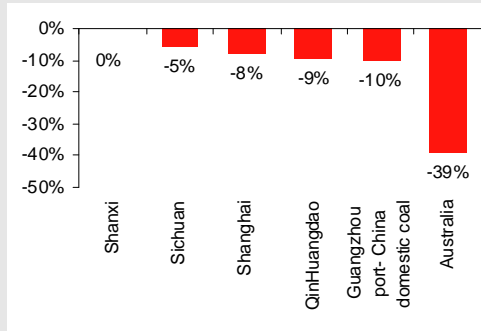


TAIWAN

Taiwan cement sector

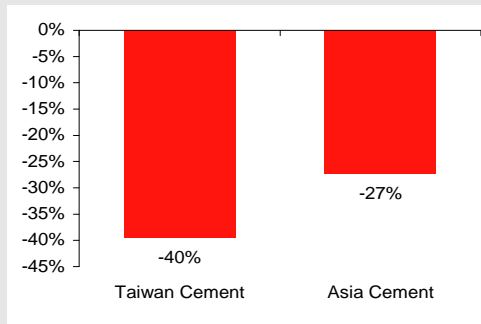
11 November 2008

Coal price decline by region since July



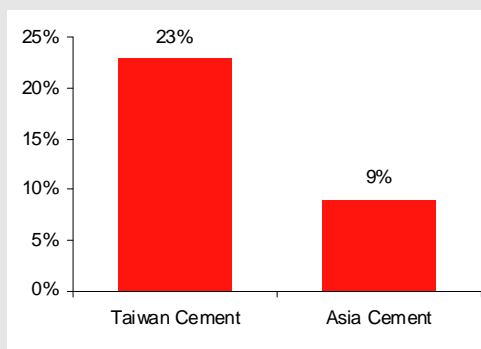
Source: Macquarie Research, November 2008

Mkt consensus for 2009E EPS reduced % over the past three months



Source: Macquarie Research, November 2008

2009E EPS ↑ if coal price ↓10%, TCC & ACC



Source: Macquarie Research, November 2008

Analyst

Corinne Jian, CFA

886 2 2734 7522

corinne.jian@macquarie.com

Chris Lee, CFA

886 2 2734 7513

chris.lee@macquarie.com

Andrew Dale

852 2823 3587

andrew.dale@macquarie.com

Easing on coal-cost pressure

Event

- We upgrade the Taiwan cement sector from Underweight to Overweight because we believe that most of the negatives are in the share price after a 56–66% decline from the high in March 2008. We also expect it to benefit from the recent sharp decline in the coal price.

Impact

- Benefit from coal-price decline.** Both TCC and ACC's margins in Taiwan declined by 3–8ppt YoY in 3Q08 as the coal price increased by 186% YoY at the peak level in July 2008. However, the thermal coal price corrected by 48% from the high of US\$193/t in July 2008 to US\$100/t in October 2008. In China, the coal price declined by 10–20% in Guangzhou, by 8% in Shanghai and by 5% in Sichuan. Because coal costs account for 30–40% of the total COGS for cement firms, we expect their margins to recover in 2009. TCC should benefit more than ACC because its Hoping Power plant should benefit from a lower coal cost as well.
- Most negatives in the price.** The market consensus EPS for TCC and ACC has been lowered by 17–40% over the past three months to factor in the weak construction activities in Taiwan as well as the declining cement price in southern China. Although we expect cement demand to remain weak until 2H09, we believe most of the negatives are in the price. We see relatively better investment value for TCC than ACC at this level because the market's expectations for the Guangdong market are low. Any signs of recovery in southern China will serve as a good share-price catalyst.
- Potential benefit from increasing infrastructure spending in China.** China's government announced an Rmb4tr (~US\$570bn) stimulus package to be spent over the next two years, mostly in infrastructure. We estimate that around 40% of the end demand of cement is for infrastructure, 35% for residential property and 25% for commercial. We expect a more-significant effect in 2H09, which should help to ease the price pressure from the declining construction activities in the private sector.

Outlook

- Upgrade to Outperform.** Following our initiations on the Chinese cement sector (please see our 10 November 2008 report, *Chinese cement sector: value outweighs short-term risks*, for more details), we upgrade both TCC and ACC from Underperform to Outperform and raise our TPs to NT\$23.0 and NT\$27.0, respectively, to incorporate our implied targets of US\$40–80 EV/ton and 8–13x EV/EBITDA for Chinese cement companies. TCC and ACC are now trading at 0.9x and 1.0x P/BV, or a US\$22 and US\$53 implied EV/ton based on our SOTP model. We see good investment value at these levels.

Valuation summary

Name	Code	Rating	Price	TP	Upside	PER		PBR 2008E
						2008E	2009E	
Taiwan Cement	1101 TT	O	18.8	22.5	20%	25.4	8.7	0.9
Asia Cement	1102 TT	O	22.1	25.0	13%	7.0	7.4	1.0

Source: Macquarie Research, November 2008; pricing date 10 November 2008

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.

Analysis

- Following our initiations on the Chinese cement sector (please see our 10 November 2008 report, *Chinese cement sector: value outweighs short-term risks*, for more details), we upgrade both TCC and ACC from Underperform to Outperform and raise our TPs to NT\$23.0 and NT\$27.0, respectively, to incorporate our implied targets of US\$40–80 EV/ton and 8–13x EV/EBITDA for Chinese cement companies. TCC and ACC are now trading at 0.9x and 1.0x P/BV, or a US\$22 and US\$53 implied EV/ton based on our SOTP model. We see good investment value at these levels.

Fig 1 Peer valuation comparison

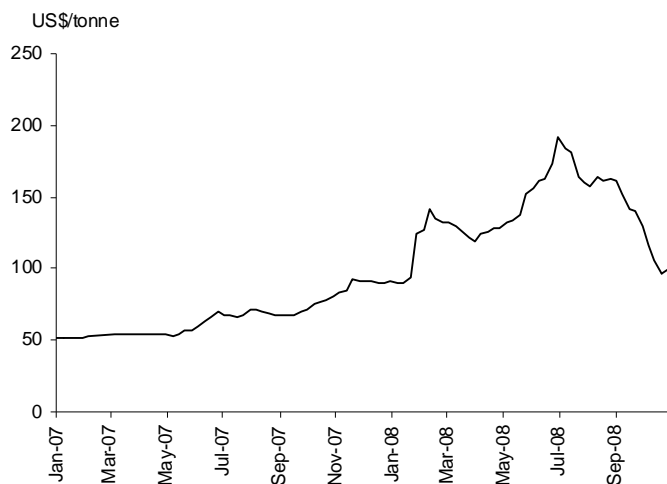
Name	Market cap Code	US\$m	Price Lcy	Rating	TP NT\$	Upside	EV/ton US\$	PER		2008-10 EPS CAGR	P/BV 2008E	ROE 2008E	Div yield 2008E	Net gearing 2008E*
								2008E	2009E					
Taiwan Cement	1101 TT	1,881	18.8	O	22.5	20%	22	25.4	8.7	65%	0.9	7%	6.5%	16%
Asia Cement	1102 TT	1,952	22.1	O	25.0	13%	53	7.0	7.4	2%	1.0	13%	9.1%	30%
Chia Hsin Cement	1103 TT	261	12.8	NR	n/a	n/a	n/a	7.1	5.8	n/a	0.5	7%	0.0%	13%
Goldsun	2504 TT	318	8.2	NR	n/a	n/a	n/a	7.4	7.7	n/a	0.5	6%	2.7%	9%
Anhui Conch	914 HK	7,329	35.5	O	40.0	13%	65	21.4	18.7	11%	1.6	11%	0.8%	20%
CNBM	3323 HK	1,638	5.8	O	8.0	39%	34	8.3	6.1	19%	1.2	19%	2.1%	208%
Average							53	17.6	13.6		1.3	12%	3.0%	44%

Source: IBES for non-rated companies, Macquarie Research, November 2008; pricing date: 10 November 2008

