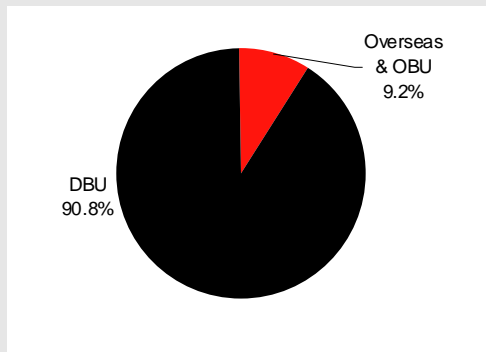


## TAIWAN

# Taiwan banks

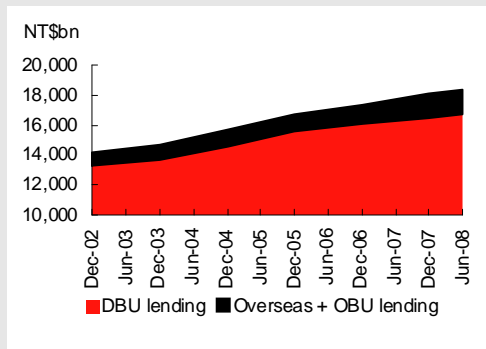
20 October 2008

### Loan breakdown - 1H08



Source: Macquarie Research, October 2008

### Strong overseas vs sluggish domestic



Source: Macquarie Research, October 2008

### Companies mentioned

Company	Ticker	Rating	Mkt cap (US\$m)	Price (NT\$)	Target (NT\$)	Up/dn %
Chinatrust	2891	UP	3,513	12.1	11.2	-11
FHC						
Mega FHC	2886	UP	3,706	10.5	10.0	-8
Taishin FHC	2887	UP	882	4.8	4.7	-6
TBB	2834	UP	827	6.7	9.2	33

Source: Macquarie Research, October 2008

### Analyst

**Jemmy Huang**  
886 2 2734 7530 jemmy.huang@macquarie.com  
**Matthew Smith, CFA**  
886 2 2734 7514 matthew.smith@macquarie.com

## Forex lending: The innocents abroad

### Event

- Foreign currency lending has been the main driver of loan growth for the Taiwan banks. We believe this has been primarily driven by lending to Taiwanese corporates with operations in China. What if this “sweet spot” turns sour as the global economy heads into a prolonged slowdown? In this report, we look at trends in forex loan growth and provisioning and the China investments of listed companies.

### Impact

- Forex loan growth has been stellar...** Overseas lending has recorded an 18% CAGR in the past three years compared with only 2.7% for domestic lending and 2.1% for assets overall. According to government data, the earnings contribution from overseas operations reached 99% of sectorwide pretax profits in FY07 and 28% in 1H08. This is impressive, given that overall forex loans are only 9% of the total – and underlines just how weak the profitability of domestic bank operations has been in recent years.
- ... which makes us nervous now.** OBU loan growth has been extraordinarily strong over the past 12 months, in line with monetary tightening in China. This raises concern about rising credit risks because companies that are short of funding in China are not necessarily prime clients. Overall credit costs for forex lending were less than 50bp in 1H08, compared with 69bp of domestic lending, but this could rise as forex loan growth turns over in the months ahead.
- Stay cautious on specific names.** Taishin, Chinatrust and TBB have had robust overseas loan growth of over 25% in the past 15 months, but are facing rising credit costs. For Taishin and TBB, over 80% of their overseas operations are encompassed by their OBUs and Hong Kong branches. Chinatrust may face fewer credit issues with lending into China, but the bank's US subsidiary, for which 80% of loans are for commercial property, is at risk.
- What if there are tough times ahead for export manufacturers in China?** Profits from China investments, according to listed companies' reports, have improved over the past seven years, with aggregate earnings in 1H08 still up 34% YoY. If export demand plummets in the months ahead, however, it may be hard to be bullish on the medium-term prospects for Taiwanese manufacturers in China. Moreover, visibility only exists for listed companies; there are hundreds of thousands of unlisted SMEs for which no data are available.

### Outlook

- Remain Underweight.** We believe the banks have once again mispriced risk in the headlong rush to expand forex loans to fund manufacturers in China before a global economic slowdown. Credit risk after several years of aggressive growth, liquidity risk in the interbank markets and an expected drop-off in loan demand would suppress momentum, at which point credit costs would likely increase. Collateralization may limit the downside, but we question the value of collateral if Taiwan slips into recession in 2009. Our top Underperforms are Chinatrust, Taishin, Mega, and TBB.

Please refer to the important disclosures and analyst certification on inside back cover of this document, or on our website [www.macquarie.com.au/research/disclosures](http://www.macquarie.com.au/research/disclosures).

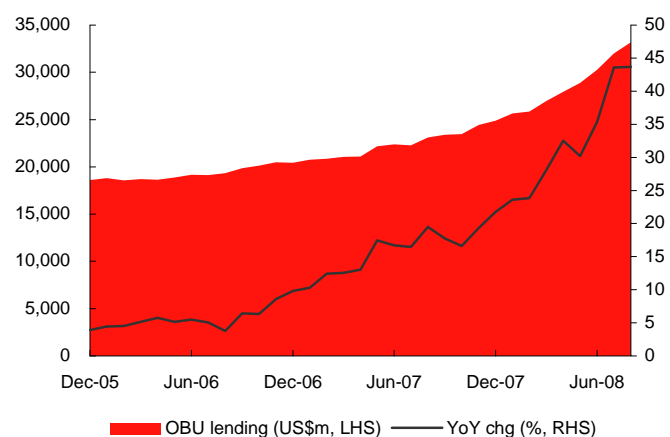
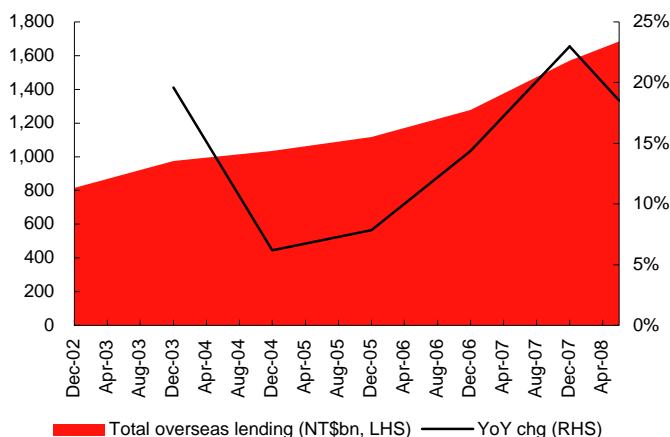
### Forex lending: The innocents abroad

- Forex lending has become the key loan-growth driver for Taiwan banks over the past couple of years. We believe that such rapid expansion merits concern about potential asset quality deterioration, especially because it appears that the momentum of growth is now set to turn over. Concerns about loan asset quality in the Taiwan banking industry are rising because it appears that major global economies are heading into recession or are there already. Unfortunately for the Taiwanese banks, this comes after several years of heady growth in foreign currency/overseas lending, particularly via OBUs (offshore banking units).
- Despite the ban on direct bank lending in China, Taiwanese banks are very exposed to Taiwanese export manufacturers in China. Indeed, OBUs are a major vehicle for Taiwanese corporates to fund their investments in China. With a potential economic slowdown and continuous tight liquidity in China, credit costs for banks are likely to pick up.
- Remain Underweight the Taiwan financials.** Although the data from both banks and listed companies with investments in China do not yet indicate another systemic crisis, we suggest that investors be cautious on banks that have had robust loan growth overseas for the past 18 months, but that, at the same time, are facing rising credit costs. In this regard, we think that investors should avoid Taishin, TBB (for which our investment opinion is under review) and Chinatrust.

