Monday, 04 November 2013

CREDIT SUISSE

Asian Daily (Asia Edition)

EPS, TP and Rating changes

	EPS		TP		
(% change)	T+1	T+2	Chg	Up/Dn	Rating
Macquarie Group	15	4	2	5	O (O)
Mesoblast	n.m	n.m	14	20	O (O)
National Australia Bank	-	(0.57)	7	3	N (N)
Woolworths	1	1	14	4	N (U)
ASM Pacific Tech.	(22)	(49)	(27)	(26)	U (N)
Glenmark	(11)	(11)	(6)	18	O (O)
Infrastructure Development Finance Co Ltd	(10)	(10)	(24)	36	O (O)
PT Indika Energy Tbk	(98)	(16)	0	15	N (N)
XL Axiata Tbk	(43)	(17)	(8)	23	O (O)
Nissan Motor	(17)	(14)	(17)	4	N (O)
Axiata Group Berhad	(4)	(2)	0	13	O (O)
Hyundai Department Store	(10)	(14)	(5)	20	O (O)
E-MART Co. Ltd	6	2	50	20	O (U)
Lotte Shopping	(2)	(6)	11	9	N (N)
Shinsegae	(15)	(15)	13	5	N (N)
Hyundai Development	n.m	(1)	0	28	O (O)
Hyundai Mipo Dockyard	n.m	n.m	38	(1)	N (N)
Industrial Bank of Korea	0	0	0	15	O (O)
KT Corp	(28)	(23)	(14)	5	N (O)
NC Soft	2	17	81	33	O (U)
Catcher Technology	0	4	9	16	O (O)
ChungHwa Telecom	1	0	0	(14)	U (U)
CTBC Holding	(22)	22	7	17	O (O)
MediaTek Inc.	5	9	9	19	O (O)
C.P. All PCL	(11)	(4)	0	(17)	U (U)
Hyundai Dept. Store	(10)	(14)		20	O (O)

Connecting clients to corporates

Hong Kong / China

BAT Malaysia (BATO.KL)
Date: 18 November, Hong Kong
Coverage Analyst: Foong Wai Loke

Sa Sa International Holding (0178.HK) Post results
Date: 19 November, Hong Kong
Coverage Analyst: Isis Wong

DGB Financial Group (139130.KS)
Date: 22 November, Hong Kong
Coverage Analyst: Gil Kim

Luncheon with Tim Smith (CEO North Asia, Maersk Line)
Date: 27 November, Hong Kong
Coverage Analyst: Timothy Ross

Singapore

PT. Electronic City Indonesia (ECII.JK)
Date: 04-05 November, Singapore
Coverage Analyst: Ella Nusantoro

OUE Hospitality Trust (OUER.SI) Post results
Date: 08 November, Singapore
Coverage Analyst: Yvonne Voon

DGB Financial Group (139130.KS)
Date: 20-21 November, Singapore
Coverage Analyst: Gil Kim

Chow Tai Fook Jewellery Group Limited (1929.HK)
Date: 28-29 November, Singapore
Coverage Analyst: Isis Wong

Top of the pack ...

Korea Retail Sector — **A-Hyung Cho (4)**
New report: Smart Shopping

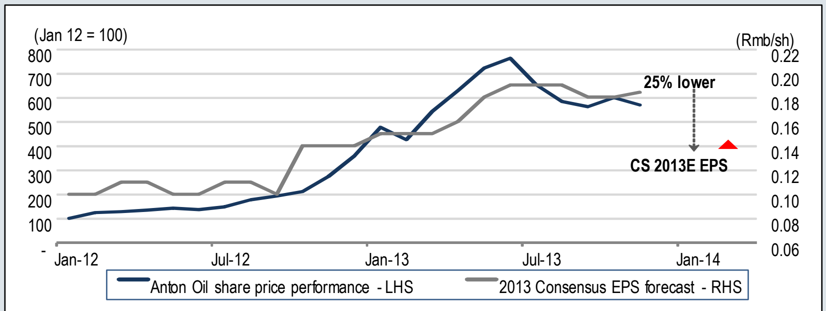
MediaTek Inc. (2454.TW) – Maintain O — **Randy Abrams, CFA (5)**
New report: China position continues to strengthen

NC Soft (036570.KS) – Upgrade to O — **Taewon Kim (6)**
Upgrading to OUTPERFORM on start of its China momentum for 2014

CS pic of the day

Anton Oil share price performance vs consensus 2013 EPS forecast

Our analysis of Anton Oil's quarterly operational data and revenue suggests flat EPS in 2013, implying a 20% decline in 2H13. This chart in our China oilfield services sector initiation report suggests this is significantly below consensus estimate of 29% growth. However, the stock price has not priced in such earnings downside.



Source: Datastream, Credit Suisse estimates

... and the whole pack

Australia

Macquarie Group (MQG.AX) – Maintain O — **James Ellis (7)**
Recovery building

Mesoblast (MSB.AX) – Maintain O — **Saul Hadassin (8)**
Hearty news - FDA green light for Phase 3 trial

National Australia Bank (NAB.AX) – Maintain N — **Jarrod Martin (9)**
Remains an FY14 story

Woolworths (WOW.AX) – Upgrade to N — **Grant Saligari (10)**
1Q14 sales are mixed

China

China and Hong Kong Economics — **Christiaan Tuntono (11)**
We think the Guangdong-Hong Kong-Macau Free Trade Zone will be launched before the year end

China Economics — **Dong Tao (12)**
China to accelerate the development of housing assurance system and the housing supply system, says Xi

China Economics — **Dong Tao (13)**
NBS PMI rose to 18-month high in October

Agile Property (3383.HK) – Maintain N — **Jinsong Du (14)**
Notes from the CIC: Contracted sales for 4Q13E and 2014E

China Vanke Co Ltd-A (000002.SZ) – Maintain O — **Jinsong Du (15)**
Buying a bank? A major risk but small near-term impact

China Vanke Co Ltd-B (200002.SZ) – Maintain O — **Jinsong Du (16)**
Buying a bank? A major risk but small near-term impact

Europe

Daelim Industrial (000210.KS)

Date	04-08 November, London
Coverage Analyst	Minseok Sinn

Dr. Reddy's Laboratories Limited (REDY.BO)

Date	06-07 November, Europe
Coverage Analyst	Anubhav Aggarwal

Arwana Citramulia (ARNA.JK)

Date	07-08 November, London
Coverage Analyst	Ella Nusantoro

Taiwan Semiconductor Manufacturing (2330.TW)

Date	25-27 November, Europe
Coverage Analyst	Randy Abrams

Others

Asian Investment Conference 2014

Date	24-28 March, Hong Kong
Contact	**cseq.events@credit-suisse.com or Your usual sales representative.**

Hong Kong

ASM Pacific Tech. (0522.HK) – Downgrade to U — **Kenny Lau, CFA (17)**
Business to contract on industry downcycle

India

Today is a public holiday in this market

India Banks Sector — **Ashish Gupta (18)**
New report: 2Q14 bank results—Pre-provision profitability continues to compress

Glenmark (GLEN.BO) – Maintain O — **Anubhav Aggarwal (19)**
FCF generation in 2H FY14 should increase

Infrastructure Development Finance Co Ltd (IDFC.BO) – Maintain O — **Ashish Gupta (20)**
Steady operationally in a volatile environment

Indonesia

Indonesia Economics — **Robert Prior-Wandesforde (21)**
Bad news for the rupiah

Electronic City Indonesia (ECII.JK) – Maintain O — **Ella Nusantoro (22)**
Looks like below 9M13, but it is in line as new stores starting to contribute

Indocement (INTP.JK) – Maintain O — **Ella Nusantoro (23)**
9M13 is in line with our estimates

PT Adaro Energy Tbk (ADRO.JK) – Maintain N — **Ami Tantri (24)**
9M13 result is in line with our expectation

PT Astra Agro Lestari Tbk (AALI.JK) – Maintain N — **Priscilla Tjitra (25)**
9M13 core net profits in line with estimates

PT Indika Energy Tbk (INDY.JK) – Maintain N — **Ami Tantri (26)**
9M13 earnings below expectations

XL Axiata Tbk (EXCL.JK) – Maintain O — **Colin McCallum, CA (27)**
Cellular growth continues, and EBITDA margin improves, but our forecasts were too high

Japan

Today is a public holiday in this market

Japan Pharmaceutical Sector — **Fumiyoshi Sakai (28)**
2Q: Astellas major positive; Eisai minor positive

Nissan Motor (7201.T) – Downgrade to N — **Issei Takahashi (29)**
Fundamental problem is higher variable costs due to declining competitiveness

Malaysia

Axiata Group Berhad (AXIA.KL) – Maintain O — **Foong Wai Loke (30)**
Cutting estimates in Indonesia and India

Philippines

Universal Robina Corp. (URC.PS) – Maintain O — **Karim P. Salamatian, CFA (31)**
3-in-1 coffee story

Singapore

Today is a public holiday in this market

DBS Group (DBSM.SI) – Maintain O — **Anand Swaminathan (32)**
DBS 3Q13: Another beat driven by non II; management expects asset quality to stabilise

Oversea-Chinese Banking Corporation (OCBC.SI) – Maintain U — **Anand Swaminathan (33)**
3Q13 — beat driven by non II; Singapore loan growth slows

South Korea

Korea Economics — **Christiaan Tuntono (34)**
Trade growth rebounded in October, but inflation surprised on the downside

Korea Auto Sector – Maintain OW — **Henry Kwon (35)**
October shipments: Normalising for 3Q strikes

Korea Retail Sector — **A-Hyung Cho (4)**
New report: Smart Shopping

Korea Retail Sector — **A-Hyung Cho (36)**
Profit-taking on old news providing a buying opportunity

Hyundai Department Store (ge pla069960.KS) – Maintain O — **A-Hyung Cho (37)**
Leverage play of the consumption recovery

Asian indices - performance

(% change)	Latest	1D	1W	3M	YTD
ASX300	5382	0.4	(0.3)	6.1	16.3
CSEALL	5954	(0.0)	0.1	(3.3)	5.5
Hang Seng	23250	0.2	2.4	4.8	2.6
H-SHARE	10679	0.5	4.9	9.7	(6.6)
JCI	4433	(1.7)	(3.2)	(4.5)	2.7
KLSE	1810	0.2	(0.4)	1.6	7.2
KOSPI	2039	0.5	0.2	6.0	2.1
KSE100	22649	(0.6)	0.9	(1.9)	34.0
NIFTY	6317	0.2	3.5	11.3	7.0
NIKKEI	14201.6	(0.9)	0.8	(1.8)	36.6
TOPIX	1183.0	(0.9)	0.4	(1.1)	37.6
PCOMP	6585	(0.2)	(0.7)	(1.1)	13.3
RED CHIP	4537	(0.3)	2.6	9.0	0.1
SET	1429	(1.0)	(1.8)	0.6	2.7
STI	3201	(0.3)	(0.1)	(1.6)	1.1
TWSE	8388	(0.7)	0.5	3.6	8.9
VNINDEX	497	(0.1)	(0.7)	0.5	20.1

Thomson Financial Datastream

Asian currencies (vs US$)

(% change)	Latest	1D	1W	3M	YTD
A$	1.1	(0.2)	(1.2)	5.9	(9.1)
Bt	31.2	0.1	(0.4)	0.7	(1.9)
D	21100.0	-	(0.0)	0.3	(1.2)
JPY	98.7	(0.3)	(1.1)	(0.4)	(12.1)
NT$	29.4	(0.0)	(0.2)	2.1	(1.4)
P	43.2	0.3	(0.4)	0.8	(5.1)
PRs	106.9	0.0	(0.4)	(4.7)	(9.1)
Rp	11335.0	0.9	(2.8)	(9.4)	(13.6)
Rs	61.7	0.4	(0.4)	(2.1)	(10.9)
S$	1.2	0.1	(0.5)	2.0	(1.8)
SLRs	131.0	(0.1)	(0.3)	0.5	(2.5)
W	1060.8	0.0	0.1	5.9	0.3

Thomson Financial Datastream

Global indices

(% change)	Latest	1D	1W	3M	YTD
DJIA	15615.6	0.4	0.3	(0.3)	19.2
S&P 500	1761.6	0.3	0.1	3.0	23.5
NASDAQ	3922.0	0.1	(0.5)	6.3	29.9
SOX	505.4	(0.3)	1.8	4.6	31.6
EU-STOX	2873.8	(0.2)	0.7	5.1	11.5
FTSE	6734.7	0.0	0.2	1.3	14.2
DAX	9007.8	(0.3)	0.2	7.1	18.3
CAC-40	4273.2	(0.6)	0.0	5.6	17.4
10 YR LB	2.6	2.6	4.5	(3.1)	49.2
2 YR LB	0.3	1.3	3.4	(4.8)	25.2
US$:E	1.3	0.0	(2.1)	1.8	2.3
US$:Y	98.7	(0.1)	(1.1)	(0.4)	(12.1)
BRENT	105.5	(0.2)	(3.6)	(3.2)	(5.8)
GOLD	1313.7	(0.2)	(2.9)	0.2	(21.6)
VIX	13.3	(3.4)	1.5	10.9	(26.3)

Thomson Financial Datastream

MSCI Asian indices – valuation & perf.

	EPS grth.		P/E (x)		Performance		
MSCI Index	13E	14E	13E	14E	1D	1M	YTD
Asia F X Japan	11	13	12.5	11.1	0.0	2.2	1.6
Asia Pac F X J.	8	12	13.3	11.8	0.0	2.6	2.9
Australia	(4)	7	16.6	15.5	(0.6)	4.8	6.5
China	10	9	9.7	8.9	0.1	2.5	(0.7)
Hong Kong	10	10	16.4	14.9	0.5	2.5	7.6
India	9	17	16.2	13.8	(0.5)	8.9	(5.5)
Indonesia	9	14	15.2	13.3	(2.7)	4.3	(16.1)
Korea	12	20	10.5	8.7	0.7	4.8	4.2
Malaysia	(1)	9	16.9	15.5	(0.3)	4.5	4.9
Pakistan	2	22	10.1	8.3	-1.27	4.4	18.1
Philippines	9	8	20.4	18.9	0.0	7.5	8.9
Singapore	(2)	9	15.0	13.8	(0.7)	2.2	0.7
Sri Lanka	33	10	15.5	14.1	(1.2)	2.3	(0.6)
Taiwan	12	14	13.3	11.7	(1.4)	2.1	(2.5)
Thailand	(4)	31	16.8	12.8	(0.2)	4.2	17.2
Japan	35	70	23.7	15.6	0.0	0.0	0.0

* IBES estimates

E-MART Co. Ltd (139480.KS) – Upgrade to O — **A-Hyung Cho (38)**
Attractive business model with focused strategy

Lotte Shopping (023530.KS) – Maintain N — **A-Hyung Cho (39)**
Diversification makes it less attractive in an upturn

Shinsegae (004170.KS) – Maintain N — **A-Hyung Cho (40)**
Impact of cost reduction already in the price?

Hyundai Development (012630.KS) – Maintain O — **Minseok Sinn (41)**
Sharp turnaround in 2014 remains intact despite poor earnings outlook in 2H13

Hyundai Mipo Dockyard (010620.KS) – Maintain N — **Henry Kwon (42)**
3Q earnings were foreshadowed by Hyundai Heavy's 3Q results

Industrial Bank of Korea (024110.KS) – Maintain O — **Gil Kim (43)**
3Q13 broadly in line

KT Corp (030200.KS) – Downgrade to N — **Taewon Kim (44)**
Downgrading to NEUTRAL on lower mobile and fixed line revenue assumptions

NC Soft (036570.KS) – Upgrade to O — **Taewon Kim (6)**
Upgrading to OUTPERFORM on start of its China momentum for 2014

Taiwan

Catcher Technology (2474.TW) – Maintain O — **Pauline Chen (45)**
A brighter outlook

ChungHwa Telecom (2412.TW) – Maintain U — **Chate Benchavitvilai (46)**
3Q13A conf call: 4G 1800MHz in 2H14E, capex to increase but peak in FY14E

CTBC Holding (2891.TW) – Maintain O — **Chung Hsu, CFA (47)**
New report: In-line 3Q results and guidance

MediaTek Inc. (2454.TW) – Maintain O — **Randy Abrams, CFA (5)**
New report: China position continues to strengthen

Thailand

C.P. All PCL (CPALL.BK) – Maintain U — **Karim P. Salamatian, CFA (48)**
3Q13 preview: Negative headline and risk of disappointment

O=Outperform N=Neutral U=Underperform R=Restricted OW= Overweight MW=Market Weight UW=Underweight

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Top of the pack ...

Korea Retail Sector---

New report: Smart Shopping

A-Hyung Cho / Research Analyst / 82 2 3707 3735 / a-hyung.cho@credit-suisse.com
Ray Kim / Research Analyst / 82 2 3707 3776 / ray.kim@credit-suisse.com

- While the change in shopping is likely to continue to sustain, traditional channels (hypermarkets, department stores) should see more positive momentum on base effect and consumption improvement. Within the traditional channel, we prefer hypermarkets better over department stores business models as the latter remain more vulnerable to competing channels.
- Despite a weak set of earnings expected for 3Q13, the worst in the domestic consumption seems to have passed, on: (1) improving consumer sentiment, (2) worst in regulatory being behind us, although it is a lingering risk, and (3) government's efforts to boost the property market, which could trickle down to the consumption.
- E-Mart is our top pick given its improving margin outlook and aggressive online expansion. Among department stores, we prefer Hyundai Department Store.
- Risks on our view include regulations as an ongoing risk to the sector as seen in the case of compulsory shutdowns and the regulation on promotional subsidies. Full report.

Consumptions bottomed

Despite weak 3Q13 operations, Korean retail stocks have outperformed the market due to more optimistic expectations on domestic consumption. Monthly same-store-sales (SSS) growth data at retailers, as well as government measures regarding the domestic housing market, have boosted market sentiment. Top down, we expect a cyclical recovery ahead, while slower structural growth remains a concern, given the maturity of the domestic economy. We also note that Korean consumers' spending pattern changes over the past few years suggest growth opportunities for retailers, especially in online and complex shopping malls.

Top pick- E-Mart

Our top pick is E-Mart because E-Mart has stronger growth potential, thanks to: (1) expansion and a turnaround in the online business and (2) cost cutting in the offline operations, as well as merchandise management. At this juncture, we like pure plays more than the diversified names, which could be diluted by other businesses. We prefer E-Mart to other hypermarkets because of its: (1) strong leadership in the online grocery market and (2) focused strategy in cost reduction and online expansion, which should further widen its superior margin over its peers. Among department stores, we prefer Hyundai Department Store to Shinsegae or Lotte Department Store, given its better cost management; it is a pure play that should benefit from a cyclical recovery, and is trading at lower multiples.

New emerging channels

The channel shift has been accelerating by the regulatory measures, i.e. the mandatory shutdown of hypermarkets. Over the long term, some of these newer channels should continue to grow with ongoing changes in the consumer behaviour, as well as demographics. These changes are triggers for an average Korean consumer to do more pragmatic shopping through cheaper and convenient channels, including online, hypermarkets and outlets. Conventional off-line channels continue to expand into online channels. We think E-Mart has strong potential, given its specialty in the fresh food grocery segment.

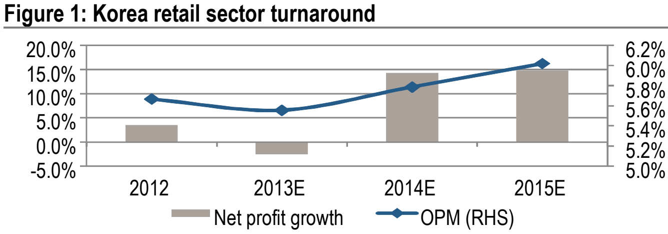
'Experiences' have become more important

Korean consumption is moving away from material purchases to experiential shopping—Koreans' domestic consumption has slowed, but travel budget has gone up, though. This trend is also reflected in the shopping behaviour. As Korean retailers are expected to see more demand for shopping malls, outlet malls, where the 'family' can enjoy, should be the growth segment going forward. While this may eventually be a threat to the department store channel, most of the department stores have been rushing to this channel, hence better execution abilities should differentiate performance, which is why we think Hyundai Department Store could fare better than its peers.

Regulatory environment

The market has been concerned about the Korean government imposing a mandatory closure of the hypermarkets twice a month, and more recently, about the reduction in promotional subsidies that the merchandise suppliers offer the retailers. It would be difficult to think of any additional regulations, in our view, given the market share of mom-and-pop stores continues to shrink regardless of these regulations. However, the market may remain sensitive to additional intervention by regulators.

Figure 1: Korea retail sector turnaround



Source: Company data, Credit Suisse estimates

Valuation metrics

Company	Ticker	Rating (prev. rating)	Price Local	Price Target	TP Chg (%)	Up/dn to TP (%)	Year T	EPS Chg(%) T+1	EPS Chg(%) T+2	EPS T+1	EPS T+2	EPS grth (%) T+1	EPS grth (%) T+2	P/E (x) T+1	P/E (x) T+2	Div. yld (%) T+1	ROE (%) T+1	P/B (x) T+1
E-Mart	139480.KS	O (U)	249,500	300,000	50	20	12/12	6	2	17,021	20,023	12	18	14.7	12.5	0.6	7.4	1.1
Hyundai Dept. Store	069960.KS	O (O)	167,000	200,000	(5)	20	12/12	(10)	(14)	13,495	15,249	(2)	13	12.4	11.0	0.4	9.3	1.1
Shinsegae	004170.KS	N (N)	257,000	270,000	13	5	12/12	(15)	(15)	16,769	18,385	2	10	15.3	14.0	0.8	5.2	0.8
Lotte Shopping	023530.KS	N (N)	385,000	420,000	11	9	12/12	(2)	(6)	31,135	35,295	(16)	13	12.4	10.9	0.5	6.0	0.7

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM
Source: Company data, Credit Suisse estimates

MediaTek Inc. -- Maintain OUTPERFORM

New report: China position continues to strengthen **EPS: ▲ TP: ▲**

Randy Abrams, CFA / Research Analyst / 886 2 2715 6366 / randy.abrams@credit-suisse.com

- **3Q13 upside to sales and profitability..** Mediatek 3Q13 sales NT$39 bn, +17.2% QoQ, above CS +14.5% QoQ and +5-13% QoQ guidance due to quad/dual core smartphone and feature phone share upside. GMs reached 43.9% above CS 43.7% and 42.5-44.5% guidance due to new chips' competitive cost structure.
- **4Q13 upside strength continues.** Mediatek guided flat to down 5% QoQ, better than Street and our -12% QoQ expectation. Mediatek's dual core is replacing competitors and 3G tablets encroaching Chinese players. More product launches in 4Q13 will also drive double-digit unit growth for China brands.
- **Margins still improving.** 4Q GMs were guided to 43-45%, as better mix is keeping ASPs flat to down 5% with Quad core (MT6582), dual core (MT6571), octa-core (MT6592) and LET ramping from 4Q13 to 1H14.
- **Raising TP to NT$480.** Maintain Outperform and raise 2013/2014 EPS from NT$18.25/NT$22 to NT$20/NT$24 and our TP from NT$440 to NT$480 (20x 2014E EPS) on better pricing, margins, operating leverage, and growth into TD-SCDMA, tablets, and LTE. Full report

Bbg/RIC	**2454 TT / 2454.TW**	**Price (01 Nov 13 , NT$)**			**404.50**
Rating (prev. rating)	**O (O)**	**TP (prev. TP NT$)**			**480.00 (440.00)**
Shares outstanding (mn)	1,349.47	Est. pot. % chg. to TP			19
Daily trad vol - 6m avg (mn)	6.9	52-wk range (NT$)			404.5 - 301.5
Daily trad val - 6m avg (US$ mn)	85.5	Mkt cap (NT$/US$ bn)			545.9/ 18.6
Free float (%)	89.1	**Performance**	**1M**	**3M**	**12M**
Major shareholders	Capital Research (7.7%)	Absolute (%)	9.9	11.4	23.9
		Relative (%)	7.8	7.9	7.1

Year	**12/11A**	**12/12A**	**12/13E**	**12/14E**	**12/15E**
Revenue (NT$ mn)	86,857	99,263	134,332	190,942	213,214
EBITDA (NT$ mn)	15,074	16,100	27,174	41,506	47,167
Net profit (NT$ mn)	13,614	15,474	26,836	37,051	42,171
EPS (NT$)	12.5	12.8	20.0	24.0	27.0
- Change from prev. EPS (%)	n.a.	n.a.	5	9	5
- Consensus EPS (NT$)	n.a.	n.a.	18.8	23.6	26.7
EPS growth (%)	(56.0)	1.9	56.8	20.0	12.5
P/E (x)	32.3	31.7	20.2	16.9	15.0
Dividend yield (%)	5.0	2.1	2.2	3.2	4.4
EV/EBITDA (x)	30.5	28.9	16.6	10.6	9.2
P/B (x)	3.8	2.8	2.8	3.0	2.9
ROE (%)	11.9	10.6	14.5	18.5	20.0
Net debt(cash)/equity (%)	(74.6)	(46.2)	(48.8)	(50.3)	(51.7)

Note 1: MediaTek Inc. is engaged in the R&D, manufacture & distribution of multimedia integrated circuit chipsets. It also involves in the provision of related products design, testing, maintenance & technology consulting services.

Click here for detailed financials

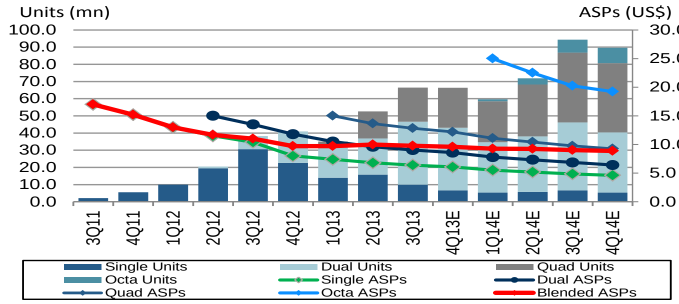
3Q13 upside to sales and profitability

Mediatek 3Q13 sales were already reported at NT$39 bn ,+17.2% QoQ, above CS +14.5% QoQ and +5-13% QoQ guidance due to quad/dual core smartphone upside and feature phone share recovery. GMs reached 43.9% vs. our 43.7% and 42.5-44.5% guidance due to competitive cost structure on the new chips.

4Q13 upside strength continues

Mediatek guided flat to down 5% QoQ, better than Street and our recent upward revision to -12% QoQ off a higher 3Q13 estimate in our **preview** last Monday. As noted in our **recent** supply chain updates, Mediatek's dual core is replacing competitors' dual core solutions and 3G tablets are encroaching on Chinese players, with optimism for octa-core for 5-7" phablets following a higher profile 20 Nov Shenzhen launch. Downstream smartphone makers and component suppliers are witnessing higher than normal product launches tied to 4Q13 than in the past driving double-digit 4Q unit growth for some China brands.

Figure 1: Multi-core chipset ramp supporting blended ASPs

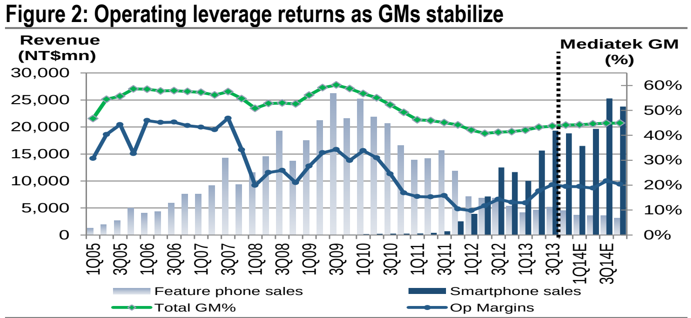


Source: Company data, Credit Suisse research

Margins still improving

GMs were guided to 43-45% guidance for 4Q13, +10bp at the midpoint. The company has more cost competitive quad core (MT6582) ramping in 4Q13, a lower cost dual core (MT6571) in 2Q14 and mix benefit from octa-core (MT6592), with initial LTE volumes for 1H14 with two-chip solution and SoC by year-end. Better mix and good competitive position is keeping ASPs flat to down 5% vs. earlier -10% expectation.

Figure 2: Operating leverage returns as GMs stabilize



Source: Company data, Credit Suisse estimates, Bloomberg consensus.

Maintain OUTPERFORM

On better pricing and margins, we raise 2013/14 EPS from NT$18.25/NT$22 to NT$20/NT$24 and our TP from NT$440 to NT$480, 19% further upside. We see upside driven by leading position high-growth emerging market smartphones, growth into TD-SCDMA and tablets, catalyst from LTE and octacore launching in the next month, and operating leverage from growth and improving GMs.

Figure 3: Raising 4Q13/1Q14 estimates

	3Q13			4Q13				1Q14		
(NT$ mn)	Actual	CS(old)	Street	CS	CS(old)	Street	Guidance	CS	CS(old)	Street
Sales	**$39,008**	**$39,008**	**$37,869**	**$38,074**	**$34,331**	**$34,144**	**NT$37.1-$39.0bn**	**$39,720**	**$38,116**	**$33,132**
Chg	*17.2%*	*17.2%*	*13.8%*	*-2.4%*	*-12.0%*	*-12.5%*	**Flat to -5%**	*4.3%*	*11.0%*	*-3.0%*
GM%	**43.9%**	**43.7%**	**43.7%**	**44.1%**	**43.6%**	**43.5%**	**43-45%**	**44.2%**	**43.8%**	**43.6%**
OpM%	**20.2%**	**20.3%**	**19.5%**	**19.4%**	**17.0%**	**18.4%**	**16.5-22.5%**	**19.4%**	**16.5%**	**16.1%**
Net Inc.	8,428	8,526	8,019	7,943	6,499	6,900		7,674	6,443	6,568
EPS (NT$)	**$6.28**	**$6.35**	**$5.98**	**$5.92**	**$4.84**	**$5.05**		**$5.15**	**$4.33**	**$4.67**

Source: Company data, Credit Suisse estimates.

NC Soft --Upgrade to OUTPERFORM

Upgrading to OUTPERFORM on start of its China momentum for 2014 **EPS: ▲ TP: ▲**

Taewon Kim / Research Analyst / 852 2101 6687 / taewon.kim@credit-suisse.com

- We are upgrading our rating to OUTPERFORM (from Underperform) as the latest positive Blade and Soul closed beta testing in China from 29 October clears our previous concern of any potential launch schedule, as we now see that a full launch is likely for 1Q14.
- We raise our FY14E/15E China royalty assumptions on Blade and Soul and Guild War 2 given the latest positive China user feedback. We also slightly upwardly adjust our domestic game revenue assumptions as League of Legend market share in Korea PC game room playing time has stabilised at the 40% level. We increase our FY13/14/15E EPS estimates by 1.5%/16.8%/14.3%.
- While risk remains as to whether Blade and Soul China revenue generation would sustain itself after a year of playing time, we expect newsflow on B&S China to drive stock momentum over the next six months with further marketing ahead from Tencent.
- Our new TP of W280,000 (from W155,000) is based on 20x FY14E P/E, which is the multiple the stock traded during 2009 when Aion Korea started to generate revenue as the next growth engine.

Bbg/RIC	**036570 KS / 036570.KS**	**Price (01 Nov 13, W)**	**210,000**
Rating (prev. rating)	**O (U)**	**TP (prev. TP W)**	**280,000 (155,000)**
Shares outstanding (mn)	21.91	Est. pot. % chg. to TP	33
Daily trad vol - 6m avg (mn)	0.2	52-wk range (W)	213000.0 - 128000.0
Daily trad val - 6m avg (US$ mn)	30.7	Mkt cap (W/US$ bn)	4,602.1/ 4.3
Free float (%)	35.0	**Performance**	**1M / 3M / 12M**
Major shareholders	Nexon Co. 14.7%	Absolute (%)	11.7 / 22.1 / 1.0
		Relative (%)	9.6 / 15.7 / (5.3)

Year	**12/11A**	**12/12A**	**12/13E**	**12/14E**	**12/15E**
Revenue (W bn)	609	754	768	950	1,019
EBITDA (W bn)	164.3	189.3	238.9	382.4	407.5
Net profit (W bn)	120.2	155.8	173.2	294.9	314.6
EPS (W)	5,855	7,517	8,279	13,959	14,753
- Change from prev. EPS (%)	n.a.	n.a.	2	17	14
- Consensus EPS (W)	n.a.	n.a.	8,117	13,036	13,950
EPS growth (%)	(28.6)	28.4	10.1	68.6	5.7
P/E (x)	35.9	27.9	25.4	15.0	14.2
Dividend yield (%)	0.3	0.3	0.4	0.6	0.7
EV/EBITDA (x)	25.1	22.1	16.7	10.3	9.6
P/B (x)	5.4	4.7	4.1	3.3	2.8
ROE (%)	14.5	16.8	16.0	22.6	19.8
Net debt(cash)/equity (%)	(54.2)	(41.5)	(51.4)	(45.7)	(40.4)

Note 1: NC Soft Corporation is a Korea-based online game publisher. Games offered are massively multiplayer online role-playing games (MMORPGs) where large number of players from different countries can play the games together through the Internet.

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Start of full revenue generation likely for B&S China in 1Q14 now with a strong marketing push from Tencent: The last close beta testing with registered account before the full open beta testing has kicked off with strong user feedback. This abates our previous concern over a potential delay due to content issues for the China market. New positive developments since 29 Oct include B&S's total search query in the Baidu index shooting over to 400,000 versus TLBB/DNF hovering below 80,000 level, and positive user feedback on its unique character creation process and good weapon upgrade system (which points to good monetisation potential). Currently, 20 servers are running full, each with average capacity of ~7,000 active current users. Furthermore, an article from the NetEase channel (game.163.com) reported of a user that had purchased 36 years of Tencent QQ VIP membership (one month = Rmb10 for a chance to enter the lottery to win the B&S register code) and yet failing to get a register code.

Further positive news likely over the next six months: While the risk remains as to whether Blade and Soul China revenue generation would sustain itself after a few quarters of playing time for hardcore users, we expect newsflow on B&S China to drive stock momentum over the next six months with further marketing ahead from Tencent with open beta testing likely before year-end and full launch likely during 1Q14. We also slightly upwardly adjust our domestic game revenue assumptions as League of Legend market share in Korea PC game room playing time has stabilised at the 40% level. As such, we increase our FY13/14/15E EPS estimates by 1.5%/16.8%/14.3%.

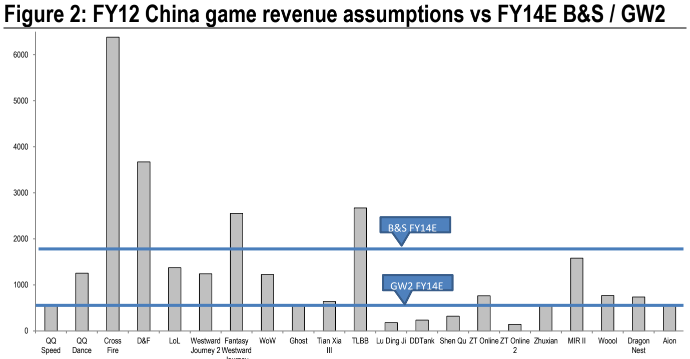
New TP of W280,000 on 20x FY14E P/E: We expect 22% of FY14E revenue to be from new game launches and thus apply 20x FY14E P/E multiple to derive our target price, which is also the multiple stock traded during 2009 as Aion Korea started to generate its full revenue.

Figure 1: New game launches to drive growth for FY14-15E

(W bn)	CS estimates				YoY growth (%)		
	2012	2013E	2014E	2015E	2013E	2014E	2015E
Total revenue	**750.3**	**777.8**	**970.3**	**1,039.5**	**3.7**	**24.7**	**7.1**
(1) Korea	**433.5**	**511.1**	**534.9**	**597.6**	**17.9**	**4.6**	**11.7**
Lineage	190.7	292.5	301.3	301.3	53.4	3.0	0.0
Lineage 2	26.2	22.5	19.8	17.8	-14.3	-12.0	-10.0
Aion	106.6	75.8	66.7	60.0	-28.9	-12.0	-10.0
Blade & Soul	62.1	69.7	61.3	56.4	12.1	-12.0	-8.0
Guild Wars 2	0.0	0.0	20.0	28.0	n.a	n.a	40.0
Wild Star	0.0	0.0	5.0	15.0	n.a	n.a	200.0
Others	47.8	50.7	60.8	119.1	6.1	20.0	30.0
(2) Overseas	**252.8**	**204.5**	**225.3**	**233.5**	**-19.1**	**10.2**	**3.6**
Blade & Soul	0.0	0.0	10.0	30.0	n.a	n.a	200.0
Guild Wars 2	164.9	121.3	111.6	106.0	-26.4	-8.0	-5.0
Wild Star	0.0	0.0	30.0	30.0	n.a	n.a	0.0
Others	87.9	83.2	73.7	67.5	n.a	5.0	5.0
(3) Royalty	**64.1**	**52.2**	**190.1**	**188.4**	**-18.6**	**264.2**	**-0.9**
Aion	29.0	27.4	26.0	24.7	-5.5	-5.0	-5.0
Blade & Soul	0.0	5.0	100.0	100.0	n.a	n.a	0.0
Guild Wars 2	0.0	0.0	45.0	45.0	n.a	n.a	0.0
Others	35.1	19.8	19.1	18.7	-72.9	0.0	0.0
Operating profit	**151.3**	**203.5**	**345.2**	**368.5**	**34.6**	**69.6**	**6.7**
Net Profit	**155.8**	**173.2**	**294.9**	**314.6**	**11.2**	**70.2**	**6.7**
OP margin (%)	***20.2%***	***26.2%***	***35.6%***	***35.4%***			

Source: Company data, Credit Suisse estimates

Figure 2: FY12 China game revenue assumptions vs FY14E B&S / GW2



Source: Company data, Credit Suisse estimates.

