel	3.9	-8.5	0728.HK	1L		2.0	13.8	1.8	2.6	1.4	10.2	23.1
CNOOC	7.0	-5.4	0883.HK	1L		1.0	11.9	-20.2	2.5	2.4	20.4	14.9
Hong Kong (+503 bps Overweight)					10.0	15.0						
Cathay Pacific	20.2	5.1	0293.HK	3L		2.0	16.7	8.7	2.4	1.7	10.2	-5.7
Guoco	111.6	16.3	0053.HK	1L		1.0	12.9	-46.8	3.6	0.9	7.3	1.3
Hong Kong & China Gas	19.0	8.5	0003.HK	1L		3.0	13.2	35.2	1.9	3.9	29.8	5.4
Henderson Land	54.1	24.3	0012.HK	1L		2.0	18.3	-7.8	2.0	1.1	6.2	2.4
HSBC	146.9	3.0	0005.HK	2M		6.0	12.0	4.1	4.9	1.9	15.5	4.2
Li and Fung	25.2	4.1	0494.HK	1L		1.0	31.0	20.7	2.6	10.4	33.7	23.0
India (-288 bps Underweight)					6.9	4.0						
Bharti Airtel	817.8	30.0	BRTI.BO	1L		1.0	25.7	45.9	0.6	8.6	33.7	17.4
State Bank of India	1,128.8	-9.4	SBI.BO	1L		1.0	11.8	17.4	1.4	1.7	14.4	9.4
Wipro	567.4	-6.1	WIPR.BO	1L		2.0	22.6	24.0	1.8	6.6	29.0	20.7
Indonesia (-52 bps Underweight)					1.5	1.0						
PT Telkom	10,300.0	2.0	TLKM.JK	1L		1.0	16.5	12.7	3.3	5.8	35.2	16.5
Korea (+455 bps Overweight)					15.4	20.0						
KEPCO	39,500.0	-6.8	015760.KS	NR		3.0	9.6	23.6	3.1	0.5	5.7	NA
Keokmin Bank	83,400.0	11.3	060000.KS	2L		5.0	9.1	24.2	4.0	1.7	18.6	11.5
Samsung Elec	576,000.0	-6.0	005930.KS	1L		5.0	11.9	-10.2	1.0	1.7	14.4	21.5
Shinhan Financial	52,300.0	10.1	055550.KS	2L		4.0	10.6	6.1	2.7	1.3	12.2	16.6
Shinsegae	620,000.0	6.9	004170.KS	2L		3.0	21.1	18.2	0.2	3.5	16.5	-9.7
Malaysia (+297 bps Overweight)					3.0	6.0						
DiGi.com	21.3	40.1	DSOM.KL	1L		2.0	16.8	18.3	6.0	7.8	46.5	17.4
IJM Corp	9.0	22.4	IJMS.KL	NR		1.0	18.0	23.5	1.9	1.8	9.8	NA
Public Bank	9.8	26.5	PUBM.KL	3L		1.0	18.1	5.1	5.1	3.5	19.6	-22.1
TA Enterprise	1.9	144.0	TAES.KL	1L		1.0	16.2	56.7	4.5	1.3	8.0	41.8
Tenaga	11.8	8.3	TENA.KL	1L		1.0	13.9	94.7	3.8	2.2	15.9	16.9
Philippines (-57 bps Underweight)					0.6	0.0						
Singapore (+552 bps Overweight)					5.5	11.0						
ComfortDelGro	2.4	47.8	CMDG.SI	1L		2.0	20.8	14.6	3.2	3.2	15.5	-4.6
DBS	22.8	0.9	DBSM.SI	3L		3.0	15.3	8.1	2.8	1.7	11.3	0.9
Parkway	4.2	32.5	PARM.SI	3L		1.0	36.5	30.1	2.6	6.6	18.0	-26.9
StarHub	3.0	12.5	STAR.SI	1L		2.0	14.9	43.5	5.1	34.9	234.0	11.5
SPH	4.5	4.2	SPRM.SI	1L		3.0	15.7	24.0	5.6	3.9	25.1	20.0
Taiwan (-535 bps Underweight)					12.3	7.0						
Chinatrust	26.9	-1.3	2891.TW	3L		2.0	13.7	253.3	-	1.9	14.2	-3.3
Taishin	16.5	-13.6	2887.TW	1L		3.0	20.3	134.6	-	1.2	6.1	18.2
Taiwan Mobile	36.1	6.7	3045.TW	2L		2.0	12.6	-11.7	7.2	2.0	15.7	-8.5
Thailand (-58 bps Underweight)					1.6	1.0						
Thai Airways	47.0	6.2	THAI.BK	1M		1.0	10.1	-12.0	3.1	1.1	11.2	27.7
Cash (+200 bps Overweight)					0.0	2.0						
Total					100.0	100.0	14.7	22.3	3.3	2.2	14.8	

Neutral weight as of Feb 9, 2007

Source: Citigroup Investment Research and IBES estimates

Asia Pacific Model Portfolio by Sector

Name	Price 4 May 07	YTD Perf (%)	Country	MSCI Wght (%)	Portfolio Wght (%)	FY07E PE (x)	FY07E EPS Gwth (%)	FY07E Div Yield (%)	FY07E P/BV (x)	FY07E ROE (%)	Up/Downside to Target (%)
Banks (+1162 bps Overweight)				19.4	31.0						
Aust & NZ Banking	30.7	8.9	AU		6.0	14.7	10.6	4.6	2.7	18.6	2.7
Chinatrust	26.9	-1.3	TW		2.0	13.7	253.3	0.0	1.9	14.2	-3.3
DBS	22.8	0.9	SG		3.0	15.3	8.1	2.8	1.7	11.3	0.9
HSBC	146.9	3.0	GB		6.0	12.0	4.1	4.9	1.9	15.5	4.2
Kookmin Bank	83,400.0	11.3	KR		5.0	9.1	24.2	4.0	1.7	18.6	11.5
Public Bank	9.8	26.5	MY		1.0	18.1	5.1	5.1	3.5	19.6	-22.1
Shinhan Financial	52,300.0	10.1	KR		4.0	10.6	6.1	2.7	1.3	12.2	16.6
State Bank of India	1,128.8	-9.4	IN		1.0	11.8	17.4	1.4	1.7	14.4	9.4
Taishin	16.5	-13.6	TW		3.0	20.3	134.6	0.0	1.2	6.1	18.2
Consumer Discre. (+337 bps Overweight)				6.6	10.0						
Li and Fung	25.2	4.1	HK		1.0	31.0	20.7	2.6	10.4	33.7	23.0
Shinsegae	620,000.0	6.9	KR		3.0	21.1	18.2	0.2	3.5	16.5	-9.7
SPH	4.5	4.2	SG		3.0	15.7	24.0	5.6	3.9	25.1	20.0
Tabcorp Hld	18.8	11.3	AU		3.0	18.5	-2.7	4.8	2.9	15.8	-12.0
Consumer Staples (-512 bps Underweight)				6.1	1.0						
Parkway	4.2	32.5	SG		1.0	36.5	30.1	2.6	6.6	18.0	-26.9
Energy (-290 bps Underweight)				5.9	3.0						
CNOOC	7.0	-5.4	HK		1.0	11.9	-20.2	2.5	2.4	20.4	14.9
Woodside Pet	41.8	9.6	AU		2.0	19.6	0.3	3.1	4.5	23.2	-1.6
Financials , Others (-588 bps Underweight)				7.9	2.0						
Guoco	111.6	16.3	HK		1.0	12.9	-46.8	3.6	0.9	7.3	1.3
TA Enterprise	1.9	144.0	MY		1.0	16.2	56.7	4.5	1.3	8.0	41.8
Industrials (+26 bps Overweight)				10.7	11.0						
Brambles	13.2	2.9	AU		5.0	28.5	-9.5	1.2	9.7	33.8	NA
Cathay Pacific	20.2	5.1	HK		2.0	16.7	8.7	2.4	1.7	10.2	-5.7
ComfortDelGro	2.4	47.8	SG		2.0	20.8	14.6	3.2	3.2	15.5	-4.6
IJM Corp	9.0	22.4	MY		1.0	18.0	23.5	1.9	1.8	9.8	NA
Thai Airways	47.0	6.2	TH		1.0	10.1	-12.0	3.1	1.1	11.2	27.7
Information Technology (-665 bps Underweight)				13.6	7.0						
Samsung Elec	576,000.0	-6.0	KR		5.0	11.9	-10.2	1.0	1.7	14.4	21.5
Wipro	567.4	-6.1	IN		2.0	22.6	24.0	1.8	6.6	29.0	20.7
Materials (-793 bps Underweight)				10.9	3.0						
Rio Tinto Ltd	86.9	16.9	AU		3.0	11.6	13.5	1.8	3.6	31.2	8.2
Real Estate (-687 bps Underweight)				8.9	2.0						
Henderson Land	54.1	24.3	HK		2.0	18.3	-7.8	2.0	1.1	6.2	2.4
Telecommunications (+1445 bps Overweight)				6.5	21.0						
Bharti Airtel	817.8	30.0	IN		1.0	25.7	45.9	0.6	8.6	33.7	17.4
China Netcom	19.3	-7.2	HK		1.0	11.3	5.6	3.1	1.5	13.5	17.4
China Tel	3.9	-8.5	CN		2.0	13.8	1.8	2.6	1.4	10.2	23.1
DiGi.com	21.3	40.1	MY		2.0	16.8	18.3	6.0	7.8	46.5	17.4
PT Telkom	10,300.0	2.0	ID		1.0	16.5	12.7	3.3	5.8	35.2	16.5
StarHub	3.0	12.5	SG		2.0	14.9	43.5	5.1	34.9	234.0	11.5
Taiwan Mobile	36.1	6.7	TW		2.0	12.6	-11.7	7.2	2.0	15.7	-8.5
Telecom NZ	4.9	0.4	NZ		5.0	13.4	-0.9	6.8	3.1	22.9	2.5
Telstra	4.9	17.4	AU		5.0	17.1	-1.3	5.8	4.8	27.9	-12.6
Utilities (+365 bps Overweight)				3.4	7.0						
Hong Kong & China Gas	19.0	8.5	HK		3.0	13.2	35.2	1.9	3.9	29.8	5.4
KEPCO	39,500.0	-6.8	KR		3.0	9.6	23.6	3.1	0.5	5.7	NA
Tenaga	11.8	8.3	MY		1.0	13.9	94.7	3.8	2.2	15.9	16.9
Cash (+200 bps Overweight)				0.0	2.0						
Total				100.0	100.0	14.7	22.3	3.3	2.2	14.8	

