Daiwa Capital Markets

Asia Pacific Daily

12 July 2011

Top story

P.2

China Strategy

Maximum pain, maximum gain

- China equity valuations are at levels which have historically generated significant positive six-month and 12-month returns
- The liquidity pool remains ample and equities have been neglected in favour of physical property and bank deposits
- We are at the point of maximum pain in the GDP/inflation squeeze

-- Colin Bradbury

Corporate event calendar

Date	Company	Event	Venue
12 Jul	Sinoref (1020 HK)	Luncheon	HK
12 Jul	Hui Xian REIT (87001 HK)	NDR	US
13 Jul	Sun Hung Kai Properties (16 HK)	Teleconference	HK/ Canada
13 Jul	Skyworth (751 HK)	Videoconference	HK/ Tokyo
18 Jul	True Corp (TRUE TB)	NDR	HK
19 Jul	LG Siltron (not listed)	NDR	Tokyo
1 Aug	Samsung Electronics (005930 KS)	NDR	Tokyo
2 Aug	Cheung Kong Infrastructure (1038 HK)	Luncheon	HK
2 Aug	COSCO (COS SP)	Luncheon	SGP
5 Aug	Frasers Commercial Trust (FCOT SP)	NDR	Tokyo
16 Aug	First Resources (FR SP)	Luncheon	SGP
29 Aug	Noble Group (NOBL SP)	NDR	SGP
6 Sep	Golden Eagle (3308 HK)	NDR	US

Source: Daiwa

Regional indices

	Performance chg (%)			EPS growth (%)		PER (x)	
Market	1D	1M	YTD	11E	12E	11E	12E
HSI	(1.7)	(0.3)	(3.0)	17.8	8.5	10.9	10.0
HSCEI	(2.0)	0.9	(1.5)	17.9	16.3	9.3	8.0
SENSEX*	(0.7)	2.5	(8.7)	16.2	17.8	14.9**	12.6**
KOSPI	(1.1)	5.4	5.2	22.5	12.7	10.1	9.0
TWSE	(1.0)	(1.9)	(3.4)	10.5	18.6	13.9	11.6
FSSTI	(1.1)	1.3	(2.3)	3.9	11.1	14.1	12.6
ASX 200	(1.6)	0.4	(3.4)	16.2	18.3	13.6	11.5
TOPIX	(0.5)	6.5	(3.2)	22.0	23.9	13.8	11.2

Source: Thomson Reuters
*Valuation based on MSCI India **MSCI India price as of 8-Jul

The 10-second briefing

Maximum pain, maximum gain

China Strategy

- China equity valuations are at levels which have historically generated significant positive six-month and 12-month returns
- The liquidity pool remains ample and equities have been neglected in favour of physical property and bank deposits
- We are at the point of maximum pain in the GDP/inflation squeeze

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■ Summary

Views on the likely direction of China equities in the second half of 2011 are deeply divided. One thing that most investors agree on is that the MSCI China Index valuation looks cheap historically. The Index's one-year forward PER (based on the IBES-consensus EPS forecasts) stands at 10.5x, below its 12.7x term average since 2003, and close to the bottom end of the 10-15x range in which the market traded since 2003. Valuations also look attractive relative to equity markets globally.

However, opinions diverge on whether this is a buying opportunity, or whether apparently cheap valuations signal trouble ahead, meaning prudent investors should hold back. The key questions in investors' minds right now are:

- How significantly is the China economy slowing? If we see a 'hard landing' in 2H11, could we see downward revisions to earnings forecasts?
- Will we face the toxic combination of sharply lower GDP growth and stubbornly high inflation by the end of this year?
- What are the potential shocks out there? Local-government debt problems (and rising bank NPLs), SME bankruptcies, financial distress among property developers?
- The big question is: how much of all this is already 'in the market'? Based on experience since 2003, have share prices reflected the uncertainties mentioned above?

We focus here primarily on the last question. We look at the relationship between GDP growth and corporate earnings, between earnings and equity valuations, and at the liquidity environment, to assess the risk-reward picture. We conclude:

1. China equities are at the bottom end of their 2004-10 valuation range, both in absolute and relative terms. Investors globally have already recognised China's current difficult economic environment.

2. In China, the current disparity between GDP growth (slowing) and inflation (accelerating) has historically led to PER contractions. However, we now appear to be at the point of maximum pain and the picture should improve by 4Q11.

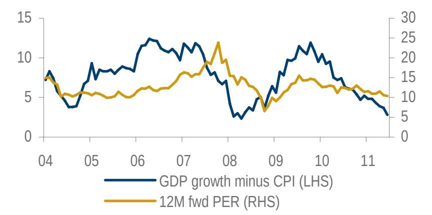
3. Based on an analysis of the leads and lags between the economy, earnings and equity valuations, slower GDP growth appears to have been discounted. The lower PER suggests that the market is already expecting slower earnings growth.

4. The domestic liquidity picture for China equities looks favourable. The pool of funds available to invest in assets has increased dramatically since the 2007/08 stock-market peak and equities have been largely neglected by domestic investors in favour of bank deposits and property. There are reasons to believe that allocations may swing back to equities in the near future.

There is much bad news already in the market, with China equities out of fashion for two years now. The next 3-6 months are unlikely to be easy, but when the turn comes, it could be dramatic.

Buying the MSCI China Index at 10x forward earnings has yielded historical average six-month 12-month returns of 26.9% and 47.3%, respectively. Investors with a time horizon of more than three months should start positioning for the turn now as maximum pain should turn into maximum gain.

■ **Maximum pain: China GDP/CPI gap and MSCI China PER**



Source: CEIC, Daiwa

Daiwa Capital Markets

Company

Capital goods / China
11 July 2011

The 10-second briefing

China Railway Construction

1186 HK | CWYCY US

Target price: **HK$10.00 → HK$6.80**
Up/downside: **+8.1%**
Share price (11 Jul): **HK$6.29**

A lack of share-price catalysts

- Safety concerns could slow the construction pace of railway lines
- We prefer CRC to CRG due to its stronger balance sheet
- Rating downgraded to Hold, target price lowered to HK$6.80

1 Buy
2 Outperform
3 **Hold** (from Outperform)
4 Underperform
5 Sell

How do we justify our view?

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■ What's new

We have become less positive on the earnings outlook for the railway-construction companies due to a slowdown in railway investment in China.

■ What's the impact

We have revised down our 2011-13 earnings forecasts for CRC. We believe increased government concerns about safety might slow the pace of railway-line construction further over 2011-15. Regardless, we expect the period of high revenue growth for the company to end. We forecast single-digit percentage rises in net profit after 2012.

New tenders for railway projects have been announced, although the total value of new contracts for 2011 should be low. CRC recently won a large-scale railway-construction order with a project value of Rmb10.3bn. We see this as a sign that the government is approving new railway projects. We forecast the value of new railway contracts for CRC to fall by 53.9% YoY to Rmb200bn for 2011.

We believe CRC is better-placed than CRG to develop new earnings drivers given its stronger balance sheet (CRC had net cash of Rmb21bn as at the end of 2010, equivalent to about 30% of its market cap), and so prefer CRC to CRG.

■ What we recommend

We have downgraded our rating to Hold (3) from Outperform (2) and lowered our DCF-based six-month target price to HK$6.80 from HK$10.00, due mainly to a deterioration in the earnings outlook for the company.

The stock is trading currently at a PER of 7x on our 2011 EPS forecast, which we believe is fair as the railway-construction industry in China has entered a downcycle.

■ How we differ

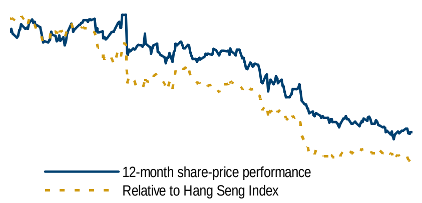
Our net-profit forecasts for 2012 and 2013 are respectively 7.1% and 8.4% below those of the Bloomberg consensus, as we expect government safety concerns to slow the pace of railway-line construction.

Forecast revisions (%)

Year to 31 Dec	11E	12E	13E
Revenue change	(1.4)	(4.7)	(10.9)
Net-profit change	(1.5)	(3.5)	(6.9)
EPS change	(1.5)	(3.5)	(6.9)

Source: Daiwa forecasts

Share price performance



12-month range	6.18-11.16
Market cap (US$bn)	9.97
Average daily turnover (US$m)	10.61
Shares outstanding (m)	12,338
Major shareholder	CRCCG (63.3%)

Financial summary (Rmb)

Year to 31 Dec	11E	12E	13E
Revenue (m)	517,238	547,798	538,275
Operating profit (m)	11,824	13,560	14,264
Net profit (m)	8,705	9,882	10,188
Core EPS	0.706	0.801	0.826
EPS change (%)	105.0	13.5	3.1
Daiwa vs Cons. EPS (%)	(2.4)	(7.1)	(8.4)
PER (x)	7.4	6.5	6.3
Dividend yield (%)	4.1	4.6	4.7
DPS	0.212	0.240	0.248
PBR (x)	1.0	0.9	0.8
ROE (%)	14.4	14.8	13.8

Source: Bloomberg, Daiwa forecasts

Financial summary

Key assumptions

Year to 31 Dec	2006	2007	2008	2009	2010	2011E	2012E	2013E
Value of new contracts added (%)	9.9%	35.3%	47.4%	42.1%	24.3%	(23.1%)	2.9%	4.0%
Construction rev growth (%)	41.0%	11.0%	28.1%	56.7%	31.9%	11.7%	4.9%	(3.3%)

Profit and loss (Rmb m)

Year to 31 Dec	2006	2007	2008	2009	2010	2011E	2012E	2013E
Construction	146,266	162,635	199,989	314,123	415,433	462,504	484,928	468,692
Survey, design and consultancy	3,311	3,497	4,446	7,306	8,027	8,577	8,965	9,473
Others	4,032	5,865	14,975	23,547	32,879	46,158	53,905	60,111
Total revenue	153,609	171,997	219,410	344,976	456,339	517,238	547,798	538,275
Other income	186	613	413	1,114	856	970	1,028	1,010
COGS	(144,013)	(160,598)	(203,607)	(322,428)	(428,647)	(484,144)	(511,711)	(501,875)
SG&A	(6,895)	(7,432)	(10,233)	(14,913)	(21,130)	(21,465)	(22,734)	(22,338)
Other op. expenses	(448)	(211)	(1,460)	(118)	(765)	(776)	(822)	(807)
Operating profit	2,438	4,369	4,524	8,631	6,652	11,824	13,560	14,264
Net-interest inc./(exp.)	(363)	(620)	55	(324)	(414)	(777)	(1,019)	(1,172)
Assoc/forex/extraord./others	23	39	(10)	1	2	0	0	0
Pre-tax profit	2,098	3,788	4,569	8,307	6,241	11,047	12,540	13,092
Tax	(596)	(1,482)	(863)	(1,576)	(1,924)	(2,209)	(2,508)	(2,749)
Min. int./pref. div./others	(289)	(5)	(62)	(133)	(70)	(133)	(150)	(155)
Net profit (reported)	1,213	2,301	3,644	6,599	4,246	8,705	9,882	10,188
Net profit (adjusted)	1,213	2,301	3,644	6,599	4,246	8,705	9,882	10,188
EPS (reported) (Rmb)	0.152	0.288	0.411	0.535	0.344	0.706	0.801	0.826
EPS (adjusted) (Rmb)	0.152	0.288	0.411	0.535	0.344	0.706	0.801	0.826
EPS (adjusted fully-diluted) (Rmb)	0.152	0.288	0.411	0.535	0.344	0.706	0.801	0.826
DPS (Rmb)	0.000	0.000	0.100	0.160	0.100	0.212	0.240	0.248
EBIT	2,438	4,369	4,524	8,631	6,652	11,824	13,560	14,264
EBITDA	4,845	7,843	8,714	15,006	14,458	20,584	22,950	24,220
EV	38,696	41,461	31,673	28,146	42,205	60,639	67,860	69,839

Cash flow (Rmb m)

Year to 31 Dec	2006	2007	2008	2009	2010	2011E	2012E	2013E
Profit before tax	2,098	3,788	4,569	8,307	6,241	11,047	12,540	13,092
Depreciation and amortisation	2,406	3,474	4,191	6,375	7,806	8,760	9,390	9,955
Tax paid	(223)	(315)	(788)	(921)	(1,558)	(2,209)	(2,508)	(2,749)
Change in working capital	0	2,132	(1,923)	4,045	(2,462)	(17,772)	(8,270)	(4,147)
Other operational CF items	2,056	343	1,251	(332)	(3,775)	777	1,019	1,172
Cash flow from operations	6,337	9,421	7,300	17,474	6,253	602	12,172	17,323
Capex	(5,582)	(10,190)	(10,762)	(12,570)	(17,014)	(15,000)	(15,000)	(15,000)
Net (acquisitions)/disposals	1,174	1,563	918	1,236	1,348	0	0	0
Other investing CF items	(401)	(3,555)	(3,224)	(2,295)	141	304	678	1,263
Cash flow from investing	(4,809)	(12,183)	(13,068)	(13,629)	(15,525)	(14,696)	(14,322)	(13,737)
Change in debt	4,220	9,097	(4,095)	3,981	13,930	4,950	4,728	5,089
Net share issues/(repurchases)	0	0	39,084	0	0	0	0	0
Dividends paid	(305)	(701)	0	(1,234)	(1,974)	(2,612)	(2,965)	(3,056)
Other financing CF items	(1,243)	(765)	(2,703)	(1,340)	(1,597)	(1,597)	(1,956)	(2,354)
Cash flow from financing	2,672	7,631	32,287	1,407	10,359	742	(193)	(322)
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	4,200	4,869	26,518	5,253	1,086	(13,351)	(2,343)	3,265
Free cash flow	755	(770)	(3,462)	4,905	(10,762)	(14,398)	(2,828)	2,323

Source: Company, Daiwa forecasts

Financial summary continued ...

