Bits & pieces

Interesting bits and pieces that I've seen this week at CLSA – 5 February 2010

- **Golden Tiger. Welcome to the Year of the Golden Tiger. Our *Feng Shui Index* for 2010 is now out. Looking at what is in store for each month the message is yet again one of volatility – almost half the months are forecast to be bumpy. What is in store for you this year and where should you be placing your rocks, plants and mirrors? Grab a copy of the report and find out. Laurence Balanco meanwhile continues to believe the next few weeks will go a long way to determining what will happen over the remainder of the year. Last nights action hints that it may not all be fun – it would seem that PIIGS can not fly.**

"FEBRUARY: Good month for the market ….. money will come from the southeast ….. MARCH: Bumpy month for the market; quite volatile ….. money will come from the east ….. take note of the vernal equinox". CLSA Feng Shui Index on the next two months for markets. Vernal equinox?

"It appears as though Europe is trying to deal with this internally. I've been saying all week that this is a make or break situation. If the Eurozone can successfully impose the harsh restrictions on the Greek government that are necessary to fast track its fiscal situation to health the Euro will benefit. If it fails market faith in the Euro will be permanently dented (as important support in Northern Europe's electorate will be weakened). Greece is suffering a series of general strikes in opposition so it ain't gonna be easy for governments that have a poor record of resisting public pressure. Watch this space." Economist Eric Fishwick

- **What works in Asia. The Microstrategy team of Desh and Mahesh have been running their evaluator database hard in search of bottom-up opportunities. Their new report looks at what measures have proven to be the best predictors of future performance in Asia and which stocks fall into that category now. There's plenty of interesting data in here. Grab a copy.**

"Our backtests show that 12-month forward PER works best for the Asia ex-Japan region overall ….. we first identify the top picks and least preferred stocks based on their valuation rank in their own sectors ….. In the second stage ….. we apply a fundamental rank to each of these top and bottom picks (looks at EPS, Sales revisions and operating leverage) with our final picks based on the combined ranking of the valuation and fundamental rankings ". Microstrategist, Desh Peramunetilleke

- **Everything you need to know about nuclear power in 260-pages. A fantastic new report from Rajesh Panjwani and the Power team provides you with pretty much all you need to know about nuclear power, the future of the industry and Asia's major players. A great reference piece with a long shelf/half-life (get it?).**

"Nuclear power is greener, cheaper and safer than most people think and can generate electricity whenever and wherever it is needed. We expect a fivefold increase in capacity additions till 2020 to around 15GW per annum, going up to 25-30GW by 2030. The number of approved component suppliers has shrunk by 60% from the peak and those remaining will benefit. Rising share of nuclear revenues and higher margins on these should continue to drive outperformance of players in the nuclear power supply chain." Head of Power research, Rajesh Panjwani

- ***Plus***
- **The world in 2050**
- **Global trade and the fault lines that may erupt**
- **China crisis?**
- **Aussie property bubble?**
- **Hong Kong landlords – set to benefit from a supply squeeze**
- **Esprit's 6 new initiatives and how it stacks up against Li & Fung**
- **Asian Airlines – who wins in the face off? Plus a new report on Qantas**
- **Toyota stories + a Japanese auto stock comparison + new Nissan report**
- **Asian banks over the long haul**
- **The last word – How fights start**

Damian Kestel
CLSA Regional Sales (Singapore)
Ph: (65) 6416 7808 or toll free from HK on 800 969 892
Mob: (65) 9199 9231

Golden Tiger

WELCOME TO THE YEAR OF THE

GO GET 'EM TIG(6)ER

Asia - *CLSA FENG SHUI INDEX 2010*

Get your fangs into this

Pause or claws? What the Year of the Golden Tiger has in store.

Francis Cheung (852) 26008548 francis cheung@clsa.com

Vonnie Chan (852) 26008812 vonnie.chan@clsa.com

THAT'S A PROMISE? REWARDS?

The lunar new year celebrations may not begin for another 10 days, but the Golden Tiger officially takes charge today, and our *CLSA Feng Shui Index* is back to help guide you through what promises to be a volatile but ultimately rewarding, 12 months. Our tongue-in-cheek report features a month-by-month guide to the markets, forecasts for famous faces, an all-new property hot list, tips to ensure loads of luck and money head your way, and much more. *Kung hei fat choi!* And may the Hang Seng roar.

HERE HOW THE FENG SHUI MASTER SEES IT ALL UNFOLDING (AT LEAST FOR THE HSI) - BUMPY TO START THEM UP + UP.

Good month for the market

Money will come from the southwest

Bumpy month for the market; quite volatile

Money will come from the east

Take note of the vernal equinox

Another bumpy one for the market

Money will come from the southeast

Take note of the inauspicious day

More settled, but still a bumpy time for the market

Money will come from the centre

Take note of the inauspicious days

Great month for the market, despite volatility

Money will come from northwest

Note the partial lunar eclipse

Also note the summer solstice auspicious day

Good month for the market

Money will come from the west

Take note of the total solar eclipse

Back to bumpy for the market

Money will come from northeast

Good month for the market, but volatile

Money will come from the south

Take note of the autumnal equinox

Great month for the market, despite volatility

Money will come from the north

Good month for the market overall

Money will come from the southwest

Take note of the auspicious day

Good month for the market, despite volatility

Money will come from the east

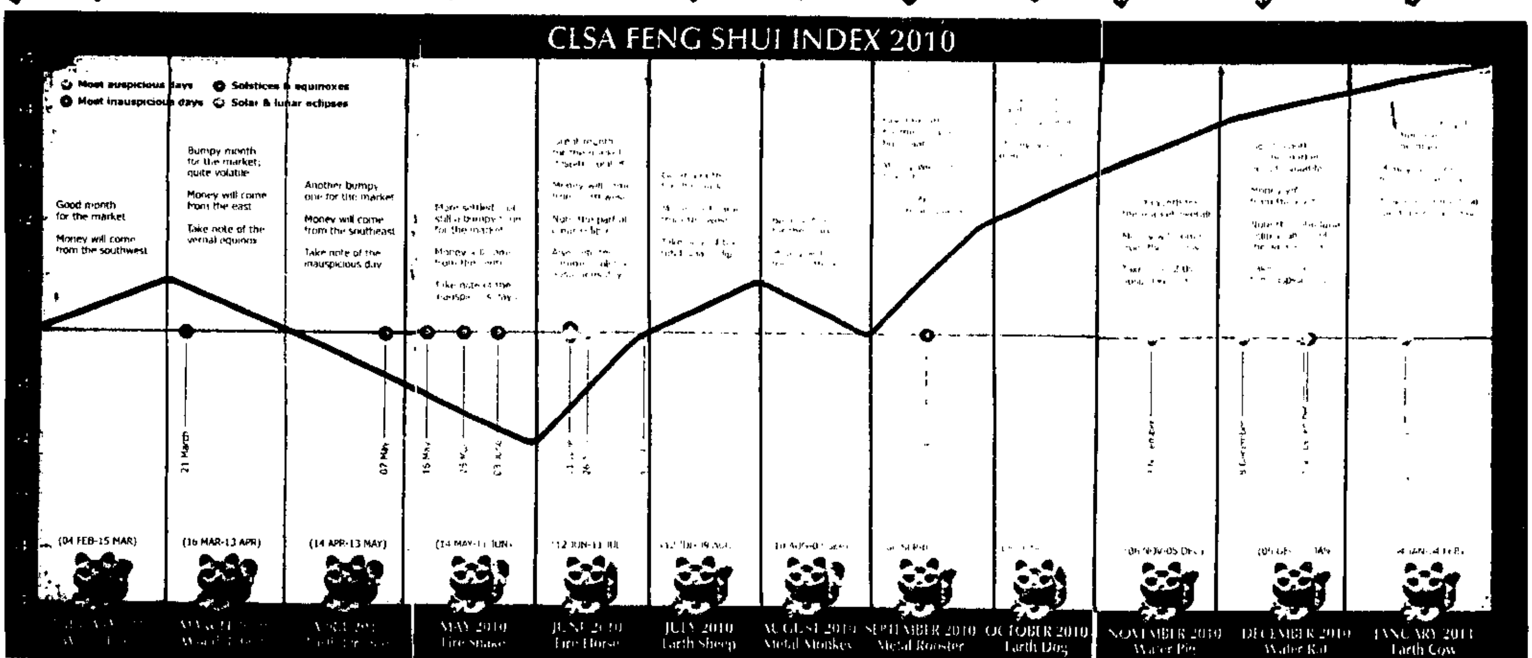
Note the total lunar eclipse ahead of the winter solstice

Take note also of the auspicious day

Year ends with yet another good month for the market

Money will come from the southeast

Take note of the final most auspicious day



FEB 2010 | MAR 2010 | APR 2010 | MAY 2010 | JUNE 2010 | JUL 2010 | AUG 2010 | SEPT 2010 | OCT 2010 | NOV 2010 | DEC 2010 | JAN 2011

THIS 3Q ACTION SOUNDS DIFFERENT TO THE TECHNICALS

Global - TECHNICALS

Going down?

Next few weeks will give a window on the next few months.

END OF THE STORY?

***Laurence Balanco** (852) 26008576 laurence.balanco@clsa.com*

The global selloff in late January saw several markets post weekly reversal patterns. A key reversal is typically a warning sign that a trend reversal is imminent. Yet, market trends develop in a stair-step fashion, and as such, the next event should be a short-term bottom. From this low we should expect a corrective bounce that only retraces part of the recent decline before turning down again. Such action would set up a far more convincing trend-reversal signal. Price action over the next few weeks should give a clear indication of what to expect over the next several months.

— SEE BELOW

Bearish price/momentum divergence. Korea, Taiwan, India, Singapore, Indonesia, the Philippines and Australia all formed bearish price-momentum divergence in early January on a weekly time frame. This commonality increases the odds that a turn in trend is unfolding. As such, the decline from the early-January peak is seen as the first phase of an ongoing period of volatile price action that will see investors whipsawed back and forth in the coming month and should result in a panic selloff, probably in 3Q, that could see the regional benchmark, represented by the MSCI Asia ex-Japan, trade as low as 366-410.

It's all in the rebound. If the rebound appears choppy (an up-down-up pattern), then we are dealing with one of two scenarios: a deeper retracement of the advance off the March 2009 low, or the resumption of the secular bear market. On the other hand, if the rebound is dynamic then it is highly likely that the broader uptrend has resumed. Price action over the next few weeks should give a clear indication of what to expect over the next several months.

.... SO YOU'RE EITHER FINE OR YOUR DYING. WE SHOULD HAVE THE TEST RESULTS BACK IN A COUPLE OF WEEKS.

Key support at 1,070-1,080. The US equity market still has the strongest influence on the direction of global markets and sentiment. The key support level we are monitoring for the S&P500 is found at 1,070-1,080. A break below 1,070 would be dangerously bearish, as it would suggest that we are dealing with two possible scenarios: a deeper retracement of the 665-1,150 advance, or the resumption of the secular bear market (a move below 957 would add credibility to this scenario).

GEE WHIZ WE'VE BEEN FLIRTING WITH THIS.

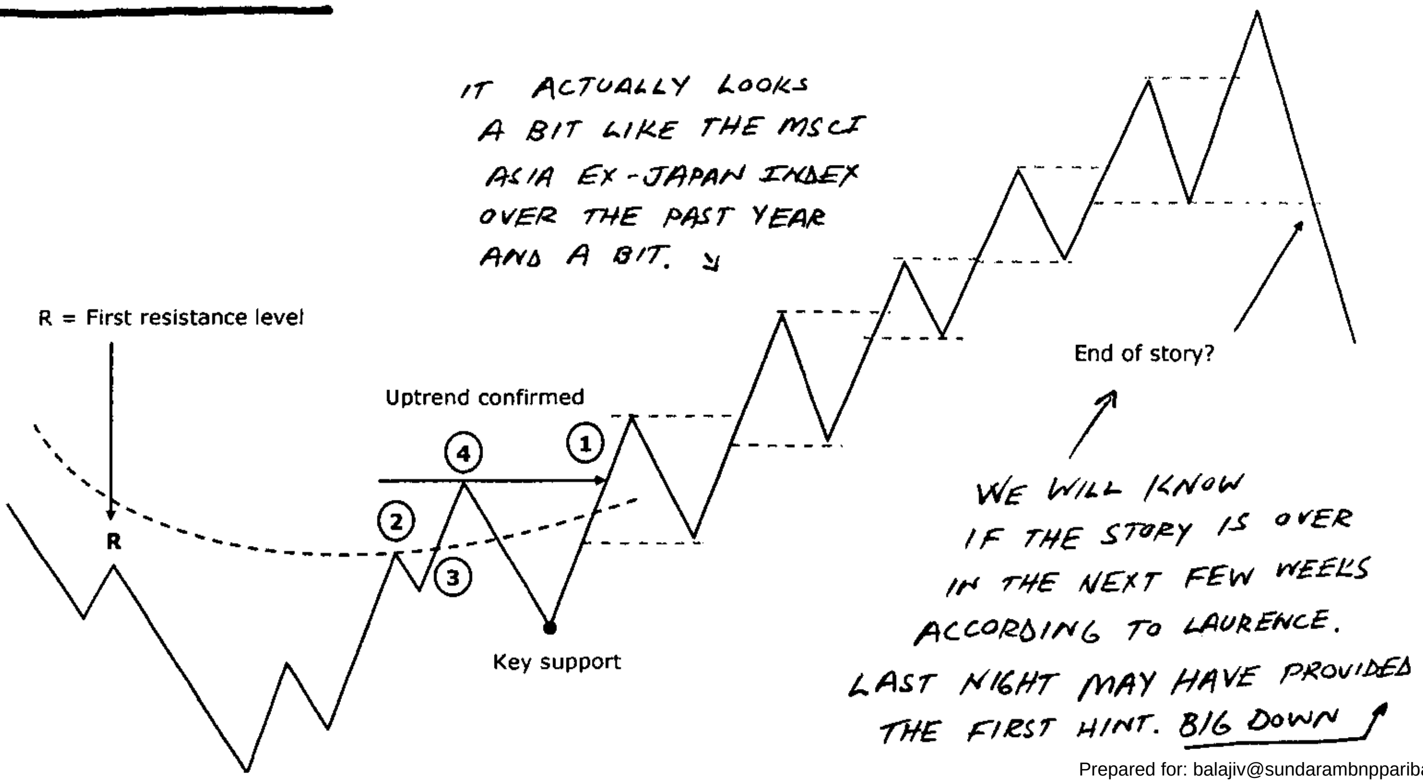
What is the trend?

A trend represents a consistent change in prices

Our primary task as a technical analyst is the study of trends. A trend represents a consistent change in prices (and investors' expectations). Trends differ from support and resistance levels in that trends represent changes, whereas support and resistance levels represent barriers to change. A rising trend is defined by a series of higher highs and higher lows. A falling trend is defined by a series of lower highs and lower lows.

Unfolding stories form steps

IT ACTUALLY LOOKS A BIT LIKE THE MSCI ASIA EX-JAPAN INDEX OVER THE PAST YEAR AND A BIT.



WE WILL KNOW IF THE STORY IS OVER IN THE NEXT FEW WEEKS ACCORDING TO LAURENCE. LAST NIGHT MAY HAVE PROVIDED THE FIRST HINT. BIG DOWN

From: Eric Fishwick, CLSA
Sent: Friday, February 05, 2010 6:51 AM

PIIGS CAN'T FLY - JITTERS EVERYWHERE.

BIGGEST IN 3 MONTHS

SPX down large Dollar up large. Econs data not helpful but widening of sovereign credit spreads more likely factor. Bonds up as safe haven plays.

SEE

Sovereign debt concerns step up a notch. CDS spreads on the PIIGS widened sharply (type SOVR <Go> for a funky BBerg monitoring page). Greece of course was the running sore but while its CDS spread has been widening steadily for weeks what was interesting yesterday was the jump in spreads for the PIIS economies. Contagion suddenly seems the order of the day. Reason (in as much as there was a single reason) Portugal cut a 12mth bill issue from EUR300mn from 500mn – raises concerns about ability to roll these liabilities over. CDS spreads for France and Germany widened also – could be just contagion or is the market really speculating that the cost of helping the periphery might be more than the core Eurozone countries can stand.

MAKE OR BREAK FOR EUROZONE

It appears as though Europe is trying to deal with this internally. I've been saying all week that this is a make or break situation. If the Eurozone can successfully impose the harsh restrictions on the Greek government that are necessary to fast track its fiscal situation to health the euro will benefit. If it fails market faith in the Euro will be permanently dented (as important support in Northern Europe's electorate will be weakened). Greece is suffering a series of general strikes in opposition so it ain't gonna be easy for governments that have a poor record of resisting public pressure. Watch this space.

MR WOOD CONCURS

GREED & FEAR

Meanwhile, in Euroland the European Commission seems anxious to impose its own conditions on Greece for a return to fiscal health rather than ask the IMF to do it. If this approach works it will clearly increase the credibility of the Euro and indeed of the Euroland area in general. Still this is a big if because if such an approach does not work then the credibility is shattered. While it might be understandable why the European Commission wants to keep the problem within the family, it is also the case that the IMF might have provided it with a more convenient way out.

Figure 4
Five-year CDS spreads on Greek and PIIGS government debt

DING DING FOR PIIGS

IN THE ULTRA-LONG RUN

Note: PIIGS = Portugal, Italy, Ireland, Greece, Spain. Source: Datastream

A potential flashpoint for investors to keep in mind, and Euroland is a more likely negative macro catalyst for markets this year than anything that might occur in the US, is a general strike in Greece which has been called for 24 February. The other point of course is the massive deflationary pressures implied by the fiscal austerity being imposed on the likes of not just Greece but also Spain, Portugal and France assuming that the proposed fiscal austerity plans now being discussed are actually implemented by the relevant national governments. Thus, Greece plans to cut the budget deficit from 12.7% of GDP last year to below 3% in 2012. While Spain projects its fiscal deficit to fall from 9.8% of GDP in 2010 to 5.3% in 2012.

THE WORLD IN 2050

A FEW PAGES FROM A NOT SO OLD PWC NOTE THAT I WAS SENT LAST WEEK.

The World in 2050: Beyond the BRICs – a broader look at emerging market growth prospects

Summary

E7 V G7 → NOW E20 V G10

In March 2006 we published a report highlighting the rapid growth and increasing global significance of what we called the 'E7' emerging economies: the 'BRIC' economies of China, India, Brazil and Russia, plus Mexico, Indonesia and Turkey. In this article, we update our economic growth projections to take into account the latest available data and extend the analysis to include 13 other emerging economies. Together with the 17 largest economies considered in our earlier report, this new 'PwC 30' grouping of countries account for around 85% of world economic output.

= 85% OF WORLD ECONOMIC OUTPUT

WOW In our updated base case projections, the E7 emerging economies will by 2050 be around 50% larger than the current G7 (US, Japan, Germany, UK, France, Italy and Canada). China is expected to overtake the US as the largest economy in around 2025 in these updated projections, while India is now assessed as having the potential nearly to catch up with the US by 2050 (see Table A below). We are now even more optimistic than in our original 2006 report about these two economies given their recent very strong performance.

Table A: Projected relative size of economies in 2007 and 2050 (US = 100)

RELATIVE TO U.S.

Country (indices with US = 100)	GDP at market exchange rates in US $ terms		GDP in PPP terms	
	2007	2050	2007	2050
US	100	100	100	100
D'OH Japan	32 →	19	28	19
YEE HAA China	23 →	129	51	129
Germany	22	14	20	14
UK	18	14	15	14
France	17	14	15	14
Italy	14	10	13	10
Canada	10	9	10	9
Spain	9	9	10	9
Brazil	8 →	26	15	26
Russia	8	17	17	17
ON FIRE India	7 →	88	22	88
Korea	7	8	9	8
Mexico	7	17	10	17
LAZY Australia	6	6	5	6
Turkey	3	10	5	10
MULTI-BAGGER Indonesia	3	17	7	17

Source: PricewaterhouseCoopers estimates (using UN population projections)

WITHIN THE EMERGING SEVEN (E7)

2050? THAT'S 40 YEARS AWAY - ADD 40 YEARS TO YOUR AGE AND..... THINK ABOUT WHAT YOU WISHED YOU'D DONE NOW IN 40 YEARS TIME. ANYWAY, I DIGRESS. CHANGING OF THE GUARD

There are, however, likely to be notable shifts in relative growth rates within the E7, driven by divergent demographic trends. In particular, both China and Russia are expected to experience significant declines in their working age populations between 2005 and 2050. This is in contrast to relatively younger countries such as India, Indonesia, Brazil, Turkey and Mexico, whose working age populations should on average show positive growth over this period, although they too will have begun to see the effects of ageing by the middle of the century.

