



13 December 2010

## The Investigator

# 2011 – A confluence of positives

## We cite seven reasons why absolute returns in 2011 should be substantial for Asian equities:

1) The economic cycle is inflecting up. 2) Don't fight the Fed and 3) Don't fight the Tape at the same time. 4) The US Presidential cycle is supportive. 5) Consensus Asia EPS growth estimates are too low. 6) Equity valuations look good versus the alternatives. 7) De-equitization – A US/Europe concept that is supportive of global equity multiples. Longer-term investors should have aggressively overweight positions.

For the short-term traders out there, US Risk-Love, i.e. sentiment, is at extremely elevated levels, so we would close the books or wait a few weeks and see Risk-Love drop slightly to scale in this bullish view for 2011.

## We expect Asian equities to be up 20-30% in 2011

We triangulate projected returns from three angles – a 2-3% monthly return (24-36% annualized) in periods with a strong Tape *and* easy policy, a 22% return during a MOMLI (leading economic indicator) upcycle, and a 37% return for Asian equities during year three in a US Presidential term. The probability of positive returns using these three approaches is above 70%.

## Risks to our (consensus) bullish view

1) US Risk-Love is exceptionally high, a near-term threat. 2) Runaway Chinese inflation that would precipitate a severe monetary crackdown. 3) Peripheral Europe could be back on the radar screen. 4) Policy-makers could become confused when choosing between Austrian austerity and Keynesian pump-priming. 5) Geo-politics are one accident away from becoming a threat. 6) The fundamental problem in plutonomies of "massive representation, without taxation" is still unresolved. 7) Money multipliers have begun to revive from unconsciousness – we could get an inflation shock.

## Country allocation changes – upgrading China from U/W to M/W, Thailand from M/W to O/W and downgrading Malaysia from O/W to M/W.

**Our bias is towards cyclical sectors such as** autos, retailing, capital goods, and transportation. We are underweight on tech hardware, utilities and food/beverage/tobacco, and select telcos. Model portfolio changes inside, portfolio is up 9.6% vs. 7% for MSCI Asia ex-Japan since inception, 17 Sep 2010.

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## Absolute Return Drivers

	Liquidity	Valuation	Sentiment (Risk-Love)	Technicals	Growth	Current Account Balance	Real Exchange Rate	Policy	Total Score
China	0	0	xx	0	xx	xx	✓✓	✓✓	-2
Hong Kong	0	xx	0	✓✓	xx	xx	0	0	-4
Indonesia	0	x	0	✓✓	xx	0	0	0	-1
India	0	x	0	0	xx	0	0	0	-3
Korea	0	0	0	✓✓	xx	✓✓	xx	0	0
Malaysia	0	0	x	✓✓	xx	xx	✓✓	0	-1
Philippines	0	0	0	xx	xx	✓✓	✓✓	✓✓	2
Singapore	0	0	xx	0	xx	✓✓	0	✓✓	0
Thailand	0	0	0	✓✓	✓✓	0	xx	0	2
Taiwan	0	0	0	✓✓	xx	✓✓	xx	0	0
Asia ex-Japan	0	0	x	✓	x	0	0	0	-1
Japan	0	✓✓	✓✓	✓✓	xx	xx	0	0	1

Source: Deutsche Bank.

Blank cell represents factor not used in the model for that country.  
. Most Favourable., Favourable, 0 Neutral, . Less Favourable and  
. Least Favourable.

## Sector Recommendations

### Sector Recommendations Overweight

PH – banks, real estate  
KR – autos, materials, retailing, utilities  
HK – cap goods, consumer durables, real estate, retailing  
TH – banks

### Underweight

TW – consumer durables, semis, tech hardware  
IN – media, real estate, telecom, utilities

Deutsche Bank AG/Hong Kong

All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies. Deutsche Bank does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1. MICA(P) 007/05/2010

**Table of Contents**

<b>2011 – A confluence of positives .....</b>	<b>3</b>
Regional views and country summary .....	11
Country summary.....	14
Sector selection .....	15
Asia model portfolio.....	17
Global.....	20
Asia ex-Japan .....	25
Japan .....	33
China .....	43
Hong Kong.....	51
India .....	59
India .....	66
Indonesia.....	68
Korea.....	76
Malaysia.....	84
Philippines.....	92
Singapore.....	100
Taiwan.....	108
Thailand.....	116
<b>Appendix A.....</b>	<b>124</b>
<b>Appendix B.....</b>	<b>125</b>

# 2011 – A confluence of positives

## The Fed, the Tape, MOMLI, the Presidential cycle, low EPS projections, relative valuations, de-equitization – a potent bullish brew

***US Risk-Love is high, so short-term traders should be wary. Long-term investors should have aggressive overweights in Asian equities***

2010 was a trading market, caught between strong earnings growth and PE contraction driven by falling leading economic indicators and rising sovereign risk. Trading appropriately using Risk-Love was key. Being permanently bullish or bearish, and disregarding drawdown or runaway risk, was lazy and wrong in this year's trading market. We got some of those trades right, and some of them wrong. The year 2011 could well be different, and being bullish, albeit hugely in line with consensus, seems to us to be the right positioning. (For the short-term traders out there, Risk-Love, i.e. sentiment, is at quite elevated levels, so we would wait a few weeks and see Risk-Love drop slightly to scale in this bullish view for 2011.) Longer-term investors should have aggressively overweight positions.

We cite seven reasons why absolute returns in 2011 should be substantial for Asian equities.

### 1) The economic cycle is inflecting up.

***Our US economists are quite bullish for 2011, citing pent-up consumer demand and the "credit impulse"***

Regular readers know that we track a host of leading economic/earnings indicators. In August, they were in free-fall and the authorities were quasi-inactive in response; consequently, we were "nervous and negative". Soon enough we got the QE2 announcement, the BOJ QE Mark x, and a "maybe" reflationary view from the ECB. These leading economic indicators have turned up in concert. Our US economists have a 3.0% real GDP forecast for 2011. They cite a low percentage of consumer discretionary spend in GDP, i.e. a coiled spring of pent-up demand, and a rising "credit impulse" as key drivers of a strong economic rebound. The extension of tax cuts and a cut in the payroll tax a few days ago were further impetus for their confidence.

***MOMLI – our best leading economic indicator is bottoming, as are others***

We cite our usual list of leading indicators and note that they are all improving. Figure 1 shows the Consumer Metrics Institute proxy for spending, and the ECRI Weekly Leading Index growth rate. Both of these high frequency LEIs are moving up nicely. Our own asset-price-based leading economic indicator and the gap between valuations of cheap and expensive stocks are also rising/stabilizing (Figure 2). Our friends at ECRI report that there is a "pervasive" improvement in the panoply of leading indicators they construct, and are especially positive on prospects for the global industrial growth cycle. Our preferred global leading economic indicator that is ahead of the curve in predicting turning points is MOMLI – the mother of leading indicators. It is a diffusion index of changes in individual-country leading economic indicators. We have three versions – one looking at global purchasing managers' indices, one using OECD data, and the last one using ECRI data (Figure 3 and Figure 4).

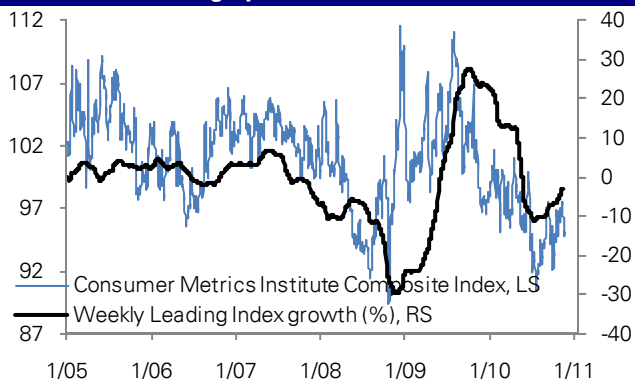
***MOMLI troughs are bullish for Asian equities – up 22% in the following year***

We think MOMLI has bottomed out, although we can only be sure in hindsight. This matters. MOMLI upcycles, which last around 17 months (OECD) on average, are exceptionally positive for Asian equities. See Figure 5. These markets like growth expectations to be revised up, and have trouble when MOMLI is in a downcycle.

Figure 6 shows the performance of Asian equities in MOMLI upcycles using ECRI data (where history is not revised in hindsight like in the OECD data). Clearly, on a 3, 6, 9 and 12-month view the markets do significantly better than in normal times and MOMLI downcycles,

both in terms of returns and the probabilities of making positive returns. On a 12-month view, using ECRI MOMLI, the projected median Asian equity market return is around 17%, and the probability of positive returns is around 69%. There were five drawdowns on a 12-month view, with average losses of 35%. These were either from elevated PE levels or financial crises that got in the way (1982, 1997, 2008). It is rare for PE multiples to contract in a MOMLI upcycle unless the starting point (as in 1973 or 2000) was already elevated.

**Figure 1: High frequency US leading economic indicators inflecting up**



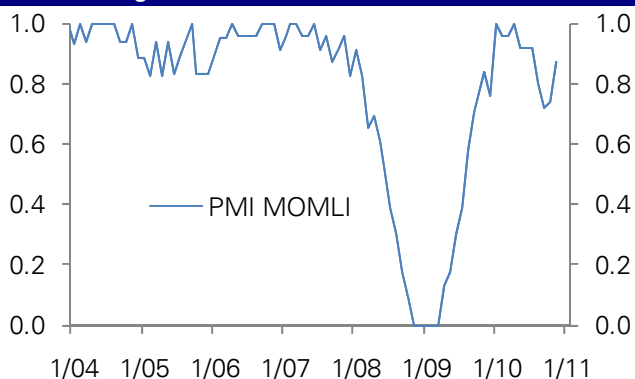
Source: Deutsche Bank, Consumer Metrics Institute, ECRI, Bloomberg Finance LP

**Figure 2: Market-based leading economic indicators rising/stabilizing**



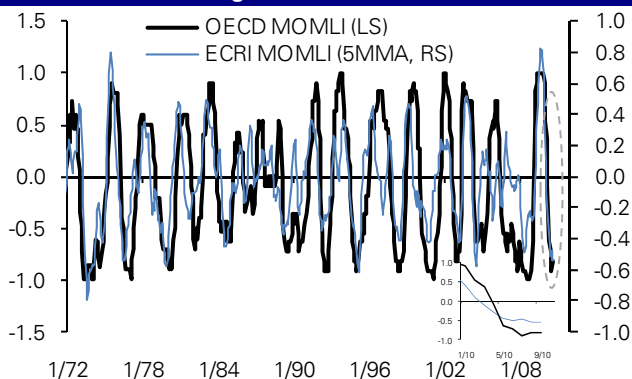
Source: Deutsche Bank

**Figure 3: MOMLI based on global Purchasing Manager's Indices rising**



Source: Deutsche Bank, Includes 27 countries

**Figure 4: MOMLI – the Mother of all Leading Economic Indicators, bottoming**



Source: Deutsche Bank, Note: OECD Leading Indicator includes 29 countries, but excludes all emerging markets except Korea, Mexico. ECRI indicator include 19 countries, India, China, S.Africa, Taiwan, Korea, i.e., gives weight to emerging market growth.



**Figure 5: Asian equities up 22% a year from a (OECD) MOMLI trough, only up 10% from MOMLI peaks**

Date of MOMLI trough	Asia ex-Japan equity returns			
	After 3 months	After 6 months	After 9 months	After 12 months
6/15/1973	-22.6%	-36.7%	-43.0%	-36.0%
1/15/1977	-0.5%	-0.2%	-3.1%	-4.8%
4/15/1980	40.1%	72.3%	97.9%	71.9%
2/15/1982	13.0%	-24.1%	-33.6%	-23.7%
10/15/1984	13.7%	22.7%	23.0%	22.3%
3/15/1986	11.7%	23.2%	46.3%	70.7%
12/15/1987	22.0%	45.2%	62.3%	56.0%
7/15/1989	13.4%	16.0%	4.7%	-6.8%
9/15/1992	-1.7%	5.1%	16.5%	23.2%
1/15/1995	6.1%	13.6%	9.0%	10.6%
6/15/1998	-3.3%	22.3%	27.2%	64.3%
2/15/2001	-13.6%	-18.8%	-24.6%	-15.6%
1/15/2003	-9.0%	10.9%	28.8%	44.3%
3/15/2005	-0.6%	6.4%	11.0%	21.8%
10/15/2008	-17.0%	-1.1%	20.1%	45.3%
Average	3.4%	10.4%	16.2%	22.9%
Median	-0.5%	10.9%	16.5%	22.3%
Win Ratio	47%	67%	73%	67%
<b>OECD MOMLI downcycles</b>				
Average	2.7%	7.2%	2.8%	2.9%
Median	5.7%	4.3%	5.5%	10.6%
Win Ratio	60.0%	56.3%	56.3%	62.5%
<b>All periods (1973 - 2010)</b>				
Average	2.8%	6.0%	9.3%	13.0%
Median	2.7%	5.1%	7.9%	11.5%
Win Ratio	59%	60%	64%	68%

Source: Deutsche Bank, OECD, Datastream, Bloomberg Finance LP

**Figure 6: Asian equities up 17% a year from a (ECRI) MOMLI trough, up only 10% from a MOMLI peak**

Date of MOMLI trough	Asia ex-Japan equity returns			
	After 3 months	After 6 months	After 9 months	After 12 months
7/15/1973	-5.8%	-22.2%	-38.1%	-40.7%
6/15/1976	3.8%	6.4%	9.1%	12.4%
11/15/1979	31.9%	31.4%	68.7%	119.8%
9/15/1981	-2.8%	-18.7%	-11.6%	-29.9%
8/15/1984	3.2%	20.5%	29.7%	26.5%
6/15/1990	-14.3%	-11.6%	-3.4%	-1.8%
8/15/1992	8.6%	9.0%	19.1%	22.0%
3/15/1995	5.6%	4.2%	1.4%	8.4%
2/15/1997	-1.7%	3.5%	-28.8%	-33.0%
5/15/1998	-24.3%	-8.1%	-6.4%	21.7%
9/15/2000	-13.9%	-18.7%	-21.3%	-37.3%
3/15/2003	16.0%	33.3%	50.1%	59.8%
7/15/2004	9.2%	19.9%	21.7%	29.5%
11/15/2005	13.8%	24.6%	18.5%	34.4%
8/15/2006	13.3%	24.7%	31.8%	37.1%
5/15/2008	-18.6%	-51.5%	-50.3%	-37.7%
Average	1.5%	2.9%	5.6%	12.0%
Median	3.5%	5.3%	5.2%	17.1%
Win Ratio	56%	63%	56%	63%
<b>ECRI MOMLI downcycles</b>				
Average	1.7%	6.9%	6.8%	10.8%
Median	0.1%	-1.7%	4.7%	9.6%
Win Ratio	53.3%	46.7%	73.3%	73.3%
<b>All periods (1973 - 2010)</b>				
Average	2.8%	6.0%	9.3%	13.0%
Median	2.7%	5.1%	7.9%	11.5%
Win Ratio	59%	60%	64%	68%

Source: Deutsche Bank, ECRI, Datastream, Bloomberg Finance LP

## 2) Don't fight the Fed and 3) Don't fight the Tape

**Don't fight the Fed AND the Tape at the same time – a rare confluence that is bullish for equities**

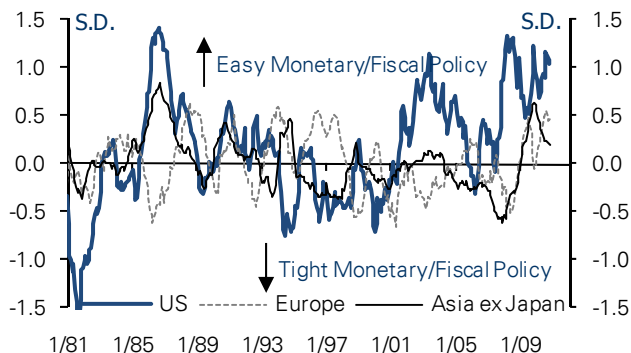
We respect these Wall Street axioms, and provide evidence why. Fight one of them and you might just escape being mauled, but fighting them together is sheer folly, and we won't do it. What exactly do these axioms mean? Well, fighting the Fed is shorthand for not being bearish on equities when the US authorities are easing policy. Professor Bernanke has told us in pretty clear terms that higher equity markets are an important component in reviving animal spirits. Our work on plutonomy supports this assertion – rich folks not only have disproportionately more money than the rest, but the volatility of their spending is 10 times that of other people. Pumping their assets – equities, hedge funds, and real assets – translates into a strong wealth effect. Plutonomy stocks in Asia are at record highs; globally, they are close to record highs. A few nights ago, we got a boost to fiscal policy with an extension of the Bush tax cuts. We have a composite policy indicator that combines real interest rates, real money supply, fiscal deficits, and the real effective exchange rate. See Figure 7 for the US, Europe and Asia policy indicators. Clearly, US policy is remarkably easy, as is Europe, while Asia is tightening somewhat.

**The Tape is strong – few new lows and robust global sector breadth**

What is the "Tape"? It is the technical voice of the market – it measures the breadth of the individual sectors, their distance from their past highs and lows, and the pervasiveness with which they are above these recent lows. We have highlighted that technicals have improved sharply in the past three months, after looking precarious at end-August. In particular, new lows are disappearing globally, though in Asia they have been rising in the past few weeks (Figure 8), while sector breadth is very strong (Figure 9). Periods when the Tape is strong AND the Fed/policymakers are easy occur less than ten percent of the time in one's career.

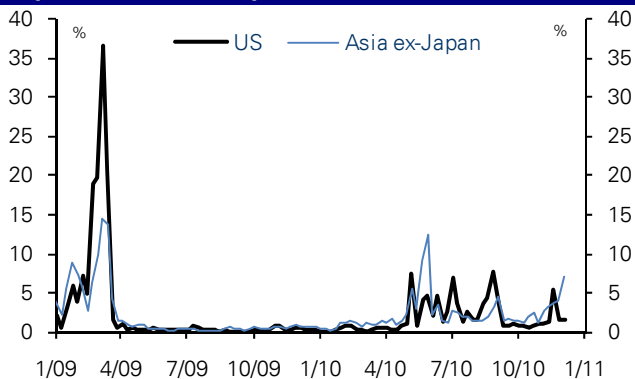
Figure 10 shows monthly returns and win ratios during periods of an *easy US policy* and *strong Tape* for a range of markets. Interestingly, using US policy, rather than the particular market's own policy, generally increases predictive power. The upshot? Most Asian markets enjoy monthly returns of around 2-3% (i.e. 24-36% annualized) with 70% of months being positive, when both the "Tape" and the "Fed" were supportive. Don't fight the Fed AND the Tape at the same time. This confluence happens rarely, is very bullish, and should be pounced upon.

**Figure 7: Policy is easy in the US and Europe, tightening in Asia**



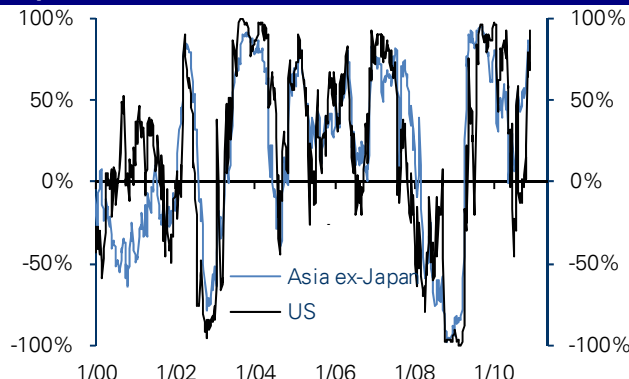
Source: Deutsche Bank, CEIC, Datastream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate yoy growth, real broad money (M2) y-o-y growth, short term real interest rate and government fiscal deficit/surplus as a % of GDP.

**Figure 8: Strong technicals – New Lows are low, though they increased recently in Asia**



Source: Deutsche Bank, Datastream, Factset

**Figure 9: Strong technicals – Globally, sector breadth is very robust**



Source: Deutsche Bank, Datastream, FactSet. Market breadth is defined as (# of sub-sectors up on 6 months basis minus # of sub-sectors down on 6 months basis) / total sub-sectors available.

**Figure 10: Rare periods of a strong Tape and an easy US Fed deliver exceptionally high equity returns with high probabilities**

US (Mar 1970 - present)	All periods	Periods with easy policy	Periods with a strong Tape	Periods with a strong Tape AND easy policy
Avg. return (Weekly)	0.14%	0.27%	0.40%	0.42%
Win Ratio (Weekly)	55.2%	57.7%	62.3%	61.6%
% of time	100.0%	18.6%	23.5%	6.5%

Singapore (Jan 1971 - present)	All periods	Periods with easy policy	Periods with a strong Tape	Periods with a strong Tape AND easy policy
Avg. return (Monthly)	1.04%	1.55%	1.31%	1.62%
Win Ratio (Monthly)	57.3%	61.5%	62.4%	68.9%
% of time	100.0%	29.9%	22.8%	9.4%

Japan (Jan 1971 - present)	All periods	Periods with easy policy	Periods with a strong Tape	Periods with a strong Tape AND easy policy
Avg. return (Weekly)	0.12%	0.09%	0.44%	0.30%
Win Ratio (Weekly)	53.4%	52.6%	58.9%	61.6%
% of time	33.93%	33.93%	24.42%	6.5%

Taiwan (Jan 1971 - present)	All periods	Periods with easy policy	Periods with a strong Tape	Periods with a strong Tape AND easy policy
Avg. return (Monthly)	1.39%	3.86%	2.24%	2.80%
Win Ratio (Monthly)	54.0%	62.9%	56.0%	62.2%
% of time	100.0%	29.9%	22.8%	9.4%

China (Jan 1992 - present)	All periods	Periods with easy policy	Periods with a strong Tape	Periods with a strong Tape AND easy policy
Avg. return (Monthly)	0.37%	1.14%	1.77%	2.81%
Win Ratio (Monthly)	51.2%	57.1%	59.6%	60.0%
% of time	100.0%	38.9%	24.2%	14.0%

Indonesia (Apr 1983 - present)	All periods	Periods with easy policy	Periods with a strong Tape	Periods with a strong Tape AND easy policy
Avg. return (Monthly)	1.50%	1.64%	2.33%	3.06%
Win Ratio (Monthly)	53.8%	62.9%	61.4%	76.7%
% of time	100.0%	39.8%	25.1%	13.0%

Hong Kong (Jul 1975 - present)	All periods	Periods with easy policy	Periods with a strong Tape	Periods with a strong Tape AND easy policy
Avg. return (Monthly)	1.47%	1.61%	2.11%	1.96%
Win Ratio (Monthly)	59.2%	61.5%	64.2%	64.4%
% of time	100.0%	29.9%	22.8%	9.4%

Malaysia (Jan 1972 - present)	All periods	Periods with easy policy	Periods with a strong Tape	Periods with a strong Tape AND easy policy
Avg. return (Monthly)	1.16%	1.54%	1.28%	1.40%
Win Ratio (Monthly)	58.2%	60.1%	63.3%	64.4%
% of time	100.0%	29.9%	22.8%	9.4%

India (Jan 1971 - present)	All periods	Periods with easy policy	Periods with a strong Tape	Periods with a strong Tape AND easy policy
Avg. return (Monthly)	1.33%	1.23%	2.51%	2.72%
Win Ratio (Monthly)	57.7%	55.9%	67.9%	71.1%
% of time	100.0%	29.9%	22.8%	9.4%

Philippines (Jan 1979 - present)	All periods	Periods with easy policy	Periods with a strong Tape	Periods with a strong Tape AND easy policy
Avg. return (Monthly)	0.47%	2.36%	1.23%	3.25%
Win Ratio (Monthly)	51.5%	59.4%	58.7%	64.4%
% of time	100.0%	29.9%	22.8%	9.4%

Korea (Jan 1971 - present)	All periods	Periods with easy policy	Periods with a strong Tape	Periods with a strong Tape AND easy policy
Avg. return (Monthly)	1.24%	2.39%	1.51%	3.33%
Win Ratio (Monthly)	53.8%	60.8%	57.8%	71.1%
% of time	100.0%	29.9%	22.8%	9.4%

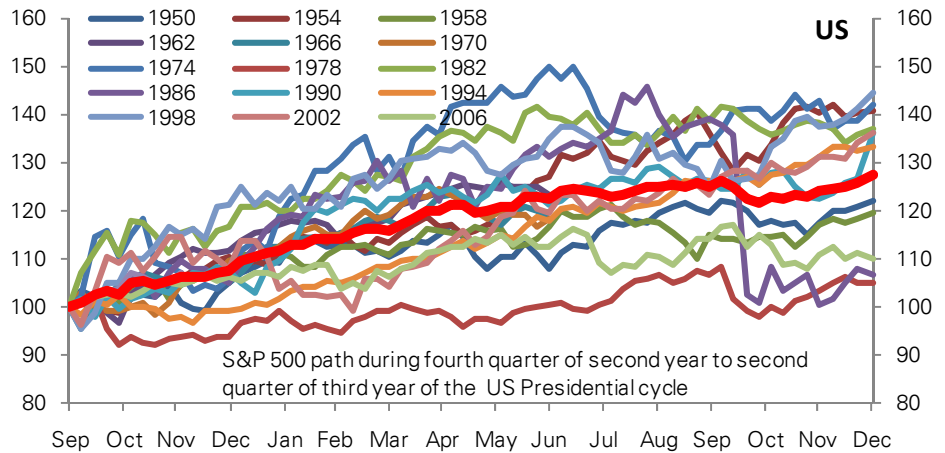
Thailand (Jan 1977 - Present)	All periods	Periods with easy policy	Periods with a strong Tape	Periods with a strong Tape AND easy policy
Avg. return (Monthly)	0.90%	2.31%	0.76%	1.71%
Win Ratio (Monthly)	53.9%	65.9%	54.8%	63.6%
% of time	100.0%	32.2%	24.4%	10.3%

Source: Deutsche Bank, Datastream

**US policy typically eases in the third year of the Presidential term – Asian equities rise by an average 37%, and almost always are up in this year**

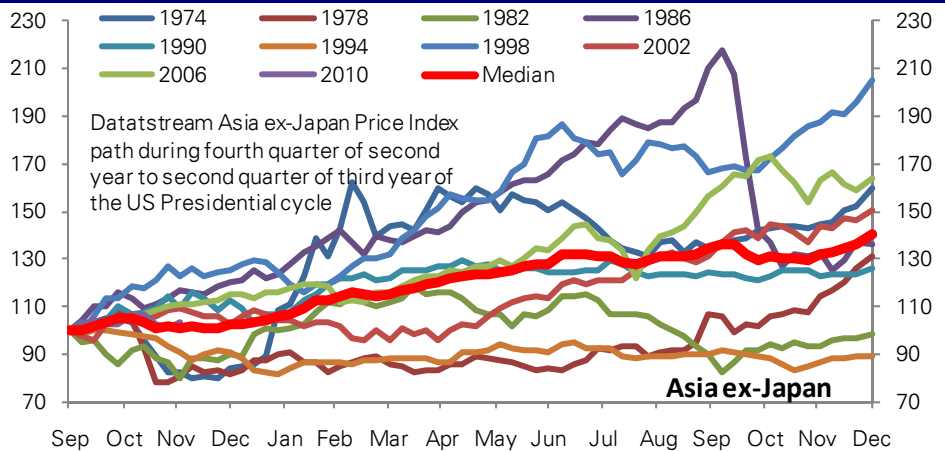
**4) The US Presidential cycle is supportive.** Our US equity strategist Binky Chadha has written about this issue (US Equity Strategy - Equities & The Mid-Term Election, 1 September 2010) The period from the mid-term election to the next summer, and indeed through to the end of the next year, is typically very positive for US equities. See Figure 11. Will it also be positive for Asian equities? As Figure 12 shows, the results are also usually very robust, with average returns of 37% in year three of the Presidential term, with almost a 100% strike rate (except in 1995 when Asian equities were down 2%) for positive returns. (Normally, Asian equities have an annual return of 15%, with 64% of years being positive in 1973-2009). It does not matter whether or not there is gridlock – the returns are positive and massive. The rationale for the Presidential cycle? Shockingly, political economy. For some reason, monetary/fiscal policy is eased after the mid-term election, and this affects economic growth about 12-18 months later, just in time for the next Presidential election campaign. See Figure 13 for proof – this is the previously cited US policy indicator, with the shaded areas marked from the mid-term election to the next summer. Like the French policeman Captain Louis Renault in *Casablanca*, we are “shocked, shocked” that there is a political economy cycle that affects equity prices.

**Figure 11: US equities do exceptionally well from the mid-term elections to the next summer**



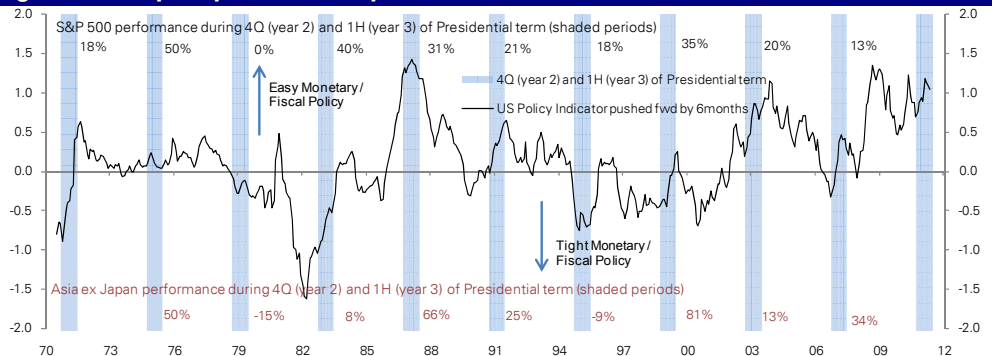
Source: Deutsche Bank, Bloomberg Finance LP

**Figure 12: Asian equities do exceptionally well – up 37% – in the third year of a US presidential term**



Source: Deutsche Bank, Bloomberg Finance LP

**Figure 13: US policy remains easy from mid-term election to the next summer**



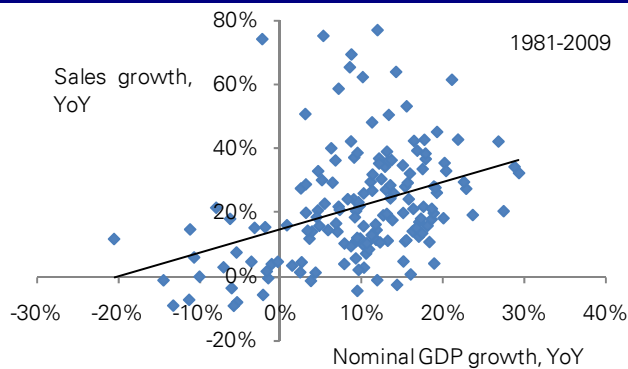
Source: Deutsche Bank, CEIC, Datastream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate yoy growth, real broad money (M2) y-o-y growth, short term real interest rate and government fiscal deficit/surplus as a % of GDP.

**5) Consensus EPS growth estimates are too low.**

**Asian EPS growth forecasts of 14% for 2011 are too low; expect upgrades**

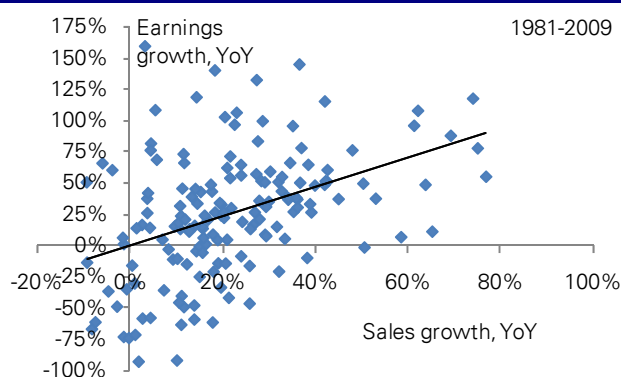
We wrote about this issue last week. On our economists' nominal GDP growth estimates of 12% for next year, revenue growth should be around 22% and EPS growth around 25-30%. See Figure 14 and Figure 15. We think analysts are a bit light in energy, materials, capital goods, autos and consumer staples. In the past few months analysts have already begun to raise their 2011 numbers. We think there is more to come. While we understand the excess supply argument for tech EPS to be low-ish in 2011, we think the demand side could be severely underestimated. Cash flow, CEO confidence, credit availability and severe underinvestment through the past two years argue for a revival in overall tech spending.

**Figure 14: Nominal GDP growth and revenue growth correlate – our GDP forecast implies much stronger revenue growth ( 23%) than our analysts or consensus PROJECT**



Source: Deutsche Bank, IMF, Datastream. , Top 5% and Bottom 5% of the data are removed to avoid outliers. Markets included are China ,Hong Kong ,India ,Indonesia ,Malaysia ,Philippines ,Singapore ,South Korea ,Sri Lanka ,Taiwan and Thailand.

**Figure 15: Sales growth and EPS growth correlated – operating leverage. 12% nominal GDP growth implies 23% revenue growth, which implies 27% EPS growth. Consensus at 14%!**

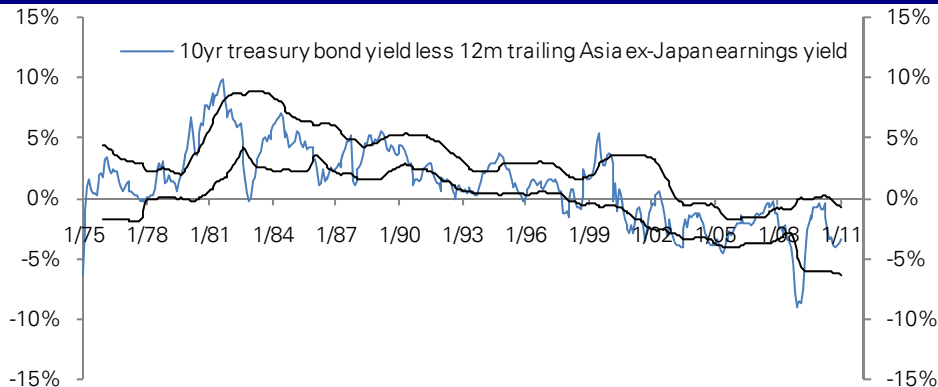


Source: Deutsche Bank, IMF, Datastream, Top 5% and Bottom 5% of the data are removed to avoid outliers. Markets included are China ,Hong Kong ,India ,Indonesia ,Malaysia ,Philippines ,Singapore ,South Korea ,Sri Lanka ,Taiwan and Thailand.

**Asian equity valuations are fair**

**6) Valuations look good versus the alternatives.** While Asian equity absolute valuations are at long-term averages, and although they are relatively expensive (especially compared to Japanese equities and global brands), they are reasonably valued compared with US government and corporate bond yields. In other words, the equity risk premium is favorable. See Figure 16.

**Figure 16: Asian equities are fairly valued versus bond yields**



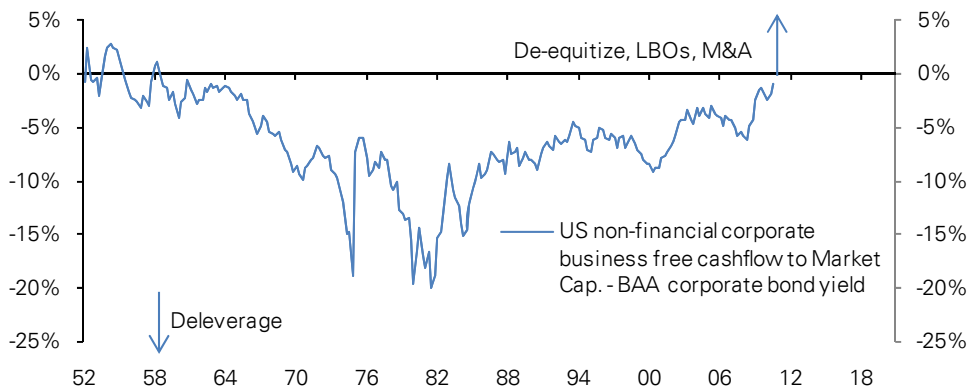
Source: Deutsche Bank, Bloomberg Finance LP. The bands are 3 year +/- 1.1 S.D.

**7) De-equitization – A US/Europe concept that supports global equity multiples**

**Cash flow yields are high versus bond yields – de-equitization, M&A likely to support equity multiples**

As Figure 17 suggests, the gap between free cash flow yields and corporate bond yields suggests borrowing to retire equity, using cash balances on the balance sheet to buy back stock, or executing M&A. Birinyi Associates suggests that buyback authorizations this year could run to USD375bn, up from USD110bn last year. While these tendencies are weak in Asia, overall global sector multiples get a boost from this activity in the US and Europe.

**Figure 17: Free cash flow yields high relative to corporate bond yields; here comes de-equitization, M&A, LBO activity**



Source: Deutsche Bank, Federal Reserve Board

**Risks – high Risk-Love, China CPI, peripheral Europe, policy mistakes, geo-politics, inflation**

**Risks:** 1) The near-term risk is that US Risk-Love is again climbing to euphoric levels. However, this is a very short-term problem, given the Tape, the Fed, the Presidential cycle, valuations, and a MOMLI upcycle. Euphoric sentiment coupled with nastiness in the above factors would be a real worry (as in early 2000), but is not now.

2) Runaway Chinese inflation that would precipitate a severe monetary crackdown (we remember Zhu Rongji’s 1994 tightening as quite unpleasant).

3) Peripheral Europe could be back on the radar screen soon enough: as many think the can has just been kicked down the road. See the report on this issue by Jim Reid, *Global Credit Outlook – 2011: Thinking the unthinkable*, 8 December 2010.

4) Policy-makers could get confused when choosing between Austrian austerity and Keynesian pump-priming. Who knows the right answer, except for the dogmatists?

5) Geo-politics have been shrugged off by the markets so far, but this could change with any accident. (India-Pakistan, North and South Korea, China-India, China-Japan, are some of the most challenging issues in the region.)

6) The fundamental problem in plutonomies of “massive representation, without taxation” is still unresolved – full voting rights without proportional taxation leads to a “lock-in” of exuberant entitlements. This is fine during bubbles, or with demographically strong support from taxpayers, or in periods of benign capital inflows. Can the democratic process self-correct the entitlement bubble in plutonomies? Ireland and the UK are trying, but it remains to be seen how austerity will go down with voters. If voters cannot solve this conundrum, the markets normally do. That could be unpleasant and presents a risk.

7) Globally, money multipliers have begun to revive from unconsciousness – what if they surprise with their alacrity and multiply the monetary base with vigor? We could get an inflation shock, and a tightening response from the authorities.

## Regional views and country summary

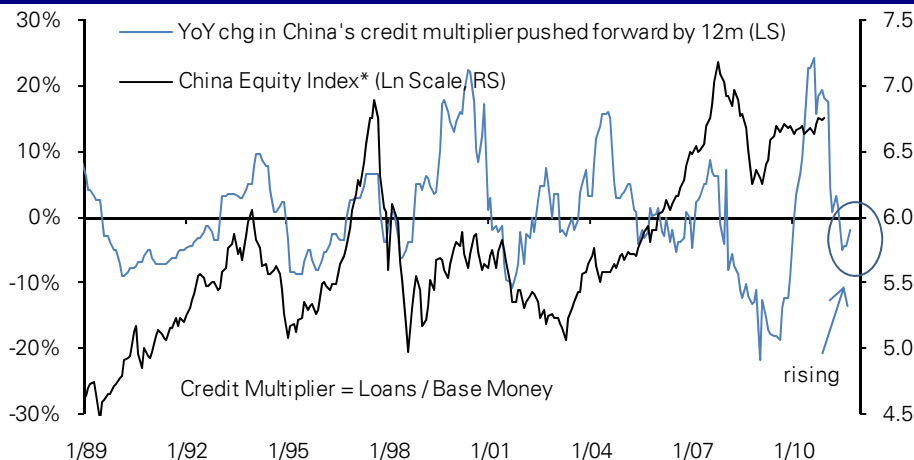
**Asian Equities – OK valuation, weakening technicals, neutral Risk-Love, EPS expectations too low, thick IPO pipeline, value the best performer**

Asian equities are at long-term fair value. Based on EV/EBITDA and EV/Sales, the markets look moderately undervalued. Relative to the world, the region is at a modest premium, implying superior excess returns on capital (ROE less COE) in the coming years, which we think is an erroneous assumption, given relative excess investment in Asia versus the US and Europe. Asian Risk-Love is in the neutral zone, far from the euphoria seen in late 2007 or in early 2000. Indeed, with the exception of the Philippines and China, sentiment in most markets is at neutral levels. There is some modest deterioration in technicals for the region – the percentage of new highs is falling, while the new lows list is expanding. Still, breadth remains strong. While our economists expect some deceleration in real GDP growth (from 9% to 7.5% from 2010 to 2011), consensus analysts' EPS growth estimates have dropped far more abruptly from an estimated 39% in 2010 to just 13.7% projected growth in 2011. As alluded to earlier, if our economic growth forecasts are roughly correct, EPS growth could well be 25-30%, not 13.7%. Asian free liquidity is rising nicely, and Asian hedge fund exposure to equities has pulled back from extremes. The IPO pipeline is now above 2% of market capitalization, a moderate worry. As long as fund flows continue into the region, the additional paper is likely to be absorbed. Value continues its dominance as an alpha generator. The market has also rewarded EPS momentum this year, as well as high leverage and poor balance sheets. Stay with value.

**China, Thailand upgraded; Malaysia cut back**

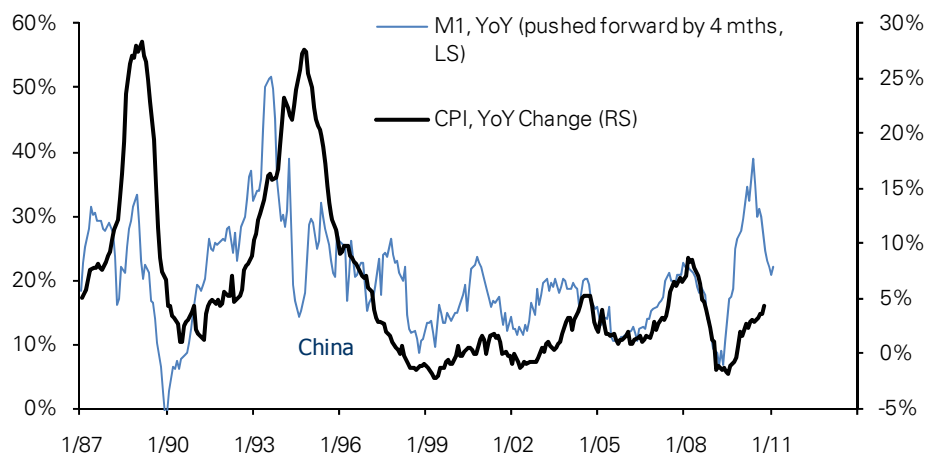
We are making a few changes to our country allocation, based on our bottom-up and top-down work. First, we think the credit cycle in China is about to bottom (see Figure 18), and our China strategist Jun Ma thinks that inflation prints are likely to peak out in 1Q2011. See Figure 19, which plots M1 growth and CPI in China. The market has underperformed significantly this year, and we see some emerging relative value here. We upgrade from Underweight to Neutral. We will observe the inflation prints, monetary growth and the credit multiplier, along with EPS and price momentum, before we go overweight. We add stocks in China energy and real estate.

**Figure 18: China's credit multiplier seems to be bottoming – a good sign**



Source: Deutsche Bank, IMF, PBoC, Datastream. \* China equity index is a market cap weighted index on Hang Seng China Enterprises Index and Hang Seng china – Affiliated corporations Index.



**Figure 19: China M1 growth and CPI – a spike before the calm?**

Source: Deutsche Bank, Bloomberg Finance LP

***Thailand – better political prospects, strong economic indicators and EPS growth prospects, great technicals***

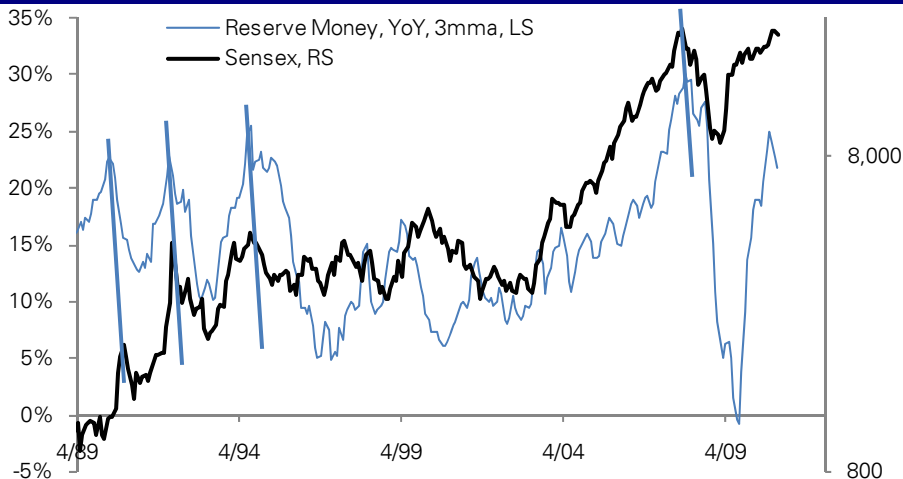
We also upgrade Thailand from neutral to overweight and downgrade Malaysia from overweight to neutral. According to Derek Bloomfield, our Thailand strategist, “Looking to 2011, the key political issues are constitutional reform and elections. The government will again take up the issue of constitutional charter change when Parliament reconvenes in February, with an aim to rewrite party constituency rules to enable greater representation of smaller political parties. Then, we think, the government is likely to call early elections before mid-year. Our view is that elections are likely to be a positive catalyst for the SET, as we think the government will return with an enlarged coalition majority.” Technicals are super-strong – breadth is robust, and the percentage of stocks above 50- and 200-day moving averages is a substantial three-quarters. As opposed to other Asian markets, Thailand’s leading indicators are rising, so punchy EPS forecasts for 2011 of 20% after 18% this year might not be high enough. We are buying two bank stocks in Thailand. Malaysia generally underperforms in strong bull markets.

***Indian monetary base is elevated, potentially a threat to equities***

A quick thought on India. While our colleagues in Mumbai are staying bullish, looking at the current spate of corruption scandals as isolated events, we are underweight. While we are big believers in the long-term India story we can find cheaper counterparts elsewhere in the region. We were a bit surprised by the RBI balance sheet. As Figure 19 shows, for a central bank that is worried about inflation, the rise in the monetary base to near record highs is quite puzzling. Peaks in the monetary base growth rate coincide or lead peaks in Indian equities. What is more surprising is that the net foreign assets on the RBI’s balance sheet are not contributing to base money growth at all; its rise is almost entirely due to “net credit to government,” which is up substantially in the past year (although a lot of this is the collateral of government bonds placed with the RBI by banks).



**Figure 20: Peaks in India's base money growth above 20% mark peaks in the equity market**



Source: Deutsche Bank, CEIC, Bloomberg Finance LP

**Figure 21: Equity markets and their key drivers**

	Liquidity	Valuation	Sentiment (Risk-Love)	Technicals	Growth	Current Account Balance	Real Exchange Rate	Policy	Total Score
China	O	O	**	O	**	**	✓	✓	-2
Hong Kong	O	**	O	✓✓	**	**		O	-4
Indonesia	O	*	O	✓✓	**		O	O	-1
India	O	*	O	O	**		O	O	-3
Korea	O	O	O	✓✓	**	✓✓	**	O	0
Malaysia	O	O	*	✓✓	**	**	✓✓	O	-1
Philippines	O	O	O	**	**	✓✓	✓✓	✓✓	2
Singapore	O	O	**	O	**	✓✓	O	✓✓	0
Thailand	O	O	O	✓✓	✓✓		**	O	2
Taiwan	O	O	O	✓✓	**	✓✓	**	O	0
Asia ex-Japan	O	O	*	✓	*	O	O	O	-1
Japan	O	✓✓	✓	✓✓	**	**	O	O	1

Source: Deutsche Bank.  
 Blank cell represents factor not used in the model for that country.  
 ✓✓ Most Favourable, ✓ Favourable, O Neutral, \* Less Favourable and \*\* Least Favourable.

## Country summary

**Japan** – We agree with Kamiyama-san, our Japan strategist, and Franco Curto from our CROCI team that Japanese equities look undervalued, compared with history and with other regions. This is a fertile field for value-oriented investors. This view is getting more consensus now. Equity Risk-Love in Japan remains subdued despite the recent market rally. Higher bond yields in the US and higher inflation expectations would help unlock value. EPS expectations for the next two fiscal years are paltry and continue to be revised down, giving no credence to improved global leading economic indicators. Expect an upward revision cycle to commence soon.

**China (M/W)** – Chinese equities are at fair value. They have been de-rated against the region since their peak in early 2008. While ROEs remain supported by rising asset turnover, EBIT margins are declining. There is a sliver of good news here: our best liquidity indicator that leads Chinese (and Asian equities) – the credit multiplier – has begun to inflect up. The OECD leading economic indicator is in steep decline (a base effect), and analysts are suitably conservative, forecasting 15% EPS growth in 2011, after an estimated 30% in 2010. Stocks in model portfolio: 3988.HK, 0939.HK, 0941.HK, 0883.HK, 0489.HK, 0817.HK, 1813.HK, 2727.HK, 0386.HK, 0410.HK, YAZG.SI.

**Hong Kong (O/W)** – Hong Kong equities are looking moderately stretched on valuations, especially on EV/EBITDA and trailing PE. Equity Risk-Love is edging up to euphoria, driven by negative real interest rates and record property prices. But we are far below prior peaks in risk-love. Our economists project a modest GDP deceleration from 6.2% this year to 5% next year. But analyst EPS estimates of 8% after an estimated 28% in 2010 are too low. Expect upgrades. Stocks in model portfolio: 0293.HK, 0709.HK, 0101.HK, 0016.HK, 0880.HK, 0004.HK

**India (U/W)** – Indian equities are moderately overvalued, but have historically gone much higher before they entered “bubble” territory. Our economist Taimur Baig projects real GDP to accelerate from 8% to 8.5% from FY11 to FY12. Analyst EPS expectations are at around 25%, reflecting economic forecasts. We worry about elevated monetary base growth. Stocks in model portfolio: ASPN.BO, BOB.BO, ONGC.BO

**Indonesia (M/W)** – The market is expensive versus history and the region. Yes, it can get more expensive (as in 1999), but the margin of safety is low, and “paradigm shift” arguments need to be recruited to justify today’s valuations. Taimur Baig, our economist covering Indonesia, is looking for real GDP growth to accelerate from 6% this year to 6.5% next year; 20%-plus EPS growth expectations reflect that top-down view. Stock in model portfolio: INTN.JK

**South Korea (O/W)** – The Korean market is slightly above fair value. We think it does not deserve its valuation discount to the region – debt has been cut substantially, and ROEs are well above COEs, quite a reversal from the 1990s. Economist Juliana Lee projects nominal GDP growth of around 9% next year – but bottom-up analyst EPS growth rates are only 13%, from an estimated 54% this year. Expect EPS upgrades. Stocks in model portfolio: 069960.KS, 009540.KS, 012330.KS, 003690.KS, 033780.KS, 051910.KS, 002350.KS, 010060.KS, 028050.KS

**Malaysia (M/W)** – The EPS revisions index has gone vertical. Michael Spencer, our chief economist, projects real GDP growth to slow from an estimated 7.5% in 2010 to 5% in 2011. EPS estimates of 15% for 2011 from about 30% in 2010 adequately reflect this economic slowdown. Valuations are neutral. Stocks in model portfolio: DSOM.KL, GENT.KL

**Philippines (O/W)** – Like many other markets in the region, the Philippines is at fairly valued levels. The EBIT margin here is simply phenomenal, and explains some of the re-rating versus the region since 2000. Economist Taimur Baig is looking for real GDP growth to drop from 6.8% in 2010 to 5% in 2011. Analyst EPS forecasts for 2011 of 11% look light. Price momentum has been a dominant alpha source this year along with EPS momentum. It is time to go back to the old stalwart – value. Stock in model portfolio: AP.PS

**Singapore (M/W)** – The market is fairly valued, and has been de-rated versus the region for a decade. EBIT margins are poor, and the ROE is supported by rising asset turns. Projected EPS growth of only 10% for 2011 after 21% this year seems anemic. Value has added modest alpha this year, and so have analyst upgrades and recommendations. Stay with value. Stocks in model portfolio: SCIL.SI, SCMN.SI

**Taiwan (U/W)** – The market is at fair value. The exceptional cyclicality of its ROE has seen the market de-rate since 1997 with a brief respite during the 2008 crisis. Sure, growth is expected to slow in the next year, but the 10% projected EPS for 2011 looks light, especially in semis and materials. Taiwan analysts make frequent EPS estimate changes, so expect upward revisions. Stocks in model portfolio: 2308.TW, 1326.TW

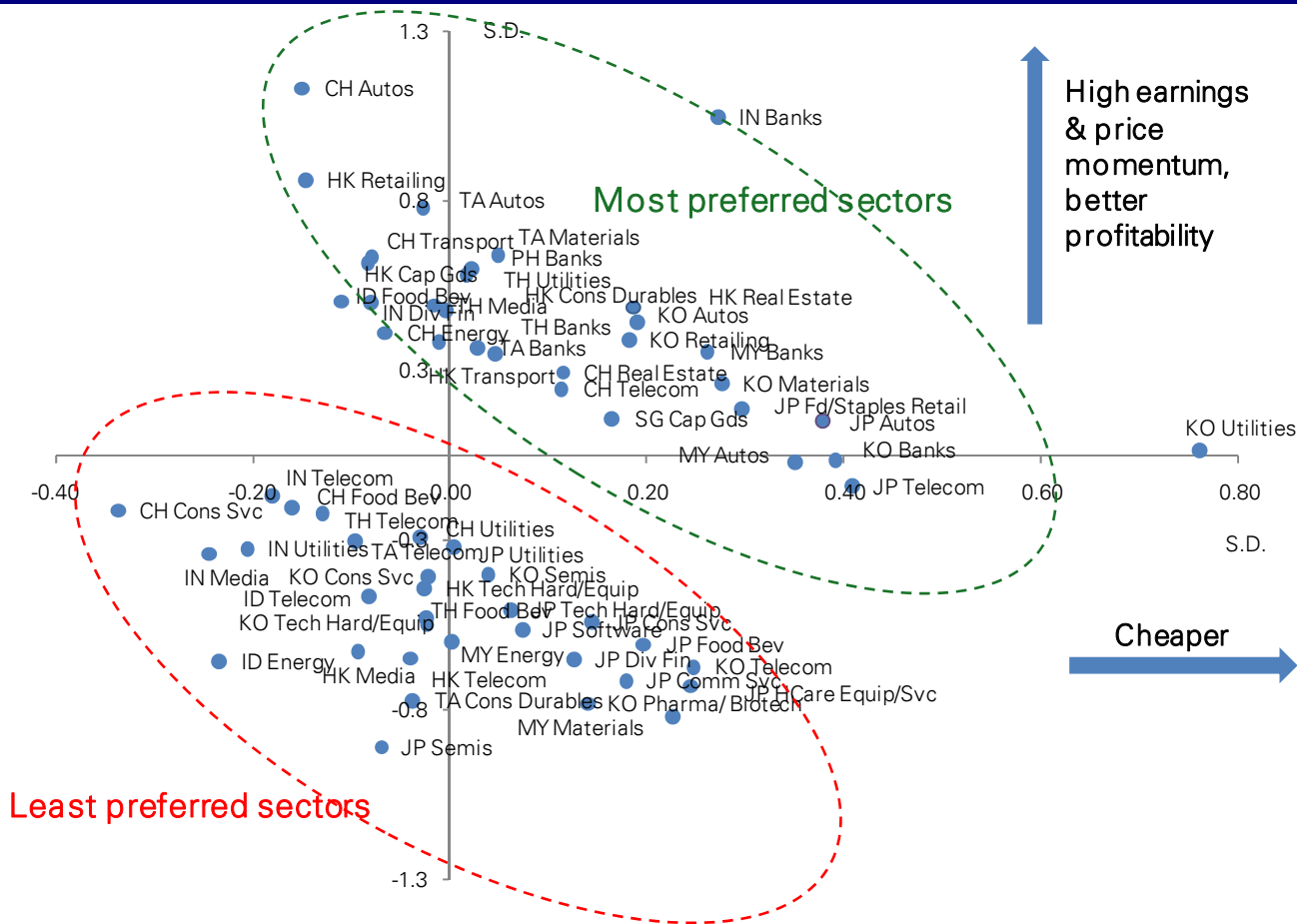
**Thailand (O/W)** – The market is fairly valued, but undervalued on EV/Sales and EV/EBITDA. In contrast to other Asian markets, leading indicators are rising, so punchy EPS forecasts for 2011 of 20% after this 18% this year might not be high enough. Stocks in model portfolio: KBAN.BK, KTB.BK, PTT.BK

### Sector selection

**Overweight on cyclical sectors like autos, retailing, capital goods, transportation; U/W on tech, staples, utilities, select telcos**

Our bias is towards cyclical sectors – autos, retailing, capital goods, transportation. We believe these sectors have a good combination of value, momentum and profitability. They should do well in an environment of rising EPS estimates and a rising MOMLI. We are underweight on tech hardware, in line with Kishore Suratkal, our technology strategist. Tech stocks are reasonably valued, and we speculate that demand is under-estimated, but we need to see the analysts raise EPS estimates and some price momentum before we commit. Also, we are underweight on utilities, food/beverage/tobacco, and select telcos. This is a bullish portfolio.

**Figure 22: We prefer sectors with value, high earnings momentum and low growth expectations**



Source: Deutsche Bank, FactSet

**Figure 23: Our most- and least-preferred 20 country-sectors. Most-preferred have cheaper valuations, better EPS momentum, higher ROE, better technicals, and lower EPS expectations (all metrics refer to MEDIAN data)**

Top 20		Valuation				Earnings Momentum		Profitability	Technicals	Beta (2yr rolling)	12m Fwd EPS est.	DB Analyst view			
Country	Sector	Mkt Cap (US\$ bn)	P/B	12m fwd P/E	EV/EBIT	FY1 EPS Momentum	FY2 EPS Momentum	ROE (%)	RSI	Beta	12 month Fwd EPS est.	# of Buys	# of Sells	# of Holds	Total
1	India Banks	62.9	1.8	7.9		0.90	0.60	18.9	1.28	1.6	22%	5	2	5	12
2	China Autos	13.9	3.0	11.5	22.9	1.00	1.00	16.7	1.19	1.9	19%	3	0	1	4
3	Hong Kong Retailing	20.7	2.4	13.9	17.0	1.00	1.00	15.0	1.22	0.8	12%	5	0	1	6
4	Taiwan Materials	53.5	1.3	11.7	13.1	1.00	1.00	10.6	1.06	0.8	11%	3	1	3	7
5	Hong Kong Real Estate	118.2	0.7	12.2	6.3	0.42	0.52	11.4	1.08	1.5	4%	9	1	4	14
6	Korea Autos	59.0	1.2	7.5	10.8	0.30	0.46	11.4	1.22	0.8	13%	3	0	2	5
7	Philippines Banks	3.8	1.5	11.7		1.00	0.33	11.9	1.23	0.7	15%	2	0	3	5
8	Malaysia Banks	27.3	1.8	11.2		0.71	0.56	15.3	1.08	0.4	13%	2	0	2	4
9	Thailand Utilities	0.7	1.4	10.6	13.6	0.75	0.83	15.2	1.17	0.4	2%	4	0	0	4
10	Korea Retailing	6.0	1.2	10.2	7.2	0.33	0.27	14.4	1.16	1.1	9%	3	0	0	3
11	China Transport	19.9	1.5	11.9	16.2	0.80	0.71	8.4	1.05	1.6	11%	6	0	6	12
12	Korea Materials	69.4	0.9	7.4	11.4	0.29	0.33	9.7	1.10	1.0	13%	7	0	0	7
13	Hong Kong Cap Gds	24.4	1.1	9.7	21.3	1.00	1.00	5.4	1.02	1.1	9%	2	0	0	2
14	Hong Kong Cons Durables	2.7	1.4	11.6	14.4	0.63	0.88	8.6	1.03	1.1	15%	0	0	1	1
15	Hong Kong Transport	11.2	1.3	13.0	10.2	0.30	0.60	11.5	1.09	1.0	2%	4	0	1	5
16	Malaysia Autos	1.2	0.9	8.0	6.8	0.44	0.00	14.1	1.08	0.3	17%	0	0	0	0
17	Thailand Banks	23.1	2.0	12.4		0.48	0.42	12.0	1.18	0.6	24%	4	1	0	5
18	China Energy	117.9	2.2	12.1	15.7	0.47	0.29	16.9	1.07	1.2	19%	2	0	2	4
19	Philippines Real Estate	3.2	1.1	14.0	18.8	0.17	0.80	7.4	1.14	1.0	18%	2	0	1	3
20	Indonesia Cap Gds	4.0	2.0	12.0	10.0	-0.36	0.00	15.2	1.15	1.2	22%	2	0	0	2
Median		20	1.4	11.7	13.3	0.56	0.58	11.9	1.12	1.0	13%	3	0	1	5
Average		32	1.5	11.0	13.5	0.58	0.58	12.5	1.13	1.0	14%	3	0	2	5
Bottom 20		Mkt Cap (US\$ bn)	P/B	12m fwd P/E	EV/EBIT	FY1 EPS Momentum	FY2 EPS Momentum	ROE (%)	RSI	Beta	12 month Fwd EPS est.	# of Buys	# of Sells	# of Holds	Total
1	Taiwan Cons Durables	6.4	1.4	11.4	13.7	-1.00	-1.00	7.6	1.08	1.2	21%	0	0	1	1
2	Malaysia Energy	0.9	1.2	13.7	14.5	-0.45	-0.67	9.1	1.06	0.7	22%	0	0	0	0
3	India Media	1.4	2.3	22.4	18.5	-0.53	-0.20	5.3	1.05	1.4	23%	6	0	0	6
4	Indonesia Telecom	9.9	3.7	15.9	15.1	-0.21	-0.40	3.3	1.07	0.8	21%	2	0	2	4
5	India Utilities	15.6	2.6	15.7	17.4	-0.20	-0.11	9.2	1.00	0.9	18%	4	3	2	9
6	China Food Bev	24.6	2.6	15.3	15.1	-0.33	0.00	13.9	1.06	0.9	23%	3	1	1	5
7	India Telecom	1.6	2.0	31.5	17.1	0.00	-0.14	9.4	0.99	1.2	4%	1	0	3	4
8	China Utilities	11.4	1.2	11.5	18.6	-0.04	0.17	6.8	0.99	0.6	23%	5	0	7	12
9	Malaysia Div Fin	4.3	0.7	12.5		-1.00	0.14	5.9	1.05	0.9	22%	1	1	0	2
10	Taiwan Tech Hard/Equip	138.7	1.6	10.7	12.2	-0.24	-0.27	10.8	0.96	1.2	15%	8	0	4	12
11	Taiwan Semis	100.5	1.8	11.2	12.5	0.00	-0.14	13.3	0.96	1.1	9%	4	4	7	15
12	Malaysia Utilities	10.5	1.0	12.4	10.4	-0.15	-0.11	11.7	1.05	0.3	12%	0	0	2	2
13	China Tech Hard/Equip	8.6	1.7	12.1	12.9	0.08	-0.05	12.7	1.03	1.2	22%	1	0	2	3
14	Malaysia Cap Gds	12.7	0.8	12.5	13.4	-0.20	0.14	5.7	1.05	0.7	24%	2	0	1	3
15	China Software	24.4	2.7	20.0	16.4	0.17	0.00	18.1	1.02	1.4	23%	3	0	8	11
16	Singapore Banks	53.8	1.5	11.9		0.13	-0.42	11.4	0.99	1.2	7%	2	0	1	3
17	China Retailing	16.4	3.0	24.5	20.1	0.00	0.43	15.3	1.06	1.4	24%	5	0	1	6
18	India Pharma/ Biotech	12.1	4.0	17.8	16.2	0.10	0.14	18.5	1.14	0.7	22%	1	3	4	8
19	India Real Estate	6.4	1.3	8.8	16.9	-0.33	-0.33	7.3	1.06	2.7	43%	4	2	2	8
20	Singapore Food Bev	12.7	2.3	14.1	9.9	0.07	0.00	17.5	1.08	0.9	16%	2	0	1	3
Median		12	1.7	13.1	15.1	-0.18	-0.11	10.1	1.05	1.0	22%	2	0	2	5
Average		24	2.0	15.3	15.1	-0.21	-0.14	10.6	1.04	1.1	20%	3	1	2	6

Source: Deutsche Bank, Datastream, FactSet, EPS momentum is the number of upward less downward revisions in respective financial year EPS estimate in last 3 months. RSI is the ratio of 65-day to 260-day moving average in stock price. All the metrics shown above except market cap and Deutsche Bank analyst views are median data for the sector. In top 20 country sectors added China autos, China transport and China energy, Thailand banks and Taiwan materials and deleted Hong Kong telecom, Philippines utilities, Korea utilities, Taiwan capital goods and Malaysia retailing. In bottom 20 country sectors deleted Taiwan diversified financials, India food & beverage, China Materials, Hong Kong banks and added Taiwan Tech hardware, Malaysia Utilities, Malaysia Capital goods, Indian Pharma.

**Figure 24: Asian country sector heat-map for all covered sectors**

	China	Hong Kong	Indonesia	India	Korea	Malaysia	Philippines	Singapore	Thailand	Taiwan	Japan
Energy	30		127	89		122			63		62
Materials	56		88	35	14	121			43	6	47
Capital Goods	36	15	46	80	49	83		31		58	94
Commercial Services & Supplies											115
Transportation	13	23			85	55		70			51
Automobiles & Components	2			33	8	26				4	16
Consumer Durables & Apparel	77	19			37					126	74
Hotels Restaurants & Leisure	117	44			107	72					104
Media		125		120					18		61
Retailing	71	5			12	45					73
Food & Staples Retailing											17
Food Beverage & Tobacco	102		24	38	82	52		60	118		105
Household & Personal Products				81							96
Health Care Equipment & Services											111
Pharmaceuticals & Biotechnology	34			69	123						92
Banks	42	59	39	1	20	10	9	75	27	25	48
Diversified Financials		87		21	53	95		50		40	113
Insurance	57				65						86
Real Estate	22	7		67		32	41				64
Software & Services	79			78	108						112
Technology Hardware & Equipment	84	110			119					93	109
Semiconductors & Semiconductor Equipment					101					91	128
Telecommunication Services	29	124	116	100	106	68		76	99	103	28
Utilities	98	54		114	3	90	66		11		97

Source: Deutsche Bank. Numbers are ranks, lower is better. Green colour = Most attractive country sectors, Red colour=Least attractive country sectors. Yellow colour = Neutral country sectors. White space = sector unavailable.

## Asia model portfolio

We look at valuations, profitability and EPS momentum as key drivers of stock performance in Asia. Other factors are less important. Analysts have veto power.

We add CNOOC (883.HK), Sinopec-H (0386.HK), Hyundai Heavy (009540.KS), Sembcorp Marine (SCMN.SI), Genting Bhd (GENT.KL), Krung Thai Bank (KTB.BK), Kasikornbank (KBAN.BK), KWG Property (1813.HK), Franshion (0817.HK) and SHK Properties (0016.HK).

We remove PLUS Expressway (PLUE.KL), SATS (SIAT.SI), LIG Insurance (002550.KS), Top Glove (TPGC.KL), China Shineway (2877.HK), Far EasTone Telecom (4904.TW), Chunghwa Tel (2412.TW), First Philippine Hldgs (FPH.PS) and Perusahaan Gas Negara (PGAS.JK).

**CNOOC:** "CNOOC Ltd reported unaudited 3Q10 operating data tonight. The company does not report financial results on a quarterly basis. CNOOC Ltd revised up its full year 2010 production guidance to 319-329 mm BOE from February's guidance of 275-290 mm BOE. At end-October CNOOC Ltd revised up its full year 2010 production growth estimate to 42% from February's guidance of 24%. We revise up our target price to HKD17.67 from HKD14.70 and maintain our Buy rating on the stock." (David Hurd, CFA, 29 October 2010)

**Sinopec-H:** "We estimate that Sinopec's refining business will contribute 6.6% of EBIT in 2010 and even less in 2011-16E. It's a rounding error – ignore it. In this model we consider virtually no EBIT from SNP's refining business post-2013E. The change had a de minimis impact on our price target. We have increased our oil price forecasts 2010-15E. We maintain our Buy on SNP and a target price of HKD9.25." (David Hurd, CFA, 8 December 2010)

**KWG Property:** "With the strong sales, KWG has already locked in 100% of our estimated property sales revenue to be booked in 2010 and 86% of our estimated property sales revenue to be booked in 2011. For 2011, KWG expects to see additional traction on new launches in east China (Shanghai and Suzhou) and West China (Chengdu), along with key city-

center projects in Guangzhou, so contracted sales in 2011 should be stronger than 2010 in our view." (Tony Tsang, 2 November 2010)

**Franshion:** "We believe the latest round of tightening measures by the government presents more opportunities than threats for Franshion. With strong recurrent income from its prime-location investment properties (not the target of tightening), solid financial position after the latest recapitalization, and potential for further asset injections from the parent, we see more growth opportunities in the next 12 months, which should generate NAV upside and narrow the stock's NAV discount." (Tony Tsang, 21 October 2010)

**SHK Properties:** According to our analyst Venant Chiang, SHKP has already achieved about 80 percent of its sales target for FY11, indicating high earning visibility. Its strong sales at higher-than-expected ASP show management's capability to launch property for sales in a timely manner. Its exposure in the high-end residential segment should make it more resilient despite the recent government measures, in our view. Mainlanders' interest in buying Hong Kong property remains strong and their involvement represents more than one-third of the high-end segment. While the rental market is on a good run as reflected by high rental growth and limited supply in the office market, SHKP should also enjoy such growth given that about 70% of its NAV is in investment properties.

**Hyundai Heavy:** "Hyundai Heavy's 3Q results beat consensus by 21%. Although strong net income was mainly due to higher equity method earnings and forex gains, operating performance was also respectable despite KRW appreciation and fewer working days. The non-shipbuilding business, especially the offshore, electro and construction equipment businesses, showed a strong margin improvement in 3Q. HHI remains our top pick in the Korean shipbuilding sector due to its well-diversified business mix. We reiterate Buy with a target price of W490,000." (Sanjeev Rana, 29 October 2010)

**Sembcorp Marine:** "SMM delivered strong 3Q10 results: net income grew 68% yoy to SGD243m (excl. one-off gain); operating margins rose from 11.4% in 3Q09 to our estimate of about 15-18% in 3Q10 (excluding the resumption of profit recognition of the CJ70 rig). The group appears confident of normalized operating margins at around the 15% level. SMM's 9MFY10 net earnings increased 39% yoy to SGD568m (excl. one-off gain). We have raised our earnings estimates by 19-25% and target price from SGD5.20 to SGD6.30. SMM remains well positioned; maintain Buy." (Kevin Chong, 4 November 2010)

**Krung Thai Bank:** "We raised our earnings forecasts for KTB by 1% for 2010 and 7% for 2011-2012 to reflect upward revisions in loan growth and fee income. Earnings growth should be driven by loan expansion, particularly from government spending, stronger fee income as KTB leverages off its huge customer base of 14m and NIM expansion due to interest rate hikes. Press reports that the FIDF will consider divesting its 55% stake in the bank could also boost speculative interest in the stock. We maintain our Buy rating." (Worawat Saisuphatphol, CFA, 5 October 2010)

**Kasikornbank:** "We revised up our 2010-12 earnings forecasts for KBANK by 2.6%, 4.2% and 5.4% respectively due mainly to the outlook for lower credit costs and higher non-interest income. By 2012, we expect the bank's ROE to increase to 17.2%. We also upgraded our target price to Bt158.50 (from Bt137) after trimming our assumed COE to 12.6% from 13% to reflect easing political risks and improving economic prospects. Hence, reiterate Buy." (Worawat Saisuphatphol, CFA, 29 October 2010)

**Genting Bhd:** "We continue to like Genting Bhd for its growing regional gaming franchise, cheaper indirect exposure to Singapore gaming and further unlocking of O&G asset value. We believe Genting offers a good investment proposition based on the current 27% discount to market SOTP (vs. 22% historically), 13.2x FY11 PE (vs 25% FY10-12E earnings CAGR), and 8.0x market adjusted EV/EBITDA (vs. 10.7x historically)." (Aun-Ling Chia, CFA, 25 November 2010)

Figure 25: Asia model portfolio

Company	BB Ticker	Mkt	DB Rec	Date Added	9-Dec-10	1m Perf	YTD Perf	Perf Since Added	Beta**	Mcap (U\$m)	20D Avg Daily T/O (U\$ m)	FY 11 PE (DB est)	FY 11 EPSg (DB est)	Valuation	Profitability	Price Momentum	Earnings Momentum	Stability	Risk	Growth	Earnings Quality	Consensus Rating
Energy																						
CNOOC Ltd*	883 HK	CN	B	10Dec10	18.14	2.8	48.7	NA	1.2	103,050	149.2	13.2	4.7	o ++	++	o	+	++	o	o	o	
ONGC	ONGC IN	IN	B	13Sep10	1320.95	-1.2	12.2	-4.0	0.9	63,822	30.5	11.6	25.0	++ +	o	o	++	++	o	o	+	
PTT	PTT TB	TH	B	13Sep10	324.00	-4.1	31.7	11.3	1.3	30,538	75.2	10.8	17.7	++ ++	o	o	o	o	o	o	++	
Sinopec-H*	386 HK	CN	B	10Dec10	7.14	-7.4	3.3	NA	0.9	101,392	89.3	6.8	6.3	++ +	+	o	--	+	o	o	++	
Materials																						
Asian Paints	APNT IN	IN	B	13Sep10	2654.50	-3.6	47.8	-5.1	0.6	5,652	4.6	29.7	2.8	-- ++	++	++	--	+	o	++	++	
Formosa Chems & Fibre	1326 TT	TW	B	13Sep10	93.90	-1.2	35.3	25.0	0.8	17,576	33.6	13.0	6.6	o ++	++	++	o	o	o	++	++	
Indocement	INTP IJ	ID	B	13Sep10	16350	-7.4	19.3	-11.1	1.3	6,938	8.3	12.2	40.2	- ++	o	--	+	++	o	o	o	
LG Chem	051910 KS	KR	B	13Sep10	385000	-1.0	68.5	10.5	1.0	22,489	95.3	11.1	4.9	- ++	++	++	--	o	o	++	o	
OCI Company	010060 KS	KR	B	13Sep10	338500	3.4	54.9	-0.1	0.9	6,669	86.1	12.0	23.1	- ++	++	++	o	o	o	-	++	
Capital Goods																						
Hyundai Heavy*	009540 KS	KR	B	10Dec10	372000	-5.1	114.4	NA	1.3	24,289	97.2	7.6	3.5	+ ++	++	++	--	o	o	++	++	
Samsung Eng	028050 KS	KR	B	13Sep10	186500	1.6	72.7	36.6	1.1	6,550	32.8	13.5	40.3	-- ++	++	++	--	++	o	+	+	
Sembcorp Industries	SCI SP	SG	B	13Sep10	5.13	4.5	38.6	16.1	1.0	7,035	12.6	13.1	-1.9	+ ++	++	++	o	+	o	o	+	
Sembcorp Marine*	SMM SP	SG	B	10Dec10	5.08	-1.0	37.3	NA	1.3	8,043	23.7	14.3	-7.8	o ++	++	++	--	++	o	o	o	
Shanghai Electric	2727 HK	CN	H	13Sep10	5.69	2.5	58.5	44.4	1.1	14,375	13.1	16.9	20.3	o +	++	o	o	+	--	o	++	
Yangzijiang Shipbldg	YZJ SP	CN	B	13Sep10	1.95	-3.5	61.2	15.4	1.0	5,643	19.1	12.3	10.1	+ ++	++	++	o	++	o	o	--	
Transportation																						
Cathay Pacific	293 HK	HK	B	13Sep10	23.70	7.2	63.7	12.9	0.8	11,926	17.5	7.6	4.0	+ ++	++	+	--	o	++	o	o	
Automobiles & Components																						
Dongfeng Motor	489 HK	CN	B	2Nov10	14.58	-19.3	30.4	-14.0	1.1	15,950	53.8	8.9	5.9	o ++	o	++	--	o	o	o	--	
Hyundai Mobis	012330 KS	KR	B	13Sep10	314000	10.0	83.6	29.0	1.0	26,411	70.9	10.5	14.4	- +	o	o	o	o	o	+	o	
Nexen Tire	002350 KS	KR	H	13Sep10	8900.00	-6.8	31.7	18.7	0.8	723	3.4	8.4	12.8	o ++	o	--	o	o	--	-	--	
Consumer Services																						
Genting Bhd*	GENT MK	MY	B	10Dec10	11.06	2.4	50.7	NA	1.4	12,777	18.7	13.1	31.2	+ ++	++	++	o	--	++	--	o	
SJM	880 HK	HK	B	13Sep10	12.98	8.3	203.3	67.1	1.0	8,921	42.8	16.5	23.2	o ++	++	++	--	--	o	o	--	
Retailing																						
Giordano	709 HK	HK	B	13Sep10	4.80	0.0	108.7	8.8	0.7	909	2.4	14.6	6.4	o ++	++	++	o	++	o	+	+	
Hyundai Dept Store	069960 KS	KR	B	13Sep10	126000	-1.9	12.0	-8.4	0.8	2,493	11.4	9.5	18.0	o +	o	+	o	++	++	--	--	
Food, Beverage & Tobacco																						
KT&G	033780 KS	KR	B	13Sep10	66600	-3.2	3.4	6.2	0.5	7,908	26.8	13.3	-1.9	++ ++	o	+	+	o	o	o	o	
Banks																						
Bank of Baroda	BOB IN	IN	B	13Sep10	877.60	-13.2	71.6	1.2	1.0	7,211	9.9	8.7	22.9	++ ++	o	+	--	o	--	o	+	
Bank of China	3988 HK	CN	B	13Sep10	4.11	-14.0	2.1	4.8	1.0	140,203	178.3	8.0	14.1	++ ++	o	--	o	--	o	o	+	
China Construction Bank	939 HK	CN	B	13Sep10	6.96	-11.1	7.6	6.3	1.0	223,522	245.7	9.7	11.2	++ ++	o	--	o	o	o	o	++	
Kasikornbank*	KBANK TB	TH	B	10Dec10	128.00	0.8	50.6	NA	1.3	10,058	27.6	12.2	21.7	o o	o	+	++	o	o	o	++	
Krung Thai Bank*	KTB TB	TH	B	10Dec10	16.60	-6.7	68.5	NA	1.1	6,091	24.9	10.4	20.6	o -	o	++	o	--	o	o	++	
Insurance																						
Korean Reinsurance	003690 KS	KR	B	2Nov10	11450	-3.4	18.4	-9.1	0.8	1,140	3.4	6.0	43.9	o +	+	++	o	++	++	++	++	
Real Estate																						
Franshion*	817 HK	CN	B	10Dec10	2.38	-10.2	-13.1	NA	1.0	2,819	1.5	15.2	22.8	+ o	o	o	o	--	o	o	-	
Hang Lung Properties	101 HK	HK	B	13Sep10	35.70	-4.8	16.7	-6.3	1.0	20,765	38.1	20.4	8.9	o ++	++	-	o	--	o	o	--	
KWG Property*	1813 HK	CN	B	10Dec10	6.46	-9.4	7.8	NA	1.4	2,384	6.0	8.0	65.7	o o	++	++	-	o	++	--	-	
SHK Properties Ltd*	16 HK	HK	B	10Dec10	130.50	-8.8	12.2	NA	1.0	42,846	104.4	20.4	8.0	o o	++	o	+	o	o	o	-	
SOHO China	410 HK	CN	B	2Nov10	5.91	-12.1	40.7	-9.6	1.0	3,967	4.9	24.7	-62.0	++ ++	++	--	o	--	++	o	++	
Wharf	4 HK	HK	B	13Sep10	57.55	1.5	28.6	23.0	1.1	20,438	32.5	20.1	12.6	o o	++	o	++	o	++	o	o	
Technology Hardware & Equipment																						
Delta Electronics	2308 TT	TW	B	13Sep10	139.00	7.3	39.0	11.2	0.9	11,128	18.9	19.7	6.8	- +	++	++	++	++	++	-	--	
Telecommunication Services																						
China Mobile	941 HK	CN	H	13Sep10	78.00	-4.6	7.1	0.3	0.9	200,577	208.8	12.0	0.2	++ ++	++	++	+	++	o	-	o	
DiGi.Com	DIGI MK	MY	B	13Sep10	24.54	-1.9	11.7	-1.3	0.4	6,104	2.6	15.8	10.3	o ++	+	++	++	+	o	--	o	
Utilities																						
Aboitiz Power	AP PM	PH	B	13Sep10	32.80	9.3	281.4	50.8	0.8	5,701	12.2	13.7	-10.6	o ++	+	++	--	o	o	o	o	
Asia Model Portfolio (Average)																						
					-2.4	45.8	9.6	1.0	30,426	48.4	13.1	12.7										
MSCI Asia ex-Japan, LC					-2.4	11.4	7.0															

Source: Deutsche Bank, FactSet, Bloomberg Finance LP

Note: \*New additions as of Dec 10, 2010. \*\*Beta is calculated based on two years of weekly returns on stocks versus local market indices

Stocks are sorted by names in alphabetical order within each sector. Factor scores are given on a country and sector relative basis. Very Favourable (++), Favourable (+), Neutral (0), Unfavourable (-), Very Unfavourable (-), Not Applicable (Blank). For a detailed explanation please see appendix A. Performance is measured in local currency.

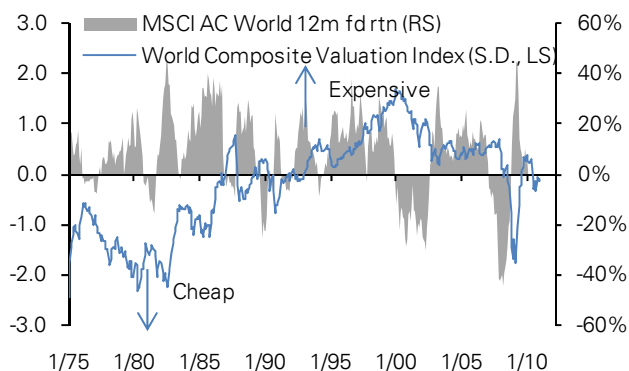
As of close Dec 9, 2010, the Asia model portfolio (equal weighted) and MSCI AC Asia ex Japan local currency price performance since inception (Sep 13, 2010) are 9.6% and 7.0% respectively. For the list of portfolio changes since inception, please see appendix B.



## Global valuations

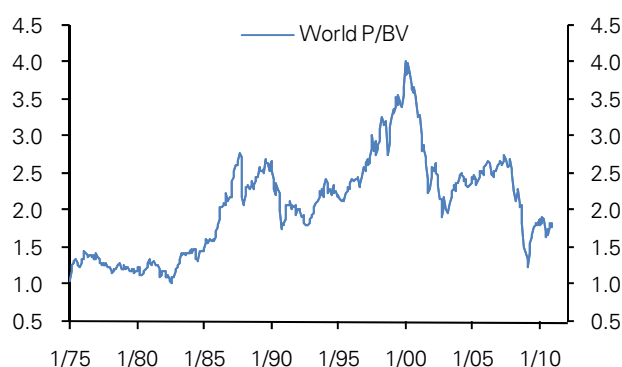
Global equity valuations are at neutral levels versus history. Compared with corporate and government bond yields, or adjusted for inflation, global equities are quite undervalued. Global ROEs and EBIT margins are at longer-term averages, with room to rise.

