

## Bits & pieces

Interesting bits and pieces that I've seen this week at CLSA – 25 November 2011

- **Boo. With elevated volatility and deteriorating news flow market participants are choosing not to play. They've been spooked and Asia ex-Japan volumes have now dripped down to year lows. It's hard not to notice the weak newsflow from almost everywhere. But as prices come down, valuations look more attractive. Which is not to say they won't get a lot more attractive.**

*"I'm saying that the economy and the markets have lost elasticity. We're moving into the period where the markets will go down but they'll no longer act like a rubber band, they won't bounce back ..... For this reason, timing, or when to buy bargains, is antique thinking ..... Federal Reserve money pumping has equated with a rise in stock market and numerous bubbles. When the Fed stops pumping the markets stall, as they are doing now." Commentator, Richard Russell*

*"No doubt emergency meets are underway in numerous countries right now following a failed German bond auction. Bond auctions have failed before, but not in Germany (at least by this much), and never at a worse time. What people are saying is Germany is going to have to pay the bill. ... Just possibly, today is the day people may have decided German bonds are not the safe haven they thought they were. ... It's all about confidence isn't it? It's actually about solvency, not liquidity, not confidence. Solvency issues in Greece, Spain, and Portugal have now affected the core". Mike Shedlock*

*"The next EU meeting is December 9th. At that meeting two sides will have to form. The question is whether any of the 17 members of the Euro will form on the side against the political union (fairly clear that UK and other members of the non-Euro ten will not sign up for it). Any realistic politician would have to say no because they probably can't deliver that. However we do live in desperate times and which politician wants to be cast into the purgatory of the 'southern Euro' ..... I will still bet that some will not surrender their sovereignty on December 9th ..... If all 17 agree we might get some goodies and some relief. However in 2012 they will have to take these constitutional changes to the people in four general elections (France and Italy included) and many referendums. They will lose some of these. Merkel is right to make it clear that the next step is political union but I think that now means the Euro will start to lose members as many politicians and peoples will fail to take that step." Strategist Russell Napier*

*"The Indian Rupee has lost 20% since August, hurt by the global risk-aversion trade in the face of its India's twin deficits and stubborn oil prices, but also by a Reserve Bank that has not helped the currency' cause by its insistence that it would not intervene. The net effect has been a one-way trade". Salesman, Andrew Riddick noting India is not immune*

*"HSBC's flash, or preliminary manufacturing PMI for China dropped significantly this month, to 48 from October's 51 reading for the final PMI. The full PMI (HSBC and official) will be released next week ..... Today's flash reading is a bit lower than we'd expected, but does not change our view that although the Chinese economy is slowing, it is slowing gradually without any signs of an impending hard landing." China Strategist, Andy Rothman staying calm on China*

*"The Super Committee accomplished nothing, as expected, and more importantly, as designed. Neither political party really wanted to do anything about the deficit (because it would cost them votes). By D.C. standards this mission was a "brilliant success". It achieved its purpose, which was to do nothing. Both parties got the smoke-and-mirrors delay they wanted, while pointing fingers at the other side." Mike Shedlock (again)*

- **Plus**
- **A 99 year old Vampire Mollusc, The 1% goes to Occupy Wall St for a chat, Lobbyists (count the billions of \$), market thoughts x 2, 4 times below book in 20-years (Cathay Pacific), Aussie Market at lows, Aussie Banks by default, Don't pull the plug on US Agri-Machinery, Snaithy's Melco Math, Potential for special Divs, Interest + Tax costs in Asia, SS v DD (China Solar and Korean shipbuilding), Seven & i's 20,000 global stores, SM Prime, Malaysia Strat, Aussie REITS**
- **The last word – What do you have?**

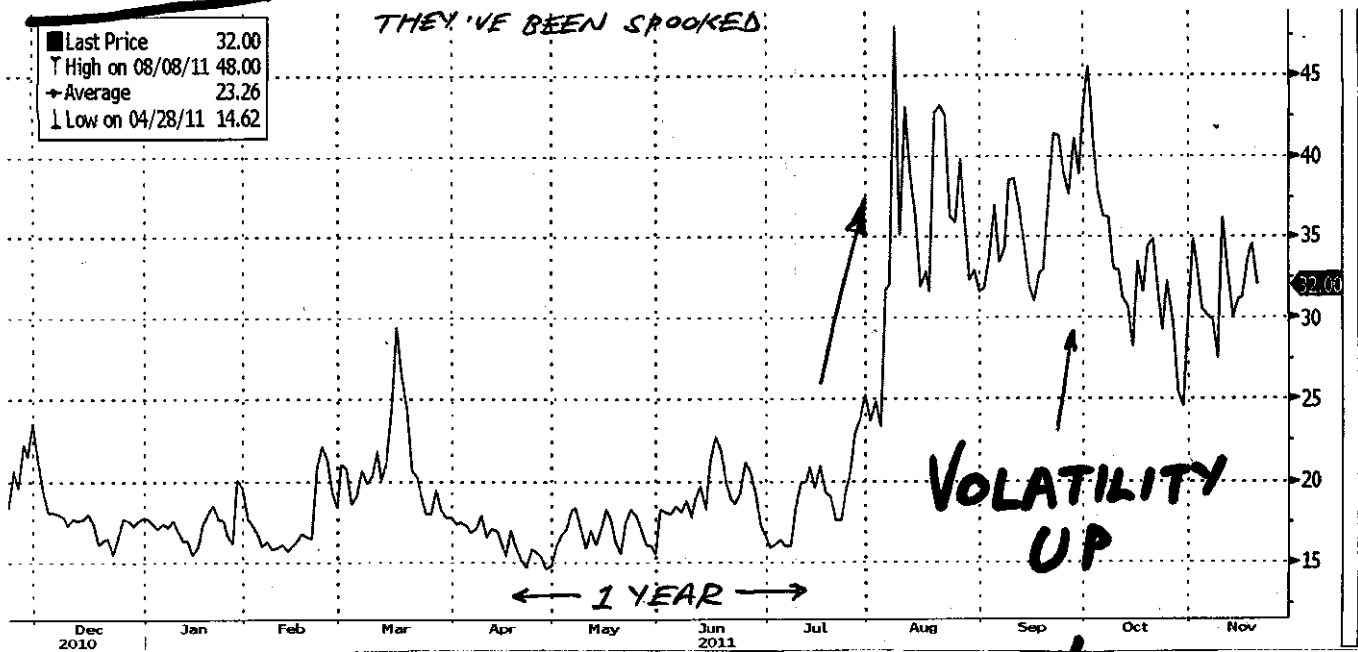
**Damian Kestel**

**Mob: (65) 9199 9231 or (614) 01362629**

# Boo

WITH ELEVATED VOLATILITY AND DETERIORATING NEWS  
FLOW MARKET PARTICIPANTS ARE CHOOSING NOT TO PLAY.  
THEY'VE BEEN SPOOKED.

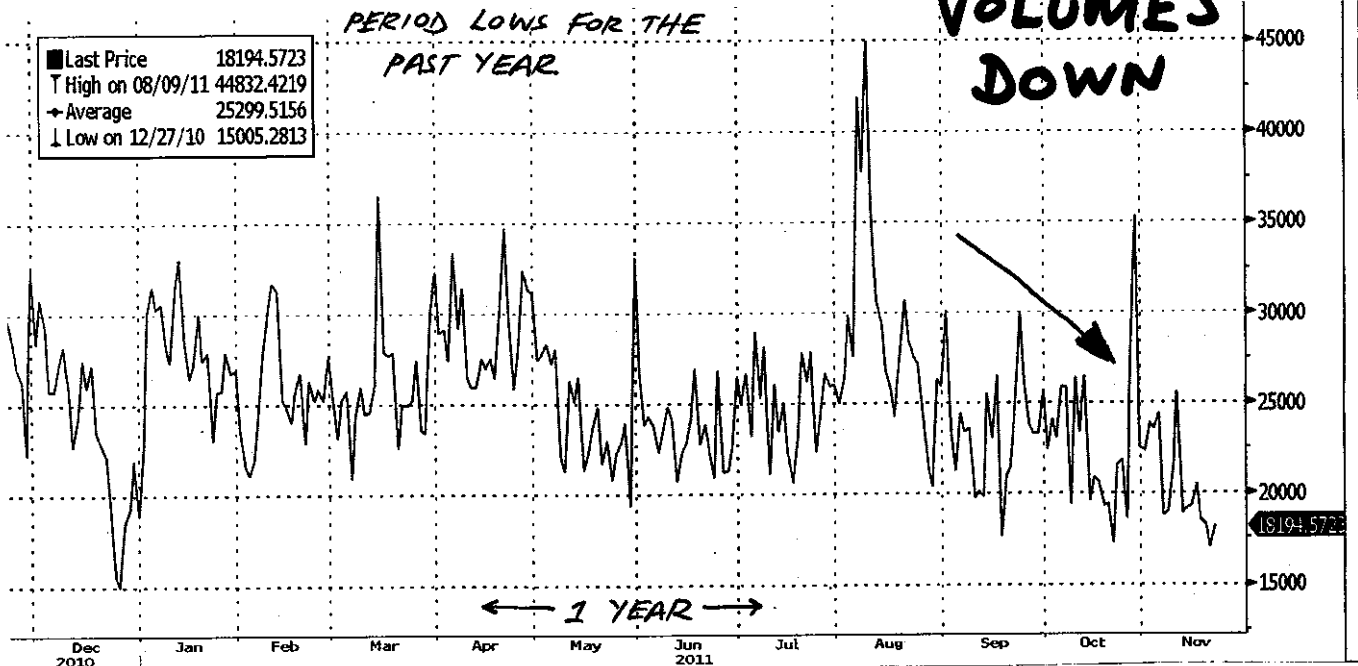
■ Last Price	32.00
↑ High on 08/08/11	48.00
→ Average	23.26
↓ Low on 04/28/11	14.62



VOLUMES HAVE DRIPPED DOWN  
IN ASIA EX-JAPAN TO NON-CHRISTMAS  
PERIOD LOWS FOR THE  
PAST YEAR

■ Last Price	18194.5723
↑ High on 08/09/11	44832.4219
→ Average	25299.5156
↓ Low on 12/27/10	15005.2813

VOLUMES  
DOWN



## Richard Russell: "Debt balloon moving closer to its fate – a pin"

Posted by Prieur du Plessis under Investment, Stocks

Writing from rehab (after a hip replacement operation), 86-year-old Richard Russell of Dow Theory Letters fame said: "The world's inflated debt balloon is moving ever closer to its fate – a pin. Anybody younger than 80 years old is used to viewing the markets like a rubber band; stretch it one way, and it will always bounce back. That's the widespread thinking and acting. If a correction comes, don't sweat it, the markets will come back and end up higher. That's been the story and thinking since the year 1900.

"I'm saying that the economy and the markets have lost elasticity. We're moving into the period where the markets will go down but they'll no longer act like a rubber band, they won't bounce back. This period lies ahead one or two years, or possibly even three. For this reason, timing, or when to buy bargains, is antique thinking. The big picture trumps all timing methods. The strategy now is to get out of debt and accumulate eternal wealth, which is gold and gem-quality diamonds.

"Federal Reserve money pumping has equated with a rise in stock market and numerous bubbles. When the Fed stops pumping the markets stall, as they are doing now." THE FED IS BECOMING INCREASINGLY INEFFECTUAL

②

# GERMAN FAIL

## German Failed Bond Auction, 6 Billion Offered, 3.6 Billion Takers; Contagion Spreads From Periphery to Outer Core, Then from Outer Core to Inner Core

No doubt emergency meets are underway in numerous countries right now following a failed German bond auction. Bond auctions have failed before, but not in Germany (at least by this much), and never at a worse time.

"What people are saying is Germany is going to have to pay the bill. ... Just possibly, today is the day people may have decided German bonds are not the safe haven they thought they were. ... It's all about confidence isn't it?"

It's actually about solvency not liquidity, not confidence. Solvency issues in Greece, Spain, and Portugal have now affected the core.

Mike "Mish" Shedlock

↓  
**YEP, GERMAN  
CRACKS ARE  
SHOWING - THEY  
WOULDN'T WANT TO REPEAT  
THE FAILURE**



*'It's not a cold - I've got  
the eurozone contagion'*

**From:** Eric Fishwick, CLSA

**Sent:** Thursday, November 24, 2011 6:49 AM

**To:** Broking Research and Investment Banking; Clone; Economics Team; Research - All; Sales - All; Sales Trading - Global

**Subject:** MORNING ECONS WRAP 24-11-11

European debt crisis continues with German bonds starting to come under pressure. EUR understandably under pressure: 1.3340. US figures (and holiday) not helping, most numbers soft. Gold ends lower. Other commodities more so.

Main news. Germany gets bids for only 65% of its 10yr Bund auction.

\* - This is the equivalent of the most senior tranches of US mortgage backed CDOs coming under pressure. That happened with a lag to lower quality tranches being sold but eventually it happened and in size. Remember back to Robert Reoch's presentation at IF, this was one of his most bearish points. It appears to be happening in Europe's crisis now. → AVAILABLE ON WEBSITE

- Real problem is that the imbalances in the core are too large for Germany to support without impacting its credit quality. Judging from their intransigence it has always appeared that German politicians have believed that, given enough austerity measures in the periphery, the crisis could leave German borrowing costs untouched. If repeated this auction failure shows otherwise. Sure it's an escalation of the crisis but it may also be something to focus German political attention and make it take a softer line to (for eg) Euro bond issuance or a more aggressive role for the ECB.

More "low level" European bad news:

*MORE BANKING UGLINESS*

- Ongoing problems with KBC bank in Belgium
- Ongoing problems with the Dexia deal
- Worries about a greater than expected fundraising requirement from German banks.

(3)

From: James Wang, CLSA

# HANDS UP WHO WANTS TO SURRENDER YOUR SOVEREIGNTY?

I ask our **Russell Napier** in how he sees things playing out in Europe in the near-term, following are his comments. Lets hope that the next EU mtg (Dec 9th) w/ yield some positive results. Otherwise, it is going to <sup>get</sup> quite ugly.

"Mrs Merkel upped the ante in calling for 'political union' which is a whole separate thing from austerity. She is saying that a choice now has to be made in giving up the powers of the sovereign state. If austerity is hard this is near impossible. She cannot now permit any such Eurobond until she knows who is in for political union and who can deliver on it. A Eurobond will be based on the credit of a basket of European countries and the first thing we need to know is who those countries are. I think her 'political union' call has delayed both the issuance of a Eurobond and also more aggressive action by the ECB. How aggressive can the ECB be on buying the garlic belts sovereign debt if it turns out they are not part of the political union and thus the Euro?

The next EU meeting is **December 9<sup>th</sup>**. At that meeting two sides will have to form. The question is whether any of the 17 members of the Euro will form on the side against the political union (fairly clear that UK and other members of the non-Euro ten will not sign up for it). Any realistic politician would have to say no because they probably can't deliver that. However we do live in desperate times and which politician wants to be cast into the purgatory of the 'southern Euro'. All 17 might sign up for it and if they do token Eurobond and perhaps even ECB support might come to encourage them. I will still bet that some will not surrender their sovereignty on December 6<sup>th</sup>.

If all 17 agree we might get some goodies and some relief. However in 2012 they will have to take these constitutional changes to the people in four general elections (France and Italy included) and many referendums. They will lose some of these. Merkel is right to make it clear that the next step is political union but I think that now means the Euro will start to lose members as many politicians and peoples will fail to take that step."

↓ **GEORGE SOROS** WROTE ABOUT THIS IN 1998

## The view of the psychohistorians/reflexivists

**As long as capitalism remains triumphant the pursuit of money overrides all other social considerations. Economic and political arrangements are out of kilter. The development of a global economy has not been matched by the development of a global society. The basic unit for political and social life remains the nation-state. The relationship between centre and periphery is also profoundly unequal. If and when the global economy falters, political pressures are liable to tear it apart.**

→ WITH BAILOUTS EVERYWHERE + BUREAUCRATS RULING THE ROOST, CAPITALISM DOESN'T SEEM TO BE TRIUMPHANT AT THE MOMENT

*The Crisis of Global Capitalism: Open Society-Endangered (1998) - George Soros*

*FROM MR ROSS KEVIN ON THE DESK IN N.Y*

- The bad news? Spreads and lending rates of all varieties (kinda like Baskin and Robbins 31 flavors) continue to rise and blow out. To name a few...
  - => Spain no bueno. Bunds vs Spanish 10YR at record wides of 465bps
  - => 2YR Euro Swap Spread at 115bps and climbing {EUSS2 curncy GPO<GO>}
  - => Euro Basis Swap Spreads -136bps near Dec 08 levels {EUBSC curncy GPO<GO>}
  - => Even Libor at 49bps hasn't seen a down day since June

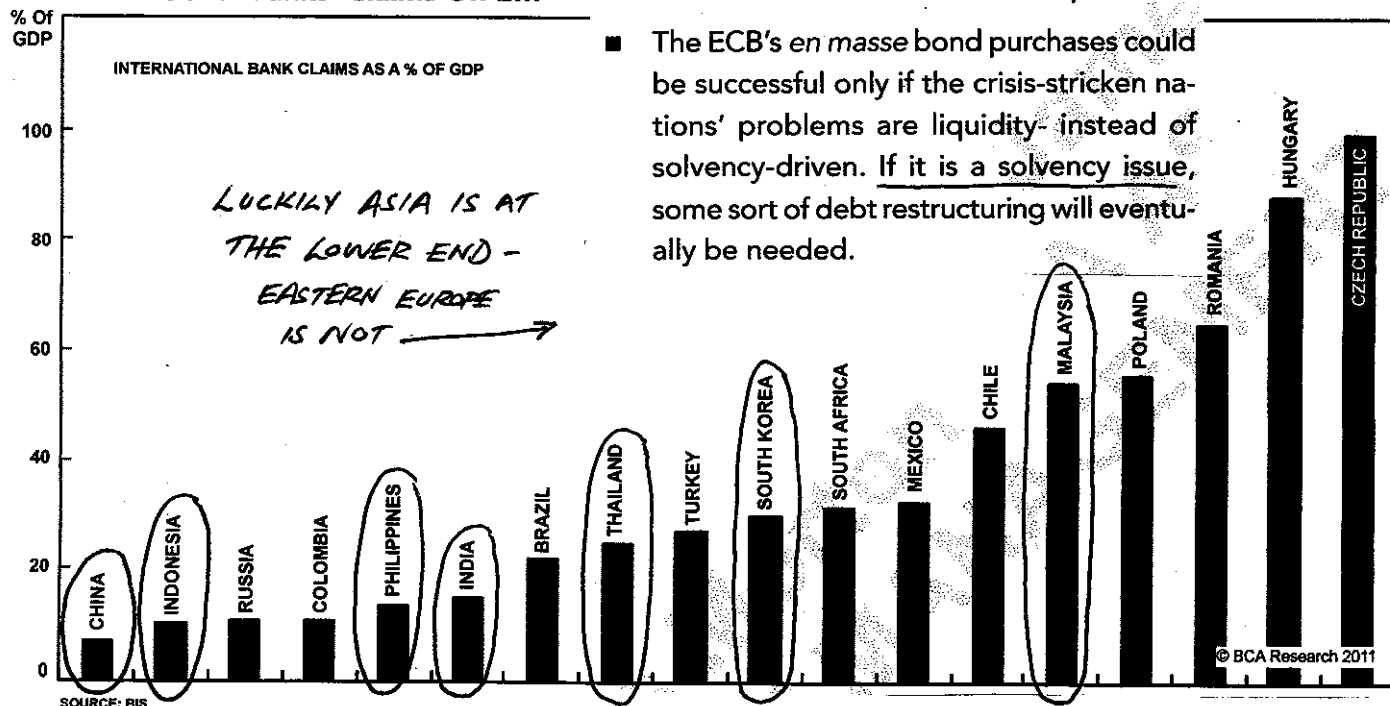
CREDIT CONTRACTION FROM EURO BANKS IN EMs

# CREDIT RETRACTION FOR EMs

## HIGHLIGHTS

- The outlook for emerging markets (EM) remains negative. Stay put.
- EMs are vulnerable to reduced credit inflows from European banks. Central Europe and countries that run large current account deficits are the most exposed.
- The ECB's *en masse* bond purchases could be successful only if the crisis-stricken nations' problems are liquidity- instead of solvency-driven. If it is a solvency issue, some sort of debt restructuring will eventually be needed.

International Banks' Claims On EM



### China: Macro, Andy Rothman.

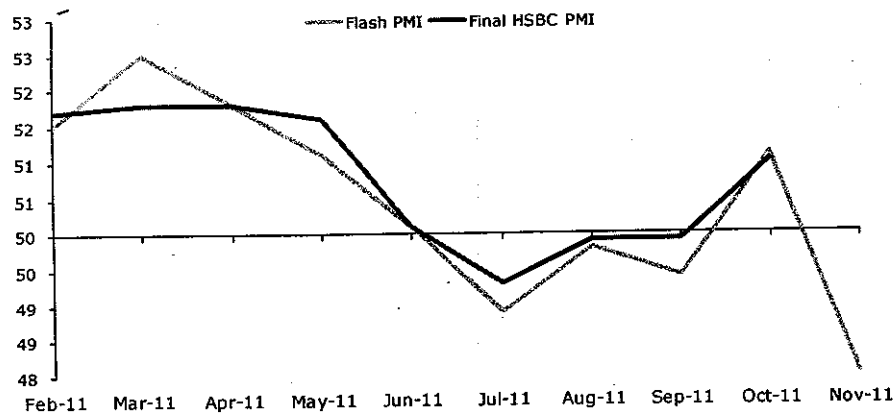
## CHINA GOES BOO TOO

HSBC's flash, or preliminary manufacturing PMI for China dropped significantly this month, to 48 from October's 51 reading for the final PMI. The full PMI (HSBC and official) will be released next week, and the HSBC PMI has averaged 51.3 for the month of November during the period 2005-10.

Today's flash reading is a bit lower than we'd expected, but does not change our view that although the Chinese economy is slowing, it is slowing gradually without any signs of an impending hard landing. We continue to expect 9%+ GDP growth this year, and 8.6% in 2012. Inflation will continue to cool; fixed asset investment and retail sales will remain strong; industrial activity will continue to slow slightly from high levels; while margin pressure should abate as energy and commodity prices decline.

- ⊗ Our biggest China macro concern for next year is that the government may keep the current housing policy restrictions in place too long, leading to a collapse in sales volumes similar to that seen in 2008.

The last two editions of *Sinology*, which explain these views in more detail, are attached.



INDIA  
THE RUPEE  
RUNS SCARED →

⑤

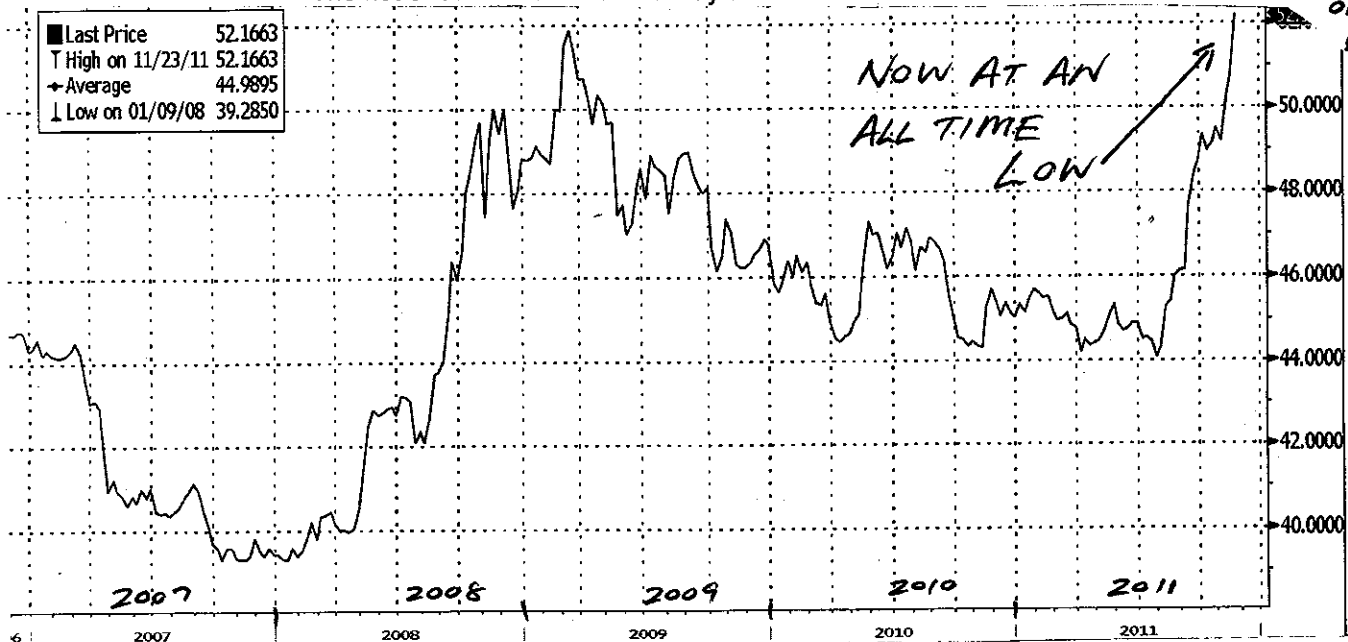
Currency/Sector

India Rupee- a lot priced it

20% lost SINCE AUGUST

- The Indian Rupee has lost 20% since August, hurt by the global risk-aversion trade in the face of its India's twin deficits and stubborn oil prices, but also by a Reserve Bank that has not helped the currency' cause by its insistence that it would not intervene. The net effect has been a one-way trade.

SHOULD BE APPLAUDED IN THESE DAYS OF INTERVENTION EVERYWHERE



MORE TO COME IT SEEMS

- Economist Rajeev Malik is not willing to stand in the way of momentum and hence will not rule out 55-57 as a near term target, just shy of Laurence Balanco's technical target of 58. But Rajeev cautions investors getting too carried away on this trade. The best has been seen.

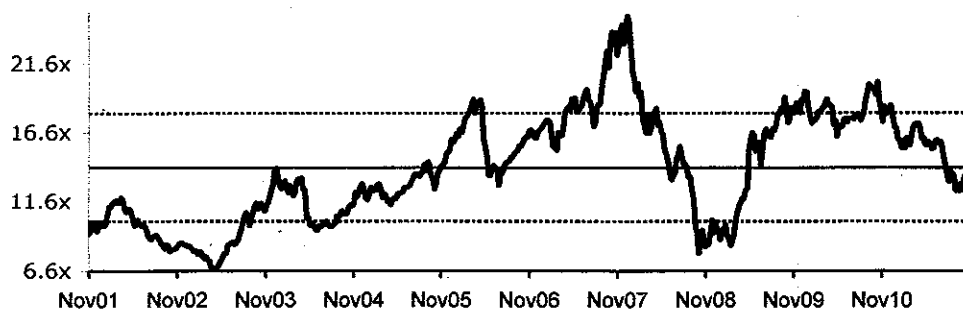
- Interestingly, Singapore based sales colleague Mohan Gundu also points out that as an overseas India, these levels are becoming very attractive for remittances.
- Looking at the currency specifically, USD borrowings by Indian companies for domestic use is heavily restricted by the RBI, and most borrowings in USD over the last 3-4 years have been for offshore-related investment or acquisitions. This means that fears over USD funding shortfalls from currency weakness are overplayed.

- Also, to put some of the numbers into context, India has US\$317bn of foreign reserves, and there is US\$22bn of USD liabilities due to mature in the next 12 months. India therefore has ample room to help borrowers of USD refinance in the event of a funding squeeze.

BIG BHARTI HIT

- Stock wise, most companies seem to have priced in the currency. The obvious exception would be Bharti Airtel which has held up recently because of MSCI inclusion this month, but which has US\$9bn in Africa acquisition related debt. A 5% move in currency hits FY12 earnings by 8% at a time we remain less than enthused about its domestic business based on Deepti's concerns over regulatory risks
- As for the market, over the course of the last 3 months, CLSA have cut our FY March 2012 EPS growth estimate from 20% to 9.5% and FY March 2013 has gone from 17.7% to 18% YoY growth. With the government sticking to its very non-dynamic stance, the risk on March 2013 is still down.
- If earnings next year decline 10-15%, and market bottoms out on its long-term support of 15x, then Sensex could still lip 15-20% from here.