Benefit from coal-price decline

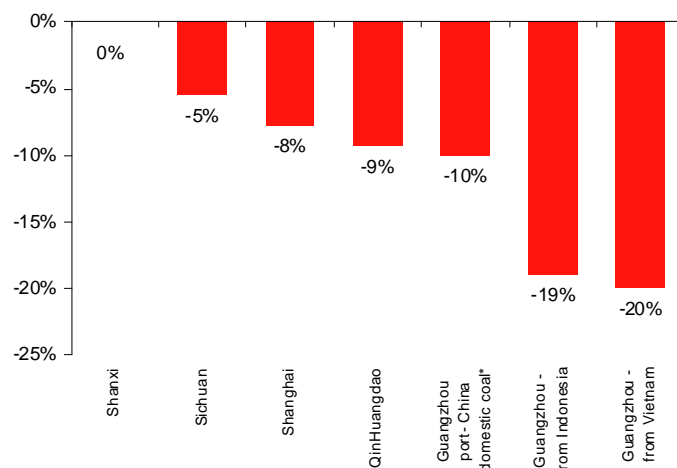
- Both TCC and ACC’s margins in Taiwan declined by 3–8ppt YoY in 3Q08 as the coal price increased by 186% YoY at the peak level in July 2008. However, the Australia thermal coal price corrected by 48% to US\$100/t in October 2008 from the high of US\$193/t in July 2008. In China, the coal price declined by 10–20% in Guangzhou, by 8% in Shanghai and by 5% in Sichuan since the high in July 2008.

Fig 2 Australia thermal coal price



Source: Bloomberg, Macquarie Research, November 2008

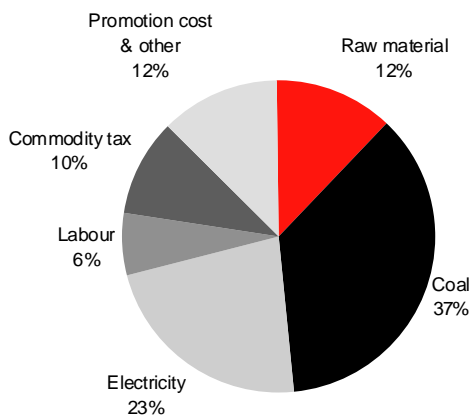
Fig 3 Coal price correction from the high in July 2008



Source: Digital Cement, Macquarie Research, November 2008

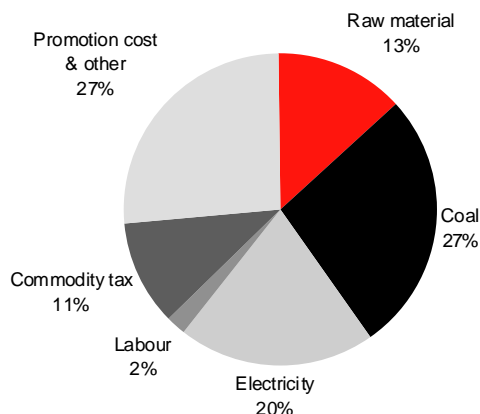
- Coal costs account for 30–40% of the total COGS of cement firms. We expect both ACC and TCC’s margins to recover in 2009 on an easing in coal costs. TCC should benefit more than ACC because its Hoping Power plant should benefit from a lower coal cost. Our sensitivity analysis shows that TCC’s earnings could increase by 23% in 2009 if the coal price declines by 10%, while ACC’s EPS could increase by 9%.

Fig 4 COGS breakdown of TCC, 2008E



Source: Macquarie Research, November 2008

Fig 5 COGS breakdown of ACC, 2008E



Source: Macquarie Research, November 2008

Fig 6 EPS sensitivity analysis to coal-price change, TCC

	80%	90%	100%	110%	120%
2008E	1.82	1.72	1.62	1.52	1.41
2009E	3.14	2.66	2.16	1.66	1.14
2010E	3.11	2.57	2.01	1.45	0.87

Source: Macquarie Research, November 2008

Fig 7 EPS sensitivity analysis to coal-price change, ACC

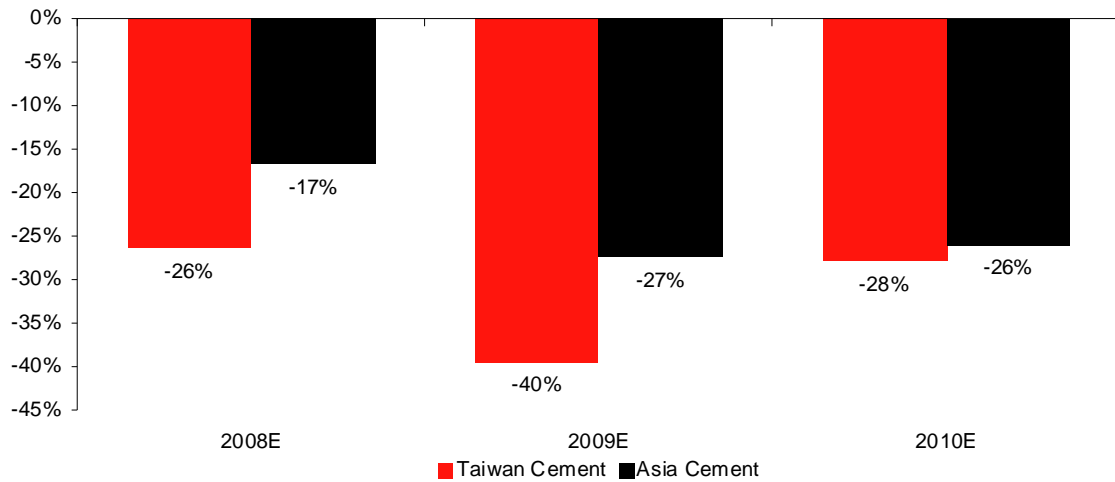
	80%	90%	100%	110%	120%
2008E	3.14	3.11	3.08	3.05	3.02
2009E	3.48	3.25	2.99	2.68	2.32
2010E	3.86	3.60	3.30	2.96	2.57

Source: Macquarie Research, November 2008

Most negatives in the price

- The market consensus EPS for TCC and ACC has been reduced by 17–40% over the past three months to factor in the weak construction activities in Taiwan as well as the declining cement price in southern and eastern China. Although we believe that cement demand will remain weak until 2H09, we believe that most of the negatives are now in the price.
- On a longer-term perspective, we see better investment value for TCC at this level because the market’s expectations for the Guangdong market are now very low. Any signs of recovery in southern China will serve as a good share-price catalyst, in our view. Although our EPS for ACC is similar to that of the market, our 2009E EPS for TCC is 8% higher, which we believe is mainly due to lower coal-price assumptions.

Fig 8 Consensus EPS revision from July 2008

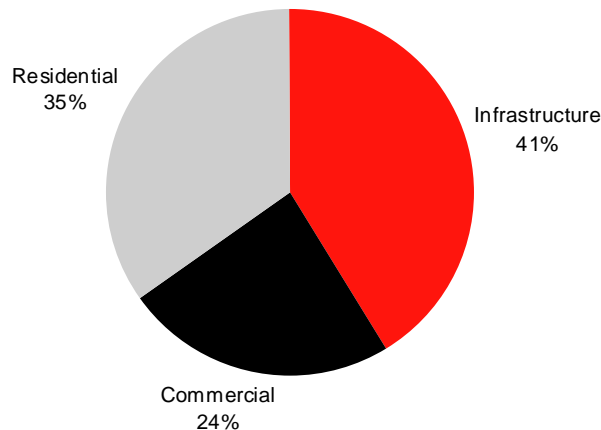


Source: Bloomberg, Macquarie Research, November 2008

Potential benefit from increasing infrastructure spending in China

- China’s government announced a stimulus package estimated at Rmb4tr (~US\$570bn) that will be spent over the next two years. We estimate that around 41% of the end demand for cement is for infrastructure, 35% for residential property and 25% for commercial. Without high expectations, any increase in infrastructure spending should help to ease the price pressure from the declining construction activities in the private sector.

