Asian Daily (Asia Edition)

CREDIT SUISSE

Thursday, 29 August 2013

EPS, TP and Rating changes

(% change)	EPS T+1	EPS T+2	TP Chg	TP Up/Dn	Rating
Flight Centre	(1)	6	17	12	O (O)
China Life (H)	4	(3)	(8)	15	N (N)
China Modern Dairy	(19)	(11)	0	10	O (O)
CSCL	n.m	n.m	0	(39)	U (U)
China XD	8	14	0	34	N (N)
Zhangyuan Tungsten	0	0	0	(11)	N (U)
First Pacific Company	6	(11)	(5)	50	O (O)
MMG Ltd.	(49)	n.m	(36)	1	N (O)
Samsonite International	(3)	(2)	0	13	O (O)
Sino Land	(16)	56	(9)	48	O (O)
PT Telkom	(80)	(80)	(80)	29	O (O)
LIXIL Group	3	4	(30)	12	N (O)
Tokuyama	4	4	14	18	O (O)
Naver Corp	(12)	6	73	58	O (N)
NHN Entertainment	Initiation			(57)	U (NA)

Connecting clients to corporates

Hong Kong / China

Minth Group Limited (0425.HK) Post results
Date: 28-29 August, Hong Kong
Coverage Analyst: Vincent Chan

Wharf Holdings (0004.HK) Post results
Date: 28-29 August, Hong Kong
Coverage Analyst: Joyce Kwock

Inner Mongolia Yitai Coal Co. Ltd (3948.HK)
Date: 29-30 August, Hong Kong
Coverage Analyst: Trina Chen

China Life Insurance (2628.HK) Post results
Date: 30 August, Hong Kong
Coverage Analyst: Frances Feng

Wheelock and Co. Ltd (0020.HK) Post results
Date: 30 August, Hong Kong
Coverage Analyst: Joyce Kwock

Sime Darby (SIME.KL)
Date: 10-11 September, Hong Kong
Coverage Analyst: Ting Min Tan

Sun Hung Kai Properties (0016.HK) Post results
Date: 13 September, Hong Kong
Coverage Analyst: Joyce Kwock

Singapore

Indofood Sukses Makmur (INDF.JK)
Date: 29-30 August, Singapore
Coverage Analyst: Ella Nusantoro

AIA Group (1299.HK)
Date: 29-30 August, Singapore
Coverage Analyst: Arjan van Veen

Kunlun Energy (0135.HK)
Date: 03-04 September, Singapore
Coverage Analyst: Thomas Wong

US

E-House China (EJ.N)
Date: 04-05 September, New York
Coverage Analyst: Jinsong Du

CNOOC Ltd (0883.HK)
Date: 04-10 September, US
Coverage Analyst: David Hewitt

Top of the pack ...

PetroChina (0857.HK) – Maintain U — **Thomas Wong (4)**
What does the new strategy mean for PetroChina?

Naver Corp (035420.KS) – Upgrade to O — **Taewon Kim (5)**
Time to Draw the Line?

NHN Entertainment (181710.KS) – Initiating Coverage with U — **Taewon Kim (6)**
Potential in-Line, but time to wait

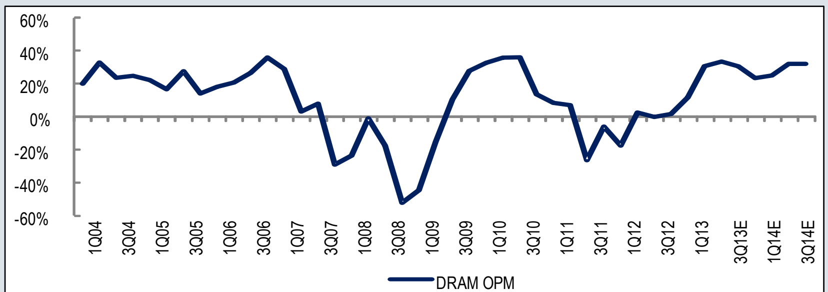
Flight Centre (FLT.AX) – Maintain O — **Grant Saligari (7)**
FY13 result

Samsonite International S.A. (1910.HK) – Maintain O — **Karim P. Salamatian, CFA (8)**
Epitome of owning strong global brands

CS pic of the day

SK Hynix's DRAM OPM trends (1Q04–4Q14E)

Tech—a proxy play on DM demand. We believe sectors such as Indian IT in particular and broad-based semis in general will benefit from any DM demand strength. Asia Technology Strategy, "Visit summary: Corporate spending and memory, the bright spots"t.



Source: Company data, Credit Suisse estimates .

... and the whole pack

Australia

Flight Centre (FLT.AX) – Maintain O — **Grant Saligari (7)**
FY13 result

China

Agricultural Bank of China (1288.HK) – Maintain N — **Sanjay Jain (9)**
2Q13 results: In line; ABC does not plan to raise equity near term

China Life (H) (2628.HK) – Maintain N — **Arjan van Veen (10)**
New report: 1H13 result—Purgatory extended

China Minsheng Banking Corporation (1988.HK) – Maintain U — **Sanjay Jain (11)**
2Q13 results: Surprise increase in cost of funding; MSE NPL ratio 0.47%

China Modern Dairy (1117.HK) – Maintain O — **Kevin Yin (12)**
FY13 cash EBITDA up 53% YoY on sales up 48%; own UHT turned profitable; a new JV with Mengniu

China Shipping Container Lines (2866.HK) – Maintain U — **Davin Wu (13)**
1H13 results missed; rate improvement in domestic markets

Europe

TCL Multimedia (1070.HK)	
Date	02-06 September, London
Coverage Analyst	Kenny Lau
First Pacific Company Limited (0142.HK)	
Date	02-03 September, Europe
Coverage Analyst	Joyce Kwock
Shimao Property Holdings Ltd (0813.HK)	
Date	03-06 September, London
Coverage Analyst	Duo Chen
First Pacific Company Limited (0142.HK)	
Date	09 September, Europe
Coverage Analyst	Joyce Kwock
E-House China (EJ.N)	
Date	11-12 September, London
Coverage Analyst	Jinsong Du

Others

Glenmark Pharmaceuticals (GLEN.BO)	
Date	30 August, Mumbai
Coverage Analyst	Anubhav Aggarwal
China Internet Corporate Day	
Date	30 August, Hong Kong
Coverage Analyst	Dick Wei
Scomi Energy Services (SMMR.KL)	
Date	03 September, Kuala Lumpur
Coverage Analyst	Annuar Aziz
E-House China (EJ.N)	
Date	03-04 September, Sydney
Coverage Analyst	Jinsong Du
Asian Healthcare Conference	
Date	03 September, Hong Kong
Coverage Analyst	Jinsong Du/Iris Wang
Credit Suisse Asian Technology Conference	
Date	11-13 September, Taiwan
Coverage Analyst	Manish Nigam
China Forum	
Date	30-October - 01-November, Hong Kong
Coverage Analyst	Vincent Chan
Asian Investment Conference 2014	
Date	24-28 March, Hong Kong
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Hong Kong

India

Indonesia

Japan

Malaysia

South Korea

Asian indices – performance

(% change)	Latest	1D	1W	3M	YTD
ASX300	5047	(1.0)	(0.2)	2.4	9.1
CSEALL	5753	(2.9)	(5.9)	(10.6)	2.0
Hang Seng	21525	(1.6)	(1.3)	(6.1)	(5.0)
H-SHARE	9765	(2.2)	(0.9)	(10.6)	(14.6)
JCI	4026	1.5	(4.6)	(22.2)	(6.7)
KLSE	1686	(0.9)	(3.4)	(5.1)	(0.2)
KOSPI	1885	(0.1)	0.9	(5.1)	(5.6)
KSE100	22236	(1.3)	(3.4)	3.4	31.5
NIFTY	5285	(0.0)	(0.3)	(13.5)	(10.5)
NIKKEI	13338.5	(1.5)	(0.6)	(6.8)	28.3
TOPIX	1114.0	(1.8)	(0.7)	(4.6)	29.6
PCOMP	5738	(3.0)	(12.8)	(19.3)	(1.3)
RED CHIP	4165	(2.1)	(1.4)	(5.9)	(8.1)
SET	1276	(1.4)	(5.9)	(21.2)	(8.3)
STI	3004	(1.0)	(3.4)	(11.8)	(5.1)
TWSE	7825	0.0	(0.1)	(5.3)	1.6
VNINDEX	473	(2.5)	(5.8)	(8.3)	14.4

Thomson Financial Datastream

Asian currencies (vs US$)

(% change)	Latest	1D	1W	3M	YTD
A$	1.1	(0.6)	(0.9)	(7.2)	(13.8)
Bt	32.2	0.7	(1.1)	(6.6)	(5.0)
D	21168.0	0.1	(0.3)	(0.8)	(1.5)
JPY	97.6	1.5	(0.0)	4.7	(11.3)
NT$	30.0	0.2	(0.2)	(0.2)	(3.2)
P	44.7	0.8	(1.7)	(6.2)	(8.3)
PRs	104.0	0.1	(0.4)	(5.3)	(6.6)
Rp	11265.0	4.5	(4.3)	(12.5)	(13.1)
Rs	68.8	2.9	(7.0)	(18.7)	(20.1)
S$	1.3	0.1	0.0	(0.7)	(4.4)
SLRs	133.2	0.2	(1.0)	(5.1)	(4.1)
W	1115.4	0.3	0.2	1.0	(4.6)

Thomson Financial Datastream

Global indices

(% change)	Latest	1D	1W	3M	YTD
DJIA	14836.9	0.4	(0.4)	(3.7)	13.2
S&P 500	1637.0	0.4	(0.4)	(1.4)	14.8
NASDAQ	3599.9	0.6	0.0	3.2	19.2
SOX	457.5	1.4	(0.2)	(1.8)	19.1
EU-STOX	2678.1	(0.3)	(0.4)	(5.0)	3.9
FTSE	6430.1	(0.2)	(0.4)	(4.9)	9.0
DAX	8157.9	(1.0)	(1.5)	(3.8)	7.2
CAC-40	3960.5	(0.2)	(1.4)	(2.2)	8.8
10 YR LB	2.8	2.1	(4.4)	27.7	57.4
2 YR LB	0.4	9.8	6.4	35.6	58.3
US$:E	1.3	(0.4)	(0.3)	3.6	1.0
US$:Y	97.6	(0.4)	(0.0)	4.7	(11.3)
BRENT	117.5	1.0	5.7	12.7	4.9
GOLD	1418.6	0.2	3.8	2.7	(15.3)
VIX	16.3	(2.6)	2.4	12.8	(9.4)

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	18	12	10.8	9.6	0.0	-4.7	(8.8)
Asia Pac F X J.	14	12	11.3	10.1	0.0	-3.8	(7.6)
Australia	(2)	10	15.7	14.3	(0.8)	-1.4	(4.2)
China	11	10	9.2	8.3	(0.5)	2.2	(7.0)
Hong Kong	11	11	15.0	13.5	(0.7)	-1.5	(0.4)
India	15	16	12.7	11.0	(5.5)	-18.4	(24.0)
Indonesia	17	16	12.2	10.5	(4.4)	-21.3	(23.6)
Japan	34	50	23.1	15.3	(0.5)	-3.2	32.0
Korea	33	13	8.3	7.3	(0.3)	-0.6	(10.3)
Malaysia	1	10	15.3	14.0	(1.8)	-9.9	(6.3)
Pakistan	14	18	8.9	7.5	-1.53	-5.3	20.2
Philippines	8	13	17.6	16.3	(4.9)	-16.3	(6.1)
Singapore	2	9	13.5	12.4	(1.5)	-7.9	(8.3)
Sri Lanka	16	11	14.0	12.6	(2.3)	-9.2	4.4
Taiwan	33	12	14.4	12.8	(1.0)	-4.8	(3.5)
Thailand	19	13	11.0	9.8	(2.1)	-14.7	(15.0)

* IBES estimates

Taiwan

Taiwan Market Strategy — **Chung Hsu, CFA (30)**
Moderate impact from electricity price hike

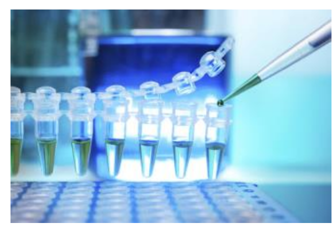
Taiwan Non-Tech Sector — **Jeremy Chen (31)**
Assessing the electricity rate hike impact

Taiwan Display Sector — **Jerry Su (32)**
Takeaways from Touch Taiwan 2013: Shipment recovering ahead of holiday demand

SAVE THE DATE

Asian Healthcare Conference 2013

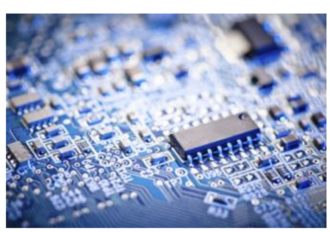
03 September, Hong Kong



At Credit Suisse's 6th annual Asian Healthcare Conference, we will focus on both multinationals and local companies' new developments in the Asian healthcare sector, as well as the changing healthcare policies in the region. As healthcare stocks have rounded since the start of this year, we hope discussions at this conference can shed some light on the potential outlook of the industry and pinpoint feasible investment strategy in Asian healthcare stocks. We have more than 10 companies across Asia covering medtech, pharma, vaccine and healthcare services, representing both large cap and small-medium cap will hold one-on-one/ small group meeting with investors. The format is one-on-one meetings and small group meetings, allowing close contact with corporate management.

Credit Suisse Asian Technology Conference 2013

11-13 September, Taiwan



The Credit Suisse Asian Technology Conference (ATC) is the region's premier annual gathering of Asian technology firms and investors from around the world. We expect over 100 leading Asian companies spanning semiconductors, telecommunications equipment, software, internet, IT services and alternative energy to attend. Companies include both established leaders and enterprising newcomers in the highly globalized technology world. This is an unrivalled opportunity to meet CEOs and senior executives of these companies to discuss critical trends that will help formulate your investment strategies. Last year, more than 1,800 one-on-one and small group meetings took place during this three-day event. This year's event promises to be equally useful and stimulating.

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

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Top of the pack ...

PetroChina -- Maintain UNDERPERFORM

What does the new strategy mean for PetroChina?

EPS: ◄► TP: ◄►

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Kelly Chen / Research Analyst / 852 2101 7079 / kelly.chen@credit-suisse.com

- Market has been excited about the "light asset strategy": The new management team is trying to reduce capex and sell non-core assets. We do appreciate that PetroChina has put more focus on returns and shareholders' value; however, implementation of this strategy is very difficult, in our opinion.
- Selling core assets, not non-core assets: The pipeline assets sale in April includes two most important assets (Western part of W-E I & II). We estimate the transaction valued the assets at 11.4-16.0x 2012 P/E, below city-gas pipeline P/E range of 16-20x.
- Valuation is a challenge for selling underperforming assets: Most potential buyers would only consider a purchase below the book valuation for the underperforming assets. However, the Chinese government has prohibited any stated-owned assets to be sold below book, which makes it difficult for PetroChina to sell.
- Reiterate our UNDERPERFORM rating and HK$7.2 TP: We do believe the "light asset strategy" is a right strategy, but are concerned about its implementation. Cost concerns and poor downstream performance should be key drivers for PetroChina over next two years.

Bbg/RIC	**857 HK / 0857.HK**	**Price (28 Aug 13, HK$)**	**8.27**
Rating (prev. rating)	**U (U)**	**TP (prev. TP HK$)**	**7.20 (7.20)**
Shares outstanding (mn)	183,021	Est. pot. % chg. to TP	(13)
Daily trad vol - 6m avg (mn)	82.8	52-wk range (HK$)	11.30 - 7.86
Daily trad val - 6m avg (US$ mn)	99.0	Mkt cap (HK$/US$ bn)	1,805.1/ 232.8
Free float (%)	98.6		
Major shareholders	CNPC 86.5%		

Performance	**1M**	**3M**	**12M**
Absolute (%)	(9.5)	(10.5)	(12.4)
Relative (%)	(10.8)	(5.9)	(19.5)

Year	**12/11A**	**12/12A**	**12/13E**	**12/14E**	**12/15E**
Revenue (Rmb mn)	2,003,843	2,195,296	2,327,961	2,509,740	2,475,211
EBITDA (Rmb mn)	320,534	326,494	351,343	379,769	408,406
Net profit (Rmb mn)	132,961	115,326	113,974	121,875	129,781
EPS (Rmb)	0.73	0.63	0.62	0.67	0.71
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (Rmb)	n.a.	n.a.	0.71	0.75	0.79
EPS growth (%)	(5.0)	(13.3)	(1.2)	6.9	6.5
P/E (x)	9.0	10.4	10.5	9.8	9.2
Dividend yield (%)	5.0	4.3	4.3	4.6	4.9
EV/EBITDA (x)	5.2	5.6	5.5	5.3	5.2
P/B (x)	1.4	1.3	1.2	1.1	1.1
ROE (%)	15.7	12.9	12.0	12.0	12.0
Net debt(cash)/equity (%)	23.8	34.0	39.8	43.3	49.0

Note 1: ORD/ADR=100.00. Note 2: PetroChina is the largest oil & gas producer in China. PetroChina principally engages in the exploration, development & production oil & gas, refining & marketing of refined products and chemicals, and transmission & sales of natural gas.

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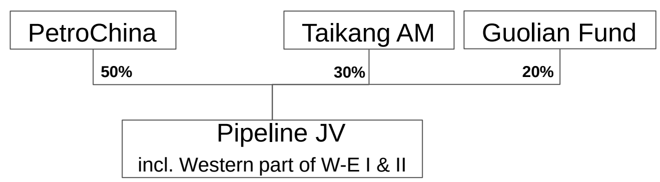
Market has been excited about PetroChina's new "light asset strategy"

Market seems to be excited about PetroChina new management team's "light asset strategy". In other words, PetroChina will try to slightly decrease capex spend, sell off its non-core assets such as refining and high-cost E&P assets. Management cited the sale of pipeline assets in April 2013 as an example of the new strategy. We do appreciate the fact that the new management team has put more focus on returns and shareholders' value. However, implementation of this strategy is very difficult, in our opinion.

PetroChina is selling core assets, not non-core assets

Selling core assets is a lot easier than selling non-core assets for PetroChina, in our view. The sale of pipeline assets in April 2013 includes the Western part of the two most important pipelines (West-East I & II), which we see as one of the most important assets of PetroChina. In fact, we estimate the earnings of those assets might be around Rmb5-7 bn in 2012, assuming the two pipelines generated Rmb36 bn in revenue and the Western pipeline contributes to a third of the revenue with 50% net margin. In other words, the transaction valued the pipeline assets at 11.4-16.0x 2012 P/E, which is lower than listed city-gas pipeline company's average P/E range of 16-20x.

Figure 1: Shareholding structure of the pipeline JV



Source: Company data, Credit Suisse research

Valuation is a challenge for selling underperforming assets

For those underperforming assets such as petrochemical/refining facilities, we believe most potential buyers will only consider a purchase below the book valuation. However, the Chinese government has prohibited any stated-owned assets to be sold below book, which makes it difficult for PetroChina to sell its underperforming assets.

Reiterate our UNDERPERFORM rating and HK$7.2 TP

We do believe the "light asset strategy" is a right strategy. However, we are concerned about its implementation. We do think cost concerns and poor downstream performance should be key drivers for PetroChina over next two years. We reiterate our UNDERPERFORM rating and HK$7.2 target price.

Naver Corp --Upgrade to OUTPERFORM

New report: Time to draw the Line? **EPS: ▼ TP: ▲**

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

- **Continuing entity relisting as Naver Corp:** Spinning off the game business as NHN Entertainment (181710 KS). Full report
- **Too early to draw the Line in the sand:** While we see the market has started to forecast a rosy outlook for the Line business potential, given the increasing smartphone penetration rate and proactive marketing campaigns in its key markets such as Japan, we expect overall subscriber growth to continue in FY14.
- **Subscriber growth versus valuation:** We have done a sensitivity analysis with its comparables to gauge the valuation for Line. We expect the market to give the benefit of doubt to Naver as long as its subscriber growth remains on track. Key risks to our call would be faster-than-expected adoption of competing mobile messengers and absence of hit mobile games over the next six months.
- **Upgrade to OUTPERFORM with TP of W462,500:** Our TP is based on SOTP valuation of its Naver portal at 18x FY14E P/E and Line business at US$15 for FY14E 450 mn subs. With 58.7% upside from disclosed base price of W291,500, we upgrade rating.

Bbg/RIC	**035420 KS / 035420.KS**	**Price (29 Jul 13 , W)**			**291,500**
Rating (prev. rating)	**O (N)**	**TP (prev. TP W)**			**462,500 (267,000)**
Shares outstanding (mn)	32.963	Est. pot. % chg. to TP			58.7
Daily trad vol - 6m avg (mn)	0.2	52-wk range (W)			319000.0 -
Daily trad val - 6m avg (US$ mn)	56.4				216500.0
Free float (%)	81.4	Mkt cap (W/US$ bn)			9,608.7/ 8.6
Major shareholders	National Pension	**Performance**	**1M**	**3M**	**12M**
	(8.9%)	Absolute (%)	—	(3.8)	13.3
		Relative (%)	1.7	2.1	15.6

Year	**12/11A**	**12/12A**	**12/13E**	**12/14E**	**12/15E**
Revenue (W bn)	2,121	2,389	2,236	2,535	2,737
EBITDA (W bn)	745	810	633	897	1,011
Net profit (W bn)	452.1	545.6	406.9	594.9	674.8
EPS (W)	9,394	11,337	12,343	18,046	20,472
- Change from prev. EPS (%)	n.a.	n.a.	(12)	6	1
- Consensus EPS (W)	n.a.	n.a.	13,502	17,527	21,024
EPS growth (%)	n.a.	20.7	8.9	46.2	13.4
P/E (x)	31.2	25.9	23.8	16.3	14.3
Dividend yield (%)	0	0.2	0.2	0.2	0.3
EV/EBITDA (x)	18.7	17.4	22.8	16.0	14.1
P/B (x)	8.9	7.4	6.4	5.2	4.3
ROE (%)	28.6	31.4	23.9	35.1	32.6
Net debt(cash)/equity (%)	(15.5)	(3.4)	15.1	9.1	3.7

Note 1: NHN Corporation is a Korea-based company that operates various online businesses, including the number one Internet search engine in Korea called 'Naver' and the number one Internet mobile messenger 'Line' in Japan called 'Line'.

Click here for detailed financials

Figure 1: NHN Corp—Sum-of-the-parts valuation on FY14E

(W bn)	Valuation	Basis
Internet	8,161	Target 14E PE of 18x
Game	2,063	Target 14E PE of 14x
Line	7,088	Mkt cap per sub of US$15 (YE14 450mn)
Total	17,312	
Valuation per share (W)	359,711	

Source: Company data, Credit Suisse estimates

Figure 2: Base case for Naver Corp

Naver Corp FY14E		**Target price rationale**
Portal (W bn)	8,161	Target 14E PE of 18x
Line (W bn)	7,088	Mkt cap per sub of US$15 (YE14 450mn)
Total (W bn)	15,249	
# of shares (mn)	32.963	
Valuation per Naver share (W)	462,608	
TP (W)	462,500	

Source: Company data, Credit Suisse estimates

Figure 3: Bull case for Naver Corp

Naver Corp FY14E		**Target price rationale**
Portal (W bn)	9,068	Target 14E PE of 22x
Line (W bn)	9,450	Mkt cap per sub of US$20 (YE14 450mn)
Total (W bn)	18,518	
# of shares (mn)	32.963	
Valuation per Naver share (W)	561,790	

Source: Company data, Credit Suisse estimates

Figure 4: Bear case for Naver Corp

Naver Corp FY14E		**Target price rationale**
Portal (W bn)	6,801	Target 14E PE of 15x. Discount to Google's 16x.
Line (W bn)	4,725	Mkt cap per sub of US$10 (YE14 450mn)
Total (W bn)	11,526	
# of shares (mn)	32.963	
Valuation per Naver share (W)	349,671	

Source: Company data, Credit Suisse estimates

Figure 5: Sensitivity on market cap. per user (JP+TH+TW user base only)

Mkt cap per user (USD)	10	20	30	40	50	86 (14E Facebook)
14E Line user (JP+TH+TW)	162	162	162	162	162	162
Line valuation (KRW bn)	1,545	3,091	4,636	6,181	7,726	13,274

Source: Company data, Credit Suisse estimates

Naver Corp relisting as the continuing entity. Too early to draw the line in the sand: We see Line as a key beneficiary of increasing smartphone penetrations in its key new markets. We also expect its Internet portal to see YoY growth on the back of mobile growth and YoY low base effect. Despite margin pressure from its marketing efforts in the new less monetisable markets, as long as total subscriber growth remains on course, we expect the market to give the benefit of doubt to the Line business.

Key risks to our call include: Weaker-than-expected domestic consumption for the advertisement market, regulatory risk of designating Naver as a dominant market player, faster-than-expected adoption of competing mobile messenger services, and absence of the next hit mobile game to support Line's revenue growth over the next six months.

NHN Entertainment ------------------------------- Initiating Coverage with UNDERPERFORM

New report: Potential in-Line, but time to wait **EPS: ◄► TP: ◄►**

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

- Listing as NHN Entertainment after one month of trading suspension from its spin-off from the continuing entity Naver Corp (035420 KS): The company now offers a pure exposure on web board, online and mobile games business. Full report
- We expect the company to be a competitive mobile game developer given its Line character license, experience as an online game operator, industry-leading cash balance and brand power to attract high-quality developers.
- We, however, are concerned about the regulatory pressure on the cash-cow web board business over the next three to six months. Furthermore, we note that the company has not had any top-ranked PC online and mobile games in the highly competitive Korean market thus far, outside the popular web board games.
- Initiating coverage with an UNDERPERFORM rating with our TP of W126,500 implying 58% potential downside from the disclosed base price of W298,500. Our TP is based on 13x FY14E P/E, the average of Korean mobile game peer consensus FY14E P/E.