PREVIOUS PAGE

Our base case projections (see Table A above) also suggest that:

FACTS (OK FORECASTS) TO IMPRESS YOUR FRIENDS + COLLEAGUES WITH

- the Brazilian economy could be larger than the Japanese economy by 2050;
- the Russian, Mexican and Indonesian economies could be larger than the German, French or UK economies by 2050; and
- the Turkish economy could be of similar size to the Italian economy by 2050.

The 13 new emerging economies considered in this report also have the potential to grow significantly faster than the established OECD economies (see Table B below).

THE KEY WORD

Table B: Projected real growth rates for expanded group of emerging market economies: 2007-50 (%pa)

X=ASIAN

	Country	GDP in US $ terms	GDP in domestic currency or at PPPs	Population	GDP per capita at PPPs
x	Vietnam	9.8	6.8	0.8	6.0
x	**India**	**8.5**	**5.8**	**0.8**	**5.0**
	Nigeria	8.0	6.1	1.6	4.4
x	Philippines	7.2	5.2	1.1	4.1
	Egypt	7.1	5.1	1.1	3.9
x	Bangladesh	7.0	5.1	1.1	3.9
x	**China**	**6.8**	**4.7**	**0.1**	**4.6**
x	**Indonesia**	**6.7**	**4.5**	**0.6**	**3.9**
x	Pakistan	6.4	4.9	1.4	3.5
	E7 average	**6.4**	**4.5**	**0.5**	**4.0**
x	Malaysia	5.8	4.3	1.0	3.3
x	Thailand	5.7	3.6	0.1	3.5
	Iran	5.2	3.8	0.8	3.0
	Brazil	**5.2**	**3.8**	**0.7**	**3.1**
	Turkey	**5.1**	**4.1**	**0.7**	**3.4**
	Argentina	4.9	3.7	0.6	3.0
	South Africa	4.8	3.7	0.3	3.3
	Saudi Arabia	4.8	4.1	1.4	2.7
	Mexico	**4.7**	**3.7**	**0.5**	**3.2**
	Russia	**4.3**	**2.5**	**-0.6**	**3.2**
	Poland	3.4	2.1	-0.5	2.7
→	**G7 average**	**2.0**	**2.2**	**0.3**	**1.9**

PAST THEIR PRIME

Sources: PricewaterhouseCoopers GDP growth estimates (rounded to nearest 0.1%), population growth projections from the UN. E7 and G7 averages shown in bold.

DEMOGRAPHIC DRIVERS

I'M NOT SURPRISED → YOU?

As would be expected, the emerging economies are generally expected to grow significantly faster than the established OECD economies (excluding newer members such as Turkey, Mexico and South Korea, which have greater growth potential). What might surprise some readers is that India, rather than China, tops our growth league table. This reflects the following factors:

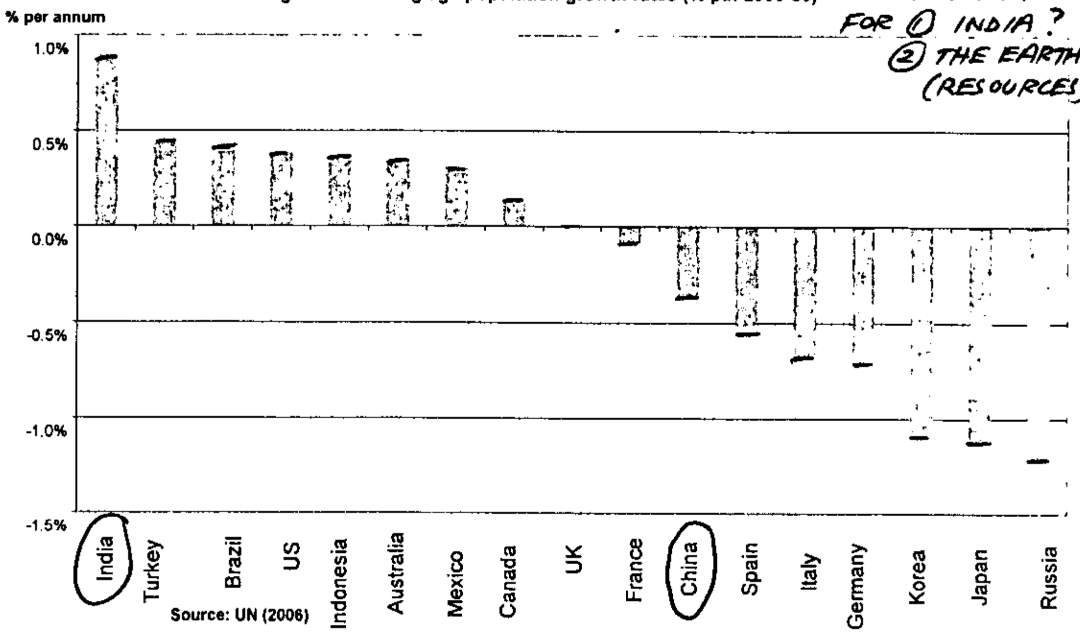
CHINA'S ONE CHILD POLICY ECHO ✓ INDIA'S UNRESTRICTED POLICY.

(1)

- significantly slower labour force growth in China due in particular to the effects of its one child policy; this will lead to a rapid ageing of the Chinese population over the next 45 years and a projected decline in its working age population, while India's working age population is projected by the UN to continue to grow at a healthy rate (see Figure 2 below);

HEALTHY? YES FAST BUT HEALTHY FOR (1) INDIA? (2) THE EARTH? (RESOURCES)

Figure 2: Working age population growth rates (% pa: 2006-50)



Source: UN (2006)

(2)

MORE UPSIDE FOR INDIA

- the fact that average productivity and education levels across the population are currently lower in India than in China, giving the former greater scope to catch up with the OECD countries in the long run, provided that India can maintain the right kind of institutional policy framework to support economic growth (and also gradually overcome cultural barriers to female education in rural areas of India in particular); and
- China's growth to date has been driven by very high savings and capital investment rates, but experience with Japan and other earlier 'Asian tigers' suggests that such investment-driven growth eventually runs into diminishing returns once income levels approach OECD levels; as China ages, it is also likely that its savings rate will drop as assets are 'cashed in' to pay for the retirement of its ageing population, though we still assume its saving and investment rates remain somewhat above the OECD average in the long run.

CHINA SLOWDOWN? NEVER .... BUT ONE DAY IT HAS TO HAPPEN.

Some of these countries, such as Vietnam, appear to have immediate potential as inward investment locations for manufacturing in particular. Others, such as Nigeria, may appear to be high risk propositions now, but have considerable long-term potential if they can achieve and sustain a greater degree of political stability and economic openness in the longer term.

IF YOU PUT YOUR BINOCULARS ON ANYTHING IS POSSIBLE. → BEYOND THE BRICS.

The general message is that investors with long-time horizons should look beyond the BRICs – there are many other alternatives worth considering depending on the nature of the investment and the risk tolerance of the investor.

✓ AND THE OECD?

HOW MUCH $ IN 2050 V NOW

Table 3: Projected relative income per capita levels in 2007 and 2050

Average income (in 000s of constant 2006 $)	GDP per capita at market exchange rates		GDP per capita in PPP terms	
	2007	2050	2007	2050
US	44.4	93.3	44.4	93.3
Canada	39.2	83.3	39.2	83.3
UK	39.2	77.5	33.6	77.5
Australia	38.1	79.2	35.9	79.2
Germany	35.9	72.1	32.4	72.1
Japan	34.4	70.5	29.3	70.5
France	32.3	78.3	37.0	78.3
Italy	29.6	70.0	32.1	70.0
Spain	28.7	72.4	30.1	72.4
Korea	19.3	72.3	25.0	72.3
Mexico	8.3	48.0	12.6	48.0
Russia	7.5	58.3	16.2	60.5
Brazil	5.8	39.0	10.4	39.0
Turkey	5.7	36.3	8.7	36.3
China	2.3	34.5	5.2	34.5
Indonesia	1.7	20.9	4.1	20.9
India	0.9	19.9	2.5	19.9

YAY

MASSIVE UPLIFT. A SHIFT OF WEALTH

WHAT HAPPENS TO THE OECD? 10 YEAR VIEW

Potential winners and losers within the established OECD economies

While the general principle of comparative advantage is clear enough, predicting winners and losers at the sectoral level is notoriously difficult. Certainly it is not sensible to try to do this over the 45 year horizon of our growth model, which as mentioned above is a single good model that does not allow for sectoral disaggregation. Nonetheless, if we adopt a shorter time horizon of, say, ten years, then (as summarised in Table 6) some educated guesses can be made as to the key winners and losers for businesses within the established OECD economies if the emerging economies develop broadly as envisaged in our base case projections over this period.

Table 6: Potential winners and losers amongst businesses within the OECD economies over next 10 years

Potential winners	Potential losers
• Retailers (who succeed in penetrating major emerging markets) WHERE'S WAL-MART? • Leading global brand owners ✓ • Business services • Media companies • Niche high value added manufacturers ✓ • Health care and education providers MAYBE - HA • Financial services companies able to penetrate E7 markets • Energy and utilities companies I DON'T AGREE	• Mass market manufacturers (both low tech and hi tech) SHOULD BE DEAD ALREADY • Heavy users of energy and other commodities as inputs - UM, THE US? • Financial services companies not able to penetrate E7 markets who may become vulnerable in their home markets • Companies that over-commit to key emerging markets without the right local partners and business strategies SAME, SAME.

POTENTIAL PROTECTIONISM MAY SHAPE THE MORE IMMEDIATE LANDSCAPE

CLSA
ASIA-PACIFIC MARKETS

Global trade + PROTECTIONISM POTENTIAL

Special report

(*) FULL NOTE (PDF) AVAILABLE

Fault lines

Amar Gill, CFA
amar.gill@clsa.com
(65) 65122337

Saurabh Chugh
(65) 65122335

The threat of protectionism

The Democrats' loss of the Massachusetts Senate seat is a wakeup call for President Obama: he needs to regain support ahead of mid-term elections in November. Banks were the first target. Going forward, to be perceived as dealing with sticky unemployment, protectionism targeted at China becomes increasingly likely, given that the renminbi policy is seen to undermine US jobs. The threat of protectionism will lead to caution on exporters and shipping-related stocks. Over the medium term, expect Asian domestic plays to outperform exporters.

Pressured president

While the [mercantilist] strategy is still working for China, it is exacerbating economic weakness around the globe. If China keeps it up, other countries are likely to use their last available weapon - protectionism - to stop the onslaught of artificially cheap Chinese goods. A trade war is easy to start and hard to contain. It could hit everybody's exports, disrupting growth everywhere.

Paul Krugman, 12 January 2010.

[Free-trade theorists] use the term "protectionist" to describe any common-sense effort to deal with Chinese market-distorting policies: forced technology transfer, intellectual property theft, lavish government subsidies, value-added-tax rebates, tax holiday, dumping and so on, in addition to currency manipulation. ... Trade theory encompassing reality and new responses to China are urgently needed.

Kevin L. Kearns, President, US Business and Industrial Council,
TALKING HIS OWN BOOK 14 January 2010.

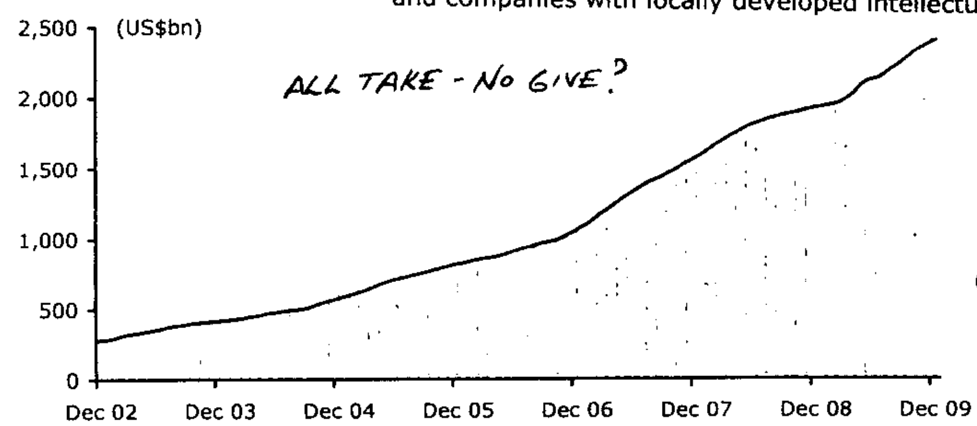
UNEMPLOYMENT IS THE NOOSE THEY HAVE TO SLIP THEIR NECKS FROM

A key issue the Democrats will face over the coming months is the perception that policies are not helping most ordinary Americans. Unemployment is hovering at 10%. Estimates are that it is closer to a ratio of one in seven, if we take into account those who have dropped out of the labour force looking for a job, as well as those who are under-employed. If the US economy sees only a weak recovery this year, addressing the major concern of most people - jobs - will move higher up on the Democrats' agenda. Inevitably, this will raise the prospect of protectionism.

YET AMERICAN BUSINESS BENEFITS IMMENSELY FROM THE LOW COST GOODS CHINA PRODUCES.

The view expressed by left-leaning economists such as Krugman is that the undervalued renminbi gives China an unfair advantage in global trade and needs to be compensated for by protectionist measures in the USA. The president of the US Business and Industrial Council, Kevin Kearns, has written that a new response to China is urgently needed to protect American businesses. In January 2010, the American Chamber of Commerce together with other business groups called for a strong response from their government to China's "indigenous innovation" programme by which government procurement for sectors including computers, software, telecommunications and green technology would favour national champions and companies with locally developed intellectual property.

(*) **China's foreign reserves**



(IF) THE U.S DID GO ULTRA PROTECTIONIST WOULD THAT NOT EQUATE TO A BIG JUMP IN INFLATION (NO CHEAPER CHINA PRODUCTS). WOULD THEY WANT THAT? I'VE MIXED THOUGHTS

State of Union speech was pro-trade; USA would make sure trading partners play by the rules

IS CHINA "PROTECTIONIST"?

President Obama's recent State of Union speech was overtly pro-trade, announcing a National Export Initiative aiming to double exports over the next five years. However, he emphasised that the top priority for this year was jobs and warned that realising the benefits of trade "means enforcing those agreements so our trading partners play by the rules." China's currency policy is not contrary to the rules of the WTO or IMF but clearly many see it giving China's exporters an unfair advantage. Meanwhile, China's rules favouring national champions and companies with indigenous intellectual property for the IT sector could be construed as protectionism by Beijing.

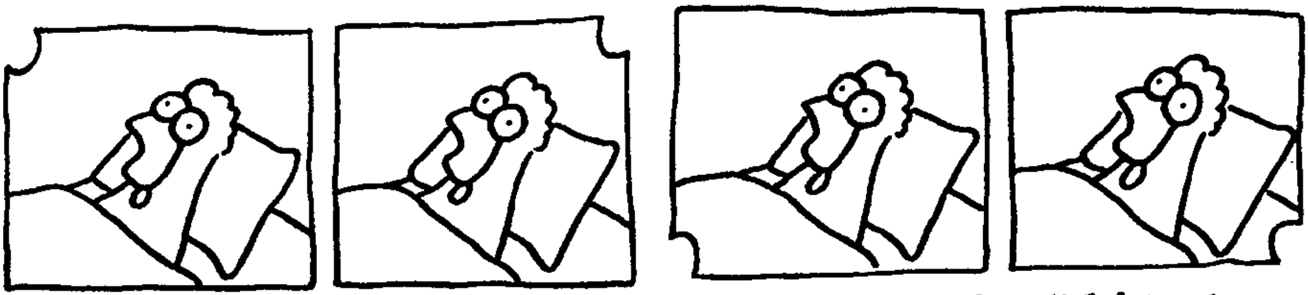
Beijing has threatened sanctions against US corporates involved in the arms sale to Taiwan

In recent days, Beijing has threatened sanctions against US corporates involved in the US$6.4bn arms sale to Taiwan. Similar posturing in the past by Beijing has had limited impact. But at a time when unemployment is high in the USA and crucial elections loom, trade sanctions by Beijing would make it difficult for US policymakers to resist similar calls from their own business groups.

Note that Euroland's average unemployment rate is similar to the US at 10% with Spain at 19% unemployment. The euro has earlier borne the greater brunt of appreciation against the US dollar given the fixed renminbi/dollar rate. If the USA resorts to trade measures against China, it is most likely that Europe will follow.

UNDERSTANDING ON BOTH SIDES REQUIRED

Michael Pettis, a finance professor at Peking University, has written that Beijing on one side and the US and Europe on another have misunderstood or underestimated the other's problems. It is politically unacceptable for trade-deficit countries in the developed West to accept high unemployment resulting from the leakage of demand to trade-surplus countries, he points out. However Washington and Brussels need to understand that China cannot rebalance demand quickly without causing massive disruptions to its own economy. 'If deficit countries demand structural change faster than surplus countries can manage, we will almost certainly finish with a nasty trade dispute that will slow the global recovery and poison relationships for years.'



SOMETIMES I LIE AWAKE ALL NIGHT WORRYING ABOUT INSOMNIA ..... AND PROTECTIONISM

Limited impact on China growth

Impact of sanctions not likely to be huge on China's growth rate

The impact of any trade measures by the USA may not have a huge impact on China's growth. Overall exports are 25% of China's GDP and net exports only 4% of its economy. However, these measures are likely to be negative in particular for the exporters as well as shipping and logistics companies.

Exporters to the USA

BUT IF IT DOES BREAK OUT, THEN WHAT? THERE WILL BE WINNERS + LOSERS

Our Microstrategy team has compiled from Bloomberg data the share of company revenue to the USA, as well as to Asia and the rest of the world. This is shown in Figure 7. Any new protectionist measures from the USA is likely to hit hardest on sectors that are directly targeted. An immediate area of risk is IT and related companies, given Beijing's directive for government procurement to favour local companies in these areas. Other companies exporting to the USA is likely to see an impact on their stocks if the concern widens to other sectors that could get targeted in a protectionist trend.

STOCKS

The initial concern will relate to mainland Chinese companies such as Techtronic, Li & Fung, Stella, Vtech, Yue Yuen and TPV Tech. Protectionism rearing its head will likely lead to exporters generally underperforming. CLSA presently has negative recommendations on HTC, Wistron, Tech Mahindra, Patni Computers, Mindtree, Hexaware Tech and Mastek.

STOCKS WITH 20% OR OF SALES TO THE U.S

FOR THE RECORD

Companies with 20% or more of sales to the USA

Company	Code	% of sales (past three years) USA	Asia	ROW
Compal Communication	8078 TT	89.3	3.9	6.8
Amtran Technology	2489 TT	84.3	12.6	3.1
Patni Computer Systems	PATNI IS	81.2	0.5	18.3
Hartalega Holdings	HART MK	75.1	10.4	14.5
Techtronic Industries	669 HK	74.4	0.0	25.6
Chartered Semi	CSM SP	70.8	20.4	8.8
Wistron NeWeb	6285 TT	69.8	22.8	7.4
Mphasis	MPHL IS	66.9	4.4	28.8
Hexaware Technologies	HEXW IS	66.8	1.8	31.4
Li & Fung	494 HK	66.2	0.0	33.8
Mindtree	MTCL IS	65.5	6.0	28.5
Supermax	SUCB MK	63.1	9.2	27.7
Infosys Technologies	INFO IS	62.9	1.4	35.7
Satyam Computer Services	SCS IS	62.9	8.4	28.8
Stella International	1836 HK	61.2	8.2	30.7
Inventec Appliances	3367 TT	61.1	11.3	27.7
Vtech Holdings	303 HK	57.4	3.7	38.9
Kpit Cummins Infosys	KPIT IB	57.4	0.0	42.6
Gemtek Technology	4906 TT	56.9	23.4	19.6
Neptune Orient Lines	NOL SP	55.9	21.9	22.2
HCL Technologies	HCLT IS	54.3	6.3	39.4
Divi's Laboratories	DIVI IS	50.3	7.9	41.7
Infotech Enterprises	INFTC IS	48.0	0.0	52.0
Quanta Computer	2382 TT	47.4	18.0	34.6
Wipro	WPRO IS	45.7	22.4	31.9
Indorama Polymers	IRP TB	44.7	14.8	40.5
Alpha Networks	3380 TT	42.0	29.3	28.7
HTC	2498 TT	41.8	12.7	45.5
Prime Electronics	6152 TT	41.8	16.7	41.6
CSE Global	CSE SP	40.2	30.0	29.8
Giant Manufacturing	9921 TT	39.6	21.3	39.0
Yue Yuen Industrial	551 HK	34.7	15.3	50.1
Wistron Corp	3231 TT	34.5	1.2	64.2
Yang Ming Marine	2609 TT	34.2	16.0	49.8
Dr Reddy's Lab	DRRD IS	33.1	18.0	48.9
Compal Electronics	2324 TT	32.3	22.4	45.3
Tata Tea	TT IS	29.9	27.5	42.6
TPV Technology	903 HK	28.9	26.0	45.1
Mastek	MAST IS	28.1	0.0	71.9
China Shipping	2866 HK	27.0	8.6	64.4
Tong Yang Industry	1319 TT	25.9	25.3	48.8
Cheng Shin Rubber	2105 TT	23.8	25.9	50.2
Tech Mahindra	TECHM IS	21.1	5.1	73.8
Acer	2353 TT	20.4	13.2	66.4

OBVIOUS LOSER?