**Figure 26: Composite valuation index**



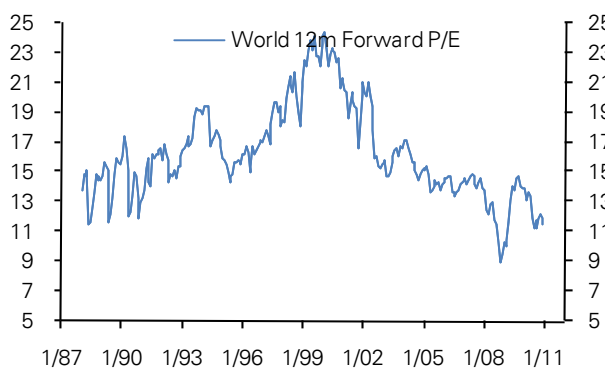
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history

**Figure 27: Price-to-book value**



Source: Deutsche Bank, MSCI, Datastream

**Figure 28: 12-month forward P/E**



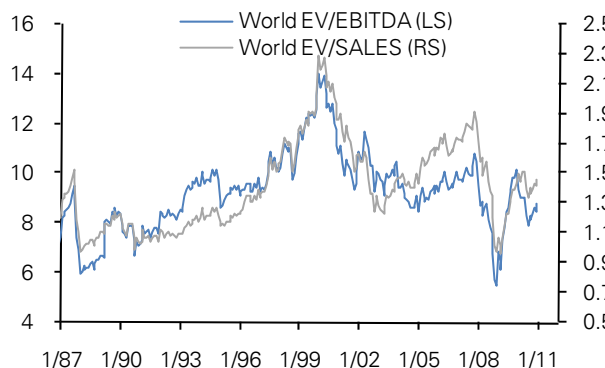
Source: Deutsche Bank, MSCI, IB/E/S

**Figure 29: 12-month trailing P/E**



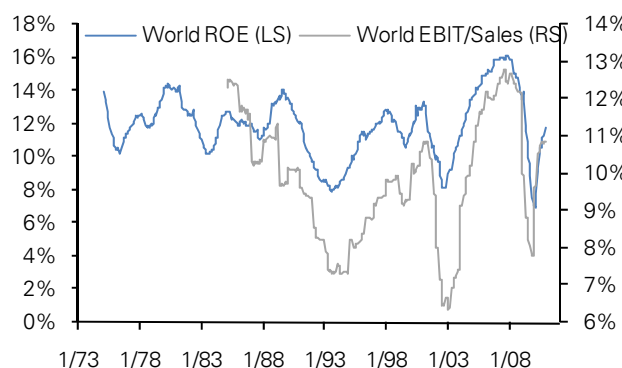
Source: Deutsche Bank, MSCI, Datastream

**Figure 30: EV multiples**



Source: Deutsche Bank, MSCI, FactSet

**Figure 31: ROE and EBIT margin**



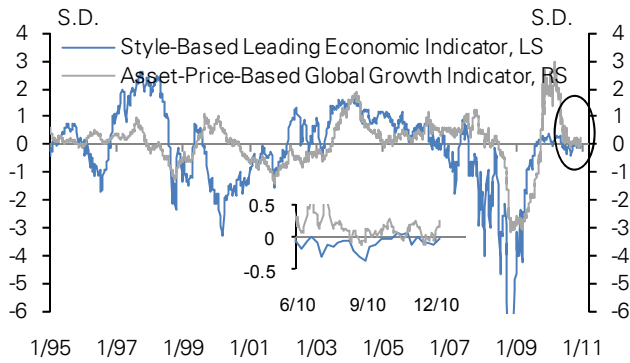
Source: Deutsche Bank, MSCI, FactSet



## Global metrics

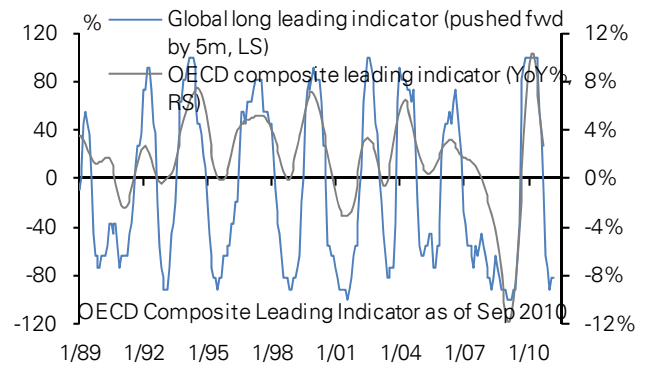
Global growth lead indicators are showing a pervasive improvement, proxied by asset markets, the gap between valuations of cheap and expensive stocks, and the diffusion indices of individual-country LEIs. Strangely, EPS forecasts for 2011 are a weak 16%, from an estimated 39% this year. Globally, equity risk-love (sentiment) is at the upper edges of neutral, but far from the euphoric peaks seen before. Technicals are strong, with few new lows, robust market breadth and new highs among small and mid-caps. Policy settings remain super-easy. Again, fighting a strong Tape and the Fed at the same time is a recipe for disaster.

**Figure 32: Market-implied global growth leading indicators**



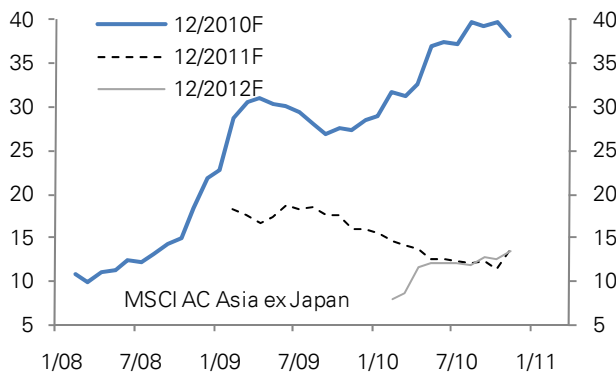
Source: Deutsche Bank

**Figure 33: Global long leading indicator (MOMLI)**



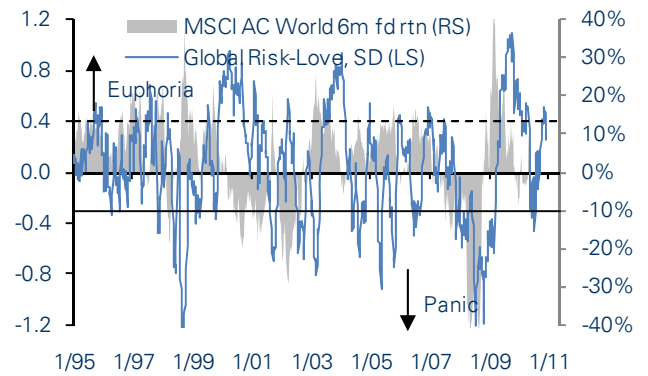
Source: Deutsche Bank, OECD

**Figure 34: Earnings growth forecast (%)**



Source: Deutsche Bank, I/B/E/S, MSCI

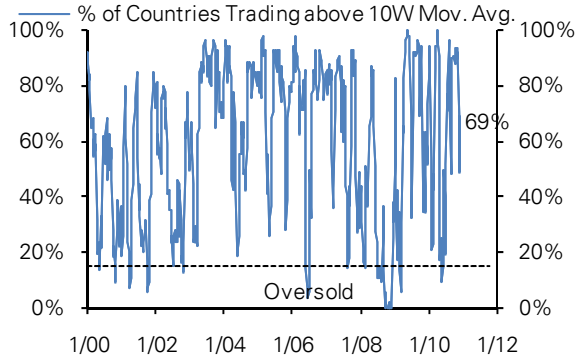
**Figure 35: Global equity Risk-Love indicator**



Source: Deutsche Bank, MSCI

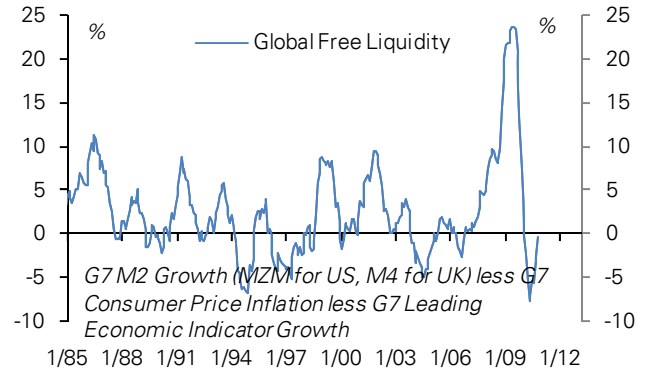
## Global metrics (continued)

**Figure 36: Percentage of countries above their 10-WMA**



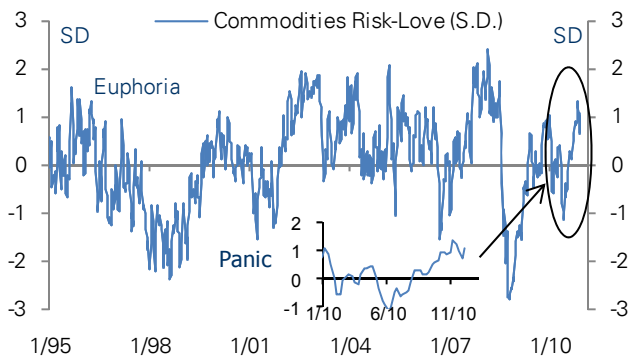
Source: Deutsche Bank. Includes 52 Markets.

**Figure 37: Global free liquidity**



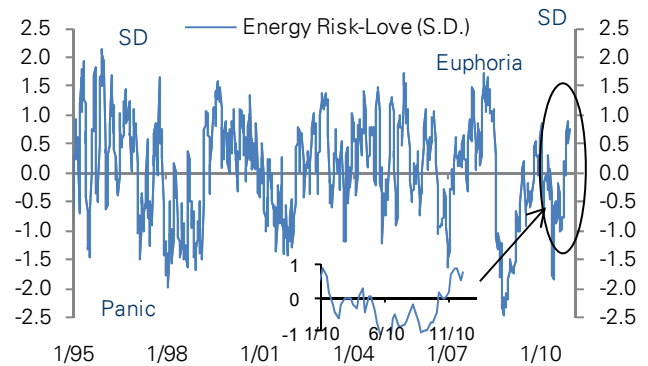
Source: Deutsche Bank, Citigroup, Bloomberg Finance LP.

**Figure 38: Commodity Risk-Love indicator**



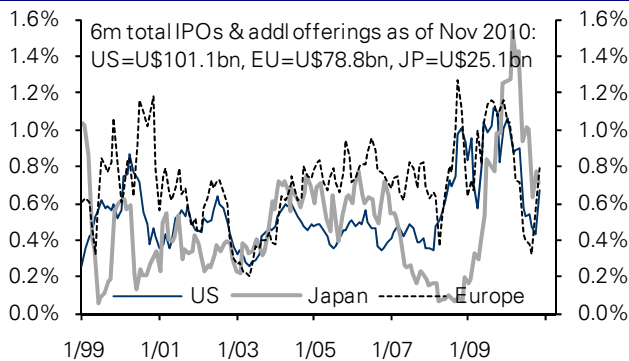
Source: Deutsche Bank

**Figure 39: Energy Risk-Love indicator**



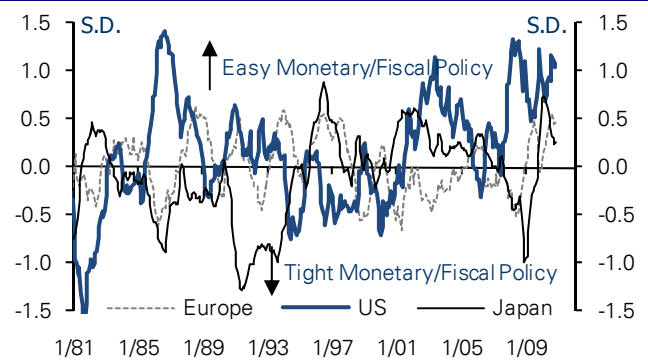
Source: Deutsche Bank

**Figure 40: 6m total equity offerings\* as percentage of total market cap**



Source: Deutsche Bank, Bloomberg Finance LP, Datastream  
Note: \*Equity offerings includes IPO and additional equity offerings of primary and secondary shares.

**Figure 41: Composite policy indicator**



Source: Deutsche Bank, Datastream, CEIC, IMF. Note: Composite policy indicator is an equal weighted index of real effective exchange rate yoy growth, real broad money (M2) yoy growth, yield curve (long minus short term interest rate) and government fiscal deficit/surplus as % of GDP.

## Global – Market intelligence

Figure 42: Market intelligence by country

8Dec10 Region/Country (#Co)	Mcap US\$m	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
		1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
North America (689)	12,870,577	2.5	10.2	14.8	13.0	11.4	2.1	1.9	1.7	1.9	2.0	2.2	34.3	14.4	13.6	13.7	14.4	15.0
Canada (98)	1,226,134	3.7	9.6	18.0	14.2	12.7	1.9	1.8	1.6	2.2	2.3	2.5	10.8	24.3	12.1	10.8	12.4	12.7
US (591)	11,644,443	2.4	10.2	14.5	12.9	11.3	2.1	1.9	1.7	1.8	2.0	2.2	36.8	13.5	13.8	14.0	14.7	15.3
Europe (462)	6,875,496	0.0	2.6	12.3	10.8	9.7	1.1	1.5	1.4	3.5	3.8	4.3	34.5	14.4	12.1	12.9	13.9	14.3
Austria (8)	34,576	0.7	7.6	12.4	9.6	8.1	1.1	1.1	1.0	2.8	3.2	3.7	-492.4	28.8	19.7	9.2	11.0	12.1
Belgium (13)	96,375	-1.3	6.3	13.4	13.6	12.2	1.4	1.4	1.3	2.6	2.9	3.2	37.2	6.5	11.9	10.5	10.3	10.9
Denmark (11)	106,973	1.4	33.0	18.6	15.1	12.6	2.4	2.2	2.0	1.1	1.6	1.9	67.4	23.6	19.6	13.0	14.6	15.6
Finland (17)	118,125	2.9	10.8	14.5	12.4	11.2	1.9	1.8	1.7	4.3	4.6	4.9	30.7	17.2	10.8	12.9	14.3	14.8
France (77)	1,047,683	-1.9	-1.7	11.8	10.6	9.5	1.3	1.3	1.2	3.9	4.1	4.6	38.8	12.9	12.6	11.4	11.8	12.5
Germany (49)	888,557	5.4	13.8	12.5	11.1	9.9	1.5	1.5	1.3	3.3	3.5	3.8	54.0	12.3	13.3	12.5	13.1	13.5
Greece (9)	31,736	-4.0	-37.1	13.2	9.6	8.2	1.0	0.9	0.9	1.8	3.6	4.7	-46.1	31.7	35.3	7.0	8.8	11.1
Ireland (5)	24,953	2.1	-17.7	18.1	15.8	10.9	1.2	1.2	1.0	2.8	2.9	3.4	-7.3	160.1	nm	7.2	7.4	8.9
Italy (31)	287,406	-4.9	-12.5	11.7	9.5	8.0	1.1	0.9	1.0	4.3	4.9	5.5	8.9	23.4	18.1	7.8	9.2	10.2
Netherlands (21)	267,984	0.7	3.3	11.8	11.2	10.2	1.8	1.6	1.5	2.9	3.5	4.2	69.4	13.5	9.6	14.4	15.1	15.0
Norway (9)	86,886	2.8	3.5	12.6	10.2	9.0	1.7	1.5	1.4	4.0	4.6	5.1	34.1	23.9	12.9	13.4	15.2	15.6
Portugal (9)	29,836	-4.0	-6.5	14.9	12.9	11.2	1.6	1.3	1.2	4.3	4.6	5.0	-3.4	15.9	15.3	10.5	10.1	11.0
Spain (28)	360,887	-6.1	-18.4	9.7	9.0	7.8	1.4	1.3	1.2	6.1	5.7	6.5	-0.7	8.4	14.7	14.0	14.2	15.2
Sweden (33)	337,552	6.1	22.4	15.0	13.5	12.0	2.2	2.0	1.8	3.0	3.5	3.9	30.8	11.6	12.3	14.0	15.0	15.3
Switzerland (37)	828,204	-0.9	-0.7	13.2	11.8	10.8	2.2	2.0	1.8	3.2	3.5	3.9	28.9	11.1	10.0	14.7	17.0	16.9
UK (105)	2,327,761	-0.2	5.7	12.0	10.3	9.4	0.0	1.7	1.5	3.2	3.7	4.1	39.2	16.1	10.2	15.0	16.0	16.0
Japan (340)	2,322,456	9.5	-3.0	16.7	13.6	12.1	1.1	1.0	1.0	2.0	2.2	2.4	167.7	23.3	12.6	6.6	7.7	8.2
Asia Pac ex Japan (645)	3,562,658	-0.7	6.9	14.6	12.7	11.3	2.0	1.8	1.7	2.9	3.1	3.5	32.1	13.9	12.7	13.9	14.4	14.7
Asia ex Japan (568)	2,639,666	-0.6	11.4	14.7	12.8	11.3	2.0	1.8	1.7	2.4	2.7	3.0	39.1	13.1	13.9	14.0	14.3	14.7
Australia (72)	912,099	-0.9	-4.4	14.4	12.4	11.3	2.0	1.8	1.7	4.1	4.4	4.8	16.6	16.0	9.6	13.6	14.7	14.8
China (125)	657,051	-4.7	4.8	14.0	12.2	10.5	2.2	2.0	1.8	2.5	2.9	3.4	28.7	14.4	16.1	16.2	16.4	16.9
Hong Kong (41)	314,184	-1.3	21.0	18.8	16.8	15.1	1.7	1.6	1.5	2.5	2.7	3.0	24.9	8.8	11.5	9.1	9.4	9.8
India (61)	289,745	-3.6	11.7	19.7	16.4	13.5	3.3	2.7	2.3	1.1	1.3	1.4	26.3	22.8	19.4	16.9	16.8	17.3
Indonesia (22)	87,338	0.2	27.9	17.7	14.6	12.7	4.3	3.6	3.1	2.3	2.8	3.4	19.3	21.4	14.8	24.2	24.9	24.5
Korea (99)	505,343	3.7	16.2	11.4	9.9	8.7	1.6	1.4	1.2	1.3	1.5	1.6	49.7	11.0	12.8	14.3	13.9	13.9
Malaysia (39)	104,676	-0.6	17.8	17.1	14.8	13.3	2.3	2.1	1.9	3.1	3.3	3.5	28.5	15.7	10.9	13.1	13.6	13.9
New Zealand (5)	10,893	-0.4	-4.3	14.9	13.2	11.4	1.6	1.5	1.5	4.2	5.5	6.3	-6.5	13.0	16.5	10.6	11.6	13.0
Philippines (12)	18,045	-7.9	21.1	17.6	15.8	13.8	2.8	2.5	2.3	2.7	3.2	3.5	22.7	11.6	14.2	15.8	16.1	16.7
Singapore (31)	184,825	-1.1	7.3	15.7	14.3	13.0	1.9	1.7	1.6	3.1	3.3	3.6	21.1	10.4	9.5	11.9	12.1	12.3
Taiwan (118)	415,177	4.1	3.9	14.5	12.9	11.6	2.0	1.8	1.8	3.8	4.3	4.7	91.9	10.3	11.9	13.8	14.4	15.2
Thailand (20)	63,282	1.6	37.6	14.8	12.2	10.6	2.3	2.1	1.9	2.9	3.4	4.1	19.2	20.8	15.1	15.7	17.1	17.7
EM EU/M East/Africa (152)	774,881	2.5	14.3	13.6	11.2	9.7	1.7	1.6	1.4	2.5	3.0	3.5	33.5	20.9	15.2	15.0	16.1	16.5
Czech Republic (4)	12,836	-0.4	-7.0	10.6	10.3	9.7	1.8	1.7	1.6	5.8	5.9	6.2	0.0	2.4	5.9	17.4	16.9	16.8
Egypt (10)	16,622	-1.2	7.5	12.9	10.6	9.3	1.5	1.4	1.4	3.7	4.1	4.7	26.7	21.3	34.9	12.0	13.6	17.2
Hungary (4)	14,115	-6.6	-0.2	11.7	9.4	7.6	1.3	1.2	1.1	2.6	3.2	4.3	0.1	25.3	22.8	10.7	12.4	13.8
Israel (16)	83,306	-1.1	-7.8	11.8	10.2	8.9	2.0	1.7	1.5	2.5	2.9	3.3	28.4	15.4	14.3	16.2	16.8	17.4
Morocco (3)	6,005	1.8	14.8	17.3	15.6	14.0	5.1	4.5	7.0	4.2	4.6	5.7	4.3	10.4	8.8	29.7	29.8	51.2
Poland (22)	56,095	1.1	14.8	13.9	11.8	11.0	1.7	1.5	1.4	3.1	3.6	4.4	26.4	17.7	9.0	12.0	13.0	13.2
Russia (28)	240,072	6.9	16.0	14.1	10.8	9.2	1.2	1.0	0.9	1.3	1.8	2.1	55.6	23.9	14.8	14.8	15.7	15.7
South Africa (45)	281,865	1.3	14.2	14.9	11.8	10.2	2.3	2.1	1.8	2.9	3.4	4.1	29.5	25.7	16.4	15.4	17.4	18.1
Turkey (20)	63,963	-3.1	25.3	11.3	10.7	9.6	2.0	1.8	1.6	2.5	2.8	3.4	18.8	6.2	13.2	17.8	16.9	17.0
Latin America (123)	869,383	-1.4	6.1	14.9	12.3	10.9	2.1	2.0	1.8	2.4	3.2	3.8	13.7	21.8	12.5	13.8	16.8	17.0
Brazil (75)	578,322	-2.7	-1.3	13.1	10.8	9.5	1.9	1.8	1.6	2.6	3.3	4.2	15.4	19.9	13.7	13.6	15.7	16.1
Chile (16)	64,482	-0.7	32.5	19.2	16.9	15.8	2.3	2.1	2.0	1.6	2.2	2.3	25.9	13.4	7.5	9.6	11.2	11.8
Colombia (8)	31,000	-6.0	34.0	25.7	19.7	17.7	2.6	2.5	2.5	2.0	2.6	2.7	34.0	30.5	11.5	6.8	6.6	7.8
Mexico (21)	167,439	3.6	15.6	18.3	15.6	14.0	3.0	2.8	2.6	2.1	3.5	2.9	-0.3	30.1	10.6	15.1	25.0	24.0
Peru (3)	28,140	2.4	51.5	20.6	15.0	13.9	5.4	4.5	3.8	2.1	2.7	3.0	27.0	37.5	7.5	26.2	30.0	27.5
Developed Markets (1656)	23,573,836	2.2	5.7	14.1	12.3	10.9	1.6	1.6	1.5	2.5	2.7	3.0	39.0	15.1	12.8	12.2	13.1	13.7
Emerging Markets (755)	3,701,614	-0.2	10.2	14.3	12.1	10.6	2.0	1.9	1.7	2.4	2.8	3.2	33.9	17.1	14.2	14.8	15.8	16.1
World (2411)	27,275,450	1.8	6.3	14.2	12.3	10.9	1.7	1.7	1.5	2.4	2.7	3.0	38.3	15.4	13.0	12.5	13.4	13.9

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI AC World index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year end) with current prices. All numbers are free-float adjusted.

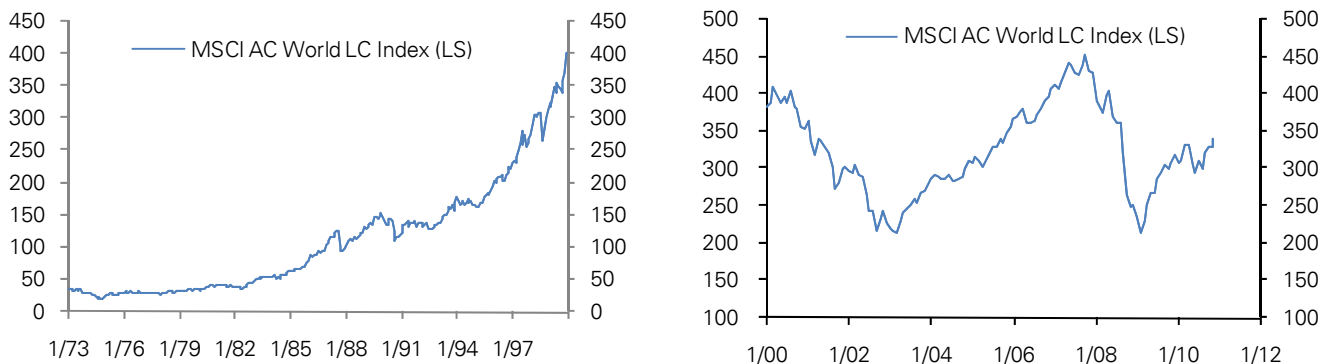
### Global – Market intelligence (continued)

**Figure 43: Market intelligence by sector**

8Dec10 Sector (#Co)	Mcap US\$m	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
		1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Energy (161)	3,065,274	4.2	4.4	13.3	11.8	10.0	1.7	1.6	1.4	2.3	2.7	2.8	31.0	13.2	16.9	13.5	14.1	14.8
Materials (265)	2,454,746	5.0	12.0	15.6	12.1	10.9	2.0	1.8	1.6	1.8	2.1	2.4	75.7	30.0	11.2	12.8	15.2	15.1
Capital Goods (238)	2,179,042	5.3	17.5	15.9	13.3	11.5	2.1	1.9	1.7	2.1	2.4	2.6	29.6	19.9	15.3	13.4	14.6	15.2
Comm Svc (35)	191,889	2.3	4.7	18.1	15.9	14.2	2.4	2.2	2.0	2.4	2.6	2.7	15.1	13.4	13.4	12.6	13.5	14.0
Transportation (95)	551,879	2.5	15.3	17.2	14.6	12.6	1.9	1.8	1.6	2.0	2.2	2.4	111.8	18.2	15.2	11.3	12.5	13.4
Autos (59)	678,980	11.8	21.2	14.1	11.6	10.0	1.4	1.3	1.2	1.4	1.7	2.2	na	22	16.9	9.1	10.5	12.3
Cons Durables (68)	436,380	5.9	18.4	21.3	16.5	13.8	1.9	1.8	1.6	1.6	1.8	2.0	118.3	34.7	20.0	9.0	10.7	11.9
Cons Svc (47)	364,751	1.9	29.2	18.8	16.5	14.5	3.4	3.0	2.8	1.9	2.2	2.5	17.8	14.9	13.1	18.0	18.8	19.5
Media (60)	589,684	0.1	15.9	15.6	13.5	11.7	1.7	1.7	1.6	2.1	2.3	2.5	23.1	15.3	15.3	11.3	12.1	13.3
Retailing (78)	674,743	6.1	21.9	18.7	16.4	14.2	2.9	2.6	2.4	1.5	1.7	1.9	23.5	14.4	14.5	15.2	15.8	16.8
Food/Staples Retail (50)	616,047	0.2	6.3	15.4	13.9	12.3	2.1	1.9	1.8	2.4	2.7	3.0	12.5	10.8	12.4	13.6	14.0	14.5
Food Beverage (114)	1,545,758	0.2	10.2	16.0	14.4	13.0	3.2	2.7	2.5	3.1	3.4	3.7	10.8	11.0	10.8	18.2	18.6	19.0
Household Products (24)	427,952	-1.0	4.9	16.8	15.9	14.4	3.7	3.5	3.2	2.7	3.0	3.2	4.5	6.1	10.0	21.6	20.1	20.8
Health Care Equip/Svc (59)	564,155	3.1	1.4	13.8	12.9	11.5	2.3	2.0	1.8	1.0	1.1	1.2	12.2	6.6	12.4	16.5	15.7	15.6
Pharma & Biotech (73)	1,669,205	-2.1	-2.8	11.3	10.5	10.2	2.4	2.1	1.9	3.2	3.4	3.7	8.1	7.9	4.3	19.9	20.1	18.6
Banks (200)	2,639,661	-1.5	-1.4	12.1	10.2	8.8	1.3	1.2	1.1	3.2	3.7	4.3	63.7	20.8	17.5	10.1	11.2	12.2
Div Financials (103)	1,310,829	2.3	-2.0	12.2	10.4	8.8	1.0	1.0	0.9	1.4	1.8	2.7	178.5	20.2	18.8	8.5	9.5	10.4
Insurance (99)	1,060,459	-1.2	-0.1	11.7	10.0	9.1	1.1	1.0	0.9	3.2	3.5	3.8	9.6	15.9	9.6	8.8	10.0	10.3
Real Estate (116)	627,516	-1.7	9.0	21.4	18.8	16.1	1.2	1.2	1.2	3.1	3.2	3.4	29.3	11.4	12.1	5.7	6.4	7.5
Software (75)	1,314,745	0.2	4.8	16.2	14.4	12.7	4.0	3.5	3.0	1.1	1.2	1.3	15.2	12.7	12.0	24.0	23.5	22.8
Tech Hard/Equip (101)	1,372,834	1.9	6.1	15.3	13.1	11.6	2.3	2.1	1.9	1.1	1.2	1.3	74.3	17.4	12.3	14.6	15.9	15.9
Semis (59)	600,998	10.0	6.7	12.7	11.9	11.1	2.4	2.1	1.9	2.2	2.2	2.3	201.7	1.4	7.7	20.1	17.8	17.0
Telecom (97)	1,279,175	-2.0	4.8	12.3	11.5	10.7	1.7	1.6	1.5	5.0	5.0	5.5	3.5	8.2	8.9	14.3	14.1	14.3
Utilities (135)	1,058,746	-2.1	-4.6	12.8	12.3	11.6	1.4	1.3	1.2	4.5	4.6	4.8	1.5	3.4	6.2	10.5	10.3	10.4
World (2411)	27,275,450	1.8	6.3	14.2	12.3	10.9	1.7	1.7	1.5	2.4	2.7	3.0	38.3	15.4	13.0	12.5	13.4	13.9

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI AC World index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year end) with current prices. All numbers are free-float adjusted.

**Figure 44: Equity market performance**

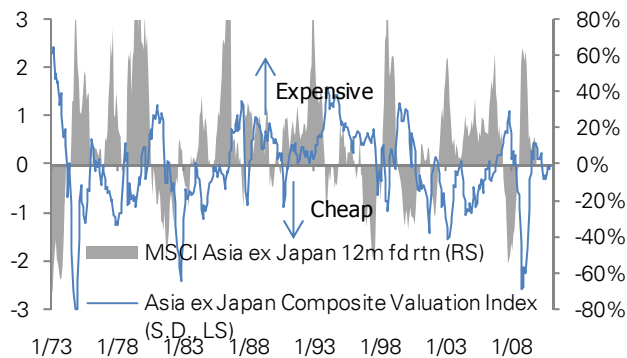


Source: Deutsche Bank, MSCI

## Asia ex-Japan – Valuation

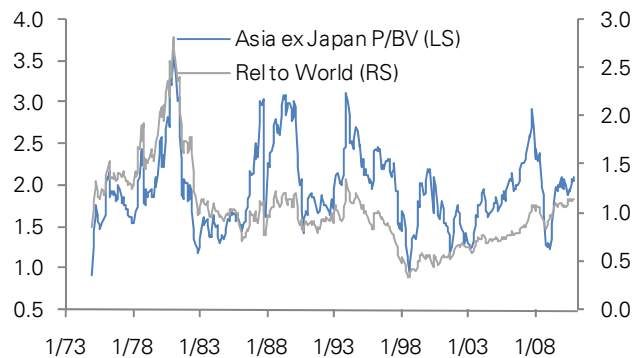
Asian equities are at long-term fair value. Based on EV/EBITDA and EV/Sales, markets look moderately undervalued. Relative to the world, the region is at a modest premium, implying superior excess returns on capital (ROE less COE) in the coming years, which we think is an erroneous assumption, given the relative excess investment in Asia vs. the US and Europe.

**Figure 45: Composite valuation index**



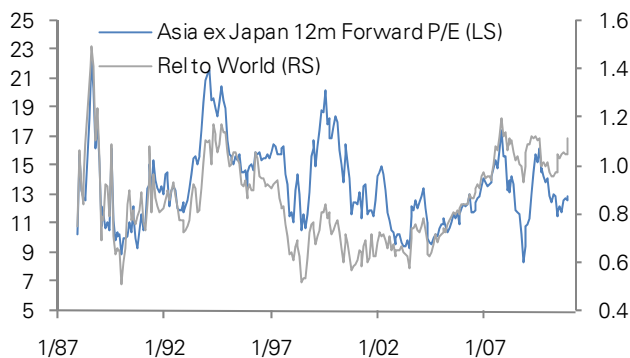
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history

**Figure 46: Price-to-book value**



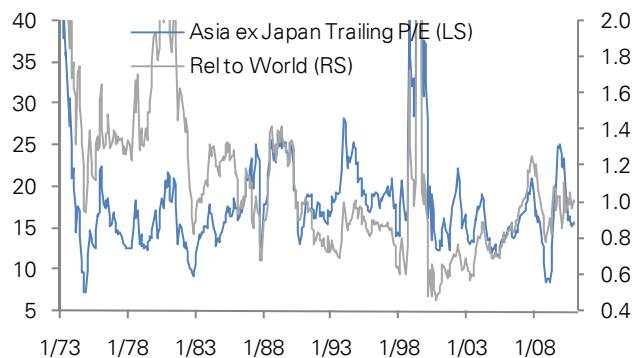
Source: Deutsche Bank, MSCI, Datastream

**Figure 47: 12-month forward P/E**



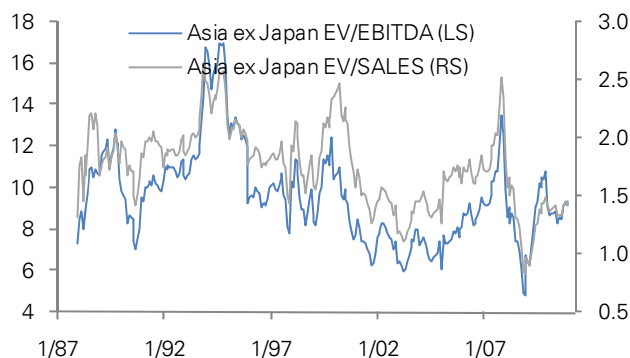
Source: Deutsche Bank, MSCI, I/B/E/S

**Figure 48: 12-month trailing P/E**



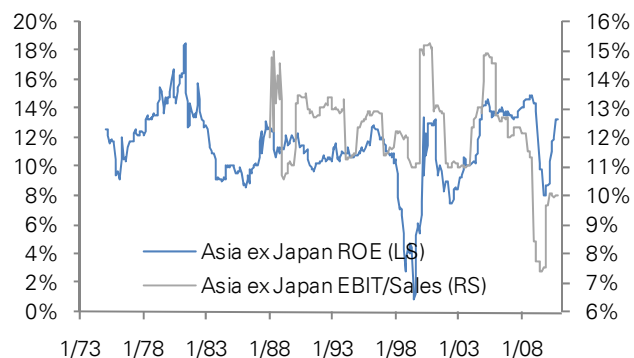
Source: Deutsche Bank, MSCI, Datastream

**Figure 49: EV multiples**



Source: Deutsche Bank, MSCI, FactSet

**Figure 50: ROE and EBIT margin**

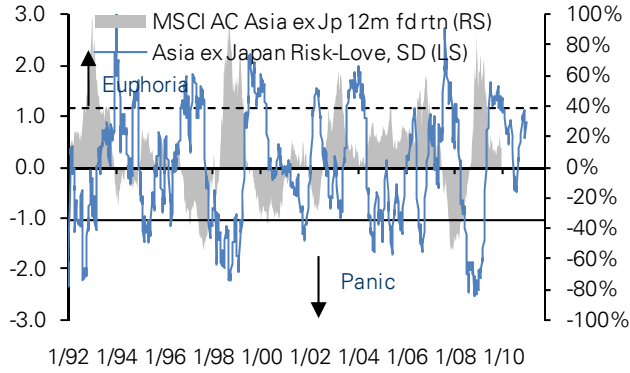


Source: Deutsche Bank, MSCI, FactSet

## Asia ex-Japan – Investor sentiment

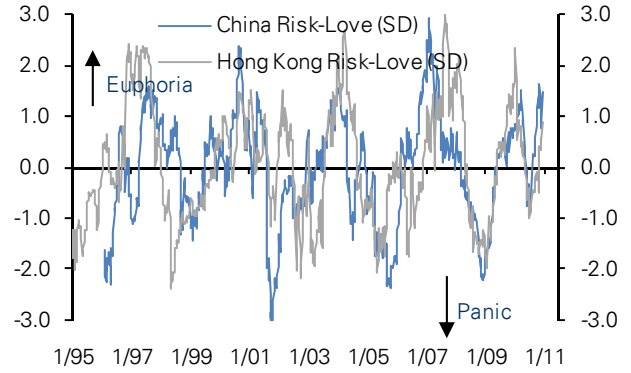
Risk-love is in the neutral zone, far from the euphoria seen in late 2007 or in early 2000. Indeed, with the exception of the Philippines and China, sentiment in most markets is at neutral levels.

**Figure 51: Asia Risk-Love indicator**



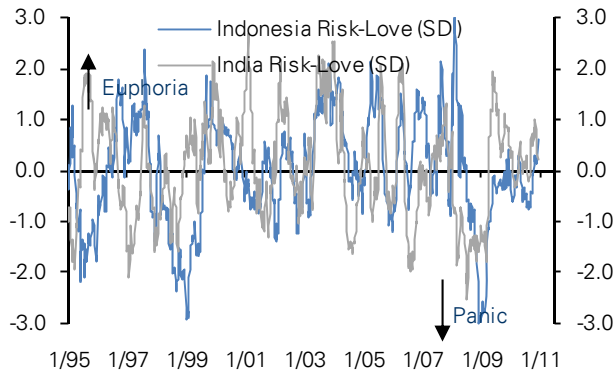
Source: Deutsche Bank

**Figure 52: China and Hong Kong Risk-Love indicator**



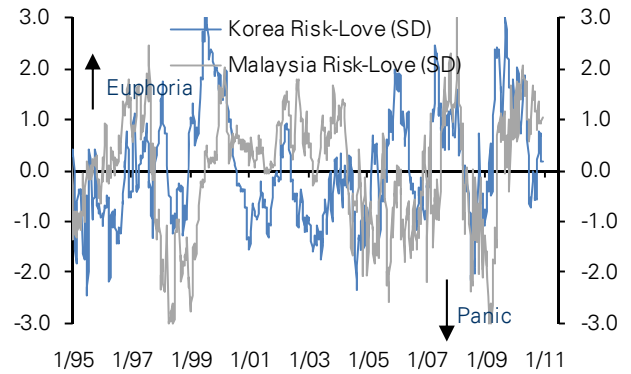
Source: Deutsche Bank

**Figure 53: India and Indonesia Risk-Love indicator**



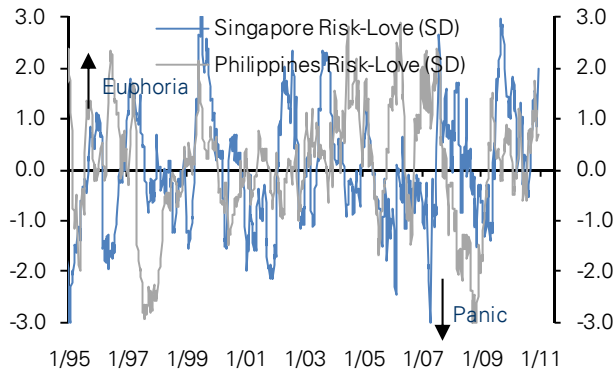
Source: Deutsche Bank

**Figure 54: Korea and Malaysia Risk-Love indicator**



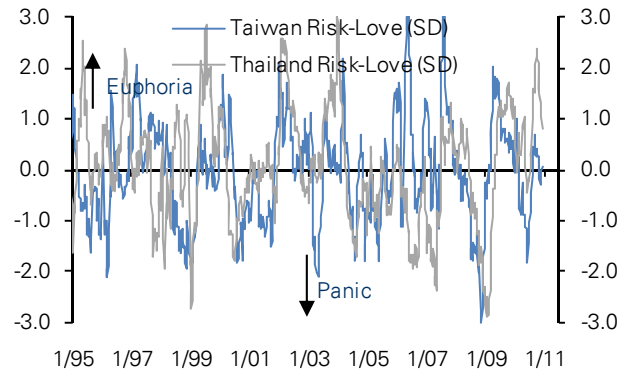
Source: Deutsche Bank

**Figure 55: Philippines and Singapore Risk-Love indicator**



Source: Deutsche Bank

**Figure 56: Taiwan and Thailand Risk-Love indicator**

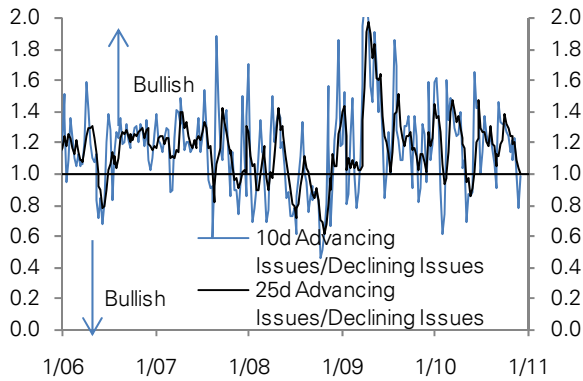


Source: Deutsche Bank

## Asia ex Japan – technicals

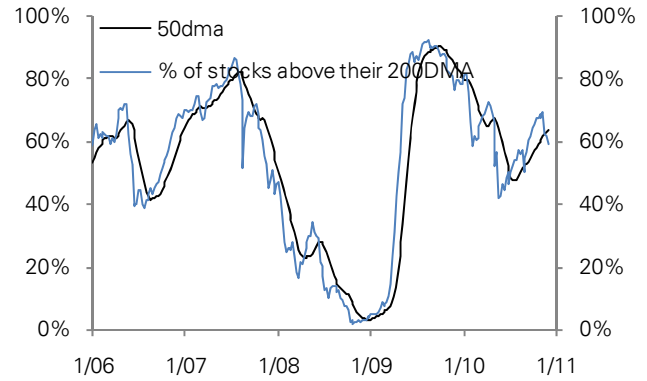
There is some modest deterioration in technicals for the region – the percentage of new highs is falling, while the new lows list is expanding. Still, breadth remains strong.

**Figure 57: Advance/decline ratio**



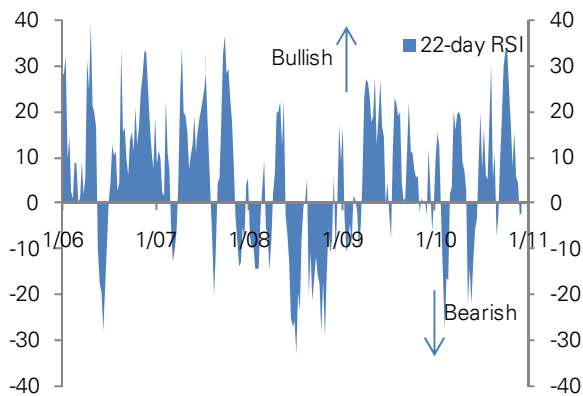
Source: Deutsche Bank, Datastream, FactSet

**Figure 58: Percentage of stocks above their 200dma**



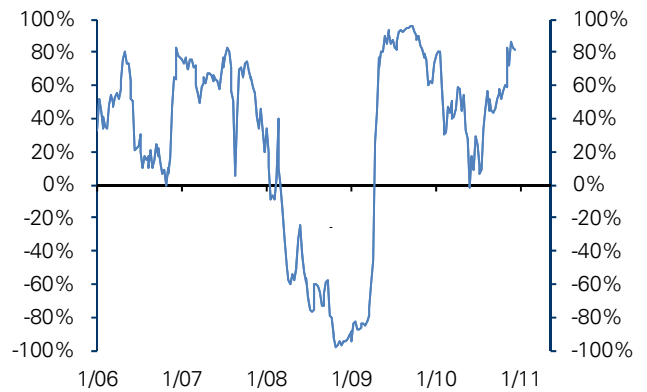
Source: Deutsche Bank, Datastream, FactSet

**Figure 59: Relative Strength Index**



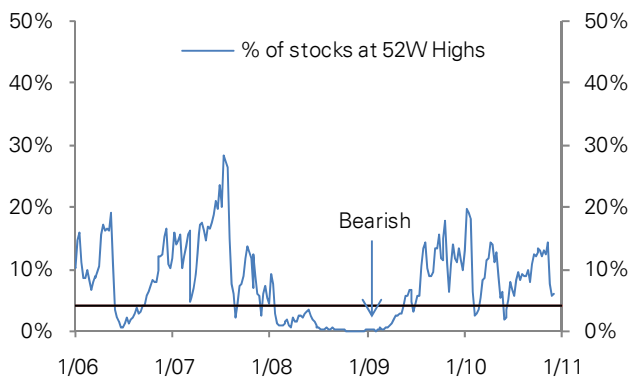
Source: Deutsche Bank, Datastream, FactSet

**Figure 60: Market breadth**



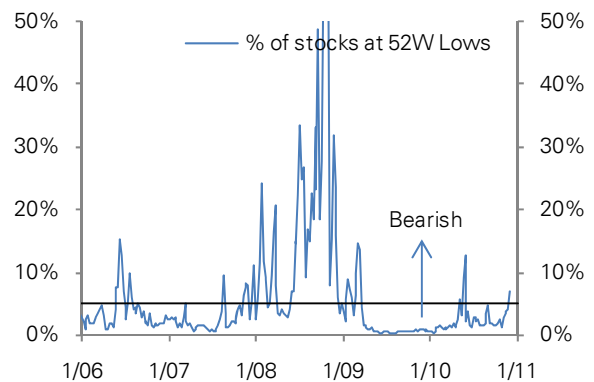
Source: Deutsche Bank, Datastream, FactSet. Market breadth is defined as (# of sub-sectors up on 6 months basis minus # of sub-sectors down on 6 months basis) / total sub-sectors available.

**Figure 61: Percentage of stocks at 52W Highs**



Source: Deutsche Bank, Datastream, FactSet

**Figure 62: Percentage of stocks at 52W Lows**



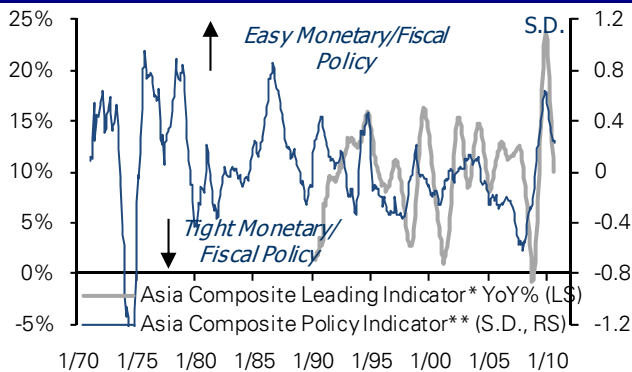
Source: Deutsche Bank, Datastream, FactSet



### Asia ex-Japan – Growth and earnings

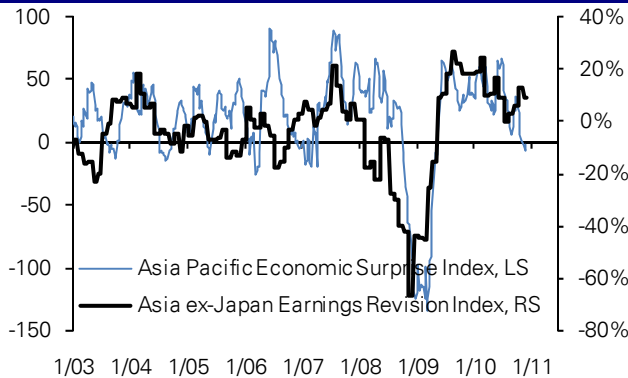
While our economists expect some deceleration in real GDP growth (from 9% to 7.5% from 2010 to 2011), consensus analyst EPS growth estimates have dropped a lot more abruptly from an estimated 39% in 2010 to just 13.7% projected growth in 2011. If our economic growth forecasts are roughly correct, EPS growth could well be 25-30%, not 13.7%.

**Figure 63: Leading economic and composite policy indicators**



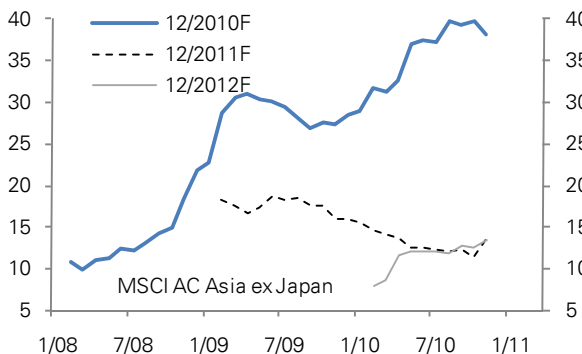
Source: Deutsche Bank, CEIC, Datastream, Bloomberg Finance LP. Note: \*Market cap weighted average of composite leading economic indicators growth for China, India, Korea and Taiwan. \*\*GDP weighed average of composite policy indicators for China, HK, India, Indonesia, Korea, Malaysia, Philippines, Spore, Taiwan & Thailand.

**Figure 64: Economic surprises**



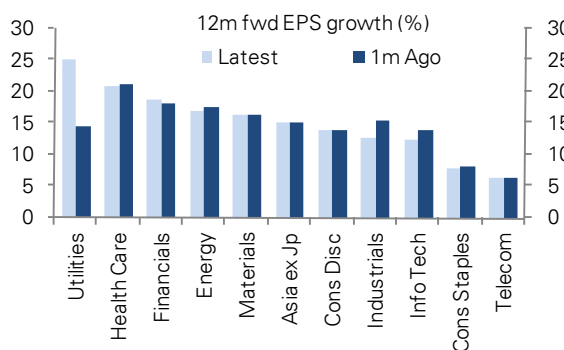
Source: Deutsche Bank, Citigroup, Bloomberg Finance LP

**Figure 65: Earnings growth forecast (%)**



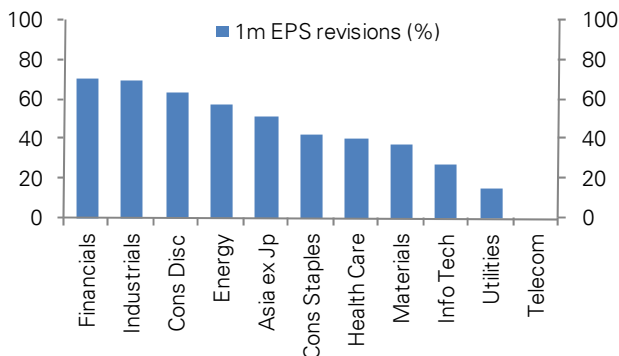
Source: Deutsche Bank, I/B/E/S, MSCI

**Figure 66: 12-month forward growth forecast by sector**



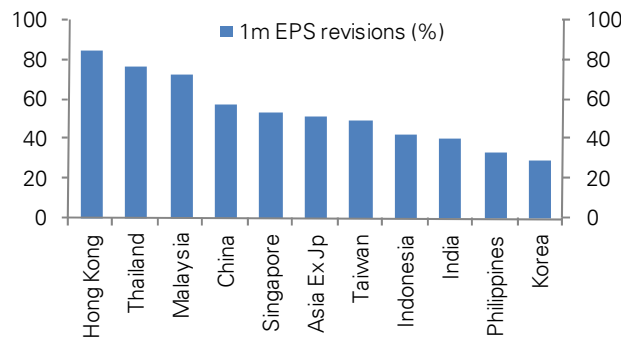
Source: Deutsche Bank, I/B/E/S, MSCI

**Figure 67: 12-month forward EPS revisions by sector**



Source: Deutsche Bank, I/B/E/S, MSCI

**Figure 68: 12-month forward EPS revisions by country**



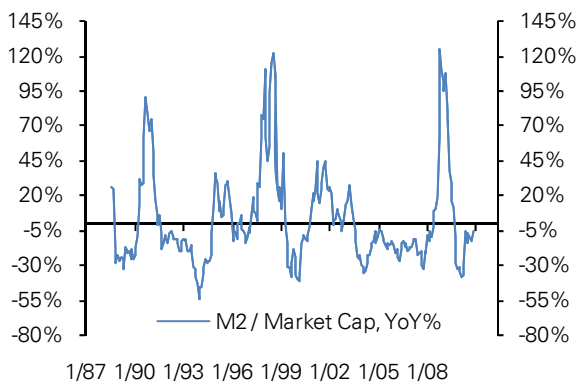
Source: Deutsche Bank, I/B/E/S, MSCI



### Asia ex-Japan – Liquidity

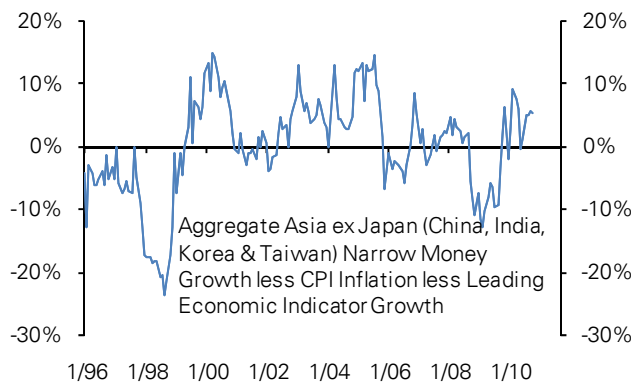
Asian free liquidity is rising nicely. Hedge fund exposure to equities has pulled back from extremes. The IPO pipeline is now above 2% of market capitalization, a moderate worry. As long as fund flows continue into the region, the additional paper is likely to be absorbed.

**Figure 69: M2/market cap**



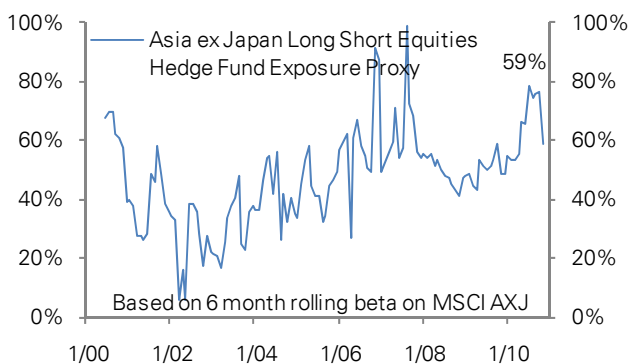
Source: Deutsche Bank, Datastream, Bloomberg Finance LP

**Figure 70: Free liquidity**



Source: Deutsche Bank, Datastream, Bloomberg Finance LP

**Figure 71: Asia focused hedge fund exposure estimate**



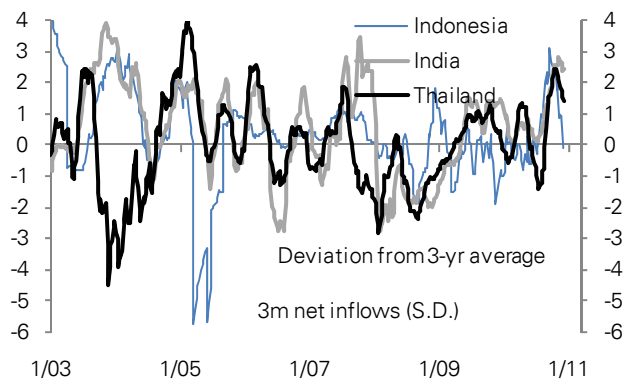
Source: Deutsche Bank, Bloomberg Finance LP

**Figure 72: Six-month total equity offerings\* as percentage of total market cap in Asia ex Japan**



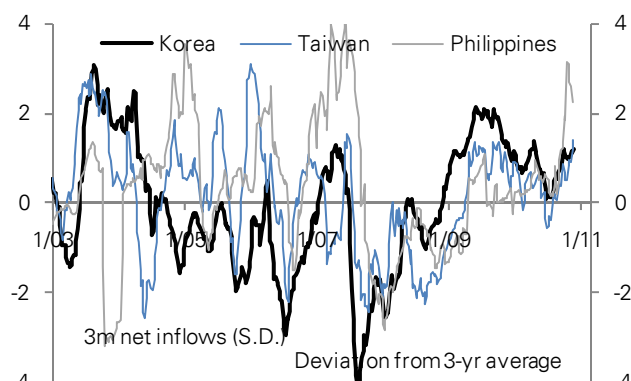
Source: Deutsche Bank, Bloomberg Finance LP, Datastream  
Note: \*Equity offerings includes IPO and additional equity offerings of primary and secondary shares.

**Figure 73: Foreign fund flows**



Source: Deutsche Bank, Bloomberg Finance LP

**Figure 74: Foreign fund flows**

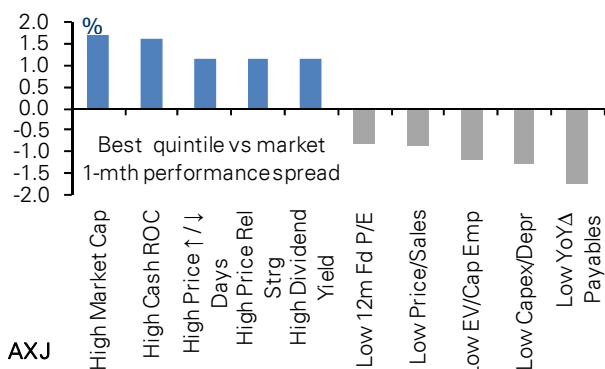


Source: Deutsche Bank, Bloomberg Finance LP

## Asia ex-Japan – Factor performance

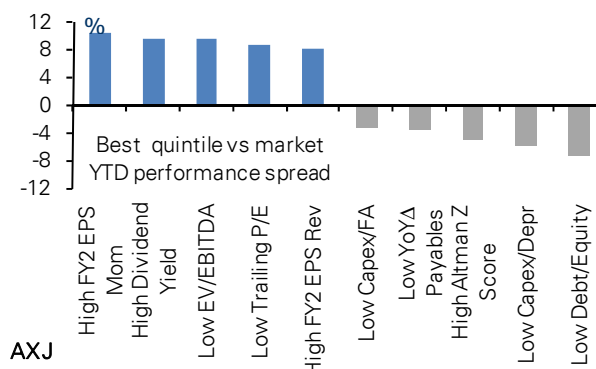
Value continues its dominance as an alpha generator. The market has also rewarded EPS momentum this year, as well as high leverage and poor balance sheets. Stay with value.

**Figure 75: Best- and worst-performing factors (1-month)**



Source: Deutsche Bank

**Figure 76: Best- and worst-performing factors (YTD)**



Source: Deutsche Bank

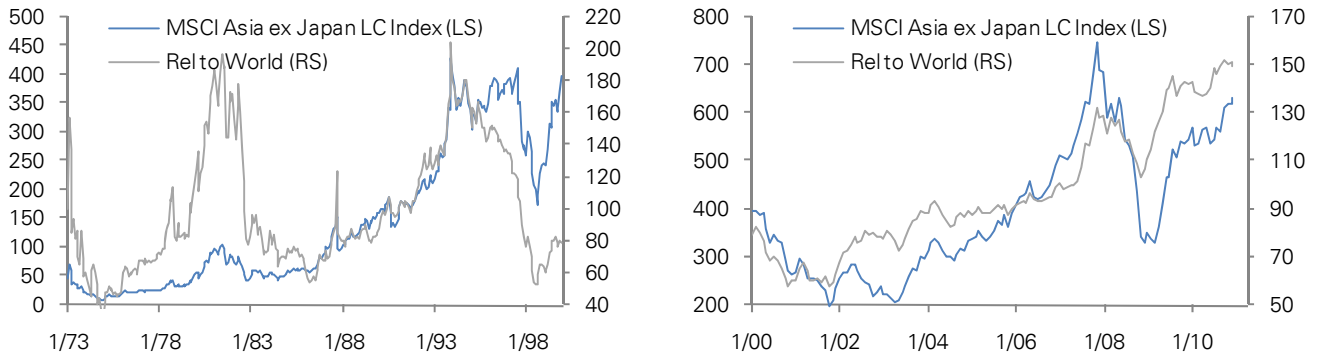
**Figure 77: Best quintile vs. market relative performance (%), sector neutral\*\*)**

Asia ex Japan Dec 6, 10	Returns								Ann. Rtn.		Returns								Ann. Rtn.						
	YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*			YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*							
<b>Valuation</b>																									
Low 12m Fd P/E	5.2	-0.8	1.5	2.5	5.8	5.0	7.2	4.9	High Cash ROC	6.7	1.6	1.5	2.1	6.6	7.0	7.5	9.9								
Low Trailing P/E	8.7	-0.6	0.9	2.1	8.7	12.4	14.6	13.7	High YoYΔ Cash ROC	1.8	0.1	-0.7	-0.4	2.0	4.5	2.8	3.3								
Low P/Op Inc	7.3	-0.4	0.6	2.3	6.8	12.7	14.1	12.2	High ROE	5.5	0.8	1.6	2.0	5.7	6.3	7.8	9.2								
Low P/BV	1.7	-0.7	0.0	1.3	1.3	6.9	5.6	3.4	High YoYΔ ROE	2.9	-0.1	-0.1	0.8	3.5	5.2	3.7	5.4								
Low Price/Sales	3.5	-0.9	-1.0	0.5	4.5	5.2	3.7	2.2	<b>Average</b>	<b>4.2</b>	<b>0.6</b>	<b>0.6</b>	<b>1.2</b>	<b>4.4</b>	<b>5.8</b>	<b>5.5</b>	<b>6.9</b>								
Low P/FCF	5.5	0.2	0.4	2.5	6.1	9.5	7.8	7.9	<b>Growth</b>																
Low EV/EBIT	7.7	0.1	0.4	1.5	9.0	11.9	12.9	14.1	High 3yr Sales Gth	1.2	0.8	2.1	3.1	1.6	-0.7	-0.7	-1.7								
Low EV/EBITDA	9.5	0.1	0.2	2.0	9.8	11.9	13.1	13.3	High 5yr Sales Gth	-1.7	0.3	1.2	1.9	-0.9	-1.8	-0.3	1.2								
Low EV/Cap Emp	2.9	-1.2	-1.2	-0.9	3.1	6.3	6.4	5.6	High 3yr EPS Gth	6.1	0.7	2.1	4.1	6.3	2.7	2.0	1.7								
Low EV/Sales	6.9	-0.5	-0.3	1.4	7.8	7.5	7.7	7.9	High 5yr EPS Gth	2.2	0.1	0.3	2.0	2.3	2.1	1.3	1.9								
Low EV/Op CF	7.2	-0.1	0.0	1.1	7.9	11.3	12.6	13.4	High LT Gth Est	-3.2	1.1	0.8	-0.5	-2.0	1.0	0.6	1.4								
Low EV/FCF	7.1	0.2	0.5	2.5	8.2	10.1	9.5	9.2	High FY1 Gth Est	3.2	0.5	2.5	3.9	3.5	0.5	0.5	-0.3								
High Dividend Yield	9.6	1.1	1.7	2.7	9.7	13.8	17.8	16.8	High FY2 Gth Est	-1.8	-0.7	-0.9	0.7	-1.1	-3.4	-3.0	-4.3								
<b>Average</b>	<b>6.4</b>	<b>-0.3</b>	<b>0.3</b>	<b>1.7</b>	<b>6.8</b>	<b>9.6</b>	<b>10.2</b>	<b>9.6</b>	<b>Average</b>	<b>0.9</b>	<b>0.4</b>	<b>1.2</b>	<b>2.2</b>	<b>1.4</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>								
<b>Price Momentum</b>																									
High 6m Price Mom	1.1	-0.2	1.0	0.5	1.7	-2.6	-0.9	-1.2	<b>Stability</b>																
High 9m Price Mom	3.6	1.1	2.4	2.0	3.8	-1.2	1.0	1.4	Low EPS Vola	0.3	-0.3	-0.9	-1.3	0.0	1.1	3.0	2.9								
High 12m Price Mom	1.6	0.9	2.2	1.5	1.3	-2.3	1.6	1.6	Low Op Inc Vola	3.5	-0.4	0.7	0.7	3.4	2.0	3.4	4.2								
High Price Rel Strg	4.0	1.2	2.2	2.0	4.7	-0.3	2.3	2.5	Low Book Value Vola	-2.0	-0.1	-1.4	-0.7	-1.9	0.3	2.7	2.6								
High 3mΔ in Price Mom	-1.9	0.2	0.0	-1.6	-1.8	-1.6	-1.1	-2.3	Low Sales Vola	2.3	0.6	-0.2	2.8	2.6	3.3	4.1	4.4								
High Price ↑/↓ Days	6.0	1.2	2.5	2.5	6.5	4.3	6.0	7.0	Low EPS Est Vola	2.8	0.9	1.9	0.9	1.8	-0.3	-0.2	2.5								
<b>Average</b>	<b>2.4</b>	<b>0.7</b>	<b>1.7</b>	<b>1.2</b>	<b>2.7</b>	<b>-0.6</b>	<b>1.5</b>	<b>1.5</b>	<b>Average</b>	<b>1.4</b>	<b>0.1</b>	<b>0.0</b>	<b>0.5</b>	<b>1.2</b>	<b>1.3</b>	<b>2.6</b>	<b>3.3</b>								
<b>Earnings Momentum</b>																									
High FY1 EPS Rev	4.8	0.5	-0.1	0.3	5.1	2.6	4.1	3.1	<b>Risk</b>																
High FY2 EPS Rev	8.0	0.1	1.0	2.8	8.2	5.7	7.7	6.1	Low FY1 EPS Disp	-0.8	1.0	0.4	-1.4	-1.6	0.8	2.5	4.5								
High 12m Fd EPS Rev	4.7	-0.2	1.1	1.2	4.8	3.5	4.8	4.7	Low FY2 EPS Disp	1.2	0.4	-0.3	0.3	1.1	0.1	1.9	4.8								
High FY1 EPS Mom	6.0	-0.3	0.9	-0.2	5.7	5.9	6.9	8.3	High EBIT/Int Exp	1.6	0.9	1.0	0.7	1.2	4.8	5.8	7.3								
High FY2 EPS Mom	10.6	-0.2	1.7	2.9	11.4	5.9	6.8	7.4	Low Debt/Equity	-7.4	0.1	-2.2	-4.3	-7.6	0.9	-0.8	0.9								
<b>Average</b>	<b>6.8</b>	<b>0.0</b>	<b>0.9</b>	<b>1.4</b>	<b>7.0</b>	<b>4.7</b>	<b>6.1</b>	<b>5.9</b>	High Altman Z Score	-4.9	-0.1	-0.7	-2.6	-3.9	-3.1	-1.0	2.1								
<b>Capex Deployment &amp; Earnings Accruals</b>																									
Low Capex/Depr	-6.0	-1.3	-3.9	-3.1	-5.9	-1.8	-4.3	-3.9	High Market Cap	0.7	1.7	2.0	1.9	-0.4	1.5	1.4	3.1								
Low Capex/Sales	-1.9	0.2	0.6	0.8	-1.5	-0.4	-0.9	-2.3	<b>Average</b>	<b>-1.6</b>	<b>0.7</b>	<b>0.0</b>	<b>-0.9</b>	<b>-1.9</b>	<b>0.8</b>	<b>1.6</b>	<b>3.8</b>								
Low Capex/FA	-3.3	-0.1	-2.3	-1.5	-4.0	-0.1	-2.4	-2.7	<b>Consensus Ratings</b>																
High YoYΔ Receivables	1.7	0.1	1.5	2.0	1.2	-0.3	0.3	1.0	High Analyst Rec	4.6	-0.2	0.3	1.0	6.0	2.7	4.4	7.4								
Low YoYΔ Inventory	0.7	-0.5	-0.4	0.7	0.7	0.1	0.5	0.2	High 1mΔ Analyst Rec	2.9	0.8	2.9	2.7	3.1	4.8	5.6	5.9								
Low YoYΔ Payables	-3.5	-1.7	-1.1	-1.3	-1.8	-3.2	-2.0	-2.4	<b>Average</b>	<b>3.7</b>	<b>0.3</b>	<b>1.6</b>	<b>1.9</b>	<b>4.6</b>	<b>3.7</b>	<b>5.0</b>	<b>6.6</b>								
<b>Average</b>	<b>-2.1</b>	<b>-0.6</b>	<b>-0.9</b>	<b>-0.4</b>	<b>-1.9</b>	<b>-1.0</b>	<b>-1.5</b>	<b>-1.7</b>																	

Source: Deutsche Bank, FactSet, I/B/E/S. Note: \*1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended Nov 2010. \*\*Quintile baskets are formed on a regional sector relative basis. Relative performance is based on equal weighted average returns of the best quintile basket and the market. For description on factors please see appendix A.

## Asia ex-Japan – Market intelligence

**Figure 78: Equity market performance**



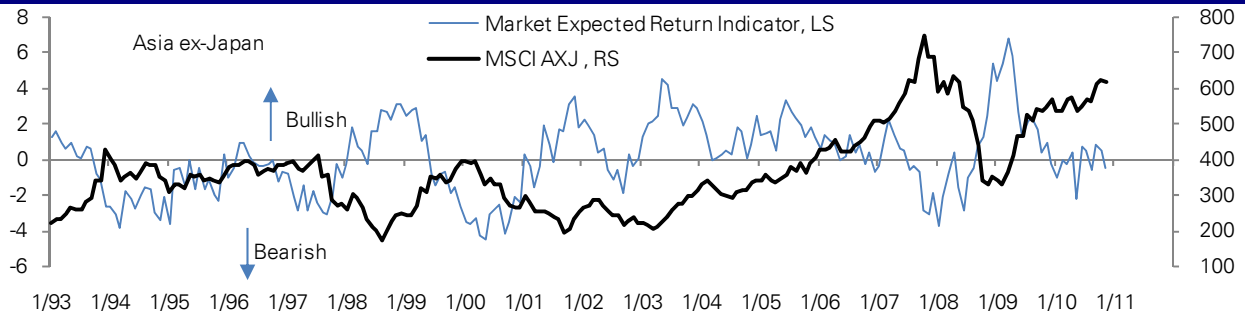
Source: Deutsche Bank, MSCI.

**Figure 79: Market intelligence by sector**

8Dec10 Sector (#Co)	Mcap U\$m	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
		1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Energy (30)	219,975	-3.7	15.9	13.3	11.5	10.2	2.2	2.0	1.7	2.3	2.7	3.0	34.3	15.9	12.2	16.5	17.0	17.0
Materials (57)	205,489	-3.5	10.1	12.8	11.2	9.8	1.9	1.7	1.5	2.5	2.8	3.1	37.6	15.4	12.6	14.7	15.0	15.1
Capital Goods (66)	223,536	-2.8	24.5	14.9	13.1	11.5	2.0	1.8	1.6	1.7	1.9	2.1	28.4	15.1	13.0	13.2	13.6	13.7
Comm Svc (1)	791	-7.3	9.3	17.5	14.4	12.9	2.8	2.5	2.2	2.2	2.4	2.5	8.6	21.3	11.4	16.1	17.2	16.9
Transportation (29)	59,503	-4.3	21.1	12.8	11.8	10.7	1.6	1.5	1.4	2.7	2.8	3.1	3,653.3	-3.7	10.5	14.1	12.5	12.8
Autos (18)	101,933	-1.7	45.0	12.0	10.7	9.7	2.7	2.2	1.8	1.1	1.3	1.4	45.7	12.1	9.6	22.5	20.6	18.9
Cons Durables (13)	26,354	0.7	-4.3	20.8	13.0	10.0	2.0	1.9	1.8	2.5	3.0	2.8	-44.5	62.4	36.8	9.7	14.5	17.9
Cons Svc (11)	38,333	-2.1	52.3	22.8	18.7	16.2	3.3	2.9	2.5	1.0	1.0	1.2	99.8	22.0	15.5	14.6	15.6	15.6
Media (4)	8,741	0.2	15.5	16.2	16.5	15.1	3.3	3.2	3.0	4.2	4.8	5.0	10.7	-1.9	9.4	20.2	19.1	19.7
Retailing (12)	46,541	-2.6	18.8	20.7	17.5	15.0	3.3	3.0	2.7	2.0	2.5	3.0	19.4	18.0	16.5	16.0	17.1	17.9
Food/Staples Retail (6)	21,671	-1.0	24.7	15.4	19.4	16.6	2.8	2.5	2.3	1.4	1.6	1.8	69.5	-20.7	16.8	17.9	13.0	13.6
Food Beverage (26)	85,460	-5.8	12.6	19.1	16.6	14.6	2.8	2.5	2.2	2.1	2.4	2.7	22.6	9.1	14.2	16.5	16.2	16.4
Household Products (5)	21,352	-1.0	24.0	30.2	25.6	21.8	10.0	8.5	7.2	1.7	2.0	2.4	15.1	17.8	17.5	33.2	33.3	33.1
Health Care Equip/Svc (2)	4,056	-4.4	23.1	44.5	33.3	26.0	6.4	5.5	4.8	0.5	0.7	1.0	23.9	33.3	28.2	14.3	16.6	18.5
Pharma & Biotech (8)	16,283	2.0	39.0	25.5	21.4	18.0	4.7	4.0	3.3	0.7	0.8	0.9	27.1	19.5	19.0	18.3	18.5	18.5
Banks (61)	463,715	-5.9	10.6	13.4	11.2	9.7	1.8	1.6	1.5	2.9	3.4	4.0	29.0	19.7	16.1	13.4	14.5	15.3
Div Financials (23)	74,820	-5.8	11.1	20.8	17.6	15.4	2.5	2.3	2.2	2.4	2.9	3.3	4.7	18.5	14.4	12.1	13.3	14.1
Insurance (13)	109,748	-5.2	-1.3	23.1	18.6	15.6	2.6	2.3	2.0	1.0	1.4	1.8	11.1	23.0	19.3	11.4	12.3	13.1
Real Estate (49)	192,260	-8.5	5.8	16.7	15.3	13.4	1.2	1.2	1.1	2.3	2.3	2.5	18.1	11.5	14.9	7.5	7.7	8.3
Software (11)	86,264	-0.3	13.6	26.3	21.3	17.6	7.7	5.8	4.6	0.9	0.9	1.0	45.4	23.6	21.3	29.0	27.2	26.1
Tech Hard/Equip (46)	171,542	4.6	2.9	15.0	12.3	10.4	2.0	1.8	1.7	2.7	3.2	3.8	102.7	22.1	18.4	13.6	15.0	16.3
Semis (27)	212,129	9.3	2.4	10.7	10.5	9.6	2.0	1.8	1.6	2.9	2.9	3.0	113.6	-6.8	10.5	20.8	17.3	17.0
Telecom (24)	158,162	-3.8	5.8	13.0	12.0	11.1	2.0	1.8	1.7	4.4	4.7	5.0	4.7	6.6	8.2	15.5	15.0	15.1
Utilities (26)	91,010	-2.9	3.3	18.3	14.6	13.1	2.1	1.9	1.8	2.7	2.9	3.1	11.7	24.9	11.7	8.8	10.5	11.0
Asia ex Japan (568)	2,639,666	-0.6	11.4	14.7	12.8	11.3	2.0	1.8	1.7	2.4	2.7	3.0	39.1	13.1	13.9	14.0	14.3	14.7

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI AC Asia ex Japan index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year end) with current prices. All numbers are free-float adjusted.

**Figure 80: Market Expected Return Indicator for Asia ex-Japan**



Source: Deutsche Bank, MSCI, Bloomberg Finance LP

## Japan strategy

1. **Policy and economics:** Upward pressure on the yen has weakened since the Fed's second round of quantitative monetary easing (QE2), which suggested that US easing had reached an end. In response, the BoJ did not announce new easing measures at its subsequent extraordinary meeting. At the same time, its purchases of REITs and ETFs could occur in mid-December. Yen strength has waned with the unexpected rise in US payrolls. There was little negative pressure on Japan at the G20 or APEC meetings. The annualized 3.9% growth in GDP in 3Q 2010 was a positive surprise, but the markets foresee an adverse reaction in 4Q as the effects of government stimulus measures for car and electronics purchases wear off.

September labor figures for Japan indicate that real wages, though up 1.5% yoy, were down again on a mom basis. Similarly, the Consumer Confidence Index, up 1.0% yoy, saw a fourth successive mom decline. Meanwhile, core machinery orders (private-sector orders excluding ships and electric power company orders) tumbled 10.3% mom, a negative surprise.

2. **Corporate earnings and investment opinions:** The TOPIX consensus of forecasted earnings revisions for the next 12 months [(upward revisions – downward revisions) divided by target stocks], based on IBES, rose 4% in November.

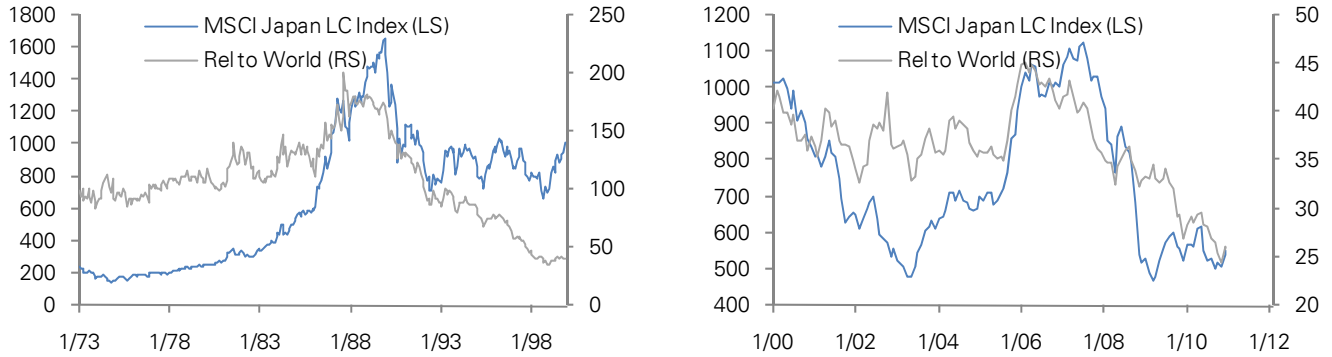
1H FY3/11 earnings reports by TSE First Section firms reveal that RP stood at 57% of full-year targets. Moreover, companies raised their RP forecasts by 5.0%.

3. **Investor trends:** TSE reports that foreigners were net buyers in November, with individuals being net sellers. The QSS (QUICK survey) in early December showed investors on average were overweight on raw materials and electrical and precision machinery shares, and underweight on utilities and financials. They rapidly retreated from underweighting autos to overweight, while becoming more underweight on utilities. They were significantly more overweight on electrical and precision machinery shares.
4. **This month's events:** The BoJ's quarterly Tankan survey of business on 15 December is likely to further corroborate these figures. One focus in the government's FY11 budget deliberations will be discussions over a corporate tax cut and related conditions (such as the shrinkage of current tax breaks) and a consumption tax hike. We expect a small reduction in the corporate tax and no change in the consumption tax.
5. **Top ten stock ideas:** Teijin, Mitsubishi Tanabe Pharma, Tokai Carbon, Panasonic, Denso, Honda Motor, Don Quijote, Itochu, Mitsui Fudosan, All Nippon Airways

**Naoki Kamiyama**

## Japan – Market intelligence

**Figure 81: Equity market performance**



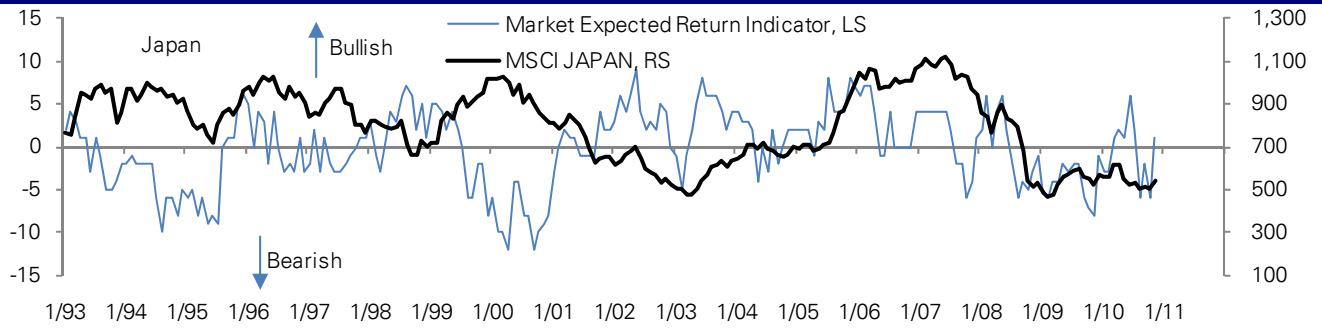
Source: Deutsche Bank, Bloomberg Finance LP, Datastream.

**Figure 82: Market intelligence by sector**

8Dec10	Mcap	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
Sector (#Co)	U\$m	1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Energy (7)	35,023	3.5	-21.2	14.1	8.8	9.4	0.9	0.8	0.7	2.0	2.4	2.4	121.4	33.8	-11.3	5.8	9.2	7.8
Materials (41)	181,371	5.0	-7.2	16.9	12.3	10.7	1.1	1.0	0.9	1.8	2.0	2.2	526.8	39.0	15.0	6.1	8.0	8.8
Capital Goods (49)	346,737	5.2	7.0	14.3	11.3	10.1	1.3	1.2	1.1	1.7	2.1	2.3	78.6	28.3	12.0	9.1	10.6	10.9
Comm Svc (4)	22,264	4.6	-12.1	19.2	16.0	15.7	0.9	0.9	0.8	2.7	2.7	2.7	60.6	16.6	5.3	4.6	5.3	5.4
Transportation (18)	101,950	3.5	0.7	18.4	14.2	12.5	1.1	1.1	1.0	1.7	1.9	2.1	42.7	30.2	13.3	6.3	7.7	8.3
Autos (22)	283,048	8.1	-5.0	17.6	13.4	11.1	1.1	1.1	1.0	1.4	1.8	2.3	2,244.2	31.1	20.7	6.3	7.8	8.8
Cons Durables (15)	109,561	4.7	-1.7	35.9	18.7	15.2	1.0	1.0	0.9	1.3	1.5	1.5	na	91.7	23.0	2.7	5.1	6.0
Cons Svc (3)	9,348	0.6	13.6	21.7	17.8	16.8	1.8	1.7	1.6	1.8	1.9	2.1	11.1	21.6	6.3	8.5	9.7	9.6
Media (5)	10,871	9.8	1.4	24.9	20.5	17.4	1.1	1.1	1.0	1.4	1.5	1.6	26.8	21.2	18.0	4.6	5.3	6.0
Retailing (13)	41,460	5.6	-3.5	18.1	15.4	14.0	1.5	1.4	1.3	1.2	1.2	1.3	64.1	17.3	10.3	8.2	8.8	8.9
Food/Staples Retail (5)	32,586	6.2	13.3	19.3	17.0	15.4	1.0	1.0	1.0	2.6	2.7	2.7	79.2	13.4	10.2	5.4	5.9	6.3
Food Beverage (15)	61,839	5.2	-11.0	19.6	16.4	14.7	1.2	1.1	1.1	1.9	2.0	2.1	12.8	20.0	11.6	6.0	6.9	7.3
Household Products (3)	25,711	0.8	1.2	22.7	20.1	18.0	2.1	2.0	1.9	2.4	2.4	2.6	9.4	13.0	11.5	9.3	9.9	10.5
Health Care Equip/Svc (6)	22,861	4.6	-15.0	21.3	18.6	15.9	1.8	1.7	1.6	1.2	1.3	1.4	35.7	14.6	17.3	8.4	9.1	9.8
Pharma & Biotech (14)	105,242	1.8	-5.7	15.1	14.6	14.7	1.4	1.3	1.3	3.8	3.8	3.9	5.3	3.7	-1.1	9.3	9.2	8.8
Banks (28)	200,201	7.4	-10.9	9.4	9.8	9.6	0.7	0.7	0.6	3.1	3.1	3.1	268.4	-3.7	1.0	7.2	6.7	6.4
Div Financials (11)	49,074	10.9	-15.9	24.7	18.1	12.6	0.7	0.7	0.7	1.7	2.0	2.4	na	63.6	56.0	3.0	4.1	5.7
Insurance (6)	63,535	3.0	-7.2	19.0	18.5	16.4	0.9	0.9	0.8	2.0	2.4	2.5	38.7	7.2	12.8	4.9	4.8	5.1
Real Estate (15)	77,958	-1.0	5.0	23.8	20.8	19.0	1.4	1.3	1.2	1.4	1.5	1.5	13.2	14.7	9.6	5.7	6.2	6.5
Software (11)	51,024	10.2	3.2	21.8	19.6	16.8	2.0	1.9	1.8	2.4	2.4	2.6	-32.3	11.7	16.2	9.3	9.8	10.6
Tech Hard/Equip (26)	243,112	4.9	2.6	20.7	15.0	13.0	1.4	1.3	1.2	1.7	1.9	2.1	na	38.3	14.8	6.5	8.5	9.1
Semis (6)	24,898	6.3	-17.7	23.3	17.5	15.6	1.2	1.1	1.1	1.3	1.8	2.0	na	60.9	11.6	5.1	6.6	6.9
Telecom (4)	94,309	5.3	12.2	12.4	11.3	10.3	1.2	1.1	1.0	2.4	2.5	2.6	11.0	9.5	9.2	9.5	9.7	9.8
Utilities (13)	128,475	1.9	-6.3	21.5	16.7	13.6	1.0	1.0	0.9	2.9	2.9	3.0	17.4	28.6	23.0	4.8	5.9	7.0
Japan (340)	2,322,456	9.5	-3.0	16.7	13.6	12.1	1.1	1.0	1.0	2.0	2.2	2.4	167.7	23.3	12.6	6.6	7.7	8.2

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI country index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year end) with current prices. All numbers are free-float adjusted.

**Figure 83: Market Expected Return Indicator for Japan**

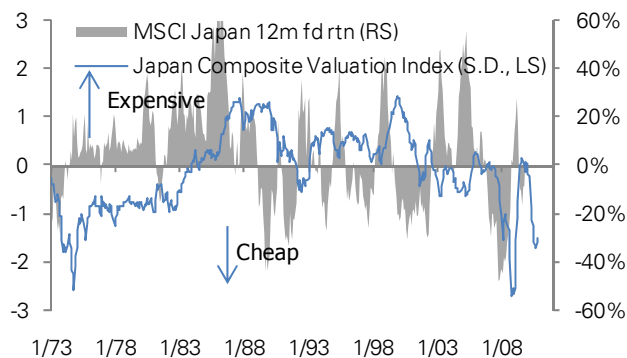


Source: Deutsche Bank, MSCI, Bloomberg Finance LP

## Japan – Valuations

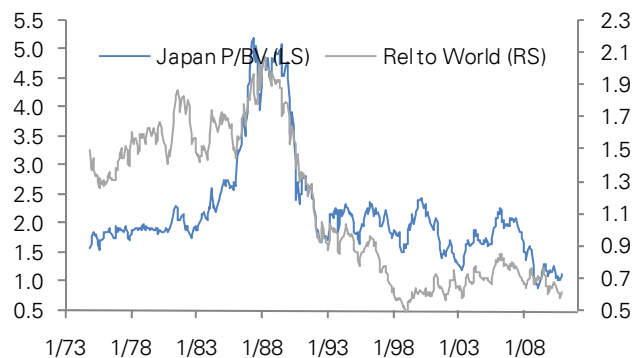
We agree with Kamiyama-san, our Japan strategist, and Franceco Curto from our CROCI team that Japanese equities look undervalued, compared with history and with other regions. This is a fertile field for value-oriented investors. This view is getting more consensus now.

**Figure 84: Composite valuation index**



Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history.