Bbg/RIC	181710 KS / 181710.KS	Price (28 Aug 13, W)			298,500
Rating (prev. rating)	U (NA) [V]	TP (prev. TP W)			126,500 (NA)
Shares outstanding (mn)	—	Est. pot. % chg. to TP			(58)
Daily trad vol - 6m avg (mn)	—	52-wk range (W)			-
Daily trad val - 6m avg (US$ mn)	—	Mkt cap (W/US$ bn)			—
Free float (%)	81.4	**Performance**	**1M**	**3M**	**12M**
Major shareholders	Naver Corp. (9.54%)	Absolute (%)	—	—	—
		Relative (%)	—	—	—

Year	12/11A	12/12A	12/13E	12/14E	12/15E
Revenue (W bn)	—	—	618.1	664.2	726.3
EBITDA (W bn)	—	—	169.6	203.9	241.9
Net profit (W bn)	—	—	136.5	161.3	188.6
EPS (W)			9,001	10,639	12,438
- Change from prev. EPS (%)	n.a.	n.a.			
- Consensus EPS (W)	n.a.	n.a.			
EPS growth (%)	n.a.	n.a.	n.a.	18.2	16.9
P/E (x)	—	—	32.6	27.6	23.6
Dividend yield (%)			0.1	0.1	0.2
EV/EBITDA (x)	—	—	(1.1)	(1.4)	(1.7)
P/B (x)	—	—	3.9	3.4	3.0
ROE (%)	—	—	11.9	13.2	13.6
Net debt(cash)/equity (%)	—	—	(16.7)	(21.7)	(28.2)

Note 1: NHN Entertainment is a Korea-based company that develops and publishes web board game, PC online games, and mobile games.

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Upside risks to our rating: While we expect the regulatory overhang to persist, any better-than-expected resolution of the regulatory pressure may result in better web board game earnings outlook, especially given the higher operating margin of this game segment versus that of other online game or mobile games. Another upside risk to the stock lies with big earnings potential from any hit mobile games as the company makes aggressive rollout of various mobile games across genres. Given the continued growth of the Line messenger in various new markets in addition to its popularity in big markets such as Japan, new games using the licensed Line characters could surprise on the upside.

Figure 1: Base-case TP assumptions

Game (W bn)	1,916	Target 14E P/E of 13x
Total (W bn)	1,916	
# of shares (mn)	15.2	
Valuation per NHN Entertainment share (W)	126,325	
TP	126,500	

Source: Credit Suisse estimates.

Figure 2: Bull-case TP assumptions

Game (W bn)	2,507	Target 14E P/E of 16x (~between two ex-online developer that has produced hit mobile games. i.e. WeMade and CJ E&M)
Total (W bn)	2,507	
# of shares (mn)	15.2	
Valuation per NHN Entertainment share (W)	165,297	

Source: Credit Suisse estimates.

Figure 3: Bear-case TP assumptions

Game (W bn)	1,567	Target 14E P/E of 10x (~FY14E P/E of pure Korean mobile players)
Total (W bn)	1,567	
# of shares (mn)	15.2	
Valuation per NHN Entertainment share (W)	103,311	

Source: Credit Suisse estimates

Figure 4: Japan's top grossing apps as of 20 August 2013

Overall: Top grossing

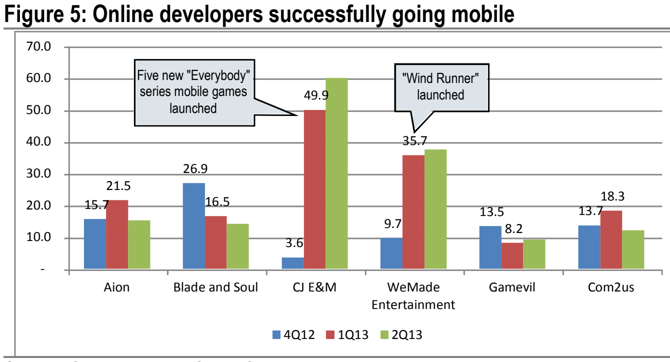
Current		2Q13		1Q13	
2	LINE Pokopang	2	LINE	2	LINE
4	LINE WIND runner	3	LINE WIND runner	3	LINE Bubble!
5	LINE	4	LINE POP	5	LINE POP
6	LINE POP	5	LINE Pokopang	8	LINE WIND runner
7	LINE Bubble!	6	LINE Bubble!		
10	LINE PLAY	11	LINE PLAY		

Games: Top grossing

Current		2Q13		1Q13	
2	LINE Pokopang	2	LINE WIND runner	2	LINE POP
4	LINE WIND runner	3	LINE POP	4	LINE WIND runner
5	LINE POP	4	LINE Pokopang	7	LINE Bubble!
6	LINE Bubble!	5	LINE Bubble!	11	LINE PLAY
9	LINE PLAY	10	LINE PLAY	12	LINE Dragon Flight

Source: Company data, Credit Suisse

Figure 5: Online developers successfully going mobile



Source: Company data, Credit Suisse

Flight Centre ---------- Maintain OUTPERFORM

FY13 result **EPS: ▲ TP: ▲**

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- FLT reported a result and guidance that was above expectations and leaving room for guidance upgrades through the course of FY14. For FY13, PBT was $343 mn and reported NPAT was $246 mn. Our target price has increased to $54.00 (previously $46.00); rating remains OUTPERFORM.
- The Australian segment outperformed and the US segment underperformed relative to expectations set at the start of FY13. Corporate was again the main profit driver in the US; in Australia, the Leisure segment grew faster than Corporate.
- FY14 guidance is characterised by a more aggressive outlook for growth in TTV than was the case in FY13. FLT is growing its sales network by 8-10% and is guiding to PBT of $370-385mn, +8-12% on pcp.
- There is a reasonable probability of outperformance from acceleration in the UK and US corporate spending and moderate growth from the Australian segment. Our forecasts incorporate 7% EBIT growth from Australia. Click here for full report.

Bbg/RIC	FLT AU / FLT.AX	Price (27 Aug 13, A$)			48.41
Rating (prev. rating)	O (O)	TP (prev. TP A$)			54.00 (46.00)
Shares outstanding (mn)	100.43	Est. pot. % chg. to TP			12
Daily trad vol - 6m avg (mn)	0.5	52-wk range (A$)			48.4 - 22.9
Daily trad val - 6m avg (US$ mn)	23.9	Mkt cap (A$/US$ mn)			4,861.9/ 4,355.7
Free float (%)	51.8	**Performance**	**1M**	**3M**	**12M**
Major shareholders		Absolute (%)	10.1	21.8	105.1
		Relative (%)	8.1	18.4	86.8

Year	06/12A	06/13A	06/14E	06/15E	06/16E
Revenue (A$ mn)	1,827	1,986	2,260	2,472	2,729
EBITDA (A$ mn)	331.0	390.1	442.4	500.7	536.7
Net profit (A$ mn)	200.1	241.8	268.8	308.7	332.2
EPS (A$)	2.00	2.40	2.67	3.06	3.30
- Change from prev. EPS (%)	n.a.	n.a.	-0.6	5.8	3.9
- Consensus EPS (A$)	n.a.	n.a.	2.59	2.83	3.08
EPS growth (%)	18.8	20.0	11.2	14.9	7.6
P/E (x)	24.2	20.2	18.2	15.8	14.7
Dividend yield (%)	2.3	2.8	3.3	4.0	4.5
EV/EBITDA (x)	11.9	9.4	7.9	6.6	5.8
P/B (x)	5.6	4.7	4.2	3.8	3.4
ROE (%)	25.0	25.7	24.7	25.2	24.4
Net debt(cash)/equity (%)	(108.0)	(115.1)	(119.3)	(120.9)	(123.7)

Note 1: Flight Centre is an Australian-based travel agency group with a global network of more than 2,000 stores. The company generates its revenue selling travel products and services to both leisure and corporate travellers.

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FLT reported a result and guidance that was above expectations and leaving room for guidance upgrades through the course of FY14: For FY13, PBT was $343 mn compared with recently upgraded guidance of $338-342mn and guidance given at the start of FY13 of $305-315 mn. Reported NPAT was $246 mn and included a $6 mn gain on reversal of a prior period property impairment. Our target price has increased to $54.00/share (previously $46.00); rating remains OUTPERFORM.

The Australian segment outperformed and the US segment underperformed relative to expectations set at the start of FY13: In the UK segment, TTV +7% and net revenue margin +140 bp in 2H13; NRM is likely to moderate from that level. Corporate was again the main profit driver in the US; it is likely that the EBIT margin from Corporate will improve over the forecast horizon due to scale benefits. Only consistent investment over time will fix the positioning of Liberty; we forecast no growth in earnings and an increasing likelihood of a goodwill writedown. TTV grew 9% in 2H13 in Australia; the Leisure segment grew faster than Corporate, niche leisure brands continued to grow strongly and online made a larger TTV contribution.

FY14 guidance is characterised by a more aggressive outlook for growth in TTV than was the case in FY13: FLT is growing its sales network by 8-10% and is guiding to PBT of $370-385 mn, +8-12% on pcp. The senior executive incentive scheme has been set with a low-tier target for PBT of $375 mn, mid-tier target of $390 mn and top-tier target of $405 mn. TTV growth expectations are supported by shop and selling staff expansion in the UK and the US and expansion of Australian based corporate sales staff. There is a reasonable probability of outperformance from acceleration in the UK and the US corporate spending and moderate growth from the Australian segment. Our forecasts incorporate 7% EBIT growth from Australia.

Valuation: Our DCF valuation for FLT has increased to $53.20 (previously $46.60) following the result, representing a fair value of ~19x FY14E EPS. The spread of earnings across its segments makes our DCF for FLT most sensitive to cost of capital assumptions, for which a 1 pp movement in our WACC has a $4.69 effect on the valuation.

Figure 1: DCF valuation

Valuation summary		
EBIT growth (CAGR)		
Years 1 to 5		9.6%
Years 5 to 10		3.6%
ROIC		
FY13A		22.2%
FY18F		25.4%
FY23F		27.3%
DCF		
WACC		11.3%
Terminal growth		2.00%
Enterprise Value ($mn)	**4,163**	**10.5x FY14 EBIT**
DCF Value ($/share)	**53.20**	**19.5x FY14 EPS**
Sensitivities		
WACC	1ppt	**4.69**
Terminal growth	1ppt	**2.02**
Australian TTV growth	1ppt	**2.00**
CS FY14 metrics		
Dividend yield		**3.6%**
Price-earnings ratio		**16.6x**
FCCR		**4.8x**

Source: Company data, Credit Suisse estimates

Our target price remains the average of our DCF and SOP valuations. Updating FY14 forecasts increases our SOP valuation to $54.80, lifting our target price to $54.00.

(This is an extract from Flight Centre report published on 27 August 2013. For details, please see the CS Research & Analytics website.)

Samsonite International S.A.-- Maintain OUTPERFORM

Epitome of owning strong global brands

EPS: ▼ TP: ◄►

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- By virtue of rising global market share, rising brand equity, greater diversification, expanding margins, rising ROIC and a stronger balance, we believe Samsonite is delivering on all fronts and proving its mettle as a leading global consumer brand.
- Diversification is an important facet and appeals in Samsonite as evidenced by the fact that despite disappointing growth in China (+8% YoY), this was more than offset by better-than-expected growth in NA (+30%/+10% organic), JP (+20%), KR (+34%), EU (+7%), RUS (+33%), HK (+17%) and DE (+13%). Emphasis should not be solely placed on China because the surprise in Korea alone more than made up for the sales shortfall in USD terms in China.
- Margins are expanding fastest in the company's most profitable markets. This trend will continue and can drive future earnings surprises. The market underestimates Samsonite's long-term ROIC and that is why we believe the brand is 25% undervalued.
- We encourage investors to seek strong global brands where market share and returns are rising in unison. This is where long-term value opportunity resides and Samsonite is no exception.

Bbg/RIC	**1910 HK / 1910.HK**	**Price (28 Aug 13 , HK$)**			**19.48**
Rating (prev. rating)	**O (O)**	**TP (prev. TP HK$)**			**22.00 (22.00)**
Shares outstanding (mn)	1,407.14	Est. pot. % chg. to TP			13
Daily trad vol - 6m avg (mn)	7.6	52-wk range (HK$)			22.0 - 13.7
Daily trad val - 6m avg (US$ mn)	19.4	Mkt cap (HK$/US$ mn)			27,411.0/ 3,534.7
Free float (%)	46.7	**Performance**	**1M**	**3M**	**12M**
Major shareholders	JP Morgan (12%)	Absolute (%)	(4.5)	(4.0)	42.2
		Relative (%)	(3.0)	0.2	33.5

Year	**12/11A**	**12/12A**	**12/13E**	**12/14E**	**12/15E**
Revenue (US$ mn)	1,565	1,772	2,063	2,441	2,874
EBITDA (US$ mn)	247.5	282.0	343.9	424.8	513.5
Net profit (US$ mn)	88.0	148.4	203.2	257.3	316.7
EPS (US$)	0.07	0.11	0.14	0.18	0.23
- Change from prev. EPS (%)	n.a.	n.a.	(3)	(2)	(3)
- Consensus EPS (US$)	n.a.	n.a.	0.14	0.17	0.19
EPS growth (%)	n.m.	62.0	36.9	26.6	23.1
P/E (x)	38.6	23.8	17.4	13.7	11.2
Dividend yield (%)	0.2	0.2	1.1	2.2	3.6
EV/EBITDA (x)	13.8	12.1	9.5	7.2	5.5
P/B (x)	3.7	3.4	2.9	2.5	2.2
ROE (%)	10.6	15.1	17.9	19.7	21.3
Net debt(cash)/equity (%)	(13.7)	(11.0)	(22.1)	(34.7)	(43.8)

Note1:ORD/ADR=5.00.Note2:Samsonite International S.A. is a travel luggage company engaged in the design, marketing and sale of travel, business and casual luggage as well as travel accessories

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Upstream is where diversification yields value

We have long said that the better ideas in NJA consumer lie in global brands that are gaining market share across a diversified global platform. This yields value to shareholders through expanding ROIC in two ways: 1) rising brand equity; and 2) higher growth because single market risks are mitigated. The latter is particularly important to Asia because consumption growth is not only decelerating but highly uncertain, and exposure to recovering developed markets is value enhancing.

Samsonite is not an exception to the above but rather the epitome, in our view. 1H13 results highlight the power in geographic and brand portfolio diversification. While the China numbers were soft and disappointing, better-than-expected growth in the rest of Asia, the US (+31%, +10% organic) and Europe (+7%) more than offset it. To put this in perspective, China revenue numbers fell short of our expectations by US$8 mn, but the much stronger Korea revenue (+34%) exceeded our expectation by US$13 mn. Therefore, Korea alone more than offset the weakness in China. China is now 9.5% of sales versus just over 10% a year ago—this trend is likely to continue for the balance of 2013. We expect Samsonite to drive ROIC and shareholder value higher through global market share gains, widening margins and greater capital efficiency. This was on full display in 1H13 results.

Samsonite gaining share in China and growth picking up

Samsonite brand sales declined 4% YoY in China during 1H13. This was disappointing, but during the investor meeting, management cited a 63% decline in B2B sales (all Samsonite brand), due to lower corporate buying and gift giving. Excluding this, Samsonite brand through retail POS increased 12% YoY, which is very healthy. Management also indicated growth in July/August has been stronger.

Topline positively surprised in developed markets, near developed markets (Korea), ASEAN, Russia, Taiwan and Hong Kong.

Consistent margin expansion a pillar of value

Samsonite's EBITDA margins continued to expand sequentially for the fourth straight interim period despite GM contracting that arose from the negative mix effect of American Tourister and the US wholesale sales.

In Asia, EBITDA margins improved for the second consecutive half due to positive operating leverage and lower A&P spending as a percentage of sale. A&P spending will rise in 2H13, but margins are expected to continue to increase as well. Europe's EBITDA margins expanded due to greater retail mix, which is a positive trend as management sees more opportunities in full price (non-outlet) retail. North America's EBITDA margins decreased slightly due to greater wholesale mix, and management target to maintain current margins while focusing on growth going forward. EBITDA margins in Latin America have been increasing YoY since 1H 2011, and barring the decrease in this half due to temporary disruptions, we believe improving profitability in the region combined with growth in Asia (where margins are structurally higher) will drive EBITDA margin expansion of 190 bp for the next three years. Margins are expected to increase in 2H13 despite the sharp sell-off in INR due to planned price increases in September.

Figure 1: Samsonite 1H13 earnings summary

USD mn	**1H13**	**1H12**	**2H12**	**YoY**	**HoH**	**2H13E**
Total revenue	**984**	**847**	**925**	**16.2%**	**6.3%**	**1,074**
Gross profit	523	456	495	14.8%	5.6%	603
EBITDA (adjusted)	**164**	**137**	**150**	**19.9%**	**9.2%**	**185**
EBIT	136	116	126	17.8%	7.9%	165
Net income (adjusted)	**85.1**	**75.5**	**66.1**	**12.8%**	**28.7%**	**118.1**
EPS (USD) (adjusted)	**0.06**	**0.05**	**0.05**	**12.8%**	**28.7%**	**0.08**
Gross margin	53.17%	53.81%	53.56%	-64bps	-39bps	55.90%
SG&A/sales	39.14%	39.93%	39.64%	-79bps	-50bps	40.40%
Adj. EBITDA margin	16.65%	16.13%	16.21%	52bps	43bps	17.20%
Asia	19.43%	17.69%	21.20%	174bps	-177bps	n/a
Europe	15.83%	15.16%	18.83%	68bps	-300bps	n/a
North America	18.39%	18.77%	13.52%	-37bps	487bps	n/a
Latin America	15.47%	18.12%	12.38%	-265bps	309bps	n/a
EBIT margin	13.84%	13.65%	13.64%	19bps	20bps	15.30%
Net margin	8.65%	8.91%	7.15%	-26bps	150bps	10.90%

Source: Company data, Credit Suisse estimates

Agricultural Bank of China--Maintain NEUTRAL

2Q13 results: In line; ABC does not plan to raise equity near term

EPS: ◄► TP: ◄►

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- ABC reported 2Q13 profit of Rmb45.3 bn (-4% QoQ, +22% YoY), in line. However, pre-provision operating profit was 6% below our estimate as fee income and margins were slightly behind forecast, but offset at the bottom line level by lower loan loss provisioning.
- Net interest margin contracted 12 bp QoQ (-5 bp YoY) to 2.66% despite: (1) deposits shrinking by 1% QoQ and loan-dep ratio rising to 60.5% from 58.3% in 1Q, (2) trimming of interbank business and (3) strong lending to micro-and-small enterprises.
- NPLs rose 5% QoQ and stood at 1.30% of loans (reported 1.25% vs 1.33% in 1Q), while overdue loans jumped 11% HoH to 1.41% of loans, adjusted for write-off. The credit cost was 58 bp (annualised) during 2Q (CS 81 bp), with LLR/loan ratio at 4.3%.
- Common Equity Tier 1 ratio softened to 9.11% in 2Q (vs 9.27% in 1Q), the regulatory minimum being 8.5% (and overall Tier 1 being 9.5%) for a domestic systemically important bank. ABC said it will not issue equity in the near term, and will consider preferred shares to supplement the Tier 1 capital ratio.

Bbg/RIC	1288 HK / 1288.HK	Price (28 Aug 13, HK$)	3.29
Rating (prev. rating)	N (N)	TP (prev. TP HK$)	4.11 (4.11)
Shares outstanding (mn)	324,794	Est. pot. % chg. to TP	25
Daily trad vol - 6m avg (mn)	140.3	52-wk range (HK$)	4.38 - 2.75
Daily trad val - 6m avg (US$ mn)	62.3	Mkt cap (HK$/US$ bn)	1,013.7/ 130.7
Free float (%)	10.1		
Major shareholders	MoF 39.2%; Huijin 40.3%		

Performance	1M	3M	12M
Absolute (%)	4.8	(9.9)	9.7
Relative (%)	3.4	(5.3)	2.5

Year	12/11A	12/12A	12/13E	12/14E	12/15E
Pre-prov Op profit (Rmb mn)	222,426.0	242,162.0	261,325.9	282,176.9	306,853.4
Net profit (Rmb mn)	121,927	145,094	153,835	162,885	168,679
EPS (CS adj. Rmb)	0.38	0.45	0.47	0.50	0.52
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (Rmb)	n.a.	n.a.	0.49	0.53	0.60
EPS growth (%)	15.7	19.0	6.0	5.9	3.6
P/E (x)	6.9	5.8	5.5	5.2	5.0
Dividend yield (%)	5.1	6.0	6.3	6.8	7.0
BVPS (CS adj. Rmb)	2.00	2.31	2.62	2.96	3.30
P/B (x)	1.30	1.13	0.99	0.88	0.79
ROE (%)	20.5	20.7	19.2	18.0	16.6
ROA (%)	1.1	1.2	1.1	1.1	1.0
Tier 1 Ratio (%)	9.5	9.7	9.6	9.7	9.7

Note1:ORD/ADR=25.00.Note2:Agricultural Bank of China is a commercial bank. The Bank operates its businesses primarily through corporate banking; personal banking; capital business as well as e-banking and e-commerce.

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Deposit surprised with negative growth in 2Q (-1.1% QoQ) and loan growth was largely in line (+2.6% QoQ); hence, LDR ratio advanced to 60.5% (58.3% in 1Q). Micro- and small-enterprises loans advanced 13% HoH and lending to personal business jumped 18% HoH and 38% YoY.

Despite a small boost from June SHIBOR tightness, ABC's NIM came in at 2.66% in 2Q (our forecast 2.76%), down 12 bp QoQ and 5 bp YoY. Half-yearly margin breakdown suggests loan spread shrunk 31 bp HoH/44 bp YoY and securities spread flat HoH/+9 bp YoY although interbank spread advanced strongly (+73 bp HoH and 15 bp YoY).

It is interesting to note, the repo liabilities grew around 10 times QoQ (mainly debt securities), whilst the bank trimmed interbank assets (-7% QoQ) and other interbank liabilities (-5% QoQ) in 2Q.

Figure 1: ABC—Margin breakdown

(%)	2010	2011	2012	YoY	1H12	2H12	1H13	HoH	YoY
Loan yield	5.22	6.04	6.41	0.37	6.50	6.32	5.96	-0.36	-0.54
Avg.IEA yield	3.80	4.39	4.66	0.27	4.74	4.62	4.51	-0.11	-0.23
Deposit cost	1.25	1.53	1.84	0.31	1.86	1.82	1.74	-0.08	-0.12
Avg.funding cost	1.30	1.66	1.99	0.34	2.02	1.97	1.91	-0.05	-0.10
Loan spread	3.92	4.39	4.42	0.03	4.49	4.36	4.05	-0.31	-0.44
Interbank spread	0.80	2.36	1.49	-0.87	1.80	1.22	1.95	0.73	0.15
Securities spread	1.76	1.71	1.68	-0.03	1.63	1.73	1.72	-0.01	0.09
Net interest spread	2.50	2.73	2.67	-0.06	2.71	2.65	2.58	-0.07	-0.13
Net interest margin	2.57	2.85	2.81	-0.04	2.85	2.79	2.74	-0.05	-0.11

Source: Company data, Credit Suisse estimates

County business continued to perform better than cities, with loans in county area banking growing 8.8% HoH (vs 8.0% for the Group), and deposits up 6.3% HoH (vs 5.7% for the Group). County area pre-tax profit in 1H jumped 40% YoY vs 15% for the Group. Most importantly, county area NPL ratio improved 12 bp HoH to 1.54% (Group 1.66%), 29 bp higher than the Group compared to 33 bp in 2012.

Figure 2: ABC—County area vs urban area business as of 2Q13

(%)	County	Urban	Bank
Loan share	32.1	67.9	100.0
Loan growth	8.8	7.6	8.0
Dep growth (HoH)	6.3	5.4	5.8
Op inc share (HoH)	40.2	59.8	100.0
PBT share	39.0	61.0	100.0
NPL ratio	1.54	n.a.	1.25

Source: Company data, Credit Suisse estimates.

Figure 3: ABC—2Q13 results table

(Rmb mn)	2Q12	1Q13	2Q13	QoQ %	YoY %	2Q13E	Diff %	1H13	YoY %	% FYe
Net int.inc.	82,003	89,288	90,714	2	11	92,369	(2)	180,002	7	48
Net fees	17,659	25,991	21,606	(17)	22	25,252	(14)	47,597	22	58
Others	3,781	4,562	3,883	(15)	3	3,500	11	8,445	104	116
Non-int inc	21,440	30,553	25,489	(17)	19	28,752	(11)	56,042	30	63
Op.inc.	**103,443**	**119,841**	**116,203**	**(3)**	**12**	**121,121**	**(4)**	**236,044**	**12**	**51**
Opex	(43,537)	(46,675)	(47,396)	2	9	(47,843)	(1)	(94,071)	12	46
PPOP	**59,906**	**73,166**	**68,807**	**(6)**	**15**	**73,278**	**(6)**	**141,973**	**12**	**54**
Impairment	(12,039)	(12,442)	(10,029)	(19)	(17)	(14,878)	(33)	(22,471)	(1)	36
PBT	47,867	60,724	58,778	(3)	23	58,400	1	119,502	15	60
Attri. prof.	37,045	47,011	45,341	(4)	22	44,948	1	92,352	15	60

Figure 4: ABC—2Q13 key ratios

	2Q12	3Q12	4Q12	1Q13	2Q13	2Q13E	Diff.	2013E
Loan growth	3.3%	2.7%	3.0%	5.2%	2.6%	2.5%	0.1%	13.4%
Deposit growth	4.5%	1.8%	0.7%	6.9%	-1.1%	0.5%	-1.6%	11.2%
Loan-deposit ratio	57.3%	57.9%	59.2%	58.3%	60.5%	59.5%	1.0%	60.4%
Net int.margin	**2.71%**	**2.79%**	**2.80%**	**2.78%**	**2.66%**	**2.76%**	**-0.10%**	**2.75%**
Cost to income	42.1%	42.1%	50.0%	38.9%	40.8%	39.5%	1.3%	43.9%
NPL ratio	1.39%	1.34%	1.33%	1.27%	1.25%	1.28%	-0.04%	1.34%
LLR/loans	4.12%	4.18%	4.35%	4.31%	4.30%	4.39%	-0.08%	4.38%
Credit cost (bp)*	**80**	**70**	**130**	**75**	**58**	**81**	**(22)**	**90**
Core T1 CAR	9.65%	9.76%	9.69%	9.27%	9.11%	n.a.	n.a.	9.61%

*Annualised. Sources for both figures: Company data, Credit Suisse estimates

China Life (H) --Maintain NEUTRAL

New report: 1H13 result—Purgatory extended **EPS: ▼ TP: ▼**

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- China Life reported a 1H13 NPAT of Rmb16.2 bn, up 68% YoY, in line with recent 'profit warning' due to weak equity markets in 1H12. Operating trends were slightly worse than expected, with business momentum severely lacking value of new business (VNB), being up just 0.8%, with agency new sales (APE) growth negative. Full report.
- Key positives: (1) Solvency position remains strong at 238% as on 30 Jun 13 (231% at Jun 12, 236% at Dec 12), (2) growth in group insurance business, up 31% YoY (FY12: +6%).
- Key negatives: (1) Any form of business momentum was lacking, with VNB up just 0.8%, agency new sales (APE) down 2% and agent numbers up 1%. (2) Increase in maximum guarantee on Traditional products make any pick-up in growth in 2H13E or 1H14E extremely unlikely in our view.
- We retain our NEUTRAL rating despite the lowering of our target price to HK$22.00 (from HK$24.00). Whilst valuation is not too demanding (1.1x EV); it remains above peers with much better growth momentum—stock likely to be a value trap for some time.