Australia

Macquarie Group -- Maintain OUTPERFORM

Recovery building **EPS: ▲ TP: ▲**

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- Following the 1H14 result we have made compositional changes to our outer year estimates, raising our target price from $55 to $56. Positive result with sequentially most net revenue line items improving, Group impairments / specific provisioning moderating (overall) and less reliance on gains / realisations.
- What we liked: The SYD capital management proposal, decisively dealing with a sizable and longstanding non-core asset; recovery in Macquarie Securities taking hold (contribution profit, revenue per FTE); another stand-out performance from Macquarie Funds.
- What we didn't like: Fat tail on Metals & Energy Capital equity investment impairments; Macquarie Capital earnings still subdued; efficiency ratio still relatively high; profitability metrics still struggling.
- MQG currently trades at 14.3x 12-month prospective earnings and a book multiple of 1.6x (global peer group 0.6x-1.3x). The broadly based recovery in net revenues for two (plus) halves now reaffirms our view of MQG being potentially a secular earnings upgrade story. Full report.

Bbg/RIC	**MQG AU / MQG.AX**	**Price (01 Nov 13, A$)**			**53.10**
Rating (prev. rating)	**O (O)**	**TP (prev. TP A$)**			**56.00 (55.00)**
Shares outstanding (mn)	339.89	Est. pot. % chg. to TP			5
Daily trad vol - 6m avg (mn)	1.5	52-wk range (A$)			53.1 - 30.2
Daily trad val - 6m avg (US$ mn)	72.1	Mkt cap (A$/US$ bn)			18.0/ 17.1
Free float (%)	99.3	**Performance**	**1M**	**3M**	**12M**
Major shareholders		Absolute (%)	10.1	17.5	68.6
		Relative (%)	6.3	11.7	47.2

Year	**03/12A**	**03/13A**	**03/14E**	**03/15E**	**03/16E**
Pre-prov Op profit (A$ mn)	1,494.0	2,067.0	2,336.7	2,226.7	2,387.6
Net profit (A$ mn)	730	851	1,223	1,248	1,422
EPS (CS adj. A$)	2.02	2.46	3.48	3.56	4.02
- Change from prev. EPS (%)	n.a.	n.a.	15.3	3.8	2.0
- Consensus EPS (A$)	n.a.	n.a.	3.08	3.66	3.95
EPS growth (%)	(26.7)	21.7	41.6	2.1	12.9
P/E (x)	26.3	21.6	15.2	14.9	13.2
Dividend yield (%)	2.6	3.8	4.9	5.4	6.1
BVPS (CS adj. A$)	34.9	36.6	36.0	37.0	38.1
P/B (x)	1.52	1.45	1.47	1.44	1.39
ROE (%)	6.6	7.7	10.4	11.0	12.2
ROA (%)	0.4	0.6	0.8	0.8	0.8
Tier 1 Ratio (%)	13.8	10.8	10.2	10.3	10.6

Note 1: ORD/ADR=1.00. Note 2: Macquarie Group Limited (MGL) acts as a non-operating holding company. Through its subsidiaries, it provides banking, financial, advisory, investment and funds management services.

Click here for detailed financials

Following the 1H14 result we have made compositional changes to our outer year estimates, raising our target price from $55.00 to $56.

Positive result with sequentially most net revenue line items improving, Group impairments / specific provisioning moderating (overall) and less reliance on gains / realisations. What we liked: The SYD capital management proposal, decisively dealing with a sizable and longstanding non-core asset; recovery in Macquarie Securities taking hold (contribution profit, revenue per FTE); another stand-out performance from Macquarie Funds. What we didn't like: Fat tail on Metals & Energy Capital equity investment impairments; Macquarie Capital earnings still subdued; efficiency ratio still relatively high; profitability metrics still struggling.

Figure 1: Credit Suisse changes to MQG estimates

	FY14F			**FY15F**			**FY16F**		
(A$ mn)	**Old**	**New**	**Ch.**	**Old**	**New**	**Ch.**	**Old**	**New**	**Ch.**
Reported profit	1,078	1,223	13%	1,225	1,248	2%	1,429	1,422	0%
Basic EPS	$3.18	$3.67	15%	$3.61	$3.75	4%	$4.19	$4.27	2%
Ordinary DPS	$2.56	$2.60	2%	$2.90	$2.85	-2%	$3.35	$3.25	-3%

Source: Credit Suisse estimates.

Next news: Operational briefing update February 2014. Valuation: MQG currently trades at 14.3x 12-month prospective earnings and a book multiple of 1.6x (global peer group 0.6x-1.3x). The broadly based recovery in net revenues for two (plus) halves now reaffirms our view of MQG being potentially a secular earnings upgrade story (financial, markets, operational and, over time, tax leverage).

(This is an extract from James Ellis' report, "Recovery building," published on 01 November 2013. For details, please see the CS Research & Analytics website.)

Mesoblast -- Maintain OUTPERFORM

Hearty news - FDA green light for Phase 3 trial **EPS: ◄► TP: ▲**

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- MSB has announced that the FDA has cleared the Investigational New Drug (IND) filing made by MSB's licensing partner Teva, allowing for commencement of the Phase 3 trial for mesenchymal precursor cells in heart failure (HF). Click here for full report.
- Patient recruitment will begin shortly – based on the initial agreement between MSB and Cephalon (subsequently acquired by Teva) the trial should be wholly funded by Teva (~US$120 mn). 1700 patients will be recruited for the trial, which includes two interim analyses that will allow trial cessation should efficacy or safety not meet required levels.
- This major milestone has been anticipated for ~2 years and will assuage investors' concerns over the long delay since management first discussed the trial's commencement in late 2011.
- We have reduced the risk-weighting on the HF indication (55% of DCF valuation) from 60% to 50% due to progression to the P3 trial. As a result our target price increases to A$7.95 (from A$7.00) and we maintain an OUTPERFORM rating.

Bbg/RIC	**MSB AU / MSB.AX**	**Price (31 Oct 13 , A$)**			**6.60**
Rating (prev. rating)	**O (O)**	**TP (prev. TP A$)**			**7.95 (7.00)**
Shares outstanding (mn)	317.35	Est. pot. % chg. to TP			20
Daily trad vol - 6m avg (mn)	0.4	52-wk range (A$)			7.49 - 5.10
Daily trad val - 6m avg (US$ mn)	2.5	Mkt cap (A$/US$ mn)			2,094.5/ 1,981.0
Free float (%)	54.7	**Performance**	**1M**	**3M**	**12M**
Major shareholders		Absolute (%)	17.0	10.9	14.4
		Relative (%)	12.8	4.9	(5.7)

Year	06/12A	06/13A	06/14E	06/15E	06/16E
Revenue (A$ mn)	—	—	—	—	36.0
EBITDA (A$ mn)	(58.8)	(69.8)	(95.3)	(104.6)	18.6
Net profit (A$ mn)	(71.1)	(61.7)	(81.7)	(93.6)	28.5
EPS (A$)	(0.25)	(0.20)	(0.25)	(0.28)	0.08
- Change from prev. EPS (%)	n.a.	n.a.	n.m	n.m	0.12
- Consensus EPS (A$)	n.a.	n.a.	(0.22)	(0.19)	(0.19)
EPS growth (%)	n.m.	n.m.	n.m.	n.m.	n.m.
P/E (x)	n.m.	n.m.	n.m.	n.m.	78.2
Dividend yield (%)	0	0	0	0	0
EV/EBITDA (x)	(32.1)	(25.5)	(20.1)	(19.4)	110.9
P/B (x)	3.9	3.3	3.7	4.6	4.4
ROE (%)	(14.3)	(11.1)	(13.7)	(18.1)	5.9
Net debt(cash)/equity (%)	(42.9)	(50.0)	(32.4)	(13.0)	(6.3)

Note 1: ORD/ADR=5.00. Note 2: Mesoblast Limited (MSB) is commercialising adult stem cell-based products for clinical indications such as cardiovascular, neurological, diabetes, eye diseases, cancers of the blood, bone fractures, cartilage degeneration and musculoskeletal conditions.

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Heart failure trial to commence shortly

MSB has announced that the FDA has cleared the Investigational New Drug (IND) filing made by MSB's licensing partner Teva, allowing for commencement of the Phase 3 trial for mesenchymal precursor cells in heart failure (HF). Patient recruitment will begin shortly – based on the initial agreement between MSB and Cephalon (subsequently acquired by Teva) the trial should be wholly funded by Teva (~US$120 mn). 1700 patients will be recruited for the trial, which includes two interim analyses that will allow trial cessation should efficacy or safety not meet required levels. The trial is a double blinded, 1:1 randomised, placebo controlled study evaluating a single 150mn MPC dose delivered by injection directly into the left ventricle of the heart for patients with NYHA Class II or III HF with left ventricular ejection fraction of up to 40%. The trial's primary endpoint is the reduction / delay of major cardiac adverse events (mortality, or inpatient/outpatient hospitalisation with IV diuretics or aquapheresis).

Eases tension: This major milestone has been anticipated for ~2 years and will assuage investors' concerns over the long delay since management first discussed the trial's commencement in late 2011. The announcement also somewhat reaffirms Teva's commitment to the licensing agreement although we note the departure of Teva's CEO overnight, after just 18 months in the role. A replacement may review the terms of Teva's funding arrangement with MSB and its investment in such a large trial. We anticipate trial completion in 2016/17 (if data supports continuation at interim stop-points) and potential product launch in FY18.

Valuation: We have reduced the risk-weighting on the HF indication (55% of DCF valuation) from 60% to 50% due to progression to the P3 trial. As a result our target price increases to A$7.95 (from A$7.00) and we maintain an OUTPERFORM rating.

(This is an extract from Mesoblast report, Hearty news - FDA green light for Phase 3 trial, published on 31 October 2013. For details, please see the CS Research & Analytics website.)

National Australia Bank--Maintain NEUTRAL

Remains an FY14 story — **EPS: ▼ TP: ▲**

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- Following the FY13 results, we have made essentially compositional adjustments to our estimates and our target price rose from A$34.00 to A$36.50.
- An in-line result reaffirms NAB as an (FY14) UK/bad debt turnaround story; we also see NAB as levered to any recovery in system business credit growth and (potentially) an FY14E cost restructuring story.
- What we liked: Solid balance sheet momentum; stand-out personal banking result; earnings recovery emerging in UK banking; losses from UK CRE diminishing. What we didn't like: negative cost / revenue jaws; softer 2H13 non-interest income; continued weakening in insurance earnings; softer collective provision coverage.
- Revenue growth was modest (1-2% 2H13), impacted by financial markets income, with negative cost/revenue jaws; NZ earnings were boosted by lower bad debts; capitalised software balances spiking up (some FX translation impacts here). Click here for full report.

Bbg/RIC	NAB AU / NAB.AX	Price (31 Oct 13, A$)	35.31
Rating (prev. rating)	N (N)	TP (prev. TP A$)	36.50 (34.00)
Shares outstanding (mn)	2,348.90	Est. pot. % chg. to TP	3
Daily trad vol - 6m avg (mn)	6.1	52-wk range (A$)	36.7-23.1
Daily trad val - 6m avg (US$ mn)	206.7	Mkt cap (A$/US$ bn)	83.6/ 79.1
Free float (%)	104.4		
Major shareholders			

Performance	1M	3M	12M
Absolute (%)	3.1	14.2	42.3
Relative (%)	(0.9)	8.2	20.6

Year	09/12A	09/13A	09/14E	09/15E	09/16E
Pre-prov Op profit (A$ mn)	10,450.0	10,425.0	10,904.7	11,361.0	11,999.9
Net profit (A$ mn)	5,449	5,958	6,521	6,865	7,307
EPS (CS adj. A$)	2.40	2.52	2.73	2.87	3.05
- Change from prev. EPS (%)	n.a.	n.a.	-	(0.57)	(0.95)
- Consensus EPS (A$)	n.a.	n.a.	2.68	2.83	2.96
EPS growth (%)	(3.7)	5.0	8.6	5.1	6.2
P/E (x)	14.9	14.2	13.0	12.4	11.7
Dividend yield (%)	5.1	5.3	5.8	6.2	6.5
BVPS (CS adj. A$)	16.9	17.9	18.8	19.7	20.6
P/B (x)	2.11	1.99	1.90	1.81	1.73
ROE (%)	14.6	15.0	15.1	15.2	15.4
ROA (%)	0.7	0.7	0.8	0.8	0.8
Tier 1 Ratio (%)	10.3	10.4	10.6	10.5	10.4

Note 1: ORD/ADR=1.00. Note 2: National Australia Bank Limited is a financial services organisation providing products, advice and services through its major Australian franchise and businesses in the United Kingdom, New Zealand, the United States and Asia.

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NAB reported (company defined) cash earnings of A$5,936 mn (up 9% on A$5,433 mn FY12), which were in line with our A$5,963 mn estimate and the A$5,942 mn consensus average. Final DPS of A$0.97 (up 8% on A$0.90 pcp) was A$0.02 better than our estimate and A$0.01 better than the consensus average.

Compositionally, the results were weaker than expected with: (1) higher-than-expected costs (Australian restructuring costs, A$161 mn UK conduct charges) offset by (2) lower-than-expected bad debts (0.33% 2H13 vs 0.44% 1H13, broadly based)/provision bleed/modest overlay releases, (3) relatively low 2H13 effective tax (27.1% vs 27.9% 1H13, Corporate Functions booked a negative bad debt charge), and with (4) A$163 mn of post-tax UK PPI charges taken as a significant item. Divisionally, 2H13 sequential earnings growth was driven by Personal (revenues, bad debts) and UK CRE (bad debts), with a soft Wealth result (insurance). Much of this result though was in line with expectations (including net interest margins, equity Tier 1 ratio, impaired ratios and ROE).

NAB did not issue any directed earnings guidance, although: (1) expects business credit growth to accelerate in 2014 (NAB's forecasts: 1.5% CY13E, 4.8% CY14E); (2) on costs, the FY14E depreciation and amortisation charge is expected to be A$80 mn higher and the elevated 2H13 regulatory spend (A$140 mn vs A$90 mn 1H13 and A$60 mn long term) is expected to continue at the same level into FY14E, but FY14 restructuring costs are also expected to be lower.

Credit Suisse changes to NAB estimates …

As illustrated in the following table, we have made compositional adjustments to our estimates, with a slightly higher dividend payout ratio assumption:

Figure 1: Compositional changes to our earnings estimates
Credit Suisse changes to NAB estimates

	FY14F			FY15F		
	Old	New	Change	Old	New	Change
Business Banking	2,590	2,495	-4%	2,672	2,570	-4%
Personal Banking	1,189	1,380	16%	1,237	1,393	13%
MLC & NAB Wealth	559	656	17%	579	701	21%
UK Banking	114	167	46%	139	186	34%
NZ Banking	682	712	4%	722	731	1%
Wholesale Banking	1,162	1,248	7%	1,129	1,265	12%
Great Western Bank	119	127	7%	135	139	3%
UK CRE	(117)	(200)	71%	(99)	(139)	40%
Other	431	123	-71%	598	207	-65%
Distributions	(205)	(188)	-8%	(205)	(188)	-8%
Cash Earnings	**6,525**	**6,521**	0%	**6,906**	**6,865**	-1%
Average Earning Assets	691,918	698,660	1%	739,373	733,392	-1%
Net Interest Margin	2.01%	2.00%	-0.02%	1.99%	1.96%	-0.03%
Net Interest Income	13,937	13,939	0%	14,694	14,384	-2%
Non-Interest Income	5,391	5,426	1%	5,500	5,645	3%
Total Income	**19,328**	**19,365**	**0%**	**20,195**	**20,028**	**-1%**
Operating Expenses	(8,275)	(8,460)	2%	(8,570)	(8,667)	1%
Underlying Profit	**11,053**	**10,905**	**-1%**	**11,625**	**11,361**	**-2%**
Bad Debt Charge	(1,801)	(1,691)	-6%	(1,872)	(1,680)	-10%
Profit Before Tax	**9,252**	**9,214**	**0%**	**9,753**	**9,681**	**-1%**
Income Tax	(2,516)	(2,495)	-1%	(2,636)	(2,618)	-1%
…Effective Tax Rate	27.2%	27.1%		27.0%	27.0%	
Minorities	(6)	(10)		(6)	(10)	
Distributions	(205)	(188)		(205)	(188)	
Cash Earnings	**6,525**	**6,521**	**0%**	**6,906**	**6,865**	**-1%**
Distributions	205	188		205	188	
Goodwill Amortisation	0	0		0	0	
Significant Items	0	0		0	0	
Treasury Shares	0	0		0	0	
Hedge Ineffectiveness & FV	0	0		0	0	
Reported Profit	**6,730**	**6,709**	**0%**	**7,111**	**7,053**	**-1%**
Average Shares	2,352m	2,350m	0%	2,354m	2,354m	0%
Basic Cash EPS	$2.77	$2.77	0%	$2.93	$2.92	-1%
…Growth	8.5%	8.8%		5.8%	5.1%	
DPS	$2.04	$2.08	2%	$2.17	$2.19	1%
…Payout Ratio	74%	75%		74%	75%	
Cash Earnings	**6,525**	**6,521**	**0%**	**6,906**	**6,865**	**-1%**
IoRE discount rate variation	0	0		0	0	
NAB Cash Earnings	**6,525**	**6,521**	**0%**	**6,906**	**6,865**	**-1%**
NAB Defined Cash EPS	$2.76	$2.77	0%	$2.92	$2.91	0%

Source: Company data, Credit Suisse estimates

(This is an extract from the National Australia Bank report on Global Hotels & Online Travel Agents published on 31 October 2013. Please see R&A for details.)

Woolworths ---Upgrade to NEUTRAL

1Q14 sales are mixed **EPS: ▲ TP: ▲**

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- Woolworths produced a mixed sales result which reflected the various challenges faced by the business. The AF&L result was solid and continues to underpin WOW's outlook for the foreseeable future.
- AF&L produced comparable store sales growth of 2.5% (CS: 3%) and implied volume growth of 7.1%. Implied volume growth has accelerated in each of the past four quarters.
- The effect of repositioning BIG-W was shown in a comparable store sales decline of 3%. WOW is presenting the opportunity in BIG-W and Ezibuy as akin to that successfully executed at Dan Murphy and Cellarmasters; neither BIG-W nor Ezibuy have the same market position as the latter.
- Our target price rises to A$36.30 and rating to NEUTRAL (from Underperform) after valuation adjustments reflecting a more favourable outlook for Australian retailers.

Bbg/RIC	**WOW AU / WOW.AX**	**Price (01 Nov 13 , A$)**			**34.89**
Rating (prev. rating)	**N (U)**	**TP (prev. TP A$)**			**36.30 (31.85)**
Shares outstanding (mn)	1,254.30	Est. pot. % chg. to TP			4
Daily trad vol - 6m avg (mn)	2.6	52-wk range (A$)			36.8 - 28.4
Daily trad val - 6m avg (US$ mn)	92.0	Mkt cap (A$/US$ bn)			43.8/ 41.4
Free float (%)	99.9	**Performance**	**1M**	**3M**	**12M**
Major shareholders		Absolute (%)	(0.1)	3.9	18.9
		Relative (%)	(4.2)	(2.1)	(2.9)

Year	**06/12A**	**06/13A**	**06/14E**	**06/15E**	**06/16E**
Revenue (A$ mn)	54,916	58,674	60,686	63,374	66,134
EBITDA (A$ mn)	4,232	4,619	4,833	5,143	5,416
Net profit (A$ mn)	2,179	2,356	2,493	2,652	2,813
EPS (A$)	1.77	1.90	1.98	2.09	2.21
- Change from prev. EPS (%)	n.a.	n.a.	0.7	0.6	1.0
- Consensus EPS (A$)	n.a.	n.a.	1.97	2.09	2.21
EPS growth (%)	2.9	6.8	4.4	5.7	5.7
P/E (x)	19.7	18.4	17.6	16.7	15.8
Dividend yield (%)	3.6	3.8	3.9	4.2	4.4
EV/EBITDA (x)	11.3	10.3	9.9	9.3	8.8
P/B (x)	5.2	4.8	4.4	4.0	3.7
ROE (%)	27.4	27.0	25.9	25.4	24.8
Net debt(cash)/equity (%)	46.4	38.7	41.9	37.1	32.0

Note1:Woolworths Limited is an Australia-based company. It has six segments: Australian Food and Liquor; New Zealand Supermarkets; Petrol; BIG W; Consumer Electronics Hotels.

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1Q14 total sales up 5.3% on pcp

WOW reported 1Q14 total sales of A$15,464 mn, up 5.3% on the pcp. The aggregate result was in line with forecasts. The AF&L result was solid and continues to underpin WOW's outlook for the foreseeable future. Results from discretionary businesses were poor and WOW is juggling a number of challenges.

AF&L produced comparable store sales growth

AF&L produced comparable store sales growth of 2.5% (CS 3%) and implied volume growth of 7.1%. Implied volume growth has accelerated in each of the last four quarters and is consistent with Woolworths having improved marketing and effectiveness in line with objectives set in 2012 The deflation result was higher than expected (4.3% in 1Q14 compared with 3.5% in 4Q13) and consistent with the deflation result achieved by Coles. It appears that, in both cases, higher deflation resulted from seasonal factors and does not a step change in competitive intensity. Space productivity in AF&L supermarkets has remained essentially flat. Gross margin is probably improving a little due to mix and efficiency, resulting in a flat EBIT margin outlook. Liquor appears to be performing better than food.

BIG-W repositioning spurs 3% comparable store sales fall

The effect of repositioning BIG-W was shown in a comparable store sales decline of 3%; WOW indicates that this is essentially the result of a planned reduction in sales of electronics products. WOW is positioning the opportunity in BIG-W and Ezibuy as akin to that successfully executed at Dan Murphy and Cellarmasters; neither BIG-W nor Ezibuy have the same market position as the latter and the challenge is greater. FY14 earnings for Ezibuy will be reported within the BIG-W segment and therefore underlying performance is going to be difficult to judge. WOW paid A$350 mn for Ezibuy and expectations for EBIT contribution are likely to centre at around A$35 mn.

Masters' sales result in line

The Masters' sales result was in line with forecasts (sales revenue of $182mn compared with forecast of A$176 mn). Stores appear to be annualising with revenue of around A$22 mn. Accounts lodged with ASIC for Hydrox suggest gross margin is in the low to mid 30% range for Masters. Branch costs and administration costs are higher than expected, although potentially justified by the fast store opening program. If the current cost structure and gross margin is reflective of the long-term position, then Masters stores will need to generate circa A$3 0mn in sales revenue for breakeven. Risks associated with the Masters development currently centre on a relatively benign outcome in which the cost of entry (reflected in accumulated losses) is higher than originally anticipated and the business eventually turns a profit.

Target price raise to A$36.30; rating upgraded to a Neutral

We have a DCF valuation of A$36.30 per share. Our DCF is most sensitive to cost of capital assumptions for which a 1pp change alters our DCF by A$3.25 per share. We have reduced the discount rate in our WACC by 50bps to reflect a more optimistic outlook for Australian retailers. Our target price is the average of our DCF and SOP valuations and moves to A$36.30. Our rating is upgraded to a NEUTRAL (from Underperform) after valuation adjustments reflecting a more favourable outlook for Australian retailers.

China

China and Hong Kong Economics

We think the Guangdong-Hong Kong-Macau Free Trade Zone will be launched before the year end

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- We believe China's central government has approved on principle the establishment of the Guangdong-Hong Kong-Macau Free Trade Zone (GHMFTZ), as the *21st Century Business Herald* originally reported. If true, this would be another significant policy initiative pushed by Beijing in jump-starting China's structural reform.
- Compared to the Shanghai Free Trade Zone, GHMFTZ is expectged to be much larger and more geographically dispersed across different cities within the Pearl River Delta (PRD) region. On the similarities, we think the GHMFTZ will focus on the transformation of government administrative function and financial liberalisation.
- We believe the GHMFTZ will present both challenges and opportunities to Hong Kong. Finance, retails, logistics, aviation, health care, education and recreation industries in the GHMFTZ can emerge and compete with Hong Kong in the future.
- But that said, we think the competitive edge of Hong Kong is not likely to be as easily replicated. To have GHMFTZ completely mimic Hong Kong, especially on the intangibles, would take time and may not be easy.

Figure 1: The Guangdong-Hong Kong-Macau Free Trade Zone

Components	Size (sq km)	Feature
Shenzhen Qianhai	15	Frontier for financial liberalization
Guangzhou Nanshan new district	803	Hub for merchandise trade
Guangzhou Baiyun airport zone	439	Centre for logistic and settlement
Zhuhai Hengqin new districit	106	Coordination zone with Macau

Source: 21st Century Business Herald, Credit Suisse

Another Free Trade Zone is born

According to the *21st Century Business Herald*, China's central government has approved on principle the establishment of the Guangdong-Hong Kong-Macau Free Trade Zone (GHMFTZ), with further details to be announced before the year-end. Although the newspaper has subsequently claimed that the news is a mis-report, we think otherwise and believe that the zone has indeed received its approval from Beijing already. In our view, the establishment of the GHMFTZ is another significant policy initiative pushed by the central government in jump-starting the structural reform process in China. The zone is expected to include four main areas—namely Qianhai in Shenzhen (next to Hong Kong), the Nansha new district in Guangzhou, the Baiyun Airport Zone in Guangzhou, and the Hengqin new district in Zhuhai (next to Macau). We believe the speedy approval of the GHMFTZ would be a surprise to the market, as the original plan was to let the Shanghai Free Trade Zone (SFTZ) operate for three years before allowing other cities to follow suit. The swift approval of GHMFTZ's would be a reflection of the strong confidence and determination Beijing has in pushing through the reform process, in our view.

Different tunes, same goal

There will be several differences and similarities between the GHMFTZ and the SFTZ, in our view. On the differences, GHMFTZ is much larger at 1,300 square kilometre in aggregate, and it is more dispersed geographically across various different cities within the Pearl River Delta (PRD) region. This is different from SFTZ, whose geographic locations are all within Shanghai and at only 29 square kilometres in aggregate. The concept of fostering stronger regional cooperation, which fits with the existing strategic goal of the PRD, is the prime reason why we think Beijing has granted the approval to GHMFTZ ahead of all other competing cities. Moreover, Guangdong has always been the frontier of China's economic reform, and this has given the confidence to Beijing that it can take up the role as another frontier for China's structural reform.

On the similarities, we think the GHMFTZ will focus on the transformation of government administrative function and financial liberalisation. We expect the government to transform its management on businesses from an ex-ante approval process to and ex-post regulation process. The requirements on investors' qualification would be significantly reduced, while the rules for investment and trades would be formulated closer to international standard. On financial liberalisation, we expect to see Qianhai to become the frontier, driving the future experiments on capital account liberalisation, interest rate liberalisation and other RMB internationalisation measures. The Nansha new district shall become the hub for merchandise trade, the Baiyun airport zone as the hub for logistic and settlement, while the Hengqin new district will coordinate with the development of Macau.

What does it mean for Hong Kong?

We believe the GHMFTZ shall present both challenges and opportunities to Hong Kong. If the zone can be developed as planned, it may equalise the advantages Hong Kong now has on low tax rate, free capital flow, an internationally accepted legal system, and an advanced logistic infrastructure. The industries that can emerge in GHMFTZ and compete with Hong Kong in the future may include finance, retails, logistics, aviation, health care, education and recreation.

But that said, we think the competitive edge of Hong Kong is not likely to be as easily replicated. From a historical perspective, Hong Kong could be seen as the first FTZ established in the PRD over a century ago, which operates under a totally different set of rules, regulations and culture from the Mainland that have led to its success today. To have GHMFTZ completely mimic Hong Kong, especially on the intangibles, would take time and may not be easy. Moreover, a greater development of the PRD may not necessarily be negative for the businesses, labour and economy of Hong Kong. Hong Kong now possesses the know-how of advanced service industries in finance, logistics, legal, health care, education, etc. The businesses and professionals in Hong Kong would be welcome to invest and participate in the development of GHMFTZ, and a more prosperous PRD shall mean more opportunities for off-shore RMB businesses, tourist visits, aviation flows and medical and educational exports for Hong Kong. Looking forward, we expect to see Hong Kong to be increasingly integrated into the rise of a metropolitan hub in the PRD, with its economy continuing to grow and transform within the hub.

China Economics

China to accelerate the development of housing assurance system and the housing supply system, says Xi

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- Xi pointed out that accelerating the development of housing assurance system and housing supply system is necessary to meet the public housing demand, and essential for promoting social equality and ensuring that the public share the dividends of China's development. Xi made the above remark in a Politburo study session on 29 October.
- Xi emphasised that only staying along the market-based reform path can help activate the market potential and meet the multi-dimensional housing demand. And the government must fill the gap to provide housing assurance to the peiple with housing difficulties.
- China should enhance the top-down design and establish a systematic and stable housing supply system to increase the housing supply, according to Xi. Meanwhile, he pointed out that, the coverage of indemnificatory housing to reach 20% by 2015 is a promise from the government and the goal must be achieved.
- In our view, the two key takeawys from Xi's remark on the housing sector are: (1) a market-based solution to the housing sector, while the government provides the bottom-line assurance; and (2) focus on solutions from the supply side.

The Politburo hosted a study session on the development of housing assurance system and the housing supply system on 29 October. General secretary Xi Jinping chaired the session. Xi pointed out that accelerating the development of housing assurance system and housing supply system is necessary to meet the public housing demand, and essential for promoting social equality and ensuring that the public share the dividends from China's development.

Xi pointed out that acceleration of the development of housing assurance system and housing supply system has to deal with four key areas of focus. (1) The relationship between the government's supply of public services and a market-based system. (2) The relationship between the economic and social functions of housing sector development. (3) The relationship between demand and possibility. (4) The relationship between housing security and social welfare trap.

Xi emphasised that only staying along the market-based reform path can help activate the market potential and meet the multi-dimensional housing demand. Xi also emphasised that the government must fill the gap to provide housing assurance to the people with housing difficulties. Xi also said that China should enhance the top-down design and establish a systematic and stable housing supply system to increase the housing supply. Meanwhile, he pointed out that, the coverage of indemnificatory housing to reach 20% by 2015 is a promise from the government and the goal must be achieved.

In our view, the two key emphasis in Xi's remark are: (1) a market-based solution to the housing sector, while the government provides the bottom-line assurance; and (2) focus on solutions from the supply side.

China Economics

NBS PMI rose to 18-month high in October

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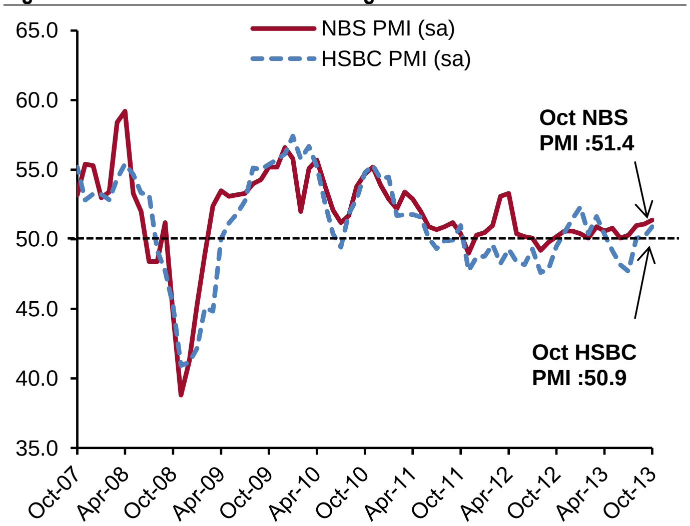
- Official PMI released by the NBS rose 0.3 pp to 51.4 in Oct, vs the Bloomberg consensus of 51.2. The output index rose the most among the key sub-indices, by 1.5 pp to 54.4. This probably reflects that there are new demands to support the sequential improvement in output.
- This upbeat headline official PMI supports our view that steady growth can be sustained in the range between 7.5% and 8.0%. On the ground, we have reported that some new infrastructure projects have started. Housing sector activities are robust.
- We do wish to point out that the stabilisation in the economy is still largely relying on infrastructure investment and housing market. The generic investment from the private sector still seems to be missing. Structural reforms are keys to re-engage private investment and to push the economy back on the right track.
- We have high hopes that Xi will deliver an ambitious reform guideline. To push from a reform architecture to detailed policy design and execution, the ball will need to be moved to the bureaucrats' court. The success of the ambitious reform package would depend on details and execution, in our view.

Figure 1: NBS PMI rose to 18-month high



Source: NBS, Markit Economics, Credit Suisse research

Official PMI released by the NBS increased by 0.3 pp to 51.4 in October, stronger than the Bloomberg consensus of 51.2. The output index increased the most among the key sub-indices, by 1.5 pp to 54.4.This probably reflects that there are new demands to support the sequential improvement in output. The new orders index moderated slightly, by 0.3 pp, to 52.5; new export orders were down 0.3 pp to 50.4. Despite the marginal moderations, both of these indices remained above the 50-benchmark to indicate the sequential expansions. The imports index declined 0.4 pp to stand just at 50.

The stock of major inputs index went up by 0.1 pp to 48.6. Meanwhile, the input prices index declined 1.2 pp to 53.3 from a relatively high base of 54.5 recorded in the previous month. The employment index improved marginally, by 0.1 pp, to 49.2.

This upbeat headline official PMI supports our view that steady growth can be sustained in the range between 7.5% and 8.0%. On the ground, we have reported that some new infrastructure projects have started. Housing sector activities are robust. But the details of this set of data show that the headline was largely pulled up by the large increase in the output index. The new orders index shows a marginal moderation. This is consistent with our view that while the economy is stabilising, this is not a very strong rebound. Given the high base set by robust activities in the previous months since the summer, sequential growth momentum probably may mechanically soften in the coming months.

However, we do wish to point out that the stabilisation in the economy is still largely relying on infrastructure investment and housing market. The generic investment from the private sector still seems to be missing. Structural reforms are key, in our view, in order to re-engage private investment and to push the economy back on the right track. The new leadership led by President Xi Jinping is likely to use the party's third plenary session (9 and 12 November) to unveil the reforms' architecture and jump-start the reform efforts that have lost momentum over the past decade. We have high hopes that Xi will deliver an ambitious reform guideline. To push from a reform architecture to detailed policy design and execution, the ball will need to be moved to the bureaucrats' court. The success of the ambitious reform package would depend on details and execution, in our view. Vested interest groups will likely attempt to influence the process as well. We think funding these initiatives may likely be more challenging than the leaders currently believe.

Figure 2: Summary of NBS PMI

	PMI	New orders	Output	Employment	Stocks of major inputs	New export orders	Input prices	Imports
Aug-13	51.0	52.4	52.6	49.3	48.0	50.2	53.2	50.0
Sep-13	51.1	52.8	52.9	49.1	48.5	50.7	54.5	50.4
Oct-13	**51.4**	**52.5**	**54.4**	**49.2**	**48.6**	**50.4**	**53.3**	**50.0**
Change	**0.3**	**-0.3**	**1.5**	**0.1**	**0.1**	**-0.3**	**-1.2**	**-0.4**

Source: NBS, Credit Suisse research

Agile Property --Maintain NEUTRAL

Notes from the CIC: Contracted sales for 4Q13E and 2014E

EPS: ◄► TP: ◄►

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- Agile attended Credit Suisse's China Investment Conference this week. Management remains confident of achieving its Rmb42 bn FY13 contracted sales target, even after delaying several new project launches. However, it expects monthly contracted sales in October, November and December to be around Rmb4 bn, Rmb5.5 bn and Rmb7 bn, respectively.
- With aggressive landbanking so far this year, Agile expects its FY14 contracted sales to be more than Rmb50 bn (20%-plus growth YoY). It may also raise more debt for re-financing existing loans and more land banking.
- Talking about inventory, Agile acknowledged that some of its high-end projects still have very high unsold inventory.
- Although Agile's 9M13 contracted sales ASP increased 23% YoY, management expects 2014E margins to stay largely flat YoY, after the significant margin decline in 2013. It said this should be due to factors such as higher land cost. With no strong near-term catalyst and risks on inventory/asset turnover, we stay NEUTRAL on Agile.

Bbg/RIC	3383 HK / 3383.HK	Price (31 Oct 13, HK$)			9.35
Rating (prev. rating)	N (N)	TP (prev. TP HK$)			9.50 (9.50)
Shares outstanding (mn)	3,447.35	Est. pot. % chg. to TP			2
Daily trad vol - 6m avg (mn)	8.4	52-wk range (HK$)			12.68 - 7.31
Daily trad val - 6m avg (US$ mn)	9.4	Mkt cap (HK$/US$ mn)			32,232.7/ 4,157.7
Free float (%)	36.4	Performance	1M	3M	12M
Major shareholders	Chen Zhuo Lin (63.6%)	Absolute (%)	8.8	10.5	4.6
		Relative (%)	6.8	1.9	(0.2)

Year	12/11A	12/12A	12/13E	12/14E	12/15E
Revenue (Rmb mn)	22,945	30,074	33,995	37,074	39,369
EBITDA (Rmb mn)	10,585	10,283	9,915	10,552	10,845
Net profit (Rmb mn)	4,035	4,868	5,135	5,646	5,821
EPS (Rmb)	1.12	1.33	1.30	1.44	1.49
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (Rmb)	n.a.	n.a.	1.36	1.52	1.72
EPS growth (%)	9.2	18.8	(2.0)	10.7	3.3
P/E (x)	6.6	5.5	5.7	5.1	4.9
Dividend yield (%)	3.6	4.2	4.3	4.7	4.9
EV/EBITDA (x)	3.8	4.2	4.7	4.6	4.8
P/B (x)	1.2	1.1	1.0	0.8	0.7
ROE (%)	20.0	20.6	18.6	17.7	16.0
Net debt(cash)/equity (%)	61.9	64.0	65.2	64.3	63.1

Note 1: ORD/ADR=50.00. Note 2: Agile Property Holdings Limited is an investment holding company. The Company, along with its subsidiaries, is engaged in property development, property management, property investment and hotels operations.

