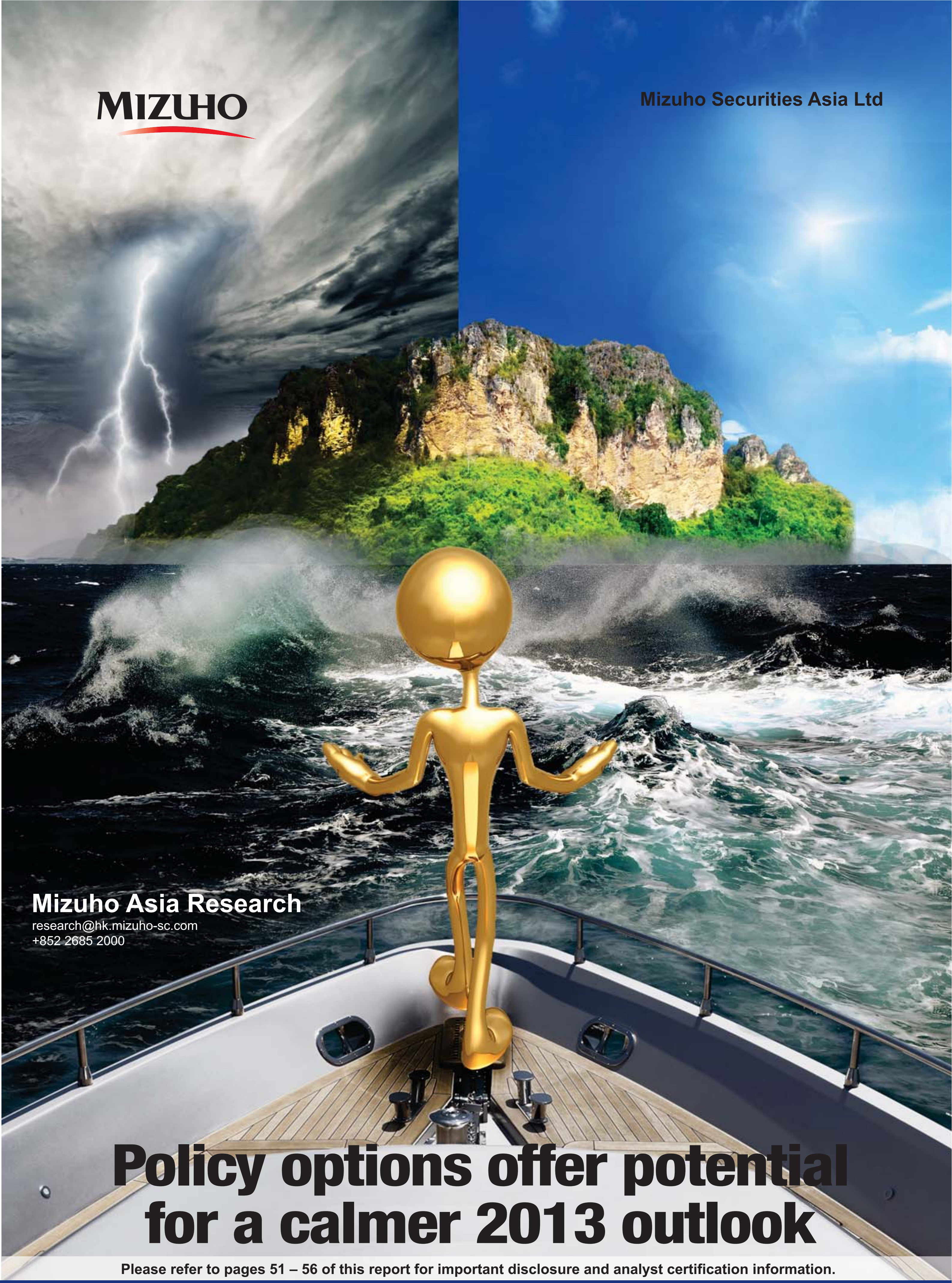

MIZUHO

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Policy options offer potential for a calmer 2013 outlook

Please refer to pages 51 – 56 of this report for important disclosure and analyst certification information.

Mizuho Securities Asia Ltd

10 December 2012

MIZUHO

2013 Outlook

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- **Macro-Overlay:** Economic conditions in mainland China appear to be full of uncertainty. The government's policies are likely to be the dominant driver of economic fundamental and market sentiment yet again in 2013, although credit and political constraints may restrain the size of fiscal stimulus. Private investments from manufacturers will likely lag behind. For exports, we certainly are not out of the woods as global de-levering is set to continue, while the economies of the US and Europe continue to struggle. However, consumption will remain a bright spot and with a promising start after the change of leadership, we also believe comprehensive restructuring in the Chinese economy will begin in 2013. Any form of easing of reversing the restrictions within the housing market would be an added bonus and would send A-share and H-share markets off to the races; but if the defaults in the shadow banking system deteriorate notably, downside risk could follow.

- **Market Strategy**: Lower interest rates fuelled by weak economic activity and quantitative easing should continue to cause investors to seek equity-like returns versus the declining returns offered by fixed income and low rate bank deposits. It is our view that the cyclical sectors in mainland China will outperform those which are more defensive in nature – preferring China property relative to most other sectors as the asset reflation trade should continue for a while longer. We remain more constructive on the auto and life insurance sectors.

- **Mizuho Asia Securities Focus List:** As a firm, Mizuho Asia Securities Focus List of investment ideas includes ten Buys and one market Underperform: Country Garden (2007 HK, BUY); ICBC (1398 HK, BUY); AIA (1299 HK, BUY); Lenovo Group (992 HK, BUY); Tencent (700 HK, BUY); Shanghai Electric (2727 HK, BUY); CNOOC (883 HK, BUY); China Coal Energy (1898 HK, BUY); Sands China (1928 HK, BUY); Prada (1913 HK, BUY). Our one Underperform idea is Brilliance Auto (1114 HK, UNDERPERFORM).

Table of contents

Summary and Investment Opinion

The Chinese economy will follow a mild uptrend in 2013, but it will be full of uncertainty. The government's policies should likely to be the dominant driver of economic fundamental and market sentiment yet again in 2013, mainly through government-driven infrastructure projects. However, tightened credit supply for local government projects and concerns for environmental and social impact may become new constraints for fiscal spending. Meanwhile, private investments from manufacturers will likely lag behind. We certainly are not out of the woods with the global de-levering set to continue, while the economies of the US and Europe continue to struggle. However, consumption will remain a bright spot and with a promising start after the change of leadership, we also believe comprehensive restructuring in the Chinese economy will begin in 2013.

We expect China's GDP growth at 7.8% in 2013 (versus 7.7% in 2012) and a mild inflation rate of 3.0% (versus 2.6% in 2012). Any form of easing of reversing the restrictions within the housing market would be an added bonus and should send A-share and H-share markets off to the races, but if the defaults in the shadow banking system deteriorate, notable downside risk could also follow.

Nonetheless, China still has numerous and very complex issues to contend with:
a) All sectors under coverage will need to contend with modest earnings growth prospects;
b) A banking sector which is fairly constrained from a LDR perspective;
c) A U.S. economy flirting with recession in the near term;
d) A potential accounts receivable and triangular debt problem as corporates substitute for weaker bank lending;
e) CNY appreciation, in our view, is unlikely to last; and
f) Given the wage inflation, China would appear to be yielding to lower cost venues.

Lower interest rates fuelled by weak economic activity and quantitative easing should continue to cause investors to seek equity-like returns versus the declining returns offered by fixed income and low rate bank deposits. It is our view that the cyclical sectors in mainland China will outperform those which are more defensive in nature

With the above as our backdrop, we suggest the following portfolio strategies:

1) **Financials/Real Estate**: Within the financial services/real estate segment, we find that the real estate sector ultimately will lead any rally in the Hong Kong/China markets despite no expected changes from the housing policy front and banks' stance toward development loans. But even without a policy change, we still expect moderate improvement housing fundamentals given the stabilized, though still tight, policy outlook and improving confidence from home. Developers liquidity conditions are also improving thanks to strong sales achieved this year. Besides the moderate improvement in fundamentals, our call is also based on the positive correlation of currency translation and PE multiples. While we are optimistic on housing policy reversals, this does offer a free option on the shares. Our top real estate pick remains **Country Garden (2007 HK, BUY).**

   Within the commercial banking sector, fundamental weakness in the sector likely should bottom over the next 12 months beginning with reduced pressures on NIMs as the reverse repo mechanism employed by the PBOC has improved bank liquidity and due to a more stable interest rate environment in 2013. While credit remains a concern at the Tier 2 banks, the large state-owned banks appear to getting through this current environment relatively unscathed. With the 11% sell-off in the sector since the year high in early February 2012, and valuations averaging just over 1.0x BV, the sector would appear ripe for a turn. We like **ICBC (1398 HK, BUY)** in this environment.

   We anticipate that 2013 will continue to be another year of struggle for the mainland Chinese life insurers. Prospects suggest that the premium outlook for 2013 is likely to lower than 2012 as agency headcount looks to remain flat while there likely will be only limited improvement in the bancassurance arena. Any premium growth improvement over 2012 is likely to be highly dependent on an improved capital markets environment and more competitive insurance crediting rates. The sector is likely to continue to be more reliant on capital raises in order to support growth. In our view, increased negative pressures from a weak A-share market are likely to continue to erode solvency margins as NAV gets reduced. The life insurance companies are being forced to raise subordinated debt at rates in excess of the average investment return as well as the highest yielding fixed income product in China – negotiable CDs placing substantial pressure on net investment yields. Given the material headwinds and their heavy exposure to the Tier 2 banks, we would offer that the life insurance companies are a good hedge to longs within the banking sector. With VONB margin improvement, an improving MSCI Asia and SET Index, positive currency translation, and a recent Malaysian transaction**, AIA (1299 HK, BUY)** likely offers a very good alternative to the pure play China life insurers.

2) **Technology/Internet:** Cloud computing is fundamentally changing the computing industry, as mobile devices become the device of choice for accessing the Internet. The traditional PC market is facing a structural slowdown in the post-PC era on tablet cannibalization. Global shipments of PC are expected to fall, while smartphone/tablet growth is expected to remain strong. Samsung Elec (005930 KS, BUY) is ideally positioned to continue to benefit from the computing industry shift from the PC era to mobile era. Those names associated with Apple (AAPL US, BUY) should continue to do well. Our preferred Apple plays are Hon Hai (2317 TT, BUY) and LG Display (034220 KS, BUY). Both have emerged as companies that Apple cannot do without. One of our preferred names in the PC space is **Lenovo Group (992 HK, BUY)** who is one of the better positioned PC makers globally, while market share gains and profitable growth is set to continue. Lenovo continues to benefit from a strong brand and unmatched distribution across China – especially in the lower-tier cities. The combination of powerful mobile devices and new usage models by consumers is likely to drive explosive mobile data traffic growth and revenue for the Internet industry. Companies with dominant positions in desktop Internet have the advantage over smaller players, but there is no guarantee that they can replicate the success stories in mobile Internet. Despite the challenges of the mobile Internet era, Internet companies are pseudo consumption plays which should benefit from government policy which encourages domestic consumption. **Tencent (700 HK, BUY)**, in our view, remains our top pick in the space given that over 70% of revenues are generated from gaming and social networking services. Tencent is also leading the desktop to mobile Internet race through WeChat with over 200mn users.

3) **Auto & Industrials:** We believe that the 2013 auto sales growth rate will decelerate to 5.0% versus about 6.0%-7.0% in 2012. Luxury sales growth while remaining fairly robust, is also expected to decelerate as well. In addition, overcapacity is emerging and likely will be the key overhang for the sector. Therefore, we feel competition within the auto and auto dealership space is likely to intensify placing inordinate margin pressure on the sector. True to our call, we believe that **Brilliance Auto (1114 HK, UNDERPERFORM)** will be heavily impacted by the aforementioned issues. As an offset to our negative view on the sector, we would suggest the shares of The PICC Group (1339 HK, Not Rated) which has a 67% stake in subsidiary, PICC P&C (2328 HK, Underperform) and represents 63% of earnings caters primarily to the auto insurance industry. Growth rates within the auto insurance segment are superior to the auto industry while one gets a free option on rate increases. Under a sum-of-the-parts basis, the PICC Group is very interesting as well. FAI growth is expected to stabilize in 2013 after decelerating during the 2012 period, therefore we are in the bottoming out process in terms of demand for railway, power, and construction equipment. Hopes for a fiscal stimulus package, however, are already currently built into valuations, in our view. Valuation wise railway is most expensive relative to construction and power machinery. As a sector, we prefer Power Machinery given the more defensive nature of the segment. Those which are exposed to nuclear power whose scale should be ramped up over the mid-to-long term. Further, accounts receivable growth and turnover is substantially less problematic for the sector as a whole. We prefer **Shanghai Electric (2727 HK, BUY)** on this theme.

4) **Energy:** We forecast an average 2013 Brent oil price of USD 115/bbl – similar to 2012 levels as OECD demands continues its structural decline only to be modestly offset by non-OECD demand. OPEC spare capacity relative to global demand is likely to increase from 2.7% in 2012 to 3.6% in 2013. Oil prices, in our view, are likely to hover around the USD110/bbl level and as such we prefer those upstream producers that can provide strong YoY production growth. In China, oil & gas is highly policy driven and the sector

remains at the mercy of the PRC government. Upstream players which can provide meaningful production growth will outperform downstream players in 2013. **CNOOC's (883 HK, BUY)** outperformance should continue into 2013 given the strength coming from the production recovery of the Penglai spill, increased production from international assets, a ramp up in domestic projects. The closing of the Nexen transaction should add incremental production growth of 20%. External headwinds for domestic coal prices should continue in 2013, however, we remain optimistic that downside risk for the sector is very limited. We currently believe that thermal coal pricing will improve whilst coking coal pricing will remain flat. Coking coal is a proxy to any potential stimulus package given its primary use of steel production. We remain positive on the shares of **China Coal Energy (1898 HK, BUY)** given our expectations of 2013 production growth given the strength of the Pingshuo East and Hecogou mines, and its near financial crisis low valuation.

5) **Consumer/Gaming:** New capacity in terms of gaming tables and hotel rooms will come on-line as we enter 2013, which should be a positive catalyst for the Macau gaming industry. We are currently forecasting gross gaming revenue growth for 2013 of 14% versus our expectation of 12% for 2012. The commitment by parent groups to increase their regular dividends implies that their respective Macau gaming units will have to maintain, if not increase their dividends as well. VIP improvement is the icing on the cake for the sector. Our top pick, **Sands China (1928 HK, BUY)** is likely the only name in Macau which will be adding new capacity in 2013 – 200 additional gaming tables and 2,100 new hotel rooms in 1Q13, while we anticipate the local government to greenlight Parcel 3 development. Consumer discretionary as a whole has seen a significant de-rating over the past year reflecting vulnerability in terms of both growth estimates as well as multiple de-rating. Certain sectors such as sportswear and home electronics are likely to continue to face industry specific struggles. In terms of international names, we remain positive on the longer-term growth prospects for **Prada (1913 HK, BUY)**.

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Policy options offer potential for a calmer 2013 macro outlook

1.0
New leadership to steer a new course on growth

1.1 Promising start to a new decade in China

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The position of Xi Jinping is the most prominent in the new leadership
As the highlight of China's economic political and economic calendar in 2012, the once-in-a-decade leadership transition of the new Politburo Standing Committee was formally announced at the end of the 18th National Congress of the Communist Party of China. Xi Jinping and Li Keqiang are expected to be selected as the Chinese government's president and premier respectively, in the National People's Congress (NPC) in March 2013 (see "China's new era under Xi Jinping" 14 November).

Notably, of the announced seven member politburo standing committee, all except Xi Jinping and Li Keqiang are required to retire in five years due to the age limit. It will cement the power of Xi and Li in the new government. Also, among the seven committee members only Li comes from Tuanpai. The new balance of power will make the role of Xi Jinping even more prominent.

Also, it has been announced that Hu Jintao will not continue to serve as the Chairman of Military Committee. Instead the position has been bestowed to Xi Jinping. The change will further enhance the role of Xi in the coming years. This setting should give the new leadership a much more friction-free position to push its agenda.

Policy highlights under the new leadership
On 4 December, the new leadership gave its first assessment of the economic situation. Essentially, the leaders believe that the outlook for Chinese economy remains challenging, and are ready to act to support a stable growth if necessary. They also stressed policy continuity, thus signalling no radical change is on the cards.

More remarkably, in Xi Jinping's first notable policy initiative, he signalled what could be a significant break from the past in its operating style, calling for an end to lavish spending and formalities, in order to focus on efficiency and effectiveness. According to one of the eight new rules that were announced, official meetings should be made shorter and to-the-point, with no empty rhetoric. This is a significant departure from the current practice, suggesting that the new leaders are more determined to bring the promised changes to the government and the economy.

In addition, at the end of the 18th National Party Congress, The new leadership has begun an anti-corruption campaign after the 18th Party Congress. Xi Jinping told the Politburo that the rule of the Communist Party faces demise if corruption is not addressed. Xi expressed determination in punishing everyone in violation of party discipline. It has been reported that the records on property ownership, will be used to investigate corruption charges. It will weigh on the housing market and luxury consumption in the short-term as potential buyers avoid suspicion.

1.2 2013 calendar: structural reform begins

Political and economic calendar in 2013

We do not expect any immediate departure from the current policy. In the upcoming Central Economic Work Conference in December, the government is likely to keep proactive fiscal policy and prudent monetary policy. Rather, the first turning point in economic policy will come in NPC, after a full assessment of the economic situation from the new leadership.

In March 2013, the National People's Congress will also announce the change of other ministerial level appointments. Zhou Xiaochuan, Chairman of the PBOC, will likely step down. Also, the first government work report will set the tone for the new government's economic policy. In April–May 2013, the 2nd Plenary Meeting of the Central Committee will lay out the direction of the Communist Party under Xi's leadership. The 3rd Plenary meeting and another Central Economic Work Conference in November and December 2013 will set the timeline for implementation.

Medium-term outlook: Structural reform begins in 2013

As stated in the 12th Five Year Plan, policymakers recognize that the economy is now in a critical stage of transition. It takes a comprehensive reform and new growth drivers for China to become a high-income country at around 2030: 1) Carry out comprehensive structural reform to re-balance the growth drivers; 2) Raise domestic demand through increasing the disposable income for China's households; 3) Develop new comparative advantages for China's industries through innovation and productivity gain; 4) Increase the fluidity of demographic migration, and improve the quality of labour to match with evolving demand; and 5) Strengthen the market's participation in the economy, through reducing the role of government in the market, and allocate adequate fiscal revenues for local governments to match with their expenditure.

The recent changes in the government reflect that the new leadership is determined to implement new policies. In our view, these are promising signals that are conducive to effective structural reforms. Nevertheless, given the complexity of the structural reforms, which will have to be gradually unveiled in the next ten years, we believe it takes more observations to unveil how the transformation will be played out.

Fig 1 Political and economic agenda after the 18th Party Congress

Timing	Event	Agenda
End Dec 2012	Central Economic Work Conference	Keep proactive fiscal policy and prudent monetary policy as formal policy direction; No big stimulus expected
Mar 2013	National People's Congress and the Chinese People's Political Consultative Conference	Announce the new government's economic policy in the new government's first work report; Zhou Xiaochuan of PBOC to retire
Apr – May 2013	2nd Plenary meeting of the 18th CPC Central Committee	Xi's debut as President; Lay out the reform direction of the Communist Party
Jul 2013	Mid-year Economic Conference	Set the tone for 2H economic policy
Nov 2013	3rd Plenary meeting of the 18th CPC Central Committee	
End Dec 2013	Central Economic Work Conference	

Source: Mizuho research

2.0
2012 review: Avoiding a hard-landing

2.1 External outlook deteriorated again

Global conditions deteriorated in 2012. In 3Q, the Eurozone officially fell back into recession after the GDP declined for two consecutive quarters. Although the Outright Monetary Transactions (OMT) has been unveiled in September, amid the austerity measures there is no evidence that the Euro area will start picking up in the quarters ahead.

In the US, the Federal Reserve announced in September that it will carry out QE3 to stimulate the economy. As of mid-November the capital injection had only had a limited impact on the Fed's balance sheet, however. Instead, the measures have stimulated increased capital inflows into Asia, creating pressure on Hong Kong and China (see "Flood of money: QE3's impact on China and Hong Kong " 24 October).

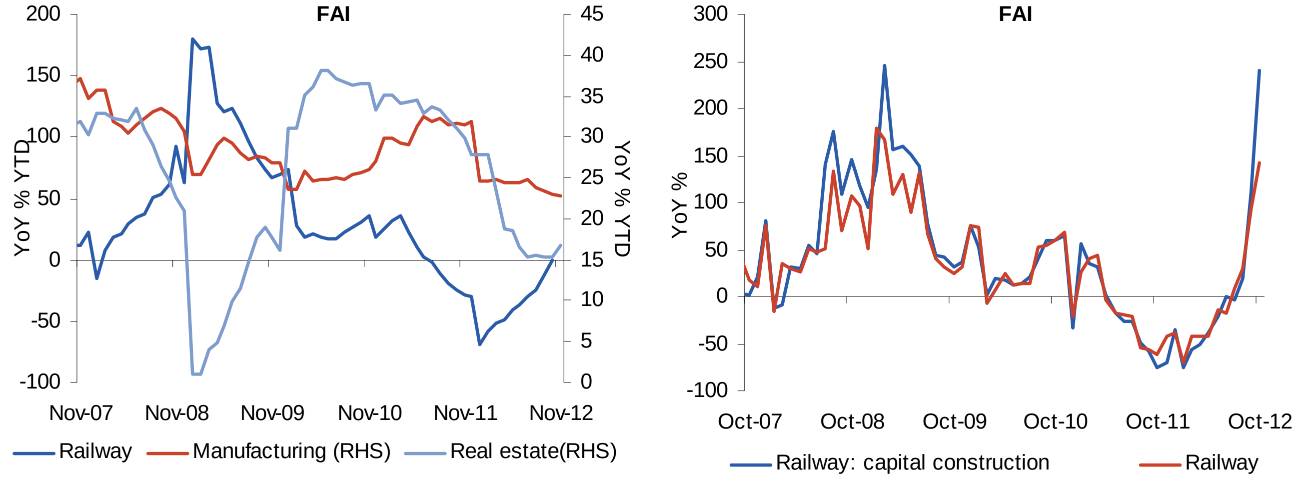
In response to the deteriorating external conditions, the Chinese government approved a package of measures in September that aimed at boosting exports. It includes speeding up the payment of tax rebates, increased lending to qualified exports, simplifying customs procedures and improving the availability of export credit insurance (see "Weak domestic demand to drag down imports" 10 September).

Despite these measures, China's total trade remains weak, at just 7.3%YoY in January – November, below the government's target of 10%YoY (see "Positive October export data shadowed by grim order book" 9 November). External demand's contribution to China's GDP, as a result, continues to be negative in 2012.

2.2 Hard-landing avoided amid fiscal boost

Stabilization has begun in 3Q amid fiscal boost
The Chinese economy was in a steady slowdown for much of 2012. In 3Q, GDP growth eased to 7.4%YoY, a three-year low and below the government's target at 7.5%YoY. Meanwhile, positive changes suggested that the economy has bottomed (see "3Q growth moderated as expected, with mixed signals ahead" 18 October). It was a significant improvement from 2Q, when economic data suggested an imminent hard-landing risk (see "What's wrong with China's 2Q GDP data?" 17 July).

Fig 2 FAI is supported by government-driven investment, which surged in recent months



Source: CEIC, Mizuho research

In order to stabilize the slowdown, the government expedited infrastructure projects that have been previously approved. It includes a 240%YoY increase in railway investment in October (see "Worrying trend despite positive macro data – October macro data review" 9 November). It was the key driver behind the stabilizing economy towards the end of the year.

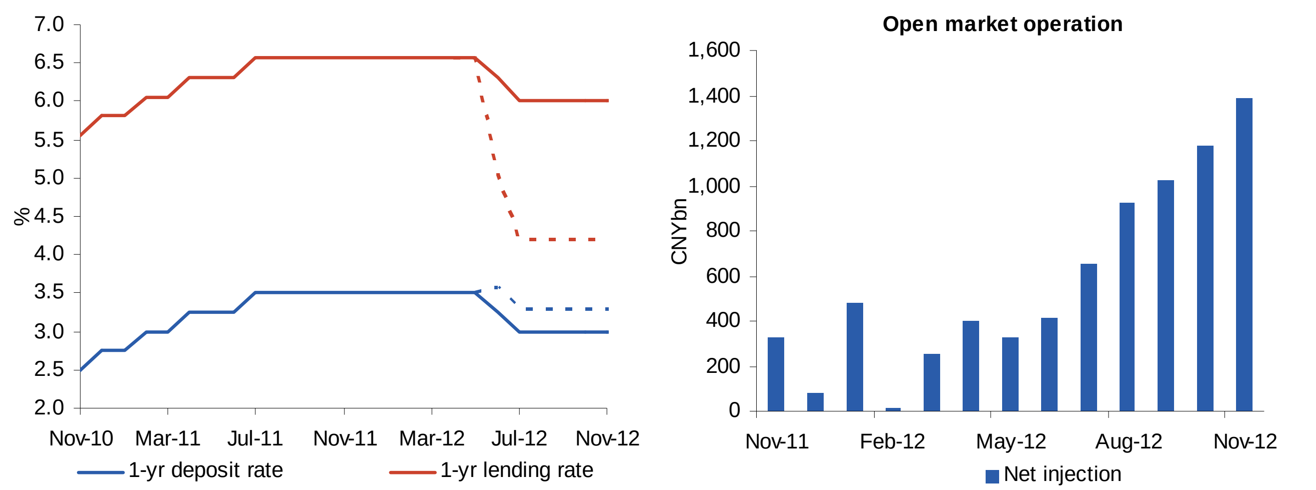
Positive impact from political cycle
We believe stabilization towards September – November is partly attributable to the national party congress in November, as the government provided a conducive environment during the leadership transition. Apart from increased fiscal spending, it was also done by: 1) positive media guidance to boost consumer confidence; and 2) induce firms to expect impending stimulus (see "18th Party Congress and economic cycle" 13 November).