Bbg/RIC	**2628 HK / 2628.HK**	**Price (28 Aug 13 , HK$)**			**19.16**
Rating (prev. rating)	**N (N)**	**TP (prev. TP HK$)**			**22.00 (24.00)**
Shares outstanding (mn)	28,265	Est. pot. % chg. to TP			15
Daily trad vol - 6m avg (mn)	35.6	52-wk range (HK$)			27.2 - 17.5
Daily trad val - 6m avg (US$ mn)	92.7	Mkt cap (HK$/US$ bn)			502.1/ 64.7
Free float (%)	32.0	**Performance**	**1M**	**3M**	**12M**
Major shareholders	China Life Group - 68%	Absolute (%)	3.9	(7.0)	(5.6)
		Relative (%)	2.6	(2.4)	(12.8)

Year	**12/11A**	**12/12A**	**12/13E**	**12/14E**	**12/15E**
Life GWP (Rmb bn)	318.3	322.7	346.6	362.6	381.6
P&C GWP (Rmb bn)	—	—	—	—	—
Net profit (Rmb bn)	18.3	11.1	31.7	46.8	56.5
EPS (Rmb)	0.65	0.39	1.12	1.65	2.00
- Change from prev. EPS (%)	n.a.	n.a.	4	(3)	(2)
- Consensus EPS (Rmb)	n.a.	n.a.	0.95	1.21	1.46
EPS growth (%)	(45.5)	(39.7)	186.5	47.5	20.9
P/E (x)	23.3	38.7	13.5	9.1	7.6
NTA per share (Rmb)	6.8	7.8	8.7	9.9	11.4
EV per share (Rmb)	10.4	11.9	13.8	15.6	17.6
Dividend yield (%)	1.5	0.9	2.6	2.9	3.7
EV/EBITDA (x)	20.2	49.8	10.4	6.9	5.4
P/B (x)	2.2	1.9	1.7	1.5	1.3
ROE (%)	9.2	5.4	13.6	17.8	18.8
P&C combined ratio (%)	—	—	—	—	—

Note 1: ORD/ADR=15.00. Note 2: China Life Insurance Co Ltd is an insurance company. The Company operates its businesses through individual insurance business, group insurance business and short term insurance business, which provides individual life insurance & group life insurance.

New business momentum lacking

China Life new business (in APE terms) momentum was lacking again in the 1H13 result with just new business sales (APE) up just 0.5%, slowing from 11% growth in 2H12.

Bancassurance new business -18% YoY in 1H13. Pleasingly China Life bancassurance volumes fell despite chasing volumes in specific months (i.e., June). We believe margins available in this channel are sub-optimal (<5% ROE). On an FYP basis (taking 100% of single premiums), this channel was up 20%, which still shows the 'volume' strategy is dominating the 'value' part of its strategy.

Agency new business -2% YoY in 1H13. This was the key disappointment, with stronger growth in 2H12 largely evaporating in 1H13. We did see improved duration mix, but did not see overall margins improve much (could be caused by higher group growth).

Value of new business growth was 0.8% for 1H13, which mirrored closely the growth in new premiums. So despite different trends by channel, overall margins were preserved, and improved on 2H12.

Figure 1: New business growth momentum lacking

Growth (%p.a.)	**2H10**	**1H11**	**2H11**	**1H12**	**2H12**	**1H12**
Agency	-10.8%	22.3%	-17.8%	-12.9%	19.4%	-1.6%
Bancassurance	118.9%	-7.9%	-44.2%	-25.4%	3.1%	-18.0%
Group	4.0%	6.3%	4.3%	3.6%	9.3%	31.2%
NB APE	**26.0%**	**7.3%**	**-24.9%**	**-14.3%**	**11.1%**	**0.5%**
VNB	**13.5%**	**5.5%**	**-3.4%**	**2.5%**	**4.1%**	**0.8%**
VNB margin (%)	23.5%	25.7%	30.3%	30.8%	28.3%	30.9%
% bancassurance	44%	35%	33%	30%	31%	24%

Source: Company data, Credit Suisse estimates. APE = annual + 10% single premium, VNB = value of 1yr new business, VNB margin = VNB / APE.

Our primary concern for China Life remains its 'value & volume" strategy which is difficult to execute even with the best of intentions.

Stay in purgatory extended

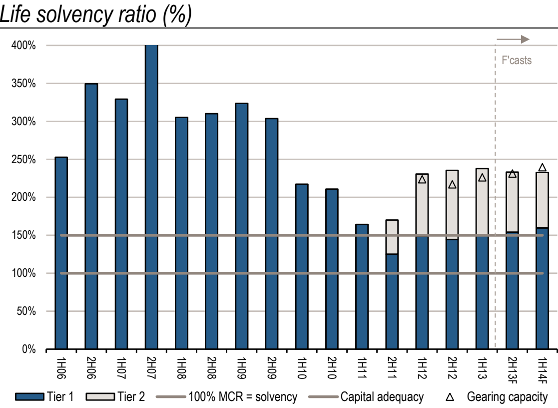
The CIRC increased the maximum guarantee on Traditional products from 2.5% to 3.5%—which will reduce margins on the Traditional investment type products by up to half in our view (click here for report). Given China Life has the highest exposure to this segment, we see any pick-up in growth in 2H13E or 1H14E extremely unlikely in our view—as such see their stay in purgatory extended.

Solvency position remains strong

The solvency ratio of China Life increased to 238% at 30 Jun 13. (236% at 31 Dec 12, 231% at 31 Jun 12). Whilst China Life is now technically in breach of maximum gearing ratios, it is not in danger of needing to raise equity—especially at these growth rates.

Figure 2: Capital position improved 238%, well clear of minimum

China Life solvency ratio (%)



Source: Company data, Credit Suisse estimates.

China Life (A) share price also reduced to Rmb 17.00 (from 20.50).

China Minsheng Banking Corporation--------------------------- Maintain UNDERPERFORM

2Q13 results: Surprise increase in cost of funding; MSE NPL ratio 0.47% **EPS: ◄► TP: ◄►**

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- Minsheng reported 2Q13 profit of Rmb11.9 bn, +8% QoQ, 21% YoY and 7% ahead of our forecast. Net interest income was lower, fee income far higher, operating cost and credit cost lower, leading to the final bottomline beat.
- Net interest margins declined 6 bp QoQ (-60 bp YoY) to 2.41%, 9 bp behind our est. despite aggressive growth in micro-and-small enterprise loans as the bank garnered deposits (3.7% QoQ, 20.1% YoY). Loan-dep ratio fell to 68% (71% on avg. balance). Cost of funding increased 6 bp HoH, the only bank to suffer so.
- MSE loan growth continued (11% QoQ, 23% HoH, 55% YoY) and now account for 26.4% of loans. NPLs in MSE jumped 45% HoH, 87% YoY but were still only 0.47% of loans, below the overall NPL ratio of 0.78% (0.97% adjusted for write-off).
- Minsheng charged 75 bp credit cost (annualised) during 2Q13, slightly lower than our est but we consider it ok given LLR/loan ratio is 2.49%. Core Tier 1 ratio improved marginally to 7.87% (1Q13 7.80%). CBs would have added 80 bp if converted in 2Q.

Bbg/RIC	**1988 HK / 1988.HK**
Rating (prev. rating)	**U (U)**
Shares outstanding (mn)	28,366
Daily trad vol - 6m avg (mn)	65.0
Daily trad val - 6m avg (US$ mn)	73.2
Free float (%)	100.0
Major shareholders	New Hope Investment 4.99%; China Life 4.31%

Price (28 Aug 13 , HK$)			**8.12**
TP (prev. TP HK$)			**9.54 (9.54)**
Est. pot. % chg. to TP			17
52-wk range (HK$)			12.08 - 5.78
Mkt cap (HK$/US$ bn)			308.4/ 39.8
Performance	**1M**	**3M**	**12M**
Absolute (%)	5.6	(15.8)	17.2
Relative (%)	4.3	(11.2)	10.0

Year	**12/11A**	**12/12A**	**12/13E**	**12/14E**	**12/15E**
Pre-prov Op profit (Rmb mn)	45,551.0	59,849.0	66,575.5	72,465.7	78,857.0
Net profit (Rmb mn)	27,920	37,563	41,072	42,162	42,945
EPS (CS adj. Rmb)	1.05	1.32	1.45	1.49	1.51
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (Rmb)	n.a.	n.a.	1.44	1.56	1.73
EPS growth (%)	58.8	26.7	9.3	2.7	1.9
P/E (x)	6.1	4.8	4.4	4.3	4.2
Dividend yield (%)	5.0	2.3	2.4	3.4	0
BVPS (CS adj. Rmb)	4.85	5.75	6.76	7.79	8.79
P/B (x)	1.32	1.11	0.95	0.82	0.73
ROE (%)	23.9	25.7	23.2	20.4	18.3
ROA (%)	1.4	1.4	1.2	1.1	1.0
Tier 1 Ratio (%)	7.87	8.13	8.19	7.98	7.79

Note1:ORD/ADR=10.00.Note2:China Minsheng Banking Corp., Ltd. is a financial institution which is engaged in corporate, institutional and personal banking sectors in China. The company has some 350 main branches and outlet locations throughout China..

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Fee income sharply higher, surprising control on staff cost

Minsheng beat our forecast but there were several variances across the P&L items. Fee income, up 25% QoQ, 84% YoY, was far stronger than expected and was driven partly by items that are target of government regulation (interbank business, wealth management products, trust beneficiary rights, etc). It would be hard to sustain this level of fee in 2H13, in our view.

In complete contrast, operating costs went down 2% YoY (up only 2% YoY for 1H13) as 1H13 staff costs were 4.5% lower vs 1H12. This is very surprising in the context of the sharp jump in fee income.

Strong growth in MSE continues, NPLs far below peers

NPLs in the micro-and-small enterprise were 0.47% of loans. During 1H13, CCB saw NPL ratio trebling to 1.62% and CITIC Bank saw NPL ratio doubling to 2.00% in personal business loans.

Interbank assets up 44% HoH, 108% YoY (one-third of IEAs); cost of funding actually went up HoH

While the period-end interbank assets were flat HoH, they were up 44% HoH, 87% YoY in average balance. Interbank liabilities also surged 37% HoH, 96% YoY due to which cost of funding rose HoH.

Figure 1: Comparison of interbank assets, loan yield, cost of funding

(Rmb bn, %)	**ABC**	**BCOM**	**CMB**	**CITIC**	**Minsheng**	**CQRC**
Interbank assets	1,371	419	385	540	1,148	103
- HoH %	24.4	4.3	17.6	19.0	43.8	32.1
- % of IEAs	10.3	8.0	11.6	17.2	35.0	22.9
- Yield	3.86	3.37	3.90	3.88	4.59	5.74
Loan yield	5.96	6.09	6.05	6.11	7.13	7.18
- HoH (bp)	(36)	(28)	(40)	(45)	(23)	(35)
- YoY (bp)	(54)	(65)	(61)	(74)	(75)	(38)
Cost of deposits	1.74	2.08	1.84	2.14	2.29	2.01
- HoH (bp)	(8)	(13)	(8)	(8)	(7)	(5)
- YoY (bp)	(12)	(9)	(7)	(15)	(9)	(9)
Cost of funding	1.91	2.46	2.15	2.38	3.06	2.58
- HoH (bp)	(5)	(16)	(9)	(9)	6	(6)
- YoY (bp)	(10)	(16)	(15)	(28)	(3)	(20)

Source: Company data, Credit Suisse estimates.

Lowest core Tier 1 capital ratio among H-share banks

Conversion in Rmb20 bn six-year CBs starts from Sep-13 at Rmb10.08 per share (24% >CMP). The conversion will have added 80 bp to Tier 1 ratio on 2Q13 RWAs but conversion timing is uncertain (it pays interest of 0.6% in the first three years and 1.5% for the next three).

Figure 2: Minsheng—2Q13 results table

(Rmb mn)	**2Q12**	**1Q13**	**2Q13**	**QoQ %**	**YoY %**	**2Q13E**	**Diff %**	**1H13**	**YoY %**	**% FYe**
Net int.inc.	18,901	20,114	20,450	2	8	21,783	(6)	40,564	7	46
Net fees	4,892	7,200	9,022	25	84	6,849	32	16,222	62	67
Non-int inc	7,433	8,763	8,796	0	18	7,849	12	17,559	30	66
Op.inc.	**26,334**	**28,877**	**29,246**	**1**	**11**	**29,632**	**(1)**	**58,123**	**13**	**50**
Opex	(11,159)	(9,755)	(10,971)	12	(2)	(11,527)	(5)	(20,726)	2	42
PPOP	**15,175**	**19,122**	**18,275**	**(4)**	**20**	**18,105**	**1**	**37,397**	**20**	**57**
Impairment	(2,071)	(4,017)	(2,755)	(31)	33	(3,027)	(9)	(6,772)	25	60
PBT	13,400	14,920	16,074	8	20	14,928	8	30,994	21	56
Attri. profit	9,881	11,015	11,930	8	21	11,101	7	22,945	20	56

Figure 3: Minsheng—2Q13 key ratios

	2Q12	**3Q12**	**4Q12**	**1Q13**	**2Q13**	**2Q13E**	**Diff.**	**2013E**
Loan growth	4.4%	3.3%	2.9%	3.7%	3.4%	3.1%	0.3%	13.2%
Deposit growth	7.1%	2.5%	3.8%	8.9%	3.7%	2.8%	0.9%	12.9%
Loan-deposit ratio	72.0%	72.5%	71.9%	68.4%	68.3%	68.6%	-0.4%	72.0%
Net int.margin	**3.01%**	**2.86%**	**2.70%**	**2.47%**	**2.41%**	**2.50%**	**-0.09%**	**2.71%**
Cost to income	42.4%	43.2%	44.6%	33.8%	36.8%	38.9%	-2.1%	42.4%
NPL ratio	0.69%	0.72%	0.76%	0.76%	0.78%	0.80%	0.02%	0.83%
LLR/loans	2.43%	2.44%	2.39%	2.47%	2.49%	2.53%	0.04%	2.43%
Credit cost (bp)*	**61**	**50**	**40**	**114**	**76**	**83**	**(7)**	**77**
Core T1 CAR	8.41%	8.12%	8.13%	7.80%	7.87%	n.a.	n.a.	10.64%
ROAE	27.4%	25.7%	22.1%	25.8%	26.3%	n.a.	n.a.	23.16%
ROAA	1.58%	1.44%	1.16%	1.35%	1.42%	n.a.	n.a.	1.24%

*Annualised. Sources for both figures: Company data, Credit Suisse estimates

China Modern Dairy --- Maintain OUTPERFORM

FY13 cash EBITDA up 53% YoY on sales up 48%; own UHT turned profitable; a new JV with Mengniu EPS: ▼ TP: ◄►

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- Stripping out bio-asset revaluation loss, China Modern Dairy's (CMD) cash EBITDA increased 53% YoY in FY13 on sales growth of 48% YoY. Cash EBITDA margin expanded 90 bp YoY to 27.3%.
- The good: (1) ASP rose 12.3%, offsetting the 8.9% feed cost inflation; (2) own UHT milk turned profitable (7% of total sales with 14% margin); (3) sales from non-Mengniu customers (higher margin) rose to 13.6% from 1.7% last year; and (4) CMD and Mengniu plans to establish a JV to develop fresh milk products.
- The bad: (1) 8.23-ton yield is a small miss vs guidance of 8.3 ton; and (2) Rmb39 mn bio-asset revaluation loss (decided by JLL) was a miss vs previous guidance of Rmb60 mn gain.
- We now assume Rmb120-180 mn bio-asset loss for FY14-16E, more conservative than guidance. We cut our earnings forecasts by 11-19%. We also roll over our valuation base to FY14 and maintain our DCF-based TP of HK$2.80, representing 21x FY14E and 14x FY15E reported earnings. It implies 0.6x three-year cash EBITDA PEG and 0.4x reported earnings PEG. OUTPERFORM.

Bbg/RIC	**1117 HK / 1117.HK**
Rating (prev. rating)	**O (O) [V]**
Shares outstanding (mn)	4,818.54
Daily trad vol - 6m avg (mn)	9.4
Daily trad val - 6m avg (US$ mn)	3.1
Free float (%)	28.4
Major shareholders	Advanced Dairy (24.01%)

Price (28 Aug 13, HK$)			**2.55**
TP (prev. TP HK$)			**2.80 (2.80)**
Est. pot. % chg. to TP			10
52-wk range (HK$)			2.87 - 1.87
Mkt cap (HK$/US$ mn)			12,287.3/ 1,584.5
Performance	**1M**	**3M**	**12M**
Absolute (%)	8.1	(3.0)	17.0
Relative (%)	6.7	1.6	9.8

Year	**06/12A**	**06/13A**	**06/14E**	**06/15E**	**06/16E**
Revenue (Rmb mn)	1,678	2,481	3,424	4,333	5,470
EBITDA (Rmb mn)	577	629	842	1,094	1,457
Net profit (Rmb mn)	398	324	516	769	1,127
EPS (Rmb)	0.08	0.07	0.11	0.16	0.23
- Change from prev. EPS (%)	n.a.	n.a.	(19)	(11)	
- Consensus EPS (Rmb)	n.a.	n.a.	0.12	0.17	0.18
EPS growth (%)	59.7	(18.7)	59.4	49.0	46.6
P/E (x)	24.2	29.8	18.7	12.6	8.6
Dividend yield (%)	0	0	0	0	0
EV/EBITDA (x)	20.6	21.6	15.8	12.0	8.4
P/B (x)	1.9	1.8	1.6	1.4	1.2
ROE (%)	8.2	6.2	9.0	11.8	14.8
Net debt(cash)/equity (%)	42.3	71.3	58.7	48.2	30.3

Note1:China Modern Dairy Holdings Ltd. is an investment holding company. The company, through its subsidiaries is engaged in production and sales of milk. It is primarily engaged in the production and sale of raw milk.

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Rmb39 mn bio-asset revaluation vs RMb131 mn loss in LY

Jones Lang LaSalle decides CMD's bio-asset revaluation gain/loss twice a year. In general, when a farm gets mature and herd structure is stabilised, the revaluation changes from gain (mainly due to calf purchase) to loss (rising weighting of milkable cows, whose feeding cost during 0-2 years old stage starts to be depreciated). CMD booked a gain of Rmb131 mn in FY12, and a loss of Rmb39 mn in FY13.

Any assumption changes in raw milk price, yield, feed cost, culling ratio and discount rate would lead to different fair values of bio-assets. For example, according to CMD, JLL used 12% for FY13 discount rate, vs 8% in FY11 and 10% in FY12. This is a major reason for the big gap between CMD's old estimation/guidance and JLL's final report.

We assume a Rmb120 mn loss for FY14 (vs guidance of below Rmb100 mn) and a Rmb150mn loss for FY15 (no guidance). We believe this forecast risk should be discounted in valuation multiple for any cow farming companies.

Figure 1: How to value biological assets?

Accounting treatment	**Notes**
Bio-asset beginning value	Valued by JLL
+ Increase due to purchase of heifers	To decline to zero, when a farm gets mature and stops purchasing new heifers
+ Increase due to raising cost of calves and heifers	To stabilise, when a farm gets mature and # of calves and heifers is stable
+ Decrease due to sales of cows	In line with culling rate and birth rate (CMD raised culling rate from previous 20% to 26-27%)
+ Net change of fair value less costs to sell	**A non-cash item also booked on P&L**
= Bio-asset ending value	Valued by JLL
Valuation method	**Swing factors**
Market approach for heifers and calves	Reference to the market prices of items with similar age, breed and genetic merit
NPV approach for milkable cows	The major assumptions includes raw milk prices, milk yield, culling rates, costs and discount rates

Source: Credit Suisse research

48% sales growth driven by volumes up 31.4%, ASP up 12.4%, and yield of 8.23 ton; Cash EBITDA margin up 90 bp

Milkable cow count increased 22.5% YoY to 86,710 heads in FY13 (48.7% of total herd) in FY13. CMD expects herd size to organically grow 10% p.a. and milkable cow count to grow 20% p.a. This translates into milkable cow weighting to rise from current 48% to 52% in FY14 and normalise at 60% in the future. This organic growth pace (self-bred) could support two new farm openings p.a. The 8.23-ton yield implies 1.7% YoY growth, slightly lower than guidance of 8.3-ton. CMD expects 9 tons in FY15 (vs 9.3 tons in US).

FY13 cash EBITDA margin expanded 90 bp YoY to 27.3%, driven by: (1) a 12.3% ASP hike to Rmb4.37/kg, offsetting the 8.9% increase in cash cost per ton milk; (2) milk yield up 1.7% YoY; and (3) operating leverage. CMD targets 30% cash EBITDA margin when milk yield reaches 9 tons.

CMD brand UHT milk turned profitable in FY13

CMD's own UHT milk (7% of total sales and 2.7% of total volume) recorded Rmb23.8 mn profit (13.8% net margin, vs a Rmb13.5 mn loss in FY12). CMD and Mengniu plan to establish a JV to develop pasteurised milk products. Mengniu is likely to own above 50% of the JV, share branding and distribution advantage, offer exclusivity of pasteurised milk production. A concrete plan and the timing have not been decided yet.

Figure 2: Summary of key assumptions (FY12-16E)

	1H12	**2H12**	**FY12**	**1H13**	**2H13**	**FY13**	**FY14E**	**FY15E**	**FY16E**
Sales YoY	61%	44%	51%	49%	47%	48%	38%	27%	26%
Yield (ton p.a.)	7.80	8.38	8.09	7.94	8.55	8.23	8.50	8.90	9.00
Cash EBITDA m	23.2%	28.8%	26.4%	24.8%	28.7%	27.3%	28.1%	28.7%	29.9%

Source: Company data, Credit Suisse estimates

China Shipping Container Lines ---------------------------------- Maintain UNDERPERFORM

1H13 results missed; rate improvement in domestic markets **EPS: ◄► TP: ◄►**

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- CSCL reported a substantial 1H loss of Rmb1.3 bn, down 2% YoY. This is 18% below consensus but ahead of our estimate of Rmb1.5 bn loss. Revenue beat our forecast by 2.7% on an unexpected 118% surge in other revenues.
- Long-haul rates and volumes are generally in-line, but a 10% drop in intra-Asia rate was disappointing. Unit cost rose 4.7%, despite a 10% reduction in bunker price. We believe this was caused by a falling share of short-distance domestic cargo in the volumes mix.
- Pricing and capacity discipline in the coastal markets is stronger than anticipated. After an operational tie-up with COSCO since October 2012, CSCL's domestic volumes fell 11%, after capacity withdrawal and average rate rose 10% YoY.
- A return to profitability in 3Q peak season is anticipated, but this will be far from being sufficient to cover the losses in other quarters. Excessive capacity means that CSCL's attempt to raise Asia-EU rate on 1 September will be hard to be fully implemented or held. Maintain UNDERPERFORM.

Bbg/RIC	2866 HK / 2866.HK	Price (28 Aug 13 , HK$)			1.97
Rating (prev. rating)	U (U) [V]	TP (prev. TP HK$)			1.20 (1.20)
Shares outstanding (mn)	11,683	Est. pot. % chg. to TP			(39)
Daily trad vol - 6m avg (mn)	33.3	52-wk range (HK$)			2.68 - 1.40
Daily trad val - 6m avg (US$ mn)	8.7	Mkt cap (HK$/US$ mn)			30,600.3/ 3,945.9
Free float (%)	53.0	Performance	1M	3M	12M
Major shareholders	China Shipping Group 47%	Absolute (%)	2.6	(1.0)	11.9
		Relative (%)	1.7	3.1	4.4

Year	12/11A	12/12A	12/13E	12/14E	12/15E
Revenue (Rmb mn)	28,264	32,551	33,887	35,100	36,501
EBITDAR	(1311.5)	1,213.5	1,230.1	1,292.0	1,539.7
Net profit (Rmb mn)	(2866)	(163)	(314)	(276)	(128)
EPS (Rmb)	(0.25)	(0.01)	(0.03)	(0.02)	(0.01)
- Change from prev. EPS (%)	n.a.	n.a.	n.m	n.m	n.m
- Consensus EPS (Rmb)	n.a.	n.a.	(0.03)	0.07	0.17
EPS growth (%)	n.m.	n.m.	n.m.	n.m.	n.m.
P/E (x)	n.m.	n.m.	n.m.	n.m.	n.m.
Dividend yield (%)	0	1.1	0	0	0
EV/EBITDAR (x)	(26.6)	28.2	27.0	26.8	24.4
P/B (x)	0.7	0.7	0.7	0.7	0.7
ROE (%)	(10.4)	(0.6)	(1.2)	(1.1)	(0.5)
Net debt(cash)/equity (%)	39.8	36.7	33.6	39.1	50.5

Note 1: ORD/ADR=50.00. Note 2: China Shipping Container Lines Company Limited is principally engaged in operation and management of container shipping. The Company also involves in provision of port services. The Company operates Pacific lines, Europe/Mediterranean lines, Asia-Pacific.