**Figure 85: Price-to-book value**



Source: Deutsche Bank, MSCI, Datastream. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 86: 12-month forward P/E**



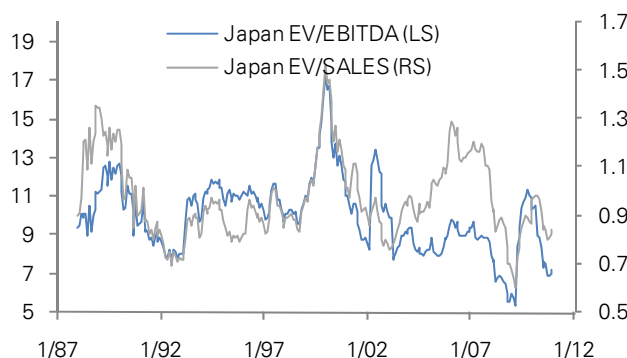
Source: Deutsche Bank, MSCI, IB/E/S. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 87: 12-month trailing earnings yield**



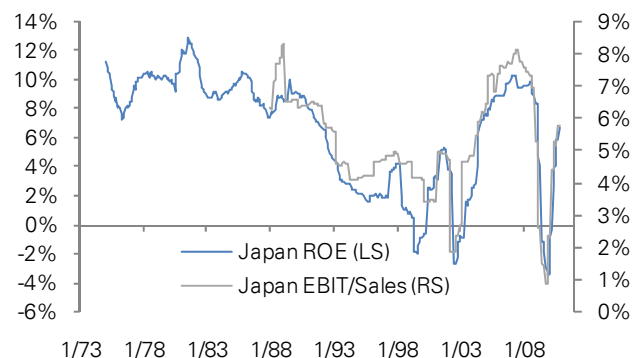
Source: Deutsche Bank, MSCI, Datastream. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 88: EV multiples**



Source: Deutsche Bank, MSCI, FactSet

**Figure 89: ROE and EBIT margin**



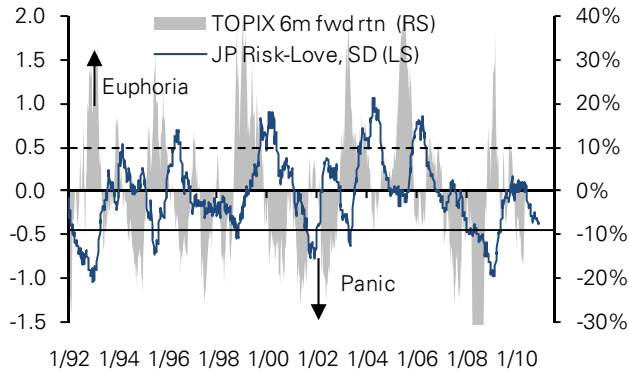
Source: Deutsche Bank, MSCI, FactSet



## Japan – Investor sentiment

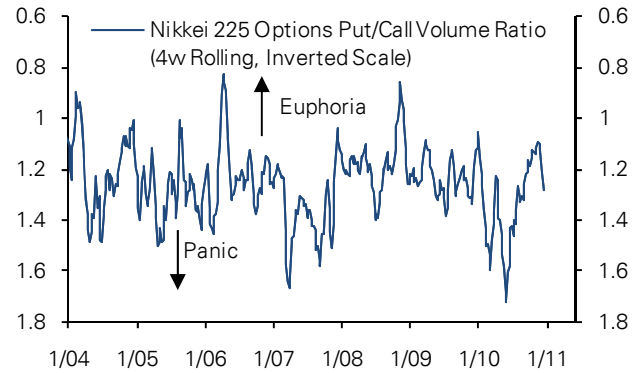
Equity Risk-Love in Japan remains subdued despite the recent market rally. Higher bond yields in the US and higher inflation expectations would help unlock value.

**Figure 90: Equity Risk-Love indicator**



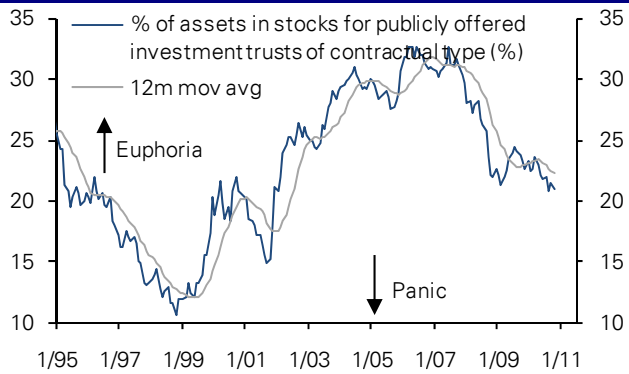
Source: Deutsche Bank, Bloomberg Finance LP

**Figure 91: Market volatility**



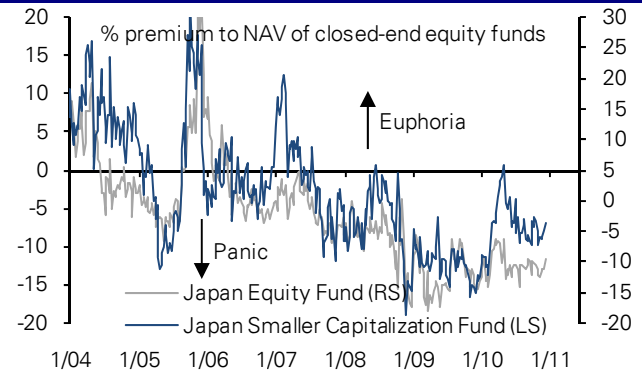
Source: Deutsche Bank, Datastream

**Figure 92: Asset allocation to stocks for publicly offered investment trusts of contractual type**



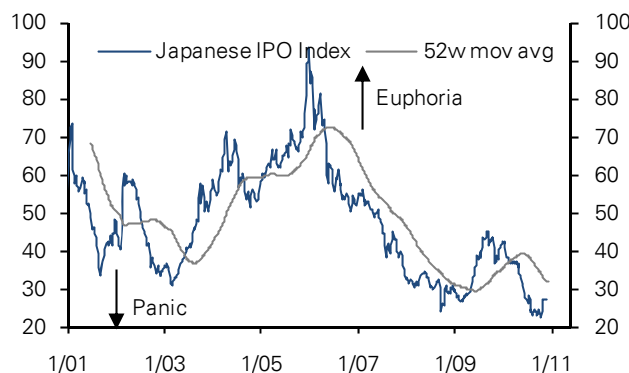
Source: Deutsche Bank, Japan Investment Trust Association.

**Figure 93: Percentage premium to NAV of closed-end equity funds**



Source: Deutsche Bank, Bloomberg Finance LP.

**Figure 94: IPO performance**



Source: Deutsche Bank, Bloomberg Finance LP.

**Figure 95: Margin ratio**

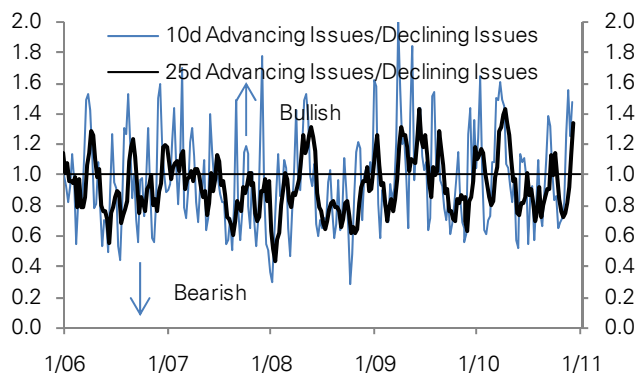


Source: Deutsche Bank, Tokyo Stock Exchange.

## Japan – Technicals

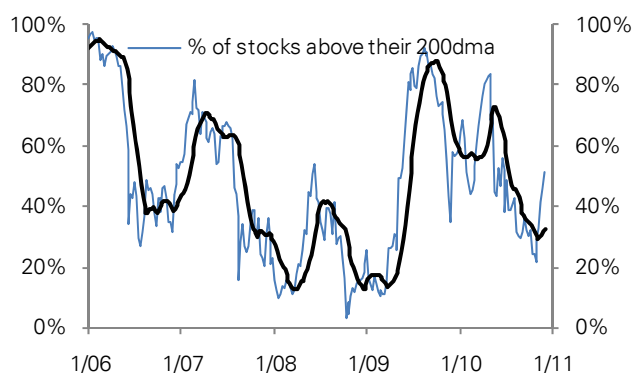
There has been a modest improvement in technicals with the recent rally – breadth is better but still unimpressive, new lows have vanished, and new highs picked up a smidgen.

**Figure 96: Advance/decline ratio**



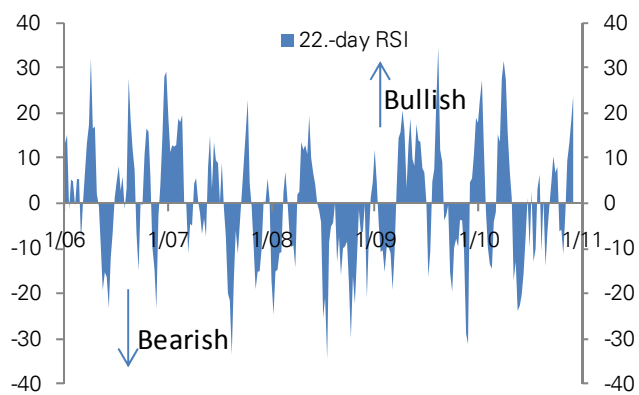
Source: Deutsche Bank, Datastream, FactSet

**Figure 97: Percentage of stocks above their 200dma**



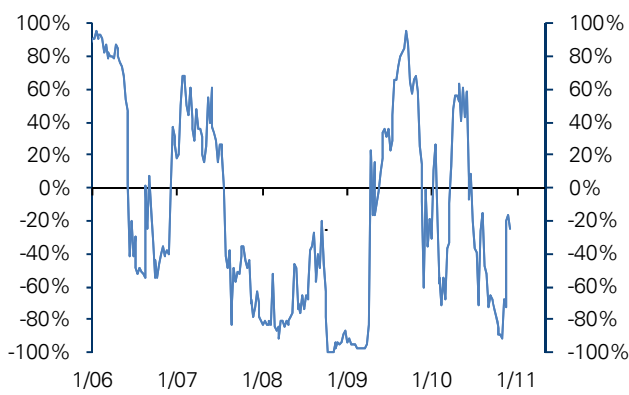
Source: Deutsche Bank, Datastream, FactSet

**Figure 98: Relative Strength Index**



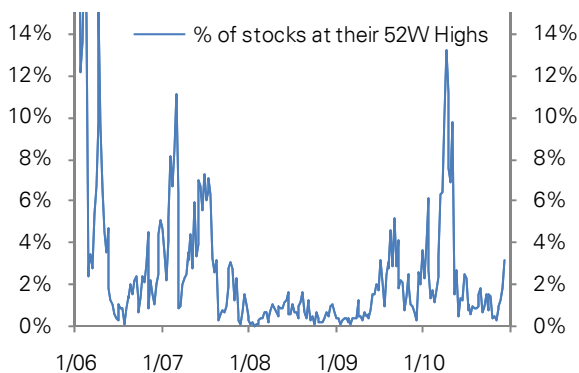
Source: Deutsche Bank, Datastream, FactSet

**Figure 99: Market breadth**



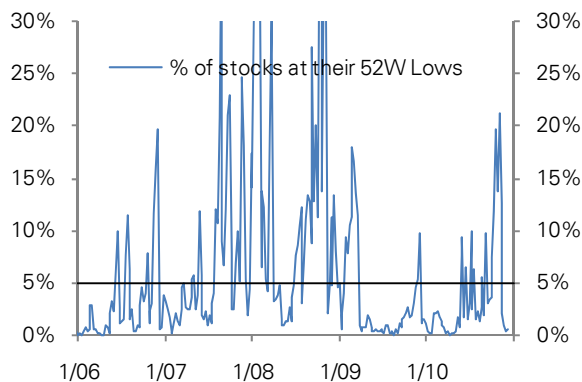
Source: Deutsche Bank, Datastream, FactSet. Market breadth is defined as (# of sub-sectors up on 6 months basis minus # of sub-sectors down on 6 months basis) / total sub-sectors available.

**Figure 100: Percentage of stocks at 52W Highs**



Source: Deutsche Bank, Datastream, FactSet

**Figure 101: Percentage of stocks at 52W Lows**

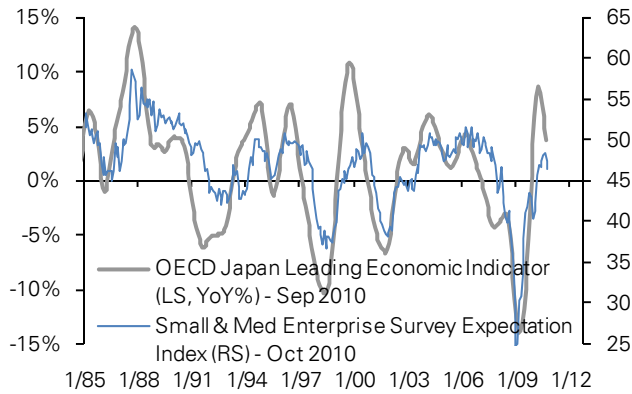


Source: Deutsche Bank, Datastream, FactSet

## Japan – Growth and earnings

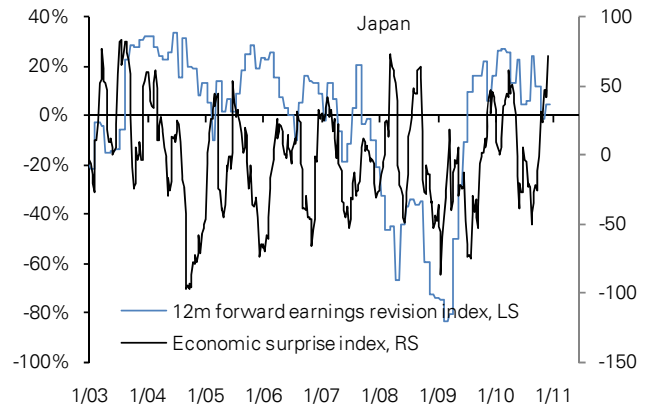
EPS expectations for the next two fiscal years are paltry and continue to be revised down, giving no credence to improved global leading economic indicators. Expect an upward revision cycle to commence soon.

**Figure 102: Leading economic indicators**



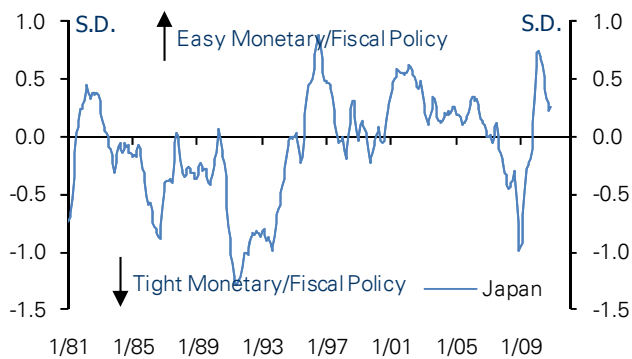
Source: Deutsche Bank, I/B/E/S, OECD, Datastream

**Figure 103: Earnings revisions and economic surprises**



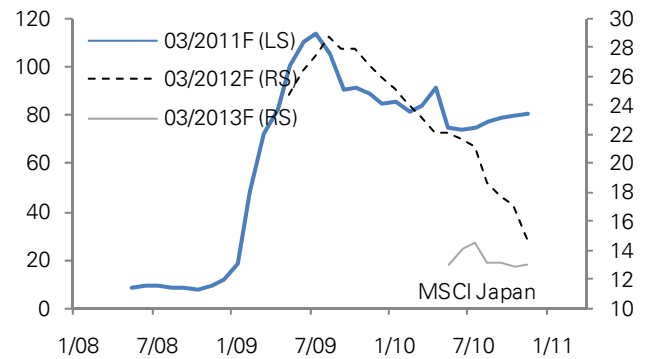
Source: Deutsche Bank, Datastream

**Figure 104: Composite policy indicator**



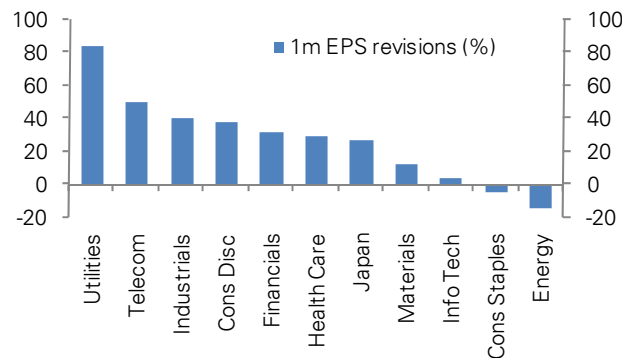
Source: Deutsche Bank, CEIC, Datastream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate yoy growth, real broad money (M2) y-o-y growth, short term real interest rate and government fiscal deficit/surplus as a % of GDP.

**Figure 105: Earnings growth forecast (%)**



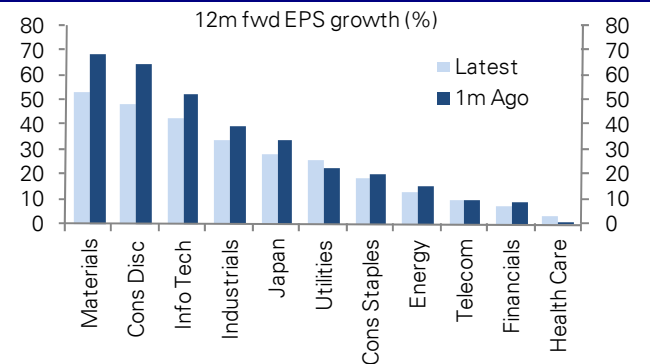
Source: Deutsche Bank, MSCI, I/B/E/S

**Figure 106: 12-month forward EPS revisions by sector**



Source: Deutsche Bank, MSCI, I/B/E/S. Note: EPS revisions = number of upward less downward revisions as % of total number of revisions in one month.

**Figure 107: 12-month forward EPS growth forecast by sector**

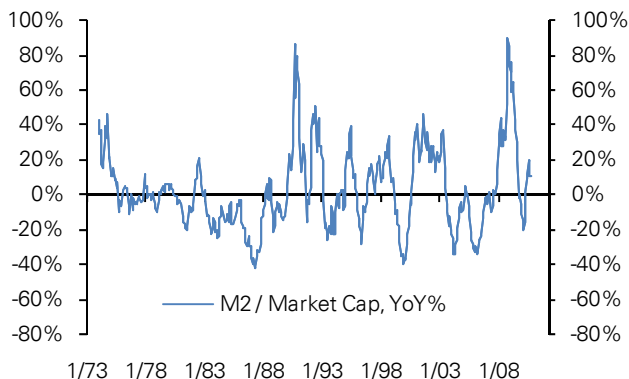


Source: Deutsche Bank, MSCI, I/B/E/S

## Japan – Liquidity

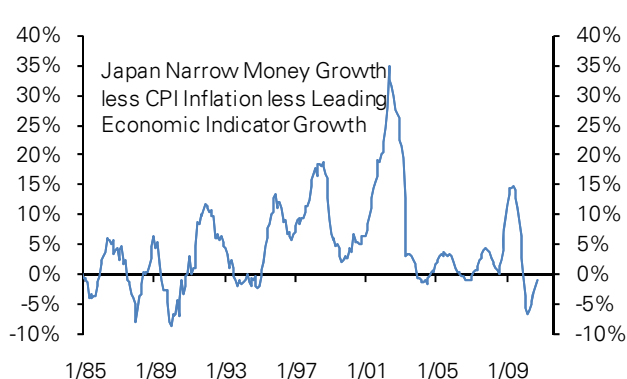
Free liquidity and the M2/market capitalization ratio are at neutral levels. The key to Japanese equities remains the generation of higher global nominal economic growth expectations.

**Figure 108: M2/market cap**



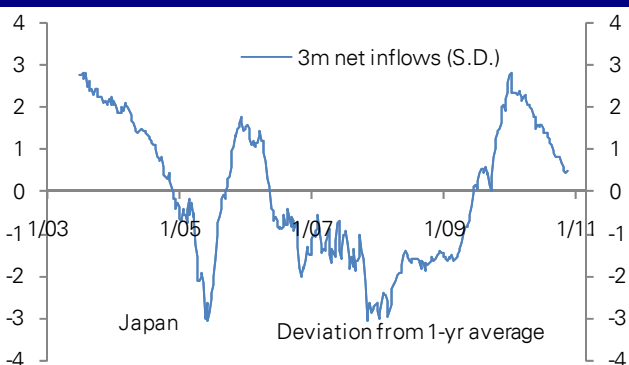
Source: Deutsche Bank, Datastream

**Figure 109: Free liquidity**



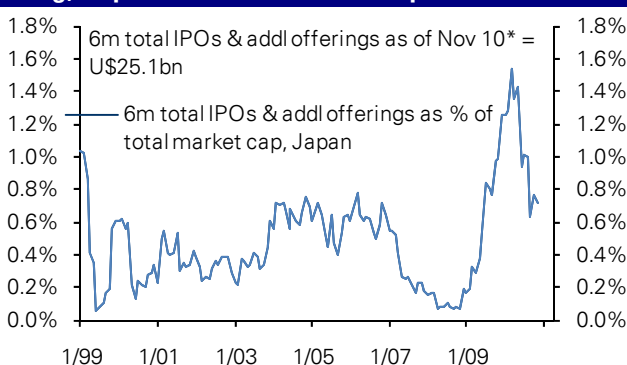
Source: Deutsche Bank, Datastream

**Figure 110: Foreign fund flows into equities**



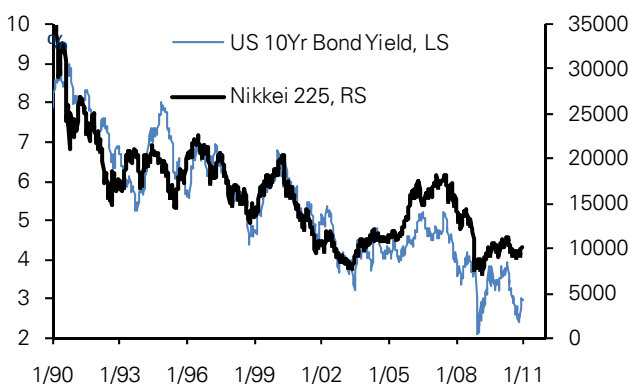
Source: Deutsche Bank, Bloomberg Finance LP

**Figure 111: IPOs and additional equity offerings (6m rolling) as percent of total market cap**



Source: Deutsche Bank, Bloomberg Finance LP, Datastream  
Note: \*Equity offerings include IPO and additional equity offerings of primary and secondary shares.

**Figure 112: US 10-year bond yield and Nikkei 225**



Source: Deutsche Bank, Bloomberg Finance LP

**Figure 113: Yield curve**

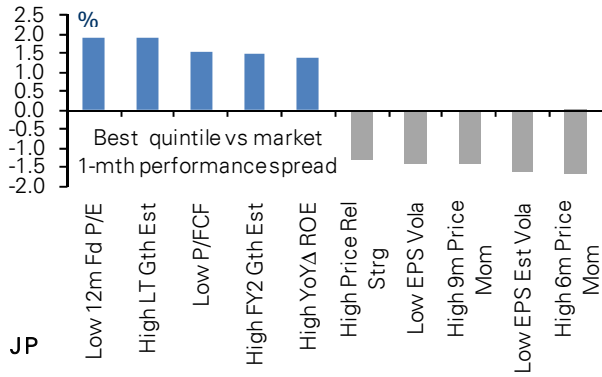


Source: Deutsche Bank, Bloomberg Finance LP

## Japan – Factor performance

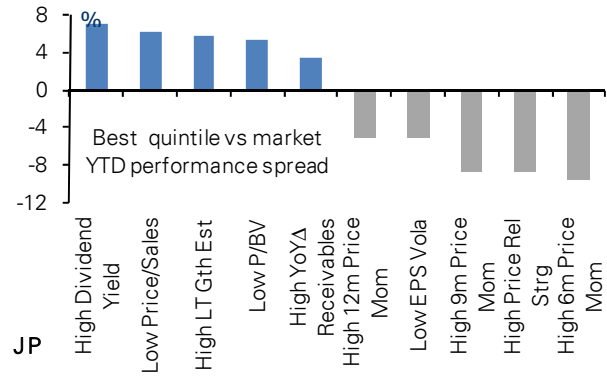
Value and low quality have outperformed well this year, with price momentum being punished by the whip-sawing market. Stay with value.

**Figure 114: Best- and worst-performing factors (1-month)**



Source: Deutsche Bank

**Figure 115: Best- and worst-performing factors (YTD)**



Source: Deutsche Bank

**Figure 116: Best quintile vs market relative performance (% , sector neutral\*\*)**

Japan Dec 6, 10	Returns					Ann. Rtn.			Returns					Ann. Rtn.			
	YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*	YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*	
Valuation								Profitability									
Low 12m Fd P/E	1.8	1.9	1.8	0.9	1.2	-0.2	5.7	6.3	High Cash ROC	0.1	-0.3	-0.4	1.5	-1.2	0.3	1.4	2.4
Low Trailing P/E	2.5	0.9	1.2	1.7	0.1	2.6	6.0	8.3	High YoYΔ Cash ROC	0.0	1.0	0.8	0.0	-1.4	2.1	3.1	2.6
Low P/Op Inc	2.5	1.1	0.3	1.0	0.4	7.5	8.1	6.5	High ROE	-1.2	0.1	0.0	0.3	-3.3	-2.4	-0.6	2.0
Low P/BV	5.3	1.1	-0.4	-0.6	4.6	7.7	7.5	6.0	High YoYΔ ROE	0.3	1.4	2.7	1.4	-2.2	-2.1	1.1	2.1
Low Price/Sales	6.3	1.1	1.2	0.0	6.4	2.4	5.1	3.0	<b>Average</b>	<b>-0.2</b>	<b>0.5</b>	<b>0.8</b>	<b>0.8</b>	<b>-2.0</b>	<b>-0.5</b>	<b>1.2</b>	<b>2.3</b>
Low P/FCF	3.3	1.5	2.6	2.6	1.7	8.4	7.7	7.0	Growth								
Low EV/EBIT	-0.3	-0.1	-0.9	-0.3	-2.7	3.0	5.5	5.5	High 3yr Sales Gth	-0.9	-0.1	-2.1	0.3	-1.4	-1.7	0.0	-0.5
Low EV/EBITDA	0.9	0.3	-0.7	0.4	0.3	4.6	6.7	4.6	High 5yr Sales Gth	-1.5	0.1	-0.4	0.2	-0.6	-0.8	-0.4	0.6
Low EV/Cap Emp	0.7	0.3	-1.3	-1.7	-0.4	4.4	6.6	5.0	High 3yr EPS Gth	-4.2	0.7	-2.3	-1.3	-3.2	-1.0	0.4	1.8
Low EV/Sales	2.2	0.5	0.5	-0.6	1.6	2.2	4.9	2.9	High 5yr EPS Gth	0.1	1.1	0.4	1.5	1.9	-0.7	-0.4	1.0
Low EV/Op CF	3.1	0.8	0.9	1.4	1.0	6.0	8.4	6.3	High LT Gth Est	5.8	1.9	2.4	0.9	6.0	0.2	1.1	0.2
Low EV/FCF	1.7	1.1	1.1	1.1	0.0	5.7	6.4	5.8	High FY1 Gth Est	0.6	0.2	2.8	3.1	-0.2	-3.0	0.2	-0.5
High Dividend Yield	7.0	0.6	-0.1	0.8	8.2	8.2	9.2	7.7	High FY2 Gth Est	1.6	1.5	1.6	0.7	3.3	-0.4	1.5	1.0
<b>Average</b>	<b>2.8</b>	<b>0.9</b>	<b>0.5</b>	<b>0.5</b>	<b>1.7</b>	<b>4.8</b>	<b>6.8</b>	<b>5.8</b>	<b>Average</b>	<b>0.2</b>	<b>0.8</b>	<b>0.3</b>	<b>0.8</b>	<b>0.8</b>	<b>-1.1</b>	<b>0.3</b>	<b>0.5</b>
Price Momentum								Stability									
High 6m Price Mom	-9.4	-1.7	-2.5	-4.4	-10.3	-5.9	-3.5	-0.9	Low EPS Vola	-5.1	-1.4	-2.1	-0.9	-8.0	0.4	-0.6	-0.6
High 9m Price Mom	-8.7	-1.4	-1.6	-2.7	-7.7	-6.2	-3.9	-0.9	Low Op Inc Vola	-1.8	-1.0	-1.4	0.7	-3.7	0.6	0.0	0.8
High 12m Price Mom	-5.1	-0.1	-1.0	-1.3	-5.3	-4.4	-2.2	-0.5	Low Book Value Vola	-0.8	-0.1	-0.7	0.4	-2.4	3.0	0.3	-1.3
High Price Rel Strg	-8.8	-1.3	-2.1	-3.1	-8.4	-6.0	-2.2	0.7	Low Sales Vola	-4.2	-1.3	-2.2	-0.5	-5.1	-0.5	-0.5	-0.8
High 3mΔ in Price Mom	0.6	-0.4	-1.1	0.4	1.7	-1.0	-0.5	1.0	Low EPS Est Vola	-3.6	-1.6	-3.4	-0.5	-5.9	-1.3	-0.1	0.3
High Price ↑ / ↓ Days	-3.2	-0.9	-1.4	-2.1	-2.7	-2.4	-1.6	0.2	<b>Average</b>	<b>-3.1</b>	<b>-1.1</b>	<b>-2.0</b>	<b>-0.2</b>	<b>-5.0</b>	<b>0.4</b>	<b>-0.2</b>	<b>-0.3</b>
<b>Average</b>	<b>-5.8</b>	<b>-1.0</b>	<b>-1.6</b>	<b>-2.2</b>	<b>-5.4</b>	<b>-4.3</b>	<b>-2.3</b>	<b>-0.1</b>	Risk								
Earnings Momentum								Consensus Ratings									
High FY1 EPS Rev	-2.5	-0.4	0.1	-1.6	-1.9	-4.2	0.4	1.4	Low FY1 EPS Disp	-4.0	-0.9	-1.8	-1.0	-6.2	-0.7	-1.1	0.1
High FY2 EPS Rev	-2.8	-1.1	-0.5	-2.5	-1.6	-4.0	-0.5	0.4	Low FY2 EPS Disp	-3.3	-0.8	-2.0	-1.6	-5.2	-2.2	-2.6	-0.6
High 12m Fd EPS Rev	0.4	-0.1	0.3	-2.6	1.4	-3.7	0.4	2.0	High EBIT/Int Exp	-2.4	0.6	-0.5	0.0	-4.2	-0.5	-1.7	0.8
High FY1 EPS Mom	-0.5	-1.3	-0.3	0.6	-3.3	-3.8	1.2	4.2	Low Debt/Equity	-1.7	-0.5	-1.6	-0.7	-3.6	-0.5	-1.4	1.6
High FY2 EPS Mom	-2.7	-0.4	-0.4	-1.7	-3.8	-3.2	2.2	3.0	High Altman Z Score	-3.5	-0.7	-0.8	0.0	-5.2	-1.9	-3.1	-0.7
<b>Average</b>	<b>-1.7</b>	<b>-0.7</b>	<b>-0.1</b>	<b>-1.5</b>	<b>-1.8</b>	<b>-3.8</b>	<b>0.7</b>	<b>2.2</b>	High Market Cap	-2.6	-0.6	0.6	1.1	-1.2	-2.9	-3.6	-1.0
Capex Deployment & Earnings Accruals								<b>Average</b>									
Low Capex/Depr	-1.1	0.6	0.3	-0.4	-1.1	3.0	2.9	1.8	High Analyst Rec	-2.9	-0.1	-0.6	-0.2	-4.2	-4.6	-0.6	-0.1
Low Capex/Sales	-0.1	0.9	0.8	-0.7	-0.7	0.3	1.0	0.2	High 1mΔ Analyst Rec	-1.4	0.0	0.7	1.2	-0.9	-1.2	0.4	2.2
Low Capex/FA	-0.1	0.3	-0.6	-1.4	-1.2	0.6	1.6	0.3	<b>Average</b>	<b>-2.2</b>	<b>-0.1</b>	<b>0.1</b>	<b>0.5</b>	<b>-2.5</b>	<b>-2.9</b>	<b>-0.1</b>	<b>1.1</b>
High YoYΔ Receivables	3.4	0.5	2.8	2.6	1.8	2.2	2.1	0.9									
Low YoYΔ Inventory	0.7	-0.1	-0.6	-0.6	1.8	-1.6	-0.9	-2.1									
Low YoYΔ Payables	-0.4	-0.9	-2.0	-1.3	1.3	-0.6	-1.3	-0.7									
<b>Average</b>	<b>0.4</b>	<b>0.2</b>	<b>0.1</b>	<b>-0.3</b>	<b>0.3</b>	<b>0.7</b>	<b>0.9</b>	<b>0.1</b>									

Source: Deutsche Bank, FactSet, I/B/E/S. Note: \*1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended Nov 2010. \*\*Quintile baskets are formed on a regional sector relative basis. Relative performance is based on equal weighted average returns of the best quintile basket and the market. For description on factors please see appendix A.

## China strategy

1. **Policy and economics:** Economic momentum has remained strong as November Manufacturing PMI rose to 55.2, pointing to fast manufacturing expansion ahead while the property price has held well. The strong upward price trend of agriculture commodity and food items temporarily arrested or even reversed in some cases under government intervention via price control and the sale of state commodity reserves. However, the near-term inflation outlook remains challenging and will likely peak around 5% by mid-2011 on the base effect and strong momentum of food and rental price. We expect a 75bps interest rate hike for the next seven months and an additional 100bps hike in RRR. However, no new policy tightening was announced for the property sector.
2. **Company visits/results:** Analysts turned more cautious and downgraded equipment makers on the high valuation (Shanghai Electric and Dongfang Electric); DongXiang was downgraded on management change. ZTE was upgraded to Buy on an improving earnings outlook.
3. **Fund flows and investor views:** The market has been in consolidation mode after the 8% correction due to the October inflation surprise of 4.4%. Policy risk has been driving the relative performance between sectors for the last month. IPP, coal and consumer staples weakened on price control measures since the coal price will likely be kept unchanged and the utility tariff hike could be delayed. The surprising government announcement of the removal of the subsidy for car purchases in 2011 led to a big sell-off of auto stocks. In the meantime, rail equipment makers outperformed on the announcement of new government spending on rail infrastructure.

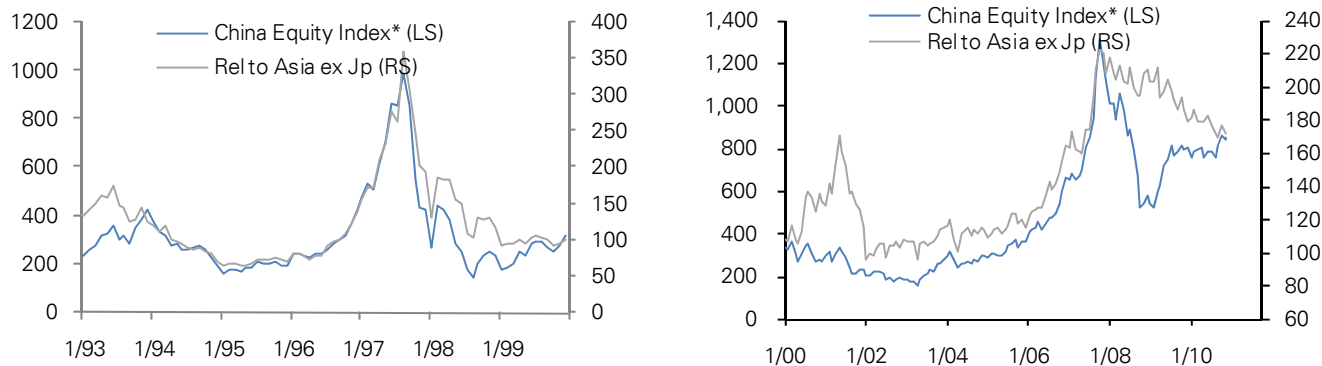
The market will get a new direction following the China Economic Work Conference and announcement of CPI data this weekend. The loan quota for 2011 will be an important indicator that the market is watching closely. Nevertheless, the fear of interest rate hikes will linger for a while as inflation will likely remain elevated over the next few months. Sector performance will likely diverge on detailed government measures to support strategic industries and implementation of price control measures. We like consumer services, large banks and property developers in low-tier cities.

4. **Events/data/risks to watch:** More price control and PBoC tightening measures.
5. **Top stock ideas:** Agriculture Bank of China, CSR, Sou Fun, Shangdong Weigao, Evergrande, CRE, China Life Insurance, China Eastern Airline, Yangzijiang Shipbuilding, Vanceinfo Technologies.

**Hui Miao, Ph.D.**

### China – market intelligence

**Figure 117: Equity market performance**



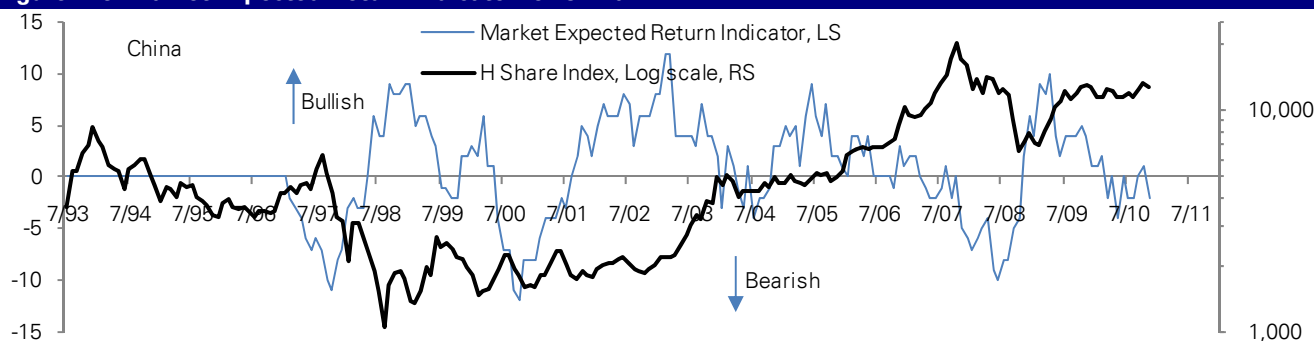
Source: Deutsche Bank, Bloomberg Finance LP, Datastream. Note: \*China equity index is a market cap weighted index of Hang Seng China Enterprises Index and Hang Seng China-Affiliated Corporations Index. Market relative = relative to MSCI AC Asia ex Japan.

**Figure 118: Market intelligence by sector**

8Dec10 Sector (#Co)	Mcap U\$m	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
		1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Energy (9)	118,187	-5.6	15.2	12.1	10.9	9.8	2.2	1.9	1.7	2.8	3.1	3.5	39.1	10.4	10.9	17.9	17.5	17.3
Materials (18)	37,281	-7.5	1.3	17.8	13.8	11.5	2.1	1.9	1.7	1.6	2.0	2.4	68.9	26.3	15.0	12.5	14.0	14.4
Capital Goods (14)	31,462	-7.8	4.2	13.3	12.2	10.1	1.8	1.6	1.4	1.7	2.1	2.5	29.8	9.3	19.9	13.6	13.3	14.0
Transportation (9)	19,414	-9.0	12.2	13.5	12.9	11.4	1.7	1.5	1.4	2.4	2.6	3.2	1,773.0	4.1	13.9	12.4	11.9	12.4
Autos (4)	12,748	-19.4	-5.1	12.5	11.0	9.5	3.1	2.5	2.0	1.4	1.6	1.9	43.4	14.0	15.6	24.4	22.6	21.1
Cons Durables (4)	5,554	-13.3	-27.3	14.4	12.8	10.8	3.1	2.8	2.4	3.6	4.0	4.5	10.3	13.2	18.1	21.7	21.7	22.5
Retailing (4)	15,397	-2.6	24.6	27.3	22.1	18.2	4.8	4.2	3.6	1.4	1.5	1.9	26.9	23.4	21.6	17.7	19.0	19.8
Food/Staples Retail (2)	6,504	-0.5	25.7	17.1	31.2	26.1	3.1	2.9	2.7	1.3	1.4	1.6	84.2	-45.1	19.3	18.1	9.4	10.3
Food Beverage (8)	24,818	-9.4	2.8	24.5	20.1	16.5	3.4	3.0	2.5	1.6	2.0	2.5	17.8	22.2	23.0	19.1	20.2	20.8
Household Products (1)	6,692	-3.4	23.4	33.6	26.7	22.1	8.6	7.6	6.7	1.9	2.3	2.9	19.7	25.8	21.2	25.7	28.5	30.3
Health Care Equip/Svc (2)	4,056	-4.4	23.1	44.5	33.3	26.0	6.4	5.5	4.8	0.5	0.7	1.0	23.9	33.3	28.2	14.3	16.6	18.5
Pharma & Biotech (1)	1,217	-9.4	74.7	22.5	18.2	14.9	5.6	4.8	4.0	1.6	2.0	2.5	4.0	23.6	22.5	25.0	26.2	27.1
Banks (8)	152,907	-12.7	-0.3	10.6	9.1	7.8	2.0	1.7	1.5	3.8	4.4	5.3	23.3	16.1	17.0	18.7	19.0	19.6
Div Financials (1)	2,017	-16.2	-5.3	16.8	15.3	13.5	1.3	1.2	1.1	1.5	1.6	2.1	-63.8	10.1	13.2	7.6	7.6	7.9
Insurance (5)	60,626	-6.3	1.7	26.4	21.5	17.4	3.9	3.4	2.8	1.2	1.3	1.7	14.6	22.5	23.7	14.8	15.7	16.4
Real Estate (18)	35,329	-9.6	-10.6	12.9	11.4	9.0	1.6	1.4	1.2	2.2	2.3	2.7	17.7	18.9	29.0	12.2	13.1	14.7
Software (2)	24,847	-3.0	0.4	34.3	25.8	20.2	13.5	9.1	6.4	0.3	0.4	0.6	57.7	33.0	27.9	39.4	35.5	31.7
Tech Hard/Equip (3)	8,630	3.2	15.7	16.2	12.9	11.0	2.3	2.0	1.7	2.0	2.2	2.8	88.5	25.6	17.4	14.3	15.5	16.0
Telecom (4)	76,292	-5.7	7.6	12.8	11.9	11.1	1.9	1.7	1.6	3.5	3.7	4.0	1.0	7.0	7.6	14.9	14.6	14.3
Utilities (6)	11,024	-7.7	-9.3	14.3	12.0	10.5	1.5	1.4	1.3	2.4	2.9	3.3	3.6	19.6	14.7	10.5	11.5	12.1
China (125)	657,051	-4.7	4.8	14.0	12.2	10.5	2.2	2.0	1.8	2.5	2.9	3.4	28.7	14.4	16.1	16.2	16.4	16.9

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI country index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year end) with current prices. All numbers are free-float adjusted.

**Figure 119: Market Expected Return Indicator for China**



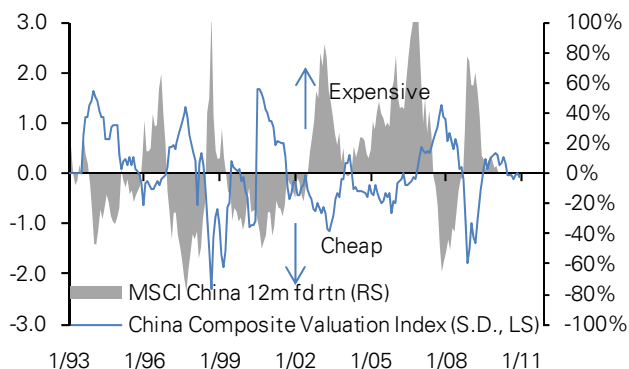
Source: Deutsche Bank, MSCI, Bloomberg Finance LP



## China – Valuation

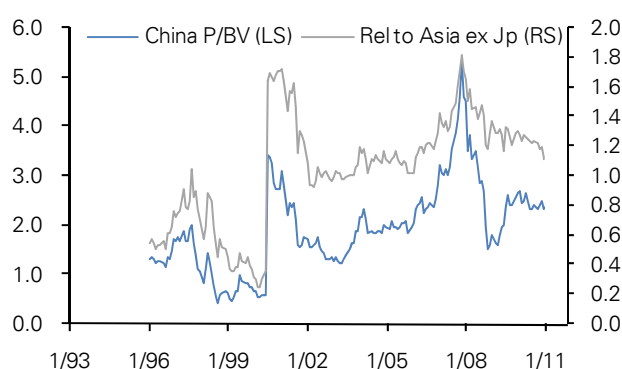
Chinese equities are at fair value. They have been de-rated against the region since their peak in early 2008. While ROEs remain supported by rising asset turnover, EBIT margins are declining.

**Figure 120: Composite valuation index**



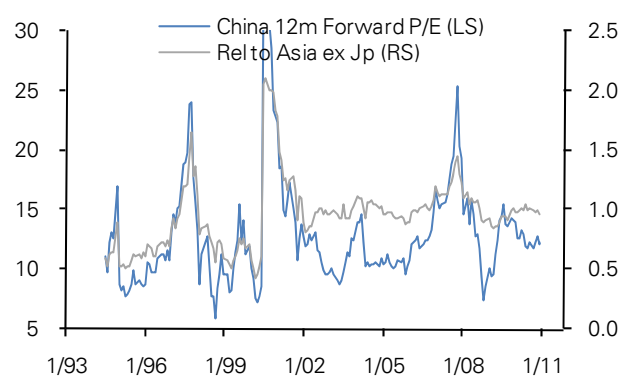
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history.

**Figure 121: Price-to-book value**



Source: Deutsche Bank, MSCI, Datastream. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 122: 12-month forward P/E**



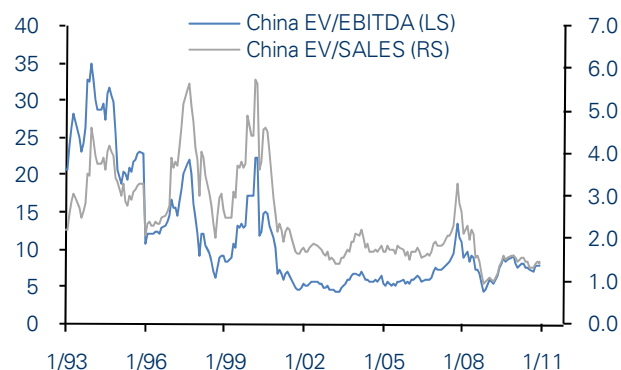
Source: Deutsche Bank, MSCI, IB/E/S. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 123: 12-month trailing P/E**



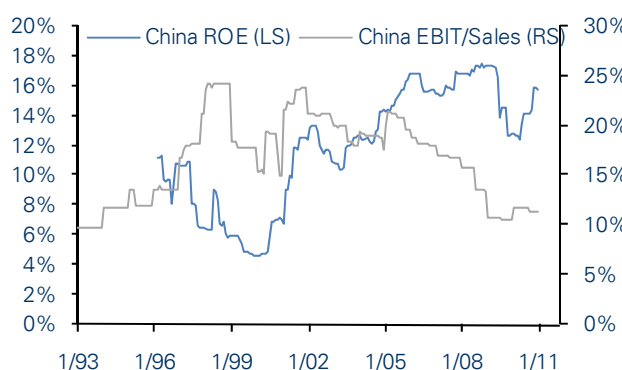
Source: Deutsche Bank, MSCI, Datastream. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 124: EV multiples**



Source: Deutsche Bank, MSCI, FactSet

**Figure 125: ROE and EBIT margin**

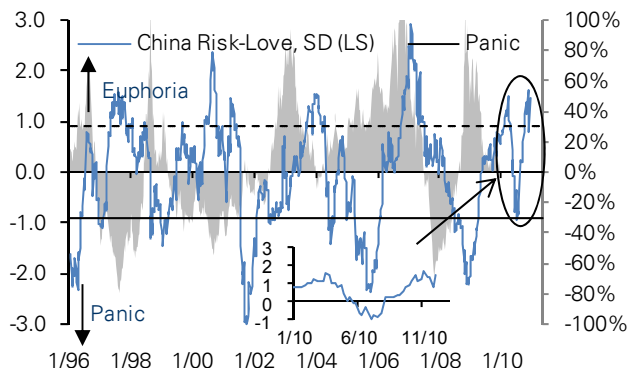


Source: Deutsche Bank, MSCI, FactSet

## China – Investor sentiment

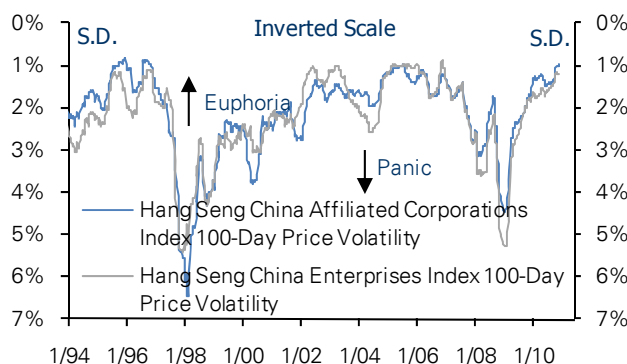
Despite poor market performance, equity sentiment towards China remains elevated – volumes are low, CDs spreads are low and there are no large discounts for closed end-funds.

**Figure 126: Equity Risk-Love indicator**



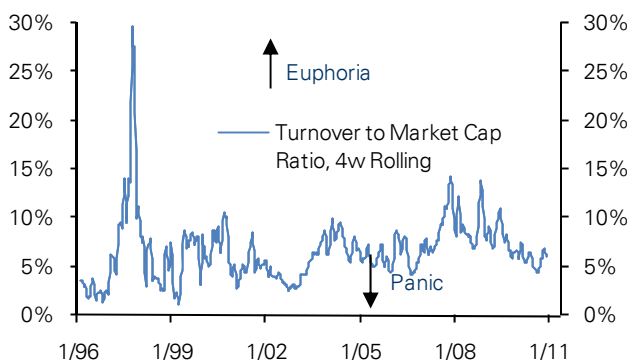
Source: Deutsche Bank, MSCI

**Figure 127: Market volatility**



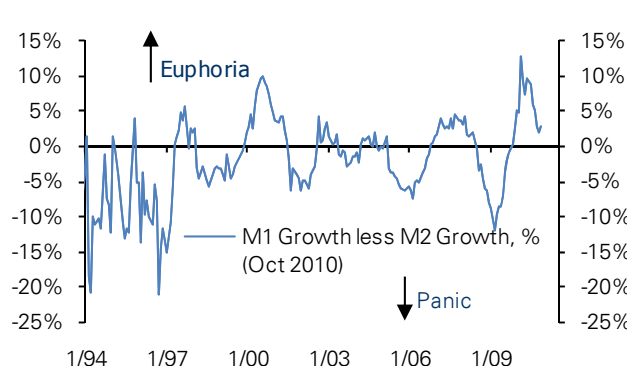
Source: Deutsche Bank, Datastream

**Figure 128: Turnover-to-market cap ratio**



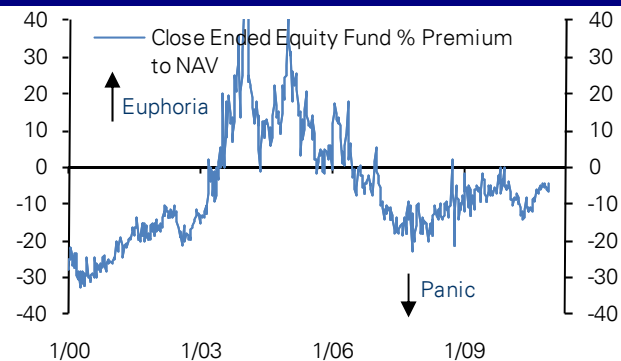
Source: Deutsche Bank, CEIC, Datastream

**Figure 129: M1 less M2 growth**



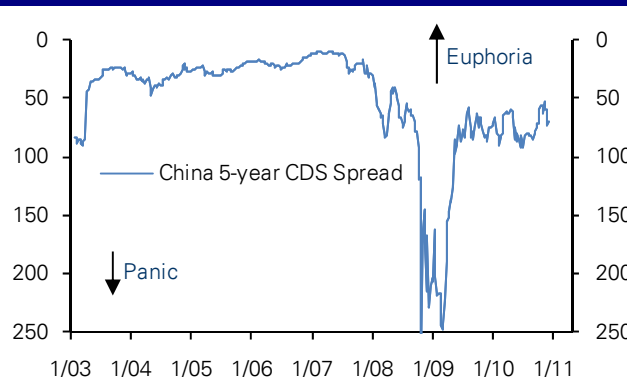
Source: Deutsche Bank, Datastream

**Figure 130: Country equity fund percentage premium to NAV**



Source: Deutsche Bank, Bloomberg Finance LP

**Figure 131: Credit default swap spread (inverted scale)**

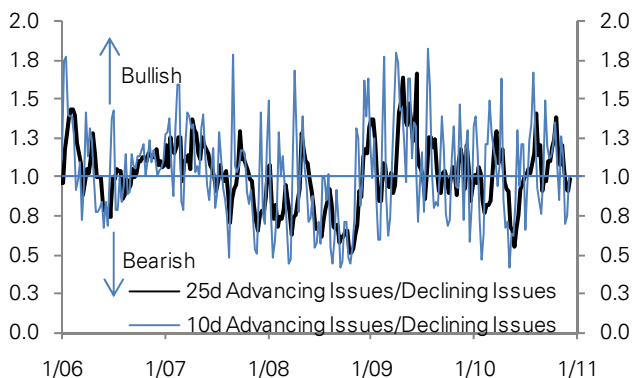


Source: Deutsche Bank, Bloomberg Finance LP

## China – Technicals

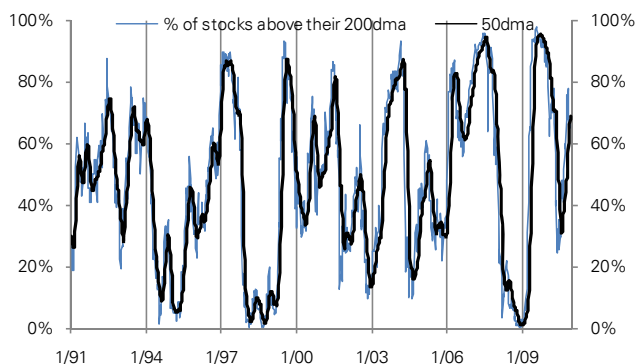
Despite a lethargic market-level performance, technicals have been surprisingly robust. Breadth is good, there are few new lows, and 80% of stocks are above their 200-day averages.

**Figure 132: Advance/decline ratio**



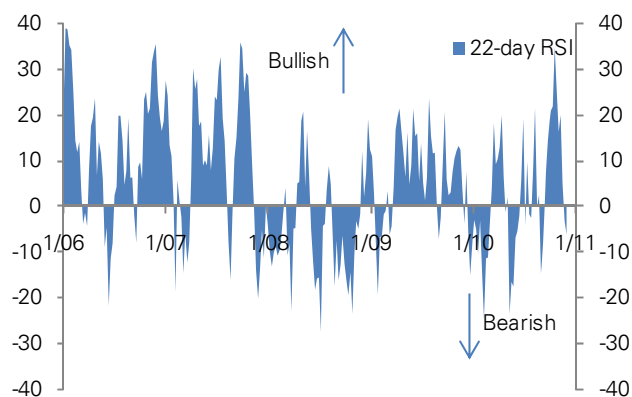
Source: Deutsche Bank, Datastream, FactSet

**Figure 133: Percentage of stocks above their 200dma**



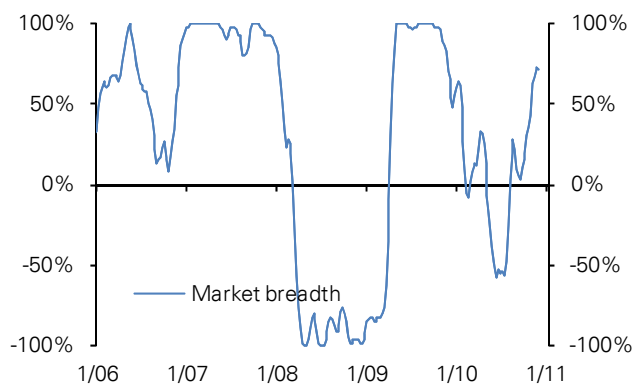
Source: Deutsche Bank, Datastream, FactSet

**Figure 134: Relative Strength Index**



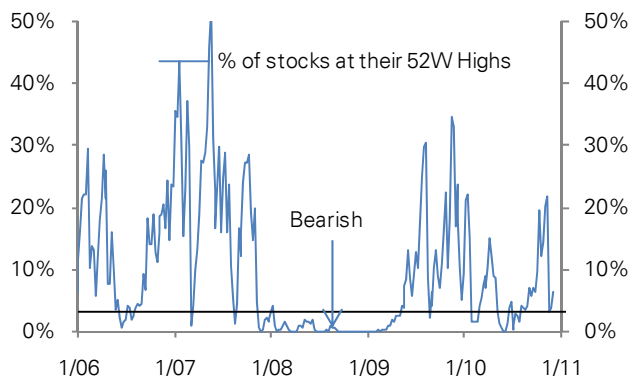
Source: Deutsche Bank, Datastream, FactSet

**Figure 135: Market breadth**



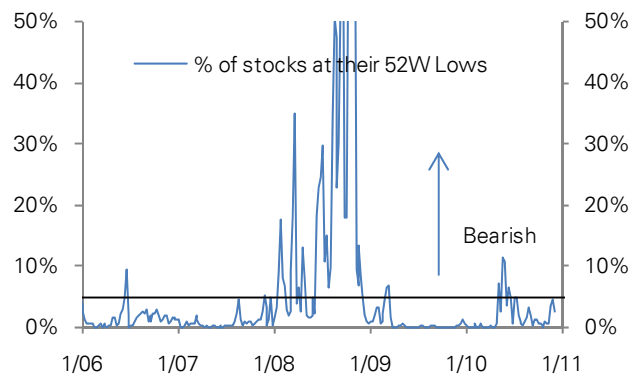
Source: Deutsche Bank, Datastream, FactSet. Market breadth is defined as (# of sub-sectors up on 6 months basis minus # of sub-sectors down on 6 months basis) / total sub-sectors available.

**Figure 136: Percentage of stocks at 52W Highs**



Source: Deutsche Bank, Datastream, FactSet

**Figure 137: Percentage of stocks at 52W Lows**

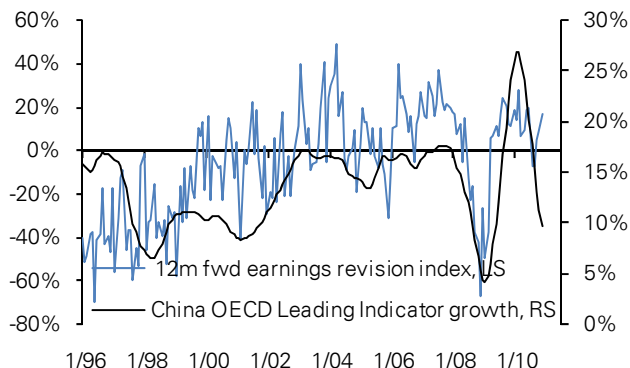


Source: Deutsche Bank, Datastream, FactSet

## China – Growth and earnings

The OECD leading economic indicator is in steep decline (a base effect), and analysts are suitably conservative, forecasting 15% EPS growth in 2011 after an estimated 30% in 2010.

**Figure 138: Leading economic indicators**



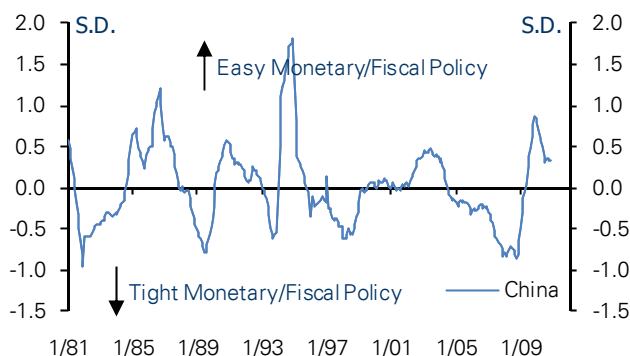
Source: Deutsche Bank, I/B/E/S, OECD, Datastream

**Figure 139: Industrial production and export growth**



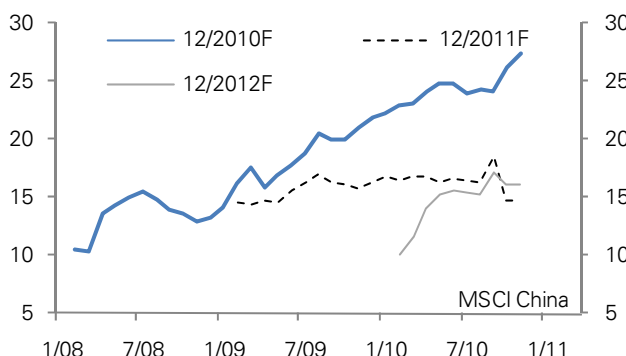
Source: Deutsche Bank, Datastream

**Figure 140: Composite policy indicator**



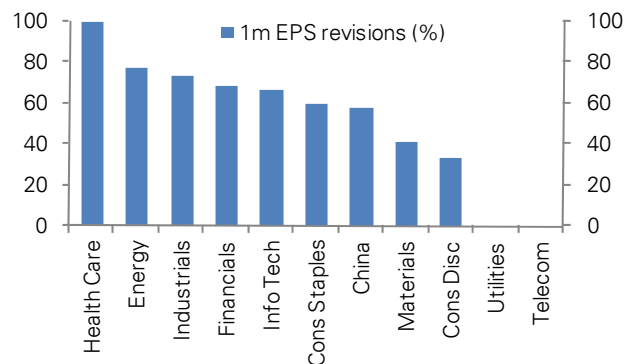
Source: Deutsche Bank, CEIC, Datastream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate yoy growth, real broad money (M2) yoy growth, short term real interest rate and government fiscal deficit/surplus as a % of GDP.

**Figure 141: Earnings growth forecast (%)**



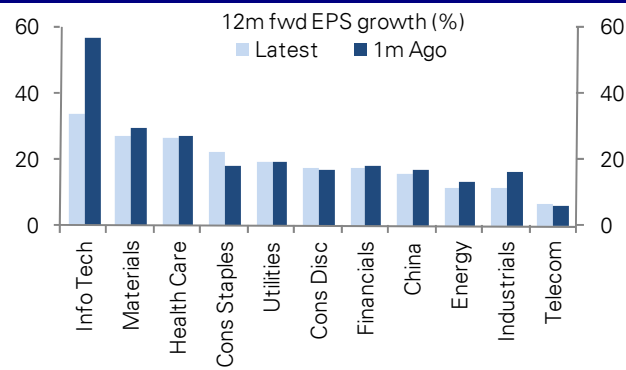
Source: Deutsche Bank, MSCI, I/B/E/S

**Figure 142: 12-month forward EPS revisions by sector**



Source: Deutsche Bank, MSCI, I/B/E/S. Note: EPS revisions = number of upward less downward revisions as % of total number of revisions in one month.

**Figure 143: 12-month forward EPS growth forecast by sector**

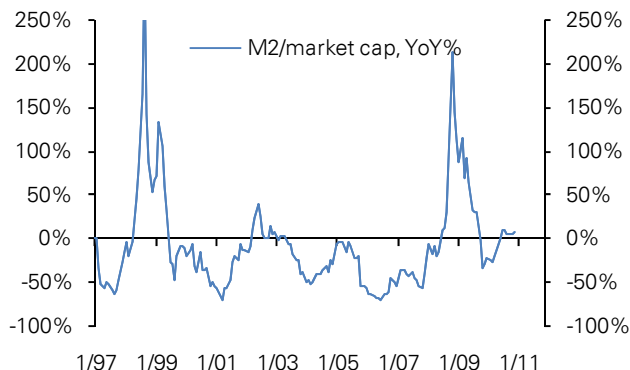


Source: Deutsche Bank, MSCI, I/B/E/S

## China – Liquidity

There is a sliver of good news here – our best liquidity indicator that leads Chinese (and Asian equities), the credit multiplier, has begun to inflect up.

**Figure 144: M2/market cap**



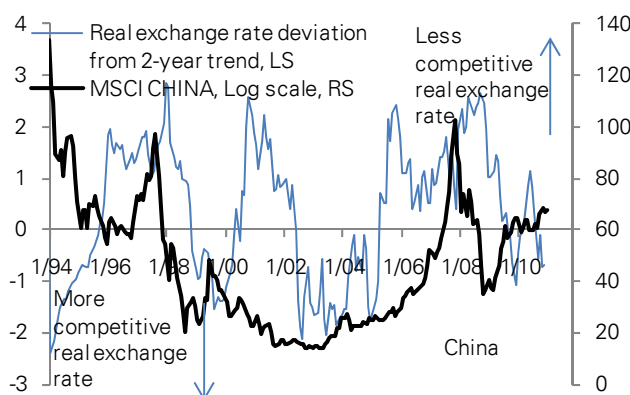
Source: Deutsche Bank, Datastream

**Figure 145: Free liquidity**



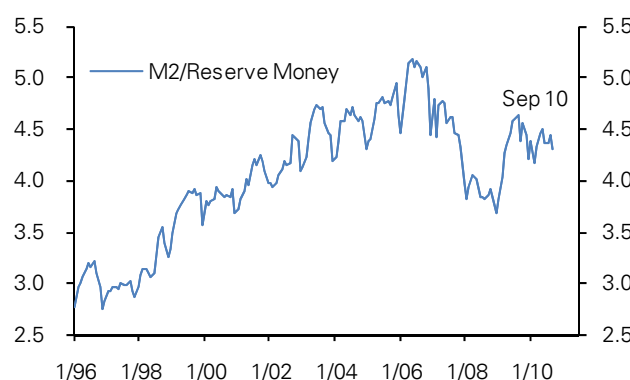
Source: Deutsche Bank, Datastream

**Figure 146: Real exchange rate**



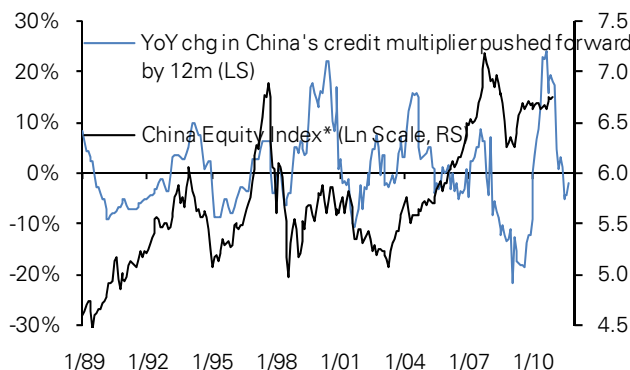
Source: Deutsche Bank, Bloomberg Finance LP

**Figure 147: M2/base money**



Source: Deutsche Bank, PBoC, Bloomberg Finance LP

**Figure 148: Credit multiplier (loans/base money)**



Source: Deutsche Bank, IMF, PBoC, Datastream. \* China equity index is a market cap weighted index on Hang Seng China Enterprises Index and Hang Seng china – Affiliated corporations Index.

**Figure 149: Yield curve**

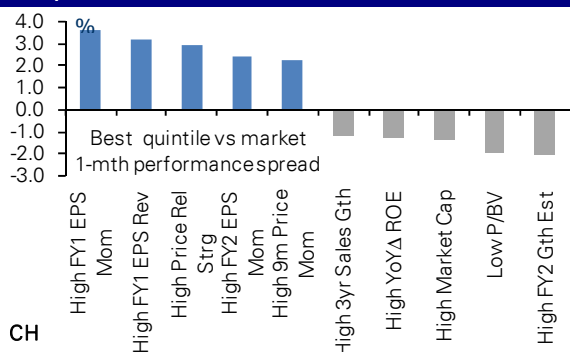


Source: Deutsche Bank, Bloomberg Finance LP

## China – factor performance

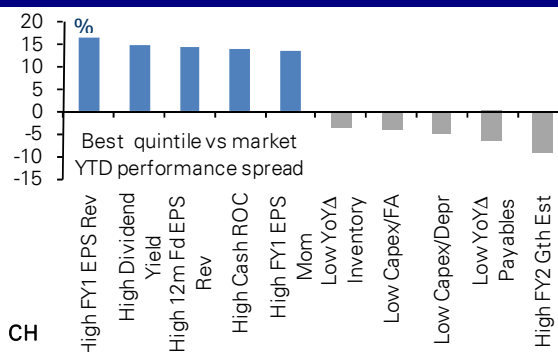
Stock-picking in China rewards cheapness, high earnings momentum and high profitability. This year EPS and price momentum have been rewarded disproportionately.

**Figure 150: Best- and worst-performing factors (1 month)**



Source: Deutsche Bank

**Figure 151: Best- and worst-performing factors (YTD)**



Source: Deutsche Bank

**Figure 152: Factor performance**

China Dec 6, 10	Returns								Ann. Rtn.			Returns								Ann. Rtn.						
	YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*	YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*	YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*		
<b>Valuation</b>																										
Low 12m Fd P/E	4.1	-0.7	-0.6	0.5	6.5	-0.8	6.3	9.3	High Cash ROC	14.0	0.2	2.0	2.2	13.4	9.4	11.8	11.0									
Low Trailing P/E	10.9	-1.1	-1.1	-0.9	10.0	6.9	14.1	13.9	High YoYΔ Cash ROC	9.3	1.0	1.8	3.0	8.6	11.6	6.9	6.3									
Low P/Op Inc	6.7	-0.6	0.0	0.4	5.5	4.8	13.1	11.7	High ROE	7.1	-0.8	0.0	-0.4	9.5	6.4	8.8	8.9									
Low P/BV	1.0	-2.0	-2.5	-3.8	1.9	4.4	8.5	9.4	High YoYΔ ROE	1.9	-1.3	1.5	0.0	3.9	11.4	7.5	8.9									
Low Price/Sales	4.5	-0.6	0.4	0.5	4.2	4.5	8.0	6.9	<b>Average</b>	<b>8.1</b>	<b>-0.2</b>	<b>1.3</b>	<b>1.2</b>	<b>8.8</b>	<b>9.7</b>	<b>8.8</b>	<b>8.8</b>									
Low P/FCF	3.9	-0.9	-1.0	0.1	3.8	2.8	6.5	7.1	<b>Growth</b>																	
Low EV/EBIT	9.0	0.1	-0.9	-0.9	8.2	6.1	12.0	12.0	High 3yr Sales Gth	0.7	-1.2	-2.4	-4.0	1.5	-3.2	-3.3	-0.7									
Low EV/EBITDA	9.8	-0.1	-0.4	0.5	9.0	7.9	14.6	12.3	High 5yr Sales Gth	0.2	-0.6	0.5	0.3	2.2	-3.3	-1.2	-4.2									
Low EV/Cap Emp	0.4	-0.2	-2.5	-4.5	1.0	0.1	5.1	4.5	High 3yr EPS Gth	1.9	0.7	2.3	2.2	2.0	2.4	4.3	4.7									
Low EV/Sales	8.1	2.0	2.8	2.5	8.6	6.1	8.4	8.1	High 5yr EPS Gth	2.4	0.1	2.0	2.3	3.0	6.8	-0.4	1.7									
Low EV/Op CF	9.2	-0.6	-0.8	-1.5	7.9	5.8	14.4	13.0	High LT Gth Est	3.2	1.4	2.1	3.4	2.9	10.3	8.0	6.1									
Low EV/FCF	8.9	0.3	2.8	3.2	8.6	5.8	10.7	7.9	High FY1 Gth Est	5.9	1.1	5.2	6.6	5.4	4.5	2.4	1.2									
High Dividend Yield	14.8	0.6	0.9	3.1	13.9	11.2	17.0	15.1	High FY2 Gth Est	-9.2	-2.0	-2.2	-2.7	-8.7	-1.4	-1.0	-2.4									
<b>Average</b>	<b>7.0</b>	<b>-0.3</b>	<b>-0.2</b>	<b>-0.1</b>	<b>6.9</b>	<b>5.1</b>	<b>10.7</b>	<b>10.1</b>	<b>Average</b>	<b>0.7</b>	<b>-0.1</b>	<b>1.1</b>	<b>1.2</b>	<b>1.2</b>	<b>2.3</b>	<b>1.3</b>	<b>0.9</b>									
<b>Price Momentum</b>																										
High 6m Price Mom	5.4	1.9	7.9	5.9	4.1	-1.3	5.7	2.8	<b>Stability</b>																	
High 9m Price Mom	11.4	2.3	7.5	7.3	10.3	-0.8	5.0	4.2	Low EPS Vola	0.7	-0.1	-0.5	1.7	0.7	0.1	1.7	5.0									
High 12m Price Mom	7.6	2.1	6.3	6.8	7.6	2.2	7.0	4.0	Low Op Inc Vola	3.8	1.6	3.3	3.6	3.4	-0.3	3.3	3.5									
High Price Rel Strg	9.1	2.9	6.6	6.6	10.2	3.6	9.1	5.6	Low Book Value Vola	-2.7	-0.9	0.7	-1.0	-2.5	2.3	0.8	0.7									
High 3mΔ in Price Mom	2.4	1.0	2.9	1.1	1.1	-1.0	1.9	1.3	Low Sales Vola	1.0	0.4	-0.2	2.0	0.2	3.1	2.1	1.1									
High Price ↑ / ↓ Days	-0.6	1.2	1.5	0.2	-0.8	4.5	7.1	8.0	Low EPS Est Vola	-3.5	-0.9	0.9	-2.2	0.5	-7.4	-4.5	-3.9									
<b>Average</b>	<b>5.9</b>	<b>1.9</b>	<b>5.5</b>	<b>4.7</b>	<b>5.4</b>	<b>1.2</b>	<b>5.9</b>	<b>4.3</b>	<b>Average</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.9</b>	<b>0.8</b>	<b>0.5</b>	<b>-0.4</b>	<b>0.7</b>	<b>1.2</b>									
<b>Earnings Momentum</b>																										
High FY1 EPS Rev	16.6	3.2	8.5	10.3	14.9	5.4	7.1	6.3	<b>Risk</b>																	
High FY2 EPS Rev	11.8	1.7	5.6	9.9	9.3	9.5	10.4	8.2	Low FY1 EPS Disp	-2.1	-0.7	-2.3	-4.4	-0.9	-1.0	0.2	1.3									
High 12m Fd EPS Rev	14.4	1.9	7.7	10.6	11.6	7.2	5.9	6.6	Low FY2 EPS Disp	4.4	1.0	1.5	-0.4	4.2	-1.1	-0.3	3.0									
High FY1 EPS Mom	13.6	3.7	8.0	7.3	15.4	5.9	5.8	6.1	High EBIT/Int Exp	7.6	-0.1	1.3	0.7	8.8	4.5	7.4	5.1									
High FY2 EPS Mom	9.6	2.4	7.6	5.3	8.4	6.5	9.7	11.0	Low Debt/Equity	2.0	-0.1	-0.7	-3.0	3.0	-0.1	1.6	-1.3									
<b>Average</b>	<b>13.2</b>	<b>2.6</b>	<b>7.5</b>	<b>8.7</b>	<b>11.9</b>	<b>6.9</b>	<b>7.8</b>	<b>7.7</b>	High Altman Z Score	3.9	0.3	0.0	-1.1	5.8	-4.6	-0.7	-0.1									
									High Market Cap	2.8	-1.3	-0.2	0.8	0.9	4.3	6.5	2.6									
									<b>Average</b>	<b>3.1</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-1.2</b>	<b>3.6</b>	<b>0.3</b>	<b>2.4</b>	<b>1.8</b>									
<b>Capex Deployment &amp; Earnings Accruals</b>																										
Low Capex/Depr	-4.7	0.3	0.3	-1.7	-5.1	-1.7	-4.9	-3.1	<b>Consensus Ratings</b>																	
Low Capex/Sales	-3.3	-0.8	-0.4	-1.0	-3.1	-2.5	-2.6	-2.6	High Analyst Rec	7.0	0.3	1.9	2.6	7.7	-2.6	-0.4	1.5									
Low Capex/FA	-3.8	-0.4	-0.7	0.3	-4.6	-0.7	-4.5	-3.8	High 1mΔ Analyst Rec	0.0	1.1	2.7	3.6	0.2	3.4	5.9	1.6									
High YoYΔ Receivables	5.6	0.5	3.1	2.5	7.5	2.4	-1.7	-0.4	<b>Average</b>	<b>3.5</b>	<b>0.7</b>	<b>2.3</b>	<b>3.1</b>	<b>3.9</b>	<b>0.4</b>	<b>2.7</b>	<b>1.5</b>									
Low YoYΔ Inventory	-3.7	-0.2	-0.9	-2.0	-3.4	-1.6	-2.6	-1.0																		
Low YoYΔ Payables	-6.5	-0.9	-0.7	-2.9	-5.1	-5.5	-4.4	-4.4																		
<b>Average</b>	<b>-2.7</b>	<b>-0.3</b>	<b>0.1</b>	<b>-0.8</b>	<b>-2.3</b>	<b>-1.6</b>	<b>-3.4</b>	<b>-2.6</b>																		

Source: Deutsche Bank, FactSet, I/B/E/S. Note: \*1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended Nov 2010. Relative performance is based on equal weighted average returns of the best quintile basket and the market. For description on factors please see the appendix.

## Hong Kong strategy

1. **Policy and economics:** Economic growth has gathered momentum on strong retail sales and fast credit growth. HKD loan growth accelerated to 23% yoy in October, the third highest growth rate on record. Retail sales rose 22% yoy in October on strong tourist arrivals from China.

The Hong Kong government announced harsh tightening measures targeting the property sector by raising the stamp duty and minimum LTV ratio; the property stock index sold off by around 15%. The physical property market saw a substantial decline in transaction volume while prices softened a bit. We expect Hong Kong property to stay firm despite the tightening measures.

On the positive side, the RMB trade settlement scheme was expanded by increasing the number of eligible Chinese firms that can settle exports in RMB from 365 to 67,359. This will greatly accelerate the RMB deposit inflows into Hong Kong and further promote the RMB business.

2. **Company visits/results:** We have downgraded Café De Coral to Hold due to rising cost pressures and shrinking margin.
3. **Fund flows and investor views:** The market was trading in a tight range, as the strong domestic economic data was offset by the property tightening measures and potential worsening of the European peripheral debt crisis.

However, we believe the recent market correction is healthy and will provide a buying opportunity. We look for 20% upside to MSCI HK on a 12M basis. We believe the consensus 2011 EPS growth for MSCI HK (at 8.2%) is way too conservative. Our top-down model shows that EPS growth will likely reach 20% next year, given rising inflation, extremely low interest rates and strong GDP growth.

Hong Kong's market valuations are reasonable or even attractive when viewed against the historical average and regional peers. Using our top-down EPS estimate, Hong Kong's forward PE is lower than its historical average. MSCI HK's premium over the region is close to its ten-year average while arguably Hong Kong deserves a bigger premium under the current macro environment. Our yield gap analysis suggests that Hong Kong is actually cheap relative to history.

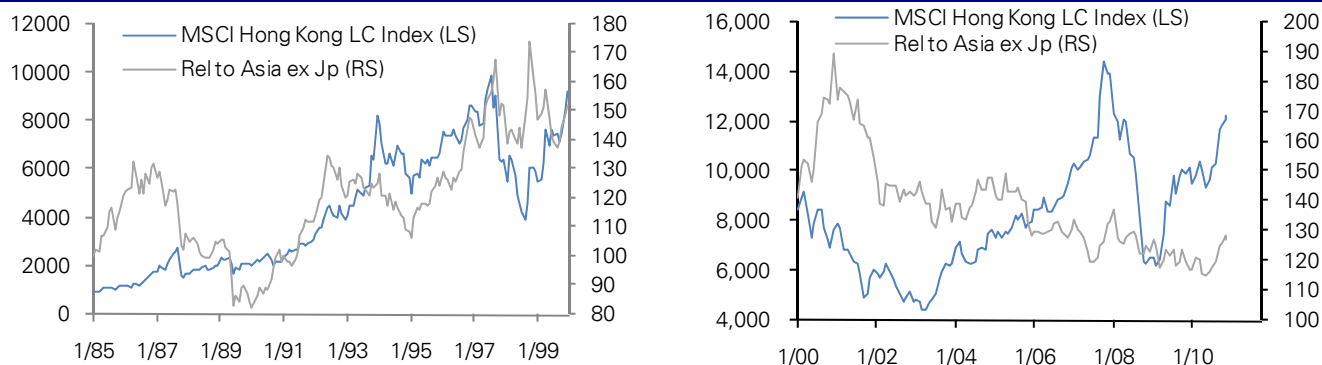
Sector-wise, we like commercial properties on rising asset inflation, local banks on expanding RMB business, and consumer discretionary on a positive wealth effect and increasing spending by Chinese tourists. We are cautious on ports, shipping and trading companies due to decelerating global trade and are negative on utility names with operations in China due to concerns on price control.

4. **Events/data/risks to watch:** Key events/data to watch for: a) Unemployment rate on 16 December and b) Hong Kong CPI data on 21 December.
5. **Top stock ideas:** BOC Hong Kong, SJM, Shangri-La Asia, Hang Lung Properties, SHK Properties Ltd, Sino Land Co, Giordano, Lifestyle Intl, PCCW, Cathay Pacific.

**Hui Miao, Ph.D.**

## Hong Kong – market intelligence

**Figure 153: Equity market performance**



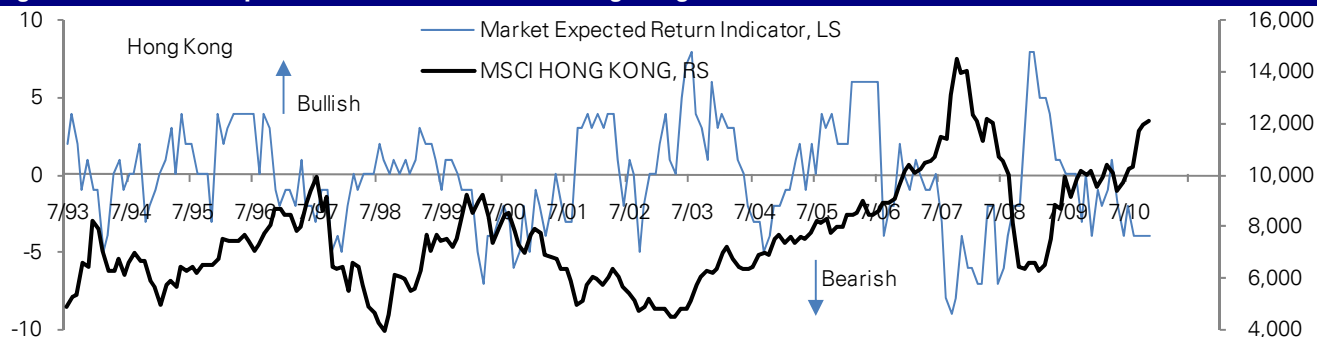
Source: Deutsche Bank, MSCI.  
Market relative = relative to MSCI AC Asia ex Japan.

**Figure 154: Market intelligence by sector**

8Dec10 Sector (#Co)	Mcap US\$m	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
		1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Capital Goods (2)	24,702	-1.7	52.4	21.3	16.9	13.8	1.2	1.2	1.1	2.3	2.5	2.8	8.2	25.9	22.9	5.8	6.9	8.2
Transportation (3)	10,961	-3.5	34.2	11.9	12.7	11.9	1.5	1.4	1.3	3.5	2.7	2.8	261.2	-33.8	6.6	17.3	10.7	10.6
Cons Durables (1)	2,694	-3.3	25.3	12.4	10.8	na	1.8	1.6	na	3.6	4.1	na	14.2	14.6	na	14.4	15.1	na
Cons Svc (3)	12,135	-1.3	66.3	28.7	23.5	18.7	3.4	3.1	2.7	0.9	0.6	0.7	52.6	22.2	25.7	11.9	13.1	14.4
Media (1)	1,484	0.6	8.4	14.9	13.5	12.0	2.8	2.6	2.4	4.3	4.9	5.3	31.9	10.8	12.1	18.9	19.3	19.6
Retailing (3)	20,379	-1.9	11.3	21.7	18.5	15.9	5.4	4.8	4.3	2.9	3.7	4.4	10.1	17.4	16.7	24.7	26.0	27.3
Banks (4)	33,719	-1.7	23.1	17.7	15.3	13.2	2.5	2.3	2.2	3.5	4.0	4.6	15.0	15.4	15.8	14.1	15.2	16.5
Div Financials (1)	23,954	-7.9	30.3	38.7	30.5	27.1	23.1	20.6	18.1	2.3	3.0	3.4	7.8	26.8	12.4	59.7	67.5	66.8
Insurance (1)	22,677	-5.1	na	17.2	15.4	13.8	2.0	1.8	1.6	0.7	1.2	1.5	na	11.6	11.7	11.4	11.4	11.6
Real Estate (14)	118,111	-8.1	15.3	17.6	16.1	14.8	1.1	1.1	1.0	2.3	2.4	2.6	22.9	9.1	8.9	6.4	6.6	6.8
Tech Hard/Equip (1)	1,556	-3.3	-37.5	-38.2	103.7	34.6	1.5	1.5	1.4	0.0	0.0	0.0	-416.7	na	200.0	-3.9	1.4	4.1
Semis (1)	2,204	20.7	17.5	12.8	14.6	14.5	7.6	6.5	5.8	4.5	4.7	4.7	186.4	-12.4	0.8	59.5	44.6	39.9
Telecom (1)	1,601	2.3	66.3	12.9	11.7	10.4	na	na	na	4.7	5.3	6.1	8.6	10.0	13.2	na	na	na
Utilities (4)	37,010	-0.8	15.4	17.1	16.5	16.0	2.3	2.1	2.0	3.4	3.5	3.6	11.3	3.3	3.6	13.2	12.9	12.8
Hong Kong (41)	314,184	-1.3	21.0	18.8	16.8	15.1	1.7	1.6	1.5	2.5	2.7	3.0	24.9	8.8	11.5	9.1	9.4	9.8

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI country index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year end) with current prices. All numbers are free-float adjusted.