2.3 Monetary easing stalled in 2H

In 2012, monetary policy has been more conservative than expected. PBOC adopted a relatively easy position in monetary easing with two interest rate cuts and two RRR cuts in 1H. In 2H, however, the central bank changed to frequent use of open market operations instead of the traditional monetary tools. It left the market's liquidity conditions in neutral position. The PBOC cited on its lack of easing: 1) Upward pressure in asset market; 2) Medium- to long-term inflation pressure; 3) The development of new financing channels; 4) The possibility of hot money inflow and 5) The lack of loan demand as the reasons against further monetary easing.

The open market operations, mostly with 7-, 14- or 28-days reverse repos, is unable to cater to the longer-term capital needs for business investment, however. The benchmark weighted-average SHIBOR also remain high, reflecting tight liquidity conditions. Further, as the global economic condition deteriorates, foreign direct investment declined by 3.8%YoY in January – September. Along with increased outward direct investment, it contributed to the deterioration of FX purchase position, hence tightened liquidity in 2012. We maintain that one more RRR cut is required before the end of 2012.

Fig 3 Monetary easing has been more conservative than expected



Source: CEIC, Mizuho research

2.4 Recovery not yet on solid footing

The economic downturn in 2012 has been milder than the 2008-2009 episode despite their similarities. It is important to note that the recovery is not yet on a solid footing and uncertainty abounds, despite the upbeat indicators recently. We maintain that it could also take longer to recover (see "A tale of two downturns in 2008 and 2012" 10 October). As such, we expect GDP growth to pick up modestly to 7.7%YoY in 4Q, leading to 7.7%YoY for full-year 2012.

3.0
2013 outlook: Investment is key to economic growth

We expect government-driven investment to be the key to China's growth in 2013, which will otherwise be moderate amid lacklustre external demand. As infrastructure investment faces new budget and political constraints, however, the support is not without uncertainty. Private investment will be less sanguine as manufacturers face excess capacity and property development still curbed by the government. On the other hand, consumption will maintain steady growth for another year amid resilient development in the labour market.

In addition, the government will continue the reforms in China's taxation system, and tolerate moderate increase in fiscal deficit for the increased spending. Mild inflationary pressure, meanwhile, is also conducive to further monetary easing in 2013. We expect frequent use of open market operations to continue, along with multiple RRR cuts.

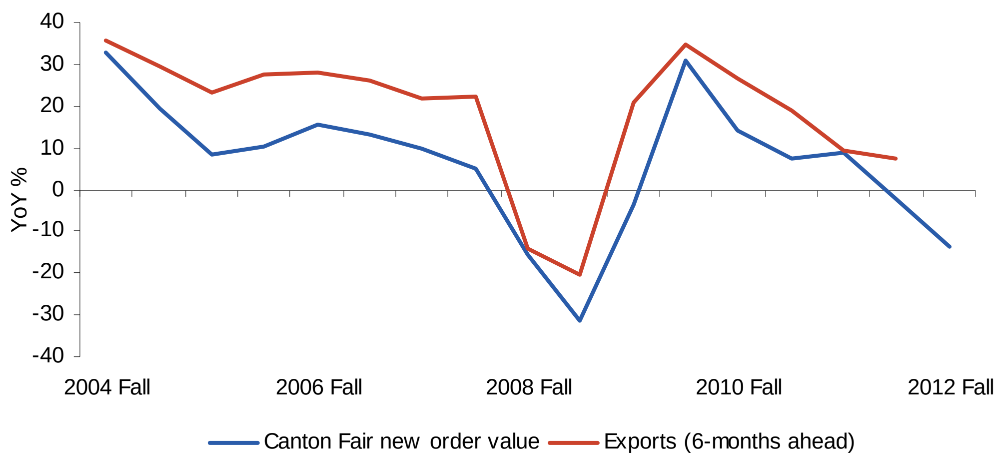
3.1 Another challenging year for Chinese exports

2013 is going to be another difficult year for the global economy. In the IMF/World Bank meeting in October, the chasm between German Chancellor Angela Merkel and Chief of IMF Christian Lagarde was brought under the spotlight, as the IMF argues that the austerity could potentially be damaging. Meanwhile, despite its concessions, the position of the Germans is still regarded as a major obstacle in solving the crisis. The sustainability of the current tension will be put to the test in Germany's next federal election in 2H 2013.

Meanwhile in the US, even if the fiscal cliff turns out to cause less damage than feared, it is still a long way from recovery. Since the outbreak of the financial crisis, the US government has launched three rounds of quantitative easing, only to limited results to its domestic economy. The lacklustre employment data indicates further negative pressure on the US economy in the coming quarters.

Overall, weak external demand for Chinese products is reflected in the disappointing new orders in the autumn session of the Canton Fair, which was down by 9.3% from the spring session. It shows that export growth will decelerate in the next six months from 2-3Q.

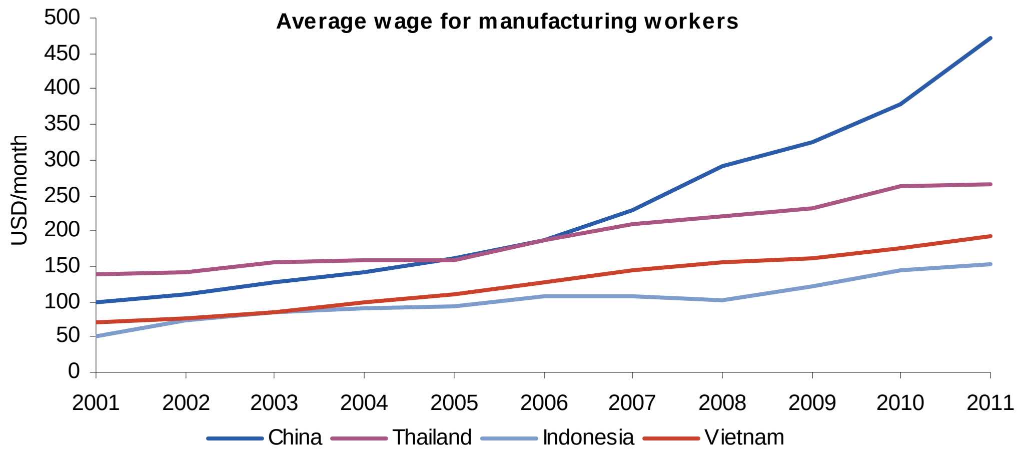
Fig 4 Export outlook is grim in 2013



Source: CEIC, Mizuho research

Also, the production costs for Chinese products have been rising relative to the other emerging markets. As such, the dominance of China as a low cost production centre is giving way to late-coming developing economies, such as Vietnam and Indonesia (see "China's exports at a crossroad" 10 May). We expect export growth in 2013 to be moderate and comparable to 2012, at around 6.0%YoY.

Fig 5 China is no longer the dominant lower cost production centre in the world



Source: CEIC, Mizuho research

3.2 Investment to rely on fiscal boost

Infrastructure spending to keep up with 12th Five Year Plan
As a measure to support the economy, infrastructure investment will rebound in 2013, with notable support coming from the railway. As railway spending comes from the central government's budget, funding should not be a problem. This year railway investment may be a bit above CNY500bn, and next year will be close to CNY600bn.

Other then railway investment, however, other infrastructure projects may not be as readily available. In 2012, over CNY20tn of local government has been announced (see "A tale of two downturns in 2008 and 2012). But the existing Local Government Financing Vehicle (LGFV) burden, the declined value of land collateral due to lower property price, reduced tax revenue due to economic downturn, and tight market liquidity has caused long delays in bank loan approvals.

Also, new investment may have to face a more rigorous assessment on environmental impact, after the aggressive resistance from the local residents in 2012, as exemplified in the recent protests in Zhejiang. Also, since the nuclear disaster in Fukushima, Japan in 2011, the NDRC has suspended the construction of nuclear reactor, especially the ones built in the in-land area. With these new constraints, although infrastructure investment will increase in 2013, its support to the economy will be mild.

The NDRC is also concerned that it may not be able to meet the investment target in the 12th Five Year Plan when a mid-plan review is carried out in 2013. Going forward, infrastructure spending will have to speed up in the 12th and 13th Five Year Plan, in order to stay ahead of China's problem with its aging population and its different fiscal spending priorities.

Manufacturers plagued with excess capacity
A recent government survey revealed that in China's industrial sector, 32% of businesses report having idle capacity. Overall, the sector is still plagued with excess capacity from the previous investment splurge, when the government loosened credit in 1H2009 to stimulate the economy.

According to the recent estimates from an IMF report, China's capacity utilization rate was around 80% before the outbreak of the global financial crisis, and it was already low by international comparisons. However, it dropped further to around 60% in 2011 (see "A tale of two downturns in 2008 and 2012" 10 October). It will be a drag on investment growth in the foreseeable future.

As a consequence, the excess capacity has also driven down profit, especially for the small- and medium-sized enterprises. According to the China Association of Small- and Medium-sized Enterprises, the business situation of the SMEs has recently hit the lowest since July 2010. Excess production capacity was named, among tax burdens and financing difficulties, as their main concerns, according to the association. Overall, industrial profit has also been declining, by 1.8%YoY in January – September.

The fixed asset investment in manufacturing sector has moderated to, for example, 22.8%YoY in January – November compared to 31.5%YoY a year ago. Within manufacturing, ferrous metal smelting and pressing and electrical machinery were down the most, to 2.7%YoY and 6.2%YoY from 18.6%YoY and 46.6%YoY in January – November 2011, suggesting significantly reduced incentive to invest.

In addition, businesses are hit in recent months by sharp rises in account receivables and "triangular debt", liabilities owed by companies to each other that could potentially set up a chain reaction in defaults. In January – September, the account receivables increased by 16.5%YoY, while revenue growth was slower at 10.2%YoY. At the end of the 3Q, the account receivables reported by the 2268 A-share listed companies have increased by 19.78%YoY to CNY1.99tn, far exceeding the growth in operations, at 6.17%YoY. It suggests the recent recovery of the Chinese economy is not yet on a solid footing.

Fig 6 Utilization rate has dropped further since the 2009 stimulus

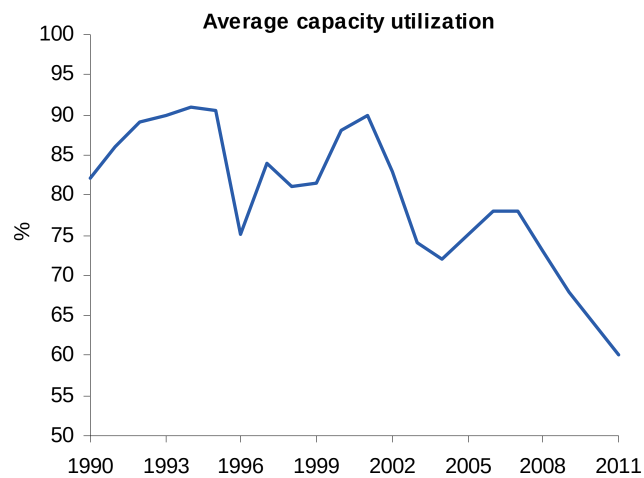
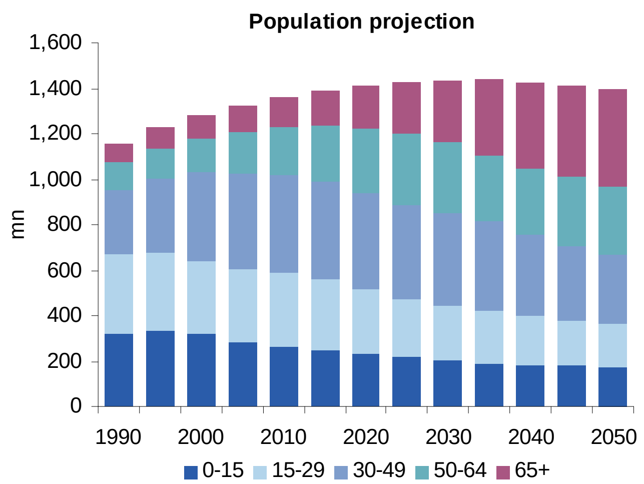
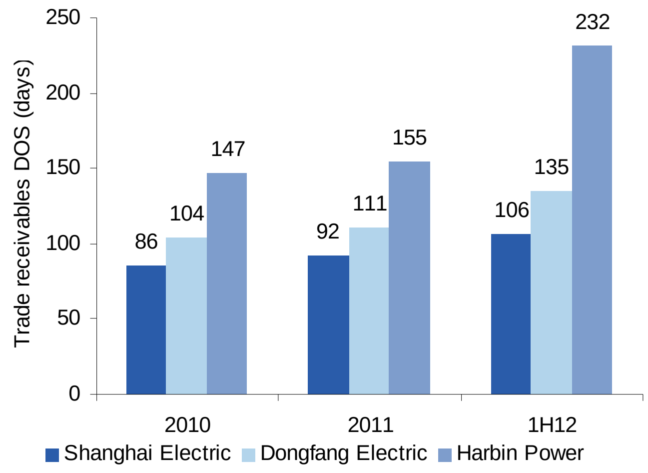


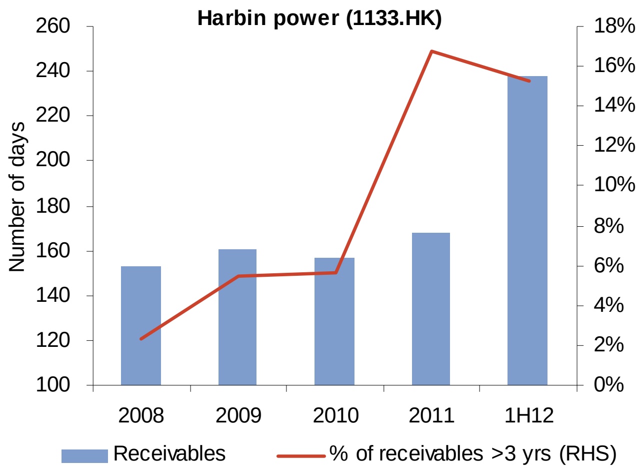
Fig 7 Infrastructure investment to stay ahead of aging population



Source: CEIC, IMF, UN, Mizuho research

Fig 8 Accounts receivables are on an uptrend the power equipment sector





Source: Bloomberg Mizuho research

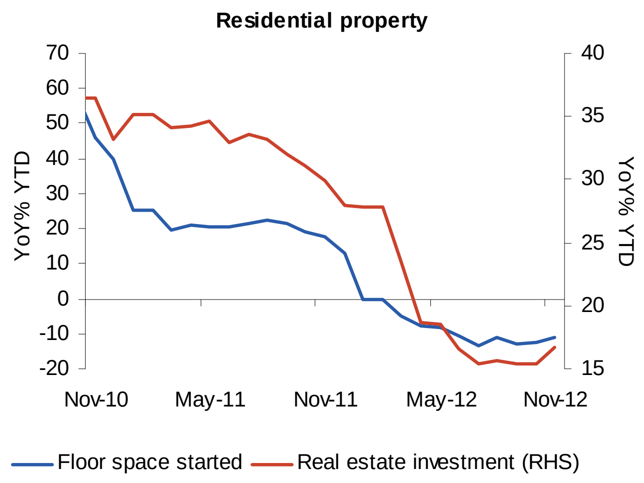
Property restrictions to stay in place

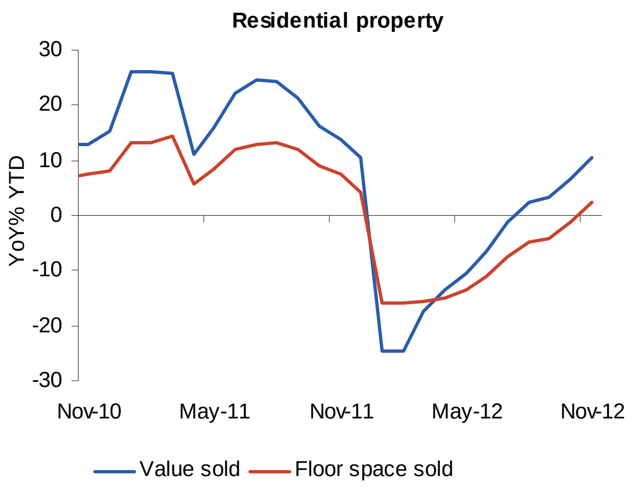
One of the main gridlocks in 2012 was from the property sector, as the government kept its restrictions on the property market despites its simultaneous objective to support growth through investment. In addition, the government's restriction limited property developers' ability to invest. The fixed asset investment in the construction sector has slowed to 18.7%YoY in January – November, from 38.8% YoY a year ago, while the new floor space started for commodity building has declined.

Together with the accelerating sales in recent months, it will create a bottleneck for residential housing supply and demand in the future, especially in tier-1 cities where demand remains strong. The markets in tier-2 and 3 cities, meanwhile, are still dampened by previous housing inventory pile up, and hence are more unlikely to lead a rebound.

In our view, Premier Wen Jiabao will likely claim victory for the curb on the housing markets at the National People's Congress in March. Withdrawal of the current housing market restrictions are still unlikely because the policymakers do not want to see a big price rebound. Rather, announcing an official end to the three-year-old campaign will give the government more room to fine-tune its policies with regard to an evolving economic situation and the property market. Also, policymakers will work to identify a suitable policy replacement to keep the housing market steady and price growth mild.

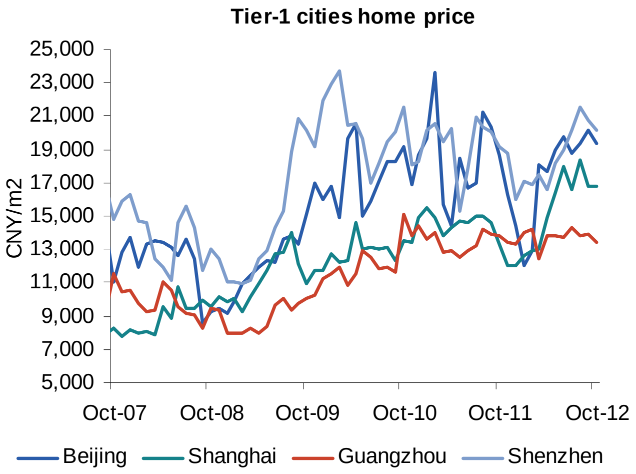
Fig 9 Purchase rebound and tight restrictions on development to create a bottleneck in the housing market

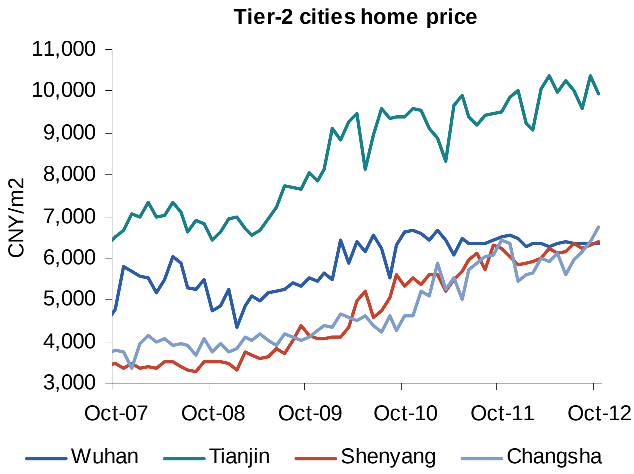




Source: CEIC, Mizuho research

Fig 10 Housing demand in tier-1 cities remain strong, but not so much in small cities





Source: CEIC, Mizuho research

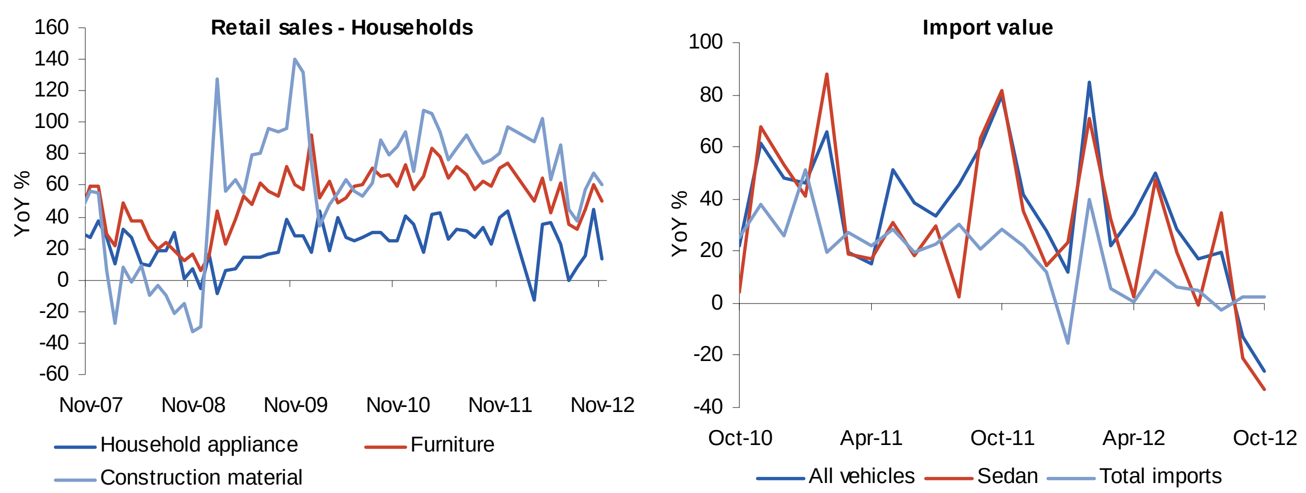
3.3 Consumption to maintain stable growth

Consumption remains a bright spot due to income growth
As a notable feature in the current economic downturn, the employment market remained resilient despite the weak production and exports. Urban household income picked up by 13%YoY YTD in January – September, while income for rural household was up by 15%YoY YTD. Resilient job prospect increases the incentive for consumption, which has been the bright spot in 2012 despite the economic downturn.

We expect the consumption to maintain steady growth in 2013. As property sales will continue to pick up, the sales of related items, including furniture, home appliance and renovation material will maintain steady growth. During the 18th Party Congress, the Ministry of Finance has announced that the current subsidy program for home appliance purchases in the rural area will expire by the end of January 2013, but similar program that could help to boost competitiveness of producers are expected to be launched shortly afterwards.

The main downside risk to consumption comes from the new government. As mentioned above, the new leaders may launch an anti-corruption campaign in 2013, and it will weigh on the housing market and luxury consumption in the short-term as potential buyers avoid suspicion. Overall, however, we maintain that consumption will continue to expand above trend, at 14.5%YoY in 2013.

Fig 11 Mass market retail sales is well supported while luxury goods has eased



Source: CEIC, Mizuho research

Growth rebalancing to continue in 2013
In 2012, consumption's contribution to GDP may for the second year exceed investment as the key growth driver for China. It is in-line with the government's goal to promote domestic demand as a growth driver, one of the key priorities in the 12th Five Year Plan. In 2013, we expect the contribution from consumption to rise further to 4.7ppts.

In order to generate stronger economic growth from the consumer sector, the new government has to focus on comprehensive structural reforms to share the country's wealth with its households. It includes: 1) reducing the tax burden; 2) raising SOEs' dividend payments; and 3) providing better public goods (see "A Tale of Two Bubbles: Will China repeat Japan's 'bubble burst' experience?" 28 May 2010). It requires the new leadership to shift the economy from "quantitative-based growth" to a "quality-oriented growth", in the next decade.

3.4 Fiscal stimuli other than infrastructure investment

Tax reform to expand further
In 2013, the government will keep proactive fiscal policy as its formal position, and the main source of support for the economy will come from government-driven investment. Other than that, proactive fiscal policy will also take the form of structural tax reforms. Before the 18th Party Congress, the government has pledged to replace business taxes with VAT in more industries to alleviate their tax burden and spur domestic demand.

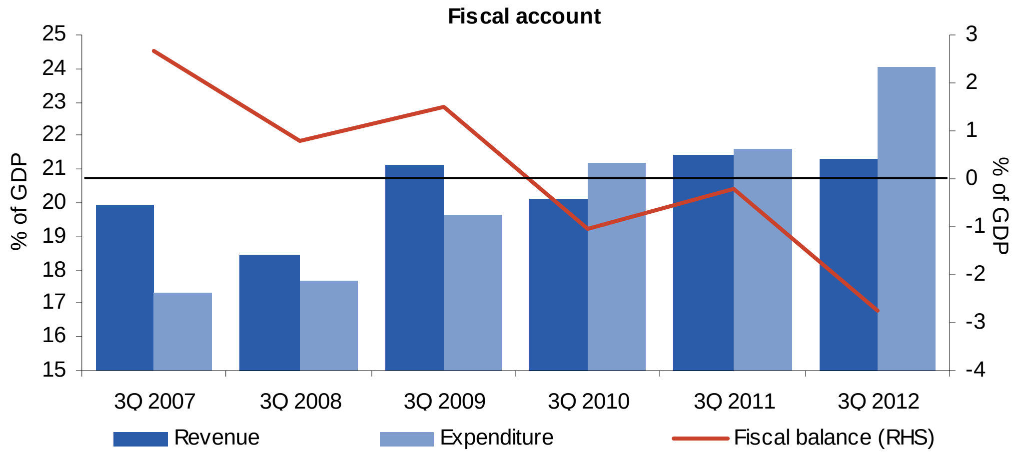
With a pilot program started in Shanghai on the transportation and service sector on 1 January 2012, the trial reform was quickly expanded to 10 provinces and cities, including Guangdong and Fujian most recently. It raised the expectation that it will soon become a nationwide policy (see "Is there a stimulus package or not?" 30 May).

In 2011, the business tax accounted for 15% of the government's total tax revenue, while the VAT took up 27%. The shift is expected to reduce up to 40% of the tax burden in some sectors, and it is estimated that 95% of taxpayers in the trial program will be taxed at lower or the same levels. The reform is expected to amalgamate all forms of China's turnover taxes into VAT over the long term.