Neutral weight as of Feb 9, 2007

Source: Citigroup Investment Research and IBES estimates

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Malaysia Equity Strategy

Still Not Expensive at the Peak

- **KLCI is up 23.7% ytd** — The Kuala Lumpur Composite Index (KLCI) is up 11.6% in 1Q 07 and 23.7% year-to-date, making it the second-best performing market in Asia Pacific after Shanghai. Relative valuations and positive earnings revisions suggest the rally is sustainable, in our view.
- **Malaysia is not expensive on overall valuations** — Looking at the six common valuations – P/BV, P/E, P/CE, EV/EBITDA, EV/Sales and DV – Malaysia is still not expensive. It is still trading below the 1 standard deviation range on all six criteria. At the current market PE of 17x, Malaysia is still trading at a 59% discount to its 16-year historical peak and a 21% discount to its historical average of 21.5x.
- **Double overweight on Malaysia** — We continue to like Malaysia from a regional and country perspective. Our strategy team has allocated a 6% weighting on Malaysia in our Asia Pacific Model Portfolio vs. the 3% neutral weighting.
- **High dividend names overlooked in a rally** — High dividend paying and strong cash flow generating companies tend to lag in a liquidity-driven bull market. The recent buyout of Maxis by a major shareholder has turned investors' interests back to high dividend paying companies. Among them, we like Tanjong, Telekom Malaysia, Digi, Tenaga, Maybank and AIGB.

KLCI is up 23.7% ytd

Malaysia recorded the strongest MoM earnings revisions in April

The Kuala Lumpur Composite Index (KLCI) is up 23.7% year-to-date, making it the second best performing market in Asia Pacific after Shanghai. Cheaper relative valuations and positive earnings revisions suggest the rally is sustainable. Korea and Malaysia recorded the strongest MoM earnings revisions in April.

More investor friendly measures

From being an isolated market, the Malaysian market is back on investors' radar screens. The strong inflow of foreign portfolio money has boosted turnover velocity from around 30% in March '06 to more than 60% currently. The Malaysian stock market continues to draw foreign investors' interest on the back of a favorable macro environment ranging from a healthy economic outlook to political stability.

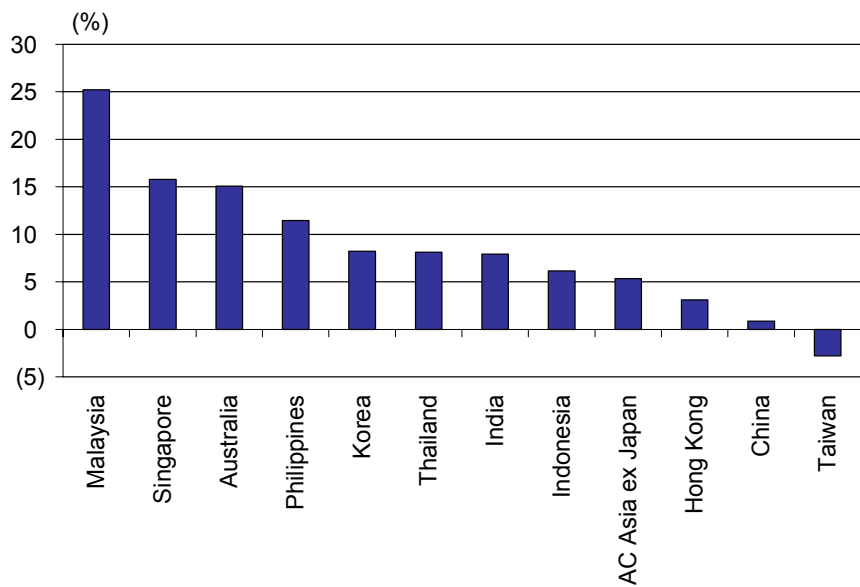
Strong political will to change

The key is the perception of strong political will for reform and change. Judging from the series of initiatives ranging from tax incentives to the lifting of employment restrictions for companies in the IDR, it does appear that the political will is strong to ensure the successful development of the IDR and the country overall.

A strong reflationary environment; ride the up cycle

Together with the 9th Malaysia Plan expenditures, the recently announced initiatives should further lift consumer confidence and spending. The immediate beneficiaries are the infrastructure/property sectors, then spilling over to the banking and the consumer related sectors, likely leading to a broader-based rally.

Figure 1. Regional Market Performance Based on MSCI Indices – YTD to 3 May 2007



Source: MSCI, Citigroup Investment Research

Malaysia is not expensive on overall valuations

Trading below the 1 standard deviation range

Looking at the six common valuations – P/BV, P/E, P/CE, EV/EBITDA, EV/Sales and DV – Malaysia is still not expensive. It is one of four markets (others are the Philippines, Taiwan and Thailand) that are still trading below the 1 standard deviation range on all six criteria, according to our AP Strategist Markus Rosgen.

Still trading at steep discount to historical valuations

At the current market PE of 17x, Malaysia is still trading at a 59% discount to its 16-year historical peak and a 21% discount to its historical average of 21.5x. Stocks under our coverage are still trading at 5%-81% below their peaks. Our earnings growth rate forecast for 2007 of 16.9% should offer upside potential.

Still far from the peak

Compared with 1992/93, valuations still look reasonable, in our view. In the bull market days of 1992/93, the KLCI was trading at a much higher valuation. At the peak, the market traded up to a P/E of 41x and P/B of 5x in 1993. It is anyone's guess if the current bull market could stretch its valuations anywhere nearer to the valuations of 1993. In a liquidity-driven market, however, valuations could stretch far beyond fundamental values.

Figure 2. Selected Market Valuations

Market Valuations Year to Dec	MSCI Average Since 1990		CIR			IBES			MSCI		
	AsiaExJapan	Malaysia	FY06E	FY07E	FY08E	FY06E	FY07E	FY08E	FY06E	FY07E	FY08E
EPS Growth (%)	15.3	11.7	14.8	16.9	9.3	15.3	19.9	9.5	15.2	13.1	11.8
P/E (x)	17.4	21.5	20.0	17.1	15.6	19.9	16.6	15.1	14.3	17.4	15.5
P/B (x)	2.0	2.4	3.4	3.1	2.8	3.3	2.6	2.4	NA	2.5	NA
Div Yield (%)	2.2	1.9	3.6	4.2	4.7	3.5	3.6	4.0	NA	3.2	NA
ROE (%)	11.0	11.4	15.0	16.0	16.1	NA	NA	NA	17.1	13.5	14.1

Source: Citigroup Investment Research, I/B/E/S estimates and MSCI

Figure 3. Regional Valuations Based on MSCI Indices (as at 3 May 2007)

	PE (x)		EPS Growth (%)		P/BV (x)		Div Yield (%)		ROE (%)	
	07E	08E	07E	08E	07E	08E	07E	08E	07E	08E
MSCI AC Asia ex Japan	14.5	13.1	12.0	10.9	2.1	1.9	2.8	2.9	14.4	14.5
MSCI Malaysia	17.4	15.5	13.9	12.4	2.4	2.2	3.2	3.6	13.6	14.2
MSCI Australia	15.8	14.7	13.2	6.9	2.9	2.7	3.8	4.1	18.4	18.3
MSCI China	16.7	14.2	8.7	17.0	2.6	2.3	2.3	2.6	15.8	16.4
MSCI Hong Kong	14.6	17.1	19.4	-14.4	1.8	1.7	3.5	3.1	12.3	9.9
MSCI India	18.2	15.5	11.7	17.6	3.7	3.1	1.4	1.5	20.1	20.0
MSCI Indonesia	14.1	12.0	28.5	17.9	3.6	3.1	3.0	3.8	25.4	25.7
MSCI Korea	11.9	10.5	5.1	13.8	1.6	1.4	2.0	2.1	13.5	13.8
MSCI Philippines	17.2	15.0	3.6	14.9	2.5	2.3	2.6	3.0	14.5	15.2
MSCI Singapore	17.9	16.1	3.5	11.2	2.2	2.1	3.0	3.2	12.5	12.9
MSCI Taiwan	13.6	11.8	26.8	15.5	2.0	1.9	4.0	4.3	14.7	15.7
MSCI Thailand	10.4	9.3	0.2	11.6	1.7	1.5	4.4	4.9	16.6	16.7