Fig 9 End demand breakdown of cement in China



Source: Macquarie Research, November 2008

- The stimulus package will focus on ten major areas.
 - ⇒ Ensure safer housing conditions, including the increased support for low-income housing and the renovation of endangered houses in rural areas.
 - ⇒ Accelerate the infrastructure construction in rural areas, including the building of highways, power grids and major hydraulic engineering.
 - ⇒ Accelerate the construction of major national infrastructure, such as railroads, highways and airports.
 - ⇒ Accelerate the development of medical and education sectors.
 - ⇒ Enhance environmental construction, including the sewer system and garbage treatment.

- ⇒ Accelerate technological innovation and structural adjustment in the industries.
- ⇒ Accelerate the reconstruction in the areas damaged by the May 12 earthquake.
- ⇒ Raise rural income by increasing the subsidies and the minimum purchase price of some agricultural products.
- ⇒ A comprehensive reform in value-added taxes, which would cut industry costs by Rmb120bn.
- ⇒ Commercial banks' credit ceilings will be abolished to channel more lending to priority projects, rural areas, SME technical innovation and industrial rationalization through mergers and acquisitions.

With Rmb100bn from current-year central government funds and another Rmb20bn from next year's budget for post-disaster reconstruction, we expect total fourth-quarter investment this year of Rmb400bn across the nation.

TAIWAN

Taiwan Cement

11 November 2008

1101 TT **Outperform**

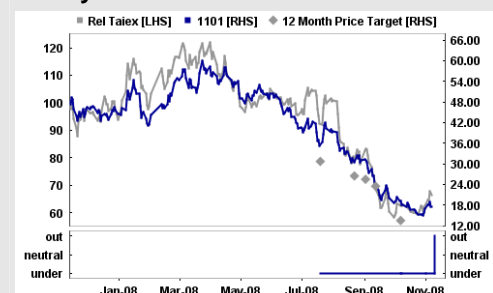
Stock price as of 10 Nov 08	NT\$	18.75
12-month target	NT\$	22.50
Upside/downside	%	+20.0
Valuation	NT\$	28.00
- Sum of Parts		

GICS sector		materials
Market cap	NT\$m	61,728
30-day avg turnover	NT\$m	311.8
Market cap	US\$m	1,881
Foreign ownership	%	38.7
Number shares on issue	m	3,292

Investment fundamentals

Year end 31 Dec		2007A	2008E	2009E	2010E
Total revenue	m	24,565	24,983	26,286	26,364
Reported profit	m	8,255	5,325	7,122	6,629
Adjusted profit	m	6,741	2,429	7,122	6,629
EPS rep	NT\$	2.52	1.61	2.16	2.01
EPS rep growth	%	14.3	-36.1	34.4	-6.9
PE rep	x	7.4	11.6	8.7	9.3
Total DPS	NT\$	1.88	1.21	1.62	1.51
Total div yield	%	10.0	6.5	8.6	8.0
ROA	%	2.2	0.7	2.3	2.7
ROE	%	9.0	3.2	9.9	8.9
EV/EBITDA	x	7.4	11.3	7.6	7.9
Net debt/equity	%	12.3	16.4	11.7	10.8
Price/book	x	0.7	0.9	0.8	0.8

1101 TT rel Taiex performance, & rec history



Source: Datastream, Macquarie Research, November 2008 (all figures in NT\$ unless noted)

Analyst

Corinne Jian, CFA
886 2 2734 7522 corinne.jian@macquarie.com
Chris Lee, CFA
886 2 2734 7513 chris.lee@macquarie.com

Benefit from coal-price decline

Event

- We are upgrading Taiwan Cement (TCC) from Underperform to Outperform as we lower our coal-cost assumption to reflect a 48% decline in thermal coal prices over the past three months.

Impact

- Benefit from coal-price decline.** The Australian thermal coal price has declined by 48% to US\$100/t since the high in July 2008, compared with US\$130–140/t of TCC's coal cost in Taiwan for 9M08. Also, the coal price declined by 8–20% in Guangdong and Shanghai over the past three months. Meanwhile, the cement price increased by 8% QoQ in 3Q08 in Taiwan and declined by 5% in Guangdong, indicating easing margin pressure. We estimate that coal costs account for 30–35% of the COGS of TCC's cement business and 70–80% of its power plant business. Our sensitivity analysis shows that TCC's 2009 EPS could increase by 23% if the coal price declines by 10%.
- Negatives in the price.** Management highlighted the weak demand in both Taiwan and southern China in its analyst meeting last week. We believe its losses in Guangdong in 4Q08 are now well-expected by the market. The market consensus EPS for 2008–10E has been cut by 26–40% over the past three months. We believe that most of the negatives are now reflected in the share price and that any margin improvement on easing of the coal price or signs of recovery in the Guangdong market would serve as good catalysts for upside.
- Delay in capacity expansions in Guangdong.** The expansion plan for its 4.5m tons of cement production capacity and 2.0m tons of cement grinding capacity in Guangdong in 2009 was delayed to 2010 due to slower approval because the government is controlling the total supply in that area. We believe this will help to ease the oversupply issue in Guangdong and thus offer some support for the cement price amid weakening demand.

Earnings revision

- We are raising our EPS forecasts by 60% and 9% for 2009/10, respectively, as we lower our coal-cost assumption by 20–30%.

Price catalyst

- 12-month price target: NT\$22.50 based on a Sum of Parts methodology.
- Catalyst: Margin improvement in 4Q08.

Action and recommendation

- We upgrade TCC to Outperform and raise our TP from NT\$13.5 to NT\$22.5, mainly to reflect the share-price increase of Anhui Conch (914 HK, HK\$35.5, Outperform, TP: HK\$40) and the higher target EV/ton for TCC's cement business in China, to incorporate our implied target US\$40–85 EV/ton for Chinese cement companies, following our initiation of the Chinese cement sector. We believe that TCC offers good long-term investment value at current levels, trading at a 0.9x P/BV and US\$22/t, based on our SOTP model, compared with 1.3x and US\$53/t for its peers.

Analysis

Fig 1 TCC – Sum-of-Parts valuation summary

	Holding%*	Book value (NT\$m)	Fair Value (NT\$m)	Per Share (NT\$)	%	Method
Cement/RMC business in Taiwan	100%	20,753	25,280	7.7	23%	6x '09E EV/EBITDA
Cement business in China	44-100%	4,463	22,999	7.0	21%	EV/ton of US\$50 for 11.25m tons with 44% holding and 9m tons with 100% holding
Anhui Conch Cement (914 HK)	3.2%	11,654	7,504	2.3	7%	MV @ HK\$35.5/shr
HoPing Power	60%	7,873	15,745	4.8	14%	2.0x PBR
Hoping Industrial Port	100%	4,503	6,755	2.1	6%	1.5x PBR
Taiwan Prosperity Chemical (4725 TT)	50%	3,032	3,117	0.9	3%	MV @ 21.35/shr
Ta-Ho Maritime	65%	2,336	4,671	1.4	4%	2.0x PBR
Taiwan Transport & Storage	84%	1,687	2,530	0.8	2%	1.5x PBR
Other long term investment		9,694	7,755	2.4	7%	20% discount to BV
Land asset		16,312	14,681	4.5	13%	10% discount to BV
Net cash (debt)-China cement business		-7,168	-7,168	-2.2		BV
Net cash (debt)-Taiwan parent		-11,569	-11,569	-3.5		BV
RNAV			92,299	28.0	100%	
Conglomerate discount				20%		
Target price				22.5		

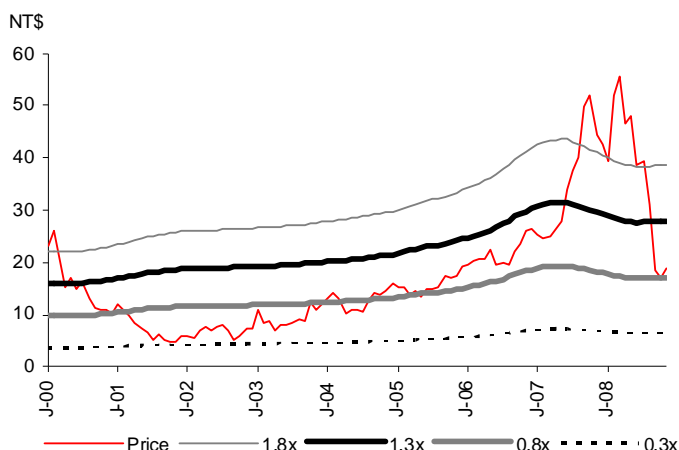
Source: Company data, Macquarie Research, November 2008