Financing the fiscal investment
As a result of increased fiscal spending and the cut in tax revenue: 1) fiscal deficit in 2013 may have to increase from 1.5% in 2012 to 2.0%; 2) the government will continue to promote the development of private investment in traditionally monopolistic industries, in-line with the new 36 clauses 2013; 3) the issuance of high-yield corporate bonds will continue to be

encouraged, after close to 85%YoY increase in January – October; and 4) continue to issue asset backed notes to allow LGFVs to tap funds from the financial markets.

Fig 12 Increased fiscal spending weighs on fiscal deficit



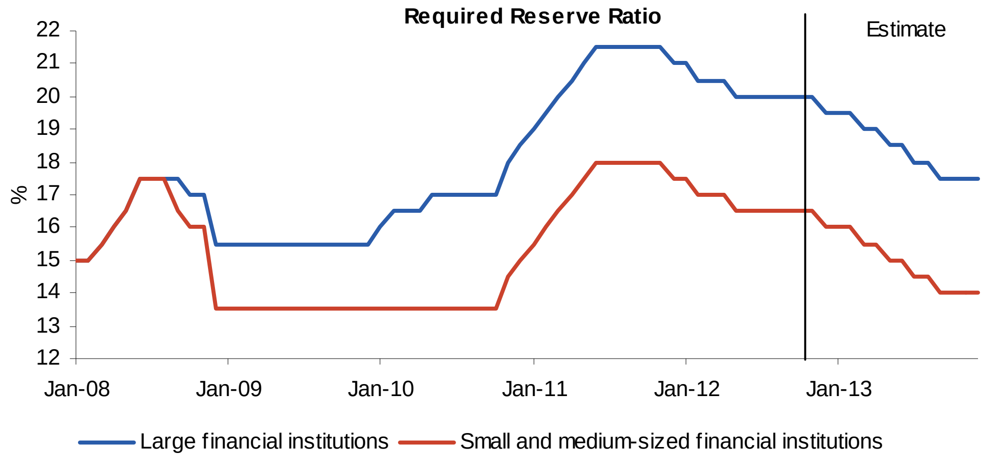
Source: CEIC, Mizuho research

3.5 Monetary policy: Maintaining stable liquidity

Benign inflationary pressure opens window for more easing
The current inflationary cycle likely bottomed at 1.7%YoY in October. Going forward, inflationary pressure is not going to be the economy's primary concern, mostly as the economy will continue to expand at below or at potential. Food prices may rise in 2013, as the pork price cycle has bottomed in July, but supply smoothing measures from government will likely dampen the forthcoming up-cycle. In addition, excess manufacturing production capacity and neutral liquidity position will keep non-food inflation mild. All in all, we expect inflationary pressure to be fairly benign at 3.0%YoY in 2013.

Multiple RRR cuts in 1H 2013
We maintain that PBOC will keep the monetary position neutral in 2013. It involves frequent use of open market operations again, together with two to four RRR cuts throughout 2013 to keep liquidity condition at a balanced level. Despite the open market operations for temporary easing, more long-term easing is necessary to provide liquidity for loans related to business investment. On the other hand, as the interest rate in the advanced economies are already approaching zero, raising interest rate in China may trigger hot money inflows. As such, it is likely that interest rates will stay unchanged in 2013.

Fig 13 We expect multiple RRR cuts in 2013

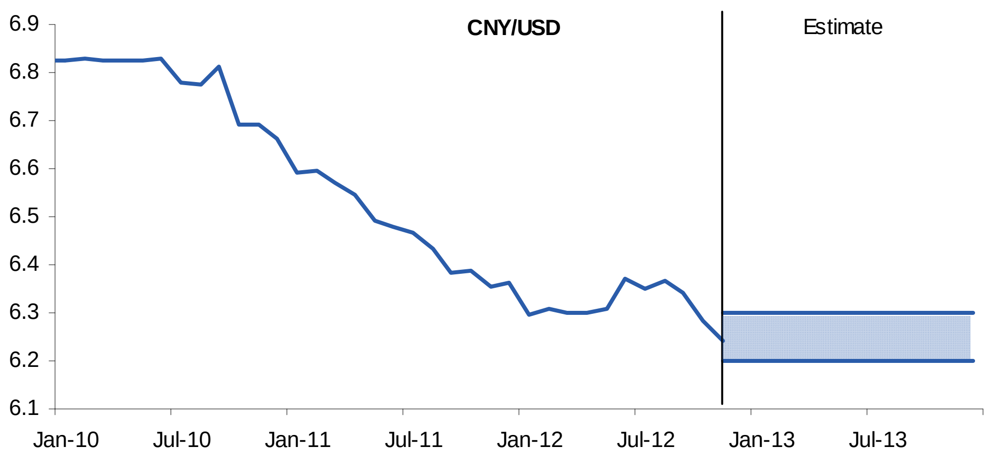


Source: CEIC, Mizuho research

CNY appreciation will not last

From CNY6.33/USD1 when the QE3 was announced, the RMB has appreciated to a record high at CNY6.22/1USD on 5 December. We maintain a downbeat outlook for China's external environment as the global economic outlook remains highly uncertain, and in response to the gloomy external outlook, the government has announced increases in export rebates and improved support for exporters. It is unlikely that RMB will be allowed to appreciate much further without intervention from the government (see "Flood of money: QE3's impact on China and Hong Kong" 24 October). Instead, the government will only allow the RMB to trade range bound at the current level, around CNY6.20/USD1 by end of 2013.

Fig 14 With government intervention, CNY/USD will reach CNY6.20/USD1 by end of 2013



Source: CEIC, Mizuho research

4.0
Moderate growth in 2013, but risk abounds

Fig 15 Forecast of key indicators

		Estimates			
	Unit	**4Q2012**	**1Q2013**	**2012**	**2013**
GDP	% YoY	7.7	8.0	7.7	7.8
		Estimates			
	Unit	**Nov 12**	**Dec 12**	**2012**	**2013**
CPI	% YoY	2.0	2.0	2.6	3.0
PPI	% YoY	-2.0	-1.6	-1.7	1.0
VAI	% YoY	9.8	9.8	9.8	10.0
FAI	% YoY YTD	20.8	20.9	20.7	20.8
Retail	% YoY	14.6	14.6	14.5	14.5
Export	% YoY	4.0	3.0	7.0	6.0
Import	% YoY	-1.0	4.0	4.1	8.0
Trade Balance	USDbn	22.1	15.4	218.5	195.3
New loans	CNYbn	520	560	8300	8000
M2	% YoY	14.0	14.0	14.0	13.5

Source: CEIC, Mizuho research

4.1 GDP growth to dip in 2H

All in all, we expect China's GDP growth to be moderate in 2013 at 7.8%YoY, as the economy faces not only a poor external environment, but also poor domestic demand. It will be marginally better than 7.7%YoY in 2012 in a "L" shaped recovery.

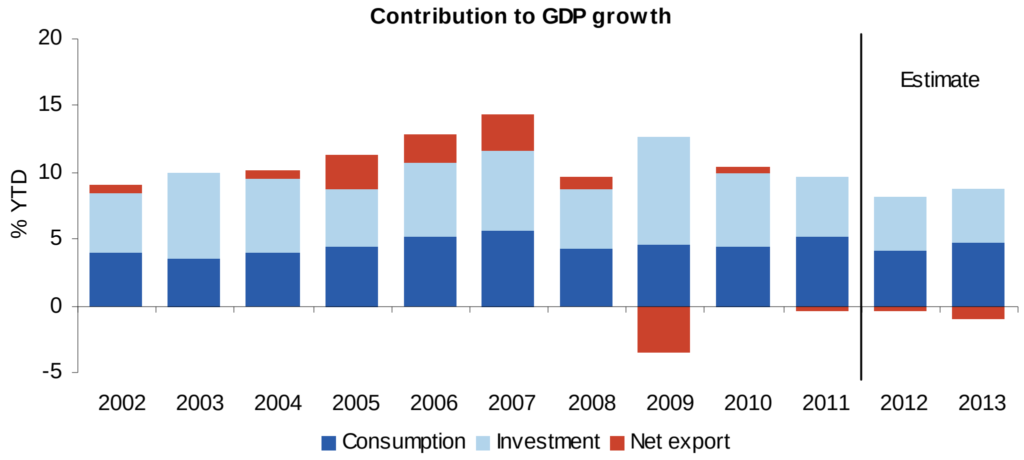
The deleveraging in the global economy will continue in 2013, dragged down by more bad news from the advanced economies. Lacklustre export growth will again constitute another year of negative contribution to GDP in 2013, at -0.9ppt.

Domestic demand will pick up moderately, but downside risk remains as the recovery has yet to pick up traction from investments. Meanwhile, we expect restrictions on the housing market to ease after the National Party Congress in March, to provide support to the economy through investment, as well as more property housing supply. Overall, we expect investment to contribute 4.0ppt to headline growth, slightly above the contribution in 2012.

Compared to investment and external demand, consumption remains the bright spot. The demand for luxury goods, however, may be dampened if the new government launches the anti-corruption campaign that puts potential buyers on hold. Nevertheless, the goal to double per capita income for both urban and rural residents by 2020 suggests that wage levels will continue to increase, and it will ensure resilient growth for consumption. It will contribute 4.7ppt to headline GDP in 2013, according to our projections.

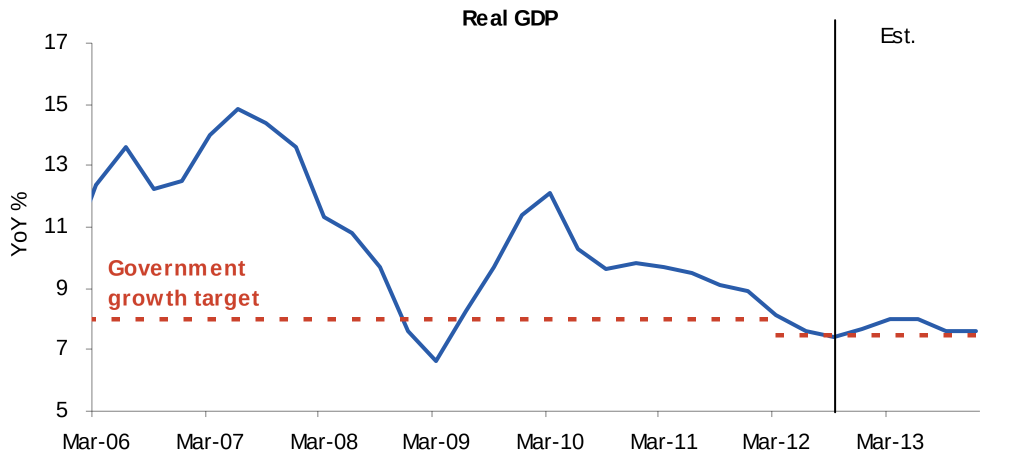
In our base case, we expect the economy to dip moderately in 2H, after front-loaded government-driven investment is spent. We expect GDP to stay at around 8.0% in 1H, followed by around 7.6% in 2H.

Fig 16 External demand is again the main drag in 2013



Source: CEIC, Mizuho research

Fig 17 We expect GDP growth in 2013 to be only marginally higher, at 7.8%YoY



Source: CEIC, Mizuho research

4.2 Downside risk: More defaults in the shadow banking system

There remain some plausible events that are not in our projection, but could change China's growth outlook significantly in 2013. In early December, the first case of wealth management product defaults was publicized when an employee at a Shanghai office in Huaxia bank was laid off for selling a defaulted wealth management product that allegedly was not issued or authorized to sell by the bank.

WMP resembling a Ponzi scheme

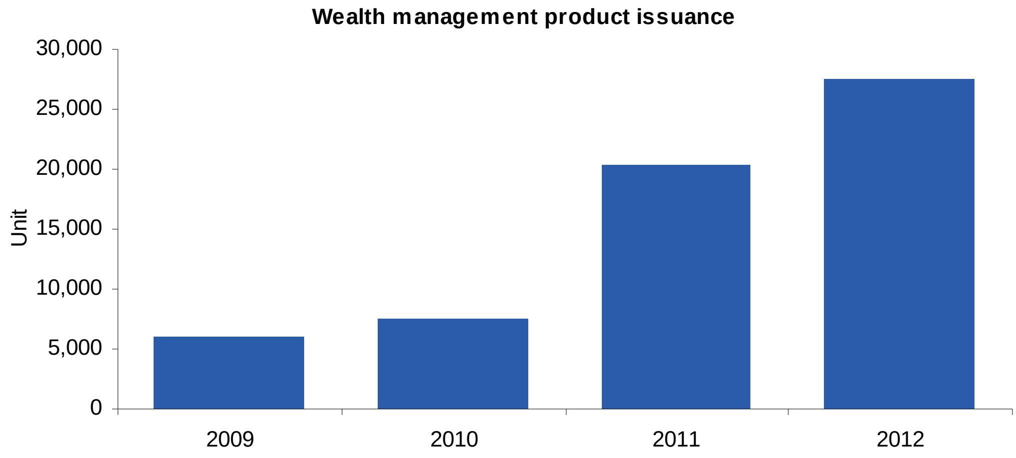
The issue reflects the lack of regulations in a rapidly expanding market. The traditional credit preference given to state-owned enterprises have made regular financing beyond reach for many small and medium enterprises (SMEs) in the private sector. Investors, meanwhile, seek higher return than bank deposits, as interest rate on deposits are still effectively capped by the PBOC. In 1H 2012, the size of the market is estimated to be at around CNY14.0tn, compared to the CNY4.8tn increase in new bank loans in the same period.

In October, the Bank of China Chairman Xiao Gang commented in the China Daily that the WMPs resembles a Ponzi scheme, as the products pays unsustainably high returns based on a dubious structure. The underlying asset in the Huaxia bank incident, which showed that the issuer is involved in fraudulent practices, underlies the risk involved.

Generally, these financial channels lack regulatory controls, and the responsibility for control now relies mostly on the banks and issuers. From the Huaxia bank case, it remains unclear if the selling bank has to take financial responsibility for the defaulted WMPs, which are sold to small, unsophisticated investors.

While the size of the Huaxia bank incident is small compared to the size of the market, more significant risk could be involved if more defaults follow. As many WMPs are used to finance infrastructure and property projects, significant contraction in the market could lead to tightened liquidity for related investments. Its damage to the financial system in a chain reaction can also be palpable. Assuming a mild case of outbreak in 2013, our GDP growth projection will slow further to around 7.5%YoY.

Fig 18 Wealth management product issuance expanded in recent years



Source: CEIC, Mizuho research

4.3 Upside risk: Easing property market restrictions

Alternatively, the government may be driven to ease the current restrictions on the housing market, and encourage construction in 2013, in order to 1) boost economic growth; 2) ease the problem with supply bottleneck in tier 1 cities in the future; and 3) implement the government's demographic urbanization policy.

As the government would like to avoid a massive bounceback in property prices, the easing will mostly likely be through local government initially on a piecemeal basis. It will likely focus on tier 1 cities, where potential demand is strong and the threat of a supply bottleneck in the future is the largest.

The property sector constitutes around 13% of China's GDP, and property sales has significant implications on the sales of related items such as renovation material, home appliances and furniture. Through releasing the demand from property buyers, we expect GDP growth to reach around 8.0%YoY.

The housing market is part of the government's consideration on household registration system reform and population migration. In the urban area, the government seeks to provide diverse housing options for its residents: "move up" options for local residents and "first home" for immigrants.

In addition to the 5-6 million units of social housing that is scheduled to begin in 2013, the government may also review the current system for social housing, in the form of in-kind construction or monetary subsidies. It will trigger a new round of construction cycle for affordable housing.

Property sector

Surfing with the liquidity tide

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Polarisation is the key word in 2013
Looking ahead to 2013, we expect no major changes on the housing policy front: banks will continue to be cautious in lending to the developers; housing purchase restrictions are unlikely to be abolished as there is no effective replacement measure; the property tax may not be rolled out at the national level. On the positive side, we expect the overall liquidity of the sector will improve moderately as a combined result of the developers restrained capex in 2012 and expected gradual recovery of the sector.

However, the upside is still capped by the policy outlook and the strength of the economic recovery which is expected to be front-loaded in 2013. As such, we expect the polarization will continue in 2013, more so entering into 2H13 with the tapering off of "risk on" trading. Bellwethers will continue to take market share and outperform, thanks to the better brand names, cheaper funding costs and stronger execution capabilities. On the other hand, high-beta names with weak brand names may still find it difficult to enhance momentum in 2013.

Liquidity driven rally expected to last for a few more months…
Despite the drastic differences in operational performance, the high-beta names have recently been traded up together with the higher quality names. Such a rally is mainly driven by the influx of "hot money" and less to do with fundamentals. Our study found that historically there is a positive correlation between the strength of HKD and PE multiple. With the prevailing optimism associated with the hope of GDP bottoming out still abundant in the market, we expect high-beta names may not see a meaningful correction in the next several months.

… but there are risks
However, we do expect two major risks could potentially reverse the current risk-on trading for high-beta names. Firstly, the announcement of FY12 annual results in March would divert investors' attention more toward fundamentals and cause differentiation in share price performances. Secondly, the softening of economic growth momentum will dispel optimism and cause retracement of high-beta names.

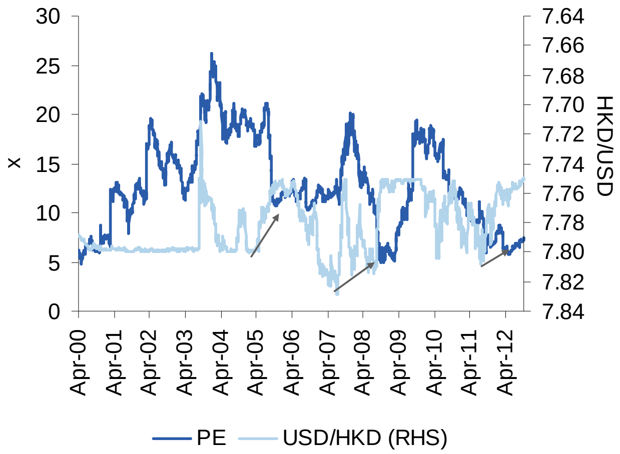
Investment suggestion
Our stock recommendations reflect our expectation of continued polarization and consolidation in the sector. We have 6 BUY and 5 Underperform ratings. CR Land, Country Garden and KWG are our top picks for large-, mid- and small-cap developers. We also like COLI, Franshion and Yuexiu. We have UNDERPERFORM ratings for high-beta names, including Guangzhou R&F, Evergrande, SOHO China, Agile and Renhe Commercial.

Fig 1 Sector valuation

	Ticker	Rating	Price (HKD) 6 Dec 2012	Price objective (HKD)	End-FY12 net gearing ratio	FY12E PER (x)	FY12E PBR (x)
Country Garden	2007 HK	BUY	3.70	3.95	48.1%	8.0	1.39
KWG	1813 HK	BUY	5.73	6.13	70.2%	7.0	0.89
CR Land	1109 HK	BUY	21.05	20.51	62.8%	19.0	1.81
COLI	688 HK	BUY	23.10	21.34	31.3%	11.6	2.25
Franshion	817 HK	BUY	2.75	3.08	35.7%	9.9	0.87
Yuexiu	123 HK	BUY	2.46	2.28	76.0%	9.7	0.81
Guangzhou R&F	2777 HK	U/P	12.82	8.42	76.6%	7.7	1.32
Evergrande	3333 HK	U/P	4.00	2.71	89.0%	6.8	1.19
SOHO China	410 HK	U/P	5.99	5.24	24.5%	6.9	0.98
Agile	3383 HK	U/P	10.78	7.55	75.4%	7.6	1.21
Renhe Commercial	1387 HK	U/P	0.495	0.26	25.0%	14.5	0.39

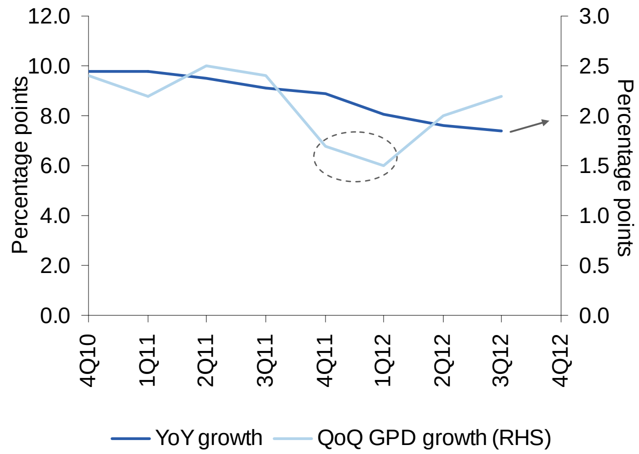
Data as at 6 Dec 2012. U/P=UNDERPERFORM. Source: Bloomberg, Mizuho research

Fig 2 Strong HKD leads to higher PER



Source: CEIC, HKMA, Mizuho research

Fig 3 GDP will see rebound in 4Q12 and early 2013



Source: CEIC, Mizuho research

Fig 4 Lower borrowing cost as a result of improved liquidity

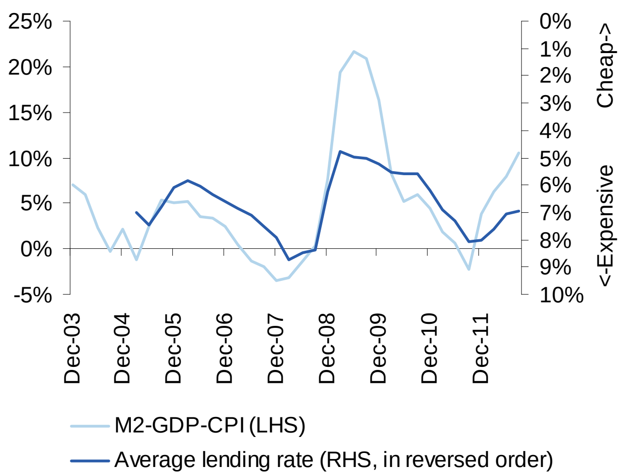
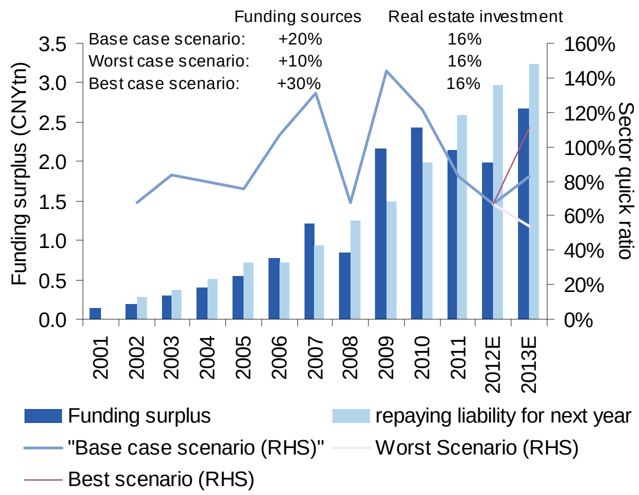
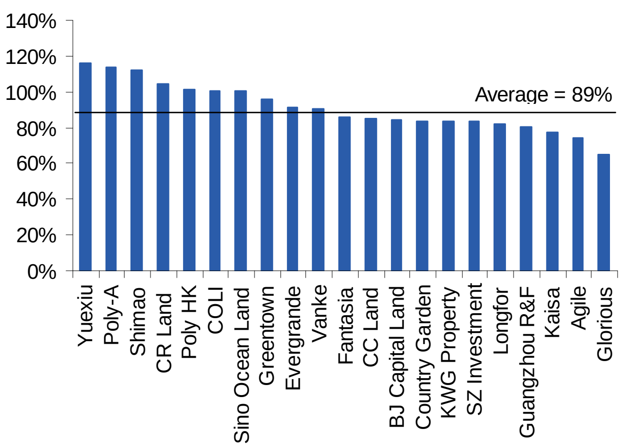


Fig 5 Developers' repayment pressure would ease in 2013



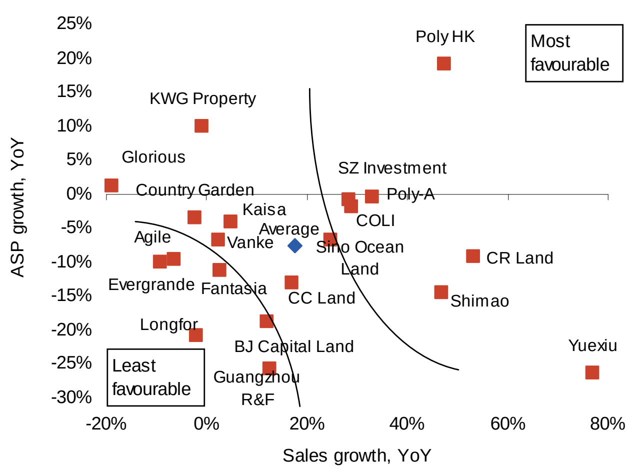
Note: sector quick ratio=funding surplus/liability due next year. Source: CEIC, Mizuho research

Fig 6 Developers' YTD contract sales as % of full year target



Source: Company data, Mizuho research

Fig 7 YoY Growth of sales and ASP



Source: Company data, Mizuho research

Banking sector

Buy…on bad news

Sector analyst

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Credit cycle turning down at last
China is currently in the midst of its first credit crunch since the banking sector started to modernize in 2000. Total NPLs increased for the first time in 13 straight quarters in 4Q11. From the low watermark in 3Q11, NPLs in the system have increased 17% in value as of 3Q11. Net new problem loans increased substantially this year for the smaller H-share banks, probably because of their greater exposure to SMEs. China Minsheng Bank, one of the top micro lenders, reported a 35% increase in NPLs YoY to 3Q12. The Big four banks were not unscathed, however. China Construction Bank (CCB) saw a 12% increase in problem loans over the same period due in large part to credits booked to companies in Zhejiang and Jiangsu provinces, the epicenter of the current credit downturn.

Bad news is good news
We expect the current credit quality downturn to last another year in China. While this is a setback for the banks, the good news is that the H-share banks are not simply rolling over every bad loan on their books. We think this shows a more mature approach to credit management. Investors have been skeptical about credit grading practices on the Mainland. It is essential for the share prices for banks to be willing to take a more realistic approach to troubled loans. We think the current NPL trend demonstrates just that.