Source: MSCI, I/B/E/S, Datastream, Bloomberg, CEIC, Citigroup Investment Research

Figure 4. Selected Valuations — CIR Universe

Sector	Market Cap (RM m)	Sector Weightings (%)	EPS Growth (%)			P/E (x)			P/BV (x)			Dividend yields (%)			ROE (%)		
			2006E	2007E	2008E	2006E	2007E	2008E	2006E	2007E	2008E	2006E	2007E	2008E	2006E	2007E	2008E
Banks	139,056	25.8	18.6	19.5	11.3	20.0	16.8	15.1	3.3	3.0	2.7	4.3	4.6	5.0	14.0	16.0	16.5
Diversified Finance	12,401	2.3	26.5	51.3	16.4	25.5	16.9	14.5	2.6	2.4	2.2	4.4	5.5	6.3	10.7	15.4	16.9
Airlines	7,990	1.5	(6.9)	13.1	19.5	28.8	25.5	21.3	2.0	1.9	1.7	0.4	0.4	0.4	7.4	7.8	8.7
Auto	5,940	1.1	5.9	10.3	19.9	19.5	17.6	14.7	2.3	2.2	2.1	3.2	4.2	5.0	12.3	12.7	14.4
Construction	13,323	2.5	130.7	156.3	(16.3)	40.6	15.9	18.9	3.8	3.3	3.0	1.6	3.0	4.4	9.4	21.5	15.3
Gaming	57,494	10.7	(8.0)	11.8	4.1	22.8	20.4	19.6	4.5	4.0	3.5	2.0	1.9	1.9	14.1	14.4	13.6
Infrastructure	15,500	2.9	50.9	(17.1)	9.6	14.0	16.9	15.4	3.5	3.4	3.2	5.6	4.7	5.2	25.8	20.4	21.5
Media	5,435	1.0	19.0	(2.5)	31.8	19.6	20.1	15.2	2.3	2.2	2.0	5.3	4.9	5.6	11.9	10.8	13.7
Oil&Gas	1,281	0.2	(91.7)	716.7	91.5	255.8	31.3	16.4	4.2	3.7	2.8	1.1	1.1	1.1	(2.2)	9.7	19.1
Plantations	55,087	10.2	18.7	48.6	29.4	30.2	20.3	15.7	4.2	3.9	3.7	2.0	4.1	4.9	14.3	19.8	23.9
Real Property	10,681	2.0	10.0	15.7	18.0	24.2	20.9	17.7	2.7	2.5	2.3	2.1	2.9	3.2	11.7	12.7	13.9
Shipping	36,454	6.8	(16.5)	(28.4)	(9.6)	12.8	17.9	19.8	2.1	2.0	1.9	3.1	3.1	3.1	16.3	10.8	9.4
Telecommunications	85,939	16.0	21.6	10.8	11.6	18.5	16.7	15.0	5.4	4.8	4.3	4.9	5.1	5.7	16.4	17.1	17.7
Tobacco	13,063	2.4	21.4	17.6	2.9	18.1	15.4	15.0	93.1	69.2	45.5	7.7	8.0	8.1	123.0	146.9	134.1
Utilities	78,672	14.6	41.1	34.5	4.4	18.6	13.8	13.3	2.4	2.2	2.0	3.0	4.7	5.3	13.8	16.4	15.5
Citigroup Universe	538,316	100.0	14.8	16.9	9.3	20.0	17.1	15.6	3.4	3.1	2.8	3.6	4.2	4.7	15.0	16.0	16.1

Source: Citigroup Investment Research estimates

Figure 5. Selected Valuations, CIR Universe Using I/B/E/S Estimates

Sector	Market Cap (RM m)	Sector Weightings (%)	EPS Growth (%)			P/E (x)			P/BV (x)			Dividend yields (%)		
			2006E	2007E	2008E	2006E	2007E	2008E	2006E	2007E	2008E	2006E	2007E	2008E
Banks	139,056	25.8	21.8	22.5	11.7	19.5	15.9	14.3	3.2	2.5	2.3	4.3	4.4	4.9
Diversified Finance	12,401	2.3	24.7	38.3	18.2	25.9	18.7	15.8	2.5	2.3	2.2	4.3	4.2	4.8
Airlines	7,990	1.5	(2.3)	18.9	23.4	27.4	23.1	18.7	2.0	1.9	1.7	0.4	0.4	0.5
Auto	5,940	1.1	5.9	17.5	14.4	19.5	16.6	14.5	2.3	2.1	2.0	3.2	3.6	4.0
Construction	13,323	2.5	132.8	144.7	(19.2)	40.3	16.5	20.4	3.7	2.9	2.6	1.6	2.2	2.5
Gaming	57,494	10.7	(7.7)	18.3	10.0	22.8	19.2	17.5	4.3	3.0	2.6	2.1	1.9	1.9
Infrastructure	15,500	2.9	50.9	(13.1)	4.7	14.0	16.1	15.4	3.5	3.2	3.0	5.6	4.6	5.1
Media	5,435	1.0	19.0	2.7	17.8	19.6	19.1	16.2	2.3	2.2	2.0	5.3	4.2	4.3
Oil&Gas	1,281	0.2	(91.7)	1,097.2	48.0	255.8	21.4	14.4	4.2	2.4	1.9	1.1	1.4	1.7
Plantations	55,087	10.2	17.8	38.6	16.2	30.5	22.0	18.9	4.1	3.6	3.3	2.0	2.2	2.5
Real Property	10,681	2.0	12.4	11.9	14.0	23.7	21.2	18.6	2.7	2.5	2.3	2.1	2.6	2.7
Shipping	36,454	6.8	(19.3)	(3.0)	6.1	13.3	13.7	12.9	2.0	1.8	1.7	3.1	3.3	3.4
Telecommunications	85,939	16.0	21.6	10.0	8.7	18.5	16.8	15.5	5.4	2.9	2.7	4.9	4.7	5.3
Tobacco	13,063	2.4	21.4	7.5	4.9	18.1	16.9	16.1	93.1	21.2	19.4	7.7	7.3	7.5
Utilities	78,672	14.6	42.0	34.1	7.1	18.5	13.8	12.9	2.3	2.0	1.8	2.5	3.2	3.6
IBES	538,316	100.0	15.3	19.9	9.5	19.9	16.6	15.1	3.3	2.6	2.4	3.5	3.6	4.0

Source: Citigroup Investment Research and I/B/E/S estimates

Figure 6. Selected Valuations: MSCI Universe

Sector	Market Cap (USD m)	Sector Weightings (%)	EPS Growth (%)			P/E (x)			P/BV (x)	DY (%)	ROE (%)		
			2006E	2007E	2008E	2006E	2007E	2008E			Current	2007	2006E
Banks	18,684	23.8	23.8	18.6	11.1	18.6	15.7	14.2	2.7	4.1	14.5	17.2	19.1
Diversified Financials	3,850	4.9	9.4	14.3	17.1	25.9	22.7	17.5	1.9	1.7	7.3	8.3	10.8
Transportation (incl Airlines, Infra, Shipping)	6,547	8.3	(9.3)	6.9	12.4	15.9	14.9	13.3	2.3	3.1	14.2	15.1	17.0
Auto & Components	1,601	2.0	(226.3)	NA	43.0	(59.4)	27.6	19.3	1.0	2.6	(1.7)	3.6	5.2
Capital Goods (incl Construction)	7,946	10.1	13.5	12.0	14.3	24.1	21.5	18.8	2.5	2.6	10.4	11.6	13.3
Consumer Services (incl Gaming)	8,543	10.9	6.0	4.1	8.0	19.5	18.7	17.4	3.1	2.1	15.9	16.5	17.8
Media	1,579	2.0	8.7	8.8	25.8	23.3	21.4	17.0	3.8	3.4	16.4	17.8	22.4
Food Bev & Tobacco (incl Plantations, Tobacco)	10,694	13.6	(0.2)	20.8	12.8	26.7	22.0	19.5	3.7	3.3	14.0	17.0	19.1
Real Estate	2,440	3.1	16.6	4.8	11.5	20.6	19.7	17.6	2.1	3.1	10.1	10.6	11.8
Telecom	5,763	7.3	54.8	(1.0)	9.2	15.8	15.9	14.6	2.7	4.7	16.8	16.6	18.2
Utilities	8,772	11.2	46.1	3.3	9.9	15.6	15.1	13.8	2.2	3.0	14.0	14.4	15.9
MSCI	78,566	100.0	15.2	13.1	11.8	14.3	17.4	15.5	2.5	3.2	17.1	13.5	14.1

Source: MSCI, Citigroup Investment Research. Note: Other sectors make up the balance 2.7% in the MSCI Universe

Double overweight on Malaysia

We continue to like Malaysia from a regional and country perspective. Our strategy team has allocated a 6% weighting on Malaysia in our Asia Pacific Model Portfolio versus the 3% neutral weighting.

