

Ideas from the Country Ranking Model

5 February 2013

In the February issue of the HOLT Country Ranking Model, Japan is ranked at the top, given its attractive valuation, cashflow revision trend and the most-recent positive market sentiment. If sentiment continues to improve in Japan, companies in the contrarian theme (with high CFROI, attractive valuation but poor price and CFROI momentum) could benefit the most. [Ibiden \(4062 JT\)](#) is an attractive company that fits this profile.

On the other hand, Malaysia is at the bottom of the ranking table as market sentiment there remains weak on election overhang. [IOI Corp \(IOI MK\)](#) screens as an unattractive company with poor CFROI revisions.

Among the rest of the countries, Chinese banks and industrials and India Healthcare sectors appear most interesting, given their improving cashflow revision trends. The stocks that screen well include: Bank of China ([3988 HK](#)), CRCC ([1186 HK](#)), Dr Reddy's ([DRRD IN](#)) and IPCA Laboratories ([IPCA IN](#)).

Attractive contrarian companies in Japan

Unattractive value traps in Malaysia

Bloomberg Code	Company	Sector	Market Cap (USD bil)
5334 JP	Ngk Spark Plug Co., Ltd.(C)	Consumer Discretionary	2.8
6923 JP	Stanley Electric Co., Ltd.(C)	Consumer Discretionary	2.7
9202 JP	All Nippon Airways Co., Ltd.(C)	Industrials	6.9
8053 JP	Sumitomo Corporation(C)	Industrials	16.2
3632 JP	Gree, Inc.(C)	Information Technology	3.5
4062 JP	Ibiden Co., Ltd.(C)	Information Technology	2.0
3865 JP	Hokuetsu Kishu Paper Co., Ltd.(C)	Materials	1.0
3405 JP	Kuraray Co., Ltd.(C)	Materials	4.5

Bloomberg Code	Company	Sector	Market Cap (USD bil)
IGB MK	Igb Corporation Berhad	Consumer Staples	1.1
IOI MK	IOI Corporation Berhad	Consumer Staples	10.4
GENM MK	Genting Malaysia Berhad	Consumer Discretionary	6.9
KUL MK	Kulim (Malaysia) Berhad	Consumer Staples	1.5
PEP MK	Ppb Group Berhad	Consumer Staples	4.8

Source: Credit Suisse HOLT

Attractive stocks: Chinese banks, Industrials and India Healthcare stocks

The screen shows companies that have positive one month CFROI revisions in these sectors. Please contact [Hock Leng Ng](#) or [Jonathan Tischler](#) for the full list.

Bloomberg Code	Company	Sector	Market Cap (USD bil)	One Month Change in CFROI
1288 HK	Agricultural Bank Of China Limited	Financials	175.9	0.31%
3988 HK	Bank Of China	Financials	137.2	0.13%
939 HK	China Construction Bank Corp	Financials	215.4	0.02%
1398 HK	Industrial And Commercial Bank Of China Ltd	Financials	263.4	0.27%
1800 HK	China Communications Construction Co Ltd	Industrials	15.0	0.05%
1186 HK	China Railway Construction Corporation	Industrials	13.4	0.05%
390 HK	China Railway Group Limited	Industrials	12.3	0.01%
1157 HK	Zoomlion Heavy Industry Science And Technology Co.	Industrials	10.4	0.17%
CIPLA IN	Cipla Ltd	Health Care	5.9	0.03%
DRRD IN	Dr Reddys Laboratories Limited	Health Care	6.1	0.32%
IPCA IN	Ipca Laboratories Limited	Health Care	1.1	0.06%
SUNP IN	Sun Pharmaceuticals Industries Ltd	Health Care	13.7	0.07%
HCLT IN	Hcl Technologies Limited	Information Technology	8.9	2.85%
INFO IN	Infosys Limited	Information Technology	29.8	0.42%