No concerns about a banking crisis
Despite the downturn in credit quality, the financial impact on most banks in China is likely to be mild. Sectorwide, the NPL coverage ratio stands at 290% as of 3Q12. The H-share banks have coverage ratios ranging from 237% (Bank of China) to 377% (China Merchants Bank). The implication is that banks can withstand a substantial write-down of problem loans with little to no impact on earnings.

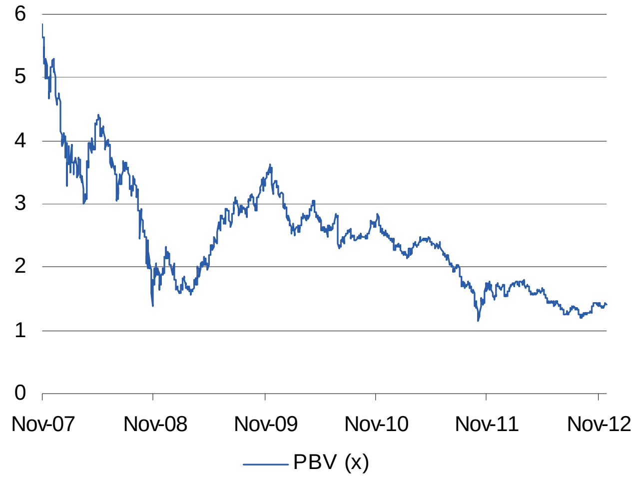
Pay attention to the seasonal earnings pattern
We are constructive on the China bank H-shares given what we see as the current shift in credit practices. Our top picks include Industrial and Commercial Bank of China (ICBC), China Construction Bank, and, among the smaller institutions, China Minsheng Bank, all of which we rate BUY on a one year view. We think the ideal entry point will be in February/March 2013, in conjunction with the release of full year results. Earnings tend to be weakest for 4Q each year due to higher operating costs and seasonally high provisions. Assuming the market trades down on 4Q12 earnings, we would be buyers of ICBC and CCB, in particular.

Fig 1 Sector valuation

(HKD)	Ticker	Rating	Price 6 Dec 12	Price objective	Up/ downside	2013E PBV (x)	2013E Div. yield	2013E ROE
Big 4 banks								
Agricultural Bk of China	1288 HK	U/P	3.43	3.34	-3%	1.09	5.9%	20.1%
Bank of China	3988 HK	N	3.30	3.63	+10%	0.83	6.9%	17.2%
China Construction Bk	939 HK	BUY	6.09	6.78	+11%	1.14	6.3%	21.9%
ICBC	1398 HK	BUY	5.29	6.05	+14%	1.20	6.0%	21.9%
Other nationwide banks								
Bk of Communications	3328 HK	U/P	5.76	5.70	-1%	0.83	4.5%	15.9%
China Citic Bk	998 HK	N	4.08	4.46	+9%	0.69	7.1%	17.3%
China Merchants Bk	3968 HK	U/P	15.54	13.32	-14%	1.24	3.8%	20.2%
China Minsheng Bk	1988 HK	BUY	8.23	8.50	+3%	0.94	5.4%	21.1%
Regional bank								
Chongqing Rural Comml Bk	3618 HK	U/P	3.49	3.26	-7%	0.69	6.2%	19.0%

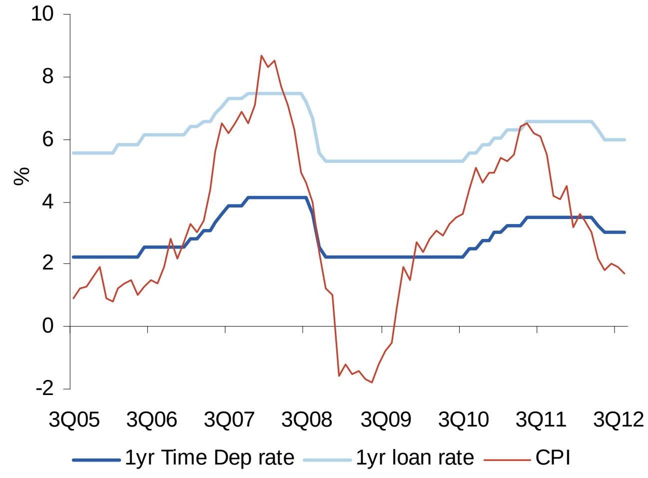
Data as at 6 Dec 2012
N=NEUTRAL; U/P=UNDERPERFORM.
Source: Bloomberg, Mizuho research

Fig 2 Valuation: Reasonable



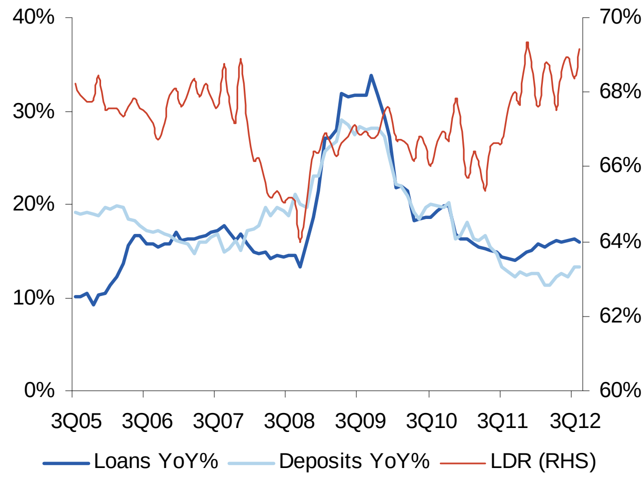
Source: Bloomberg

Fig 3 Time deposit rate higher than inflation in 2012



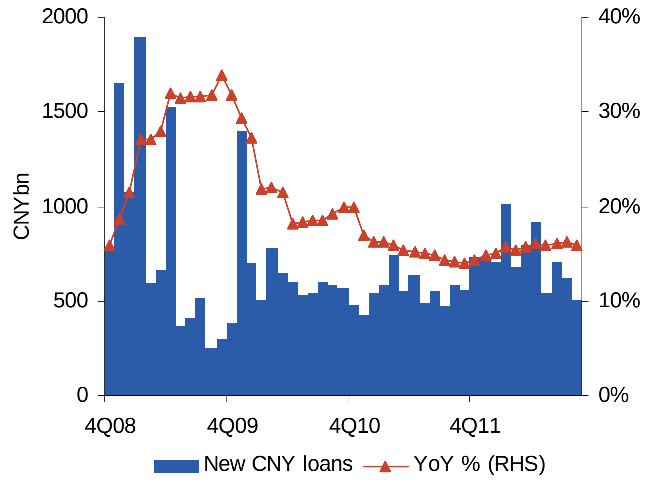
Source: CEIC

Fig 4 Deposit growth lags loan growth in 2012



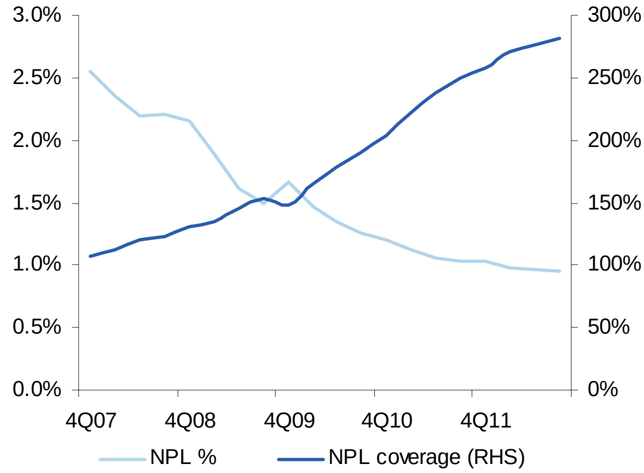
Source: CEIC

Fig 5 Loan growth seems to have normalized



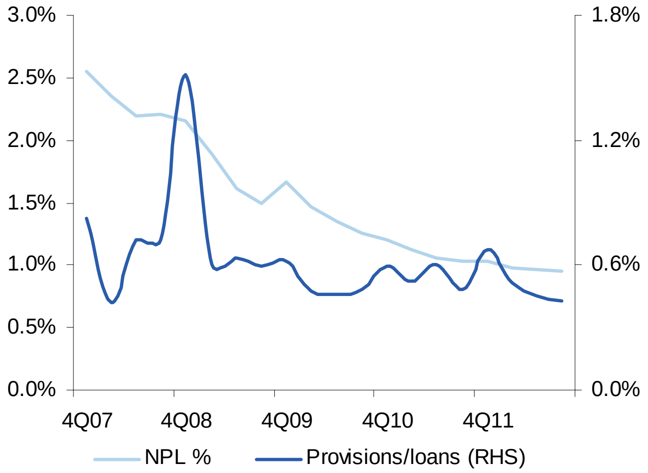
Source: CEIC

Fig 6 Highest NPL coverage ratios globally



Source: H-share banks data

Fig 7 Provision costs fairly steady around 40-45bp of loans



Source: H-share banks data

Insurance sector

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More Fundamental Weakness

We anticipate 2013 will be another year of struggle for the mainland Chinese life insurers. Premium outlook for 2013 is likely to be lower than 2012 as agency headcount will be flat, while there will be only limited improvement in the bancassurance arena. Any premium growth improvement over 2012 is likely to be highly dependent on an improved capital markets environment and more competitive insurance crediting rates. As there is likely to be limited support for growth from retained earnings, the sector is likely to continue to be more reliant on capital raises in order to support growth. In our view, increased negative pressures from a weak A-share market are likely to continue to erode solvency margins as NAV gets reduced. Provided this is the case, we believe that the life insurance sector will prefer issuing equity over subordinated debt, as more life insurers are likely to approach the 50% NAV debt ceiling imposed by the CIRC – subordinated debt can only amount to 50% of NAV when calculating solvency margins. Minimum solvency margins were raised to 150% last year.

In addition to the straightforward capital support for growth problem, there are two more issues with the use of debt:
1) Double Edged Sword: The rash of both equity and subordinated debt issuances over the last 12-15 months suggests that the insurance companies are well placed for capital. However, when equities represents on average 100% of shareholder's equity and when the Shanghai Composite Index has fallen 501 points (20.3%) since 2 March 2012, the question is how much room is there from a NAV perspective to support subordinated debt issuance to reach the 150% solvency margin. As NAV erodes due to asset marks and impairments, the less that subordinated debt can be used to count toward solvency margins – effectively making declining equity markets a double-edged sword for capital within the sector; and

2) Negative Spread: Given China's tight liquidity – despite the PBOC's recent change on their stance on reverse repurchase activities – life insurance companies are being forced to raise subordinated debt at rates in excess of the average investment return, as well as the highest yielding fixed income product in China – negotiable CDs. Coupled with negotiable CD rates taking a breather, we find the heavier debt cost is likely to place substantive pressure on net investment yields. We also see an evolution of investment portfolios. Given the pressure seen on solvency margins the mainland Chinese life insurers have begun reducing their investment portfolio's percentage of exposure to the A-share market to under 10%, as the sector becomes increasingly cautious to the impact of A-share market impairments. Bank negotiable CDs (a major portion of any insurer's investment portfolio) grew rapidly during 1-3Q2012. However, due to the PBOC's enormous reverse repo activity, the gross yields of this investment have declined substantially (declining 63bps to 2.17% in 3Q12) to the point where negotiable CDs are unlikely to be the investment of choice going forward – potentially exacerbating the risk of negative carry on new subordinated debt issuances. Investment portfolios are expected to shift towards the high grade corporate bond market – especially as the fixed income market deepens.

Prefer P&C Over Life

As we are negative on the life insurance sector from a fundamental earnings growth, and valuation perspective – especially relative to the larger mainland Chinese banks, we are substantially more optimistic on prospects for P&C insurance both from a premium growth, investment portfolio, better capital management, liability duration, and their focus on their automobile sector perspectives.

Fig 1 Sector valuation

	Ticker	Rating	Price Objective (HKD)	FY13E PBV (x)	FY13E ROE	FY13E Dvd yield
AIA Group	1299 HK	Buy	34	1.51	12.7%	1.3%
China Life Insurance	2628 HK	Underperform	12	1.85	14.1%	2.3%
China Pacific Insurance	2601 HK	Underperform	19	1.9	14.0%	2.5%
China Taiping Insurance	966 HK	Underperform	8.5	1.49	7.5%	n.a
New China Life	1336 HK	Underperform	19	1.18	8.3%	0.4%
Ping An Insurance	2318 HK	Buy	68	1.2	8.4%	1.0%
PICC Property & Casualty	2328 HK	Underperform	6.5	1.47	17.5%	3.0%

Data as at 6 Dec 2012. Source: Mizuho research

MIZUHO

Consumer sector

Signs of a bottoming

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Following a slow 1Q, the overall retail environment has seen stabilization in 2Q. Hopes of a 2H recovery, however, have been dampened by a weaker than expected 3Q. There has been impact during 3Q from volatile weather patterns as well as calendar shift for mid-Autumn festival. Golden Week also saw a greater shift towards tourist related spending. These issues aside, we believe weak macro conditions have hampered consumer sentiment.

The extent of the slowdown has come as a surprise to a number of the companies, as well as the market. There has also been limited support so far in terms of government stimulus measures. Going forward, nevertheless, we would note the following: 1) the upcoming leadership change should provide the basis for a mild economic recovery, 2) 3Q has been impacted by factors that likely exacerbated the slowdown, and 3) we are entering a period of easier YoY comparisons.

Consumer discretionary sector as a whole has seen a significant de-rating over the past year reflecting vulnerability in terms of both growth estimates (both real and perceived) as well as a multiple de-rating. Certain sectors such as sportswear and home electronics are likely to continue facing industry specific structural challenges. In general, however, as China enters into a phase of more modest growth we believe the playing field has changed. Expansion driven growth will become increasingly challenging in an era of slower macro growth, increased competition as well as ongoing cost pressure. Retailers with solid brand positions as well as robust retail capabilities will be best positioned in a period of slower growth.

Our preference remains with larger cap, fundamentally robust retailers with strong gearing to faster growing lower-tier cities. We remain positive on Belle (1880 HK, BUY) in this respect. We believe structural uncertainties in the sportswear sector remain. Industry restructuring is, however, taking place. Longer term we believe ANTA (2020 HK, NEUTRAL) is best positioned to weather the downturn. The outlook for the home electronics sector remains difficult, we recently upgraded Gome (493 HK, NEUTRAL) on valuation grounds.

In terms of international names we remain positive on the longer-term growth prospects for Prada (1913 HK, BUY). The outlook for Esprit (330 HK, UNDERPERFORM) remains difficult although the rights issue at least eases near-term balance sheet concerns. The recent capital raising by Li & Fung (494 HK, UNDERPERFORM) highlights ongoing funding needs for the group.

Fig 1 Sector valuation

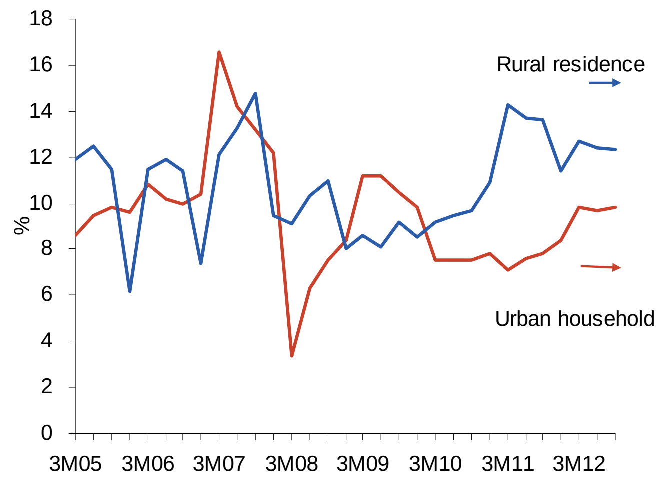
(HKD)	Ticker	Rating	Price 6 Dec 2012	Price objective	Up/downside	2012E PER	2012E Div yield	2012E PBV
Prada	1913 HK	BUY	64.50	76.00	+17.8%	27.1	1.1%	7.0x
Belle	1880 HK	BUY	16.50	15.45	-6.4%	24.1	1.0%	6.1x
ANTA	2020 HK	NEUTRAL	5.70	4.50	-21.1%	8.5	7.1%	1.7x
Gome	493 HK	NEUTRAL	0.79	0.80	+1.3%	nm	0.0%	0.7x
Peak Sport	1968 HK	NEUTRAL	1.39	1.38	+0.7%	5.5	5.6%	0.6x
Esprit	330 HK	UNDERPERFORM	12.02	8.60	-28.5%	nm	0.0%	1.1x
Li & Fung	494 HK	UNDERPERFORM	12.92	11.30	-12.5%	26.3	3.5%	2.9x
Li Ning	2331 HK	UNDERPERFORM	4.19	3.60	-14.1%	nm	0.0%	1.1x
Parkson	3368 HK	UNDERPERFORM	5.66	5.60	-1.0%	14.2	3.2%	2.2x

Source: Mizuho research

Fig 2 China consumer confidence index

Source: NBS

Fig 3 China – Real income growth

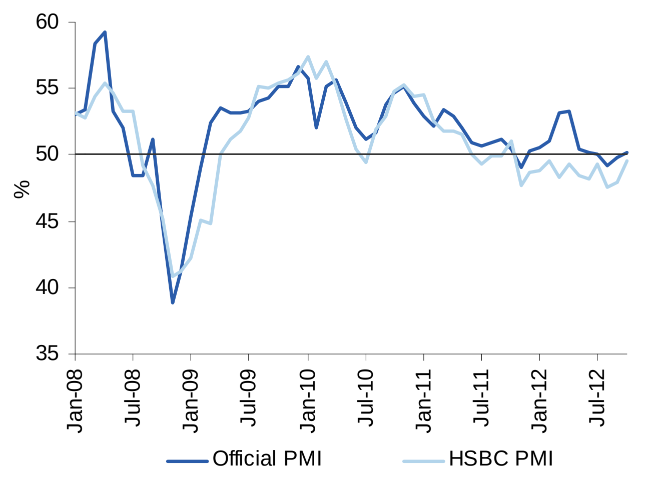


Source: NBS

Fig 4 China CPI trend

Source: CEIC

Fig 5 China PMI trend



Source: CEIC

Fig 6 Comp store sales trends

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	1H11	3Q11	4Q11	1Q12	2Q12	3Q12
ANTA	Over 10%	High sd	High sd	High sd	High sd	High sd	High sd	Mid sd	Flat	- Low sd	- High sd	- High sd
Li Ning	5%	4%	4%	4%	Low sd*	Low sd	Low sd	Low sd	Slight -ve	Slight -ve	- High sd	na
Peak	15%	13%	13%	13%	13%	12%	12%	6%	2%	Flat	-19%	Flat
Belle - Footwear	18%	18%	18%	16%	22%	20%	21%	19%	8%	3%	11%	3%
Belle - Sportswear	4%	4%	3%	7%	7%	6%	6%	3%	4%	-2%	5%	4%
Parkson	11%	12%	11%	12%	14%	13%	13%	12%	8%	2%	4%	na
Golden Eagle	26%	24%	20%	24%	32%*	23%^	29%	27%	18%	9%	9%	mid-high sd
Intime	18%	16%	19%	20%	27%	27%	28%	27%	16%	9%	9%	4%
Gome	24%	27%	14%	23%	8%	7%	7%	4%	-6%	-34%	-19%	-15%

Source: Company reports

MIZUHO

Gaming sector

Re-rating to continue

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Macau: GGR to grow 14% in 2013

Gross gaming revenue in Macau grew 13.5% YoY in the first 10 months of 2012. Preliminary figures show that GGR is growing at about 8% YoY in November, accelerating from year-on-year growth of 3.2% in October. We maintain our forecast of 12.3% growth in GGR for 2012 full year. New capacity – in terms of both gaming tables and hotel rooms (at Sands Cotai Central) – will come on stream as we enter 2013, which will be positive for the industry. We forecast GGR growth to increase to 14% next year.

Singapore: A laggard

We note a high correlation between the growth in Macau GGR with a 6-month lag and China M2, and believe M2 to be a leading indicator for gaming revenues. Given the fact that about 50% of Genting Singapore's gaming patrons come from North Asia (including Greater China, Japan and Korea), we believe the improving liquidity position in China will eventually have a positive ripple effect on the gaming revenues in Singapore. Besides, the Marine Life Park – the world's largest oceanarium – at Resorts World Sentosa (RWS) soft-opened in November 2012. The launch of this second major attraction, in addition to the Universal Studio Singapore, at RWS will help attract more tourists to the integrated resorts and to the city. We expect GGR in Singapore to grow 9.5% in 2013.

More generous dividends

Strengthening free cash flows have increased the casino operators' capacity to distribute more dividends. In particular, Las Vegas Sands (LVS US, NR) and Wynn Resorts (WYNN US, NR) have planned to increase their regular dividend by 40% and 100%, respectively. It is worth noting that Sands China contributed about 49% of LVS' total adjusted EBITDA, while Wynn Macau made up 75% of Wynn Resorts' total adjusted EBITDA. The commitment to increase regular dividends at the parent groups implies that their respective Macau units will have at least to maintain, if not increase, their dividends too. Meanwhile, we expect SJM to continue to pay special dividends and in total distribute at least 75% of its profit, which is well-supported by its strong balance sheet as well as aligned management interests. For Genting Singapore, cash will be reserved for potential new gaming projects. In particular, the management is very positive that legislation on gaming in Japan will be relaxed in 2013.

Our pecking order

With VIP coming back to the casinos and more generous dividends from the operators, we believe the re-rating process of the gaming sector will continue in 2013. We keep Sands China as our top pick, as it will be the only one in Macau that will add new capacity in the coming year – 200 additional gaming tables in January and about 2,100 Sheraton-branded hotel rooms in 1Q13. Green light from the government on its new project at Parcel 3 in Cotai will be another catalyst. Our pecking order is Sands China > SJM > Genting Singapore > MGM China > Galaxy > Wynn Macau > Melco Crown.

Fig 1 Sector valuation

			Up/		EV/Adj. EBITDA (x)		Dividend yield	
(HKD)	Ticker	Rating	Downside	PO	Dec 12E	Dec 13E	Dec 12E	Dec 13E
Sands China	1928 HK	BUY	+17%	38.00	18.8	15.4	4.2%	5.9%
SJM	880 HK	BUY	+14%	19.80	9.9	8.7	5.5%	6.3%
MGM China	2282 HK	BUY	+9.6%	15.50	9.1	8.6	4.6%	4.6%
Galaxy	27 HK	NEUTRAL	-6.5%	26.40	12.2	10.2	0.0%	0.0%
Wynn Macau	1128 HK	NEUTRAL	+9.1%	22.70	12.6	11.3	4.6%	5.3%
Melco Crown	6883 HK	NEUTRAL	-9.5%	34.40	9.7	8.9	0.0%	0.0%
Genting Singapore	GENS SP	BUY	+23%	1.52*	11.5	9.2	0.8%	0.8%

*SGD. Data as at 6 Dec 2012. U/P = Underperform. Source: Mizuho research

Industrial sector

Stay defensive

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Construction Equipment

FAI growth should stabilise in 2013 after decelerating from 25.0% in 2011 to 20.7% at the end of 2012. Although we see little chance of significant stimulus after the new government is formed in March 2013, we think a stabilisation of the FAI growth is good enough for the construction machinery stocks. YTD to October, demand for excavators, cranes and concrete machinery are -37%,-34% and 0%, respectively.

Customer financing remains an issue that needs to be monitored closely. However, for Zoomlion (1157 HK, BUY), we think the situation is manageable. A 2% write-off on the customer financing portfolio equals 13% off on net profit. Demand for construction has shown signs of stabilisation. Jul – Oct excavator sales volumes were forming bottom at 5,500-6,000 units per month -60%YoY from the monthly average of 2011. Both truck cranes and wheelloaders also had similar development. We continue to prefer construction equipment over mining equipment, ie. Zoomlion over Sany Heavy Equipment (631 HK, UNDERPERFORM).

Railway equipment

In the 12th five-year plan (2011-15), total railway infrastructure capex is CNY2.8tn. However, this has been rumoured to be revised down to CNY2.3tn. Capex for 2011 was CNY469bn and for 2012 it is announced to be CNY516bn. We think annual infrastructure capex range is CNY400-500bn. The equipment capex should be around CNY120-130bn per year. We think valuation for railway equipment stocks is on the high side with PER 13E of 7 - 22x. The exception is China Automation Group (569 HK, BUY) with PER13E of 6.8x and EPS CAGR12-14E of 12%.

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Power equipment

The government will resist a large investment-led program to kick-start the economy in 2013. This should result in continued lackluster electricity demand development (we assume a 6-7% growth rate vs. 10 year historical rate of 12.3%) as industrial and export-related demand remain weak, and implies a low level of power equipment investment. Aside from this, policies to encourage alternatives to coal-fired electricity are effectively worsening the sales mix of power equipment companies, which are ultimately negative for profitability. That being said, this is currently our most preferred segment within the Industrials space, and we focus primarily on Shanghai Electric.

Shanghai Electric – Defensive top pick in an uncertain economic environment

All is not lost for companies that are commercially exposed to nuclear power, which is set to continue to be ramped up in scale over the medium to long term. We recommend Shanghai Electric (2727 HK, BUY) on this theme, based on their first mover advantage in Gen III nuclear-related component manufacturing capabilities. We remain cautious on Dongfang Electric (1072 HK, UNDERPERFORM) and Harbin Power (1133 HK, UNDERPERFORM) due to the concerns on business portfolio and counterparty risk, respectively.

While the cash conversion cycle is lengthening across the entire Industrials space, Shanghai Electric appears to have the least issues with counterparty credit risk within the power equipment sector. As at 1H12, AR days outstanding stood at 104 days, the lowest within the peer group. It also discloses past due receivables, with those greater than 1 year representing 7.1% of total ARs. Arbitrarily assuming 50% of this as uncollectable implies an impairment charge equivalent to just 3% of its trailing book value (2011).