Shippers and shipyards in the crossfire

Shipping companies will be indirectly impacted by measures designed to reduce trade. Even if the volume of trade does not fall dramatically with selective sanctions, the prospect of drawn-out measures would bring down growth expectations, especially if Europe also follows the protectionist track.

We have remained cautious on the medium-term outlook for the sector. The threat of protectionism will lead to pressure on shipping stocks as well as shipyards. We reiterate our negative ratings on China Cosco, Thoresen Thai, Precious Shipping as well as DSME, Hyundai Heavy, Samsung Heavy, Hanjin Heavy and Cosco Singapore among the shipyards.

CLEARLY IT WOULDN'T BE GOOD FOR TRADE ↳ THE STOCKS

Figure 9

Shipping stocks - Valuations and recommendations

CY10	Bloomberg	PE (x)	PB (x)	Ebit/EV (%)	Rec
China Cosco	1919 HK	n.m.	1.9	0.9	SELL
Ezra	EZRA SP	10.7	1.5	13.7	BUY
Kawasaki KK	9107 JP	37.8	0.6	1.4	BUY
MISC	MISF MK	15.0	1.4	7.4	BUY
Mitsui OSK Lines	9104 JP	11.4	1.0	7.7	O-PF
Nippon Yusen	9101 JP	34.9	0.8	3.9	O-PF
Pacific Basin	2343 HK	14.0	1.0	76.7	O-PF
Precious Shipping	PSL TB	8.5	1.1	12.8	U-PF
Thoresen Thai	TTA TB	8.8	0.7	16.1	SELL

I THINK THERE'D BE A FEW MORE SELLS + UNDER-PERFORMS IF A TRADE WAR DID ESCALATE.

Shipyards - Valuations and recommendations

CY10	Bloomberg	PE (x)	PB (x)	Ebit/EV (%)	Rec
Cosco Singapore	COS SP	31.7	2.3	9.7	SELL
DSME	042660 KS	5.3	1.1	17.8	SELL
Hanjin Heavy	097230 KS	10.0	0.4	8.5	SELL
Hyundai Heavy	009540 KS	5.4	1.2	19.2	U-PF
Hyundai Mipo	010620 KS	5.4	0.8	22.2	O-PF
Samsung Heavy	010140 KS	7.4	1.5	13.0	SELL
SembCorp Marine	SMM SP	10.4	3.4	15.7	BUY
Yangzijiang	YZJ SP	9.0	2.5	3.0	O-PF

Source: CLSA Asia-Pacific Markets

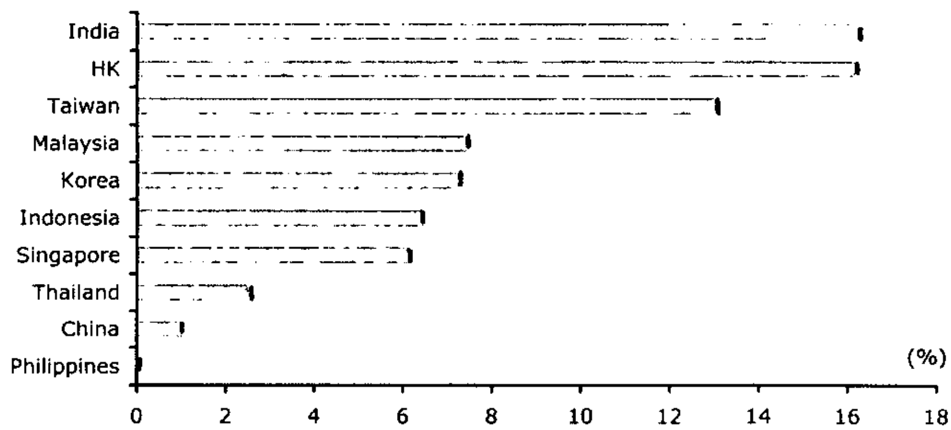
Any winners? – IN A ROUND ABOUT WAY, GOOD FOR ASIA?

Protectionism is a lose-lose proposition particularly if it leads to retaliatory measures. It will not raise the savings rates in deficit countries, but instead raises the prices their consumers will pay. For exporting countries, it reduces a key driver of economic growth with no direct offset.

INTRA-ASIA: IT COULD ACTUALLY BE A LONG-TERM "POSITIVE".

However, it is possible that trade barriers between China and the Western world might lead to a greater push for trade liberalisation within Asia to boost intra-regional trade in final products. Effective January 2010, Asean and China have a free-trade arrangement in place covering 90% of their trade. Asean has also signed free-trade agreements with Japan, Korea and India. Taiwan's current negotiations with China are likely to involve tariffs that the mainland imposes on imports from Taiwan. These intra-regional arrangements could get accelerated. However, the implementation of any new agreement will take a while, eg, the free-trade agreement between Asean and India will only come into full effect in six years.

Market cap of exporters relative to MSCI constituents



ECONOMIES MIGHT BE HIT BUT MARKETS ARE NOT A LEVER OF EXPORTERS (WHICH MAKES IT STRANGE THAT ASIA IS STILL HIGH BETA AND CAN'T DECOUPLE - NO?)

OR

The direct impact on markets may not be large, at least initially. Figure 11 shows the low weight of companies deemed to be exporters (ie, with over 70% of revenue from outside Asia) relative to the MSCI indices in these markets. The capitalisation of China's exporting SME sector is tiny compared with the bigger sectors such as banks, petrochemicals, telcos etc. However, the effect is likely to be more broadly felt in the markets if a protectionist trend is seen developing in the West that would have a larger second-order effect on medium-term growth in Asia.

GEOPOLITICAL DIARY
STRATFOR analysts on the key event of the day.

EVERY WEEK I SEE MULTIPLE CHINA BULL + CHINA BEAR THOUGHTS (BET YOU SEE MORE). HERE'S THIS WEEK'S BEAR

Wednesday, February 3, 2010

STRATFOR.COM Diary Archives

China's Unsustainable Economic Model

CHINA RELEASED THE BREAKDOWN of its economic growth statistics on Tuesday. Bottom line: falling exports weighed heavily on growth and nearly canceled out the GDP gains of domestic consumption. Investment — mostly in infrastructure and public services — comprised over 90 percent of growth.

These results capture the essence of everything STRATFOR has said about the Chinese economy over the past year. Like many countries affected by the recent economic crisis, China resorted to government stimulus to make up for the sudden loss in private demand. But unlike other states that use such measures in emergencies, China's growth has always been fueled by massive infusions of government funds and credit from a state-controlled banking system. The endless stream of loans nourishes the businesses that employ China's enormous population. Exports play an important role because they bring in new money to be redistributed by the banks as directed by the government.

BUT THEY ARE DOING - OK (ALBEIT WITH A HELPING HAND)

Of course, the redistribution process creates divisions between the haves and the have-nots, but such divisions can be elided when times are good. It is only when exports slump that it becomes evident that China's consumers are too poor to buy all the goods the country produces, and the weight of maintaining growth falls squarely upon the financial system. This setup is particularly problematic because a centrally controlled financial system that endlessly transfers wealth from efficient internationally-linked sectors to inefficient state sectors will eventually collapse under the weight of bad loans. > THIS IS THE ULTIMATE XXXX UP.

"Chinese leaders rarely have the coincidence of political and economic momentum necessary to launch major reforms more than once."

Chinese leaders are well aware that this economic model is unsustainable and have periodically pushed for major restructuring. The primary goal is to increase domestic consumption, shifting reliance off exports, and transitioning into a consumer-driven economic model that is more capable of steady and long-term growth, albeit at a slower pace. Prominent leaders are now calling for such reforms. Knowing that the stimulus cannot last forever, Beijing is attempting to find ways to slightly moderate lending, lower provincial growth targets and cool down the real estate sector while reinvesting government funds in rural areas to boost consumption.

ADDICTION TO CHEAP CREDIT - A NOUGHTIES PHENOMENON

THE TOUGH BIT

The problem is that the first steps are exceedingly painful, because they involve weaning state businesses from their addiction to cheap credit. A period of slower growth is the price for reforming an economy, and slower growth is exponentially more troublesome in a country with China's regional differences, wealth disparities and large population. Such reforms are also always obstructed by the inertia in the system then cut short before the finish, usually due to the onset of a new emergency. Chinese President Hu Jintao initiated restructuring reforms in the mid-2000s, but the financial crisis erupted in late 2008, forcing him back into the time-tried solution of credit expansion.

Chinese leaders rarely have the coincidence of political and economic momentum necessary to launch major reforms more than once. With the Communist Party preparing for a leadership transition in 2012, Hu does not have time for another major reform push. No leader in his final years in power wants to mar his legacy with dramatic changes that could destabilize the system.

WHAT WE WERE TALKING ABOUT

Moreover, China's primary export markets have not recovered to the point that China can securely phase out its stimulus programs. Exports only showed positive signs in December 2009, and it is not yet clear where they will go in the coming months. Demand in Europe remains weak due to its own economic woes. The United States is seeing economic life return, but a weak labor market has ensured that households continue to save rather than spend. The United States has also begun pressuring Beijing on a host of disagreements and is brandishing a big stick when it comes to trade protections. In other words, exports are Beijing's only short-term hope, and they are highly uncertain.

THE (SOMEWHAT) BULLS

TRADE WARS?

All of this leaves China with little option but to continue using the financial tools it has for as long as they will work, and recentralizing power where necessary to prevent instability. This may mean a China that is more sensitive to perceived external threats, and more reactive politically. It may also mean that foreigners will start thinking twice before doing business in China.

CLSA
ASIA-PACIFIC MARKETS

OUR CHINA FAB 4 - CONSIDER WHETHER IT IS A CRISIS OR NOT. BUT THE COMMON CHAT OF ALL IS WHAT HAPPENS TO INFLATION?

Andy Rothman
andy.rothman@clsa.com
(8621) 20205801

Eric Fishwick
(852) 26008033

Francis Cheung
(852) 26008548

Kevin Chan
(852) 26008277

3 February 2010

China
Strategy

China economy

Conference call transcript

Already the next crisis?

With investors wondering if recent market activity is a reasonable correction or a sign of the next crisis, we put the question to our panel: Does China's tightening justify the recent downward movement in its stocks and indices? Overwhelmingly, our panel appears comfortable with government activity, albeit at the cost of near-term volatility, seeing pre-emptive tightening as positive for sustainable GDP growth.

- **Andy Rothman - More worried about margins** THAN INFLATION AND NO PROPERTY WORRIES AT ALL
  - Andy expects moderate consumer-price inflation in China this year; rising at a much slower pace than the growth of income and GDP.
  - He is more worried about industrial input-price inflation putting pressure on margins than about CPI. Residential property prices are not even close to a bubble.
  - In the absence of overheating and asset-price bubbles, Beijing is likely to gradually accelerate incremental tightening that's been underway since last summer.
- **Eric Fishwick - A potential sweet spot in 2Q10**
  - It is unrealistic to expect markets to believe pre-emptive tightening works if headline inflation keeps on getting worse, as Eric's model suggests that it will.
  - How much tightening will be conducted? *Enough* to achieve the desired results, which are capping price inflation and slowing the pace of property price rises.
  - If Chinese growth can be extended rather than reversed by pre-emptive tightening, Eric would watch out for a potential sweet spot sometime around 2Q10.

BUT HOW MUCH IS ENOUGH? TOUCHY FEELY

Francis Cheung's picks:

Ctrip - BUY

Tencent - BUY

Parkson - O-PF

Francis's defensive plays are:

China Comm Const - O-PF

China Mobile - U-PF

PetroChina - BUY

- **Francis Cheung - Growth concerns** OVERCAPACITY ISSUES
  - With strong exports and consumption, the government needs to control fixed-asset investment; credit curbs aimed at smoothing out lending allow Beijing to do this.
  - Inflation concerns will remain, at least through 1Q, but the government is more worried about inflation expectations, which are linked to high property prices.
  - Francis remains cautious on the market until the first rate hike, likely in late 1Q or 2Q10 which could be an inflection point. A BAD ONE OR A GOOD ONE?
  - We are Underweight banks, property and resources, but Overweight consumers, exporters, transport and internet plays.
- **Kevin Chan - China banks to rerate in 2H10**
  - The regulator took tough action to smooth lending, albeit temporarily. Chinese banks have been borrowing heavily in Hong Kong, which has seen outflows.
  - Kevin maintains there will be more uncertainty in 1H10. Policy stance in China has been far from clear; key to watch is CPI and dividend policy.
  - A potential rerating of China banks in 2H10. Tightening is positive for HK banks.

At the end of last week, CLSA contacted 15 bankers across nine cities to find out what the regulator had told them.

Six of the banks said they had been ordered to freeze lending, including letters of credit, because they had exceeded their quota. All of them said they expected to resume lending in February.

Yesterday, 1 February, we checked back with those six banks, and all six said they had resumed lending, albeit under stricter supervision by the regulator.

There is no sign of new credit tightening, just enforcement of the credit quota set at the start of the year. The 15 bankers we spoke to say they expect outstanding loan growth to average 24% this year - - down from last year's average of 34% but well above the regulator's national lending target of about 19%.

Regards,

Andy Rothman

ON INFLATION

From: Francis Cheung, CLSA
Sent: Wednesday, February 03, 2010 8:36 AM
To: Broking Research and Investment Banking
Subject: Record high PMI + CPI>3%

HIP POCKET PAIN

With all the recent market concerns on inflation, Eric's AAA piece that China's PMI could go well above 60 in March and April will surely add to the concerns. A PMI of 60 is a record high for the index. — THAT WOULD BE SOMETHING.

The government may be able to see pass the headline number and understand the seasonality, but the PMI data will come out at a time where CPI will likely exceed 3% YoY which is a critical level in determining increasing rate. Our econ forecast is that CPI will exceed 3.5% YoY in March.

Inflation concerns will continue to be an overhang on the market. The National People's Congress will also be held in early March which adds a political dimension to the issue. High property price which has direct impact on inflation expectation will be a key topic.

china reality research
CLSA Asia-Pacific Markets

Inflation
Wet market update

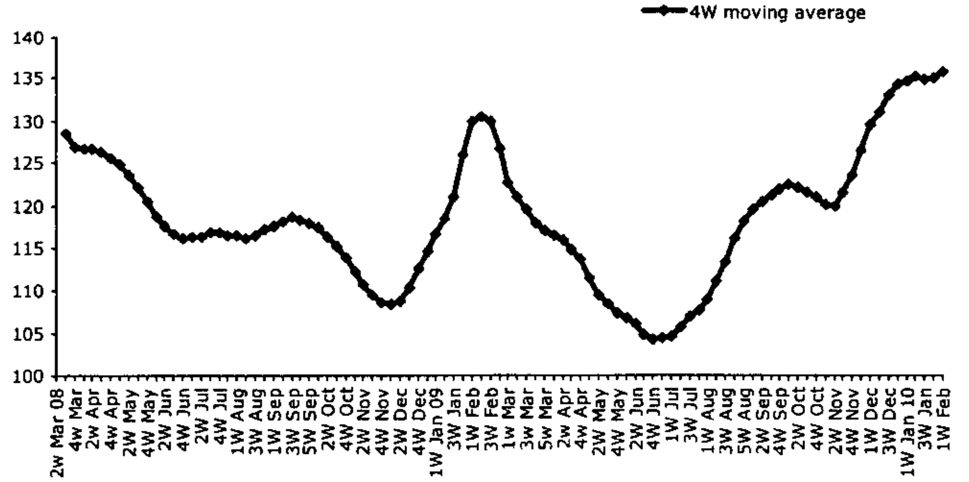
1 February 2010

David Murphy
david.murphy@clsa.com

CRR continues monitoring weekly retail prices of key food stuffs in 11 geographically-diverse cities.

CRR Food Price Index

- **The CRR Food Price Index – which tracks pork, rice, eggs, soybean oil and the five most commonly found vegetables on the Chinese family table – shows the four-week moving average up 0.5% WoW, 0.8% MoM and 4.4% YoY. (Note: MoM data is compared with the period ended four weeks earlier.)**



HIGHS

From: Wuddy Warsono, CLSA
Sent: Monday, February 01, 2010 12:24 PM
To: Wuddy Warsono, CLSA
Subject: CLSA INDO: JANUARY 2010 INFLATION DATA OUT: BIT HIGHER

AND IN INDO

- The January 2010 CPI numbers have just been released, and were actually a bit higher than expected.
- 0.84%MoM vs expectation of 0.63%;
- 3.72%YoY vs expectations of 3.51%.

AND INDIA

Inflation pressures clearly visible now

COST PUSH AND NOW DEMAND PULL INFLATION

- While the rapid rise in WPI inflation is attributable to a base effect and supply-led food inflation, the past few weeks have seen signals of demand-pull inflation too.
- Automakers are passing on higher input costs through price increases; truck freight rates, airline fares have been hardening. Fuel prices are in need of upward revision.
- RBI has raised end-FY10 WPI inflation estimate to 8.5%; sees 'structural' elements.
- The strong message on fiscal consolidation in the policy statement suggests that rates could be hiked mid-term if the Budget in end-Feb reflects a 'loose' policy.

BUT HERE IS THE PROBLEM ABOUT RAISING RATES (AT LEAST IN THE WEST → INDEBTEDNESS

DILEMMA: (1) RAISE RATES AND HURT DEBT HEAVY CONSUMERS ; (2) DON'T RAISE RATE = INFLATION + ASSET BUBBLES

CLSA
ASIA-PACIFIC MARKETS

Aus Banking Sector

Sector outlook

AUSTRALIA IS IN A VERY INTERESTING POSITION: HIGH DEBT BUT EMERGING MKT DRIVER (COMMODS)

Brian Johnson
brian.johnson@clsa.com
(612) 85714252

Ed Henning
(612) 85714257

Rates Stall + Banana Price

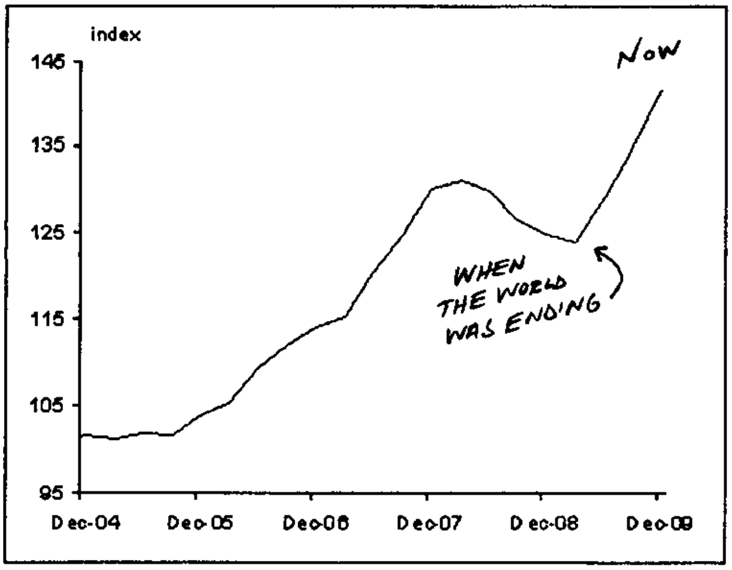
The surprise decision to keep the Official Cash Rate at 3.75% was attributed to the fact that Australian banks have already increased housing rates outside the moves in the cash rate. The "inner bear" in this analyst suggests that this shows some caution on the part of the central bank over the ability of overly-geared households, particularly mortgage borrowers, to withstand rising mortgage rates without seriously curtailing consumption. Nonetheless the commentary suggests that further rate rises are likely to contain inflation and that is likely only a temporary reprieve for mortgage borrowers.