### Overseas lending – the growth driver since 2006

Fig 1 Total overseas lending and YoY change

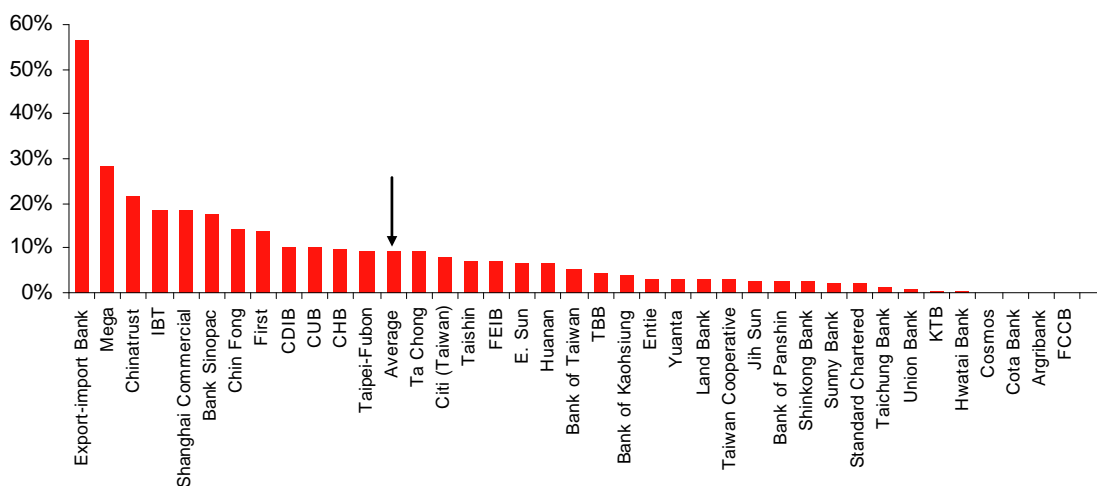
Fig 2 OBU lending is the primary driver



Note: The drop in growth rate in 1H08 is due to NTD appreciation  
 Source: Macquarie Research, October 2008

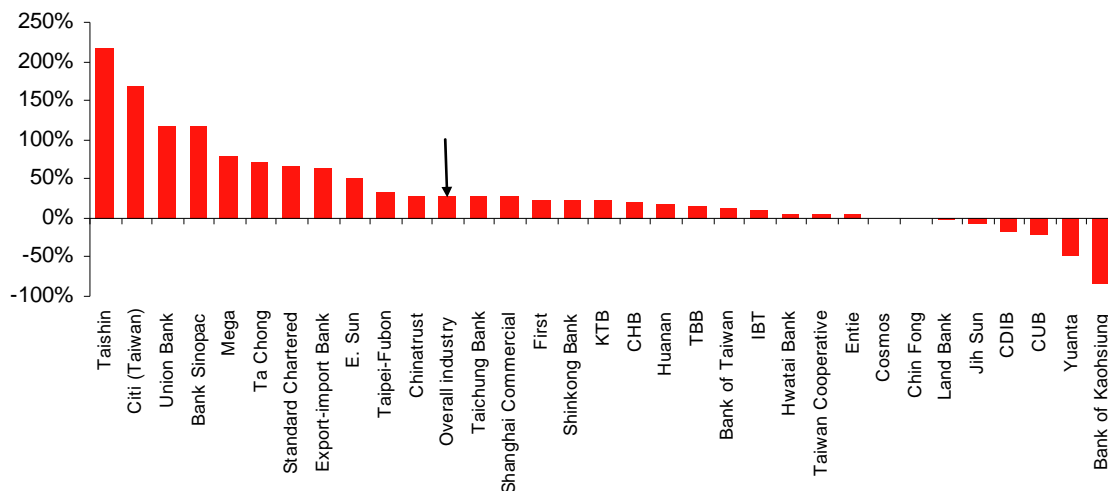
Source: Macquarie Research, October 2008

Fig 3 Overseas + OBU lending as % of total lending – 1H08



Source: CBC, Macquarie Research, October 2008

**Fig 4 Overseas + OBU (pretax) earnings contribution – 1H08**

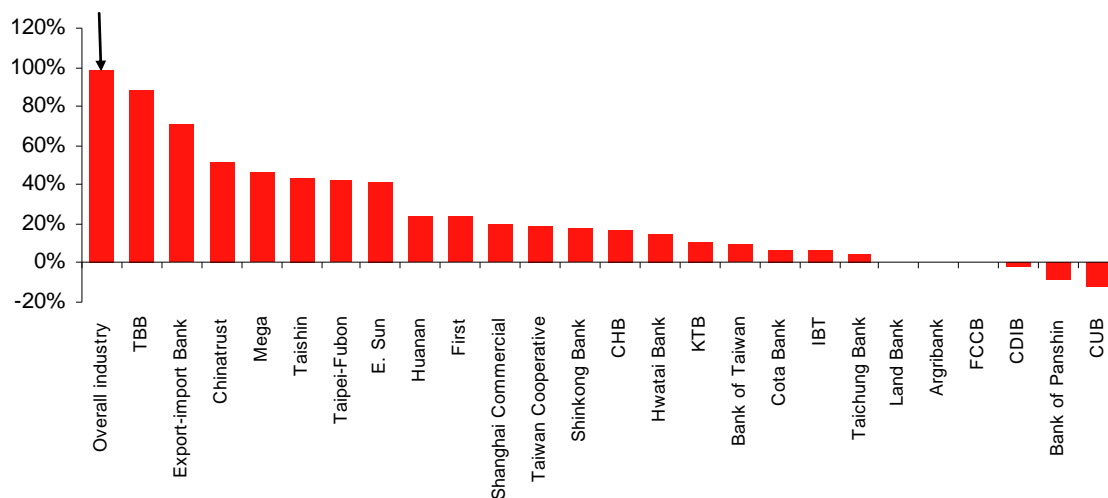


Notes:

