2013 Market Outlook

東英 Oriental Patron
Celebrating 20 Years

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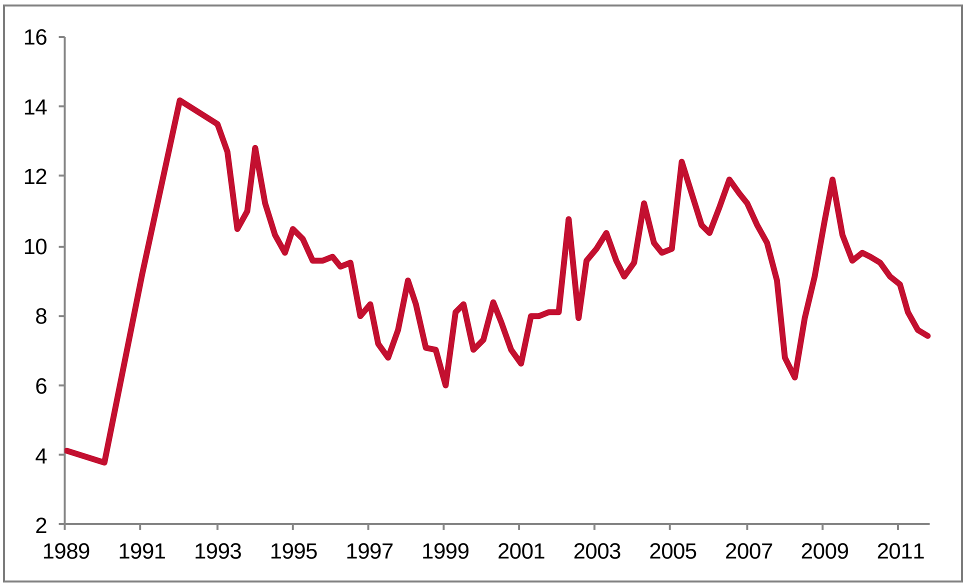
Macro Economic Outlook for 2013: Transition in Making

Moderate recovery in 2013 despite new leadership change

We expect China's 2013 GDP growth to see a slight rebound to 8.0% from 2012 level of 7.6% given the uncertainty in global economic outlook. China's GDP slows down to 7.4% in 3Q12 from 7.6% in 2Q12 and 8.1% in 1Q12. For 2013, we expect China's investment in infrastructure, railway and environmental protection to offset the staggering export sector. After the 18th CPC, China's leadership for the next decade will officially take over in March 2013. The new leadership consists of Xi Jinping, Li Keqiang, Zhang Dejiang, Yu Zhengsheng, Li Yunshan, Wang Qishan, and Zhang Qaoli. We expect the new leadership to put social stability as its top priority, thus we believe there will be no substantial changes in economical policies for the near term.

At the 18th CPC, president Hu set a goal of doubling GDP and per capita income by the end of 2020 from 2010 levels (2010 GDP=US$5.9 trillion, GDP per capita=US $4,555). This implies about 7% CAGAR in nominal GDP growth. In our view, Chinese leadership tends to be slightly conservative in setting the growth target, we believe China's GDP growth for the next 5 years will more likely to be in the range of 7.5-8.5% as a result of the following growth drivers: **Urbanization, Demographic Composition, Investment in Information Technology and Universal Healthcare**. We also see the GDP growth drivers shifting from East to West demographically.

Exhibit 1: China GDP YoY Growth

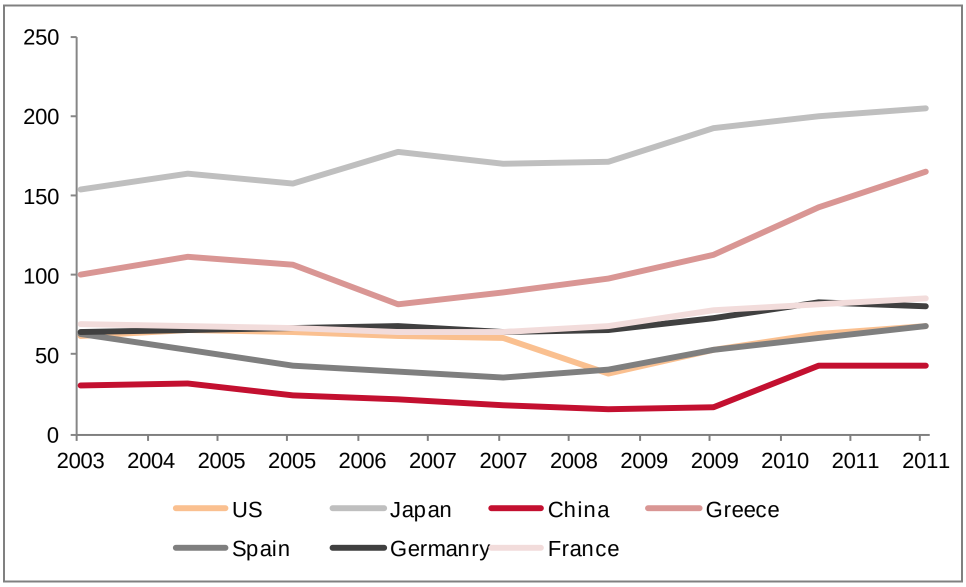


Source: Bloomberg, OP Research

Despite a challenging global economy and numerous social problems internally in China, we do not see the risk of significant slows down in China's economy as the Chinese government still have a lot of leeway to stimulate its economic growth given its low debt level, huge foreign reserve, and continuing inflow of foreign direct investment.

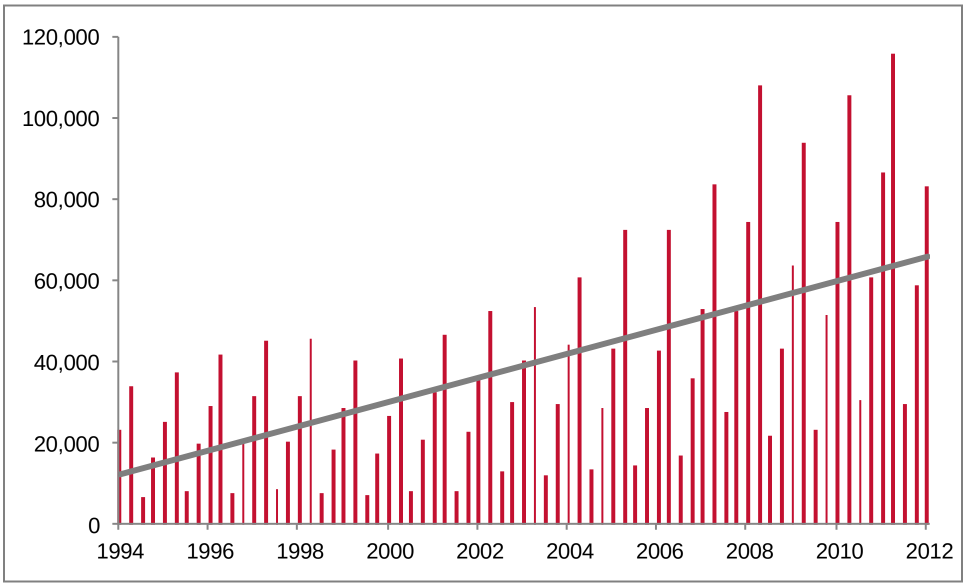
China's debt as percentage of GDP at the end of 2011 is only 43.5%, versus 205.5% for Japan, 67.8% for U.S and 165.3% for Greece.

Exhibit 2: Debt as percentage of GDP



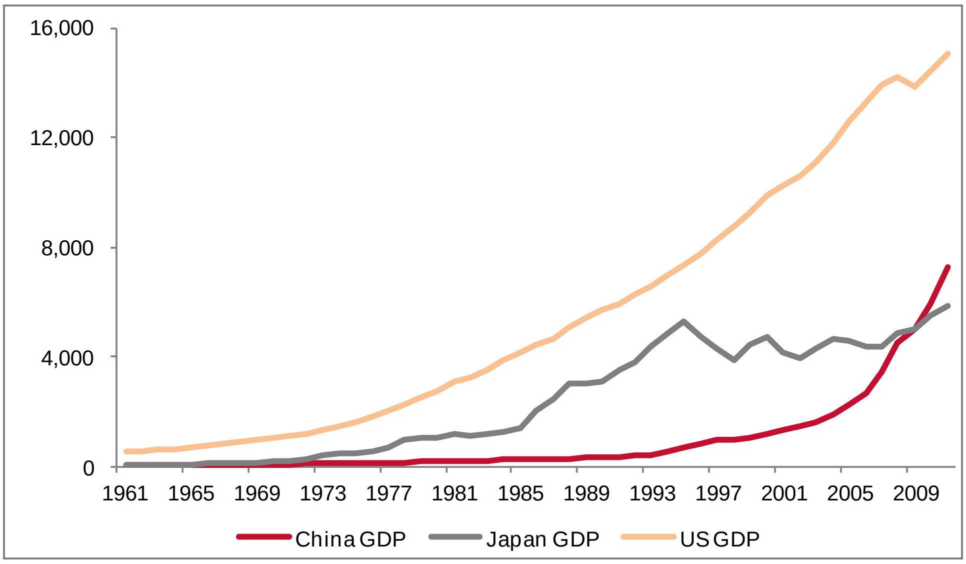
Source: Bloomberg, OP Research

Exhibit 3: China Foreign Direct Investment in UDS mn Quarterly Data



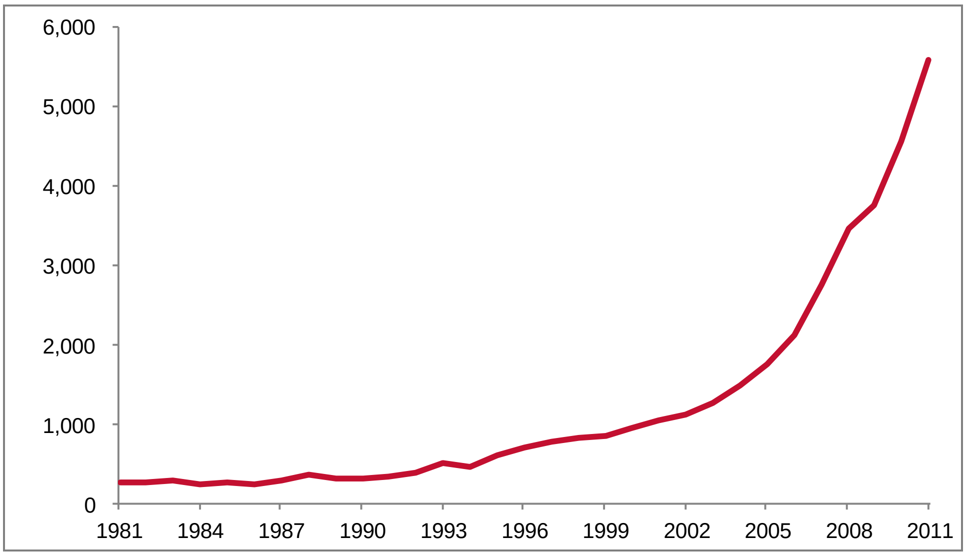
Source: CEIC, OP Research

Exhibit 4: China, Japan and U.S GDP in current USD



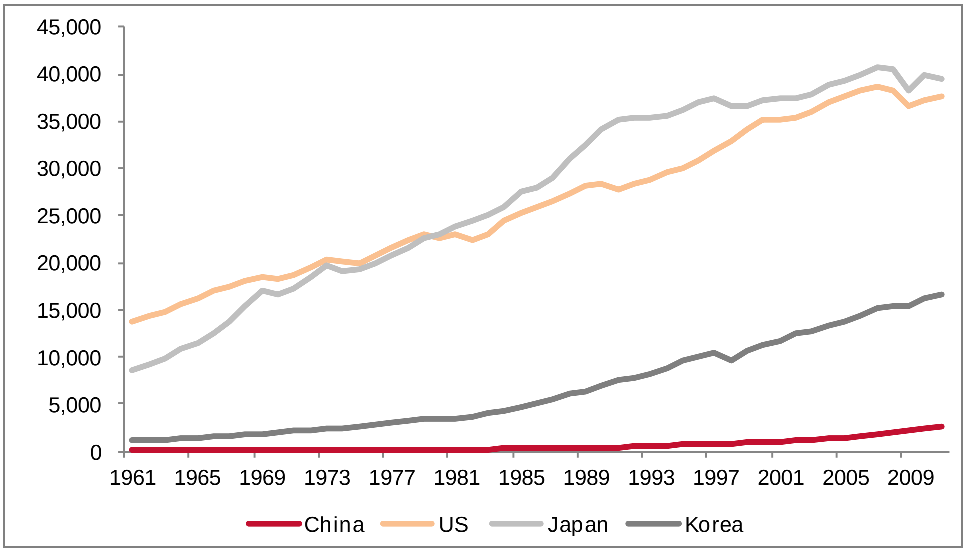
Source: Bloomberg, OP Research

Exhibit 5: China GDP Per Capita in Current USD



Source: Bloomberg, OP Research

Exhibit 6: China, U.S, Japan and Korea GDP per Capita in constant 2000 USD

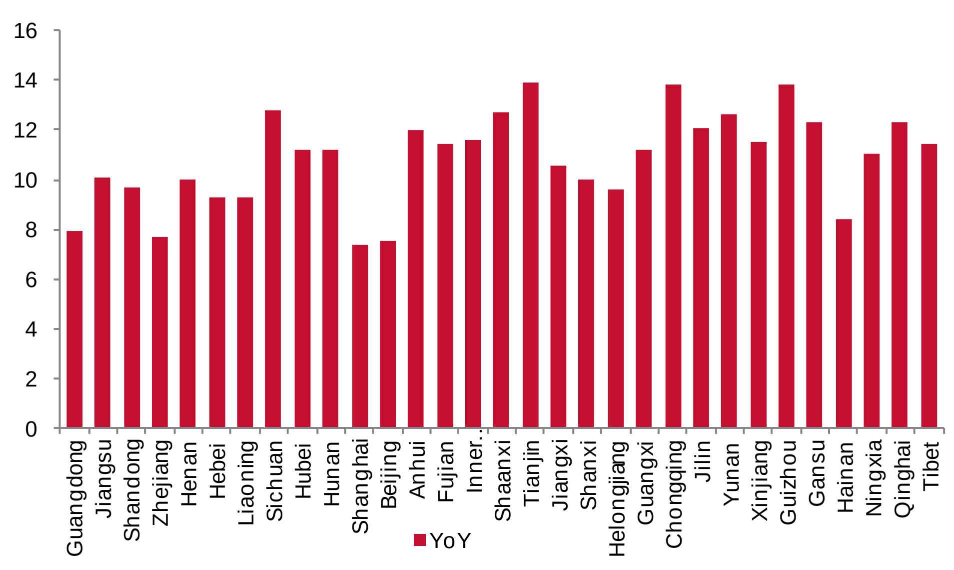


Source: Bloomberg, OP Research

Shifting of GDP growth driver from East to West

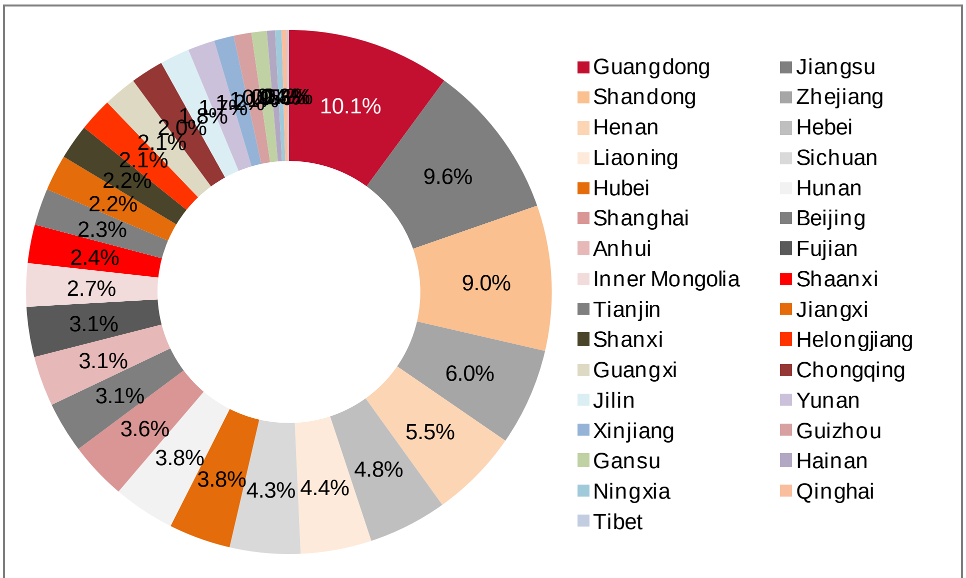
Despite the relative small GDP size, the GDP growth rate of western provinces is outpacing the eastern province, we expect the trend to continue in the next decade. In 3Q12, Guangdong, Zhejiang, Shanghai and Beijing achieved only 7.9%, 7.7%, 7.4% and 7.5% GDP growth, while Sichuan, Shanxi, Tianjing, Chongqing, Guizhou registered GDP growth rate of 12.8%, 12.7%, 13.9%, 13.8%, and 13.8%, respectively.

Exhibit 7: China 3Q12 GDP YoY Growth by Province



Source: NBS, OP Research

Exhibit 8: China GDP Share by Province



Source: CEIC, OP Research

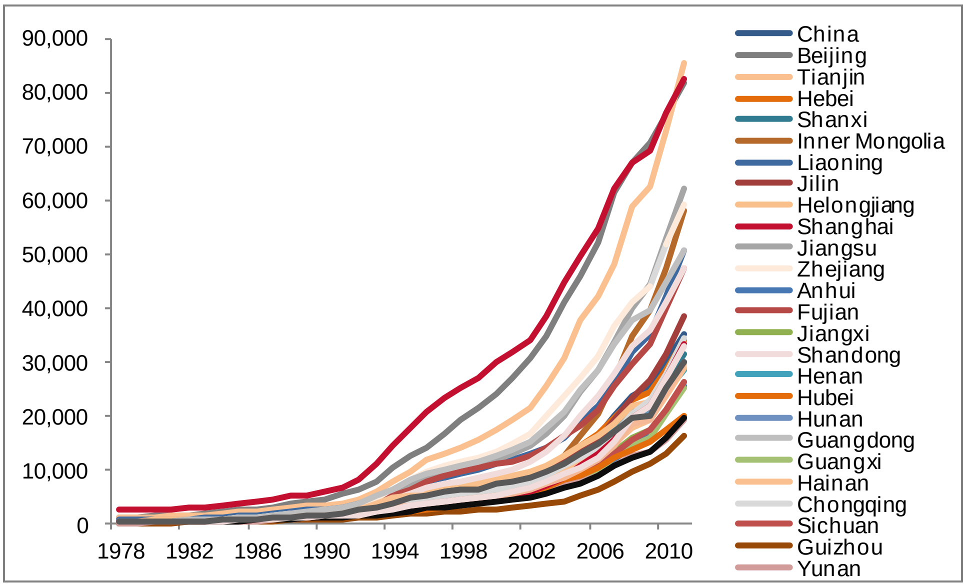
Exhibit 9: GDP Per Capita in RMB by Province

	2011 GDP Per Capita	3Q12 GDP Share	3Q12 GDP YoY
China	35,181	100.0%	7.4%
Tianjin	85,213	2.3%	13.9%
Shanghai	82,560	3.6%	7.4%
Beijing	81,658	3.1%	7.5%
Jiangsu	62,290	9.6%	10.1%
Zhejiang	59,249	6.0%	7.7%
Inner Mongolia	57,974	2.7%	11.6%
Guangdong	50,807	10.1%	7.9%
Liaoning	50,760	4.4%	9.3%
Fujian	47,377	3.1%	11.4%
Shandong	47,335	9.0%	9.7%
Jilin	38,460	1.8%	12.1%
Chongqing	34,500	2.0%	13.8%
Hubei	34,197	3.8%	11.2%
Hebei	33,969	4.8%	9.3%
Shaanxi	33,464	2.4%	12.7%
Ningxia	33,043	0.4%	11.0%
Helongjiang	32,819	2.1%	9.6%
Shanxi	31,357	2.2%	10.0%
Xinjiang	30,087	1.2%	11.5%
Hunan	29,880	3.8%	11.2%
Qinghai	29,522	0.3%	12.3%
Hainan	28,898	0.5%	8.4%
Henan	28,661	5.5%	10.0%
Jiangxi	26,150	2.2%	10.6%
Sichuan	26,133	4.3%	12.8%
Anhui	25,659	3.1%	12.0%
Guangxi	25,326	2.1%	11.2%
Tibet	20,077	0.1%	11.4%
Gansu	19,595	0.9%	12.3%
Yunan	19,265	1.7%	12.6%
Guizhou	16,413	1.1%	13.8%

Source: CEIC, OP Research

Breakdown GDP per Capita by province, we also notice huge disparity between the regions; Tianjing has the highest GDP per capita of RMB 85,213, followed by Shanghai at RMB 82,560. However, for the lowest three province: Gansu, Yunan, Guizhou, their GDP per capita are merely RMB 19,595, 19,265, and 16,413, respectively. We believe the Chinese central government will offer more favorable policies to the less developed province in order to narrow the income gap. This should translate to more investment in infrastructure and favor tax policies and investment incentives for the less developed regions.

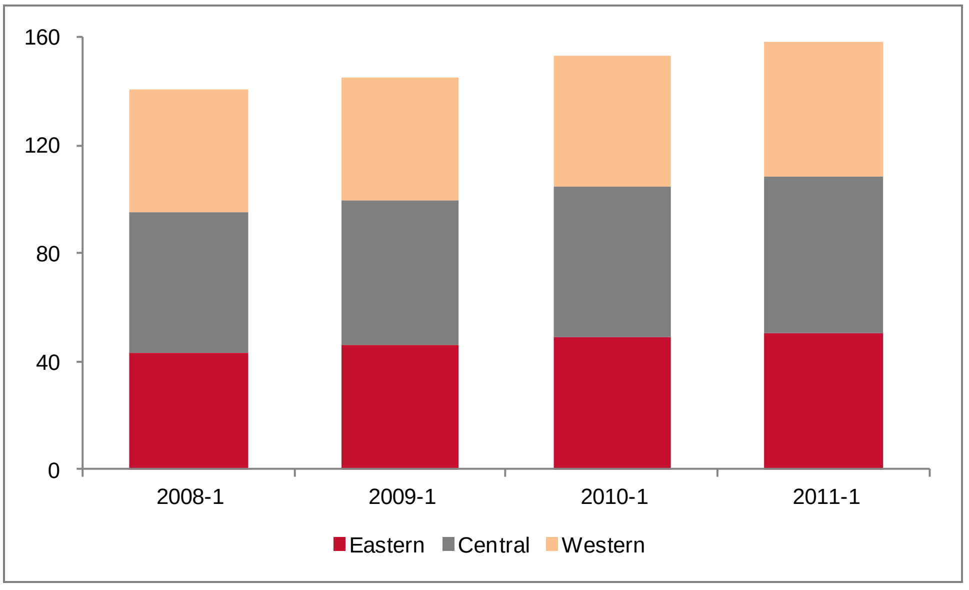
Exhibit 10: GDP Per Capita by Province in RMB



Source: CEIC, OP Research

As economic drivers begin its gradual shifting to west, we also noticed that more and more migrant workers are moving to central and western regions as shown in the graph below. This should stimulate more consumption demand in the central and eastern regions, as well as accelerate the urbanization process of these regions.

Exhibit 11: China migrant workers by region in millions

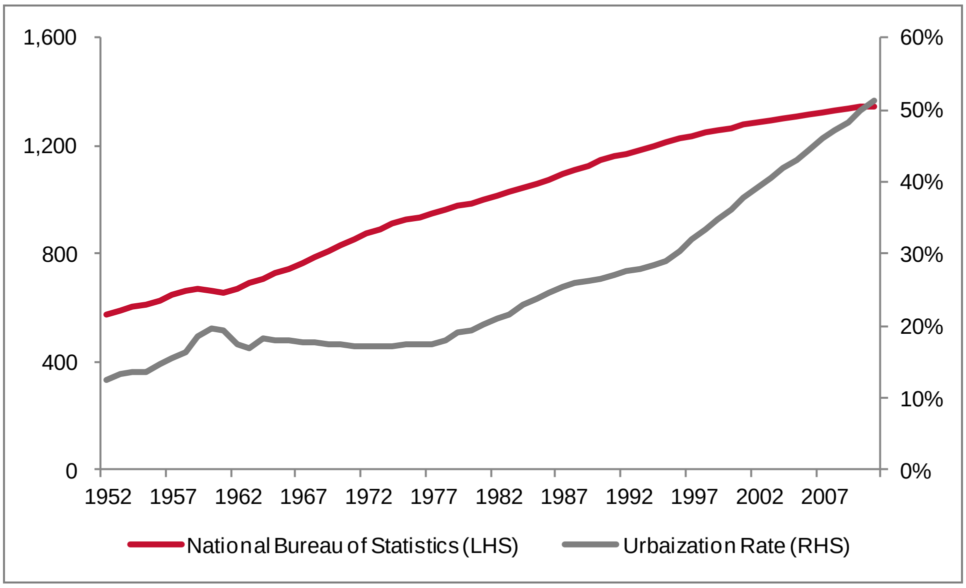


Source: NBS, OP Research

Urbanization: The driver for next decade

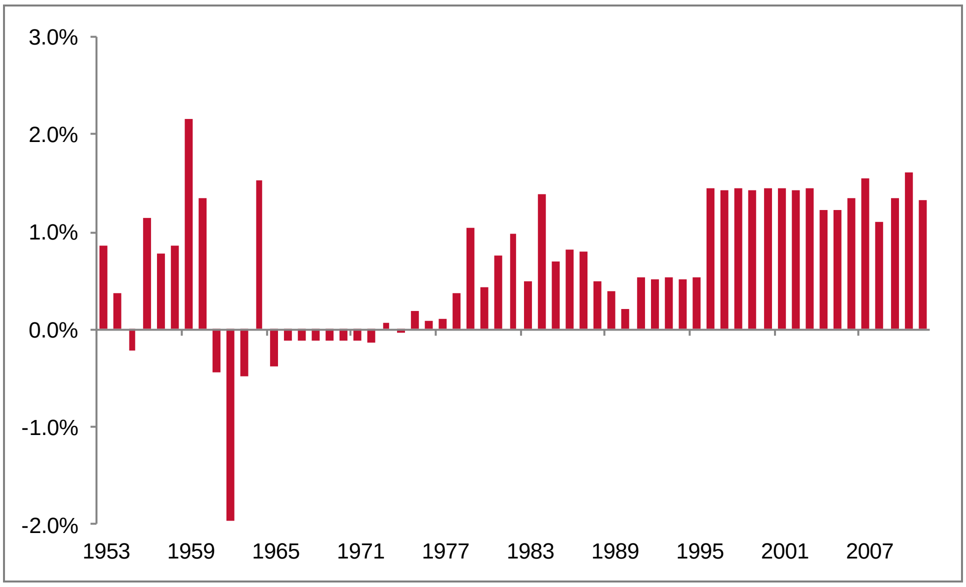
Urbanization in China has experienced a number of key phases since China was founded in 1949, including: Phase 1: 1949 –1957 (Steady Development) Phase 2: 1958 –1963 (Fluctuation) Phase 3: 1964 –1978 (Stagnation) Phase 4: 1978 –Present (Accelerated Growth). For the next decade, we believe the urbanization process will move to the next phase from Industrialization promoted urbanization to government leaded the urbanization process. And rapid urbanization is usually associated with very swift economic expansion as historical data shows in other countries.

Exhibit 12: China Urbanization Rate



Source: NBS, OP Research

Exhibit 13: China Urbanization Rate is average at 1.38 ppt of increase for the past 10 years



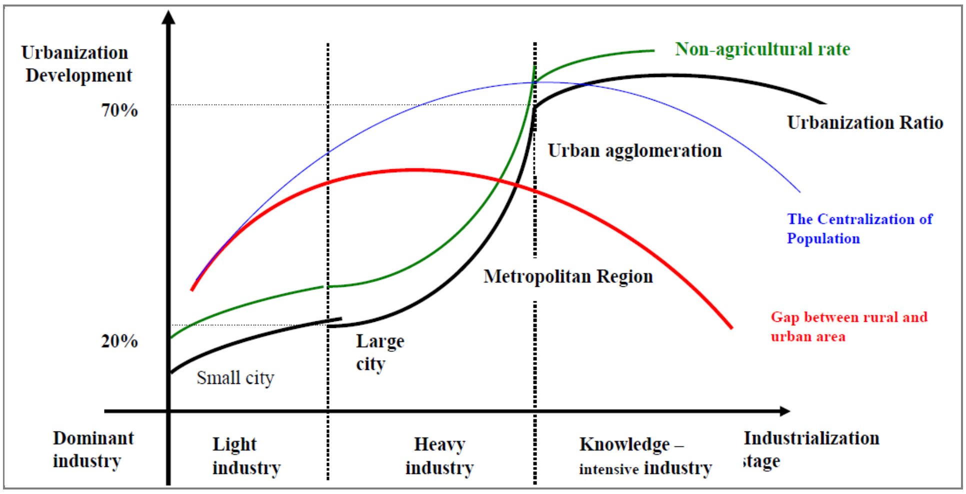
Source: NBS, OP Research

Urbanization accompanies with economic and social development in two fronts: Industrialization Promotes Urbanization Development and Developing Service Industry Needs Urbanization Development. Academic studies show that a country moves through a 40% urbanization level it achieves peak real per capita GDP growth of close to 8% and that between 30 and 50%, an average 6% real GDP growth rate is achieved. India, with slightly over 30% urbanization, is moving towards its sweet-spot growth rate range. China has been a positive outlier, in so far as its growth rate has been disproportionately higher at every level of urbanization. India's pace of urbanization, despite recent increases, will remain far lower than the rest of emerging world. In fact, United Nation report estimates that among the major emerging economies, India will be the last to see urban population exceed rural population, not achieving it till 2044.

We attribute China's exceptional GDP growth through the urbanization process to a strong and effective central government planning, as well as the Chinese specialty in control its population movement by the unique "HUKOU" system. This help China effectively managed some of the pitfalls arises from fast urbanization, such as slums, etc.

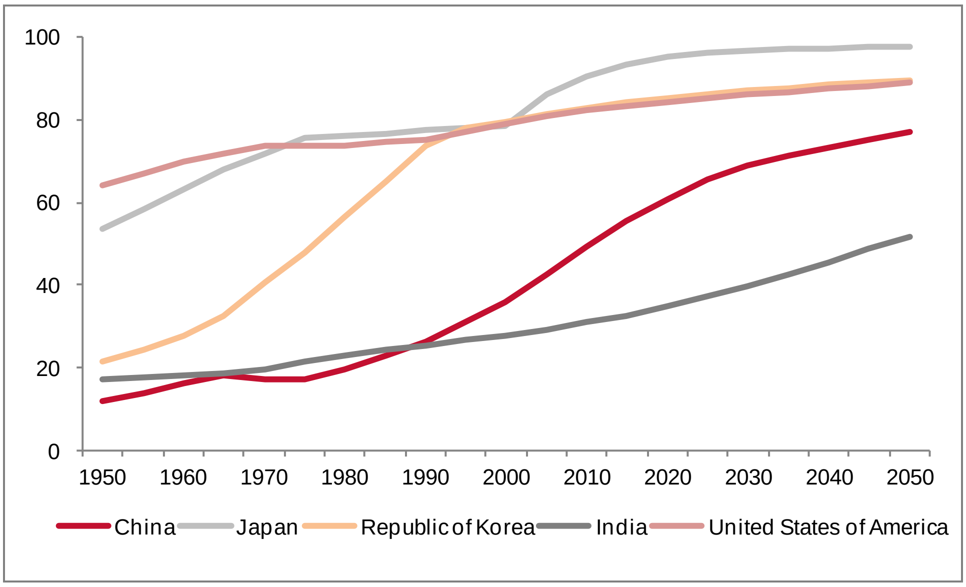
The next great challenge for Chinese government to tackle in order to continue its exceptional growth through rapid urbanization is income inequality. However, given its track record, we believe heavily investment in infrastructure, effective urban planning and wider social program should ensure its high growth associated with successful rapid urbanization if the new government is able to control the spread of government corruption.

Exhibit 14: Urbanization Stage



Source: Japan MoF, OP Research

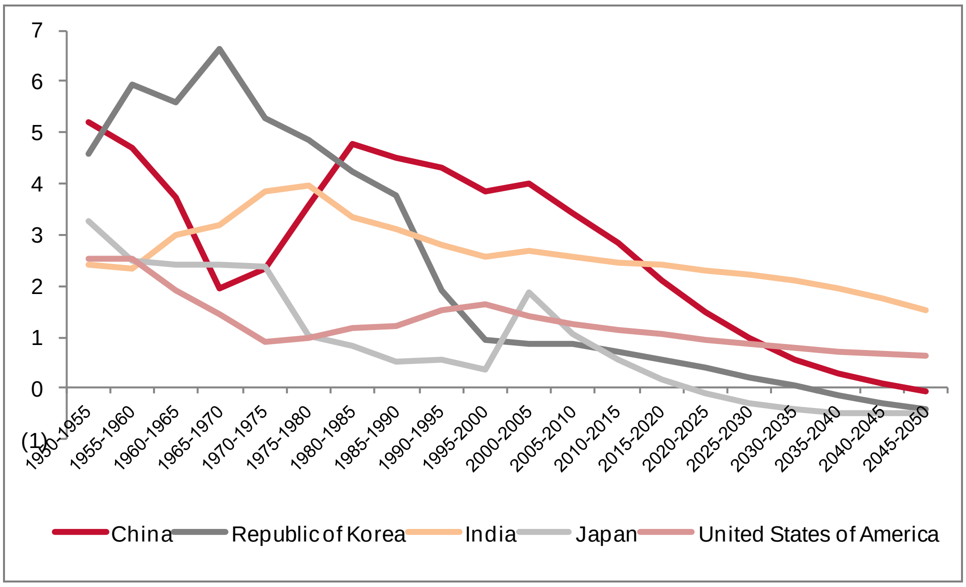
Exhibit 15: Major countries urbanization rate



Source: United Nation World Urbanization Prospects, the 2011 Revision

China's urbanization rate had reached 51.3 percent by the end of 2011, according to a report released Tuesday by the China Association of Mayors (CAM). The China Urban Development Report 2011 shows by the end of last year, the country had 30 cities whose permanent population has topped 8 million, and there were 13 cities with a population of more than 10 million. By 2025, an estimated 921m people or 65.4pc of China's population will live in cities, which are about 2.6 times of the United States' total population.

Exhibit 16: Average annual rate of change of urban population

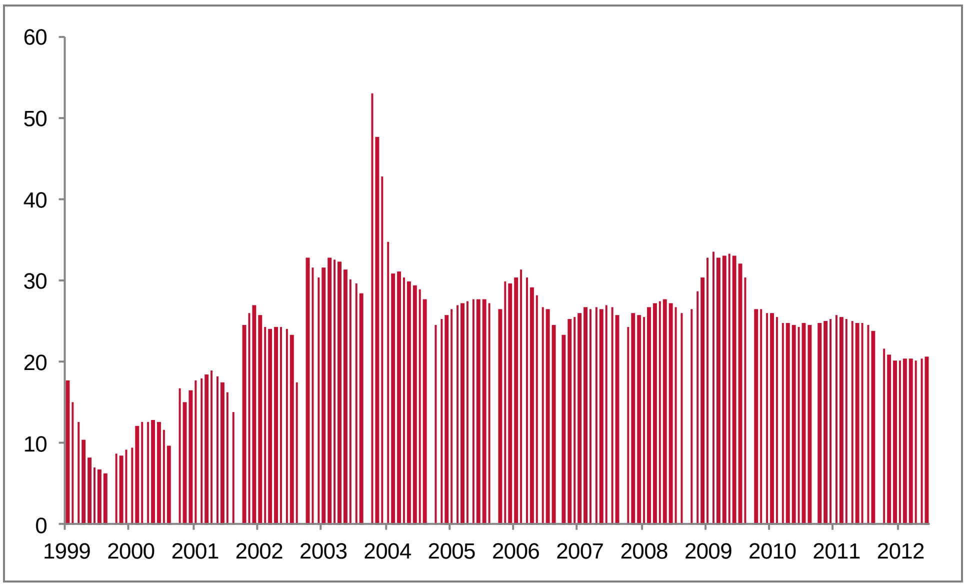


Source: United Nation World Urbanization Prospects, the 2011 Revision

Under the new leadership of president Xi Jinping, China aims to double its GDP by 2020 from 2010's level. At such as growth rate, China is expected to become the world's biggest economy by 2025 with a nominal gross domestic product. We believe the following trends will accelerate China's economic growth in the next decade: Urbanization, Demographic Composition, Investment in Information Technology, and Investment in Universal Healthcare.

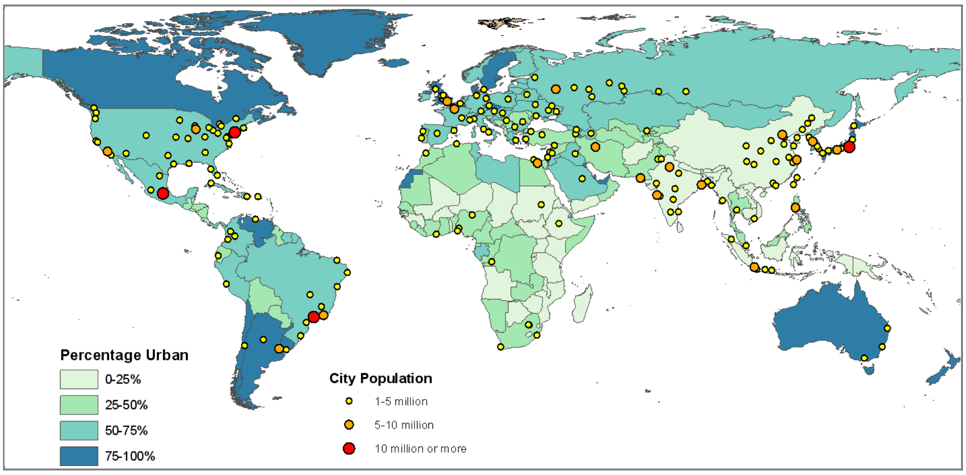
Urbanization in China over the next decade will bring significant changes to the country, resulting the emergence of 13 Mega-cities, 4 Mega-regions, and 7 Mega-corridors in 2025. These Mega Cities will grow to become the major hubs for commercial and business activity. In a bid to support urbanization, the Chinese government has announced to invest RMB 17 trillion on infrastructure, such as power supply, transportation, water, aviation between 2011 and 2015.

Exhibit 17: China Fixed Asset Investment YoY



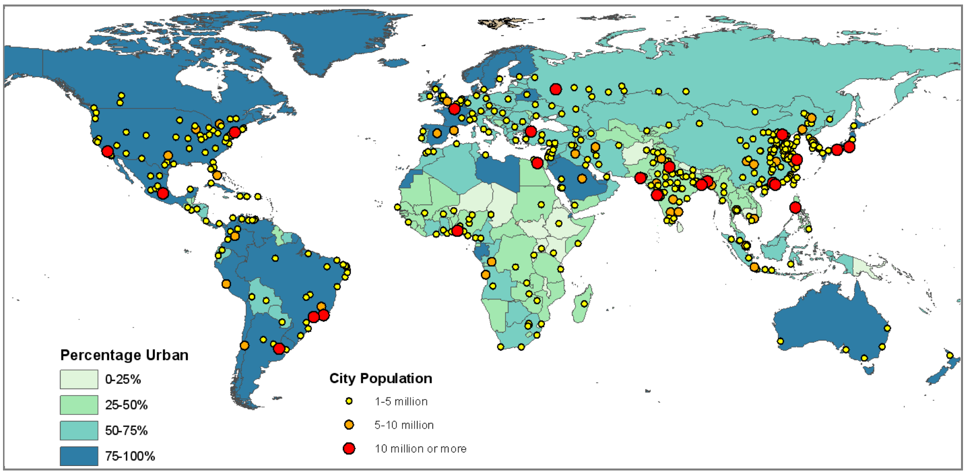
Source: NBS, OP Research

Exhibit 18: Percentage of urban population and agglomerations by size class, 1980



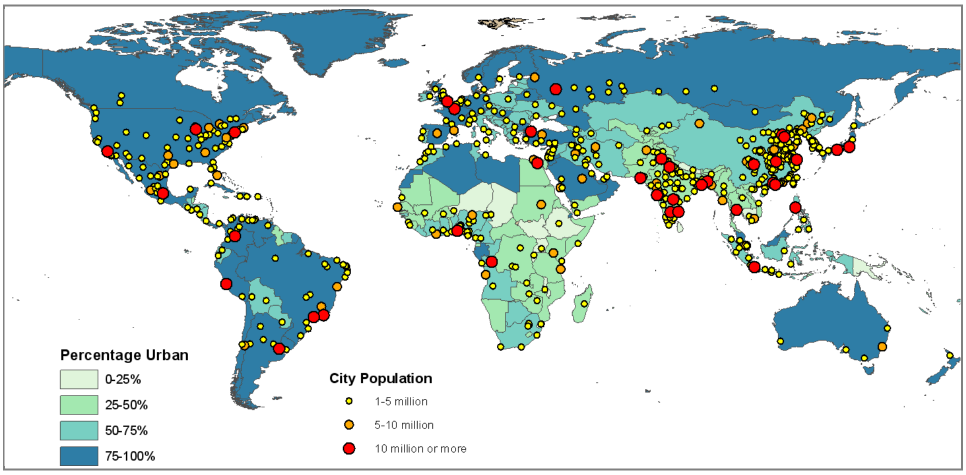
Source: United Nation World Urbanization Prospects, the 2011 Revision

Exhibit 19: Percentage of urban population and agglomerations by size class, 2011



Source: United Nation World Urbanization Prospects, the 2011 Revision

Exhibit 20: Percentage of urban population and agglomerations by size class, 2025



Source: United Nation World Urbanization Prospects, the 2011 Revision

Exhibit 21: World largest cities in 2011 and 2025

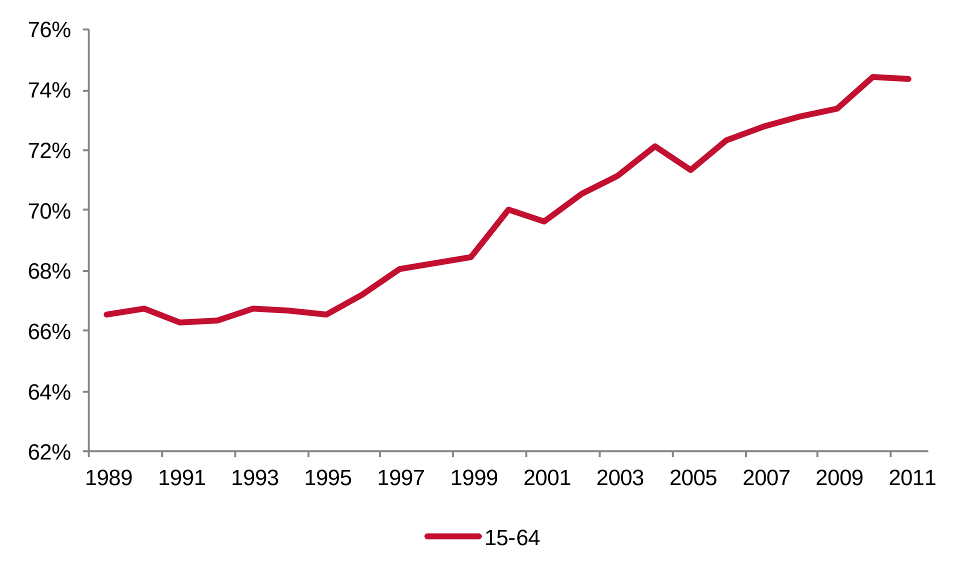
2011			2025		
Rank	**Urban agglomeration**	**Population**	**Rank**	**Urban agglomeration**	**Population**
1	Tokyo, Japan	37.2	1	Tokyo, Japan	38.7
2	Delhi, India	22.7	2	Delhi, India	32.9
3	Ciudad de Mexico (Mexico City), Mexico	20.4	3	Shanghai, China	28.4
4	New York-Newark, USA	20.4	4	Mumbai (Bombay), India	26.6
5	Shanghai, China	20.2	5	Ciudad de Mexico (Mexico City), Mexico	24.6
6	Sao Paulo, Brazil	19.9	6	New York-Newark, USA	23.6
7	Mumbai (Bombay), India	19.7	7	Sao Paulo, Brazil	23.2
8	Beijing, China	15.6	8	Dhaka, Bangladesh	22.9
9	Dhaka, Bangladesh	15.4	9	Beijing, China	22.6
10	Kolkata (Calcutta), India	14.4	10	Karachi, Pakistan	20.2
11	Karachi, Pakistan	13.9	11	Lagos, Nigeria	18.9
12	Buenos Aires, Argentina	13.5	12	Kolkata (Calcutta), India	18.7
13	Los Angeles-Long Beach-Santa Ana, USA	13.4	13	Manila, Philippines	16.3
14	Rio de Janeiro, Brazil	12.0	14	Los Angeles-Long Beach-Santa Ana, USA	15.7
15	Manila, Philippines	11.9	15	Shenzhen, China	15.5
16	Moskva (Moscow), Russian Federation	11.6	16	Buenos Aires, Argentina	15.5
17	Osaka-Kobe, Japan	11.5	17	Guangzhou, Guangdong, China	15.5
18	Istanbul, Turkey	11.3	18	Istanbul, Turkey	14.9
19	Lagos, Nigeria	11.2	19	Al-Qahirah (Cairo), Egypt	14.7
20	Al-Qahirah (Cairo), Egypt	11.2	20	Kinshasa, Democratic Rep. of the Congo	14.5
21	Guangzhou, Guangdong, China	10.8	21	Chongqing, China	13.6
22	Shenzhen, China	10.6	22	Rio de Janeiro, Brazil	13.6
23	Paris, France	10.6	23	Bangalore, India	13.2
			24	Jakarta, Indonesia	12.8
			25	Chennai (Madras), India	12.8
			26	Wuhan, China	12.7
			27	Moskva (Moscow), Russian Federation	12.6
			28	Paris, France	12.2
			29	Osaka-Kobe, Japan	12.0
			30	Tianjin, China	11.9
			31	Hyderabad, India	11.6
			32	Lima, Peru	11.5
			33	Chicago, USA	11.4
			34	Bogota, Colombia	11.4
			35	Krung Thep (Bangkok), Thailand	11.2
			36	Lahore, Pakistan	11.2
			37	London, United Kingdom	10.3

Source: World Bank

Demographic Composition: Shifting the growth pattern

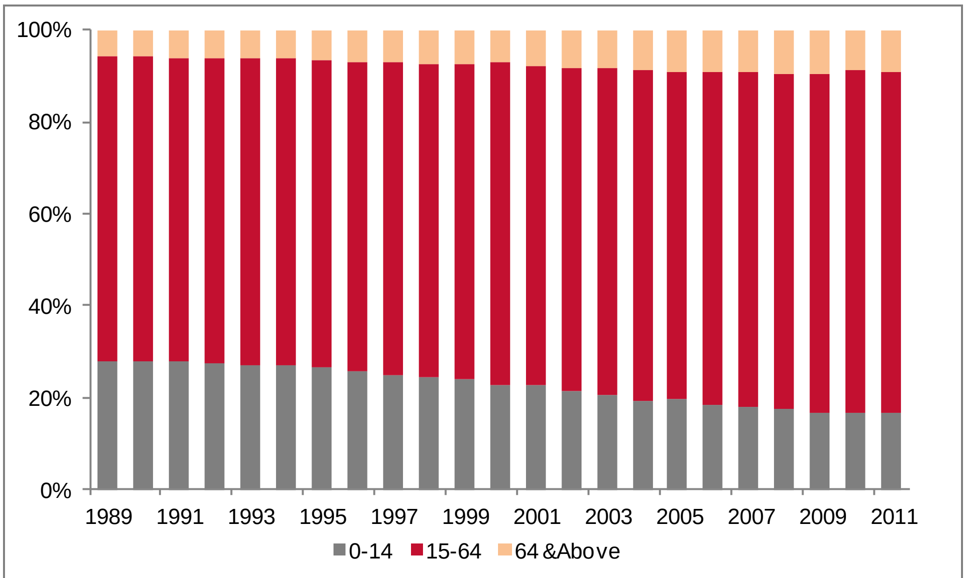
In addition to urbanization, the demographic composition of China will also become a key factor of China's growth in the next decade. As we can see from the diagram below, China's growth in the past two decades benefit significantly from the working age population growth. The percentage of working age population of China increased from 66.5% in 1989 to 74.5% in 2010, and 74.4% in 2011. This helps China to fast expand its economy based on an export oriented manufacturing industry. We expect China's working age population percentage to start a slow decline in the following decades; however China will still have 61% working population in 2050, still the highest among developed nations according to United Nation report.

Exhibit 22: China working age population percentage



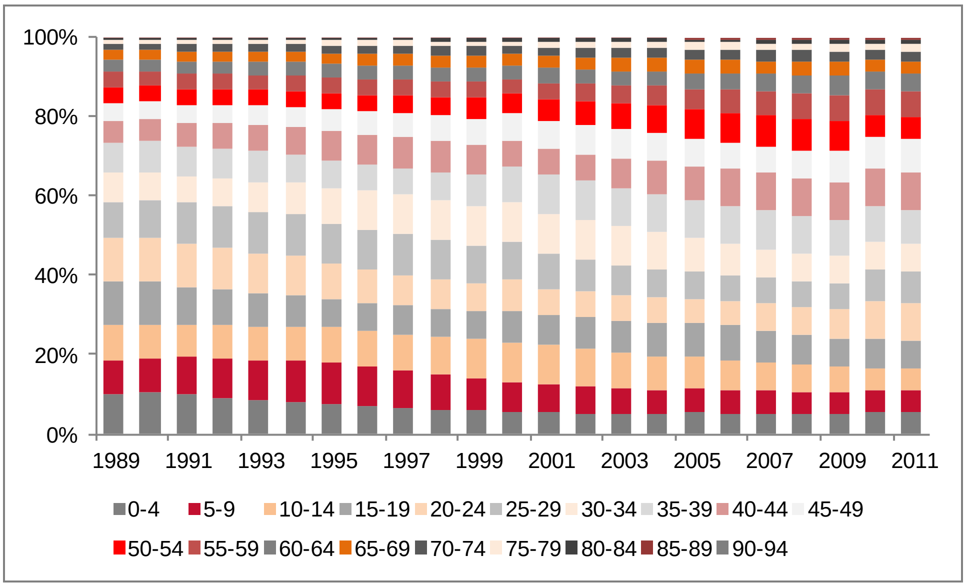
Source: NBS, OP Research

Exhibit 23: China age composition



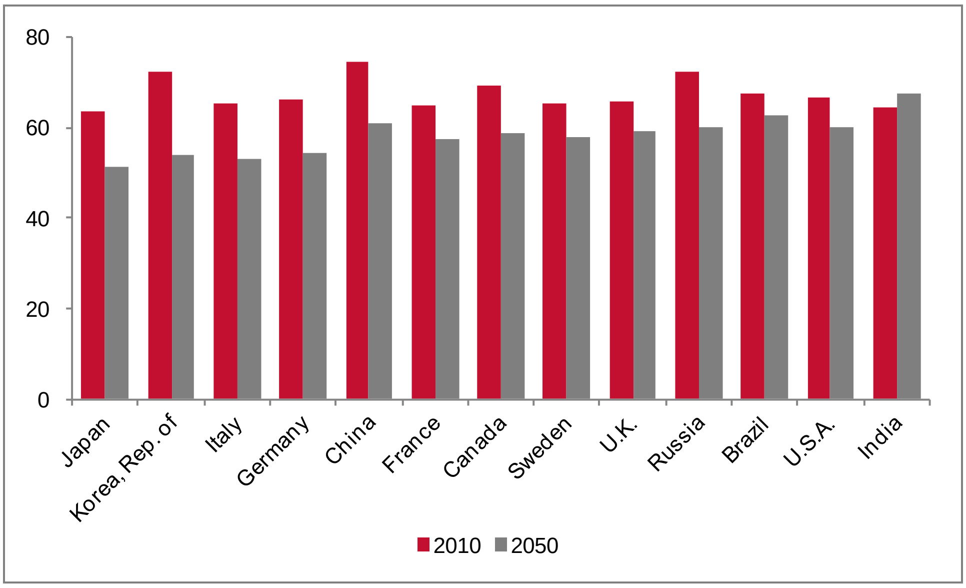
Source: NBS, OP Research

Exhibit 24: China population by age group



Source: NBS, OP Research

Exhibit 25: Major economy working age percentage change from 2010 to 2050



Source: United Nation, OP Research

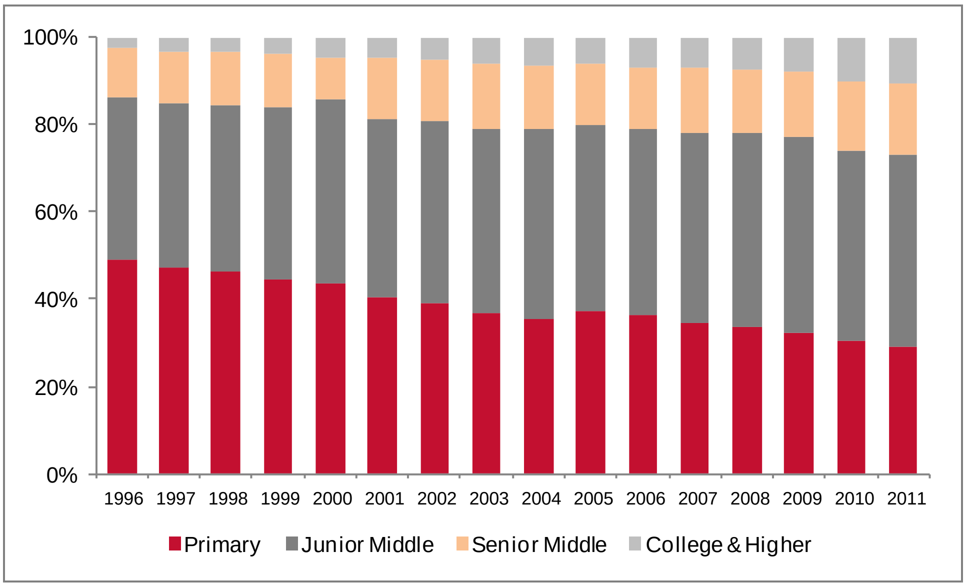
Exhibit 26: Age structure of population by country

	2010			2050 (projection)		
Country	**0-14 years**	**15-64**	**65 and over**	**0-14 years**	**15-64**	**65 and over**
Japan	13.2	63.8	23.0	9.7	51.5	38.8
Korea, Rep. of	16.4	72.4	11.1	13.2	54.0	32.8
Italy	14.1	65.6	20.4	14.3	53.0	32.7
Germany	13.5	66.1	20.4	14.5	54.6	30.9
China	16.6	74.5	8.9	13.5	61.0	25.6
France	18.4	64.8	16.8	17.6	57.5	24.9
Canada	16.4	69.5	14.1	16.2	58.9	24.9
Sweden	16.5	65.2	18.2	17.3	58.1	24.6
U.K.	17.4	66.0	16.6	17.2	59.2	23.6
Russia	15.0	72.2	12.8	16.9	60.0	23.1
Brazil	25.5	67.5	7.0	14.7	62.8	22.5
U.S.A.	20.1	66.9	13.1	18.8	60.0	21.2
India	30.6	64.5	4.9	19.0	67.6	13.5

Source: United Nation, OP Research

China shows great progress on education. The percentage of people with college and above education has increased from 2.6% in 1996 to 10.6% in 2011. And the percentage of people with only primary education has decreased from 48.9% to 29.2%. Higher education level will translate to higher productivity and help China to transform from a labor intensive based economy to a more knowledge-based economy in the next decade.

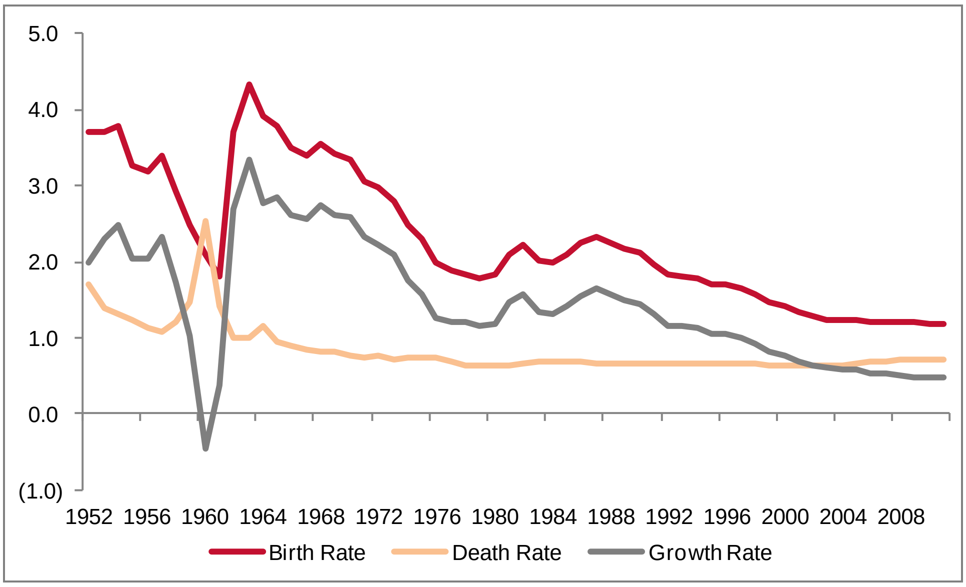
Exhibit 27: China education level has seen significant growth



Source: NBS, OP Research

China's population growth has declined significantly from over 3% in the 1960s to only 0.48% in 2011 as a result of the "One Child Policy". However, as the population growth slows and population ages, we expect Chinese government to gradually loose the control on the "One Child Policy", this will potentially bring the percentage of working age population to above the level predicted by UN. Nevertheless, the changes in demographic composition will force China to shift its growth pattern from an export oriented manufacturing centric economy to more consumption driven and innovative economy structure.

Exhibit 28: China Population Growth Rate has slows down to 0.48%

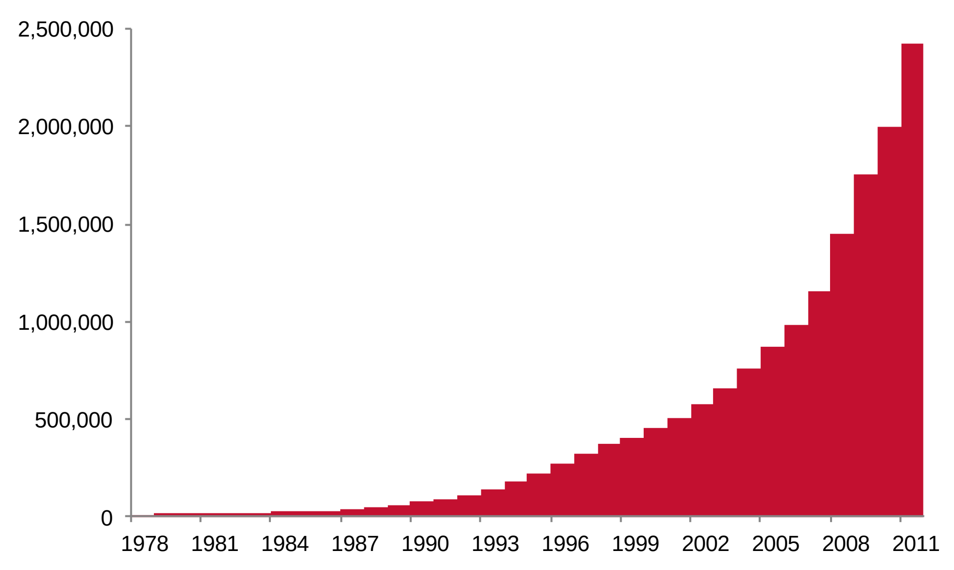


Source: NBS, OP Research

Investment in Healthcare: Still a lot of catch-up to do

China has heavily increased its spending in healthcare as its economy takes off. Total healthcare spending increased from 11 Bn in 1978 to 2,427 Bn in 2011.

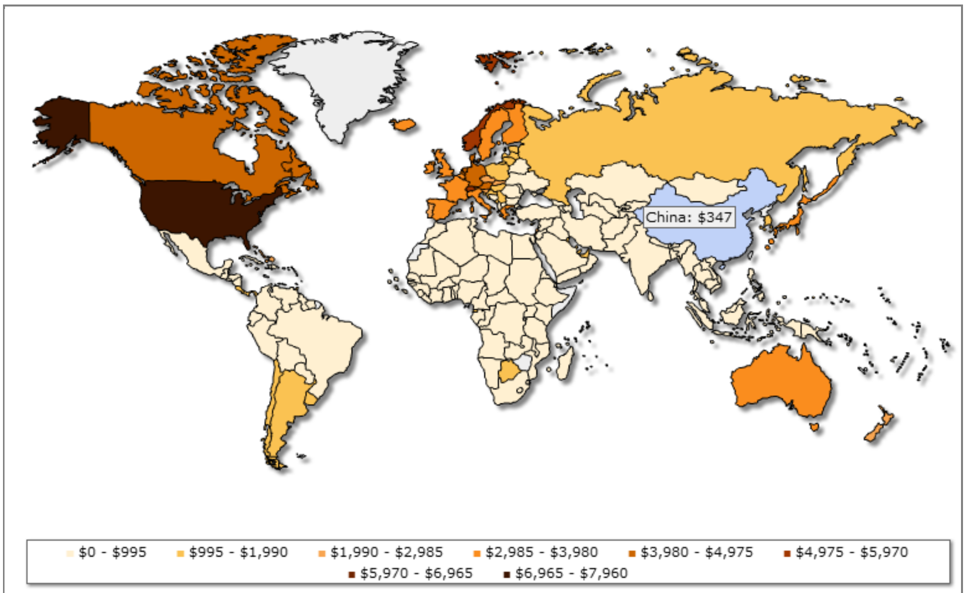
Exhibit 29: China Healthcare Spending in RMB mn



Source: MoH, OP Research

However, on a per capita based, China is still largely lagging behind the global standard. China per capita healthcare spending is merely RMB 969 for urban population and RMB 437 for rural population. According to data released by U.S Global Health Policy Group in 2009, U.S healthcare per capita is spending is highest in the world at US $7,960, Japan was US$ 3,045, and Korea was US$ 1,879.

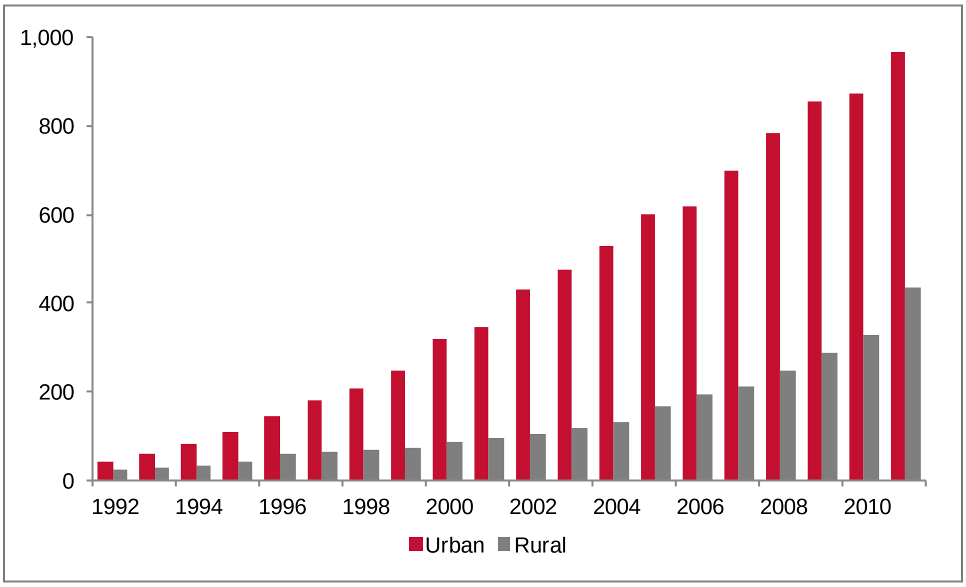
Exhibit 30: Health Expenditure Per Capita (PPP; International $) 2009



Source: Global Health Facts

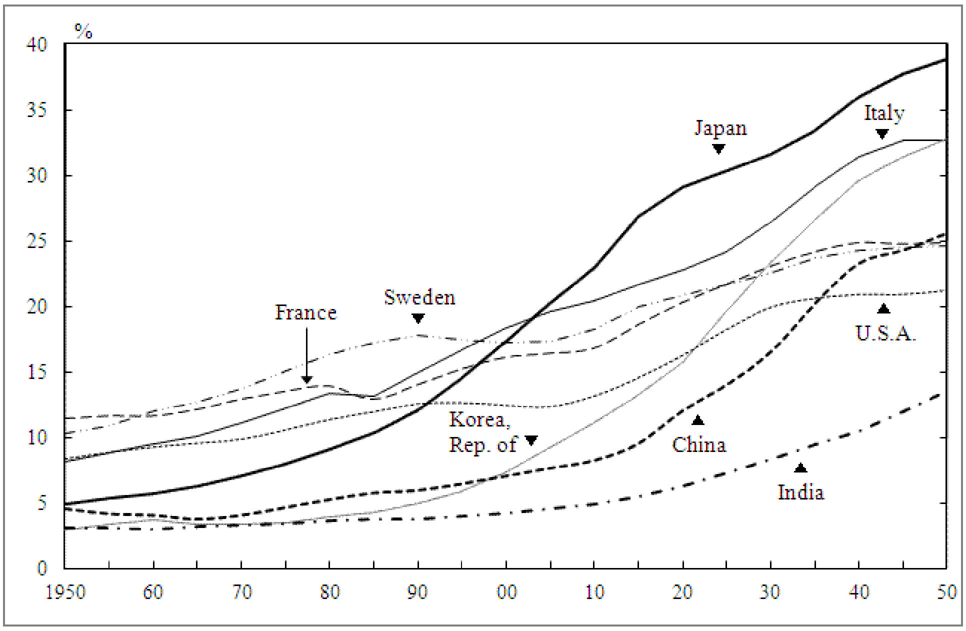
Even within China, healthcare spending per capita show wide variations. From 1992 to 2011, the ratio of per capita healthcare spending in Urban and Rural areas is 3.1. As a result, we view healthcare sector as an very promising sector to invest in over the next decade for China as China try to narrow the income and welfare gap between urban and rural area.

Exhibit 31: China Healthcare Spending per Capita in RMB



Source: MoH, OP Research

Exhibit 32: Proportion of Elderly Population by Country (Aged 65 and over)

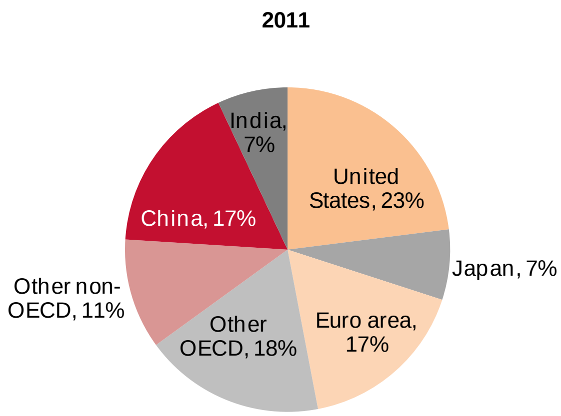


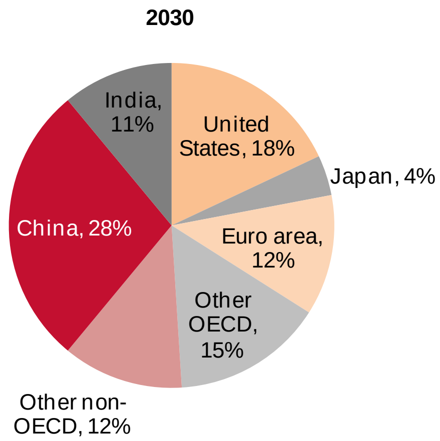
Source: United Nation, Japan Statistic Burea

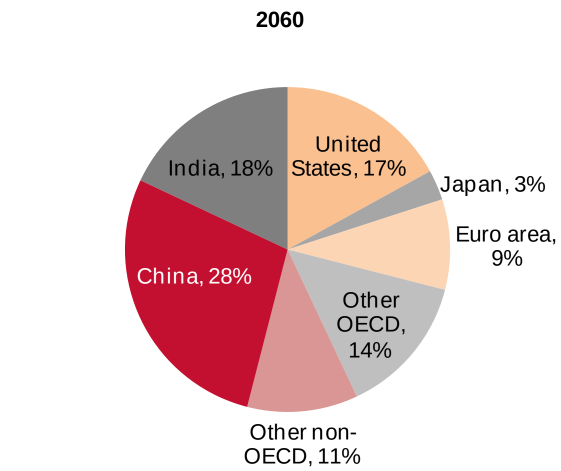
Long term Outlook: China to accounts for 1/3 of global GDP in 2030

According to OECD Report in September 2012 titled: “Looking to 2060: Long-term growth prospects for the world”. China is projected to surpass the Euro Area in a year or so and the United States in a few more years, to become the largest economy in the world, on the basis of 2005 purchasing power parities (PPPs). China’s global share of GDP on a PPPs based will increase from 17% in 2011 to 28% in 2030, while U.S will shrink from 23% to 18% and Japan will be reduced from 7% to merely 4%. China and India will experience more than a seven-fold increase of their income per capita by 2060. The extent of the catch-up is more pronounced in China reflecting the momentum of particularly strong productivity growth and rising capital intensity over the last decade. This will bring China 25% above the current (2011) income level of the United States, while income per capita in India will reach only around half the current US level.

Exhibit 33: GDP Global Share on PPP adjusted







Source: OECD

OP Sectors Outlook 2013

We believe the following trends will accelerate China's economic growth in the next decade: **Urbanization, Demographic Composition, Investment in Information Technology, and Investment in Universal Healthcare**. As such we suggest investors to focus on sectors that directly benefit from such growth drivers, while avoid sectors that are heavily export oriented given the continuing overhang of global economic uncertainty.

In 2013, sectors to overweight are: **Oil and Gas Services and Equipment Providers, City Gas Operators, Medical Device, Tablet, Smartphone Components, Chinese LCD TV, High End Diary, Luxury Automobile & Delalership**; Sectors to underweight are: **Jewelry, Apparel, Smartphone Vendors, Hong Kong Telecom**.

Top 10 Stocks to Overweight: **Hilong (1623 HK); SPT Energy (1251 HK); Chu Kong Pipe (1938 HK); Honghua (196 HK); China All Access (633 HK); TCL Multimedia (1070 HK); Zhengtong Auto (1728 HK); Geely Auto (175 HK); China Modern Dairy (1117 HK); and Stelux (84 HK)**

Top 2 Stocks to Underweight: **HTHK (215 HK) and Chow Tai Fook (1929 HK).**

- **TMT Sector**

In light of Win 8 and Win RT OS launch in 4Q12, we believe tablet competition will heat up in 2013 as Microsoft aim to gain 15-20% market share in 2013 which it is likely benefit PC brands supply chain stocks, our top pick is JT (3336.HK, BUY, HK$4.30) given its (1) strong cooperating relationship with TW NB ODMs, (2) ramping up of hybrid casing in traditional notebook and (3) increasing penetration of metal casing Ultrabook in 2013. For TV market, we strongly believe Chinese brands will gain market share from Japanese players in the global market continuously, our top pick is TCLM (1070.HK, BUY, HK$5.10) given its (1) solid market share gain in domestic and global market, (2) improving profitability by vertically integration and economics of scale, and (3) increasing penetration of high-end products like Smart TV and 3D TV. On the other hand, we believe smartphone shipments will remain robust in 2013 with 50%-100% yoy growth while the competition remains intensive, our top BUY is China All Access (633.HK, BUY, TP HK$3.0) as a newly transforming leading domestic smartphone component play. Last, we underweight HK Telco and our top SELL in the sector is HTHK (215.HK, SELL, TP HK$2.40) given (1) game changer – China Mobile HK (CMHK) emerge with planned FTD-LTE 4G network launch in HK by end of 2012, (2) 4G service price war and (3) downside risk on HK Telcos' blended ARPU.

Oil and Gas Services and Equipment Providers

Foreseeing **(A)** a rise in E&P activities and capex by national oil companies (NOCs) to boost production growth in natural gas at 12% CAGR growth over 2013E-2015E, and **(B)** emerging market liberalization measures to open up the upstream exploration market, we expect Chinese independent oilfield services and equipment providers to experience rocket growth in the coming three years. The increase in gas supply will also induce demand for transmission which will benefit leading pipeline and LNG container manufacturers. **Our top picks are:**

(1) **Hilong (1623 HK)**, being the top coating and non-API drill pipe manufacturer in China with superior product quality to provide drill pipes to the super deep, high temperature and corrosive wells in Tarim Basins. We believe Hilong to experience high shipment growth as CNPC and Sinopec accerlerates their development to their Northwesterm and Southwestern reservoirs in China, namely the Tarim, Sichuan and Ordos Basins, in the coming years.

(2) **SPT (1251 HK)** is a well-established leading independent oilfield services provider in China's Tarim Basin and Kazakhstan. The company's in-house produced pressure gauges provide them competitive advantage to capture the high-margin reservoir research services in Kazakhstan as well as China, while others lack the equipment to enter the market. We believe the national target of Kazakhstan to double their gas production from 42 bcm in 2011 to 80 bcm by 2015 and CNPC Tarim Oilfield's target to increase gas production from 17-18 bcm to 32 bcm by 2015 are major growth drivers for SPT from 2012-2015.

(3) Anticipating big tenders will emerge in early 2013 for CNPC West-East Line III and Sinopec Xin-Yue-Zhe Line, we believe 2013-2014 will be golden years for major transmission pipeline manufacturers such as **CKP (1938 HK)**. The construction West-East Line III and Xin-Yue-Zhe Line were approved by the NDRC in 2012 with collective target length of 15,000km. The 12th FYP for natural gas also aimed to double the national gas transmission pipeline network from 40,000km in 2010 to 49,000km by 2015.

(4) With the recovery of Brent price since 2010, order pick up were seen for **Honghua (196 HK)**, and we believe their earnings in 2012 will return to similar levels in 2008, one of the best years of the company. In the near term, the company has secured 35 sets drill rig orders, being above 50% of its annual capacity of 60 sets of drill rigs provide investors with confidence on the visibility in the earnings outlook of Honghua in near term. Besides, the increasing customer acceptance with Honghua's top drive components will be another catalyst.

Automobile

BUY beneficiaries of strong growth of SUV and premium vehicle sales. Despite we expect the overall sales volume growth in 2013 should be moderated to around 8-10%, we expect the robust sales of SUV segment and premium vehicle should be continued in next year. We see the demand of SUV and premium vehicles mainly driven by 1) replacement and upgrade demand; 2) capacities release; and 3) relatively lower penetrations compare to other developed countries; and 4) more localized premium product offerings to lower the prices. Their rally will continue, on our views. We believe Geely Auto (175 HK, BUY) will benefit from strong SUV rally, as the company will launch more SUV products in 2013. We also expect Zhengtong (1728 HK) is a beneficiary of normalization of luxury vehicle sales margin and expansion of after sales services profitability

- **Battery Sector**

BUY beneficiaries of industry consolidation. China's lead-acid battery industry is highly fragmented, the industry consolidation was triggered by government's "Entry Requirement of Lead-acid Battery Industry (鉛蓄電池行業準入條件)". The regulations set the higher entry barrier, and try to standardize the industry. We see industry consolidation should benefit market leaders. Based on market data, Tianneng (819 HK) and Chaowei (951 HK) are two major market dominants, have combined market share of 50%. We are projecting their combined market share will increase to 78% in 2014, as a result of higher market concentration.

- **Consumer Staple Sector**

Long term, we remain positive on the fundamentals for the leading staple names on the back of ongoing urbanization and rises in disposable income. We expect the large downstream companies to be the beneficiaries of this as they are market leaders with strong distribution networks, products, and brand name. Like Tingyi (322.HK, HOLD), UPC (220.HK, HOLD), Wantwant (151.HK, HOLD), and Mengniu (2319.HK, HOLD). On the other side, Numbers of food safety incidents remain the major overhang issue jeopardizing consumer confident and translate into the big caution for investors, especially in dairy sector. Thus we see a faster-than-expect consolidation in the dairy upstream sector which pushed by government in the coming years. The fist movers and large-scale dairy farms, like China Modern Dairy (1117.HK, BUY), will directly be benefited from it. The players, like Biostime (1112.HK, BUY), whose niche market positioning, enhanced retail-channel and real time supply-chain management have paved the way for acceleration of sales growth.

- **Luxury Retail Sector**

We remain positive on the consumer discretionary sector. Our 2013 estimate are slightly lower than consensus estimate as we expect a general recovery should be revealed depending on the fundamental of policy change on discretionary spending. With an improving China economy outlook in 2013, disposable income would likely to rise along after the necessity.Despite of volatilities of global economy and gold price, we are expecting middle to high end class are gradually expanding its wealth in China and this able from high spending cities to further penetrates to lower cities to boost consumption. High ticket price consumption would able to generate better margin generally. We believe such recovery would benefit Chow Sang Sang (116 HK, Hold) and Luk Fook (590, Hold). We remain cautious on Chow Tai Fook (1929 HK, Sell) given its slow SSSG recovery and over expansion of stores. We are hoping the growth recovery to pick up from 2H2013.

Valuation Section (Top 10 overweight and top 3 underweight)

Exhibit 34: Valuation

				PE			PB			
Company name	**Stock code**	**Price**	**Mkt cap (HK$ mn)**	**FY1A**	**FY2E**	**FY3E**	**FY1A**	**FY2E**	**FY3E**	**OW/UW**
Hilong	1623	2.58	530	10.97	9.92	8.18	1.62	1.44	1.26	OW
SPT Energy	1251	3.59	618	21.19	16.22	11.59	4.26	3.39	2.65	OW
Chu Kong Pipe (CKP)	1938	3.70	483	13.03	10.34	8.77	1.37	1.23	1.10	OW
Honghua	196	2.11	879	32.55	11.44	10.87	1.31	1.20	1.13	OW
China All Access	633	1.84	2,239	8.80	9.40	5.60	1.33	0.99	0.85	OW
TCL Multimedia	1070	4.58	5,902	10.90	8.40	6.30	1.39	1.27	1.13	OW
Zhengtong Auto	1728	5.13	30,471	12.40	8.60	6.30	1.30	1.10	1.00	OW
Geely Auto	175	3.69	11,330	11.90	8.70	6.60	1.60	1.30	1.00	OW
China Modern Dairy	1117	1.99	9,552	31.90	20.00	14.70	1.50	1.50	1.40	OW
Stelux	84	2.82	2,683	20.50	10.70	11.00	2.71	2.27	1.97	OW
HTHK	215	3.45	16,622	16.30	13.60	13.70	1.57	1.51	1.47	UW
Chow Tai Fook	1929	11.24	104,081	28.00	16.40	17.80	8.62	3.52	3.02	UW

Closing prices are as of 7/12/2012
Source: Company, OP Research

Industry profiles

TMT Sector

Key Point:

Tech: Tablet and Notebook: BUY Tablet competition heat up in 2013. Substitution effect should negatively impact notebook demand. Accordingly to Gartner, global tablets shipments are expected to grow by 53.4% in 2013 and 32.8% CAGR during 2012-2016, with the trend of increasing tablet penetration from ~25% to 75% in the global PC landscape by 2016. As a key LED light bar supplier for tablet application, we believe RMIH (1997 HK, NR) will be directly benefited from such booming tablet demand from 2013 onwards. On the other hand, traditional notebook casing supplier, JT (3336 HK, BUY, HK$4.40) will also get benefit from (1) venturing into Google Nexus 7 tablet casing, (2) massive rollout of Win 8 & Android based tablet products and (3) increasing hybrid casing for traditional notebook and increasing penetration of ultrabook in 2013.

Tech: LCD TV: BUY Chinese vendor as a market share gain play. Global TV shipments are expected to decline by more than 4% in 2012 and it is expected to be flat at 237mn units in 2013. Although the demand will be flat in 2013, the replacement demand will be triggered by (1) advanced display technologies like LED backlight and 3D, (2) larger screen size (shifting from 32” to 37”+) and (3) more attractive pricing. We expect that global LCD TV shipments to reach 215mn-220mn units, up 5-10% in 2013. TCLM (1070.HK, BUY, TP HK$5.10) is our top pick in the China TV sector given its (1) solid market share gain story in 2013, (2) strong panel sourcing ability in the tighten supply environment, (3) cost saving from its vertically integration, and (4) improve product mix to higher margin 3D and Smart TV products.

Tech: Smartphone: BUY Component suppliers on handset vendor hardware race. SELL Smartphone vendor on price competition. We prefer those handset makers with stringent opex control to reap the profit from the booming smartphone growth. We prefer upstream component players to handset vendor as (1) components players have stronger bargaining power than downstream players and (2) hardware race on smartphone by vendors like larger screen size (from 3.5” to 4.0”-4.7”), higher mega pixel on camera (from 5MP to 8MP+) are likely benefit those components suppliers. Our 2013 top pick is China All Access (633 HK, BUY, TP HK$3.00) which we believe it will (1) benefit from the strong smartphone demand in China and (2) riding on the trend of foreigner players are losing market share to Chinese handset makers. However, competition remain intensify among the global handset makers, we maintain a cautious view on low-end handset vendors especially those lacking of economies of scale such as TCLC (2618 HK, SELL, HK$1.80). We believe the investable opportunities in the handset vendors are those who are making profit with better scale. We prefer China Wireless (2369 HK, Hold, HK$1.40) given (1) its strong brand recognition in domestic market, (2) profit making handset maker in 2012, and (3) robust shipments growth in 2013 driving by domestic 3G smartphone demand especially TD-SCDMA handset as well as oversea 4G smartphone demand.

HK Telecom: SELL on Structural 4G price war and downside risk on ARPU. Given China Mobile Hong Kong (CMHK) only has 2G spectrum asset in HK, we believe CMHK will catch up the 4G opportunity by adopting an aggressive pricing to gain the 3G/4G market share in HK. We believe HKHT (215 HK, SELL, TP

HK$2.40) will directly be hurt by the CMHK's aggressive pricing strategies, as they all focus on the same customer segment – the price sensitive low-end subscribers. We prefer SMT (315 HK, Hold, TP HK$17.0) to HTHK given SMT's high-end focus and less price-sensitive on its subscribers.

Tech: Tablet and Notebook:

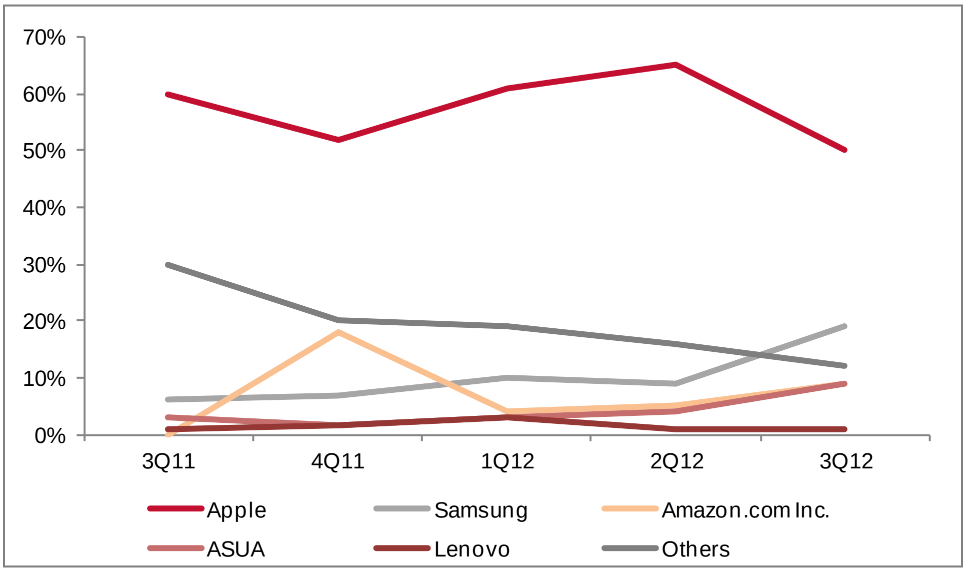
BUY Tablet competition heat up in 2013. Substitution effect negatively impact notebook demand. As Microsoft launched its touch-screen featured new OS and its own brand tablet product, "Surface", as well as Apple introduced its 7-inch tablet, iPad mini, with a competitive pricing of US$299. We are interested in upcoming tablet market landscape change as well as the investment opportunities once tablet competition heat up. We believe tablet shipments growth will outpace notebook shipments in 2013 given (1) tablet is a consumer driven product instead of productivity product that aim for mass market, (2) PC bands are eager to roll out its own brand Win 8 products to compete against other tablet brands such as Google Nexus 7 and Nexus 10, Amazon's Kindle Fire series and Apple iPad series, (3) retail price of tablet products reduced to an affordable pricing as low as US$199 which it is likely trigger the inflection point of robust tablet shipments growth from 2013 onwards.

Exhibit 35: Top 5 Vendors, Worldwide Tablet Shipments, 3Q12 (Preliminary)

Vendor	3Q12 Shipments	3Q12 Market Share	3Q11 Shipments	3Q11 Market Share	3Q12/3Q11 Growth
1. Apple	14	50.5%	11.1	59.7%	26.1%
2. Samsung	5.1	18.4%	1.2	6.5%	325.0%
3. Amazon.com	2.5	9.0%	NA	NA	NA
4. Asus	2.4	8.7%	0.7	3.8%	242.9%
5. Lenovo	0.4	1.4%	0.2	1.1%	100.0%
Others	3.3	11.9%	5.4	29.0%	-38.9%
All Vendors	27.7	100.0%	18.6	100.0%	48.9%

Source: IDC, OP Research

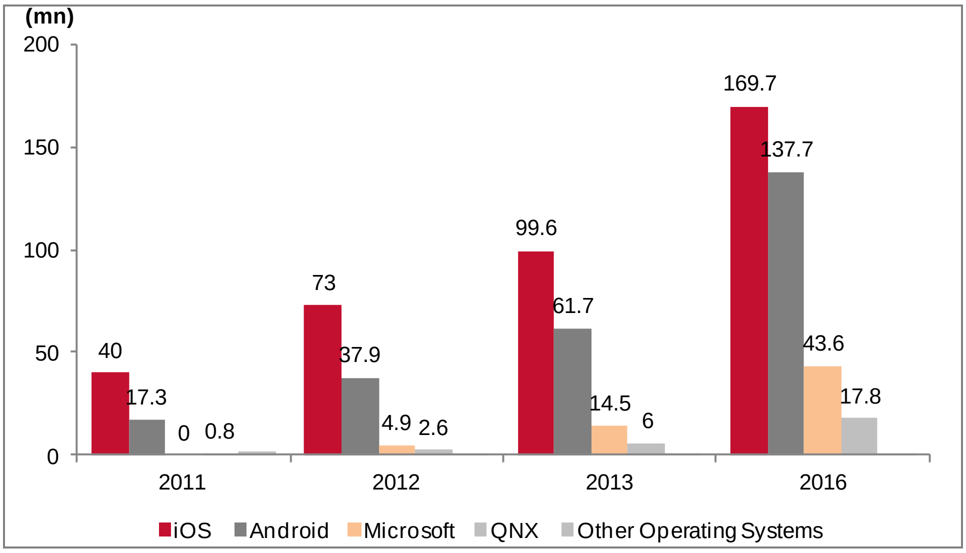
Exhibit 36: Worldwide Tablet Vendors Market Share, 2012Q3



Source: IDC Worldwide Quarterly Tablet Tracker, November 5, 2012 (preliminary data)

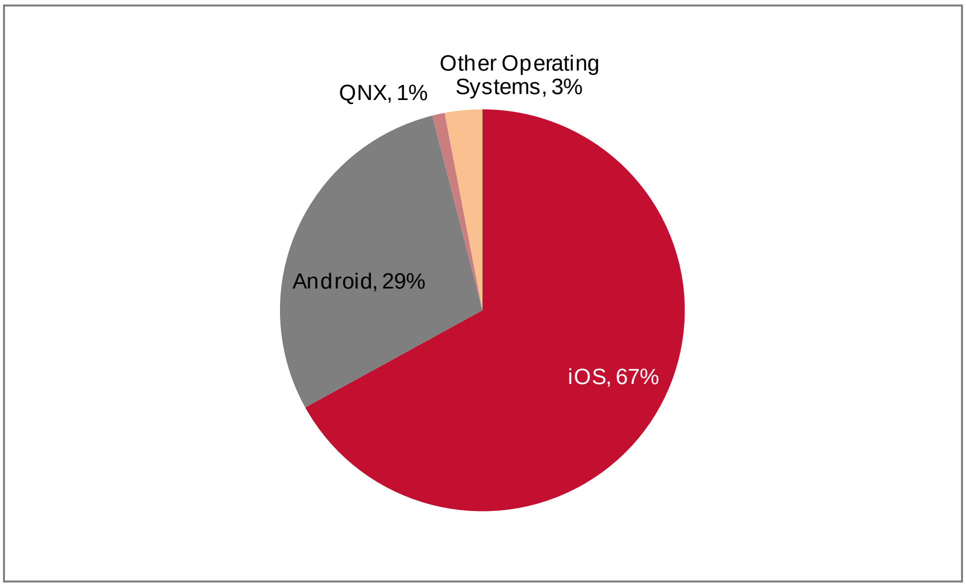
We believe components suppliers that participating in the tablet market will outperform the traditional notebook suppliers. Accordingly to Gartner, global tablets shipments growth are expected to be 53.4% in 2013 and 32.8% CAGR during 2012-2016 with the trend of increasing tablet penetration from ~25% to 75% in the global PC landscape by 2016. More importantly, Microsoft Win OS based tablet is expected to ramp up significantly from 0% market share in 2011 to 12% market share by 2016. We see the current 12% market share estimation is relatively conservative given the limited Win 8 tablet devices available in the market and the products still in the early development stage. As the user of Win Surface, we do find the Surface's AppStore is relatively weaker as compared to iOS or Andriod App Store, but we see its AppStore is gradually improving with more new apps are available. The user interface and the Win 8 ecosystem are quite competitive based on our own experience and hence we believe that the Win 8 Tablet may not be as popular as iPad now, but we see there is a room for it to gain the market attention as well as a market share in the global tablet landscape.

Exhibit 37: Worldwide Sales of Media Tablets to End Users by OS



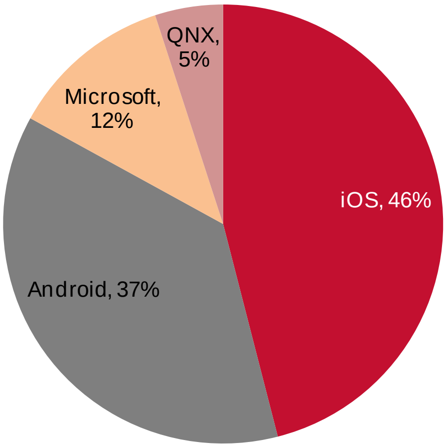
Source: Gartner, OP Research

Exhibit 38: Tablet Marketshare by Platform for 2011



Source: Gartner, OP Research

Exhibit 39: Tablet Marketshare by Platform for 2016



Source: Gartner, OP Research

We believe RMIH (1997.HK, NR) will be directly benefited from such booming tablet demand from 2013 onwards as a key LED light bar supplier for tablet/ultrabook/LED TV applications. Besides, traditional notebook casing supplier, JT (3336.HK, BUY, HK$4.30) will also get benefits from the massive rollout of Win 8 products. We believe that JT is able to turnaround in FY12E given (1) the ramp up of hybrid casing demand in traditional notebook, (2) its successful penetration into Google Nexus 7 tablet casing with 50% order is come from Google. Our top pick for tablet competition heat up in 2013 is JT which it not only benefits from the booming tablet demand as a new earnings growth driver but also benefits from the ramping up hybrid casing on traditional notebook and metal casing ultrabook.

Exhibit 40: More non-Apple tablets launch is likely eroding iPad market share

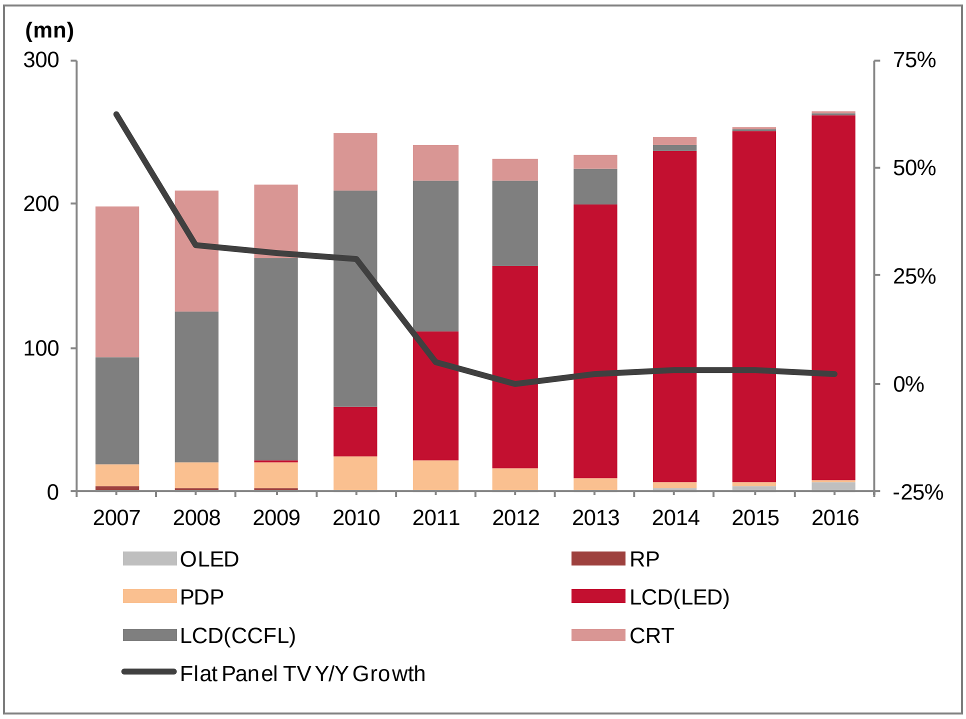
	 Apple Ipad Mini	 Amazon Kindle Fire HD (7'')	 Google Nexus 7	 Samsung Galaxy Tab2 (7.0)	 Surface RT	 PlayBook
Price ($US)	From $329	US$199	From $199	From $249	$499 for 32GB (no keyboard)	Data $550 (non-data, as low as $149)
Display size	7.9 in (200.7 mm)	7 in (177.8 mm)	7 in (177.8mm)	7 in (177.8mm)	10.6-inch	7-inch LCD
Resolution (pixels)	1024* 768	1280*800	1280*800	1024*600	1366*768	1024*600
Weight	308g	394g	340g	345g	680g	425g
Size (W*H*D)	135*200*7.2 mm	137*193*10.3 mm	120*199*10.5 mm	122*194*10.4 mm	0.37 inches (d)	7.6*5.1*0.4 inches
Operating system	iOS 6	Android (custom)	Android 4.1	Android 4.0	Windows RT	BlackBerry Tablet OS (QNX)
RAM	1GB	512 MB	1GB	1GB	2GB	1GB
Processer speed	1 GHz (dual-core)	1 GHz (dual-core)	1 GHz (quad-core)	1 GHz (dual-core)	1300 MHz(Quad-core)	1 GHz(dual-core)
Interrnal storage	16, 32, 64 GB	16, 32 GB	8, 16 GB	8, 16, 31 GB	32GB/64GB	16GB/32GB/64GB
Storage expansion	None	None	None	MicroSD	N/A	N/A
Camera (rear/front)	5MP/1.2MP	None/1.3MP	None/1.2MP	3MP/VGA	5MP/1.3MP	5MP/3MP
Video recording	1080p/720p	None	None	1080p,30fps	N/A	N/A
Connectivity	Wi-Fi, Bluetooth, LTE	Wi-Fi, USB 2.0	Wi-Fi, USB, Bluetooth	Wi -Fi, Bluetooth	Wi-Fi,Bluetooth,USB,HDMI	Wi-Fi,Bluetooth, USB,HDMI
Battery life/capacity	Up to 10 hours	Up to 11 hours	Up to 10 hours	Up to 7.5 hours	N/A	N/A
Available	Oct-12	Sep-12	Jul-12	Apr-12	Oct-26	Apr-19

Source: Reuters, OP Research

Tech: LCD TV:

BUY Chinese vendor as a market share gain play. Global TV shipments is expected to decline by more than 4% in 2012 and it is expected to be flat at 237mn units in 2013 due to continued economic uncertainty, weaken consumer demand, high unemployment rates, and rising household penetration of flat panel TVs, according to DisplaySearch. Although the global TV demand is expected to be flat in 2013, advanced display technologies like LED backlight and 3D, larger screen size (from 32" to 42"+) and affordable pricing are likely to be the key growth drivers for mid-to-long term TV replacement demand. Based on the TW panel makers potential order land in 2013, we expect that global LCD TV shipments to reach 215mn-220mn units, up 5-10% in 2013.

Exhibit 41: TV Shipment Forecast by Technology



Source: NPD DisplaySearch Quarterly Advanced Global TV Shipment and Forecast Report

Chinese vendor as a market share gain play. Chinese vendors such as TCLM (1070.HK, BUY, HK$5.10), Hisense (600060 CH, NR) and Skyworth (751.HK, NR) are continued to gain market share in global LCD TV market in the past three years, thanks to (1) the competitive pricing of Chinese brands, (2) strong government support such as Energy saving subsidies, Rural home appliance subsidies and import tariffs on LCD panel, and (3) increased self-sufficient and improved technology of LCD panel from domestic panel makers such as CSOT. We believe that domestic brands will continue increase market share in 2013.

Exhibit 42: 1H12 LCD TV global market share (TCL ranked No.5)

Ranking	Brand	2012 1H	2011	2010
1	Samsung	20.3%	18.8%	17.9%
2	LGE	13.5%	12.1%	12.1%
3	Sony	8.3%	9.9%	11.3%
4	Toshiba	6.1%	7.2%	7.3%
5	**TCL**	**5.3%**	**4.9%**	**3.6%**
6	Panasonic	5.3%	6.2%	5.0%
7	Sharp	4.4%	6.6%	7.4%
8	Hisense	4.7%	4.5%	3.9%
9	Philips	3.2%	3.5%	3.8%
10	Skyworth	3.5%	3.5%	3.3%

Source: Company data, OP Research

Exhibit 43: 1Q12 LCD TV PRC market share (TCL ranked No.2)

Ranking	Brand	2012 1H	2011	2010
1	Hisense	17.3%	18.2%	18.1%
2	**TCL**	**17.1%**	**14.9%**	**13.6%**
3	Skyworth	15.3%	15.8%	16.6%
4	Konka	10.9%	10.7%	10.8%
5	Changhong	10.5%	11.4%	10.5%
6	Haier	6.7%	5.9%	5.4%
7	Sony	4.3%	4.8%	5.2%
8	Sharp	3.4%	4.8%	5.3%
9	Samsung	3.4%	3.3%	4.3%
10	Panasonic	2.5%	2.1%	0.9%

Source: Company data, OP Research

Top Pick TCLM (1070.HK) for market share gain, improving profitability and secured stable supply of LCD panel from parent group. Among the Chinese brands, TCLM is continuously gaining market share not only in the domestic market with 13.6% in 2010 to 17.1% in 1H12, but also in the global market. It ranked as the second largest TV maker in China in 1H12, thanks to its well-established 30,000 POS distribution network, brand recognition and competitive pricing. TCLM (1070.HK, BUY, TP HK$5.10) is our top pick in the TV sector as we expect TCLM is able to further increase its market share in 2013, thanks to (1) energy saving subsidies scheme to boost China LED backlight TV demand and (2) well-established 30,000 POS in tier 3-5 cities to reap the domestic consumer demand on TV replacement and (3) its strong business relationship with CSOT, a leading 8.5G LCD Panel maker owned by TCLM parent group, especially under a tighten panel supply environment in 2013.

Tech: Smartphone:

BUY Component suppliers on handset vendor hardware race. In 2012, most of domestic smartphone brands were suffered from a loss with margin squeezing except few big names likely Apple (AAPL US, NR) and Samsung. Intensify competition and limited differentiation in smartphone design lead to (1) aggressive price competition, i.e. entry level smartphone retail price were down from RMB1,000 early the year to RMB600 in 2H12 or lower and (2) hardware race for mid-end smarpthone (RMB 1,500+), i.e. from 3MP camera module to 5MP and 8MP or higher as well as from dual core processor to Quad core processor, such changes in the smartphone market have resulted in a rapid margin erosion for most handset makers.

Exhibit 44: Major global handset makers' plan tp release flagship smartphones with 13MP camera

	ZTE Nubia Z5	Huawei Ascend DZ	LG Optimus G	Sony Xperia T	Samsung Galaxy S4	Xiaomi M3 (Concept)
						
Screen Size	5 inch	5 Inch	4.7 inch	4.6 inch	4.8 inch	4.5 inch
Resolution	HD	HD	1280*768	1280*720	HD	1920*1080
Core	Quad-core	Quad-core	Quad-core	Dual-core	Quad-core	Quad-core (8)
Processor Speed	1.5-1.8 GHz	1.5 GHz	1.5 GHz	1.5 GHz	TBA	1.5 GHz
Rear Camera	13MP	13MP	13MP	13MP	13MP	12MP
Front Camera	TBA	13MP	13MP	13MP	TBA	TBA
Operating System	Android 4.1 Jelly Bean	Android 4.1 Jelly Bean	Android 4.0 Ice Cream	Android 4.1 Jelly Bean	Android 4.1 Jelly Bean	MIUI 5.0
Battery	TBA	3000mAh	2100mAh	1850mAh	TBA	2500mAh
Launch Date	1Q13	1Q13	4Q12	4Q12	1Q13	TBA
Retail Price	~USD 470	~USD 470	~USD 700	~USD 600	~USD 700	~USD 320

Source:: Company data, Wind, Engadget OP Research

However, due to robust demand on smartphone, especially low-end products, component makers such as China All Access (633.HK, BUY, HK$3.0), Sunny Optical (2382.HK, HOLD, TP HK$6.00) and AAC (2018.HK, NR) were benefited from the strong smartphone demand and higher hardware spec for the low-to-mid end smartphone. Share price of handset components makers were outperformed the market index and recorded a strong profit growth in 2012, thanks to strong shipments growth and improved ASP by increasing demand on higher-spec for the low-to-mid end smarpthone.

Exhibit 45: Global smartphone market share by vendors

Ranking	Company	3Q11	4Q11	1Q12	2Q12	3Q12
1	Samsung	18.7%	19.6%	21.2%	21.6%	22.9%
2	Nokia	23.9%	23.4%	19.7%	19.9%	19.2%
3	Apple	3.9%	7.4%	7.9%	6.9%	5.5%
4	ZTE	3.2%	4.0%	4.1%	4.3%	3.9%
5	LG	4.8%	3.5%	3.5%	3.4%	3.3%
6	Huawei	2.4%	2.9%	2.6%	2.6%	2.8%
7	TCL	2.0%	2.2%	1.5%	2.2%	2.2%
8	HTC	2.7%	2.3%	1.8%	2.2%	2.0%
9	Motorola	2.5%	2.1%	2.0%	2.2%	2.0%
10	RIM	2.9%	2.8%	2.4%	1.9%	2.1%

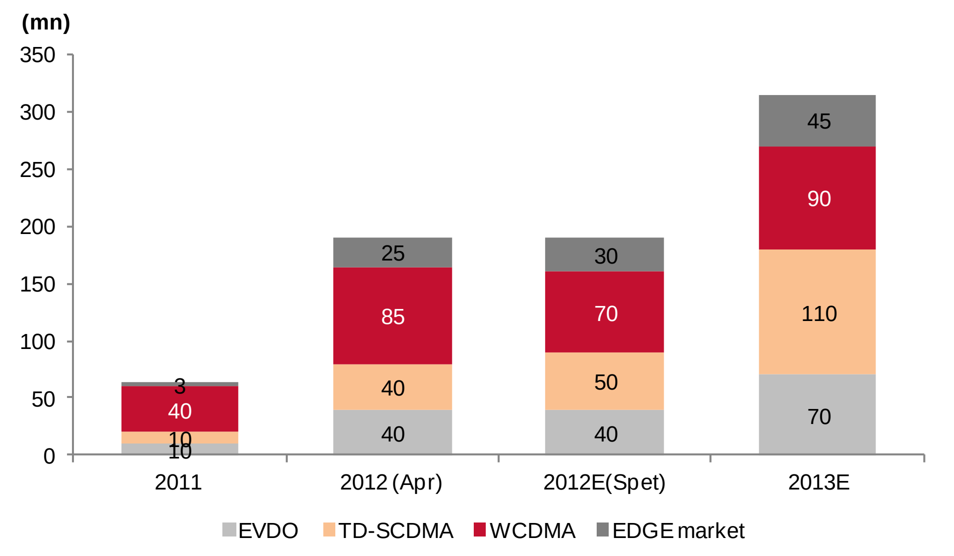
Source: Gartner

We believe that the handset components suppliers will carry its strong earnings momentum in 2012 to 2013. China All Access (633.HK, BUY, TP HK$3.00) is our top pick for the domestic handset supply chain sector given (1) its newly acquired smartphone component supply chain – Changfei Investment, (2) riding on market share gain of Chinese handset brands in the global market, (3) synergies between its handset component business and the JV with China Telecom's (728.HK, NR) parent group in mobile multimedia broadcasting business.

SELL Smartphone vendor on price competition. Given intensify competition in the domestic smartphone market and weaken demand from oversea market due to economic slowdown, we believe that the price war in smartphone market will be continued, hence we believe most handset makers will not be able to have a margin recovery in 2013. On the other hands, high-end player like Apple will also face a margin squeezing pressure due to lack of unique outlook design and innovation. We believe 2013 will be a tough year for Apple as well as other handset makers who are lack of scales, such as TCLC (2618.HK, SELL, HK$1.80). We underweight low-end handset vendor that lack of economics of scale in 2013.

Prefer those with stringent opex control to reap the profit from robust volume growth. We believe that the key to survive in the low-end smartphone landscape is stringent cost control instead of penetrating/venturing into the mid-to-high end market. Although ZTE has stated its desire to launch high end smartphone series with the brand "nubia", we believe the investable opportunities in the handset vendor are those who are making profit with scale. We prefer China Wireless (2369.HK, Hold, HK$1.40) in our Chinese handset maker universes given (1) its brand recognition in domestic market and No. 3 ranking in China, (2) the only profit making handset makers in 2012, (3) robust smartphone shipments growth in 2013 driving by domestic 3G handset demand especially TD-SCDMA handset and the emerging oversea 4G smartphone demand. Re-rating catalyst may be triggered by massive rollout of 4G and multi-LTE and multi-3G supported smartphone.

Exhibit 46: TD handset set to dominate 2013 shipments growth



Source: Huaqiang Electronics Industry Research Institution

Exhibit 47: Smartphone shipments remain robust in 2013

(mn)	2007	2008	2009	2010	2011	2012E	2013E
Gartner feature phone	1,031	1,083	1,039	1,298	1,303	1,229	1,213
Gartner smartphone	122	139	172	299	472	649	818
Gartner Total	1,153	1,222	1,211	1,597	1,775	1,878	2,031

Source: Gartner

HK Telecom:

SELL on Structural 4G price war and downside risk on ARPU. We initiate coverage on HK Telco in Dec 2011 with BUY rating and we downgraded our HK Telco universe to Hold rating in the mid-2012 mainly due to (1) failure to implement a tiered-pricing to reap the booming data usage driven by increasing smartphone penetration and 4G network rollout and (2) new players entered the 4G network market with aggressive pricing. For 2013, we believe the Blue Ocean theme for HK Telco operators will be ended by the China Telco giant, CMHK, who has successfully bid the 4G spectrum in HK. Given CMHK only got 2G spectrum and its late in providing 3G services which its current 3G network is leasing from CSL. We believe CMHK will catch up the 4G opportunity in 2013. And CMHK is likely to adopt an aggressive pricing continuously to increase its 3G/4G subscribers, especially who are those price-sensitive low end user in HK.

Exhibit 48: 4G Price war will be materialized in 2013, thanks for improving 4G smartphonde devices

	4G						3G					
	CSL 100	CSL one2free	HTHKH	SMT	PCCW/HKT	CMHK	CSL 100	CSL one2free	HTHKH	SMT	PCCW/HKT	CMHK
Monthly fee (HK$)	351	279	183	280	186/202	158	351	351	210	280	194	218
Contract period (mth)	12	12	24	12	24/30	12	12	12	12	12	24	12
Data usage (MB)	Unlimited	Unlimited	Unlimited	Unlimited	5000/10000	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	5,000	Unlimited
Excess usage charge (HK$)	NA	NA	NA	NA	40/200MB	NA	NA	NA	NA	NA	40/200MB	NA
Excess usage charge cap(HK$)	NA	NA	NA	NA	90/1GB	NA	NA	NA	NA	NA	90/1GB	NA
Voice usage (mins)	3,900	3,900	3,500	3,900	3,000	3,800	3,900	3,900	2,700	3,900	3,000	2,000
On-net	NA	NA	1,000	1,500	NA	NA	NA	NA	600	1,500	NA	NA
Off-net	NA	NA	2,500	2,400	NA	NA	NA	NA	2,100	2,400	NA	NA

Source: Company data, OP reserach

New demand from 4G handset, but downside risk on ARPU. As most Telco operators in HK have already launched their 4G service without additional charges or an effective price cut by gifting new subscribers 2-6 months free usage, we believe 4G LTE handset will be a key revenue growth driver for HK Telco in 2013. But we see a downside risk on the blended ARPU as price war was triggered and it is likely a structural change instead of a temporary impact. Hence, we underweight HK Telco sector in 2013 and we believe that the HK Telco operators are likely to see a potential downward trend on blended ARPU.

Prefer better network quality play - SMT. We believe HKHT (215.HK, SELL, TP HK$.2.40) will be directly hurt by the aggressive pricing of CMHK given they are focusing on the same target customer segment – price sensitive low-end subscribers. We expect HTHK will face a downside pressure on blend ARPU 2013 onwards and there is a potential market share loss to CMHK. We prefer SMT (315.HK, Hold, TP HK$17.0) to HTHK given its high-end focus which its subscriber is less price sensitive and hence we believe as long as SMT is able to maintain its operating efficiency, superior network optimization on 3G/4G network to offer the highest network service quality and stable mobile service in HK, SMT is likely to outperform its peers in 2013. However, we see limited upside on its ARPU uptrend in 2013.

Exhibit 49: Peer Group Comparison

Company	Ticker	Price	Mkt cap (US$m)	3-mth avg t/o (US$m)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	EPS FY1 YoY%	EPS FY2 YoY%	3-Yr EPS Cagr (%)	PEG (x)	Div yld Hist (%)	Div yld FY1 (%)	P/B Hist (x)	P/B FY1 (x)	EV/ Ebitda Hist	EV/ Ebitda Cur Yr	Net gearing Hist (%)	Gross margin Hist (%)	Net margin Hist (%)	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %
HSI		22,191.17			11.4	11.6	10.6	(2.2)	9.1	5.4	2.14	3.2	3.3	1.47	1.43						13.0	12.3	0.4	12.1
HSCEI		10,919.24			9.0	9.0	8.2	(0.4)	9.8	5.8	1.56	3.5	3.5	1.41	1.35						15.7	15.0	1.0	15.8
CSI300		2,246.76			11.3	10.6	9.1	6.9	16.0	12.7	0.83	2.3	2.2	1.61	1.53						14.2	14.5	(1.8)	(3.0)
Adjusted sector avg*					**15.3**	**13.6**	**11.4**	**4.8**	**22.7**	**11.2**	**1.30**	**3.2**	**2.7**	**1.36**	**1.55**	**0.0**	**0.0**	**11.1**	**17.3**	**6.2**	**10.4**	**12.8**	**3.0**	**0.4**
China All Access	633 HK	1.84	289	1.0	8.6	7.4	6.1	17.0	21.0	19.3	0.38	3.8	3.8	1.34	0.86	4.0	4.2	0.0	40.9	32.9	14.1	14.1	16.5	57.3
Foxconn Intl Hld	2038 HK	3.86	3,642	12.1	49.3	N/A	99.6	N/A	N/A	16.6	N/A	N/A	0.0	1.04	1.04	7.2	33.9	0.0	5.3	1.1	(3.8)	(6.7)	10.9	53.2
Byd Electronic	285 HK	1.83	532	0.8	5.4	6.0	5.7	(9.3)	6.1	(1.3)	N/A	3.6	2.9	0.41	0.39	0.5	0.6	0.0	10.9	3.8	6.6	6.4	(9.4)	20.4
Aac Technologies	2018 HK	30.00	4,881	13.7	28.6	17.5	14.1	63.3	24.3	33.3	0.53	1.4	2.2	5.65	4.91	21.0	13.9	0.0	44.0	25.5	25.8	29.9	4.2	7.9
Sunny Optical	2382 HK	5.36	692	4.3	19.3	12.7	10.1	52.5	25.0	32.4	0.39	1.6	2.5	2.47	2.18	12.5	8.4	0.0	20.9	8.6	17.1	18.0	4.7	34.0
Truly Intl Hldgs	732 HK	1.51	539	0.7	11.0	8.7	7.8	25.7	11.6	18.7	0.47	4.6	4.6	0.94	0.91	4.7	5.1	43.8	12.2	3.6	8.6	11.3	20.8	39.8
China Wireless T	2369 HK	2.36	638	5.8	19.0	15.5	13.3	22.7	17.1	14.7	1.06	0.8	1.4	2.22	2.07	17.9	13.2	82.9	14.7	3.7	14.2	14.3	2.6	68.6
Lenovo Group Ltd	992 HK	7.29	9,712	42.0	20.1	16.5	13.6	22.1	21.1	19.7	0.84	2.0	1.9	4.08	3.59	8.3	7.3	0.0	11.7	1.6	22.6	23.1	7.8	12.5
Zte Corp-H	763 HK	12.54	4,799	15.8	16.5	57.0	16.6	(71.0)	242.4	8.4	6.78	2.0	0.8	1.42	1.40	13.5	29.2	37.3	28.0	2.4	6.5	1.8	5.0	28.0
Tcl Comm Tech Hl	2618 HK	2.34	341	2.0	3.2	15.9	8.5	(79.8)	86.4	(24.3)	N/A	7.7	2.6	1.04	1.01	9.4	26.6	237.4	21.9	7.5	20.3	4.8	(6.4)	30.0
Htc Corp	2498 TT	267.00	7,820	186.2	3.6	11.6	17.6	(68.7)	(26.4)	(38.2)	N/A	15.0	8.5	2.80	2.62	2.9	8.8	0.0	26.1	13.6	31.4	19.2	28.1	1.9
Largan Precision	3008 TT	860.00	3,966	37.6	22.2	23.9	16.9	(7.2)	41.4	14.3	1.67	2.0	1.9	5.70	N/A	31.0	N/A	0.0	29.1	35.7	19.9	20.9	24.6	33.7
Kinko Optical Co	6209 TT	33.80	189	2.4	14.4	11.1	9.4	30.4	17.6	13.9	0.80	3.6	4.2	1.30	N/A	12.0	N/A	0.0	11.2	10.1	13.0	N/A	(5.1)	(21.8)
Genius Electroni	3406 TT	225.50	691	41.7	20.7	25.0	19.6	(17.3)	27.4	12.9	1.93	1.1	1.2	3.06	N/A	30.5	N/A	0.0	13.8	12.3	15.6	12.2	2.3	8.4
Asia Optical Co	3019 TT	27.25	263	3.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.67	N/A	26.3	N/A	0.0	11.9	(45.3)	(14.8)	N/A	0.6	(9.0)
Phenix Optic-A	600071 CH	5.65	215	3.4	291.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2.18	N/A	16.4	N/A	0.0	9.0	0.3	0.2	N/A	(7.8)	(9.9)
Skyworth Digital	751 HK	4.17	1,490	9.8	8.8	7.6	6.8	16.2	10.9	11.9	0.64	3.7	4.2	1.33	1.18	7.8	6.8	36.9	21.2	4.4	16.1	16.0	(0.2)	32.8
Hisense Elec-A	600060 CH	8.70	1,825	18.3	4.5	6.5	5.9	(30.8)	10.2	(4.6)	N/A	N/A	2.3	1.41	N/A	4.2	N/A	0.0	20.5	7.2	23.7	16.7	4.9	(5.6)
Lg Electronics	066570 KS	74,500.00	11,264	104.5	N/A	N/A	N/A	N/A	N/A	(271.4)	N/A	0.3	0.5	1.14	N/A	35.1	N/A	41.1	18.0	(1.0)	2.3	N/A	(3.6)	3.2
Samsung Electron	005930 KS	1480000	201,407	328.8	22.1	N/A	N/A	N/A	N/A	43.1	N/A	0.4	0.5	1.90	N/A	11.0	N/A	0.0	25.2	8.3	16.5	N/A	8.7	18.4
Shenzhen Jufei-A	300303 CH	10.99	240	3.7	8.1	15.0	11.4	(45.6)	31.7	(2.7)	N/A	1.6	1.9	2.49	1.71	N/A	N/A	0.0	35.8	23.2	35.9	11.5	(17.2)	(28.4)
Hkt Trust And Hk	6823 HK	7.79	6,450	12.2	29.0	28.5	25.1	1.7	13.6	12.8	2.23	3.0	5.3	1.63	1.64	9.7	9.3	72.1	58.9	6.2	4.9	5.7	7.0	12.1
Hutchison Tele H	215 HK	3.48	2,164	3.2	16.4	14.1	12.6	16.7	12.1	11.3	1.25	4.8	5.3	1.58	1.54	7.6	6.8	35.3	65.2	7.6	10.4	11.5	6.1	0.9
Smartone Telecom	315 HK	14.46	1,935	7.1	14.6	13.9	13.2	4.5	5.5	4.9	2.87	6.8	7.2	4.82	4.54	4.6	4.1	0.0	57.9	10.3	34.2	34.2	(9.6)	(2.2)
Vanceinfo Te-Adr	VIT US	7.58	321	0.9	14.9	9.8	7.3	51.0	34.8	36.5	0.27	N/A	0.0	1.06	1.02	7.9	5.7	0.0	34.8	7.8	7.4	10.6	(2.3)	(10.9)
Camelot Info-Adr	CIS US	1.30	58	0.1	N/A	3.5	2.5	N/A	41.9	N/A	N/A	N/A	N/A	0.28	N/A	(4.4)	1.1	0.0	26.2	(18.0)	(17.6)	N/A	1.6	(27.8)
Hisoft Techn-Adr	HSFT US	9.27	#N/A N/A	N/A	N/A	10.5	9.7	N/A	7.4	N/A	N/A	N/A	N/A	N/A	1.25	0.0	0.0	0.0	35.0	8.2	11.1	10.5	N/A	N/A
Kingdee Intl Sft	268 HK	1.42	462	2.1	19.8	N/A	16.8	N/A	N/A	16.8	N/A	N/A	0.8	2.05	1.42	14.5	34.7	0.0	70.1	7.2	(12.8)	(4.0)	(9.6)	22.4
Neusoft Corp-A	600718 CH	6.81	1,342	2.9	20.0	17.0	14.1	17.6	20.8	19.8	0.86	N/A	N/A	1.69	N/A	17.1	N/A	0.0	29.1	7.4	9.5	N/A	(10.2)	(18.5)

Source: Bloomberg, OP Research

Exhibit 50: Peer Group Comparison (cont.)