India - Price / Core Earnings (x)



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# INR depreciation revisited

Steep 7% fall in INR against US\$ during the quarter has raised fresh concerns on corporate earnings. During the September quarter, CLSA coverage universe reported a P&L impact of c.Rs86bn or 2.5% of FY12CL earnings. December quarter will likely see something similar. Overall impact, including non-P&L would be nearly double.

**Vulnerable: Bharti, Rel Comm, Maruti, HUL; Beneficiaries: IT, Pharma, BHEL**

- Notwithstanding the P&L impact as above, the overall impact (including non P&L impact) is the highest for Jet airways, Reliance Comm, Bharti, India cement, Maruti, Adani Power, JSW steel and JSW energy. Given the recent run-up and built of expectations Hindustan Unilever also appears vulnerable.
- On the positive side pharma and IT services would be the obvious beneficiaries of the INR depreciation. Our preferred picks within these sectors would be HCL Tech, Infosys, Dr Reddy's and Lupin.
- BHEL would be beneficiary of the INR depreciation against RMB as the competitive pressures from Chinese equipment makers should likely ease.

**THE NAMES  
+ NUMBERS**

**Impact on key corporates if USD = INR55****Impact on companies if INR touches Rs55/US\$**

	Price (Rs/sh)	(Rs/sh)	Non recurring B/S Impact Rsbn % impact on mkt-cap	Recurring EPS impact (%) FY12	FY13	Current FY13CL EPS (Rs/sh)	
<b>Companies having negative impact</b>							
Reliance Com.	70	(16)	(32)	(22.1)	(9.0)	(13.2)	6.7
Bharti	379	(21)	(78)	(5.4)	(2.6)	(3.3)	24.8
Adani Power	75	(3)	(6)	(3.4)	(8.0)	(10.0)	6.6
JSW Energy	40	-	-	-	(10.0)	(12.0)	3.9
Godrej Consumers	391	(6)	(2)	(1.4)	(2.2)	(3.9)	20.6
Tata Steel	392	(5)	(5)	(1.3)	0	0	44.6
JSW Steel	562	(25)	(6.3)	(4.4)	0	0	74.9
PFC	164	4	6	2.6	0		26.3
REC	187	2	2	0.8	0		30.9
Jet Airways	251	(116)	(10)	(46.1)	nm	(-30+)	15.2
Jaiprakash Associates	63	(1)	(3)	(2.2)	0	0	6.5
Larsen & Toubro	1,190	(2)	(1)	(0.1)	nm	nm	87.3
India Cement	70	-	-	-	(13.2)	(14.3)	9.6
Ultratech	1,130	-	-	-	(3.9)	(6.1)	72.2
Tata Motors	172	(1)	(4)	(0.7)	+3-5	+6-10	5.0
Maruti	960	-	-	-	(-11-15)	(-24-28)	83.9
Sintex	91	(2)	(1)	(2.6)			
Hindustan Unilever	385	-	-	-	(-2-3)	(-4-6)	
<b>Companies having positive impact</b>							
Tata Power	94	(3)	(7)	(3.1)	2-3	7-9	8.5
Bajaj Auto	1,600			-	+3-5	+7-9	115.3
Cadila	717	(4)	-0.84	(0.6)	+4.5	+13.2	45.5
Cipla	317	-	0	-	+5.5	+16	16.6
Dr Reddys	1,539	(10)	-1.62	(0.6)	+7.5	+18	98.5
Lupin	447	(2)	-0.72	(0.4)	+9	+18.5	26.4
Ranbaxy	446	(18)	(8)	(4.0)	+6	+16	41.2
Infosys	2,724			-	9.7	19	162.2
TCS	1,082			-	10.5	20	60.5
Wipro	378			-	9.2	18	26.9
HCL Tech	392			-	11.4	22	35.4
Reliance Inds	795	(23)	(77)	(3.0)	+9	+18	78.9
Cairn India	300	-	0	-	+6	+12	37.0
Suzlon	22	(1)	(3)	(6.5)	35	30	2.4
Hindalco	122			-	+1-3	+3-5	15.2
Bharat Forge	269	(4)	(1)	(1.6)	+6	+8	20.5

# Boo Hoo

A CONTRARIAN INDICATOR PERHAPS?

22 November 2011

## India

### Market Strategy

#### Mood is bearish on equity markets

- Of the 40 fund managers that participated in the survey, 73% expected the global markets to give negative returns over the next 12 months largely driven by sovereign crisis in the Europe and fears of double dip.
- 2/3<sup>rd</sup> expect global growth to be weaker in 2012 than in 2011. 44% of global funds are currently U-WT India.

From:  
Sent:  
To:  
Subject:

Nimish Joshi, CLSA  
Wednesday, November 23, 2011 8:59 PM  
Sales - All; Anirudha Dutta, CLSA; Arati Mishra, CLSA  
Infosys CEO: Bearish comments on revenue guidance again.

### MORE OF THIS

TYPE OF EMAIL IS  
POPPING INTO MY  
INBOX

After Infosys' CFO's bearish comments on Dec-11 and FY12 revenue guidance, CEO has followed with even more bearish commentary.

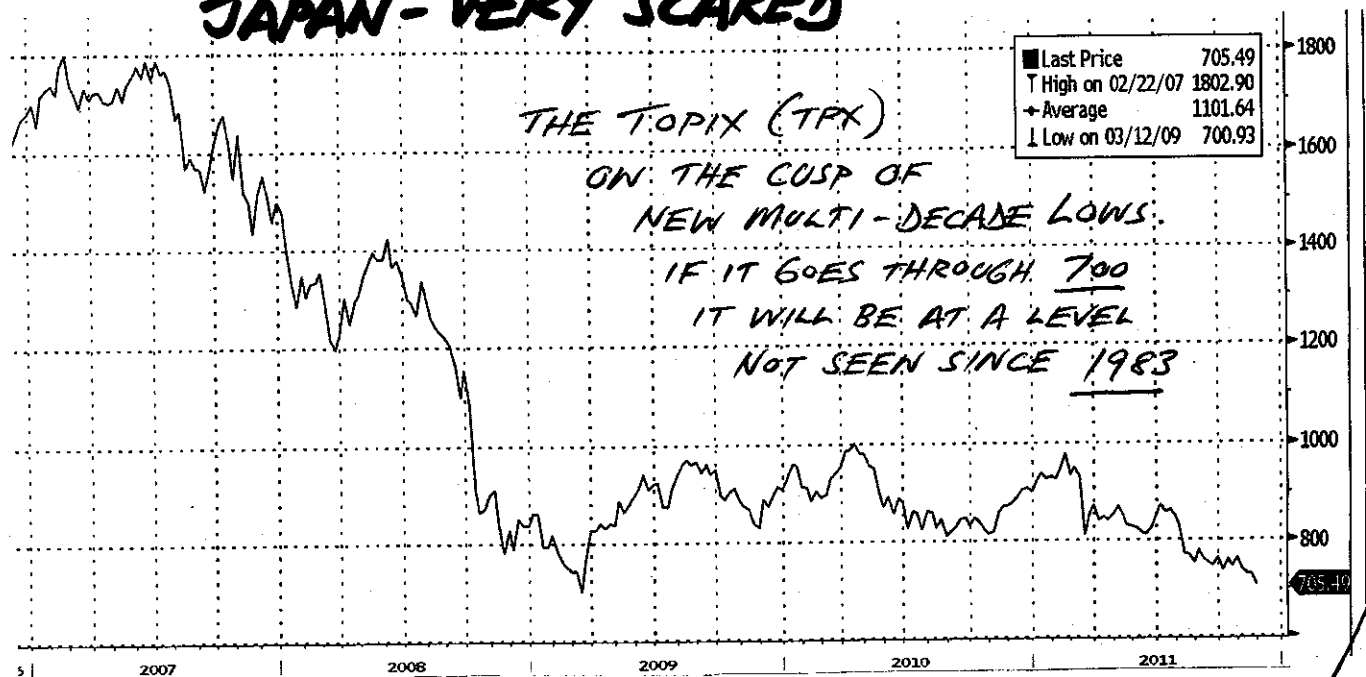
Saying revenue will now track lower end of guidance.

See excerpts from media interaction below.

SD Shibulal, CEO, Infosys to NDTV:

Macro economic situation has deteriorated over the last 40 days There is serious lack of confidence amongst clients due to the uncertainty Unemployment in the US, Euro Zone crisis and the volatility of the rupee impacting confidence Decisions are being delayed and larger deals are being re visited or postponed We should be at the lower end of the Q3 and the full year guidance IT Budgets for 2012 to be flat or marginally down Not sure if the 2012 Budgets will be spent fully Expect pricing to be stable Chasing 12 deals from \$ 100 mn - 150 mn Deal pipeline is healthy but large deals are taking time to float Financial services and telecom are the verticals where there are concerns

## JAPAN - VERY SCARED



# CLSA

ASIA-PACIFIC MARKETS

## HTC

NT\$565.00 - UNDERPERFORM

### Too much headwind

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HTC lowered its 4Q revenue guidance by 20% after the market closed on Wednesday. This prompts us to downgrade the stock from BUY to Underperform and cut HTC's 4Q11/2012 earnings by 30%/31%. HTC's weak US sales are the main culprit of this revision as the company struggles to compete with iPhone 4S amid weakening global demand. While this downgrade is certainly late, we see too much headwind ahead and believe the stock will trade around 7-8x PE before HTC launches more convincing models and has a clearer picture on its legal battle with Apple.

WEAK U.S 700



From: Mark Walton, CLSA

Sent: Thursday, November 24, 2011 9:41 AM

# AMERICA'S FRIGHT SHOW CONTINUES

More broadly however, major drags remain, and we think a genuine recovery in US housing is still some way off:

## U.S HOUSING STILL BLAH (THIS WEEK'S TRIPLE A)

**\*\* The US is still producing too many houses relative to its revealed need.** Despite a massive drop in new home starts from the pre-GFC peaks, marginal housing supply still exceeds marginal demand.

**\*\* There is very little incentive to buy now.** Home prices are still falling month-on-month and – more importantly – perceptions amongst potential buyers are that prices will continue to fall over the next 12 months.

**\*\* Foreclosed homes are a massive overhang.** Virtually no progress has been made in reducing the massive stock of foreclosed homes. Banks will push these off their balance sheets posing significant price risk.

## Mohamed El-Erian: US Economic Conditions Are "Terrifying", Recession Chances Are 50%

Submitted by Tyler Durden on 11/22/2011 14:49 -0500

### DING DING

Something tells us that Mohamed El-Erian is aware of the bulls' last bastion of "growth" and "decoupling"- the dip in Initial Claims below 400K. Even so, his appearance on Bloomberg TV was full of sound and fury, and some quite memorable soundbites, starting with this one: **"Let me tell you what I find most terrifying: we're having this discussion about a risk of recession at a time when unemployment is already too high, at a time when a quarter of homeowners are underwater on their mortgages, at a time when the fiscal deficit is 9%, a time when interest rates are at zero. These are all conditions coming out of a recession, not going into a recession."** The Newport Beach dweller is spot on: the situation is getting worse by the day, and the only option left is to do more of what has already failed so many times, and which only makes non-dilutable transitory monetary equivalents that much more attractive (with the mandatory liquidation which may bring them to triple digits first of course).

## On the Super Committee

### NOT SO SUPER

By: Ron Paul | Mon, Nov 21, 2011

This week marks the deadline for the so-called congressional Super Committee to meet its goal of cutting a laughably small amount of federal spending over the next decade. In fact the Committee merely needs to cut about \$120 billion annually from the federal budget over the next 10 years to meet its modest goals, but even this paltry amount has produced hand-wringing and hysteria on Capitol Hill. This is only cutting proposed increases. It has nothing to do with actually cutting anything. This shows how unserious politicians are about our very serious debt problems.

### JUST GO TO 2004

Federal revenue likely will be about \$2.3 trillion in fiscal 2012. The 2004 federal budget was about \$2.3 trillion. So Congress simply needs to adopt the 2004 budget next year and the federal government will balance outlays and revenue. That's all it would take to produce a balanced budget right now. Was the federal government really too small just 7 years ago, in 2004? Of course not. Only Washington hysteria would have us believe otherwise.

Yet our Republican and Democrat friends on the Super Committee want to take 10 years, or even 30 years, to produce a balanced budget.

## Mission a Brilliant Success, Achieves 100% of Its Goals HA

The Super Committee accomplished nothing, as expected, and more importantly, as designed. Neither political party really wanted to do anything about the deficit (because it would cost them votes). By D.C. standards this mission was a "brilliant success". It achieved its purpose, which was to do nothing. Both parties got the smoke-and-mirrors delay they wanted, while pointing fingers at the other side.

### 99 YEARS AGO

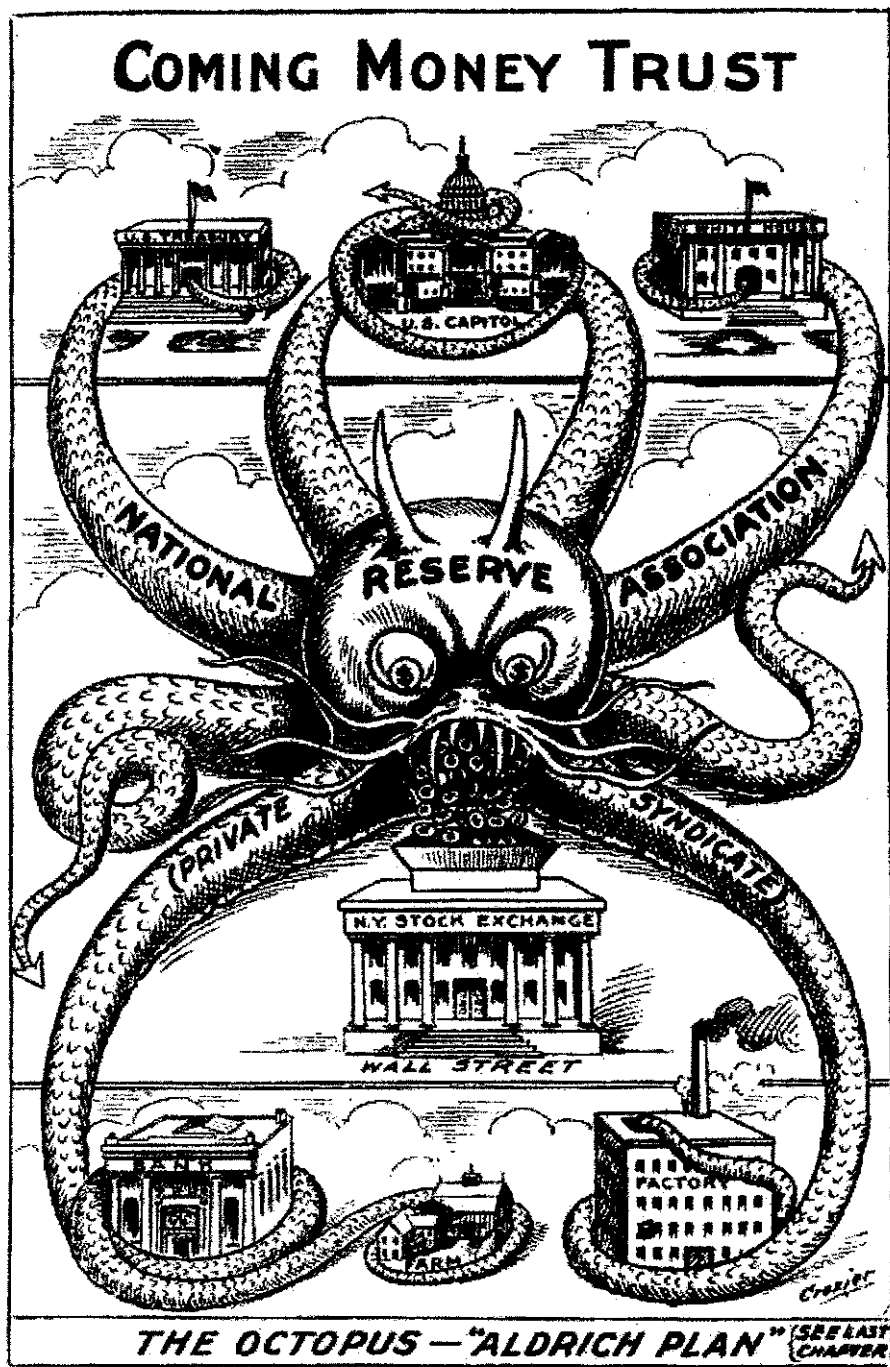
Mike "Mish" Shedlock

⑨

## Commemorating The 99th Anniversary Of The First Ever Vampire Mollusc

What is oddest about the below cartoon is how, in retrospect, it was absolutely spot on one 1 year ahead of the formation of the Federal Reserve, and shortly, about one century ahead of its destruction.

Cartoon from 1912, one year before the creation of the Federal Reserve



## 99 YEARS AGO

THE OCCUPY WALL STREET CROWD HAVE BEEN THIS LONG IN THE MAKING.

ONE PROBLEM; LIKE BUSINESSMAN + FINANCIAL COMMENTATOR, PETERS, I THINK THEY ARE PROTESTING IN THE WRONG PLACE.

WALL STREET IS OBVIOUSLY NOT FULL OF ANGELS BUT ULTIMATELY THE GOVERNMENT SETS THE RULES AND PROVIDES THE INCENTIVES AND DISINCENTIVES TO DO SOMETHING.

AS PETER NOTES IT SHOULD BE AN OCCUPY WASHINGTON D.C MOVEMENT

...OUR OCCUPATION IS GOING JUST GREAT !!!



**GOOGLE** "OCCUPY WALL STREET PETER SCHIFF"  
AND WATCH THE 18 MIN CLIP AS HE GOES TO THE  
CROWD AS A MEMBER OF THE 1%.

<http://www.youtube.com/watch?v=UGL-Ex1CD1c>

THE LINK ↗

## Peter Schiff, other members of the '1%,' confront Occupy Wall Street

By Elizabeth Flock

As Occupy Wall Street continues to rail against the rich with the anthem "We are the 99 percent," some in the "1 percent" have taken it upon themselves to set protesters straight.

Investment guru and radio host Peter Schiff, for one, went down to Zuccotti Park in New York to talk with the protesters. Schiff can understand protester complaints — he has been outspoken about the housing crash, bank and auto bailouts, and larger financial crisis. But he also thinks protesters don't have it quite right.

ⓧ "Schiff believes that capitalism offers ... the only hope for young, frustrated people to have a vibrant and prosperous future," Reason Magazine reports. "So he went to Occupy Wall Street to engage and debate the protesters."

At some moments in his three-hour-long debate, Schiff was instructive, explaining to a shouting protester why Steve Jobs manufactured iPhones in China, and at other times, a bit combative. He told one woman: "I employ 150 people, how many do you employ?"

Schiff says he is "sympathetic" to Occupy protesters but thinks they should direct their anger at the government, and capitalists who have been bailed out, not at legitimate business interests.

"The regulation we want is the market. That's what works," Schiff said on his visit.

LOBBYISTS ↗  
IT'S PROBABLY BEST  
THAT MAIN STREET KEEPS  
THE WALL STREET SHARKS  
OTHERWISE OCCUPIED.

## "We are Wall Street" – Wall Street Strikes Back

Wall Street recently struck back by dropping leaflets on the Occupy Wall Street movement.

Here's what the leaflets said:

"We are Wall Street. It's our job to make money. Whether it's a commodity, stock, bond, or some hypothetical piece of fake paper, it doesn't matter. We would trade baseball cards if it were profitable. I didn't hear America complaining when the market was roaring to 14,000 and everyone's 401k doubled every 3 years. Just like gambling, it's not a problem until you lose. I've never heard of anyone going to Gamblers Anonymous because they won too much in Vegas.

Well now the market crapped out, & even though it has come back some whatever, the government and the average Joes are still looking for a scapegoat. God knows there has to be one for everything. Well, here we are.

Go ahead and continue to take us down, but you're only going to hurt yourselves. What's going to happen when we can't find jobs on the Street anymore? Guess what: We're going to take yours. We get up at 4am and work till 10pm or later. We're used to not getting up to pee when we have a position. We don't take an hour or more for a lunch break. We don't demand a union. We don't retire at 50 with a pension. We eat what we kill, and when the only thing left to eat is on your dinner plates, we'll eat that. ⓧ

For years teachers and other unionized labor have had us fooled. We were too busy working to notice. Do you really think that we are incapable of teaching 3<sup>rd</sup> graders and doing landscaping? We're going to take your cushy jobs with tenure and 4 months off a year while just like you that we are so-o-o-o underpaid for building the youth of America. Say goodbye to your overtime and double time and half. I'll be hitting grounders to the high school baseball team to \$5k extra a summer, thank you very much. So now that we're going to be making \$8k a year without upside, Joe Main street is going to have his revenge right? Wrong! Guess what: we're going to stop buying the new 80k car, we aren't going to leave the 35 percent tip at our business dinners anymore. No more free rides on our backs. We're going to landscape our own back yards, wash our cars with a garden hose in our driveways. Our money was your money. You spent it. When our money dries up, so does yours.

The difference is, you lived off of it, we rejoiced in it. The Obama administration and the Democratic National Committee might get their way and knock us off the top of the pyramid, but it's really going to hurt like hell for them when our fat a\*\*es land directly on the middle class of America and knock them to the bottom. We aren't dinosaurs. We are smarter and more vicious than that, and we are going to survive. The question is, now that Obama & his administration are making Joe Main street our food supply... will he? And will they?" ⓧ

# Lobbying Database *BILLIONS OF \$*

In addition to campaign contributions to elected officials and candidates, companies, labor unions, and other organizations spend billions of dollars each year to lobby Congress and federal agencies. Some special interests retain lobbying firms, many of them located along Washington's legendary K Street; others have lobbyists working in-house. We've got totals spent on lobbying, beginning in 1998, for everyone from AAI Corp. to Zurich Financial.

## Top All-Time Donors, 1989-2012

### Total Lobbying Spending

1998	████████◇	\$1.44 Billion
1999	████████◇	\$1.44 Billion
2000	████████◇	\$1.56 Billion
2001	████████◇	\$1.65 Billion
2002	████████◇	\$1.82 Billion
2003	████████◇	\$2.04 Billion
2004	████████◇	\$2.18 Billion
2005	████████◇	\$2.43 Billion
2006	████████◇	\$2.62 Billion
2007	████████◇	\$2.85 Billion
2008	████████◇	\$3.30 Billion
2009	████████◇	\$3.49 Billion
2010	████████◇	\$3.51 Billion
2011	████████◇	\$2.45 Billion

*THE SPEND OF THOSE THAT HAVE  
OCCUPIED WASHINGTON*

LEGEND: Republican Democrat On the fence

= Between 40% and 59% to both parties  
 = Leans Dem/Repub (60%-69%)  
 = Strongly Dem/Repub (70%-89%)  
 = Solidly Dem/Repub (over 90%)

*\$89-12*

### Number of Lobbyists\*

1998	████████◇	10,406
1999	████████◇	12,940
2000	████████◇	12,540
2001	████████◇	11,842
2002	████████◇	12,127
2003	████████◇	12,920
2004	████████◇	13,168
2005	████████◇	14,075
2006	████████◇	14,534
2007	████████◇	14,861
2008	████████◇	14,185
2009	████████◇	13,693
2010	████████◇	12,941
2011	████████◇	12,220

*ALL OF THIS  
INFO IS FROM  
OPENSECRETS.ORG  
WHICH CONTAINS  
A LARGE ARRAY  
OF INFORMATION  
+ DATA.*

*ALMOST  
FUNNY - BUT  
IT'S NOT*

Rank	Organization	Amount
1	ActBlue	\$56,856,922
2	AT&T Inc	\$47,737,462
3	American Fedn of State, County & Municipal Employees	\$46,366,658
4	National Assn of Realtors	\$40,823,776
5	Service Employees International Union	\$37,634,117
6	National Education Assn	\$37,146,129
7	Goldman Sachs	\$36,046,453
8	American Assn for Justice	\$35,021,304
9	Intl Brotherhood of Electrical Workers	\$34,445,372
10	Laborers Union	\$32,096,950

## Many Influential Lawmakers Invested in Wall Street Giant Goldman Sachs

By Seth Cline on November 22, 2011 3:55 PM

Goldman Sachs, the most notorious investment bank on Wall Street, has two things in common with the legislators with significant investments in the company: wealth and power.

According to research by the Center for Responsive Politics, 19 current members of Congress reported holdings in Goldman Sachs during 2010. Whether by coincidence or not, most of these 19 Goldman Sachs investors in Congress are more powerful or more wealthy than their peers, or both.

*OH DEAR*

→ Nine of them sit on either the most powerful committee in their chamber or committees charged with regulating the Wall Street giant. Moreover, seven of them are among the 25 wealthiest members of their respective chambers, according to the Center's research.

*THIS LIST GOES  
ON FOR THE TOP 100,  
INCLUDING CITI (15), JPM  
(27), MORGAN STANLEY (30)*

*BoFA (35)  
UBS (50)  
ML (60)  
CREDIT  
SUISSE (62)*

*20*

# DD DOESN'T DIG WHAT HE SEES

From: DAMIAN DWERRYHOUSE, CLSA (UK) [mailto:ddwerryhouse@bloomberg.net]  
Sent: Tuesday, November 22, 2011 10:24 PM  
To: Damian Kestel, CLSA  
Subject: Fwd:FW: Macro deterioration/India forum takeaways..

AN EXAMPLE  
OF THE  
VOLATILITY  
↓

Global markets have again taken a turn for the worst, **giving up half to all gains made since Oct lows**...On current form I suspect all gains and more will be lost. UST and Gilt yields continue to decline/hit new lows, the USD (DXY index) is rallying and Asian currencies (ADXY) have broken down near term according to Laurence Balanco our Chartist. The 0.84 correlation between Asian currencies and markets therefore does not bode well near term. In Europe the core Flu trade spreads (over bunds) are widening and Corporate bonds in Europe (and France) were heavily sold at the end of last week. (prompting calls that they may be back to attractive levels again from some Quarters). But most input suggests credit conditions remain very tight /tightening across Europe at present...German GDP has also been revised down to 0.5-1% for 2012 and as yet no solution to the Euro crisis has been forthcoming.. None of this is encouraging and despite the recent rally, **I still believe the PRIMARY market direction at present is DOWN...The MXASJ is at 465 or c. 1.5pb-below average, but not yet back to trough valuation levels of 1-1.2pb.**

Reading the financial press, the main quandary aside from Europe seems to be based around the disparity between Bond and Equity markets. On Current earnings forecasts many smart people are making the case that **equities look very cheap vs low cash and bond yields** and relatively on current forecast earnings yields, that would appear true, even if valuations are less trough like on a PB basis. I would accept this argument, if I could believe current earnings forecasts for 2012 will be sustained. (Bond markets believe not!) However-without doubt we are seeing GDP & corporate earnings downgrades across Asia (&GLOBALLY) from Thailand to China, Singapore, Korea and YES India also....The earnings revision direction currently is **Negative**, but how bad this gets depends on many variables on which there is little political clarity at present. Aside from slowing top line gth, Margin declines and rising credit costs, other issues that may impact forecasts include: Currency moves..(Eg. Strong USD= Negative us exporters/Helps ASIAN exporters, if demand holds up), Artificially low interest rates on any long term basis and with governments struggling to finance themselves and corporate's stuffed full of cash, a risk that Governments make a grab...All of this creates uncertainty and INCREASES Equity Risk premia, on top of general deleveraging ..So in the battle between Bonds and Equities, **I am still siding with Bonds**, which suggests further cuts to growth and earnings forecasts.. This trend would appear to have a way to run yet....

→ I'M GOING WITH EQUITIES.