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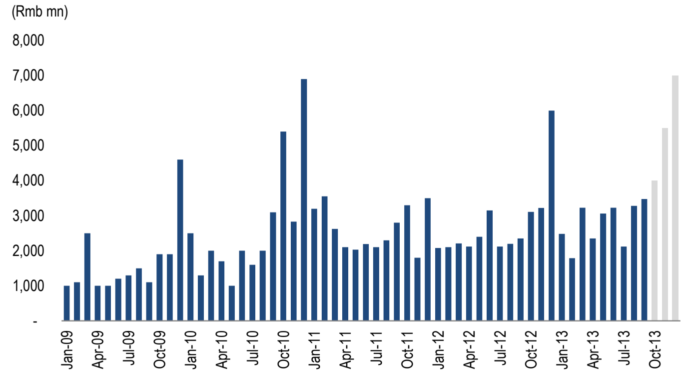
Agile attended Credit Suisse's China Investment Conference this week. Management remains confident of achieving its Rmb42 bn FY13 contracted sales target, even after delaying several new project launches. However, it expects monthly contracted sales in October, November and December to be around Rmb4 bn, Rmb5.5 bn and Rmb7 bn, respectively. We don't believe that around Rmb4 bn in contracted sales in October will be exciting enough (contracted sales in September were Rmb3.5 bn), and the big hopes on December sales increases near-term uncertainties—especially since the year-end mortgage tightening could delay the recognition of contracted sales.

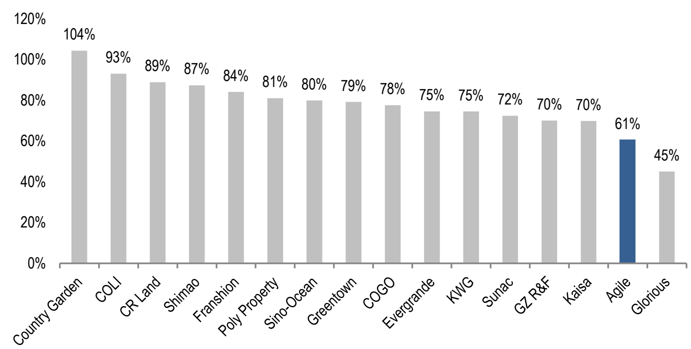
Nevertheless, with aggressive land banking so far this year, Agile expects its FY14 contracted sales to be more than Rmb50 bn (20%-plus growth YoY). It may also raise more debt for re-financing existing loans and more land banking.

Figure 1: Agile monthly contracted sales trend



Source: Company data, Company estimates

Figure 2: Developers' % of FY contracted sales target achieved YTD



Source: Company data

A key event to watch is Agile's key tourism property project launch in Tengchong, Yunnan province, at the end of November. Agile plans to eventually increase the size of this project to be even bigger than Hainan Clearwater Bay. Therefore, the first-phase of launch, if successful, could be a slightly positive catalyst for Agile—although the key risk is the sales speed (and inventory level) in the following years.

Talking about inventory, Agile acknowledged that some of its high-end projects still have very high unsold inventory. It cut the prices for some selected units in such projects (especially in Chengdu and Huizhou) by up to 15% during the October Golden Week holiday. As a result, sales picked up somewhat in Chengdu, but the Huizhou project's sales did not improve.

China Vanke Co Ltd-A -- Maintain OUTPERFORM

Buying a bank? A major risk but small near-term impact **EPS: ◄► TP: ◄►**

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- The most asked question during China Vanke's post-3Q non-deal roadshow that Credit Suisse organised was on its decision to spend up to HK$3.5 bn (US$430 mn) to become the biggest shareholder of Huishang Bank with an 8% stake.
- Since 24 Oct, Vanke B's share has already dropped 10%. With Vanke's promise that it is not buying more banks, we think the negative impact to the firm should be limited in the near term.
- According to Vanke, this purchase is part of its plan to become a value-added service provider in its property projects in order to outperform peers in housing sales—it currently already runs canteens, storage services etc., and plans to do decoration and potentially micro-financing in the future. In less than five years, more than 3 mn people will live in its property projects, forming a large enough user base for these services.
- With the obvious risks for a property developer to become a financial service provider, our view on Vanke will depend on its future actions beyond this relatively small investment.

Bbg/RIC	**000002 CH / 000002.SZ**	**Price (31 Oct 13 , Rmb)**			**9.21**
Rating (prev. rating)	**O (O)**	**TP (prev. TP Rmb)**			**14.30 (14.30)**
Shares outstanding (mn)	9,680.25	Est. pot. % chg. to TP			55
Daily trad vol - 6m avg (mn)	95.1	52-wk range (Rmb)			12.67 - 8.18
Daily trad val - 6m avg (US$ mn)	156.8	Mkt cap (Rmb/US$ bn)			89.2/ 14.6
Free float (%)	83.3	**Performance**	**1M**	**3M**	**12M**
Major shareholders	China Resources (16.7%)	Absolute (%)	0.9	(7.7)	10.7
		Relative (%)	(1.6)	(16.3)	4.7

Year	12/11A	12/12A	12/13E	12/14E	12/15E
Revenue (Rmb mn)	71,783	103,116	117,074	127,050	136,659
EBITDA (Rmb mn)	15,641	20,942	24,733	28,176	31,005
Net profit (Rmb mn)	9,675	12,621	14,622	15,966	16,511
EPS (Rmb)	0.88	1.15	1.33	1.45	1.50
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (Rmb)	n.a.	n.a.	1.42	1.73	2.03
EPS growth (%)	40.5	30.4	15.9	9.2	3.4
P/E (x)	10.5	8.0	6.9	6.3	6.1
Dividend yield (%)	1.4	2.0	2.2	2.4	2.4
EV/EBITDA (x)	6.7	5.2	4.5	4.0	3.8
P/B (x)	1.9	1.6	1.3	1.1	1.0
ROE (%)	19.9	21.6	20.9	19.2	16.9
Net debt(cash)/equity (%)	23.8	23.5	21.8	20.6	20.3

Note 1: ORD/ADR=20.00. Note 2: China Vanke, together with its subsidiaries, engages in property development primarily commodity housing in the People's Republic of China, involves in property management, construction research, investment trading and consultancy activities.

Click here for detailed financials

Vanke will still focus on housing: not turning into a conglomerate

The most asked question during China Vanke's post-3Q non-deal roadshow that Credit Suisse organised on 31 October was about its announcement that it has become the cornerstone investor of Huishang Bank's IPO (3698.HK, trading should start on 12 Nov). Vanke may spend up to HK$3.5 bn (US$450 mn) to become the biggest shareholder of Huishang Bank with its subscription of 32% stake in the H share (more than 8% of the bank's total shares). Since 24 Oct, Vanke B share already dropped 10%.

With Vanke's promise that it is not buying more banks, we think the negative impact to Vanke should be limited (Vanke A share price was up on the news, showing domestic investors' views are very different from international investors'.)

Figure 1: List of cornerstone investors for Huishang Bank

	Number of shares (mn)	% of H share (%)	Shares value (HK$ mn)
Vanke Property (HK) Company Limited	884	32.14%	3,249
Chow Tai Fook Nominee Limited	58	2.10%	212
Jiangsu Huijin Holdings Group Company Limited	137	4.99%	504
Genertec Hong Kong International Capital Ltd	67	2.44%	246
Peaceland Limited	124	4.50%	455
Kan Hung Chih	22	0.81%	82
Non-cornerstone shareholders	1,458	53.02%	5,358
Total H shares	2,750		

Note: We assume IPO price is in the middle of the share price range of HK$3.47-3.88.
Source: Huishang Bank prospectus

So why did Vanke buy the bank?

According to Vanke's management, this is part of its plan to become an integrated service provider in its property projects (which it self-manages). It currently already run canteens and storage services in some projects, with positive feedback so far. It plans to do decoration / fitting services etc., and even potentially micro-financing in the future (although no fixed plan yet).

The investment in Huishang Bank is a touchstone for Vanke to test the feasibility of providing the service—and Vanke may also acquire a third-party payment service licence. Vanke believes its knowledge of the customers (who live in its projects) should help better manage credit risks (similar to e-commerce sites' claim when they started offering financing). And it hopes to use all these value-added services in the "Vanke Community" to further differentiate its housing products, giving it an edge amid intensifying competition among leading developers in China's housing markets. According to Vanke, in less than five years, more than 3 mn people will live in its property projects, forming a large enough user base for these services.

Secondly, Vanke will not borrow directly from Huishang Bank, but expects Huishang Bank to provide mortgage loans to its customers, and lend to its suppliers (construction companies, raw material provides, etc.).

We are not sure about this "synergy" of lending to home buyers and suppliers, and there are obvious risks for a property developer to become a financial service provider. However, we are also concerned that the current level and the current form of housing demand in China may not be sustainable in the long term. Therefore, Vanke is testing new concepts at a relatively small cost—similar to its JV projects outside China, to some extent.

Some impact to earnings visibility

We expect Vanke to record this investment as "securities available for sale" on its balance-sheet, with its value marked to market every quarter—this should increase the volatility of its quarterly earnings.

China Vanke Co Ltd-B -- Maintain OUTPERFORM

Buying a bank? A major risk but small near-term impact **EPS: ◄► TP: ◄►**

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Duo Chen / Research Analyst / 852 2101 7350 / duo.chen@credit-suisse.com

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- Since 24 Oct, Vanke B share already dropped 10%. With Vanke's promise that it is not buying more banks, we think the negative impact to Vanke should be limited in the near term.
- According to Vanke, this purchase is part of its plan to become an value-added service provider in Vanke's property projects in order to outperform peers in housing sales—it currently already runs canteens, storage services, etc., and plans to do decoration, and potentially micro-financing in the future. In less than five years, more than 3 mn people will live in its property projects, forming a large enough user base for these services.
- With the obvious risks for a property developer to become a financial service provider, our view on Vanke will depend on its future actions beyond this relatively small investment.

Bbg/RIC	200002 CH / 200002.SZ	Price (31 Oct 13 , HK$)			13.13
Rating (prev. rating)	O (O)	TP (prev. TP HK$)			17.80 (17.80)
Shares outstanding (mn)	1,314.96	Est. pot. % chg. to TP			36
Daily trad vol - 6m avg (mn)	1.8	52-wk range (HK$)			17.0 - 10.4
Daily trad val - 6m avg (US$ mn)	3.4	Mkt cap (HK$/US$ mn)			17,265.4/ 2,227.1
Free float (%)	83.3	**Performance**	**1M**	**3M**	**12M**
Major shareholders	China Resources	Absolute (%)	(7.5)	(7.2)	24.1
	(16.7%)	Relative (%)	(9.5)	(15.8)	19.3

Year	12/11A	12/12A	12/13E	12/14E	12/15E
Revenue (Rmb mn)	67,709	96,860	113,033	122,601	131,824
EBITDA (Rmb mn)	19,236	25,504	30,971	34,315	37,837
Net profit (Rmb mn)	9,625	12,551	15,958	17,394	18,804
EPS (Rmb)	0.88	1.14	1.45	1.58	1.71
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (Rmb)	n.a.	n.a.	1.42	1.73	2.03
EPS growth (%)	32.2	30.4	27.1	9.0	8.1
P/E (x)	11.8	9.0	7.1	6.5	6.0
Dividend yield (%)	1.3	0	0	0	0
EV/EBITDA (x)	1.5	1.3	1.1	1.1	1.1
P/B (x)	2.1	1.8	1.5	1.2	1.0
ROE (%)	19.8	21.5	22.6	20.5	18.8
Net debt(cash)/equity (%)	23.8	23.5	21.6	20.5	20.3

Note 1: ORD/ADR=20.00. Note 2: China Vanke Co., Ltd. is principally engaged in property business. The Company develops residential communities, and provides property management services.

Click here for detailed financials

Vanke will still focus on housing, not turning into a conglomerate

The most asked question during China Vanke's post-3Q non-deal roadshow that Credit Suisse organised on 31 October was about its announcement that it has become the cornerstone investor of Huishang Bank's IPO (3698.HK, trading should start on 12 Nov). Vanke may spend up to HK$3.5 bn (US$450 mn) to become the biggest shareholder of Huishang Bank with its subscription of 32% stake in the H share (more than 8% of the bank's total shares). Since 24 Oct, Vanke B share already dropped 10%.

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We are not sure about this "synergy" of lending to home buyers and suppliers, and there are obvious risks for a property developer to become a financial service provider. However, we are also concerned that the current level and the current form of housing demand in China may not be sustainable in the long term. Therefore, Vanke is testing new concepts at relatively small cost—similar to its JV projects outside China, to some extent.

Some impact to earnings visibility

We expect Vanke to record this investment as "securities available for sale" on its balance sheet, with its value mark to market every quarter —this should increase the volatility of Vanke's quarterly earnings.

Hong Kong

ASM Pacific Tech.-- Downgrade to UNDERPERFORM

Business to contract on industry downcycle

EPS: ▼ TP: ▼

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- ASM saw net profit rise 9% YoY to HK$273 mn in 3Q13, or down 30% YoY to HK$511 mn in 9M13 (48% of the full-year consensus estimates). Its B:B ratio for 3Q13 was 0.92 with order backlog as of end-September falling 9% QoQ, pointing to a declining 4Q13.
- The industry B:B ratio dropped below the unity to 0.88 in August and 0.68 in September, with industry bookings sliding 15% QoQ in 3Q13, declaring the commencement of an industry downturn. We expect ASM's backend equipment business to fall QoQ in 4Q13, in tandem with the industry in the current downcycle.
- ASM has exhibited increasing margin pressure in the last three industry cycles after its record profit in 2010. We believe its shares deserve a long-term valuation de-rating on the persistent market over-optimism of its sustainable profitability.
- In view of the industry downturn, we reduce our 2013-15 forecasts by 22-49%. We set our target price at HK$55.2 (from HK$75.5), based on a downcycle valuation of 3x 2104E P/B. We downgrade our rating for ASM to UNDERPERFORM from Neutral.

Bbg/RIC	**522 HK / 0522.HK**	**Price (01 Nov 13, HK$)**	**74.65**
Rating (prev. rating)	**U (N)**	**TP (prev. TP HK$)**	**55.20 (75.50)**
Shares outstanding (mn)	399.24	Est. pot. % chg. to TP	(26)
Daily trad vol - 6m avg (mn)	0.6	52-wk range (HK$)	104.6 - 73.4
Daily trad val - 6m avg (US$ mn)	7.0	Mkt cap (HK$/US$ mn)	29,803.6/ 3,844.7
Free float (%)	59.9		
Major shareholders	ASM International (40.1%)		

Performance	**1M**	**3M**	**12M**
Absolute (%)	(8.1)	(10.9)	(12.8)
Relative (%)	(8.3)	(15.7)	(18.0)

Year	**12/11A**	**12/12A**	**12/13E**	**12/14E**	**12/15E**
Revenue (HK$ mn)	12,915	10,461	11,034	11,052	11,787
EBITDA (HK$ mn)	3,620	1,254	1,367	1,355	1,572
Net profit (HK$ mn)	2,932	689	733	688	823
EPS (HK$)	7.40	1.73	1.84	1.72	2.06
- Change from prev. EPS (%)	n.a.	n.a.	(22)	(49)	(28)
- Consensus EPS (HK$)	n.a.	n.a.	2.45	4.53	5.19
EPS growth (%)	2.7	(76.6)	6.0	(6.2)	19.7
P/E (x)	10.1	43.1	40.7	43.3	36.2
Dividend yield (%)	3.2	1.2	1.3	1.2	1.6
EV/EBITDA (x)	8.0	23.5	21.0	21.0	17.9
P/B (x)	4.7	4.5	4.2	4.1	3.8
ROE (%)	51.4	10.7	10.8	9.6	10.9
Net debt (cash)/equity (%)	(15.5)	(5.2)	(15.7)	(19.0)	(21.3)

Note 1: ORD/ADR=3.00. Note 2: ASM Pacific Technology Limited (ASM) is an investment holding company. Through its subsidiaries, the company is engaged in the design, manufacture and marketing of machines, tools and materials used in the semiconductor industry.

Click here for detailed financials

Lower bookings pointing to a declining 4Q13

ASM saw net profit increase 9% YoY to HK$273 mn in 3Q13 on the cyclical recovery of the backend equipment industry. Its net profit declined 30% YoY to HK$511 mn in 9M13 (48% of the full-year consensus estimates). Despite the 24% increase in revenue, SMT equipment segment margin stayed flat at 6.5% this quarter. ASM's B:B ratio for 3Q13 was 0.92 with order backlog as of end-September decreasing 9% QoQ to US$318 mn, pointing to a declining 4Q13. ASM is working to resolve the worker strike due to the compensation negotiation arising from its plant relocation from Shenzhen to Huizhou and Longgang. It has not yet come up with the total estimated costs incurred by the relocation and negotiation with the workers.

Figure 1: ASM's estimated quarterly earnings

(HK$ mn)	1Q	2Q	3Q	4Q	Full year
2012 earnings	174	310	250	(44)	689
QoQ change	37%	79%	(20%)	n.a.	
2013E earnings	8	238	273	221	733
QoQ change	n.a.	2,796%	19%	(19%)	

Source: Company data, Credit Suisse estimates

Figure 2: ASM's sees sequential earnings improvement in 3Q13

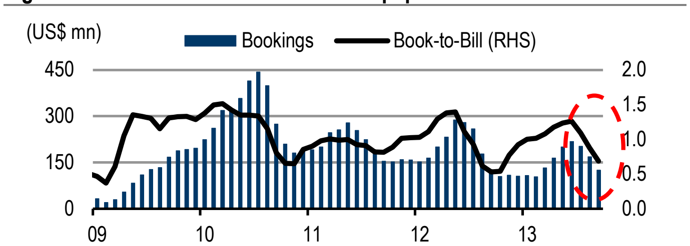
YE Dec (HK$ mn)	3Q13	3Q12	YoY % chg	2Q13	QoQ % chg
Turnover	3,102	3,035	2.2	2,850	8.8
Backend equipment	1,522	1,541	(1.3)	1,492	2.0
SMT equipment	1,092	993	10.0	881	24.0
Leadframe	488	502	(2.7)	478	2.2
Gross profit	985	929	6.1	899	9.6
Op profit	333	314	6.0	315	5.9
Net profit	273	250	9.5	230	18.6
Gross margin (%)	31.8	30.6	1.2 pp	31.6	0.2 pp
Op margin (%)	10.7	10.4	0.4 pp	11.0	-0.3 pp
Net margin (%)	8.8	8.2	0.6 pp	8.1	0.7 pp

Source: Company data, Credit Suisse estimates

Backend equipment industry downcycle has just begun

The backend equipment industry's B:B ratio peaked at 1.26 in June 2013 after the nine-month improvement from the trough of 0.53 in September 2012. The B:B ratio then dropped below the unity to 0.88 in August and 0.68 in September, with industry bookings sliding 15% QoQ in 3Q13, declaring the commencement of an industry downturn. With a weakened B:B ratio and order backlog at end-3Q13, we expect ASM's backend equipment business to fall QoQ in 4Q13, in tandem with the industry in the current downcycle. As the SMT equipment lags the backend equipment cycle by about a quarter, its divisional revenue should peak in 4Q13. We believe the current backend equipment downcycle will take about two to three quarters to complete with the trough in 2Q14 on normal cyclicality.

Figure 3: US semiconductor back-end equipment market



Source: SEMI, Credit Suisse estimates

Short-term weakness, long-term de-rating

In view of the industry downturn, we reduce our 2013-15 forecasts by 22-49%. We set our target price at HK$55.2 (from HK$75.5), based on a downcycle valuation of 3x 2104E P/B (32x 2014E P/E). We downgrade our rating for ASM to UNDERPERFORM from Neutral. ASM has exhibited increasing margin pressure in the last three industry cycles after its record profit in 2010, caused by the intensifying competition and rising costs. We believe its shares deserve a long-term valuation de-rating on the persistent market over-optimism of its sustainable profitability.

India

India Banks Sector

New report: 2Q14 bank results—Pre-provision profitability continues to compress

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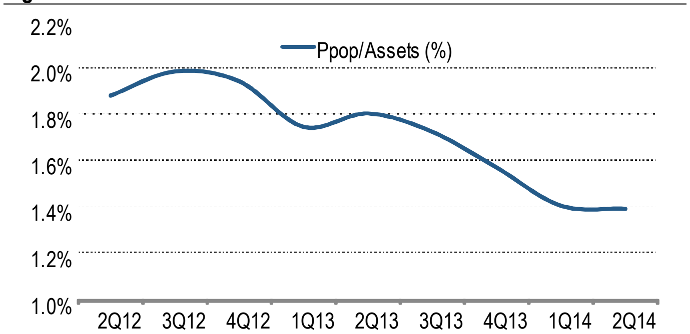
- Pre-provision profitability weakened further in the quarter due to compression in NIMs (~10 bp QoQ) and rises in cost-income ratios on wage-related provisions. Loan growth picked up sharply with SME being one of the fastest growing segments across the banks.
- NPL slippage has remained elevated at 2-3% for the banks. Union Bank witnessed a further pick-up in problem asset additions on high NPL slippages (~2.5%), while the restructuring pipeline remains large at ~Rs40 bn. BOI witnessed sequential improvement in net additions on higher recoveries after the sale of NPLs to ARCs of ~Rs3.5 bn. Under-provisioning rose further with unprovided problem loans at 87-100% of net worth for the banks.
- We expect Union Bank to underperform; prefer BOB: Union Bank reported a weak operating performance with asset quality deteriorating further. In addition, growth continues to remain high in the problem segments of textiles, CRE and gems and jewellery.
- Furthermore, given the large capital requirements, significant equity dilution also remains an overhang. We prefer BOB on a relative basis given its higher capital comfort. Click here for full report.

Figure 1: PPoP ROA* for PSU banks has come down to 1.4% from ~2%



Source: Company data, Credit Suisse estimates

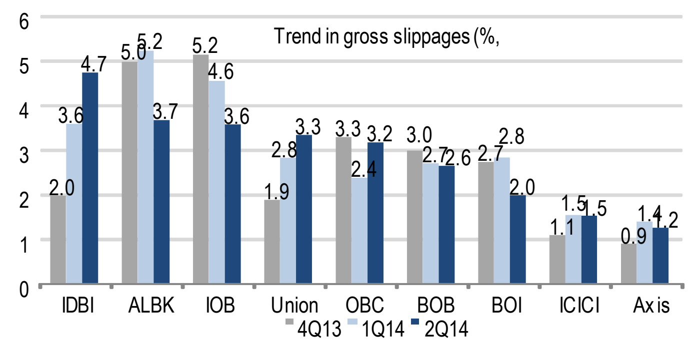
Pre-provision profitability continued to compress

Pre-provision profitability weakened further in the quarter due to compression in NIMs and rises in cost-income ratios on wage-related provisions. NIMs for the PSU banks continued to fall even in 2Q14 (down ~10 bp QoQ) due to pressure on international margins. Domestic margins held relatively stable as a decline in spreads was offset by an increase in domestic LDR. Loan growth picked up sharply with SME being one of the fastest growing segments across the banks.

Asset-quality stress remains high

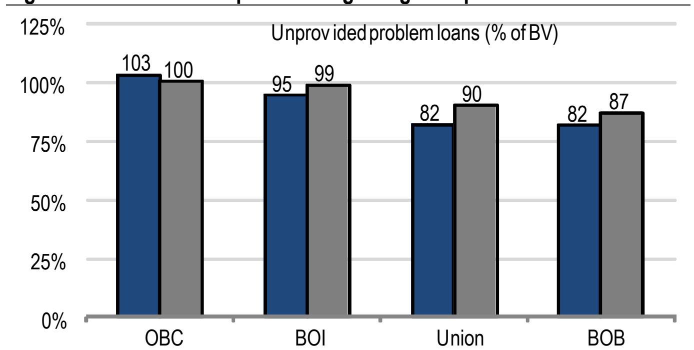
NPL slippage has remained elevated at 2-3% for the banks. Union Bank witnessed a further pick-up in problem asset additions on high NPL slippages (~2.5%), while the restructuring pipeline remains large at ~Rs40 bn. BOI witnessed sequential improvement in net additions on higher recoveries after the sale of NPLs to ARCs of ~Rs3.5 bn. Under-provisioning rose further with unprovided problem loans as a percentage of BV at 87-100% of net worth for the PSU banks.

Figure 2: Problem asset additions remain elevated …



Source: Company data, Credit Suisse estimates

Figure 3: … while under-provisioning has gone up



Source: Company data, Credit Suisse estimates

We expect Union Bank to underperform; prefer BOB.

Union Bank reported a weak operating performance with asset quality deteriorating further. In addition, growth continues to remain high in the problem segments of textiles, CRE and gems and jewellery. Pressure on pre-provision profitability is becoming reflected in bottom lines with ROAs for Union Bank and BOI at only 0.3% and 0.5%, respectively. Furthermore, given the large capital requirements, significant equity dilution also remains an overhang. We prefer BOB on a relative basis given its higher capital comfort in the current environment.

Valuation metrics

Company	Ticker	Rating (prev. rating)	Price		TP chg (%)	Up/dn to TP (%)	Year	EPS Chg(%)		EPS		EPS grth (%)		P/E (x)		Div. yld (%)	ROE (%)	P/B (x)
			Local	Target			T	T+1	T+2	T+1	T+2	T+1	T+2	T+1	T+2	T+1	T+1	T+1
BOB	BOB.BO	O	643.20	707.00	0	10	03/13	0	0	101	119	(6)	18	6.4	5.4	3.8	13.2	0.8
BOI	BOI.BO	N	209.90	175.00	0	(17)	03/13	0	0	50.4	60.2	9	19	4.2	3.5	5.2	12.6	0.5
UnionBank	UNBK.BO	U	123.50	120.00	0	(3)	03/13	0	0	37.9	43.5	1	15	3.3	2.8	7.6	13.7	0.4

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM
Source: Company data, Credit Suisse estimates

Glenmark--- Maintain OUTPERFORM

FCF generation in 2H FY14 should increase

EPS: ▼ TP: ▼

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- The key to Glenmark's stock is reduction in net debt where 1H14 results did not help. Net debt reduction was marginal due to increase in WC cycle. Glenmark expects WC days to remain stable in 2H which should help in debt reduction. The overhang remains the outcome of Tarka litigation (potential hit of $26 mn).
- The positives in 2Q14 were strong US sales (driven by new launches) and strong EBITDA growth despite high R&D spend. Sales decline in Brazil and Russia disappointed while higher amortisation costs result in 11% cut in our FY14/15 estimates. Depreciation increased by 75% as Glenmark started amortisation of in-licensed products in Europe as products are commercialised.
- Leadership at Glenmark generics has changed with Mr. Philip Andrew replacing Terrance Coughlin. Mr. Andrew has 25 years of experience in the US in generics and branded space (five years in Bausch & Lomb, 13 years at Barr).
- We stay positive on Glenmark due to strong franchise in India and an improving pipeline in the US (R&D guidance increased to 9.5% of sales from 8.5%). Our TP reduces by 6% to Rs640 from Rs680 to factor in lower FCF.

Bbg/RIC	GNP IN / GLEN.BO	Price (01 Nov 13 , Rs)			540.10
Rating (prev. rating)	O (O)	TP (prev. TP Rs)			640.00 (680.00)
Shares outstanding (mn)	271.01	Est. pot. % chg. to TP			18
Daily trad vol - 6m avg (mn)	0.6	52-wk range (Rs)			604.6 - 423.9
Daily trad val - 6m avg (US$ mn)	5.2	Mkt cap (Rs/US$ bn)			146.4/ 2.4
Free float (%)	51.7	**Performance**	**1M**	**3M**	**12M**
Major shareholders	Promoter 48.3%	Absolute (%)	0.5	(3.4)	26.3
		Relative (%)	(8.1)	(14.0)	12.1

Year	03/12A	03/13A	03/14E	03/15E	03/16E
Revenue (Rs mn)	40,208	50,123	60,002	70,399	82,100
EBITDA (Rs mn)	8,455	10,101	12,604	14,888	17,297
Net profit (Rs mn)	4,643	6,222	7,002	8,424	10,148
EPS (Rs)	17.2	23.0	25.9	31.2	37.5
- Change from prev. EPS (%)	n.a.	n.a.	(11)	(11)	
- Consensus EPS (Rs)	n.a.	n.a.	27.9	34.1	40.3
EPS growth (%)	2.5	34.0	12.5	20.3	20.5
P/E (x)	31.4	23.5	20.8	17.3	14.4
Dividend yield (%)	0.4	0.4	0.4	0.4	0.4
EV/EBITDA (x)	19.6	16.6	13.3	11.1	9.3
P/B (x)	6.1	5.3	4.3	3.5	2.8
ROE (%)	20.9	24.1	22.7	22.2	21.8
Net debt(cash)/equity (%)	79.1	77.3	61.6	43.3	26.9

Note 1: Glenmark Pharmaceuticals Limited (GPL) is an India-based pharmaceutical company. The Company is engaged in discovery of new molecules and is focused in the areas of inflammation, including asthma/ chronic obstructive pulmonary disease (COPD).

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Figure 1: 2Q14 sales split—LatAm and Russia weaker than expected

Rs mn	2Q14A	2Q14E	Diff (%)	2Q13A	Y/Y %
Sales	**14,630**	**15,121**	**-3%**	**12,552**	**17%**
Formulations	**13,501**	**13,756**	**-2%**	**11,447**	**18%**
US Generic	5,579	5,257	6%	4,307	30%
EU Generic	517	505	2%	389	33%
EU branded	527	474	11%	379	39%
Latin America	966	1,077	-10%	991	-2%
Asia, Africa, Russia	1,736	2,368	-27%	1,941	-11%
India	4,177	4,004	4%	3,440	21.4%
API	**1,011**	**1,241**	**-19%**	**1,105**	**-9%**
Outlicensing revenue	**118**	**124**	**-5%**		

Source: Company data, Credit Suisse estimates

EBITDA in-line but FCF generation low in 1H FY14

Glenmark's EBITDA was in line but PAT missed by 17% due to higher amortisation. Net debt for Glenmark improved by Rs100 mn (or 0.5%) in 1H FY14 as cash generated funded (1) increase in Working Capital cycle, (2) capex of Rs1.75 bn and (3) dividend pay-out. Management guided that working capital cycle should remain stable now and therefore 2H FY14 should result in higher FCF generation.

US strong but Brazil and Russia were weak

The positive in the quarter was strong US sales of $90 mn (+10mn QoQ) mainly driven by contribution from new launches. What disappointed in the quarter was sales decline in Brazil and Asia, Africa and Russia. Growth in these markets was impacted by a slowdown in approvals and Glenmark expects the growth to remain soft with growth expectations of 13-15% for FY15 for Asia, Africa and Russia. Latin America could still grow at 20% helped by new launches in Mexico and Venezuela.

Higher amortisation leads to estimates cuts

Depreciation and amortisation increased by 75% sequentially and Glenmark expects the run-rate to continue. 70% of the increase is due to increase in amortisation on products in-licenced for the European market (as the products were commercialised, Glenmark has started amortising the upfront payment). We cut FY14/15 estimates by 11% to factor in higher amortisation. Our target price is cut by 6% to Rs640 to factor in lower FCF generation and potential hit of $26mn from Tarka.

Takeaways from conference call

- Mr. Philip Andrew replaced Terrance Coughlin to head US generics and global API business. Phil has 25 years of experience in the US in generics & branded space (five years in Bausch & Lomb, 13 years at Barr).
- FY14 sales growth guidance retained at 20% (currency benefit offsets weakness in EMs), but EBITDA likely to exceed Rs12.2 bn. On the R&D front, Glenmark increased its R&D guidance from 8.5% to 9-9.5% due to increase in number and quality of filings.
- Tax rate for Glenmark is now converging with cash tax rate and will be 22-23% for FY14.
- Net debt (adjusted for INR depreciation) reduced from Rs21.5 bn to Rs21.4 bn. WC days increased from 106 days in Mar-13 to 119 days in 1HFY14 (receivable days increased from 121 to 128 days).

Figure 2: 2Q14—In-line EBITDA but higher depreciation led to PAT miss

Rs mn	2Q14A	2Q14E	Diff (%)	2Q13A	Y/Y %
Net sales	**14,512**	**14,997**	**-3%**	**12,552**	**16%**
Total expenditure	**11,477**	**11,922**	**-4%**	**10,062**	**14%**
EBITDA	**3,035**	**3,076**	**-1%**	**2,490**	**22%**
EBITDA margin (%)	**20.9%**	**20.5%**	**0.4%**	**19.8%**	**1.1%**
Depreciation	605	346	75%	321	89%
EBIT	2,430	2,730	-11%	2,169	12%
Other income	256	161	59%	289	-12%
Interest cost	485	470	3%	384	26%
Taxes	628	533	18%	477	32%
Net income	**1,573**	**1,888**	**-17%**	**1,568**	**0%**

Source: Company data, Credit Suisse estimates

Infrastructure Development Finance Co Ltd------------------------ Maintain OUTPERFORM

Steady operationally in a volatile environment **EPS: ▼ TP: ▼**

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- IDFC's 2Q14 earnings were 6% ahead as spreads held up better than expected (flat QoQ at 2.4%) and with higher principal income. Loan growth moderated as expected (3% YoY) and is in line with management guidance of 0-5% growth for the full year.
- Approvals picked up (Rs121 bn in 2Q) on short-term opportunities for corporate loans in the telecom sector, but disbursements remained muted (down 24% QoQ). Incremental cost of borrowings has come down below 10% reducing funding pressure. Management, however, expects that spreads could decline 10-15 bp on high quality assets being priced aggressively in the current environment.
- Gross NPLs were stable at ~0.3% with provisions low at ~30 bp, however, management maintain their guidance of net NPA of ~1% over the next 6-12 months. Outstanding provisions of ~2% of loans provides some cushion against contingencies.
- A more flexible cost structure (cost to income ~15%) and pick-up in contribution from NII should help sustain healthy profitability (ROA of 2.7%). We cut our estimate by ~10% for FY14/15E and reduce our TP to Rs144 on lower growth estimates. Maintain Outperform.

Bbg/RIC	IDFC IN / IDFC.BO	Price (31 Oct 13 , Rs)	105.80
Rating (prev. rating)	**O (O)**	**TP (prev. TP Rs)**	**144.00 (190.00)**
Shares outstanding (mn)	1,516.13	Est. pot. % chg. to TP	36
Daily trad vol - 6m avg (mn)	11.7	52-wk range (Rs)	183.5 - 79.2
Daily trad val - 6m avg (US$ mn)	20.5	Mkt cap (Rs/US$ bn)	160.4/ 2.6
Free float (%)	79.0		
Major shareholders	GOI		

Performance	**1M**	**3M**	**12M**
Absolute (%)	16.5	2.5	(36.2)
Relative (%)	7.9	(8.1)	(50.4)

Year	**03/12A**	**03/13A**	**03/14E**	**03/15E**	**03/16E**
Pre-prov Op profit (Rs mn)	24,566.8	29,431.9	31,157.5	37,381.9	—
Net profit (Rs mn)	15,502	18,424	19,997	23,613	—
EPS (CS adj. Rs)	10.2	12.2	13.2	15.6	
- Change from prev. EPS (%)	n.a.	n.a.	(10)	(10)	
- Consensus EPS (Rs)	n.a.	n.a.	13.0	14.6	16.4
EPS growth (%)	17.4	18.7	8.5	18.1	n.a.
P/E (x)	10.3	8.7	8.0	6.8	—
Dividend yield (%)	2.5	2.9	3.6	4.2	
BVPS (CS adj. Rs)	81	90	100	111	—
P/B (x)	1.31	1.17	1.06	0.96	—
ROE (%)	13.7	14.2	13.9	14.8	—
ROA (%)	2.8	2.8	2.7	2.9	—
Tier 1 Ratio (%)	—	—	—	—	—

Note 1: Infrastructure Development Finance Company Limited is an India-based company. The Company's main business is to provide finance for infrastructure projects including through ownership of infrastructure assets.

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Growth moderation but spreads held up well

Loan growth moderated as expected (3% YoY) on volatility in funding markets. Management maintain their guidance for 0-5% loan growth for the full year. Approvals picked up on short-term opportunities for corporate loans in the telecom sector. Spreads (at 2.4%) held up better than expected despite a spike in wholesale rates. Incremental cost of borrowings has come down to ~9.5% levels reducing funding pressure. However, management expect that spreads could decline 10-15 bp given high quality assets being priced aggressively in the current environment. Asset management fees picked up strongly (including capital gains) offsetting some of the weakness in loan processing and investment banking fees. Also, with the company succesfully raising $640 mn for another of its infra funds, alternative asset fees could get a boost from the next quarter.

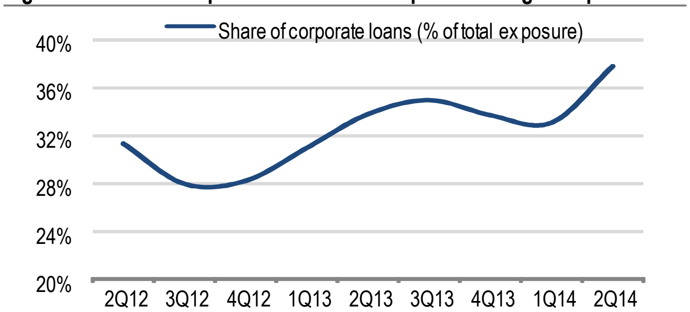
Gross NPLs were stable at ~0.3% with loan impairments and credit cost low (~30 bp), however management maintain their guidance of net NPA of ~1% over the next 6-12 months. Gas-based exposures (2-3% of loans) in particular are likely to be restructured over the next few quarters. Outstanding provisions at 2% of loans provide some cushion against contingencies.