Fig 1 Sector valuation

	Ticker	Rating	Currency	Price 6 Dec 2012	Price objective	Up/downside	2012E PER (x)	2013E PER (x)	2014E PER (x)
Zoomlion	1157 HK	BUY	HKD	HKD10.42	HKD 12.8	+23%	8.0	7.2	6.7
Lonking	3339 HK	N	HKD	HKD1.95	HKD 1.3	-33%	9.9	9.0	8.6
Sany Heavy Equipment	631 HK	U/P	HKD	HKD3.65	HKD 3.3	-9.6%	11.0	9.5	8.7
CSR	1766 HK	U/P	HKD	HKD6.76	HKD 4.5	-33%	18.5	17.6	16.7
Zhuzhou CSR	3898 HK	N	HKD	HKD24.6	HKD 20.7	-16%	22.2	16.3	14.8
Midas	1021 HK	N	HKD	HKD2.7	HKD 2.0	-26%	117.1	22.5	19.6
China Automation Group	569 HK	BUY	HKD	HKD1.76	HKD 2.2	+25%	9.7	6.8	5.9
Hollysys	HOLI US	N	HKD	HKD10.26	USD 9.0	-12%	10.2	9.5	8.7
Shanghai Electric	2727 HK	BUY	HKD	HKD3.11	HKD 4.0	+29%	9.6	9.2	7.8
Dongfang Electric	1072 HK	U/P	HKD	HKD13.14	HKD11.0	-16%	8.2	10.8	11.0
Harbin Power	1133 HK	U/P	HKD	HKD6.34	HKD 5.5	-13%	5.5	6.1	7.1

Data as at 6 Dec 2012. Source: Mizuho research

MIZUHO

Autos and auto dealers sector

2013 – a crucial year for Autos

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Low growth trend already established
Auto sales growth has fallen from 53% in 2009 and 33% in 2010 to 5% in 2011 and 6.7% in YTD in 2012. Auto sales growth in China has already entered into a lower growth trajectory and will continue in 2013, in our view. We expect 5% PV volume growth for 2013. This is due to the high base effect, as well as a softer economy with sub 8% GDP growth in 2012-2013E. At the same time production capacity additions are coming in.

Overcapacity looming
Some of the most aggressive manufacturers in adding capacity from 2011 are the foreign players, with Nissan, GM and Hyundai being the most aggressive. Also the luxury manufacturers such as BMW and Mercedes (Daimler) are more than doubling their capacity from 2011. According to Fourin, capacity is set to grow by 73% for PV from 2011 to 2015, ie. ~15% pa which is likely to exceed demand growth of sub 10%.

Overall utilisation is expected to fall from 68% in 2011 to 54% in 2015. Such a low utilisation rate will have negative consequences for the industry's profitability. Production capacity for the big three German brands are expected to more than double by 2015. This implies are CAGR of 29% pa from 2012 onwards. If luxury car sales growth in the next years does not match 29% pa, utilisation will decrease resulting in lower margins. So far this year in 2012 till October sales growth is 27%. Going forward sales growth should be decelerating due to higher base effect, fading effect of the CNY4tn stimulus and lower economic growth.

Pricing pressure to intensify
Pricing is likely to be under more pressure due to the increased supply and combined with lower utilization, margins for OEMs will suffer. Even if auto companies are able to achieve top-line growth, bottom-line growth may be cancelled out by margin erosion. Overall earnings growth in 2013 is not promising.

Bearish on auto stocks
We have no buy recommendations in the auto and dealers sector. This illustrates our bearish sector view. The auto sector is heading into a perfect storm with overcapacity being the key overhang. Japanese JV OEMs are likely to have a muted recovery in 2013 and thus the market may be set up for disappointment. Chinese OEMs such as Geely and Great Wall are either heavily dependent on government subsidy or on single key model and exports which we find risky. Luxury OEM Brilliance is likely to experience lower growth and lower margins going forward as 1H12 results were strong due to allocation of costs into 2H12.

Dealers taking the hit first
We also think that auto-dealers in China are the first to be squeezed in such an environment. They will be the first hit with heavy discounting in order to move volumes for the OEMs. Dealers are already selling Japanese brand cars at 0% and luxury vehicles are being heavily discounted compared to a year ago. With increased supply from luxury OEMS due to the increased capacity we see heavier discounting and more pressure on the dealers.

Most listed dealers are BMW and luxury brand focused and with increased capacity from BMW, we see volume push and pricing pressure to intensify. 1H12 discounting is only the beginning of long and hard competition rather than the end of discounting.

Fig 1 Autos and dealers sector valuation

	Ticker	Rating	Currency	Price 6 Dec 2012	Price objective	Up/downside	2012E PER (x)	2013E PER (x)	2014E PER (x)
Dongfeng Motor	489 HK	U/P	HKD	HKD 11.80	HKD 7.9	-33.1%	9.2	10.2	9.5
Guangzhou Auto	2238 HK	U/P	HKD	HKD 6.42	HKD 4.5	-29.9%	13.5	11.3	9.2
Brilliance	1114 HK	U/P	HKD	HKD 9.07	HKD 6.0	-33.8%	17.7	15.9	13.7
Great Wall	2333 HK	U/P	HKD	HKD 23.70	HKD 16.5	-30.4%	11.3	10.6	10.5
Geely	175 HK	U/P	HKD	HKD 3.67	HKD 1.7	-53.7%	14.9	14.7	13.9
BYD	1211 HK	U/P	HKD	HKD 19.82	HKD 7.3	-63.2%	401.7	26.5	18.2
Dah Chong Hong	1828 HK	N	HKD	HKD 7.93	HKD 7.3	-7.9%	11.2	10.8	8.7
Zhengtong	1728 HK	U/P	HKD	HKD 5.04	HKD 3.1	-38.5%	10.6	13.5	14.6
Zhongsheng	881 HK	U/P	HKD	HKD 9.61	HKD 6.6	-31.3%	11.1	10.8	9.9
Baoxin	1293 HK	U/P	HKD	HKD 5.89	HKD 3.0	-49.1%	14.7	13.9	14.4

Data as at 6 Dec 2012 Source: Mizuho research

Oil and Gas sector

Continued valorisation

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Summary – oil price to remain elevated; sector outperformance hinged upon reform
For the Brent oil price, we forecast 2013 to average USD115/bbl which is similar to the average in 2012 as OECD oil demand continues its structural decline whilst non-OECD demand continues to grow but at a slower pace than in previous years. Also, we forecast OPEC spare capacity (excluding the full production of Iran due to financial sanctions) as a % of global oil demand to increase from 2.7% in 2012 to 3.6% in 2013. With our view that the oil price will likely hover at the USD110/bbl level, we prefer upstream producers that can provide strong YoY production growth. Furthermore, particularly for the China oil and gas sector, it is highly policy driven and therefore the sector's profitability as a whole continues to be at the mercy of the PRC Government. We expect no substantial reform in 2013 (reform essentially means hiking prices) as the domestic economy attempts to regain a stronger footing in 2013. On that front, we continue to suggest investors to avoid the highly regulated downstream sector.

Downstream demand has been weak YTD and is likely to continue. With our house view that there will be no large scale stimulus (post NPC in March 2013) and domestic refining overcapacity issues, we believe downstream demand will remain weak and margins will remain under pressure. From January to October this year, China's oil demand has only been 2.9% YoY, much slower than 6% on average that we saw in the past several years. Meanwhile, petrochemical demand continues to be weak with the integrated LDPE-naphtha spread dropping to the lowest levels since September 2009 implying weak end-user demand. Ethylene is a key-building block for downstream chemicals.

Natural gas reform does not necessarily translate into profitability. For natural gas pricing reform, investors were very excited in late December 2011 with the introduction of the trial gas pricing reform in Guangdong and Guangxi province. However, as we have witnessed, this has not translated into profitability for PetroChina, the largest natural gas producer in China as the EBIT from its Natural Gas division for 9M12 has plunged 93% YoY from CNY13.2bn in 9M11 to just CNY0.9bn as losses from importing natural gas continue to increase. Current market talk has gas pricing reform expanding to Sichuan province and Chongqing municipality and a nationwide wellhead gas price hike of 10-15% by the end of 2012. Per our calculation, this will only stem losses (as import volumes further increase in 2013) but not necessarily lead to a rebound in natural gas earnings.

Oil product pricing reform in the cards…again. For the past several years, China has always said it wants to adopt a market based pricing approach for oil products yet it has yet to materialize. Current market talk of a new oil product pricing mechanism has the observation period to trigger a product price adjustment being reduced to 10 business days (from 22 business days) and the oil price movement requisite from +-2% (from +-4%). Whilst we believe the increased frequency would be positive (as lagging price adjustments led to demand/supply distortion), it fails to address the magnitude of the adjustment, which we believe is the most important factor. Therefore, under such a scenario, refining losses at the operating level are still a possibility and earnings visibility for the largest refiner and marketer in China, Sinopec, will still remain low.

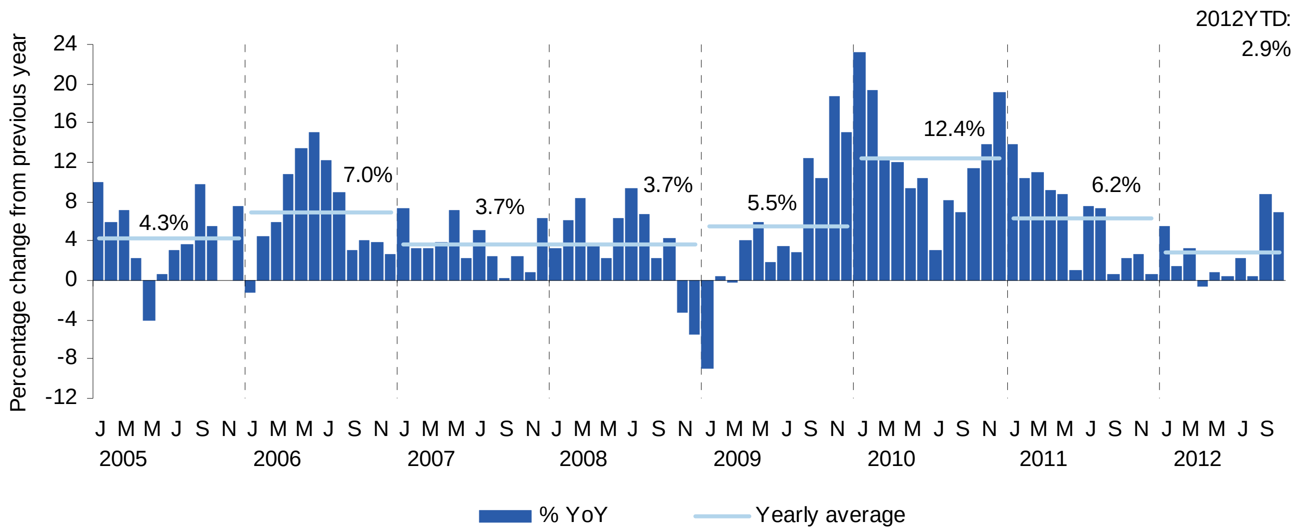
Top pick – CNOOC (883 HK, BUY, PO: HKD17.80). With the uncertainty in downstream demand and minimal earnings impact from potential reform, we believe upstream players that can provide meaningful production growth will outperform downstream players in 2013. Even though CNOOC's share price has outperformed Sinopec and PetroChina by 16% in 2012 YTD, we believe this outperformance can continue into 2013. Firstly, we forecast strong organic production growth of 10% in 2013 due to production recovery from the Penglai oil spill (3%), increased contribution from its overseas assets (4%) and ramp-up of domestic projects including adjustment (3%). Secondly, we expect the Nexen deal to close by year-end which would lead to inorganic incremental production growth of 20% and incremental earnings growth of around 5%.

Fig 1 Valuation table for China oil and gas space

Company	Ticker	Share price 6 Dec 2012 (HKD)	Mizuho rating	Price objective (HKD)	+/- (%)	PER (x) 2012E	PER (x) 2013E	PBR (x) 2012E	PBR (x) 2013E	Dividend yield (%) 2012E	Dividend yield (%) 2013E
CNOOC	883 HK	16.62	BUY	17.80	+7	9.8	8.3	2.0	1.6	1.5	2.4
Sinopec	386 HK	8.42	NEUTRAL	7.20	-14	9.6	7.5	1.2	1.0	3.7	4.7
PetroChina	857 HK	10.64	U/P	9.40	-12	13.3	11.5	1.5	1.4	3.4	3.9
COSL	2883 HK	15.76	U/P	13.20	-16	12.8	11.2	1.8	1.6	1.6	1.8
MIE Holdings	1555 HK	2.22	BUY	3.00	+35	6.3	4.5	1.3	1.0	1.6	2.2
CITIC Resources	1205 HK	1.14	BUY	1.30	+14	12.9	6.4	0.6	0.5	0.0	0.0
Sino Oil and Gas	702 HK	0.214	NEUTRAL	0.220	+3	n.m.	27.8	0.8	0.8	0.0	0.0
United Energy	467 HK	1.43	NEUTRAL	1.30	-9	32.4	14.0	2.9	2.4	0.0	0.0

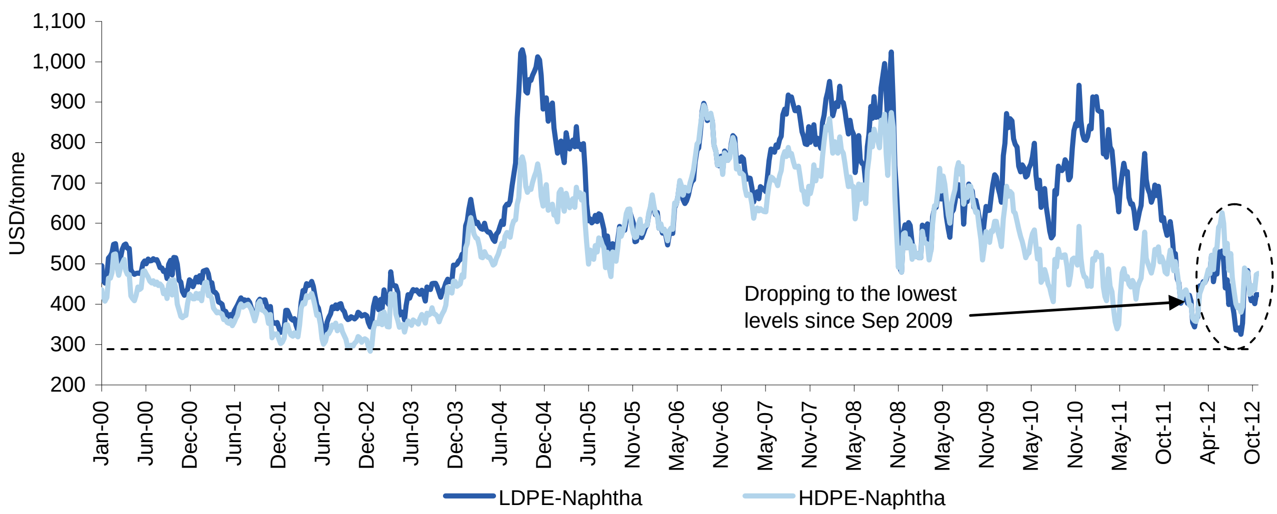
U/P=UNDERPERFORM. Source: Mizuho research

Fig 2 China's implied crude-oil demand



Source: Thomson Reuters, Mizuho research

Fig 3 Regional LDPE/HDPE-Naphtha spread – plunging to the lowest levels since September 2009



Source: Thomson Reuters, Mizuho research

Fig 4 Global oil supply and demand estimates

(mmbbl/d)	2012E	2013E	2014E	2015E	2016E
Demand					
North America	23.8	23.8	23.8	23.7	23.7
Other OECD	22.4	22.0	22.0	21.9	21.8
Total OECD demand	**46.2**	**45.9**	**45.8**	**45.6**	**45.5**
China	9.5	9.9	10.2	10.6	11.0
Other non-OECD	34.0	34.9	35.9	37.0	38.0
Total non-OECD demand	**43.6**	**44.8**	**46.2**	**47.6**	**49.0**
Total demand	**89.8**	**90.6**	**91.9**	**93.2**	**94.5**
Supply					
North America	15.7	16.4	16.9	17.4	17.9
Other OECD	4.1	3.8	3.7	3.5	3.4
Total OECD supply	**19.8**	**20.2**	**20.6**	**20.9**	**21.3**
FSU	13.7	13.6	13.8	14.1	14.3
Other non-OECD	19.8	20.2	20.4	20.9	21.3
Total non-OECD supply	**33.4**	**33.7**	**34.2**	**35.0**	**35.5**
Total non-OPEC supply	**53.2**	**53.9**	**54.8**	**56.0**	**56.8**
OPEC NGLs	5.7	5.9	6.1	6.3	6.4
Implied call on OPEC crude	**30.9**	**30.8**	**31.1**	**30.9**	**31.3**
OPEC production	**31.0**	**31.0**	**31.0**	**31.0**	**31.0**
Oil surplus / (deficit)	0.1	0.2	-0.1	0.1	-0.3
YoY growth (%)					
Total OECD demand	-0.9	-0.7	-0.2	-0.3	-0.3
China demand	3.1	3.6	3.6	3.7	3.7
Total non-OECD demand	2.9	2.8	3.1	3.0	3.0
Total demand	**1.0**	**1.0**	**1.4**	**1.4**	**1.4**
Total OECD supply	4.5	2.2	1.7	1.7	1.8
Total non-OECD supply	-1.2	0.9	1.5	2.4	1.4
Total non-OPEC supply	**0.8**	**1.4**	**1.6**	**2.1**	**1.6**
Implied call on OPEC crude	**0.2**	**-0.3**	**0.9**	**-0.4**	**1.1**

Source: IEA, OPEC, Mizuho research

Fig 5 OPEC spare capacity (with Iran)

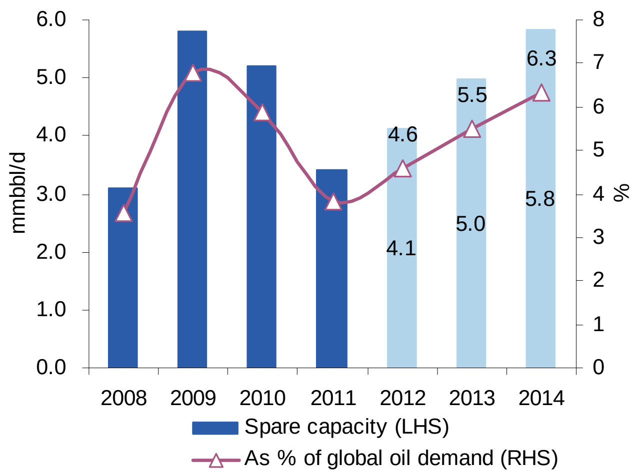
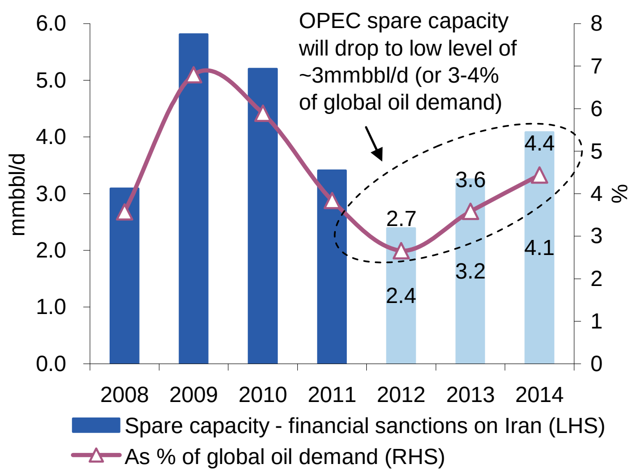


Fig 6 OPEC spare capacity (without Iran)



Source: IEA, OPEC, Mizuho research

Coal sector

Pick domestic miners

Sector analyst

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Very limited downside risk for 2013
Although the external headwinds are likely to continue in 2013, the domestic coal price has declined 21% YTD, and we believe further downside risk is very limited. We believe thermal coal price is likely to see modest 5% YoY growth and coking coal price will stay flat in 2013, given that industrial activities are unlikely to pick up significantly next year. However, we believe oversupply is not an issue. Investors should pick domestic miners since they are more defensive.

Thermal coal – bottoming but not yet recovering, modest 5% YoY growth in ASP
We believe 2013 demand and supply of China thermal coal should be balanced. We believe downside risk for thermal coal prices is limited due to:

- *Current spot price is very close to key contract price* suggesting that many coal producers are running in margins and a further decline in price should lead to supply restraint.

- *Arbitrage between domestic and regional prices has narrowed* from 17% to currently 2%. Suggesting imported coal supply should decline and therefore ease the supply pressure on the domestic coal market.

However, downstream demand should not have significant upside in 2013 as industrial activities continue to shrink – HSBC PMI continues to post below 50 in past 12 months, suggesting that entrepreneurs remain cautious and are unwilling to boost production in the near term.

Coking coal – a proxy play of stimulus package, ASP should stay flat in 2013
Coking coal is a proxy play of the stimulus package due to its main use for steel making. The fundamentals of the China coking coal sector are healthy since China lacks this resource and imported coal supply is likely to be restrained by the railway bottleneck and resources tax. Yet demand continues to be the key overhang given that steel companies continue to run out of cash which is likely to negatively impact the steel companies appetite for new coking coal orders. We believe coking coal prices should stay flat in 2013 but any enhancement in stimulus package should kick off the turnaround of steel demand and therefore lift coking coal prices.

Prefer China Coal, sell Yanzhou Coal
Among the five thermal and coking coal names we cover, we prefer domestic thermal miners like China Coal (CCE, 1898 HK, BUY) due to: 1) potential production growth in 2013 that serves as a catalyst. Its Pingshuo East mine and Hecaogou mine should help to lift CCE's production growth by 9% in 2013. 2) Cheap valuations. CCE is now trading at 0.9x fwd PBR, which is still below book value, suggesting that downside risk is limited.

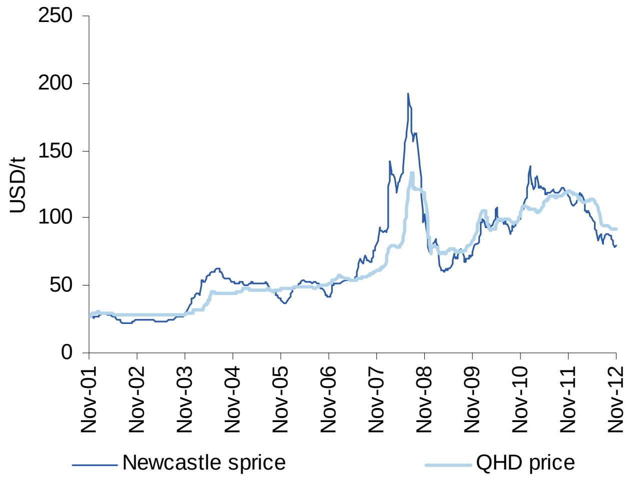
We advise investors to avoid regional miners like Yanzhou Coal (1171 HK, U/P) since: 1) 30% of revenue is coming from its Australian business, which is more risky than domestic business, and 2) it has the highest spot exposure among thermal names (1H12: 80%) which suggests that it is likely to be the biggest loser as coal prices soften.