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Losses remain substantial

Despite a lower fuel price, CSCL's losses remain substantial in the first half. Its earnings prospect is tied to the performance of long-haul shipping spot rate. The underperformance of Asia-Europe service was the big drag to CSCL's earnings. Asis-EU rate dropped 12% YoY, in line with our expectation. CSCL's continued expansion into the Intra-Asia market coincided with a market downturn. Intra-Asia rates fell by 10% YoY. A 4.7% increase in per box unit cost was 6% ahead of our estimate. While a falling share of domestic volumes with a short sailing distance and lower cost per box from 47% last year to only 42% likely raised the overall unit cost, we believe that non-fuel unit costs are generally facing an upward pressure. The difference between our forecast and the results lies in an unexplained surge in other container shipping revenues from Rmb898 mn last year to Rmb1.7 bn.

Figure 1: CSCL 1H13 results summary

	1H13		%	1H12	%
	Actual	Expected	Variance	Actual	Change
Revenue	15,851	15,441	2.7%	15,310	3.5%
EBIT	(1,070)	(1,446)	26.0%	(1,110)	3.5%
NPAT Pre-ex	(1,288)	(1,499)	14.1%	(1,282)	-0.5%
Opex / TEU	4,342	4,098	6.0%	4,147	4.7%
Liftings, TEU					
Pacific	640,131	665,901	-3.9%	637,226	0.5%
Europe	722,023	692,559	4.3%	678,979	6.3%
Asia	878,629	843,429	4.2%	766,754	14.6%
China domestic	1,623,499	1,841,693	-11.8%	1,841,693	-11.8%
Others (Feeder service)	33,000	34,675	-4.8%	34,675	-4.8%
Total liftings	**3,897,282**	**4,121,255**	**-5.4%**	**3,959,327**	**-1.6%**
Rates, RMB / TEU					
Pacific	7,403	7,438	-0.5%	7,406	0.0%
Europe	5,257	5,338	-1.5%	5,958	-11.8%
Asia	3,218	3,574	-9.9%	3,593	-10.4%
China domestic	1,706	1,561	9.3%	1,570	8.7%
Others (Feeder service)	46,169	20,110	129.6%	20,222	128.3%
Total	**4,067**	**3,747**	**8.6%**	**3,817**	**6.6%**

Source: Company data, Credit Suisse estimates

Coastal shipping business the only bright spot

CSCL teamed up its biggest domestic rival China COSCO to jointly operate major domestic routes since the end of last year. This has helped them reduce the number of deployed vessels without cutting service loops. CSCL saw its domestic capacity and volumes drop 11% YoY. CSCL and COSCO together control a combined market share of 80% in the coastal markets, enabling them to raise average ASP by 10% YoY. We believe the domestic business is the only profitable segment of CSCL in 1H13.

Limited rate hike in peak season

Looking forward, CSCL will attempt to raise the Asia-EU rate by cUS$450/TEU in September. However, we have seen excess capacity in the market and successive rate increases in July and August failed to be fully implemented or to be held. We still anticipate a profit in 3Q peak season, but it will likely be the only profitable quarter for the year and it would be insufficient to cover the losses of the other three. We anticipate CSCL's 2H NPAT to fall by 46% YoY. A sustained weakness in the spot market should place CSCL and the sector under pressure. Maintain UNDERPERFORM.

China XD ---Maintain NEUTRAL

1H13 sales in line, margin recovery better than expected **EPS: ▲ TP: ◄►**

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Significant Contributor: Yi Qiao

- China XD announced its 1H13 results. Revenue was up 9% while net profit of Rmb150 mn was recorded (vs net profit of Rmb36 mn in 1Q13 and net loss of Rmb168 in 1Q12). Sales recovery was in line but margin rebound was better than expected.
- Gross margin was 21.6% in 1H13, up 6 pp YoY. We believe the rebound was due to the delivery of UHV and several high voltage power station orders (mainly 500 kV) signed last year. However, as the delivery of UHV and 500 kV orders are almost completed, margin should drop slightly in 2H13 and stabilise around 20%.
- We believe China XD can meet its sales target of Rmb14.1 bn in 2013 but upside is not likely as the overall demand is not strong at the moment with new UHV AC lines still pending for approvals.
- We revise up our earnings by 8% and 14% for 2013-14E based on better-than-expected margin but retain our topline forecast. The stock is trading at 1.1x P/B, the lowest among peers; we think it is fair given its lowest operating efficiency (lowest ROE) and lack of catalysts ahead. We maintain NEUTRAL.

Bbg/RIC	601179 CH / 601179.SS	Price (27 Aug 13 , Rmb)			3.57
Rating (prev. rating)	N (N)	TP (prev. TP Rmb)			4.80 (4.80)
Shares outstanding (mn)	4,357.00	Est. pot. % chg. to TP			34
Daily trad vol - 6m avg (mn)	12.0	52-wk range (Rmb)			3.89 - 3.06
Daily trad val - 6m avg (US$ mn)	6.8	Mkt cap (Rmb/US$ mn)			15,554.5/ 2,540.3
Free float (%)	67.5	**Performance**	**1M**	**3M**	**12M**
Major shareholders	China XD Group	Absolute (%)	2.0	(3.3)	3.8
		Relative (%)	(0.1)	(0.1)	(5.2)

Year	12/11A	12/12A	12/13E	12/14E	12/15E
Revenue (Rmb mn)	11,250	12,604	14,317	15,362	16,130
EBITDA (Rmb mn)	(59)	718	902	993	1,208
Net profit (Rmb mn)	(518.1)	117.6	212.4	356.8	535.4
EPS (Rmb)	(0.12)	0.03	0.05	0.08	0.12
- Change from prev. EPS (%)	n.a.	n.a.	8	14	4
- Consensus EPS (Rmb)	n.a.	n.a.	0.10	0.15	0.22
EPS growth (%)	n.m.	n.m.	80.6	68.0	50.0
P/E (x)	n.m.	132.2	73.2	43.6	29.1
Dividend yield (%)	0.3	0	0	0.1	0.1
EV/EBITDA (x)	(185.8)	14.8	10.3	8.4	6.0
P/B (x)	1.1	1.1	1.1	1.1	1.0
ROE (%)	(3.6)	0.8	1.5	2.5	3.6
Net debt(cash)/equity (%)	(31.9)	(33.6)	(40.0)	(45.6)	(50.3)

Note1:China XD Electric Co., Ltd. designs, produces, sells and tests power transmission, distribution and control equipment..

1H13 sales in line, margin recovery better than expected

China XD announced its 1H13 results. Revenue was up 9% and net profit of Rmb150 mn was recorded (vs Rmb36 mn in 1Q13 and net loss of Rmb168 in 1Q12). Sales recovery was in line but margin rebound was better than expected.

Key highlights

(1) Sales were up 9%, mainly from switchgear and transformers, which accounted for 75% of total revenue. And among the two segments, UHV-related orders formed roughly 20%.

(2) Gross margin was 21.6% in 1H13, up 6 pp YoY. The rebound was mainly due to the delivery of high-margin (above 30%) UHV products and a meaningful rebound of non-UHV side, attributed to several super high voltage power station orders (mainly 500 kV) signed last year. However, as the delivery of UHV and 500 kV orders are almost completed, margin could drop slightly in 2H13 and stabilise at around 20%. Its S&A expense was in line with sales growth in 1H13.

Mild order increase in 2013

The company aims to achieve Rmb14.1 bn in sales in 2013 and had completed 41.4% by 1H13. We believe this target can be met given the current order book (up 4% YoY), but upside surprise is not likely as management also admitted that overall demand is not strong at present and the new UHV AC lines are still pending for approvals.

Revising up earnings; maintain NEUTRAL

We revise up our earnings by 8% and 14% for 2013-14E based on better-than-expected margin while we retain our topline forecast. Based on our P/B and GGM model, our target price is unchanged at Rmb4.8. Although the company is trading at 1.1x 2013E P/B, the lowest among peers, we think it is fair considering its lowest operating efficiency (lowest ROE) and lack of catalysts ahead. Maintain NEUTRAL.

Figure 1: 1H13 financial summary

(Rmb mn)	1H13	YoY	2Q13	YoY
Total revenue	5,881	9%	3,458	3%
COGS	4,558	2%	2,658	-4%
Gross profit	1,281	50%	768	39%
S+A expense	*1,046*	9%	*564*	12%
Operating profit	235	n.m.	204	331%
Financial cost	13	204%	7	-131%
Investment income	31	126%	13	-4%
Pre-tax income	189	n.m.	143	356%
Income tax	48	16%	32	28%
Minorities	-10	-37%	-4	-42%
Profit after MI	150	n.m.	114	783%

Source: Company data

Chongyi Zhangyuan Tungsten Co Ltd -------------------------------- Upgrade to NEUTRAL

1H13 results in line; sales volume and ASP should further improve in 2H **EPS: ◄► TP: ◄►**

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Significant Contributor: Lan Ke

- ZYT's 1H13 net profit was Rmb60 mn, or EPS of Rmb0.14, down 34% YoY and at 40% of our full-year expectation. This was in line as sales volume and ASP should improve further in 2H, in our view.
- Sales volume of APTe in 1H13 was 5.4 kt, up 23% YoY, at almost 52% of our full-year estimates. Unit gross profit in 1H13 was Rmb39/kg, down 20% YoY, due to low sufficient ratio of tungsten concentrate and better tungsten concentrate price performance among various tungsten products. Unit SG&A in 1H13 was Rmb18/kg, up 17% YoY, likely partly driven by rising labour costs.
- The high-end cutting tools project has been put into production in 1H13, but its products are still in the trial stage for the clients. Management believes that it has a relatively high gross margin, which would improve the company's earnings. We expect the project will begin normal production and contribute to profit in 2014.
- Demand recovery in the tungsten market is visible and we maintain our earnings estimates. ZYT is currently trading at a reasonable valuation; we upgrade our rating to NEUTRAL.

Bbg/RIC	**002378 CH / 002378.SZ**	**Price (27 Aug 13 , Rmb)**			**20.12**
Rating (prev. rating)	**N (U)**	**TP (prev. TP Rmb)**			**18.00 (18.00)**
Shares outstanding (mn)	428.21	Est. pot. % chg. to TP			(11)
Daily trad vol - 6m avg (mn)	2.0	52-wk range (Rmb)			26.9 - 18.5
Daily trad val - 6m avg (US$ mn)	7.2	Mkt cap (Rmb/US$ mn)			8,615.7/ 1,407.7
Free float (%)	100.0	**Performance**	**1M**	**3M**	**12M**
Major shareholders	Zhangyuan Investment Holdings Limited	Absolute (%)	4.9	(16.4)	(21.7)
		Relative (%)	2.3	(13.7)	(31.3)

Year	**12/11A**	**12/12A**	**12/13E**	**12/14E**	**12/15E**
Revenue (Rmb mn)	1,937	1,744	1,902	2,158	2,397
EBITDA (Rmb mn)	498.7	299.3	394.9	483.3	555.8
Net profit (Rmb mn)	286.9	131.7	148.8	194.2	239.8
EPS (Rmb)	0.67	0.31	0.35	0.45	0.56
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (Rmb)	n.a.	n.a.	0.49	0.70	0.56
EPS growth (%)	89.5	(54.1)	13.0	30.6	23.5
P/E (x)	30.0	65.4	57.9	44.4	35.9
Dividend yield (%)	2.0	2.0	1.0	0.9	1.1
EV/EBITDA (x)	18.4	31.3	24.3	19.9	17.1
P/B (x)	6.0	6.2	5.9	5.5	5.0
ROE (%)	21.5	9.4	10.5	12.9	14.6
Net debt (cash)/equity (%)	40.7	52.8	68.2	64.8	52.9

Note 1: Chongyi Zhangyuan Tungsten Co.,Ltd. is principally engaged in the mining, separating, smelting and deep processing of tungsten ore. The company's major products include ammonium paratungstate (APT), tungsten oxide, tungsten powder, tungsten carbide powder.

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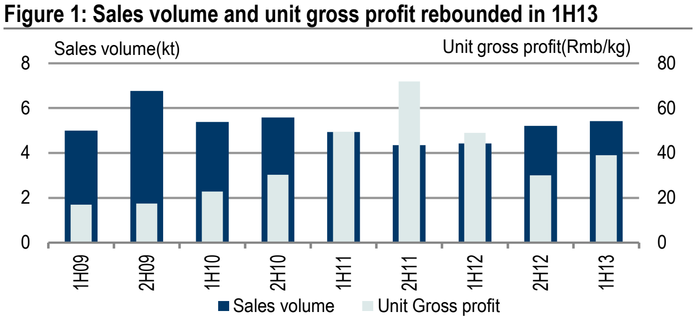
Figure 1: Sales volume and unit gross profit rebounded in 1H13



Source: Asian metal, Company reports, Credit Suisse estimates

Figure 2: 1H13 financial and operating summary – Zhangyuan Tungsten

ZYT		**2Q13**	**1Q13**	**QoQ**	**1H13**	**1H12**	**YoY**
Financials							
Revenue	Rmb mn	515	435	18%	949	881	8%
COGS	Rmb mn	400	338	19%	738	664	11%
EBIT	Rmb mn	62	53	17%	115	149	-23%
Net profit	Rmb mn	35	25	40%	60	90	-34%
EPS	**Rmb/sh**	**0.08**	**0.06**	**40%**	**0.14**	**0.21**	**-34%**
Gross margin	**%**	**22.2%**	**22.3%**	**0%**	**22.3%**	**24.6%**	**-9%**
EBIT margin	%	12.0%	12.2%	-1%	12.1%	16.9%	-29%
Net margin	%	6.8%	5.7%	19%	6.3%	10.3%	-39%
Profit tax rate	**%**	**17.2%**	**18.6%**	**-7%**	**17.8%**	**15.7%**	**14%**
SG&A/revenue	%	10.2%	10.1%	0%	10.1%	7.6%	33%
Fin. fee/revenue	%	4.4%	4.4%	2%	4.4%	4.2%	6%
Operational							
APT- Fob price	US$/mtu	371	347	7%	358	410	-13%
APT- Domestic price	Rmb/kg	194	175	11%	184	197	-7%
Sales vol. - APTe, est	**Ktons**	**2.8**	**2.6**	**9%**	**5.4**	**4.4**	**23%**
ASP - APTe,est	Rmb/kg	183	168	9%	175	199	-12%
Unit COGS - APTe,est	Rmb/kg	142	130	9%	136	150	-9%
Unit gross profit - APTe,	**Rmb/kg**	**41**	**37**	**9%**	**39**	**49**	**-20%**
Unit SG&A - APTe,est	Rmb/kg	19	17	10%	18	15	17%

Note: APTe = APT Equivalent. Source: Company reports, Credit Suisse estimates

Figure 3: Key assumptions and financials – Zhangyuan Tungsten

ZYT		**2011A**	**2012A**	**2013E**	**2014E**	**2015E**
Price assumptions						
Benchmark - APT price	Rmb/kg	216	183	195	202	205
Benchmark - W concentrate	Rmb/kg	140	120	128	132	134
Sales assumptions						
APT Equivalent	Ktons	9.3	9.5	10.3	11.2	12.2
Financials						
Revenues	Rmb mn	1,937	1,744	1,902	2,158	2,397
Gross profit	Rmb mn	556	373	434	530	613
Gross margin	%	29%	21%	23%	25%	26%
Net Profit	Rmb mn	287	132	149	194	240
EPS	Rmb/sh	0.67	0.31	0.35	0.45	0.56
BV	Rmb/sh	3.34	3.26	3.39	3.67	4.00
Operating cash flow	Rmb mn	113	185	150	344	410
Investing cash flow	Rmb mn	(360)	(188)	(311)	(211)	(111)
Financial cash flow	Rmb mn	30	29	434	(137)	(58)
ROE	%	20.1%	9.4%	10.3%	12.4%	14.0%
ROIC	%	15.5%	7.7%	6.8%	8.4%	9.1%

Source: Company reports, Credit Suisse estimates

Demand recovery in the tungsten market is visible, which was confirmed by the HoH rebound of sales volume and unit gross profit. We expect 2H13 unit gross profit to improve to Rmb45/kg, mostly driven by higher ASP. ZYT is currently trading at a reasonable valuation; we upgrade our rating to NEUTRAL.

Hopefluent Group -- Maintain OUTPERFORM

1H13 results missed due to delay of sales registration and HK$15 mn provision for EB **EPS: ◄► TP: ◄►**

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- Hopefluent 1H13 revenue grew 29% YoY to HK$1,022 mn, and net profit for shareholders rose 9% YoY to HK$89 mn. Net margin declined 1.7 pp to 8.7%.
- This seems disappointing. But if we exclude the non-cash provision of HK$15 mn for its EB, core net profit for shareholders would have been up 27% YoY, and net margin would be flat YoY.
- Primary agency business: Value of properties sold rose 29% YoY to HK$67 bn. Due to the government's delay of registering high-ASP housing transactions, another HK$3.5 bn was sold but not contracted. Commission rate declined to 0.94% from 0.98% in 1H12, as developers were not willing to pay more in a strong market. Operating margin declined to 21% from 26% in 1H12 due to SG&A although the contract registration was delayed.
- Hopefluent has HK$700 bn saleable resources for the next three years. It expects to sell HK$170-180 bn in FY13E. Hopefluent is also negotiating with developers to get commissions even if the registration of primary sales are delayed. Maintain OUTPERFORM.

Bbg/RIC	733 HK / 0733.HK	Price (27 Aug 13 , HK$)	2.70
Rating (prev. rating)	**O (O) [V]**	**TP (prev. TP HK$)**	**3.90 (3.90)**
Shares outstanding (mn)	486.37	Est. pot. % chg. to TP	44
Daily trad vol - 6m avg (mn)	0.6	52-wk range (HK$)	2.96 - 1.97
Daily trad val - 6m avg (US$ mn)	0.2	Mkt cap (HK$/US$ mn)	1,313.2/ 169.3
Free float (%)	67.0		
Major shareholders	Fu Wai Chung (Chairman) - 33%		

Performance	1M	3M	12M
Absolute (%)	3.1	(5.6)	31.7
Relative (%)	(0.1)	(2.7)	22.6

Year	12/11A	12/12A	12/13E	12/14E	12/15E
Revenue (HK$ mn)	1,611	1,782	1,960	2,113	2,245
EBITDA (HK$ mn)	189.5	290.5	345.5	386.9	423.7
Net profit (HK$ mn)	134.3	186.5	233.1	260.7	280.5
EPS (HK$)	0.29	0.40	0.50	0.56	0.60
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (HK$)	n.a.	n.a.	0.50	0.56	0.60
EPS growth (%)	(29.5)	38.1	25.0	11.9	7.6
P/E (x)	9.3	6.7	5.4	4.8	4.5
Dividend yield (%)	3.3	4.6	5.6	6.2	6.7
EV/EBITDA (x)	5.5	3.5	2.3	1.8	0.9
P/B (x)	1.2	1.0	0.9	0.8	0.7
ROE (%)	13.7	16.1	17.1	16.9	16.2
Net debt(cash)/equity (%)	(25.8)	(23.0)	(36.5)	(37.1)	(50.8)

Note1:Hopefluent Group Holdings Ltd is an investment holding company. It has 3 segments: Primary property real estate agency, Secondary property real estate agency & Property Mgmt..

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Primary business

Properties sold +29% YoY to HK$67 bn. Due to the government's delay of registering high-ASP housing transactions, another HK$3.5 bn was sold but not contracted. Commission rate declined to 0.94% from 0.98% in 1H12, as developers were not willing to pay more in a strong market. Operating margin declined to 21% from 26% in 1H12 due to SG&A although the contract registration was delayed.

Secondary business

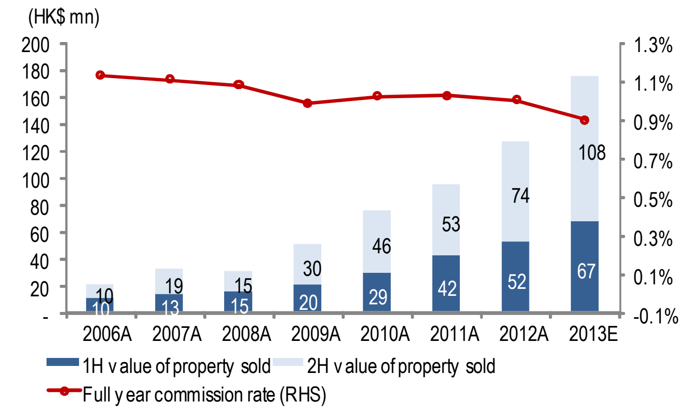
Secondary agency business +44% to HK$333 mn, mainly because (1) secondary sales hiked in March after the government announced secondary housing transaction tax; (2) As high end housing sales' registrations were delayed by the government, many high-end buyers turned to secondary housing market to avoid any delay of registering contracts.

Figure 1: Hopefluent 1H13 results summary

(HK$ mn)	1H12	1H13	YoY
Primary real estate agency services	496	599	21%
Secondary real estate agency services	231	333	44%
Property management & others	64	90	41%
Revenue	**791**	**1,022**	**29%**
Other income	2	10	435%
SG&A	(674)	(882)	31%
- Selling expenses	(520)	(687)	32%
- Administrative expenses	(154)	(194)	26%
EBIT	119	151	27%
Finance costs	(2)	(22)	1268%
Share of losses of an associate	(1)	(3)	88%
Income before tax	115	125	9%
Income tax expense	(33)	(35)	7%
Net profit for the period	**83**	**90**	**9%**
MI	0	1	220%
Net profit for shareholders	**82**	**89**	**9%**
Margin			**(pp)**
Operating margin	15.0	14.7	(0.2)
Net margin	10.4	8.7	(1.7)

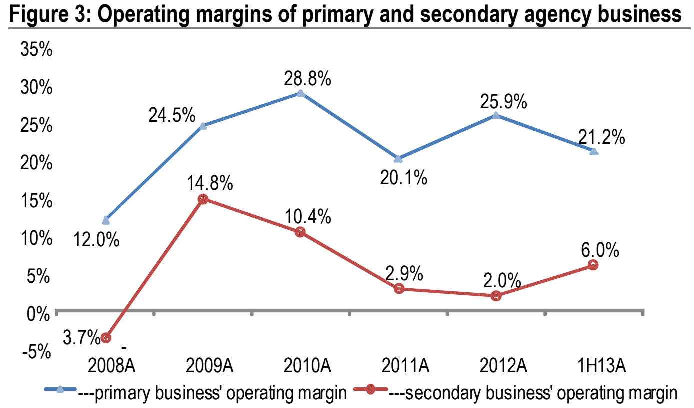
Source: Company data, Credit Suisse estimates

Figure 2: Primary agency business—property value sold and commission rate



Source: Company data, Credit Suisse estimates

Figure 3: Operating margins of primary and secondary agency business



Source: Company data, Credit Suisse estimates

Jiangxi Copper Company Ltd -- Maintain OUTPERFORM

1H13 results summary: Poor earnings as expected; strong cash flow and upside risk from Cu price EPS: ◄► TP: ◄►

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- JXC's 1H13A NP was Rmb1.24 bn, or EPS of Rmb0.37/sh, down 52% YoY. Excluding: 1) Rmb571 mn on inventory write-down due to change in Cu price; 2) Rmb109 mn on fair value changes of unrealised hedging positions, recurring EPS would be Rmb0.53/sh, down 25% YoY, 14% lower than our estimates.
- Mined Cu output was 101kt, stable YoY. Copper wire and rods sales expanded by 75% to 353kt. On a quarterly basis, recurring NP was Rmb707 mn for 2Q13 (PRC accounting), down 10% YoY or 35% QoQ, partly driven by lower Cu and gold prices. Operating cash flow was strong at Rmb3.4 bn, up 60% YoY.
- The company has guided that "due to the earnings impact of 1H13, it is possible to see significant earnings decline for 9M13". Based on current Cu price, we estimate 3Q recurring profit to mildly soften QoQ, while inventory writedown may be reversed.
- While valuation is fair based on current Cu price, upside risk in Cu price should continue to support the valuation. We will follow up with more details. Maintain OUTPERFORM.

Bbg/RIC	**358 HK / 0358.HK**	**Price (27 Aug 13 , HK$)**			**15.24**
Rating (prev. rating)	**O (O)**	**TP (prev. TP HK$)**			**15.10 (15.10)**
Shares outstanding (mn)	3,462.73	Est. pot. % chg. to TP			(1)
Daily trad vol - 6m avg (mn)	14.2	52-wk range (HK$)			21.8 - 12.0
Daily trad val - 6m avg (US$ mn)	27.5	Mkt cap (HK$/US$ mn)			52,772.0/ 6,803.5
Free float (%)	58.6	**Performance**	**1M**	**3M**	**12M**
Major shareholders	Jiangxi Copper Group 40.41%	Absolute (%)	11.9	0.5	(15.4)
		Relative (%)	8.7	3.4	(24.5)

Year	**12/11A**	**12/12A**	**12/13E**	**12/14E**	**12/15E**
Revenue (Rmb mn)	117,119	158,006	173,091	184,680	190,045
EBITDA (Rmb mn)	9,581	8,335	5,819	6,149	7,372
Net profit (Rmb mn)	6,587	5,170	2,633	2,775	3,598
EPS (Rmb)	1.90	1.49	0.76	0.80	1.04
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (Rmb)	n.a.	n.a.	1.09	1.08	1.04
EPS growth (%)	19.6	(21.5)	(49.1)	5.4	29.7
P/E (x)	6.3	8.1	15.8	15.0	11.6
Dividend yield (%)	5.8	4.2	1.9	2.0	2.6
EV/EBITDA (x)	4.4	4.9	7.5	7.4	6.1
P/B (x)	1.1	1.0	1.0	0.9	0.9
ROE (%)	17.9	12.6	6.1	6.2	7.6
Net debt(cash)/equity (%)	(1.1)	(3.6)	2.0	5.3	4.6

Note 1: ORD/ADR=40.00. Note 2: Jiangxi Copper Company Limited is principally engaged in manufacture, processing and distribution of copper products. IT distributes its products primarily in Mainland China, Hong Kong, Taiwan and other markets.

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Our target price is based on 6.5x EV/EBITDA on 2013E Cu price assumption of US$3.3/lb.