From: Anthony Nafte, CLSA

The RBA has been concerned about rising residential property prices. Its fears will have intensified after the 4Q09 house price index release. → BUT AS BJ SAYS ABOVE, CONSUMERS ARE OVER INDEBTED

For the eight capital cities, the house price index was up 13.6% YoY from 6.6% in 3Q09. In QoQ terms, the 4Q09 index was up 5.2% compared to the 4.4% rise in 3Q09.

House price index (eight capital cities)



SO OVER THE PAST 5-YEARS AUSSIE HOME PRICES ARE UP ≈45%.

AND BEING TEMPTED INTO MORE?

From: Chris Lobello, CLSA

SOUNDS LIKE AMERICA CIRCA 2005/6

At the risk of leading the discussion with an anecdote, and with due apologies to my Sydnesysider friends for offering some thoughts on the back of a too-short visit, here is something that touches on the issue of housing affordability, inflation, and credit issues:

Watching local Sydney television one night I was shocked to see a commercial that started off something along the lines of 'Is your home worth more than the value of your loan? Then you have positive equity, and you can use that to work for you!...' They went on to suggest that anyone with equity in their home use it to leverage up on a rental property, which was particularly 'low risk' or something to that effect because of a 'guaranteed' rental income.

At first I thought this was from the Australian equivalent of Saturday Night Live. But no, it appeared again and seems to have been a legit ad.

So with all due respect to Australia's cornucopia of commodities, and the relatively sensible state of their banks (or so I'm told, but BJ is the unparalleled expert here) but I still have to say that commercials like that scare me even more than when I first saw them in the US a few years back.

MISH SAYS

AUSSIE PROPERTY BUBBLE? DAMMIT. BUT I THINK WILL BE LOCALISED

Pool of Greater Housing Fools in Australia Finally Runs Out; OZ Dollar, Where to From Here?

MIKE SHEDLOCK (MISH)

Posted: 02 Feb 2010 09:01 AM PST

Today the Reserve Bank of Australia (RBA) unexpectedly held interest rates at 3.75%. No doubt this was in fear of the Australia's enormous housing bubble that exceeds the height of the bubble that long ago burst in the US. 20 economists predicted the RBA would hike. Not a single one predicted anything else. DING DING

Just as happened in the United states with subprime borrowers, **Australia's first-home buyers struggle as interest rates rise**.

Almost half of first-home buyers lured into the market by the Rudd Government's $14,000 grant are struggling to meet their mortgage repayments and many are already in arrears on their loans.

DOUBLE DING DING

Thousands of young home buyers are using credit cards or other loans to meet obligations, while those in "severe stress" are missing payments.

Just weeks after the grant was withdrawn, a survey of more than 26,000 borrowers conducted by Fujitsu Consulting has found 45 per cent of first-home owners who entered the market during the past 18 months are experiencing "mortgage stress" or "severe mortgage stress".

SEEMED LIKE A GOOD IDEA AT THE TIME

IN JUST ONE YEAR

"The dream of home ownership has turned sour for many thousands of first-home buyers now that the reality of rising interest rates is kicking in," said Fujitsu Consulting managing director Martin North.

THE BET

When Do Bubbles Burst?

– NOT BEFORE YOU'VE WALKED 200 KM – READ ON

Bubbles burst when the pool of greater fools runs out, and not before.

That is exactly why **Economist Steve Keen lost housing bet against Rory Robertson.**

AN ECONOMIST known as the "Merchant of Gloom" will have to walk from Canberra to the top of Australia's highest mountain after losing a bet about the resiliency of Australian house prices.

Last November, University of Western Sydney associate professor of economics and finance Steve Keen made a high-profile bet with Macquarie Group interest rate strategist Rory Robertson.

The two parts of the bet were that house prices would tank by the end of 2009 and that house prices would fall 40 per cent from their all-time high within 15 years.

The loser of the bet would have to make the more than 200km trek from Canberra to the top of Mount Kosciuszko wearing a T-shirt that says "I was hopelessly wrong on house prices! Ask me how."

WHY WRONG

Why The Bet Went Wrong

Keen's mistake (miscalculation is a better word as I am positive he will ultimately be proven correct), was that he misjudged actions the Rudd administration might take to keep the bubble going. AND ROBERTSON? MAYBE HE KNEW WHAT INTERVENTION THE GOV'T WAS GOING TO STEP IN WITH. HOW CLOSE WERE MAQUARIE AND AUSSIE GOV'T IN THE DARK DAYS OF A YEAR AGO?

Bear in mind that once the trend changes, it changes for good, but until the trend does change, efforts to keep bubbles alive frequently produce blowoff tops.

I ACTUALLY DON'T

In Australia's case I finally sense a blowoff top in fools. The US suffered the same fate in 2005 when the cover of Time Magazine went "*gaga over real estate*" and people were camping out overnight and entering lotteries for the right to buy Florida condos. YOU REMEMBER THESE ARTICLES? THAT'S WHY I HATE QUEUES.

Demographia International Housing Survey

Inquiring minds are reviewing the results of the **6th Annual Demographia International Housing Affordability Survey**. Countries in the survey include Australia, Canada, Ireland, New Zealand, the United Kingdom, and the United States.

Least Affordable Cities

Table 5
Severely Unaffordable Housing Markets
Ranked by Severity of Housing Unaffordability

Rank	Nation	Metropolitan Market	Median Multiple
1	Canada	Vancouver	9.3
2	Australia	Sydney	9.1
3	Australia	Sunshine Coast	9.0
4	Australia	Gold Coast	8.6
5	United States	Honolulu, HI	8.2
6	United Kingdom	Bournemouth	8.1
7	Australia	Melbourne	8.0
8	Canada	Victoria	7.9
9	Australia	Wollongong	7.5
10	Australia	Adelaide	7.4
11	Australia	Newcastle	7.2
11	United States	Santa Cruz	7.2
13	Australia	Darwin	7.1
14	Australia	Mandurah	7.1
14	United Kingdom	London (GLA)	7.1
16	Australia	Bundaberg	7.0
16	United States	New York	7.0
16	United States	San Francisco, CA	7.0
19	Australia	Perth	6.9
20	Australia	Hobart	6.8

AUSSIE PROPERTY?

BEING A PERTHITE I CAN UNDERSTAND THIS GIVEN THE MINERAL WEALTH OF WESTERN AUSTRALIA. BUT ADELAIDE + HOBART ARE WORRIES.

HK LANDLORDS

CLSA
ASIA-PACIFIC MARKETS

Hong Kong landlords

Sector outlook

WONDER PROPERTY DUO

Susanna Leung
susanna.leung@clsa.com
(852) 26008597

Nicole Wong
(852) 26008207

COMPARE THIS TO 12 MONTHS AGO - LIKE CHALK AND CHEESE.

Get set, go

The Central office market is set to run further with the banking and financial sector being the most optimistic in hiring. At a digestible vacancy level and virtually no supply in this market, marginal increase in demand will be reflected in rental increase. The satisfactory take-up of the new supply in Kowloon East has translated into rental recovery and helps closing the gap with Tsimshatsui. An improving job market will also likely have a spillover effect on high-end residential leasing and consumption in Hong Kong. BUY HKLand and Swire for the CBD office exposure and Wharf for the prime retail exposure.

01 February 2010

Hong Kong

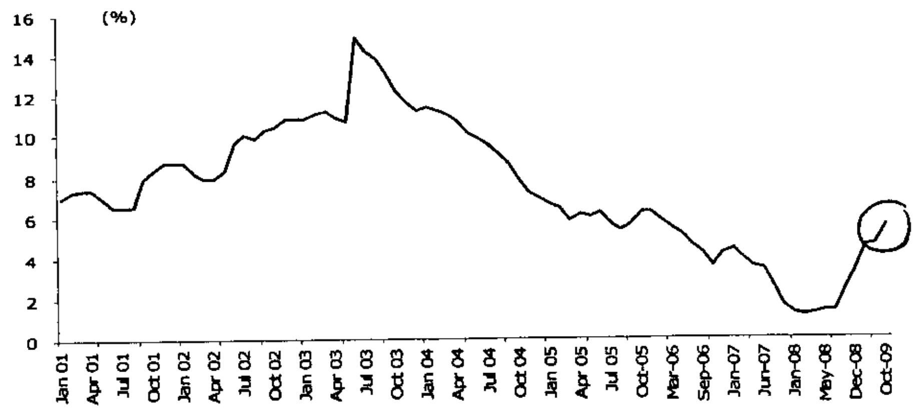
Property

RISING

Office running up

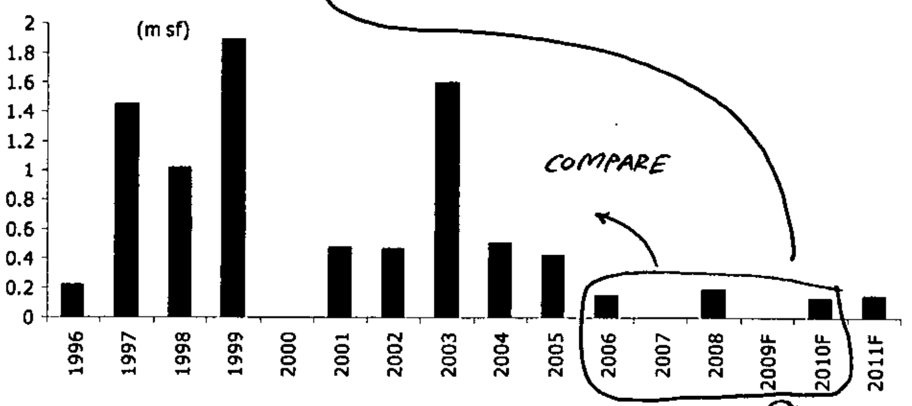
- Our latest conversation with our industry contact, a top management at an international consultancy informed us that the latest deal in IFC2 was struck at HK$102psf, versus HK$90psf in Nov and HK$79psf in Apr/May 09.
- It's set to run further with the banking & financial sector being the most optimistic - latest Hudson survey shows 73% of respondents plan to increase hiring.
- The effective vacancy rate including pent-up supply, at 9%, is the highest since 2005 but with landlord's "comfort zone" being around 5%, and the vacancy for prime IFC offices at just 2% the current vacancy level looks comfortable enough for landlords to start tightening their room for rental negotiations.

Central office vacancy rate



- This burgeoning bargaining power is further supported by the multi year of close to zero new supply. All additional demand after vacancy returns to the "comfort level" will be reflected in rental increase.

Central office supply



- New element of demand comes from the mainland companies, now account for some 30% of consultants' revenue vs below 10% a couple of years ago.
- Rents in Kowloon East are recovering with the half of the new supply absorbed.
- Tsimshatsui - large trading companies are believed to have moved, any leavers will be small. Also, at a comfortable vacancy rate of 6% and a narrowing gap with Kowloon East, downside is cushioned.

HONEY POTS AND MORE LD

UP

CONSUMER CONFIDENCE

TOURIST ARRIVALS

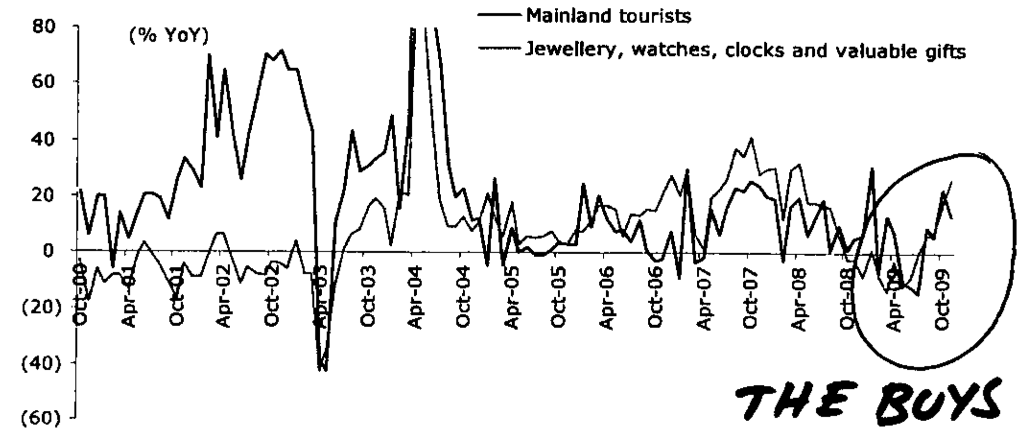
EXPAT WILLINGNESS TO PAY UP

HONEY POTS

Positive side effects

- Consumer confidence has returned to "optimistic" territory on falling unemployment and improvement in the job market.
- Tourist arrival growth has also returned to the positive territory. Sustained tourism flows from China will likely fuel consumption demand in Hong Kong, especially for the luxury goods.
- Leasing expatriates are trading up. There are rising interests and enquiries for apartments renting for HK$50k-100k per month, comparing to HK$40k-50k per month 1-2 years ago.
- We expect Central office rents to enjoy the best momentum, and we forecast a 20-25% increase for 2010. We are also looking for a flat to 10% increase for decentralised office rents and 10-20% increase in retail rents.

Mainlander tourist arrivals and retail sales of luxury goods



THE BUYS

Swire Pacific (Buy) – Sorry, no space

- NO VACANCIES
- AT 37% DISC TO NAV
- HIGHER RENTS = HIGHER SHARE PRICE

We remain confident that the fundamentals of the landlords will lead to higher rents, and share prices later in the year. Anecdotal evidence suggests that rents have bottomed and are now trending higher. While there is about 6% office vacancy across Hong Kong, Swire is operating near full occupancy. Our target price of HK$113 that is based on NAV less a 20% discount now offers 28% upside, Buy. The key risk to our positive call is rising cap rates, but that risk appears distant.

Hongkong Land (Buy) – Central office proxy play

- 27% DISC TO NAV
- RENT ↑ AGAIN THE CATALYST

THESE NUMBERS HAD NEGATIVE SIGNS IN FRONT OF THEM A YEAR AGO. >

HKLand is well positioned to ride the multi-year upcycle in Central office rents with 75% GAV exposure to Central offices. We expect an imminent sharp uptick in Central rents to be a strong catalyst for HKLand's share price performance. Momentum for NAV growth is strong with the financial sector showing strongest appetite for headcount increase. We expect central rents to enjoy the best momentum with rents +20-25% YoY for 2010 and another +10-15% for 2011. We maintain our Buy call on HKland for the CBD office proxy status with a target price at US$5.7.

Wharf (Buy) – Shoppers' honey pot

- 36% DISC TO NAV
- TWO HONEY POTS INCLUDED

Wharf's two honey pots Harbour City and Times Square continue to surprise positively with retail sales growing at 16% and 4.8% YoY in 2009 and beat the market's 0.6%. With 8% of the market share and mainland spending represented a third of the retail sales in Harbour City, we see Wharf as a key beneficiary to the growing consumption demand. Latest launch in Chengdu has received satisfactory responses with 64% of the units launched sold and ASP was up 28%. A stronger pipeline in China looks to support 254% Cagr over FY09-11CL. Our target price of HK$49.1 implies 26% upside. Upgrade to BUY.

Recs and target prices at a glance

	Share price (HK$)	Rec	End-FY10 NAV (HK$)	Discount to NAV (%)	Target Price (HK$)	Up/(down) side (%)
Landlords						
HKLand (US$)	4.6	BUY	6.28	(27)	5.7	24
Hysan	20.85	O-PF	40.70	(49)	24.4	17
Great Eagle	19.92	U-PF	34.20	(42)	20.6	3
Swire	88.7	BUY	141.74	(37)	113	27
Wharf	39.1	BUY	61.45	(36)	49.1	26

MORE INVESTMENT HONEY POTS UP

CLSA
ASIA-PACIFIC MARKETS

CIO Notes
Summary of full-length report

TOP NEW REPORT
ASK FOR PDF

THE BOYS

Desh Peramunetilleke
desh.peramunetilleke@clsa.com
(852) 26008293

Mahesh Kedia
(852) 26008291

1 February 2010

Asia ex-Japan
Microstrategy

Microstrategy
evalu@tor® in action

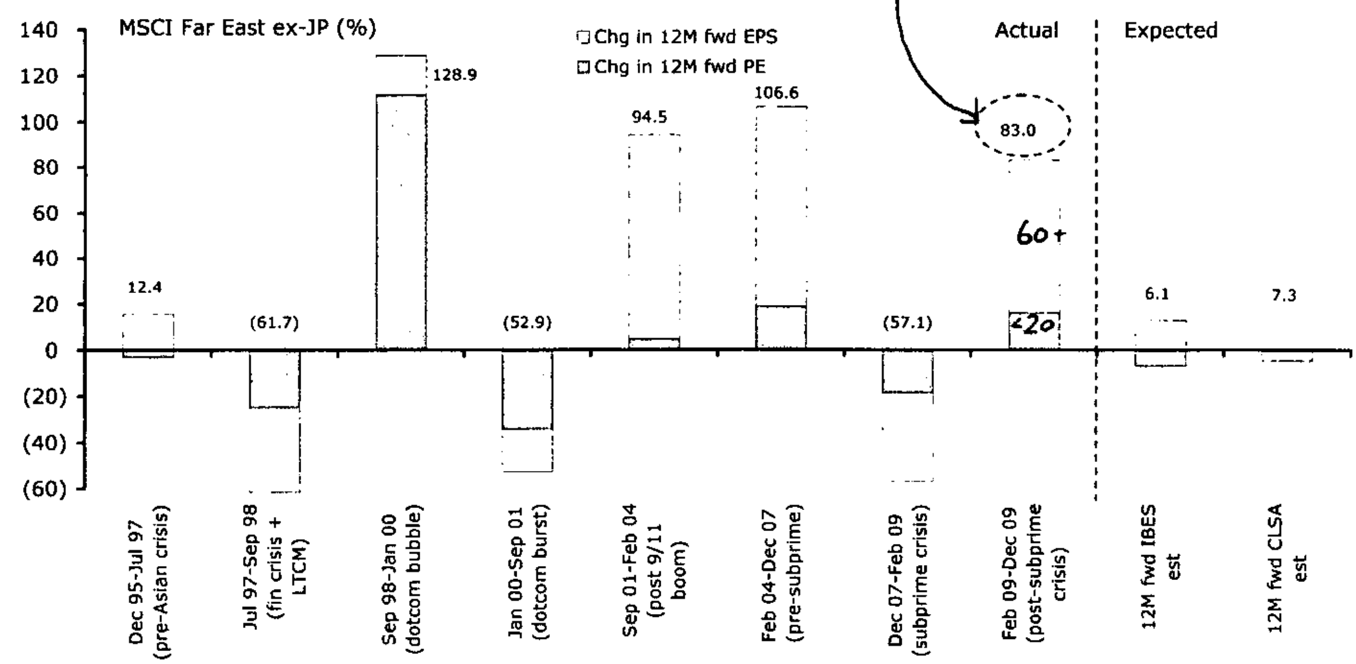
Searching for bottom-up oppportunities

Asian markets were up 83% in 2009 after the February bottom. But, can Asia be stronger for longer or will sustaining returns become too challenging in 2010? Our microstrategy analysis shows that underestimating the structural upturn in topline growth remains the key risk. Furthermore, given the favourable macroeconomic environment, we expect regional upside to be significantly higher than CLSA analysts' bottom-up forecasts of a 7.3% (ex-dividend) return this year.

Asia outperforms during the recovery

- Asian markets delivered an 83% price return in 2009 after bottoming in February and outperformed the MSCI world index by 25%.
- Asian outperformance was underpinned by a 60% gain in forward earnings. UM.....
- We expect the upside for Asia ex-Japan to be significantly higher than CLSA analysts' bottom-up forecasts of a 7.3% return (ex-dividend yield) this year.