Company	Ticker	Price	Mkt cap (US$m)	3-mth avg t/o (US$m)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	EPS FY1 YoY%	EPS FY2 YoY%	3-Yr EPS Cagr (%)	PEG (x)	Div yld Hist (%)	Div yld FY1 (%)	P/B Hist (x)	P/B FY1 (x)	EV/ Ebitda Hist	EV/ Ebitda Cur Yr	Net gearing Hist (%)	Gross margin Hist (%)	Net margin Hist (%)	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %
Infosys Ltd-Adr	INFY US	42.98	24,681	95.4	16.1	14.4	13.7	11.7	5.3	7.0	2.07	2.0	2.6	4.30	3.53	10.4	9.7	0.0	44.1	24.7	29.1	26.5	(0.7)	(5.9)
Focus Media-Adr	FMCN US	24.75	3,200	37.6	20.6	11.6	9.8	78.5	17.4	38.1	0.30	1.7	1.1	2.33	2.26	9.4	7.0	0.0	63.5	20.5	17.5	18.5	(1.3)	1.9
Visionchina -Adr	VISN US	0.24	24	0.0	N/A	N/A	N/A	N/A	N/A	(5.9)	N/A	N/A	0.0	0.43	0.23	2.6	(0.0)	0.0	29.1	(6.9)	(133.8)	(122.3)	13.4	(20.2)
Airmedia-Adr	AMCN US	2.13	140	0.1	N/A	N/A	49.5	N/A	N/A	(193.6)	N/A	N/A	0.0	0.59	0.60	2.3	(4.2)	0.0	9.7	(3.5)	(12.5)	(6.7)	12.1	32.3
Clear Media Ltd	100 HK	4.00	273	0.1	11.3	N/A	N/A	N/A	N/A	N/A	N/A	1.3	N/A	0.68	N/A	2.2	N/A	0.0	37.2	12.6	6.6	N/A	0.0	(0.5)
Catcher Tech	2474 TT	144.00	3,716	79.1	9.6	12.0	10.9	(19.8)	10.3	(2.3)	N/A	3.5	3.3	1.91	1.83	25.1	6.7	1.6	25.8	64.4	16.4	15.7	11.2	2.1
Foxconn Technolo	2354 TT	100.00	4,252	38.0	14.6	15.7	11.8	(6.9)	33.5	12.3	1.27	1.0	1.4	2.19	1.90	56.8	9.3	0.0	3.5	9.5	13.2	13.9	(2.0)	(15.6)
Bin Chuan Enterp	1569 TT	38.40	98	1.9	12.1	8.7	6.8	38.5	28.6	N/A	N/A	4.7	6.3	1.52	1.33	(83.4)	N/A	20.4	0.7	338.9	9.8	14.2	9.6	(15.4)
Quanta Computer	2382 TT	70.50	9,319	22.7	11.7	11.6	10.5	1.4	10.2	6.7	1.72	5.7	5.8	2.30	2.11	17.6	11.1	10.2	3.1	2.2	21.2	19.0	(2.1)	(10.3)
Compal Electron	2324 TT	20.45	3,101	13.5	8.1	12.7	10.5	(36.3)	21.4	(4.9)	N/A	6.8	6.2	0.85	0.81	10.7	6.8	0.0	3.2	1.7	6.9	6.5	9.1	(19.5)
Wistron Corp	3231 TT	31.45	2,376	10.0	7.2	10.0	8.9	(28.1)	12.6	(3.7)	N/A	6.7	5.8	1.13	1.03	12.7	7.7	43.7	4.2	1.5	12.0	10.5	4.8	(7.0)
Inventec Corp	2356 TT	11.05	1,363	1.8	14.0	7.9	8.6	77.2	(7.9)	N/A	N/A	2.6	N/A	0.81	N/A	9.9	N/A	26.7	4.1	0.7	7.9	N/A	8.9	9.4
Pegatron Corp	4938 TT	37.45	2,905	14.4	749.0	16.9	9.6	4,340.0	65.6	339.2	0.05	N/A	4.2	0.90	0.84	(93.1)	N/A	12.5	1.4	0.0	4.8	5.4	(2.0)	(2.7)
Ka Shui Intl Hld	822 HK	1.50	172	0.4	21.2	15.0	9.4	41.0	60.0	36.4	0.41	3.9	4.7	1.84	N/A	9.5	7.3	14.4	19.4	5.3	12.7	11.8	12.8	72.4
Taiwan Surface	6278 TT	45.30	400	3.2	8.3	10.6	8.7	(22.0)	21.4	0.5	21.88	4.1	4.0	1.29	N/A	(2,393.3)	N/A	0.0	5.0	34.1	10.4	N/A	2.6	(9.9)
Lextar Electroni	3698 TT	22.20	320	2.8	N/A	23.8	15.0	N/A	58.2	(286.6)	N/A	N/A	N/A	1.10	1.13	7.7	N/A	56.7	9.6	(1.6)	0.4	N/A	5.0	(25.4)
Wellypower Optro	3080 TT	11.20	65	0.4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.42	N/A	3.6	N/A	0.0	1.5	(3.6)	(8.9)	N/A	4.7	(24.8)
Gio Optoelectron	3610 TT	2.19	20	0.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.68	N/A	4.2	N/A	130.2	6.2	(57.1)	(155.0)	N/A	17.7	6.3
Global Brands	6191 TT	10.45	191	0.2	5.9	N/A	N/A	N/A	N/A	N/A	N/A	5.6	N/A	0.52	N/A	38.7	N/A	6.7	2.5	3.6	2.4	N/A	10.0	(9.9)
Info-Tek Technol	8183 TT	5.08	20	0.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.40	N/A	5.2	N/A	0.0	7.6	(1.6)	(5.5)	N/A	5.4	(3.8)
Top Union Electr	6266 TT	8.97	24	0.0	12.6	N/A	N/A	N/A	N/A	N/A	N/A	3.4	N/A	0.60	N/A	10.7	N/A	0.0	11.2	5.6	4.3	N/A	(1.5)	(6.0)
Universal Scie-A	601231 CH	10.82	1,757	10.1	21.6	19.2	15.9	12.6	20.8	16.0	1.20	0.4	0.5	4.75	2.96	13.9	N/A	2.7	11.4	3.6	20.3	16.6	(12.0)	(26.7)

Source: Bloomberg, OP Research

Oil and Gas Sector

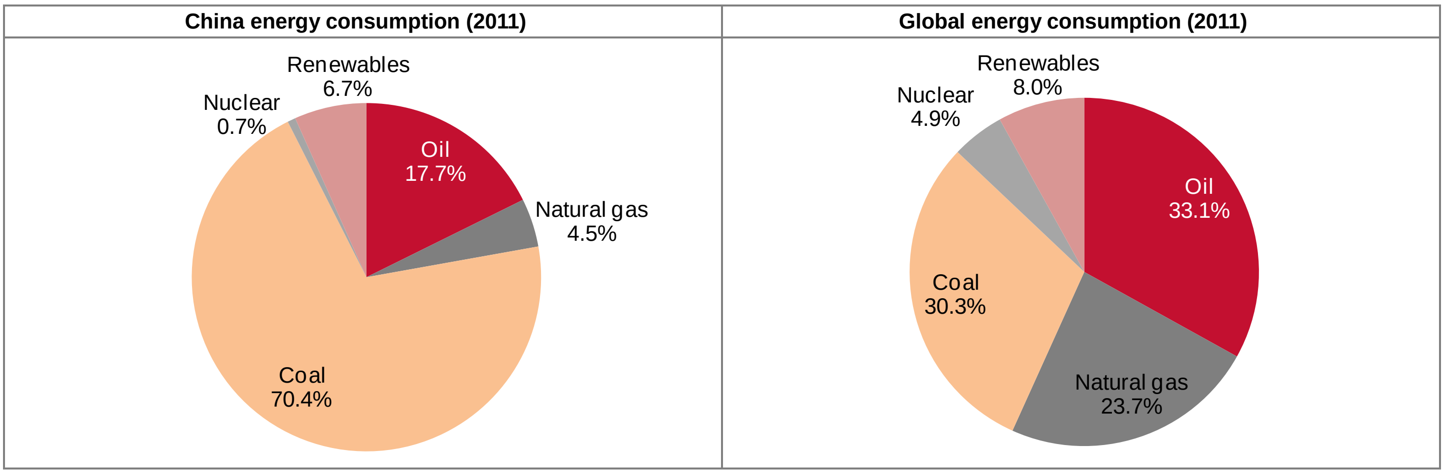
Gasification

The beginning of something big

The consumption of natural gas in China has quadrupled in the last decade from 2001's 27 billion cubic meter (bcm) to 130 bcm in 2011. The country has become the forth gas consumer in the world.

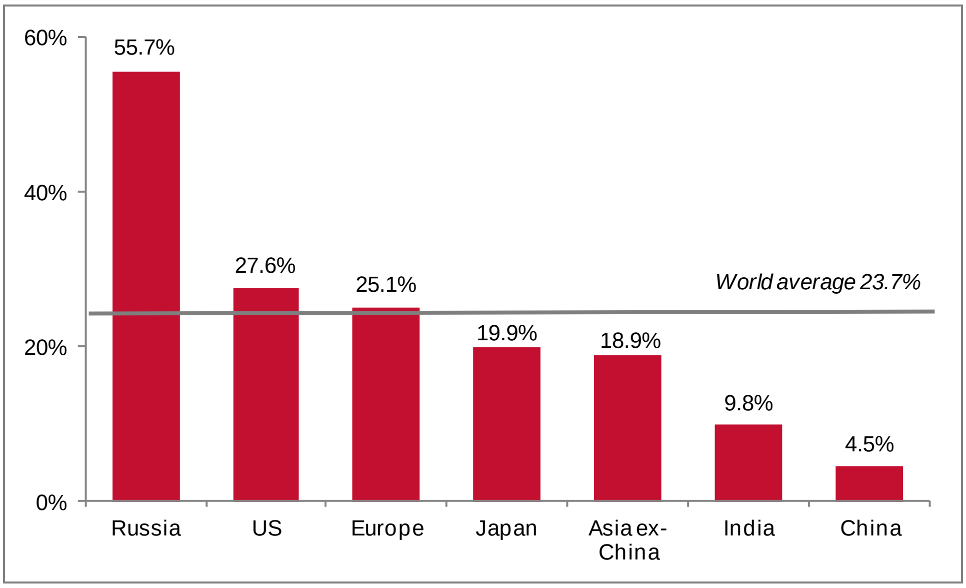
However, if we take a glance at China's energy mix, the country is still overly relying on coal as its major energy source. Coal accounted for above 70% of energy consumption for China in 2011, versus world's average at 30%. Gas only accounted for 4.5% of China's 2011 energy mix, which is much lower than world average at 24% and Asia's average at 19%, excluded China.

Exhibit 51: China's and Global energy consumption by source



Source: BP, OP Research

Exhibit 52: Percentage of gas in the world's energy mix (2011)



Source: BP, Op Research

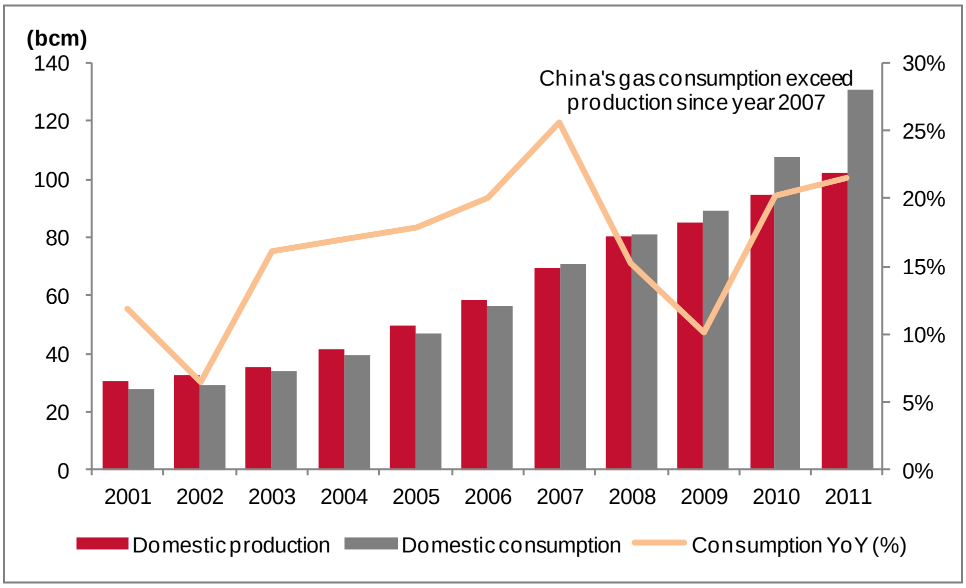
With the aim to cut carbon dioxide emission and promote energy security, the government announced ambitious plan to increase gas mix in total energy consumption to 8% in the 12th Five Year Plan Period (12th FYP), which we expect will double volume gas consumption from 2011's 130 bcm to 260 bcm in 2015, and may further go up to 460 bcm by 2020.

China gas demand and supply (2008-2020)

Percentage of import in China's gas supply will grow from 23% in 2011 to 35% in 2015.

China was historically independent on gas supply until 2006. Since then, China had relied on gaseous import (pipeline gas from Turkmenistan) and LNG cargo mainly from Australia, Qatar, Indonesia, and Malaysia to full the excess demand. In 2011, 23% of the country's gas supply was imported, and we expect the number to reach 35% in 2015, as consumption increases.

Exhibit 53: China's gas consumption and production (2001-2011)



Source: National Bureau of Statistics, OP Research

In our *'gas demand supply model'*, we forecast that China's gas consumption will grow at 18.9% CAGR in 2012-2015, to reach 260 bcm by 2015. We expect the demand will be satisfied by domestic conventional gas production of 161 bcm or 58%, unconventional gas of 20 bcm or 7%, gaseous gas import of 59 bcm or 21%, and LNG import of 40 bcm or 14%.

From 2016-2020, we expect gas supply will continue to increase at 15% CAGR, reaching 482 bcm by 2020. Our estimate is at the low-end of the estimate of CNPC Research Institute of Economics and Technology (CNPC RIET)'s range from 492 bcm to 612 bcm. The main difference reflects our more conservative stance on CBM production by 2015, at 13 bcm, where CNPC RIET expects CBM production will reach 20 bcm by 2015.

In order to achieve our estimate, we assumed the NOCs to actively locate new recoverable reserves; develop their currently held recoverable gas reserves located in the Ordos Basin (operate by CNPC Changqing Oilfield), Tarim Basin (operate by CNPC Tarim Oilfield) and Sichuan Basin (operate by CNPC Sichuan Oilfield); and gradually increase LNG cargo supply by ramping up new LNG receiving terminals, through 2012-2020.

Exhibit 54: China's Demand and Supply for Natural Gas (2008-2020E)

China Gas Demand-Supply Model in billion cubic meter (bcm)		FY08A	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E	FY15E	FY20E
SUPPLY										
DOMESTIC PRODUCTION										
CNPC										
Changqing Oilfield (长庆油田)		14.7	19.0	21.1	25.8	28.0	30.0	33.0	35.0	40.0
Sichuan Oilfield (西南油气田)		14.9	15.0	15.4	15.2	16.0	20.0	25.0	30.0	40.0
Tarim Oilfield (塔里木油田)		17.4	18.1	18.4	17.1	19.0	23.0	27.0	30.0	40.0
Qinghai Oilfield (青海油田)		4.4	4.6	5.6	6.5	7.2	7.6	8.5	9.0	15.0
Xinjiang Oilfield (新疆油田)		3.4	3.6	3.8	3.8	5.0	6.0	8.0	10.0	15.0
Daqing Oilfield (大庆油田)		2.8	3.0	3.0	3.1	3.0	3.0	3.0	4.0	8.0
Tuha Oilfield (吐哈油田)		1.5	1.5	1.3	1.1	1.3	1.3	1.3	1.8	1.3
Other CNPC oilfields		2.6	3.3	4.0	3.1	3.0	3.0	2.0	2.2	0.7
Sub-total for CNPC		61.7	68.1	72.5	75.6	82.5	93.9	107.8	122.0	160.0
Sinopec										
Xinan (西南油气)		2.7	2.9	2.7	2.8	4.0	5.0	6.6	8.0	20.0
Zhongyuan (中原油田)		2.3	2.5	4.1	4.7	6.0	6.2	6.6	8.0	13.0
Huabei (华北)		2.0	1.9	2.2	6.0	8.0	8.4	8.6	9.0	13.0
Other Sinopec oilfields		1.3	1.1	3.5	1.1	1.0	1.0	1.0	1.0	1.0
Sub-total for Sinopec		8.3	8.5	12.5	14.6	19.0	20.6	22.8	26.0	47.0
CNOOC & others		10.3	8.7	9.8	12.3	13.3	14.1	13.4	13.5	43.0
Domestic conventional production		80.3	85.3	94.8	102.5	114.8	128.6	144.0	161.5	250.0
Unconventional - CBM		0.0	1.0	1.5	2.3	3.0	5.0	10.0	13.0	40.0
Unconventional - Shale gas		0.0	0.0	0.0	0.0	0.5	2.0	4.0	6.5	60.0
Domestic unconventional production		0.0	1.0	1.5	2.3	3.5	7.0	14.0	19.5	100.0
Total domestic production	**A**	**80.3**	**86.3**	**96.3**	**104.8**	**118.3**	**135.6**	**158.0**	**181.0**	**350.0**
YoY (%)		*16.0%*	*7.5%*	*11.7%*	*8.8%*	*11.3%*	*12.0%*	*12.5%*	*14.5%*	
CAGR over FY11A-FY15E ex-unconventionals									*12.0%*	
CAGR over FY16E-FY20E ex-unconventionals										*9.1%*
CAGR over FY11A-FY20E ex-unconventionals										*10.4%*
CAGR over FY11A-FY15E include unconventionals									*14.6%*	
CAGR over FY16E-FY20E include unconventionals										*14.1%*
CAGR over FY11A-FY20E include unconventionals										*14.3%*
IMPORT										
Piped Gas (Turkmenistan)		0.0	0.0	3.6	14.2	20.0	25.0	33.0	40.0	40.0
Piped Gas (Uzbekistan)		0.0	0.0	0.0	0.0	3.0	5.0	10.0	10.0	10.0
Piped Gas (Kazakhstan)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.0	10.0
Piped Gas (Myanmar)		0.0	0.0	0.0	0.0	0.0	3.0	5.0	6.0	12.0
Piped Gas (Russia)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sub-total for Piped Gas (Gaseous Gas)		0.0	0.0	3.6	14.2	23.0	33.0	48.0	59.0	72.0
LNG - Australia		3.7	4.8	5.4	5.0	6.0	6.0	10.0	20.0	35.0
LNG - Qatar		0.0	0.5	1.7	3.2	5.0	10.0	10.0	10.0	15.0
LNG - Indonesia		0.0	0.7	2.3	2.7	3.0	3.0	3.0	3.0	3.0
LNG - Malaysia		0.0	0.9	1.6	2.2	2.0	2.0	2.0	2.0	2.0
LNG - Others		0.8	0.6	1.8	3.7	4.0	5.0	5.0	5.0	5.0
Sub-total for LNG		4.6	7.6	12.8	16.7	20.0	26.0	30.0	40.0	60.0
Total import	**B**	**4.6**	**7.6**	**16.4**	**30.9**	**43.0**	**59.0**	**78.0**	**99.0**	**132.0**
TOTAL SUPPLY	**A+B**	**84.9**	**93.9**	**112.7**	**135.8**	**161.3**	**194.6**	**236.0**	**280.0**	**482.0**
YoY (%)		*15.9%*	*10.6%*	*20.1%*	*20.4%*	*18.8%*	*20.6%*	*21.3%*	*18.6%*	
CAGR over FY11A-FY15E									*19.8%*	
CAGR over FY16E-FY20E										*11.5%*
CAGR over FY11A-FY20E										*15.1%*
DEMAND										
Total consumption		**81.3**	**89.5**	**107.6**	**130.7**	**156.9**	**186.7**	**221.2**	**260.0**	**460.0**
YoY (%)		*15.3%*	*10.1%*	*20.2%*	*21.5%*	*20.0%*	*19.0%*	*18.5%*	*17.6%*	
CAGR over FY11A-FY15E									*18.8%*	
CAGR over FY16E-FY20E										*12.1%*
CAGR over FY11A-FY20E										*15.0%*

Source: National Bureau of Statistics, General Administration of Customs, Xinhua News, Company, OP estimates

China gas demand analysis

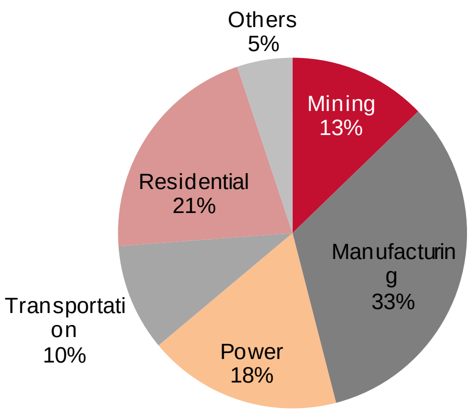
China's gas consumption trend

Manufacturing and mining were historically the largest consumer of China's natural gas, together accounted for more than half of the consumption. Following were residential consumption at 21%, power's 18% and transportation at 10%.

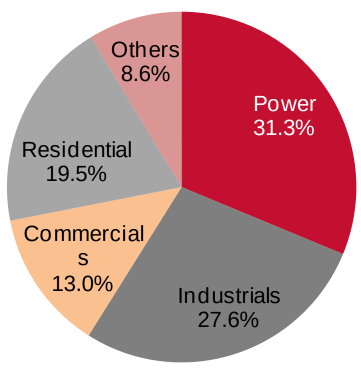
The US gas market was 5 folds of China, with 688 bcm consumption in 2011. Most of her gas was consumed in power generation, which accounted for 31% of her consumption in 2011. Industrial and commercial customers took 28% and 13% share, respectively. Residential consumers accounted for 20% of 2011's consumption, similar to China.

Exhibit 55: Comparison of China's and US's gas consumption by source

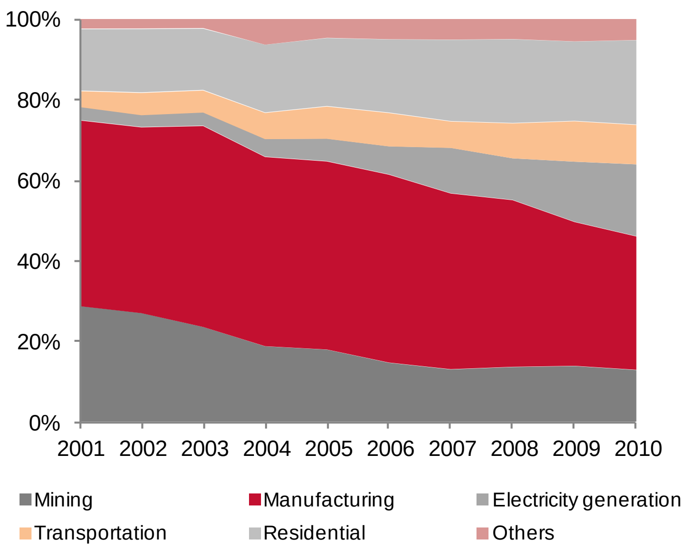
China's gas consumption (2010)



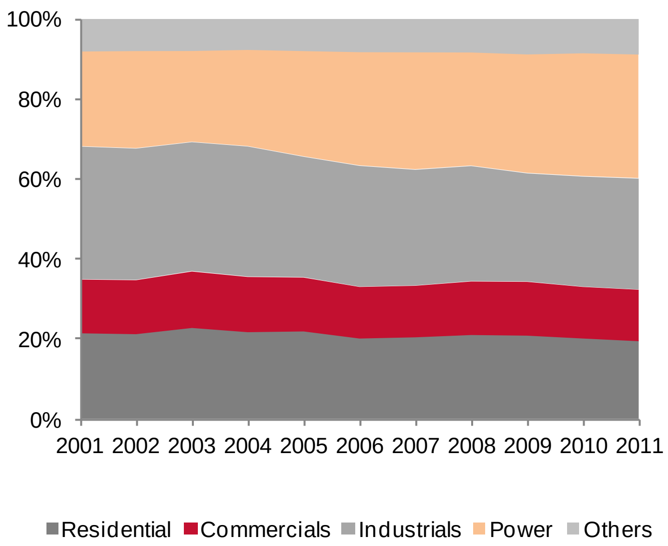
US's gas consumption (2011)



China's gas consumption trend (2001-2010)



US's gas consumption trend (2001-2011)



Source: National Bureau of Statistics, EIA, OP Research

In fact, during the 10th Five Year Plan Period (2001-2005, 10th FYP), power and transportation accounted for merely 3-6% and 4-7% of total annual gas consumption, respectively. The reason was due to China's gas supply are first prioritized to residential and governmental customers, followed by manufacturing. Lower priority was given to power and transportation to avoid gas shortage.

Large improvements were made during 2006-2010 to boost gas consumption in the power and transportation sectors. Consumption mix of power generation tripled from 2005's 6% to 18% in 2010, while transportation mix reached 10% in 2010.

Mapping demand for natural gas in 12th FYP

Policy on gas consumption

In addition to the overall target to increase gas consumption to reach 260 bcm by 2015, several policies related to the consumption of natural gas were announced by NDRC and other government bodies, sketching the roadmap for the utilization of gas in the coming 12th FYP. These policies will serve as a guide for local governments to develop the gas market, including priority of consumption, price regulation, and population penetration, and length of city gas pipelines.

Exhibit 56: Summary of recent policies related to consumption of sales

Date	Document ref.	Gov body publish	Details
9 Oct 2011	发改能源 [2011]2196 号	NDRC, MOF, MOHURD, NEA	Support development of gas CCHP distributed system - Target to construct 1,000 gas combined cooling, heating and power (CCHP) projects in 12th FYP (2011-2015) - To develop production capability of China's CCHP in the 12th FYP, and reach 50GW installed capacity by 2020
26 Dec 2011	发改价格 [2011]3033 号	NDRC	Price reform pilot program launch in Guangdong &Guangxi - To promote gas price liberation at ex-factory level, while government will continue to regulate pipe transmission price - To replace "cost-plus" method with "net-backing" method - Price at each region will be indexed to price of gas substitutes; namely fuel oil and LPG, on 60%/40% weight, and then applied 90% discount for incentive to use gas - The price cap at Guangdong & Guangxi will be capped at RMB2.74/bcm and RMB2.57/bcm; which will be revised annually, and eventually semi-annually and quarterly
1 Jun 2012	发改能源 [2012]1571 号	NDRC, MOF, MOHURD, NEA	Release of first round of CCHP pilot program - 4 projects are approved with combined target capacity of 41MW. They will be be constructed by Huadian, CNOOC, and BJ Enterprise in Beijing, Tianjin, Jiangsu and Hubei
27 Jun 2012	建城 [2012]100 号	MOHURD	12th FYP targets for city gas - Please refer to Exibit 8 for details
31 Oct 2012	发改委令 [2012]15 号	NDRC	Policy on natural gas consumption - Please refer to Exibit 9 for details

Source: State Council, NDRC, MOF, MOHURD, NEA, OP Research

City gas target during the 12th FYP

According to the target set out by Ministry of Housing and Urban-Rural Development (MOHURD) in June 2012, government targets to increase city gas consumption in 2015 by 113% over 2010's level.

Among various consumer categories, industrial and commercial (I&C) and transportation will receive the highest growth in terms of volume consumption, and will account for 53% of the total aimed city gas consumption increment of 94.6 bcm during the 12th FYP. In addition, the city gas pipeline network is also expecting to expand by 245,000km or 69% during the 12th FYP, continuing to benefit major LSAW pipe suppliers such as CKP.

Exhibit 57: Major city gas target set by MOHURD in 12th FYP

Objectives	FY05A	FY10A	FY15 target	FY15E vs FY10A
Total city gas consumption (bcm)	52	84	178	+113%
Penetration of city gas	82%	92%	94%	+2%
Residential gas population	351m	453m	625m	+38%
Annual residential gas consumption (bcm)	18 or 34%	23 or 27%	33 or 19%	+46%
Annual I&C gas consumption (bcm)	31 or 60%	55 or 66%	81 or 45%	+47%
Annual transportation gas consumption (bcm)	3 or 6%	6 or 7%	30 or 17%	+437%
Annual distributed system gas consumption (bcm)	-	-	12 or 7%	n/m
Annual gas consumption from others (bcm)	-	-	22 or 12%	n/m
Total length of city gas pipeline (km)	177,000	355,000	600,000	+69%
Total city gas storage for contingency (bcm)	-	-	1.5	+1.5

Source: MOHURD, OP Research

Priority of gas consumption

As mentioned, the supply of gas has been tight to meet its consumption in China historically, especially in the past recent years. Priority of gas were first given to residential consumers, public facilities, natural gas vehicles (NGVs), combined cooling, heating and power (CCHP) projects, followed by substitute for industrial fuels such as oil, LPG and coal.

Exhibit 58: Summary of priority of natural gas consumption in 12th FYP

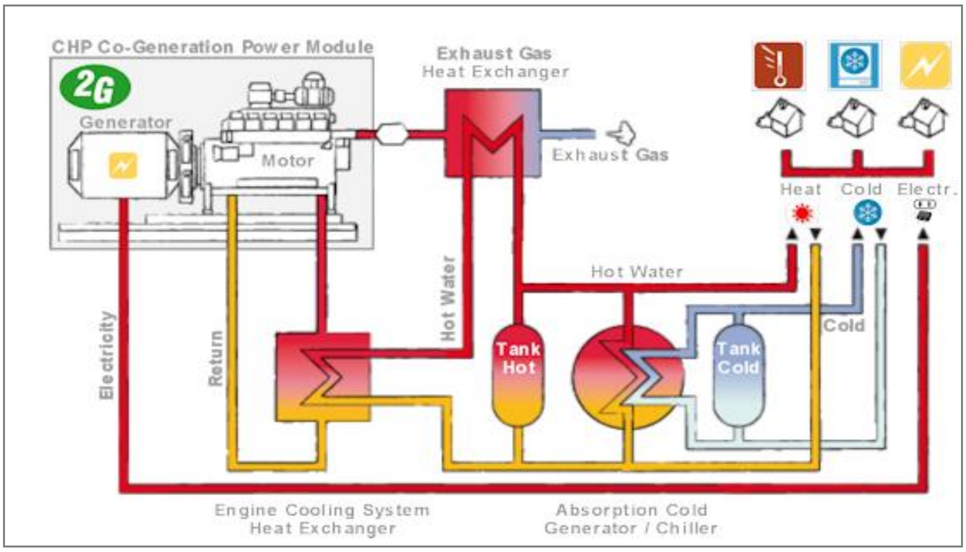
	City gas	Industrial fuel	Power and utilities	Chemical feedstock & others
Prioritized	- Residential - Public facilities - NGVs and inland vessels - Centralized heating - Air-conditioning	- Interruptable building materials, machinery, texile, petrochemical and metallurgy customers	- Distributed system project with utilization above 70% - CBM power projects - CCHP projects	- Scalable LNG projects for storage and peak-modulation - Interruptable hydrogen manufacturing projects
Allowed	- Decentralized heating	- Substitution project for oil, LPG, and coal in building materials, machinery, texile, petrochemical and metallurgy sectors - Substitution project of industrial boiler in major cities	- Non-CCHP gas power projects	- Small-scale LNG projects for storage and peak-modulation - Non-interruptable hydrogen manufacturing projects
Confined				- Ammonia - Acetylene & chloromethane chemical projects using methane - Nitrogen fertilizer
Prohibited			- Base-load generation in the 13 large-scale coal base area	- Methanol projects

Source: MOHURD, OP Research

According to IEA, power generation and transportation are the two major carbon dioxide emission activities in modern society. In the 12th FYP City Gas Plan released in October 2012, the NDRC specially called for priority in gas for power and transportation consumers, besides the conventional residential and public facilities.

CCHP and gas heating or air-conditioning are high energy efficiency means, and are encouraged by the government. The first round of four pilot projects with combined target capacity of 41GW were released by NDRC in June 2012, and the long-term target for gas power generation capacity is 50GW by 2020.

Exhibit 59: Combined cooling, heating and power system (CCHP)



Source: 2G Cenergy

Transportation is another major spotlight for consumption growth. Construction of CNG- and LNG-NGV and inland vessel refueling stations is supported by the central government, explicitly mentioned in the City Gas 12th FYP document. NDRC allows local governments to provide incentives, including strategic planning, providing land, and financial resources, to encourage prioritized activities.

Natural gas vehicles (NGVs) will lead gas consumption growth

We expect gas consumption in transport to expand rapidly in the coming years, due to (1) the economic and environmental benefits from replacing diesel with CNG and LNG as car fuel; (2) the increasing total number of NGVs in China, and (3) the increasing number of gas refueling stations in China.

Case studies on the economics of CNG and LNG vehicles

According to the officials at Nanjing City Transport Authority, CNG and LNG both reduce carbon dioxide emission from transport, and is actively supported by the local government.

Government authority mentioned LNG NGVs can reduce CO_2 emission by 33% and save fuel costs by 30% over diesel.

Using LNG for buses for example, NGVs can save up to 33% of carbon dioxide emission over diesel, and save fuel costs by 30%. This calculation was based on assumption that fuel cost for diesel buses cost RMB150 per km, while for that of LNG buses are RMB100 per km in Jiangsu.

The *"21st Century News Group"* also reported that switching to NGV typically helps taxi drivers save RMB4k per month. It is based on the assumptions that diesel costs RMB7.5 per litre, natural gas costs at RMB5.5 per cubic meter, and each taxi travels around 24,000km per day.

The saving is approximately 22% comparing to gasoline cost of RMB18k per month. The NGV modification takes around 3-4 hours per taxi and at a one-off cost of around RMB8k.

One of the major reasons for the cost savings from using CNG and LNG over diesel was the increase in diesel-gas spread in the past few years.

Take diesel price for instance, over January 2008 to September 2012, the retail price of diesel increased from RMB5,370 per tonne to RMB8,420 per tonne, represented an increment of 57%. The average price for natural gas of 36 cities only increased 27% over the same period.

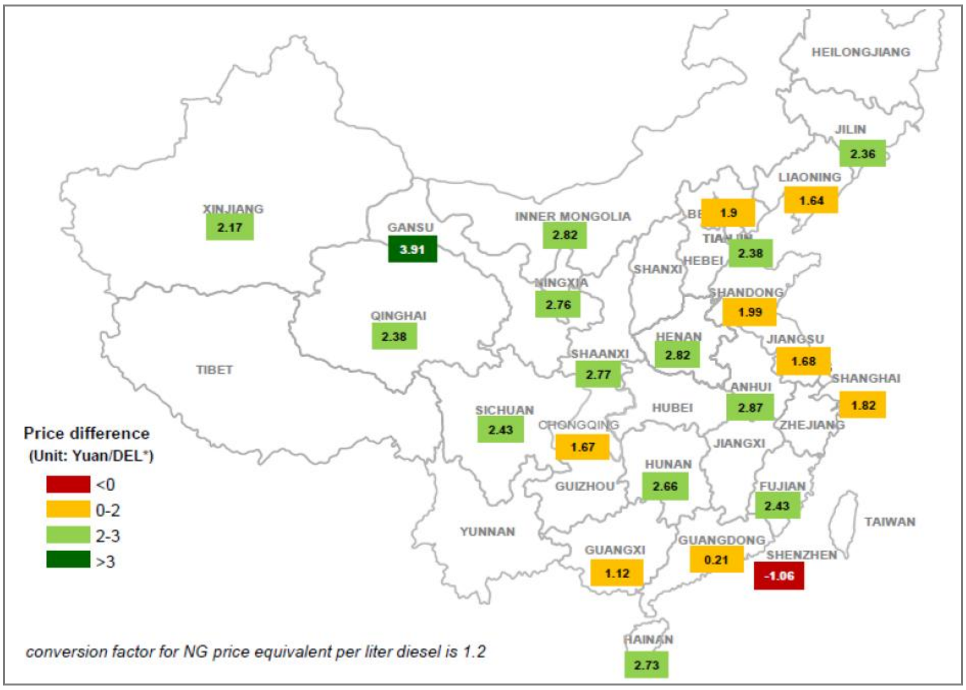
Exhibit 60: Gasoline and diesel price movement in China (for transport)

Document	Date	Direction	Change #90 gasoline	Change #0 diesel	Price #90 gasoline	Price #0 diesel
发改电[2008]376 号	Dec-08	(-)	(900)	(1,100)	5,980	5,370
发改电[2009]7 号	Jan-09	(-)	(140)	(160)	5,840	5,210
发改电[2009]78 号	Mar-09	+	290	180	6,130	5,390
发改电[2009]172 号	May-09	+	400	400	6,530	5,790
发改电[2009]198 号	Jun-09	+	600	600	7,130	6,390
发改电[2009]214 号	Jul-09	(-)	(220)	(220)	6,910	6,170
发改电[2009]238 号	Sep-09	+	300	300	7,210	6,470
发改电[2009]259 号	Sep-09	(-)	(190)	(190)	7,020	6,280
发改电[2009]295 号	Nov-09	+	480	480	7,500	6,760
发改电[2010]165 号	Apr-10	+	320	320	7,820	7,080
发改电[2010]210 号	May-10	(-)	(230)	(220)	7,590	6,860
发改电[2010]357 号	Oct-10	+	230	220	7,820	7,080
发改电[2010]414 号	Dec-10	+	310	300	8,130	7,380
发改电[2011]66 号	Feb-11	+	350	350	8,480	7,730
发改电[2011]113 号	Apr-11	+	500	400	8,980	8,130
发改电[2011]252 号	Oct-11	(-)	(300)	(300)	8,680	7,830
发改电[2012]21 号	Feb-12	+	300	300	8,980	8,130
发改电[2012]41 号	Mar-12	+	600	600	9,580	8,730
发改电[2012]70 号	May-12	(-)	(330)	(310)	9,250	8,420
发改电[2012]101 号	Jun-12	(-)	(530)	(510)	8,720	7,910
发改电[2012]117 号	Jul-12	(-)	(420)	(400)	8,300	7,510
发改电[2012]133 号	Aug-12	+	390	370	8,690	7,880
发改电[2012]154 号	Sep-12	+	550	540	9,240	8,420
Price increment from Dec 08 to Sep 12					*55%*	*57%*

Note: Price represents RMB per tonne of gasoline of diesel.
Source: NDRC, OP Research

A study from *Westport Innovations* also showed that expect for Shenzhen, all provinces in China showed a significant price differentials between the prices of diesel over gas with the same amount of energy content.

Exhibit 61: Diesel-gas price differentials in China



Source: Westport Innovations, OP Research

Launch of crude oil price reform will be catalyst for NGVs

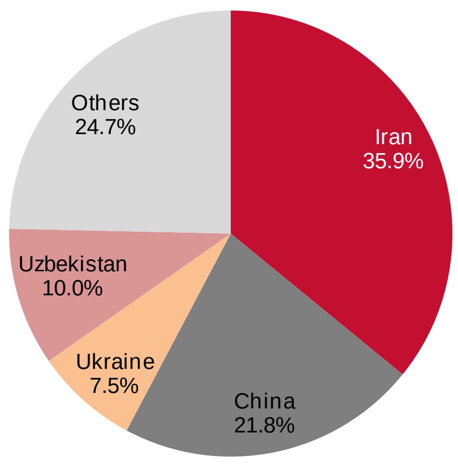
We believe the diesel-gas spread shall continue to expand in the near future, if the drafted crude oil price reform is approved and executed in 2013.

According to Xinhua's latest news on 14 November 2012, the current draft for the proposal of the crude oil price reform was submitted for approval at State Council. The key points will include: (1) shortening adjustment period from 22 working days to 10 working days, (2) removing the 4% limit per adjustment, and (3) replacing Cinta with WTI in price index portfolio, resulting WTI, Brent and Dubai (Oman). The aim of the reform is to reduce the loss in refinery incurred by the NOCs. We believe gasoline and diesel prices in China will be further pushed up if the reform is launched in 2013. This will provide more room for upside of the diesel-gas spread, and create higher incentives for drivers to switch to NGVs.

Rapid increase in NGVs create demand for gas and refueling stations

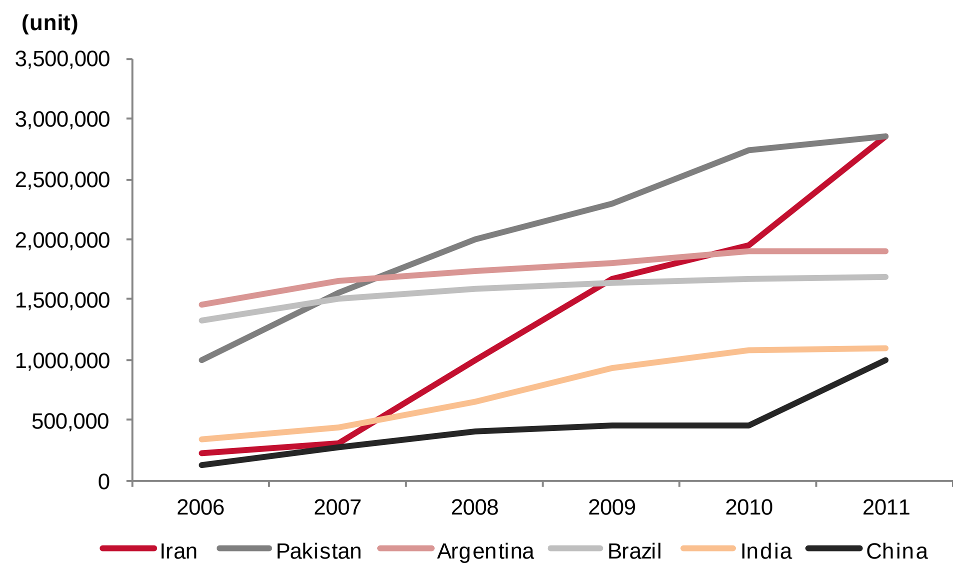
With the support from local government and economic incentives for public transports to switch from using diesels to CNG/LNG, we notice that China has become the 6th largest number of NGVs in the world, according to NGV Global. Indeed, China was the world's second largest newly NGVs country in 2011. The country added 550,000 vehicles, increased 120% year-on-year, and reached a total of 1m NGVs at end 2011.

Exhibit 62: Global newly added NGVs (2011)



Source: NGV Global, OP research

Exhibit 63: Global newly added NGVs (2011)

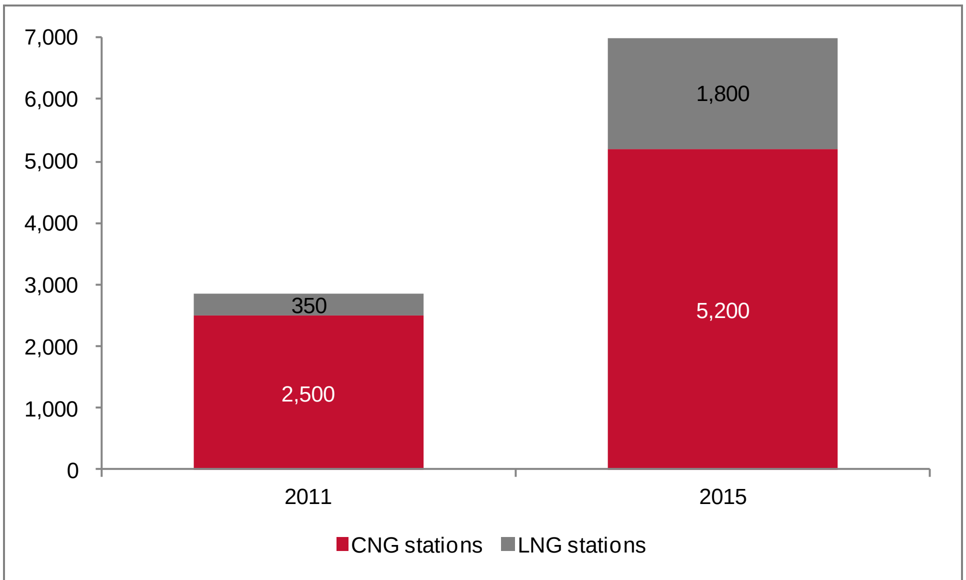


Source: NGV Global, OP research

The rapid increase in the number of NGVs on the road represents golden business opportunities to city gas operators, as the degree of regulation for vehicle-used natural gas price by the *Pricing Monitoring Center* of the NDRC is least compare to industrial, commercial and residential use. In 2011, the number of NGV refueling stations had increased by 1,100, and reached 2,850 stations at end 2011. Within the 2,850 stations, roughly 2,500 are CNG stations, and 350 are LNG stations.

We forecast China will add more than 1,000 NGV refueling stations per annum through 2012-2015. By 2015, we expect the number of NGV refueling stations will exceed 7,000. Within the 7,000 NGV stations, 5,200 will be CNG stations, while 1,800 will be LNG stations.

Exhibit 64: Number of NGV stations by 2015



Source: Westport Innovations, OP research estimates

According to our channel checks with the national oil companies (NOCs) and leading city gas operators, Kunlun Energy (135 HK, NR), ENN Energy (2688 HK, NR), Xinjiang Guanghui (600256 CH, NR), and CNOOC (883 HK, NR), have stated aggressive plans to increase the number of natural gas refueling stations in the coming years, especially in LNG.

Exhibit 65: List of LNG stations planned by leading city gas operators

Company	LNG refueling stations planned to add during 2012-2015
Kunlun Energy	~300
ENN Energy	200+
Xinjiang Guanghui	~300
CNOOC	200+

Source: Companies data, OP Research estimates

The rapid increase in the number of refueling stations in China creates demand for CNG and LNG tanks to transport gas between refueling stations.

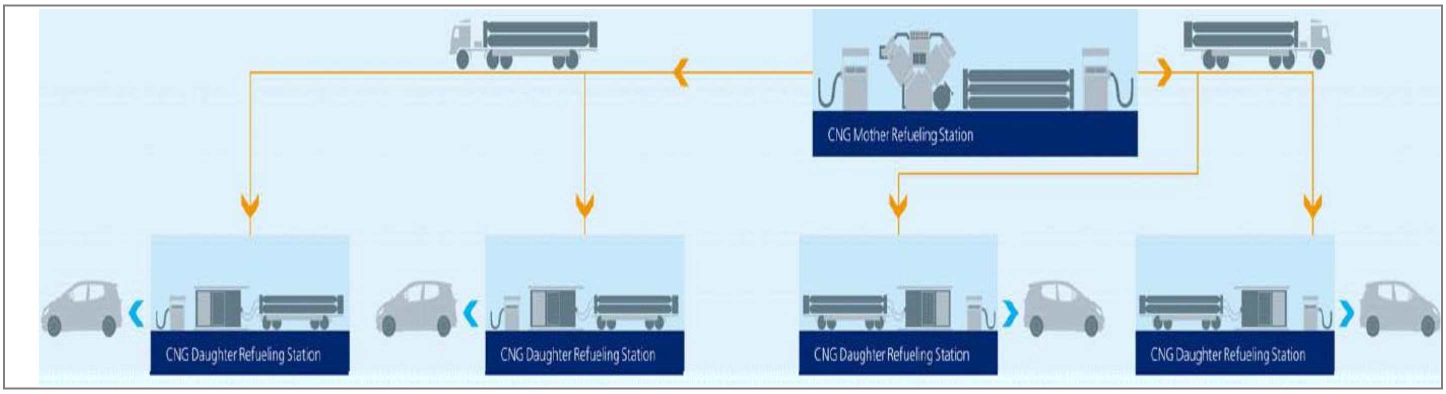
The operation mechanism of CNG & LNG refueling stations

Depending on the city size, city gas operators usually operate more than one gas station to minimize the fixed cost per station. We usually see a typical city gas operators operate a main station (mother station), which is connected with gas pipelines, and accompanied by several daughter stations.

In CNG, the main station will also be equipped with compressors to transform piped gas into CNG, to supply customer vehicles. The medium to transport CNG between the mother and daughter stations are CNG trailers. Pipeline are not be used to transport CNG because CNG are compressed to 250 times of natural gas at normal pressure.

In LNG, because liquid state requires low temperature at -163'C, LNG is basically transported from LNG factories directly to LNG refueling stations through trailers. Same as CNG, LNG cannot be transmitted on pipelines, and has to rely on trailers for transmission.

Exhibit 66: Main & Daughter NGV stations operation mechanism



Source: CIMC Enric

The Chinese Gas Bonanza

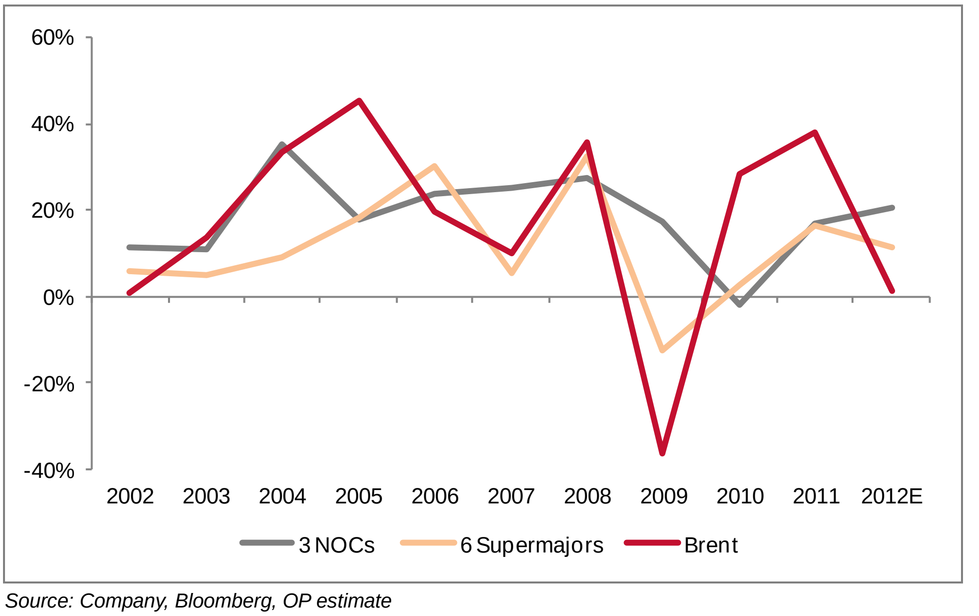
Domestically produced conventional gas has been China's major gas supply. During 2001-2011, domestic conventional gas production has increased by 238%. The increment was due to the result of the increased development of reservoirs, which is a function of capital expenditure (capex) of the major national oil companies (NOCs) and economics of drilling, completing and operating a well.

High historical capex growth

Capex of the 3 NOCs has historically higher than international oil companies (IOCs) on average, despite the economic downturns in 2008-2009. The main reason for the high investments were driven partly by the relatively higher economic growth of China, and the country's more urgent need to explore and develop its reserves. In other words investment level by NOCs was less sensitive to international oil and gas price fluctuations.

By comparing the capex of 3 NOCs and 6 Supermajors (ExxonMobil, Chevron, BP, Shell, Total, and ConocoPhillips), we can see that except for 2006 and 2008, the annual growth rate of 3 NOCs have exceeded the 6 Supermajors in 8 of the past 10 years. In difficult economic times such as 2009, the difference in annual growth rates on capex between 3 NOCs and 6 Supermajors were widen to 30%, while Brent crude price dropped 36% year-on-year. Hence, we believe the high capex growth by NOCs performs a safety belt to oilfield services and equipment providers, despite the gloomy global economic environment.

Exhibit 67: Annual capex growth rates of 3 NOCs versus 6 Supermajors



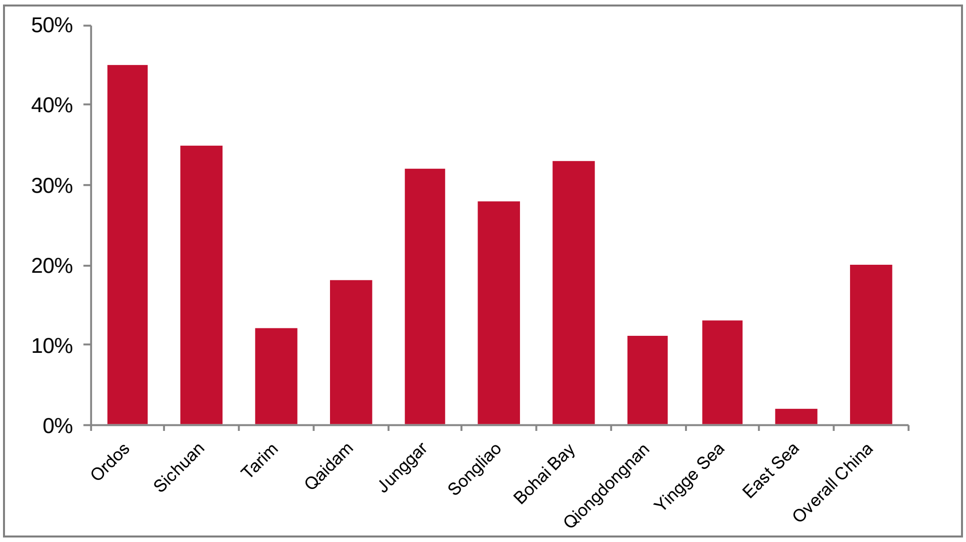
Source: Company, Bloomberg, OP estimate

Accelerating E&P activities in gas resources

We expect the strong growth in capex by NOCs will continue from 2012-2020 to achieve a triple domestic production volume by 2020. The increasing effort in exploring and developing gas reservoirs in the Northwestern and Southwestern China is another driver to the growth.

Currently, the country only has relatively low percentage of recovered reserves, especially in the reserve rich Tarim Basin.

Exhibit 68: Ratio of proven recoverable gas reserves to total gas reserves

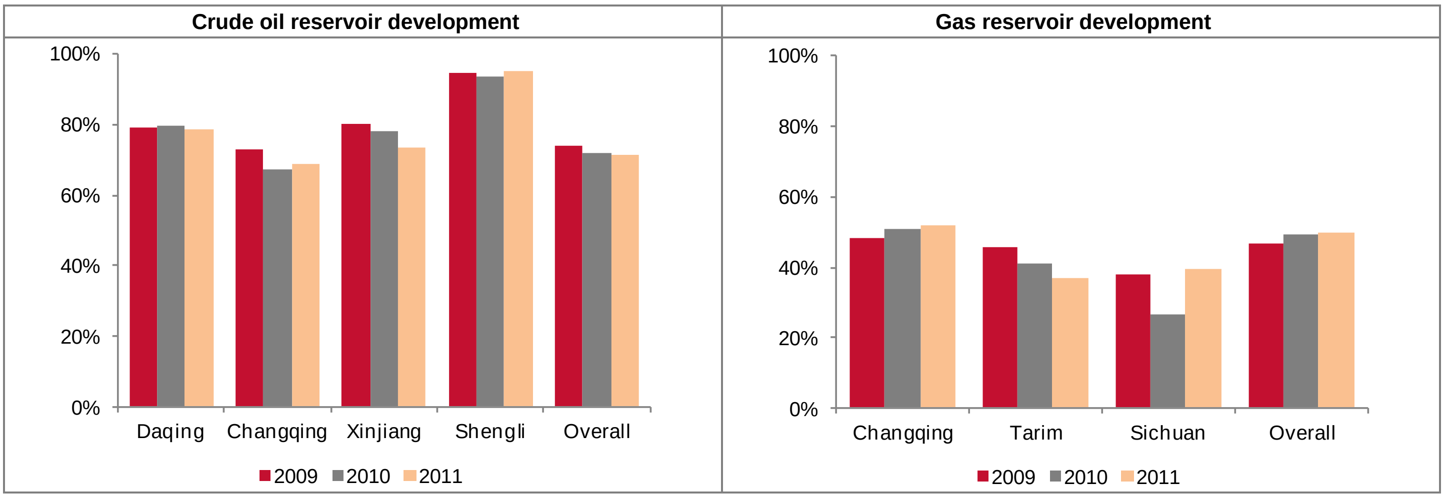


Source: CNPC Economics and Technology Research Institute, OP Research

Compare to over 40 years of development for major oil reservoirs in China, the stage of development of gas reservoirs is relatively young. Major reservoirs such as Daqing and Shengli oilfields have reached 80-90% development, while the overall development has exceeded 70%.

In compare, major gas fields of **PetroChina** and Sinopec were less than 50% developed. The technological advancement in directional drilling and hydraulic fracking has further enhanced the economic recoverable reserve in Ordos, Tarim, and Sichuan.

Exhibit 69: Comparison of development of crude oil and gas reservoirs of PetroChina and Sinopec (2009-2011)



Source: PetroChina, Sinopec, OP Research

The successful story in Sulige and why we are having more economically recoverable reserves

The gas resources in Sulige gas field, located in Ordos Basin and under the operation of CNPC Changqing Oilfield, was mainly tight gas, an unconventional gas resource where gas are trapped in rock formations and have relatively low permeability than conventional reservoirs.

Changes were brought to Sulige with the application of directional drilling (including horizontal drilling) and hydraulic fracking. Many existing wells in the Sulige area had recorded 5-6 times increment in production volume after sidetracked, horizontally drilled and fracked.

Recoverable reserve of Sulige tripled due to technology advancement in developing wells.

This has not only significantly increased production output in the area, but also increased economically recoverable reserve estimate. According to the *Geological Survey and Mineral Evaluation 2011* released by MLR, the recoverable reserve of Ordos Basin has tripled from 2005's 2.9 tcm to 8.9 tcm. The major reason mentioned in the MLR report was technological advancement in the development of wells in the area.

TRR of Marcellus increased 40 times in 10 years due to directional drilling.

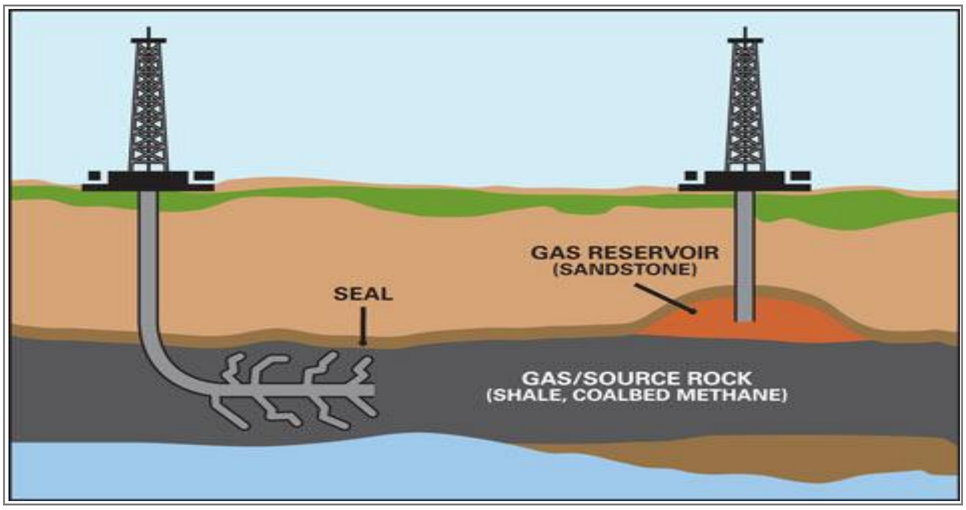
The phenomenon is similar to the beginning of the US success. Thanks to directional drilling, which aims to increase the exposure section length of the production tubing, Marcellus, the largest shale gas field in US, has increased its technological recoverable reserve (TRR) per well by above 40 times in a decade. The TRR recorded in 2002 at 53 bcm (1.9 tcf) were increased to above 2,300 bcm (84 tcf) in 2011.

Gas production of CNPC Changqing Oilfield, who operates the Sulige gas field, has seen impressive production growth from 10.7 bcm in 2007 to 25.8 bcm in 2011, a more than double in terms of annual production volume.

Cost of fracking in Sulige fell 80% in 2 years' time.

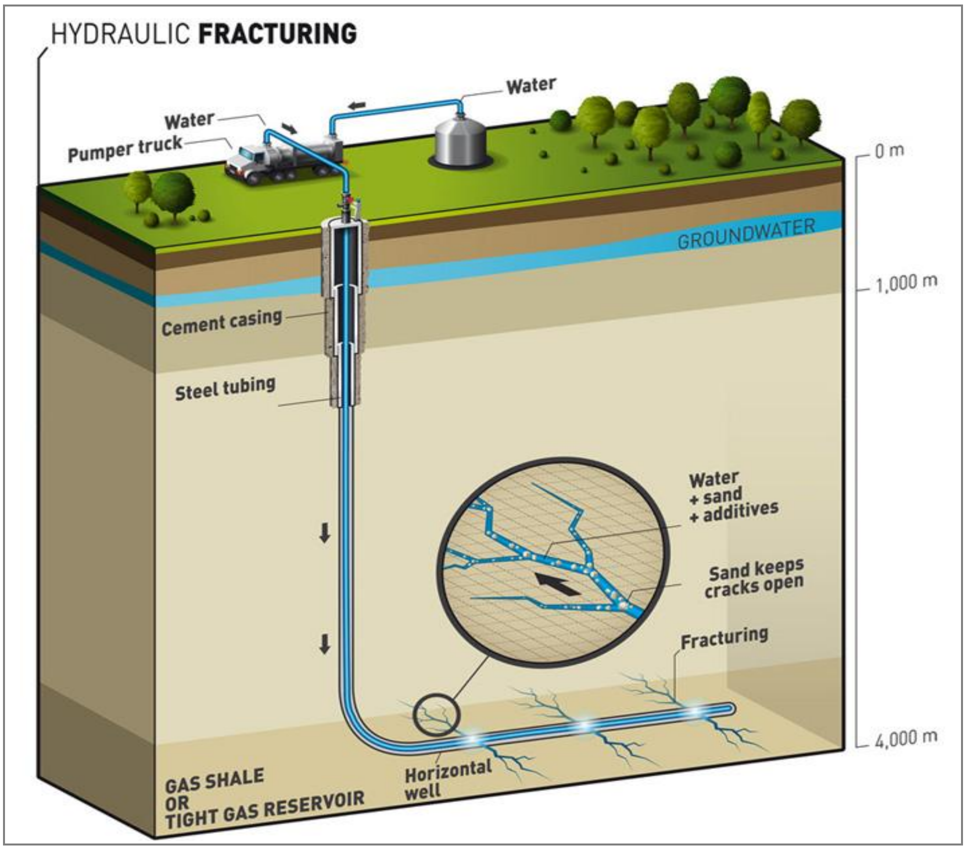
The cost of fracking a well in Sulige was up to RMB10m when Antonoil first provided in 2010. Though the localization in the production of equipment such as packer and improvement in the work efficiencies, the cost of fracking in Sulige dropped to RMB2-3m currently, in just 2 years' time.

Exhibit 70: Horizontal well vs vertical well



Source: IEA

Exhibit 71: Hydraulic fracking illustration

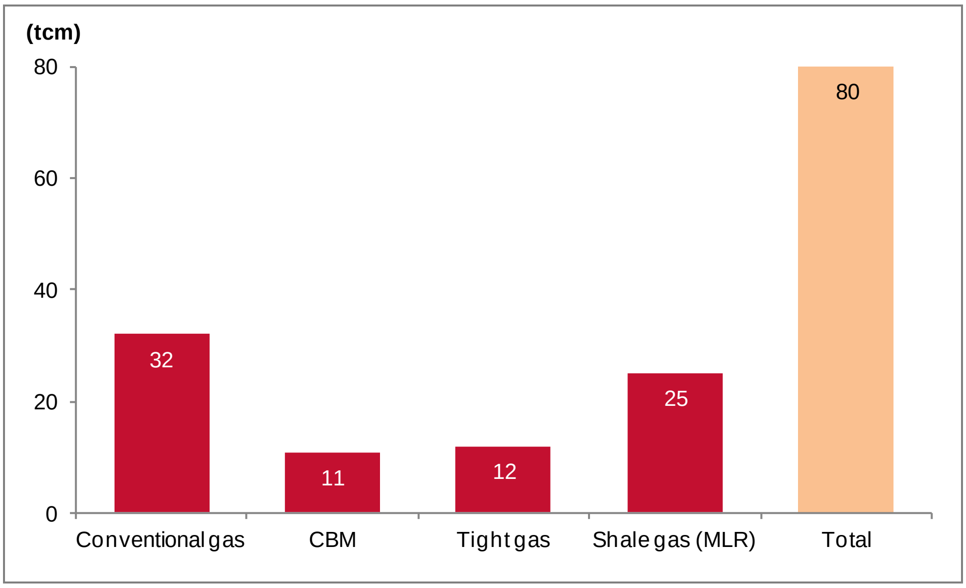


Source: Total

Gas reserve of China

We estimate that China has 80 tcm of recoverable gas reserve; where 32 tcm are conventional gas, 11 tcm are CBM, 12 tcm are tight gas, and 25 tcm are shale gas. At end-2011, China has remaining developed gas reserve of 4.02 tcm.

Exhibit 72: Recoverable gas reserve of China

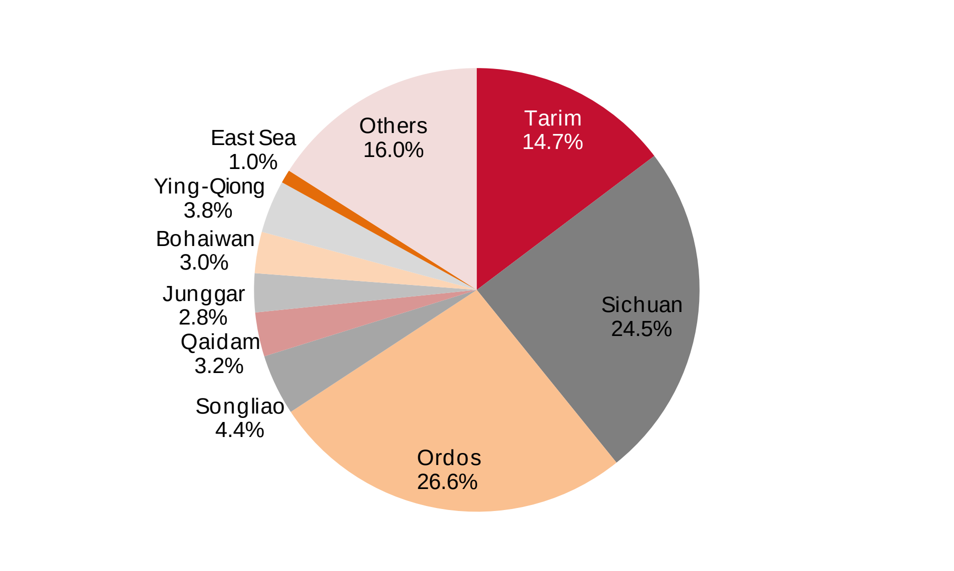


Source: MLR, China Center for Energy and Development, Peking University, OP estimate

China's gas reserves are mainly distributed in nine major gas fields, which accounted for 84% of China's recoverable gas reserve. The country established eight base regions for future development, which include six onshore basins: Sichuan, Tarim, Ordos, Songliao, Qaidam, Junggar, and two offshore areas: Ying-Qiong, and East Sea.

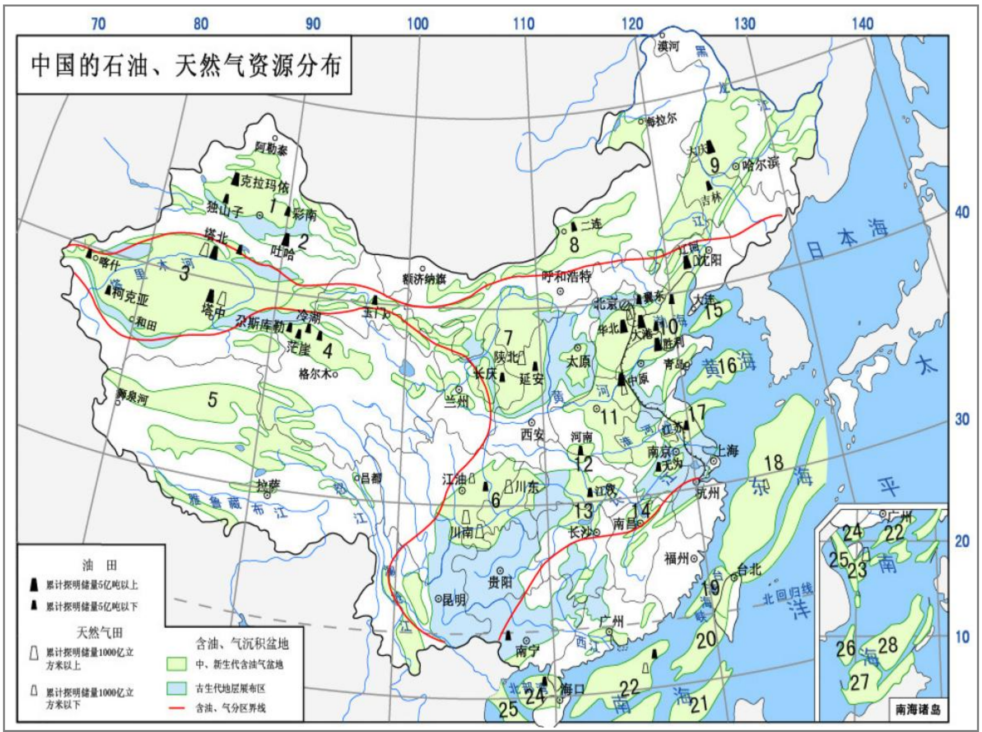
It is not difficult to notice that 70-80% of China's recoverable resources are concentrated in the Northwestern and Southwestern parts of China, which are considered more challenging to extract due to geology and soil formation.

Exhibit 73: Distribution of conventional gas reserve of China



Source: MLR, China Center for Energy and Development, Peking University, OP estimate

Exhibit 74: China's major oil and gas reserves distribution



Source: MLR

Policy support for gas reservoir exploration and development

Policies are more inclined to guide the ex-factory price of gas production and promotion of the development of unconventional gas such as CBM and shale gas.

Exhibit 75: Summary of recent policies related to development of gas

Date	Document ref.	Gov body publish	Details
20 Apr 2007	财建 [2007]114 号	MOF	- Subsidy of RMB0.2/cum for CBM will be from MOF - Local government can provide additional subsidy
31 May 2010	发改电 [2010]211 号	NDRC	- Ex-factory price of major onshore gas fields were raised
26 Nov 2011	发改能源 [2011]3041 号	NDRC, NEA	- 12th FYP for CBM, target to reach 30 bcm CBM annual production by 2015
13 Mar 2012	发改能源 [2012]612 号	NDRC, MOF, MLR, NEA	- 12th FYP for shale gas, target to achieve by 2015, (1) geological reserve of 6 tcm, (2) recoverable reserve of 2 tcm, and (3) annual production of 6.5 bcm by 2015, 60-100 bcm by 2020
1 Nov 2012	财建 [2012]847 号	MOF, NDRC	- Subsidy of RMB0.4/cum for shale gas will be from MOF - Local government can provide additional subsidy

Source: NDRC, MOF, MOHURD, NEA, OP Research

Targets of major Oilfields

In our field trip to Sulige and Tarim in late September 2012, we learned from CNPC officials that Changqing Oilfield and Tarim Oilfield have set ambitious target to enhance gas production in the 12th FYP.

CNPC Changqing Oilfield targets to expand production of oil and gas from 40.59m toe to 50m toe within 3 years.

For Changqing Oilfield, they aim to reach production of combined oil and gas, 50m tonnes of oil equivalent (toe) in 2014. Within the production volume of 40.59m toe in 2011, where 20.02m toe came from crude oil production, while the remaining came from gas (20.57m toe or 25.8 bcm). We expect Changqing Oilfield's gas production to reach 30 bcm level in 2012 and 33-35 bcm by 2014-2015. This represents a 10-12% CAGR in both crude and gas production over 2012-2015. In fact, the growth is likely to exceed this level, on the back of news agency quoted that CNPC officials forecast Changqing Oilfield's production will exceed 45m boe in 2012, and might reach 50m toe in 2013.

CNPC Tarim Oilfield targets to expand production of oil and gas from 20m toe to 31.7m by 2015, and 40m toe by 2020.

For Tarim Oilfield, CNPC aim to increase annual production from 20m toe to 31.7m toe by 2015, and 40m toe by 2020. We expect much of the increment will come from development of gas reservoirs, where gas production will grow at 15% CAGR over 2012-2015, and crude oil production will grow at 5-6%. Due to the low base effect, we expect Tarim will experience high growth through 2012-2020 in E&P activities and production. The increase in E&P activities in the challenging Tarim Basin with wells at 5,000-7,000m deep (compare to Ordos and Sichuan's 3,000-4,000m deep), will best benefit SPT, the market leader in independent oilfield services in the Tarim Basin.

We expect the Ordos, Tarim, and Sichuan Basins will be the backbone to conventional gas growth at 12% CAGR over 2012-2015, and will account for above 60% of the growth in conventional gas in the coming years.

What is developing an oil / gas reservoir?

The process of developing a well begins with extensive reservoir research on the location and reserve level of the hydrocarbon reservoir, and analysis of the soil formation, and the permeability of hydrocarbons, etc. Evaluation of recoverable reserves and developing plan will be drafted by the resource developers.

Drilling is the first stage of ground work, involving drilling a hole to reach the destined reservoir under the ground. Then well completion involves installing the production tubing and seals off the production tube with the borehole wall to allow production tubing as the single channel for hydrocarbons to reach the ground. *Christmas tree* is installed as the wellhead which is a system of valves.

Production enhancement activities, such as acidizing and hydraulic fracking, are sometimes performed to crack open soil formation to unlock hydrocarbons trapped in low permeability rock formations, such as tight and shale gas.

Lastly, oil-gas-water separation, storage and transportation equipment are constructed to distribute extracted hydrocarbons.

Exhibit 76: Process of onshore oil and gas exploration and development

Category	Activity	Description
Reservoir research	Seismic data gathering	Acquiring data on hydrocarbon rich reservoir locations through the use of sound waves
	Data processing and analysis	Analyze seam geological structure and soil/rock composition
	Well logging	Lowering sondes to obtain info on rock type and porosity, fluid content of the pores, and mechnical and fluid flow conditions. Temperature and pressure are also important measurement to be obtained in well logging
Drilling	Drilling of vertical well	Drilling a hole in the ground with drill rigs; through rotation of the drill string and drill bit generated by the swivel / top drive
	Side-tracking	In case of directional drilling, side-tracking is performed to open a window to the vertically-drilled wellbore for horizontal drilling
	Directional drilling	Directional drilling is performed at the window opened in side-tracking. The purpose is to expose the horizontal exposure of the wellbore
Well completion	Install production tubing	To install the production tube for transmission of hydrocarbons from reservoir to ground
	Cementing	Sealing the production tubing with the borehole wall, to allow tubing as the only channel for hydrocarbons to reach the ground
	Perforation	Holes are punched in the casing for the connection with reservoir, allowing hydrocarbons to flow into the tubing
	Wellhead installation	Install a system of valves (Christmas Tree) to the the wellhead, and test for the pressure of tubing through logging
Production enhancement	Acidizing	Aciding is a method to enhance production by pumping down acid which etches the rocks and opens a channel to hydrocarbons
	Fracking	Fracking pumps pressurized fluid down a well to crack open the soil or rock formation. Proppants are often added to keep the new fratures remain open for a longer period
Ground construction	Oil-gas-water separation	Construction of equipment which separates extracted hydrocarbons into oil, gas and water
	Storage and transport	Construction of storage containers and equipment for transportation of extracted hydrocarbons, such as pipeline and compressors

Source: OP Research

We also included a list of equipment used in reservoir research, drilling, well completion and production enhancement.

Exhibit 77: Primary oilfield equipment

Category	Activity	Description
Reservoir research	Winch	Winch is a truck which lowers the sondes to the ground for well-logging. It also provides data collection and analysis
	Sonde	Sonde is the instrument lowered into the deep wellbore to obtain data including rock type and porosity, fluid content of the pores, mechnical and fluid flow conditions, temperature and pressue - SPT began to manufacture its sondes, the PPS, from 1999 in Canada. Per our understanding the replacement cycle of sondes is around 1-2 years
Drilling equipment	Drill pipe & OCTG	Drill pipes are lowered by the drill rig to the wellbore through rotation generated by the swivel or top drive
	Rig	Rig is a machine with the aim of drilling a hole on the ground. It consists of (1) top drive or swivel which creates the rotation to drill pipe (drill string) and the drill big attached, (2) the drilling pump which pumps the drilling fluid to the ground, (3) the cementing control equipment, (4) the base, and (5) power generators, etc.
	Drilling fluid	Drilling fluid, or drilling mud, is a mixture of water, clay, and chemical additives (water-based). It serves important fuction such as (1) preventing high pressure formation fluids from entering the well, (2) coolant and lubricant to the bit and drill pipe, and (3) presents caving of loose formations, etc. *Drilling fluid also comes in oil-based, which mixes water and diesel*
Well completion equipment	Christmas tree	An assemply of valves, spools and fittings used for a well
Production enhancement	Coiled tubing	Metal piping used for interventions in wells, such as pumping into wellbore, and perform recovery activities
	Fracking fluid	High pressurized fluid used to be pump into the well to crack open underground formations. Consist of 90% water and 10% chemical additives. Proppants (rocks) and Guar are often added to drilling fluid to enhancement performance
	Fracking truck (or Pumper truck)	Fracking truck pumps fracking fluid into the well
	Blender	Blender mixes water and proppants to create fracking fluids
	Liquefied Nitrogen Pump Vehicle	Pumps liquefied nitrogen to well to improve flow rate of the oil producing layer of rock or sand

Source: OP Research

Who are the major players involved?

Exhibit 78: Summary of companies engaged in the provision of oilfield services and equipment

Comp name (Eng)	Comp name (Chi)	Stock code	Business description
Oilfield services players			
Antonoil	安东油田	3337 HK	Integrated service provider; focuses on well completion to production enhancement (fracking)
SPT Energy	华油能源	1251 HK	Integrated service provider; focuses on reservoir research
Schlumberger	斯伦贝谢	SLB US	International oilfield services company
Halliburton	哈里伯顿	HAL US	International oilfield services company
Baker Hughes	贝克休斯	BHI US	International oilfield services company
Oilfield equipment players			
Honghua	宏华集团	196 HK	Drill rigs and components
Hilong	海隆控股	1623 HK	Drill pipe, coating and oilfield services
HBP	惠博普	002554 CH	Oil and gas processing systems
Tong Oil Tools	通源石油	300164 CH	Perforating guns
Yantai Jereh	杰瑞股份	002353 CH	Frack trucks
Landocean	恒泰艾普	300157 CH	Geophysical and seismic software
Sichuan Renzhi	仁智油服	002629 CH	Construction and tech. services.
Kingdream	江钻股份	000852 CH	Manufacturers drill bits
GI Tech	吉艾科技	300309 CH	Logging and imaging
Lanzhou Haimo	海默科技	300084 CH	Meters and well production testing
Shandong Polymer Biochem	宝莫股份	002476 CH	Chemical agents for oil recovery
Sino GeoPhysical	潜能恒信	300191 CH	Seismic data processing
Transmission pipe manufacturers			
Shengli Pipe	胜利管道	1080 HK	Major SSAW pipe producer in China
Chu Kong Pipe (CKP)	珠江钢管	1938 HK	Major LSAW pipe producer in China
Transmission container manufacturer			
CIMC Enric	中集安瑞科	3899 HK	Manufacturers container widely used in CNG, LNG, LPG, chemical and liquid food transmission
Zhangjiagang Furui	张家港富瑞	300228 CH	One of China’s energy transmission container manufacturer
Chart Industries	常州查特	GTLS US	One of China’s LNG container and storage facility manufacturer

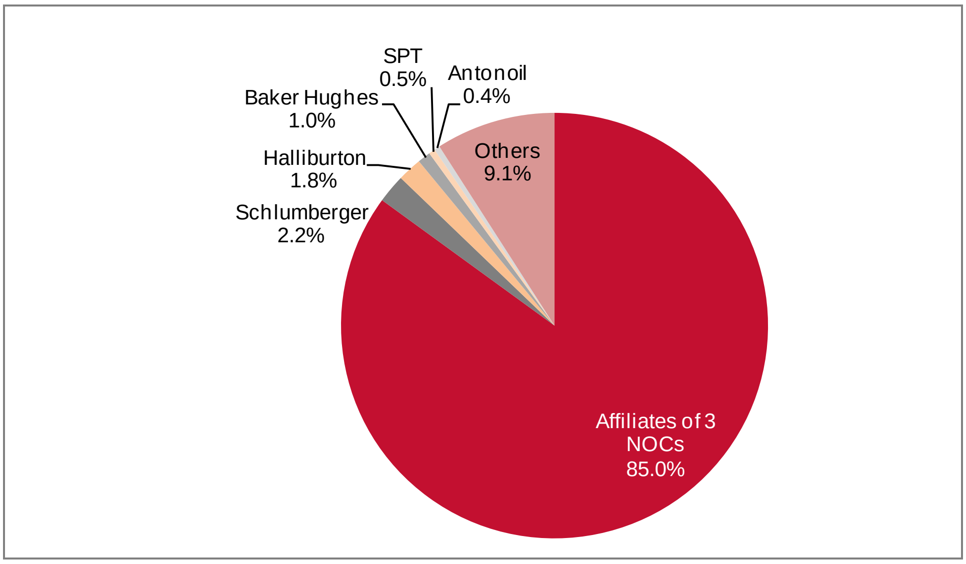
Source: OP Research

The competition landscape of oilfield services

The Chinese oilfield services market is NOC-dominated, and it is not hard to find an explanation, because almost all of the oil and gas resources are currently in the hands of the 3 NOCs.

According to Spears and Associates, the oilfield services for China in 2010 were RMB92.2bn. This includes reservoir research, drilling, well completion and production enhancement. The affiliates of CNPC, Sinopec, and CNOOC held 85% of the market share, international oilfield companies such as Schlumberger/ Halliburton/Baker Hughes hold a 5% market share, and the remaining 10% are divided between 1,200 domestic oilfield services providers, including Antonoil and SPT.

Exhibit 79: Competition landscape of oilfield services in China



Source: Spears and Associates, OP Research

CNPC has 5 drilling subsidiaries, including the Daqing Drilling, Great Wall Drilling, Bohai Drilling, Chuanqing Drilling and Western Drilling Corporations. These subsidiaries are well equipped with drilling teams, drill rigs, and other necessary equipment for the development of well reservoirs. They are also relatively wealthy in terms of human capital and financial resources amongst domestic peers.

Despite the lack of sufficient human capital and financial resources, independent domestic oilfield services providers such as Antonoil and SPT has niche in high-end and critical services market as the challenges in the development of reservoir increases. For example, for the super deep, high pressure and high temperature wells in Tarim, CNPC or drilling subsidiaries has to rely on SPT to perform drilling and well completion work. According to Spears and Associates, SPT's market share in the high-end market in Tarim is approximately 75% in 2010.

Shale gas is the new spotlight

China's target in shale gas production

After US's success in shale gas, China were actively evaluating its resources and encouraging domestic investments in the area. Assessment from MLR and EIA showed China has recoverable shale gas reserves of 25 tcm (excluded Qinghai and Tibet) and 36 tcm (only Sichuan and Tarim Basins), respectively. This is comparable to MLR's latest announcement of recoverable conventional gas reserve at 32 tcm. China is proven to have large economical shale reserve base.

China plans 2012-2015 (12th FYP) exploration period for shale gas, where 2016-2020 (13th FYP) to be commercial production period. Production to reach 10x large in 2020 versus 2015.

MLR announced long-term target for shale gas from 2012-2020 in March this year. 2012-2015 will be the exploration period, aiming to (1) achieve extensive knowledge on the level and location of resource nationwide, and (2) ramp up local exploration and development equipment technology and capacity. 2016-2020 will be the commercial production period of China.

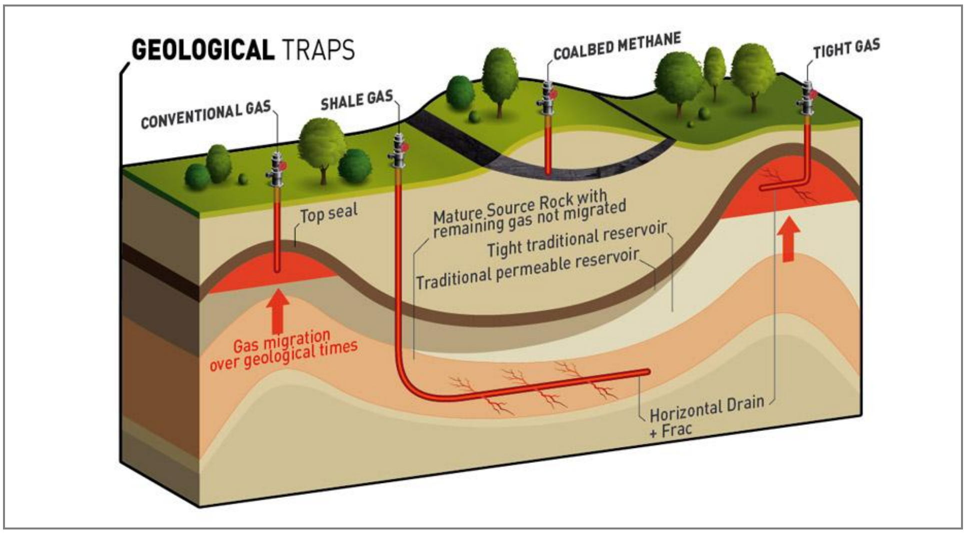
The plan also targets to achieve by FY15E, geological and recoverable reserve of 600 bcm and 200 bcm, respectively, and annual production of 6.5 bcm. The target production for shale gas in FY20E is 10 times of FY15E, at 60 bcm to 100 bcm.

Exhibit 80: Comparison between shale gas and conventional gas in China

	Shale gas	Conventional gas
Composition	Primary methane, accompanied with small amount of ethane and propane	Primary methane, accompanied with small amount of ethane and propane
Recoverable reserve	MLR: 25 tcm (excluded Qinghai, Tibet)EIA: 36 tcm (only Sichuan, Tarim)	32 tcm per MLR for end 2011 (Proved reserve of 4 tcm)
Formation	Trapped in shale formations	Seals and traps
Depth	500-8,000m	500-8,000m
Extraction	Low permeability, require production enhancement techniques such as hydraulic fracking to rise to ground	Naturally rise to surface due to high permeability
Production cost	RMB0.9-1.9/cum	RMB0.7-1.5/cum
Annual production in 2011/2015/2020	FY11A: Nil FY15E: 6.5 bcm / FY20E: >60 bcm	FY11A: 103 bcm FY15E: 160 bcm / FY20E: 250 bcm

Source: MLR, EIA, CNPC, OP Estimate

Exhibit 81: Schematic geology of natural gas resources



Source: Total

Coalition with international leaders

Beijing has been actively encouraging investments in the shale space. Some local authorities established coalition agreements with renowned international developers and oilfield services companies, to ride on advanced foreign shale experience to explore and develop the new resource. Here are few examples:

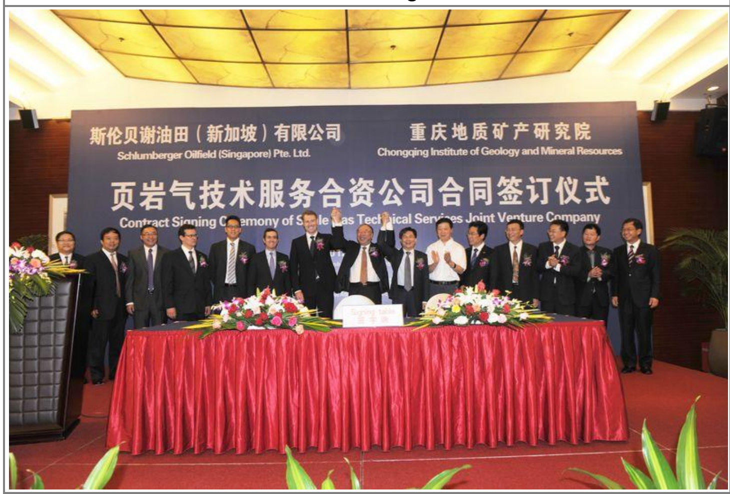
(1) In September 2012, the Chongqing Institute of Geology and Mineral Resources, a municipal authority, formed a jointly venture with Schlumberger to provide shale technical services in Chongqing.

(2) In October 2012, the Chongqing Energy Investment Group, a local municipal owned energy enterprise which invests and operates energy projects, signed framework agreement with Shell to explore and develop shale gas, CBM, and other unconventionals in the area, and also develop LNG utilization projects.

(3) In October 2012, the Forbes Energy Shale Gas Exploration Fund signed agreement with the Chongqing Liangjiang New Area government, to invest US$300-500m on development of shale gas reserves in the Southwestern parts of Chongqing, and establish a wholly-foreign-owned enterprise to manufacture shale gas exploration and development equipment.

Exhibit 82: Local government authority and international developers and services providers joint hands in Shale

Chongqing Institute of Geology and Mineral Resources & Schlumberger



Chongqing Energy Investment Group & Shell

Chongqing Liangjiang & Forbes Energy Shale Gas Exploration Fund 1

Chongqing Liangjiang & Forbes Energy Shale Gas Exploration Fund 2

Source: Chongqing Institute of Geology and Mineral Resources, Chongqing Energy, CCTV

Historical development of shale gas in China

Exhibit 83: Milestone of China's shale gas development

Year	Major milestone
Oct 2009	MLR drilled first test well in Chongqing, and launched a nationwide project to assess shale gas potential in key areas including Sichua, Chongqing, Guizhou, Hubei, and the middle and downstream of Yangtze River
Nov 2009	CNPC and Shell signed agreement to jointly evaluate and develop the Fushun-Yongchuan block in Sichuan; being China's first shale gas project
Aug 2010	MLR established National Gas Shale Research Center
Nov 2010	CNOOC completed acquisition of 33.3% stake in Eagle Ford shale oil and gas project from Chesapeake for US$1.08bn
Apr 2011	CNPC-constructed test well (Wei-201 Well in Weiyuan, Sichuan) recorded stablized production rate at 10,000 cum/day in the first 3 months after drilled. The well was started to drill in Dec 2009, and began production in Nov 2010
Apr 2011	Shaanxi Yanchang Petroleum completed fracking Liuping-177 Well, located in Yanan city. The well is the first continental fieces shale well fracked in China
Jun~Jul 2011	MLR held China's **First Shale Gas Exploration Auction** to 4 shale gas blocks in Chongqing and Guizhou. 6 SOEs, including CNPC, Sinopec, Henan CBM, Shaanxi Yanchang Petroleum and CUCBM were invited to bid. Sinopec and Henan CBM were awarded shale gas fields in Nanchuan and Xiangxiushan, respectively.
Dec 2011	"Shale gas" is reclassified as an independent resource, breaking state monopoly on its development
Jan 2012	Sinopec invested US$2.52bn for 33% stake in a joint venture with Devon's to develop five developing fields, including Tuscaloosa Marine, Niobrara, Mississippian, Utica and Michigan shale basins; comprised of 1.2m acres
Feb 2012	Shaanxi Yanchang Peotroleum completed first test well in Ordos Basin
Feb 2012	CNPC acquired 20% in Groundbirch shale gas from Shell for US$1bn
Feb 2012	Huadian signed shale gas development framework with Hubei local government, to develop Northwestern reservoirs
Mar 2012	MLR announced first evualtion to shale gas reserve in China, with geological reserve of 134 tcm and recoverable reserve of 25 tcm
Mar 2012	Sinopec announced shale gas productivity of 11,500 cum/day at Yuanba Block 9 (in Northeast Sichuan) at 4,000m depth
Mar 2012	NDRC announced 12th FYP to achieve, by 2015, (i) geological reserve of 600 bcm, (ii) recoverable reserve of 200 bcm, and (iii) annual production volume of 6.5 bcm; by 2020, annual production volume of 60-100 bcm
Mar 2012	CNPC and Shell signed profit sharing contract (PSC) at Fushan-Yongchuan block in Sichuan, for over 3,500 sqkm; being China's first PSC on shale established
Apr 2012	CNPC's Tuha Oilfield signed agreement with Shell and Hess to jointly explore and develop shale oil in Santanghu Basin in Xinjiang
Apr 2012	NDRC and NEA set Changning-Weiyuan block in Sichuan as pilot program for shale
Aug 2012	Shell revealed its plan to invest US$1bn per year in the exploration and development of shale gas in next 5 to 7 years
Sep-Oct 2012	MLR held **Second Shale Gas Exploration Auction** to 20 shale gas blocks in Guizhou, Chongqing, Hunan, Hubei, Jiangxi, Anhui, Zhejiang and Henan, and invited **both state-owned and public domestic exploration-experienced-companies to participate**. Foreign investors may participate through joint ventures with domestic companies. Result is yet to be announced by the end of year
Oct 2012	The Yang-201-H2 Well located in Luzhou, Sichuan, made a new record in per well production in China, with 430,000 cum/d. The well was a horizontal well co-developed by CNPC and Shell, which was completed at 4,544m depth
Nov 2012	**MOF announced RMB0.4/cum subsidy for shale gas produced**, and encourage local government to provide additional subsidy when necessary
ov 2012	MLR official told the press that China has completed drilling 63 test wells. 24 wells wells reached commercial flow after being fracked. Successful rate was above 70%

Source: OP Research

Shale gas experience from United States

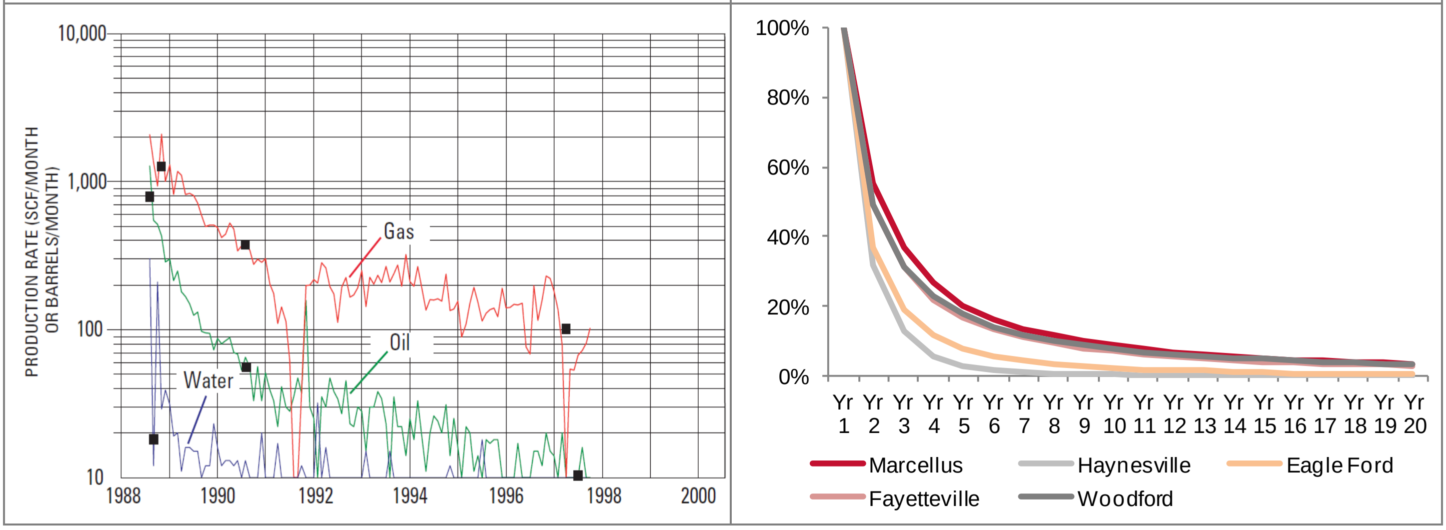
The North America is the world's only region with commercial shale production so far. At end 2009, there were 30 shale basins were discovered in North America, with 50,000 development wells being completed, and almost entirely in US. The blended annual production per well is 3,000 cubic meter.

Supported by data and experience from USGS and EIA, we learned that the estimate ultimate recovery (EUR) for conventional gas wells is higher than oil and water. Production rate for a newly drilled conventional gas well will falls by over half in the first year, and accumulatively 90% in the first 5 years. Production will remain relatively flat in the sixth to tenth year.

For shale gas, the story is similar. Production falls by 50-60% in the first year, and then drop by 30-40% in the following 4 years, and then will remain flat after the tenth year, at around 7-10% of original production rate until year 20.

Exhibit 84: Calculation of Estimate Ultimate Recovery (EUR) for oil, gas and water wells

Crude oil, conventional gas, and water | Shale gas



Source: USGS, EIA, OP Research

The cost of production (wellhead cost) for conventional gas and shale gas was similar in 2010 in the States, at RMB0.6-1.3 per cubic meter, according to IEA. China's conventional gas cost is slightly higher, at RMB0.7-1.5 per cubic meter, but still lower than Europe's range at RMB0.9-1.7.

Besides advanced techniques used in exploration and development of wells, another major reason for the low cost in US is related to the large *total* number of wells drilled and the large number of wells drilled per mile.

Up the moment, China only 60 wells drilled, which is much below 50,000 wells in the US. But we expect that large amount of capital will be invested in the manufacturing of tools, and also on the exploration work on shale gas reservoirs in the 12th FYP. Only then fruitful production targeted by the government will be realized in the 13th FYP. The first step for NOCs, domestic oilfield services and equipment providers and local government authorities are to acquire western advanced technology through M&As, establishment of joint ventures, and hiring of knowledgeable expats.

How will oilfield services and equipment providers be benefited?

Industry expert estimated 40,000 shale wells to be completed between 2012-2020.

According to the estimate from an Analyst at the Chongqing Institute of Geology and Mineral Resources, **China needs to drill at least 40,000 shale wells during 2012-2020**, to achieve annual production of 60 bcm (government target by 2020). He expects the required investment for each shale gas well would be RMB20m, and the total investment would be RMB800bn over the coming 9 years. Of which, RMB200bn will be invested in equipment.

The RMB20m per well assumption is at the lower end of a 2,000m deep horizontal well in Sulige to our understanding. Typical investment for a horizontal well for tight gas in Sulige is around RMB24-30m, where around two-thirds goes to drilling and well completion, and remaining one-third goes to fracking.

For shale gas, the present figures we obtained from CNPC are that the investment cost for a 2,000-3,000m well would be RMB50m to RMB100m. The RMB20m per well consumption hints us that investment per well will decrease (60-80%) through economies of scale as the number of wells increases and improvement of efficiencies in drilling in the coming decade. This has been seen in our case study on tight gas in Sulige where cost of fracking dropped 80% from 2010-2012.

Market size for oilfield services could double following the success in tight gas in Sulige.

Nonetheless, the RMB89bn capital investment per annum (i.e. RMB800bn divide by 9 years) is comparable to the current market size for domestic oilfield services at RMB92.2bn, according to the estimate of Spears and Associates for 2010.

China's shale characteristics

The result from EIA's assessment for shale gas reserve in China was based on Sichuan and Tarim Basins, which they concluded of having 36 tcm marine-recoverable reserves in 2011.

Exhibit 85: Comparison of shale gas characteristics in China and US

	China				United States				
Basins	**Sichuan Basin**		**Tarim Basin**		**Barnett**	**Fayetteville**	**Haynesville**	**Woodford**	**Marcellus**
Shale formation	**Longmaxi**	**Qiongzhusi**	**O1/O2/O3 Shales**	**Cambrian Shales**	-	-	-	-	-
Geological age	Silurian	Cambrian	Ordovician	Cambrian	Miss.	Miss.	J_3	D_3	D_2
Prospective area (sq. mile)	56,875	81,500	55,042	63,560	5,000	5,853	9,320	11,000	104,067
Thickness - interval (m)	90-490	60-430	0-1,590	0-460	30-183	6-76	94-616	37-67	475-2,591
Thickness - organically Rich (m)	170	120	160	250	-	-	-	-	-
Thickness – net (m)	7.9	5.5	7.4	11.4	2.8-17	0.6-5.7	300-370	160-300	60-220
Depth - interval (m)	2,400-4,100	2,600-4,600	2,000-6,000	2,300-6,400	1,981-2,926	305-2,287	3,048-4,115	1,829-3,353	475-2,591
Reservoir pressure	Normal	Normal	Normal	Normal	Normal	Normal	Normal	Normal	Normal
TOC (%)	1.60-3.60%	2.30-4.20%	0.17-2.13%	0.18-5.52%	2.00-7.00%	2.00-9.80%	0.50-4.00%	1.00-14.00%	3.00-12.00%
Thermal maturity (Ro %)	1.88-4.36%	1.50-5.70%	1.74%	1.90-2.04%	1.10-2.00%	1.20-4.00%	2.20-3.20%	1.10-3.00%	1.50-3.00%
Gas-in-place (bcm)	38.9	39.5	25.4	40.7	9.3	1.5	20.3	0.7	42.5
Recoverable reserve (tcm)	9.7	9.9	6.3	10.2	1.2	0.9	2.1	0.6	11.6
Wells per mile	n/a	n/a	n/a	n/a	6	8	8	4	5
Average estimated utimate recovery per well (mcm)	n/a	n/a	n/a	n/a	82	37	76	56	44

Note: Barnett, Fayetteville, Haynesville, Woodford, and Marcellus together comprised of 77% of US recoverable shale reserve at 21.4 tcm.
Source: EIA, DOE, Petroleum Exploration and Development, OP estimate

Location of shale gas reservoirs

According to the MLR, China has shale gas reserve-in-place (geological reserves) of 134 tcm, and 25 tcm of proved recoverable reserves. The major distribution of these reserves are in the Upper Yangtze, Yunnan, Guizhou, and Guangxi regions, which accounted for nearly 40% of total recoverable reserves, followed by the Northern and Northeastern China region which accounted for 27% of total proved reserves.

Exhibit 86: Distribution of shale gas reserves in China (MLR, 2011)

Source: MLR

Exhibit 87: Distribution of shale gas reserves in China (MLR, EIA, 2011)

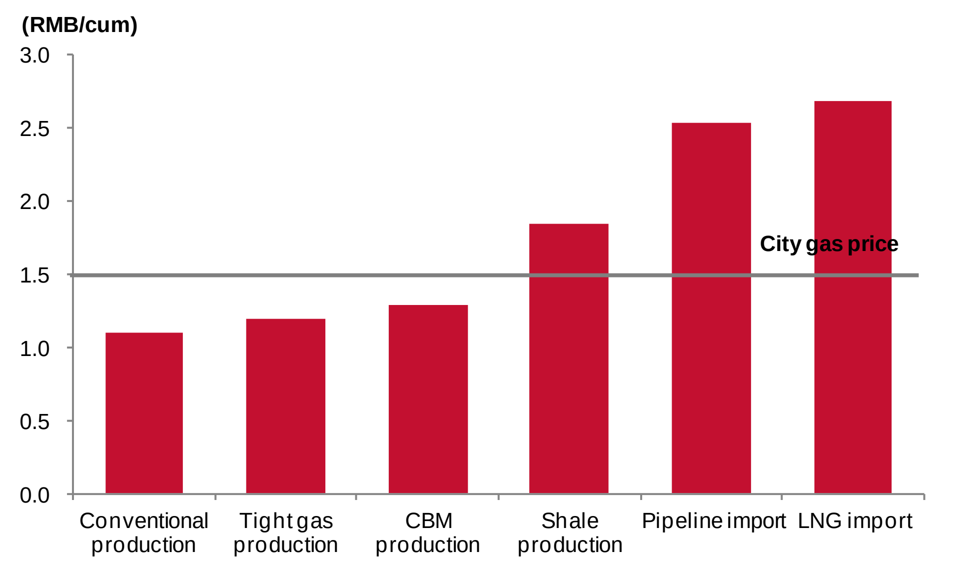
Location	Shale gas unproved reserve (tcm)	% of total	Shale gas proved reserve (tcm)	% of total
Upper Yangtze area, Yunnan, Guizhou, and Guangxi **(**上扬子及滇黔桂区**)**	62.5	46.5%	10.0	39.8%
Northern and Northeastern China (华北及东北区)	26.8	19.9%	6.7	26.6%
Lower Yangtze area and Southeastern China (中下扬子及东南区)	25.2	18.8%	4.6	18.5%
Northwestern China (西北区)	19.9	14.8%	3.8	15.1%
Estimate by MLR (ex-Qinghai and Xizang)	134.4	100.0%	25.1	100.0%

Source: MLR, OP Research

The Natural Gas Market Liberalization of China

The expensive imported gas

Exhibit 88: Price comparison between gas sources in China



Source: CNPC, NDRC, IEA, General Administration of Customs, OP Research estimate

The price of gaseous import gas (pipeline gas) and LNG has become increasingly expensive as pricings of gas deals were referenced to Brent crude oil price level.

The earliest contract signed between CNOOC and the Australian North-West Shelf consortium was negotiated when Brent crude price was in the range of US$25-30 per barrel in 2003. A low comparative low LNG import price was resulted at US$4-5/cuf (RMB1.2/cum; *assumed US$1=RMB8*), when the first Australian LNG cargo arrived Guangdong's Dapeng LNG terminal in June 2006.

The subsequently negotiated LNG deals with Indonesia and Malaysia in 2006 were at high Brent price ranging at US$60-70 per barrel, resulted LNG cost at US$6-8/cuf (RMB1-1.6/cum). The 2008 signed Qatar LNG deal closed at Brent peaked US$147 has resulted LNG cost of US$17-18/cuf (RMB3-3.4/cum) when they arrived China in 2009.

In the first eight months of 2012, China's average LNG cost was US$14-15/cuf (RMB2.5-2.8/cum). We expect it to reach US$17-18/cuf (RMB3-3.4/cum) soon, as the major of subsequent LNG deals yet to arrive China were closed at Brent above US$100-level.

Exhibit 89: LNG prices at various Brent oil price levels

Brent crude price at deal (US$/barrel)	Respective LNG price (US$/cuf)	Respective LNG price (RMB/cum)
60	9.6	1.77
70	11.1	2.04
80	12.6	2.32
90	14.0	2.58
100	15.5	2.85
110	17.0	3.13
120	18.5	3.41
130	20.0	3.68
140	21.4	3.94

Source: Oxford Energy Institute, OP Research

Exhibit 90: China's major LNG contracts

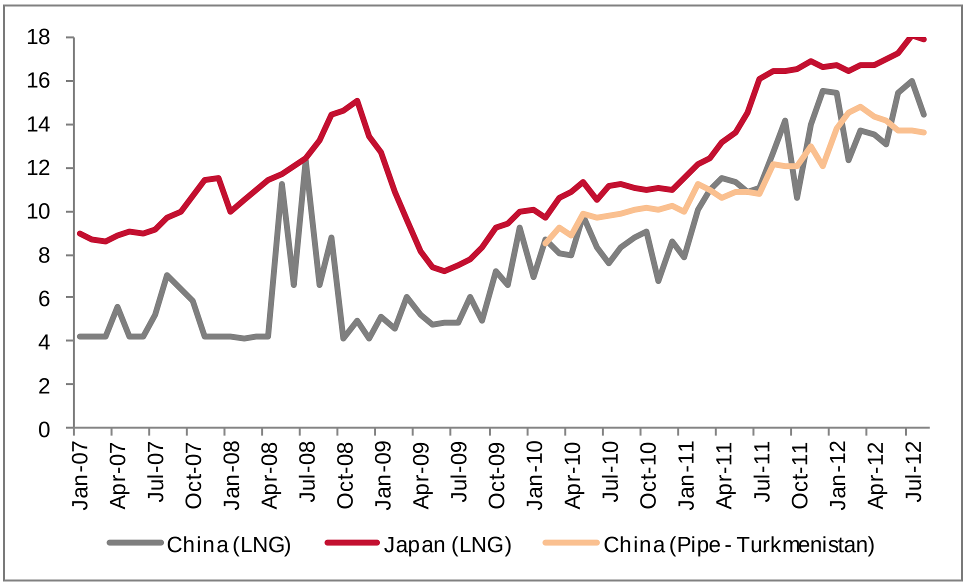
Country	Project	Seller	Volume (mmtpa)	Term (yrs)	Buyer	Contract date	First cargo date
Australia	Australia North West Shelf Gas (NWS)	Woodside JV (BHP Billiton, BP, Chevron, Mitsubishi, Shell, Woodside Energy), CNOCC owns 5.3% interest	3.3	25	CNOOC	Dec 2003	Jun 2006
Australia	Curtis LNG (QCLNG)	British Gas (BG) (50%), CNOOC (50%)	3.6	20	CNOOC	Mar 2010	2014
Australia	Curtis LNG (QCLNG)	British Gas (BG) (50%), CNOOC (50%)	5.0	20	CNOOC	Nov 2012	2015
Indonesia	Indonesia Tangguh (印尼东固项目)	BP (37.2%), CNOOC (13.9%), Mitsubishi (16.3%), Nippon Oil (12.2%) and others (20%)	2.6	25	CNOOC	Sep 2006	May 2009
Malaysia	Malaysia Tiga	Petronas	3.0	25	CNOOC	Jul 2006	Jan 2009
Qatar	Qatargas 2	Qatar Petroleum (65%), Exxon (18.3%), Total (16.7%)	2.0	25	CNOOC	Jun 2008	Oct 2009
Flexible	Unspecified	Total	1.0	15	CNOOC	Jan 2009	2010
Flexible	Unspecified	GDF Suez	0.65	4	CNOOC	Oct 2010	2013
Qatar	Qatargas 4	Qatar Petroleum (70%), Shell (30%)	3.0	25	CNPC	Apr 2008	2011
Australia	Gorgon	Shell	2.0	20	CNPC	Nov 2008	2011
Australia	Gorgon	Exxonmobile	2.25	20	CNPC	Aug 2009	2014
Australia	Australia Pacific LNG	Origin (37.5%), Conoco (37.5%), Sinopec (25%)	4.3	20	Sinopec	Apr 2011	2016
Papua New Guinea	PNG LNG	Exxon, Oil Search, NPCP, Santos, and others	2.0	20	Sinopec	Nov 2009	2015

Source: Company data, IGU, OP estimates

The spot prices of Asian LNG were significantly affected by the increased demand from Japan and Korea after the Fukushima accident in March 2011. In 2011, Japan accounted for 33% of global LNG import, followed by Korea's 15%. The current price of Japan spot LNG hiked US$16-18/cuf since July 2011, according to LNG Japan Corporation.

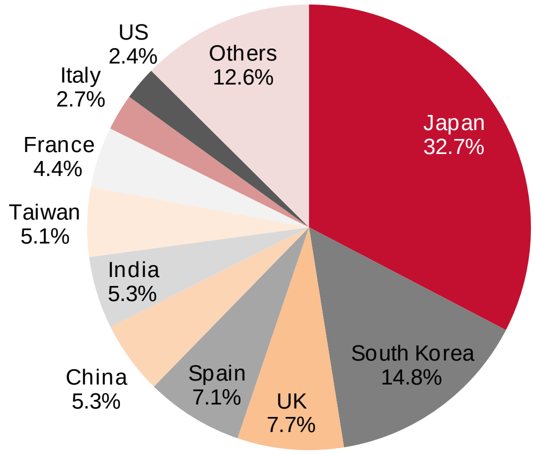
In compare, the cost of gaseous gas from Turkmenistan was cheaper than LNG upon arrive at Xinjiang at US$13.6/cuf (RMB2.5/cum). But after accounted for pipeline transmission cost, gaseous import price would become RMB3.5-4.0/cum when arrived Shanghai; casing CNPC to incur loss on around RMB1.0/cum, or about RMB3.7bn in 2010 per company announcement.

Exhibit 91: Price comparison between Chinese and Japanese import



Source: General Administration of Customs, LNG Japan Corporation, OP Research

Exhibit 92: Top importers of LNG (2011)



Source: IGU, OP Research

Market liberalization is the key to future gas development

Among the various challenges for China to replicate North America's success in the shale gas development, the liberalization of gas price and pricing structure is what we consider most crucial.

The low city gas price discourages NOCs in dealing increasing expensive imports, developing challenging gas sources including unconventionals, and helps create inefficiencies in energy consumption.

Similar to China, US began with monopoly on rights on gas transmission and distribution, supply obligation on developing companies, and regulation of gas prices. Though inviting competitions to upstream E&P and transmissions, the US has developed its full market competition market structure today, which also resulted in the prosperity of shale today.

We see China is following the trait of the western countries, to begin altering its market structure from fundamentals, with the final aim to achieve market-determined-gas-pricing.

Signals for market liberalization include (1) the introduction of pilot program in Guangdong and Guangxi which replaced the cost-plus-pricing model with the oil-and-LPG indexed, net backing pricing model; (2) the acceptance of non-state-owned capital to bid for the exploration right of shale gas in the Second Auction held in 2012, and (3) the introduction of public and private capital in the investment of West-East Line III.

First Signal: City gate price pilot program in Guangdong & Guangxi

Price reform is seen as the first signal for China to liberalize its gas market. It is not only about lifting the ceiling of price cap, but the change in the pricing structure.

The December 2011 introduced pilot program in Guangdong and Guangxi was the major step to replace the conventional cost-plus method with net-backing. City gas price was determined by indexing to the oil and LPG price in Shanghai, weighted at 6:4, and discounted by 10%. Ex-factory price is the net of pipeline charge from city gas price, while the charge price of pipeline will be continued to be regulated by the NDRC. The city gas price will be revised annual in Guangdong and Guangxi, and the adjustment time interval will be eventually reduced to semi-annually and quarterly.

The pilot program will be introduced to other LNG receiving cities, including Shanghai, Jiangsu, Fujian and Dalian, as the affordability of these coastal cities are higher than inland ones, and the LNG price of cargos are higher than domestic production and piped import as LNG deals are linked to Brent price. The ultimate result of the program is to deregulate ex-factory price, which we expect will be raised in the future, and provide incentive for upstream developers to increase spending on investments of expensive unconventional gas and import.

Exhibit 93: Milestone of China's gas price reform

Year	Major milestone
1956-1981	Wellhead price of gas were set RMB0.07/cum in 1956, and lowered to RMB0.03/cum in 1958 to encourage consumption of natural gas
1978	Allowed Sichuan, the major gas supplier and consumer in China at that time, to collect RMB0.05/cum, named as purifying cost, on top of gas selling price. Moreover, introduced RMB0.25/cum high selling price for supply above production target
1982	Raised gas wellhead price to RMB0.08/cum in Sichuan
1992	Provided differentiation on onshore gas price according to consumption use
1994	Lifted gas wellhead price to RMB0.54/cum in Sichuan, and allowed market contracts to be set at RMB0.90/cum, with 10% upside and downside negotiation
2002	Combined wellhead cost and purifying cost as "ex-factory price", and lifted ex-factory cost by RMB0.30/cum (i.e. RMB0.62/cum)
2005	Ex-factory price was classified into 3 prices according to (i) chemical flertilizers, (ii) (directly-supplied) industrial users, and 3) city gas
2007	Lifted the ex-factory price for industrial and power generating users by RMB0.40/cum, but excluded consumption on chemical fertilizers and independent heat-suppliers
2010	Ex-factory prices were lifted by RMB0.23/cum according to document 211 of Faigaidian in 2010 (发改电[2010]211 号). Adjusted ex-factory price ranged from RMB0.79 to RMB1.77/cum *(Please refer to Exhibit 48 for details)*.
Sep 2011	"Price Linkage" was established by the local Pricing Monitoring Center of Fujian to adjust the selling price of gas sold by CNOOC Fujian Natural Gas Company Limited to city gas operators above the margin volume. The selling price is adjusted when procurement cost of import LNG (from Indonesia Tangguh), (1) rises or drops above 10% over cost from latest price adjustment within 6 months, or (2) rises or drops above 20% over cost from latest price adjustment within 3 months
Dec 2011	"Price Pilot Program" was promoted in Guangdong and Guangxi, with the ultimate aim to deregulate the ex-factory price of natural gas. The city gas was capped at RMB2.74/cum and RMB2.57/cum at Guangdong and Guangxi, respectively, which was calculated per oil and LPG price in Shanghai at 6:4 weight, and after application of a 10% discount to the portfolio. The cap will be revised annually, and eventually semi-annually and quarterly
Aug 2012	"Ladder Pricing" on residential gas price was established by the local Pricing Monitoring Center of Nanjing, through a hearing (听证会) formed by 22 individuals from residential consumers, representive of the Chinese People's Politicial Consultative Committee (政协), academics, and civil servants. The pricing system aims to increase the per cubic meter cost of gas within RMB0.2, while leaving 70% of the residential gas consumers of Nanjing unaffected

Source: Peking University, OP Research

Exhibit 94: Formula for net-backing pricing for Guangdong and Guangxi

$$P_{NG} = K*(\alpha*P_{fuel\ oil}*H_{NG}/H_{fuel\ oil}+\beta*P_{LPG}*H_{NG}/H_{LPG})*^{(1+R)}$$

P_{NG} - Central city gate price(incl.VAT, RMB/m³)

K - Discount ratio of 0.9

α,ß - Weighting of fuel oil and LPG, 60% and 40% respectively

$P_{fuel\ oil}$,P_{LPG} - Imported fuel oil and LPG price within pricing cycle from Customs statistics

H_{NG}, $H_{fuel\ oil}$ and H_{LPG} - Net calorie for fuel oil, LPG and NG, take 10,000 kcal/kg, 12,000 kcal/kg and 8,000 kcal/kg respectively

R - VAT for NG, at current 13%

Source: NDRC, OP Research

Exhibit 95: Summary of ex-factory price of gas guided by NDRC (RMB/cum)

Oil and gas fields	Consumer type	Pre-adjusted	Adjusted price	Ceiling price
Sichuan-Chongqing gas	Fertilizer	0.690	0.920	1.012
fields	Industry	1.275	1.505	1.656
	City gas (industry)	1.320	1.550	1.705
	City gas (ex-industry)	0.920	1.150	1.265
Changqing oilfield	Fertilizer	0.710	0.940	1.034
	Industry	1.125	1.355	1.491
	City gas (industry)	1.170	1.400	1.540
	City gas (ex-industry)	0.770	1.000	1.100
Qinghai oilfield	Fertilizer	0.660	0.890	0.979
	Industry	1.060	1.290	1.419
	City gas (industry)	1.060	1.290	1.419
	City gas (ex-industry)	0.660	0.890	0.979
Xinjiang oilfields	Fertilizer	0.560	0.790	0.869
	Industry	0.985	1.215	1.337
	City gas (industry)	0.960	1.190	1.309
	City gas (ex-industry)	0.560	0.790	0.869
Dagang, Liaohe,	Fertilizer	0.710	0.940	1.034
Zhongyuan oilfields	Industry	1.340	1.570	1.727
	City gas (industry)	1.340	1.570	1.727
	City gas (ex-industry)	0.940	1.170	1.287
Other oilfields	Fertilizer	0.980	1.210	1.331
	Industry	1.380	1.610	1.771
	City gas (industry)	1.380	1.610	1.771
	City gas (ex-industry)	0.980	1.210	1.331
West-East Line I	Fertilizer	0.560	0.790	0.869
	Industry	0.960	1.190	1.309
	City gas (industry)	0.960	1.190	1.309
	City gas (ex-industry)	0.560	0.790	0.869
Zhongwu Line	Fertilizer	0.911	1.141	1.255
	Industry	1.311	1.541	1.695
	City gas (industry)	1.311	1.541	1.695
	City gas (ex-industry)	0.911	1.141	1.255
Shaanjing Line	Fertilizer	0.830	1.060	1.166
	Industry	1.230	1.460	1.606
	City gas (industry)	1.230	1.460	1.606
	City gas (ex-industry)	0.830	1.060	1.166
Sichuan-Shanghai Line		1.280	1.510	1.661

Source: NDRC, OP Research

Second Signal: Participation of Private Capital in Second Shale Gas Exploration Right Auction

Shale gas was reclassified by the State Council in 2011 as a separate class of mineral resource from conventional gas. One of the main objectives to the reclassification was to break the monopoly of NOCs in the exploration and development in shale gas.

Different to conventional oil and gas, the government explicitly stated that public and private capital has the right to invest in the exploration and development of unconventional oil and gas reserves, including shale gas, CBM, oil sand shale oil, as per announcement of MLR in June 2012 (国土资发[2012]100 号).

Exhibit 96: Summary of recent policies related to development of shale gas

Date	Document ref.	Gov body publish	Details
15 Jun 2012	国土资发 [2012]100 号	MLR	- Document section 3 point 6 and 7 explicitly stated that the government encourages public and private capital to invest in the exploration and development of unconventional gas, including shale gas, CBM, oil sand and shale oil
18 Jun 2012	国土资发 [2012]179 号	NEA	- Document point 4 pointed out the government encourages public and private capital to invest in the construction of the main and truck lines of cross border and trans-regional oil and gas networks, including coal-to-gas, CBM & shale gas
13 Mar 2012	发改能源 [2012]612 号	NDRC, MOF, MLR, NEA	- 12th FYP for shale gas, target to achieve by 2015, (1) geological reserve of 6 tcm, (2) recoverable reserve of 2 tcm, and (3) annual production of 6.5 bcm by 2015, 60-100 bcm by 2020
1 Nov 2012	财建 [2012]847 号	MOF, NDRC	- Subsidy of RMB0.4/cum for shale gas will be from MOF - Local government can provide additional subsidy

Source: NDRC, MOF, MLR, NEA, OP Research

Fulfilled its promise, the MLR held the Second Shale Gas Exploration Right Auction in September to October 2012, inviting state-owned, public and private capital investors with exploration experience to bid for 20 blocks in Guizhou, Chongqing, Hunan, Hubei, Jiangxi, Anhui, Zhejiang and Henan, with total area of 20,002km. Exploration right will last for 3 years.

<u>What are “Exploration” and “Development” Rights?</u>

The State Council Order number 240 (国务院令 240 号) issued in 1998 listed out the rules for exploration and development of mineral resources in China.

Exploration and development are distinct rights in China. Exploration is research in nature. It enables the right owner to utilize the public facilities for exploration of the specified resource; to understand the resource level and formation, etc. Minimum exploration investment should be met, which is reference to a specified amount in the first, second and third year per square kilometer. Failure to comply will be subject to financial penalty and withdrawal from the exploration right.

Completed exploration parties should conclude in report format, findings from the exploration period, and can choose to apply for development right if minimum investments were fulfilled. Parties completed exploration has the priority to development right to a resource in the area they explored.

Development right is the right to extract the specified resource in an area over a specified period, and can sell the resource for income.

What makes a freedom of investment from private capital so important?

The importance of allowing private capital to the investment of shale gas development is to introduce competition to the market. Conventionally, NOCs held high entry barrier to foreign developers and private companies as oil and gas is a monopoly to them.

CNPC, holding as much as two-thirds of the country's gas reserve, has little incentive to develop the unconventional resources given the relatively higher capital investment and development costs compare to conventional gas. Some of their unconventional reserves were previously just meeting the minimum investments required by MLR because competitors were fenced off by the law to exclude non-stated-owned enterprises to participate in the exploration and development of oil and gas resources.

As private capital enters the upstream shale gas exploration and development market, the competition landscape of oilfield services and equipment market is expected to be changed, given that:

(A) **Private capital lacks experience, knowledge, and equipment in developing well reservoirs**, and will rely on renowned oilfield services provides such as Antonoil and SPT to help them in from reservoir research to production enhancement procedures;

(B) **New demand for drill rigs, OCTG, drill fluid, fracking trucks, fracking fluids and well logging equipment will rise** due to the increased exploration activities of shale gas during 2012-2020, and most private capital are unable to provide their own equipment, unlike NOCs;

(C) **Private capital will be keener on employing independent oilfield services providers** because of their higher flexibility in performing field work, and as technical support subsidiaries of NOCs are prioritized to serve their parent company before serving others;

(D) The working capital management issue arose from **long accounts receivable collection days associated with doing business with NOCs shall be improved**, as industry competition increases, and independent oilfield services and equipment providers can choose to supply to private capital who has high creditability in repayment.