1. Banks with group pretax losses are excluded: Bank Sinopac, Bank of Panshin, Entie, Cosmos, Chin Fong, Jih Sun
2. Banks that are outliers: FEIB 980%, Cota Bank 350%, Sunny Bank 275%

Source: CBC, Macquarie Research, October 2008

**Fig 5 Overseas + OBU (pretax) earnings contribution – FY07**



Notes:

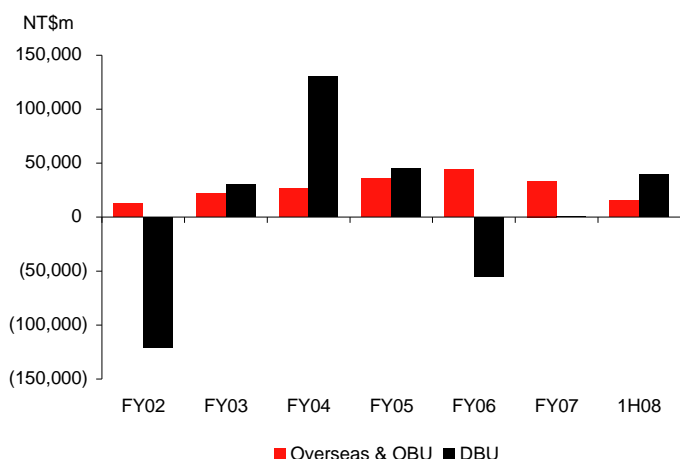
1. Banks with group pretax losses are excluded: Bank Sinopac, Entie, Cosmos, Chin Fong, Jih Sun, FEIB, Sunny Bank, Yuanta, The Chinese Bank, Standard Chartered (TW), Union Bank, Citi Bank (TW), Ta Chong, Bowa (now DBS)
2. Banks that are outliers: BOK -126%

Source: CBC, Macquarie Research, October 2008

- The charts above indicate a big drop in the overseas earnings contribution (as a percentage of group pretax profits) to 28% in 1H08 from 99% in FY07. On the one hand, this was due to the recovery in domestic operations, which barely broke-even last year. On the other hand, overseas earnings declined on a YoY basis in FY07 and 1H08 as a result of the write-offs on CDO/CBO/SIV at banks such as Mega, Sinopac, Cathay and Chinatrust. Excluding the effects of the banks' misadventures with high-yielding global toxics, profits of the underlying businesses appear to have grown.

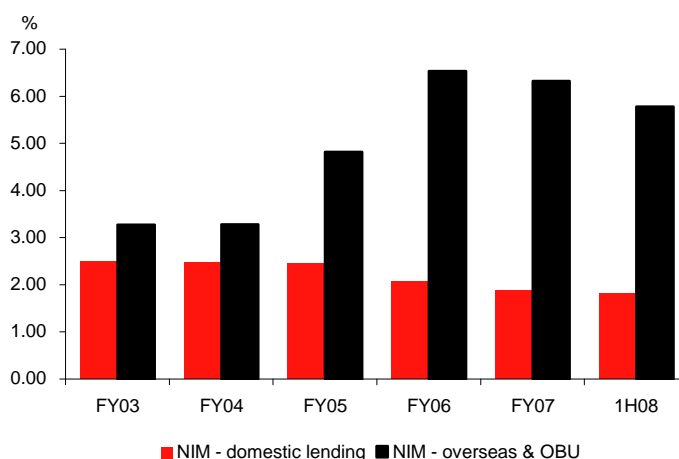
- Even so, with overseas lending accounting for only 9% of total sector loans, such a large earnings contribution clearly demonstrates the stronger profitability of overseas operations in recent years. A sluggish domestic performance was exacerbated by small distressed banks such as Cosmos and Ta Chong and continuous write-offs related to the unsecured lending, but we do not regard this as a “one-off”, but rather as a recurrent fever that is a symptom of the sector’s structural disease – ie, fragmentation and too much government participation, which lead to overcompetition and mispriced risk.
- Furthermore, even in 2005, when the unsecured consumer lending bubble was only starting to collapse, overseas earnings already accounted for 45% of pretax profits for the industry as a whole.
- The operating performance of overseas lending steadily improved between FY02 and FY06. The overhang from the structured credit products will continue to depress FY08 earnings, but we expect residual effects in FY09. We think it is fair to assume that net interest income will diminish for lack of these high-yielding products, but strong loan demand should partially offset the negative effect.
- A comparison of NIM between domestic and overseas lending explains why Taiwan banks are keen to expand their overseas lending businesses. Due to the lack of data, we define NIM as net interest income to average loans, instead of interest-earning assets in common practice. Therefore, the NIMs in Figure 7 might be overstated in absolute terms. This is particularly true at the overseas part because lending composes an even-smaller portion of total assets.
- However, it is quite clear that NIM for forex lending has been consistently higher than that of domestic lending until now. NIM for NT dollar assets has been in a steady downtrend, with funding costs rising faster than asset yields until recently. Looser monetary policy, which we expect throughout FY09, could slow the deterioration. At the same time, however, NIM for overseas lending plummeted in 1H08 on Fed rate cuts and increasing funding costs relative to asset yields (probably not a function of competition). It is possible that NIM has stabilized in 2H08, but we are not hopeful given volatility in interbank rates. In addition, NIM would probably plummet if NPLs were to increase at a rapid rate in 2009.

**Fig 6 Pretax earnings: Overseas and OBU vs DBU**



Source: Macquarie Research, October 2008

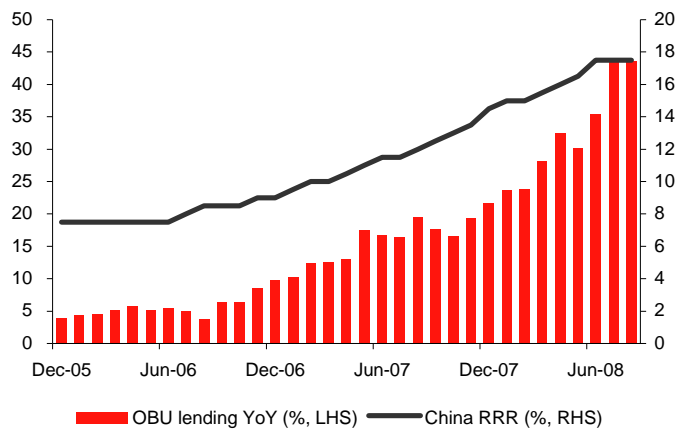
**Fig 7 NIM: Overseas and OBU vs DBU**



Note: NIM = net interest income/average loans

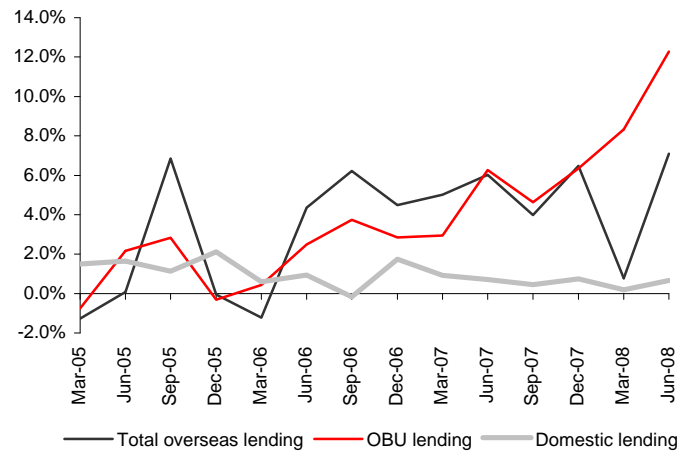
Source: Macquarie Research, October 2008