**Figure 155: Market Expected Return Indicator for Hong Kong**



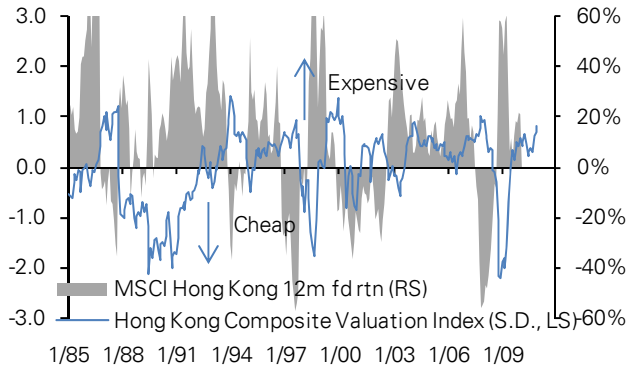
Source: Deutsche Bank, MSCI, Bloomberg Finance LP



## Hong Kong – Valuation

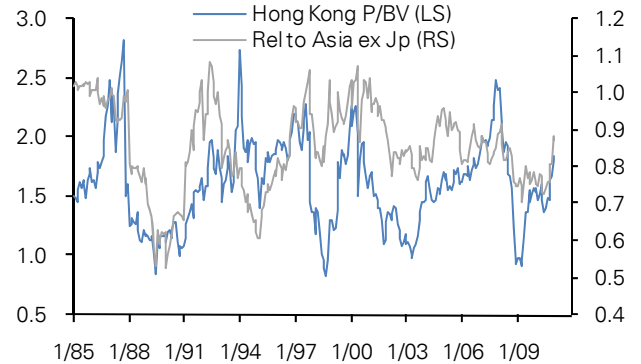
Hong Kong equities are looking moderately stretched on valuations, especially on EV/EBITDA and trailing PE.

**Figure 156: Composite valuation index**



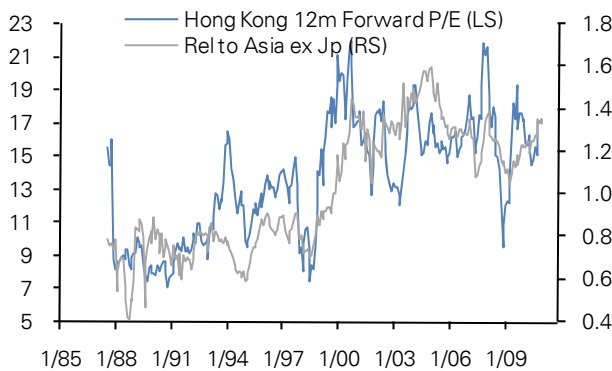
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history.

**Figure 157: Price-to-book value**



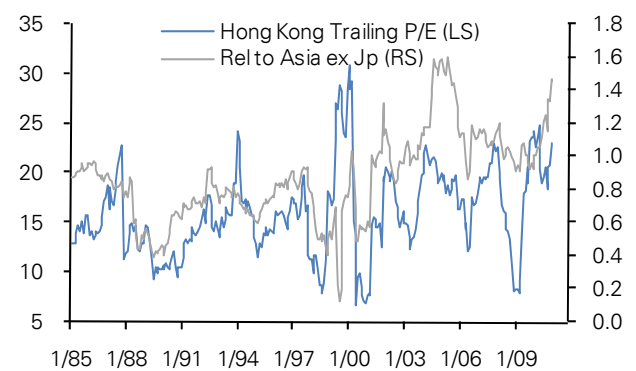
Source: Deutsche Bank, MSCI, Datastream. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 158: 12-month forward P/E**



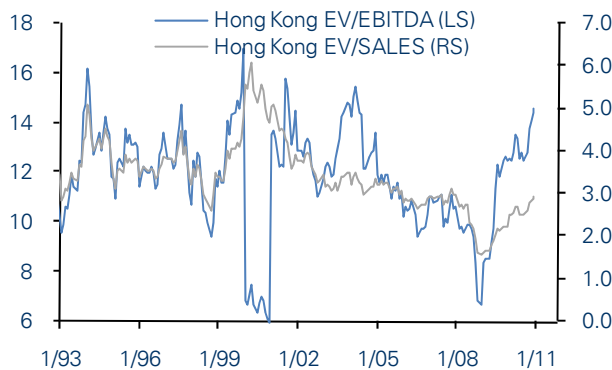
Source: Deutsche Bank, MSCI, IB/E/S. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 159: 12-month trailing P/E**



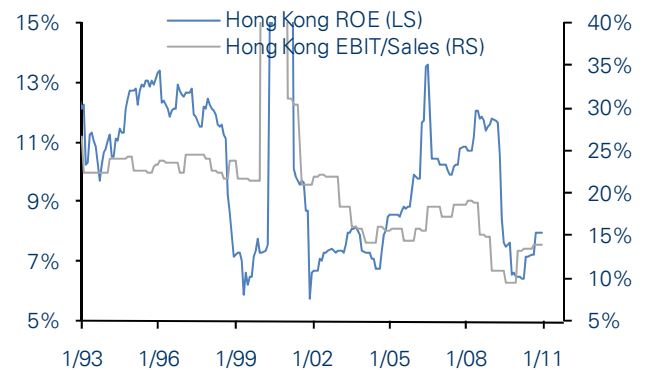
Source: Deutsche Bank, MSCI, Datastream. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 160: EV multiples**



Source: Deutsche Bank, MSCI, FactSet

**Figure 161: ROE and EBIT margin**

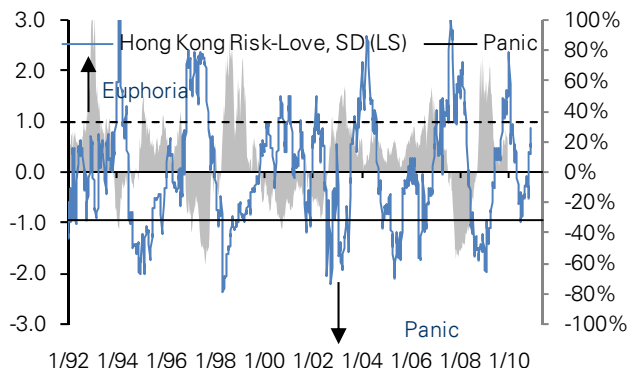


Source: Deutsche Bank, MSCI, FactSet

## Hong Kong – Investor sentiment

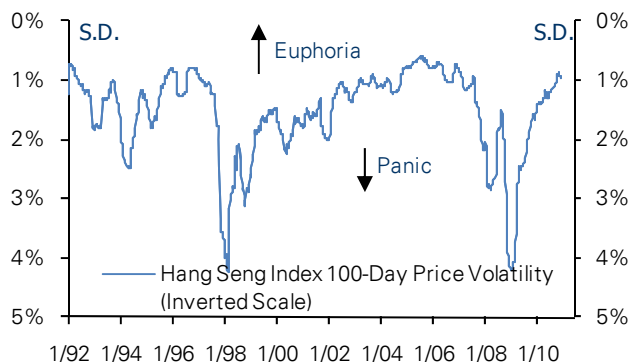
Equity Risk-Love is edging up to euphoria, driven by negative real interest rates and record property prices. But we are far below prior peaks in risk-love.

**Figure 162: Equity Risk-Love indicator**



Source: Deutsche Bank, MSCI

**Figure 163: Market volatility**



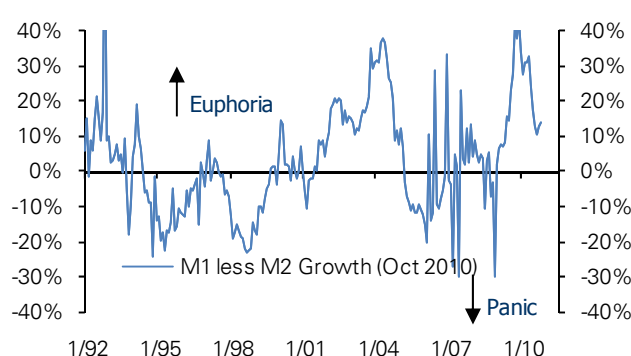
Source: Deutsche Bank, Datastream

**Figure 164: Turnover-to-market cap ratio**



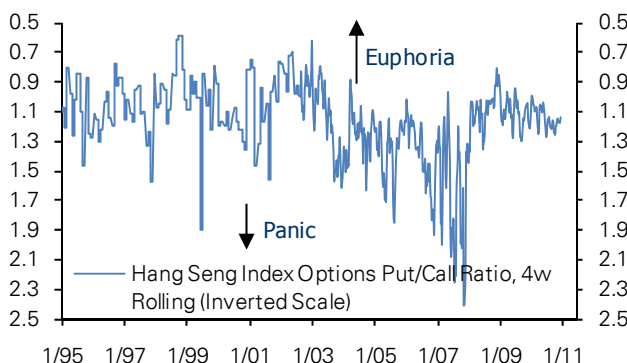
Source: Deutsche Bank, CEIC, Datastream

**Figure 165: M1 less M2 growth**



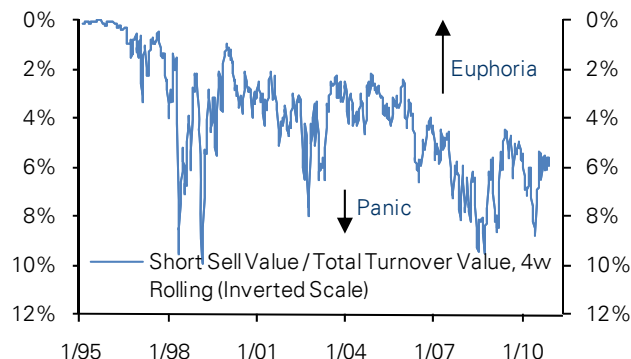
Source: Deutsche Bank, Datastream

**Figure 166: Options put/call ratio**



Source: Deutsche Bank, CEIC

**Figure 167: Short-selling pressure**

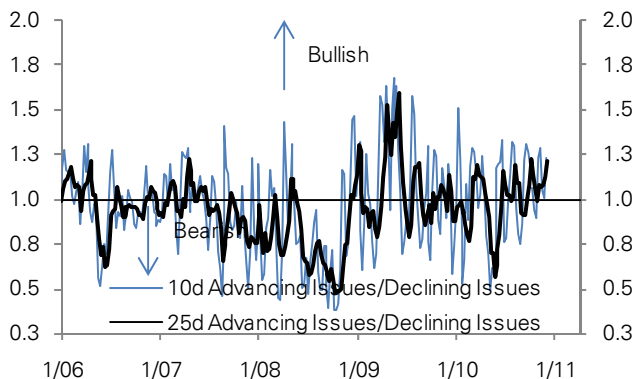


Source: Deutsche Bank, CEIC, Datastream

## Hong Kong – Technicals

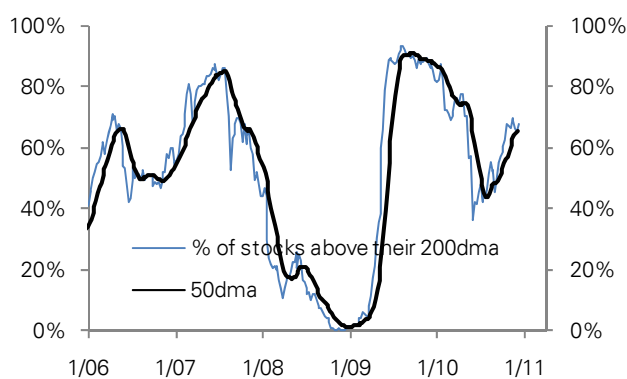
Technicals remain strong, despite the market going sideways for a few months – breadth is strong, there are few new lows, and a majority of stocks are above 50 and 200-day averages.

**Figure 168: Advance/decline ratio**



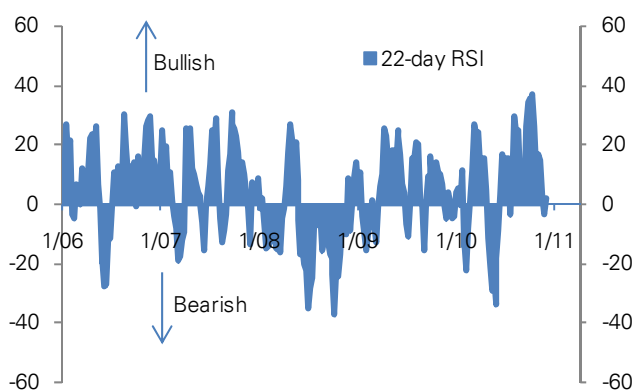
Source: Deutsche Bank, Datastream, FactSet

**Figure 169: Percentage of stocks above their 200dma**



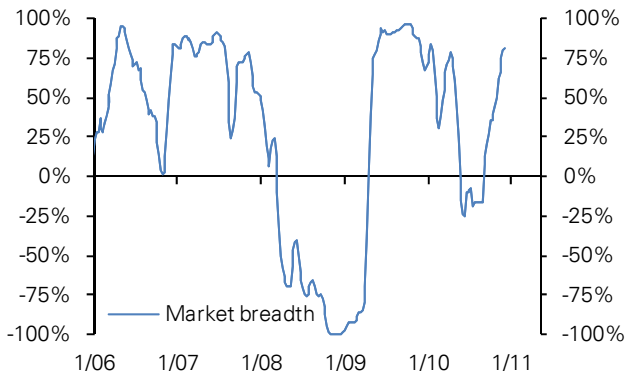
Source: Deutsche Bank, Datastream, FactSet

**Figure 170: Relative Strength Index**



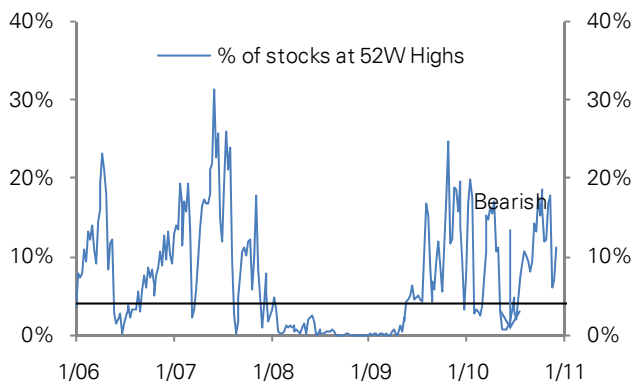
Source: Deutsche Bank, Datastream, FactSet

**Figure 171: Market breadth**



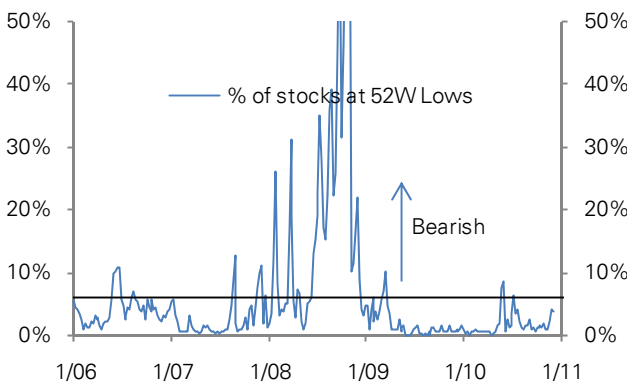
Source: Deutsche Bank, Datastream, FactSet. Market breadth is defined as (# of sub-sectors up on 6 months basis minus # of sub-sectors down on 6 months basis) / total sub-sectors available.

**Figure 172: Percentage of stocks at 52W Highs**



Source: Deutsche Bank, Datastream, FactSet

**Figure 173: Percentage of stocks at 52W Lows**

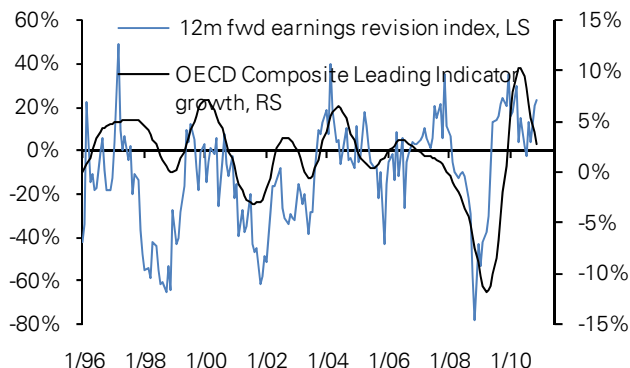


Source: Deutsche Bank, Datastream, FactSet

## Hong Kong – Growth and earnings

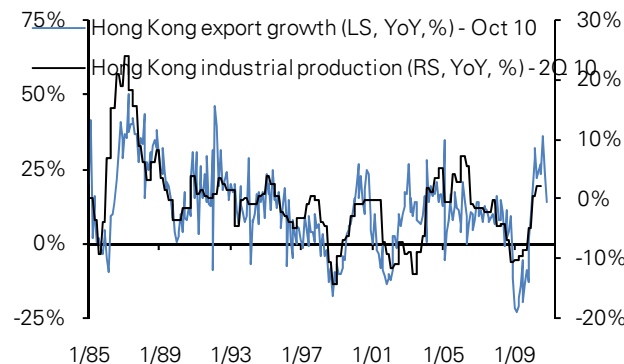
Our economists project a modest GDP deceleration from 6.2% this year to 5% next year. But analyst EPS estimates of 8% after an estimated 28% in 2010 are too low. Expect upgrades.

**Figure 174: Leading economic indicators**



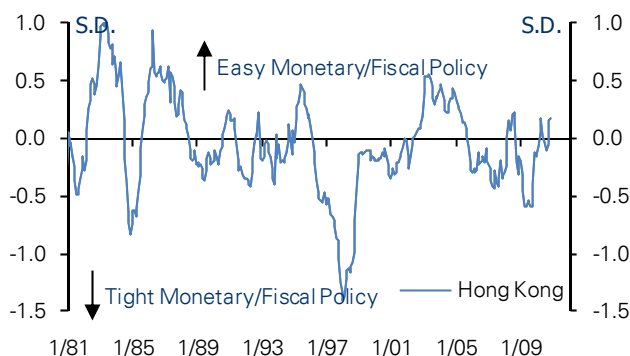
Source: Deutsche Bank, OECD, I/B/E/S, Datastream

**Figure 175: Industrial production and export growth**



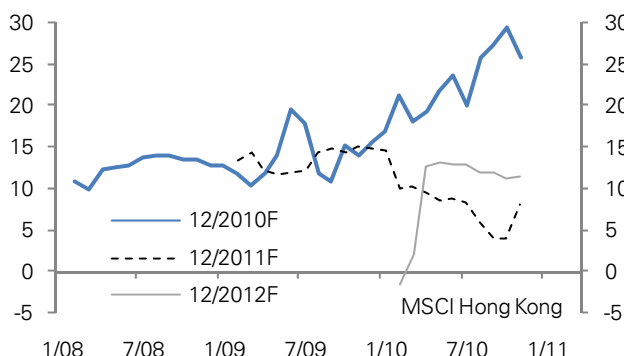
Source: Deutsche Bank, Datastream

**Figure 176: Composite policy indicator**



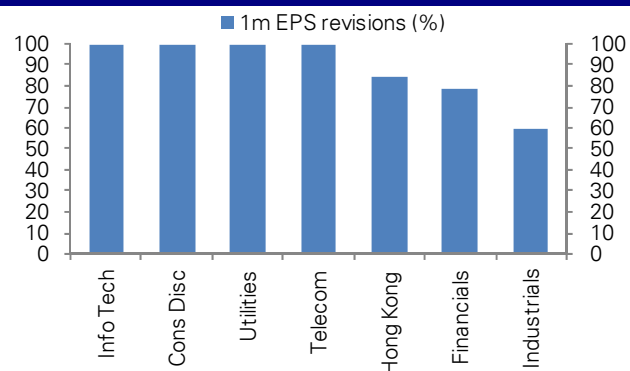
Source: Deutsche Bank, CEIC, Datastream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate yoy growth, real broad money (M2) yoy growth, short term real interest rate and government fiscal deficit/surplus as a % of GDP.

**Figure 177: Earnings growth forecast (%)**



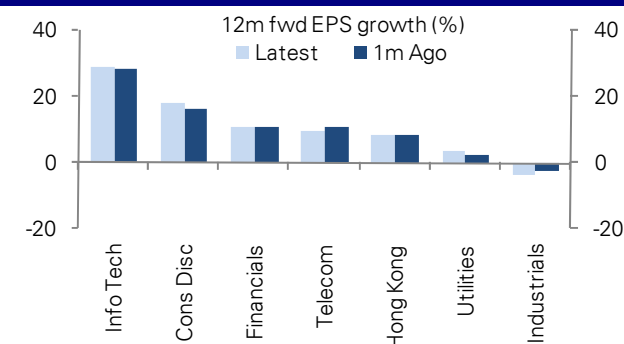
Source: Deutsche Bank, I/B/E/S, MSCI

**Figure 178: 12-month forward EPS revisions by sector**



Source: Deutsche Bank, MSCI, I/B/E/S. Note: EPS revisions = number of upward less downward revisions as % of total number of revisions in one month.

**Figure 179: 12-month forward EPS growth forecast by sector**

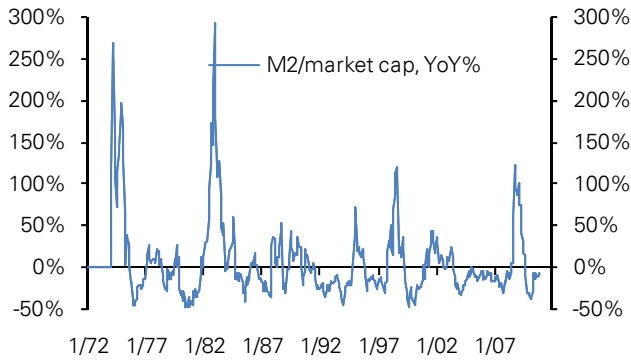


Source: Deutsche Bank, MSCI, I/B/E/S

## Hong Kong – liquidity

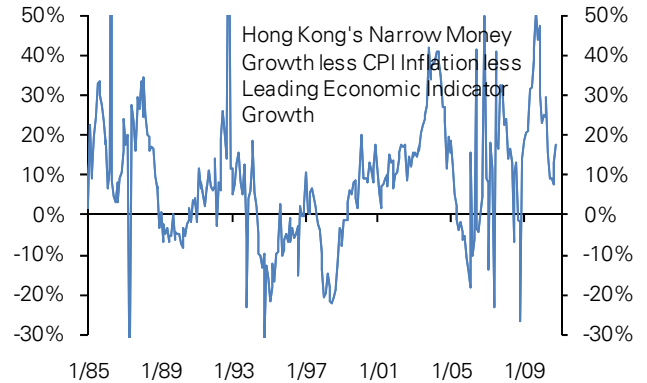
What's that? A rise in the credit and money multipliers? Yes. And a rise in terms of trade is also a positive.

**Figure 180: M2/market cap**



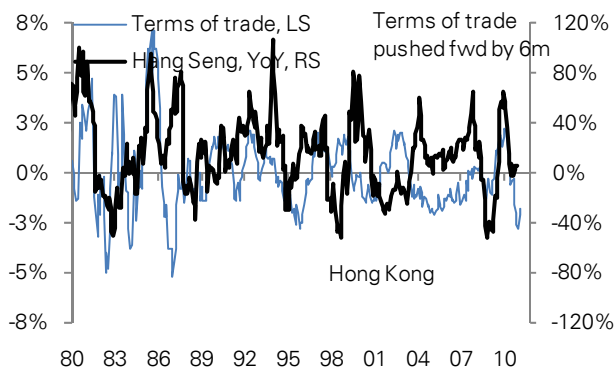
Source: Deutsche Bank, Datastream

**Figure 181: Free liquidity**



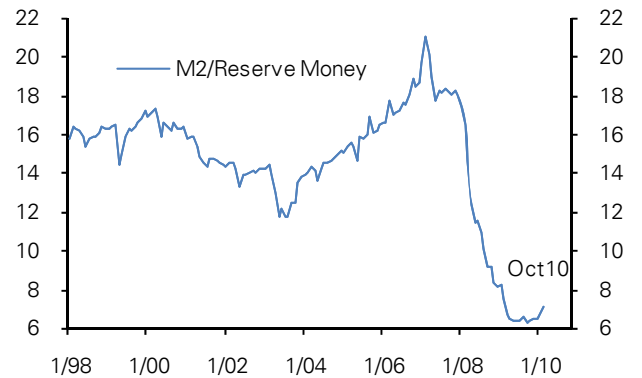
Source: Deutsche Bank, Datastream

**Figure 182: Terms of trade**



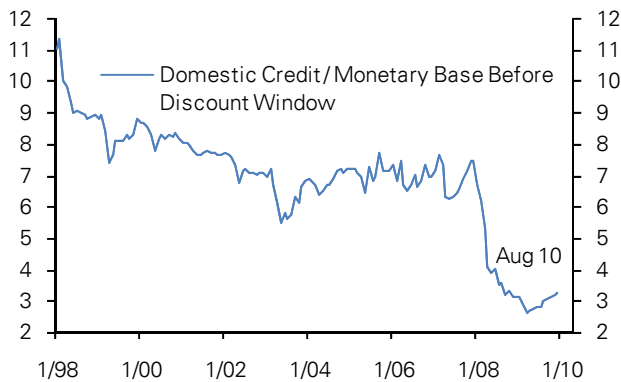
Source: Deutsche Bank, Bloomberg Finance LP

**Figure 183: M2/base money**



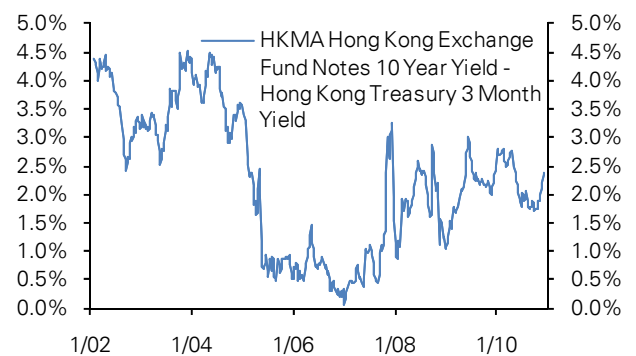
Source: Deutsche Bank, HKMA, CEIC

**Figure 184: Credit multiplier**



Source: Deutsche Bank, IMF, HKMA

**Figure 185: Yield curve**

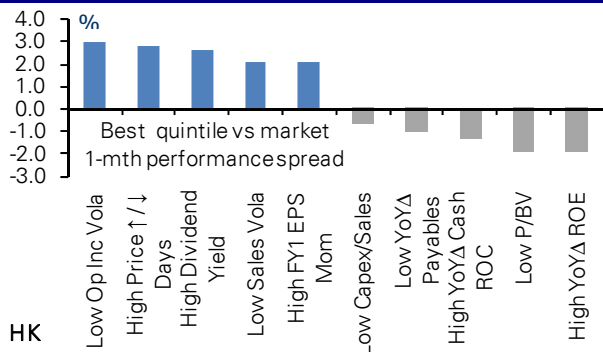


Source: Deutsche Bank, Bloomberg Finance LP

## Hong Kong – Factor performance

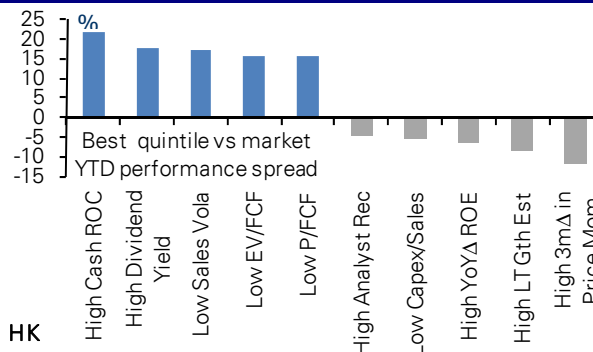
Value and profitability are long-term winners. This year is no different. “Junk” – high debt and poor balance sheet stocks – has outperformed (the magic of negative real rates).

**Figure 186: Best- and worst-performing factors (1 month)**



Source: Deutsche Bank

**Figure 187: Best- and worst-performing factors (YTD)**



Source: Deutsche Bank

**Figure 188: Factor performance**

Hong Kong Dec 6, 10	Returns					Ann. Rtn.			YTD	Returns					Ann. Rtn.		
	YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*		YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*
Valuation																	
Low 12m Fd P/E	2.7	0.1	0.3	0.8	3.0	3.9	1.1	-0.1	High Cash ROC	21.6	1.7	6.7	12.8	22.5	15.5	18.9	18.6
Low Trailing P/E	4.2	0.2	-2.1	1.7	6.1	16.8	22.2	19.7	High YoYΔ Cash ROC	-0.6	-1.3	-2.9	-2.2	-0.8	-1.9	-1.3	1.3
Low P/Op Inc	14.3	0.2	0.5	4.7	17.0	12.7	17.1	15.8	High ROE	10.1	1.9	2.3	5.0	11.6	12.8	17.3	17.8
Low P/BV	-2.8	-1.9	-3.7	-4.1	-3.3	4.6	4.1	4.4	High YoYΔ ROE	-6.3	-1.9	-3.6	-5.4	-5.9	1.2	-0.3	3.0
Low Price/Sales	7.2	0.7	-1.1	0.6	6.1	7.1	5.2	4.4	<b>Average</b>	<b>6.2</b>	<b>0.1</b>	<b>0.6</b>	<b>2.5</b>	<b>6.9</b>	<b>6.9</b>	<b>8.7</b>	<b>10.2</b>
Low P/FCF	15.5	-0.5	-0.4	3.5	15.2	11.6	15.0	15.5	Growth								
Low EV/EBIT	10.5	0.5	0.2	4.2	13.6	17.4	20.9	20.3	High 3yr Sales Gth	-1.4	0.2	1.9	2.1	-1.3	-4.0	-0.1	-0.5
Low EV/EBITDA	12.4	1.2	1.6	5.4	14.4	18.0	20.8	20.9	High 5yr Sales Gth	1.8	-0.5	1.4	2.4	3.6	-2.5	2.3	0.1
Low EV/Cap Emp	2.2	0.4	-1.9	-0.7	1.3	8.1	8.2	9.0	High 3yr EPS Gth	-0.4	0.2	-0.6	0.5	0.2	4.0	8.1	8.0
Low EV/Sales	13.5	1.9	0.3	2.0	13.5	8.9	8.9	9.6	High 5yr EPS Gth	2.5	-0.6	0.2	1.2	-2.2	0.8	4.6	4.3
Low EV/Op CF	12.8	1.5	1.4	4.4	11.6	14.9	18.4	19.2	High LT Gth Est	-8.5	0.0	2.4	-1.6	-6.6	1.3	-0.1	-1.0
Low EV/FCF	15.6	1.5	2.0	5.3	14.9	14.5	17.6	17.2	High FY1 Gth Est	1.1	0.3	2.1	3.0	0.8	0.9	-1.3	-2.4
High Dividend Yield	17.6	2.6	3.5	8.0	20.1	18.3	26.7	25.4	High FY2 Gth Est	-4.5	1.7	0.8	1.1	-2.9	-6.5	-5.3	-8.8
<b>Average</b>	<b>9.7</b>	<b>0.6</b>	<b>0.0</b>	<b>2.8</b>	<b>10.3</b>	<b>12.1</b>	<b>14.3</b>	<b>13.9</b>	<b>Average</b>	<b>-1.3</b>	<b>0.2</b>	<b>1.2</b>	<b>1.2</b>	<b>-1.2</b>	<b>-0.9</b>	<b>1.2</b>	<b>-0.1</b>
Price Momentum																	
High 6m Price Mom	-1.8	1.6	4.0	3.0	-2.1	-3.8	2.7	0.2	Stability								
High 9m Price Mom	3.1	1.6	3.4	4.0	4.3	-4.3	3.5	1.3	Low EPS Vola	8.4	0.3	2.1	3.1	8.6	4.7	4.3	5.4
High 12m Price Mom	-3.2	0.5	1.3	-0.8	-1.8	-5.6	3.8	1.4	Low Op Inc Vola	2.1	2.9	2.3	2.5	3.7	-0.2	3.1	4.4
High Price Rel Strg	-0.5	1.8	3.1	2.4	1.3	-3.0	4.8	2.4	Low Book Value Vola	7.4	1.1	2.0	3.8	7.1	3.1	5.6	4.6
High 3mΔ in Price Mom	-11.7	-0.3	0.7	-2.4	-11.2	-4.5	-3.7	-3.7	Low Sales Vola	17.1	2.1	4.0	9.4	17.0	8.8	8.7	8.2
High Price ↑ / ↓ Days	11.5	2.8	4.6	7.0	15.6	13.0	19.2	17.4	Low EPS Est Vola	0.3	1.3	0.0	-0.7	-1.1	1.5	-2.4	0.5
<b>Average</b>	<b>-0.4</b>	<b>1.3</b>	<b>2.8</b>	<b>2.2</b>	<b>1.0</b>	<b>-1.4</b>	<b>5.1</b>	<b>3.2</b>	<b>Average</b>	<b>7.1</b>	<b>1.6</b>	<b>2.1</b>	<b>3.6</b>	<b>7.1</b>	<b>3.6</b>	<b>3.9</b>	<b>4.6</b>
Earnings Momentum																	
High FY1 EPS Rev	6.1	1.6	3.3	2.7	4.4	3.9	4.9	3.0	Risk								
High FY2 EPS Rev	4.7	1.1	2.7	2.7	5.0	6.1	8.3	4.0	Low FY1 EPS Disp	0.5	1.7	1.4	0.1	-0.5	-0.1	1.2	4.2
High 12m Fd EPS Rev	3.3	0.3	0.8	1.1	1.2	3.8	4.5	0.5	Low FY2 EPS Disp	4.1	-0.2	1.4	2.5	2.7	-3.9	0.7	5.1
High FY1 EPS Mom	11.4	2.1	-0.6	0.4	9.4	6.0	5.3	5.7	High EBIT/Int Exp	1.6	0.8	1.0	4.6	2.8	8.8	14.2	15.0
High FY2 EPS Mom	6.5	1.2	-1.2	1.6	6.7	5.7	4.7	4.5	Low Debt/Equity	-2.8	-0.5	-0.6	0.6	-4.7	-1.7	-2.7	-0.1
<b>Average</b>	<b>6.4</b>	<b>1.3</b>	<b>1.0</b>	<b>1.7</b>	<b>5.4</b>	<b>5.1</b>	<b>5.5</b>	<b>3.5</b>	High Altman Z Score	-2.6	-0.3	-0.4	1.4	-2.7	-5.1	0.8	1.7
Capex Deployment & Earnings Accruals																	
Low Capex/Depr	-2.3	0.3	-0.7	-1.3	-1.7	-5.1	-10.8	-8.2	High Market Cap	9.6	0.4	3.5	6.9	10.1	6.1	10.6	9.4
Low Capex/Sales	-5.1	-0.7	-1.7	-1.5	-5.7	-5.1	-6.0	-3.8	<b>Average</b>	<b>1.7</b>	<b>0.3</b>	<b>1.0</b>	<b>2.7</b>	<b>1.3</b>	<b>0.7</b>	<b>4.1</b>	<b>5.9</b>
Low Capex/FA	-4.4	-0.1	-3.8	-3.2	-4.7	-7.4	-7.9	-6.2	Consensus Ratings								
High YoYΔ Receivables	6.6	0.9	1.3	1.3	5.0	-0.8	-4.5	-3.0	High Analyst Rec	-4.8	0.5	-1.6	-4.7	-6.3	-4.6	-1.2	3.0
Low YoYΔ Inventory	1.0	-0.3	-0.5	1.6	2.7	-0.7	-0.6	0.1	High 1mΔ Analyst Rec	-3.2	-0.1	-1.0	0.3	-1.6	3.8	5.1	5.2
Low YoYΔ Payables	-4.2	-1.1	-2.1	-4.8	-2.8	0.5	-4.3	-5.3	<b>Average</b>	<b>-4.0</b>	<b>0.2</b>	<b>-1.3</b>	<b>-2.2</b>	<b>-4.0</b>	<b>-0.4</b>	<b>2.0</b>	<b>4.1</b>
<b>Average</b>	<b>-1.4</b>	<b>-0.1</b>	<b>-1.2</b>	<b>-1.3</b>	<b>-1.2</b>	<b>-3.1</b>	<b>-5.7</b>	<b>-4.4</b>									

Source: Deutsche Bank, FactSet, I/B/E/S. Note: \*1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended Nov 2010. Relative performance is based on equal weighted average returns of the best quintile basket and the market. For description on factors please see the appendix.

## India strategy

1. **Policy and economics:** The much awaited Q2FY11 GDP numbers provided markets the reason to cheer and markets have recouped >5% since the time of announcement of the data. Q2FY11 GDP growth came in at a consensus busting 8.9% yoy (consensus was at 8.2%) with all the components of GDP growth reflecting better-than-expected outturn. The numbers were significantly above our estimates as well; with the biggest surprise coming from the services sector (+9.7% yoy). The upside surprise in this sector was led by mainly community/social services (7.3%) and trade/hotels/transport/communication (12.1%). Note that the former reflects government spending, which rose sharply in the quarter. Industrial (9.0%) and agricultural sector growth (4.4%) outturns were in line with our expectations. GDP data indicate that the non-farm growth momentum (9.5% vs. 10.0% in the previous quarter) is somewhat stronger than we had estimated. Suffice to say that the government's 8.5% growth forecast for FY10/11 looks quite safe at this juncture.

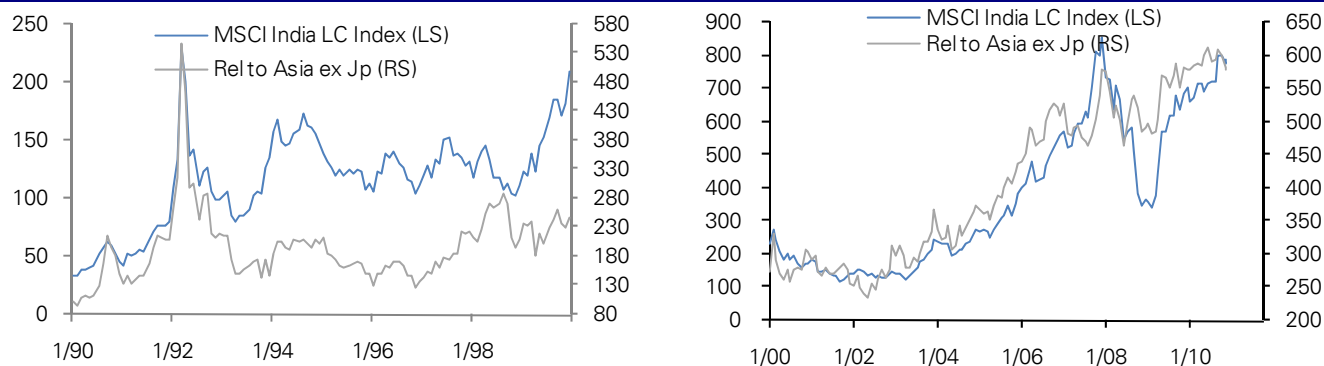
Manufacturing PMI rose to 58.4 in November, up from 57.2 in October, indicating expansion in industrial activity. While manufacturing output (63.7 vs. 62.8), new orders (62.2 vs. 60.6) and new export orders (59.0 vs. 53.4) all recorded a sharp rise, the expansion in export orders was particularly strong. Note that the manufacturing PMI has rebounded sharply in the last two months from the September outturn (55.1) and this should get reflected in a bounce back in IIP data as well.

2. **Company visits/results:** The September quarter turned out to be a robust earnings season with Sensex stocks posting impressive yoy growth of 21%/30%/26% for revenue/EBITDA/PAT, driven by Tata Motors, HDFC, BHEL, Larsen & Toubro, Tata Steel and Reliance Industries, among others. On a free-float basis the corresponding yoy growth numbers were even more impressive at 20%/33%/39%. Overall Sensex numbers were slightly above (1-2%) both Deutsche Bank and consensus estimates and positive surprises outnumbered negative surprises two to one at both revenue and PAT levels. Metals, autos and capital goods lead both on PAT growth and positive surprises. Cement and telecoms lag while government compensation props up oil PSUs' PAT. Earnings upgrades dominate. We remain sanguine on the earnings trajectory and assign a low likelihood to material earnings downgrades.
3. **Fund flows and investor views:** While there was some selling pressure from the FIIs in the second half of November, the initial burst in inflows at the beginning of the month ensured that net monthly inflows stood at an impressive USD4.2bn, taking the YTD flows to USD29bn. We remain convinced that India will continue to receive strong inflows as deflation-wary global investors scout high growth markets like India in search of yield – although there could be a period of selling on the back of short term events.
4. **Events/data/risks to watch for:** 1) October IIP growth data on 12 December. 2) November monthly WPI inflation on 14 December. 3) RBI's mid-quarter review of the monetary policy on 16 December. 4) December Manufacturing PMI on 3 January 2011.
5. **Top ten stock ideas:** Axis Bank, BHEL, Bharti, HDFC Bank, Infosys, L&T, M&M, ONGC, Tata Motors, Tata Steel

**Abhay Laijawala**

## India – Market intelligence

**Figure 189: Equity market performance**



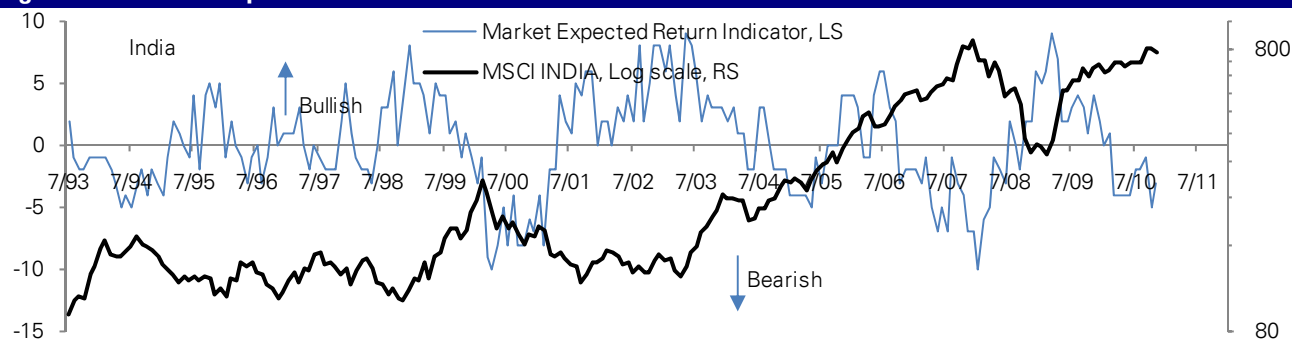
Source: Deutsche Bank, MSCI.  
Market relative = relative to MSCI AC Asia ex Japan.

**Figure 190: Market intelligence by sector**

8Dec10 Sector (#Co)	Mcap U\$m	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
		1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Energy (5)	42,935	-6.6	-2.1	15.6	12.9	11.3	2.1	2.0	1.8	1.1	1.3	1.5	22.5	23.1	13.8	13.7	15.4	15.6
Materials (10)	30,295	-7.3	-1.6	12.4	10.5	8.3	2.2	1.7	1.5	1.0	1.1	1.3	30.9	25.9	19.0	17.5	17.7	17.8
Capital Goods (8)	30,693	-8.1	14.2	19.9	15.6	12.7	4.3	3.6	2.8	0.8	0.9	1.1	69.7	35.5	22.5	23.7	23.0	21.8
Autos (4)	12,864	-1.8	25.4	17.3	15.2	13.4	6.1	4.2	3.3	1.4	1.5	1.8	22.7	14.0	13.5	35.0	27.7	25.0
Media (1)	1,432	0.3	15.3	25.0	21.2	18.1	3.3	3.0	2.7	1.0	1.2	1.4	5.7	17.9	17.5	13.2	14.3	14.9
Food Beverage (2)	10,786	-4.8	27.8	29.5	23.9	20.2	6.5	5.6	4.8	1.4	1.7	2.0	38.4	23.3	18.2	22.0	23.4	23.9
Household Products (1)	5,735	-3.1	11.9	29.1	25.8	22.4	22.5	19.6	16.2	2.4	2.8	3.1	-0.7	12.8	15.4	77.4	76.0	72.7
Pharma & Biotech (5)	12,255	1.4	35.1	26.9	22.9	19.3	5.3	4.4	3.6	0.7	0.7	0.9	32.5	17.4	18.7	19.6	19.2	18.9
Banks (5)	59,531	-9.5	28.3	24.0	19.7	16.0	3.2	2.9	2.5	1.0	1.2	1.5	17.3	22.3	22.9	13.3	14.6	15.5
Div Financials (4)	9,473	-14.7	9.1	19.4	16.1	13.3	2.6	2.3	2.0	1.0	1.1	1.4	18.0	20.3	20.9	13.5	14.1	15.0
Real Estate (4)	6,151	-24.8	-28.3	20.0	13.9	10.5	1.4	1.1	1.0	0.3	0.8	1.0	-2.4	43.3	33.0	7.9	7.7	9.4
Software (5)	50,254	2.1	21.4	25.5	21.3	17.8	6.8	5.3	4.4	1.4	1.3	1.4	51.9	19.4	20.1	26.4	24.8	24.6
Telecom (1)	1,486	-27.6	-24.9	11.0	13.0	9.4	na	0.6	0.6	0.7	0.8	1.7	-49.4	-14.9	37.7	na	4.7	6.2
Utilities (6)	15,853	-6.3	-8.5	19.1	16.9	14.3	2.3	2.0	1.8	1.4	1.4	1.5	6.2	12.9	18.2	12.4	11.8	12.4
India (61)	289,745	-3.6	11.7	19.7	16.4	13.5	3.3	2.7	2.3	1.1	1.3	1.4	26.3	22.8	19.4	16.9	16.8	17.3

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI country index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year end) with current prices. All numbers are free-float adjusted.

**Figure 191: Market Expected Return Indicator for India**



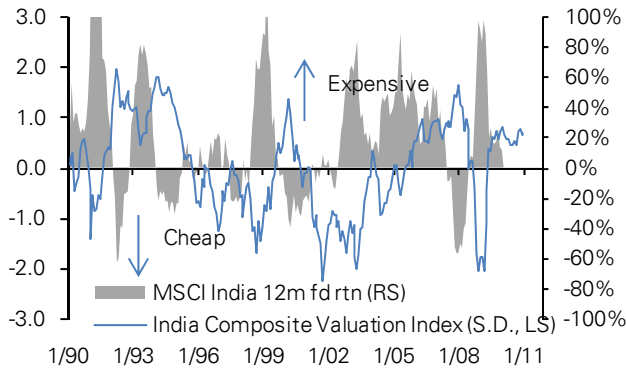
Source: Deutsche Bank, MSCI, Bloomberg Finance LP



## India – Valuation

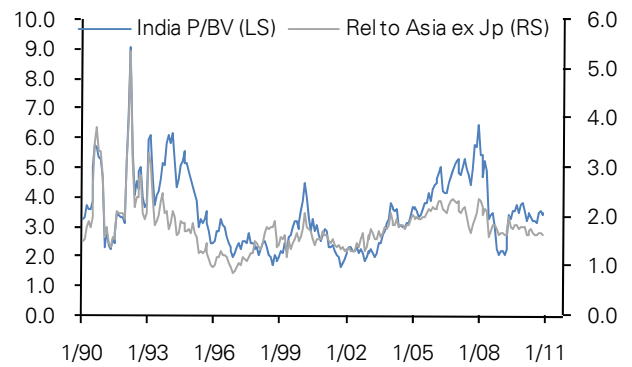
Indian equities are moderately overvalued, but have gone much higher before they get into “bubble” territory.

**Figure 192: Composite valuation index**



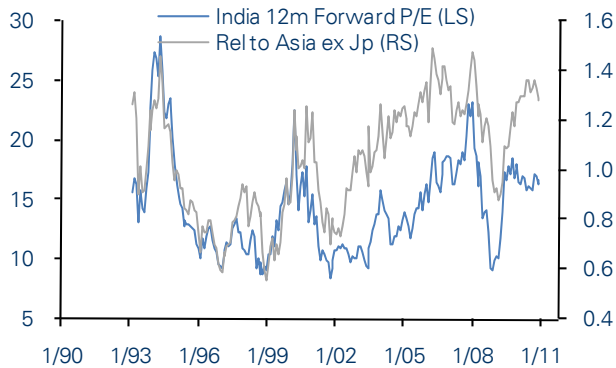
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history

**Figure 193: Price-to-book value**



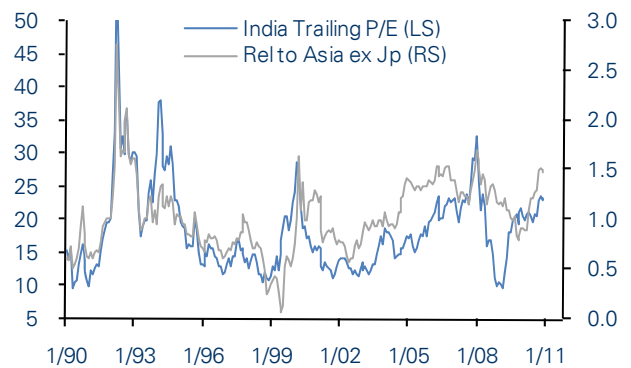
Source: Deutsche Bank, MSCI, Datastream. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 194: 12-month forward P/E**



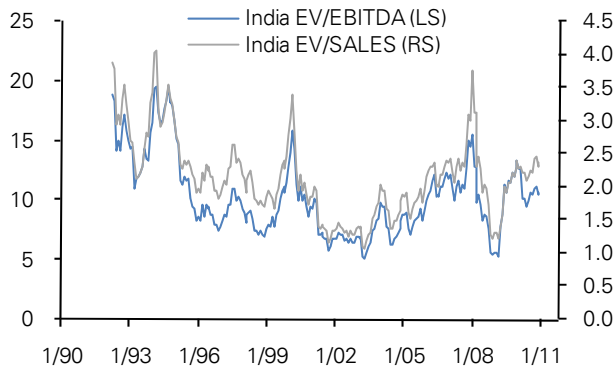
Source: Deutsche Bank, MSCI, IB/E/S. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 195: 12-month trailing P/E**



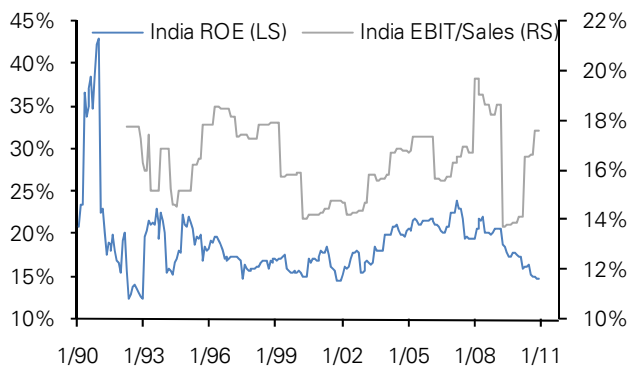
Source: Deutsche Bank, MSCI, Datastream. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 196: EV multiples**



Source: Deutsche Bank, MSCI, FactSet

**Figure 197: ROE and EBIT margin**

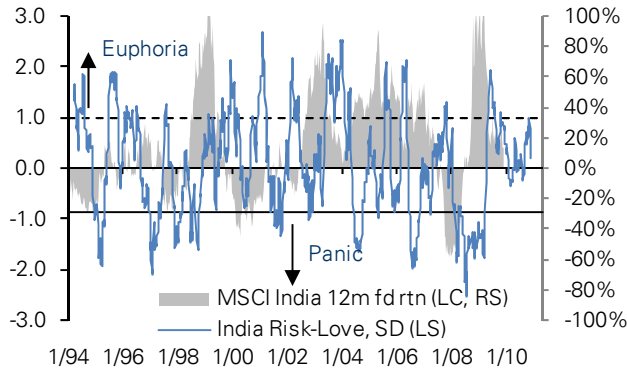


Source: Deutsche Bank, MSCI, FactSet

## India – Investor sentiment

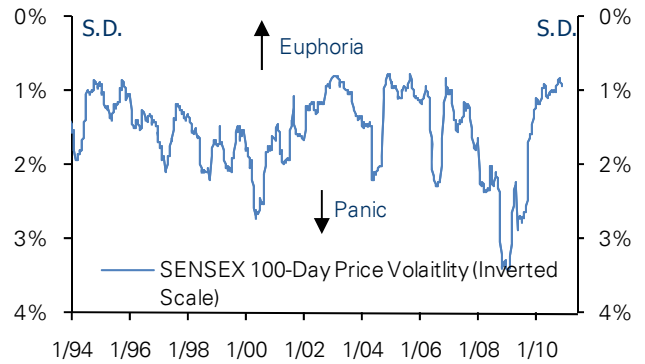
A few scandals have damped previous euphoric spirits, and has now moved back to neutral levels.

**Figure 198: Equity Risk-Love indicator**



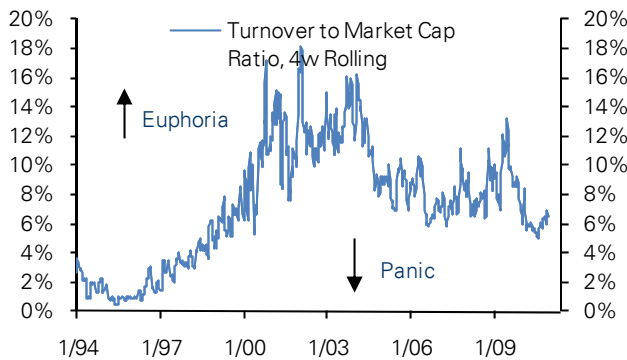
Source: Deutsche Bank, MSCI

**Figure 199: Market volatility**



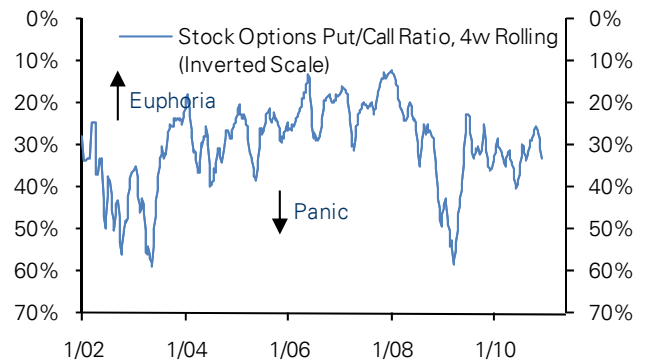
Source: Deutsche Bank, Datastream

**Figure 200: Turnover-to-market cap ratio**



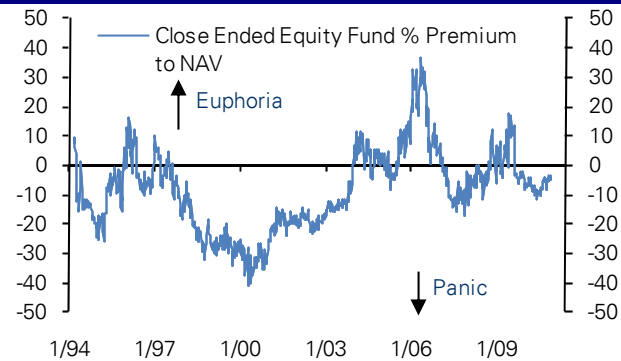
Source: Deutsche Bank, CEIC, Datastream

**Figure 201: Options put/call ratio**



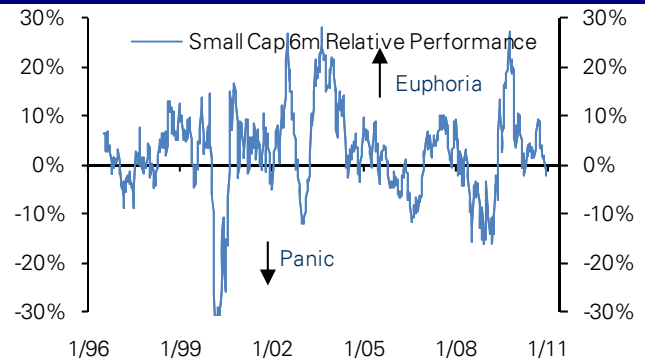
Source: Deutsche Bank, Bloomberg Finance LP

**Figure 202: Country equity fund percentage premium to NAV**



Source: Deutsche Bank, Bloomberg Finance LP

**Figure 203: Small cap relative performance**

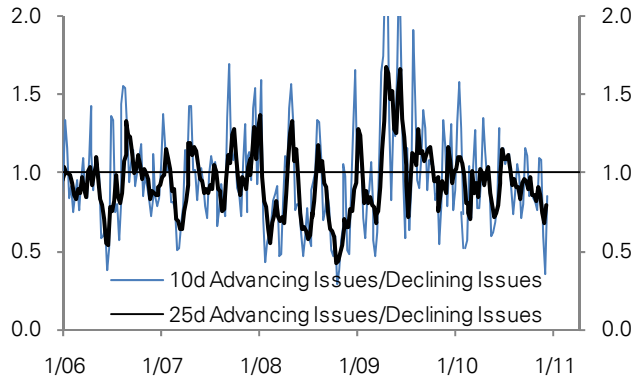


Source: Deutsche Bank, Datastream

## India – Technicals

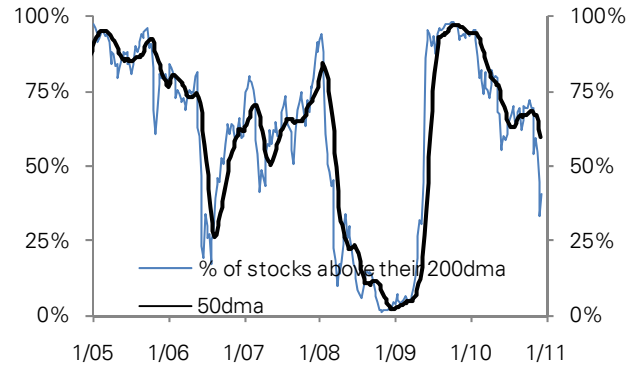
The market's recent weakness has led to deterioration in technicals – number of stocks above their 200-day averages has plunged, and those with new lows have spiked.

**Figure 204: Advance/decline ratio**



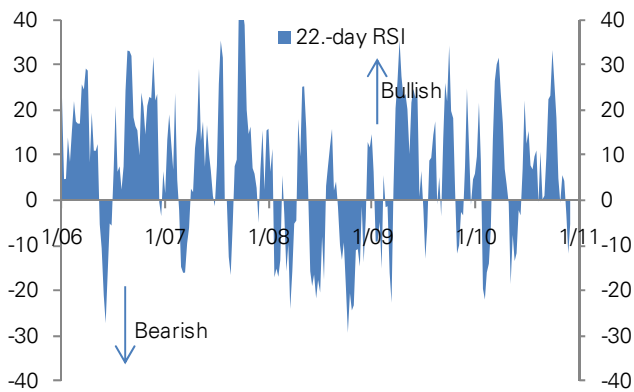
Source: Deutsche Bank, Datastream, FactSet

**Figure 205: Percentage of stocks above their 200dma**



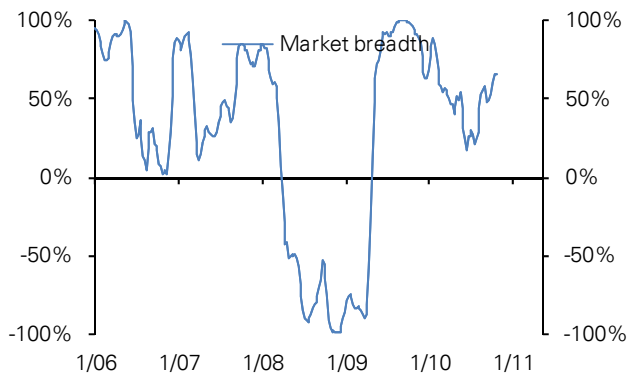
Source: Deutsche Bank, Datastream, FactSet

**Figure 206: Relative Strength Index**



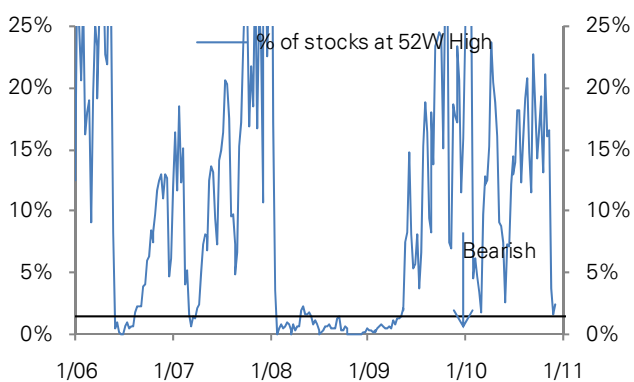
Source: Deutsche Bank, Datastream, FactSet

**Figure 207: Market breadth**



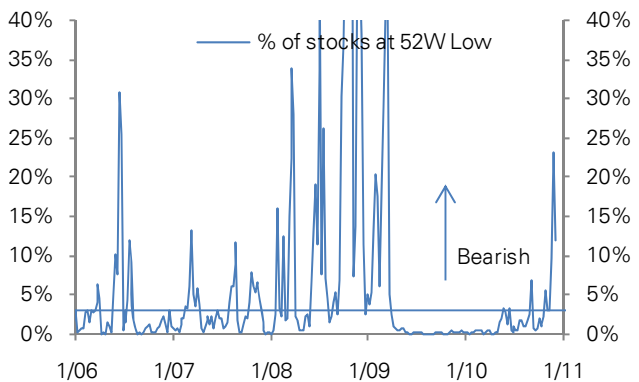
Source: Deutsche Bank, Datastream, FactSet. Market breadth is defined as (number of sub-sectors up on six-months basis minus number of sub-sectors down on six-months basis) / total sub-sectors available.

**Figure 208: Percentage of stocks at 52W Highs**



Source: Deutsche Bank, Datastream, FactSet

**Figure 209: Percentage of stocks at 52W Lows**

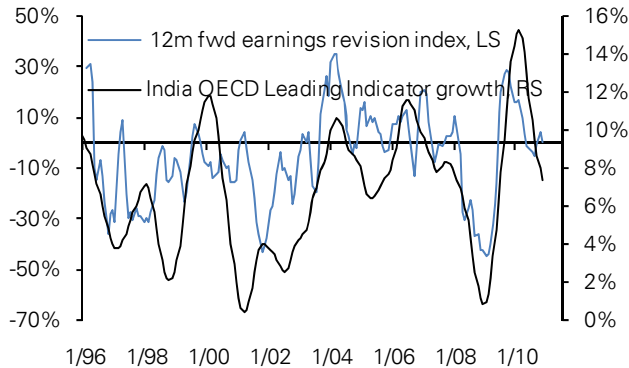


Source: Deutsche Bank, Datastream, FactSet

## India – Growth and earnings

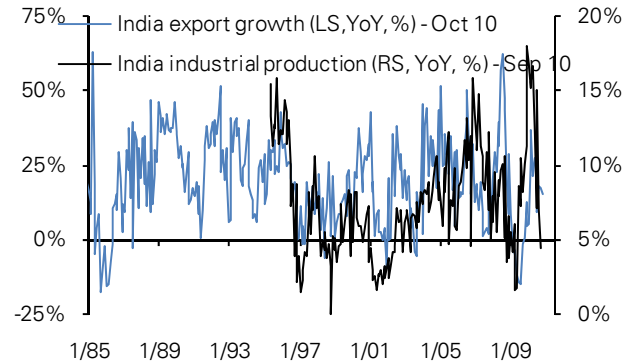
Our economist, Taimur Baig, projects real GDP to accelerate from 8% to 8.5% from FY11 to FY12. Analyst EPS expectations are at around 25%, reflecting economic forecasts.

**Figure 210: Leading economic indicators**



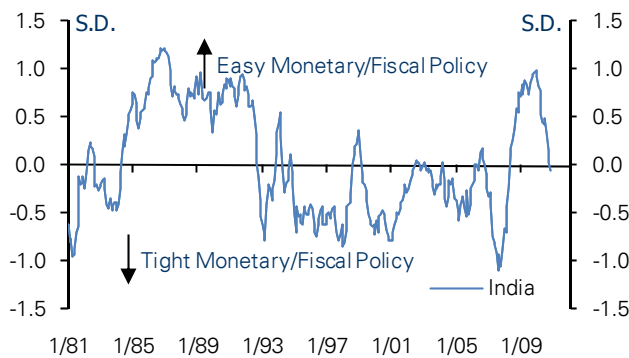
Source: Deutsche Bank, I/B/E/S, OECD, Datastream

**Figure 211: Industrial production and export growth**



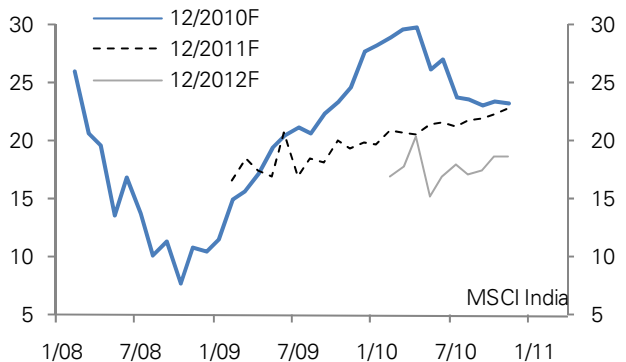
Source: Deutsche Bank, Datastream

**Figure 212: Composite policy indicator**



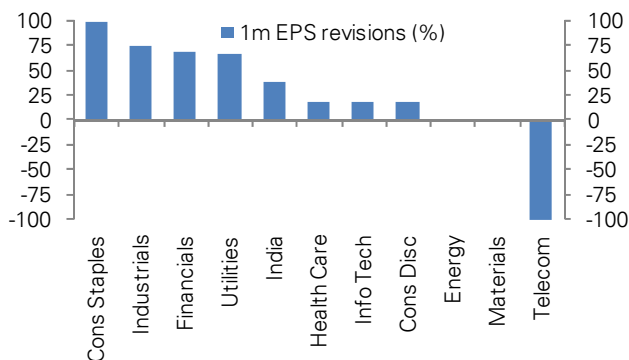
Source: Deutsche Bank, CEIC, Datastream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate yoy growth, real broad money (M2) yoy growth, short term real interest rate and government fiscal deficit/surplus as a % of GDP.

**Figure 213: Earnings growth forecast (%)**



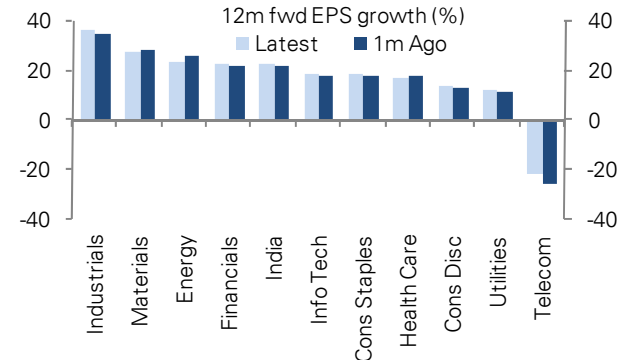
Source: Deutsche Bank, MSCI, I/B/E/S

**Figure 214: 12-month forward EPS revisions by sector**



Source: Deutsche Bank, MSCI, I/B/E/S. Note: EPS revisions = number of upward less downward revisions as % of total number of revisions in one month.

**Figure 215: 12-month forward EPS growth forecast by sector**

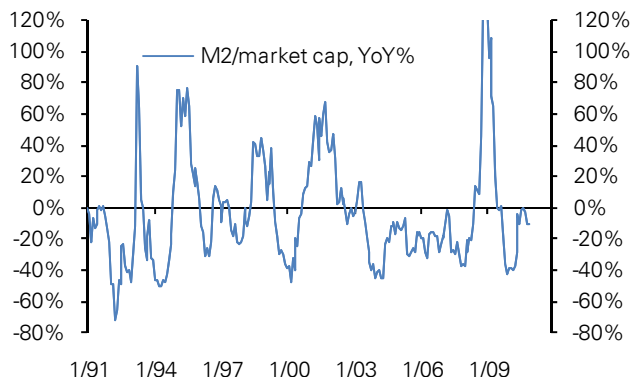


Source: Deutsche Bank, MSCI, I/B/E/S

## India – Liquidity

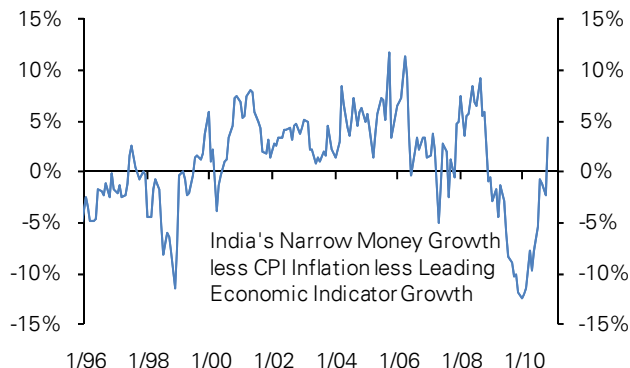
Free liquidity is rising sharply, and the yield curve has flattened abruptly.

**Figure 216: M2/market cap**



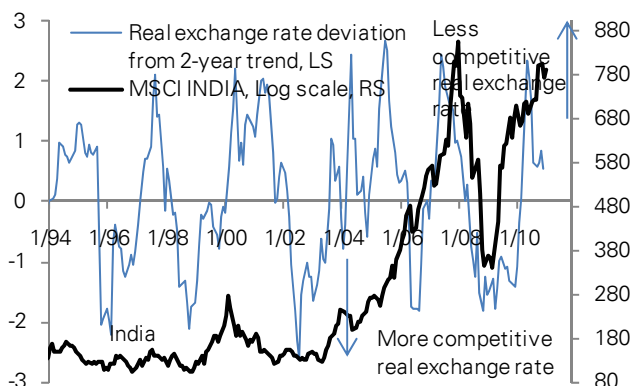
Source: Deutsche Bank, Datastream

**Figure 217: Free liquidity**



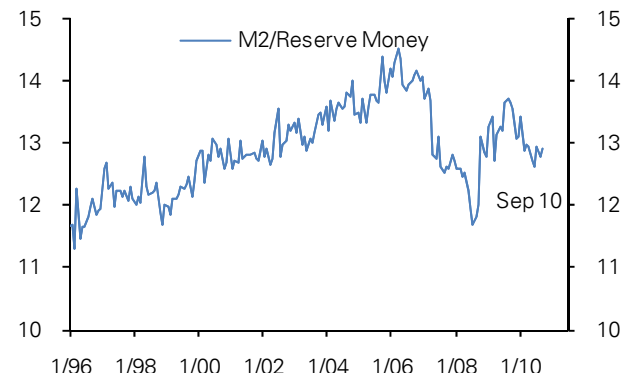
Source: Deutsche Bank, Datastream

**Figure 218: Real exchange rate**



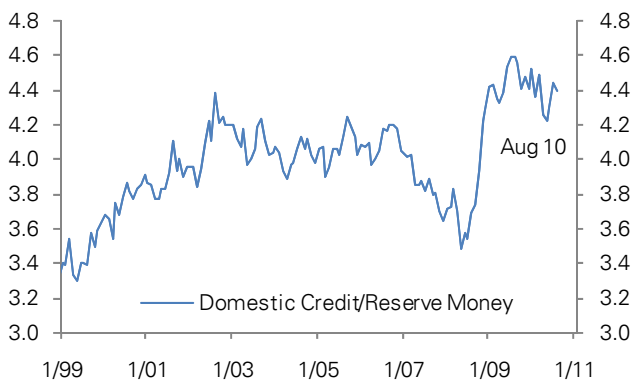
Source: Deutsche Bank, MSCI, Bloomberg Finance LP

**Figure 219: M2/base money**



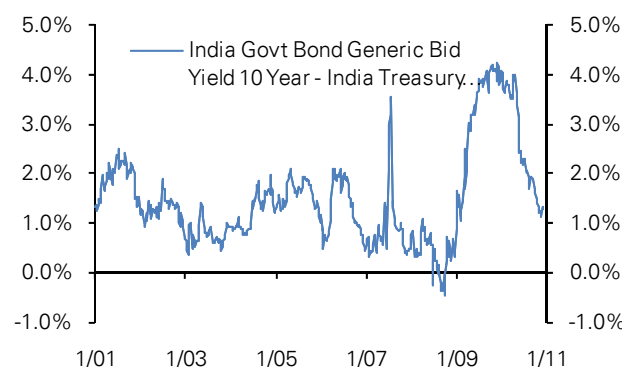
Source: Deutsche Bank, Reserve Bank of India, CEIC, Datastream

**Figure 220: Credit multiplier**



Source: Deutsche Bank, IMF, Reserve Bank of India, Bloomberg Finance LP, Datastream

**Figure 221: Yield curve**

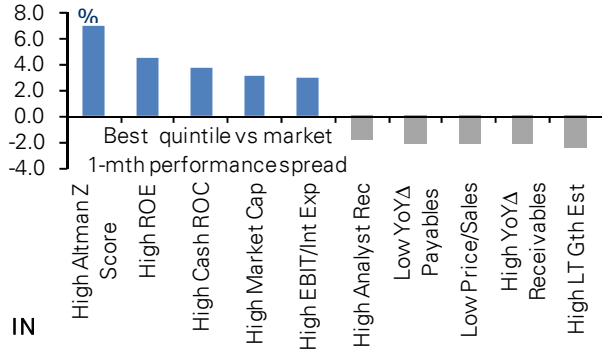


Source: Deutsche Bank, Bloomberg Finance LP

## India – Factor performance

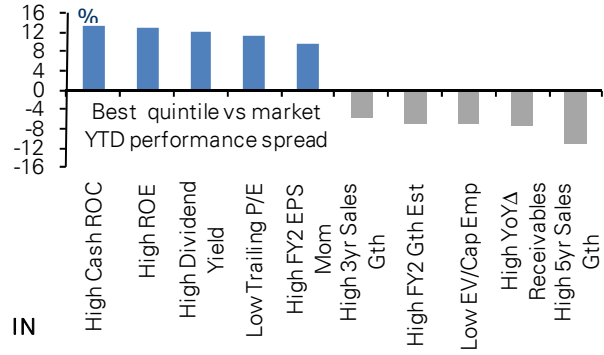
Profitability, EPS and price momentum have been winners this year. Low trailing PEs and high dividend yields have also done well. Unlike elsewhere in Asia, quality has performed well.

**Figure 222: Best- and worst-performing factors (1 month)**



Source: Deutsche Bank

**Figure 223: Best- and worst-performing factors (YTD)**



Source: Deutsche Bank

Figure 224: Factor performance

India Dec 6, 10	Returns					Ann. Rtn.			Returns					Ann. Rtn.			
	YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*	YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*	
Valuation									Profitability								
Low 12m Fd P/E	5.0	-0.4	3.0	5.1	7.4	2.9	4.8	2.0	High Cash ROC	13.1	3.8	4.1	5.4	13.7	8.8	4.2	6.8
Low Trailing P/E	11.5	-0.2	4.1	5.6	13.3	9.3	8.4	6.1	High YoYΔ Cash ROC	6.6	0.3	-1.0	0.9	7.7	5.6	4.9	7.1
Low P/Op Inc	5.4	-0.9	1.7	1.6	7.1	7.4	8.7	7.4	High ROE	13.0	4.6	5.8	5.7	13.2	6.2	1.6	5.5
Low P/BV	-1.9	-1.4	0.1	0.3	0.1	2.2	1.3	-2.9	High YoYΔ ROE	8.1	1.4	1.8	2.8	7.9	5.8	4.1	7.9
Low Price/Sales	1.0	-2.2	-0.3	2.0	4.8	2.0	1.7	-1.8	<b>Average</b>	<b>10.2</b>	<b>2.5</b>	<b>2.7</b>	<b>3.7</b>	<b>10.6</b>	<b>6.6</b>	<b>3.7</b>	<b>6.8</b>
Low P/FCF	-1.4	-1.5	-1.1	-0.4	-0.5	2.6	3.3	5.6	Growth								
Low EV/EBIT	6.0	0.4	3.3	2.0	9.2	6.1	8.4	7.9	High 3yr Sales Gth	-5.6	0.9	0.3	0.2	-5.6	-6.0	-1.6	-1.1
Low EV/EBITDA	5.9	-0.2	2.0	2.2	8.3	6.6	9.2	8.6	High 5yr Sales Gth	-11.2	-0.7	-3.2	-4.3	-12.0	-6.4	-4.3	-0.9
Low EV/Cap Emp	-7.0	-1.7	-1.7	-3.0	-5.4	0.0	0.0	-2.5	High 3yr EPS Gth	5.1	1.0	3.0	4.2	5.1	-1.7	0.4	1.9
Low EV/Sales	5.2	-0.9	0.6	3.2	8.4	4.7	7.5	3.7	High 5yr EPS Gth	0.9	0.9	1.8	1.5	1.9	-1.7	-1.4	-0.1
Low EV/Op CF	0.5	-0.3	0.0	-0.6	4.2	3.5	7.1	6.4	High LT Gth Est	-5.2	-2.5	-4.1	-4.8	-5.6	-0.1	0.9	2.6
Low EV/FCF	-0.6	-0.5	0.2	0.8	1.4	4.1	6.2	7.9	High FY1 Gth Est	-2.7	-0.5	-1.5	0.6	-1.3	-1.5	1.3	3.2
High Dividend Yield	12.1	2.4	4.8	6.8	13.8	11.7	13.5	11.4	High FY2 Gth Est	-6.9	-1.7	-2.8	-2.0	-6.2	-3.8	-1.6	-0.8
<b>Average</b>	<b>3.2</b>	<b>-0.6</b>	<b>1.3</b>	<b>2.0</b>	<b>5.5</b>	<b>4.8</b>	<b>6.2</b>	<b>4.6</b>	<b>Average</b>	<b>-3.7</b>	<b>-0.4</b>	<b>-0.9</b>	<b>-0.7</b>	<b>-3.4</b>	<b>-3.0</b>	<b>-0.9</b>	<b>0.7</b>
Price Momentum									Stability								
High 6m Price Mom	4.8	0.0	2.6	5.0	5.7	4.2	2.4	1.9	Low EPS Vola	4.3	1.5	2.7	2.3	2.2	0.8	-1.1	-1.1
High 9m Price Mom	7.5	0.4	2.6	5.7	7.0	4.8	3.0	4.0	Low Op Inc Vola	3.1	2.4	1.0	0.4	2.9	3.5	-0.7	0.7
High 12m Price Mom	5.4	1.2	4.0	5.6	5.1	1.4	2.8	5.9	Low Book Value Vola	-4.8	-1.8	-2.9	-2.4	-3.6	1.2	2.0	1.0
High Price Rel Strg	8.9	0.2	2.2	5.5	9.7	6.7	4.2	6.3	Low Sales Vola	3.9	-0.3	1.2	2.3	5.0	2.2	0.7	-0.3
High 3mΔ in Price Mom	1.3	0.4	1.1	1.0	0.5	0.4	-3.4	-3.1	Low EPS Est Vola	2.2	0.5	0.7	0.8	0.8	3.3	0.7	0.0
High Price ↑ / ↓ Days	9.3	2.2	6.2	6.4	7.4	6.4	4.6	5.1	<b>Average</b>	<b>1.7</b>	<b>0.5</b>	<b>0.5</b>	<b>0.7</b>	<b>1.5</b>	<b>2.2</b>	<b>0.3</b>	<b>0.0</b>
<b>Average</b>	<b>6.2</b>	<b>0.7</b>	<b>3.1</b>	<b>4.9</b>	<b>5.9</b>	<b>4.0</b>	<b>2.3</b>	<b>3.3</b>	Risk								
Earnings Momentum									Low FY1 EPS Disp	7.6	1.5	2.1	0.9	5.9	3.1	2.8	1.5
High FY1 EPS Rev	9.8	0.3	2.7	3.7	8.6	4.7	3.7	2.8	Low FY2 EPS Disp	8.3	0.7	0.8	3.5	7.0	4.0	2.1	0.7
High FY2 EPS Rev	1.9	-0.5	-0.4	-0.1	0.6	5.4	4.6	3.7	High EBIT/Int Exp	4.4	2.9	1.5	0.4	2.2	4.2	2.3	7.7
High 12m Fd EPS Rev	1.7	-1.7	0.7	1.1	0.5	7.5	6.6	7.6	Low Debt/Equity	4.1	1.9	1.8	-0.1	3.3	1.7	0.5	4.5
High FY1 EPS Mom	8.7	0.9	2.8	3.2	11.1	6.5	4.3	4.5	High Altman Z Score	9.0	7.0	5.2	3.8	7.0	3.1	3.0	5.9
High FY2 EPS Mom	9.8	-0.2	3.8	4.3	10.6	7.5	6.5	4.8	High Market Cap	-0.1	3.2	2.4	0.0	-3.3	1.5	-3.9	0.7
<b>Average</b>	<b>6.4</b>	<b>-0.3</b>	<b>1.9</b>	<b>2.5</b>	<b>6.3</b>	<b>6.3</b>	<b>5.1</b>	<b>4.7</b>	<b>Average</b>	<b>5.5</b>	<b>2.9</b>	<b>2.3</b>	<b>1.4</b>	<b>3.7</b>	<b>2.9</b>	<b>1.1</b>	<b>3.5</b>
Capex Deployment & Earnings Accruals									Consensus Ratings								
Low Capex/Depr	0.7	1.1	1.4	2.4	3.5	-0.5	-3.9	-2.0	High Analyst Rec	0.0	-1.8	-2.7	-3.2	4.2	0.5	2.8	2.4
Low Capex/Sales	9.8	0.9	2.5	4.2	10.9	3.0	-1.9	0.1	High 1mΔ Analyst Rec	2.1	-0.2	0.9	1.3	4.7	3.2	4.2	3.5
Low Capex/FA	1.1	0.8	2.3	3.2	2.9	-3.5	-6.6	-5.7	<b>Average</b>	<b>1.1</b>	<b>-1.0</b>	<b>-0.9</b>	<b>-1.0</b>	<b>4.5</b>	<b>1.8</b>	<b>3.5</b>	<b>3.0</b>
High YoYΔ Receivables	-7.5	-2.2	-1.8	-3.5	-7.4	-5.6	-4.6	-2.2									
Low YoYΔ Inventory	4.0	-1.0	-0.7	0.5	4.0	1.1	1.1	1.1									
Low YoYΔ Payables	0.2	-2.1	-0.8	1.4	0.6	-0.1	-1.8	-1.6									
<b>Average</b>	<b>1.4</b>	<b>-0.4</b>	<b>0.5</b>	<b>1.4</b>	<b>2.4</b>	<b>-0.9</b>	<b>-3.0</b>	<b>-1.7</b>									

Source: Deutsche Bank, FactSet, I/B/E/S. Note: \*1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended Nov 2010. Relative performance is based on equal weighted average returns of the best quintile basket and the market. For description on factors please see the appendix.

## Indonesia strategy

### 1. Policy and economics:

#### **Inflation – different perspectives**

The pick-up in inflation has caused quite a stir, but basic food (20% of CPI basket) has been the main culprit, caused by bad weather. Interestingly, though, every other category saw slower price momentum. Also, Indonesia is one of the few countries in Asia that has seen a marked directional contraction in inflationary pressure; half the level of the “lost decade”. We have also seen a supply-side expansion from an investment surge. As long as inflation does not spin out of control, some inflation is actually a good earnings driver.

#### **Interest rate hikes of little relevance**

Contrary to perceptions, interest rate hikes are an ineffective way to address weather-related inflation. Besides, as the economy is so under-leveraged, with household debt at 11% of GDP, a rate hike has little impact on disposable income. The core issue to inflation remains the infrastructure bottleneck, which can only be addressed in the medium term through road and sea port infrastructure, not by rate hikes or reserve requirements per se. Still, should BI give in to market pressure, any rate hikes are unlikely to trigger systematic credit crunch.

#### **Near-term inflation risks – subsidy removal**

The removal of fuel subsidies for private cars could push inflation higher. Still, as the policy targets subsidy removal from the higher socioeconomic brackets (only private cars), the impact on disposable income is less than 5% of salary and may notch up CPI by less than 0.2-0.3%. We believe the policy is a sensible way to address inequity and it saves the budget by c.0.5% of GDP. Subsidy removal may also be a criterion for a sovereign credit rating upgrade.

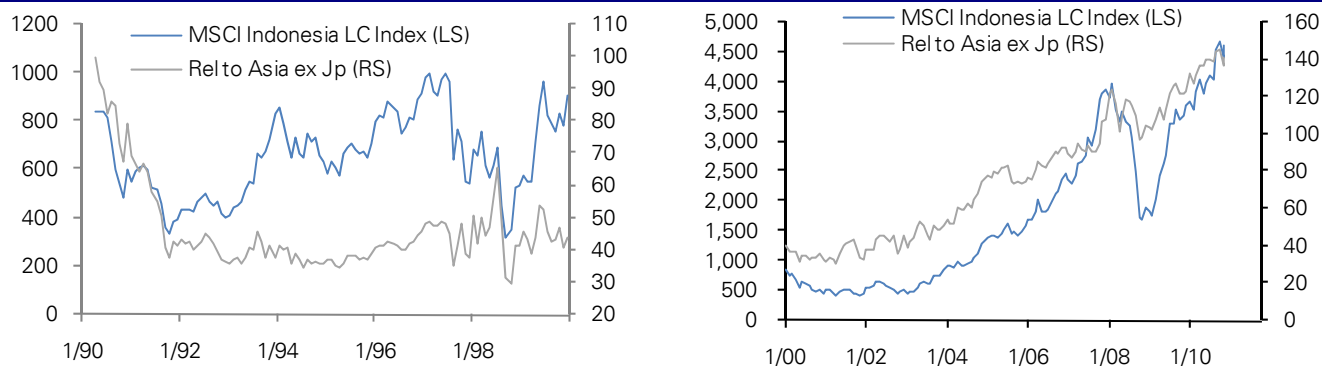
2. **Fund flows and investor views:** The market saw some pullback earlier in the month on the back external concerns, but has very swiftly recovered and testing all time high yet again. Still Nov was the first net foreign selling in some six months period, c. USD300m, putting the net inflow for the year to be around USD3.7bn. There was a significant rotation away from the consumer and banks towards commodity sector.