Returns evalu@tor® - Attributing performance during market cycle between earnings and PE change[1]

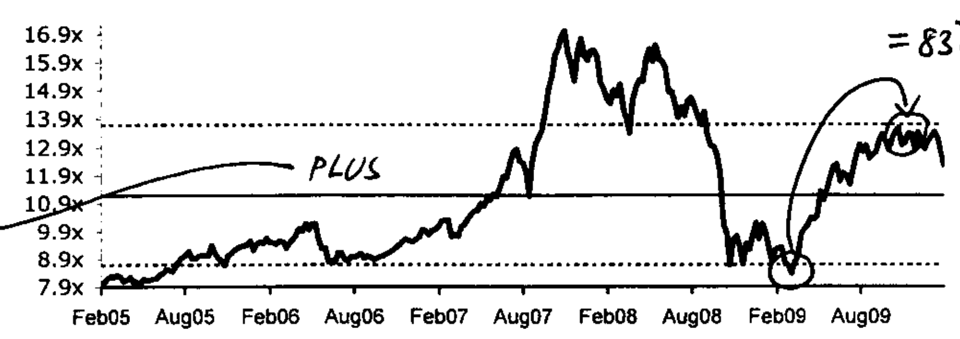


AS DESH AND I CHATTED ABOUT THIS WEEK - THE "60% GAIN IN FORWARD EARNINGS" REFERS TO EXPECTATIONS OF EPS FOR ASIA THAT CHANGED BETWEEN FEB 2009 AND NOW NOT WHAT ACTUALLY HAPPENED ON REFLECTION WHICH SHOWED EPS WAS ACTUALLY QUITE FLAT, AND PER WAS THE DRIVER. BUT ENOUGH OF SEMANTICS

CLSA Universe

	EPS change (%)
2006	+10
2007	+39
2008	-15
2009	-4
2010	+25

Asia ex Japan - Price / Core Earnings (x)



Earnings momentum is sustainable

- After the sharp cyclical earnings recovery last year, earnings revisions are now underpinned by rising sales growth forecasts rather than margins.
- High operating leverage for 2010-11 magnifies the impact of upgrades to sales growth forecasts on earnings. MARGINS √ HIGHER CAPACITY UTILISATION
- Margins face some headwinds amid a rising Asian PPI, but higher capacity utilisation should insulate below-average margins from a squeeze in 2010.

INTERESTING POINT

Valuations are not stretched

- The regional MSCI Index's 13.5x 12-month forward PE is just above the long-term average of 13.2x.
- Most bottom-up forecasts expect PE to derate while earnings momentum continues. However, if earning momentum continues, there is upside risk to the PE forecasts.

Best valuation measure for the region: 12-month forward PE

- We backtested seven different valuation measures for the region. The 12-month forward PE has worked the best during the past 10 years. > WHAT WORKS IN ASIA
- Our stock selection is based on attractive valuations and strong fundamentals driven by sustainable earnings revisions and high operating leverage.

Microstrategy

Valuations: Factor backtesting

Backtesting remains key to unlocking opportunities during stock selection

Valuations are the cornerstone of investment decisions. A stock may be attractive for a number of fundamental reasons such as growth profile, business strategy, market share, management quality and so on. However, if those positives are already priced in, it is difficult to outperform the market, even after picking the best-quality stocks based on financial fundamentals. A good valuation strategy helps narrow the choices among a group of winners.

We backtested seven valuation measures for the region and sectors

In this section, we highlight the results of the backtests on seven different valuation measures for the region over the past 10 years. We have also conducted a similar exercise for each of the key regional sectors (GICS industry groups). This exercise allows us to further identify the best valuation measures for different sectors, which may have different fundamental drivers compared with the region.

Best for the region: 12-month forward PE

The best performing factor for the region is 12-month forward PE and also for most sectors

Our backtests show that 12-month forward PE works best for the Asia ex-Japan region overall. We backtested seven valuation measures on a equal-weighted and freefloat adjusted-market-cap-weighted basis, with monthly rebalancing over the past 10 years. Transaction and impact costs were not included and we base the stock universe on the coverage of three analysts or more from the IBES universe. The factors were:

WHAT WORKS IN ASIA. —?

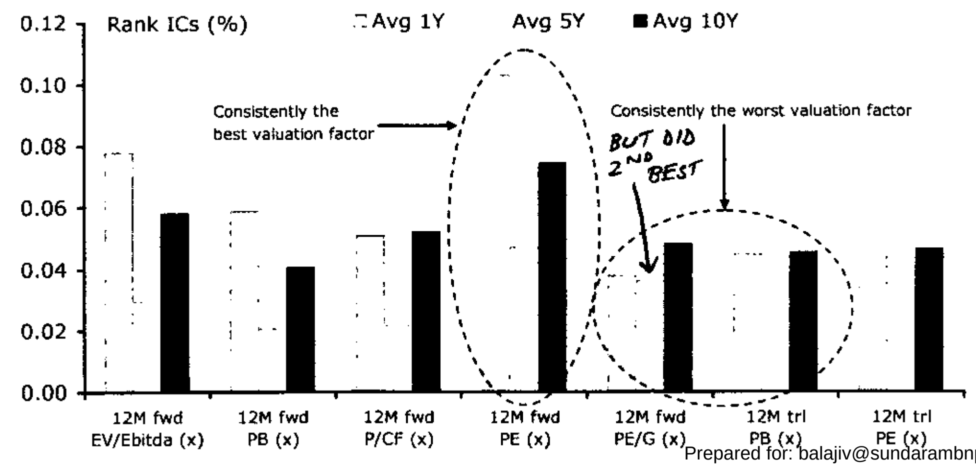
ANSWER

- 12-month forward EV/Ebitda
- 12-month forward price to book (PB)
- 12-month forward price to cash flow (P/CF)
- 12-month forward price to earnings (PE)
- 12-month forward PE/average FY1 and FY2 EPS growth (PE/G)
- 12-month trailing price to book (PB)
- 12-month trailing price to earnings (PE)

Higher IC means greater correlation between valuation measure and price performance

Figure 41

Asia ex-Japan - Rank information coefficient (IC) for different valuation measures



LOOKING AT THE 10-YEAR AVERAGE (DARKEST) THEY DID PRETTY MUCH THE SAME EXCEPT FOR 12M FWD PER BEING A STEP BETTER. >

CLSA

EVALUATOR

IF YOU HAVE ANY STOCK SCREENS OR IDEAS ON STOCKS/SECTORS/COUNTRIES/ANYTHING THAT YOU'D LIKE TO HAVE PRODUCED OR TESTED JUST ASK DESH + MAHESH: THE MICROSTRATEGY TEAM.

MAHESH

DESH

Hunting for stocks

Bottom-up strategies for 2010

Our stock selection follows a two-stage process:

1

First stage focuses on best performing valuation factor based on backtests

- **Valuations** - Through our backtests, we first identify the top picks and least preferred stocks based on their valuation rank in their own sectors. For example, in a sector where 12-month forward PE is the best performing valuation factor, the top picks are low PE stocks, while stocks to avoid have high PEs.

2

Second stage provides a ranking based on fundamentals

- **Fundamentals** - In the second stage of the stock selection process, we apply a fundamental rank to each of these top and bottom picks. In the first half of our report, we highlighted that stocks with sustained earnings revisions will continue to do well. Given the high operating leverage for most of the companies, earnings momentum of those companies with positive sales revisions should outpace others. Our fundamental ranking is therefore based on:

DRIVEN BY REVISIONS + OPERATING LEVERAGE

- EPS revisions: Change in 12-month forward EPS over the past three months
- Sales revisions: Change in 12-month forward sales over the past three months
- Operating leverage: Average of the 2010-11 operating leverage

= 3

Our final picks are stocks that rank highly on both valuation and fundamental categories

Our final picks for each sector are based on the combined ranking of the valuation and fundamental factors on an equally-weighted basis ie, stocks that score highly on both the valuations and the fundamental category are the top picks and vice-versa. We also apply a minimum cut-off of US$1bn market cap and US$1.5m average daily turnover over the past six months.

Our highest conviction ideas are highlighted on the next page

ASK

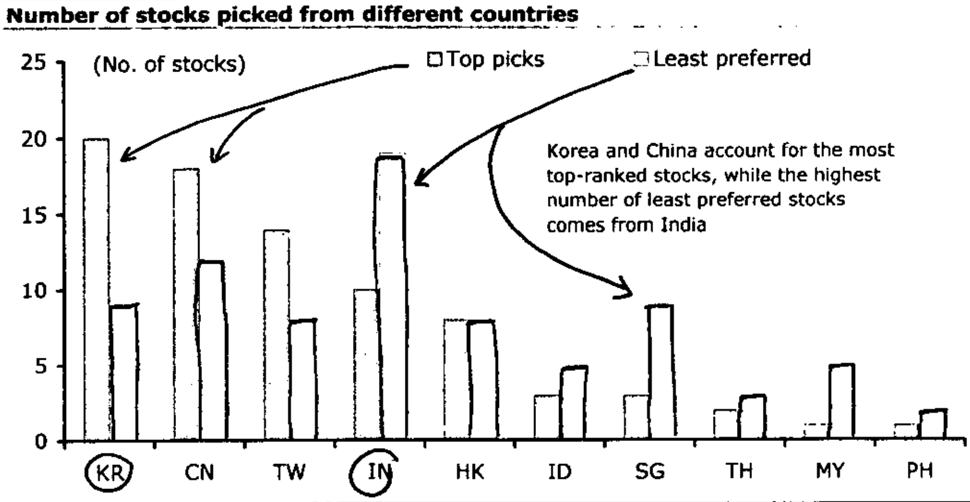
For each of the 16 key sectors discussed later in this report we have highlighted the five top-ranked stocks and the five least-preferred. From this pool of 80 top picks and 80 least-preferred stocks, we highlight our highest conviction ideas for each of the key sectors in Figure 49 and 50. Export-driven Korea provides the most top picks while domestic demand-driven India contributes the most to the least preferred list.

Export-driven Korea provides most top picks

SO SELL: INDIA + SINGAPORE + BUY: KOREA + CHINA

Figure 48

Number of stocks picked from different countries



Source: CLSA Asia-Pacific Markets

THE CATCH

AFTER THE HUNT - THE CATCH.

THE MOST + LEAST LIKED STOCKS UNDER THE TEAM'S VALUATIONS + FUNDAMENTALS SCREEN.

Top and bottom picks

Top picks - Stocks that rank highly on both the valuation and fundamental measures[1]

Company	Code	Mkt cap (US$m)	EPS rev (%)	Sales rev (%)	Op lev 10-11F	12M fwd				12M trl	
						PE (x)	PB (x)	Ev/Ebitda (x)	PE/G	PE (x)	PB (x)
Dongfeng Motor	489 HK	13,607	29.0	16.3	0.9	**11.8**	2.4	0.8	0.2	19.1	3.6
Kia Motors	000270 KS	5,954	53.4	6.5	1.6	**6.4**	1.0	10.1	0.0	13.5	1.1
Woori Finance	053000 KS	10,675	39.9	na	na	**7.3**	0.8	na	0.0	nm	0.9
Jardine Strategic	JS SP	19,264	21.5	21.6	1.3	**10.1**	1.1	16.0	0.8	nm	0.3
Texwinca	321 HK	1,230	11.8	3.5	1.5	**9.1**	2.1	6.4	0.6	11.9	2.4
SJM	880 HK	2,748	33.3	23.1	4.1	14.2	**2.6**	7.6	nm	46.0	nm
Genting Berhad	GENT MK	7,829	13.2	17.6	1.1	17.5	**1.9**	5.6	nm	41.3	2.0
Kotak Mahindra	KMB IN	5,990	18.4	na	na	23.1	3.3	na	**0.4**	73.3	4.1
Cairn India	CAIR IN	11,238	45.4	35.7	1.3	**11.9**	1.5	8.2	0.2	723.9	nm
Indofood Sukse	INDF IJ	3,133	23.9	2.9	1.6	16.4	3.0	**7.4**	0.3	22.8	3.7
Tata Steel	TATA IN	10,819	10.5	4.9	3.5	12.4	1.8	7.9	nm	**15.8**	1.9
Posco	005490 KS	42,793	33.3	10.4	3.2	10.1	1.4	7.2	nm	**16.7**	1.7
Shimao Property	813 HK	7,820	16.7	18.9	1.0	10.0	1.6	6.7	**0.1**	34.7	1.8
Far Eastern Dept	2903 TT	1,298	39.7	6.7	1.7	23.1	2.0	9.7	**0.1**	38.7	1.9
Advanced Semi	2311 TT	4,661	39.5	14.1	3.0	15.0	2.0	**6.2**	8.5	62.8	2.1
United Micro	2303 TT	6,580	58.7	0.9	3.5	18.0	1.1	**4.2**	nm	nm	1.2
Chi Mei Opto	3009 TT	4,738	100.0	12.5	5.0	31.9	1.1	**4.5**	0.2	nm	0.9
SK Telecom	017670 KS	12,127	1.9	0.6	3.6	8.9	1.3	4.4	16.0	**10.7**	1.3
Neptune Orient	NOL SP	2,858	61.5	7.7	nm	nm	1.4	17.4	nm	nm	**0.8**
Energy Dev	EDC PM	1,751	17.1	9.3	2.0	**12.6**	2.7	11.7	0.1	73.3	nm

Bottom picks - Stocks that rank extremely low on both the valuation and fundamental measures[1]

Company	Code	Mkt cap (US$m)	EPS rev (%)	Sales rev (%)	Op lev 10-11F	12M fwd				12M trl	
						PE (x)	PB (x)	Ev/Ebitda	PE/G	PE (x)	PB (x)
Denway Motors	203 HK	5,025	6.5	-1.0	0.0	**12.4**	1.9	560.5	1.6	14.9	2.3
Bank of Ph Islands	BPI PM	3,314	3.4	na	na	**15.8**	2.2	na	0.4	24.7	2.2
Taishin Financial	2887 TT	2,168	-15.3	na	na	**21.0**	1.1	na	nm	nm	0.7
Doosan Heavy Ind	034020 KS	5,565	-6.4	-0.9	2.8	**24.6**	2.6	25.3	0.1	nm	2.7
Li Ning	2331 HK	3,624	9.0	5.0	1.0	**20.5**	7.1	13.5	0.8	26.8	11.5
Minor Intl	MINT TB	1,096	1.8	5.9	1.8	20.3	**3.0**	10.6	nm	29.2	3.4
SG Exchange	SGX SP	6,122	2.6	na	na	21.1	9.8	na	**0.7**	29.0	10.2
Tambang Batu	PTBA IJ	4,262	-6.0	0.3	-1.5	**16.7**	5.8	11.1	0.2	15.9	10.0
British American	ROTH MK	3,635	-5.9	-5.5	-0.1	15.9	22.6	**11.6**	nm	16.5	28.2
National Aluminium	NACL IN	5,421	8.1	9.8	0.4	26.0	2.7	14.9	nm	**50.5**	nm
PTT Chemical	PTTCH TB	3,224	11.5	1.4	2.4	12.5	1.2	8.1	nm	**339.0**	1.2
Indiabulls Real Estate	IBREL IN	1,912	-12.8	0.6	0.6	37.9	1.0	35.3	**0.2**	591.0	nm
Esprit	330 HK	8,499	4.4	4.9	1.4	13.2	4.2	8.9	**6.3**	15.7	4.8
Hyundai Dept Store	069960 KS	2,379	5.8	1.7	1.0	9.5	1.2	10.1	**3.2**	10.1	1.5
Transcend Info	2451 TT	1,366	9.8	4.6	0.7	11.3	2.6	**7.8**	0.2	13.2	3.0
HTC	2498 TT	8,572	-0.6	6.1	0.2	12.9	4.2	**9.4**	nm	11.8	4.6
Idea Cellular	IDEA IN	3,702	-45.2	-6.2	1.5	28.9	1.2	6.9	nm	**15.8**	nm
Tata Communications	TCOM IN	2,188	-70.2	0.4	1.4	231.3	2.2	9.6	nm	**24.5**	nm
SMRT	MRT SP	1,964	9.1	3.6	0.9	15.9	3.4	8.6	1.3	17.2	**3.3**
NTPC	NATP IN	37,222	4.6	5.5	1.0	**19.2**	2.8	13.7	1.6	22.0	3.2

[1] IBES consensus estimates. EPS and sales revisions are for the last three months. The relevant valuation measure is highlighted in bold. Stocks have a minimum cut-off of US$1.0bn market cap and US$1.5m average daily turnover over the last six months. Source: Datastream, CLSA Asia-Pacific Markets

I DUNNO: BIG THEME BEHIND IT

260 PAGES OF

Nuclear power

(*) YOU COULD ALMOST BUILD A NUCLEAR POWER PLANT WITH THE INFO IN THIS REPORT. WHAT'S A DIRTY BOMB?

Rajesh Panjwani
Regional Head of Power Research
rajesh.panjwani@clsa.com
(852) 26008271

Aditya Bhartia
(91) 2266505077

Jasmine Cheng
(852) 26008141

4 February 2010

Global
Power & Gas

BUY
Dongfang Electric
Doosan Corp
Doosan Heavy
JGC
Paladin Energy
Samsung C&T
Sung Kwang Bend
TK
Tokyo Electric

SEE OVER

Outperform
Bharat Heavy Electricals
Kansai Electric
Larsen & Toubro
Mitsubishi Heavy
Shanghai Electric
Toshiba
Toyo Engineering

Underperform
Chubu Electric
Energy Resources of Australia
Hyundai E&C
Kepco
NTPC

SELL
Harbin Power Equipment

Not rated
Ebara
Japan Steel Works

Sector outlook

THAT'S APPENDIX 25 I THINK.

Whenever, wherever

TOP WORK. A REFERENCE PIECE.

Nuclear power is greener, cheaper and safer than most people think and can generate electricity whenever and wherever it is needed. We expect a fivefold increase in capacity additions till 2020 to about 15GW per annum, rising to 25-30GW by 2030. The number of approved component suppliers has shrunk by 60% from the peak and those remaining will benefit. Rising share of nuclear revenues and higher margins on these should continue to drive outperformance of players in the nuclear-power supply chain. (OVER +2)

The new green

OPPOSING FORCES

- The IEA forecasts global electricity demand to go up by 50-75% by 2030, by which time the world needs to cut its carbon-dioxide (CO_2) emissions by 30%.
- Wind farms and solar parks generate power only when the wind blows or the sun shines. Geothermal and hydro plants can be set up in limited locations.
- Nuclear power is the only major source of CO_2-free generation that produces energy whenever and wherever it is needed.

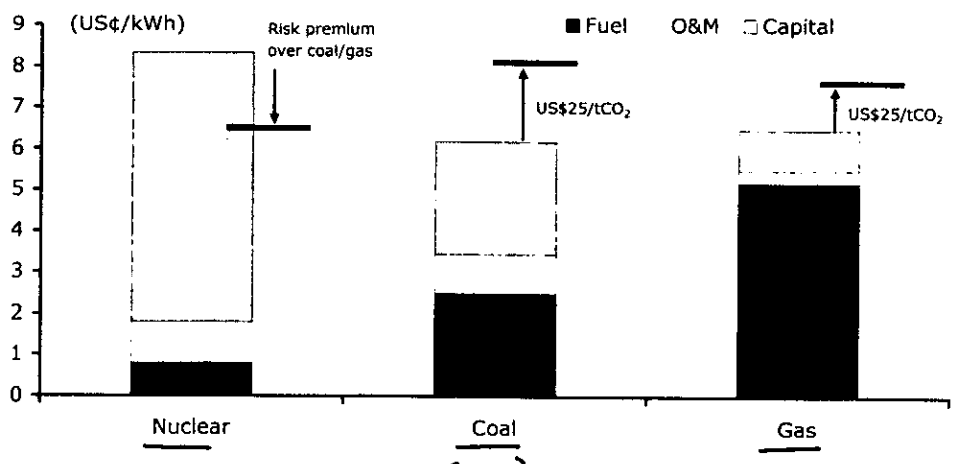
Global electricity demand in reference case

(tWh)	1980	2000	2007	2015	2030	2007-30 growth (%)
OECD	**4,740**	**8,253**	**9,245**	**9,792**	**11,596**	**25.4**
USA	**2,026**	**3,500**	**3,826**	**3,986**	**4,676**	**22.2**
Europe	1,709	2,696	3,062	3,222	3,855	25.9
Japan	513	944	1,009	1,057	1,178	16.7
Non-OECD	**2,059**	**4,390**	**7,183**	**10,589**	**17,334**	**141.3**
E Europe/Eurasia	1,101	1,023	1,189	1,354	1,805	51.8
Russia	na	609	701	813	1,066	52.1
Asia	**477**	**2,023**	**4,108**	**6,777**	**11,696**	**184.7**
China	259	1,081	2,717	4,723	7,513	176.5
India	90	369	544	892	1,966	261.4
Asean	55	321	497	701	1,383	178.3
World	**6,799**	**12,642**	**16,429**	**20,381**	**28,930**	**76.1**

An affordable energy source

- Nuclear energy costs the same as coal power once carbon taxes are taken into account. Taking a 60-year plant life, it is even cheaper than coal power.
- The key concern is cost overruns, which have been blown out of proportion by the USA's experience in the 1970-80s.
- The confluence of negative factors then is unlikely to be repeated.
- Design by experience, simple licensing procedures, stable regulations, standardisation and modular construction will help bring down costs over time.