Third Signal: Inclusion of Public Capital in West-East Line III

Similar to exploration and development right, large scale pipeline is a NOC-dominated market. Major national pipelines in China are constructed and operated by CNPC. The situation has been changed in the construction of West-East Line III, where investors included the Social Security Fund (SSF), Chamber of Urban Infrastructure, and Baosteel Group (48% stake in aggregate) in addition to CNPC's 52% stake.

The NEA encouraged public and private capital to engage in the investment of the construction of main truck lines of cross border and trans-regional oil and gas networks in document 国土资发[2012]179 号.

We believe West-East Line III gave the signal of opening of investment of large pipeline projects to public and private capital. This is essential to the development of unconventional gas as pipeline network holds the major entry barrier to the distribution of developed gas by non-NOCs.

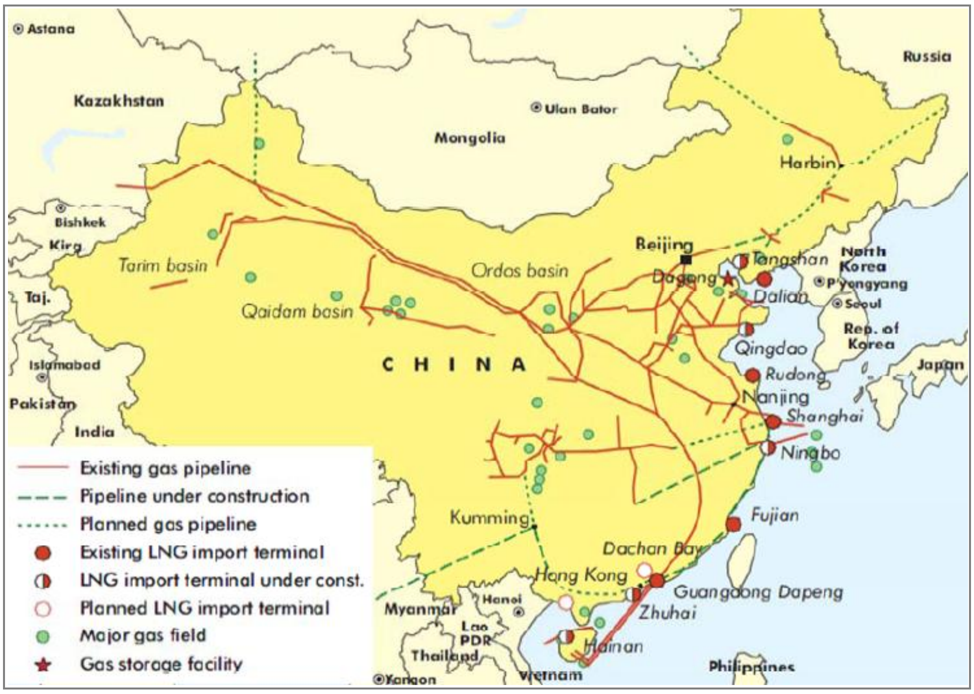
Infrastructure expansion of China

The pipeline network to expand

China is in its ways to build up its gas network to meet its souring transmission demand. Several pipelines have been announced by CNPC and Sinopec. We expect the national network in expand from 49,000km at end 2011 to 100,000km by 2015.

The two major pipelines West-East Line III and Xin-Yue-Zhe Line have been approved by the NDRC recently, and West-East Line III had its groundbreaking ceremony completed in October 2012. We expect auctions for pipeline supply will be held in 1Q12, creating huge opportunities for major pipeline manufacturers such as CKP (1938 HK, Buy) and Shengli Pipe (1080 HK, Hold).

Exhibit 97: China's major gas pipelines and LNG import terminals



Source: IEA

Exhibit 98: Major national pipeline network in China

Pipeline	Operator	Capacity (bcmpa)	Length (km)	Completion
West-East I	CNPC	17.0	3,900	2004
2nd Se-Ning-Lan (涩宁兰)	CNPC	3.1	921	2010
Puguang-Shanghai	Sinopec	15.0	2,170	2010
Shaanxi-Beijing III	CNPC	n/a	1,026	2011
West-East II	CNPC	30.0	8,704	2012
Zhongwei-Guiyang	CNPC	40.0	1,613	2012
Shaanxi-Beijing IV	CNPC	n/a	1,468	2014
China-Myanmar	CNPC	12.0	1,727	2014
West-East III	CNPC	30.0	7,378	2015
Xin-Yue-Zhe (新粤浙)	Sinopec	30.0	8,000	2015
West-East IV	CNPC	n/a	n/a	n/a
Xinjiang-Urumqi (新鲁)	Sinopec	30.0	4,463	n/a

Source: Company, OP Research

LSAW vs SSAW

Although CKP and Shengli Pipe are both leading gas transmission pipeline suppliers, their major products are different in terms of feedstock, safety, usage, and physical characteristics.

Exhibit 99: Comparison between SSAW and LSAW

	SSAW	LSAW
Major representative HK-listed company	Shengli Pipe (1080 HK)	Chu Kong Pipe (1938 HK)
Feedstock	Steel coil	Steel plate
Weld line length	Relatively longer	Relatively shorter
Possibility for cracks	Relatively higher	Relatively lower
Wall thickness	Thicker	Thinner
Maximum diameter	Larger	Smaller
Steel grade	Typically below X80	>X120
Usage on major truck line	70%	30%
Usage on gas branch line	Minority	Majority
Geographical application in China*	Zone 1 and 2	Zone 2, 3 and 4
Deepwater application	Prohibited	Majority
Overseas application	Relatively few	Majority

**Note: China is classified by 4 zones for the choice of SSAW/LSAW.*
Zone 1: 15 or fewer dwelling units
Zone 2: 15-100 dwelling units
Zone 3: 100 and above dwelling units, including schools, hospitals and other facilities
Zone 4: Zone with 4- and above-storey building, busy traffic and underground facilities
Source: NDRC, OP Research

LNG import terminals

Besides transnational pipeline network, China has also announced series of LNG terminal projects. Currently only 6 terminals were in operations in China, namely, the CNOOC Guangdong Dapeng Terminal, CNOOC Fujian Putian Terminal, CNOOC Shanghai Yangshan Terminal, CNPC Dalian Terminal, CNPC Jiangsu Rudong Terminal and CNOOC Zhejiang Ningbo Terminal. They are capable of handling 21.9 million tonne of LNG per annum (equivalent to 30 bcm per annum), and expect to reach 48.7 million tonne per year (64bcm per annum) by end 2015.

In our gas demand and supply model, we expect that China will import 40 bcm of gas in 2015. Assuming 70% will be gasified and distributed through pipeline, the remaining 30% (i.e. 12 bcm or 8.8 metric tonne) will require LNG containers to distribute, in the coastal areas; being a strong positive catalyst for the demand growth in CIMC Enric's LNG container in the coming 3 years.

Exhibit 100: China's Present and Planned LNG Receiving Terminal

Terminal Name	Developer	Investment (RMB m)	Investment cost (RMB m / tonne of LNG)	Annual capacity (bcmpa)	Annual capacity (MTpa)	Commercial operation date	Possible Supplier
Dapeng, Guangdong 广东大鹏	CNOOC 33%; BP 30%; Others 37%	8,000	2,162	9.3	6.8	Sep 2006 (in operation)	Australia NWS
Putian, Fujian 福建莆田	CNOOC 60%; 福建电信联合会 40%	5,550	2,135	3.6	2.6	Feb 2009 (in operation)	Indonesia Tangguh
Yangshan, Shanghai 上海洋山	CNOOC 45%; Shanghai Shenergy (上海申能) 55%	6,131	2,044	4.1	3.0	Oct 2009 (in operation)	Malaysia Petronas
Wuhaogou, Shanghai 上海五号沟应急码头	CNOOC 45%; Shanghai Shenergy (上海申能) 55%	n/a	n/a	n/a	n/a	Nov 2008 (in operation)	Malaysia Petronas
Dalian, Liaoning 辽宁大连	CNPC(Kunlun) 75%; 大连港 20%; 大连工程投资 5%	6,800	2,267	4.1	3.0	Dec 2011 (in operation)	QatarGas IV; Australia; Iran
Rudong, Jiangsu 江苏如东	CNPC(Kunlun) 55%; 太平洋石油和天然气 35%; 江苏国信投资 10%	6,300	1,800	4.8	3.5	Nov 2011 (in operation)	QatarGas IV
Ningbo, Zhejiang 浙江宁波	CNOOC 51%; 浙江省能源集团 29%; 宁波市电力 20%	7,000	2,333	4.1	3.0	Sep 2012 (in operation)	QatarGas II
Zhuhai, Guangdong 广东珠海金湾	CNOOC 25%; Yudian 35%; Other 40%	13,800	1,971	4.8	3.5	2013	TBD
Jieyang, Guangdong (Yuedong) 广东揭阳(粤东)	CNOOC			2.7	2.0	2013	TBD (USA)
Caofeidian, Tangshan, Hebei 河北唐山曹妃甸	CNPC 51%; 北京控股公司 29%; 河北工程投资 20%			4.8	3.5	2014	Australia and Qatar
Qingdao, Shandong 山东青岛	Sinopec; Huaneng Group			4.1	3.0	Nov 2013	PNG LNG (ExxonMobil) and APLNG
Yangpu, Hainan, Guangdong 广东海南杨浦	CNOOC 65%; Hainan Development 35%	6,200	2,067	2.7	2.0	Aug 2014	TBD
Shenzhen, Guangdong 广东深圳	CNPC; CLP			2.7	2.0	n/a	Australiaâ€™s Gorgon LNG (ExxonMobil)
Diefu, Shenzhen, Guangdong 广东深圳叠福	CNOOC 70%; Shenzhen Energy 30%	7,300	2,433	4.1	3.0	2015	TBD
Beihai, Guangxi 广西北海	Sinopec			n/a	n/a	2015	PNG LNG (ExxonMobil) and APLNG
Yancheng Floating Terminal, Jiangsu 江苏盐城	CNOOC; Yancheng Municipal			n/a	n/a	2015	TBD
Tianjin Floating Terminal, Hebei 河北天津南疆港	CNOOC; 天津港; 天津市燃气集团	5,700	2,591	3.0	2.2	2015	TBD
Ningde, Fujian 福建宁德	CNOOC; 福建省投资开发集团			3.6	2.6	n/a	TBD
Zhuhai, Guangdong 广东珠海	Sinopec; Macau Gas			4.1	3.0	n/a	TBD
Total				**66.7**	**48.7**		

Source: Company data, IGU, OP estimates

Our stock recommendation

We favour oilfield services and equipment providers who can provide high-end services/products, and has competitive edge over the subsidiaries of NOCs.

Our top pick is SPT (1251 HK, Buy), who has the ability to provide integrated oilfield services to the super deep, high temperature and pressure wells in the Tarim Basin. We also favour Antonoil (3337 HK, Buy), for their improving working capital management and growth prospects in China and Iraq.

Hilong (1623, Buy) and Honghua (196 HK, Buy) will benefit from the increasing drilling activities in conventional and unconventional gas, but we highlight the execution risk associated with Honghua’s offshore and unconventional segment which are expected to be fully commercialized in 2014.

The coming pipeline construction boom is a positive catalyst for CKP (1938, Buy) and Shengli Pipe (1080 HK, Hold). But we prefer CKP more due to their larger application of LSAW products.

Lastly, we believe CIMC Enric (3899 HK, Buy) to be a major beneficiary to the increasing demand for LNG and CNG containers, arise from the foreseeable ramp up of LNG terminals and natural gas vehicle (NGV) stations in the short future.

Exhibit 101: Summary of recommended companies, major business and drivers

Company	Rating	Description	Key catalysts and risks
Antonoil (3337)	BUY	China's leading independent oilfield services provider, with 77% generated in China in 2011; and 23% from overseas (mainly from Iraq). Obtained market leadership in Sulige gas field (Ordos Basin).	**Catalysts:** 1) Integrated and market leading non-state-owned service provider in the Ordos Basin; 2) Rising domestic production activities and capex by NOCs; 3) New opportunities from gas price reform; 4) Continuing improved (shortened) accounts receivable turnover days. **Risks:** 1) Sustain high technology and skills to provide high-end services; 2) Severe accidents and break customer relationship with NOCs; 3) Risk associated with operating in politically unstable countries (e.g. Iraq)
SPT (1251)	BUY	China's leading independent oilfield services provider, with 67% revenue generated from overseas (mainly Kazakhstan) in 2011; and 33% from China. Obtained market leadership in Tarim Basin of China.	**Catalysts:** 1) Integrated and market leading non-state-owned service provider in the Tarim Basin; 2) Capability to provide integrated oilfield services to the super deep, high temperature and pressure wells in the Tarim Basin. 3) Rising domestic production activities and capex by NOCs; 4) New opportunities from gas price reform; 5) Opportunities from development of shale gas. **Risks:** 1) Sustain high technology and skills to provide high-end services; 2) Severe accidents and break customer relationship with NOCs; 3) The sustainability of the rapid Kazakhstan oil and gas reserve development.
Honghua (196)	BUY	China's largest and global second largest drill rig manufacturer. Around 90% of revenue in 2011 were generated from overseas sales.	**Catalysts:** 1) New business expansion to offshore drilling, unconventional gas and oilfield services; 2) Access to various emerging overseas markets including Central Asia, Middle East, South America, Africa and SE Asia; 3) Begun in-house production of top drive, critical component of drill rig. **Risks:** 1) Whether can increase in-house production in drill rig component; 2) Execution risk on new businesses; offshore and unconventional gas; 3) Oil price weakness
Hilong (1623)	BUY	China's largest and global second largest drill pipe manufacturer. Engaged in the provision of drill pipe, coating services to OCTG and transmission pipes, and oilfield services in China and overseas.	**Catalysts:** 1) Leadership in the provision of drill pipe and coating material; 2) Capacity expansion in Abu Dhabi, Russia and Canada; 3) Benefit from the coming pipeline expansion boom. **Risks:** 1) Maintain market share and margins in drill pipe and coating; 2) Risk associated with operating in new foreign markets; 3) Oil price weakness
CKP (1938)	BUY	China's largest LSAW transmission pipe manufacturer. Overseas and domestic revenue splits around 55:45 in 2011. Products are widely used in onshore and offshore oil and gas pipelines, and power grid towers.	**Catalysts:** 1) Coming pipeline construction boom to realize in 2013-2014; 2)Capactiy expansion to increase from 1.75m tonne to 3m tonne by 2013; 3) Opportunities from offshore pipeline expansion and power grid. **Risks:** 1) Successul in obtaining new orders in West-East Line III, Xin-Yue-Zhe Line, and other major projects coming up; 2) Delay in the construciton of major pipeline projects; 3) Margin squeeze.
Shengli Pipe (1080)	HOLD	China's largest SSAW transmission pipe manufacturer, and was previously spinned off from the Sinopec Group.	**Catalysts:** 1) Superior relationship with Sinopec group; 2) Coming pipeline construction boom to realize in 2013-2014. **Risks:** 1) Successful in obtaining new orders in West-East Line III, Xin-Yue-Zhe Line, and other major projects coming up; 2) Delay in the construciton of major pipeline projects; 3) Margin squeeze.
CIMC Enric (3899)	BUY	China's largest and pioneer in CNG, LNG, and chemical container manufacturing. Obtained 70% market share in CNG trailers and 50% market share in LNG trailers.	**Catalysts:** 1) Solid leadership in LNG, CNG & chemical tank containers; 2) Increasing number of natural gas vehicle & refueling stations, and LNG terminals to create large demand for LNG and CNG containers; 3) Increasing concern over logistic safety of energy and chemical products in China to benefit company sales. **Risks:** 1) Sustainability in market leading position; 2) Margin squeeze; 3) Weaker overseas sales on chemical tanks due to chill global economy.

Source: OP Research

Exhibit 102 Peer Group Comparison

Company	Ticker	Price	Mkt cap (US$m)	3-mth avg t/o (US$m)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	EPS FY1 YoY%	EPS FY2 YoY%	3-Yr EPS Cagr (%)	Div yld Hist (%)	Div yld FY1 (%)	P/B Hist (x)	P/B FY1 (x)	EV/ Ebitda Hist	EV/ Ebitda Cur Yr	Net gearing Hist (%)	Gross margin Hist (%)	Net margin Hist (%)	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %
HSI		22,191.17			11.4	11.6	10.6	(2.1)	9.0	5.4	3.2	3.3	1.47	1.43						13.0	12.3	3.8	11.9
HSCEI		10,919.24			9.0	9.0	8.2	(0.4)	9.8	5.8	3.5	3.5	1.41	1.35						15.7	15.0	4.4	16.2
CSI300		2,246.76			11.3	10.6	9.1	7.0		12.6	2.3	2.2	1.61	1.53						14.2	14.5	0.3	(3.4)
National Oil Developers																							
PetroChina - H share	857 HK	10.68	255,450	92.5	11.7	12.2	10.9	(3.6)	12.1	6.1	3.6	3.6	1.51	1.47	6.2	5.9	23.7	N/A	6.6	12.8	12.1	4.1	14.0
PetroChina - A share	601857 CH	8.71	255,450	16.7	11.9	12.8	11.3	(7.0)	13.1	1.9	3.6	3.3	1.53	1.49	6.2	6.1	23.7	N/A	6.6	11.5	10.5	0.2	(3.1)
Sinopec - H share	386 HK	8.51	90,142	77.5	8.1	10.0	8.1	(18.8)	22.9	2.3	4.3	3.4	1.24	1.14	5.1	5.3	42.4	N/A	3.0	12.1	12.3	5.6	20.2
Sinopec - A share	600688 CH	5.03	4,626	2.0	37.8	N/A	67.1	N/A	N/A	(15.6)	1.0	N/A	2.21	2.24	14.0	(104.2)	30.8	1.8	1.1	(9.3)	(9.5)	(4.6)	(8.4)
CNOOC	883 HK	16.60	95,627	97.9	8.5	9.1	9.2	(7.0)	(0.2)	(2.5)	2.6	2.6	2.10	1.92	4.5	4.3	0.0	N/A	29.2	23.7	22.2	4.0	15.8
Average - National Oil Developers					15.6	11.0	21.3	(9.1)	12.0	(1.6)	3.0	3.2	1.7	1.7	7.2	5.4	24.1	1.8	9.3	10.2	9.5	1.9	7.7
Oilfield Services Providers																							
Antonoil	3337 HK	3.40	936	6.6	74.3	24.0	17.6	212.7	36.8	73.4	0.6	1.2	3.30	2.95	26.0	14.8	Net cash	N/A	6.1	4.6	12.9	31.8	79.9
SPT Energy	1251 HK	3.59	618	3.7	21.2	16.2	11.6	30.6	39.9	36.0	0.3	0.6	4.26	3.39	12.0	8.8	Net cash	N/A	13.8	20.1	20.9	42.5	102.8
COSL	2883 HK	15.90	10,690	14.7	14.2	12.3	10.8	15.3	14.1	12.4	1.4	1.6	1.91	1.78	10.7	9.4	75.8	30.0	21.9	15.4	15.3	11.8	21.4
Schlumberger	SLB US	71.83	95,359	421.6	19.4	17.0	14.7	14.2	15.9	18.0	1.5	1.5	2.79	2.70	10.3	9.0	16.3	20.5	12.6	16.9	16.8	5.1	(1.8)
Halliburton	HAL US	33.78	31,347	419.8	10.9	11.3	11.0	(3.5)	2.6	9.6	1.1	1.2	2.07	2.01	5.6	5.6	14.9	20.2	11.4	20.9	18.6	10.5	(1.3)
Baker Hughes Inc	BHI US	42.26	18,579	187.1	10.6	12.7	11.6	(16.4)	9.0	6.7	1.4	1.5	1.10	1.07	5.4	5.8	18.9	23.0	8.8	8.7	8.7	3.8	(9.6)
Weatherford	WFT US	10.99	9,227	132.3	31.4	15.2	10.0	106.0	52.1	64.5	N/A	0.0	0.85	0.83	6.8	5.9	75.7	25.6	2.0	3.3	5.2	2.2	(13.7)
Average - Oilfield Services Providers					26.0	15.5	12.5	51.3	24.4	31.5	1.1	1.1	2.3	2.1	11.0	8.5	40.3	23.9	11.0	12.8	14.1	15.4	25.4
Oilfield Equipment Providers																							
Honghua	196 HK	2.11	879	3.7	32.6	11.4	10.9	184.6	5.2	46.9	1.9	4.4	1.31	1.20	16.4	5.4	Net cash	27.8	4.8	4.0	10.5	21.3	51.8
Hilong	1623 HK	2.58	530	1.2	11.0	9.9	8.2	10.2	21.3	17.2	2.7	3.0	1.62	1.44	8.4	7.8	23.6	41.0	16.6	14.8	14.5	17.3	43.3
Anhui Tianda	839 HK	1.30	169	0.2	14.9	8.7	14.1	71.4	N/A	22.9	2.9	N/A	0.46	0.46	4.5	N/A	8.1	6.5	1.4	0.9	0.9	2.4	22.6
Shandong Molong	568 HK	3.15	936	1.4	12.0	N/A	N/A	N/A	N/A	N/A	1.9	N/A	0.35	0.35	19.9	N/A	23.9	12.0	6.2	6.1	6.1	13.3	17.1
HBP	002554 CH	9.33	455	18.9	29.8	24.5	18.8	21.6	30.4	22.5	1.1	0.3	2.44	2.44	24.6	20.6	0.0	42.8	22.9	8.3	8.3	(10.2)	(21.9)
Tong Oil	300164 CH	14.12	359	2.1	28.5	22.0	17.5	29.7	25.9	25.6	1.1	N/A	1.96	1.96	21.4	16.5	0.0	53.3	22.4	10.7	10.7	(11.8)	(24.5)
Yantai Jereh	002353 CH	45.86	3,381	10.0	49.6	32.7	23.1	51.8	41.2	39.7	0.3	0.6	7.25	7.25	46.7	28.5	0.0	42.5	29.3	20.0	20.0	0.6	(4.2)
Landocean Energy	300157 CH	16.80	498	10.1	36.5	25.7	17.6	42.0	46.6	30.8	1.0	N/A	1.85	1.85	31.9	28.9	0.0	62.0	40.5	5.3	5.3	(3.8)	(31.7)
Sichuan Renzhi	002629 CH	14.25	262	7.1	17.8	N/A	N/A	N/A	N/A	N/A	2.2	N/A	2.34	2.34	13.6	N/A	0.0	31.6	14.1	15.5	15.5	(9.1)	(26.1)
Kingdream PLC	000852 CH	12.57	808	12.9	48.3	46.6	38.1	3.8	22.2	12.5	1.6	N/A	4.71	4.71	23.4	24.3	20.3	26.8	6.6	8.7	8.7	(17.3)	(31.8)
Gi Tech	300309 CH	14.83	517	8.0	24.1	22.6	16.4	6.8	38.1	25.0	N/A	N/A	8.04	8.04	N/A	N/A	0.0	74.7	57.6	39.5	39.5	(4.3)	(28.3)
Lanzhou Haimo Tech	300084 CH	10.58	217	6.4	72.1	34.1	26.5	111.2	29.0	49.4	0.6	0.6	2.20	2.20	41.1	N/A	0.0	32.2	12.6	2.3	2.3	(2.5)	(27.8)
Shandong Polymer	002476 CH	8.92	515	39.1	46.9	46.9	N/A	0.0	N/A	N/A	0.3	N/A	3.35	3.35	30.5	N/A	0.0	19.3	12.6	5.8	5.8	(12.4)	(23.8)
Sino GeoPhysical	300191 CH	12.32	316	3.2	23.9	27.0	21.2	(11.3)	26.9	17.7	1.6	N/A	1.85	1.85	15.2	N/A	0.0	77.0	65.4	12.0	12.0	(9.0)	(36.9)
National Oilwell Varco	NOV US	68.28	29,149	256.9	14.4	11.6	10.3	24.0	12.8	16.7	0.7	0.7	1.49	1.49	8.3	6.8	0.0	30.7	13.6	13.1	13.1	(1.0)	(16.7)
Average - Oilfield Services Providers					30.8	24.9	18.5	42.0	27.2	27.2	1.4	1.6	2.7	2.7	21.9	17.3	5.4	38.7	21.8	11.1	11.5	(1.8)	(9.2)

Source: Bloomberg, OP Research

Exhibit 103: Peer Group Comparison (cont.)

Company	Ticker	Price	Mkt cap (US$m)	3-mth avg t/o (US$m)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	EPS FY1 YoY%	EPS FY2 YoY%	3-Yr EPS Cagr (%)	Div yld Hist (%)	Div yld FY1 (%)	P/B Hist (x)	P/B FY1 (x)	EV/ Ebitda Hist	EV/ Ebitda Cur Yr	Net gearing Hist (%)	Gross margin Hist (%)	Net margin Hist (%)	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %
Transmission Pipe Manufacturer																							
Shengli Pipe	1080 HK	0.64	205	0.4	13.6	23.8	17.6	(42.9)	35.8	(9.8)	1.8	1.0	0.59	0.59	16.8	14.4	12.3	7.9	5.1	4.4	2.5	(12.3)	(3.0)
Chu Kong Pipe	1938 HK	3.70	483	1.1	13.0	10.3	8.8	26.0	18.0	20.2	1.6	1.9	1.37	1.23	13.8	9.7	53.9	15.1	6.8	10.5	11.9	18.6	28.5
Zhejiang Kingland Pipe	002443 CH	7.66	363	10.0	36.2	23.2	17.8	55.8	30.3	31.4	1.2	N/A	1.72	1.72	23.4	18.3	0.0	6.6	2.0	6.8	6.8	(4.4)	(15.5)
Jiangsu Yulong Pipe	601028 CH	7.57	386	7.4	13.1	12.0	10.1	8.6	19.0	N/A	2.6	N/A	1.28	1.28	9.0	N/A	0.0	12.6	5.2	10.2	10.2	(6.2)	(27.1)
Average - Transmission Pipe Manufacturers					19.0	17.4	13.6	11.9	25.8	13.9	1.8	1.5	1.2	1.2	15.8	14.1	16.6	10.5	4.8	8.0	7.9	(1.1)	(4.3)
Transmission Container Manufacturer																							
CIMC Enric	3899 HK	6.39	1,138	4.0	17.0	12.5	10.6	35.8	17.8	22.7	1.2	1.6	2.86	2.39	8.5	6.7	Net cash	18.8	8.4	16.9	19.1	11.1	46.9
Zhangjiagang Furui	300228 CH	30.85	664	7.6	51.4	37.4	25.4	37.5	47.4	42.9	0.1	0.2	6.59	4.28	38.7	24.0	13.5	30.4	8.7	17.1	14.8	(0.1)	(10.6)
Chart Industries	GTLS US	60.94	1,829	29.6	40.4	24.8	16.5	62.5	50.3	45.2	N/A	N/A	2.71	2.64	16.8	12.9	0.0	30.9	5.5	9.2	10.8	1.1	(16.7)
Everest Kanto	EKCL IN	30.50	60	0.3	69.7	N/A	N/A	N/A	N/A	N/A	0.8	2.3	0.40	0.47	8.6	11.0	53.4	N/A	0.7	0.6	(3.7)	9.3	15.7
NK Co Ltd	085310 KS	3,295.00	98	0.3	91.5	N/A	N/A	N/A	N/A	N/A	1.5	N/A	0.71	N/A	20.9	N/A	53.6	13.4	0.6	0.8	N/A	(10.1)	(23.9)
Average - Transmission Container Manufacturers					54.0	24.9	17.5	45.3	38.5	36.9	0.9	1.4	2.7	2.4	18.7	13.6	30.1	23.4	4.8	8.9	10.2	2.3	2.3
City Gas Operators																							
Kunlun Energy	135 HK	16.44	17,073	32.9	21.0	18.3	15.6	14.6	17.6	16.9	1.3	1.4	3.28	2.98	12.7	9.6	34.8	65.2	22.1	25.8	18.1	9.6	20.0
Beijing Enterprises	392 HK	51.60	7,574	6.9	21.1	18.3	14.9	15.6	22.8	19.5	1.4	1.6	1.53	1.47	18.5	12.9	16.5	22.1	9.1	7.9	8.3	3.0	(1.7)
Towngas China	1083 HK	6.39	2,029	1.1	22.2	19.7	16.1	12.7	22.5	19.1	0.8	0.9	1.60	1.53	22.8	19.4	27.3	29.8	16.4	8.1	7.9	4.1	6.0
Enn Energy	2688 HK	33.75	4,650	6.9	22.8	18.6	15.5	22.4	20.2	19.7	1.1	1.4	3.76	3.34	13.3	11.0	82.8	25.9	8.3	19.2	19.4	2.6	7.0
CR Gas	1193 HK	16.90	4,850	12.4	25.6	21.8	18.1	17.4	20.6	20.5	0.7	0.8	3.84	3.29	15.4	11.5	0.0	29.4	8.9	18.2	15.9	(0.1)	6.8
China Gas	384 HK	6.11	3,593	6.7	28.1	19.3	16.7	45.7	15.1	25.0	0.6	0.9	2.73	2.46	13.7	12.2	97.0	19.0	5.0	10.3	13.2	41.4	42.1
COG	603 HK	1.17	750	2.6	27.7	21.3	16.0	30.3	32.7	33.3	N/A	N/A	2.02	1.89	8.3	6.7	0.0	20.5	4.8	9.4	10.0	24.5	44.4
Tianjin Jinran	1265 HK	1.69	401	0.2	24.7	18.9	16.0	30.9	18.1	25.6	N/A	0.0	1.79	1.48	13.7	13.7	0.0	13.1	8.6	8.6	9.2	0.0	24.3
Tianlun Gas	1600 HK	3.90	417	0.7	31.3	25.1	19.6	25.0	28.0	26.0	N/A	N/A	3.85	N/A	19.8	N/A	12.5	38.1	18.3	14.5	N/A	24.6	85.7
Zhongyu Gas	3633 HK	1.47	479	0.1	38.5	21.9	17.1	75.4	28.4	37.8	N/A	4.6	N/A	N/A	16.3	N/A	43.7	23.9	4.8	N/A	13.5	0.0	25.6
Average - City Gas Operators					38.0	22.3	17.3	33.5	27.9	28.3	0.9	1.4	2.7	2.4	17.2	13.2	31.0	27.5	8.4	11.3	11.4	7.5	15.1

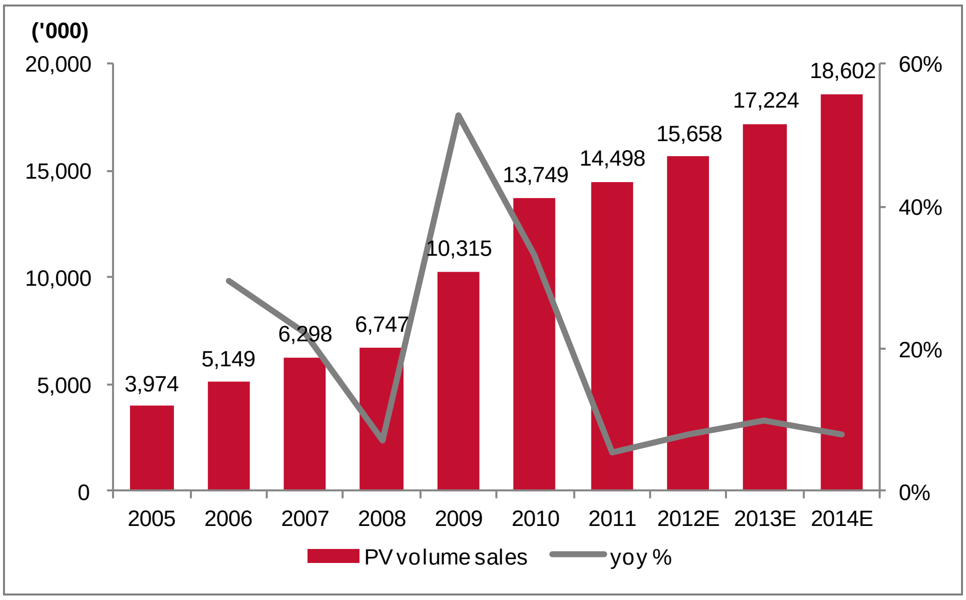
Source: Bloomberg, OP Research

Auto Sector

2013 passenger vehicle sales growth expect to be stabilized

After consecutive 5 years growth of 28% CAGR for passenger vehicles (PV) during 2005-2010, the industry entered a stage of stable growth, PV sales grew 5.4% only 2011. 2012 is a year of uncertainties for Chinese auto industry. The slower growth was mainly due to uncertainty economic prospect and conservative consumer purchasing behaviors. PV sales volume increased to 12.6mn in 10M12, up 6.7% yoy. Given the China economic growth slow down significantly, and auto industry highly related to macroeconomics, we forecast PV growth should slow to CAGR of 8-10% during 2012-2016.

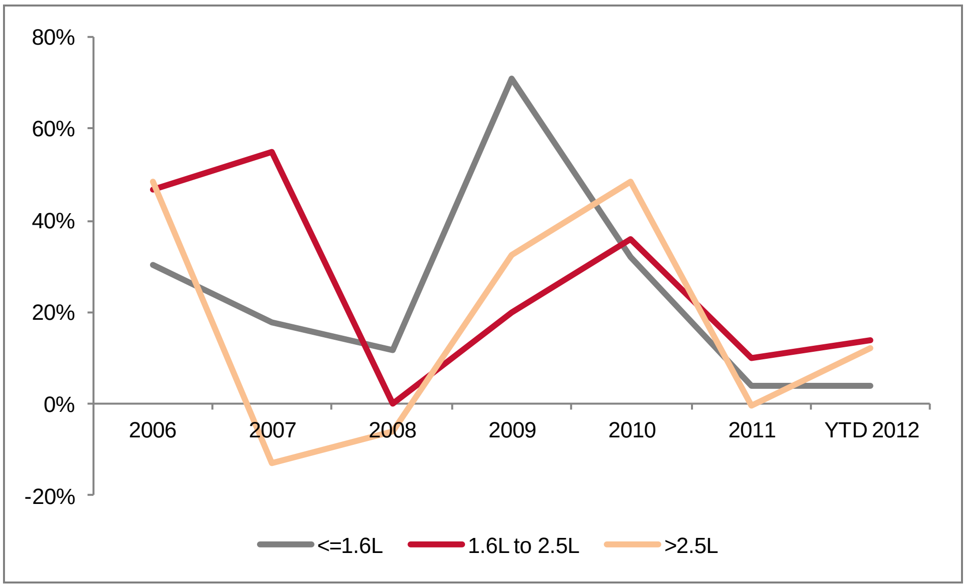
Exhibit 104: PV sales will be stabilized



Source: CEIC, OP Research

Within the PV segment, sedan will continue to hold the biggest shares, 69% of overall PV segment in 2011. Within sedan sub-segment, small sedans (<1.6L) sales grew 5.7% YTD, and it accounted for 67% of total sedan volume. We believe small sedans (<1.6L) set to increase mildly at 6-7% in 2012, due to fiercer competition between sedan makers, as automakers fight to capture the first-time buyer market. As a results of intensify competition, ASPs decrease and margin squeeze. The small low-end auto manufacturers will be hurt at most, due to its consumers are less brand royalty. We also believe this segment will suffer the greater impact from any restrictive measures that may be implemented by Beijing or other cities/provinces governments, as buyers are highly sensitive to product prices changes.

Exhibit 105: Sedan sales growth by displacement

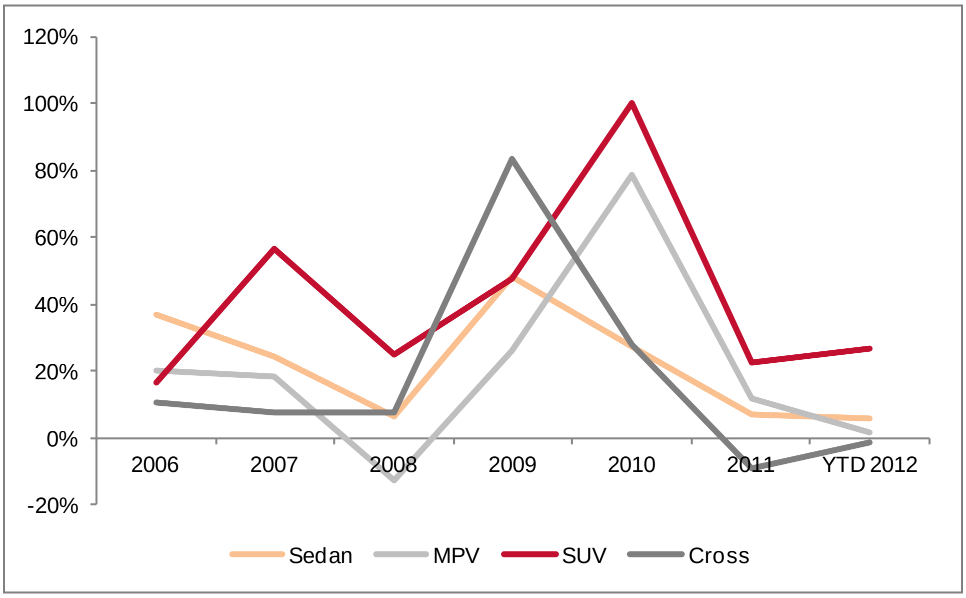


Source: CEIC, OP Research

For the mid-to-full size sedan segment, especially sedans with engines between 1.6L and 2.5L should have greater upside potential, in our view. The mid-to-full size products grew 12.1% yoy in 10M12, and represented 30% of sedan shares. Approximately nearly 50% of new and face-lifted models launched in 2012 were mid-to-full size sedans. We expect since government withdrew the supportive policies for <1.6L sedans in 2011, and with price overlap for small sedan and mid-end products, buyers will opt for mid-end models. We are looking for increasing maker share for min-to-full size sedan, if government no more issue incentive policy for small sedan.

Despite the slow growth in overall PV sales, there are some bright spots. SUV had outperformed other PV segments in recent years. SUV sales grew 23% yoy in 2011 vs. 5.4% growth of overall PV industry; and the segment increased 26.4% yoy in 9M12 vs. 6.7% of PV industry. The higher sales growth was attributed to SUV's robust masculine exterior, fashionable design and superior off-road ability. Moreover, mainland Chinese preference for size and the increasing demand for differentiation from buying sedans, which are more common on the street. We believe large sedans (including SUVs) will continue to gain market share in FY13 as demand for larger cars continues to be strong while demand for smaller ones stabilizes.

Exhibit 106: SUV sales outperformed recent years



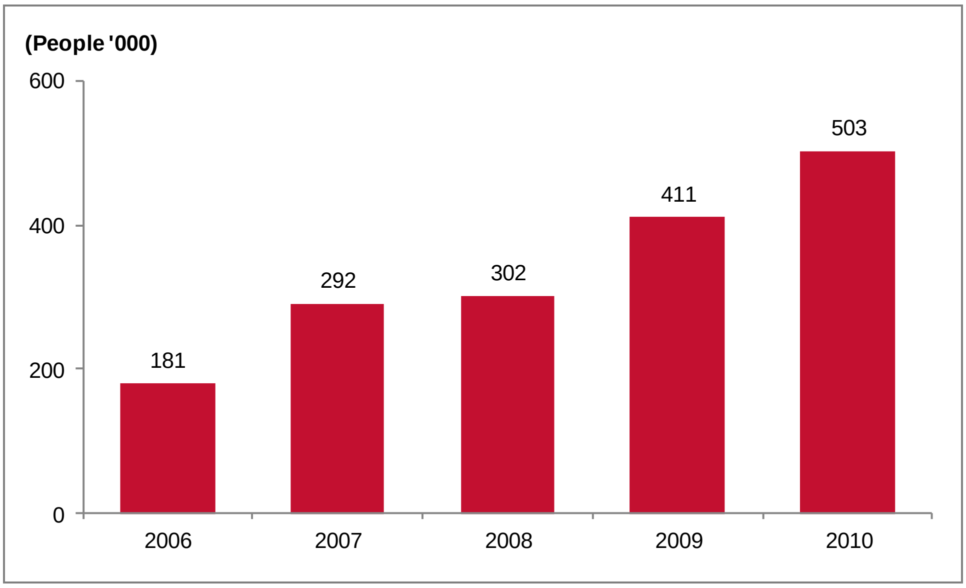
Source: CEIC, OP Research

We expect MPV growth to be moderate, slow to 5% y-y in 2013, versus a peak of 11.7% yoy in 2011 and 1.8% yoy YTD. The customer base for this particular segment appears to be heavily geared towards business purposes, in which there should be a residual impact from a slowing economy.

Luxury vehicle strong growth intact

We expect growth of the luxury segment continually to outperform the growth of the mass market segment (but the gap will narrow due to the increasing base scale), considering 1) new capacities installed for JVs such as BMW, and 2) launches of a few compelling new models. Furthermore, we believe the market worries on luxury car pricing weakness seems to be overdone, as some price cut were due to old models promotions before launching the new models. Also, the luxury car price index has not really weakened much recently.

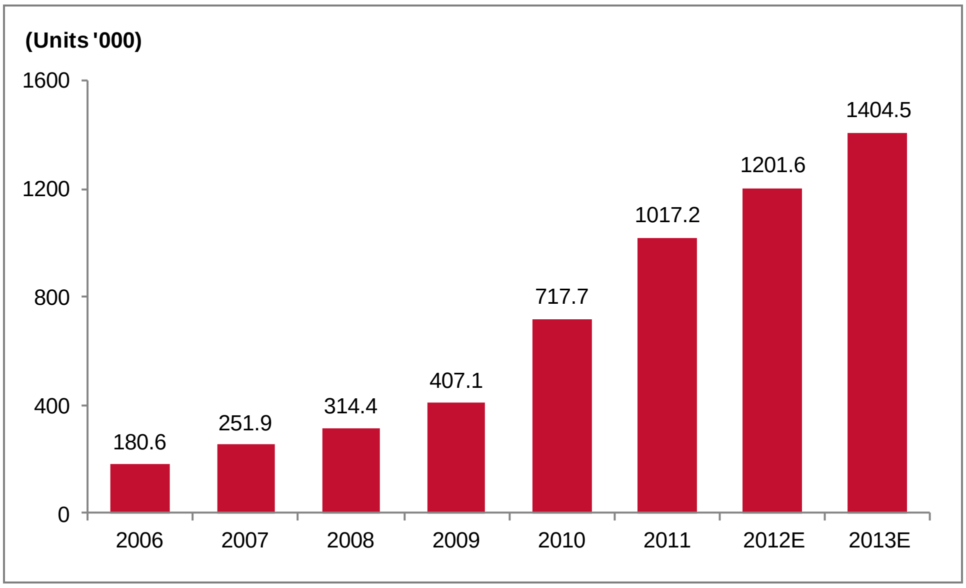
Exhibit 107: High net worth individuals in China (2006-2010)



Source: Roland Berger, OP Research

The outlook for the luxury vehicle demand according to market participants will be continue robust due to the untapped demand from the high-income population and the growing upgrade/replacement demand. In China, luxury vehicle segment led by BMW, Audi and Mercedes-Benz, continue to grow at a much faster than other brands of vehicles. In 7M12, Audi and BMW sales jumped 34% and 30%, respectively vs only 7.2% growth for PVs. The market share of luxury cars (including BMW, Audi, Mercedes-Benz, Infiniti, Lexus, Volvo, Bentley and Lamborghini, etc) has risen from 3.3% in 2008 to around 8% now. Audi forecasts that luxury takes 15% of the market, and that could be possible with the potential addition of low-priced models to local production.

Exhibit 108: Sales volume of new luxury PV in China (2006-2013E)



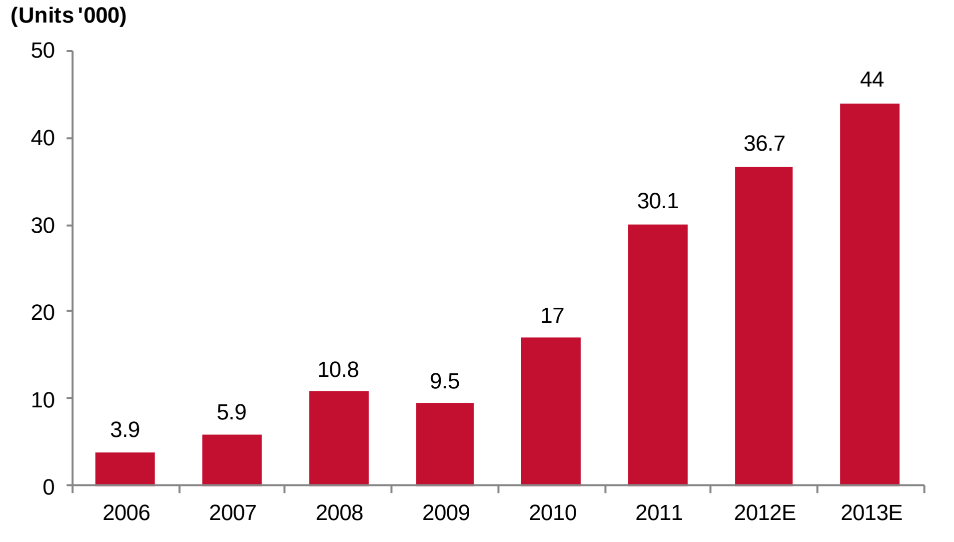
Source: Roland Berger, OP Research

While the slowdown in the macro economy and the shadow-lending issue have some impact on luxury car demand, the luxury OEMs and dealership groups remain optimistic on a solid double-digit growth in luxury auto sales in China in 2013. Key reasons are: 1) more supply will be available and 2) there are new models, especially in the popular SUV sub-segment, to attract potential customer bases such as young professionals, under further expanded dealership networks.

Another driver of premium products is improving affordability. Luxury car makers now offer product in lower price ranges, including BMW's X1 SUV and 1 series and Audi's Q3 SUV and A3. The local production of premium branding products would open up high quality products to an even broader customer base, as the import tariff is removed. Chinese consumers usually prefer higher priced premium models to lower priced entry-level models, such as BMW's 5 Series sales are stronger than 3 Series, this represented limited dilution effect of expansion product portfolio to lower-priced products.

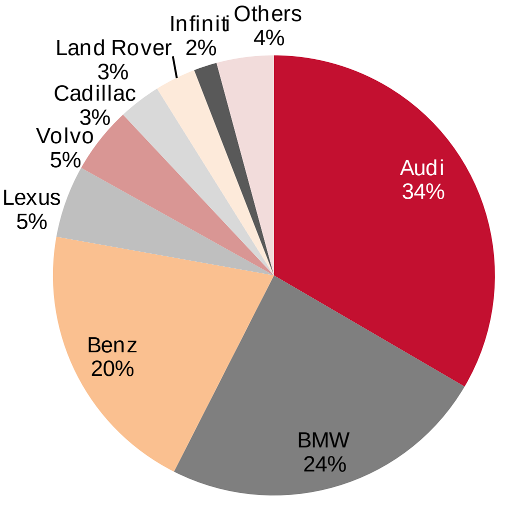
The local governments such as Beijing and Shanghai had implemented restrictive measures to limited new car sales in big cities. Despite we believe it is not likely for other cities to follow the step in short term, luxury vehicle sales are immure to this, as most luxury vehicle demand are driven by upgrade/replacement.

Exhibit 109: Sales volume ultra-luxury PV in China (2006-2013E)



Source: Roland Berger, OP Research

Exhibit 110: Market share of luxury PV in China



Source: Roland Berger, OP Research

Domestic brands focus on quality improving

The market share of domestic brand vehicles in China rose from 42% in 2007 to 47% in 2009-2010, it was mainly due to government's incentive and stimulus polices. After the government withdrew the supportive policies, the market share of domestic brandings had deteriorated in 2011. Given the insufficient product development capability and lack of core technologies, brand awareness and influence are usually weaker than international brandings. However, local brandings are focusing on the improving product quality and branding image in recently years. We believe that local brandings might regain domestic market share in 3-5 years, back by the improving quality. Some statistic (such as CNCAP crashing test) shows that local brands are narrowing the gap between themselves and international brands.

Actually, Great Wall Motor and Geely Auto had set an excellent for their peers on improving vehicle quality and gaining market share since 2006. Great Wall launched Voleex C50 sedan and H6 SUV with improved technology and competitive prices. Geely's strategically transformation in 2007, from a low-end sedan maker to high-quality vehicle producer with affordable price, and its gross margin rose from 11.6% in 2007 to 18.2% in 2011, thanks to its strong R&D capability. We conclude that key factors to local producers to success are focusing on product development and a quality-oriented operation.

Promising export sales the wild card

In 2010, China car export volume recovered by a growth rate of 52.9% yoy vs. -46.0% yoy after the financial crisis in 2008. The strong exports momentum retained to 2011, it posted a growth of 50.7% yoy, among which, sedan recorded a highest growth of 106.9% yoy during the year. We estimate that China car exports will continue to grow steadily at a average rate of 18-19% p.a. in coming 5 years. The trend will favor the local brands, such as Geely, Great Wall and Chery.

Given that: 1) domestic brands have an ASP advantage in the overseas markets, where they are 30-40% cheaper than other foreign brands; 2) diversify auto makers' income sources to overseas markets could provide a cushion again any domestic PV market slow down; 3) export business allow auto makers to improve its profitability thru increase its utilization rate, we believe exports will be a key-long term driver for the growth of China's auto industry. Since the tariff and imports policies make exports more difficult in develop countries, the destinations of Chinese auto exports are emerging markets, like Russia, Saudi Arabia, Ukraine, Iraq and South Africa. We therefore think emerging markets will continue to be the major overseas market for Chinese auto export in coming 5 years.

Within our coverage, Geely Auto and Great Wall Motor have strong presence of exports business. In 2011, Geely's and Great Wall's export sales rose by 92.7% yoy and 58.7% yoy, respectively, and accounted for 9.4% and 17.1% of each of their total sales volume, respectively. We estimate exports will account for around 19% for both companies. Great Wall also attends to expand its portfolio by entering Brazilian market this year, and Geely also targeting the UK and Italy as possible entry points into the European market.

Fuel efficient car market will be emphasized

The development of electric vehicle (EV) market was much slower than previous market expectation, due to concerns on the safety of EVs; the sluggish development of charging facilities and the affordability even with government subsidies, etc. We believe EV might reach a limited market share by 2015.

On the other hand, we are positive on the development of fuel efficiency on traditional fuel vehicle. In March 2012, China's Premier Wen Jiabao delivered his government work report at the National People's Congress. Among several specific points which are worth noting, he mentioned that the government will encourage the consumption of environmental friendly products, including fuel efficient cars. This is in line with our expectations considering: 1) China is combating pollution issues; 2) usage for fuel efficient cars would help to contain the growth rate of oil product consumption; and 3) fuel efficient cars are usually smaller and cheaper, which should be more affordable in less affluent tier 2 and tier 3 cities. Under such a government initiative, we think that major beneficiaries would be the local brands and JV brands that have popular small/fuel efficient products such as Dongfeng Nissan.

Growth potential of second-hand car market

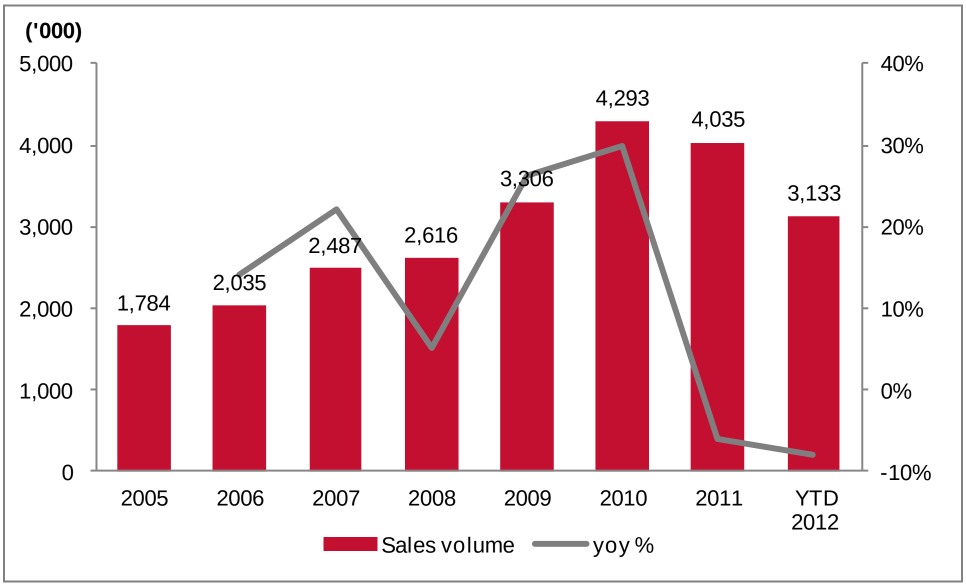
China also lags far behind mature auto markets in the development of second-hand car market. In developed countries, car owners generally replace their cars in 3-5 years. The high replacement rate enriches the product varieties of second-hand market, which in turn further drives transactions in second-hand market. For example, transactions in second-hand car market are 2.5-3 times new car sales in the US, 2x in Germany and 1.4x in Japan, while the ratio is short of 0.3x in China currently. Moreover, second-hand car transactions generally yield a profit margin of approximately 15-20%, much higher than new car sales. We believe it implies China's second-hand car market has a significant growth potential in future.

The reasons for the much slower growth of China's second-hand car market are: 1) consumers think second-hand vehicle is inferior to the new one; 2) incompetence of tax regulations of second-hand purchasing; and 3) lack of proficient in second-hand car evaluation. Despite so, the ratio of new PV sales to second-hand PV transactions in China has been trending down in recent years, showing a growing second-hand car market in the country. In addition, while penetration in China is still low and the used-car market remains in its infancy, many dealerships have begun to take steps to take advantage of the opportunity as the Chinese auto market matures. Dealerships such as Zhongsheng, ZhengTong and Youngda have cited developing the used-car market as one of their growth strategies. According to the statistic, 2.3mn used vehicles traded in 1H12, up 17.2% yoy. Sedans remained the most popular segment, the trading volume increased 24.3% yoy in 1H12.

The bad year for commercial vehicles

China's commercial vehicles (CV) sales volume dropped 7.9% yoy to 3.1mn units in the first ten months of this year, with HDTs seeing a sharper decline of over 11%. Closely correlated with economic conditions, China's HDT market is currently experiencing it's the most difficult period since the global financial crisis began.

Exhibit 111: CV sales dipped significantly



Source: CEIC, OP Research

FAI slowdown weighed on HDT sales

China's economic growth has slowed sharply since 2011, amid tight monetary policy. Some large infrastructure projects have been suspended, real estate development investment has shrunk, and businesses have become less willing to spend. FAI growth has dropped sharply since 4Q11; the sluggish investment has dragged down HDT sales sharply.

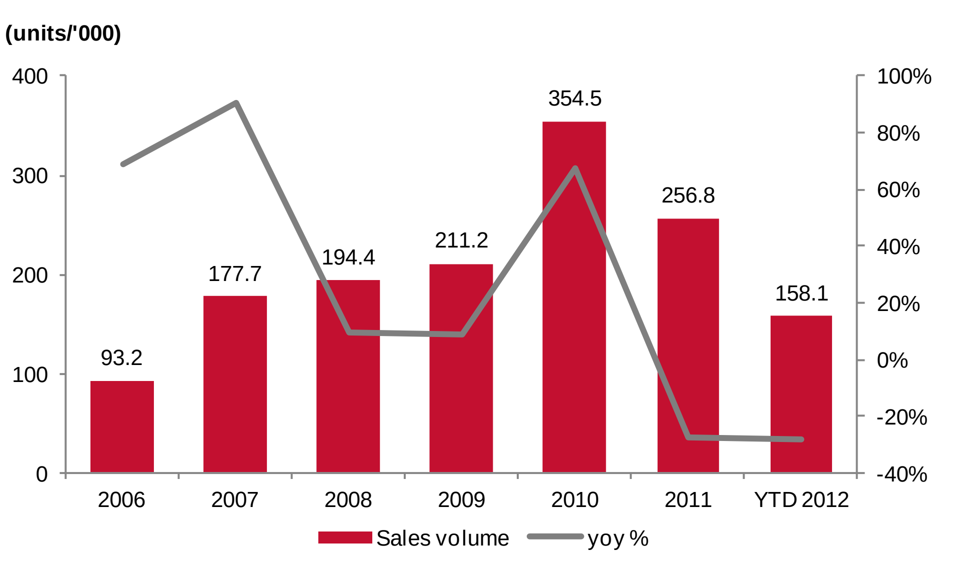
Exhibit 112: FAI growth in China

Source: CEIC, OP Research

Semi-trailer sales down sharply due to sluggish demand from the logistics industry

In January - August 2012, sales volume of semi-trailers slumped 26% yoy. In 2010, semi-trailers saw explosive demand growth thanks to China's massive Rmb4trn stimulus package. However, the supply-demand conditions reversed in 2011 due to tight monetary policies, as a large number of semi-trailers sat idle. Meanwhile, the economic efficiency of road transport has been declining due to rising oil prices and sluggish economic activities. As a result, semi-trailer sales volume dropped significantly amid the worsening supply-demand conditions and rising costs.

Exhibit 113: Semi-trailer sales down sharply



Source: CEIC, OP Research

Exhibit 114: Monthly passenger vehicle sales

(units)	2006	2007	2008	2009	2010	2011	2012
Jan	418,942	552,518	661,938	610,596	1,315,990	1,528,965	1,160,590
Feb	344,493	417,651	488,864	607,299	942,942	967,242	1,213,123
Mar	485,957	567,000	700,505	772,353	1,264,958	1,347,569	1,399,966
Apr	468,438	545,824	604,920	830,974	1,110,874	1,142,320	1,276,038
May	393,613	488,490	564,637	829,071	1,043,220	1,042,862	1,281,907
Jun	396,433	511,934	588,361	872,894	1,042,818	1,109,210	1,284,175
Jul	332,587	457,162	488,219	832,596	946,172	1,011,842	1,120,206
Aug	377,953	481,342	451,299	858,278	1,018,977	1,095,170	1,218,884
Sep	455,701	560,976	552,808	1,015,069	1,211,428	1,319,502	1,315,572
Oct	409,962	496,928	538,457	946,463	1,203,174	1,220,779	1,298,931
Nov	499,655	582,750	522,843	1,036,422	1,339,756	1,343,668	
Dec	564,812	635,346	584,609	1,103,348	1,308,575	1,368,891	

Source: CEIC, OP Research

Exhibit 115: Monthly commercial vehicle sales

(units)	2006	2007	2008	2009	2010	2011	2012
Jan	111,135	164,584	197,450	125,269	348,197	365,371	229,198
Feb	135,460	135,730	174,680	220,251	268,567	299,756	353,938
Mar	235,507	280,177	356,068	337,381	470,193	480,910	438,606
Apr	204,509	262,877	317,714	322,108	444,298	409,696	348,374
May	173,853	225,105	270,901	290,645	395,138	339,917	325,288
Jun	161,164	214,945	248,453	269,182	369,260	326,725	293,333
Jul	134,499	183,796	177,635	252,962	297,866	263,460	259,160
Aug	150,134	190,300	177,718	280,220	303,305	285,911	276,343
Sep	179,292	211,834	198,723	316,740	345,290	326,584	301,786
Oct	166,386	195,379	177,208	279,856	335,458	304,043	307,049
Nov	189,307	218,194	162,311	301,272	357,285	312,290	
Dec	193,766	203,949	156,985	310,294	358,076	320,723	

Source: CEIC, OP Research

Exhibit 116: Quarterly sales by segments

	Passenger Vehicle				Commercial Vehicle			
(units)	Sedan	MPV	SUV	Cross	Bus	Truck	Tow Truck	Unfinished
1Q11	2,619,959	121,545	394,640	707,632	90,625	772,503	76,003	206,906
2Q11	2,337,954	116,651	341,597	498,190	100,066	722,843	60,874	192,555
3Q11	2,432,377	122,943	401,579	469,615	102,624	582,570	60,965	129,796
4Q11	2,734,309	136,344	479,686	582,999	109,657	625,855	59,001	142,543
2011	**10,124,599**	**497,483**	**1,617,502**	**2,258,436**	**402,972**	**2,703,771**	**256,843**	**671,800**
1Q12	2,561,169	123,680	441,540	647,290	91,584	717,274	64,150	148,734
2Q12	2,669,652	125,026	498,767	548,675	106,056	671,161	43,685	146,093
3Q12	2,579,330	119,015	497,380	458,937	110,961	575,921	34,362	116,045
2012	**7,810,151**	**367,721**	**1,437,687**	**1,654,902**	**342,008**	**2,179,772**	**158,068**	**453,227**

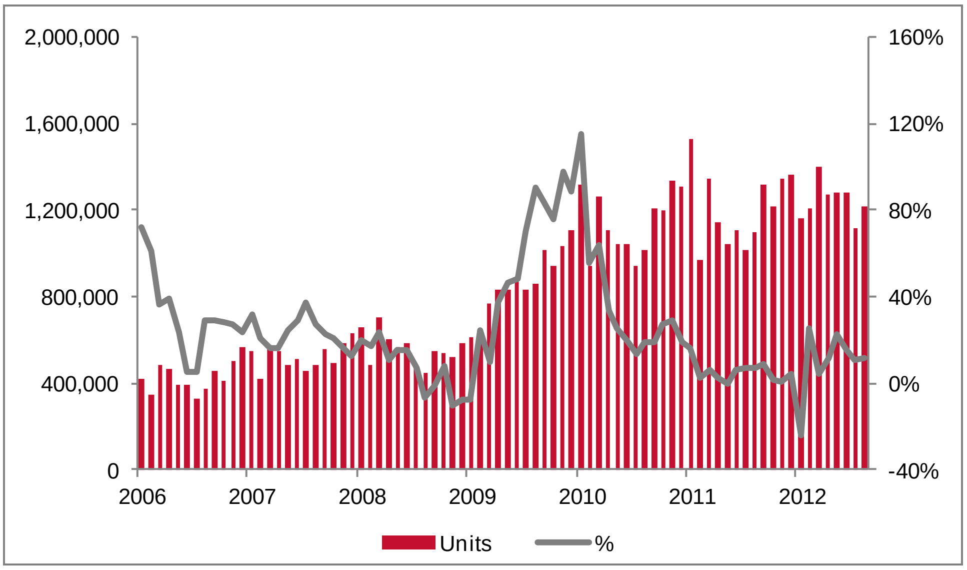
Source: CEIC, OP Research

Exhibit 117: Yearly PV sales by segments

	Passenger Vehicle							
	Sedan	yoy	MPV	yoy	SUV	yoy	Cross	yoy
2006	3,811,607	36.7%	190,422	20.3%	228,601	16.8%	917,916	10.5%
2007	4,727,036	24.0%	225,696	18.5%	357,379	56.3%	987,810	7.6%
2008	5,040,397	6.6%	197,394	-12.5%	446,109	24.8%	1,063,560	7.7%
2009	7,460,638	48.0%	248,954	26.1%	657,494	47.4%	1,948,277	83.2%
2010	9,494,194	27.3%	445,401	78.9%	1,317,585	100.4%	2,491,704	27.9%
2011	10,124,599	6.6%	497,483	11.7%	1,617,502	22.8%	2,258,436	-9.4%
YTD2012	7,810,151	20.9%	367,721	17.4%	1,437,687	44.9%	1,654,902	11.8%

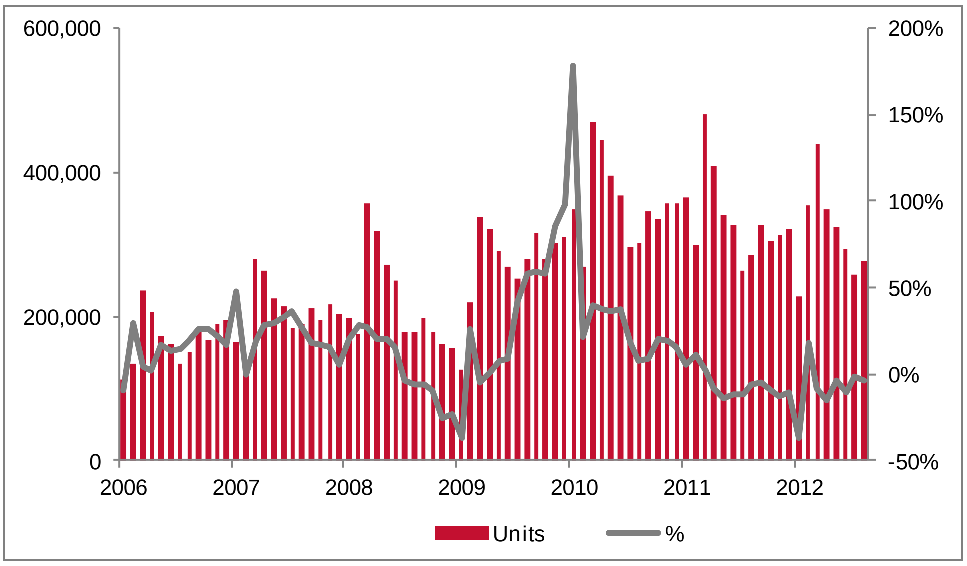
Source: CEIC, OP Research

Exhibit 118: Monthly PV sales by segments



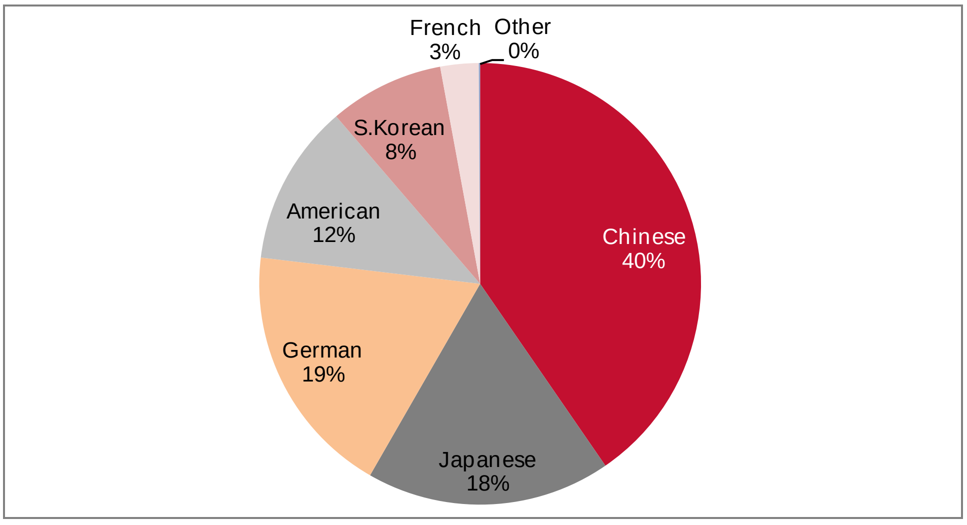
Source: CEIC, OP Research

Exhibit 119: Monthly CV sales by segments



Source: CEIC, OP Research

Exhibit 120: Market share of different brandings



Source: WIND, OP Research

Exhibit 121: Auto dealership comparison

		Zhongsheng (0881 HK)	Zhengtong (1728 HK)	Yongda (3669 HK)
	Brandings portfolio	Luxury: Audi, Lexus, Mercedes Benz, Porsche, Lamborghini Mid-high end: Buick, Chevrolet, FAW Toyota, GZ Toyota, GZ Honda, FAW Volkswagen, DFM Nissan	Luxury: BMW/MINI, Audi, Volkswagen(Imported), Jaguar/Land Rover, Volvo, Mercedes Benz, Porsche, Infiniti Mid-high end: DFM Nissan, DFM Honda, Buick, Chevrolet, Hyundai, FAW Mazda, FAW Volkswagen, FAW Toyota, Ford	Luxury: BMW/MINI, Audi, Jaguar/Land Rover, Volvo, Porsche, Infiniti, Cadillac Mid-high end: Nissan, Honda, Buick, Chevrolet, FAW Volkswagen, FAW Toyota, Ford, Roewe, Skoda
	Network distribution	Heilongjiang, Jilin, Liaoning, Shandong, Jiangsu, Shanghai, Zhejiang, Fujian, Guangdong, Sichuan, Yunnan	Beijing, Shandong, Shanghai, Jiangxi, Hubei, Hunan, Guangdong, Inner Mongolia	Beijing, Shanghai, Anhui, Shanxi, Jiangsu, Zhejiang, Fujian, Hainan
	No. of 4S shops (in 1H12)	Luxury: 44 Mid-high end: 96	Luxury: 45 Mid-high end: 16	Luxury: 39 Mid-high end: 26
	Sales volume (yoy growth %)	Luxury: FY11: 33,489 (101.9%) 1H12: 26,354 (86.5%) Mid-high end: FY11:127,227 (52.2%) 1H12: 64,522 (39.0%)	Luxury: FY11: 21,380 (125.1%) 1H12: 22,202 (159.1%) Mid-high end: FY11: 18,734 (6.2%) 1H12: 11,909 (48.7%)	Luxury: FY11: 29,121 (49.7%) 1H12: 15,315 (13.2%) Mid-high end: FY11: 32,084 (7.1%) 1H12: 15,458 (3.4%)
1H12 Operation	% of new car sales revenue in 1H12	90.6%	90.50%	89.40%
	Luxury	51.1%	79.60%	70.40%
	Mid-high end	39.5%	10.80%	19.40%
	% of after market services	9.4%	7.7%	9.60%
FY13E Operation	% of new car sales revenue	89.6%	90.6%	87.80%
	Luxury	60.3%	83.6%	71.10%
	Mid-high end	39.7%	7.0%	16.70%
	% of after market services	10.4%	7.9%	11.00%
1H12 Profitability	GPM of new car sales	5.0%	5.5%	5.20%
	GPM of after market services	47.1%	45.0%	43.60%
	Overall GPM	9.0%	8.7%	9.30%
	Net profit margin	1.5%	2.4%	3.00%
FY13E Profitability	GPM of new car sales	5.5%	5.9%	5.50%
	GPM of after market services	47.8%	46.0%	44.00%
	Overall GPM	10.0%	9.2%	9.50%
	Net profit margin	2.6%	2.8%	3.40%
	2011 inventory turnover days	47.7	55.8	31.3
	2011 A/C receivable turnover days	3.3	5.3	2.0
	2011 A/C payable turnover days	42.1	63.6	26.9
	2011 net debt/equity (%)	78.40%	31.50%	74.60%
	2011 ROA (%)	6.4%	4.6%	8.10%
	2011 ROE (%)	21.8%	10.3%	34.40%

Source: Company, OP Research

Exhibit 122 Peer group comparison

Company	Ticker	Price	Mkt cap (US$m)	3-mth avg t/o (US$m)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	EPS FY1 YoY%	EPS FY2 YoY%	3-Yr EPS Cagr (%)	PEG (x)	Div yld Hist (%)	Div yld FY1 (%)	P/B Hist (x)	P/B FY1 (x)	EV/ Ebitda Hist	EV/ Ebitda Cur Yr	Net gearing Hist (%)	Gross margin Hist (%)	Net margin Hist (%)	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %
HSI		22,191.17			11.4	11.6	10.6	(2.2)	9.1	5.4	2.14	3.2	3.3	1.47	1.43						13.0	12.3	0.4	12.1
HSCEI		10,919.24			9.0	9.0	8.2	(0.4)	9.8	5.8	1.56	3.5	3.5	1.41	1.35						15.7	15.0	1.0	15.8
CSI300		2,246.76			11.3	10.6	9.1	6.9	16.0	12.7	0.83	2.3	2.2	1.61	1.53						14.2	14.5	(1.8)	(3.0)
Adjusted sector avg*					**12.9**	**13.2**	**10.2**	**0.5**	**33.3**	**18.2**	**0.72**	**1.5**	**1.0**	**1.88**	**1.91**	**10.8**	**9.3**	**39.5**	**15.1**	**7.0**	**16.2**	**18.9**	**1.4**	**29.8**
Dongfeng Motor-H	489 HK	11.72	13,030	41.3	7.7	8.9	8.1	(12.6)	9.6	0.9	10.36	1.9	1.7	1.62	1.52	4.1	4.4	0.0	20.1	8.0	21.7	17.8	15.8	17.6
Great Wall Mot-H	2333 HK	24.10	9,431	17.5	15.9	11.8	10.4	34.9	12.9	18.7	0.63	1.5	2.0	3.24	2.79	12.0	8.4	0.0	24.2	11.8	27.0	26.0	0.0	34.3
Geely Automobile	175 HK	3.69	3,932	25.9	14.3	12.7	10.6	12.5	19.7	16.7	0.76	0.8	1.0	2.11	2.00	9.2	8.7	28.1	18.2	7.4	16.7	17.1	5.7	43.0
Brilliance China	1114 HK	9.20	5,966	21.5	20.4	15.5	11.9	31.8	30.1	27.7	0.56	N/A	0.0	4.48	3.95	99.8	59.0	38.5	13.3	28.1	27.8	29.2	0.2	26.2
China Zhengtong	1728 HK	5.13	1,462	4.3	16.3	11.7	8.6	39.7	35.8	34.0	0.34	N/A	0.1	1.39	1.29	18.3	9.6	94.6	9.6	3.6	10.3	11.9	(4.5)	15.5
Zhongsheng Group	881 HK	9.88	2,433	3.0	10.7	13.3	8.7	(19.3)	53.3	16.2	0.82	1.6	1.3	2.10	1.91	10.3	10.5	79.3	10.3	3.4	19.0	13.7	(5.7)	(3.1)
China Yongda Aut	3669 HK	7.90	1,509	0.5	N/A	12.5	9.2	N/A	36.0	N/A	N/A	N/A	N/A	N/A	3.07	13.4	9.1	197.3	7.9	2.5	37.5	26.0	9.7	17.7
Sinotruk Hk Ltd	3808 HK	5.41	1,927	0.5	12.1	22.1	14.5	(45.3)	52.3	2.4	9.05	1.8	1.5	0.64	0.61	7.5	9.5	29.3	15.6	2.7	1.0	2.6	15.1	23.0
Weichai Power-H	2338 HK	32.90	7,975	11.4	7.9	14.4	11.6	(45.2)	24.2	(10.1)	N/A	0.7	0.7	1.79	1.66	4.9	8.8	0.0	21.7	9.4	17.5	13.0	7.0	44.3
Xinyi Glass Hold	868 HK	4.62	2,253	5.9	13.1	13.8	10.2	(5.0)	35.6	11.8	1.17	2.4	3.4	1.91	1.94	10.8	9.7	46.3	28.6	15.4	10.5	14.4	(1.5)	33.9

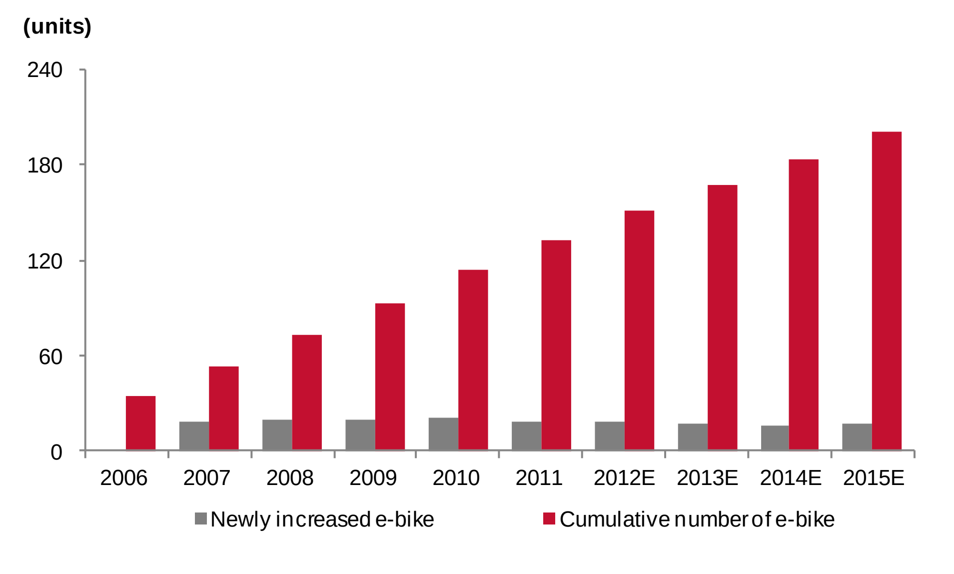
Source: Bloomberg, OP Research

Lead-acid Battery Sector

Solid e-bike demand growth in China

According to Frost & Sullivan, the market size of electric bike (e-bike) in China reached 133mn in 2011. And it expects it will increase to 201mn in 2015, which represented a CAGR of 10% during 2012-2015. The newly increased number of e-bike remained stable at around 17-20mn per year in China. China currently dominates the global e-bike market, and the overall market size of is believed to reach to 184mn in 2014.

Exhibit 123: Annually demand of electric bikes in China



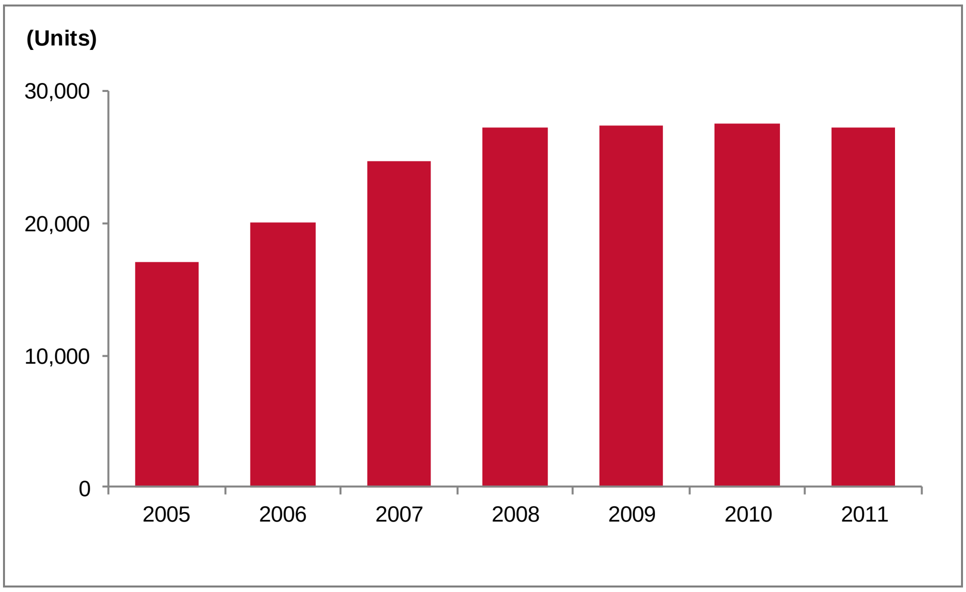
Source: Frost & Sullivan, OP Research

We attributed the fast growth of e-bike in China to:

1) Accelerating urbanization development and improving transportation infrastructure in rural area. The increase in disposable income of the rural population provides incentives for the rural residents to switch traditional bicycle to e-bike, a transportation means which is functionally sound yet retains simplicity, easy to handle and most importantly, its low cost.

2) Government's encouraging of "clean" energy. China's government is encouraging use of clean energy, and it targets to reduce carbon emission by 40-50% by 2020 from 2005. The government also launched several policies to support clean energy industries. Due to continuous increase in oil prices, higher-emission and higher overall driving cost, we believe the macro environment policy should be positive for e-bike demand, as e-bikes are low-emission, low-cost, and more convenient for traffic. According to statistic, growth of market size of motorcycle in china remained remains flat during 2008-2011, compare to average of 10% growth p.a.

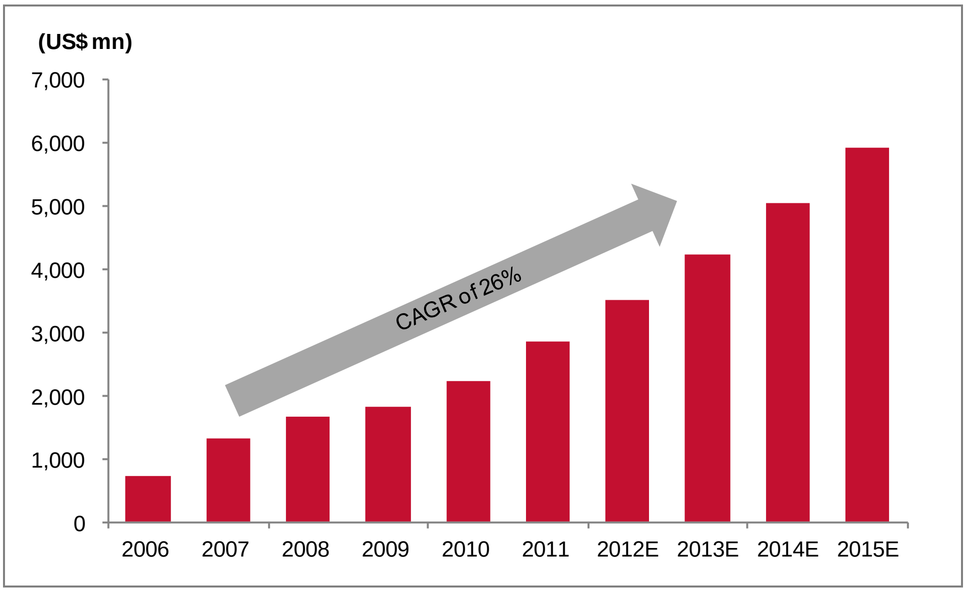
Exhibit 124: Production of motorcycle in China



Source: CEIC, OP Research

3) Government's subsidy program in 2010. To encourage the usage of e-bike, the central government launched subsidy program in 10 provinces (including Jiangsu, Anhui, Shanxi, Jiangxi, Yunnan, Shandong, Henan, Hubei, Hebei and Shaanxi), that purchases e-bike can enjoy a maximum subsidy of RMB260, or 10% of the retail price of e-bike in 2010.

Exhibit 125: Revenue of electric bike lead-acid battery in China

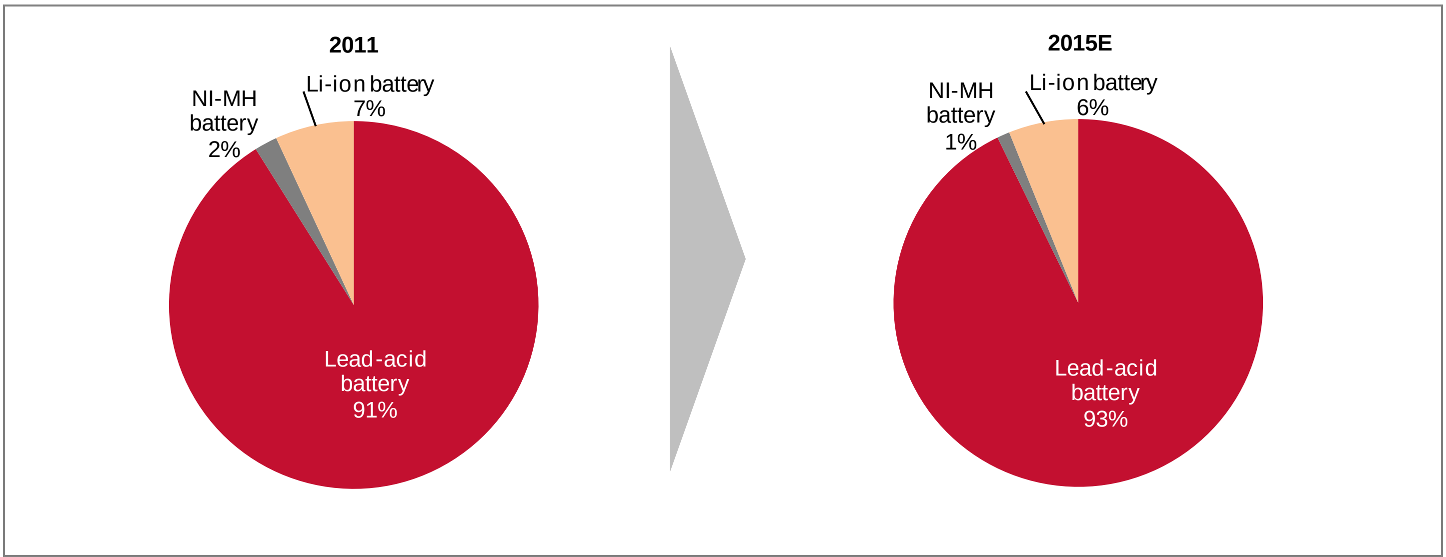


Source: Frost & Sullivan, OP Research

Overview of lead-acid battery industry

Robust growth of e-bike triggers the strong demand of e-bike battery in China. The lead-acid motive battery is currently the most commercially viable rechargeable battery with matured technology. It accounts for 91% of e-bike market, others alternatives are Li-ion battery and Ni-MH battery, which represent 6.9% and 2.0% of market share, respectively. And share of lead-acid battery is expected to increase to 92.8% in 2012E, mainly due to their lower cost, higher recharging safety, and relatively milder temperature effects, compare to Li-ion and Ni-MH batteries. Frost & Sullivan estimates that the sales value of lead-acid battery in China will grow from USD2,859mn in 2011 to USD5,5053mn in 2014, which implies a CAGR of 21%.

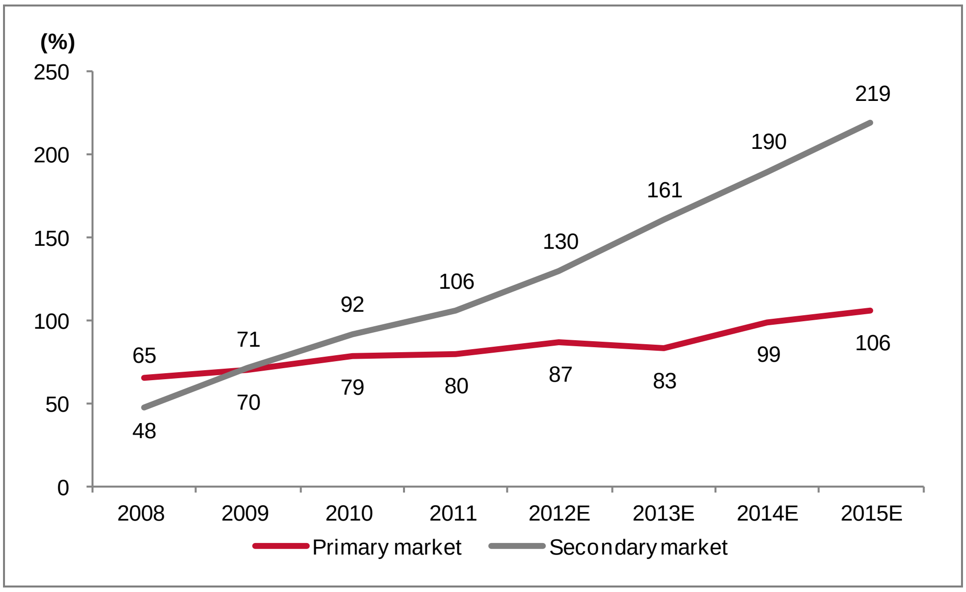
Exhibit 126: Demand trend of the motive batteries sector in china by revenue



Source: Frost & Sullivan; Asian Development Bank (Report on Electric Bike in China 2008); OP Research

Given that usually life cycle of e-bike battery is about 1.5-2 years, which means consumers have to replace the battery in every 1.5-2 years. Therefore, the overall market size of e-bike battery is driven by both primary market, which relates to new e-bike sales, and secondary market, which relates to replacement demand. As the results of growing e-bike fleet in China and short replacement cycle for batteries, the battery demand in the secondary market grows more quickly than primary market. According to the Frost and Sullivan's forecast, demand of primary market will increase at a CAGR of 7.3% during 2011-2014, and secondary market will grow at a CAGR of 21.6% during same period.

Exhibit 127: The growth rate of primary market and secondary market



Source: Frost & Sullivan, OP Research

Industry consolidation trend continues

The lead-acid battery is a very fragment industry in China, there were had over 3,000 battery manufacturers in China. And the production process of lead-acid battery involves heavy metals, such as lead, which is one of the original sources of pollution in China. In order to reduce the pollutions, China government launched the Notice of Regulation of Pollution Prevention for Lead-acid Storage Battery and Recycle Lead Industry (關於加強鉛蓄電池及再生鉛行業污染防治工作的通知), which set the striker environment protection regulation for battery industry in May 2011.

Besides, in Aug 2011, the Ministry of Environment Protection released the "Entry Requirement of Lead-acid Battery Industry" (鉛蓄電池行業準入條件). The regulations set the higher entry barrier, and try to standardize the industry. According to the regulation, only 13% of lead-acid battery capacity in China was permitted to have continued operation, which means 87% capacity were facing shut down or phasing out.

The information shows only 20-25% of capacity had closed since the launching of the requirements, and we expect the industry consolidation trend should be continued in 2013. As such, industry consolidation should benefit market leaders. Based on market data, Tianneng (819 HK, NR) and Chaowei (951 HK, NR) are two major market dominants, have combined market share of 50%. We expect they are the key beneficiaries of industry consolidation trend. We are projecting their combined market share will increase to 78% in 2014, as a result of higher market concentration.

Potential higher EV motive demand

Lead-acid battery is also work for low-speed electrical vehicles (EV). Although Li-ion battery is expected to be the best solution for EVs, but its stability and safety issue still remain a major concern, as EV requires much higher storage electric capacity and stable performance. Currently, most of low-speed EVs in China was equipped with EV lead-acid battery. Before the technology breakthrough of Li-ion battery, we believe the stable growth of low-speed EV demand should have an additional demand for lead-acid battery. Tianneng and Chaowei both make EV motive, but with a relative small percentage to their revenues and earnings.

Exhibit 128: Peer group comparison

Company	Ticker	Price	Mkt cap (US$m)	3-mth avg t/o (US$m)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	EPS FY1 YoY%	EPS FY2 YoY%	3-Yr EPS Cagr (%)	PEG (x)	Div yld Hist (%)	Div yld FY1 (%)	P/B Hist (x)	P/B FY1 (x)	EV/ Ebitda Hist	EV/ Ebitda Cur Yr	Net gearing Hist (%)	Gross margin Hist (%)	Net margin Hist (%)	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %
HSI		22,297.52			11.4	11.7	10.7	(2.1)	9.0	5.4	2.15	3.2	3.3	1.48	1.44						13.0	12.3	4.3	12.5
HSCEI		10,990.38			9.0	9.1	8.3	(0.4)	9.8	5.8	1.57	3.5	3.5	1.42	1.36						15.7	15.0	5.1	17.0
CSI300		2,258.78			11.4	10.6	9.2	7.0	15.6	12.6	0.84	2.3	2.2	1.62	1.54						14.2	14.5	0.8	(2.9)
Adjusted sector avg*					**6.0**	**6.1**	**4.4**	**4.5**	**42.8**	**17.9**	**0.40**	**4.8**	**6.1**	**1.22**	**1.35**	**5.8**	**4.3**	**34.2**	**27.0**	**9.8**	**26.1**	**20.6**	**(6.4)**	**(1.2)**
Tianneng Power	819 HK	4.67	677	1.9	6.8	5.8	4.9	17.1	19.2	18.8	0.31	4.4	5.0	1.56	1.39	5.8	4.7	23.5	28.2	11.3	33.1	26.8	(9.8)	(2.3)
Chaowei Power	951 HK	3.72	497	1.5	6.8	4.9	4.3	39.3	13.6	23.6	0.21	4.3	5.7	1.60	1.31	5.8	4.0	22.1	32.1	9.2	37.8	29.1	(8.6)	(13.0)
Leoch Internatio	842 HK	1.12	198	0.4	4.4	7.7	3.9	(42.9)	95.8	11.4	0.68	5.6	7.6	0.52	N/A	5.9	N/A	57.0	20.7	9.0	7.4	5.8	(0.9)	11.5

Source: Bloomberg, OP Research

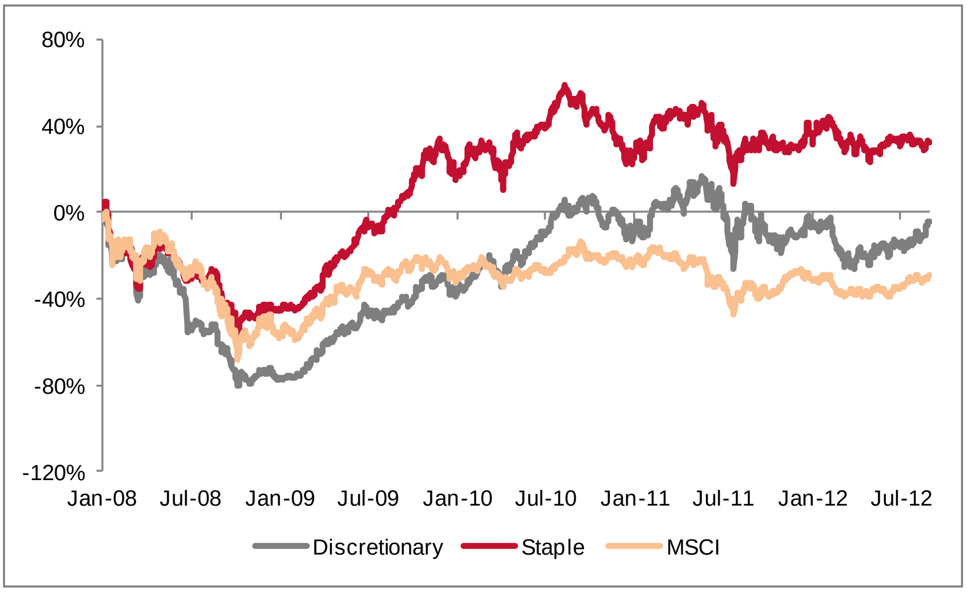
Consumer

We remain positive about China consumer universe sales growth as i) the acceleration in income growth driven by new leadership who aim to double current disposable income till 2020; ii) ongoing urbanization. China consumer sector performance has demonstrated high positive correlation with China's economy trend. Thus, in our view, consumer sentiment will also improve on the back of a moderate recovery in China's economy in 2013.

Historically, staple companies has show a high positive correlation (R-square=89%) with discretionary players. Staple valuation has held up relatively well versus discretionary and traded with an average 27% premium in the past 5 years (versus 49% premium YTD). In our view, the positive correlation between these two universes should hold, while the valuation gap will narrow to 15-20% as i) the staple names may face headwind of GPM squeeze due to a inflation expectation happened in 2H13; ii) intensive competition in mass market products will erode the staple players' OPM; iii) discretionary might see a rebound starting from second half of 2013 with the appearance of increasing disposable income. In addition, we might see only a modern growth in rental pressure comparing to 2011 level; iv) SSSG might see a rebound after most companies have concentrated on their existing stores; v) recovery of larger ticket purchase of items.

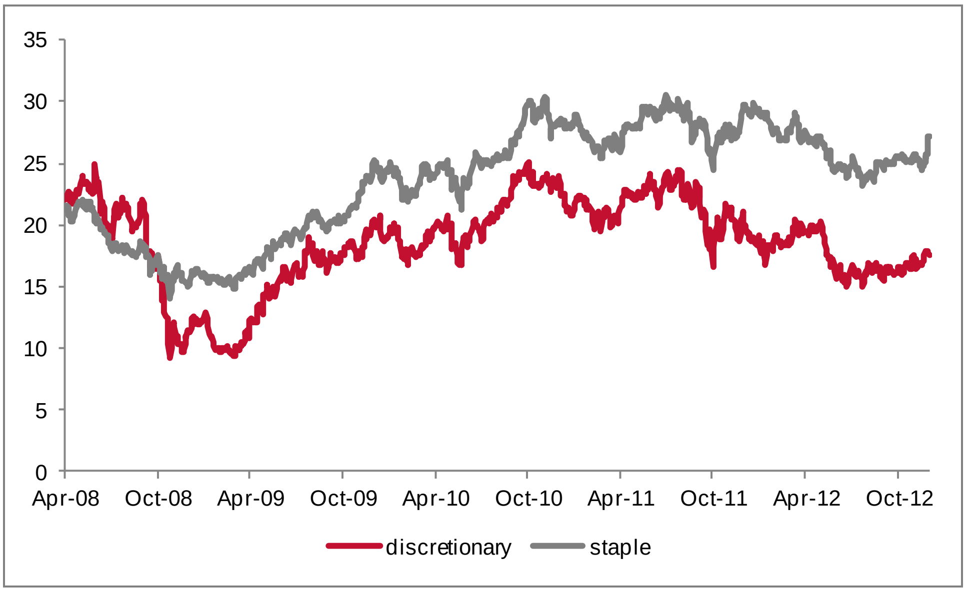
We overweight Biostime (1112 HK BUY), and China modern dairy (1117 HK BUY), Stelux (84 HK, BUY) and Chow Sang Sang (116 HK, HOLD).

Exhibit 129: Relative stock price: Staple, Discrentionary, and MSCI China, 2008-2012



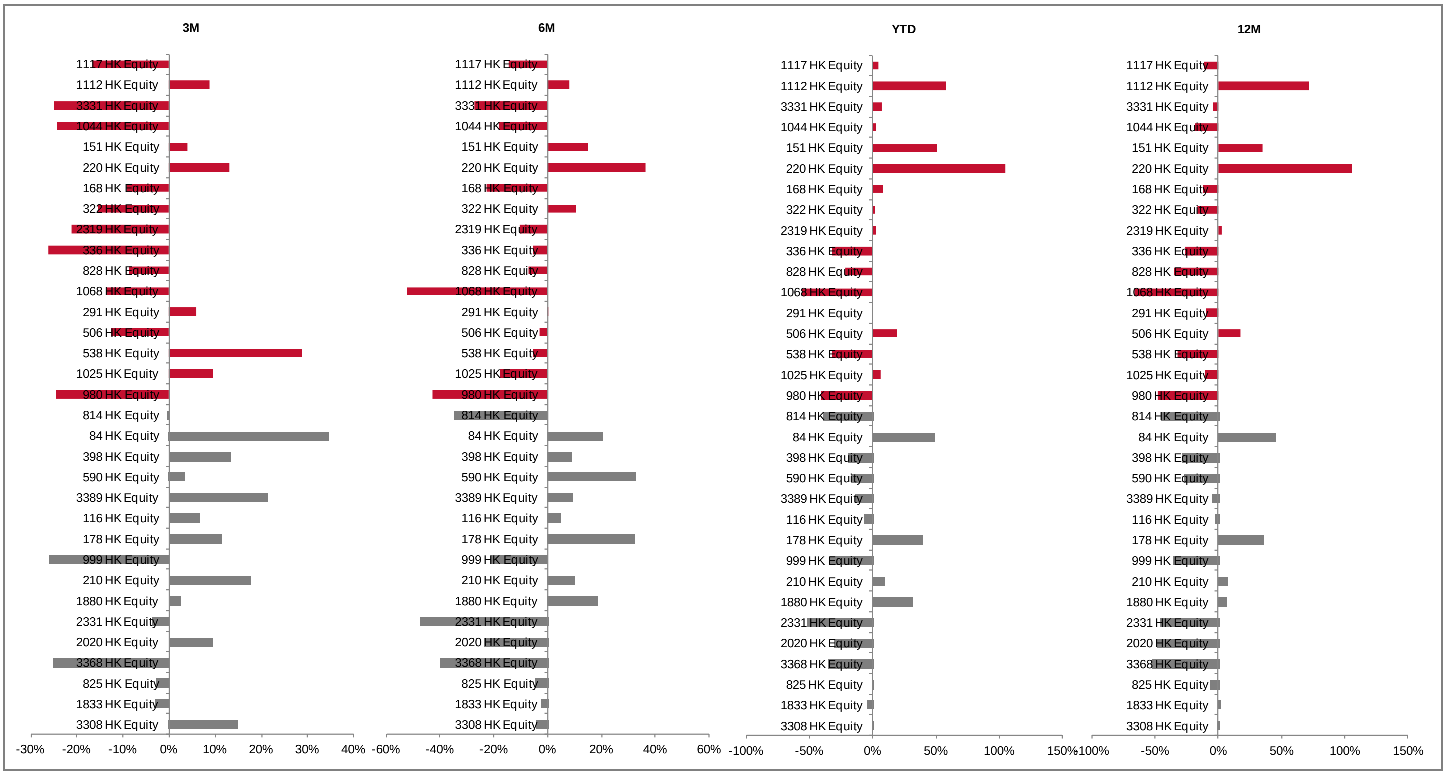
Source: Bloomberg, OP Research

Exhibit 130: Forward PE: Staple versus Discretionary, 2008-2012



Source: Bloomberg, OP Research

Exhibit 131: Stock performance vs MSCI China



Source: Bloomberg, OP Research

Consumer Staple Sector

Long term, we remain positive on the fundamentals for the leading staple names on the back of ongoing urbanization and rises in disposable income. We expect the large downstream companies to be the beneficiaries of this as they are market leaders with strong distribution networks, products, and brand name. Like Tingyi (322 HK, HOLD), UPC (220 HK, HOLD), Wantwant (151 HK, HOLD), and Mengniu (2319 HK, HOLD). As customers' dynamic preference, product innovation in tasting and category are important to retain existing customers and expand customer base amid the fierce competition. However, more frequent new product launches to stay ahead or consumption trend will see high A&P expense (e.g. offer free tasting samples to consumers) for the market players, in our view. The players with the charactertisicis of niche market positioning and enhanced retail-channel will pave the way for acceleration of sales growth. We prefer Wantwant and Biostime in the staple space. On the other side, Numbers of food safety incidents remain the major overhang issue jeopardizing consumer confident and translate into the big caution for investors, especially in dairy sector. Thus we see a faster-than-expected consolidation in the dairy upstream pushed by government in the coming years. The fist movers and large-scale dairy farms, like China Modern Dairy, will directly be benefited.

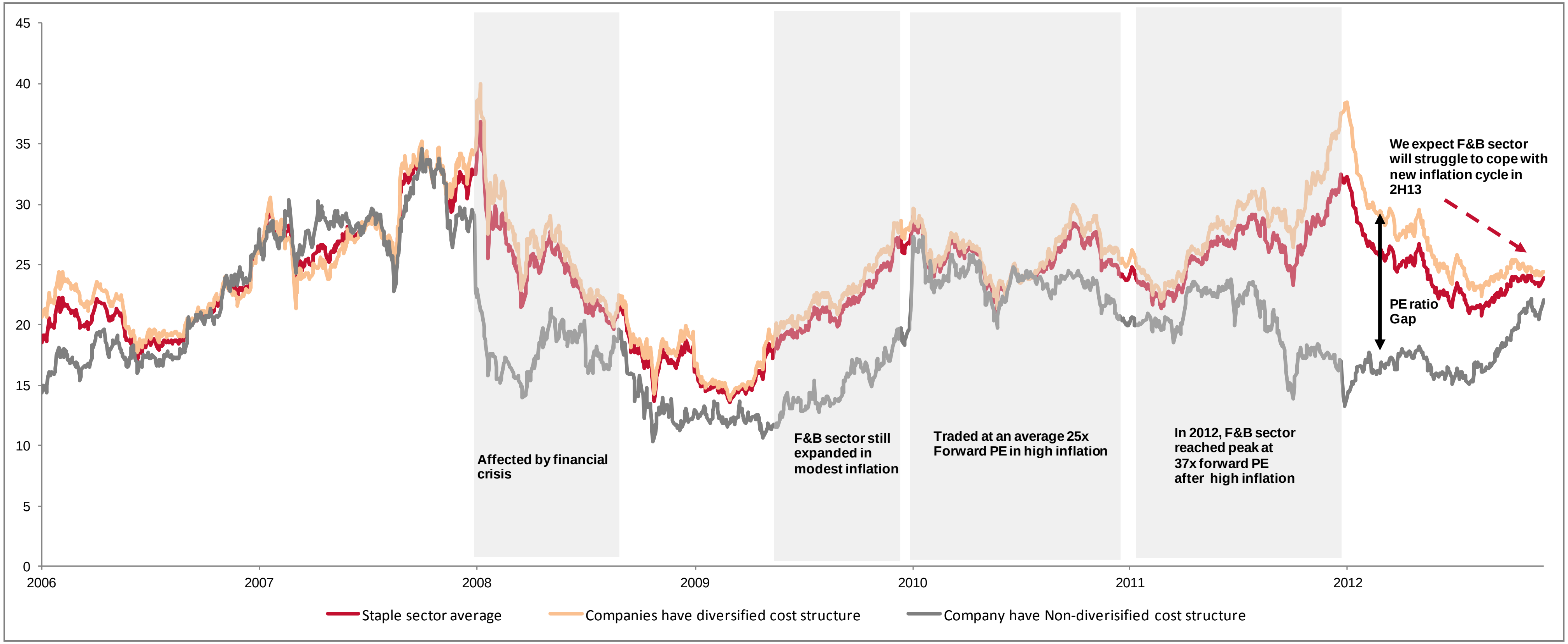
Valuation

Historically, staples companies' performance has shown a negative correlation with CPI growth and traded at an average forward PER of 14-37x 10 years. In the first stage of an inflation cycle, cosumer staple forward PER will continue expand when CPI grows at a modest rate of 2.5-3.5% (e.g. 4Q09-2Q10) as a 3-9 months inventory level of raw materials for most staple companies. After CPI grows over 4%, forward PER starts to demonstrate high volatility and contracts from the high level till the CPI meets the peak. Like Jul10 to Aug11, both top-line and bottom-line of whole sector were suffered in this long and severe inflation environment and the forward PER of the leading players dropped to 23-25x in that period.

On the other side, company sourcing single raw material always underperformanced the ones who have diversified cost structure. This is mainly because the GPM is more vulnerable when one single raw material takes account for large proportion in COGS. The former like Mengniu and Yurun (1068 HK NR) averagely traded at a c.25-35% discount to the later (e.g. Tingyi, Wantwant, and UPC) in the past years. While in the high inflation, the valuation gap between these two categories will contract to c.15-18%.

We do not expect to see an economic hard-landing in 2013 but concern CPI inflation to bottom out in 1Q13 before China's new leaders to introduce tighten policies. The CPI down-cycle normally lasts 14-18 months based on the historical statistics. If we mark Sep 2011 as the starting point of the current CPI down-cycle, the first stage of inflation (CPI: 2.5-3.5%yoy) will probably happen in 1Q13 and high inflation will see in 2H13. Thus we forecast the F&B sector will trade at an average FY13E 26x PE for leading players and 14-20x for mid-caps. For companies reling on a single raw material will trade at an average 17-20x FY13E PE, while company with multiple cost structure is projected to deserve FY13E 24-27x PE.

Exhibit 132 Staple sector forward PE trend, 2006-2012



Source: Bloomberg, OP Research

Food and Beverage

We forecast the sales of China soft drink, instant noodle and snack foods & confectionary to grow at CAGR of 11%, 7% and 14% in 2011-2015E, respectively.

Soft drink:

- Driven by volume

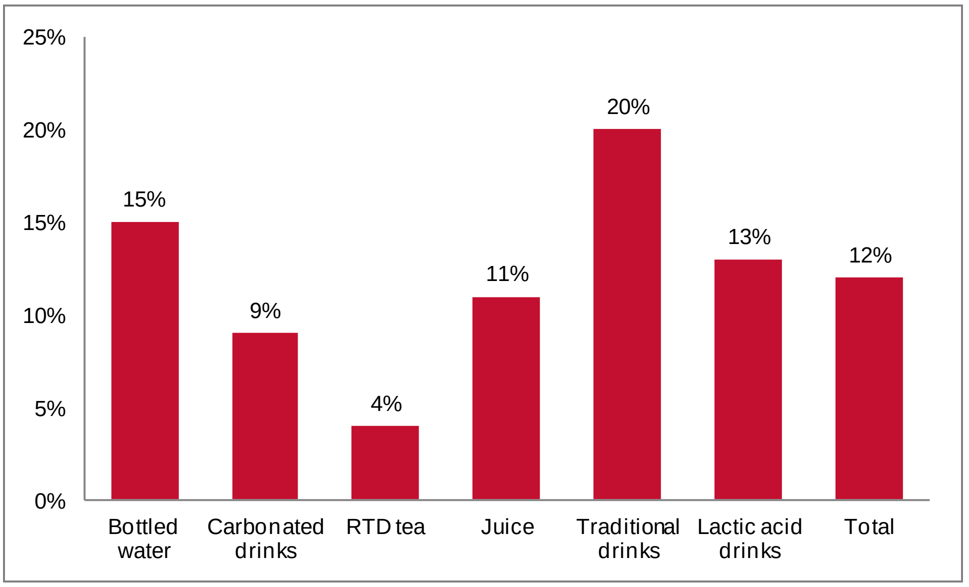
China beverage sector registered the revenue CAGR of 17% in the past ten years, and increased by 12.3% yoy in 2011. As the "essential" items of daily consumption products, soft drink tends to be more resilient and is predicted to continue its healthy sales growth momentum, primarily driven by ongoing launches of healthier versions at affordable prices and strong marketing investments by soft drinks players in China. It is projected that this market in China will see 11% CAGR in 2011-2015E, according to the twelfth five-year plan of state for food industry. This is in line with Tingyi management's expectation of 1.5-2x real GDP growth over the forecast period. As the mass market product players, most of companies will not likely to raise like-for–like prices of beverage but product mix improvement as keen competition ahead. Thus, we believe the sales growth will largely driven by the volume.

- Winner with multiple product categories

Base on the statistic result, each beverage sub-category has a relatively short growth period of only 3-4 years. The RTD tea segment in China saw the slowest growth in 2011, due to adverse weather and consumer continue to trade out of this category to new products. Tingyi's 9M12 sales of RTD tea declined by -27.85% yoy and UPC only climbed up 0.7%yoy in 1H12. Because of the dynamic consumer preference, product innovation in tasting and category are important to retain existing customers and expand customer base amid the fierce competition. Thus the more sophisticated and new offerings (e.g. milk tea, coffee, yoghurt drinks, functional drinks and traditional drinks) outperformed the whole segment in 2011. Like milk tea, the sales increased by 140% yoy and seized the market share to 9.5% in 2011 from 4.2% in 2010. UPC has been selling milk tea for a few years with a market share of 60% in 2011. Tingyi officially launched its milk tea in June 2012. We expect the milk tea will maintain strong growth in 2013 and UPC as the early mover with better brand awareness in this category will be the biggest beneficiary. Alliance with PepsiCo gives Tingyi anther catalyst in other high growth category to sustain its market leader position, like diluted juice (Tropicana) and functional drinks (Gatorade).

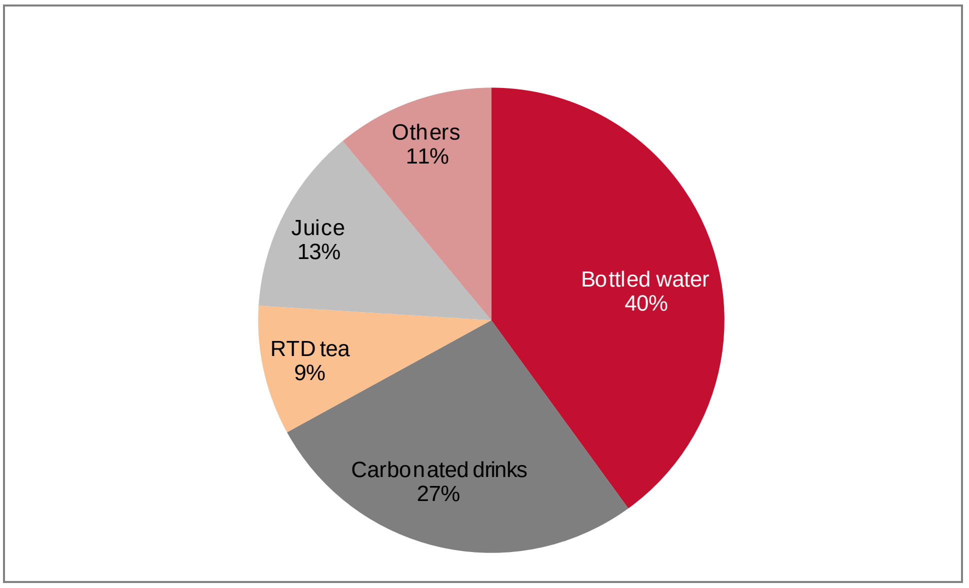
However, more frequent new product launching to stay ahead or consumption trend will see high A&P expense (e.g. offer free tasting samples to consumers) for the market players, in our view.

Exhibit 133: Beverage Sales growth by category, 2011



Source: CEIC, OP research

Exhibit 134: China beverage market share breakdown by volume, 2011



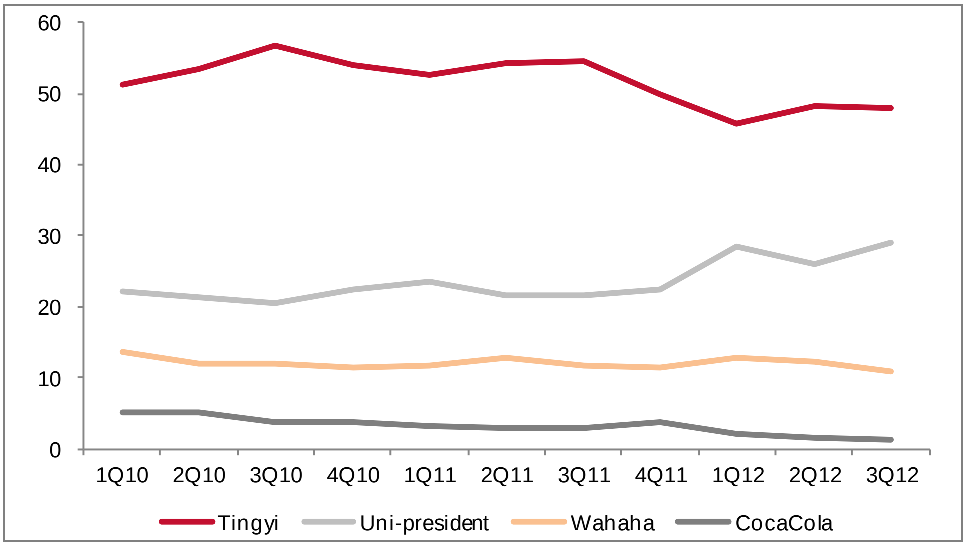
Source: CEIC, OP research

Exhibit 135: Comparison of retail prices, Tingyi versus UPC

	Tingyi			UPC		
	Price (RMB)	Volume	ASP/100g	Price (RMB)	Volume	ASP/100g
Milk tea						
Bottled	2.9	500ml	0.58	3.8-4.2	500ml	0.76-0.84
Tetra-pak	n.a.	n.a.	n.a.	2.1-2.5	250ml	0.84-1.00
Traditional juice drinks series						
Crystal sugar pear juice	3.5	500ml	0.70	3.5	500ml	0.70
Plum juice	3.5	450ml	0.78	n.a.	n.a.	n.a.

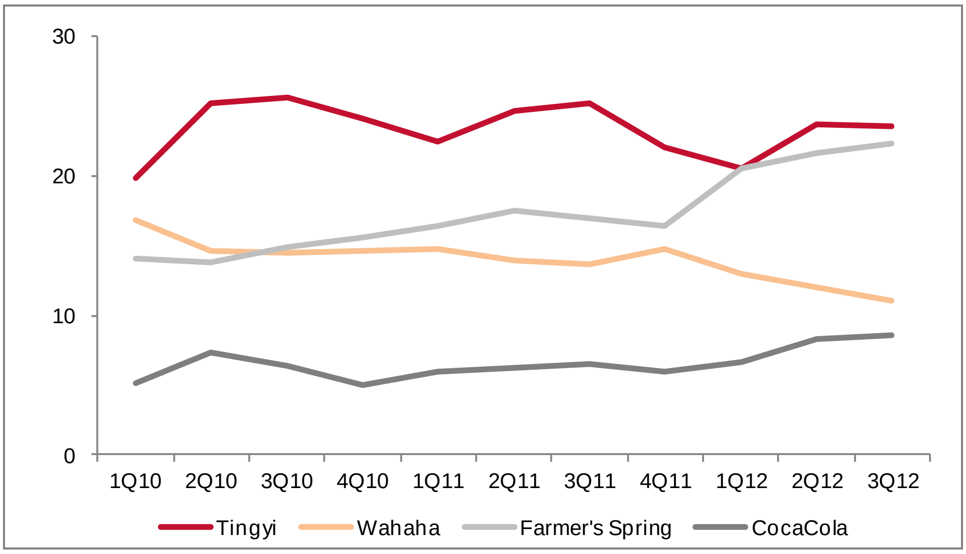
Source: Carrefour hypermarket, OP Research

Exhibit 136: Market share of RTD tea, by volume (%)



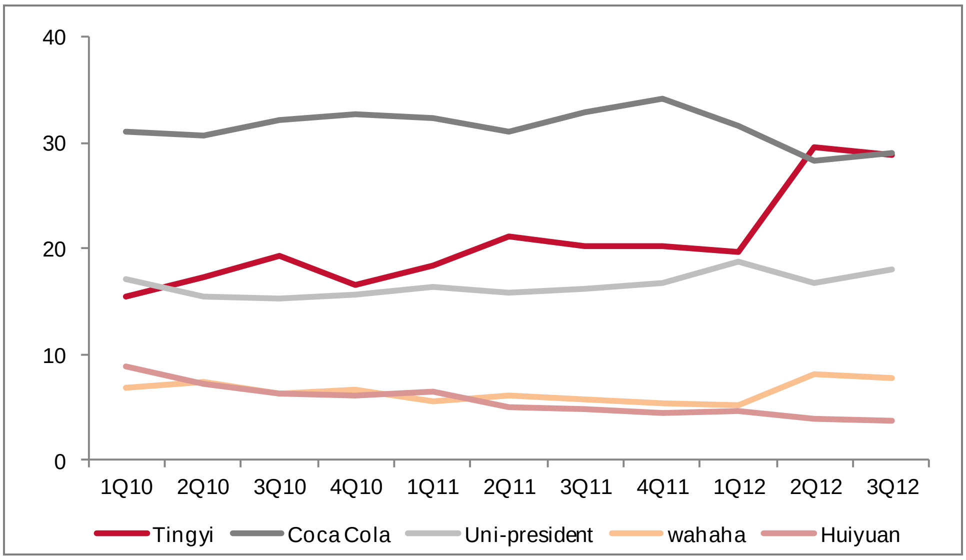
Source: Company data, OP Research

Exhibit 137: Market share of water, by volume (%)



Source: Company data, OP Research

Exhibit 138: Market share of Diluted Juice drink, by volume (%)



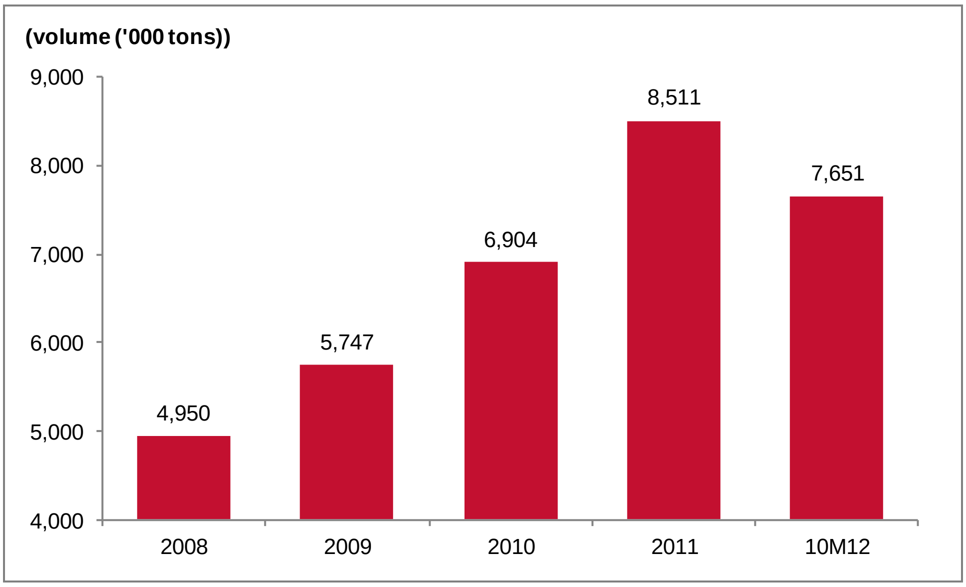
Source: Company data, OP Research

Instant noodle:

- Size continues to expand

The China instant noodle market size by output volume reached to 7.65mn tons in 10M12 (+9.4% yoy) and registered a 15% CAGR of sales led by a 4% CAGR of ASP increment in 2005-2011. ASP increment has come from price hikes and shifting towards high-end packet & bowl noodles as customers' propensity to upgrade for premium products. By category, bowl noodles accounted for 33.3% while packet noodle was 67.7% in 2011, according to Euromonitor.