Fig 1 Sector valuation

(HKD)	Ticker	Rating	Price	Price objective	FY13E PER	FY13E PBR	FY13E ROE	FY13E Dvd yield
China Shenhua	1088 HK	NEUTRAL	31.95	30.5	10.0	1.7	17%	4.0%
China Coal	1898 HK	BUY	7.74	8.55	9.0	0.9	10%	3.6%
Yanzhou Coal	1171 HK	U/P	12.1	8.6	6.0	0.6	10%	5.0%
Shougang Fushan	639 HK	BUY	2.91	3.25	9.0	0.8	9%	4.4%
Hidili	1393 HK	U/P	1.91	1.7	8.0	0.4	4%	2.5%

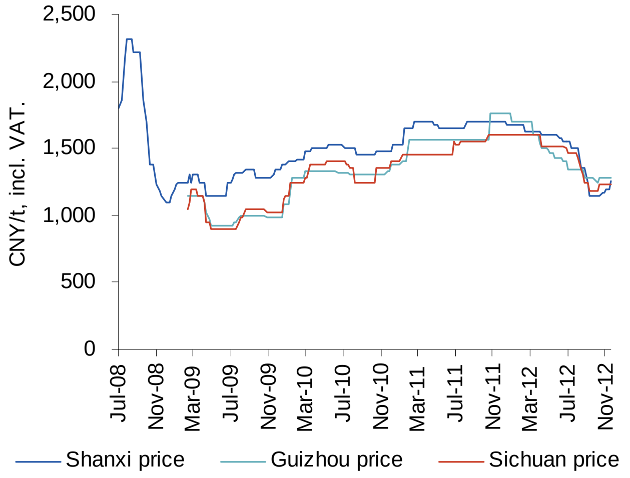
Data as at 6 Dec 2012. Source: Mizuho research, Bloomberg

Fig 2 Domestic and regional thermal coal prices



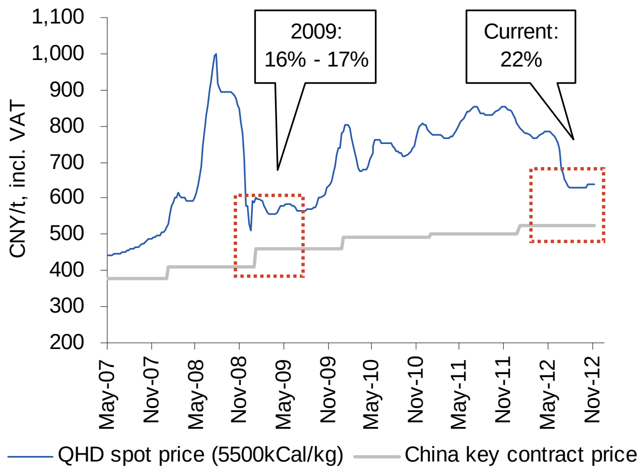
Source: Bloomberg, CCTD, Mizuho research

Fig 3 China coking coal prices (by region)



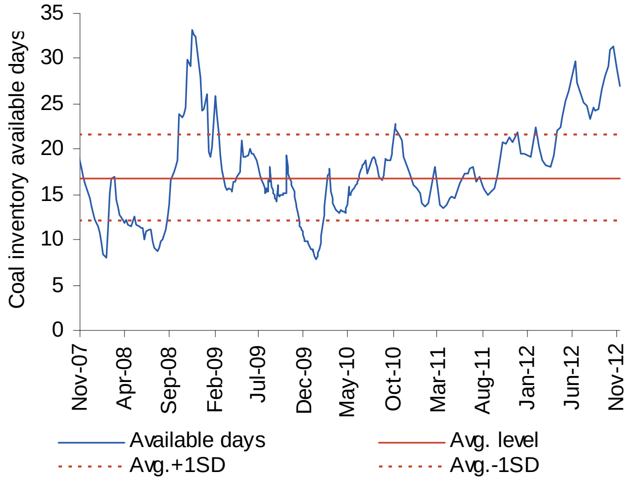
Source: Bloomberg, CCTD, Mizuho research

Fig 4 China spot price vs. key contract price



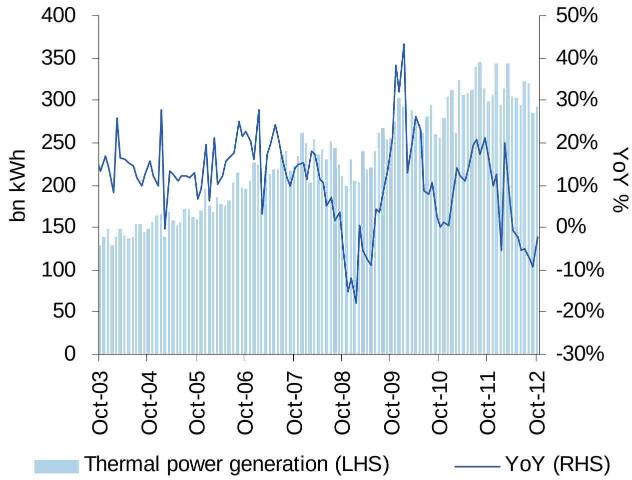
Source: Bloomberg, CCTD, Mizuho research

Fig 5 China major IPP coal inventory days



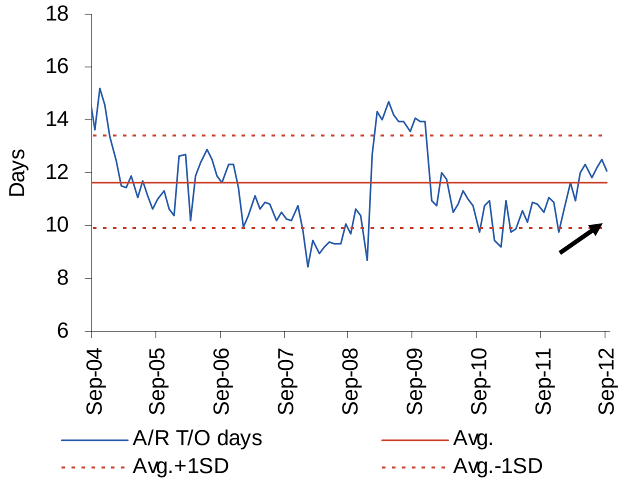
Source: Bloomberg, CCTD, Mizuho research

Fig 6 China thermal power generation



Source: Bloomberg, CCTD, Mizuho research

Fig 7 Steel companies' account receivable turnover days



Source: Bloomberg, CEIC, Mizuho research

Technology sector

Transition from the PC era to Mobile era to continue

Sector analysts

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Cloud computing ushers in the post-PC era
Cloud computing is fundamentally changing the computing industry, as the mobile devices become the device of choice for accessing the Internet. The traditional PC market to face a structural slowdown in the post-PC era, on tablet cannibalization. We expect global PC shipments to fall 2% YoY to 348mn units in 2013, following a 3% YoY decline in 2012. On the other hand, we expect smartphone/tablet growth to remain strong, rising 48%/44% YoY to 877mn/172mn units in 2013. We remain generally cautious on the PC sector, including **Acer** (2353 TT, U/P) and **Quanta** (2382 TT, Neutral). **Lenovo** (992 HK, BUY) and **Asus** (2357 TT, BUY) continue to gain market share and remain better positioned than their peers.

Stay positive on the long-term winners in mobile
Samsung Elec (005930 KS, BUY) is ideally positioned to continue to benefit from the computing industry shifting from the PC era to mobile era. Samsung Electronics successfully transforming from a component company to a brand company, with handsets accounting for two-thirds of the earnings in 2012. **TSMC** (2330 TT, NEUTRAL) is also a long-term winner in mobile, benefiting from its dominant position in the foundry market. The necessary investment that TSMC is making today should allow TSMC to widen its leadership position in mobile. However, TSMC shares trade at a historical high valuation (3.9x trailing P/B), which may limit share upside in the near term.

Prefer select Apple plays: Hon Hai and LG Display
Both **Hon Hai** (2317 TT, BUY) and **LG Display** (034220 KS, BUY) have emerged as two companies that Apple can not do without. Hon Hai has the scale (1.2mn people) that is unmatched by its competitors, producing for Apple the iPhone and iPad, among others. We expect Hon Hai's margin expansion to continue, driving the share performance. LG Display remains the main supplier of panels for Apple. The Apple-Samsung fallout leaves LGD, as well as the execution challenges at Sharp and AUO, puts LGD in a better position with Apple.

Other names to consider: TPK and SK Hynix
TPK (3673 TT, BUY) to benefit from the growing demand for touch panels, especially with the Win 8 launch and the growth in tablets. The cyclical recovery in DRAM to benefit **SK Hynix** (000660 KS, BUY), with better supply/demand outlook in 2013. We also see the supply and demand dynamics improving in the LCD industry, which should benefit **AUO** (2409 TT, BUY). Staying on the sidelines on **LGE** (066570 KS, NEUTRAL), as we expect handset margin improvement to be gradual. We wait for signs of a sustainable turnaround before turning more positive on **HTC** (2498 TT, U/P).

Fig 1 Tech Sector Valuation

	Ticker	Rating	Currency	Price*	Price objective	Upside (%)	EPS 2012E	EPS 2013E	P/E (x) 2012E	P/E (x) 2013E	P/B (x) 2012E	P/B (x) 2013E	ROE (%) 2012E	ROE (%) 2013E
Acer	2353 TT	U/P	TWD	25.7	20.0	-22%	0.3	1.2	n.a.	20.6	0.9	0.9	1%	4%
Asustek	2357 TT	BUY	TWD	313	360	+15%	29.1	29.8	10.7	10.5	1.8	1.7	18%	17%
AUO	2409 TT	BUY	TWD	12.8	16.0	+25%	(5.3)	(0.3)	n.a.	n.a.	0.7	0.7	-26%	-2%
HTC	2498 TT	U/P	TWD	277	150	-46%	19.7	13.0	14.0	21.3	2.6	2.4	17%	12%
Hon Hai	2317 TT	BUY	TWD	95	115	+22%	7.8	9.2	12.2	10.3	1.8	1.5	15%	15%
Lenovo*	992 HK	BUY	HKD	7.23	8.0	+11%	5.9	7.1	15.8	13.0	3.6	3.0	24%	25%
LG Display	034220 KS	BUY	KRW	35,100	43,000	+23%	913	3,800	38.4	9.2	1.2	1.1	3%	13%
LG Elec	066570 KS	Neutral	KRW	74,000	77,000	+4%	4,428	7,587	16.7	9.8	0.8	0.8	5%	8%
Quanta	2382 TT	Neutral	TWD	70.3	73.0	+4%	6.1	6.6	11.6	10.6	2.1	1.9	20%	19%
SK Hynix	000660 KS	BUY	KRW	24,850	32,000	+29%	(323)	1,700	n.a.	14.6	1.7	1.5	-3%	11%
Samsung Elec	005930 KS	BUY	KRW	1,454,000	1,800,000	+24%	161,191	189,164	9.0	7.7	1.8	1.5	22%	21%
TPK	3673 TT	BUY	TWD	497	580	+17%	41.2	48.8	11.8	10.1	3.8	2.9	38%	33%
TSMC	2330 TT	Neutral	TWD	96.6	90.0	-7%	6.4	6.4	15.3	15.4	3.6	3.2	25%	22%

U/P=UNDERPERFORM; *FY13/14 for Lenovo (Mar ending);
Data as at 6 Dec 2012
Source: Company data, Bloomberg, Mizuho research

Internet sector

When mobile meets Internet

Sector analyst

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The race is on
The combination of powerful mobile devices and new usage models by consumers is likely to drive explosive mobile data traffic growth as well as revenue for the industry. The question is: who can win the race in such a competitive industry, in which entry barriers are rather weak? Companies with dominant positions in desktop Internet certainly have advantages over the smaller players, but there is no guarantee that they can replicate the success stories in mobile Internet, of which the industry dynamic is rather different. Currently, Internet companies are racing to create their own mobile Internet gateways, like they had previously done for the desktop Internet era. For example, WeChat by Tencent, Baidu Maps by Baidu, Weibo by SINA, which all were created in the hopes of establishing a dominant position in the upcoming mobile Internet era.

The challenge of desktop-to-mobile cannibalization
In light of the screen size restriction and the fact that mobile online advertising is new to most merchants, monetization on the mobile Internet platform is currently lower than the desktop. As a result, when Internet traffic migrates from the desktop to the mobile platform, Internet companies that rely heavily on advertising revenue are likely to face the challenge of revenue decline during this transitional period. In other words, companies with strong execution capability and financial resource are likely to emerge as the winners. Our picks on a few key sub-segments are as follow:

- Mobile commerce: Taobao wins, Tencent a runner up
- Mobile search: Baidu wins…marginally
- Mobile SNS/microblogs: SINA and Tencent are leading
- Mobile gaming: Tencent wins
- Mobile video: Youku/Tudou duo

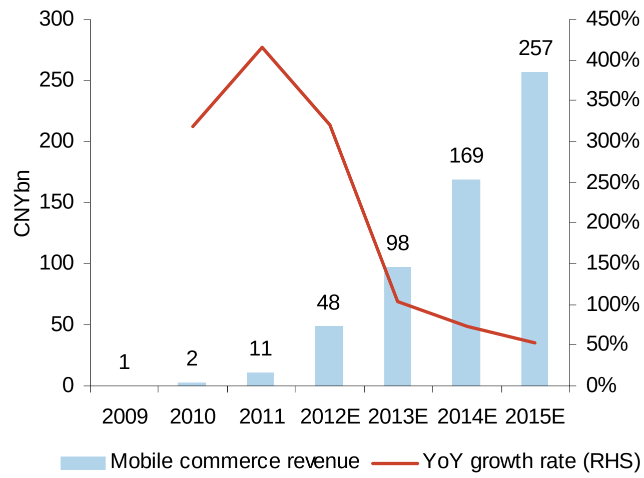
The consumption angle: small payments, big revenues
Despite the challenges in the mobile Internet era, Internet companies are pseudo consumption plays, which will be benefit from the government policy that encourages domestic consumption in order to boost economic growth. Tencent is the best proxy of consumption plays among the Internet peers with 75% of revenue generating from gaming and SNS-related services, which demonstrates the beauty of “small payments, big revenue” business model. When most of the Internet companies that generate the majority of revenue from online advertising are suffering from China’s economic slowdown, Tencent’s fee-paying users’ monthly ARPU (CNY38 for 3Q12) was up 9% QoQ and 47% YoY. Internet surfers obviously didn’t mind to spend a few additional CNY for relatively cheap infotainment services. Note that only 9% of Tencent’s registered base (784mn at the end of Sep 2012) was fee-paying users for 3Q12. Every 1ppt increase will amplify Tencent’s revenue growth significantly.

Fig 1 Sector valuation

Company	Ticker	Rating	Currency	Price at 6 Dec 2012	Price objective	Up/down (%)	P/E (x) 2012E	P/E (x) 2013E	P/E (x) 2014E	Net profit CAGR 2012-15E	PEG (x)
Tencent	700 HK	BUY	HKD	252.80	321.00	+27.0%	27.1	21.5	16.8	23.9	0.9
SINA	SINA US	NEUTRAL	USD	41.99	55.80	+32.9%	n.a.	93.5	43.2	43.5	2.1
Baidu	BIDU US	BUY	USD	89.02	144.00	+61.8%	15.4	12.5	10.1	23.0	0.6
Youku Tudou	YOKU US	BUY	USD	14.99	23.60	+57.4%	n.a.	n.a.	46.9	n.a.	n.a.
Ctrip.com	CTRP US	U/P	USD	18.07	15.00	-17.0%	16.0	12.4	10.7	19.7	0.9

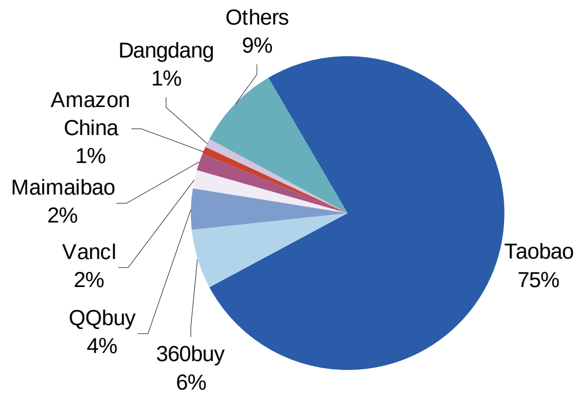
Data as at 6 Dec 2012. U/P=UNDERPERFORM. Source: Mizuho research

Fig 2 Mobile commerce GMV in China



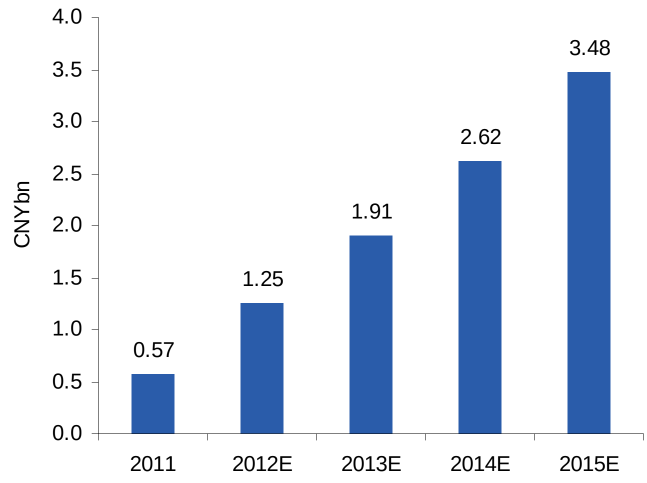
Source: iResearch, Mizuho Research

Fig 3 Mobile commerce market share by provider in China, 2Q12



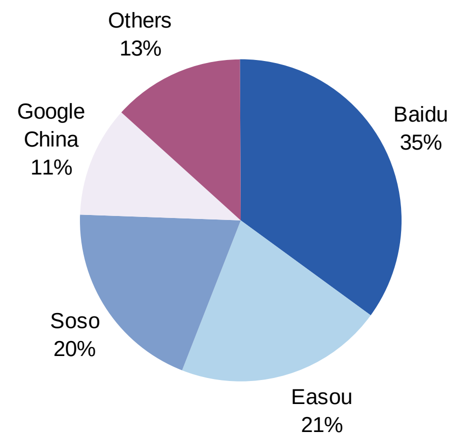
Source: iResearch, Mizuho Research

Fig 4 Mobile search-related advertising revenue in China



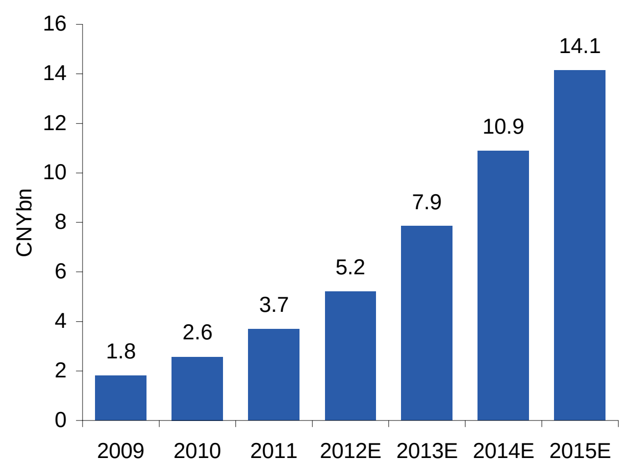
Source: iResearch, Mizuho Research

Fig 5 Mobile search market share in China, 2011



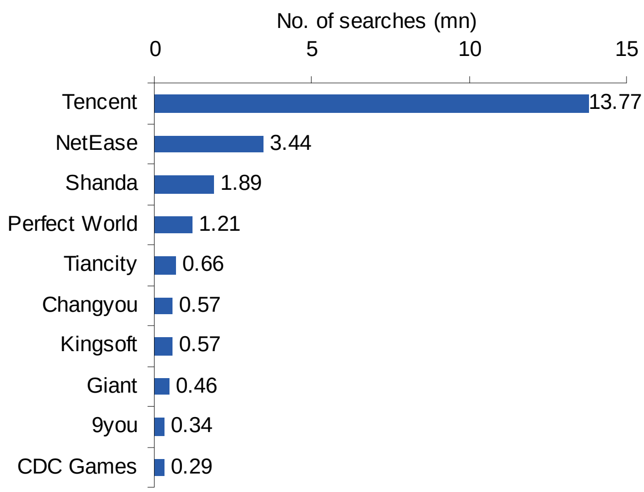
Source: iResearch, Mizuho Research

Fig 6 Mobile game revenue in China



Source: iResearch, Mizuho Research

Fig 7 Top 10 game publishers in China in terms of searches



Source: Baidu, Mizuho Research

Mizuho Securities Asia Ltd

Equity Research

Hong Kong

10 December 2012

AIA Group Ltd. (Hong Kong) (1299 HK)

BUY (Unchanged)

Price at 6 Dec 2012	Price objective at 28 Feb 2012
HKD30.10	**HKD34.00**
Sector	Upside / downside
Life Insurance	**+13%**
Market cap	52 week high low
HKD363bn (USD47bn)	
Avg daily turnover (3M / 12M)	
USD142mn / USD135mn	

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Asian Growth Miracle

Asian Regional Turnaround Story Continues

AIA Group Ltd. (Hong Kong, AIA) is the largest independent regional life insurance company in Asia and is very well situated for accelerated premium growth given its market dominance of its six key markets in a region which appears to be under-insured to the tune of 70%. On top of positive Asian logistics and demographics, AIA – after a near decade-long 'soap opera' – has begun to right the ship in a very short period after CEO Mark Tucker took the helm. During his leadership we have already seen an evolution of management, and substantial productivity improvements. It is not a leap of faith to see how bright the future is for AIA. Some highlights that we would expect at the fiscal (November) 2012 result would include: YOY EV increasing between 10-11%, VONB increasing about 24%, VONB margins are expected to continue their ascent as well, while net profit improvement of over 60%, and a dividend increase of over 3x. The Thai floods of 2011 should make comps in 2012 much easier, while positive currency translation from the Thai baht should help boost HoH results.

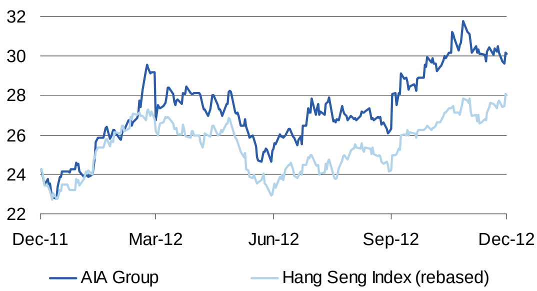
Leader in Malaysia Market

In its second transaction of the year (the first being Aviva's Sri Lankan franchise), AIA is in the process of acquiring the Malaysian insurance operations of ING Group NV (INGA NA, NR) for the sum of USD1.73bn in an-all cash transaction on 11 Oct 2012, which appears to be a good geographic fit and extends the company's pan-Asia leadership. Within Malaysia, the AIA/ING Malaysia combination is a transformational deal, combining the 3rd and 4th largest franchises, allowing AIA to become the market leader with a 24.8% market share. It will more than double its existing agency force from 7,400 to 16,600 and adds Public Bank (PBK MK, NR) as its exclusive long-term bancassurance partner. It vaults AIA into the largest provider of Employee Benefits in Malaysia. The deal looks to close sometime in fiscal (November) 1Q13. The Malaysian net profit contribution is expected to increase from 8% to 13%.

Excess Solvency Capital

Despite its recent Malaysian transaction, AIA remains over-capitalized with a solvency margin of 456% at fiscal 1H12, in our view, at a time when others are retrenching and decelerating growth giving it the advantage of potentially employing more aggressive capital management initiatives in order to improve longer-term shareholder value. The recent more aggressive dividend upstream from its subsidiaries should intimate continued improved capital deployment is on the horizon.

Share price performance



Share price (%)	-1 mth	-3 mth	-12 mth
Ordinary shares	-3.4	+14.4	+24.1
Relative to Index	-4.7	-1.2	+7.3

Source: Bloomberg

Valuation

YE: November	2009	2010	2011	2012E	2013E
EPS (USD)	n.a.	0.23	0.13	0.22	0.27
Core EPS (USD)	n.a.	-0.04	0.26	0.18	0.27
BVPS (USD)	n.a.	1.62	1.77	1.93	2.17
Embedded Value Per Share(HKD)	n.a.	15.89	17.57	18.75	20.61
P/E (x)	n.a.	12.8	22.6	14.9	12.0
P/Core Operating EPS (x)	n.a.	-68.2	11.5	18.5	12.0
P/BV (x)	n.a.	1.78	1.71	1.69	1.50
P/EV (x)	n.a.	1.41	1.34	1.35	1.23

Source: Company reports, Mizuho research

10 December 2012

Brilliance China Automotive (1114 HK)

UNDERPERFORM
(Unchanged)

Price at 6 Dec 2012	Price objective at 7 Jun 2012
HKD9.07	**HKD6.00**
Sector	Upside / downside
Automobiles & Parts	**-34%**
Market cap	52 week high low
HKD46bn (USD5.9bn)	**HKD9.82-6.29**
Avg daily turnover (3M / 12M)	
USD20mn / USD18mn	

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2H12 likely to be much weaker

More electric vehicle expenses will be booked in 2H12 although the amount is unknown. Total investment in electric vehicles is CNY1bn in 2012. The company confirms that 2H electric vehicle expenses will be higher than in 1H12.

Operating margin expansion was exceptionally strong from 9.7% in 1H11 to 13.6% in 1H12, due to the better mix owing to more 5 series and economies of scale. In 1H12, 5 series was 62% of volume vs. 60% in 1H11. The effect from the economies of scale on margins is harder to quantify. We also suspect much of the start-up costs from the new factory (which opened in May 2012) were not fully reflected in 1H results.

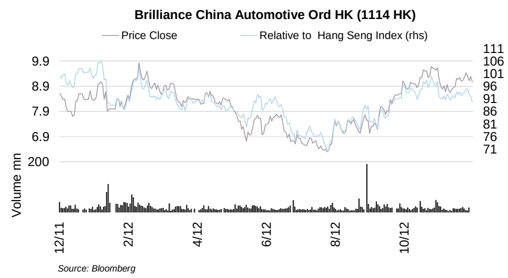
Looking at the timing of electric vehicle and new factory expenses, plus new 3 series start-up costs falling into 2H12, we doubt the 13.6% op margin and the 10.0% NP margin in 1H12 will be sustained in 2H12 and onwards. We look for NP margin of 7.8% for FY2012E, down from 9.2% in 2011.

BMW 3Q12 results – hints of a weaker 2H12 for Brilliance
3Q12 results from equity accounted investments at BMW (Germany) was only EUR51mn vs. EUR148mn in 1H12. BMW Brilliance JV is the largest contributor to this profit line. This already indicates that 3Q12 for Brilliance could be much weaker.

If BMW Brilliance contribution continues to be EUR50mn for 4Q12, Brilliance NP is likely to be around CNY2.1bn-2.2bn i.e. 8-12% below consensus. Bearing in mind that that Brilliance is a highly valued stock, a de-rating is likely to follow if they miss consensus expectations.

Reiterate UNDERPERFORM, PO of HKD6.0
In summary, profits from its BMW JV was CNY1.3bn in 1H12 and with EV costs of up to CNY1bn and start-up costs in 2H12, profits from the JV are likely to be about CNY700-800mn in 2H12. We reiterate our UNDERPERFORM rating.

Share price performance



Share price (%)	-1 mth	-3 mth	-12 mth
Ordinary shares	-5.8	28.8	2.5
Relative to Index	-7.2	13	-15

Source: Bloomberg

Valuation

YE:	Dec 10	Dec 11	Dec 12E	Dec 13E	Dec 14E
Revenue (CNYmn)	8,949	6,443	6,000	5,675	6,975
Net profit (CNYmn)	1,271	1,812	2,081	2,308	2,686
Normalised net profit (CNYmn)	1,303	1,812	2,081	2,308	2,686
Normalised EPS (CNY)	0.260	0.360	0.413	0.458	0.533
Normalised EPS growth	88.2%	38.3%	14.8%	10.9%	16.4%
Normalised P/E (x)	28.03	20.27	17.66	15.91	13.67
BVPS (CNY)	1.26	1.39	1.80	2.25	2.79
Dividend yield	0%	0%	0%	0%	0%

Source: Company reports, Mizuho research

10 December 2012

China Coal Energy
(1898 HK)

BUY (Unchanged)

2013 production growth may lead to a re-rating

Better-than-expected 3Q12 results pointing to better operation
China Coal (CCE) reported 3Q12 results on 23 Oct. Earnings declined by 22%, beating Bloomberg consensus by 13%. ASP and production growth were broadly in-line. The key reason for the better-than-expected result was due to perfect cost control which suggested improving operations. We expect CCE to deliver double-digit production growth in 2013 which may trigger rerating of the share price.