Levelised cost of power generation - nuclear versus coal and gas



WONDERING WHERE THE WASTE GOES? ME TOO. AT LEAST NOT INTO THE OZONE LAYER I SUPPOSE. ANYWAY ✓

WHAT A SURPRISE: ASIA LEADING AGAIN

Asia leads the pack

- Four out of the top-five countries in terms of planned capacity additions are in Asia.
- China leads the pack with 30% of planned expansions; India is a distant second.
- Japan, Korea and France will be the leading suppliers for the rest of the world, while the USA offers maximum upside potential.

Nuclear reactors under construction

Country	No of units	Total MW(e)	% of total
China	21	20,920	40.3
Russia	9	6,894	13.3
Korea	6	6,520	12.6
India	5	2,708	5.2
Taiwan	2	2,600	5.0
Bulgaria	2	1,906	3.7
Ukraine	2	1,900	3.7
Finland	1	1,600	3.1
France	1	1,600	3.1
Japan	1	1,325	2.6
USA	1	1,165	2.2
Iran	1	915	1.8
Slovak Republic	2	810	1.6
Argentina	1	692	1.3
Pakistan	1	300	0.6
Total	**56**	**51,855**	**100.0**

10 TRENDS WITHIN THE NUCLEAR TREND

Ten key trends

Rate of nuclear capacity addition will exceed that in earlier cycle

1. We expect nuclear-power capacity addition globally to increase from 3GW per annum in the past decade to 15GW per annum by 2020 and 25-30GW by 2030 - higher than the averages in the previous cycle of 1970-80s.

A step increase in capacity starts from 2015

TOUGH STARTS

2. Capacity additions and new orders in the next few years will be constrained by manufacturing capacity and a lack of regulatory and physical infrastructure available at new entrants. A lot of these constraints would have eased by 2105. Climate-change issues will also drive urgent action on this front.

Role of Asia is rising but West will catch up with a vengeance

DON'T FORGET "THE WEST"

3. Initial pickup in nuclear additions has been driven by Asia, especially China. However, the ground is being prepared in the West for an accelerated buildout of nuclear capacity. The USA is a dark horse and can surprise substantially on new installations.

Move from Gen III to Gen III+

GO THE HIGH END

4. While most of the current nuclear capacity under construction is using Gen 2.5 or Gen III technologies, most planned additions, even in countries such as India and China, are based on Gen III+. As more reactors of advanced technologies receive regulatory approvals, their share in total capacity will rise substantially.

China and India will remain busy with domestic installations

5. Domestic champions in China and India will enhance their manufacturing capacity for nuclear power substantially. However, there will be little room for exports as they will be busy with huge capacity additions domestically.

Japan, Korea and France will be the key exporters

6. Japan and France are the only countries with less capacity addition planned than added in the past two decades. Korea comes close. Companies in these countries have already bagged overseas orders.

Share of nuclear earnings for the key plays will rise substantially

7. With capacity addition growing by about 5x by 2020 and 8-10x by 2030, the share of nuclear-related revenue will increase for key players. Above-average margins and high entry barriers will help support profitability. 10

Nuclear plays will continue to outperform the markets

AND URANIUM PRODUCERS I SUSPECT

8. Like in the past decade, nuclear-power plays will continue to outperform the market in the coming decade, driven by a sharp increase in business.

New aspirants for nuclear power are likely to face delays

9. New entrants are likely to face delays given a lack of regulatory and physical infrastructure required to introduce nuclear-power capacity in the grid. Till 2020 most capacity addition will be driven by countries already having nuclear power. Others will pick up after that. SOUNDS LIKE 2 ABOVE

PLAYERS

Introduction of small nuclear reactors

10. Introduction of small nuclear reactors will lead to a new wave of power-capacity additions around 2020s, which will further boost overall generation.

Supply chain and players

- We highlight 22 covered and 50 non-covered plays in the value chain.
- Our top picks are Toshiba, Mitsubishi Heavy, Doosan Heavy, Dongfang, Bharat Heavy Electricals, Larsen & Toubro, Shanghai Electric, Samsung C&T, JGC, TK, Sung Kwang Bend, Paladin Energy and Tokyo Electric.

NUCLEAR BUYS - SO MUCH WILL CHANGE OVER THE NEXT DECADE.

Nuclear Plays

Company name	Bloomberg	Market Cap (US$m)	US$ perf 1Y (%)	PER (x) 2010	Yield (%) 2010	PB (%) 2010	FCFy (%) 2010	EPSg (%) 2010	ROE (%) 2010	Gearing (% 2010
BHEL	BHEL IB	25,388.1	87.90	21.9	1.0	5.96	2	25.9	30.3	(62.4)
Dongfang Electric	1072 HK	5,873.5	105.49	15.4	0.7	3.18	7	24.7	22.8	(99.5)
Doosan Heavy	034020 KS	7,773.2	39.34	25.1	0.6	2.23	2		9.2	68.1
JGC	1963 JP	4,958.3	36.02	14.8	1.4	1.68	7	13.9	11.9	(48.1)
Larsen & Toubro	LT IB	18,878.6	131.83	21.3	0.8	4.18	(5)	22.1	21.3	94.7
Paladin Energy	PDN AU	2,410.6	84.65	loss	0.0	2.77	1		(0.9)	18.0
Samsung C&T	000830 KS	8,014.3	75.35	30.2	1.0	1.82	3	6.8	6.3	12.5
Tokyo Electric	9501 JP	36,359.5	(11.43)	17.1	2.6	1.31	3	104.9	7.7	296.2
Toshiba	6502 JP	21,213.8	58.83	47.2	1.2	2.19	2		6.1	198.9

MIXED BAG

GIMME

CLSA ASIA-PACIFIC MARKETS

China

COMPARE TO THE NEWBIE

China First Hvy Industries IPO

Manop Sangiambut
manop.sangiambut@clsa.com
(8621)20205911

- **China First Heavy Ind (CFHI), the largest heavy machinery firm, is launching a Rmb11.6bn A-share IPO with a price range of Rmb5-5.8.**
- **The high-end of the range implying 24x 10E PE looks fully valued at best. We believe 41% consensus EPS growth for 2010 is too optimistic when backlog orders imply falling revenue with steel cost risk.**
- **Fundamentally, CFHI is number 1 market leaders in various heavy machineries ranging from large rolling equipment to large forging steel.**
- **CFHI has transformed itself into a significant nuclear power play with number 1 market leadership in nuclear reactor pressure vessels and nuclear island forging steel.**
- **CFHI probably offers the best nuclear power exposure in both A and H shares. Nuclear power makes up 40% of 09E order backlog (vs. 25% for Dongfang) albeit <1% 1H09 revenue (vs. 3.5% for Dongfang).**
- **Key risks are 2010 earnings shortfall, steel costs, and competition from Dongfang/Shanghai Electric.**
- **The rise of CFHI is a threat to Japan Steel Work in the long-term. The high IPO valuation though should help Dongfang Electric – A valuation.**
- **While we like the company's competitive position and meaningful nuclear exposure, we are cautious on this IPO given possible 2010 earnings downside.**

WHICH MEANS IF THE 41% EPS GROWTH IS NOT ACHIEVED IT IS EVEN HIGHER THAN 24x PER 2010.

KEY RISKS:
- EARNINGS DELIVERY
- INPUT COSTS
- COMPETITION

MARGIN IMPACT, HENCE

OTHER TRADES

IPO details

	Low end	High end	Remarks
IPO Price (Rmb)	5.0	5.8	Press
09E EPS	0.17	0.17	Go-Goal consensus
10E EPS	0.24	0.24	Go-Goal consensus
Implied 10E EPS growth (%)	41%	41%	
11E EPS	0.32	0.32	Go-Goal consensus
Implied 11E EPS growth (%)	33%	33%	
09E PE (x)	29.4	34.1	
10E PE (x)	20.8	24.2	
11E PE (x)	15.6	18.1	
Share offering(m)	2000	2000	Prospectus
Total proceeds (Rmbm)	10000	11600	
Free float (%)	30.6	30.6	Prospectus

NEW BOY @ 20-24x
OLD BOY @ 15x

NOT THAT LONG AGO WAS OVER HK100 AND UNTOUCHABLE

CLSA
ASIA-PACIFIC MARKETS

Esprit

HK$53.65 - UNDER REVIEW

NOW AFTER THE FALL

Aaron Fischer, CFA
aaron.fischer@clsa.com
(852) 26008256

Music to our ears

Results Review

Esprit has long needed an aggressive restructuring plan and management finally delivered. While execution will be an issue, we believe investors will afford new management the benefit of the doubt over coming months. Further, while the wholesale order book is negative, monthly momentum is improving and the worst is behind the company. Lastly, Esprit has plenty of cash and recently secured long term funding ensuring that the company can maintain a high dividend. This will provide solid downside share support if management struggle on execution. Share price outperformance is highly probable. Estimates are rating under review.

3 February 2010

Hong Kong
Consumer

Reuters	0330.HK
Bloomberg	330 HK
Priced on 2 February 2010	
HK HSI @ 20,272.2	
12M hi/lo	HK$60.51/34.84
12M price target	HK$62.00
±% potential	+16%
Target set on	27 Aug 09
Shares in issue	1,193.4m
Free float (est.)	61.9%
Market cap	US$8,834m
3M average daily volume	
HK$261.2m	(US$33.7m)
Major shareholders	
Michael Ying 8.6%	
Jurgen Friedrich 6.6%	

1H results

RESULTS BLAH

1H Revenue was down -3%, OP -1% and net profit -5%. Retail sales seemed pretty strong at +9.5% or +5.5 in local currency. But retail space increased by 10.5% during the year so comp store sales growth was -1%. Wholesale is the problem child of the group with sales down 14% during the half. The company also made significant working capital improvements with inventories and trade debtors down by 16-18% yoy. The company doubled their net cash position to nearly HK$8bn. This provides a large safety net to both fund expansion; investment in marketing initiatives; and also support a high dividend payout.

The worst is behind

Global economic conditions are still taking some time to recover but we believe that the retail environment is through the trough in most markets. Momentum is improving with sales -8% in Q1 and +2.5% in Q2.

Delivering the perfect message

New CEO Ronald Van Der Vis highlighted six new strategic initiatives. We believe Ronald brings a more methodological approach to running the business than the previous CEOs. In particular, he mentioned that the company was going to adapt a more professional approach on determining which markets/locations/segments to enter.

Six strategic initiatives: Strengthening the platform for growth

AND THIS MEANS WHAT?

1. **Global brand.** Strengthening brand equity and improving shopping experience to drive traffic and customer loyalty. The company sees a disconnect between the brand proposition from customers to non-customers – with non-customers not appreciating the price/value equation.

SAME

2. **Products.** Improving product differentiation and newness to grow sales per sqm. (I.E MAKE BETTER STUFF THAN OUR COMPETITORS)
3. **Channel and country.** Ensuring better execution of the multi-channel strategy to fuel growth and profitability. There will be a specific focus on improving the business in France. ASIA?

TALKING TO LI & FUNG? (SEE OVER)

4. **Cost of goods sold.** Achieving savings in sourcing across divisions
5. **Support functions.** Establishing best in class backbone for growth

EXPECT SOME STRESSED OUT ESPRIT WORKERS. FUN, FUN, FUN.

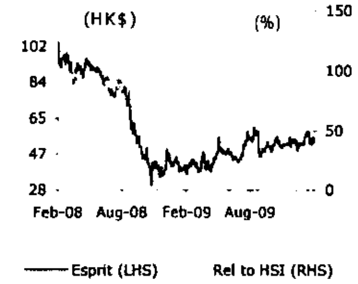
6. **Organization and structure.** Ensuring better alignment and execution across divisions, regions and channels. Management want to make people more accountable for business lines vs. relying on a matrix structure where people can avoid full responsibility.

VALUATIONS YOU ASK?

ESPRIT - UNDERPERMER (WHICH I LIKE,) AND VALUATIONS

Stock performance (%)

	1M	3M	12M
Absolute	3.7	6.3	38.0
Relative	11.9	13.4	(12.5)
Abs (US$)	3.5	6.1	37.7



Source: Bloomberg

Not expensive and dividend support

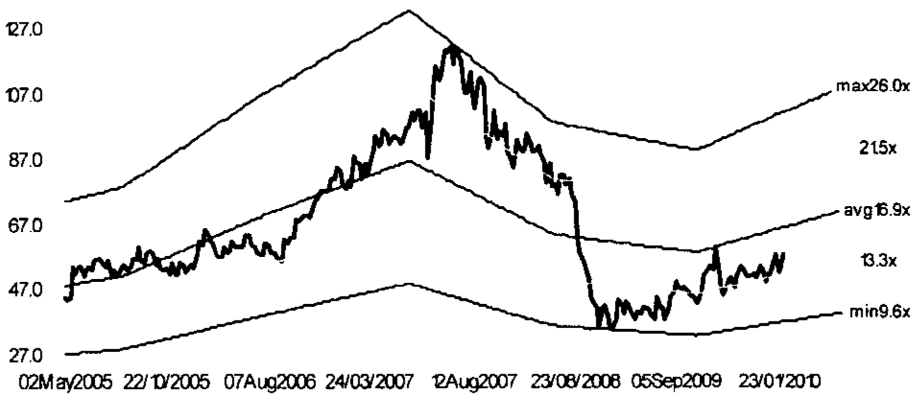
Based on consensus earnings, the stock is trading on 15x 2010 earnings, which is 17% discount to the Asian consumer sector PE of 18x. The stock is also a 12% discount to its long run average PE of 17x. Importantly, the stock is trading a dividend yield of 5-6%, which we believe provides significant downside support

Financials

Year to 30 Jun	07A	08A	09A	10CL	11CL
Revenue (HK$m)	29,640	37,227	35,848	37,077	42,290
Net profit (HK$m)	5,180	6,450	5,202	4,674	5,934
EPS (HK¢)	416.1	515.7	380.2	347.7	423.6
CL/consensus(21)(EPS%)	-	-	-	89	91
EPS (% YoY)	-	23.9	(26.2)	(8.5)	21.8
PEx (@HK$53.65)	12.9	10.4	14.1	15.4	12.7
Dividend yield (%)	5.9	7.8	6.3	5.7	7.2
FCF yield (%)	7.5	6.1	5.2	4.8	6.1
ROAE (%)	48.9	46.0	32.3	28.1	32.9
Price/book (x)	5.6	4.3	4.1	4.0	3.5
Net gearing (%)	(43)	(41)	(33)	(31)	(31)

Price to Earnings ratio

Esprit- Price to Earnings Bands



TWO OLD HONG KONG BUDDIES. WHO WINS NOW?

Esprit v Li & Fung

	Comparisons	2006A	2007A	2008A	2009A	2010CL	WINNER
Valuations							
P/Core earnings (x)	*Esprit*	23.5	24.2	9.6	15.9	15.0	E
	Li & Fung	37.4	40.9	51.5	40.3	33.5	
Dividend yield (%)	*Esprit*	4.7	6.4	6.6	5.5	5.9	E
	Li & Fung	1.6	2.0	1.6	2.0	2.5	
P/Book value (x)	*Esprit*	10.09	10.21	3.36	4.36	4.03	E
	Li & Fung	9.93	10.95	9.12	8.24	7.46	
EV/Op ebitda (x)	*Esprit*	11.3	8.8	8.5	9.8	9.0	E
	Li & Fung	46.0	36.2	35.1	28.5	23.9	
Growth (%)							
Revenue growth	*Esprit*	20.5	26.0	9.5	(0.3)	8.9	LF (BUT CLOSE)
	Li & Fung	22.3	36.0	19.8	12.3	9.6	
EPS growth	*Esprit*	27.2	29.1	(3.8)	(18.8)	6.1	LF (BUT CLOSE)
	Li & Fung	20.4	32.9	(22.1)	27.5	20.5	
Op ebitda growth	*Esprit*	23.7	25.8	1.5	(12.6)	8.4	LF
	Li & Fung	27.5	34.5	2.2	22.7	18.3	
Margins (%)							
Core margin	*Esprit*	16.8	17.4	15.3	12.5	12.4	E
	Li & Fung	3.1	2.9	2.2	2.6	2.9	
Returns (%)							
Return on equity (%)	*Esprit*	47.8	47.2	38.7	30.2	30.6	E
	Li & Fung	34.0	33.7	20.8	22.9	25.2	
Gearing							
Net debt/equity (%)	*Esprit*	(36.4)	(41.9)	(37.0)	(32.0)	(31.1)	E
	Li & Fung	4.8	51.0	33.8	26.3	15.9	
Miscellaneous							
Balance date	*Esprit*	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	E LOOKS PRETTY GOOD. NOW FOR Q1
	Li & Fung	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	

WHERE'S MY WHITE WINE?

Qantas Airways

A$2.87 - BUY

Fit to fly

Robert Bruce
robert.bruce@clsa.com
(852) 26008522

Philip Chow
(852) 26008693

MORE THAN AN AIRLINE

Trimmed down and more flexible, Qantas has maintained its core franchise while expanding into the low-cost-carrier space with Jetstar. Though high capital commitments means airlines' cashflow can be inconsistent, Qantas' loyalty programme provides greater security. Bold business restructuring and its partnership with Woolworths, Australia's largest retailer, should also reduce earnings volatility. We initiate coverage with a BUY rating for 59% implied upside to our target.

1 February 2010

Australia

Transport

Reuters	QAN.AX
Bloomberg	QAN AU

Priced on 28 January 2010
ASX200 @ 4,673.3

12M hi/lo	A$3.06/1.38
12M price target	A$4.55
±% potential	+59%
Target set on	29 Jan 2010
Shares in issue	2,265.1m
Free float (est.)	100%
Market cap	US$5,850m

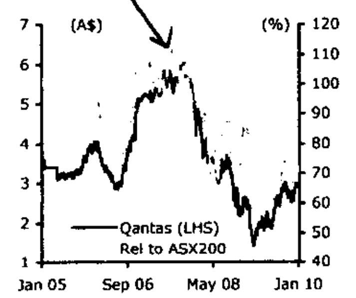
3M average daily volume
A$38.9m (US$35.5m)

Major shareholder
Capital Group 8.2%

HALF THE PRICE FROM A COUPLE OF YEARS AGO

Stock performance (%)

	1M	3M	12M
Absolute	(2.7)	(2.7)	19.7
Relative	(1.2)	(0.4)	(15.2)
Abs (US$)	(1.3)	(5.5)	64.8



Source: Bloomberg

Leaner and more flexible

HOPEFULLY NOT ON AIRCRAFT MAINENANCE

- Qantas has been focused on reducing costs and improving efficiency.
- The company has cut 7,300 positions while maintaining business growth at a 6% revenue Cagr over FY03-09.
- Over six years (FY04-09), the airline has made A$1.04bn in labour savings, with total savings of A$3.6bn WHAT'S THIS DONE TO SERVICE?
- "Q Future" targets another A$1.5bn of rationalisation this year.
- Staff efficiency rising at 4.3% pa, while cost per ASK is declining at 2.4% pa.

THEY RAN OUT OF WHITE WINE ON A FLIGHT I WAS ON LAST WEEK.