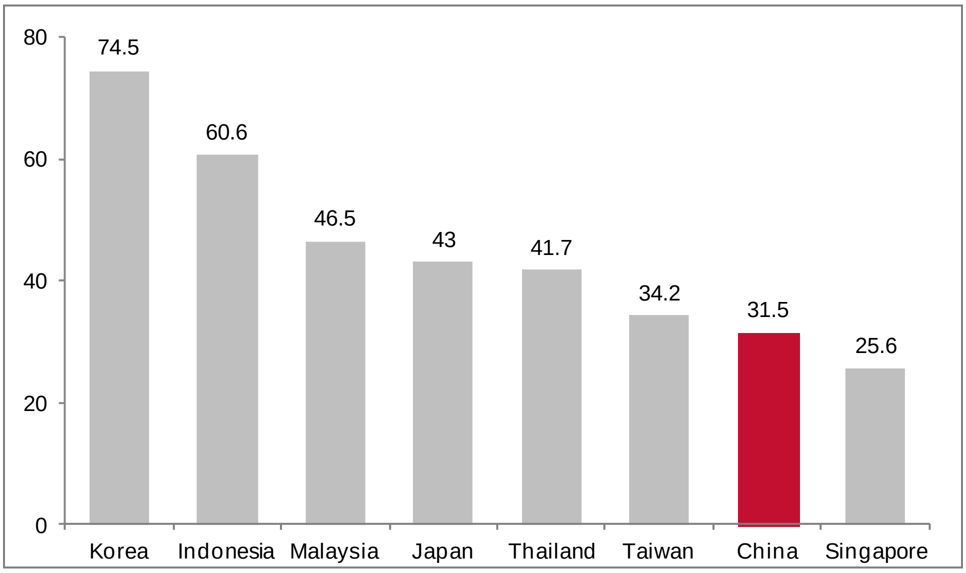
Exhibit 139: Instant noodle output volume, 2008-10M12



Source: CEIC, OP Research

Per capita instant noodle consumption in China is still low at 31.5 units in 2011 compared with Asian peers (Japan: 43 units; Taiwan: 34.2 units; Korea: 74.5 units), which indicates room for future market expansion. Increasingly hectic lifestyles, lesser meal cooking time at home and increasing number of working women will bode well for the per capita instant noodle consumption. However, in our view, increasing disposable income will not necessarily fuel per capita consumption but further drive customers to shift to premium product and accelerate ASP increase. Euromonitor forecasts China's instant noodle sales to rise at a 7% CAGR in 2011-15E.

Exhibit 140: Instant noodle output per cap consumption (units), 2011

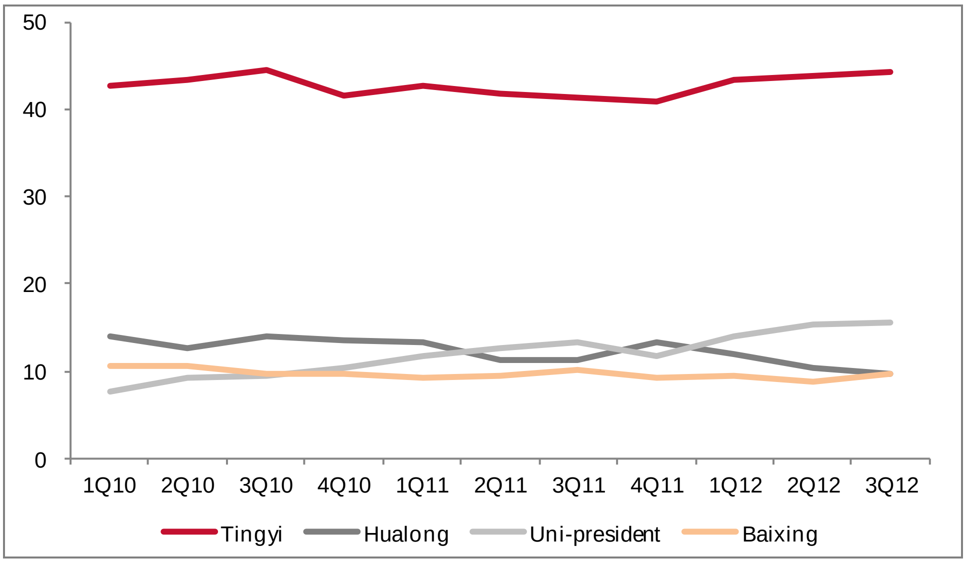


Source: Euromonitor, OP Research

- High concentration market, but the first runner-up will continue gain ground

After 40 years development, instant noodle market is highly concentrated with the top four players representing for 79.3% of volume market share and 87% of value market share. However, the top player Tingyi takes over 40% market share both by volume and value in the past years, while UPC has gained some shares after it successfully launched "Laotan pickled cabbage" flavor and "marinated beef" flavor. As the latecomer, Tingyi offers 4-12% discounts in retail price, plus free ham sausages in its bowl noodle to gain the ground; in compare, only 40% of UPC's noodles have free ham sausages, according to our channel check. After communicating with hypermarket staffs, UPC seems to have better performance in the two new products. The customers, who we communicated in convenience stores, also told us UPC's "Laotan picked cabbage" flavor and "marinated beef" flavor are tastier than Tingyi's like products. In our point of view, Tingyi will still take the leader position in China instant noodle in FY12/13 but UPC will flight back a low single digit market share via its successful new products.

Exhibit 141: Market share of instant noodle, by volume (%)



Source: Company data, OP Research

Exhibit 142: Comparison of retail prices, Tingyi versus UPC

	Tingyi			UPC		
	Price (RMB)	Volume	ASP/100g	Price (RMB)	Volume	ASP/100g
Packet noodle						
Pickled cabbage	11.9	116g*5 packs	2.00	11.5	116g*5packs	1.98
Marinated beef	10.9	100g*5packs	2.18	11.5	103g*5packs	2.23
Bowl noodle						
Pickled cabbage	4.1	159g	2.58	3	103g	2.91
Marinated beef	3.7	105g	3.52	3.8	104g	3.65

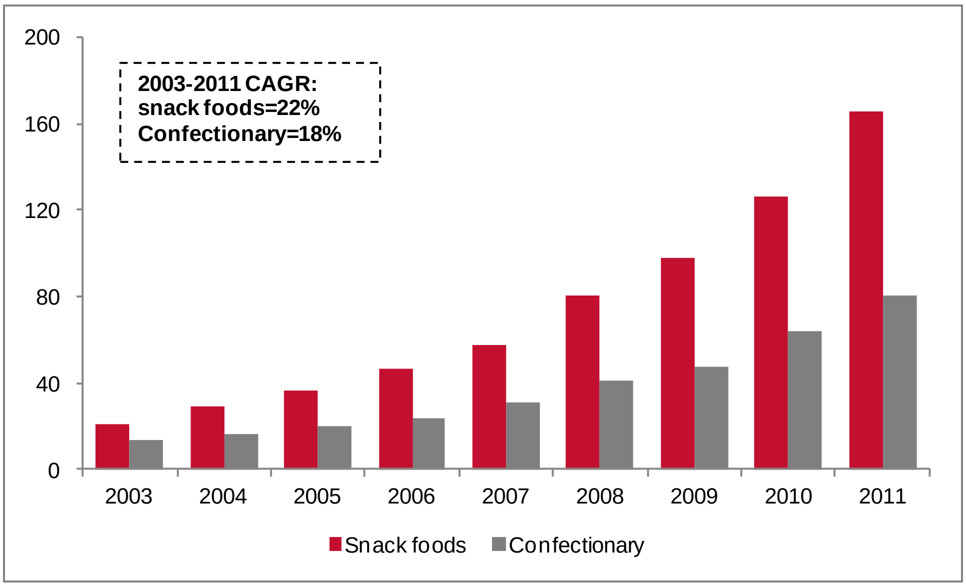
Source: Carrefour hypermarket, OP Research

Snack food and confectionery:

- To grow at a CAGR of 14% in 2011-2015E

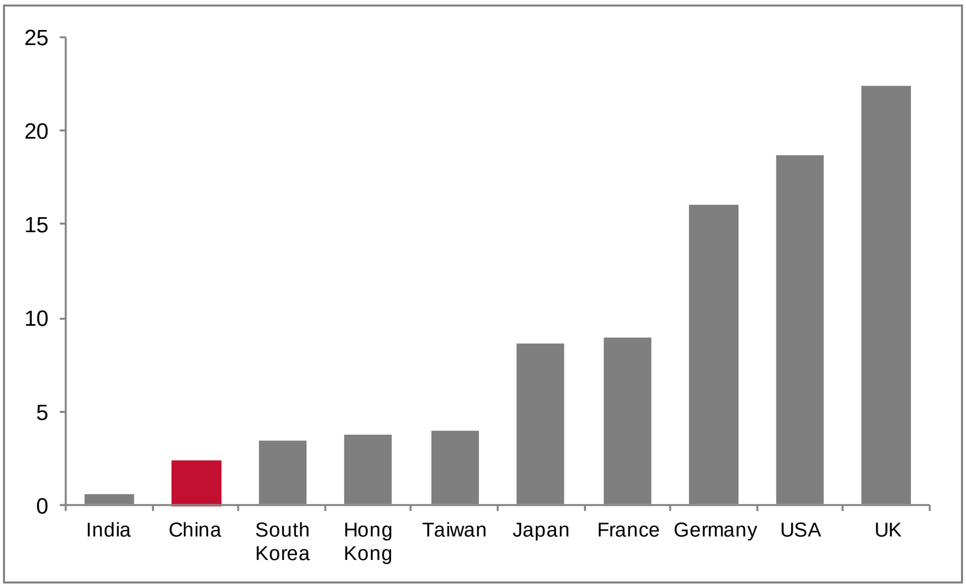
China's snack foods (include crispy & savoury snacks and baked goods) and confectionary market represented lucrative growth with 22% and 18% CAGRs in 2003-2011, and together outpaces real GDP of 1.8-4.0x in the same period. Per capita consumption in China is still low at 2.4kg in 2011 compared with Asian peers (Japan: 8.6kg; Taiwan: 4.0kg; Hong Kong: 3.7kg; South Korea: 3.4kg), which indicates room for future market expansion. Euromonitor forecasts the market to grow at 14% sales CAGR in 2011-2015E, and translating into a 1.5-2x real GDP growth over the next 5 years.

Exhibit 143: China snack foods and confectionary sales growth,2003-2011



Source: Company data, OP Research

Exhibit 144: Per cap consumption of snack food and confectionary (kg), 2011

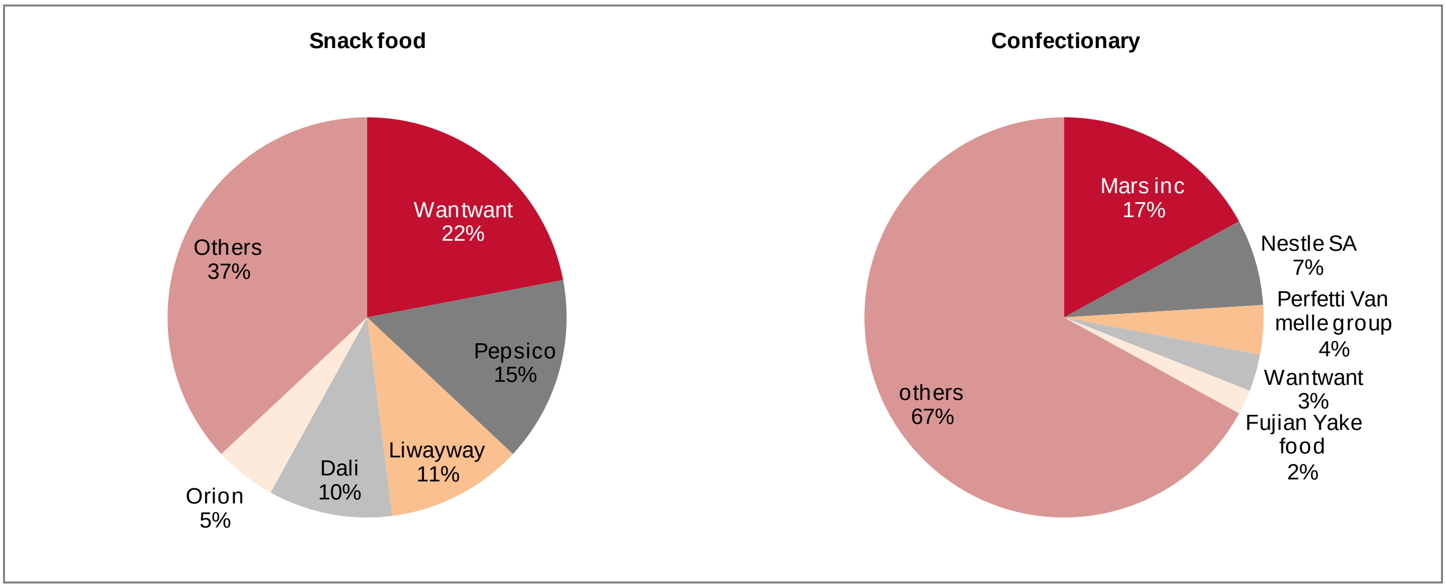


Source: Euromonitor, OP Research

- Relatively fragmented market but not apple-to-apple competition

Due to its wide range of products, China's snack foods and confectionary market is relatively fragmented. The top three players take 48% and 28% market share in snack foods and confectionary market, respectively, while instant noodle's top three players have c.70% of the market. However, unlike instant noodle, the players in snack foods and confectionary market are more focused on expanding the product categories to gain shelf spaces in retailers rather than direct apple-to-apple competition in products due to the dynamic consumer preference. In our view, Wantwant's diversified product portfolio and continuing product innovation in tasting and packaging can further consolidate the leading position and gain market share in other sub-categories.

Exhibit 145: China snack foods and confectionary market share by value, 2011

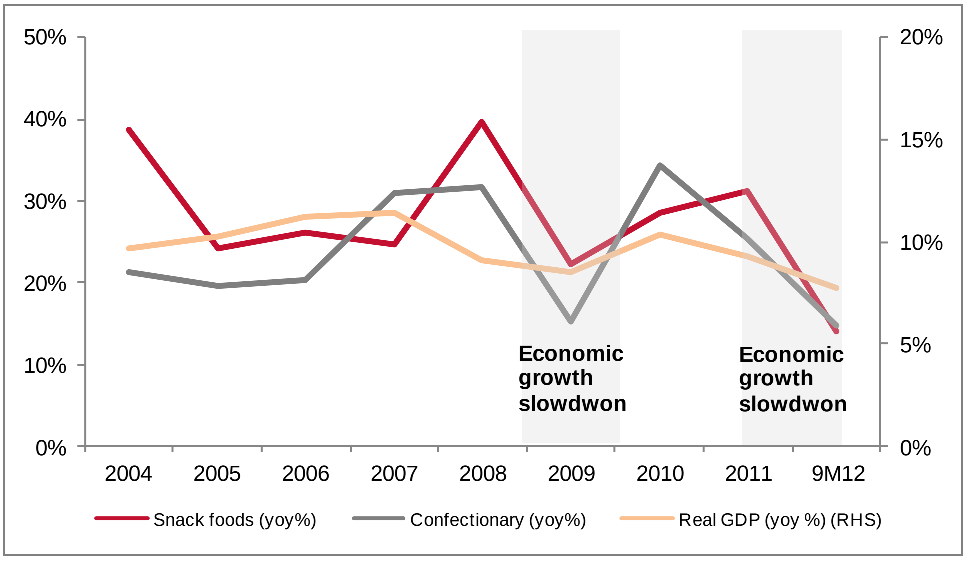


Source: ACNielsen, OP Research

■ Sensitive to economic growth

As a discretionary food, demand of snack food has higher elasticity to macroeconomic trend. According to historical data, China's snack foods and confectionary sales were adversely affected by weak demand in 2009 during the financial crisis. In 9M12, China snack food and confectionary sales reached to RMB13.2bn and RMB61.2bn, respectively, slowed down to 14% and 15% yoy growth due to the sluggish macro environment.

Exhibit 146: China snack foods and confectionary sales growth vs. Real GDP growth, 2004-9M12



Source: Company data, OP Research

Who is ready to cope with inflation?

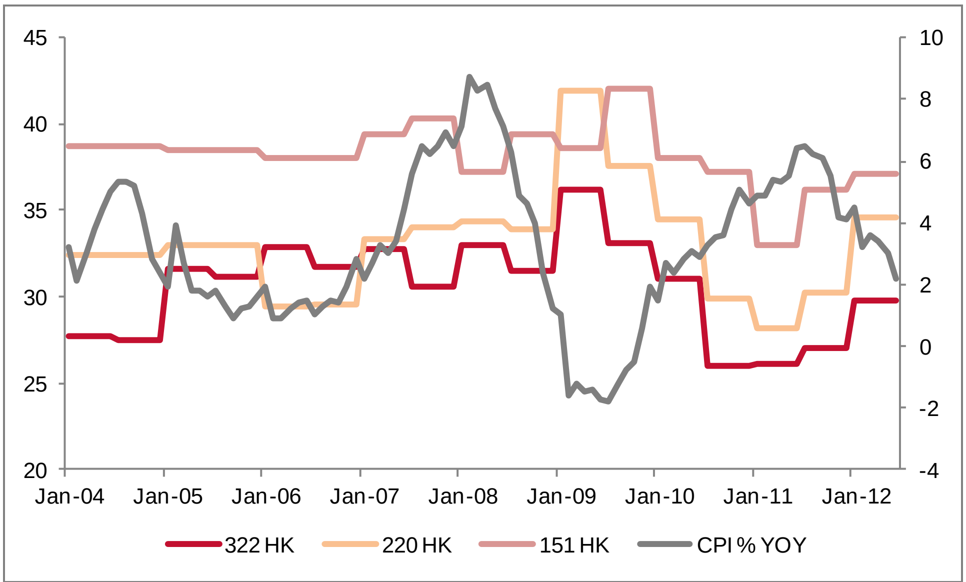
We expect the first stage of inflation (CPI: 2.5-3.5%yoy) will probably happen in 1Q13, thus GPM of most F&B names in 2H13 will be eroded in a high inflation environment (CPI: over 3.5%yoy) versus the high base of 2H12 as anticipated. We like the companies who have the following characteristics, and believe they will be the winners in the unfavorable tendency:

- Those who have diversified cost structure will be less vulnerable to the price volatility of a single commodity
- The companies who provide niche market products not daily necessity will not face opposition from the regulatory authorities regarding price hike and can greatly pass any future increases in raw-material costs
- The company possess strong ability of product mix improvement to upgrade the blended ASP

Among the companies under our coverage, we prefer WantWant to Tingyi and UPC. Over the past five years, Tingyi and UPC's have larger volatility of GPM, indicating that their ability of coping with commodity inflation were relatively weaker. Wantwant has been able to maintain its GPM over the period due to i) its industry nature with less competition and price regulation; and ii) diversified cost structure. Except for packaging and milk powder, each raw material of Wantwant accounts for less than 10% of COGS. Thus even a 50% increase in any one of these raw materials only needs a manageable ASP increase to be fully absorbed. From 2009 to 2011, Tingyi and UPC's GPM contracted c.8% and c.11.5%, respectively, while WantWant declined c.5.7% during the same period.

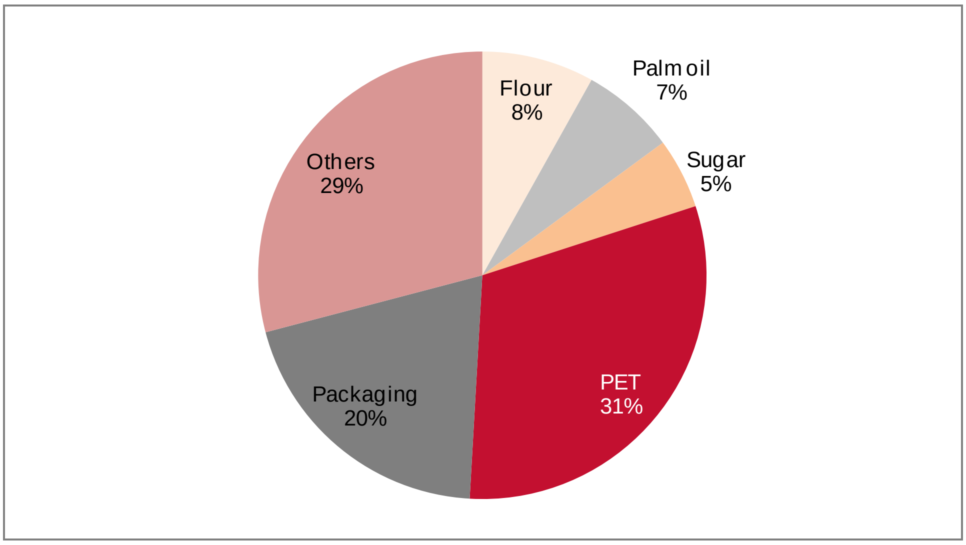
We believe that Tingyi, UPC and Wantwant's dominant position in China F&B sector will allow them to flex its pricing power by raising ASPs and absorb rising input costs by leveraging its growing economic scale. Amongst the three companies we covered, Wantwant is best-positioned to pass on any future increase in commodity price to customers and is expected to trade with premium over the peers in PER.

Exhibit 147: Tingyi, UPC and Wantwant's GPM% vs CPI % yoy, 2004-2012



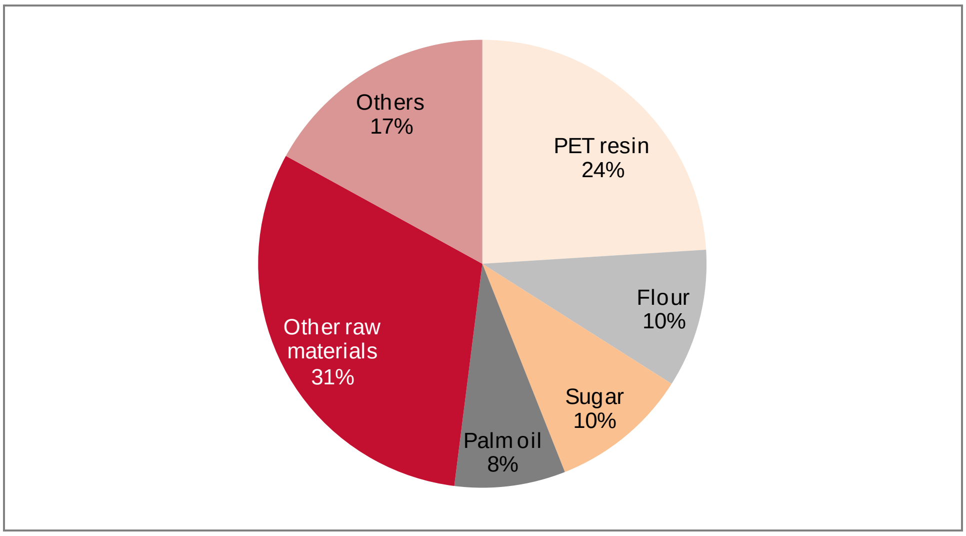
Source: Company data, Bloomberg, OP research

Exhibit 148: Tingyi COGS breakdown



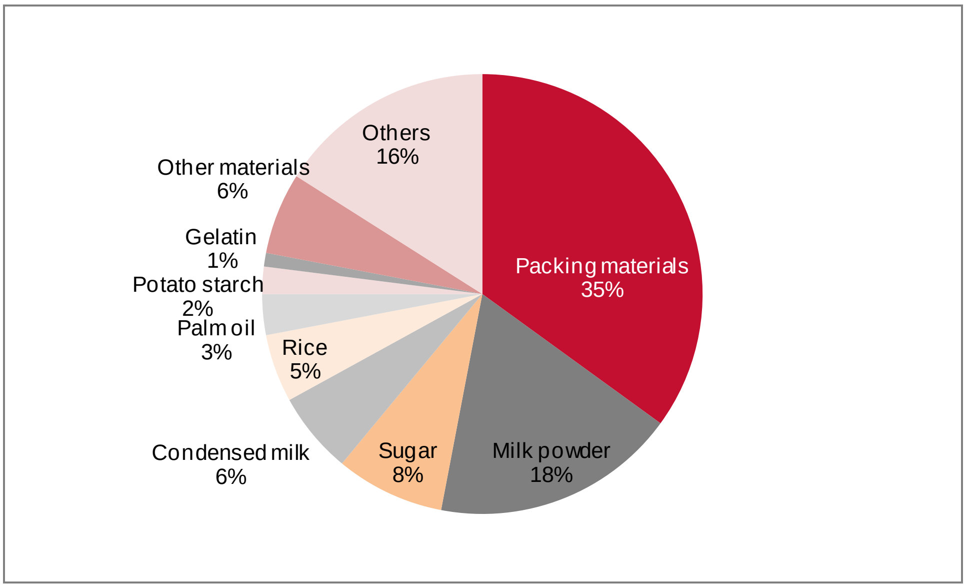
Source: Company data, OP research

Exhibit 149: UPC COGS breakdown



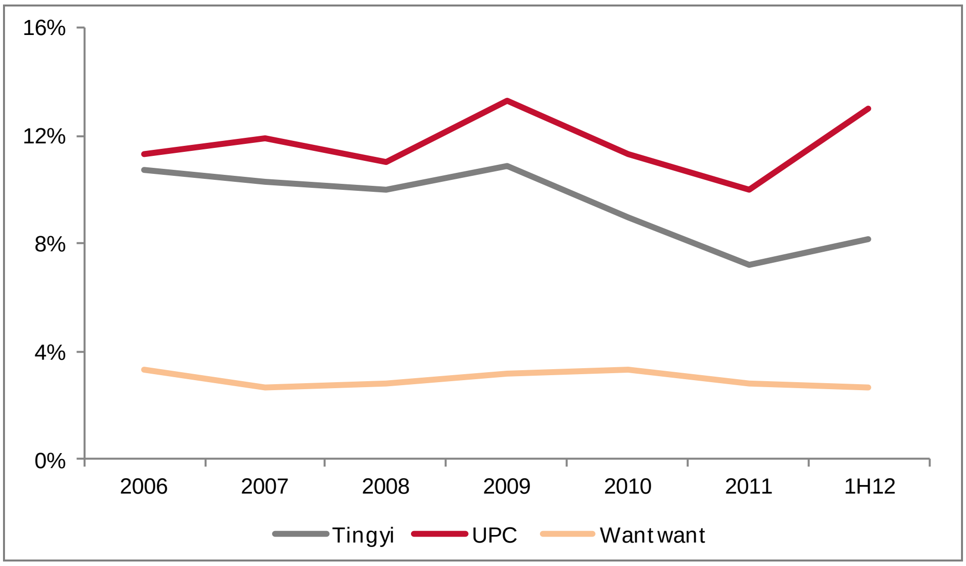
Source: Company data, OP research

Exhibit 150: WantWant COGS breakdown



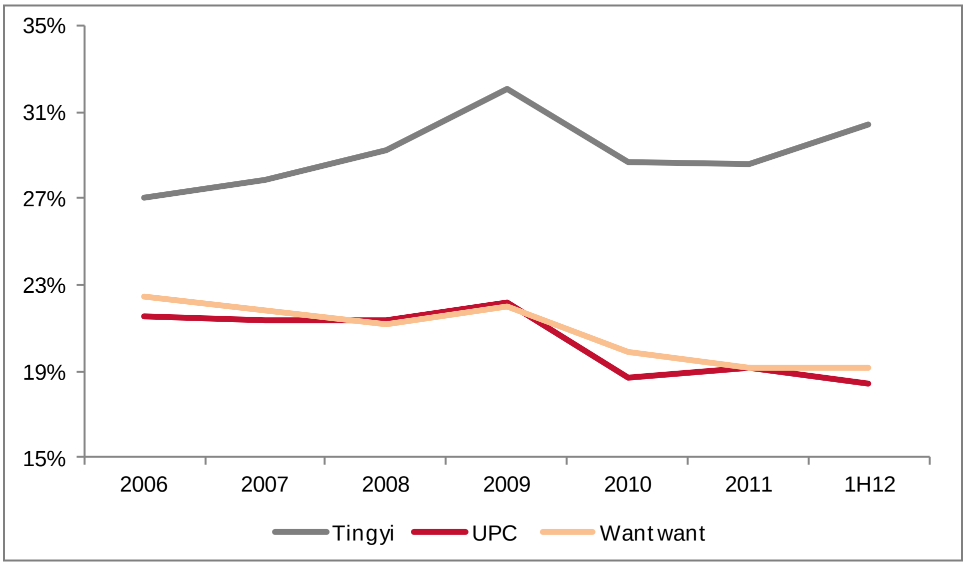
Source: Company data, OP research

Exhibit 151: A&P expense/sales ratio, 2006-1H12



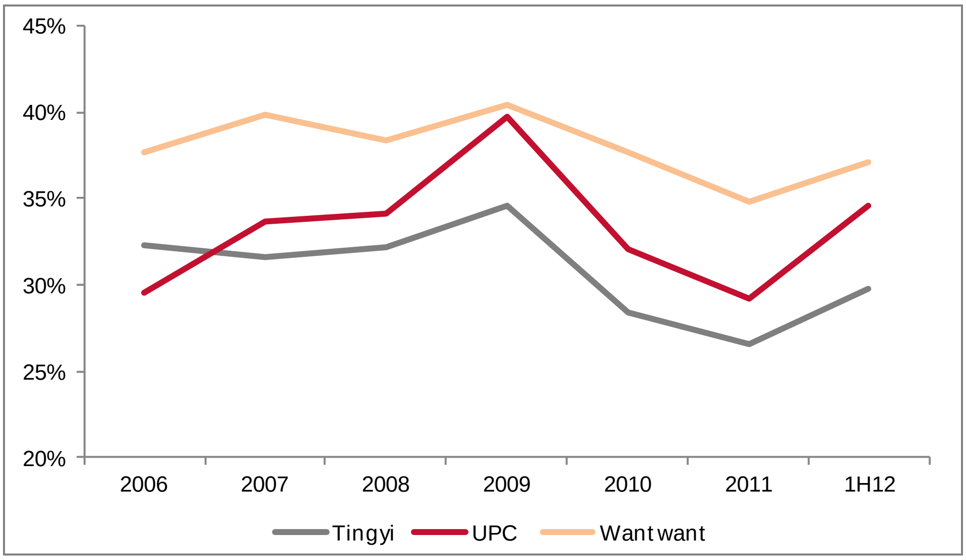
Source: Company data, OP research

Exhibit 152: SG&A expense/sales ratio, 2006-1H12



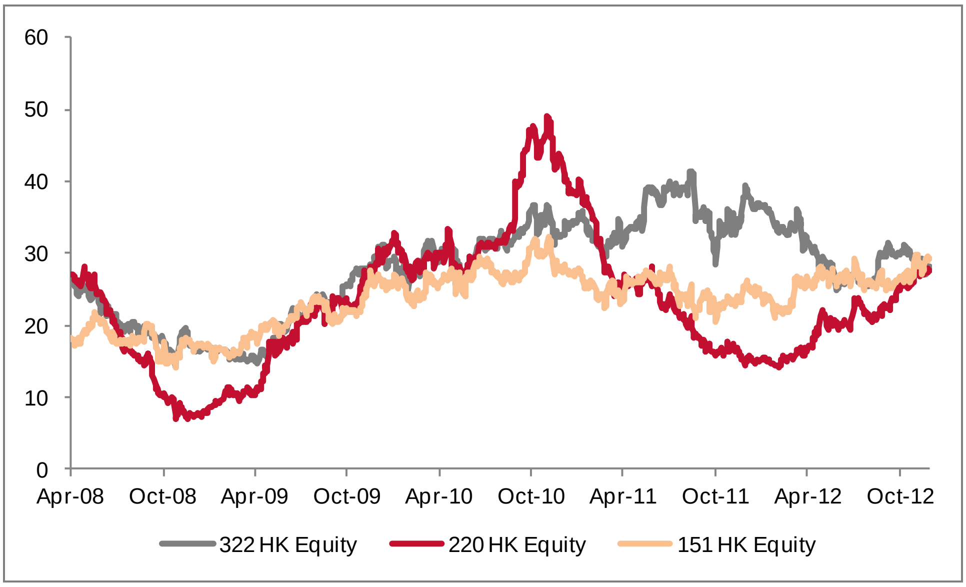
Source: Company data, OP research

Exhibit 153: GPM comparison, 2006-1H12



Source: Company data, OP research

Exhibit 154: Food and beverage players forward PER, 2008-2012

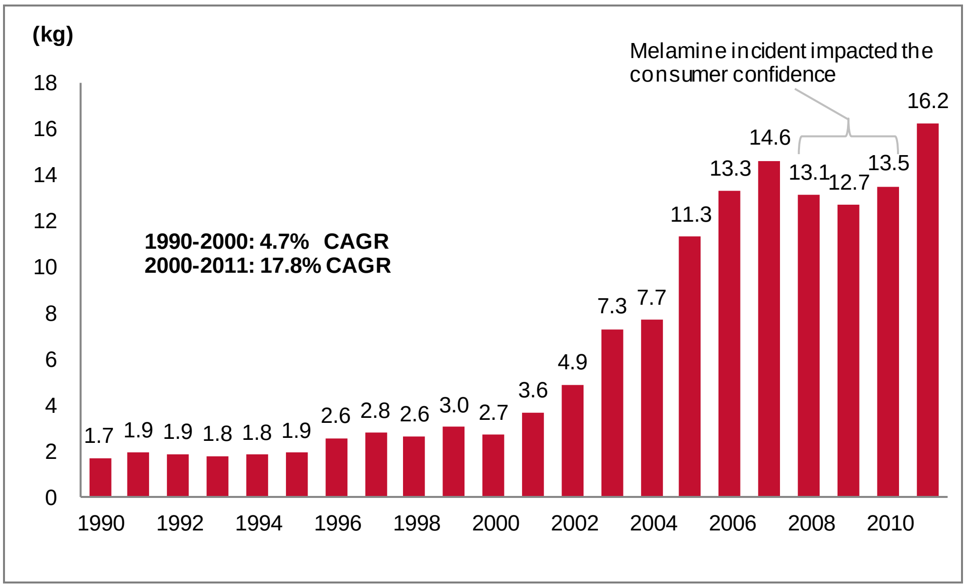


Source: ACNielsen, OP Research

Dairy

Looking back, China dairy industry has growth at a rapid pace in both a demand and supply perspective driven by continued rising rate of urbanization and increasing disposable incomes. According to China Dairy Associate, per capita consumption of major dairy products has increased from 2.7kg per capita in 2000 to 16.2kg per capita in 2011, a CAGR of 17.8%.

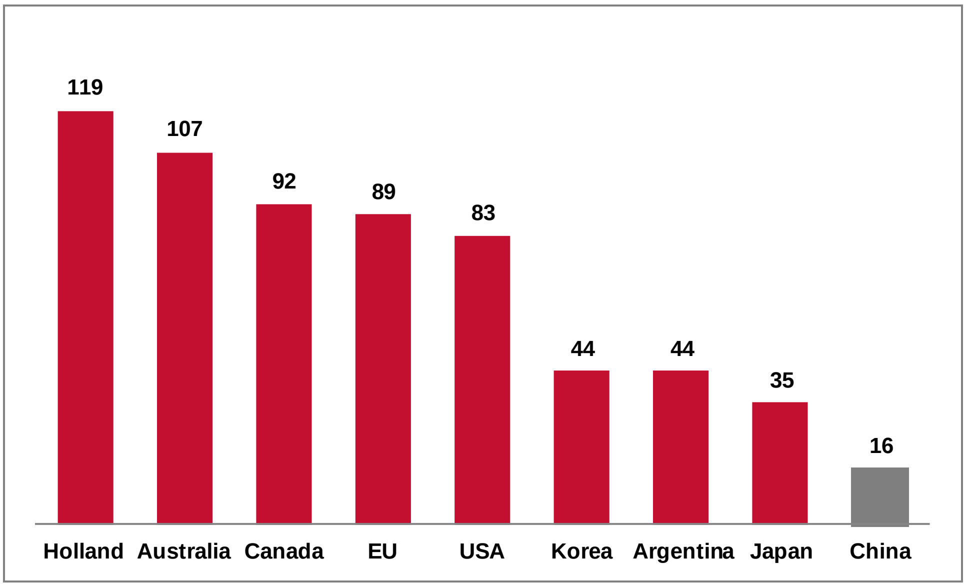
Exhibit 155: Major dairy products per capita consumption in China, 1990-2011



Source: CEIC, OP Research

While the CAGR was impressive, per capita consumption in China falls further behind other developed countries and remains only one-third of developed countries globally. We believe the major reason of consumption per capita is a structural problem due to high prevalence of lactose intolerance of Chinese people. Lactose intolerance individuals have insufficient level of lactase to digest lactose, a sugar in milk. It is estimated that 75% of adults worldwide show some decrease in lactase activity during adulthood. The frequency of decreased lactase activity ranges from 5% in northern Europe and more than 90% in some Asian countries. It appears to us that high prevalence of lactose intolerance is the key bottleneck for liquid milk market growth, while high quality and value added milk products supply (i.e. yogurt, low lactose milk, low fat milk) is like an antidote to the genetic composition of Chinese people. The situation of Japanese can provide us with some guidance on where China's dairy industry will go. The per capita of Japanese is more than double of Chinese, and studies show its level of lactose intolerance is not significantly different in China.

Exhibit 156: Per capita consumption of dairy product (kg/year)



Source: China Dairy Yearbook, OP Research

According to Euromonitor, China dairy industry is estimated to grow at a CAGR of 9% in 2011-2015E. We observed an 81% correlation between the Chinese dairy market growth and the Chinese GDP per capita growth in 1998-2011. Thus, we conclude that as a country becomes more developed, the people tend to beef up dairy product intake as a part of their protein needs. Thanks to the product mix shift to high-value-added categories, a 10% CAGR growth of China dairy industry over the next 5 years is achievable.

Major players in this market

Exhibit 157: comparison of key operating statistics for domestic dairy players listing in HK markets

	Upstream: Raw milk	Downstream Liquid Milk/Milk Beverage			Downstream Milk Powder			
Company	**China Modern Dairy**	**Mengniu Dairy**	**Yili**	**Bright Dairy**	**Biostime**	**Yashili**	**Feihe**	**Beingmate**
Logo								
Year Established	2005	1999	1993	1952	1999	1983	1962	1999
Products	Raw milk	Liquid Milk/ Ice Cream/ Others	Liquid Milk/ Ice Cream/ Others	Liquid Milk/ Others	Infant formula/ Probiotic Supplements/ Others	Infant formula/ Nutrition products/ Others	Infant formula/Nutrition products/others	Infant formula/Others
Brands	Modern Farming	Mengniu	Yili	Bright	Biostime BM Care	Yashil Scient	Feihe, Firmus	Beingmate
Milk sources	n.a.	Domestic	Domestic	Mainly Domestic	Imported	Imported	Domestic	Mainly Domestic
Major milk source locations	n.a.	Inner Mongolia	Inner Mongolia	Shanghai	Europe	New Zealand	Heilongjiang	Heilongjiang
Production Base	Anhui/Heibei	Mainly Inner Mongolia	Mainly Inner Mongolia	Shanghai	Guangdong	Guangdong Shanxi Heilongjiang	Heilongjiang	Hangzhou

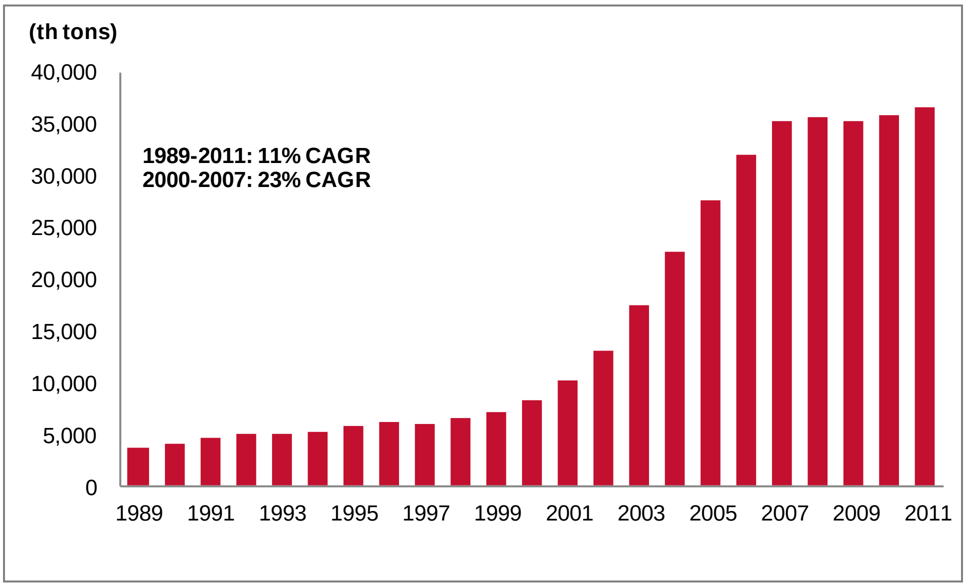
Source: Company data, OP Research

Dairy Upstream: raw milk, the key of dairy industry

- Impressive growth

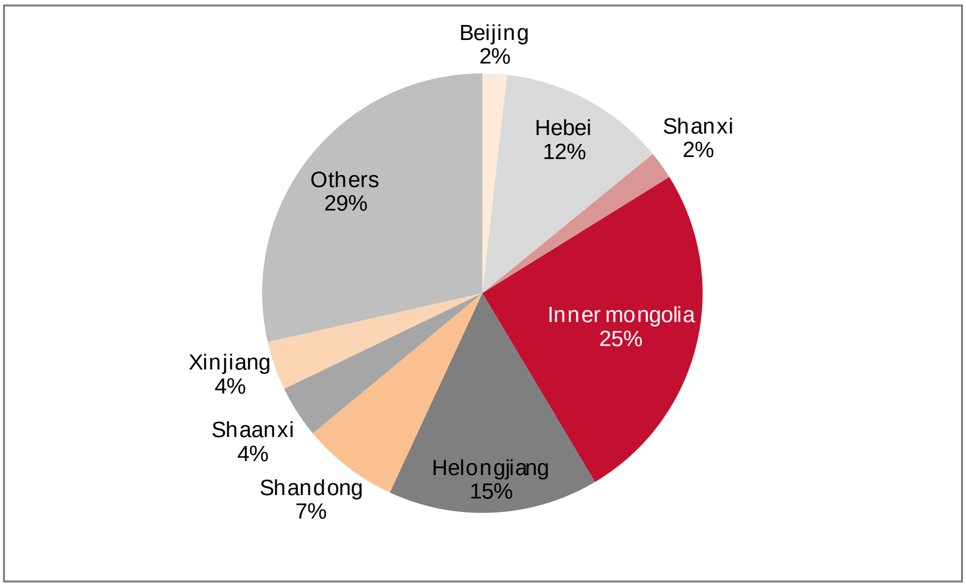
Raw milk as the key raw material for the dairy industry, has grown dramatically in the past 20 years, with total production up to 36.6mn tons in 2011 from 4mn tons in 1986, representing a CAGR of 11%. China's primary raw milk production regions are located between the latitudes of 35 degree and 48 degree in Northern China where the climate is temperate with a high level of sunshine, and the environment is more conductive to dairy farming and provides higher quality feed. Inner Mongolia and Heilongjiang total accounted for 40% of China raw milk production in 2010, followed by Hebei and Shandong at 12% and 7%, respectively. Dairy industry giants Mengniu and Yili both are mainly sourcing the raw milk from Inner Mongolia.

Exhibit 158: Raw milk production in China, 1989-2011



Source: CEIC, OP Research

Exhibit 159: Raw milk production by region, 2010



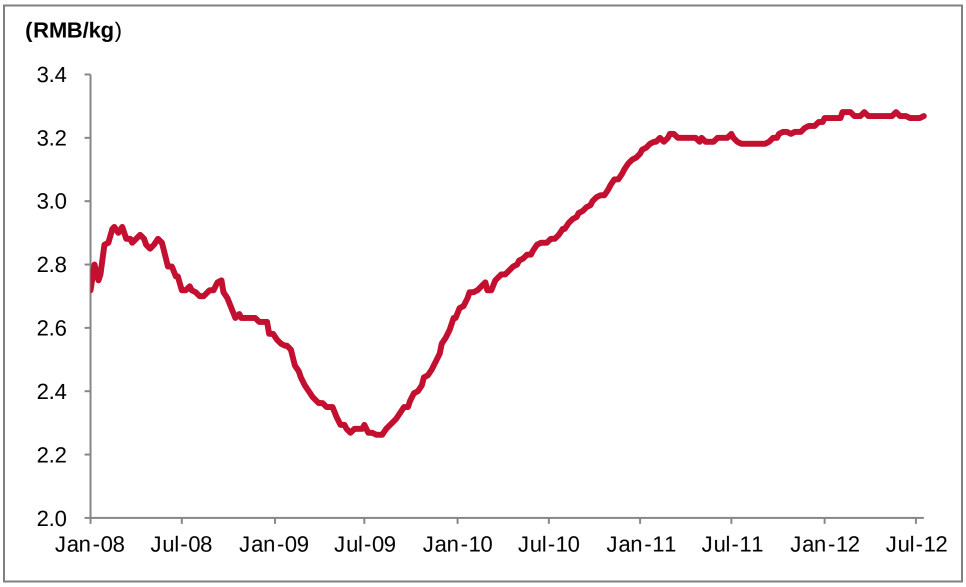
Source: CEIC, OP Research

- Price

The profitability of dairy industry was quite sensitive to the price change of raw milk, as it accounted for 60%-70% of COGS of the liquid milk, 80% that of milk powder. There are several factors impacting the price of raw milk, including the quality of the milk as measured by metrics such as protein and fat content, and the price of feed. These factors in turn are affected by changes in the prices of commodities such as corn and soybean meal.

As shown in Exhibit 7, raw milk price declined significantly since 2008 after melamine incident. During that period, several farms slaughtered or sold their cows, which led to relatively small herd size in China. As a result, as demand started to recover in later of 2009, the supply of milk was not able to meet the rising demand driven from downstream manufacturers and the price of raw milk grew almost whole year of 2010 and back to relatively stable in 2011 and 2012. We expect the raw milk price to trend up moderately due to i) milk production per cow has been going up; ii) increasing feed costs (corn and soybean price have climbed up around 1.7% and 11.7% YTD, to Rmb2.4/kg and Rmb3.3/kg, respectively); and iii) more raw milk sourcing from large-scale farms and ranches which provide higher quality but charge premium price.

Exhibit 160: China raw milk price, 2008-2012



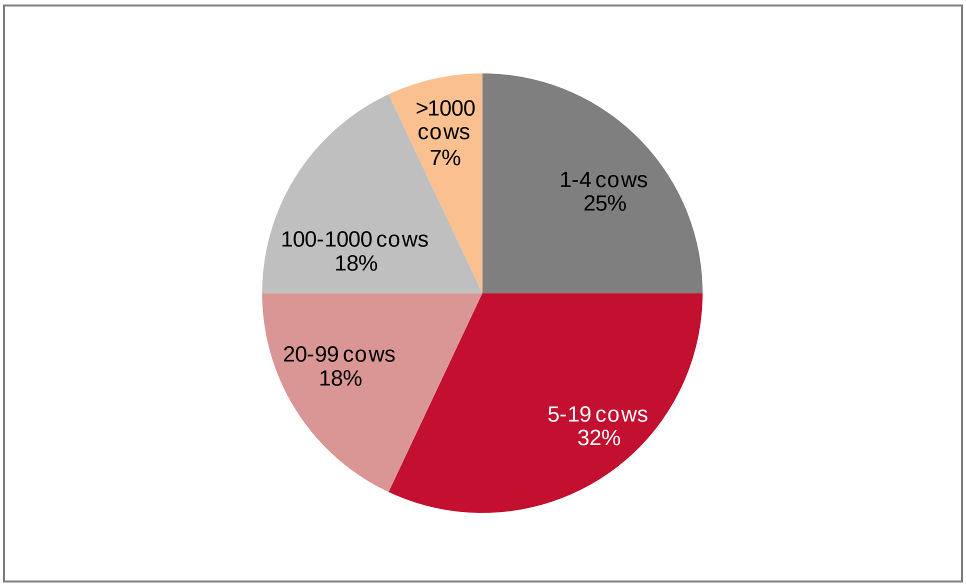
Source: sn110.com, OP Research

- Policy support

Generally speaking, China's dairy farming market is still in an early stage and highly fragmented, as only approximately 7% of dairy herds in China were reared by large-scale dairy farms which own more than 1,000 cows in 2008 vs.46.9% in the US. There is great potential for industry consolidation.

After the melamine milk scandal in 2008, the government pushed for modernization and expansion in standardized large-scale dairy farms as well as consolidation of the upstream dairy industry. The government has set a target to reach~48mn tons of cow milk production and 15mn heads of dairy cows in 2013, which represents 15%/2.1% CAGRs, according to the National Dairy Industry Development Guideline (2009-2013) . The government has adopted both national and regional policies to encourage the development of large scale farms by i) issuing new set of policies to governing the dairy industry; ii) subsidies for purchasing quality dairy cows from oversea; iii) allowing large-scale operators to lease agriculture or forestry land; iv) exemptions on agricultural tax, VAT and income tax. Those industry's early movers and large-scale dairy farms, like China Modern Dairy (1117HK, BUY) will directly be benefited from the industry consolidation pushed by government, in our view.

Exhibit 161: Milk supply market share by dairy farm size

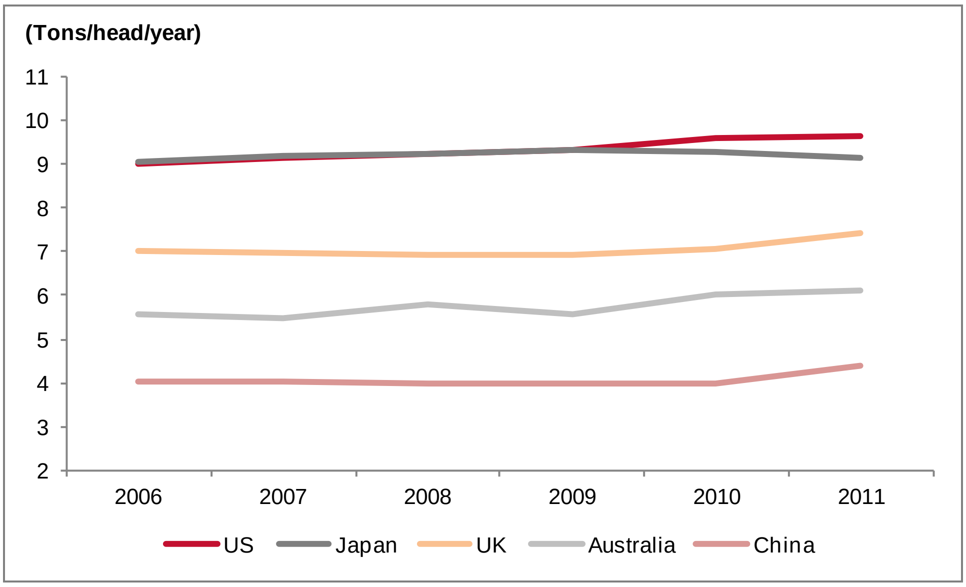


Source: China Dairy Yearbook, OP Research

- Milk yield

According to the China Dairy association, the industry average milk yield per cow in China was 4.8 tons /annum and is one of lowest among major consumption countries. The large-scale farms are 7.0 tons /annum. We believe the milk yield per cow in China is going to catch up with that of US given the constant upgrading techniques and accelerating expansion in standardized large-scale dairy farms.

Exhibit 162: Milk yield by country, 2006-2011



Source: China Dairy Association, OP Research

Dairy downstream: Liquid milk, biggest category

Liquid milk is composed of UHT milk, milk beverage, and yogurt, accounting for largest portion of total dairy consumption (~80% in 2011).

- Still the domestic brands' market

After the melamine incident in 2008, unlike in the infant formula market, the domestic brands recovered quickly in liquid milk market, where the foreign brands were restricted by high transportation costs and have not successfully involved. The domestic brands still dominate the liquid milk market in terms of sales. The top three giants Mengniu, Yili and Bright Dairy with aggregate market share of about 68% in China liquid milk market in 2011.

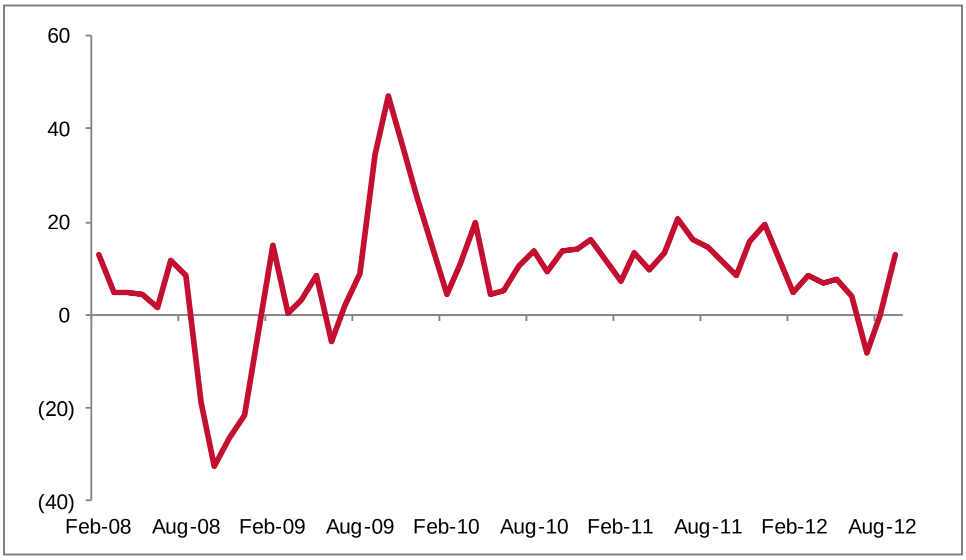
- Shift to premium

We appreciate that the customers' propensity to upgrade for high-end products after 2008 melamine scandal. The market share of liquid milk priced above RMB10/litre was ~24.7% in 2009 from 3.9% in 2005, according to China dairy yearbook. The rapid consumption growth in the past years was mainly driven by ASP increment and product mix improvement, in our view. We believe the high-end liquid milk sales growth will outpace that of mid-to-low-end. Mengniu (2319 HK, BUY), with 28% of revenue generated from high-end products, is one of big beneficiaries of this trend.

- Industry output slowdown?

Some investors may concern the slowing down of industry sales in 1H12. We have to admit the domestic production volumes for liquid milk firstly recorded negative figures for Jul and Aug since 2009. We believe the weak supply is partly due to i) the hike feeding cost eroded profitability of smaller farms and force them out of the industry; ii) a series of food safety incidents. However, we positively detect that industry output rebounded to 13.1% yoy in Sep, according to Dairy Association of China. We believe that resilience output is largely contributed from the premium products as customer's trade up.

Exhibit 163: Liquid milk production volume yoy % growth



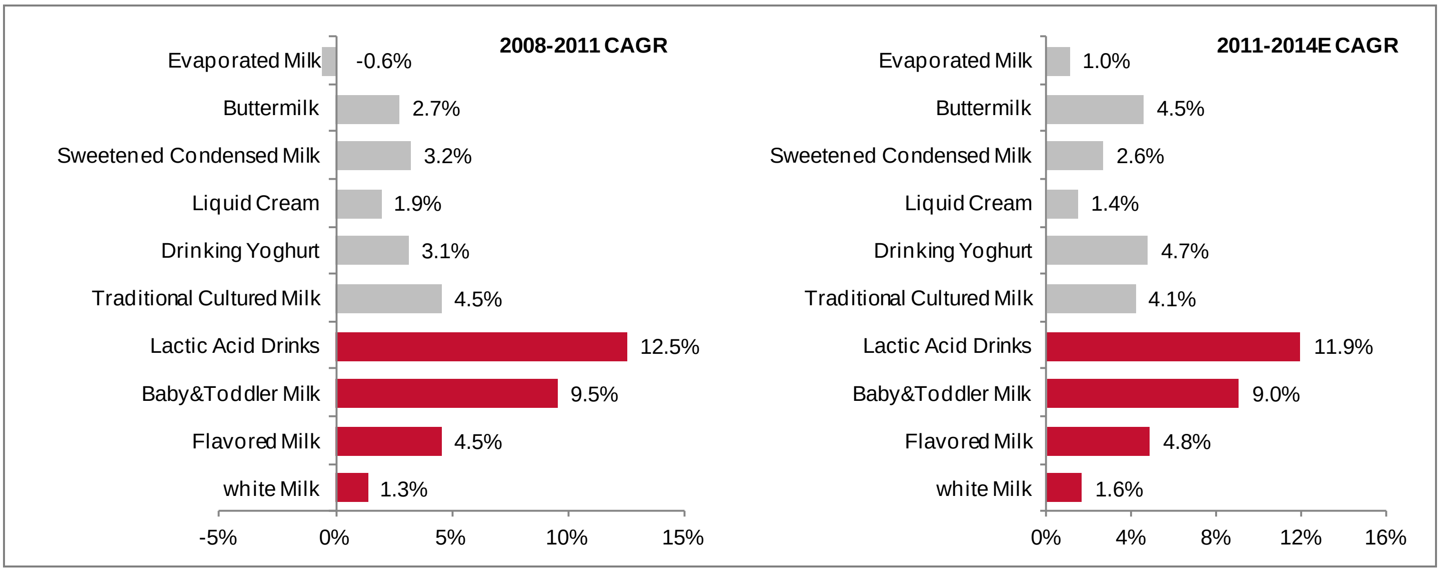
Source: CEIC, OP Research

- Value-added categories likely cut a figure

As we mentioned before that high prevalence of lactose intolerance is the key bottleneck for liquid milk market growth, while high quality and value added milk products supply (i.e. yogurt, low lactose milk, low fat milk) is like an antidote to the genetic composition of Chinese people. Thus the products, like yogurt, flavored milk and lactic Acid milk, will grow faster in our point of view.

According to Tetra Pak (the world's leading food processing and packaging solutions and suppliers with a 70.2% market share in China), China's liquid dairy product consumption is forecasted to rise by round 10.2% (CAGR) in 2011-2014E. Lactic acid drinks, baby and toddler milk and flavored milk are expected to record the fastest growth rates in 2011-2014E. Lactic acid drinks is expected to notch up the highest growth rate, a CAGR of 11.9%, followed by baby and toddler milk with a CAGR of 9.0%. Flavored milk is expected to record a CAGR of 4.8%. White milk sales, the biggest category by volume, are expected to post a CAGR of 1.6% in 2011-2014E.

Exhibit 164: Liquid dairy product sub categories growth



Source: Tetra Pak 2011, OP Research

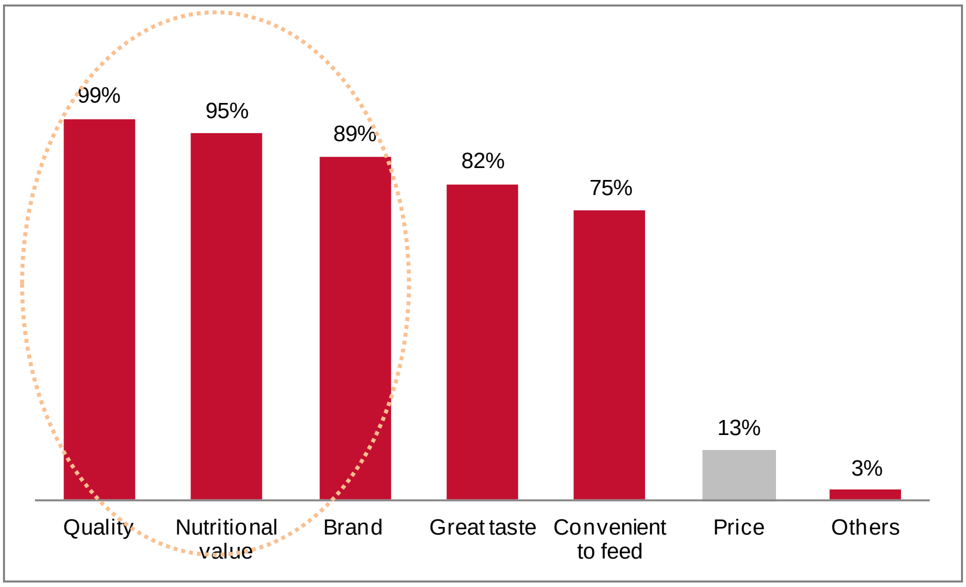
Dairy downstream: Infant formula, attractive growth prospect

Infant formula market of China experienced a 19% CAGR in the past 10 years, supported by the urbanization of the Chinese population, the development of the middle class and the increasing participation of women in the workforce. Euromonitor forecasts the average market growth of 17% in 2010-2015 and outpace the whole dairy market of China.

- Atypical consumer behavior: low bargaining power among consumers

The market for infant products is unique: parents are the buyers and the infants are the consumers, thus the key decision maker is the buyer, not the consumer. Quality, nutritional value and brand are the three most important considerations when parents choose products for their children. A market survey conducted by sina.com (SINA US, NR) indicated that 99% and 95% of parents care most about quality and nutritional value of infant formula, while 89% also take into account the brand. Unlike the other consumer goods, price is not a major consideration for 83% of the respondents. That means the bargaining power of consumers in the infant formula market is relatively low, and we expect that the industry's margins are likely to remain solid or even improve.

Exhibit 165: Consumer considerations in purchase of infant formula, 2009

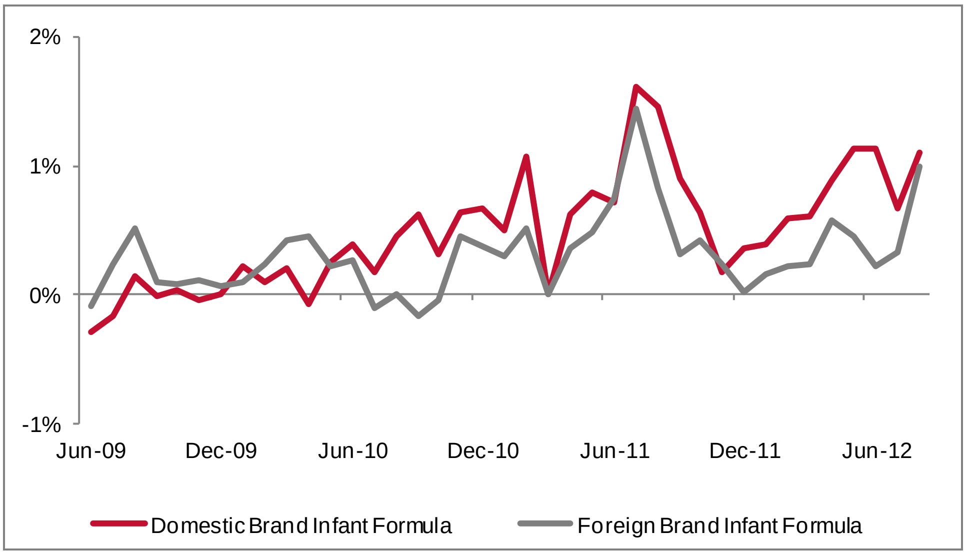


Source: Sina.com, OP Research

- Growth by ASP hike, Foreign brands charge premium

The per capita consumption of infant formula climbed up by 18% in 2011 yoy, largely driven by ASP increment. The ASP for domestic brand infant formula has climbed up by 6.8% YTD, followed by foreign brand at 3.6%. As shown in Exhibit 13, its price no matter foreign or domestic kept low single-digit mom growth since June 2009.

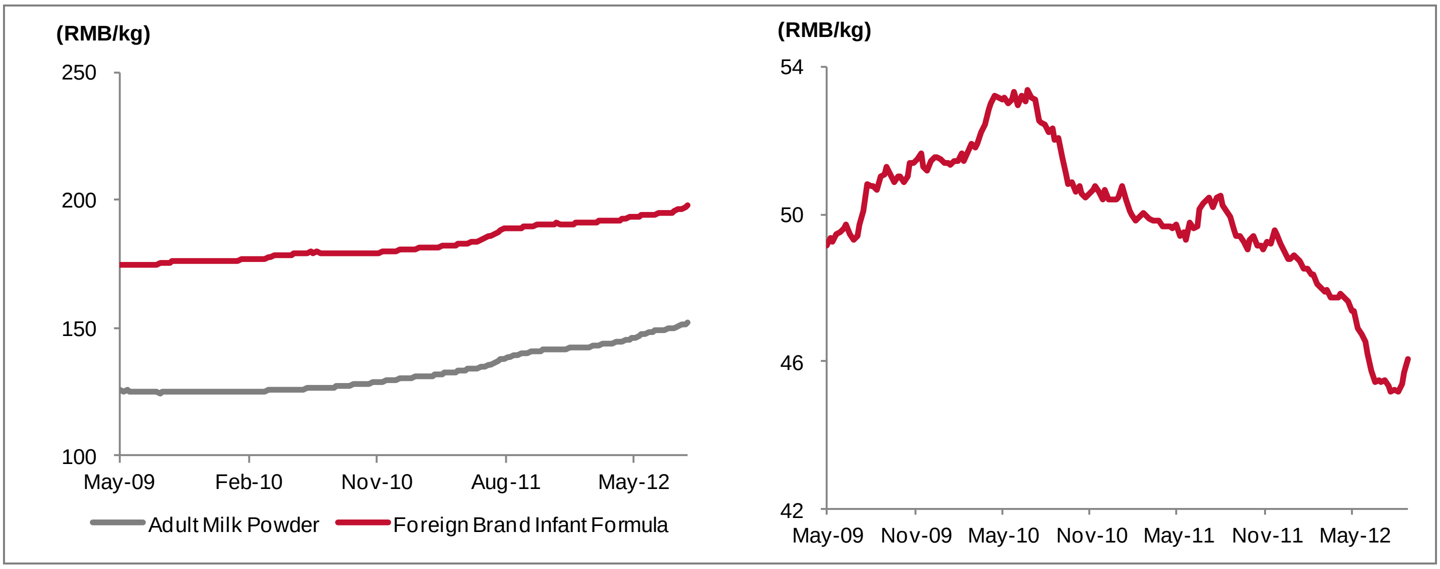
Exhibit 166: Milk powder ASP mom growth by category, 2009- 2011



Source: CEIC, OP Research

The 2008 melamine scandal led to a shift in market shares from local to foreign brands and foreign brands are structurally more expensive than the domestic producers at a 25%-35% premium as their perceived higher quality. We believe improving awareness of food safety and high brand loyalty, in addition with relatively low price sensitivity, are the key driving forces for sustainable upside trend. Any growth in the high-end milk market will continue to be seized by foreign brands due to better brand perceptions and quality raw milk source. Biostime, Nestle (NESN VX, NR) and Mead Johnson (MJN US, NR) are all the likely winners, in our view.

Exhibit 167: Milk powder Price by category and Price Premium, 2009- 2011

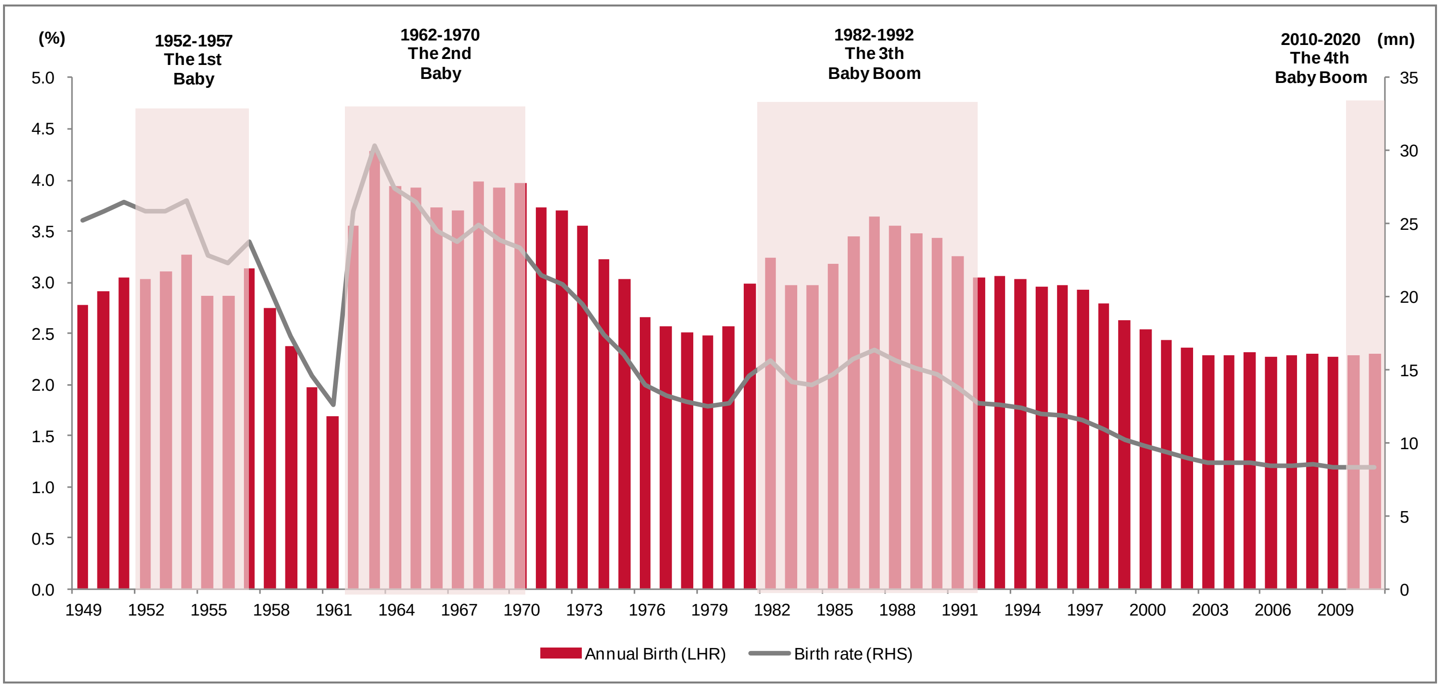


Source: CEIC, OP Research

- The 4th baby boom is happening in the PRC

According to a National Population Development Strategy report, women born during the third baby boom (1982-1992) have entered their most active childbearing years (20 to 29 years old). We forecast 2012E-2020E the number of annual births in the range from 17 to 18.5mn.

Exhibit 168: Birth rate, 1949 - 2011



Source: CEIC, OP Research

- Relaxation of China's one-child policy

After thirty-three years enforcement of the one-child policy, China's birth rate has gradually slowed down to around 1.19% in 2011 from 4.34% in 1963 (see Exhibit15 gray line). Not only has the one-child policy led to a significant decline in the population growth but it has also impacted by the pyramid of age structure and the country sex ratio in less desirable ways. The ageing of the population, 4-2-1 family phenomenon and economic sluggish have led several experts to consider abandonment the one-child policy. The Chinese authorities have taken a cautious approach, launched several pilot programs and enforce new rules in different provinces.

In the case of Chinese government could allow all couples to have two children in 2013 and 50% of women in most active childbearing years choose to have the second child, we project 2012E-2020E number of annual births will increase to 22mn to 23mn based on our model.

- Case study: China baby formula market

Without projecting the relaxation of China's one-child policy, as shown in Exhibit 16, our rough calculation reveals that the infant formula market can reach Rmb95bn in 2015 based on the assumptions of :1) low-single digit growth of ASP; 2) gradually increase in penetration rate; 3) the average consumption volume per children under three years ago is 2-3.5 cans per month. One-child policy relaxation's assumption will further bring approximately Rmb28bn increment in 2015E to RMB123bn. On our conservative case projection, Chinese infant formula market is to grow at a CAGR of 9% between 2012-2020E assuming no change in one-child policy application, and that of 13% in the scenario with relaxation of one-child policy.

Exhibit 169: China infant formula sales forecast-Scenario 1: One-child policy

	2012E			2013E			2014E			2015E		
Age (years)	1	2	3	1	2	3	1	2	3	1	2	3
Population	18	16	16	18	18	16	17	18	18	17	17	18
No. of cans consumption per month	3.50	2.50	2.00	3.50	2.50	2.00	3.50	2.50	2.00	3.50	2.50	2.00
Average ASP	144	144	144	153	153	153	162	162	162	170	170	170
Duration of consumption (months)	6	12	12	6	12	12	6	12	12	6	12	12
Penetration rate	35%	35%	35%	38%	38%	38%	41%	41%	41%	43%	43%	43%
Infant formula market value (mn)		**63,095**			**76,150**			**88,854**			**95,263**	

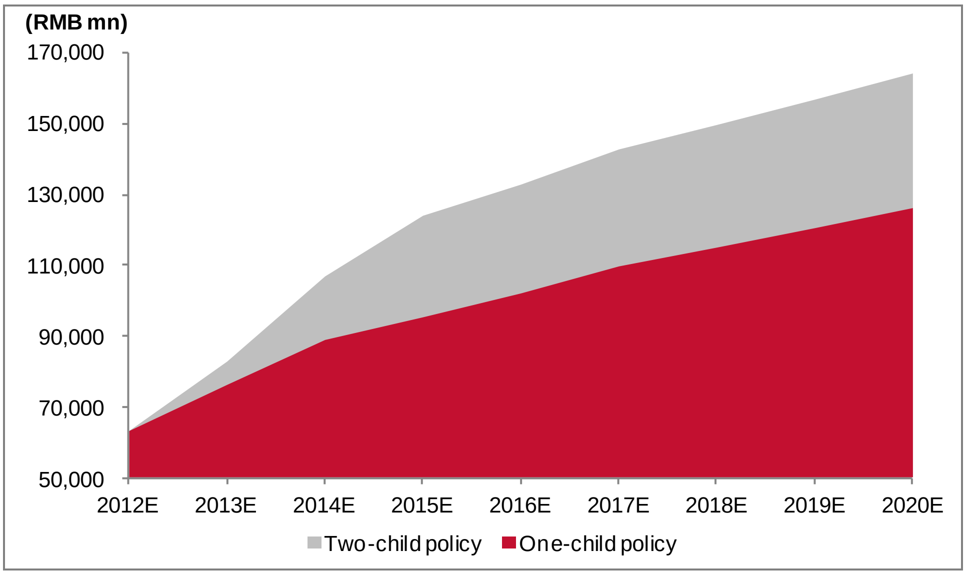
Source: OP Research

Exhibit 170: China infant formula sales forecast-Scenario 2: Two-Children policy

	2012E			2013E			2014E			2015E		
Age (years)	1	2	3	1	2	3	1	2	3	1	2	3
Population	18	16	16	23	18	16	22	23	18	22	22	23
No. of cans consumption per month	3.50	2.50	2.00	3.50	2.50	2.00	3.50	2.50	2.00	3.50	2.50	2.00
Average ASP	144	144	144	153	153	153	162	162	162	170	170	170
Duration of consumption (months)	6	12	12	6	12	12	6	12	12	6	12	12
Penetration rate	35%	35%	35%	38%	38%	38%	41%	41%	41%	43%	43%	43%
Infant formula market value (mn)		**63,095**			**82,669**			**106,716**			**123,842**	

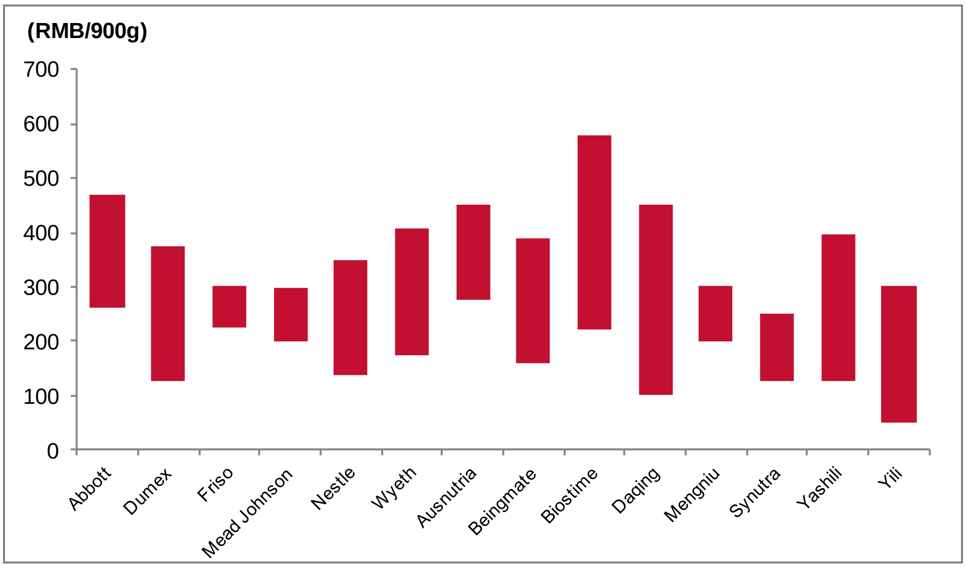
Source: OP Research

Exhibit 171: China Infant formula sales forecast, 2012E- 2020E



Source: OP Research

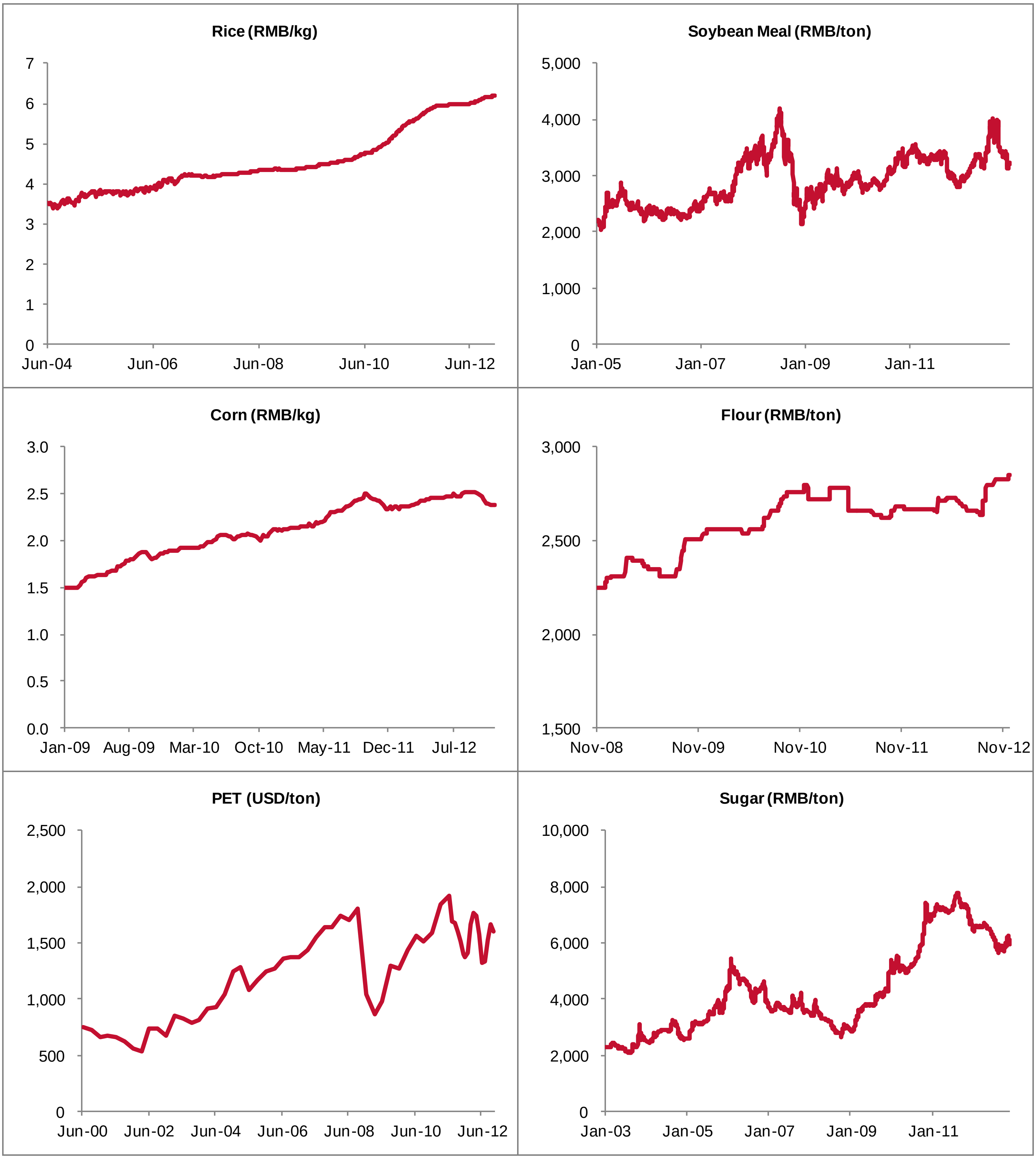
Exhibit 172: Infant formula retail price of major brands in China market



Source: Walmart , Carrefur hypermarket,Taobao.com, Watsons, OP Research

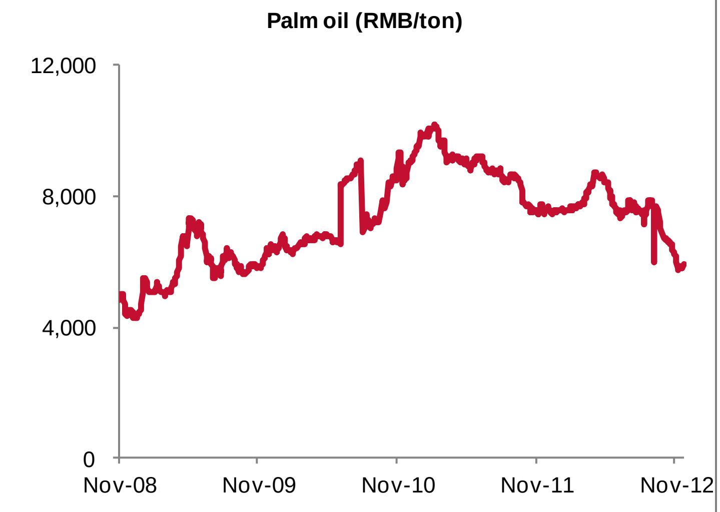
Appendix: Key commodity prices

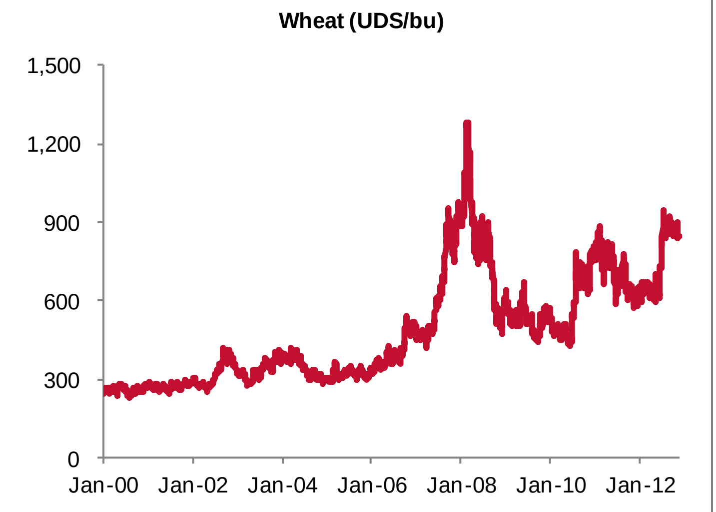
Exhibit 173: Key commodity prices

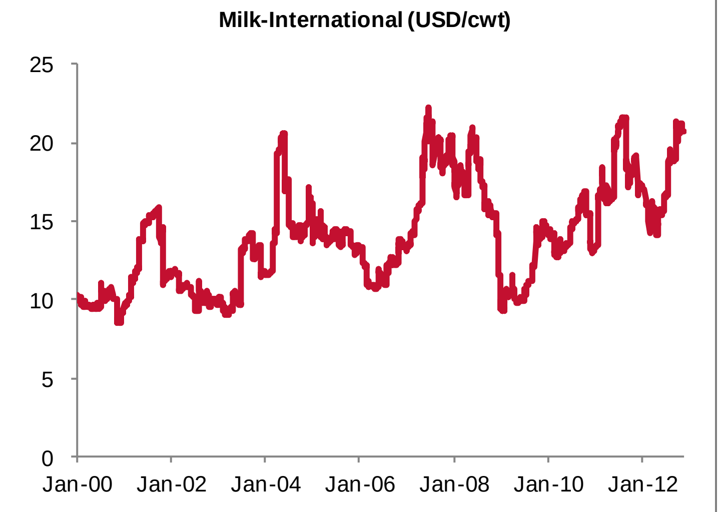


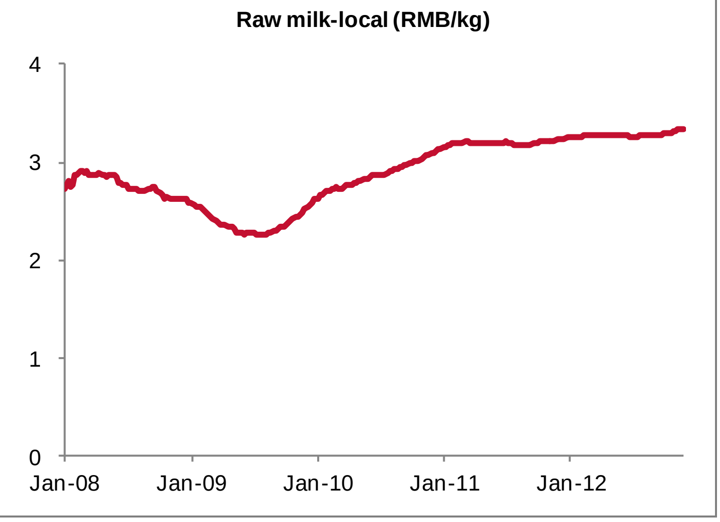
Source: Bloomberg, CEIC, sn110.cn

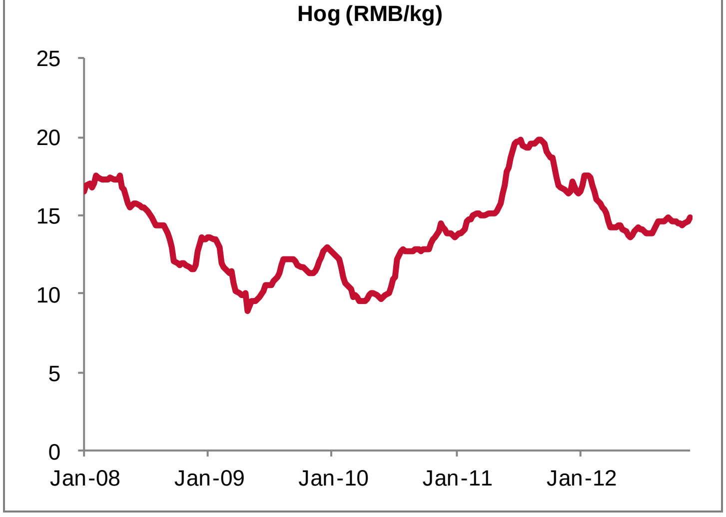
Exhibit 174: Key commodity prices (Cont.)











Source: Bloomberg, CEIC, sn110.cn

Consumer Discretionary Sector

Luxury sector description:

Despite of volatilities of global economy and gold price, we are expecting middle to high end class are gradually expanding its wealth in China and this able from high spending cities to further penetrates to lower cities to boost consumption. High ticket price consumption would able to generate better margin generally.

Growth improvement should be seen:

We remain positive on the consumer discretionary sector. Our 2013 estimate are slightly lower than consensus estimate as we expect a general recovery should be revealed depending on the fundamental of policy change on discretionary spending.With an improving China economy outlook in 2013, disposable income would likely to rise along after the necessity.

What we should look for?

We would closely monitor the most updated same-stores sales growth from retailer if possible. We also are looking for any discounting promotion which leads to margin difference. We expect heavy promotion would unlikely occurred along with higher ticket items should result higher proportion of consumption.

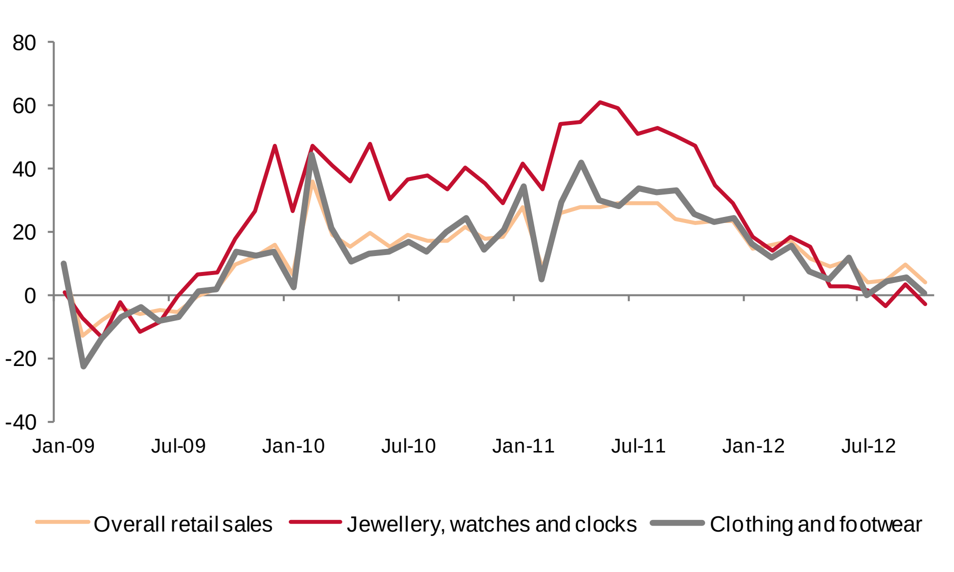
Sector recommendations:

We focus on the companies which has the least hit by the rental pressure along with better structural outlook for long term growth. Therefore we continue to like Chow Sang Sang (116 HK, Hold) given its prudential expansion, along with Stelux (84 HK, Buy) with a possible better long term prospectus in China market. The recovery of US housing market should also not to be underestimated. We continue looking for growth improvement from Chow Tai Fook (192 HK) and Luk Fook (590 HK). We avoid lilang (1234 HK). We shall keep an eye on the recovery of sportswear sector as well.

Hong Kong jewellery sector:

According to World Gold Council, Hong Kong jewellery demand has reached 7.3 tonnes, 8% yoy higher and 43% above the five-year average of 5.1 tonnes With approximately 20% including 17% VAT and 5% consumption tax, the price difference between China and Hong Kong, the increase of number of tourists from China provides the key contributor to jewellery sector. According to Hong Kong census, there are approximately 42 million tourists visited in Hong Kong in 2011 and expecting to grow at 8.5% 2010-2015 CAGR according from Frost & Sullivan. With the support of 'individual Visit Scheme' in 2003, more importantly, PRC tourist contributes more than 40% of total Hong Kong jewellery retail sales in 2010.

Exhibit 175: HK Retail Sales Value Index (yoy %)

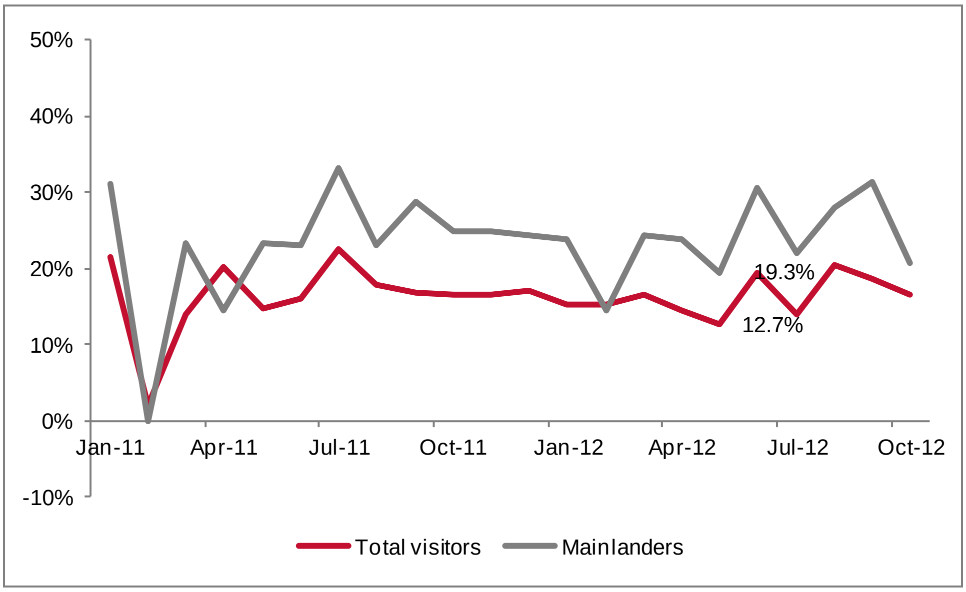


Source: Census & Statistics Department, HK

Continue to benefit from Mainland tourists.

According Hong Kong Tourism Board, we see the overall number of tourists visiting to Hong Kong has revealed a double-digit growth despite the current global economic enviorment. The number of Mainaland tourists to Hong kong are still expecting a significant number. However, we might see a slowdown in overnight arrivals from Mainland given the current convenient transportation. This can be evidenced from the 66.2% or 16,771,929 came on the Individual Visit Scheme, representing a 26.4% increase yoy for the first three quarters of 2012. We remain positive with the traffic to Hong Kong especially from Mainland China. The individual Visit Scheme has granted PRC citizens to visit Hong Kong in selected cities. However, there is larger room of improvement with the unselected cities. We have seen over 40% of jewellery consumption are contributed by PRC tourists.

Exhibit 176: Number of visitors to HK

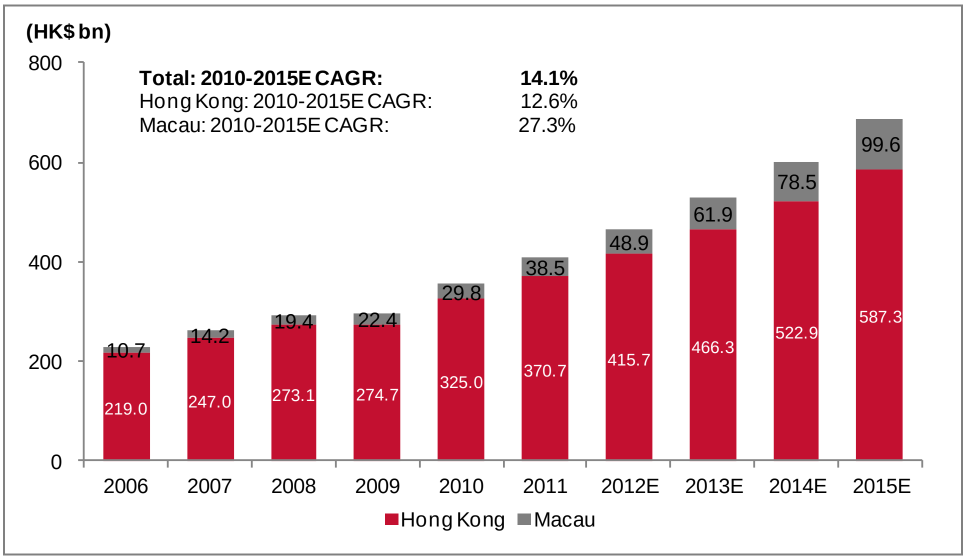


Source: Bloomberg

Concern of rental pressure:

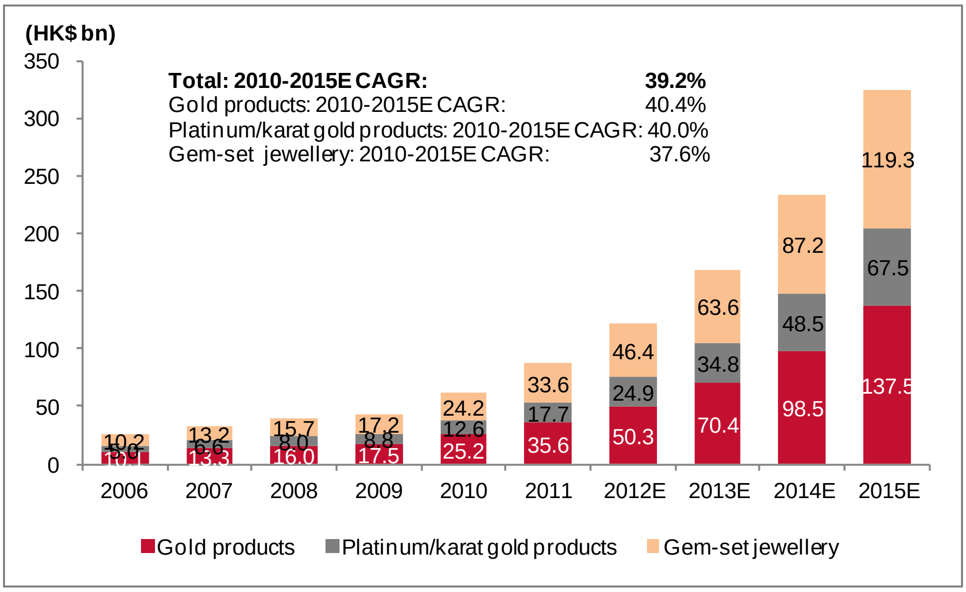
We have not yet seen a slowdown in rental pressure for majority of Hong Kong jewellery retailers. With the recent news on Chow Sang Sang (116 HK) which renews its Causeway Bay, one of the popular tourists area with an average of increase 87% in rent. Hence operating cost has risen along with labour cost. We believe 2013 rental would continue with a growth in a range of 20%-30% depends on various location of stores, We believe prime location store operators remains at high rental payment with the renewal contact.

Exhibit 177: Retail sales of consumer goods in HK and Macau



Source: World Gold Council

Exhibit 178: Type of jewellery sales in Hong Kong and Macau

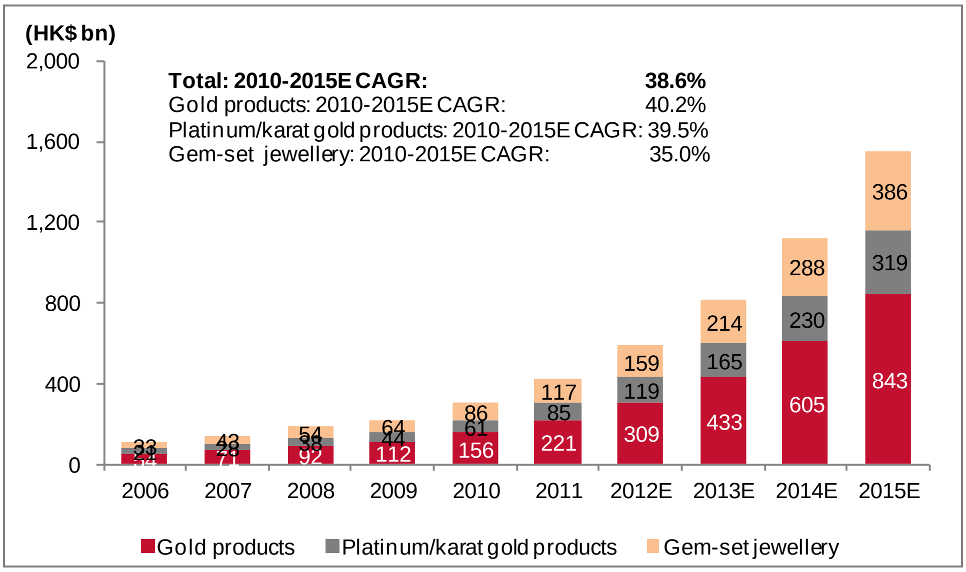


Source: World Gold Council

China jewellery sector

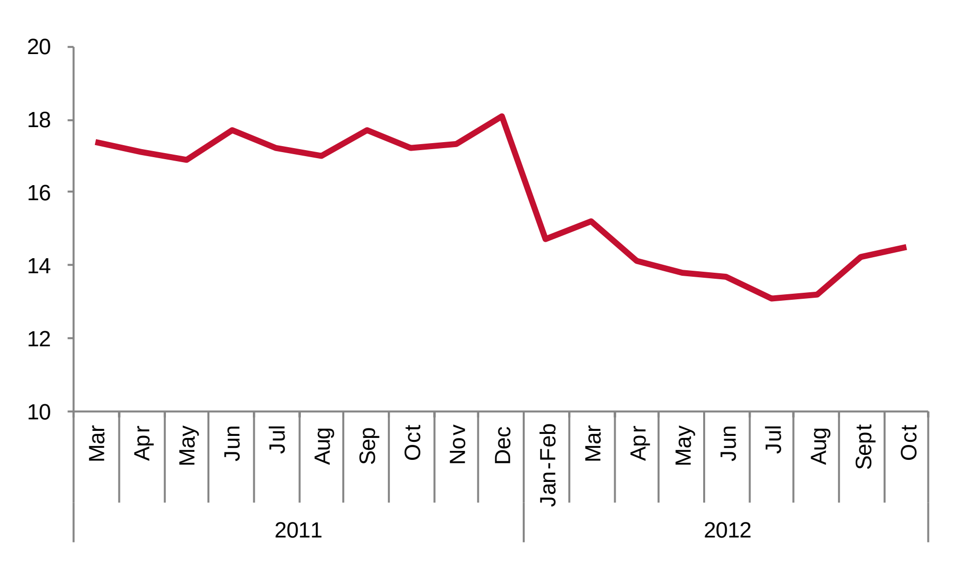
According to Frost & Sullivan report, China's retail sales of consumer goods are expected to grow at 20.5% for 2010-2015E CAGR. We are also looking for further penetration into lower tier cities in China. According to PRC's 12th Five Year Plan, the PRC government aims to reform country's income distribution and social security to stimulate domestic consumption. We see the larger room of middle class spending especially driven from lower tier cities.

Exhibit 179: Retail value of jewellery market in PRC with breakdown by product



Source: Frost & Sullivan

Exhibit 180: China retail sales

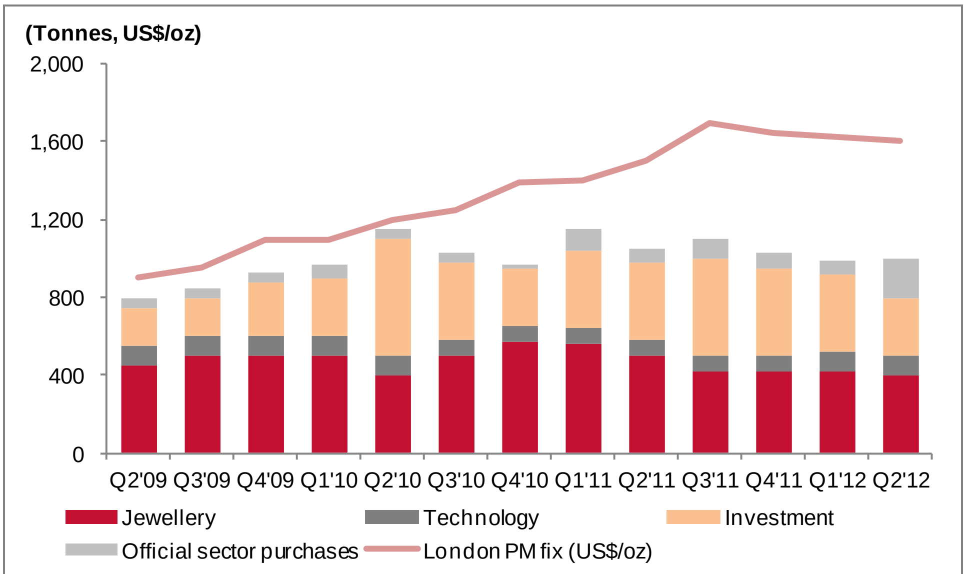


Source: Bloomberg

On the demand side

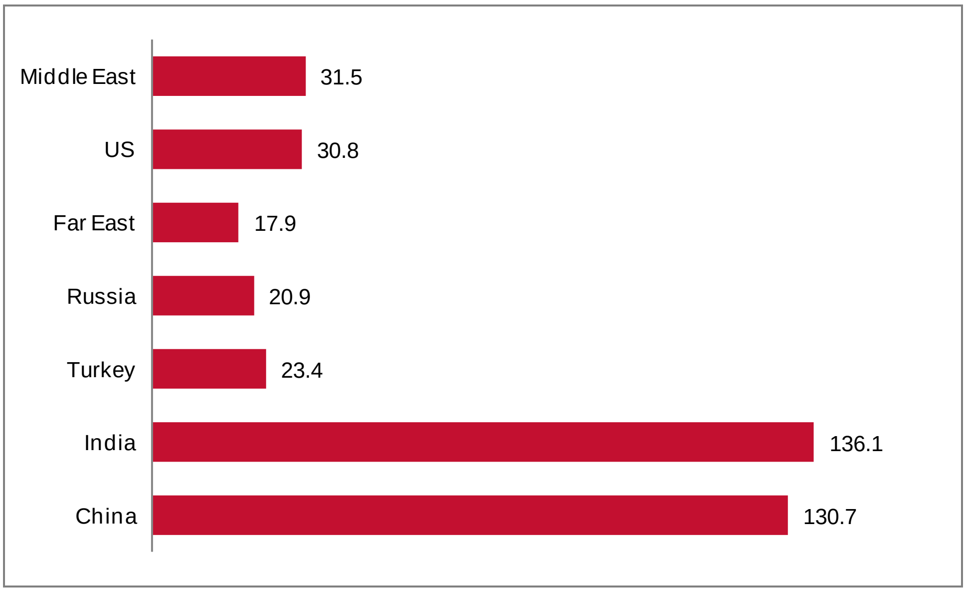
Recent global demand trend for Gold- With the recent updates of Gold demand in Q3 was 1,084.6 tonnes and the total value worths for US$ 57.6bn. Overall demand increased by 10% from the 2Q2012, however 12% yoy decreases. We see the majority decrease is owing to gold bar and coin consumption. Gold bar can be regards as gold investment for consumer and from some research reports; investment for gold investment has at least 30% yoy weaker. We should see many factors would affect the gold demand including US dollars and performance of equity and credit markets

Exhibit 181: Gold demand by category in tones and gold price (US/oz)



Source: World Gold Council

Exhibit 182: Jwewllery demand



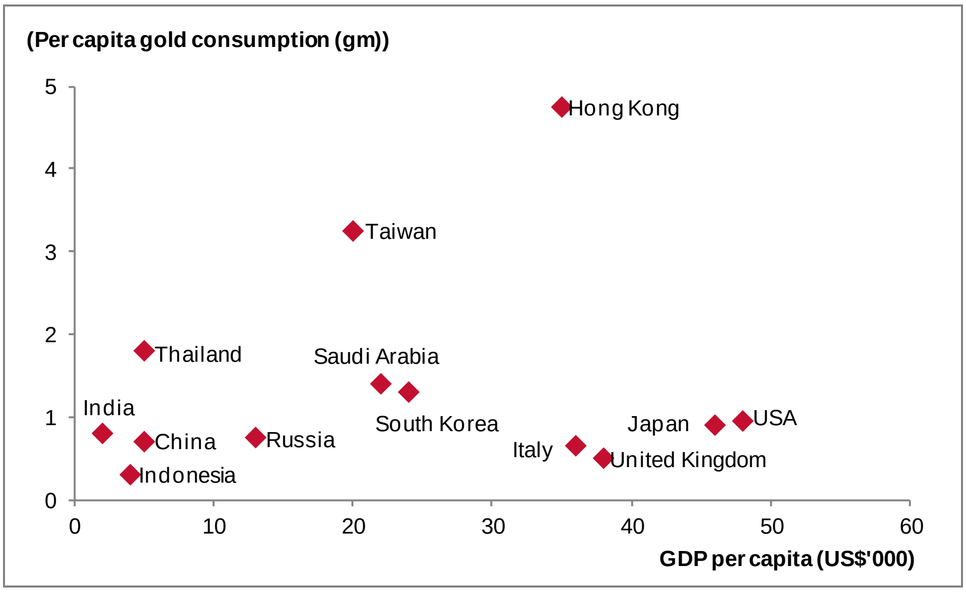
Source: World gold council

Exhibit 183: China retail sales for gold

Source: Bloomberg

China and India accounted for 55% of global jewellery demand-Gold has always been one of the popular items for China consumer given the social statue but more importantly, the store of value as a substitute of money. As quoted from Frost & Sullivan report, among all three of jewellery segment, the consumption of gold products is anticipating an increase of 40.2% CAGR 2010-2015. Despite of a slowing GDP during second quarter of 2012, the consumption of jewellery in China dropped 9% to 93.8 tones. However, there is a reminder that Q2 is typically weaker. According to World Gold Council, they are expecting the pickup in fourth quarter as well.

Exhibit 184: Global gold consumption intensity in 2011

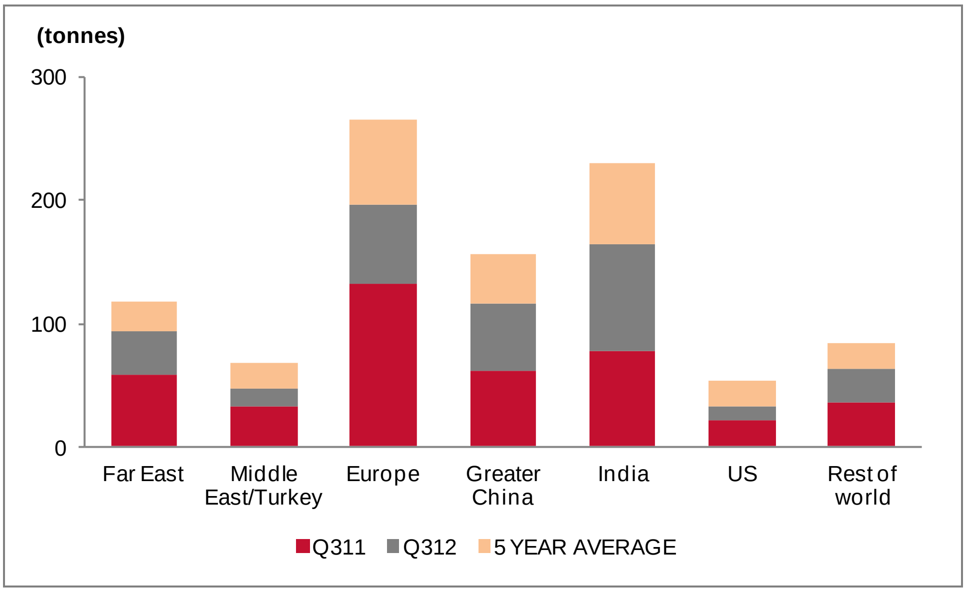


Source: World Gold Council

Latest gold consumer in china

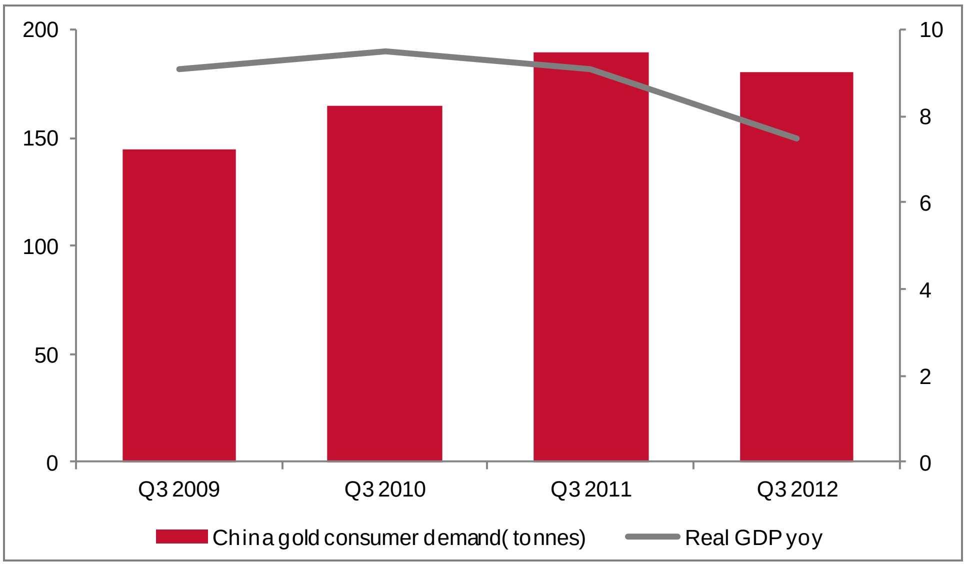
In Q32012, China jewellery sector slow down which is in line with the slowdown of China economy. The demand slowdown is mainly due to weaker consumer sentiment. 18-carat gold jewellery sees a significant drop. We are expecting gold consumption might see a better recovery comparing to jewellery.

Exhibit 185: Gold demand by countries



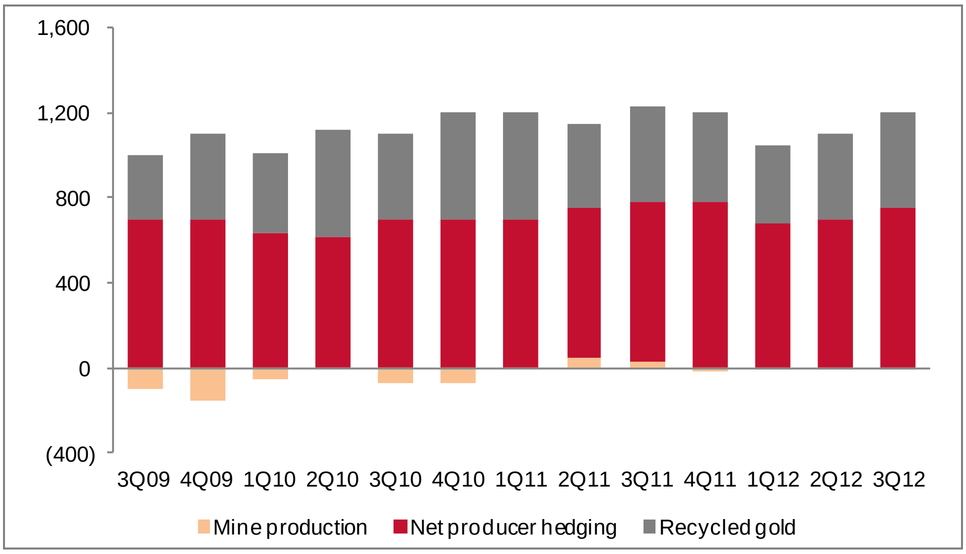
Source: World Gold council

Exhibit 186: China gold demand vs real GDP



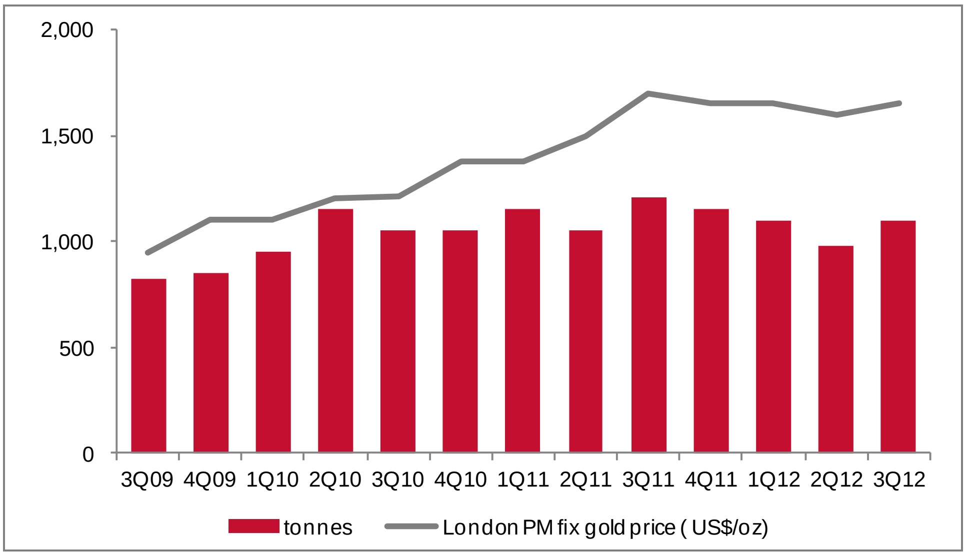
Source: Bloomberg

Exhibit 187: Gold supply



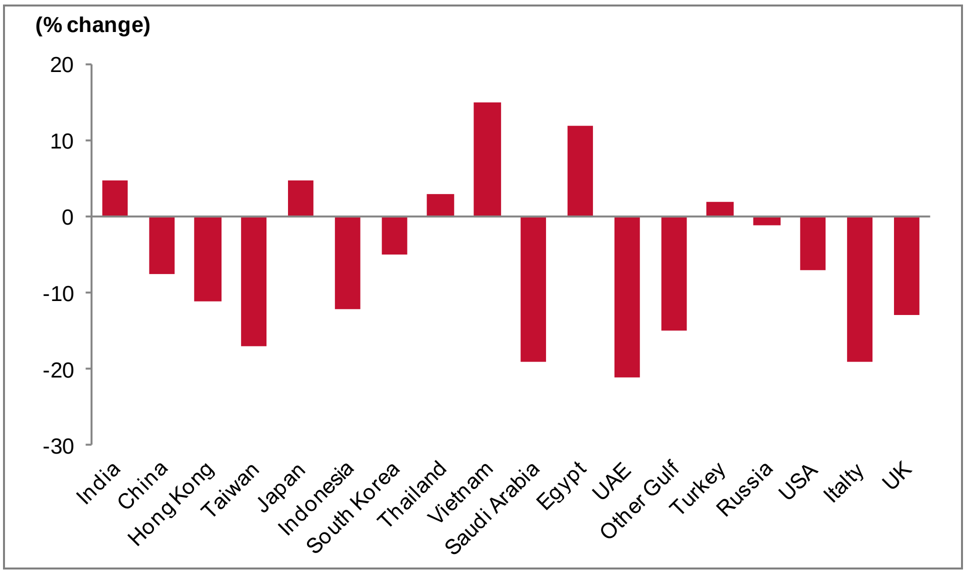
Source: World gold council

Exhibit 188: Gold price vs volume of gold



Source: World gold council

Exhibit 189: % change of gold consumption by countries



Source: World gold council

Gold supply:

Overall gold supply has been an increasing trend over the last 3 years. There is significant growth in Russian gold mine production and there are further ramping up of production

Gem-set jewellery- The preservation of wealth

Jewellery has been an important for Chinese tradition of jewellery gift-giving including gold ornaments and diamond. These purchases are mainly driven by events including weddings, Mid-AutumFestival and Chinese News Year. Looking forward, the number of registered marriage is forecasted to grow at a CAGR of 9.2% from 2010 to 2015. Despite recent trend suggested the weaker performance of gem-set jewellery performance, we are expecting a larger room of improvement, hence better GP margin might result with larger Gem-set jewellery as revenue contribution. Furthermore, we are expecting higher value of jewellery pieces such as diamond and platinum purchased once consumer has confidence over the expectation of economy recovery. According to Frost & Sullivan, we are expecting PRC jewellery market to grow at a faster rate than GDP with a CAGR of 38.6% from 2010 to 2015E.

Penetration story into lower tiers city:

We are seeing more stores to operate in lower tier to capture higher penetration. Retail sales from Tier 1 cities to Tier 2 cities has forecasted for a growth at CAGR of 34.7% from 2010 to 2015E. However, this is just the beginning with higher wealth story. Since tier 1-2- cities has historically grow at a higher percentage, however we are expecting Tier 3 cities onward would grow even faster rate than Tier 1 cities. According to Frost & Sullivan, at least 57.3% of PRC jewellery market will contributed by these lower cities by 2015. Currently, lower tier cities have already represented over 42.7% of total China marlet.

Where can these jewellery retailers to capture profit?

In PRC, we believe department stores would be the important retail channel where retailers able to capture higher traffic. Majority of stores network for jewellery retailers are placed in department stores with greater consumer confidence. We are looking at around 40.1% CAGR from 2010 to 2015E for jewellery sales from department stores.

Our preferred order

Chow Sang Sang (116 HK) - Hold TP HK$17.6

Product mix- We expect a further increase in gold as product mix since we believe recent gem-set jewellery sales remain weak. With 1H12 product mix, there has shown a drop in Gem-set jewellery as product mix. In our analysis, we assume 62%/31%/7% for gold, gem-set jewellery and watch product mix proportion for Hong Kong segment. For China segment, we assume 66%/34% for gold and gem-set jewellery.

Reasonable store expansion plan- Chow Sang Sang has a reasonable store expansion plan which opens less than 50 stores in PRC each year. We forecast CSS to open 50 stores and 5 new stores in Hong Kong. 1H12 CSS has already opened 23 stores in the PRC.

Luk Fook (590 HK) – Hold TP HK$ 22.3

Resign of Paul Law, CFO of Luk Fook- In our view with Paul serving over 10 years in Luk Fook since IPO, the forward looking of Luk Fook remains uncertain in mid-term depending on the new CFO, ex bossini CEO guidelines. We remain cautious on Luk Fook in the mid-term on its operation.

We forecast net profit at HK$1.2billion - Based on SSSG China of 8% and SSSG HK of 1% assumption; we result our net profit in line with consensus forecast. We believe with recent 35% yoy decrease in golden week, Luk Fook has underperformed against its peers especially in HK.

Chow Tai Fook (1929 HK) - Sell TP HK$9.3

Slower stores opening- With weak demand of jewellery purchase, Chow tai Fook has the most Stores in Hong Kong (we forecast 103 stores in HK and Macau for 2013) which carries the highest rental cost against its peers.

Not much product differentiation- We believe jewellery sales depends on the jewellery sentiment despite of the higher end jewellery sold by Chow Tai Fook.

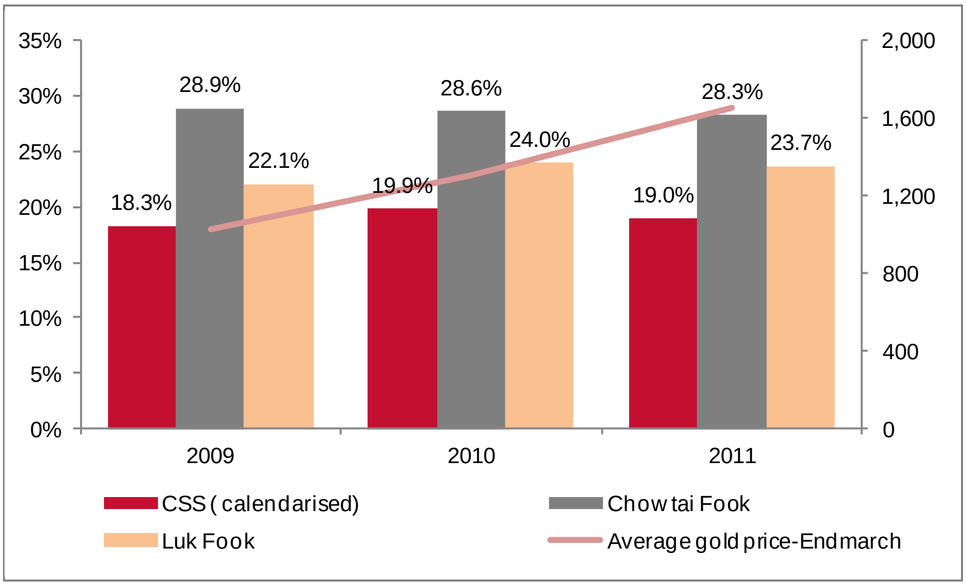
Luk Fook and Chow Sang Sang

The release of QE3 would drive up both commodity price and sales of gold in short term, and FY2H12 might likely perform better than 1H12. But overall profit might not offset by the high base and weak sentiment of gold purchase. We believe with recent share price trend, Luk Fook has underperformed due to recent golden week. Despite Chow Sang Sang has the lowest GP margin out of all three jewelleries, we think Chow Sang Sang with its prudential expansion and hedging system allows a reasonable growth in mid to long term.