2013 ASP outlook – we cannot expect too much
We expect CCE's overall ASP should have 4% YoY growth in 2013 (flat in contract price but 5% increase in spot price). Our recent contact with industry experts has shown that downstream demand remains fragile despite the current seasonal impact. There is no clear schedule for a stimulus package which lowers the visibility of a demand recovery. Therefore we do not expect a significant rebound in coal prices for 2013, and advise investors to focus more on improvements on the company's fundamentals.

The return of production growth in 2013
In our recent NDR with CCE, we learnt that the company is likely to boost production growth within 3 years and targets to reach 200mt in 2015. We believe Pingshuo East mine (20mtpa capacity) and Hecaogou mine (3mtpa) should bring nearly 12mt new production in 2013 which should lift CCE's production growth by 9% (without the organic growth of current mines). We believe the return of double-digit production growth may trigger the re-rating of CCE.

PO at HKD8.55, maintain BUY
CCE is likely to deliver double-digit production growth in 2013 which may trigger a re-rating of the share price. We maintain our BUY rating on CCE and it remains our top pick in the coal sector. Our PO at HKD8.55 is based on 9x FY13E PER and implies 0.9x FY13E PBR.

Price at 6 Dec 2012	Price objective at 24 Oct 2012
HKD7.74	**HKD8.55**
Sector	Upside / downside
Mining	**+11%**
Market cap	52 week high low
HKD111bn (USD14bn)	**HKD10.38-6.09**
Avg daily turnover (3M / 12M)	
USD29mn / USD25mn	

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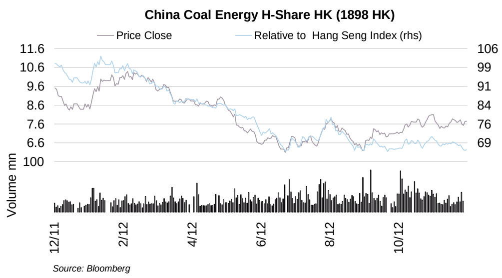
Share price performance



Share price (%)	-1 mth	-3 mth	-12 mth
Ordinary shares	-4.3	24.6	-16.6
Relative to Index	-5.7	8.8	-34.1

Source: Bloomberg

Valuation

YE:	Dec 10	Dec 11	Dec 12E	Dec 13E	Dec 14E
Revenue (CNYmn)	70,303	87,773	87,483	101,953	119,817
Net profit (CNYmn)	7,466	9,802	8,497	9,715	10,565
Normalised net profit (CNYmn)	7,466	9,802	8,497	9,715	10,565
Normalised EPS (CNY)	0.563	0.739	0.641	0.733	0.797
Normalised EPS growth	0.8%	31.3%	(13.3%)	14.3%	8.8%
Normalised P/E (x)	11.05	8.41	9.71	8.49	7.81
BVPS (CNY)	5.58	6.18	6.61	7.11	7.64
Dividend yield	2.51%	3.46%	3.32%	3.84%	4.18%

Source: Company reports, Mizuho research

Country Garden (2007 HK)

BUY (Unchanged)

Price at 6 Dec 2012	Price objective at 24 Aug 2012
HKD3.70	**HKD3.95**
Sector	Upside / downside
Real Estate Investment & Services	**+6.6%**
Market cap	52 week high low
HKD67bn (USD8.7bn)	**HKD3.73-2.59**
Avg daily turnover (3M / 12M)	
USD9.4mn / USD11.1mn	

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A profitable low-end developer

We rate Country Garden as a top pick for mid-cap developers for 2013. Country Garden has showcased its capability to achieve targets for two consecutive years despite the market turmoil thanks to proactive management and disciplined capital management. More impressively, its ASP has been holding up firmly while most of its peers are slashing prices aggressively, indicating less pressure to its margin which has been maintained consistently above 16% in the last several years – a rare case for low-ASP developers. Its low-end position also fits the central government's continue efforts in providing affordable housing for people, indicating less policy risks down the road. Reiterate BUY.

Looking for a better 2013

In a recent meeting, Country Garden's CEO Mr. Mo sounded a bit more upbeat than he used to be. He's looking for a better year in 2013 for both the sector and Country Garden. He's expecting moderate stimulus from the central government as "local government's fiscal position are very tight", though he expects no policy easing on the property front. He expects ASP next year will see stable but moderate growth. For Country Garden, Mr. Mo believes there will be growth as well, although he declined to disclose what the target would be. We expect the company to be able to achieve contracted sales growth of 15~20% in 2013.

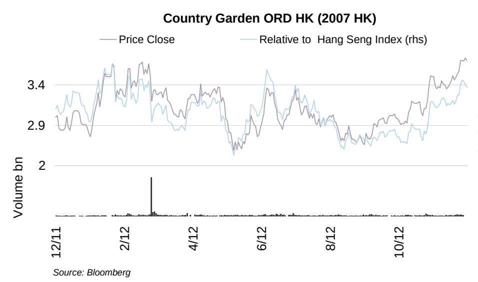
Low ASP, high Margin

Country Garden's YTD sales were around CNY6,000/sqm, similar to Evergrande's and among the lowest in the sector. However, CG was able to deliver decent net profit margin of 16+% consistently in last few years, thanks to its disciplined management and improved execution capabilities. Meanwhile, its ASP is among the most resilient this year, indicating less margin compression than peers in FY12E and FY13E.

Valuations are undemanding

Country Garden trades at 7.5x FY12E and delivers a 4% yield, which is inexpensive given its solid balance sheet and sustained growth momentum.

Share price performance



Share price (%)	-1 mth	-3 mth	-12 mth
Ordinary shares	5.7	39.1	27.6
Relative to Index	4.3	23.3	10.1

Source: Bloomberg

Valuation

YE:	Dec 10	Dec 11	Dec 12E	Dec 13E	Dec 14E
Revenue (CNYmn)	25,804	34,748	38,932	44,462	54,289
Net profit (CNYmn)	4,291	5,813	6,538	7,478	8,784
Normalised net profit (CNYmn)	4,230	5,637	6,538	7,478	8,784
Norm. net profit margin	16.4%	16.2%	16.8%	16.8%	16.2%
Normalised EPS (CNY)	0.255	0.339	0.372	0.410	0.482
Net debt to equity	41.4%	57.2%	48.1%	45.2%	40.2%
Normalised P/E (x)	11.65	8.76	7.99	7.25	6.17
P/B (x)	1.99	1.70	1.39	1.26	1.09
EV/EBITDA (x)	8.34	6.76	6.21	5.84	5.09
ROE	18.0%	20.3%	19.0%	18.0%	18.5%
Dividend yield	3.28%	4.38%	3.81%	4.14%	4.86%

Source: Company reports, Mizuho research

10 December 2012

China

CNOOC (883 HK)

BUY (Unchanged)

The return of production growth

Organic production growth of 10% in 2013
CNOOC's production growth for 2012 is expected to be more or less flat YoY as its Penglai 19-3 field (the largest offshore oilfield in China) has yet to resume full production. Currently, gross production is only around 50% of its total capacity at around 60kboe/d. However, we believe investors will start to focus on CNOOC's production growth in 2013 which we currently forecast at 10% mainly driven by the full production recovery from Penglai oil spill (3%), increased contribution from overseas projects (4%), and ramp-up of domestic projects including adjustments (3%).

Inorganic production growth from Nexen a nice call option
CNOOC's proposed acquisition of Nexen in late July was approved by the Canadian government and the European Union on 7 December, implying the only approval left is from the US regarding the sales of GoM assets. However, we believe this is less significant as these assets only accounted for ~8% of total production (as of 9M12) and ~3% of net 1P reserves (as at end-2011). We expect the deal to be completed by the end of 2012. Per our calculation, the Nexen acquisition would lead to inorganic incremental production and reserves growth of 21% and 28% respectively. We estimate the incremental earnings growth to be around 5%.

Our relative top pick amongst the "Big 3"
Given the uncertainty in downstream demand/margins and our expectations of minimal pricing reform in China next year, we believe upstream players (especially ones that can deliver meaningful production growth) will outperform downstream players in 2013. Even though CNOOC's share price has outperformed Sinopec (386 HK, NEUTRAL) and PetroChina (857 HK, U/P) by 16% on average for 2012 YTD, we believe this outperformance can continue into 2013. Meanwhile, we have also fine-tuned our 2012E-13E earnings forecasts by 5% on average due to Rmb appreciation. Given CNOOC's pure upstream exposure combined with our forecast YoY production growth of 10% in 2013, we reiterate CNOOC as our top pick in the sector and maintain our BUY rating on the stock and PO of HKD17.80.

Price at 6 Dec 2012	Price objective at 21 Aug 2012
HKD16.62	**HKD17.80**
Sector	Upside / downside
Oil & Gas Producers	**+7.1%**
Market cap	52 week high low
HKD742bn (USD96bn)	**HKD18.10-13.28**
Avg daily turnover (3M / 12M)	
USD93.3mn / USD103.9mn	

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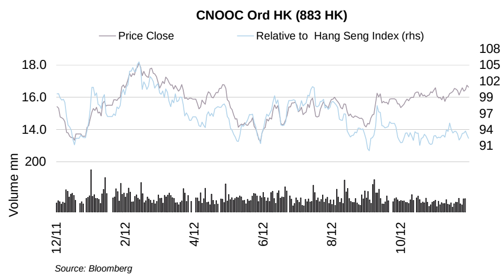
Share price performance



Share price (%)	**-1 mth**	**-3 mth**	**-12 mth**
Ordinary shares	1.1	17.4	9.2
Relative to Index	-0.3	1.6	-8.3

Source: Bloomberg

Valuation

YE:	Dec 09	Dec 10	Dec 11	Dec 12E	Dec 13E
Revenue (CNYmn)	105,195	180,036	240,944	238,492	296,496
Net profit (CNYmn)	29,486	54,410	70,255	65,313	74,161
EPS (CNY)	0.66	1.22	1.57	1.46	1.66
EPS growth	(33.6%)	84.5%	29.1%	(7.0%)	13.5%
P/E (x)	20.23	10.97	8.49	9.13	8.04
BVPS (CNY)	3.89	4.83	5.88	6.91	8.28
P/B (x)	3.43	2.77	2.27	1.93	1.61
DPS (CNY)	0.350	0.396	0.440	0.293	0.332
Dividend yield	2.62%	2.96%	3.29%	2.19%	2.49%

Source: Company reports, Mizuho research

10 December 2012

China

Industrial and Commercial Bank of China (1398 HK)

BUY (Unchanged)

Price at 6 Dec 2012	Price objective at 23 Nov 2012
HKD5.29	**HKD6.05**
Sector	Upside / downside
Banks	**+14%**
Market cap	52 week high low
USD219bn	**HKD5.69 – 3.99**
Avg daily turnover (3M / 12M)	
USD168mn / USD185mn	

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The quality name

Investment debate

Bull case

Industrial and Commercial Bank of China (ICBC) generated USD33bn in profits in 2011, more than any other bank globally. Cushioned by this huge earnings base, ICBC has the balance sheet strength to absorb a possible credit cycle downturn over the next few years, we feel. The bank's key financial ratios are top tier, including sustainable ROE in the 19-20% range, a 63% LDR, Tier 1 of 10.5%, and a 0.87% NPL ratio. Earnings growth looks sustainable in the low double-digits. On top of this, the dividend currently yields 6.0%.

Bear case

As a proxy for the Mainland economy, the trend of slowing GDP growth is a negative for ICBC's shares.

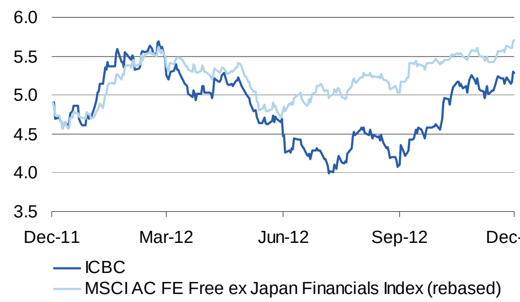
Mizuho view: Add at around HKD5.00

ICBC has been a core holding for us and we would add to our stake at around HKD5.00. Recent financial performance has been strong and our recent visit to Beijing confirmed for us that ICBC is the quality pick in the sector.

Market call: A long term BUY

We rate ICBC shares a BUY. Our price objective of HKD6.05 is based on a target PBV of 1.37x and implies 14% upside.

Share price performance



Share price (%)	-1 mth	-3 mth	-12 mth
Ordinary shares	2.7%	29.0%	10.9%
Relative to Index	0.4%	16.0%	-7.0%

Source: Bloomberg

Valuation

YE: December	2010	2011	2012E	2013E	2014E
Net profit (CNYmn)	165,156	208,265	235,814	261,065	289,227
Profit YoY%	28.4%	26.1%	13.2%	10.7%	10.8%
EPS (CNY)	0.48	0.59	0.66	0.73	0.81
BVPS (CNY)	2.35	2.74	3.12	3.59	4.12
DPS (CNY)	0.18	0.20	0.23	0.26	0.29
Dividend yield	4.3%	4.7%	5.3%	6.0%	6.6%
PBV (x)	1.83	1.57	1.38	1.20	1.04
PE (x)	8.9	7.3	6.5	5.9	5.3

Source: Company data, Mizuho research

10 December 2012

Lenovo Group (992 HK)

BUY (Unchanged)

Solid execution; Profitable growth

Lenovo remains one of the better positioned PC makers globally, and we expect M/S gains and profitable growth to continue. Our economist expects a back-end loaded year for China economy in 2013, with a stronger growth in 2013. Lenovo (with 45% of rev coming from China) is favourably positioned, benefiting from their strong brand and unmatched distribution across China, especially in the lower tier cities. Lenovo also benefits from strong smartphone growth in China, with MIDH to account for 9% of revenue in FY13E. Lenovo remains one of our top picks in the PC sector, as we expect a healthy 21% EPS growth in FY14E. Our PO of HKD8.0 is based on 14x FY14E P/E.

Strong position in China emerging cities to drive growth. We believe Lenovo will continue to outgrow the China PC market, as the company maintains its focus on the emerging cities. Lower tier cities have about twice the growth rate (vs. upper tier cities) and currently account for about 50% of Lenovo consumer PC sales in China. The company has competitive advantages in scale and distribution vs. its peers, as most OEMs lack the scale to build small cities distribution. Profitability will remain the priority, and we believe China PC OM will remain stable at 5-6%.

MIDH turnaround insight; strong smartphone growth. Lenovo expects its China smartphone division to turn profitable in 1H13 on growing scale and improve mix. With a strong brand and distribution, we believe Lenovo is poised to become the #1 smartphone maker in China (currently #2 with 15% M/S). We expect smartphone improvement to continue on 1) growing scale, 2) increasing portion to open channel (2-3x GM vs. carrier), and 3) improve product mix (higher-end smartphones).

Solid execution; Profitable growth. We expect M/S gains and profitable growth to continue, with emerging China and other under-penetrated markets (Brazil, EMEA) driving PC growth. MIDH and server business (EMC partnership) to become bigger contributor going forward. We continue to expect over 20% EPS growth in FY13E and FY14E, with healthy 24% ROE. Shares trade at 16x FY13 P/E (vs. hist median 20x). Our PO of HKD8.0 is based on 14x FY14E P/E. Maintain BUY.

Price at 6 Dec 2012	Price objective at 16 Aug 2012
HKD7.23	**HKD8.00**
Sector	Upside / downside
Technology Hardware & Equipment	**+11%**
Market cap	52 week high low
HKD75bn (USD9.6bn)	**HKD7.66-5.18**
Avg daily turnover (3M / 12M)	
USD39mn / USD34mn	

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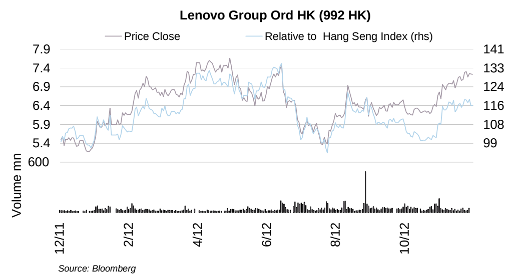
Share price performance



Share price (%)	**-1 mth**	**-3 mth**	**-12 mth**
Ordinary shares	8.4	13.7	31.9
Relative to Index	7	-2.1	14.4

Source: Bloomberg

Valuation

YE:	Mar 11	Mar 12	Mar 13E	Mar 14E	Mar 15E
Revenue (USDmn)	21,594	29,574	34,300	37,893	41,240
Net profit (USDmn)	273	473	605	725	854
EPS (USD)	0.028	0.046	0.059	0.071	0.083
EPS vs consensus		(1.16%)	2.66%	2.56%	
EPS growth	99.7%	63.8%	26.0%	20.9%	17.9%
P/E (x)	32.90	20.08	15.94	13.18	11.18
BVPS (USD)	0.190	0.232	0.268	0.317	0.372
P/B (x)	4.90	4.02	3.48	2.94	2.51
ROAE	15.9%	22.5%	23.6%	24.1%	24.2%
Dividend yield	0.95%	1.23%	2.09%	2.68%	3.07%

Source: Company reports, Mizuho research

10 December 2012

Hong Kong

PRADA S.p.A. (1913 HK)

BUY (Unchanged)

3QFY12 above, continuing outperformance

3QFY12 op profit up 57%
Prada's 3QFY12 results (announced yesterday after market) came in better than expected at the operating line with operating profit growth of 57%. Key points: 1) 3QFY12 revenues came in at EUR792mn (up 33%) driven by 28% lc retail revenue growth. LFL came in at 14% (in-line) thereby showing a modest slowdown from 1H. 3) Operating margins came in higher than expected at 27.5% (up 4.2ppt) reflecting the better than expected opex growth of 24%, 4) There was limited guidance offered on the call. Management, however, "remains confident that strategies … in place will continue to bring positive results" despite a "challenging global environment".

Solid margin performance
Opex was well controlled with 3Q product development and admin expenses up in just single-digits. Leverage was also achieved on the selling expenses. The gross margin expansion (up 0.8ppt) primarily reflected a better mix as well as positive fx effects. There was a moderation in LFL from 1HFY12 which is not totally unexpected given: 1) the high base of comparison last year (3QFY11 LFL was 25%), 2) slower macro conditions. The travelling consumer clearly remains very important. According to the group, however, this is more driven by longer-term lifestyle related trends rather than pure currency movements.

Upgrading forecasts, maintain BUY
A moderation in LFL for the group was to be expected given in particular the high base of comparison last year. Prada, however, continues to deliver sector leading growth at both the top-line, as well as the margin level which justifies our long standing positive view on the stock. We upgrade our FY13 forecasts by 6% and roll forward our price objective. Our revised 12 month price objective of HKD76 (prev. HKD68 set on 14 Sep 2012) is based on 19x FY14E PER and implies a 0.9x PEG.

Note: FY13 refers to 12M period ending January 2014. Same change applies for all other years

Price at 6 Dec 2012	Price objective at 7 Dec 2012
HKD64.5	**HKD76.0**
Sector	Upside / downside
Personal Goods	**+18%**
Market cap	52 week high low
HKD165bn (USD21bn)	**HKD64.6-32.35**
Avg daily turnover (3M / 12M)	
USD18mn / USD16mn	

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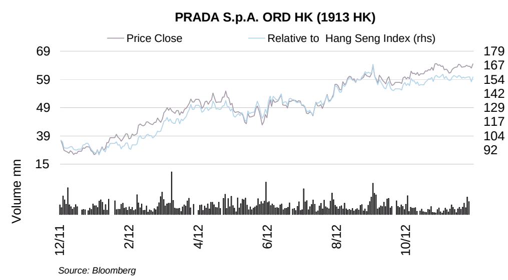
Share price performance



Share price (%)	-1 mth	-3 mth	-12 mth
Ordinary shares	0.9	7.8	72
Relative to Index	-0.5	-8	54.5

Source: Bloomberg

Valuation

YE:	Jan 11	Jan 12	Jan 13E	Jan 14E	Jan 15E
Revenue (EURmn)	2,047	2,556	3,356	4,016	4,758
Net profit (EURmn)	252	432	607	828	1,023
Normalised net profit (EURmn)	252	432	607	828	1,023
Normalised EPS (EUR)	0.101	0.172	0.238	0.323	0.400
Normalised EPS growth	140%	70%	39%	36%	24%
Normalised P/E (x)	63.2	37.1	26.7	19.7	15.9
BVPS (EUR)	0.482	0.724	0.904	1.154	1.459
Dividend yield	0.92%	0.78%	1.09%	1.49%	1.84%

Source: Company reports, Mizuho research

Sands China (1928 HK)

BUY (Unchanged)

Price at 6 Dec 2012	Price objective at 30 Nov 2012
HKD32.40	**HKD38.00**
Sector	Upside / downside
Travel & Leisure	**+17%**
Market cap	52 week high low
HKD261bn (USD34bn)	**HKD33.55-20.45**
Avg daily turnover (3M / 12M)	
USD43mn / USD48mn	

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Three catalysts for a further re-rating

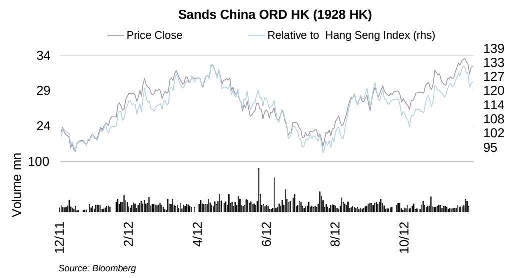
New capacity coming on stream
Sands China is expected to obtain 200 extra gaming tables in January, which will be allocated among its casinos in such way that table productivity, will be optimised. Meanwhile, Sands Cotai Central's (SCC) Phase IIB will open in 1Q13, featuring about 2,100 Sheraton-branded hotel rooms. At the same time, a walkover bridge connecting SCC and the Venetian Macao will also be completed in the first quarter. By then, visitors will find it much more convenient to commute across the different Cotai properties of Sands China. Phase III is expected to include a St. Regis-branded hotel and mixed-use tower.

New project at Parcel 3 to kick off soon
We expect the Macau government to approve Sands China's project at Parcel 3 soon. In July 2012, the government extended the deadline for the completion of the development of Parcel 3 to 17 April 2016. Given the fact that an integrated resort usually takes about 3 years to complete, we believe the authority will provide the necessary approvals by 1Q13, so that Sands China will have sufficient time to finish its project before the deadline. Named the Parisian Macao, the new project will feature a replica Eiffel Tower, more than 3,000 hotel rooms, about 450 gaming tables, 2,500 slots and other non-gaming amenities.

More dividends to fund LVS' payout commitment
LVS (LVS US, NR) has increased its regular dividend by 40% to USD0.35 per share per quarter. Since Sands China contributed about 49% of LVS' total adjusted EBITDA, the Macau unit will have to increase its payout so as to fund LVS' increased dividend commitment. We forecast that Sands China's 2012E DPS will grow 17% to USD0.17 per share.

Our 2013 top pick for the gaming sector
Recently, there is some sign of reacceleration in the growth of Macau GGR. For the coming two years, only Sands China will have new capacity coming on stream to accommodate the additional demand. Grant of a greenlight on Parcel 3 and new gaming tables will serve as share price catalysts. Sands China deserves to trade at a premium. Reiterate BUY.

Share price performance



Share price (%)	-1 mth	-3 mth	-12 mth
Ordinary shares	3.8	23.7	41.5
Relative to Index	2.4	7.9	24

Source: Bloomberg

Valuation

YE:	Dec 10	Dec 11	Dec 12E	Dec 13E	Dec 14E
Revenue (USDmn)	4,142	4,881	6,353	7,975	9,314
Adjusted EBITDA (USDmn)	1,216	1,576	1,906	2,321	2,735
Normalised net profit (USDmn)	666	1,133	1,192	1,706	2,097
Normalised EPS (USD)	0.083	0.141	0.148	0.212	0.261
Normalised EPS growth	210%	70%	5%	43%	23%
Normalised P/E (x)	50.5	29.7	28.2	19.7	16.0
EV/Adjusted EBITDA (x)	28.74	21.93	18.77	15.42	13.22
Dividend yield	0.00%	3.57%	4.16%	5.94%	7.13%

Source: Company reports, Mizuho research

Shanghai Electric (2727 HK)

BUY (Unchanged)

Price at 6 Dec 2012	Price objective at 19 Oct 2012
HKD3.11	**HKD4.00**
Sector	Upside / downside
Industrial Engineering	**+29%**
Market cap	52 week high low
HKD55bn (USD7.1bn)	**HKD4.44-2.62**
Avg daily turnover (3M / 12M)	
USD9.5mn / USD7.8mn	

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Diamond in the rough

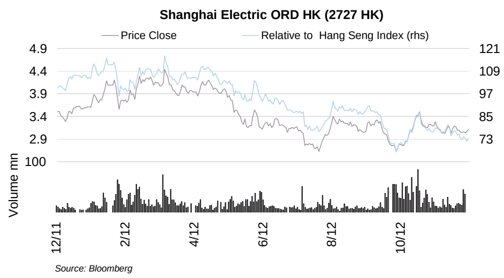
The power equipment sector has underperformed the HSI index by 22%-58% YTD (as at 20 Nov 2012) due to slower electricity demand growth and pro-environmental policies which potentially undermine profitability. However, we note that valuations for Shanghai Electric have become compelling enough for investors to start building a position for the medium to long term.

Better positioned than peers
While the coal-fired power equipment sector will continue to face policy headwinds, Shanghai Electric has 1) Strong expertise in Gen III nuclear-related component manufacturing 2) Negligible earnings exposure to structurally challenging segments such as wind power and Gen II nuclear 3) Clout to continually attract world class companies to collaborate with them (Alstom – boilers in 2011, Thales – signalling systems in 2012). 4) The least issues with the non-collection of accounts receivable.

India is a call option
While the existing system in India inadequately incentivizes utility companies and is impacting order gestation for equipment companies, the issues there are well known and largely "in the price", in our opinion. Investors essentially have a call option on any structural reforms that are enacted going forward.

Priced for mediocrity now
With the company's share price currently implying a PBR valuation of just 1.0x (2012E), we like the risk/reward proposition and recommend a BUY on the stock.