**So what to do...well I suspect the market will continue to pay a premium for the following types of equities:**

1. **Stocks with earnings clarity** (Asian consumer basics, Telco's doing v.well - LG H&H, PSCS, KT&G, CP-ALL, HOME PRO, G.GARAM, MITRA ADIPERKASA, FET, DIGI, ADVANC, STEL etc)-note CLP/HKE/C.MOB have done little since mkt sold off again...
2. **High SUSTAINABLE yield and strong balance sheets** (eg's VTECH. MAJOR, SPH, STE, ITMG, HTC, HANG SENG BK, WYNN?, WES, ASHOK)+ TELCOS again .
3. **Market dominators** (eg.TSMC, SEC, POSCO, BAIDU)
4. **Asian structural growth** (consumption/Advertising, internet, leisure, education, agriculture) at the right price...(PRADA, BAIDU, TENCENT, AIR ASIA-low \$3's, SANDS ETC)..
5. **I Would also add another category of UNDEROWNED STOCKS/cheap strategic assets**...Names like GAC/Dongfeng, China merchants holdings, CRP, Parkson Retail are starting to interest me on a 1 year view...(under owned names benefitting from a shift to Asian Easing in 2012). Will think of more in due course...Autos and infrastructure feature though...

What I can tell you for free sitting here and watching **Volumes**, is that if the current status continues in markets, you can very happily sell brokers and exchange stocks regionally. Personally I would bet HKEX hits \$100 -20% again in the next 6 mths. At current turnover levels there will be plenty of red ink in Broking circles and over optimistic forecasts for exchange volumes.....



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21 November 2011

**GRRRRR**

THE LINES PREDICT  
NOT MUCH GOOD IS ON  
THE HORIZON

## Where the markets stand

### Highlights

- ❑ **Price deterioration continues.** At the time of writing the majority of regional markets have fallen back below their 50-day MA's. This deterioration in price action reinforces our bearish roadmap that projects markets to undercut their late September/early October lows by 1Q12.
- ❑ **Not oversold yet.** With the majority of daily momentum indicators, represented by the 14-day RSI, sitting in neutral territory there is clearly room to the downside before these readings reach the 'oversold' zone again.
- ❑ **Still prefer A-share over H-share.** The **CSI 300** and **Nifty** have disappointed as there has been no follow through buying following the breakout from their respective minor double bottom patterns. While absolute price remains frustrating we continue to recommend hedging long A-share positions with HSCEI shorts. The **SGX FTSE China A50 futures/HSCEI futures** ratio continues to display bullish technical attributes following August's base breakout.
- ❑ **Bearish wedge pattern in SE Asia.** SE Asian markets are looking vulnerable with downside risk more noticeable in Thailand's SET50 and Indonesia's JCI. Both markets have recently broken down from bearish rising wedge patterns which project ultimate downside targets of 604 and 3,250 respectively. **GRRRRRR**
- ❑ **Nasdaq weakness does not bode well.** The **Nasdaq 100's** underperformance versus the S&P500 over the past two months and the recent break below neckline support at 2,279-2,282 continues to reinforce the bearish trend in risk assets that have developed over the past three months.
- ❑ **Korea's Kospi 200** and **Taiwan's Talex** are set to lead regional markets lower after triggering minor head and shoulders topping patterns today.

Deteriorating medium-term trend

BUT → Markets not yet oversold

40% OF MARKETS

IN DOWNTREND IN MEDIUM-TERM  
93% IN PRIMARY DOWNTREND

Market	Last	Primary trend	Medium Term trend	Short term trend	% change YTD	OBOS RSI 14D
S&P500 Futures	1,205	Down	Neutral	Down	-3.1	46
Euro stoxx 50	2,240	Down	Neutral	Down	-19.8	46
Nikkei 225 Futures	8,370	Down	Down	Down	-17.6	40
NASDAQ 100 Futures	2,237	Down	Down	Down	1.5	42
MSCI Taiwan Futures	252	Down	Down	Down	-19.8	42
Kospi 200 Futures	235	Down	Neutral	Down	-12.7	46
HSI Futures	18,106	Down	Down	Down	-19.9	43
HSCEI Futures	9,681	Down	Neutral	Down	-21.4	46
MSCI Singapore Futures	309	Down	Neutral	Down	-18.0	42
Nifty Futures	4,865	Down	Down	Down	-20.3	35
SET50 Futures	677	Down	Neutral	Neutral	-4.3	54
ASX200 Futures	4,167	Down	Neutral	Down	-11.6	45
KLCI Futures	1,425	Down	Neutral	Down	-5.1	47
CSI 300 Futures	2,612	Down	Down	Down	-16.9	47
JCI (cash)	3,699	Neutral	Neutral	Down	1.4	51
% of markets in uptrend		0%	0%	0%	% OB	0%
% of markets in downtrend		93%	40%	93%	% OS	0%



#### \*Trend definition:

- "Primary Trend" is defined by the relative position of the Futures versus their 200-day simple moving average
- "Medium Trend" is defined by the relative position of the Futures versus their 50-day simple moving average
- "Short-term Trend" is defined by the relative position of the Futures versus their 20-day simple moving average

#### \*Trend of SMA:

- "Up" when the futures price is 2% higher than the SMA
- "Neutral" when the futures price is within +/-2% of the SMA
- "Down" when the futures price is -2% lower than the SMA

(14)

BUT JUST  
SOMETIMES  
YOU'VE GOT TO

THINK LONG-TERM

Please see important notice on last page

Find research on Bloomberg (CLSA <go>), Thomson First Call, Reuters Knowledge - and profit from our powerful **CLSA evaluator** database at clsa.com

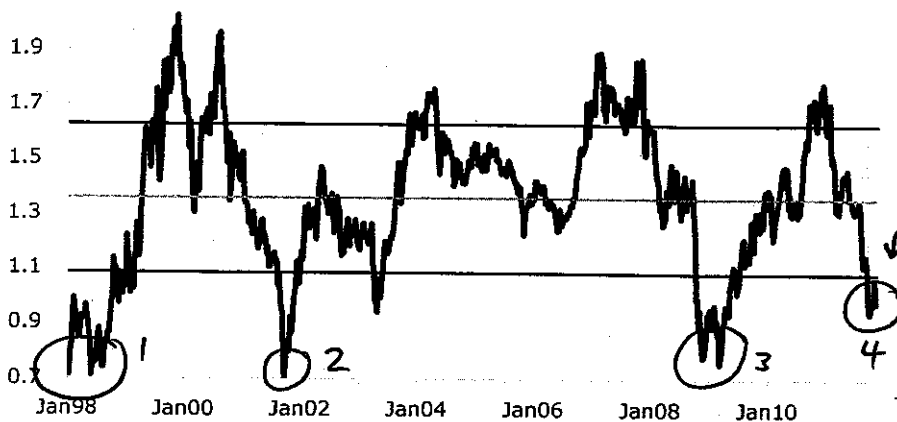
# 4 TIMES BELOW BOOK IN 20-YEARS - INCLUDING NOW

## Cathay Pacific - Multi-Year Valuation Lows

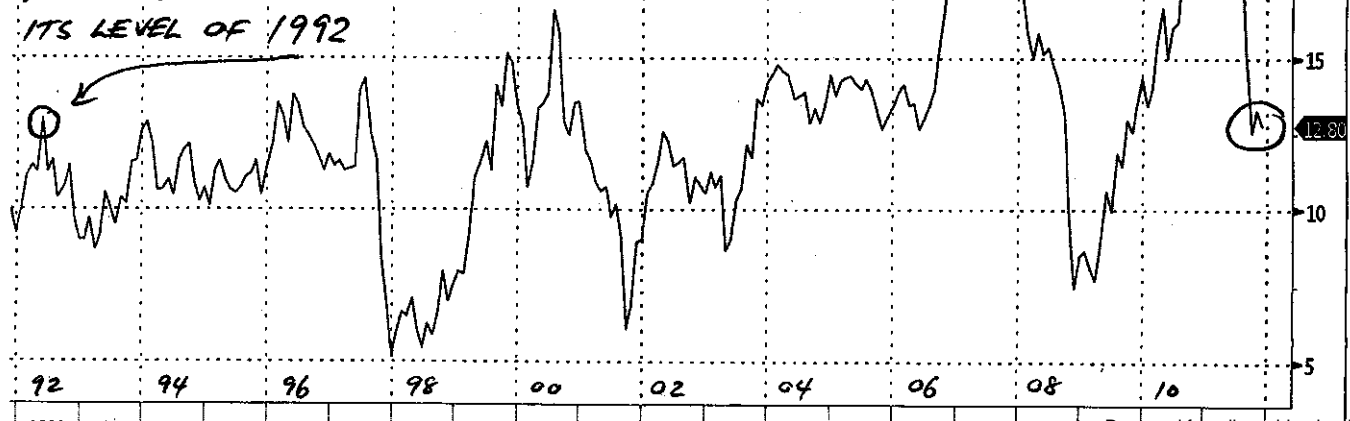
Rob Bruce

- The news on Cathay Pacific is likely to deteriorate further from here, even if it is better placed than many of its peer airline.
- But while sticking to an underperform, Rob Bruce is spot on to remind investors that CX has only traded four times below book over the last twenty years. After a period of 6-12 months, it has usually rebounded strongly. Investors should be alert to the likelihood of this trade again, even if the time doesn't yet look quite right.
- He is cutting his forecasts another 1-5% today on a weaker outlook for cargo. Weak international markets show no sign of traditional peak season trade, and this is coming at a time when additional capacity is being added in 2012 (we expect 17% capacity growth).
- Although the headlines are weak, and there is likely further downgrades to come from passenger travel in 2012 (esp for front of place, which is yet to see any softening), we do not cut out target price of \$14.50 because this is 1x P/B.
- As per above, the stock has only traded less than 1x P/B four times in the last 20 years. The de-rating this cycle has occurred fast, and for those wanting to be bearish the stock, we would need to assume that the company records significant losses for a year or so in order for book value to go backwards.
- Admittedly, this is not out of the realm of possibility. The company recorded a HK\$8.1B loss in 2008. Prior to 2008, the last loss was incurred in 1998. Cathay Pacific also owns 55% of Air China now, which contributes to ~20% of the company's earnings.
- Momentum for Air China is strong as passenger yields are picking up despite single-digit PAX growth and this may be another reason not to short the stock despite more bad news that is likely to come.
- At these levels it is hard to call either way. Bulls will argue that the stock is reasonably cheap and is factoring in a downturn, but bears would argue that further EPS declines will see the stock trade sub-book, and when it has traded sub-book historically, it has often accelerated to the downside before recovering. Long Air China seems a much more straight forward idea, metrics are still improving sequentially and we recently upgraded to BUY.

Cathay Pacific - Price to Book Value Ratio



AMAZINGLY ENOUGH CATHAY IS TRADING AROUND ITS LEVEL OF 1992



### Financials

Year to 31 Dec	11CL	12CL
Revenue (HK\$m)	95,872	98,537
Rev forecast change (%)	(0.7)	0.1
Adjusted net profit (HK\$m)	6,085	4,605
NP forecast change (%)	(5.2)	(0.9)
CL/consensus (21) (EPS%)	96	75
Adjusted EPS (HK¢)	154.7	117.1
Adj EPS growth (% YoY)	(48.8)	(24.3)
PE (x)	8.5	11.2
ROE (%)	11.1	8.0
PB (x)	0.9	0.9
Dividend yield (%)	3.2	3.4

STILL OFFERS A YIELD

SIMILAR STORY FOR ASX 300

Valuations are cheap

## Lines in the sand

In recent weeks the ASX was sold to within one multiple point of its GFC low. If you add corporate risk-aversion to the picture, it's even bleaker. Companies have been deleveraging rapidly and, on an EV/Ebit basis, the ASX Industrials has already set new lows. While the market still faces further hurdles, valuations are cheap. It's time to draw a line in the sand, with 75% of the ASX300 trading at a discount. Investors who can ride volatility can skew the risk in their favour by buying stocks that offer value, growth and earnings certainty.

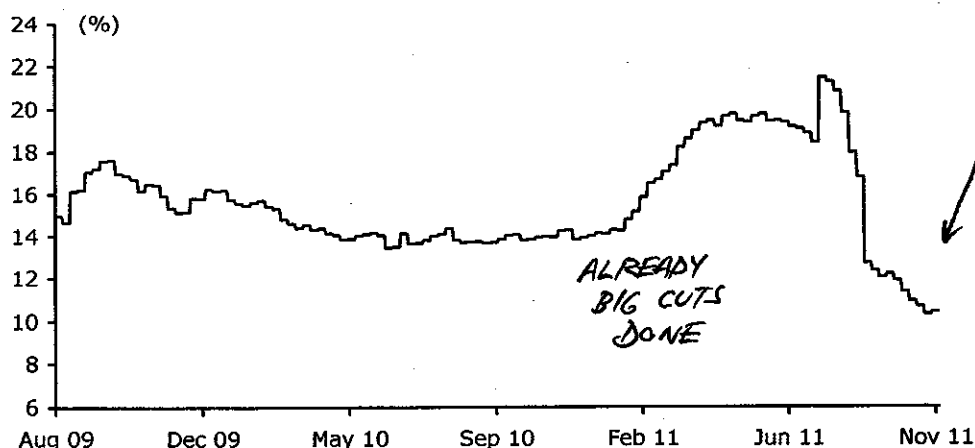
Peak to trough

EPS CUTS?

Reflecting on 2008, multiples bottomed in November, but markets fell a further 20% in the next four months as earnings downgrades caught up. We do not anticipate a 30% cut to forward earnings, but it is conceivable that consensus FY12 earnings could be cut a further 5-10%. Identifying an appropriate market trading range is increasingly complex since the GFC, given ten, five, three and one-year average market PE are materially different. Gearing has significantly reduced since the GFC, hence capital-structure adjustments must be made.

Earnings scepticism has spread - IBES consensus forecasts only 9.8% EPS growth for FY12

## Continuing to decline - ASX300 FY12 earnings growth estimates



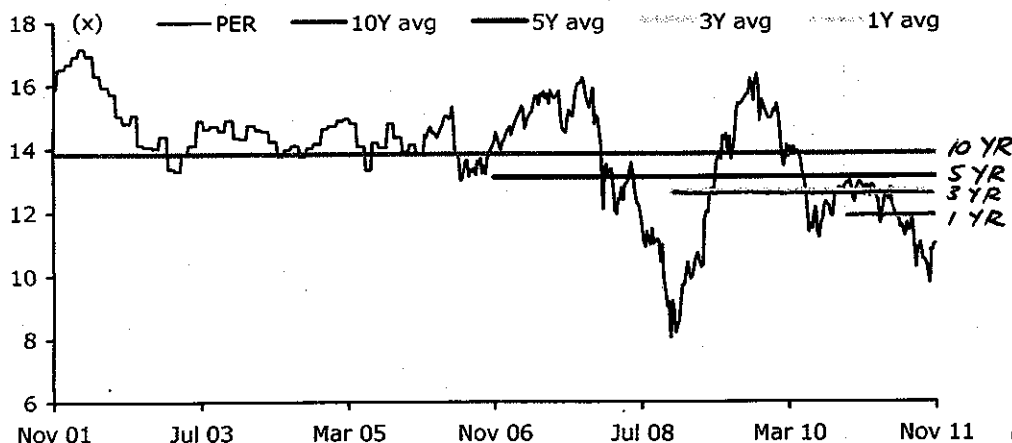
Treading water

Higher gearing typically means a higher PE. As companies have deleveraged, the market PE has trended down. DuPont analysis shows lower leverage has been the key driver of reduced ROEs since September 2008 (down about 15%), while most other factors register less than 5% difference. Net gearing is now less effective in identifying performance and we consider higher gearing was a material cause of lower PEs in 2008 due to risks of financial distress.

Have we sunk to the bottom?

Valuation ratios that rely solely on the equity side of capital structure suggest the market has further to fall to reach GFC extremes. (However) considering corporate risk-aversion (deleveraging), valuations already appear extreme. The Industrials ex-financials index has already reached a new EV/Ebit low this year. The ASX300 trades at a 15% discount to its 10-year average EV/Ebit - sufficient to cover our expectations for downgrades. Historical EV-based valuations have been more stable, hence comparisons more suitable.

## ASX300 12-month forward PE multiples



MARKET IS CURRENTLY TRADING BELOW 10, 5, 3 AND ONE YEAR AVERAGE PER.

STOCKS



# EV/Ebit floats, so what's been dumped?

Over the past five to 10 years, using EV/Ebit as a valuation factor has been an effective driver of performance. With most of the ASX300 trading at a discount to historical averages, investors have an opportunity to acquire quality companies with growth at a reasonable price against history. Even market darlings such as **Wesfarmers** and **Ancor** appear reasonable. As opinion becomes more divided, further value emerges, with **JB Hi-Fi**, **Seek** and **ASX** available at almost a one-standard-deviation discount.

## Top and bottom picks

Company	Code	Rec	TP (A\$)	PE (x)		EV/Ebita (x)  12CL	Div yield (%)  12CL	ROE (%)	
				12CL	13CL			12CL	13CL
Top picks									
Ancor	AMC AU	BUY	9.40	12.5	10.7	7.0	5.3	17.7	19.9
ASX	ASX AU	BUY	38.00	13.2	12.3	8.2	6.0	66.9	55.6
JB Hi-Fi	JBH AU	O-PF	18.10	49.9	56.1	34.2	0.7	5.1	4.4
Seek	SEK AU	O-PF	5.99	14.5	13.3	8.2	6.2	10.0	10.7
Wesfarmers	WES AU	BUY	36.50	14.6	13.4	8.4	6.2	10.0	10.7
Bottom picks									
MAP	MAP AU	U-PF	3.15	18.2	14.6	5.8	2.8	7.0	8.4
Oil Search	OSH AU	U-PF	7.70	9.3	8.5	11.2	6.0	32.9	38.8
OZ Minerals	OZL AU	U-PF	11.00	13.5	13.1	8.1	5.8	8.6	8.7
Paladin Energy	PDN AU	U-PF	1.45	14.0	12.8	23.8	6.4	12.4	13.3
Ten Network	TEN AU	SELL	0.59	17.2	14.3	10.9	2.9	35.2	35.5

Some names trade at a premium despite poor earnings certainty

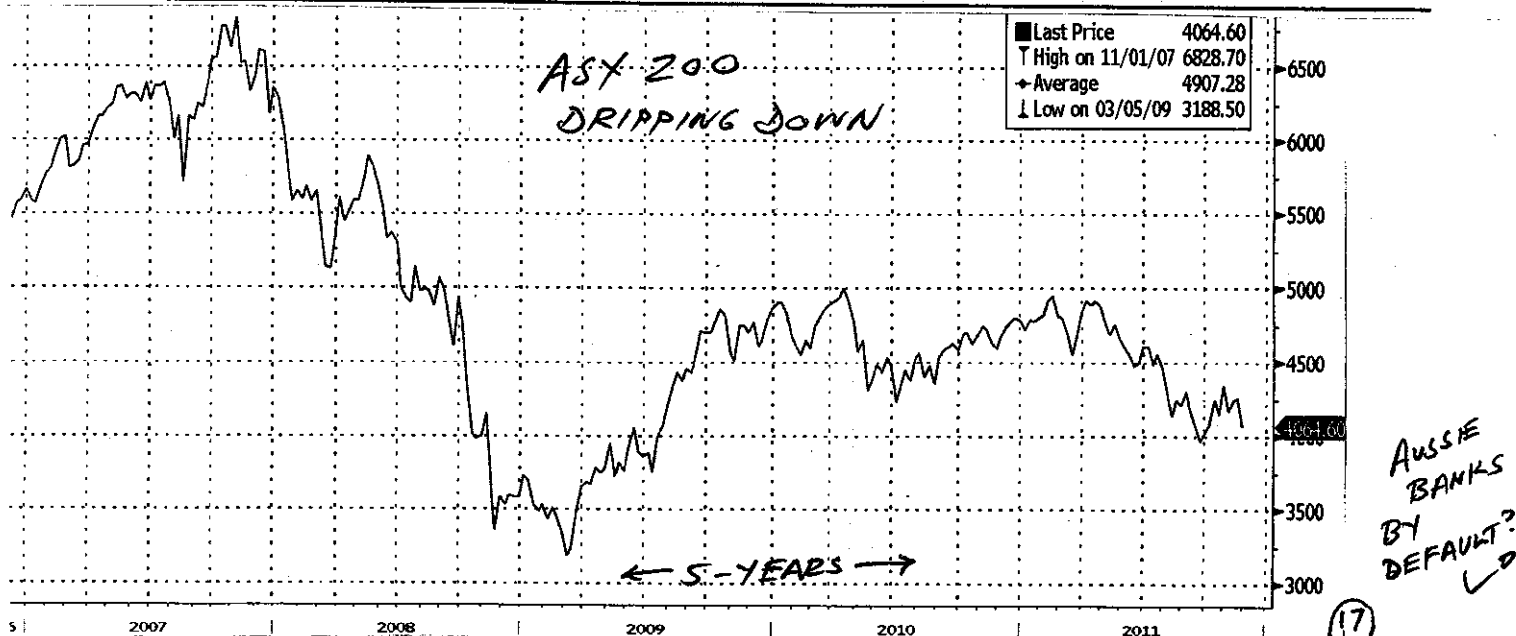
*MORE*

With the majority of the market trading at a discount, we question why some names that offer poor earnings certainty and relatively low growth continue to trade at expensive valuations. In the following list we have looked at the reverse of the first screen to identify stocks that don't appear to be offering the growth necessary to justify the premium valuation given their relatively poor earnings certainty.

Figure 57

## ASX300 stocks with risky earnings, trading at a premium valuation

Name	Code	Industry	Price (A\$)	Market cap (A\$m)	3M ret (%)	EV/Ebit (x)	Long term avg EV/Ebit (x)	Disc. (Std. Dev.)	NTM Ebitg (%)	STM Ebitg (%)	Med fcst error Ebit (%)	Anl Fcst Ebit cert (%)	Beta	Yrs data
Gunns	GNS AU	Forest Products	0.20	170	(2)	19.7	11.2	1 6/7	4	23	29	15	2.57	10
Oil Search	OSH AU	Oil & Gas Production	6.21	8,229	(2)	29.0	12.5	1 3/4	(12)	(9)	39	15	0.72	10
MAP	MAP AU	Other Transport	3.44	6,403	9	18.5	11.5	1 3/5	10	11	66	19	1.14	9
Paladin Energy	PDN AU	Other Metals/Minerals	1.50	1,253	(29)	29.3	22.3	5/7	(539)	131	954	109	1.31	6
IOOF	IFL AU	Investment Managers	6.08	1,397	11	9.0	1.7	2/3	5	7	29	10	1.81	8
BlueScope Steel	BSL AU	Steel	0.65	1,202	(26)	10.6	8.7	3/5	(796)	101	37	47	2.16	9
Charter Hall Office REIT	CQO AU	Reits	3.37	1,662	18	14.0	12.9	1/2	(12)	(3)	27	28	1.53	10
Henderson	HGG AU	Investment Managers	1.76	1,924	(17)	7.9	7.0	2/7	8	12	50	17	0.60	7
Abacus Property	ABP AU	Reits	1.90	735	(8)	11.3	10.7	2/7	7	1	29	14	0.89	6
Aquila Resources	AQA AU	Coal	6.60	2,471	14	138.0	100.2	1/5	(143)	261	183	149	2.17	4
OZ Minerals	OZL AU	Other Metals/Minerals	10.90	3,447	(6)	5.4	3.0	1/8	5	2	63	26	2.01	8
Mincor Resources	MCR AU	Other Metals/Minerals	0.82	160	(7)	7.2	5.4	0	(184)	(67)	52	79	2.79	10
Ten Network	TEN AU	Broadcasting	0.89	925	0	8.3	8.3	0	5	12	28	12	1.50	10



From: Tony Brinker, CLSA  
AUSSIE SALES

# AUSSIE BANKS BY DEFAULT?

**AUST Banks....BJ increasingly comfortable....**Brian Johnson thinks that, perhaps perversely, that with a 7.7% fully franked div yield our banks look relatively defensive versus international peers, the risk of a Chinese hard landing. Prefer ANZ.

## Key points

1. A slowing China puts the resources sector at risk and...
2. The potential failure of the Aust economy to grow material puts indutrails at risk of earnings downgrade according to Strategist John Woods... *SO BANKS CAN OUTPERFORM*
3. Further, BJ is seeing a lot more interest from global funds in Aust banks of late, again perhaps as a relative safe haven financials exposure.
4. Recently some positive influences have helped to support BJ's views oof the banks with ...
5. Rising deposits increasing the flexibility of the banks with regard to wholesale funding indeed...
6. BJ thinks the banks can sit out of global bond markets for up to 6 months, thanks to strong liquidity, weak loan growth, strong deposit growth, and should the AUD weaken the current trend would be enhanced.
7. True, the banks remain exposed to a heavily geared consumer coping with flat to falling asset prices so we cannot forget that if things start to go pear shaped they will not be immune but in a muddle through outcome they look very well placed.
8. Prefer, ANZ, NAB, CBA and Underperform WBC...



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## Ed Henning

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# Australian Banks

## Sector outlook

Notwithstanding that the Australian banks have declined ~7% since the 30 June, they have marginally outperformed the market (ASX200: -9%) given the 15% decline in the resources sector. Notwithstanding the "fastest tortoise" outperformance relative to resources the degree of the retracement in Australian bank shareprices is significant. The favourable Basel 3 proposals are broadly supportive if the Australian bank elevated ~70% dividend payout ratios and the sustainable ~7.8% fully franked dividend yields look very attractive relative to the current 10 year bond rate of ~3.9%. With the AUD having weakened to ~98.4¢ the valuation appeal of these dividend yields is attractive to both domestic and international investors and we recommend over-weighting the sector. Our pecking order is (1) ANZ O-PF, (2) NAB O-Pf, (3) CBA O-PF, (4) WBC U-PF.

*DON'T PULL THIS PLUG EITHER LB*

**A QUICK FACE-OFF** — THEY ARE VERY SIMILAR THOUGH

	Comparisons	2007A	2008A	2009A	2010A	2011CL	2012CL	2013CL	
<b>Valuations</b> P/Core earnings (x)	ANZ Bank	9.3	12.8	15.9	11.9	10.4	9.2	8.7	<i>NAB</i>
	Commonwealth Bk	14.5	14.3	15.7	14.0	12.5	11.1	10.5	
	NAB	8.8	9.1	19.3	12.6	10.4	8.8	8.3	
	Westpac Bank	11.4	10.4	16.9	10.1	9.3	9.9	9.6	
Dividend yield (%)	ANZ Bank	6.9	6.9	5.2	6.4	7.1	7.5	7.9	<i>WBC</i>
	Commonwealth Bk	5.4	5.6	4.8	6.1	6.7	7.1	7.5	
	NAB	7.8	8.4	6.3	6.6	7.4	7.9	8.3	
	Westpac Bank	6.4	7.0	5.7	6.8	7.6	8.1	8.4	
P/Book value (x)	ANZ Bank	1.74	1.57	1.57	1.52	1.40	1.29	1.20	<i>ANZ/NAB</i>
	Commonwealth Bk	2.82	2.78	2.59	2.33	2.23	2.05	1.88	
	NAB	1.50	1.42	1.49	1.48	1.40	1.29	1.20	
	Westpac Bank	2.82	2.31	1.81	1.68	1.57	1.48	1.39	
<b>Growth (%)</b> EPS growth	ANZ Bank	8.1	(16.3)	(4.3)	18.1	9.9	5.4	4.3	<i>CBA</i>
	Commonwealth Bk	13.9	2.8	(14.4)	29.4	11.0	4.2	5.2	
	NAB				8.1	16.5	6.2	4.7	
	Westpac Bank	13.3	4.7	(17.5)	20.8	5.8	3.4	2.2	
Loan growth	ANZ Bank	12.6	15.3	(1.2)	5.1	9.3	6.1	6.1	<i>ANZ</i>
	Commonwealth Bk	20.4	13.6	26.8	4.9	1.1	5.6	6.1	
	NAB	12.8	11.9	(0.7)	2.8	7.9	6.1	6.1	
	Westpac Bank	16.2	15.0	47.8	3.1	4.0	5.1	5.1	

# 7 REASONS WHY

IT'S

US machinery

\* BIG NEW REPORT  
PDF AVAILABLE

We think the outlook for  
farm-equipment equities  
remains attractive

We're not trying to  
suggest ag is in  
a super cycle

NO BUBBLE - HERE'S  
WHY

## Not time to pull the plug

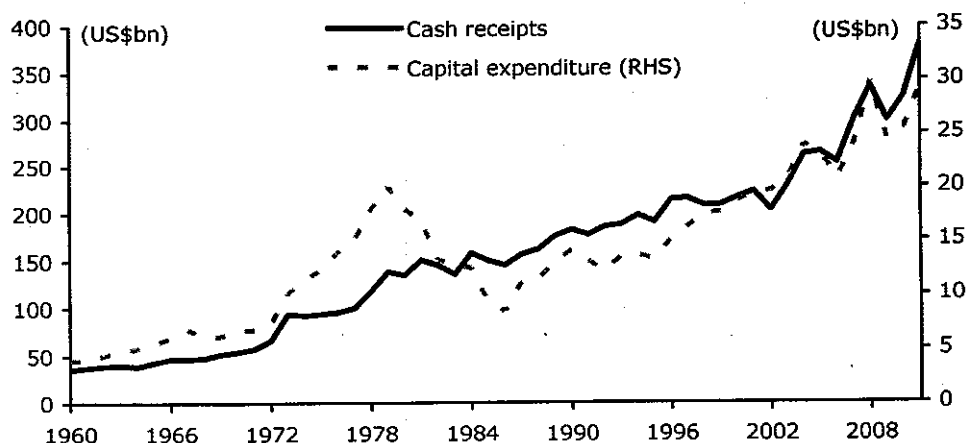
Despite high commodity prices, low global grain inventories and a strong outlook for farm income in the year ahead, the market is ascribing very low multiples to earnings in farm-equipment equities as investors struggle to believe that the positive trends can continue. We often hear investors say that they struggle to buy equities at peak, no matter the multiple, because you can't trust the earnings sustainability of the multiple. We believe that this view risks generalizing the positive outlook for farm-equipment equities, and provides investors with an opportunity to buy at very good prices.