Chow Tai Fook

The question of the increase gem-set jewellery as product mix remains a question for Chow Tai Fook (1929 HK) in 2H2012. With our latest Roadshow, management has indicated the increase of gem-set jewellery for capturing better gross margin, however, with the latest 1Q13 hasn't revealed such trend. But if Chow Tai Fook able to shift its product mix from gold to Gem-set jewellery, then this would be a catalyst turning over in 2H2012. Out of all three jewelleries companies, Chow Tai Fook has achieved the highest GP margin which leads to a higher net margin compares to its peers.

Exhibit 190: GP margin comparison



Source: World Gold Council

SSSG - HK

After golden week, there are more SSSG guidance has been downgraded especially Luk Fook (590 HK). With Management guided of 1% SSSG for Hong Kong along with high base, we see the net profit would drop with weak demand and increasing rental expenses (we forecast 20% increase yoy). For Chow Sang Sang (116 HK) which recorded a double digit decrease of SSSG during Golden Week, we forecast at 5% SSSG for the whole year. Despite Gem-set jewellery remains stable, gold purchase has dropped significantly. For Chow Tai Fook (1929 HK), we also forecast 1% SSSG.

Exhibit 191: SSSG HK comparison

SSSG HK	FY10A	FY11A	FY12A	FY13E	FY14E	FY15E
Chow Sang Sang	29%	28%	5%	10%	15%	9%
Chow Sang Sang (calendized)	7%	29%	22%	6%	11%	14%
Chow Tai Fook	16%	32%	48%	-2%	5%	10%
Luk Fook	17%	30%	40%	2%	8%	8%

Source: OP research

SSSG - China

For Luk Fook, with the recent monthly SSSG, we see April to June remains a strong SSSG with double digit where SSSG starts to decline from August to negative double digit SSSG in September (-11%). We forecast at 15% SSSG given the relative strong SSSG in 1HFY2013.

For Chow Sang Sang, we forecast at 5% SSSG and we think such estimation has been moderate comparing with the level of 2009. Despite a double digit decrease has been recorded from Golden week, there is a reminder of the exception high base of 2011 which leads to a lower SSSG this year.

For Chow Tai Fook, we forecast 6% SSSG from the actual SSSG of 32% in FY2011.

Exhibit 192: SSSG China comparison

SSSG China	FY10A	FY11A	FY12A	FY13E	FY14E	FY15E
Chow Sang Sang	23%	37%	5%	10%	15%	10%
Chow Sang Sang (calendized)	16%	27%	29%	6%	11%	11%
Chow Tai Fook	15%	35%	32%	6%	10%	10%
Luk Fook	-12%	30%	25%	15%	15%	8%

Source: OP Research

Exhibit 193: EBIT margin vs SG& A

2012	Luk Fook	Chow Tai Fook	Chow Sang Sang (calendarised)
EBIT margin	13.4%	15.1%	8.4%
SG&A (to topline)	8.6%	11.0%	9.4%

Source: OP Research

From operating cost, we see Chow Tai Fook has the highest SG&A compares to its peers and carrying forward, there are more likely increases in SG&A with labour cost increases (minimum wage policy) along with rental increases. More aggressive promotion and advertising might be seen for competition.

Hedging system

Exhibit 194: Global comparison

	Chow Sang Sang	Chow Tai Fook	Luk Fook
2011 Product mix-%			
Gold	58.9%	53.4%	55.0%
Non gold jewellery	34.9%	39.5%	45.0%
Watches	5.9%	7.1%	
Hedging proportion	Hedge around 40%	hedge 100% through gold loan	Hedge around 15%-20% through short selling
2011 Gross margin-%	19.5%	28.3%	23.7%

Source: OP research

Inventory days

Exhibit 195: Inventory days comparison

Inventory turnover days	2010	2011	yoy %
Chow Sang Sang	142	146	2.82%
Chow Tai Fook (calendared)	192.5	207.75	7.9%
Luk Fook (calendared)	129	136.5	5.8%

Source: OP research

In term of inventory days, Luk Fook has the lowest inventory turnover days which gold takes around 3 months and jewellery is stored for around 7 months. However, Chow Tai Fook required higher inventory days for its store expansion plan. Chow Sang Sang has the reasonable inventory level for provision of new stores opening. With recent weak gold purchase demand, we might see all three companies' gold inventory is expected to rise slightly in FY13.

Exhibit 196: Business models comparison

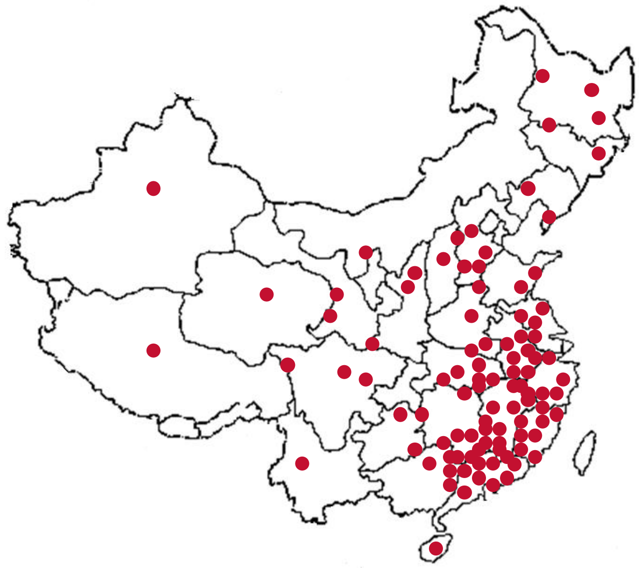
	Chow Sang Sang	Chow Tai Fook	Luk Fook
Bberg	116 HK	1929 HK	590 HK
Listing year	1973	2011	1997
Established year	1934	1929	1991
Year End	**December**	**March**	**March**
Distribution network			
Sales by Geography %-2011			
HK/Macau	63.0%	44.40%	72.80%
PRC	35.90%	55.60%	17.30%
No of stores-2011			
HK/Macau	57	84	38
PRC-self-operated	232	883	39
PRC-Franchised/License	0	391	618
Total stores	**310**	**1358**	**700**
SSSG-2011			
HK/Macau	28%	32.40%	30%
PRC	37%	35.20%	30%
Business model	Vertically-integrated model which all stores are self-operated in China, HK, and Macau. Outsource around 2/3 of jewellery production	Vertically-integrated model which self-produced for 50%. Using both franchisees and self-operated models	Vertically-integrated model which involves sourcing, manufacturing and retailing before coming to customers, Retailing and licensing model to expand through China

Source: OP research

Where the stores are concentrates in China?

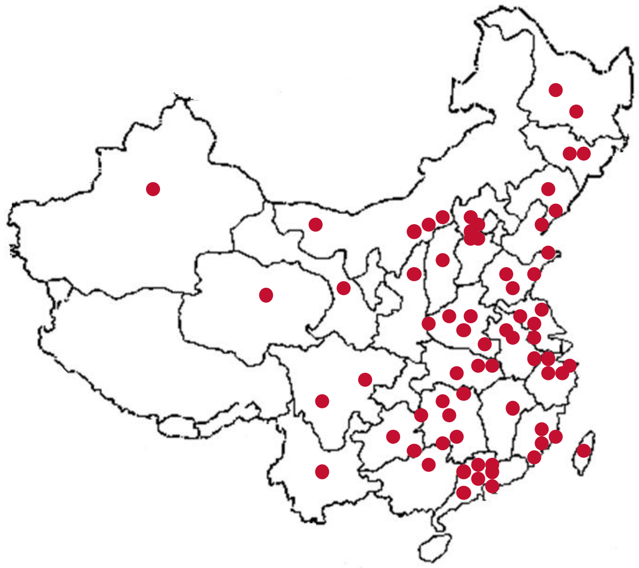
Exhibit 197: Global comparison

Luk Fook



Chow Tai Fook

Chow Sang Sang



Source: OP resaerch

Chow Sang Sang only directly runs and controls its retail stores with no franchise operations. We can see CSS's stores are mainly concentrated in southern area with around 87 stores followed by northern area.

Chow Tai Fook runs both retail and franchise models where we see CTF jewellery stores are mainly located in tier II cities. (726 stores (CTF) vs 204 stores (Luk Fook)).

Luk Fook runs retails and licensing models. Retails stores are mainly in tier 1 cities where it has located 353 stores (vs. 207 stores of CTF).

Menswear sector:

We overweight high-end menswear retails for 2013 growth, but underweight heavily franchised companies.

We believe the high level of inventory level has raised investors' concern in short term. As evidenced from a number of apparel companies have announced a less-than-market expected result. This can be seen from Bossini (592 HK) or Giordiano (709 HK) weaker sales in FY2012. In our house view, we maintain menswear to underperform in coming year owing to high inventory level along with promotion effect. But we remain confident on the high end brands.

If recent small proportional of e-commerce business has been introduced from various companies and we see this might gives a different business models to most of the retailers. If the e-commerce able to give a great confidence to consume, then we see a better operating leverage scenario might occurred. We see lilang (1234 HK) and trinity(891 HK) might be benefit with better sales trend.

Generally speaking, we believe menswear sector has a longer lead time comparing to footwear. This is because of the fast changing fashion trends. Hence larger inventory level would be resulted. Weather is another factor would affect the clothing market. Warrn weather would lead to weaker consumption.

What do we recommend?

We maintain Buy on Trinity with a target price of HK$ 6.8 given its strong management on reduction on inventory level. We believe Trinity is one of the luxury menswear companies with strong local knowledge. We recommend Buy recommendation of YGM trading with target price of HK$22.5. In our view, the valuation is attractive with ex-cash P/E 7.4x for FY13E along with yield 5.9%. The improvement on topline has proved by better SSSG. We remain cautious on Lilang with a hold recommendation of HK$5.36. We believe the sales order remains weak. We might see heavier discount which leads to erosion of GP margin in mid-term due to excess of inventory level.

Exhibit 198: Peer Group Comparison

Company	Ticker	Price	Mkt cap (US$m)	3-mth avg t/o (US$m)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	EPS FY1 YoY%	EPS FY2 YoY%	3-Yr EPS Cagr (%)	PEG (x)	Div yld Hist (%)	Div yld FY1 (%)	P/B Hist (x)	P/B FY1 (x)	EV/ Ebitda Hist	EV/ Ebitda Cur Yr	Net gearing Hist (%)	Gross margin Hist (%)	Net margin Hist (%)	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %	Sh px 1 DAY 3-mth %
China Lilang Ltd	1234 HK	4.26	660	2.6	6.6	6.2	6.4	6.4	(2.5)	5.8	1.07	10.3	9.2	1.86	1.62	4.3	3.6	0.0	39.0	23.0	32.4	27.9	(3.4)	(18.7)	0.2
Ygm Trading	375 HK	18.40	394	0.2	4.8	10.9	8.7	(56.1)	24.8	(11.1)	N/A	27.7	5.8	1.45	1.93	6.4	5.7	0.0	66.5	45.9	38.1	33.0	(3.2)	5.1	1.2
Trinity Ltd	891 HK	5.24	1,164	2.9	17.3	15.6	13.2	10.9	17.9	13.7	1.14	4.4	4.3	2.75	2.63	12.3	11.5	0.0	80.7	19.7	16.9	16.2	(2.1)	(1.3)	0.0
Evergreen Intern	238 HK	1.51	185	0.2	6.2	6.2	5.6	(1.0)	10.3	7.2	0.86	14.7	6.9	0.83	0.76	1.6	1.5	0.0	65.4	25.1	12.4	11.5	(8.5)	(5.6)	(0.7)
Bosideng Intl	3998 HK	2.35	2,428	3.5	10.3	10.7	10.0	(3.2)	6.8	3.5	3.02	7.1	6.6	2.12	1.99	7.2	6.6	0.0	50.0	17.2	20.5	18.6	(1.7)	5.9	2.2
Esprit Hldgs	330 HK	12.26	3,066	25.0	19.6	36.8	18.5	(46.8)	99.4	21.3	1.73	3.2	2.3	1.10	1.12	12.0	14.1	0.0	50.4	2.9	5.5	3.6	10.3	1.9	2.0
Giordano Intl	709 HK	7.23	1,440	2.5	15.0	15.8	13.8	(5.2)	14.4	6.4	2.49	5.3	4.9	3.99	3.71	10.1	9.9	0.0	58.5	13.0	27.3	25.2	6.0	18.3	1.1
I.T Ltd	999 HK	3.18	504	0.8	8.2	9.2	7.4	(11.3)	24.9	10.5	0.88	4.1	3.6	1.71	1.59	4.9	5.0	0.0	61.7	8.2	22.9	18.0	(2.5)	(11.7)	(0.3)
China Outfitters	1146 HK	1.40	624	0.2	8.0	8.2	6.8	(1.4)	19.6	12.6	0.65	5.2	6.1	2.33	2.05	NA	NA	0.0	76.1	32.7	34.7	26.4	9.4	1.4	0.0
Average					**9.5**	**10.3**	**9.0**	**(7.6)**	**14.5**	**6.1**	**1.4**	**9.8**	**5.9**	**2.1**	**2.0**	**6.7**	**6.3**	**0.0**	**62.2**	**23.1**	**25.7**	**22.1**	**(0.7)**	**(0.8)**	**0.5**
Belle Internatio	1880 HK	16.16	17,587	26.2	25.7	23.1	19.7	11.6	17.2	15.3	1.51	1.2	1.3	5.22	4.86	17.3	15.7	0.0	57.2	14.7	23.2	22.3	14.9	10.7	(2.1)
Daphne Internati	210 HK	10.10	2,148	4.5	17.7	17.6	14.2	0.9	23.7	13.4	1.31	1.8	1.8	3.79	3.56	10.2	9.5	0.0	61.1	10.9	24.6	22.5	16.4	30.7	(1.0)
Le Saunda Hldgs	738 HK	2.38	196	0.3	7.8	10.3	9.2	(24.3)	13.0	N/A	N/A	6.0	5.0	1.29	N/A	4.2	N/A	0.0	64.4	12.6	17.4	12.0	8.2	22.8	(0.4)
C.Banner	1028 HK	2.95	761	0.0	14.6	14.8	11.6	(1.7)	28.1	16.9	0.88	1.8	1.6	3.38	N/A	9.4	8.9	0.0	63.5	14.2	28.4	N/A	11.3	11.3	0.3
Stella Internati	1836 HK	20.20	2,071	1.2	14.4	14.2	12.7	1.1	12.6	9.9	1.44	4.9	4.8	2.41	2.27	10.7	10.0	0.0	23.6	9.6	17.3	16.5	(2.4)	7.7	0.0
Average					**16.0**	**16.0**	**13.5**	**(2.5)**	**18.9**	**13.9**	**1.3**	**3.1**	**2.9**	**3.2**	**NA**	**10.4**	**NA**	**0.0**	**54.0**	**12.4**	**22.2**	**18.3**	**9.7**	**16.6**	**(0.6)**
Parkson Retail	3368 HK	5.66	2,053	4.0	11.4	13.3	12.0	(14.3)	10.8	3.0	4.43	3.9	3.4	2.34	2.23	6.2	7.4	0.0	N/A	25.7	20.6	17.5	(13.7)	(11.7)	0.0
Golden Eagle Ret	3308 HK	18.08	4,513	9.0	23.3	22.5	19.3	3.5	17.1	13.1	1.72	1.3	1.3	6.00	5.19	15.9	14.8	0.0	76.3	37.7	28.0	24.7	1.1	15.3	0.0
Intime Departmen	1833 HK	8.96	2,315	6.1	16.7	15.6	13.1	7.2	19.5	12.5	1.25	2.3	2.5	2.07	2.01	17.8	14.1	31.5	69.6	26.4	13.9	13.0	(2.1)	8.5	2.4
Maoye Intl Hldgs	848 HK	1.56	1,081	1.3	10.4	8.9	8.1	17.5	9.9	11.6	0.76	5.8	3.7	1.23	1.07	8.0	9.1	37.6	60.2	19.1	14.8	11.6	0.0	6.8	5.4
Pcd Stores Group	331 HK	0.83	451	2.5	9.0	10.4	6.7	(13.5)	54.7	20.7	0.50	4.3	6.0	1.17	1.09	6.1	5.6	0.0	80.0	24.5	9.1	13.4	(5.7)	45.6	(3.5)
Lifestyle Intl	1212 HK	18.72	4,022	5.8	16.7	16.6	14.9	0.5	11.5	6.1	2.72	2.5	2.5	3.54	3.28	12.6	12.1	0.0	58.5	36.8	23.9	21.1	12.4	10.4	8.3
Shirble Departme	312 HK	0.72	232	N/A	19.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.95	N/A	NA	NA	0.0	N/A	5.0	22.3	13.0	0.0	0.0	0.0
Average					**15.3**	**14.6**	**12.3**	**0.2**	**20.6**	**11.2**	**1.9**	**3.4**	**3.2**	**2.5**	**2.5**	**11.1**	**10.5**	**9.9**	**68.9**	**25.0**	**19.0**	**16.3**	**(1.1)**	**10.7**	**1.8**
Shenguan Holding	829 HK	3.86	1,656	1.3	15.0	13.4	11.2	12.1	19.4	17.1	0.78	3.0	3.2	5.01	4.16	11.3	9.9	0.0	61.9	45.9	34.4	34.4	(6.3)	(6.5)	(0.8)
International Ta	873 HK	2.02	261	0.6	3.7	3.2	3.0	13.6	10.0	10.9	0.30	5.2	6.2	0.89	N/A	0.9	N/A	0.0	38.6	20.4	28.1	29.1	(14.0)	2.0	(1.0)
Man Wah Holdings	1999 HK	5.94	683	1.4	18.9	11.7	9.7	61.7	20.0	29.3	0.40	2.9	3.6	1.78	1.55	12.5	7.3	0.0	34.0	7.0	9.7	14.0	25.6	72.2	(1.8)
Royale Furniture	1198 HK	0.70	105	1.2	2.6	3.7	2.9	(29.8)	26.3	4.0	0.91	9.0	9.9	0.43	0.39	4.2	4.8	7.1	31.5	14.8	11.3	10.6	3.8	(11.4)	6.1
Magic Holdings I	1633 HK	2.98	392	0.8	14.6	10.8	9.4	36.1	14.8	29.8	0.36	1.0	1.6	2.03	1.87	7.6	5.4	0.0	76.6	15.2	15.0	17.1	1.4	10.4	0.0
Average					**11.0**	**8.5**	**7.2**	**18.7**	**18.1**	**18.2**	**0.6**	**4.2**	**4.9**	**2.0**	**2.0**	**7.3**	**6.8**	**1.4**	**48.5**	**20.6**	**19.7**	**21.0**	**2.1**	**13.3**	**0.5**
Luk Fook Hldgs I	590 HK	23.25	1,767	11.8	9.6	11.0	9.1	(13.1)	20.9	7.6	1.46	4.1	3.6	2.45	2.16	7.3	7.7	0.0	23.2	11.2	29.6	21.2	12.0	2.4	(1.1)
Chow Sang Sang	116 HK	18.30	1,598	2.7	11.3	11.9	9.6	(4.9)	24.5	11.3	1.05	3.2	3.0	1.95	1.76	8.7	9.6	27.4	19.0	6.4	16.9	15.6	0.2	5.8	(0.5)
Chow Tai Fook Je	1929 HK	11.24	14,503	10.5	16.4	18.5	14.9	(11.5)	24.6	9.5	1.95	0.9	1.3	3.88	3.20	12.6	13.2	16.3	29.1	11.2	31.5	19.4	10.4	16.6	(0.5)
Tse Sui Luen Jew	417 HK	4.04	110	0.1	5.2	N/A	N/A	N/A	N/A	N/A	N/A	3.3	N/A	0.91	N/A	4.1	N/A	36.0	47.9	4.8	18.6	N/A	(3.8)	(16.7)	(2.9)
Average					**10.6**	**13.8**	**11.2**	**(9.9)**	**23.3**	**9.5**	**1.5**	**2.9**	**2.6**	**2.3**	**NA**	**8.2**	**10.1**	**19.9**	**29.8**	**8.4**	**24.1**	**NA**	**4.7**	**2.0**	**(1.3)**

Source: Bloomberg, OP Research

Exhibit 199: Peer Group Comparison (cont.)

Company	Ticker	Price	Mkt cap (US$m)	3-mth avg t/o (US$m)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	EPS FY1 YoY%	EPS FY2 YoY%	3-Yr EPS Cagr (%)	PEG (x)	Div yld Hist (%)	Div yld FY1 (%)	P/B Hist (x)	P/B FY1 (x)	EV/ Ebitda Hist	EV/ Ebitda Cur Yr	Net gearing Hist (%)	Gross margin Hist (%)	Net margin Hist (%)	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %	Sh px 1 DAY 3-mth %
Prince Frog Intl	1259 HK	2.73	355	1.3	10.3	9.3	8.1	10.8	15.7	18.3	0.51	1.6	2.1	2.33	1.87	6.5	5.2	0.0	42.4	14.5	33.6	22.6	(4.2)	6.6	(1.4)
Goodbaby Interna	1086 HK	2.58	333	1.1	14.3	12.8	9.9	11.7	29.9	22.6	0.57	1.9	2.2	1.54	1.42	8.7	5.8	0.0	17.1	4.5	11.1	11.0	(3.4)	4.9	(0.8)
Vinda Intl Hldgs	3331 HK	10.48	1,351	8.3	24.2	18.6	14.3	30.3	29.8	29.3	0.64	1.2	1.4	2.72	2.64	17.0	11.2	39.3	27.2	8.5	14.0	15.4	(12.7)	(10.6)	1.6
Hengan Intl	1044 HK	71.15	11,283	26.3	32.9	25.1	20.7	31.2	21.4	23.7	1.06	2.1	2.5	6.74	6.39	25.2	17.9	0.0	39.9	15.5	25.7	26.4	(1.5)	(7.3)	0.1
Bawang Internati	1338 HK	0.66	248	0.8	N/A	N/A	53.1	N/A	N/A	(147.2)	N/A	N/A	0.0	2.21	N/A	(2.0)	(3.4)	0.0	38.8	(62.8)	(59.6)	(38.6)	(5.7)	6.5	1.5
Average					**20.5**	**16.5**	**21.2**	**21.0**	**24.2**	**(10.7)**	**0.7**	**1.7**	**1.6**	**3.1**	**NA**	**11.1**	**7.3**	**7.9**	**33.1**	**(4.0)**	**5.0**	**NA**	**(5.5)**	**0.0**	**0.2**
Li Ning Co Ltd	2331 HK	4.24	578	3.3	9.3	N/A	28.6	N/A	N/A	(10.2)	N/A	N/A	0.7	0.99	1.03	4.7	12.6	0.0	46.1	4.3	3.8	(0.2)	(0.5)	7.6	1.2
Anta Sports Prod	2020 HK	5.95	1,915	6.3	6.9	8.6	11.2	(20.3)	(22.8)	(14.3)	N/A	8.2	7.4	1.80	1.75	3.8	4.4	0.0	42.3	19.4	24.7	20.8	(5.0)	15.3	4.4
China Dongxiang	3818 HK	0.92	657	2.4	40.6	15.7	14.5	158.2	8.5	44.6	0.35	1.6	3.2	0.60	0.59	NA	NA	0.0	55.0	3.7	(0.4)	3.4	(10.7)	19.5	(1.1)
Xtep Internation	1368 HK	3.24	910	1.0	5.9	6.4	8.1	(7.7)	(21.2)	(8.8)	N/A	8.5	7.7	1.37	1.30	2.9	3.1	0.0	40.8	17.4	25.0	21.6	(0.9)	22.3	0.0
361 Degrees	1361 HK	2.10	560	0.9	2.9	4.1	4.3	(29.2)	(3.2)	(4.8)	N/A	8.2	10.7	0.74	0.74	1.5	1.9	0.0	42.3	21.9	32.8	18.2	(8.7)	8.8	2.9
Peak Sport	1968 HK	1.42	384	0.5	3.1	5.6	5.8	(45.0)	(2.9)	(15.5)	N/A	11.3	5.7	0.58	0.57	0.4	0.7	0.0	39.4	16.7	15.2	10.9	0.7	12.7	2.2
Average					**11.4**	**8.1**	**12.1**	**11.2**	**(8.3)**	**(1.5)**	**0.4**	**7.6**	**5.9**	**1.0**	**1.0**	**2.7**	**4.6**	**0.0**	**44.3**	**13.9**	**16.9**	**12.5**	**(4.2)**	**14.4**	**1.6**
Stelux Hldg Intl	84 HK	2.82	381	0.9	11.8	10.5	8.5	12.0	23.9	20.1	0.52	2.9	3.0	2.52	2.07	8.2	7.4	24.3	61.7	7.5	23.2	19.8	51.6	88.0	1.4
Emperor Watch &	887 HK	0.91	789	2.7	9.4	12.1	9.8	(22.7)	24.0	30.4	0.40	2.8	2.5	1.54	1.47	7.3	9.0	0.0	28.8	10.7	15.7	12.7	12.3	23.0	(2.2)
Oriental Watch	398 HK	2.84	209	0.6	9.8	8.9	8.2	9.9	8.5	14.6	0.61	2.5	3.3	0.77	0.73	7.4	7.3	14.3	21.0	4.2	8.3	9.3	15.9	19.3	(2.4)
Hengdeli Holding	3389 HK	2.71	1,536	5.3	11.8	12.3	11.0	(4.3)	11.9	7.7	1.60	2.9	3.0	1.85	1.72	9.3	8.5	6.6	25.1	7.2	19.1	15.5	(2.9)	22.1	(1.5)
China Haidian Ho	256 HK	0.84	463	0.3	13.6	14.2	12.0	(4.7)	18.6	8.9	1.59	6.5	3.2	1.04	N/A	11.9	8.6	0.0	56.5	17.5	5.8	N/A	(5.6)	7.7	1.2
Average					**11.3**	**11.6**	**9.9**	**(2.0)**	**17.4**	**16.3**	**0.9**	**3.5**	**3.0**	**1.5**	**NA**	**8.8**	**NA**	**9.0**	**38.6**	**9.4**	**14.4**	**NA**	**14.3**	**32.0**	**(0.7)**
Tingyi Hldg Co	322 HK	22.20	16,021	14.8	38.1	34.1	27.0	11.9	26.2	19.8	1.73	1.3	2.0	6.33	6.39	18.8	14.0	24.5	26.5	5.3	22.2	20.2	(3.3)	(7.3)	(0.2)
Uni-President	220 HK	9.88	4,589	4.8	91.5	32.0	26.5	186.0	21.0	61.0	0.52	0.3	0.8	3.92	3.76	38.6	16.7	10.7	29.2	1.8	9.2	12.1	(0.8)	23.5	2.8
Want Want China	151 HK	10.92	18,638	16.0	44.4	34.4	27.6	29.3	24.4	23.7	1.45	1.6	1.8	13.55	11.65	30.9	23.2	0.0	34.8	14.2	39.0	37.3	1.3	12.1	(1.8)
China Mengniu Da	2319 HK	20.25	4,620	11.7	17.9	19.3	15.2	(7.2)	26.8	12.4	1.56	1.2	1.1	2.41	2.28	9.1	8.4	0.0	25.7	4.3	12.9	12.4	(9.8)	(14.7)	(0.2)
China Foods Ltd	506 HK	7.27	2,624	5.2	31.4	21.9	17.8	43.6	23.2	29.1	0.75	1.4	1.6	2.90	2.78	15.2	12.7	0.0	23.8	2.3	12.1	12.7	(5.6)	(2.9)	(2.2)
China Res Enterp	291 HK	27.95	8,661	12.2	23.7	32.1	26.6	(26.2)	20.4	1.9	16.78	1.7	1.9	1.71	1.75	11.0	8.9	0.0	24.8	2.6	9.8	6.4	8.5	15.3	(1.1)
China Yurun Food	1068 HK	5.10	1,199	12.0	5.2	63.8	8.6	(91.9)	642.5	(1.3)	N/A	N/A	1.7	0.58	0.56	5.3	12.7	5.9	8.6	5.6	1.9	1.4	(4.5)	(5.9)	0.6
Tsingtao Brew-H	168 HK	43.95	7,105	8.4	27.4	26.3	22.6	4.6	16.4	12.1	2.17	0.7	0.7	3.85	3.70	13.4	12.1	0.0	36.5	8.2	15.0	15.4	3.7	2.2	0.5
Vinda Intl Hldgs	3331 HK	10.48	1,351	8.3	24.2	18.6	14.3	30.3	29.8	29.3	0.64	1.2	1.4	2.72	2.64	17.0	11.2	39.3	27.2	8.5	14.0	15.4	(12.7)	(10.6)	1.6
Hengan Intl	1044 HK	71.15	11,283	26.3	32.9	25.1	20.7	31.2	21.4	23.7	1.06	2.1	2.5	6.74	6.39	25.2	17.9	0.0	39.9	15.5	25.7	26.4	(1.5)	(7.3)	0.1
Biostime Interna	1112 HK	24.70	1,920	2.2	22.5	17.6	13.8	28.0	28.0	24.3	0.73	3.4	2.3	6.20	5.28	15.8	11.7	0.0	66.5	24.1	32.9	29.8	23.6	18.5	(1.6)
China Modern Dai	1117 HK	1.99	1,233	0.6	19.3	13.4	9.8	43.4	37.0	35.4	0.38	N/A	0.0	1.52	1.35	22.0	13.1	40.4	N/A	23.8	8.2	10.6	1.0	(2.0)	3.1
Average					**58.0**	**33.5**	**27.0**	**75.7**	**23.8**	**34.8**	**1.2**	**1.1**	**1.5**	**7.9**	**NA**	**29.5**	**18.0**	**11.7**	**30.2**	**7.1**	**23.4**	**NA**	**(0.9)**	**9.4**	**0.3**

Source: Bloomberg, OP Research

Antonoil (3337 HK) – The readied market leader

Oil&Gas/ China

Alan Lau
Analyst
+852 2842 5820
alan.lau@oriental-patron.com.hk

Company Update

BUY

UNCHANGED

Close price: **HK$3.40**
Target Price: **HK$3.00 (-12%)**
Prior TP: **HK$3.00**

Key Data

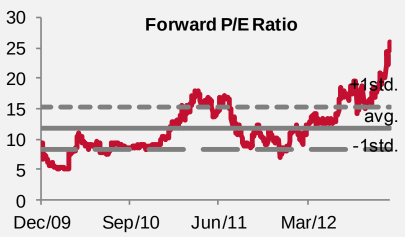
HKEx code		3337
12 Months High	(HK$)	3.41
12 Month Low	(HK$)	0.80
3M Avg Dail Vol.	(mn)	20.67
Issue Share	(mn)	2,132.51
Market Cap	(HK$mn)	7,250.52
Fiscal Year		12/2011
Major shareholder (s)		Luo Xin (34%), Schlumberger (20%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	28.3	84.8	183.3
Rel. MSCI CHINA %	27.8	71.0	167.0

PE



Company Profile

Antonoil is one of China's leading independent domestic oilfield services provider, who can provide integrated services from drilling technology, well completion to production enhancement.

- **Antonoil will benefit from growing demand for sophisticated oilfield services in China, including directional drilling and fracking. Potential orders from shale gas developers will be new spot lights.**
- **Reiterate Buy at 15x FY13E P/E, equivalent to Schlumberger's valuation.**

Successful tight gas story in Sulige to spread over China. We like Antonoil's exposure in tight gas and expect their experience to be successfully applied to shale gas and other challenging conventional gas reservoirs in the Tarim and Sichuan Basins. Base on our forecast, we believe China will drill 40,000 wells, incurring RMB800bn. In the coming 9 years through 2020, shale gas E&P will double the current domestic oilfield services market size and benefit the integrated leaders such as Antonoil.

Market share expansion from market liberalization. We expect market liberalization like price deregulation will be launched province by province in the 12th FYP. As increasing private capital enters the shale gas exploration and development market through the exploration right bidding to be held by the MLR, we expect to see market expansions of high-end independent domestic oilfield services providers as private developers will tend to employ independent domestic services providers than subsidiaries of NOCs since NOC-technical services team will likely service NOCs will higher priority.

Improving working capital management. The frightening accounts receivable turnover days at previously over 200 days concerning investors showed improvements after the company launched its campaign to boost collection of receivables in October 2011. We expect the continuing focus on speeding up receivable collection and expanding overseas' sales mix will help meet management guidance of 150 accounts receivable turnover days and improve working capital management of Antonoil in the near future**.**

Reiterate Buy. Our target price of HK$3.00 is based on 21x FY12E P/E and 15x FY13E P/E, which is similar to Schlumberger, its major international peer's valuation. This valuation is justified by Antonoil's exposure to the high growth Chinese oilfield services industry at 30-50% in coming 3 years and ability to provide integrated services to unconventional, including shale gas.

Exhibit 200: Forecast and Valuation

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	950.7	1,258.9	1,920.1	2,634.0	3,435.6
Growth (%)	*37.8*	*32.4*	*52.5*	*37.2*	*30.4*
Net profit	116.7	77.3	241.9	330.9	403.1
Growth (%)	*264.3*	*(33.7)*	*212.7*	*36.8*	*21.8*
Diluted EPS (RMB)	0.056	0.037	0.114	0.156	0.190
Change to previous EPS (%)			N/A	N/A	
Consensus EPS (RMB)			0.103	0.138	
EPS growth (%)	264.3	(34.0)	208.9	36.8	21.8
ROE (%)	7.1	4.4	12.3	14.6	15.4
P/E (x)	49.0	74.3	24.0	17.6	14.4
P/B (x)	3.5	3.3	2.9	2.6	2.2
Yield (%)	0.7	0.6	1.2	1.7	2.1
DPS (RMB)	0.019	0.017	0.034	0.047	0.057

Source: Bloomberg, OP Research

Financial Summary – Antonoil (3337 HK)

Profit and loss

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	951	1,259	1,920	2,634	3,436
Other gain	1	2	0	0	0
Materials and services costs	(395)	(572)	(768)	(1,054)	(1,374)
Staff costs	(124)	(136)	(230)	(316)	(412)
Operating lease expenses	(13)	(13)	(19)	(26)	(69)
Depreciation and amortisation	(51)	(59)	(115)	(158)	(206)
Others	(224)	(307)	(422)	(579)	(756)
Operating profit	**145**	**175**	**365**	**500**	**618**
Net finance cost	(3)	(16)	(44)	(58)	(79)
Share of profit from JCE & asso	(0)	(14)	(5)	(5)	0
Others non-operating items	0	(32)	0	0	0
Profit before taxation	**142**	**113**	**316**	**438**	**540**
Taxation	(16)	(21)	(47)	(70)	(92)
Profit after taxation	**126**	**92**	**269**	**368**	**448**
Minority interest	(9)	(14)	(27)	(37)	(45)
Net profit	**117**	**77**	**242**	**331**	**403**
Others	0	0	0	0	0
Dividends	(25)	(39)	(36)	(73)	(99)
Transfer to reserves	**91**	**38**	**206**	**258**	**304**

Cash flow

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Profit before taxation	142	113	316	438	540
Depreciation and amortization	51	59	70	113	150
Change in working capital	(173)	5	(280)	(259)	(401)
Taxes paid	(10)	(28)	(47)	(70)	(92)
Other adjustments	16	72	5	5	0
Operating cash flows	**26**	**220**	**64**	**226**	**198**
Capex	(133)	(196)	(429)	(400)	(300)
Free cash flow	**(107)**	**25**	**(365)**	**(174)**	**(102)**
Other investing cash flows	57	(2)	(5)	(5)	0
Investing cash flows	**(76)**	**(198)**	**(434)**	**(405)**	**(300)**
Dividends paid	(25)	(39)	(36)	(73)	(99)
Net debt repayment	135	157	307	201	300
Equity issue	0	0	0	0	0
Other financing cash flows	(140)	141	0	0	0
Financing cash flows	**(30)**	**258**	**271**	**128**	**201**
Net cash flow	**(80)**	**281**	**(100)**	**(50)**	**98**
Beginning cash	273	189	462	363	312
Forex	(4)	(7)	0	0	0
Ending cash	**189**	**462**	**363**	**312**	**411**

Balance sheet

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
PPE, land and intangible assets	791	935	1,295	1,582	1,731
Investment in JCE, asso and others	50	4	4	4	4
Other non-current assets	3	18	18	18	18
Total non-current assets	**844**	**957**	**1,316**	**1,603**	**1,753**
Inventories	265	271	421	577	753
Trade receivables	672	671	894	1,082	1,412
Other receivables	70	121	154	211	275
Other current assets	150	15	15	15	15
Cash	189	462	363	312	411
Total current assets	**1,347**	**1,541**	**1,847**	**2,198**	**2,866**
Total assets	**2,191**	**2,498**	**3,163**	**3,802**	**4,619**
Trade payables	(218)	(258)	(383)	(526)	(695)
Other payables	(113)	(124)	(124)	(124)	(124)
Short-term borrowings	(185)	(320)	(305)	(305)	(305)
Other current liabilities	(22)	(40)	(40)	(40)	(40)
Total current liabilities	**(538)**	**(742)**	**(853)**	**(995)**	**(1,164)**
Long-term borrowings	0	0	(327)	(528)	(828)
Other long-term liabilities	(2)	(16)	(10)	(10)	(10)
Total long-term liabilities	**(2)**	**(16)**	**(337)**	**(538)**	**(838)**
Total liabilities	**(540)**	**(758)**	**(1,190)**	**(1,533)**	**(2,002)**
Net assets	**1,651**	**1,740**	**1,973**	**2,268**	**2,617**
Share capital	(197)	(198)	(198)	(198)	(198)
Reserves	(1,417)	(1,468)	(1,674)	(1,933)	(2,236)
Owners' equity	**(1,614)**	**(1,666)**	**(1,872)**	**(2,131)**	**(2,435)**
Non-controlling interests	(37)	(74)	(101)	(138)	(182)
Total equity	**(1,651)**	**(1,740)**	**(1,973)**	**(2,268)**	**(2,617)**
Net cash (debt)	Net cash	Net cash	(269)	(521)	(722)

Statistics and ratios

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Growth rate (%)					
Revenue	38	32	53	37	30
EBITDA	64	19	86	41	25
EBIT	288	20	109	37	24
Net profit	264	(34)	213	37	22
EPS	264	(34)	209	37	22
Margins (%)					
EBITDA margin	21	19	23	23	22
EBIT	15	14	19	19	18
Net margin	12	6	13	13	12
Other ratios					
P/E	49.0	74.3	24.0	17.6	14.4
P/B	3.5	3.3	2.9	2.6	2.2
P/CF	(71.4)	20.5	(58.4)	(115.7)	59.2
Dividend yield (%)	0.7	0.6	1.2	1.7	2.1
Current raio	2.5	2.1	2.2	2.2	2.5
Quick ratio	2.0	1.7	1.7	1.6	1.8
Effective tax rate (%)	11.5	18.5	15.0	16.0	17.0
Gearing (%)	11.5	19.2	33.8	39.1	46.5
Net gearing (%)	Net cash	Net cash	14.4	24.4	29.7
ROE (%)	7.2	4.6	12.9	15.5	16.6
Working capital					
Inventory (days)	245	173	200	200	200
Debtors (days)	258	195	170	150	150
Creditors (days)	99	87	90	90	90
Cash conversion days	404	281	280	260	260

Source: Company, OP Research

ASR Holdings (1803 HK) – Riding the air cargo freight recovery in 2013

- **1H12 sales was up 5.9% yoy to HK$312mn and net profit was down 25% yoy to HK$44mn, due to weak global demand in 1H12.**
- **We revised down our FY12/13E earnings by 11%/9% to HK$105mn/HK$130mn to reflect weaker Asia Pacific demand.**
- **Maintain BUY with TP revised down from HK$3.80 to HK$3.30, representing 10x FY13E PE or 30% discount to peers.**

1H12 results broadly in-line. 1H12 sales was up 5.9% yoy to HK$312mn, in-line with our expectation. Sales from America/Europe region recorded 41%/19% yoy growth to HK$32mn/HK$79mn, accounted for 10%/25% of 1H12 sales. Sales from Asia Pacific remain the largest region, down 6% yoy to HK$164mn, accounted for 53% of 1H12 sales. As lower margin America sales increased and Asia Pacific sales remained weak in 1H12, ASR's 1H12 GPM was squeezed by 4.5ppt to 28.2%. As a result, 1H12 net profit was down 25% yoy to HK$44mn with interim dps HK$0.033.

We revised down FY12/13E earnings by 11%/9% to reflect economic uncertainty. Although 2H12 outlook remain challenge, mgmt expect to achieve a positive earnings growth in FY12E as demand on global air freight service is likely pick up in 4Q12, thanks to Winter Xmas sales. We revised down our FY12/13E earnings by 11%/9% to HK$105mn/HK$130mn, mainly due to higher sales contribution from America which the margin is lower than other developing countries in Asia pacific. As a result, we revised down our FY12/13E GPM by 0.9ppt/0.6ppt to 29.6%/29.7%.

Maintain BUY with lower TP. ASR Holdings currently trades at 6.3x/5.1x FY12/13E PE with 4.8%/5.9% yield. Net cash on hand was HK$209mn or HK$0.52 p.s. We maintain our BUY rating on ASR given (1) its undemanding valuation, (2) strong balance sheet and (3) attractive yield. We slightly revised down our TP from HK$3.80 to HK$3.30 as we roll forward and revised down our target PE from 13x to 10x, representing a 30% discount to its peers, to reflect increased uncertainty in global economic.

Risk: (1) Further slowdown in Asia Pacific economies, (2) Intensifying competition in wholesale air freight logistic service industry.

Exhibit 201: Forecast and Valuation

Year to Dec (HK$ mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	489.9	603.7	662.3	806.4	981.0
Growth (%)	64.9	23.2	9.7	21.8	21.7
Net Profit	92.1	97.3	104.7	130.4	149.5
Growth (%)	115.4	5.6	7.6	24.5	14.7
Diluted EPS (HK$)	0.230	0.243	0.262	0.326	0.374
EPS growth (%)	115.4	5.6	7.6	24.5	14.7
Change to previous EPS (%)			(11.2)	(9.3)	(4.7)
Consensus EPS (HK$)			0.325	0.395	0.370
ROE (%)	107.8	85.1	72.3	58.1	45.8
P/E (x)	7.9	7.5	7.0	5.6	4.9
P/B (x)	6.3	6.4	4.1	2.7	1.9
Yield (%)	4.5	17.5	4.3	5.4	6.2
DPS (HK$)	0.082	0.319	0.079	0.098	0.112

Source: Bloomberg, OP Research

Logistic/ China

Yuji Fung
Analyst
+852 2135 0236
yuji.fung@oriental-patron.com.hk

Company Update

BUY

UNCHANGED

Close price:	**HK$1.82**
Target Price:	**HK$3.30 (+81%)**
Prior TP:	**HK$3.30**

Key Data

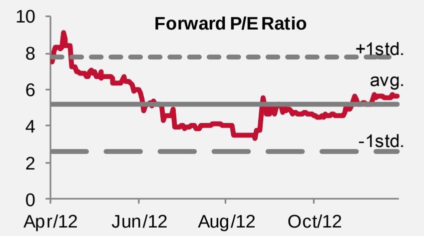
HKEx code		1803
12 Months High	(HK$)	2.80
12 Month Low	(HK$)	0.93
3M Avg Dail Vol.	(mn)	0.16
Issue Share	(mn)	400.00
Market Cap	(HK$mn)	728.00
Fiscal Year		12/2011
Major shareholder (s)		ASR Victory (65%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	-1.1	21.3	-11.7
Rel. MSCI CHINA %	-1.6	7.5	-28.0

PE



Company Profile

ASR is a non-asset based third party logistic (3PL) service provider, headquarter in HK, in that they do not own any physical freight distribution assets, but leverage their over 20 years accumulated freight industry expertise to source air cargo space and on-sell it to over 1,000 freight forwarders.

Financial Summary – ASR Holdings (1803 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (HK$ mn)					
Europe	125	141	156	171	188
America	91	44	57	98	127
Asia-Pacific	241	343	374	461	590
Others	32	76	76	76	76
Turnover	**490**	**604**	**662**	**806**	**981**
YoY%	65	23	10	22	22
COGS	(345)	(418)	(466)	(567)	(705)
Gross profit	**145**	**186**	**196**	**239**	**276**
Gross margin	29.6%	30.7%	29.6%	29.7%	28.1%
Other income	3	4	4	4	4
Selling & distribution	0	0	0	0	0
Admin	(40)	(71)	(73)	(86)	(100)
R&D	0	0	0	0	0
Other opex	0	0	0	0	0
Total opex	**(40)**	**(71)**	**(73)**	**(86)**	**(100)**
Operating profit (EBIT)	**108**	**118**	**126**	**157**	**180**
Operating margin	22.0%	19.6%	19.0%	19.5%	18.3%
Provisions	0	0	0	0	0
Finance costs	(1)	(0)	0	0	0
Profit after financing costs	107	118	126	157	180
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	107	118	126	157	180
Tax	(14)	(19)	(21)	(26)	(30)
Minority interests	(1)	(2)	(1)	(1)	(1)
Net profit	**92**	**97**	**105**	**130**	**150**
YoY%	115	6	8	25	15
Net margin	18.8%	16.1%	15.8%	16.2%	15.2%
EBITDA	**109**	**119**	**128**	**160**	**184**
EBITDA margin	22.2%	19.8%	19.4%	19.9%	18.7%
EPS (HK$)	**0.230**	**0.243**	**0.262**	**0.326**	**0.374**
YoY%	115	6	8	25	15
DPS (HK$)	0.082	0.319	0.079	0.098	0.112

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (HK$ mn)					
EBITDA	109	119	128	160	184
Chg in working cap	3	(15)	(16)	6	4
Others	0	(0)	0	0	0
Operating cash	**111**	**104**	**112**	**167**	**188**
Tax	(4)	(17)	(21)	(21)	(26)
Net cash from operations	**108**	**87**	**92**	**146**	**162**
Capex	(4)	(5)	(20)	(8)	(10)
Investments	(1)	0	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	0	1	0	0	0
Interests received	0	0	0	0	1
Others	(6)	(0)	0	0	0
Investing cash	**(11)**	**(4)**	**(20)**	**(8)**	**(9)**
FCF	**96**	**83**	**72**	**138**	**153**
Issue of shares	0	0	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(59)	(101)	(41)	(35)	(42)
Net change in bank loans	9	(16)	0	0	0
Others	(0)	(0)	0	0	0
Financing cash	**(51)**	**(117)**	**(41)**	**(35)**	**(42)**
Net change in cash	**46**	**(34)**	**31**	**104**	**111**
Exchange rate or other Adj	0	1	0	0	0
Opening cash	80	126	94	125	228
Closing cash	**126**	**94**	**125**	**228**	**340**
CFPS (HK$)	**0.269**	**0.217**	**0.229**	**0.365**	**0.405**

Source: Company, OP Research

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	29.6	30.7	29.6	29.7	28.1
Operating margin (%)	22.0	19.6	19.0	19.5	18.3
Net margin (%)	18.8	16.1	15.8	16.2	15.2
Selling & dist'n exp/Sales (%)	0.0	0.0	0.0	0.0	0.0
Admin exp/Sales (%)	8.2	11.8	11.1	10.7	10.2
Payout ratio (%)	35.6	131.1	30.0	30.0	30.0
Effective tax (%)	13.0	15.9	16.5	16.5	16.5
Total debt/equity (%)	13.7	0.0	0.0	0.0	0.0
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.95	2.02	2.60	3.13	3.51
Quick ratio (x)	1.95	2.02	2.60	3.13	3.51
Inventory T/O (days)	0	0	0	0	0
AR T/O (days)	53	43	45	40	38
AP T/O (days)	73	53	45	45	45
Cash conversion cycle (days)	(19)	(10)	0	(5)	(7)
Asset turnover (x)	2.64	2.73	2.72	2.44	2.15
Financial leverage (x)	2.17	1.93	1.68	1.47	1.40
EBIT margin (%)	22.0	19.6	19.0	19.5	18.3
Interest burden (x)	0.99	1.00	1.00	1.00	1.00
Tax burden (x)	0.86	0.83	0.83	0.83	0.83
Return on equity (%)	**107.8**	**85.1**	**72.3**	**58.1**	**45.8**
ROIC (%)	**(1,659.2)**	**682.8**	**270.4**	**252.3**	**319.9**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Balance Sheet (HK$ mn)					
Fixed assets	4	7	25	29	34
Intangible assets & goodwill	0	0	0	0	0
Associated companies & JVs	0	0	0	0	0
Long-term investments	8	8	8	8	8
Other non-current assets	0	1	1	1	1
Non-current assets	**12**	**16**	**34**	**38**	**43**
Inventories	0	0	0	0	0
AR	71	72	82	88	102
Prepayments & deposits	9	11	10	12	15
Other current assets	8	22	22	22	22
Cash	126	94	125	228	340
Current assets	**215**	**198**	**238**	**351**	**479**
AP	69	61	57	70	87
Tax	19	21	21	26	30
Accruals & other payables	7	17	13	16	20
Bank loans & leases	16	0	0	0	0
CB & othe debts	0	0	0	0	0
Other current liabilities	0	0	0	0	0
Current liabilities	**110**	**98**	**92**	**112**	**136**
Bank loans & leases	0	0	0	0	0
CB & othe debts	0	0	0	0	0
Deferred tax & others	0	0	0	0	0
MI	1	3	3	4	5
Non-current liabilities	**1**	**3**	**4**	**5**	**5**
Total net assets	**116**	**113**	**177**	**272**	**380**
Shareholder's equity	**116**	**113**	**177**	**272**	**380**
Share capital	6	0	4	4	4
Reserves	109	113	173	268	376
BVPS (HK$)	**0.29**	**0.28**	**0.44**	**0.68**	**0.95**
Total debts	16	0	0	0	0
Net cash/(debts)	110	94	125	228	340

Biostime International (1112 HK) - A premium story

Dairy/ China

Tracy Sun
Analyst
+852 2135 0214
tracy.sun@oriental-patron.com.hk

Company Update

BUY

UNCHANGED

Close price: **HK$24.70**
Target Price: **HK$24.60(+0%)**
Prior TP: **HK$24.60**

Key Data

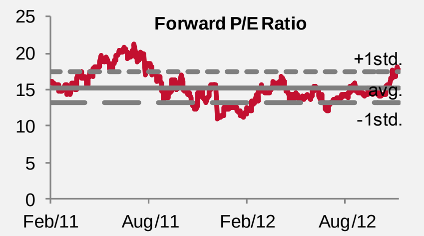
HKEx code		1112
12 Months High	(HK$)	25.40
12 Month Low	(HK$)	10.84
3M Avg Dail Vol.	(mn)	0.78
Issue Share	(mn)	602.29
Market Cap	(HK$mn)	14,876.66
Fiscal Year		12/2011
Major shareholder (s)		Biostime Pharm. (74.7%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	23.6	18.8	30.3
Rel. MSCI CHINA %	23.1	5.0	13.9

PE



Company Profile

Biostime international holdings Ltd. provides pediatric nutrition and baby care products. Their products include probiotic supplement for children, infant formulas, dried baby food, and nutritional supplements. The products under the brand names "Biostime" and "BMcare".

- **The company launched three new products to enrich existing product portfolio and Parents Power will become its long-term earning catalyst**
- **Continuing benefit from baby specialty store channel growth**
- **Comparing to the foreign players, Biostime offers higher but fixed discount to its retailers (16% to retailers, 26% to direct sales).**

New offerings enrich existing product portfolio The company launched three new products of i) stage four preschooler formula with GPM ~1% lower than the current 1-3 stages infant formula; ii) BMCare baby care series with 60-70% GPM; iii) conventional cereals for baby which has 55% GPM. The stage four preschooler formulas extend the consumer purchasing life beyond the infancy stage and target to contribute ~5% of formula segment revenue in 2014E. The new offerings complement existing product portfolio and thereby enhance the attractiveness of customers and boost cross-selling rate.

A beneficiary of fast mover in baby specialty store channel Biostime plans to further expand the baby specialty stores, aiming to cover 10,000 with 23% penetration rate. We believe Biostime will become one of the biggest beneficiaries as the baby specialty stores continue to play a vital channel in China infant market.

The view we got from the retailers Biostime's niche market positioning, enhanced retail-channel and real time supply-chain management have paved the way for acceleration of sales growth, in the view of industry experts who we met in Macau. Comparing to the foreign players, Biostime offers higher but fixed discount to its retailers (16% to retailers, 26% to direct sales). The retailers cater to 3-to-5 tier cities are quite positive on Biostime's products and market positioning. Biostime strictly controls the retail price by signing contracts with them and the inventory turnover days are around 35-40 days.

New brand name-Parents Power, another long-term growth idea Biostime plans to cooperate with ZTT to develop a parent-child activity program. They target to launch this new idea in 2HFY14E and classify this business under new brand name-Parent Power. Thanks to its large customer base, we believe this new business will become Biostime's long-term earning catalyst and improve brand awareness and even bring synergy with its existing products.

Valuation Based on a blending SOTP/DCF approach, we reiterate our BUY rating with target price of HK$24.60, which implies 2013/14E PE of 14.5/12.2X.

Exhibit 202 Forecast and Valuation

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	1,234	2,189	3,078	4,024	4,924
Growth (%)	121%	77%	41%	31%	22%
Net Profit	266	527	644	824	1,000
Growth (%)	145%	98%	22%	28%	21%
Diluted EPS (RMB)	0.580	0.864	1.054	1.347	1.636
EPS growth (%)	142%	49%	22%	28%	21%
Change to previous EPS (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Consensus EPS (RMB)			1.126	1.441	1.688
ROE (%)	16.0	26.7	27.7	27.4	26.5
P/E (x)	34.6	23.2	19.1	14.9	12.3
P/B (x)	5.5	6.2	5.3	4.1	3.3
Yield (%)	1.1	3.1	2.1	2.7	3.3
DPS (HK$)	0.273	0.761	0.529	0.676	0.821

Source: Bloomberg, OP Research

Financial Summary – Biostime International (1112 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (RMB mn)					
Probiotic supplements	304	332	349	387	410
Infant formulas	794	1,685	2,527	3,411	4,264
Dried Baby food products	98	97	112	123	135
Baby care products	38	48	54	57	59
Nutrition supplements	0	27	37	46	56
Turnover	**1,234**	**2,189**	**3,078**	**4,024**	**4,924**
YoY%	121%	77%	41%	31%	22%
COGS	(356)	(733)	(1,074)	(1,421)	(1,753)
Gross profit	**877**	**1,456**	**2,004**	**2,603**	**3,171**
Gross margin	71.1%	66.5%	65.1%	64.7%	64.4%
Other income	4	72	16	24	26
Selling & distribution	(449)	(709)	(988)	(1,296)	(1,578)
Admin	(88)	(82)	(117)	(155)	(190)
Other opex	(10)	(23)	(46)	(60)	(74)
Total opex	**(547)**	**(814)**	**(1,151)**	**(1,511)**	**(1,842)**
Operating profit	**334**	**714**	**868**	**1,116**	**1,355**
Operating margin	27.1%	32.6%	28.2%	27.7%	27.5%
Finance costs	0	0	(3)	(3)	(3)
Profit after financing costs	334	714	865	1,113	1,352
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	334	714	865	1,113	1,352
Tax	(68)	(187)	(221)	(289)	(351)
Minority interests	0	0	0	0	0
Net profit	**266**	**527**	**644**	**824**	**1,000**
YoY%	145.3%	98.5%	22.2%	27.9%	21.4%
Net margin	21.5%	24.1%	20.9%	20.5%	20.3%
EBITDA	**337**	**655**	**871**	**1,121**	**1,379**
EBITDA margin	27.3%	29.9%	28.3%	27.9%	28.0%
EPS (RMB)	**0.580**	**0.864**	**1.054**	**1.347**	**1.636**
YoY%	141.7%	48.9%	22.0%	27.9%	21.4%
DPS (RMB)	0.222	0.618	0.430	0.550	0.668

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (RMB mn)					
EBITDA	337	655	871	1,121	1,379
Chg in working cap	75	(72)	28	(92)	38
Others	13	56	6	7	8
Operating cash	**425**	**639**	**904**	**1,037**	**1,425**
Interests paid	0	0	3	3	3
Tax	(44)	(123)	(303)	(289)	(351)
Net cash from operations	**381**	**516**	**604**	**750**	**1,076**
Capex	(18)	(39)	(55)	(93)	(158)
Investments	0	(484)	(280)	0	0
Dividends received	0	0	0	0	0
Sales of assets	0	0	0	0	0
Interests received	1	2	14	5	11
Others	8	(9)	(10)	7	1
Investing cash	**(9)**	**(529)**	**(331)**	**(82)**	**(146)**
FCF	**372**	**(13)**	**273**	**669**	**930**
Issue of shares	1,413	21	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(146)	(180)	(293)	(145)	(231)
Net change in bank loans	(1)	0	82	0	0
Others	(36)	(10)	(3)	(3)	(3)
Financing cash	**1,231**	**(169)**	**(215)**	**(148)**	**(234)**
Net change in cash	**1,603**	**(182)**	**58**	**520**	**696**
Exchange rate or other Adj	(8)	(56)	0	0	0
Opening cash	134	1,728	1,490	1,549	2,069
Closing cash	**1,728**	**1,490**	**1,549**	**2,069**	**2,766**
CFPS (RMB)	**3.778**	**2.441**	**2.533**	**3.384**	**4.522**

Source: Company, OP Research

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	71.1	66.5	65.1	64.7	64.4
Operating margin (%)	27.1	32.6	28.2	27.7	27.5
Net margin (%)	21.5	24.1	20.9	20.5	20.3
Selling & dist'n exp/Sales (%)	(36.4)	(32.4)	(32.1)	(32.2)	(32.1)
Admin exp/Sales (%)	(7.1)	(3.7)	(3.8)	(3.9)	(3.9)
Payout ratio (%)	38.2	70.6	40.0	40.0	40.0
Effective tax (%)	(20.5)	(26.1)	(25.5)	(26.0)	(26.0)
Total debt/equity (%)	0.0	0.0	3.5	2.7	2.2
Net debt (Cash)/equity (%)	(104.1)	(91.7)	(76.9)	(76.9)	(79.6)
Current ratio (x)	7.9	5.2	4.6	4.8	5.1
Quick ratio (x)	7.4	4.5	3.9	4.0	4.3
Inventory T/O (days)	96	100	115	115	115
AR T/O (days)	1	1	1	1	1
AP T/O (days)	54	33	33	33	33
Cash conversion cycle (days)	43	69	84	84	84
EBIT margin (%)	27.1	32.6	28.2	27.7	27.5
Pre-tax/EBIT (x)	1.0	1.0	1.0	1.0	1.0
Net profit/pre-tax (x)	0.8	0.7	0.7	0.7	0.7
Asset turnover (x)	0.6	0.9	1.1	1.1	1.1
Assets/equity (x)	1.1	1.2	1.3	1.2	1.2
Return on equity (%)	**16.0**	**26.7**	**27.7**	**27.4**	**26.5**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Balance Sheet (RMB mn)					
Fixed assets	31	59	87	139	232
Intangible assets & goodwill	1	1	2	2	2
Associated companies & JVs	0	0	0	0	0
Long-term investments	0	0	108	108	108
Other non-current assets	7	227	238	253	270
Non-current assets	**40**	**288**	**435**	**501**	**612**
Inventories	106	297	382	517	592
AR	5	10	11	16	17
Prepayments & deposits	23	29	43	123	126
Other current assets	0	0	172	172	172
Cash	1,728	1,814	1,872	2,393	3,089
Current assets	**1,862**	**2,150**	**2,480**	**3,221**	**3,996**
AP	66	67	128	130	188
Tax	28	83	0	0	0
Accruals & other payables	142	265	332	458	517
Bank loans & leases	0	0	82	82	82
CB & othe debts	0	0	0	0	0
Other current liabilities	0	0	0	0	0
Current liabilities	**236**	**415**	**541**	**670**	**786**
Bank loans & leases	0	0	0	0	0
CB & othe debts	0	0	0	0	0
Deferred tax & others	6	45	45	45	45
MI	0	0	0	0	0
Non-current liabilities	**6**	**45**	**45**	**45**	**45**
Total net assets	**1,660**	**1,978**	**2,328**	**3,007**	**3,777**
Shareholder's equity	**1,660**	**1,978**	**2,328**	**3,007**	**3,777**
Share capital	5	5	5	5	5
Reserves	1,655	1,972	2,323	3,002	3,772
BVPS (RMB)	**3.63**	**3.24**	**3.81**	**4.92**	**6.18**
Total debts	0	0	82	82	82
Net cash/(debts)	1,728	1,814	1,791	2,311	3,008

Brilliance China (1114 HK) – Luxury is still beautiful

- **Drive by new 3-Series launching, BMW volume grew 50% yoy in 10M12.**
- **After capacity constraint removed, Brilliance expects 150K units of BMW will be delivered this year, up 39% yoy**
- **BMW's higher gross margin is able to be maintained, as new capacity will be filled by new models in coming years.**
- **Forecast earnings growth of CAGR 36% in 2011-2014. Maintain BUY rating, TP of $11.00**

New 3-Series are well-received with good prospects BMW still performed well in China. Brilliance posted record high sales growth of 47% yoy in October 2012. For aggregation, Brilliance sold total of 133,932 units of BMW in 10M12, increased 50.3%. The new BMW 3-Series had launched in August, and it boost overall BMW performance, it delivered total 2,625 units in October, vs. 769 units in July. We expect the new 3-Series will continue to ramp up for the rest of year.

Growth to decelerated in FY12-13E but still be commendable BMW JV 12E target is 150K units, 39% yoy growth, it consists of 100K 5-Series and 50K 3-Series LWB (Long Wheel Base) and X1 SUV. X1 SUV was launched in Mar 2012, it represented 14.4% of total sales so far. As BMW sales didn't affected by anti-Japanese dispute, and luxury vehicles are gaining penetration in China, we believe it likely to surpass its original target. We are projecting a growth of 159,000 units, up 47% yoy. Brilliance's minibus full-year target is 80K-90K units, it largely in-line with last year, including 18,000 units of deluxe minibuses.

Higher valuations are justified by strong growth We are confident that Brilliance China could benefit from the long-term secular growth trend in luxury car segment, back by the launch of new 3-series and 30% sales network expansion. We expect Brilliance deserve a valuation premium to other domestic and Sino-Japan JVs, as increasing luxury vehicle penetration. We forecast its earnings growth of CAGR 36% in 2012-2014. Our target price of HK$11.00 derived from 12x FY13E PE. We maintain BUY rating.

Exhibit 203 Forecast and Valuation

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	8,948.7	6,442.9	6,073.4	6,258.2	6,472.5
Growth (%)	45.5	-28.0	-5.7	3.0	3.4
Net Profit	1,766.7	1,812.3	2,652.5	3,755.8	4,899.4
Growth (%)	0.0	42.5	46.3	41.6	30.5
Diluted EPS (HK$)	0.310	0.442	0.647	0.916	1.194
EPS growth (%)	0.0	42.5	46.3	41.6	30.5
Change to previous EPS (%)					
Consensus EPS (HK$)			0.478	0.625	0.762
ROE (%)	39.3	31.5	35.1	34.9	32.5
P/E (x)	29.7	20.8	14.2	10.0	7.7
P/B (x)	7.1	6.0	4.2	3.0	2.1
Yield (%)	0.0	0.0	0.0	0.0	0.0
DPS (RMB)	0.000	0.000	0.000	0.000	0.000

Source: Bloomberg, OP Research

Auto/ China

Vivien Chan
Analyst
+852 2135 0248
vivien.chan@oriental-patron.com.hk

Company Update

BUY

UNCHANGED

Close price:	**HK$9.20**
Target Price:	**HK$11.00 (+19.4%)**
Prior TP:	**HK$11.00**

Key Data

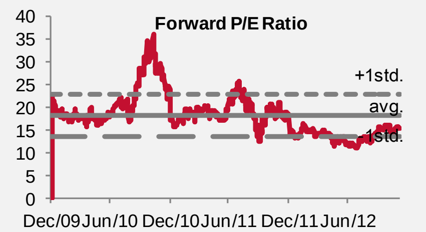
HKEx code		1114
12 Months High	(HK$)	9.89
12 Month Low	(HK$)	6.15
3M Avg Dail Vol.	(mn)	19.72
Issue Share	(mn)	5,025.77
Market Cap	(HK$mn)	46,237.08
Fiscal Year		12/2011
Major shareholder (s)		Brilliance Auto Group (45%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	0.2	26.2	23.8
Rel. MSCI CHINA %	-0.3	12.4	7.5

PE



Company Profile

Brilliance China is a major minivan producer in China. The company produces Jinbei Haise minibus. It also has a 50% stake in Brilliance China BMW JV, which products 3 Series and 5 Series BMW sedan and X1 SUV in China.

Financial Summary – Brilliance China (1114 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (RMB mn)					
Minibus	8,949	6,443	6,073	6,258	6,473
Turnover	**8,949**	**6,443**	**6,073**	**6,258**	**6,473**
YoY%	46	(28)	(6)	3	3
COGS	(7,725)	(5,587)	(5,290)	(5,432)	(5,612)
Gross profit	**1,224**	**856**	**783**	**826**	**861**
Gross margin	13.7%	13.3%	12.9%	13.2%	13.3%
Other income	171	124	117	121	125
Selling & distribution	(462)	(388)	(425)	(419)	(434)
Admin	(331)	(361)	(364)	(369)	(375)
Other opex	(33)	0	0	0	0
Total opex	**(825)**	**(749)**	**(790)**	**(789)**	**(809)**
Operating profit (EBIT)	**569**	**231**	**111**	**158**	**177**
Operating margin	6.4%	3.6%	1.8%	2.5%	2.7%
Provisions	0	0	0	0	0
Finance costs	(171)	(194)	(213)	(219)	(227)
Profit after financing costs	399	38	(102)	(61)	(50)
Associated companies & JVs	1,066	1,912	2,921	4,053	5,258
Pre-tax profit	1,465	1,949	2,819	3,992	5,208
Tax	54	(58)	(113)	(160)	(208)
Minority interests	248	(79)	(54)	(77)	(100)
Net profit	**1,767**	**1,812**	**2,653**	**3,756**	**4,899**
YoY%	25	36	53	75	98
Net margin	19.7%	28.1%	43.7%	60.0%	75.7%
EBITDA	**709**	**369**	**401**	**417**	**491**
EBITDA margin	7.9%	5.7%	6.6%	6.7%	7.6%
EPS (RMB)	**0.252**	**0.359**	**0.526**	**0.744**	**0.971**
YoY%	0.0	42.5	46.3	41.6	30.5
DPS (RMB)	0.000	0.000	0.000	0.000	0.000

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (RMB mn)					
EBITDA	709	369	401	417	491
Chg in working cap	(2,018)	(1,928)	(1,449)	(1,151)	(809)
Others	2,531	878	2,708	3,834	5,031
Operating cash	**1,221**	**(682)**	**1,661**	**3,100**	**4,714**
Interests paid					
Tax	(41)	54	(113)	(160)	(208)
Net cash from operations	**1,180**	**(628)**	**1,548**	**2,940**	**4,506**
Capex	(378)	(306)	(900)	(850)	(800)
Investments	(52)	0	0	0	0
Others	(1,031)	370	0	0	0
Investing cash	**(1,461)**	**64**	**(900)**	**(850)**	**(800)**
FCF	**(281)**	**(564)**	**648**	**2,090**	**3,706**
Issue of shares	3	9	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	0	0	0	0	0
Net change in bank loans	309	688	200	300	(200)
Others	(1,212)	25	(54)	(77)	(100)
Financing cash	**(900)**	**722**	**146**	**223**	**(300)**
Net change in cash	**(1,181)**	**158**	**794**	**2,314**	**3,406**
Exchange rate or other Adj	0	0	0	0	0
Opening cash	1,609	428	586	1,380	3,693
Closing cash	**428**	**586**	**1,380**	**3,693**	**7,099**
CFPS (RMB)	**0.236**	**(0.126)**	**0.309**	**0.587**	**0.899**

Source: Company, OP Research

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	13.7	13.3	12.9	13.2	13.1
Operating margin (%)	6.4	3.6	1.8	2.5	2.7
Net margin (%)	19.7	28.1	43.7	60.0	75.7
Selling & dist'n exp/Sales (%)	5.2	6.0	7.0	6.7	6.7
Admin exp/Sales (%)	3.7	5.6	6.0	5.9	5.8
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Effective tax (%)	(3.7)	3.0	4.0	4.0	4.0
Total debt/equity (%)	2.6	18.6	15.5	13.4	8.7
Net debt/equity (%)	Net Cash	11.4	1.3	Net Cash	Net Cash
Current ratio (x)	0.9	0.9	1.3	1.9	2.7
Quick ratio (x)	0.8	0.8	1.1	1.7	2.5
Inventory T/O (days)	51	50	56	60	65
AR T/O (days)	19	31	37	44	51
AP T/O (days)	176	258	185	137	122
Cash conversion cycle (days)	(106)	(177)	(92)	(33)	(7)
Asset turnover (x)	0.7	0.5	0.4	0.4	0.3
Financial leverage (x)	2.7	2.3	1.8	1.5	1.4
EBIT margin (%)	6.4	3.6	1.8	2.5	2.7
Interest burden (x)	2.6	8.4	25.4	25.2	29.5
Tax burden (x)	1.2	0.9	0.9	0.9	0.9
Return on equity (%)	**39.3**	**31.5**	**35.1**	**34.9**	**32.5**
ROIC (%)	**16.1**	**2.8**	**(0.1)**	**(0.1)**	**(0.4)**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Balance Sheet (RMB mn)					
Fixed assets	1,377	1,393	2,038	2,665	3,185
Intangible assets	185	198	166	134	102
Lease prepayments	67	64	61	58	55
Other non-current assets	4,493	5,124	5,124	5,124	5,124
Non-current assets	**6,122**	**6,779**	**7,389**	**7,980**	**8,465**
Inventories	791	737	881	903	1,084
AR	550	531	713	791	1,005
Prepayments & deposits	2,596	1,425	1,512	1,940	2,460
Other current assets	2,733	2,752	2,752	2,752	2,752
Cash	428	586	1,380	3,693	7,099
Current assets	**7,098**	**6,032**	**7,238**	**10,078**	**14,399**
AP	4,858	3,041	2,315	1,760	1,989
Accruals & other payables	2,128	1,763	1,453	1,383	1,261
Bank loans & leases	165	1,297	1,497	1,797	1,597
CB & othe debts	0	0	0	0	0
Other current liabilities	810	471	471	471	471
Current liabilities	**7,962**	**6,572**	**5,736**	**5,411**	**5,318**
Bank loans & leases	0	0	0	0	0
CB & othe debts	0	0	0	0	0
Other non-current liabilities	2	2	2	2	2
MI	(1,069)	(752)	(752)	(752)	(752)
Non-current liabilities	**(1,067)**	**(751)**	**(751)**	**(751)**	**(751)**
Total net assets	**6,325**	**6,989**	**9,642**	**13,398**	**18,297**
Shareholder's equity	**6,325**	**6,989**	**9,642**	**13,398**	**18,297**
Share capital	394	395	395	395	395
Reserves	5,931	6,594	9,247	13,003	17,902
BVPS (RMB)	**1.05**	**1.25**	**1.77**	**2.52**	**3.50**
Total debts	165	1,297	1,497	1,797	1,597
Net cash/(debts)	263	(711)	(117)	1,897	5,502

IT Solution/ China

Yuji Fung
Analyst
+852 2135 0236
yuji.fung@oriental-patron.com.hk

Company Update

BUY

UNCHANGED

Close price:	**HK$1.84**
Target Price:	**HK$3.00 (+63%)**
Prior TP:	**HK$3.00**

Key Data

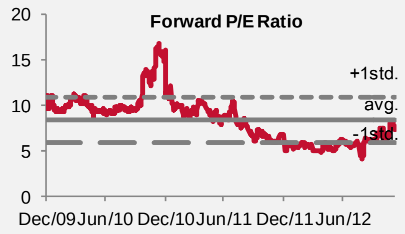
HKEx code		633
12 Months High	(HK$)	2.01
12 Month Low	(HK$)	1.05
3M Avg Dail Vol.	(mn)	4.98
Issue Share	(mn)	1,216.82
Market Cap	(HK$mn)	2,238.96
Fiscal Year		12/2011
Major shareholder (s)		Mr. Chan Yuen Ming (35.6%) Chengwei Ventures (8.8%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	16.5	57.3	30.5
Rel. MSCI CHINA %	16.0	43.5	14.1

PE



Company Profile

CAA is leading satellite and wireless solution provider in China with major customers from government public security agencies as well as three telco operators.

China All Access (633 HK) – Penetrating into China smartphone market as a leading handset component supply chain play

- **CAA announced to acquire 51% of Changfei Investment from ZTE at RMB816mn, in return, ZTE will become the second largest strategic shareholder of CAA with 14.33% stake upon conversion of HK$201.5mn CB at HK$2.20 and HK$201.5mn new share at HK$1.80.**
- **Raise FY13/14E earnings by 36.3%/37.5% to RMB381mn/RMB473mn to reflect immediately profit enhancement from the completion of Changfei Investment acquisition.**
- **Upgrade TP by 30% to HK$3.0 from HK$2.30, representing revised target PE from 8x to 9x or 10% discount to its listed peers. Reiterate BUY.**

Acquiring Changfei Investment as a 51% controlled subsidiary from ZTE at RMB816mn or 10.5x FY11 PE. First, CAA announced to acquire 51% of Changfei Investment from ZTE at a total consideration of RMB816mn, payable in 4 installments in 2012-2014. CAA is expected to complete the acquisition by end of FY12E. The acquisition is based on 10.5x FY11 PE on Changfei Investment and Changfei generated RMB153mn/RMB109mn net profit in FY11/1H12, of which ZTE contributed 80% of sales and the top domestic handset brands like Lenovo, China Wireless and TCL, etc contributed the remaining 20%. Second, ZTE agree to subscribe HK$201.5mn CAA new share at HK$1.80 and HK$201.5mn CB with HK$2.20 conversion price, two years maturity and 10% coupon. Upon the CB conversion and new share issue, ZTE become CAA second largest strategic investors with 14.3% stake.

Raise FY13/14E earnings estimate by 36.3%/37.5%. Given (1) Changfei 1H12 net profit of RMB109mn versus FY11's RMB153mn, (2) strong shipment growth of ZTE smartphone from 2012 onwards, and (3) expanding production capacity via Changfei's new Huizhou manufacturing plant in mid-2013, we forecast Changfei to achieve a 25% revenue CAGR in 2013-2016 and contribute RMB101mn/RMB129mn profit to CAA in FY13/14E, hence we revised up CAA FY13/14E earnings by 36.3%/37.5% to RMB381mn/RMB473mn.

Upgrade TP by 30% to HK$3.00 from HK$2.30. Reiterate BUY. Taken into account 14.3% share dilution from new share and CB to ZTE and 36%/37% profit enhancement in FY13/14E, we upgrade CAA TP by 30% to HK.3.0 from HK$2.30, representing a revised target PE from 8x to 9x or 10% discount to its selected peers to reflect the promising earnings growth from Changfei Investment acquisition.

Risk: (1) Delay of acquisition completion, (2) uncertainty in accounting recognition of CAA existing government related business, (3) labor inflation.

Exhibit 204 Forecast and Valuation

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	500.9	624.1	756.5	5,128.9	6,599.0
Growth (%)	54.5	24.6	21.2	578.0	28.7
Net Profit	153.2	205.2	226.8	381.5	472.6
Growth (%)	56.4	33.9	10.5	68.2	23.9
Diluted EPS (HK$)	0.181	0.209	0.196	0.330	0.409
EPS growth (%)	26.6	15.5	(6.1)	68.2	23.9
Change to previous EPS (%)			(14.3)	16.8	17.8
Consensus EPS (HK$)			0.253	0.283	0.323
ROE (%)	19.5	18.5	14.1	19.1	20.4
P/E (x)	10.2	8.8	9.4	5.6	4.5
P/B (x)	1.6	1.3	1.0	0.8	0.7
Yield (%)	3.1	3.1	3.2	5.4	6.7
DPS (HK$)	0.057	0.057	0.059	0.099	0.123

Source: Bloomberg, OP Research

Financial Summary – China All Access (633 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (RMB mn)					
Satellite communication solution	234	320	378	436	487
Wireless communication solution	263	297	369	482	641
Call centre	5	7	10	14	15
Turnover	**501**	**624**	**756**	**932**	**1,143**
YoY%	54	25	21	578	29
COGS	(290)	(369)	(477)	(4,284)	(5,509)
Gross profit	**211**	**255**	**280**	**(3,352)**	**(4,366)**
Gross margin	42.1%	40.9%	37.0%	-359.6%	-381.9%
Other income	6	31	46	52	45
Selling & distribution	(6)	(8)	(9)	(52)	(67)
Admin	(34)	(43)	(48)	(251)	(322)
R&D	0	0	0	0	0
Other opex	0	0	0	0	0
Total opex	**(41)**	**(51)**	**(56)**	**(303)**	**(389)**
Operating profit (EBIT)	**176**	**236**	**269**	**(3,603)**	**(4,711)**
Operating margin	35.2%	37.8%	35.6%	-386.5%	-412.1%
Provisions	0	0	0	0	0
Finance costs	(0)	(1)	(1)	(1)	(1)
Profit after financing costs	176	235	269	(3,603)	(4,711)
Associated companies & JVs	(0)	(2)	(2)	(2)	(2)
Pre-tax profit	176	233	267	(3,605)	(4,713)
Tax	(23)	(28)	(40)	(89)	(112)
Minority interests	0	0	0	(121)	(158)
Net profit	**153**	**205**	**227**	**(3,815)**	**(4,983)**
YoY%	56	34	11	68	24
Net margin	30.6%	32.9%	30.0%	-409.3%	-435.9%
EBITDA	**184**	**225**	**260**	**614**	**795**
EBITDA margin	36.8%	36.0%	34.4%	65.8%	69.6%
EPS (RMB)	**0.147**	**0.170**	**0.160**	**0.269**	**0.333**
YoY%	27	15	(6)	68	24
DPS (RMB)	0.057	0.057	0.059	0.099	0.123

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (RMB m)					
EBITDA	184	225	260	614	795
Chg in working cap	(97)	(76)	720	(515)	(91)
Others	4	10	0	0	0
Operating cash	**92**	**160**	**980**	**99**	**705**
Interests paid	0	0	(1)	(1)	(1)
Tax	(10)	(17)	(37)	(40)	(89)
Net cash from operations	**82**	**143**	**943**	**58**	**615**
Capex	(34)	(15)	(424)	(210)	(238)
Investments	(21)	(27)	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	0	0	0	0	0
Interests received	0	0	45	48	39
Others	70	(717)	0	0	0
Investing cash	**15**	**(759)**	**(378)**	**(163)**	**(199)**
FCF	**97**	**(616)**	**565**	**(105)**	**417**
Issue of shares	0	395	326	0	0
Buy-back	0	(14)	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(18)	(70)	(71)	(86)	(129)
Net change in bank loans	15	2	(1)	0	0
Others	(1)	(0)	(1)	0	0
Financing cash	**(4)**	**313**	**253**	**(86)**	**(129)**
Net change in cash	**94**	**(303)**	**817**	**(191)**	**287**
Exchange rate or other Adj	(2)	(12)	(1)	0	0
Opening cash	465	557	242	1,058	867
Closing cash	**557**	**242**	**1,058**	**867**	**1,155**
CFPS (RMB)	**0.079**	**0.118**	**0.664**	**0.041**	**0.433**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	42.1	40.9	37.0	16.5	16.5
Operating margin (%)	35.2	37.8	35.6	11.6	11.3
Net margin (%)	30.6	32.9	30.0	7.4	7.2
Selling & dist'n exp/Sales (%)	1.3	1.3	1.1	1.0	1.0
Admin exp/Sales (%)	6.9	6.9	6.3	4.9	4.9
Payout ratio (%)	31.5	27.4	30.0	30.0	30.0
Effective tax (%)	12.9	12.0	15.0	15.0	15.0
Total debt/equity (%)	1.7	1.1	0.7	0.6	0.5
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	5.41	6.94	8.55	3.04	2.94
Quick ratio (x)	5.25	6.88	8.44	2.15	2.20
Inventory T/O (days)	33	13	15	60	50
AR T/O (days)	226	256	215	60	60
AP T/O (days)	178	171	105	60	60
Cash conversion cycle (days)	81	99	125	60	50
Asset turnover (x)	0.55	0.47	0.42	2.00	1.92
Financial leverage (x)	1.16	1.19	1.13	1.28	1.49
EBIT margin (%)	35.2	37.8	35.6	11.6	11.3
Interest burden (x)	1.00	0.99	0.99	1.00	1.00
Tax burden (x)	0.87	0.88	0.85	0.64	0.64
Return on equity (%)	**19.5**	**18.5**	**14.1**	**19.1**	**20.4**
ROIC (%)	**54.2**	**28.5**	**23.6**	**45.6**	**41.7**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Balance Sheet (RMB m)					
Fixed assets	70	71	459	602	750
Intangible assets & goodwill	2	2	2	2	2
Associated companies & JVs	21	19	17	15	13
Long-term investments	0	0	0	0	0
Other non-current assets	57	44	44	44	44
Non-current assets	**150**	**136**	**522**	**663**	**809**
Inventories	26	13	20	704	755
AR	310	438	446	843	1,085
Prepayments & deposits	0	0	0	0	0
Other current assets	0	769	0	0	0
Cash	557	241	1,058	867	1,155
Current assets	**893**	**1,462**	**1,524**	**2,415**	**2,994**
AP	141	173	137	704	906
Tax	23	37	40	89	112
Accruals & other payables	0	0	0	0	0
Bank loans & leases	1	1	1	1	1
CB & othe debts	0	0	0	0	0
Other current liabilities	0	0	0	0	0
Current liabilities	**165**	**211**	**178**	**794**	**1,018**
Bank loans & leases	14	14	12	12	12
CB & othe debts	0	0	0	0	0
Deferred tax & others	8	7	5	5	5
MI	2	2	1	123	281
Non-current liabilities	**24**	**22**	**19**	**140**	**299**
Total net assets	**855**	**1,366**	**1,848**	**2,143**	**2,486**
Shareholder's equity	**855**	**1,366**	**1,848**	**2,143**	**2,486**
Share capital	9	12	12	12	12
Reserves	845	1,354	1,835	2,131	2,474
BVPS (RMB)	**1.15**	**1.38**	**1.87**	**2.17**	**2.51**
Total debts	15	15	13	13	13
Net cash/(debts)	543	227	1,045	854	1,141

Source: Company, OP Research

China Lilang (1234 HK) – Sales orders remain weak

Consumer/ China

Terence Lok
Analyst
+852 2135 0212
terence.lok@oriental-patron.com.hk

Company Update

HOLD

UNCHANGED

Close price:	**HK$4.26**
Target Price:	**HK$5.36 (+25%)**
Prior TP:	**HK$5.36**

Key Data

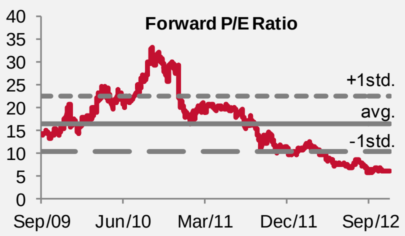
HKEx code		1234
12 Months High	(HK$)	9.25
12 Month Low	(HK$)	3.85
3M Avg Dail Vol.	(mn)	4.49
Issue Share	(mn)	1,200.83
Market Cap	(HK$mn)	5,115.53
Fiscal Year		12/2011
Major shareholder (s)		Xiao Sheng Intl (55.1%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	6.1	0.9	2.4
Rel. MSCI CHINA %	5.6	-12.9	-14.0

PE



Company Profile

China Lilang is one of the leading menswear enterprises in China, mainly engaged in designs, sources, manufactures and distributes high-quality business casual menswear under its core brand "LILANZ" and sub-brand "L2".

- **Total order amount for "LILANZ" declined 9% yoy, while that of "L2" was up 17% yoy for Spring/Summer sales.**
- **SSSG remained in low double digit in July and August.**
- **Maintain HOLD rating with a target price of HK$ 5.36. Implying 8x FY13E P/E.**

2013 Spring/Summer sales fair results. China Lilang has announced its 2013 Spring/Summer sales fair results. Total order amount for "LILANZ" declined for the first time since listing by 9% yoy, while that of "L2" remained upward trend with 17% yoy growth, but significantly moderating from 40.5% yoy growth recorded in 2012 Winter season sales fair. The orders up to date are still weak provided a weaker SSSG and we believe the decreasing SSSG trend has been revealed from 13% in 2Q12 to current 0%.

Slower growth also due to new order policy. The orders growth came in well below our expectation. We attributed the decline of sales orders to weak consumption sentiment, more prudent attitude adapted by distributors, and the further lowering of ordering ratio from 85%-90% in Winter sales fair to 80% in Spring/Summer sales fair. The policy is well received by distributors, as it offers more flexibility for them. However, we expect the orders books sales to be sluggish going forward.

Maintain HOLD. The company is now trading at 6.5x FY13E PE, implying 0.8x PEG based on 7.8% EPS CAGR for FY11-14E. We expect the trade fair orders to be sluggish going forward as distributors continue to focus on stock clearing. We maintain our rating to HOLD and TP to HK$5.36, tagging to 8x FY13E PE. Our target PE is derived from the current sector PEG of 1x and reflects our more conservative view on the stock and the sector.

Exhibit 205: Forecast and Valuation

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	2,053	2,708	3,175	3,087	3,633
Growth (%)	31.6	31.9	17.3	(2.8)	17.7
Net Profit	421	624	687	660	783
Growth (%)	38.4	48.2	10.2	(4.0)	18.7
Diluted EPS (HK$)	0.429	0.636	0.699	0.671	0.796
EPS growth (%)	12.6	48.2	9.9	(4.0)	18.7
Change to previous EPS (%)			(7.8)	(26.0)	(27.5)
Consensus EPS (HK$)			0.720	0.840	0.965
ROE (%)	24.0	30.9	29.0	25.2	27.4
P/E (x)	9.9	6.7	6.1	6.4	5.4
P/B (x)	2.2	1.9	1.6	1.6	1.4
Yield (%)	4.9	9.5	8.2	7.9	9.3
DPS (HK$)	0.208	0.407	0.349	0.335	0.398

Source: Bloomberg, OP Research

Financial Summary – China Lilang (1234 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (RMB mn)					
LILANZ	2,012	2,579	2,955	2,807	3,183
L2	41	129	220	280	450
Turnover	**2,053**	**2,708**	**3,175**	**3,087**	**3,633**
YoY%	32	32	17	(3)	18
COGS	(1,275)	(1,653)	(1,889)	(1,827)	(2,133)
Gross profit	**778**	**1,055**	**1,286**	**1,259**	**1,501**
Gross margin	37.9%	39.0%	40.5%	40.8%	41.3%
Other income	9	12	10	10	10
Selling & distribution	(224)	(274)	(333)	(318)	(374)
Admin	(81)	(89)	(102)	(96)	(109)
Other opex					
Total opex	**(305)**	**(363)**	**(435)**	**(414)**	**(483)**
Operating profit (EBIT)	**482**	**704**	**861**	**856**	**1,028**
Operating margin	23.5%	26.0%	27.1%	27.7%	28.3%
Provisions	0	0	0	0	0
Finance costs	8	49	55	60	60
Profit after financing costs	490	753	916	916	1,088
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	490	753	916	916	1,088
Tax	(69)	(130)	(229)	(257)	(305)
Minority interests	0	0	0	0	0
Net profit	**421**	**624**	**687**	**660**	**783**
YoY%	38	48	10	(4)	19
Net margin	20.5%	23.0%	21.6%	21.4%	21.6%
EBITDA	**482**	**704**	**867**	**871**	**1,050**
EBITDA margin	23.5%	26.0%	27.3%	28.2%	28.9%
EPS (RMB)	**0.349**	**0.517**	**0.568**	**0.545**	**0.647**
YoY%	13	48	10	(4)	19
DPS (RMB)	0.208	0.407	0.349	0.335	0.398

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (RMB mn)					
EBITDA	482	704	867	871	1,050
Chg in working cap	71	(398)	(108)	19	(124)
Others	14	20	0	0	0
Operating cash	**567**	**326**	**760**	**890**	**926**
Interests paid	0	0	0	0	0
Tax	(49)	(92)	(130)	(229)	(257)
Net cash from operations	**518**	**234**	**630**	**661**	**669**
Capex	(49)	(120)	(120)	(62)	(73)
Investments	(8)	(2)	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	(1)	(0)	0	0	0
Interests received	10	43	0	0	0
Others	(263)	541	(80)	40	40
Investing cash	**(311)**	**462**	**(200)**	**(22)**	**(33)**
FCF	**206**	**695**	**430**	**640**	**636**
Issue of shares	0	0	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	(0)	0	0	0
Dividends paid	(192)	(300)	(349)	(418)	(425)
Net change in bank loans	(1)	0	0	0	0
Others	1	1	(10)	(10)	(10)
Financing cash	**(192)**	**(300)**	**(359)**	**(428)**	**(435)**
Net change in cash	**15**	**396**	**71**	**211**	**202**
Exchange rate or other Adj	(11)	(2)	0	0	0
Opening cash	844	847	1,241	1,312	1,523
Closing cash	**847**	**1,241**	**1,312**	**1,523**	**1,725**
CFPS (RMB)	**0.429**	**0.194**	**0.521**	**0.547**	**0.553**

Source: Company, OP Research

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	37.9	39.0	40.5	40.8	41.3
Operating margin (%)	23.5	26.0	27.1	27.7	28.3
Net margin (%)	20.5	23.0	21.6	21.4	21.6
Selling & dist'n exp/Sales (%)	10.9	10.1	10.5	10.3	10.3
Admin exp/Sales (%)	3.9	3.3	3.2	3.1	3.0
Payout ratio (%)	48.5	64.0	50.0	50.0	50.0
Effective tax (%)	14.2	17.2	25.0	28.0	28.0
Total debt/equity (%)	0.0	0.0	0.0	0.0	0.0
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	4.00	5.93	5.56	6.07	5.97
Quick ratio (x)	3.66	5.32	4.97	5.49	5.39
Inventory T/O (days)	52	50	50	50	50
AR T/O (days)	89	96	96	96	96
AP T/O (days)	146	75	75	75	75
Cash conversion cycle (days)	(5)	71	71	71	71
Asset turnover (x)	0.93	1.08	1.13	1.00	1.08
Financial leverage (x)	1.26	1.24	1.19	1.18	1.18
EBIT margin (%)	23.5	26.0	27.1	27.7	28.3
Interest burden (x)	1.02	1.07	1.06	1.07	1.06
Tax burden (x)	0.86	0.83	0.75	0.72	0.72
Return on equity (%)	**24.0**	**30.9**	**29.0**	**25.2**	**27.4**
ROIC (%)	**45.6**	**59.8**	**59.0**	**51.2**	**59.8**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Balance Sheet (RMB mn)					
Fixed assets	248	271	385	432	483
Intangible assets & goodwill	8	8	0	0	0
Associated companies & JVs	0	0	0	0	0
Long-term investments	0	0	0	0	0
Other non-current assets	8	131	250	130	130
Non-current assets	**264**	**410**	**635**	**562**	**613**
Inventories	182	225	257	249	291
AR	501	715	838	815	959
Prepayments & deposits	614	4	5	5	5
Other current assets	0	0	0	0	0
Cash	847	1,241	1,312	1,523	1,725
Current assets	**2,144**	**2,185**	**2,412**	**2,592**	**2,980**
AP	509	339	388	375	438
Tax	26	29	46	51	61
Accruals & other payables	0	0	0	0	0
Bank loans & leases	0	0	0	0	0
CB & othe debts	0	0	0	0	0
Other current liabilities	0	0	0	0	0
Current liabilities	**536**	**368**	**434**	**427**	**499**
Bank loans & leases	0	0	0	0	0
CB & othe debts	0	0	0	0	0
Deferred tax & others	12	49	49	49	49
MI	0	0	0	0	0
Non-current liabilities	**12**	**49**	**49**	**49**	**49**
Total net assets	**1,860**	**2,177**	**2,564**	**2,677**	**3,044**
Shareholder's equity	**1,860**	**2,177**	**2,564**	**2,677**	**3,044**
Share capital	106	106	493	606	973
Reserves	1,754	2,071	2,071	2,071	2,071
BVPS (RMB)	**1.90**	**2.22**	**2.61**	**2.72**	**3.09**
Total debts	0	0	0	0	0
Net cash/(debts)	847	1,241	1,312	1,523	1,725

China Modern Dairy (1117 HK) – Enjoy the taste of High Growth

Dairy/ China

Tracy Sun
Analyst
+852 2135 0214
tracy.sun@oriental-patron.com.hk

Company Update

BUY

UNCHANGED

Close price:	**HK$1.99**
Target Price:	**HK$2.64 (+32.70%)**
Prior TP:	**HK$2.64**

Key Data

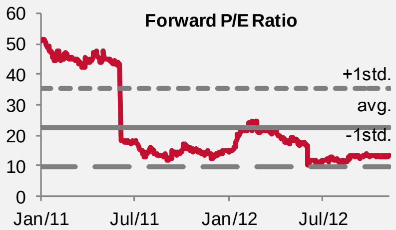
HKEx code		1117
12 Months High	(HK$)	2.45
12 Month Low	(HK$)	1.51
3M Avg Dail Vol.	(mn)	2.42
Issue Share	(mn)	4,800.00
Market Cap	(HK$mn)	9,552.00
Fiscal Year		12/2011
Major shareholder (s)		Advanced Dairy (24.01%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	6.1	0.9	2.4
Rel. MSCI CHINA %	5.6	-12.9	-14.0

PE



Company Profile

Established in 2005, China modern dairy is the largest modernized dairy farm operator in China. It operated 20 scalable farms in China with 159,347 dairy cows. Two more new farms are under construction, planning to reach a total of 27 by FY15E. Its milk yield of 8.09 against the industry average of 4.8. Sales to Mengniu accounted for 96.4% of its total sales in FY12, and represented 12% of Mengniu's raw milk demand.

- **We see strong total revenue growth prospect ahead; total revenue could maintain a CAGR of 42% from FY12-FY15E.**
- **CMD will continue benefits from the policy of exemption on agricultural tax.**
- **The company's cash can catch up with CAPEX and generate positive free cash flow in FY14.**

China modern dairy (CMD) is largest large-scale modern farm operator in China, with 20 scalable farms and 159,347 dairy cows. Its duplicable business model speeds up its expansion pace and target to 27 by FY15E with 240,000 cows. Its high capital intensive and long-term pay-back business model creates a high entry barrier for new rivals.

The advanced breeding, feeding and herd management techniques enable CMD to produce the high-quality raw milk. And the price commands a high double digit premium over the industry average level. To ensure the quality of raw milk, CMD's farms are strategically located close to downstream milk processing plants.

CMD targets the milk yield per milkable cow is at about 9.0 tons/annum in FY15E and 9.4 in FY17E, ultimately up to 10 tons/annum, driven by increasing proportion of mature cows and genetic improvement. Continuing improvement in milk yield will further boost the production volume growth, in our view. Thanks to its economies of scale, cash cost of raw milk per ton declined by 7.24% in FY12 despite of surging commodities' price.

A 10-year off-take agreement with Mengniu is mutually beneficial for both parties, in our view. Sales to Mengniu accounted for 96.4% of its total sales in FY12, and represented 12% of Mengniu's raw milk demand.

Maintain BUY. We forecast CMD could enjoy the net profit growth at a CAGR of 34% for FY12-FY15E. Based on a blending DCF/PEG model, we estimate a fair value of HK$2.64 per share. We Maintain a BUY rating.

Exhibit 206: Forecast and Valuation

Year to Jun (RMB mn)	FY10A	FY11A	FY12A	FY13E	FY14E
Revenue	590	1,113	1,678	2,685	3,937
Growth (%)	77%	89%	51%	60%	47%
Net Profit	107	225	398	541	757
Growth (%)	152%	109%	77%	36%	40%
Diluted EPS (RMB)	0.025	0.052	0.082	0.112	0.156
EPS growth (%)	n.a.	103%	60%	36%	40%
Change to previous EPS (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Consensus EPS (RMB)				0.119	0.163
ROE (%)	7.5	4.8	7.9	9.7	11.9
P/E (x)	64.7	31.9	20.0	14.7	10.5
P/B (x)	4.8	1.5	1.6	1.4	1.3
Yield (%)	0.0	0.0	0.0	0.0	0.7
DPS (HK$)	0.000	0.000	0.000	0.000	0.015

Source: Bloomberg, OP Research

Financial Summary – China Modern Dairy (1117 HK)

Year to Jun	FY10A	FY11A	FY12A	FY13E	FY14E
Income Statement (RMB mn)					
Turnover	**590**	**1,113**	**1,678**	**2,685**	**3,937**
YoY%	77%	89%	51%	60%	47%
COGS	(438)	(730)	(1,149)	(1,819)	(2,668)
Gross profit	**152**	**383**	**529**	**866**	**1,269**
Gross margin	25.8%	34.4%	31.5%	32.3%	32.2%
Other income	65	102	117	81	62
Gain arising from changes in fair value less costs to sell of dairy cows	61	56	131	70	50
Operating profit	**137**	**303**	**479**	**601**	**816**
Operating margin	23.3%	27.2%	28.5%	22.4%	20.7%
Finance costs	(30)	(59)	(71)	(52)	(47)
Profit after financing costs	107	244	407	550	769
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	107	244	407	550	769
Tax	(0)	(0)	(0)	0	0
Minority interests	0	(19)	(9)	(8)	(12)
Net profit	**107**	**225**	**398**	**541**	**757**
YoY%	151.6%	109.2%	77.4%	35.8%	39.8%
Net margin	18.2%	20.2%	23.8%	20.2%	19.2%
EBITDA	**181**	**370**	**574**	**743**	**980**
EBITDA margin	30.8%	33.3%	34.2%	27.7%	24.9%
EPS (RMB)	**0.025**	**0.052**	**0.082**	**0.112**	**0.156**
YoY%	n.a.	102.8%	59.6%	35.8%	39.8%
DPS (RMB)	0.000	0.000	0.000	0.000	0.012

Year to Jun	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (RMB mn)					
EBITDA	181	370	574	743	980
Chg in working cap	3	10	121	203	180
Others	(95)	(129)	(224)	(169)	(148)
Operating cash	**89**	**252**	**471**	**777**	**1,011**
Interests paid	30	59	71	52	47
Tax	(0)	(0)	(0)	0	0
Net cash from operations	**119**	**311**	**542**	**829**	**1,058**
Capex	(1,207)	(1,440)	(2,169)	(1,119)	(852)
Investments	(46)	(5)	(14)	0	0
Dividends received	0	0	0	0	0
Sales of assets	0	0	0	0	0
Interests received	3	10	17	11	17
Others	69	(224)	179	40	39
Investing cash	**(1,181)**	**(1,659)**	**(1,987)**	**(1,067)**	**(795)**
FCF	**(1,062)**	**(1,349)**	**(1,444)**	**(238)**	**263**
Issue of shares	0	903	0	0	0
Buy-back	0	0	0	0	0
Minority interests	1	0	3	0	0
Net change in bank loans	633	298	1,068	404	310
Others	(55)	918	(129)	(52)	(47)
Financing cash	**579**	**2,119**	**941**	**352**	**263**
Net change in cash	**(483)**	**771**	**(503)**	**114**	**526**
Exchange rate or other Adj	0	0	0	0	0
Opening cash	734	251	1,022	518	633
Closing cash	**251**	**1,022**	**518**	**633**	**1,159**
CFPS (RMB)	**0.059**	**0.234**	**0.107**	**0.130**	**0.239**

Year to Jun	FY10A	FY11A	FY12A	FY13E	FY14E
Ratios					
Gross margin (%)	25.8	34.4	31.5	32.3	32.2
Operating margin (%)	23.3	27.2	28.5	22.4	20.7
Net margin (%)	18.2	20.2	23.8	20.2	19.2
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Effective tax (%)	(0.1)	(0.0)	(0.0)	0.0	0.0
Total debt/equity (%)	85.3	32.6	51.1	53.4	51.9
Net debt/equity (%)	67.8	10.7	40.9	42.1	33.7
Current ratio (x)	0.7	2.1	0.7	0.7	0.9
Quick ratio (x)	0.5	1.8	0.6	0.6	0.7
Inventory T/O (days)	88	82	69	79	79
AR T/O (days)	25	24	26	25	25
AP T/O (days)	71	51	63	57	57
Cash conversion cycle (days)	41	55	32	47	47
EBIT margin (%)	23.3	27.2	28.5	22.4	20.7
Pre-tax/EBIT (x)	0.8	0.8	0.9	0.9	0.9
Net profit/pre-tax (x)	1.0	0.9	1.0	1.0	1.0
Asset turnover (x)	0.1	0.2	0.2	0.3	0.3
Assets/equity (x)	2.9	1.5	1.7	1.8	1.8
Return on equity (%)	**7.5**	**4.8**	**7.9**	**9.7**	**11.9**

Year to Jun	FY10A	FY11A	FY12E	FY13E	FY14E
Balance Sheet (RMB mn)					
Fixed assets	1,578	2,221	2,965	3,410	3,793
Intangible assets & goodwill	365	373	378	379	381
Associated companies & JVs	0	0	15	15	15
Long-term investments	0	0	0	0	0
Other non-current assets	1,756	2,653	4,195	4,791	5,138
Non-current assets	**3,699**	**5,247**	**7,553**	**8,595**	**9,327**
Inventories	139	213	264	271	576
AR	77	137	181	309	410
Prepayments & deposits	36	287	134	134	134
Other current assets	1	1	2	2	2
Cash	251	1,022	518	633	1,159
Current assets	**505**	**1,660**	**1,099**	**1,349**	**2,280**
AP	352	483	821	1,160	1,745
Tax	0	0	0	0	0
Accruals & other payables	0	0	0	0	0
Bank loans & leases	385	304	664	732	843
CB & othe debts	0	0	0	0	0
Other current liabilities	5	5	16	16	16
Current liabilities	**742**	**792**	**1,501**	**1,908**	**2,603**
Bank loans & leases	840	1,219	1,927	2,263	2,462
CB & othe debts	0	0	0	0	0
Deferred tax & others	52	174	91	91	91
MI	1,133	55	66	74	86
Non-current liabilities	**2,025**	**1,447**	**2,084**	**2,428**	**2,640**
Total net assets	**1,437**	**4,668**	**5,066**	**5,608**	**6,365**
Shareholder's equity	**1,437**	**4,668**	**5,066**	**5,608**	**6,365**
Share capital	0	413	413	413	413
Reserves	1,436	4,255	4,653	5,195	5,952
BVPS (RMB)	**0.34**	**1.07**	**1.04**	**1.16**	**1.31**
Total debts	1,225	1,523	2,591	2,995	3,305
Net cash/(debts)	(974)	(501)	(2,073)	(2,362)	(2,146)

Source: Company, OP Research

China Wireless (2369 HK) – Competition remain intensive

- **1H12 results miss on bottom line with sales/net profit was up 105.4%/28.2% yoy to HK$6.2bn/HK$152.5mn.**
- **FY12/13E earnings cut by 34%/50% to reflect lower GPM assumption.**
- **Downgrade to HOLD with TP cut from HK$2.2 to HK$1.4 based on 5x FY12E PE and HK$0.70 net cash p.s.**

Handset maker/ China

Yuji Fung
Analyst
+852 2135 0236
yuji.fung@oriental-patron.com.hk

Company Update

HOLD

UNCHANGED

Close price:	**HK$2.36**
Target Price:	**HK$1.40 (-41%)**
Prior TP:	**HK$1.40**

Key Data

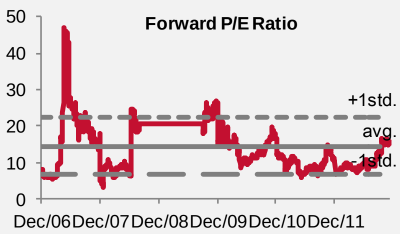
HKEx code		2369
12 Months High	(HK$)	2.57
12 Month Low	(HK$)	1.00
3M Avg Dail Vol.	(mn)	21.63
Issue Share	(mn)	2,094.40
Market Cap	(HK$mn)	4,942.77
Fiscal Year		12/2011
Major shareholder (s)		GUO DEYING (36.2%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	2.6	68.6	101.7
Rel. MSCI CHINA %	2.1	54.8	85.4

PE



Company Profile

China Wireless is one of the top 4 brand smartphone vendor in China under the brand "Coolpad".

1H12 results miss. China Wireless reported its 1H12 sales/gross profit/net profit was up 105.4%/46.5%/28.2% yoy to HK$6.2bn/HK$744mn/HK$153mn. Top-line was in-line with expectation, thanks to (1) 12% yoy increase in ASP to HK$733 and (2) 86% yoy increase in handset shipments to ~8.4mn units in 1H12. However, GPM was squeezed by 4.8ppt yoy to 12.0%, mainly due to intensifying competition in China market. Although China Wireless implemented a stringent cost control and lowered its SG&A-to-Sales ratio by 3.8ppt yoy to 10.1% in 1H12, the improvement was completely eroded by the GPM pressure, as a result 1H12 net margin was squeezed by 1.5ppt yoy to 2.4%.

FY12/13E earnings cut by 34%/50% to reflect lower GPM assumption. Although we are confident that China Wireless is able to achieve over 80% shipments growth in FY12E, thanks to the booming low-end smartphone demand in China, we see handset market competition is intensifying in China and hence we cut our GP margin assumption by 4ppt to 10.0% in FY12/13E while we revise up our ASP assumption by 17%/11% to HK$700/HK$665 to reflect less than expected price erosion. We cut our earnings estimate by 34%/50% to HK$332mn/HK$357mn.

Downgrade to HOLD with lower TP. We downgrade China Wireless from BUY to HOLD and we lower our target PE from 10x to 5x to reflect intense competition in the domestic smartphone market and the uncertainly in mid-to-long term profit sustainability. We cut our TP by 36% to HK$1.40, based on HK$0.70 net cash p.s. and 5x FY12E PE.

Risk: (1) Higher-than expected shipments growth. (2) lower than expected margin pressure, and (3) better than expected operating leverage.

Exhibit 207: Forecast and Valuation

Year to Dec (HK$ mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	4,593	7,340	14,000	16,625	17,057
Growth (%)	76	60	91	19	3
Net Profit	480	271	333	356	294
Growth (%)	100	(44)	23	7	(17)
Diluted EPS (HK$)	0.222	0.121	0.145	0.159	0.132
EPS growth (%)	92	(45)	20	10	(17)
Change to previous EPS (%)			(35)	(49)	(64)
Consensus EPS (HK$)			0.150	0.169	0.174
ROE (%)	41.8	15.1	14.3	13.6	10.3
P/E (x)	10.6	19.4	16.3	14.8	17.9
P/B (x)	3.5	2.3	2.0	1.8	1.7
Yield (%)	2.5	1.3	1.5	1.7	1.4
DPS (HK$)	0.060	0.030	0.036	0.039	0.033

Source: Bloomberg, OP Research

Financial Summary – China Wireless (2369 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (HK$ mn)					
Handset	4,593	7,340	14,000	16,625	17,057
Turnover	**4,593**	**7,340**	**14,000**	**16,625**	**17,057**
YoY%	76	60	91	19	3
COGS	(3,475)	(6,259)	(12,603)	(15,023)	(15,490)
Gross profit	**1,117**	**1,081**	**1,397**	**1,602**	**1,567**
Gross margin	24.3%	14.7%	10.0%	9.6%	9.2%
Other income	217	320	376	422	439
Selling & distribution	(323)	(466)	(566)	(671)	(689)
Admin	(443)	(559)	(764)	(898)	(935)
R&D	0	0	0	0	0
Other opex	(14)	(5)	(10)	(12)	(12)
Total opex	**(780)**	**(1,030)**	**(1,340)**	**(1,582)**	**(1,636)**
Operating profit (EBIT)	**554**	**371**	**433**	**443**	**370**
Operating margin	12.1%	5.1%	3.1%	2.7%	2.2%
Provisions	0	0	0	0	0
Finance costs	(9)	(46)	(41)	(24)	(24)
Profit after financing costs	545	325	392	419	346
Associated companies & JVs	(0)	(0)	0	0	0
Pre-tax profit	545	324	392	419	346
Tax	(65)	(53)	(59)	(63)	(52)
Minority interests	0	0	0	0	0
Net profit	**480**	**271**	**333**	**356**	**294**
YoY%	100	(44)	23	7	(17)
Net margin	10.5%	3.7%	2.4%	2.1%	1.7%
EBITDA	**615**	**419**	**504**	**544**	**491**
EBITDA margin	13.4%	5.7%	3.6%	3.3%	2.9%
EPS (HK$)	**0.222**	**0.121**	**0.145**	**0.159**	**0.132**
YoY%	92	(45)	20	10	(17)
DPS (HK$)	0.060	0.030	0.036	0.039	0.033

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (HK$mn)					
EBITDA	615	419	504	544	491
Chg in working cap	9	(366)	461	44	16
Others	81	39	0	0	0
Operating cash	**705**	**92**	**966**	**587**	**506**
Tax	(54)	(62)	(25)	(59)	(63)
Net cash from operations	**651**	**29**	**941**	**529**	**444**
Capex	(65)	(78)	(148)	(176)	(181)
Investments	(22)	(92)	(84)	(99)	(102)
Dividends received	0	0	0	0	0
Sales of assets	10	3	0	0	0
Interests received	11	31	39	35	42
Others	(547)	(317)	0	0	0
Investing cash	**(613)**	**(452)**	**(193)**	**(240)**	**(240)**
FCF	**38**	**(423)**	**748**	**289**	**203**
Issue of shares	0	669	0	0	0
Buy-back	0	(190)	0	0	0
Minority interests	0	1	0	0	0
Dividends paid	(84)	(134)	(43)	(75)	(82)
Net change in bank loans	443	491	(746)	0	0
Net change in other non-curr liabilities	18	6	(10)	0	0
Interest paid	(20)	(38)	(41)	(24)	(24)
Financing cash	**357**	**805**	**(840)**	**(99)**	**(106)**
Net change in cash	**396**	**382**	**(92)**	**190**	**97**
Exchange rate or other Adj	(5)	35	0	0	0
Opening cash	251	642	1,059	967	1,157
Closing cash	**642**	**1,059**	**967**	**1,157**	**1,254**
CFPS (Year to Dec)	**0.301**	**0.013**	**0.410**	**0.237**	**0.199**

Source: Company, OP Research

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	24.3	14.7	10.0	9.6	9.2
Operating margin (%)	12.1	5.1	3.1	2.7	2.2
Net margin (%)	10.5	3.7	2.4	2.1	1.7
Selling & dist'n exp/Sales (%)	7.0	6.4	4.0	4.0	4.0
Admin exp/Sales (%)	9.7	7.6	5.5	5.4	5.5
Payout ratio (%)	27.0	24.7	24.7	24.7	24.7
Effective tax (%)	11.9	16.4	15.0	15.0	15.0
Total debt/equity (%)	52.2	57.6	20.7	18.6	17.3
Net debt/equity (%)	6.9	9.1	Net cash	Net cash	Net cash
Current ratio (x)	1.24	1.23	1.22	1.21	1.21
Quick ratio (x)	0.93	0.91	0.74	0.72	0.73
Inventory T/O (days)	88	97	85	85	85
AR T/O (days)	73	112	50	50	50
AP T/O (days)	132	175	130	130	130
Cash conversion cycle (days)	29	35	5	5	5
Asset turnover (x)	1.41	1.25	1.72	1.77	1.66
Financial leverage (x)	2.83	3.27	3.49	3.60	3.60
EBIT margin (%)	12.1	5.1	3.1	2.7	2.2
Interest burden (x)	0.98	0.87	0.91	0.95	0.94
Tax burden (x)	0.88	0.84	0.85	0.85	0.85
Return on equity (%)	**41.8**	**15.1**	**14.3**	**13.6**	**10.3**
ROIC (%)	**40.0**	**15.9**	**16.7**	**18.2**	**14.5**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Balance Sheet (HK$mn)					
Fixed assets	722	862	956	1,058	1,144
Intangible assets & goodwill	94	112	141	179	212
Associated companies & JVs	0	35	35	35	35
Long-term investments	0	11	11	11	11
Other non-current assets	135	131	130	130	130
Non-current assets	**952**	**1,152**	**1,273**	**1,412**	**1,532**
Inventories	835	1,669	2,935	3,498	3,607
AR	919	2,257	1,918	2,277	2,337
Prepayments & deposits	176	314	560	665	682
Other current assets	729	1,081	1,081	1,081	1,081
Cash	642	1,059	967	1,157	1,254
Current assets	**3,301**	**6,380**	**7,460**	**8,678**	**8,961**
AP	1,256	2,993	4,489	5,351	5,517
Tax	53	25	59	63	52
Accruals & other payables	726	982	1,120	1,330	1,365
Bank loans & leases	607	1,190	434	434	434
CB & othe debts	0	0	0	0	0
Other current liabilities	11	8	8	8	8
Current liabilities	**2,652**	**5,198**	**6,110**	**7,186**	**7,376**
Bank loans & leases	133	68	79	79	79
CB & othe debts	0	0	0	0	0
Deferred tax & others	48	75	65	65	65
MI	4	5	5	5	5
Non-current liabilities	**184**	**148**	**148**	**148**	**148**
Total net assets	**1,417**	**2,185**	**2,475**	**2,756**	**2,968**
Shareholder's equity	**1,417**	**2,185**	**2,475**	**2,756**	**2,968**
Share capital	21	21	21	21	21
Reserves	1,396	2,164	2,454	2,735	2,947
BVPS (HK$)	**0.67**	**1.02**	**1.19**	**1.32**	**1.42**
Total debts	739	1,258	512	512	512
Net cash/(debts)	(97)	(199)	454	644	742

Chinasoft Intl (354 HK) – Contribution from Huawei JV is the key in 2013

IT Solution/ China

Yuji Fung
Analyst
+852 2135 0236
yuji.fung@oriental-patron.com.hk

Company Update

BUY

UNCHANGED

Close price:	**HK$1.92**
Target Price:	**HK$2.10 (+9.4%)**
Prior TP:	**HK$2.10**

Key Data

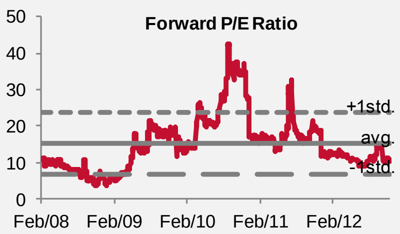
HKEx code		354
12 Months High	(HK$)	2.55
12 Month Low	(HK$)	1.48
3M Avg Dail Vol.	(mn)	3.14
Issue Share	(mn)	1,718.37
Market Cap	(HK$mn)	3,299.26
Fiscal Year		12/2011
Major shareholder (s)		Hony (16.5%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	-3.5	15.0	-1.0
Rel. MSCI CHINA %	-4.0	1.2	-17.4

PE



Company Profile

Chinasoft is a global leading IT Outsourcing and solution company.

- **1H12 results miss with sales was up 24% yoy to RMB1.2bn and service revenue was up 30% yoy to RMB1.1bn. Net profit was up 796% yoy to RMB60mn, mainly due to non-cash fair value loss on p-share in 1H11. Adjusted net profit was slightly up 8% only.**
- **We cut our FY12/13E earnings by 62%/65% to RMB120mn/RMB217mn to reflect (1) margin pressure from wage inflation and (2) lower-than expected sales contribution from Huawei JV.**
- **Maintain BUY with TP cut from HK$3.86 to HK$2.1, representing 15x FY13E PE.**

1H12 results miss. 1H12 results miss with sales was up 24% yoy to RMB1.2bn and service revenue was up 30% yoy to RMB1.1bn. Net profit was up 796% yoy to RMB60mn and adjusted (excl. 1H11 fair value loss on p-share) net profit was up slightly by 8% yoy. GPM margin was squeezed by 1.9ppt yoy to 30.7%, mainly due to (1) higher than expected wage inflation (10% yoy), (2) rapidly expanded labour force (from FY11 12.5k to 1H12 17.0k) and (3) lower than expected sales contribution from Huawei JV

We cut our FY12/13E earnings by 62%/65% to RMB120mn/RMB217mn. Mgmt expect organic revenue growth to be 30% in FY12 as Huawei JV still at the start up stage, slower than we expect. However, wage inflation remain a key concern and mgmt expect a ~10% yoy increase in FY12E. We cut our earnings by 62%/65% to RMB120mn/RMB217mn, mainly due to (1) 5.5ppt cut on margin assumption to 30% to reflect higher than expected increase in labour cost and (2) we lower our FY12/13E sales forecast by 12%/28% to RMB2.9bn/RMB3.7bn to reflect lower than expected sales contribution from Huawei JV. However, we expect operating leverage kick-in from FY13E onwards to drive the 81% yoy increase in FY13E earnings as we expect Huawei JV will start material contribution from FY13E onwards.

Maintain BUY with TP cut from HK$3.86 to HK$2.1. We maintain BUY on Chinasoft given its global leading IT Outsourcing/IT Solution position. However, we cut our TP by 46% from HK$3.86 to HK$2.1 based on 15x FY13E PE.