Balance sheet (Rmb m)

As at 31 Dec	2006	2007	2008	2009	2010	2011E	2012E	2013E
Cash & short-term investment	20,961	26,190	55,006	62,370	61,343	47,992	45,650	48,914
Inventory	5,994	8,027	13,050	19,138	26,615	33,161	35,049	34,375
Accounts receivable	22,430	30,265	32,774	44,896	56,531	75,106	79,543	78,161
Other current assets	52,667	65,094	85,678	112,615	147,550	176,734	194,851	200,317
Total current assets	102,053	129,576	186,507	239,019	292,040	332,993	355,092	361,767
Fixed assets	14,166	15,998	21,887	30,441	37,364	41,957	46,456	50,423
Goodwill & intangibles	1,780	5,828	5,546	5,677	6,257	7,900	9,009	10,085
Other non-current assets	6,551	5,475	6,162	7,853	14,532	14,532	14,532	14,532
Total assets	124,550	156,878	220,102	282,990	350,194	397,383	425,090	436,807
Short-term debt	12,515	20,766	16,412	12,579	17,422	20,272	23,893	27,982
Accounts payable	37,513	44,677	62,824	101,980	141,196	172,435	182,253	178,750
Other current liabilities	53,913	72,698	78,833	93,036	104,120	108,895	114,987	117,832
Total current liabilities	103,940	138,142	158,069	207,595	262,738	301,602	321,134	324,564
Long-term debt	4,726	5,197	5,720	14,134	22,677	24,777	25,884	26,885
Other non-current liabilities	12,196	8,266	8,012	7,181	6,548	6,548	6,548	6,548
Total liabilities	120,862	151,604	171,800	228,911	291,963	332,927	353,565	357,996
Share capital	2,637	8,000	12,338	12,338	12,338	12,338	12,338	12,338
Reserves/R.E./others	0	(2,942)	35,436	40,928	45,066	51,158	58,076	65,207
Shareholders' equity	2,637	5,058	47,774	53,265	57,403	63,496	70,413	77,545
Minority interests	1,050	216	528	814	828	961	1,111	1,266
Total equity & liabilities	124,550	156,878	220,102	282,990	350,194	397,383	425,090	436,807
Net debt/(cash)	(3,720)	(227)	(32,875)	(35,656)	(21,244)	(2,943)	4,127	5,952
BVPS (Rmb)	0.330	0.632	3.872	4.317	4.653	5.147	5.707	6.285

Key ratios (%)

Year to 31 Dec	2006	2007	2008	2009	2010	2011E	2012E	2013E
Sales (YoY)	38.6	12.0	27.6	57.2	32.3	13.3	5.9	(1.7)
EBITDA (YoY)	49.1	61.9	11.1	72.2	(3.6)	42.4	11.5	5.5
Operating profit (YoY)	91.3	79.2	3.5	90.8	(22.9)	77.7	14.7	5.2
Net profit (YoY)	247.2	89.7	58.4	81.1	(35.7)	105.0	13.5	3.1
EPS (YoY)	247.2	89.7	42.9	30.2	(35.7)	105.0	13.5	3.1
Gross-profit margin	6.2	6.6	7.2	6.5	6.1	6.4	6.6	6.8
EBITDA margin	3.2	4.6	4.0	4.3	3.2	4.0	4.2	4.5
Operating-profit margin	1.6	2.5	2.1	2.5	1.5	2.3	2.5	2.7
ROAE	55.0	59.8	13.8	13.1	7.7	14.4	14.8	13.8
ROAA	1.1	1.6	1.9	2.6	1.3	2.3	2.4	2.4
ROCE	13.4	16.8	8.9	11.4	7.4	11.4	11.7	11.2
ROIC	n.a.	106.1	35.8	41.3	16.6	19.2	15.8	14.0
Net debt to equity	net cash	net cash	net cash	net cash	net cash	net cash	5.9	7.7
Effective tax rate	28.4	39.1	18.9	19.0	30.8	20.0	20.0	21.0
Accounts receivable (days)	45.9	55.9	52.4	41.1	40.6	46.4	51.5	53.5
Payables (days)	79.2	87.2	89.4	87.2	97.3	110.7	118.2	122.4
Net interest cover (x)	6.7	7.0	n.a.	26.6	16.1	15.2	13.3	12.2
Net dividend payout	0.0	0.0	24.3	29.9	29.1	30.0	30.0	30.0

Source: Company, Daiwa forecasts

Company profile

China Railway Construction's businesses are divided into four major segments: 1) construction operations, 2) survey, design and consultancy operations, 3) manufacturing operations, and 4) property development.

The 10-second briefing

China Railway Group

390 HK | CRWOY US

Target price: **HK$6.40 → HK$3.70**
Up/downside: **+6.0%**
Share price (11 Jul): **HK$3.49**

Downgraded to Hold on the back of earnings concerns

- Safety concerns could slow the construction pace of railway lines
- Diversification will not provide any meaningful contribution until 2013
- Valuation is undemanding despite lack of share-price catalysts; target price lowered to HK$3.70

1 Buy
2 Outperform
3 **Hold** (from Buy)
4 Underperform
5 Sell

How do we justify our view?

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■ What's new

We have become less positive on the earnings outlook for the railway-construction companies due to a slowdown in railway investment in China.

We believe government concerns about safety could slow the pace of railway-line construction, resulting in earnings risk after 2012.

■ What's the impact

We have revised down our earnings forecasts for CRG to reflect the planned slowdown in railway investment by the MOR.

After it was listed in 2007, the company said it wanted to diversify into businesses such as mining and property. However, we believe the value of this diversification will not be reflected in the company's near-term financial performance, given that production at its mines is unlikely to start before 2013.

Following the loss of a light-rail project in Mecca, Saudi Arabia, and projects in Libya, we regard overseas projects as very risky for China construction companies. Meanwhile, CRG could record a loss on its highway project in Poland, which would reduce 2011 earnings further.

■ What we recommend

We have downgraded our rating for CRG to Hold (3) from Buy (1), and lowered our DCF-based six-month target price to HK$3.70 from HK$6.40, due to our belief that earnings growth will decline from 2012 and diversification will not provide any meaningful earnings contribution until 2013.

Our target price is equivalent to a PER of 8x on our 2011 EPS forecast, which we believe is fair as the railway-construction industry in China has entered a downcycle. We do not recommend investors accumulate the stock at this time.

■ How we differ

Our net-profit forecasts for 2012 and 2013 are 7.1% and 9.3%, respectively, below those of the consensus as we expect government concerns over safety to slow the pace of railway-line construction further.

Forecast revisions (%)

Year to 31 Dec	11E	12E	13E
Revenue change	(2.3)	(6.2)	(13.8)
Net-profit change	(0.8)	(3.8)	(13.8)
EPS change	(0.8)	(3.8)	(13.8)

Source: Daiwa forecasts

Share price performance

12-month range	3.43-6.59
Market cap (US$bn)	9.55
Average daily turnover (US$m)	11.03
Shares outstanding (m)	21,300
Major shareholder	CRECG (58.3%)

Financial summary (Rmb)

Year to 31 Dec	11E	12E	13E
Revenue (m)	516,842	543,476	529,457
Operating profit (m)	15,479	17,398	18,060
Net profit (m)	8,737	9,735	9,760
Core EPS	0.410	0.457	0.458
EPS change (%)	16.7	11.4	0.3
Daiwa vs Cons. EPS (%)	(2.5)	(7.1)	(9.3)
PER (x)	7.1	6.3	6.3
Dividend yield (%)	2.8	3.2	3.2
DPS	0.082	0.091	0.092
PBR (x)	0.8	0.8	0.7
ROE (%)	12.5	12.6	11.4

Source: Bloomberg, Daiwa forecasts

Financial summary

Key assumptions

Year to 31 Dec	2006	2007	2008	2009	2010	2011E	2012E	2013E
Value of new contracts added (%)	3.4%	25.8%	72.4%	40.5%	22.2%	(22.0%)	(0.2%)	3.2%
Construction rev growth (%)	41.5%	20.1%	20.6%	54.2%	32.8%	13.1%	4.4%	(4.7%)

Profit and loss (Rmb m)

Year to 31 Dec	2006	2007	2008	2009	2010	2011E	2012E	2013E
Infrastructure Construction	140,399	168,562	203,299	313,540	416,513	470,937	491,561	468,448
Survey, Design and Consulting Services	4,124	3,394	4,354	7,007	9,279	10,207	10,717	11,253
Others	9,045	5,435	17,376	13,498	30,310	35,698	41,198	49,756
Total revenue	153,568	177,391	225,029	334,045	456,102	516,842	543,476	529,457
Other income	581	841	1,168	911	1,197	1,383	1,440	1,410
COGS	(141,647)	(164,659)	(208,534)	(313,603)	(428,987)	(485,089)	(508,951)	(494,718)
SG&A	(8,820)	(9,845)	(10,432)	(11,816)	(15,003)	(17,657)	(18,567)	(18,088)
Other op. expenses	0	0	0	0	0	0	0	0
Operating profit	3,682	3,728	7,231	9,537	13,309	15,479	17,398	18,060
Net-interest inc./(exp.)	(606)	(868)	(791)	(1,269)	(1,115)	(1,732)	(2,247)	(2,694)
Assoc/forex/extraord./others	311	524	(4,140)	414	(1,554)	(1,301)	(1,284)	(1,282)
Pre-tax profit	3,387	3,384	2,300	8,682	10,640	12,446	13,867	14,084
Tax	(648)	(549)	(631)	(1,286)	(2,337)	(2,738)	(3,051)	(3,239)
Min. int./pref. div./others	(693)	(347)	(319)	(521)	(813)	(971)	(1,082)	(1,085)
Net profit (reported)	2,046	2,488	1,350	6,875	7,490	8,737	9,735	9,760
Net profit (adjusted)	2,046	2,488	1,350	6,875	7,490	8,737	9,735	9,760
EPS (reported) (Rmb)	0.160	0.117	0.063	0.323	0.352	0.410	0.457	0.458
EPS (adjusted) (Rmb)	0.160	0.117	0.063	0.323	0.352	0.410	0.457	0.458
EPS (adjusted fully-diluted) (Rmb)	0.160	0.117	0.063	0.323	0.352	0.410	0.457	0.458
DPS (Rmb)	0.087	0.000	0.000	0.063	0.055	0.082	0.091	0.092
EBIT	3,682	3,728	7,231	9,537	13,309	15,479	17,398	18,060
EBITDA	6,129	6,687	10,427	14,065	18,400	21,622	24,608	26,256
EV	43,698	44,453	68,977	68,988	92,503	113,864	126,137	134,834

Cash flow (Rmb m)

Year to 31 Dec	2006	2007	2008	2009	2010	2011E	2012E	2013E
Profit before tax	3,387	3,384	2,300	8,682	10,640	12,446	13,867	14,084
Depreciation and amortisation	0	2,959	3,196	4,518	5,091	6,144	7,210	8,196
Tax paid	(285)	(545)	(886)	(1,388)	(1,960)	(2,738)	(3,051)	(3,239)
Change in working capital	2,023	(6,671)	(9,066)	9,360	(13,252)	(18,269)	(11,739)	(10,164)
Other operational CF items	3,275	816	5,236	(2,212)	444	2,740	3,377	4,249
Cash flow from operations	8,400	(57)	780	18,960	963	322	9,664	13,126
Capex	(6,830)	(10,143)	(14,263)	(16,159)	(14,463)	(15,900)	(15,000)	(14,000)
Net (acquisitions)/disposals	(990)	(4,383)	(1,574)	846	(818)	0	0	0
Other investing CF items	(419)	(1,063)	(4,346)	(1,250)	(1,078)	1,238	1,531	2,098
Cash flow from investing	(8,239)	(15,589)	(20,183)	(16,563)	(16,359)	(14,662)	(13,469)	(11,902)
Change in debt	15,200	1,530	14,038	2,887	27,336	11,649	12,995	15,998
Net share issues/(repurchases)	0	42,298	0	0	0	0	0	0
Dividends paid	0	0	0	0	(3,747)	(1,747)	(1,947)	(1,952)
Other financing CF items	(1,759)	(820)	(2,424)	(3,680)	(2,713)	(4,442)	(5,590)	(7,038)
Cash flow from financing	13,441	43,008	11,614	(793)	20,876	5,459	5,458	7,008
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	13,602	27,362	(7,789)	1,604	5,480	(8,881)	1,653	8,233
Free cash flow	1,570	(10,200)	(13,483)	2,801	(13,500)	(15,578)	(5,336)	(874)

Source: Company, Daiwa forecasts

Financial summary continued ...

