

Top story

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Venture (VMS SP)

Rating: **2**

Bottom line is distorted by non-cash charges

Target price: **S\$5.60**

- In Venture's 4Q08 results, we liked its strong cash generation capability, management's intention on potentially raising the cash dividend next year, but we disliked its weak net profit.
- We have lowered our 2009 net profit forecast by 7%.
- We maintain our **2 (Outperform)** rating because of Venture's high and sustainable dividend yield of 12% and defensive earnings base.

-- Pranab Sarmah

Results and economic announcements

Date	Country & indicator	Forecasts (%)	
		Daiwa	Consensus
20 Feb	Malaysia CPI (YoY) - Jan-09	3.8	4.1
20 Feb	US CPI (MoM) - Jan-09	0.2	0.3

Source: Bloomberg, Daiwa forecasts

Date	Company	EPS forecasts		
		Daiwa	Consensus	Results
20 Feb	Parkson	Rmb0.293	Rmb0.308	FY08
2 Mar	HSBC	HK\$7.532	HK\$8.743	FY08
2 Mar	Hang Seng Bank Hong Kong	HK\$7.355	HK\$8.224	FY08
4 Mar	Exchanges & Clearing	HK\$4.554	HK\$4.598	FY08
12 Mar	Wing Hang Bank	HK\$4.592	HK\$4.287	FY08

Source: Daiwa

Corporate event calendar

Date	Company	Event	Venue
18-20 Feb	NHN	NDR	JP
20 Feb	Cerebos Pacific	Luncheon	SG
23-25 Feb	Venture	Telecon.	JP/Asia/US/EU
23-26 Feb	Shriram Transport	NDR	SG/HK
23-25 Feb	SK Comm	NDR	KR
24-25 Feb	Sihuan	NDR	SG
24 Feb	Woodside Petroleum	Video Con.	JP
24 Feb	Yangzijiang Shipbuilding	NDR	SG
25 Feb	Woodside Petroleum	Telecon.	SG
25 Feb	Straits Asia Resources	NDR	SG
26-27 Feb	Sintex Industries Ltd	NDR	EU
26 Feb	China South Locomotive & Rolling	Telecon.	US
2-4 Mar	CJ Internet	NDR	EU
2 & 4-5 Mar	Golden Agri-Resources	NDR	SG/JP

Source: Daiwa

Regional indices

Market	Performance chg (%)			EPS growth (%)		PER (x)	
	1D	1M	YTD	08E	09E	08E	09E
HSI	0.1	(2.4)	(9.5)	(2.4)	12.7	10.7	9.5
HSCEI	0.7	0.3	(7.9)	0.8	13.7	10.1	8.9
KOSPI	(0.5)	(3.8)	(1.5)	12.0	36.1	11.1	8.2
TWSE	0.7	3.7	(1.4)	(41.2)	98.4	23.3	12.5
FSSTI	(1.3)	(6.7)	(7.5)	(13.9)	8.5	7.3	6.7
ASX 200	1.0	(3.9)	(7.3)	(5.9)	(0.1)	10.5	10.5
TOPIX	0.3	(8.1)	(12.5)	(68.7)	59.6	28.9	18.0

Source: Datastream

Rating:	1 (Buy)	4 (Underperform)
	2 (Outperform)	5 (Sell)
	3 (Hold)	

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Venture (VMS SP)

Rating: 2

Bottom line is distorted by non-cash charges

Electronics: Singapore

Pranab Kumar Sarmah, CFA (852) 2848 4441 (pranab@dir.com.hk)

Target price: **S\$5.60** (+35.9%)

Share price: S\$4.12 (19 Feb)

Reuters code VENM.SI

What has changed?