**Fig 8 OBU lending driven by the credit tightening in China**



Source: CEIC, Macquarie Research, October 2008

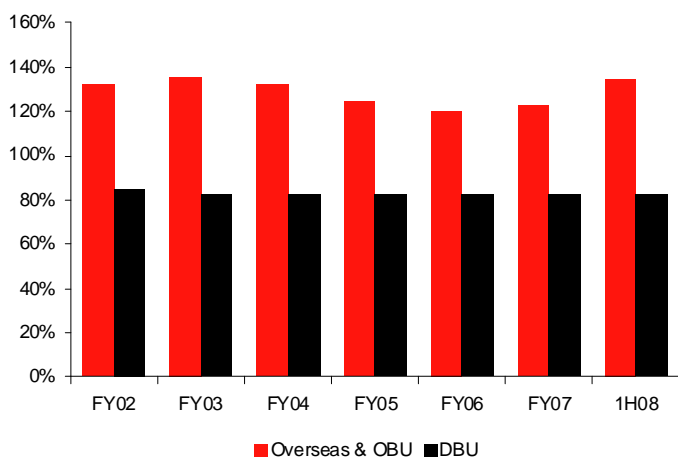
**Fig 9 Loan growth: sluggish domestically vs buoyant overseas**



Source: Macquarie Research, October 2008

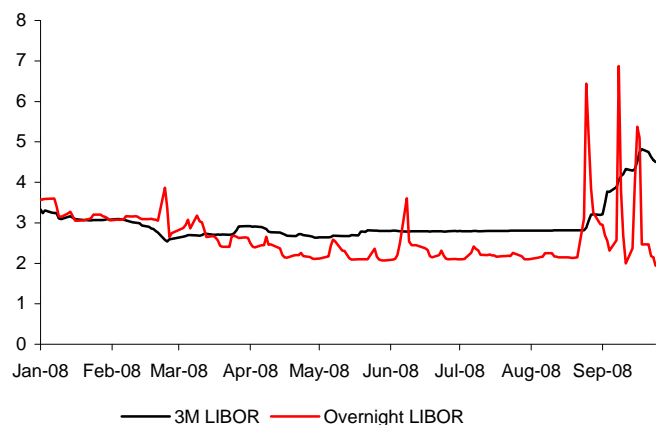
- Among the forex lending channels, loan growth at the banks' OBUs has been extraordinarily strong over the past 12 months. We think this was primarily driven by funding demand from Taiwan corporates and SMEs in the tighter credit environment in China. Total OBU assets rose by 11% YoY by the end of August, while overall OBU lending grew by 44% YoY during the same period.
- There was a discrepancy in loan growth between aggregate overseas and standalone OBU lending, as seen in Figure 9, during 1Q08, which we believe was due to the forex change. The OBU lending is denominated in USD, while the aggregate overseas lending is disclosed in NTD, which appreciated by 7% against USD in 1Q08. Adjusting for the forex effects, we estimate that aggregate overseas lending should have been growing at 7–8% QoQ in 1Q08, slightly below the 8.3% of OBU lending.
- Growth momentum strengthened in 2Q08 and, based on the available data, will likely remain robust in 3Q08. However, the business is facing headwinds not only because banks are more concerned about credit quality compared with six months ago, but also because they are experiencing a US dollar funding shortage. Most banks rely on interbank borrowing as part of the key financing source for forex lending and are eagerly awaiting LIBOR's return to 'normal'. This does not inspire confidence. The slowdown of momentum for this profitable business will likely have negative effects on overall PPOP for the banks.

**Fig 10 LDR over 100% in overseas lending**



Source: Macquarie Research, October 2008

**Fig 11 Turbulence in the interbank market**



Source: Bloomberg, Macquarie Research, October 2008

- The consensus view, which we share, is that most of the increase in demand in overseas lending over the past 12 months has come from Taiwan corporates seeking to finance their operations in China. News flow has highlighted that companies returned to Taiwan for loan syndications. According to IFR Asia, the total syndication amount was flat YoY in 8M08, mainly supported by a return for funding of Taiwan corporates. More important, investors should now be concerned that, under current economic conditions, the fast-growing overseas lending, especially borrowed funds flowing to China, now represents a risk.
- Theoretically, credit risks are potentially higher for banks that have aggressively expanded their overseas loan book over the past 12 months, because companies that have been short of funding in China are usually not the prime clients. Therefore, we review the loan growth trend and provisioning flow for the ten major banks under our coverage and the Bank of Taiwan, which collectively account for 80% of the overseas lending. Our view is that investors should be cautious on Taishin, TBB and Chinatrust, for all of which forex loan balances have increased by more than 25% over the past 18 months. This, in our view, is because credit costs have surged as well.
- Given that standalone NPLs and write-off data are unavailable, we use provisioning as a percentage of average loans as the indication of credit costs. Systemic credit costs, although volatile, remain less than 50bp (annualized), and did so even in 1H08. However, the figures at banks such as Taishin, TBB, Chinatrust and CHB have spiked, even though loan books have grown by 60% for TBB, 38% for Taishin and 25% for Chinatrust over the past 18 months.
- Overseas lending at Taishin and TBB is primarily focused on the greater China markets. Based on our estimation, about 80% of TBB's overseas pretax profits are contributed by its OBU and HK branch, of which the majority of the client base is Taiwanese corporates with operations in China. This ratio is even higher than 90% for Taishin. It is a somewhat different story for Chinatrust, for which the problem is related more to its US subsidiary. It announced plans during the 2Q08 analyst meeting to make extra provisioning of US\$21m for its US operation, but we estimate that, even without this one-off item, provisioning is still rising significantly on a YoY basis.
- Fubon, Cathay and major state banks such as Mega, First, Huanan and CHB have also expanded their loan books by double digits over the past two years. Credit costs remain quite stable for all these names except CHB, for which we think the increasing provisioning is due to management's intention to raise its coverage ratio to 100% rather than to effect any bank-specific increase in NPLs.
- Having said that, the banks do not have to disclose standalone NPL and coverage ratios for their forex businesses. It may be a bit misleading to judge the risks based purely on provisioning, in which the increase may be a pre-emptive move by banks rather than an indication of actual defaults. In addition, most banks require guarantees from parent companies of offshore businesses, so the effective credit costs should be lower. Overall provisioning for overseas lending remains low, even after the rumoured tens of thousands of bankrupt/default cases in China, and the NPL ratio industrywide has dropped to an historical low level of 1.53%.
- On the other hand, history shows that rising credit costs usually come as growth slows after a period of rapid expansion, not to mention that corporate credits around the world appear set to deteriorate in the coming months. We thus think that the banks – especially Taishin, Chinatrust and TBB – are facing higher risks. The bottom line is that earnings may be undermined, but capital adequacy should not be jeopardized as a result, given the relatively small proportion to group assets for Taishin and TBB and sufficient capital base for Chinatrust.