Figure 1: Earnings and valuation sensitivity – JXC

SHFE Cu price	**EPS 2013E**	**EV/EBITDA (HK$/sh)**		
US$/lb	**Rmb/sh**	**5.5x**	**6.5x**	**7.5x**
2.5	0.299	7.6	9.3	10.9
3.0	0.584	10.7	12.9	15.0
3.5	0.869	13.8	16.4	19.1
4.0	1.154	16.9	20.0	23.1
4.5	1.439	20.0	23.6	27.2
US$0.10/lb in Cu	6.6%	0.6	0.7	0.8
US$100/oz in gold	2.9%	0.2	0.3	0.3

Source: Company data, Credit Suisse estimates

Figure 2: 1H13 results summary – JXC

JXC - 1H13		**1H13A**	**1H12A**	**YoY**	**1H13E**	**A vs. E**
Revenue	Rmb mn	87,674	66,782	31%	87,424	0%
COGS	Rmb mn	(85,013)	(62,820)	35%	(83,565)	2%
Gross Profit	Rmb mn	2,661	3,961	-33%	3,859	-31%
Other revenue (net)	Rmb mn	337	735	-54%	341	-1%
Operating expenses	Rmb mn	(218)	(173)	26%	(186)	17%
Administrative expenses	Rmb mn	(762)	(830)	-8%	(807)	-6%
Operating Profit	Rmb mn	2,023	3,684	-45%	2,314	-13%
Finance costs	Rmb mn	(496)	(414)	20%	(455)	9%
Net profit	Rmb mn	1,275	2,669	-52%	1,377	-7%
One-offs	Rmb mn	(680)	302	-326%	(980)	-31%
Asset write-down	*Rmb mn*	*(571)*	*(94)*	*507%*		
Fairvalue changes	*Rmb mn*	*(109)*	*176*	*-162%*		
Investment income	*Rmb mn*	*48*	*290*	*-84%*		
NP-recurring	Rmb mn	1,819	2,420	-25%	2,112	-14%
EPS	Rmb/sh	0.37	0.77	-52%	0.40	-7%
EPS-recurring	Rmb/sh	0.53	0.70	-25%	0.61	-14%
SHFE Cu price	Us$/lb	3.47	3.58	-3%	3.47	0%
LME Cu price	Us$/lb	3.44	3.70	-7%	3.44	0%
Gold price	Us$/oz	1,520	1,658	-8%	1,520	0%
Silver price	Us$/oz	23.9	30.0	-20%	24.0	0%
Production - Mined Cu	kt	101	101	0%	105	-3%
Operating cash flow	Rmb mn	3,412	1,377	148%		
Free cash flow	Rmb mn	(561)	(381)	47%		
A/R days	days	26	23	17%		
A/P days	days	20	17	13%		
Inv days	days	26	40	-35%		
Net Debt	Rmb mn	(3,986)	1,167	-441%		
Net Gearing	%	-9%	3%	-425%		

Source: Company data, Credit Suisse estimates

Figure 3: Quarterly results – JXC

JXC - 2Q13 (PRC)		**1Q12**	**2Q12**	**3Q12**	**4Q12**	**1Q13**	**2Q13**
Revenue	Rmb mn	28,645	38,137	37,906	53,319	45,837	42,138
Gross Profit	Rmb mn	2,031	1,925	1,513	1,928	1,621	1,866
EBIT	Rmb mn	1,824	1,566	1,347	1,742	1,471	166
Net profit	Rmb mn	1,434	1,142	1,216	1,424	971	270
NP-recurring	Rmb mn	1,433	770	1,128	1,052	1,075	707
Cu price -SHFE	Us$/lb	3.65	3.47	3.41	3.56	3.51	3.30
Cu price-LME	Us$/lb	3.78	3.57	3.48	3.59	3.49	3.24
Benchmark Gold price	US$/oz	1,691	1,613	1,651	1,719	1,632	1,417

Source: Company data, Credit Suisse estimates

Figure 4: Key assumptions – JXC

		2011A	**2012A**	**2013E**	**2014E**	**2015E**
Copper - LME	US$/lb	4.02	3.63	3.28	2.82	3.06
Copper - SHFE	US$/lb	3.97	3.65	3.33	2.99	3.25
Gold	US$/oz	1,572	1,674	1,400	1,178	1,200
Copper	USD/lb	3.97	3.65	3.33	2.99	3.25
Copper - self supplied	kt	202	211	209	210	210
Copper cathode - extern	kt	579	671	442	427	427
Copper wires-all	kt	559	586	845	890	890
Gold	tonnes	25	25	25	26	26
% of mining profit in total	%	101%	99%	107%	106%	105%

Source: Company data, Credit Suisse estimates

Hong Kong

First Pacific Company Limited -- Maintain OUTPERFORM

Acquisitions to drive earnings beyond FY13

EPS: ▲ TP: ▼

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- First Pac reported 1H13 recurring earnings of US$185 mn, -9% YoY, due to higher head office expenses which were within our expectations. The earnings were 11% above our forecast, due to better-than-expected contributions from Indofood and PLDT.
- Good news on their way: **(1) Philex**: under full operation and will likely turn around its 1H13 loss into a profit in 2H13; **(2) PLDT:** FY13 core income could exceed the target of P38.3 bn as was set early this year; **(3) MPIC:** likely to continue the strong momentum in 1H13 led by water and toll road operations; **(4) Pacific Light:** management projects new contribution of US$10 mn in FY14.
- First Pac is keen to invest further in the infrastructure or power generation space. Management is confident that some smaller-sized acquisitions worth US$100 mn could be finalised in the near future and expects larger acquisitions at end-2013 or 1H14.
- We revise our FY13-15E EPS by +6%/-11%/-2% as we revise up the earnings contribution from Philex in FY13E and revise down the contribution from Pacific Light in FY14E. We revise our TP to HK$11.58 as we updated the market prices of First Pac's listed assets.

Bbg/RIC	**142 HK / 0142.HK**	**Price (28 Aug 13, HK$)**	**7.72**
Rating (prev. rating)	**O (O)**	**TP (prev. TP HK$)**	**11.58 (12.22)**
Shares outstanding (mn)	4,321.09	Est. pot. % chg. to TP	50
Daily trad vol - 6m avg (mn)	6.8	52-wk range (HK$)	11.79 - 7.72
Daily trad val - 6m avg (US$ mn)	8.3	Mkt cap (HK$/US$ mn)	33,358.8/ 4,301.6
Free float (%)	56.0		
Major shareholders	Anthoni Salim		

Performance	**1M**	**3M**	**12M**
Absolute (%)	(15.4)	(24.2)	(5.0)
Relative (%)	(14.0)	(20.0)	(13.7)

Year	**12/11A**	**12/12A**	**12/13E**	**12/14E**	**12/15E**
EBITDA (US$ mn)	1,901	2,100	2,530	2,770	2,596
Net profit (US$ mn)	423.0	360.3	352.7	394.9	473.1
EPS (US$)	0.11	0.09	0.09	0.09	0.11
Core EPS (US$)	0.11	0.09	0.09	0.09	0.11
- Change from prev. EPS (%)	n.a.	n.a.	6	(11)	(2)
- Consensus EPS (US$)	n.a.	n.a.	0.09	0.11	0.12
EPS growth (%)	4.9	(14.0)	(6.1)	3.6	19.8
P/E (x)	9.1	10.6	11.3	10.9	9.1
Core P/E (x)	9.1	10.6	11.3	10.9	9.1
Dividend yield (%)	2.8	2.7	2.6	2.7	3.3
EV/EBITDA (x)	3.2	3.1	2.4	2.0	2.0
P/B (x)	1.3	1.2	1.1	1.1	1.0
ROE (%)	15.1	11.5	10.3	10.4	11.3
Net debt(cash)/equity (%)	26.5	30.2	21.8	14.4	9.5

Note 1: ORD/ADR=5.00. Note 2: First Pacific is an investment management and holding company with operations located in Asia, through its subsidiaries and associates. Its principal businesses relate to telecommunications, infrastructure, consumer food products and natural resources.

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Recurring profit down 9% YoY to US$185 mn …

First Pac reported 1H13 recurring earnings of US$185 mn, implying a decline of 9% YoY—mainly due to higher head office expenses. The earnings were 11% above our forecast, primarily due to better-than-expected contributions from Indofood and PLDT.

… but good news on their way

We expect some good news from First Pac's operations going forward:

(i) Philex is under full operation now. Management stated that it is currently under an open-ended permit with the government and despite not being optimistic about obtaining the permanent license before the end of year, the performance and the safety work of Padcal Mine have been satisfactory. This will likely turn around the loss-incurring position in 1H13 into a profit-making one in 2H13.

(ii) **PLDT:** Better-than-expected contribution led by strong revenues and EBITDA from data services and lower depreciation expense. Management stated that FY13 core income could exceed the target of P38.3 bn that was set early in the year.

(iii) **MPIC:** Strong 1H13 results led by its water business, with 3% increase on billed volume and 7% effective tariff increase contributed to the strong growth of 20% YoY in EBITDA. Its toll road operation also recorded solid 23% YoY EBITDA growth due to the inclusion of Cavitex (purchased by MPIC at end-12) and improved earnings from existing toll roads. Management maintains its conservative FY13 earnings growth target of 8% YoY and we believe it can easily be exceeded.

(iv) **Pacific Light:** Presents new contribution to First Pac from FY14—first of the two turbines of the power plant has already been running. Management expects full operation before end-2013 and expects to contribute US$10 mn in FY14. We believe there is upside to this figure beyond FY14.

(v) **Indofood:** Strong core revenue growth should continue in 2H13, in our view. However, it could be marred by weak agribusiness as its margin has been hurt by lower CPO prices. 2H13 earnings could also be hurt by the volatility of Rupiah in the recent months.

Interested in the infrastructure or power generation space

Management stated that the cash proceeds received from the rights issue in July 2013 are in place for acquisitions for the next 12-18 months. First Pac is keen on investing in either the infrastructure or power generation space as well as keen to look into the food sector to complement Indofood or countries that are diversified from The Philippines or Indonesia. Management is confident that some smaller-sized acquisitions of US$100 mn could be made in the near future and expects larger acquisitions at end-2013 or 1H14.

Earnings and NAV estimate changes

We revise our FY13-15E EPS by +6%/-11%/-2% as we revise up the earnings contribution by Philex in FY13E and revise down the contribution by Pacific Light in FY14E. We also revise our TP to HK$11.58 as we updated the market prices of First Pac's listed assets. Maintain OUTPERFORM.

Figure 1: First Pac—1H13 results analysis

(US$ mn)	**1H12A**	**1H13E**	**1H13A**	**YoY%**	**A vs E**
Turnover	2,990	2,925	3,124	4%	7%
Underlying profit	**251**	**229**	**250**	**0%**	**9%**
PLDT	96	99	105	9%	6%
MPIC	48	52	53	11%	1%
Philex	16	4	3	-80%	-20%
Indofood	90	73	91	0%	24%
Pacific Light	0	0	(2)	n.a.	n.a.
Head office items	(47)	(63)	(65)	38%	4%
Recurring profit	**203**	**166**	**185**	**-9%**	**11%**

Source: Company data, Credit Suisse estimates

MMG Ltd. -- Downgrade to NEUTRAL

1H13 results summary: Costs above estimation, downgrade to NEUTRAL

EPS: ▼ TP: ▼

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- MMG's 1H13A NP was US$25 mn, or EPS of USc0.47/sh. On a recurring basis, the NP was US$46 mn, 68% behind our estimates and consensus. The miss was mainly due to higher than expected total costs and the accounting adjustment to IFRIC 20 policy (moving some D&A into costs), mostly in Century Mine.
- Production and sales of copper/zinc are mostly in line, with about 87kt of copper and 253kt of zinc sold. But the investment in Dugald River has driven up MMG's net debt to US$1.6 bn, up 35% YoY, and net gearing to 107% as at end of 1H13A.
- The declining grade's impact on unit costs was more significant than the 3% YoY increase in cash costs for Century Mine. Instead, we believe the total costs of Century could be up by 25% YoY in 2013E. Therefore, we revise down EPS to US$0.02/sh(from0.04) for 2013E and to US$-0.01/sh(from 0.01) for 2014E.
- Revise down target price to HK$1.80/sh (from HK$2.80), based on a DCF valuation with discount rate of 10%. Downgrade to NEUTRAL from Outperform.

Bbg/RIC	1208 HK / 1208.HK	Price (28 Aug 13 , HK$)			1.79
Rating (prev. rating)	N (O) [V]	TP (prev. TP HK$)			1.80 (2.80)
Shares outstanding (mn)	5,289.61	Est. pot. % chg. to TP			1
Daily trad vol - 6m avg (mn)	9.7	52-wk range (HK$)			3.62 - 1.77
Daily trad val - 6m avg (US$ mn)	2.8	Mkt cap (HK$/US$ mn)			9,468.4/ 1,221.0
Free float (%)	26.0	Performance	1M	3M	12M
Major shareholders	CMC (74%)	Absolute (%)	(6.3)	(16.4)	(41.1)
		Relative (%)	(4.3)	(12.5)	(49.9)

Year	12/11A	12/12A	12/13E	12/14E	12/15E
Revenue (US$ mn)	2,228	2,499	2,283	1,865	2,025
EBITDA (US$ mn)	1,064	853	740	453	735
Net profit (US$ mn)	540.9	252.5	123.0	(34.0)	124.0
EPS (US$)	0.10	0.05	0.02	(0.01)	0.02
- Change from prev. EPS (%)	n.a.	n.a.	(49)	n.m	(38)
- Consensus EPS (US$)	n.a.	n.a.	0.05	0.05	0.05
EPS growth (%)	(49.4)	(53.3)	(51.3)	n.m.	n.m.
P/E (x)	2.3	4.8	9.9	n.m.	9.8
Dividend yield (%)	0	0	0	0	0
EV/EBITDA (x)	1.1	3.2	3.8	7.1	4.5
P/B (x)	0.9	0.8	0.7	0.8	0.7
ROE (%)	56.6	17.0	7.8	(2.1)	7.5
Net debt(cash)/equity (%)	(1.0)	96.6	91.9	119.1	116.2

Note 1: Minmetal Resource is an upstream diversified base metals miner producing zinc, copper, lead, gold and silver, with major operations in Australia and Laos.

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Figure 1: Earnings and valuation sensitivity – MMG

Valuation (HK$/sh)		Cu (US$/lb)				
Zinc (US$/lb)		2.50	3.00	3.50	4.00	4.50
0.80	HK$/sh	0.03	1.23	2.43	3.63	4.83
1.00	HK$/sh	0.64	1.85	3.05	4.25	5.45
1.20	HK$/sh	1.26	2.46	3.66	4.86	6.06

2013E EPS (US$/sh)		Cu (US$/lb)				
Zinc (US$/lb)		2.50	3.00	3.50	4.00	4.50
0.80	US$/sh	0.00	0.01	0.03	0.04	0.05
1.00	US$/sh	0.01	0.03	0.04	0.05	0.07
1.20	US$/sh	0.03	0.04	0.05	0.07	0.08

Source: Company data, Credit Suisse estimates

MMG is highly sensitive to copper and zinc prices in that every US$0.1/lb change in copper (or zinc) price may lead to HK$0.24/sh (or HK$0.31/sh) change in its valuation.

Figure 2: 1H13 results summary – MMG

1H13 Results-MMG		1H13A	1H12A	YoY	1H13E	A vs E
Total revenue	US$ mn	1,178	1,221	-3%	1,173	0%
Expenses	US$ mn	(876)	(817)	7%	(665)*	32%
EBITDA	US$ mn	302	404	-25%	508	-41%
D&A*	US$ mn	(209)	(145)	45%	(251)*	-17%
EBIT	US$ mn	93	259	-64%	258	-64%
Finance costs	US$ mn	(37)	(40)	-7%	(30)	22%
Income taxes	US$ mn	(20)	(75)	-73%	(73)	-72%
Net profit	US$ mn	25	131	-81%	146	-83%
one offs	US$ mn	(33)	4	n.a.	0	n.a.
Reccuring NP	US$ mn	46	128	-64%	146	-68%
EPS	US$/sh	0.0047	0.0247	-81%	0.0275	-83%
EPS-recurring	US$/sh	0.0087	0.0243	-64%	0.0275	-68%
Total payable metal sold						
Century - Zn	kt	215	219	-2%	204	5%
Sepon - Cu	kt	45	42	8%	43	4%
Kinsevere - Cu	kt	30	12	141%	30	0%
Bnchmark price LME-Cu	US$/lb	3.63	4.02	-10%	3.61	1%
A/R days	days	27	18	45%		
A/P days	days	35	43	-19%		
Inv days	days	56	74	-24%		
Net debt	US$ mn	1,634	1,208	35%		
Net Gearing	%	107%	78%	38%		

Source: Company data, Credit Suisse estimates

*Estimation numbers yet to be adjusted to IFRIC 20 policy

Figure 3: Key assumptions and financials – MMG

		2011A	2012A	2013E	2014E	2015E
Benchmark metals price						
Copper	US$/lb	4.02	3.63	3.28	2.82	3.06
Zinc	US$/lb	1.01	0.89	0.85	0.80	0.86
Lead	US$/lb	1.09	0.94	0.93	0.87	1.00
Gold	US$/oz	1,572	1,674	1,400	1,178	1,200
Total Payable Output						
Copper	kt	102	152	184	185	188
Zinc	kt	552	540	493	451	428
Lead	kt	52	40	59	47	53
Gold	koz	86	83	9	8	8
Revenue	US$ mn	2,228	2,499	2,283	1,865	2,025
EBIT	US$ mn	755	466	234	22	279
EBITDA	US$ mn	1,064	914	714	453	735
Net Profit	US$ mn	541	193	97	(34)	124
Net profit - recurring	US$ mn	411	191	97	(34)	124
EPS	US$/sh	0.10	0.04	0.02	(0.01)	0.02
BV	HK$/sh	0.27	0.29	0.31	0.30	0.33
Net debt	US$ mn	(15)	1,534	1,563	1,982	2,086
Operating cash flow	US$ mn	801	655	561	354	247
Investing cash flow	US$ mn	280	(2,158)	(590)	(772)	(352)
Free cash flow	US$ mn	1,081	(1,503)	(29)	(418)	(104)
ROE	%	57%	13%	6%	-2%	7%
ROIC	%	21%	11%	4%	0%	4%
Gearing (net debt/equity)	%	-1%	100%	96%	124%	121%

Source: Company data, Credit Suisse estimates

Sino Land ---Assuming Coverage with OUTPERFORM

From inventory clearance to brand new launches **EPS: ▼ TP: ▼**

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- Joyce Kwock assumes coverage of Sino Land following the departure of the previous coverage analyst. Sino Land reported FY13 core profits of HK$6.6 bn, in line with our forecast. Full-year DPS of HK$0.50 implies 4.9% dividend yield and 45% payout. Management stated their intention to keep the DPS largely steady going forward, supported by their strong cash position.
- We expect the focus of Sino Land to shift from inventory clearance to brand new launches, including "The Avenue" project in Wanchai, with most units being studio or one-bedroom type. We expect good market response to its launch.
- Sino Land was in net cash position as at Jun-13. With total liquidity amounting to HK$20 bn, management have reiterated their attitude in seeking 'right' landbanking opportunities—not only in Hong Kong but also in China.
- We revise FY14-15E EPS by -16/+56% as we shift the bookings of The Avenue. Our new TP of HK$15.02 (from HK$16.59) is based on NAV of HK$23.1, due to change of ASP assumptions and net cash position.

Bbg/RIC	**83 HK / 0083.HK**	**Price (28 Aug 13, HK$)**			**10.12**
Rating (prev. rating)	**O (O)**	**TP (prev. TP HK$)**			**15.02 (16.59)**
Shares outstanding (mn)	5,947.82	Est. pot. % chg. to TP			48
Daily trad vol - 6m avg (mn)	7.3	52-wk range (HK$)			15.6 - 10.1
Daily trad val - 6m avg (US$ mn)	11.2	Mkt cap (HK$/US$ mn)			60,192.0/ 7,761.8
Free float (%)	43.9	**Performance**	**1M**	**3M**	**12M**
Major shareholders	Ng Chee Siong, Robert (52.8%)	Absolute (%)	(8.5)	(13.8)	(24.3)
		Relative (%)	(7.0)	(9.5)	(32.9)

Year	**06/12A**	**06/13A**	**06/14E**	**06/15E**	**06/16E**
EBITDA (HK$ mn)	3,845	2,828	4,519	6,930	6,435
Net profit (HK$ mn)	5,311	6,636	5,834	8,772	8,935
EPS (HK$)	0.90	1.12	0.99	1.48	1.51
- Change from prev. EPS (%)	n.a.	n.a.	(16)	56	
- Consensus EPS (HK$)	n.a.	n.a.	0.94	0.99	
EPS growth (%)	8.1	24.4	(12.1)	50.4	1.9
P/E (x)	11.2	9.0	10.3	6.8	6.7
Dividend yield (%)	4.5	4.9	4.9	5.1	5.2
EV/EBITDA (x)	16.9	20.8	13.0	6.9	5.1
ROE (%)	6.2	6.8	5.5	7.9	7.7
Net debt(cash)/equity (%)	5.1	(1.3)	(1.3)	(10.7)	(22.3)
NAV per share (HK$)	—	23.1	—	—	—
Disc./(prem.) to NAV (%)	—	56.2	—	—	—

Note1:ORD/ADR=5.00.Note2:Sino Land Company Limited, through its subsidiaries, develops and invests in real estate, trades and invests in securities, and provides financing and management services. The company also operates hotels and provides building management services..

Click here for detailed financials

5% dividend yield based on 45% payout

Sino Land reported FY13 core profits of HK$6.6 bn, in line with our forecast. The lower-than-expected profits from property sale was offset by the higher-than-expected other income. Full-year DPS of HK$0.50 implies 4.9% dividend yield based on 45% payout.

Management stated their intention to keep the dividend largely steady (in dollar terms) going forward, notwithstanding the earnings volatility that might arise from the timing of the property development completion. We believe this is achievable given the strong cash position of Sino Land.

Profits from property sale was lower than our forecast—in fact, a HK$390 mn loss was implied in the 2H13. While the detailed reason of the loss was not disclosed, we believe it is due to some one-off expenses related to the old inventories and the pre-marketing expenses of the upcoming launches. Other income was higher than our forecast—we believe that was due to greater than expected mark-to-market profits from investments.

Upcoming focus: The Avenue launch

Against the previous focus on inventory clearance at Providence Bay/Providence Peak/other projects, we expect the upcoming focus would be on the launches of a number of brand new projects in Hong Kong, especially the launch of "The Avenue" project in Wanchai. Sino expects to launch 'Site A' first, which is the more premium part of the project with direct linkage to the retail podium and the MTR station, and with most units being studio or one-bedroom type. The ticket size of this project would be friendly in this environment, in our view, which might lead to good market response upon the launch.

Management has also elaborated on the launches of their projects in China. We believe that China DP can help to fill in the earning/launching gap. However, in terms of either cashflow amount or newsflow, we believe that it would be the Hong Kong launches that are the most relevant to Sino Land.

Net cash position for landbanking (in both HK and China)

For the first time in the last two decades, Sino Land was in net cash position as at Jun-13 (vs 1.5% gearing at Dec-12/4.4% gearing as at Jun-12), as a result of receiving proceeds from selling DP and IP in Hong Kong and also selling DP in China, but only bought a landsite in Sai Kung in the last 12 months.

With total liquidity (gross cash and committed undrawn banking facilities) amounting to HK$20 bn, management have reiterated their attitude in seeking 'right' landbanking opportunities—not only Hong Kong but also in China.

We revise up FY14-15E EPS by -16/+56%, as we shift the bookings of The Avenue from FY14 to FY15. Our new target price of HK$15.02 is based on 35% disc to its NAV of HK$23.1 (from HK$22.11), due to change of ASP assumptions and updated net cash position.

Figure 1: Sino Land FY13 results analysis

(HK$ mn)	**FY12A**	**FY13E**	**FY13A**	**YoY%**	**A vs E**	**1H13A**	**2H13A**	**HoH%**
Property dev.	1,706	914	426	-75%	-53%	816	(390)	-148%
Property inv.	2,029	2,230	2,210	9%	-0.9%	1,072	1,138	6%
Property	**3,735**	**3,144**	**2,636**	**-29%**	**-16%**	**1,888**	**748**	**-60%**
Investments	65	65	61	-6%	-6%	27	34	23%
Hotels	343	367	360	5%	-2%	194	165	-15%
Others	351	48	367	5%	662%	98	269	174%
Operating profit	**4,494**	**3,624**	**3,423**	**-24%**	**-6%**	**2,208**	**1,216**	**-45%**
Net interest expense	117	(38)	238	104%	-733%	77	160	107%
Associates	1,326	3,656	3,599	171%	-2%	2,548	1,050	-59%
Profit before taxation	**5,936**	**7,242**	**7,260**	**22%**	**0%**	**4,834**	**2,426**	**-50%**
Taxation	(590)	(593)	(587)	-1%	-1%	(328)	(259)	-21%
Minority interests	(35)	(65)	(37)	6%	-43%	(18)	(19)	2%
Core Profit	**5,311**	**6,585**	**6,636**	**25%**	**1%**	**4,487**	**2,149**	**-52%**

Source: Company data, Credit Suisse estimates

India

Indian Telecom Sector

Management meet: Competition to remain benign, expect fall in spectrum prices

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- In our recent meeting, Bharti Airtel's management indicated that the competitive environment continues to improve. There is significant upside to tariffs based on industry economics, and the limiting factor, if any, would be customer behaviour. So far, this factor has been quite accommodative.
- It is possible that momentum on tariff increases takes a breather in the seasonally weak Sep-quarter, but the upward trajectory should resume from the Dec-quarter. Management explained that 50%+ of the near-term USD/INR mismatch is hedged, while the USD debt repayments start only after 18 months (average tenure 4.5 years).
- Bharti Infratel has no plans to acquire Airtel's African tower assets. Acquisitions, if any, will likely be domestic or from other foreign operators/towercos. In the current economy, this seems unlikely. Hence, the company could be open to increasing dividend payout as a possible use of surplus cash.
- After attending TRAI's OHD on spectrum auction, we believe a significant cut to reserve price is likely. This should be positive for incumbents. Reiterate OUTPERFORM on Bharti/Idea.