Market data

FSSTI		1,629
Market cap	(US\$m)	740.24
EV	(US\$m: 09E)	313.3
3-mth avg daily T/O	(US\$m)	3.42
Shares outstanding	(m)	274
Free float	(%)	59.0
Major shareholder	Aberdeen Asset Management (17.1%)	
Exchange rate	S\$/US\$	1.526

Performance (%)*	1M	3M	6M
Absolute	(3.1)	(3.3)	(54.4)
Relative	3.9	(1.1)	(23.7)

Source: Daiwa
Note: *Relative to FSSTI

Investment indicators

	2009E	2010E	2011E
PER (x)	5.5	4.9	4.5
PCFR (x)	2.5	5.3	5.3
EV/EBITDA (x)	1.8	1.7	1.6
PBR (x)	0.6	0.6	0.5
Dividend yield (%)	12.1	13.3	14.6
ROE (%)	10.6	11.4	11.9
ROA (%)	7.4	8.6	8.9
Net debt equity (%)	Net cash	Net cash	Net cash

Source: Daiwa forecasts

Income summary (S\$m)

Yr to 31 Dec	2008	2009E	2010E	2011E
Revenue	3,784	3,170	3,422	3,742
YoY (%)	(2.3)	(16.2)	8.0	9.3
EBITDA	226.9	260.9	282.6	299.4
YoY (%)	(35.9)	15.0	8.3	5.9
Net profit	166.7	205.2	228.5	248.4
YoY (%)	(44.4)	23.1	11.4	8.7
EPS (S\$)	0.608	0.748	0.833	0.906
YoY (%)	(44.5)	23.1	11.4	8.7
CFPS* (S\$)	1.419	1.619	0.772	0.770
DPS (S\$)	0.500	0.500	0.550	0.600

Source: Company, Daiwa forecasts
Note: * Operating CFPS

Price and relative performance



Source: Bloomberg, Daiwa

Earnings-forecasts revisions (S\$m)

	FY09E	FY10E
Rev - new	3,170	3,422
Rev - old	3,312	3,571
Change (%)	(4.3)	(4.2)
NP - new	205	229
NP - old	220	243
Change (%)	(6.9)	(5.9)
EPS(Sc) - new	74.8	83.3
EPS(Sc) - old	80.6	88.8
Change (%)	(7.2)	(6.2)

Source: Daiwa forecasts

- In Venture's 4Q08 results, we liked its strong cash generation capability, improving financial health, and management's intention on potentially raising the cash dividend next year, but we disliked the weak net profit.

Impact

- Fear came true.** Venture recorded a net profit of S\$167m for 2008, below the Bloomberg-consensus forecast of S\$234m and our forecast of S\$202m. We had highlighted the risk in our company note dated 2 February 2009. Its 4Q08 net profit was only S\$4.6m, down 94% YoY and below our forecast of S\$40m, mainly due to lower-than-expected improvement to the gross profit margin and the S\$57.6m provision on its collateralised debt obligation (CDO) that is due in December 2009. The 4Q08 revenue of S\$907m was down 6% QoQ, in line with our forecast. Cash on hand at the end of 4Q08 was S\$514m, up from S\$314m a quarter ago, due to sharp reductions in inventory and receivables. Since the acquisition of GES International in 4Q06, Venture has been in a net debt position, but turned net-cash in 4Q08. Inventory days dropped to 53 from 64 a quarter ago.

- Decent comment on outlook.** Management commented that Venture is not insulated from the weakening global economy; however, it hopes to leverage on its financial health, design capability and operational excellence to engage in new business opportunities. Management expects to sustain or improve profit margins through more ODM projects and various cost-cutting measures. The book value of its CDO is now only S\$18.8m (face value of S\$167.8m). Should Venture be able to recover most of the loss, management may consider a special dividend next year on the top of the regular cash dividend of S\$0.50/share.

Valuation

- Venture is trading at a PER of only 5.5x on our FY09 EPS forecast, while its major EMS peers globally are trading at PERs of 4.6-8.4x on the Bloomberg-consensus FY09 EPS forecasts. We have lowered our six-month target price from S\$5.90 to S\$5.60, based on a target PER of 7.5x on our fully diluted FY09 EPS forecast.