Fig 2 Peer valuation comparison

Name	Code	Market cap US\$m	Price Lcy	Rating	TP NT\$	Upside	EV/ton US\$	PER		08-10 EPS CAGR	PBR 2008E	ROE 2008E	Div yield 2008E	Net gearing 2008E*
								2008E	2009E					
Taiwan Cement	1101 TT	1,881	18.8	O	22.5	20%	22	25.4	8.7	65%	0.9	7%	6.5%	16%
Asia Cement	1102 TT	1,952	22.1	O	25.0	13%	53	7.0	7.4	2%	1.0	13%	9.1%	30%
Chia Hsin Cement	1103 TT	261	12.8	NR	n/a	n/a	n/a	7.1	5.8	n/a	0.5	7%	0.0%	13%
Goldsun	2504 TT	318	8.2	NR	n/a	n/a	n/a	7.4	7.7	n/a	0.5	6%	2.7%	9%
Anhui Conch	914 HK	7,329	35.5	O	40.0	13%	65	21.4	18.7	11%	1.6	11%	0.8%	20%
CNBM	3323 HK	1,638	5.8	O	8.0	39%	34	8.3	6.1	19%	1.2	19%	2.1%	208%
Average							53	17.6	13.6		1.3	12%	3.0%	44%

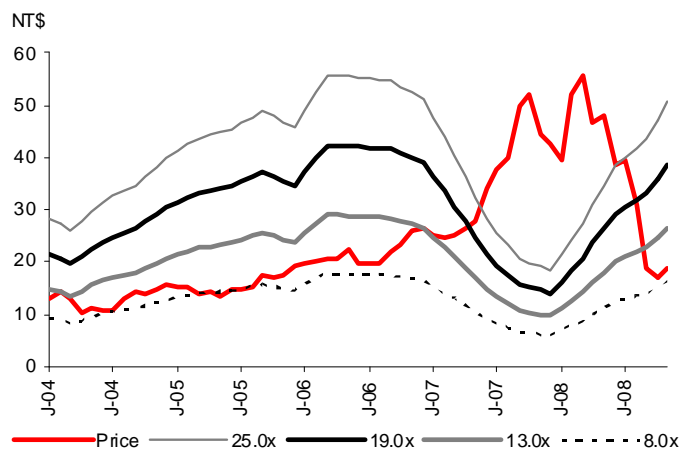
Source: Macquarie Research, November 2008 Pricing date: 10 November 2008

Fig 3 TCC forward P/BV band



Source: Company data, Macquarie Research, November 2008

Fig 4 TCC forward PER band (recurring EPS)



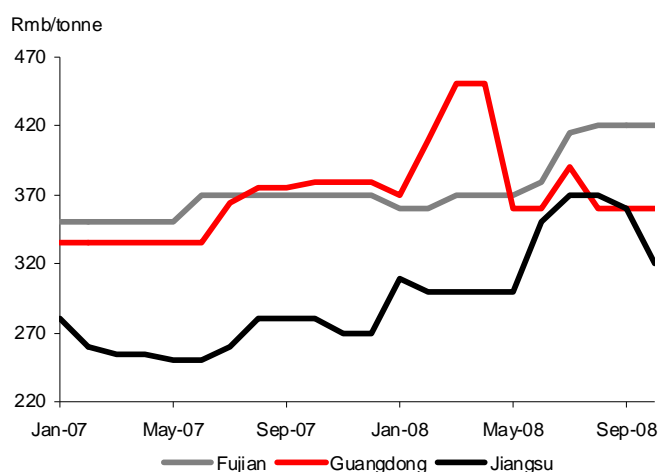
Source: Company data, Macquarie Research, November 2008

Fig 5 Profit breakdown

	2005	2006	2007	2008E	2009E	2010E
Taiwan cement/RMC business	2,248	3,212	1,861	592	2,053	2,523
China cement business	-53	-107	387	-377	-17	649
HoPing Power	1,339	1,735	1,798	865	3,555	1,957
Hoping Industrial Port	1,084	633	791	796	765	821
Taiwan Prosperity Chemical (4725 TT)	502	335	1,235	588	470	517
Ta-Ho Maritime	500	375	483	606	485	485
Taiwan Transport & Storage	176	683	276	327	327	327
Other	-20	44	1,424	1,929	-517	-649
Total	5,776	6,912	8,255	5,325	7,122	6,629
%						
Taiwan cement/RMC business	39%	46%	23%	11%	29%	38%
China cement business	-1%	-2%	5%	-7%	0%	10%
HoPing Power	23%	25%	22%	16%	50%	30%
Hoping Industrial Port	19%	9%	10%	15%	11%	12%
Taiwan Prosperity Chemical (4725 TT)	9%	5%	15%	11%	7%	8%
Ta-Ho Maritime	9%	5%	6%	11%	7%	7%
Taiwan Transport & Storage	3%	10%	3%	6%	5%	5%
Other	0%	1%	17%	36%	-7%	-10%

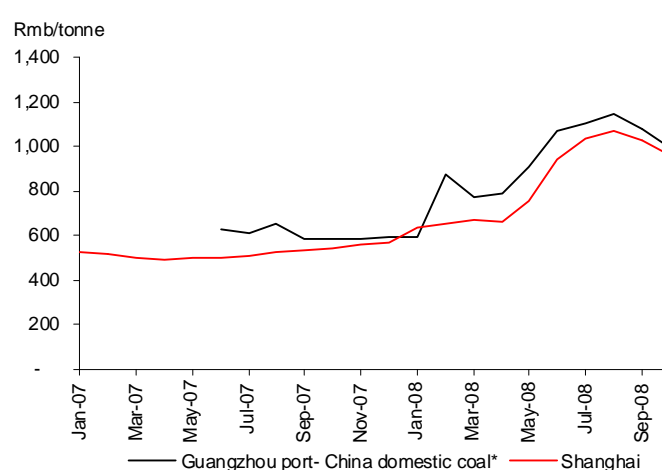
Source: Company data, Macquarie Research, November 2008

Fig 6 Cement price in Guangdong, Jiangsu and Fujian



Source: Digital Cement, Macquarie Research, November 2008

Fig 7 Coal price in Guangdong and Shanghai



Source: CCTD, Macquarie Research, November 2008

Fig 8 Capacity expansion plans in China

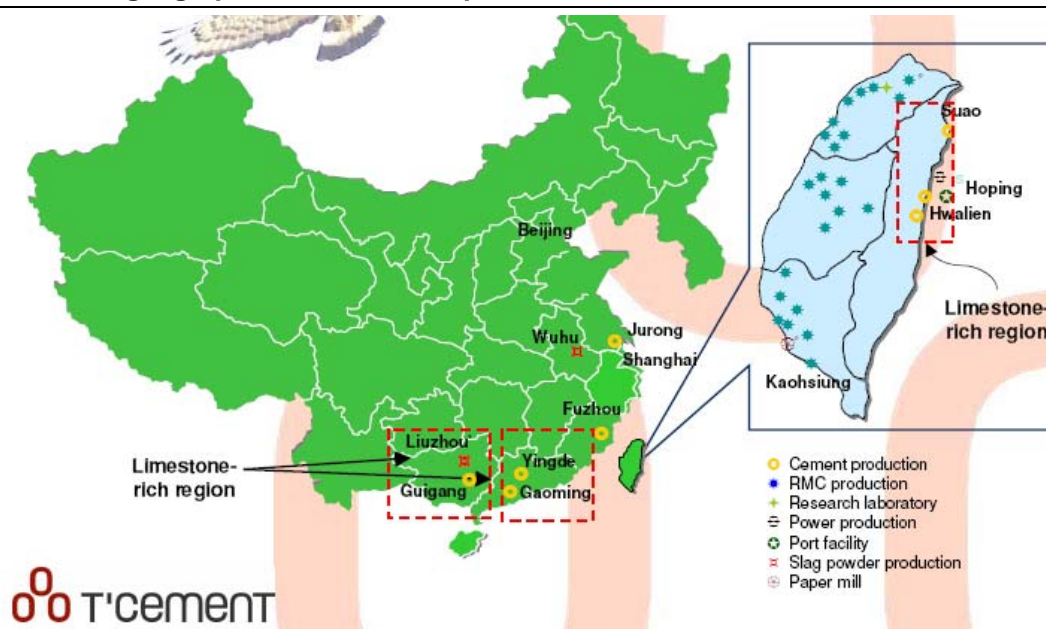
Year-end capacity (m tons)	TCC holding	2006	2007	2008E	2009E	2010E
Integrated plants						
Guangdong Yinde Plant	44%	4.5	4.5	9.0	9.0	13.5
Jiangsu Jurong	44%	0.0	2.3	2.3	4.5	4.5
Guangxi Guigang	100%	0.0	0.0	9.0	9.0	9.0
Total		4.5	6.8	20.3	22.5	27.0
YoY						
			50%	200%	11%	20%
% of total clinker/cement capacity						
Guangdong Yinde Plant		100%	67%	44%	40%	50%
Jiangsu Jurong		0%	33%	11%	20%	17%
Guangxi Guigang		0%	0%	44%	40%	33%
Cement grinding plants						
Fujian Fuzhou	44%	1.5	2.3	2.3	4.3	4.3
Guangdong Foshan Gaoming	44%	0.0	0.0	0.0	0.0	2.0
Slag powder grinding						
Guangxi Liuzhou	18%	0.7	1.4	1.4	2.0	1.4
Anhui King Bridge Cement	26%	0.7	0.7	0.7	0.7	0.7