**Fig 12 Overseas lending YoY growth**

	Dec-04	Dec-05	Dec-06	Dec-07	Jun-08
TBB	5.6%	-2.8%	<b>29.9%</b>	<b>50.5%</b>	<b>11.2%</b>
Fubon	-15.1%	39.5%	<b>114.4%</b>	<b>39.9%</b>	<b>1.9%</b>
Taishin	42.6%	-16.2%	<b>16.2%</b>	<b>38.4%</b>	<b>-0.4%</b>
Cathay	40.0%	18.5%	<b>33.6%</b>	<b>36.1%</b>	<b>13.2%</b>
Mega	3.4%	10.1%	10.0%	34.0%	7.6%
First	0.9%	1.9%	19.9%	25.7%	5.0%
Sinopac	11.6%	0.5%	6.6%	21.0%	3.5%
Huanan	-0.2%	-6.6%	16.6%	18.9%	4.2%
Chinatrust	15.6%	16.1%	5.3%	12.9%	12.6%
BOT	5.7%	5.8%	22.5%	12.5%	5.1%
CHB	-1.7%	-3.5%	16.0%	10.2%	3.7%
<b>Total overseas</b>	<b>6.2%</b>	<b>7.9%</b>	<b>14.4%</b>	<b>23.0%</b>	<b>7.2%</b>

Note: Data for June 2008 is HoH growth

Source: Macquarie Research, October 2008

**Fig 13 Credit costs for overseas lending**

	FY04	FY05	FY06	FY07	1H08
Chinatrust	0.52%	0.78%	<b>0.41%</b>	<b>0.88%</b>	<b>1.71%</b>
CHB	1.14%	0.17%	<b>0.29%</b>	<b>0.26%</b>	<b>0.61%</b>
Taishin	1.18%	-0.10%	<b>0.19%</b>	<b>0.40%</b>	<b>0.59%</b>
Sinopac	0.43%	1.48%	0.40%	0.42%	0.51%
TBB	0.99%	0.67%	<b>0.22%</b>	<b>0.14%</b>	<b>0.45%</b>
BOT	0.20%	0.00%	0.15%	0.56%	0.35%
First	0.14%	0.24%	0.10%	0.30%	0.34%
Huanan	0.40%	0.20%	0.21%	0.12%	0.24%
Fubon	1.50%	0.75%	0.16%	0.28%	0.15%
Cathay	0.23%	0.08%	-0.27%	0.24%	0.12%
Mega	0.33%	0.06%	0.11%	0.22%	0.05%
<b>Total overseas</b>	<b>0.43%</b>	<b>0.34%</b>	<b>0.20%</b>	<b>0.50%</b>	<b>0.45%</b>

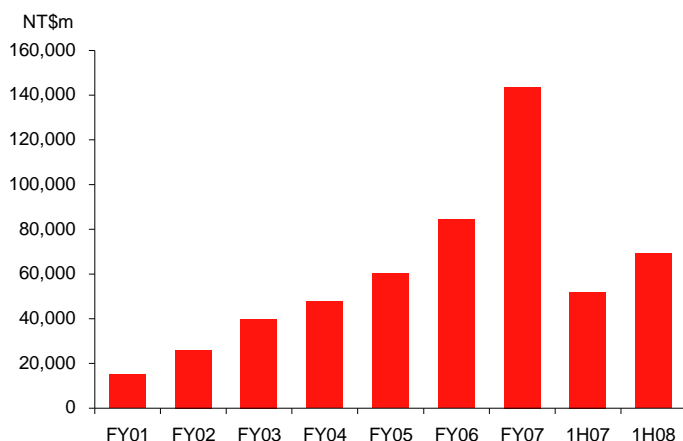
## Notes

1. Credit costs = provisioning/average loans
2. 1H08 figures are annualized

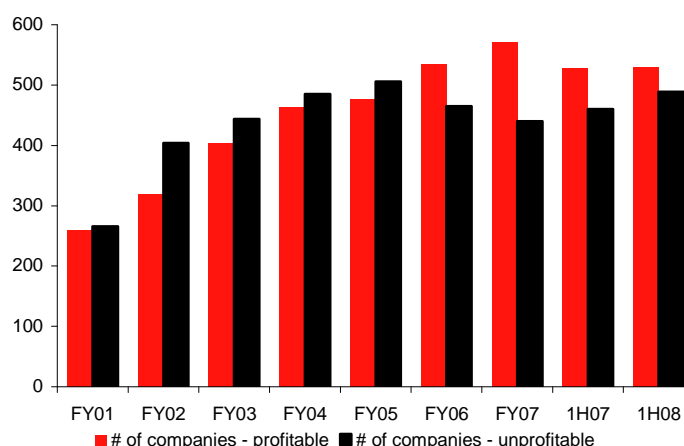
Source: Macquarie Research, October 2008

**An overview of the China investments of listed companies**

- We take a top-down view of the operational results in China of the listed companies. Again, there are hundreds of thousands of unlisted SME players for which the data are unavailable. The chart below shows that earnings generated from China investments have been improving over the past seven years. Even in 1H08, aggregate profits were still up by 34% YoY.
- However, we note that, in 1H08, the number of unprofitable companies increased for the first time since 2005, while the number of profitable companies was unchanged. Excluding industry dynamics, it would be reasonable to expect major players in these industries that have better operating efficiency to gain market share and improve profitability, with marginal players withdrawing or being eliminated during the current downturn.

**Fig 14 Aggregate earnings of listed companies from China investments**

Source: Macquarie Research, October 2008

**Fig 15 There are still more profitable than unprofitable companies**

Source: Macquarie Research, October 2008

- From a banking perspective, we remain more concerned about the credit quality of SMEs, which are more vulnerable during an economic downturn. We screen all the listed companies that have reported their China profits/losses and derive a list of 28 companies, in Figure 16, that cumulatively have lost over 20% of their equity over the past two-and-a-half years, with market caps of less than NT\$15bn. This is the same cut-off – NT\$15bn – that we used to define SMEs in our SME credit report when we shifted to an Underweight call on the Taiwan financial sector (for details, see our note of 6 July titled *Taiwan financials – SMEs: Clouds on the horizon*).