Figure 1: 2Q14 results summary

Rs mn	**2Q14**	**2Q13**	**YoY (%)**	**1Q14**	**QoQ (%)**
NII - Infrastructure	**6,420**	**5,960**	**8%**	**6,310**	**2%**
NII - Treasury	440	470	-6%	550	-20%
Total NII	6,860	6,430	6.7%	6,860	0%
Loan processing fees	100	440	-77%	230	-57%
Asset management fees	1,040	690	51%	930	12%
IDFC SSKI	80	210	-62%	130	-38%
Total non-Interest Income	**1,260**	**1,580**	**-20%**	**1,330**	**-5%**
Total Operating Income	8,120	8,010	1%	8,190	-1%
Total Operating Expenses	1,375	1,241	11%	1,390	-1%
Pre-Provisiong Profits	6,745	6,769	0%	6,800	-1%
Provisions & write offs	501	305	64%	592	-15%
Operating profits	**6,245**	**6,463**	**-3%**	**6,208**	**1%**
Principal Investment	780	490	59%	2,020	-61%
PBT	7,025	6,953	1%	8,228	-15%
PAT	**4,926**	**4,766**	**3%**	**5,601**	**-12%**
Infra Loans (Rs bn)	550	534	3%	567	-3%
Gross Disbursements	24	60	-59%	32	-24%
Gross NPA (%)	0.33%	0.28%	0.05%	0.32%	0.01%

Source: Company data, Credit Suisse estimates

Figure 2: Share of corporate loan in total exposure has gone up to ~37%



Source: Company data, Credit Suisse estimates

Steady profitability; attractive valuations

IDFC maintained its profitability in a volatile environment (2.8% rolling 12-month ROA). The quality of earnings remains healthy with a focus on low risk growth and adequate provisioning (outstanding provisions of ~Rs16 bn). Its investment portfolio was also fully marked to market with no major fixed income losses. Even as loan growth is likely to moderate, its more flexible cost structure and a pick-up in contribution from non-interest income should help sustain healthy profitability (2.7% ROA). Valuations are undemanding at 7x earnings and 1.0x book. We cut our estimate by 9-10% for FY14/15E as we lower our growth and treasury gains estimate. Maintain OUTPERFORM with new Rs144 TP (Rs190 earlier).

Indonesia

Indonesia Economics

Bad news for the rupiah

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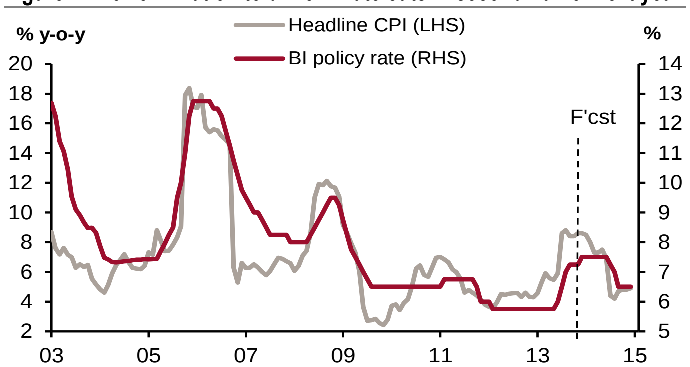
- Indonesia's trade and consumer price inflation releases proved somewhat of a mixed bag. While inflation surprised on the downside in October and, contrary to the central bank's view, looks to have peaked, the trade position returned to deficit. The market had been expecting a small surplus.
- Against this background, Bank Indonesia is likely to be more willing to see the currency soften as a means of boosting exports.
- Looking ahead, we expect headline inflation to soften further as the recent easing of import restrictions drives food price inflation lower, while this year's subsidised fuel price increase will drop out of the annual comparison in mid-2014. By July next year, inflation will probably be back below 5%, triggering several rate cuts – we are looking for a total of 100 bp of BI reductions in 2H 21014.
- Despite today's disappointing trade release, the country's current account deficit is likely to have peaked in 2Q. Nevertheless, there is no sign that the improvement will be strong as exports remain under pressure from soft commodity prices and demand.

Figure 1: Lower inflation to drive BI rate cuts in second half of next year



Source: Credit Suisse, CEIC

Inflation looks to have peaked: Headline consumer price inflation dropped modestly in October, coming in at 8.3% from 8.4% the previous month and a consensus projection of 8.4%. We have argued and continue to believe that inflation peaked in August (at 8.8%) – a rather different view from Bank Indonesia which has suggested that the headline rate would end 2013 somewhere between 9.0% and 9.8% as the lagged effects of currency depreciation fed through. The central bank estimates that a 10% depreciation adds 60-70 bp to inflation after two months assuming everything else is unchanged. In reality, however, everything else is not unchanged, particularly now the government has relaxed its controls on food imports, leading food price rises to soften from very elevated levels.

Further falls to trigger BI rate cuts from July next year: Bank Indonesia does expect inflation to drop through the course of 2014 and we agree with this view. In fact, our forecasts see the headline rate falling below 5% from around the middle of next year as food inflation continues to soften and the subsidised fuel price rise at the end of June this year drops out of the annual comparison. This in turn is likely to trigger policy rate reductions from the central bank – we are looking for 100 bp of cuts between July and October 2014. In our view, an earlier move would be unwise partly in light of what's happening with the external trade balance (see below). In fact, we are not ruling out the chance of one last rate hike.

Core stability: The details of the October CPI showed food inflation falling to 12.6% from 12.8% the previous month and a high of 15.1% in August. Meanwhile, transport price inflation edged higher to 15.3%. Stripping out volatile and administered prices (mainly food and energy), Indonesia's core inflation rate was unchanged at 4.7%, within the 3.7-5.1% range it has been in since mid-2009. Given everything that has been thrown at the economy from a depreciating exchange rate, to strong money and lending growth to a huge increase in minimum wages and a (previously) rapid GDP growth rate, the performance of the core rate has been surprisingly impressive and one that is consistent with a statistically significant structural break.

A disappointing deficit: This morning's trade numbers were not so encouraging with the excess of merchandise imports over exports coming in at US$657 mn. We and the market had anticipated a surplus and only one out of 18 people surveyed by Bloomberg expected a bigger deficit than the published figure.

Rupiah risks: Compared with September last year, the trade shortfall was US$1.2 bn higher, which, although an improvement from the US$2-4 bn year-on-year falls we were seeing frequently in 2012, suggests the deficit is not yet even stabilising. This is disappointing and obviously poses risks for the currency. Apart from anything else, Bank Indonesia is likely to be more willing to let the rupiah soften in this situation, particularly with inflation coming in lower than it anticipated.

Import surprise: The breakdown of the figures showed exports dropping nearly 7% on the year (roughly in line with the consensus view) but imports rising 0.8% (the market was looking for a near 5% contraction). The latter came despite an unhelpful base effect and we estimate that merchandise import values rose nearly 30% on the month in seasonally adjusted terms, albeit after a 23% decline the previous month. The volatility is explained largely by energy, but taking the outturns for the last two months together obviously still points to a pick-up in the demand for imports. We are surprised by this and don't expect it to last as consumer spending growth is likely to join capital spending in the doldrums in the not too distant future (see Indonesia section of **Focus Asia - For better or for worse?**).

Big improvement in imports of capital goods: Looking at the breakdown of imports, it was actually capital goods that provided the upside surprise, falling by just 0.2% on the year albeit after an out-sized 28% contraction in August. The former was the strongest figure since November last year and we will need to track the series carefully as a 3-month moving average if it has a decent relationship with investment growth. We don't expect real investment growth to turn until early next year and then only fairly gently so. Imports of consumer goods, which don't have a particularly good relationship with private consumption growth, rose 0.5% on the year – not too dissimilar to the recent trade.

Electronic City Indonesia-- Maintain OUTPERFORM

Looks like below 9M13, but it is in line as new stores starting to contribute **EPS: ◄► TP: ◄►**

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- Electronic City Indonesia (ECI) reported 52% higher net profit YoY to Rp96 bn in 9M13, in line with our estimates, even though it only accounted for 42% of FY13E (9M12 accounted for 50% of FY12). This is on the back of aggressive opening of new stores which are starting to generate revenue.
- As at end-Sep 13, ECI had a cash balance of Rp949 bn with Rp44 bn in bank loan. The company is in a net cash position of Rp900 bn.
- In 3Q13, revenue were 2% QoQ lower (+23% YoY) with gross margin at 18.8%, lower compared to 20.1% in 2Q13 but higher compared to 13.2% in 3Q12, and operating margin declined to 3.9% as its cost increased due to new store openings, while revenue has yet been generated. In all, ECI's net profit in 3Q13 stood at Rp18 bn (-62% QoQ, +17% YoY) with a net margin of 3.7%.
- We continue to like the stock in the retail space within our coverage. With store additions in place, the company shall be able to realise its investment going forward. Our DCF-based target price of Rp4,500 equates to 17.4x P/E 2014E with 54% estimated earnings growth over the next two years.

Bbg/RIC	**ECII IJ / ECII.JK**	**Price (31 Oct 13 , Rp)**	**3,300.00**
Rating (prev. rating)	**O (O) [V]**	**TP (prev. TP Rp)**	**4,500 (4,500)**
Shares outstanding (mn)	1,334.33	Est. pot. % chg. to TP	36
Daily trad vol - 6m avg (mn)	0.9	52-wk range (Rp)	4100.0 - 3025.0
Daily trad val - 6m avg (US$ mn)	0.3	Mkt cap (Rp/US$ bn)	4,403.3/ 0.4
Free float (%)	25.1		
Major shareholders	PT Graha Surya Kirana (25.57%)		

Performance	**1M**	**3M**	**12M**
Absolute (%)	(4.3)	(13.7)	—
Relative (%)	(8.1)	(10.9)	—

Year	**12/11A**	**12/12A**	**12/13E**	**12/14E**	**12/15E**
Revenue (Rp bn)	1,162	1,431	2,677	3,985	6,398
EBITDA (Rp bn)	26.5	153.9	284.6	427.6	680.4
Net profit (Rp bn)	25.0	125.0	225.6	344.6	537.4
EPS (Rp)	111	125	169	258	403
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (Rp)	n.a.	n.a.			
EPS growth (%)	273.4	12.7	35.4	52.8	55.9
P/E (x)	29.8	26.4	19.5	12.8	8.2
Dividend yield (%)	0	0	0.7	1.3	2.0
EV/EBITDA (x)	163.2	28.4	11.9	9.2	5.2
P/B (x)	15.5	14.6	2.5	2.2	1.8
ROE (%)	70.7	91.5	23.0	18.3	23.9
Net debt(cash)/equity (%)	(167.6)	(13.7)	(58.7)	(23.3)	(35.7)

Note 1: PT Electronic City Indonesia Tbk operates a retail chain of electronic products in Indonesia. The Company primarily focuses on audio-video, home appliances, mobile devices, internet technology and office equipment.

Click here for detailed financials

Likely to exceed opening of new stores than targetted this year

Electronic City Indonesia (ECI) reported 52% higher net profit YoY to Rp96 bn in 9M13, in line with our estimates, even though it only accounted for 42% of FY13E (9M12 accounted for 50% of FY12). This is on the back of aggressive opening of new stores which are starting to generate revenue.

As of end-Sep 13, ECI operated 50 stores, from 18 stores a year ago, or 23 stores at the end of 2012. Of its stores 68% are under the brand "*Electronic City*" (identified in blue colour, target market is middle- to upper-class consumers), and the remaining 32% under the brand "*Electronic City Outlet*" (identified in red colour, target market is the entry level and middle class consumers). It targets to have 53 stores by the end of this year, which is likely to be exceeded as it is ready to open four new stores this month alone.

Gross margin accelerated to 19.2%, from 16.5% a year ago, on 62% higher gross profit to Rp261 bn (61% of FY13E), and operating profit was 54% higher YoY to Rp106 bn (41% of FY13E) as G&A was 68% higher YoY. Higher G&A was on the back of higher salaries and rental which combined accounted for 6% of total revenue, as opposed to 3.6% in 9M12.

As at the end of Sep 13, ECI had a cash balance of Rp949 bn with Rp44 bn in bank loan. The company is in a net cash position of Rp900 bn, which it placed in banks' time deposits.

Slow 3Q13

In 3Q13, revenue fell 2% QoQ (+23% YoY) with gross margin at 18.8%, lower compared 20.1% in 2Q13 but higher compared to 13.2% in 3Q12. Gross profit was 8% lower YoY (+75% YoY). Operating margin declined to 3.9% with operating profit plummetting 63% QoQ (-2% YoY) as the company's cost increased due to new store openings, while revenue has yet been generated. In all, ECI's net profit in 3Q13 stood at Rp18 bn (-62% QoQ, +17% YoY) with net margin of 3.7%.

Maintain OUTPERFORM

We continue to like the stock in the retail space within our coverage. With store additions in place, the company shall be able to realise its investment going forward. Our DCF-based target price of Rp4,500 equates to 17.4x P/E 2014E with 54% estimated earnings growth over the next two years.

Figure 1: Electronic City Indonesia—Nine-month and quarterly financial results

Rp bn	9M12	9M13	Chg	3Q12	2Q13	3Q13	QoQ Chg	YoY Chg
Revenues	976.7	1,357.2	39.0%	391.5	491.1	481.8	-1.9%	23.1%
Gross profit	161.2	261.0	61.9%	51.5	98.7	90.4	-8.4%	75.4%
Operating profit	69.0	106.0	53.7%	19.2	50.7	18.9	-62.7%	-1.5%
Pre-tax profit	71.0	109.0	53.6%	19.8	47.4	25.3	-46.5%	28.1%
Net profit	62.9	95.6	52.0%	15.4	47.4	18.1	-61.9%	17.2%
No of stores:								
EC	13	34	161.5%	13	26	34	30.8%	161.5%
ECO	5	16	220.0%	5	16	16	0.0%	220.0%
Total	18	50	177.8%	18	42	50	19.0%	177.8%
% to FY:								
Revenues	68.3%	50.7%		27.4%	18.3%	18.0%		
Gross profit	58.4%	50.9%		18.7%	19.2%	17.6%		
Operating profit	47.0%	40.6%		13.1%	19.4%	7.2%		
Pre-tax profit	48.1%	38.7%		13.4%	16.8%	9.0%		
Net profit	50.3%	42.4%		12.3%	21.0%	8.0%		
Margins analysis:								
Gross margin	16.5%	19.2%		13.2%	20.1%	18.8%		
Operating margin	7.1%	7.8%		4.9%	10.3%	3.9%		
Pre-tax margin	7.3%	8.0%		5.0%	9.6%	5.3%		
Net margin	6.4%	7.0%		3.9%	9.6%	3.7%		

Source: Company data, Credit Suisse estimates.

Indocement-- Maintain OUTPERFORM

9M13 is in line with our estimates **EPS: ◄► TP: ◄►**

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- Indocement reported 9M13 net profit of Rp3.6 tn, accounting for 71% of our FY13E, on 8% higher revenue (73% of our FY13E). 85% of its revenue was derived from cement sales, which rose only 3% YoY, while the remaining 15% was from the RMC business. Cement sales volume was flat at 12.7 mn tonnes (71% of FY13E), while domestic ASP rose 3% YoY to Rp891,000/t. 4Q tends to be the strongest period for the industry with a rise in GoI infrastructure activities. Margins, at the same time, were stable.
- As of the end of Sep-13, Indocement was in a net cash position of Rp11 tn, with no debt. It plans to expand its capacity to 24.9 mtpa by the end of 2015E, or an addition of 34%.
- In 3Q13, Indocement's net profit was 7% lower QoQ (-1% YoY) to Rp1.2 tn, on the back of lower revenue (-6% QoQ, +6% YoY), as it is already running at full utilisation.
- We maintain our OUTPERFORM rating and DCF-based target price of Rp25,700, which equates to 10.6x 2014E EV/EBITDA on EV/capacity of US$360/t, and 17.1x 2014E P/E with 12% estimated earnings growth over the next two years.

Bbg/RIC	INTP IJ / INTP.JK	Price (31 Oct 13, Rp)			20,900
Rating (prev. rating)	O (O)	TP (prev. TP Rp)			25,700 (25,700)
Shares outstanding (mn)	3,681.23	Est. pot. % chg. to TP			23
Daily trad vol - 6m avg (mn)	3.8	52-wk range (Rp)			26950.0 - 17750.0
Daily trad val - 6m avg (US$ mn)	7.2	Mkt cap (Rp/US$ bn)			76,937.7/ 6.8
Free float (%)	36.0	**Performance**	**1M**	**3M**	**12M**
Major shareholders	Birchwood Omnia Limited (51%)	Absolute (%)	9.4	(6.1)	(5.6)
		Relative (%)	6.6	(3.3)	(9.7)

Year	**12/11A**	**12/12A**	**12/13E**	**12/14E**	**12/15E**
Revenue (Rp bn)	13,891	17,290	18,188	20,282	22,730
EBITDA (Rp bn)	4,831	6,632	7,091	7,813	8,744
Net profit (Rp bn)	3,621	4,760	5,052	5,524	6,285
EPS (Rp)	984	1,293	1,372	1,501	1,707
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (Rp)	n.a.	n.a.	1,405	1,564	1,737
EPS growth (%)	12.3	31.5	6.1	9.3	13.8
P/E (x)	21.2	16.2	15.2	13.9	12.2
Dividend yield (%)	1.1	1.4	1.9	2.0	2.2
EV/EBITDA (x)	14.5	10.0	9.5	8.4	7.0
P/B (x)	4.9	4.0	3.3	2.8	2.4
ROE (%)	25.2	27.1	23.8	22.1	21.4
Net debt(cash)/equity (%)	(42.5)	(53.1)	(42.9)	(41.8)	(48.9)

Note 1: ORD/ADR=10.00. Note 2: Indocement is one leading producers of quality cement and specialty cement products. Established in 1985, the company sold its products under "Tiga Roda" brand. It operates 12 cement plants (9 in Citeureup, 2 in Palimanan, West Java, and 1 in Kalimantan).

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9M13 was in line with estimates

Indocement reported 9M13 net profit of Rp3.6 tn, accounting for 71% of our FY13 estimate, on 8% higher revenue (73% of our FY13 estimate). 85% of its revenue was derived from cement sales, which increased only 3% YoY, while the remaining 15% was from the RMC (ready mixed concrete) business. Cement sales volume was flat at 12.7 mn tonnes (71% of our FY13 estimate), while domestic ASP increased 3% YoY to Rp891,000/t (please refer to our note of 23 October 13, *Indocement: Flat volume growth in 9M13, in line with estimates*). Note that 4Q tends to be the strongest period for the industry with a rise in Government of Indonesia (GoI) infrastructure activities.

Margins were stable, with gross profit at Rp6.3 tn (+7% YoY, 72% of our FY13 estimate) and operating profit at Rp4.4 tn (+7% YoY, 73% of our FY13 estimate). Thus, gross margins stood at 47% and operating margins at 33%.

As of the end of September 2013, Indocement was in a net cash position of Rp11 tn, with no debt. It plans to expand its capacity to 24.9 mtpa by the end of 2015E, or an addition of 34%.

Weak 3Q13 volumes

In 3Q13, Indocement's net profit was 7% lower QoQ (-1% YoY) to Rp1.2 tn, due to lower revenue (-6% QoQ, +6% YoY). Revenue from cement sales declined 5% QoQ (+2% YoY), underpinned by higher domestic ASP which increased 3% QoQ (+7% YoY), while sales volume was 7% lower QoQ (+13% YoY). The company is already running at full utilisation. As a result, its margins reduced—gross margin to 46.2%, and operating margin to 32%.

Maintain OUTPERFORM rating

We maintain our OUTPERFORM rating and DCF-based target price of Rp25,700, which equates to 10.6x 2014E EV/EBITDA on EV/capacity of US$360/t, and 17.1x 2014E P/E with 12% estimated earnings growth over the next two years.

Figure 1: Indocement—Nine-month and quarterly financial figures

(Rp bn)	9M12	9M13	Chg (%)	3Q12	2Q13	3Q13	QoQ chg (%)	YoY chg (%)
Cement	11,041	11,388	3.1	3,709	3,981	3,772	-5.3	1.7
Domestic	*10,989*	*11,288*	*2.7*	*3,691*	*3,943*	*3,721*	*-5.6*	*0.8*
Export	*52*	*101*	*94.1*	*18*	*38*	*51*	*32.8*	
RMC	1,330	1,960	47.4	469	718	659	-8.2	40.3
Net revenues	12,371	13,348	7.9	4,178	4,699	4,430	-5.7	6.0
Gross profit	5,848	6,269	7.2	2,069	2,255	2,045	-9.3	-1.2
Operating profit	4,148	4,429	6.8	1,485	1,633	1,431	-12.4	-3.7
Pre-tax profit	4,406	4,783	8.6	1,574	1,754	1,541	-12.1	-2.1
Net profit	3,367	3,608	7.2	1,202	1,275	1,187	-6.9	-1.2
Sales vol (th tonnes)	12,810	12,810	0.0	4,200	4,493	4,160	-6.5	7.6
Domestic	*12,743*	*12,668*	*-0.6*	*4,191*	*4,441*	*4,070*	*-6.5*	*12.5*
Export	*67*	*142*	*112.6*	*9*	*52*	*90*	*64.9*	*-95.0*
ASP (th Rp/t)	862	889	3.1	883	886	907	2.6	10.5
Domestic	*862*	*891*	*3.3*	*881*	*888*	*914*	*2.6*	*7.1*
Export	*777*	*709*	*-8.7*	*1,946*	*740*	*566*	*-34.3*	
% to FY:								
Revenue	71.5	73.4		24.2	25.8	24.4		
Gross profit	70.7	71.8		25.0	25.8	23.4		
Operating profit	70.6	72.8		25.3	26.8	23.5		
Net profit	70.7	71.4		25.2	25.2	23.5		
Sales volume	72.4	71.8		23.8	25.2	23.3		
Domestic	72.4	71.3		23.8	25.0	22.9		
Export	94.3	200.5		12.8	73.3	127		
Margin analysis: (%)								
Gross	47.3	47.0		49.5	48.0	46.2		
Operating	33.5	33.2		35.6	34.8	32.3		
Pre-tax	35.6	35.8		37.7	37.3	34.8		
Net	27.2	27.0		28.8	27.1	26.8		

Source: Company data, Credit Suisse estimates

PT Adaro Energy Tbk --Maintain NEUTRAL

9M13 result is in line with our expectation **EPS: ◄► TP: ◄►**

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- Adaro Energy reported revenue of US$2,435 mn (-12% YoY) and net profit of US$184 mn (-47% YoY) in 9M13. However, please note that both revenue and net profit in 9M13 were in line with our estimates, accounting for 77% and 75% of FY13E, respectively.
- Adaro produced a total of 38.7mt coal in 9M13, up 14% YoY, slightly above our expectation – representing 78% of our FY13E. Sales volume rose 13% YoY to 39.1mt in 9M13, in line with our expectation.
- ASP declined 20% YoY to US$58.2/t in 9M13 from US$73.1/t in 9M12. ASP in 3Q13 also declined 16% to US$58/t. Mining cost fell 12.7% to US$33.1/t in 9M13, pretty much in line with our expectation of US$34/t for FY13E.
- We maintain our NEUTRAL rating on ADRO with a TP of Rp1,000, based on a P/E target of 10x for 2014. Key risks are lower-than-expected sales volume and price. We remain cautious with the coal oversupply condition, which will most likely keep the price low.

Bbg/RIC	**ADRO IJ / ADRO.JK**	**Price (31 Oct 13 , Rp)**			**1,020.00**
Rating (prev. rating)	**N (N) [V]**	**TP (prev. TP Rp)**			**1,000 (1,000)**
Shares outstanding (mn)	31,986	Est. pot. % chg. to TP			(2)
Daily trad vol - 6m avg (mn)	60.8	52-wk range (Rp)			1750.0 - 650.0
Daily trad val - 6m avg (US$ mn)	4.8	Mkt cap (Rp/US$ bn)			32,625.7/ 2.9
Free float (%)	40.0	**Performance**	**1M**	**3M**	**12M**
Major shareholders	PT Adaro Strategic Inv (43.91%)	Absolute (%)	13.3	56.9	(25.5)
		Relative (%)	10.5	59.7	(29.6)

Year	12/11A	12/12A	12/13E	12/14E	12/15E
Revenue (US$ mn)	3,987	3,722	3,154	3,343	3,619
EBITDA (US$ mn)	1,466	1,129	826	892	989
Net profit (US$ mn)	550.4	385.3	244.8	286.7	347.8
EPS (US$)	0.02	0.01	0.01	0.01	0.01
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (US$)	n.a.	n.a.	0.01	0.01	0.01
EPS growth (%)	123.0	(30.0)	(36.5)	17.1	21.3
P/E (x)	5.3	7.5	11.8	10.1	8.3
Dividend yield (%)	7.6	4.0	2.5	3.0	3.6
EV/EBITDA (x)	3.0	4.3	5.6	4.8	3.9
P/B (x)	1.2	1.1	1.1	1.0	0.9
ROE (%)	24.7	15.4	9.3	10.3	11.5
Net debt(cash)/equity (%)	63.5	65.0	55.0	40.6	25.5

Note 1: ORD/ADR=50.00. Note 2: PT Adaro Energy is a coal mining company. The company and its subsidiaries currently deal in coal mining and trade, coal infrastructure and logistics and mining contractor services.

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In line with our expectations

Adaro Energy (ADRO) reported revenue of US$2,435 mn (-12% YoY) and a net profit of US$184 mn (-47% YoY) in 9M13. However, both revenue and net profit in 9M13 were in line with our estimates, accounting for 77% and 75% of FY13E, respectively. On a quarterly basis, the company posted US$855 mn in revenue (+4% YoY, +2% QoQ) and a US$69 mn net profit (-22% YoY, -8% QoQ) in 3Q13.

The company produced a total of 38.7mt coal in 9M13, up 14% YoY, slightly above our expectation – representing 78% of our FY13E. On a QoQ basis, ADRO posted a record quarterly production volume of 13.8mt in 3Q13. Sales volume rose 13% YoY to 39.1mt in 9M13, in line with our expectation. However, the increase in sales volume could not offset the decline in average selling price (ASP). ASP declined 20% YoY to US$58.2/t in 9M13 from US$73.1/t in 9M12. ASP in 3Q13 also declined 16% to US$58/t. The company also improved its cost profile with mining cost down 12.7% to US$33.1/t in 9M13, pretty much in line with our expectation of US$34/t for FY13E.

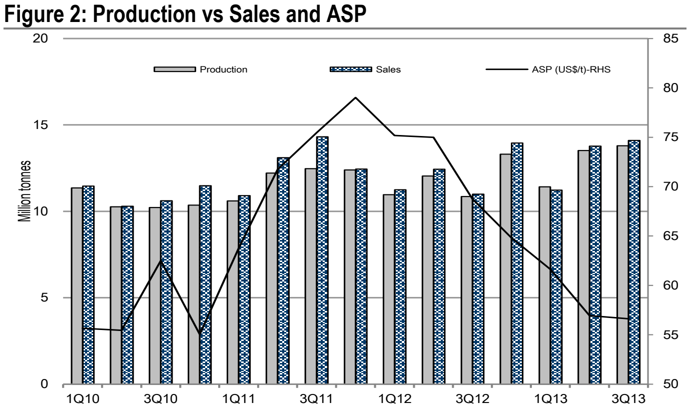
Figure 1: Summary of results

US$ mn	9M13	%YoY	vs CS	vs Cons	3Q13	%YoY	%QoQ
Sales vol (Mt)	39.1	13%	75%		14.1	25%	0%
Production vol (Mt)	38.7	14%	78%		13.8	24%	0%
ASP ($/t)	58.2	-20%	98%		58.0	-16%	2%
Sales	2,435	-12%	77%	73%	855	4%	2%
COGS	1,875	-1%	77%	73%	646	9%	0%
Gross profit	560	-35%	76%	73%	209	-9%	8%
Gross margin	*23%*				*24%*	-3%	1%
Operating expense	142	8%	82%	77%	67	19%	71%
Operating profit	418	-43%	75%	72%	142	-18%	-8%
Operating margin	*17%*				*17%*	-4%	-2%
Profit before taxes	331	-48%	75%	76%	111	-24%	-12%
Net Profit	184	-47%	75%	78%	69	-22%	-8%
Net margin	*8%*				*8%*	-3%	-1%
Cash	619	17%	121%		619	17%	11%
Debt	2,309	-7%	104%		2,309	-7%	-2%
Equity	2,697	6%	100%		2,697	6%	3%
Net debt to equity	63%	-14%	-1%		63%	-14%	-6%

Source: Company data, Bloomberg, Credit Suisse estimates.

ADRO expects to produce as much as 50-53mt of coal for FY13E with a strip ratio of 5.8x and cash cost excluding royalty of US$35-38/t. ADRO also targets to have 65% of sales volume sold at fixed price this year.

Figure 2: Production vs Sales and ASP



Source: Company data

Maintain NEUTRAL with a TP of Rp1,000

We maintain our NEUTRAL rating on ADRO with a TP of Rp1,000, based on a P/E target of 10x for 2014. Key risks are lower-than-expected sales volume and price. We remain cautious with the coal oversupply condition, which will most likely keep the price low.

PT Astra Agro Lestari Tbk ---Maintain NEUTRAL

9M13 core net profits in line with estimates **EPS: ◄► TP: ◄►**

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- AALI's 9M13 core net income came in line with our estimates at 77% of our FY13E. However, the reported 9M13 net profit is down 46% YoY to Rp911 bn due to translational forex loss of Rp335 bn.
- AALI saw 7% YoY decline in FFB nucleus production over 9M13 due to weather issues and probable tree stress condition. Despite that, the company recorded 5% YoY CPO production in 9M13 (72% of FY13E) supported by external FFB purchases.
- The company is building an olein refinery in Sulawesi with total capacity of 600,000 tonne/year with commercial operation expected by Feb 2014. AALI expects a 4-5% additional net profit margin because of lower export tax of refined products compared to CPO.
- We maintain our earning estimates and NEUTRAL rating on AALI with target price of Rp19,800 based on 14x FY14 P/E.

Bbg/RIC	**AALI IJ / AALI.JK**	**Price (31 Oct 13 , Rp)**			**18,600**
Rating (prev. rating)	**N (N)**	**TP (prev. TP Rp)**			**19,800 (19,800)**
Shares outstanding (mn)	1,574.75	Est. pot. % chg. to TP			6
Daily trad vol - 6m avg (mn)	1.5	52-wk range (Rp)			21750.0 - 13300.0
Daily trad val - 6m avg (US$ mn)	2.4	Mkt cap (Rp/US$ bn)			29,290.3/ 2.6
Free float (%)	20.3	**Performance**	**1M**	**3M**	**12M**
Major shareholders	Astra International (79.7%)	Absolute (%)	(4.1)	22.4	(10.6)
		Relative (%)	(5.8)	26.3	(13.5)

Year	**12/11A**	**12/12A**	**12/13E**	**12/14E**	**12/15E**
Revenue (Rp bn)	10,773	11,564	11,347	12,699	13,397
EBITDA (Rp bn)	3,527	3,956	2,842	3,719	3,945
Net profit (Rp bn)	2,406	2,410	1,619	2,236	2,396
EPS (Rp)	1,528	1,531	1,028	1,420	1,522
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (Rp)	n.a.	n.a.	1,101	1,458	1,608
EPS growth (%)	19.3	0.2	(32.8)	38.1	7.2
P/E (x)	12.2	12.2	18.1	13.1	12.2
Dividend yield (%)	5.1	5.0	4.1	2.8	3.8
EV/EBITDA (x)	8.1	7.6	10.6	7.8	7.2
P/B (x)	3.6	3.2	3.1	2.7	2.4
ROE (%)	31.3	28.1	17.5	21.9	20.7
Net debt(cash)/equity (%)	(9.9)	7.9	7.6	(2.3)	(6.9)

Note 1: ORD/ADR=5.00. Note 2: PT Astra Agro Lestari Tbk engages in the plantation of oil palm and rubber in the Republic of Indonesia. It produces fresh fruit bunches, kernel, and crude palm oil. The company's plantations and mills are primarily located in Java, Sumatra, Kalimantan.

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9M13: Lower-than-expected earnings due to forex loss

AALI's 9M13 core net income came in line with our estimates at 77% of our FY13E. However, the reported 9M13 net profit is down 46% YoY to Rp911 bn due to translational forex loss of Rp335 bn.

9M13 in revenue was down 3% YoY to Rp8,324 bn, in line at 73% of our FY13E. Gross profit declined by 23% YoY on the back of decline in revenue and 5% rise in COGS. Operating expenses rose 17% YoY, mostly due to rise in selling expenses and depreciation, but still within our expectations. This leads operating profit to decline 34% YoY to Rp1,569 bn or 68% of FY13E.

AALI saw 7% YoY decline in FFB nucleus production over 9M13 due to weather issues and probable tree stress condition. Despite that, the company recorded 5% YoY CPO production growth in 9M13, reaching 1.08 mn t (72% of our FY13E) supported by 22% rise in external FFB purchase. CPO sales volumes came slightly higher than production, from selling its CPO inventory. During the 3Q13, ASP for CPO products reached Rp7,254/kg, improved 6% QoQ.

Figure 1: 9M13 results summary

		9M13	% YoY	3Q13	% YoY	% QoQ	% FY 13E	12A	11A
CPO Prod	' 000 tons	1,084	5	379	(5)	8	72	70	73
CPO Sales	' 000 tons	1,106	11	354	1	(4)	74	70	71
Revenues	Rp bn	8,324	(3)	2,828	(3)	2	73	74	74
Gross Profit	Rp bn	2,318	(23)	860	(30)	16	70	69	77
Op Profit	Rp bn	1,569	(34)	615	(40)	25	68	69	79
Net Profit	Rp bn	911	(46)	194	(73)	(46)	56	69	77
Core net profit*	Rp bn	1,246	(25)	494	(30)	37	77	69	77

*excluding the translational forex loss of Rp335 bn in 9M13.

Source: Company data, Credit Suisse estimates

Figure 2: Decline in FFB nucleus production

	9M13	9M12	%YoY Chg	% of FY13E
FFB - Nucleus	2,678,919	2,882,320	-7%	66%
FFB - External	2,192,684	1,800,633	22%	84%
FFB - Processed	4,871,603	4,682,953	4%	73%
CPO	1,083,650	1,035,200	5%	72%

Source: Company data, Credit Suisse estimates

Update on downstream business

AALI is building an olein refinery in Mamuju, Sulawesi with total capacity of 2,000 t/day (600,000 t/year). The company is looking for a trial run of the plant starting in December and expects commercial operation in Feb 2014. Earliest revenue booking is expected in 2Q14. AALI expects up to additional 4-5% net profit margin because of lower export tax of refined products compared to CPO.

The company will be mostly using its internal CPO to supply the refinery. All the olein produced would be exported. AALI has established a JV with KLK (Astra-KLK) where KLK would help AALI to sell these olein products in the export market (primarily China and India). KLK owns 51% of the JV and AALI owns 49%.

Maintain NEUTRAL

We maintain our earning estimates on AALI and target price of Rp19,800, based on 14x FY14E P/E. Given the relatively flat production growth expected this year and limited upside to our TP, we maintain our NEUTRAL rating.

Figure 3: Comparative valuations

	Rtg	Share price		Ups	Mcap	P/E (x)		EV/EBITDA	
Ticker		Curr.	Target	(%)	US$m	13E	14E	13E	14E
AALI.JK	N	18,600	19,800	6	2,975	18.1	13.1	10.6	8.1
SIMP.JK	N	800	600	(25)	1,090	52.3	14.6	8.7	5.5
LSIP.JK	N	1,600	1,300	(19)	959	27.8	13.5	12.8	7.4
DSNG.JK	O	1,880	2,150	14	353	16.7	10.5	8.8	6.9
SGRO.JK	U	1,780	1,300	(27)	305	32.0	13.5	11.5	7.0
BWPT.JK	U	930	1,060	14	326	25.4	15.7	14.9	10.2
FRLD.SI	O	1.95	2.45	26	2,419	12.7	11.2	8.5	7.6
BUMI.SI	N	0.99	1.00	1	1,399	21.9	15.7	13.8	10.0
IFAR.SI	U	0.91	0.74	(19)	1,018	36.1	14.9	7.5	4.7

Source: Company data, Credit Suisse estimates

PT Indika Energy Tbk --Maintain NEUTRAL

9M13 earnings below expectations **EPS: ▼ TP: ◄►**

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- Indika Energy (INDY) reported a net loss of US$15.6 mn in 9M13. Revenue rose 17% YoY to US$643 mn in 9M13, slightly below our expectation but better than the market expectation. However, US$30 mn of goodwill amortisation and US$15 mn impairement of goodwill and intangible assets, in addition to the US$74 mn interest expense, brought earnings down to a net loss.
- Kideco showed a 9% increase in coal output and the barging subsidiary, MBSS, also showed 27-37% YoY increases in barging and transhipments volume. Santan Batubara (SB) remained unprofitable in 9M13 considering its high-cost operation. Petrosea, the mining contracting susidiary, showed a 9% decline in overburden as some of its clients, including SB, have high cost operation which force them to cut production and also reduce strip ratio.
- We revise our earnings estimates lower by 12-98% for Indika for various reasons at the operational level, but mostly due to a higher level of goodwill amortisation. We maintain our NEUTRAL rating.

Bbg/RIC	**INDY IJ / INDY.JK**	**Price (31 Oct 13 , Rp)**			**780.00**
Rating (prev. rating)	**N (N) [V]**	**TP (prev. TP Rp)**			**900.00 (900.00)**
Shares outstanding (mn)	5,210.19	Est. pot. % chg. to TP			15
Daily trad vol - 6m avg (mn)	15.2	52-wk range (Rp)			1680.0 - 500.0
Daily trad val - 6m avg (US$ mn)	1.0	Mkt cap (Rp/US$ bn)			4,063.9/ 0.4
Free float (%)	36.5	**Performance**	**1M**	**3M**	**12M**
Major shareholders	Indika Mitra Energi (63.47%)	Absolute (%)	4.0	47.2	(49.7)
		Relative (%)	1.2	50.0	(53.7)

Year	**12/11A**	**12/12A**	**12/13E**	**12/14E**	**12/15E**
Revenue (US$ mn)	593	750	845	1,073	1,078
EBITDA (US$ mn)	288.5	293.9	261.6	291.5	336.2
Net profit (US$ mn)	127.9	68.7	0.5	32.5	56.7
EPS (US$)	0.02	0.01	0.01	0.01	0.01
- Change from prev. EPS (%)	n.a.	n.a.	(98)	(16)	(12)
- Consensus EPS (US$)	n.a.	n.a.	0.01	0.01	0.01
EPS growth (%)	50.2	(46.3)	(99.3)	6,808.2	74.5
P/E (x)	2.8	5.3	767.1	11.1	6.4
Dividend yield (%)	9.8	5.3	0.0	2.5	4.4
EV/EBITDA (x)	3.2	3.6	3.6	2.7	1.8
P/B (x)	0.5	0.5	0.5	0.4	0.4
ROE (%)	19.8	9.1	0.1	4.1	6.8
Net debt(cash)/equity (%)	65.6	67.0	55.4	38.4	21.1

Note 1: PT Indika Energy Tbk is Indonesia's leading integrated energy company, providing its customers with integrated energy solutions through its diversified investments in the areas of energy resources, energy services and energy infrastructure.