**Heriyanto Irawan**



## Indonesia – Market intelligence

**Figure 225: Equity market performance**



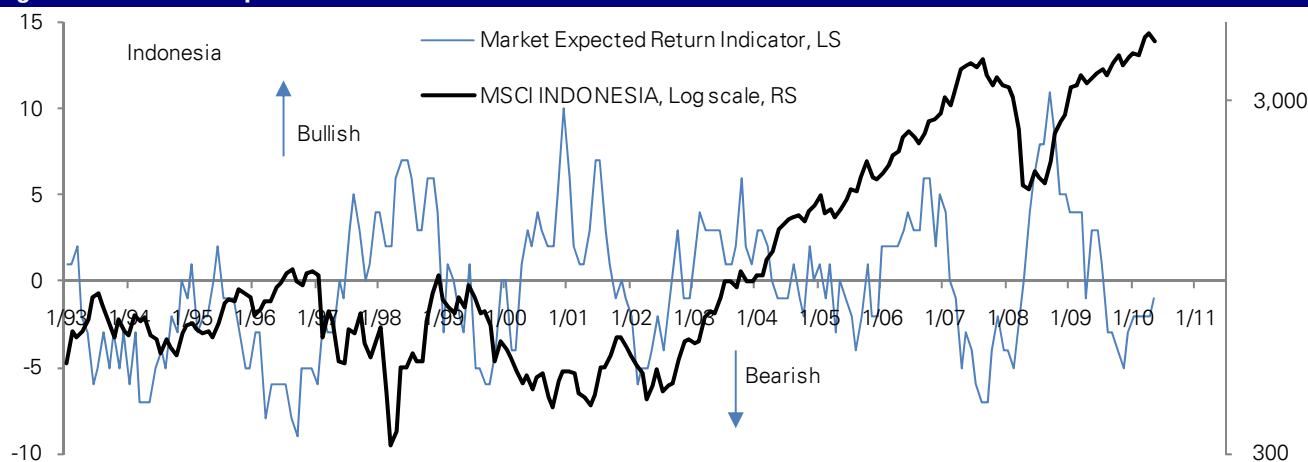
Source: Deutsche Bank, MSCI.  
Market relative = relative to MSCI AC Asia ex Japan.

**Figure 226: Market intelligence by sector**

8Dec10 Sector (#Co)	Mcap US\$m	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
		1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Energy (4)	12,781	18.1	37.8	21.6	13.5	11.6	4.4	3.6	3.0	1.4	2.1	3.1	12.1	60.2	16.0	20.6	26.7	25.9
Materials (4)	8,175	0.1	25.0	16.0	14.0	12.2	3.9	3.4	3.0	2.4	3.0	3.8	37.7	13.9	14.7	24.4	24.2	24.3
Capital Goods (1)	3,983	1.9	54.8	20.0	16.6	14.3	4.8	4.0	3.4	2.0	2.3	2.7	4.8	20.3	15.7	24.1	24.2	23.6
Autos (1)	12,242	-5.0	57.2	16.9	14.7	13.0	4.5	3.8	3.2	2.2	2.6	3.0	30.4	15.1	12.9	26.8	25.9	24.8
Food Beverage (3)	6,377	-5.5	55.5	18.7	15.8	14.1	4.0	3.5	2.9	1.9	2.3	2.7	23.8	18.0	12.1	21.6	21.9	20.7
Household Products (1)	2,800	0.9	49.8	35.0	30.1	26.7	29.1	25.1	22.2	2.4	2.8	3.2	18.5	16.4	12.6	83.2	83.5	83.2
Banks (5)	25,687	-4.2	47.3	17.6	14.7	12.5	4.0	3.4	2.9	2.0	2.6	3.1	27.0	19.3	17.7	22.8	22.9	23.0
Telecom (2)	9,821	-1.5	-12.9	14.2	12.8	11.4	3.2	2.9	2.6	3.9	4.3	4.9	1.2	10.6	12.6	22.8	22.5	22.8
Utilities (1)	5,472	2.3	16.0	16.3	14.2	12.9	7.2	5.6	4.7	3.3	3.9	3.9	5.9	14.9	9.9	43.9	39.6	36.2
Indonesia (22)	87,338	0.2	27.9	17.7	14.6	12.7	4.3	3.6	3.1	2.3	2.8	3.4	19.3	21.4	14.8	24.2	24.9	24.5

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI country index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year-end) with current prices. All numbers are free-float adjusted.

**Figure 227: Market Expected Return Indicator for Indonesia**

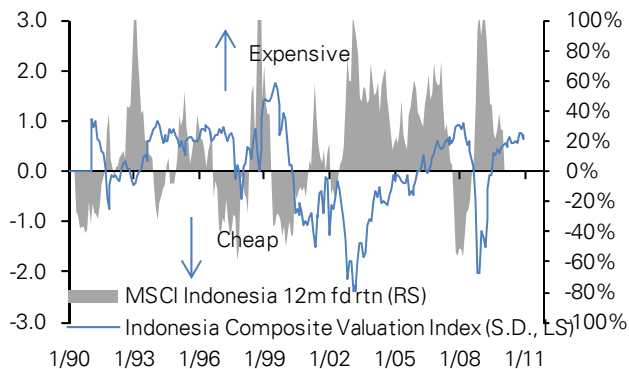


Source: Deutsche Bank, MSCI, Bloomberg Finance LP

## Indonesia – Valuation

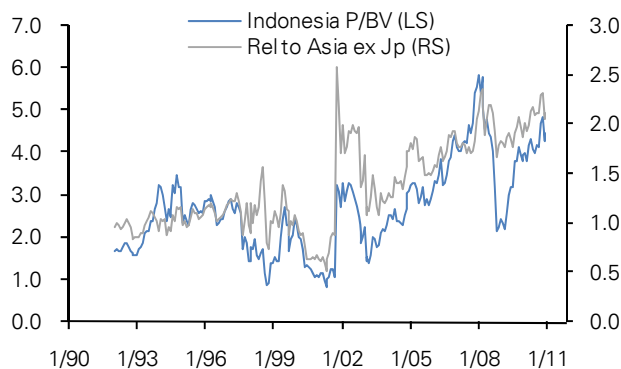
The market is expensive versus history and the region. Yes, it could get more expensive (as in 1999), but the margin of safety is low, and “paradigm shift” arguments need to be recruited to justify today’s valuations.

**Figure 228: Composite valuation index**



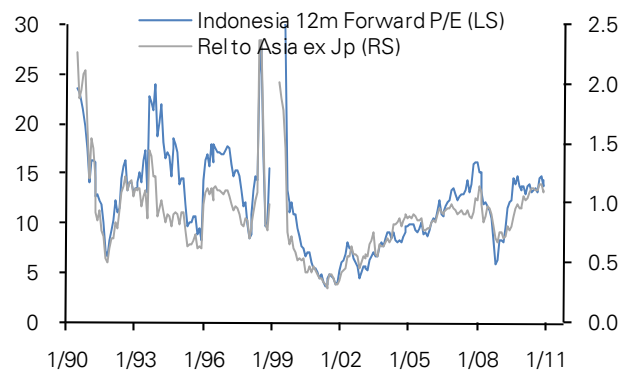
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history

**Figure 229: Price-to-book value**



Source: Deutsche Bank, MSCI, Datastream. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 230: 12-month forward P/E**



Source: Deutsche Bank, MSCI, IB/E/S. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 231: 12-month trailing P/E**



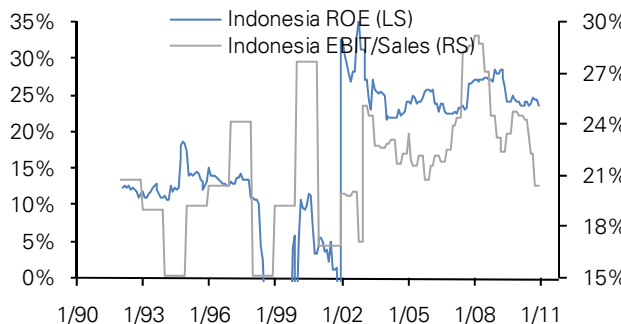
Source: Deutsche Bank, MSCI, Datastream. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 232: EV multiples**



Source: Deutsche Bank, MSCI, FactSet

**Figure 233: ROE and EBIT margin**

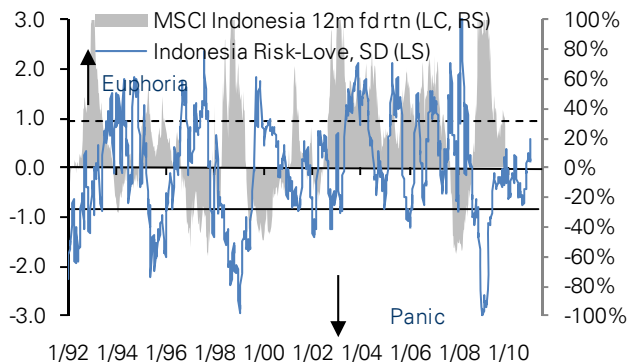


Source: Deutsche Bank, MSCI, FactSet

## Indonesia – Investor sentiment

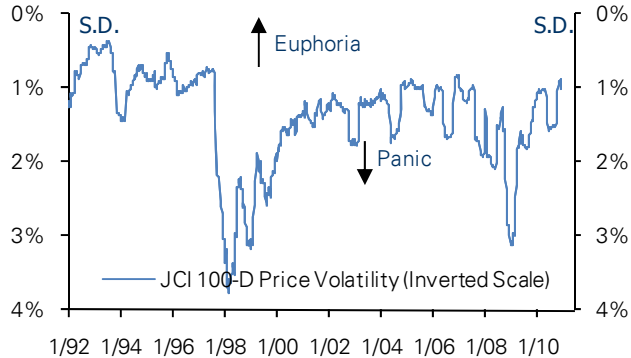
For a market that has done exceptionally well, Risk-Love is still subdued.

**Figure 234: Equity Risk-Love indicator**



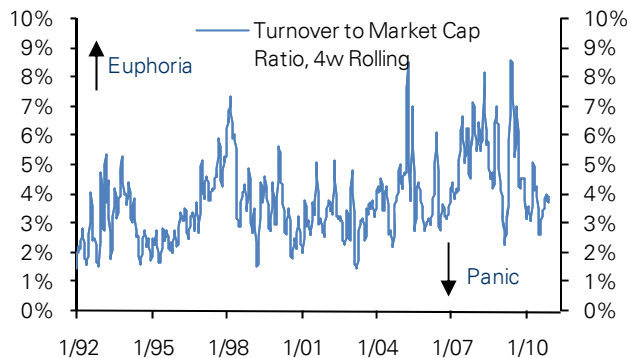
Source: Deutsche Bank, MSCI

**Figure 235: Market volatility**



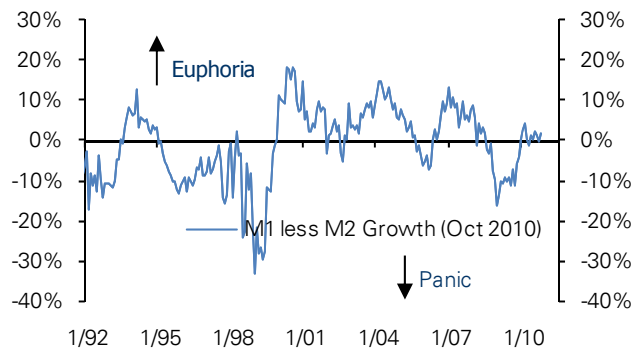
Source: Deutsche Bank, Datastream

**Figure 236: Turnover-to-market cap ratio**



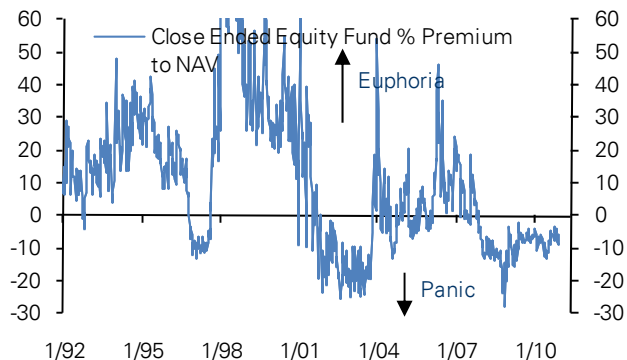
Source: Deutsche Bank, CEIC, Datastream

**Figure 237: M1 less M2 growth**



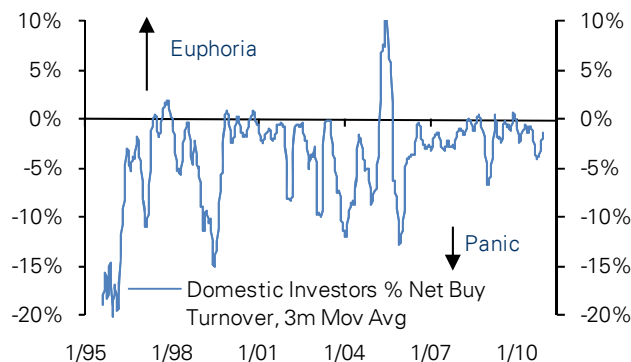
Source: Deutsche Bank, Datastream

**Figure 238: Country equity fund % premium to NAV**



Source: Deutsche Bank, Bloomberg Finance LP

**Figure 239: Domestic investors net buying**

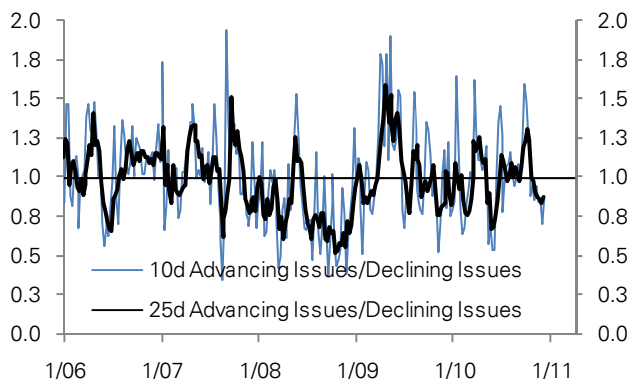


Source: Deutsche Bank, CEIC

## Indonesia – Technicals

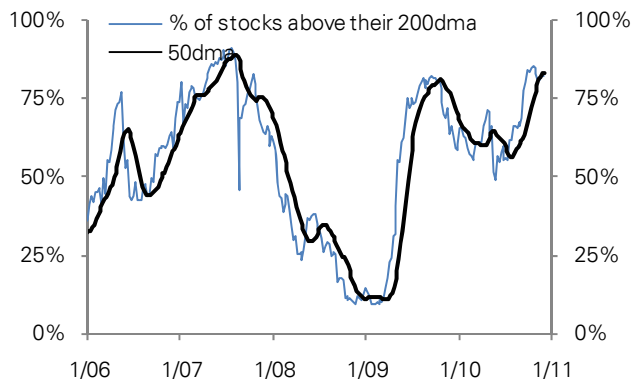
Technicals are very strong here – breadth is robust, new lows non-existent, and three-quarters of stocks are trading above 200-day moving averages.

**Figure 240: Advance/decline ratio**



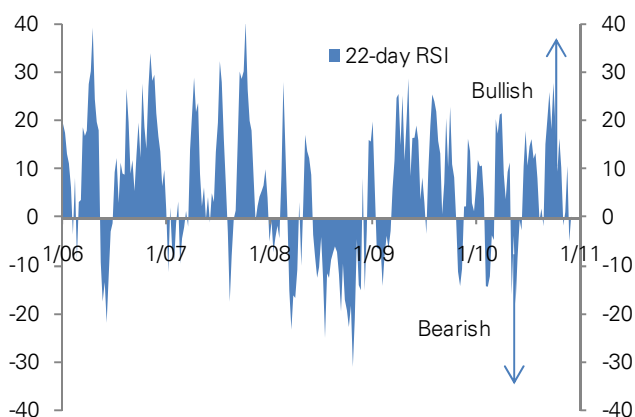
Source: Deutsche Bank, Datastream, FactSet

**Figure 241: Percentage of stocks above their 200dma**



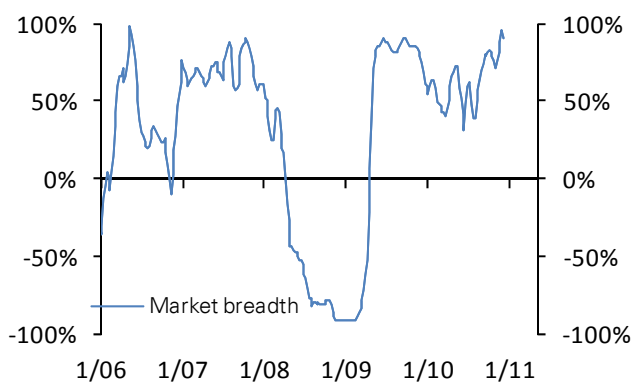
Source: Deutsche Bank Datastream, FactSet

**Figure 242: Relative Strength Index**



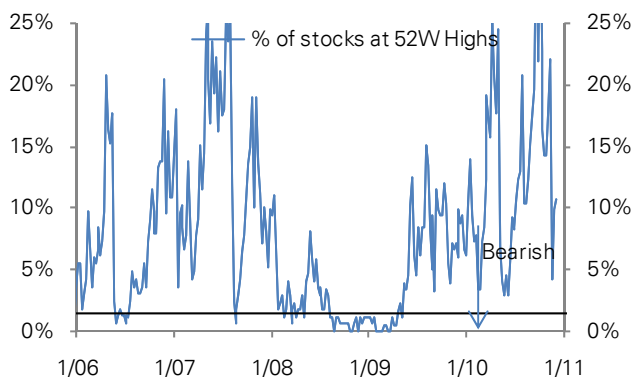
Source: Deutsche Bank, Datastream, FactSet

**Figure 243: Market breadth**



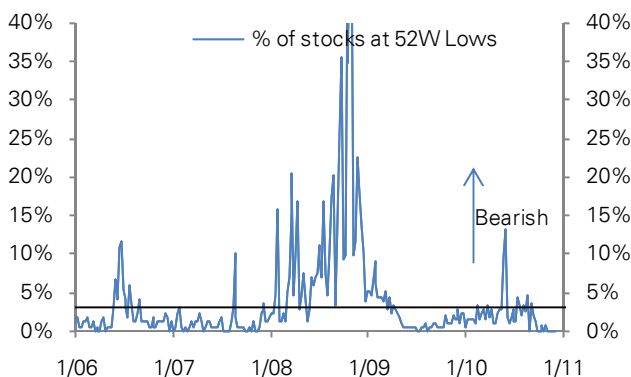
Source: Deutsche Bank, Datastream, FactSet. Market breadth is defined as (# of sub-sectors up on 6 months basis minus # of sub-sectors down on 6 months basis) / total sub-sectors available.

**Figure 244: Percentage of stocks at 52-week highs**



Source: Deutsche Bank, Datastream, FactSet

**Figure 245: Percentage of stocks at 52-week lows**

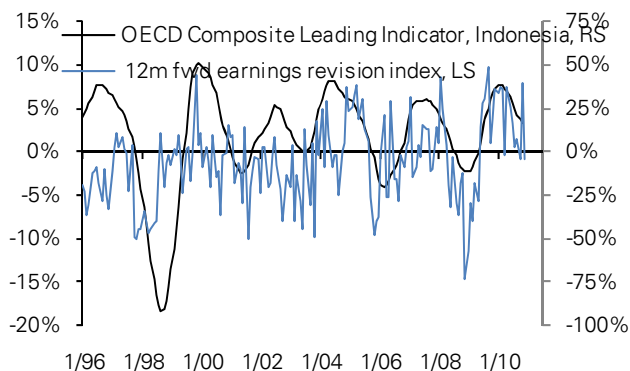


Source: Deutsche Bank, Datastream, FactSet

## Indonesia – Growth and earnings

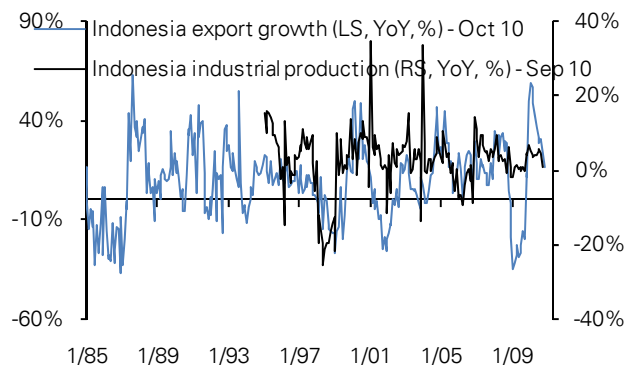
Taimur Baig, our economist covering Indonesia, is looking for real GDP growth to accelerate from 6% this year to 6.5% next year. A 20%-plus EPS growth expectation reflects that top-down view.

**Figure 246: Leading economic indicators**



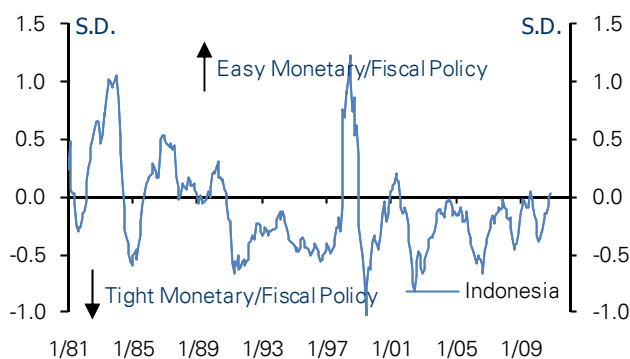
Source: Deutsche Bank, OECD, I/B/E/S, Datastream

**Figure 247: Industrial production and export growth**



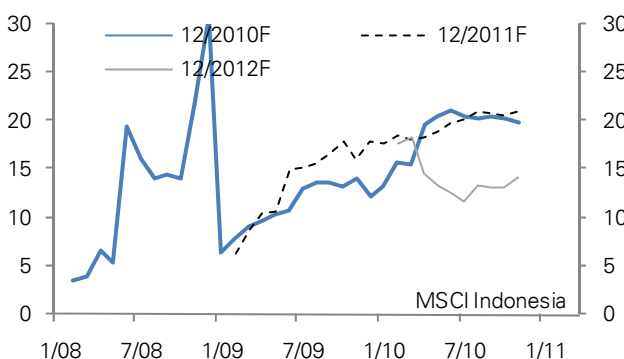
Source: Deutsche Bank, Datastream

**Figure 248: Composite policy indicator**



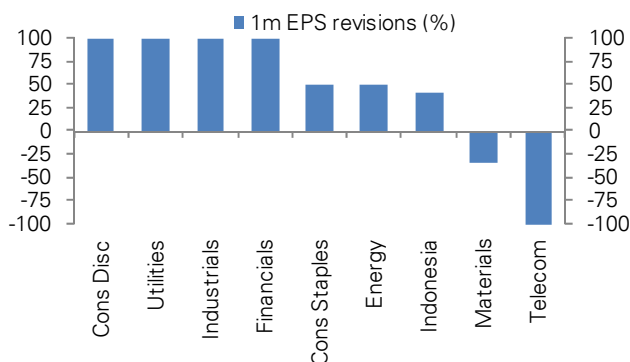
Source: Deutsche Bank, CEIC, Datastream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate yoy growth, real broad money (M2) yoy growth, short term real interest rate and government fiscal deficit/surplus as a percent of GDP.

**Figure 249: Earnings growth forecast (%)**



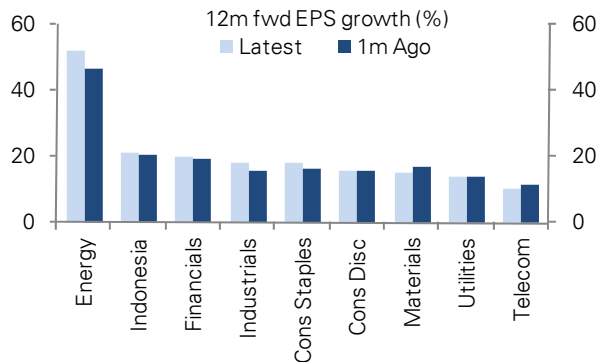
Source: Deutsche Bank, MSCI, I/B/E/S

**Figure 250: 12-month forward EPS revisions by sector**



Source: Deutsche Bank, MSCI, I/B/E/S. Note: EPS revisions = number of upward less downward revisions as percent of total number of revisions in one month.

**Figure 251: 12-month forward EPS growth forecast by sector**

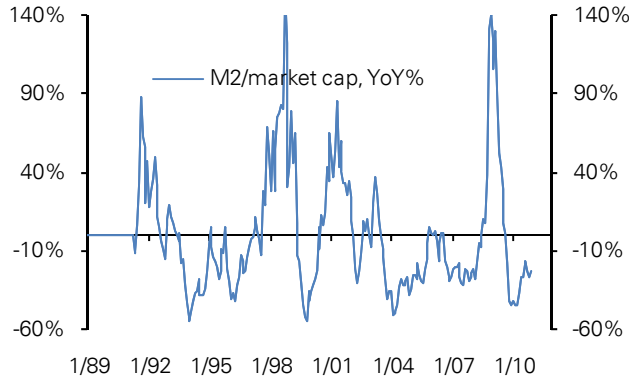


Source: Deutsche Bank, MSCI, I/B/E/S

## Indonesia – Liquidity

Free liquidity is rising gently, but foreign inflows have calmed down recently.

**Figure 252: M2/market cap**



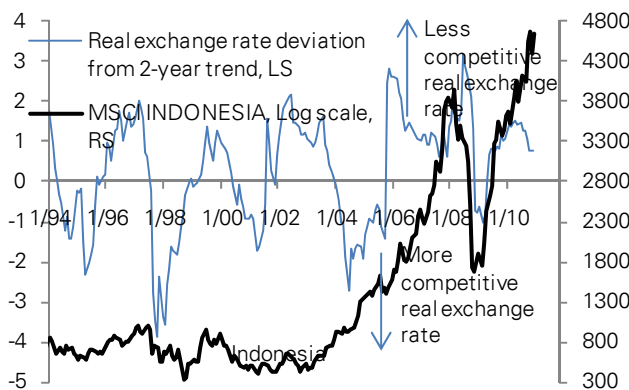
Source: Deutsche Bank, Datastream

**Figure 253: Free liquidity**



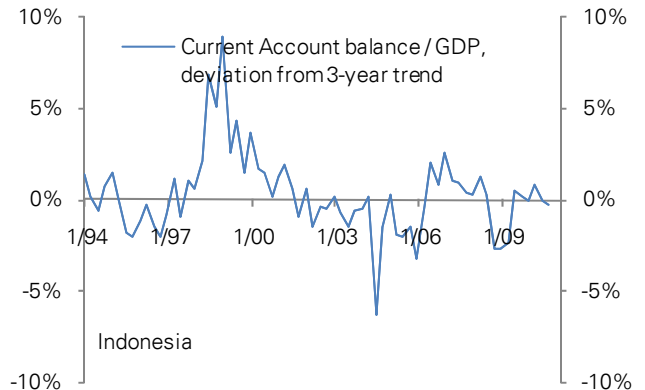
Source: Deutsche Bank, Datastream

**Figure 254: Real exchange rate**



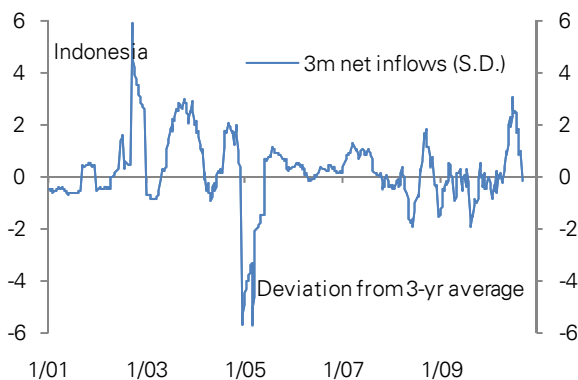
Source: Deutsche Bank, Bloomberg Finance LP, MSCI

**Figure 255: Current account balance/GDP**



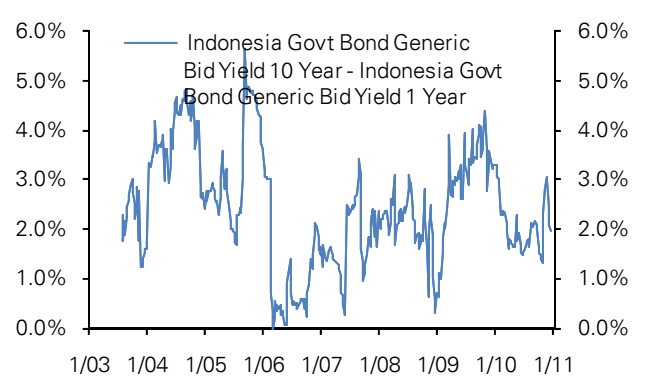
Source: Deutsche Bank, Datastream

**Figure 256: Foreign fund flows**



Source: Deutsche Bank, Bloomberg Finance LP

**Figure 257: Yield curve**

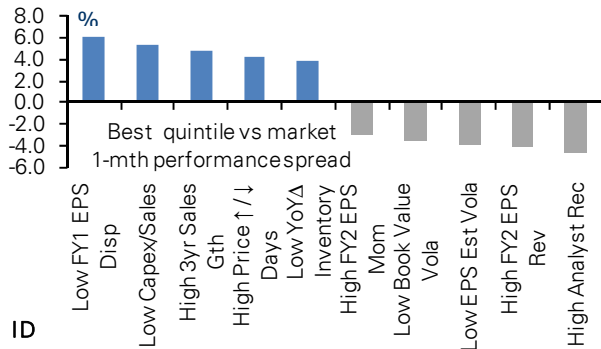


Source: Deutsche Bank, Bloomberg Finance LP

## Indonesia – Factor performance

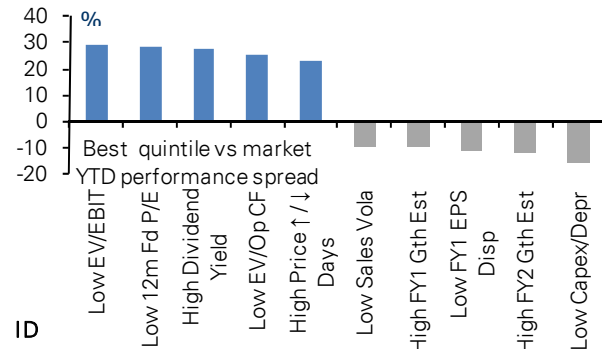
Value and EPS momentum, two long-term winners, have continued to do well this year. Price momentum has performed disproportionately well this year, and we would stay away from it.

**Figure 258: Best- and worst-performing factors (1-month)**



Source: Deutsche Bank

**Figure 259: Best- and worst-performing factors (YTD)**



Source: Deutsche Bank

**Figure 260: Best quintile vs. market relative performance (%)**

Indonesia Dec 6, 10	Returns					Ann. Rtn.			YTD	Returns					Ann. Rtn.		
	YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*		YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*
<b>Valuation</b>																	
Low 12m Fd P/E	28.1	1.4	9.4	18.5	30.0	2.5	3.8	4.6	High Cash ROC	12.6	0.8	-2.2	3.9	18.0	16.6	13.9	11.9
Low Trailing P/E	11.7	2.1	6.5	5.6	12.0	14.2	21.9	18.4	High YoYΔ Cash ROC	4.5	2.4	-0.3	4.2	7.4	7.9	6.6	5.8
Low P/Op Inc	14.0	1.3	3.0	9.7	12.1	12.1	16.9	13.9	High ROE	12.0	1.2	-0.5	6.6	14.9	21.4	17.8	17.3
Low P/BV	-2.1	-0.1	8.0	-3.6	-4.2	2.8	8.0	12.7	High YoYΔ ROE	-6.3	1.5	-0.3	2.6	-4.8	7.3	5.8	10.8
Low Price/Sales	-5.6	-1.4	-4.7	-2.9	-5.3	3.4	1.9	-1.6	<b>Average</b>	<b>5.7</b>	<b>1.5</b>	<b>-0.8</b>	<b>4.3</b>	<b>8.9</b>	<b>13.3</b>	<b>11.0</b>	<b>11.4</b>
Low P/FCF	14.9	0.8	5.0	14.3	13.3	11.5	11.7	10.2	<b>Growth</b>								
Low EV/EBIT	28.8	2.4	6.8	17.3	29.1	23.9	26.0	24.6	High 3yr Sales Gth	2.8	4.7	2.9	6.3	1.8	1.5	2.8	3.5
Low EV/EBITDA	21.4	2.8	7.1	8.3	17.8	21.1	23.8	24.2	High 5yr Sales Gth	-0.9	1.7	6.3	2.2	-3.4	1.8	4.2	1.5
Low EV/Cap Emp	13.1	0.1	10.3	6.9	12.2	6.1	5.6	8.3	High 3yr EPS Gth	16.8	2.4	9.5	11.6	14.8	7.8	4.9	7.4
Low EV/Sales	11.4	3.2	2.1	1.8	10.3	10.7	12.2	12.3	High 5yr EPS Gth	5.6	-0.9	0.0	2.7	8.7	4.4	4.2	8.1
Low EV/Op CF	25.3	2.3	8.9	15.8	25.1	17.7	18.4	18.0	High LT Gth Est	13.0	3.8	2.1	6.5	15.8	-0.6	2.5	3.1
Low EV/FCF	21.0	-0.7	4.6	12.6	21.9	16.1	16.3	15.0	High FY1 Gth Est	-9.6	-1.1	5.3	2.1	-6.8	-2.6	-1.5	-1.8
High Dividend Yield	27.7	3.1	4.8	13.7	28.4	23.2	25.2	22.9	High FY2 Gth Est	-12.0	1.9	8.0	3.0	-17.0	-13.3	-8.9	-7.2
<b>Average</b>	<b>16.1</b>	<b>1.3</b>	<b>5.5</b>	<b>9.1</b>	<b>15.6</b>	<b>12.7</b>	<b>14.7</b>	<b>14.1</b>	<b>Average</b>	<b>2.2</b>	<b>1.8</b>	<b>4.9</b>	<b>4.9</b>	<b>2.0</b>	<b>-0.2</b>	<b>1.2</b>	<b>2.1</b>
<b>Price Momentum</b>																	
High 6m Price Mom	3.4	-1.5	0.2	3.2	8.9	6.6	3.9	3.7	<b>Stability</b>								
High 9m Price Mom	7.7	-0.8	-0.9	7.7	11.8	4.2	5.1	6.7	Low EPS Vola	6.5	1.2	1.4	1.9	5.9	1.4	-1.1	2.9
High 12m Price Mom	14.0	0.7	0.3	6.0	16.9	5.9	5.9	6.8	Low Op Inc Vola	1.4	3.7	0.2	4.0	0.6	2.5	4.0	3.7
High Price Rel Strg	12.2	0.3	0.7	5.4	15.0	7.0	6.6	8.5	Low Book Value Vola	0.2	-3.5	-1.0	-1.3	1.2	-5.1	0.0	-2.6
High 3mΔ in Price Mom	7.1	-0.9	1.1	0.8	9.5	5.4	0.3	-1.5	Low Sales Vola	-9.5	-3.0	-2.5	-3.0	-7.2	-3.4	-4.4	-1.7
High Price ↑/↓ Days	23.2	4.3	6.6	18.2	25.0	14.2	8.7	9.2	Low EPS Est Vola	7.8	-3.8	-7.5	-8.0	5.8	-4.5	-6.2	-7.0
<b>Average</b>	<b>11.3</b>	<b>0.4</b>	<b>1.3</b>	<b>6.9</b>	<b>14.5</b>	<b>7.2</b>	<b>5.1</b>	<b>5.6</b>	<b>Average</b>	<b>1.3</b>	<b>-1.1</b>	<b>-1.9</b>	<b>-1.3</b>	<b>1.3</b>	<b>-1.8</b>	<b>-1.6</b>	<b>-0.9</b>
<b>Earnings Momentum</b>																	
High FY1 EPS Rev	4.1	-0.7	-2.3	-4.1	9.8	6.6	7.8	9.3	<b>Risk</b>								
High FY2 EPS Rev	-1.3	-4.0	-3.9	-6.5	-0.5	2.4	8.6	10.6	Low FY1 EPS Disp	-10.7	6.1	2.2	-1.6	-10.6	-8.5	-2.3	1.8
High 12m Fd EPS Rev	3.0	-2.5	-5.0	-5.5	5.0	3.4	8.1	9.5	Low FY2 EPS Disp	2.6	2.5	-2.8	2.6	5.9	0.4	2.5	4.0
High FY1 EPS Mom	23.0	-0.3	-4.0	7.1	24.3	9.1	9.7	8.2	High EBIT/Int Exp	9.5	3.1	-1.3	3.5	9.9	13.3	15.6	16.1
High FY2 EPS Mom	7.3	-3.1	-4.6	1.6	8.7	4.1	7.2	6.9	Low Debt/Equity	-3.6	-1.4	-5.9	-4.4	-2.4	2.7	-3.9	-1.6
<b>Average</b>	<b>7.2</b>	<b>-2.1</b>	<b>-4.0</b>	<b>-1.5</b>	<b>9.4</b>	<b>5.1</b>	<b>8.3</b>	<b>8.9</b>	High Altman Z Score	0.7	0.5	-2.7	-0.2	11.3	9.9	9.0	11.3
<b>Capex Deployment &amp; Earnings Accruals</b>																	
Low Capex/Depr	-15.8	-0.8	-2.7	-6.4	-15.2	-9.8	-8.8	-5.5	High Market Cap	5.7	0.7	1.2	5.4	7.7	7.8	8.5	10.0
Low Capex/Sales	21.3	5.4	3.9	15.2	23.4	0.9	-0.2	-0.2	<b>Average</b>	<b>0.7</b>	<b>1.9</b>	<b>-1.5</b>	<b>0.9</b>	<b>3.6</b>	<b>4.3</b>	<b>4.9</b>	<b>6.9</b>
Low Capex/FA	-7.2	-1.3	-3.1	-1.4	-6.8	-7.1	-6.5	-5.2	<b>Consensus Ratings</b>								
High YoYΔ Receivables	2.1	2.1	1.2	7.0	0.5	-0.3	-0.9	2.2	High Analyst Rec	5.8	-4.7	-3.5	4.9	6.4	3.2	5.2	9.8
Low YoYΔ Inventory	8.1	3.9	4.1	6.4	8.4	1.3	2.1	1.2	High 1mΔ Analyst Rec	0.6	-0.5	2.3	-0.8	-0.4	7.9	4.6	6.1
Low YoYΔ Payables	14.6	0.0	6.2	11.0	16.0	1.6	0.8	0.1	<b>Average</b>	<b>3.2</b>	<b>-2.6</b>	<b>-0.6</b>	<b>2.0</b>	<b>3.0</b>	<b>5.5</b>	<b>4.9</b>	<b>8.0</b>
<b>Average</b>	<b>3.9</b>	<b>1.5</b>	<b>1.6</b>	<b>5.3</b>	<b>4.4</b>	<b>-2.2</b>	<b>-2.3</b>	<b>-1.2</b>									

Source: Deutsche Bank, FactSet, I/B/E/S. Note: \*1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended Nov 2010. Relative performance is based on equal weighted average returns of the best quintile basket and the market. For description on factors please see appendix A.

## Korea strategy

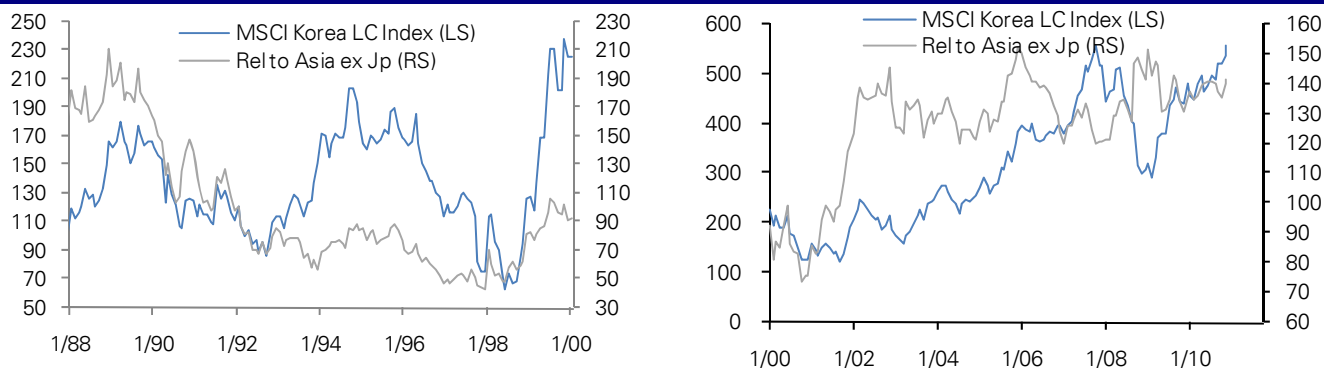
1. **Policy and economics:** The Bank of Korea raised the base rate by 25bps to 2.5% in November after the 25bps hike implemented in July 2010, as inflation pressure increased and the G20 summit eased recent currency issues. The factory utilization rate in November declined to 79.5% from the record high at 84.8% in July due to the seasonal effect. Inventory restocking is still in progress and shipments remain robust. November CPI rose 3.3% yoy. November preliminary trade surplus came in at USD3.6bn. Exports came in at USD42.4bn, up 24.6% yoy, imports came in at USD38.8bn, up 31.2% yoy. MKE commented that strong exports were driven by machinery, semiconductor, automobiles and LCD products.
2. **2011 outlook:** The 2011 year-end target was set at 2,350, implying the low probability of a double dip in the global economy and improving local liquidity conditions for equities. Setting our target, we apply 11.0x PE, one standard deviation from the average 12M forward PE of 9.2x since 2001. The market currently trades at 9.1x and 1.2x 2011 expected earnings and book value, a 30% discount over Asian peers. The market now projects 10% earnings growth in 2011 after 61% earnings growth in 2010, respectively. Our key investment highlights are: 1) local redemption in the final phase: Still negative real interest rates and potential turnaround in KOLEI will revive investor sentiment and reduce the local redemption requirements. 2) Possible asset price inflation in 2011: the BoK will face difficulties in controlling the balance of current account surplus, minimizing currency appreciation and normalizing the policy rate. There will be no aggressive rate hike by the central bank. 3) Limited earnings risk: continued global market share gains by major Korean export products and improved cost structure will minimize the negatives from a strong Korean won. 4) Still compelling valuations: based on its historical standards and compared to Asian peers, the market valuations still look undemanding.
3. **Fund flows and investor views:** Local funds continue to fly out of equity-type funds managed by ITCs and into fixed income and brokerage firms (customer deposit and wrap accounts). Equity-type funds saw a net outflow of W1.1tr in November, resulting in a total outflow of W22.2tr year-to-date, while bond-type funds saw a net inflow of W0.5tr in November and W7.6tr year to date. Customer deposits in brokerage firms witnessed an increase of W120bn in the month and W3.2tr year to date, while wrap accounts recorded a net inflow of about W12.4tr up to August 2010. Foreign investors net bought W1.7tr in November. On the other hand, domestic institutions and individual investors net sold W1.3tr and W0.4tr, respectively. Year to date, foreign investors net bought W17.8tr, while domestic institutions and individual investors net sold W9.9tr and W4.9tr, respectively.
4. **Events/data/risks to watch for:** Event – Bank of Korea monetary policy meeting on 9 December. Risks: a) sharper-than-expected currency strength and steeper-than-expected policy rate hike; b) geopolitical concern: North Korea may escalate tension in the Korean peninsula after the nomination of the next leader to consolidate its people with those of South Korea and to attract attention and thereby increase its negotiation power.
5. **Top 10 stock ideas:** Samsung Electronics, POSCO, Hyundai Motor Co., Shinhan Financial, LG Chem, Hyundai Mobis, S-Oil, Hyundai Department Store, Mirae Asset Securities, Korean Reinsurance.

**Chanik Park**



## Korea – Market intelligence

**Figure 261: Equity market performance**



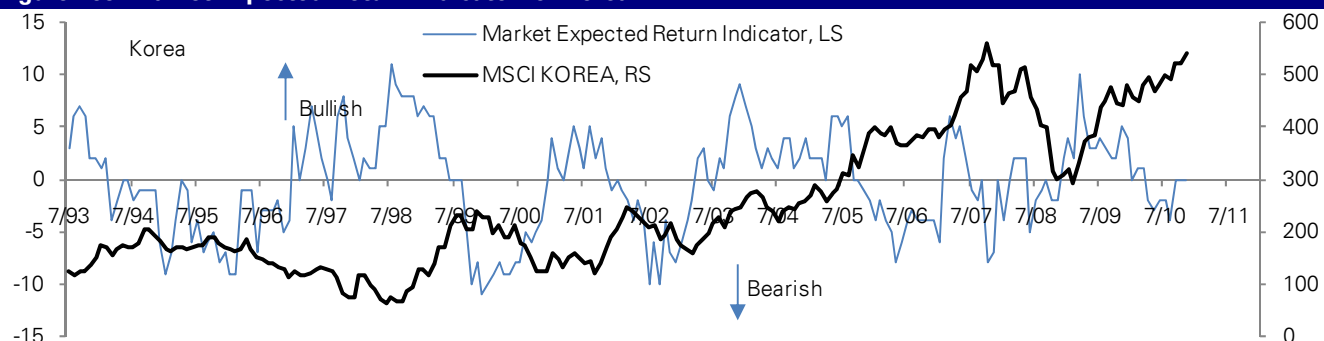
Source: Deutsche Bank, MSCI.  
Market relative = relative to MSCI AC Asia ex Japan.

**Figure 262: Market intelligence by sector**

8Dec10	Mcap	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
Sector (#Co)	U\$m	1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Energy (3)	15,235	3.2	55.6	11.4	10.1	8.9	1.6	1.4	1.3	1.5	2.1	2.5	92.6	12.6	13.0	14.4	14.3	14.4
Materials (11)	68,909	-1.5	11.2	10.2	9.2	8.3	1.6	1.4	1.2	1.3	1.4	1.5	25.5	11.0	11.2	15.4	14.9	14.4
Capital Goods (23)	73,913	-0.9	30.4	12.0	10.5	9.6	1.7	1.5	1.3	1.1	1.2	1.3	37.0	14.5	8.7	14.4	14.4	13.9
Comm Svc (1)	791	-7.3	9.3	17.5	14.4	12.9	2.8	2.5	2.2	2.2	2.4	2.5	8.6	21.3	11.4	16.1	17.2	16.9
Transportation (3)	4,736	-8.1	22.9	nm	9.4	8.7	1.6	1.4	1.2	0.5	0.6	0.7	na	14.8	7.8	14.8	14.6	13.6
Autos (6)	58,716	3.8	70.2	10.3	9.2	8.6	2.2	1.8	1.5	0.6	0.7	0.7	56.1	11.1	7.3	21.7	19.7	17.7
Cons Durables (3)	11,623	11.3	-6.3	47.4	14.3	9.5	1.9	1.7	1.5	1.4	1.6	1.6	-79.6	231.1	49.9	4.0	11.9	16.1
Cons Svc (1)	2,365	6.6	70.6	13.1	12.0	11.4	2.8	2.5	2.2	3.7	4.0	4.2	13.0	9.6	5.0	21.6	20.9	19.6
Retailing (2)	5,614	-7.2	24.2	13.4	11.5	10.2	1.1	1.0	0.9	0.3	0.4	0.4	18.1	16.1	12.8	8.2	8.8	9.0
Food/Staples Retail (1)	6,999	0.7	5.6	10.0	13.5	11.9	1.7	1.5	1.3	0.2	0.2	0.2	87.8	-25.9	14.1	16.5	11.0	11.3
Food Beverage (4)	8,995	-4.8	-2.1	9.6	10.5	9.9	1.5	1.4	1.3	3.5	3.6	3.7	47.5	-26.0	5.8	19.3	13.2	12.9
Household Products (2)	6,125	3.1	27.5	26.5	22.9	19.5	6.1	5.0	4.1	0.6	0.7	0.8	27.0	15.5	17.6	23.0	21.9	21.3
Pharma & Biotech (2)	2,811	11.1	44.2	21.9	17.5	14.8	3.0	2.6	2.3	0.2	0.2	0.3	21.0	25.3	18.4	13.6	14.9	15.4
Banks (8)	50,913	4.4	1.5	11.0	8.0	6.8	1.0	0.9	0.8	1.8	2.7	3.3	77.0	37.2	16.8	9.0	11.2	12.0
Div Financials (8)	13,886	-2.2	6.3	14.0	11.9	10.4	1.3	1.2	1.1	1.9	2.4	2.7	11.5	17.0	14.3	9.2	10.0	10.6
Insurance (4)	12,963	-3.0	1.0	13.2	12.2	10.7	1.5	1.4	1.2	1.5	1.8	2.0	8.8	18.1	14.5	11.6	11.1	11.5
Software (3)	10,850	-4.5	16.9	19.3	15.3	13.1	5.5	4.2	3.2	0.1	0.2	0.2	16.1	26.4	17.1	28.5	27.1	24.6
Tech Hard/Equip (4)	21,268	3.4	12.9	13.2	11.9	10.1	1.7	1.5	1.4	0.9	0.9	1.0	63.3	11.6	17.7	13.1	13.0	13.6
Semis (4)	108,077	11.3	10.4	9.4	9.3	8.2	1.8	1.5	1.3	1.0	1.1	1.1	90.7	-9.0	12.7	21.3	16.6	16.1
Telecom (4)	13,210	1.0	5.3	9.7	8.1	7.2	1.1	1.0	0.9	5.1	5.4	5.7	50.1	8.6	12.7	12.7	12.7	13.1
Utilities (2)	7,343	-2.8	-14.8	-78.9	10.7	8.4	0.6	0.6	0.5	0.9	1.8	2.2	-342.7	na	28.1	-0.6	4.2	5.2
Korea (99)	505,343	3.7	16.2	11.4	9.9	8.7	1.6	1.4	1.2	1.3	1.5	1.6	49.7	11.0	12.8	14.3	13.9	13.9

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI country index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year-end) with current prices. All numbers are free-float adjusted.

**Figure 263: Market Expected Return Indicator for Korea**

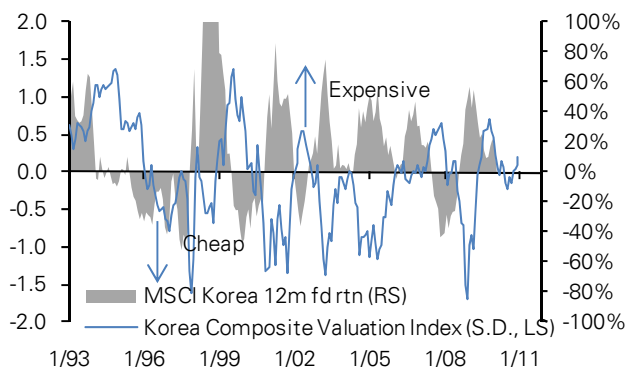


Source: Deutsche Bank, MSCI, Bloomberg Finance LP

## Korea – Valuation

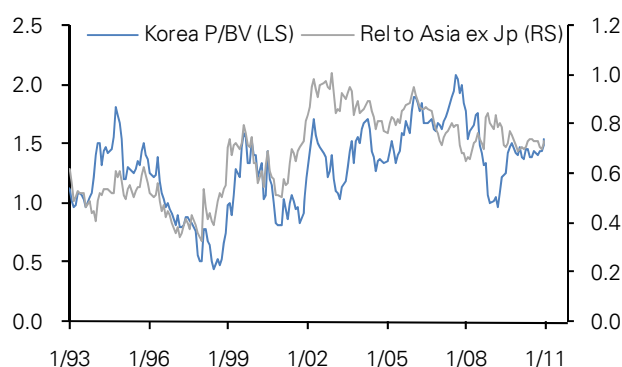
The Korean market is slightly above fair value. We think it does not deserve its valuation discount to the region – the debt has been cut substantially and ROEs are well above COEs, a reversal from the 1990s.

**Figure 264: Composite valuation index**



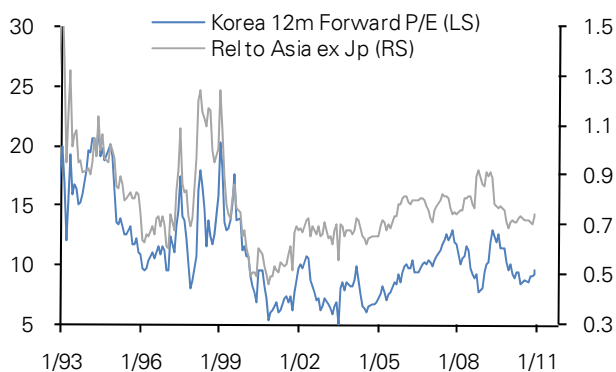
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history

**Figure 265: Price-to-book value**



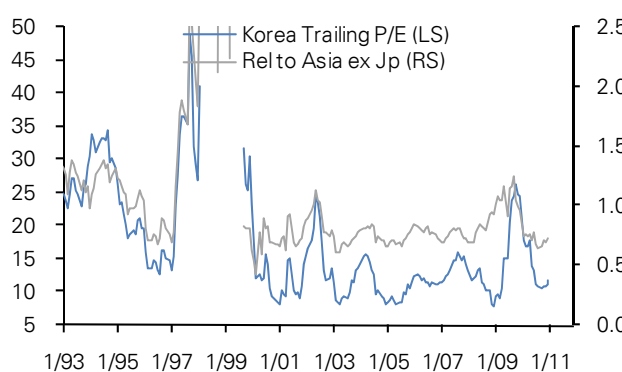
Source: Deutsche Bank, MSCI, Datastream. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 266: 12-month forward P/E**



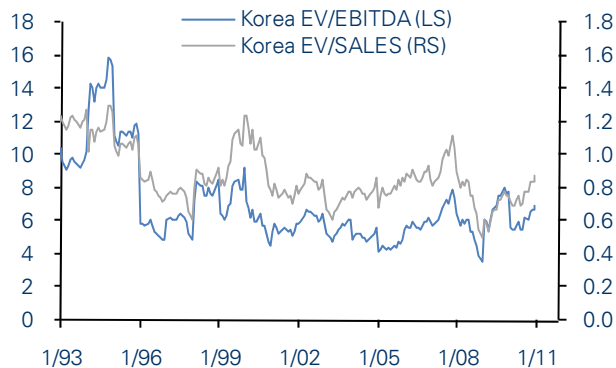
Source: Deutsche Bank, MSCI, IB/E/S. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 267: 12-month trailing P/E**



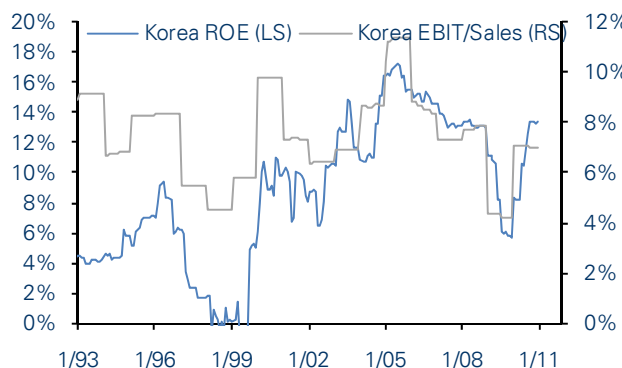
Source: Deutsche Bank, MSCI, Datastream. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 268: EV multiples**



Source: Deutsche Bank, MSCI, FactSet

**Figure 269: ROE and EBIT margin**

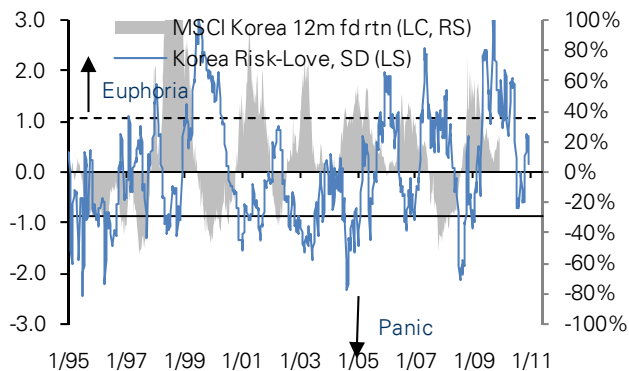


Source: Deutsche Bank, MSCI, FactSet

## Korea – Investor sentiment

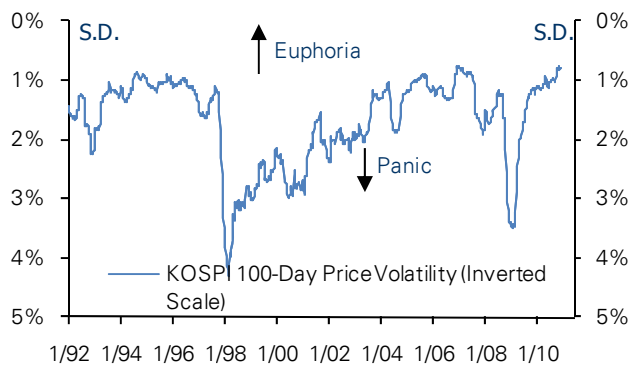
Risk-love is only neutral, down slightly as tensions with North Korea escalated.

**Figure 270: Equity Risk-Love indicator**



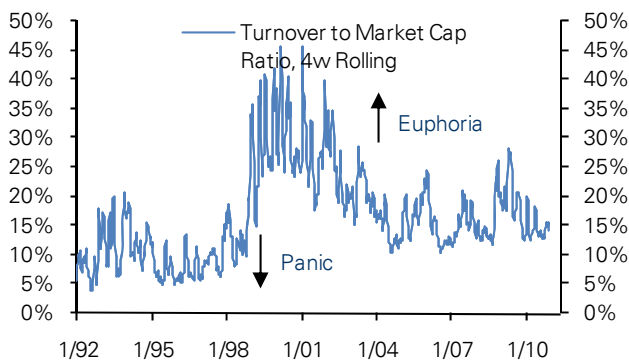
Source: Deutsche Bank, MSCI

**Figure 271: Market volatility**



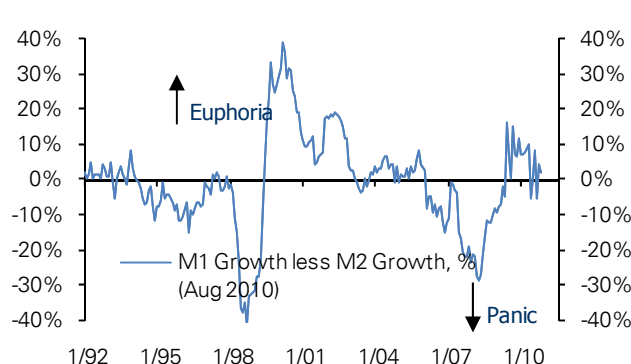
Source: Deutsche Bank, Datastream

**Figure 272: Turnover-to-market cap ratio**



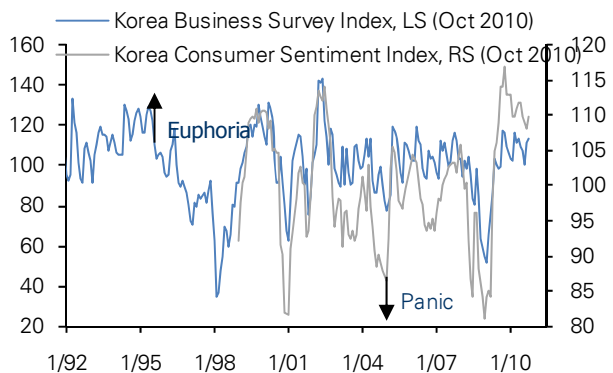
Source: Deutsche Bank, CEIC, Datastream

**Figure 273: M1 less M2 growth**



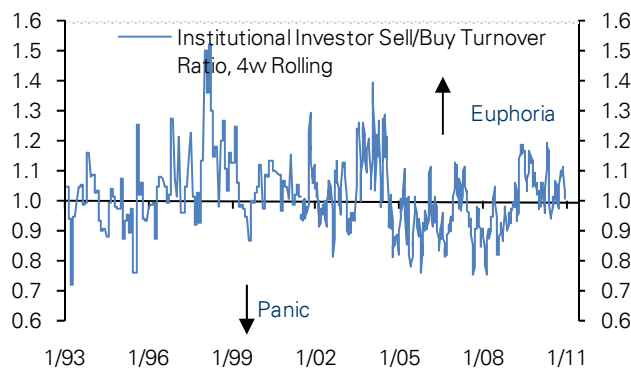
Source: Deutsche Bank, Datastream

**Figure 274: Consumer and business survey**



Source: Deutsche Bank, Bloomberg Finance LP

**Figure 275: Institutional investor Sell/Buy ratio**

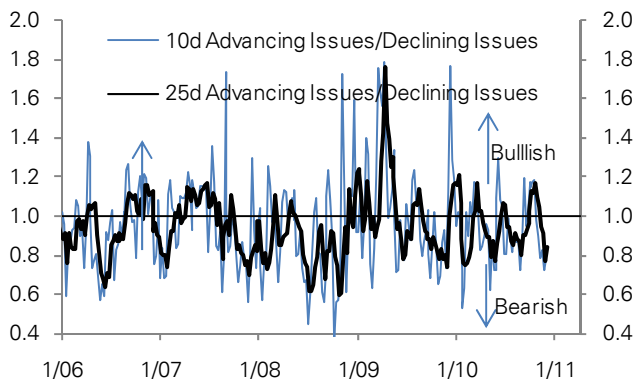


Source: Deutsche Bank, CEIC

## Korea – Technicals

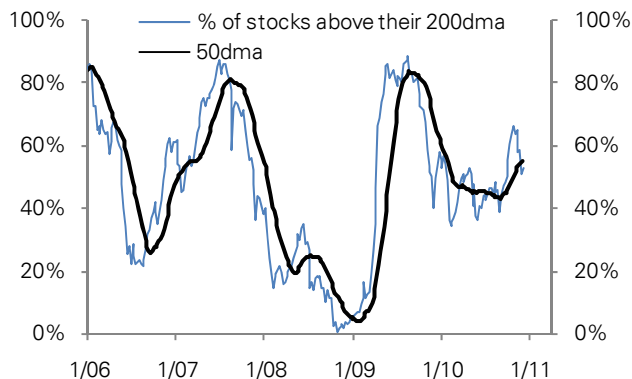
Technicals are mixed – breadth is strong, but we do not see too many new highs.

**Figure 276: Advance/decline ratio**



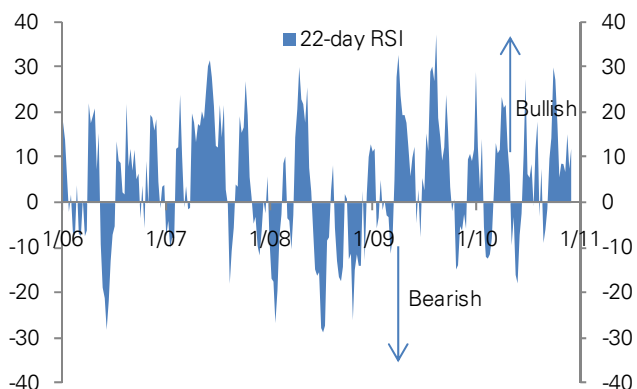
Source: Deutsche Bank, Datastream, FactSet

**Figure 277: Percentage of stocks above their 200dma**



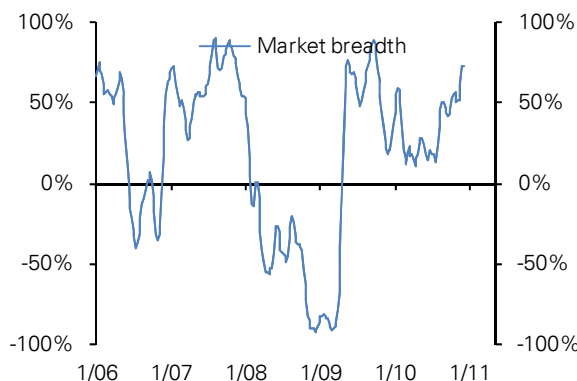
Source: Deutsche Bank, Datastream, FactSet

**Figure 278: Relative Strength Index**



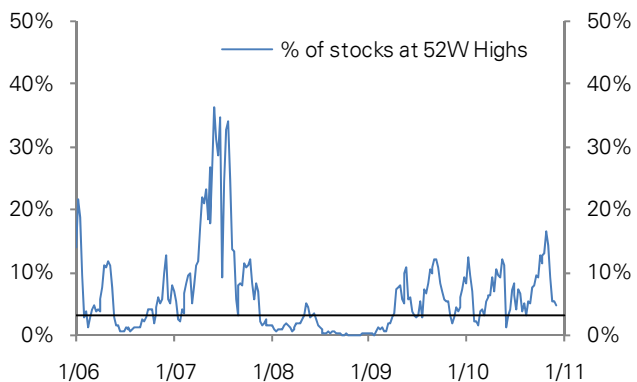
Source: Deutsche Bank, Datastream, FactSet

**Figure 279: Market breadth**



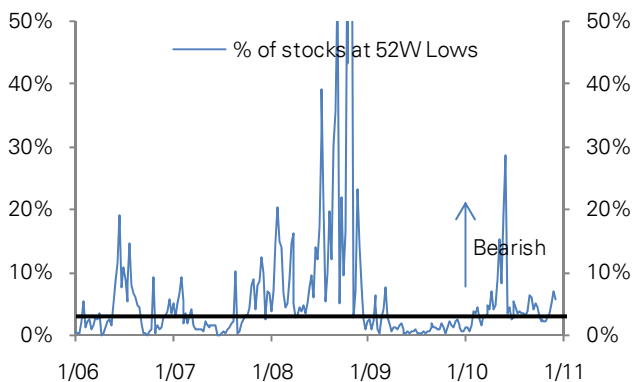
Source: Deutsche Bank, Datastream, FactSet. Market breadth is defined as (number of sub-sectors up on six-month basis minus number of sub-sectors down on six-month basis) / total sub-sectors available.

**Figure 280: Percentage of stocks at 52-week highs**



Source: Deutsche Bank, Datastream, FactSet

**Figure 281: Percentage of stocks at 52-week lows**

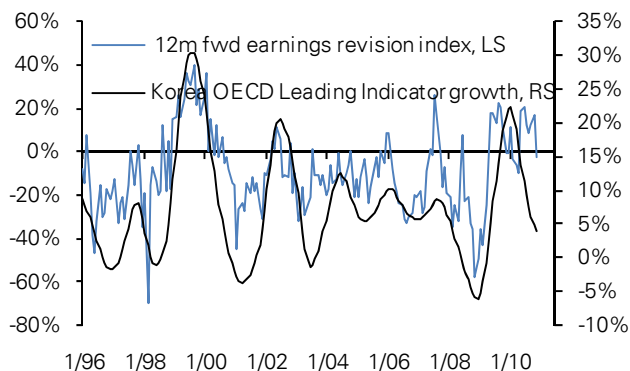


Source: Deutsche Bank, Datastream, FactSet

## Korea – Growth and earnings

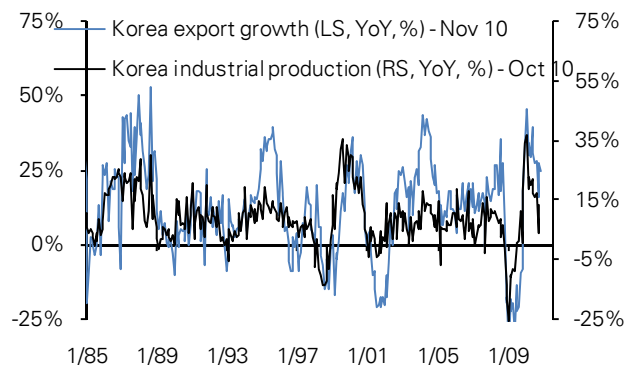
Economist Juliana Lee projects nominal GDP growth around 9% next year – but bottom-up analyst EPS growth rates are only 13% from an estimated 54% this year. Expect EPS upgrades, especially given our above-consensus US GDP growth of 3.2% for next year.

**Figure 282: Leading economic indicators**



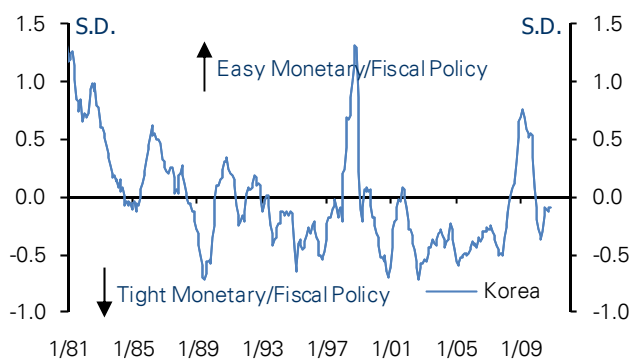
Source: Deutsche Bank, I/B/E/S, OECD, Datastream

**Figure 283: Industrial production and export growth**



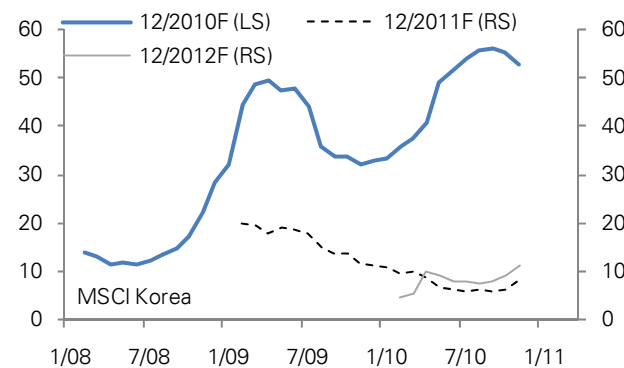
Source: Deutsche Bank, Datastream

**Figure 284: Composite policy indicator**



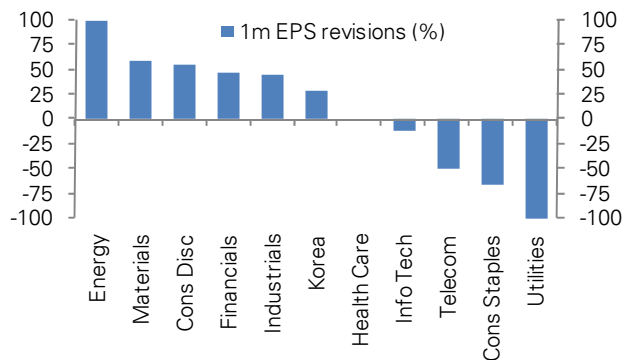
Source: Deutsche Bank, CEIC, Datastream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate yoy growth, real broad money (M2) yoy growth, short term real interest rate and government fiscal deficit/surplus as a percent of GDP.

**Figure 285: Earnings growth forecast (%)**



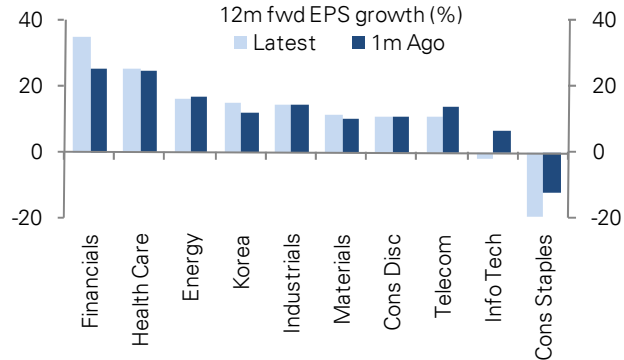
Source: Deutsche Bank, MSCI, I/B/E/S

**Figure 286: 12-month forward EPS revisions by sector**



Source: Deutsche Bank, MSCI, I/B/E/S. Note: EPS revisions = number of upward less downward revisions as percent of total number of revisions in one month.

**Figure 287: 12-month forward EPS growth forecast by sector**

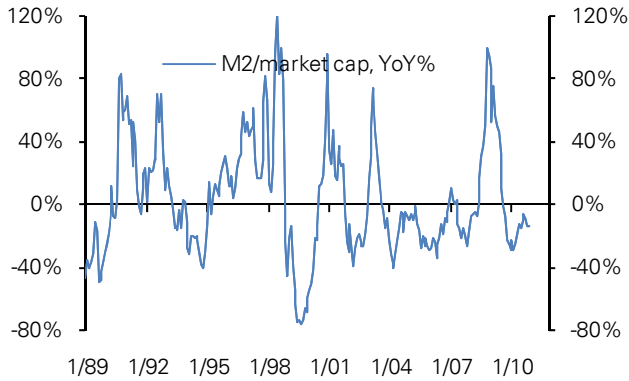


Source: Deutsche Bank, MSCI, I/B/E/S

## Korea – Liquidity

The terms of trade (export prices divided by import prices) continue to rise – they are a good leading indicator of the KOSPI.

**Figure 288: M2/market cap**



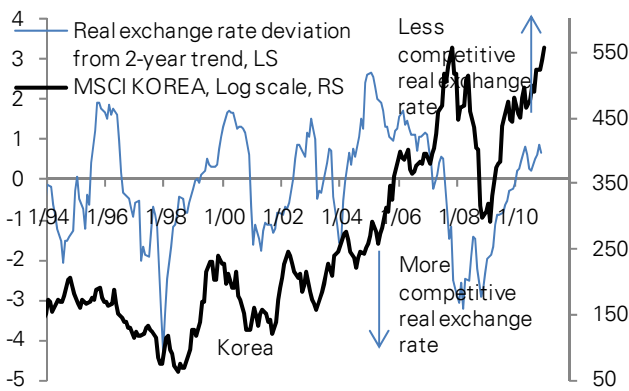
Source: Deutsche Bank, Datastream

**Figure 289: Free liquidity**



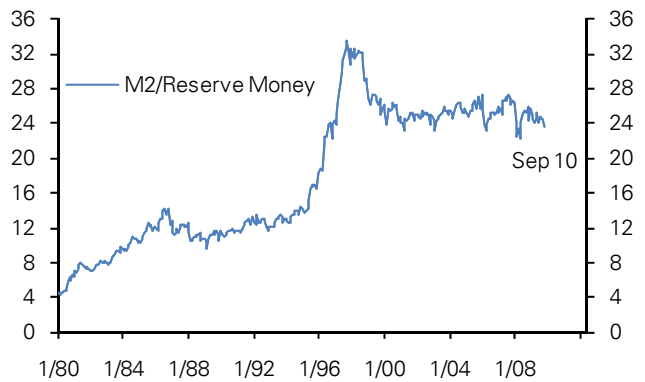
Source: Deutsche Bank, Datastream

**Figure 290: Real exchange rate**



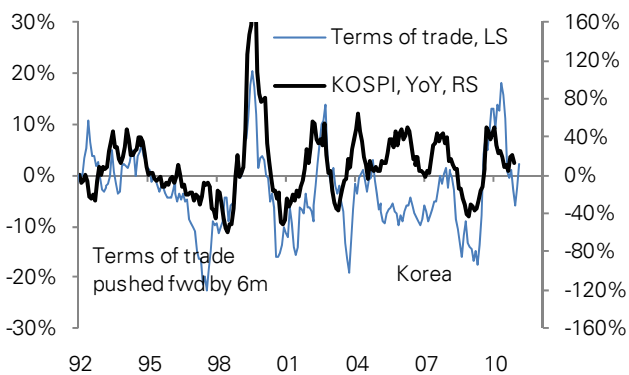
Source: Deutsche Bank, MSCI, Bloomberg Finance LP

**Figure 291: M2/base money**



Source: Deutsche Bank, Datastream

**Figure 292: Terms of trade**



Source: Deutsche Bank, Bloomberg Finance LP

**Figure 293: Yield curve**

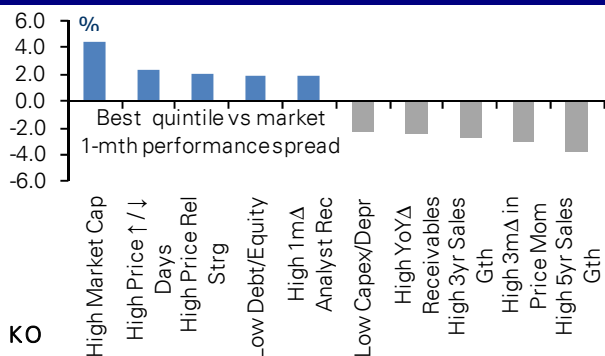


Source: Deutsche Bank, Bloomberg Finance LP

### Korea – Factor performance

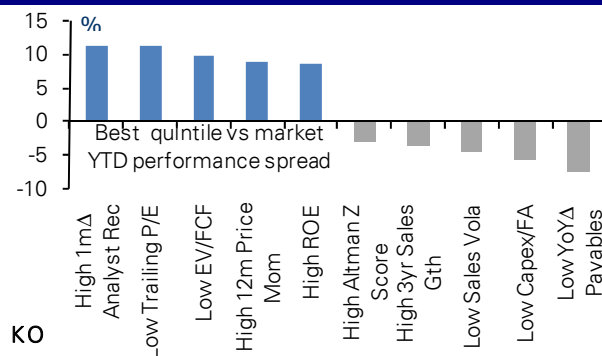
Style-based alpha is tough to come by in this “story”-driven market. But value and profitability are helpful.

**Figure 294: Best- and worst-performing factors (1-month)**



Source: Deutsche Bank

**Figure 295: Best- and worst-performing factors (YTD)**



Source: Deutsche Bank

**Figure 296: Best quintile vs. market relative performance (%)**

Korea Dec 6, 10	Returns								Ann. Rtn.			Returns								Ann. Rtn.						
	YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*	YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*	YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*		
<b>Valuation</b>																										
Low 12m Fd P/E	-3.0	-0.9	1.2	1.0	-3.0	0.9	7.3	6.1	High Cash ROC	8.1	0.9	1.8	3.3	9.6	7.4	6.5	11.9	<b>Profitability</b>								
Low Trailing P/E	11.2	1.6	3.2	3.2	10.8	11.4	13.6	13.4	High YoYΔ Cash ROC	-2.8	0.4	-0.3	-0.1	-1.5	5.2	2.6	2.7	High ROE	8.6	1.2	2.5	2.6	10.7	7.0	6.7	7.8
Low P/Op Inc	5.7	0.3	1.9	3.8	6.1	11.3	14.9	10.9	High YoYΔ ROE	6.0	0.1	1.8	-1.0	8.0	4.1	2.7	2.3	<b>Average</b>	<b>5.0</b>	<b>0.6</b>	<b>1.5</b>	<b>1.2</b>	<b>6.7</b>	<b>5.9</b>	<b>4.6</b>	<b>6.2</b>
Low P/BV	1.2	-0.2	1.1	0.2	-0.5	8.5	9.9	7.4	<b>Growth</b>																	
Low Price/Sales	0.3	0.3	2.9	3.8	-1.1	6.7	4.4	-0.1	High 3yr Sales Gth	-3.7	-2.7	-1.5	-2.4	-1.3	-4.6	-2.8	-2.9	High 5yr Sales Gth	-1.8	-3.7	-1.1	0.5	0.1	-1.7	1.7	-1.2
Low P/FCF	4.8	0.8	3.2	4.6	4.9	11.6	12.4	14.8	High 3yr EPS Gth	1.8	0.8	2.5	0.2	3.4	2.1	2.4	1.8	High 5yr EPS Gth	5.5	-0.3	-0.2	1.7	6.7	4.4	2.6	0.3
Low EV/EBIT	5.5	1.3	1.6	1.3	4.6	10.7	12.2	14.3	High LT Gth Est	-2.9	1.7	1.4	-3.2	-1.4	2.9	3.8	3.8	High FY1 Gth Est	0.6	-0.4	-0.4	-0.5	2.9	-1.7	-1.7	-2.0
Low EV/EBITDA	6.9	1.2	2.3	1.8	6.3	14.3	13.5	18.6	High FY2 Gth Est	-2.1	-1.7	0.6	-1.4	2.2	-1.7	-4.0	-5.0	<b>Average</b>	<b>-0.4</b>	<b>-0.9</b>	<b>0.2</b>	<b>-0.7</b>	<b>1.8</b>	<b>0.0</b>	<b>0.3</b>	<b>-0.7</b>
Low EV/Cap Emp	2.3	0.1	-0.7	-2.7	0.3	8.1	8.7	12.9	<b>Stability</b>																	
Low EV/Sales	3.5	1.0	-0.5	-0.1	1.9	8.1	9.7	12.5	Low EPS Vola	0.4	1.0	-2.2	-1.0	-1.1	0.3	2.1	1.5	Low Op Inc Vola	0.6	1.2	1.1	2.5	0.7	4.6	5.5	2.5
Low EV/Op CF	3.4	1.2	0.4	0.1	3.9	12.3	14.5	21.5	Low Book Value Vola	-1.9	-0.2	-0.6	-0.5	-2.4	2.0	3.2	4.5	Low Sales Vola	-4.6	1.1	-1.6	-1.6	-3.1	3.1	5.0	4.6
Low EV/FCF	9.8	1.3	2.6	5.4	9.8	12.9	14.1	17.4	Low EPS Est Vola	3.7	1.4	2.4	1.6	1.8	0.1	-1.9	-3.0	<b>Average</b>	<b>-0.3</b>	<b>0.9</b>	<b>-0.2</b>	<b>0.2</b>	<b>-0.8</b>	<b>2.0</b>	<b>2.8</b>	<b>2.0</b>
High Dividend Yield	2.8	0.5	0.5	-0.2	3.6	16.5	24.0	22.9	<b>Risk</b>																	
<b>Average</b>	<b>4.2</b>	<b>0.7</b>	<b>1.5</b>	<b>1.7</b>	<b>3.7</b>	<b>10.3</b>	<b>12.2</b>	<b>13.3</b>	Low FY1 EPS Disp	1.1	1.4	-2.7	-0.6	-3.5	1.6	5.3	7.1	Low FY2 EPS Disp	-3.0	0.9	-1.6	-2.0	-5.2	0.6	4.8	5.5
<b>Price Momentum</b>																										
High 6m Price Mom	1.0	-1.3	0.5	-1.7	-0.1	-7.0	-4.2	-5.1	High EBIT/Int Exp	3.3	0.9	0.6	-1.4	3.4	8.9	6.2	9.8	Low Debt/Equity	-1.5	1.9	0.8	-3.0	-1.7	2.3	-3.6	-2.5
High 9m Price Mom	6.5	0.9	3.7	1.4	6.0	-5.9	-1.8	-2.3	High Altman Z Score	-3.0	-0.4	-0.1	-2.6	-1.7	-5.1	-8.2	-4.3	High Market Cap	7.3	4.5	0.3	4.9	7.7	8.1	8.0	6.6
High 12m Price Mom	8.8	0.7	3.1	0.9	9.7	-4.5	0.1	-1.2	<b>Average</b>	<b>0.7</b>	<b>1.5</b>	<b>-0.5</b>	<b>-0.8</b>	<b>-0.2</b>	<b>2.7</b>	<b>2.1</b>	<b>3.7</b>	<b>Consensus Ratings</b>								
High Price Rel Strg	5.7	2.0	3.5	1.4	6.7	-1.7	3.4	2.6	High Analyst Rec	-1.3	-0.5	0.3	-2.6	0.9	-1.4	4.6	7.0	High 1mΔ Analyst Rec	11.4	1.9	1.3	5.7	11.1	6.0	4.7	4.6
High 3mΔ in Price Mom	-2.7	-3.0	-1.1	-3.0	-3.7	-8.4	-5.8	-6.3	<b>Average</b>	<b>5.0</b>	<b>0.7</b>	<b>0.8</b>	<b>1.6</b>	<b>6.0</b>	<b>2.3</b>	<b>4.6</b>	<b>5.8</b>									
High Price ↑/↓ Days	3.7	2.3	2.1	-0.1	3.1	4.5	6.3	3.7																		
<b>Average</b>	<b>3.8</b>	<b>0.3</b>	<b>2.0</b>	<b>-0.2</b>	<b>3.6</b>	<b>-3.8</b>	<b>-0.3</b>	<b>-1.4</b>																		
<b>Earnings Momentum</b>																										
High FY1 EPS Rev	-1.8	0.1	-0.9	-2.1	-1.5	1.1	5.4	3.9																		
High FY2 EPS Rev	4.9	-2.2	-1.6	-0.7	5.2	6.2	8.6	6.7																		
High 12m Fd EPS Rev	5.0	-1.6	0.2	-0.4	4.5	8.8	9.8	2.7																		
High FY1 EPS Mom	-1.0	0.7	-0.5	-2.7	-2.0	6.4	12.5	11.8																		
High FY2 EPS Mom	3.0	0.2	2.4	-0.3	3.9	11.0	20.1	15.2																		
<b>Average</b>	<b>2.0</b>	<b>-0.6</b>	<b>-0.1</b>	<b>-1.3</b>	<b>2.0</b>	<b>6.7</b>	<b>11.3</b>	<b>8.1</b>																		
<b>Capex Deployment &amp; Earnings Accruals</b>																										
Low Capex/Depr	-0.4	-2.3	-2.3	-3.2	-1.4	-5.6	-8.7	-5.6																		
Low Capex/Sales	2.5	-1.8	0.1	-0.1	0.0	-1.6	-3.3	-5.3																		
Low Capex/FA	-5.5	-0.8	1.0	0.5	-6.8	-5.5	-7.2	-7.2																		
High YoYΔ Receivables	-1.5	-2.4	-0.1	0.4	-2.2	-4.1	-4.1	-3.5																		
Low YoYΔ Inventory	-0.6	-1.4	-2.1	-1.0	-0.6	-2.5	-2.9	-3.9																		
Low YoYΔ Payables	-7.4	-2.0	-4.0	-6.4	-7.0	-4.0	-3.9	-4.9																		
<b>Average</b>	<b>-2.2</b>	<b>-1.8</b>	<b>-1.2</b>	<b>-1.6</b>	<b>-3.0</b>	<b>-3.9</b>	<b>-5.0</b>	<b>-5.1</b>																		

Source: Deutsche Bank, FactSet, I/B/E/S. Note: \*1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended Nov 2010. Relative performance is based on equal weighted average returns of the best quintile basket and the market. For description on factors please see appendix A.