Share price performance



Share price (%)	-1 mth	-3 mth	-12 mth
Ordinary shares	-2.5	1	-8.3
Relative to Index	-3.9	-14.8	-25.8

Source: Bloomberg

Valuation

YE:	Dec 10	Dec 11	Dec 12E	Dec 13E	Dec 14E
Revenue (CNYmn)	62,957	67,918	73,461	77,837	82,335
Net profit (CNYmn)	2,784	3,267	3,322	3,473	4,127
Normalised net profit (CNYmn)	2,784	3,267	3,322	3,473	4,127
Normalised EPS (CNY)	0.217	0.255	0.259	0.271	0.322
Normalised EPS growth	0.0%	17.4%	1.7%	4.5%	18.8%
Normalised P/E (x)	11.51	9.81	9.65	9.23	7.77
BVPS (CNY)	2.11	2.28	2.46	2.68	2.95
Dividend yield	4.96%	3.06%	2.07%	2.17%	2.58%

Source: Company reports, Mizuho research

10 December 2012

Tencent (700 HK)

BUY (Unchanged)

Defensive with a bonus in the pipeline

Minimal impact of economic slowdown and mobile cannibalization
Unlike other Internet companies that have shown negative impact on revenue by the economic slowdown, Tencent reported strong growth in online advertising (69% YoY) and e-commerce (32% QoQ) revenue for 3Q12. ARPU of fee-based IVAS and MVAS user increased 9% QoQ and 5% QoQ, respectively, for 3Q12. PCU and ACU growth of various game categories remained strong with minimal desktop-to-mobile cannibalization observed during the quarter. Non-GAAP EBIT margin (ex- e-commerce) held up well at 42.1% in 3Q12 (vs. 43.4% for 2Q12) under the open-platform strategy.

WeChat potential remains intact
Transition from desktop to mobile Internet is an inevitable trend and Tencent is leading the race through WeChat with more than 200mn registered users. We appreciate the fact that Tencent management takes time to find the right monetization model instead of hurrying to cash in. Integration with Tenpay will enhance the development of WeChat's online-to-offline (O2O) business opportunities. We believe that Tencent has the ambition to make WeChat the mobile Internet access point not only to Chinese Internet users, but for the Asian markets as well. Popularity of WeChat is growing in India, Thailand, Taiwan, Vietnam, Malaysia, Indonesia, etc.

Top pick in the Internet space
Tencent has over 70% of its revenues generated from gaming and social networking services (SNS) and is less vulnerable to economic fluctuation and has therefore become the ideal shelter in the Internet space amid the slowdown in China's economic growth. Note that we have not factored in any WeChat monetization in our model. We expect news flow of growing WeChat registered user base to become the positive catalyst for Tencent's share price in the next six months.

Price at 6 Dec 2012	Price objective at 8 Oct 2012
HKD252.8	**HKD321.0**
Sector	Upside / downside
Software & Computer Services	**+27%**
Market cap	52 week high low
HKD468bn (USD60bn)	**HKD278.2-145.8**
Avg daily turnover (3M / 12M)	
USD104mn / USD98mn	

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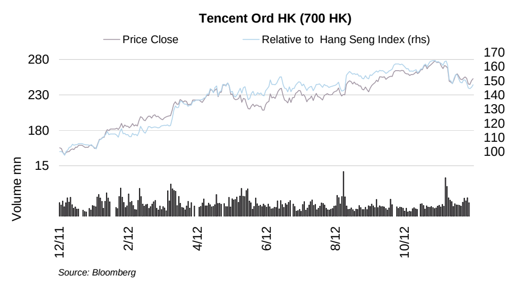
Share price performance



Share price (%)	**-1 mth**	**-3 mth**	**-12 mth**
Ordinary shares	-8.3	5.7	64.3
Relative to Index	-9.7	-10.1	46.8

Source: Bloomberg

Valuation

YE:	Dec 10	Dec 11	Dec 12E	Dec 13E	Dec 14E
Revenue (CNYmn)	19,646	28,496	43,809	57,814	74,258
Operating profit (CNYmn)	9,838	12,254	15,811	19,866	25,465
Operating profit - ex SBC (CNYmn)	10,334	12,986	16,937	21,294	27,226
Net profit (CNYmn)	8,054	10,203	12,631	16,069	20,657
Net profit - ex SBC (CNYmn)	8,549	10,936	13,757	17,498	22,418
Normalised EPS (CNY)	4.73	6.02	7.51	9.47	12.10
Normalised EPS growth	55.1%	27.3%	24.9%	26.1%	27.7%
Normalised P/E (x)	42.99	33.77	27.05	21.45	16.79
ROAE	47.5%	40.6%	37.1%	34.7%	33.4%

Source: Company reports, Mizuho research

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Recommendation History

Company name (ticker)	Date of recommendation	Recommendation	Relevant disclosure [1]
Acer (2353 TT)	28-Nov-2011	BUY	
	27-Apr-2012	NEUTRAL	
	17-Aug-2012	UNDERPERFORM	
Agile Property (3383 HK)	19-Sep-2011	BUY	
	22-Feb-2012	NEUTRAL	
	19-Jul-2012	UNDERPERFORM	
Agricultural Bank of China (1288 HK)	27-Sep-2010	BUY	
	26-Aug-2011	HOLD	
	04-Oct-2011	NEUTRAL	
	14-Sep-2012	UNDERPERFORM	
AIA Group (1299 HK)	25-Nov-2011	BUY	
Aluminum Corp of China (2600 HK)	22-Dec-2010	HOLD	
	31-Aug-2011	BUY	
	15-Nov-2011	UNDERPERFORM	
Anhui Conch (914 HK)	28-Feb-2011	BUY	
	29-Mar-2011	HOLD	
	17-Aug-2011	BUY	
	19-Oct-2011	UNDERPERFORM	
ANTA Sports (2020 HK)	10-Jun-2010	BUY	
	18-Oct-2011	NEUTRAL	
Asustek Computer (2357 TT)	28-Nov-2011	UNDERPERFORM	
	17-Jan-2012	NEUTRAL	
	22-Mar-2012	BUY	
AU Optronics (2409 TT)	30-Mar-2011	HOLD	
	23-May-2011	BUY	
	14-Jul-2011	HOLD	
	04-Oct-2011	NEUTRAL	
	10-Dec-2012	BUY	
AviChina (2357 HK)	19-Aug-2010	BUY	
	28-Mar-2012	NEUTRAL	
	28-May-2012	BUY	
Baidu (BIDU US)	08-Oct-2012	BUY	
Bank of China (3988 HK)	05-Mar-2010	BUY	
	25-Aug-2011	SELL	
	04-Oct-2011	UNDERPERFORM	
	23-Nov-2012	NEUTRAL	
Bank of China (Hong Kong) (2388 HK)	30-Nov-2011	NEUTRAL	
	04-May-2012	BUY	
Bank of Communications (3328 HK)	05-Mar-2010	BUY	
	14-Feb-2011	HOLD	
	22-Aug-2011	SELL	
	04-Oct-2011	UNDERPERFORM	
Bank of East Asia (23 HK)	30-Nov-2011	UNDERPERFORM	
Baoxin Auto Group (1293 HK)	27-Feb-2012	UNDERPERFORM	
BBMG (2009 HK)	27-Jul-2012	NEUTRAL	
Beijing Enterprises Water (371 HK)	18-Nov-2010	BUY	
Belle (1880 HK)	10-Jun-2010	HOLD	
	24-Dec-2010	BUY	
Brilliance China Automotive (1114 HK)	11-Nov-2011	UNDERPERFORM	
BYD (1211 HK)	11-Nov-2011	UNDERPERFORM	
China Automation Group (569 HK)	14-Sep-2011	BUY	
China Citic Bank (998 HK)	05-Mar-2010	BUY	
	13-May-2010	HOLD	
	01-Sep-2010	BUY	
	14-Feb-2011	HOLD	
	31-Aug-2011	SELL	
	04-Oct-2011	UNDERPERFORM	
	28-Oct-2011	NEUTRAL	
	28-Oct-2011	UNDERPERFORM	
	23-Nov-2012	NEUTRAL	
China Coal Energy (1898 HK)	30-Sep-2010	BUY	
	28-Mar-2011	HOLD	
	18-Aug-2011	BUY	
	10-Oct-2011	NEUTRAL	
	24-Oct-2012	BUY	
China Construction Bank (939 HK)	05-Mar-2010	BUY	
	28-Mar-2011	HOLD	
	26-Apr-2011	BUY	
	23-Aug-2011	HOLD	
	04-Oct-2011	NEUTRAL	
	23-Nov-2012	BUY	
China Everbright Ltd. (165 HK)	25-Jul-2011	SELL	
	04-Oct-2011	UNDERPERFORM	
China Hongqiao (1378 HK)	02-Jun-2011	BUY	
	15-Nov-2011	NEUTRAL	
	13-Mar-2012	UNDERPERFORM	
China Life Insurance (2628 HK)	13-Mar-2012	NEUTRAL	
	01-Jun-2012	UNDERPERFORM	
China Merchants Bank (3968 HK)	05-Mar-2010	BUY	
	15-Mar-2010	HOLD	
	12-May-2010	SELL	
	07-Sep-2010	BUY	
	01-Apr-2011	HOLD	

Company name (ticker)	Date of recommendation	Recommendation	Relevant disclosure [1]
	01-Sep-2011	SELL	
	04-Oct-2011	UNDERPERFORM	
	16-May-2012	NEUTRAL	
	14-Sep-2012	UNDERPERFORM	
China Minsheng Bank (1988 HK)	05-Mar-2010	SELL	
	25-Aug-2010	BUY	
	01-Nov-2010	HOLD	
	14-Feb-2011	SELL	
	04-Oct-2011	UNDERPERFORM	
	14-Sep-2012	NEUTRAL	
	23-Nov-2012	BUY	
China Mobile (941 HK)	01-Feb-2012	NEUTRAL	
	15-Mar-2012	UNDERPERFORM	
	05-Jun-2012	NEUTRAL	
	16-Aug-2012	UNDERPERFORM	
China National Building Materials (3323 HK)	28-Feb-2011	BUY	
	19-Oct-2011	NEUTRAL	
	06-Mar-2012	UNDERPERFORM	
	27-Apr-2012	NEUTRAL	
	27-Jul-2012	UNDERPERFORM	
China Oilfield Services (2883 HK)	18-Aug-2011	BUY	
	03-Apr-2012	NEUTRAL	
	30-Oct-2012	UNDERPERFORM	
China Overseas Land & Investment (688 HK)	19-Sep-2011	BUY	
China Pacific Insurance (2601 HK)	13-Mar-2012	BUY	
	26-Mar-2012	NEUTRAL	
	20-Aug-2012	UNDERPERFORM	
China Resources Cement (1313 HK)	18-Jan-2012	NEUTRAL	
	27-Apr-2012	BUY	
	13-Aug-2012	UNDERPERFORM	
China Resources Land (1109 HK)	27-Sep-2012	BUY	
China Shanshui Cement (691 HK)	27-Jul-2012	UNDERPERFORM	
China Shenhua Energy (1088 HK)	30-Sep-2010	BUY	
	02-Jun-2011	HOLD	
	04-Oct-2011	BUY	
	10-Oct-2011	NEUTRAL	
China Taiping Insurance (966 HK)	13-Mar-2012	UNDERPERFORM	
China Telecom (728 HK)	01-Feb-2012	BUY	
China Unicom (762 HK)	01-Feb-2012	NEUTRAL	
	23-Mar-2012	UNDERPERFORM	
	24-Aug-2012	NEUTRAL	
China ZhengTong Auto Services (1728 HK)	27-Feb-2012	UNDERPERFORM	
Chongqing M&E (2722 HK)	02-Mar-2011	BUY	
	21-Mar-2012	NEUTRAL	
Chongqing Rural Commercial Bank (3618 HK)	21-Feb-2011	SELL	
	04-Oct-2011	UNDERPERFORM	
Chunghwa Telecom (2412 TT)	13-Jul-2012	UNDERPERFORM	
CITIC Resources (1205 HK)	06-Jan-2012	BUY	
CITIC Securities (6030 HK)	06-Aug-2012	NEUTRAL	
CNOOC (883 HK)	18-Aug-2011	BUY	
Country Garden (2007 HK)	19-Sep-2011	BUY	
Credit China (8207 HK)	24-Oct-2012	BUY	
CSR Corp (1766 HK)	14-Sep-2011	BUY	
	31-Oct-2011	NEUTRAL	
	26-Oct-2012	UNDERPERFORM	
Ctrip.com (CTRP US)	20-Jul-2010	BUY	
	19-Dec-2011	NEUTRAL	
	08-Oct-2012	UNDERPERFORM	
Dah Chong Hong (1828 HK)	27-Feb-2012	BUY	
	20-Jul-2012	NEUTRAL	
DBS Group Holdings (DBS SP)	10-Sep-2012	UNDERPERFORM	
	01-Nov-2012	NEUTRAL	
Dongfang Electric (1072 HK)	19-Oct-2012	UNDERPERFORM	
Dongfeng Motor (489 HK)	11-Nov-2011	NEUTRAL	
	29-Oct-2012	UNDERPERFORM	
Esprit (330 HK)	23-Apr-2010	BUY	
	11-Aug-2010	SELL	
	14-Feb-2011	HOLD	
	03-May-2011	SELL	
	04-Oct-2011	UNDERPERFORM	
	09-Feb-2012	NEUTRAL	
	14-Jun-2012	UNDERPERFORM	
Evergrande Real Estate Group (3333 HK)	19-Sep-2011	BUY	
	22-Feb-2012	NEUTRAL	
	29-Aug-2012	UNDERPERFORM	
Far EasTone (4904 TT)	13-Jul-2012	BUY	
Formosa Petrochemical (6505 TT)	12-Jul-2012	UNDERPERFORM	
Franshion Properties China (817 HK)	19-Sep-2011	BUY	
Galaxy Entertainment (27 HK)	13-Jun-2012	UNDERPERFORM	
	24-Oct-2012	NEUTRAL	
Geely Automobile (175 HK)	11-Nov-2011	UNDERPERFORM	
Genting Singapore (GENS SP)	31-Oct-2012	BUY	
Global Logistic Properties Ltd. (GLP SP)	21-Feb-2012	BUY	
Gome (493 HK)	09-Mar-2010	BUY	

Company name (ticker)	Date of recommendation	Recommendation	Relevant disclosure [1]
	06-Aug-2010	HOLD	
	08-Nov-2010	BUY	
	04-Oct-2011	NEUTRAL	
	28-Mar-2012	UNDERPERFORM	
	03-Sep-2012	NEUTRAL	
Great Wall Motor (2333 HK)	11-Nov-2011	NEUTRAL	
	19-Mar-2012	UNDERPERFORM	
GS Holdings (078930 KS)	12-Jul-2012	UNDERPERFORM	
Guangzhou Automobile (2238 HK)	11-Nov-2011	NEUTRAL	
	31-Oct-2012	UNDERPERFORM	
Guangzhou R&F Properties (2777 HK)	19-Sep-2011	SELL	
	04-Oct-2011	UNDERPERFORM	
Guotai Junan International (1788 HK)	24-Aug-2011	BUY	
Haitong Securities (6837 HK)	06-Aug-2012	BUY	
Hang Seng Bank (11 HK)	30-Nov-2011	BUY	
	04-May-2012	NEUTRAL	
	01-Aug-2012	UNDERPERFORM	
Harbin Power (1133 HK)	19-Oct-2012	UNDERPERFORM	
Hidili Industry International (1393 HK)	09-Nov-2012	UNDERPERFORM	
HKT Trust and HKT Ltd (6823 HK)	03-Apr-2012	BUY	
Hollysys Automation Technologies (HOLI US)	14-Sep-2011	HOLD	
	04-Oct-2011	NEUTRAL	
Hon Hai Precision Industry (2317 TT)	11-Sep-2012	BUY	5, 8
Hong Kong Exchanges and Clearing Ltd. (388 HK)	02-Dec-2011	UNDERPERFORM	
HSBC (5 HK)	15-Aug-2011	SELL	
	04-Oct-2011	UNDERPERFORM	
	19-Nov-2012	BUY	
HTC (2498 TT)	03-Nov-2010	BUY	
	01-Nov-2011	NEUTRAL	
	07-Feb-2012	UNDERPERFORM	
Industrial & Commercial Bank of China (1398 HK)	05-Mar-2010	HOLD	
	30-Aug-2010	BUY	
	26-Aug-2011	HOLD	
	04-Oct-2011	NEUTRAL	
	14-Jun-2012	BUY	
	31-Aug-2012	NEUTRAL	
	23-Nov-2012	BUY	
Kunlun Energy (135 HK)	01-Jun-2011	BUY	
KWG Property (1813 HK)	19-Sep-2011	HOLD	
	04-Oct-2011	BUY	
	07-Jun-2012	NEUTRAL	
	05-Nov-2012	BUY	
Lenovo Group (992 HK)	31-May-2011	BUY	
LG Display (034220 KS)	30-Mar-2011	HOLD	
	23-May-2011	BUY	
	14-Jul-2011	HOLD	
	04-Oct-2011	NEUTRAL	
	29-Oct-2012	BUY	
LG Electronics (066570 KS)	03-Nov-2010	BUY	
	11-Oct-2011	NEUTRAL	
	02-Feb-2012	BUY	
	15-Jun-2012	NEUTRAL	
Li & Fung (494 HK)	04-Jan-2011	BUY	
	25-Mar-2011	SELL	
	04-Oct-2011	UNDERPERFORM	
	23-Mar-2012	NEUTRAL	
	10-Aug-2012	UNDERPERFORM	
Li Ning (2331 HK)	10-Jun-2010	SELL	
	04-Oct-2011	UNDERPERFORM	
	06-Jul-2012	NEUTRAL	
	24-Aug-2012	UNDERPERFORM	
Link REIT (823 HK)	23-Sep-2011	SELL	
	04-Oct-2011	UNDERPERFORM	
Lonking Holdings (3339 HK)	17-Jul-2012	NEUTRAL	
Lotte Shopping (023530 KS)	11-Jan-2012	BUY	5, 6, 7
Melco Crown Entertainment (6883 HK)	13-Jun-2012	UNDERPERFORM	
	24-Oct-2012	NEUTRAL	
MGM China (2282 HK)	13-Jun-2012	NEUTRAL	
	24-Oct-2012	BUY	
Midas Holdings (1021 HK)	14-Sep-2011	BUY	
	09-Aug-2012	NEUTRAL	
MIE Holdings (1555 HK)	06-Jan-2012	BUY	
New China Life Insurance (1336 HK)	13-Mar-2012	UNDERPERFORM	
Oversea-Chinese Banking Corporation (OCBC SP)	10-Sep-2012	BUY	
Parkson Retail (3368 HK)	09-Jul-2010	SELL	
	22-Aug-2011	HOLD	
	04-Oct-2011	NEUTRAL	
	27-Feb-2012	UNDERPERFORM	
Peak Sport (1968 HK)	10-Jun-2010	BUY	
	18-Aug-2011	HOLD	
	04-Oct-2011	NEUTRAL	
PetroChina (857 HK)	18-Aug-2011	BUY	
	04-Jul-2012	NEUTRAL	
	31-Oct-2012	UNDERPERFORM	

Company name (ticker)	Date of recommendation	Recommendation	Relevant disclosure [1]
PICC (2328 HK)	17-Oct-2011	UNDERPERFORM	
	29-Nov-2011	NEUTRAL	
	22-Mar-2012	UNDERPERFORM	
Ping An Insurance (2318 HK)	13-Mar-2012	BUY	
PRADA S.p.A. (1913 HK)	16-Aug-2011	BUY	
Quanta Computer (2382 TT)	28-Nov-2011	BUY	
	31-Aug-2012	NEUTRAL	
Renhe Commercial (1387 HK)	19-Sep-2011	HOLD	
	04-Oct-2011	BUY	
	12-Dec-2011	UNDERPERFORM	
Samsung Electronics (005930 KS)	03-Nov-2010	BUY	
Sands China (1928 HK)	13-Jun-2012	BUY	
Sany Heavy Equipment (631 HK)	17-Jul-2012	UNDERPERFORM	
Shanghai Electric (2727 HK)	19-Oct-2012	BUY	
Shougang Fushan Resources Group (639 HK)	09-Nov-2012	BUY	
SINA Corp (SINA US)	08-Oct-2012	BUY	
	19-Nov-2012	NEUTRAL	
Singapore Exchange (SGX SP)	03-Oct-2012	UNDERPERFORM	
Sino Oil and Gas (702 HK)	06-Jan-2012	NEUTRAL	
Sinopec (386 HK)	18-Aug-2011	HOLD	
	04-Oct-2011	NEUTRAL	
Sinopec Shanghai Petrochemical (338 HK)	12-Jul-2012	NEUTRAL	
SJM Holdings (880 HK)	13-Jun-2012	BUY	
SK Hynix (000660 KS)	09-Sep-2010	SELL	
	21-Jan-2011	HOLD	
	31-Mar-2011	BUY	
SK Innovation (096770 KS)	12-Jul-2012	NEUTRAL	
SmarTone (315 HK)	24-Jan-2011	BUY	
	10-Feb-2011	HOLD	
	04-Oct-2011	BUY	
	22-Feb-2012	NEUTRAL	
	05-Sep-2012	UNDERPERFORM	
SOHO China (410 HK)	19-Sep-2011	HOLD	
	04-Oct-2011	BUY	
	20-Dec-2011	NEUTRAL	
	19-Jul-2012	UNDERPERFORM	
S-Oil (010950 KS)	12-Jul-2012	BUY	
Standard Chartered Bank (2888 HK)	28-Jul-2010	BUY	
	14-Sep-2011	HOLD	
	04-Oct-2011	NEUTRAL	
	27-Feb-2012	BUY	
	13-Aug-2012	NEUTRAL	
Sun Hung Kai & Co. Ltd. (86 HK)	10-Aug-2011	BUY	
	27-Aug-2012	NEUTRAL	
Taiwan Mobile (3045 TT)	13-Jul-2012	NEUTRAL	
Tencent (700 HK)	06-Aug-2010	BUY	
	11-Aug-2011	HOLD	
	03-Oct-2011	SELL	
	04-Oct-2011	UNDERPERFORM	
	03-May-2012	BUY	
TPK (3673 TT)	17-Jan-2011	BUY	
	28-Nov-2011	UNDERPERFORM	
	10-Aug-2012	NEUTRAL	
	07-Nov-2012	BUY	
TSMC (2330 TT)	28-Nov-2011	BUY	
	17-May-2012	UNDERPERFORM	
	26-Oct-2012	NEUTRAL	
United Energy (467 HK)	06-Jan-2012	NEUTRAL	
United Overseas Bank (UOB SP)	10-Sep-2012	UNDERPERFORM	
Wing Hang Bank (302 HK)	30-Nov-2011	UNDERPERFORM	
Wynn Macau (1128 HK)	13-Jun-2012	NEUTRAL	
Yanzhou Coal (1171 HK)	30-Sep-2010	SELL	
	07-Apr-2011	BUY	
	23-Aug-2011	HOLD	
	04-Oct-2011	BUY	
	10-Oct-2011	UNDERPERFORM	
Youku Tudou Inc (YOKU US)	08-Oct-2012	BUY	
Yuexiu Property (123 HK)	19-Sep-2011	BUY	
Zhongsheng (881 HK)	27-Feb-2012	BUY	
	20-Jul-2012	UNDERPERFORM	
Zhuzhou CSR Times Electric (3898 HK)	14-Sep-2011	BUY	
	30-Mar-2012	NEUTRAL	
Zoomlion (1157 HK)	17-Jul-2012	BUY	

Note: NR = Not Rated. Source: MHSC Group

Important Disclosure Information

Note 1: Where "disclosure date" appears below, this means the day prior to the report date for securities listed on the Hong Kong Stock Exchange. For all other securities, it means the end of the month preceding the date of this report, unless that month end is within 10 calendar days of the report date in which case the disclosure date is the end of the preceding month. All share prices quoted are the closing price for the business day prior to the date of the report, unless otherwise stated.

As at the disclosure date, the following applies :-

Company Disclosures

5. One or more MHSC Group company has been party to an agreement in the past 12 months relating for the provision of investment banking services to this company.

6. Within the past 12 months, one or more MHSC Group companies managed or co-managed a public offering of securities of this company.

7. One or more MHSC Group company has received compensation for the provision of investment banking services from this company in the past 12 months.

8. One or more MHSC Group company may expect to receive or intends to seek compensation relating to the provision of investment banking services to this company in the next 3 months or in the future.

For complete disclosures and recommendation history for Apple (AAPL US) please refer to Mizuho Research Web:
http://msusalibrary.bluematrix.com/client/login.jsp

Distribution of rating of companies covered by Mizuho Securities Asia Ltd.

Rating matrix	Distribution of ratings*(%)	Investment banking relationship**(%)
BUY	36.7	3.9
NEUTRAL	22.3	0.0
UNDERPERFORM	41.0	0.0

Note *: Distribution of rating on all companies covered by Mizuho Securities Asia Ltd.
Note **: Percentage of companies within each rating category receiving investment banking services from Mizuho Securities Asia Ltd in the past 12 months.

Mizuho Securities Asia Limited Ratings for Fundamental Research

Mizuho Securities Asia Limited ratings are based on the following definitions.

Ratings and price objectives are based on returns expected over the next 6-12 months.

BUY	Stocks for which our price objective, as of the date it is set, exceeds the share price by 10% or more as of the date of the rating.
NEUTRAL	Stocks for which our price objective, as of the date it is set, is within 10% of the share price as of the date of the rating.
UNDERPERFORM	Stocks for which our price objective, as of the date it is set, is below the share price by 10% or more as of the date of the rating, and/or which are expected to be among the stocks that provide lower investment returns than stocks within their respective coverage groups that have "BUY" or "NEUTRAL" ratings.
RS	RATING SUSPENDED – rating and price objective temporarily suspended.
NR	No Rating – not covered, and therefore not assigned a rating.

Guidelines for ratings

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