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Indika Energy (INDY) reported a net loss of US$15.6 mn in 9M13, down from a US$80 mn net profit in 9M12, and this was below market and our expectations. Revenue rose 17% YoY To US$634 mn, slightly below our expectation, and operating profit was flat at US$29 mn in 9M13, but better than expected due to improvement in margin on Petrosea, Tripatra, and MBSS (the barging subsidiary).

Gain from associates (mostly Kideco and Santan Batubara) declined 41% YoY to US$95 mn, below our expectation primarily because of higher costs. However, US$30 mn of goodwill amortisation and US$15 mn impairement of goodwill and intangible assets, in addition to the US$74 mn interest expense, brought earnings down to a net loss.

Kideco coal output grew 9% YoY to 27.9mt in 9M13 with ASP declining 17% YoY to US$59/t, and these were in line with our expectation. Net profit from Kideco was US$202 mn, lower than our expectation, suggesting increases in costs. Santan Batubara's operation remained unprofitable in 9M13 with a net loss of US$7 mn.

Petrosea, the mining contracting subsidiary, had overburden removal decline 9% YoY to 106mbcm, lower than our expectation. Their clients, such as Santan Batubara and Bayan, have high cost operation, therefore they tend to cut production. Kideco, the largest client is cutting down strip ratio to reduce cost. The barging subsidiary, MBSS, showed increases in activity with barging volume increasing 37% to 28.3mt and transhipment up 27% YoY to 15.8mt.

Figure 1: Summary of results

US$ mn	**9M13**	**9M12**	**% YoY**	***vs CS***	**vs Cons**	**3Q13**	**% QoQ**	**% YoY**
Kideco - coal								
Production vol (mt)	27.9	25.5	*9%*	*75%*	n.a.	9	*-4%*	*4%*
ASP ($/t)	59	71	*-17%*	*98%*	n.a.	51	*-16%*	*-20%*
Net Income	202	342	*-41%*	*63%*	n.a.	44	*-36%*	*-46%*
Santan Batubara								
Production vol (mt)	1.37	1.70	*-19%*	*69%*	n.a.	0.47	*18%*	*-33%*
ASP ($/t)	75	91	*-18%*	*100%*	n.a.	76.2	*(0.01)*	*(0.13)*
Petrosea– contracting								
Overburden (mbcm)	106.0	116.3	*-9%*	*63%*	n.a.	34.9	*2%*	*-25%*
Net Income	16.5	36.6	*-55%*	*63%*	n.a.	5.8	*80%*	*-63%*
MBSS- barging								
Barging (mt)	28.3	20.7	*37%*	*73%*	n.a.	9.9	*6%*	*19%*
Transhipments (mt)	15.8	12.4	*27%*	*64%*	n.a.	4.5	*-21%*	*-1%*
Net Income	28.3	26.3	*8%*	*62%*	n.a.	8.7	*-4%*	*9%*
Profit and loss (US$mn)								
Sales	634	543	*17%*	*71%*	80%	221	*-3%*	*6%*
Gross profit	141	143	*-1%*	*77%*	72%	52	*9%*	*-8%*
Gross margin	*22%*	*26%*	*-4%*	*2%*	*-2%*	*23%*	*3%*	*-13%*
Operating profit	29	29	*-1%*	*108%*	95%	16	*395%*	*181%*
Operating margin	*5%*	*5%*	*-1%*	*2%*	*1%*	*7%*	*6%*	*166%*
Gain from Associates	95	161	*-41%*	*65%*	n.a.	22	*-31%*	*-38%*
Net Profit	(15.6)	80.0	*-119%*	*-78%*	-338%	(7.6)	*n.a.*	*Na*
Net margin	*-2%*	*15%*	*-17%*	*-5%*	*-3%*	*-3%*	*4%*	*na*
Adj. EBIT	124	190	*-35%*	*72%*	n.a.	39	*9%*	*-8%*

Source: Company data, Credit Suisse estimates.

We revise our earnings estimates on (1) lower volume at Petrosea and MBSS but offset by operating costs; (2) slightly higher cost at Kideco; (3) higher amortisation on goodwill and impairement of goodwill. These have reduced our FY13-15E earnings estimates by 12-98%. We retain our NEUTRAL rating on the stock with a TP of Rp900, based on EV/EBITDA of 3.6x for the services division, and P/E of 5x for the coal mining division for 2014.

Figure 2: Forecast changes

US$ mn	**New**			**Old**			**Chg (%)**		
	13E	**14E**	**15E**	**13E**	**14E**	**15E**	**13E**	**14E**	**15E**
OB removal (m bcm)	150	161	188	167	167	200	(10)	(4)	(6)
Revenue	845	1,073	1,078	897	1,099	1,120	(6)	(2)	(4)
EBITDA (adj)	262	292	336	258	288	338	2	1	(0)
Net profit	0	32	57	20	39	64	(98)	(16)	(12)

Source: Company data, Credit Suisse estimates.

XL Axiata Tbk-- Maintain OUTPERFORM

Cellular growth continues, and EBITDA margin improves, but our forecasts were too high **EPS: ▼ TP: ▼**

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- XL has reported a 4.7% QoQ increase in net cellular revenue into 3Q13. While slower than the 6.7% QoQ revenue growth delivered by Telkomsel, XL comfortably outpaced Indosat's 1.8% QoQ revenue growth. Importantly, XL's EBITDA margin also expanded slightly, and so EBITDA rose by 5.4% QoQ.
- Below the EBITDA line, XL faced accelerated depreciation of Rp157 bn and a forex loss after hedging of Rp188 bn. Thus headline earnings fell by 30.8% QoQ and 66.5% YoY, though normalised earnings rose QoQ.
- While the recovery which commenced in 2Q13 has continued, our FY13 forecast have been left looking too high and we are revising down our FY13 revenue and EBITDA forecasts by 3.5% and 9.7% respectively. FY13 earnings decline 43.1%, and FY14 earnings decline 16.8%. Our DCF-based target declines 8.3% to Rp5,500.
- Against this, XL's share price has already declined by 21.5% YTD, it has underperformed PT Telkom by 48.4% since September 2012. Given this, we rate XL as an OUTPERFORM.

Bbg/RIC	**EXCL IJ / EXCL.JK**	**Price (31 Oct 13 , Rp)**	**4,475.00**
Rating (prev. rating)	**O (O)**	**TP (prev. TP Rp)**	**5,500 (6,000)**
Shares outstanding (mn)	8,534.49	Est. pot. % chg. to TP	23
Daily trad vol - 6m avg (mn)	4.8	52-wk range (Rp)	6500.0 - 4025.0
Daily trad val - 6m avg (US$ mn)	1.9	Mkt cap (Rp/US$ bn)	38,191.8/ 3.4

Free float (%)	20.1	**Performance**	**1M**	**3M**	**12M**
Major shareholders	Axiata (66.6%)	Absolute (%)	1.7	0.6	(29.5)
		Relative (%)	0.1	4.5	(32.4)

Year	**12/11A**	**12/12A**	**12/13E**	**12/14E**	**12/15E**
Revenue (Rp bn)	18,004	20,267	20,907	25,063	26,949
EBITDA (Rp bn)	9,348	9,745	8,793	10,097	11,269
Net profit (Rp bn)	2,830	2,765	1,426	1,815	2,556
EPS (Rp)	332	324	167	213	300
- Change from prev. EPS (%)	n.a.	n.a.	(43)	(17)	(13)
- Consensus EPS (Rp)	n.a.	n.a.	238	274	335
EPS growth (%)	(2.2)	(2.4)	(48.4)	27.3	40.8
P/E (x)	13.5	13.8	26.7	21.0	14.9
Dividend yield (%)	2.6	2.9	1.5	2.1	3.7
EV/EBITDA (x)	5.1	5.2	5.9	5.8	5.1
P/B (x)	2.8	2.5	2.4	2.2	2.1
ROE (%)	22.3	19.0	9.0	10.9	14.4
Net debt(cash)/equity (%)	71.0	82.8	82.8	118.0	102.0

Note 1: ORD/ADR=20.00. Note 2: XL Axiata is involved in the provision of telephony services in Indonesia.

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Cellular revenue grows 4.7% QoQ

XL has reported a 4.7% QoQ increase in net cellular revenue into 3Q13. While slower than the 6.7% QoQ revenue growth delivered by Telkomsel, XL comfortably outpaced Indosat's 1.8% QoQ revenue growth, and so XL actually gained market share versus Indosat for the second consecutive quarter (XL grew at 5.0% QoQ in 2Q13 versus Telkomsel's 4.4% QoQ growth and Indosat's 1.5% QoQ growth). While voice revenue grew by 3.0% QoQ and even SMS revenue grew by 5.6% (due to the Labaran season) the primary driver was data revenue, which grew by 10.3% QoQ. This result serves as some vindication for XL's strategy of having rolled out its 3G data network aggressively during 2011 and 2012, though the capex and commensurate opex required had a material negative impact on the EBITDA margin and net profit of the company over the FY11–9M13 period.

The YoY numbers continue to look weak, with a 3.6% YoY cellular revenue decline, and the full year revenue guidance was officially revised down for the second consecutive time from 'mid-single-digit' growth to 'low-single-digit' growth. However, this was more a reflection of XL's weak 2H12 and 1Q13 revenue developments, which have already been seen by the market (and, in our view) priced in.

EBITDA and net profit margins (pre-forex) recovering…

For the second consecutive quarter, XL was able to grow revenue slightly faster than costs and so the EBITDA margin expanded by 0.3pp to 42.3% and EBITDA rose by 5.4% QoQ.

While XL had stated in its 30 June info memo that '92%' of USD debt had been hedged, the company still suffered a headline net forex loss of Rp602 bn during the quarter, though hedging gains of Rp414 bn were included within interest charges. Thus, the forex-related loss after hedging was only Rp188 bn. XL also took a further Rp157 bn accelerated depreciation charge during 3Q13. This contributed to headline earnings declining by 30.8% QoQ and 66.5% YoY. Stripping out the forex loss our estimate of normalized earnings is Rp433 bn, up 13.5% QoQ, but still down 43.0% YoY.

……but our earnings still need to be cut

While the recovery process in the core business has clearly begun, our FY13 forecast have been left looking too high and we are revising down our FY13 revenue and EBITDA forecasts by 3.5% and 9.7% respectively. After taking into account the post-hedging forex losses and accelerated depreciation, our FY13 earnings have been cut by 43.1%. These changes have a knock-on effect throughout our model, and we have revised down our FY14 EBITDA and net profit forecasts by 5.0% and 16.8% respectively. Our DCF-based target price has been revised down 8.3% to Rp5,500.

Figure 1: 3Q13 earnings analysis – QoQ and YoY

Rp bn	**3Q13A**	**2Q13A**	**QoQ%**	**3Q12A**	**YoY%**
Net Revenue - Cellular	4,959	4,737	4.7%	5,145	-3.6%
Net Revenue - Total	5,331	5,097	4.6%	5,417	-1.6%
EBITDA	2,255	2,139	5.4%	2,505	-10.0%
EBITDA margin	42.3%	42.0%		46.2%	
EBIT	682	753	-9.4%	1,217	-43.9%
Forex gain/(loss)*	(188)	(27)	n/m	(6)	n/m
Earnings	246	355	-30.8%	734	-66.5%
Normalized earnings*	433	382	13.5%	760	-43.0%

Source: Company data, Credit Suisse estimates *Net of forex and hedging

Figure 2: Model amendments

	Revised FY13E	**Previous FY13E**	**Difference**	**Revised FY14E**	**Previous FY14E**	**Difference**
Gross revenue	21,949	22,735	-3.5%	26,328	27,278	-3.5%
EBITDA	8,793	9,734	-9.7%	10,097	10,625	-5.0%
Earnings	1,426	2,505	-43.1%	1,815	2,181	-16.8%

Source: Company data, Credit Suisse estimates.

Japan

Japan Pharmaceutical Sector---

2Q: Astellas major positive; Eisai minor positive

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- Astellas' 2Q FY3/14 sales missed guidance by around ¥10 bn, but OP and RP both outperformed targets. Sales missed guidance by around ¥10 bn, but OP and RP both outperformed targets. Click here for full report.
- Astellas' results are positive, as the market had anticipated OP underperformance at 2Q results. Its prostate cancer drug XTANDI is doing well. Management also announced a share buyback program (up to ¥30 bn).
- Eisai's 2Q FY3/14 sales came in around ¥8.5 bn above guidance and quarterly NP outperformed by around ¥1 bn, while OP and RP underperformed. The decline in OP and RP was contrary to guidance for sales and profit growth, but the fact that the underperformance was only by around 5% in each case is evidence of management's efforts.
- It seems Eisai's anti-obesity Belviq's acceptance by insurance companies and awareness among patients will take longer than initially anticipated. We expect another tough year for earnings in FY3/15, but Eisai is focused on maintaining its share price.

Astellas Pharma (4503, ¥5,460 OUTPERFORM, TP ¥6,300)

Outperformance a major positive: Astellas released 2Q FY3/14 results during 1 November afternoon trading. Sales missed guidance by around ¥10 bn, but OP and RP both outperformed targets. NP underperformed due to extraordinary losses connected with business restructuring. These results are positive, as the market had anticipated OP underperformance at 2Q results. The underperformance in sales was caused by the erosive effect generics had on the sales of major domestic products. In contrast, overseas sales of Astellas products like Vesicare, Mirabegron, and Prograf grew. Overseas business also benefited from yen depreciation. Many of the major domestic products are in-licensed. The growth of its own drugs overseas therefore improved the sales mix. The resulting gross margin increase allowed Astellas to secure OP growth.

Prostate cancer drug XTANDI doing well; share buyback also in play: XTANDI sales were ¥20.5 bn in 2Q. Sales seem to be on track to exceed the company's initial estimate of ¥40 bn. There are prospects of increased administration to patients in the large chemotherapy market. Astellas expects XTANDI to be approved in Japan in 1H 2014. This, coupled with sales in Europe, should spur sales growth, and increases the likelihood that sales will top ¥80 bn and close in on ¥100 bn in FY3/15. Management also announced a share buyback program (up to ¥30 bn).

Eisai (4523, ¥3,850, NEUTRAL, TP ¥4,400)

Resilience: Eisai released 2Q FY3/14 results during afternoon trading on 1 November. Sales came in around ¥8.5 bn above guidance and quarterly NP outperformed by around ¥1 bn, while OP and RP underperformed. The decline in OP and RP was contrary to guidance for sales and profit growth, but the fact that the underperformance was only by around 5% in each case is evidence of management's efforts. Eisai left full-year guidance unchanged, with OP of ¥78.5 bn (+11.4% YoY) and RP of ¥74.9 bn (+14.2%). These targets look tough, but management seems ready for the fight.

Anti-obesity Belviq will need time: Second-quarter Belviq sales were just ¥900 mn. It seems that acceptance by insurance companies and awareness among patients will take longer than initially anticipated. Disappointment will grow if such a prominent drug consistently fails to get off the ground.

Highly aware of share price: We expect another tough year for earnings in FY3/15, but Eisai is focused on maintaining its share price. Management is against share buybacks, so the question is whether maintaining annual DPS at ¥150 is enough to support the share price.

(This is an extract from the Pharmaceutical sector report published on 1 November 2013. Please see R&A for details.)

Figure 2: Astellas Pharma – earnings summary

			Sales		Operating profit		Recurring profit		Net profit		EPS		DPS
			¥mn	YoY (%)	¥mn	YoY (%)	¥mn	YoY (%)	¥mn	YoY (%)	¥	YoY (%)	¥
3/13	A		1,005,611	3.7	153,867	17.0	157,156	16.3	82,851	5.9	180.4	6.5	130.0
3/14	**1H A**		**556,702**	**16.7**	**84,543**	**-4.4**	**83,067**	**-8.0**	**48,195**	**-16.0**	**106.8**	**-14.5**	**65.0**
	1H CSE		558,000	17.0	80,000	-9.5	80,000	-11.4	50,500	-12.0	111.9	-10.5	-
3/14	**CS E**		**1,170,000**	**16.3**	**180,000**	**17.0**	**180,000**	**14.5**	**115,000**	**38.8**	**254.9**	**41.3**	**135.0**
	CS E	**(New)**	**1,155,000**	**14.9**	**170,000**	**10.5**	**170,000**	**8.2**	**100,000**	**20.7**	**221.6**	**22.9**	**135.0**
	CoE	(Prev)	1,170,000	16.3	170,000	10.5	170,000	8.2	110,000	32.8	243.8	35.2	135.0
	IBES E		1,149,340	14.3	172,459	12.1	-	-	113,139	36.6	248.9	38.0	135.1
3/15	**CS E**		**1,266,000**	**8.2**	**206,000**	**14.4**	**206,000**	**14.4**	**136,000**	**18.3**	**301.4**	**18.3**	**145.0**
	IBES E		1,201,186	4.5	192,909	11.9	-	-	130,351	15.2	292.5	17.5	142.2
3/16	**CS E**		**1,397,000**	**10.3**	**252,000**	**22.3**	**252,000**	**22.3**	**166,000**	**22.1**	**367.9**	**22.1**	**155.0**
	IBES E		1,273,323	6.0	222,762	15.5	-	-	149,172	14.4	341.6	16.8	152.8

Source: Company data, IBES, Credit Suisse estimates

Nissan Motor --Downgrade to NEUTRAL

Fundamental problem is higher variable costs due to declining competitiveness **EPS: ▼ TP: ▼**

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- We lower our target price for Nissan Motor from ¥1,200 to ¥1,000 and downgrade the stock from Outperform to NEUTRAL. The shortfall in 2Q results and the large downward revision to full-year guidance, both announced on 1 November, reflect deterioration in the company's fundamentals, specifically a rise in variable costs caused by deterioration in Nissan's competitive position. Report.
- Our consolidated OP forecasts (including Nissan's share of the Chinese joint venture's OP) are ¥630.7bn for FY3/14 and ¥700.0bn for FY3/15 (the IBES consensus estimates are ¥651.7bn for FY3/14 and ¥752.2bn for FY3/15, while the company's target for FY3/14 is ¥600.0bn.
- Risks that could cause the share price to significantly deviate from our target price include (1) global sales significantly outperforming or underperforming our projections, (2) sales promotion costs significantly outperforming or underperforming our projections, and (3) fixed costs declining sharply.
- Our TP of ¥1,000 is the product of our FY3/14 BPS forecast of ¥990 multiplied by a target P/B of 1.01x (previously 1.2x).

Bbg/RIC	7201 JP / 7201.T	Price (01 Nov 13 , ¥)			961.00
Rating (prev. rating)	N (O)	TP (prev. TP ¥)			1,000 (1,210)
Shares outstanding (mn)	4,191.41	Est. pot. % chg. to TP			4
Daily trad vol - 6m avg (mn)	15.2	52-wk range (¥)			1232.0 - 672.0
Daily trad val - 6m avg (US$ mn)	162.1	Mkt cap (¥/US$ bn)			4,027.9/ 41.1
Free float (%)	45.0	**Performance**	**1M**	**3M**	**12M**
Major shareholders		Absolute (%)	(2.1)	(10.3)	43.0
		Relative (%)	(2.8)	(9.2)	(16.1)

Year	03/12A	03/13A	03/14E	03/15E	03/16E
Revenue (¥ bn)	9,409	9,630	10,796	11,124	11,618
EBITDA (¥ bn)	880	839	981	1,086	1,254
Net profit (¥ bn)	341.4	342.4	379.0	432.6	549.9
EPS (¥)	82	82	90	103	131
- Change from prev. EPS (%)	n.a.	n.a.	(17)	(14)	(11)
- Consensus EPS (¥)	n.a.	n.a.	106	125	145
EPS growth (%)	6.8	0.0	10.7	14.1	27.1
P/E (x)	11.8	11.8	10.6	9.3	7.3
Dividend yield (%)	2.1	2.6	3.1	3.1	4.2
EV/EBITDA (x)	8.9	10.5	8.3	7.3	6.0
P/B (x)	1.3	1.1	1.0	0.9	0.8
ROE (%)	11.2	10.0	9.6	10.0	11.8
Net debt(cash)/equity (%)	111.0	117.5	90.2	81.2	67.2

Note 1: ORD/ADR=2.00. Note 2: Nissan Motor, together with its subsidiaries, manufactures and sells automotive products and marine equipments in Japan, China, North America and Europe. The company is also engaged in sales financing activities and outsourcing services.

Click here for detailed financials

We lower our target price for Nissan Motor from ¥1,200 to ¥1,000 and downgrade the stock from Outperform to NEUTRAL. The shortfall in 2Q results and the large downward revision to full-year guidance, both announced on 1 November, reflect deterioration in the company's fundamentals, specifically a rise in variable costs caused by deterioration in Nissan's competitive position. Retail pricing adjustments in the US clouded a more fundamental deterioration in Nissan's marketing expenses and actual transaction prices.

We continue to believe that Nissan's high dividend yield and the stock's P/B valuation limit downside risk, but upside potential is also limited unless the company can achieve higher profit levels.

Our forex assumption for 4Q FY3/14 and thereafter is ¥100/$. Nissan is preparing to launch new, highly profitable products in 2H FY3/14 and FY3/15, including new versions of the Xtrail, Rogue, Qashqai, and Murano, as well as a full-size pickup truck, so prospects for profit growth are improving. However, given the decrease in actual sales prices (stemming from a relative decline in competitiveness), we think it will take some time to achieve the OPM target of 8% set in the Nissan Power 88 plan.

Our target price of ¥1,000 is the product of our FY3/14 BPS forecast of ¥990 multiplied by a target P/B of 1.01x (previously 1.2x). Our target P/B is based on the ratio of RoE to cost of shareholders' equity, and reflects the following assumptions: an ROE of 9.6% (11.4%), a cost of shareholders' equity of 9.5%, and an implied P/E of 11.1x

This is an extract from Issei Takahashi's report on Nissan Motor published on 1 November 2013.

Figure 1: Earnings Summary (Pro forma with proportional consolidation of China JV)

			Sales		Operating profit		Recurring profit		Net profit		EPS	
			¥mn	YoY (%)	¥mn	YoY (%)	¥mn	YoY (%)	¥mn	YoY (%)	¥	YoY (%)
Consolidated												
Mar-13	A		9,629,574	2.3	523,544	-4.1	529,320	-1.1	342,446	0.3	81.7	0.0
Mar-14	1Q A		2,512,100	17.6	117,800	-2.4	101,600	-8.9	82,000	13.5	19.6	13.5
	2Q A		2,703,300	12.2	146,900	-11.7	130,400	-20.5	107,800	1.7	25.7	1.7
Mar-14	**CS E**	**(new)**	**10,796,288**	**12.1**	**630,700**	**20.5**	**578,472**	**9.3**	**379,006**	**10.7**	**90.4**	**10.7**
		(prev)	10,629,263	10.4	742,800	41.9	685,808	29.6	455,773	33.1	108.7	33.1
	CoE	(new)	11,200,000	16.3	600,000	14.6	545,000	3.0	355,000	3.7	84.7	3.7
		(prev)	11,200,000	16.3	700,000	33.7	665,000	25.6	420,000	22.6	100.2	22.6
	IBES E		10,277,842	6.7	651,726	24.5	658,993	24.5	446,510	30.4	105.7	29.4
Mar-15	**CS E**	**(new)**	**11,124,362**	**3.0**	**700,000**	**11.0**	**682,944**	**18.1**	**432,594**	**14.1**	**103.2**	**14.1**
		(prev)	11,072,811	4.2	803,000	8.1	782,944	14.2	500,309	9.8	119.4	9.8
	IBES E		10,832,183	5.4	752,242	15.4	782,307	18.7	528,594	18.4	125.4	18.6
Mar-16	**CS E**	**(new)**	**11,618,003**	**4.4**	**870,000**	**24.3**	**852,944**	**24.9**	**549,894**	**27.1**	**131.2**	**27.1**
		(prev)	11,562,576	4.4	978,000	21.8	957,944	22.4	621,059	24.1	148.2	24.1
	IBES E		11,489,398	6.1	853,588	13.5	904,317	15.6	610,837	15.6	144.9	15.6

Source: Company data, IBES, Credit Suisse estimates

Malaysia

Axiata Group Berhad --- Maintain OUTPERFORM

Cutting estimates in Indonesia and India **EPS: ▼ TP: ◄►**

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- XL has reported flat net revenues but a 14% YoY drop in EBITDA for 9M13. This suggests that Axiata's 9M13 results due 28 Nov will likely continue to show a YoY drop in EBITDA. Axiata's full-year KPIs are for 5.3% revenue growth and 0.2% YoY EBITDA growth and this is looking challenging in light of XL's results.
- XL continues to recover: it reported a 4.7% QoQ increase in net cellular revenue into 3Q13, voice revenue grew by 3.0% QoQ and even SMS revenue grew by 5.6%. XL's FY13E EBITDA and net profits have been cut 9.7% and 43%, and TP lowered to Rp5,500.
- Idea's Sep-13 quarter results saw a sharp 6% volume decline (vs our 4% expectation) and despite a bigger RPM increase, this flowed into a 4% EBITDA miss and a 10% PAT miss.
- We have incorporated the latest earnings cut for XL, leading to a reduction in Axiata's FY13-15E net profits by 2-4%. We maintain our TP at RM7.75 after incorporating a TP increase for Idea. We reiterate our OUTPERFORM rating on Axiata. We like Axiata for its exposure to regional growth, a progressive dividend and attractive valuations.

Bbg/RIC	**AXIATA MK / AXIA.KL**	**Price (01 Nov 13 , RM)**			**6.86**
Rating (prev. rating)	**O (O)**	**TP (prev. TP RM)**			**7.75 (7.75)**
Shares outstanding (mn)	8,538.89	Est. pot. % chg. to TP			13
Daily trad vol - 6m avg (mn)	10.6	52-wk range (RM)			7.00 - 5.62
Daily trad val - 6m avg (US$ mn)	22.6	Mkt cap (RM/US$ bn)			58.6/ 18.5
Free float (%)	42.4	**Performance**	**1M**	**3M**	**12M**
Major shareholders	Khazanah (39.1%)	Absolute (%)	(0.6)	0.4	5.9
		Relative (%)	(2.8)	(1.1)	(2.2)

Year	12/11A	12/12A	12/13E	12/14E	12/15E
Revenue (RM mn)	16,448	17,652	18,214	20,699	22,305
EBITDA (RM mn)	7,124	7,424	7,149	7,795	8,550
Net profit (RM mn)	2,457	2,621	2,598	2,967	3,379
EPS (RM)	0.29	0.31	0.31	0.35	0.39
- Change from prev. EPS (%)	n.a.	n.a.	(4)	(2)	(2)
- Consensus EPS (RM)	n.a.	n.a.	0.32	0.35	0.39
EPS growth (%)	(4.2)	6.7	(1.5)	13.5	13.9
P/E (x)	23.6	22.1	22.5	19.8	17.4
Dividend yield (%)	2.8	5.1	3.5	4.2	4.7
EV/EBITDA (x)	8.9	8.6	8.8	8.2	7.5
P/B (x)	2.9	2.9	2.8	2.8	2.7
ROE (%)	12.7	13.1	12.8	14.2	15.8
Net debt(cash)/equity (%)	22.9	22.5	20.2	24.0	24.0

Note 1: Axiata has controlling interests in the mobile operators; 'Celcom' in Malaysia, 'XL' in Indonesia, 'Dialog' in Sri Lanka, 'Robi' in Bangladesh, 'HELLO' in Cambodia, with strategic stakes in 'Idea' in India and 'M1' in Singapore.

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9M13 results: we expect a YoY drop in EBITDA

XL has reported flat net revenues but a 14% YoY drop in EBITDA for 9M13. This suggests that Axiata's 9M13 results due 28 Nov will likely continue to show a YoY drop in EBITDA. Axiata's full-year KPIs are for 5.3% revenue growth and 0.2% YoY EBITDA growth and this is looking challenging in light of XL's results and the continued weakness of the Rupiah.

We have incorporated the latest earnings cut for XL, leading to a reduction in Axiata's FY13-15E net profits by 2-4%. We now have Axiata's FY13E revenues growing 3% but EBITDA contracting 3.7% YoY. We maintain our TP at RM7.75 after incorporating a TP increase for Idea.

We reiterate our OUTPERFORM rating on Axiata. We like Axiata's long-term fundamentals and strong execution track record. We expect 14% revenue growth and 9% EBITDA growth for Axiata in FY14E, driven by an earnings recovery in Indonesia and continued strong growth in Sri Lanka and Bangladesh. We expect Axiata's progressive dividend payout to drive long-term share price performance. We are projecting a net dividend yield of 4.2% for FY14E.

Risk factors to our positive view include moderately high foreign shareholdings of 28% and exposure to a weak Indonesian Rupiah.

Indonesia: EBITDA and net profit margins start to recover

XL has reported a 4.7% QoQ increase in net cellular revenue into 3Q13. While slower than the 6.7% QoQ revenue growth delivered by Telkomsel, XL comfortably outpaced Indosat's 1.8% QoQ revenue growth, and so XL actually gained market share versus Indosat for the second consecutive quarter. While voice revenue grew by 3.0% QoQ and even SMS revenue grew by 5.6% (due to the Labaran season) the primary driver was data revenue, which grew by 10.3% QoQ. YoY results continue to look weak, and full-year revenue guidance was officially revised down for the second consecutive time from 'mid-single-digit' growth to 'low-single-digit' growth.

The EBITDA margin expanded by 0.3 pp to 42.3% and EBITDA rose by 5.4% QoQ. XL also took a further Rp157 bn accelerated depreciation charge during 3Q13. This contributed to headline earnings declining by 30.8% QoQ and 66.5% YoY. We have revised down our FY13 revenue and EBITDA forecasts by 3.5% and 9.7%, respectively. After taking into account the post-hedging forex losses and accelerated depreciation, our FY13 earnings have been cut by 43.1%. These changes have a knock-on effect throughout our model, and we have revised down our FY14 EBITDA and net profit forecasts by 5.0% and 16.8%, respectively. Our DCF-based target price has been revised down 8.3% to Rp5,500.

India: Idea's Sep-13 quarter EBITDA miss

We had recently trimmed EPS by 2% and rolled forward Idea's TP to Rs190. Sep-13 quarter results saw a sharp 6% volume decline (vs our 4% expectation). Despite a bigger RPM increase, this flowed into a 4% EBITDA miss and a 10% PAT miss. The 2% QoQ RPM expansion reaffirms our view that the tariff trajectory for Indian telcos remains upwards, and should benefit in coming quarters (especially in Dec-13 quarter with the seasonal bounce back in volumes – which we believe will keep in trend with Sep-13 and will be stronger than usual). During the earnings call, Idea explained that the volume patterns were also caused by some of the free/deeply discounted minutes vanishing from the system.

Capex guidance is maintained at Rs35 bn for FY14. Idea is likely to bid for spectrum for 3G services if auctioned in coming months. At the same time, management ruled out any active participation in M&A activity. If Idea were to raise the previously alluded to US$620mn via an equity issuance AND if Axiata were to take up its share, this could cost Axiata ~US$125 mn.

Philippines

Universal Robina Corp. --- Maintain OUTPERFORM

3-in-1 coffee story — **EPS: ◄► TP: ◄►**

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- The coffee category is set to become a "3-in-1" driver of URC's earnings growth as margin expansion and expansion in VN complements robust domestic market share gains. Robusta coffee beans are at three-year lows, and URC's new Vietnam capacity comes online in February 2014.
- Domestic coffee (instant and mix) will account for 65%/28% of domestic branded sales growth/total sales growth in FY13. While we expect it to be the key top-line driver in FY14 as well, the recent weakness in Vietnamese Robusta coffee prices could enhance EBIT margins by ~55 bp alone.
- With EBIT margins expected to expand 150 bp in FY13 (2/3rds coming from lower raw material prices), the market is sceptical of further margin expansion in FY14. Our above-consensus forecasts factor in a more moderate 100 bp of expansion, and room for positive surprises from lower RM prices does exist.
- URC remains one of our favourite consumer ideas across the region because both earnings momentum and earnings revisions are positive. This is primarily due to PH demand, strong execution in the PH and VN, positive portfolio mix and favourable raw material prices. Maintain OUTPERFORM rating.

Bbg/RIC	**URC PM / URC.PS**	**Price (31 Oct 13, P)**			**127.50**
Rating (prev. rating)	**O (O)**	**TP (prev. TP P)**			**145.00 (145.00)**
Shares outstanding (mn)	2,061.50	Est. pot. % chg. to TP			14
Daily trad vol - 6m avg (mn)	2.8	52-wk range (P)			133.5 - 74.0
Daily trad val - 6m avg (US$ mn)	7.8	Mkt cap (P/US$ bn)			262.8/ 6.1
Free float (%)	37.3	**Performance**	**1M**	**3M**	**12M**
Major shareholders	JG Summit Holdings (60.52%)	Absolute (%)	9.0	3.7	77.3
		Relative (%)	5.9	2.5	55.9

Year	09/11A	09/12A	09/13E	09/14E	09/15E
Revenue (P mn)	67,168	71,202	81,430	91,910	103,073
EBITDA (P mn)	10,155	11,220	13,763	16,119	18,702
Net profit (P mn)	4,636	7,736	9,208	10,523	12,237
EPS (P)	2.25	3.69	4.39	5.02	5.84
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (P)	n.a.	n.a.	4.42	4.97	5.52
EPS growth (%)	(40.1)	64.2	19.0	14.3	16.3
P/E (x)	56.7	34.6	29.0	25.4	21.8
Dividend yield (%)	1.5	1.5	1.8	2.5	3.2
EV/EBITDA (x)	26.3	24.0	18.5	15.8	13.6
P/B (x)	6.5	5.7	5.3	4.9	4.6
ROE (%)	11.3	17.7	18.9	19.9	21.6
Net debt (cash)/equity (%)	10.0	13.4	(15.5)	(16.0)	(15.8)

Note 1: ORD/ADR=10.00. Note 2: Universal Robina Corporation (URC) is one of the largest branded food product companies in the Philippines, with a growing presence in ASEAN and China. The company is involved in the manufacture and distribution of branded consumer foods.

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"3-in-1" coffee exposure

As a driver of earnings growth, URC's coffee (instant and mix) business has been one-dimensional, in the sense that is was the primary driver of top-line growth in its domestic Branded Consumer Foods Group (BCFG) segment. We estimate that for FY13 (results to be announced week of 16 December), domestic coffee will account for 65% and 28% of PH BCFG and total sales growth, respectively. Over the past year, market share has increased from 12% to 18%, but more impressively in instant coffee the market share is up to 22% from 15% a year ago.

Because of its scale, lower Robusta coffee prices and a new processing facility opening in Vietnam in February 2014, we believe stronger margin expansion will complement the 31% annual sales growth over the next three years. Robusta coffee is a top 10 raw material for URC that we estimate accounts for 6% and 5% of PH BCFG and company-wide COGS, respectively. Early indications from the Vietnamese coffee harvest indicate that margin enhancement from lower RM prices alone could enhance total EBIT by 55 bp. This would account for more than half of our FY14 100 bp margin expansion expectation and excludes scale, pricing and new revenue from Vietnam or margin gains in all other product lines.

"Alota" Robusta

Vietnam is the world's largest producer of Robusta coffee beans, accounting for ~60% of global supply and where URC sources 90% of its raw material. Estimates are for total crop in the 2013/14 harvest season to increase 17% to 1.7 mn metric tons. African supply is also expected to increase this year. After a moderate 3% decline in the average Robusta coffee price for FY13, prices YTD are down 22% from last year's average and at 3-year lows. September 2014 Robusta futures are US$1,534/MT, which is only 3% higher than today's price.

Figure 1: Robusta coffee prices @ 3yr low

US$/metric ton

Source: Company data, Credit Suisse estimates.

With the new coffee processing facility coming online in Vietnam next year, will not only benefit from a new market for their coffee products, but can potentially reduce its processing costs, thus further enhancing margins in PH as well. This would be incremental to the 55 bp of EBIT margin we mention above.

Sugar prices won't offset favourable Robusta prices

Although sugar is a larger RM (6% of COGS) than Robusta coffee beans and global sugar prices have spiked 12% in the past month and are 10% above the FY13 average, PH and URC have a unique hedge against this. First, PH is sugar self-sufficient and has an 18% tariff on imported sugar. PH has restrictions on exports and is capped at 14% for this year. As a result, domestic sugar prices have only increased 4% in recent months. Second, URC is fully integrated whereby 100% of their domestic sugar needs which is supplied by their own sugar mills. Therefore, savings in Robusta coffee beans will materially outweigh incremental sugar costs in the Philippines.

Singapore

DBS Group --- Maintain OUTPERFORM

DBS 3Q13: Another beat driven by non II; management expects asset quality to stabilise **EPS: ◄► TP: ◄►**

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- DBS reported 3Q13 core net profit of S$862 mn (-3% QoQ, 1% YoY — CS/consensus S$760–830 mn). The beat was driven by better-than-expected non-interest income (trading, fee and investment gains) and slightly lower provisions.
- The underlying drivers remained healthy and within expectations—loan growth (2.9% QoQ, 14.7% YTD), NIMs (-2 bp QoQ) and NPLs (up 2% QoQ). While the street would have to revise up FY13E numbers to reflect this beat, 3Q results do not change the guidance for FY14 by much.
- Positives: (1) Healthy broad-based loan growth (2.9% QoQ), (2) Resilient fee income given the market conditions (-3% QoQ), (3) Cost discipline remains in focus (-4% QoQ). Negatives: (1) New NPA formation continues to remain high.
- Looking forward to FY14, management is confident of delivering high-single digit revenue growth and mid-single digit earnings growth: 8–10% loan growth, flat NIMs, continued operating cost discipline and credit costs in-line with FY13.