- With over 1,000 listed companies with investments in China, we are quite surprised to see that only 28 companies have suffered serious losses in the past two years. In fact, none of the companies with a market cap of over NT\$15bn has incurred such losses. This supports our view that, although overall operating costs are rising in China, the market exit of numerous no-name players may not be a bad thing for listed companies, which have a better capital structure and – so far – fewer funding problems.
- Figure 17 shows the credit exposure of banks to these 28 companies. Absolute exposure is not material for the entire sector, because the total amount of NT\$13.4bn is not meaningful given such a broad range of lenders. What we would like to highlight is that, unlike the results of our SME screening, both large private banks and state banks come out on top of the list. Exposure of Chinatrust and E.Sun is overstated because the former is the lead bank for a syndication of NT\$450m and the latter for another NT\$600m, and this exposure will actually be diversified among the participating banks of the syndications. Therefore, the modified top-five list based on our estimation is Taishin, Huanan, Bank of Taiwan, Chinatrust and Fubon.
- We highlight here that we are not attempting to engage in credit analysis of the following companies, nor are we stating that these firms are – or are not – likely to become problems for creditors. In addition, the data on bank borrowing are based on 1H08 announcements by the companies and are now three months old and may in certain cases have changed significantly in the intervening period.

**Fig 16 Companies that lost over 20% equity in China investment**

		Market cap NT\$m	FY06 – 1H08 cumulative losses NT\$m	Losses as % of equity
2430	Tsann Kuen Ent	3,948	-2,820	-48.2%
1604	Sampo	3,479	-1,911	-29.6%
3406	Genius	2,677	-1,149	-33.9%
6209	Kinko	1,829	-817	-25.8%
3071	Adda	984	-620	-50.3%
5356	Sirtec	730	-511	-20.2%
1443	Lily Textile	379	-481	-23.0%
6246	Taiwan Thick-Film	410	-392	-55.3%
2229	Protech Wheel	573	-362	-34.2%
3066	Taiwan Oasis	1,020	-346	-21.4%
5328	Hua Jung Components	471	-324	-20.2%
2424	Lung Hwa Electronics	316	-273	-66.9%
4502	Yuan Feng	403	-258	-35.5%
6172	Billionton	310	-249	-31.7%
1516	Falcon Cycle	1,602	-245	-42.9%
8934	CKT Technology	356	-201	-457.7%
6111	Softstar	254	-191	-180.3%
3144	Thinflex	*	-164	-39.4%
3229	Cheer Time	533	-145	-23.9%
3338	TaiSol Electronics	339	-144	-24.4%
6109	Atech Tech	292	-140	-30.1%
4129	Union Orthopedic	522	-122	-24.1%
8361	Golden Sum	175	-116	-43.7%
3309	Top Yang	176	-95	-47.5%
6107	SINO-American	127	-89	-48.8%
3379	Taiwan Benefit	191	-52	-24.3%
5395	Hermosa	79	-32	-20.1%
6294	Tekom	55	-31	-175.7%

Note: Thinflex has applied for restructuring and thus no market price is available

Source: Macquarie Research, October 2008

Fig 17 Banks' lending exposure to the 28 companies

Company	Ticker	Lending exposure (NT\$m)
Taishin	2887 TT	1,260
Chinatrust	2891 TT	1,229
Huanan	2880 TT	1,206
Bank of Taiwan	5858 TT	1,101
E.Sun	2884 TT	1,012
Fubon	2881 TT	903
CHB	2801 TT	870
Taiwan Cooperative	5854 TT	793
Mega	2886 TT	751
Ta Chong	2847 TT	586
FEIB	2845 TT	543
BOK	2836 TT	481
Hwatai	Not listed	460
First	2892 TT	304
Shinkong	2888 TT	303
TBB	2834 TT	249
Standard Chartered (TW)	Not listed	196
Land Bank	Not listed	173
Bank of Panshin	Not listed	157
Sunny Bank	Not listed	132
Yuanta	2885 TT	101
HSBC	Not listed	94
International Bills	2889 TT	90
CDIB	2883 TT	50
Chailease	Not listed	39
CUB	2882 TT	34
Taichung Bank	2812 TT	12
Bangkok Bank	Not listed	10
Citibank (TW)	Not listed	6
Jih Sun	5820 TT	4
Others		222
<b>Subtotal</b>		<b>13,371</b>

## Notes

1. Lending exposure is based on 1H08 audited figures
2. Figure for Chinatrust includes NT\$450m syndication, of which no exposure breakdown by participating banks
3. Figure for E.Sun includes NT\$600m syndication, of which no exposure breakdown by participating banks

Source: Macquarie Research, October 2008

- We have been asked by investors about the overall lending exposure of banks to Taiwan corporates in China. The quick, but not particularly helpful, answer is that nobody seems to know, at least not an exact figure. According to the Financial Supervisory Commission (FSC), total China related OBU lending was merely US\$3.1bn by the end of June. However, this figure is clearly understated, because banks usually do not identify the destination of their lending for companies with multiple overseas operations.
- It is also impossible to determine whether part of the syndication, if raised by parent companies in Taiwan, is remitted to China. Based on the overseas deployment of all the banks, we estimate that China-related credit exposure to Taiwan banks should be at least over US\$20bn, or one-third of total overseas lending.
- Data from both banks and listed companies with investments in China do not yet indicate another systematic crisis. After all, overall provisioning has not surged as a result of the speculated tens of thousands of bankruptcies/defaults in China, even though we believe that banks' exposure is meaningful. However, there appears to be no denying that we are going to face a serious global economic downturn in the next couple of quarters, and we believe that this will result in higher default risks for the banks.
- Among the banks, Taishin, TBB and Chinatrust are facing higher risks, in our view, given their rapid loan growth and rising credit costs. Nevertheless, we stress that it is more of an earnings than capital issue, at least for now.

## Important disclosures:

Recommendation definitions	Volatility index definition*	Financial definitions
<p><b>Macquarie - Australia/New Zealand</b>            Outperform – return &gt;5% in excess of benchmark return (&gt;2.5% in excess for listed property trusts)            Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)            Underperform – return &gt;5% below benchmark return (&gt;2.5% below for listed property trusts)</p> <p><b>Macquarie – Asia/Europe</b>            Outperform – expected return &gt;+10%            Neutral – expected return from -10% to +10%            Underperform – expected return &lt;-10%</p> <p><b>Macquarie First South - South Africa</b>            Outperform – expected return &gt;+10%            Neutral – expected return from -10% to +10%            Underperform – expected return &lt;-10%</p> <p><b>Macquarie - Canada</b>            Outperform – return &gt;5% in excess of benchmark return            Neutral within 5% of benchmark return            Underperform – return &gt;5% below benchmark return</p> <p><b>Macquarie - USA</b>            Outperform (Buy) – return &gt;5% in excess of benchmark return            Neutral (Hold) – return within 5% of benchmark return            Underperform (Sell) – return &gt;5% below benchmark return</p> <p><b>Recommendations – 12 months</b></p> <p><b>Note:</b> Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p>This is calculated from the volatility of historic price movements.</p> <p><b>Very high–highest risk</b> – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.</p> <p><b>High</b> – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.</p> <p><b>Medium</b> – stock should be expected to move up or down at least 30–40% in a year.</p> <p><b>Low–medium</b> – stock should be expected to move up or down at least 25–30% in a year.</p> <p><b>Low</b> – stock should be expected to move up or down at least 15–25% in a year.            * Applicable to Australian/NZ stocks only</p>	<p>All "Adjusted" data items have had the following adjustments made:            Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives &amp; hedging, IFRS impairments &amp; IFRS interest expense            Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends &amp; minority interests</p> <p><b>EPS</b> = adjusted net profit / epowa*  <b>ROA</b> = adjusted ebit / average total assets  <b>ROA Banks/Insurance</b> = adjusted net profit / average total assets  <b>ROE</b> = adjusted net profit / average shareholders funds  <b>Gross cashflow</b> = adjusted net profit + depreciation            *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>