All through history, investors have heard the arguments regarding "super cycles", the "extended cycle thesis", "the goldilocks economy" and "decoupling", and over and over again, investors have gotten burnt. Whether it was the collapse of 2008 from the financial crisis, the popping of the internet bubble, the railroad bubble, or the tulip bubble, investors have lost a lot of money grasping on to the idea that the previously unsustainable is now sustainable. There are several reasons why the current bullish outlook for farm equipment looks more sustainable than what turned out to be bubbles in the past. Points supporting our view that farm equipment remains investable, and is not in bubble territory include:

1. **The outlook for farm cash receipts is very strong.** The key driver of farm-equipment sales, farm cash receipts, looks like it will remain strong, if not accelerate over the next three years. The current seven-year cycle of high crop prices looks well supported as global grain stocks remain low and need to be rebuilt. Our view of global supply/demand trends suggests strength in grain and protein markets could accelerate as grain stocks are low and demand, so far, has not been price sensitive. We would note that the Chinese share of global consumption of corn, pork and soybeans has increased at 40bps, 80bps and 100bps pa, respectively for the last five years, suggesting permanent shifts in demand.

Farm cash receipts and  
equipment capex have  
had a 96% correlation  
for 100 years

US farm cash receipts and US farm capital expenditures (excluding dwellings)



CONSTANT RISE

2. **US farm-equipment sales will remain strong in 2012.** Used-equipment values, order boards and prebuys, as reported by the companies, have been very strong recently, suggesting pent-up demand as farmers continue earning enormous incomes.

3. **Replacement is not discretionary.** We estimate that current North America replacement rates are running at 24% for tractors and 25% for combines. This level is above the 25-year average of 21%, but consistent with strong agricultural commodity prices and a much higher base of farm receipts and income. Because farm-equipment purchases are not discretionary, in 2009 the tractor replacement rate was 22% (declining from 25%) and we actually saw a higher replacement rate of 26% in combines (from 24% in 2008) with YoY unit growth.

CHUNKY  
REPLACEMENT  
RATES

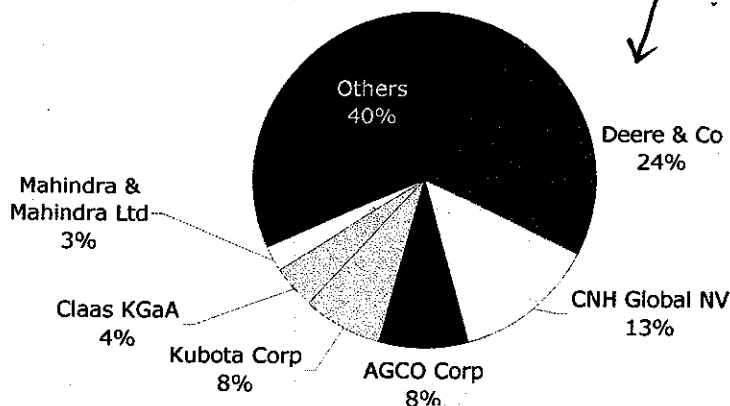
~ 25%

The top-four players have c.80% global market share of farm-equipment revenue

The top-five players have c.60% global share, with higher shares in key regions/products

④ **Consolidated industry structure.** The industry structure of farm equipment is best characterized as an oligopoly. The top-five industry players on a revenue basis account for roughly 65% of global farm-equipment revenue, with market shares much higher.

Global market-share estimates



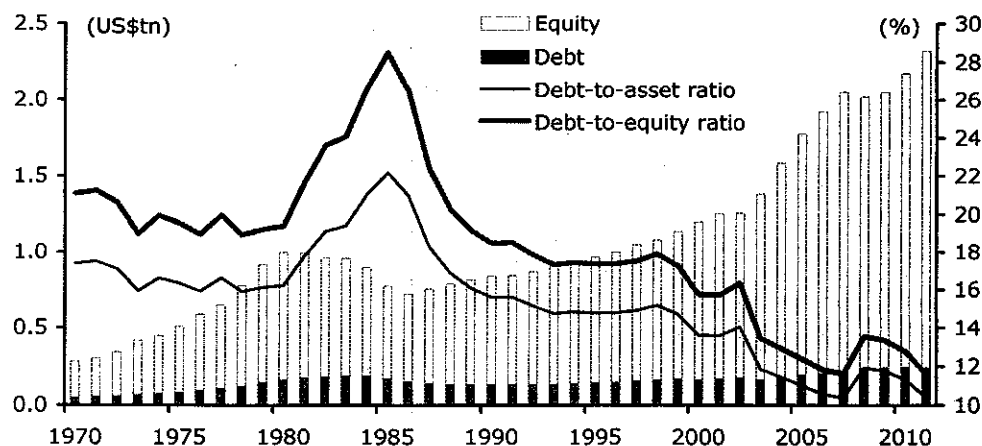
Farmers' balance sheets have never been better

+ EQUIPMENT MAKERS ALSO LOOK FINE

⑤ **Lack of financial leverage.** Farmers have been delevering since 1985 when debt to equity peaked at 28.5%. Today farmers have over US\$2tn in equity, are generating US\$100bn in net income against less than US\$250bn in debt. And balance-sheet strength is not limited to farmers; equipment companies have pristine balance sheets as well, with CNH and Deere in net cash positions, while AGCO is levered around 1x net debt/Ebitda pro-forma for the GSI acquisition.

US\$2.1tn of equity against US\$242bn of debt; not quite a bubble-bursting ratio

US farmer liquidity ratios



A TONNE OF \$

⑥ **Low global penetration and increased need for mechanization.** Farm-equipment penetration remains very low in the developing world. While the volume of tractors sold in India and China is in the multi-hundred thousand units, we believe a significant number are used for industrial purposes. While Case and Deere have a large North America presence, we see significant opportunity globally with 60-70% of farm-equipment expenditure happening outside of North America.

**The global opportunity remains underappreciated**

Despite the global farm opportunity being a key theme of the companies' operating strategies and message, we believe the globally expanding addressable market opportunity for US farm-equipment companies remains underappreciated. The lack of recognition of the opportunity has likely contributed to the multiple compression in the group, and it is understandable to some extent. Investors see a flattish US market and a declining Latin American market for 2011 and question what is really going to drive earnings going forward. They are also questioning to what extent the US and Latin American opportunities can grow, and if the markets are saturated. So while the companies are saying they are investing for growth and will grow their presence outside of North America, nobody believes the other markets will be large enough to matter, despite the math suggesting that 65% of the market is outside of the Western Hemisphere.

Sixty-five percent of the global market opportunity is outside the USA and Latin America

## Land area and population overview, select countries (2007)

	Ag land (hectares)	Ag land (acres)	Population	Ag area per capita	
				(Hectares)	(Acres)
China	552,832,000	1,366,047,872	1,317,885,000	0.42	1.04
Australia	425,449,000	1,051,284,479	21,072,500	20.19	49.89
United States	411,158,000	1,015,971,418	301,580,000	1.36	3.37
Brazil	263,500,000	651,108,500	190,119,995	1.39	3.42
Russia	215,463,000	532,409,073	142,100,000	1.52	3.75
India	179,900,000	444,532,900	1,124,786,997	0.16	0.40
Argentina	133,350,000	329,507,850	39,490,465	3.38	8.34
Euro area	116,514,300	287,906,835	324,372,300	0.36	0.89
Mexico	106,800,000	263,902,800	105,280,515	1.01	2.51
South Africa	99,378,000	245,563,038	48,257,282	2.06	5.09
Ukraine	41,266,000	101,968,286	46,509,350	0.89	2.19
Pakistan	27,300,000	67,458,300	162,590,903	0.17	0.41
Thailand	19,750,000	48,802,250	66,979,359	0.29	0.73
Poland	16,177,000	39,973,367	38,120,560	0.42	1.05
Philippines	11,500,000	28,416,500	88,718,185	0.13	0.32
Malaysia	7,870,000	19,446,770	26,555,654	0.30	0.73
World	4,926,124,000	12,172,452,404	6,620,500,497	0.74	1.84

Source: World Bank

⑦ **Valuations are very reasonable.** Recent weakness driven by macro-related fears has led to low multiples across all cyclicals, hitting agriculture despite the attractive fundamental outlook. The current valuations of 10-11x NTM EPS are low versus a five-year average of 14-16x and 15x earlier this year, suggesting now is an attractive entry point with fundamentals remaining strong, albeit at lower growth rates. LTM PE, EV/Ebitda and EV/Sales all tell the same story.

Figure 2

### Farm equipment comparable valuation

Ticker	Rating	Price target (US\$)	Current price (US\$)	Market cap (US\$m)	Net debt (US\$m)	Enterprise value (US\$m)	EV/Ebitda (x)		PE (x)		Debt/Ebitda 11CL (x)
							11CL	12CL	11CL	12CL	
AGCO	BUY	60	44.43	4,238.6	948	5,094	6.4	5.3	10.2	8.8	0.6
CNH	BUY	50	39.82	9,873.9	(2,917)	6,789	3.7	3.3	10.8	9.2	(1.3)
DE	BUY	90	75.02	32,740.5	416	32,116	7.9	7.3	11.6	10.6	0.1

There is a place for farm equipment in every portfolio

+ INFLATION PROTECTION

+ PROTECTIVE MOATS.

\* We view AGCO as a core small-cap holding, CNH as ideal for special-situations investors who have a time horizon and Deere as a core large-cap holding or ideal for investors looking for yield. And for investors concerned about inflation with all of the money printing going on in the world, we view farm equipment companies as prime beneficiaries in a world where agricultural commodities are priced in dollar terms. These companies have true pricing power and large moats around their businesses. At the current valuation spread to the S&P500 of a two-point discount, we feel that investors are being compensated for the risk to the global macroeconomic outlook and potential sovereign debt crises.

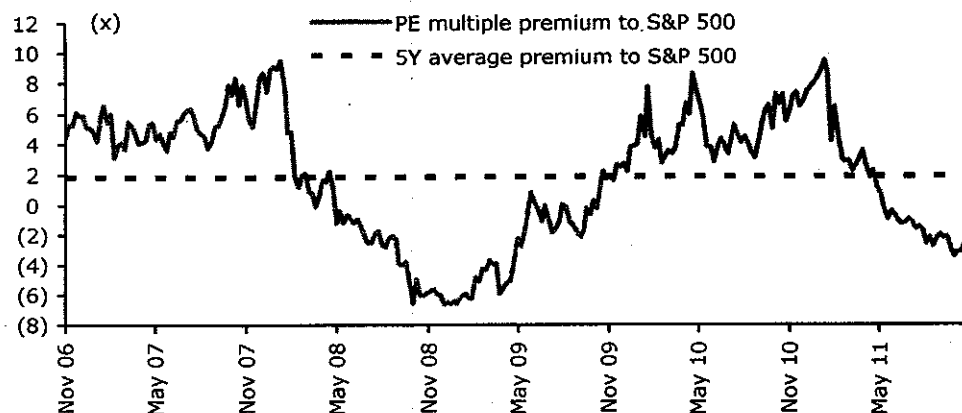
[THE 3 STOCKS]

Farm-equipment equities are trading at a two-point discount to the S&P vs a two-point premium

+ BELOW THEIR 5-YEAR AVERAGE PER

Figure 67

### Farm equipment PE multiple premium to the S&P500



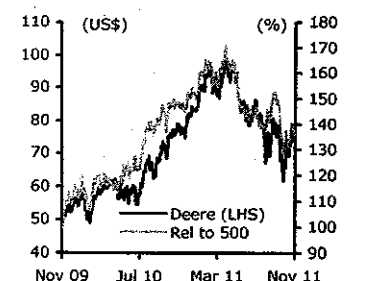
## Ashish Gupta

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### GLOBAL DOMINATOR

#### Stock performance (%)

	1M	3M	12M
Absolute	7.1	1.7	1.0
Relative	3.9	(1.8)	(3.8)



Source: Bloomberg

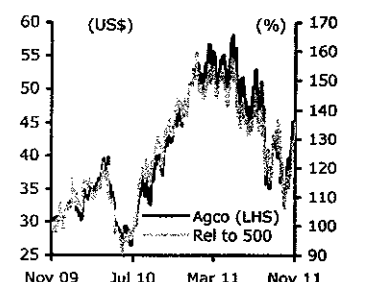
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9x PER BUT ROE  
1/3rd OF DEERE

#### Stock performance (%)

	1M	3M	12M
Absolute	20.1	13.3	(1.5)
Relative	16.6	9.4	(6.1)



Source: Bloomberg

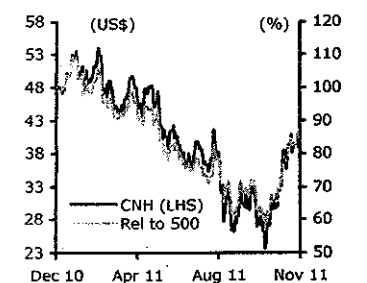
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BUT NO YIELD?  
WHAT WILL THE  
CASH BE USED  
FOR?

#### Stock performance (%)

	1M	3M	12M
Absolute	30.5	28.4	(6.5)
Relative	26.7	23.9	(9.5)



Source: Bloomberg

# Cream of the crop - DEERE

Deere is the leading global manufacturer of farm equipment with 2011CL sales of nearly US\$30bn. The company has dominant global market share, strong brand affinity and an operating model characterized by high-single-digit topline growth, modest long-term margin expansion, shareholder-friendly capital deployment and attractive returns (35% ROE, mid-teens ROIC). We view the current **10.5x PE** as compelling and initiate coverage with a BUY rating and a US\$90 target price.

#### Financials

Year to 31 Dec	09A	10A	11CL	12CL	13CL
Revenue (US\$m)	20,756	23,573	29,412	32,475	33,892
Net income (US\$m)	1,195	1,995	2,730	2,905	3,043
EPS (US\$)	2.82	4.65	6.45	7.05	7.50
CL/consensus (20) (EPS%)			100	99	98
EPS growth (% YoY)	(41.4)	65.0	38.8	9.2	6.5
PE (x)	26.6	16.1	11.6	10.6	10.0
Dividend yield (%)	1.5	1.5	1.9	2.2	2.2
FCF yield (%)	2.0	5.6	5.0	6.2	7.9
PB (x)	6.7	5.1	4.1	3.4	2.8
ROE (%)	30.0	21.1	35.9	39.1	34.8
Net debt/equity (%)	(2.6)	1.0	8.0	2.6	(7.1)

# Cultivating profits - AGCO

AGCO is a global pure-play on farm equipment with sales and income significantly concentrated outside of the USA. The recent acquisition of protein production and grain-handling equipment producer GSI Holdings adds product and geographic diversification. Trading at **9x** 12CL PE, AGCO shares are pricing in an immediate downturn and fail to reflect the attractive secular outlook that will see AGCO cultivating strong profits in the years ahead. We initiate coverage at BUY with a US\$60 target price.

#### Financials

Year to 31 Dec	09A	10A	11CL	12CL	13CL
Revenue (US\$m)	6,516	6,897	8,786	10,256	10,721
Net income (US\$m)	146	224	425	494	519
EPS (US\$)	1.55	2.32	4.35	5.05	5.25
CL/consensus (17) (EPS%)			100	106	103
EPS growth (% YoY)	(60.8)	49.6	87.5	16.1	4.0
PE (x)	28.7	19.2	10.2	8.8	8.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	3.4	6.3	3.5	8.4	11.9
PB (x)	1.7	1.6	1.5	1.3	1.1
ROE (%)	4.8	6.9	13.3	13.9	12.7
Net debt/equity (%)	(0.2)	(0.1)	31.8	16.7	1.6

# Cash provides safety - CNH

CNH is a top global manufacturer of farm and construction equipment. Operating under the *Case IH* and *New Holland* brands, the company has a leading global market position in farm equipment, driving high-single-digit topline growth as it benefits from rising food-production needs. A rock-solid balance sheet with US\$10/share of net cash and strong free cash generation (US\$13-plus from 2009-11CL) offer safety and mitigate concerns over limited float. We initiate at BUY with a US\$50 target price.

#### Financials

Year to 31 Dec	09A	10A	11CL	12CL	13CL
Revenue (US\$m)	12,783	14,474	17,653	19,604	20,321
Net income (US\$m)	(115)	496	890	1,043	1,164
EPS (US\$)	(0.49)	2.08	3.70	4.35	4.85
CL/consensus (10) (EPS%)			100	104	108
EPS growth (% YoY)	(113.4)	nm	78.7	17.2	11.6
PE (x)	nm	19.3	10.8	9.2	8.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	9.7	15.8	8.4	15.4	13.7
PB (x)	1.4	1.3	1.2	1.1	0.9
ROE (%)	(4.1)	3.3	7.2	8.1	8.1
Net debt/equity (%)	58.9	23.3	39.5	18.7	3.7

From: Michael Snaith, CLSA

Subject: Melco Crown (MPEL US) - 50% to 100% upside

# MELCO MATH

SNAITHY GETS OUT HIS  
CALCULATOR

Melco Crown (MPEL US), Mkt Cap US\$4.7bn, 3month ADT US\$95m

It's become very fashionable to broke the 'Macau is over' story. Whilst some slowdown versus this year is almost inevitable, sentiment seems to have swung too far to the negative. Sands China is the obvious one to own in the space because of their Sands Cotai Central launch in 1Q12 but I would think about Melco Crown here – its very cheap and Macau contacts suggest that Studio City will be the next Cotai project to be fully green lit (the land has already been gazetted, foundations are laid and the company is in discussion with the Government around number of tables/hotel rooms).

## The basic maths:

THE QUESTION IS WHETHER THE RIGHT MULTIPLE IS 11x EV/EBITDA

We are forecasting the existing operations to earn US\$916m in adjusted EBITDA next year (US\$211m from Altira, US\$760m from City of Dreams and US\$41m from Mocha Club less US\$96m in corporate expenses).

Fischer is using 11x EV/Ebitda as his fair value multiple, which gives an EV of US\$10bn.

Strip out the debt of US\$785m, gives a fair value market cap of US\$9.15bn or just over US\$19/share. The current market cap is US\$4.7bn or US\$8.85/share.

**100% upside**, with the stock trading on 11x 12CL PE, 5x EV/Ebitda and 15% FCF yield.

Thinking about it in a different way, and assuming 11x EV/Ebitda is the right multiple, the stock is discounting US\$500m in Ebitda for the whole of next year. They just printed US\$250m in the third quarter alone. This type of slowdown is very unlikely.

100% may be on the aggressive side, so take 25% of Fischer's forecast and you get US\$750m in Ebitda, implying a market cap fair value of US\$7.5bn or **50% higher than here**. BUT IF 7x EBITDA MULTIPLE IS USED IT'S AT FAIR VALUE NOW

Any way the numbers are cut, the stock looks very cheap and the above analysis doesn't even touch on what we think Studio City is worth. We are assuming the project gets approved 1H12, takes 36 months to build and costs US2bn. MPEL only owns 60% so their share is US\$1.2bn. **Studio City adds another US\$2.4/share to our fair value.**

Please note that Aaron recently downgraded his Macau assumptions as per below and these are incorporated in the above fair value analysis including a lower fair value multiple. Please let me know if you'd like to speak to Fischer.

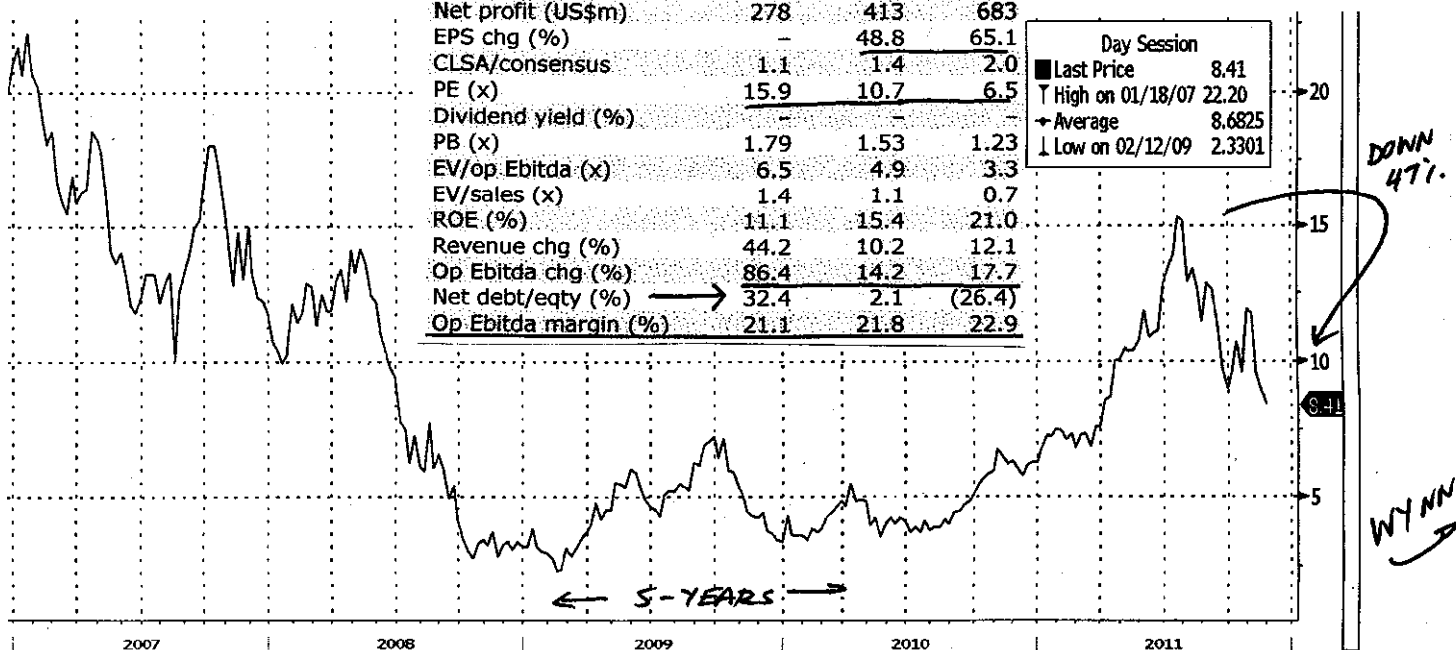
## STILL DOUBLE-DIGIT GROWTH

**Summary:** Amidst various macro uncertainties and the high comp base for the VIP segment, we adjust our industry estimates for 2011-13. We trim our gaming revenue growth forecast for full year 2011 to +42% yoy from +45%. After 45% growth YTD, implied growth for the rest of the year is 28-29%, suggesting monthly gaming revenue of MOP23bn for the rest of 2011. We have also brought down our full year forecast for 2012-13 from 20-25% to 14-15%. This downward adjustment is mainly due to the lowered VIP estimates (from +27% to +13% in 2012 and from +20% to +13% in 2013), which brought revenue to MOP308bn (US\$39bn) in 2012 and MOP350bn (US\$44bn) in 2013.

### Company financials

Year to 31 Dec	2011CL	2012CL	2013CL
Net profit (US\$m)	278	413	683
EPS chg (%)	-	48.8	65.1
CLSA/consensus	1.1	1.4	2.0
PE (x)	15.9	10.7	6.5
Dividend yield (%)	-	-	-
PB (x)	1.79	1.53	1.23
EV/op Ebitda (x)	6.5	4.9	3.3
EV/sales (x)	1.4	1.1	0.7
ROE (%)	11.1	15.4	21.0
Revenue chg (%)	44.2	10.2	12.1
Op Ebitda chg (%)	86.4	14.2	17.7
Net debt/eqty (%)	32.4	2.1	(26.4)
Op Ebitda margin (%)	21.1	21.8	22.9

Day Session	
Last Price	8.41
High on 01/18/07	22.20
Average	8.6825
Low on 02/12/09	2.3301



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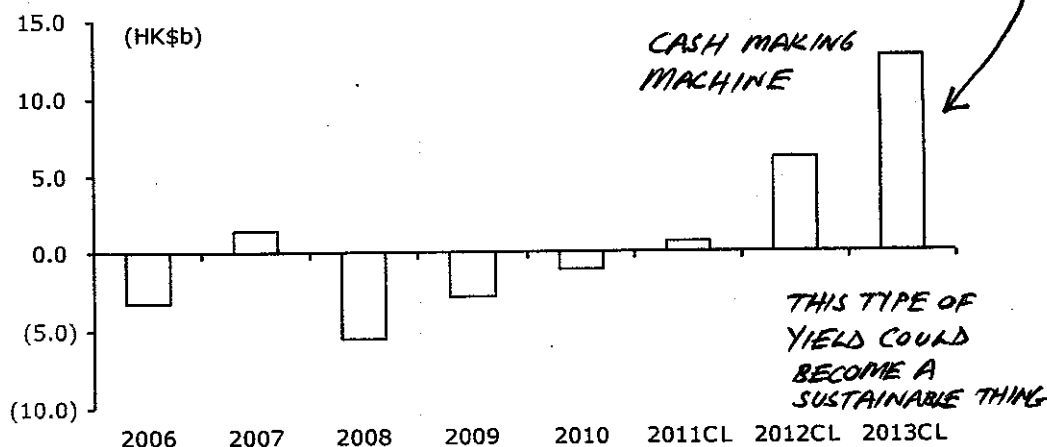
## Richard Huang

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## 6% special dividend

Wynn Macau declared a special dividend of HK\$1.2 per share, which implies a dividend yield of 6%. Wynn Resorts' share of the dividend covers most of the US\$5 per share special dividend the parent company declared three weeks ago (US\$4.7 per share). Post the special dividend, Wynn Macau's balance sheet remains healthy with HK\$600m net cash by end 2011. We expect HK\$9.2bn (US\$1.2bn) op cashflow in 2012 which is sufficient to fund the US\$2.5bn potential Cotai project. Maintain BUY.