Balance sheet (Rmb m)

As at 31 Dec	2006	2007	2008	2009	2010	2011E	2012E	2013E
Cash & short-term investment	29,721	56,772	46,846	49,432	54,860	45,979	47,632	55,865
Inventory	8,612	10,448	18,482	23,831	30,026	39,870	41,832	40,662
Accounts receivable	52,233	63,375	78,260	101,690	121,137	144,433	151,876	147,958
Other current assets	27,366	41,647	48,816	63,074	92,631	109,813	124,713	132,643
Total current assets	117,932	172,242	192,404	238,027	298,654	340,095	366,052	377,127
Fixed assets	18,288	18,307	22,685	28,647	34,291	40,048	43,895	45,810
Goodwill & intangibles	4,538	14,024	20,819	26,096	30,330	34,073	37,774	41,435
Other non-current assets	2,335	11,752	16,011	19,630	25,861	26,636	27,189	27,708
Total assets	143,093	216,325	251,919	312,400	389,136	440,852	474,910	492,080
Short-term debt	29,089	28,527	36,594	28,712	40,444	45,604	51,841	59,521
Accounts payable	78,477	95,869	111,270	161,002	209,308	239,222	250,990	243,971
Other current liabilities	9,943	12,124	17,684	20,785	14,648	17,147	17,863	17,436
Total current liabilities	117,509	136,520	165,548	210,499	264,400	301,973	320,694	320,927
Long-term debt	5,100	10,239	16,829	27,151	42,915	49,404	56,162	64,481
Other non-current liabilities	9,971	9,825	8,618	8,166	8,100	7,794	7,504	7,228
Total liabilities	132,580	156,584	190,995	245,816	315,415	359,171	384,360	392,636
Share capital	6,999	21,300	21,300	21,300	21,300	21,300	21,300	21,300
Reserves/R.E./others	0	34,491	34,695	39,864	45,281	52,271	60,058	67,867
Shareholders' equity	6,999	55,791	55,995	61,164	66,581	73,571	81,358	89,167
Minority interests	3,514	3,950	4,929	5,420	7,140	8,111	9,192	10,277
Total equity & liabilities	143,093	216,325	251,919	312,400	389,136	440,852	474,910	492,080
Net debt/(cash)	4,468	(18,006)	6,577	6,431	28,499	49,029	60,371	68,137
BVPS (Rmb)	0.547	2.619	2.629	2.872	3.126	3.454	3.820	4.186

Key ratios (%)

Year to 31 Dec	2006	2007	2008	2009	2010	2011E	2012E	2013E
Sales (YoY)	37.8	15.5	26.9	48.4	36.5	13.3	5.2	(2.6)
EBITDA (YoY)	66.4	9.1	55.9	34.9	30.8	17.5	13.8	6.7
Operating profit (YoY)	127.4	1.2	94.0	31.9	39.6	16.3	12.4	3.8
Net profit (YoY)	n.m.	21.6	(45.7)	409.3	8.9	16.7	11.4	0.3
EPS (YoY)	n.m.	(26.9)	(45.7)	409.3	8.9	16.7	11.4	0.3
Gross-profit margin	7.8	7.2	7.3	6.1	5.9	6.1	6.4	6.6
EBITDA margin	4.0	3.8	4.6	4.2	4.0	4.2	4.5	5.0
Operating-profit margin	2.4	2.1	3.2	2.9	2.9	3.0	3.2	3.4
ROAE	34.8	7.9	2.4	11.7	11.7	12.5	12.6	11.4
ROAA	1.7	1.4	0.6	2.4	2.1	2.1	2.1	2.0
ROCE	10.1	5.2	6.8	8.1	9.5	9.3	9.3	8.6
ROIC	22.1	11.0	9.6	11.6	11.9	10.4	9.6	8.7
Net debt to equity	63.8	net cash	11.7	10.5	42.8	66.6	74.2	76.4
Effective tax rate	19.1	16.2	27.4	14.8	22.0	22.0	22.0	23.0
Accounts receivable (days)	111.2	118.9	114.9	98.3	89.2	93.8	99.5	103.4
Payables (days)	162.3	179.4	168.0	148.8	148.2	158.4	164.6	170.6
Net interest cover (x)	6.1	4.3	9.1	7.5	11.9	8.9	7.7	6.7
Net dividend payout	54.6	0.0	0.0	19.5	15.7	20.0	20.0	20.0

Source: Company, Daiwa forecasts

Company profile

China Railway Group is one of the leading integrated-construction companies in Asia and China in terms of revenue. It is engaged in infrastructure construction, surveying, design and consulting services, and engineering-equipment and component manufacturing. Railway-infrastructure construction is the company's core business. It has participated in the construction of all the major railway lines in China.

Daiwa Capital Markets

Company

Capital goods / China
11 July 2011

The 10-second briefing

Zhuzhou CSR Times Electric
3898 HK

Target price: **HK$25.80 → HK$32.10**
Up/downside: **+18.5%**
Share price (11 Jul): **HK$27.10**

Safety first

- Should benefit from the safety concerns surrounding China's high-speed rail
- The procurement cycle of rolling stock is picking up; we prefer ZCTE to CSR
- Rating upgraded to Outperform and target price raised to HK$32.10; our top pick in the sector

1 Buy
2 **Outperform** (from Hold)
3 Hold
4 Underperform
5 Sell

How do we justify our view?

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■ What's new

We expect ZCTE to benefit from the increasing concerns in China about the safety of the new high-speed rail network, and the pick-up in the procurement cycle of rolling stock. *This report marks the transfer of coverage of this stock.*

■ What's the impact

We prefer ZCTE to CSR for the following reasons:
1) *Better positioned in a market concerned about safety*. We believe the components suppliers with technology advantages (like ZCTE) will benefit from a stable operating environment going forward. In contrast, CSR may see pricing pressure from its suppliers, such as braking and signalling systems suppliers, while there will be little motive for CSR to switch suppliers given the strong track record and high-quality products of its current suppliers.

2) *Increased localisation should lead to gross-profit-margin improvement*. ZCTE allocates significant resources to R&D. We are convinced that its new investment in a domestic insulated gate bipolar transistor (IGBT) production line could further increase its localisation, and thus lower its production costs and lessen the pricing pressure from its suppliers.

3) *Deserves to trade at least on a par with CSR*. We forecast both CSR and ZCTE to record similar earnings growth for 2011-13. We see fewer earnings risks for ZCTE, even though it is trading currently at a PER discount to CSR.

Share-price catalyst. We expect large-size orders for railway equipment to resume in 2H11.

■ What we recommend

We have upgraded our rating for ZCTE to Outperform (2) from Hold (3), and raised our DCF-based six-month target price to HK$32.10, equivalent to 2011E and 2012E PERs of 21x and 17x, respectively, near the mid-point of its trading range since listing in 2007. We forecast the company's earnings to rise at a CAGR of 34% for 2011-13.

■ How we differ

Contrary to the consensus view, we believe ZCTE should at least trade on a par with CSR, given its similar earnings-growth profile, and we therefore prefer ZCTE to CSR.

Forecast revisions (%)

Year to 31 Dec	11E	12E	13E
Revenue change	8.8	9.1	24.9
Net-profit change	17.3	19.8	38.4
EPS change	17.3	19.8	38.4

Source: Daiwa forecasts

Share price performance

12-month range	17.54-33.60
Market cap (US$bn)	3.78
Average daily turnover (US$m)	11.97
Shares outstanding (m)	1,084
Major shareholder	CSR ZELRI (54.4%)

Financial summary (Rmb)

Year to 31 Dec	11E	12E	13E
Revenue (m)	8,164	10,075	12,313
Operating profit (m)	1,560	1,938	2,392
Net profit (m)	1,376	1,698	2,085
Core EPS	1.269	1.566	1.923
EPS change (%)	61.5	23.4	22.8
Daiwa vs Cons. EPS (%)	5.5	4.5	4.8
PER (x)	17.7	14.4	11.7
Dividend yield (%)	2.3	2.8	3.4
DPS	0.508	0.626	0.769
PBR (x)	4.7	3.9	3.3
ROE (%)	28.6	29.6	30.3

Source: Bloomberg, Daiwa forecasts

Financial summary

Key assumptions

Year to 31 Dec	2006	2007	2008	2009	2010	2011E	2012E	2013E
Locomotive revenue (Rmb m)		276.0	348.0	1,024.4	2,350.7	2,421.6	2,993.1	3,391.2
Multiple units revenue (Rmb m)		471	632	711	1,472	3,259	4,029	5,187

Profit and loss (Rmb m)

Year to 31 Dec	2006	2007	2008	2009	2010	2011E	2012E	2013E
Train-borne Electrical Systems	989	1,248	1,645	2,607	5,112	7,330	9,047	11,043
Electrical components	267	295	475	718	719	835	1,029	1,270
Others	0	0	0	0	0	0	0	0
Total revenue	1,256	1,542	2,119	3,326	5,831	8,164	10,075	12,313
Other income	64	85	119	89	96	131	135	139
COGS	(640)	(865)	(1,332)	(2,118)	(3,679)	(5,144)	(6,337)	(7,732)
SG&A	(343)	(397)	(412)	(667)	(1,101)	(1,551)	(1,884)	(2,266)
Other op. expenses	(20)	(32)	(5)	(12)	(201)	(41)	(50)	(62)
Operating profit	317	333	490	617	946	1,560	1,938	2,392
Net-interest inc./(exp.)	(14)	(3)	(1)	(8)	(11)	(15)	(19)	(22)
Assoc/forex/extraord./others	0	16	8	16	57	57	57	57
Pre-tax profit	303	345	497	624	992	1,602	1,977	2,427
Tax	0	3	(74)	(90)	(138)	(223)	(276)	(339)
Min. int./pref. div./others	(6)	0	(1)	(4)	(2)	(2)	(3)	(4)
Net profit (reported)	297	347	422	531	852	1,376	1,698	2,085
Net profit (adjusted)	297	347	422	531	852	1,376	1,698	2,085
EPS (reported) (Rmb)	0.274	0.320	0.389	0.490	0.786	1.269	1.566	1.923
EPS (adjusted) (Rmb)	0.274	0.320	0.389	0.490	0.786	1.269	1.566	1.923
EPS (adjusted fully-diluted) (Rmb)	0.274	0.320	0.389	0.490	0.786	1.269	1.566	1.923
DPS (Rmb)	0.189	0.145	0.155	0.195	0.305	0.508	0.626	0.769
EBIT	292	303	471	601	938	1,543	1,912	2,350
EBITDA	346	364	540	696	1,235	1,697	2,097	2,570
EV	22,510	22,823	23,551	23,347	23,159	23,219	22,912	22,428

Cash flow (Rmb m)

Year to 31 Dec	2006	2007	2008	2009	2010	2011E	2012E	2013E
Profit before tax	303	345	497	624	992	1,602	1,977	2,427
Depreciation and amortisation	54	61	62	95	297	154	185	220
Tax paid	0	(1)	(76)	(96)	(159)	(223)	(276)	(339)
Change in working capital	(138)	(287)	(183)	(170)	(347)	(740)	(546)	(587)
Other operational CF items	(20)	(36)	(45)	(2)	(29)	(42)	(38)	(35)
Cash flow from operations	198	82	255	452	754	750	1,302	1,686
Capex	(103)	(281)	(365)	(436)	(230)	(300)	(350)	(400)
Net (acquisitions)/disposals	5	(61)	(81)	5	6	0	0	0
Other investing CF items	(50)	(880)	371	328	(165)	0	0	0
Cash flow from investing	(148)	(1,222)	(76)	(104)	(389)	(300)	(350)	(400)
Change in debt	112	(368)	5	95	(122)	48	24	12
Net share issues/(repurchases)	2,210	0	0	0	500	0	0	0
Dividends paid	(176)	(40)	(157)	(168)	(211)	(550)	(679)	(834)
Other financing CF items	(100)	(3)	(1)	36	(11)	(15)	(19)	(22)
Cash flow from financing	2,046	(411)	(153)	(37)	156	(517)	(674)	(844)
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	2,096	(1,551)	26	312	521	(67)	278	442
Free cash flow	95	(199)	(110)	16	524	450	952	1,286

Source: Company, Daiwa forecasts

Financial summary continued ...

Balance sheet (Rmb m)

As at 31 Dec	2006	2007	2008	2009	2010	2011E	2012E	2013E
Cash & short-term investment	2,264	1,511	800	1,167	1,681	1,615	1,893	2,335
Inventory	357	440	523	889	1,590	2,237	2,760	3,373
Accounts receivable	652	760	1,039	1,433	1,693	2,134	2,503	2,883
Other current assets	96	164	551	210	206	206	206	206
Total current assets	3,370	2,874	2,913	3,700	5,171	6,192	7,362	8,797
Fixed assets	368	591	933	1,313	1,377	1,539	1,719	1,915
Goodwill & intangibles	15	18	135	148	108	93	78	62
Other non-current assets	36	162	187	241	355	413	470	527
Total assets	3,788	3,645	4,169	5,401	7,012	8,236	9,629	11,302
Short-term debt	365	0	21	121	501	502	524	535
Accounts payable	329	270	417	881	1,209	1,535	1,846	2,209
Other current liabilities	247	214	265	469	659	680	716	759
Total current liabilities	940	483	702	1,471	2,368	2,716	3,085	3,502
Long-term debt	0	0	4	3	2	50	52	53
Other non-current liabilities	0	0	36	48	139	139	139	139
Total liabilities	940	483	741	1,522	2,510	2,905	3,277	3,694
Share capital	1,084	1,084	1,084	1,084	1,084	1,084	1,084	1,084
Reserves/R.E./others	1,762	2,073	2,325	2,696	3,322	4,147	5,166	6,417
Shareholders' equity	2,847	3,157	3,409	3,780	4,406	5,231	6,250	7,501
Minority interests	1	4	19	98	97	99	102	106
Total equity & liabilities	3,788	3,645	4,169	5,401	7,012	8,236	9,629	11,302
Net debt/(cash)	(1,900)	(1,511)	(776)	(1,043)	(1,178)	(1,063)	(1,317)	(1,747)
BVPS (Rmb)	2.625	2.912	3.144	3.487	4.064	4.825	5.765	6.918

Key ratios (%)

Year to 31 Dec	2006	2007	2008	2009	2010	2011E	2012E	2013E
Sales (YoY)	25.8	22.8	37.5	56.9	75.3	40.0	23.4	22.2
EBITDA (YoY)	31.2	5.2	48.4	28.9	77.5	37.4	23.6	22.6
Operating profit (YoY)	36.4	4.9	47.3	25.9	53.5	64.9	24.3	23.4
Net profit (YoY)	40.2	17.1	21.6	25.7	60.5	61.5	23.4	22.8
EPS (YoY)	40.2	17.1	21.6	25.7	60.5	61.5	23.4	22.8
Gross-profit margin	49.0	43.9	37.1	36.3	36.9	37.0	37.1	37.2
EBITDA margin	27.5	23.6	25.5	20.9	21.2	20.8	20.8	20.9
Operating-profit margin	25.2	21.6	23.1	18.5	16.2	19.1	19.2	19.4
ROAE	10.4	11.6	12.9	14.8	20.8	28.6	29.6	30.3
ROAA	7.8	9.3	10.8	11.1	13.7	18.0	19.0	19.9
ROCE	9.1	9.5	14.3	16.1	20.8	28.3	29.9	31.1
ROIC	33.4	25.6	19.4	19.2	26.4	35.4	35.9	37.8
Net debt to equity	net cash	net cash	net cash	net cash	net cash	net cash	net cash	net cash
Effective tax rate	0.1	n.a.	14.8	14.4	13.9	13.9	13.9	13.9
Accounts receivable (days)	189.5	167.1	154.9	135.7	97.8	85.5	84.0	79.8
Payables (days)	95.6	70.9	59.1	71.2	65.4	61.3	61.2	60.1
Net interest cover (x)	20.3	95.7	491.6	75.0	81.8	100.7	101.3	105.8
Net dividend payout	68.9	45.3	39.8	39.8	38.8	40.0	40.0	40.0

Source: Company, Daiwa forecasts

Company profile

Zhuzhou CSR Times Electric, a subsidiary of CSR Group, is dedicated to research and development, design, manufacture and sales of mass transit electric drive converter and control systems. Its main products include train-borne electrical systems and electrical components.