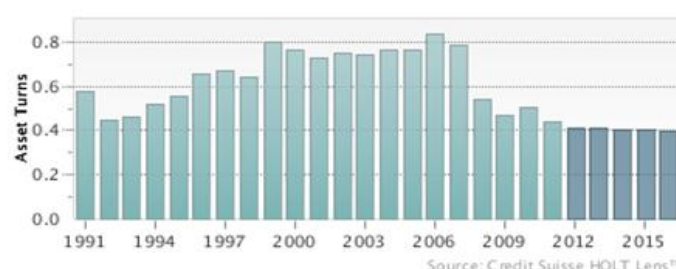
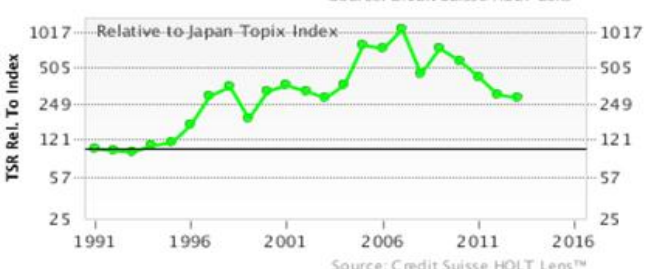
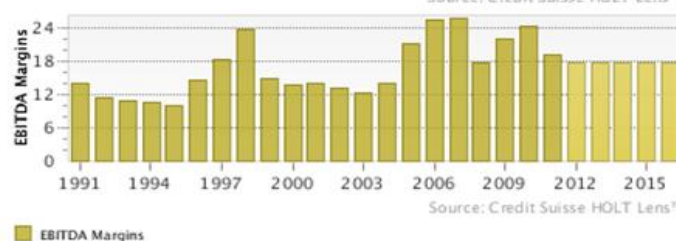
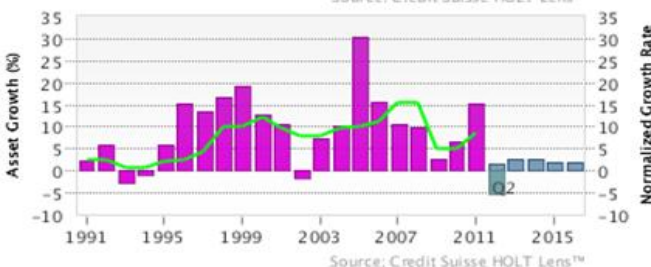
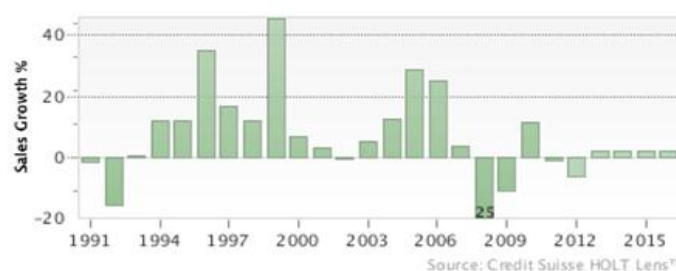
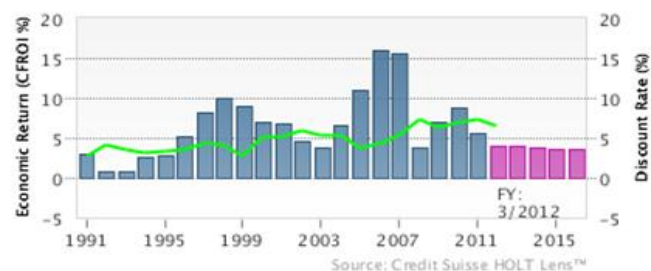
Source: Credit Suisse HOLT

Ibiden: Upside even on no recovery

- Theme.** The Japanese market has been a very strong performer with share price performance so far led by lower CFROI companies trading at attractive valuations. HOLT's contrarian theme, which highlights higher quality (CFROI) companies at attractive valuations, has so far lagged the broader market. Ibiden qualifies for our contrarian theme, given CFROI in the 4-5% area (actually not bad versus peers), very weak momentum on an uncertain outlook given a slowdown in PCs and at Apple and competition in general in Flip Chip (FC) Packages, but is an otherwise attractive valuation.
- Corporate performance.** Following a profit warning announced with first half results, Ibiden is expected to report minimal earnings this year amidst a slowdown in all of its major businesses (third quarter results are expected on 5 February). CFROI should still approximate 4% given a large depreciation burden. It could further recover to 5% next year on street estimates with lift also coming from a high degree of sensitivity to the yen.
- What's in the share price?** The shares are priced for no revenue growth and for margin to collapse from 18% to 8%. In turn, this would see CFROI settling out at 0%—the lowest level recorded in 20 years and suggesting little opportunity for Ibiden's non-tech related diesel particulate filter (DPF) business.
- Bull case.** In contrast, a scenario contemplating flat margins at levels expected for this year and 2% long-run growth suggests 80% upside. CFROI would hold at 3-4%, well below levels achieved in the past but still sufficient to suggest a meaningful upside for the shares.