Bbg/RIC	**DBS SP / DBSM.SI**	**Price (01 Nov 13 , S$)**			**16.68**
Rating (prev. rating)	**O (O)**	**TP (prev. TP S$)**			**19.00 (19.00)**
Shares outstanding (mn)	2,449.66	Est. pot. % chg. to TP			14
Daily trad vol - 6m avg (mn)	4.2	52-wk range (S$)			17.9 - 13.7
Daily trad val - 6m avg (US$ mn)	56.2	Mkt cap (S$/US$ bn)			40.9/ 32.9
Free float (%)	72.0	**Performance**	**1M**	**3M**	**12M**
Major shareholders	Temasek (28.1%)	Absolute (%)	3.3	(4.9)	20.9
		Relative (%)	1.8	(3.3)	15.1

Year	**12-11A**	**12-12A**	**12-13E**	**12-14E**	**12-15E**
Pre-prov Op profit (S$ mn)	3,855.0	3,982.0	4,870.4	5,254.2	6,104.8
Net profit (S$ mn)	3,005	3,329	3,478	3,861	4,495
EPS (CS adj. S$)	1.24	1.36	1.40	1.55	1.79
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (S$)	n.a.	n.a.	1.45	1.56	1.74
EPS growth (%)	13.1	10.1	3.1	10.1	15.5
P/E (x)	13.5	12.2	11.9	10.8	9.3
Dividend yield (%)	3.4	3.4	3.4	3.6	3.8
BVPS (CS adj. S$)	12.2	12.9	13.7	14.6	15.7
P/B (x)	1.37	1.29	1.22	1.14	1.06
ROE (%)	10.9	11.1	10.7	11.1	11.9
ROA (%)	1.0	1.0	0.9	0.9	1.0
Tier 1 Ratio (%)	12.9	14.0	14.2	14.5	14.7

Note1:ORD/ADR=4.00.Note2:DBS Group Holdings Ltd is an investment holding company that operates through its main subsidiary, DBS Bank Ltd (the Bank). The Bank is engaged in the provision of retail, small and medium-sized enterprise, corporate, and investment banking services..

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Strong loan growth across the board

Figure 1: DBS: Loan growth vis-à-vis banking system loan growth

	YoY%			QoQ%				
(%)	**2011**	**2012**	**3Q13**	**3Q12**	**4Q12**	**1Q13**	**2Q13**	**3Q13**
SG system loans	30.3	16.7	16.4	4.4	3.9	5.5	2.8	2.6
DBS S$ loans	16.8	14.9	12.6	4.0	3.3	5.1	2.8	0.9
S'pore geography	19.9	13.5	18.0	2.7	2.9	8.8	3.8	1.5
HK system loans	20.2	9.6	15.6	1.9	2.8	3.1	6.2	2.7
DBS HK loans^	26.0	-7.0	32.0	-8.0	4.0	7.0	7.0	10.0
DBS US$ loans	60.1	10.1	32.3	-5.2	7.9	10.2	8.3	2.8
DBS other loans	41.9	0.7	29.6	-5.4	0.1	7.5	10.2	9.3
DBS-Group loans	**27.9**	**8.1**	**19.2**	**-1.3**	**3.9**	**6.2**	**5.0**	**2.9**

Source: CEIC, Company data, Credit Suisse estimates. Note: ^In local currency terms

Figure 2: DBS: Geographic revenue and PBT breakdown (3Q13)

	Revenue				Pre-tax profit			
(S$ mn)	**3Q13**	**Share**	**QoQ%**	**YoY%**	**3Q13**	**Share**	**QoQ%**	**YoY%**
Singapore	1,275	59%	-6.9	-0.1	731	69%	11.8	6.7
Hong Kong	429	20%	-18.1	15.0	189	18%	-36.4	-16.0
Rest of Gr China	195	9%	6.0	37.3	26	2%	-25.7	136.4
South & SE Asia	170	8%	14.9	21.4	76	7%	22.6	-13.6
Others	81	4%	-3.6	11.0	45	4%	-11.8	-32.8
Group total	**2,150**	**100%**	**-6.9**	**7.3**	**1,067**	**100%**	**-2.9**	**-0.8**

Source: Company data, Credit Suisse estimates.

Margins impacted by build-up in USD liquidity buffer

DBS built up its USD deposit base (up 24% QoQ) in anticipation of potential USD liquidity squeeze in the event of US tapering—which contributed to a 4 bp contraction in NIMs. This was partly offset by better China and Singapore mortgage NIMs (trade finance NIMs remained suppressed). For FY14, DBS expects to maintain NIMs around 1.60% levels. Corporate/SME spreads are likely to remain tight, but better Singapore mortgage NIMs (driven by the success of the new HDB loan product) should continue to support Group NIMs.

Figure 3: DBS: Spreads and margins

(%)	**2011**	**2012**	**YoY**	**3Q13**	**2Q13**	**3Q13**	**QoQ**	**YoY**
Loan spread	2.01	2.00	-0.01	1.98	1.89	1.87	-0.02	-0.11
Interbank spread	0.34	0.18	-0.16	0.20	0.21	0.26	0.05	0.06
Securities spread	2.10	1.65	-0.45	1.63	1.40	1.31	-0.09	-0.32
Overall NIM	**1.77**	**1.70**	**-0.07**	**1.67**	**1.62**	**1.60**	**-0.02**	**-0.07**
HK NIM	1.39	1.48	0.09	1.54	1.60	1.55	-0.05	0.01

Source: Company data, Credit Suisse estimates.

Asset quality: New NPA formation should moderate in the near term; worst is probably over for India asset quality

DBS' CEO expects new NPA formation to moderate in the next few quarters, as India NPLs (mainly from mid-size corporate exposure) stabilise. Expect FY14 credit costs to remain at FY13 levels.

Figure 4: DBS: Financial snapshot

(S$ mn)	**3Q12**	**4Q12**	**1Q13**	**2Q13**	**3Q13**	**QoQ%**	**YoY%**
Net interest income	1,332	1,293	1,327	1,382	1,406	1.7	5.6
Non-interest income	562	522	924	838	661	-21.1	17.6
Fee & commission	422	372	507	477	462	-3.1	9.5
Trading income	130	134	408	336	188	-44.0	44.6
Operating expenses	-901	-943	-952	-987	-949	-3.9	5.3
Pre-prov. optg profit	993	872	1,299	1,233	1,118	-9.3	12.6
Provisions	-55	-114	-223	-245	-151	-38.4	174.5
Investment gains	110	144	66	89	83	-7	-24.5
Core net profit	**856**	**760**	**950**	**887**	**862**	**-2.8**	**0.7**
Core ROA (%)	0.95	0.84	1.04	0.93	0.87	-0.06	-0.08
Core ROE (%)	11.2	9.7	11.8	10.9	10.6	-0.3	-0.7
Gross loans (S$ bn)	205.7	213.8	227.0	238.4	245.3	2.9	19.2
Deposits (S$ bn)	240.2	242.9	250.8	261.4	270.2	3.4	12.5
Loan/dep ratio (%)	84.3	86.7	89.2	89.8	89.5	-0.4	5.1
Non-int inc/revenue	29.7	28.8	41.0	37.7	32.0	-5.8	2.3
Cost-income (%)	47.6	52.0	42.3	44.5	45.9	1.5	-1.7
NPLs to loans (%)	1.3	1.2	1.2	1.2	1.2	0.0	-0.1
P&L prov.(bp of loans)	11	22	40	42	25	-17 bp	14 bp
NPA coverage (%)	134	142	142	141	136	-4.5	2.5

Source: Company data, Credit Suisse estimates

Oversea-Chinese Banking Corporation -------------------------- Maintain UNDERPERFORM

3Q13 – beat driven by non II; Singapore loan growth slows

EPS: ◄► TP: ◄►

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- OCBC reported 3Q13 net profit of S$759 mn (27% QoQ/ 5% YoY) beating expectations by roughly 8-10%, mostly driven by better insurance/fee income and lower operating costs.
- The underlying performance was mixed. Loan growth (1.9% QoQ) was weaker than expected and surprisingly, Singapore book (-1.7% QoQ versus system 3.0% QoQ) shrunk, while majority of growth was driven by Greater China (17.8% QoQ).
- Positives: (1) Insurance and fee income stronger than expected given the tough market conditions, (2) Cost discipline (-5% QoQ) remains in focus, Negatives: (1) NPAs up 13% QoQ and across any markets (partly driven by a lower base as well), (2) Singapore loan book shrunk 1.7% QoQ (versus system 3.0% QoQ).
- Management outlook for FY14 – confident of achieving 8-10% loan growth (impact of slower mortgage outstanding growth to be seen in 2H14), happy to maintain NIMs around 1.6% levels, expect cost discipline to continue and credit costs to potentially settle around 25 bp levels.

Bbg/RIC	**OCBC SP / OCBC.SI**	**Price (01 Nov 13 , S$)**			**10.36**
Rating (prev. rating)	**U (U)**	**TP (prev. TP S$)**			**10.20 (10.20)**
Shares outstanding (mn)	3,441.04	Est. pot. % chg. to TP			(2)
Daily trad vol - 6m avg (mn)	4.1	52-wk range (S$)			11.19 - 8.88
Daily trad val - 6m avg (US$ mn)	34.0	Mkt cap (S$/US$ bn)			35.6/ 28.7
Free float (%)	73.3	**Performance**	**1M**	**3M**	**12M**
Major shareholders	Lee Foundation	Absolute (%)	1.4	(3.5)	14.5
	(18.9%)	Relative (%)	(0.2)	(1.9)	8.7

Year	**12-11A**	**12-12A**	**12-13E**	**12-14E**	**12-15E**
Pre-prov Op profit (S$ mn)	3,067.0	3,834.0	3,556.1	4,037.8	4,529.0
Net profit (S$ mn)	2,250	2,775	2,640	2,867	3,155
EPS (CS adj. S$)	0.66	0.80	0.76	0.83	0.91
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (S$)	n.a.	n.a.	0.76	0.82	0.92
EPS growth (%)	(1.5)	21.7	(4.8)	8.6	10.0
P/E (x)	15.8	12.9	13.6	12.5	11.4
Dividend yield (%)	2.9	3.2	3.2	3.2	3.5
BVPS (CS adj. S$)	6.02	6.68	6.96	7.45	7.99
P/B (x)	1.72	1.55	1.49	1.39	1.30
ROE (%)	11.4	12.7	11.3	11.6	11.9
ROA (%)	0.9	1.0	0.9	0.9	0.9
Tier 1 Ratio (%)	14.5	16.7	17.0	17.2	17.5

Note1:ORD/ADR=2.00.Note2:Oversea-Chinese Banking Corporation Limited is a Singapore-based bank. It operates in five segments: Global Consumer Financial Services; Global Corporate Banking; Global Treasury; Insurance; and Others..

Click here for detailed financials

Loan growth strong in markets outside Singapore

Figure 1: OCBC—Loan growth vis-à-vis banking system loan growth

	YoY%			QoQ%				
	2011	2012	3Q13	3Q12	4Q12	1Q13	2Q13	3Q13
SG DBU+ACU loans	30.3	16.7	15.7	4.4	3.9	5.5	2.8	2.6
OCBC S$ loan	11.6	14.6	9.5	2.6	4.8	1.5	3.1	0.0
S'pore geographical	13.8	10.2	10.6	1.6	2.3	3.8	6.0	-1.7
Malaysia sys loan	13.6	9.5	9.5	2.0	1.8	2.1	2.9	2.3
OCBC Mal loan	20.0	11.8	15.0	5.0	2.1	3.4	3.0	4.0
Indonesia sys loan	24.7	23.1	20.1	4.2	6.0	2.3	6.9	3.6
OCBC Indo loan	31.0	28.2	21.0	5.8	4.7	1.5	9.0	8.0
OCBC Greater China	80.1	-12.9	18.2	-5.5	7.6	-2.2	18.9	17.8
OCBC Group loan	**26.9**	**6.6**	**15.9**	**1.0**	**3.1**	**3.1**	**7.0**	**1.9**

Source: CEIC, Company data, Credit Suisse estimates.

Figure 2: OCBC—Geographic revenue and PBT breakdown (3Q13)

	Revenue				Pre-tax profit			
(S$ mn)	**3Q13**	**Share**	**QoQ%**	**YoY%**	**3Q13**	**Share**	**QoQ%**	**YoY%**
Singapore	1,118	64%	19.7	19.7	633	65%	57.1	57.1
Malaysia	346	20%	-2.8	-2.8	222	23%	-3.1	-3.1
Indonesia	132	8%	0.0	0.0	47	5%	-6.0	-6.0
Greater China	94	5%	10.6	10.6	48	5%	41.2	41.2
Other Asia Pacific	40	2%	8.1	8.1	10	1%	-63.0	-63.0
Rest of the World	27	2%	17.4	17.4	20	2%	-35.5	-35.5
Total	**1,757**	**100%**	**12.1**	**12.1**	**980**	**100%**	**26.6**	**26.6**

Source: Company data, Credit Suisse estimates

NIMs continue to be pressured by loan spreads

While Malaysia and Indonesia NIMs stabilised, lower repricing of Singapore mortgage portfolio (likely to continue into mid 2014) continued to pressure overall Group NIMs. For FY14, management expects gains in credit spreads to be mostly offset by higher funding costs (in both SGD and USD).

Figure 3: OCBC—Trend in spreads and margins

(%)	2011	2012	YoY	3Q12	2Q13	3Q13	QoQ	YoY
Loan spread	1.98	1.94	-0.04	1.91	1.86	1.83	-0.03	-0.08
Interbank spread	1.36	1.17	-0.19	1.10	0.70	0.76	0.06	-0.34
Securities spread	1.53	1.34	-0.19	1.40	1.40	1.35	-0.05	-0.05
Group NIM	**1.86**	**1.77**	**-0.09**	**1.75**	**1.64**	**1.63**	**-0.01**	**-0.12**
Malaysia NIM	2.32	2.13	-0.19	2.03	2.18	2.21	0.03	0.18
Indonesia NIM	4.80	4.17	-0.63	4.32	4.23	4.33	0.10	0.01

Source: Company data, Credit Suisse estimates

Asset quality will likely continue to normalise

Management expects NPL ratio to remain in the 0.7-1.0% range through FY14. While there are pockets of stress (one account in steel sector in Malaysia, one account in the shipping segment) in the region, the overall quality of the book remains robust. Credit costs for FY14 likely to remain around 25 bp. If market conditions deteriorate further, it will consider increasing provisions to boost provisioning.

Figure 4: OCBC—Financial snapshot

(S$ mn)	3Q12	4Q12	1Q13	2Q13	3Q13	QoQ%	YoY%
Net interest income	944	921	912	961	978	1.8	3.6
Non-interest income	723	738	626	563	736	30.7	1.8
Fee & commission	303	304	316	347	352	1.4	16.2
Trading income	144	136	56	90	47	-47.8	-67.4
Insurance	226	250	215	56	280	400.0	23.9
Operating expenses	-685	-724	-672	-718	-681	-5.2	-0.6
Pre-prov. optg profit	982	935	866	806	1,033	28.2	5.2
Provisions	-70	-68	-21	-83	-94	13.3	34
Investment gains	31	19	50	43	43	0.0	38.7
Core net profit	**724**	**663**	**696**	**597**	**759**	**27.1**	**4.8**
Cash core ROA (%)	1.23	1.12	1.14	0.94	1.16	0.22	-0.07
Cash core ROE (%)	13.0	11.5	12.0	10.2	13.0	2.8	0.0
Gross loans (S$ bn)	139.7	144.0	148.5	158.9	161.9	1.9	15.8
Deposits (S$ bn)	157.5	165.1	168.8	176.3	181.3	2.8	15.1
Loan/dep ratio (%)	87.7	86.2	87.0	89.2	88.4	-0.8	0.7
Non-int inc/revenue	43.4	44.5	40.7	36.9	42.9	6.0	-0.4
Cost-income (%)	41.1	43.6	43.7	47.1	39.7	-7.4	-1.4
NPLs to loans (%)	0.8	0.8	0.7	0.7	0.8	0.1	0.0
P&L prov.(bp of loans)	20	19	6	22	23	2 bp	3 bp
Loan loss coverage (%)	128	142	149	144	130	-13.8	2.0

Source: Company data, Credit Suisse estimates

South Korea

Korea Economics --

Trade growth rebounded in October, but inflation surprised on the downside

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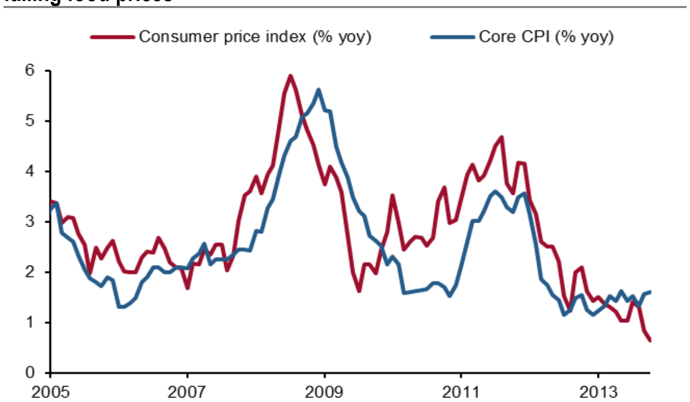
- Export and import jumped 7.3% YoY and 5.1% YoY in October, respectively, both exceeding market expectation. On a seasonally adjusted basis, we estimate that both recorded strong high single digit month-on-month gains in October.
- Despite the recent volatility, Korea's export and import growth have made a visible improvement in 2H so far compared with 1H. This is in-line with our expectation of a recovery in Korea's external demand condition.
- Details of the trade report show a jump in export shipment to the US and EU. We expect Korea's export momentum to remain resilient in 4Q, as reflected by the rise in the leading indicators of its major trading partners.
- Meanwhile, CPI inflation stayed very weak at 0.7% YoY in October. Further fall in fruit and vegetable prices caused by an excess supply condition was the main driver behind. Core CPI inflation, on the other hand, remained stable at 1.6% YoY.

Figure 1: Trade growth rebounded in October

Source: MITE, Credit Suisse

Figure 2: October inflation surprised on the downside, dragged by falling food prices



Source: NSO, Credit Suisse

Trade growth rebounded

Export and import growth in October rebounded, exceeding market expectation of a low single digit growth. Exports rose 7.3% YoY, bounced back from the 1.5% YoY contraction in September which was distorted by lesser working days due to the Chuseok Festival. Imports also rebounded by 5.1% YoY, reversed from the 3.6% YoY contraction in September. On a seasonally adjusted basis, we estimate that both exports and imports made strong high single digit month-on-month gains in October.

The trade surplus has recovered to $4.9 bn in October from $3.7 bn in the previous month, helped by the relative outperformance of exports. The trend trade surplus has reached another recent high at $42.6 bn (3.5% of GDP) on a 12-month rolling sum basis.

Despite the recent volatility caused by an uneven statistical base, Korea's export and import growth have made a visible improvement in 2H so far compared with 1H. Export and import grew 4% YoY and 1.5% YoY, respectively, from July to October, up from the 0.6% YoY and -2.9% YoY during the first six months of this year. This is in-line with our expectation of a recovery in Korea's external demand condition, pulled by the improved momentum among its main trading partners (refer to *Korea and Taiwan: Exports have bottomed, but upside limited*, published on 11 July).

Details of the trade report show a jump in export shipment to the US and EU. Product-wise, exports of wireless telecommunication equipments, semiconductors and automobile recorded strong double digit growth. We expect Korea's export momentum to remain resilient in 4Q, as reflected by the rise in the leading indicators of its major trading partners.

Inflation stayed very low, dragged by the drop in food prices

CPI inflation stayed very weak at 0.7% YoY in October, decelerating further from the 0.8% YoY print a month ago. Despite softer food prices a year ago after the passage of Typhoon Sanba, fruit and vegetable prices fell sharper in October this year due to an excess supply condition. The prices of food and non-alcoholic beverages fell 0.3% MoM, worsening its year-on-year contraction to 1.8% (-1.2% YoY in September). This is the main driver behind the surprising fall in headline inflation. Besides food prices, the prices for transportation also fell 1.4% YoY, as Dubai crude oil prices also fell from a year ago.

Although headline inflation was depressed by cheaper food and oil prices, core CPI inflation (which excludes these items) remained stable at 1.6% YoY in October. The fall in prices for clothing and footwear, and recreation and culture were offset by higher prices in furnishings and household equipments, housing utilities, and miscellaneous goods and services.

The stable core inflation reading suggest that the weak headline inflation was mainly dragged by the high base and seasonal slump in food prices. We expect headline inflation to stabilise in the coming months as these factors gradually wear off.

Korea Auto Sector -- Maintain OVERWEIGHT

October shipments: Normalising for 3Q strikes

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- Both Hyundai and Kia are running ahead of their 2013 unit sales targets, both with and without China. Based on our observations, domestic shipments picked up noticeably for both Hyundai and Kia, reflecting make up production from strikes during August and September.
- China selling rates which had been slow during the summer months seem to be picking up again for both brands based on October shipments.
- US retail data was not out at the time of writing this daily. European retail data should be released in the coming weeks.
- We did not see any stark negative surprises which could negatively impact the companies' 4Q earnings. As of now we believe forex and market fund flow factors will likely be the key catalysts for the stocks through the end of 2013. We maintain our Overweight recommendation on the auto sector with Hyundai Motor as our preferred play.

Valuation metrics

Company	Ticker	Rating	Price Local	Price Target	Year T	P/E (x) T+1	P/E (x) T+2	P/B (x) T+1
Hyundai Motor	005380.KS	O	254,000	299,000	12/13	6.0	5.3	1.0
KIA Motors	000270.KS	N	61,500	71,000	12/13	6.2	5.7	1.2

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM
Source: Company data, Credit Suisse estimates

Observations on October plant shipments

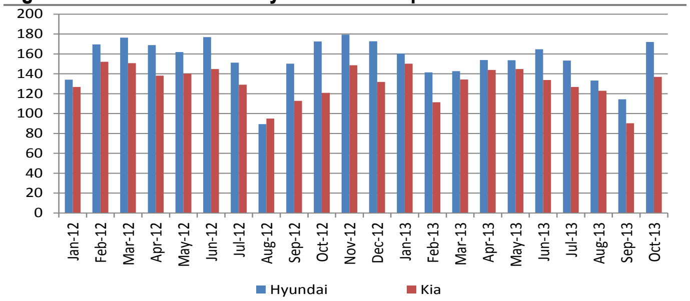
October shipments from domestic plants at Hyundai came in at 172k units, up 50% MoM while Kia's shipments from domestic plants reached 137k units, up 52% MoM. We believe these increases are reflective of make-up production for strike related production weakness seen in September. We believe based on October figures, both Hyundai and Kia are likely to be in for a QoQ improvement in both revenues and operating profits assuming forex rates remain stable through the end of the year.

Figure 1: HMC and Kia YTD global shipments vs run rate

('000 Units)	YTD 12	YTD 13	YoY	Implied FY13E	Co., Target Growth
Hyundai	**3,587**	**3,905**	**8.9%**	**4,771**	**5.9%**
China	678	879	29.6%	1,062	20.3%
ex China	2,909	3,026	4.0%	3,709	2.1%
Kia	**2,241**	**2,325**	**3.7%**	**2,824**	**1.1%**
China	378	446	17.8%	566	4.0%
ex China	1,863	1,879	0.9%	2,258	0.5%
Total	**5,828**	**6,230**	**6.9%**	**7,595**	**6.7%**
China	1,057	1,325	25.4%	1,628	14.4%
ex China	4,772	4,904	2.8%	5,967	1.5%

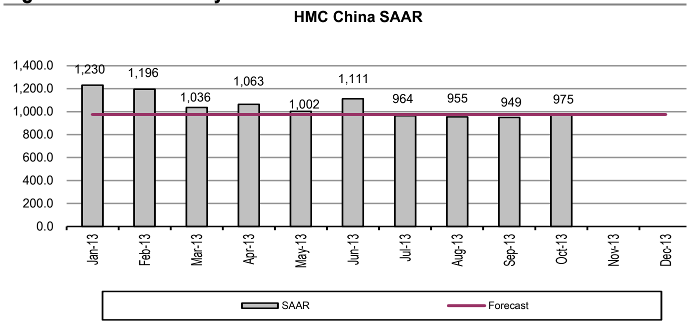
Source: Company data, Credit Suisse estimates.

Figure 2: HMC & Kia: Monthly Domestic Shipments



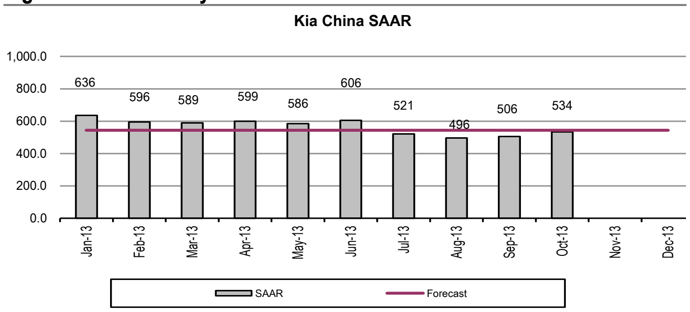
Source: Company data.

Figure 3: HMC: Monthly China SAAR vs. FY13E



Source: Company data, Credit Suisse estimates.

Figure 4: Kia: Monthly China SAAR vs. FY13E



Source: Company data, Credit Suisse estimates.

Korea Retail Sector

Profit-taking on old news providing a buying opportunity

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- According to various local media, the Korean Fair Trade Commission is likely to impose penalty on large retailers, regarding 'unfair' contract terms to suppliers. This is a result of an investigation that has been carrying out on major retailers since May 2012.
- Since the implementation of the regulation on large retailers in Nov 2011, there has been no news except that the recent articles re-highlighted the raised penalty cap, and that the verdict by the FTC is quite imminent, i.e. within this month.
- Regulatory risks are always unwelcome to the market; therefore, sentiment should be negative in the sector, especially post the sector's outperformance.
- However, as this is not new, and as the companies have been looking for ways to reduce 'unfair' contracts ever since the regulation came into place in late 2011, we believe the likelihood of further disappointment is unlikely. We would buy into the weakness, with E-Mart as our top pick.

Valuation metrics

Company	Ticker	Rating	Price		Year	P/E (x)		P/B (x)
			Local	Target	T	T+1	T+2	T+1
Lotte Shopping	023530.KS	N (N)	385,000	420,000	12/12	12.4	10.9	0.7
Shinsegae	004170.KS	N	257,000	240,000	12/11	15.8	13.0	1.2
Hyundai Dept. Store	069960.KS	O	167,000	210,000	12/12	11.1	9.4	1.1
E-Mart	139480.KS	O	249,500	200,000	12/11	14.6	15.6	1.1

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM
Source: Company data, Credit Suisse estimates

News media reporting penalty on retailers- likely to happen

According to various local media, the Korean Fair Trade Commission is likely to impose penalty on large retailers, regarding 'unfair' contract terms to the suppliers. This is a result of the FTC investigation on major retailers since May 2012. Penalty would be on 'unfair cost allocation on promotion/marketing/labour, unfair sales subsidies, etc'. As per the most recent media reports, penalty should be announced within this month and the amount could be 'significant'. As per regulation changes since early 2012, penalty cap has been raised from 2% of 'unfair contract value' to 90%.

As per companies' comments, it is difficult to estimate the penalty amount, as there are grey areas such as the sales subsidies, which mostly include the discount that suppliers give to retailers.

Two-year-old history of the law on large retailers

This history of penalty goes back to late Nov 2011 when the FTC put in place a regulation on large retailers (department stores, hypermarkets, supermarkets, homeshopping networks, etc.) regarding unfair contract with suppliers. These 'unfair' contracts would include any excessive discount, unfair marketing/promotion/labour cost allocation to suppliers, unfair merchandise returns, etc.

Early in 2012, regulations have been fine-tuned to raise penalty amount to 90% of the contract value, vs 2% previously. Early last month (7 Oct), the FTC also announced that they were banning any 'excessive' sales subsidies that the suppliers pay to the large retailers.

Since the implementation of the regulation on large retailers in Nov 2011, there has been no news except that the recent articles re-highlighted the raised penalty cap, and according to the local news articles, the penalty amount could be big.

Recurring risk? Not so likely

Going forward, we believe the net impact on retailers may end up being not as significant: (1) these sales subsidies have been called subsidies because the supply price is the same for all channels, while the net of discount supply price may differ depending on the channel. Given the suppliers can arbitrarily cut supply price, the 'subsidy' amount can shrink, which has a smaller impact on the retailers. (2) In case the retailers are forced to purchase at a higher supply price they will try to pass on the cost to consumers to cover their own costs.

Companies have already changed strategy

According to E-Mart, 25% of the sales subsidies are from mid-small enterprises suppliers, the remaining coming from large corporates. Given this regulation aims to protect small-medium size enterprises, we think it is very unlikely that they would be penalised by the whole amount of the subsidies. Also, E-Mart management has been saying that they would go back to the basics of the hypermarket business, i.e. Everyday Low Price strategy. As such, they have been minimising promotion/marketing costs, which lowers labour costs at the same time. We think this aligns with the consumers' interests who want lower-priced, smaller-portion goods.

Regulatory risks are bad, but nothing is 'new' in this news

Regulatory risks are always unwelcome to the market; thus, sentiment should be negative. However, as this is not new, and as the companies have been looking for ways to reduce these damages ever since the regulation came into place in late 2011, we believe the likelihood of further disappointment is unlikely. We would buy into the weakness, with E-Mart as our top pick. We like E-Mart for its aggressive strategy in the online grocery market, and its various strategies that raise its long-term margins.

Hyundai Department Store-- Maintain OUTPERFORM

Leverage play of the consumption recovery **EPS: ▼ TP: ▼**

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- Hyundai is a pure department store play that has been generating higher-than-peers margins on efficient cost management. We believe this cost management should be valid as it moves on with premium outlet malls.
- We believe that the much better return delivery relative to its peers should outweigh some of the concerns, including the late entry in newer channels such as outlet malls.
- Post a likely disappointment in its 3Q earnings, HDS's earnings outlook is positive, as: (1) the full-year impact of the Coex branch should be reflected in FY14 and (2) the new store pipelines in Pangyo and Kimpo look promising.
- We reiterate our OUTPERFORM rating on HDS and 200,000 target on a mid-to-high historical multiple of 13x P/E, which can be justified by 13-14% EPS growth outlook for FY14/FY15. We think a premium valuation vs peers (dept stores' average of 12x) can be justified, given its superior return profile and healthier balance sheet.

Bbg/RIC	**069960 KS / 069960.KS**	**Price (01 Nov 13, W)**			**167,000**
Rating (prev. rating)	**O (O)**	**TP (prev. TP W)**			**200,000 (210,000)**
Shares outstanding (mn)	23.40	Est. pot. % chg. to TP			20
Daily trad vol - 6m avg (mn)	0.1	52-wk range (W)			174000.0 - 132500.0
Daily trad val - 6m avg (US$ mn)	8.2	Mkt cap (W/US$ bn)			3,908.2/ 3.7
Free float (%)	62.2	**Performance**	**1M**	**3M**	**12M**
Major shareholders	Chung family &	Absolute (%)	0.3	3.7	23.7
	related, 36.2%	Relative (%)	(1.7)	(2.3)	16.3

Year	12/11A	12/12A	12/13E	12/14E	12/15E
Revenue (W bn)	4,238	4,488	4,658	5,132	5,763
EBITDA (W bn)	513.2	522.9	519.5	619.9	712.2
Net profit (W bn)	346.4	321.9	315.8	356.9	405.9
EPS (W)	15,017	13,755	13,495	15,249	17,345
- Change from prev. EPS (%)	n.a.	n.a.	(10)	(14)	(19)
- Consensus EPS (W)	n.a.	n.a.	14,290	15,652	17,526
EPS growth (%)	4.5	(8.4)	(1.9)	13.0	13.8
P/E (x)	11.1	12.1	12.4	11.0	9.6
Dividend yield (%)	0.4	0.4	0.4	0.5	0.5
EV/EBITDA (x)	8.6	9.0	9.0	7.2	6.0
P/B (x)	1.4	1.2	1.1	1.0	0.9
ROE (%)	13.0	10.5	9.3	9.6	9.8
Net debt (cash)/equity (%)	17.5	24.3	22.0	14.6	9.1

Note 1: Hyundai Department Store Co.,Ltd. is a Korea-based department store chain operator. The company provides upscale apparels, fashion goods and accessories, home furnishings and foods. It activities include e-business, tourism, hotel management.

Click here for detailed financials

Positive earnings outlook

Although 3Q earnings are likely to be soft, the earnings outlook looks positive, as (1) the full-year impact of the Coex branch should be reflected in FY14 and (2) the new store pipelines in Pangyo and Kimpo look promising.

Strong store pipeline

Hyundai Department Store's store expansion pipeline looks attractive. Although overall returns of outlet malls could be lower than those of department stores, given the difference in the nature of the business, Hyundai's strong execution and cost management abilities should soon turn these stores into profit. Its department store in Pangyo, which is scheduled to open in 2015, looks promising as well, given competition is not as tough as in other areas.

HDS has usually been penalised for: (1) being a late entrant in new channels rather than pioneering in the retail industry and (2) its lack of landbank for further investment beyond 2016. The much better return delivery relative to its peers and strong store pipeline should outweigh these factors. Key risks to our call include: (1) any execution delays in the new store start-ups, including the recently expanded Coex branch and (2) any excessive SG&A expenditures, which may dilute its superior cost management.

Cost management: The key competitiveness

HDS, by any matrix, is the most efficient retailer in Korea. Its cost management is also the best in class, with over 300 bp difference in OPM vs Shinsegae's. Its return profile, too, is superior. Compared to Lotte, HDS is targeting higher-end, which probably explains the better revenue per area. Compared to Shinsegae, which targets higher end, profitability is far better. We believe that this strong cost management ability will likely result in a quick turnaround in operations at its new stores, even at its new outlet mall.

Figure 1: Productivity comparison by department stores

		2010	2011	2012
Sales/sqm	Hyundai	9.0	10.4	10.1
(W mn)	Lotte (Dept store only)	8.4	8.7	8.2
	Shinsegae	10.6	11.6	10.6
OPM	HDS	10.9%	10.3%	9.5%
	Lotte (Dept store only)	11.6%	10.6%	8.6%
	Shinsegae	NA	5.7%	4.5%
EBITDA	Hyundai	12.7%	12.1%	11.7%
margin	Lotte (Dept store only)	13.5%	12.6%	11.1%
	Shinsegae	NA	8.6%	7.5%
ROIC	Hyundai	9.5	10.4	10.7
	Lotte (aggregate)	5.8	6.8	7.5
	Shinsegae	4.9	5.0	5.0
ROE	Hyundai	9.3	9.6	9.8
	Lotte (aggregate)	5.8	6.5	6.9
	Shinsegae	5.3	5.5	5.8

Source: Company data, Credit Suisse estimates.

Competitive pure play, with premium valuation vs peers

Our 200,000 target price on a mid-to-high historical multiple of 13x P/E can be justified by 13-14% EPS growth outlook for 2014 and 2015. We think a premium valuation vs peers (department stores' average of 12x) can be justified, given its superior return profile and healthier balance sheet. Hyundai is the leverage play on the domestic consumption recovery.

Rating history (069960.KS)

Date	Old rating	New rating	Old TP	New TP
4 Nov 2013	Outperform	OUTPERFORM	W210,000	W200,000

E-MART Co. Ltd--Upgrade to OUTPERFORM

Attractive business model with focused strategy **EPS: ▲ TP: ▲**

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- Post a disappointing year of operations amid an unfavourable regulatory environment, we believe that cost-saving efforts, well-managed private label lines, as well as aggressive online expansion will be the key drivers of margin improvement.
- The company guides that until 2018, the online business should grow at 30% p.a. and, as a result, its market share in the grocery segment should be up by 200 bp until 2018, which is significant for a staples business. Profit contribution should turn around from loss as of FY13 to around 10% in FY15.
- Catalysts include (1) the faster than expected (ramp-up in online business, (2) margin improvements reflecting its cost reduction efforts and (3) pull-out from the China operations.
- Our target price of W300,000 (prev W200,000) is based on 15x FY14E P/E (historical average). Reflecting its 7.4% stake in Samsung life, an implied P/E of 12x target P/E. Risks include any aggressive expansion in the duty free shop business, through its affiliate, but we think the likelihood is low given the lack of capital.

Bbg/RIC	**139480 KS / 139480.KS**	**Price (01 Nov 13, W)**			**249,500**
Rating (prev. rating)	**O (U)**	**TP (prev. TP W)**			**300,000 (200,000)**
Shares outstanding (mn)	27.88	Est. pot. % chg. to TP			20
Daily trad vol - 6m avg (mn)	0.1	52-wk range (W)			254000.0 - 185500.0
Daily trad val - 6m avg (US$ mn)	16.6	Mkt cap (W/US$ bn)			6,955.0/ 6.6
Free float (%)	72.8	**Performance**	**1M**	**3M**	**12M**
Major shareholders	Shinsegae Family; 27.14%	Absolute (%)	4.8	16.9	3.3
		Relative (%)	2.8	10.8	(4.1)

Year	12/11A	12/12A	12/13E	12/14E	12/15E
Revenue (W bn)	13,535	14,489	14,800	15,821	16,760
EBITDA (W bn)	1,055	1,109	1,110	1,235	1,370
Net profit (W bn)	462.4	424.4	474.5	558.2	648.2
EPS (W)	16,587	15,224	17,021	20,023	23,254
- Change from prev. EPS (%)	n.a.	n.a.	6	2	8
- Consensus EPS (W)	n.a.	n.a.	17,042	19,395	21,625
EPS growth (%)	n.a.	(8.2)	11.8	17.6	16.1
P/E (x)	15.0	16.4	14.7	12.5	10.7
Dividend yield (%)	0.3	0.6	0.6	0.6	0.7
EV/EBITDA (x)	9.4	9.3	9.1	8.2	7.4
P/B (x)	1.2	1.1	1.1	1.0	0.9
ROE (%)	8.3	7.3	7.4	8.1	8.6
Net debt (cash)/equity (%)	52.5	53.9	48.4	44.6	40.2

Note 1: E-Mart is a spin-off entity from Shinsegae Co. as of May 2011,. It is largest discount store operator in Korea, and is an affiliate of Shinsegae group. The company retails food, clothing, household goods, electronics.

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Attractive business model with strong management

As the hypermarket industry matures in Korea, a cyclical turnaround and top-line growth could look limited relative to the past. However, we believe E-Mart has stronger growth potential, thanks to: (1) expansion and a turnaround in the online business and (2) cost cutting in the offline operations as well as merchandise management.