Daiwa Capital Markets

Company

Capital goods / Taiwan
11 July 2011

The 10-second briefing

Lung Yen Life Service
5530 TT

Target price: **NT$160.00**
Up/downside: **+20.3%**
Share price (8 Jul): **NT$133.00**

Initiation: a stock to die for

- Likely to be the key beneficiary of the emerging demand for modern life services
- High-end columbaria products are a major point of differentiation
- Strong earnings visibility and high EPS CAGR of 39% for 2010-13E should support a rerating

1 **Buy** (initiation)
2 Outperform
3 Hold
4 Underperform
5 Sell

How do we justify our view?

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■ What's new

Despite the recent rise in Lung Yen Life Service's (Lung Yen) share price, we believe the stock will undergo a further rerating on the back of: 1) strong earnings growth from 2011-13, 2) the company's potential entry into the China market (where the population is 60x bigger than that of Taiwan), and 3) foreign investors buying the stock.

■ What's the impact

We forecast the company's 2010-13 net profit to increase at a CAGR of 41% on the back of: 1) a strong sales-growth CAGR of 30% over the period, driven by the columbaria and funeral-service businesses, and 2) gross-profit-margin expansion due to an improved product mix.

We like Lung Yen for several reasons. First, there is always demand for the company's services. Second, it has upgraded its columbaria products and funeral services, in part to enhance its reputation and with the aim of becoming the leading brand in this area in Taiwan. Third, its new columbaria products, designed by well-known architects and artists, are attracting interest from wealthy individuals. Fourth, Lung Yen's pre-sale model and available land space provides long-term visibility on earnings. In addition, we believe there is huge potential for the company should it decide to duplicate its model in the China market, where there are no companies currently offering the modern life services that Lung Yen does.

■ What we recommend

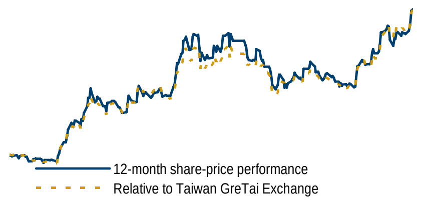
We initiate coverage of the company with a Buy (1) rating and six-month target price of NT$160, based on a PER of 35x on our 2012 EPS forecast. We regard it as Taiwan's leading and most innovative life-service provider.

We derive our target price by using a PEG method (on our 2010-13 EPS-CAGR forecast), as the company's EPS CAGR is much higher than that of its reference group. Our reference group is the Taiwan Consumer Sector, as: 1) they both benefit from increases in domestic consumption, and 2) there is no peer group in Asia.

■ How we differ

We are the first non-Taiwan broker to cover this company. However, given the unique business category, potential strong net-profit growth, and strong cash flow of the business, we believe more non-Taiwan brokers will cover this stock, leading to a rise in the number of foreign investors buying the stock in the future.

Share price performance



12-month range	41.10-133.00
Market cap (US$bn)	1.85
Average daily turnover (US$m)	11.15
Shares outstanding (m)	399
Major shareholder	Chairman Lee (41.3%)

Financial summary (NT$)

Year to 31 Dec	11E	12E	13E
Revenue (m)	4,067	5,172	6,626
Operating profit (m)	1,626	2,142	2,816
Net profit (m)	1,432	1,844	2,427
Core EPS	3.588	4.621	6.082
EPS change (%)	56.8	28.8	31.6
Daiwa vs Cons. EPS (%)	N.A.	N.A.	N.A.
PER (x)	37.1	28.8	21.9
Dividend yield (%)	1.1	1.8	2.3
DPS	1.500	2.352	3.028
PBR (x)	8.7	7.6	6.5
ROE (%)	25.3	28.2	31.9

Source: Bloomberg, Daiwa forecasts

Financial summary

Key assumptions

Year to 31 Dec	2006	2007	2008	2009	2010	2011E	2012E	2013E
Sales – Columbarium (NT$m)	0	0	0	0	1,533	2,201	3,409	4,540
Sales – Funeral services (NT$m)	0	0	0	0	945	1,210	1,453	1,743
Sales – Rental income (NT$m)	0	0	14	19	129	179	197	217
Sales – Property (NT$m)	1,067	299	29	959	333	409	36	36

Profit and loss (NT$m)

Year to 31 Dec	2006	2007	2008	2009	2010	2011E	2012E	2013E
Columbarium	0	0	0	0	1,533	2,201	3,409	4,540
Funeral services	0	0	0	0	945	1,210	1,453	1,743
Others	1,067	306	54	990	521	655	311	343
Total revenue	1,067	306	54	990	2,999	4,067	5,172	6,626
Other income	0	0	0	0	0	0	0	0
COGS	(776)	(189)	(48)	(786)	(1,239)	(1,304)	(1,583)	(1,955)
SG&A	(103)	(58)	(50)	(89)	(923)	(1,138)	(1,448)	(1,855)
Other op. expenses	0	0	0	0	0	0	0	0
Operating profit	189	59	(44)	116	838	1,626	2,142	2,816
Net-interest inc./(exp.)	0	0	0	0	6	0	0	0
Assoc/forex/extraord./others	24	4	0	0	410	21	28	40
Pre-tax profit	213	63	(44)	116	1,253	1,646	2,170	2,856
Tax	(2)	(2)	(10)	5	(83)	(215)	(325)	(428)
Min. int./pref. div./others	6	0	3	(2)	(295)	0	0	0
Net profit (reported)	217	61	(51)	120	875	1,432	1,844	2,427
Net profit (adjusted)	217	61	(51)	120	875	1,432	1,844	2,427
EPS (reported) (NT$)	2.084	0.568	(0.478)	0.390	2.289	3.588	4.621	6.082
EPS (adjusted) (NT$)	2.084	0.568	(0.478)	0.390	2.289	3.588	4.621	6.082
EPS (adjusted fully-diluted) (NT$)	2.084	0.568	(0.478)	0.390	2.289	3.588	4.621	6.082
DPS (NT$)	0.300	1.200	0.000	0.000	0.000	1.500	2.352	3.028
EBIT	189	59	(44)	116	838	1,626	2,142	2,816
EBITDA	191	61	(42)	118	950	1,902	2,590	3,432
EV	13,966	14,618	15,029	40,890	48,343	50,487	50,320	50,114

Cash flow (NT$m)

Year to 31 Dec	2006	2007	2008	2009	2010	2011E	2012E	2013E
Profit before tax	213	63	(44)	116	1,253	1,646	2,170	2,856
Depreciation and amortisation	2	2	2	2	112	276	448	616
Tax paid	(2)	(2)	(10)	5	(83)	(215)	(325)	(428)
Change in working capital	(758)	133	(351)	(245)	(630)	(549)	(2,315)	(3,096)
Other operational CF items	488	(113)	(5)	57	2,051	1,024	3,328	4,165
Cash flow from operations	(57)	83	(407)	(64)	2,704	2,182	3,305	4,112
Capex	(4)	(3)	(2)	(1)	(865)	(1,400)	(1,600)	(1,700)
Net (acquisitions)/disposals	56	0	0	1	4	(100)	(600)	(1,000)
Other investing CF items	(6)	(45)	6	1	(358)	0	0	0
Cash flow from investing	46	(48)	5	1	(1,219)	(1,500)	(2,200)	(2,700)
Change in debt	100	26	387	(588)	(194)	0	0	0
Net share issues/(repurchases)	(6)	3	0	800	0	0	0	0
Dividends paid	(27)	(125)	0	0	0	(573)	(939)	(1,209)
Other financing CF items	(7)	(7)	0	3	(561)	0	0	0
Cash flow from financing	60	(103)	387	215	(755)	(573)	(939)	(1,209)
Forex effect/others	0	0	0	0	306	0	0	0
Change in cash	49	(68)	(16)	151	1,036	109	167	204
Free cash flow	(61)	80	(409)	(66)	1,838	782	1,705	2,412

Source: Company, Daiwa forecasts

Financial summary continued ...

Balance sheet (NT$m)

As at 31 Dec	2006	2007	2008	2009	2010	2011E	2012E	2013E
Cash & short-term investment	228	40	16	167	2,485	2,594	2,762	2,967
Inventory	1,699	1,708	2,081	2,319	10,480	11,031	13,389	16,542
Accounts receivable	60	13	2	79	31	42	53	69
Other current assets	73	95	136	155	9,697	10,667	11,734	12,907
Total current assets	2,061	1,856	2,234	2,721	22,693	24,334	27,938	32,485
Fixed assets	3	4	3	1	7,657	8,781	9,932	11,016
Goodwill & intangibles	0	0	0	0	0	0	0	0
Other non-current assets	24	22	16	39	1,850	1,950	2,562	3,584
Total assets	2,088	1,882	2,254	2,760	32,199	35,065	40,432	47,085
Short-term debt	370	396	783	195	0	0	0	0
Accounts payable	56	150	161	232	242	254	309	382
Other current liabilities	314	56	84	186	26,726	28,720	33,127	38,489
Total current liabilities	739	602	1,028	612	26,968	28,974	33,436	38,870
Long-term debt	0	0	0	0	1	1	1	1
Other non-current liabilities	0	0	0	0	0	0	0	0
Total liabilities	739	602	1,028	612	26,969	28,975	33,437	38,871
Share capital	1,039	1,072	1,072	3,072	3,822	3,991	3,991	3,991
Reserves/R.E./others	310	208	154	(924)	1,409	2,099	3,004	4,223
Shareholders' equity	1,349	1,280	1,226	2,148	5,231	6,090	6,995	8,214
Minority interests	0	0	0	0	0	0	0	0
Total equity & liabilities	2,088	1,882	2,254	2,760	32,199	35,065	40,432	47,085
Net debt/(cash)	141	356	766	27	(2,484)	(2,593)	(2,761)	(2,966)
BVPS (NT$)	12.978	11.940	11.433	6.991	13.687	15.258	17.527	20.580

Key ratios (%)

Year to 31 Dec	2006	2007	2008	2009	2010	2011E	2012E	2013E
Sales (YoY)	(29.9)	(71.3)	(82.3)	n.m.	202.8	35.6	27.2	28.1
EBITDA (YoY)	(44.5)	(67.8)	n.a.	n.a.	707.3	100.2	36.2	32.5
Operating profit (YoY)	(43.0)	(68.7)	n.a.	n.a.	622.9	94.1	31.7	31.5
Net profit (YoY)	(18.9)	(71.9)	n.a.	n.a.	630.0	63.7	28.8	31.6
EPS (YoY)	(30.9)	(72.8)	n.a.	n.a.	486.9	56.8	28.8	31.6
Gross-profit margin	27.3	38.2	11.9	20.7	58.7	67.9	69.4	70.5
EBITDA margin	17.9	20.1	n.a.	11.9	31.7	46.8	50.1	51.8
Operating-profit margin	17.7	19.3	n.a.	11.7	27.9	40.0	41.4	42.5
ROAE	32.1	4.6	n.a.	7.1	23.7	25.3	28.2	31.9
ROAA	20.7	3.1	n.a.	4.8	5.0	4.3	4.9	5.5
ROCE	11.0	3.5	n.a.	4.9	16.0	26.7	30.6	34.3
ROIC	12.6	3.5	n.a.	5.3	28.5	40.4	43.0	45.6
Net debt to equity	10.5	27.8	62.5	1.3	net cash	net cash	net cash	net cash
Effective tax rate	1.0	3.9	n.a.	n.a.	6.6	13.0	15.0	15.0
Accounts receivable (days)	20.6	14.9	10.2	29.1	3.8	3.8	3.8	3.8
Payables (days)	19.0	179.3	1,087.1	85.6	29.4	22.8	21.8	21.0
Net interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.	162,559.0	n.a.	n.a.
Net dividend payout	9.9	57.6	0.0	n.a.	0.0	65.5	65.5	65.5

Source: Company, Daiwa forecasts

Company profile

Founded in 1987 and listed on the TAIEX in 2000, Lung Yen Life Service was previously known as Da-han Development, a property developer. Facing financial problems during the global financial crisis in 2008, Da-han Development sold 200m shares in early 2009 through a private placement. In February 2010, it acquired 75% of the shares of Lung Yen through a share swap. In February 2011, the company merged with Lung Yen through another share swap. In May 2011, the company changed its name to Lung Yen Life Service.

The 10-second briefing

Singapore – stay the course

ASEAN Strategy

- The growth concerns weighing on the market should ease in the coming months with improved clarity on economic policies
- We expect financial and business services to be the key growth drivers
- Office REITs and consumer discretionary should benefit

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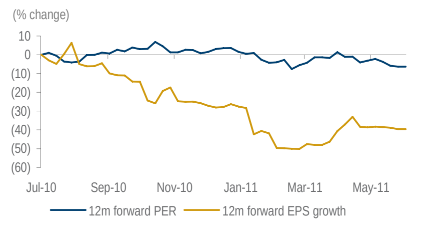
Summary

We believe that market's concerns about Singapore's economic-growth outlook have been overdone and expect service-related sectors to lead a rerating of the MSCI Singapore Index over the next few months.

Stiffer headwinds

The MSCI Singapore Index has underperformed the MSCI Asia ex-Japan Index since last August as economic headwinds stiffened. Uncertainty about the residential-property sector, weak commodity prices, and the possibility that Singapore would have to readjust its economic-growth model led to the downward revisions to earnings growth that are currently weighing on the market.

Drivers of MSCI Singapore's performance



Source: IBES

For an economy that has always been valued for its policy clarity and macro stability, Singaporeans' call for change in the economic-growth-model policy has been unsettling for investors.