Bloomberg ticker	4062 JT
Sector	Electronic Components
Specialist	Jonathan Tischler
Valuation	
Price	JPY1,234
Daily liquidity	US\$29.4 mn
Market Cap	US\$1.9 bn
Scenario upside	80%
Scorecard rating	★★★☆☆
CFROI®	
Last year	5.5%
Forecast	5.0%
Three-month revision	-117 bp

Scenario: 80% upside if CFROI can hold at 3-4%

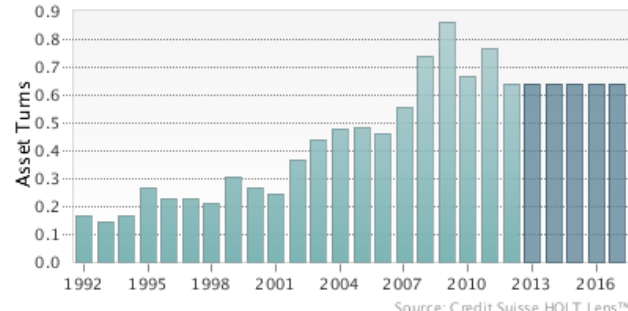
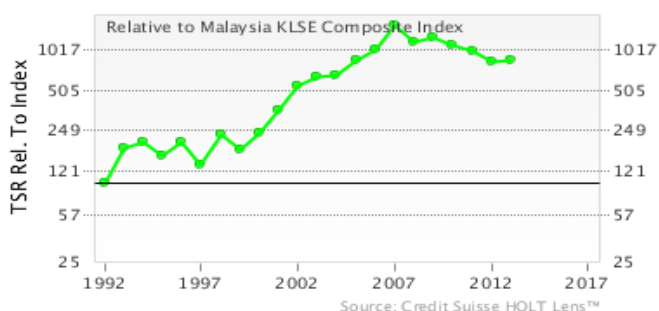
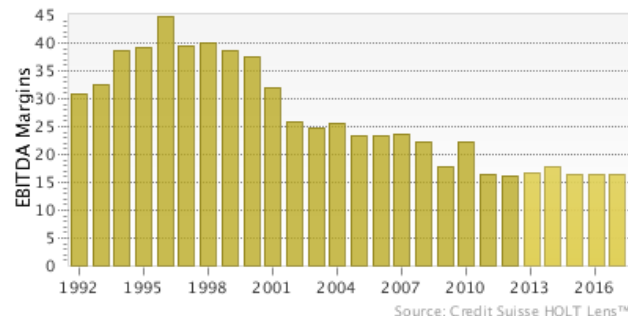
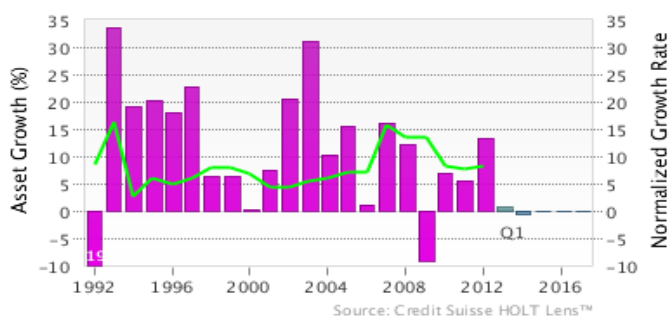
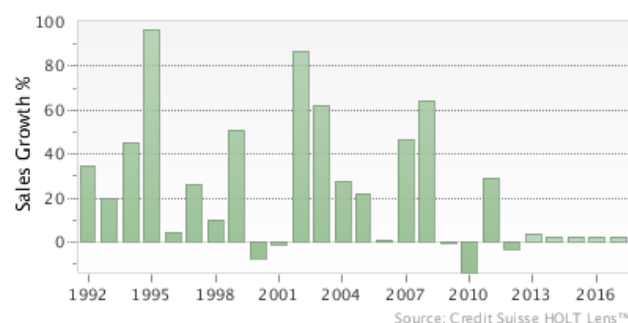
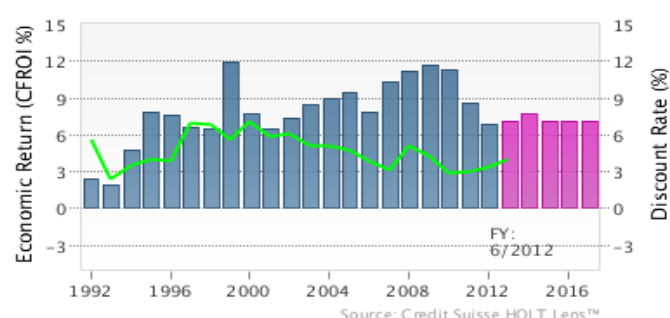