### Net cash/(debt) (ex-special dividend, 2006-13CL)



18 November 2011

## Hong Kong Hotels & Leisure

Reuters 1128.HK  
Bloomberg 1128 HK

Priced on 17 November 2011

HK HSI @ 18,817.5

12M hi/lo HK\$29.10/15.24

12M price target HK\$28.30

±% potential +44%

Target set on 16 Nov 11

Shares in issue 5,187.5m

Free float (est.) 27.7%

Market cap US\$13,073m

3M average daily volume  
HK\$267.5m (US\$34.4m)

Major shareholders

Wynn Resorts 72.3%

### Financials

Year to 31 Dec	09A	10A	11CL	12CL	13CL
Revenue (HK\$m)	14,077	22,439	29,338	31,793	35,326
Net profit (HK\$m)	2,068	4,422	5,617	7,640	8,930
EPS (HK¢)	39.9	85.2	108.3	147.3	172.2
CL/consensus (18) (EPS%)	-	-	90	101	99
EPS growth (% YoY)	0.6	113.8	27.0	36.0	16.9
PE (x)	49.2	23.0	18.1	13.3	11.4
Dividend yield (%)	0.0	3.9	6.1	3.0	3.1
FCF yield (%)	2.2	5.8	8.0	8.6	10.0
PB (x)	27.0	23.7	27.6	12.3	7.2
ROE (%)	91.8	109.6	140.7	127.7	79.9
Net debt/equity (%)	73.9	26.3	(17.0)	(74.0)	(92.5)

■ Last Price 19.14  
T High on 08/02/11 28.20  
+ Average 16.652  
↓ Low on 02/09/10 8.566

## WYNN MACAU

HASN'T HAD A  
WINNING PAST FEW  
MONTHS.



SPECIAL  
POTENTIAL



# SPECIAL POTENTIAL

STOCKS WITH NET CASH

BALANCE SHEETS, SOLID FREE CASHFLOW

RANKED BY TOTAL NET CASH

## Special payout potential

Stocks with:

\* Net Cash Balance sheets

\* Free Cashflow yields > 5% for 2010-12

Company name	Bberg	Market	Sector	Market Cap (US\$m)	US\$ perf YTD (%)	PER (x)		FCF yield (%)		Gearing (%)	Net Cash (Debt) - USDm	Net Cash as a % of Mkt Cap
						2011	2010	2011	2012		2011	2011
China Mobile	941 HK	China	Telecoms	195,506.8	(1.92)	9.8	7	6	7	(46.8)	47,815	24
SAIC Motor	600104 CH	China	Autos	21,810.2	5.93	8.2	17	20	26	(58.8)	9,132	42
HTC	2498 TT	Taiwan	Technology	18,813.4	(22.70)	8.4	7	11	12	(96.7)	3,599	19
CNOOC	883 HK	China	Petro/Chems	85,014.3	(19.77)	8.0	8	7	6	(7.9)	3,234	4
Chunghwa Telecom	2412 TT	Taiwan	Telecoms	26,164.3	13.65	16.5	8	6	5	(25.3)	3,125	12
Oil India	OINL IS	India	Petro/Chems	5,732.3	(24.49)	10.2	7	10	10	(73.9)	2,251	39
Alibaba.com	1688 HK	China	Internet	5,611.2	(37.34)	20.0	8	9	11	(151.1)	1,897	34
Nitto Denko	6988 JP	Japan	Materials	6,700.2	(17.96)	8.8	14	14	5	(34.4)	1,879	28
Lenovo	992 HK	China	Technology	6,867.0	3.84	22.6	12	6	13	(106.5)	1,873	27
Sesa Goa	SESA IB	India	Materials	3,130.8	(50.97)	3.9	7	18	15	(78.3)	1,698	54
Asustek	2357 TT	Taiwan	Technology	5,040.5	(10.47)	9.8	10	12	9	(44.3)	1,584	31
SJM	880 HK	Hong Kong	Hotels & Leisure	8,509.3	(2.92)	11.0	11	13	10	(66.5)	1,355	16
Kuraray	3405 JP	Japan	Materials	5,271.6	(3.74)	12.8	15	15	7	(27.6)	1,244	24
JSR	4185 JP	Japan	Materials	4,678.8	(1.78)	12.4	11	11	6	(32.4)	1,114	24
Square Enix	9684 JP	Japan	Consumer	2,370.8	16.13	10	10	11	6	(56.3)	991	42
Gome	493 HK	China	Consumer	4,680.5	(22.99)	11.2	11	10	12	(37.1)	961	21
Hoya	7741 JP	Japan	Technology	9,058.1	(14.07)	14.8	6	9	10	(18.8)	922	10
Nikon	7731 JP	Japan	Technology	9,041.2	11.44	36.8	8	12	11	(17.0)	858	9
Sohu.com	SOHU US	China	Internet	2,000.3	(17.25)	10.6	8	9	10	(73.5)	855	43
Trend Micro	4704 JP	Japan	Technology	4,286.9	(7.25)	20.4	7	8	12	(86.6)	853	20
DeNA	2432 JP	Japan	Internet	5,155.7	(4.46)	12.3	819	11	13	(76.0)	815	16
Lite-On Tech	2301 TT	Taiwan	Technology	2,448.1	(19.77)	9.0	10	11	15	(30.1)	793	32
Bajaj Auto	BJAUT IS	India	Autos	9,559.3	(4.17)	18.7	6	5	7	(105.1)	775	8
Ctrip.com	CTRP US	China	Internet	3,691.0	(36.44)	21.8	6	6	7	(64.3)	769	21
KT&G	033780 KS	Korea	Consumer	9,090.9	15.44	11.4	8	8	7	(16.0)	764	8
OZ Minerals	OZL AU	Australia	Materials	3,449.2	(32.46)	11.0	16	14	8	(28.7)	757	22
Anta Sports	2020 HK	China	Consumer	2,341.3	(40.86)	8.3	7	8	10	(69.1)	714	31
Hyundai Mipo	010620 KS	Korea	Capital goods	1,835.4	(53.79)	4.9	24	9	29	(36.1)	661	36
Changyou.com	CYOU US	China	Technology	1,227.1	(17.29)	5.7	14	17	21	(89.5)	567	46
Kobayashi Pharma	4967 JP	Japan	Consumer	2,169.4	10.12	17.2	9	8	7	(47.0)	559	26
Lintec	7966 JP	Japan	Materials	1,327.2	(34.45)	7.4	11	15	9	(27.5)	468	35
Mphasis	MPHL IB	India	Technology	1,233.9	(60.96)	8.5	12	11	7	(83.1)	421	34
Shougang Fushan	639 HK	China	Materials	2,010.7	(45.50)	7.2	9	16	11	(15.1)	419	21
Far EasTone	4904 TT	Taiwan	Telecoms	6,130.8	35.03	20.1	8	7	7	(16.0)	396	6
NetEase.com	NTES US	China	Internet	5,988.3	27.33	11.7	6	8	10	(21.5)	343	6
Mount Gibson Iron	MGX AU	Australia	Materials	1,384.6	(40.72)	6.0	12	10	19	(29.3)	342	25
VTech	303 HK	Hong Kong	Technology	2,431.3	(17.15)	12.0	9	5	9	(61.2)	333	14
Shanda Games	GAME US	China	Internet	1,270.3	(31.52)	6.0	19	18	20	(42.9)	322	25
Perusahaan Gas	PGAS IJ	Indonesia	Power	8,336.0	(30.02)	11.8	12	10	6	(16.5)	313	4
Capcom	9697 JP	Japan	Consumer	1,815.6	67.05	16.0	14	17	11	(41.1)	310	17
VIS	5347 TT	Taiwan	Technology	608.0	(24.37)	27.6	12	8	15	(44.3)	305	50
Novatek	3034 TT	Taiwan	Technology	1,530.1	(17.66)	12.5	7	9	8	(38.9)	287	19
Tripod	3044 TT	Taiwan	Technology	1,378.2	(25.75)	9.8	15	10	11	(36.3)	273	20
Zhejiang Expway	576 HK	China	Infrastructure	2,772.0	(35.23)	9.4	11	13	14	(14.9)	242	9
Toshiba Machine	6104 JP	Japan	Capital goods	886.1	5.14	19.8	14	6	8	(27.2)	232	26
Lilang	1234 HK	China	Consumer	1,094.8	(40.93)	11.6	7	6	9	(67.6)	226	21
London Sumatra	LSIP IJ	Indonesia	Materials	1,778.6	(8.66)	9.7	6	8	8	(35.0)	225	13
Li Ning	2331 HK	China	Consumer	896.1	(59.96)	12.7	12	9	17	(35.8)	211	24
BEC World	BEC TB	Thailand	Media	2,357.1	11.36	20.1	7	8	8	(73.2)	193	8
Midland	1200 HK	Hong Kong	Property	350.9	(40.70)	8.2	19	16	13	(73.5)	190	54
NGK Spark Plug	5334 JP	Japan	Technology	2,792.9	(18.40)	8.8	14	14	11	(5.8)	165	6
Lion	4912 JP	Japan	Consumer	1,708.9	4.95	19.6	7	8	10	(10.9)	155	9
Giant Interactive	GA US	China	Internet	903.0	(44.38)	6.6	16	18	25	(39.6)	149	17
Hexaware Tech	HEXW IS	India	Technology	478.4	25.26	8.7	14	10	12	(69.6)	140	29
Realtek	2379 TT	Taiwan	Technology	788.4	(29.42)	14.6	5	13	11	(24.2)	139	18
Wotif.com	WTF AU	Australia	Internet	730.4	(31.78)	14.4	6	10	7	(150.7)	133	18
Silitech	3311 TT	Taiwan	Technology	500.3	(7.15)	11.1	18	9	8	(61.7)	130	26
Perfect World	PWRD US	China	Internet	637.1	(47.40)	4.1	23	22	25	(22.1)	130	20
Sakai Chemical	4078 JO	Japan	Materials	412.4	(20.44)	9.5	17	24	10	(13.0)	127	31
Guangshen Railway	525 HK	China	Transport	3,423.5	(11.59)	9.1	13	13	12	(3.0)	116	3
Takeuchi	6432 JP	Japan	Capital goods	103.3	(36.45)	83	50	10	10	(31.5)	108	105
SATS	SATS SP	Singapore	Transport	2,028.8	(18.46)	15.3	7	5	9	(8.2)	102	5

PLENTY OF JAPANESE STOCKS IN THE LIST

⊗ NOTE ALSO SOME HIGH NUMBERS HERE

SOME OF THESE STOCKS WILL ENJOY HIGHER INT RATES

(23)

# INTEREST + TAX EXP

Revenue  
Op Ebitda  
Depreciation/amortisation  
Op Ebit  
Interest income  
**Interest expense**  
**Net interest inc/(exp)**  
Associates/investments  
Forex/other income  
Exceptional items  
**Profit before tax**  
**Taxation**  
**Profit after tax**  
Minorities/Pref divs  
**Net profit**  
Extraordinaries/others  
Dividends  
**Retained profit**

WHILE A COMPANY CAN  
SEEK TO ALTER ITS CAPITAL  
STRUCTURE OR DEBT TERMS  
IT IS TYPICALLY A PRICE-  
TAKER WHEN IT COMES  
TO THE COST OF THAT DEBT  
(I.E INTEREST RATES).

ANOTHER "EXTERNALLY"  
DRIVEN COST IS TAXATION.

THESE TWO COST ITEMS ON  
A COMPANY'S P/L ARE MORE  
A BY-PRODUCT OF EXTERNAL  
FORCES AS COMPARED TO

OTHER COSTS. I'VE TAKEN A LOOK  
AT WHAT THESE COSTS ARE DOING  
AND WHICH COMPANIES ARE THE MOST  
HEAVILY EXPOSED.

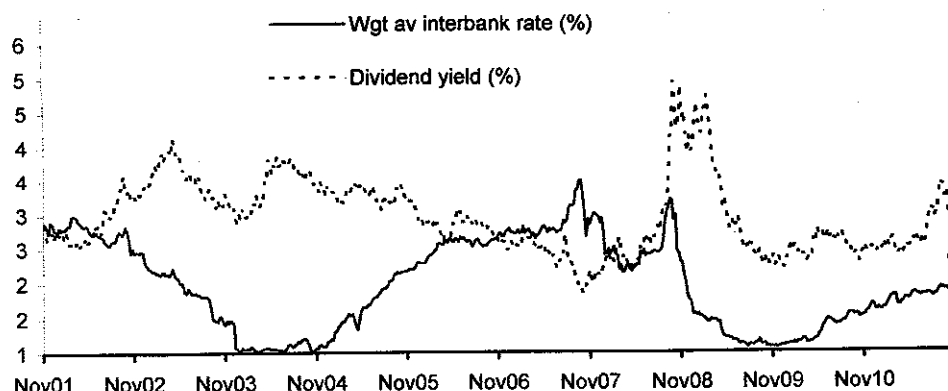
COMBINED THESE TWO COSTS ACCOUNT FOR  
AROUND **(25%)** OF TOTAL ASIA EX-JAPAN EBITDA

## AGGREGAT OF CLSA'S UNIVERSE SUMMARY PROFIT & LOSS FORECAST(US\$m)

Year Ending	Dec11
Revenue (I.E US\$4.2 trillion)	4,213,859
Operating EBITDA	682,694
Depreciation	218,814
EBIT	457,972
Interest income	12,616
Interest expense	(49,174)
<b>Net interest inc/(exp)</b>	<b>(36,558)</b>
Associates/investments	46,929
Forex/other income	10,731
Exceptional items	9,312
<b>Profit before tax</b>	<b>488,386</b>
Taxation	(110,019)
<b>Profit after tax</b>	<b>378,367</b>
Minorities/Pref divs	(23,213)
<b>Net profit</b>	<b>355,153</b>
Dividends	(113,970)
Extraordinaries/others	1
<b>Retained profit</b>	<b>241,185</b>

Net int exp as % of EBITDA	8.0
Tax as a % of EBITDA	16.1
Implied tax rate (%)	22.5

### Asia ex Japan - Average Yield (%)

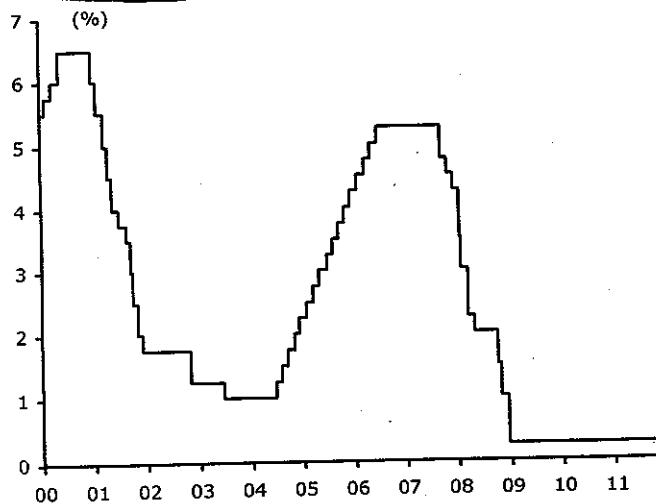


## INTEREST RATES

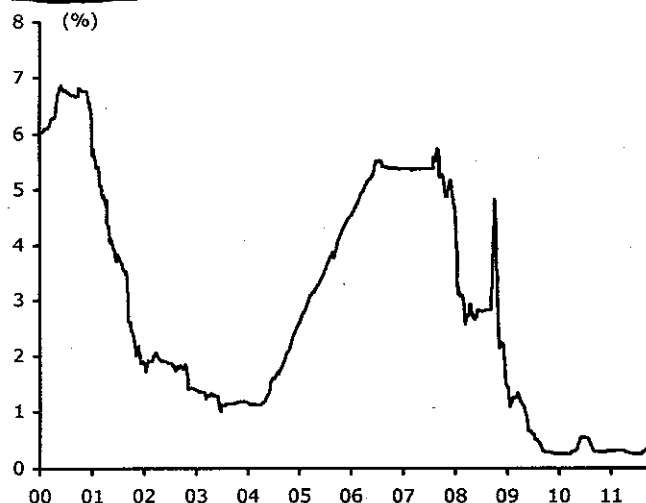
IN MANY COUNTRIES ARE  
NOW TRENDING UP AS YOU CAN  
SEE, THE WEIGHTED AVE INTEREST  
RATE IS WEIGHTED ACCORDING  
TO GDP.

NOT ALL COUNTRIES RATES  
ARE RISING THOUGH -  
JUST LIKE THESE

### US Fed funds rate



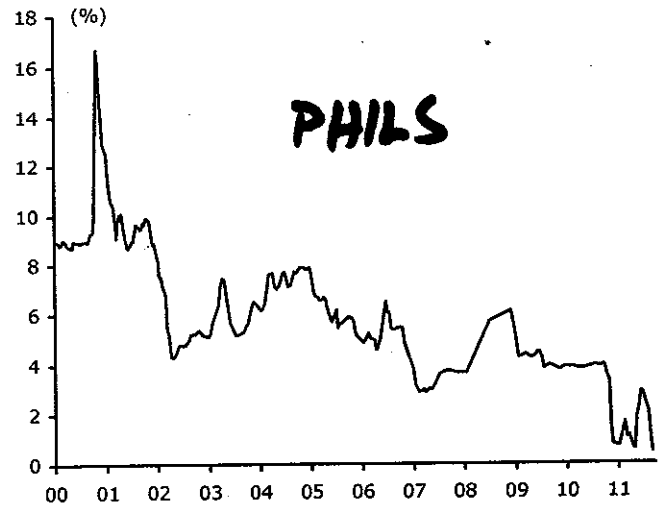
### 3M Libor rate



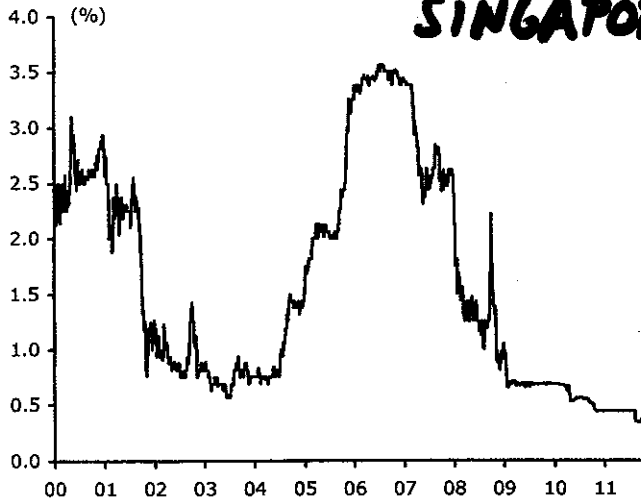
# RATES TRENDING DOWN

Central Bk Rate		
Asia/Pacific		
1) Australia	4.500	11/01
2) Cambodia	n.a.	
3) China	6.560	11/18
4) India	7.500	11/18
5) Indonesia	6.000	11/18
6) Japan	.076	11/18
7) Malaysia	3.000	11/18
8) New Zealand	2.500	10/27
9) Pakistan	12.000	11/18
10) Philippines	4.500	10/20
11) Singapore	.030	11/18
12) South Korea	3.250	11/11
13) Sri Lanka	7.000	11/16
14) Thailand	n.a.	
15) Vietnam	9.000	11/30