No sea change in policy

However, we do not believe there will be sweeping changes in the policy direction. Most importantly, the proposed rise in the foreign-worker levy would only affect low-skilled workers. Immigration by skilled workers is likely to remain unaffected, which we expect to be positive for the Financial Service and Business Service sub-sectors.

We see growth opportunities for the Services Sector

Coupled with Singapore's need to maximise the value added from land use, we believe the Services Sector will be promoted actively by the government, as the Financial Service and Business Service, Wholesale and Retail Trade and Hotels and Restaurants sub-sectors have among the highest value-added multipliers and positive spill-over effects into other industries.

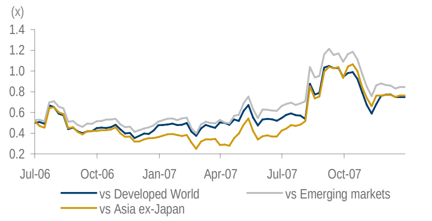
Value-added multiplier by sub-sector

Industrial sub-sector	Value-added multiplier (S$m)	Impact on Itself (S$m)	Others (S$m)	Itself (%)	Others (%)
Agriculture	0.640	0.474	0.165	74	26
Manufacturing (Non-oil)	0.371	0.296	0.075	80	20
Manufacturing (Oil)	0.135	0.112	0.023	83	17
Utilities	0.450	0.401	0.049	89	11
Construction	0.554	0.349	0.204	63	37
Wholesale & Retail Trade	0.737	0.538	0.200	73	27
Hotels & Restaurants	0.708	0.452	0.256	64	36
Transport & Storage	0.465	0.398	0.068	85	15
Information & Communications	0.507	0.386	0.121	76	24
Financial Services	0.779	0.676	0.103	87	13
Business Services	0.759	0.607	0.153	80	20
Other Services	0.726	0.535	0.191	74	26

Source: Singstat

That said, valuation concerns may still weigh on the Singapore market over the near term, as it is trading at a high premium to its developed- and emerging-market peers.

MSCI Singapore: premium vs. peers



Source: IBES

For investors with a long horizon . . .

Our recommendation is to be overweight office S-REITs, commercial S-REITs, hospitality S-REITs and the Consumer Discretionary sector (Genting Singapore).

These are the sectors that we believe will ride on structural growth, driven by further development of Singapore's Financial Services, Business Services, Tourism, and Real Estate Sectors.

Structural-growth stocks

Stock	Bloomberg code	Daiwa rating	Current price (S$)	6M target price (S$)
Ascott Residence Trust	ART SP	Outperform	1.19	1.44
CapitaCommercial Trust	CCT SP	Outperform	1.48	1.65
CapitaMall Trust	CT SP	Outperform	1.92	1.97
CDL Hospitality Trusts	CDREIT SP	Outperform	2.12	2.30
Genting Singapore	GENS SP	Buy	1.89	2.78
K-REIT Asia	KREIT SP	Outperform	1.35	1.48
Starhill Global REIT	SGREIT SP	Outperform	0.65	0.74
Suntec REIT	SUN SP	Outperform	1.51	1.70

Source: Bloomberg, Daiwa.
Note: share prices are as at 8 July 2011

China Economy

CPI and PPI rise to new highs in June

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- CPI inflation for June jumped to 6.4% YoY, as we expected
- PPI inflation rose to 7.1% YoY, higher than expected
- Inflation pressure remains elevated on a sequential basis

Summary

Both the CPI and PPI rose in June, showing no signs of falling inflation pressure, even on a sequential basis.

Fundamentals

The CPI result for June was led by food-price inflation again. CPI food inflation for June accelerated to 14.4% YoY from 11.7% YoY for May. On a month-on-month basis, CPI food inflation rebounded by 0.9% after declining by 0.3% for May.

Pork prices increased the most, by 11.4% MoM for June. On a year-on-year basis, pork-price inflation jumped to 57.1% from 40.4% for May. In our view, the sharp increase in pork prices was driven mainly by relatively low hog inventory, high input costs (corn, labour and transportation costs) as well as high inflation expectations. Vegetable prices rebounded in June by 7.3% YoY after a decline of 7.1% YoY for May, due mainly to the base effect.

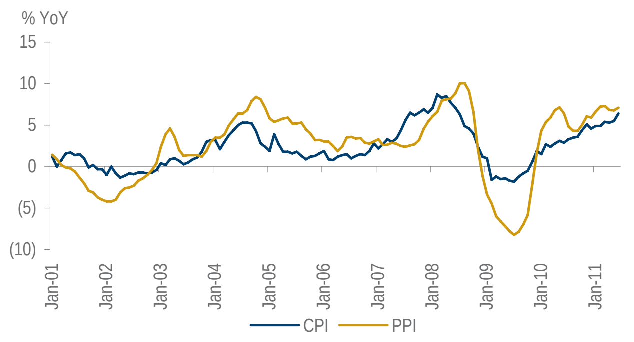
Non-food CPI inflation increased from 2.9% YoY for May to 3% YoY for June, which is the highest in the past decade. Residence costs rose to 6.2% YoY for June from 6.1% YoY for May, while healthcare costs increased from 3.2% YoY for May to 3.4% YoY for June. The current inflation cycle is becoming more broad-based, due mainly to higher inflation expectations and notable increases in labour costs, in our view.

Although the base effect is a major factor behind the high year-on-year inflation, the seasonally adjusted month-on-month CPI shows that inflation pressure also remains high on a sequential basis. The seasonally-adjusted annualised rate (SAAR) of month-on-month CPI inflation rose to 10.4% for June, suggesting that inflation pressure remains high regardless of the base effect.

PPI inflation also rose from 6.8% YoY for May to 7.1% YoY for June. As imported inflation remains rampant (surging to 16.7% YoY for May), the pressure of cost-push inflation remains high.

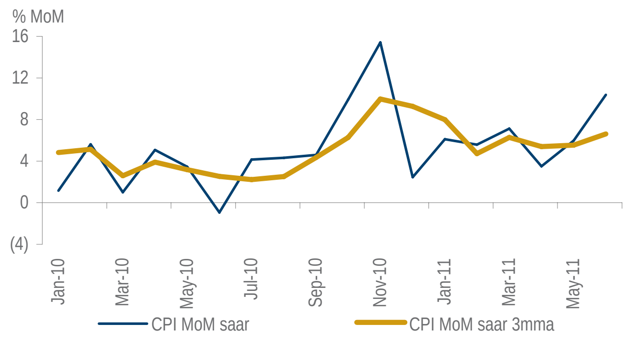
In our view, the June CPI is likely to mark the peak of this rising inflation cycle, as higher comparison bases kick in from July. However, judging from the sequential CPI as well as PPI inflation numbers, underlying inflation pressure remains elevated and the inflation alarm has not been turned off yet. For that reason, we reckon there is a risk that CPI inflation may not come down notably in July. Therefore, even if the PBoC stops tightening from now on, it is unlikely to loosen its policy until 4Q. Between now and then, credit conditions for Chinese companies are likely to remain tight, and investors should be prepared for more bad news from the real economy.

CPI and PPI inflation



Source: CEIC

CPI inflation: month-on-month seasonally adjusted



Source: CEIC, Daiwa

China Economy

June's trade disappoints on the downside

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- June's trade results, especially imports, were sharply lower than the consensus forecast
- Trade-volume growth is likely to be much lower
- The trend shows domestic demand has nearly stalled

■ **Summary**

External trade continues to weaken on the back of credit tightening and a slowdown in global demand. Adjusted for trade-price inflation, we estimate volume growth for June of just 9% YoY for exports and 4% YoY for imports.

■ **Fundamentals**

The trade data showed a further slowdown in aggregate demand, externally and internally. Export growth moderated from 19.4% YoY for May to 17.9% YoY for June, closely in line with our forecast of 17.8% YoY (Bloomberg consensus: 18.6% YoY). Import growth declined from 28.4% YoY for May to 19.3% YoY for June, slightly weaker than our forecast of 20.8% YoY (consensus: 25.3% YoY).

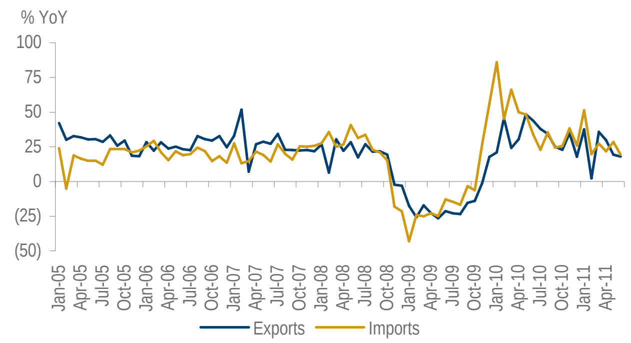
The trade surplus jumped from US$13.05bn for May to US$22.27bn for June, much higher than the Bloomberg-consensus forecast of US$14.2bn, due mainly to a very sharp slowdown in import demand.

The significant slowdown in import growth reinforces our view of a weakening domestic-demand trend. Import-price inflation stood at 16.7% YoY for May. We estimate this rate should be close to 15% YoY for June still. That implies import-volume growth of just 4% YoY. Year-to-date the volume growth for commodities have proved this point. For the first six months of 2011, copper, aluminium and steel volumes fell by 23.8% YoY, 11.4% YoY and 4.8% YoY, respectively.

The slowdown in exports is equally worrying, in our view. In value terms, exports to South Korea slowed significantly to 14.2% YoY for June from 24% YoY for May. Exports to the EU softened to 11.4% YoY from 13.2% YoY. Exports to ASEAN decelerated to 18.1% YoY from 21.7% YoY. Most of the exports to Asia are intermediate goods. Exports to the US, however, recovered mildly from 7.2% YoY to 9.8% YoY, on the improvement of weather conditions. Exports to Japan improved from 15.7% YoY to 20.0% YoY, as the impact of the earthquake dissipated. On a similar basis, we estimate export-volume growth of just 9% YoY for June. Export-price inflation stood at 9.4% YoY for May. We assume a similar 9% YoY for June.

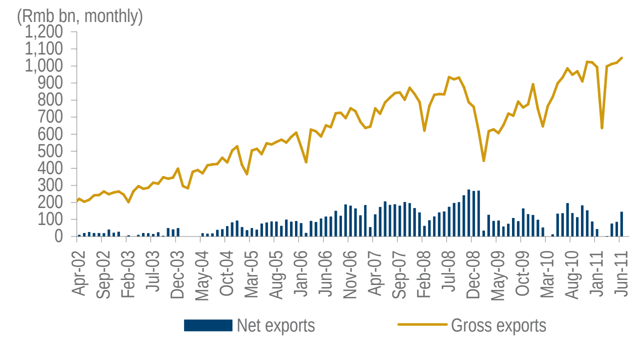
The trade results have been more volatile than usual this year, because of not only strong seasonal/one-off factors but also distortions from trade-price inflation. As imported price inflation has become a global phenomenon (affecting external and domestic demand) and policy tightening continues to take a toll on domestic demand, we see a worrying outlook for trade going forward.

■ **Exports and imports continued to weaken**



Source: CEIC, Daiwa

■ **Trade surplus bounces up due to weaker import demand**



Source: CEIC, Daiwa

Daiwa Capital Markets

Sector

Capital goods / China
11 July 2011

The 10-second briefing

Play it safe

- Safety concerns may benefit the component suppliers despite a potential further slowdown in the pace of construction
- The newly-introduced dual-speed system on the Beijing-Shanghai line may boost demand for MUs with lower ASPs
- Zhuzhou CSR Times Electric (ZCTE) upgraded to Outperform – our top pick; CRG and CRC downgraded to Hold

China Rail Sector

- Positive
- **Neutral** (unchanged)
- Negative

How do we justify our view?

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What's new

We expect the newly-launched Beijing-Shanghai high-speed railway (HSR) line to put concerns about the safety of China's high-speed trains under the spotlight. We assess what this means for stocks in the sector.

What's the impact

Safety concerns should favour high-quality component suppliers. We believe high-speed railway construction in China meets international standards. Although we do not expect any incidents, especially after the lowering of the HSR's top speed to 300km/hr, we expect safety concerns to benefit upstream suppliers with track records of delivering quality products.

We expect railway investment to remain low over the 2011-15 period. We believe the main responsibility of the new minister of the Ministry of Railways (MOR) is to facilitate the MOR's transition into a more efficient and profit-oriented organisation, and do not expect him to propose any dramatic changes to the existing railway system.

What we recommend

We have a Neutral rating on the China Rail Sector, and suggest investors focus on the potential beneficiaries of the increased focus on safety (rather than speed), despite the significant year-to-date share-price corrections.

ZCTE is our top pick. We prefer the China railway-equipment makers to the construction companies, and expect concerns about safety to result in manufacturers favouring existing suppliers. We believe ZCTE is well positioned to benefit from any upturn in the procurement cycle, and the stock trades at relatively undemanding valuations.

CSR – likely to benefit from the switch. We believe the switch from a 350km/hr maximum speed to 250/300km/hr (dual-speed system) will lead to increased demand for Multiple Unit (MU) trains. We expect CSR to benefit from this, as it has more extensive experience in the 250km/hr HSR market than its major competitor, China CNR Corp (CNR), which is more focused on the 350km/hr HSR market. We have a Hold rating on CSR, as we believe the positive earnings outlook for 2011-12 is already reflected in its valuation.

We are not positive on the railway-construction companies. We believe safety concerns may further slow the pace of railway construction. Accordingly, we have downgraded our rating for China Railway Group (CRG) to Hold from Buy, and that for China Railway Construction (CRC) to Hold (3) from Outperform (2).

Key share-price risks.
Positive: margin improvements for equipment companies (further local sourcing and product-mix changes).
Negative: a more conservative approach by the new MOR minister may lead to lower railway investment.

How we differ

We do not think the potential impact of the aforementioned safety concerns is factored adequately into the market's valuations. In our view, ZCTE will benefit the most from such concerns among our coverage companies, and we believe it should trade at least on a par with CSR, given its similar earnings-growth profile and enhanced pricing power.