IOI Corporation: Outlook remains bleak across all businesses

- **Theme.** Malaysia to the bottom in February's edition of HOLT's Country Ranking Model. With weak price momentum and negative CFROI revisions, IOI Corp is one of the names whose earnings might be at risk of further downward revisions.
- **Corporate performance.** IOI Corp has consistently earned CFROI levels well above its cost-of-capital since 2001, along with an improving CFROI trend. However, facing a series of headwinds, such as the global economic slowdown and the persistently weak demand for palm oil, its CFROI has fallen for three consecutive years since peaking in 2009.
- **What's in the share price?** IBES consensus estimates suggest 2% annual sales growth over the next two years. EBITDA margins for 2013 have been lowered to 16.6% before recovering to 17.8% in 2014. IOI Corp's current share price implies acceleration in sales growth to 6% a year with margin remaining high through to 2016E, which might be hard to justify without visible improvement in palm oil demand or prices. This scenario uses a long-term median discount rate of 4%.
- **Bear case.** If IOI Corp can only achieve its three-year median EBITDA margins of 16.5% from 2014 to 2016 with 2% sales growth a year (same as 2014 consensus estimate) there is 15% downside to its current share price.

Bloomberg ticker	IOI MK
Sector	Agricultural Products
Specialist	Xinming Soh
Valuation	
Price	RM 4.97
Daily liquidity	US\$5.3 mn
Market Cap	US\$10.2 bn
Scenario downside	-15%
Scorecard rating	★★★☆☆
CFROI®	
Last year	6.9%
Forecast	7.4%
Three-month revision	-103bp

Scenario: 15% downside with three-year median margins and 2% annual sales growth

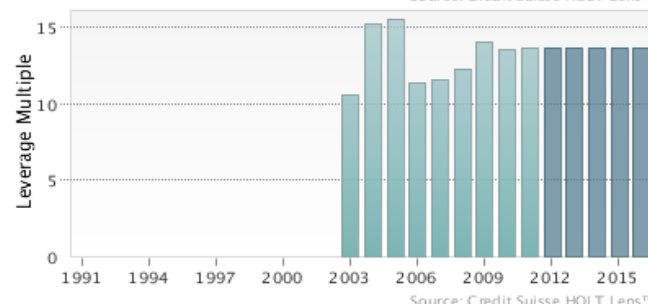
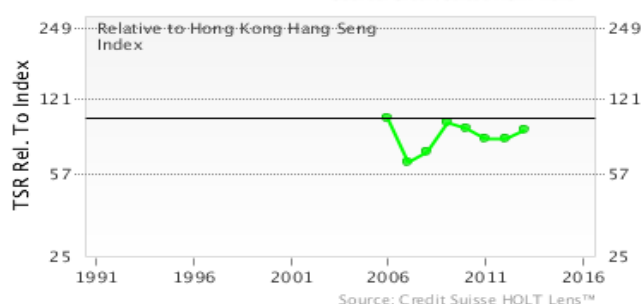
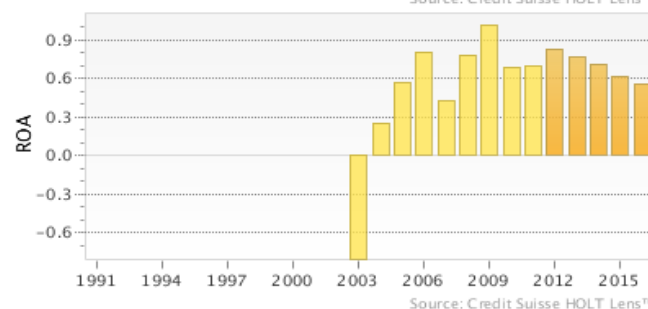
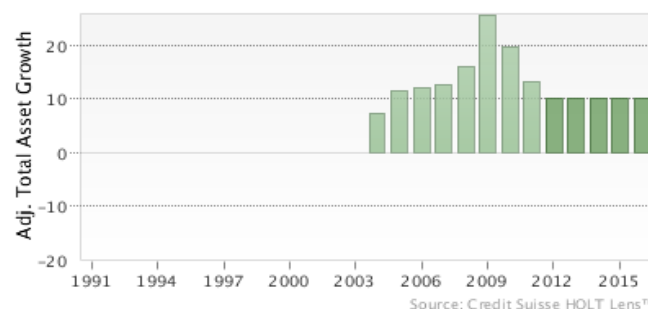
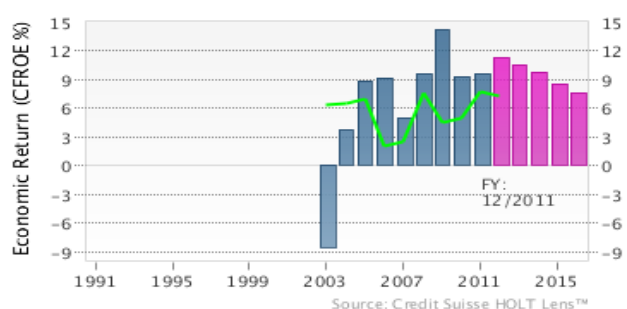