Figure 7. Stock Ideas

	RIC	Rating	Price (RM)	Target Price	ETR Mkt. Cap		PE (x)		EPS Growth (%)		PB (x)	ROE (%)	Div Yield (%)
			3-May-07	(RM)	(%)	(RM mn)	FY07E	FY08E	FY07E	FY08E	FY07E	FY07E	FY07E
Telekom	TLMM.KL	1L	10.80	12.00	15.4	36910	17.0	14.9	27.7	13.7	1.7	10.1	4.3
Digi	DSOM.KL	1L	21.50	25.00	22.2	16125	16.9	14.3	18.3	18.5	7.9	50.1	5.9
Tanjong	TJPL.KL	1L	17.10	18.70	15.1	6896	13.5	12.1	36.1	11.7	2.2	17.4	4.6
Tenaga	TENA.KL	1L	11.70	13.80	21.8	50574	13.8	13.7	94.7	0.1	2.2	17.4	3.8
AIGB*	AMIP.KL	1L	2.64	3.03	22.1	2354	11.9	9.5	18.8	24.8	1.5	13.1	5.8
Maybank	MBBM.KL	1L	12.20	13.80	19.1	47410	15.4	13.8	6.7	11.4	2.7	17.8	5.9

Source: Citigroup Investment Research

High dividend overlooked in a rally

High dividend paying and strong cash flow generating companies tend to lag in a liquidity-driven bull market. This is largely due to the perception that these companies lack growth. The recent buyout of Maxis by a major shareholder has turned investors' interests back to high dividend paying companies.

Against this backdrop, we are reiterating our buy call on Tanjong, Telekom Malaysia, Digi, Tenaga, Maybank and AIGB. In addition to the potential to offer dividend upside due to strong operating cash flow, earnings growth is forecast to be strong.

Malaysia Market Intelligence

4 May 2007	Mkt Cap USD bil	P/E (X)			EPS Growth (%)			Yield (%)	PBV (X)	ROE (%)			US\$ Performance		
		2006	2007	2008	2006	2007	2008			2006	2007	2008	1W	1M	YTD
Malaysia	82.2	20.2	17.9	15.9	14.7	13.9	12.4	3.2	2.6	13.0	13.6	14.2	2.9	8.0	29.9
Energy	1.2	12.7	12.1	11.4	-8.5	9.7	6.3	3.5	2.0	15.7	16.4	17.5	3.1	6.3	28.3
Materials	0.6	29.7	23.4	20.4	NA	26.8	15.0	2.8	1.6	5.4	6.8	7.8	1.1	5.7	37.5
Capital Goods	8.1	24.2	22.0	18.4	13.7	9.9	19.9	2.5	2.5	10.3	11.3	13.6	2.6	7.8	45.2
Transportation	6.9	16.6	15.9	13.8	-9.2	4.6	14.9	3.0	2.4	14.2	14.8	17.1	0.3	7.3	16.7
Auto & Components	1.7	-50.5	36.1	19.8	-252.4	NA	82.5	2.3	1.0	-2.0	2.8	5.2	0.3	3.7	26.1
Consumer Services	8.7	19.7	18.9	17.6	6.0	3.8	7.4	2.1	3.1	15.9	16.5	17.7	3.1	5.6	27.5
Media	1.7	29.0	25.1	19.3	-12.4	15.7	30.3	3.1	4.1	14.1	16.3	21.3	3.1	11.0	7.5
Food Bev & Tobacco	11.2	27.7	22.1	19.6	-0.2	25.1	12.5	3.2	3.9	14.0	17.6	19.8	1.3	13.2	39.2
Banks	19.6	19.3	16.1	14.6	23.8	20.1	9.9	4.0	2.8	14.5	17.5	19.2	2.9	4.9	28.7
Diversified Financials	4.0	29.1	22.9	17.4	0.1	27.2	19.2	1.7	1.9	6.7	8.5	11.1	1.9	5.5	51.9
Insurance	0.1	56.8	14.1	12.7	-80.7	NA	10.8	4.8	3.2	5.7	23.0	25.5	0.0	0.2	4.1
Real Estate	2.7	22.7	21.6	19.0	15.6	5.0	13.8	2.8	2.3	9.9	10.4	11.9	4.6	15.3	65.0
Semi & Semi Equipment	0.3	19.7	14.9	13.0	125.6	32.0	14.5	4.6	3.0	15.1	20.0	22.9	2.9	3.0	3.1
Telecom	6.7	18.2	18.3	16.8	54.8	-0.8	9.0	4.2	3.1	16.8	16.7	18.2	12.5	19.4	36.3
Utilities	8.9	15.6	14.9	13.7	48.7	4.3	9.1	3.2	2.2	14.0	14.6	16.0	1.1	4.3	11.9

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

Source: IBES Aggregate, MSCI, FactSet and Citigroup Investment Research estimates.

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Taiwan Equity Strategy

No Relief on Capital Outflow

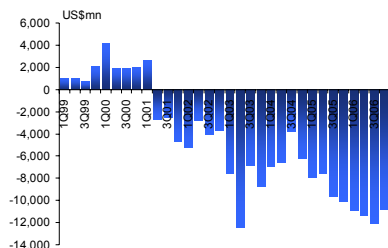
- **NT dollar weakness points to accelerating capital outflow** — The Central Bank of China's effort lately to prop up interest rates underscores a broader concern regarding capital outflow and the weakening NT dollar.
- **Real interest rate gap widening and politics worsening** — The real interest rate gap with the USD has widened over 1Q07, while cross-strait relations have worsened. These are two key drivers to capital outflow.
- **As goes the currency, so goes the market** — To the extent that interest rates and politics drive capital outflow, and to the extent that the CBC is unable to raise rates, then we should expect further currency depreciation. And further currency depreciation implies further market underperformance.
- **We remain overweight banks, despite bad performance this week** — ASE was the worst performer this week, still reeling from the collapse of LBO talks, while banks were hit by a restructuring announced by Cosmos Bank and the further sell-down of Mega. We view these as events likely to form a bottom in bank sector performance. We remain overweight.

Figure 1. Taiwan – Top Picks

Stock	Price 2-May (NT\$)	Target Price (NT\$)	Market Cap (US\$)	RIC	Citi Rating
AU Optronics	53.4	65.0	12,144	2409.TW	1L
Vanguard	28.8	34.0	1,437	5347.TWO	1M
Cathay FHC	67.0	86.0	18,561	2882.TW	1L
Sinopac FHC	14.4	18.5	3,062	2890.TW	1L
Acer Inc.	63.1	83.0	4,428	2353.TW	1L
Far Eastern Dep Stores	21.1	26.5	683	2903.TW	1M

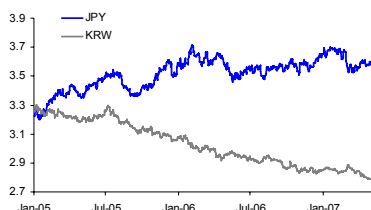
Source: Citigroup Investment Research estimates

Figure 2. Taiwan – Net Portfolio Investment



Source: Citigroup Investment Research

Figure 3. TWD v JPY & KRW



Source: Citigroup Investment Research

Musings

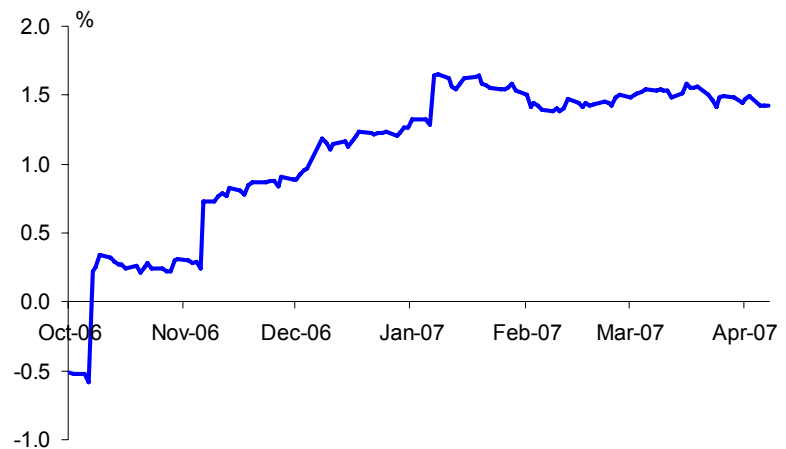
The weakening of the currency is a signal that the capital outflow from Taiwan is gaining momentum, not reversing as we had originally hoped. Net portfolio investment amounted to US\$45bn last year, and that includes the US\$15bn of QFII inflows. Signs of improving political environment and the narrowing of the interest rate spread with the USD gave rise to hope that the outflows could begin to abate this year. However, there are some disturbing datapoints suggesting that all is not necessarily improving, not the least of which is the surprisingly poor performance of the NT dollar in recent weeks.

From the standpoint of politics and overall sentiment, we discussed in last week's edition of *Taiwan Flavor of the Week* that important milestones were missed by a wide margin. The demise of the ASE LBO, the snub to China's Olympic torch offer, and the May Legislative Yuan's (LY) recess suggest that direct weekend flights, PRC tourism, and the relaxation of investment limits are not likely to happen in the next few months. Thereafter, with LY elections in December and presidential elections in March, it is hard to imagine much progress until after the May 2008 inauguration of the new president.

Another concern is the rather anomalous gap between the 2.87% discount rate set by the Central Bank of China (CBC) and the 1.72% overnight rate. The discount rate is, of course, for reference only, but it seems now to be referring only to the fact that interest rates are well below levels with which the central bank is comfortable. And there seems to be precious little it can do about it. Various factors suggest the central bank is concerned over the effect of excessively low interest rates. These include press reports of the central bank pressuring the Taiwan Postal Saving System to refrain from buying long-term bonds, the accelerated issuance of 364-day NCDs by the CBC, and the recent CBC *special audits* of the bond trading activity among the local bills finance companies.