Source: Company data, Macquarie Research, November 2008

Company profile

- Established in 1946, Taiwan Cement started as a government-owned producer. After its privatisation in 1954, the company expanded from cement production into other businesses, including power generation (Hoping Power, a 60%-held subsidiary), port management (Hoping Industrial Port, 100%-held), chemicals and transportation.
- In Taiwan, the company currently owns three cement production facilities with a total capacity of 11mt pa. In China, TCC invests through its 44%-owned subsidiary, Taiwan Cement International Holding, and produces and sells high-grade cement in eastern and southern China with a total capacity of 7mt pa.
- In 2007, TCC International Holding merged with Chia Hsin Cement Greater China, Chia Hsin Cement's holding company in China. Through the transaction, TCC acquired 2.25mt capacity and became one of the top-tier cement producers in China in terms of production capacity.
- According to the company, 22.8% of its outstanding shares are owned by the management team, 37% by foreign investors and 1.1% by local mutual funds.

Fig 9 TCC – geographic distribution of production facilities in Taiwan and China



Source: Company data, Macquarie Research, July 2008

Taiwan Cement (1101 TT, Outperform, Target price: NT\$22.50)

Quarterly Results					Profit & Loss						
		3Q/08A	4Q/08E	1Q/09E	2Q/09E		2007A	2008E	2009E	2010E	
Revenue	m	6,174	6,548	6,461	6,697	Revenue	m	24,565	24,983	26,286	26,364
Gross Profit	m	547	588	871	919	Gross Profit	m	3,274	1,901	3,589	4,013
Operating Expenses	m	-296	-329	-310	-273	Operating Expenses	m	-1,029	-1,174	-1,215	-1,193
Operating Income	m	251	259	561	646	Operating Income	m	2,245	727	2,373	2,821
Net Non-operating income	m	932	456	1,192	1,108	Net Non-operating income	m	6,394	4,092	5,068	4,106
Pre-Tax Income	m	1,183	715	1,753	1,754	Pre-Tax Income	m	8,639	4,818	7,442	6,927
Tax Expense	m	-84	-36	-75	-75	Tax Expense	m	-384	507	-320	-298
Exceptionals	m	81	0	0	0	Exceptionals	m	1,514	2,897	0	0
Minority Interests	m	0	0	0	0	Minority Interests	m	0	0	0	0
Reported Earnings	m	1,099	679	1,678	1,679	Reported Earnings	m	8,255	5,325	7,122	6,629
Reported Earnings (bonus exp)	m	1,099	679	1,678	1,679	Reported Earnings (bonus exp)	m	8,255	5,325	7,122	6,629
Bonus exp / Reported Earnings	%					Bonus exp / Reported Earnings	%				
Adjusted Earnings	m	1,018	679	1,678	1,679	Adjusted Earnings	m	6,741	2,429	7,122	6,629
EBITDA	m	702	832	1,021	1,106	EBITDA	m	4,271	2,655	4,213	4,576
EPS (rep)	NT\$	0.33	0.21	0.51	0.51	EPS (rep)	NT\$	2.52	1.61	2.16	2.01
EPS pcg growth (rep)	%	-66.0	-45.8	32.1	-25.1	EPS growth (rep)	%	14.3	-36.1	34.4	-6.9
EPS (rep bonus exp)	NT\$	0.33	0.21	0.51	0.51	EPS (rep bonus exp)	NT\$	2.52	1.61	2.16	2.01
EPS pcg growth (rep bonus exp)	%	-66.0	-45.8	32.1	-25.1	EPS growth (rep bonus exp)	%	14.3	-36.1	34.4	-6.9
EPS (adj)	NT\$	0.31	0.21	0.51	0.51	EPS (adj)	NT\$	2.06	0.74	2.16	2.01
EPS pcg growth (adj)	%	-49.5	-30.1	241.3	622.3	EPS growth (adj)	%	7.7	-64.3	194.1	-6.9
Revenue pcg growth	%	4.3	5.1	8.4	6.3	PE (rep)	x	7.4	11.6	8.7	9.3
Operating Income pcg growth	%	-40.3	-52.1	416.2	494.4	PE (rep bonus adj)	x	7.4	11.6	8.7	9.3
Reported Earnings pcg growth	%	-65.9	-45.6	30.8	-25.9	PE (adj)	x	9.1	25.5	8.7	9.3
Gross Profit Margin	%	8.9	9.0	13.5	13.7	Total DPS	NT\$	1.88	1.21	1.62	1.51
Operating Income Margin	%	4.1	3.9	8.7	9.6	Total Div Yield	%	10.0	6.5	8.6	8.0
Reported Earnings Margin	%	17.8	10.4	26.0	25.1	Weighted Average Shares	m	3,276	3,309	3,292	3,292
EBITDA Margin	%	11.4	12.7	15.8	16.5	Period End Shares	m	3,281	3,292	3,292	3,292
Profit and Loss Ratios		2007A	2008E	2009E	2010E	Cashflow Analysis		2007A	2008E	2009E	2010E
Revenue Growth	%	-5.8	1.7	5.2	0.3	Reported Earnings	m	8,255	5,325	7,122	6,629
Gross Profit Growth	%	-24.5	-41.9	88.8	11.8	Depreciation & Amortisation	m	2,027	1,929	1,840	1,756
Operating Income Growth	%	-30.8	-67.6	226.6	18.8	Chgs in Working Cap	m	-945	431	-254	-22
Reported Earnings Growth	%	19.4	-35.5	33.7	-6.9	Other	m	-3,477	-1,589	-597	-1,291
EBITDA Growth	%	-19.7	-37.8	58.7	8.6	Operating Cashflow	m	5,859	6,096	8,111	7,072
Gross Profit Margin	%	13.3	7.6	13.7	15.2	Acquisitions	m	-807	-807	-807	-807
Operating Income Margin	%	9.1	2.9	9.0	10.7	Capex	m	-155	-155	-155	-155
Reported Earnings Margin	%	33.6	21.3	27.1	25.1	Asset Sales	m	0	0	0	0
EBITDA Margin	%	17.4	10.6	16.0	17.4	Other	m	-146	0	0	0
Payout Ratio	%	91.4	164.4	74.8	74.8	Investing Cashflow	m	-1,108	-962	-962	-962
EV/EBITDA	x	7.4	11.3	7.6	7.9	Dividend (Ordinary)	m	-5,624	-6,172	-3,982	-5,325
EV/EBIT	x	9.2	16.1	9.3	9.8	Equity Raised	m	0	0	0	0
Balance Sheet Ratios						Debt Movements	m	-398	2,000	2,000	-1,000
ROE	%	9.0	3.2	9.9	8.9	Other	m	-1,258	-304	-201	-268
ROA	%	2.2	0.7	2.3	2.7	Financing Cashflow	m	-7,280	-4,477	-2,183	-6,593
ROIC	%	2.7	0.9	2.8	3.3	Net Chg in Cash/Debt	m	-2,528	657	4,966	-484
Net Debt/Equity	%	12.3	16.4	11.7	10.8	Free Cashflow	m	5,704	5,941	7,956	6,917
Interest Cover	x	4.5	1.4	3.8	3.7	FCF per Share	NT\$	1.74	1.80	2.42	2.10
Price/Book	x	0.7	0.9	0.8	0.8	P/FCF	x	10.8	10.4	7.8	8.9
Book Value per Share	NT\$	25.2	21.5	22.4	22.7	Balance Sheet		2007A	2008E	2009E	2010E
						Cash	m	6,698	7,355	12,321	11,837
						Receivables	m	4,574	4,713	4,959	4,974
						Inventories	m	1,972	1,920	1,888	1,859
						Investments	m	0	0	0	0
						Fixed Assets	m	38,571	36,797	35,112	33,512
						Intangibles	m	0	0	0	0
						Other Assets	m	57,788	49,053	50,457	52,556
						Total Assets	m	109,604	99,838	104,738	104,738
						Payables	m	1,879	2,397	2,357	2,321
						Short Term Debt	m	4,701	6,701	8,701	7,701
						Long Term Debt	m	12,223	12,223	12,223	12,223
						Provisions	m	0	0	0	0
						Other Liabilities	m	7,973	7,782	7,782	7,782
						Total Liabilities	m	26,777	29,102	31,062	30,026
						Total S/H Equity	m	82,827	70,737	73,676	74,712
						Total Liab & S/H Funds	m	109,604	99,838	104,738	104,738