Bank of China: Implied expectations among the lowest in the sector

- **Theme.** In the February issue of the Country Ranking Model, Chinese Banks continue to have strong and improving CFROE revision ratio (upgrades/downgrades). Within the sector, Bank of China (BOC) has slightly inferior CFROE compared to peers but that appears priced in, given its sector low HOLT P/B ratio.
- **Corporate performance.** BOC has maintained an average CFROE of 9.6% over the past five years, helped by improving non-interest income, lower credit cost and its ability to leverage up the balance sheet. However, CFROE continues to trail that of large cap peers as ROA has been constrained by lower operating efficiency and NIM.
- **What's in the share price?** IBES consensus estimates suggest that CFROE will improve to 11.6% in the current year, translating into a real ROA of 0.8%. The bank is currently priced for ROA to decline 0.36% over the next five years with 10% annual asset growth. This translates into a CFROE of 5% by 2016, less than half its current level. On a HOLT P/B basis, the bank is trading at 0.91x, which is among the lowest in the sector and more than prices in its inferior CFROE relative to peers.
- **Bull case.** If the bank is priced at 0.6% real ROA (slightly below 2011 level), the HOLT fair value is HK\$5, 30% upside.

Bloomberg ticker	3988 HK
Sector	Diversified Banks
Specialist	Hock Leng Ng
Valuation	
Price	HK\$3.90
Daily liquidity	US\$138.8 mn
Market Cap	US\$137.5 bn
Scenario upside	30%
Scorecard rating	★★★★☆
CFROE®	
Last year	9.6%
Forecast	11.2%
Three-month revision	32 bp