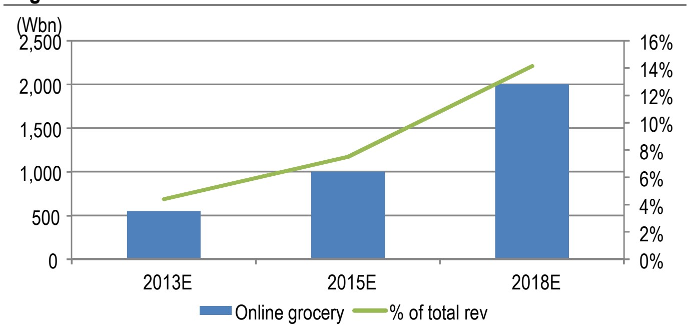
E-Mart Mall: Online grocery is the growth driver

The company guides that until 2018, the online business should grow at 30% p.a. and as a result, its market share in the grocery segment should go up by 200 bp until 2018, which is significant for a staples business. Profit contribution should turn around from loss as of FY13 to around 10% in FY15.

Despite a tougher peer competition, E-Mart has been even more aggressive in the fresh food segment where it believes it has an edge. Currently, more than 70% of its online grocery revenue is generated from the fresh food segment; E-Mart's market share is more than 50% in the online fresh food segment. The online fresh food market is at a premature stage, as the general public still prefers to purchase offline. However, with (1) the increasing number of working women, (2) online not being subject to compulsory shutdowns and (3) the company building more trust in the quality of its service, the growth outlook remains bright.

E-Mart has already branded itself as the premium retailer for fresh food and the online business could be improved with better efficiency in logistics and inventory management. As such, the company is building a separate fresh food centre to better manage inventory and timely delivery. The online-dedicated logistics centres in Gimpo and Yongin, which should be completed by next year, should allow a much more efficient online operation and further help grow the online grocery business, as the online demand of fresh food is increasing.

Figure 1: E-Mart—online grocery business growth outlook remains bright



Source: Company data, Credit Suisse estimates

Cost-cutting efforts

The company is going back to the basics of the Everyday Low Price (EDLP) strategy and trying to reduce prices and minimise costs; any 'redundant' costs, such as in-store advertisements signboards, and any promotional activities that require extra labour costs are being discouraged. This also aligns consumers' demand in smaller portion grocery as the size of the average Korean household has fallen. More cost savings is possible by simplifying the process of purchasing merchandise and further development of the fresh food centre, which allows cost savings through vertically integrated operations, longer preservation, better inventory management, etc.

Rating history (139480.KS)

Date	Old rating	New rating	Old TP	New TP
4 Nov 2013	Underperform	OUTPERFORM	W200,000	W300,000

Lotte Shopping ---Maintain NEUTRAL

Diversification makes it less attractive in an upturn

EPS: ▼ TP: ▲

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- Lotte Shopping's earnings growth has been more stable relative to its peers due to its diversified business mix—from department stores to hypermarkets, CVS, homeshopping, etc. On the flipside, we think Lotte could look less attractive relative to its pure peers when consumption starts showing improvements.
- Although it is very well known, and as management recently expressed its intention to review its operations in China, Lotte's operations there remain a burden to the company's long-term value. Thus, a radical decision about its loss-making China operations could be a strong trigger to the share price.
- The stock trades at 11x P/E. We believe its diversified business model and overseas exposure dilute overall returns, hence, even if consumption does improve more meaningfully than expected, the valuation is unlikely to return to peak 2010-11 levels, when optimistic expectations on Chinese operations peaked.
- We reiterate our NEUTRAL rating and revise W420,000 target price (from W380,000) based on its historical average P/E of 12x FY14E.

Bbg/RIC	**023530 KS / 023530.KS**	**Price (01 Nov 13, W)**			**385,000**
Rating (prev. rating)	**N (N)**	**TP (prev. TP W)**			**420,000 (380,000)**
Shares outstanding (mn)	31.49	Est. pot. % chg. to TP			9
Daily trad vol - 6m avg (mn)	0.0	52-wk range (W)			415000.0 - 331000.0
Daily trad val - 6m avg (US$ mn)	16.7	Mkt cap (W/US$ bn)			12,124.0/ 11.4
Free float (%)	30.7	**Performance**	**1M**	**3M**	**12M**
Major shareholders	Shin family & related; 70.12%	Absolute (%)	(1.2)	8.6	13.4
		Relative (%)	(3.2)	2.6	6.0

Year	**12/11A**	**12/12A**	**12/13E**	**12/14E**	**12/15E**
Revenue (W bn)	22,972	25,817	29,732	32,521	35,034
EBITDA (W bn)	2,177	1,990	2,371	2,558	2,793
Net profit (W bn)	964	1,080	980	1,111	1,275
EPS (W)	33,234	37,250	31,135	35,295	40,476
- Change from prev. EPS (%)	n.a.	n.a.	(2)	(6)	
- Consensus EPS (W)	n.a.	n.a.	32,842	37,555	42,187
EPS growth (%)	(0.4)	12.1	(16.4)	13.4	14.7
P/E (x)	11.6	10.3	12.4	10.9	9.5
Dividend yield (%)	0.5	0.5	0.5	0.6	0.6
EV/EBITDA (x)	9.3	11.8	9.8	9.0	8.0
P/B (x)	0.8	0.7	0.7	0.7	0.6
ROE (%)	6.8	7.1	6.0	6.4	6.8
Net debt (cash)/equity (%)	56.0	71.7	65.1	59.9	53.6

Note 1: ORD/ADR=0.05. Note 2: Lotte Shopping operates department stores and discount stores in South Korea. The company retails clothing, household goods, foods and other items through several branches. It also operates movie theaters.

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Diversification makes it less attractive in an upturn

Lotte Shopping is the 'department store' of retailers, having each category of retailing channels—from department stores to hypermarkets, convenient stores, super supermarkets, homeshopping, category killers, etc. Given the shift in consumers' preference for retail channels from the traditional to the newer channels, Lotte's channel portfolio is a defensive one, which should lag pure plays. Also, the relatively aggressive expansion and growing accumulated losses in China remain a lingering issue, given continued fierce competition in China, which is unlikely to show a turnaround in the near term. The company's recent announcement of a toned-down plan of China expansion should be positive in the near term (given less cash outflow), but does not provide a rosy outlook—hence our NEUTRAL rating with a W420,000 target price.

Still lacklustre China operations

Although it is very well known, Lotte Shoipping's operations in China remain a burden to the company's long-term value. Management recently expressed its intention to review these operations. Unless there is a firm decision, we expect the loss-making business will dilute the company's overall earnings.

Sales and leaseback plans do not materially affect our view on the stock

As disclosed by the company, it is planning to announce a concrete schedule of sales and leasebacks to pay down debt and reinvest—according to *The Wall Street Journal*, the company is expected to raise around W1 tn. While this may look better on its relatively leveraged balance sheet, especially if one believes in a deflationary environment, we believe that this may make better sense. However, we would like to see where these proceeds are used, and at this juncture, we would be concerned if it invested in the overseas markets.

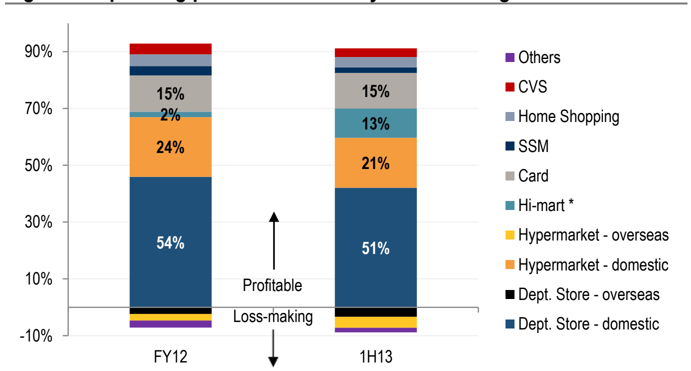
Valuation

We believe its diversified business model and overseas exposure are diluting overall returns; hence, even if consumption does improve more meaningfully than expected, the valuation is unlikely to return to the 2010-11 level, when optimistic expectations on Chinese operations peaked.

Investment risks

Risks include: (1) delayed improvement in domestic macro; (2) although the likelihood is low given recent company comments, aggressive expansion in China could be a risk; (3) tougher competitive environment in the domestic outlet mall business.

Figure 1: Operating profit breakdown by business segment



* FY12 does not fully reflect Hi-mart operations as it was acquired during 2012.

Source: Company data

Rating history (139480.KS)

Date	**Old rating**	**New rating**	**Old TP**	**New TP**
4 Nov 2013	Neutral	NEUTRAL	W380,000	W420,000

Shinsegae --Maintain NEUTRAL

Impact of cost reduction already in the price?

EPS: ▼ TP: ▲

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- Shinsegae outperformed the market in September results, delivering margin improvement. We, however, believe that there will be a limited margin recovery, given the scale difference versus its peers, the concept of the stores and its lease expenses—considering that the two stores are leased.
- Catalysts include a successful cost reduction. If the company succeeds in cutting costs more aggressively, we believe it could be a positive catalyst to the share price. The share price implies a 30% cut in labour and marketing costs (where it can reduce the most), which looks to be a stretched target.
- Our revised TP of W270,000 (from W240,000) based on 15x P/E, the historical average. We believe operating leverage will be in Shinsegae's favour as management is focused on cost reduction.
- The stock trades at 14x P/E, which looks fairly valued with EPS growth of 10% in FY14E and a historical valuation range of 10-20x P/E. The implied multiple, including its 3.7% stake in Samsung Life, is 12x P/E.

Bbg/RIC	**004170 KS / 004170.KS**	**Price (01 Nov 13, W)**	**257,000**
Rating (prev. rating)	**N (N)**	**TP (prev. TP W)**	**270,000 (240,000)**
Shares outstanding (mn)	9.85	Est. pot. % chg. to TP	5
Daily trad vol - 6m avg (mn)	0.0	52-wk range (W)	269000.0 - 195000.0
Daily trad val - 6m avg (US$ mn)	6.5	Mkt cap (W/US$ bn)	2,530.2/ 2.4
Free float (%)	72.8		
Major shareholders	Shinsegae Family; 27.13%		

Performance	**1M**	**3M**	**12M**
Absolute (%)	12.7	17.1	31.8
Relative (%)	10.7	11.1	24.4

Year	**12/11A**	**12/12A**	**12/13E**	**12/14E**	**12/15E**
Revenue (W bn)	4,622	4,952	4,967	5,162	5,741
EBITDA (W bn)	380.7	387.0	363.8	395.4	452.5
Net profit (W bn)	3,502	162	165	181	205
EPS (W)	355,666	16,426	16,769	18,385	20,821
- Change from prev. EPS (%)	n.a.	n.a.	(15)	(15)	
- Consensus EPS (W)	n.a.	n.a.	17,171	19,600	21,179
EPS growth (%)	1,145.9	(95.4)	2.1	9.6	13.2
P/E (x)	0.7	15.6	15.3	14.0	12.3
Dividend yield (%)	0.5	0.6	0.8	0.9	1.2
EV/EBITDA (x)	8.6	11.9	13.3	12.1	11.0
P/B (x)	1.2	0.8	0.8	0.7	0.7
ROE (%)	74.1	6.1	5.2	5.4	5.7
Net debt(cash)/equity (%)	33.3	67.3	70.9	64.5	65.8

Note 1: Shinsegae Co. is a Korea-based company engaged in the operation of department stores. The company operates its business under two segments: Offline department stores and online department stores.

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Cost management could be a catalyst

Shinsegae has outperformed the market on improving SSSG over the past few months, as well as the September results delivering margin improvement. Although management should remain focused on further cost reductions, we believe there is a limit to the margin recovery, given the scale difference versus its peers, the concept of the stores and its lease expenses, considering the two stores that pay rent; even if we assume a 10% cut in labour and advertisement/promotion expenses, the implied P/E does not look that attractive.

We took labour and advertisement and promotion expenses, which show a big gap versus those of Hyundai. Given the premium at which Shinsegae is trading at versus the peers of HDS, we believe the current valuation implies a more than 30% cut in labour/A&P costs, which looks an aggressive target in the next 12 months.

Figure 1: Sensitivity analysis assuming cost cut

	2013E		2013E
Shinsegae labour cost of gross revenue	6%	Hyundai Dept Store labour cost of gross revenue	3%
Shinsegae A&P	4%	HDS A&P	3%

Impact on EPS assuming 10% cut in labour and A&P cost

	2013E	2014E	2015E
EPS change	14%	12%	12%
Implied P/E	14.1	12.7	11.3

Impact on EPS assuming labour/A&P as low as HDS

	2013E	2014E	2015E
EPS change	57%	47%	47%
Implied P/E	8.0	7.2	6.4

Source: Company data, Credit Suisse estimates

Expansions in complex shopping malls, outlet malls

The expansion schedule at its Kangnam store by 2015 and Centum City by 2016 should be a positive trigger. Also, Shinsegae plans to expand one shopping mall, and four additional department stores by 2018. Although most of the investments are done through its group affiliate E-Mart, we believe that the expansion in the complex shopping malls would be a long-term growth driver for Shinsegae as well, given the malls are likely to include Shinsegae Department Stores as key tenants.

Shinsegae Simon, the premium outlet affiliate is also expanding aggressively by almost doubling up the Yeoju store by the end of 2014E, and recently started a new store in Kijang in the Busan area. The competitive landscape of the outlet malls is getting tougher, but Shinsegae, as an early entrant, should continue to lead in the premium outlet.

Valuation

The stock is trading at 14.5x FY14E P/E, a premium to its peer group. This is partly explained by its 3.7% holdings in Samsung Life, which is worth 20% of the market cap, assuming 30% discount rate on the stake holdings. We believe that the most recent outperformance reflects margin improvement expectations. That said, given the differences versus its peers, in terms of scale, concept and rental status (more stores rent relative to peers), cost management is unlikely to change materially, hence, even with the improvement in consumption sentiment, we see limited upside from the current level. Our target price of W270,000 is based on the historical average of 15x P/E.

Rating history (004170.KS)

Date	Old rating	New rating	Old TP	New TP
4 Nov, 2013	-Neutral	NEUTRAL	W240,000	W270,000

Hyundai Development -- Maintain OUTPERFORM

Sharp turnaround in 2014 remains intact despite poor earnings outlook in 2H13 **EPS: ▼ TP: ◄►**

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- Hyundai Development's 3Q13 operating loss of W20 bn was significantly below expectation due mostly to additional cost recognition of about W37 bn from ongoing housing projects. We cut 2013E net profit from –W1 bn to -W80 bn, while management estimates additional cost recognition of about W100-110 bn from couple of housing projects in 4Q13.
- On the other hand, we continue to expect a sharp improvement in Hyundai Dev's earnings and cash flow in 2014, driven by (1) effective completion of its active kitchen sinking work by end-2013, (2) gradual completion of its three major lower-margin works by end-2014, and (3) increasing revenues from newly launched profitable housing projects.
- Further, we also anticipate gradual improvement in the domestic housing market to provide a better operational environment for its housing business 2014 onwards, while Hyundai Dev is the most levered play to the recovering housing market among peers.
- We reiterate our OUTPERFORM rating with a SOTP-based TP of W30,000.

Bbg/RIC	**012630 KS / 012630.KS**	**Price (01 Nov 13 , W)**			**23,350**
Rating (prev. rating)	**O (O)**	**TP (prev. TP W)**			**30,000 (30,000)**
Shares outstanding (mn)	75.38	Est. pot. % chg. to TP			28
Daily trad vol - 6m avg (mn)	0.4	52-wk range (W)			28350.0 - 18100.0
Daily trad val - 6m avg (US$ mn)	8.6	Mkt cap (W/US$ bn)			1,760.2/ 1.7
Free float (%)	56.6	**Performance**	**1M**	**3M**	**12M**
Major shareholders	MG Chung 18.8%	Absolute (%)	2.4	16.8	21.6
		Relative (%)	0.4	10.7	14.2

Year	**12/11A**	**12/12A**	**12/13E**	**12/14E**	**12/15E**
Revenue (W bn)	4,108	3,334	4,035	4,896	4,798
EBITDA (W bn)	436.5	142.3	(3.6)	311.1	303.9
Net profit (W bn)	224.7	5.6	(79.7)	164.0	176.4
EPS (W)	3,054	76	(1083)	2,229	2,398
- Change from prev. EPS (%)	n.a.	n.a.	n.m	(1)	(18)
- Consensus EPS (W)	n.a.	n.a.	347	1,942	2,677
EPS growth (%)	110.4	(97.5)	n.m.	n.m.	7.6
P/E (x)	7.6	308.3	n.m.	10.5	9.7
Dividend yield (%)	3.1	0.9	0.9	2.1	2.1
EV/EBITDA (x)	8.3	28.2	(1066.1)	12.8	11.6
P/B (x)	0.7	0.7	0.8	0.7	0.7
ROE (%)	9.2	0.2	(3.3)	6.8	6.9
Net debt(cash)/equity (%)	74.9	93.1	88.6	89.6	67.8

Note 1: Hyundai Development concentrates on apartment and housing construction. It also constructs civil works such as roads, highways, bridges; architectural works such as office buildings, leisure facilities; plants such as industrial and environmental plants.

Click here for detailed financials

Active kitchen sinking work for lower margin housing projects resulted in poor earnings in 3Q13

Hyundai Development on 1 November posted its 3Q13 preliminary consolidated results after market close. Revenues of W1,086 bn were slightly bigger than expected. However, operating loss of W20 bn was significantly below expectation due mostly to additional cost recognition of about W37 bn from ongoing housing projects (in-house: W27 bn from Asan and Daegu 1 project, contract: W10 bn from three projects). In addition, write-down of the remaining BV of W10 bn for its 2% stakes in Dram Hub (unlisted, the SPV for Yongsan international business district development project) due to liquidation of the SPV resulted in bigger-than-usual net non-operating expense of W26 bn in 3Q13.

Additional kitchen sinking of about W100-110 bn likely in 4Q13

Management estimates additional cost recognition of about W100-110 bn from couple of housing projects in 4Q13 (W30-40 bn from its Daegu 2 project, which saw presale ratio of nearly 100% from the recent presale launch, and about W70 bn from ongoing lawsuit against owners' association of its Bucheon reconstruction project, which was completed in last March). This implies housing-related additional cost recognition of about W150-160 bn in 2013 in aggregate (1Q13: none, 2Q13: W10 bn, 3Q13: W37 bn, 4Q13E: W100-110 bn). Given the weak operating results in 3Q13 and the sizable additional cost outlook for 4Q13, we cut 2013E net profit from –W1 bn to -80 bn.

Figure 1: HDC–summary P&L (consolidated)

	3Q13			2012	2013E		2014E	
(W bn)	**Act'l**	**CS**	**Cons.**	**Act'l**	**CS**	**Cons.**	**CS**	**Cons.**
New orders	1,095	n/a	n/a	3,157	2,800	n/a	4,800	n/a
Revenues	1,086	1,062	998	3,334	4,035	3,961	4,896	4,485
Operating profit	-20	28	25	104	-43	99	271	270
Pre-tax profit	-46	16	6	41	-111	19	222	212
Net profit	-38	12	4	6	-80	8	164	148
OP margin (%)	-1.8	2.6	2.6	3.1	-1.1	2.5	5.5	6.0

Source: Company data, Bloomberg, Credit Suisse estimates

But the sharp earnings and cash flow turnaround outlook in 2014 remains intact

Despite the weak operational outlook for 2H13, we continue to expect a sharp improvement in Hyundai Dev's earnings and cash flow in 2014, driven by: (1) effective completion of its active kitchen sinking work by end-2013, which would cover most of the lower margin in-house/ contract housing projects, (2) gradual completion of its three major lower-margin works by end-2014 (i.e., Ulsan 2, Asan, Daegu 1), and (3) increasing revenues from newly launched profitable housing projects, which have recorded successful early-stage presale ratios since 2012. Further, we also anticipate gradual improvement in the domestic housing market to provide a better operational environment for its housing business 2014 onwards (i.e., acceleration of presale of current unsold apartments, higher early stage presale from upcoming projects, etc), while Hyundai Dev is the most levered play to the recovering housing market among peers. Our earnings projection for 2014 remains virtually unchanged.

Figure 2: Hyundai Development—In-house projects launched in 2012/13

Project	Sales (W bn, E)	GP margin (%, E)	Number of units	Presale ratio (%)	Presale	Comple- -tion
Ansan	145	20	441	100	Apr. 12	Oct. 13
Asan	220	7	898	95	May 12	Jul. 14
Ulsan 2	460	7	1,087	95	May 12	Jan. 14
Daegu 1	390	7	1,296	100	Aug. 12	Jan. 15
Namyangju	400	20	1,083	100	May 13	Aug. 15
Goyang 2	390	20	1,035	70	Aug. 13	Sep. 15
Suwon 3	410	34	1,152	62	Sep. 13	Sep. 15
Daegu 2	520	9	2,134	100	Oct. 13	Sep. 15
Total	2,935	14	9,126	90		

Source: Company data, Credit Suisse estimates

Rating history (012630.KS)

Date	Old rating	New rating	Old TP	New TP
Jul 26, 2013	OUTPERFORM	OUTPERFORM	W29,000	W27,000
Sep 27, 2013	OUTPERFORM	OUTPERFORM	W27,000	W30,000

Hyundai Mipo Dockyard --Maintain NEUTRAL

3Q earnings were foreshadowed by Hyundai Heavy's 3Q results **EPS: ▼ TP: ▲**

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- As with parent Hyundai Heavy, Mipo reported worse-than-expected earnings. While our expectations had been significantly below consensus, actual results were worse than our expectations. These results were foreshadowed by HHI's results, which were released on 31 Oct, given the magnitude of the shipbuilding segment's weakness (see Kwon, "3Q Earnings are Weak but Ship Prices are Rising," 31 Oct 2013).
- We have raised our net loss forecast to W249 bn from W101 bn in 2013, and our 2014 forecast to a net loss of W50 bn from W19 bn previously. However, given the current rise in new ship prices, we have upwardly adjusted our 2015 net profit forecast by 36%.
- We continue to believe we are in a mild up-cycle in conventional vessels, which is driving Mipo's current backlog buildup.
- We apply what we see as a mid-cycle multiple of 1.2x P/B, which is median P/B over 2004-05, against our 2014E BPS to derive our new price target of W166,000. However, we believe current positives should be priced in.

Bbg/RIC	010620 KS / 010620.KS	Price (01 Nov 13, W)	167,000
Rating (prev. rating)	N (N)	TP (prev. TP W)	166,000 (120,000)
Shares outstanding (mn)	20.00	Est. pot. % chg. to TP	(1)
Daily trad vol - 6m avg (mn)	0.1	52-wk range (W)	175000.0 - 104000.0
Daily trad val - 6m avg (US$ mn)	16.3	Mkt cap (W/US$ bn)	3,340.0/ 3.1
Free float (%)	52.2		
Major shareholders	Hyundai Samho and related parties: 41.6%		

Performance	1M	3M	12M
Absolute (%)	6.7	26.0	50.5
Relative (%)	4.7	20.0	43.0

Year	12/11A	12/12A	12/13E	12/14E	12/15E
Revenue (W bn)	4,624	4,415	3,853	4,041	4,324
EBITDA (W bn)	441.1	159.4	(169.1)	(38.3)	151.5
Net profit (W bn)	199.8	96.5	(249.0)	(50.3)	131.3
EPS (W)	9,992	4,827	(12450)	(2513)	6,563
- Change from prev. EPS (%)	n.a.	n.a.	n.m	n.m	36
- Consensus EPS (W)	n.a.	n.a.	(4530)	2,600	7,491
EPS growth (%)	(59.4)	(51.7)	n.m.	n.m.	n.m.
P/E (x)	16.7	34.6	n.m.	n.m.	25.4
Dividend yield (%)	1.2	1.2	1.2	1.2	1.2
EV/EBITDA (x)	10.1	32.5	(31.4)	(141.4)	35.0
P/B (x)	1.0	1.0	1.3	1.3	1.2
ROE (%)	5.5	3.0	(8.5)	(1.9)	5.0
Net debt(cash)/equity (%)	32.6	54.4	69.5	75.2	69.2

Note 1: Hyundai Mipo Dockyard Co., Ltd. engages in building ships, as well as in the provision of ship conversion and repair services in South Korea. It primarily builds medium-sized containerships, product and chemical tankers.

Click here for detailed financials

3Q13 results discussion

The company indicated on the earnings call that three major factors drove a steep contraction in operating margins: (1) startup costs associated with accommodating new ship types (PSV orders received in 1H12), (2) low priced vessel deliveries, and (3) the low revenue base associated with fewer working days. These do not come as major surprises. The company reiterated its expectation that operating losses could potentially continue well into 2014, which is consistent with our expectations. We believe consensus had been too preoccupied with one-off factors in 2Q to notice the gross loss that the company was recognising in the shipbuilding segment.

The company indicated that it anticipates about US$1.0 bn in additional new orders by the end of 2013, which should allow the company to achieve about US$4.1-4.2 bn, against its current year target of US$3.2 bn. The company added that current product tankers under price negotiations are expected to fetch about US$38-40 mn per vessel, which would be stronger than the current US$34 mn range for handysize product carriers.

Figure 1: Hyundai Mipo—summary of 3Q headline results

(US$ mn/W bn)	3Q12	1Q13	2Q13	3Q13	YTD 12	YTD 13	YTD/13E
Orders & Backlog							
Orders (USD mn)	695	1,008	1,301	808	1,833	3,117	79%
Backlog (USD mn)	6,730	6,575	7,157	7,231	6,730	7,231	93%
P&L Summary							
Sales	1,105	908	950	953	3,283	2,811	73%
Operating Profit	30	-10	-60	-97	95	-168	71%
Pre-tax Profit	43	20	-137	-107	127	-224	81%
NP before Min Int	32	15	-130	-68	96	-183	66%
Net Profit	33	20	-123	-59	102	-161	65%
OPM	2.7%	-1.1%	-6.4%	-10.2%	2.9%	-6.0%	
PTM	3.9%	2.2%	-14.4%	-11.3%	3.9%	-8.0%	
NPM	3.0%	2.2%	-12.9%	-6.2%	3.1%	-5.7%	

Source: Company data, Credit Suisse estimates

Figure 2: Hyundai Mipo—summary of forecast revision

(W bn)	New 2013E	New 2014E	New 2015E	Old 2013E	Old 2014E	Old 2015E	N v O 2013E	N v O 2014E	N v O 2015E
Orders & Backlog									
Orders (USD mn)	3,956	4,218	4,303	3,736	2,743	2,123	6%	54%	103%
Backlog (USD mn)	7,782	8,676	9,637	7,409	6,878	6,133	5%	26%	57%
P&L Summary									
Sales	3,853	4,041	4,324	3,853	4,015	3,760	0%	1%	15%
Gross Profit	45	190	414	178	287	412	-75%	-34%	0%
Operating Profit	-237	-108	81	-64	22	138	NM	NM	-42%
Pre-tax Profit	-276	-64	124	-103	-18	98	NM	NM	26%
Net Profit	-249	-50	131	-101	-19	97	NM	NM	36%
GPM	1.2%	4.7%	9.6%	4.6%	7.2%	11.0%			
OPM	-6.2%	-2.7%	1.9%	-1.7%	0.5%	3.7%			
PTM	-7.2%	-1.6%	2.9%	-2.7%	-0.5%	2.6%			
NPM	-6.5%	-1.2%	3.0%	-2.6%	-0.5%	2.6%			

Source: Company data, Credit Suisse estimates

Earnings forecast change

While we have assumed a new level of operating losses for the company's shipbuilding segment in 2013 and 2014, the strength of current new orders has positively impacted our 2015 forecast. This is the main reason why our revenue forecast has been raised by 15% versus previously, leading to a 36% upward revision to our 2015E net profit outlook.

Ratings history (010620 KS)

Date	Old rating	New rating	Old TP	New TP
Aug 14, 2013	NEUTRAL	NEUTRAL	W147,000	W120,000
Nov 1, 2013	NEUTRAL	NEUTRAL	W120,000	W166,000

Industrial Bank of Korea -- Maintain OUTPERFORM

3Q13 broadly in line **EPS: ▲ TP: ◄►**

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Jihong Choi / Research Analyst / 82 2 3707 3796 / jihong.choi@credit-suisse.com

- Industrial banks of Korea (IBK) reported 3Q13 net profit of W216 bn, broadly in line with the consensus estimate of W233 bn.
- If we adjust for one-offs, seasonality and the impact from NPL sales, IBK's 3Q13 NP would be W176 bn, slightly below 2Q13. Loan growth stayed firm at 1.7% QoQ, driven by retail segment (+2.7% QoQ). NIM was resilient lowered by 2 bp QoQ on funding cost decline, which mostly offset lending yield contractions. Asset quality slightly pulled back, but largely due to seasonality. Key downbeat factor was higher SG&A expenses (+7.5% YoY), but mostly owing to non-recurring elements, according to the bank.
- Our positive view on IBK is maintained post 3Q13 earnings results. Earnings recovery is anticipated on the back of NIM recovery from further reduction of funding costs along with the solid loan growth. Visibility for IBK's asset quality is greater than peers, given its track record of limited exposure to marginal corporate debtors.
- Our TP of W14,000 implies 0.6X FY14 adjusted BVPS.

Bbg/RIC	024110 KS / 024110.KS	Price (01 Nov 13, W)			12,200
Rating (prev. rating)	O (O)	TP (prev. TP W)			14,000 (14,000)
Shares outstanding (mn)	550.20	Est. pot. % chg. to TP			15
Daily trad vol - 6m avg (mn)	0.6	52-wk range (W)			13300.0 - 10800.0
Daily trad val - 6m avg (US$ mn)	6.9	Mkt cap (W/US$ bn)			6,712.4/ 6.3
Free float (%)	16.4	**Performance**	**1M**	**3M**	**12M**
Major shareholders	Government; 68.6%	Absolute (%)	1.7	5.6	0.4
		Relative (%)	(0.5)	(0.8)	(5.9)

Year	12/11A	12/12A	12/13E	12/14E	12/15E
Pre-prov Op profit (W bn)	3,312.5	2,855.1	2,470.0	2,692.6	2,867.2
Net profit (W bn)	1,203	1,203	855	1,096	1,191
EPS (CS adj. W)	2,008	2,008	1,427	1,829	1,988
- Change from prev. EPS (%)	n.a.	n.a.	0	0	1
- Consensus EPS (W)	n.a.	n.a.	1,456	1,675	1,903
EPS growth (%)	(3.9)	0.0	(28.9)	28.2	8.7
P/E (x)	6.1	6.1	8.5	6.7	6.1
Dividend yield (%)	4.8	3.3	2.5	2.0	2.2
BVPS (CS adj. W)	19,008	20,317	21,374	23,082	25,013
P/B (x)	0.64	0.60	0.57	0.53	0.49
ROE (%)	12.0	11.2	7.5	9.0	9.1
ROA (%)	0.7	0.6	0.4	0.5	0.5
Tier 1 Ratio (%)	8.9	8.9	8.9	9.0	9.3

Note 1: Industrial Bank of Korea (the Bank) is a financial institution that provides a range of banking solutions. The bank operates in six businesses: corporate banking business, consumer banking business, investment banking business, asset management business.

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Notes: For valuation purpose, we exclude the net increase in capitalised LLP and dividends on preferred shares from NP. Likewise, we adjust for hybrid capital preferred shares and capitalised LLP in SH's equity.

Figure 1: IBK—EPS adjustment for net increase in capitalised L.L.P

Year	FY11	FY12	FY13E	FY14E	FY15E
Reported NP of majority stake	1,450	1,166	904	1,151	1,247
Reported EPS (Won)	2,655	2,136	1,656	2,108	2,283
(-) Net increase in capitalised L.L.P.	190	129	10	16	17
Attributable net profit	1,203	998	855	1,096	1,191

Source: Company data, Credit Suisse estimates

Adjusted NP flat from a quarter ago

IBK's 3Q13 net profit would be W176 bn if adjusted for one-offs, and seasonality, impact from NPL sales (vs W188 bn in 2Q13). Key one-off items include W48 bn gain on FX translation from KRW appreciation and W11 bn on employment retirement program and IT-related costs. Contribution to employee benefit fund, usually in 4Qs, was W29 bn. Lastly, gain from sale of NPL was W45 bn.

Net interest income on upward track

Loan growth stayed solid at 1.7% QoQ or 4.6% YTD. Retail loans were higher by 2.7% due to greater demand, according to the bank. NIM was resilient with a contraction of 2 bp. Funding costs reduction of 15 bp mostly offset lending yield slid of 17 bp. OTC sold IBK bond inflow was strong 3.2% QoQ, of which the average issuance costs declined by 12 bp QoQ. IBK benefited from the "flight to safety" prompted by the recent corporate court receivership case, said the bank. As management reaffirmed that IBK will focus more wholesale funding with lower costs, we expect NIM to recover going forward.

Stable asset quality

Loan loss provisioning surged from a quarter ago but only due to impact from NPL sales. In 3Q13, IBK realised a gain from NPL sales of W45 bn (vs loss of W40 bn in 2Q13) as a non-interest income. While impact from provisioning was marginal in 3Q13, IBK recognised a write-back of W100 bn from the NPL sales. NPL ratio and corporate adjusted delinquency ratio edged up by 12 bp and 15 bp QoQ, respectively. However, 3Q asset quality pulls back due to seasonality. Both NPL and delinquency ratio, indeed, have substantially improved from a year ago. Given its track record of limited exposure to marginal corporate debtors, we believe IBK offers greater asset quality visibility than peers.

Figure 2: IBK—3Q13 results summary

	3Q12	2Q13	3Q13	YoY	QoQ
Net interest income	1,101	1,054	1,078	-2.1%	2.3%
Non-interest income	14	-68	70	405.1%	n.m.
Operating income	1,114	986	1,147	2.9%	16.4%
Non-interest expense	483	518	512	6.0%	-1.1%
PPOP	631	468	635	0.6%	35.8%
Provisions for bad debts	318	206	332	4.3%	60.8%
Operating income	314	261	303	-3.3%	16.1%
Other non-operating income	3	5	-18	n.m.	n.m.
Pre tax profit	317	266	285	-9.9%	7.3%
Income tax	70	56	68	-3.0%	22.2%
Net profit after tax	247	211	218	-11.9%	3.3%
NPAT in Minority Interest	0	2	1	266.1%	-17.2%
NPAT in Majority Interest	246	209	216	-12.3%	3.5%
Total assets	199,261	209,005	213,145	7.0%	2.0%
Loans	148,730	151,949	155,914	4.8%	2.6%
Total liabilities	185,401	194,898	198,800	7.2%	2.0%
Deposits	73,506	80,699	78,614	6.9%	-2.6%
Shareholder's equity	13,860	14,107	14,345	3.5%	1.7%
	3Q12	**2Q13**	**3Q13**	**YoY (%p)**	**QoQ (%p)**
Net interest margin	2.08%	1.92%	1.90%	-0.18%	-0.02%
Cost-to-income	36.9%	44.9%	45.2%	8.30%	0.30%
NPL ratio	1.6%	1.3%	1.4%	-0.18%	0.12%
NPL coverage ratio	149.2%	166.0%	159.0%	9.80%	-7.00%
Tier I	8.9%	9.0%	8.9%	-0.04%	-0.10%

Source: Company data, Credit Suisse estimates.

Rating history (024110 KS)

Date	Old rating	New rating	Old TP	New TP
5 August 2012	NEUTRAL	NEUTRAL	W14,000	W11,000
Jul. 8, 2013	NEUTRAL	OUTPERFORM	W11,000	W14,000

KT Corp--Downgrade to NEUTRAL

Downgrading to NEUTRAL on lower mobile and fixed line revenue assumptions **EPS: ▼ TP: ▼**

Taewon Kim / Research Analyst / 852 2101 6687 / taewon.kim@credit-suisse.com

- 3Q13 earnings came below published consensus estimates mainly on slower mobile and fixed line service revenue growth, although its non-telco subsidiaries contribution remained robust.
- While we had previously expected KT to accelerate its cellular market share after being the first operator to offer broadband LTE service, we now see that customers are finding little differentiation between the LTE-A and the broadband LTE services offered by the three operators. Given the shrinking LTE size, we expect any cellular market share gain for KT to be slower than we had previously expected. We also revise down our fixed line revenue assumptions as 3Q13 telephony revenue reported below our estimates due to slower subs and MOUs.
- We adjust our FY13E/14E/15E EPS estimates by -28%/-23%/-18% largely to reflect non-cash non-operating items, including tangible asset impairment loss recognition of W62 bn in 3Q13.
- Based on our new target price of W37,000 (was W43,000) on DCF SOTP analysis, we downgrade our rating to NEUTRAL (from Outperform).

Bbg/RIC	**030200 KS / 030200.KS**	**Price (01 Nov 13, W)**			**35,200**
Rating (prev. rating)	**N (O)**	**TP (prev. TP W)**			**37,000 (43,000)**
Shares outstanding (mn)	261.11	Est. pot. % chg. to TP			5
Daily trad vol - 6m avg (mn)	1.0	52-wk range (W)			40850.0 - 34000.0
Daily trad val - 6m avg (US$ mn)	36.1	Mkt cap (W/US$ bn)			9,191.1/ 8.7
Free float (%)	86.5	**Performance**	**1M**	**3M**	**12M**
Major shareholders	National Pension Service 6.8%	Absolute (%)	(3.8)	(2.5)	(5.0)
		Relative (%)	(6.0)	(8.9)	(11.3)

Year	12/11A	12/12A	12/13E	12/14E	12/15E
Revenue (W bn)	21,272	23,790	23,726	24,049	24,453
EBITDA (W bn)	4,711	4,482	4,866	5,146	5,405
Net profit (W bn)	1,447	1,057	789	1,012	1,156
EPS (W)	5,540	4,048	3,021	3,877	4,427
- Change from prev. EPS (%)	n.a.	n.a.	(28)	(23)	(19)
- Consensus EPS (W)	n.a.	n.a.	3,351	4,197	4,780
EPS growth (%)	11.6	(26.9)	(25.4)	28.3	14.2
P/E (x)	6.4	8.7	11.7	9.1	8.0
Dividend yield (%)	5.7	5.7	5.7	5.7	5.7
EV/EBITDA (x)	4.0	4.1	4.1	3.9	3.5
P/B (x)	0.8	0.7	0.7	0.7	0.7
ROE (%)	12.7	8.8	6.3	7.9	8.6
Net debt (cash)/equity (%)	76.2	71.2	81.0	75.2	66.3

Note 1: ORD/ADR=0.5. Note 2: KT Corporation is a Korean-based company engaged in the provision of integrated telecommunications services. The company's services are divided into five categories: Internet, Data, Telephone, Wireless and Product sales.