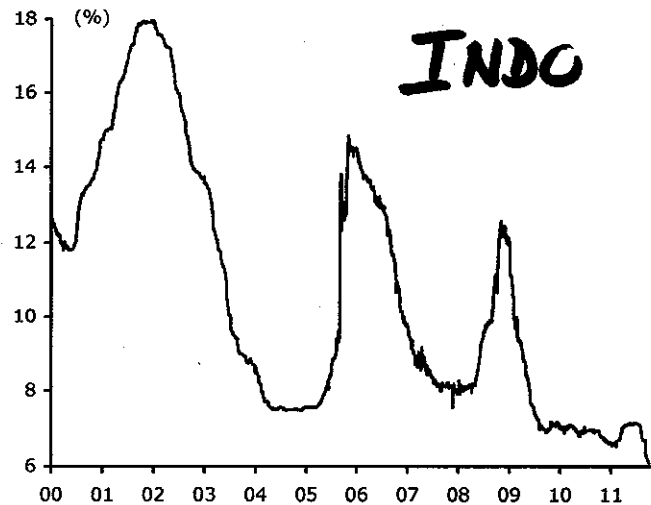
Philippines 3M T-bill auction rates



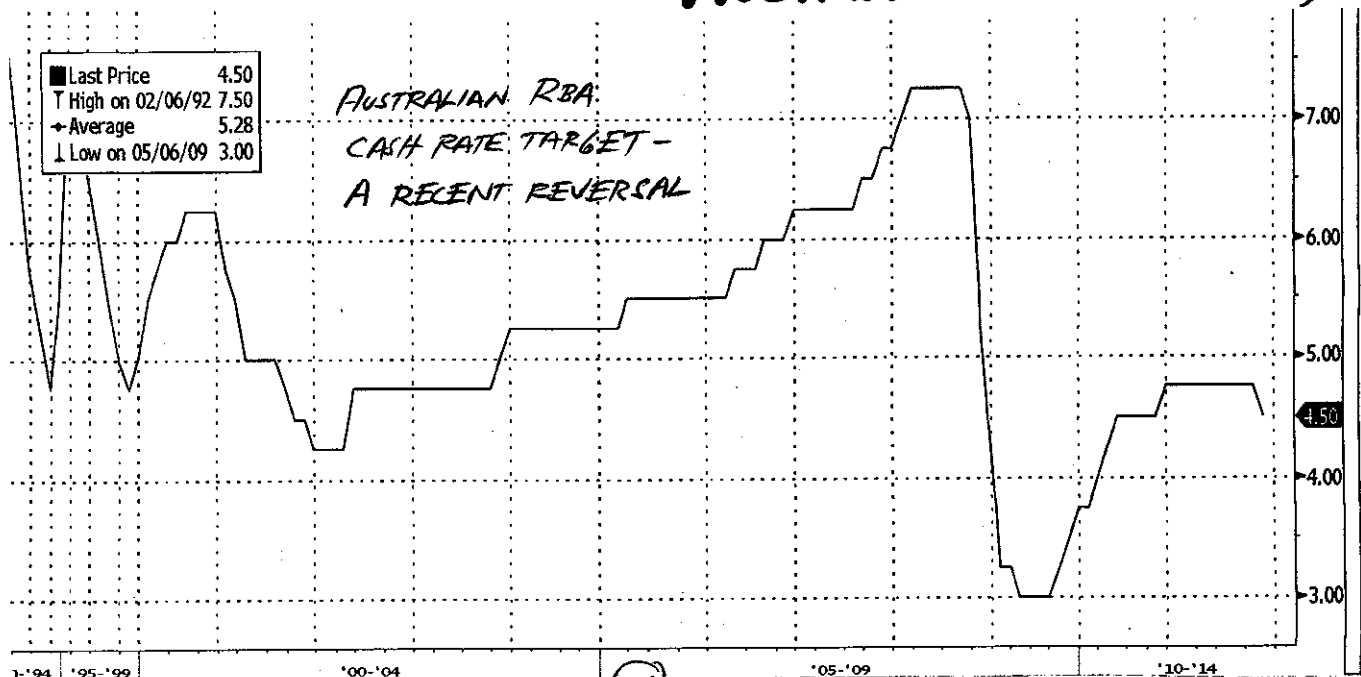
Singapore 3M interbank rate



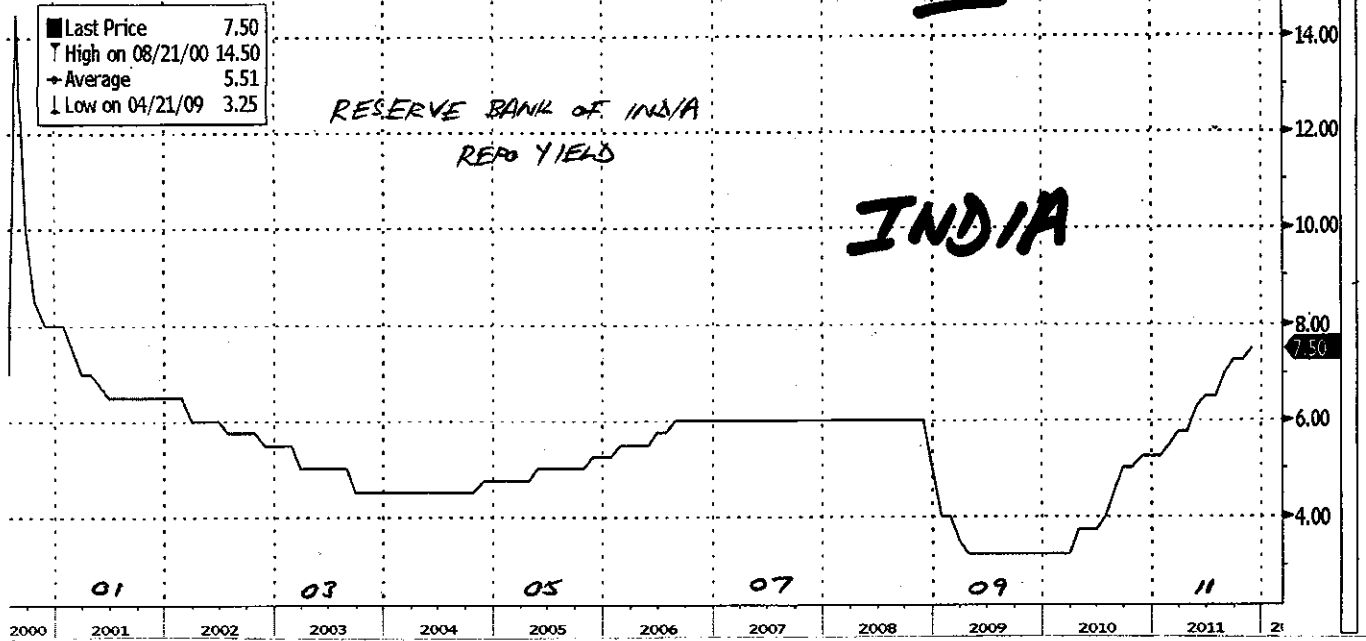
Indonesia 3M interbank rate



## AUSTRALIA

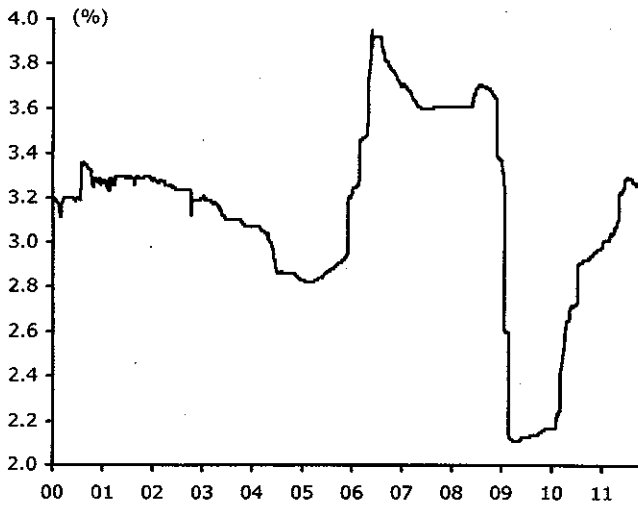


# RATES TRENDING UP



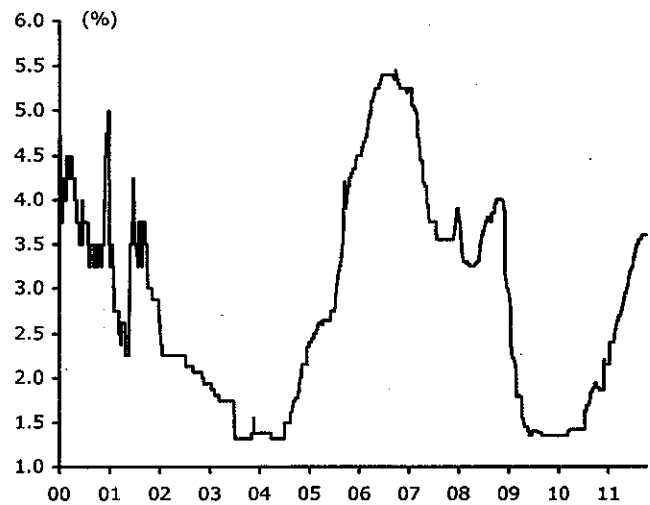
Malaysia 3M interbank rate

**MAL**



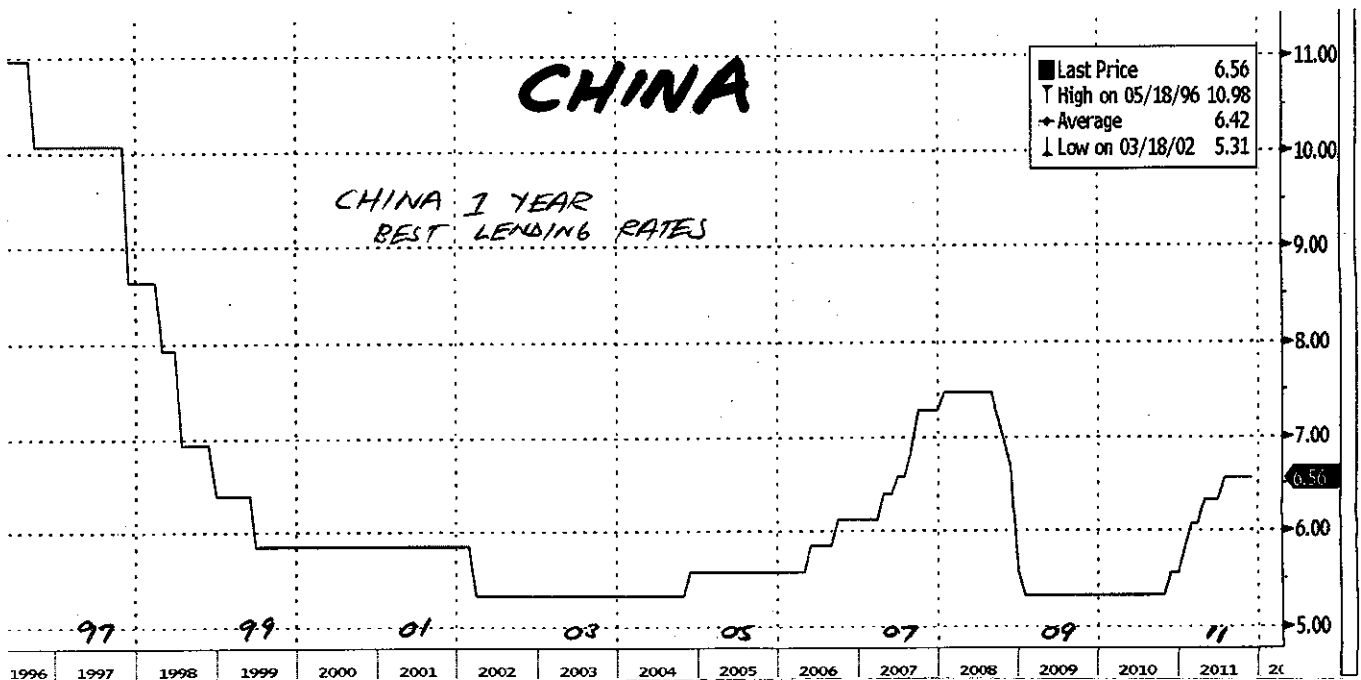
Thailand 3M interbank rates

**THAI**



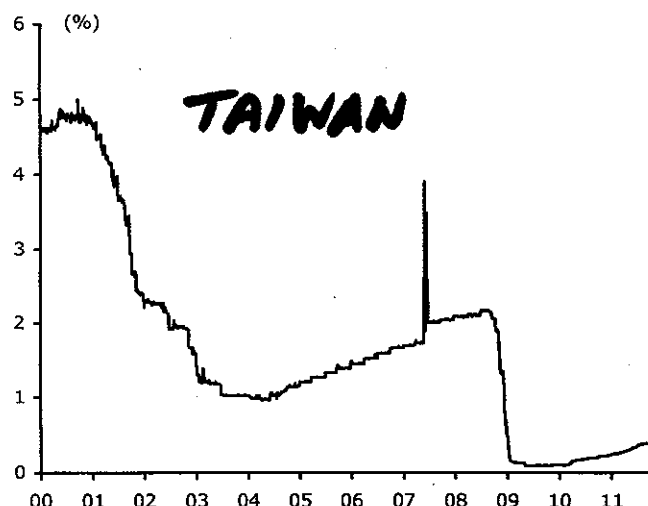
**CHINA**

CHINA 1 YEAR  
BEST LENDING RATES

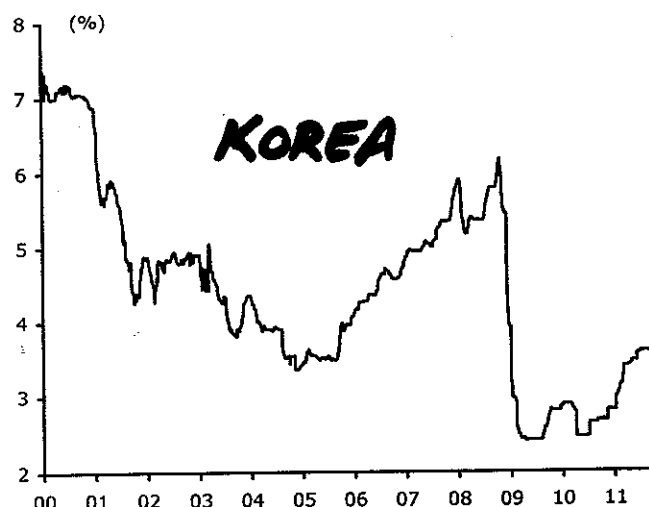


PLUS →

Taiwan interbank overnight rate



Korea 3M CD rate



SOME COMPANIES STAND TO BENEFIT FROM RISING RATES

### Stocks with the Highest Net Interest Income by USDm

CHINA MOBILE STANDS OUT,  
EARNING US\$1 BN IN NET INTEREST  
INCOME

Company name	Bberg	Market	Sector	Market Cap (US\$m)	US\$ perf YTD (%)	Gearing (%)	Rev (USDm)	Ebitda (USDm)	Net Interest (USDm)	Net Int as % of Ebitda	Net Int as % of Rev
China Mobile	941 HK	China	Telecoms	195,506.8	(1.92)	(46.8)	82,790	39,718	1,130	2.8	1.4
Sterlite Industries	STLT IB	India	Materials	7,097.9	(49.41)	(45.5)	6,856	1,893	370	19.6	5.4
Infosys	INFO IB	India	Technology	30,705.2	(30.62)	(71.3)	6,296	1,999	308	15.4	4.9
BHEL	BHEL IB	India	Power	13,184.0	(48.21)	(34.1)	9,238	1,647	190	11.6	2.1
SAIL	SAIL IS	India	Materials	7,602.9	(54.91)	14.6	8,854	1,093	181	16.5	2.0
Yangzijiang	YZJ SP	Singapore	Capital goods	2,812.7	(50.72)	(12.5)	2,127	491	170	34.6	8.0
Telekom Malaysia	T MK	Malaysia	Telecoms	4,788.7	26.37	28.1	2,890	983	135	13.7	4.7
Samsung Electronics	005930 KS	Korea	Technology	124,571.2	0.52	5.9	148,251	26,076	108	0.4	0.1
Wipro	WPRO IB	India	Technology	17,968.9	(33.34)	(33.1)	6,659	1,352	104	7.7	1.6
LG Display	034220 KS	Korea	Technology	7,792.9	(38.27)	38.9	21,183	2,039	96	4.7	0.5
New Hope	NHC AU	Australia	Materials	5,018.9	22.47	(67.2)	636	188	92	48.7	14.4
Quanta Computer	2382 TT	Taiwan	Technology	7,795.1	0.71	(4.5)	36,521	678	49	7.2	0.1
Sembcorp Marine	SMM SP	Singapore	Capital goods	6,178.6	(29.14)	(71.2)	3,283	628	47	7.5	1.4
Alibaba.com	1688 HK	China	Internet	5,611.2	(37.34)	(151.1)	1,028	319	47	14.6	4.5
FIH	2038 HK	Hong Kong	Technology	5,056.5	0.20	(20.8)	7,202	165	42	25.5	0.6
Ranbaxy	RBXY IB	India	Healthcare	3,776.0	(33.19)	0.4	1,879	360	39	10.7	2.1

NET INTEREST INCOME IS HIGH RELATIVE TO  
EBITDA FOR THESE COMPANIES

### Highest net interest income as a % of Ebitda

Company name	Bberg	Market	Sector	Market Cap (US\$m)	US\$ perf YTD (%)	Gearing (%)	Rev (USDm)	Ebitda (USDm)	Net Interest (USDm)	Net Int as % of Ebitda
Dart Energy	DTE AU	Australia	Petro/Chems	400.2	(53.47)	(29.1)	25	1	7	640.9
Cockatoo Coal	COK AU	Australia	Materials	416.3	(24.05)	(16.0)	69	2	3	138.4
Airmedia	AMCN US	China	Media	187.6	(58.49)	(32.0)	263	2	2	99.1
New Hope	NHC AU	Australia	Materials	5,018.9	22.47	(67.2)	636	188	92	48.7
Yangzijiang	YZJ SP	Singapore	Capital goods	2,812.7	(50.72)	(12.5)	2,127	491	170	34.6
Sina	SINA US	China	Internet	4,578.7	7.70	(32.8)	482	55	18	32.6
FIH	2038 HK	Hong Kong	Technology	5,056.5	0.20	(20.8)	7,202	165	42	25.5
Sterlite Industries	STLT IB	India	Materials	7,097.9	(49.41)	(45.5)	6,856	1,893	370	19.6
Shanda Interactive	SNDA US	China	Internet	2,226.7	(0.61)	(62.8)	1,092	114	21	18.3
Seoul Semicon	046890 KQ	Korea	Technology	1,131.6	(46.14)	7.8	623	55	10	17.8
CapitaMalls Asia	CMA SP	Singapore	Property	4,022.3	(31.56)	(15.8)	186	52	9	16.6
SAIL	SAIL IS	India	Materials	7,602.9	(54.91)	14.6	8,854	1,093	181	16.5
Infosys	INFO IB	India	Technology	30,705.2	(30.62)	(71.3)	6,296	1,999	308	15.4
Green Dragon Gas	GDG LN	China	Petro/Chems	962.6	(39.08)	(3.7)	132	11	2	15.3
Dongxiang	3818 HK	China	Consumer	955.5	(60.78)	(77.5)	399	106	16	14.8
Alibaba.com	1688 HK	China	Internet	5,611.2	(37.34)	(151.1)	1,028	319	47	14.6
Telekom Malaysia	T MK	Malaysia	Telecoms	4,788.7	26.37	28.1	2,890	983	135	13.7

# BUT RISING RATES WILL HURT SOME

THERE ARE STILL PLENTY OF STOCKS IN ASIA WITH GEARING LEVELS THAT COULD BE DESCRIBED AS HIGH. WHAT IS ALSO HIGH IS THE AMOUNT OF EBITDA CHEWED UP BY INTEREST COSTS

## Stocks with net gearing >100%

Company name	Bberg	Market	Sector	Market Cap (US\$m)	US\$ perf YTD (%)	Gearing (%)	Rev (USDm)	Ebitda (USDm)	Net Interest (USDm)	Net Int as % of Ebitda
						2011	2011	2011	2011	
Aban Offshore	ABAN IB	India	Petro/Chems	334.9	(57.80)	541.5	618	387	(172)	44.5
Huadian Power	1071 HK	China	Power	2,933.4	(9.37)	500.0	8,650	1,437	(737)	51.3
Lanco Infratech	LANCI IN	India	Power	571.0	(83.29)	377.9	1,552	340	(86)	25.2
Adani Power	ADANI IB	India	Power	3,157.5	(50.24)	355.5	1,080	535	(150)	28.1
Datang Intl Power	991 HK	China	Power	8,614.3	(9.68)	310.7	10,816	2,825	(1,027)	36.3
SMN	TOWR ID	Indonesia	Capital goods	1,131.8	(22.87)	284.2	206	174	(53)	30.4
JPA	JPA IS	India	Conglomerates	2,583.8	(48.69)	265.5	2,637	948	(466)	49.2
Bhushan Steel	BHUS IB	India	Materials	1,336.0	(40.80)	260.2	1,765	537	(126)	23.5
China Power Intl	2380 HK	China	Power	1,101.8	5.48	258.9	2,610	721	(269)	37.3
Tiger Airways	TGR SP	Singapore	Transport	430.6	(60.19)	246.1	487	5	(8)	143.8
Huaneng Power	902 HK	China	Power	9,715.6	(4.06)	225.9	19,793	3,133	(932)	29.8
SR Sugars	SHRS IB	India	Consumer	459.3	(68.49)	225.9	1,697	262	(126)	48.2
Yang Ming	2609 TT	Taiwan	Transport	1,071.9	(55.05)	218.3	4,012	74	(47)	63.8
Olam	OLAM SP	Singapore	Consumer	4,264.6	(28.50)	214.4	10,490	488	(206)	42.2
Bumi Resources	BUMI ID	Indonesia	Materials	5,069.5	(27.35)	212.6	4,045	1,371	(478)	34.9
Power Grid	PWGR IB	India	Power	9,100.4	(10.53)	196.9	2,122	1,673	(506)	30.3
Map	MAP AU	Australia	Transport	6,397.5	12.96	193.0	736	372	(410)	110.4
Kumho Ind	002990 KS	Korea	Capital goods	753.3	(53.63)	189.3	1,946	117	(114)	98.0
YTL Power	YTLP MK	Malaysia	Power	4,124.0	(28.85)	180.6	4,636	1,039	(249)	23.9
Glow Energy	GLOW TB	Thailand	Power	2,621.5	13.78	174.3	1,268	322	(46)	14.2
China Airlines	2610 TT	Taiwan	Transport	2,052.2	(47.86)	170.1	4,394	418	(93)	22.2
BCML	BRCM IS	India	Consumer	226.0	(52.95)	158.9	459	67	(24)	36.1
Tata Power	TPWR IB	India	Power	4,514.1	(37.74)	158.0	4,114	1,103	(189)	17.1
Indian Hotels	IH IS	India	Hotels & Leisure	889.5	(45.81)	155.6	748	175	(65)	37.0
CNBM	3323 HK	China	Materials	6,531.3	5.54	155.6	11,247	3,048	(775)	25.4
Bajaj Hindusthan	BJH IS	India	Consumer	378.2	(73.66)	153.1	891	146	(83)	57.1
Longyuan Power	916 HK	China	Power	5,684.3	(16.74)	149.0	2,588	1,343	(322)	23.9
Wilmar Intl	WIL SP	Singapore	Consumer	25,618.6	(8.83)	148.4	40,757	2,849	(361)	12.7
Jain Irrigation	JI IB	India	Capital goods	893.7	(50.89)	144.0	915	172	(60)	35.0
JSW Energy	JSW IB	India	Power	1,381.4	(62.18)	143.5	912	257	(56)	21.9
IRB Infra	IRB IB	India	Infrastructure	901.1	(46.28)	143.2	592	257	(88)	34.1
Pantaloons	PF IB	India	Consumer	849.2	(52.90)	137.3	2,441	202	(93)	46.1
Air China	753 HK	China	Transport	13,701.2	(31.05)	135.6	15,246	2,859	(235)	8.2
Chimei Innolux	3481 TT	Taiwan	Technology	3,204.0	(67.00)	134.6	15,694	1,324	(151)	11.4
China Res Power	836 HK	China	Power	8,757.7	1.96	130.8	8,259	1,687	(367)	21.8
AirAsia	AIRA MK	Malaysia	Transport	3,208.6	40.71	130.5	1,496	573	(112)	19.5
HPCL	HPCL IB	India	Petro/Chems	1,963.8	(33.76)	130.2	26,681	602	(212)	35.2
Energy Development	EDC PM	Philippines	Power	2,579.5	2.65	129.2	585	202	(84)	41.6
Prince Housing	2511 TT	Taiwan	Property	651.7	(25.63)	128.6	321	87	(9)	10.6
Godrej Prop	GPL IB	India	Property	898.9	(6.39)	128.3	140	44	(3)	6.7
United Spirits	UNSP IB	India	Consumer	1,995.9	(53.30)	128.1	1,588	262	(135)	51.5
MTNL	MTNL IB	India	Telecoms	320.3	(58.56)	125.2	751	(215)	(94)	43.8
FSL Trust	FSLT SP	Singapore	Transport	151.7	(36.07)	125.1	107	93	(22)	23.7
Oil Search	OSH AU	Australia	Petro/Chems	8,222.7	(13.39)	120.8	702	492	(1)	0.1
Chalco	2600 HK	China	Materials	14,092.0	(47.62)	115.6	20,239	1,661	(483)	29.1
Shenzhen Expway	548 HK	China	Infrastructure	1,175.6	(31.14)	114.1	460	340	(82)	24.1
Aristocrat Leisure	ALL AU	Australia	Hotels & Leisure	1,280.9	(22.50)	113.4	676	137	(24)	17.3
Ezra	EZRA SP	Singapore	Transport	606.9	(50.18)	112.0	647	80	(26)	31.9
Indosat	ISAT ID	Indonesia	Telecoms	3,254.9	(0.11)	111.6	2,297	1,092	(216)	19.8
Globe Telecom	GLO PM	Philippines	Telecoms	2,959.9	22.44	111.2	1,526	830	(104)	12.6
Noble Group	NOBL SP	Singapore	Materials	5,528.4	(48.86)	111.0	86,331	1,130	(448)	39.6
JB Hi-Fi	JBH AU	Australia	Consumer	1,552.4	(13.77)	110.9	3,017	219	(11)	4.9
Qisda	2352 TT	Taiwan	Technology	498.2	(61.36)	110.8	4,297	112	(27)	24.1
EVA Airways	2618 TT	Taiwan	Transport	1,993.6	(44.49)	109.9	3,406	466	(50)	10.7
Evergrande	3333 HK	China	Property	5,680.4	(21.56)	109.5	9,993	2,410	16	0.7
China Shipping Dev	1138 HK	China	Transport	3,149.2	(50.95)	109.4	1,972	471	(90)	19.1
Suntech Power	STP US	China	Power	421.6	(70.79)	107.6	3,171	137	(101)	73.6
Bharti Airtel	BHARTI IS	India	Telecoms	29,465.5	(3.34)	106.8	13,252	4,581	(616)	13.4
China XLX Fertiliser	CXLX SP	China	Materials	270.4	(41.71)	106.3	531	81	0	0.0
Manila Water	MWLC PM	Philippines	Power	898.2	1.99	105.0	277	190	(32)	16.6
Transurban	TCL AU	Australia	Infrastructure	7,843.0	3.74	102.6	935	629	(154)	24.5
BCIA	694 HK	China	Infrastructure	2,002.2	(13.40)	101.3	967	563	(119)	21.1
Larsen & Toubro	LT IB	India	Conglomerates	14,845.3	(45.20)	100.9	11,712	1,622	(174)	10.7

NUMEROUS POWER AND INFRASTRUCTURE STOCKS FROM CHINA, INDIA AND ELSEWHERE IN THE LIST

THE BIGGEST COST

# PAYING THE PRICE

THE OPPOSITE OF CHINA MOBILE EARNING  
US\$1 bn IN INTEREST INCOME. THESE BOYS  
ARE PAYING IT

## Stocks with the Highest Net Interest Expense by USDm

Company name	Bberg	Market	Sector	Market Cap (US\$m)	US\$ perf YTD (%)	Gearing (%)	Rev (USDm)	Ebitda (USDm)	Net Interest (USDm)	Net Int as % of Ebitda	Net Int as % of Rev
						2011	2011	2011			
Kepeco	015760 KS	Korea	Power	13,276.8	(22.75)	77.3	37,428	6,516	(1,797)	27.6	4.8
Rusal	486 HK	Hong Kong	Materials	11,901.7	(48.91)	91.7	11,876	2,124	(1,142)	53.8	9.6
PetroChina	857 HK	China	Petro/Chems	276,873.0	(2.14)	27.4	288,908	55,173	(1,131)	2.0	0.4
Telstra	TLS AU	Australia	Telecoms	39,040.4	10.50	94.8	24,801	10,254	(1,071)	10.4	4.3
Hutchison Whampoa	13 HK	Hong Kong	Conglomerates	37,476.7	(14.58)	26.1	31,179	7,614	(1,035)	13.6	3.3
Datang Intl Power	991 HK	China	Power	8,614.3	(9.68)	310.7	10,816	2,825	(1,027)	36.3	9.5
Huaneng Power	902 HK	China	Power	9,715.6	(4.06)	225.9	19,793	3,133	(932)	29.8	4.7
Indian Oil	IOCL IB	India	Petro/Chems	12,798.5	(31.30)	69.3	67,330	2,609	(920)	35.3	1.4
CNBM	3323 HK	China	Materials	6,531.3	5.54	155.6	11,247	3,048	(775)	25.4	6.9
Huadian Power	1071 HK	China	Power	2,933.4	(9.37)	500.0	8,650	1,437	(737)	51.3	8.5
Sinopec	386 HK	China	Petro/Chems	96,702.9	6.94	11.5	364,858	28,667	(691)	2.4	0.2
Rio Tinto	RIO AU	Australia	Materials	104,025.2	(22.98)	18.6	65,627	28,328	(689)	2.4	1.0
CLP	2 HK	Hong Kong	Power	21,073.7	7.90	67.4	11,874	2,631	(684)	26.0	5.8
Westfield Group	WDC AU	Australia	Property	18,388.1	(18.32)	78.3	2,196	2,086	(670)	32.1	30.5
BHP Billiton	BHP AU	Australia	Materials	178,729.4	(21.61)	16.5	73,483	38,970	(660)	1.7	0.9
Bharti Airtel	BHARTI IS	India	Telecoms	29,465.5	(3.34)	106.8	13,252	4,581	(616)	13.4	4.6
Tata Steel	TATA IB	India	Materials	7,349.0	(49.56)	88.6	23,943	2,908	(602)	20.7	2.5
Reliance Industries	RIL IB	India	Petro/Chems	51,649.4	(33.38)	8.9	55,958	7,857	(520)	6.6	0.9
Power Grid	PWGR IB	India	Power	9,100.4	(10.53)	196.9	2,122	1,673	(506)	30.3	23.9
Wesfarmers	WES AU	Australia	Consumer	37,135.6	(1.54)	16.9	57,056	4,607	(487)	10.6	0.9
Chalco	2600 HK	China	Materials	14,092.0	(47.62)	115.6	20,239	1,661	(483)	29.1	2.4
Bumi Resources	BUMI IJ	Indonesia	Materials	5,069.5	(27.35)	212.6	4,045	1,371	(478)	34.9	11.8
Fortescue Metals	FMG AU	Australia	Materials	15,090.0	(27.19)	71.6	6,260	3,196	(474)	14.8	7.6
JPA	JPA IS	India	Conglomerates	2,583.8	(48.69)	265.5	2,637	948	(466)	49.2	17.7
Tata Motors	TTMT IB	India	Autos	9,784.5	(43.12)	0.2	28,041	3,680	(466)	12.7	1.7
Noble Group	NOBL SP	Singapore	Materials	5,528.4	(48.86)	111.0	86,331	1,130	(448)	39.6	0.5
PTT	PTT TB	Thailand	Petro/Chems	27,945.1	(8.28)	28.5	73,214	6,256	(430)	6.9	0.6

## DRAINING EBITDA

### Highest net interest expense as a % of Ebitda

Company name	Bberg	Market	Sector	Market Cap (US\$m)	US\$ perf YTD (%)	Gearing (%)	Rev (USDm)	Ebitda (USDm)	Net Interest (USDm)	Net Int as % of Ebitda
						2011	2011	2011	2011	
Alumina	AWC AU	Australia	Materials	3,425.8	(44.38)	14.1	1	(17)	(30)	175.8
MAP	MAP AU	Australia	Transport	6,397.5	12.96	193.0	736	372	(410)	110.4
Rusal	486 HK	Hong Kong	Materials	11,901.7	(48.91)	91.7	11,876	2,124	(1,142)	53.8
Huadian Power	1071 HK	China	Power	2,933.4	(9.37)	500.0	8,650	1,437	(737)	51.3
JPA	JPA IS	India	Conglomerates	2,583.8	(48.69)	265.5	2,637	948	(466)	49.2
DLF	DLFU IB	India	Property	6,773.6	(38.93)	63.7	2,001	855	(387)	45.2
MTNL	MTNL IB	India	Telecoms	320.3	(58.56)	125.2	751	(215)	(94)	43.8
Noble Group	NOBL SP	Singapore	Materials	5,528.4	(48.86)	111.0	86,331	1,130	(448)	39.6
Bharat Petroleum	BPCL IB	India	Petro/Chems	3,667.9	(31.07)	89.5	32,190	1,152	(422)	36.7
Datang Intl Power	991 HK	China	Power	8,614.3	(9.68)	310.7	10,816	2,825	(1,027)	36.3
Indian Oil	IOCL IB	India	Petro/Chems	12,798.5	(31.30)	69.3	67,330	2,609	(920)	35.3
Bumi Resources	BUMI IJ	Indonesia	Materials	5,069.5	(27.35)	212.6	4,045	1,371	(478)	34.9
Westfield Group	WDC AU	Australia	Property	18,388.1	(18.32)	78.3	2,196	2,086	(670)	32.1
Power Grid	PWGR IB	India	Power	9,100.4	(10.53)	196.9	2,122	1,673	(506)	30.3
Huaneng Power	902 HK	China	Power	9,715.6	(4.06)	225.9	19,793	3,133	(932)	29.8
Chalco	2600 HK	China	Materials	14,092.0	(47.62)	115.6	20,239	1,661	(483)	29.1
Kepeco	015760 KS	Korea	Power	13,276.8	(22.75)	77.3	37,428	6,516	(1,797)	27.6
CLP	2 HK	Hong Kong	Power	21,073.7	7.90	67.4	11,874	2,631	(684)	26.0
CNBM	3323 HK	China	Materials	6,531.3	5.54	155.6	11,247	3,048	(775)	25.4
LG Electronics	066570 KS	Korea	Technology	9,657.6	(43.59)	52.1	48,765	1,606	(350)	21.8
China Res Power	836 HK	China	Power	8,757.7	1.96	130.8	8,259	1,687	(367)	21.8
Tata Steel	TATA IB	India	Materials	7,349.0	(49.56)	88.6	23,943	2,908	(602)	20.7
Hindalco	HNDL IB	India	Materials	4,622.8	(56.12)	78.1	15,283	1,734	(325)	18.8
Fortescue Metals	FMG AU	Australia	Materials	15,090.0	(27.19)	71.6	6,260	3,196	(474)	14.8
Hutchison Whampoa	13 HK	Hong Kong	Conglomerates	37,476.7	(14.58)	26.1	31,179	7,614	(1,035)	13.6
Bharti Airtel	BHARTI IS	India	Telecoms	29,465.5	(3.34)	106.8	13,252	4,581	(616)	13.4
Wilmar Intl	WIL SP	Singapore	Consumer	25,618.6	(8.83)	148.4	40,757	2,849	(361)	12.7
Tata Motors	TTMT IB	India	Autos	9,784.5	(43.12)	0.2	28,041	3,680	(466)	12.7

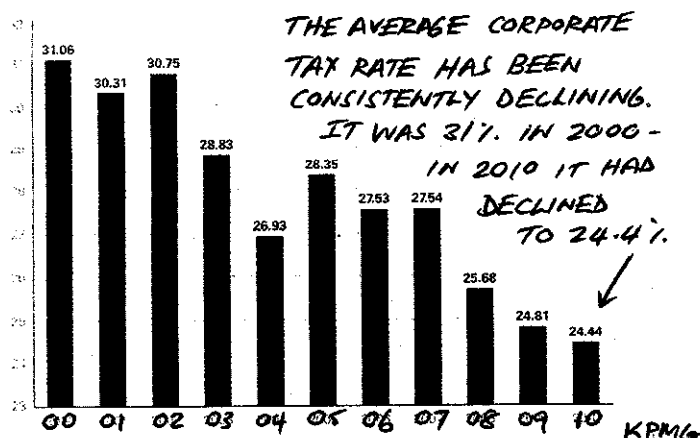
# TAX RATES

**Top corporate  
tax rate as at  
1 Jan 2011  
(%)**

Australia	30
China	25
Hong Kong	16.5
Indonesia	30
South Korea	24.2
Malaysia	25
Philippines	30
Singapore	17
Taiwan	17
Thailand	30

Source: Ernst & Young

\*\*Asia Region Corporate Tax Rates 2000-2010  
(Eastern Asia, South Central Asia, South Eastern Asia, Western Asia)