Scenario: 30% upside assuming 10% asset growth and declining real ROA

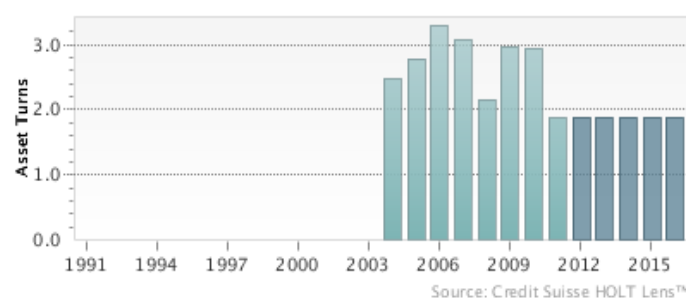
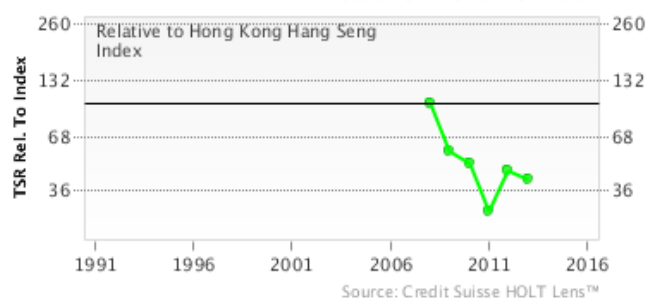
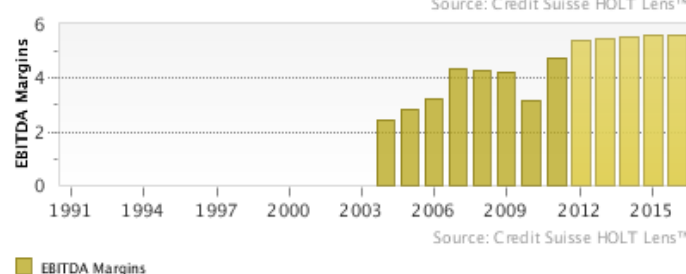
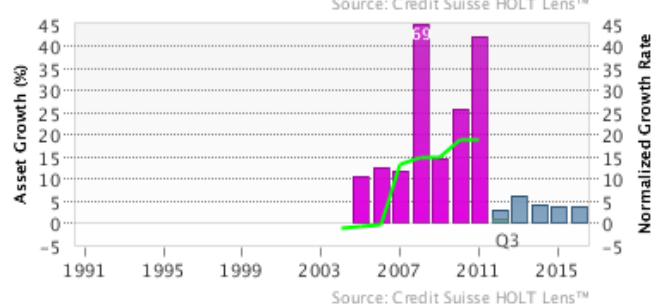
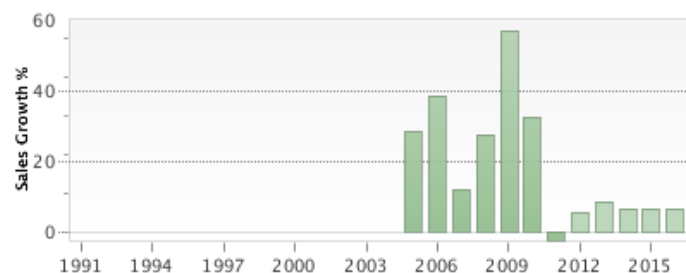
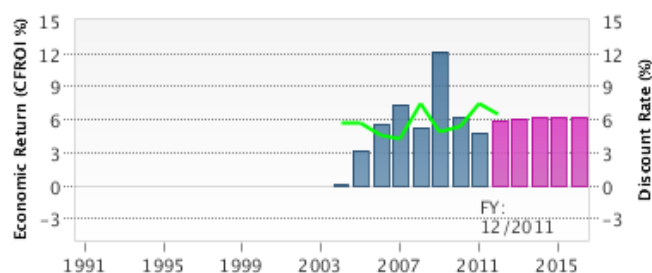


CRCC: Priced for margins to decline back to historical levels

- **Theme.** Undemanding valuation and positive cashflow revisions have made CRCC one of the more attractive industrial stocks in China.
- **Corporate performance.** CRCC experienced sales decline for the first time in 2011 after the delay in railway construction spending due to the Wenzhou crash. Delayed in receivables collection and the inventory pile up led to a surge in CRCC's asset base, leading to 1% drop in CFROI in 2011.
- **What is in the share price?** IBES consensus estimates show that market is expecting single-digit sales growth and margins to expand to 5.5% on the diversification into more profitable non-railway projects. Based on the current share price, HOLT model shows that in the medium term, market is pricing in a margin decline back to historical levels. Given the long-term need for infrastructure spending and higher margins achieved by CCCC (1800 HK; 5-year median margin=7%) that focuses on non-railway projects, current market expectation seems conservative.
- **Bull case scenario.** If CRCC can maintain its margins at the 2014 forecast level of 5.6%, there is a 27% upside.

Bloomberg ticker	1186 HK
Sector	Industrials
Specialist	Joe Lam
Valuation	
Price	HK\$8.31
Daily liquidity	US\$16.0mn
Market cap	US\$12.3bn
Scenario upside	27%
Scorecard rating	★★★☆☆
CFROI®	
Last year	4.7%
Forecast	5.8%
Three-month revision	7 bp