Leveraging the brand

- Qantas Frequent Flyer's switch to a direct-earning model ensures stable cashflow.
- It is also tapping into strong partners like retailer Woolworths.
- We estimate Qantas Frequent Flyer's standalone valuation, based on the same multiples as Aeroplan (a Canadian peer), could be more than A$2bn.

PROBABLY, BUT AS A FREQUENT FLYER PROGRAMME IT IS FAR LESS "FRIENDLY" THAN SINGAPORE AIRLINES.

Wealthy Oz

- A rebound in resources-driven projects and a peaking out of the unemployment rate is driving real GDP growth of 3.4% in FY10 and FY11.
- Qantas is naturally short the US dollar and benefits from the strong Australian dollar.
- Strong demand at home ensures the market is big enough for Qantas, Jetstar, Virgin Blue and Tiger Airways (of Singapore). — WHAT IF A REAL DOWNTURN COMES?

Inexpensive

- Our blended-valuation methodology yields a A$4.55 price target, which suggests 59% upside.
- Our forecasts stand out ahead of consensus mainly on volumes and yield recovery.
- Qantas's cost-control ability is also an attractive attribute.
- Implied valuation excluding the frequent-flyer programme valuation is at 0.7x PB
- BUY recommendation is anchored by our above-consensus earnings forecast..

LOOKING PRETTY GOOD. ALTHOUGH IN ONE OF MY DUMBEST EVER TRADES I SOLD NEWCREST + BOUGHT QANTAS 5 YEARS AGO - D'OH

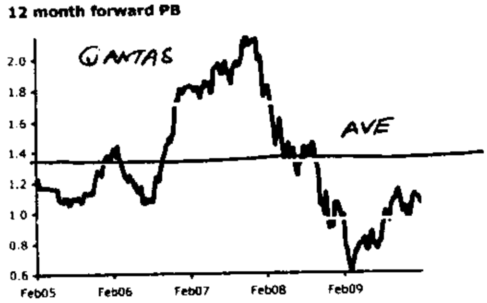
Financials

Year to 30 Jun	08A	09A	10CL	11CL	12CL
Revenue (A$m)	15,627	14,552	14,400	15,987	16,936
Net profit (A$m)	969	117	604	827	805
EPS (A¢)	50.2	5.6	26.7	36.5	35.5
CL/consensus(11)(EPS%)	-	-	183	144	123
EPS (% YoY)	47.6	(88.7)	373.8	36.9	(2.7)
PEx (@A$2.87)	5.7	51.0	10.8	7.9	8.1
Dividend yield (%) RETURNS	11.5	1.8	5.6	7.6	7.4
ROAE (%)	17.1	2.0	10.2	13.1	12.0
EV/Op Ebitda (x)	2.4	5.6	3.3	2.4	1.9
Price/book (x)	1.0	1.1	1.1	1.0	1.0
Net gearing (%)	27	33	18	2	(17)

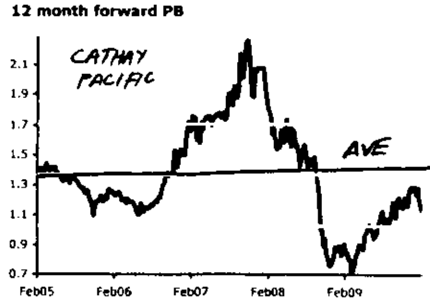
NO DEBT PROBLEM

HOW THE COMPETITION LOOKS ON PB → AND MORE

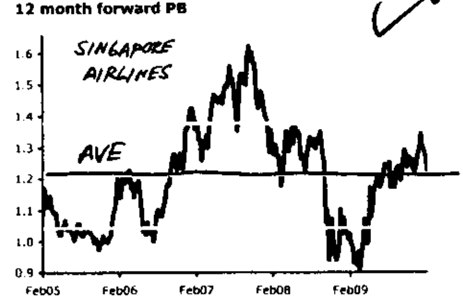
12 month forward PB



12 month forward PB



12 month forward PB



AIRLINE FACE-OFF: PREMIER AIRLINES FROM SINGAPORE, HONG KONG, AUSTRALIA + CHINA (SORRY INDIA).

Asian Airline Comparison

	Comparisons	2007A	2008A	2009A	2010CL	2011CL	WINNER
Valuations							
P/Core earnings (x)	*Cathay Pacific*	11.4	loss	19.8	10.1	9.3	
	Air China	59.8	loss	13.2	19.4	14.4	
	Qantas Airways	12.8	7.4	17.6	9.0	7.9	Q
	Singapore Airlines	10.6	10.2	32.8	13.7	10.2	
Dividend yield (%)	*Cathay Pacific*	6.4	0.2	0.0	2.0	2.7	
	Air China	1.1	0.0	1.2	1.1	1.3	
	Qantas Airways	10.3	6.7	3.7	6.6	7.5	Q
	Singapore Airlines	7.3	4.0	1.6	4.4	5.9	
P/Book value (x)	*Cathay Pacific*	1.59	0.90	1.27	1.14	1.04	
	Air China	3.97	1.30	2.83	2.43	2.13	
	Qantas Airways	1.84	0.74	1.09	1.02	0.97	Q
	Singapore Airlines	1.34	0.90	1.23	1.22	1.15	
EV/Op ebitda (x)	*Cathay Pacific*	4.2	loss	7.5	5.8	5.4	
	Air China	11.5	27.5	11.5	8.3	7.6	
	Qantas Airways	2.6	4.1	3.9	2.6	2.0	Q
	Singapore Airlines	3.8	4.8	6.9	4.8	3.9	
Growth (%)							
Revenue growth	*Cathay Pacific*	24.0	14.9	(25.0)	20.4	12.3	
	Air China	13.7	3.6	2.8	17.4	11.5	AC
	Qantas Airways	6.7	(1.4)	(4.2)	5.0	8.2	
	Singapore Airlines	9.6	2.9	(16.0)	1.8	10.9	
EPS growth	*Cathay Pacific*	53.7	(222.1)		40.7	8.9	
	Air China	30.0	(329.0)		(14.7)	(4.2)	UMMM?
	Qantas Airways	43.0	(34.0)	(41.6)	94.9	13.7	
	Singapore Airlines	8.5	(35.0)	(61.6)	139.7	35.0	
Op ebitda growth	*Cathay Pacific*	32.3	(118.0)		24.9	8.6	
	Air China	17.1	(52.2)	134.9	34.7	9.3	
	Qantas Airways	19.8	(17.3)	(11.5)	33.6	8.1	Q?
	Singapore Airlines	29.1	(15.9)	(30.7)	35.0	19.0	
Margins (%)							
Net margin	*Cathay Pacific*	9.3	(9.9)	5.6	6.5	6.3	
	Air China	7.9	(17.5)	11.1	8.1	6.9	
	Qantas Airways	5.4	3.6	2.5	4.7	5.0	SQ
	Singapore Airlines	13.2	8.2	3.7	8.7	10.6	
Op ebitda margin	*Cathay Pacific*	16.7	(2.6)	14.5	15.0	14.5	
	Air China	17.9	8.3	18.9	21.7	21.2	AC
	Qantas Airways	17.2	14.4	13.3	16.9	16.9	
	Singapore Airlines	21.9	17.9	14.8	19.6	21.0	
Returns (%)							
Return on equity (%)	*Cathay Pacific*	14.6	(19.3)	9.2	11.9	11.7	AC
	Air China	13.2	(36.1)	26.3	18.3	15.3	
	Qantas Airways	14.2	9.5	6.2	11.7	12.5	
	Singapore Airlines	13.8	8.9	3.7	9.2	12.1	
Gearing							
Net debt/equity (%)	*Cathay Pacific*	29.0	65.5	78.4	68.1	65.4	
	Air China	124.1	237.0	208.2	170.4	157.6	
	Qantas Airways	28.8	30.0	24.9	9.7	(7.4)	SQ
	Singapore Airlines	(21.8)	(16.1)	(17.0)	(24.1)	(23.8)	
Miscellaneous							
Balance date	*Cathay Pacific*	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	NOTE: ALL NUMBERS HAVE BEEN ANNUALISED.
	Air China	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	
	Qantas Airways	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	
	Singapore Airlines	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	

WINNER: HARD TO TELL BUT I KNOW THE LOSEEEER

A MASSIVE DING DING

Farewell by the numbers - At its current market cap of US$30m, bankrupt JAL is worth half a new B737-600. US$26b of liabilities is equivalent to the 2008 GDP of Ethiopia and can buy you 80 A380s. JAL will be delisted on 20th Feb.

Christopher Richter (813) 45805288 christopher.richter@clsa.com

Japan - TOYOTA MOTOR
Still kicking

OK, maybe it lost an arm and a leg, but Toyota is still kicking despite the 9m-unit recall. We believe painful treatment to heal Toyota's brand image, such as additional marketing and extending warranties - even if costly - is required and should take precedence over short-term losses. While we see continuing negative catalysts, we believe that Toyota will ultimately fix the situation, creating opportunities for investors. Maintain Outperform rating.

The initial casualties. We see four immediate impacts from the Toyota (7203 JP - ¥3,605 - O-PF) accelerator problem: the recall fix, lost sales, lost production and lawsuits. Other possible costs will likely include additional marketing and perhaps even extending warranties. While difficult to fully accurately gauge these effects, we believe ¥180bn could be an appropriate order-of-magnitude cost for the problem. Toyota may provide more concrete details on the immediate financial impact in two days' time at its 3QFY3/10 announcement.

SOUNDS LIKE 4 HORSEMEN OF APOCALYPSE. AN UTTER CLUSTER xxxx. AND THERE'S "OTHER" PROBLEMS.....

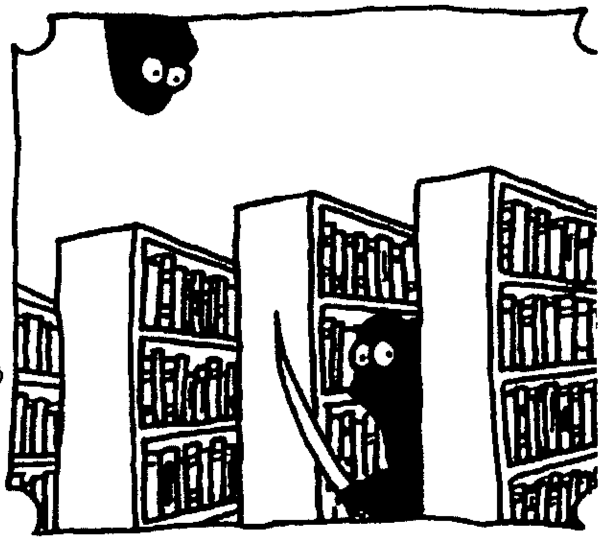
Long-term impact. Of course, there is long-term risk. We believe the news will fade with time and Toyota can recover and reach our assumed 20% US share in two years, a key assumption for our ¥4,600 target. YES Nonetheless, will Toyota's US market share stall? However, even if it gets stuck at current US share levels, we would target around ¥4,150, or 15% upside for Toyota's share price. A decline in share or vehicle pricing impairment could be additional risks.

QANTAS ??? SEE PREVIOUS PAGES

Nobody has immunity. While the hindsight explanations focus on Toyota's rapid expansion and cost-cutting in procurement, ultimately industry practice on common parts across many models leave every maker vulnerable to large recalls. A review of ongoing National Highway Traffic Safety Administration (NHTSA) engineering investigations suggests plenty of vulnerability for all automakers. Like the 2000 **Mitsubishi Motors** (7211 JP - ¥126 - N-R) recall scandal, any automakers making recalls will be punished by the market like **Honda**'s (7267 JP - ¥3,070 - O-PF) power window recall this week.

WAKE UP SPORT

The message finally got through. While Toyota missed the full problem last year by just associating accelerator problems with floor mats, it seems to have the company's full attention now, both from the perspectives of a physical repair and public relations damage control. Negative catalysts, such as weak auto sales, financial reporting and congressional investigations remain, but we believe that the market has more than priced in the bad news and continue to rate Toyota an Outperform.



THE NINJA LIBRARY: QUIETEST PLACE ON EARTH ..... APART FROM A TOYOTA MANUFACTURING PLANT.

AND THINGS GET BETTER - NUP

From: Geoff Boyd, CLSA

TOYOTA Two things happened overnight

1 The first, and worst, is the US DOT second, **Roy LaHood, said that consumers should not drive their Toyotas**. He later retracted his comment saying he mis-spoke, but the damage is done. He also indicated that US govt had to repeatedly ask Toyota to recall, and **"if we hadn't of pushed them so hard, I'm not sure they would even do this recall"**

MAYBE 3 BOYDY

2 Second, **Japanese govt said it is going to start investigating Prius brakes.**

3 Also hearing Waxman saying that what Toyota told US lawmakers behind closed doors is diff to what they told the public? Either Toyota is wrong or Waxman wrong. Suspect it's not Waxman in this case.

ADR is down 5% overnight

REMINDER, Toyota has 14% share in USA, vs Korea at closer to 6-7%, **so every 1% drop in Toyota likely means 0.3% or so to Koreans**

Traditionally USA share has been a great driver to share price for Koreans and sentiment ---- although the relationship is less important now globally with China being double USA volumes for Hyundai in January, (USA is 15%) **but the point is that this is quickly turning into a global nightmare for PR, NOT just USA**

OF COURSE WE SAW ALL OF THIS COMING :-D

So buy Hyundai Motor, Kia Motors on back of this, or Mobis, all of which we rate positively,

-----Original Message -----
From: JOHN SEAGRIM, CLSA (UK) <jseagrim@bloomberg.net> (*) I WILL NOT DETRACT FROM THE WORDSMITH THAT IS JOHN SEAGRIM WITH ANY COMMENTS
At: 2/2/2010 22:30

#RECALLING EARLIER RECALLS:
Below is something I wrote on the 21st September 2006 - when Toyota's share price was exactly double today's close.Toyota's quality problems are not new - but are they priced in?
#7203 TOYOTA (21st September 2006):
"There are ominous signs of build quality problems at Toyota. So far this year Toyota has already recalled more than 1 million vehicles - well over double the number of recalls for each of the proceeding two years - prompting the president to admit today "that rapid company growth has led to poorer quality". I remember when one of my former savvy clients (former I may add because he was sufficiently savvy that he was able to take retirement at an obscenely early age) took the decision to sell his not inconsiderable institutional holding in Daimler Benz simply because his smart friends who drove Mercedes cars started to break down all the time. It proved to be an enormously prescient sale and the share price of Daimler Benz subsequently broke down too, the company eventually being subsumed into what became Daimler Chrysler. Just like Daimler Benz before - I'd be inclined to sell Toyota here." 21-09-06

#HYPE NOT HYBRID:
I was told by a car dealer last week that my Lexus Hybrid RX400 is a WAGs car.
I've always called it my Girl's car - so I suppose we're both singing from the same not him but her sheet. I don't make a habit of talking to car dealers, but I have rather run out of patience with my WAG's car. (I was forewarned by two of my clients not to get one 12 months ago but in anticipation of Boris' Abandonment of the Western extension to the Congestion Charging zone, I ignored them). The problem is that what last summer used to regularly give me 32 mpg combined - now generates 22mpg if I'm lucky. It used to be dangerously silent as I glided around London imperilling pedestrians lives - now the battery hardly ever seems to propel the car - it's just the carbon effusive internal combustion engine. (I assume that the ability of the Nickel Metal Hydrate battery to hold its charge - just as any old mobile or iPod owner will testify - has deteriorated badly with age.) I took it to a Toyota garage last week who were less than useless - and in a rare moment of voiced indignation I left telling them that the "H" stamped on the back clearly didn't stand for "Hybrid" but for "Hype".

-THE NEXT-DAY

#7203 TOYOTA
I was unfair to Toyota in my missive yesterday. Yes indeed the fuel efficiency of my Lexus RX400 Hybrid has deteriorated since the summer, most particularly in last 8 weeks - but I was told by a London Prius driver that this is the effect of the cold weather. Just as warming up the batteries from a non-responsive TV remote on a radiator will give them a new lease of life - so Toyota's Hybrid batteries operate better in warm weather. I don't know what the key temperature level is, but this country's coldest January on record is clearly below it. I think Toyota is a buy - not least because people's memories of recalls are very short. How many remember the Toyota Hilux surf steering problems that eventually led to a total recall of 330,000 vehicles in 2004 after 82 of them had crashed or turned over in the preceding 8 years (I'd forgotten until I reread one of my September 2006 missives yesterday.
(To put recalls into perspective here is a link to a website called The Dog & Lemon Guide which purports to list details of all the thousands and thousands of car company recalls.
http://dogandlemon.com/site/safety-recalls/

JUST FOR FUN

#FALLING OFF THE WAGON:
Well I did it - my tenth January in succession with not a drop to drink. Actually that's not strictly true - not being Catholic and not subscribing to a belief in transubstantiation I have had the odd slurp of communion wine - but that apart I've ridden the wagon for 31 days. I feel no better for it - in fact worse - because I smoke more to compensate. Luckily this year I fell off the wagon gracefully, indulging in a single shared bottle of Rioja. Not so seven years ago when I fell foul of the traders at HSBC and fell badly off the wagon.

For most of January 2003, Peter Clare, the excellent Japanese sales trader who now works with us at CLSA, tried to push me off the wagon. He couldn't but in the end it was agreed that we would go out together on the 1st of February to celebrate the end of my abstinence. We started in some rowdy pub in Frith Street where I foolishly drank 4 pints of beer. I remember thinking how well I was doing as we left the boozer, crossed Oxford Street and went to the Asian Fusion restaurant called Hakkasan. As usual it wasn't just the food in Hakkasan that was Fusion - the clientele was that fusion of the amoral, the immoral and the frankly louche.
Peter said we should just drink cocktails and fortified by my four pints of beer I weakly acquiesced. Dinner was quite good....I think, but as the screens that divided the diners, allowing snatched glimpses of elder men with their nieces on neighbouring tables began to flay in front of my eyes so my memory began to fail me. (as somebody who likes to "count his units" I never normally drink cocktails).
I then have some vague recollection of sitting at the bar Not talking to some Asian Fusion lady(boy?) because I couldn't - talk that is. And that's it - that's my "total recall" of the evening of 1st February 2003.

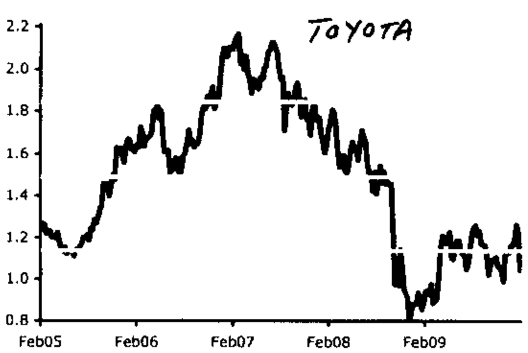
THE next morning with some trepidation to be told by Peter, who thankfully looked even worse than I did, that my first large bill, was for dinner; the second larger bill was for drinks at the bar (with the Asian Fusion lady(boy?) perhaps) and the third enormous bill was for all the expensive bottles I'd smashed when I fell of my bar stool and into Hakkasan's after dinner drinks trolley!

I haven't been back to Hakkasan since, but I am sure I would be very welcome, particularly if they have some expensive stickies on the drinks trolley that they cant shift.