And what might those concerns be? First, while government policy has always favored a weak NT dollar to support exporters, there must be some concern over the extent to which the currency has fallen lately. Taiwan is not so much flush with liquidity as it is exporting it. The chart in figure 3 shows the depreciation of the NT dollar versus the Korean won. Clearly the CBC is tying the NT dollar exchange not so much to the weakening US dollar, but to the even weaker Japanese yen, and *even against the yen*, the NT dollar itself has weakened over the past two years. But capital outflow is largely driven by the real interest rate gap with US dollar rates, a gap that has widened considerably over the course of 1Q07.

Figure 4. Taiwan – Real Interest Rate Gap: USD - NTD



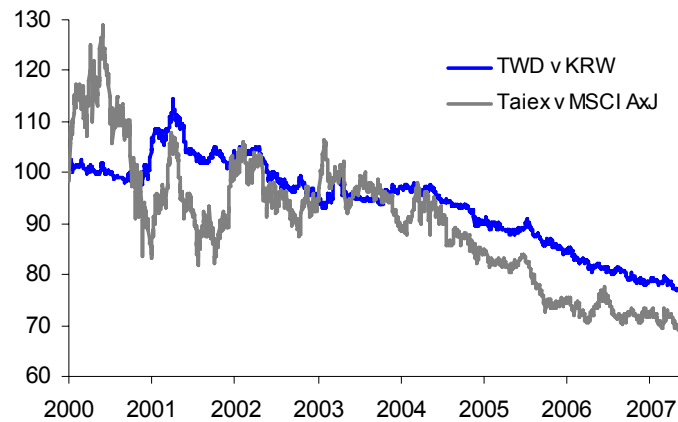
Source: Citigroup Investment Research

Second, low interest rates have fueled the property market to the extent that a number of banks are already approaching the statutory limit for mortgage lending. This channeling of funds into the property market will create wealth imbalances, especially when compared to stagnant wage levels of the past decade. Finally, pensioners and life insurance companies are all struggling with low domestic yields and inadequate access to international capital markets.

So under these circumstances, it is reasonable to assume further NT dollar weakness versus the US dollar and versus Asian ex-Japan currencies. First, there is now clearly a limit to which the central bank can raise the discount rate without drawing even more attention to the irrelevance of that number. Accelerating the issuance of LT NCDs will only further diminish the already diminutive growth of the monetary aggregates, the lowest in Asia after Japan. The only factor that is now free to move is the exchange rate, driven by further capital outflow.

And further NT dollar weakness portends further Taiwan stock market underperformance. The chart in figure 5 shows the NT dollar cross-rate versus its nearest ex-Japan soulmate, the Korean won, as against the Taiex relative performance against the MSCI Asia Free ex-Japan index. The relationship is perhaps more coincidental than causal, but in any case does not bode well. For this reason, we maintain our underweight recommendation for the Taiwan market.

Figure 5. Taiwan – Taiex v TWD Relative Performance



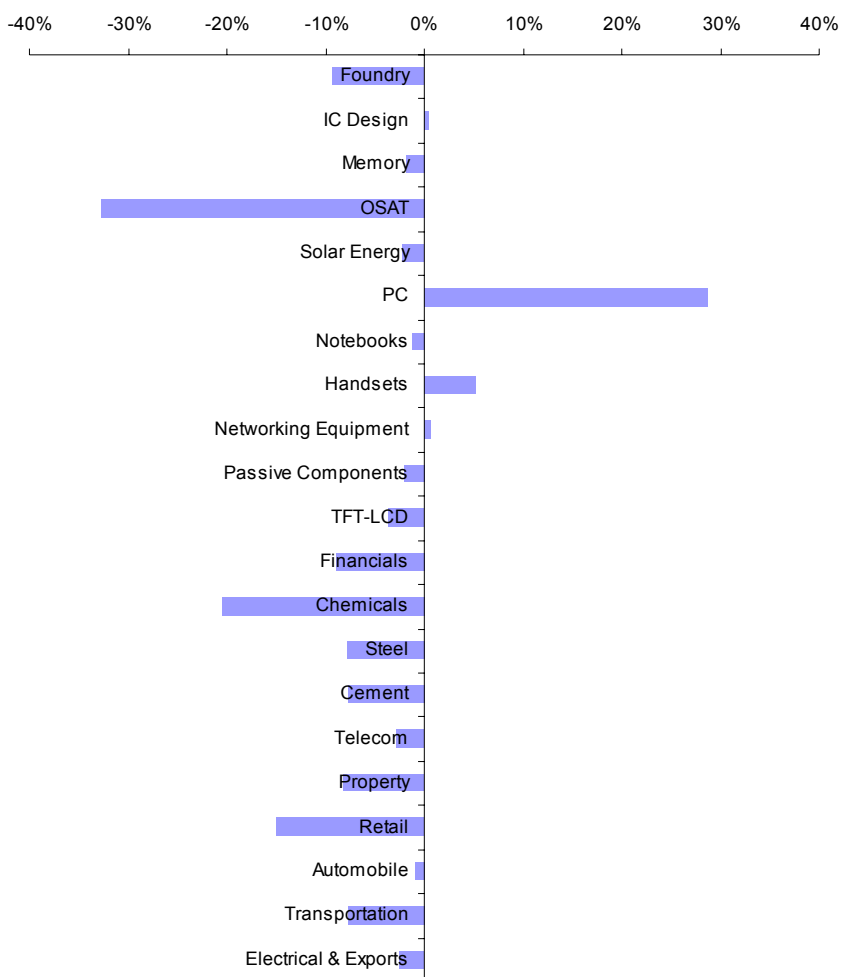
Source: Citigroup Investment Research

Sector Performance

ASE (2311.TW - NT\$38.50; 2L) is still reeling from the collapse of its LBO deal, bringing down the OSAT sector despite strength from SPIL (2325.TW - NT\$65.30; 1L) and Powertech (6239.TW - NT\$130.50; 1M). And despite our overweight, the financials put in a bad performance, too, thanks to Mega and Cosmos Bank (2837.TW - NT\$9.10; Not Rated). Cosmos announced plans to raise capital, presumably as a private placement to strategic shareholder GE. Such an event would be highly dilutive to minority shareholders as Cosmos's unprovisioned losses amount to 90% of shareholders' equity. Not good news for the banking sector, but we do expect these events to mark the bottom in relative performance. Mega (2886.TW - NT\$21.10; 2M) fell on news, too, that Chinatrust (2891.TW - NT\$26.60; 3L) will continue its sell down – another event that could take away considerable selling overhang. It was in anticipation of these events that we chose to overweight the banking sector last week, albeit perhaps a week too early.

On the upside Hon Hai (2317.TW - NT\$240.50; 1L) and Delta (2308.TW - NT\$113.00; 1L) alone were responsible for the PC sector's outperformance this week on the back of very strong guidance for 2007 as well as good 1Q07 results.

Figure 6. Taiwan – Sector Relative Performance



Source: Citigroup Investment Research

Model Portfolio

Figure 7. Taiwan – Model Portfolio

Stock	Price 2-May (NT\$)	Target Price (NT\$)	Market Cap (US\$)	RIC	Citi Rating	Neutral Weight (%)	Portfolio Weight (%)	2007E P/E (x)	2007E EPS %YoY	2007E P/BV (x)	2007E ROE (%)	2006 Div Yld (%)
IT Hardware						33.3	35.0					
Hon Hai Precision	233.5	300.0	36,234	2317.TW	1L		12.3	15.3	25.9	3.8	27.9	1.3
Acer Inc.	63.1	83.0	4,428	2353.TW	1L		5.6	11.6	22.5	1.8	16.2	4.8
AU Optronics	53.4	65.0	12,144	2409.TW	1L		6.7	20.3	119.2	1.7	8.9	1.9
Catcher	273.5	310.0	3,401	2474.TW	1M		3.8	14.5	20.7	4.4	34.8	0.7
Merry Electronics	114.5	127.0	495	2439.TW	1M		2.2	13.8	58.9	3.5	27.3	2.2
Delta Electronics	106.0	124.0	6,268	2308.TW	1L		4.4	14.5	26.8	3.5	25.8	2.7
Semiconductor						25.6	18.3					
TSMC	68.0	82.0	52,741	2330.TW	1L		12.7	15.5	(10.6)	3.6	22.6	3.5
Vanguard	28.8	34.0	1,437	5347.TWO	1M		5.6	12.2	28.7	2.1	17.7	5.0
Financial						17.6	16.5					
Cathay FHC	67.0	86.0	18,561	2882.TW	1L		6.7	20.7	166.1	3.1	15.4	2.1
Fubon FHC	29.3	35.0	6,779	2881.TW	1L		3.4	12.6	112.9	1.3	10.8	3.9
Fuhwa Financial Holding	14.8	20.0	3,681	2885.TW	1L		2.0	16.2	194.6	1.2	6.0	-
Sinopac FHC	14.4	18.5	3,062	2890.TW	1L		4.3	13.8	181.1	1.1	8.3	4.9
Materials						13.3	2.6					
Walsin Lihwa	17.0	19.1	1,651	1605.TW	1L		2.6	8.7	(19.8)	0.8	10.5	1.4
Property						1.3	3.0					
Far Eastern Textile	30.9	36.0	4,036	1402.TW	1L		3.0	14.6	9.5	1.6	10.9	3.2
Retail						1.2	2.5					
Far Eastern Department Stores	21.1	26.5	683	2903.TW	1M		2.5	32.0	21.1	0.9	2.8	2.4
Other						7.6	0.0					
Equity							77.8					
Wtd Average								12.2	43.1	2.1	14.4	2.1
Cash							22.2					
Total						100.0	100.0					