SOME JURISDICTIONS REMAIN AT 30% AND ABOVE  
ALTHOUGH THE GENERAL TREND FOR ASIA  
IS A DECLINING TAX BURDEN ON CORPORATES



## Top Effective tax rates by stock (2011-12)

THE MOST  
BURDENED

INTEREST  
COST + TAX  
RATE  
BURDENS

					Actual tax rate (%)		
CHINA PROPERTY STANDS OUT							
Company name	Bloomberg	Market	Sector	Market Cap (US\$m)	Ave Tax rate 2011-12 (%)	2011	2012
Esprit	330 HK	Hong Kong	Consumer	1,508.0	55.0	88.9	21.0
Yanlord Land	YLLG SP	China	Property	1,776.6	52.6	55.6	49.5
Indian Hotels	IH IS	India	Hotels & Leisure	889.5	52.5	60.0	45.0
Glorious Property	845 HK	China	Property	1,260.9	52.4	52.8	51.9
Soho China	410 HK	China	Property	3,431.6	52.3	49.2	55.4
KWG Property	1813 HK	China	Property	958.6	52.2	55.2	49.2
Oil Search	OSH AU	Australia	Petro/Chems	8,222.7	51.0	52.0	50.0
Guangzhou R&F	2777 HK	China	Property	2,549.1	49.5	53.7	45.3
Agile Property	3383 HK	China	Property	2,365.5	47.4	50.3	44.4
Evergrande	3333 HK	China	Property	5,680.4	47.2	46.0	48.3
Adaro Energy	ADRO IJ	Indonesia	Materials	6,954.2	47.0	47.0	47.0
Santos	STO AU	Australia	Petro/Chems	12,155.0	45.9	46.1	45.7
PTTEP	PTTEP TB	Thailand	Petro/Chems	17,312.8	45.3	46.2	44.3
Shimao Property	813 HK	China	Property	2,663.2	45.2	46.5	43.8
Bumi Resources	BUMI IJ	Indonesia	Materials	5,069.5	45.0	45.0	45.0
CRL	1109 HK	China	Property	8,006.1	45.0	46.2	43.7
Lanco Infratech	LANCI IN	India	Power	571.0	44.1	37.1	51.0
Beijing Capital Land	2868 HK	China	Property	481.3	43.2	47.2	39.1
Gindalbie Metals	GBG AU	Australia	Materials	595.7	41.3	27.5	55.0
China Overseas Land	688 HK	China	Property	12,993.1	41.0	43.0	38.9
Jet Airways	JETIN IB	India	Transport	429.4	41.0	79.2	2.7
State Bank of India	SBIN IB	India	Financial services	21,387.7	40.4	43.9	36.9
Tata Steel	TATA IB	India	Materials	7,349.0	39.9	37.1	42.6
Shanda Interactive	SNDA US	China	Internet	2,226.7	39.5	49.0	30.0
GKL	114090 KS	Korea	Hotels & Leisure	975.1	39.3	52.1	26.5
Paradise	034230 KQ	Korea	Hotels & Leisure	569.4	39.3	54.4	24.2
Vanke	200002 CH	China	Property	12,083.7	39.2	38.2	40.1



# HIGH INT COSTS + HIGH TAX RATE (EFFECTIVE)

Stocks with net gearing >100% + Tax rate >25% + Net Int Expense >25% of EBITDA

Company name	Bberg	Market	Sector	Market Cap (US\$m)	US\$ perf YTD (%)	Gearing (%)	Tax rate (%)	Rev (USDm)	Ebitda (USDm)	Net Interest (USDm)	Net Int as % of Ebitda
						2011	2011	2011	2011	2011	
Lanco Infratech	LANCI IN	India	Power	571.0	(83.29)	377.9	47.1	1,552	340	(86)	25.2
JPA	JPA IS	India	Conglomerates	2,583.8	(48.69)	265.5	29.9	2,637	948	(466)	49.2
Bhushan Steel	BHUS IB	India	Materials	1,336.0	(40.80)	260.2	28.5	1,765	537	(126)	23.5
China Power Intl	2380 HK	China	Power	1,101.8	5.48	258.9	25.0	2,610	721	(269)	37.3
Huaneng Power	902 HK	China	Power	9,715.6	(4.06)	225.9	30.0	19,793	3,133	(932)	29.8
Bumi Resources	BUMI IJ	Indonesia	Materials	5,069.5	(27.35)	212.6	45.0	4,045	1,371	(478)	34.9
MAP	MAP AU	Australia	Transport	6,397.5	12.96	193.0	73.1	736	372	(410)	110.4
YTL Power	YTLP MK	Malaysia	Power	4,124.0	(28.85)	180.6	28.5	4,636	1,039	(249)	23.9
Indian Hotels	IH IS	India	Hotels & Leisure	889.5	(45.81)	155.6	46.7	748	175	(65)	37.0
CNBM	3323 HK	China	Materials	6,531.3	5.54	155.6	27.0	11,247	3,048	(775)	25.4
Bajaj Hindusthan	BJH IS	India	Consumer	378.2	(73.66)	153.1	37.4	891	146	(83)	57.1
Jain Irrigation	JI IB	India	Capital goods	893.7	(50.89)	144.0	28.3	915	172	(60)	35.0
Pantaloon	PF IB	India	Consumer	849.2	(52.90)	137.3	33.2	2,441	202	(93)	46.1
HPCL	HPCL IB	India	Petro/Chems	1,963.8	(33.76)	130.2	33.5	26,681	602	(212)	35.2
United Spirits	UNSP IB	India	Consumer	1,995.9	(53.30)	128.1	33.6	1,588	262	(135)	51.5
Chalco	2600 HK	China	Materials	14,092.0	(47.62)	115.6	25.0	20,239	1,661	(483)	29.1
BCIA	694 HK	China	Infrastructure	2,002.2	(13.40)	101.3	25.0	967	563	(119)	21.1

HIGH + HIGH  
GEARING TAX RATE

+ HIGH  
INT COST A  
% OF EBITDA

⊗ SOMETHING BIG (AND NEGATIVE) IS  
HAPPENING BETWEEN THE EBITDA AND THE  
NET PROFIT LINE

LOOKING  
PEAR-SHAPED TOO

## Stocks with the largest gap between Ebitda and Net margin

Company name	Bloomberg	Market	Market Cap (US\$m)	US\$ perf YTD (%)	Gap between Ebitda and Net margin (ppt)	Net margin 2011-12 ave (%)	Ebitda margin 2011-12 ave (%)	Gearing (%)	Tax rate (%)
								2011	2011
FSL Trust	FSLT SP	Singapore	151.7	(36.07)	78.1	9.2	87.3	125.1	2.9
Centro Retail	CER AU	Australia	571.1	2.27	60.1	40.7	100.7	56.0	0.0
SMN	TOWR IJ	Indonesia	1,131.8	(22.87)	53.3	31.9	85.2	284.2	20.0
Transurban	TCL AU	Australia	7,843.0	3.74	52.1	16.1	68.3	95.9	(7.3)
Power Grid	PWGR IB	India	9,100.4	(10.53)	52.0	28.9	80.9	174.1	29.5
China LotSnergy	8161 HK	Hong Kong	94.2	(70.50)	49.9	23.4	73.3	(0.0)	15.9
Aban Offshore	ABAN IB	India	334.9	(57.80)	47.9	16.4	64.3	548.9	63.6
Hopewell Highway	737 HK	Hong Kong	1,589.8	(30.10)	46.6	38.5	85.1	60.5	29.5
PTTEP	PTTEP TB	Thailand	17,312.8	(6.88)	46.4	26.4	72.8	22.6	46.2
Shenzhen Expway	548 HK	China	1,175.6	(31.14)	46.0	29.6	75.7	114.1	21.8
Gujarat Petronet	GUJS IB	India	1,010.4	(31.91)	45.5	46.1	91.6	62.0	33.8
MTNL	MTNL IB	India	320.3	(58.56)	43.2	(72.9)	(29.6)	97.1	0.0
SMIC	981 HK	China	1,394.0	(29.58)	42.8	(18.0)	24.8	29.8	(8.3)
BCIA	694 HK	China	2,002.2	(13.40)	41.8	16.0	57.8	101.3	25.0
Indosat	ISAT IJ	Indonesia	3,254.9	(0.11)	41.8	6.3	48.1	111.6	25.0
Sincere Navigation	2605 TT	Taiwan	498.0	(24.64)	41.5	27.3	68.8	47.6	12.0
HPH Trust	HPHT SP	China	5,443.1		40.9	18.6	59.5	28.5	17.5
Metro Pacific Inv	MPI PM	Philippines	1,909.9	(12.56)	40.5	22.0	62.6	48.0	7.5
Manila Water	MWC PM	Philippines	898.2	1.99	39.7	29.2	69.0	105.0	25.0
Globe Telecom	GLO PM	Philippines	2,959.9	22.44	39.7	15.5	55.2	111.2	28.7
Sun TV Network	SUNTV IB	India	2,028.9	(56.24)	38.6	38.4	77.0	(37.3)	33.2
Santos	STO AU	Australia	12,155.0	(3.83)	38.6	18.8	57.4	(0.6)	46.1
Longyuan Power	916 HK	China	5,684.3	(16.74)	38.4	15.2	53.6	149.0	12.3
Tower Bersama	TBIG IJ	Indonesia	1,099.4	(13.10)	38.0	40.5	78.5	90.1	14.0
Cambridge Ind Trust	CREIT SP	Singapore	431.8	(10.90)	37.0	51.6	88.6	47.7	0.0
Oil Search	OSH AU	Australia	8,222.7	(13.39)	36.7	27.7	64.4	120.8	52.0
NHPC	NHPC IB	India	5,522.5	(28.71)	35.8	34.6	70.3	46.2	24.8
MAP	MAP AU	Australia	6,397.5	12.96	35.6	31.0	66.6	193.0	73.1
Telkom Indonesia	TLKM IJ	Indonesia	16,772.0	(5.77)	35.3	16.2	51.5	29.2	25.0
Charter Hall Office	CQO AU	Australia	1,661.2	16.10	35.0	55.2	90.3	58.3	0.0
SM Prime	SMPH PM	Philippines	4,042.0	11.93	34.5	33.1	67.6	43.1	30.0
Commonwealth Prop	CPA AU	Australia	2,222.8	7.05	34.5	65.5	100.0	34.3	0.0
Hynix	000660 KS	Korea	12,117.0	(3.83)	33.5	0.8	34.3	82.5	(7.5)
CFS Retail Property	CFX AU	Australia	4,965.4	(2.38)	33.5	66.7	100.2	38.0	0.0
Woodside	WPL AU	Australia	28,136.0	(19.37)	33.3	36.7	70.0	41.3	31.4

From: Michael Snaith, CLSA

Sent: Tuesday, November 22, 2011 10:08 AM

# SIGNIFICANT DOWNSIDE STILL?

**Korean shipbuilders – downgrading earnings/fair values further – Mark Yoon.** Mark Yoon is arguing that the stocks are not accurately reflected the scope of the down cycle and the associated margin and balance sheet pressure. He thinks both Samsung Heavy and DSME have another 20% downside from here. I have no disagreement with Mark on the traditional shipbuilding parts of the orderbooks (container and bulkers) because of the low profitability of the liners and their ability to hand out incremental orders. The concern I have is that this pressure will be most intense on the Chinese yards that are lower down on the technology curve and much more geared into order in these two segments (think Rongsheng and YZJ SP). The Koreans have much more balanced exposure with high global market share in the offshore segment (drillships, FPSO, LNG FPSOs etc) and judging from global E&P capex budgets, these segments should stay relatively strong. On Mark's forecasts, global shipbuilding orders were 40m CGT in 2010, 29m CGT in 2011, 21m CGT in 2012 and then 26m CGT in 2013. Next year is the trough year for orders and limits the downside from here. Mark's work is very detailed and has bottom up supply/demand models for all the subsectors. Here are the changes for the individual names:

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SMELLS  
PRETTY  
UGLY

### Macro downturn to push shipbuilders' B-B ratio to below 0.5x

- We introduce industry demand forecasts, based on underlying macro assumption of **global recession scenario**, in keeping with recently published official top-down market view by CLSA Korea strategist. Global shipbuilding industry's **book-to-bill ratio** should fall below 0.5x next year, for second time since 2009 GFC since 1990's.
- Sharply weaker global new orders vs. capacity should lead to intense competition, pressuring **industry-wide order margins**. Our 13CL~14CL earnings, which draw mainly from orders signed during 2H11~2H12 period, are revised down.
- **Deteriorating cashflow** is predicted next year, from (1) declining advance receipts from order slowdown and tail-end payment projects, (2) rising ARs from payment/delivery delays, (3) lower operating CF from declining OPM.

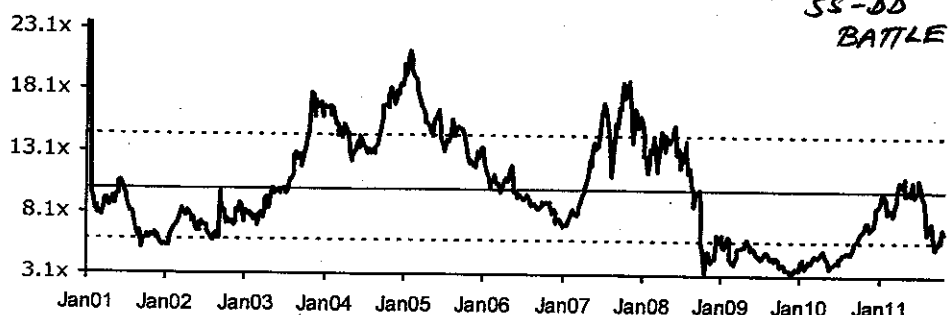
### Conventional shipbuilding: Bearish on demand & margin outlook

- We forecast **global new orders** to fall 27% in 2012 to 21mn CGT, falling far short of the global yard capacity estimated at 51mn CGT.
- **Ship prices** should weaken, from (1) aggressive pricing behaviour among yards, (2) lower steel price inducing buyers to demand lower ship price, (3) weaker KRW.
- **Freight rates** should suffer as bloated orderbook delivery schedule in 2011 (except LNGC) meets recession-stricken shipping demand, further reducing buyers' appetite.
- **Delay/cancellation risk** should not be ignored in 2012, due not only to risk of a banking crisis, but also Koreans' delivery mix heavily skewed to tankers in turmoil.

### Valuation: "Risk-on" overshoots to discount optimistic scenarios

- Valuation is still far from "rock-bottom" levels post-adjustment for orderbook earnings. We believe benchmarking the megacycle trough PBR is misleading, as it had discounted orderbook earnings not reflected in BVPS. We view current share prices having further 30~40% downside to "rock-bottom" valuation in this light.
- Current share price already had discounted an unrealistic 7~9% OPM for post-orderbook period (linked to current orderflows). Either industry dynamics should improve, or share prices should correct after 1-month relief rally for the high-betas.

### Historical 12-mth fwd PER for shipbuilders under CLSA coverage (Big3 + Mipo)



## Korean Shipbuilders

Company name	Bberg	Market Cap (US\$m)	US\$ perf YTD (%)	PER (x)		Yield (%)		PB (x)	EV / Ebitda (x)		FCF yield (%)		EPS growth		ROE (%)	Gearing (%)
				2011	2011	2011	2011	2011	2011	2011	2011	2012	2011	2012	2011	2011
DSME	042660 KS	4,632.0	(23.94)	7.1	2.1	1.13	4.7	13	17	(5.2)	(13.5)	16.9	26.2			
Hyundai Heavy	009540 KS	18,060.3	(40.61)	4.8	2.5	0.97	2.2	6	15	(11.6)	(10.3)	21.8	17.6			
Hyundai Mipo	010620 KS	1,832.7	(54.52)	4.8	3.1	0.51	loss	9	29	(7.8)	(11.9)	10.2	(36.1)			
Samsung Heavy	010140 KS	6,053.3	(29.18)	7.5	2.0	1.40	4.4	19	5	(4.1)	(12.8)	20.3	2.3			

# China solar

## Sector outlook

**AN INDUSTRY**  
THAT WENT CRAZY WITH  
OVERCAPACITY MAY SOON  
FIND SOME BRIGHTER DAYS.  
THE SECTOR AVERAGE  
PB IS 0.4x. (BUT ROE  
IS 4.7%).

**Charles Yonts**

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## The Magnificent 7

All seven of the Chinese solar companies reporting on November 22 managed to miss expectations for 3Q, and guide for pretty dismal 4Q11/1Q12. While there are some positive signs emerging, most notably demand pick-up in China, we still need to see closures and inventory declines for industry health and the next up-trend. We anticipate margin expansion and volume expansion in 2Q12, and are happy to stay on the sidelines at least into 1Q12.

### Top seven takeaways

WELL DONE GUYS

**1. Seven for seven** - All seven of the Chinese solar companies reporting on Nov 21/22 managed to miss consensus earnings expectations, despite five of them having reduced guidance over the past month.

**2. Slowdown in 4Q11 / 1Q12** - Nearly all of the companies guided for a slowdown in shipments in 4Q11 and again in 1Q12, driven by weak demand in Europe. Suntech and JA Solar are guiding relatively large sequential declines (-20% to -30% QoQ) in shipments, while a couple companies - Canadian Solar and LDK are looking at flattish shipments.

**3. Pricing: Tepid, uncertain signs of stabilization** - Prices are continuing to come down across the board, but more slowly. It was interesting to see the wide spread in quoted prices across companies, underscoring how our weekly price updates - while useful as a guide - are not authoritative. Current market price estimates range from:

- Polysilicon: From US\$25 / KG to 'low 30s' USD / KG
- Wafers: From US\$0.30 / W (Jinko) to US\$0.40 / W (Suntech)
- Cells: US\$0.55-0.60 / W
- Modules: From 'high 90 cents range' (Solarone) to US\$1.1 / W (Trina) and implied higher ASPs from Jinko and Suntech.

**4. China is good** - Everybody is excited about China's developments as an end-market for solar panels. Estimates for this year ranged from just over 1 GW to 2 GW (Suntech), up from 520 MW in 2010. Demand was particularly strong in 3Q, driven by both the provincial feed-in tariff in Qinghai and the national feed-in tariff. For 2012, most companies expect a market of 3-4 GW (13-17% of the global market), with Suntech's CEO and JA Solar expecting up to 5 GW. As stands, we are forecasting 1.8 GW demand in China in 11CL and 3.6 GW in 12CL.

WAFER THIN MARGINS

**5. Come back in mid-12** - While material and processing costs are continuing to come down, guidance for 4Q/1Q gross margin is mostly in the low-single digit range, with SG&A+R&D generally over 10% and rising (due to more sales efforts), so losses are pretty well baked in at the EBIT level. The general timeline for a return to profitability is 'mid-12'. We expect 2Q as a likely timeline, with prices bottoming in 1Q.

**6. Capex? What capex?** - We still have not seen the large scale capacity shut-downs that will enable a sector recovery, but capacity expansion has more-or-less been halted. For 2012, companies are looking at maintenance capex at most. LDK's plans for a major polysilicon expansion in Inner Mongolia will not start serious planning before 2013. Trina is the major exception, with US\$200mn capex planned for its advanced 'Honeycell' modules.

23 November 2011

## China

### Power

WEAK EUROPEAN  
DEMAND

ASPs continue to fall

FINDING A  
BASE?

China may add 3-5GW in  
2012

A POSITIVE SURPRISE

IF SUNTECH &  
JA SOLAR ARE RIGHT

Companies that survive  
the downturn should  
return to profitability in  
2H12

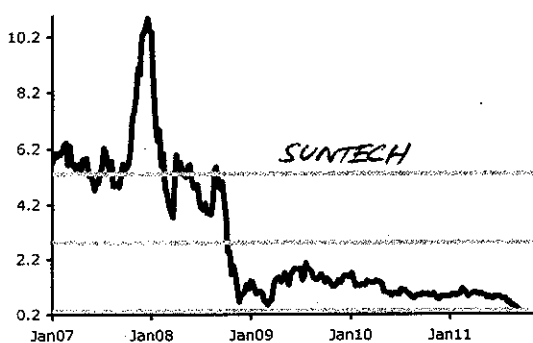
Capex slashed across the  
board

LETTING DEMAND CATCH UP

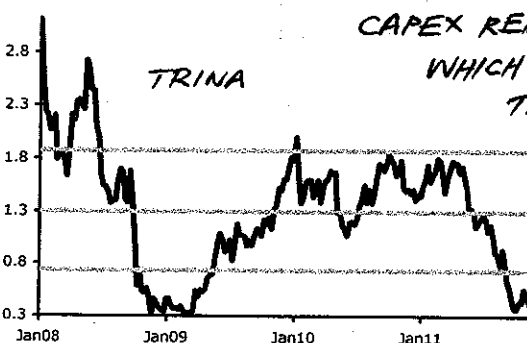
# Conference call comments on pullback

Company	Ticker	Utilisation	Capex/Capacity
China Sunergy	CSUN US	60% utilisation for cells; 30% utilisation for modules.	Slowing capacity expansion
Trina	TSL US	80% utilisation in 4Q11.	Cutting full-year capex from US\$400m to US\$300m. 2012 expansion will be less than 2011. Already completed 2011 expansion from 1.2GW to 1.9GW. The company increased its in-house capacity for wafers, cells and modules from 1.1GW in 2Q11 to 1.2GW. However, Jinko plans to maintain 1.2GW of capacity by end-11, a reduction from previous guidance of 1.5GW. Management cited weak market conditions.
Jinko	JKS US	May drop to 30-50% in Dec-11. Overall it will be around 50-60% for 4Q11.	
LDK	LDK US	Surprisingly, LDK is continuing to run its polysilicon plant at full utilisation.	
Suntech	STP US	Will reduce utilisation in 4Q11/1Q12.	Holding off on more capacity expansion in 2012. Capex will be reduced significantly in the coming quarters. 2012 still unplanned; however, they will probably not add any capacity.
JA Solar	JASO US	Utilisation will be down in 4Q11/1Q12. Only producing for orders. Cutting inventory levels.	Capex plants put on hold. Will be revised on a monthly basis.
SolarOne	HSOL US		Reducing FY11 capex expectations from US\$300m to US\$210m
Canadian Solar	CSIQ US		

12 month forward PB



12 month forward PB



LOW UTILISATION RATES MEANS  
CAPEX REDUCTIONS  
WHICH IS BETTER NEWS IN  
THE LONGER-TERM.

FORMER MARKET DARLINGS HAVE BEEN SMASHED INTO THE GROUND.  
THE AVE PB IS NOW 0.4 (BUT ROE IS 4.7%) AND EV/EBITDA IS 4.0X

A SEA OF  
RED  
↓

## Solar comp table

Stock	Ticker	Price (local)	Mkt Cap (USD,m)	ADTV (USD,m)	PE	12m forward valuations				Gearing (%)	Performance (%)			
						PB	yield	EV/EBITDA	ROE		1m	3m	6m	12m
GCL-Poly Energy Holdings Ltd	3800 HK	2.10	4,170	43.7	6.7	1.2	0.0	4.9	19.6	31	(2)	(27)	(52)	(15)
Suntech Power Holdings Co Ltd	STP US	2.23	402	13.7	(5.0)	0.3	0.0	7.7	(2.1)	66	8	(56)	(71)	(69)
Trina Solar Ltd	TSL US	6.23	495	35.9	5.8	0.4	0.0	0.9	6.4	(28)	(13)	(52)	(72)	(73)
Trony Solar Holdings Co Ltd	2468 HK	1.30	264	0.9	3.3	0.4	0.0	1.0	13.2	(30)	(8)	(33)	(68)	(76)
Daqo New Energy Corp	DQ US	1.84	65	0.9				3.0		(12)	(45)	(64)	(84)	(84)
Solargiga Energy Holdings Ltd	757 HK	0.79	227	0.4	4.3	0.6	3.7	4.9	12.7	24	(8)	(29)	(61)	(58)
Comtec Solar Systems Group Ltd	712 HK	1.16	169	0.8	5.1	0.5	0.7	3.6	9.6	(8)	(5)	(29)	(66)	(59)
JA Solar Holdings Co Ltd	JASO US	1.52	258	11.9	8.6	0.2	0.0	3.0	1.3	3	(29)	(52)	(73)	(80)
China Sunergy Co Ltd	CSUN US	0.86	38	0.2		0.2			(12.0)	61	(18)	(26)	(71)	(81)
Hanwha SolarOne Co Ltd	HSOL US	1.21	102	2.3		0.1		3.1	2.9	(2)	(42)	(65)	(77)	(87)
Yingli Green Energy Holding Co Ltd	YGE US	3.29	519	18.4	64.4	0.3	0.0	5.9	2.0	35	(8)	(41)	(64)	(69)
JinkoSolar Holding Co Ltd	JKS US	5.70	136	7.9		0.3		6.1	(1.9)	55	(31)	(60)	(77)	(78)
LDK Solar Co Ltd	LDK US	2.83	410	10.8		0.3	0.0	15.3	(6.4)	227	(6)	(46)	(61)	(75)
OCI Co Ltd	010060 KS	199,500	4,150	147.5	7.7	1.2	1.6	6.0	17.6	44	(6)	(21)	(62)	(38)
Sino-American Silicon Products Inc	5483 TT	36.70	536	12.3	17.4	0.8	4.0	6.2		(13)	(29)	(36)	(55)	(60)
Motech Industries Inc	6244 TT	43.60	629	7.8		0.7	2.3		5.7	(21)	(24)	(28)	(49)	(56)
Gintech Energy Corp	3514 TT	24.75	277	5.7		0.5	1.9	7.6	3.6	7	(39)	(42)	(62)	(69)
Green Energy Technology Inc	3519 TT	22.30	200	9.0		0.5	4.5		(10.1)	27	(35)	(61)	(74)	(70)
First Solar Inc	FSLR US	43.53	3,762	230.5	5.4	0.8	0.0	2.5	15.3	(15)	(19)	(50)	(66)	(65)
MEMC Electronic Materials Inc	WFR US	4.17	961	43.6	7.1	0.4	0.0	7.1	(3.0)	(1)	(28)	(31)	(60)	(65)
GT Advanced Technologies Inc	GTAT US	7.42	944	30.3	4.8	1.8	0.0	1.6	48.0	(120)	5	(26)	(40)	4
Renesola Ltd	SOL US	1.68	146	6.1		0.3	0.0	3.8	2.2	39	(22)	(44)	(77)	(83)
SunPower Corp	SPWR US	6.61	942	7.0	0.0	0.0	0.0	0.0	0.0		(25)	(51)	(69)	(46)
Canadian Solar Inc	CSIQ US	2.20	96	4.3		0.2	0.0	21.3	(1.7)	62	(28)	(61)	(76)	(85)
Renewable Energy Corp ASA	REC NO	4.27	739	14.8		0.3	0.0	4.1	(3.8)	36	(2)	(49)	(72)	(75)
Solarworld AG	SWV GR	2.80	422	6.3	7.4	0.3	4.7	4.9	5.0	57	(8)	(47)	(71)	(66)
Average					9.7	0.4	0.5	4.0	4.7	16.2				

# 20,000 STORES FOR SEVEN

Seven & i Holdings is a holding company established on 1st September, 2005, through a stock transfer by Seven-Eleven Japan, Ito-Yokado and Denny's Japan. The company announced its acquisition of Millennium Retailing (Sogo & Seibu department store chains) on 26th December 2005 and completed the purchase of US-based 7-Eleven Inc. in November 2005. Seven & i oversees 100 operating companies and has seven core retail-related businesses - convenience stores, superstores, supermarkets, department stores, food services, financial services and IT/services. In terms of revenues Seven & i is Japan's leading retail group with ¥5.6tn. Seven & i operates a network of approximately 20,000 stores from its bases in Japan, North America and China.

11x ADJ PE 1x PB  
3% YIELD

## Nigel Muston

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## Seven & i

¥2,085 - BUY

### Marriage of convenience

Seven & i is beginning to maximise the value of its myriad group firms, channelling more capex into its wide-margin convenience-store business - where same-store-sales growth will outperform its peers - and boosting profitability in other areas. Oddly, the market currently ascribes no value to these other operations. Underperforming its peers YTD, the stock is trading at the lower end of its historical range. We initiate with a BUY rating and an SOTP-based target price of ¥2,650, implying 27% upside.