All figures in NT\$ unless noted.
Source: Macquarie Research, November 2008

TAIWAN

Asia Cement

11 November 2008

1102 TT **Outperform**

Stock price as of 10 Nov 08	NT\$	22.10
12-month target	NT\$	25.00
Upside/downside	%	+13.1
Valuation	NT\$	31.30
- Sum of Parts		

GICS sector		materials
Market cap	NT\$m	64,063
30-day avg turnover	NT\$m	270.3
Market cap	US\$m	1,953
Number shares on issue	m	2,899

Investment fundamentals

Year end 31 Dec		2007A	2008E	2009E	2010E
Total revenue	m	10,746	10,533	11,511	11,814
Reported profit	m	10,100	8,934	8,659	9,560
Adjusted profit	m	9,962	9,160	8,659	9,560
EPS rep	NT\$	3.48	2.99	2.99	3.30
EPS rep growth	%	41.2	-14.1	-0.2	10.4
PE rep	x	6.3	7.4	7.4	6.7
Total DPS	NT\$	2.26	2.00	1.94	2.14
Total div yield	%	10.2	9.1	8.8	9.7
ROA	%	1.9	1.0	1.2	1.4
ROE	%	15.1	13.2	12.8	13.5
EV/EBITDA	x	7.7	9.2	10.2	9.0
Net debt/equity	%	23.3	29.9	29.2	28.6
Price/book	x	0.9	1.0	0.9	0.9

1102 TT rel Taixes performance, & rec history



Source: Datastream, Macquarie Research, November 2008 (all figures in NT\$ unless noted)

Analyst

Corinne Jian, CFA

886 2 2734 7522

corinne.jian@macquarie.com

Chris Lee, CFA

886 2 2734 7513

chris.lee@macquarie.com

Supported by reconstruction demand

Event

- We are upgrading Asia Cement (ACC) from Underperform to Outperform because we expect it to benefit from a coal-price decline and reconstruction demand in the Sichuan area.

Impact

- Benefit from reconstruction demand in Sichuan area.** China's government announced a stimulus package estimated at Rmb4tr that will be spent over the next two years. One of the ten major policies is to accelerate the reconstruction after the earthquake in Sichuan. Although we do not expect the cement price to increase, we believe that, in Sichuan, it should remain more resilient than in other areas of China. ACC plans to double its capacity to 4m tons in 2009, which should help it to increase its profits/ton in China.
- Expect margin expansion on lower coal cost in western China.** The coal price declined by 5% in Sichuan, while the cement price increased by 6% over the past three months, indicating upside for margin expansion. We estimate that coal costs account for 25–30% of the COGS of ACC's cement business in China. Our sensitivity analysis shows ACC's 2009E EPS could increase by 9% if the coal price were to decline by 10%.
- Less coal-price pressure in Taiwan.** ACC's operating margin declined to 5.9% in 3Q08 from 14.1% in 3Q07 as the coal price surged in 1H08. However, the Australian thermal coal price has declined by 48% since the high in July 2008. In Taiwan, ACC purchased its coal from Australia. Including the transportation cost, the current spot coal cost might still be higher than ACC's contract coal price of US\$100 for 2008; however, the cost pressure in 2009 could be less than in 2008. ACC will renegotiate the new contract price for 2009 by the end of 2008.

Earnings revision

- We are increasing our EPS forecasts by 9% and 17% for 2009/10, respectively, to reflect our lower coal-cost assumptions.

Price catalyst

- 12-month price target: NT\$25.00 based on a Sum of Parts methodology.
- Catalyst: Margin improvement in 4Q08.

Action and recommendation

- We are upgrading ACC to Outperform and raising our TP from NT\$17.0 to NT\$25.0, mainly to reflect the share-price increase of Far Eastern Textile (1402 TT, NT\$20.65, Outperform, TP: NT\$25.0) and the higher target EV/EBITDA for ACC's cement business in China, to incorporate our implied target US\$8–13x EV/EBITDA of our newly initiated Chinese cement companies.
- ACC is now trading at 1.0x P/BV and US\$53/ton based on our SOTP model, compared with 1.3x and US\$53/ton for its peers.

Analysis

Fig 1 ACC – Sum-of-Parts valuation summary

	Holding %*	Book value (NT\$m)	Fair Value (NT\$m)	Per Share (NT\$)	%	Method
Cement business in Taiwan	100%	3,577	9,358	3.2	8%	6x '09E EV/EBITDA
Cement business in China	68%	20,687	39,461	13.6	36%	8x '09E EV/EBITDA
Far Eastern Textile (1402 TT)	24%	17,148	18,692	6.4	17%	MV @ NT\$20.65/shr with 15% cross holding discount
U-ming Marine (2606 TT)	39%	10,163	14,595	5.0	13%	MV @ NT\$44.25/shr
Other long-term investment		29,859	23,887	8.2	22%	20% discount to BV
Non-operating assets	100%	5,142	4,627	1.6	4%	10% discount to BV
Net cash (debt)		-19,949	-19,949	-6.9		BV
RNAV		66,625	90,670	31.3		
Conglomerate discount					20%	
Target price				25.0		

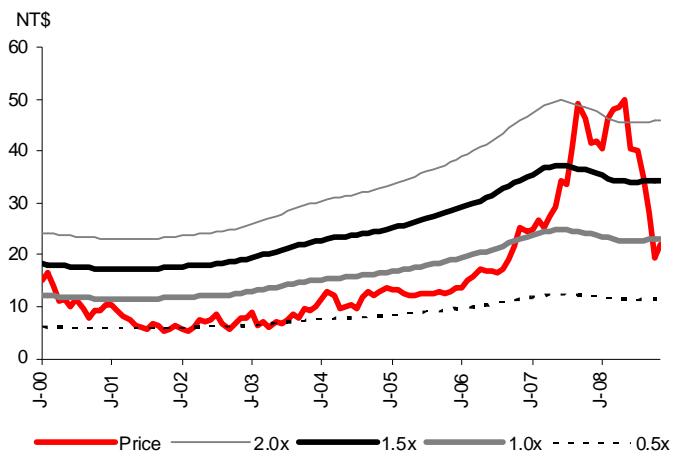
Source: Company data, Macquarie Research, November 2008