Catalysts and action

- We have lowered Venture's 2009 revenue and net profit forecasts by 4% and 7% respectively. We expect Venture's 1Q09 revenue to decline 19% QoQ, remain at a low level in 2Q09 and recover slowly from 3Q09.
- We maintain our **2 (Outperform)** rating because of the company's strong cash-generation capability (it has a business model that requires a low capex but generates a healthy profit margin), defensive earnings base (diversified customers/products) and a high and sustainable dividend yield.

Venture: 4Q08 results and forecasts (S\$m)

	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09E	2Q09E	4Q08E	Diff	
Sales	963	939	973	966	907	733	759	909	(2)	Weak networking biz
Operating income	69	52	65	40	2	42	48	52	(51)	Low gross margins and CDO loss of S\$58m (our forecast S\$40m)
Profit before tax	77	59	69	41	4	42	50	42	(38)	S\$6.3m impairment
Net profit	74	56	66	40	5	41	48	40	(36)	(our forecast S\$21m)
OP margin (%)	7.1	5.5	6.7	4.1	0.2	5.7	6.3	5.8	(5.6pp)	
Net margin (%)	7.7	6.0	6.7	4.2	0.5	5.5	6.4	4.4	(3.9pp)	

Source: Company, Daiwa forecasts Note: ■ = below our forecast ■ = above our forecast

Hong Kong Economy

2009/10 government-budget preview

Economy: China

Kevin Lai (852) 2848 4926 (kevin.lai@dir.com.hk)

Summary

- We do not expect any major fireworks in the 2009/10 budget, due to be announced on 25 February. However, we believe a budget deficit of less than HK\$50bn for the year would be a huge disappointment.

Fundamentals

- We forecast a HK\$10bn surplus for FY08/09 (0.6% of GDP), better than the HK\$7.5bn deficit originally budgeted (and already very modest), but an embarrassment for the government. The surplus would take Hong Kong's financial reserves to HK\$503bn (30% of GDP or 1.9x annual government spending).
- We believe this 'improvement' is due mainly to a shortfall in spending. For the first nine months of FY08/09, the government spent HK\$205bn, only 65% of the HK\$313bn budgeted for the full year. Together with the HK\$11bn in extra spending announced in July 2008, we forecast a spending shortfall of HK\$29bn.
- In other words, financial policy over the past 12 months has been too conservative, in our view. We would be pleased to see the full-year deficit exceed HK\$20bn. We believe a surplus makes no sense in the current economic downturn.
- We expect job creation to top the budget agenda. While tax concessions and cash handouts are also on the cards, we would not expect these to match the scale and variety of those for FY08/09 (as much as HK\$56bn was handed out). Overall, we forecast a budget deficit of HK\$54bn for FY09/10 (3% of GDP). Anything below that we would view as a disappointment.
- **Jobs.** We expect a plan to offer 6,500 jobs in the public sector. In addition to the 12,500 new jobs announced in January, this would reduce the unemployment rate by 0.5 of a percentage point. We also expect a subsidy programme to be introduced for companies to hire graduates as interns, at HK\$2,000-3,000 per month for each graduate. As large-scale infrastructure projects begin to take off, there would be another 250,000 new jobs created over a period of five years. As such, we forecast the unemployment rate to peak at 5.5% by the end of 2Q09.
- **One-off measures to be less generous than last year.** We forecast a waiver of 50% of personal-income tax, up to a maximum of HK\$5,000. We also expect a waiver of government rates, for two quarters only, up to a maximum of HK\$5,000/quarter.
- **Extending mortgage-relief measures.** We believe the policy on providing homeowners with tax relief (up to HK\$100,000/year) on mortgage interest payments will be extended for five more years.
- **No change in tax rates.** We do not expect any more cuts in either the profit or personal-income tax rates.
- **4Q08 GDP** will be announced together with the budget. We forecast a 1% YoY contraction, versus the Bloomberg-consensus forecast of a 1.5% decline. This compares with a 1.7% rise in GDP for 3Q08. Growth declined across the board for 4Q08, but a sharp decline in oil and food prices has removed some of the 'growth tax' on the economy, as indicated by a HK\$14bn improvement in the trade deficit for the quarter (3% of GDP).