Scenario: 27% upside if margins can be maintained at 2014 forecast level of 5.6%

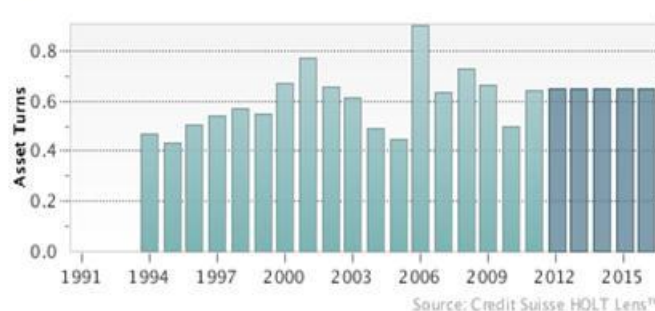
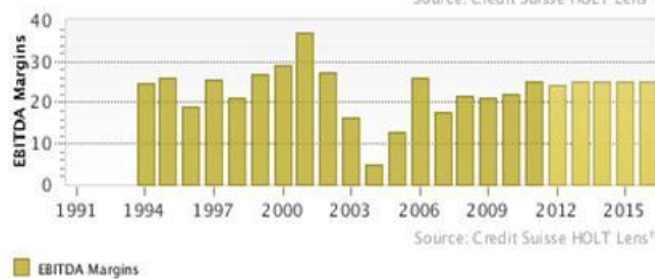
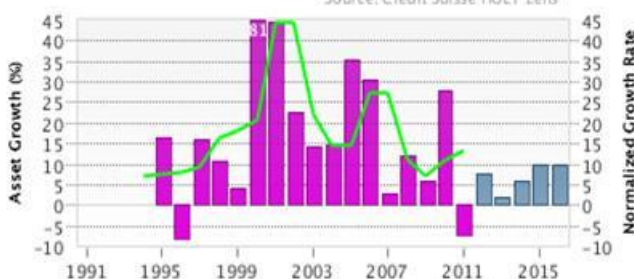
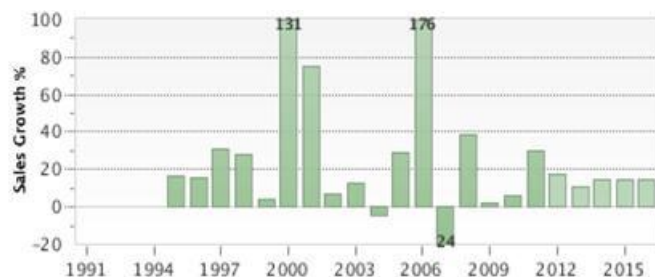
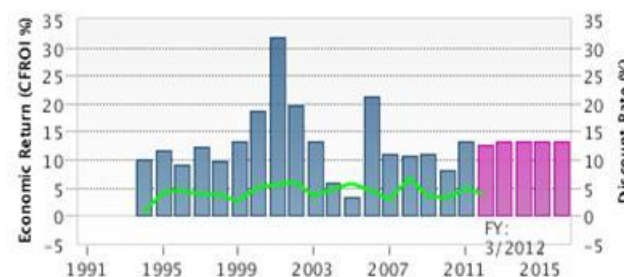


Dr Reddy's: New product approvals can help to sustain strong operations

- **Theme.** Healthcare sector in India has strong cashflow revisions and within healthcare, Dr Reddy is classified as a best-in-class company.
- **Corporate performance.** Dr Reddy's has consistently earned economic returns above its cost of capital, except for in 2005. Return profile is a little lumpy on account of exclusivities in 2001, 2006 & 2008. More recently, the economic returns have stabilised close to 10%. The company expects approvals for additional two low competition products, which could help sustain the strong operating performance.
- **What is in the share price?** IBES consensus estimates indicates continued growth in coming year but market appears conservative and is pricing for revenue growth to slow to 11% for 2014-16. This appears conservative considering company's strong growth opportunity in the under-penetrated Indian market and also healthy performance in the US markets.
- **Bull case.** If the company can maintain a 15% revenue growth for 2014-16 (half of 2011) and maintains 25% EBITDA margins (2011 levels), even then there is a 15% potential upside.

Bloomberg ticker	DRRD IN
Sector	Healthcare
Specialist	Chintan Parikh
Valuation	
Price	Rs.1933
Daily liquidity	US\$ 13.54 mn
Market cap	US\$ 6.10 bn
Scenario	15%
Scorecard rating	★★★★☆
CFROI®	
Last year	13.12%
Forecast	11.52%
Three-month revision	58 bp