Source: Citigroup Investment Research estimates

Taiwan Market Intelligence

4 May 2007	Mkt Cap USD bil	P/E (X)			EPS Growth (%)			Yield (%) 2007	PBV (X)	ROE (%)			US\$ Performance		
		2006	2007	2008	2006	2007	2008			2006	2007	2008	1W	1M	YTD
Taiwan	310.8	18.3	14.0	12.1	5.1	26.8	15.5	3.9	2.2	12.5	14.6	15.6	2.6	1.3	-0.3
Materials	39.5	11.4	9.8	9.9	-7.3	16.4	-0.9	6.6	2.0	17.9	20.9	20.7	1.2	1.2	11.4
Capital Goods	5.4	11.7	12.5	11.2	61.1	-8.7	11.7	4.9	1.3	11.0	10.3	11.5	-0.1	4.6	3.2
Comm Serv & Supplies	0.4	14.9	14.5	12.9	19.6	2.8	12.8	5.3	3.2	21.4	22.0	24.8	1.2	6.7	-4.4
Transportation	3.9	29.3	18.3	14.1	-71.6	60.3	29.9	3.1	1.3	4.5	7.2	9.4	-3.1	-4.2	8.3
Auto & Components	1.9	15.6	15.6	14.2	-23.4	-0.2	10.1	3.2	1.2	7.8	7.8	8.6	0.0	2.9	-2.5
Consumer Durables	6.1	13.2	11.5	9.6	16.1	15.1	19.5	5.8	2.5	18.7	21.5	25.6	1.5	-4.7	-12.9
Food & Staples Retailing	1.2	20.9	19.1	17.6	4.8	9.7	8.4	4.3	5.9	28.0	30.7	33.3	2.4	6.9	8.7
Food Bev & Tobacco	2.4	26.0	19.7	16.4	96.4	31.7	20.2	2.8	2.4	9.3	12.3	14.8	-2.4	-0.1	-4.7
Banks	28.2	36.2	12.7	11.3	-59.7	176.1	12.3	3.7	1.3	3.6	10.4	11.6	0.4	-3.8	-10.7
Diversified Financials	6.7	138.9	15.7	13.4	-53.0	NA	16.8	3.6	1.3	0.9	8.1	9.4	2.5	-5.8	-10.0
Insurance	14.8	44.6	22.3	19.2	-38.7	100.1	16.2	2.5	2.9	6.5	13.0	15.1	6.8	5.3	-4.3
Real Estate	0.6	NA	NA	NA	NA	NA	NA	2.4	1.6	NA	NA	NA	5.5	4.6	-15.9
Technology Hardware & Equip	101.2	24.4	15.8	12.2	8.0	54.4	29.5	2.5	2.6	10.6	16.4	21.3	4.4	3.2	-2.9
Semi & Semi Equipment	82.7	12.9	14.6	12.7	69.0	-8.4	15.3	4.0	2.8	21.6	19.1	22.1	2.4	2.0	4.0
Telecom	11.8	13.0	13.2	13.4	-3.5	-1.8	-1.2	6.8	1.7	13.3	13.0	12.9	0.9	-2.4	2.7

Note: The above data are compiled based on the MSCI Asia Pacific Free-ex-Japan universe of stocks. The market capitalization for the countries, sectors and the region are free-float adjusted. Also the P/E and EPS Growth are taken from IBES Aggregate estimates for MSCI country, sector and regional indices. P/BV represents 12-months trailing P/BV calculated by MSCI for MSCI country, sector and regional indices. ROE is calculated as trailing P/BV divided by forward P/E estimates for respective fiscal year. With the exception of Australia and New Zealand whose fiscal year ends in June, (ie, 2005E refers to June 2005E), fiscal year for all countries, sectors and the region ends in December. NM = Not Meaningful; NA = Not Available.

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

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Fun With Flows

Flows to Asia Turn Negative Amid Decelerating Global Fund Flows

- **Flattish markets in Asia over the past two weeks hurt investment appetite** — Redemptions from Asian funds were reported for the first time in six weeks. Although outflows were just US\$19m, on an average 4-week perspective, net flows to Asia have rolled over from their current peak. Outflows from GEM funds also resumed, while inflows to international funds decelerated sharply to US\$0.5bn compared with US\$1.5b on average in the preceding five weeks.
- **Historically, May has been the worst season for Asian fund flows** — May outflows have been recorded 60% of the time since 2002 (and 75% since the beginning of the current bull market). Seven of the nine country funds (ex the Philippines) have a high probability of outflows in May. Korea reported redemptions all the time; India, Indonesia and Thailand 80% of the time; Hong Kong, Singapore and Malaysia are at 60%.
- **Redemptions from six out of ten country funds last week** — Outflows from India, Hong Kong and Thailand country funds were the three biggest in dollar terms. Relative to the AUM, however, Indonesia funds saw the largest outflows. The 1-week redemptions there were 20% of the fund size. While foreign money was still targeting Singapore funds, China funds were right after them despite the PBoC rate hike.
- **Year-to-date total inflows to all Asian-dedicated funds are US\$2.4bn** — This is significantly smaller than the US\$13.5bn taken in a year ago. Of this YTD inflows, US\$1bn has gone to Singapore funds and US\$0.5bn to Malaysia funds.

Figure 1. Weekly flows to country funds

US\$m	Apr 26-May 2, 07	Past 4-wk Total	YTW Total	Same period in '06
China	33.6	-37.6	-460.4	3,597.7
Hong Kong	-31.7	-7.5	-250.9	596.6
India	-51.8	38.8	-643.1	2,263.6
Indonesia	-13.9	-10.9	-25.8	44.1
Korea (South)	-25.8	113.7	123.1	690.5
Malaysia	16.8	163.5	455.2	122.7
Philippines	1.8	1.4	10.7	6.7
Singapore	35.3	391.6	1,033.5	223.5
Taiwan	-19.7	-52.7	206.4	742.4
Thailand	-31.5	-50.6	-198.4	187.0

Source: EmergingPortfolio.com Fund Research, Citigroup Investment Research

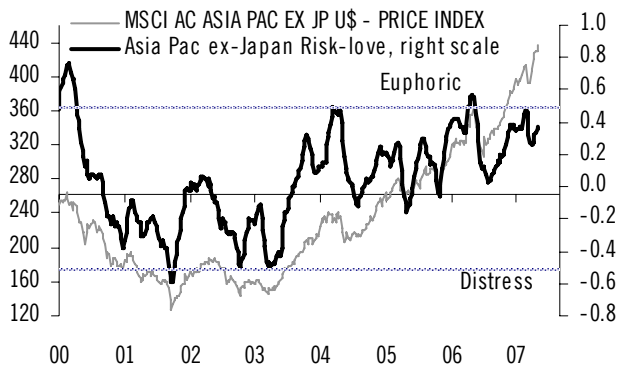
Asia Pacific

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Sentiment Indicators

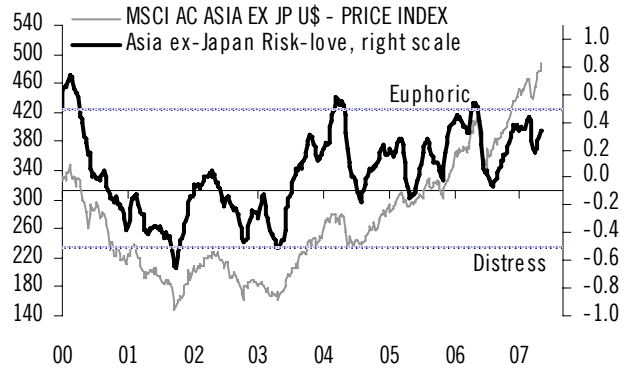
Regional risk-love indicators are on their way up following the market rebound. Country-wise, investment sentiment in Singapore is the most euphoric, followed by Korea and Malaysia. Sentiment has improved the most in Taiwan and India.