Valuation metrics

Company	Ticker	Rating	Price		Year	P/E (x)		P/B (x)
			Local	Target	T	T+1	T+2	T+1
Bharti Airtel	BRTI.BO	O	294.25	410.00	03/13	20.1	12.4	1.9
Bharti Infratel	BHRI.BO	O	130.05	195.00	03/13	17.0	14.0	1.4
Idea Cellular	IDEA.BO	O	155.10	175.00	03/13	25.4	16.6	3.2

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

We recently met with management of Bharti Airtel/Infratel and attended the open house discussion of TRAI on spectrum auctions.

Bharti Airtel: Competitive environment benign

Bharti Airtel's management explained that the competitive environment continues to improve. Currently, the actual realised call rates are at a 33% discount to headline rack rates, due to the presence of promotional vouchers/minutes. The general direction will be for this gap to reduce with continued withdrawal of discounts (as was seen in the Jun-13 quarter). However, with the Sep-quarter usually being seasonally weak on volumes, operators may not intervene significantly on discounts in the current quarter, but action should resume from the Dec-13 quarter onwards. Management does not expect any disruptive action on tariffs by any competitors in the next few quarters (i.e., there is a general consensus in the industry that tariffs have to go up). In this context, the only risk to tariff increase would be customer elasticity—a factor which has not shown up negatively so far.

The company is comfortable with market share movements (we have highlighted that Bharti has been gaining market share over the last few quarters). While revenue market share will remain an important objective, the focus will be on improving profitability while keeping healthy market share growth.

On risks from a falling rupee, management explained that of the US$7.5 bn debt, there is no repayment due in the next 12-18 months, with an average tenure of 4.5 years. The company as a policy normally hedges 50%+ of net USD payables from INR (i.e., 50%+ of 12M currency mismatch is hedged). Management reiterated that it is well within all debt covenants for the past 12 months. Moreover, the African operations are already self-sufficient on cash flow, and management expects Africa to take care of even the acquisition interest in a few quarters.

Bharti Infratel: No Africa acquisition on cards; upside to dividend

Management clarified that there are no plans for Bharti Infratel to acquire African tower assets (either immediate or long term). While the company had earlier indicated inorganic expansion as a possible use of cash, acquisitions would be limited to acquiring tower assets from other operators (in India or abroad). In any case, given the fall in the rupee, reduced valuations of Infratel vs global peers and limited opportunities in India, it is unlikely that any acquisition would take place soon.

In this context, it is possible that Infratel steps up dividend payout: either as a one-time interim payout or a change to its policy (current policy is 30-50% payout). As per CS estimates, an increase in dividend payout to 75% (in line with FY13) would lead to a 3.5-4% dividend yield on the current stock price.

TRAI discussions: Likely cut to spectrum reserve price

TRAI recently held a well-attended open house discussion on the issue of spectrum auctions (valuation and reserve price), along with other related issues. Our key takeaways:

- Despite minor opposition from some quarters (primarily CDMA operators and consumer groups), we believe TRAI is inclined towards a significant reduction in reserve price. TRAI chairman repeatedly referred to the precarious economic situation as a context to set realistic reserve prices, and also explained that small (10-20%) reductions in reserve price in multiple steps will do more harm than good.
- TRAI is likely to continue to support refarming of 900MHz. But in our opinion, this is no longer relevant since all spectrum will need to be bought at market price by incumbents (i.e., refarming is being replaced by repricing).
- A gradual move towards uniform spectrum usage charges is likely, though the Chairman warned against any 'sudden disruptive changes in this environment'. This would be positive for the industry.
- TRAI seems to be in favour of allowing spectrum trading, which will further improve the overall financial situation for the sector. We suspect implementation will take a while.
- TRAI suo moto came up with issues on 'refarming' a portion of the 800MHz CDMA spectrum into GSM. This could be positive for GSM operators if implemented (more spectrum supply).

Indonesia

Bumi Resources -------------------- NOT RATED

Key takeaways from meeting with Bumi's management

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- Here are key takeaways from our meeting with Bumi Resources' management. Bumi is a major coal producer in Indonesia, accounting for 16% of the country's total coal output in 2012 and exports most of its coal. Production comes from two main coal subsidiaries, Arutmin and Kaltim Prima Coal (KPC).
- Production is likely to reach this year's target of 74 mn tonnes, according to BUMI. The outperformance of KPC was able to offset the production decline at Arutmin. However, it is concerned about its coal output in 2014 due to the fact that Arutmin is having problems with its major mining contractor.
- Bumi remains profitable at low coal price environment with an operating profit of US$79 mn in 1Q13, and total coal output of 19.6 mt and ASP of US$72.3/t for the same period.
- The stock trades at P/B of 5.7x and 9.3x base on book value for 2012 and 1Q13, respectively.

Figure 1: Summary of financials

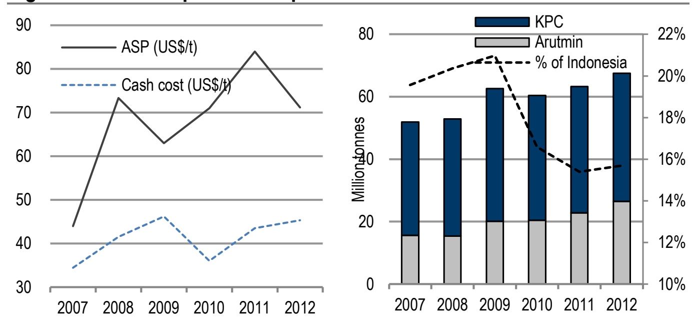
Market cap (US$ mn)					848.0
Daily turnover (US$ mn)					4.29
	1m	3m	6m	12m	YTD
Absolute (%)	(16.3)	(42.3)	(50.0)	(46.1)	(33.9)
Relative (%)	(1.5)	(18.9)	(32.7)	(41.8)	(22.4)
	2008	**2009**	**2010**	**2011**	**2012**
Production - mt	52.9	63.0	60.4	65.8	74.4
Sales volume - mt	52.9	63.0	60.7	63.3	68.3
ASP - US$/t	78.7	65.1	70.8	92.7	81.5
Profit and loss – US$ mn					
Revenue	3,378	3,665	2,927	4,001	3,776
Gross profit	1,613	1,116	964	1,590	997
Gross margin (%)	48%	30%	33%	40%	26%
EBITDA	1,200	807	1,162	1,376	277
EBITDA margin (%)	36%	22%	40%	34%	7%
Operating profit	1,108	638	652	1,101	429
Operating profit margin (%)	33%	17%	22%	28%	11%
Pretax profit	1,033	518	530	599	(616)
Net profit	943	284	266	215	(706)
P/BV (x)	0.4	1.1	0.9	1.1	5.7
Balance sheet – US$ mn					
Cash + ST investment	332	349	1,199	1,046	615
Total debt	1,678	3,675	3,577	3,802	4,277
Equity	1,577	775	989	844	151
Total assets	5,320	5,950	7,037	7,465	7,354
Net debt to equity (x)	1.1	4.7	3.6	4.5	28.3

Source: Company data, Bloomberg

Largest coal producer in Indonesia

PT Bumi Resources Tbk (BUMI.JK) is the largest coal producer in Indonesia, accounting for 16% of Indonesia's coal output in 2012. In 1998, the company decided to transform its core business to oil, natural gas and mining through a series of acquisition, including PT Arutmin Indonesia (Arutmin) from BHP Minerals Exploration Inc. and PT Kaltim Prima Coal (KPC) from Sangatta Holdings Ltd. and Kalimantan Coal Ltd. Bumi PLC is the major shareholder with 29.18% stake, which will be sold back to Bakrie. The stock is currently trading at P/B of 5.7x on FY12 book value.

Figure 2: ASP and production profile



Source: Company data

Problem with a mining contractor

It began with Arutmin's decision to embark on legal proceedings in the Queensland Supreme Court on 2 April 2013. Arutmin is clarifying the legality of its mining services contract with Thiess Contractors Indonesia, a subsidiary of Leighton Holdings, as a result of a change in Indonesian mining law that came into effect on 1 October 2012. According to Mining Law No. 4 issued in 2009, mining contractors can only carry out overburden removal activities, while the coal production has to be undertaken by the mining companies themselves.

Correspondingly, Thiess then decided to suspend operations of the Senakin and Satui mines on 26 April 2013 as it attempted to collect payment receivables or under claims. Located on Kalimantan Island, the two affected mines produced 8.9 mn tonnes of coal for use in power stations, or approximately one-third of Arutmin's output in 2012. Nevertheless, mining work continues uninterrupted at Kaltim Prima Coal (KPC), where Thiess is also undertaking the work. As stated in Leighton Holdings' media release, Senakin and Satui mining contracting work contributed around 1.5% of its total revenue in 2012.

According to BUMI, both parties, which have been working together for 12 years, should have been able to adequately resolve the disputes without taking such a dramatic measure. Despite this dispute, BUMI is retaining its FY13 target of 74 mn tonnes. However, management believes that its 2014 volume might be at risk in case the dispute with Thiess does not show any improvement.

Figure 3: Quarterly results

	1Q13	YoY	QoQ	4Q12	3Q12	2Q13	1Q12
Production - mt	19.6	23%	-16%	23.4	18.0	17.1	15.9
ASP - US$/t	72.3	-22%	4%	69.7	80.0	84.6	92.8
Revenue	943	-6%	-6%	1,007	822	939	1,008
Gross profit	202	-37%	-18%	247	196	233	321
Operating income	79	-47%	-32%	116	73	90	149
Pre-tax profit	(64)	162%	239%	(19)	(327)	(245)	(25)
Net income	(63)	-37%	87%	(34)	(310)	(222)	(100)
Cash	449	0%	209%	145	550	586	449
Debt	4,619	0%	8%	4,277	4,553	4,799	4,619
Equity	91	0%	-40%	151	215	468	91

Source: Company data

PT Telkom (Telekomunikasi Indo.) ---------------------------------- Maintain OUTPERFORM

Adjusting for 5 for 1 stock split — **EPS: ▼ TP: ▼**

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- PT Telkom has completed a five-for-one stock split. Thus, the total number shares in issue has increased from 20,160 mn to 100,800 mn.
- After factoring the increased number of shares into our model, our target price has been adjusted from Rp13,000 to Rp2,600. Our earnings forecasts are unchanged but our EPS forecasts decline 80% on the larger number of shares.
- We still expect Telkomsel to achieve its stated target of double-digit revenue growth for FY13, and we EBITDA margin to decline by less than 1.0 pp. We also feel quite comfortable with our FY14 revenue and EBITDA projections.
- We remain comfortable with our forecasts, and, in a difference to previous "crises" PT Telkom's balance sheet is much stronger on this occasion and has very little exposure to foreign currency debt. The larger question is whether a 9.9% WACC remains appropriate given the 3.7 pp move in the government bond yield.

Bbg/RIC	**TLKM IJ / TLKM.JK**	**Price (27 Aug 13 , Rp)**			**2,020**
Rating (prev. rating)	**O (O)**	**TP (prev. TP Rp)**			**2,600 (13,000)**
Shares outstanding (mn)	100,800	Est. pot. % chg. to TP			28.7
Daily trad vol - 6m avg (mn)	23.7	52-wk range (Rp)			2480.0 - 1760.0
Daily trad val - 6m avg (US$ mn)	24.3	Mkt cap (Rp/US$ bn)			203,616.0/ 18.62
Free float (%)	48.8	**Performance**	**1M**	**3M**	**12M**
Major shareholders	Government of Indonesia (51.2%)	Absolute (%)	(11.4)	(14.8)	8.6
		Relative (%)	(12.7)	(10.2)	1.4

Year	**12/11A**	**12/12A**	**12/13E**	**12/14E**	**12/15E**
Revenue (Rp bn)	71,253	77,143	84,063	89,356	93,436
EBITDA (Rp bn)	36,558	39,757	43,276	45,540	47,271
Net profit (Rp bn)	10,965	12,850	14,740	15,801	17,251
EPS (Rp)	112	134	153	163	178
- Change from prev. EPS (%)	n.a.	n.a.	(80)	(80)	(80)
- Consensus EPS (Rp)	n.a.	n.a.	758	830	902
EPS growth (%)	(4.6)	19.6	14.2	6.5	9.2
P/E (x)	90.2	75.5	66.1	62.0	56.8
Dividend yield (%)	0.7	0.9	1.0	1.2	1.4
EV/EBITDA (x)	28.1	25.6	23.4	22.1	21.2
P/B (x)	20.8	18.8	16.6	15.6	14.8
ROE (%)	23.9	25.9	26.7	25.9	26.7
Net debt(cash)/equity (%)	12.4	0.0	(9.5)	(14.1)	(18.5)

Note 1: ORD/ADR=40.00. Note 2: PT Telekomunikasi Indonesia, Tbk. (TELKOM) is an integrated telecommunication and network services provider in Indonesia.

Click here for detailed financials

Five-for-One stock split

PT Telkom has completed a five-for-one stock split. Thus the total number shares in issue has increased from 20,160 mn to 100,800 mn.

Target price amended to Rp2,600 accordingly

After factoring the higher number of shares into our model, our target price has been adjusted from Rp13,000 to Rp2,600. Our earnings forecasts are unchanged but our EPS forecasts decline 80% on the larger number of shares.

Telkomsel still growing nicely: Double-digit growth 'doable'

During our visit to Indonesia recently it was clear that secular drivers (i.e., rising smartphone penetration, lower competitive intensity) continue to outweigh macro issues, such as the decline in fuel subsidies, inflation and subdued consumption. None of the 'big 3' operators (Telkomsel, Indosat, XL) was overly aggressive during the Labaran festivities and so the general increase in communications activity did result in rising revenue. In fact, for Telkomsel, voice, SMS and data volumes continued to rise QoQ and YoY, though data volumes of course rose much more dramatically than either voice or SMS. Crucially, the operators in Indonesia do 'monetise' rising data use; our 20 May report, *Predatory Pricing II: This time its data*, showed that Telkomsel's ARPU more than doubled when subscribers upgraded to a smartphone and started to consume data.

Thus, while Telkom's cellular subsidiary Telkomsel's stated target of "double-digit" revenue growth for FY13 becomes more challenging in 2H13 (SMS interconnection, which grossed up the revenue figures, was introduced in June 2012, inflating 2H12 comparatives), we still believe it is achievable; our forecasts assume 7.0% QoQ revenue growth into 3Q13 and 3.8% growth into 4Q13, driven by strong data uptake.

We also believe our FY14 forecasts for Telkomsel, of 6.9% YoY revenue growth, should be comfortably achievable, with the deceleration due to: (1) absence of SMS inflation and (2) higher base effect, rather than any expected deterioration in the competitive environment. Indeed, the competitive environment continues to look stable, not only from the perspective of the 'Big 3' operators. Revenue market share of smaller CDMA players is collapsing and marketing activities from new entrants Hutch (Not listed) and Axis (Not listed) have calmed down in recent months (probably due to unsustainability).

Importantly, Telkomsel has enjoyed relatively stable margins despite a rising proportion of data traffic. Since marketing costs remain well-controlled (no prospect of handset subsidies) the biggest pressure is likely to be infrastructure-related, and a further 7,928 BTS were constructed in 1H13. This will lead to higher lease fees, for example. On the other hand, Telkomsel had 54,297 BTS as at 4Q12 and so the YoY growth rate over a high base is clearly not as concerning as the cost increases faced by XL over the last two years. Our forecast for only a 0.8 pp decline in the EBITDA margin, and resulting 8.7% EBITDA growth for FY13, still look comfortably achievable, in our view.

Forex minimal impact, so it's all about discount rates

As at 2Q13 PT Telkom was in a net debt position to the tune of only Rp4.9 tn, or 0.1x net debt to EBITDA, and unhedged foreign debt exposure is minimal (Rp1.0 tn). Thus the current turmoil should not lead to material forex losses. The larger question for investors is whether the WACC of 9.9% which underpins our DCF valuation remains credible in an environment in which the Indonesian 10-year government bond yield has moved from a low of 5.1% earlier this year to the current 8.8%. By way of sensitivity, for every 100 bp increase in discount rate our DCF valuation declines by Rp270/share (10.4%).

Japan

Japan Pharmaceutical/Medical Device Sector

Advise cautious approach for next six months

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- We advise a cautious approach to investing in the pharmaceutical/medical device sector over the next six months in the run-up to the next round of drug and official price revisions. As well as making regular drug price revisions, the government is likely to raise the consumption tax rate in FY14. Full report.
- Medical institutions generate their revenues from medical fees and consumption tax does not apply, so institutions will have to budget for higher consumption tax on purchases and seem likely to take a tough stance in price negotiations.
- We also anticipate a spike in demand during March for pharmaceuticals that will be awarded the new drug discovery premium and not have their drug prices reduced. Other changes include revised rules on lowering drug prices for long-listed drugs and measures to promote generic drug use. We expect a lot of news flow, but little positive content.
- We see a number of positive catalysts for two of the companies we rate OUTPERFORM: Astellas Pharma and Chugai Pharmaceutical.

We advise a cautious approach to investing in the pharmaceutical/medical device sector over the next six months in the run-up to the next round of drug and official price revisions. As well as making regular drug price revisions, the government is likely to raise the consumption tax rate in FY14. Medical institutions generate their revenues from medical fees and consumption tax does not apply, so institutions will have to budget for higher consumption tax on purchases and seem likely to take a tough stance in price negotiations. We also anticipate a spike in demand during March for pharmaceuticals that will be awarded the new drug discovery premium and not have their drug prices reduced. Pharmaceutical wholesalers will need to manage inventories appropriately. Other changes include revised rules on lowering drug prices for long-listed drugs and measures to promote generic drug use. We expect a lot of news flow, but little positive content.

Differentiation: At this stage we expect regular drug prices to be cut by around 6%, on par with the last round of revisions. This will obviously depend on pharmaceutical wholesalers and medical institutions reaching agreement in price negotiations through early September, after which we will have to wait for the results of the drug price survey, but we think cuts of around 6% are within the acceptable range. The trial introduction of the new drug discovery premium may also be a positive, allowing drugmakers to maintain their settlement prices. That said, drug-price cuts create deflationary pressure, and we anticipate growing anomalies in the pharmaceutical/medical device sector ahead of the revisions.

Stock call: We advise a cautious approach to investing in individual companies. Investors should be aware of upside and downside share-price risk driven by company-specific factors. We see a number of positive catalysts for two of the companies we rate OUTPERFORM. (1) Astellas Pharma (4503): Interim results from the PREVAIL study in support of the additional indication of chemotherapy-naïve prostate cancer patients for Xtandi are likely to be released in mid-September at the earliest. (2) Chugai Pharmaceutical (4519): We expect a strong start for Bonviva (osteoporosis) and Perjeta (cancer) that will launch in 2H FY3/14, plus accelerating sales of Actemra (rheumatoid arthritis) via Roche. Daiichi Sankyo (4568), which we rate UNDERPERFORM, is scheduled to present results from the phase 3 HOKUSAI study on the anticoagulant/FXa inhibitor edoxaban at the European Society of Cardiology (ESC) meeting on 1 September and results from the ENGAGE study at the American Heart Association (AHA) meeting on November 19. The ENGAGE results are likely particularly important, but the share price may be affected by the earlier HOKUSAI results.

(This is an extract from Japan Pharmaceutical/Medical Device Sector report published on 28 August 2013. Please see R&A for details.)

Figure 1: Target prices and ratings for coverage companies

	Company	Rating	Share price (¥) (27-Aug)	Target price (¥)	Deviation (%)	PharmaValues NPV per share (¥)	52 wk price change (%)
4151	Kyowa Hakko Kirin	NEUTRAL	1,005	1,050	+4.5	950	+10.0
4502	Takeda	NEUTRAL	4,590	4,900	+6.8	3,770	+23.4
4503	Astellas	OUTPERFORM	5,180	6,300	+21.6	4,774	+32.0
4506	Dainippon Sumitomo	UNDERPERFORM	1,279	1,300	+1.6	957	+45.7
4507	Shionogi	NEUTRAL	1,942	2,200	+13.3	2,053	+69.0
4508	Mitsubishi Tanabe	NEUTRAL	1,378	1,400	+1.6	1,514	+16.2
4519	Chugai	OUTPERFORM	2,052	2,500	+21.8	1,901	+30.4
4523	Eisai	NEUTRAL	4,035	4,400	+9.0	4,359	+9.3
4528	Ono	UNDERPERFORM	6,790	5,500	-19.0	5,310	+22.8
4581	Taisho	NEUTRAL	6,600	6,800	+3.0	5,116	+1.7
4536	Santen	OUTPERFORM	4,470	4,900	+9.6	4,338	+32.3
4540	Tsumura	OUTPERFORM	2,710	3,100	+14.4	na	+13.7
4543	Terumo	NEUTRAL	4,740	5,400	+13.9	na	+31.1
4555	Sawai	NEUTRAL	12,940	13,000	+0.5	na	+42.4
4568	Daiichi Sankyo	UNDERPERFORM	1,677	1,600	-4.6	2,485	+26.7
4578	Otsuka HD	NEUTRAL	3,090	3,400	+10.0	3,185	+28.9
6869	Sysmex	OUTPERFORM	5,830	7,000	+20.1	na	+57.1
	TOPIX		1,134.02				+52.0
	TOPIX-Pharma		1,718.26				+26.3

Source: Company data, Credit Suisse estimates.

LIXIL Group --Downgrade to NEUTRAL

Downgrade to NEUTRAL amid increasing uncertainty over outlook for 3Q onward — EPS: ▲ TP: ▼

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- Although we raise our forecasts to reflect 1Q results and LIXIL Group's acquisition of ASD Americas Holdings, we see valuations sliding and reduce our target price from ¥3,300 to ¥2,300. We also downgrade the stock from Outperform to NEUTRAL.
- Operating profit looks to have beaten guidance by about ¥2 bn in 1Q FY3/14, yet investors showed disdain for this solid result, sending the share price down. We believe they have begun pricing in future uncertainties.
- The main upside risk would be confirmation via 2Q results that earnings are tracking ahead of guidance. Downside risks include: (1) the rush in demand ahead of the consumption tax hike dropping out of the picture; (2) downward pressure on prices; and (3) an increase in financial leverage accompanying M&A activity.
- We apply an EV/EBITDA of 8x (previously 10x) to our FY3/14 forecasts to obtain our ¥2,300 TP, this multiple being the bottom end of the range since 2003. Full report.

Bbg/RIC	5938 JP / 5938.T	Price (28 Aug 13, ¥)			2,058.00
Rating (prev. rating)	N (O)	TP (prev. TP ¥)			2,300 (3,300)
Shares outstanding (mn)	290.76	Est. pot. % chg. to TP			12
Daily trad vol - 6m avg (mn)	1.5	52-wk range (¥)			2588.0 - 1633.0
Daily trad val - 6m avg (US$ mn)	34.3	Mkt cap (¥/US$ bn)			598.4/ 6.1
Free float (%)	75.0	Performance	1M	3M	12M
Major shareholders		Absolute (%)	(10.8)	(9.8)	19.9
		Relative (%)	(9.5)	(8.0)	(29.3)

Year	03/12A	03/13A	03/14E	03/15E	03/16E
Revenue (¥ bn)	1,291	1,436	1,576	1,727	1,698
EBITDA (¥ bn)	57.3	95.2	122.6	134.6	125.4
Net profit (¥ bn)	1.9	21.3	39.3	44.7	39.2
EPS (¥)	6	73	135	154	135
- Change from prev. EPS (%)	n.a.	n.a.	2.9	3.5	0
- Consensus EPS (¥)	n.a.	n.a.	140	157	174
EPS growth (%)	(88.4)	1,042.2	84.1	13.7	(12.3)
P/E (x)	320.2	28.0	15.2	13.4	15.3
Dividend yield (%)	1.9	1.9	1.9	2.2	1.9
EV/EBITDA (x)	14.3	8.8	7.4	6.9	7.1
P/B (x)	1.1	1.1	1.0	1.0	0.9
ROE (%)	0.4	3.9	6.8	7.4	6.2
Net debt (cash)/equity (%)	40.6	42.6	52.3	49.8	42.2

Note 1: ORD/ADR=2.00. Note 2: LIXIL Group Corporation is a Japan-based company operating in five business segments: Metallic Building Material; Water Circumference; Other Construction Material and Equipment; Distribution and Retail; and Housing-related and Real Estate.

Click here for detailed financials

We revise up our estimates to reflect 1Q results and the acquisition of ASD Americas Holdings, but anticipate deterioration in the next 6–9 months in the business climate surrounding LIXIL Group. We accordingly lower the valuation assumptions used in calculating our TP, which we now reduce from ¥3,300 to ¥2,300. We also downgrade the stock from Outperform to NEUTRAL. We have been saying for some time that the share price was likely to peak following the 1Q results announcement. We still adhere to this view; hence our decision to lower our TP and rating.

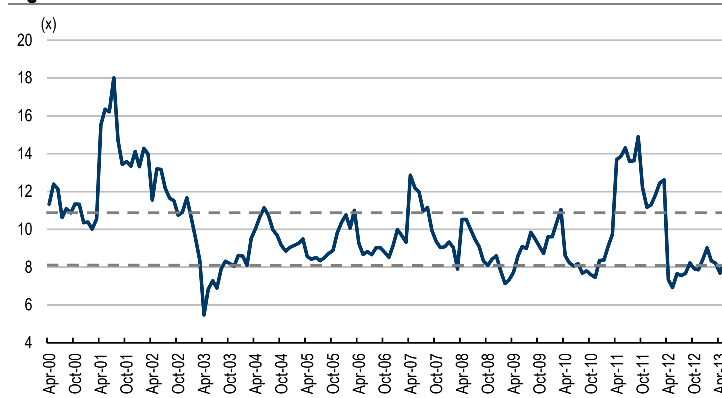
Operating profit looks to have beaten guidance by about ¥2bn in 1Q FY3/14, yet investors showed disdain for this solid result, sending the share price down. We believe they have begun pricing in future uncertainties.

Over the next 6–9 months, we expect the following to be discounted in the share price: (1) Further downward pressure on prices from major contractors and other customers; (2) Higher financial leverage, stemming from acquisitions including that of ASD Americas Holdings; and (3) Delays in booking sales at Italian subsidiary Permasteelisa SpA.

We see homebuilders' orders slowing from October and think this could also hamper share price gains. Thus although 1Q earnings were favourable, we believe investors will be unable to shake off a number of concerns, keeping the share price from rising.