Scenario: 15% potential upside on modest growth and EBITDA assumptions

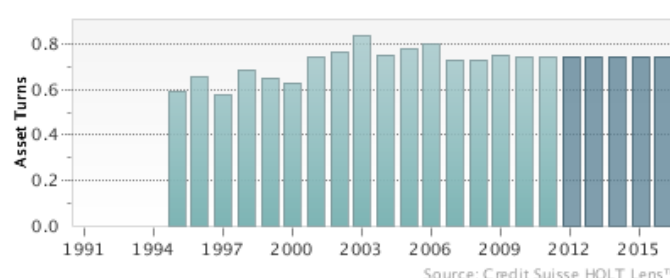
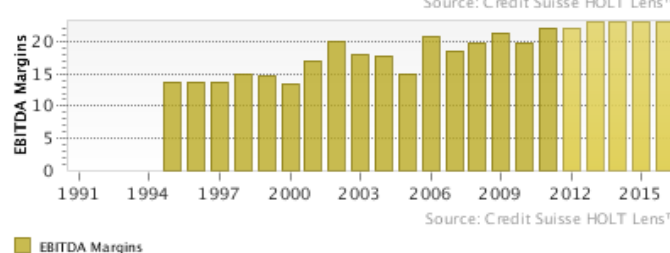
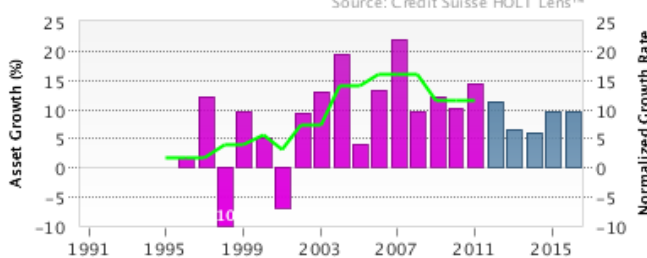
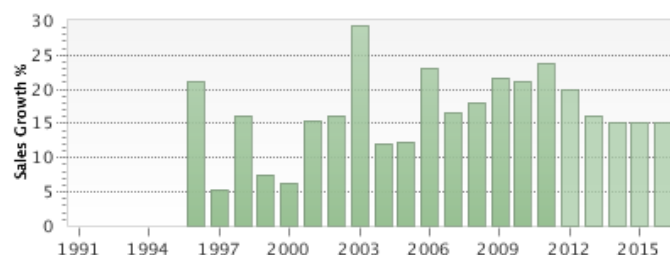
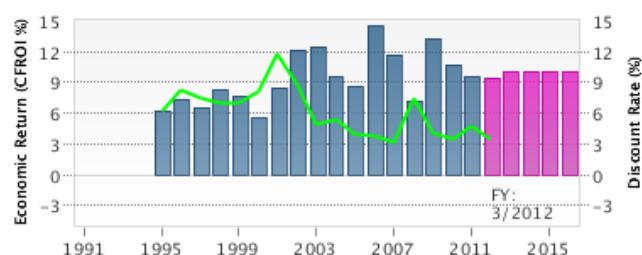


IPCA Laboratories: Healthy operations, low expectations

- **Theme.** The healthcare sector in India has strong cashflow revisions and within healthcare, IPCA has strong overall scores and a healthy economic return profile.
- **Corporate performance.** IPCA has generally earned returns of about 10% plus (except in 2008 on account of currency losses). Revenue growth has been a healthy 19% CAGR over the past ten years as the company grew its formulations business. Formulations constitute about 75% plus of company's revenues and 60% plus of the total revenue are from exports.
- **What is in the share price?** IBES consensus estimates indicate continued revenue growth of 20% and 16% growth in 2012 & 2013 with stable 22-23% margins. But market appears conservative and is pricing for revenue growth to slow to 10% for 2014-16 (the lowest level in the past decade is about 11%).
- **Bull case.** If the company can maintain a 15% revenue growth for 2014-16 (similar to 2013 consensus forecast) with stable margins, then there is a 21% potential upside.

Bloomberg ticker	IPCA IN
Sector	Healthcare
Specialist	Chintan Parikh
Valuation	
Price	Rs.481
Daily liquidity	US\$ 2.4 mn
Market cap	US\$ 1.12 bn
Scenario	21%
Scorecard rating	★★★★☆
CFROI®	
Last year	9.5%
Forecast	11.9%
Three-month revision	33 bp

Scenario: 21% potential upside on modest growth and EBITDA assumptions



New annual data

Listed below are the companies with a market cap above US\$1 bn that have updated their latest financials:

Company Name	Ticker	Country	Mkt Cap	Current	Default Warranted Value			CFROI / CFROE(%)		
			USD (bn)	Price	Before	After	Change (%)	FY-1	FY0	
Keda Industrial Company Limited	600499	CHN	1.11	10.89	7.13	8.34	█	16.88	(18.57)	(23.45)
Hanwha(N)	880	KOR	2.10	33,150.00	44,593.56	60,408.08	█	35.46	34.13	82.23
Fraser & Neave Holdings Berhad.	FRAS	MYS	2.14	18.28	10.57	10.54	█	(0.34)	(43.58)	(42.37)
Kuala Lumpur Kepong Berhad	KLKK	MYS	7.44	21.70	22.69	21.75	█	(4.11)	1.69	0.25

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