Figure 1. Asia Pac (incl. Australia) ex-Japan Risk-Love Indicator



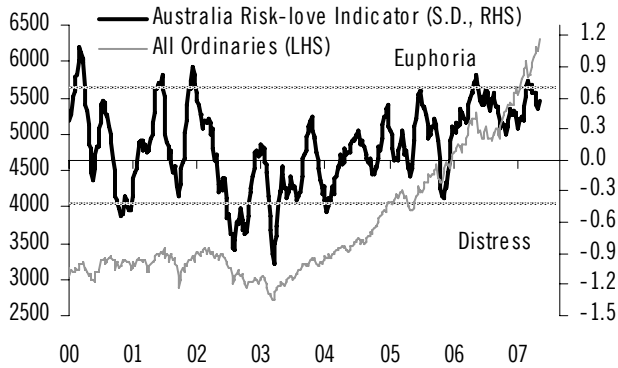
Source: CEIC, Datastream and Citigroup Investment Research

Figure 2. Asia ex-Japan Risk-Love Indicator



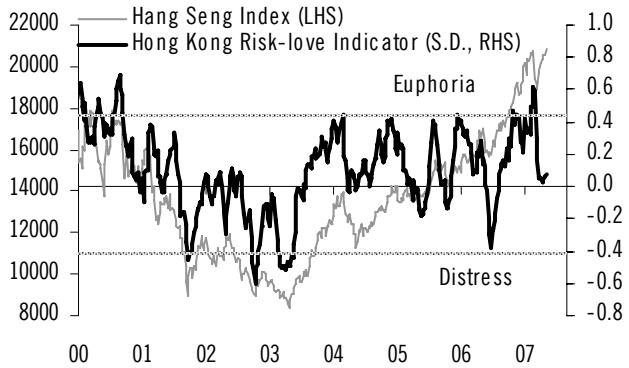
Source: CEIC, Datastream and Citigroup Investment Research

Figure 3. Australia Risk-Love Indicator



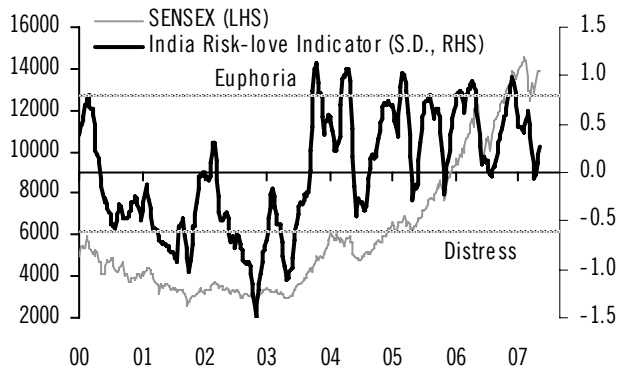
Source: CEIC, Datastream and Citigroup Investment Research

Figure 4. Hong Kong Risk-Love Indicator



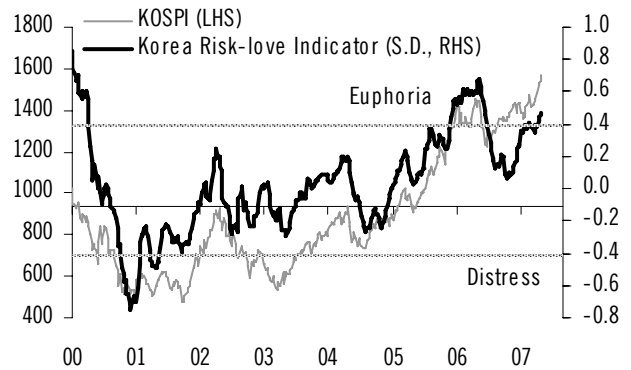
Source: CEIC, Datastream and Citigroup Investment Research

Figure 5. India Risk-Love Indicator



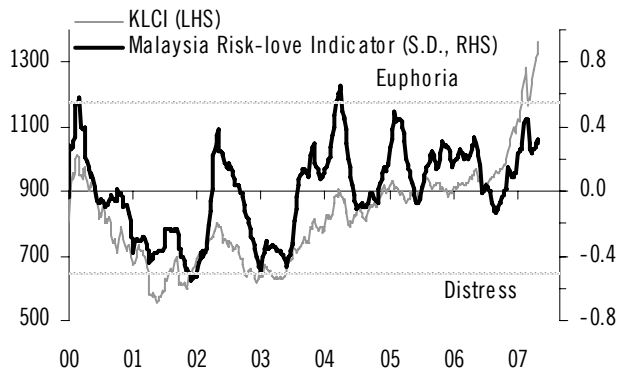
Source: CEIC, Datastream and Citigroup Investment Research

Figure 6. Korea Risk-Love Indicator



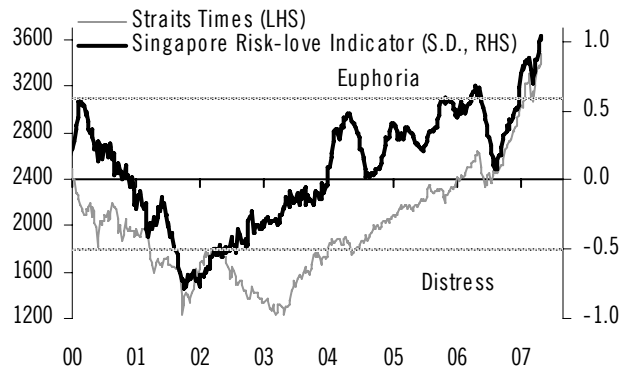
Source: CEIC, Datastream and Citigroup Investment Research

Figure 7. Malaysia Risk-Love Indicator



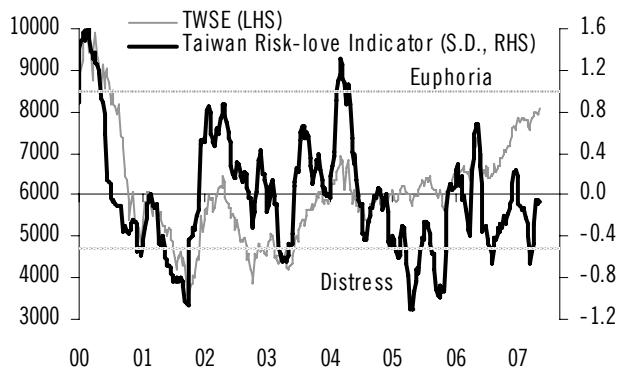
Source: CEIC, Datastream and Citigroup Investment Research

Figure 8. Singapore Risk-Love Indicator



Source: CEIC, Datastream and Citigroup Investment Research

Figure 9. Taiwan Risk-Love Indicator



Source: CEIC, Datastream and Citigroup Investment Research

Appendix A-1

Analyst Certification

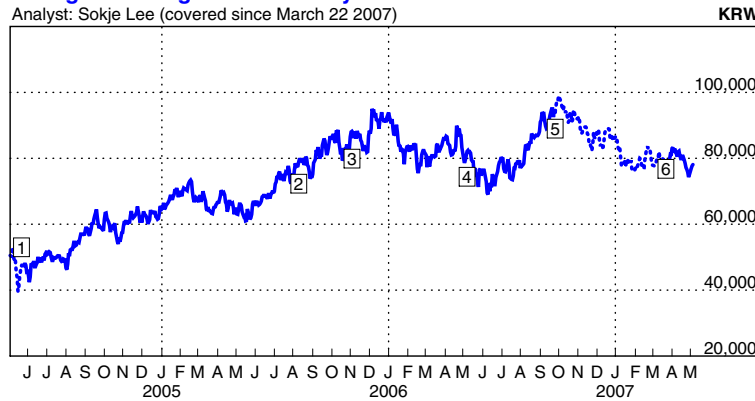
I, Markus Rosgen, research analyst and the author of this report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

IMPORTANT DISCLOSURES

Hyundai Mobis (012330.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Sokje Lee (covered since March 22 2007)



#	Date	Rating	Target Price	Closing Price
1:	21 May 04	*3M	*41,000.00	47,400.00
2:	10 Aug 05	3M	*68,000.00	79,000.00
3:	3 Nov 05	3M	*82,000.00	88,200.00
4:	7 May 06	*2M	*90,000.00	82,100.00
5:	26 Sep 06		Coverage suspended	
6:	22 Mar 07	*1L	*134,000.00	76,800.00

*Indicates change.

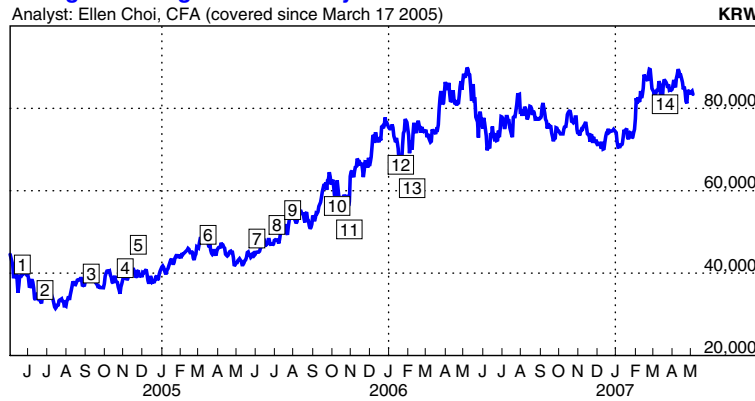
Chart current as of 5 May 2007

— Covered
 Not covered

Kookmin Bank (060000.KS)

Ratings and Target Price History - Fundamental Research

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



#	Date	Rating	Target Price	Closing Price
1:	24 May 04	1M	*49,000.00	40,500.00
2:	29 Jun 04	1M	*47,500.00	35,850.00
3:	10 Sep 04	1M	*51,500.00	38,600.00
4:	4 Nov 04	1M	*49,000.00	39,150.00
5:	25 Nov 04	1M	*47,500.00	40,650.00
6:	17 Mar 05	*2L	*52,700.00	47,200.00
7:	3 Jun 05	2L	*49,200.00	45,100.00
8:	6 Jul 05	2L	*51,400.00	48,050.00
9:	31 Jul 05	2L	*59,200.00	54,100.00
10:	11 Oct 05	2L	*66,500.00	62,500.00
11:	31 Oct 05	*1L	*70,000.00	57,300.00
12:	20 Jan 06	1L	*80,000.00	66,300.00
13:	8 Feb 06	1L	*82,000.00	70,000.00
14:	21 Mar 07	*2L	*93,000.00	86,700.00

*Indicates change.