## Recommendation proportions – For quarter ending 30 September 2008

	AU/NZ	Asia	RSA	USA	CA	EUR
Outperform	43.17%	61.57%	63.08%	53.60%	71.54%	43.00%
Neutral	41.37%	16.43%	30.77%	37.60%	24.61%	48.00%
Underperform	15.47%	22.00%	6.15%	8.80%	3.85%	9.00%

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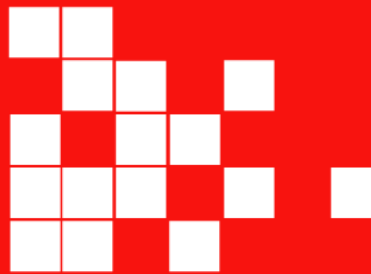
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<b>Shanghai</b> Tel: (86 21) 6841 3355	<b>Singapore</b> Tel: (65) 6231 1111	<b>Sydney</b> Tel: (612) 8232 9555	<b>Taipei</b> Tel: (886 2) 2734 7500	<b>Tokyo</b> Tel: (81 3) 3512 7900	<b>Toronto</b> Tel: (1 416) 848 3500	<b>New York</b> Tel: (1 212) 231 2500

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## Asia Research

### Head of Equity Research

Stephen O'Sullivan (852) 2823 3566

### Automobiles/Auto Parts

Deepak Jain (India) (9122) 6653 3157  
Kenneth Yap (Indonesia) (6221) 515 7343  
Dan Lucas (Japan) (813) 3512 6050  
Eunsook Kwak (Korea) (822) 3705 8644  
Linda Huang (Taiwan) (8862) 2734 7521

### Banks and Non-Bank Financials

Ismael Pili (Asia) (65) 6231 2840  
Nick Lord (Asia, China, Hong Kong) (852) 2823 4774  
Sarah Wu (China) (8621) 2412 9035  
Seshadri Sen (India) (9122) 6653 3053  
Ferry Wong (Indonesia) (6221) 515 7335  
Chin Seng Tay (Malaysia, S'pore) (65) 6231 2837  
Nadine Javellana (Philippines) (632) 857 0890  
Matthew Smith (Taiwan) (8862) 2734 7514  
Alastair Macdonald (Thailand) (662) 694 7741

### Chemicals/Textiles

Scott Weaver (Taiwan) (8862) 2734 7512  
Jal Irani (India) (9122) 6653 3040  
Christina Lee (Korea) (822) 3705 8670  
Sunaina Dhanuka (Malaysia) (603) 2059 8993

### Conglomerates

Gary Pinge (Asia) (852) 2823 3557  
Leah Jiang (China) (8621) 2412 9020  
Kenneth Yap (Indonesia) (6221) 515 7343  
Ashwin Sanketh (Singapore) (65) 6231 2830

### Consumer

Mohan Singh (Asia) (852) 3901 1111  
Jessie Qian (China, Hong Kong) (852) 2823 3568  
Charles Yan (China) (8621) 2412 9033  
Unmesh Sharma (India) (9122) 6653 3042  
Sarina Lesmina (Indonesia) (6221) 515 7339  
Duane Sandberg (Japan) (813) 3512 7867  
Toby Williams (Japan) (813) 3512 7392  
Heather Kang (Korea) (822) 3705 8677  
HongSuk Na (Korea) (822) 3705 8678  
Edward Ong (Malaysia) (603) 2059 8982  
Alex Pomento (Philippines) (632) 857 0899  
Linda Huang (Taiwan) (8862) 2734 7521

### Emerging Leaders

Jake Lynch (Asia) (8621) 2412 9007  
Hui-Lui Ko (China) (852) 2823 4704  
Minoru Tayama (Japan) (813) 3512 6058  
Robert Burghart (Japan) (813) 3512 7853  
Heather Kang (Korea) (822) 3705 8677  
Scott Weaver (Taiwan) (8862) 2734 7512

### Industrials

Bin Liu (China) (8621) 2412 9006  
Inderjeetsingh Bhatia (India) (9122) 6653 3166  
Christopher Cintavey (Japan) (813) 3512 7432  
Janet Lewis (Japan) (813) 3512 7475  
Michael Na (Korea) (822) 2095 7222  
Sunaina Dhanuka (Malaysia) (603) 2059 8993  
David Gambrill (Thailand) (662) 694 7753

## Sales

### Regional Heads of Sales

Peter Slater (Boston) (1 617) 217 2103  
Michelle Paisley (China, Hong Kong) (852) 2823 3516  
Ulrike Pollak-Tsutsumi (Frankfurt) (49) 69 7593 8747  
Thomas Renz (Geneva) (41) 22 818 7712  
Ajay Bhatia (India) (9122) 6653 3200  
Stuart Smythe (India) (9122) 6653 3200  
Chris Gray (Indonesia) (6221) 515 7304  
K.Y. Nam (Korea) (822) 3705 8607  
Lena Yong (Malaysia) (603) 2059 8888  
Gino C Rojas (Philippines) (632) 857 0761  
Greg Norton-Kidd (New York) (1 212) 231 2527  
Luke Sullivan (New York) (1 212) 231 2507

### Insurance

Mark Kellock (Asia) (852) 2823 3567  
Seshadri Sen (Asia, India) (9122) 6653 3053  
Makarim Salman (Japan) (813) 3512 7421

### Media

Jessie Qian (China, Hong Kong) (852) 2823 3568  
Shubham Majumder (India) (9122) 6653 3049  
Prem Jearajasingam (Malaysia) (603) 2059 8989  
Alex Pomento (Philippines) (632) 857 0899

### Oil and Gas

David Johnson (Asia, China) (852) 2823 4691  
Scott Weaver (Taiwan) (8862) 2734 7512  
Jal Irani (India) (9122) 6653 3040  
Christina Lee (Korea) (822) 3705 8670  
Edward Ong (Malaysia) (603) 2059 8982  
Sunaina Dhanuka (Malaysia) (603) 2059 8993  
Ashwin Sanketh (Singapore) (65) 6231 2830  
Trevor Buchinski (Thailand) (662) 694 7728