Key stock calls

	New	Prev.
Zhuzhou CSR Times Electric (3898 HK)		
Rating	Outperform	Hold
Target price	HK$32.10	HK$25.80
Up/downside	▲ 18.5%	
CSR Corp (1766 HK)		
Rating	Hold	Hold
Target price	HK$7.80	HK$7.60
Up/downside	▲ 7.9%	
China Railway Group (390 HK)		
Rating	Hold	Buy
Target price	HK$3.70	HK$6.40
Up/downside	▲ 6.0%	
China Railway Construction (1186 HK)		
Rating	Hold	Outperform
Target price	HK$6.80	HK$10.00
Up/downside	▲ 8.1%	

Source: Daiwa forecasts
Note: Please refer to page 3 for details.

The 10-second briefing

Update on technology trends

- Shipments in China of handsets, TVs, and PCs were flat quarter-on-quarter for 2Q11
- Local brands/makers accounted for 80% of TV shipments and 70% of handset shipments
- We suggest monitoring the smartphone food chain and IT services/distribution segment

China Technology Food Chain

Part I

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■ What's new

This is the first of our reports on the China technology 'food chain' (covering the range of companies from manufacturers to retailers).

■ What's the impact

Our team visited 10 companies in the chain recently with five different distribution channels, including an IT shopping mall owner (Buynow [Not listed]), an IT-distribution company (Digital China [Not rated]), a national retail chain (Gome [493 HK, HK$3.42, Buy (1)]), an online B2C retailer (Dang Dang [Not rated]), and two systems-integration solution providers (COGO [Not rated] and WPG [Not rated]).

First, we note that the demand for handsets, TVs, and PCs has been slowing year-on-year over the past few months. Our checks indicate that China handset shipments in 2Q11 are likely to have risen by only 5% QoQ (we forecast a 10% YoY rise for 2011), which we attribute to a slowdown in demand for feature handsets in emerging markets and a period ahead of the transition to smartphone shipments. Meanwhile, AVC (a TV research company in China) expects TV shipments in China for 2Q11 to be flat quarter-on-quarter, and to reach 38m units for 2011, up from 33m units for 2010, indicating a 15% YoY rise. To some extent, we noticed that 3C (consumer, communication and computing electronics products) demand is affected by inflation.

Second, domestic TV brands account for more than 80% of the market, while domestic handset makers account for more than 70% of the market. Our checks suggest that domestic brands, such as *Skyworth* (TVs) and *Tianyu* (handsets), are building up their in-house distribution networks and own-brand retailers in second- and third-tier cities (due to the current limited distribution system).

Third, our findings suggest that there is the huge opportunity for *Android* applications/content, mobile Internet, smartphone ICs, as well as touch panels and LED-TV applications (we learned that the LED-TV penetration rate in China was 70-80% on a production basis, higher than the 40-50% for TVs globally). Domestic manufacturers are quickly building up their supply chain for smartphones and smart TVs.

Fourth, in the China technology food chain, the distribution channel is becoming increasingly dynamic. Although competition is fierce in the IT-shopping-mall, chain-retail, IT-distribution, and online-B2C-retail segments, they continue to attract new entrants. We found that: 1) there was strong interest in the online B2C business model from IT retailers, as online B2C retailers have been taking IT-product share in first-tier cities, and 2) competition is increasing in second-tier cities among different distribution/channel/IT-service providers.

■ What we recommend

Our visits showed that there have been high rises in shipments in the China smartphone and smart-TV food chain, as well as an expansion of distribution/IT services. We suggest investors invest long term in the China smartphone food-chain players, such as Mediatek (2454 TT, NT$288, Outperform [2]) and King Yuan Electronics (2449 TT, NT$14.7, Outperform [2]), as well as China-play distributor Synnex (2347 TT, NT$69.2, Buy [1]).

■ How we differ

We will continue to publish updates on the China technology food chain.

■ China technology demand

China demand	Period	Number	MoM/QoQ (%)	YoY (%)
PC shipments ('000)	May-11	4,957	(23)	1
TV shipments ('000)	May-11	326	4	2
Total handset shipments (m units)	2Q11	189	5	1

Source: IDC, AVC, Daiwa

KT Skylife

053210 KS

■ Not Rated

Target price: **n.a.** Up/downside: - Share price (11 Jul): **W24,450**

Company visit: riding on the KT coat-tails

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- KT Skylife is a dominant satellite broadcaster in Korea
- Gaining share of paid-TV market with KT's offerings
- It views 2012 as a turning point for digital-broadcasting services in Korea

■ Background

During a visit to KT Skylife (Skylife), Korea's dominant digital-satellite broadcaster and a subsidiary of KT Corp (KT) (030200 KS, W39,400, Hold [3]), we learned that the company is stealing market share from the cable-TV operators, helped by competitive bundled products, including KT's offerings, and the country's rapid transition from analogue to digital broadcasting.

■ Highlights

Skylife increased its subscribers by 23% YoY to 3m as at the end of 1Q11, and added paid subscribers of 184,366 (up 519% YoY) for 1Q11. The broadcaster recorded a 14% share of the domestic paid-TV market for 1Q11, where cable-TV operators (15.1m subscribers) and Internet protocol television (IPTV) services (with 3.6m users) are competing fiercely. The company attributed the recent strong subscriber growth to strong demand for bundled products from its satellite broadcasting service and KT's high-speed Internet service and IPTV (KT is Skylife's largest shareholder with a 50.16% stake as at the end of 1Q11). Skylife leads the competition in Korea, with more than 85 HD channels.

During our visit, Skylife said it has been rapidly increasing its subscriber base through its flagship product, *Olleh TV Skylife* (OTS). Basically, OTS is a bundle that combines the satellite live channels (Skylife) and KT's VoD (0.09m) and broadband Internet service. Despite having a lower ARPU than that of a single content consumer, Skylife believes an increase in OTS subscribers could help it to improve its subscriber mix, diversify its revenue stream, and lead to a lower churn rate for KT's IP-based services. OTS users accounted for 28% of Skylife's total subscribers for 1Q11, compared with 6% for 1Q10. Skylife expects a rise in the ARPU for its OTS consumers, as it plans to boost programme selection with expensive paid content, as well as penetrating the residential-property market.

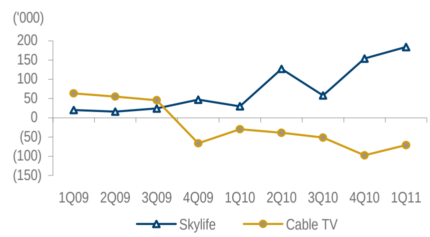
Skylife expects strong operating leverage through the sharing of its customer base and sourced content, while also reducing user-acquisition and retention costs. By leveraging KT's sales network nationwide, it improved its operating-profit margin to 9% for 2010 from 8% for 2009, and 6% for 2008. Skylife acquired 55.3% of its subscribers through KT's sales platform in 2010. Management believes the company could lower its subscriber acquisition costs (SAC) by offering cross-selling products, and marketing core products with KT.

Skylife expects the rapid migration of its paid-TV subscribers to its digital HD services, as Korea will discontinue analogue broadcasting by 2012. It estimates total digital viewers accounted for close to 50% of Korea's total paid-TV subscribers for 1Q11. With competitive TV channels offering digital HD broadcasting, the company believes it will continue to expand at the expense of the cable-TV operators. Skylife guided for 2011 revenue of W480bn (up 11.4% YoY) on solid subscriber growth (up 20.3% YoY), and with OTS subscribers of 1.4-1.5m for 2011.

■ Valuation

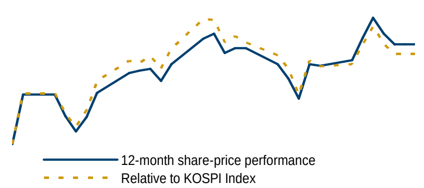
The stock is trading currently at a 2012 PER of 15x (Bloomberg-consensus forecast), compared with a PER of 16.7x for DirecTV (Not rated) at the end of 2008, before analogue broadcasting was terminated in the US in June 2009.

■ Skylife and Cable-TV operators: quarterly subscriber net additions



Source: Company, KCTA

Share price performance



12-month range	17,000-24,900
Market cap (US$bn)	1.102
Average daily turnover (US$m)	25.95

Source: Bloomberg, Daiwa

Daiwa Capital Markets

Flash

Electronics / Taiwan
11 July 2011

Taiwan Surface Mounting Technology

6278 TT

Target price: **NT$117.00 → NT$117.00** Up/downside: **+28.4%** Share price (11 Jul): **NT$91.10**

1 **Buy** (unchanged)
2 Outperform
3 Hold
4 Underperform
5 Sell

An impressive first NDR in Asia

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- TSMT's first NDR in Asia impressed many investors
- Under-covered with solid financials overall, sound strategy and timely execution
- Profitability should improve from new business ventures

What's new

We held an NDR for Taiwan Surface Mounting Technology (TSMT) in Hong Kong and Singapore in the week of 4 July 2011.

What's the impact

Many investors were both impressed at TSMT's solid financials and future earnings-growth potential, and interested in: 1) its competitive advantages that have enabled it to reach the number-one global market shares in the controller board and light-emitting diode (LED) lightbar businesses, 2) the progress and outlook for the existing product lines, and 3) the outlook for the two new business ventures.

Solid financials all round
TSMT recorded a 2006-10 sales CAGR of 31%, has had a net-cash position since 2006, and its past-five-year ROAE and ROIC have averaged 19% and 32%, respectively. For all its facilities constructed in China, TSMT never borrowed any funds from China's local banks, but re-invested cash earned from its core business. Its capex/sales ratio has averaged only 5% over the past five years.

Strategic and timely execution
We believe TSMT has a visionary management team with a track record of planning ahead to capture and benefit from the next big wave of technology change. Its major competitive advantages are not only its economies of scale, but also its flexibility in shifting its labour force and transporting equipment to ensure higher staff retention and a more optimal utilisation of production lines than its peers.

Why did Philips pick TSMT? Philips has certified TSMT to be its only EMS/OEM maker out of six competitors for the following reasons: 1) financially healthy, 2) strong LED knowhow from making LED lightbars, 3) design and sourcing capabilities, 4) geographic locations across China, and 5) ready with independent laboratories for UL, CE, RoHS, and EnergyStar certifications.

Profitability should improve from new business ventures
We expect continued sales growth for TSMT in both controller boards and LED lightbars for 2011 and 2012; its gross-profit margin should rise by: 1) inverter-type printed circuit board assembly (PCBA) for white-goods in China, and 2) fluorescent/LED-lighting business from Philips.

Sales mix and gross margin by product

Sales breakdown (%)	2011E	2012E	Avg. est. GM (%)
White goods	3	6~8	10-15
LED general lighting	3	10	10-15
TV set mainboards	2	5~8	8-9
Controller boards	42	35	7-11
LED lightbars	49	42	6-10

Source: Company

What we recommend

We maintain our Buy (1) rating and six-month target price of NT$117.0, based on a target PER of 12x on the average of our 2011 and 2012 EPS forecasts of NT$8.32 and NT$11.18, respectively. We see the main risk as a slower-than-expected ramp-up of the new business ventures.

How we differ

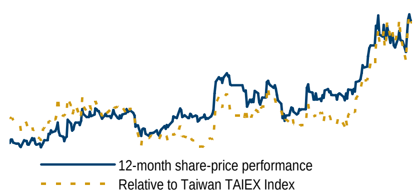
We were the first non-Taiwan broker to initiate coverage of TSMT and believe it remains under-covered. We expect the company to become more widely covered as investors recognise its true value, with its strong execution and ability to move ahead of the trend.

Forecast revisions (%)

Year to 31 Dec	11E	12E	13E
Revenue change	0.0	0.2	0.1
Net-profit change	0.0	0.0	0.1
EPS change	0.0	0.0	0.1

Source: Daiwa forecasts

Share price performance



12-month range	61.40-91.60
Market cap (US$m)	691.92
Average daily turnover (US$m)	12.00
Shares outstanding (m)	218
Major shareholder	Kai-Yun Wu (4.1%)

Financial summary (NT$)

Year to 31 Dec	11E	12E	13E
Revenue (m)	52,509	68,354	87,334
Operating profit (m)	3,446	4,881	6,393
Net profit (m)	1,817	2,443	3,112
Core EPS	8.319	11.183	14.245
EPS change (%)	9.4	34.4	27.4
Daiwa vs Cons. EPS (%)	2.0	0.8	6.6
PER (x)	11.0	8.1	6.4
Dividend yield (%)	2.6	2.2	3.0
DPS	2.324	2.026	2.753
PBR (x)	1.7	1.4	1.4
ROE (%)	16.4	19.0	21.8

Source: Bloomberg, Daiwa forecasts

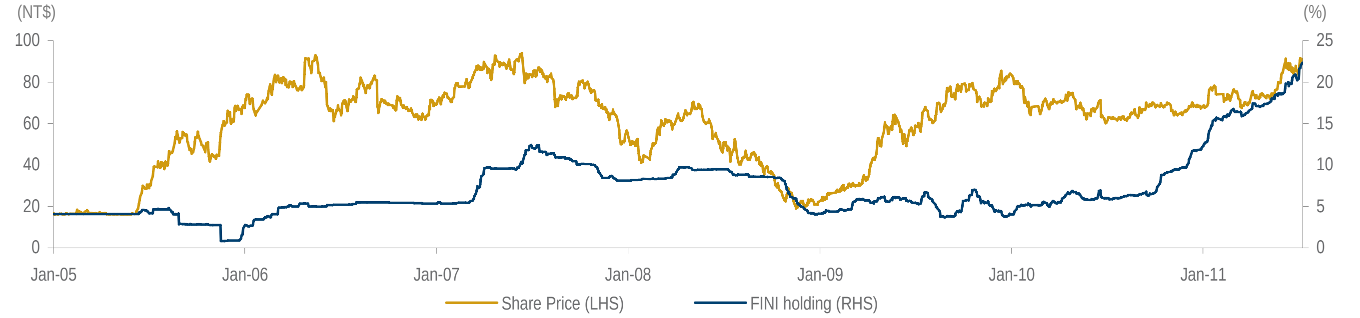
TSMT: quarterly and yearly financial summary