The main upside risk would be confirmation via 2Q results that earnings are tracking ahead of guidance. Downside risks include: (1) the rush in demand ahead of the consumption tax hike dropping out of the picture; (2) downward pressure on prices; and (3) an increase in financial leverage accompanying M&A activity.

Figure 1: EV/EBITDA



Source: Thomson Reuters, Credit Suisse

We base our TP on an EV/EBITDA multiple of 8x (previously 10x). The average multiple from 2005 to 2007 was 10x. We see housing sector valuations declining and think LIXIL Group, with its heavy reliance on detached housing, will be no exception. The 8x multiple represents the bottom of the range since 2003.

(This is an extract from Masahiro Mochizuki's report, "Downgrade to NEUTRAL amid increasing uncertainty over outlook for 3Q onward," published on 28 August 2013. For details, please see the CS Research & Analytics website.)

Tokuyama-- Maintain OUTPERFORM

Raising our forecasts on prospects for limited decline in polysilicon prices — EPS: ▲ TP: ▲

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- We raise our forecasts for Tokuyama for FY3/15 and beyond and increase our target price from ¥350 to ¥400 (potential return 13%) to reflect both the new estimates and a rise in sector valuations. We maintain our OUTPERFORM rating. Full report.
- First-quarter OP came in at 51.7% of 1H guidance on better-than-expected progress in cutting costs. We now expect FY3/14 polysilicon contract prices to decline just 1% YoY with help from the weak yen (previous assumption –6%), implying that margins will be higher than we anticipated.
- Catalysts include higher spot prices for solar cell polysilicon, stronger-than-anticipated growth in solar cell demand and cement price hikes. Risks include lower spot prices for polysilicon and a weaker-than-expected supply–demand balance.
- Our ¥400 TP uses end-FY3/15E BPS of ¥663 (end-FY3/14E BPS of ¥644.9 previously) and a P/B of 0.59x. We base our multiple on the average sector-relative P/B since 2004 less one sd (0.54x) multiplied by the avg P/B for the sector (1.1x; 1.0x previously).

Bbg/RIC	4043 JP / 4043.T	Price (28 Aug 13 , ¥)	339.00		
Rating (prev. rating)	O (O)	TP (prev. TP ¥)	400.00 (350.00)		
Shares outstanding (mn)	347.92	Est. pot. % chg. to TP	18		
Daily trad vol - 6m avg (mn)	7.7	52-wk range (¥)	387.0 - 130.0		
Daily trad val - 6m avg (US$ mn)	23.9	Mkt cap (¥/US$ bn)	117.9/ 1.2		
Free float (%)	20.8	Performance	1M	3M	12M
Major shareholders		Absolute (%)	5.6	2.7	109.3
		Relative (%)	6.9	4.5	60.0

Year	03/12A	03/13A	03/14E	03/15E	03/16E
Revenue (¥ bn)	282.4	258.6	277.5	284.0	304.0
EBITDA (¥ bn)	42.1	30.0	36.4	42.5	49.0
Net profit (¥ bn)	9.4	(37.9)	8.3	8.3	8.3
EPS (¥)	27	(109)	24	24	24
- Change from prev. EPS (%)	n.a.	n.a.	3.8	3.8	3.8
- Consensus EPS (¥)	n.a.	n.a.	19.0	12.0	11.7
EPS growth (%)	(4.3)	n.m.	n.m.	—	0
P/E (x)	12.6	n.m.	14.2	14.2	14.2
Dividend yield (%)	1.8	0.9	1.8	1.8	1.8
EV/EBITDA (x)	4.9	8.4	7.9	7.3	5.5
P/B (x)	0.5	0.5	0.5	0.5	0.5
ROE (%)	3.8	(16.2)	3.8	3.6	3.5
Net debt(cash)/equity (%)	34.6	59.7	73.9	80.7	61.3

Note 1: ORD/ADR=8.00. Note 2: Tokuyama Corporation is a Japan-based company mainly engaged in the manufacture & sale of chemicals, specialty products, cements construction materials.

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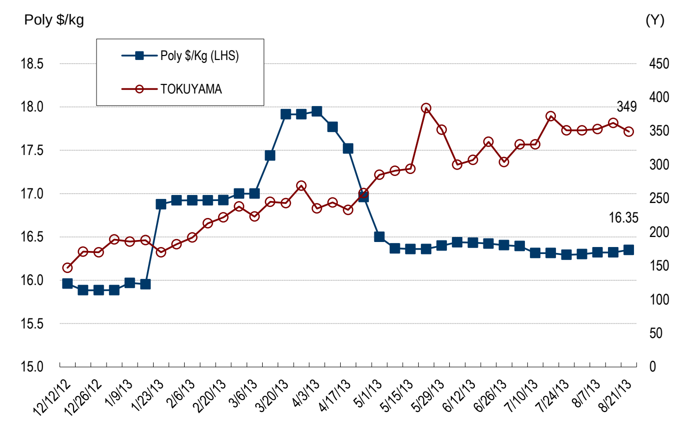
Investment case: First-quarter OP came in at 51.7% of 1H guidance on better-than-expected progress in cutting costs. We now expect FY3/14 polysilicon contract prices to decline just 1% YoY with help from the weak yen (previous assumption –6%), implying that margins will be higher than we anticipated. We think this is not yet in consensus forecasts (I/B/E/S consensus on FY3/14 OP: ¥13bn) and therefore look for them to be revised up. In addition, China's imposition of anti-dumping duties against US and Korean polysilicon will likely limit imports and drive a slight increase in the spot prices for solar cell applications. We see this and the earnings upside as positive for Tokuyama's share price.

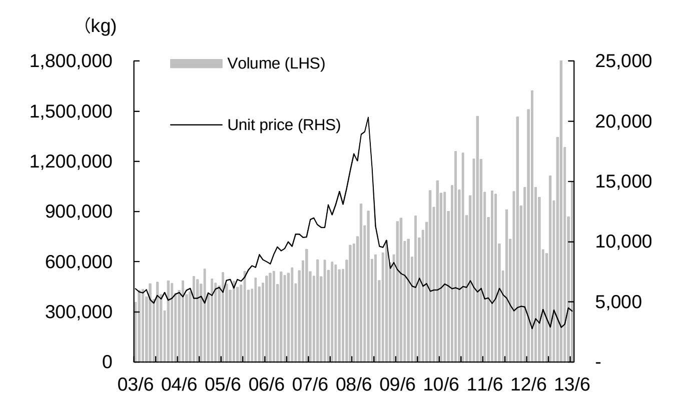
Forecast revisions: We raise our FY3/14 OP forecast by ¥0.5bn, with a ¥1.5bn upward revision for specialty products on the increase in our price assumption for polysilicon more than offsetting a ¥1.0bn downward revision for chemicals on tardiness in passing on higher prices for feedstock naphtha.

Figure 1: Polysilicon spot price and Tokuyama share price



Source: Energy Trend, Thomson Reuters

Figure 2: Polysilicon export volume and price



Source: MoF

This is an extract from Masami Sawato's Tokuyama report published on 28 August 2013.

CREDIT SUISSE

Malaysia

Genting Plantations Bhd --Maintain NEUTRAL

Expect a stronger 2H **EPS: ◄► TP: ◄►**

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- Genting Plantations' (GENP) 1H FY13 core net profit fell 19% YoY, while EBIT fell 23% YoY. The plantation unit was hit by low palm oil prices but the property division showed stronger profits YoY due to brisk sales in Iskandar, Johor.
- We expect 2H to be stronger, as FFB production in 2H should rise significantly by at least 27% HoH, with: (1) seasonally high production period; (2) some 10,000ha in Indonesia maturing.
- GENP's main attractiveness is its young plantation (the youngest among our Malaysian coverage) as 35% of its planted landbank is still immature, and therefore, organic growth should be strong.
- However, we maintain a NEUTRAL rating on GENP as it is fairly valued on a regional basis—GENP is trading at a 2014E P/E of 17.6x, a 28% premium to the regional sector average of 13.8x.

Bbg/RIC	**GENP MK / GENP.KL**	**Price (28 Aug 13, RM)**			**9.00**
Rating (prev. rating)	**N (N)**	**TP (prev. TP RM)**			**9.22 (9.22)**
Shares outstanding (mn)	758.85	Est. pot. % chg. to TP			2
Daily trad vol - 6m avg (mn)	0.4	52-wk range (RM)			10.14 - 8.13
Daily trad val - 6m avg (US$ mn)	1.1	Mkt cap (RM/US$ mn)			6,829.6/ 2,049.1
Free float (%)	31.1	**Performance**	**1M**	**3M**	**12M**
Major shareholders	Genting Bhd (54%)	Absolute (%)	(10.9)	0.1	(3.6)
		Relative (%)	(4.6)	5.1	(6.0)

Year	**12/11A**	**12/12A**	**12/13E**	**12/14E**	**12/15E**
Revenue (RM mn)	1,336	1,233	1,350	1,714	2,008
EBITDA (RM mn)	600.4	396.7	396.6	543.1	636.9
Net profit (RM mn)	442.0	327.2	258.3	388.6	468.3
EPS (RM)	0.58	0.43	0.34	0.51	0.62
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (RM)	n.a.	n.a.	0.43	0.53	0.64
EPS growth (%)	36.3	(26.0)	(21.1)	50.5	20.5
P/E (x)	15.5	20.9	26.4	17.6	14.6
Dividend yield (%)	1.8	1.4	1.1	1.6	1.9
EV/EBITDA (x)	10.4	16.6	17.0	12.3	10.3
P/B (x)	2.1	2.0	1.9	1.7	1.5
ROE (%)	14.5	9.8	7.3	10.0	10.9
Net debt (cash)/equity (%)	(17.6)	(6.8)	(2.2)	(3.0)	(5.6)

Note 1: Genting Plantations Berhad is engaged in plantation, investment holding and provision of management services to its subsidiaries. The principal activities of the subsidiaries include plantation, property development, property investment.

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1H FY13 net profits fell 42% YoY

Genting Plantations' (GENP) 1H FY13 reported net profit fell 42% YoY to RM86 mn, as it donated RM35 mn (one off) to a charitable body prior to the General Elections in 1Q FY13. Excluding this one-off item, core net profit fell 19% YoY, while EBIT fell 23% YoY. 1H results were broadly in line with our expectations, as we expect 2H to be stronger.

1H FY13 plantation EBIT fell 40% YoY, as palm oil prices averaged 28% lower at RM2,309/tonne and a RM31 mn donation, but this was partially offset by FFB output rising by 22% YoY. 1H operation cost was 2% lower YoY with lower fertiliser cost. Its Indonesian unit turned profitable for the first time this quarter.

Property profits increased by more than 4-fold YoY, due to brisk property sales in Johor and higher margins. Management remains positive on property sales in Iskandar. We estimate that GENP's 7,000-acre plantation landbank in Kulai, Johor, has a book value of RM1.20 psf, vs market price of an estimated RM35 psf for industrial land.

GENP is in a net cash position of RM134 mn as of June 2013. It declared an interim dividend of 3.75 sen (down 12% YoY).

Figure 2: 1H FY13 EBIT breakdown

(RM mn)	1H FY13	1H FY12	YoY % chg	2Q FY13	YoY % chg
Plantation	109.6	182.8	-40.1%	44.1	-52.9%
Property	44.5	9.9	349.1%	15.9	252.0%
Biotech	(20.3)	(16.1)	26.1%	(10.4)	26.8%

Source: Company data . Note: In 1Q, plantation unit donated RM31mn and property unit RM4mn.

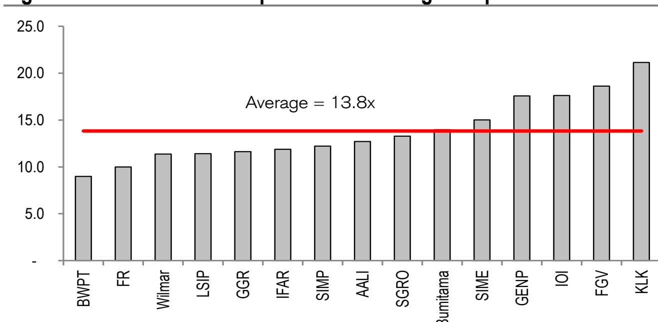
2H profitability to be stronger

We expect 2H to be stronger, as FFB production in 2H should rise significantly by at least 27% HoH, with: (1) seasonally high production period; (2) some 10,000ha in Indonesia maturing (vs current mature hectarage of some 10,000ha as of June 2013).

Maintain NEUTRAL

GENP's main attractiveness is its young plantation (the youngest among our Malaysian coverage) as 35% of its planted landbank is still immature. However, we maintain our NEUTRAL rating on GENP as it is fairly valued on a regional basis—GENP is trading at a 2014 P/E of 17.6x, 28% premium above the regional sector average of 13.8x.

Figure 3: CY2014E P/E comparison for the regional plantation sector



Source: Credit Suisse estimates.

Figure 1: Genting Plantations' 1HFY13 result review

Year-end Dec (RM mn)	1H FY13	1H FY12	% change YoY	2Q FY13	2Q FY12	% change YoY	1Q FY13	% change QoQ	CS full year est.	% of CS FY est.	Market full year est.	% of market FY est.
Sales	633.7	566.7	12%	290.7	294.0	-1%	343.0	-15%	1350	47%	1,273	50%
EBIT	118.7	155.0	-23%	40.7	72.7	-44%	78.1	-48%	302	39%	377	31%
PBT	111.7	191.9	-42%	53.3	87.9	-39%	58.4	-9%	337	33%	425	26%
PAT	86.4	148.6	-42%	42.4	69.8	-39%	44.0	-4%	258	33%	318	27%
EPS (sen)	11.4	19.6	-42%	5.6	9.2	-39%	5.8	-4%	34.0	33%	43.1	26%
EBIT margin (%)	18.7%	27.3%		14.0%	24.7%		22.8%		22.4%		29.6%	
Core profits	121.5	150.0	-19%	42.5	70.4	-40%	79.1	-46%	293	41%	336	36%

Source: Company data, Credit Suisse estimates.

South Korea

Korea Banks Sector -- Maintain OVERWEIGHT

New Housing Rent Stabilisation measure likely benefit Korean banks

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- On 28 August 2013, the government announced a Housing Rent (Chonsei) Stabilisation measure after the market close, which largely focuses on revamping property purchase.
- In our view, overall measures appear to be prudently drafted to encourage and support a demand shift from rent (Chonsei) to purchase. (Please see our report "A powerful stimulus package revealed if well implemented" by our Korea Construction Analyst for the full details of the measure).
- In particular, the new "Equity loan," which was largely unexpected, would be positive for stimulating the housing market, we think. The new mortgage loan's low interest rate is unlikely have a meaningful negative impact on banks' mortgage loan demand or their lending rates, given the limit of 3,000 units for FY13, which is 0.06% of total loans at most (or 0.4% annualised).
- In the event of a housing market turnaround, Korean banks should benefit from the full recovery of the credit cycle. Our sensitivity analysis indicates that a 5% housing price hike results in 5% earnings growth for FY13 (leaving provisioning constant).

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
KB Financial	105560.KS	O	34,150	42,000	12/12	9.1	6.5	0.5
SFG	055550.KS	O	39,050	48,500	12/12	9.6	8.1	0.7
WFH	053000.KS	N	10,600	11,000	12/12	10.6	7.4	0.4
HFG	086790.KS	O	33,450	47,000	12/12	7.1	5.7	0.5
IBK	024110.KS	O	11,050	14,000	12/12	7.7	6.0	0.4
DGB Financial	139130.KS	O	16,000	18,000	12/12	8.6	7.0	0.8
BS Financial Group	138930.KS	N	14,250	17,200	12/12	7.6	6.8	0.8

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

Cheap financing and profit/loss sharing with the gov't

Improving affordability appears one of the key objectives of the Housing Rent (Chonsei) Stabilisation measure, announced on 28 August 2013 by the Korean government. The annual limit on public mortgage loans by Housing Finance Corporate is raised to W2.4 tn from W2.1 tn before. Also, interest rates on the current long-term mortgage loan will be lowered to 2.8-3.6% from ~4% currently. Most importantly, the National Housing Fund will introduce a new mortgage product, namely "Equity Loan," which is both unexpected and likely to be effective in a turnaround of the housing market sentiment, in our view. There would be two types of Equity Loans—only profit sharing or profit/loss sharing. The interest rate on the loans would be 1-2% (vs current mortgage loan yields of ~4%), and LTV would be 70% for profit sharing and 40% for profit/loss sharing. Homebuyers' income cannot be more than W70 mn, and the size and value of the home is capped at 85m² and W600 mn, respectively. Considering the ongoing shortage of the Chonsei supply, sharing of potential capital losses, and cheap lending rates, the Equity Loan would prompt a demand shift from rent (Chonsei) to purchase, in our view.

Figure 1: Summary of the new mortgage "Equity Loan"

	Profit sharing type	Profit & Loss sharing type (Equity loan)
Target borrower	1st home buyer with low or no savings	1st home buyer with savings, i.e. Chonsei deposit
Interest rate (annual)	1.5%	1% for the first 5 years, 2% for the remaining 15 years
Loan repayment	Principal amortisation over 20 years	20 year bullet loan
Loan limit	70% of housing price	40% of housing price
Housing price risk	National housing fund shares profit only	National housing fund and the borrower share both profit and loss

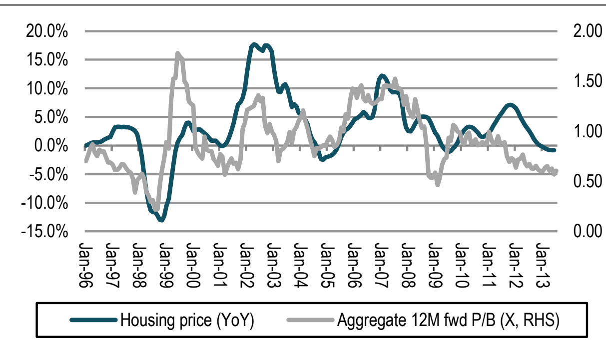
Source: MoLIT, Kookmin Daily, Credit Suisse estimates

We believe the new Equity Loan, along with other measures, would have a positive impact on Korean banks if leading into a recovery of the housing market. The limit on the new Equity Loan for 2013 is 3,000 units. Considering that the cap on single mortgage is W200 mn, at most W600 bn of loans would be issued, accounting for 0.06% of the total outstanding loan by commercial banks. In addition, while the structure of the loan sales has not been disclosed, banks currently receive management fees of ~35 bp from sale of existing public mortgage loans, which does not incur credit or capital costs. As we consider the equity loan prompts a new demand for mortgages, the management fees would be a net positive for banks' earnings if banks are entitled to the fees.

Recovery of housing market positive for Korean banks

Home equity loans account for 68% of total retail loans, and construction/real estate corporate loans account for 20% of total corporate loans. A housing market recovery should have a positive impact on almost every line of the banks' earnings. For the purpose of sensitivity, we attempt to estimate the impact on loan growth from pricing hikes. Based on our sensitivity analysis, a 5% hike in housing prices would result in a 5% increase in bank earnings, leaving the credit costs constant. Please see Page 25 of our report "At the turning point," for more details of our assumptions.

Figure 2: Korea—housing purchase price as a key share price driver of Korean banks



Source: Company data, Kookmin Bank, Wisenet, Credit Suisse estimates

Korea Construction Sector -- Maintain OVERWEIGHT

A powerful stimulus package revealed if well implemented

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- The government's August 2013 stimulus package seems to include many of what the market has requested (i.e., permanent cut of acquisition tax). Further, some of the measures appear very fresh (i.e., introduction of equity mortgage loan given the extremely low interest rate and the first-ever profit/loss sharing scheme).
- While we believe that absence of confidence is the key missing part for a meaningful turnaround in the domestic housing market, we expect the package could considerably help the market by stimulating the weak sentiment, if well implemented.
- We continue to anticipate that the housing market would see the meaningful turnaround eventually by no later than 2014 given the notable improvement in the key market fundamentals in recent years (i.e., improvement in affordability, significant narrowing in the opportunity cost spread between purchase and rent, etc), unless the domestic economy sees a long-term recession.
- Hyundai Dev seems the key beneficiary given its higher housing exposure and couple of upcoming new in-house presale launches, while Daelim Ind and Hyundai E&C remain our preferred picks in Korea E&C sector.

Valuation metrics

Company	Ticker	Rating	Price		Year	P/E (x)		P/B (x)
			Local	Target	T	T+1	T+2	T+1
Daelim Ind	000210.KS	O	87,400	120,000	12/12	7.9	6.8	0.6
Daewoo E&C	047040.KS	U	7,170	7,000	12/12	10.2	10.7	0.8
GS E&C	006360.KS	N	34,150	31,000	12/12	n.m.	35.6	0.5
Hyundai Dev	012630.KS	O	21,200	27,000	12/12	n.m.	9.9	0.7
Hyundai E&C	000720.KS	O	55,800	72,000	12/12	9.9	8.4	1.2
Samsung C&T	000830.KS	O	54,200	65,000	12/12	27.1	23.8	0.7
Samsung Eng	028050.KS	N	80,200	83,000	12/12	n.m.	9.0	2.1

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

A very responsive and fresh stimulus package announced

The new government on 28 August after market close announced its second housing transaction stimulation and rent market stabilisation package. The package seems to include many of what the market has requested (i.e., permanent cut of acquisition tax). Further, some of the measures appear very fresh (i.e., introduction of equity mortgage loan given the extremely low interest rate and the first-ever profit/loss sharing scheme). We continue to believe that absence of confidence (i.e., concerns on housing price outlook, concerns on household income outlook, etc) is the key missing part for a meaningful turnaround in the domestic housing market (given notable improvements in the key market fundamentals in recent years -- i.e., sharp recovery in affordability, significant narrowing in the opportunity cost spread between purchase and rent, etc) and concerns on the housing price outlook is the key reason behind the continuously soaring rent demands despite the surge in rents, respectively. From the perspective, we expect the Aug-2013 package (which appear very responsive and innovative) could considerably help stimulating the transactions and stabilizing the surging rents if well implemented. The government also tries for earlier implementation of several unimplemented measures in its Apr-2013 package (i.e., permanent lift of progressive capital gains tax on two or more homeowners), which require approval from the National Assembly for the implementation.

Figure 1: Korean Government's August 2013 housing transaction stimulation and rent market stabilisation package

Measure	Current	New	Remarks
Permanent cut of acquisition tax on buyers	4.0% (2.0% for the 1st home buyers with housing value of <=W900 mn)	<=W600 mn: 1.0%, W600 mn-W900 mn: 2.0%, >W900 mn: 3.0%	Requires approval from the National Assembly for the implementation. 89% of houses in the metro Seoul area are <W600 mn.
Increase of L-T fixed rate mortgage loan supply	W21 tn in 2013 in aggregate	W24 tn in 2014 in aggregate	Provided by Korea Housing Finance Corp
Expanded deduction of taxable income on interest payment of L-T mortgage loans	Applied only to the 1st home buyers with price of <W300 mn	Applied to the 1st home buyers or replacement homebuyers with price of <W400 mn	Requires approval from the National Assembly for the implementation
Expanded application of cheap mortgage loans	Interest rate: Flat 4.0%, Household income: <W45m/y, Housing value: <W300 mn, Limit per unit: W100 mn	Interest rate: 2.8-3.6%, Household income: <W60m/y, Housing value: <W600 mn, Limit per unit: W200 mn	Mortgage loan amount of W2 tn in 2013 in aggregate
Introduction of L-T equity loans	n.a.	Only sharing appreciation of the housing value with the government (loan lender): interest rate of 1.5% up to 70% of the housing value Sharing both appreciation and depreciation of the housing value with the government (equity investor): interest rate of 1-2% up to 40% of the housing value	Applied to the first-time-ever homebuyers with household income of <W70 mn/y that agree to share appreciation/depreciation of the housing value with the government, when they buy apartment of <85m² and <W600 mn. Max. 3,000 units in 2013 as a demo programme and can be expanded 2014 onwards up on outcome of the demo programme in 2013.
Temporarily expanded application of mortgage insurance	Only the 1st home buyers can sign up for the insurance	Two or more home buyers can also sign up for the insurance over next 12 months	Increased LTV cap of 85% is applied for the mortgage insurance buyers.
Increase of public rent unit supply	n.a.	23,000 units in Sep-Dec 2013	13,000 units in the metro Seoul area
Increase of deduction cap of taxable income on monthly rents	50% of monthly rents up to W3 mn per annum on the tenant with personal income of <W50 mn/y	60% of monthly rents up to W5 mn per annum on the tenant with personal income of <W50 mn/y	Requires approval from the National Assembly for the implementation
Introduction of housing voucher for lower income class	n.a.	From Oct. 2014 officially after a demo from early 2014	

Source: Korean Government, Credit Suisse.

Taiwan

Taiwan Market Strategy

Moderate impact from electricity price hike

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- Taiwan's MoEA has finalised the second round of electricity price hike by an average of 8.49% vs its previous plan for a 9.64% increase. The increase will exempt low usage residential and commercial users and raise electricity cost by a total of NT$50 bn a year.
- Our economist expects the hike will only add about 0.1% to the headline CPI through its first-round effect as only the residential increase will be reflected in the CPI. The secondary pass-through will likely stay muted as well given the low growth backdrop.
- We estimate the cost increase will have a marginal impact (within 2-3%) to the aggregate profit estimates for our coverage universe. Overall, we see domestic non-tech sectors (i.e., retail, steel) to see further impact of 2-5% on our profit estimates. Within tech, PCB and foundry would see a bit more cost impact (Fig 1). The next event to watch is the minimum wage adjustment on 1 Jan, 2014.
- We maintain our market view for a moderate upside to TAIEX into year-end as better US recovery would be offset by slower China growth, while sector performance is likely skewed to stocks leveraged to the tech product cycle in the coming months (report).

Second round of electricity price hike to take effect in Oct

The Ministry of Economic Affairs (MoEA) has finalised the second round of electricity price hike (the first round implemented in June-2012) by an average of 8.49% compared to its original plan of a 9.64% increase. The price increase will also exempt low usage residential and commercial users, and this will raise total electricity cost for Taiwan by NT$50 bn a year. The third and last round of price hike will only take place after Taipower shows improvement in operating efficiencies (cost cutting).