Fig 2 Peer valuation comparison

Name	Code	Market cap US\$m	Price Lcy	Rating	TP NT\$	Upside	EV/ton US\$	PER		08-10 EPS CAGR	PBR 2008E	ROE 2008E	Div yield 2008E	Net gearing 2008E*
								2008E	2009E					
Taiwan Cement	1101 TT	1,881	18.8	O	22.5	20%	22	25.4	8.7	65%	0.9	7%	6.5%	16%
Asia Cement	1102 TT	1,952	22.1	O	25.0	13%	53	7.0	7.4	2%	1.0	13%	9.1%	30%
Chia Hsin Cement	1103 TT	261	12.8	NR	n/a	n/a	n/a	7.1	5.8	n/a	0.5	7%	0.0%	13%
Goldsun	2504 TT	318	8.2	NR	n/a	n/a	n/a	7.4	7.7	n/a	0.5	6%	2.7%	9%
Anhui Conch	914 HK	7,329	35.5	O	40.0	13%	65	21.4	18.7	11%	1.6	11%	0.8%	20%
CNBM	3323 HK	1,638	5.8	O	8.0	39%	34	8.3	6.1	19%	1.2	19%	2.1%	208%
Average							53	17.6	13.6		1.3	12%	3.0%	44%

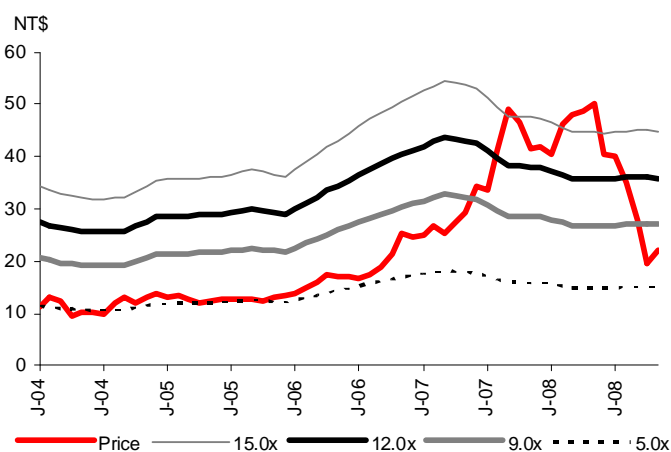
Source: Macquarie Research, November 2008 Pricing date: 10 November 2008

Fig 3 ACC forward P/BV band



Source: Company data, Macquarie Research, November 2008

Fig 4 ACC forward PER band (recurring EPS)



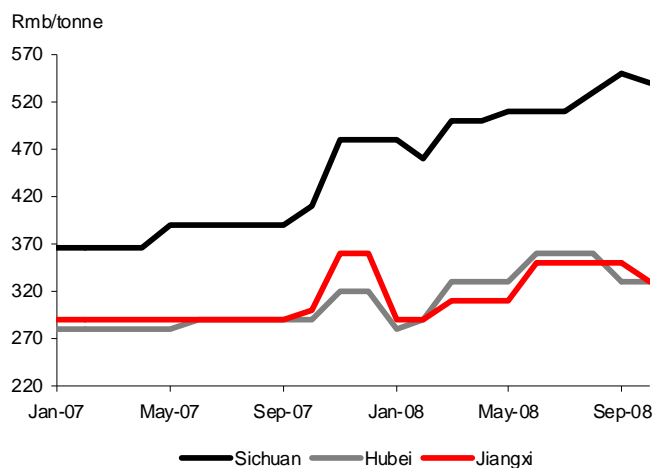
Source: Company data, Macquarie Research, November 2008

Fig 5 Profit breakdown

	2005	2006	2007	2008E	2009E	2010E
Cement business in Taiwan (after-tax)	1,635	1,789	1,349	670	756	879
Cement business in China	31	341	1,120	1,668	2,131	3,953
Far Eastern Textile (1402 TT)	1,542	1,471	2,092	1,149	1,029	1,316
U-ming Marine (2606 TT)	2,323	1,839	3,454	4,017	2,753	1,514
Other	1,089	1,713	2,085	1,431	1,990	1,898
Total	6,620	7,153	10,100	8,934	8,659	9,560
%						
Cement business in Taiwan (after-tax)	25%	25%	13%	8%	9%	9%
Cement business in China	0%	5%	11%	19%	25%	41%
Far Eastern Textile (1402 TT)	23%	21%	21%	13%	12%	14%
U-ming Marine (2606 TT)	35%	26%	34%	45%	32%	16%
Other	16%	24%	21%	16%	23%	20%

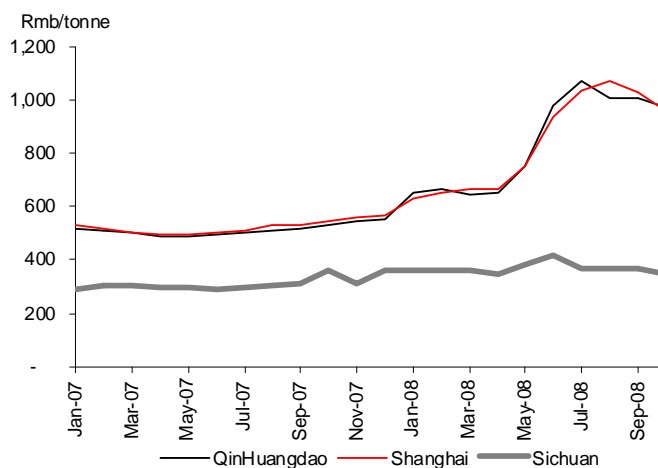
Source: Company data, Macquarie Research, November 2008

Fig 6 Cement price in Jiangxi, Sichuan, and Hubei



Source: Digital Cement, Macquarie Research, November 2008

Fig 7 Coal price in QinHuangdao, Shanghai, and Sichuan



Source: CCTD, Macquarie Research, November 2008

Fig 8 Asia Cement – year-end cement capacity in China

Plants (m tonne)	Location	2005A	2006A	2007A	2008E	2009E	2010E
Jiangxi Yadong	Jiangxi	4.0	4.0	6.0	6.0	6.0	8.0
Sichuan Yadong	Sichuan	0.0	2.0	2.0	4.0	4.0	6.0
Hubei Yadong	Hubei	0.0	0.0	0.0	0.0	2.0	2.0
Huanggang Yadong	Hubei	0.0	0.0	0.0	0.0	0.0	2.0
Total capacity		4.0	6.0	8.0	10.0	12.0	18.0

Source: Macquarie Research, November 2008

Company profile

- Founded in 1957, Asia Cement (ACC) is currently the second-largest cement producer in Taiwan, with a market share of 28%, second only to Taiwan Cement (37% share). With two facilities located in Hsinchu and Hualien, the company produces about 5.5mtpa of cement, of which 3.5mt is for domestic demand and the remainder for export.
- Through its 72%-owned subsidiary, Asia Cement (China) Holdings Co, Asia Cement owns several cement production facilities along the Yangtze River with an annual cement output of 8mt. Total capacity is expected to increase to 16mt by the end of 2010.
- In May 2008, Asia Cement (China) Holdings went public on the Hong Kong Stock Exchange to raise capital for further expansion in China. After the transaction, Asia Cement's holding in the subsidiary fell to 72% from the original 94%.

- With regard to the shareholder structure, 47% of the outstanding shares are owned by the management team (including 24% by FET), 22.6% by foreign investors and 2% by local mutual funds.