Japan Auto - Face Off

	Comparisons	2006A	2007A	2008A	2009A	2010CL	2011CL	2012CL	WINNER
Valuations									
P/Core earnings (x)	*Nissan Motor*	11.0	11.2	7.0	loss	46.5	11.6	7.3	NISSAN
	Toyota Motor	15.2	14.7	9.2	loss	loss	18.3	11.2	
	Mazda Motor	13.9	12.4	5.4	loss	loss	loss	12.6	
	Honda Motor	5.6	12.6	8.6	26.0	24.5	11.6	8.6	
Dividend yield (%)	*Nissan Motor*	3.8	4.5	5.3	1.5	0.0	0.0	0.0	
	Toyota Motor	2.6	3.5	4.1	2.9	0.6	0.6	0.6	MAZDA
	Mazda Motor	2.0	2.4	1.2	1.2	1.2	1.2	1.2	
	Honda Motor	1.6	2.1	2.7	2.0	1.0	1.0	1.0	
P/Book value (x)	*Nissan Motor*	1.86	1.46	0.96	0.54	1.16	1.05	0.92	
	Toyota Motor	1.98	2.05	1.33	0.97	1.09	1.05	0.98	
	Mazda Motor	2.52	1.94	0.90	0.52	0.91	0.97	0.91	MAZDA
	Honda Motor	1.61	1.67	1.14	1.05	1.38	1.25	1.11	
EV/Op ebitda (x)	*Nissan Motor*	4.9	5.0	4.5	12.0	7.6	5.4	4.2	
	Toyota Motor	4.8	4.3	4.3	16.6	15.9	9.0	6.7	NISSAN
	Mazda Motor	3.0	2.4	2.8	17.6	24.6	16.8	7.4	
	Honda Motor	6.6	6.5	5.6	10.8	9.7	7.1	5.6	
Growth (%)									
Revenue growth	*Nissan Motor*	9.9	11.0	3.4	(22.1)	(10.8)	12.1	14.9	NISSAN
	Toyota Motor	13.4	13.8	9.8	(21.9)	(14.5)	10.1	13.3	
	Mazda Motor	8.3	11.2	7.0	(27.0)	(14.9)	0.5	11.3	
	Honda Motor	14.5	11.9	8.3	(16.6)	(13.7)	16.3	15.8	
EPS growth	*Nissan Motor*	1.5	(11.6)	4.8	(148.7)		300.8	59.4	MAYBE
	Toyota Motor	18.7	21.4	5.6	(125.7)			63.9	NISSAN
	Mazda Motor	36.9	2.0	24.0	(179.9)				
	Honda Motor	24.4	(50.3)	1.7	(73.0)	43.6	111.6	34.0	
Op ebitda growth	*Nissan Motor*	9.6	1.1	4.7	(62.2)	44.2	32.5	23.1	?
	Toyota Motor	15.7	17.2	3.9	(72.5)	2.5	69.3	33.1	
	Mazda Motor	37.6	21.5	11.2	(79.5)	(29.9)	46.4	117.3	
	Honda Motor	32.0	8.2	20.3	(43.8)	7.0	33.9	29.0	
Margins (%)									
Core margin	*Nissan Motor*	5.5	4.4	4.5	(2.8)	0.9	3.1	4.4	
	Toyota Motor	6.5	6.9	6.5	(2.1)	(0.8)	3.0	4.4	
	Mazda Motor	2.3	2.3	2.6	(2.8)	(1.8)	(1.1)	1.4	
	Honda Motor	6.0	5.3	5.0	1.6	2.7	4.9	5.7	HONDA
Op ebitda margin	*Nissan Motor*	16.0	14.6	14.7	7.1	11.5	13.6	14.6	NISSAN
	Toyota Motor	14.7	15.1	14.3	5.0	6.0	9.3	10.9	
	Mazda Motor	5.8	6.3	6.6	1.8	1.5	2.2	4.3	
	Honda Motor	11.4	11.0	12.3	8.3	10.2	11.8	13.1	
Returns (%)									
Return on equity (%)	*Nissan Motor*	18.7	13.9	13.7	(7.6)	2.5	9.5	13.5	
	Toyota Motor	14.0	14.7	14.5	(4.0)	(1.4)	5.8	9.1	
	Mazda Motor	20.0	16.9	17.9	(14.8)	(9.0)	(5.5)	7.5	HONDA
	Honda Motor	16.1	13.8	13.3	3.8	5.7	11.3	13.6	
Gearing									
Net debt/equity (%)	*Nissan Motor*	130.5	119.8	108.4	141.2	118.1	95.7	80.5	EVENS.
	Toyota Motor	78.7	81.8	83.4	95.6	94.0	83.7	77.6	
	Mazda Motor	60.6	47.3	69.3	137.9	103.1	109.4	93.5	
	Honda Motor	58.9	65.2	71.4	95.1	81.2	70.8	64.7	

12 month forward PB



CLOSING IN ON BOOK VALUE

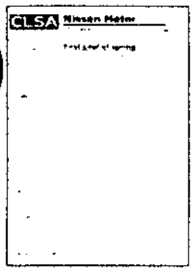
I'D HAVE TO GIVE IT TO NISSAN

CLSA
ASIA-PACIFIC MARKETS

CIO Notes

Summary of full-length report

Click to read full report



Christopher Richter
christopher.richter@clsa.com
(813) 45805288

OPPORTUNITIES BEAT RISKS >

Nissan Motor

WE KNEW

CLEAN & GREEN

¥746 - BUY

WHEN?

First *Leaf* of spring

Nissan's launch of the first mass-market electric vehicle in 2010 will bring new life to the auto industry. While the Leaf will have a limited audience - as does any other vehicle segment - too many pessimistic myths surround the programme. We believe the opportunities outweigh the risks. The company's new Global Compact Car should also build on its strengths in China. Despite being the leading Japanese auto stock in 2009, continuing undervaluation and robust growth suggest strong performance in 2010.

4 February 2010

Japan
Autos

Reuters	7201.T
Bloomberg	7201 JP

Priced on 2 February 2010
Topix @ 912.8

12M hi/lo ¥826/261

12M price target	¥1,150
±% potential	+54%
Target set on	6 Jan 10
Shares in issue	4,073.3m
Free float (est.)	37.6%
Market cap	US$37,154m

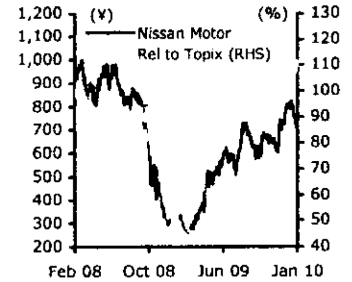
3M average daily volume
¥14,526.4m (US$161.5m)

Major shareholders
Renault 44.3%
Japan Trustee Services 2.4%

Foreign s'holding 67.1%

Stock performance (%)

	1M	3M	12M
Absolute	(7.9)	14.8	179.4
Relative	(8.4)	10.7	138.1
Abs (US$)	(6.6)	13.7	175.8



Source: Bloomberg

www.clsa.com

Shattering myths
- We have heard a lot of myths about electric vehicles over the past two years.
- These include: too expensive; inadequate driving range; fire hazards; insufficient demand; a lack of charging infrastructure; and imperfect technology.
- While most contain a grain of truth, we believe these concerns are overdone. — UM WHY?
- The *Leaf* may be a niche product, but it will be a success for early-mover Nissan.

Right place and time
- Nissan was the fastest-growing Japanese automaker in China in 2009. OK
- It has two key competitive advantages: an emphasis on small cars; and a single sales channel.
- The company should extend that lead in 2010 with its new *Global Compact Car*, not just in China but also in other emerging markets such as India and Southeast Asia.
- The new car, which will be manufactured outside Japan, also gives Nissan a chance to lower its forex sensitivity. — KEY

Surprises coming
- Our forecasts call for 140% operating-profit growth in FY3/11. NICE
- High growth should be no surprise in the early cycle, but consensus expects Nissan to lag the sector in terms of operating-profit margin.
- We believe that Nissan will surprise the market in FY3/11, which, combined with a sector-relative undervaluation, makes the stock attractive. SURPRISE .....

Still catching up
- The main pushback against our Nissan call is that it was the best-performing Japanese automaker in 2009 and is unlikely to repeat this for a second year. YAR
- But don't forget that in early 2009 Nissan was priced for bankruptcy, with a substantially lower share price than in 1999 when going bust was a real risk. OK
- Nissan spent 2009 closing most, but not all, of the valuation gap with its peers.
- We continue to target ¥1,150 and rate Nissan a BUY.

Financials

Year to 31 Mar	08A	09A	10CL	11CL	12CL
Revenue (¥bn)	10,824	8,437	7,529	8,441	9,701
Operating profit (¥bn)	791	(138)	212	503	743
Recurring profit (¥bn)	766	(173)	118	432	679
Recurring profit (% YoY)	1	(122)	(168)	267	57
Net profit (¥bn)	482	(234)	66	265	422
EPS (¥)	118	(57)	16	65	104
CL/consensus(19)(EPS%)	-	-	219	174	171
PE (x)	6.3	(13.0)	46.0	11.5	7.2
P/CF (x)	2.4	6.0	4.2	3.3	2.8
PB (x)	0.9	1.2	1.1	1.0	0.9
FCF yield (%)	26.5	(0.9)	24.4	17.0	21.2

Source: CLSA Asia-Pacific Markets

WHO HAVE BEEN THE LONG-TERM WINNERS?

CLSA
ASIA-PACIFIC MARKETS

Asian banks

Sector outlook

→ I'D LOVE TO SEE THIS FOR ALL SECTORS

YES, CONSIDERING MANY INVESTORS AREN'T RESTRICTED TO ONE YEAR THINKING

Daniel Tabbush
daniel.tabbush@clsa.com
(662) 2574631

Suangsuda Sinsadok
(662) 2574630

1ST INDIA
2ND INDONESIA

04 February 2010

Asia

Financial services

OWT
Indonesia
India
China
Hong Kong

Banks in 5-10 years

Our normal recommendation structure is one year, but it is worthwhile considering how banks may perform over 5 or 10 years. What is interesting is that over the past 5 to 10 years, the top performing banks have been highly concentrated in India with both government and private banks. Second to India are Indonesian banks over 3 and 5 years, with no data over 10 years. These two countries stand out with the most credit growth and exceptionally low credit penetration. We believe there is a causal relationship with these features and share performance over the long term. Implications are positive for China's banks too.

10 years

- The top 8 best performing banks over 10 years are from India at +400-3000%
- An interesting observation here is the even mix of state banks and private banks
- Private banks have done better, due to the 3110% returns at Axis over 10 years
- The next two best are the regionals in Korea, at 400% each, for Busan and Daegu
- Limited Japan data for 10 yrs, but SMFG is worst, following by many Taiwan banks

5 years

- With more data over 5 years, we see a better mix of Indo with India banks at top
- But the top ranks are still exclusive to these countries, except for CIMB at 9th best
- Japan and Taiwan banks are the losers here returning -4% to -50% over five years
- Next worst though is HSBC and clearly these returns are linked to its US business

WHAT A MISTAKE THAT'S BEEN

Loan growth

MASSIVE LOAN GROWTH WHICH LEADS TO....

- India's loans are up 622% over the past 10 years, followed by 508% for Indonesia
- It would appear that increase loan penetration over time can drive performance
- The implications are positive for China, where shares are up 30% only over 3 yrs
- But where China's banks show the 3rd highest loan change over 10 years at +326%

BUT THEN THERE'S THE QUESTION OF WHETHER THEY'VE BEEN LOW CREDIT QUALITY BORROWERS + NPLS WILL FOLLOW

Loans to GDP

- Loans/GDP remain lowest in Indonesia, Philippines and India at 25-50%
- China the figure is higher at 127% and possibly skewed due to high govt lending
- Supporting this notion of a distortion for China, its consumer loans/GDP is 16%
- This is more in line with countries at a similar stage of development
- Market capitalisation of China's banks to GDP though is high at 19%
- This compares with 8-9% for India and Indonesia, and 5% in US and Japan
- Differences here are due to market breadth and sector representation

Change in system loans over 10, 5 and 3 years (%)
[Ranked by 10 years]

% ch	3yrs	5yrs	10yrs
India	70	192	622
Indonesia	74	147	508
China	79	126	326
Korea	37	69	283
Australia	48	90	239
Malaysia	32	52	98
Singapore	45	57	91
Philippines	21	40	58
Thailand	29	43	44
Taiwan	6	18	40
HK	27	39	37
Japan	4	6	(14)

LESS THAN 10 YEARS AGO FOR JAPAN.

TOTAL RETURNS OVER 10 YEARS

10 YEAR RETURNS

Total shareholder return over 10 years by bank (%)

	10Yr	Stock change	Div yields	Total return	
Mostly India banks at top	AXIS BANK	3,084	24	3,108	
	BANK OF INDIA	1,855	50	1,905	
	HOUSING DEVELOPMENT FIN.	1,269	21	1,290	
	BANK OF BARODA	912	40	952	
	STATE BANK OF INDIA	757	21	778	
	ORIENTAL BK.OF COMMERCE	549	45	594	
	HDFC BANK	570	9	579	
	ICICI BANK	420	22	442	
Korea's regionals good	BUSAN BANK	398	24	421	
	DAEGU BANK	390	28	419	
	CORPORATION BANK	303	33	335	
	PUBLIC BANK	213	43	257	
	WING HANG BANK	189	37	226	
	SHINHAN FINL.GROUP	204	19	223	
	INDUSTRIAL BANK OF KOREA	165	17	182	
	WESTPAC BANKING	124	22	146	
	AUS.AND NZ.BANKING GP.	118	27	145	
Stanchart	STD.CHARTERED (HKG)	112	31	144	
	CIMB GROUP HOLDINGS	124	19	143	
	COMMONWEALTH BK.OF AUS.	106	27	133	
	OVERSEA-CHINESE BKG.	32	76	108	✓
	SIAM COMMERCIAL BANK	82	25	107	
	KB FINANCIAL GROUP	88	14	102	
	HANG SENG BANK	44	52	96	✓
	UNITED OVERSEAS BANK	50	42	92	
	KOREA EXCHANGE BANK	60	22	82	
	BANK OF EAST ASIA	46	35	82	
	KASIKORNBANK FB	54	15	69	
	BANK OF AYUDHYA	39	12	50	
HSBC	HSBC HOLDINGS	(1)	50	49	✓
	NATIONAL AUS.BANK	20	29	49	✓
	BANK OF THE PHILP.ISLE.	14	30	45	✓
	AMMB HOLDINGS	29	14	43	
	FUBON FINL.HLDG.	(1)	32	32	✓
	MALAYAN BANKING	(15)	41	26	✓
	BANGKOK BANK FB	10	15	25	✓
	E SUN FINL.HLDG.	7	18	25	✓
	CHINATRUST FINL.HLDG.	(9)	14	5	✓
	CATHAY FINL.HLDG.	(24)	24	0	✓
	DBS GROUP HOLDINGS	(28)	24	(5)	✓
	YUANTA FINANCIAL HLDG.	(24)	18	(6)	✓
	METROPOLITAN BK.& TST.	(20)	12	(8)	✓
	KRUNG THAI BANK	(50)	40	(10)	✓
	TAISHIN FINANCIAL HLDG.	(27)	16	(11)	✓
	MEGA FINANCIAL HOLDING	(59)	43	(16)	✓
	BANK DANAMON INDONESIA	(59)	41	(18)	✓
	RIZAL COML.BKG.	(28)	10	(18)	✓
	FIRST FINANCIAL HOLDING	(51)	23	(28)	✓
Taiwan concentration	CHANG HWA COML.BANK	(58)	21	(37)	✓
	SHIN KONG FINL.HLDG.	(66)	11	(56)	✓
	SUMITOMO MITSUI FINL.GP.	(79)	9	(70)	✓

IT'S INTERESTING TO NOTE HOW MANY STOCKS HAVE POSITIVE 10-YEAR RETURNS JUST BECAUSE OF DIVIDENDS. LOOK AT → HSBC

SEE STOCKS WITH A ✓ ON THE FAR SIDE. THESE HAVE >50% OF THEIR 10-YEAR RETURNS DUE TO DIVIDENDS.

↓ OUR TOP PICKS FOR 1-YEAR.

Top Buys vs Asian banks

Bank	Mktcap (US$bn)	Mktcap/ assets (%)	1 yr price perf (%)	1 yr price rel perf (%)	3m Avg turnover (US$m)	PE(x)		PB(x)		EPS gwth(%)		Yield (%)		ROE (%)		ROA (%)	
						09CL	10CL	09CL	10CL	09CL	10CL	09CL	10CL	09CL	10CL	09CL	10CL
ICBC	243.2	13.9	77	4	256	13.2	10.8	2.55	2.28	16.7	22.7	3.8	4.6	20.3	22.3	1.19	1.27
BOC	146.2	14.4	91	12	206	10.1	8.3	1.68	1.50	32.4	20.6	4.5	4.8	17.5	19.0	1.10	1.13
CCB	184.1	13.5	62	(5)	255	11.1	9.1	2.39	2.12	22.3	21.2	4.5	5.5	22.9	24.6	1.34	1.39
ICICI	20.3	24.3	114	19	17	23.2	18.6	1.79	1.69	7.2	24.3	1.4	1.7	7.9	9.3	1.06	1.22
HDFC Bank	16.0	33.1	80	(0)	4	24.9	20.1	3.48	3.08	23.3	24.0	0.7	1.0	16.3	16.3	1.45	1.51
IDFC	4.3	54.0	178	54	5	19.2	16.8	2.83	2.51	36.5	14.2	1.0	1.2	15.6	15.8	3.05	2.93
BCA	12.7	41.2	72	(14)	4	16.9	13.2	4.24	3.51	20.0	27.8	2.2	2.7	27.2	29.0	2.60	2.92
Bank Rakyat	10.0	32.5	72	(14)	13	13.3	10.9	3.33	2.67	16.3	22.9	1.6	1.9	27.6	27.3	2.61	2.79
BOC(HK)	23.0	14.7	114	32	35	13.3	10.3	1.89	1.72	302.8	28.5	4.5	5.8	15.2	17.4	1.14	1.37
CIMB	13.2	18.6	98	37	20	17.5	13.4	2.31	2.06	27.5	30.4	1.5	2.1	13.5	15.7	1.16	1.34
KBANK	6.3	16.4	95	19	4	14.9	11.0	1.71	1.56	(9.2)	35.1	2.3	3.0	11.9	14.8	1.09	1.39
Average	**679.3**	**25.1**	**96**	**13**	**74**	**16.1**	**13.0**	**2.57**	**2.24**	**19.3**	**24.7**	**2.6**	**3.1**	**17.8**	**19.2**	**1.62**	**1.75**

*Indian banks - 10CL & 11CL ** Mktcap is total

How Fights Start:

LAST WORD

My wife sat down on the settee next to me as I was flipping channels.

She asked, 'What's on TV?'

I said, 'Dust.'

And then the fight started....

****

Saturday morning I got up early, quietly dressed, made my lunch, and slipped quietly into the garage. I hooked up the boat up to the van, and proceeded to back out into a torrential downpour.

The wind was blowing 50 mph, so I pulled back into the garage, turned on the radio, and discovered that the weather would be bad all day.

I went back into the house, quietly undressed, and slipped back into bed.

I cuddled up to my wife's back, now with a different anticipation, and whispered, "The weather out there is terrible."

My loving wife of 5 years replied, "Can you believe my stupid husband is out fishing in that?"

And that's how the fight started...

****

I rear-ended a car this morning. So, there we were alongside the road and slowly the other driver got out of his car. You know how sometimes you just get soooo stressed and little things just seem funny? Yeah, well I couldn't believe it....

He was a DWARF!!! He stormed over to my car, looked up at me, and shouted, "I AM NOT HAPPY!!!"

So, I looked down at him and said, "Well, then which one are you?"

And then the fight started.....

****

****

A woman was standing nude, looking in the bedroom mirror... She was not happy with what she saw and said to her husband, "I feel horrible; I look old, fat and ugly. I really need you to pay me a compliment.'

The husband replied, 'Your eyesight's damn near perfect.'

And then the fight started.....

After retiring, I went to the Social Security office to apply for Social Security. The woman behind the counter asked me for my driver's License to verify my age. I looked in my pockets and realized I had left my wallet at home.. I told the woman that I was very sorry, but I would have to go home and come back later.

The woman said, 'Unbutton your shirt'. So I opened my shirt revealing my curly silver hair. She said, 'That silver hair on your chest is proof enough for me' and she processed my Social Security application.

When I got home, I excitedly told my wife about my experience at the Social Security office.

She said, 'You should have dropped your pants. You might have gotten disability, too...'

And then the fight started...

CONT'D

****

LAST WORD (CONT'D)

My wife was hinting about what she wanted for our upcoming anniversary.

She said, 'I want something shiny that goes from 0 to 150 in about 3 seconds..'

I bought her a bathroom scale.

And then the fight started...

****

When I got home last night, my wife demanded that I take her some place expensive... so, I took her to a petrol station.

And then the fight started...

****

My wife and I were sitting at a table at my school reunion, and I kept staring at a drunken lady swigging her drink as she sat alone at a nearby table.

My wife asked, 'Do you know her?'

'Yes,' I sighed, 'She's my old girlfriend. I understand she took to drinking right after we split up those many years

ago, and I hear she hasn't been sober since.'

'My God!' says my wife, 'who would think a person could go on celebrating that long?'

And then the fight started...

HAVE AN EXCELLENT WEEKEND
DAMIAN