## Malaysia strategy

1. **Policy and economics:** We are increasingly convinced that the government's plan to move Malaysia out of the middle-income trap is starting to make an impact. Malaysia's bold economic transformation plan (ETP) may be ambitious (6% GDP growth pa till 2020 to deliver upwards of USD16,500/capita income), but baby steps have begun with 12 projects worth more than RM30bn committed so far by the private investors (e.g., Schlumberger's global financial hub outside the US). This is not a bad start. Also, the construction of the RM40bn MRT project is targeted to start in July 2011, transforming greater Kuala Lumpur into a more efficient city.

After a strong 1H, thanks to a sharp rebound in exports, we forecast the country to end the year with GDP growth of 6.5%. Recent macro data have been weak, with exports in October growing at a much slower pace of 1.3% yoy, sharply down from 6.9% in September. This is largely because Malaysia is still an export-driven economy with an export/GDP ratio of around 115%.

The government is conscious of tackling the fiscal deficit, projected at 5.4% by 2011, one of the highest in the region. So far, the government has raised fuel prices on a gradual basis and is also preparing to introduce GST. As a result, Malaysia is going through a major structural shift and may be 'unsettling' in the near term. However, we believe the market will increasingly react positively to news flow on the progress of the ETP. So far, we have seen government stake sales, larger IPOs, mergers in the property sector, fuel subsidy reduction, reduced crime rates, greater investments etc.

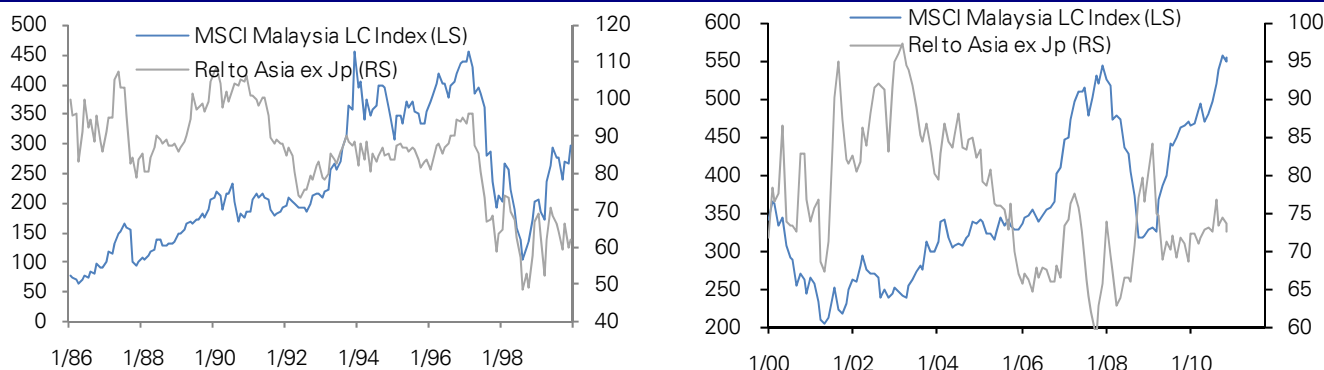
2. **Company visits/results:** Local companies are confident and continue to seek growth within ASEAN. The 3Q results season, with a hefty 83% of stocks under our coverage reporting results "in line" with expectations, suggests the market is likely to meet our EPS growth forecasts of 45% and 18% for 2010 and 2011 respectively. Our company visits have indicated that new and larger construction jobs are underway, selected sectors are suffering from the higher MYR (e.g., rubber glove manufacturers), palm oil producers are battling volatile weather conditions which have led to weaker yields, and banks have had a good year, notching up loans growth of 10-12%, higher than the market had expected at the start of the year. This trend, we believe, should persist into 1H11.
3. **Fund flows and investor views:** Foreigners have been net buyers of Malaysian equities since June 2010, with record purchases of nearly RM12bn in September – a sharp turnaround from 2009 and earlier in 1H10. Foreign trading participation has also picked up and foreign ownership of Malaysian equities has crept up to 21.8%, the highest level since September 2008. This, together with increasing stake sales and IPOs, and a potential rebound in exports next year, should be supportive of the MYR. Feedback from our marketing trips to Europe and the US suggests that most investors are still underweight on Malaysia.
4. **Events/data/risks to watch for:** A later-than-expected general election could slightly hinder the performance of the market, as expectations seem to be set for mid-2011. This is a market that re-rates on news flow momentum rather than its valuation proposition. So, the biggest risk for the market remains the inability of the government to implement the ETP. The market is trading at 14.7x PE 2011, the market offers 18% EPS growth, 3.4% dividend yield and ROE.
5. **Top stock ideas:** AirAsia, AMMB, CIMB Group, Gamuda, Genting Bhd, Kuala Lumpur Kepong.

**Su-Yin Teoh**



## Malaysia – Market intelligence

**Figure 297: Equity market performance**



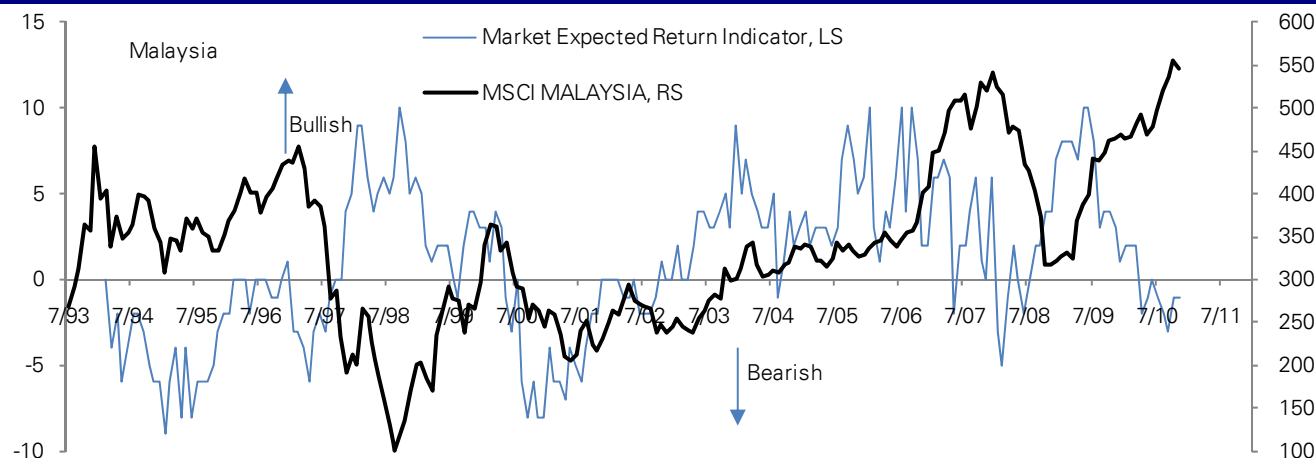
Source: Deutsche Bank, MSCI.  
Market relative = relative to MSCI AC Asia ex Japan.

**Figure 298: Market intelligence by sector**

8Dec10 Sector (#Co)	Mcap US\$m	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
		1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Energy (1)	940	2.9	36.8	15.2	14.4	13.5	2.5	2.3	2.1	4.7	5.2	5.4	9.7	5.2	6.9	16.1	15.8	15.9
Materials (1)	812	-6.1	20.2	19.4	15.0	13.6	2.0	1.9	1.8	4.9	5.4	5.8	-20.2	29.5	10.4	10.2	12.6	13.4
Capital Goods (5)	12,823	-0.2	8.4	21.1	17.0	15.1	2.1	2.0	1.8	2.1	2.8	3.1	22.0	24.1	12.3	10.1	11.6	12.1
Transportation (4)	6,708	-0.9	20.5	19.0	14.0	12.5	2.0	1.8	1.7	3.2	3.3	3.4	82.1	36.3	11.6	10.6	13.2	13.6
Autos (1)	1,248	-1.4	8.8	12.3	10.9	10.0	1.9	1.7	1.5	4.6	5.2	5.7	69.1	13.0	9.0	15.1	15.5	14.8
Cons Svc (3)	11,778	-0.1	34.4	17.3	14.7	13.1	2.5	2.2	1.9	1.6	1.6	1.8	41.6	18.1	11.9	14.1	14.8	14.6
Retailing (1)	844	-3.4	8.2	18.3	14.7	11.9	2.9	2.4	1.9	1.7	2.5	3.0	18.3	24.6	23.3	16.0	16.3	16.1
Food Beverage (5)	14,217	-2.7	12.6	18.4	16.7	15.5	3.0	2.8	2.5	3.2	3.2	3.3	17.2	10.1	7.7	14.6	14.8	14.7
Banks (7)	27,660	-1.0	26.5	15.4	13.4	11.8	2.2	2.0	1.8	3.3	3.3	3.7	22.1	15.3	13.4	14.5	15.1	15.5
Div Financials (2)	4,503	0.5	22.2	17.1	14.5	12.7	2.1	2.0	1.8	2.4	3.1	3.7	22.6	18.2	13.7	12.4	13.5	14.0
Real Estate (1)	1,040	3.3	36.7	25.6	22.6	na	2.5	2.4	na	2.8	3.1	na	20.8	13.5	na	9.9	10.7	na
Telecom (4)	11,571	2.4	18.2	17.3	15.6	14.4	3.1	3.0	2.8	4.6	5.2	5.6	19.8	10.7	8.5	18.0	15.4	16.0
Utilities (4)	10,535	-0.1	6.9	14.7	13.7	12.8	1.6	1.4	1.3	3.3	3.3	3.2	44.8	7.3	7.4	10.5	10.4	10.4
Malaysia (39)	104,676	-0.6	17.8	17.1	14.8	13.3	2.3	2.1	1.9	3.1	3.3	3.5	28.5	15.7	10.9	13.1	13.6	13.9

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI country index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year-end) with current prices. All numbers are free-float adjusted.

**Figure 299: Market Expected Return Indicator for Malaysia**

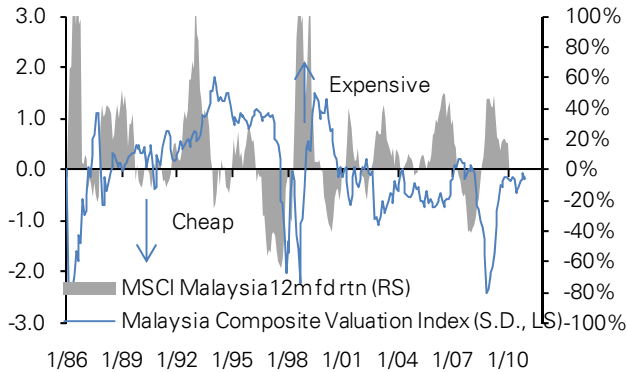


Source: Deutsche Bank, MSCI, Bloomberg Finance LP

## Malaysia – Valuation

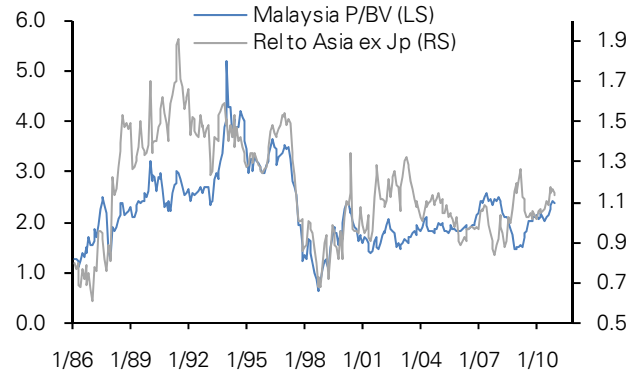
Valuations are at neutral levels.

**Figure 300: Composite valuation index**



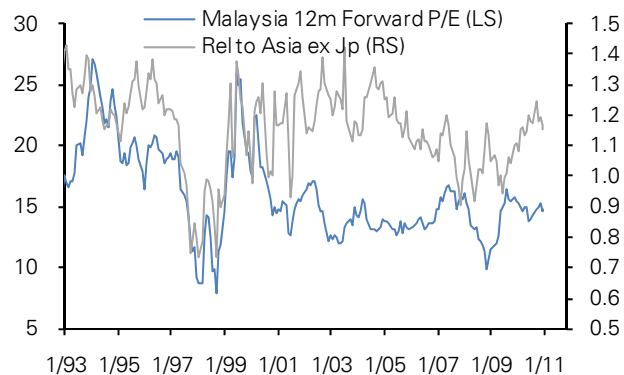
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history

**Figure 301: Price-to-book value**



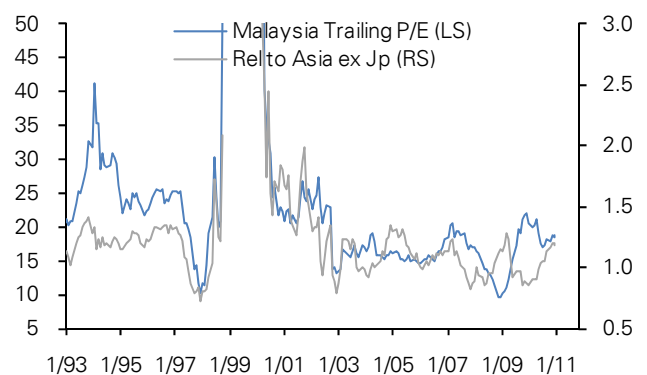
Source: Deutsche Bank, MSCI, Datastream. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 302: 12-month forward P/E**



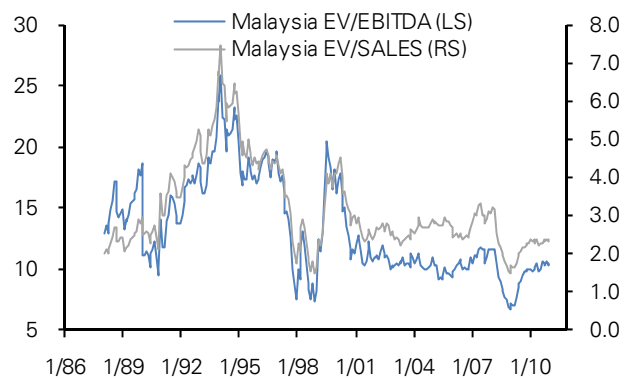
Source: Deutsche Bank, MSCI, I/B/E/S. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 303: 12-month trailing P/E**



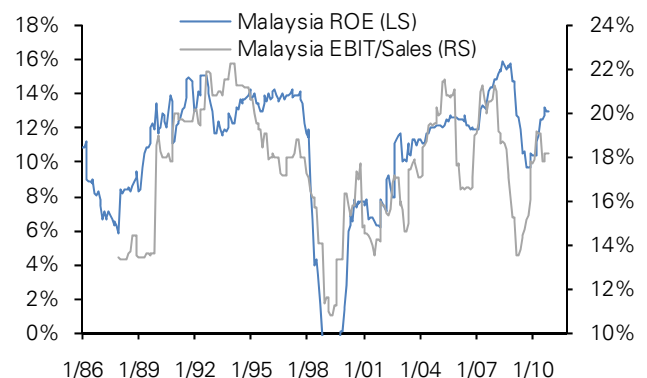
Source: Deutsche Bank, MSCI, Datastream. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 304: EV multiples**



Source: Deutsche Bank, MSCI, FactSet

**Figure 305: ROE and EBIT margin**

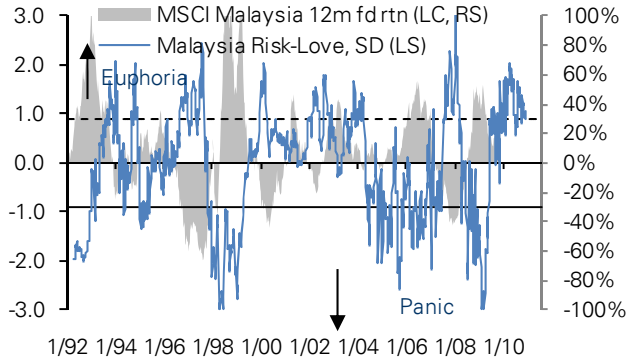


Source: Deutsche Bank, MSCI, FactSet

## Malaysia – Investor sentiment

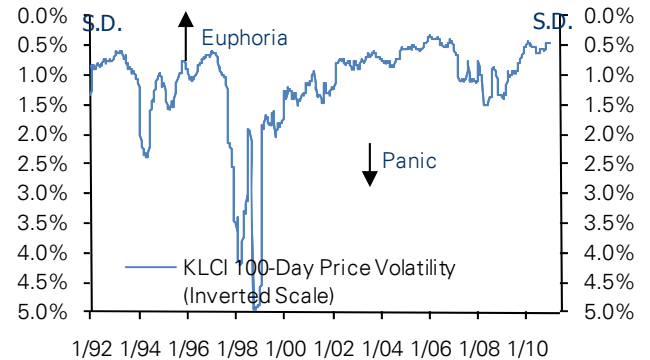
Sentiment is a bit euphoric.

**Figure 306: Equity Risk-Love indicator**



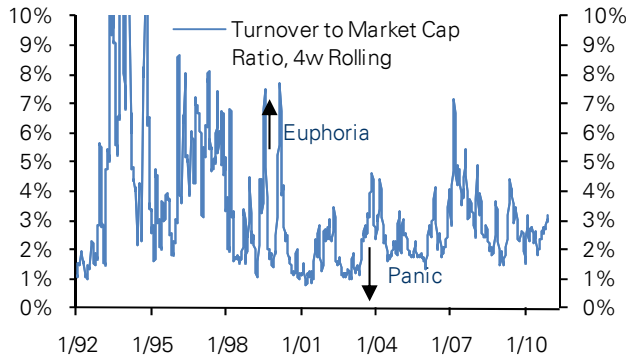
Source: Deutsche Bank, MSCI

**Figure 307: Market volatility**



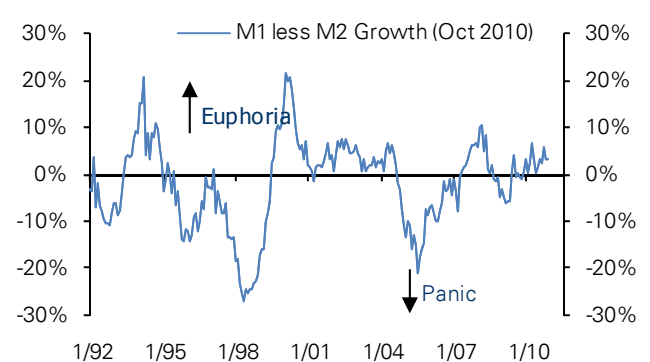
Source: Deutsche Bank, Datastream

**Figure 308: Turnover-to-market cap ratio**



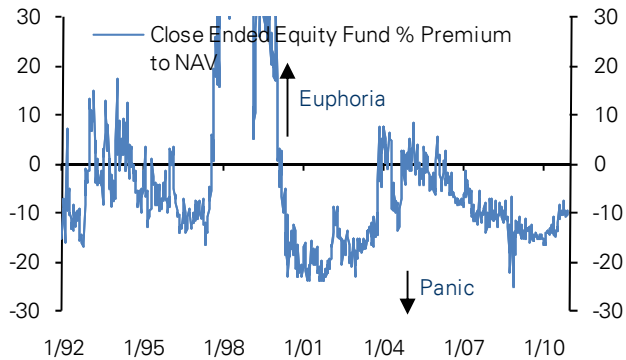
Source: Deutsche Bank, CEIC, Datastream

**Figure 309: M1 less M2 growth**



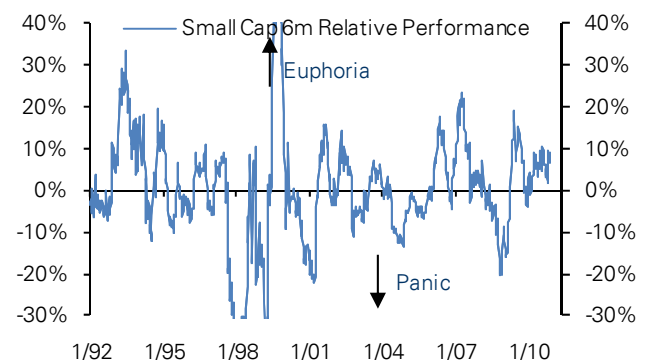
Source: Deutsche Bank, Datastream

**Figure 310: Country equity fund % premium to NAV**



Source: Deutsche Bank, Bloomberg Finance LP

**Figure 311: Small cap relative performance**

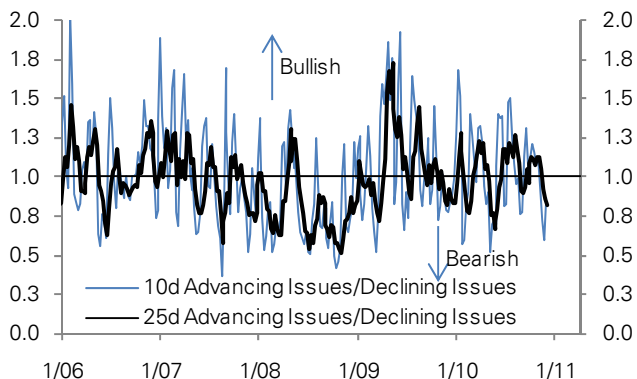


Source: Deutsche Bank, Datastream

## Malaysia – Technicals

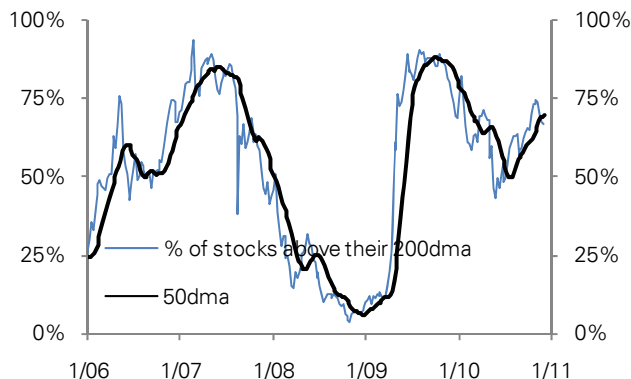
Technicals are relatively strong – breadth is robust and about three-quarters of stocks are trading above 50- and 200-day moving averages.

**Figure 312: Advance/decline ratio**



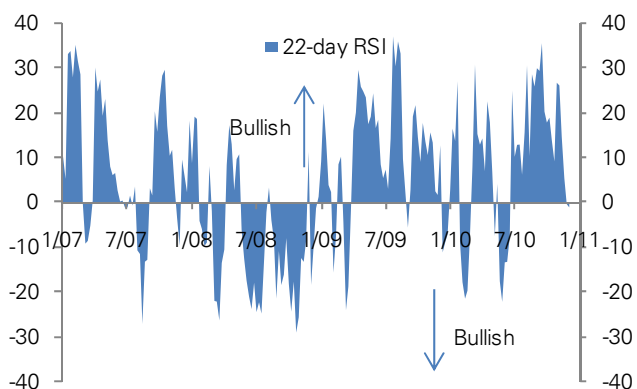
Source: Deutsche Bank, Datastream, FactSet

**Figure 313: Percentage of stocks above their 200dma**



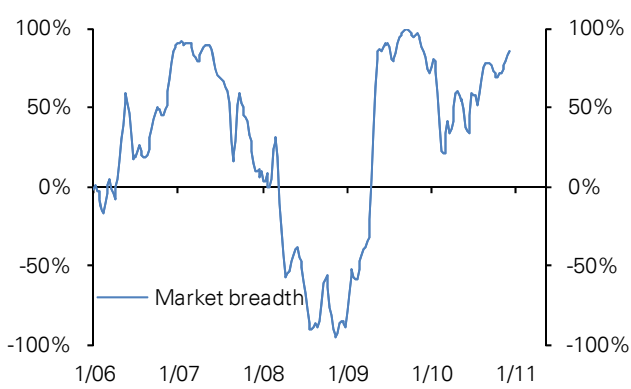
Source: Deutsche Bank, Datastream, FactSet

**Figure 314: Relative Strength Index**



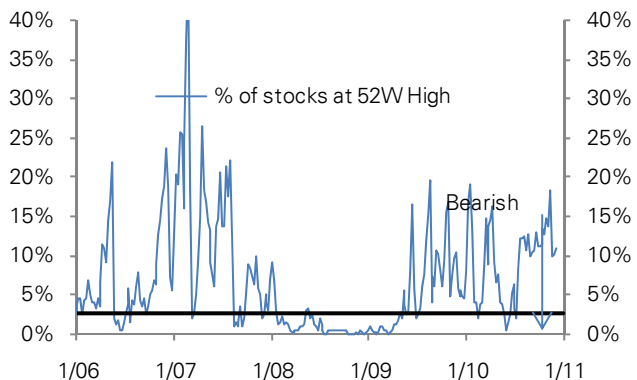
Source: Deutsche Bank, Datastream, FactSet

**Figure 315: Market breadth**



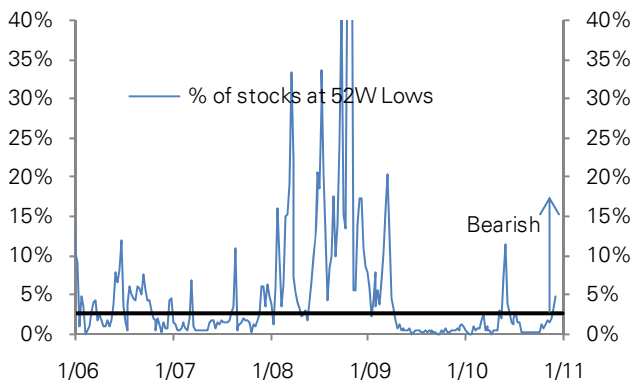
Source: Deutsche Bank, Datastream, FactSet. Market breadth is defined as (# of sub-sectors up on 6 months basis minus # of sub-sectors down on 6 months basis) / total sub-sectors available.

**Figure 316: Percentage of stocks at 52-week highs**



Source: Deutsche Bank, Datastream, FactSet

**Figure 317: Percentage of stocks at 52-week lows**

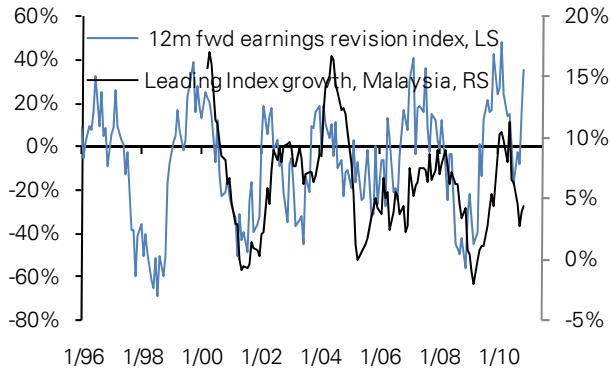


Source: Deutsche Bank, Datastream, FactSet

## Malaysia – Growth and earnings

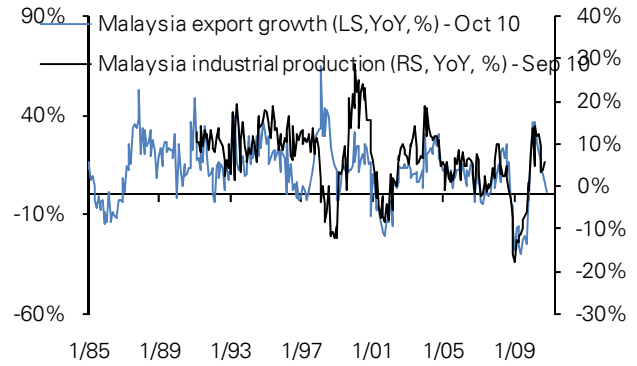
The EPS revisions index has gone vertical. Michael Spencer, our chief economist, projects real GDP growth to slow from an estimated 7.5% in 2010 to 5% in 2011. EPS estimates of 15% for 2011 from about 30% adequately reflect this economic slowdown.

**Figure 318: Leading economic indicators**



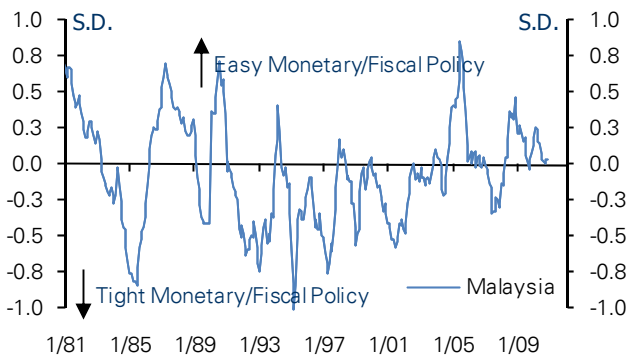
Source: Deutsche Bank, I/B/E/S, Statistical Office of Malaysia, Datastream

**Figure 319: Industrial production and export growth**



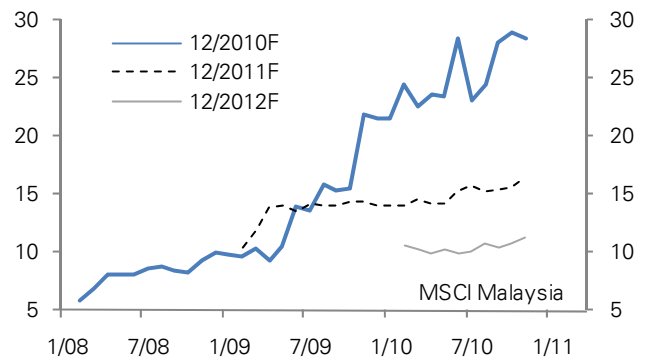
Source: Deutsche Bank, Datastream

**Figure 320: Composite policy indicator**



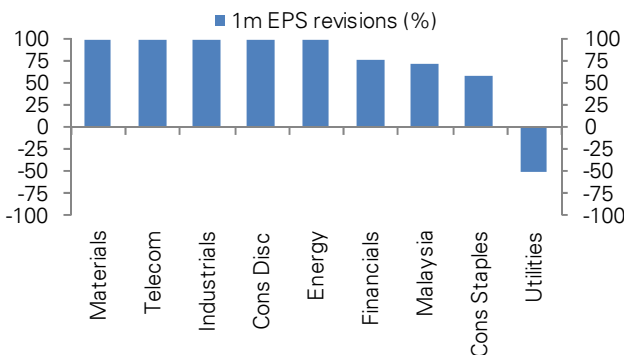
Source: Deutsche Bank, CEIC, Datastream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate yoy growth, real broad money (M2) yoy growth, short term real interest rate and government fiscal deficit/surplus as a percent of GDP.

**Figure 321: Earnings growth forecast (%)**



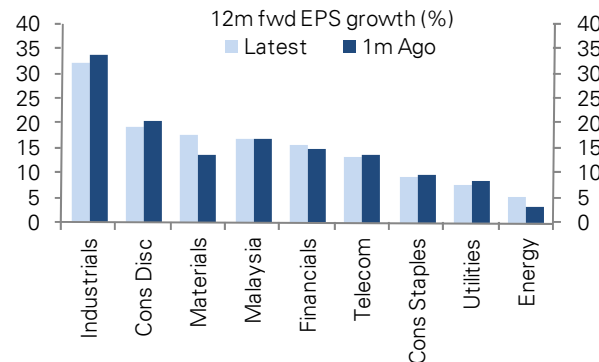
Source: Deutsche Bank, MSCI, I/B/E/S

**Figure 322: 12-month forward EPS revisions by sector**



Source: Deutsche Bank, MSCI, I/B/E/S. Note: EPS revisions = number of upward less downward revisions as percent of total number of revisions in one month.

**Figure 323: 12-month forward EPS growth forecast by sector**

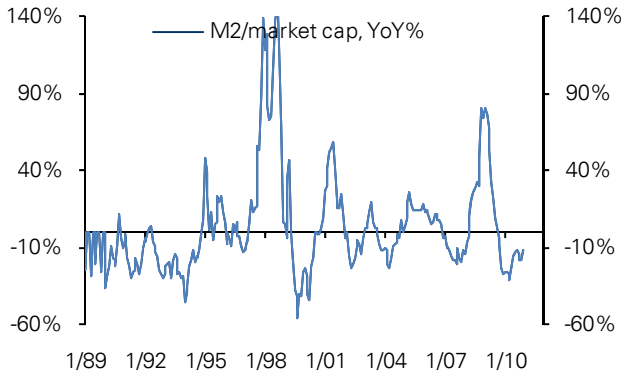


Source: Deutsche Bank, MSCI, I/B/E/S

## Malaysia – Liquidity

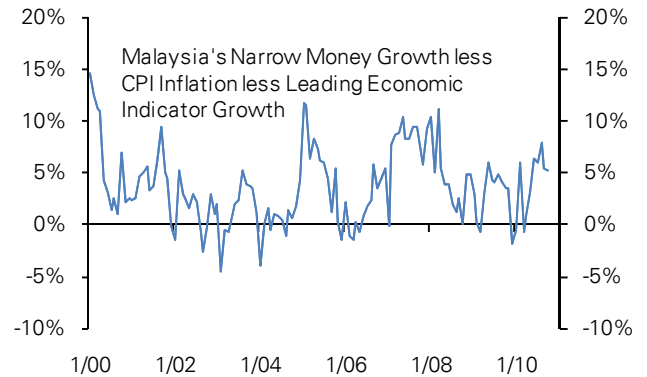
Free liquidity is rising nicely, but the current account surplus is narrowing – from 16.5% of GDP in 2009 to an estimated 9% of GDP in 2011.

**Figure 324: M2/market cap**



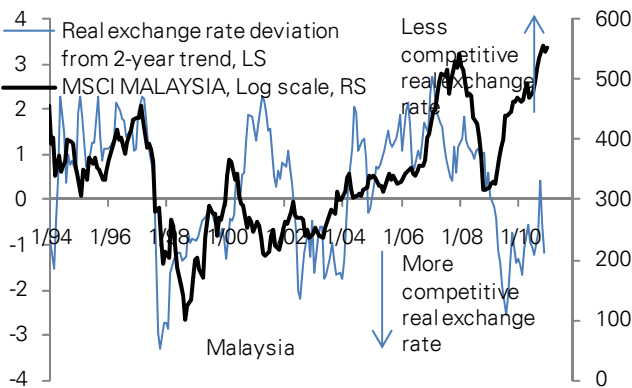
Source: Deutsche Bank, Datastream

**Figure 325: Free liquidity**



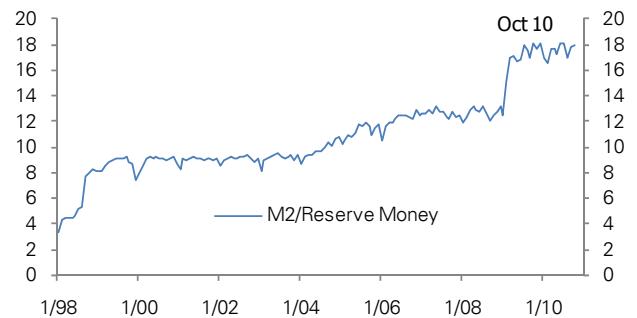
Source: Deutsche Bank, Datastream

**Figure 326: Real exchange rate**



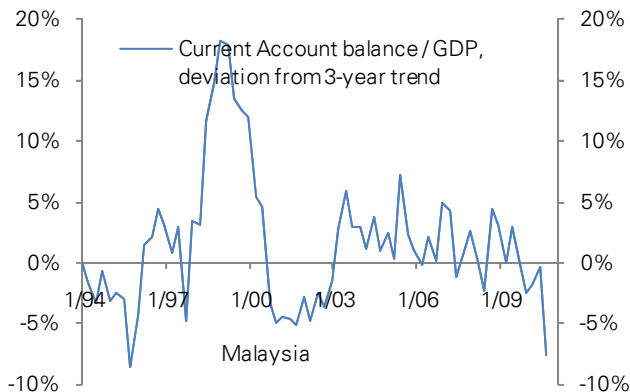
Source: Deutsche Bank, Bloomberg Finance LP

**Figure 327: M2/base money**



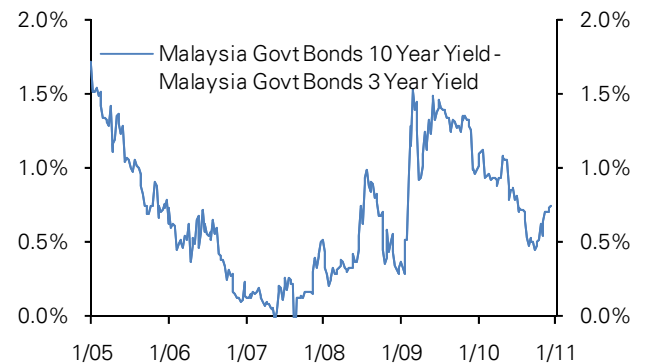
Source: Deutsche Bank, Datastream, Bloomberg Finance LP

**Figure 328: Current account balance/GDP**



Source: Deutsche Bank, Datastream

**Figure 329: Yield curve**

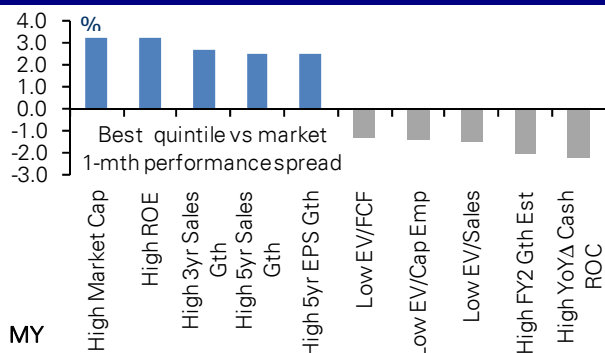


Source: Deutsche Bank, Bloomberg Finance LP

## Malaysia – Factor performance

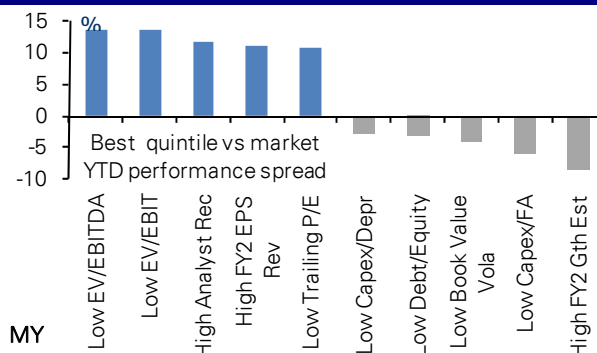
Value and EPS momentum, two long-term alpha generators, are working their magic again this year.

**Figure 330: Best- and worst-performing factors (1-month)**



Source: Deutsche Bank

**Figure 331: Best- and worst-performing factors (YTD)**



Source: Deutsche Bank

**Figure 332: Best quintile vs. market relative performance (%)**

Malaysia Dec 6, 10	Returns					Ann. Rtn.				Returns					Ann. Rtn.		
	YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*		YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*
<b>Valuation</b>																	
Low 12m Fd P/E	1.6	0.2	0.1	1.1	2.1	4.6	5.7	6.7	High Cash ROC	6.6	1.0	-0.4	-0.4	7.1	6.1	10.2	10.9
Low Trailing P/E	10.6	0.3	1.3	3.1	11.7	13.4	13.7	13.1	High YoYΔ Cash ROC	2.0	-2.2	-0.2	1.4	3.7	5.3	3.9	2.8
Low P/Op Inc	10.5	2.1	3.1	5.6	10.8	11.6	12.1	12.5	High ROE	10.2	3.2	1.9	3.0	10.1	7.9	10.3	9.6
Low P/BV	-0.3	-0.8	1.9	1.5	-0.7	5.3	2.7	3.7	High YoYΔ ROE	5.4	-0.2	0.7	3.5	6.0	4.8	4.4	4.1
Low Price/Sales	1.0	-1.0	-0.9	0.6	2.7	4.1	2.8	3.3	<b>Average</b>	<b>6.0</b>	<b>0.4</b>	<b>0.5</b>	<b>1.9</b>	<b>6.7</b>	<b>6.0</b>	<b>7.2</b>	<b>6.8</b>
Low P/FCF	8.9	-0.1	-0.4	1.4	10.7	7.0	7.1	8.9	<b>Growth</b>								
Low EV/EBIT	13.6	1.1	1.6	2.7	16.4	11.6	14.0	14.9	High 3yr Sales Gth	2.0	2.7	3.3	3.4	2.4	2.8	3.8	1.1
Low EV/EBITDA	13.7	1.5	1.7	2.7	14.0	11.6	13.2	14.5	High 5yr Sales Gth	2.0	2.5	1.9	2.2	2.5	1.7	1.9	-0.3
Low EV/Cap Emp	1.2	-1.4	0.2	-0.5	1.2	3.9	5.4	7.1	High 3yr EPS Gth	3.7	1.1	1.6	1.7	3.7	3.6	4.5	1.9
Low EV/Sales	1.4	-1.5	-1.2	0.4	2.3	5.1	8.2	9.5	High 5yr EPS Gth	6.0	2.5	2.3	4.2	5.2	3.2	4.5	0.3
Low EV/Op CF	8.5	0.1	-0.3	-0.3	9.1	9.7	12.8	14.2	High LT Gth Est	1.7	0.0	0.6	3.3	1.4	-8.2	-6.1	-2.7
Low EV/FCF	6.7	-1.3	-1.7	-1.3	8.7	6.9	9.0	9.6	High FY1 Gth Est	-1.0	-0.4	0.9	-0.1	-0.7	0.0	0.2	0.8
High Dividend Yield	4.6	2.3	-0.7	-1.3	3.4	10.6	14.0	16.6	High FY2 Gth Est	-8.5	-2.0	-4.1	-5.2	-9.9	-4.6	-4.4	-4.1
<b>Average</b>	<b>6.3</b>	<b>0.1</b>	<b>0.4</b>	<b>1.2</b>	<b>7.1</b>	<b>8.1</b>	<b>9.3</b>	<b>10.3</b>	<b>Average</b>	<b>0.8</b>	<b>0.9</b>	<b>0.9</b>	<b>1.4</b>	<b>0.7</b>	<b>-0.2</b>	<b>0.6</b>	<b>-0.4</b>
<b>Price Momentum</b>																	
High 6m Price Mom	2.1	0.2	2.3	2.3	2.6	-1.4	0.8	-1.2	<b>Stability</b>								
High 9m Price Mom	7.2	1.5	3.2	4.9	8.0	1.3	3.0	1.5	Low EPS Vola	2.2	1.8	-0.2	-1.4	2.2	-0.3	2.5	3.4
High 12m Price Mom	3.3	0.8	2.2	3.4	4.4	0.7	1.3	0.4	Low Op Inc Vola	2.7	1.0	-0.1	0.8	3.5	3.3	4.5	5.5
High Price Rel Strg	2.1	1.1	1.3	2.4	3.8	2.0	3.4	2.3	Low Book Value Vola	-4.1	-1.2	-1.6	-2.7	-3.4	-1.7	-1.1	-0.8
High 3mΔ in Price Mom	0.8	-0.6	3.2	4.0	1.7	-0.2	-1.3	-1.7	Low Sales Vola	4.9	0.6	-0.8	2.3	5.5	2.8	0.1	0.4
High Price ↑ / ↓ Days	10.0	2.0	1.6	2.7	10.6	9.2	11.9	11.6	Low EPS Est Vola	-0.5	1.5	0.9	-0.6	-1.6	3.6	3.7	4.2
<b>Average</b>	<b>4.3</b>	<b>0.8</b>	<b>2.3</b>	<b>3.3</b>	<b>5.2</b>	<b>1.9</b>	<b>3.2</b>	<b>2.2</b>	<b>Average</b>	<b>1.0</b>	<b>0.7</b>	<b>-0.4</b>	<b>-0.3</b>	<b>1.2</b>	<b>1.6</b>	<b>1.9</b>	<b>2.5</b>
<b>Earnings Momentum</b>																	
High FY1 EPS Rev	9.9	-0.1	1.3	1.9	8.7	6.3	7.2	6.0	<b>Risk</b>								
High FY2 EPS Rev	11.2	1.9	3.2	5.8	11.5	13.1	9.9	7.8	Low FY1 EPS Disp	1.5	0.3	1.4	2.9	1.3	1.9	2.7	2.4
High 12m Fd EPS Rev	8.6	1.3	2.0	2.3	7.4	5.9	8.0	5.7	Low FY2 EPS Disp	2.0	0.5	1.4	0.3	2.6	2.5	3.5	4.3
High FY1 EPS Mom	7.8	0.6	1.7	3.9	7.9	7.5	8.6	9.0	High EBIT/Int Exp	5.7	1.7	0.5	1.2	5.9	8.5	10.9	10.9
High FY2 EPS Mom	4.9	-0.4	0.3	1.4	5.8	8.2	8.4	8.2	Low Debt/Equity	-3.2	-0.7	-0.7	-0.9	-2.7	-2.0	0.6	2.9
<b>Average</b>	<b>8.5</b>	<b>0.7</b>	<b>1.7</b>	<b>3.1</b>	<b>8.3</b>	<b>8.2</b>	<b>8.4</b>	<b>7.4</b>	High Altman Z Score	-0.2	0.5	-1.7	-2.8	-0.4	1.1	5.1	7.0
<b>Capex Deployment &amp; Earnings Accruals</b>																	
Low Capex/Depr	-2.9	-1.2	-2.9	-4.7	-3.9	-2.9	-6.1	-5.0	High Market Cap	6.5	3.2	3.9	4.1	5.6	4.1	6.3	5.6
Low Capex/Sales	-0.8	-1.0	-3.2	-3.8	-0.5	-4.3	-3.4	-2.0	<b>Average</b>	<b>2.1</b>	<b>0.9</b>	<b>0.8</b>	<b>0.8</b>	<b>2.0</b>	<b>2.7</b>	<b>4.8</b>	<b>5.5</b>
Low Capex/FA	-5.9	-0.6	-1.7	-3.4	-6.5	-4.4	-6.8	-5.3	<b>Consensus Ratings</b>								
High YoYΔ Receivables	-2.2	-0.4	0.0	1.1	-2.7	0.1	0.9	-0.1	High Analyst Rec	11.9	0.5	2.7	5.1	14.5	11.3	5.8	5.4
Low YoYΔ Inventory	1.6	0.4	1.7	2.6	3.0	-0.5	0.1	-0.4	High 1mΔ Analyst Rec	3.6	0.6	2.6	2.1	2.9	2.8	4.3	5.2
Low YoYΔ Payables	-2.5	0.9	-0.4	-1.2	-3.3	-4.5	-3.6	-3.8	<b>Average</b>	<b>7.7</b>	<b>0.5</b>	<b>2.7</b>	<b>3.6</b>	<b>8.7</b>	<b>7.0</b>	<b>5.0</b>	<b>5.3</b>
<b>Average</b>	<b>-2.1</b>	<b>-0.3</b>	<b>-1.1</b>	<b>-1.6</b>	<b>-2.3</b>	<b>-2.7</b>	<b>-3.2</b>	<b>-2.8</b>									

Source: Deutsche Bank, FactSet, I/B/E/S. Note: \*1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended August 2010. Relative performance is based on equal weighted average returns of the best quintile basket and the market. For description on factors please see appendix A.

## Philippines strategy

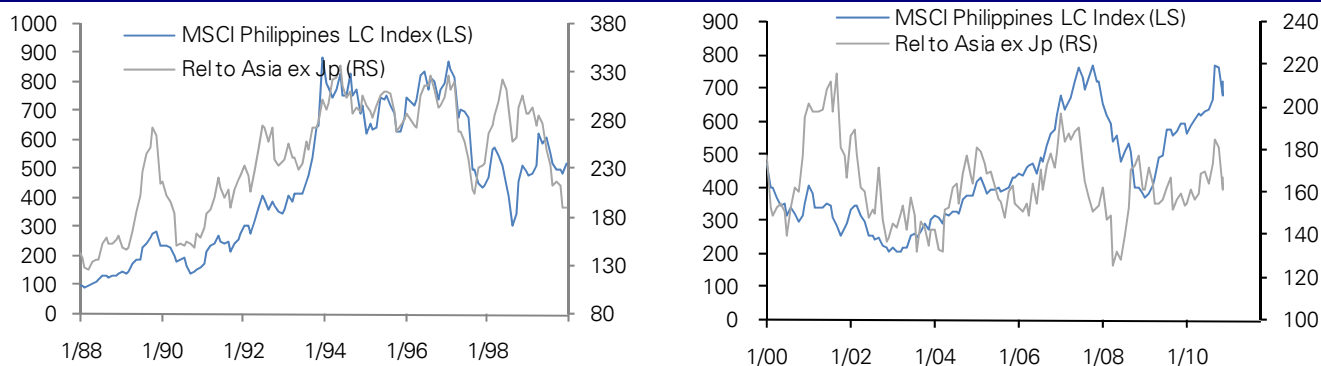
1. **Policy and economics:** GDP growth slowed to 6.5% from the blistering 8% recorded in 1H10, as the twin effects of election spending and reconstruction from the typhoons in 4Q09 fade. In mid-November, the government's economic team held a two-day forum, unveiling their priority projects to be auctioned off under the public-private partnership (PPP) initiative. At least USD3bn worth of projects is planned for bidding next year. To raise GDP growth to the 7-8% level, the government aims to increase investment to GDP from 14% in 2009 to 25-28% by 2016. Funding the projects will not be a problem – liquidity remains high. Inflows from remittances and portfolio flows saw the country's reserves jump to USD61.3bn in November, up 38% yoy and up more than USD4bn mom. Peso liquidity also surged, with funds parked with the central bank's special deposit account window at PHP1.2tr (cUSD26bn) equivalent to c25% of banks' deposits. Short-term interest rates collapsed, with the 91-day Treasury rate below 1%, though this is partly due to distortions in the peso-dollar swap/forward markets. Inflation edged up slightly in November to 3% from 2.8%, driven by energy prices.
2. **Company visits/results:** 3Q10 results continued to surprise, with nearly 40% still beating forecasts. This is impressive considering forecasts had already been adjusted for surprises in 1Q/2Q. This time, it was the banks that showed stronger-than-expected earnings. However, the quality of earnings was not very high, driven as they were by trading and forex gains. Sentiment amongst corporates remains bullish.
3. **Fund flows and investor views:** Client visits surged in November, and we continue to receive foreign visitors well into the holiday season. In all, Deutsche Regis hosted 54 foreign clients this year, up from 44 in 2009. However, this is still a ways off from the 70 we received in 2007. A good number of foreign investors missed the 3Q10 rally, and are asking "Is this a cyclical or a structural story?" There are still a few skeptics. After a sharp pullback, the PCOMP has rallied and is now just 4% off all-time highs set in early November. The last two weeks saw violent swings in individual share prices due to MSCI-related MOC orders. These have since stabilized.
4. **Events/data/risks to watch for:** a) president expected to sign Partial Open Skies policy in December/January, b) Bangko Sentral action on currency intervention, c) imported inflation, particularly for oil, coal, etc., and d) Power shortage/high power rates could stall growth.

**Rafael Garchitorea**



## Philippines – Market intelligence

**Figure 333: Equity market performance**



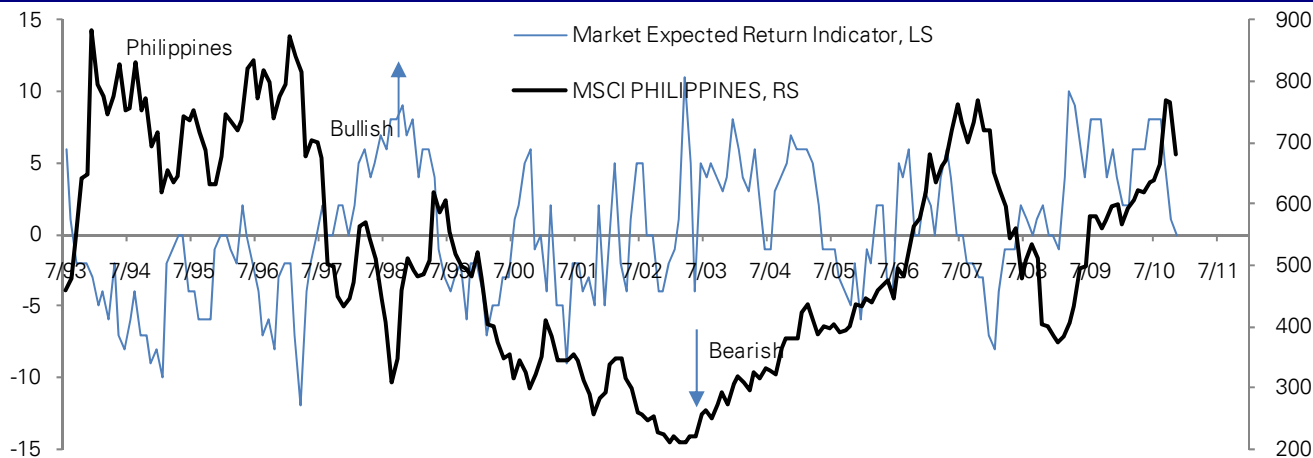
Source: Deutsche Bank, MSCI. Market relative = relative to MSCI AC Asia ex Japan.

**Figure 334: Market intelligence by sector**

8Dec10 Sector (#Co)	Mcap U\$m	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
		1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Capital Goods (1)	2,302	-5.2	69.2	18.3	16.0	13.5	2.4	2.2	2.0	1.6	1.5	2.3	15.0	14.4	18.4	13.4	13.8	14.7
Cons Svc (1)	849	-1.1	63.6	29.9	25.8	22.6	4.6	4.1	3.6	1.1	1.3	1.5	18.0	15.7	14.5	15.3	16.0	15.9
Banks (3)	3,868	-3.0	41.7	19.5	16.5	13.6	2.2	2.0	1.8	2.2	2.4	2.6	21.9	18.1	21.9	11.1	12.1	13.3
Div Financials (1)	1,519	-2.0	28.9	22.0	19.3	16.1	1.8	1.7	1.6	1.1	1.1	1.1	24.8	14.1	19.9	8.3	8.9	9.9
Real Estate (2)	3,202	-3.1	34.7	29.7	25.3	21.3	3.4	3.0	2.7	1.3	1.5	1.9	16.2	17.0	19.3	11.3	11.9	12.7
Telecom (2)	3,176	-0.5	-8.9	10.8	10.6	10.2	3.8	3.7	3.5	8.8	8.6	9.2	-0.4	2.1	3.4	35.4	34.6	34.8
Utilities (2)	3,128	-4.7	7.3	15.6	13.8	12.2	3.3	2.9	2.5	2.0	3.1	3.4	110.4	13.0	12.8	21.2	20.8	20.5
Philippines (12)	18,045	-7.9	21.1	17.6	15.8	13.8	2.8	2.5	2.3	2.7	3.2	3.5	22.7	11.6	14.2	15.8	16.1	16.7

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI country index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year-end) with current prices. All numbers are free-float adjusted.

**Figure 335: Market Expected Return Indicator for Philippines**

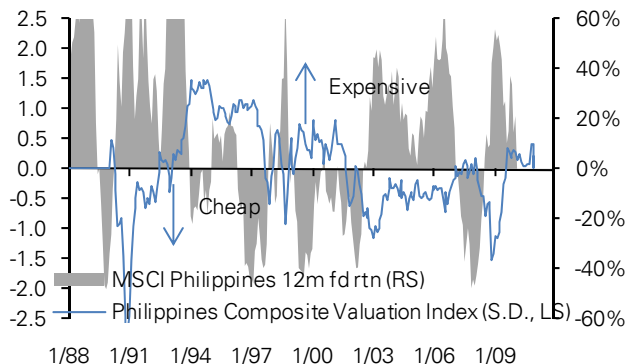


Source: Deutsche Bank, MSCI, Bloomberg Finance LP

## Philippines – Valuation

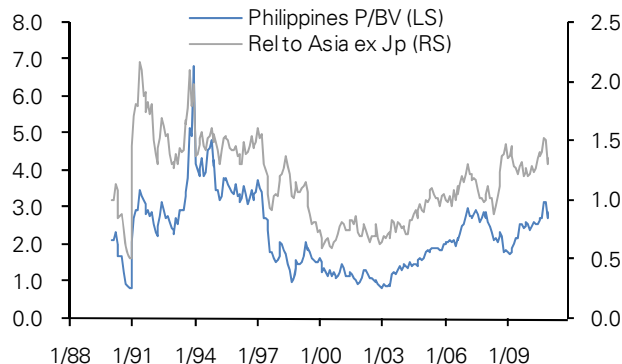
Like many other markets in the region, the Philippines is at fairly valued levels. The EBIT margin here is simply phenomenal, and explains some of the re-rating versus the region since 2000.

**Figure 336: Composite valuation index**



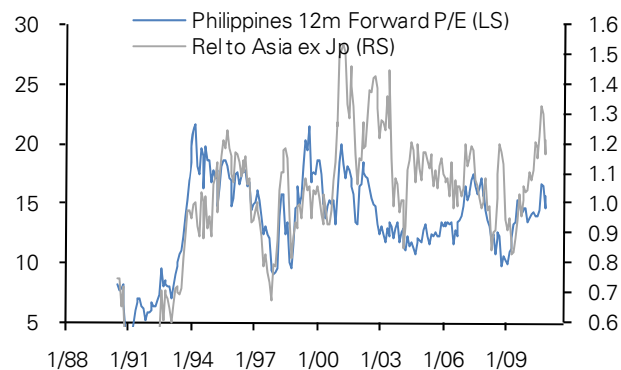
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history

**Figure 337: Price-to-book value**



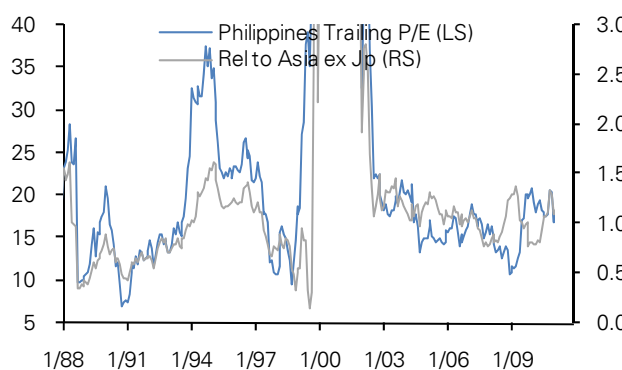
Source: Deutsche Bank, MSCI, Datastream. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 338: 12-month forward P/E**



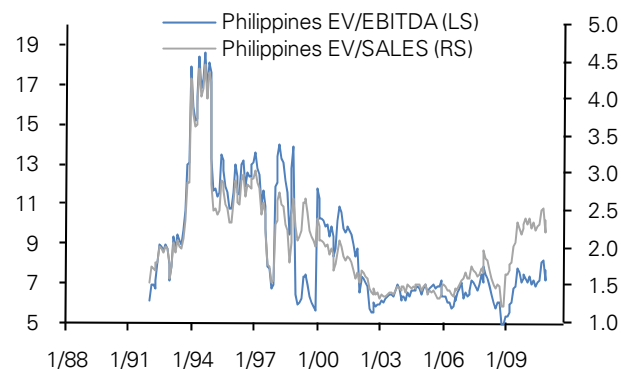
Source: Deutsche Bank, MSCI, I/B/E/S. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 339: 12-month trailing P/E**



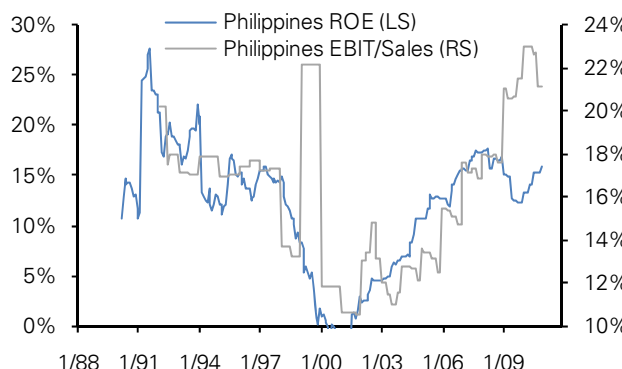
Source: Deutsche Bank, MSCI, Datastream. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 340: EV multiples**



Source: Deutsche Bank, MSCI, FactSet

**Figure 341: ROE and EBIT margin**

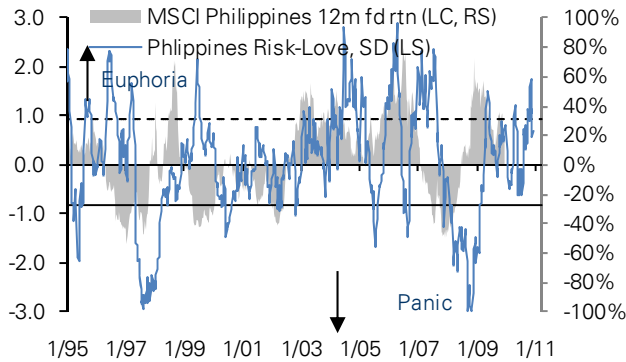


Source: Deutsche Bank, MSCI, FactSet

## Philippines – Investor sentiment

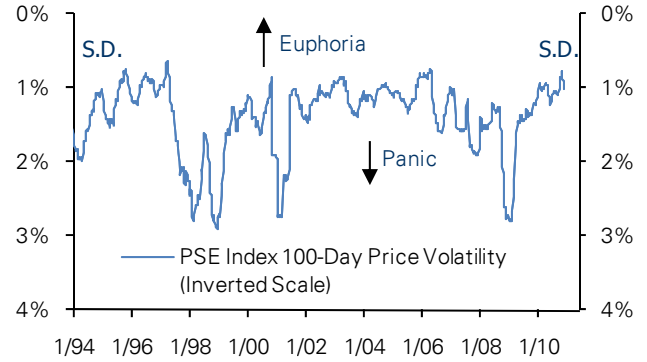
Sentiment was euphoric a few weeks ago. It is back to neutral now.

**Figure 342: Equity Risk-Love indicator**



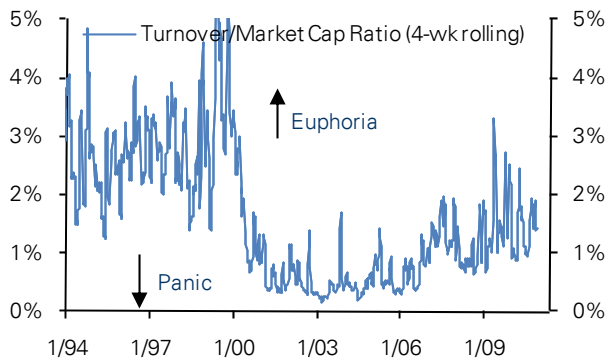
Source: Deutsche Bank, MSCI

**Figure 343: Market volatility**



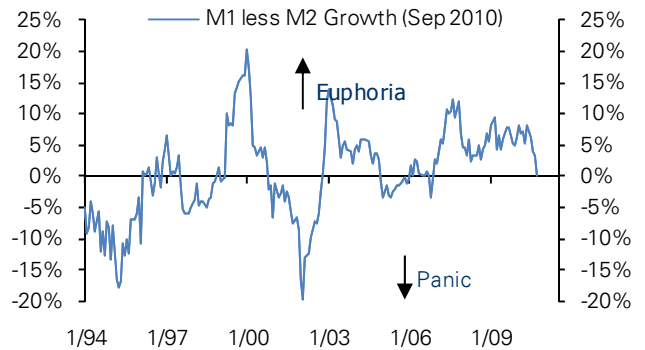
Source: Deutsche Bank, Datastream

**Figure 344: Turnover-to-market cap ratio**



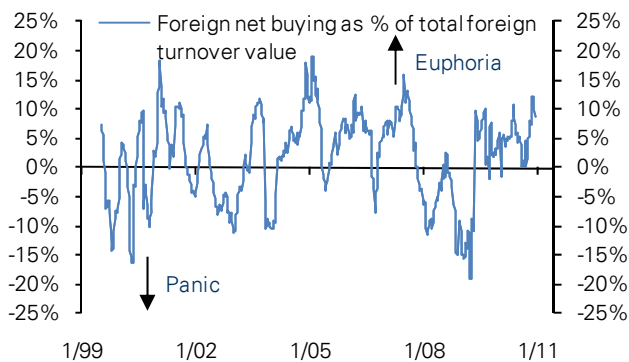
Source: Deutsche Bank, CEIC, Datastream

**Figure 345: M1 less M2 growth**



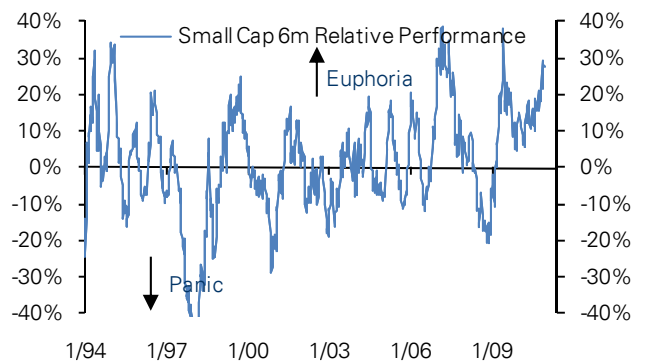
Source: Deutsche Bank, Datastream

**Figure 346: Foreign net buying**



Source: Deutsche Bank, Bloomberg Finance LP

**Figure 347: Small cap relative performance**

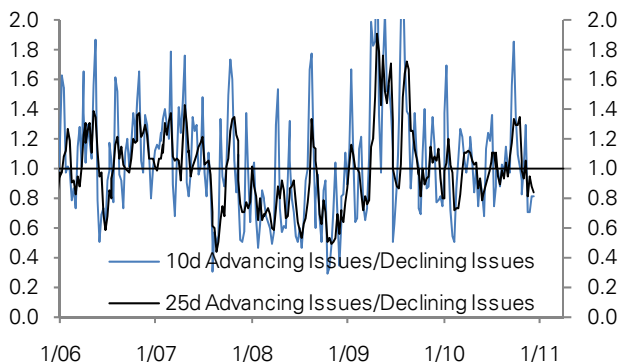


Source: Deutsche Bank, Datastream

## Philippines – Technicals

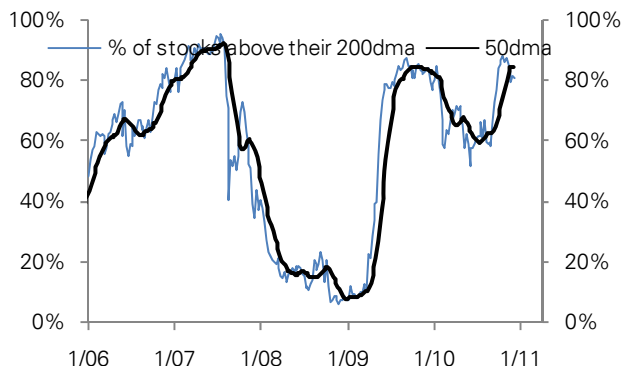
Technicals are still strong but not as powerful as a few weeks ago. New highs have almost vanished, and new lows are appearing, albeit only a few.

**Figure 348: Advance/decline ratio**



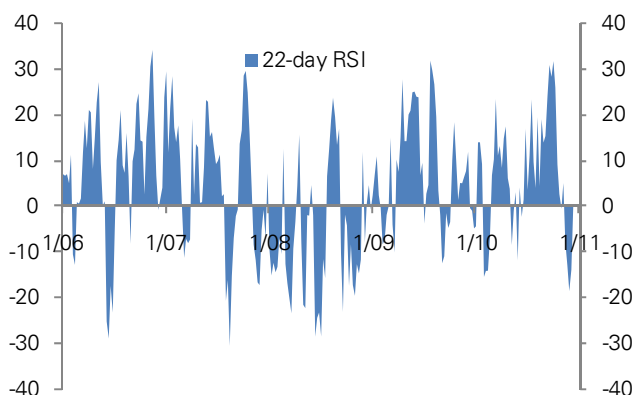
Source: Deutsche Bank, Datastream, FactSet

**Figure 349: Percentage of stocks above their 200dma**



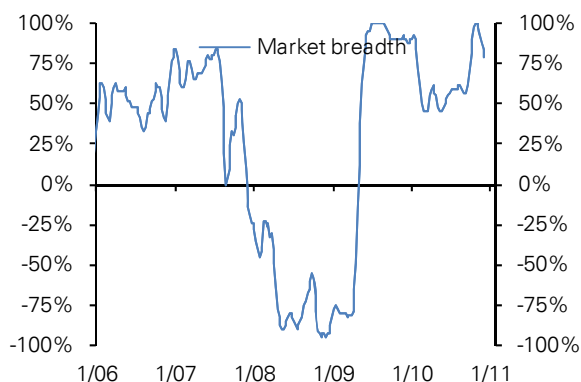
Source: Deutsche Bank, Datastream, FactSet

**Figure 350: Relative Strength Index**



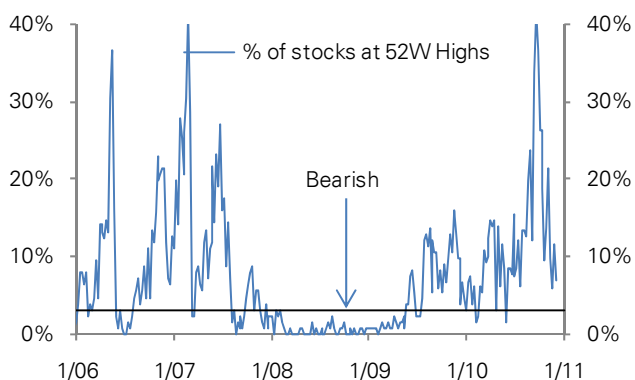
Source: Deutsche Bank, Datastream, FactSet

**Figure 351: Market breadth**



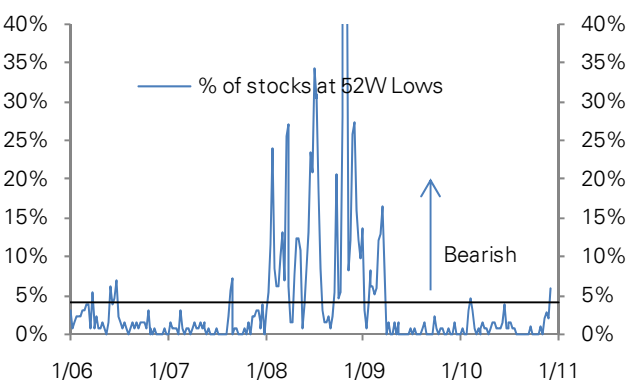
Source: Deutsche Bank, Datastream, FactSet. Market breadth is defined as (number of sub-sectors up on six-month basis minus number of sub-sectors down on six-month basis) / total sub-sectors available.

**Figure 352: Percentage of stocks at 52-week highs**



Source: Deutsche Bank

**Figure 353: Percentage of stocks at 52-week lows**

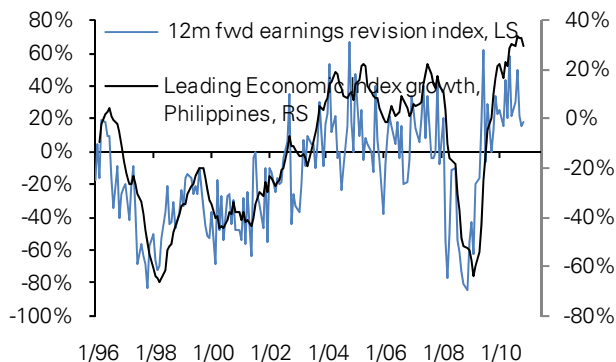


Source: Deutsche Bank

## Philippines – Growth and earnings

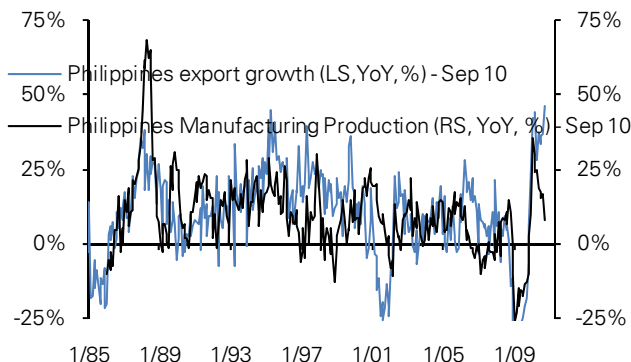
Economist Taimur Baig is looking for real GDP growth to drop from 6.8% in 2010 to 5% in 2011. Analyst EPS forecasts for 2011 of 11% look light.

**Figure 354: Leading economic indicators**



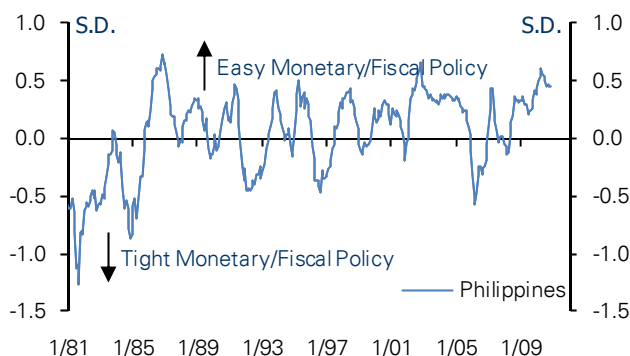
Source: Deutsche Bank, IBES, National Stats Coordination Board, Datastream

**Figure 355: Industrial production and export growth**



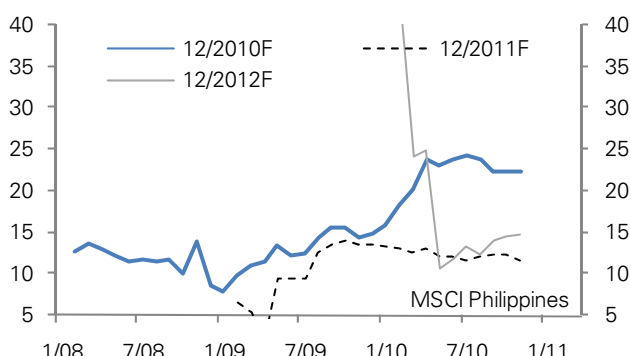
Source: Deutsche Bank, Datastream

**Figure 356: Composite policy indicator**



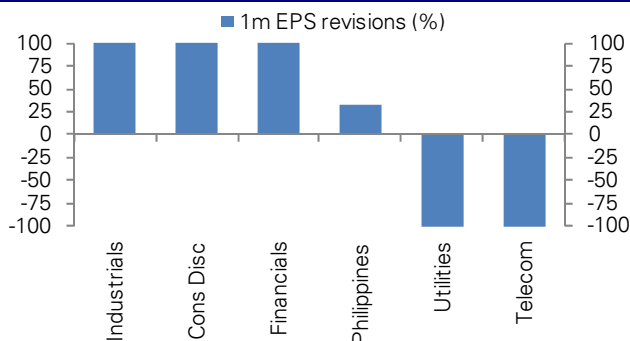
Source: Deutsche Bank, CEIC, Datastream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate yoy growth, real broad money (M2) yoy growth, short term real interest rate and government fiscal deficit/surplus as a % of GDP.

**Figure 357: Earnings growth forecast (%)**



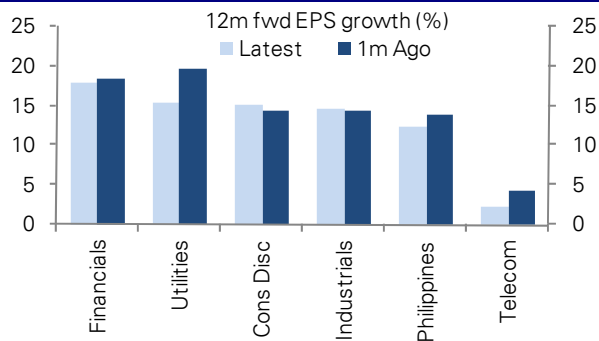
Source: Deutsche Bank, MSCI, I/B/E/S

**Figure 358: 12-month forward EPS revisions by sector**



Source: Deutsche Bank, MSCI, I/B/E/S. Note: EPS revisions = number of upward less downward revisions as percent of total number of revisions in one month.

**Figure 359: 12-month forward EPS growth forecast by sector**

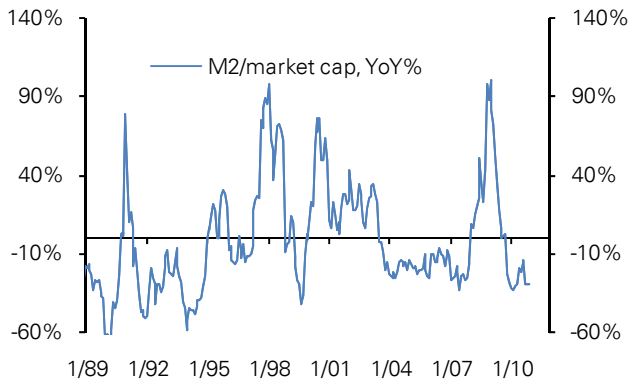


Source: Deutsche Bank, MSCI, I/B/E/S

## Philippines – Liquidity

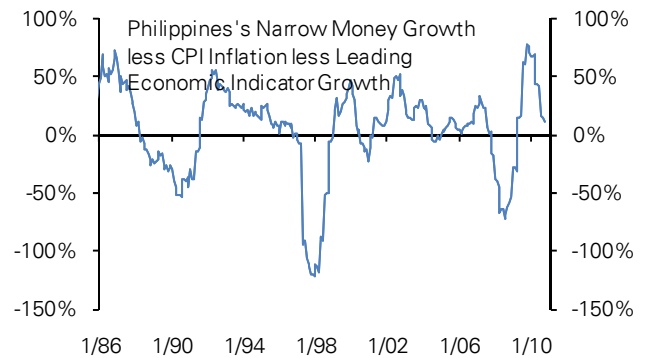
The M2/market cap ratio suggests little value, i.e. asset allocation is skewed too heavily to equities versus cash.

**Figure 360: M2/market cap**



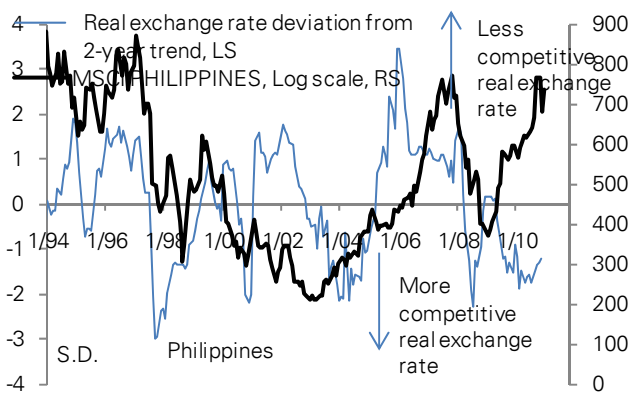
Source: Deutsche Bank, Datastream

**Figure 361: Free liquidity**



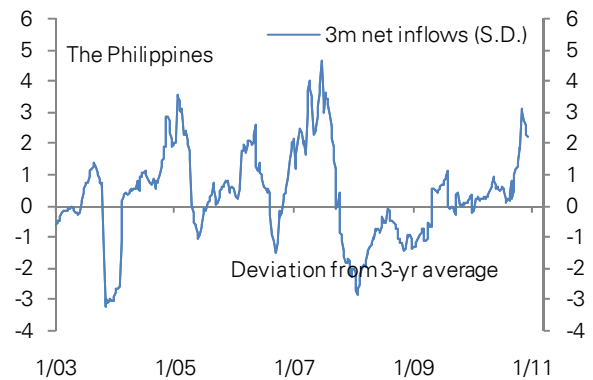
Source: Deutsche Bank, Datastream

**Figure 362: Real exchange rate**



Source: Deutsche Bank, MSCI, Bloomberg LP Finance

**Figure 363: Foreign fund flows**

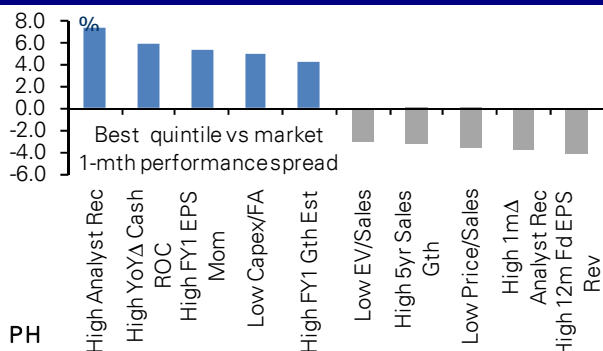


Source: Deutsche Bank, Datastream, Bloomberg Finance LP

## Philippines – Factor performance

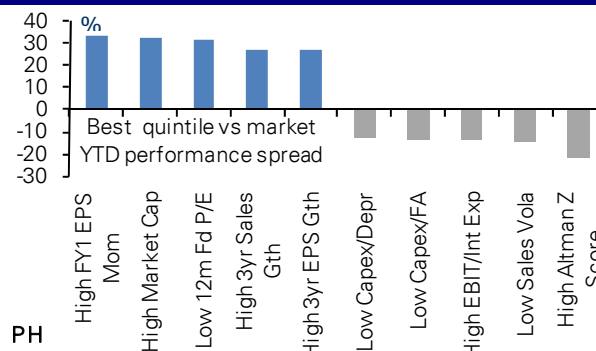
Price momentum has been a dominant alpha source this year along with EPS momentum. It is time to return to the old stalwart – value.