### Pharmaceuticals

Abhishek Singhal (India) (9122) 6653 3052  
Naomi Kumagai (Japan) (813) 3512 7474  
Christina Lee (Korea) (822) 3705 8670

### Property

Matt Nacard (Asia) (852) 2823 4731  
Eva Lee (China, Hong Kong) (852) 2823 3573  
Tata Goeyardi (Hong Kong) (852) 2823 4077  
Unmesh Sharma (India) (9122) 6653 3042  
Chang Han Joo (Japan) (813) 3512 7885  
Hiroshi Okubo (Japan) (813) 3512 7433  
Tuck Yin Soong (Singapore) (65) 6231 2838  
Elaine Cheong (Singapore) (65) 6231 2839  
Corinne Jian (Taiwan) (8862) 2734 7522  
Patti Tomaitrichitr (Thailand) (662) 694 7727

### Resources / Metals and Mining

Andrew Dale (Asia) (852) 2823 3587  
YeeMan Chin (China) (852) 2823 3562  
Rakesh Arora (India) (9122) 6653 3054  
Adam Worthington (Indonesia) (6221) 515 7338  
Polina Diyachkina (Japan) (813) 3512 7886  
Christina Lee (Korea) (822) 3705 8670  
Scott Weaver (Taiwan) (8862) 2734 7512

### Technology

Warren Lau (Asia) (852) 2823 3592  
Kishore Belai (India) (9122) 6653 3046  
Damian Thong (Japan) (813) 3512 7877  
David Gibson (Japan) (813) 3512 7880  
George Chang (Japan) (813) 3512 7854  
Yoshihiro Shimada (Japan) (813) 3512 7862  
Yukihiro Goto (Japan) (813) 3512 5984  
Do Hoon Lee (Korea) (822) 3705 8641  
Michael Bang (Korea) (822) 3705 8659  
Patrick Yau (Singapore) (65) 6231 2835  
Andy Kung (Taiwan) (8862) 2734 7534  
Chia-Lin Lu (Taiwan) (8862) 2734 7526  
Daniel Chang (Taiwan) (8862) 2734 7516  
James Chiu (Taiwan) (8862) 2734 7517  
Nicholas Teo (Taiwan) (8862) 2734 7523

### Telecoms

Tim Smart (Asia, China) (852) 2823 3565  
Shubham Majumder (India) (9122) 6653 3049  
Kenneth Yap (Indonesia) (6221) 515 7343  
Nathan Ramler (Japan) (813) 3512 7875  
Prem Jearajasingam (Malaysia) (603) 2059 8989  
Ramakrishna Maruvada (Philippines, Singapore, Thailand) (65) 6231 2842

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Scot Mackie (New York) (1 212) 231 2848  
Sheila Schroeder (San Francisco) (1 415) 835 1235  
Giles Heyring (Singapore) (65) 6231 2888  
Mark Duncan (Taiwan) (8862) 2734 7510  
Angus Kent (Thailand) (662) 694 7601  
Michael Newman (Tokyo) (813) 3512 7920  
Charles Nelson (UK/Europe) (44) 20 7065 2032  
Rob Fabbro (UK/Europe) (44) 20 7065 2031

### Sales Trading

Adam Zaki (North Asia) (852) 2823 3528  
Duncan Rutherford (ASEAN, India) (65) 6231 2888  
Mona Lee (Hong Kong) (852) 2823 3519

### Transport & Infrastructure

Anderson Chow (Asia, China) (852) 2823 4773  
Jonathan Windham (Asia, China) (852) 2823 5417  
Tim Bacchus (Asia, China) (852) 2823 3586  
Wei Sim (China, Hong Kong) (852) 2823 3598  
Eunsook Kwak (Korea) (822) 3705 8644  
Sunaina Dhanuka (Malaysia) (603) 2059 8993

### Utilities

Carol Cao (China, Hong Kong) (852) 2823 4075  
Deepak Jain (India) (9122) 6653 3157  
Adam Worthington (Indonesia) (6221) 515 7338  
Prem Jearajasingam (Malaysia) (603) 2059 8989  
Alex Pomento (Philippines) (632) 857 0899

### Commodities

Jim Lennon (4420) 7065 2014  
Adam Rowley (4420) 7065 2013  
Jonathan Butcher (4420) 7065 5938  
Max Layton (4420) 7065 2000  
Bonnie Liu (8621) 2412 9008  
Henry Liu (8621) 2412 9005  
Rakesh Arora (9122) 6653 3054

### Data Services

Andrea Clohessy (Asia) (852) 2823 4076

### Economics

Bill Belchere (Asia) (852) 2823 4636  
Rajeev Malik (ASEAN, India) (65) 6231 2841  
Richard Gibbs (Australia) (612) 8232 3935  
Paul Cavey (China) (852) 2823 3570  
Richard Jerram (Japan) (813) 3512 7855

### Quantitative

Martin Emery (Asia) (852) 2823 3582  
Viking Kwok (Asia) (852) 2823 4735  
George Platt (Australia) (612) 8232 6539  
Raelene de Souza (Australia) (612) 8232 8388  
Tsumugi Akiba (Japan) (813) 3512 7560

### Strategy/Country

Tim Rocks (Asia) (852) 2823 3585  
Daniel McCormack (Asia) (852) 2823 4073  
Desh Peramunetilleke (Asia) (852) 2823 3564  
Mahesh Kedia (Asia) (852) 2823 3576  
Stewart Ferns (Asia) (852) 2823 4068  
Michael Kurtz (China) (8621) 2412 9002  
Seshadri Sen (India) (9122) 6653 3053  
Ferry Wong (Indonesia) (6221) 515 7335  
Chris Hunt (Japan) (813) 3512 7878  
Peter Eadon-Clarke (Japan) (813) 3512 7850  
Eugene Ha (Korea) (822) 3705 8643  
Prem Jearajasingam (Malaysia) (603) 2059 8989  
Edward Ong (Malaysia) (603) 2059 8982  
Alex Pomento (Philippines) (632) 857 0899  
Tuck Yin Soong (ASEAN, Singapore) (65) 6231 2838  
Daniel Chang (Taiwan) (8862) 2734 7516  
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Stuart Goddard (Europe) (44) 20 7065 2033  
Brendan Rake (India) (9122) 6653 3204  
Edward Robinson (London) (44) 20 7065 5883  
Robert Risman (New York) (1 212) 231 2555  
Isaac Huang (Taiwan) (8862) 2734 7582  
Jon Omori (Tokyo) (813) 3512 7838

### Alternative Strategies

Convertibles - Roland Sharman (852) 2823 4628  
Depository Receipts - Robert Ansell (852) 2823 4688  
Derivatives - Tim Connolly (852) 2249 3380  
Futures - Tim Smith (852) 2823 4637  
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