The increase in electricity price will take effect on 1 October and with the slightly lower increase than previously reported, our economist expects this will add about 0.1% to headline CPI as only residential increase will be reflected in the CPI. The secondary pass-through will likely stay muted given the weak macro and growth backdrop

Moderate corporate profit impact

Judging from the total amount of electricity cost increase of NT$50 bn, we estimate the cost increase will affect aggregate corporate profit by 2-3% for our coverage universe. Overall, we see more impact for non-tech sectors while there would be a bit more cost impact on PCB and foundry within tech space (Figure 1).

Figure 1: Electricity rate hike impact by sectors

Net profit impact	Sector
4-5%	Steel, Automation*
3-4%	PCBs
2-3%	Consumer, Foundry, TFT**
1-2%	Tech Components, Backend, Petrochem, Cement
less than 1%	IC Design, PC/Hardware, Handset, Financials, Transportation, Health care

Source: Credit Suisse estimates, *Automation: will only impact Hiwin as all of Airtac's facility is in China and most of Teco's facility is not in Taiwan. **TFT: only impact AUO/INX, as the manufacturing facility for others are mostly in China.

Figure 2: Electricity price hike impact on non-tech companies

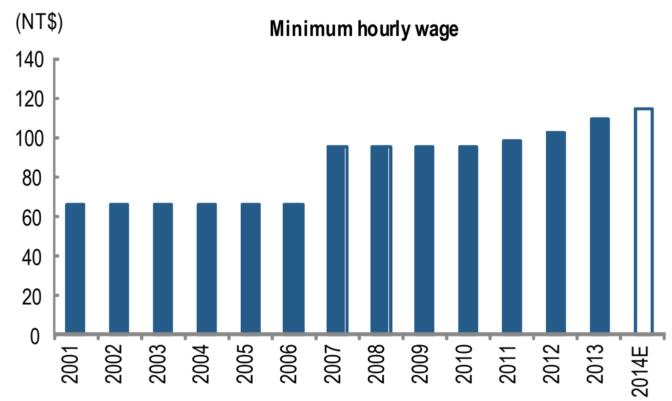
Company	TCC	ACC	CSC	CSR	St. Shine	Ginko
Electricity as % of COGS	13%	12%	4%	3%	4%	5%
Estimated operation in Taiwan (%)	18%	21%	100%	20%	100%	33%
Estimated additional cost (NT$mn)	100	75	800	100	15	5
Impact to 2014E EPS (%)	0.9%	0.9%	4.5%	<1%	<1%	0.5%
Company	**FPC**	**NYP**	**FCFC**	**FPCC**	**UPEC**	**PCSC**
Electricity as % of COGS	2%	2%	2%	2%	2%	1.5%
Estimated operation in Taiwan (%)	90%	70%	80%	100%	25%	80%
Estimated additional cost (NT$mn)	300	250	450	400	100-150	160
Impact to 2014E EPS (%)	<2%	<1%	<2%	<1%	<1%	2%

Source: Company data, Credit Suisse estimates

Next to watch: Minimum wage adjustment

Separately, based on the agreement set forth by the Council of Labor Affairs, the minimum wage in Taiwan was increased from NT$103/hour to NT$109/hour on 1 Jan, 2013 and is set to increase to NT$115/hour (+5.5%) on 1 Jan, 2014. It is now under discussion and review on whether the planned wage increase on 1 Jan, 2014 will take effect as planned, which would affect 1.7 mn workers according to the CLA.

Figure 3: Historical minimum hourly wage adjustment



Source: Ministry of Economic Affairs, Credit Suisse Research

Maintain market view for moderate upside to TAIEX

We expect the electricity price hike to have a moderate impact on the market and maintain our market view for a moderate upside to TAIEX into year-end as better US recovery would be offset by slower China growth. The electricity price hike and the discussion to raise minimum wages in the coming months could put some weight on the non-tech sector's performance, and we expect performance to skew towards stocks that are leveraged to tech's product cycle offering in the next few months.

Taiwan Non-Tech Sector

Assessing the electricity rate hike impact

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- Taiwan's MoEA has finalised the second round of electricity price hike by an average of 8.49% vs previous plan for 9.64% increase. The increase will exempt low usage residential and commercial users and raise electricity cost by a total of NT$50 bn a year. The price hike will become effective from 1 Oct 2013.
- Within our non-tech coverage universe, we estimate the electricity price hike will only impact 2014E EPS by an average of ~1.5%. Electricity as a percentage of COGS is the highest for cement (12-13%), followed by steel (4%). However, China Steel is more vulnerable to the cost hike as all of its production is based in Taiwan.
- Formosa Group purchases most of its electricity from its own Mailiao Power Plant. The Group claimed that only less than 10% of electricity is supplied by Taipower.
- Domestic F&B, CVS, department stores, and hotel operators will feel the pinch too. We estimate PCSC to see a cost increase of NT$160 mn per year. However, as 87% of POS are franchised stores, we believe direct impact will be minimal.

Figure 1: Summary of electricity price hike impact

Company	TCC	ACC	CSC	CSR	St. Shine	Ginko
Electricity as % of COGS	13%	12%	4%	3%	4%	5%
Estimated operation in Taiwan (%)	18%	21%	100%	20%	100%	33%
Estimated additional cost (NT$m)	100	75	800	100	15	5
Impact to 2014E EPS (%)	0.9%	0.9%	4.5%	<1%	<1%	0.5%
Company	**FPC**	**NYP**	**FCFC**	**FPCC**	**UPEC**	**PCSC**
Electricity as % of COGS	2%	2%	2%	2%	2%	1.5%
Estimated operation in Taiwan (%)	90%	70%	80%	100%	25%	80%
Estimated additional cost (NT$m)	300	250	450	400	100-150	160
Impact to 2014E EPS (%)	<2%	<1%	<2%	<1%	<1%	2%

Source: Company data, Credit Suisse estimates.

Second round electricity hike finalised

Taiwan's Ministry of Economic Affairs (MoEA) has finalised the second round of a three-stage hike in electricity rates by an average of 8.49% vs a previous plan for 9.64% increase. The new electricity rate will become effective from 1 October 2013. MoEA launched the first round of the rate hike on 10 June 2012. The second round was originally scheduled for 10 December 2012, but was postponed to 1 October 2013 due to the sluggish domestic economic recovery. The third round rate hike will be contingent on whether the deficit ridden Taipwer shows signs of improvement in its operational efficiency.

Impact on non-tech sectors

As Taiwanese manufacturers have been relocating their production to China and Southeast Asia in the last decade, this rate hike should not be a major hit on their profit margins. In fact, within our coverage universe, we estimate an average EPS impact of ~1.5% to 2014E earnings.

Cement

Electricity as a percentage of COGS is the highest for cement (12-13%) followed by steel (4%). However, as Taiwan Cement and Asia Cement expanded aggressively in China over the years, the domestic cement operation is no longer a major profit contributor. We only estimate an EPS impact of 0.9% for both companies.

Steel

China Steel, on the other hand, should face the biggest impact as all of its production is still at home. We estimate an additional cost of NT$800 mn per year associated with this rate hike. This would imply a 4.5% impact on our 2014E EPS.

Tires

For Cheng Shin Rubber, the Taiwan plant only accounts for 20% of its total manufacturing operation (the rest in China, Thailand, and Vietnam). Although electricity accounts for 3% of COGS, the impact to 2014E EPS is estimated to be less than 1%.

Contact lens

St. Shine is one of the few manufacturers that still has based all of its production in Taiwan. We estimate electricity accounts for 4% of its COGS. However, given the high profit margin for contact lens OEM, the increase in electricity cost would only affect profit by less than 1%, according to our analysis.

Petrochemical

With the majority of its operations centralised at the Mailiao complex, Formosa Group purchased electricity from its own coal-fired Mailiao Power Plan. As such, we only estimate a marginal 1-2% impact to 2014E EPS of the four Formosa sisters.

Retailer

Finally, domestic-oriented companies such as retailers, F&B, CVS, department stores, and hotel operators will feel the pinch too. Gourmet Master (2723.TW, NR) and Wowprime (2727.TW, NR) told us that electricity accounts for 3-4% of their revenue. For PCSC, we estimate an increased cost burden of ~NT$160 mn, implying roughly 2% of the company's 2014E EPS. However, we note that 87% of PCSC stores are franchised, which means franchisees cover electricity expense, which mitigates the direct impact.

Taiwan Display Sector

Takeaways from Touch Taiwan 2013: Shipment recovering ahead of holiday demand

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- We attended the 2013 Taiwan Int'l Touch Panel and Optical Film Exhibition and met senior managements from the display industry. Panel makers confirmed that shipment for China October holiday has started and Q4 could be better than normal seasonality.
- AUO showcased its second-gen 55"/65" 4K2K TV panels with narrower border, wide colour gamut, 120 Hz frequency, etc. It also showcased retina-grade tablet and smartphone panels using oxide or LTPS, as well as a 21.5" curved display for slot machine.
- INX showcased full range of 4K2K TV panels and expects its monthly shipment to reach 400–500K units by end 2013 for 70% global share versus 260K units in July and 100K/month in 1H13. Its WCG 4K2K TV panel is under qualification by Japanese customer and oxide panels for tablet/NB will be ready by end of 2013.
- TPK maintains its guidance for Q3 but expects Q4 to see strong momentum on new product (tablet and NB) ramp. Pingtang Gen 5.5 fab is on schedule for Nov pilot run and mass production in 1Q14. Equipment makers such as GPM and C-Sun see 2014 order coming through on Chinese panel maker's new Gen 8.5 fab plans.

Valuation metrics

Company	Ticker	Rating	Price Local	Target	Year T	P/E (x) T+1	P/E (x) T+2	P/B (x) T+1
AUO	2409.TW	O	11.40	17.00	12/12	14.7	7.7	0.7
Innolux	3481.TW	O	14.85	23.00	12/12	9.9	8.2	0.7
TPK	3673.TW	O	309.50	485.00	12/12	8.6	7.7	2.4
Chipbond	6147.TWO	O	64.50	75.00	12/12	12.9	11.2	2.2
Novatek	3034.TW	N	118.00	120.00	12/12	14.1	12.4	2.9
G-Tech	3149.TW	U	56.60	44.00	12/12	192.0	18.3	1.5

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

Shipment recovering ahead of holiday demand

AUO, INX, and CSOT's management mentioned they are seeing Chinese TV customers starting to pull-in panels for the upcoming China October holiday and Xmas. Our discussion with panel makers suggested that TV inventory level already came down for most of the brands (Hisense and Skyworth relatively better) and pricing should be more stabilised in the next few months. Chinese panel maker expects 32" ASP to remain flattish in September and 42" ASP would also stabilise given structural shortage of Gen 7.5 fabs. Nevertheless, larger sizes and 4K2K TV panels ASP will continue to see modest decline to reflect cost reduction and yield improvement. Both AUO and INX have no plans to aggressively lower utilisation in the near term.

Differentiating with higher resolution and more value-add

AUO and INX both showcased higher resolution panels for smartphone, tablet, TV, as well as more value-adds such as narrower border, WCG (wide colour gamut), and touch integration. INX is ahead on 4K2K TV panels with ~70% global share and has a full range of sizes including 39", 42", 50", 58", and 65". INX mentioned that panel price for 4K2K is now at 1.3–1.5x vs FHD but it expects the 4K2K panel price to be within 1.3x of FHD by end 2013.

AUO's 4K2K TV panels have been adopted by Japanese brands with steady shipment. AUO is targeting for premium market, hence it has introduced second-gen 4K2K TV panels with narrower border, wide colour gamut, 120 Hz frequency, and one chip solution that integrates TV chipset and MEMC chip. Management believes 4Q13 could be better than normal seasonality and believe it is 6–12 months ahead of peers for the premium markets. It has also showcased retina-grade tablet and smartphone panels using oxide or LTPS process, new AMOLED smartphone panels (incl. flexible), and a 21.5" curved display for slot machine (0.2 mm thick glass, radius 135 mm, >95% NTSC).

Figure 1: AUO's small and medium sized high-resolution panels

Technology	Size	Resolution	PPI	Others
AMOLED	5"	FHD	443	
	5"	HD720	295	
	4.7"	HD720	312	Ultra-thin (0.34 mm)
	4.3"	qHD	256	Flexible (0.2 mm)
Oxide	10.1"	WQXGA	300	Ultra-thin (1.5 mm)
LTPS	5.7"	FHD	385	
	5"	FHD	443	
	4.3"	FHD	512	narrow border
Hyper LCD	5.7"	HD720	257	
AHVA	7"	WUXGA	323	
	8"	WUXGA	283	

Source: Company data, Credit Suisse.

Figure 2: INX's medium sized high-resolution panels

Technology	Size	Resolution	PPI	Others
AAS (a-Si)	7"	WUXGA	323	
LTPS	6"	FHD	368	AAS
	6"	HD720	242	
	5"	FHD	443	1mm border

Source: Company data, Credit Suisse.

With the higher resolution for all sizes of panels, we continue to believe driver IC supply chain will be the key beneficiary of this trend. We would prefer Chipbond over Novatek given better margin profile, less pricing pressure, as Novatek is facing intense competition for both driver IC and non-driver IC (i.e. TV chipset, MEMC chips) segments.

Touch will continue to proliferate

We also saw various of touch structures for NB/AIO PC, and ITO replacement materials such as metal mesh and silver nano wire at the exhibition. Standardisation of NB touch for entry level models will help the penetration rate to increase in 4Q13 to 2014, but premium models will still adopt OGS. TPK maintains its Q3 guidance and expects Q4 to see strong momentum on new product cycle. TPK remains our preference as it can supply both film and glass-based touch solutions, and its new low-cost NB solution also gained some attraction among NB brands. G-Tech expects its sales to recover in Q3 on iPad ramp but we remain conservative on its profitability given iPad cover glass has lowest GM and there are plenty of new competitors emerging.

Equipment makers to benefit from new TFT fabs in China

BOE, CSOT, and CEC-Panda are planning to build new Gen 8.5 fabs in 2014–15. Equipment makers such as GPM and C Sun expect these new orders to kick in and should help its 2014 topline and profit growth.

Recently Published Research

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Mon 26 Aug	India Midcap Discovery Series - CRISIL visit note: Diversified business stream but at a premium to peers	Anantha Narayan Vikash Patwari	91 22 6777 3730 91 22 26572490	anantha.narayan@credit-suisse.com vikash.patwari@credit-suisse.com
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Mon 26 Aug	RiseSun Real Estate Development - Placement financing plan needs CSRC's final approval, maintain OUTPERFORM	Jinsong Du	852 2101 6589	jinsong.du@credit-suisse.com

Companies mentioned

Agricultural Bank of China (1288.HK, HK$3.29, NEUTRAL, TP HK$4.11)
Airtac (1590.TW, NT$187.0)
ASD Americas Holdings Corp. (Unlisted)
Asia Cement (1102.TW, NT$37.8)
Astellas Pharma (4503.T, ¥5,100, OUTPERFORM, TP ¥6,300)
AU Optronics (2409.TW, NT$11.4)
Bakrie Telecom PT (BTEL.JK, Rp50, UNDERPERFORM, TP Rp40)
Bank of Communications (3328.HK, HK$5.12)
Bharti Airtel Ltd (BRTI.BO, Rs294.25, OUTPERFORM, TP Rs410.0)
Bharti Infratel Ltd (BHRI.BO, Rs130.05, OUTPERFORM[V], TP Rs195.0)
BOE (000725.SZ, Rmb2.16)
BS Financial Group (138930.KS, W14,250)
Bumitama Agri Limited (BUMI.SI, S$0.96)
C Sun Mfg (2467.TW, NT$19.45)
Cheng Shin Rubber (2105.TW, NT$74.8)
China Citic Bank (0998.HK, HK$3.67)
China Life (2628.HK, HK$19.16, NEUTRAL, TP HK$22.0)
China Life (601628.SS, Rmb13.63, NEUTRAL, TP Rmb17.0)
China Mengniu Dairy (2319.HK, HK$29.85)
China Merchants Bank - H (3968.HK, HK$13.8)
China Minsheng Banking Corporation (1988.HK, HK$8.12, UNDERPERFORM, TP HK$9.54)
China Modern Dairy Holdings Ltd (1117.HK, HK$2.55, OUTPERFORM[V], TP HK$2.8)
China Shipping Container Lines Company Ltd (2866.HK, HK$1.97, UNDERPERFORM[V], TP HK$1.2)
China Steel (2002.TW, NT$25.4)
China XD (601179.SS, Rmb3.57, NEUTRAL, TP Rmb4.8)
Chipbond (6147.TWO, NT$64.5)
Chongqing Rural Commercial Bank (3618.HK, HK$3.42)
Chongyi Zhangyuan Tungsten Co Ltd (002378.SZ, Rmb20.12, NEUTRAL[V], TP Rmb18.0)
Chugai Pharmaceutical (4519.T, ¥2,016, OUTPERFORM, TP ¥2,500)
Daelim Industrial (000210.KS, W87,400, OUTPERFORM[V], TP W120,000)
Daewoo E&C (047040.KS, W7,170, UNDERPERFORM, TP W7,000)
Daiichi Sankyo (4568.T, ¥1,650)
Dainippon Sumitomo Pharma (4506.T, ¥1,271)
DGB Financial Group (139130.KS, W16,000)
Eisai (4523.T, ¥4,015)
Felda Global Ventures (FGVH.KL, RM4.28)
First Pacific Company Limited (0142.HK, HK$7.72, OUTPERFORM, TP HK$11.58)
First Resources Ltd (FRLD.SI, S$1.82)
Flight Centre (FLT.AX, A$48.41, OUTPERFORM, TP A$54.0)
Formosa Chemical & Fibre (1326.TW, NT$75.0)
Formosa Petrochemical (6505.TW, NT$73.2)
Formosa Plastics (1301.TW, NT$72.0)
Genting Plantations Bhd (GENP.KL, RM9.39, NEUTRAL, TP RM9.22)
Ginko (8406.TWO, NT$490.0)
Golden Agri-Resources (GAGR.SI, S$0.56)
Gourmet (2723.TW, NT$191.0)
GPM (5443.TWO, NT$11.8)
GS E&C (006360.KS, W34,150, NEUTRAL, TP W31,000)
G-Tech (3149.TW, NT$56.6)
Hana Financial Group (086790.KS, W33,450)
Hisense Elect (600060.SS, Rmb11.73)
Hiwin (2049.TW, NT$194.5)
Hopefluent Group (0733.HK, HK$2.7, OUTPERFORM[V], TP HK$3.9)
Hyundai Development (012630.KS, W21,200, OUTPERFORM[V], TP W27,000)
Hyundai E&C (000720.KS, W55,800, OUTPERFORM, TP W72,000)
Idea Cellular Ltd (IDEA.BO, Rs155.1, OUTPERFORM, TP Rs175.0)
Indofood Agri Resources Ltd (IFAR.SI, S$0.77)
Indofood Sukses Makmur (INDF.JK, Rp5,750)
Industrial Bank of Korea (024110.KS, W11,050)
Innolux Corporation (3481.TW, NT$14.85)
IOI Corporation (IOIB.KL, RM5.36)
Jiangxi Copper Company Ltd (0358.HK, HK$15.24, OUTPERFORM, TP HK$15.1)
KB Financial Group (105560.KS, W34,150)
Kuala Lumpur Kepong (KLKK.KL, RM21.2)
Kyowa Hakko Kirin (4151.T, ¥1,016)
Leighton Holdings (LEI.AX, A$17.1)
Les enphants (2911.TW, NT$20.45)
LIXIL Group (5938.T, ¥2,058, NEUTRAL, TP ¥2,300)
Metro Pacific Investments (MPI.PS, P4.83)
Mitsubishi Tanabe Pharma (4508.T, ¥1,376)
MMG Ltd. (1208.HK, HK$1.79, NEUTRAL[V], TP HK$1.8)
Nan Ya Plastics (1303.TW, NT$56.6)
NHN Corp (035420.KS, W293,500, OUTPERFORM, TP W462,500)
NHN Entertainment (181710.KS, 298,500, UNDERPERFORM[V], TP W126,500)
Novatek Microelectronics Corp Ltd (3034.TW, NT$118.0)
Ono Pharmaceutical (4528.T, ¥6,060)
Otsuka Holdings (4578.T, ¥3,055)
Permasteelisa (Unlisted)
PetroChina (0857.HK, HK$8.27, UNDERPERFORM, TP HK$7.2)
Philex Mining (PX.PS, P9.9)
Philippine Long Distance Telephone (TEL.PS, P2790.0)
President Chain Store (2912.TW, NT$209.5)
PT Astra Agro Lestari Tbk (AALI.JK, Rp18,250)
PT Bumi Resources Tbk (BUMI.JK, Rp410)
PT BW Plantation Tbk (BWPT.JK, Rp740)

PT Indosat Tbk (ISAT.JK, Rp4,225, OUTPERFORM, TP Rp8,300)
PT London Sumatra Indonesia (LSIP.JK, Rp1,350)
PT Telkom (Telekomunikasi Indo.) (TLKM.JK, Rp2,020, OUTPERFORM, TP Rp2,600)
Salim Ivomas Pratama (SIMP.JK, Rp670)
Sampoerna Agro Tbk (SGRO.JK, Rp1,760)
Samsonite International S.A. (1910.HK, HK$19.48, OUTPERFORM, TP HK$22.0)
Samsung C&T Corporation (000830.KS, W54,200, OUTPERFORM, TP W65,000)
Samsung Engineering Co Ltd (028050.KS, W80,200, NEUTRAL, TP W83,000)
Santen Pharmaceutical (4536.T, ¥4,635)
Sawai Pharmaceutical (4555.T, ¥12,990)
Shinhan Financial Group (055550.KS, W39,050)
Shionogi (4507.T, ¥1,923)
Sime Darby (SIME.KL, RM9.3)
Sino Land (0083.HK, HK$10.12, OUTPERFORM, TP HK$15.02)
Skyworth Digital (0751.HK, HK$4.09)
St. Shine (1565.TWO, NT$753.0)
Sysmex (6869.T, ¥5,820)
Taisho Pharmaceutical (4581.T, ¥6,590)
Taiwan Cement (1101.TW, NT$38.45)
Takeda Pharmaceutical (4502.T, ¥4,545)
Teco (1504.TW, NT$29.55)
Terumo (4543.T, ¥4,635)
Tokuyama (4043.T, ¥339, OUTPERFORM, TP ¥400)
TPK Holdings (3673.TW, NT$309.5)
Tsumura & Co (4540.T, ¥2,677)
Uni-President Enterprises (1216.TW, NT$53.7)
Wilmar International Ltd (WLIL.SI, S$3.1)
Woori Finance Holdings (053000.KS, W10,600)
Wowprime (2727.TW, NT$425.0)
XL Axiata Tbk (EXCL.JK, Rp4,300, OUTPERFORM, TP Rp7,500)

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Outperform/Buy*	42%	(54% banking clients)
Neutral/Hold*	41%	(49% banking clients)
Underperform/Sell*	15%	(40% banking clients)
Restricted	3%	

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Companies Mentioned *(Price as of 28-Aug-2013)*

China XD (601179.SS, Rmb3.63, NEUTRAL, TP Rmb4.8)
Chongyi Zhangyuan Tungsten Co Ltd (002378.SZ, Rmb20.56, NEUTRAL[V], TP Rmb18.0)

Disclosure Appendix

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3-Year Price and Rating History for China XD (601179.SS)

601179.SS Date	Closing Price (Rmb)	Target Price (Rmb)	Rating
09-Dec-11	4.31	4.80	N *

** Asterisk signifies initiation or assumption of coverage.*

3-Year Price and Rating History for Chongyi Zhangyuan Tungsten Co Ltd (002378.SZ)

002378.SZ Date	Closing Price (Rmb)	Target Price (Rmb)	Rating
17-Jun-11	28.30	36.00	O *
25-Oct-11	25.68	33.00	
27-Feb-12	25.82	28.60	
10-Apr-12	29.83	29.10	N
21-Aug-12	28.02	19.40	U
01-Apr-13	20.33	15.90	
22-Jul-13	19.12	18.00	
27-Aug-13	20.40	18.00	N

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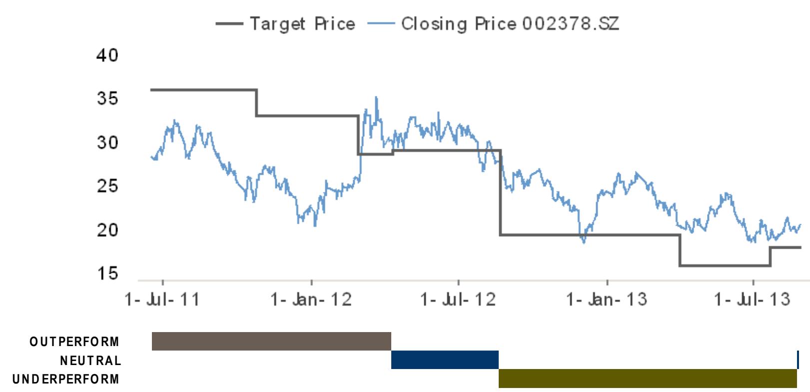

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Price Target: (12 months) for China XD (601179.SS)

Method: In setting our Rmb4.80 target price, we choose a combination of 1 SD below mean P/B and Gordon Growth Model (GGM) to evaluate China XD Co. Ltd (601179.SS) as we do not consider it reasonable to use price-to-earnings (P/E) ratio as the whole industry is going through a tough period with high earnings volatility.

Risk: The risks to our Rmb4.80 target price for China XD include: Higher-/lower-than-expected demand for all range of power transmission primary equipment.

Price Target: (12 months) for Chongyi Zhangyuan Tungsten Co Ltd (002378.SZ)

Method: We combined EV/EBITDA and P/E multiple valuation to get the target price of Rmb18. For P/E multiples, we assume the peer's average P/E multiple as the trading P/E multiple of ZYT. For EV/EBITDA valuation, we assume 18.8x 2014E EV/EBITDA as the reasonable EV/EBITDA. Our target price for ZYT arrived at Rmb18, implying 40x 2014E P/E.

Risk: Primary risks to our target price of Rmb18 for ZYT include: (1) demand weaker (or stronger) than our expectation; (2) lower(or higher)-than-expected sales volume; and (3) higher(or lower)-than-expected cost increase.

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