Meadville (3313 HK)

Rating: 4

FY08 results preview: we forecast a 19% YoY decline in core earnings

Electronics: Hong Kong

Joseph Ho, CFA (852) 2848 4443 (joseph.ho@dir.com.hk)

Target price: **HK\$0.78** (-16.1%)

Share price: HK\$0.93 (19 Feb)

Reuters code 3313.HK

What has changed?

Market data

HSI		13,023
Market cap	(US\$m)	235.54
EV	(US\$m; 08E)	590.3
3-mth avg daily T/O	(US\$m)	0.16
Shares outstanding	(m)	1,964
Free float	(%)	20.0
Major shareholder	Hsiang Chien Tang	(70.9%)
Exchange rate	HK\$/US\$	7.754

Performance (%)*	1M	3M	6M
Absolute	25.7	(2.1)	(51.6)
Relative	28.7	(3.7)	(23.8)

Source: Daiwa
Note: *Relative to HSI

Investment indicators

	2008E	2009E	2010E
PER (x)	4.0	5.9	5.1
PCFR (x)	2.2	2.2	2.6
EV/EBITDA (x)	4.3	5.1	4.6
PBR (x)	0.7	0.6	0.6
Dividend yield (%)	7.7	3.4	3.9
ROE (%)	17.5	10.6	11.3
ROA (%)	5.6	3.5	3.9
Net debt equity (%)	95.9	74.6	57.7

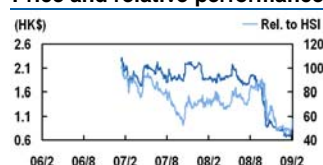
Source: Daiwa forecasts

Income summary (HK\$m)

Yr to 31 Dec	2007	2008E	2009E	2010E
Revenue	4,490	5,177	5,112	5,639
YoY (%)	43.0	15.3	(1.3)	10.3
EBITDA	789.0	1,057.0	906.4	1,000.1
YoY (%)	16.2	34.0	(14.2)	10.3
Net profit	341.7	463.3	315.2	365.2
YoY (%)	6.8	35.6	(32.0)	15.8
EPS (HK\$)	0.171	0.232	0.158	0.183
YoY (%)	6.8	35.6	(32.0)	15.8
CFPS (HK\$)	0.589	0.427	0.424	0.362
DPS (HK\$)	0.060	0.071	0.032	0.037

Source: Company, Daiwa forecasts

Price and relative performance



Source: Bloomberg, Daiwa

Earnings-forecasts revisions (HK\$m)

	FY08E	FY09E	FY10E
Revenue - new	5,177	5,112	5,639
Revenue - old	5,658	5,112	5,639
Change (%)	(8.5)	-	-
Net profit - new	463	315	365
Net profit - old	521	315	365
Change (%)	(11.0)	-	-

Source: Daiwa forecasts

- Meadville will report its FY08 results on 25 February 2009.

Impact

- Margin contraction.** Excluding non-cash share-award expenses, we forecast a 19% YoY decline in core earnings to HK\$480m (Bloomberg-consensus forecast: 12% YoY decline to HK\$522m) on a 15% YoY rise in sales for FY08 to HK\$5,177m (Bloomberg-consensus forecast: HK\$5,484m). We forecast the gross-profit margin for 2H08 to drop to about 18.5% (2H07: 24.4%) due to price-cutting to attract orders and a fall in capacity utilisation for 4Q08.
- Polarised demand outlook.** Demand from Nokia for printed circuit boards (PCBs) for handsets remains weak. Meadville trimmed its workforce in 4Q08 by 15% to about 11,000 employees and has temporarily closed its Suzhou plant (mainly for handset PCBs) to reduce overheads. Meanwhile, demand from Huawei (unlisted), Ericsson and ZTE (763 HK, HK\$24.55, 3) for base-station PCBs remains strong. We expect Huawei to continue to be Meadville's top customer for 2H08, accounting for about 12% of revenue.

Valuation

- The stock is trading at a PER of 5.9x and a PBR of 0.6x on our FY09 EPS and BVPS forecasts, respectively, compared with the industry average PER of 7.6x and PBR of 0.6x for FY09.