Risk: (1) Wage inflation may continue in FY13E, (2) Intensifying competition in IT Outsourcing industry

Exhibit 208: Forecast and Valuation

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	1,601	2,244	2,938	3,719	4,527
Growth (%)	45	40	31	27	22
Net Profit	(40)	111	120	217	276
Growth (%)	(68)	(376)	8	81	27
Diluted EPS (HK$)	(0.041)	0.083	0.075	0.137	0.174
EPS growth (%)	(68)	(305)	(9)	81	27
Change to previous EPS (%)			(61)	(64)	(68)
Consensus EPS (HK$)			0.178	0.189	0.188
ROE (%)	(4.6)	8.0	6.7	11.1	12.5
P/E (x)	(47.2)	23.0	25.4	14.0	11.0
P/B (x)	1.8	1.5	1.4	1.3	1.1
Yield (%)	0.0	0.0	0.0	0.0	0.0
DPS (HK$)	0.000	0.000	0.000	0.000	0.000

Source: Bloomberg, OP Research

Financial Summary – Chinasoft Intl (354 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (RMB mn)					
Sales of hardware	227	284	340	382	405
Solutions	637	931	1,267	1,554	1,729
IT Outsourcing	683	959	1,247	1,684	2,273
Training	54	69	83	100	120
Turnover	**1,601**	**2,244**	**2,938**	**3,719**	**4,527**
YoY%	45	40	31	27	22
COGS	(1,088)	(1,514)	(2,063)	(2,600)	(3,161)
Gross profit	**513**	**729**	**875**	**1,119**	**1,366**
Gross margin	32.1%	32.5%	29.8%	30.1%	30.2%
Other income	35	46	0	0	0
Selling & distribution	(94)	(149)	(172)	(185)	(228)
Admin	(241)	(309)	(401)	(467)	(557)
R&D	(39)	(46)	(60)	(76)	(93)
Other opex	(30)	(48)	(59)	(74)	(91)
Total opex	**(405)**	**(551)**	**(692)**	**(803)**	**(969)**
Operating profit (EBIT)	**144**	**224**	**183**	**317**	**397**
Operating margin	9.0%	10.0%	6.2%	8.5%	8.8%
Provisions	(153)	(52)	0	0	0
Finance costs	(8)	(24)	(19)	(19)	(19)
Profit after financing costs	(18)	148	164	298	379
Associated companies & JVs	3	3	0	0	0
Pre-tax profit	(15)	151	164	298	379
Tax	(15)	(30)	(33)	(60)	(76)
Minority interests	(10)	(10)	(12)	(21)	(27)
Net profit	**(40)**	**111**	**120**	**217**	**276**
YoY%	(68)	(376)	8	81	27
Net margin	-2.5%	4.9%	4.1%	5.8%	6.1%
EBITDA	**209**	**310**	**276**	**421**	**502**
EBITDA margin	13.0%	13.8%	9.4%	11.3%	11.1%
EPS (RMB)	**(0.033)**	**0.068**	**0.061**	**0.111**	**0.142**
YoY%	(68)	(305)	(9)	81	27
DPS (RMB)	0.000	0.000	0.000	0.000	0.000

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (RMB mn)					
EBITDA	209	310	276	421	502
Chg in working cap	(173)	(175)	(200)	(97)	(98)
Others	22	9	0	0	0
Operating cash	**58**	**144**	**75**	**324**	**404**
Interests paid	0	0	(19)	(19)	(19)
Tax	(20)	(24)	(30)	(33)	(60)
Net cash from operations	**38**	**121**	**26**	**272**	**325**
Capex	(69)	(63)	(294)	(74)	(91)
Investments	(12)	(26)	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	(2)	1	0	0	0
Interests received	1	4	0	0	0
Others	4	(30)	0	0	0
Investing cash	**(77)**	**(115)**	**(294)**	**(74)**	**(91)**
FCF	**(39)**	**6**	**(267)**	**198**	**235**
Issue of shares	241	231	0	0	0
Buy-back	0	0	0	0	0
Minority interests	1	2	0	0	0
Dividends paid	0	0	0	0	0
Net change in bank loans	6	8	3	0	0
Others	(20)	285	0	0	0
Financing cash	**227**	**527**	**3**	**0**	**0**
Net change in cash	**188**	**532**	**(265)**	**198**	**235**
Exchange rate or other Adj	(1)	(1)	0	0	0
Opening cash	67	254	786	521	719
Closing cash	**254**	**786**	**521**	**719**	**953**
CFPS (RMB)	**0.031**	**0.074**	**0.014**	**0.140**	**0.167**

Source: Company, OP Research

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	32.1	32.5	29.8	30.1	30.2
Operating margin (%)	9.0	10.0	6.2	8.5	8.8
Net margin (%)	(2.5)	4.9	4.1	5.8	6.1
Selling & dist'n exp/Sales (%)	5.9	6.6	5.8	5.0	5.0
Admin exp/Sales (%)	15.1	13.8	13.6	12.6	12.3
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Effective tax (%)	(82.7)	20.0	20.0	20.0	20.0
Total debt/equity (%)	58.5	22.8	21.4	19.2	16.9
Net debt/equity (%)	11.0	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.65	2.18	2.05	2.10	2.17
Quick ratio (x)	1.63	2.15	2.01	2.06	2.13
Inventory T/O (days)	6	6	6	6	6
AR T/O (days)	104	104	104	104	104
AP T/O (days)	157	153	120	120	120
Cash conversion cycle (days)	(47)	(43)	(10)	(10)	(10)
Asset turnover (x)	0.83	0.84	0.97	1.11	1.18
Financial leverage (x)	2.18	1.93	1.70	1.71	1.74
EBIT margin (%)	9.0	10.0	6.2	8.5	8.8
Interest burden (x)	(0.10)	0.67	0.90	0.94	0.95
Tax burden (x)	2.66	0.73	0.73	0.73	0.73
Return on equity (%)	**(4.6)**	**8.0**	**6.7**	**11.1**	**12.5**
ROIC (%)	**13.9**	**14.4**	**9.1**	**13.8**	**16.9**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Balance Sheet (RMB mn)					
Fixed assets	109	156	398	406	425
Intangible assets & goodwill	910	814	774	736	703
Associated companies & JVs	22	26	26	26	26
Long-term investments	0	0	0	0	0
Other non-current assets	10	11	11	11	11
Non-current assets	**1,051**	**1,007**	**1,208**	**1,178**	**1,164**
Inventories	18	24	33	42	51
AR	455	640	838	1,061	1,291
Prepayments & deposits	102	121	158	200	244
Other current assets	254	370	370	370	370
Cash	493	786	521	719	953
Current assets	**1,323**	**1,941**	**1,920**	**2,392**	**2,909**
AP	467	635	678	855	1,039
Tax	15	30	33	60	76
Accruals & other payables	0	0	0	0	0
Bank loans & leases	187	166	166	166	166
CB & othe debts	0	4	4	4	4
Other current liabilities	133	56	56	56	56
Current liabilities	**801**	**890**	**937**	**1,140**	**1,340**
Bank loans & leases	254	30	30	30	30
CB & othe debts	165	194	197	197	197
Deferred tax & others	51	30	30	30	30
MI	66	78	90	111	137
Non-current liabilities	**536**	**332**	**346**	**367**	**394**
Total net assets	**1,036**	**1,726**	**1,845**	**2,062**	**2,338**
Shareholder's equity	**1,036**	**1,726**	**1,845**	**2,062**	**2,338**
Share capital	61	78	78	78	78
Reserves	975	1,648	1,767	1,984	2,261
BVPS (RMB)	**1.05**	**1.30**	**1.37**	**1.54**	**1.74**
Total debts	607	393	396	396	396
Net cash/(debts)	(114)	393	125	323	558

Chow Sang Sang (116 HK) – Attractive valuation, but gold consumption remains weak

- **We maintain Chow Sang Sang with hold at target price of HK$ 17.6, implying 12 x P/E multiple, -4% downside to current price.**
- **Gold demand remains weak where gem-set jewellery remains positive. We forecast SSSG to achieve 5% for HK and China respectively.**
- **Our target price implies 12x P/E for 2013 which we think the reasonable expansion allows better cost control, but lack of catalyst for earning growth.**

Consumer/ China

Terence Lok
Analyst
+852 2135 0212
terence.lok@oriental-patron.com.hk

Company Update

HOLD

UNCHANGED

Close price:	**HK$18.30**
Target Price:	**HK$17.6 (-4%)**
Prior TP:	**HK$17.6**

Key Data

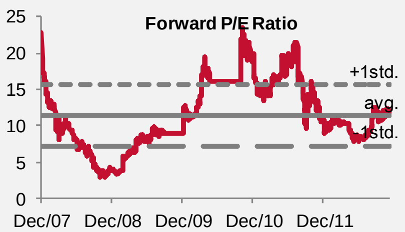
HKEx code		116
12 Months High	(HK$)	21.35
12 Month Low	(HK$)	14.82
3M Avg Dail Vol.	(mn)	1.19
Issue Share	(mn)	676.92
Market Cap	(HK$mn)	12,387.64
Fiscal Year		12/2011
Major shareholder (s)		Everwin (18%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	-2.1	14.5	14.7
Rel. MSCI CHINA %	-2.6	0.7	-1.7

PE



Company Profile

Chow Sang Sang is recognized as premier diamond, gold and jewellery diamond in Great China. It operates over 270 retail outlets in Hong Kong, the PRC and Taiwan.

We maintain Chow Sang Sang with Hold rating at target price $17.6, implying 4% downside to current price.

Stable earnings- We forecast 9.5% growth in topline for 2012E with our assumption of SSSG achieving 5% and 5% in Hong Kong and China respectively in FY2012.

Despite QE3 policy release, this has a small impact on the demand side of gold purchase- As the QE3 surprisingly come in September, many investors are still suspect on such policy. This arguable might shows more gold consumption from investors, but with the weak sentiment, the actual demand consumption remains cautious.

Change in product mix- We expect increase in gold as product mix for full year 2012.With 1H12 product mix, there has shown a drop in Gem-set jewellery as product mix. In our analysis, we assume 62%/31%/7% for gold, gem-set jewellery and watch product mix proportion for Hong Kong segment. For China segment, we assume 66%/34% for gold and gem-set jewellery.

Reasonable store expansion plan- Chow Sang Sang has a reasonable store expansion plan which opens less than 50 stores in PRC each year. We forecast CSS to open 50 stores and 5 new stores in Hong Kong. 1H12 CSS has already opened 23 stores in the PRC.

Undemanding Valuation: Currently CSS trades at 8.9x P/E 2013 which is below sector average of 9.9x. We believe 1) SSSG remains a mid-to high single digit for FY12 as evidenced with recent weak Hong Kong jewellery retails sales in jewellery 2) Gross margin might not see any improvement with less Gem-Set jewellery as product mix but self-owned stores model should allow to capture better margin than its peers. 3) With 40% of gold hedging system, the increase of gold price might benefit margin.

Exhibit 209: Forecast and Valuation

Year to Dec (HK$ mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	11,705	17,158	18,793	21,671	25,465
Growth (%)	24	47	10	15	18
Net Profit	757	1,094	1,090	1,253	1,450
Growth (%)	32	44	(0)	15	16
Diluted EPS (HK$)	1.162	1.615	1.463	1.683	1.947
EPS growth (%)	22	39	(9)	15	16
Change to previous EPS (%)			0	0	0
Consensus EPS (HK$)			0.000	0.000	0.000
ROE (%)	15.6	18.0	15.9	16.1	16.5
P/E (x)	15.7	11.3	12.5	10.9	9.4
P/B (x)	2.1	1.9	1.9	1.6	1.5
Yield (%)	1.9	2.5	2.3	2.8	3.2
DPS (HK$)	0.353	0.460	0.417	0.505	0.584

Source: Bloomberg, OP Research

Financial Summary – Chow Sang Sang (116 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (HK$ mn)					
Gold	6,295	10,105	11,426	13,110	15,405
Non gold jewellery	4,539	5,986	6,181	7,092	8,334
Watches	794	1,011	1,124	1,397	1,642
Commission on securities, futures and commodities trading	77	57	62	71	84
Turnover	**11,705**	**17,158**	**18,793**	**21,671**	**25,465**
YoY%	24	47	10	15	18
COGS	(9,403)	(13,904)	(14,981)	(17,164)	(20,170)
Gross profit	**2,302**	**3,254**	**3,812**	**4,506**	**5,295**
Gross margin	19.7%	19.0%	20.3%	20.8%	20.8%
Other income	107	115	115	115	115
Selling & distribution	(1,140)	(1,568)	(1,906)	(2,326)	(2,837)
Admin	(276)	(337)	(516)	(572)	(638)
R&D	0	0	0	0	0
Other opex	0	0	0	0	0
Total opex	**(1,416)**	**(1,904)**	**(2,421)**	**(2,898)**	**(3,475)**
Operating profit (EBIT)	**993**	**1,465**	**1,505**	**1,723**	**1,935**
Operating margin	8.5%	8.5%	8.0%	7.9%	7.6%
Provisions	0	0	0	0	0
Finance costs	(22)	(47)	(68)	(70)	(70)
Profit after financing costs	971	1,418	1,437	1,652	1,864
Associated companies & JVs	3	2	2	2	2
Pre-tax profit	973	1,419	1,439	1,654	1,866
Tax	(206)	(308)	(330)	(380)	(392)
Minority interests	(10)	(18)	(18)	(21)	(24)
Net profit	**757**	**1,094**	**1,090**	**1,253**	**1,450**
YoY%	32	44	(0)	15	16
Net margin	6.5%	6.4%	5.8%	5.8%	5.7%
EBITDA	**1,558**	**1,532**	**1,581**	**1,805**	**2,025**
EBITDA margin	13.3%	8.9%	8.4%	8.3%	8.0%
EPS (HKD)	**1.162**	**1.615**	**1.463**	**1.683**	**1.947**
YoY%	22	39	(9)	15	16
DPS (HKD)	0.353	0.460	0.417	0.505	0.584

Year end dec	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (HK$ mn)					
EBITDA	1,558	1,532	1,581	1,805	2,025
Chg in working cap	(1,918)	(1,405)	(309)	(970)	(1,332)
Others	(356)	129	129	129	129
Operating cash	**(715)**	**255**	**1,401**	**965**	**822**
Interests paid	16	15	(68)	(70)	(70)
Tax	(173)	(236)	(143)	(330)	(380)
Net cash from operations	**(873)**	**33**	**1,189**	**564**	**372**
Capex	(109)	(190)	(208)	(239)	(281)
Investments	0	13	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	(18)	(42)	0	0	0
Interests received	0	0	0	0	0
Others	7	23	0	0	0
Investing cash	**(119)**	**(195)**	**(207)**	**(239)**	**(281)**
FCF	**(992)**	**(162)**	**982**	**325**	**91**
Issue of shares	971	0	0	0	0
Buy-back	0	0	0	0	0
Minority interests	(18)	(39)	0	0	0
Dividends paid	(230)	(311)	(311)	(326)	(390)
Net change in bank loans	109	1,141	107	0	0
Others	29	(132)	0	0	0
Financing cash	**861**	**659**	**(204)**	**(326)**	**(390)**
Net change in cash	**(131)**	**496**	**778**	**(1)**	**(299)**
Exchange rate or other Adj	7	5	0	0	0
Opening cash	253	129	631	1,409	1,407
Closing cash	**129**	**631**	**1,409**	**1,407**	**1,108**
CFPS (HKD)	**(1.339)**	**0.049**	**1.597**	**0.757**	**0.499**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	19.7	19.0	20.3	20.8	20.8
Operating margin (%)	8.5	8.5	8.0	7.9	7.6
Net margin (%)	6.5	6.4	5.8	5.8	5.7
Selling & dist'n exp/Sales (%)	9.7	9.1	10.1	10.7	11.1
Admin exp/Sales (%)	2.4	2.0	2.7	2.6	2.5
Payout ratio (%)	30.4	28.5	28.5	30.0	30.0
Effective tax (%)	21.3	21.7	23.0	23.0	21.0
Total debt/equity (%)	12.6	26.8	25.0	22.1	19.7
Net debt/equity (%)	2.5	17.0	5.8	5.1	7.8
Current ratio (x)	3.0	3.0	3.1	3.3	3.4
Quick ratio (x)	0.7	0.7	0.9	0.9	0.8
Inventory T/O (days)	190	163	162	162	162
AR T/O (days)	21	16	15	15	15
AP T/O (days)	21	10	10	10	10
Cash conversion cycle (days)	189	169	167	167	167
Asset turnover (x)	1.7	1.9	1.8	1.9	2.0
Financial leverage (x)	1.4	1.5	1.5	1.5	1.5
EBIT margin (%)	8.5	8.5	8.0	7.9	7.6
Interest burden (x)	1.0	1.0	1.0	1.0	1.0
Tax burden (x)	0.8	0.8	0.8	0.8	0.8
Return on equity (%)	**15.6**	**18.0**	**15.9**	**16.1**	**16.5**
ROIC (%)	**16.1**	**17.1**	**15.2**	**16.1**	**16.2**

Year end dec	FY10A	FY11A	FY12E	FY13E	FY14E
Balance Sheet (HK$ mn)					
Fixed assets	618	718	827	897	924
Intangible assets & goodwill	0	0	0	0	0
Associated companies & JVs	14	15	17	18	19
Long-term investments	889	635	635	635	635
Other non-current assets	123	168	168	168	168
Non-current assets	**1,645**	**1,536**	**1,646**	**1,717**	**1,746**
Inventories	4,898	6,214	6,649	7,618	8,952
AR	660	739	772	891	1,047
Prepayments & deposits	221	235	188	217	255
Other current assets	13	322	322	322	322
Cash	580	631	1,409	1,407	1,108
Current assets	**6,371**	**8,141**	**9,341**	**10,455**	**11,684**
AP	548	369	410	470	553
Tax	89	143	330	380	392
Accruals & other payables	382	493	564	650	764
Bank loans & leases	726	1,329	1,329	1,329	1,329
CB & othe debts	0	0	0	0	0
Other current liabilities	406	386	386	386	386
Current liabilities	**2,150**	**2,720**	**3,020**	**3,216**	**3,423**
Bank loans & leases	0	393	500	500	500
CB & othe debts	0	0	0	0	0
Deferred tax & others	125	144	144	144	144
MI	0	0	18	39	64
Non-current liabilities	**125**	**537**	**662**	**683**	**707**
Total net assets	**5,740**	**6,420**	**7,305**	**8,274**	**9,300**
Shareholder's equity	**5,740**	**6,420**	**7,305**	**8,274**	**9,300**
Share capital	169	169	169	169	169
Reserves	5,571	6,251	7,136	8,105	9,130
BVPS (HKD)	**8.81**	**9.48**	**9.81**	**11.11**	**12.49**
Total debts	726	1,723	1,829	1,829	1,829
Net cash/(debts)	(146)	(1,092)	(421)	(422)	(721)

Source: Company, OP Research

Chow Tai Fook (1929 HK) – 1HFY13 interim result updates

Consumer/ China

Terence Lok
Analyst
+852 2135 0212
terence.lok@oriental-patron.com.hk

Company Update

SELL

UNCHANGED

Close price: **HK$11.24**
Target Price: **HK$9.30 (-17%)**
Prior TP: **HK$9.30**

Key Data

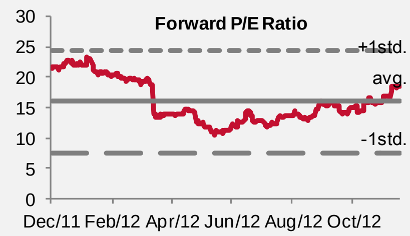
HKEx code		1929
12 Months High	(HK$)	15.16
12 Month Low	(HK$)	8.40
3M Avg Dail Vol.	(mn)	7.82
Issue Share	(mn)	10,000.00
Market Cap	(HK$mn)	112,400.00
Fiscal Year		03/2012
Major shareholder (s)		CTF holding (89%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	2.4	18.3	25.2
Rel. MSCI CHINA %	1.9	4.5	8.8

PE



Company Profile

Chow Tai Fook is a leading jeweler in PRC as well as in Hong Kong and Macau jewellery markets.

- **CTF has announced their 1HFY13 net profit of HK$ 1,825million, -32% yoy which came below market expectation.**
- **Rapid increase in inventory days to 300 days in FY13 from 251 days in 1HFY12.**
- **We maintain Sell with a higher Target price of HK$9.3, implying 13.5x P/E**

Lower SSSG than expected. Chow Tai Fook reported net profit of HK$ 1,892.6mn for 1HFY13 which below the market expectation due to 1) hedging loss 2) lower SSSG. We, therefore, cut our sales by -1.2% for FY13 mainly due to lower SSSG than our forecast. The lower SSSG mainly contributed from Hong Kong and Macau; hence we cut Hong Kong SSSG from 1% to -2% where we maintained 6% for China SSSG.

Relatively high inventory days. Without the unrealized hedging loss on gold loans and bullion forward contracts, the gross margin has improved 0.4ppt. However, with the rapid increase in inventory days from 251 days to 300 days, we remains cautious with any further improvement on GP margin due to drop in overall Gem-set jewellery GP margin as seen from its peers.

Changes in gold hedging system. CTF has relaxed its hedging policy from ‘almost fully hedge’ to ‘substantially hedge’ level. We believe such changes on GP margin would be still immaterial assuming 10% increase in gold price lead to less than 0.5% on GP margin.

Valuation: We maintain Sell recommendation on CTF with a higher Target price of HK$ 9.3 (previously HK$8.2), 17% downside to the current share price. Our TP implies 13.5x CY14 P/E based on our FY14 EPS. Currently CTF trades at 18 CY13x which is above other Hong Kong Jewellery companies’ sector average of 13.9x P/E.

Exhibit 210: Forecast and Valuation

Year to Mar (HK$ mn)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue	35,042.5	56,571.1	63,077.8	71,057.4	79,325.3
Growth (%)	52.8	61.4	11.5	12.7	11.6
Net Profit	3,537.6	6,340.6	5,857.4	7,179.8	7,592.2
Growth (%)	65.4	79.2	(7.6)	22.6	5.7
Diluted EPS (HK$)	0.395	0.685	0.633	0.775	0.820
EPS growth (%)	65.4	73.2	(7.6)	22.6	5.7
Change to previous EPS (%)			0	(1.16)	(0.34)
Consensus EPS (HK$)			0.000	0.000	0.000
ROE (%)	35.4	30.7	18.3	19.1	17.1
P/E (x)	28.4	16.4	17.8	14.5	13.7
P/B (x)	8.6	3.5	3.0	2.6	2.2
Yield (%)	0.0	0.9	1.9	2.3	1.5
DPS (HK$)	0.000	0.100	0.209	0.256	0.164

Source: Bloomberg, OP Research

Financial Summary –Chow Tai Fook (1929 HK)

Year to Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Income Statement (HK$ mn)					
Gem-set jewellery	8,963	15,378	17,778	20,737	23,943
Platinum/k-gold products	4,869	7,813	7,766	7,682	7,387
Gold products	18,725	29,742	33,163	37,358	41,705
Watches	2,486	3,638	4,371	5,279	6,290
Turnover	**35,043**	**56,571**	**63,078**	**71,057**	**79,325**
YoY%	53	61	12	13	12
COGS	(25,115)	(40,123)	(45,105)	(50,306)	(56,195)
Gross profit	**9,928**	**16,448**	**17,972**	**20,751**	**23,130**
Gross margin	28.3%	29.1%	28.5%	29.2%	29.2%
Other income	235	245	214	214	214
Selling & distribution	(4,402)	(6,320)	(7,338)	(8,387)	(9,504)
Admin	(911)	(1,715)	(2,586)	(3,124)	(3,660)
R&D	0	0	0	0	0
Other opex	(122)	(129)	(220)	(248)	(276)
Total opex	**(5,435)**	**(8,164)**	**(10,144)**	**(11,759)**	**(13,440)**
Operating profit (EBIT)	**4,727**	**8,529**	**8,042**	**9,206**	**9,904**
Operating margin	13.5%	15.1%	12.7%	13.0%	12.5%
Provisions	0	0	0	0	0
Finance costs	(102)	(363)	(119)	(119)	(119)
Profit after financing costs	4,624	8,166	7,923	9,088	9,785
Associated companies & JVs	(5)	0	0	0	0
Pre-tax profit	4,620	8,166	7,923	9,088	9,785
Tax	(947)	(1,595)	(1,843)	(1,634)	(1,904)
Minority interests	(135)	(230)	(223)	(273)	(289)
Net profit	**3,538**	**6,341**	**5,857**	**7,180**	**7,592**
YoY%	65	79	(8)	23	6
Net margin	10.1%	11.2%	9.3%	10.1%	9.6%
EBITDA	**3,845**	**7,247**	**7,810**	**9,207**	**10,114**
EBITDA margin	11.0%	12.8%	12.4%	13.0%	12.7%
EPS (HKD)	**0.395**	**0.685**	**0.633**	**0.775**	**0.820**
YoY%	65	73	(8)	23	6
DPS (HKD)	0.000	0.100	0.209	0.256	0.164

Year to Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Cash Flow (HK$ mn)					
EBITDA	3,845	7,247	7,810	9,207	10,114
Chg in working cap	(7,513)	(14,276)	(4,082)	(4,760)	(4,909)
Others	1,785	0	0	0	0
Operating cash	**(1,883)**	**(7,029)**	**3,728**	**4,447**	**5,205**
Interests paid	0	20	(119)	(119)	(119)
Tax	(730)	(1,353)	(599)	(1,843)	(1,634)
Net cash from operations	**(2,612)**	**(8,361)**	**3,011**	**2,486**	**3,452**
Capex	(769)	(867)	(820)	(853)	(952)
Investments	(50)	(132)	0	0	0
Dividends received	584	1,315	0	0	0
Sales of assets	0	0	0	0	0
Interests received	70	69	89	89	89
Others	88	93	0	0	0
Investing cash	**(76)**	**477**	**(731)**	**(764)**	**(863)**
FCF	**(2,688)**	**(7,884)**	**2,280**	**1,722**	**2,589**
Issue of shares	2	15,750	0	0	0
Buy-back	0	0	0	0	0
Minority interests	(102)	(363)	0	0	0
Dividends paid	(9)	(9)	(4,543)	(1,933)	(2,369)
Net change in bank loans	2,677	2,677	6,032	0	0
Gold loan	984	1,463	1,609	1,770	1,947
Others	94	26	20	22	24
Financing cash	**6,107**	**10,531**	**(304)**	**(578)**	**452**
Net change in cash	**3,419**	**4,355**	**1,975**	**1,144**	**3,041**
Exchange rate or other Adj	79	63	63	63	63
Opening cash	2,107	5,605	10,022	12,060	13,267
Closing cash	**5,605**	**10,022**	**12,060**	**13,267**	**16,371**
CFPS (HKD)	**(0.292)**	**(0.719)**	**0.325**	**0.268**	**0.373**

Source: Company, OP Research

Year to Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Ratios					
Gross margin (%)	28.3	29.1	28.5	29.2	29.2
Operating margin (%)	13.5	15.1	12.7	13.0	12.5
Net margin (%)	10.1	11.2	9.3	10.1	9.6
Selling & dist'n exp/Sales (%)	12.6	11.2	11.6	11.8	12.0
Admin exp/Sales (%)	2.6	3.0	4.1	4.4	4.6
Payout ratio (%)	0.0	27.4	33.0	33.0	20.0
Effective tax (%)	20.5	19.5	23.3	18.0	19.5
Total debt/equity (%)	91.8	30.4	26.1	22.1	18.6
Net debt/equity (%)	43.8	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.6	3.2	3.2	3.4	3.6
Quick ratio (x)	0.6	1.1	1.1	1.2	1.3
Inventory T/O (days)	249	270	268	271	270
AR T/O (days)	35	35	35	35	35
AP T/O (days)	30	17	17	17	17
Cash conversion cycle (days)	254	289	287	289	289
Asset turnover (x)	1.5	1.5	1.2	1.2	1.2
Financial leverage (x)	2.3	1.9	1.6	1.5	1.5
EBIT margin (%)	13.5	15.1	12.7	13.0	12.5
Interest burden (x)	1.0	1.0	1.0	1.0	1.0
Tax burden (x)	0.8	0.8	0.7	0.8	0.8
Return on equity (%)	**35.4**	**30.7**	**18.3**	**19.1**	**17.1**
ROIC (%)	**27.0**	**30.3**	**20.5**	**22.2**	**20.5**

Year to Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Balance Sheet (HK$ mn)					
Fixed assets	1,253	1,783	2,775	3,567	4,249
Intangible assets & goodwill	0	0	102	73	44
Associated companies & JVs	45	10	10	10	10
Long-term investments	0	0	0	0	0
Other non-current assets	248	363	0	0	0
Non-current assets	**1,546**	**2,156**	**2,887**	**3,650**	**4,303**
Inventories	17,101	29,694	33,109	37,298	41,638
AR	3,363	5,487	6,118	6,892	7,694
Prepayments & deposits	156	17	281	317	354
Other current assets	1,278	72	72	72	72
Cash	5,605	9,988	11,963	13,107	16,148
Current assets	**27,503**	**45,258**	**51,544**	**57,687**	**65,906**
AP	2,050	1,838	2,067	2,305	2,575
Tax	353	599	1,843	1,634	1,904
Accruals & other payables	0	0	0	0	0
Bank loans & leases	2,881	5,574	5,574	5,574	5,574
Gold loans	3,932	5,807	6,387	7,026	7,729
CB & othe debts	7,833	0	0	0	0
Other current liabilities	165	400	400	400	400
Current liabilities	**17,213**	**14,218**	**16,271**	**16,940**	**18,182**
Bank loans & leases	0	3,426	3,426	3,426	3,426
CB & othe debts	0	0	0	0	0
Deferred tax & others	163	197	217	238	262
MI	0	0	0	0	0
Non-current liabilities	**163**	**3,623**	**3,643**	**3,665**	**3,688**
Total net assets	**11,673**	**29,573**	**34,517**	**40,732**	**48,339**
Shareholder's equity	**11,673**	**29,573**	**34,445**	**40,660**	**48,267**
Share capital	700	10,000	12,939	15,939	17,439
Reserves	10,973	19,573	21,505	24,720	30,828
BVPS (HKD)	**1.30**	**3.19**	**3.72**	**4.39**	**5.21**
Total debts	10,714	9,001	9,001	9,001	9,001
Net cash/(debts)	(5,110)	987	2,962	4,107	7,148

Chu Kong Pipe (1938 HK) – Major beneficiary to pipeline expansion

- **CKP to see high shipment growth in FY13E-FY15E as supply tender for the two major national pipelines will be held in early 2013.**
- **Defensive model provides security in the low season.**
- **Reiterate Buy with HK$3.80 target price, based on 9x FY13E P/E, similar to industry average for HK-listed oil and gas equipment players**

Oil&Gas/ China

Alan Lau
Analyst
+852 2842 5820
alan.lau@oriental-patron.com.hk

Company Update

BUY

UNCHANGED

Close price:	**HK$3.70**
Target Price:	**HK$3.80 (+3%)**
Prior TP:	**HK$3.80**

Key Data

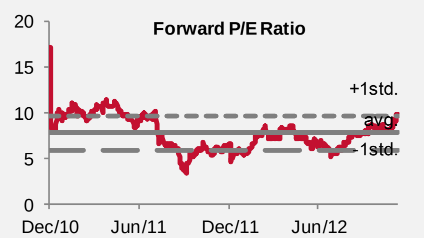
HKEx code		1938
12 Months High	(HK$)	3.75
12 Month Low	(HK$)	1.69
3M Avg Dail Vol.	(mn)	2.70
Issue Share	(mn)	1,011.14
Market Cap	(HK$mn)	3,741.23
Fiscal Year		12/2011
Major shareholder (s)		Chen Chang (70%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	11.1	30.7	55.5
Rel. MSCI CHINA %	10.6	17.0	39.1

PE



Company Profile

CKP is China's leading LSAW pipe manufacturer. The company's pipe products are widely used in transmission of gas onshore and offshore, power grid, and coal slurry.

National gas pipeline network to double in 12th FYP. We expect 2013-2015 to be very important years for pipeline manufacturers in China, as China aims to ramp up national gas pipeline length from 40,000km in 2010 to 90,000~100,000km by 2015. Two major lines, West-East Line III and Xin-Yue-Zhe Line, with total 15,000km length, were approval by NDRC and ready to launch supply tender in 1Q13.

Capacity ramp up in Lianyungang well-positioned for receiving new national pipeline orders. Currently operating at 70-80% capacity, CKP is expanding its manufacturing capacity to meet the enormous demand in national pipeline expansion during 2013-2015. The company aims to ramp up its production capacity from 1.75m tonne at 30 June 2012 to 3m tonne by mid-2013, representing increment of 71%.

Defensive model provides security in the low season. The diversified application of CKP's product provides defensiveness between the time intervals when large national orders are launched. CKP' s pipe are supported to use in city gas networks, which is expected to growth by 70% during 12th FYP, offshore gas pipe projects, the power grid, and coal slurry transmission.

Reiterate Buy. Our target price of HK$3.80 is based on 11x FY12E P/E and 9x FY13E P/E, similar to the average of HK-listed oil and gas equipment manufacturers at 9x. We believe our target valuation is supported by near term positive catalysts such as the launch of major national pipeline projects which is expected to happen in 1Q13, the expansion of city gas pipeline network, and the company's capacity ramp up by mid-2013.

Exhibit 211: Forecast and Valuation

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	1,681.5	3,376.9	4,257.6	5,875.5	6,933.1
Growth (%)	*(40.5)*	*100.8*	*26.1*	*38.0*	*18.0*
Net profit	70.2	230.7	290.8	343.1	401.0
Growth (%)	*(82.5)*	*228.5*	*26.0*	*18.0*	*16.9*
Diluted EPS (RMB)	0.069	0.228	0.288	0.339	0.397
Change to previous EPS (%)			N/A	N/A	
Consensus EPS (RMB)			0.308	0.381	
EPS growth (%)	(82.5)	228.5	26.0	18.0	16.9
ROE (%)	3.5	10.5	11.9	12.6	13.1
P/E (x)	42.8	13.0	10.3	8.8	7.5
P/B (x)	1.5	1.4	1.2	1.1	1.0
Yield (%)	0.7	1.6	1.9	2.3	2.7
DPS (RMB)	0.02	0.05	0.06	0.07	0.08

Source: Bloomberg, OP Research

Financial Summary –Chu Kong Pipe (1938 HK)

Profit and loss

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	1,681	3,377	4,258	5,875	6,933
Cost of sales	(1,417)	(2,867)	(3,598)	(4,935)	(5,851)
Gross profit	**264**	**510**	**660**	**940**	**1,082**
Other income	11	69	107	7	7
Selling expenses	(43)	(71)	(106)	(135)	(159)
Administrative expenses	(116)	(166)	(192)	(253)	(298)
Other expenses	(4)	(3)	(4)	(6)	(7)
Operating profit	**113**	**339**	**465**	**553**	**624**
Net finance cost	(23)	(65)	(110)	(135)	(135)
Share of profit from JCE & asso	0	0	0	0	0
Others non-operating items	(2)	5	0	0	0
Profit before taxation	**89**	**280**	**355**	**418**	**489**
Taxation	(19)	(49)	(64)	(75)	(88)
Profit after taxation	**70**	**231**	**291**	**343**	**401**
Minority interest	0	0	0	0	0
Net profit	**70**	**231**	**291**	**343**	**401**
Others	0	0	0	0	0
Dividends	0	(22)	(47)	(58)	(69)
Transfer to reserves	**70**	**209**	**244**	**285**	**332**

Cash flow

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Profit before taxation	89	280	355	418	489
Depreciation and amortization	42	42	123	178	204
Change in working capital	(719)	(354)	(208)	(627)	(422)
Taxes paid	(21)	(32)	(64)	(75)	(88)
Other adjustments	23	65	110	135	135
Operating cash flows	**(586)**	**1**	**316**	**29**	**318**
Capex	(433)	(686)	(800)	(500)	(200)
Free cash flow	**(1,019)**	**(685)**	**(484)**	**(471)**	**118**
Other investing cash flows	32	0	0	0	0
Investing cash flows	**(400)**	**(686)**	**(800)**	**(500)**	**(200)**
Dividends paid	0	(22)	(47)	(58)	(69)
Net debt repayment	297	1,071	33	500	0
Equity issue	978	0	0	0	0
Other financing cash flows	(39)	21	(110)	(135)	(135)
Financing cash flows	**1,236**	**1,071**	**(124)**	**307**	**(204)**
Net cash flow	**250**	**386**	**(608)**	**(165)**	**(86)**
Beginning cash	349	599	982	374	209
Forex	0	(3)	0	0	0
Ending cash (adjusted)	**599**	**982**	**374**	**209**	**124**

Balance sheet

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
PPE, land and intangible assets	1,196	1,762	2,439	2,761	2,757
Investment in JCE, asso and others	0	0	0	0	0
Other non-current assets	75	184	184	184	184
Total non-current assets	**1,271**	**1,946**	**2,622**	**2,944**	**2,940**
Inventories	978	1,190	1,577	2,163	2,565
Trade receivables	355	803	1,050	1,449	1,710
Other receivables	361	462	360	494	585
Other current assets	52	47	47	47	47
Cash	599	982	374	209	124
Total current assets	**2,345**	**3,485**	**3,408**	**4,363**	**5,031**
Total assets	**3,615**	**5,431**	**6,031**	**7,307**	**7,971**
Trade payables	(204)	(667)	(887)	(1,217)	(1,443)
Other payables	(394)	(323)	(426)	(588)	(693)
Short-term borrowings	(727)	(1,435)	(1,100)	(1,100)	(1,100)
Other current liabilities	(19)	(40)	(40)	(40)	(40)
Total current liabilities	**(1,345)**	**(2,464)**	**(2,452)**	**(2,944)**	**(3,276)**
Long-term borrowings	(240)	(732)	(1,100)	(1,600)	(1,600)
Other long-term liabilities	(39)	(36)	(36)	(36)	(36)
Total long-term liabilities	**(279)**	**(769)**	**(1,136)**	**(1,636)**	**(1,636)**
Total liabilities	**(1,624)**	**(3,233)**	**(3,589)**	**(4,580)**	**(4,912)**
Net assets	**1,991**	**2,198**	**2,442**	**2,727**	**3,059**
Share capital	(89)	(89)	(89)	(89)	(89)
Reserves	(1,902)	(2,109)	(2,353)	(2,638)	(2,970)
Owners' equity	**(1,991)**	**(2,198)**	**(2,442)**	**(2,727)**	**(3,059)**
Non-controlling interests	0	0	0	0	0
Total equity	**(1,991)**	**(2,198)**	**(2,442)**	**(2,727)**	**(3,059)**
Net cash (debt)	(368)	(1,185)	(1,826)	(2,491)	(2,576)

Statistics and ratios

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Growth rate (%)					
Revenue	(40)	101	26	38	18
EBITDA	(71)	145	54	24	13
EBIT	(78)	199	37	19	13
Net profit	(82)	228	26	18	17
EPS	(82)	228	26	18	17
Margins (%)					
Gross margin	16	15	16	16	16
EBITDA margin	9	11	14	12	12
EBIT	7	10	11	9	9
Net margin	4	7	7	6	6
Other ratios					
P/E	42.8	13.0	10.3	8.8	7.5
P/B	1.5	1.4	1.2	1.1	1.0
P/CF	12.1	7.8	(4.9)	(18.3)	(35.1)
Dividend yield (%)	0.7	1.6	1.9	2.3	2.7
Current raio	1.7	1.4	1.4	1.5	1.5
Quick ratio	1.0	0.9	0.7	0.7	0.8
Effective tax rate (%)	21.1	17.5	18.0	18.0	18.0
Gearing (%)	48.6	98.6	90.1	99.0	88.3
Net gearing (%)	18.5	53.9	74.8	91.3	84.2
ROE (%)	3.5	10.5	11.9	12.6	13.1
Working capital					
Inventory (days)	252	152	160	160	160
Debtors (days)	77	87	90	90	90
Creditors (days)	53	85	90	90	90
Cash conversion days	276	154	160	160	160

Source: Company, OP Research

CIMC Enric (3899 HK) – Happy "Fleet" Ready for the LNG March

Oil&Gas/ China

Alan Lau
Analyst
+852 2842 5820
alan.lau@oriental-patron.com.hk

Company Update

BUY

UNCHANGED

Close price:	**HK$6.39**
Target Price:	**HK$7.00 (+10%)**
Prior TP:	**HK$7.00**

Key Data

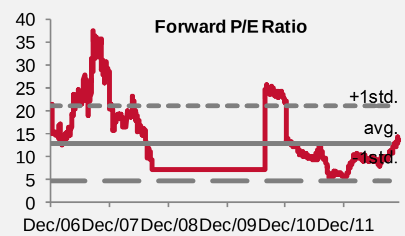
HKEx code		3899
12 Months High	(HK$)	6.78
12 Month Low	(HK$)	2.16
3M Avg Dail Vol.	(mn)	5.64
Issue Share	(mn)	1,380.34
Market Cap	(HK$mn)	8,820.37
Fiscal Year		12/2011
Major shareholder (s)		CIMC (65%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	5.6	53.2	60.6
Rel. MSCI CHINA %	5.1	39.4	44.2

PE



Company Profile

CIMC Enric is China's leading manufacturer in transmission equipment widely used in CNG, LNG, LPG, chemical and liquid food logistics

- **Foreseeing demand for LNG and CNG trailers to come from increasing refueling stations and LNG terminal ramp ups, we expect CIMC Enric to experience shipment growth in near term for its energy products from NOCs, city gas operators and unconventional gas developers.**
- **Reiterate Buy with TP at HK$7.00, implied 12x FY13E P/E.**

Diesel-gas price spread shifting drivers to use NGV. Currently using CNG and LNG provides 20-30% cost savings for drivers over diesel. Drivers, especially public transport, shifts to NGV to enjoy the cost benefit. While regulated diesel price has increased by 57% from January 2008 to September 2012, the retail price has only rose 27%. We believe the crude oil price reform awaiting State Council's approval will add momentum to diesel price hike if launched, creating further incentive for drivers to switch to NGVs.

The coming investment boom in LNG and CNG refueling stations. NGVs are going to lead gas consumption growth given the economic and environmental benefits from replacing diesel with gas as car fuel. We foresee huge demand for LNG and CNG containers for CIMC Enric based on the increasing number of NGVs in China (added 550,000 units in FY11A or 120% YoY per NGV Global) and city gas operator's target to expand the number of stations from 2,850 in 2011 to over 7,000 in 2015.

LNG receiving terminal ramp ups. We estimate that China will need to sort out carriers for 40 bcm of imported LNG at coastal provinces. A list of LNG terminals to be constructed during the 12th FYP was announced, and we believe that 30% of the LNG received will be transported to consumers through LNG trucks, inducing large demand for LNG trailers as much as 12 bcm in 2015.

Reiterate Buy. Our target price of HK$7.00 is based on 14x FY12E P/E and 12x FY13E P/E, is equal to the average of major city gas operators and oil & gas equipment manufacturers listed in HK. This valuation is justified by CIMC Enric's solid leadership position in the energy and chemical container industry and cost advantage obtained in co-procurement with CIMC Group.

Exhibit 212 Forecast and Valuation

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	3,998.6	6,716.0	7,938.1	9,164.8	10,430.9
Growth (%)	*30.8*	*68.0*	*18.2*	*15.5*	*13.8*
Net profit	276.9	567.1	770.0	907.3	1,046.6
Growth (%)	*38.6*	*104.8*	*35.8*	*17.8*	*15.4*
Diluted EPS (HK$)	0.148	0.303	0.411	0.484	0.559
Change to previous EPS (%)			N/A	N/A	
Consensus EPS (HK$)			0.383	0.468	
EPS growth (%)	38.6	104.8	35.7	17.8	15.4
ROE (%)	9.9	17.0	19.3	19.1	18.6
P/E (x)	34.7	17.0	12.5	10.6	9.2
P/B (x)	3.4	2.9	2.4	2.0	1.7
Yield (%)	0.0	1.2	1.6	1.9	2.2
DPS (RMB)	0.000	0.060	0.082	0.097	0.112

Source: Bloomberg, OP Research

Financial Summary –CIMC Enric (3899 HK)

Profit and loss

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	3,999	6,716	7,938	9,165	10,431
Cost of sales	(3,250)	(5,451)	(6,413)	(7,387)	(8,397)
Gross profit	**749**	**1,265**	**1,525**	**1,778**	**2,034**
Other income	118	132	156	185	216
Selling expenses	(153)	(199)	(210)	(229)	(261)
Administrative expenses	(336)	(465)	(500)	(577)	(657)
Other expenses	0	0	0	0	0
Operating profit	**378**	**733**	**971**	**1,156**	**1,332**
Net finance cost	(12)	(11)	(11)	(11)	(11)
Share of profit from JCE & asso	0	0	0	0	0
Others non-operating items	0	0	0	0	0
Profit before taxation	**366**	**722**	**960**	**1,146**	**1,321**
Taxation	(84)	(147)	(182)	(229)	(264)
Profit after taxation	**282**	**575**	**778**	**916**	**1,057**
Minority interest	(6)	(8)	(8)	(9)	(11)
Net profit	**277**	**567**	**770**	**907**	**1,047**
Others	0	0	0	0	0
Dividends	0	0	(112)	(154)	(181)
Transfer to reserves	**277**	**567**	**658**	**753**	**865**

Cash flow

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Profit before taxation	366	722	960	1,146	1,321
Depreciation and amortization	107	113	99	167	170
Change in working capital	(62)	(435)	(759)	(324)	(336)
Taxes paid	(89)	(157)	(182)	(229)	(264)
Other adjustments	(16)	74	30	25	19
Operating cash flows	**306**	**318**	**148**	**785**	**911**
Capex	(139)	(401)	(500)	(200)	(200)
Free cash flow	**167**	**(84)**	**(352)**	**585**	**711**
Other investing cash flows	(3)	(102)	5	11	18
Investing cash flows	**(142)**	**(504)**	**(495)**	**(189)**	**(182)**
Dividends paid	0	0	(112)	(154)	(181)
Net debt repayment	(78)	388	0	0	0
Equity issue	0	0	0	0	0
Other financing cash flows	(12)	(11)	(11)	(11)	(11)
Financing cash flows	**(90)**	**377**	**(123)**	**(165)**	**(192)**
Net cash flow	**73**	**191**	**(469)**	**430**	**536**
Beginning cash	784	806	971	502	932
Forex	(51)	(25)	0	0	0
Ending cash (adjusted)	**806**	**971**	**502**	**932**	**1,468**

Balance sheet

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
PPE, land and intangible assets	962	993	1,668	1,702	1,731
Investment in JCE, asso and others	0	0	0	0	0
Other non-current assets	399	767	492	492	492
Total non-current assets	**1,361**	**1,760**	**2,160**	**2,193**	**2,223**
Inventories	1,325	2,018	2,635	3,036	3,451
Trade receivables	879	1,353	1,849	2,134	2,429
Other receivables	310	434	527	607	690
Other current assets	33	29	29	29	29
Cash	941	1,061	592	1,022	1,558
Total current assets	**3,488**	**4,895**	**5,632**	**6,828**	**8,157**
Total assets	**4,848**	**6,655**	**7,792**	**9,022**	**10,380**
Trade payables	(872)	(1,293)	(1,581)	(1,821)	(2,070)
Other payables	(712)	(1,146)	(1,305)	(1,507)	(1,715)
Short-term borrowings	(100)	(301)	(301)	(301)	(301)
Other current liabilities	(109)	(90)	(90)	(90)	(90)
Total current liabilities	**(1,793)**	**(2,830)**	**(3,277)**	**(3,719)**	**(4,176)**
Long-term borrowings	(22)	(195)	(195)	(195)	(195)
Other long-term liabilities	(219)	(269)	(294)	(319)	(345)
Total long-term liabilities	**(241)**	**(463)**	**(488)**	**(514)**	**(540)**
Total liabilities	**(2,034)**	**(3,294)**	**(3,765)**	**(4,232)**	**(4,716)**
Net assets	**2,815**	**3,361**	**4,027**	**4,789**	**5,665**
Share capital	(17)	(17)	(17)	(17)	(17)
Reserves	(2,783)	(3,324)	(3,982)	(4,735)	(5,600)
Owners' equity	**(2,800)**	**(3,341)**	**(3,999)**	**(4,752)**	**(5,617)**
Non-controlling interests	(15)	(20)	(28)	(37)	(48)
Total equity	**(2,815)**	**(3,361)**	**(4,027)**	**(4,789)**	**(5,665)**
Net cash (debt)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company, OP Research

Statistics and ratios

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Growth rate (%)					
Revenue	31	68	18	15	14
EBITDA	30	74	27	24	14
EBIT	37	94	33	19	15
Net profit	39	105	36	18	15
EPS	39	105	16	15	15
Margins (%)					
Gross margin	19	19	19	19	20
EBITDA margin	12	13	13	14	14
EBIT	9	11	12	13	13
Net margin	7	8	10	10	10
Other ratios					
P/E	34.7	17.0	12.5	10.6	9.2
P/B	3.4	2.9	2.4	2.0	1.7
P/CF	131.0	50.4	(20.5)	22.4	17.9
Dividend yield (%)	0.0	1.2	1.6	1.9	2.2
Current raio	1.9	1.7	1.7	1.8	2.0
Quick ratio	1.2	1.0	0.9	1.0	1.1
Effective tax rate (%)	22.8	20.4	19.0	20.0	20.0
Gearing (%)	4.3	14.8	12.4	10.4	8.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
ROE (%)	9.8	16.9	19.1	18.9	18.5
Working capital					
Inventory (days)	149	135	150	150	150
Debtors (days)	80	74	85	85	85
Creditors (days)	98	87	90	90	90
Cash conversion days	131	122	145	145	145

Dongfeng Motor (489 HK) – November sales reaffirm our view

Auto/ China

Vivien Chan
Analyst
+852 2135 0248
vivien.chan@oriental-patron.com.hk

Company Update

BUY

UNCHANGED

Close price:	**HK$11.72**
Target Price:	**HK$12.40 (+6.1%)**
Prior TP:	**HK$12.40**

Key Data

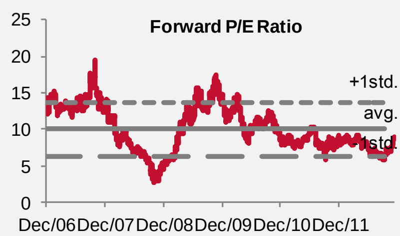
HKEx code		489
12 Months High	(HK$)	15.80
12 Month Low	(HK$)	8.54
3M Avg Dail Vol.	(mn)	32.40
Issue Share	(mn)	2,855.73
Market Cap	(HK$mn)	100,980.93
Fiscal Year		12/2011
Major shareholder (s)		Dongfeng Group (66.9%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	15.8	17.6	-10.8
Rel. MSCI CHINA %	15.3	3.8	-27.2

PE



Company Profile

Dongfeng Motor is the 2nd largest auto producer in China. It mainly produces passenger vehicles, commercial vehicles, auto parts and engines. Its market share in China is 12% in 2011.

- **DFM's PV sales up 29.3% mom in Nov. 2012.**
- **The strong mom sales growth driven by recovery of Japanese vehicles, which DFM Nissan and DFM Honda sales grew 71.8% and 119.4% mom, respectively.**
- **Maintain BUY rating, and TP remain unchanged at HK$12.40.**

DFM's PV sales up 29.3%mom in Nov 2012: DFM announced that it sold 135,047 units of PVs in Nov. 2012, which declined 10.5% yoy, and up 29.3% mom. Monthly volume was mainly driven by its strong sales Japanese brands. YTD, its PV sales volume increased 7.3% yoy to 1.6mn units. For CV segment, the sales sentiment remains weak in Nov. The company posted a negative growth of 27.5% yoy and -4.9% mom during the month.

Japanese vehicles showed recovery: We are glad to see DFM's Japanese brandings started to show a mom recovery, DF Nissan's sales surged 71.8% mom, despite a decline of 32.1% yoy; and DF Honda's sales increased significantly 119.4% mom, despite a decline of 19.5% yoy. We believe the strong growth should be attributed to normalized dispute sentiment and promotions on Japanese cars, such as discounts and guarantees from automaker of fully insuring damages caused by future anti-Japan protest in China. The trend was consistent with our previous views that the sales of Japanese vehicle is on the right track of recovering since Nov. And we expect the momentum will be continued in next month, and it shall get full recover in 1Q13. With a new model from DF Nissan scheduled to be launched in Mar. 2013 and continuing demand for SUVs, we believe DFM will stage a recovery in 2013.

Maintain BUY, TP remain unchanged. The counter trades at 8.2x FY13E PE, the valuation attractive, in our view. We believe anti-Japanese sentiment is short lived, and all negatives factored in. We estimate Dongfeng's net profit to decline 18.1% yoy in FY12E, and grow of 12.7% yoy in FY13E. Therefore, we maintained target price at HK$12.40, translate to 9x FY13E We maintain our BUY rating.

Exhibit 213 Forecast and Valuation

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	122,395.0	131,441.0	122,745.5	132,869.8	145,172.3
Growth (%)	33.4	7.4	-6.6	8.2	9.3
Net Profit	10,981.0	10,481.0	8,582.9	9,674.9	11,193.4
Growth (%)	75.7	-4.6	-18.1	12.7	15.7
Diluted RMB (HK$)	1.274	1.216	0.996	1.123	1.299
EPS growth (%)	75.7	-4.6	-18.1	12.7	15.7
Change to previous EPS (%)					
Consensus EPS (HK$)			1.080	1.192	1.276
ROE (%)	30.5	23.1	16.1	15.9	16.0
P/E (x)	7.5	7.8	9.6	8.5	7.3
P/B (x)	1.8	1.4	1.2	1.1	0.9
Yield (%)	1.9	1.9	1.6	1.8	2.0
DPS (HK$)	0.221	0.221	0.184	0.207	0.240

Source: Bloomberg, OP Research

Financial Summary – Dongfeng Motor (489 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (RMB mn)					
Commercial vehicles	33,418	35,473	26,591	27,122	28,355
Passenger vehicles	88,143	94,921	95,003	104,481	115,424
Corporate and others	834	1,047	1,152	1,267	1,394
Turnover	**122,395**	**131,441**	**122,746**	**132,870**	**145,172**
YoY%	33	7	(7)	8	9
COGS	(96,033)	(105,051)	(99,332)	(106,906)	(116,202)
Gross profit	**26,362**	**26,390**	**23,413**	**25,964**	**28,971**
Gross margin	21.5%	20.1%	19.1%	19.5%	20.0%
Other income	2,322	2,853	2,578	2,790	3,194
Selling & distribution	(6,417)	(6,275)	(5,905)	(6,393)	(6,889)
Admin	(3,580)	(3,641)	(3,426)	(3,728)	(3,937)
Other opex	(4,171)	(4,943)	(4,542)	(4,916)	(5,371)
Total opex	**(14,168)**	**(14,859)**	**(13,872)**	**(15,038)**	**(16,197)**
Operating profit (EBIT)	**14,516**	**14,384**	**12,119**	**13,716**	**15,967**
Operating margin	11.9%	10.9%	9.9%	10.3%	11.0%
Provisions	0	0	0	0	0
Finance costs	(229)	(402)	(375)	(406)	(436)
Profit after financing costs	14,287	13,982	11,743	13,309	15,532
Associated companies & JVs	296	379	393	425	465
Pre-tax profit	14,583	14,361	12,136	13,735	15,996
Tax	(3,006)	(3,401)	(2,937)	(3,365)	(3,999)
Minority interests	(596)	(479)	(616)	(695)	(804)
Net profit	**10,981**	**10,481**	**8,583**	**9,675**	**11,193**
YoY%	76	(5)	(18)	13	16
Net margin	9.0%	8.0%	7.0%	7.3%	7.7%
EBITDA	**18,501**	**17,498**	**16,172**	**18,234**	**20,441**
EBITDA margin	15.1%	13.3%	13.2%	13.7%	14.1%
EPS (RMB)	**1.274**	**1.216**	**0.996**	**1.123**	**1.299**
YoY%	76	(5)	(18)	13	16
DPS (RMB)	0.180	0.180	0.149	0.168	0.195

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (RMB mn)					
EBITDA	18,501	17,498	16,172	18,234	20,441
Chg in working cap	32	(7,192)	8,882	(3,011)	6,997
Others	1,422	3,278	17	19	29
Operating cash	**19,955**	**13,584**	**25,072**	**15,242**	**27,467**
Interests paid					
Tax	(2,052)	(4,368)	(2,937)	(3,365)	(3,999)
Net cash from operations	**17,903**	**9,216**	**22,135**	**11,877**	**23,468**
Capex	(3,716)	(6,072)	(5,000)	(4,000)	(3,000)
Investments	(805)	(470)	(300)	(300)	(300)
Others	(1,557)	6,007	0	0	0
Investing cash	**(6,078)**	**(535)**	**(5,300)**	**(4,300)**	**(3,300)**
FCF	**11,825**	**8,681**	**16,835**	**7,577**	**20,168**
Issue of shares	0	0	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(776)	(1,551)	(1,287)	(1,451)	(1,679)
Net change in bank loans	(2,500)	(701)	(701)	(701)	(701)
Others	(29)	(937)	(616)	(695)	(804)
Financing cash	**(3,305)**	**(3,189)**	**(2,605)**	**(2,847)**	**(3,184)**
Net change in cash	**8,520**	**5,492**	**14,230**	**4,730**	**16,984**
Exchange rate or other Adj	0	0	0	0	0
Opening cash	17,369	25,889	31,381	45,611	50,340
Closing cash	**25,889**	**31,381**	**45,611**	**50,340**	**67,324**
CFPS (RMB)	**2.078**	**1.070**	**2.569**	**1.378**	**2.724**

Source: Company, OP Research

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	21.5	20.1	19.1	19.5	20.0
Operating margin (%)	11.9	10.9	9.9	10.3	11.0
Net margin (%)	9.0	8.0	7.0	7.3	7.7
Selling & dist'n exp/Sales (%)	5.2	4.8	4.8	4.8	4.7
Admin exp/Sales (%)	2.9	2.8	2.8	2.8	2.7
Payout ratio (%)	14.1	14.8	15.0	15.0	15.0
Effective tax (%)	20.6	23.7	24.2	24.5	25.0
Total debt/equity (%)	23.1	17.8	14.3	11.4	9.0
Net debt/equity (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Current ratio (x)	1.3	1.3	1.3	1.5	1.5
Quick ratio (x)	1.1	1.1	1.1	1.3	1.3
Inventory T/O (days)	8	8	7	7	7
AR T/O (days)	59	66	77	72	69
AP T/O (days)	114	117	137	135	133
Cash conversion cycle (days)	(47)	(42)	(53)	(56)	(57)
Asset turnover (x)	1.2	1.2	1.0	1.0	1.0
Financial leverage (x)	2.7	2.5	2.4	2.3	2.2
EBIT margin (%)	11.9	10.9	9.9	10.3	11.0
Interest burden (x)	1.0	1.0	1.0	1.0	1.0
Tax burden (x)	0.8	0.7	0.7	0.7	0.7
Return on equity (%)	**30.5**	**23.1**	**16.1**	**15.9**	**16.0**
ROIC (%)	**1.0**	**0.9**	**0.8**	**1.1**	**1.8**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Balance Sheet (RMB mn)					
Fixed assets	18,551	21,578	22,968	22,906	21,922
Lease prepayments	1,248	1,685	1,685	1,685	1,685
Intangible asset	2,294	2,361	2,218	2,062	1,871
Deferred tax assets	2,190	2,672	2,672	2,672	2,672
Other non-current assets	4,002	5,221	5,221	5,221	5,221
Non-current assets	**28,285**	**33,517**	**34,764**	**34,546**	**33,371**
Inventories	13,935	12,511	16,243	13,348	18,793
AR	17,897	19,600	20,443	20,004	22,343
Prepayments & deposits	4,660	5,706	5,951	5,824	6,505
Other current assets	4,441	3,300	3,300	3,300	3,300
Cash	41,404	42,899	57,129	61,858	78,842
Current assets	**82,337**	**84,016**	**103,066**	**104,334**	**129,783**
AP	34,201	33,033	41,550	37,527	47,137
Tax payable	3,093	2,610	2,610	2,610	2,610
Accruals & other payables	19,373	20,112	25,297	22,848	28,699
Bank loans & leases	3,271	5,993	5,292	4,591	3,890
CB & other debts	0	0	0	0	0
Other current liabilities	2,718	2,967	2,967	2,967	2,967
Current liabilities	**62,656**	**64,715**	**77,716**	**70,543**	**85,303**
Bank loans & leases	6,289	2,820	2,820	2,820	2,820
CB & other debts	0	0	0	0	0
Deferred tax and others	341	414	414	414	414
MI	3,842	3,190	3,190	3,190	3,190
Non-current liabilities	**10,472**	**6,424**	**6,424**	**6,424**	**6,424**
Total net assets	**37,494**	**46,394**	**53,689**	**61,913**	**71,427**
Shareholder's equity	**37,494**	**46,394**	**53,689**	**61,913**	**71,427**
Share capital	8,616	8,616	8,616	8,616	8,616
Reserves	28,878	37,778	45,073	53,297	62,811
BVPS (RMB)	**4.35**	**5.38**	**6.23**	**7.19**	**8.29**
Total debts	9,560	8,813	8,112	7,411	6,710
Net cash/(debts)	31,844	34,086	49,017	54,447	72,132

Geely Auto (175 HK) – YTD sales better than expectation

- **2012 target to surpassed, mainly driven by several new models, especially its SUV GX7. Geely's YTD volume up 13.4% yoy.**
- **% of SUV model is expected rise to 17% in 2013 from 7% in 2012. It also helps to lift Geely's gross margin.**
- **Share sell down is not affecting its fundamental. Maintain BUY rating, TP unchanged at HK$4.44. Share price rose 13% since our initiation.**

2012 target is able to achieve. Geely's new car sales increased 15.2% yoy and 5.5% mom, in Nov 2012. It posted growth of 13.4% yoy in 11M12. SUV GX7, the market focus, volume up by 2% mom to 4,650 units, another monthly record high. Beside, Geely's two new Englon models, SC3 and SC6, also helped the company to replace its domestic demand of its aging models, like GLEagle and Free Cruiser. Both SC3 and SC6 sales increased to over 2,000 units / month, since they debuted in mid-2012. We believe these models will continue support Geely's domestic sedan demand in 2013. As the company posted YTD growth of 13.4% yoy, we believe Geely's 2012 target of 460,000 units (up 9% yoy) is able to achieved, therefore, we revised up Geely's 2012 growth to 12.0% yoy.

Target of 100,000 SUVs in 2013. With only one model in 2012, SUV may account 7% of Geely's total sales. While the company is expecting the SUV % will increase to ~17% in 2013, by launching more SUV model. In our models, we also factor that its gross margin would expand by 1.1ppt, mainly driven by improved product mix. We are projecting of a volume growth of 23% in 2013.

Still our favor in auto sector, target price maintain at HK$4.44. We forecast Geely's sales volume will increase 12% and 23% in 2012 and 2013, respectively. And earnings growth of 38.8%/36.7% yoy in FY12E/FY13E. The recent shares sell-down by its strategic investor should not affect Geely's long-term fundamentals. And the action partially removed its share sale overhang. The counter currently trades at 11.9x FY12E PE and 8.8x FY13E PE, we see it is undemanding, and we set new target price of HK$4.44 implying 10x FY13E PE. Major down side risks:1) weak sales of new models; 2) intensive competition among SUV segment erode gross margin and cause ASP decline.

Exhibit 214 Forecast and Valuation

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	20,099	20,965	24,105	32,247	40,166
Growth (%)	43	4	15	34	25
Net Profit	1,368	1,543	2,143	2,929	3,869
Growth (%)	15.7	12.8	38.8	36.7	32.1
Diluted EPS (RMB)	0.161	0.181	0.251	0.343	0.454
EPS growth (%)	(3.7)	12.6	38.8	36.7	32.1
Change to previous EPS (%)			3.9	4.6	1.9
Consensus EPS (HK$)			0.232	0.278	0.329
ROE (%)	16.9	16.1	19.3	22.0	23.8
P/E (x)	18.6	16.5	11.9	8.7	6.6
P/B (x)	2.2	1.9	1.6	1.3	1.0
Yield (%)	1.0	1.0	1.5	2.1	2.8
DPS (HK$)	0.028	0.030	0.046	0.063	0.083

Source: Bloomberg, OP Research

Auto/ China

Vivien Chan
Analyst
+852 2135 0248
vivien.chan@oriental-patron.com.hk

Company Update

BUY

UNCHANGED

Close price:	**HK$3.69**
Target Price:	**HK$4.44 (+20.9%)**
Prior TP:	**HK$4.44**

Key Data

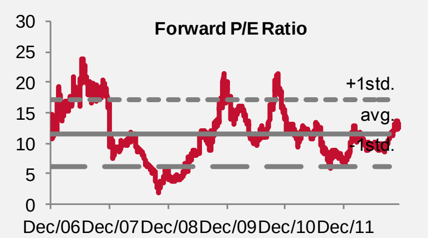
HKEx code		175
12 Months High	(HK$)	3.88
12 Month Low	(HK$)	1.65
3M Avg Dail Vol.	(mn)	60.77
Issue Share	(mn)	8,257.70
Market Cap	(HK$mn)	30,470.93
Fiscal Year		12/2011
Major shareholder (s)		Li Shufu (33.0%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	5.7	43.0	37.2
Rel. MSCI CHINA %	5.2	29.2	20.8

PE



Company Profile

Geely mainly engages in sales and manufacture of automobile and related parts in China. it is one of the leading domestic auto makers, and also exports its products to overseas markets..

Financial Summary – Geely Auto (175 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (RMB mn)					
Sales of automobiles components	19,483	20,171	22,101	29,366	36,681
Other business / gearboxes	616	794	2,004	2,881	3,485
Turnover	**20,099**	**20,965**	**24,105**	**32,247**	**40,166**
YoY%	43	4	15	34	25
COGS	(16,400)	(17,145)	(19,800)	(26,135)	(32,316)
Gross profit	**3,700**	**3,820**	**4,305**	**6,112**	**7,850**
Gross margin	18.4%	18.2%	17.9%	19.0%	19.5%
Other income	839	1,041	1,446	1,290	1,607
Selling & distribution	(1,190)	(1,359)	(1,446)	(1,798)	(2,197)
Admin	(923)	(963)	(1,261)	(1,588)	(2,002)
Other opex	(273)	(137)	(117)	(91)	(73)
Total opex	**(2,386)**	**(2,459)**	**(2,824)**	**(3,477)**	**(4,272)**
Operating profit (EBIT)	**2,152**	**2,402**	**2,927**	**3,925**	**5,185**
Operating margin	10.7%	11.5%	12.1%	12.2%	12.9%
Provisions	0	0	0	0	0
Finance costs	(245)	(211)	(265)	(322)	(402)
Profit after financing costs	1,908	2,190	2,662	3,602	4,783
Associated companies & JVs	(7)	(7)	(5)	16	20
Pre-tax profit	1,900	2,183	2,657	3,619	4,803
Tax	(351)	(467)	(497)	(666)	(903)
Minority interests	(181)	(172)	(17)	(24)	(31)
Net profit	**1,368**	**1,543**	**2,143**	**2,929**	**3,869**
YoY%	215,241	240,176	292,707	392,493	518,476
Net margin	6.8%	7.4%	8.9%	9.1%	9.6%
EBITDA	**2,677**	**3,044**	**3,622**	**4,682**	**5,996**
EBITDA margin	13.3%	14.5%	15.0%	14.5%	14.9%
EPS (RMB)	**0.161**	**0.181**	**0.251**	**0.343**	**0.454**
YoY%	(4)	13	39	37	32
DPS (RMB)	0.028	0.030	0.046	0.063	0.083

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (RMB mn)					
EBITDA	2,677	3,044	3,622	4,682	5,996
Chg in working cap	(935)	(1,928)	149	811	804
Others	694	703	(270)	(306)	(382)
Operating cash	**2,436**	**1,819**	**3,501**	**5,187**	**6,419**
Tax	(454)	(611)	(497)	(666)	(903)
Net cash from operations	**1,983**	**1,208**	**3,004**	**4,521**	**5,516**
Purchase of fixed assets	(1,336)	(1,221)	(800)	(700)	(800)
Purchase of intangible assets	(458)	(750)	(300)	(300)	(300)
Lean lease payment	(21)	75	75	75	75
Others	470	(1,058)	0	0	0
Investing cash	**(1,346)**	**(2,953)**	**(1,025)**	**(925)**	**(1,025)**
FCF	**637**	**(1,745)**	**1,978**	**3,596**	**4,491**
Issue of shares	0	0	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(148)	(170)	(279)	(381)	(506)
Net change in bank loans	(639)	716	716	716	716
Others	55	(152)	(17)	(24)	(31)
Financing cash	**(732)**	**393**	**420**	**311**	**178**
Net change in cash	**(95)**	**(1,352)**	**2,398**	**3,907**	**4,669**
Exchange rate or other Adj	(10)	(10)	0	0	0
Opening cash	4,498	4,393	3,030	5,429	9,335
Closing cash	**4,393**	**3,030**	**5,429**	**9,335**	**14,004**
CFPS (RMB)	**0.269**	**0.162**	**0.403**	**0.607**	**0.740**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	18.4	18.2	17.9	19.0	19.5
Operating margin (%)	10.7	11.5	12.1	12.2	12.9
Net margin (%)	6.8	7.4	8.9	9.1	9.6
Selling & dist'n exp/Sales (%)	5.9	6.5	6.0	5.6	5.5
Admin exp/Sales (%)	4.6	4.6	5.2	4.9	5.0
Payout ratio (%)	12.4	11.9	13.0	13.0	13.0
Effective tax (%)	18.5	21.4	18.7	18.4	18.8
Total debt/equity (%)	29.3	33.2	34.0	33.0	30.8
Net debt/equity (%)	Net Cash	(3.4)	Net Cash	Net Cash	Net Cash
Current ratio (x)	1.3	1.1	1.2	1.3	1.4
Quick ratio (x)	0.4	0.2	0.3	0.5	0.6
Inventory T/O (days)	18	25	26	21	19
AR T/O (days)	146	193	191	160	147
AP T/O (days)	199	241	233	206	200
Cash conversion cycle (days)	(35)	(24)	(16)	(25)	(35)
Asset turnover (x)	93.3	80.8	82.0	93.7	97.8
Financial leverage (x)	2.7	2.7	2.7	2.6	2.5
EBIT margin (%)	10.7	11.5	12.1	12.2	12.9
Interest burden (x)	0.9	0.9	0.9	0.9	0.9
Tax burden (x)	0.7	0.7	0.8	0.8	0.8
Return on equity (%)	**16.9**	**16.1**	**19.3**	**22.0**	**23.8**
ROIC (%)	**43.8**	**38.0**	**42.0**	**59.4**	**101.0**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Balance Sheet (RMB mn)					
Fixed assets	5,797	6,796	7,065	7,185	7,358
Intangible assets & goodwill	1,449	2,222	2,388	2,539	2,681
Prepaid land lease payments	1,368	1,480	1,374	1,271	1,172
Other non-current assets	6	94	94	94	94
Non-current assets	**8,619**	**10,591**	**10,921**	**11,089**	**11,303**
Inventories	987	1,358	1,442	1,535	1,776
AR	9,913	12,215	12,993	15,308	16,943
Tax recoverable	2	0	0	0	0
Other current assets	389	403	403	403	403
Cash	4,393	3,030	5,429	9,335	14,004
Current assets	**15,684**	**17,006**	**20,267**	**26,582**	**33,127**
AP	10,543	12,114	13,126	16,345	19,026
Tax payable	174	339	339	339	339
Accruals & other payables	0	0	0	0	0
Bank loans & leases	1,097	2,532	3,247	3,963	4,678
CB & other debts	0	0	0	0	0
Other current liabilities	0	0	0	0	0
Current liabilities	**11,813**	**14,985**	**16,712**	**20,647**	**24,043**
Bank loans & leases	1,562	843	843	843	843
Deferred tax	73	92	92	92	92
Other non-current liabilities	1,777	1,527	1,527	1,527	1,527
MI	1,056	568	568	568	568
Non-current liabilities	**4,468**	**3,030**	**3,030**	**3,030**	**3,030**
Total net assets	**8,022**	**9,582**	**11,447**	**13,995**	**17,358**
Shareholder's equity	**8,022**	**9,582**	**11,447**	**13,995**	**17,358**
Share capital	139	139	139	139	139
Reserves	7,883	9,443	11,307	13,856	17,219
BVPS (RMB)	**1.23**	**1.36**	**1.61**	**1.95**	**2.41**
Total debts	2,659	3,375	4,090	4,806	5,521
Net cash/(debts)	1,734	(344)	1,338	4,530	8,483

Source: Company, OP Research

Great Wall Motor (2333 HK) – October sales growth in-line

- **New car sales of Great Wall Motor increased 68.1% yoy and 4.4% mom in Oct. 2012. YTD, the company sold 484,436 units, up by 31.7% yoy.**
- **Expect total volume to grow 25.4% yoy in 2012 and 21% in 2013.**
- **Maintain HOLD rating, TP of HK$22.14, derived from 9x FY13E.**

Auto/ China

Vivien Chan
Analyst
+852 2135 0248
vivien.chan@oriental-patron.com.hk

Company Update

HOLD

UNCHANGED

Close price:	**HK$24.10**
Target Price:	**HK$22.14 (-8.1%)**
Prior TP:	**HK$22.14**

Key Data

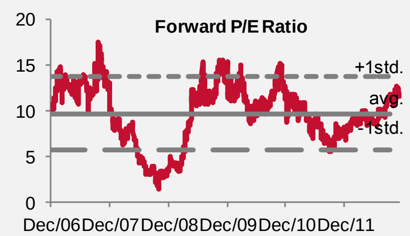
HKEx code		2333
12 Months High	(HK$)	25.90
12 Month Low	(HK$)	10.12
3M Avg Dail Vol.	(mn)	6.11
Issue Share	(mn)	1,033.18
Market Cap	(HK$mn)	73,089.07
Fiscal Year		12/2011
Major shareholder (s)		Wei Jian Jun (62.3%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	6.1	0.9	2.4
Rel. MSCI CHINA %	5.6	-12.9	-14.0

PE



Company Profile

Great Wall Motor mainly engages in produce and sales of pick-up, SUV, and sedan in China. It also exports its products to overseas market, like Russia, Australia, and China. etc.

October 2012 new car sales increased 68.1% yoy. Great Wall Motor announced that its sales volume in Oct. 2012 increased 68.1% yoy and 4.4% mom, to a total of 61,207 units. By product segment, its SUV segment grew 164.7% yoy in Oct 2010; and posted robust a growth of 85.0% yoy in 10M12. Pick-up product sales increased 20.0% in the single month, and grew 14.5% yoy in YTD. Despite its sedan recorded a monthly growth of 23.0% yoy, but it decline 7.5% mom. The segment posted a merely growth of 3.4% yoy in 10M12.

Expect total volume to grow 25.4% yoy in 2012, SUV constitutes 44% of total. We now forecast Great Wall's overall growth of 25.4% yoy in 2012, (pick-up 9.5% yoy; SUV 73% yoy; and sedan 0%) in 2012. And we expect a further growth of 20.9% in 2013. SUV still is the major volume and revenue contributor of the company; and the segment will account 44% and 51% to its total volume in 2012-2013.

Major investment risks: 1) Fiercer competition in SUV segment lead price reduction in 2013, as other domestic car makers are introducing more SUV products; 2) Slower-than-expected Great Wall's sedan sales.

Maintain HOLD rating, revised TP to HK$22.14. The counter currently trades at 11.2x FY12E PE and 9.4x FY13E. We see the valuation stretched. Thus, we maintain our HOLD rating, with a target price of HK$22.14, translate to 9.0x FY13E PE. In additional, the market expects Great Wall Motor will be replace BYD in HSCEI and contribute 1.1% to the index. It may trigger share price increase in short term.

Exhibit 215: Forecast and Valuation

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	22,105.0	29,037.2	39,049.0	48,125.7	55,528.9
Growth (%)	78.3	31.4	34.5	23.2	15.4
Net Profit	2,883.4	3,426.2	5,125.3	6,086.1	6,774.9
Growth (%)	182.0	18.8	49.6	18.7	11.3
Diluted EPS (RMB)	1.053	1.217	1.685	2.000	2.227
EPS growth (%)	182.0	15.6	38.4	18.7	11.3
Change to previous EPS (%)			3.3	3.5	3.7
Consensus EPS (HK$)			1.593	1.803	1.966
ROE (%)	31.6	25.0	27.1	26.3	24.2
P/E (x)	18.6	16.1	11.6	9.8	8.8
P/B (x)	5.2	3.2	2.9	2.3	2.0
Yield (%)	1.0	1.5	2.1	2.6	2.8
DPS (RMB)	0.200	0.300	0.421	0.500	0.557

Source: Bloomberg, OP Research

Financial Summary – Great Wall Motor (2333 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (RMB mn)					
Sales of automobiles	21,725	28,178	38,180	47,088	54,124
Sales of automotive parts and components	700	1,124	1,461	1,899	2,469
Providing of services	561	787	866	935	1,010
Business tax	(881)	(1,052)	(1,458)	(1,797)	(2,074)
Turnover	**22,105**	**29,037**	**39,049**	**48,126**	**55,529**
YoY%	78	31	34	23	15
COGS	(17,298)	(22,594)	(29,763)	(36,994)	(42,944)
Gross profit	**4,807**	**6,443**	**9,286**	**11,132**	**12,585**
Gross margin	21.7%	22.2%	23.8%	23.1%	22.7%
Other income	14	12	8	10	11
Selling & distribution	(1,070)	(1,193)	(1,505)	(1,834)	(2,129)
Admin	(874)	(1,284)	(1,530)	(1,878)	(2,201)
Other opex	(29)	(2)	(78)	(96)	(111)
Total opex	**(1,973)**	**(2,479)**	**(3,113)**	**(3,808)**	**(4,441)**
Operating profit (EBIT)	**2,848**	**3,977**	**6,181**	**7,333**	**8,155**
Operating margin	12.9%	13.7%	15.8%	15.2%	14.7%
Non-operating income	73	119	74	91	106
Finance costs	8	23	78	96	111
Profit after financing costs	2,929	4,119	6,333	7,521	8,372
Associated companies & JVs	42	12	0	0	0
Pre-tax profit	2,971	4,131	6,333	7,521	8,372
Tax	(214)	(620)	(1,077)	(1,279)	(1,423)
Minority interests	126	(84)	(131)	(156)	(174)
Net profit	**2,883**	**3,426**	**5,125**	**6,086**	**6,775**
YoY%	182	19	50	19	11
Net margin	13.0%	11.8%	13.1%	12.6%	12.2%
EBITDA	**3,376**	**4,676**	**7,207**	**8,591**	**9,614**
EBITDA margin	15.3%	16.1%	18.5%	17.9%	17.3%
EPS (RMB)	**1.053**	**1.217**	**1.685**	**2.000**	**2.227**
YoY%	182	16	38	19	11
DPS (RMB)	0.200	0.300	0.421	0.500	0.557

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (RMB mn)					
EBITDA	3,376	4,676	7,207	8,591	9,614
Chg in working cap	(441)	188	(325)	(336)	648
Others	298	154	152	188	217
Operating cash	**3,233**	**5,019**	**7,035**	**8,442**	**10,479**
Tax	(42)	(570)	(1,077)	(1,279)	(1,423)
Net cash from operations	**3,192**	**4,449**	**5,958**	**7,164**	**9,056**
Capex	(2,221)	(3,752)	(4,000)	(3,000)	(3,000)
Investments	0	0	(800)	(700)	(500)
Others	(936)	87	(131)	(156)	(174)
Investing cash	**(3,157)**	**(3,664)**	**(4,931)**	**(3,856)**	**(3,674)**
FCF	**35**	**785**	**1,027**	**3,308**	**5,383**
Issue of shares	0	3,894	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(548)	(913)	(1,281)	(1,522)	(1,694)
Net change in bank loans	(76)	186	19	19	19
Others	261	288	0	0	0
Financing cash	**(363)**	**3,456**	**(1,263)**	**(1,503)**	**(1,675)**
Net change in cash	**(328)**	**4,241**	**(236)**	**1,805**	**3,707**
Exchange rate or other Adj	(18)	(8)	0	0	0
Opening cash	2,420	2,074	6,306	6,070	7,875
Closing cash	**2,074**	**6,306**	**6,070**	**7,875**	**11,583**
CFPS (RMB)	**1.166**	**1.581**	**1.958**	**2.355**	**2.977**

Source: Company, OP Research

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	21.7	22.2	23.8	23.1	22.7
Operating margin (%)	12.9	13.7	15.8	15.2	14.7
Net margin (%)	13.0	11.8	13.1	12.6	12.2
Selling & dist'n exp/Sales (%)	4.8	4.1	3.9	3.8	3.8
Admin exp/Sales (%)	4.0	4.4	3.9	3.9	4.0
Payout ratio (%)	19.0	26.6	25.0	25.0	25.0
Effective tax (%)	7.2	15.0	17.0	17.0	17.0
Total debt/equity (%)	0.2	0.2	0.2	0.3	0.3
Net debt/equity (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Current ratio (x)	1.2	1.4	1.3	1.5	1.5
Quick ratio (x)	1.1	1.2	1.1	1.3	1.3
Inventory T/O (days)	39	39	39	36	35
AR T/O (days)	111	126	104	82	82
AP T/O (days)	132	148	131	104	103
Cash conversion cycle (days)	18	18	12	14	13
Asset turnover (x)	1.1	1.0	1.1	1.2	1.2
Financial leverage (x)	2.1	2.1	1.9	1.7	1.7
EBIT margin (%)	12.9	13.7	15.8	15.2	14.7
Interest burden (x)	1.0	1.0	1.0	1.0	1.0
Tax burden (x)	1.0	0.8	0.8	0.8	0.8
Return on equity (%)	**31.6**	**25.0**	**27.1**	**26.3**	**24.2**
ROIC (%)	**15.2**	**14.1**	**17.6**	**18.8**	**18.4**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Balance Sheet (RMB mn)					
Fixed assets	5,380	7,392	10,416	12,222	13,834
Intangible assets	1,111	1,869	2,619	3,256	3,684
Deferred income tax assets	297	352	352	352	352
Other non-current assets	2,085	3,147	3,147	3,147	3,147
Non-current assets	**8,874**	**12,761**	**16,534**	**18,977**	**21,018**
Inventories	2,104	2,777	3,557	3,781	4,474
AR	8,053	9,382	10,656	8,846	13,544
Prepayments & deposits	1,596	1,011	1,148	953	1,459
Other current assets	998	97	97	97	97
Cash	2,074	7,107	6,871	8,676	12,384
Current assets	**14,825**	**20,374**	**22,330**	**22,353**	**31,957**
AP	8,279	10,011	11,333	9,834	14,469
Tax payable	179	284	284	284	284
Accruals & other payables	3,231	4,126	4,671	4,053	5,963
Bank loans & leases	26	26	45	64	82
CB & othe debts	0	0	0	0	0
Other current liabilities	173	266	266	266	266
Current liabilities	**11,887**	**14,714**	**16,599**	**14,500**	**21,064**
Bank loans & leases	0	0	0	0	0
CB & othe debts	0	0	0	0	0
Deferred tax and others	1,410	1,400	1,400	1,400	1,400
MI	385	284	284	284	284
Non-current liabilities	**1,796**	**1,684**	**1,684**	**1,684**	**1,684**
Total net assets	**10,015**	**16,737**	**20,581**	**25,146**	**30,227**
Shareholder's equity	**10,015**	**16,737**	**20,581**	**25,146**	**30,227**
Share capital	1,095	3,042	3,042	3,042	3,042
Reserves	8,920	13,695	17,539	22,103	27,184
BVPS (RMB)	**3.80**	**6.05**	**6.86**	**8.36**	**10.03**
Total debts	26	26	45	64	82
Net cash/(debts)	2,048	7,081	6,826	8,612	12,301

Hilong (1623 HK) – Accelerating in 2013

Oil&Gas/ China

Alan Lau
Analyst
+852 2842 5820
alan.lau@oriental-patron.com.hk

Company Update

BUY

UNCHANGED

Close price:	**HK$2.58**
Target Price:	**HK$2.90 (+12%)**
Prior TP:	**HK$2.90**

Key Data

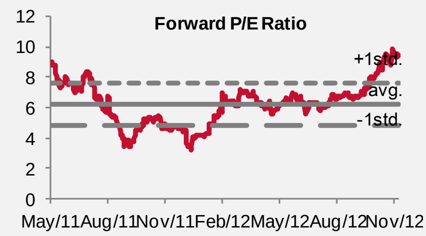
HKEx code		1623
12 Months High	(HK$)	2.79
12 Month Low	(HK$)	1.19
3M Avg Dail Vol.	(mn)	3.96
Issue Share	(mn)	1,591.34
Market Cap	(HK$mn)	4,105.66
Fiscal Year		12/2011
Major shareholder (s)		Zhang Jun (57%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	11.2	43.3	46.6
Rel. MSCI CHINA %	10.7	29.5	30.2

PE



Company Profile

Hilong is China's largest and world's second largest drill pipe manufacturer. The company is advanced in providing high-end coating services and material in China with few competitors with comparable standard. It is also begun providing oilfield services in drilling with currently 9 teams serving clients overseas.

- **Margin stabilization in 2013.**
- **Increasing demand for coating in OCTG as well as line pipe.**
- **Reiterate Buy with TP HK$2.90 implying 9x FY13E P/E.**

Margin stabilization in 2013. We believe order pick up for drill pipe while ASP and margin stabilizes, will be a major driver for Hilong in FY13E. Margin for drill pipe in the overseas market were new entry and seen 5% decline YoY in 1H12A. We believe the further ASP drop is not likely given hot demand for non-API drill pipes which Hilong produces. The growth in E&P in China will also add to the order growth by 14% YoY consecutively in FY13E and FY14E, to Hilong's drill pipes segment.

Increasing demand for coating in OCTG as well as line pipe. While the corrosive environment in the Western basins especially in Sichuan fences off a lot of low-end producers, Hilong can break into the market by providing coated OCTG which helps to extend the life of reservoirs and save cost and time for maintenance of pipes for developers. On the other hand, coating will also see growth from pipeline expansion in China in 12th FYP. We expect Hilong's coating segment to grow by 30% YoY in FY13E and FY14E.

Oilfield services to maintain high growth as teams increase. Expecting Hilong to increase the number of oilfield services team from 9 to 11 in FY13E, we expect the company to continue to receive order growth in providing oilfield services overseas. We forecast the oilfield services segment to grow by 20-22%YoY between 2012-2014 on the back of the service team increase.

Reiterate Buy. Our target price of HK$2.90 is based on 11x FY12E P/E and 9x FY13E P/E, which similar to the average of HK-listed oil and gas equipment companies at 8.8x FY13E P/E. We favour Hilong's capability to provide high-end coating services to OCTG and line pipe which few players can achieve such high standard in China. Coating has becoming trendy in the corrosive environment in Western China especially in OCTG. We believe to see increasing orders for Hilong's OCTG and coating in the near term.

Exhibit 216: Forecast and Valuation

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	1,356.5	1,821.2	2,132.7	2,567.3	3,105.2
Growth (%)	*34.7*	*34.3*	*17.1*	*20.4*	*20.9*
Net profit	178.4	301.7	332.6	403.5	485.4
Growth (%)	*194.2*	*69.1*	*10.2*	*21.3*	*20.3*
Diluted EPS (RMB)	N/A	0.189	0.209	0.254	0.305
Change to previous EPS (%)			*N/A*	*N/A*	
Consensus EPS (RMB)			0.308	0.381	
EPS growth (%)	N/A	N/A	10.5	21.3	20.3
ROE (%)	19.7	14.8	14.5	15.4	16.1
P/E (x)	N/A	11.0	9.9	8.2	6.8
P/B (x)	N/A	1.6	1.4	1.3	1.1
Yield (%)	0.0	2.7	3.0	3.7	4.4
DPS (RMB)	N/A	0.09	0.06	0.08	0.09

Source: Bloomberg, OP Research

Financial Summary – Hilong (1623 HK)

Profit and loss

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	1,356	1,821	2,133	2,567	3,105
Cost of sales	(800)	(1,075)	(1,300)	(1,542)	(1,866)
Gross profit	**557**	**747**	**833**	**1,025**	**1,239**
Other income	0	34	0	0	0
Selling expenses	(79)	(109)	(128)	(154)	(186)
Administrative expenses	(172)	(241)	(267)	(334)	(413)
Other expenses	15	(9)	11	13	16
Operating profit	**320**	**421**	**449**	**550**	**655**
Net finance cost	(30)	(46)	(44)	(50)	(54)
Share of profit from JCE & asso	(15)	(11)	0	0	0
Others non-operating items	0	0	0	0	0
Profit before taxation	**275**	**365**	**405**	**500**	**601**
Taxation	(45)	(45)	(55)	(75)	(90)
Profit after taxation	**230**	**320**	**350**	**425**	**511**
Minority interest	(52)	(18)	(18)	(21)	(26)
Net profit	**178**	**302**	**333**	**403**	**485**
Others	0	0	0	0	0
Dividends	0	0	(89)	(100)	(121)
Transfer to reserves	**178**	**302**	**244**	**304**	**364**

Cash flow

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Profit before taxation	275	365	405	500	601
Depreciation and amortization	57	82	114	128	140
Change in working capital	(145)	(304)	(473)	(253)	(404)
Taxes paid	(36)	(40)	(55)	(75)	(90)
Other adjustments	12	(21)	(0)	0	0
Operating cash flows	**163**	**81**	**(9)**	**299**	**247**
Capex	(157)	(315)	(250)	(250)	(150)
Free cash flow	**6**	**(235)**	**(259)**	**49**	**97**
Other investing cash flows	(8)	(163)	0	0	0
Investing cash flows	**(166)**	**(478)**	**(250)**	**(250)**	**(150)**
Dividends paid	0	0	(89)	(100)	(121)
Net debt repayment	362	(207)	138	125	75
Equity issue	0	817	0	0	0
Other financing cash flows	(253)	(129)	0	0	0
Financing cash flows	**108**	**481**	**49**	**25**	**(46)**
Net cash flow	**106**	**83**	**(210)**	**74**	**51**
Beginning cash	142	247	322	112	187
Forex	(1)	(8)	0	0	0
Ending cash	**247**	**322**	**112**	**187**	**238**

Balance sheet

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
PPE, land and intangible assets	801	1,252	1,388	1,510	1,520
Investment in JCE, asso and others	85	59	59	59	59
Other non-current assets	38	61	61	61	61
Total non-current assets	**924**	**1,372**	**1,508**	**1,630**	**1,640**
Inventories	366	510	606	718	869
Trade receivables	760	1,049	1,227	1,407	1,701
Other receivables	419	264	320	379	459
Other current assets	53	57	57	57	57
Cash	247	322	112	187	238
Total current assets	**1,845**	**2,202**	**2,321**	**2,748**	**3,324**
Total assets	**2,768**	**3,574**	**3,829**	**4,378**	**4,964**
Trade payables	(379)	(426)	(251)	(306)	(374)
Other payables	(522)	(182)	(214)	(257)	(311)
Short-term borrowings	(803)	(583)	(600)	(725)	(800)
Other current liabilities	(66)	(45)	(45)	(45)	(45)
Total current liabilities	**(1,771)**	**(1,236)**	**(1,110)**	**(1,333)**	**(1,530)**
Long-term borrowings	(1)	(179)	(300)	(300)	(300)
Other long-term liabilities	(91)	(120)	(120)	(120)	(120)
Total long-term liabilities	**(92)**	**(299)**	**(420)**	**(420)**	**(420)**
Total liabilities	**(1,863)**	**(1,535)**	**(1,530)**	**(1,753)**	**(1,950)**
Net assets	**906**	**2,039**	**2,300**	**2,625**	**3,015**
Share capital	(1)	(134)	(134)	(134)	(134)
Reserves	(682)	(1,726)	(1,970)	(2,273)	(2,638)
Owners' equity	**(683)**	**(1,860)**	**(2,104)**	**(2,407)**	**(2,772)**
Non-controlling interests	(223)	(178)	(196)	(217)	(243)
Total equity	**(906)**	**(2,039)**	**(2,300)**	**(2,625)**	**(3,015)**
Net cash (debt)	(558)	(439)	(788)	(838)	(862)

Statistics and ratios

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Growth rate (%)					
Revenue	35	34	17	20	21
EBITDA	75	33	12	20	17
EBIT	91	31	7	23	19
Net profit	194	69	10	21	20
EPS	N/A	N/A	10	21	20
Margins (%)					
Gross margin	41	41	39	40	40
EBITDA margin	28	28	26	26	26
EBIT	24	23	21	21	21
Net margin	13	17	16	16	16
Other ratios					
P/E	N/A	11.0	9.9	8.2	6.8
P/B	N/A	1.6	1.4	1.3	1.1
P/CF	N/A	39.8	(15.7)	44.5	64.2
Dividend yield (%)	0.0	2.7	3.0	3.7	4.4
Current raio	1.0	1.8	2.1	2.1	2.2
Quick ratio	0.8	1.4	1.5	1.5	1.6
Effective tax rate (%)	16.5	12.4	13.5	15.0	15.0
Gearing (%)	117.8	40.9	42.8	42.6	39.7
Net gearing (%)	81.7	23.6	37.4	34.8	31.1
ROE (%)	19.7	14.8	14.5	15.4	16.1
Working capital					
Inventory (days)	167	173	170	170	170
Debtors (days)	205	210	210	200	200
Creditors (days)	173	145	180	180	180
Cash conversion days	198	239	200	190	190

Source: Company, OP Research

Oil&Gas/ China

Alan Lau
Analyst
+852 2842 5820
alan.lau@oriental-patron.com.hk

Company Update

BUY

UNCHANGED

Close price:	**HK$2.11**
Target Price:	**HK$2.20 (+4%)**
Prior TP:	**HK$2.20**

Key Data

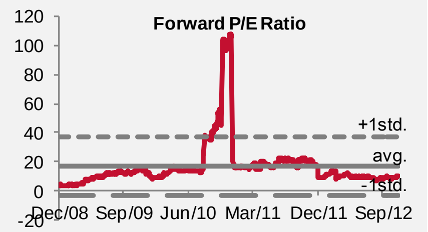
HKEx code		196
12 Months High	(HK$)	2.19
12 Month Low	(HK$)	0.73
3M Avg Dail Vol.	(mn)	15.76
Issue Share	(mn)	3,227.44
Market Cap	(HK$mn)	6,809.89
Fiscal Year		12/2011
Major shareholder (s)		Zhang Mi (45%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	15.3	57.5	64.8
Rel. MSCI CHINA %	14.8	43.7	48.5

PE



Company Profile

Honghua is China's largest and global second largest onshore drill rig manufacturer. Its onshore rig production base is located in Guanghan, Sichuan, while its Qidong base is expected to come into full scale operation from 2014 when completed.

Honghua (196 HK) – Drill Rig King Marches into New Territory

- **Gross margin may normalize to 30% sustainable level but visible order on hand supports growth in 2013**
- **Reiterate Buy with HK$2.20 target price implying 11x FY13E P/E.**

Order pick up due to recovery of crude oil prices. Honghua achieved resilient growth in its 1H12 result with 297% growth in its net earnings. We expect the company to deliver 63 rigs in FY12E compare to 48 rigs in FY11A, given strong backlog of 65 sets of orders on hand by end-October. Net profit will reach RMB478m in FY12E and RMB502m in FY13E, representing growth of 185%YoY followed by 5.2%YoY, on the back of improved shipment volume, ASP, and gross margins contributed by the Venezuela orders.

Gross margin may normalize to 30% sustainable level but visible order on hand supports growth in 2013. Without contribution from high gross margin orders at 40%+ like the Venezuela order delivered in 2011, we believe the gross margins will normalize from 32.3% in FY12E back to 30.0% in FY13E. But on the other hand, we foresee shipment growth of 10%YoY in FY13E compare to FY12E, given secured order backlog of 65 sets on hand, and not surprised by any upside if Honghua were able to receive additional orders in 1H13E.

Completion of "Honghai Crane" in Qidong base to generate additional offshore revenue from 2H14. We anticipate offshore segment to breakeven in 2H13. When Honghai Crane comes online in mid-2014, we estimate offshore segment to contribute around RMB220m of sales in FY14E.

Reiterate Buy. Our target price of HK$2.20 is based on 12x FY12E P/E and 11x FY13E P/E, which is 20% above average its HK-listed major peers. We favour Honghua's solid leadership in onshore rig market, its opportunities in offshore rigs from FY13E and believe the high entry barrier of the onshore drill rig market justifies Honghua's above peer average valuation.

Exhibit 217: Forecast and Valuation

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	1,877.9	3,485.0	5,478.0	6,834.1	7,068.2
Growth (%)	*(4.3)*	*85.6*	*57.2*	*24.8*	*3.4*
Net profit	(184.2)	168.0	478.1	502.8	532.7
Growth (%)	*N/M*	*N/M*	*184.6*	*5.2*	*5.9*
Diluted EPS (RMB)	(0.057)	0.052	0.148	0.156	0.165
Change to previous EPS (%)			N/A	N/A	
Consensus EPS (RMB)			0.168	0.208	
EPS growth (%)	N/M	N/M	184.6	5.2	5.9
ROE (%)	(4.5)	4.0	10.5	10.4	10.4
P/E (x)	(29.7)	32.6	11.4	10.9	10.3
P/B (x)	1.3	1.3	1.2	1.1	1.1
Yield (%)	0.0	1.9	4.4	4.6	4.9
DPS (RMB)	0.000	0.032	0.074	0.078	0.083

Source: Bloomberg, OP Research

Financial Summary – Honghua (196 HK)

Profit and loss

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	1,878	3,485	5,478	6,834	7,068
Cost of sales	(1,497)	(2,515)	(3,706)	(4,784)	(4,928)
Gross profit	**380**	**970**	**1,772**	**2,050**	**2,140**
Other income	25	87	41	51	53
Selling expenses	(181)	(386)	(603)	(718)	(742)
Administrative expenses	(340)	(409)	(548)	(649)	(671)
Other expenses	(4)	(19)	(55)	(34)	(35)
Operating profit	**(120)**	**244**	**608**	**700**	**744**
Net finance cost	(59)	(50)	(34)	(96)	(104)
Share of profit from JCE & asso	3	6	0	0	0
Others non-operating items	0	0	0	0	0
Profit before taxation	**(176)**	**199**	**574**	**604**	**640**
Taxation	4	(28)	(86)	(91)	(96)
Profit after taxation	**(172)**	**171**	**488**	**513**	**544**
Minority interest	(12)	(3)	(10)	(10)	(11)
Net profit	**(184)**	**168**	**478**	**503**	**533**
Others	0	0	0	0	0
Dividends	0	0	(105)	(239)	(251)
Transfer to reserves	**(184)**	**168**	**373**	**264**	**281**

Cash flow

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Profit before taxation	(176)	199	574	604	640
Depreciation and amortization	90	106	121	193	256
Change in working capital	315	(45)	(308)	(527)	(345)
Taxes paid	(26)	(18)	(86)	(91)	(96)
Other adjustments	16	(28)	34	96	104
Operating cash flows	**218**	**214**	**335**	**275**	**559**
Capex	(185)	(344)	(800)	(800)	(200)
Free cash flow	**33**	**(130)**	**(465)**	**(525)**	**359**
Other investing cash flows	95	(250)	36	3	5
Investing cash flows	**(90)**	**(594)**	**(764)**	**(797)**	**(195)**
Dividends paid	0	0	(105)	(239)	(251)
Net debt repayment	(672)	254	120	700	0
Equity issue	0	0	0	0	0
Other financing cash flows	(46)	(9)	(70)	(99)	(109)
Financing cash flows	**(718)**	**244**	**(54)**	**362**	**(360)**
Net cash flow	**(590)**	**(135)**	**(483)**	**(160)**	**3**
Beginning cash	1,603	1,003	852	369	209
Forex	(11)	(16)	0	0	0
Ending cash	**1,003**	**852**	**369**	**209**	**212**

Balance sheet

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
PPE, land and intangible assets	1,025	1,503	2,181	2,789	2,733
Investment in JCE, asso and others	41.868	102.324	102.324	102.324	102.324
Other non-current assets	288	277	277	277	277
Total non-current assets	**1,355**	**1,882**	**2,561**	**3,168**	**3,112**
Inventories	1,860	1,544	2,538	3,277	3,376
Trade receivables	896	1,097	1,501	1,872	1,936
Other receivables	321	465	685	885	911
Other current assets	560	852	852	852	852
Cash	1,003	852	369	209	212
Total current assets	**4,640**	**4,810**	**5,945**	**7,095**	**7,287**
Total assets	**5,995**	**6,693**	**8,506**	**10,263**	**10,399**
Trade payables	(674)	(886)	(1,828)	(2,359)	(2,160)
Other payables	(536)	(645)	(1,014)	(1,265)	(1,308)
Short-term borrowings	(444)	(500)	(500)	(500)	(500)
Other current liabilities	(75)	(88)	(88)	(88)	(88)
Total current liabilities	**(1,729)**	**(2,119)**	**(3,430)**	**(4,212)**	**(4,057)**
Long-term borrowings	(182)	(380)	(500)	(1,200)	(1,200)
Other long-term liabilities	(12)	(19)	(19)	(19)	(19)
Total long-term liabilities	**(195)**	**(399)**	**(519)**	**(1,219)**	**(1,219)**
Total liabilities	**(1,924)**	**(2,518)**	**(3,948)**	**(5,431)**	**(5,275)**
Net assets	**4,071**	**4,175**	**4,558**	**4,832**	**5,124**
Share capital	(300)	(300)	(300)	(300)	(300)
Reserves	(3,664)	(3,759)	(4,132)	(4,396)	(4,677)
Owners' equity	**(3,964)**	**(4,059)**	**(4,432)**	**(4,696)**	**(4,977)**
Non-controlling interests	(107)	(116)	(126)	(136)	(147)
Total equity	**(4,071)**	**(4,175)**	**(4,558)**	**(4,832)**	**(5,124)**
Net cash (debt)	Net cash	Net cash	(631)	(1,491)	(1,488)

Statistics and ratios

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Growth rate (%)					
Revenue	(4)	86	57	25	3
EBITDA	N/M	N/M	108	22	12
EBIT	N/M	N/M	149	15	6
Net profit	N/M	N/M	185	5	6
EPS	N/M	N/M	185	5	6
Margins (%)					
Gross margin	20	28	32	30	30
EBITDA margin	(2)	10	13	13	14
EBIT	(6)	7	11	10	11
Net margin	(10)	5	9	7	8
Other ratios					
P/E	(29.7)	32.6	11.4	10.9	10.3
P/B	1.3	1.3	1.2	1.1	1.1
P/CF	(9.3)	(40.4)	(11.3)	(34.1)	1691.9
Dividend yield (%)	0.0	1.9	4.4	4.6	4.9
Current raio	2.7	2.3	1.7	1.7	1.8
Quick ratio	1.6	1.5	1.0	0.9	1.0
Effective tax rate (%)	2.5	13.9	15.0	15.0	15.0
Gearing (%)	15.8	21.7	22.6	36.2	34.2
Net gearing (%)	Net cash	Net cash	14.2	31.8	29.9
ROE (%)	(4.5)	4.0	10.5	10.4	10.4
Working capital					
Inventory (days)	453	224	250	250	250
Debtors (days)	174	115	100	100	100
Creditors (days)	164	129	180	180	160
Cash conversion days	463	210	170	170	190

Source: Company, OP Research

Hutchtel (215 HK) –Intensify competition ahead

TMT/ China

Yuji Fung
Analyst
+852 2135 0236
yuji.fung@oriental-patron.com.hk

Company Update

SELL

UNCHANGED

Close price:	**HK$3.48**
Target Price:	**HK$2.40 (-31%)**
Prior TP:	**HK$2.40**

Key Data

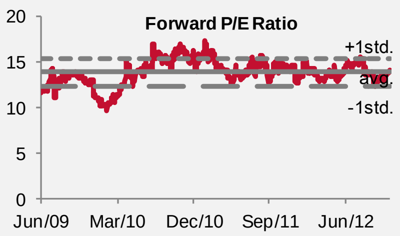
HKEx code		215
12 Months High	(HK$)	3.88
12 Month Low	(HK$)	2.83
3M Avg Dail Vol.	(mn)	7.39
Issue Share	(mn)	4,818.90
Market Cap	(HK$mn)	16,769.76
Fiscal Year		12/2011
Major shareholder (s)		Hutchuson (13 HK) (65.1%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	6.1	0.9	2.4
Rel. MSCI CHINA %	5.6	-12.9	-14.0

PE



Company Profile

HK leading Telco operators with largest postpaid subs listed in HKEx.

- **With 4G LTE network coverage gradually improve and increasing 4G LTE handset available in the market with improved performance, we see intensifying 4G price war in 2013 and downside risk on HK Telco ARPU.**
- **We cut our FY13/14E earnings by 14.6%/26.8% to HK$1,217mn and HK$1,182mn to reflect lower ARPU assumption.**
- **Maintain SELL with TP HK$2.40 based on DCF approach.**

Intensify competition ahead. Since mid-2012, HK Telco faced intensify competition on mobile services and there is a downward trend on ARPU either in terms of price cut or offer 2-6 months free charge of mobile service in a 24-months contract. China Mobile HK (CMHK) adopted an aggressive pricing with HK$158 per month for unlimited mobile data service. But lacking of 4G handset devices and the drawback of switching 4G back to 2.5G/3G for voice servicing, CMHK is not the top pick for most consumers even CMHK offer the lowest 4G service monthly plan in 2012. More importantly, we see this may change in 2013 given (1) CMHK aims to launch TD/FDD LTE 4G network in HK by the end of 2012 and (2) multi-LTE and multi-3G supported smartphone is likely massively rollout in the market in 2013 which these will directly increase CMHK's competitiveness against its competitor. We believe CMHK is likely to adopt more aggressive pricing to gain the market share from its competitors in HK as CMHK focuses on low-end customers, we see the increasing risk on HTHK due to price war and potential subs lost.

We cut our FY13/14E earnings by 14.6%/26.8%. We maintain FY12 earnings estimate unchanged and we cut our FY13/14E earnings by 14.6%/26.8% to HK$1.22bn/HK$1.18bn, mainly due to 7.2%/14.1% cut on blended ARPU from HK$140 to HK$130 in FY13E and from HK$145 to HK$120 in FY14E.

Maintain Sell. Given escalated competition in the postpaid mobile market and game changer – CMHK's aggressive pricing in 4G service, we downgrade HTHK from HOLD to SELL with TP cut from HK$3.70 to HK$2.40 based on 11.4% WACC and 0% terminal growth rate. HTHK currently trades at 13.7x FY13E PE with 5.5% forward yield.

Risk: Lower than expected decrease in blend ARPU, Higher than expected increase in subs.

Exhibit 218 Forecast and Valuation

Year to Dec (HK$ mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	9,880.0	13,407.0	14,558.2	14,882.3	15,145.2
Growth (%)	16.9	35.7	8.6	2.2	1.8
Net Profit	755.0	1,020.0	1,220.4	1,217.3	1,182.4
Growth (%)	61.3	35.1	19.6	(0.3)	(2.9)
Diluted EPS (HK$)	0.157	0.212	0.253	0.253	0.245
EPS growth (%)	61.2	35.0	19.7	(0.3)	(2.9)
Change to previous EPS (%)			0.0	(1,457.6)	(2,680.9)
Consensus EPS (HK$)			0.254	0.286	0.316
ROE (%)	7.5	9.8	11.3	10.9	10.3
P/E (x)	22.2	16.4	13.7	13.8	14.2
P/B (x)	1.6	1.6	1.5	1.5	1.4
Yield (%)	2.9	4.6	5.5	5.4	5.3
DPS (HK$)	0.102	0.159	0.190	0.189	0.184

Source: Bloomberg, OP Research

Financial Summary – Hutchtel (215 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (HK$ mn)					
Mobile business	5,147	5,464	6,001	5,929	5,776
Fixed-line	2,941	3,004	3,124	3,249	3,379
Telecom handware	1,792	4,939	5,433	5,705	5,990
Turnover	**9,880**	**13,407**	**14,558**	**14,882**	**15,145**
YoY%	17	36	9	2	2
Other income	5	6	6	21	42
Cost of inventories sold	(1,776)	(4,663)	(5,129)	(5,386)	(5,655)
Staff cost	(646)	(646)	(656)	(656)	(656)
Depreciation and amortisation	(1,087)	(1,179)	(1,423)	(1,478)	(1,552)
R&D	0	0	0	0	0
Other opex	(5,264)	(5,487)	(5,658)	(5,690)	(5,676)
Total opex	**(8,773)**	**(11,975)**	**(12,866)**	**(13,210)**	**(13,539)**
Operating profit (EBIT)	**1,107**	**1,432**	**1,693**	**1,672**	**1,606**
Operating margin	11.2%	10.7%	11.6%	11.2%	10.6%
Provisions	0	0	0	0	0
Finance costs	(128)	(124)	(127)	(126)	(126)
Profit after financing costs	984	1,314	1,571	1,567	1,522
Associated companies & JVs	(21)	(4)	(4)	(4)	(4)
Pre-tax profit	963	1,310	1,567	1,563	1,518
Tax	(63)	(49)	(59)	(58)	(57)
Minority interests	(145)	(241)	(288)	(287)	(279)
Net profit	**755**	**1,020**	**1,220**	**1,217**	**1,182**
YoY%	61	35	20	(0)	(3)
Net margin	7.6%	7.6%	8.4%	8.2%	7.8%
EBITDA	**2,094**	**2,504**	**3,001**	**3,034**	**3,039**
EBITDA margin	21.2%	18.7%	20.6%	20.4%	20.1%
EPS (HK$)	**0.157**	**0.212**	**0.253**	**0.253**	**0.245**
YoY%	61	35	20	(0)	(3)
DPS (HK$)	0.102	0.159	0.190	0.189	0.184

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (HK$ mn)					
EBITDA	2,094	2,504	3,001	3,034	3,039
Chg in working cap	(1,121)	(2)	(219)	25	19
Others	1,383	150	0	0	0
Operating cash	**2,356**	**2,652**	**2,782**	**3,059**	**3,058**
Interests paid	(55)	(56)	(127)	(126)	(126)
Tax	(5)	(6)	(10)	(59)	(58)
Net cash from operations	**2,296**	**2,590**	**2,645**	**2,874**	**2,874**
Capex	(1,117)	(1,141)	(1,310)	(1,339)	(1,363)
Investments	(6)	(1,138)	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	5	53	0	0	0
Interests received	0	0	6	21	42
Others	(10)	(66)	0	0	0
Investing cash	**(1,128)**	**(2,292)**	**(1,304)**	**(1,319)**	**(1,321)**
FCF	**1,168**	**298**	**1,340**	**1,556**	**1,553**
Issue of shares	1	2	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(457)	(578)	(814)	(915)	(904)
Net change in bank loans	(800)	280	(78)	0	0
Others	0	0	0	0	0
Financing cash	**(1,256)**	**(296)**	**(892)**	**(915)**	**(904)**
Net change in cash	**(88)**	**2**	**449**	**641**	**648**
Exchange rate or other Adj	0	0	0	0	0
Opening cash	268	180	182	631	1,272
Closing cash	**180**	**182**	**631**	**1,272**	**1,920**
CFPS (HK$)	**0.477**	**0.538**	**0.549**	**0.597**	**0.596**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	82.0	65.2	64.8	63.8	62.7
Operating margin (%)	11.2	10.7	11.6	11.2	10.6
Net margin (%)	7.6	7.6	8.4	8.2	7.8
Staff cost/Sales (%)	6.5	4.8	4.5	4.4	4.3
D&A/Sales (%)	11.0	8.8	9.8	9.9	10.2
Payout ratio (%)	64.8	74.9	75.0	75.0	75.0
Effective tax (%)	6.4	3.7	3.7	3.7	3.7
Total debt/equity (%)	34.9	36.4	34.3	33.4	32.6
Net debt/equity (%)	33.2	34.7	28.6	22.2	16.0
Current ratio (x)	0.5	0.3	0.6	0.8	0.9
Quick ratio (x)	0.4	0.2	0.6	0.7	0.8
Inventory T/O (days)	9	8	22	22	22
AR T/O (days)	44	39	40	40	40
AP T/O (days)	14	13	13	13	13
Cash conversion cycle (days)	39	35	50	50	50
Asset turnover (x)	0.5	0.7	0.7	0.7	0.7
Financial leverage (x)	1.8	1.8	1.9	1.9	1.9
EBIT margin (%)	11.2	10.7	11.6	11.2	10.6
Interest burden (x)	0.9	0.9	0.9	0.9	0.9
Tax burden (x)	0.8	0.8	0.8	0.8	0.8
Return on equity (%)	**7.5**	**9.8**	**11.3**	**10.9**	**10.3**
ROIC (%)	**7.8**	**10.1**	**11.5**	**11.3**	**10.9**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Balance Sheet (HK$ mn)					
Fixed assets	9,610	9,690	9,999	10,283	10,520
Intangible assets & goodwill	4,783	6,221	5,915	5,608	5,302
Associated companies & JVs	272	332	328	324	320
Long-term investments	0	0	0	0	0
Other non-current assets	1,595	1,575	1,575	1,575	1,575
Non-current assets	**16,260**	**17,818**	**17,816**	**17,790**	**17,717**
Inventories	239	299	315	331	347
AR	1,202	1,437	1,595	1,631	1,660
Prepayments & deposits	189	220	239	244	249
Other current assets	106	130	130	130	130
Cash	180	182	631	1,272	1,920
Current assets	**1,916**	**2,268**	**2,910**	**3,607**	**4,305**
AP	383	462	177	186	195
Tax	8	10	59	58	57
Accruals & other payables	2,490	3,026	3,286	3,359	3,418
Bank loans & leases	0	3,853	0	0	0
CB & othe debts	0	0	0	0	0
Other current liabilities	1,191	1,127	1,127	1,127	1,127
Current liabilities	**4,072**	**8,478**	**4,648**	**4,730**	**4,797**
Bank loans & leases	3,566	0	3,775	3,775	3,775
CB & othe debts	0	0	0	0	0
Deferred tax & others	736	1,195	1,195	1,195	1,195
MI	(404)	(171)	117	405	684
Non-current liabilities	**3,898**	**1,024**	**5,087**	**5,375**	**5,654**
Total net assets	**10,206**	**10,584**	**10,991**	**11,293**	**11,571**
Shareholder's equity	**10,206**	**10,584**	**10,991**	**11,293**	**11,571**
Share capital	1,204	1,205	1,205	1,205	1,205
Reserves	9,002	9,379	9,786	10,088	10,366
BVPS (HK$)	**2.12**	**2.20**	**2.28**	**2.34**	**2.40**
Total debts	3,566	3,853	3,775	3,775	3,775
Net cash/(debts)	(3,386)	(3,671)	(3,144)	(2,503)	(1,855)

Source: Company, OP Research

Ju Teng Intl (3336 HK) – Riding on tablet competition heat up and ramp up of ultrabook in 2013

- **Impressive 1H12 results with sales was up 18.1% yoy to HK$4.3bn and net profit was up 120.2% yoy to HK$244mn. GP margin was not only recovery but also expanded by 4.3ppt yoy and 1.5ppt hoh to 13.7%.**
- **We revise up our FY12/13E earnings by 48%/26% to reflect 1.9ppt/0.8ppt upgrade on gross margin assumption from 12.3%/14.1% to 14.2%/14.9%**
- **Reiterate BUY with TP raised from HK$3.0 to HK$4.4, representing 9x FY12E PE or 15% discount to its peers.**

Casing/ China

Yuji Fung
Analyst
+852 2135 0236
yuji.fung@oriental-patron.com.hk

Company Update

BUY

UNCHANGED

Close price:	**HK$3.29**
Target Price:	**HK$4.40 (+34%)**
Prior TP:	**HK$4.40**

Key Data

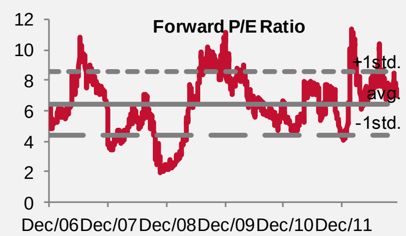
HKEx code		3336
12 Months High	(HK$)	3.85
12 Month Low	(HK$)	0.87
3M Avg Dail Vol.	(mn)	5.69
Issue Share	(mn)	1,150.16
Market Cap	(HK$mn)	3,784.03
Fiscal Year		12/2011
Major shareholder (s)		Cheng Li-Yu (28.9%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	-2.1	-6.0	86.9
Rel. MSCI CHINA %	-2.6	-19.8	70.6

PE



Company Profile

Ju Teng is a leading notebook casing supplier with 30% global market share.

1H12 results beat. JT reported 1H12 sales was up 18.1% yoy to HK$4.3bn. Net profit was surged by 120.2% yoy to HK$244mn. GPM expanded by 4.3ppt yoy and 1.5ppt hoh to 13.7%, better than our expectation, mainly due to (1) 10% improvement on ASP and (2) higher sales contribution from higher margin metal and hybrid (metal mix with plastic) casing. No interim dividend was declared. Mgmt guide another 1ppt hoh margin improvement in 2H12 and 5-10% hoh sales growth in 2H12, in-line with our FY12E sales of HK$9.4bn, 1H12 sales was accounted for 46% of our FY12E estimate.

We revise up our FY12/13E earnings by 48%/26% to reflect better margin outlook. We revised up our FY12/13E earnings by 48%/26% to HK$556mn/HK$591mn to reflect 1.9ppt/0.8ppt upgrade on our FY12/13E GPM assumption to 14.2%/14.9%, thanks to increasing adoption of metal casing and hybrid casing which enjoy a higher margin than the pure plastic casing. Looking forward, mgmt expect (1) Microsoft Win 8 OS launch in Oct 2012 will drive notebook demand, (2) Ultrabook shipment likely pick up in 2H12 as price drop to a competitive level (<US$699) and (3) Tablet PC will be boosted by Win 8 to reshape the current Apple iPad dominated tablet market, our key investment thesis on JT on top the Ultrabook.

Maintain BUY. We reiterate BUY on JT with TP raised from HK$3.0 to HK$4.40, representing 9x FY12E PE or 15% discount to its peers. We believe 2H12 results will be better than 1H12 given (1) Non-Apple Tablet rollout in the market in 4Q12, (2) ramping up in Ultrabook shipments in late 2012 driven by new OS (Win 8), new CPU (Intel Ivy Bridge) and lower key component cost such as SSD.

Risk: (1) Non-Apple Tablet may not be able to penetrate into the market, (2) Worse than expected Notebook demand, (3) intensifying competition in the casing market

Exhibit 219: Forecast and Valuation

Year to Dec (HK$ mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	7,166	8,235	9,395	10,713	12,306
Growth (%)	(4)	15	14	14	15
Net Profit	331	257	556	591	735
Growth (%)	(53)	(23)	117	6	24
Diluted EPS (HK$)	0.284	0.226	0.447	0.475	0.591
EPS growth (%)	(55)	(20)	98	6	24
Change to previous EPS (%)			34	14	3
Consensus EPS (HK$)			0.446	0.528	0.605
ROE (%)	7.9	5.6	11.2	10.9	12.4
P/E (x)	11.6	14.5	7.4	6.9	5.6
P/B (x)	0.8	0.8	0.7	0.7	0.6
Yield (%)	2.4	2.4	4.1	4.3	5.4
DPS (HK$)	0.080	0.079	0.134	0.142	0.177

Source: Bloomberg, OP Research

Financial Summary – Ju Teng Intl (3336 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (HK$ mn)					
Plastic	4,505	5,834	6,374	6,661	6,961
Metal	1,170	1,365	1,989	2,626	3,565
Netbook	1,112	546	467	399	341
Tablet	0	0	76	538	951
Others	380	489	489	489	489
Turnover	**7,166**	**8,235**	**9,395**	**10,713**	**12,306**
YoY%	(4)	15	14	14	15
COGS	(6,244)	(7,367)	(8,057)	(9,120)	(10,398)
Gross profit	**922**	**868**	**1,338**	**1,593**	**1,909**
Gross margin	12.9%	10.5%	14.2%	14.9%	15.5%
Other income	29	65	81	77	82
Selling & distribution	(63)	(98)	(110)	(124)	(142)
Admin	(416)	(478)	(542)	(602)	(672)
Other opex	(15)	(17)	(20)	(22)	(26)
Total opex	**(495)**	**(593)**	**(672)**	**(749)**	**(839)**
Operating profit (EBIT)	**456**	**339**	**747**	**920**	**1,152**
Operating margin	6.4%	4.1%	8.0%	8.6%	9.4%
Provisions	0	0	0	0	0
Finance costs	(35)	(45)	(56)	(59)	(59)
Profit after financing costs	422	294	691	862	1,093
Associated companies & JVs	(1)	(7)	(7)	(7)	(7)
Pre-tax profit	420	287	684	854	1,086
Tax	(65)	(50)	(128)	(159)	(202)
Minority interests	(24)	20	0	(104)	(148)
Net profit	**331**	**257**	**556**	**591**	**735**
YoY%	(53)	(23)	117	6	24
Net margin	4.6%	3.1%	5.9%	5.5%	6.0%
EBITDA	**859**	**816**	**1,334**	**1,587**	**1,871**
EBITDA margin	12.0%	9.9%	14.2%	14.8%	15.2%
EPS (HK$)	**0.284**	**0.226**	**0.447**	**0.475**	**0.591**
YoY%	(55)	(20)	98	6	24
DPS (HK$)	0.080	0.079	0.134	0.142	0.177

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (HK$ mn)					
EBITDA	859	816	1,334	1,587	1,871
Chg in working cap	265	(104)	(528)	(305)	(370)
Others	73	44	0	0	0
Operating cash	**1,196**	**756**	**806**	**1,282**	**1,502**
Interests paid	(22)	(31)	(56)	(59)	(59)
Tax	(77)	(38)	(130)	(128)	(159)
Net cash from operations	**1,097**	**687**	**620**	**1,096**	**1,284**
Capex	(964)	(1,379)	(1,127)	(643)	(738)
Investments	(8)	(5)	0	0	0
Dividends received	3	1	1	1	1
Sales of assets	31	19	0	0	0
Interests received	0	0	12	7	13
Others	(132)	(254)	0	0	0
Investing cash	**(1,070)**	**(1,618)**	**(1,114)**	**(634)**	**(724)**
FCF	**27**	**(931)**	**(494)**	**461**	**559**
Issue of shares	23	0	0	0	0
Buy-back	0	(19)	0	0	0
Minority interests	214	297	0	0	0
Dividends paid	(89)	(91)	(90)	(152)	(161)
Net change in bank loans	28	509	315	0	0
Others	0	0	0	0	0
Financing cash	**176**	**696**	**225**	**(152)**	**(161)**
Net change in cash	**203**	**(235)**	**(268)**	**310**	**398**
Exchange rate or other Adj	51	28	0	0	0
Opening cash	608	862	654	386	696
Closing cash	**862**	**654**	**386**	**696**	**1,094**
CFPS (HK$)	**0.940**	**0.606**	**0.498**	**0.880**	**1.031**

Source: Company, OP Research

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	12.9	10.5	14.2	14.9	15.5
Operating margin (%)	6.4	4.1	8.0	8.6	9.4
Net margin (%)	4.6	3.1	5.9	5.5	6.0
Selling & dist'n exp/Sales (%)	0.9	1.2	1.2	1.2	1.2
Admin exp/Sales (%)	5.8	5.8	5.8	5.6	5.5
Payout ratio (%)	28.2	35.0	30.0	30.0	30.0
Effective tax (%)	15.5	17.1	18.5	18.5	18.5
Total debt/equity (%)	48.2	55.3	56.4	52.0	47.2
Net debt/equity (%)	28.5	41.5	49.0	39.7	29.6
Current ratio (x)	1.46	1.48	1.06	1.16	1.26
Quick ratio (x)	1.15	1.18	0.81	0.90	0.99
Inventory T/O (days)	60	51	58	58	58
AR T/O (days)	127	121	120	120	120
AP T/O (days)	92	89	92	92	92
Cash conversion cycle (days)	95	83	86	86	86
Asset turnover (x)	0.74	0.77	0.79	0.84	0.89
Financial leverage (x)	2.33	2.33	2.38	2.36	2.34
EBIT margin (%)	6.4	4.1	8.0	8.6	9.4
Interest burden (x)	0.92	0.85	0.92	0.93	0.94
Tax burden (x)	0.79	0.89	0.81	0.69	0.68
Return on equity (%)	**7.9**	**5.6**	**11.2**	**10.9**	**12.4**
ROIC (%)	**6.2**	**3.9**	**7.3**	**8.3**	**10.1**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Balance Sheet (HK$ mn)					
Fixed assets	4,742	5,805	6,333	6,301	6,307
Intangible assets & goodwill	38	38	38	38	38
Associated companies & JVs	6	(1)	(9)	(18)	(26)
Long-term investments	42	25	25	25	25
Other non-current assets	245	479	479	479	479
Non-current assets	**5,073**	**6,345**	**6,865**	**6,825**	**6,822**
Inventories	1,029	1,029	1,280	1,449	1,652
AR	2,499	2,732	3,089	3,522	4,046
Prepayments & deposits	410	558	637	726	834
Other current assets	39	53	53	53	53
Cash	862	654	386	696	1,094
Current assets	**4,839**	**5,027**	**5,445**	**6,447**	**7,680**
AP	1,581	1,796	2,031	2,299	2,621
Tax	120	130	128	159	202
Accruals & other payables	835	922	846	964	1,108
Bank loans & leases	761	541	2,146	2,146	2,146
CB & othe debts	0	0	0	0	0
Other current liabilities	26	0	0	0	0
Current liabilities	**3,322**	**3,389**	**5,150**	**5,568**	**6,076**
Bank loans & leases	1,353	2,081	791	791	791
CB & othe debts	0	0	0	0	0
Deferred tax & others	11	4	4	4	4
MI	837	1,157	1,157	1,261	1,409
Non-current liabilities	**2,201**	**3,242**	**1,952**	**2,056**	**2,204**
Total net assets	**4,389**	**4,742**	**5,208**	**5,648**	**6,222**
Shareholder's equity	**4,389**	**4,742**	**5,208**	**5,648**	**6,222**
Share capital	113	112	112	112	112
Reserves	4,276	4,630	5,097	5,536	6,110
BVPS (HK$)	**3.87**	**4.19**	**4.60**	**4.99**	**5.50**
Total debts	2,113	2,622	2,937	2,937	2,937
Net cash/(debts)	(1,251)	(1,968)	(2,551)	(2,241)	(1,843)

Luk Fook Holdings (590 HK) – 1HFY13 interim result updates

Consumer/ China

Terence Lok
Analyst
+852 2135 0212
Terence.lok@oriental-patron.com.hk

Company Update

HOLD

UNCHANGED

Close price:	**HK$23.25**
Target Price:	**HK$22.30 (-4%)**
Prior TP:	**HK$22.30**

Key Data

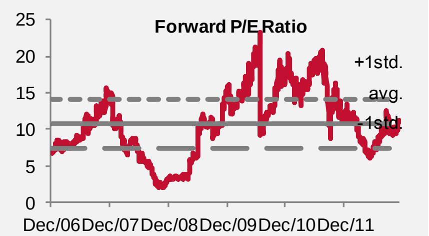
HKEx code		590
12 Months High	(HK$)	33.45
12 Month Low	(HK$)	14.70
3M Avg Dail Vol.	(mn)	4.10
Issue Share	(mn)	589.11
Market Cap	(HK$mn)	13,696.76
Fiscal Year		03/2012
Major shareholder (s)		Luk Fook (Control) (39.75%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	7.1	8.9	55.6
Rel. MSCI CHINA %	6.6	-4.9	39.3

PE



Company Profile

Luk Fook is one of the leading jewellery retailers in Hong Kong and the PRC. The company involves in wholesaling and retailing of a variety of platinum and gold jewellery, gem-set jewellery and gold. Currently, Luk Fook has over 930 retail outlets.