	2011				2012					
(NT$m, year-end Dec)	1Q	2QE	3QE	4QE	1QE	2QE	3QE	4QE	2011E	2012E
Revenue	10,388	12,578	14,424	15,118	14,575	15,897	18,342	19,539	52,509	68,354
Depreciation & amortisation	(169)	(176)	(200)	(223)	(243)	(260)	(277)	(294)	(768)	(1,075)
COGS	(9,436)	(11,424)	(13,015)	(13,625)	(13,134)	(14,333)	(16,476)	(17,605)	(47,500)	(61,549)
Gross Profit	953	1,155	1,409	1,493	1,441	1,565	1,866	1,934	5,009	6,805
Operating expenses	(271)	(401)	(450)	(442)	(413)	(446)	(516)	(549)	(1,563)	(1,924)
EBIT	682	754	959	1,051	1,028	1,118	1,349	1,385	3,446	4,881
Net interest income	5	3	1	(0)	(1)	(1)	(2)	(4)	9	(7)
Net other income	20	13	14	15	15	16	18	20	62	68
Pre-tax profit	707	769	975	1,066	1,041	1,133	1,366	1,401	3,517	4,942
Tax	(196)	(226)	(244)	(267)	(260)	(329)	(342)	(350)	(932)	(1,281)
Net profit	347	391	519	560	547	547	666	683	1,817	2,443
EPS (NT$)	1.59	1.79	2.38	2.56	2.50	2.50	3.05	3.13	8.32	11.18
Sales Mix by Key Drivers (NT$m)										
Control boards	5,090	5,254	5,844	5,874	5,304	5,618	6,031	6,021	22,062	22,975
LED lightbars	4,986	6,390	7,063	7,134	6,850	7,366	7,777	7,545	25,573	29,538
TV-set mainboards	312	495	750	850	825	808	1,528	2,292	2,407	5,452
White goods		239	366	461	545	655	1,256	1,382	1,066	3,838
LED general lighting		200	400	800	1,050	1,450	1,750	2,300	1,400	6,550
Margins (%)										
Gross-profit margin	9.2	9.2	9.8	9.9	9.9	9.8	10.2	9.9	9.5	10.0
Operating-profit margin	6.6	6.0	6.6	7.0	7.1	7.0	7.4	7.1	6.6	7.1
EBITDA margin	8.2	7.4	8.0	8.4	8.7	8.7	8.9	8.6	8.0	8.7
Net-profit margin	3.3	3.1	3.6	3.7	3.8	3.4	3.6	3.5	3.5	3.57
Sequential growth (%)										
Revenue	(0.7)	21.1	14.7	4.8	(3.6)	9.1	15.4	6.5	29.4	30.2
Gross profit	(4.3)	21.2	22.0	6.0	(3.5)	8.6	19.2	3.6	22.5	35.9
EBIT	(2.8)	10.5	27.2	9.6	(2.2)	8.8	20.7	2.7	12.5	41.7
Net profit	5.9	12.6	32.7	7.9	(2.3)	0.1	21.7	2.6	11.9	34.4
EPS	5.9	12.6	32.7	7.9	(2.3)	0.1	21.7	2.6	9.4	34.4

Source: Company, Daiwa forecasts
Note: net profit is after minority interests

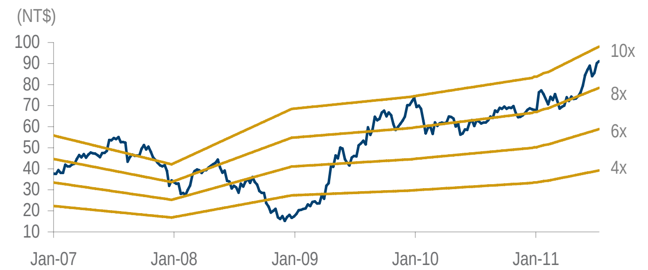
TSMT's shareholding by QFIIs has increased from around 6% last year to 22% currently, indicating investors' rising awareness of this stock.

TSMT: QFII holdings



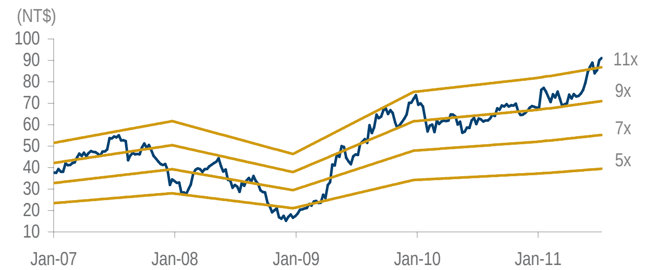
Source: TEJ

TSMT: forward PER bands



Source: TEJ, Daiwa forecasts

TSMT: trailing PER bands



Source: TEJ, Daiwa forecasts

Financial summary

Key assumptions

Year to 31 Dec	2006	2007	2008	2009	2010	2011E	2012E	2013E
LCD Control Board sales mix (%)			91.1	70.2	56.2	42.0	33.6	27.3
LED lightbar sales mix (%)			8.9	29.8	41.7	48.7	43.2	33.6
TV-set mainboard sales mix (%)			0.0	0.0	2.1	4.6	8.0	6.9
White home appliances sales mix (%)			0.0	0.0	0.0	2.0	5.6	9.6
LED lighting sales mix (%)			0.0	0.0	0.0	2.7	9.6	22.6

Profit and loss (NT$m)

Year to 31 Dec	2006	2007	2008	2009	2010	2011E	2012E	2013E
LCD Control Board	13,953	19,314	17,118	20,713	22,779	22,062	22,975	23,877
LED lightbar	0	0	1,669	8,797	16,933	25,573	29,538	29,318
Others	0	0	0	0	853	4,874	15,840	34,140
Total revenue	13,953	19,314	18,787	29,511	40,565	52,509	68,354	87,334
Other income	0	0	0	0	0	0	0	0
COGS	(12,436)	(17,244)	(16,806)	(26,743)	(36,475)	(47,500)	(61,549)	(78,310)
SG&A	(292)	(310)	(449)	(550)	(790)	(1,077)	(1,299)	(1,747)
Other op. expenses	(23)	(107)	(149)	(189)	(237)	(486)	(625)	(885)
Operating profit	1,201	1,653	1,384	2,029	3,064	3,446	4,881	6,393
Net-interest inc./(exp.)	(71)	(56)	(6)	(3)	10	9	(7)	(22)
Assoc/forex/extraord./others	(54)	71	67	18	12	62	68	87
Pre-tax profit	1,077	1,668	1,445	2,044	3,085	3,517	4,942	6,458
Tax	(283)	(478)	(346)	(366)	(807)	(932)	(1,281)	(1,671)
Min. int./pref. div./others	(2)	(220)	(346)	(454)	(654)	(767)	(1,218)	(1,676)
Net profit (reported)	792	970	753	1,224	1,624	1,817	2,443	3,112
Net profit (adjusted)	792	970	753	1,224	1,624	1,817	2,443	3,112
EPS (reported) (NT$)	7.784	7.189	4.879	7.074	7.606	8.319	11.183	14.245
EPS (adjusted) (NT$)	7.784	7.189	4.879	7.074	7.606	8.319	11.183	14.245
EPS (adjusted fully-diluted) (NT$)	4.657	5.601	4.213	6.846	7.435	8.319	11.183	14.245
DPS (NT$)	1.176	1.401	2.323	1.143	1.842	2.324	2.026	2.753
EBIT	1,201	1,653	1,384	2,029	3,064	3,446	4,881	6,393
EBITDA	1,497	2,029	82,832	2,557	3,664	4,186	5,928	7,694
EV	10,054	11,357	12,061	14,384	17,028	18,582	18,994	18,527

Cash flow (NT$m)

Year to 31 Dec	2006	2007	2008	2009	2010	2011E	2012E	2013E
Profit before tax	1,077	1,668	1,445	2,044	3,085	3,517	4,942	6,458
Depreciation and amortisation	307	391	81,468	546	620	768	1,075	1,329
Tax paid	(283)	(478)	(346)	(366)	(807)	(932)	(1,281)	(1,671)
Change in working capital	118	(1,172)	1,281	(2,566)	(269)	(1,275)	(1,343)	(66)
Other operational CF items	276	603	(80,780)	284	395	179	200	1
Cash flow from operations	1,495	1,012	3,068	(59)	3,025	2,257	3,593	6,051
Capex	(1,060)	(1,389)	(839)	(693)	(1,869)	(2,820)	(2,400)	(1,497)
Net (acquisitions)/disposals	100	93	(123)	(68)	(229)	7	0	0
Other investing CF items	(140)	(122)	(68)	(1)	36	30	0	(21)
Cash flow from investing	(1,100)	(1,418)	(1,030)	(761)	(2,061)	(2,783)	(2,400)	(1,518)
Change in debt	(586)	274	(4)	(49)	523	1,162	635	53
Net share issues/(repurchases)	843	(1)	0	76	1,224	268	147	41
Dividends paid	(150)	(236)	(448)	(247)	(492)	(612)	(533)	(725)
Other financing CF items	40	1,519	(14)	(118)	(123)	(684)	(1,218)	(3,382)
Cash flow from financing	147	1,555	(466)	(337)	1,133	135	(970)	(4,013)
Forex effect/others	5	37	158	(84)	(682)	0	0	0
Change in cash	547	1,186	1,730	(1,241)	1,414	(392)	223	520
Free cash flow	435	(378)	2,229	(752)	1,156	(563)	1,193	4,554

Source: Company, Daiwa forecasts

Financial summary continued ...

Balance sheet (NT$m)

As at 31 Dec	2006	2007	2008	2009	2010	2011E	2012E	2013E
Cash & short-term investment	1,015	2,204	3,865	2,544	4,037	3,645	3,868	4,388
Inventory	1,135	1,124	800	1,535	2,083	3,314	4,283	4,286
Accounts receivable	4,154	7,300	4,191	11,656	11,788	17,396	22,484	22,501
Other current assets	518	366	407	463	615	1,043	1,348	1,349
Total current assets	6,822	10,993	9,262	16,197	18,523	25,398	31,982	32,524
Fixed assets	2,402	3,313	3,531	3,631	5,058	7,148	8,501	8,697
Goodwill & intangibles	0	0	0	0	0	0	0	0
Other non-current assets	165	281	483	551	692	617	589	582
Total assets	9,390	14,587	13,277	20,380	24,273	33,163	41,072	41,803
Short-term debt	303	642	641	641	1,164	2,327	2,961	3,015
Accounts payable	4,736	6,698	4,546	10,180	10,592	16,156	20,868	20,823
Other current liabilities	397	561	594	883	1,121	1,728	2,233	2,235
Total current liabilities	5,436	7,901	5,780	11,704	12,877	20,210	26,063	26,073
Long-term debt	117	52	49	0	0	0	0	0
Other non-current liabilities	340	613	716	747	1,037	1,120	1,120	1,120
Total liabilities	5,892	8,565	6,545	12,450	13,914	21,330	27,183	27,193
Share capital	1,169	1,412	1,672	1,788	2,184	2,184	2,184	2,184
Reserves/R.E./others	2,329	4,609	5,059	6,142	8,175	9,649	11,705	12,426
Shareholders' equity	3,498	6,021	6,732	7,930	10,359	11,833	13,889	14,610
Minority interests	0	0	0	0	0	0	0	0
Total equity & liabilities	9,390	14,587	13,277	20,380	24,273	33,163	41,072	41,803
Net debt/(cash)	(595)	(1,510)	(3,175)	(1,903)	(2,873)	(1,319)	(907)	(1,374)
BVPS (NT$)	29.921	42.631	40.251	44.356	47.423	54.170	63.583	66.884

Key ratios (%)

Year to 31 Dec	2006	2007	2008	2009	2010	2011E	2012E	2013E
Sales (YoY)	26.0	38.4	(2.7)	57.1	37.5	29.4	30.2	27.8
EBITDA (YoY)	56.0	35.5	n.m.	(96.9)	43.3	14.3	41.6	29.8
Operating profit (YoY)	64.4	37.6	(16.3)	46.6	51.0	12.5	41.7	31.0
Net profit (YoY)	68.3	22.5	(22.3)	62.5	32.7	11.9	34.4	27.4
EPS (YoY)	21.0	(7.6)	(32.1)	45.0	7.5	9.4	34.4	27.4
Gross-profit margin	10.9	10.7	10.5	9.4	10.1	9.5	10.0	10.3
EBITDA margin	10.7	10.5	n.m.	8.7	9.0	8.0	8.7	8.8
Operating-profit margin	8.6	8.6	7.4	6.9	7.6	6.6	7.1	7.3
ROAE	29.0	20.4	11.8	16.7	17.8	16.4	19.0	21.8
ROAA	10.0	8.1	5.4	7.3	7.3	6.3	6.6	7.5
ROCE	34.9	31.1	19.6	25.4	30.5	26.8	31.5	37.1
ROIC	32.8	31.8	26.1	34.7	33.5	28.1	30.8	36.1
Net debt to equity	net cash	net cash	net cash	net cash	net cash	net cash	net cash	net cash
Effective tax rate	26.3	28.7	23.9	17.9	26.2	26.5	25.9	25.9
Accounts receivable (days)	91.7	108.2	111.6	98.0	105.5	101.4	106.5	94.0
Payables (days)	101.9	108.0	109.2	91.1	93.5	93.0	98.9	87.1
Net interest cover (x)	17.0	29.7	248.3	669.9	n.a.	n.a.	653.0	296.0
Net dividend payout	18.3	18.0	32.3	23.4	26.0	30.6	24.4	24.6

Source: Company, Daiwa forecasts

Company profile

Founded in 1990, Taiwan Surface Mounting Technology Corp (TSMT) is a surface-mount technology (SMT) supplier fitting IC chips (LED, memory, chipsets, etc.) onto printed-circuit-board (PCB) substrates. Its main products include: 1) LCD control boards, 2) LED lightbars, 3) TV-set boards, and 4) LED lighting.