Fig 9 Asia Cement – production and distribution sites in China



Source: Company data, Macquarie Research, August 2008

Asia Cement (1102 TT, Outperform, Target price: NT\$25.00)

Quarterly Results					Profit & Loss						
		3Q/08A	4Q/08E	1Q/09E	2Q/09E		2007A	2008E	2009E	2010E	
Revenue	m	2,407	2,921	2,924	2,865	Revenue	m	10,746	10,533	11,511	11,814
Gross Profit	m	295	507	544	457	Gross Profit	m	2,113	1,678	1,888	2,174
Operating Expenses	m	-154	-200	-192	-202	Operating Expenses	m	-380	-707	-772	-792
Operating Income	m	141	307	352	256	Operating Income	m	1,733	971	1,116	1,382
Net Non-operating income	m	1,590	1,888	2,108	2,322	Net Non-operating income	m	8,751	8,264	7,903	8,681
Pre-Tax Income	m	1,731	2,195	2,460	2,577	Pre-Tax Income	m	10,484	9,235	9,019	10,063
Tax Expense	m	-47	-110	-98	-103	Tax Expense	m	-384	-300	-361	-503
Exceptionals	m	0	0	0	0	Exceptionals	m	138	-225	0	0
Minority Interests	m	0	0	0	0	Minority Interests	m	0	0	0	0
Reported Earnings	m	1,684	2,085	2,362	2,474	Reported Earnings	m	10,100	8,934	8,659	9,560
Reported Earnings (bonus exp)	m	1,684	2,085	2,362	2,474	Reported Earnings (bonus exp)	m	10,100	8,934	8,659	9,560
Bonus exp / Reported Earnings	%					Bonus exp / Reported Earnings	%				
Adjusted Earnings	m	1,684	2,085	2,362	2,474	Adjusted Earnings	m	9,962	9,160	8,659	9,560
EBITDA	m	252	466	463	366	EBITDA	m	2,224	1,461	1,560	1,825
EPS (rep)	NT\$	0.58	0.72	0.81	0.85	EPS (rep)	NT\$	3.48	2.99	2.99	3.30
EPS pcg growth (rep)	%	-38.5	-7.7	-12.6	14.0	EPS growth (rep)	%	41.2	-14.1	-0.2	10.4
EPS (rep bonus exp)	NT\$	0.58	0.72	0.81	0.85	EPS (rep bonus exp)	NT\$	3.48	2.99	2.99	3.30
EPS pcg growth (rep bonus exp)	%	-38.5	-7.7	-12.6	14.0	EPS growth (rep bonus exp)	%	41.2	-14.1	-0.2	10.4
EPS (adj)	NT\$	0.58	0.72	0.81	0.85	EPS (adj)	NT\$	3.44	3.05	2.99	3.30
EPS pcg growth (adj)	%	-38.5	-3.0	-13.1	4.6	EPS growth (adj)	%	42.6	-11.1	-2.2	10.4
Revenue pcg growth	%	-5.4	7.2	10.8	11.6	PE (rep)	x	6.3	7.4	7.4	6.7
Operating Income pcg growth	%	-60.6	-6.2	14.2	19.2	PE (rep bonus adj)	x	6.3	7.4	7.4	6.7
Reported Earnings pcg growth	%	-38.5	-7.7	-17.5	7.5	PE (adj)	x	6.4	7.2	7.4	6.7
Gross Profit Margin	%	12.2	17.3	18.6	16.0	Total DPS	NT\$	2.26	2.00	1.94	2.14
Operating Income Margin	%	5.9	10.5	12.0	8.9	Total Div Yield	%	10.2	9.1	8.8	9.7
Reported Earnings Margin	%	70.0	71.4	80.8	86.4	Weighted Average Shares	m	2,899	2,986	2,899	2,899
EBITDA Margin	%	10.5	16.0	15.8	12.8	Period End Shares	m	2,899	2,899	2,899	2,899
Profit and Loss Ratios					Cashflow Analysis						
		2007A	2008E	2009E	2010E		2007A	2008E	2009E	2010E	
Revenue Growth	%	-0.6	-2.0	9.3	2.6	Reported Earnings	m	10,100	8,934	8,659	9,560
Gross Profit Growth	%	-23.7	-20.6	12.5	15.1	Depreciation & Amortisation	m	490	490	443	443
Operating Income Growth	%	-26.9	-44.0	15.0	23.8	Chgs in Working Cap	m	-329	114	-200	-33
Reported Earnings Growth	%	41.2	-11.5	-3.1	10.4	Other	m	-5,605	-2,687	-2,423	-4,080
EBITDA Growth	%	-22.5	-34.3	6.7	17.0	Operating Cashflow	m	4,657	6,851	6,479	5,891
Gross Profit Margin	%	19.7	15.9	16.4	18.4	Acquisitions	m	-2,530	-1,211	0	0
Operating Income Margin	%	16.1	9.2	9.7	11.7	Capex	m	-353	-300	-300	-300
Reported Earnings Margin	%	94.0	84.8	75.2	80.9	Asset Sales	m	27	0	0	0
EBITDA Margin	%	20.7	13.9	13.5	15.5	Other	m	-230	-1,281	0	0
Payout Ratio	%	65.9	65.6	65.0	65.0	Investing Cashflow	m	-3,086	-2,792	-300	-300
EV/EBITDA	x	7.7	9.2	10.2	9.0	Dividend (Ordinary)	m	-3,798	-6,563	-5,806	-5,626
EV/EBIT	x	8.1	9.7	10.8	9.4	Equity Raised	m	0	0	0	0
Balance Sheet Ratios						Debt Movements	m	3,000	4,399	1,500	800
ROE	%	15.1	13.2	12.8	13.5	Other	m	-398	-618	-546	-529
ROA	%	1.9	1.0	1.2	1.4	Financing Cashflow	m	-1,197	-2,782	-4,852	-5,356
ROIC	%	2.3	1.1	1.2	1.5	Net Chg in Cash/Debt	m	374	1,277	1,327	235
Net Debt/Equity	%	23.3	29.9	29.2	28.6	Free Cashflow	m	4,303	6,551	6,179	5,591
Interest Cover	x	4.6	1.7	1.7	1.9	FCF per Share	NT\$	1.48	2.19	2.13	1.93
Price/Book	x	0.9	1.0	0.9	0.9	P/FCF	x	14.9	10.1	10.4	11.5
Book Value per Share	NT\$	24.9	23.0	23.8	25.0	Balance Sheet		2007A	2008E	2009E	2010E
						Cash	m	2,476	3,754	5,081	5,316
						Receivables	m	1,052	1,057	1,156	1,186
						Inventories	m	1,891	1,803	1,960	1,963
						Investments	m	0	0	0	0
						Fixed Assets	m	1,965	1,773	1,630	1,523
						Intangibles	m	0	0	0	0
						Other Assets	m	89,936	86,386	88,809	92,853
						Total Assets	m	97,320	94,775	98,636	102,841
						Payables	m	592	624	678	679
						Short Term Debt	m	2,410	3,910	5,410	6,210
						Long Term Debt	m	16,895	19,794	19,794	19,794
						Provisions	m	0	0	0	0
						Other Liabilities	m	5,104	3,822	3,822	3,822
						Total Liabilities	m	25,000	28,150	29,704	30,505
						Total S/H Equity	m	72,320	66,625	68,932	72,336
						Total Liab & S/H Funds	m	97,320	94,775	98,636	102,841

All figures in NT\$ unless noted.
Source: Macquarie Research, November 2008

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts)
 Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)
 Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie First South - South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of benchmark return
 Neutral (Hold) – return within 5% of benchmark return
 Underperform (Sell) – return >5% below benchmark return

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – 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.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ/Canada stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
 Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / epwpa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

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%

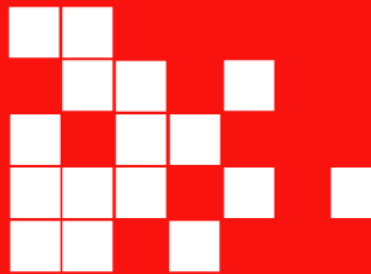
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Asia Research

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
Hiu-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 Gambrell (Thailand) (662) 694 7753

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
Chris Cheng (China, Hong Kong) (852) 2823 3581
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 Tomatrichitr (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
Bin Liu (China) (852) 2249 3634
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

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
Kakutoshi Otori (Japan) (813) 3512 7296
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
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
Alastair Macdonald (Thailand) (662) 694 7741

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Email macresearch@macquarie.com for access

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

Regional Heads of Sales cont'd

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
Mona Lee (Hong Kong) (852) 2823 3519
Stuart Goddard (Europe) (44) 20 7065 2033

Sales Trading cont'd

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
Hedge Fund Sales - Darin Lester (852) 2823 4736
Structured Products - Andrew Terlich (852) 2249 3225