- **Luk Fook recorded 22% decline in 1H13 which came above market expectation of 30% decline.**
- **We remain cautious with recent management changes in Luk Fook.**
- **We upgrade Luk Fook with a Hold at a TP$ HK$22.3, implying 9x P/E with rolling forward 2014 EPS.**

1HFY13 interim result beats the market forecast and our forecast. Luk Fook reported net profit declined by 22% yoy to HK$ 558mn which came above our forecast with a better SG&A cost ratio. We therefore revised up 3%/9% Luk Fook's 2013/2014 net profit due to 1) Better SSSG 2) Better overall EBIT margin

SSSG improvement- With over 20% decline in October SSSG, Management indicated November SSSG reflected a positive rebound at around 24% SSSG thanks to a relatively low base of November FY12 SSSG. 2HFY13 we might see a better SSSG improvement given a low base going forward, however we believe this would be offset by the rental pressure. Luk Fook has renewed 12 self-owned stores in 1HFY13 and another 5 stores needed to renew in 2HFY13.

Gross margin dropped by 3ppt. Luk Fook reported 21.6% for 1HFY13 as compared to 24.5% in 1HFY12. The drop in GP margin mainly caused by the 1) decrease of gem-set jewellery sales. Gem-set jewellery's gross margin has decreased to 34% from 39% in 1HFY12 due to the downtrend of diamond price this year. 2) Higher gold sales as product mix. Overall ASP has dropped by 12% in Hong Kong self-operated retail shop along with rising inventory days to 182 days from 145 days in 1HFY12.

Valuation: We maintain Luk Fook with a Hold rating at a target price of HK$22.3, implying -4% downside to the current price. Our target price reflects 9x P/E CY2014 based on rolling forward EPS FY14. Despite overall SSSG improvement, we remain cautious with the changes in management level with the exit of Paul Law, CFO of Luk Fook over 15 years.

Exhibit 220: Forecast and Valuation

Year to Mar (HK$ mn)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue	8,091.1	11,907.4	13,511.9	15,533.5	17,719.7
Growth (%)	50.2	47.2	13.5	15.0	14.1
Net Profit	866.2	1,333.9	1,232.9	1,361.0	1,612.6
Growth (%)	62.9	54.0	(7.6)	10.4	18.5
Diluted EPS (HK$)	1.705	2.425	2.025	2.475	2.932
EPS growth (%)	58.0	42.2	(16.5)	22.2	18.5
Change to previous EPS (%)			0	2.88	9.10
Consensus EPS (HK$)			0.000	0.000	0.000
ROE (%)	33.7	29.3	20.3	19.5	20.0
P/E (x)	13.6	9.6	11.5	9.4	7.9
P/B (x)	3.4	2.3	0.2	0.2	0.2
Yield (%)	3.1	4.2	3.5	4.3	5.1
DPS (HK$)	0.726	0.983	0.821	1.003	1.189

Source: Bloomberg, OP Research

Financial Summary – Luk Fook Holdings (590 HK)

Year to Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Income Statement (HK$ mn)					
Retailing Hong Kong, Macau and Overseas	5,986	8,924	9,458	10,574	11,905
Retailing - PRC	454	744	1,131	1,507	1,812
Wholesaling	1,375	1,813	2,389	2,824	3,257
Licensing	276	427	534	628	746
Turnover	**8,091**	**11,907**	**13,512**	**15,533**	**17,720**
YoY%	50	47	13	15	14
COGS	(6,174)	(9,149)	(10,459)	(12,107)	(13,775)
Gross profit	**1,917**	**2,759**	**3,053**	**3,426**	**3,945**
Gross margin	23.7%	23.2%	22.6%	22.1%	22.3%
Other income	56	69	69	69	69
Selling & distribution	(813)	(1,076)	(1,353)	(1,541)	(1,719)
Admin	(99)	(136)	(210)	(231)	(254)
R&D	0	0	0	0	0
Other opex	(29)	(22)	(48)	(56)	(63)
Total opex	**(941)**	**(1,235)**	**(1,611)**	**(1,827)**	**(2,037)**
Operating profit (EBIT)	**1,033**	**1,592**	**1,511**	**1,668**	**1,977**
Operating margin	12.8%	13.4%	11.2%	10.7%	11.2%
Provisions	0	0	0	0	0
Finance costs	(4)	0	(1)	(1)	(1)
Profit after financing costs	1,029	1,592	1,510	1,667	1,976
Associated companies & JVs	0	3	3	3	3
Pre-tax profit	1,029	1,595	1,513	1,670	1,979
Tax	(152)	(248)	(264)	(292)	(346)
Minority interests	(11)	(13)	(16)	(17)	(20)
Net profit	**866**	**1,334**	**1,233**	**1,361**	**1,613**
YoY%	63	54	(8)	10	18
Net margin	10.7%	11.2%	9.1%	8.8%	9.1%
EBITDA	**983**	**1,529**	**1,555**	**1,753**	**2,109**
EBITDA margin	12.1%	12.8%	11.5%	11.3%	11.9%
EPS (HKD)	**1.705**	**2.425**	**2.025**	**2.475**	**2.932**
YoY%	58	42	(17)	22	18
DPS (HKD)	0.726	0.983	0.821	1.003	1.189

Year to March	FY11A	FY12A	FY13E	FY14E	FY15E
Cash Flow (HK$ mn)					
EBITDA	983	1,529	1,555	1,753	2,109
Chg in working cap	(749)	(1,620)	(92)	(597)	(608)
Others	118	0	0	0	0
Operating cash	**352**	**(91)**	**1,463**	**1,157**	**1,501**
Interests paid	0	(0)	(1)	(1)	(1)
Tax	(108)	(223)	(118)	(264)	(292)
Net cash from operations	**244**	**(314)**	**1,345**	**892**	**1,209**
Capex	(101)	(130)	(189)	(217)	(248)
Investments	0	0	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	0	0	0	0	0
Interests received	1	3	0	0	0
Others	1	(23)	0	0	0
Investing cash	**(99)**	**(149)**	**(189)**	**(217)**	**(248)**
FCF	**145**	**(463)**	**1,156**	**674**	**961**
Issue of shares	1,134	1,340	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(279)	(515)	(444)	(520)	(591)
Net change in bank loans	(314)	0	0	0	0
Others	(5)	(3)	0	0	0
Financing cash	**537**	**821**	**(444)**	**(520)**	**(591)**
Net change in cash	**682**	**358**	**711**	**155**	**370**
Exchange rate or other Adj	0	0	0	0	0
Opening cash	112	794	1,152	1,863	2,018
Closing cash	**794**	**1,152**	**1,863**	**2,018**	**2,387**
CFPS (HKD)	**0.481**	**(0.190)**	**2.208**	**1.622**	**2.197**

Year to Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Ratios					
Gross margin (%)	23.7	23.2	22.6	22.1	22.3
Operating margin (%)	12.8	13.4	11.2	10.7	11.2
Net margin (%)	10.7	11.2	9.1	8.8	9.1
Selling & dist'n exp/Sales (%)	10.0	9.0	10.0	9.9	9.7
Admin exp/Sales (%)	1.2	1.1	1.6	1.5	1.4
Payout ratio (%)	42.6	40.5	40.5	40.5	40.5
Effective tax (%)	14.8	14.8	17.5	17.5	17.5
Total debt/equity (%)	0.0	0.4	0.3	0.3	0.2
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	4.8	6.0	5.0	4.9	4.9
Quick ratio (x)	1.4	1.8	1.8	1.7	1.7
Inventory T/O (days)	156	173	160	160	160
AR T/O (days)	5	5	5	5	5
AP T/O (days)	41	41	41	41	41
Cash conversion cycle (days)	120	137	124	124	124
Asset turnover (x)	2.4	2.2	1.8	1.8	1.8
Financial leverage (x)	1.3	1.2	1.2	1.2	1.2
EBIT margin (%)	12.8	13.4	11.2	10.7	11.2
Interest burden (x)	1.0	1.0	1.0	1.0	1.0
Tax burden (x)	0.8	0.8	0.8	0.8	0.8
Return on equity (%)	**33.7**	**29.3**	**20.3**	**19.5**	**20.0**
ROIC (%)	**41.9**	**40.6**	**29.7**	**29.4**	**29.5**

Year to March	FY11A	FY12A	FY13E	FY14E	FY15E
Balance Sheet (HK$ mn)					
Fixed assets	466	506	673	847	1,029
Intangible assets & goodwill	0	0	0	0	0
Associated companies & JVs	5	8	11	14	16
Long-term investments	0	0	0	0	0
Other non-current assets	60	95	120	210	310
Non-current assets	**531**	**609**	**804**	**1,071**	**1,356**
Inventories	2,631	4,330	4,585	5,307	6,038
AR	109	163	181	208	238
Prepayments & deposits	41	98	203	233	266
Other current assets	5	0	0	0	0
Cash	966	1,538	2,249	2,404	2,774
Current assets	**3,751**	**6,129**	**7,218**	**8,153**	**9,316**
AP	686	877	1,163	1,346	1,531
Tax	90	118	264	292	346
Accruals & other payables	0	0	0	0	0
Bank loans & leases	0	0	0	0	0
CB & othe debts	0	21	21	21	21
Other current liabilities	0	0	0	0	0
Current liabilities	**777**	**1,016**	**1,448**	**1,659**	**1,898**
Bank loans & leases	0	0	0	0	0
CB & othe debts	0	0	0	0	0
Deferred tax & others	46	78	78	78	78
MI	0	0	16	33	53
Non-current liabilities	**46**	**78**	**94**	**111**	**131**
Total net assets	**3,458**	**5,644**	**6,480**	**7,454**	**8,642**
Shareholder's equity	**3,458**	**5,644**	**6,480**	**7,454**	**8,641**
Share capital	54	59	59	59	59
Reserves	3,404	5,585	6,421	7,395	8,582
BVPS (HKD)	**6.81**	**10.26**	**110.00**	**126.53**	**146.68**
Total debts	0	21	21	21	21
Net cash/(debts)	966	1,517	2,228	2,383	2,753

Source: Company, OP Research

Mengniu Dairy (2319 HK) - No surprise

Dairy/ China
Tracy Sun
Analyst
+852 2135 0214
tracy.sun@oriental-patron.com.hk

Company Update

HOLD
UNCHANGED

Close price: HK$20.25
Target Price: HK$21.20 (+4.7%)
Prior TP: HK$24.20

Key Data

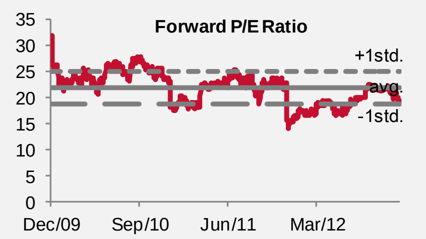
HKEx code		2319
12 Months High	(HK$)	27.80
12 Month Low	(HK$)	18.02
3M Avg Dail Vol.	(mn)	4.02
Issue Share	(mn)	1,768.23
Market Cap	(HK$mn)	35,806.71
Fiscal Year		12/2011
Major shareholder (s)		COFCO (28.06%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	-13.1	-15.6	-1.9
Rel. MSCI CHINA %	-13.6	-29.4	-18.3

PE



Company Profile

Established in 1999, China Mengniu Dairy (Mengniu) is one of the leading dairy-product manufactures in China. It manufactures and distributes dairy products in China primarily under its core Mengniu brand. Its product portfolio includes UHT milk, milk beverages and yogurt, ice cream and milk powder.

- **Revenue is projected to grow at a CAGR of 10% in 2011-2014E and led by a 7% CAGR in sales volume and a 3% CAGR of APS hike**
- **GPM inches down 0.1% in FY12E and improves to 26.4% and 26.7% in FY13/14E by product mix improvement and raw milk price modest hike**
- **OPM trims 0.2% in FY12E and rises by 30/30bps in FY13/14E due to Mengniu's prudent cost control**

The product mix improvement is Mengniu's core strategy to maintain a healthy profit growth. Premium products (GPM higher than 28%) represent around 28% of the total revenue in 1H12. We believe continuous product mix shift towards high-margin items will likely be accelerated as Mengniu has started to cut down its low-margin products, thus the proportion of high-end products is expected to rise by 2ppt-3ppt in the next few years.

Mengniu's earning is highly vulnerable to raw milk price (45% of COGS) volatility. We do not expect the raw milk price to increase significantly over the next three years, as it sourced 84% of its raw milk from large-scale dairy farms and ranches which charge relative stable price. It strengthens its procurement capacities and saves cost of packaging (24% of COGS) by signing long-term contracts with major suppliers and the tie up with COFCO.

It appears to us that Mengniu's **high growth era is behind us**. Its brand value and consumer loyalty are undermined after experiencing the melamine crisis in 2008 and M1 scandal in 2011. Although the new strategies initiated by new management team can pave the way for long-term earnings growth, near-term headwind from internal restructuring is visibility. We like Mengniu's prudent cost control and outstanding operating efficiency combined with continuing product mix shift towards high-value added categories, however, all above are reflected in current valuation, with 21x PE in 2013E. It **strategically alliances with Arla Food** to generate RMB3bn sales from milk powder by 2015, and we classify it as mid-to-long term catalyst.

Maintian HOLD. We forecast Mengniu **net profit** growth at a CAGR of 11.2% for FY11-FY14E. Based on a blending DCF/PER model, we estimate a fair value of HK$23.00 per share, which implies 2013E PE of 18.0 x.

Exhibit 221: Forecast and Valuation

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	30,265	37,388	39,764	44,343	49,133
Growth (%)	18%	24%	6%	12%	11%
Net Profit	1,237	1,589	1,504	1,841	2,161
Growth (%)	11%	28%	-5%	22%	17%
Diluted EPS (RMB)	0.711	0.905	0.851	1.042	1.223
EPS growth (%)	5%	27%	-6%	22%	17%
Change to previous EPS (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Consensus EPS (RMB)			0.843	1.069	1.289
ROE (%)	12.7	13.9	11.7	12.7	13.2
P/E (x)	23.2	18.2	19.3	15.8	13.5
P/B (x)	2.8	2.5	2.3	2.0	1.8
Yield (%)	1.0	1.2	1.1	1.4	1.6
DPS (HK$)	0.2	0.2	0.2	0.3	0.3

Source: Bloomberg, OP Research

Financial Summary – Mengniu Dairy (2319 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (RMB mn)					
Liquid Milk	26,872	33,701	35,324	39,392	43,519
Ice Cream	3,112	3,259	3,922	4,324	4,903
Other Dairy Products	282	428	518	627	711
Turnover	**30,265**	**37,388**	**39,764**	**44,343**	**49,133**
YoY%	18%	24%	6%	12%	11%
COGS	(22,479)	(27,796)	(29,602)	(32,656)	(36,037)
Gross profit	**7,786**	**9,592**	**10,162**	**11,687**	**13,097**
Gross margin	25.7%	25.7%	25.6%	26.4%	26.7%
Other income	193	296	123	137	151
Selling & distribution	(5,429)	(6,695)	(7,284)	(8,300)	(9,203)
Admin	(1,036)	(1,110)	(989)	(1,125)	(1,222)
Other opex	(60)	(187)	(80)	(89)	(98)
Total opex	**(6,525)**	**(7,992)**	**(8,352)**	**(9,513)**	**(10,523)**
Operating profit (EBIT)	**1,455**	**1,896**	**1,932**	**2,311**	**2,725**
Operating margin	4.8%	5.1%	4.9%	5.2%	5.5%
Interest income	88	173	148	179	220
Finance costs	(45)	(61)	(79)	(79)	(79)
Profit after financing costs	1,498	2,009	2,001	2,411	2,866
Associated companies & JVs	40	52	0	55	57
Pre-tax profit	1,538	2,061	2,001	2,466	2,924
Tax	(182)	(276)	(330)	(420)	(523)
Minority interests	(119)	(195)	(167)	(205)	(240)
Net profit	**1,237**	**1,589**	**1,504**	**1,841**	**2,161**
YoY%	10.9%	28.4%	-5.4%	22.4%	17.4%
Net margin	4.1%	4.3%	3.8%	4.2%	4.4%
EBITDA	**2,168**	**2,760**	**2,920**	**3,412**	**3,952**
EBITDA margin	7.2%	7.4%	7.3%	7.7%	8.0%
EPS (RMB)	**0.711**	**0.905**	**0.851**	**1.042**	**1.223**
YoY%	4.6%	27.3%	-6.0%	22.4%	17.4%
DPS (RMB)	0.170	0.199	0.187	0.229	0.269

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (RMB mn)					
EBITDA	2,168	2,760	2,920	3,412	3,952
Chg in working cap	153	7	551	554	530
Others	305	(4)	134	83	67
Operating cash	**2,626**	**2,763**	**3,605**	**4,049**	**4,550**
Interests paid	(39)	(46)	(79)	(79)	(79)
Tax	(102)	(196)	(330)	(420)	(523)
Net cash from operations	**2,485**	**2,520**	**3,196**	**3,551**	**3,949**
Capex	(1,136)	(2,381)	(1,739)	(1,939)	(2,149)
Investments	(416)	(223)	(558)	0	0
Dividends received	13	11	0	0	0
Interests received	82	168	148	179	220
Others	(748)	780	67	75	83
Investing cash	**(2,204)**	**(1,645)**	**(2,082)**	**(1,685)**	**(1,846)**
FCF	**281**	**875**	**1,114**	**1,865**	**2,102**
Issue of shares	13	521	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(273)	(331)	(350)	(331)	(405)
Net change in bank loans	(130)	(280)	195	0	0
Others	(6)	(148)	0	0	0
Financing cash	**(396)**	**(238)**	**(155)**	**(331)**	**(405)**
Net change in cash	**(115)**	**637**	**959**	**1,534**	**1,697**
Exchange rate or other Adj	(96)	(52)	0	0	0
Opening cash	3,987	3,775	4,360	5,319	6,853
Closing cash	**3,775**	**4,360**	**5,319**	**6,853**	**8,550**
CFPS (RMB)	**2.306**	**2.482**	**3.009**	**3.877**	**4.837**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	25.7	25.7	25.6	26.4	26.7
Operating margin (%)	4.8	5.1	4.9	5.2	5.5
Net margin (%)	4.1	4.3	3.8	4.2	4.4
Selling & dist'n exp/Sales (%)	(17.9)	(17.9)	(18.3)	(18.7)	(18.7)
Admin exp/Sales (%)	(3.4)	(3.0)	(2.5)	(2.5)	(2.5)
Payout ratio (%)	22.5	22.0	22.0	22.0	22.0
Effective tax (%)	(9.6)	(12.4)	(15.0)	(16.0)	(17.0)
Total debt/equity (%)	8.6	5.7	6.6	5.9	5.2
Net debt(Cash)/equity (%)	(30.1)	(32.3)	(34.8)	(41.4)	(46.9)
Current ratio (x)	1.5	1.4	1.5	1.6	1.6
Quick ratio (x)	1.4	1.2	1.3	1.4	1.4
Inventory T/O (days)	15	19	22	21	19
AR T/O (days)	7	7	7	7	7
AP T/O (days)	36	35	34	33	33
Cash conversion cycle (days)	(13)	(10)	(5)	(5)	(7)
EBIT margin (%)	4.8	5.1	4.9	5.2	5.5
Pre-tax/EBIT (x)	1.1	1.1	1.0	1.1	1.1
Net profit/pre-tax (x)	0.8	0.8	0.8	0.7	0.7
Asset turnover (x)	1.7	1.9	1.8	1.8	1.8
Assets/equity (x)	1.8	1.8	1.7	1.7	1.7
Return on equity (%)	**12.7**	**13.9**	**11.7**	**12.7**	**13.2**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Balance Sheet (RMB mn)					
Fixed assets	6,400	8,279	9,040	9,884	10,808
Intangible assets & goodwill	673	707	699	692	687
Associated companies & JVs	114	153	153	208	265
Long-term investments	302	539	539	539	539
Other non-current assets	153	137	137	137	137
Non-current assets	**7,642**	**9,815**	**10,568**	**11,459**	**12,436**
Inventories	1,176	1,685	1,849	1,900	1,943
AR	575	836	791	858	951
Prepayments & deposits	1,215	1,342	1,609	1,725	1,884
Other current assets	2,923	2,163	2,163	2,163	2,163
Cash	3,775	4,360	5,319	6,853	8,550
Current assets	**9,664**	**10,387**	**11,732**	**13,500**	**15,491**
AP	3,548	3,685	3,793	4,230	4,687
Tax	43	103	103	103	103
Accruals & other payables	1,941	2,763	3,036	3,385	3,751
Bank loans & leases	551	538	732	732	732
CB & othe debts	140	119	119	119	119
Other current liabilities	15	19	19	19	19
Current liabilities	**6,238**	**7,226**	**7,802**	**8,589**	**9,412**
Bank loans & leases	150	0	0	0	0
CB & othe debts	0	0	0	0	0
Deferred tax & others	700	927	927	927	927
MI	459	578	745	949	1,190
Non-current liabilities	**1,309**	**1,505**	**1,672**	**1,877**	**2,117**
Total net assets	**9,758**	**11,471**	**12,826**	**14,494**	**16,399**
Shareholder's equity	**9,758**	**11,471**	**12,826**	**14,494**	**16,399**
Share capital	2,229	3,255	4,409	5,920	7,675
Reserves	7,529	8,216	8,417	8,574	8,724
BVPS (RMB)	**5.96**	**6.53**	**7.26**	**8.20**	**9.28**
Total debts	841	657	851	851	851
Net cash/(debts)	2,934	3,703	4,468	6,002	7,699

Source: Company, OP Research

Oriental Watch (398 HK) – Interim result FY2013 updates

Consumer/ China

Terence Lok
Analyst
+852 2135 0212
Terence.lok@oriental-patron.com.hk

Company Update

HOLD

UNCHANGED

Close price:	**HK$2.84**
Target Price:	**HK$2.50 (-11%)**
Prior TP:	**HK$2.50**

Key Data

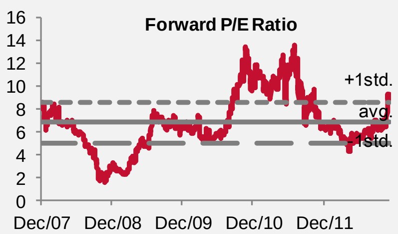
HKEx code		398
12 Months High	(HK$)	4.28
12 Month Low	(HK$)	2.00
3M Avg Dail Vol.	(mn)	1.81
Issue Share	(mn)	570.61
Market Cap	(HK$mn)	1,620.53
Fiscal Year		03/2012
Major shareholder (s)		Mr. Yeung Ming Biu & Family (27.62%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	**6.1**	**0.9**	**2.4**
Rel. MSCI CHINA %	**5.6**	**-12.9**	**-14.0**

PE



Company Profile

Established in 1961, Orient Watch is a HK based luxury watch dealer with extensive sales network in Hong Kong, PRC, Macau and Taiwan. The company is strategic distributor and wholesaler of well known international luxury watch labels such as Rolex and Tudor.

- **We transfer coverage of Oriental Watch (398 HK) to Terence Lok with a rating of Hold with a target price of HK$2.50, implying 6.5x P/E 2014.**
- **We assume 12% and 10% SSSG for Hong Kong and China respectively in FY2014.**
- **Inventory level maintains high, aiming to improve cash flow in 2014.**

Recent Same store sales - Since April to September, Hong Kong SSSG remains at negative SSSG zone. October has recorded a positive SSSG with 3.3%. However management is hoping for a low-mid single-digit growth for 2HFY13. We believe this is achievable since 1) November sees a rebound in HK SSSG. 2) a longer period between Christmas and Chinese New Year comparing to last year 3)Low base in 4QFY12. China's October SSSG recorded a negative of 9.4%.

Prudential Stores expansion to avoid rapid rental growth- With 1HFY13 23% increase in rental, management has indicated rental growth hasn't shown a sign of slowing down yet especially carrying forward to 2014. In Hong Kong, OW recently opened a new store in Hysan Place which aims to breakeven within 3-4 months with HK. No further plan for new stores opening in Hong Kong for 2H13. OW has self owned stores of 5 properties where one of the properties has sold 1H13 and will reflect in 2H13 net profit of HK$ 77 million. For China, OW has 91 stores and targeting to open another 2 stores in China. We forecast rental to topline at around 4% level for FY13 and salary remains at 4% to topline.

Valuation: We use our FY2014 EPS applying to our target multiple of 6.5x.to come up our target price of HK$2.50 with dividend yield of 3.5%. Our target price is based on 12% Hong Kong SSSG along with 10% SSSG for China in FY2014. We believe such SSSG assumption is achievable with 1) a greater amount of gift giving; 2) recovery on large ticket size watches sales from FY14; 3) worse-than-expected SSSG in FY13 lead to a low base.

Exhibit 222 Forecast and Valuation

Year to Mar (HK$ mn)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue	3,917.8	3,936.0	3,973.3	4,474.6	5,176.4
Growth (%)	20.8	0.5	0.9	12.6	15.7
Adjusted Net Profit	219.4	258.7	208.4	240.3	274.0
Growth (%)	95.0	17.9	(19.4)	15.3	14.0
Diluted EPS (HK$)	0.401	0.414	0.333	0.384	0.438
EPS growth (%)	58.4	3.2	(19.4)	15.3	14.0
Change to previous EPS (%)			(9.7)	(2.7)	
Consensus EPS (HK$)			0.368	0.367	0.438
ROE (%)	13.5	8.3	12.8	9.8	10.2
P/E (x)	7.1	6.9	8.5	7.4	6.5
P/B (x)	1.0	0.8	0.8	0.7	0.6
Yield (%)	3.9	3.6	2.6	3.0	3.4
DPS (HK$)	0.110	0.103	0.073	0.085	0.096

Source: Bloomberg, OP Research

Financial Summary – Oriental Watch (398 HK)

Year to Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Income Statement (HK$ mn)					
Hong Kong	2,638	2,595	2,603	2,953	3,435
Macau and PRC	1,280	1,341	1,370	1,522	1,741
Turnover	**3,918**	**3,936**	**3,973**	**4,475**	**5,176**
YoY%	21	0	1	13	16
COGS	(3,199)	(3,108)	(3,201)	(3,619)	(4,184)
Gross profit	**719**	**828**	**772**	**856**	**993**
Gross margin	18.3%	21.0%	19.4%	19.1%	19.2%
Other income	14	37	39	48	51
Selling & distribution	(195)	(270)	(266)	(304)	(352)
Admin	(257)	(367)	(288)	(310)	(363)
R&D	0	1	1	1	1
Other opex	0	1	0	0	0
Total opex	**(452)**	**(634)**	**(553)**	**(613)**	**(714)**
Operating profit (EBIT)	**280**	**230**	**258**	**290**	**330**
Operating margin	7.2%	5.8%	6.5%	6.5%	6.4%
Provisions	0	0	0	0	0
Finance costs	(10)	(18)	(16)	(17)	(17)
Profit after financing costs	271	212	242	273	313
Net gain from disposal of asset	0	0	77	0	0
Associated companies & JVs	1	7	15	22	23
Pre-tax profit	272	219	334	294	336
Tax	(53)	(53)	(48)	(54)	(62)
Minority interests	0	1	1	1	2
Net profit	**219**	**167**	**287**	**241**	**275**
YoY%	95	(25)	73	(16)	14
Net margin	5.6%	4.2%	7.2%	5.4%	5.3%
Adjusted net profit	**219**	**259**	**208**	**240**	**274**
Adjusted net margin	5.6%	6.6%	5.2%	5.4%	5.3%
EPS (HK$)	**0.401**	**0.414**	**0.333**	**0.384**	**0.438**
YoY%	58	3	(19)	15	14
DPS (HK$)	0.110	0.103	0.073	0.085	0.096

Year to Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Cash Flow (HK$m)					
EBITDA	304	263	292	324	364
Chg in working cap	(62)	(670)	263	(24)	(274)
Others	(1)	(20)	0	0	0
Operating cash	**242**	**(426)**	**555**	**300**	**90**
Interests paid	0	0	0	0	0
Tax	(31)	(35)	(31)	(48)	(54)
Net cash from operations	**211**	**(461)**	**524**	**252**	**36**
Capex	(35)	(50)	(100)	(60)	(60)
Investments	(44)	(37)	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	33	0	87	0	0
Interests received	1	3	1	2	2
Others	0	0	0	0	0
Investing cash	**(44)**	**(84)**	**(13)**	**(58)**	**(58)**
FCF	**167**	**(545)**	**512**	**194**	**(22)**
Issue of shares	267	0	0	0	0
Buy-back	(1)	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(30)	(55)	(60)	(48)	(55)
Net change in bank loans	(13)	205	30	0	0
Others	(16)	1	0	0	0
Financing cash	**207**	**151**	**(30)**	**(48)**	**(55)**
Net change in cash	**374**	**(394)**	**482**	**146**	**(77)**
Exchange rate or other Adj	2	0	0	0	0
Opening cash	225	601	207	689	835
Closing cash	**601**	**207**	**689**	**835**	**758**
CFPS (HK$)	**0.386**	**(0.738)**	**0.838**	**0.403**	**0.057**

Source: Company, OP Research

Year to Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Ratios					
Gross margin (%)	18.3	21.0	19.4	19.1	19.2
Operating margin (%)	7.2	5.8	6.5	6.4	6.4
Net margin (%)	5.6	4.2	7.2	5.4	5.3
Selling & dist'n exp/Sales (%)	5.0	6.9	6.7	6.8	6.8
Admin exp/Sales (%)	6.5	9.3	7.3	6.9	7.0
Payout ratio (%)	27.4	25.0	22.0	22.0	22.0
Effective tax (%)	19.5	25.2	20.0	20.0	20.0
Total debt/equity (%)	16.2	24.2	22.7	20.9	19.0
Net debt/equity (%)	Net cash	14.3	Net cash	Net cash	Net cash
Current ratio (x)	4.8	3.6	3.8	3.9	4.0
Quick ratio (x)	1.7	0.6	1.3	1.5	1.3
Inventory T/O (days)	157	235	200	180	180
AR T/O (days)	15	19	19	19	19
AP T/O (days)	19	20	20	20	20
Cash conversion cycle (days)	153	234	199	179	179
Asset turnover (x)	1.9	1.5	1.3	1.4	1.5
Financial leverage (x)	1.3	1.3	1.3	1.3	1.3
EBIT margin (%)	7.2	5.8	6.5	6.4	6.4
Interest burden (x)	1.0	1.0	1.3	1.0	1.0
Tax burden (x)	0.8	0.8	0.9	0.8	0.8
Return on equity (%)	**13.5**	**8.3**	**12.8**	**9.8**	**10.2**
ROIC (%)	**14.8**	**8.6**	**8.9**	**10.3**	**10.8**

Year to Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Balance Sheet (HK$m)					
Fixed assets	156	267	348	390	426
Intangible assets & goodwill	0	0	0	0	0
Associated companies & JVs	33	62	77	98	121
Long-term investments	19	9	9	9	9
Other non-current assets	25	47	42	0	0
Non-current assets	**232**	**386**	**476**	**498**	**557**
Inventories	1,377	2,003	1,754	1,785	2,063
AR	161	208	210	236	273
Prepayments & deposits	0	0	0	0	0
Other current assets	0	0	0	0	0
Cash	601	207	689	835	758
Current assets	**2,139**	**2,418**	**2,653**	**2,856**	**3,095**
AP	170	173	178	202	233
Tax	35	31	48	54	62
Accruals & other payables	0	0	0	0	0
Bank loans & leases	241	476	476	476	476
CB & othe debts	0	0	0	0	0
Other current liabilities	0	0	0	0	0
Current liabilities	**446**	**680**	**703**	**732**	**772**
Bank loans & leases	60	30	60	60	60
CB & othe debts	0	0	0	0	0
Deferred tax & others	0	1	1	1	1
MI	0	0	(1)	(3)	(4)
Non-current liabilities	**60**	**31**	**60**	**59**	**57**
Total net assets	**1,865**	**2,092**	**2,366**	**2,562**	**2,822**
Shareholder's equity	**1,865**	**2,092**	**2,366**	**2,562**	**2,821**
Share capital	47	57	57	57	57
Reserves	1,818	2,035	2,309	2,505	2,764
BVPS (HK$)	**2.98**	**3.35**	**3.78**	**4.10**	**4.51**
Total debts	301	506	536	536	536
Net cash/(debts)	299	(300)	152	298	222

Oil&Gas/ China

Alan Lau
Analyst
+852 2842 5820
alan.lau@oriental-patron.com.hk

Company Update

HOLD

UNCHANGED

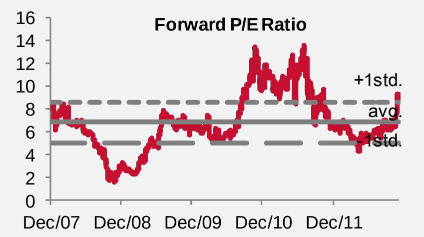
Close price: **HK$0.64**
Target Price: **HK$0.70 (+9%)**
Prior TP: **HK$0.70**

Key Data

HKEx code		1080
12 Months High	(HK$)	1.20
12 Month Low	(HK$)	0.50
3M Avg Dail Vol.	(mn)	4.95
Issue Share	(mn)	2,480.58
Market Cap	(HK$mn)	1,587.57
Fiscal Year		12/2011
Major shareholder (s)		Yan Tangfeng (57.5%)

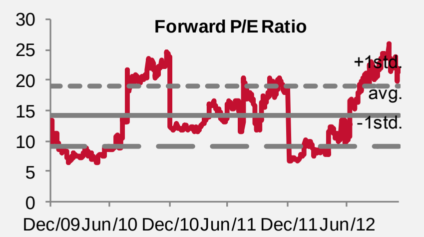
Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart



	1mth	3mth	6mth
Absolute %	-16.9	6.7	-14.7
Rel. MSCI CHINA %	-17.4	-7.1	-31.0

PE



Company Profile

Shengli Pipe is China's leading SSAW pipe manufacturer. The company has main production base in Shandong Zibo and Dezhou. It has combined production capacity of 1.15m tonnes SSAW pipe at end Oct 2012

Shengli Pipe (1080 HK) – Favour Industry Outlook but Cautious on Oversupply

- **Favour on industry growth but worry about oversupply of SSAW**
- **Margin erosion likely if oversupply continue to exist**
- **Reiterate Hold with HK$0.70 target price implying 0.6x FY13E P/B.**

Favour on industry growth but worry about oversupply of SSAW. Although we expect large demand for pipelines from national pipeline and city gas projects will happen in 2013-2015, we are cautious on the outlook on SSAW players, since SSAW are mainly used in gas truck-lines but not other applications; narrowed applications create oversupply for the SSAW market.

Margin erosion likely if oversupply continue to exist. Operating at around 30% utilization for SSAW production line, Shengli Pipe is still expanding its production capacity towards 1.6m tonnes by end 2014. Idle capacity hurts margin if they do not receive a handful of orders from the West-East Line III and Xin-Yue-Zhe Line in 1Q13, but we are not too optimistic on the company's near term order outlook or gross margin level given the large competition from its SSAW peers.

Hope completion of new production line will diversify product portfolio. Besides SSAW production line, Shengli Pipe will build its LSAW and OCTG pipeline by 2013. With currently having 90% of its revenue geared towards national pipeline projects, we hope the company's product portfolio could be better diversified when its LSAW and OCTG production ramps up, and hence improves its capacity utilization, gross margin, and eventually earnings beyond next year.

Reiterate Hold. Our target price of HK$0.70 is based on 0.6x for both FY12E and FY13/E P/B, which is at 40% discount to CKP's 1.1x FY12E and 1.0x P/B. However, being cautious on the oversupply of SSAW and whether Shengli Pipe can improve utilization of its production facilities in the near future, we recommend hold for at the moment.

Exhibit 223 Forecast and Valuation

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	1,126.9	1,821.8	2,162.5	2,520.5	2,702.5
Growth (%)	*(62.4)*	*61.7*	*18.7*	*16.6*	*7.2*
Net profit	89.2	93.8	53.5	72.7	68.8
Growth (%)	*(73.5)*	*5.2*	*(42.9)*	*35.8*	*(5.3)*
Diluted EPS (RMB)	0.036	0.038	0.022	0.029	0.028
Change to previous EPS (%)			N/A	N/A	
Consensus EPS (RMB)			0.025	0.040	
EPS growth (%)	(74.4)	5.6	(42.9)	35.8	(5.3)
ROE (%)	4.5	4.4	2.5	3.3	3.0
P/E (x)	14.4	13.6	23.8	17.6	18.5
P/B (x)	0.7	0.6	0.6	0.6	0.6
Yield (%)	1.7	1.8	1.0	1.4	1.3
DPS (RMB)	0.009	0.009	0.005	0.007	0.007

Source: Bloomberg, OP Research

Financial Summary – Shengli Pipe (1080 HK)

Profit and loss

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	1,127	1,822	2,163	2,521	2,703
Cost of sales	(979)	(1,678)	(2,013)	(2,313)	(2,493)
Gross profit	**148**	**143**	**150**	**207**	**210**
Other income	43	96	87	68	71
Selling expenses	(18)	(42)	(32)	(38)	(41)
Administrative expenses	(54)	(54)	(97)	(101)	(108)
Other expenses	(11)	(3)	(11)	(13)	(14)
Operating profit	**108**	**140**	**96**	**124**	**118**
Net finance cost	(0)	(20)	(20)	(20)	(20)
Share of profit from JCE & asso	0	(5)	0	0	0
Others non-operating items	0	0	0	0	0
Profit before taxation	**108**	**115**	**76**	**104**	**98**
Taxation	(19)	(24)	(23)	(31)	(29)
Profit after taxation	**89**	**92**	**54**	**73**	**69**
Minority interest	0	2	0	0	0
Net profit	**89**	**94**	**54**	**73**	**69**
Others	0	0	0	0	0
Dividends	(44)	(22)	(23)	(13)	(18)
Transfer to reserves	**46**	**72**	**30**	**59**	**51**

Cash flow

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Profit before taxation	89	92	54	73	69
Depreciation and amortization	26	35	72	95	106
Change in working capital	(336)	(205)	57	(140)	(79)
Taxes paid	(11)	(18)	(23)	(31)	(29)
Other adjustments	25	(15)	8	41	39
Operating cash flows	**(207)**	**(111)**	**167**	**38**	**106**
Capex	(165)	(277)	(300)	(200)	(150)
Free cash flow	**(372)**	**(389)**	**(133)**	**(162)**	**(44)**
Other investing cash flows	(446)	(215)	335	10	10
Investing cash flows	**(611)**	**(493)**	**35**	**(190)**	**(140)**
Dividends paid	(44)	(22)	(23)	(13)	(18)
Net debt repayment	(87)	627	0	0	0
Equity issue	168	0	0	0	0
Other financing cash flows	(0)	19	(20)	(20)	(20)
Financing cash flows	**37**	**624**	**(43)**	**(33)**	**(38)**
Net cash flow	**(781)**	**20**	**159**	**(186)**	**(73)**
Beginning cash	1,168	387	407	566	380
Forex	0	0	0	0	0
Ending cash (adjusted)	**387**	**407**	**566**	**380**	**308**

Balance sheet

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
PPE, land and intangible assets	386	771	999	1,103	1,148
Investment in JCE, asso and others	247	260	260	260	260
Other non-current assets	56	95	95	95	95
Total non-current assets	**689**	**1,127**	**1,354**	**1,459**	**1,503**
Inventories	176	393	882	1,014	1,093
Trade receivables	465	686	533	621	666
Other receivables	211	113	201	231	249
Other current assets	188	342	42	42	42
Cash	357	382	541	355	283
Total current assets	**1,398**	**1,916**	**2,200**	**2,264**	**2,333**
Total assets	**2,087**	**3,042**	**3,554**	**3,724**	**3,837**
Trade payables	(68)	(95)	(496)	(570)	(615)
Other payables	(48)	(136)	(216)	(252)	(270)
Short-term borrowings	0	(632)	(632)	(632)	(632)
Other current liabilities	(8)	(16)	(16)	(16)	(16)
Total current liabilities	**(124)**	**(879)**	**(1,360)**	**(1,470)**	**(1,533)**
Long-term borrowings	0	0	0	0	0
Other long-term liabilities	(0)	(18)	(18)	(18)	(18)
Total long-term liabilities	**(0)**	**(18)**	**(18)**	**(18)**	**(18)**
Total liabilities	**(125)**	**(897)**	**(1,378)**	**(1,488)**	**(1,551)**
Net assets	**1,962**	**2,146**	**2,176**	**2,235**	**2,286**
Share capital	(220)	(219)	(219)	(219)	(219)
Reserves	(1,742)	(1,809)	(1,839)	(1,899)	(1,949)
Owners' equity	**(1,962)**	**(2,028)**	**(2,058)**	**(2,117)**	**(2,168)**
Non-controlling interests	0	(118)	(118)	(118)	(118)
Total equity	**(1,962)**	**(2,146)**	**(2,176)**	**(2,235)**	**(2,286)**
Net cash (debt)	Net cash	(250)	(91)	(277)	(349)

Statistics and ratios

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Growth rate (%)					
Revenue	(62)	62	19	17	7
EBITDA	(63)	31	(4)	30	2
EBIT	(68)	29	(31)	28	(4)
Net profit	(73)	5	(43)	36	(5)
EPS	(73)	5	(43)	36	(5)
Margins (%)					
Gross margin	13	8	7	8	8
EBITDA margin	12	10	8	9	8
EBIT	10	8	4	5	4
Net margin	8	5	2	3	3
Other ratios					
P/E	14.4	13.6	23.8	17.6	18.5
P/B	0.7	0.6	0.6	0.6	0.6
P/CF	(1.6)	64.2	8.0	(6.9)	(17.6)
Dividend yield (%)	1.7	1.8	1.0	1.4	1.3
Current raio	11.2	2.2	1.6	1.5	1.5
Quick ratio	9.8	1.7	1.0	0.9	0.8
Effective tax rate (%)	17.5	20.4	30.0	30.0	30.0
Gearing (%)	0.0	31.2	30.7	29.8	29.1
Net gearing (%)	Net cash	12.3	4.4	13.1	16.1
ROE (%)	4.5	4.4	2.5	3.3	3.0
Working capital					
Inventory (days)	66	85	160	160	160
Debtors (days)	151	137	90	90	90
Creditors (days)	25	21	90	90	90
Cash conversion days	191	202	160	160	160

Source: Company, OP Research

Sinomedia (623 HK) – Defensive TV ads play to reap the domestic merchants' brand building

Media/ China

Yuji Fung
Analyst
+852 2135 0236
yuji.fung@oriental-patron.com.hk

Company Update

BUY

UNCHANGED

Close price:	**HK$3.67**
Target Price:	**HK$5.00 (+36%)**
Prior TP:	**HK$5.00**

Key Data

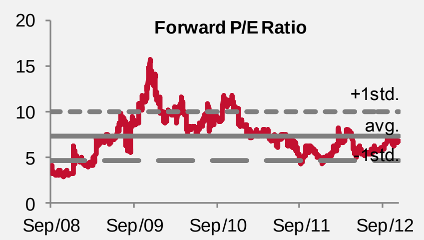
HKEx code		623
12 Months High	(HK$)	4.58
12 Month Low	(HK$)	2.04
3M Avg Dail Vol.	(mn)	1.43
Issue Share	(mn)	555.69
Market Cap	(HK$mn)	2,039.37
Fiscal Year		12/2011
Major shareholder (s)		Director Chen Xin & Asso (45%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	6.1	0.9	2.4
Rel. MSCI CHINA %	5.6	-12.9	-14.0

PE



Company Profile

Sinomedia is a multi-platform media company and the largest non-SOE CCTV ads agents.

- **1H12 results miss marginally with sales was down 3% yoy to RMB701mn and net profit was up 9% yoy to RMB79mn, miss consensus/ours by ~5%.**
- **We revise down our FY12/13E earnings by 2.6%/3.1% to reflect sluggish 1H12 sales.**
- **Maintain BUY with TP HK$5.00, representing 8x FY13E PE or 3.8x FY13E ex-cash PE. Net cash per share is HK$2.64.**

1H12 results miss marginally. Although 1H12 economic condition was challenging, advertisers intended to delay their ads spending and tax reform impact (from business tax to VAT) this year, Sinomedia reported its 1H12 results was down 3% yoy to RMB701mn, ~10%/13% lower than consensus/our estimate. Net profit was up 9% yoy to RMB79mn, ~5% lower than consensus/our estimate. GPM was expanded by 1.6ppt to 22.8%, mainly attribute to tax reform from business tax to value-added tax. No interim dividend was declared.

We revise down our FY12/13E earnings by 2.6%/3.1% for sluggish 1H12 sales growth. We revise down our FY12/13E sales by 7%/4% to RMB1.9bn/RMB2.2bn, mainly due to sluggish 1H12 sales growth. Hence, we cut our FY12/13E earnings by 2.6%/3.1% to RMB267mn/RMB300mn. Mgmt are confident to achieve the company's sales target this year despite a sluggish 1H12 sales growth. 1H used to account for 33% of full year sales and only 20-30% of full year earnings. We remain confident on Sinomedia mgmt's execution to meet our mid-teen sales growth target in FY12.

Maintain BUY. Strong operating cash flow (increased 213% yoy to RMB396mn), rich cash on hand (net cash increased from RMB913mn by end-FY11 to RMB1.2bn by 1H12, net cash per share HK$2.64 p.s.) and peak seasonality in 2H12, we reiterate BUY with TP raise from HK$4.60 to HK$5.00, representing 8x FY13E PE or 3.8x FY13E ex-cash PE, TP revision is mainly due to we roll forward our same 8x target PE to FY13.

Risk: (1) Sales may not pick up in 2H12 due to continuous weakening in China economic, (2) SG&A may higher than we expect as new business ramp.

Exhibit 224 Forecast and Valuation

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	1,373	1,618	1,874	2,160	2,599
Growth (%)	79	18	16	15	20
Net Profit	158	239	267	300	371
Growth (%)	63	51	12	12	24
Diluted EPS (HK$)	0.342	0.515	0.550	0.616	0.763
EPS growth (%)	61	51	7	12	24
Change to previous EPS (%)			(7)	(8)	(2)
Consensus EPS (HK$)			0.541	0.609	0.689
ROE (%)	19.9	25.6	24.2	23.2	24.2
P/E (x)	10.7	7.1	6.7	6.0	4.8
P/B (x)	2.0	1.6	1.4	1.2	1.0
Yield (%)	3.6	5.8	4.5	5.0	6.2
DPS (HK$)	0.132	0.212	0.165	0.185	0.229

Source: Bloomberg, OP Research

Financial Summary – Sinomedia (623 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (RMB mn)					
Media resources management	1,378	1,605	1,869	2,164	2,616
Integrated brand communication services	10	19	19	19	19
Creative production of advertisement and content/Others	18	40	40	40	40
less:Sales taxes and surcharges	(33)	(46)	(54)	(62)	(75)
Turnover	**1,373**	**1,618**	**1,874**	**2,160**	**2,599**
YoY%	79	18	16	15	20
COGS	(1,034)	(1,117)	(1,294)	(1,504)	(1,809)
Gross profit	**339**	**501**	**580**	**656**	**790**
Gross margin	24.7%	31.0%	30.9%	30.4%	30.4%
Other income	27	24	18	24	29
Selling & distribution	(67)	(67)	(77)	(89)	(106)
Admin	(69)	(89)	(113)	(134)	(147)
R&D	0	0	(7)	(8)	(10)
Other opex	0	0	0	0	0
Total opex	**(136)**	**(156)**	**(197)**	**(231)**	**(262)**
Operating profit (EBIT)	**230**	**369**	**401**	**449**	**557**
Operating margin	16.7%	22.8%	21.4%	20.8%	21.4%
Provisions	0	0	0	0	0
Finance costs	(7)	(1)	(1)	(1)	(1)
Profit after financing costs	223	369	400	449	556
Associated companies & JVs	(1)	(7)	0	0	0
Pre-tax profit	222	361	400	449	556
Tax	(56)	(119)	(129)	(145)	(180)
Minority interests	(8)	(3)	(4)	(4)	(5)
Net profit	**158**	**239**	**267**	**300**	**371**
YoY%	63	51	12	12	24
Net margin	11.5%	14.8%	14.2%	13.9%	14.3%
EBITDA	**214**	**359**	**402**	**458**	**562**
EBITDA margin	15.6%	22.2%	21.5%	21.2%	21.6%
EPS (RMB)	**0.278**	**0.419**	**0.447**	**0.501**	**0.621**
YoY%	61	51	7	12	24
DPS (RMB)	0.132	0.212	0.165	0.185	0.229

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (RMB mn)					
EBITDA	214	359	402	458	562
Chg in working cap	330	223	33	(11)	(21)
Others	4	24	0	0	0
Operating cash	**547**	**606**	**436**	**448**	**541**
Interests paid	0	0	(1)	(1)	(1)
Tax	(43)	(79)	(69)	(129)	(145)
Net cash from operations	**504**	**527**	**366**	**318**	**395**
Capex	(4)	(239)	(9)	(11)	(13)
Investments	(6)	(91)	0	0	0
Dividends received	4	11	0	0	0
Sales of assets	1	0	0	0	0
Interests received	0	0	18	24	29
Others	0	0	0	0	0
Investing cash	**(5)**	**(319)**	**9**	**13**	**16**
FCF	**499**	**208**	**375**	**331**	**411**
Issue of shares	4	1	0	0	0
Buy-back	0	(20)	0	0	0
Minority interests	(12)	(4)	0	0	0
Dividends paid	(18)	(62)	(96)	(92)	(103)
Net change in bank loans	0	0	0	0	0
Others	0	0	0	0	0
Financing cash	**(25)**	**(85)**	**(96)**	**(92)**	**(103)**
Net change in cash	**474**	**123**	**279**	**239**	**307**
Exchange rate or other Adj	(1)	(6)	0	0	0
Opening cash	323	796	913	1,192	1,431
Closing cash	**796**	**913**	**1,192**	**1,431**	**1,738**
CFPS (RMB)	**0.886**	**0.923**	**0.613**	**0.531**	**0.661**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	24.7	31.0	30.9	30.4	30.4
Operating margin (%)	16.7	22.8	21.4	20.8	21.4
Net margin (%)	11.5	14.8	14.2	13.9	14.3
Selling & dist'n exp/Sales (%)	4.9	4.1	4.1	4.1	4.1
Admin exp/Sales (%)	5.0	5.5	6.0	6.2	5.6
Payout ratio (%)	38.7	41.2	30.0	30.0	30.0
Effective tax (%)	25.0	32.3	32.3	32.3	32.3
Total debt/equity (%)	1.6	1.4	1.2	1.0	0.9
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	2.96	1.82	2.03	2.20	2.33
Quick ratio (x)	2.96	1.82	2.03	2.20	2.33
Inventory T/O (days)	0	0	0	0	0
AR T/O (days)	20	21	21	21	21
AP T/O (days)	46	141	110	110	110
Cash conversion cycle (days)	(26)	(120)	(89)	(89)	(89)
Asset turnover (x)	1.25	1.03	0.96	0.99	1.03
Financial leverage (x)	1.39	1.68	1.76	1.69	1.65
EBIT margin (%)	16.7	22.8	21.4	20.8	21.4
Interest burden (x)	0.97	0.98	1.00	1.00	1.00
Tax burden (x)	0.71	0.66	0.67	0.67	0.67
Return on equity (%)	**19.9**	**25.6**	**24.2**	**23.2**	**24.2**
ROIC (%)	**67.5**	**249.7**	**365.3**	**3,508.3**	**(1,709.5)**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Balance Sheet (RMB mn)					
Fixed assets	55	60	289	267	246
Intangible assets & goodwill	0	0	0	0	0
Associated companies & JVs	6	48	48	48	48
Long-term investments	0	0	0	0	0
Other non-current assets	9	264	25	25	25
Non-current assets	**69**	**372**	**362**	**340**	**319**
Inventories	0	0	0	0	0
AR	75	94	109	125	151
Prepayments & deposits	335	465	375	432	520
Other current assets	10	7	7	7	7
Cash	796	913	1,192	1,431	1,738
Current assets	**1,215**	**1,479**	**1,682**	**1,995**	**2,415**
AP	131	432	390	453	545
Tax	29	69	129	145	180
Accruals & other payables	12	0	0	0	0
Bank loans & leases	0	0	0	0	0
CB & othe debts	0	0	0	0	0
Other current liabilities	238	310	310	310	310
Current liabilities	**411**	**812**	**830**	**909**	**1,035**
Bank loans & leases	14	14	14	14	14
CB & othe debts	0	0	0	0	0
Deferred tax & others	4	0	0	0	0
MI	7	6	10	14	19
Non-current liabilities	**25**	**21**	**24**	**28**	**34**
Total net assets	**849**	**1,019**	**1,190**	**1,397**	**1,665**
Shareholder's equity	**849**	**1,019**	**1,190**	**1,397**	**1,665**
Share capital	0	0	0	0	0
Reserves	849	1,019	1,190	1,397	1,665
BVPS (RMB)	**1.84**	**2.25**	**2.62**	**3.08**	**3.67**
Total debts	14	14	14	14	14
Net cash/(debts)	782	899	1,178	1,416	1,724

Source: Company, OP Research

Sinotruk (3808 HK) – No near-term earnings recovery

- **Due to slower FAI growth and credit tightening measures, Sinotruk's earings down 82% yoy in 1H12**
- **Expect sluggish demand continued, and no signs to recovery in near term**
- **Concerning on China's economic transforming between investment and consumption, we believe Sinotruk's prospect is no attractive. SELL.**

Auto/ China

Vivien Chan
Analyst
+852 2135 0248
vivien.chan@oriental-patron.com.hk

Company Update

SELL

UNCHANGED

Close price:	**HK$5.41**
Target Price:	**HK$3.63 (-32.8%)**
Prior TP:	**HK$3.63**

Key Data

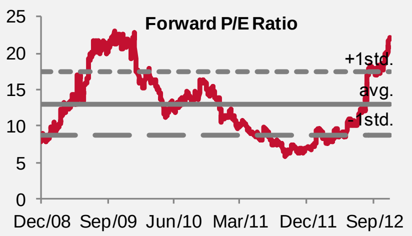
HKEx code		3808
12 Months High	(HK$)	5.90
12 Month Low	(HK$)	3.90
3M Avg Dail Vol.	(mn)	0.81
Issue Share	(mn)	2,760.99
Market Cap	(HK$mn)	14,936.97
Fiscal Year		12/2011
Major shareholder (s)		Sinotruk Group (51%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	15.1	23.0	32.0
Rel. MSCI CHINA %	14.6	9.2	15.6

PE



Company Profile

Sinotruk is one of China's leading integrated manufacturers of heavy trucks and related key components, such as engines, cabins, and axles. Together with its parent company, Sinotruk is the largest heavy-truck producer in China.

Slower FAI hurts product demand. In terms of sales volume Sinotruk is the third-largest heavy truck producer in China, accounting for around 17% market share, after Dong Feng Motor. The company's revenue and profit are highly correlated with China's FAI (Fixed Asset Investment) momentum. Around 60% of Sinotruk's customers are in infrastructure and property sectors. Credit tightening since 2H11 has a profound impact on not only those directly related to FAI, such as property, building materials and bulk commodities but also indirectly hit heavy truck sales.

Prospect is not attractive. On the back of our cautious view on China's FAI and truck market in 2H12-1H13, we forecast Sinotruk's earnings will declined 21.9% yoy in FY12E and increase 33.6% in FY13E base on lower comparison base. The macroeconomic sentiment is not favor the industry, we rate Sinotruk at SELL, target price of HK$3.63, imply 8x FY13E PE. Upside risks: 1) Higher than expected sales due to stronger-than-expected HDT market growth; 2) Better than expected margins

Key investment risks Upside risks: 1) stronger-than-expected resilience in 2012 HTD sales; 2) activities rebound in logistic industry. Downside risks 1) weaker-than-expected demand for Sinotruk's trucks in FY12E, given market headwinds; 2) slower-than-expected contribution from HDTs using MAN's technology; and 3) failure to maintain its profit margin.

Exhibit 225: Forecast and Valuation

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	39,656.2	36,603.5	27,076.8	30,404.7	33,117.3
Growth (%)	45.7	-7.7	-26.0	12.3	8.9
Net Profit	1,480.7	1,002.2	783.0	1,019.8	1,183.4
Growth (%)	53.5	-32.3	-21.9	30.2	16.0
Diluted EPS (HK$)	0.660	0.446	0.349	0.454	0.527
EPS growth (%)	27.7	-32.3	-21.9	30.2	16.0
Change to previous EPS (%)					
Consensus EPS (HK$)			0.207	0.499	0.405
ROE (%)	7.8	5.0	3.8	4.7	5.3
P/E (x)	8.2	12.1	15.5	11.9	10.3
P/B (x)	0.6	0.6	0.6	0.6	0.5
Yield (%)	3.5	2.3	1.8	2.4	2.7
DPS (RMB)	0.153	0.100	0.079	0.103	0.120

Source: Bloomberg, OP Research

Financial Summary – Sinotruk (3808 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (RMB mn)					
Revenue	39,656	36,604	27,077	30,405	33,117
Turnover	**39,656**	**36,604**	**27,077**	**30,405**	**33,117**
YoY%	46	(8)	(26)	12	9
COGS	(33,312)	(30,898)	(23,117)	(25,798)	(27,924)
Gross profit	**6,344**	**5,706**	**3,959**	**4,607**	**5,194**
Gross margin	16.0%	15.6%	14.6%	15.2%	15.7%
Other income	(24)	366	325	304	331
Selling & distribution	(2,366)	(2,210)	(1,570)	(1,824)	(2,020)
Admin	(1,661)	(1,819)	(1,246)	(1,216)	(1,358)
Total opex	**(4,027)**	**(4,028)**	**(2,816)**	**(3,040)**	**(3,378)**
Operating profit (EBIT)	**2,293**	**2,043**	**1,468**	**1,870**	**2,147**
Operating margin	5.8%	5.6%	5.4%	6.2%	6.5%
Provisions	0	0	0	0	0
Finance costs	(239)	(577)	(427)	(480)	(522)
Profit after financing costs	2,054	1,466	1,041	1,391	1,624
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	2,054	1,466	1,041	1,391	1,624
Tax	(325)	(298)	(208)	(306)	(365)
Minority interests	(249)	(166)	(50)	(65)	(76)
Net profit	**1,481**	**1,002**	**783**	**1,020**	**1,183**
YoY%	0	0	0	0	0
Net margin	3.7%	2.7%	2.9%	3.4%	3.6%
EBITDA	**3,147**	**2,994**	**2,468**	**2,954**	**3,255**
EBITDA margin	7.9%	8.2%	9.1%	9.7%	9.8%
EPS (RMB)	**0.536**	**0.363**	**0.284**	**0.369**	**0.429**
YoY%	28	(32)	(22)	30	16
DPS (RMB)	0.153	0.100	0.079	0.103	0.120

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (RMB mn)					
EBITDA	3,147	2,994	2,468	2,954	3,255
Chg in working cap	(6,369)	(2,147)	(350)	(1,501)	869
Others	(2,712)	(1,595)	(427)	(480)	(522)
Operating cash	**(5,933)**	**(748)**	**1,691**	**973**	**3,601**
Tax	(446)	(678)	(208)	(306)	(365)
Net cash from operations	**(6,380)**	**(1,426)**	**1,483**	**667**	**3,236**
Capex	(1,171)	(1,716)	(1,060)	(860)	(860)
Investments	849	111	0	0	0
Dividends received					
Sales of assets					
Interests received					
Others	0	0	0	0	0
Investing cash	**(322)**	**(1,605)**	**(1,060)**	**(860)**	**(860)**
FCF	**(6,702)**	**(3,031)**	**423**	**(193)**	**2,376**
Issue of shares	0	0	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(141)	(416)	(219)	(286)	(331)
Net change in bank loans	2,728	1,392	3,000	3,000	1,900
Others	4,253	119	(50)	(65)	(76)
Financing cash	**6,841**	**1,096**	**2,731**	**2,649**	**1,493**
Net change in cash	**139**	**(1,936)**	**3,154**	**2,457**	**3,869**
Exchange rate or other Adj	(116)	(49)	0	0	0
Opening cash	11,538	11,561	9,577	12,730	15,187
Closing cash	**11,561**	**9,577**	**12,730**	**15,187**	**19,056**
CFPS (RMB)	**(2.311)**	**(0.517)**	**0.537**	**0.242**	**1.172**

Source: Company, OP Research

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	16.0	15.6	14.6	15.2	15.7
Operating margin (%)	5.8	5.6	5.4	6.2	6.5
Net margin (%)	3.7	2.7	2.9	3.4	3.6
Selling & dist'n exp/Sales (%)	6.0	6.0	5.8	6.0	6.1
Admin exp/Sales (%)	4.2	5.0	4.6	4.0	4.1
Payout ratio (%)	28.5	27.5	28.0	28.0	28.0
Effective tax (%)	15.8	20.3	20.0	22.0	22.5
Total debt/equity (%)	1,338.9	2,931.0	2,780.2	2,935.3	1,958.4
	2,645.	6,028.	5,875.	6,418.	4,449.
Net debt/equity (%)	7	7	3	4	3
Current ratio (x)	1.4	1.3	1.3	1.3	1.3
Quick ratio (x)	0.9	0.9	0.9	1.0	1.0
Inventory T/O (days)	103	139	177	168	159
AR T/O (days)	98	149	208	202	201
AP T/O (days)	155	185	228	220	221
Cash conversion cycle (days)	45	103	157	150	139
Asset turnover (x)	0.9	0.7	0.5	0.5	0.5
Financial leverage (x)	2.4	2.6	2.6	2.8	2.9
EBIT margin (%)	5.8	5.6	5.4	6.2	6.5
Interest burden (x)	0.9	0.7	0.7	0.7	0.8
Tax burden (x)	0.7	0.7	0.8	0.7	0.7
Return on equity (%)	**7.8**	**5.0**	**3.8**	**4.7**	**5.3**
ROIC (%)	**1,022.6**	**664.6**	**438.3**	**527.7**	**600.1**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Balance Sheet (RMB mn)					
Fixed assets	9,360	11,603	11,725	11,589	11,434
Land use rights	1,398	1,395	1,397	1,399	1,399
Intangible assets & goodwill	761	676	612	522	429
Defferred tax assets	842	820	820	820	820
Others	17	407	407	407	407
Non-current assets	**12,378.3**	**14,901.2**	**14,961.2**	**14,737.3**	**14,489.2**
Inventories	13,382	10,193	12,221	11,471	12,819
AR	14,311	15,543	15,316	18,366	18,041
Other current assets	32	25	25	25	25
Cash	13,807	11,332	14,485	16,942	20,811
Current assets	**41,531**	**37,092**	**42,047**	**46,803**	**51,696**
AP	17,645	13,701	15,153	15,951	17,843
Tax payable	487	77	77	77	77
Accruals & other payables	0	0	0	0	0
Bank loans & leases	11,521	13,499	16,499	19,499	21,399
CB & othe debts	0	0	0	0	0
Other current liabilities	851	1,109	1,109	1,109	1,109
Current liabilities	**30,504**	**28,386**	**32,838**	**36,636**	**40,428**
Bank loans & leases	2,686	2,107	2,107	2,107	2,107
Deferred tax	35	43	43	43	43
Other non-current liabilities	924	889	889	889	889
MI	1,633	1,819	1,819	1,819	1,819
Non-current liabilities	**5,278.4**	**4,857.3**	**4,857.3**	**4,857.3**	**4,857.3**
Total net assets	**18,127**	**18,750**	**19,313**	**20,048**	**20,900**
Shareholder's equity	**18,127**	**18,750**	**19,313**	**20,048**	**20,900**
Share capital	261	261	261	261	261
Reserves	17,866	18,488	19,052	19,786	20,638
BVPS (RMB)	**0.72**	**0.76**	**0.88**	**0.99**	**1.03**
Total debts	14,207	15,606	18,606	21,606	23,506
Net cash/(debts)	(2,646)	(6,029)	(5,875)	(6,418)	(4,449)

Smartone (315 HK) – Challenging ahead

TMT/ China

Yuji Fung
Analyst
+852 2135 0236
yuji.fung@oriental-patron.com.hk

Company Update

HOLD

UNCHANGED

Close price:	**HK$14.46**
Target Price:	**HK$17.00 (+14.9%)**
Prior TP:	**HK$17.00**

Key Data

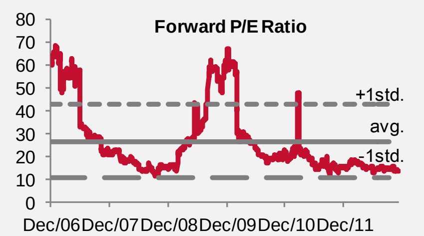
HKEx code		315
12 Months High	(HK$)	17.50
12 Month Low	(HK$)	12.96
3M Avg Dail Vol.	(mn)	3.62
Issue Share	(mn)	1,037.20
Market Cap	(HK$mn)	14,997.86
Fiscal Year		06/2012
Major shareholder (s)		SHK PPT (67%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	-9.6	-2.2	-1.1
Rel. MSCI CHINA %	-10.1	-16.0	-17.5

PE



Company Profile

SMT is a leading HK Telco operator with high-end subs focus. SMT's ARPU is the highest among all HK listed telco with 1.6mn total subs in HK & Macau.

- **SMT reported FY12 annual results with revenue was up 50% yoy to HK$10.0bn and net profit was up 36% yoy to HK$1.0bn, better than we expected. Proposed HK$0.53 final dps, representing 100% payout.**
- **However, we cut our FY13/14E earnings by 14%/39% to HK$947mn/HK$867mn to reflect (1) intensifying competition environment and (2) ARPU pressure.**
- **Downgraded to HOLD with TP cut from HK$18.8 to HK$17.0.**

FY12 results better than expected but challenging ahead. SMT reported FY12 service revenue was up 24% yoy to HK$5.7bn and total revenue was up 50% yoy to HK$10.0bn. EBIT was up 38% yoy to HK$1.37bn, thanks to better than expected operating leverage and stringent opex control. Net profit was up 36 yoy to HK$1.0bn. SMT proposed HK$0.53 final dps, representing 100% payout.

We cut our earnings estimate to reflect intensifying competition. Although SMT reported a better than expected FY12 results, 2H12 ARPU and subs add were lower than we expected. FY12 ARPU was up 11.2% yoy and flat hoh to HK$277. Total subs was up 6.2% yoy and up 1% hoh to 1.62mn. We cut our FY13/14E ARPU assumption by 12%/15% to HK$274/HK$273 to reflect (1) ARPU dilution from low-end subs add and (2) price pressure on 4G service plan. We also cut our FY13/14 total subs assumption by 3%/4% to 1.69mn/1.80mn to reflect increased churn rate due to price competition. As a result, we cut our FY13/14E earnings by 14%/39% to HK$947mn/HK$867mn.

Downgrade to HOLD with TP lower to HK$17.0. We downgraded SMT from BUY to HOLD and lower our TP from HK$18.8 to HK$17.0 based on DCF approach with 11.3% WACC and 0% sustainable growth rate. SMT currently trades at 17.1x/18.8x PE with 6% yield.

Risk: (1) ARPU may further increase due to its brand premium, (2) higher than expected subs add (3) better than expected operating leverage.

Exhibit 226: Forecast and Valuation

Year to Jun (HK$ mn)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue	6,631	9,952	10,343	11,053	11,531
Growth (%)	67.6	50.1	3.9	6.9	4.3
Net Profit	754	1,023	947	867	929
Growth (%)	156.7	35.6	(7.4)	(8.5)	7.1
Diluted EPS (HK$)	0.728	0.987	0.892	0.810	0.867
EPS growth (%)	163.3	35.6	(9.6)	(9.2)	7.1
Change to previous EPS (%)			(16.8)	(41.2)	
Consensus EPS (HK$)			1.035	1.090	
ROE (%)	27.0	31.4	26.0	24.0	25.5
P/E (x)	19.9	14.7	16.2	17.9	16.7
P/B (x)	5.2	4.1	4.1	4.2	4.1
Yield (%)	5.0	6.8	6.2	5.6	6.0
DPS (HK$)	0.730	0.990	0.892	0.810	0.867

Source: Bloomberg, OP Research

Financial Summary – Smartone (315 HK)

Year to Jun	FY11A	FY12A	FY13E	FY14E	FY15E
Income Statement (HK$ mn)					
Service revenue	4,603	5,723	5,596	5,891	6,098
Handset and accessory sales	2,028	4,229	4,747	5,162	5,433
Turnover	**6,631**	**9,952**	**10,343**	**11,053**	**11,531**
YoY%	68	50	4	7	4
Cost of inventories sold	(1,906)	(4,189)	(4,605)	(5,008)	(5,270)
Staff costs	(555)	(645)	(692)	(713)	(734)
Depreciation, amort and impairment loss and loss on disposal	(1,164)	(1,630)	(1,891)	(2,128)	(2,112)
Other opex	(2,040)	(2,126)	(1,879)	(2,020)	(2,157)
Total opex	**(3,759)**	**(4,401)**	**(4,462)**	**(4,861)**	**(5,003)**
Operating profit (EBIT)	**966**	**1,362**	**1,276**	**1,185**	**1,258**
Operating margin	14.6%	13.7%	12.3%	10.7%	10.9%
Provisions	0	0	0	0	0
Interest income	32	27	32	24	27
Finance costs	(98)	(135)	(148)	(148)	(148)
Profit after financing costs	901	1,253	1,160	1,062	1,138
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	901	1,253	1,160	1,062	1,138
Tax	(136)	(212)	(197)	(180)	(193)
Minority interests	(11)	(18)	(16)	(15)	(16)
Net profit	**754**	**1,023**	**947**	**867**	**929**
YoY%	157	36	(7)	(8)	7
Net margin	11.4%	10.3%	9.2%	7.8%	8.1%
EBITDA	**2,091**	**2,965**	**3,167**	**3,313**	**3,369**
EBITDA margin	31.5%	29.8%	30.6%	30.0%	29.2%
EPS (HK$)	**0.728**	**0.987**	**0.892**	**0.810**	**0.867**
YoY%	163	36	(10)	(9)	7
DPS (HK$)	0.730	0.990	0.892	0.810	0.867

Year to Jun	FY11A	FY12A	FY13E	FY14E	FY15E
Cash Flow (HK$ mn)					
EBITDA	2,091	2,965	3,167	3,313	3,369
Chg in working cap	1,069	873	37	55	36
Others	44	0	0	0	0
Operating cash	**3,203**	**3,838**	**3,204**	**3,368**	**3,406**
Interests paid	(1)	0	(148)	(148)	(148)
Tax	(15)	(41)	(174)	(197)	(180)
Net cash from operations	**3,187**	**3,797**	**2,883**	**3,023**	**3,078**
Capex	(680)	(936)	(1,241)	(995)	(1,038)
Investments/Handset subs	(1,299)	(1,023)	(1,000)	(1,053)	(1,090)
Dividends received	0	0	0	0	0
Sales of assets	323	0	0	0	0
Interests received	43	27	32	24	27
Others	(971)	0	0	0	0
Investing cash	**(2,584)**	**(1,932)**	**(2,209)**	**(2,023)**	**(2,100)**
FCF	**603**	**1,865**	**673**	**1,000**	**978**
Issue of shares	56	0	0	0	0
Buy-back	(181)	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(497)	(906)	(979)	(885)	(867)
Net change in bank loans	550	(484)	0	0	0
Others	(71)	(26)	0	0	0
Financing cash	**(143)**	**(1,416)**	**(979)**	**(885)**	**(867)**
Net change in cash	**460**	**449**	**(306)**	**115**	**111**
Exchange rate or other Adj	(0)	0	0	0	0
Opening cash	360	820	1,268	963	1,077
Closing cash	**820**	**1,268**	**963**	**1,077**	**1,188**
CFPS (HK$)	**3.075**	**3.663**	**2.714**	**2.824**	**2.875**

Year to Jun	FY11A	FY12A	FY13E	FY14E	FY15E
Ratios					
Operating margin (%)	14.6	13.7	12.3	10.7	10.9
Net margin (%)	11.4	10.3	9.2	7.8	8.1
Staff cost/Sales (%)	8.4	6.5	6.7	6.4	6.4
D&A/Sales (%)	17.6	16.4	18.3	19.2	18.3
Payout ratio (%)	100.3	100.3	100.0	100.0	100.0
Effective tax (%)	15.1	16.9	16.9	16.9	16.9
Total debt/equity (%)	19.2	1.8	1.8	1.8	1.8
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	0.80	0.77	0.66	0.69	0.72
Quick ratio (x)	0.70	0.69	0.57	0.60	0.63
Inventory T/O (days)	45	20	20	20	20
AR T/O (days)	22	15	15	15	15
AP T/O (days)	102	48	48	48	48
Cash conversion cycle (days)	(34)	(12)	(12)	(12)	(12)
Asset turnover (x)	1.10	1.30	1.28	1.36	1.39
Financial leverage (x)	2.16	2.34	2.21	2.25	2.28
EBIT margin (%)	14.6	13.7	12.3	10.7	10.9
Interest burden (x)	0.93	0.92	0.91	0.90	0.90
Tax burden (x)	0.84	0.82	0.82	0.82	0.82
Return on equity (%)	**27.0**	**31.4**	**26.0**	**24.0**	**25.5**
ROIC (%)	**34.7**	**43.7**	**39.5**	**35.6**	**38.9**

Year to Jun	FY11A	FY12A	FY13E	FY14E	FY15E
Balance Sheet (HK$ mn)					
Fixed assets	2,110	2,530	3,189	3,524	3,827
Intangible assets & goodwill	2,521	3,151	2,842	2,428	2,141
Associated companies & JVs	0	0	0	0	0
Long-term investments	108	0	0	0	0
Other non-current assets	79	89	89	89	89
Non-current assets	**4,818**	**5,770**	**6,121**	**6,041**	**6,057**
Inventories	312	255	273	296	311
AR	400	419	435	465	485
Prepayments & deposits	136	158	164	175	183
Other current assets	752	148	148	148	148
Cash	820	1,268	963	1,077	1,188
Current assets	**2,419**	**2,248**	**1,982**	**2,162**	**2,315**
AP	698	616	658	714	750
Tax	41	174	197	180	193
Accruals & other payables	719	892	927	991	1,034
Bank loans & leases	1,239	867	867	867	867
CB & othe debts	0	0	0	0	0
Other current liabilities	315	360	360	360	360
Current liabilities	**3,012**	**2,909**	**3,009**	**3,111**	**3,204**
Bank loans & leases	0	66	66	66	66
CB & othe debts	319	348	348	348	348
Deferred tax & others	998	972	972	972	972
MI	46	64	80	95	111
Non-current liabilities	**1,362**	**1,449**	**1,466**	**1,481**	**1,497**
Total net assets	**2,863**	**3,660**	**3,629**	**3,610**	**3,672**
Shareholder's equity	**2,863**	**3,660**	**3,629**	**3,610**	**3,672**
Share capital	103	104	104	104	104
Reserves	2,760	3,557	3,525	3,507	3,568
BVPS (HK$)	**2.78**	**3.56**	**3.50**	**3.48**	**3.54**
Total debts	550	66	66	66	66
Net cash/(debts)	270	1,202	897	1,011	1,122

Source: Company, OP Research

SPT (1251 HK) – The "Sweet Spot" in Oilfield Services Industry

- **SPT (1251 HK, Buy) will experience high growth from increasing E&P of the Tarim Basin and Kazakhstan.**
- **We reiterate BUY recommendation on SPT based on its exposure to high growing markets such as Kazakhstan and Tarim in China.**

The most comprehensive independent oilfield service provider. SPT is not only the market leader in the high entry barrier of Tarim Basins and also one of the most comprehensive oilfield services providers in China. With its self-supplied PPS, pressure gauge, used for well-logging, SPT stood out among its peers in reservoir research. PPS's wide application enabled it to receive large orders even in the low seasons when oil price comes down as reservoirs needs to be tested simultaneously in production stage. We expect SPT's reservoir service to continue to be well received in the Kazakhstan and will consistently earn an above 40% margin due to its superior performance.

Tarim Basin is the next sweet spot. From CNPC's target to raise its production from 20m toe in 2011 to 31.7m toe by 2015, we see Tarim to be the next sweet spot in amongst oilfields in China. 50% increase in capex is expected to be seen by CNPC in the area, and SPT, with 75% market in the high-end oilfield services in Tarim will be the largest beneficiary.

Light assets investment model. Different from its peers, SPT take the light asset model. Avoiding in investing in equipment such as drill rigs, frack trucks and coiled tubing rigs. The business model helps the company to better manage its cash flows and achieve a higher ROE over its domestic and international peers.

We reiterate our BUY recommendation on SPT given its multiple growth drivers from business growth in (a) Xinjiang Tarim Basin, (b) Kazakhstan, (c) SE Asia, and Unconventional gas (shale gas) in China.

Exhibit 227: Forecast and Valuation

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	1,050.4	1,321.3	1,807.9	2,499.5	3,411.6
Growth (%)	*15.2*	*25.8*	*36.8*	*38.3*	*36.5*
Net profit	119.5	181.8	237.5	332.3	457.8
Growth (%)	*40.9*	*52.1*	*30.6*	*39.9*	*37.8*
Diluted EPS (RMB)	N/A	0.136	0.178	0.249	0.343
Change to previous EPS (%)			N/A	N/A	
Consensus EPS (RMB)			0.196	0.248	
EPS growth (%)	N/A	N/A	30.6	39.9	37.8
ROE (%)	19.9	20.1	20.9	22.9	24.2
P/E (x)	N/A	21.2	16.2	11.6	8.4
P/B (x)	N/A	4.3	3.4	2.6	2.0
Yield (%)	0.0	0.3	0.6	0.9	0.7
DPS (RMB)	N/A	0.010	0.018	0.025	0.034

Source: Bloomberg, OP Research

Oil&Gas/ China

Alan Lau
Analyst
+852 2842 5820
alan.lau@oriental-patron.com.hk

Company Update

BUY

UNCHANGED

Close price:	**HK$3.59**
Target Price:	**HK$3.70 (+3%)**
Prior TP:	**HK$3.70**

Key Data

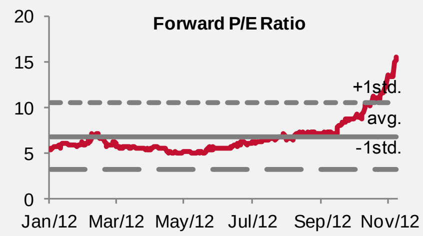
HKEx code		1251
12 Months High	(HK$)	3.74
12 Month Low	(HK$)	1.08
3M Avg Dail Vol.	(mn)	10.65
Issue Share	(mn)	1,335.00
Market Cap	(HK$mn)	4,792.65
Fiscal Year		12/2011
Major shareholder (s)		Wang Guoqiang (58%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	57.5	107.5	212.2
Rel. MSCI CHINA %	57.0	93.7	195.8

PE



Company Profile

SPT is one of China's leading independent domestic oilfield services provider, who can provide integrated services from reservoir research, drilling technology, well completion to production enhancement.

Financial Summary – SPT (1251 HK)

Profit and loss

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	1,050	1,321	1,808	2,500	3,412
Other gain	4	(8)	0	0	0
Materials and services costs	(265)	(363)	(398)	(550)	(751)
Staff costs	(209)	(253)	(452)	(600)	(819)
Operating lease expenses	(36)	(48)	(63)	(87)	(119)
Depreciation and amortisation	(32)	(44)	(99)	(150)	(205)
Others	(332)	(330)	(429)	(606)	(827)
Operating profit	**181**	**276**	**366**	**506**	**691**
Net finance cost	(5)	(14)	(17)	(17)	(17)
Share of profit from JCE & asso	0	0	0	0	0
Others non-operating items	0	0	0	0	0
Profit before taxation	**176**	**262**	**350**	**489**	**674**
Taxation	(56)	(75)	(105)	(147)	(202)
Profit after taxation	**119**	**187**	**245**	**343**	**472**
Minority interest	0	(5)	(7)	(10)	(14)
Net profit	**120**	**182**	**237**	**332**	**458**
Others	0	0	0	0	0
Dividends	0	0	(13)	(24)	(33)
Transfer to reserves	**120**	**182**	**224**	**309**	**425**

Cash flow

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Profit before taxation	176	262	350	489	674
Depreciation and amortization	32	44	47	81	107
Change in working capital	(98)	(203)	(175)	(305)	(402)
Taxes paid	(70)	(110)	(105)	(147)	(202)
Other adjustments	29	39	0	0	(0)
Operating cash flows	**68**	**31**	**117**	**118**	**177**
Capex	(99)	(90)	(224)	(200)	(200)
Free cash flow	**(31)**	**(58)**	**(107)**	**(82)**	**(23)**
Other investing cash flows	10	5	0	0	0
Investing cash flows	**(89)**	**(85)**	**(224)**	**(200)**	**(200)**
Dividends paid	0	0	(13)	(24)	(33)
Net debt repayment	100	60	0	0	0
Equity issue	0	274	0	0	0
Other financing cash flows	(17)	(143)	0	0	0
Financing cash flows	**83**	**191**	**(13)**	**(24)**	**(33)**
Net cash flow	**62**	**138**	**(120)**	**(105)**	**(57)**
Beginning cash	107	167	301	181	75
Forex	(2)	(3)	0	0	0
Ending cash	**167**	**301**	**181**	**75**	**19**

Balance sheet

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
PPE, land and intangible assets	197	215	392	511	604
Investment in JCE, asso and others	0	0	0	0	0
Other non-current assets	39	70	70	70	70
Total non-current assets	**236**	**284**	**461**	**580**	**673**
Inventories	211	245	272	377	514
Trade receivables	445	577	743	1,027	1,402
Other receivables	96	59	59	59	59
Other current assets	11	2	2	2	2
Cash	167	301	181	75	19
Total current assets	**930**	**1,184**	**1,257**	**1,540**	**1,996**
Total assets	**1,166**	**1,469**	**1,718**	**2,120**	**2,669**
Trade payables	(269)	(200)	(218)	(301)	(411)
Other payables	(61)	(96)	(96)	(96)	(96)
Short-term borrowings	(160)	(210)	(210)	(210)	(210)
Other current liabilities	(73)	(42)	(42)	(42)	(42)
Total current liabilities	**(563)**	**(548)**	**(566)**	**(650)**	**(760)**
Long-term borrowings	0	(9)	(9)	(9)	(9)
Other long-term liabilities	(0)	(8)	(8)	(8)	(8)
Total long-term liabilities	**(0)**	**(17)**	**(17)**	**(17)**	**(17)**
Total liabilities	**(564)**	**(565)**	**(583)**	**(666)**	**(776)**
Net assets	**602**	**904**	**1,135**	**1,454**	**1,893**
Share capital	(0)	(1)	(1)	(1)	(1)
Reserves	(602)	(869)	(1,094)	(1,402)	(1,827)
Owners' equity	**(602)**	**(870)**	**(1,094)**	**(1,403)**	**(1,827)**
Non-controlling interests	0	(34)	(41)	(51)	(65)
Total equity	**(602)**	**(904)**	**(1,135)**	**(1,454)**	**(1,893)**
Net cash (debt)	Net cash	Net cash	(38)	(144)	(200)

Statistics and ratios

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Growth rate (%)					
Revenue	15	26	37	38	36
EBITDA	18	50	30	42	36
EBIT	18	52	33	38	36
Net profit	41	52	31	40	38
EPS	N/A	N/A	31	40	38
Margins (%)					
EBITDA margin	20	24	23	23	23
EBIT	17	21	20	20	20
Net margin	11	14	13	13	13
Other ratios					
P/E	N/A	21.2	16.2	11.6	8.4
P/B	N/A	4.3	3.4	2.6	2.0
P/CF	N/A	28.0	(32.0)	(36.5)	(68.1)
Dividend yield (%)	0.0	0.3	0.6	0.9	0.7
Current raio	1.7	2.2	2.2	2.4	2.6
Quick ratio	1.3	1.7	1.7	1.8	2.0
Effective tax rate (%)	32.0	28.7	30.0	30.0	30.0
Gearing (%)	26.6	25.2	20.0	15.6	12.0
Net gearing (%)	Net cash	Net cash	3.5	10.2	11.0
ROE (%)	19.9	20.1	20.9	22.9	24.2
Working capital					
Inventory (days)	291	246	250	250	250
Debtors (days)	155	159	150	150	150
Creditors (days)	371	201	200	200	200
Cash conversion days	75	205	200	200	200

Source: Company, OP Research

Stelux Holdings (84 HK) –China operation improvement on the way

Retail/ China

Terence Lok
Analyst
+852 2135 0212
Terence.lok@oriental-patron.com.hk

Company Update

BUY

UNCHANGED

Close price: **HK$2.82**
Target Price: **HK$2.92 (+3.5%)**
Prior TP: **HK$2.92**

Key Data

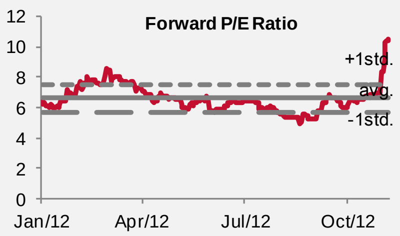
HKEx code		84
12 Months High	(HK$)	2.96
12 Month Low	(HK$)	1.11
3M Avg Dail Vol.	(mn)	3.01
Issue Share	(mn)	1,046.47
Market Cap	(HK$mn)	2,951.06
Fiscal Year		03/2012
Major shareholder (s)		Joseph Wong (50.1%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	54.1	88.0	79.6
Rel. MSCI CHINA %	53.6	74.2	63.3

PE



Company Profile

Stelux is principally engaged in the retailing of mid-range priced watch and optical products under the respective brand names, "City Chain" and "Optical 88", in HK, Macau, China, and SE Asia.

- **We transfer coverage of Stelux (84 HK) to analyst Terence Lok.**
- **Stelux announced 1HFY13 result with 8% yoy increase in net profit. We remain positive on the longer term China business improvement.**
- **We reiterate BUY with TP HK$2.92, equivalent to 9x FY14E PE, implying 15% upside to current price.**

Slightly went under our 1HFY13 net profit forecast. Stelux announced FY1H13 net profit of HK$ 125mn, 8% yoy increase, which slightly went under our forecast due to weaker topline contribution from the PRC segment. We, therefore, cut our FY13 net profit by 12% to factor in the effect of demand. However we remain long term positive on Stelux with the PRC operation improvement. Therefore we increase the topline of FY14/15 by 7%/20% respectively.

City Chain business in the right direction. City Chain topline increased by 10% yoy to HK$ 593mn where overall Greater China sees a larger revenue contribution. The EBIT also turned positive in the SE Asia with the recovery from Thailand and stable growth in Malaysia. Overall GP margin has improved by 1.4ppt, thanks to the house brand performance.

Optical 88 businesses remain stable. Optical 88's topline increases 6%yoy to HK$593mn. Despite a drop of EBIT margin in optical 88 businesses, the cost was incurred from initial development of 'EGG' boutique stores and higher rental as we have forecasted 17% as topline for the FY13.

Valuation: We maintain our Buy recommendation with a higher target price of HK$ 2.92. We employ rolling forward FY14 EPS to recommend our target price, implying 9x P/E multiple. We think the company average historically traded around 6-7x P/E where we think Stelux deserve a premium as we believe a larger room of improvement from China business along with the strategic partnership with Boyu Capital. Along 30% dividend payout in 1H13, we believe Stelux is fairly defensive stock given its mid-range priced watch &optical market position.

Exhibit 228 Forecast and Valuation

Year to Mar (HK$ mn)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue	2,705.6	3,330.9	3,611.0	4,672.1	5,931.5
Growth (%)	14.2	23.1	8.4	29.4	27.0
Net Profit	130.8	250.3	243.6	370.6	529.7
Growth (%)	446.1	91.4	(2.7)	52.1	42.9
Diluted EPS (HK$)	0.137	0.263	0.256	0.325	0.464
EPS growth (%)	446.1	91.4	(2.7)	26.8	42.9
Change to previous EPS (%)			0.0	(12.3)	(7.5)
Consensus EPS (HK$)			0.256	0.325	0.464
ROE (%)	14.2	23.1	19.2	24.6	29.5
P/E (x)	20.5	10.7	11.0	8.7	6.1
P/B (x)	2.7	2.3	2.0	1.6	1.4
Yield (%)	1.3	3.2	2.7	3.5	4.9
DPS (HK$)	0.036	0.090	0.077	0.097	0.139

Source: Bloomberg, OP Research

Financial Summary – Stelux Holdings (84 HK)

Year to Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Income Statement (HK$ mn)					
City Chain	1,416	1,804	1,971	2,645	3,567
Optical 88	931	1,101	1,146	1,457	1,710
Wholesales & others	358	426	494	569	654
Turnover	**2,706**	**3,331**	**3,611**	**4,672**	**5,931**
YoY%	14	23	8	29	27
COGS	(1,047)	(1,276)	(1,390)	(1,775)	(2,254)
Gross profit	**1,659**	**2,055**	**2,221**	**2,897**	**3,678**
Gross margin	61.3%	61.7%	61.5%	62.0%	62.0%
Other income	47	38	28	28	28
Selling & distribution	(1,179)	(1,414)	(1,524)	(1,925)	(2,379)
Admin	(274)	(324)	(354)	(449)	(558)
Other opex	(61)	(35)	(47)	(61)	(77)
Total opex	**(1,514)**	**(1,774)**	**(1,925)**	**(2,434)**	**(3,013)**
Operating profit (EBIT)	**192**	**320**	**324**	**491**	**693**
Operating margin	7.1%	9.6%	9.0%	10.5%	11.7%
Provisions	0	0	0	0	0
Finance costs	(9)	(9)	(23)	(26)	(29)
Profit after financing costs	183	310	302	464	664
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	183	310	302	464	664
Tax	(51)	(59)	(57)	(93)	(133)
Minority interests	(1)	(1)	(1)	(1)	(1)
Net profit	**131**	**250**	**244**	**371**	**530**
YoY%	446	91	(3)	52	43
Net margin	4.8%	7.5%	6.7%	7.9%	8.9%
EBITDA	**265**	**336**	**357**	**541**	**770**
EBITDA margin	9.8%	10.1%	9.9%	11.6%	13.0%
EPS (HK$)	**0.137**	**0.263**	**0.256**	**0.325**	**0.464**
YoY%	446	91	(3)	27	43
DPS (HK$)	0.036	0.090	0.077	0.097	0.139

Year to Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Cash Flow (HK$ mn)					
EBITDA	265	336	357	541	770
Chg in working cap	(5)	(182)	(46)	(262)	(318)
Others	47	30	10	10	0
Operating cash	**307**	**184**	**321**	**290**	**452**
Interests paid	(9)	(9)	(10)	(13)	(16)
Tax	(43)	(28)	(45)	(57)	(93)
Net cash from operations	**254**	**147**	**267**	**219**	**343**
Capex	(92)	(190)	(126)	(234)	(297)
Investments	1	0	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	4	0	0	0	0
Interests received	0	0	0	0	0
Others	(19)	0	0	0	0
Investing cash	**(106)**	**(190)**	**(126)**	**(233)**	**(296)**
FCF	**148**	**(43)**	**140**	**(14)**	**47**
Issue of shares	0	0	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(21)	(56)	(89)	(83)	(113)
Net change in bank loans	(96)	71	0	371	(86)
Others	4	23	0	0	0
Financing cash	**(114)**	**37**	**(89)**	**288**	**(198)**
Net change in cash	**35**	**(6)**	**51**	**274**	**(151)**
Exchange rate or other Adj	(22)	0	0	0	0
Opening cash	213	226	220	272	546
Closing cash	**226**	**220**	**272**	**546**	**394**
CFPS (HK$)	**0.267**	**0.154**	**0.280**	**0.192**	**0.300**

Year to Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Ratios					
Gross margin (%)	61.3	61.7	61.5	62.0	62.0
Operating margin (%)	7.1	9.6	9.0	10.5	11.7
Net margin (%)	4.8	7.5	6.7	7.9	8.9
Selling & dist'n exp/Sales (%)	43.6	42.4	42.2	41.2	40.1
Admin exp/Sales (%)	10.1	9.7	9.8	9.6	9.4
Payout ratio (%)	26.2	34.2	30.0	30.0	30.0
Effective tax (%)	28.1	19.1	19.0	20.0	20.0
Total debt/equity (%)	44.2	43.0	37.3	53.1	41.0
Net debt/equity (%)	21.4	24.3	17.3	20.1	20.6
Current ratio (x)	1.6	1.6	1.7	2.0	1.9
Quick ratio (x)	0.7	0.6	0.7	0.9	0.8
Inventory T/O (days)	271	271	271	271	271
AR T/O (days)	45	45	45	45	45
AP T/O (days)	148	148	148	148	148
Cash conversion cycle (days)	168	168	168	168	168
Asset turnover (x)	1.5	1.6	1.5	1.6	1.7
Financial leverage (x)	2.0	1.9	1.9	1.9	2.0
EBIT margin (%)	7.1	9.6	9.0	10.5	11.7
Interest burden (x)	1.0	1.0	0.9	0.9	1.0
Tax burden (x)	0.7	0.8	0.8	0.8	0.8
Return on equity (%)	**14.2**	**23.1**	**19.2**	**24.6**	**29.5**
ROIC (%)	**11.6**	**19.4**	**17.1**	**21.9**	**25.6**

Year to Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Balance Sheet (HK$ mn)					
Fixed assets	373	443	544	734	961
Intangible assets & goodwill	26	60	0	0	0
Associated companies & JVs	0	0	0	0	0
Long-term investments	15	16	16	16	16
Other non-current assets	129	126	182	157	0
Non-current assets	**543**	**645**	**742**	**907**	**976**
Inventories	777	1,009	1,032	1,319	1,674
AR	337	456	450	582	739
Prepayments & deposits	0	0	0	0	0
Other current assets	0	0	0	0	0
Cash	226	221	272	546	395
Current assets	**1,341**	**1,685**	**1,755**	**2,447**	**2,808**
AP	426	594	565	722	916
Tax	28	45	57	93	133
Accruals & other payables	0	0	0	0	0
Bank loans & leases	370	423	423	423	423
CB & othe debts	0	0	0	0	0
Other current liabilities	0	0	0	0	0
Current liabilities	**824**	**1,061**	**1,045**	**1,237**	**1,472**
Bank loans & leases	68	86	86	86	0
CB & othe debts	0	0	0	371	371
Deferred tax & others	2	3	3	3	3
MI	0	0	1	2	3
Non-current liabilities	**70**	**88**	**89**	**461**	**377**
Total net assets	**990**	**1,181**	**1,362**	**1,656**	**1,936**
Shareholder's equity	**990**	**1,181**	**1,362**	**1,656**	**1,936**
Share capital	95	95	95	95	95
Reserves	895	1,086	1,267	1,561	1,841
BVPS (HK$)	**1.04**	**1.24**	**1.43**	**1.74**	**2.03**
Total debts	438	508	508	879	794
Net cash/(debts)	(211)	(287)	(236)	(333)	(399)

Source: Company, OP Research

Sunny Optical (2382 HK) – Migrating to 8MP in 2013

TMT/ China

Yuji Fung
Analyst
+852 2135 0236
yuji.fung@oriental-patron.com.hk

Company Update

HOLD

UNCHANGED

Close price: **HK$5.36**
Target Price: **HK$6.00 (+12%)**
Prior TP: **HK$4.40**

Key Data

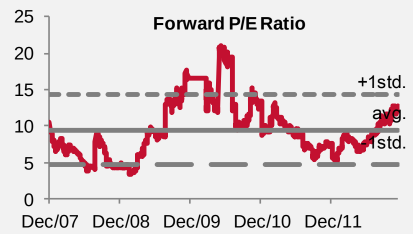
HKEx code		2382
12 Months High	(HK$)	5.54
12 Month Low	(HK$)	1.73
3M Avg Dail Vol.	(mn)	7.29
Issue Share	(mn)	1,000.00
Market Cap	(HK$mn)	5,360.00
Fiscal Year		12/2011
Major shareholder (s)		WANG WENJIAN (42.4%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	4.7	34.0	135.1
Rel. MSCI CHINA %	4.2	20.2	118.7

PE



Company Profile

Sunny Optical is a leading integrated optical component manufacturing .The company is primary camera module supplier to most top tier domestic branded handset makers with 50% market share in China.

- **Sunny Optical released an in-line Oct shipment last night with handset camera module shipments up 9.7% mom and 35.1% yoy to 9.47mn units record high.**
- **Handset lens set shipments was down 2.5% mom and 38.1% yoy to 5.35mn units, of which 5MP lens set up 16% mom in Oct.**
- **Downgrade to Hold with TP raise from HK$5.30 to HK$6.00 mainly due to revised up target PE from 9x to 10x in FY13 to reflect solid demand on handset camera module, representing 33% discount to its listed peer.**

Oct shipments on track. Handset camera module shipments was up 9.7% mom and 35.1% yoy to 9.47mn units record high in Oct, thanks to the strong demand on low-end smartphone and strong 3G subs add momentum in 4Q12. Handset lens set shipments was down 2.5% mom and 38.1% yoy in Oct due to change in product mix as 5MP lens set shipments continuously ramp up with 16% mom growth in Oct, we expect handset lens set shipments will maintain at ~5mn units per month level in 4Q12.

DC related shipment remained weak to suggest downside risk on overall margin. Spherical lenses shipments was down 31.6% mom and 29.6% yoy to 4.04mn units. 10M12 spherical shipments was down 21% yoy to 56.2mn units, partly due to change in product mix but we believe it's more likely affected by a weak demand on DC products. 10M12 spherical lenses shipments accounted for only 62.1% of our FY12E target, as optical component used to be the highest margin products of Sunny Optical (33.7% GPM & 35% of Sales versus 15% GPM & 60.7% of Sales on optoelectronic product), we see downside risk on the overall margin if the slowdown of optical components shipments was due to weak demand on DC products instead of change in product mix.

Downgrade to HOLD with TP raise to HK$6.00. We raise our target PE from 9x to 10x, representing 33% discount to its listed peer, given the solid demand on handset camera module products in FY13E, hence we raise our TP from HK$5.30 to HK$6.00. However, we downgrade Sunny Optical from BUY to HOLD as our earnings forecasts have taken into account (1) a moderate ramp up of 8MP+ products in FY12/FY13 (10%/15% penetration) and (2) a solid 30% yoy growth or 119mn units optoelectronic products shipments in FY13E. Our FY12/13E EPS forecast are 10.0%/15.4% higher than Bloomberg consensus.

Risk: (1) 5MP lens set shipments growth is higher than we expect, (2) 8MP+ camera module shipments growth is higher than we expect, (3) Rapid ramp up of vehicle lens shipments in FY13E

Exhibit 229: Forecast and Valuation

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	1,818	2,499	4,058	5,011	5,520
Growth (%)	39	37	62	23	10
Net Profit	112	215	373	486	547
Growth (%)	205	92	73	30	12
Diluted EPS (HK$)	0.141	0.272	0.458	0.598	0.672
EPS growth (%)	204	93	69	30	12
Change to previous EPS (%)			1.9	1.8	1.8
Consensus EPS (HK$)			0.417	0.518	0.636
ROE (%)	7.7	13.6	20.4	22.5	21.7
P/E (x)	38.1	19.7	11.7	9.0	8.0
P/B (x)	2.8	2.6	2.2	1.9	1.6
Yield (%)	0.4	0.8	2.6	3.3	3.8
DPS (HK$)	0.021	0.044	0.138	0.179	0.202

Source: Bloomberg, OP Research

Financial Summary – Sunny Optical (2382 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (RMB mn)					
Optical components	903	1,128	1,252	1,403	1,689
Optoelectronic	720	1,193	2,617	3,427	3,660
Optical instrument	195	178	189	181	171
Turnover	**1,818**	**2,499**	**4,058**	**5,011**	**5,520**
YoY%	39	37	62	23	10
COGS	(1,426)	(1,976)	(3,287)	(4,063)	(4,467)
Gross profit	**392**	**523**	**771**	**947**	**1,053**
Gross margin	21.6%	20.9%	19.0%	18.9%	19.1%
Other income	40	63	50	49	57
Selling & distribution	(44)	(59)	(70)	(50)	(54)
Admin	(107)	(123)	(150)	(170)	(187)
R&D	(131)	(131)	(142)	(175)	(193)
Other opex	(8)	(26)	(12)	(25)	(28)
Total opex	**(290)**	**(339)**	**(374)**	**(420)**	**(463)**
Operating profit (EBIT)	**143**	**247**	**448**	**576**	**648**
Operating margin	7.8%	9.9%	11.0%	11.5%	11.7%
Provisions	0	0	0	0	0
Finance costs	(4)	(3)	(4)	(5)	(5)
Profit after financing costs	138	244	444	572	643
Associated companies & JVs	(5)	(4)	(5)	0	0
Pre-tax profit	133	240	439	572	643
Tax	(27)	(38)	(67)	(86)	(96)
Minority interests	6	14	0	0	0
Net profit	**112**	**215**	**373**	**486**	**547**
YoY%	205	92	73	30	12
Net margin	6.2%	8.6%	9.2%	9.7%	9.9%
EBITDA	**205**	**305**	**533**	**683**	**764**
EBITDA margin	11.3%	12.2%	13.1%	13.6%	13.8%
EPS (RMB)	**0.114**	**0.221**	**0.373**	**0.486**	**0.547**
YoY%	204	93	69	30	12
DPS (RMB)	0.021	0.044	0.138	0.179	0.202

Year to Dec	FY10	FY11	FY12E	FY13E	FY14E
Cash Flow (RMB mn)					
EBITDA	205	305	533	683	764
Chg in working cap	(40)	(228)	(216)	(198)	(106)
Others	47	34	0	0	0
Operating cash	**212**	**111**	**317**	**485**	**658**
Interests paid	0	0	0	0	0
Tax	(27)	(39)	(4)	(67)	(86)
Net cash from operations	**185**	**72**	**313**	**419**	**572**
Capex	(67)	(170)	(304)	(210)	(166)
Investments	(28)	(90)	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	2	13	0	0	0
Interests received	21	49	20	18	23
Others	(649)	286	0	0	0
Investing cash	**(721)**	**87**	**(284)**	**(192)**	**(142)**
FCF	**(536)**	**160**	**29**	**226**	**430**
Issue of shares	0	0	0	0	0
Buy-back	(50)	(20)	0	0	0
Minority interests	1	0	0	0	0
Dividends paid	(20)	(44)	(44)	(138)	(179)
Net change in bank loans	57	(31)	71	0	0
Interest paid	(4)	(3)	(4)	(5)	(5)
Others	0	0	0	0	0
Financing cash	**(16)**	**(97)**	**24**	**(142)**	**(184)**
Net change in cash	**(552)**	**63**	**53**	**84**	**246**
Exchange rate or other Adj	(0)	0	0	0	0
Opening cash	740	188	252	305	389
Closing cash	**188**	**252**	**305**	**389**	**635**
CFPS (RMB)	**0.232**	**0.091**	**0.385**	**0.515**	**0.704**

Source: Company, OP Research

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	21.6	20.9	19.0	18.9	19.1
Operating margin (%)	7.8	9.9	11.0	11.5	11.7
Net margin (%)	6.2	8.6	9.2	9.7	9.9
Selling & dist'n exp/Sales (%)	2.4	2.4	1.7	1.0	1.0
Admin exp/Sales (%)	5.9	4.9	3.7	3.4	3.4
Payout ratio (%)	14.6	16.0	30.0	30.0	30.0
Effective tax (%)	19.3	15.5	15.0	15.0	15.0
Total debt/equity (%)	8.0	5.1	7.8	6.7	5.8
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	3.08	2.72	2.24	2.27	2.44
Quick ratio (x)	2.63	2.01	1.62	1.63	1.78
Inventory T/O (days)	56	87	70	70	70
AR T/O (days)	91	92	80	80	80
AP T/O (days)	77	87	75	75	75
Cash conversion cycle (days)	71	92	75	75	75
Asset turnover (x)	0.94	1.13	1.50	1.52	1.45
Financial leverage (x)	1.33	1.40	1.48	1.53	1.51
EBIT margin (%)	7.8	9.9	11.0	11.5	11.7
Interest burden (x)	0.94	0.97	0.98	0.99	0.99
Tax burden (x)	0.84	0.90	0.85	0.85	0.85
Return on equity (%)	**7.7**	**13.6**	**20.4**	**22.5**	**21.7**
ROIC (%)	**10.3**	**14.0**	**22.5**	**24.6**	**25.2**

Year to Dec	FY10	FY11	FY12E	FY13E	FY14E
Balance Sheet (RMB mn)					
Fixed assets	465	489	688	774	800
Intangible assets & goodwill	23	0	0	0	0
Associated companies & JVs	15	14	9	9	9
Long-term investments	7	27	27	27	27
Other non-current assets	20	23	23	23	23
Non-current assets	**530**	**553**	**747**	**832**	**858**
Inventories	221	472	630	779	857
AR	454	627	889	1,098	1,210
Prepayments & deposits	0	0	0	0	0
Other current assets	664	471	471	471	471
Cash	188	252	305	389	635
Current assets	**1,527**	**1,822**	**2,295**	**2,738**	**3,172**
AP	301	471	675	835	918
Tax	4	4	67	86	96
Accruals & other payables	72	0	0	0	0
Bank loans & leases	88	62	151	151	151
CB & othe debts	7	5	5	5	5
Other current liabilities	25	128	128	128	128
Current liabilities	**496**	**671**	**1,026**	**1,204**	**1,298**
Bank loans & leases	25	17	0	0	0
CB & othe debts	0	0	0	0	0
Deferred tax & others	8	7	7	7	7
MI	32	20	20	20	20
Non-current liabilities	**66**	**44**	**26**	**26**	**26**
Total net assets	**1,496**	**1,661**	**1,991**	**2,339**	**2,706**
Shareholder's equity	**1,496**	**1,661**	**1,991**	**2,339**	**2,706**
Share capital	98	98	98	98	98
Reserves	1,398	1,564	1,893	2,242	2,609
BVPS (RMB)	**1.89**	**2.04**	**2.45**	**2.88**	**3.33**
Total debts	120	85	156	156	156
Net cash/(debts)	68	167	149	233	479

TCL COMM (2618 HK) –In-line Nov Smartphone sales

TMT/ China

Yuji Fung
Analyst
+852 2135 0236
yuji.fung@oriental-patron.com.hk

Company Update

SELL

UNCHANGED

Close price:	**HK$2.34**
Target Price:	**HK$1.80 (-23%)**
Prior TP:	**HK$1.80**

Key Data

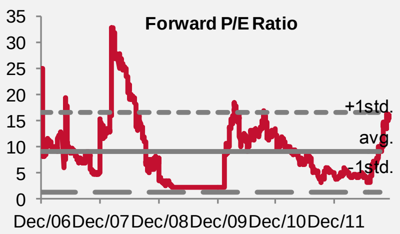
HKEx code		2618
12 Months High	(HK$)	4.47
12 Month Low	(HK$)	1.60
3M Avg Dail Vol.	(mn)	6.33
Issue Share	(mn)	1,128.29
Market Cap	(HK$mn)	2,640.20
Fiscal Year		12/2011
Major shareholder (s)		TCL Ind (47.7%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	6.1	0.9	2.4
Rel. MSCI CHINA %	5.6	-12.9	-14.0

PE



Company Profile

TCLC is a handset maker with the brand "TCL" for China market and "Alcatel" for overseas market.

- **TCLC reported Nov handset shipments was up 8% yoy to 5.02mn, of which smartphone shipments was up 284% yoy and 22% mom in Nov to 0.93mn units, in-line with our expectation.**
- **TCLC is likely end with a full year profit warnings in FY12.**
- **Maintain SELL with TP at HK$1.80, representing 5x FY13E PE**

In-line Nov smartphone sales. TCLC reported Nov handset shipments was up 8% yoy to 5.02mn units, of which smartphone shipments was up 284% yoy to 0.93mn units, in-line with our expectation. Smartphone penetration was 18.6% in Nov, up 0.8ppt mom. For 11M12, TCLC handset shipments was down 1.7% yoy to 38.5mn units, better than we expect and 11M12 shipments accounted for 99% of our FY12E handset shipment target. However, 11M12 smartphone shipment was 5.88mn units, representing 15.3% smartphone penetration and accounted for 84% of our FY12E smartphone shipment, in-line with our expectation.

Likely end with a full year profit warnings in FY12. TCLC smartphone shipments ramp up gradually from 0.14mn units in Jan 2012 to 0.93mn units in Nov 2012 and Nov shipments was closer to the monthly million unit breakeven point. As 4Q used to be peak season and Nov used to be peak month in a year, we see limited surprise in this year. We believe that TCLC is likely end with a full year profit warning for FY12 and the turnaround point for the company is likely occur in 2Q13, if any, thanks to the ramping up of its smartphone sales. However, competition remains intensify in 2013, given the smartphone trend with lower ASP (<RMB2,000) and higher hardware spec (4-inch above screen, 8MP camera, quad core), we believe that domestic handset makers who is able to implement a stringent cost control with economic of scale will be able to reap the profit from the robust smartphone shipments growth in 2013.

Maintain SELL. Given in-line Nov smartphone shipments growth, we maintain our SELL rating on TCLC with TP unchanged at HK$1.80, representing 5x FY13E PE.

Risk: (1) Ramp up in smartphone penetration is faster than we expect, (2) margin squeezing is lower than we expect, (3) slower than expected decline in feature phone sales.

Exhibit 230: Forecast and Valuation

Year to Dec (HK$ mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	8,700.7	10,653.0	11,482.9	15,076.2	16,737.3
Growth (%)	99.5	22.4	7.8	31.3	11.0
Net Profit	701.9	799.9	122.2	433.0	549.8
Growth (%)	2,951.0	14.0	(84.7)	254.3	27.0
Diluted EPS (HK$)	0.630	0.704	0.103	0.367	0.466
EPS growth (%)	2,408.5	11.8	(85.3)	254.3	27.0
Change to previous EPS (%)			(74.9)	(16.0)	(6.4)
Consensus EPS (HK$)			0.147	0.274	0.316
ROE (%)	42.4	32.7	4.6	15.5	17.2
P/E (x)	3.7	3.3	22.6	6.4	5.0
P/B (x)	1.2	1.0	1.0	0.9	0.8
Yield (%)	10.6	12.3	1.3	4.7	6.0
DPS (HK$)	0.248	0.288	0.031	0.110	0.140

Source: Bloomberg, OP Research

Financial Summary – TCL COMM (2618 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (HK$ mn)					
Handset sales	8,701	10,653	11,483	15,076	16,737
Turnover	**8,701**	**10,653**	**11,483**	**15,076**	**16,737**
YoY%	100	22	8	31	11
COGS	(6,752)	(8,325)	(9,455)	(12,375)	(13,759)
Gross profit	**1,948**	**2,328**	**2,028**	**2,701**	**2,978**
Gross margin	22.4%	21.9%	17.7%	17.9%	17.8%
Other income	278	508	494	499	520
Selling & distribution	(620)	(866)	(971)	(1,114)	(1,238)
Admin	(436)	(558)	(571)	(643)	(677)
R&D	(357)	(459)	(517)	(603)	(586)
Other opex	(5)	(28)	(92)	(121)	(134)
Total opex	**(1,418)**	**(1,912)**	**(2,150)**	**(2,481)**	**(2,635)**
Operating profit (EBIT)	**808**	**925**	**372**	**719**	**863**
Operating margin	9.3%	8.7%	3.2%	4.8%	5.2%
Provisions	0	0	0	0	0
Finance costs	(63)	(140)	(202)	(182)	(182)
Profit after financing costs	745	785	170	536	681
Associated companies & JVs	(0)	(1)	0	0	0
Pre-tax profit	745	783	170	536	681
Tax	(43)	17	(34)	(80)	(102)
Minority interests	0	(1)	(14)	(23)	(29)
Net profit	**702**	**800**	**122**	**433**	**550**
YoY%	2,951	14	(85)	254	27
Net margin	8.1%	7.5%	1.1%	2.9%	3.3%
EBITDA	**894**	**1,005**	**511**	**882**	**1,020**
EBITDA margin	10.3%	9.4%	4.4%	5.8%	6.1%
EPS (HK$)	**0.630**	**0.704**	**0.103**	**0.367**	**0.466**
YoY%	2,409	12	(85)	254	27
DPS (HK$)	0.248	0.288	0.031	0.110	0.140

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (HK$ mn)					
EBITDA	894	1,005	511	882	1,020
Chg in working cap	(194)	(722)	1,762	49	(89)
Others	113	6	0	0	0
Operating cash	**813**	**289**	**2,273**	**931**	**931**
Interests paid	(50)	(131)	(202)	(182)	(182)
Tax	(33)	(36)	(26)	(34)	(80)
Net cash from operations	**731**	**122**	**2,045**	**714**	**668**
Capex	(132)	(232)	(230)	(302)	(251)
Investments	(157)	(1,049)	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	20	51	0	0	0
Interests received	30	141	192	174	188
Others	(117)	122	0	0	0
Investing cash	**(356)**	**(966)**	**(38)**	**(128)**	**(63)**
FCF	**375**	**(844)**	**2,008**	**587**	**605**
Issue of shares	56	44	0	0	0
Buy-back	0	(68)	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(125)	(336)	(177)	(59)	(133)
Net change in bank loans	(134)	998	(1,305)	0	0
Others	(7)	(1)	0	0	0
Financing cash	**(211)**	**637**	**(1,482)**	**(59)**	**(133)**
Net change in cash	**164**	**(207)**	**526**	**528**	**472**
Exchange rate or other Adj	11	49	0	0	0
Opening cash	1,170	1,345	1,187	1,712	2,240
Closing cash	**1,345**	**1,187**	**1,712**	**2,240**	**2,712**
CFPS (HK$)	**0.656**	**0.107**	**1.732**	**0.605**	**0.566**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	22.4	21.9	17.7	17.9	17.8
Operating margin (%)	9.3	8.7	3.2	4.8	5.2
Net margin (%)	8.1	7.5	1.1	2.9	3.3
Selling & dist'n exp/Sales (%)	7.1	8.1	8.5	7.4	7.4
Admin exp/Sales (%)	5.0	5.2	5.0	4.3	4.0
Payout ratio (%)	39.3	40.9	30.0	30.0	30.0
Effective tax (%)	5.8	(2.2)	20.0	15.0	15.0
Total debt/equity (%)	300.1	276.8	232.7	203.6	178.7
Net debt/equity (%)	Net cash	3.6	Net cash	Net cash	Net cash
Current ratio (x)	1.2	1.1	1.1	1.1	1.2
Quick ratio (x)	1.1	1.0	1.0	1.0	1.0
Inventory T/O (days)	42	43	50	50	50
AR T/O (days)	108	101	80	80	80
AP T/O (days)	100	86	90	90	90
Cash conversion cycle (days)	50	58	40	40	40
Asset turnover (x)	0.9	0.8	0.8	1.1	1.1
Financial leverage (x)	5.7	5.4	5.2	5.0	4.8
EBIT margin (%)	9.3	8.7	3.2	4.8	5.2
Interest burden (x)	0.9	0.8	0.5	0.7	0.8
Tax burden (x)	0.9	1.0	0.7	0.8	0.8
Return on equity (%)	**42.4**	**32.7**	**4.6**	**15.5**	**17.2**
ROIC (%)	**2,470**	**46.1**	**12.2**	**29.7**	**37.2**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Balance Sheet (HK$ mn)					
Fixed assets	309	497	625	803	908
Intangible assets & goodwill	253	956	727	513	315
Associated companies & JVs	7	2	2	2	2
Long-term investments	0	0	0	0	0
Other non-current assets	65	317	317	317	317
Non-current assets	**635**	**1,773**	**1,672**	**1,636**	**1,543**
Inventories	780	981	1,295	1,695	1,885
AR	2,574	2,948	2,517	3,304	3,668
Prepayments & deposits	534	870	938	905	1,004
Other current assets	185	6,267	5,045	5,045	5,045
Cash	7,546	1,187	1,712	2,240	2,712
Current assets	**11,619**	**12,254**	**11,508**	**13,189**	**14,314**
AP	1,843	1,952	2,331	3,051	3,393
Tax	11	26	34	80	102
Accruals & other payables	1,214	1,431	1,543	2,025	2,248
Bank loans & leases	6,488	7,222	5,917	5,917	5,917
CB & othe debts	169	165	165	165	165
Other current liabilities	288	519	519	519	519
Current liabilities	**10,014**	**11,315**	**10,509**	**11,758**	**12,344**
Bank loans & leases	0	0	0	0	0
CB & othe debts	0	0	0	0	0
Deferred tax & others	18	39	39	39	39
MI	4	4	18	41	70
Non-current liabilities	**21**	**43**	**57**	**79**	**108**
Total net assets	**2,218**	**2,669**	**2,614**	**2,988**	**3,405**
Shareholder's equity	**2,218**	**2,669**	**2,614**	**2,988**	**3,405**
Share capital	1,098	1,114	1,114	1,114	1,114
Reserves	1,121	1,554	1,500	1,874	2,290
BVPS (HK$)	**2.02**	**2.40**	**2.32**	**2.65**	**3.02**
Total debts	6,657	7,387	6,082	6,082	6,082
Net cash/(debts)	889	(96)	513	1,041	1,512

Source: Company, OP Research

TCL Multimedia (1070 HK) – Nov LCD TV shipment on track

- **TCLM reported Nov LCD TV shipments was up 27.3% yoy to 1.50mn units. 11M12 LCD TV shipments was up 47.1% yoy to 13.7mn units, representing 90% of its FY12E shipments target.**
- **99.7% PRC LED TV penetration in China in Nov and 79% PRC LED TV penetration in 11M12 for PRC market.**
- **Reiterate BUY with TP unchanged at HK$5.10, representing same 7x FY13E PE.**

Electronic Appliance/ China

Yuji Fung
Analyst
+852 2135 0236
yuji.fung@oriental-patron.com.hk

Company Update

BUY

UNCHANGED

Close price: **HK$4.58**
Target Price: **HK$5.10 (+11%)**
Prior TP: **HK$5.10**

Key Data

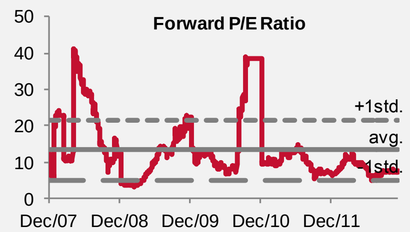
HKEx code		1070
12 Months High	(HK$)	4.84
12 Month Low	(HK$)	2.30
3M Avg Dail Vol.	(mn)	2.52
Issue Share	(mn)	1,320.90
Market Cap	(HK$mn)	6,049.70
Fiscal Year		12/2011
Major shareholder (s)		TCL HLD (61.88%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	4.1	21.2	0.7
Rel. MSCI CHINA %	3.6	7.4	-15.7

PE



Company Profile

TCLM is a TV manufacturer with vertically integrated business model and it ranked 7th in global LCD market in 2011.

Nov LCD TV shipments on track. TCLM reported Nov LCD TV shipments was up 27.3% yoy to 1.50mn units, of which (1) LED TV shipments was up 87.5% yoy to 1.35mn units, (2) Smart TV shipments was up 33.9% mom to 0.60mn units and (3) 3D TV was up 13.3% mom to 0.28mn units, in-line with our expectation. For 11M12, LCD TV shipments was up 47.1% yoy to 13.68mn units, we see limited downside risk to meet mgmt 15.2mn units LCD TV shipment target in FY12.