**Figure 364: Best- and worst-performing factors (1-month)**



Source: Deutsche Bank

**Figure 365: Best- and worst-performing factors (YTD)**



Source: Deutsche Bank

**Figure 366: Best quintile vs. market relative performance (%)**

Philippines Dec 6, 10	Returns								Returns								
	YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*	YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*	
<b>Valuation</b>																	
Low 12m Fd P/E	31.5	2.8	12.6	20.9	29.8	15.9	8.1	1.5	High Cash ROC	-0.3	1.8	-3.5	-0.8	0.9	4.2	4.1	3.9
Low Trailing P/E	18.6	0.1	2.6	9.1	20.4	21.9	21.6	11.6	High YoYΔ Cash ROC	10.9	6.0	10.7	14.6	11.3	16.0	8.0	1.5
Low P/Op Inc	23.9	2.6	9.2	12.2	23.7	16.6	13.3	7.8	High ROE	25.0	2.4	8.8	11.3	24.8	9.5	12.3	8.8
Low P/BV	4.0	3.5	5.0	6.4	1.2	4.8	1.1	-1.0	High YoYΔ ROE	11.3	-3.0	3.4	5.0	12.1	6.8	1.6	4.1
Low Price/Sales	-0.3	-3.6	-6.9	-3.2	-1.5	1.1	1.7	-2.3	<b>Average</b>	<b>11.7</b>	<b>1.8</b>	<b>4.8</b>	<b>7.5</b>	<b>12.3</b>	<b>9.1</b>	<b>6.5</b>	<b>4.6</b>
Low P/FCF	-1.9	-0.9	-0.5	2.7	-1.8	1.1	-1.8	-1.5	<b>Growth</b>								
Low EV/EBIT	6.7	-1.8	0.4	-1.0	9.9	10.7	15.6	7.7	High 3yr Sales Gth	27.2	1.1	10.4	16.9	26.3	10.2	2.8	-3.9
Low EV/EBITDA	3.9	1.1	-0.9	-2.3	5.8	12.1	13.1	5.1	High 5yr Sales Gth	0.7	-3.3	4.9	4.7	2.5	8.2	5.4	2.0
Low EV/Cap Emp	-3.3	3.3	3.1	0.7	-4.8	4.7	5.8	3.4	High 3yr EPS Gth	27.2	3.5	10.8	11.1	22.9	5.5	4.5	-1.0
Low EV/Sales	5.1	-3.1	-3.1	1.9	6.1	3.1	3.0	-0.8	High 5yr EPS Gth	10.6	-1.1	4.5	6.9	10.4	10.7	9.4	7.2
Low EV/Op CF	2.8	-1.4	-4.5	-2.4	2.9	11.1	12.0	3.8	High LT Gth Est	16.7	2.1	14.8	12.8	14.7	5.5	5.1	5.7
Low EV/FCF	2.1	-0.5	3.1	2.5	2.7	2.5	2.8	0.9	High FY1 Gth Est	18.9	4.3	16.7	14.8	20.4	-3.1	-0.6	-1.6
High Dividend Yield	12.4	3.2	-0.7	0.5	11.8	12.2	15.4	14.0	High FY2 Gth Est	4.7	-0.6	-0.6	-1.2	9.2	6.7	3.1	-0.8
<b>Average</b>	<b>8.1</b>	<b>0.4</b>	<b>1.5</b>	<b>3.7</b>	<b>8.2</b>	<b>9.0</b>	<b>8.6</b>	<b>3.9</b>	<b>Average</b>	<b>15.2</b>	<b>0.9</b>	<b>8.8</b>	<b>9.4</b>	<b>15.2</b>	<b>6.3</b>	<b>4.2</b>	<b>1.1</b>
<b>Price Momentum</b>																	
High 6m Price Mom	12.6	-0.1	7.3	12.1	12.7	-0.6	-8.7	-5.6	<b>Stability</b>								
High 9m Price Mom	11.8	0.5	7.9	13.2	9.7	-1.6	-10.6	-6.2	Low EPS Vola	-0.3	2.4	1.4	3.7	0.1	-3.4	-2.3	5.0
High 12m Price Mom	3.4	0.1	5.9	9.8	2.5	-5.8	-9.5	-5.2	Low Op Inc Vola	3.6	1.3	-0.6	-0.4	-1.6	-3.7	1.6	5.2
High Price Rel Strg	16.9	2.8	11.9	17.5	16.6	1.0	-7.1	-3.4	Low Book Value Vola	-4.8	-0.3	-3.1	-6.2	-4.7	3.7	3.4	-0.2
High 3mΔ in Price Mom	-3.3	0.5	-2.4	1.3	-5.1	-5.3	-11.6	-9.8	Low Sales Vola	-14.6	-2.4	-0.5	-1.7	-12.5	-0.3	0.1	2.9
High Price ↑ / ↓ Days	16.4	-1.5	2.5	12.0	15.5	4.6	0.6	3.5	Low EPS Est Vola	-2.9	0.5	-3.6	-5.3	-1.2	-9.1	-4.2	2.6
<b>Average</b>	<b>9.6</b>	<b>0.4</b>	<b>5.5</b>	<b>11.0</b>	<b>8.6</b>	<b>-1.3</b>	<b>-7.8</b>	<b>-4.5</b>	<b>Average</b>	<b>-3.8</b>	<b>0.3</b>	<b>-1.3</b>	<b>-2.0</b>	<b>-4.0</b>	<b>-2.5</b>	<b>-0.3</b>	<b>3.1</b>
<b>Earnings Momentum</b>																	
High FY1 EPS Rev	13.4	1.3	1.0	-0.9	15.6	4.4	6.4	3.9	<b>Risk</b>								
High FY2 EPS Rev	23.4	-0.5	2.1	6.1	27.5	0.6	-0.1	1.8	Low FY1 EPS Disp	-0.8	0.9	-0.7	-0.1	-3.0	3.8	1.9	4.6
High 12m Fd EPS Rev	15.2	-4.1	-2.1	-1.9	16.9	0.7	-2.7	-2.8	Low FY2 EPS Disp	-7.1	0.3	-3.4	-5.2	-6.6	0.5	1.8	3.2
High FY1 EPS Mom	32.9	5.5	7.9	14.5	28.8	4.1	0.1	2.4	High EBIT/Int Exp	-14.0	0.2	-2.1	-3.5	-12.5	7.0	8.7	5.9
High FY2 EPS Mom	15.3	-0.4	1.7	11.7	16.9	1.8	0.7	1.0	Low Debt/Equity	-2.1	-1.8	-3.0	-2.5	-1.8	-5.7	-3.0	-2.0
<b>Average</b>	<b>20.0</b>	<b>0.3</b>	<b>2.1</b>	<b>5.9</b>	<b>21.2</b>	<b>2.3</b>	<b>0.9</b>	<b>1.3</b>	High Altman Z Score	-21.8	-1.4	-11.4	-14.3	-22.2	-5.4	-3.7	2.2
<b>Capex Deployment &amp; Earnings Accruals</b>																	
Low Capex/Depr	-12.7	1.4	-4.2	-6.1	-10.7	-4.5	-5.9	-0.3	High Market Cap	32.2	-0.4	8.4	13.6	26.5	2.5	5.7	7.4
Low Capex/Sales	-9.0	3.1	-1.0	-3.0	-7.9	-2.7	-4.3	-1.8	<b>Average</b>	<b>-2.3</b>	<b>-0.4</b>	<b>-2.0</b>	<b>-3.3</b>	<b>0.4</b>	<b>1.9</b>	<b>3.5</b>	
Low Capex/FA	-13.8	5.1	0.2	-2.6	-15.2	-9.0	-8.2	-4.7	<b>Consensus Ratings</b>								
High YoYΔ Receivables	-11.0	2.6	-2.2	-5.9	-9.2	-0.6	-2.0	-2.0	High Analyst Rec	15.0	7.3	7.9	12.8	16.8	12.9	10.6	9.2
Low YoYΔ Inventory	14.9	0.3	1.1	5.1	16.0	5.8	5.6	2.5	High 1mΔ Analyst Rec	-11.4	-3.8	-3.7	-8.8	-9.9	-4.1	-0.2	2.6
Low YoYΔ Payables	2.5	-1.9	-2.1	3.2	1.0	-8.4	-4.9	-4.3	<b>Average</b>	<b>1.8</b>	<b>1.8</b>	<b>2.1</b>	<b>2.0</b>	<b>3.5</b>	<b>4.4</b>	<b>5.2</b>	<b>5.9</b>
<b>Average</b>	<b>-4.8</b>	<b>1.8</b>	<b>-1.3</b>	<b>-1.6</b>	<b>-4.3</b>	<b>-3.2</b>	<b>-3.3</b>	<b>-1.8</b>									

Source: Deutsche Bank, FactSet, I/B/E/S. Note: \*1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended Nov 2010. Relative performance is based on equal weighted average returns of the best quintile basket and the market. For description on factors please see appendix A.

## Singapore strategy

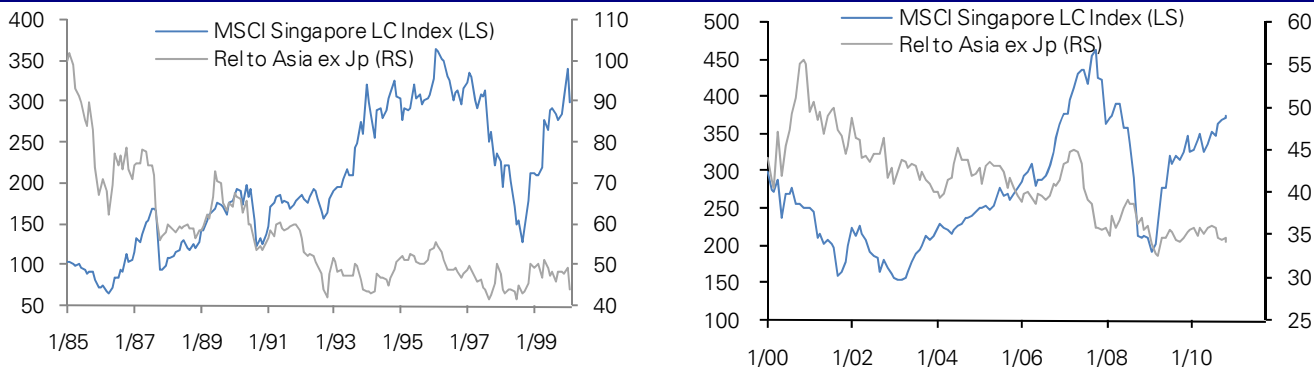
1. **Policy and economics:** We forecast a 4Q pick-up as leading indicators have shown signs that the recent soft patch is reversing and GDP growth could normalize to 5.5% in 2011. The government has raised its estimate of 3Q GDP slightly to 10.6% yoy growth vs. the advance estimate of 10.3%. Meanwhile, NODX growth has accelerated sharply, to 34.5% yoy in October from 22.6% (revised) in September, well above the market and our forecasts of 26.6% and 20.8%. By destination, exports to the US and EU surged in October, by 72.2% and 69.9%, respectively, vs. 31.9% and 28.8% in September. Although industrial production fell 15.7% qoq last quarter, this is due to the unwinding of 2Q's inventory buildup. Credit growth accelerated to 13.8% yoy in October, up from 12.1% (revised) in September as loans to businesses remained strong in October, rising by 10.1% vs. 7.4% in September. The MAS also reported bank exposure to housing loans has risen to 34.5%. Strong demand for homes has seen housing loan growth averaging some 20% on a yoy basis in 2010. While catalysts for a broad market re-rating remain elusive, we believe that improving 4Q lead indicators should lift Singapore's recent underperformance vis-à-vis the region.
2. **Company visits/results:** Singapore reported 3Q10 earnings largely in line with our expectations, with a percentage split of 37:34:29 above/in-line/below estimates. Aggregate earnings were also in line with our forecasts (+24%), as strong earnings surprises in conglomerates from high-margin projects were balanced by weakness in commodities due to hedging losses and below forecast CPO production. We now forecast 15.4% market EPS growth for FY10 and 10.4% for FY11. The transport sector continues to show weakness as NOL announced its operating performance for Period 11. Average rates declined 4.1% vs. Period 10, and NOL's average rates have now declined 9.1% since its high in Period 8. Property sales continue to be strong as 97% of Robinson Suites were sold at SGD2300-3500psf on the first day; and launches at the Glyndebourne (about 150 units sold) and D'Leedon (about 200 units sold) have also seen strong sales.
3. **Fund flows and investor views:** We expect the market to remain quiet heading towards the end of the year as investors have started to take risk off the table, and short activity has slowed considerably. Volumes have decelerated, and we expect them to continue to tail off in the second half of the month. Feedback from our recent marketing trips indicates that investors are underweight on banks, and will not be inclined to change their views given the rate cycle. While the SGX-ASX merger has piqued investor interest, most have not developed a firm view on the deal and are awaiting more information before taking a firm position. Investors however, were bullish on the Singapore O&M sector. While attention has been focused on the Petrobras tenders, the sector is expanding across the board and may be on the cusp of a multi-year new order recovery driven by a replacement cycle as offshore safety requirements increase and drilling conditions become more challenging. Investors are increasingly overweight in the sector and we would advise focusing on Sembcorp Marine for more direct exposure to the industry.
4. **Events/data/risks to watch for:** a) Property-related data points such as new residential launches and land tenders, as continued sales momentum may raise the risk of regulatory measures. b) Broader macro indicators such as retail sales (12 December), NODX (17 December), industrial production (24 December), and PMI (4 January). c) A swing in regional fund inflows – out of the last six liquidity-driven rallies, the FSSTI has experienced a sharp correction four times as fund flow reversed. d) PM speech on 2011 economic outlook (31 December).
5. **Top ten stock ideas:** OCBC, Sembcorp Industries, Yangzijiang Shipbuilding, CapitaLand, Ascendas REIT, CapitaCommercial Trust, Mapletree Logistics Trust, Singapore Airlines, Singapore Exchange, Indofood Agri-Resources

**Gregory Lui, CFA**



## Singapore – Market intelligence

**Figure 367: Equity market performance**



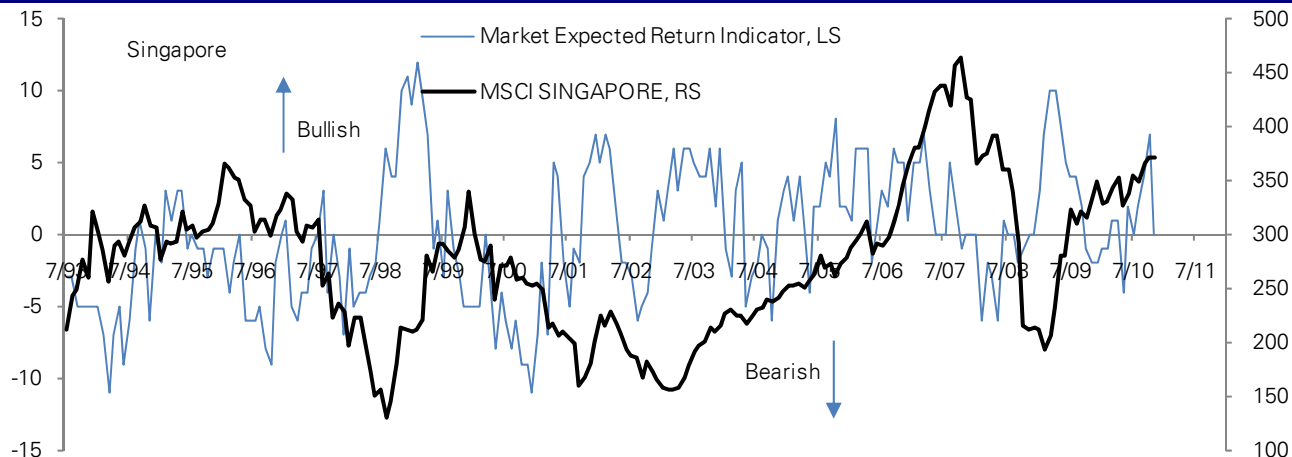
Source: Deutsche Bank, MSCI.  
Market relative = relative to MSCI AC Asia ex Japan.

**Figure 368: Market intelligence by sector**

8Dec10 Sector (#Co)	Mcap U\$m	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
		1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Capital Goods (8)	35,078	0.7	28.4	15.2	15.0	14.0	2.7	2.4	2.2	3.0	3.0	3.2	4.5	1.8	6.7	17.6	15.9	15.5
Transportation (3)	10,140	-1.5	6.1	nm	11.7	10.1	1.4	1.3	1.3	3.2	4.2	4.8	na	30.1	15.2	9.3	11.3	12.4
Cons Svc (1)	10,081	-6.8	67.7	nm	22.9	20.0	5.5	4.4	3.6	0.0	0.0	0.3	na	37.7	14.7	17.5	19.3	18.1
Media (1)	4,877	1.0	15.5	14.6	16.4	15.5	3.0	3.0	3.0	5.0	5.6	5.8	5.1	-11.2	5.9	20.9	18.4	19.1
Retailing (1)	3,044	-1.8	39.1	12.8	11.5	10.5	2.9	2.8	2.7	3.1	3.5	3.8	57.4	11.6	8.9	22.5	24.4	25.5
Food/Staples Retail (1)	2,946	-4.2	20.3	24.0	19.2	15.5	3.5	3.1	2.6	1.4	1.5	1.8	19.7	24.7	23.7	14.4	16.1	17.1
Food Beverage (2)	12,626	-8.2	5.6	20.4	15.4	13.8	1.9	1.8	1.6	1.3	1.6	1.7	-4.1	32.8	11.5	9.5	11.5	11.3
Banks (3)	53,227	-0.9	-3.4	13.6	12.0	10.9	1.5	1.4	1.3	3.7	4.0	4.5	17.1	12.6	10.3	10.7	11.3	11.7
Div Financials (1)	5,582	-6.3	3.0	25.8	21.7	18.8	10.9	10.2	9.4	3.5	4.1	4.7	13.3	19.3	15.3	42.2	47.1	50.2
Real Estate (8)	26,943	-5.2	-0.4	18.0	18.6	17.4	1.3	1.2	1.2	2.3	2.2	2.2	5.9	-0.3	6.6	7.2	6.6	6.7
Telecom (2)	20,281	-3.9	2.4	13.2	12.5	11.6	2.1	2.0	1.8	5.0	5.4	5.8	0.9	5.8	7.1	15.9	15.8	16.0
Singapore (31)	184,825	-1.1	7.3	15.7	14.3	13.0	1.9	1.7	1.6	3.1	3.3	3.6	21.1	10.4	9.5	11.9	12.1	12.3

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI country index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year-end) with current prices. All numbers are free-float adjusted.

**Figure 369: Market Expected Return Indicator for Singapore**

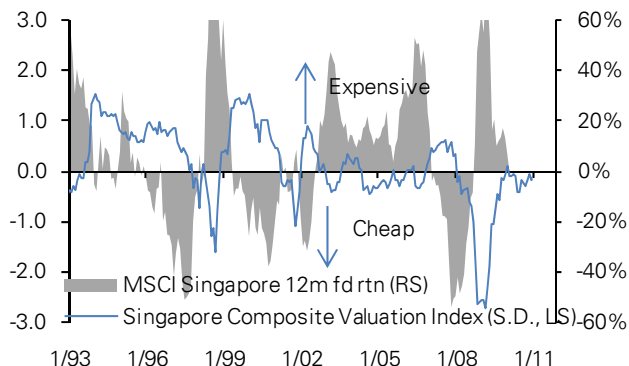


Source: Deutsche Bank, MSCI, Bloomberg Finance LP

## Singapore – Valuation

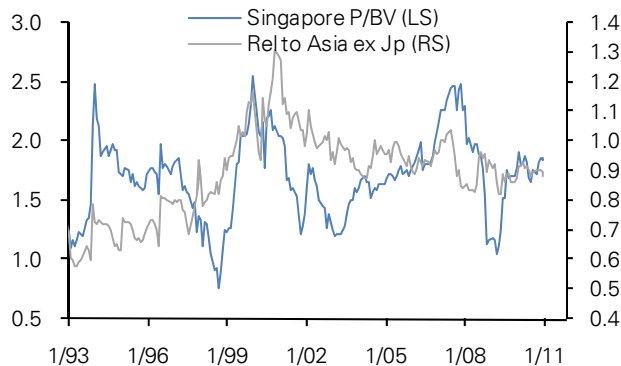
The market is fairly valued, and has been de-rated versus the region for a decade. EBIT margins are poor, and the ROE is supported by rising asset turns.

**Figure 370: Composite valuation index**



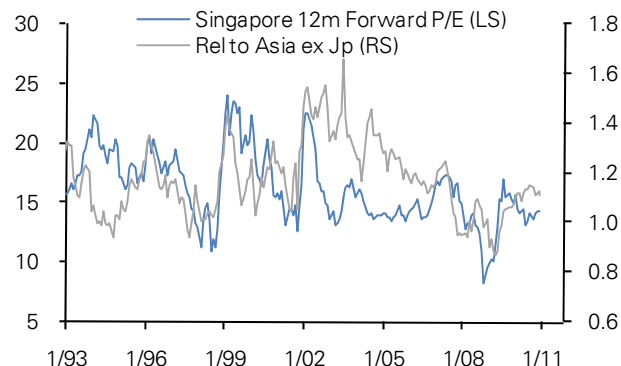
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history

**Figure 371: Price-to-book value**



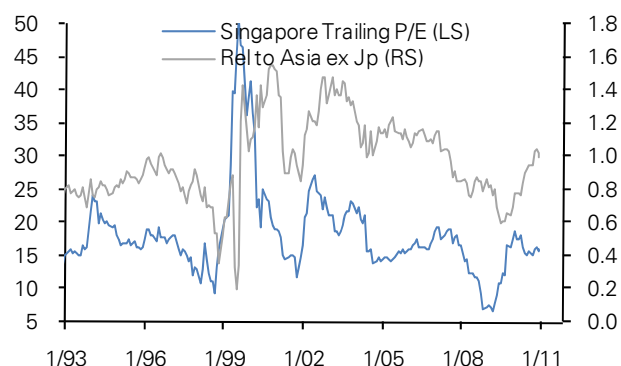
Source: Deutsche Bank, MSCI, Datastream. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 372: 12-month forward P/E**



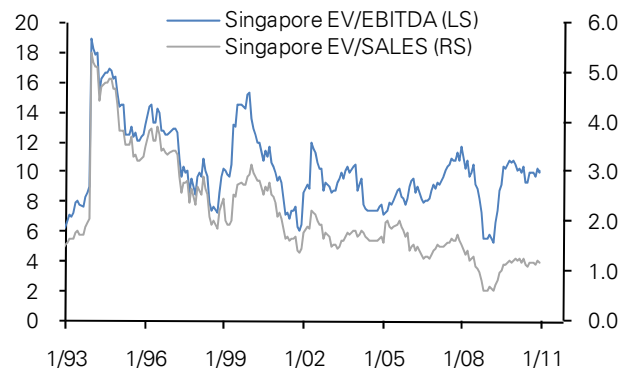
Source: Deutsche Bank, MSCI, IB/E/S. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 373: 12-month trailing P/E**



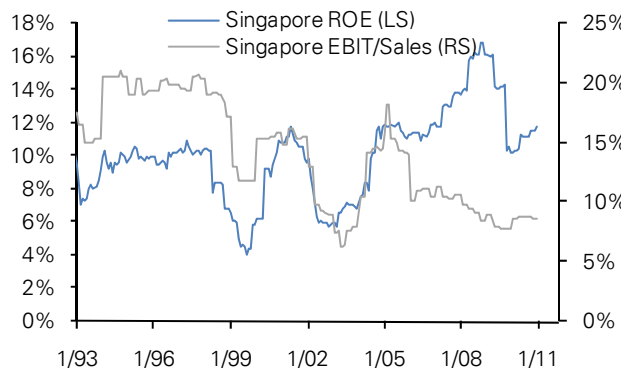
Source: Deutsche Bank, MSCI, Datastream. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 374: EV multiples**



Source: Deutsche Bank, MSCI, FactSet

**Figure 375: ROE and EBIT margin**

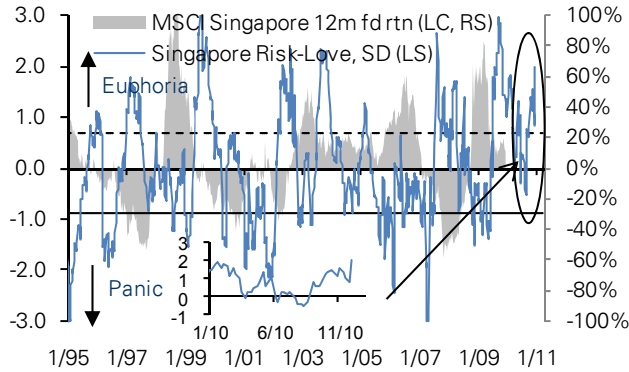


Source: Deutsche Bank, MSCI, FactSet

## Singapore – Investor sentiment

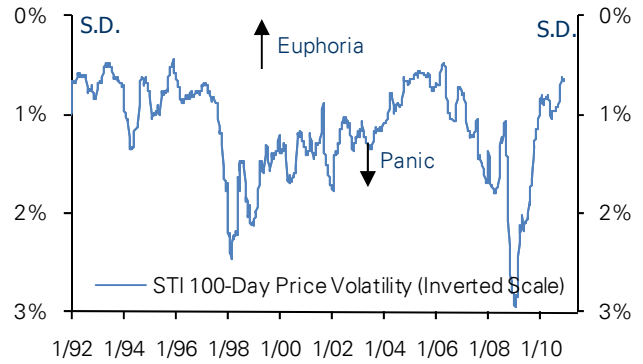
Risk-love in Singapore is at euphoric levels.

**Figure 376: Equity Risk-Love indicator**



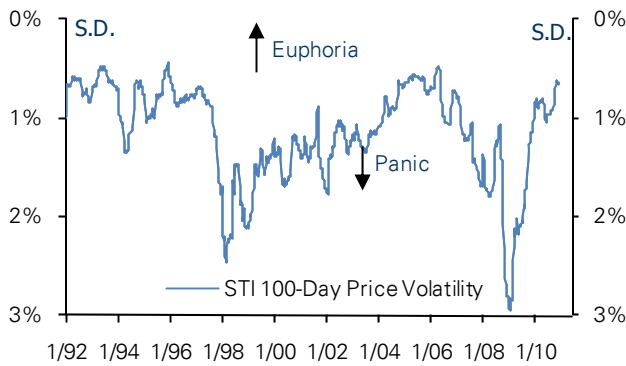
Source: Deutsche Bank, MSCI

**Figure 377: Market volatility**



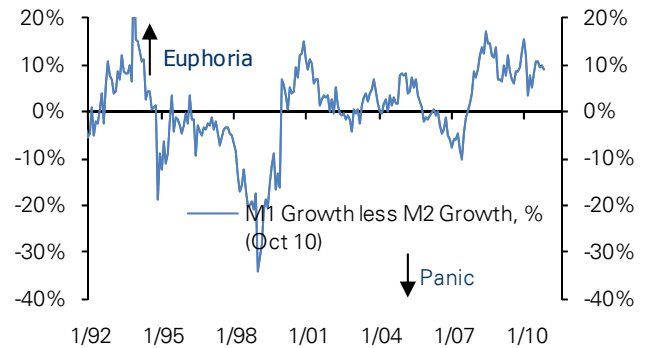
Source: Deutsche Bank, Datastream

**Figure 378: Turnover-to-market cap ratio**



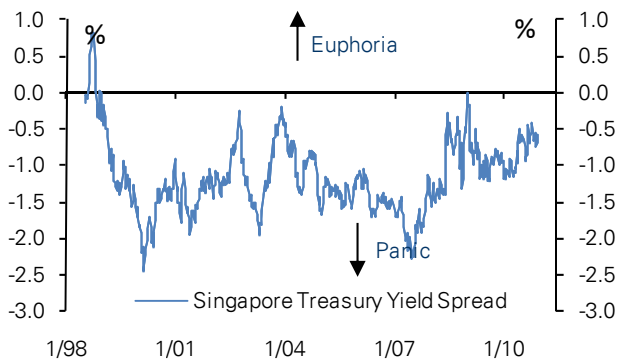
Source: Deutsche Bank, CEIC, Datastream

**Figure 379: M1 less M2 growth**



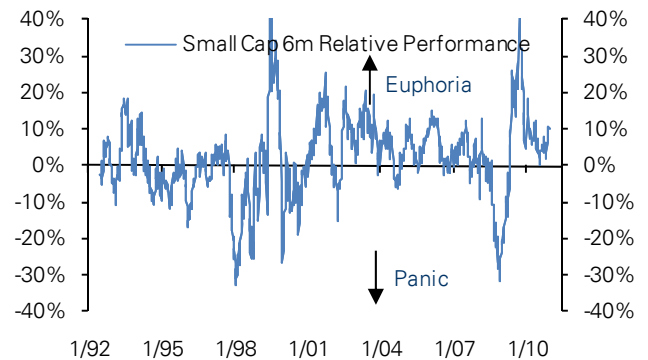
Source: Deutsche Bank, Datastream

**Figure 380: Treasury yield spread**



Source: Deutsche Bank, Datastream, CEIC.  
Note: Singapore less US government 10-year bond yield.

**Figure 381: Small cap relative performance**

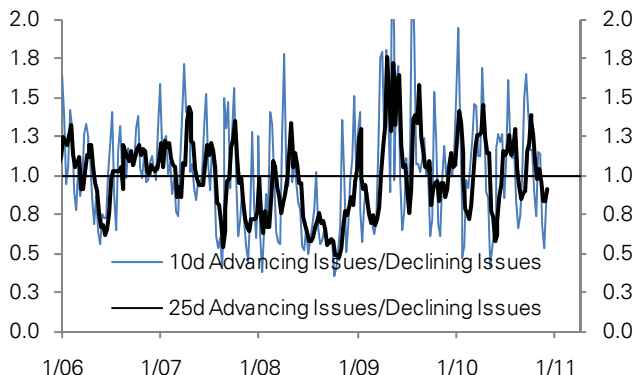


Source: Deutsche Bank, Datastream

## Singapore – Technicals

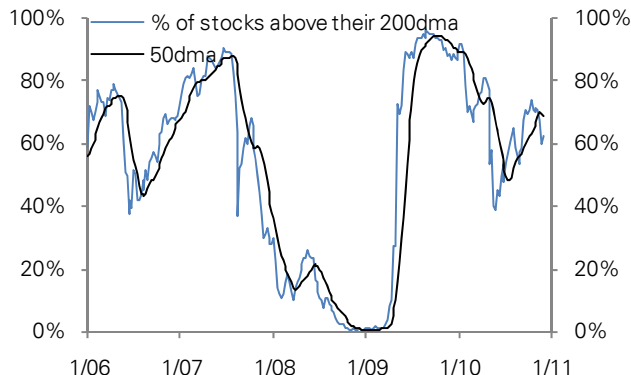
Breadth is strong, but there are few new highs.

**Figure 382: Advance/decline ratio**



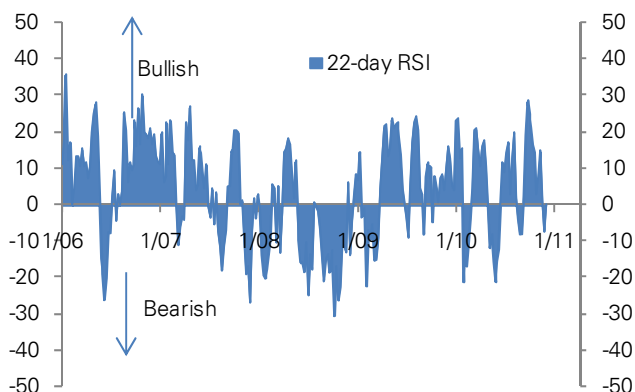
Source: Deutsche Bank, Datastream, FactSet

**Figure 383: Percentage of stocks above their 200dma**



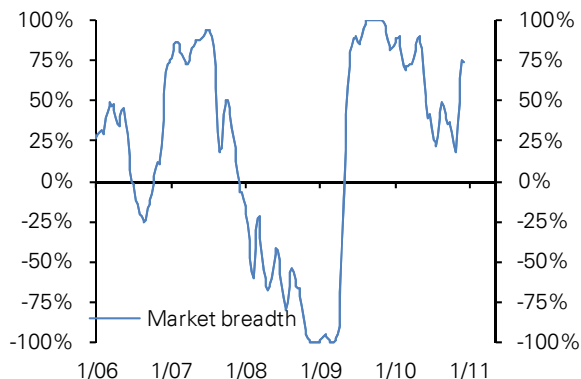
Source: Deutsche Bank, Datastream, FactSet

**Figure 384: Relative Strength Index**



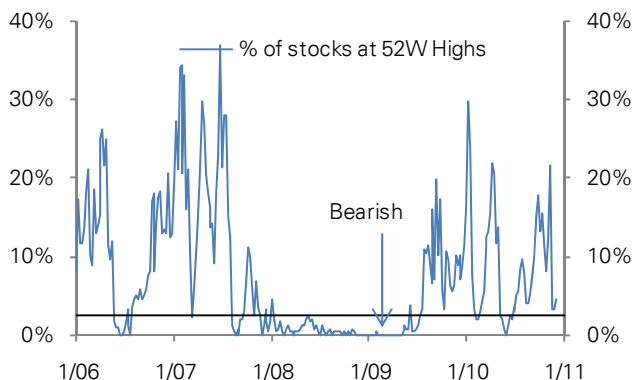
Source: Deutsche Bank, Datastream, FactSet

**Figure 385: Market breadth**



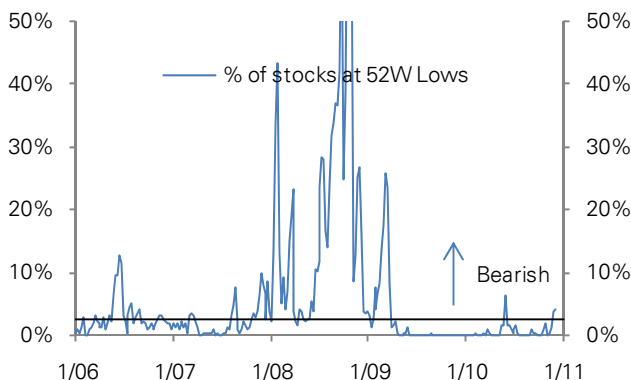
Source: Deutsche Bank, Datastream, FactSet. Market breadth is defined as (number of sub-sectors up on six-month basis minus number of sub-sectors down on six-month basis) / total sub-sectors available.

**Figure 386: Percentage of stocks at 52-week highs**



Source: Deutsche Bank, Datastream, FactSet

**Figure 387: Percentage of stocks at 52-week lows**

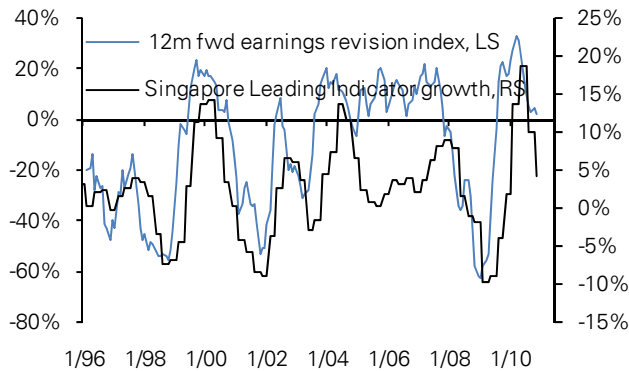


Source: Deutsche Bank, Datastream, FactSet

## Singapore – Growth and earnings

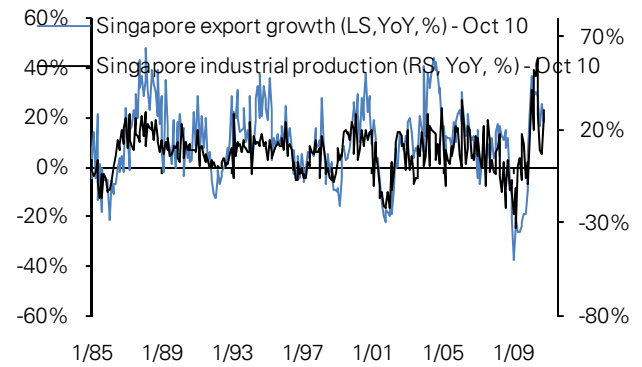
Projected EPS growth of only 10% for 2011 after 21% this year seems anemic.

**Figure 388: Leading economic indicators**



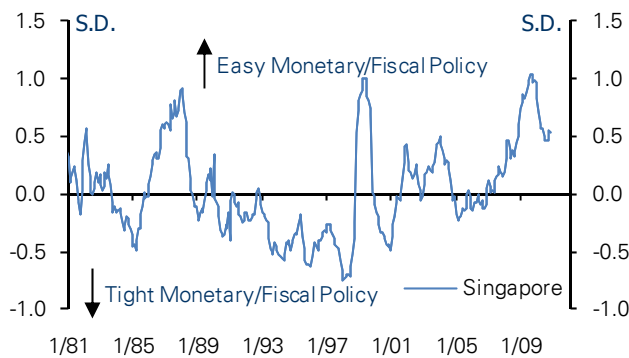
Source: Deutsche Bank, Department of Statistics, Singapore, I/B/E/S, Datastream

**Figure 389: Industrial production and export growth**



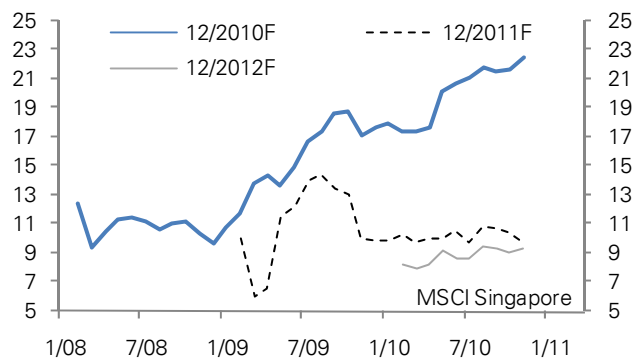
Source: Deutsche Bank, Datastream

**Figure 390: Composite policy indicator**



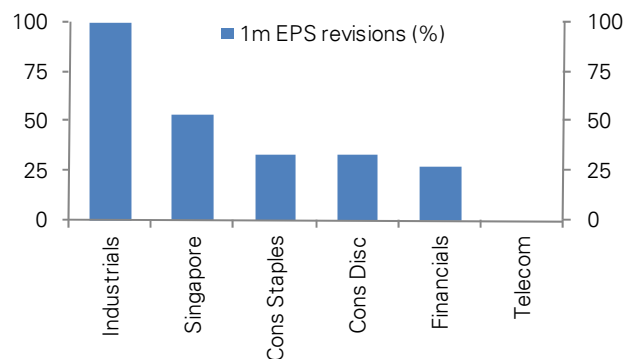
Source: Deutsche Bank, CEIC, Datastream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate yoy growth, real broad money (M2) yoy growth, short term real interest rate and government fiscal deficit/surplus as a percent of GDP.

**Figure 391: Earnings growth forecast (%)**



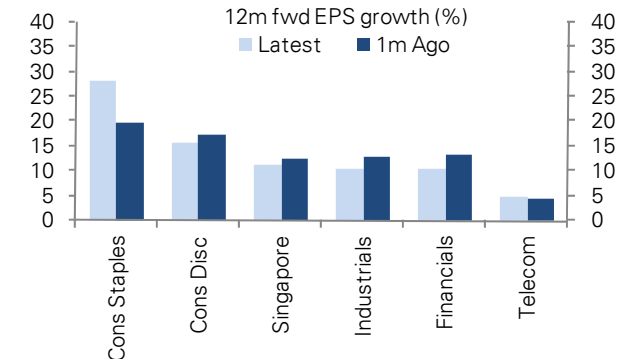
Source: Deutsche Bank, MSCI, I/B/E/S

**Figure 392: 12-month forward EPS revisions by sector**



Source: Deutsche Bank, MSCI, I/B/E/S. Note: EPS revisions = number of upward less downward revisions as percent of total number of revisions in one month.

**Figure 393: 12-month forward EPS growth forecast by sector**

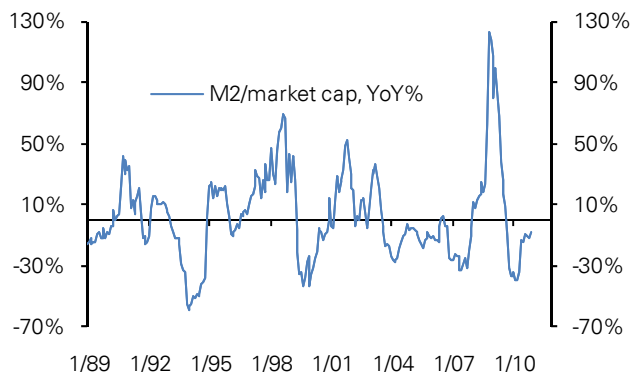


Source: Deutsche Bank, MSCI, I/B/E/S

## Singapore – Liquidity

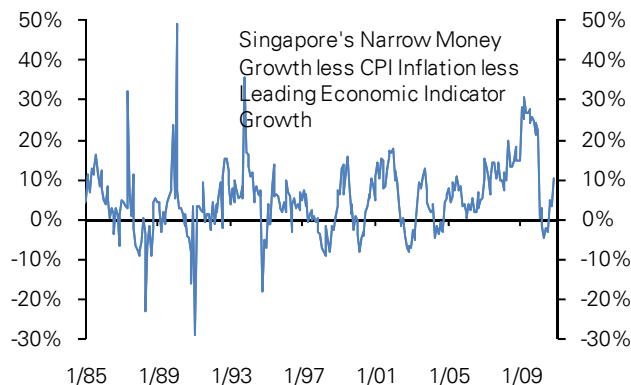
Free liquidity is rising, a positive. The terms of trade were also rising, but they recently started dropping again, a negative.

**Figure 394: M2/market cap**



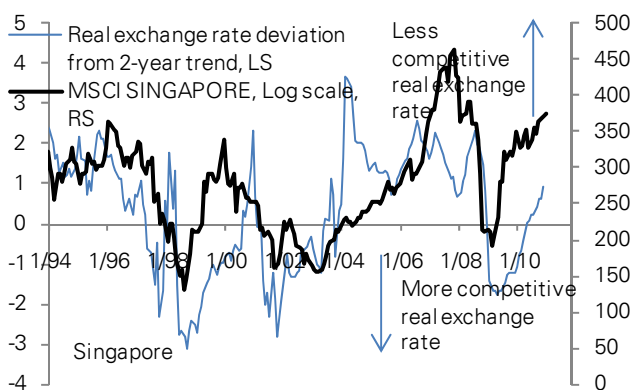
Source: Deutsche Bank, Datastream

**Figure 395: Free liquidity**



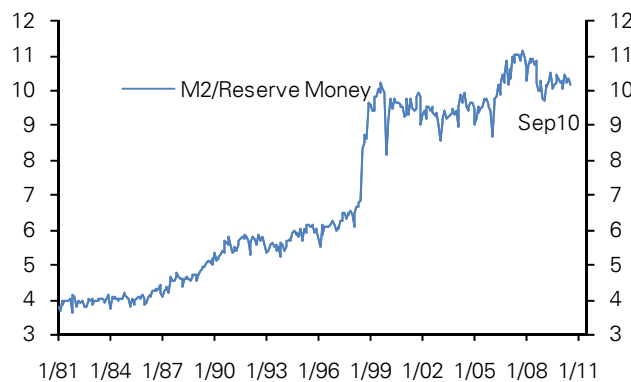
Source: Deutsche Bank, Datastream

**Figure 396: Real exchange rate**



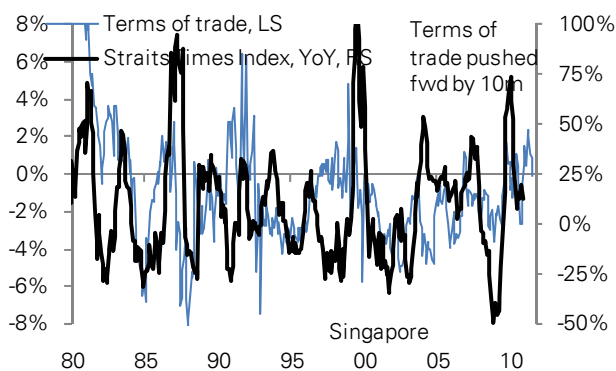
Source: Deutsche Bank, MSCI, Bloomberg Finance LP

**Figure 397: M2/base money**



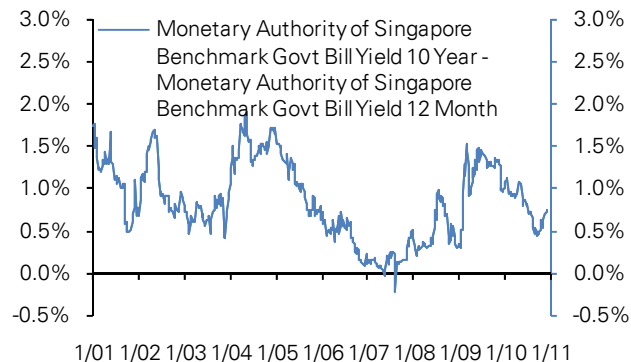
Source: Deutsche Bank, Monetary Authority of Singapore, Datastream

**Figure 398: Terms of trade**



Source: Deutsche Bank, Bloomberg Finance LP

**Figure 399: Yield curve**

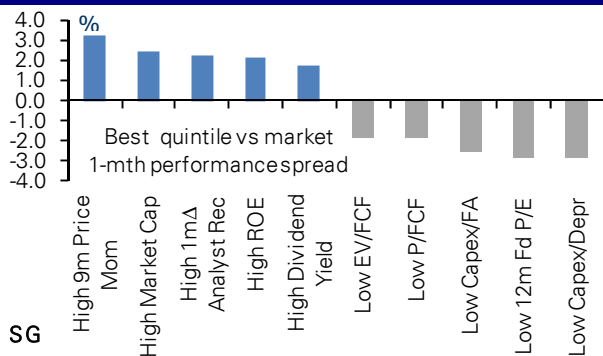


Source: Deutsche Bank, Bloomberg Finance LP

## Singapore – Factor performance

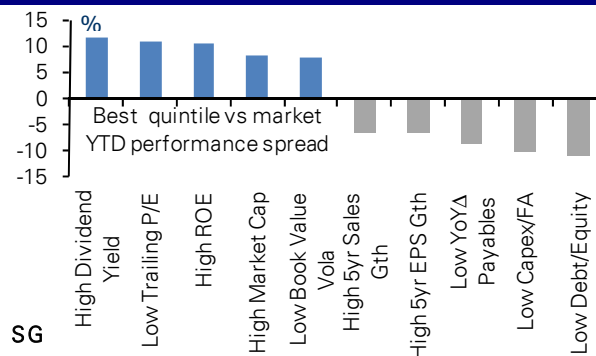
Value has added modest alpha this year, as have analyst upgrades and recommendations. Stay with value.

**Figure 400: Best- and worst-performing factors (1-month)**



Source: Deutsche Bank

**Figure 401: Best- and worst-performing factors (YTD)**



Source: Deutsche Bank

**Figure 402: Best quintile vs. market relative performance (%)**

Singapore Dec 6, 10	Returns					Ann. Rtn.				Returns					Ann. Rtn.		
	YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*		YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*
<b>Valuation</b>										<b>Profitability</b>							
Low 12m Fd P/E	-1.7	-2.8	-0.5	-2.1	-2.6	-5.8	-1.3	0.0	High Cash ROC	-0.2	1.1	-1.1	-0.5	1.9	5.3	10.4	13.3
Low Trailing P/E	11.1	1.2	0.6	1.5	11.9	10.4	14.0	14.5	High YoYΔ Cash ROC	1.4	-1.8	-2.7	-3.9	-2.3	4.0	4.5	4.7
Low P/Op Inc	6.7	0.2	-1.2	-0.7	6.5	9.7	10.5	12.3	High ROE	10.7	2.2	1.3	4.4	8.6	7.0	9.1	10.9
Low P/BV	1.5	-0.4	-0.9	-0.4	0.6	4.0	3.0	2.9	High YoYΔ ROE	0.0	0.2	-3.9	-3.6	-0.1	6.6	4.2	3.8
Low Price/Sales	0.8	-0.5	-3.1	-5.7	0.8	-0.4	-1.2	-0.6	<b>Average</b>	<b>3.0</b>	<b>0.4</b>	<b>-1.6</b>	<b>-0.9</b>	<b>2.0</b>	<b>5.7</b>	<b>7.0</b>	<b>8.2</b>
Low P/FCF	4.4	-1.8	-4.4	-4.1	5.1	8.0	7.6	7.2	<b>Growth</b>								
Low EV/EBIT	5.5	0.1	0.3	0.4	6.3	11.3	13.5	15.2	High 3yr Sales Gth	1.7	-0.3	1.8	1.5	0.3	1.8	3.9	1.6
Low EV/EBITDA	3.8	-0.9	-1.5	-0.3	4.7	9.7	10.3	12.4	High 5yr Sales Gth	-6.6	-0.1	1.6	2.1	-5.6	-2.0	2.2	0.1
Low EV/Cap Emp	-5.5	-1.6	-2.3	-4.3	-6.2	1.3	2.7	5.7	High 3yr EPS Gth	-2.8	-0.4	-0.8	-1.0	-3.1	5.6	7.8	4.2
Low EV/Sales	1.4	-0.6	-2.1	-5.0	1.3	0.4	2.2	2.5	High 5yr EPS Gth	-6.6	-1.3	-0.5	-0.6	-7.0	1.2	1.4	-2.2
Low EV/Op CF	-0.9	-0.8	-3.5	-4.4	-0.3	7.1	10.8	12.2	High LT Gth Est	-4.7	0.9	6.2	6.0	-4.3	5.7	2.6	1.0
Low EV/FCF	1.7	-1.8	-3.5	-4.3	3.4	8.9	9.2	8.7	High FY1 Gth Est	6.5	1.4	3.0	5.3	6.4	1.1	2.3	0.0
High Dividend Yield	11.9	1.8	2.0	2.5	13.0	9.4	12.4	13.6	High FY2 Gth Est	3.1	0.2	5.7	5.8	2.5	-3.1	-9.0	-7.4
<b>Average</b>	<b>3.1</b>	<b>-0.6</b>	<b>-1.5</b>	<b>-2.1</b>	<b>3.4</b>	<b>5.7</b>	<b>7.2</b>	<b>8.2</b>	<b>Average</b>	<b>-1.3</b>	<b>0.0</b>	<b>2.4</b>	<b>2.7</b>	<b>-1.6</b>	<b>1.5</b>	<b>1.6</b>	<b>-0.4</b>
<b>Price Momentum</b>										<b>Stability</b>							
High 6m Price Mom	0.1	0.2	2.7	4.1	2.1	0.3	4.7	2.2	Low EPS Vola	0.0	1.3	0.4	-0.4	0.1	0.9	-1.2	1.5
High 9m Price Mom	3.5	3.3	6.9	8.8	5.8	-0.1	5.2	4.0	Low Op Inc Vola	1.2	-0.4	-1.1	-0.6	1.1	-1.3	-1.3	1.2
High 12m Price Mom	0.0	1.7	5.2	7.6	1.0	-3.0	2.9	1.2	Low Book Value Vola	7.8	0.5	2.0	3.5	8.0	1.9	-0.4	0.9
High Price Rel Strg	0.9	1.1	2.8	5.0	2.4	2.0	7.0	5.7	Low Sales Vola	4.6	1.1	-1.1	-1.2	3.7	2.8	0.7	3.6
High 3mΔ in Price Mom	0.3	-0.2	3.6	0.8	0.5	-1.5	-0.8	-2.6	Low EPS Est Vola	-2.6	0.6	-1.4	-1.9	-2.9	-0.1	-0.3	1.0
High Price ↑ / ↓ Days	4.8	1.6	1.6	2.0	3.3	10.4	12.9	9.9	<b>Average</b>	<b>2.2</b>	<b>0.6</b>	<b>-0.2</b>	<b>-0.1</b>	<b>2.0</b>	<b>0.9</b>	<b>-0.5</b>	<b>1.6</b>
<b>Average</b>	<b>1.6</b>	<b>1.3</b>	<b>3.8</b>	<b>4.7</b>	<b>2.5</b>	<b>1.4</b>	<b>5.3</b>	<b>3.4</b>	<b>Risk</b>								
<b>Earnings Momentum</b>										<b>Consensus Ratings</b>							
High FY1 EPS Rev	5.0	-0.6	1.1	1.4	1.3	5.4	6.6	6.6	High Analyst Rec	6.7	-1.2	2.4	2.7	5.4	5.3	7.5	9.0
High FY2 EPS Rev	2.8	0.5	1.5	1.7	2.3	8.8	8.8	7.6	High 1mΔ Analyst Rec	3.9	2.3	2.4	3.0	5.0	1.6	2.2	4.5
High 12m Fd EPS Rev	0.2	1.4	0.9	1.4	0.3	3.7	7.7	6.4	<b>Average</b>	<b>5.3</b>	<b>0.5</b>	<b>2.4</b>	<b>2.8</b>	<b>5.2</b>	<b>3.5</b>	<b>4.8</b>	<b>6.7</b>
High FY1 EPS Mom	0.7	-1.0	-0.5	-2.0	-2.2	5.6	13.5	11.3	Low Debt/Equity	-11.0	-0.5	-1.5	-5.1	-9.5	-5.2	-4.3	-0.8
High FY2 EPS Mom	5.4	-0.6	1.0	1.4	2.9	7.2	11.6	11.2	High Altman Z Score	1.2	0.3	2.9	1.4	0.5	1.4	3.9	8.8
<b>Average</b>	<b>2.8</b>	<b>-0.1</b>	<b>0.8</b>	<b>0.8</b>	<b>1.0</b>	<b>6.1</b>	<b>9.6</b>	<b>8.6</b>	High Market Cap	8.5	2.5	2.7	5.8	8.8	6.7	6.0	6.2
<b>Capex Deployment &amp; Earnings Accruals</b>																	
Low Capex/Depr	-3.7	-2.8	-4.0	-2.8	-2.7	-2.0	-3.9	-4.3									
Low Capex/Sales	5.1	0.3	1.4	0.7	4.9	1.6	1.4	1.2									
Low Capex/FA	-10.0	-2.5	-3.8	-6.7	-8.7	-4.1	-3.8	-2.5									
High YoYΔ Receivables	4.7	0.0	2.4	2.6	5.8	0.6	-0.4	-1.4									
Low YoYΔ Inventory	2.3	0.9	-0.2	0.7	0.2	0.2	0.7	-0.2									
Low YoYΔ Payables	-8.5	0.0	-2.1	-4.0	-10.3	-6.3	-4.3	-5.1									
<b>Average</b>	<b>-1.7</b>	<b>-0.7</b>	<b>-1.1</b>	<b>-1.6</b>	<b>-1.8</b>	<b>-1.7</b>	<b>-1.7</b>	<b>-2.1</b>									

Source: Deutsche Bank, FactSet, I/B/E/S. Note: \*1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended August 2010. Relative performance is based on equal weighted average returns of the best quintile basket and the market. For description on factors please see Appendix A.

## Taiwan strategy

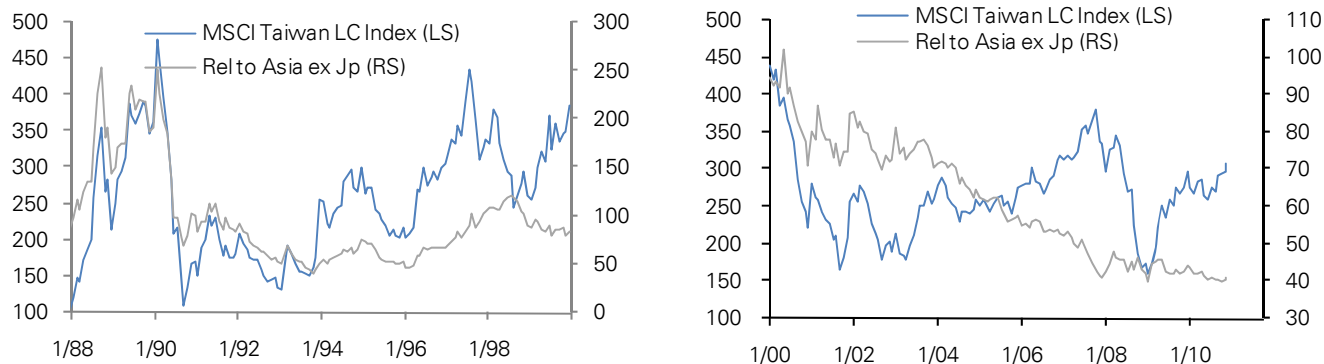
- 1. Policy and economics:** Taiwan industrial production accelerated to 14.4% yoy in October from 12.2% in September, supported by a low base effect. This came broadly in line with our expectation of 15%. We expect IP growth to decelerate notably in the coming months, depressed by weaker export growth and a high base effect. Our economists currently forecast the TWD to appreciate to 29.5 against the USD in six months and to 29.3 in 12 months. This could be negative for the export/technology sectors (55-60% of TAIEX market cap). We also expect two rate hikes (with 12.5bps each) over the next six months. The 27 November City Mayoral election results are mixed: KMT (pro-China) won three of five seats but the DPP (pro-Taiwan independence) got more votes at the aggregate level. The market has been reacting positively to the results and the next bigger election will be in 1Q12.
- 2. Company visits/results:** All of the companies reported their 3Q10 results at the end of October. The results were generally in line. The next reporting window will be January 2011 for select upstream technology companies and the bulk of the market will only report 4Q10 results in April 2011, together with 1Q11 results. A few high profile companies (such as HTC) reported record high monthly revenues for November, and the market has been reacting positively to those showing sequential revenue growth in peak season ahead of year-end promotion in the developed markets. At the same time, some upstream tech companies (e.g., ASE & Siliconware Precision) appear to be slightly behind expectations in 4Q10 topline.
- 3. Fund flows and investor views:** QFII investors have been a net buyer in Taiwan in November and December (net bought USD2.4bn since 1 November). Among the sectors, technology was the biggest buy (net bought USD1,354m, mostly in lower beta tech) and petrochem was second (net bought USD663m). Local ITC cash level slightly dropped from 12.4% to 11.5% in November/December. Recent investor feedback has also suggested that investors are looking to buy out of a liquidity push. As a result, we see very swift sector rotation among tech, non-tech and financials, making Taiwan a traders' market as opposed to an investors' market. In terms of the sector view going forward, we downgrade petrochem from overweight to neutral and upgrade tech from underweight to neutral in November. We believe market expectations on petrochem have been catching up with reality and the window of arbitrage is gone. On the tech side, the sector turnover hit a low of 50% back in October, and we expect sentiment to return to tech ahead of sell-through data from the US/Europe.
- 4. Events/data/risks to watch for:** a) US/Europe sell-through data for consumer electronics in December, b) Taiwan government to release 2011 GDP outlook on 31 January, and c) DPP/KMT to nominate presidential election candidates in 2Q11.
- 5. Top ten stock ideas:** Formosa Chem & Fibre, Hon Hai, Asustek, Quanta, TSMC, Epistar, Silitech, Novatek, Orise, and First Financial.

**Julian Wang**



## Taiwan – Market intelligence

**Figure 403: Equity market performance**



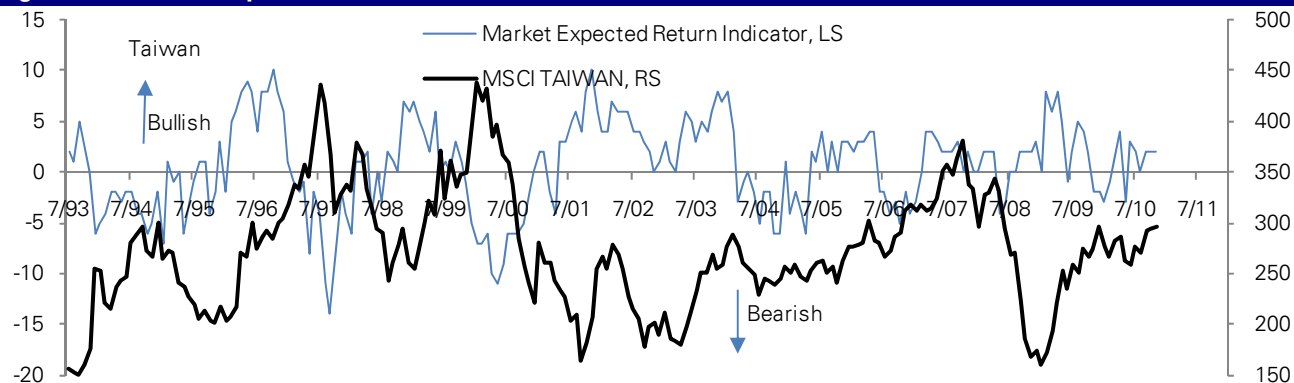
Source: Deutsche Bank, MSCI.  
Market relative = relative to MSCI AC Asia ex Japan.

**Figure 404: Market intelligence by sector**

8Dec10	Mcap	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
Sector (#Co)	U\$m	1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Energy (1)	3,398	3.8	8.9	25.1	20.9	17.6	3.7	3.4	3.2	3.7	4.1	4.8	-13.1	20.0	18.8	14.5	16.4	18.4
Materials (11)	54,538	-1.0	17.1	14.3	13.1	12.2	1.9	1.8	1.7	5.3	6.0	6.4	53.7	8.7	8.1	13.3	13.9	14.2
Capital Goods (4)	8,579	-1.4	33.0	17.0	14.9	15.1	1.5	1.6	1.6	2.2	3.8	3.5	58.2	13.8	-3.0	9.0	11.2	10.5
Transportation (7)	7,544	3.4	61.0	nm	9.1	8.8	1.7	1.5	1.4	2.9	2.9	2.6	na	-20.0	4.4	23.3	16.6	16.5
Autos (2)	4,115	0.0	29.0	16.6	26.4	22.3	1.5	1.5	1.4	2.0	2.4	2.6	-5.5	-0.3	18.7	5.9	5.6	6.5
Cons Durables (5)	6,484	-0.9	21.1	14.2	12.0	11.1	1.6	1.8	2.4	3.1	4.7	5.2	-5.3	19.6	15.5	11.6	15.1	21.4
Retailing (1)	1,264	7.3	22.5	26.5	24.0	21.3	2.0	1.9	2.0	1.9	2.1	2.4	5.4	10.1	12.7	7.7	8.1	9.3
Food/Staples Retail (1)	2,282	4.7	74.1	23.5	22.0	19.4	6.5	5.9	5.6	3.1	3.7	4.1	44.7	7.2	13.1	27.4	26.7	28.9
Food Beverage (1)	5,265	2.6	21.6	18.9	17.4	na	2.7	2.5	na	2.4	2.6	2.9	28.2	8.5	na	14.4	14.6	na
Banks (11)	33,451	3.5	15.2	16.5	13.2	12.7	1.2	1.2	1.2	2.5	3.2	3.7	66.7	24.5	8.9	7.4	8.7	9.2
Div Financials (5)	13,886	0.9	-6.1	16.3	14.3	12.8	1.4	1.4	1.3	4.0	4.4	5.0	9.0	14.1	11.7	8.6	9.5	10.2
Insurance (3)	13,481	-2.2	-14.0	45.7	24.3	20.2	1.9	1.8	1.7	1.0	1.9	2.5	-11.5	88.0	27.3	4.1	7.3	8.5
Real Estate (2)	1,484	-2.2	21.3	9.3	7.8	6.5	2.2	1.9	1.8	6.8	7.1	4.7	-4.0	18.6	20.0	23.6	24.4	27.1
Software (1)	313	-1.0	-42.6	17.9	14.3	15.2	7.3	5.9	5.6	3.4	4.0	4.2	na	24.9	-5.8	41.1	41.6	36.8
Tech Hard/Equip (38)	140,089	5.0	1.5	15.0	12.3	10.3	2.1	1.9	1.8	3.0	3.7	4.3	115.0	23.1	18.3	13.9	15.5	17.2
Semis (21)	100,454	7.4	-5.5	11.9	12.0	11.4	2.4	2.2	2.1	4.7	4.7	5.0	130.4	-4.5	7.9	20.7	18.6	18.2
Telecom (3)	18,081	-1.4	11.8	15.1	14.8	14.5	2.3	2.3	2.3	6.5	6.5	6.6	-1.2	1.5	2.2	15.0	15.4	16.2
Taiwan (118)	415,177	4.1	3.9	14.5	12.9	11.6	2.0	1.8	1.8	3.8	4.3	4.7	91.9	10.3	11.9	13.8	14.4	15.2

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI country index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year-end) with current prices. All numbers are free-float adjusted.

**Figure 405: Market Expected Return Indicator for Taiwan**

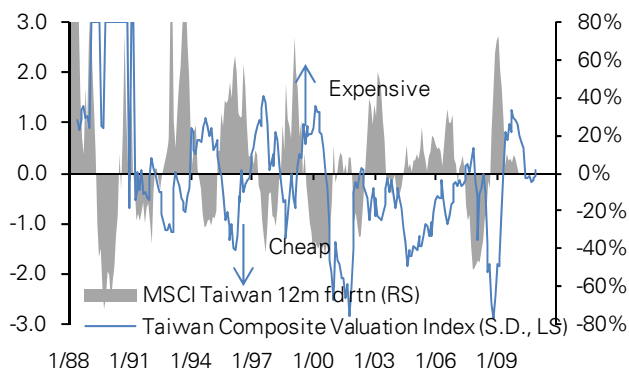


Source: Deutsche Bank, MSCI, Bloomberg Finance LP

## Taiwan – Valuation

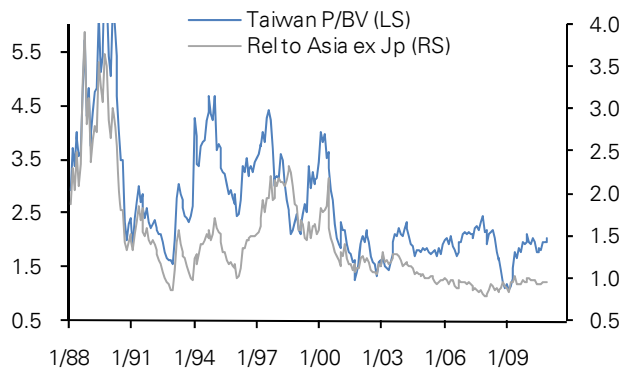
The market is at fair value. The exceptional cyclicality of its ROE has seen the market de-rate since 1997 with a brief respite during the 2008 crisis.

**Figure 406: Composite valuation index**



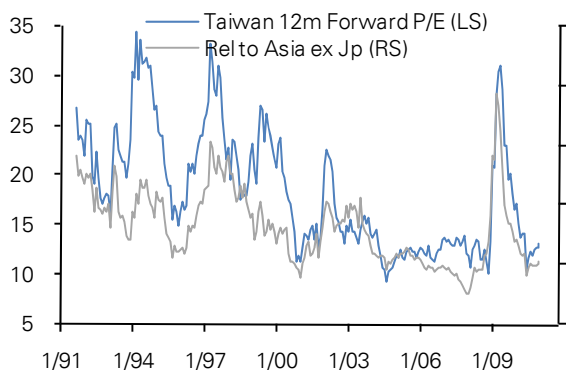
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over five years of history on a rolling basis

**Figure 407: Price-to-book value**



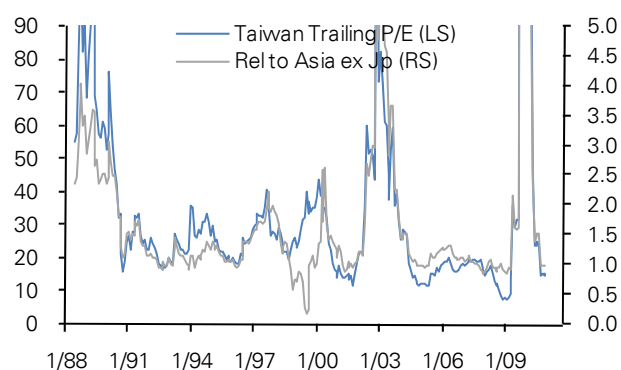
Source: Deutsche Bank, MSCI, Datastream. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 408: 12-month forward P/E**



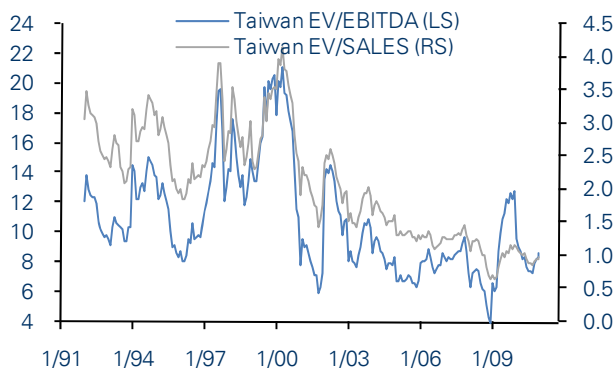
Source: Deutsche Bank, MSCI, IB/E/S. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 409: 12-month trailing P/E**



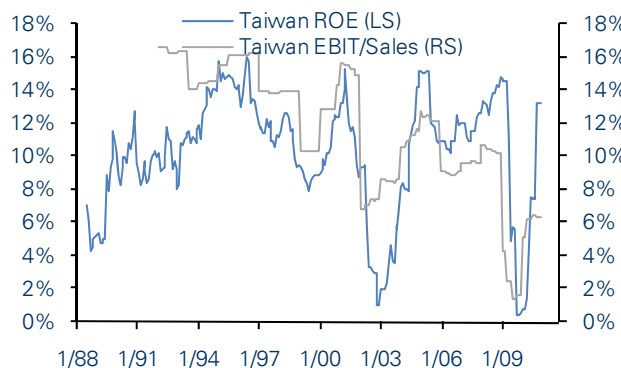
Source: Deutsche Bank, MSCI, Datastream. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 410: EV multiples**



Source: Deutsche Bank, MSCI, FactSet

**Figure 411: ROE and EBIT margin**

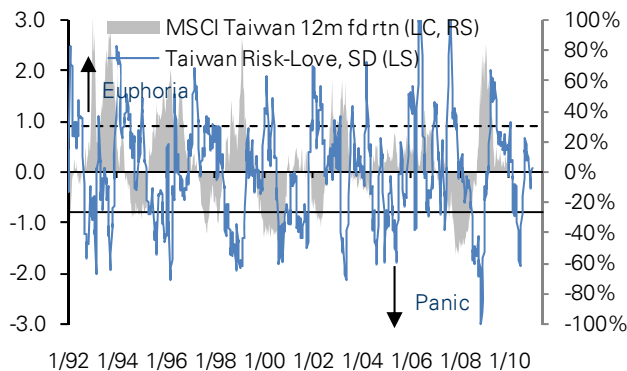


Source: Deutsche Bank, MSCI, FactSet

## Taiwan – Investor sentiment

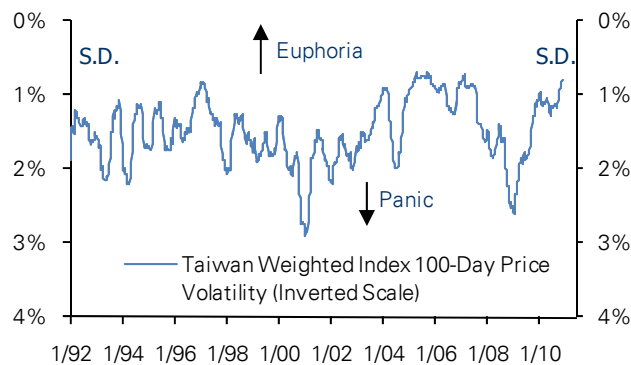
Sentiment is neutral.

**Figure 412: Equity Risk-Love indicator**



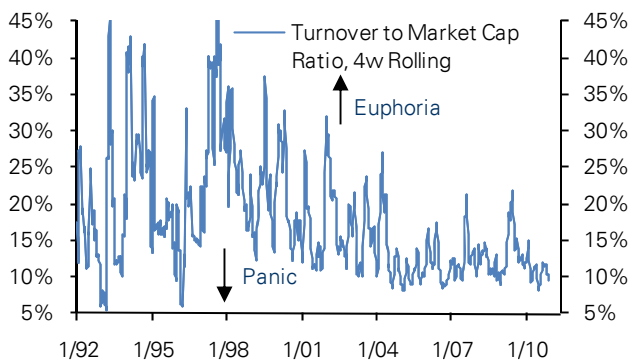
Source: Deutsche Bank, MSCI

**Figure 413: Market volatility**



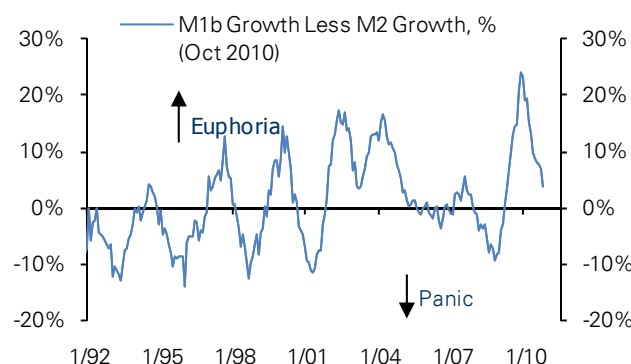
Source: Deutsche Bank, Datastream

**Figure 414: Turnover-to-market cap ratio**



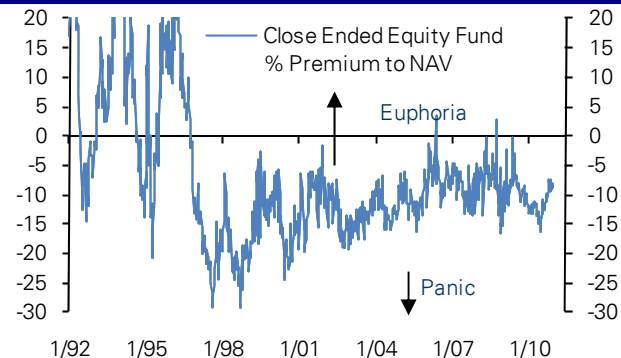
Source: Deutsche Bank, CEIC, Datastream

**Figure 415: M1 less M2 growth**



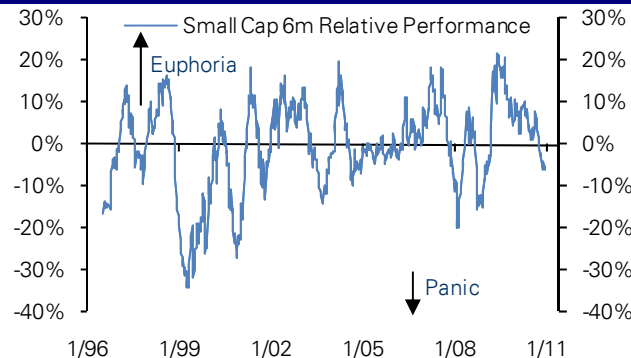
Source: Deutsche Bank, Datastream

**Figure 416: Country equity fund percentage premium to NAV**



Source: Deutsche Bank, Bloomberg Finance LP

**Figure 417: Small cap relative performance**

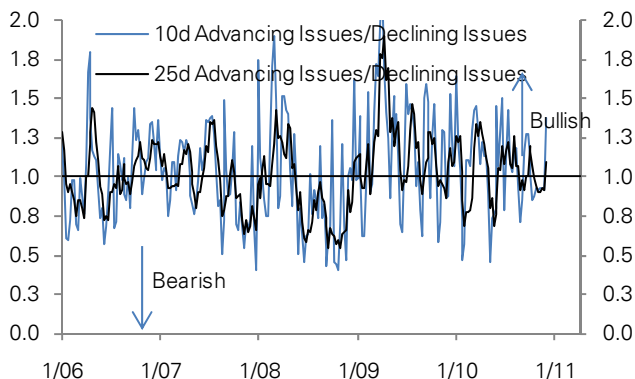


Source: Deutsche Bank, Datastream

## Taiwan – Technicals

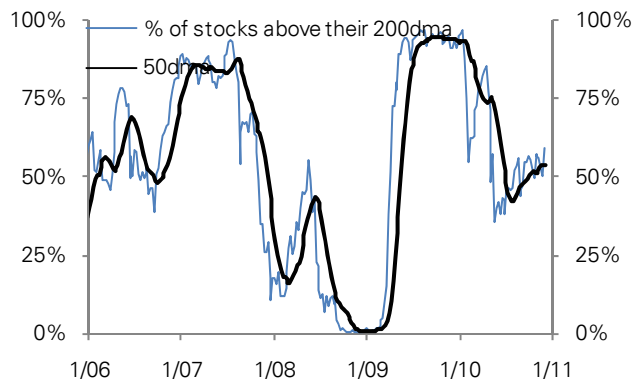
Technicals are mixed – while breadth is strong, the percentage of stocks above 50- and 200-day moving averages is just about 50%.

**Figure 418: Advance/decline ratio**



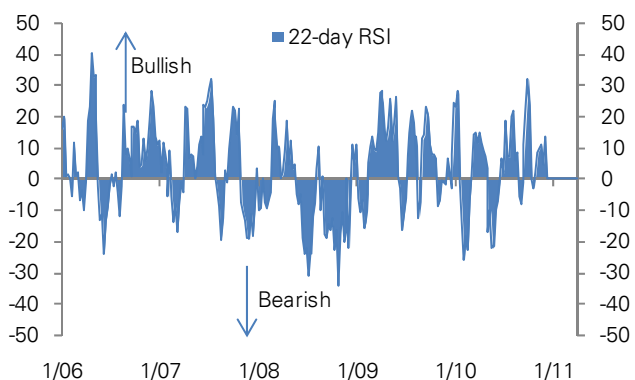
Source: Deutsche Bank, Datastream, FactSet

**Figure 419: Percentage of stocks above their 200dma**



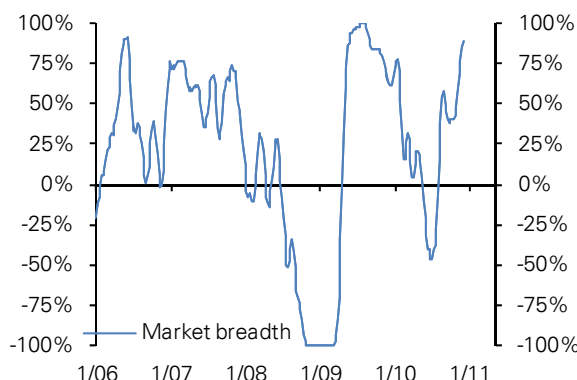
Source: Deutsche Bank, Datastream, FactSet

**Figure 420: Relative Strength Index**



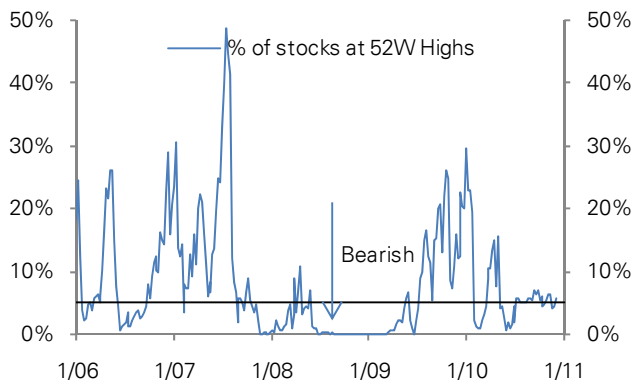
Source: Deutsche Bank, Datastream, FactSet

**Figure 421: Market breadth**



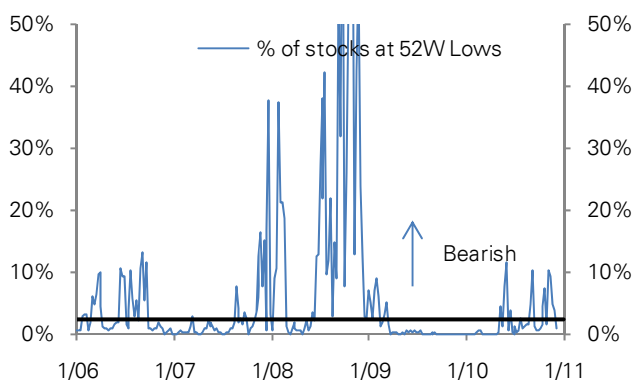
Source: Deutsche Bank, Datastream, FactSet. Market breadth is defined as (number of sub-sectors up on six-month basis minus number of sub-sectors down on six-month basis) / total sub-sectors available.

**Figure 422: Percentage of stocks at 52-week highs**



Source: Deutsche Bank, Datastream, FactSet

**Figure 423: Percentage of stocks at 52-week lows**

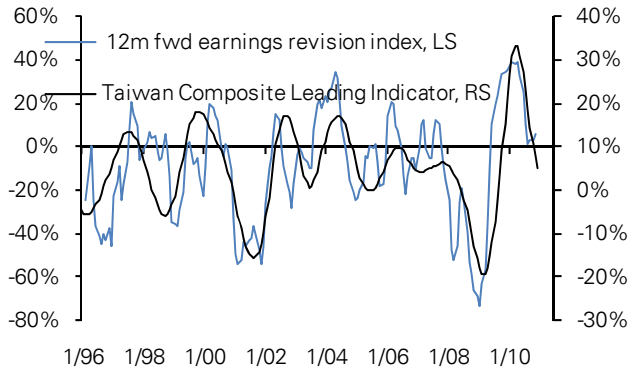


Source: Deutsche Bank, Datastream, FactSet

## Taiwan – Growth and earnings

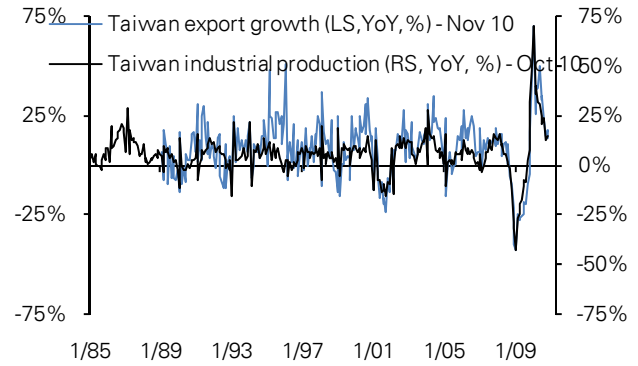
Sure, growth is expected to slow in the next year, but the 10% projected EPS for 2011 looks light, especially in semis and materials. Taiwan analysts swing EPS estimates violently, so expect upward revisions.

**Figure 424: Leading economic indicators**



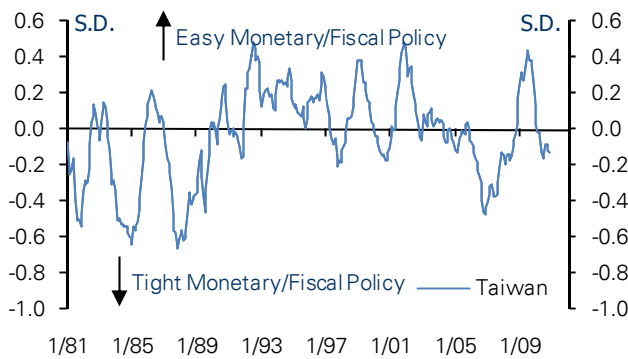
Source: Deutsche Bank, DGBAS, IBES, Datastream

**Figure 425: Industrial production and export growth**



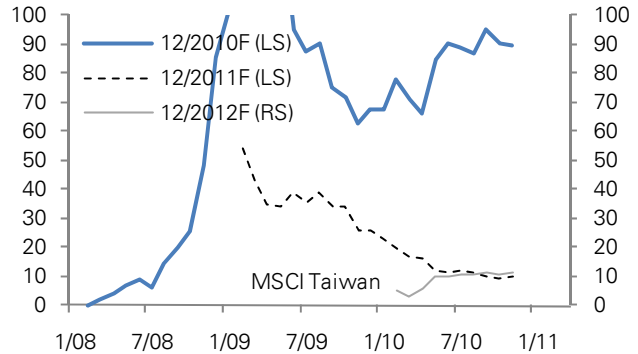
Source: Deutsche Bank, Datastream

**Figure 426: Composite policy indicator**



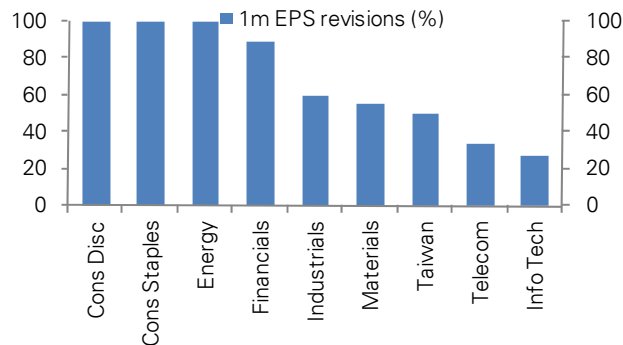
Source: Deutsche Bank, CEIC, Datastream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate yoy growth, real broad money (M2) yoy growth, short term real interest rate and government fiscal deficit/surplus as a percent of GDP.

**Figure 427: Earnings growth forecast (%)**



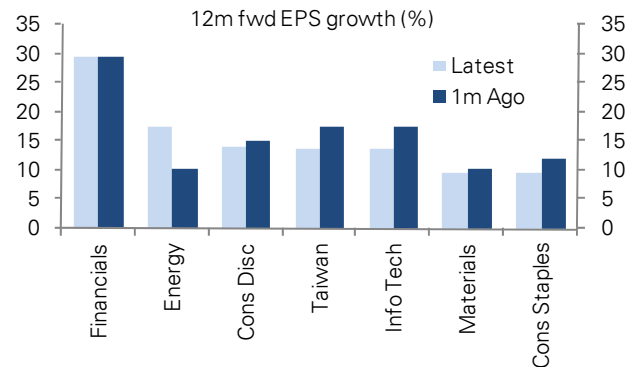
Source: Deutsche Bank, MSCI, I/B/E/S

**Figure 428: 12-month forward EPS revisions by sector**



Source: Deutsche Bank, MSCI, I/B/E/S. Note: EPS revisions = number of upward less downward revisions as % of total number of revisions in one month.

**Figure 429: 12-month forward EPS growth forecast by sector**

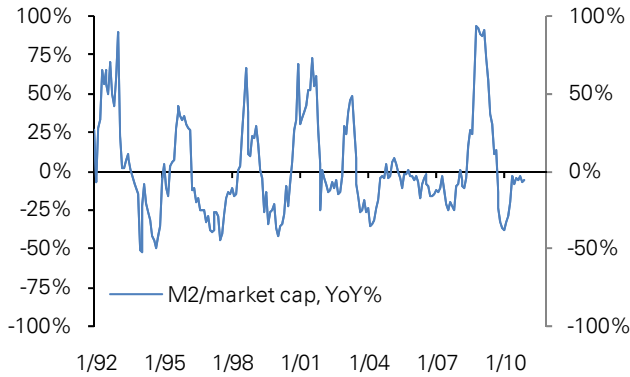


Source: Deutsche Bank, MSCI, I/B/E/S

## Taiwan – Liquidity

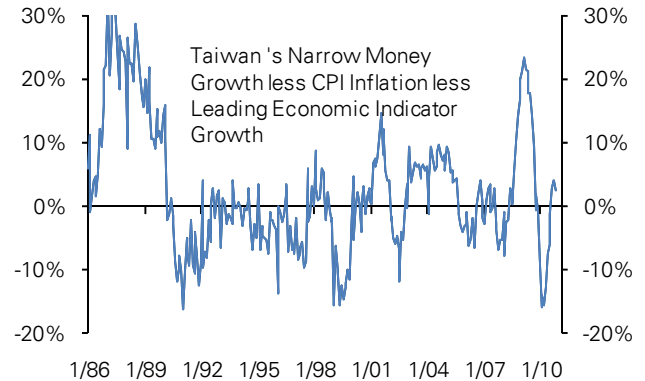
Free liquidity is around neutral, and the terms of trade which were rising have plunged again as commodity prices have risen.