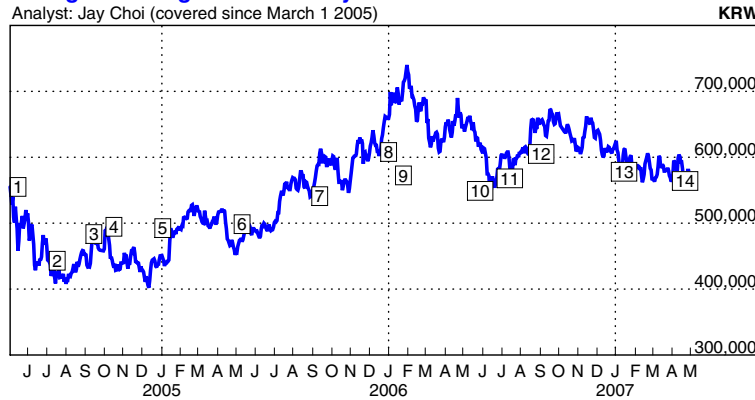
Chart current as of 5 May 2007

— Covered
 Not covered

Samsung Electronics (005930.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Jay Choi (covered since March 1 2005)



#	Date	Rating	Target Price	Closing Price
1:	17 May 04	1L	*592,000.00	458,000.00
2:	19 Jul 04	1L	*515,000.00	426,500.00
3:	15 Sep 04	*2L	515,000.00	478,000.00
4:	18 Oct 04	2L	*468,000.00	432,500.00
5:	4 Jan 05	2L	*464,000.00	447,000.00
6:	11 May 05	*1L	*610,000.00	472,000.00
7:	13 Sep 05	1L	*675,000.00	606,000.00
8:	2 Jan 06	1L	*780,000.00	659,000.00
9:	25 Jan 06	1L	*820,000.00	714,000.00
10:	29 May 06	1L	*800,000.00	622,000.00
11:	14 Jul 06	1L	*770,000.00	584,000.00
12:	3 Sep 06	*2L	*695,000.00	656,000.00
13:	15 Jan 07	*1L	*750,000.00	612,000.00
14:	23 Apr 07	1L	*700,000.00	570,000.00

*Indicates change.

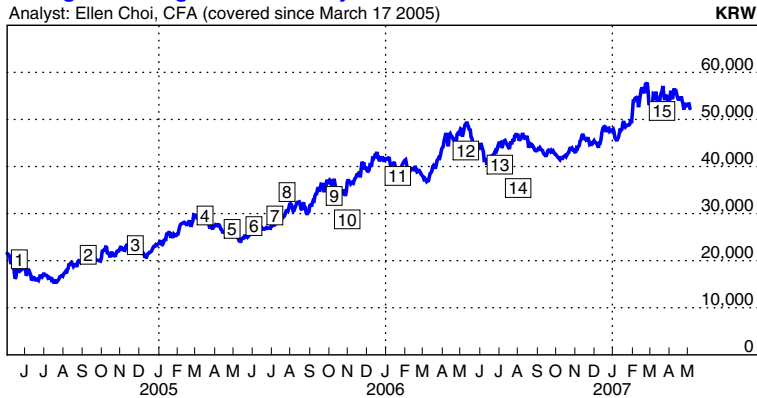
Chart current as of 5 May 2007

— Covered
 Not covered

Shinhan Financial (055550.KS)

Ratings and Target Price History - Fundamental Research

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



#	Date	Rating	Target Price	Closing Price
1:	24 May 04	1M	*25,000.00	18,350.00
2:	10 Sep 04	1M	*26,000.00	20,150.00
3:	25 Nov 04	*1L	26,000.00	22,600.00
4:	17 Mar 05	*2L	*32,200.00	27,900.00
5:	29 Apr 05	*2M	*30,000.00	25,750.00
6:	3 Jun 05	2M	*28,750.00	25,950.00
7:	7 Jul 05	2M	*30,300.00	27,600.00
8:	27 Jul 05	2M	*33,600.00	30,650.00
9:	11 Oct 05	2M	*39,000.00	37,400.00
10:	1 Nov 05	*2L	39,000.00	36,700.00
11:	20 Jan 06	2L	*41,500.00	38,500.00
12:	10 May 06	2L	*50,400.00	48,950.00
13:	4 Jul 06	*1L	*54,800.00	45,000.00
14:	2 Aug 06	1L	*55,000.00	46,550.00
15:	21 Mar 07	*2L	*61,000.00	56,000.00

*Indicates change.

— Covered
 Not covered

Shinsegae (004170.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Ally Park (covered since June 1 2004)



#	Date	Rating	Target Price	Closing Price
1:	31 May 04	1M	*350,000.00	263,500.00
2:	22 Feb 05	*1L	*370,000.00	302,500.00
3:	19 May 05	1L	*450,000.00	320,500.00
4:	1 Apr 06	*2L	*456,000.00	450,000.00
5:	8 Nov 06	2L	*560,000.00	534,000.00

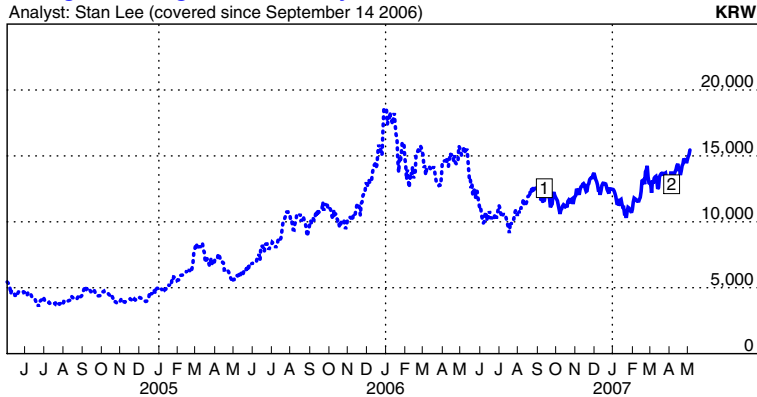
*Indicates change.

— Covered
 Not covered

Hyundai Securities (003450.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Stan Lee (covered since September 14 2006)



#	Date	Rating	Target Price	Closing Price
1:	13 Sep 06	3H	11,500.00	11,600.00
2:	5 Apr 07	*3M	*10,000.00	13,700.00

*Indicates change.

— Covered
 Not covered

Hanjin Shipping (000700.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Charles de Trenck (covered since September 20 2004)



#	Date	Rating	Target Price	Closing Price
1:	20 Sep 04	2H	24,000.00	20,300.00
2:	8 Dec 04	*3H	24,000.00	24,200.00
3:	4 Oct 05	3H	*16,000.00	24,950.00
4:	7 May 07	3H	*24,000.00	NA

*Indicates change.

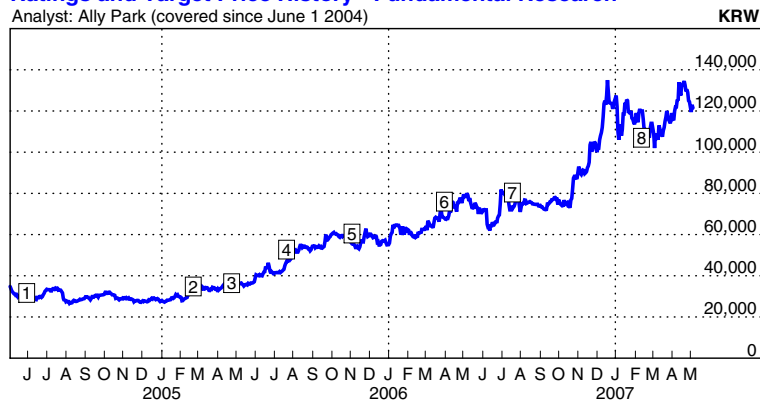
Chart current as of 7 May 2007

— Covered
 Not covered

LG Household & Healthcare (051900.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Ally Park (covered since June 1 2004)



#	Date	Rating	Target Price	Closing Price
1:	31 May 04	*2L	33,000.00	30,400.00
2:	22 Feb 05	*1L	*36,000.00	32,150.00
3:	25 Apr 05	1L	*43,000.00	33,500.00
4:	21 Jul 05	1L	*54,000.00	46,900.00
5:	3 Nov 05	1L	*70,000.00	55,500.00
6:	31 Mar 06	1L	*78,000.00	68,000.00
7:	19 Jul 06	1L	*92,000.00	74,000.00
8:	12 Feb 07	*3L	*97,000.00	120,000.00

*Indicates change.

Chart current as of 5 May 2007

— Covered
 Not covered

KT Freetel (032390.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Anand Ramachandran, CFA (covered since August 19 2006)



#	Date	Rating	Target Price	Closing Price
1:	19 Jul 04	2L	*21,500.00	19,500.00
2:	6 Aug 04	2L	*19,500.00	17,600.00
3:	17 Feb 05	*3L	19,500.00	23,100.00
4:	24 Jun 05	*2L	*26,000.00	24,600.00
5:	29 Jul 05	2L	*27,500.00	27,200.00
6:	8 Dec 05	*2M	*26,000.00	23,450.00
7:	26 Jan 06	2M	*27,000.00	23,900.00
8:	18 Aug 06	*3M	*26,000.00	26,500.00
9:	10 Nov 06	3M	*25,000.00	29,900.00
10:	14 Mar 07	3M	*23,000.00	24,700.00

*Indicates change.

Chart current as of 5 May 2007

— Covered
 Not covered

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A member of Markus Rosgen's team holds a long position in the shares of HSBC.

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

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

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

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