Nearly all LCD TV sold in China was LED TV in Nov. In PRC market, TCLM reported Nov LCD TV shipments was up 18% mom to 0.89mn units and LED TV shipments was up 37% mom to 0.89mn units as well, representing a 99.7% LED TV penetration in China, thanks to the Energy saving subsidy scheme. For 11M12, LED TV penetration in China reached 79% and the group LED TV (include oversea) penetration was 74.0%. With increasing penetration of LED TV as well as other high-end TV products like Smart TV and 3D TV, we believe TCLM is able to further improve its profitability in 4Q12. Smart TV penetration in China reached 64.3% in Nov, up 10.3ppt mom, and 11M12 Smart TV penetration in China was 42.9%, showing a rapid pickup in 2H12. On the other hands, 3D TV penetration in China was relatively stable at 30.8% in Nov and 11M12 3D TV penetration in China was 23.3%.

Reiterate BUY. Given on track 11M12 shipments growth, we are confident that TCLM is able to beat its 15.2mn units of LCD TV shipments target in FY12E. We reiterate our BUY rating on TCLM with TP unchanged at HK$5.10, representing 7x FY13E PE.

Risk: (1) Higher than expected ASP erosion, (2) intensifying competition in the LCD TV market and (3) global economic slowdown.

Exhibit 231: Forecast and Valuation

Year to Dec (HK$ mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	26,948.6	32,932.4	37,084.3	42,262.0	44,217.5
Growth (%)	(11.2)	22.2	12.6	14.0	4.6
Net Profit	(983.2)	452.6	725.9*	973.3	1,216.0
Growth (%)	(347.9)	(146.0)	60.4	34.1	24.9
Diluted EPS (HK$)	(0.921)	0.422	0.545	0.730	0.912
EPS growth (%)	(335.2)	(145.9)	29.0	34.1	24.9
Change to previous EPS (%)			0.0	0.0	0.0
Consensus EPS (HK$)			0.583	0.612	0.671
ROE (%)	(29.1)	13.6	17.5	19.2	21.2
P/E (x)	(5.0)	10.9	8.4	6.3	5.0
P/B (x)	1.6	1.4	1.3	1.1	1.0
Yield (%)	0.0	4.3	5.4	7.2	9.0
DPS (HK$)	0.000	0.197	0.245	0.329	0.411

*Source: Bloomberg, OP Research *Excluding HK$144mn of one-off gain in 1Q12*

Financial Summary – TCL Multimedia (1070 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (HK$ mn)					
Television-PRC	15,790	19,615	21,128	25,598	27,051
Television-Overseas	6,879	8,743	11,765	12,378	12,782
AV	3,574	4,113	3,176	3,271	3,369
Others	706	461	1,015	1,015	1,015
Turnover	**26,949**	**32,932**	**37,084**	**42,262**	**44,218**
YoY%	(11)	22	13	14	5
COGS	(23,184)	(27,643)	(30,762)	(35,047)	(36,442)
Gross profit	**3,765**	**5,289**	**6,323**	**7,215**	**7,775**
Gross margin	14.0%	16.1%	17.0%	17.1%	17.6%
Other income	562	583	281	288	308
Selling & distribution	(3,769)	(3,792)	(4,079)	(4,501)	(4,699)
Admin	(711)	(860)	(955)	(1,077)	(1,123)
R&D	(206)	(281)	(445)	(507)	(531)
Other opex	(232)	(57)	(64)	(73)	(76)
Total opex	**(4,917)**	**(4,989)**	**(5,543)**	**(6,157)**	**(6,429)**
Operating profit (EBIT)	**(591)**	**883**	**1,061**	**1,345**	**1,654**
Operating margin	-2.2%	2.7%	2.9%	3.2%	3.7%
Provisions	0	0	0	0	0
Finance costs	(233)	(289)	(165)	(108)	(108)
Profit after financing costs	(824)	593	896	1,238	1,546
Associated companies & JVs	(11)	19	(23)	0	0
Pre-tax profit	(835)	613	873	1,238	1,546
Tax	(138)	(151)	(134)	(248)	(309)
Minority interests	(10)	(9)	(13)	(17)	(21)
Net profit	**(983)**	**453**	**726**	**973**	**1,216**
YoY%	(348)	(146)	60	34	25
Net margin	-3.6%	1.4%	2.0%	2.3%	2.8%
EBITDA	**(515)**	**697**	**1,209**	**1,534**	**1,830**
EBITDA margin	-1.9%	2.1%	3.3%	3.6%	4.1%
EPS (HK$)	**(0.921)**	**0.422**	**0.545**	**0.730**	**0.912**
YoY%	(335)	(146)	29	34	25
DPS (HK$)	0.000	0.197	0.245	0.329	0.411

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (HK$ mn)					
EBITDA	(515)	697	1,209	1,534	1,830
Chg in working cap	(573)	1,103	1,609	215	63
Others	40	10	0	0	0
Operating cash	**(1,049)**	**1,811**	**2,818**	**1,749**	**1,893**
Interests paid	(233)	(289)	(165)	(108)	(108)
Tax	(121)	(204)	(170)	(134)	(248)
Net cash from operations	**(1,403)**	**1,317**	**2,483**	**1,507**	**1,537**
Capex	(151)	(76)	(1,113)	(211)	(221)
Investments	(80)	(0)	0	0	0
Dividends received	42	84	0	0	0
Sales of assets	137	330	0	0	0
Interests received	0	0	91	98	118
Others	(2,321)	2,151	0	0	0
Investing cash	**(2,373)**	**2,489**	**(1,021)**	**(113)**	**(103)**
FCF	**(3,776)**	**3,806**	**1,462**	**1,394**	**1,434**
Issue of shares	535	1	889	0	0
Buy-back	0	(34)	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(129)	0	(373)	(379)	(488)
Net change in bank loans	2,919	(1,892)	(2,285)	0	0
Others	444	386	0	0	0
Financing cash	**3,769**	**(1,539)**	**(1,769)**	**(379)**	**(488)**
Net change in cash	**(7)**	**2,267**	**(307)**	**1,015**	**946**
Exchange rate or other Adj	61	53	0	0	0
Opening cash	2,079	2,133	4,452	4,145	5,160
Closing cash	**2,133**	**4,452**	**4,145**	**5,160**	**6,106**
CFPS (HK$)	**(1.313)**	**1.228**	**1.863**	**1.131**	**1.154**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	14.0	16.1	17.0	17.1	17.6
Operating margin (%)	(2.2)	2.7	2.9	3.2	3.7
Net margin (%)	(3.6)	1.4	2.0	2.3	2.8
Selling & dist'n exp/Sales (%)	14.0	11.5	11.0	10.6	10.6
Admin exp/Sales (%)	2.6	2.6	2.6	2.5	2.5
Payout ratio (%)	0.0	46.6	45.0	45.0	45.0
Effective tax (%)	(16.8)	25.5	15.0	20.0	20.0
Total debt/equity (%)	181.9	125.6	45.1	40.1	35.3
Net debt/equity (%)	38.5	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.1	1.1	1.2	1.2	1.2
Quick ratio (x)	0.8	0.9	0.9	0.9	1.0
Inventory T/O (days)	78	57	50	50	50
AR T/O (days)	73	126	90	90	90
AP T/O (days)	104	158	80	80	80
Cash conversion cycle (days)	47	24	60	60	60
Asset turnover (x)	1.6	1.5	1.6	1.8	1.7
Financial leverage (x)	4.9	6.4	5.6	4.7	4.5
EBIT margin (%)	(2.2)	2.7	2.9	3.2	3.7
Interest burden (x)	1.4	0.7	0.8	0.9	0.9
Tax burden (x)	1.2	0.7	0.8	0.8	0.8
Return on equity (%)	**(29.1)**	**13.6**	**17.5**	**19.2**	**21.2**
ROIC (%)	**(16.6)**	**16.8**	**29.8**	**43.8**	**61.3**

Year to Dec	2010	2011	2012F	2013F	2014F
Balance Sheet (HK$ mn)					
Fixed assets	1,498	1,342	2,215	2,139	2,067
Intangible assets & goodwill	121	120	120	120	120
Associated companies & JVs	174	197	175	175	175
Long-term investments	7	7	7	7	7
Other non-current assets	132	130	130	130	130
Non-current assets	**1,931**	**1,797**	**2,647**	**2,571**	**2,498**
Inventories	4,925	4,298	4,214	4,801	4,992
AR	5,417	11,370	9,144	10,421	10,903
Prepayments & deposits	0	0	0	0	0
Other current assets	4,094	2,214	2,214	2,214	2,214
Cash	2,133	4,452	4,145	5,160	6,106
Current assets	**16,569**	**22,335**	**19,718**	**22,596**	**24,216**
AP	6,600	11,994	6,742	7,682	7,987
Tax	174	170	134	248	309
Accruals & other payables	2,371	3,609	8,159	9,298	9,728
Bank loans & leases	4,864	2,624	1,482	1,482	1,482
CB & othe debts	590	1,103	238	238	238
Other current liabilities	367	249	249	249	249
Current liabilities	**14,966**	**19,749**	**17,004**	**19,196**	**19,994**
Bank loans & leases	265	711	433	433	433
CB & othe debts	0	0	0	0	0
Deferred tax & others	20	20	20	20	20
MI	105	119	132	149	170
Non-current liabilities	**390**	**850**	**584**	**601**	**622**
Total net assets	**3,144**	**3,534**	**4,776**	**5,370**	**6,098**
Shareholder's equity	**3,144**	**3,534**	**4,776**	**5,370**	**6,098**
Share capital	1,086	1,072	1,072	1,072	1,072
Reserves	2,058	2,461	3,704	4,298	5,026
BVPS (HK$)	**2.89**	**3.30**	**3.62**	**4.07**	**4.62**
Total debts	5,719	4,438	2,153	2,153	2,153
Net cash/(debts)	(1,212)	270	2,248	3,263	4,209

Source: Company, OP Research

Tingyi Holding (322 HK) – Fierce competition ahead

Consumer/ China

Tracy Sun
Analyst
+852 2135 0214
tracy.sun@oriental-patron.com.hk

Company Update

HOLD

UNCHANGED

Close price:	**HK$22.20**
Target Price:	**HK$20.20 (-9.00%)**
Prior TP:	**HK$20.20**

Key Data

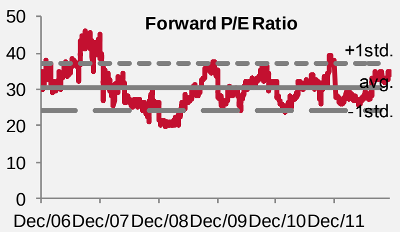
HKEx code		322
12 Months High	(HK$)	25.35
12 Month Low	(HK$)	17.90
3M Avg Dail Vol.	(mn)	5.01
Issue Share	(mn)	5,592.90
Market Cap	(HK$mn)	124,162.33
Fiscal Year		12/2011
Major shareholder (s)		Wei Ing Chou (33.3%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	-2.2	-5.5	18.7
Rel. MSCI CHINA %	-2.7	-19.3	2.4

PE



Company Profile

Tingyi is a leading F&B supplier in China specializing in the production and distribution of instant noodles, beverages and baked goods.

- **Tingyi (322 HK) reported in-line 3Q12 turnover of US$2,945.6mn, +33.62% yoy.**
- **While the GPM continued to improve, earnings are partly offset by the increasing SG&A expense amid the intensifying market competition.**
- **We maintain the rating of HOLD but cut the target price to HK$20.20, based on 25x FY13E PE**

Tingyi reported in-line 3Q12 turnover/core net profit, +33.6%/8%yoy. GPM expanded to 31.3% due to pullback of raw material costs; OPM contracted 0.2ppt to 9.92% as of keen competition and consolidation of PepsiCo.

Our channel check indicated that, Tingyi offers 4-12% discount in retail price of "Laotan pickled cabbage" flavor and "marinated beef" flavor, plus free ham sausages in its bowl noodle to gain the ground, in compare, only 40% of UPC's noodles have free ham sausages. After communicating with hypermarket staffs, UPC seems to have better performance in these two new products. The customers, who we communicated in convenience stores, also told us UPC's noodle is tastier than Tingyi's like products. In our view, Tingyi will still take the leader position in China instant noodle in FY12/13 but UPC will flight back a low single digit market share via its successful new products. Sales for traditional juice drink series remain robust, and the sales of juice soared +115%. Milk tea and traditional juice drink series will play important role to drive beverage segment in FY13.

Integration of the PepsiCo operation is ongoing and better than expectation, while still challenge given the size and different corporate cultures. In order to enhance the operating efficiency, Tingyi have replaced PepsiCo's existing staff with Tingyi's own staff in supply chain and procurement system.

3Q12 GMP hit an eight-quarter high as cost of key inputs pullback, while we expect margins to peak already. We cut down our earnings forecast by 11.7%/10.2%/2.1% for FY12E/FY13E/FY14E to reflect i) higher-than-expected OPEX; ii) keen competition in both beverage and instant noodle markets ahead; and iii) the low earning visibility. We maintain the rating of HOLD with the target price of HK$20.20, based on 25x FY13E PE, which is largely in-line with the PE of its 5-year historical median forward PER

Exhibit 232 Forecast and Valuation

Year to Dec (US$ mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	6,681	7,867	9,314	11,023	12,772
Growth (%)	31	18	18	18	16
Net Profit	477	420	525	589	787
Growth (%)	24.4	(12.0)	25.1	12.3	33.5
Diluted EPS (HK$)	0.547	0.576	0.720	0.808	1.079
EPS growth (%)	2.7	5.2	25.1	12.3	33.5
Change to previous EPS (%)			(11.7)	(10.2)	(2.1)
Consensus EPS (HK$)			0.708	0.856	1.066
ROE (%)	22.3	16.6	17.8	17.5	20.8
P/E (x)	40.6	38.6	30.8	27.5	20.6
P/B (x)	6.8	6.0	5.0	4.5	4.0
Yield (%)	1.5	1.3	1.6	1.8	2.4
DPS (HK$)	0.332	0.292	0.360	0.404	0.540

Source: Bloomberg, OP Research

Financial Summary – Tingyi Holding (322 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (US$ mn)					
Instant noodle	2,932	3,592	3,957	4,584	5,273
Beverage	3,532	3,999	5,034	6,044	6,665
Instant food	161	201	232	280	584
Others	57	74	90	116	251
Turnover	**6,681**	**7,867**	**9,314**	**11,023**	**12,772**
YoY%	31	18	18	18	16
COGS	(4,782)	(5,779)	(6,496)	(7,806)	(8,892)
Gross profit	**1,899**	**2,088**	**2,818**	**3,218**	**3,881**
Gross margin	28.4%	26.5%	30.3%	29.2%	30.4%
Other income	183	170	269	170	170
Selling & distribution	(1,121)	(1,323)	(1,798)	(1,984)	(2,222)
Admin	(126)	(189)	(250)	(261)	(275)
R&D	0	0	0	0	0
Other opex	(92)	(73)	(84)	(99)	(157)
Total opex	**(1,340)**	**(1,586)**	**(2,131)**	**(2,345)**	**(2,655)**
Operating profit (EBIT)	**743**	**672**	**956**	**1,043**	**1,396**
Operating margin	11.1%	8.5%	10.3%	9.5%	10.9%
Provisions	0	0	0	0	0
Finance costs	(7)	(9)	(11)	(9)	(8)
Profit after financing costs	737	663	945	1,034	1,388
Exceptional items	0	0	0	0	0
Associated companies & JVs	10	0	13	13	13
Pre-tax profit	747	663	958	1,047	1,401
Tax	(134)	(163)	(233)	(255)	(342)
Minority interests	(136)	(80)	(200)	(203)	(272)
Net profit	**477**	**420**	**525**	**589**	**787**
Recurring profit	**477**	**381**	**445**	**589**	**787**
YoY%	24	(20)	17	32	34
Net margin	7.1%	5.3%	5.6%	5.3%	6.2%
EBITDA	**1,040**	**1,028**	**1,260**	**1,374**	**1,765**
EBITDA margin	15.6%	13.1%	13.5%	12.5%	13.8%
Recurring EPS (USD)	**0.070**	**0.074**	**0.093**	**0.104**	**0.139**
YoY%	3	5	25	12	34
DPS (USD)	0.332	0.292	0.360	0.404	0.540

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (USDm)					
EBITDA	1,040	1,028	1,260	1,374	1,765
Chg in working cap	(693)	39	106	178	153
Others	1,049	(328)	182	(30)	(30)
Operating cash	**1,396**	**739**	**1,548**	**1,522**	**1,888**
Interests paid	(7)	(13)	(11)	(9)	(8)
Tax	(129)	(136)	(26)	(233)	(255)
Net cash from operations	**1,260**	**591**	**1,511**	**1,279**	**1,625**
Capex	(966)	(1,327)	(652)	(661)	(766)
Investments	0	0	0	0	0
Dividends received	1	2	0	0	0
Sales of assets	(20)	44	30	30	30
Interests received	21	39	(18)	(29)	(37)
Others	0	3	0	0	0
Investing cash	**(963)**	**(1,240)**	**(640)**	**(661)**	**(773)**
FCF	**297**	**(649)**	**872**	**619**	**852**
Issue of shares	0	6	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(246)	(302)	(210)	(259)	(291)
Net change in bank loans	298	614	(250)	(100)	(100)
Others	0	0	(31)	0	0
Financing cash	**52**	**318**	**(491)**	**(359)**	**(391)**
Net change in cash	**349**	**(331)**	**381**	**260**	**461**
Exchange rate or other Adj	20	40	0	0	0
Opening cash	511	880	589	970	1,230
Closing cash	**880**	**589**	**970**	**1,230**	**1,691**
CFPS (USD)	**0.186**	**0.104**	**0.267**	**0.226**	**0.287**

Source: Company, OP Research

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	28.4	26.5	30.3	29.2	30.4
Operating margin (%)	11.1	8.5	10.3	9.5	10.9
Net margin (%)	7.1	5.3	5.6	5.3	6.2
Selling & dist'n exp/Sales (%)	16.8	16.8	19.3	18.0	17.4
Admin exp/Sales (%)	1.9	2.4	2.7	2.4	2.2
Payout ratio (%)	60.7	50.7	50.0	50.0	50.0
Effective tax (%)	18.2	24.6	24.6	24.6	24.6
Total debt/equity (%)	26.8	46.5	31.1	25.4	19.8
Net debt/equity (%)	Net cash	24.6	0.9	Net cash	Net cash
Current ratio (x)	0.76	0.59	0.73	0.81	0.93
Quick ratio (x)	0.62	0.46	0.60	0.67	0.78
Inventory T/O (days)	24	20	20	20	20
AR T/O (days)	7	7	9	10	10
AP T/O (days)	83	62	62	62	62
Cash conversion cycle (days)	(52)	(35)	(32)	(32)	(32)
Asset turnover (x)	1.61	1.47	1.49	1.55	1.58
Financial leverage (x)	1.94	2.12	2.12	2.11	2.13
EBIT margin (%)	11.1	8.5	10.3	9.5	10.9
Interest burden (x)	1.00	0.99	1.00	1.00	1.00
Tax burden (x)	0.64	0.63	0.55	0.56	0.56
Return on equity (%)	**22.3**	**16.6**	**17.8**	**17.5**	**20.8**
ROIC (%)	**31.5**	**18.5**	**21.2**	**22.3**	**28.3**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Balance Sheet (USDm)					
Fixed assets	3,041	4,216	4,581	4,941	5,375
Intangible assets & goodwill	113	104	104	104	104
Associated companies & JVs	0	0	13	26	39
Long-term investments	0	0	0	0	0
Other non-current assets	50	52	50	50	50
Non-current assets	**3,204**	**4,373**	**4,748**	**5,121**	**5,568**
Inventories	310	313	351	422	481
AR	128	155	184	217	252
Prepayments & deposits	293	377	447	529	613
Other current assets	76	1	1	1	1
Cash	881	590	971	1,231	1,693
Current assets	**1,688**	**1,436**	**1,953**	**2,400**	**3,039**
AP	1,084	974	1,095	1,316	1,499
Tax	25	26	233	255	342
Accruals & other payables	572	661	783	926	1,073
Bank loans & leases	457	701	500	400	300
CB & othe debts	0	0	0	0	0
Other current liabilities	90	67	67	67	67
Current liabilities	**2,228**	**2,428**	**2,677**	**2,963**	**3,280**
Bank loans & leases	177	549	500	500	500
CB & othe debts	0	0	0	0	0
Deferred tax & others	117	145	114	114	114
MI	0	0	200	403	674
Non-current liabilities	**294**	**695**	**814**	**1,017**	**1,289**
Total net assets	**2,369**	**2,686**	**3,211**	**3,542**	**4,038**
Shareholder's equity	**2,369**	**2,686**	**3,211**	**3,542**	**4,038**
Share capital	28	28	28	28	28
Reserves	2,341	2,658	3,183	3,514	4,010
BVPS (USD)	**3.28**	**3.73**	**4.46**	**4.92**	**5.61**
Total debts	634	1,250	1,000	900	800
Net cash/(debts)	247	(660)	(29)	331	893

Trinity (891 HK) – Attractive valuation with good business model

Consumer/ China

Terence Lok
Analyst
+852 2135 0212
terence.lok@oriental-patron.com.hk

Company Update

BUY

UNCHANGED

Close price:	**HK$5.24**
Target Price:	**HK$6.80(+30%)**
Prior TP:	**HK$6.80**

Key Data

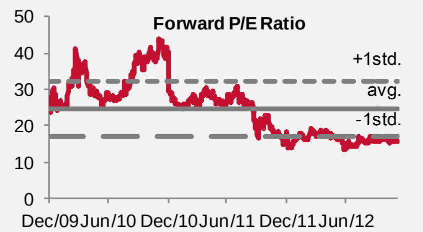
HKEx code		891
12 Months High	(HK$)	7.13
12 Month Low	(HK$)	4.48
3M Avg Dail Vol.	(mn)	4.13
Issue Share	(mn)	1,721.93
Market Cap	(HK$mn)	9,022.89
Fiscal Year		12/2011
Major shareholder (s)		Fung's family (38%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	-5.1	0.2	-9.0
Rel. MSCI CHINA %	-5.6	-13.6	-25.4

PE



Company Profile

Trinity retails luxury men's clothing. The company operates stores in the PRC, Hong Kong, Macau and Taiwan.

- **Trinity's 1H 12 turnover increased 13.4% yoy to HK$1,367.1mn, while the net profit was up 10.5% yoy to HK$265.3mn.**
- **We believe the SSSG remains weak but expansion plan and reduction of stock level continue to be prudential.**
- **Maintain Buy with TP to HK$6.8 based on 17x FY13E PE**

Luxury menswear market with a local knowledge. Trinity announced moderate SSSG of 13.6% in HK & Macau and 5.9% in China for the 1H12. Despite SSSG in HK and China were generally in line with the retail market trend, Taiwan surprised us with -13% same store sales decline mainly due to weak economic conditions. However, Trinity has a strong Heritage brand including agreement such as Kent & Curwen. The company's large sales network enables to capture higher penetration in the luxury space.

Diversified brand gives wider choice to consumer: Taking into account of the slow recovery pace of retail market and weaker top line growth outlook for 1H13, we believe all retailers will be hit by the lower disposable income on spending. However, the high end brand would have a greater effect if there is a rebound especially with sustainable GP margin. These high end luxury retail enables to pass on price to consumers.

Maintain Buy with TP of HK$6.8. Trinity is currently trading at 13.3x FY13E PE compared with sector average of 9.0x. In our view, the valuation becomes attractive at this level given its steady growth prospect and premium management background. Our TP was derived from 17x PE based on FY13E EPS. The target PE is pegged to 1x PEG based on our revised 17% EPS CAGR for FY11-14E

Exhibit 233 Forecast and Valuation

Year to Dec (HK$mn)	**FY10A**	**FY11A**	**FY12E**	**FY13E**	**FY14E**
Turnover	2,011.4	2,607.3	2,990.1	3,517.8	4,043.7
Growth (%)	*22.3*	*29.6*	*14.7*	*17.6*	*14.9*
Net profit	340.8	513.1	560.8	693.2	820.5
Growth (%)	*89.7*	*50.5*	*9.3*	*23.6*	*18.4*
Diluted EPS (HK$)	0.195	0.294	0.321	0.397	0.470
EPS growth (%)	89.7	50.5	9.3	23.6	18.4
Change to previous EPS (%)			*(11.0)*	*(10.8)*	*(12.6)*
Consensus EPS (HK$)			0.342	0.410	0.495
ROE (%)	16.0	18.6	16.7	19.3	21.2
P/E (x)	26.8	17.8	16.3	13.2	11.2
P/B (x)	4.0	2.8	2.6	2.5	2.3
Yield (%)	2.8	4.3	4.3	5.3	6.3
Diluted DPS (HK$)	0.146	0.225	0.225	0.278	0.329

Source: Bloomberg, OP Research

Financial Summary – Trinity (891 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (HK$ mn)					
HK & Macau retail and wholesale	690	834	934	1,087	1,217
Chinese mainland retail	1,144	1,464	1,614	1,927	2,255
Taiwan retail	176	205	183	206	229
Overseas retail	1	103	259	297	342
Turnover	**2,011**	**2,607**	**2,990**	**3,518**	**4,044**
YoY%	22	30	15	18	15
COGS	(460)	(504)	(604)	(689)	(788)
Gross profit	**1,552**	**2,104**	**2,386**	**2,829**	**3,256**
Gross margin	77.2%	80.7%	79.8%	80.4%	80.5%
Other income	81	69	80	98	114
Selling & distribution	(824)	(1,094)	(1,292)	(1,530)	(1,758)
Admin	(378)	(461)	(525)	(593)	(664)
R&D	0	0	0	0	0
Other opex	0	0	0	0	0
Total opex	**(1,202)**	**(1,554)**	**(1,817)**	**(2,123)**	**(2,422)**
Operating profit (EBIT)	**431**	**619**	**649**	**804**	**948**
Operating margin	21.4%	23.7%	21.7%	22.9%	23.4%
Provisions	0	0	0	0	0
Finance costs	(6)	(4)	(4)	(5)	(4)
Profit after financing costs	425	615	644	799	944
Associated companies & JVs	36	62	75	90	108
Exceptional items	0	0	0	0	0
Pre-tax profit	461	677	719	889	1,052
Tax	(120)	(164)	(158)	(196)	(231)
Minority interests	0	0	0	0	0
Net profit	**341**	**513**	**561**	**693**	**821**
YoY%	90	51	9	24	18
Net margin	16.9%	19.7%	18.8%	19.7%	20.3%
EBITDA	**531**	**755**	**790**	**938**	**1,076**
EBITDA margin	26.4%	28.9%	26.4%	26.7%	26.6%
EPS (HK$)	**0.195**	**0.294**	**0.321**	**0.397**	**0.470**
YoY%	**90**	**51**	**9**	**24**	**18**
Diluted DPS (HK$)	0.146	0.225	0.225	0.278	0.329

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (HK$ mn)					
EBITDA	531	755	790	938	1,076
Chg in working cap	(3)	(219)	(206)	(62)	(73)
Others	46	42	44	43	44
Operating cash	574	578	628	919	1,046
Interests paid	(1)	(1)	(4)	(5)	(4)
Interests received	0	0	6	10	16
Tax	(60)	(125)	(99)	(158)	(196)
Net cash from operations	513	452	531	766	863
Capex	(69)	(88)	(100)	(118)	(136)
Investments	(155)	(390)	(407)	0	0
Dividends received	24	30	36	43	52
interest received	1	5	6	8	9
Sales of assets	0	0	0	0	0
Others	0	0	0	0	0
Investing cash	**(199)**	**(442)**	**(465)**	**(67)**	**(75)**
FCF	**313**	**10**	**66**	**698**	**788**
Issue of shares	27	787	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(189)	(305)	(396)	(495)	(530)
Net change in bank loans	(135)	(200)	300	(200)	(100)
Others	(21)	(16)	(20)	(20)	(20)
Financing cash	**(317)**	**266**	**(116)**	**(715)**	**(650)**
Net change in cash	**(3)**	**276**	**(50)**	**(17)**	**139**
Adj	0	0	0	0	0
Opening cash	518	515	790	740	723
Closing cash	**515**	**790**	**740**	**723**	**861**
CFPS (HK$)	**0.316**	**0.259**	**0.304**	**0.439**	**0.494**

Source: Company, OP Research

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	77.2	80.7	79.8	80.4	80.5
Operating margin (%)	21.4	23.7	21.7	22.9	23.4
Net margin (%)	16.9	19.7	18.8	19.7	20.3
Selling & dist'n exp/Sales (%)	41.0	41.9	43.2	43.5	43.5
Admin exp/Sales (%)	18.8	17.7	17.5	16.9	16.4
Payout ratio (%)	69.7	76.4	70.0	70.0	70.0
Effective tax (%)	26.0	24.2	22.0	22.0	22.0
Total debt/equity (%)	26.1	12.1	20.0	13.3	9.7
Net debt/equity (%)	3.2	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.59	1.48	1.25	1.43	1.63
Quick ratio (x)	1.10	0.95	0.78	0.86	0.99
Inventory T/O (days)	320.09	371.64	390.00	390.00	390.00
AR T/O (days)	35.18	31.38	31.38	31.38	31.38
AP T/O (days)	60.22	79.59	79.59	79.59	79.59
Cash conversion cycle (days)	295	323	342	342	342
Asset turnover (x)	0.61	0.64	0.59	0.63	0.69
Financial leverage (x)	1.55	1.48	1.52	1.56	1.52
EBIT margin (%)	21.42	23.73	21.70	22.85	23.44
Interest burden (x)	1.07	1.09	1.11	1.11	1.11
Tax burden (x)	0.74	0.76	0.78	0.78	0.78
Return on equity (%)	**16.0**	**18.6**	**16.7**	**19.3**	**21.2**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Balance Sheet (HK $mn)					
Fixed assets	182	312	307	297	303
Intangible assets	1,629	2,312	3,062	3,047	3,032
Associated companies & JVs	211	229	262	300	347
Long-term investments	0	0	0	0	0
Other non-current assets	97	140	180	200	220
Non-current assets	**2,119**	**2,993**	**3,810**	**3,844**	**3,902**
Inventories	421	605	646	736	841
AR	215	233	257	302	348
Prepayments & deposits	199	64	73	86	99
Other current assets	1	1	1	1	1
Cash	515	790	740	723	861
Current assets	**1,351**	**1,693**	**1,717**	**1,848**	**2,150**
AP	96	124	132	150	172
Tax	50	99	158	196	231
Accruals & other payables	335	530	389	457	526
Bank loans	360	380	680	480	380
Licence fees liab	0	0	0	0	0
Other current liabilities	8	14	14	14	14
Current liabilities	**848**	**1,146**	**1,372**	**1,297**	**1,323**
Bank loans	220	0	0	0	0
Finance leases	0	0	0	0	0
Deferred tax	93	231	350	350	350
MI	0	0	0	0	0
Others	57	54	340	340	340
Non-current liabilities	**370**	**285**	**690**	**690**	**690**
Total net assets	**2,251**	**3,255**	**3,465**	**3,705**	**4,040**
Shareholder's equity	**2,251**	**3,255**	**3,465**	**3,705**	**4,040**
Share capital	159	171	171	171	171
Reserves	2,092	3,085	3,294	3,535	3,869
Book NAV (HK$)	**1.32**	**1.86**	**1.98**	**2.12**	**2.31**
Total debts	588	394	694	494	394
Net cash/(debts)	(73)	397	46	229	468

F&B/ China

Tracy Sun
Analyst
+852 2135 0214
tracy.sun@oriental-patron.com.hk

Company Update

HOLD

DOWNGRADE

Close price:	**HK$9.88**
Target Price:	**HK$8.60(-13.0%)**
Prior TP:	**HK$9.30**

Key Data

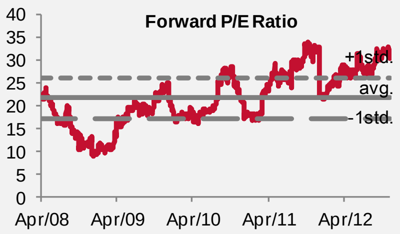
HKEx code		220
12 Months High	(HK$)	10.40
12 Month Low	(HK$)	4.41
3M Avg Dail Vol.	(mn)	3.95
Issue Share	(mn)	3,599.45
Market Cap	(HK$mn)	35,562.52
Fiscal Year		12/2011
Major shareholder (s)		Uni President Enterprises (73.5%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	-1.2	23.7	45.7
Rel. MSCI CHINA %	-1.7	9.9	29.4

PE



Company Profile

Uni-President China Holdings, a subsidiary of Taiwan-based conglomerates Uni-President Enterprise (1216 TT; NR), is one of the leading players in the food and beverage (F&B) sector in China.

Uni-President China (220 HK) – Time to take profit

- **9M12 net profit jumped by 165% yoy due to improving GPM**
- **GPM likely already peaked and maintain is questionable; fierce competition may translate into high OPEX**
- **We downgrade to the rating of HOLD and cut target price to HK$8.60**

Uni-President China's (UPC) **9M12 net profit** jumped by 165% yoy to RMB801mn due to improving GPM from favorable impact of low-pricing raw material and product mix upgrade. The revenue of instant noodle/RTD/juice drink increased by 20/10/30%, on the track of our estimation; while milk tea & coffee surprise us with 80% yoy growth (OPe: 60%yoy).

Thanks to its flagship **noodle** products, market share of instant noodle both by volume and value expand to 15.6% and 16% in 3Q12. We see an intensive market competition ahead and expect the markets share expansion will be moderated. Going forward, Milk tea still play the important role to drive the **beverage** growth, although we expect the growth momentum will be slightly mitigated going forward, as Tingyi have been aggressively promoting its new milk tea product which launched in 2Q12. We positive on the juice drink supported by robust growth of crystal pear juice drink, together with further improving product mix on smaller-size SKU.

In compare, UPC's cost structure is relatively more concentrated than peers, thus GPM is vulnerable to single commodity price change. As input costs are more like to rise than fall in 2H13, in our view, GPM likely already peaked and maintain is questionable. UPC will continue to improve brand exposure and distribution channel to keep the growth momentum and market share position, but translating into higher OPEX.

After taking into account of the stronger-than-expected milk tea categories, fierce competition on the ground and another inflation cycle ahead, we revise our earnings forecast by +4.4%/-1.3%/-2% for FY12E/FY13E/FY14E. We believe market has already priced in UPC strong earning growth prospect after share price has outperformed MSCI by 105% YTD and traded at a overheated 29x FY13 PER . We downgrade to the rating of HOLD and cut target price to HK$8.60, based on a fair 25x FY13 PE which is a equal to the average F&B large-cap players valuation level.

Exhibit 234 Forecast and Valuation

Year to Dec (RMB mn)	**FY10A**	**FY11A**	**FY12E**	**FY13E**	**FY14E**
Revenue	12,590.8	16,931.9	21,116.8	26,099.0	30,490.4
Growth (%)	38.2	34.5	24.7	23.6	16.8
Net Profit	519.1	311.9	916.3	1,001.8	1,189.9
Growth (%)	(26.4)	(39.9)	193.7	9.3	18.8
Diluted EPS (HK$)	0.177	0.107	0.313	0.342	0.407
EPS growth (%)	(26.4)	(39.9)	193.7	9.3	18.8
Change to previous EPS (%)			4.4	(1.3)	(2.0)
Consensus EPS (HK$)			0.309	0.373	0.451
ROE (%)	7.9	4.6	12.7	12.6	13.6
P/E (x)	55.7	92.7	31.6	28.9	24.3
P/B (x)	4.3	4.2	3.8	3.5	3.1
Yield (%)	0.5	0.3	1.0	1.0	1.2
DPS (HK$)	0.053	0.032	0.094	0.103	0.122

Source: Bloomberg, OP Research

Financial Summary – Uni-President China (220 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (RMB mn)					
Beverages	8,796	10,689	13,361	16,567	19,052
Instant noodles	3,549	5,936	7,480	9,200	11,040
others	245	307	276	332	398
Turnover	**12,591**	**16,932**	**21,117**	**26,099**	**30,490**
YoY%	38	34	25	24	17
COGS	(8,548)	(11,989)	(13,824)	(17,158)	(20,041)
Gross profit	**4,043**	**4,943**	**7,293**	**8,941**	**10,449**
Gross margin	32.1%	29.2%	34.5%	34.3%	34.3%
Other income	75	136	160	160	160
Selling & distribution	(3,291)	(4,292)	(5,659)	(7,021)	(8,171)
Admin	(324)	(548)	(739)	(887)	(976)
Other gain	56	23	5	8	10
Total opex	**(3,560)**	**(4,817)**	**(6,393)**	**(7,900)**	**(9,137)**
Operating profit (EBIT)	**558**	**261**	**1,060**	**1,201**	**1,472**
Operating margin	4.4%	1.5%	5.0%	4.6%	4.8%
Provisions	0	0	0	0	0
Finance costs	55	95	(15)	(68)	(100)
Profit after financing costs	613	356	1,045	1,133	1,372
Associated companies & JVs	69	40	70	84	92
Pre-tax profit	682	396	1,115	1,217	1,464
Tax	(163)	(84)	(199)	(215)	(274)
Minority interests	0	0	0	0	0
Net profit	**519**	**312**	**916**	**1,002**	**1,190**
YoY%	(26)	(40)	194	9	19
Net margin	4.1%	1.8%	4.3%	3.8%	3.9%
EBITDA	**937**	**790**	**2,138**	**2,731**	**3,385**
EBITDA margin	7.4%	4.7%	10.1%	10.5%	11.1%
EPS (RMB)	**0.144**	**0.087**	**0.255**	**0.278**	**0.331**
YoY%	(26)	(40)	193.7	9.3	18.8
DPS (RMB)	0.053	0.032	0.094	0.103	0.122
Year to Dec	**FY10A**	**FY11A**	**FY12E**	**FY13E**	**FY14E**
Cash Flow (RMBm)					
EBITDA	937	790	2,138	2,731	3,385
Chg in working cap	(136)	672	302	352	311
Others	(87)	(35)	0	0	0
Operating cash	**714**	**1,428**	**2,440**	**3,083**	**3,696**
Interest income	**66**	**60**	**60**	**50**	**54**
Interests paid	(1)	(27)	(74)	(100)	(112)
Tax	(158)	(123)	(62)	(199)	(215)
Net cash from operations	**621**	**1,338**	**2,363**	**2,835**	**3,422**
Capex	(1,289)	(3,051)	(4,012)	(4,176)	(2,439)
Investments	(26)	(322)	0	0	0
Dividends received	13	15	15	15	15
Sales of assets	28	95	50	50	50
Interests received	0	0	0	0	0
Others	(89)	(881)	0	0	0
Investing cash	**(1,363)**	**(4,144)**	**(3,947)**	**(4,111)**	**(2,374)**
FCF	**(742)**	**(2,806)**	**(1,584)**	**(1,276)**	**1,048**
Issue of shares	0	0	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(352)	(156)	(94)	(338)	(370)
Net change in bank loans	166	2,905	1,204	1,400	(200)
Others	0	0	0	0	0
Financing cash	**(187)**	**2,750**	**1,110**	**1,062**	**(570)**
Net change in cash	**(929)**	**(56)**	**(474)**	**(214)**	**478**
Exchange rate or other Adj	(3)	(3)	0	0	0
Opening cash	3,359	2,428	2,369	1,895	1,681
Closing cash	**2,428**	**2,369**	**1,895**	**1,681**	**2,159**
CFPS (RMB)	**0.172**	**0.372**	**0.657**	**0.788**	**0.951**

Source: Company, OP Research

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	32.1	29.2	34.5	34.3	34.3
Operating margin (%)	4.4	1.5	5.0	4.6	4.8
Net margin (%)	4.1	1.8	4.3	3.8	3.9
Selling & dist'n exp/Sales (%)	26.1	25.4	26.8	26.9	26.8
Admin exp/Sales (%)	2.6	3.2	3.5	3.4	3.2
Payout ratio (%)	30.0	30.0	30.0	30.0	30.0
Effective tax (%)	23.9	21.3	19.0	19.0	20.0
Total debt/equity (%)	2.5	45.5	56.3	68.5	59.9
Net debt/equity (%)	Net cash	10.7	31.5	48.3	36.4
Current ratio (x)	1.52	0.91	0.78	0.71	0.75
Quick ratio (x)	1.12	0.66	0.53	0.45	0.49
Inventory T/O (days)	49	39	39	39	39
AR T/O (days)	12	11	11	11	11
AP T/O (days)	44	36	36	36	36
Cash conversion cycle (days)	17	13	13	13	13
Asset turnover (x)	1.42	1.45	1.39	1.44	1.49
Financial leverage (x)	1.35	1.73	2.10	2.28	2.35
EBIT margin (%)	4.4	1.5	5.0	4.6	4.8
Interest burden (x)	1.22	1.52	1.05	1.01	0.99
Tax burden (x)	0.76	0.79	0.82	0.82	0.81
Return on equity (%)	**7.9**	**4.6**	**12.7**	**12.6**	**13.6**
ROIC (%)	**10.9**	**3.3**	**9.8**	**8.7**	**9.5**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Balance Sheet (RMBm)					
Fixed assets	3,376	6,953	9,887	12,533	13,059
Intangible assets & goodwill	11	8	0	0	0
Associated companies & JVs	828	1,182	1,202	1,236	1,279
Long-term investments	0	0	0	0	0
Other non-current assets	963	977	970	955	940
Non-current assets	**5,179**	**9,120**	**12,059**	**14,724**	**15,278**
Inventories	1,139	1,274	1,469	1,823	2,130
AR	401	513	640	791	924
Prepayments & deposits	434	461	574	710	829
Other current assets	0	0	0	0	0
Cash	2,427	2,369	1,895	1,681	2,159
Current assets	**4,402**	**4,617**	**4,579**	**5,006**	**6,043**
AP	1,020	1,196	1,379	1,711	1,999
Tax	63	62	199	215	274
Accruals & other payables	1,656	2,244	2,799	3,459	4,041
Bank loans & leases	166	1,584	1,500	1,700	1,700
CB & othe debts	0	0	0	0	0
Other current liabilities	0	0	0	0	0
Current liabilities	**2,904**	**5,087**	**5,876**	**7,086**	**8,015**
Bank loans & leases	0	1,512	2,800	4,000	3,800
CB & othe debts	0	0	0	0	0
Deferred tax & others	17	328	328	328	328
MI	0	0	0	0	0
Non-current liabilities	**17**	**1,840**	**3,128**	**4,328**	**4,128**
Total net assets	**6,660**	**6,811**	**7,634**	**8,316**	**9,178**
Shareholder's equity	**6,660**	**6,811**	**7,634**	**8,316**	**9,181**
Share capital	34	34	34	34	34
Reserves	6,625	6,777	7,600	8,282	9,147
BVPS (RMB)	**2.28**	**2.33**	**2.61**	**2.84**	**3.14**
Total debts	166	3,096	4,300	5,700	5,500
Net cash/(debts)	2,262	(727)	(2,405)	(4,019)	(3,341)

Wantwant China (151 HK) – Not Yet Wanted

Staple/ China

Tracy Sun
Analyst
+852 2135 0214
tracy.sun@oriental-patron.com.hk

Company Update

HOLD

UNCHANGED

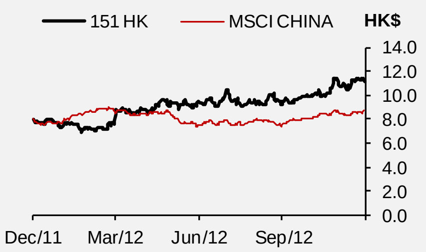
Close price:	**HK$10.92**
Target Price:	**HK$10.80 (-1.1%)**
Prior TP:	**HK$10.80**

Key Data

HKEx code		151
12 Months High	(HK$)	11.68
12 Month Low	(HK$)	6.83
3M Avg Dail Vol.	(mn)	11.89
Issue Share	(mn)	13,227.74
Market Cap	(HK$mn)	144,446.92
Fiscal Year		12/2011
Major shareholder (s)		

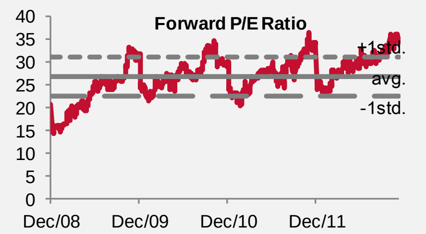
Source: Company data, Bloomberg, OP Research
Closing price are as of 712/2012

Price Chart



	1mth	3mth	6mth
Absolute %	-1.6	15.2	17.3
Rel. MSCI CHINA %	-2.1	1.4	0.9

PE



Company Profile

Wantwant manufactures and trades rice crackers, snack foods and dairy & beverage in China. The company has built up an national-wide distribution network and production facilities in Mainland China.

- **We initiate coverage of Wantwant with a Hold rating and 12-month target price of HK$10.80 based on a 27x fair PER ratio and suggest the investor to accumulate on price decline to HK$9.40 attractive level.**
- **Wantwant's diversified cost structure, niche marketing positioning, and well-established distribution channel will pave the way for accelerated profit growth**
- **We forecast Wantwant's net profit to grow at a CAGR of 26% for FY11-FY14E**

Its **niche market positioning** led to a lower than peers A&P expense/sales ratio and will not face opposition from the regulatory authorities regarding price hike and can greatly pass any future increases in raw-material costs to customers. In 1H12, Wantwant delivered a 37.1% blended GPM, one of the highest in China Food and beverage sector.

Its rich product portfolio leads to a **diversified cost structure**. Except packing and milk powder, each of the other raw material of Wantwant accounts for less than 10% of COGS. This makes Wantwant less sensitive to the price volatility of a single commodity and maintains relatively stable GPM.

We like Wantwant as its **well-established distribution channels** and enhanced supply-chain management. Direct distribution by Wantwant vehicle will improve its distribution efficiency and provide services to POS via a series of standardized operation. As the modern trade channel becomes more important, Wantwant will accelerate its footprint in this channel to fuel its sales growth. Most of Wantwant POS only carry 25% of SKUs but contribute c.75% of total sales. "Wantwant paradise" marketing promotion and display standardization at POS will enhance products visibility and brand presence to upgrade the utilization rate of each POS, in our view.

Despite of longer-than-peers history, Wantwant faces an **intensive competition in the children milk segment** due to similar packing design and same target customers. Our channel check points out that Wantwant charges a 4-6% premium in the retail price comparing with peers. This mainly thanks to i) its clear history in food safety issues and was not found containing melamine in 2008; ii) largely sourcing milk powder from Fonterra to guarantee the quality.

Risks: 1) fierce competition in children milk; 2) higher-than-expect commodity prices; 3) consumer preference shift; 4) food safety issue.

Exhibit 235: Forecast and Valuation

Year to Dec (USD mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	2,244	2,947	3,469	4,301	5,172
Growth (%)	31%	31%	18%	24%	20%
Net Profit	358	419	543	676	841
Growth (%)	15%	17%	30%	24%	24%
Diluted EPS (USD Cents)	2.710	3.170	4.109	5.109	6.360
EPS growth (%)	14%	17%	30%	24%	24%
Change to previous EPS (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Consensus EPS (USD Cents)			4.100	5.100	6.000
ROE (%)	33.4	31.5	34.5	37.0	38.3
P/E (x)	51.7	44.2	34.1	27.4	22.0
P/B (x)	17.3	13.9	11.8	10.1	8.4
Yield (%)	1.6	1.4	1.8	2.3	2.8
DPS (USD Cents)	2.257	1.959	2.538	3.156	3.929

Source: Bloomberg, OP Research

Financial Summary – Wantwant China (151 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (USD mn)					
Rice crackers	629	817	808	1,023	1,211
Dairy products & beverages	1,067	1,394	1,737	2,149	2,624
Snack foods	531	723	911	1,115	1,323
Others	17	13	13	14	15
Turnover	**2,244**	**2,947**	**3,469**	**4,301**	**5,172**
YoY%	31%	31%	18%	24%	20%
COGS	(1,400)	(1,922)	(2,130)	(2,654)	(3,166)
Gross profit	**845**	**1,025**	**1,339**	**1,647**	**2,007**
Gross margin	37.6%	34.8%	38.6%	38.3%	38.8%
Other income	41	61	63	78	96
Selling & distribution	(277)	(332)	(385)	(456)	(538)
Admin	(169)	(232)	(281)	(353)	(424)
Other opex	0	0	0	0	0
Total opex	**(447)**	**(564)**	**(666)**	**(809)**	**(962)**
Operating profit	**398**	**461**	**673**	**839**	**1,045**
Operating margin	17.7%	15.6%	19.4%	19.5%	20.2%
Net finance income	4	16	9	10	11
Profit after Net finance income	443	538	745	926	1,153
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	443	538	745	926	1,153
Tax	(84)	(119)	(201)	(250)	(311)
Minority interests	(0)	(0)	(0)	(0)	(0)
Net profit	**358**	**419**	**543**	**676**	**841**
YoY%	14.6%	17.0%	29.6%	24.4%	24.5%
Net margin	16.0%	14.2%	15.7%	15.7%	16.3%
EBITDA	**459**	**533**	**770**	**955**	**1,184**
EBITDA margin	20.4%	18.1%	22.2%	22.2%	22.9%
EPS (USD cents)	**2.71**	**3.17**	**4.11**	**5.11**	**6.36**
YoY%	14.3%	17.0%	29.6%	24.4%	24.5%
DPS (USD cents)	2.257	1.959	2.538	3.156	3.929

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (USD mn)					
EBITDA	459	533	770	955	1,184
Chg in working cap	(112)	(97)	(76)	(153)	(99)
Others	95	219	23	366	33
Operating cash	**442**	**655**	**717**	**1,169**	**1,119**
Interests paid	(7)	(10)	(14)	(16)	(16)
Tax	(72)	(92)	(201)	(250)	(311)
Net cash from operations	**374**	**579**	**525**	**928**	**819**
Capex	(171)	(224)	(339)	(283)	(346)
Investments	0	0	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	13	1	0	0	0
Others	0	0	0	0	0
Investing cash	**(158)**	**(222)**	**(339)**	**(283)**	**(346)**
FCF	**216**	**357**	**186**	**645**	**473**
Issue of shares	6	3	0	0	0
Buy-back	(8)	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(317)	(259)	(299)	(425)	(469)
Net change in bank loans	288	380	230	0	0
Others	(9)	(1)	0	0	0
Financing cash	**(40)**	**123**	**(69)**	**(425)**	**(469)**
Net change in cash	**176**	**480**	**117**	**219**	**5**
Exchange rate or other Adj	24	51	0	0	0
Opening cash	705	906	1,437	1,554	1,773
Closing cash	**906**	**1,437**	**1,554**	**1,773**	**1,778**
CFPS (USD)	**7.618**	**18.117**	**13.051**	**8.495**	**6.843**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	37.6	34.8	38.6	38.3	38.8
Operating margin (%)	17.7	15.6	19.4	19.5	20.2
Net margin (%)	16.0	14.2	15.7	15.7	16.3
Selling & dist'n exp/Sales (%)	(12.4)	(11.3)	(11.1)	(10.6)	(10.4)
Admin exp/Sales (%)	(7.5)	(7.9)	(8.1)	(8.2)	(8.2)
Payout ratio (%)	83.3	61.8	61.8	61.8	61.8
Effective tax (%)	(19.0)	(22.0)	(27.0)	(27.0)	(27.0)
Total debt/equity (%)	60.0	77.1	79.7	68.7	57.1
Net debt (Cash)/equity (%)	(24.4)	(31.0)	(19.0)	(28.4)	(23.8)
Current ratio (x)	1.7	1.4	1.6	1.5	1.6
Quick ratio (x)	1.3	1.1	1.3	1.2	1.2
Inventory T/O (days)	73	71	77	75	75
AR T/O (days)	14	16	14	15	14
AP T/O (days)	38	37	37	37	37
Cash conversion cycle (days)	49	50	54	53	52
EBIT margin (%)	17.7	15.6	19.4	19.5	20.2
Pre-tax/EBIT (x)	1.1	1.2	1.1	1.1	1.1
Net profit/pre-tax (x)	0.8	0.8	0.7	0.7	0.7
Asset turnover (x)	1.0	0.9	1.0	1.0	1.1
Assets/equity (x)	2.1	2.3	2.3	2.3	2.1
Return on equity (%)	**33.4**	**31.5**	**34.5**	**37.0**	**38.3**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Balance Sheet (USD mn)					
Fixed assets	827	1,010	1,252	1,419	1,625
Intangible assets & goodwill	1	1	1	1	1
Associated companies & JVs	3	3	3	3	3
Long-term investments	0	0	0	0	0
Other non-current assets	6	6	6	6	6
Non-current assets	**836**	**1,020**	**1,262**	**1,429**	**1,635**
Inventories	339	410	471	614	691
AR	101	160	142	233	218
Prepayments & deposits	107	96	143	155	204
Other current assets	1	0	0	0	0
Cash	906	1,437	1,554	1,773	1,778
Current assets	**1,454**	**2,103**	**2,311**	**2,776**	**2,891**
AP	184	211	226	319	331
Tax	30	50	50	50	50
Accruals & other payables	349	481	440	729	666
Bank loans & leases	294	775	746	746	746
CB & othe debts	0	0	0	0	0
Other current liabilities	0	0	0	0	0
Current liabilities	**856**	**1,517**	**1,463**	**1,844**	**1,794**
Bank loans & leases	350	250	508	508	508
CB & othe debts	0	0	0	0	0
Deferred tax & others	8	24	24	24	24
MI	3	3	3	3	3
Non-current liabilities	**361**	**277**	**535**	**536**	**536**
Total net assets	**1,073**	**1,330**	**1,574**	**1,825**	**2,197**
Shareholder's equity	**1,073**	**1,330**	**1,574**	**1,825**	**2,197**
Share capital	264	264	264	264	264
Reserves	809	1,065	1,310	1,560	1,933
BVPS (USD)	**0.08**	**0.10**	**0.12**	**0.14**	**0.17**
Total debts	644	1,025	1,254	1,254	1,254
Net cash/(debts)	262	412	299	519	524

Source: Company, OP Research

Weichai Power (2338 HK) – It is cloudy ahead

- **Due to weakened demand, FY12E net profit dropped 42% yoy, and margin shrank 3.2ppts.**
- **Due to slower FAI and newly started projects, we don't see any recovery signs in 1H13.**
- **New merge of KION's share should benefits Weichai, but it takes time.**
- **With full of headwinds ahead, we leave our SELL rating unchanged.**

A leading player in its target segment: Weichai makes diesel engines for heavy-duty trucks (HDT), construction machines, coaches (large buses), and power generators. Weichai's key subsidiaries include 51% owned HDT maker Shaanxi Heavy and transmission maker Shaanxi Fast Gear. In 1H12, the company's market share in the heavy-duty truck with a gross weight of above 14 tonnes market reach 34%. According to China Construction Machinery Network, Weichai's market share of wheel loader with a load capacity of 5 tonnes reached 62.3%.

Full of headwinds, prospect not attractive. We are cautious on China's FAI momentum in 2H12-1H13. And we also concern the headwinds that are hurting demand in China's HDT and machinery market, as headline investment growth will gradually ease, and the trucking industry is facing substitution from the ramping up of high-speed railway capacity. Longer term, China's shift towards a more consumption than FAI-led economy during the 12th Five-Year Plan and the substitution effect from improving the railway network is two structural challenges facing the sector. We maintained counter with SELL rating, target price of HK$22.60, derived from 8.0x FY13E PE.

Key investment risks Upside risks: 1) stronger-than-expected resilience in 2012 HTD sales; 2) faster-than-expected realization of revenue and profit from new engine businesses; 3) the recovery of China's economic activities, and construction investments in 1H13. Downside risks: 1) a fall-off in HDT demand with a slowdown in export or FAI growth, 2) loss in HDT engine and gearbox market share, 3) failure to maintain margin resilience and 4) uncertainties regarding upcoming ventures in the smaller diesel engine business.

Exhibit 236: Forecast and Valuation

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	62,984.5	59,797.3	45,525.8	50,134.7	53,311.2
Growth (%)	78.6	-5.1	-23.9	10.1	6.3
Net Profit	6,782.1	5,596.9	3,222.6	3,825.4	4,136.3
Growth (%)	0.0	-17.5	-42.4	18.7	8.1
Diluted EPS (HK$)	4.070	3.359	1.934	2.296	2.483
EPS growth (%)	99.0	-17.5	-42.4	18.7	8.1
Change to previous EPS (%)					
Consensus EPS (HK$)			1.980	2.354	2.578
ROE (%)	29.0	21.4	10.6	11.4	11.1
P/E (x)	6.6	8.0	13.8	11.6	10.8
P/B (x)	1.9	1.5	1.4	1.3	1.1
Yield (%)	1.6	0.4	0.7	0.9	0.9
DPS (HK$)	0.430	0.100	0.193	0.230	0.248

Source: Bloomberg, OP Research

Auto/ China

Vivien Chan
Analyst
+852 2135 0248
vivien.chan@oriental-patron.com.hk

Company Update

SELL

UNCHANGED

Close price:	**HK$32.90**
Target Price:	**HK$22.60 (-31.3%)**
Prior TP:	**HK$22.60**

Key Data

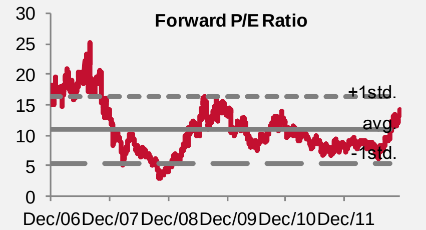
HKEx code		2338
12 Months High	(HK$)	38.33
12 Month Low	(HK$)	17.58
3M Avg Dail Vol.	(mn)	3.23
Issue Share	(mn)	485.76
Market Cap	(HK$mn)	61,809.36
Fiscal Year		12/2011
Major shareholder (s)		Weichai Group (24.2%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	7.0	44.3	5.8
Rel. MSCI CHINA %	6.5	30.5	-10.6

PE



Company Profile

Weichai Power is a leading producer of diesel engines, which are used in heavy-duty vehicles, construction machines, vessels, and power generators. It also holds a 51% stake in Shanxi Heavy Duty Motor, China's fourth-largest manufacturer of heavy-duty trucks, and Shanxi Fast Gear, the gearbox producer in China.

Financial Summary – Weichai Power (2338 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (RMB mn)					
Revenue	62,985	59,797	45,526	50,135	53,311
Turnover	**62,985**	**59,797**	**45,526**	**50,135**	**53,311**
YoY%	79	(5)	(24)	10	6
COGS	(47,704)	(46,807)	(37,073)	(40,505)	(43,032)
Gross profit	**15,280**	**12,991**	**8,453**	**9,630**	**10,279**
Gross margin	24.3%	21.7%	18.6%	19.2%	19.3%
Other income	4	0	0	0	0
Selling & distribution	(2,925)	(2,907)	(2,140)	(2,356)	(2,452)
Admin	(2,584)	(3,022)	(2,231)	(2,406)	(2,559)
Other opex	0	0	0	0	0
Total opex	**(5,509)**	**(5,929)**	**(4,370)**	**(4,763)**	**(5,011)**
Operating profit (EBIT)	**9,775**	**7,062**	**4,082**	**4,867**	**5,268**
Operating margin	15.5%	11.8%	9.0%	9.7%	9.9%
Provisions	0	0	0	0	0
Finance costs	(95)	(31)	(23)	(26)	(27)
Profit after financing costs	9,680	7,031	4,059	4,842	5,240
Non-operating income	(283)	388	273	301	320
Pre-tax profit	9,397	7,419	4,332	5,142	5,560
Tax	(1,398)	(1,099)	(693)	(823)	(890)
Minority interests	(1,217)	(723)	(416)	(494)	(534)
Net profit	**6,782**	**5,597**	**3,223**	**3,825**	**4,136**
YoY%	(121,696)	(72,307)	(41,633)	(49,420)	(53,437)
Net margin	10.8%	9.4%	7.1%	7.6%	7.8%
EBITDA	**10,976**	**8,440**	**5,419**	**6,349**	**6,880**
EBITDA margin	17.4%	14.1%	11.9%	12.7%	12.9%
EPS (RMB)	**4.070**	**3.359**	**1.934**	**2.296**	**2.483**
YoY%	99	(17)	(42)	19	8
DPS (RMB)	0.430	0.100	0.193	0.230	0.248

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (RMB mn)					
EBITDA	10,976	8,440	5,419	6,349	6,880
Chg in working cap	196	(811)	(1,785)	786	(1,554)
Others	(1,384)	(1,754)	250	275	292
Operating cash	**9,788**	**5,875**	**3,884**	**7,410**	**5,619**
Interests paid					
Tax	(384)	77	(693)	(823)	(890)
Net cash from operations	**9,405**	**5,953**	**3,190**	**6,587**	**4,729**
Capex	(2,452)	(3,461)	(3,040)	(2,040)	(1,840)
Investments	(340)	(118)	(118)	(118)	(118)
Others	148	(61)	0	0	0
Investing cash	**(2,643)**	**(3,640)**	**(3,158)**	**(2,158)**	**(1,958)**
FCF	**6,761**	**2,312**	**32**	**4,429**	**2,771**
Issue of shares	0	0	0	0	0
Buy-back	0	0	0	0	0
Minority interests	202	268	0	0	0
Dividends paid	553	867	(322)	(383)	(414)
Net change in bank loans	(855)	1,009	700	700	700
Others	(1,425)	(228)	(416)	(494)	(534)
Financing cash	**(1,525)**	**1,916**	**(39)**	**(177)**	**(248)**
Net change in cash	**5,236**	**4,228**	**(6)**	**4,252**	**2,523**
Exchange rate or other Adj	(3)	(14)	0	0	0
Opening cash	3,869	9,103	13,317	13,311	17,564
Closing cash	**9,103**	**13,317**	**13,311**	**17,564**	**20,087**
CFPS (RMB)	**5.645**	**3.573**	**1.915**	**3.954**	**2.839**

Source: Company, OP Research

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	24.3	21.7	18.6	19.2	19.3
Operating margin (%)	15.5	11.8	9.0	9.7	9.9
Net margin (%)	10.8	9.4	7.1	7.6	7.8
Selling & dist'n exp/Sales (%)	4.6	4.9	4.7	4.7	4.6
Admin exp/Sales (%)	4.1	5.1	4.9	4.8	4.8
Payout ratio (%)	10.6	3.0	10.0	10.0	10.0
Effective tax (%)	14.9	14.8	16.0	16.0	16.0
Total debt/equity (%)	14.0	17.3	19.1	21.2	23.4
Net debt/equity (%)	6.4	6.6	8.2	9.3	10.2
Current ratio (x)	1.4	1.5	1.5	1.5	1.6
Quick ratio (x)	1.1	1.1	1.1	1.2	1.2
Inventory T/O (days)	56	75	106	103	104
AR T/O (days)	79	92	119	115	115
AP T/O (days)	111	142	189	183	184
Cash conversion cycle (days)	23	25	37	36	35
Asset turnover (x)	1.4	1.0	0.7	0.7	0.7
Financial leverage (x)	78.9	92.0	119.3	115.4	115.3
EBIT margin (%)	0.0	0.0	0.0	0.0	0.0
Interest burden (x)	1.4	1.0	0.7	0.7	0.7
Tax burden (x)	1.8	2.2	2.1	2.0	2.0
Return on equity (%)	**10.8**	**9.4**	**7.1**	**7.6**	**7.8**
ROIC (%)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Balance Sheet (RMB mn)					
Fixed assets	7,841	9,653	11,357	11,918	12,149
Intangible assets & goodwill	1,457	1,694	1,693	1,691	1,688
Construction in progress	3,369	5,104	5,104	5,104	5,104
Long-term investments	1,557	1,190	1,308	1,426	1,544
Other non-current assets	1,208	1,196	1,196	1,196	1,196
Non-current assets	**15,432**	**18,836**	**20,657**	**21,333**	**21,679**
Inventories	8,793	10,358	11,153	11,727	12,678
AR	15,867	14,289	15,481	16,210	17,460
Prepayments & deposits	901	712	712	712	712
Other current assets	366	738	738	738	738
Cash	11,159	16,613	16,607	20,859	23,382
Current assets	**37,085**	**42,709**	**44,691**	**50,246**	**54,970**
AP	17,247	19,045	19,247	21,336	21,984
Tax payable	2,273	2,005	2,005	2,005	2,005
Accruals & other payables	4,351	4,242	4,242	4,242	4,242
Bank loans & leases	545	1,541	2,241	2,941	3,641
CB & othe debts	0	0	0	0	0
Other current liabilities	2,252	2,581	2,581	2,581	2,581
Current liabilities	**26,669**	**29,413**	**30,316**	**33,104**	**34,452**
Bank loans & leases	955	352	352	352	352
Bonds payable	1,285	2,687	2,687	2,687	2,687
Deferred tax and others	239	189	189	189	189
MI	4,855	5,999	5,999	5,999	5,999
Non-current liabilities	**7,334**	**9,228**	**9,228**	**9,228**	**9,228**
Total net assets	**18,515**	**22,903**	**25,804**	**29,247**	**32,969**
Shareholder's equity	**18,515**	**22,903**	**25,804**	**29,247**	**32,969**
Share capital	1,666	1,666	1,666	1,666	1,666
Reserves	16,849	21,237	24,138	27,581	31,303
BVPS (RMB)	**14.03**	**17.35**	**19.09**	**21.15**	**23.39**
Total debts	1,500	1,893	2,593	3,293	3,993
Net cash/(debts)	9,659	14,719	14,013	17,565	19,389

Xinyi Glass (868 HK) – Recovering …… slowly

Auto/ China

Vivien Chan
Analyst
+852 2135 0248
vivien.chan@oriental-patron.com.hk

Company Update

HOLD

UNCHANGED

Close price:	**HK$4.62**
Target Price:	**HK$4.94 (+7%)**
Prior TP:	**HK$4.94**

Key Data

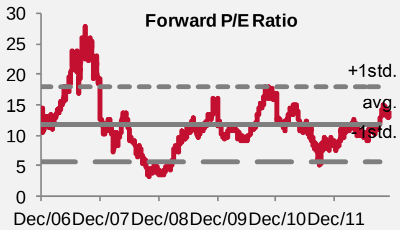
HKEx code		868
12 Months High	(HK$)	5.40
12 Month Low	(HK$)	3.25
3M Avg Dail Vol.	(mn)	11.13
Issue Share	(mn)	3,779.38
Market Cap	(HK$mn)	17,460.75
Fiscal Year		12/2011
Major shareholder (s)		Yin Yee Lee (19.9%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	-1.5	33.9	5.5
Rel. MSCI CHINA %	-2.0	20.1	-10.9

PE



Company Profile

Xinyi is one of the largest glass producers in China. It is the largest glass exporter in China by export volume. Xinyi is a major supplier of replacement auto glass, and also makes construction glass, float glass. The company also engaged in making solar glass in recent years.

- **Auto glass and construction glass segments are relatively defensive, and delivered stable margins in recently years.**
- **Fluctuation of solar glass' demand and margin leads the earning's uncertainties**
- **Growth of float glass price is trending up, and expects it turn to positive growth in 2Q13.**
- **Better to wait for an attractive entry point. We maintain Hold rating, target price of HK$4.94.**

A diversified glass maker Founded in 1988, Xinyi Glass is a leading integrated flat glass maker with the largest glass export volume in China. Xinyi's replacement auto glass makes 30% of US market share. Xinyi's products also include float glass and other further processed glass, such as construction glass, solar glass. Xinyi has production bases across China covering the Pearl River Delta, Yangtze River Delta and Bohai Economic Zone. In FY11, 35% of revenue came from auto glass products, 14% of construction glass, 36% of float glass and 15% of solar glass.

Float glass price still decline yoy Float glass is a very cyclical industry and goes through cycles of oversupply and shortages (roughly 3 year cycles from trough to trough with last one in 2009). The price had toughed in 2Q12, and it is trending upwards gradually, we believe it will have positive growth in 2Q13, which should help to maintain Xinyi's float glass price and profitability. We expect the margin of float glass could improve to 12% in FY13E from 8% in FY12E.

Waiting for a better entry point The company currently trades at 12.6x and 8.9x of FY12E and FY13E, respectively. Since the uncertainties of solar glass and float glass (represented total of 47% revenue in 1H12) have not removed in near term, we suggest investors to wait for an attractive entry point. We set the fair price of Xinyi at 12x FY13E PE, target price of HK$4.94. We rated the counter with Hold.

Key investment risk 1) falling demand for construction glass that may result from a cooling property market in China; 2) a further downturn on float glass price; 3) Gross margins could be lower than expected if pricing and utilization are lower than expected and raw material prices are higher than expected.

Exhibit 237: Forecast and Valuation

Year to Dec (HK$ mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	6,364.3	8,226.7	9,343.7	11,739.0	13,655.1
Growth (%)	60.8	29.3	13.6	25.6	16.3
Net Profit	1,571.2	1,264.9	1,172.0	1,606.3	2,087.5
Growth (%)	103.1	-19.5	-7.3	37.1	30.0
Diluted EPS (HK$)	0.440	0.348	0.301	0.412	0.535
EPS growth (%)	100.0	-21.0	-13.5	37.1	30.0
Change to previous EPS (%)					
Consensus EPS (HK$)			0.304	0.402	0.477
ROE (%)	26.2	16.8	13.0	16.1	19.0
P/E (x)	10.5	13.3	15.4	11.2	8.6
P/B (x)	2.5	2.0	1.8	1.7	1.5
Yield (%)	4.5	3.5	3.1	4.1	5.4
DPS (HK$)	0.209	0.161	0.141	0.192	0.249

Source: Bloomberg, OP Research

Financial Summary – Xinyi Glass (868 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (HK$ mn)					
Automobile glass products	2,379	2,903	3,033	3,554	3,908
Construction glass products	926	1,133	1,388	1,584	1,929
Float glass & photovoltaic glass products (2007-2009)	1,982	2,958	3,387	4,303	5,097
Solar glass	1,078	1,233	1,536	2,297	2,721
Turnover	**6,364**	**8,227**	**9,344**	**11,739**	**13,655**
YoY%	61	29	14	26	16
COGS	(3,809)	(5,873)	(6,969)	(8,637)	(9,795)
Gross profit	**2,555**	**2,354**	**2,375**	**3,102**	**3,860**
Gross margin	40.1%	28.6%	25.4%	26.4%	28.3%
Other income	76	160	196	258	300
Selling & distribution	(365)	(423)	(486)	(622)	(737)
Admin	(406)	(542)	(654)	(775)	(888)
Other opex	0	0	0	0	0
Total opex	**(771)**	**(965)**	**(1,140)**	**(1,397)**	**(1,625)**
Operating profit (EBIT)	**1,860**	**1,548**	**1,431**	**1,963**	**2,535**
Operating margin	29.2%	18.8%	15.3%	16.7%	18.6%
Provisions	0	0	0	0	0
Finance costs	(4)	(25)	(56)	(68)	(72)
Profit after financing costs	1,856	1,523	1,375	1,895	2,463
Associated companies & JVs	37	3	6	8	10
Pre-tax profit	1,893	1,526	1,380	1,903	2,473
Tax	(321)	(263)	(207)	(295)	(383)
Minority interests	(1)	1	(1)	(2)	(2)
Net profit	**1,571**	**1,265**	**1,172**	**1,606**	**2,087**
YoY%	103	(19)	(7)	37	30
Net margin	24.7%	15.4%	12.5%	13.7%	15.3%
EBITDA	**0**	**0**	**0**	**0**	**0**
EBITDA margin	0.0%	0.0%	0.0%	0.0%	0.0%
EPS (HKD)	**0.440**	**0.348**	**0.301**	**0.412**	**0.535**
YoY%	100	(21)	(14)	37	30
DPS (HKD)	0.209	0.161	0.141	0.192	0.249

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (HKD)					
EBITDA	0	0	0	0	0
Chg in working cap	(767)	(440)	(216)	(107)	(374)
Others	34	(22)	(51)	(60)	(62)
Operating cash	**(733)**	**(462)**	**(266)**	**(167)**	**(436)**
Interests paid					
Tax	(120)	(237)	(207)	(295)	(383)
Net cash from operations	**(853)**	**(699)**	**(473)**	**(462)**	**(820)**
Capex	(1,972)	(2,646)	(1,100)	(1,000)	(900)
Investments	(226)	(421)	(300)	(300)	(200)
Others	(85)	(33)	(10)	(20)	(20)
Investing cash	**(2,283)**	**(3,100)**	**(1,410)**	**(1,320)**	**(1,120)**
FCF	**(3,136)**	**(3,799)**	**(1,883)**	**(1,782)**	**(1,940)**
Issue of shares	(154)	860	388	0	0
Dividends paid	(741)	(584)	(527)	(723)	(939)
Net change in bank loans	1,622	1,594	1,497	650	500
Others	189	(61)	(1)	(2)	(2)
Financing cash	**917**	**1,809**	**1,356**	**(75)**	**(442)**
Net change in cash	**(2,219)**	**(1,989)**	**(527)**	**(1,856)**	**(2,381)**
Exchange rate or other Adj	49	55	0	0	0
Opening cash	532	565	633	2,089	2,777
Closing cash	**(1,638)**	**(1,369)**	**106**	**233**	**395**
CFPS (HKD)	**0.378**	**0.358**	**0.387**	**0.534**	**0.597**

Source: Company, OP Research

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	40.1	28.6	25.4	26.4	28.3
Operating margin (%)	29.2	18.8	15.3	16.7	18.6
Net margin (%)	24.7	15.4	12.5	13.7	15.3
Selling & dist'n exp/Sales (%)	5.7	5.1	5.2	5.3	5.4
Admin exp/Sales (%)	6.4	6.6	7.0	6.6	6.5
Payout ratio (%)	47.1	46.2	45.0	45.0	45.0
Effective tax (%)	16.9	17.2	15.0	15.5	15.5
Total debt/equity (%)	41.7	50.8	61.0	62.0	60.2
Net debt/equity (%)	31.9	42.4	38.2	34.6	28.9
Current ratio (x)	1.4	1.2	1.5	1.5	1.6
Quick ratio (x)	1.0	0.8	1.1	1.2	1.3
Inventory T/O (days)	72	64	69	65	68
AR T/O (days)	35	32	33	30	30
AP T/O (days)	29	29	32	30	32
Cash conversion cycle (days)	78	67	70	65	66
Asset turnover (x)	0.7	0.6	0.6	0.6	0.6
Financial leverage (x)	1.6	1.7	1.9	1.9	1.9
EBIT margin (%)	29.2	18.8	15.3	16.7	18.6
Interest burden (x)	1.0	1.0	1.0	1.0	1.0
Tax burden (x)	0.8	0.8	0.8	0.8	0.8
Return on equity (%)	**26.2**	**16.8**	**13.0**	**16.1**	**19.0**
ROIC (%)	**33.0**	**27.3**	**22.4**	**26.0**	**28.4**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Balance Sheet (HKD mn)					
Fixed assets	6,486	9,622	10,202	10,661	10,991
Lease prepayments	894	1,331	1,600	1,864	2,025
Intangible assets	99	100	107	124	140
Deferred income tax assets	4	5	5	5	5
Other non-current assets	534	253	253	253	253
Non-current assets	**8,017**	**11,311**	**12,168**	**12,908**	**13,415**
Inventories	820	1,246	1,378	1,715	1,945
AR	1,534	2,073	2,490	2,845	3,527
Other current assets	5	3	3	3	3
Cash	640	713	2,170	2,857	3,624
Current assets	**2,999**	**4,035**	**6,041**	**7,420**	**9,099**
AP	1,508	2,166	2,499	3,085	3,623
Tax payable	147	147	147	147	147
Bank loans & leases	471	1,105	1,488	1,654	1,782
CB & othe debts	0	0	0	0	0
Other current liabilities	3	0	0	0	0
Current liabilities	**2,128**	**3,418**	**4,134**	**4,886**	**5,552**
Bank loans & leases	2,254	3,214	4,328	4,812	5,184
Deferred tax and others	79	106	106	106	106
Others	0	83	83	83	83
MI	20	18	18	18	18
Non-current liabilities	**2,352**	**3,421**	**4,535**	**5,019**	**5,391**
Total net assets	**6,536**	**8,508**	**9,540**	**10,424**	**11,572**
Shareholder's equity	**6,536**	**8,508**	**9,540**	**10,424**	**11,572**
Share capital	352	368	756	756	756
Reserves	6,185	8,139	8,784	9,667	10,815
BVPS (RMB)	**0.97**	**0.97**	**0.98**	**1.13**	**0.00**
Total debts	2,724	4,319	5,816	6,466	6,966
Net cash/(debts)	(2,084)	(3,606)	(3,646)	(3,609)	(3,342)

YGM Trading Limited (375 HK) – Start to cumulate

Consumer/ China

Terence Lok
Analyst
+852 2135 0212
terence.lok@oriental-patron.com.hk

Company Update

BUY

UNCHANGED

Close price:	**HK$18.40**
Target Price:	**HK$22.50 (+22%)**
Prior TP:	**HK$22.50**

Key Data

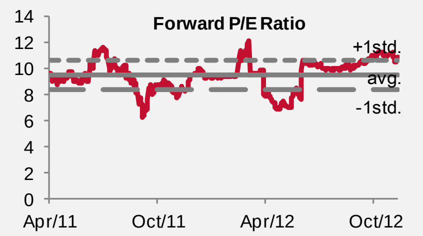
HKEx code		375
12 Months High	(HK$)	22.01
12 Month Low	(HK$)	14.41
3M Avg Dail Vol.	(mn)	0.09
Issue Share	(mn)	165.86
Market Cap	(HK$mn)	3,051.89
Fiscal Year		03/2012
Major shareholder (s)		CHAN'S FAMILY (61.0%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	-3.7	7.5	10.7
Rel. MSCI CHINA %	-4.2	-6.3	-5.6

PE



Company Profile

YGM Trading is a premium fashion retailer established in Hong Kong since 1976, mainly engaged in sourcing, wholesaling and retailing of premium fashion brands under its portfolio.

- **Recent trend in November saw improvement on SSSG driven by larger ticket items.**
- **For the long run, the company continues to targets 450 POS by the end of FY15**
- **We reiterate BUY rating with TP at HK$22.5. Our TP is pegged to 12x FY13E PE and 10x ex-cash PE and representing 22% upside**

Improving SSSG: Despite 1H12 reported SSSG for self-operated stores in China continues to be sluggish, in particular the stores in Shenzhen and Guangzhou where self-operated stores recorded a drop of same store sales, mainly because of its close proximity to Hong Kong, while stores in Shanghai still maintain single digit growth in SSSG. However, recent trend in November saw improvement driven by larger ticket items.

Strategy for the development of Aquascutum in China. In order to tap the new market, management indicates that the product range will be extended to children and sports (eg. golf). "Aquascutum" is slated to launch a children series at end-2012, while sports series will be launched in 2013. All of them will be presented in individual stores. The management expects that the new categories of product mix will help tap into the new market for future growth. For the long run, the company continues to targets 450 POS by the end of FY15.

No plan for further acquisition in the near future. YGM is not eager to add new brands to their current portfolio. The company prefers to focus on the development of the existing brands, in particular for "Aquascutum", which still have huge potential to grow. However, the company will not get rid of the possibility of any acquisition when good opportunities come along.

Maintain BUY with TP of HK$22.5. YGM is now trading on an ex-cash PE of 7.4x for FY13E and carrying a dividend yield of 5.9%. In our view, the valuation remains attractive on the back of its steady growth outlook and strong cash position. We reiterate BUY rating with TP at HK$22.5. Our TP is pegged to 12x FY13E PE and 10x ex-cash PE and representing 22% upside.

Exhibit 238 Forecast and Valuation

Year to Mar (HK$ mn)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue	1,155	1,378	1,608	1,896	2,233
Growth (%)	16.5	19.3	16.7	17.9	17.8
Recurring Net Profit	283	312	310	373	453
Growth (%)	43.9	123.7	(0.4)	20.3	21.4
Recurring EPS (HK$)	1.839	1.890	1.881	2.264	2.748
EPS growth (%)	34.2	123.7	(0.4)	20.3	21.4
Change to previous EPS (%)			-10.06%	1.50%	-4.39%
Consensus EPS (HK$)					
ROE (%)	26.0	37.5	36.7	22.4	24.4
ROIC (%)	0.3	0.3	0.3	0.4	0.5
P/E (x)	10.3	9.3	9.3	7.8	6.4
P/B (x)	2.3	1.4	1.8	1.6	1.5
Yield (%)	5.7	29.0	5.8	6.4	7.8

Source: Bloomberg, OP Research

Financial Summary – YGM Trading Limited (375 HK)

Year to Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Income Statement (HK$mn)					
Sales of garments	1,022	1,226	1,398	1,669	1,987
Licensing of trademarks	92	107	160	177	194
Printing and related services	39	43	47	48	48
Property rental	2	2	2	3	4
Turnover	**1,155**	**1,378**	**1,608**	**1,896**	**2,233**
YoY%	16.5	19.3	16.7	17.9	17.8
COGS	(379)	(462)	(529)	(615)	(710)
Gross profit	**775**	**916**	**1,079**	**1,281**	**1,523**
Gross margin	67.1%	66.5%	67.1%	67.6%	68.2%
Other income	17	33	23	22	22
Selling & distribution	(374)	(464)	(535)	(630)	(739)
Admin	(159)	(180)	(206)	(234)	(270)
Other opex	(1)	(3)	(4)	(4)	(5)
Total opex	**(534)**	**(647)**	**(745)**	**(869)**	**(1,014)**
Operating profit (EBIT)	**258**	**302**	**357**	**433**	**530**
Operating margin	22.3%	21.9%	22.2%	22.9%	23.8%
Provisions	20	20	20	20	20
Finance costs	(1)	(0)	(0)	(0)	(0)
Profit after financing costs	277	321	377	453	550
Associated companies & JVs	49	47	0	0	0
Net gain on disposal of asset	0	321	368	0	0
Pre-tax profit	326	690	745	453	550
Tax	(39)	(52)	(61)	(74)	(89)
Minority interests	(5)	(4)	(5)	(6)	(7)
Net profit	**283**	**633**	**678**	**373**	**453**
YoY%	43.9	123.7	7.2	(45.0)	21.4
Net margin	24.5%	45.9%	42.2%	19.7%	20.3%
EBITDA	**277**	**310**	**348**	**416**	**501**
EBITDA margin	24.0%	22.5%	21.7%	21.9%	22.5%
EPS (HK$)	**1.715**	**3.836**	**4.112**	**2.264**	**2.748**
YoY%	34	124	7	(45)	21
DPS (HK$)	1.000	5.100	1.028	1.132	1.374

Year to Mar	FY11A	FY012	FY13E	FY14E	FY15E
Cash Flow (HK$m)					
EBITDA	277	310	348	416	501
Chg in working cap	(25)	(56)	9	3	(32)
Others	5	10	10	10	0
Operating cash	**256**	**264**	**367**	**429**	**470**
Interests paid	0	(0)	(0)	(0)	(0)
Tax	(23)	(30)	(39)	(61)	(74)
Net cash from operations	**234**	**234**	**327**	**368**	**396**
Capex	(23)	(27)	(64)	(76)	(89)
Investments	(16)	0	(198)	0	0
Dividends received	15	14	0	0	0
Sales of assets	16	633	396	0	0
Interests received	4	5	12	10	10
Others	0	7	27	(20)	0
Investing cash	**(4)**	**632**	**173**	**(86)**	**(79)**
FCF	**230**	**866**	**500**	**282**	**317**
Issue of shares	102	0	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(106)	(172)	(839)	(174)	(197)
Net change in bank loans	(9)	(30)	0	0	0
Others	(1)	(4)	0	0	0
Financing cash	**(14)**	**(206)**	**(839)**	**(174)**	**(197)**
Net change in cash	**216**	**661**	**(338)**	**108**	**120**
Exchange rate or other Adj	3	0	0	0	0
Opening cash	205	423	1,084	745	853
Closing cash	**423**	**1,084**	**745**	**853**	**973**
CFPS (HK$)	**1.417**	**1.418**	**1.985**	**2.229**	**2.400**

Year to Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Ratios					
Gross margin (%)	67.1	66.5	67.1	67.6	68.2
Operating margin (%)	22.3	21.9	22.2	22.9	23.8
Net margin (%)	24.5	45.9	42.2	19.7	20.3
Selling & dist'n exp/Sales (%)	32.4	33.7	33.3	33.2	33.1
Admin exp/Sales (%)	13.8	13.0	12.8	12.4	12.1
Payout ratio (%)	58.3	133.0	25.0	50.0	50.0
Effective tax (%)	13.9	16.2	16.2	16.2	16.2
Total debt/equity (%)	2.8	0.3	0.4	0.3	0.3
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	2.9	6.8	3.5	3.5	3.4
Quick ratio (x)	2.3	6.1	2.9	2.8	2.8
Inventory T/O (days)	144.8	152.8	152.8	152.8	152.8
AR T/O (days)	45.9	41.9	41.9	41.9	41.9
AP T/O (days)	203.1	179.6	179.6	179.6	179.6
Cash conversion cycle (days)	(12.5)	15.1	15.1	15.1	15.1
Asset turnover (x)	0.8	0.7	0.7	0.9	1.0
Financial leverage (x)	1.3	1.2	1.2	1.2	1.2
EBIT margin (%)	22.3	21.9	22.2	22.9	23.8
Interest burden (x)	1.3	2.3	2.1	1.0	1.0
Tax burden (x)	0.9	0.9	0.9	0.8	0.8
Return on equity (%)	**26.0**	**37.5**	**36.7**	**22.4**	**24.4**
ROIC (%)	**26.7**	**26.2**	**31.5**	**40.7**	**45.7**

Year to Mar	FY11A	FY012	FY13E	FY14E	FY15E
Balance Sheet (HK$m)					
Fixed assets	214	197	183	266	374
Intangible assets & goodwill	286	282	481	478	420
Associated companies & JVs	181	0	0	0	0
Long-term investments	0	0	0	0	0
Other non-current assets	60	55	90	93	90
Non-current assets	**741**	**535**	**753**	**837**	**884**
Inventories	150	193	221	257	297
AR	145	158	185	218	256
Prepayments & deposits	0	0	0	0	0
Other current assets	74	427	2	2	2
Cash	427	1,085	747	855	975
Current assets	**796**	**1,864**	**1,154**	**1,331**	**1,530**
AP	211	227	260	303	350
Tax	30	39	61	74	89
Accruals & other payables	0	0	0	0	0
Bank loans & leases	36	6	6	6	6
CB & othe debts	0	0	0	0	0
Other current liabilities	0	0	0	0	0
Current liabilities	**276**	**272**	**327**	**382**	**445**
Bank loans & leases	0	0	0	0	0
CB & othe debts	0	0	0	0	0
Deferred tax & others	9	4	4	4	4
MI	0	0	5	11	19
Non-current liabilities	**9**	**4**	**9**	**16**	**23**
Total net assets	**1,252**	**2,122**	**1,571**	**1,771**	**1,947**
Shareholder's equity	**1,252**	**2,122**	**1,571**	**1,771**	**1,947**
Share capital	81	82	82	82	82
Reserves	1,171	2,040	1,489	1,688	1,864
BVPS (HK$)	**7.59**	**12.86**	**9.52**	**10.73**	**11.80**
Total debts	36	6	6	6	6
Net cash/(debts)	391	1,080	741	849	969

Source: Company, OP Research

Auto/ China

Vivien Chan
Analyst
+852 2135 0248
vivien.chan@oriental-patron.com.hk

Company Update

BUY

UNCHANGED

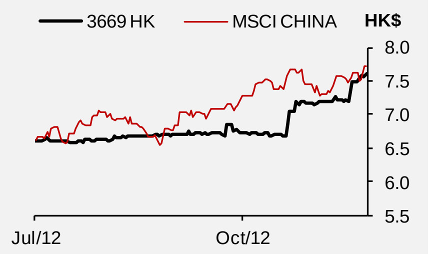
Close price: **HK$7.90**
Target Price: **HK$7.90 (+0.5%)**
Prior TP: **HK$7.90**

Key Data

HKEx code		3669
12 Months High	(HK$)	7.95
12 Month Low	(HK$)	6.45
3M Avg Dail Vol.	(mn)	0.53
Issue Share	(mn)	1,480.02
Market Cap	(HK$mn)	11,692.17
Fiscal Year		12/2011
Major shareholder (s)		Palace Wonder (25.9%)

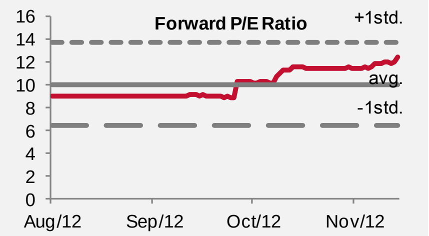
Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart



	1mth	3mth	6mth
Absolute %	9.7	17.7	N/A
Rel. MSCI CHINA %	9.2	3.9	N/A

PE



Company Profile

Yongda Auto is a leading passenger vehicle retailer and service provider in China focused on luxury and ultra-luxury brands. It was the 2nd largest dealership group in East China and the 3rd largest dealership group in China in terms of sales volume of luxury and ultra-luxury vehicles.

Yongda Auto (3669 HK) – On the way of improving

- **Opened 66 stores, 67% are luxury brand dealership. And obtained authorizations of 27 new stores**
- **Luxury vehicle sales gross margin down 0.3ppt and mid-to-high end products gross margin up 0.9ppt in 1H12**
- **Expect overall margin improve to 9.4% in FY12E and 10.1% in FY13E, compared to 7.9% in FY11.**
- **Rated with BUY rating, target price of HK$7.90**

The 2nd largest dealership group in East China. Yongda's luxury brand portfolio including Porsche, BMW/MINI, Infiniti, Audi, Jaguar/Land Rover, GMC, etc; and its mid-to-high end brands including Nissan, Honda, Volkswagen, Toyota and Buick, etc. The company opened 66 dealership stores, 67% of stores are luxury and ultra-luxury brands. 26 stores were dedicated to mid-to-high end brands. Yongda also obtained authorizations of 27 new stores, 26 of which are luxury brands.

FY13 outlook We expect Yongda's sales network will expand to 77 stores in FY12, 50 of total are dedicate to luxury brands. After sales services income is expected to have a growth of 47% in FY12F and 40% in FY13F. And after sales service will account for 11.2% of total revenue. Driven by stronger growth of after sales service, Yongda's total revenue is estimated to increase 10.2% in FY12F and further up by 25% in FY13F due to more luxury dealership open.

Valuation We forecast Yongda's FY13E EPS of RMB 0.65, increasing of 42% yoy. We peg 10x FY13E PE multiple to Yongda, same as other dealership companies. It derived our target price of HK$8.0, provide 18.5% upside potential. We rated it with BUY rating.

Key investment risks 1) execution risk from network expansion including M&A; 2) the competition will intensify as its distributor peers in China's car market are expected to attach greater importance to the luxury car segment; 3) slower than expected after sales service profitability improvement; 4) higher than expected valuation on any future acquisitions.

Exhibit 239: Forecast and Valuation

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	15,017.9	20,304.1	22,368.4	27,859.1	36,850.9
Growth (%)	65.0	35.2	10.2	24.5	32.3
Net Profit	385.6	504.8	678.9	955.0	1,339.2
Growth (%)	108.4	30.9	34.5	40.7	40.2
Diluted EPS (HK$)	0.344	0.431	0.564	0.794	1.113
EPS growth (%)	0.0	25.0	31.1	40.7	40.2
Change to previous EPS (%)					
Consensus EPS (HK$)			0.606	0.918	1.286
ROE (%)	0.0	34.4	32.7	33.0	33.1
P/E (x)	22.9	18.4	14.0	10.0	7.1
P/B (x)	7.3	5.5	3.9	2.8	2.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
DPS (HK$)	0.000	0.000	0.000	0.000	0.000

Source: Bloomberg, OP Research

Financial Summary – Yongda Auto (3669 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (RMB mn)					
Sales of luxury vehicle	9,719	14,306	15,575	19,836	27,100
Sales of mid-to-high end vehicle	4,111	4,301	4,339	4,662	5,175
After sales services	1,038	1,516	2,229	3,076	4,214
Auto rental services	150	181	226	285	361
Turnover	**15,018**	**20,304**	**22,368**	**27,859**	**36,851**
YoY%	65	35	10	25	32
COGS	(13,845)	(18,704)	(20,243)	(25,046)	(33,013)
Gross profit	**1,173**	**1,600**	**2,125**	**2,813**	**3,838**
Gross margin	7.8%	7.9%	9.5%	10.1%	10.4%
Other income	88	143	291	362	479
Selling & distribution	(330)	(467)	(783)	(975)	(1,290)
Admin	(298)	(351)	(336)	(418)	(553)
Other expenses	0	(9)	(22)	(28)	(37)
Total opex	**(629)**	**(827)**	**(1,141)**	**(1,421)**	**(1,879)**
Operating profit (EBIT)	**632**	**916**	**1,275**	**1,754**	**2,437**
Operating margin	4.2%	4.5%	5.7%	6.3%	6.6%
Provisions	0	0	0	0	0
Finance costs	(73)	(176)	(291)	(362)	(479)
Profit after financing costs	559	740	985	1,392	1,958
Associated companies & JVs	0	1	9	11	15
Pre-tax profit	559	741	994	1,403	1,973
Tax	(140)	(178)	(243)	(348)	(493)
Minority interests	(33)	(58)	(71)	(100)	(141)
Net profit	**386**	**505**	**679**	**955**	**1,339**
YoY%	108	31	35	41	40
Net margin	2.6%	2.5%	3.0%	3.4%	3.6%
EBITDA	**747**	**1,042**	**1,444**	**1,952**	**2,664**
EBITDA margin	5.0%	5.1%	6.5%	7.0%	7.2%
EPS (RMB)	**0.280**	**0.350**	**0.459**	**0.645**	**0.905**
YoY%	108	31	35	41	40
DPS (RMB)	0.000	0.000	0.000	0.000	0.000

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (RMB mn)					
EBITDA	747	1,042	1,444	1,952	2,664
Chg in working cap	(519)	(210)	(643)	(267)	(986)
Others	(23)	(54)	(282)	(351)	(464)
Operating cash	**204**	**778**	**519**	**1,334**	**1,214**
Tax	(44)	(160)	(243)	(348)	(493)
Net cash from operations	**160**	**618**	**276**	**986**	**721**
Capex	(309)	(542)	(300)	(300)	(400)
Investments	(0)	(4)	(10)	(10)	(10)
Dividends received	0	0	0	0	0
Sales of assets	0	0	0	0	0
Interests received	0	0	0	0	0
Others	(93)	(727)	0	0	0
Investing cash	**(402)**	**(1,273)**	**(310)**	**(310)**	**(410)**
FCF	**(242)**	**(655)**	**(34)**	**676**	**311**
Issue of shares	0	525	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(44)	(431)	0	0	0
Net change in bank loans	299	857	500	1,200	1,300
Others	76	303	(71)	(100)	(141)
Financing cash	**331**	**1,254**	**429**	**1,100**	**1,159**
Net change in cash	**89**	**599**	**395**	**1,776**	**1,471**
Exchange rate or other Adj	0	0	0	0	0
Opening cash	392	481	1,080	1,475	3,250
Closing cash	**481**	**1,080**	**1,475**	**3,250**	**4,721**
CFPS (RMB)	**0.087**	**0.324**	**0.145**	**0.517**	**0.378**

Source: Company, OP Research

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	7.8	7.9	9.5	10.1	10.4
Operating margin (%)	4.2	4.5	5.7	6.3	6.6
Net margin (%)	2.6	2.5	3.0	3.4	3.6
Selling & dist'n exp/Sales (%)	2.2	2.3	3.5	3.5	3.5
Admin exp/Sales (%)	2.0	1.7	1.5	1.5	1.5
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Effective tax (%)	25.1	24.0	24.5	24.8	25.0
Total debt/equity (%)	127.0	136.7	119.0	120.9	114.1
Net debt/equity (%)	86.8	74.6	58.0	24.5	13.9
Current ratio (x)	1.1	1.0	1.1	1.2	1.3
Quick ratio (x)	0.7	0.7	0.8	0.9	1.0
Inventory T/O (days)	125.7	31.3	37.4	36.7	33.5
AR T/O (days)	111.8	2.0	4.0	4.2	4.0
AP T/O (days)	14.2	26.9	38.0	36.9	35.0
Cash conversion cycle (days)	223	6	3	4	3
Asset turnover (x)	0.0	3.3	2.6	2.6	2.6
Financial leverage (x)	0.0	4.3	4.2	3.8	3.5
EBIT margin (%)	0.0	4.5	5.7	6.3	6.6
Interest burden (x)	0.0	0.8	0.8	0.8	0.8
Tax burden (x)	0.0	0.7	0.7	0.7	0.7
Return on equity (%)	**0.0**	**34.4**	**32.7**	**33.0**	**33.1**
ROIC (%)	**9.3**	**10.2**	**10.5**	**11.9**	**13.0**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Balance Sheet (RMB mn)					
Fixed assets	773	1,089	1,220	1,322	1,495
Prepaid lease payment	116	246	246	246	246
Intangible assets & goodwill	10	15	25	35	45
Deferred tax assets	19	35	35	35	35
Other non-current assets	38	65	65	65	65
Non-current assets	**956.1**	**1,449.9**	**1,591.0**	**1,703.6**	**1,886.4**
Inventories	1,123	2,088	2,060	2,983	3,080
AR	1,489	2,644	3,152	3,737	5,115
Pledged bank deposits	268	885	885	885	885
Cash	481	1,080	1,475	3,250	4,721
Other current assets	7	12	12	12	12
Current assets	**3,369**	**6,709**	**7,583**	**10,867**	**13,813**
Trade and bill payables	1,068	2,895	2,731	3,973	4,463
Bank borrowings	1,401	2,356	2,856	4,056	5,356
Income tax liabilities	203	269	269	269	269
Other current liabilities	339	880	880	880	880
	0	0	0	0	0
	0	0	0	0	0
Current liabilities	**3,010**	**6,400**	**6,736**	**9,178**	**10,968**
Bank borrowings	118	21	21	21	21
Deferred tax liabilities	0	0	0	0	0
Other non-current liabilities	0	0	0	0	0
MI	80	159	159	159	159
Non-current liabilities	**198.8**	**179.8**	**179.8**	**179.8**	**179.8**
Total net assets	**1,116**	**1,579**	**2,258**	**3,213**	**4,552**
Shareholder's equity	**1,116**	**1,579**	**2,258**	**3,213**	**4,552**
Share capital	479	0	0	0	0
Reserves	637	1,579	2,258	3,213	4,552
BVPS (RMB)	**0.88**	**1.16**	**1.63**	**2.28**	**3.18**
Total debts	1,519	2,376	2,876	4,076	5,376
Net cash/(debts)	(770)	(412)	(517)	59	229

Zhengtong Auto (1728 HK) – Overcomes the obstacles

- **The acquisition of SCAS will be positive for profit margins in long run, with larger exposure of Land Rover**
- **Sales margin should be recovered by helping of OEMs and growth of after sales services.**
- **Limited further downside, as most of the headwinds should priced in. Maintain BUY rating.**

Auto/ China

Vivien Chan
Analyst
+852 2135 0248
vivien.chan@oriental-patron.com.hk

Company Update

BUY

UNCHANGED

Close price:	**HK$5.13**
Target Price:	**HK$5.90 (+14.6%)**
Prior TP:	**HK$5.90**

Key Data

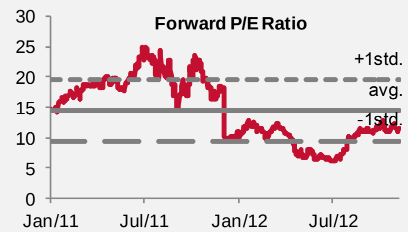
HKEx code		1728
12 Months High	(HK$)	9.92
12 Month Low	(HK$)	3.61
3M Avg Dail Vol.	(mn)	6.61
Issue Share	(mn)	2,208.66
Market Cap	(HK$mn)	11,330.45
Fiscal Year		12/2011
Major shareholder (s)		Joy Capital (62.1%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	-4.5	15.5	12.3
Rel. MSCI CHINA %	-5.0	1.8	-4.1

PE



Company Profile

Zhengtong is a leading luxury brand focused 4S dealership group in China. Its brandings portfolio including BMW, MINI, Audi, Land Rover and Jaguar. Zhengtong is the 2nd largest BMW dealer in terms of number of stores in China.

Leading luxury auto dealer China Zhengtong is a leading Chinese auto dealer focusing on luxury auto brands such as BMW, Audi and Porsche. It is the third largest BMW dealer in China in terms of number of 4S stores. Currently, over 70% of its existing 4S stores are selling luxury brands. The company plans to add an additional 18 luxury 4S stores to increase its luxury exposure to 80% by 2013. In 1H12 the luxury auto segment contributed 80% of the company's new car sales revenue. With rising incomes in Tier 2 and 3 cities, Zhengtong is well positioned to gain market share through expansion into Central China.

Valuation discounted due to several concerns The counter has been de-rated since 2Q12, and has been traded discount to its peer, it was mainly due to several concerns regarding to the company and dealership sector, 1) financial constraint due to tight credit market leading; 2) margin pressure due to slower demand growth; 3) increasing inventory level, as a result of aggressive OEMs' sales target and weak demand. However, we believe such concerns should be eased going forward, as 1) Zhongtong recently received around 1.3bn loan facility to help Zhongtong cope with the need to repay the loan in short term; 2) OEMs are increasing incentives to help dealerships restore margin and lower inventory. Therefore, the most of the negatives have been temporary eased.

2013 a better year We forecast FY13E net profit of RMB1.05bn, up 44%, back up more store opening; new car sales margin recovery and higher % of after sales services. From now, we see limited further downside as we believe most of the headwinds and possible earnings shortfall are largely priced in. We set our target price at HK$5.90, derived from 10x FY13E PE. We maintain BUY rating.

Exhibit 240: Forecast and Valuation

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	8,034.2	14,443.9	29,538.0	38,002.8	45,991.3
Growth (%)	61.3	79.8	104.5	28.7	21.0
Net Profit	276.0	524.0	729.3	1,051.3	1,435.8
Growth (%)	79.5	89.9	39.2	44.1	36.6
Diluted EPS (HK$)	0.221	0.310	0.408	0.588	0.803
EPS growth (%)	0.9	0.4	0.3	0.4	0.4
Change to previous EPS (%)					
Consensus EPS (HK$)			0.366	0.496	0.621
ROE (%)	12.2	10.1	10.9	13.9	16.3
P/E (x)	23.2	16.5	12.6	8.7	6.4
P/B (x)	1.6	1.4	1.3	1.1	1.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
DPS (RMB)	0.000	0.000	0.000	0.000	0.000

Source: Bloomberg, OP Research

Financial Summary – Zhengtong Auto (1728 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (RMB mn)					
New car sales	7,010	12,953	26,823	34,418	41,281
After sale services	602	1,047	2,216	2,986	3,991
Logistics services	167	150	0	0	0
Lubricant oil trading	256	294	499	599	719
Turnover	**8,034**	**14,444**	**29,538**	**38,003**	**45,991**
YoY%	61	80	105	29	21
COGS	(7,308)	(13,058)	(26,922)	(34,508)	(41,566)
Gross profit	**726**	**1,386**	**2,616**	**3,495**	**4,426**
Gross margin	9.0%	9.6%	8.9%	9.2%	9.6%
Other income	47	120	295	380	460
Selling & distribution	(192)	(330)	(738)	(950)	(1,104)
Admin	(176)	(320)	(738)	(912)	(1,104)
Other opex	30	0	0	0	0
Total opex	**(291)**	**(530)**	**(1,182)**	**(1,482)**	**(1,748)**
Operating profit (EBIT)	**436**	**856**	**1,434**	**2,013**	**2,678**
Operating margin	5.4%	5.9%	4.9%	5.3%	5.8%
Provisions	0	0	0	0	0
Finance costs	(56)	(128)	(384)	(494)	(598)
Profit after financing costs	380	728	1,050	1,519	2,080
Associated companies & JVs	10	21	30	38	46
Pre-tax profit	390	749	1,080	1,557	2,126
Tax	(91)	(187)	(302)	(436)	(595)
Minority interests	(23)	(38)	(48)	(69)	(95)
Net profit	**276**	**524**	**729**	**1,051**	**1,436**
YoY%	79	90	39	44	37
Net margin	3.4%	3.6%	2.5%	2.8%	3.1%
EBITDA	**454**	**932**	**1,620**	**2,249**	**2,950**
EBITDA margin	5.6%	6.5%	5.5%	5.9%	6.4%
EPS (RMB)	**0.180**	**0.252**	**0.330**	**0.476**	**0.650**
YoY%	86	40	32	44	37
DPS (RMB)	0.000	0.000	0.000	0.000	0.000

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (RMB mn)					
EBITDA	454	932	1,620	2,249	2,950
Chg in working cap	(568)	(974)	(745)	(749)	(271)
Others	(10)	(1,015)	(354)	(456)	(552)
Operating cash	**(124)**	**(1,056)**	**521**	**1,045**	**2,127**
Interests paid					
Tax	0	996	(302)	(436)	(595)
Net cash from operations	**(124)**	**(60)**	**219**	**609**	**1,532**
Capex	(216)	(459)	(920)	(820)	(820)
Investments	0	0	(10)	(10)	(10)
Others	43	(5,952)	0	0	0
Investing cash	**(173)**	**(6,411)**	**(930)**	**(830)**	**(830)**
FCF	**(296)**	**(6,471)**	**(711)**	**(221)**	**702**
Issue of shares	3,016	1,684	0	0	0
Buy-back	0	0	0	0	0
Dividends paid	0	0	0	0	0
Net change in bank loans	456	2,643	408	(92)	(92)
Others	79	(198)	(48)	(69)	(95)
Financing cash	**3,551**	**4,130**	**359**	**(162)**	**(187)**
Net change in cash	**3,254**	**(2,342)**	**(352)**	**(383)**	**514**
Exchange rate or other Adj	1	6	0	0	0
Opening cash	177	3,432	1,097	745	361
Closing cash	**3,432**	**1,097**	**745**	**361**	**876**
CFPS (RMB)	**(0.081)**	**(0.029)**	**0.099**	**0.277**	**0.696**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	9.0	9.6	8.9	9.2	9.6
Operating margin (%)	5.0	5.9	4.9	5.3	5.8
Net margin (%)	3.4	3.6	2.5	2.8	3.1
Selling & dist'n exp/Sales (%)	2.4	2.3	2.5	2.5	2.4
Admin exp/Sales (%)	2.2	2.2	2.5	2.4	2.4
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Effective tax (%)	23.2	25.0	28.0	28.0	28.0
Total debt/equity (%)	17.7	66.8	65.6	56.0	46.6
Net debt/equity (%)	Net Cash	49.4	55.1	51.5	37.4
Current ratio (x)	2.3	1.0	1.0	1.0	1.1
Quick ratio (x)	2.0	0.6	0.6	0.6	0.6
Inventory T/O (days)	26	56	55	54	53
AR T/O (days)	33	48	51	56	57
AP T/O (days)	69	64	53	54	54
Cash conversion cycle (days)	(10)	40	52	56	56
Asset turnover (x)	1.7	1.3	1.6	1.8	1.9
Financial leverage (x)	2.0	2.2	2.7	2.8	2.7
EBIT margin (%)	5.0	5.9	4.9	5.3	5.8
Interest burden (x)	1.0	0.9	0.8	0.8	0.8
Tax burden (x)	0.7	0.7	0.7	0.7	0.7
Return on equity (%)	**12.2**	**10.1**	**10.9**	**13.9**	**16.3**
ROIC (%)	**19.7**	**8.1**	**7.0**	**8.9**	**11.1**

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Balance Sheet (RMB mn)					
Fixed assets	404	984	1,744	2,353	2,926
Intangible assets & goodwill	59	4,272	4,241	4,210	4,180
Lease prepayments	118	176	192	207	222
Others	141	2,089	2,089	2,089	2,089
Non-current assets	**722.1**	**7,522.1**	**8,266.3**	**8,859.5**	**9,417.1**
Inventories	749	3,244	4,796	5,498	6,528
AR	868	2,946	5,238	6,330	7,968
Other current assets	0	12	12	12	12
Cash	4,393	2,266	1,914	1,530	2,045
Current assets	**6,010**	**8,467**	**11,960**	**13,370**	**16,552**
AP	1,847	4,156	7,256	8,301	10,698
Tax payable	73	306	306	306	306
Accruals & other payables	0	0	0	0	0
Bank loans & leases	721	4,220	4,628	4,535	4,443
CB & othe debts	0	0	0	0	0
Other current liabilities	0	(0)	(0)	(0)	(0)
Current liabilities	**2,641**	**8,683**	**12,190**	**13,142**	**15,446**
Bank loans & leases	0	0	0	0	0
CB & othe debts	0	0	0	0	0
Deferred tax	18	985	985	985	985
MI	58	112	112	112	112
Non-current liabilities	**76.1**	**1,096.3**	**1,096.3**	**1,096.3**	**1,096.3**
Total net assets	**4,015**	**6,210**	**6,940**	**7,991**	**9,427**
Shareholder's equity	**4,015**	**6,210**	**6,940**	**7,991**	**9,427**
Share capital	171	188	188	188	188
Reserves	3,843	6,022	6,752	7,803	9,239
BVPS (RMB)	**0.12**	**0.10**	**0.11**	**0.14**	**0.16**
Total debts	721	4,220	4,628	4,535	4,443
Net cash/(debts)	2,711	(3,124)	(3,883)	(4,174)	(3,567)

Source: Company, OP Research

Zhongsheng HLDG (881 HK) – Better days are coming

- **Although company delivered disappointed 1H12 results, we believe it reached tough.**
- **Expect overall margin recover in FY13E to 10.0% from 9.4% in FY12E.**
- **Its expansion plan well on track, 26 new stores are expected to open this year.**
- **Looking for better days in FY13E, BUY rating was retained unchanged.**

Auto/ China

Vivien Chan
Analyst
+852 2135 0248
vivien.chan@oriental-patron.com.hk

Company Update

BUY

UNCHANGED

Close price:	**HK$9.88**
Target Price:	**HK$11.90 (+20.2%)**
Prior TP:	**HK$11.90**

Key Data

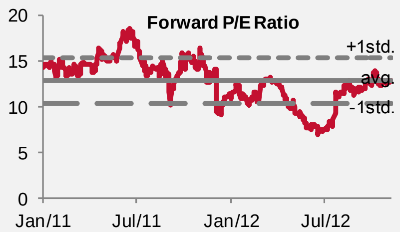
HKEx code		881
12 Months High	(HK$)	17.18
12 Month Low	(HK$)	7.95
3M Avg Dail Vol.	(mn)	2.38
Issue Share	(mn)	1,908.48
Market Cap	(HK$mn)	18,855.79
Fiscal Year		12/2011
Major shareholder (s)		Blue Natural Dev. (65.7%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 7/12/2012

Price Chart

	1mth	3mth	6mth
Absolute %	-5.7	-3.1	-10.0
Rel. MSCI CHINA %	-6.2	-16.9	-26.4

PE



Company Profile

Zhongsheng was a leading national automobile dealership group in China. Its 4S dealerships are concentrated in cities with relatively affluent populations in northern, eastern and southern coastal region in China.

One of the largest auto dealers Zhongsheng Group was ranked as the fifth largest auto dealer in China in terms of sales volume by the China Automobile Dealers Association (CADA). The company has 153 4S stores covering luxury to mid-to-high end auto brands in 1H12. It is the first Chinese dealer to be granted dealership rights by Toyota and one of the first authorized dealers for Lexus and Audi in China. Zhongsheng has been putting its primary focus on the coastal region where most wealthy people in China live. However, in recent years, rising in income in Tier 2 and Tier 3 cities provides very good opportunities for dealer network expansion into central China.

2013 outlook We expect Zhongsheng to show significant turnaround in 2013, achieving 92% earnings growth as after sales income grow 43%, and new car margin stabilizes at 5.5%, vs. 5.0% in 2012. This forecast assumes that luxury OEM's become more realistic about their 2013 volume targets in China, helping to stabilize market prices and relieving pressure on dealers' inventory. We forecast net profit of RMB1.8bn in FY13E. We prudently valuate the counter at 10x FY13E PE, target price at HK$11.90. Maintain BUY rating.

Key investment risks 1) Negative impacts of prolong anti-Japan protest remains a key concern for Zhongsheng; 2) Weaker-than-expected recovery if OEM's set aggressive targets in China in FY13, leading to more price fights; 3) Government policies could curtail high-end car consumption; 4) execution risks from expanding dealerships through acquisitions and organic growth.

Exhibit 241: Forecast and Valuation

Year to Dec (RMB mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	24,042.9	41,903.4	52,012.8	72,201.3	89,702.3
Growth (%)	75.2	74.3	24.1	38.8	24.2
Net Profit	1,031.2	1,417.3	956.1	1,842.0	3,024.9
Growth (%)	119.0	37.4	-32.5	92.6	64.2
Diluted EPS (HK$)	0.689	0.913	0.616	1.187	1.950
EPS growth (%)	86.7	32.6	-32.5	92.6	64.2
Change to previous EPS (%)					
Consensus EPS (HK$)			0.648	0.955	1.244
ROE (%)	23.3	18.9	11.0	18.7	25.6
P/E (x)	14.3	10.8	16.0	8.3	5.1
P/B (x)	2.2	1.9	1.7	1.4	1.2
Yield (%)	1.3	1.6	1.1	2.1	3.5
DPS (RMB)	0.105	0.130	0.088	0.169	0.277

Source: Bloomberg, OP Research

Financial Summary – Zhongsheng HLDG (881 HK)

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Income Statement (RMB mn)					
Sales of luxury vehicle	8,210	19,156	28,101	44,259	56,386
Sales of mid-to-high end vehicle	13,727	19,084	18,515	20,228	22,448
After sales services	2,106	3,664	5,396	7,714	10,868
Turnover	**24,043**	**41,903**	**52,013**	**72,201**	**89,702**
YoY%	75	74	24	39	24
COGS	(21,750)	(37,595)	(47,101)	(64,990)	(79,664)
Gross profit	**2,293**	**4,308**	**4,912**	**7,211**	**10,038**
Gross margin	9.5%	10.3%	9.4%	10.0%	11.2%
Other income	322	367	520	722	897
Selling & distribution	(693)	(1,326)	(2,185)	(2,960)	(3,678)
Admin	(318)	(616)	(884)	(1,227)	(1,525)
Total opex	**(1,012)**	**(1,942)**	**(3,069)**	**(4,188)**	**(5,203)**
Operating profit (EBIT)	**1,603**	**2,734**	**2,363**	**3,746**	**5,733**
Operating margin	6.7%	6.5%	4.5%	5.2%	6.4%
Provisions	0	0	0	0	0
Finance costs	(227)	(549)	(988)	(1,083)	(1,346)
Profit after financing costs	1,376	2,184	1,375	2,663	4,387
Associated companies & JVs	8	10	26	36	45
Pre-tax profit	1,384	2,194	1,401	2,699	4,432
Tax	(302)	(551)	(350)	(675)	(1,108)
Minority interests	(51)	(226)	(95)	(182)	(299)
Net profit	**1,031**	**1,417**	**956**	**1,842**	**3,025**
YoY%	119	37	(33)	93	64
Net margin	4.3%	3.4%	1.8%	2.6%	3.4%
EBITDA	**1,756**	**3,094**	**2,809**	**4,245**	**6,312**
EBITDA margin	7.3%	7.4%	5.4%	5.9%	7.0%
EPS (RMB)	**0.560**	**0.743**	**0.501**	**0.965**	**1.585**
YoY%	87	33	(33)	93	64
DPS (RMB)	0.105	0.130	0.088	0.169	0.277

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Cash Flow (RMB mn)					
EBITDA	1,756	3,094	2,809	4,245	6,312
Chg in working cap	(2,674)	(3,266)	(2,572)	(4,622)	(162)
Others	62	623	0	0	0
Operating cash	**(856)**	**451**	**237**	**(377)**	**6,150**
Tax	0	(92)	(350)	(675)	(1,108)
Net cash from operations	**(856)**	**359**	**(113)**	**(1,051)**	**5,042**
Capex	(633)	(1,736)	(1,409)	(1,309)	(1,009)
Investments	(589)	(534)	(500)	(500)	(500)
Dividends received					
Sales of assets					
Interests received					
Others	(1,079)	(1,151)	0	0	0
Investing cash	**(2,301)**	**(3,420)**	**(1,909)**	**(1,809)**	**(1,509)**
FCF	**(3,156)**	**(3,061)**	**(2,022)**	**(2,860)**	**3,533**
Issue of shares	2,910	0	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	0	(193)	(167)	(322)	(529)
Net change in bank loans	2,480	4,273	4,343	4,273	4,273
Others	(240)	480	(95)	(182)	(299)
Financing cash	**5,151**	**4,561**	**4,081**	**3,769**	**3,445**
Net change in cash	**1,994**	**1,500**	**2,059**	**909**	**6,978**
Exchange rate or other Adj	(36)	(2)	0	0	0
Opening cash	1,031	2,990	4,488	6,547	7,456
Closing cash	**2,990**	**4,488**	**6,547**	**7,456**	**14,434**
CFPS (RMB)	**(0.468)**	**0.188**	**(0.059)**	**(0.551)**	**2.642**

Source: Company, OP Research

Year to Dec	FY10A	FY11A	FY12E	FY13E	FY14E
Ratios					
Gross margin (%)	9.5	10.3	9.4	10.0	11.2
Operating margin (%)	6.7	6.5	4.5	5.2	6.4
Net margin (%)	4.3	3.4	1.8	2.6	3.4
Selling & dist'n exp/Sales (%)	2.9	3.2	4.2	4.1	4.1
Admin exp/Sales (%)	1.3	1.5	1.7	1.7	1.7
Payout ratio (%)	30.5	17.5	17.5	17.5	17.5
Effective tax (%)	21.8	25.1	25.0	25.0	25.0
Total debt/equity (%)	73.3	121.4	158.7	176.3	175.3
Net debt/equity (%)	Net Cash	67.2	86.5	105.9	65.0
Current ratio (x)	1.2	1.0	1.0	1.0	1.0
Quick ratio (x)	0.8	0.7	0.6	0.6	0.7
Inventory T/O (days)	10	8	7	7	7
AR T/O (days)	129	111	95	114	114
AP T/O (days)	11	9	8	9	8
Cash conversion cycle (days)	128	110	94	111	113
Asset turnover (x)	2.2	1.9	1.7	1.9	1.9
Financial leverage (x)	2.4	2.9	3.6	3.9	4.0
EBIT margin (%)	6.7	6.5	4.5	5.2	6.4
Interest burden (x)	0.9	0.8	0.6	0.7	0.8
Tax burden (x)	0.7	0.6	0.7	0.7	0.7
Return on equity (%)	**23.3**	**18.9**	**11.0**	**18.7**	**25.6**
ROIC (%)	**10.3**	**7.9**	**4.7**	**5.9**	**7.5**
Balance Sheet (RMB mn)					
Fixed assets	1,789	3,887	4,951	5,859	6,403
Intangible assets & goodwill	1,382	3,939	3,862	3,794	3,719
Land use rights	701	1,085	1,560	2,029	2,490
Others	1,729	1,077	1,077	1,077	1,077
Non-current assets	**5,600.4**	**9,988.0**	**11,450.4**	**12,759.8**	**13,689.1**
Inventories	3,453	6,380	8,087	11,061	11,936
AR	285	467	626	646	923
Other current assets	1,256	1,906	1,906	1,906	1,906
Cash	5,605	9,120	12,297	15,437	24,349
Current assets	**10,599**	**17,872**	**22,915**	**29,050**	**39,114**
AP	2,985	5,680	6,690	7,617	11,212
Tax payable	188	393	393	393	393
Accruals & other payables	954	1,505	1,868	2,593	3,222
Bank loans & leases	4,924	10,017	14,290	18,563	22,836
CB & othe debts	0	0	0	0	0
Other current liabilities	11	19	19	19	19
Current liabilities	**9,062**	**17,613**	**23,260**	**29,185**	**37,681**
Bank loans & leases	0	30	100	100	100
Deferred tax	423	706	706	706	706
Other non-current liabilities	0	1,233	1,233	1,233	1,233
MI	779	1,186	1,186	1,186	1,186
Non-current liabilities	**1,201.6**	**3,154.7**	**3,224.7**	**3,224.7**	**3,224.7**
Total net assets	**5,936**	**7,092**	**7,881**	**9,401**	**11,897**
Shareholder's equity	**5,936**	**7,092**	**7,881**	**9,401**	**11,897**
Share capital	0	168	168	168	168
Reserves	5,935	6,924	7,713	9,233	11,729
BVPS (RMB)	**3.67**	**4.34**	**4.75**	**5.55**	**6.85**
Total debts	4,924	10,047	14,390	18,663	22,936
Net cash/(debts)	(1,935)	(5,559)	(7,842)	(11,207)	(8,502)

Research Team

Min Li
Head of Research
+852 2135 0205
min.li@oriental-patron.com.hk

Yuji Fung
Senior Analyst
+852 2135 0236
yuji.fung@oriental-patron.com.hk

Alan Lau
Analyst
+852 2842 5820
alan.lau@oriental-patron.com.hk

Tracy Sun
Analyst
+852 2135 0214
tracy.sun@oriental-patron.com.hk

Vivien Chan
Analyst
+852 2135 0248
vivien.chan@oriental-patron.com.hk

Terence Lok
Analyst
+852 2135 0212
terence.lok@oriental-patron.com.hk

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CONTACT

27/F, Two Exchange Square,
8 Connaught Place, Central, Hong Kong

www.oriental-patron.com.hk
op.research@oriental-patron.com.hk

Tel: (852) 2842 5888
Fax: (852) 2135 0295