21 November 2011

## Japan

### Consumer

Reuters 3382.T  
Bloomberg 3382 JP

Priced on 17 November 2011  
Topix @ 727.7

12M hi/lo ¥2,329/1,755

12M price target ¥2,650  
±% potential +27%  
Target set on 21 Nov 11

Shares in issue 883.5m  
Free float (est.) 75.0% *SHE'S BIG*

Market cap US\$24,006m

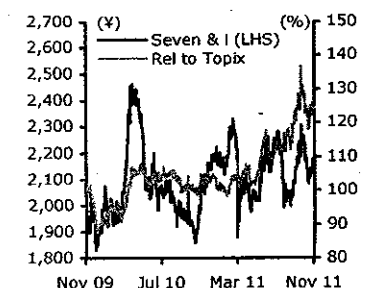
3M average daily volume  
¥6,833.0m (US\$88.8m)

Foreign s'hlding 34.7%

Major shareholders  
Ito Kogyo 7.8%  
Japan Trustee Service 4.4%

### Stock performance (%)

	1M	3M	12M
Absolute	(4.0)	2.2	2.1
Relative	0.5	9.1	19.2
Abs (US\$)	(3.8)	1.8	10.6



Source: Bloomberg

### Union of unequals THINGS ARE HAPPENING

- We expect 18% YoY operating-profit growth in 3Q to confirm earnings momentum.
- Near term, same-store-sales growth at Seven-Eleven Japan will outpace guidance and peers, helping the chain to maintain its No.1 position in the domestic market.
- We forecast same-store-sales growth to stay positive in FY2/13-14.
- Its private label is a true success story, while 7-Eleven Inc in the USA will aggressively grow its store network both organically and by M&A.

### Mutual benefit

MARGIN FOCUS TO GROW EARNINGS

- Cost-cutting is likely to continue at Ito-Yokado, but further profit growth will come from expanding gross-profit margins.
- It is scaling down to focus less on discounting and more on attracting customers, with speciality-retailer tenants and increased openings of Ario shopping centres.
- The department-store sector remains challenging, but sales at Sogo-Seibu have improved.
- Our FY2/13-14 net-profit forecasts are ahead of consensus.

### Pecuniary advantages

— IS NET CASH

- Seven & i should maintain its strong financial position over the coming years, and we see plenty of room to improve shareholder returns. ROIC is 14%.
- Free cashflow will remain positive and the net-cash position will improve further as capex finally targets the more-profitable, expanding convenience-store segment.
- Its dividend yield of 3% is better than the Topix Retail average.
- We expect ROE to meet its FY2/13 forecast of 8%.

### Value in partnership

ZERO VALUE

- The market ascribes no value to its non-convenience-store businesses.
- The stock trades at 11.1x adjusted PE on FY2/13CL estimates, which is at the lower end of the historical range, and it has underperformed its peers YTD.
- Strong 3Q results and steady same-store-sales growth at Seven-Eleven Japan are potential near-term catalysts.
- Our ¥2,650 target implies 27% upside, and we initiate with a BUY rating.

### Financials

Year to 28/29 Feb	10A	11A	12CL	13CL	14CL
Revenue (¥m)	5,111,297	5,119,739	4,781,156	4,677,187	4,782,014
Operating profit (¥m)	226,667	243,347	292,303	312,187	343,014
Recurring profit (¥m)	226,952	242,908	289,994	308,687	340,014
Recurring profit (% YoY)	(18.7)	7.0	19.4	6.4	10.1
Net profit (¥m)	44,877	112,009	133,994	152,487	171,014
EPS (¥)	49.7	125.4	151.6	172.4	193.4
CL/consensus (17) (EPS%)	-	-	104	105	109
PE (x)	42.0	16.6	13.8	12.1	10.8
PB (x)	1.1	1.1	1.0	1.0	0.9
ROE (%)	3.1	6.8	7.9	8.6	9.1
Dividend yield (%)	2.7	2.7	2.9	3.0	3.1



### Sum-of-the-parts valuation

Segment name	Valuation method	Ebitda (¥bn)	Multiple (x)	NP (¥bn)	Multiple (x)	Value (¥bn)
Convenience stores	PE			129.3	16.0	2,073.7
Superstores	PE			24.7	13.0	322.6
Department stores	PE			8.4	11.0	92.6
Food services	EV/Ebitda	0.6	3.5			2.1
Finance	PE			17.3	10.5	181.8
Other	EV/Ebitda	6.2	4.0			24.8
Consolidated total						2,697.6

### (¥bn) SOTP VALUATION

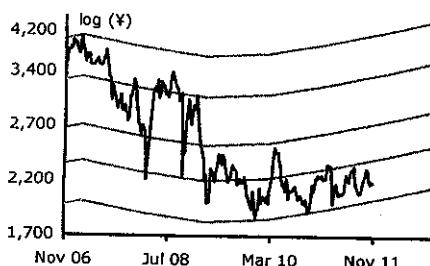
Cash and securities	681.4
Interest-bearing debt	448.8
Net cash of Seven & I group	232.5
Net cash of Seven Bank	282.1
Net cash of retail business	(49.6)
Minorities	73.0
Current market value (¥bn)	1,888.8
Shares in issue (m)	883.5
Estimated market value (¥bn)	2,575.0
Fair value/share (¥)	2,915
Conglomerate discount (%)	10
After-discount fair value (¥)	2,650
Current share price (¥)	2,085
Upside/downside (%)	27

*AT BOTTOM END OF RANGE*

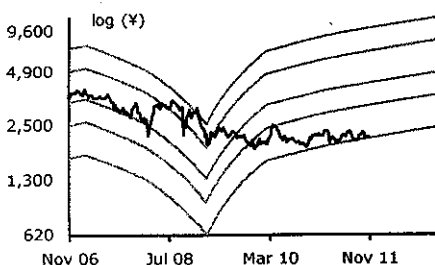
Prospective valuations for retailers are mostly between 10-15x PE, which isn't far off the 13x PE average for the Topix retail index

*AGAINST PEERS IT LOOKS REASONABLY PRICED*

### PB bands



### PE bands



### Retail peer valuations by segment

Segment	Company	Ticker	PB (x)		PE (x)		EV/Ebitda (x)	
			2012	2013	2012	2013	2012	2013
Convenience stores	Lawson	2651	2.0	1.9	14.3	13.4	4.3	4.1
	FM	8028	1.3	1.2	13.1	12.0	3.1	2.9
	CKS	3337	0.8	0.7	12.2	11.9	1.0	1.0
Average			1.3	1.3	13.2	12.4	2.8	2.7
Supermarkets	Aeon	8267	0.8	0.8	11.3	11.3	5.7	5.3
	Uny	8270	0.6	0.6	14.1	13.7	5.7	5.4
	Daiei	8263	0.4	0.4	26.5	25.2	4.3	4.2
Average			0.6	0.6	12.7	12.5	5.2	5.0
Department stores	J-Front Retailing	3086	0.5	0.5	17.9	16.5	8.2	8.1
	Marui	8252	0.6	0.5	16.0	14.1	12.7	12.0
	Takashimaya	8233	0.6	0.6	14.7	13.5	6.1	5.9
Average	Isetan-Mitsukoshi	3099	0.7	0.7	14.6	25.0	13.5	12.6
	H2O Retailing	8242	0.6	0.6	13.4	9.5	0.0	0.0
			0.6	0.6	15.3	15.7	8.1	7.7
Restaurants	McDonalds	2702	1.6	1.4	16.8	15.0	5.0	4.7
	Yoshinoya	9861	1.2	1.1	17.9	15.7	6.5	6.1
	Zensho	7550	2.3	1.9	11.2	9.0	5.8	5.3
Average	Saizeriya	7581	1.0	0.9	9.4	8.7	3.2	2.9
	Watami	7522	2.2	1.9	15.5	13.0	7.8	6.9
			1.6	1.5	14.2	12.3	5.7	5.2
Average	President Chain Store	2912 TT	7.2	6.5	19.7	16.7	14.9	12.9
	CP All	CPALL TB	8.7	7.8	20.9	17.3	11.2	9.5
	Carrefour	CA FP	1.3	1.2	11.1	9.3	5.6	5.1
Average	Woolworths	WOW AU	3.6	3.4	13.2	12.2	7.6	7.0
	WalMart	WMT US	2.4	2.1	11.6	10.4	6.8	6.5
	Dairy Farm	DFI SP	9.1	7.5	20.2	18.2	12.9	11.6
Average			5.4	4.8	16.1	14.0	9.8	8.8

PHILS RETAIL

Hazel Tanedo

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PHILS + CHINA →

21 November 2011

## Philippines Consumer

Reuters SMPH.PS  
Bloomberg SMPH.PM

Priced on 18 November 2011

Phils Phisix @ 4,302.4

12M hi/lo P13.60/9.96

12M price target P14.80

±% potential +17%

Target set on 27 Oct 10

Shares in issue 13,329.3m

Free float (est.) 34.8%

Market cap US\$4,042m

3M average daily volume

P109.5m (US\$2.5m)

Major shareholders

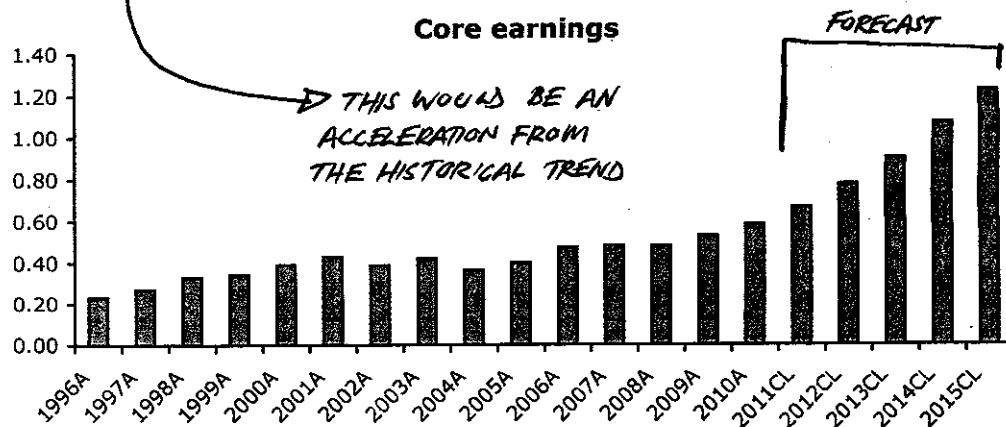
SM Investments 20.7%

ShoeMart, Inc 44.6%

## According to plan = 20 NEW MALLS to 2016

SM Prime's growth strategy in the next 5 years is to open four malls per year. We estimate that by the end of 2015, SM will have a total of 7.6m sqm of GFA for Philippines and China combined, implying an 8% CAGR in the next four years. Its newest addition is SM Suzhou, which has already achieved its soft opening and should realize full occupancy by the end of 2012. We reiterate our BUY rating on SM Prime given its market leading position in the Philippine shopping mall sector and exposure to the strong consumer market in China. We forecast earnings to grow at a three year CAGR of (16%) to Php16.56bn come 2015, with China accounting for (15%).

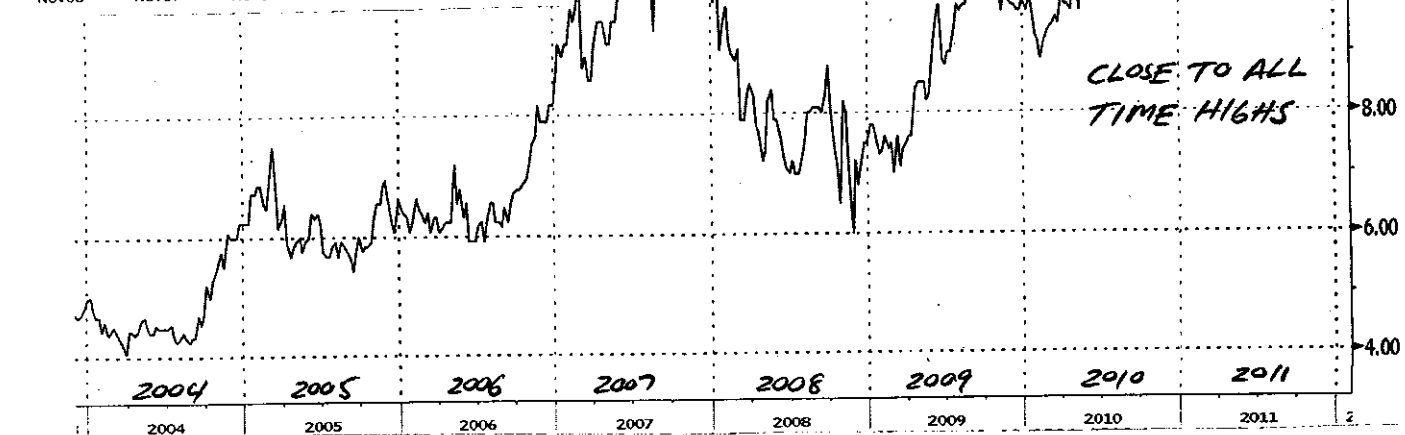
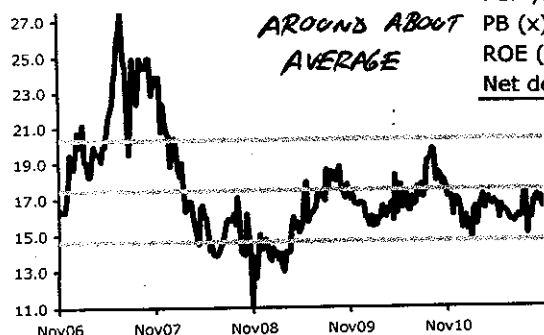
Company update



## Financials

Year to 31 Dec	09A	10A	11CL	12CL	13CL
Revenue (Pm)	20,497	23,716	27,381	31,445	36,127
Net profit (Pm)	7,024	7,855	9,000	10,470	12,137
EPS (P)	0.53	0.58	0.67	0.78	0.90
CL/consensus (9) (EPS%)	-	-	105	108	110
EPS growth (% YoY)	9.5	10.8	14.6	16.3	15.9
PE (x)	24.0	21.6	18.9	16.2	14.0
Dividend yield (%)	1.9	1.9	2.2	2.6	3.0
FCF yield (%)	0.3	1.5	0.8	1.4	1.8
PB (x)	3.6	2.9	2.7	2.5	2.2
ROE (%)	15.2	15.2	15.0	15.9	16.7
Net debt/equity (%)	57.8	46.0	43.1	43.8	45.0

12 month forward PE



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Assisted by

Jen Ann Lim

# Malaysian strategy

## Market outlook - 2012

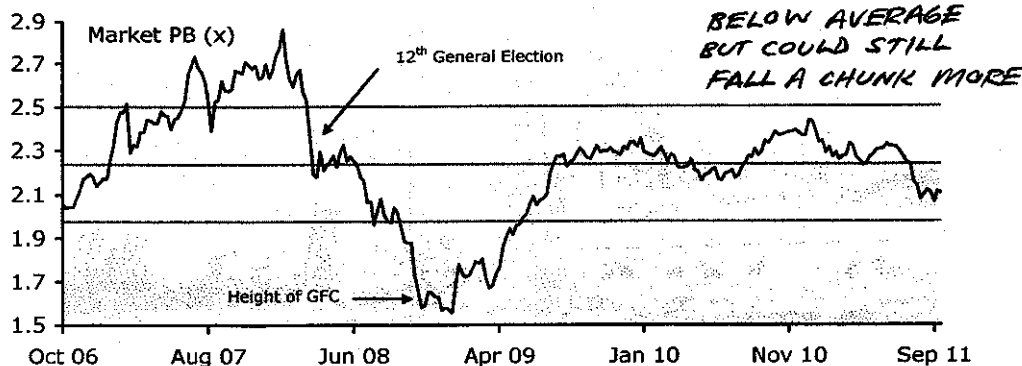
### Risk replay

There is a chance that the risks of 2008 - local political difficulties and a global slowdown - play out again next year. With our recent surveys suggesting resilient domestic consumption, 2012 should not be as bad, but we remain cautious on the equity outlook. Our 1,300 year-end index target implies 10% downside. Investors should stay defensive, and we recommend an Overweight stance on telecoms, gaming and construction.

24 November 2011

## Malaysia Strategy

### Two 2008 risk factors playing out again in 2012



### FBMKLCI30 2012 target - Gordon growth model

FBMKLCI @ 17 Oct close (pts)	1,440
Current PB (x)	2.1
Risk-free rate (%)	3.7
Market risk premium (%)	6.75
Long-term growth (%)	5.0
Sustainable ROE (%)	15.3
COE (%)	10.5
PB justified (x)	1.9
Index target 2012 (pts)	<b>1,300</b>

### MALAYSIA - THE SECOND LARGEST OVER-WEIGHT POSITION FOR CHRIS WOODS

#### CLSA asset allocation

	MSCI AC Asia Pacific ex-Japan weightings 16 Nov 11	CLSA recommended weightings 16 Nov 11	Mismatch from current benchmark
Australia	26.1	6.0	(20.1)
China	17.8	20.0	2.2
Hong Kong	8.2	7.0	(1.2)
India	7.0	13.0	6.0
Indonesia	3.0	7.0	4.0
Korea	15.1	13.0	(2.1)
Malaysia	3.5	8.0	<b>4.5</b>
New Zealand	0.4	0.0	(0.4)
Philippines	0.7	5.0	4.3
Singapore	5.1	4.0	(1.1)
Taiwan	11.2	13.0	1.8
Thailand	1.9	4.0	2.1
Total	100.0	100.0	

## STOCKS



### Model portfolio

- We like telcos Axiata, Maxis and Telekom Malaysia for their 5-7% yields.
- Maybank and Sime Darby are well supported by domestic institutions.
- Genting Malaysia offers resilient domestic earnings as well as UK and US growth.
- In the mid-cap space, we like AirAsia, IJM, Bumi Armada and Hartalega.

### Model portfolio

Stock	Code	Mkt cap (US\$bn)	ADT (US\$m)	Core EPS grwt (%)		Core PE (x)		ROE (%) 12CL	PB (x) 12CL	Yield (%) 12CL
				11CL	12CL	11CL	12CL			
Maybank	MAY MK	19.6	21.0	9.8	2.5	12.3	12.3	14.4	1.8	6.5
Sime Darby	SIME MK	16.6	19.9	1.6	7.9	14.1	13.1	15.0	2.1	3.8
Axiata	AXIATA MK	12.6	22.2	(1.7)	6.0	14.8	14.0	16.9	2.3	4.2
Maxis	MAXIS MK	12.5	4.1	(3.3)	(2.8)	17.9	18.5	28.9	5.1	7.5
Genting Mal	GENM MK	7.2	5.9	24.6	10.1	13.8	12.5	12.9	1.7	1.8
TM	T MK	4.7	10.5	2.7	39.3	25.8	18.5	12.6	2.1	5.1
Bumi Armada	BAB MK	3.6	3.8	(12.5)	35.7	25.6	18.8	15.6	3.2	0.0
AirAsia	AIRA MK	3.2	14.4	(31.8)	62.7	14.1	8.6	24.9	2.4	0.0
IJM	IJM MK	2.5	4.7	27.8	11.7	18.6	16.7	9.3	1.6	2.8
Hartalega	HART MK	0.6	0.4	9.1	3.5	9.8	9.5	33.5	3.7	4.7



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21 November 2011

## Australia Property

PRESSURE

### BUY

<b>Westfield Group</b>	WDC AU
Price	A\$7.97
Target	A\$9.50
Upside	+19%

### Outperform

<b>GPT</b>	GPT AU
Price	A\$3.06
Target	A\$3.45
Upside	+13%

### Mirvac

MGR AU	
Price	A\$1.24
Target	A\$1.35
Upside	+9%

PECKING  
ORDER

### Charter Hall Retl

CQR AU	
Price	A\$3.19
Target	A\$3.45
Upside	+8%

# Australian property

PULLING THE  
HORNS IN

## Sector outlook

## Retail trumps residential

We have turned cautious on domestic retail Reits, due to valuations and moderating growth. However, we still prefer them to their residential peers, on which we have been Underweight since our sector initiation in 2010 on affordability concerns and contracting margins. We recommend a basket within each group. (Our top retail pick is Westfield Group) given its growth potential and value, while GPT and Charter Hall Retail are key defensive stocks. We like Mirvac in the residential segment.

## Downgrade retail on rich valuations

- Retail A-Reits (ex-Westfield Group) have outperformed the market by 11% YTD.
- We downgrade most domestic retail A-Reits under coverage, due to rich valuations and weakening sales; Westfield is our preferred exposure within the group.
- Our consumer-research team has highlighted that record debt levels, rising interest rates and fiscal tightening have rocked consumer confidence.
- While retail Reits' earnings are not directly tied to sales, and their properties enjoy near-full occupancy, growth is likely to decline from today's above-4% levels.
- Based on sales productivity and other factors, our mall rankings reveal that Westfield, CFS Retail and GPT have the highest-quality portfolios.

## Residential still faces risks

- Since end-October 2010, house prices have plummeted 4% YoY, although the correction has slowed, with prices down just 0.2% in September 2011.
- However, we are not out of the woods yet: auction-clearance rates remain subdued (about 55%), while supply of homes for sale is 30% higher YoY. LOTS OF SUPPLY
- Affordability is a concern, with Sydney's home price/income ratio averaging 7.2x.
- We estimate that 51% of household income is directed towards interest costs, which is well above the 35% "mortgage-stress" level. MANY STRATEGISTS ARE

NOT SURE IF 4% IS A 'PLUMMET'

## Recommendations

- We are Underweight the residential segment and have a Neutral stance on the retail names and the overall Australian property sector.
- Our retail pecking order: Westfield Group (BUY); GPT and Charter Hall Retail (Outperform); and CFS Retail, Westfield Retail (Underperform).
- We like Westfield Group for its high-quality assets (we estimate 53% are A+ malls), US exposure (44% of assets) and valuation (11.5x PE and 6.4% EPS growth).
- We remain Underweight residential stocks but like Mirvac's focus on apartments in central business districts, high-quality office exposure and discounted multiples.
- We are not alone in our bearishness on the residential segment. Our regional property-research head Nicole Wong believes China is also due for more correction.

CONVINCED AUSSIE PROPERTY WILL ROLL OVER  
..... LIKE CHINA

## A-Reit valuations

Company	Last price (A\$)	Target price (A\$)	TSR (%)	Est NAV (A\$)	Prem/ (disc) NAV (%)	Est. DCF (A\$)	Prem/ (disc) DCF (%)	Stated NTA (A\$)	Prem/ (disc) NTA (%)	PE (x) FY11	PE (x) FY12	DPU yield FY11 (%)	Mkt cap (US\$m)	Look-through gearing (%)
<b>Retail</b>														
Bunnings Ware.	1.71	-	-	-	-	-	-	1.83	(6.6)	13.1	12.2	8.2	889	19.0
CFS Retail	1.75	1.88	14.7	1.87	(6.4)	1.99	(12.1)	2.05	(14.6)	14.2	13.5	7.4	4,969	26.7
Charter Hall Retail	3.19	3.45	15.9	3.36	(5.1)	3.53	(9.6)	3.51	(9.1)	11.4	11.0	8.4	956	43.1
GPT Group	3.06	3.45	18.4	3.43	(10.8)	3.45	(11.4)	3.60	(15.0)	13.8	13.4	5.8	5,609	22.5
Westfield Group	7.97	9.50	25.3	9.52	(16.3)	10.22	(22.0)	8.19	(2.7)	12.2	11.5	6.1	18,403	36.7
Westfield Retail	2.45	2.60	13.1	3.02	(18.9)	2.86	(14.4)	3.14	(22.0)	12.9	12.6	7.1	7,483	21.5
<b>Retail - Wtd. Avg.</b>			<b>20.2</b>		<b>(14.4)</b>		<b>(17.3)</b>		<b>(10.1)</b>	<b>12.9</b>	<b>12.3</b>	<b>6.5</b>	<b>38,308</b>	<b>30.1</b>
<b>Retail - Exc. WDC Office</b>			<b>15.2</b>		<b>(12.5)</b>		<b>(12.7)</b>		<b>(16.9)</b>	<b>13.4</b>	<b>13.0</b>	<b>7.2</b>	<b>3,981</b>	<b>24.0</b>
<b>Office</b>														
Challenger Divers.	0.52	-	-	-	-	-	-	0.67	(23.1)	11.0	10.5	8.3	458	19.9
Charter Hall Office	3.37	3.53	10.8	3.67	(8.2)	3.10	8.7	3.96	(14.9)	12.4	14.5	37.2	1,662	42.6
Commonwealth Prop	0.91	1.02	18.7	1.08	(16.2)	0.95	(4.9)	1.10	(17.7)	13.2	12.9	6.2	2,225	25.8
Dexus	0.82	1.00	28.2	1.00	(18.0)	0.99	(16.8)	0.98	(16.3)	11.1	10.6	6.6	3,968	29.1
Investa Office Fund	0.61	0.70	22.1	0.68	(11.0)	0.73	(16.6)	0.74	(18.2)	12.2	12.0	6.6	1,608	19.8
<b>Office - Wtd. Avg.</b>			<b>21.9</b>		<b>(14.7)</b>		<b>(9.5)</b>		<b>(17.0)</b>	<b>12.0</b>	<b>12.0</b>	<b>11.7</b>	<b>9,920</b>	<b>28.7</b>
<b>Office - Str.Avg</b>			<b>19.9</b>		<b>(13.4)</b>		<b>(7.4)</b>		<b>(18.1)</b>	<b>12.0</b>	<b>12.1</b>	<b>13.0</b>	<b>1,984</b>	<b>28.1</b>
<b>Residential - Diversified</b>														
Australand	2.57	2.88	20.4	3.11	(17.4)	2.88	(10.7)	3.52	(27.0)	11.1	10.0	9.3	1,482	29.5
Lend Lease	7.15	-	-	-	-	-	-	4.76	na	8.9	7.9	6.2	4,088	28.0
Mirvac	1.24	1.35	15.5	1.42	(12.7)	1.26	(1.7)	1.60	(22.5)	11.8	11.7	6.7	4,237	29.4
Stockland	3.16	2.85	(2.3)	3.29	(4.0)	2.85	10.8	3.63	(12.9)	10.0	10.5	7.1	7,391	20.0
<b>Residential - Wtd. Avg.</b>			<b>6.0</b>		<b>(8.3)</b>		<b>4.3</b>		<b>(13.4)</b>	<b>10.3</b>	<b>10.2</b>	<b>7.0</b>	<b>17,199</b>	<b>25.0</b>
<b>Residential - Str.Avg</b>			<b>11.2</b>		<b>(11.3)</b>		<b>(0.5)</b>		<b>(20.8)</b>	<b>10.5</b>	<b>10.0</b>	<b>7.3</b>	<b>4,300</b>	<b>26.7</b>
<b>Industrial</b>														
Goodman	0.59	0.77	36.4	0.76	(22.4)	0.79	(25.3)	0.47	25.5	10.4	9.8	6.1	4,363	39.0
<b>Industrial - Wtd. Avg.</b>			<b>36.4</b>		<b>(22.4)</b>		<b>(25.3)</b>		<b>25.5</b>	<b>10.4</b>	<b>9.8</b>	<b>6.1</b>	<b>4,363</b>	<b>39.0</b>
<b>TOTAL</b>			<b>12.0</b>		<b>(13.8)</b>		<b>(11.3)</b>		<b>(9.5)</b>	<b>11.9</b>	<b>11.5</b>	<b>7.3</b>	<b>71,712</b>	<b>28.5</b>

YIELD - LOTS

3  
6  
0

41

# LAST WORD

## What Do You Have?

A man goes into a bar and seats himself on a stool. The bartender looks at him and says, "What'll it be buddy?"

The man says, "Set me up with five whiskey shots, and make 'em doubles." The bartender does this and watches the man slug one down, then the next, then the next, and so on until all five are gone almost as quickly as they were served. Staring in disbelief, the bartender asks why he's doin' all this drinking.

"You'd drink 'em this fast too if you had what I have."

The bartender hastily asks, "What do you have pal?"

The man quickly replies, "I have a dollar."

SMILE, IT'S ALMOST  
CHRISTMAS  
JAMIAN

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