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Valuation metrics

Company	Ticker	Rating	Price Local	Price Target	Year T	P/E (x) T+1	P/E (x) T+2	P/B (x) T+1
KT Corp	030200.KS	N (O)	35,200	37,000	12/12	11.7	9.1	0.7
SK Telecom	017670.KS	O	233,500	280,000	12/12	9.6	8.1	1.4
LG Uplus	032640.KS	N	12,000	13,000	12/12	15.0	10.3	1.4

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM
Source: Company data, Credit Suisse estimates

We expect cellular ARPU and market share growth to remain sluggish: We note that KT was the only major operator to see negative market share and billing ARPU growth in 3Q13, while we do acknowledge the negative impact of double data promotions from July to October and one week marketing suspension in the first week of July. We had previously expected KT to accelerate its cellular market share after being the first operator to offer broadband LTE service, and indeed the company has seen positive customer feedback and increase in the portion of customers opting for higher LTE packages post the launch of broadband LTE. Having said that, we believe that an customers are finding little differentiation between the LTE-A and the broadband LTE services offered by the three operators due to the various competing marketing campaigns. Given the shrinking LTE market share size, longer handset replacement cycle, and regulatory pressure on marketing spending, we expect any cellular market share gain for KT to be slower than we had previously expected.

Telephony revenue decline continues to be a relative earnings drag: We had also previously assumed telephony revenue decline to moderate over the next twelve months, but 3Q13 came in worse than expected (-14.1% YoY -6.2%) due to slower new subscriber growth, popularity of unlimited cellular voice packages offered earlier this year, and increasing portion of bundled package sales. We expect FY14E telephony annual revenue of W381 bn (-12.9% YoY) to continue to be a relative earnings drag versus peers.

Reflecting larger-than-expected non-cash non-operating income loss into our EPS estimates: We have adjusted down our FY13E EPS largely due non-cash non-operating item, including the recognition of tangible asset book impairment of W62 bn in 3Q13 and lower-than-expected non-op income from copper wire and real estate sales. For core operations, we have adjusted down our FY14E/15E EBIDTA by 1.3%/1.1% to reflect our new assumptions for mobile market share and fixed line revenue.

Downgrading to NEUTRAL on DCF-derived TP of W37,000: While the company has reiterated its dividend policy of W2,000 dividend per share, we see less attractive dividend upside risk for KT relative to its peers since we see that both SK Telecom and LG Uplus have potential to raise its future dividend yield. We reiterate SKT as our top pick.

Figure 1: Consolidated 3Q13 reports below consensus estimates

(W bn)	3Q13	3Q12	YoY	2Q13	QoQ
Total revenue	**5,735**	**6,188**	**-7.3%**	**5,757**	**-0.4%**
Service rev.	4,935	4,876	1.2%	4,938	-0.1%
Wireless	1,714	1,754	-2.3%	1,752	-2.2%
Fixed Line	1,462	1,568	-6.7%	1,508	-3.0%
Media/Contents	351	266	31.8%	335	4.8%
Finance/Rental	977	939	4.0%	965	1.2%
Others	431	348	23.8%	378	13.9%
Merchandise rev.	800	1,312	-39.1%	819	-2.3%
Operating income	**308**	**251**	**22.7%**	**348**	**-11.6%**
EBITDA	1,195	1,125	6.2%	1,228	-2.7%
Net profit	**136**	**370**	**-63.1%**	**133**	**2.2%**
EBITDA margin	20.8%	18.2%		21.3%	
Mkting. cost to rev.	12.2%	15.1%		12.7%	

Source: Company data, Credit Suisse estimates.

Taiwan

Catcher Technology-- Maintain OUTPERFORM

A brighter outlook **EPS: ▲ TP: ▲**

Pauline Chen / Research Analyst / 886 2 2715 6323 / pauline.chen@credit-suisse.com

- Catcher reported in-line 3Q13 EPS at NT$3.69, though GM was shy of expectations, hurt by softer-than-expected smartphone sales off a bigger capacity.
- Guidance sounded positive, including better 4Q13 sales with GM recovery, better-than-seasonal 1Q14, disciplined capex, confirmation of new smartphone project, and its growing exposure to hybrid casing.
- Concerns are mostly about competition and slowing high-end demand, but Catcher still managed to grow its revenue through share gains and a diversified customer/product/process mix. We continue to believe diversification is an important factor to mitigate the cyclical factor of the casing sector (Click here).
- We increase our FY13-15 EPS by 0-4% and TP to NT$200 (from NT$184), by rolling forward to 11x (the same) FY14E EPS. The stock remains attractive at 10x P/E with catalysts such as better sales outlook (4Q13/1Q14) and new smartphone project wins. As a result, we maintain our OUTPERFORM rating on Catcher.

Bbg/RIC	**2474 TT / 2474.TW**	**Price (01 Nov 13 , NT$)**			**172.00**
Rating (prev. rating)	**O (O)**	**TP (prev. TP NT$)**			**200.00 (184.00)**
Shares outstanding (mn)	750.70	Est. pot. % chg. to TP			16
Daily trad vol - 6m avg (mn)	8.6	52-wk range (NT$)			174.0 - 125.5
Daily trad val - 6m avg (US$ mn)	44.9	Mkt cap (NT$/US$ bn)			129.1/ 4.4
Free float (%)	92.7	**Performance**	**1M**	**3M**	**12M**
Major shareholders	K.Y. Invest (7.32%)	Absolute (%)	7.5	26.9	34.9
		Relative (%)	5.4	23.4	18.1

Year	**12/11A**	**12/12A**	**12/13E**	**12/14E**	**12/15E**
Revenue (NT$ mn)	35,914	37,029	41,435	47,635	52,475
EBITDA (NT$ mn)	15,778	16,433	18,311	21,032	22,839
Net profit (NT$ mn)	10,677	10,890	13,360	12,886	13,808
EPS (NT$)	14.2	14.5	17.8	17.2	18.4
- Change from prev. EPS (%)	n.a.	n.a.	0	4	4
- Consensus EPS (NT$)	n.a.	n.a.	17.8	16.1	17.9
EPS growth (%)	113.5	2.0	22.7	(3.5)	7.2
P/E (x)	12.1	11.9	9.7	10.0	9.4
Dividend yield (%)	2.9	3.5	3.5	3.5	3.5
EV/EBITDA (x)	7.2	6.9	6.2	5.3	4.5
P/B (x)	2.3	2.1	1.9	1.7	1.5
ROE (%)	24.0	18.6	20.6	17.7	16.9
Net debt(cash)/equity (%)	(29.0)	(24.6)	(22.0)	(24.3)	(30.0)

Note 1: Catcher Technology., Ltd. provides metal casings and components for mobile phones, notebook computers and MP3 players.

Click here for detailed financials

3Q13 EPS in line, margin miss on softer smartphones sales

Catcher's 3Q13 EPS of NT$3.69 was in line with our/street estimates for NT$3.68-3.63. However, its GM/OPM were shy of estimates, hurt by weaker-than-expected smartphone sales off a bigger capacity. 3Q GM of 41.7% remained in line with LT target of 41-45%.

Confident on 4Q13 growth, 1Q14 better than seasonal

For 4Q13, Catcher viewed street revenue estimates for 5-10% QoQ growth as an easy target to achieve, with across-the-board strength (albeit not across its customer base). Utilisation rates should go up in 4Q13 and 1Q14, driven by tablets and possibly new smartphone project. This suggests 1Q14 likely to be better than seasonal.

Capex disciplined

While Catcher was positive on the order momentum for the next two quarters, it remained capex disciplined. The incremental sales growth, according to management, was mainly from efficiency improvement, i.e., more automation, no production loss from factory reallocation, instead of adding new CNC machines. This also suggests GM to go up QoQ in 4Q13.

New smartphone project to drive 2014 growth

Catcher expected its new smartphone project to see revenue contribution from 2014, though the company refused to comment on the timing or regional mix. We estimate every 1 mn units of smartphone order wins will increase Catcher's 2014 revenue by ~1%.

Metal casing penetration rates

For 2014, Catcher expected smartphones to see higher metal casing penetration rates, followed by tablet, and NB (mainly for commercial models). Overall, Catcher sounded confident that mid-to-high-end products will be sufficient to support its growth in 2014 (largely due to its share gains in our view).

Carbon fibre

Catcher also sounded positive on carbon fibre, and expected sales to triple in 2014 (albeit still single digit contribution). Products include NB/ tablets (mainly), and smartphones. Penetration rates of carbon fibre remains low, but Catcher has proved its capability to provide various materials to various products.

Other highlights

Concerns include competition from Juteng and BYDE, impact from convertible devices which might impact its NB sales (NB sales is less than 40% in 2013E), and new EMS partners' potential intention to keep casing in house. We believe Catcher still has technology leadership and scale advantage, against its competition.

Figure 1: Catcher 3Q13 result review

(NT$ mn)	**Actual**	**CS**	**+/-**	**YoY %**	**QoQ %**	**Street**	**+/-**
Revenue	10,438	10,431	0	18	0	10,429	0
Gross profit	4,348	4,488	-3	17	-7	4,493	-3
Operating profit	3,245	3,471	-6	15	-11	3,471	-6
Pre-tax profit	3,415	3,593	-5	37	-30		
Net profits	2,771	2,761	0	40	-24	2,724	2
EPS (NT$)	**3.69**	**3.68**	**0**	**40**	**-24**	**3.63**	**2**
Gross margin (%)	41.7	43.0				43.1	
Op margin (%)	31.1	33.3				33.3	
Net margin (%)	26.5	26.5				26.1	

Source: Company data, Credit Suisse estimates, Bloomberg I/B/E/S estimates.

Figure 2: Overview of major casing players

	By product	**By technology**	**By material**
Catcher	NB, tablet, handset, MP3	Unibody, die casting, stamping	Metal, plastic
Hon Hai	NB, tablet, handset, MP3	Unibody, die casting, stamping	Metal, plastic
Casetek	NB, tablet, MP3	Unibody, stamping	Metal
Juteng	NB, tablet, non-metal handset	Unibody, stamping	Metal, plastic

Source: Company data, Credit Suisse research

ChungHwa Telecom -- Maintain UNDERPERFORM

3Q13A conf call: 4G 1800MHz in 2H14E, capex to increase but peak in FY14E

EPS: ▼ TP: ◄►

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- CHT reported in-line 3Q13 result. Core service revenue grew 2% YoY, as growth in mobile revenue offset YoY decline in fixed line. EBITDA, however, declined 0.4% YoY as costs grew faster than revenues. This fed through to a 0.5% YoY decline in net profit.
- CHT believed it has an advantage over its peers in 4G, given that (1) its 2x15MHz in 1800MHz is a larger block and currently unused (better ecosystem than 700Mhz, 4G launch expected in 2H14), (2) other spectrum blocks acquired are currently occupied by itself, thus allowing it to maintain 2G and offer 4G at the same time.
- CHT maintained its capex guidance for FY13E at NT$37 bn but expected capex to increase to ~NT$40 bn in FY14E. Capex could then gradually decline but could still remain high for a few years.
- We revise down FY15E EPS by 3.6% to reflect higher spectrum amortisation costs. We maintain the view that CHT continues to face multiple challenges in fixed line, while on the mobile side it would still face similar challenges to peers into the medium-long term unless mobile data monetisation can improve. Maintain UNDERPERFORM.

Bbg/RIC	2412 TT / 2412.TW	Price (01 Nov 13, NT$)			93.30
Rating (prev. rating)	U (U)	TP (prev. TP NT$)			80.00 (80.00)
Shares outstanding (mn)	7,757.45	Est. pot. % chg. to TP			(14)
Daily trad vol - 6m avg (mn)	8.8	52-wk range (NT$)			102.0 - 90.6
Daily trad val - 6m avg (US$ mn)	28.5	Mkt cap (NT$/US$ bn)			723.8/ 24.6
Free float (%)	59.8	Performance	1M	3M	12M
Major shareholders	MOTC (35.3%)	Absolute (%)	(0.5)	(1.8)	1.7
		Relative (%)	(0.9)	(5.3)	(14.6)

Year	12/11A	12/12A	12/13E	12/14E	12/15E
Revenue (NT$ mn)	217,493	220,131	227,422	229,489	229,359
EBITDA (NT$ mn)	87,373	81,416	79,936	82,924	85,159
Net profit (NT$ mn)	47,068	39,904	39,608	41,334	40,910
EPS (NT$)	6.04	5.14	5.11	5.33	5.27
- Change from prev. EPS (%)	n.a.	n.a.	1	0	(4)
- Consensus EPS (NT$)	n.a.	n.a.	5.01	5.07	5.17
EPS growth (%)	23.1	(14.9)	(0.7)	4.4	(1.0)
P/E (x)	15.4	18.1	18.3	17.5	17.7
Dividend yield (%)	5.9	5.7	5.7	5.7	5.7
EV/EBITDA (x)	7.5	8.2	8.9	8.6	8.3
P/B (x)	2.0	2.0	2.0	2.0	2.0
ROE (%)	12.8	10.9	10.9	11.4	11.3
Net debt (cash)/equity (%)	(18.6)	(15.6)	(3.5)	(3.1)	(5.1)

Note 1: ORD/ADR=10.00.Note2:ChungHwa Telecom, through its subsidiaries, provides integrated telecommunication (local and international fixed line and mobile services) and information-related services in Taiwan..

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CHT reported 3Q13A result in-line with expectation

CHT's traditional fixed-line revenues declined by 6.7% YoY, due to 8.3%, 11.9% and 3.4% YoY decline in local fixed line, DLD and ILD revenues (mobile/VoIP substitution), respectively. **Broadband "access" revenues still declined by 0.8% YoY** as growth in FTTx access (+8.6% YoY) was not enough to offset the 12.8% YoY decline in ADSL access revenue (regulatory and competition). **ISP (HiNet) revenues grew 0.9% YoY** driven by subscriber upgrade to higher-speed FTTx partly offset by tariff reduction. CHT only reported 7k broadband subscriber decline and only 31k net IPTV subscriber addition YTD, substantially below its target. On mobile, CHT reported **5.9% YoY growth in mobile service revenues**, driven by 36.7% YoY growth in data service revenue (29.2% if adjusted for the impact from discount in FY12A) enough to offset a 6.6% YoY decline in voice revenues. **Consolidated EBITDA was flat (-0.4%) YoY,** as revenue growth and also one-time ICT project revenue recognition was offset by higher costs (we also note that 3Q12A was a low base given one-time pension cost in Sept-12). This EBITDA fed through to **flat (-0.5%) YoY net profit** in 3Q13A.

Figure 1: CHT 3Q13A results—QoQ and YoY analysis

NT$ mn	3Q13A	2Q13A	QoQ%	3Q12A	YoY%
Mobile Service – Total	19,590	19,048	2.8%	18,494	5.9%
Fixed line services – Total	28,665	28,398	0.9%	28,968	-1.0%
Total Core service revenue	48,255	47,446	1.7%	47,463	1.7%
Total revenue	**56,723**	**55,838**	**1.6%**	**55,285**	**2.6%**
OPEX	(36,062)	(35,178)	2.5%	(34,543)	4.4%
Total EBITDA	**20,661**	**20,660**	**0.0%**	**20,742**	**-0.4%**
Total EBITDA margin (%)	36.4%	37.0%		37.5%	
Net Profit	**10,648**	**10,635**	**0.1%**	**10,698**	**-0.5%**

Source: Company data, Credit Suisse

Medium- and lower-end smartphones leading subs growth

CHT reported 3.57 mn active mobile internet subscribers (38% of postpaid base, 50% headline smartphone penetration), an increase from 3.17 mn (~34% of postpaid base) as at Jun-13A, driven by more aggressive strategy in the mid-lower end segment. CHT thus revised up its Y/E mobile internet subscriber target to 3.78 mn (from 3.48 mn). For 3Q13, 89% of handsets sold were smartphones, with mid-lower end accounting for ~76% of total, compared to 52% in 2Q13A.

4G 1800MHz target to launch in 2H14E

CHT believed it has an advantage over its peers in 4G, given that: (1) it acquired 2x15MHz in 1800MHz, which is a larger block and is currently unused (allowing it to launch 4G services sooner, and with better ecosystem) and (2) other spectrum blocks it acquired are currently occupied by itself and thus allowing CHT to continue to maintain 2G services and offering 4G at the same time. CHT expects to launch 4G 1800MHz in 2H14E, and will focus its roll-out in 6 major cities first.

In-line with both TWM and FET, CHT expects to implement tiered-pricing for 4G services. We re-iterate our view that tiered-pricing would be positive, but the actual impact would depend largely on the details e.g. various fees and data allowances for each of the tiered pricing.

Capex to increase and peak in FY14E.

CHT maintained its capex guidance for FY13E at NT$37.2 bn (~17% of sales, +12% YoY) but expected FY14E to be closer to NT$40 bn, as CHT continues to invest in its 3G, as well as rolling-out 4G network. Capex could then gradually decline, but would still remain high over the next few years as CHT continues to invest in new business areas.

Our view remains unchanged.

We revised down FY15E EPS by 3.6% to reflect impact from higher spectrum costs (assuming service start toward the end of 2H14E). We maintain our view that CHT continues to face multiple challenges on the fixed line side. For mobile, while CHT could have an advantage given its larger and readily-available 4G 1800MHz spectrum, it would also face similar challenges in the medium-long term unless mobile data monetisation could be improved. **Maintain UNDERPERFORM.**

CTBC Holding -- Maintain OUTPERFORM

New report: In-line 3Q results and guidance

EPS: ▼ TP: ▲

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- CTBC held an analyst meeting to review its 3Q13 results and provide more details on the announced acquisition of Tokyo Star Bank and Taiwan Life. On 3Q13 results, CTBC Holding reported a net profit of NT$5 bn and 9M13 net profit of NT$18.3 bn.
- We see the Taiwan Life deal dilutive. In fact, we believe the group's life operation will stay ROE dilutive for the next 2-3 years, especially after CTBC Holding injecting NT$15 bn to CTBC Life. The Tokyo Star deal can help offset the dilution as CTBC can utilise idled capital raised in 1Q13 but the positive impact could be less pronounced initially as the bank is likely to focus on balance sheet clean-up with possibly more capital injection to Tokyo Star.
- The weaker QoQ earnings was dragged by: (1) additional provision for TMT and extra general provision to replenish its reserves after charge-offs; (2) less market-related earnings (TMU income). We adjust our FY13-14 estimates by -22%/+22% to move booking of NT$6 bn headquarters sales gain from 4Q13 to 1Q14.
- We tweak our target price to NT$22.5 (from NT$21.5) after rolling over our valuation to 2014. Full report.

Bbg/RIC	**2891 TT / 2891.TW**	**Price (01 Nov 13, NT$)**			**19.25**
Rating (prev. rating)	**O (O)**	**TP (prev. TP NT$)**			**22.50 (21.03)**
Shares outstanding (mn)	14,713	Est. pot. % chg. to TP			17
Daily trad vol - 6m avg (mn)	39.2	52-wk range (NT$)			20.1 - 14.2
Daily trad val - 6m avg (US$ mn)	24.2	Mkt cap (NT$/US$ bn)			283.2/ 9.6
Free float (%)	65.0	**Performance**	**1M**	**3M**	**12M**
Major shareholders	Koo family- 20%	Absolute (%)	(3.0)	3.8	28.5
		Relative (%)	(3.4)	0.2	12.2

Year	12/11A	12/12A	12/13E	12/14E	12/15E
Pre-prov Op profit (NT$ mn)	22,133.8	25,120.5	27,441.1	36,599.8	34,048.6
Net profit (NT$ mn)	17,240	20,132	17,759	29,370	26,562
EPS (CS adj. NT$)	1.61	1.76	1.26	2.00	1.81
- Change from prev. EPS (%)	n.a.	n.a.	(22)	22	1
- Consensus EPS (NT$)	n.a.	n.a.	1.60	1.69	1.85
EPS growth (%)	22.1	8.8	(28.0)	57.9	(9.6)
P/E (x)	11.9	11.0	15.2	9.6	10.7
Dividend yield (%)	4.4	3.4	2.7	4.3	3.8
BVPS (CS adj. NT$)	11.6	12.7	13.5	15.0	15.9
P/B (x)	1.66	1.51	1.43	1.29	1.21
ROE (%)	12.7	12.9	9.6	14.0	11.7
ROA (%)	0.9	1.0	0.8	1.4	1.2
Tier 1 Ratio (%)	11.6	11.4	10.6	11.0	10.5

Note 1: Chinatrust Financial Holding Co Ltd. is a Taiwan-based financial holding company. The company operates its businesses through commercial banking; security business; insurance business; trust investment; as well as trust asset management.

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Figure 1: CTBC Holding—quarterly P&L

(NT$ mn)	3Q12	4Q12	1Q13	2Q13	3Q13	QoQ	YoY
CTBC Bank							
PPOP	5,365	5,215	6,236	7,046	5,531	-21.5%	3.1%
Provision (recoveries)	766	202	(275)	62	1,024	1549%	33.7%
Net profit	3,987	4,118	5,532	6,050	3,908	-35.4%	-2.0%
CTBC Insurance brokers	532	522	507	445	617	38.7%	16.0%
CTBC Life	108	612	483	437	310	-29.1%	187.0%
CTBC Holding	**4,430**	**5,442**	**6,444**	**6,856**	**4,970**	**-27.5%**	**12.2%**

Source: Company data, Credit Suisse Research

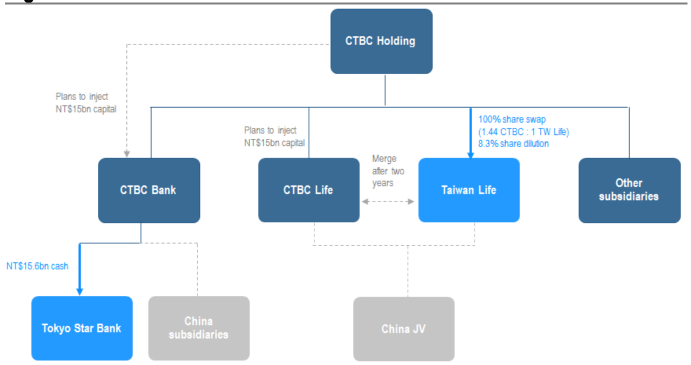
3Q13 EPS of NT$0.34

CTBC held an analyst meeting to review its 3Q13 results and provide more details on the announced acquisition of Tokyo Star Bank and Taiwan Life. On 3Q13 results, CTBC Holding reported net profit of NT$5 bn and 9M13 net profit of NT$18.3 bn—reached 80% of consensus full-year estimates.

Taiwan Life deal dilutive with all-cash Tokyo Star deal to partly offset

We see the Taiwan Life deal dilutive and in fact believe the group's life operation will stay dilutive to the group's ROE over the next 2-3 years, especially after CTBC Holding's plans to inject NT$15 bn capital to CTBC Life. The Tokyo Star deal can help offset the dilution as CTBC can utilise idled capital raised in 1Q13 (increase leverage) but the positive impact could be less pronounced initially, as the bank is likely to focus on balance sheet clean-up with more capital injection/ retention to Tokyo Star.

Figure 2: Deal structure



Source: Company data, Credit Suisse Research

3Q13 profits affected by extra provisions

Loan growth in 3Q13 slowed to just +0.3% QoQ with NIM declined by another 1 bp because of lower LDR and the decline in USD loan spread. Fee income momentum remained robust with strong wealth management fees, though TMU income slowed on the back of a more stable FX market. 3Q13 net credit cost increased to NT$1 bn as CTBC took extra provisions for TMT and to replenish its reserves after charge-offs. Management continues to guide for NT$5 bn general provision in December. We adjust our FY13-14 estimates by -22%/+22% to move booking of NT$6 bn headquarters sales gain from 4Q13 to 1Q14. CTBC is trading at 1.3x FY14E P/B (vs mid-cycle P/B of 1.4x). We tweak our target price to NT$22.5 (from NT$21.5) after rolling over our valuation to 2014. Maintain OUTPERFORM.

C.P. All PCL -- Maintain UNDERPERFORM

3Q13 preview: Negative headline and risk of disappointment

EPS: ▼ TP: ◄►

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- CPALL will release 3Q13 results after market close on 6 November. This will be the first full quarter of Makro being consolidated and we expect headline net income to be down 70% YoY due to incremental interest and FX charges more than offsetting Makro's operating contribution.
- On a pro-forma basis, we expect sales and gross profit to increase 10% and 11% YoY, respectively, while EBITDA is expected to decline by 6% due to incremental merger related expenses and continued operating expense (rental, labour, franchise) inflation. We expect Bt1.1bn pre-tax in net FX charges from revaluation of the US-denominated debt and Bt1.95 bn of interest expense.
- We expect 7-Eleven to suffer more of a slowdown than Makro from the weakening consumption trend in Thailand. This poses top-line and margin risks, which could lead to another round of negative earnings revisions on the stock; on top of the 19% in cuts since the acquisition of Makro.
- We continue to view the Makro acquisition as destructive to shareholder value over the long term, and near-term results are likely to cast more light on this. Maintain UNDERPERFORM.

Bbg/RIC	**CPALL TB / CPALL.BK**	**Price (01 Nov 13, Bt)**			**38.75**
Rating (prev. rating)	**U (U)**	**TP (prev. TP Bt)**			**32.00 (32.00)**
Shares outstanding (mn)	8,983.10	Est. pot. % chg. to TP			(17)
Daily trad vol - 6m avg (mn)	33.1	52-wk range (Bt)			52.0 - 32.8
Daily trad val - 6m avg (US$ mn)	40.6	Mkt cap (Bt/US$ bn)			348.1/ 11.2
Free float (%)	42.0	**Performance**	**1M**	**3M**	**12M**
Major shareholders	CP Group (43%), AIA (7%)	Absolute (%)	4.7	9.9	(4.9)
		Relative (%)	3.7	14.4	(7.1)

Year	**12/11A**	**12/12A**	**12/13E**	**12/14E**	**12/15E**
Revenue (Bt mn)	155,360	188,702	282,981	394,723	454,189
EBITDA (Bt mn)	16,573	19,954	21,117	31,583	37,902
Net profit (Bt mn)	10,979	14,374	10,869	14,343	19,671
EPS (Bt)	1.22	1.60	1.21	1.60	2.19
- Change from prev. EPS (%)	n.a.	n.a.	(11)	(4)	(3)
- Consensus EPS (Bt)	n.a.	n.a.	1.23	1.60	2.08
EPS growth (%)	13.9	31.0	(24.4)	32.0	37.2
P/E (x)	31.7	24.2	32.0	24.3	17.7
Dividend yield (%)	1.7	1.9	2.3	2.6	2.6
EV/EBITDA (x)	19.5	15.7	24.2	15.6	12.7
P/B (x)	16.2	13.0	11.3	9.4	7.3
ROE (%)	55.9	59.6	37.8	42.3	46.4
Net debt (cash)/equity (%)	(111.0)	(129.9)	523.3	388.5	280.3

Note 1: C.P.All Pcl is a Thailand based company operating the leading network convenience stores under the 7-Eleven trademark. The company has the sole right to operate these stores in Thailand. As of the end of March 2013, the company had 7,041 stores nationwide.

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70% YoY decline in 3Q13 earnings + PF EBITDA down YoY

We forecast CPALL's 3Q13 reported net income of Bt863 mn to be 70% lower than Bt2.9 bn reported in 3Q12. The decline is due to the fact that operating contribution from Makro is not enough to offset the incremental interest expense and revaluation of the USD-denominated debt from the weaker THB/USD x/c rate of 31.4 during the quarter. These two items are expected to account for Bt3.2 bn of charges.

From an operating standpoint, we do expect the slowdown in Thai consumption to weigh on 7-Eleven more than that of Makro. We are forecasting SSSG of 7-Eleven to drop to 4.5% versus 9.5% in 1H13 and 16% in 3Q12. The high base is also responsible for the sub-5% SSSG. At Makro, we expect the surprising 7% SSSG YTD to hold-up in 3Q13. The SSSG differential between 7-Eleven and Makro is a function of upcountry exposure, tourism sector exposure and merchandising—all of which favour Makro during the period.

At <5% SSSG for 7-Eleven (64%/75% of consolidated revenue and EBITDA respectively), negative operating leverage is likely to occur because the company is still experiencing double-digit increases in labour, rental, utilities and franchise costs. In addition, there could be as much as Bt300 mn of further acquisition and financing costs related to the Makro deal. Therefore, we expect 7-Eleven EBITDA margins to contract by 60bps to 8.3%. This is partially offset by our expected 25 bp margin expansion at Makro. This all leads to a 6% decline in pro-forma EBITDA and margins contracting by 118 bp.

Figure 1: CPALL 3Q13 earnings preview

Bt mn except per share data	3Q13E	3Q12 Pro-forma	3Q12 Reported	YoY Pro-forma	YoY Reported
SSSG (7-Eleven)	4.5%	16.0%	16.0%	-1,150bps	-1,150bps
SSSG (Makro)	7.0%	8.4%	8.4%	-140bps	-140bps
Total revenue	**83,296**	**75,553**	**48,504**	**10.2%**	**71.7%**
Gross profit	16,252	14,800	12,521	9.8%	29.8%
Operating exp.	14,981	13,254	11,615	13.0%	29.0%
Other operating income	3,130	3,262	2,540	-4.0%	23.2%
EBITDA	**5,802**	**6,160**	**4,338**	**-5.8%**	**33.8%**
EBIT	4,401	5,008	3,669	-12.1%	19.9%
Interest expense	(1,950)				
FX effect	(1,100)		42		
Net income	**863**	**4,007**	**2,902**	**-78.5%**	**-70.3%**
EPS (Bt)	**0.10**		**0.32**		**-70.3%**
Gross margin	19.51%	19.59%	25.81%	-08bps	-630bps
SG&A/sales	-17.98%	-17.54%	-23.95%	-44bps	596bps
EBITDA margin	6.97%	8.15%	8.94%	-119bps	-198bps
EBIT margin	5.28%	6.63%	7.56%	-135bps	-228bps
Net margin	1.04%	5.30%	5.98%	-427bps	-495bps

Source: Company data, Credit Suisse estimates

Market needs to come to terms with Makro being dilutive

We do not believe sentiment, valuation multiple and the share prices have reflected the fact that the acquisition of Makro is and will continue to be dilutive to EPS until at least 2015. When CPALL announced the acquisition, management stated that the deal would be earnings neutral in the first year then accretive thereafter. In year 1, Makro's EBITDA would be equally offset by the new interest charges. As of today, consensus EPS estimates for 2013, 2014 and 2015 imply that the deal is 18%, 11% and 6% dilutive, respectively. A portion of these revisions has been due to slowing domestic consumption, but the weaker contribution from Makro and higher related costs has been the larger component.

At the same time, the 2014 P/E multiple has contracted by a mere 5%. Our contention with the Makro acquisition has been that the massive erosion in ROIC from 46% to 12%, high leverage (7.5x '13E ND/EBITDA), FX risk, interest rate risk and the slowing consumption trends lead us to fundamentally change how we value the stock going forward. Our 12-month target price is based on 20x EPS, which we feel better reflects the earnings risk and dramatically higher financial risk profile of CPALL. With negative earnings announcements and further earnings downgrades, we expect the multiple to be under pressure.

Recently Published Research

Date	Title	Author(s)	Tel.	E-mail
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Fri 1 Nov	MediaTek Inc. - China position continues to strengthen	Randy Abrams	886 2 2715 6366	randy.abrams@credit-suisse.com
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Wed 30 Oct	Jump-Start	Asia Research Team	852 2101 6570	manish.nigam@credit-suisse.com

Companies mentioned

Acer Group (2353.TW, NT$18.95)
Agile Property (3383.HK, HK$9.35, NEUTRAL, TP HK$9.5)
ARM Holdings (ARM.L, 985.5p)
ASM Pacific Tech. (0522.HK, HK$74.65, UNDERPERFORM, TP HK$55.2)
Asustek (2357.TW, NT$235.0)
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Bank of Baroda (BOB.BO, Rs643.2, OUTPERFORM, TP Rs707.0)
Bank of India (BOI.BO, Rs209.9, NEUTRAL[V], TP Rs175.0)
Broadcom Corp. (BRCM.OQ, $26.72)
Bumitama Agri Limited (BUMI.SI, S$0.99)
BYD Electronic (BYDIF.PK, $0.49)
C.P. All PCL (CPALL.BK, Bt38.75, UNDERPERFORM, TP Bt32.0)
Catcher Technology (2474.TW, NT$172.0, OUTPERFORM, TP NT$200.0)
Changyou.com Ltd (CYOU.OQ, $28.27)
China Vanke Co Ltd-A (000002.SZ, Rmb9.21, OUTPERFORM, TP Rmb14.3)
China Vanke Co Ltd-B (200002.SZ, HK$13.13, OUTPERFORM, TP HK$17.8)
ChungHwa Telecom (2412.TW, NT$93.3, UNDERPERFORM, TP NT$80.0)
CTBC Holding (2891.TW, NT$19.25, OUTPERFORM, TP NT$22.5)
DBS Group (DBSM.SI, S$16.68, OUTPERFORM, TP S$19.0)
Dharma Satya Nusantara (DSNG.JK, Rp1,880)
Electronic City Indonesia (ECII.JK, Rp3,300, OUTPERFORM[V], TP Rp4,500)
E-MART Co. Ltd (139480.KS, W249,500, OUTPERFORM, TP W300,000)
Far EasTone Telecom (4904.TW, NT$65.0, NEUTRAL, TP NT$69.0)
First Resources Ltd (FRLD.SI, S$1.95)
Hon Hai Precision (2317.TW, NT$74.4)
Hyundai Department Store Co. Ltd (069960.KS, W167,000, OUTPERFORM, TP W200,000)
Hyundai Development (012630.KS, W23,600, OUTPERFORM, TP W30,000)
Hyundai Mipo Dockyard (010620.KS, W167,000, NEUTRAL, TP W166,000)
Hyundai Motor (005380.KS, W254,000, OUTPERFORM, TP W299,000)
Idea Cellular Ltd (IDEA.BO, Rs172.75, OUTPERFORM, TP Rs190.0)
Indocement (INTP.JK, Rp20,900, OUTPERFORM, TP Rp25,700)
Indofood Agri Resources Ltd (IFAR.SI, S$0.91)
Industrial Bank of Korea (024110.KS, W12,200, OUTPERFORM, TP W14,000)
Infrastructure Development Finance Co Ltd (IDFC.BO, Rs105.8, OUTPERFORM, TP Rs144.0)
Ju Teng Intl (3336.HK, HK$5.76)
Kia Motors (000270.KS, W61,500, NEUTRAL, TP W71,000)
KT Corp (030200.KS, W35,200, NEUTRAL, TP W37,000)
Lenovo Group Ltd (0992.HK, HK$8.44)
LG Uplus (032640.KS, W12,000, NEUTRAL, TP W13,000)
Lotte Shopping (023530.KS, W385,000, NEUTRAL, TP W420,000)
Marvell Technology Group Ltd. (MRVL.OQ, $12.0)
MediaTek Inc. (2454.TW, NT$404.5, OUTPERFORM, TP NT$480.0)
Mesoblast (MSB.AX, A$6.6, OUTPERFORM, TP A$7.95)
National Australia Bank (NAB.AX, A$35.31, NEUTRAL, TP A$36.5)
NC Soft (036570.KS, W210,000, OUTPERFORM, TP W280,000)
Oversea-Chinese Banking Corporation (OCBC.SI, S$10.36, UNDERPERFORM, TP S$10.2)
PT Adaro Energy Tbk (ADRO.JK, Rp1,020, NEUTRAL[V], TP Rp1,000)
PT Astra Agro Lestari Tbk (AALI.JK, Rp18,600, NEUTRAL, TP Rp19,800)
PT BW Plantation Tbk (BWPT.JK, Rp930)
PT Indika Energy Tbk (INDY.JK, Rp780, NEUTRAL[V], TP Rp900)
PT Indosat Tbk (ISAT.JK, Rp4,400, OUTPERFORM, TP Rp5,900)
PT London Sumatra Indonesia (LSIP.JK, Rp1,600)
PT Telkom (Telekomunikasi Indo.) (TLKM.JK, Rp2,350, NEUTRAL, TP Rp2,400)
QUALCOMM Inc. (QCOM.OQ, $69.47)
RDA Microelectronics (RDA.OQ, $14.85)
Salim Ivomas Pratama (SIMP.JK, Rp800)
Sampoerna Agro Tbk (SGRO.JK, Rp1,780)
Samsung Electronics (005930.KS, W1,500,000)
Samsung Life Insurance (032830.KS, W104,500)
Shinsegae Co. (004170.KS, W257,000, NEUTRAL, TP W270,000)
Siam Makro PCL (MAKR.BK, Bt32.75)
SK Telecom (017670.KS, W233,500, OUTPERFORM, TP W280,000)
Sony (6758.T, ¥1,668)
Spreadtrum Communication (SPRD.OQ, $30.41)
Taiwan Life Ins (2833.TW, NT$26.3)
Taiwan Mobile (3045.TW, NT$96.9, NEUTRAL, TP NT$100.0)
Tencent Holdings (0700.HK, HK$422.6)
Teva Pharmaceutical Ind. (TEVA.N, $37.09)
Union Bank of India (UNBK.BO, Rs123.5, UNDERPERFORM[V], TP Rs120.0)
Universal Robina Corp. (URC.PS, P127.5, OUTPERFORM, TP P145.0)
Wesfarmers (WES.AX, A$42.97)
Woolworths (WOW.AX, A$34.9, NEUTRAL, TP A$36.3)
XL Axiata Tbk (EXCL.JK, Rp4,475, OUTPERFORM, TP Rp5,500)

Disclosure Appendix

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