**Figure 430: M2/market cap**



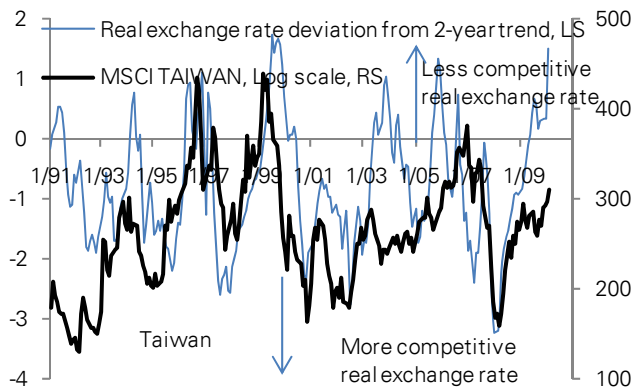
Source: Deutsche Bank, Datastream

**Figure 431: Free liquidity**



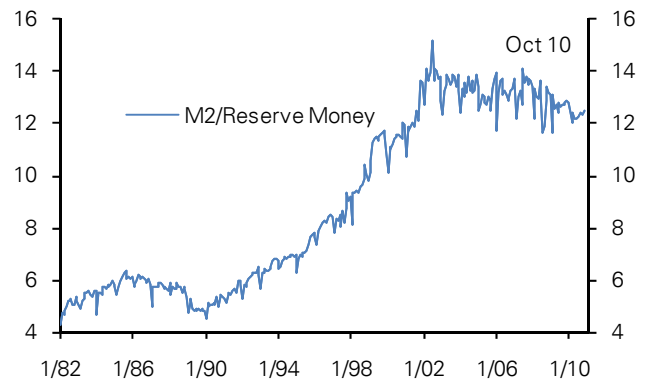
Source: Deutsche Bank, Datastream

**Figure 432: Real exchange rate**



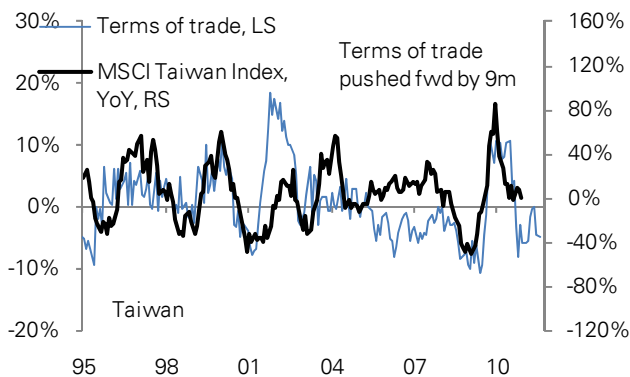
Source: Deutsche Bank, MSCI, Bloomberg Finance LP

**Figure 433: M2/base money**



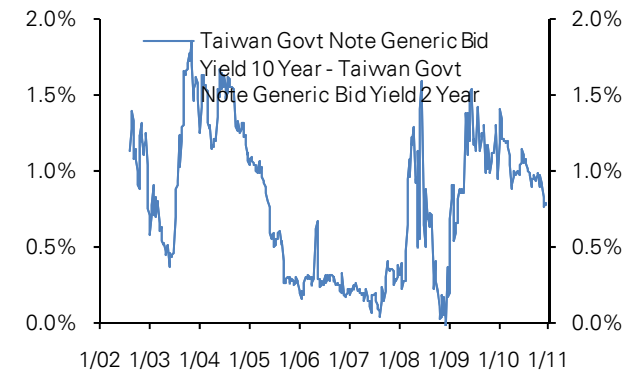
Source: Deutsche Bank, Central Bank of Republic of China (Taiwan), Datastream

**Figure 434: Terms of trade**



Source: Deutsche Bank, Bloomberg Finance LP

**Figure 435: Yield curve**

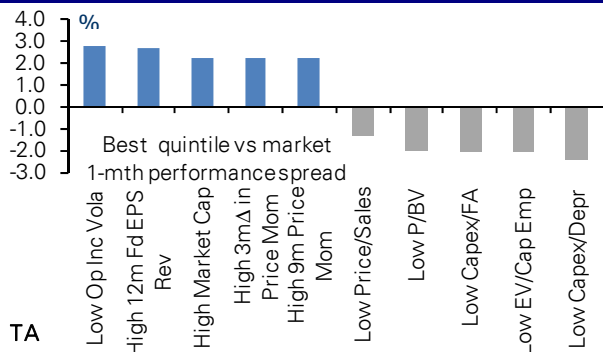


Source: Deutsche Bank, Bloomberg Finance LP

## Taiwan – Factor performance

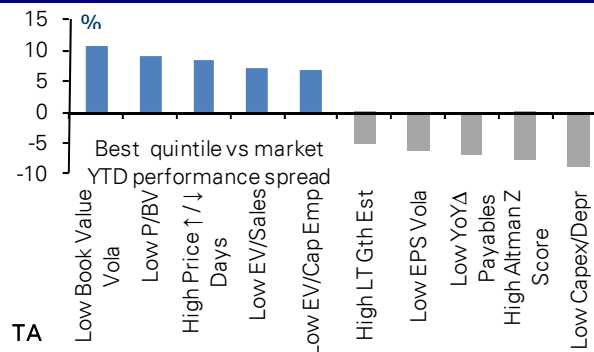
Value is the sole style that is working (albeit modestly). Stay with it. Poor quality is doing well – go figure.

**Figure 436: Best- and worst-performing factors (1-month)**



Source: Deutsche Bank

**Figure 437: Best- and worst-performing factors (YTD)**



Source: Deutsche Bank

**Figure 438: Best quintile vs. market relative performance (%)**

Taiwan Dec 6, 10	Returns					Ann. Rtn.				Returns					Ann. Rtn.		
	YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*		YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*
Valuation																	
Low 12m Fd P/E	0.7	-1.0	-2.3	-3.3	-0.6	6.7	4.7	4.6	High Cash ROC	-0.6	1.7	1.0	-2.2	-2.5	3.0	3.5	5.3
Low Trailing P/E	3.8	0.5	0.8	-0.1	2.0	10.3	6.7	7.3	High YoYΔ Cash ROC	1.4	-1.2	0.0	-0.9	2.3	1.4	0.1	-0.1
Low P/Op Inc	0.9	0.1	-0.7	-1.2	-0.3	9.6	5.8	5.6	High ROE	-2.9	2.0	0.8	-2.4	-4.3	-0.7	-1.1	2.6
Low P/BV	9.1	-2.0	-2.2	1.0	10.8	11.4	7.4	4.6	High YoYΔ ROE	2.9	-0.8	0.8	2.3	3.3	0.4	-0.7	-1.2
Low Price/Sales	3.7	-1.4	-0.3	0.4	3.5	4.4	1.5	1.0	<b>Average</b>	<b>0.2</b>	<b>0.4</b>	<b>0.6</b>	<b>-0.8</b>	<b>-0.3</b>	<b>1.0</b>	<b>0.4</b>	<b>1.7</b>
Low P/FCF	3.9	-0.4	1.1	1.1	4.0	9.9	6.6	6.4	Growth								
Low EV/EBIT	1.9	-0.9	-1.0	-2.2	0.4	9.5	8.0	8.1	High 3yr Sales Gth	-4.8	0.9	-0.8	-0.9	-5.1	-1.4	-2.4	-0.4
Low EV/EBITDA	2.8	-0.9	-0.8	-1.0	3.2	9.8	7.9	7.6	High 5yr Sales Gth	-1.9	2.1	1.8	0.7	-2.2	-3.1	-2.4	-0.7
Low EV/Cap Emp	6.9	-2.0	-0.4	1.7	7.9	10.5	9.5	7.8	High 3yr EPS Gth	1.4	1.0	0.4	1.3	2.3	1.1	1.1	-1.4
Low EV/Sales	7.3	-0.9	1.6	4.5	9.0	9.6	6.7	6.7	High 5yr EPS Gth	1.1	1.2	-0.8	-0.3	-0.2	0.4	-0.5	1.7
Low EV/Op CF	3.4	-0.6	-0.8	-0.9	3.9	10.7	9.4	9.1	High LT Gth Est	-5.2	1.0	2.2	2.2	-4.4	-8.3	-3.4	-4.3
Low EV/FCF	4.9	-0.4	1.1	1.0	5.0	10.5	9.2	7.0	High FY1 Gth Est	0.8	0.2	0.9	2.4	-0.2	-3.1	-0.6	-1.4
High Dividend Yield	1.1	0.3	0.1	-1.6	1.7	13.8	12.1	10.6	High FY2 Gth Est	0.1	-0.1	0.6	3.0	0.0	-4.3	0.0	-0.8
<b>Average</b>	<b>3.9</b>	<b>-0.7</b>	<b>-0.3</b>	<b>0.0</b>	<b>3.9</b>	<b>9.7</b>	<b>7.3</b>	<b>6.6</b>	<b>Average</b>	<b>-1.2</b>	<b>0.9</b>	<b>0.6</b>	<b>1.2</b>	<b>-1.4</b>	<b>-2.7</b>	<b>-1.2</b>	<b>-1.0</b>
Price Momentum																	
High 6m Price Mom	2.6	1.5	2.5	4.2	3.2	-5.4	-6.1	-2.5	Stability								
High 9m Price Mom	0.8	2.2	2.2	3.5	0.8	-4.7	-3.2	-1.7	Low EPS Vola	-6.1	0.1	-2.1	-4.7	-7.9	-4.0	-0.7	1.1
High 12m Price Mom	-0.9	0.8	0.2	0.7	0.3	-7.9	-4.2	-1.3	Low Op Inc Vola	-0.8	2.8	3.1	1.3	1.9	0.7	1.3	2.3
High Price Rel Strg	0.6	1.5	0.4	1.7	1.5	-4.9	-3.3	-1.0	Low Book Value Vola	10.6	0.7	4.1	7.1	7.6	2.2	3.1	1.3
High 3mΔ in Price Mom	1.9	2.3	3.7	2.7	3.3	-3.1	-2.9	-3.0	Low Sales Vola	4.2	2.1	4.6	5.2	6.2	3.5	2.6	1.3
High Price ↑ / ↓ Days	8.4	1.5	5.1	5.7	8.4	0.6	-0.9	2.0	Low EPS Est Vola	3.0	1.7	1.3	-0.4	3.2	9.8	2.2	2.0
<b>Average</b>	<b>2.2</b>	<b>1.6</b>	<b>2.4</b>	<b>3.1</b>	<b>2.9</b>	<b>-4.2</b>	<b>-3.4</b>	<b>-1.2</b>	<b>Average</b>	<b>2.2</b>	<b>1.5</b>	<b>2.2</b>	<b>1.7</b>	<b>2.2</b>	<b>2.4</b>	<b>1.7</b>	<b>1.6</b>
Earnings Momentum																	
High FY1 EPS Rev	0.1	0.3	-1.4	0.9	0.7	2.7	3.8	2.6	Risk								
High FY2 EPS Rev	2.5	1.1	1.5	3.0	2.6	3.1	7.9	5.2	Low FY1 EPS Disp	0.8	1.2	1.7	0.3	1.7	1.8	1.1	3.3
High 12m Fd EPS Rev	6.3	2.7	3.7	5.4	7.9	5.4	7.5	4.8	Low FY2 EPS Disp	-0.2	1.1	0.6	-0.7	4.3	3.1	3.8	5.1
High FY1 EPS Mom	-0.3	-0.5	-0.3	1.1	-0.6	4.9	6.4	2.7	High EBIT/Int Exp	-1.2	0.4	0.2	-1.0	-2.5	4.2	4.5	6.4
High FY2 EPS Mom	3.3	0.1	1.0	1.5	2.6	4.3	5.8	2.8	Low Debt/Equity	-2.7	-0.1	-0.4	-0.7	-4.4	-0.4	1.4	1.0
<b>Average</b>	<b>2.4</b>	<b>0.7</b>	<b>0.9</b>	<b>2.4</b>	<b>2.6</b>	<b>4.1</b>	<b>6.3</b>	<b>3.6</b>	High Altman Z Score	-7.7	-0.2	-2.3	-4.5	-9.3	-4.1	-1.1	0.7
Capex Deployment & Earnings Accruals																	
Low Capex/Depr	-8.8	-2.5	-4.8	-6.1	-8.4	-3.8	-1.7	-2.2	Consensus Ratings								
Low Capex/Sales	-4.4	-0.6	-0.6	-0.5	-5.2	-0.2	-0.8	0.0	High Analyst Rec	3.3	1.3	0.9	1.7	4.0	5.3	2.8	4.6
Low Capex/FA	-3.3	-2.0	-3.4	-4.5	-4.4	-2.4	-3.5	-4.1	High 1mΔ Analyst Rec	1.2	0.6	0.9	-0.9	0.2	3.2	1.4	3.1
High YoYΔ Receivables	1.7	0.2	-0.1	-0.2	2.1	2.1	2.1	3.4	<b>Average</b>	<b>2.3</b>	<b>0.9</b>	<b>0.9</b>	<b>0.4</b>	<b>2.1</b>	<b>4.2</b>	<b>2.1</b>	<b>3.9</b>
Low YoYΔ Inventory	1.0	-0.3	0.2	1.4	0.8	-0.6	-0.3	1.7									
Low YoYΔ Payables	-6.7	-0.8	-3.0	-4.4	-6.2	-4.7	-2.4	0.9									
<b>Average</b>	<b>-3.4</b>	<b>-1.0</b>	<b>-2.0</b>	<b>-2.4</b>	<b>-3.6</b>	<b>-1.6</b>	<b>-1.1</b>	<b>0.0</b>									

Source: Deutsche Bank, FactSet, I/B/E/S. Note: \*1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended Nov 2010. Relative performance is based on equal weighted average returns of the best quintile basket and the market. For description on factors please see Appendix A.



## Thailand strategy

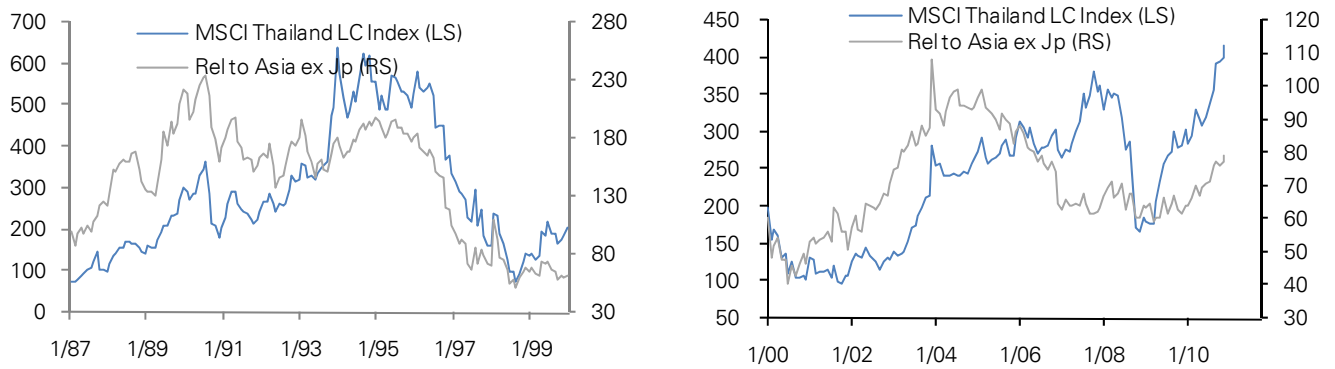
1. **Policy and economics:** The BOT surprised the market by raising the policy rate by 25bps from 1.75% to 2.0% on 1 December. Consensus expectation was for a rate pause in consideration of the year-to-date strength of the currency, the slowing rate of GDP growth, and the social impact to flood victims following unseasonably severe rainfall from August through November. Looking to 2011, we think more rate hike surprises are in store as inflationary pressures snap back on the back of higher commodity prices, scheduled expiration of subsidies on various consumer goods, the widening gap between PPI and CPI inflation, and stepped-up producer lobbying to the Ministry of Commerce to allow more flexibility in the administered price regime.
2. **Company visits/results:** Following our recent round of visits to telco operators and regulators, we are increasingly confident that concession reform can become a reality over the next 12-18 months, and that market-positive news flow regarding the government's reform agenda will begin to materialize during 1H2011. In sum, we expect that Thailand will ultimately adopt an 'infrastructure JV' model (similar to some European countries) whereby operators and legacy concession grantors pool their infrastructure assets into JVs, and the operators lease airtime from these JVs. This structure would solve the question of what happens to the three operators when their existing concessions end (over the next two to eight years), and would create value by shifting the network capex burden from the operators to the JVs.
3. **Fund flows and investor views:** Foreign funds flow on the SET has been erratic over the past several weeks, marking a change from the one-way directional inflow trend observed since mid-year. During the months June through October, foreigners were cumulative buyers of Bt77bn driven, first, by the enthusiasm over consolidation of government power in the aftermath of the April/May riots, and later, by global dollar flight in anticipation of QE2. In an abrupt reversal, foreigners were net sellers of Bt7bn in November as European debt concerns and geopolitical risks in Korea sparked a return to the USD. However, net buying has returned in excess of Bt9bn so far for December with buying of energy and bank names on higher energy prices and the return of inflation and rate tightening expectations.
4. **Events/data/risks to watch for:** On the political front, the ruling Democrat party now faces a second party dissolution case over allegations of illegal political donations. The timetable for a verdict is probably within the next two to three months. Looking to 2011, the key political issues are constitutional reform and elections. The government will again take up the issue of constitutional charter change when Parliament reconvenes in February, with an aim to rewrite party constituency rules to enable greater representation of smaller political parties. Then, we think, the government is likely to call early elections before mid-year. Our view is that elections are likely to be a positive catalyst for the SET, as we think the government will return with an enlarged coalition majority.
5. **Top stock ideas:** Kasikornbank, Krung Thai Bank, Thanachart Capital, Siam Cement, Advance Info Service, Sino-Thai Engineering, Thai Airways, and Minor International.

**Derek Bloomfield, CFA**



## Thailand – Market intelligence

**Figure 439: Equity market performance**



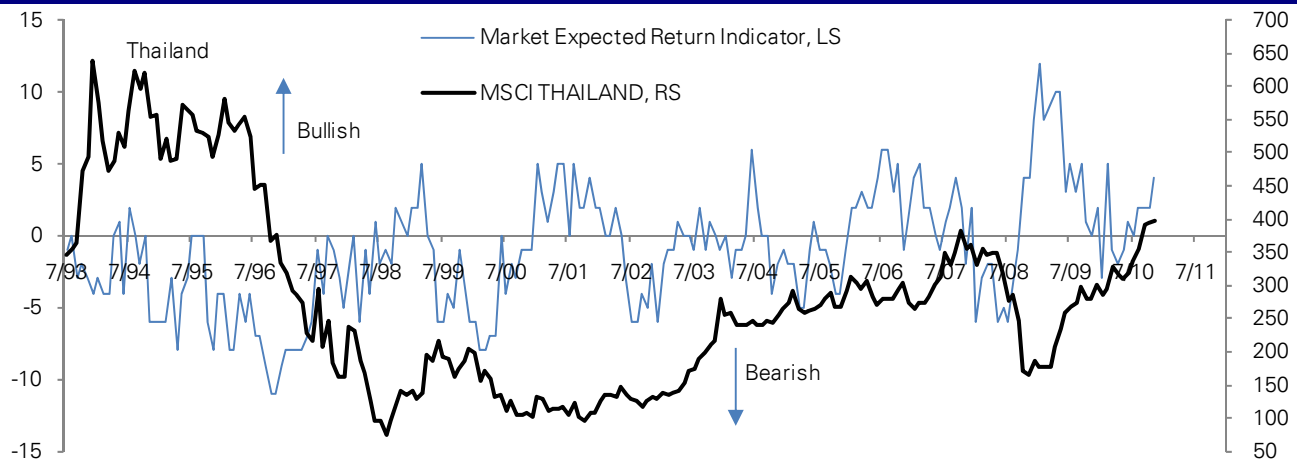
Source: Deutsche Bank, MSCI.  
Market relative = relative to MSCI AC Asia ex Japan.

**Figure 440: Market intelligence by sector**

8Dec10 Sector (#Co)	Mcap US\$m	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
		1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Energy (6)	25,501	-3.0	30.9	14.5	11.7	10.3	2.2	2.0	1.8	2.7	3.2	3.6	15.3	23.7	13.6	15.5	17.0	17.1
Materials (2)	5,480	-5.1	67.9	21.5	12.0	9.8	2.1	1.9	1.7	2.2	3.6	4.5	49.7	79.2	22.1	9.6	15.4	16.9
Media (1)	948	-4.5	29.1	19.7	17.4	15.4	8.5	8.1	7.6	4.8	5.5	6.2	22.1	13.0	13.0	43.2	46.7	49.3
Food/Staples Retail (1)	2,940	-6.4	62.3	27.6	22.4	18.9	9.7	8.9	7.8	3.3	3.4	4.0	31.5	22.9	18.4	35.2	39.6	41.2
Food Beverage (1)	2,375	3.9	108.8	12.1	11.5	10.4	2.8	2.5	2.4	4.2	4.5	5.1	29.4	5.5	10.3	23.4	22.1	23.3
Banks (7)	22,752	-5.3	34.5	14.0	11.9	10.1	1.8	1.6	1.5	2.7	3.2	3.8	22.0	17.9	17.3	12.9	13.9	14.8
Telecom (1)	2,642	-7.5	3.5	13.3	12.7	11.7	5.3	5.9	6.5	na	na	8.3	16.5	4.9	8.4	39.5	46.1	55.7
Utilities (1)	644	-18.1	34.1	12.5	12.2	8.3	1.9	1.7	1.6	4.4	4.8	5.6	24.0	2.3	47.4	15.0	14.2	18.9
Thailand (20)	63,282	1.6	37.6	14.8	12.2	10.6	2.3	2.1	1.9	2.9	3.4	4.1	19.2	20.8	15.1	15.7	17.1	17.7

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI country index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year-end) with current prices. All numbers are free-float adjusted.

**Figure 441: Market Expected Return Indicator for Thailand**

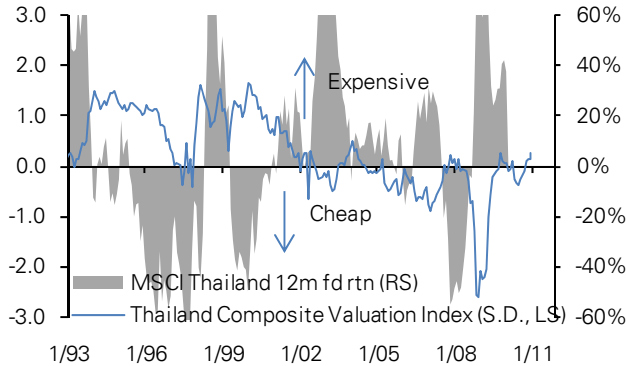


Source: Deutsche Bank, MSCI, Bloomberg Finance LP

## Thailand – Valuation

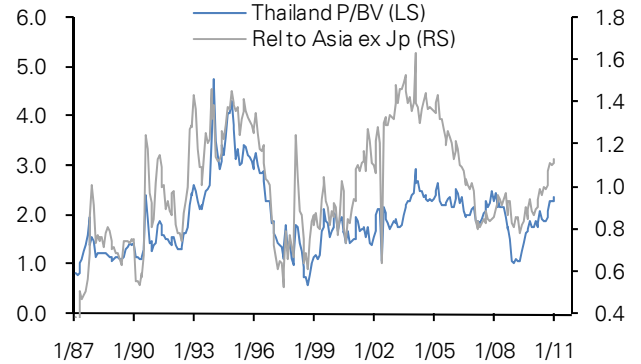
The market is fairly valued. On EV/Sales and EV/EBITDA, the market is undervalued.

**Figure 442: Composite valuation index**



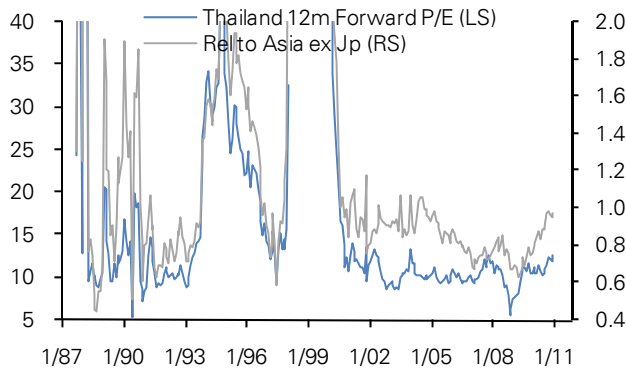
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history

**Figure 443: Price-to-book value**



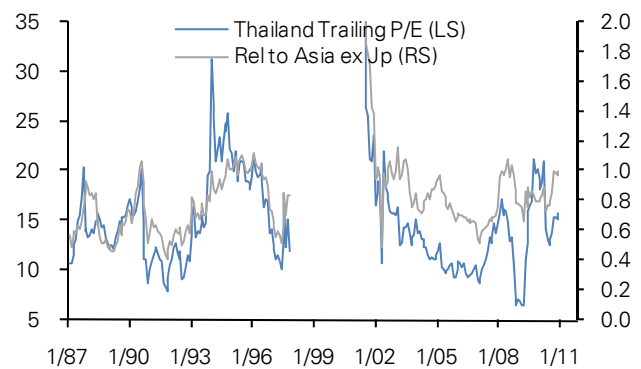
Source: Deutsche Bank, MSCI, Datastream. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 444: 12-month forward P/E**



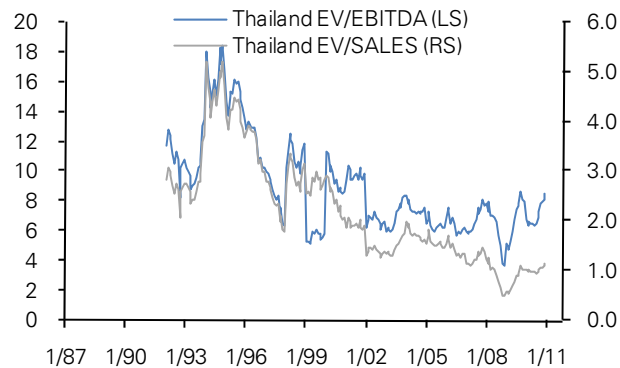
Source: Deutsche Bank, MSCI, IB/E/S. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 445: 12-month trailing P/E**



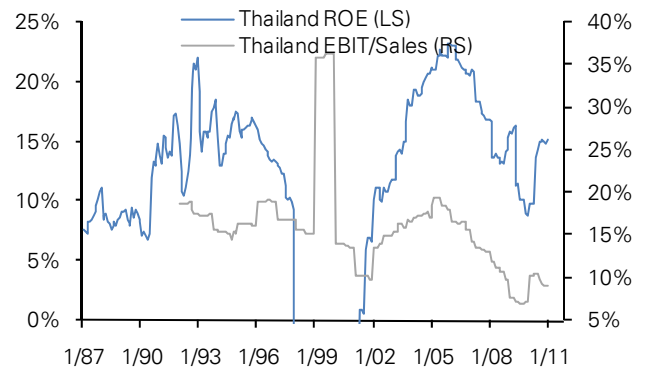
Source: Deutsche Bank, MSCI, Datastream. Note: Market relative = relative to MSCI AC Asia ex Japan.

**Figure 446: EV multiples**



Source: Deutsche Bank, MSCI, FactSet

**Figure 447: ROE and EBIT margin**

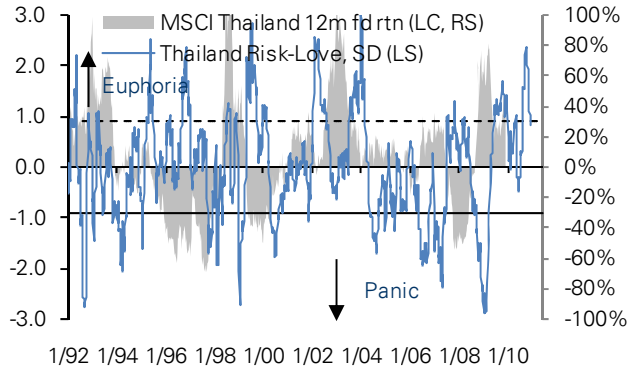


Source: Deutsche Bank, MSCI, FactSet

## Thailand – Investor sentiment

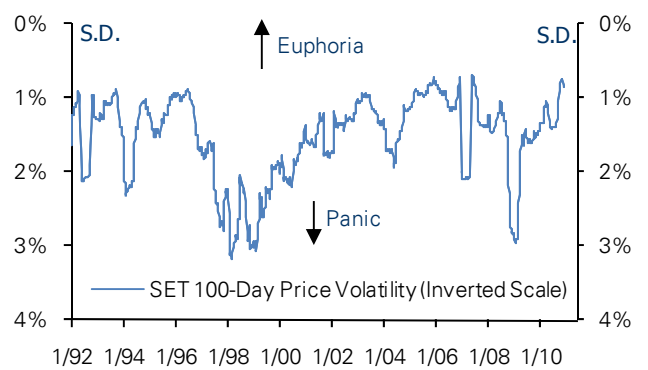
Sentiment (Risk-Love) has dropped from exceptionally euphoric to just euphoric.

**Figure 448: Equity Risk-Love indicator**



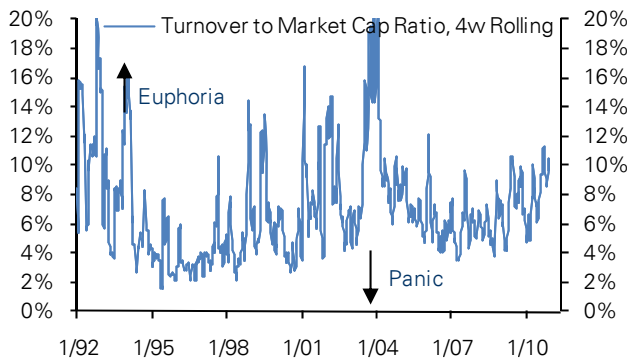
Source: Deutsche Bank, MSCI

**Figure 449: Market volatility**



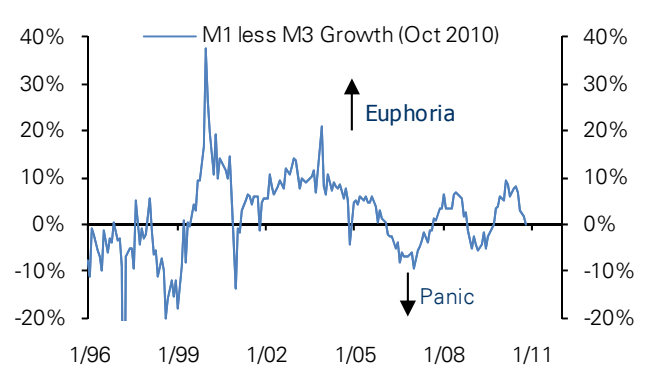
Source: Deutsche Bank, Datastream

**Figure 450: Turnover-to-market cap ratio**



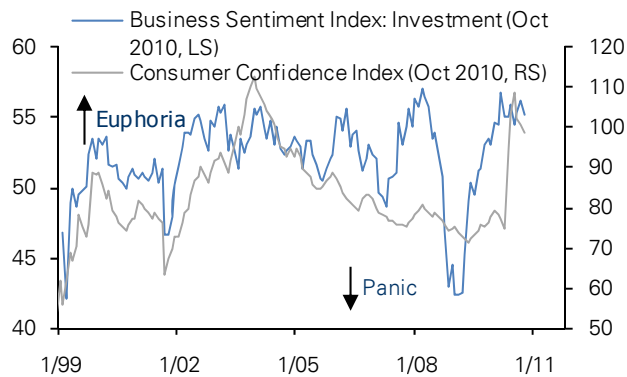
Source: Deutsche Bank, CEIC, Datastream

**Figure 451: M1 less M3 growth**



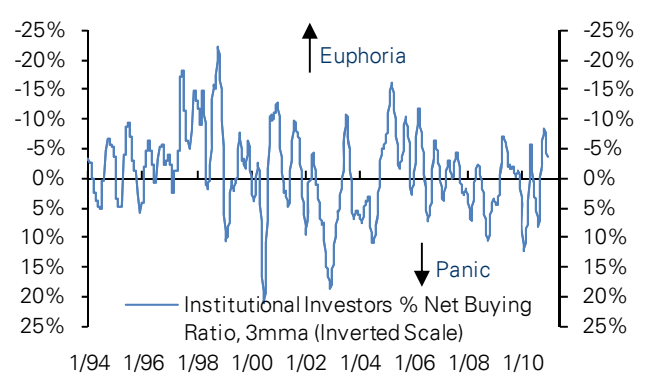
Source: Deutsche Bank, Datastream

**Figure 452: Consumer and business survey**



Source: Deutsche Bank, CEIC

**Figure 453: Institutional investors net buying**

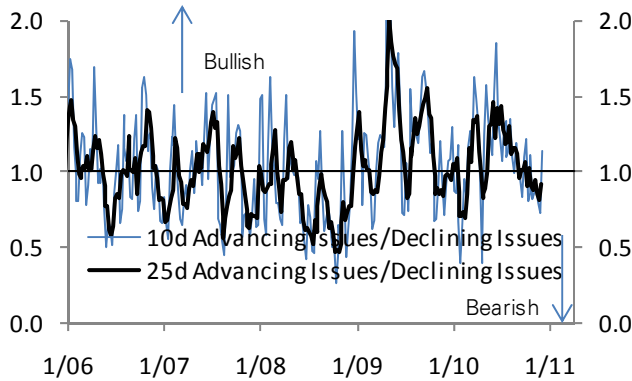


Source: Deutsche Bank, CEIC

## Thailand – Technicals

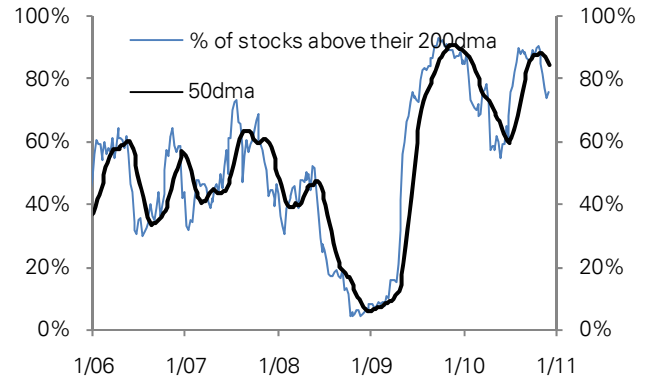
Technicals are super-strong – breadth is robust, and the percentage of stocks above 50-and 200-day moving averages is a substantial three-quarters.

**Figure 454: Advance/decline ratio**



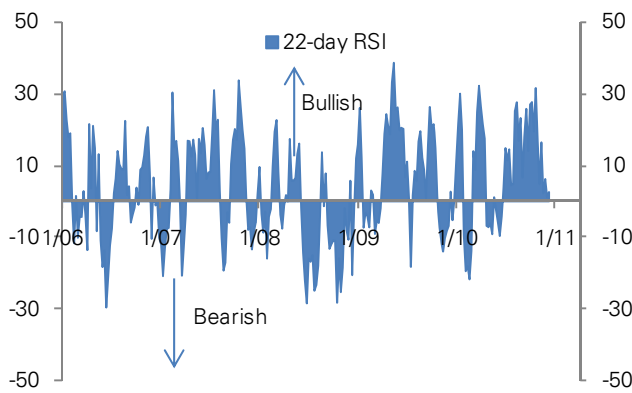
Source: Deutsche Bank, Datastream, FactSet

**Figure 455: Percentage of stocks above their 200dma**



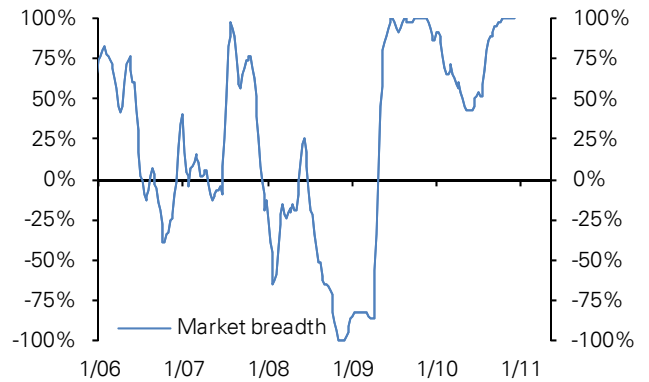
Source: Deutsche Bank, Datastream, FactSet

**Figure 456: Relative Strength Index**



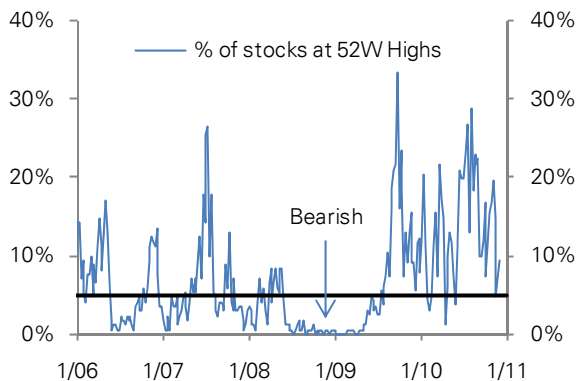
Source: Deutsche Bank, Datastream, FactSet

**Figure 457: Market breadth**



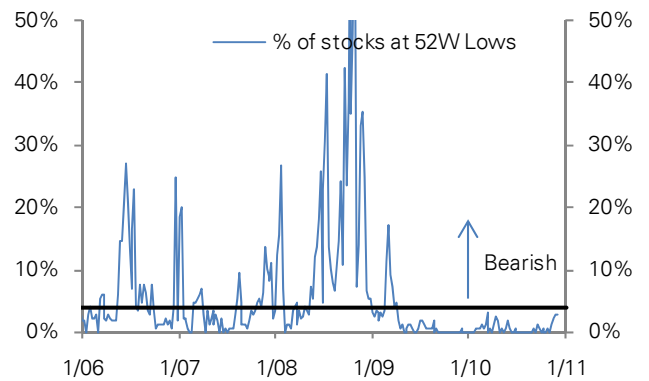
Source: Deutsche Bank, Datastream, FactSet. Market breadth is defined as (number of sub-sectors up on six-month basis minus number of sub-sectors down on six-month basis) / total sub-sectors available.

**Figure 458: Percentage of stocks at 52-week highs**



Source: Deutsche Bank, Datastream, FactSet

**Figure 459: Percentage of stocks at 52-week lows**

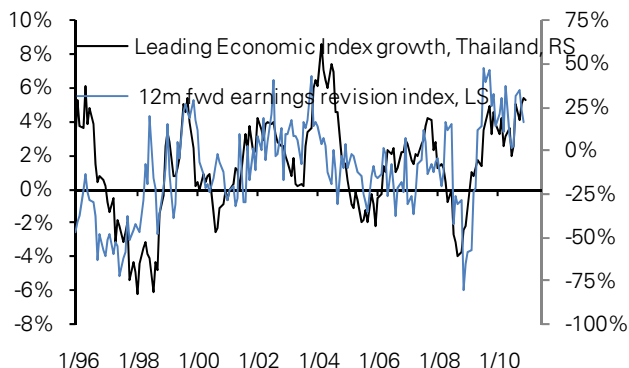


Source: Deutsche Bank, Datastream, FactSet

## Thailand – Growth and earnings

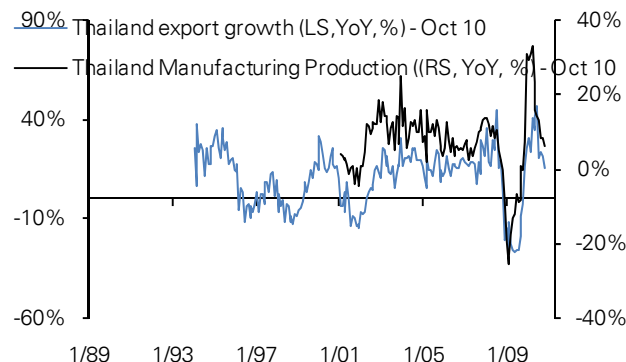
In contrast to other Asian markets, leading indicators are rising, so punchy EPS forecasts for 2011 of 20% after 18% this year might not be high enough.

**Figure 460: Leading economic indicators**



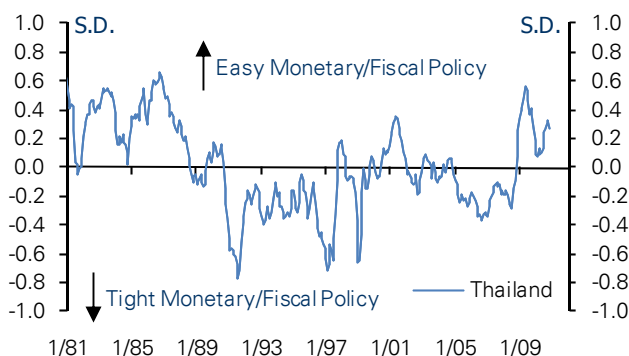
Source: Deutsche Bank, Bank of Thailand, I/B/E/S, Datastream

**Figure 461: Industrial production and export growth**



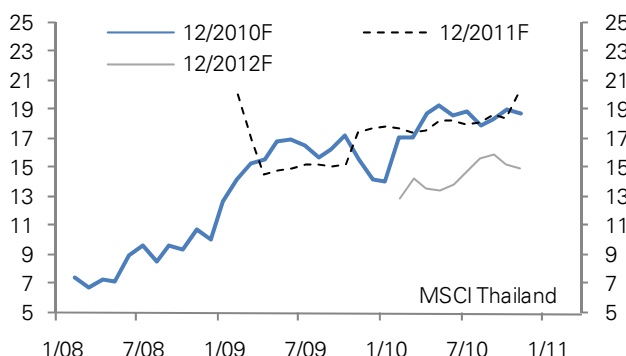
Source: Deutsche Bank, Datastream

**Figure 462: Composite policy indicator**



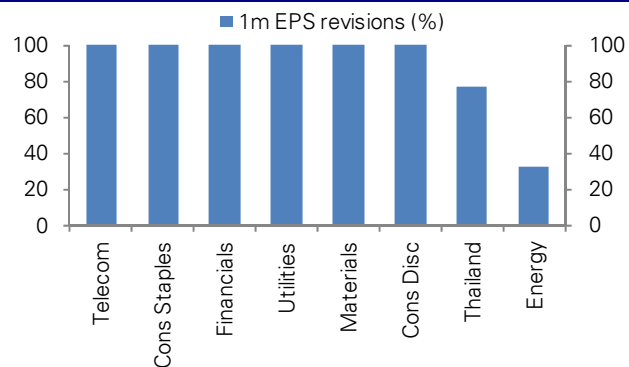
Source: Deutsche Bank, CEIC, Datastream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate yoy growth, real broad money (M2) yoy growth, short term real interest rate and government fiscal deficit/surplus as a percent of GDP.

**Figure 463: Earnings growth forecast (%)**



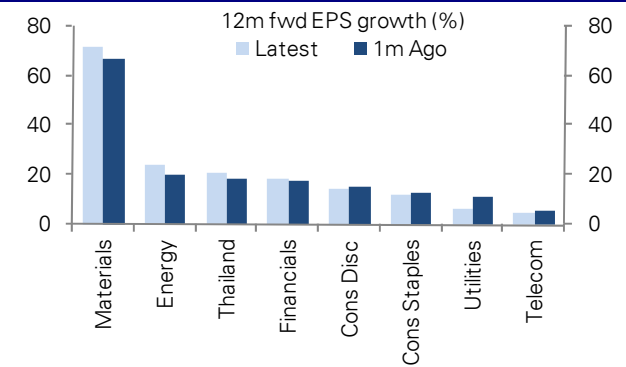
Source: Deutsche Bank, MSCI, I/B/E/S

**Figure 464: 12-month forward EPS revisions by sector**



Source: Deutsche Bank, MSCI, I/B/E/S. Note: EPS revisions = number of upward less downward revisions as percent of total number of revisions in one month.

**Figure 465: 12-month forward EPS growth forecast by sector**

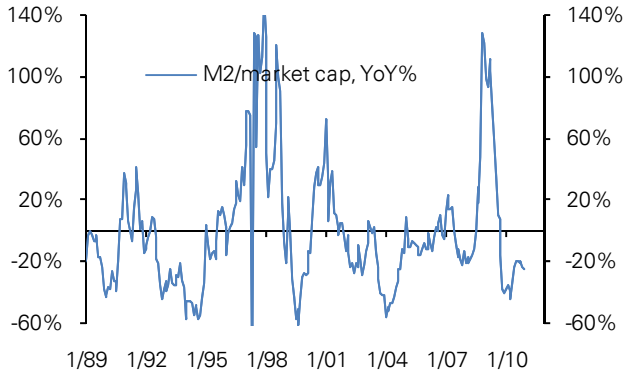


Source: Deutsche Bank, MSCI, I/B/E/S

## Thailand – Liquidity

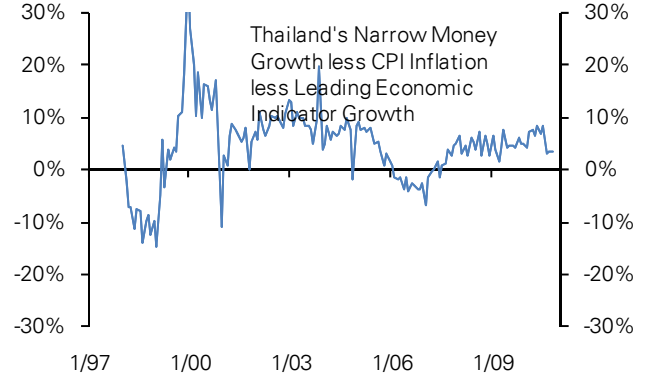
Free liquidity is decelerating, and the terms of trade are stabilizing.

**Figure 466: M2/market cap**



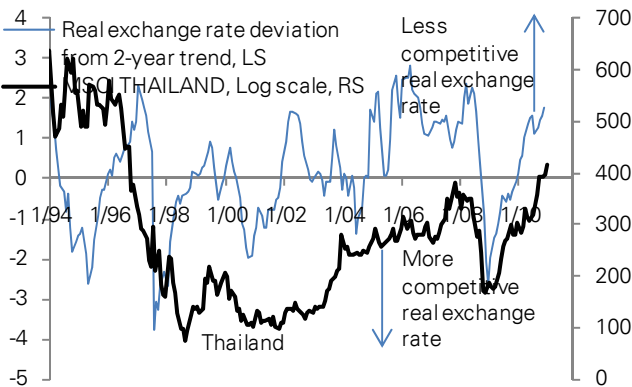
Source: Deutsche Bank, Datastream

**Figure 467: Free liquidity**



Source: Deutsche Bank, Datastream

**Figure 468: Real exchange rate**



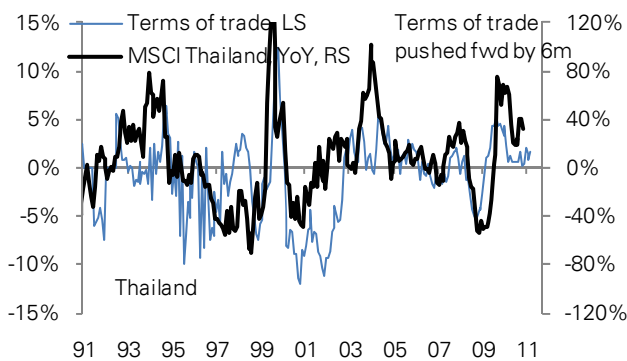
Source: Deutsche Bank, MSCI, Bloomberg Finance LP

**Figure 469: M2/base money**



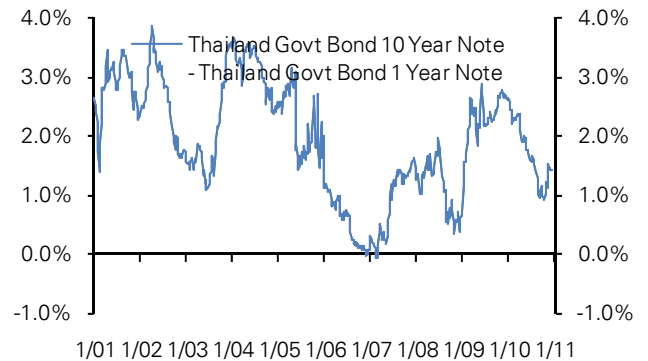
Source: Deutsche Bank, Datastream

**Figure 470: Terms of trade**



Source: Deutsche Bank, Bloomberg Finance LP

**Figure 471: Yield curve**

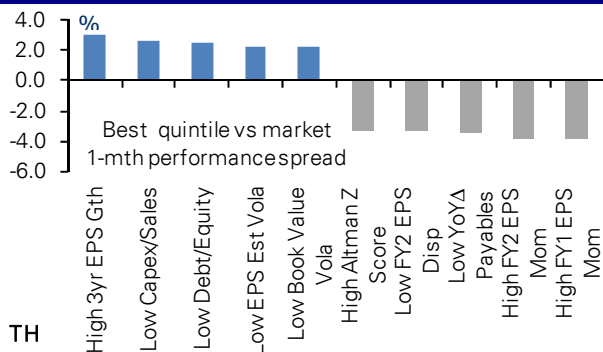


Source: Deutsche Bank, Bloomberg Finance LP

## Thailand – Factor performance

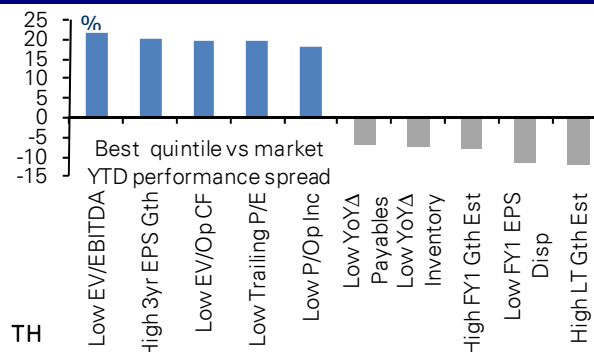
Value retains its potency in Thailand. Stay with it.

**Figure 472: Best- and worst-performing factors (1-month)**



Source: Deutsche Bank

**Figure 473: Best- and worst-performing factors (YTD)**



Source: Deutsche Bank

**Figure 474: Best quintile vs. market relative performance (%)**

Thailand Dec 6, 10	Returns					Ann. Rtn.			Returns					Ann. Rtn.			
	YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*	YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*	
<b>Valuation</b>																	
Low 12m Fd P/E	7.0	-1.1	-0.8	0.3	9.1	11.1	10.0	13.4	High Cash ROC	12.5	-0.6	1.8	5.9	12.9	13.3	8.7	9.2
Low Trailing P/E	19.7	-1.5	-0.1	3.6	20.6	17.0	15.1	16.2	High YoYΔ Cash ROC	6.8	-0.4	3.0	2.2	5.4	10.0	6.2	4.5
Low P/Op Inc	18.2	-0.4	3.2	7.4	16.6	15.0	12.0	14.3	High ROE	15.1	-0.4	3.3	7.5	16.7	13.1	8.7	10.1
Low P/BV	-2.6	0.1	-2.5	2.7	-2.9	1.8	6.3	11.2	High YoYΔ ROE	5.6	1.0	-0.8	1.6	5.3	10.2	4.5	6.5
Low Price/Sales	6.8	1.7	2.8	8.4	5.5	2.7	2.0	2.1	<b>Average</b>	<b>10.0</b>	<b>-0.1</b>	<b>1.8</b>	<b>4.3</b>	<b>10.1</b>	<b>11.6</b>	<b>7.0</b>	<b>7.6</b>
Low P/FCF	5.5	-1.3	-1.7	1.5	8.6	7.8	8.7	8.8	<b>Growth</b>								
Low EV/EBIT	16.7	-1.2	1.0	4.0	17.4	17.2	16.8	21.4	High 3yr Sales Gth	3.1	-2.7	-0.8	5.1	4.9	1.6	-0.3	-1.6
Low EV/EBITDA	21.7	-0.8	1.4	5.3	22.6	14.4	15.6	21.3	High 5yr Sales Gth	2.4	-1.8	1.9	8.6	3.4	-0.8	-2.3	-7.4
Low EV/Cap Emp	7.3	0.2	-1.3	1.4	6.3	1.7	6.4	10.8	High 3yr EPS Gth	20.2	3.0	4.0	12.7	23.5	12.3	7.2	4.7
Low EV/Sales	14.2	2.0	3.6	7.2	15.0	10.4	11.7	17.6	High 5yr EPS Gth	5.5	-0.9	-1.5	4.9	7.5	3.4	4.3	3.3
Low EV/Op CF	19.7	1.5	3.8	6.3	21.2	15.8	16.4	19.0	High LT Gth Est	-11.8	-2.1	-3.5	-4.7	-10.1	0.0	1.8	-4.6
Low EV/FCF	9.4	1.0	2.4	3.9	10.7	11.7	9.1	12.9	High FY1 Gth Est	-7.9	-3.0	-5.1	-4.2	-8.3	1.1	5.2	2.0
High Dividend Yield	15.4	0.6	4.9	6.5	15.6	19.9	16.7	22.5	High FY2 Gth Est	-3.5	-1.3	-6.4	-1.1	-4.2	-5.1	-3.6	-8.8
<b>Average</b>	<b>12.2</b>	<b>0.1</b>	<b>1.3</b>	<b>4.5</b>	<b>12.8</b>	<b>11.3</b>	<b>11.3</b>	<b>14.7</b>	<b>Average</b>	<b>1.2</b>	<b>-1.3</b>	<b>-1.6</b>	<b>3.1</b>	<b>2.4</b>	<b>1.8</b>	<b>1.7</b>	<b>-1.8</b>
<b>Price Momentum</b>																	
High 6m Price Mom	12.8	0.7	-1.2	3.8	10.1	6.1	4.8	3.5	<b>Stability</b>								
High 9m Price Mom	1.8	0.0	-2.5	-0.5	1.0	1.4	4.1	3.9	Low EPS Vola	-0.6	-0.2	1.1	-2.9	-0.6	4.1	3.6	4.8
High 12m Price Mom	4.2	-0.2	0.3	2.9	3.1	0.8	3.4	2.8	Low Op Inc Vola	0.3	1.4	4.7	0.3	1.9	4.6	5.0	4.6
High Price Rel Strg	3.2	-1.2	-3.4	-1.4	3.1	4.2	6.3	6.5	Low Book Value Vola	7.8	2.2	2.6	3.7	9.1	0.3	2.8	3.8
High 3mΔ in Price Mom	3.2	2.0	2.2	1.6	1.0	1.4	1.9	1.5	Low Sales Vola	15.2	0.7	4.0	7.0	16.1	2.3	1.4	5.0
High Price ↑ / ↓ Days	10.2	-1.8	-0.1	2.2	9.8	14.5	15.1	12.5	Low EPS Est Vola	-0.7	2.3	0.0	-1.6	-2.2	0.5	0.6	3.7
<b>Average</b>	<b>5.9</b>	<b>-0.1</b>	<b>-0.8</b>	<b>1.4</b>	<b>4.7</b>	<b>4.7</b>	<b>5.9</b>	<b>5.1</b>	<b>Average</b>	<b>4.4</b>	<b>1.3</b>	<b>2.5</b>	<b>1.3</b>	<b>4.9</b>	<b>2.4</b>	<b>2.7</b>	<b>4.4</b>
<b>Earnings Momentum</b>																	
High FY1 EPS Rev	2.5	0.2	-0.9	-0.2	4.2	4.8	7.1	11.9	<b>Risk</b>								
High FY2 EPS Rev	5.0	-0.2	-4.0	-0.5	4.9	8.2	10.4	11.2	Low FY1 EPS Disp	-11.7	-3.2	-3.3	-9.7	-14.3	-1.1	2.4	5.4
High 12m Fd EPS Rev	0.3	-2.3	-4.2	-3.7	0.9	3.3	6.7	9.4	Low FY2 EPS Disp	-3.7	-3.3	-4.2	-5.6	-3.0	1.9	2.2	8.9
High FY1 EPS Mom	12.0	-3.9	-0.5	0.5	13.9	13.7	10.2	14.3	High EBIT/Int Exp	8.2	-1.9	0.5	0.7	10.0	8.9	5.7	8.8
High FY2 EPS Mom	3.8	-3.8	-2.0	-2.1	4.0	9.6	6.6	12.0	Low Debt/Equity	3.7	2.5	0.3	1.6	3.3	4.1	-2.6	-0.4
<b>Average</b>	<b>4.7</b>	<b>-2.0</b>	<b>-2.3</b>	<b>-1.2</b>	<b>5.6</b>	<b>7.9</b>	<b>8.2</b>	<b>11.8</b>	High Altman Z Score	-0.3	-3.3	-3.2	-4.2	-1.1	0.4	6.8	5.8
<b>Capex Deployment &amp; Earnings Accruals</b>																	
Low Capex/Depr	-5.7	0.3	-2.8	-3.5	-7.2	-4.1	-6.0	-1.6	High Market Cap	5.7	0.0	4.5	3.8	7.3	4.0	0.5	-3.1
Low Capex/Sales	-4.2	2.6	-0.6	-0.6	-4.3	-0.2	-1.4	3.8	<b>Average</b>	<b>0.3</b>	<b>-1.5</b>	<b>-0.9</b>	<b>-2.2</b>	<b>0.4</b>	<b>3.0</b>	<b>2.5</b>	<b>4.2</b>
Low Capex/FA	-3.8	0.9	-3.2	-5.0	-5.6	-3.6	-4.8	-3.3	<b>Consensus Ratings</b>								
High YoYΔ Receivables	4.1	2.0	3.1	0.0	0.8	2.2	3.7	4.7	High Analyst Rec	-6.6	-1.3	-1.9	-1.3	-7.3	0.6	2.9	8.2
Low YoYΔ Inventory	-7.2	-1.5	-5.2	-4.9	-7.4	-0.6	-1.9	-3.6	High 1mΔ Analyst Rec	5.2	1.2	3.6	7.0	5.3	5.1	7.9	7.3
Low YoYΔ Payables	-7.0	-3.4	-4.0	-3.0	-6.6	-0.6	-2.3	-6.2	<b>Average</b>	<b>-0.7</b>	<b>-0.1</b>	<b>0.9</b>	<b>2.9</b>	<b>-1.0</b>	<b>2.8</b>	<b>5.4</b>	<b>7.7</b>
<b>Average</b>	<b>-4.0</b>	<b>0.2</b>	<b>-2.1</b>	<b>-2.8</b>	<b>-5.1</b>	<b>-1.2</b>	<b>-2.1</b>	<b>-1.0</b>									

Source: Deutsche Bank, FactSet, I/B/E/S. Note: \*1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended Nov 2010. Relative performance is based on equal weighted average returns of the best quintile basket and the market. For description on factors please see Appendix A.

# Appendix A

In the stock ranking model, optimized weights based on back-tests are given to various factors (Figure 475) to form an aggregate score for each stock. Scores are given on a sector and country relative basis, and the weight matrix used in each industry group varies depending on back-test results.

## Figure 475: Definition of factors

### Valuation Factors

12m Fd P/E: price to 12-month forward EPS  
 Trailing P/E: price to 12m trailing EPS  
 Dividend Yield: 12m trailing dividend yield  
 P/Op Inc: Price to operating income  
 P/BV: Price to book value  
 Price/Sales: Price to sales  
 P/FCF: Price to free cash flow  
 EV/EBIT: Enterprise value to EBIT  
 EV/EBITDA: Enterprise value to EBITDA  
 EV/Cap Emp: Enterprise value to capital employed  
 EV/Sales: Enterprise value to sales  
 EV/Op CF: Enterprise value to operating cash flow  
 EV/FCF: Enterprise value to free cash flow

### Price Momentum Factors

6m Price Mom: 6-month price momentum  
 9m Price Mom: 9-month price momentum  
 12m Price Mom: 12-month price momentum  
 Price Rel Strength: 65-day to 260-day moving average in stock price  
 Price Mom, 3mΔ: 3-month change in 12-month price momentum  
 Price ↑ / ↓ Days: Number of up less down days in stock price in 130 days

### Earnings Momentum Factors

FY1 EPS Rev: Weighted average on 1-, 2- and 3-month change in FY1 eps mean estimate  
 FY2 EPS Rev: Weighted average on 1-, 2- and 3-month change in FY2 eps mean estimate  
 12m Fd EPS Rev: Weighted average on 1-, 2- and 3-month change in 12-month forward eps mean estimate  
 FY1 EPS Mom: % of upward less downward revisions in FY1 eps estimates in 3 months  
 FY2 EPS Mom: % of upward less downward revisions in FY2 eps estimates in 3 months

### Earnings Quality (Earnings Accruals and Capex Deployment Factors)

Capex/Depr: Capital expenditure to depreciation expense  
 Capex/Sales: Capital expenditure to sales  
 Capex/FA: Capital expenditure to fixed assets  
 Receivables/Ttl Assets, YoYΔ: YoY change in account receivables to total assets ratio  
 Inventory/Ttl Assets, YoYΔ: YoY change in inventory to total assets ratio  
 Payables/Ttl Assets, YoYΔ: YoY change in account payable to total assets ratio

### Profitability Factors

Rtn of Capital Employed: Cash return on capital employed  
 Rtn of Capital Employed, YoYΔ: YoY change in cash return on capital employed  
 ROE: Return on equity  
 ROE, YoYΔ: YoY change in return on equity

### Growth Factors

3yr Sales Gth: 3-year growth in sales (actual)  
 5yr Sales Gth: 5-year growth in sales (actual)  
 3yr EPS Gth: 3-year growth in eps (actual)  
 5yr EPS Gth: 5-year growth in eps (actual)  
 LT Gth Est: Consensus estimate on long term eps growth  
 FY1 Gth Est: Consensus estimate on FY1 eps growth  
 FY2 Gth Est: Consensus estimate on FY2 eps growth

### Stability Factors

EPS Vola: 3-year volatility in trailing eps  
 Op Inc Vola: 3-year volatility in trailing operating income per share  
 Book Value Vola: 3-year volatility in historical book value per share  
 Sales Vola: 3-year volatility in trailing sales per share  
 EPS Est Vola: 3-year volatility in 12-month forward eps estimate

### Risk Factors

FY1 EPS Dispersion: Dispersion of FY1 eps estimates  
 FY2 EPS Dispersion: Dispersion of all the FY2 eps estimates  
 EBIT/Int Exp: EBIT to interest expense  
 Debt/Equity: Debt to equity  
 Altman Z Score:  $(1.2 \times \text{working capital} + 1.4 \times \text{retained earnings} + 3.3 \times \text{EBIT} + \text{sales}) / \text{total assets} + 0.6 \times \text{market value of equity} / \text{total liabilities}$   
 Market Cap: Company market capitalisation

### Consensus Rating Factors

Analyst Rating: Consensus rating  
 Analyst Rating, 1mΔ: 1-month change on consensus rating

Source: Deutsche Bank



# Appendix B

**Figure 476: Deletions from the Asia model portfolio since inception (13 September 2010)**

Company	BB Ticker	Mkt	Date Added	Date Removed	DB Rec	Close 9Dec10
<b>Deletions as of 2 November 2010</b>						
Agri. Bank of China	1288 HK	CN	13Sep10	2Nov10	B	4.10
Anta Sports	2020 HK	CN	13Sep10	2Nov10	B	13.50
Fraser & Neave	FNN SP	SG	13Sep10	2Nov10	NR	6.30
<b>Deletions as of 10Dec2010</b>						
China Shineway	2877 HK	CN	13Sep10	10Dec10	NR	25.45
Chunghwa Tel	2412 TT	TW	13Sep10	10Dec10	B	73.90
Far EasTone Telecom	4904 TT	TW	13Sep10	10Dec10	B	42.50
First Philippine Hldgs	FPH PM	PH	13Sep10	10Dec10	B	62.50
LIG Insurance	002550 KS	KR	13Sep10	10Dec10	B	20450
Perusahaan Gas Negara	PGAS IJ	ID	13Sep10	10Dec10	B	4525.00
PLUS Expressways	PLUS MK	MY	13Sep10	10Dec10	H	4.40
SATS	SATS SP	SG	13Sep10	10Dec10	NR	2.93
Top Glove	TOPG MK	MY	13Sep10	10Dec10	B	5.51
Wynn Macau	1128 HK	HK	13Sep10	10Dec10	H	16.88

Source: Deutsche Bank, Bloomberg Finance LP.

**Figure 477: Bottom-up sector ranking**

Rank	Country	Sector	Mkt Cap (US mn)	P/B	12m fwd P/E	EV/EBIT	FY1 EPS Momentum	FY2 EPS Momentum	ROE (%)	Relative Strength Index	Beta	12 month Forward EPS expectation	# of Buys	# of Sells	# of Holds	Total	Valuation	Earnings Momentum	Profitability	Technical
1	India	Banks	62,928	1.8	7.9		0.90	0.60	18.9	1.28	1.62	22%	5	2	5	12	++	++	++	++
2	China	Autos	13,893	3.0	11.5	22.9	1.00	1.00	16.7	1.19	1.89	19%	3	0	1	4	-	++	++	++
3	Korea	Utilities	7,261	0.5	7.2	4.6	1.00	-0.33	9.6	1.01	0.62	6%	1	0	1	2	++	+	O	-
4	Taiwan	Autos	4,042	1.5	10.7	18.9	1.00	1.00	6.3	1.05	1.59	16%	0	0	0	0	O	++	-	O
5	Hong Kong	Retailing	20,688	2.4	13.9	17.0	1.00	1.00	15.0	1.22	0.76	12%	5	0	1	6	-	++	+	++
6	Taiwan	Materials	53,472	1.3	11.7	13.1	1.00	1.00	10.6	1.06	0.84	11%	3	1	3	7	+	++	O	O
7	Hong Kong	Real Estate	118,235	0.7	12.2	6.3	0.42	0.52	11.4	1.08	1.50	4%	9	1	4	14	++	+	O	+
8	Korea	Autos	58,971	1.2	7.5	10.8	0.30	0.46	11.4	1.22	0.76	13%	3	0	2	5	++	+	O	++
9	Philippines	Banks	3,792	1.5	11.7		1.00	0.33	11.9	1.23	0.68	15%	2	0	3	5	O	++	+	++
10	Malaysia	Banks	27,287	1.8	11.2		0.71	0.56	15.3	1.08	0.36	13%	2	0	2	4	++	++	+	+
11	Thailand	Utilities	679	1.4	10.6	13.6	0.75	0.83	15.2	1.17	0.38	2%	4	0	0	4	O	++	+	++
12	Korea	Retailing	5,959	1.2	10.2	7.2	0.33	0.27	14.4	1.16	1.10	9%	3	0	0	3	++	+	+	++
13	China	Transport	19,947	1.5	11.9	16.2	0.80	0.71	8.4	1.05	1.58	11%	6	0	6	12	-	++	-	O
14	Korea	Materials	69,443	0.9	7.4	11.4	0.29	0.33	9.7	1.10	1.00	13%	7	0	0	7	++	+	O	+
15	Hong Kong	Cap Gds	24,447	1.1	9.7	21.3	1.00	1.00	5.4	1.02	1.11	9%	2	0	0	2	-	++	--	-
16	Japan	Autos	288,254	1.2	10.9	8.1	0.50	0.36	11.2	1.00	0.72	29%	9	0	7	16	++	+	O	-
17	Japan	Fd/Staples Retail	33,230	1.1	14.8	8.7	1.00	0.62	4.7	0.98	0.14	12%	0	0	0	0	++	++	--	--
18	Thailand	Media	988	2.1	15.5	11.0	0.53	1.00	13.2	1.13	0.48	14%	1	0	1	2	O	++	+	+
19	Hong Kong	Cons Durables	2,744	1.4	11.6	14.4	0.63	0.88	8.6	1.03	1.07	15%	0	0	1	1	O	++	-	-
20	Korea	Banks	49,981	0.9	6.6		0.13	0.03	7.1	0.99	1.41	14%	8	0	1	9	++	O	-	--
21	India	Div Fin	9,946	2.1	12.5		0.00	0.49	16.5	1.17	1.54	21%	1	1	4	6	-	+	++	++
22	China	Real Estate	35,289	1.3	9.1	7.5	0.05	0.44	14.1	1.02	1.57	20%	16	2	2	20	+	+	+	-
23	Hong Kong	Transport	11,155	1.3	13.0	10.2	0.30	0.60	11.5	1.09	0.99	2%	4	0	1	5	+	+	+	+
24	Indonesia	Food Bev	6,283	3.2	14.4	14.1	0.24	0.70	20.4	1.23	0.47	26%	4	0	0	4	-	+	++	++
25	Taiwan	Banks	32,718	1.1	13.2		0.27	0.42	6.1	1.11	1.46	38%	1	0	4	5	O	+	-	+
26	Malaysia	Autos	1,246	0.9	8.0	6.8	0.44	0.00	14.1	1.08	0.31	17%	0	0	0	0	++	O	+	+
27	Thailand	Banks	23,082	2.0	12.4		0.48	0.42	12.0	1.18	0.63	24%	4	1	0	5	O	+	+	++
28	Japan	Telecom	95,666	1.1	10.3	8.1	0.31	0.44	10.7	1.00	0.15	4%	1	0	3	4	++	+	O	-
29	China	Telecom	76,704	1.2	12.3	7.7	0.41	0.56	10.6	1.11	0.52	9%	1	0	3	4	+	+	O	+
30	China	Energy	117,856	2.2	12.1	15.7	0.47	0.29	16.9	1.07	1.24	19%	2	0	2	4	-	+	++	+
31	Singapore	Cap Gds	34,931	1.1	9.9	11.9	0.00	0.48	10.9	1.03	1.05	9%	6	0	0	6	+	O	O	-
32	Malaysia	Real Estate	1,017	0.7	9.3	10.9	0.56	0.28	5.2	1.07	0.66	15%	1	0	0	1	+	+	--	O
33	India	Autos	13,077	2.5	14.7	12.0	0.00	0.44	17.7	1.17	1.09	23%	4	0	3	7	O	O	++	++
34	China	Pharma/ Biotech	1,319	2.7	16.7	16.7	0.67	0.33	15.7	1.15	0.83	22%	1	0	0	1	--	++	++	++
35	India	Materials	29,869	1.7	9.9	10.6	-0.20	0.00	16.8	1.08	1.56	21%	10	2	4	16	+	-	++	+
36	China	Cap Gds	32,062	2.1	12.7	13.8	0.29	0.38	11.9	1.10	1.45	20%	9	3	6	18	-	+	+	+
37	Korea	Cons Durables	11,544	0.6	8.3	10.1	-0.04	0.21	6.0	1.00	0.95	22%	1	0	0	1	++	O	-	-
38	India	Food Bev	10,937	2.2	14.8	14.5	0.33	0.80	17.2	1.10	0.58	21%	4	0	2	6	-	++	++	+
39	Indonesia	Banks	25,449	2.7	14.4		0.06	0.16	17.2	1.24	1.22	20%	6	1	3	10	--	O	++	++
40	Taiwan	Div Fin	13,639	1.2	13.7		-0.06	0.71	6.1	1.00	1.69	33%	1	0	1	2	O	+	-	-
41	Philippines	Real Estate	3,152	1.1	14.0	18.8	0.17	0.80	7.4	1.14	0.99	18%	2	0	1	3	--	+	-	+
42	China	Banks	156,298	2.1	9.1		0.31	0.21	20.1	1.04	0.91	17%	8	1	6	15	O	+	++	-
43	Thailand	Materials	5,701	1.2	12.3	15.8	-0.02	0.24	9.8	1.21	1.03	17%	4	0	2	6	O	O	O	++
44	Hong Kong	Cons Svc	12,044	1.6	18.7	30.9	0.63	0.67	10.7	1.06	1.02	18%	4	0	5	9	--	++	O	O
45	Malaysia	Retailing	844	1.7	11.7	9.7	0.17	0.50	17.6	1.05	0.22	6%	0	0	1	1	+	+	++	O

Source: Deutsche Bank. EPS momentum is the number of upward less downward revisions in respective financial year EPS estimate in last 3 months. RSI is the ratio of 65-day to 260-day moving average in stock price. All the metrics shown above except market cap and Deutsche Bank analyst views are median data for the sector.

Figure 478: Bottom-up sector ranking

Rank	Country	Sector	Mkt Cap (US mn)	P/B	12m fwd P/E	EV/EBIT	FY1 EPS Momentum	FY2 EPS Momentum	ROE (%)	Relative Strength Index	Beta	12 month Forward EPS expectation	# of Buys	# of Sells	# of Holds	Total	Valuation	Earnings Momentum	Profitability	Technicals
46	Indonesia	Cap Gds	4,001	2.0	12.0	10.0	-0.36	0.00	15.2	1.15	1.19	22%	2	0	0	2	+	-	+	++
47	Japan	Materials	180,799	1.0	11.9	10.4	0.33	0.00	8.4	0.96	0.81	20%	15	0	10	25	++	O	-	--
48	Japan	Banks	203,433	0.5	12.0		0.33	0.00	4.3	0.90	0.27	2%	4	0	9	13	++	O	--	--
49	Korea	Cap Gds	75,455	0.9	9.5	11.7	-0.20	0.20	4.9	1.04	1.03	22%	12	1	5	18	++	O	--	O
50	Singapore	Div Fin	5,690	0.9	22.0		0.20	0.30	7.8	0.99	1.18	19%	1	0	1	2	+	+	-	-
51	Japan	Transport	102,274	1.0	14.4	20.2	0.50	0.50	5.0	0.95	0.57	15%	5	0	5	10	+	++	--	--
52	Malaysia	Food Bev	14,180	1.4	12.5	11.9	0.25	0.50	11.5	1.10	0.34	16%	1	0	2	3	O	+	+	+
53	Korea	Div Fin	13,547	0.9	10.2		0.11	0.26	7.4	1.01	1.20	18%	5	0	1	6	+	O	-	-
54	Hong Kong	Utilities	37,128	2.1	15.9	19.0	0.85	0.67	9.1	1.06	0.19	20%	0	1	3	4	--	++	-	O
55	Malaysia	Transport	6,803	1.7	12.4	11.8	0.56	0.32	10.1	1.10	0.25	19%	1	0	2	3	O	+	O	+
56	China	Materials	37,612	1.9	11.0	15.7	0.00	0.00	9.2	1.11	1.66	29%	1	0	1	2	-	O	O	+
57	China	Insurance	61,564	4.5	22.1		0.43	0.55	12.7	1.12	1.05	28%	2	1	1	4	--	+	+	+
58	Taiwan	Cap Gds	8,300	1.3	10.0	12.4	0.00	0.17	9.8	1.01	1.16	15%	1	0	1	2	+	O	O	-
59	Hong Kong	Banks	34,656	1.5	14.8		0.65	0.05	8.2	1.20	1.32	17%	4	0	4	8	--	+	-	++
60	Singapore	Food Bev	12,675	2.3	14.1	9.9	0.07	0.00	17.5	1.08	0.88	16%	2	0	1	3	O	O	++	+
61	Japan	Media	10,778	0.9	20.4	10.9	0.33	0.88	4.6	0.90	0.44	15%	0	0	0	0	+	++	--	--
62	Japan	Energy	35,523	0.8	11.1	16.1	0.00	0.50	4.6	0.98	0.40	56%	1	0	0	1	++	+	--	--
63	Thailand	Energy	25,316	1.9	11.2	11.9	0.00	0.05	10.7	1.15	0.62	25%	4	1	1	6	+	O	O	++
64	Japan	Real Estate	78,473	1.1	16.6		0.43	0.22	5.4	1.00	0.80	15%	7	0	8	15	O	+	--	-
65	Korea	Insurance	12,906	1.5	7.5		-0.21	-0.03	13.0	1.01	0.66	22%	8	0	1	9	++	-	+	-
66	Philippines	Utilities	2,863	2.6	12.8	10.2	-1.00	0.33	30.3	1.17	0.73	1%	5	1	0	6	O	--	++	++
67	India	Real Estate	6,388	1.3	8.8	16.9	-0.33	-0.33	7.3	1.06	2.69	43%	4	2	2	8	-	--	-	O
68	Malaysia	Telecom	11,531	1.6	16.2	13.0	0.27	0.42	13.5	1.04	0.34	7%	1	0	3	4	-	+	+	O
69	India	Pharma/ Biotech	12,123	4.0	17.8	16.2	0.10	0.14	18.5	1.14	0.74	22%	1	3	4	8	--	O	++	++
70	Singapore	Transport	10,261	1.4	13.6	15.4	0.40	0.13	11.2	1.04	0.69	11%	1	1	1	3	-	+	O	O
71	China	Retailing	16,401	3.0	24.5	20.1	0.00	0.43	15.3	1.06	1.43	24%	5	0	1	6	--	O	+	O
72	Malaysia	Cons Svc	11,520	1.3	14.6	15.1	0.10	0.33	5.2	1.11	0.70	11%	1	0	2	3	-	O	--	+
73	Japan	Retailing	42,330	1.1	12.7	10.0	0.00	0.00	9.5	0.94	0.59	12%	2	0	13	15	++	O	O	--
74	Japan	Cons Durables	111,317	1.0	15.8	13.0	0.16	0.50	3.5	0.94	0.50	30%	7	2	7	16	+	+	--	--
75	Singapore	Banks	53,818	1.5	11.9		0.13	-0.42	11.4	0.99	1.21	7%	2	0	1	3	+	-	O	--
76	Singapore	Telecom	20,149	2.3	12.3	15.3	0.00	0.20	17.4	1.06	0.74	5%	1	0	2	3	-	O	++	O
77	China	Cons Durables	5,700	2.3	10.1	13.2	-0.33	0.00	12.7	1.07	1.38	20%	1	0	3	4	-	-	+	O
78	India	Software	50,200	1.6	9.8	8.6	-0.38	-0.06	17.2	0.98	1.01	16%	7	1	2	10	+	-	++	--
79	China	Software	24,434	2.7	20.0	16.4	0.17	0.00	18.1	1.02	1.44	23%	3	0	8	11	--	O	++	-
80	India	Cap Gds	30,821	2.4	13.0	12.3	-0.38	-0.27	18.3	1.03	1.54	24%	6	2	5	13	-	--	++	-
81	India	Hhold Products	5,792	10.7	23.9	24.0	0.15	0.11	39.3	1.13	0.28	22%	1	0	2	3	--	O	++	+
82	Korea	Food Bev	9,229	0.9	8.5	7.0	-0.56	-0.22	11.4	1.03	0.31	19%	3	0	1	4	++	--	O	-
83	Malaysia	Cap Gds	12,695	0.8	12.5	13.4	-0.20	0.14	5.7	1.05	0.71	24%	2	0	1	3	+	-	--	O
84	China	Tech Hard/Equip	8,629	1.7	12.1	12.9	0.08	-0.05	12.7	1.03	1.19	22%	1	0	2	3	-	O	+	-
85	Korea	Transport	4,843	1.0	9.8	25.2	0.24	0.15	0.5	1.07	0.80	6%	0	2	1	3	-	O	--	O
86	Japan	Insurance	64,814	1.3	15.0		0.14	-0.14	6.5	0.95	0.64	6%	3	0	3	6	+	-	-	--
87	Hong Kong	Div Fin	24,328	0.9	9.8		0.00	-1.00	7.5	1.03	1.42	14%	0	1	0	1	++	--	-	-
88	Indonesia	Materials	7,959	2.2	13.3	12.1	-0.47	-0.23	14.6	1.11	1.13	23%	5	0	0	5	O	--	+	+
89	India	Energy	42,440	1.7	9.5	12.1	-0.24	-0.33	17.7	1.04	0.96	18%	5	3	1	9	+	--	++	O
90	Malaysia	Utilities	10,482	1.0	12.4	10.4	-0.15	-0.11	11.7	1.05	0.31	12%	0	0	2	2	+	-	+	O

Source: Deutsche Bank, EPS momentum is the number of upward less downward revisions in respective financial year EPS estimate in last 3 months. RSI is the ratio of 65-day to 260-day moving average in stock price. All the metrics shown above except market cap and Deutsche Bank analyst views are median data for the sector.

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Rank	Country	Sector	Mkt Cap (US\$ mn)	P/B	12m fwd P/E	EV/EBIT	FY1 EPS Momentum	FY2 EPS Momentum	ROE (%)	Relative Strength Index	Beta	12 month Forward EPS expectation	# of Buys	# of Sells	# of Holds	Total	Valuation	Earnings Momentum	Profitability	Technical
91	Taiwan	Semis	100,509	1.8	11.2	12.5	0.00	-0.14	13.3	0.96	1.05	9%	4	4	7	15	O	-	+	--
92	Japan	Pharma/ Biotech	106,723	1.5	14.8	8.8	0.00	0.13	10.4	0.99	0.26	11%	5	0	5	10	+	O	O	-
93	Taiwan	Tech Hard/Equip	138,658	1.6	10.7	12.2	-0.24	-0.27	10.8	0.96	1.20	15%	8	0	4	12	+	-	O	--
94	Japan	Cap Gds	349,995	1.0	15.3	13.7	0.07	-0.11	6.2	0.94	0.72	25%	21	0	17	38	+	-	-	--
95	Malaysia	Div Fin	4,342	0.7	12.5		-1.00	0.14	5.9	1.05	0.88	22%	1	1	0	2	++	--	-	O
96	Japan	Hhold Products	26,308	1.9	18.9	9.7	-0.13	0.36	7.3	0.97	0.37	11%	0	0	0	0	O	O	-	--
97	Japan	Utilities	129,227	1.0	16.4	27.1	0.53	0.20	4.3	0.96	-0.10	23%	0	0	0	0	O	+	--	--
98	China	Utilities	11,417	1.2	11.5	18.6	-0.04	0.17	6.8	0.99	0.60	23%	5	0	7	12	O	O	-	-
99	Thailand	Telecom	2,658	3.5	16.4	16.9	0.11	-0.25	15.8	1.11	0.28	6%	2	0	1	3	-	-	++	+
100	India	Telecom	1,596	2.0	31.5	17.1	0.00	-0.14	9.4	0.99	1.25	4%	1	0	3	4	--	-	O	--
101	Korea	Semis	109,383	1.7	7.6	17.6	-0.18	-0.20	7.4	1.02	0.57	35%	1	1	0	2	+	-	-	-
102	China	Food Bev	24,563	2.6	15.3	15.1	-0.33	0.00	13.9	1.06	0.94	23%	3	1	1	5	--	-	+	O
103	Taiwan	Telecom	17,992	2.1	14.4	11.8	-0.20	0.11	12.9	1.07	0.18	4%	2	0	1	3	-	-	+	O
104	Japan	Cons Svc	9,485	1.3	10.8	13.8	0.00	-0.33	8.5	0.96	0.25	16%	0	0	1	1	+	-	-	--
105	Japan	Food Bev	62,836	1.0	15.5	11.6	-0.47	-0.07	5.8	0.97	0.44	7%	0	0	0	0	++	--	-	--
106	Korea	Telecom	13,254	1.1	8.1	12.5	-0.30	-0.17	4.6	0.97	0.07	15%	2	0	2	4	++	-	--	--
107	Korea	Cons Svc	2,317	2.6	13.1	9.4	-0.09	-0.25	9.6	0.99	0.63	24%	0	0	0	0	O	-	O	-
108	Korea	Software	10,960	1.9	12.7	27.9	-0.18	0.04	5.2	1.03	0.94	21%	0	0	0	0	--	-	--	-
109	Japan	Tech Hard/Equip	247,047	1.3	15.8	11.3	-0.11	-0.33	6.4	0.93	0.81	33%	9	0	7	16	+	-	-	--
110	Hong Kong	Tech Hard/Equip	1,524	1.1	12.6	18.9	-0.50	-0.50	5.0	1.01	1.49	15%	0	0	1	1	O	--	--	-
111	Japan	HCare Equip/Svc	23,313	1.0	12.2	7.8	-0.71	-0.50	8.7	0.94	0.78	13%	0	0	0	0	++	--	-	--
112	Japan	Software	51,632	1.4	14.0	10.5	0.00	-0.33	8.0	0.92	0.41	16%	9	1	5	15	+	-	-	--
113	Japan	Div Fin	50,133	0.8	18.6		-0.20	-0.47	4.4	0.86	0.90	11%	0	0	1	1	+	--	--	--
114	India	Utilities	15,646	2.6	15.7	17.4	-0.20	-0.11	9.2	1.00	0.86	18%	4	3	2	9	--	-	O	-
115	Japan	Comm Svc	22,413	1.2	15.4	8.4	-0.50	-0.33	5.3	0.92	0.61	13%	0	0	0	0	+	--	--	--
116	Indonesia	Telecom	9,913	3.7	15.9	15.1	-0.21	-0.40	3.3	1.07	0.76	21%	2	0	2	4	-	--	--	O
117	China	Cons Svc	664	2.0	25.8	31.8	0.00	-0.33	10.8	1.06	1.22	27%	2	0	1	3	--	-	O	O
118	Thailand	Food Bev	2,442	2.4	12.0	12.6	-1.00	0.00	18.3	1.05	0.32	19%	1	0	1	2	O	--	++	O
119	Korea	Tech Hard/Equip	20,949	1.3	7.9	20.3	-0.50	0.00	5.8	0.97	0.48	57%	2	0	1	3	O	-	--	--
120	India	Media	1,428	2.3	22.4	18.5	-0.53	-0.20	5.3	1.05	1.41	23%	6	0	0	6	--	--	--	O
121	Malaysia	Materials	801	0.7	9.1	11.3	-0.78	-0.78	5.8	1.04	0.67	25%	0	0	0	0	++	--	--	O
122	Malaysia	Energy	923	1.2	13.7	14.5	-0.45	-0.67	9.1	1.06	0.68	22%	0	0	0	0	O	--	O	O
123	Korea	Pharma/ Biotech	2,752	1.3	8.9	9.7	-0.67	-0.64	11.1	1.00	0.38	17%	0	0	0	0	+	--	O	-
124	Hong Kong	Telecom	1,572	2.2	14.3	14.2	-0.75	-0.33	9.3	1.08	0.44	16%	1	0	0	1	O	--	O	+
125	Hong Kong	Media	1,528	1.2	15.5	26.1	0.00	-1.00	6.2	1.01	0.77	6%	1	0	0	1	-	--	-	-
126	Taiwan	Cons Durables	6,414	1.4	11.4	13.7	-1.00	-1.00	7.6	1.08	1.16	21%	0	0	1	1	O	--	-	+
127	Indonesia	Energy	11,975	4.1	14.4	16.6	-1.00	-1.00	15.3	1.12	1.16	60%	4	0	1	5	--	--	+	+
128	Japan	Semis	25,374	1.2	22.5	14.0	-0.70	-0.65	5.5	0.86	0.82	45%	0	2	5	7	-	--	--	--

Source: Deutsche Bank. EPS momentum is the number of upward less downward revisions in respective financial year EPS estimate in last 3 months. RSI is the ratio of 65-day to 260-day moving average in stock price. All the metrics shown above except market cap and Deutsche Bank analyst views are median data for the sector.

# Appendix 1

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**Buy:** Based on a current 12-month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

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**Notes:**

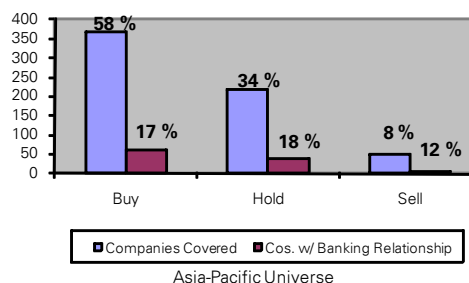
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