India Materials Sector

■ Positive (unchanged)
■ Neutral
■ Negative

MMDR Bill cleared: we see more questions than answers

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- The EGoM approves the MMDR Bill, sends to the Cabinet for approval
- Coal-mining companies to set aside 26% of profit, while non-coal companies to use 100% of existing royalties for local development
- Sesa Goa, SAIL and Hindustan Zinc likely to be most impacted by the bill

■ What's new

The draft Mines and Mineral Development and Regulation (MMDR) Bill will now be placed before Cabinet for approval and, once approved, will be tabled in Parliament during the monsoon session.

■ What's the impact

We estimate the EBITDA for the metal stocks under our coverage will be impacted by 1-11.5% if the bill is enacted. The table on the next page highlights our calculations.

In the ferrous segment, we believe Sesa Goa (SESA IN, Rs281.75, Underperform [4]) will be affected by this bill due to its merchant-mining business, with no substantial value addition apart from a small pig-iron plant, while Steel Authority of India (SAIL) (SAIL IN, Rs136.45, Outperform [2]) will be impacted on account of its captive iron-ore mine.

In the nonferrous space, we believe Hindustan Zinc (HZ IN, Rs131.1, Buy [1]) will be most affected, while Hindalco (HNDL IN, Rs188.1, Buy [1]) and National Aluminium (NALCO) (NACL IN, Rs84.05, Sell [5]) will see a minimal impact. The table on the next page highlights the probable impact.

However, we believe there are a number of unanswered areas which need to be addressed for successful implementation of the bill:

1) How to determine the mine profit for the coal companies?

We expect benchmark pricing to be introduced by Indian Bureau of Mines, with reference coal prices likely to be published, as done currently for iron ore.

2) Can corporate social responsibility (CSR) expenses be offset against profit sharing?

We believe determining the bonafide CSR costs could become too cumbersome, and lead to CSR audits, which would be a long drawn-out process. Thus, CSR costs might not be allowed as a deductible expense.

3) Will the 26% of profit required to be set aside be tax-deductible or not?

We believe this 26% will be treated as a dividend, whereby coal-mining companies will not pay additional tax.

4) Will the introduction of royalty/mining profit sharing discourage CSR activities?

In our view, if these measures are introduced, companies will be dis-incentivised from engaging in further CSR activities and will eventually phase such activities out. This would thus make future land acquisitions even more difficult, especially if existing CSR expenses are not allowed be offset against profit sharing.

■ What we recommend

We believe it will not be a 'cake walk' for the government to get the bill approved in Parliament, especially with the: a) Lokpal Bill, and b) Food Securities Bill already ahead in the queue for discussion.

We believe the impact will be felt only in FY13, as we do not expect the bill to be enacted in FY12 unless through an ordinance. We see continued opposition and revisions to the current version, especially with respect to the questions we have raised here.

We have Buy (1) ratings on Tata Steel (TATA IN, Rs594.9) and JSW Steel (JSTL IN, Rs882.75) and recommend buying these stocks on any correction.

■ How we differ

We are in the small group of minority analysts who have an Underperform rating on Sesa Goa. We believe the stock continues to faces regulatory issues, although with clarity on the MMDR Bill, some issues might be settled.

India ferrous: impact of MMDR Bill

Company	Commodity	Royalty Structure	FY12 volume estimate (iron ore/coal) (m tonnes)	Average Benchmark price assumption (Rs/t)	Royalty cost estimates (Rs/t)	Royalty cost estimates (Rs m)	Existing royalty + incremental cost burden per tonne (Rs/t)	Total (Rs m)	Incremental Impact (Rs m)	% impact on EBITDA (%)	% impact on PAT (%)
Tata Steel	Iron ore (100% captive)	10% on IBM price	12.1	2,820	282	3,412	564	6,824	3,412	1.8	2.8
	Coking coal (50% captive)	26% profit sharing	7.0	3,500	-	-	-	-	1,957	1.0	1.6
		Total Impact							5,369	2.8	4.4
SAIL	Iron ore (100% captive)	10% on IBM price	24.5	2,500	250	6,120	500	12,240	6,120	6.0	10.3
	Coking coal (5% captive)	26% profit sharing	13.2	3,500	-	-	-	-	215	0.2	0.4
		Total Impact							6,335	6.3	10.7
JSW	Iron ore (20% captive)	10% on IBM price	13.4	2,000	200	536	400	1,072	536	0.8	1.8
Sesa Goa	Iron ore	10% on IBM price	20.5	2,250	225	4,613	450	9,225	4,613	9.8	n.m.
JSPL consolidated	Iron ore (largely quasi captive)	10% on IBM price	3.0	2,800	280	840	560	1,680	840	0.9	1.5
	Thermal coal	26% profit sharing	8.0	730	-	-	-	-	894	1.0	
	Thermal coal - JPL	26% profit sharing	6.0	730	-	-	-	-	671	0.7	
		Total Impact							2,405	2.6	4.4
Godawari Power	Iron ore	10% on IBM price	0.6	2,300	230	131	460	262	131	4.5	10.3

Source: Daiwa forecasts

Note: We had previously assumed a Rs8bn impact on Sesa Goa's FY12 PAT on account of the 26% resource tax. Hence, there is no downside to our FY12 PAT forecast for Sesa Goa

India non-ferrous: impact of MMDR Bill

Company	Commodity	Royalty Structure	FY12 volume estimate (m tonnes)	FY12 LME price assumption (US$/t)	Royalty cost estimates (Rs/t)	Royalty cost estimates (Rs m)	Existing royalty + incremental cost burden per tonne (Rs/t)	Total (Rs m)	Incremental Impact (Rs m)	% impact on EBITDA (%)	% impact on PAT (%)
Hindustan Zinc	Zinc	8% of LME (Zinc)	0.9	Zn-2229	8,024	6,981	16,049	13,962	6,981	10.0	11.1
	Lead	7% of LME (Lead)	0.1	Lead-2391	7,532	1,085	15,063	2,169	1,085	1.5	1.5
		Total Impact							8,066	11.5	12.6
Sterlite Industries	Zinc, Lead and Aluminium	0.5% of LME (Al metal contained)	0.3	Al-2522	567	8,219	1,135	16,438	8,219	7.0	8.0
Hindalco	Aluminium, Alumina	0.5% of LME (Al metal contained)	0.6	Al-2522	-	408	-	816	408	0.4	1.0
NALCO	Aluminium, Alumina	0.5% of LME (Al metal contained)	0.4	Al-2522	-	459	-	919	459	2.1	3.3

Source: Daiwa forecasts

Royalties paid by steel companies in FY11

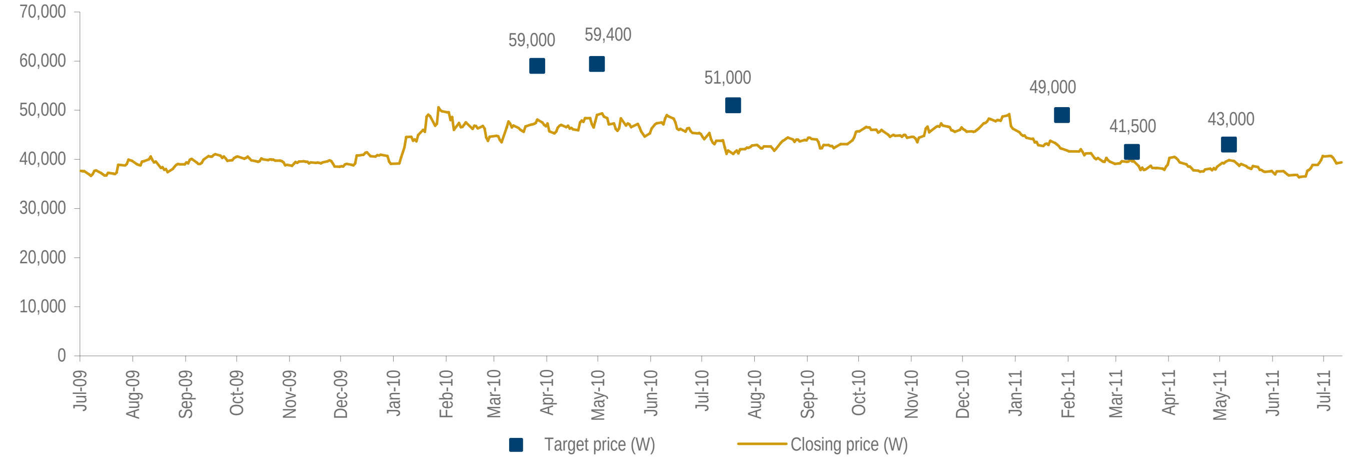
Company	Commodity	Royalty paid in FY11	Total Royalty paid in FY11
Tata Steel	Iron ore	3,700	
	coking coal	1,430	5,130
SAIL	Iron ore	6,000	6,000
	Coking coal	NM	NM
JSW Steel	Iron ore	440	440
JSPL	iron ore	840	
	thermal coal	990	1,830

Source: Company, Daiwa forecasts

Korea: share prices and Daiwa recommendation trends

■ **KT Corp: share price and Daiwa recommendation trend**

Date	11-05-06	11-03-10	11-01-28	10-07-19	10-04-30	10-03-26
Target price	43,000	41,500	49,000	51,000	59,400	59,000
Rating	3	3	2	2	2	2



Source: Daiwa

Analyst company visits/results announcements/analyst meetings

Date	Company	Event	Time+	Remarks	Analyst

Note: AU = Australia, CN = China, HK = Hong Kong, JA = Japan, KR = Korea, SG = Singapore, TW = Taiwan, MY = Malaysia, US = United States, EU = Europe
M = Meeting T = Teleconference # Pending/tentative + Local time
^Refers to Distribution per share (DPU)

Asia Pacific Markets Closed

	Hong Kong	China	Singapore	Malaysia	Korea	Taiwan	Australia	New Zealand	India	Thailand	Philippines	Indonesia
Jul 11	1											

Daiwa Capital Markets

Rating and target-price information

Company name	Bloomberg code	Country	6M rating Previous		6M rating Latest	6M target price* Previous		6M target price* Latest	Date
China Railway Construction	1186 HK	China	Outperform	↓	**Hold**	10.0	↓	**6.8**	11-Jul-11
China Railway Group	390 HK	China	Buy	↓	**Hold**	6.4	↓	**3.7**	11-Jul-11
CSR Corp	1766 HK	China	Hold	–	**Hold**	7.6	↑	**7.8**	11-Jul-11
Zhuzhou CSR Times Electric	3898 HK	China	Hold	↑	**Outperform**	25.8	↑	**32.1**	11-Jul-11
Lung Yen Life Service	5530 TT	Taiwan	n.a.	→	**Buy**	n.a.	→	**160**	11-Jul-11
Lupin	LPC IN	India	Hold	↑	**Outperform**	448	↑	**490**	8-Jul-11
GlaxoSmithKline Pharmaceuticals	GLXO IN	India	Outperform	–	**Outperform**	2,329	↑	**2,457**	8-Jul-11
Ranbaxy Laboratories	RBXY IN	India	Sell	–	**Sell**	385	↑	**446**	8-Jul-11
Dr Reddy's Laboratories	DRRD IN	India	Sell	–	**Sell**	1,114	↑	**1,394**	8-Jul-11
Cipla	CIPLA IN	India	Underperform	–	**Underperform**	269	↑	**299**	8-Jul-11
Torrent Pharmaceuticals	TRP IN	India	Buy	–	**Buy**	680	↑	**702**	8-Jul-11
Sun Pharmaceutical Industries	SUNP IN	India	Buy	–	**Buy**	509	↓	**499.85**	8-Jul-11
Biocon	BIOS IN	India	Sell	↑	**Hold**	312	↑	**351**	8-Jul-11
Glenmark Pharmaceuticals	GNP IN	India	Sell	↑	**Underperform**	266	↑	**298**	8-Jul-11
Cadila Healthcare	CDH IN	India	Buy	–	**Buy**	1,010	↑	**1,102**	8-Jul-11
China State Construction International	3311 HK	China	Outperform	–	**Outperform**	8.5	↑	**9.3**	8-Jul-11
Esprit	330 HK	Hong Kong	Outperform	–	**Outperform**	46.5	↓	**37.4**	8-Jul-11
Ascendas Real Estate Investment Trust	AREIT SP	Singapore	Outperform	–	**Outperform**	2.2	↑	**2.28**	8-Jul-11
SK Telecom	017670 KS	Korea	Hold	–	**Hold**	173,000	↓	**162,500**	8-Jul-11
Ports Design	589 HK	China	Outperform	–	**Outperform**	24.65	↓	**20.54**	7-Jul-11

Note: Daiwa's 20 most recent rating/target-price changes
*Local currency; T: terminated; D: delisted

Recently published reports

Research reports*	Subtitle	No. of pages	Date of publication
China Rail Sector	Play it safe	44	11-Jul-11
China Strategy	Maximum pain, maximum gain	16	11-Jul-11
China Technology Food Chain	Update on technology trends	8	11-Jul-11
Lung Yen Life Service	Initiation: a stock to die for	24	11-Jul-11
ASEAN Strategy	Singapore – stay the course	10	11-Jul-11
India Generics Pharmaceuticals Sector	Separating the men from the boys	77	8-Jul-11
Discovery	Asia small-cap weekly	19	8-Jul-11
Ebbs and Flows	Flows remain volatile	7	8-Jul-11
Singapore Office REITs	Turning more positive	30	7-Jul-11
Taiwan Construction & Real Estate Sector	China IVS - unlikely to be a near-term catalyst for construction	10	7-Jul-11
The Telescope	Experts talk technology	12	7-Jul-11
SK Communications	Structural changes should drive earnings growth	15	6-Jul-11
Housing China	Buying times for China property stocks	52	6-Jul-11
China Economy	Walking a tightrope	15	6-Jul-11
Hang Seng Bank	Higher regulatory reserves unlikely to trigger capital raising	13	6-Jul-11
China IT Outsourcing	Initiation: Will China be the next India?	36	5-Jul-11
China Materials	The party rolls on, but strains are evident in the system	11	5-Jul-11
China Aviation Sector	The inside track on high-speed rail	14	5-Jul-11
Jiangxi Copper	Initiation: copper and share price peaking	23	5-Jul-11

*The 20 most recent reports published by Daiwa

Daiwa's Asia Pacific Research Directory

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