Catalysts and action

- We have a 4 (*Underperform*) rating on the stock due to its high net gearing and the reduction in customer orders in 4Q08. The share price traded below our target price of HK\$0.78 (based on 0.5x on our FY09 BVPS forecast) in early January. It started to rebound this week, as the award of 3G network-equipment contracts in China is translating into PCB orders for the company, and we believe concern about the effects of the credit crunch on small-cap companies is easing. We will issue an update after the company has reported its results.

Meadville: interim-income statements (HK\$m)

	1H07	2H07	1H08	2H08E	2007	2008E	YoY chg (%)
Turnover	1,989	2,501	2,705	2,472	4,490	5,177	15
Gross profit	449	611	532	457	1,060	990	(7)
Other operating income	65	112	87	60	177	147	
Operating expenses	(197)	(288)	(214)	(209)	(485)	(422)	(13)
Share award expenses	(246)	(9)	(9)	(9)	(255)	(17)	
Operating profit	71	426	397	300	497	697	40
Interest income	23	5	3	3	27	5	
Finance costs	(54)	(56)	(67)	(70)	(110)	(137)	
Associate	47	61	50	20	108	70	
PBT	87	436	383	253	523	636	22
Taxation	(38)	(34)	(55)	(38)	(72)	(93)	
MI	(47)	(62)	(49)	(30)	(109)	(79)	
Net profit	2	340	279	185	342	463	36
NP (excl. share-award expenses)	248	349	287	193	596	480	(19)
Gross-profit margin (%)	22.6	24.4	19.7	18.5	23.6	19.1	(4.5) p.p.
Net-profit margin (%)	0.1	13.6	10.3	7.5	7.6	8.9	1.3 p.p.
Effective tax (%)	43.4	7.9	14.4	15.0	13.8	14.7	0.9 p.p.

Source: Company, Daiwa forecasts

Chaoda Modern Agriculture (682 HK)

Rating: 1

Share placement helps to ease liquidity concerns

Food, beverage and tobacco: China

Alex Fan, CFA (852) 2848 4431 (alex.fan@dir.com.hk)

Target price: **HK\$7.10** (+26.3%)

Share price: HK\$5.62 (19 Feb)

Reuters code 0682.HK

What has changed?

Market data

HSI		13,023
Market cap	(US\$bn)	1.85
EV	(US\$bn: 09E)	2.0
3-mth avg daily T/O	(US\$m)	4.81
Shares outstanding	(m)	2,548
Free float	(%)	74.8
Major shareholder	Mr. Kwok Ho (25.2%)	
Exchange rate	Rmb/US\$	6.835
	HK\$/US\$	7.754

Performance (%)*	1M	3M	6M
Absolute			
Relative	5.4	13.0	19.5

Source: Daiwa

Note: *Relative to HSI

Investment indicators

	2009E	2010E	2011E
PER (x)	3.9	3.3	2.8
PCFR (x)	3.4	2.9	2.5
EV/EBITDA (x)	3.7	3.2	2.9
PBR (x)	0.9	0.7	0.6
Dividend yield (%)	1.3	1.5	3.5
ROE (%)	25.3	23.2	21.5
ROA (%)	20.6	21.6	21.0
Net debt equity (%)	7.2	Net cash	Net cash

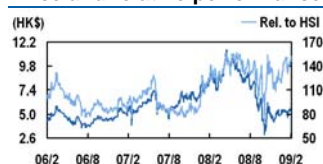
Source: Daiwa forecasts

Income summary (Rmb m)

Yr to 30 Jun	2008	2009E	2010E	2011E
Revenue	5,033	6,315	7,372	8,429
YoY (%)	30.7	25.5	16.7	14.3
EBITDA	3,073	3,707	4,245	4,778
YoY (%)	34.7	20.7	14.5	12.6
Net profit	1,956	3,191	3,687	4,200
YoY (%)	12.9	63.2	15.5	13.9
EPS (Rmb)	0.776	1.245	1.403	1.598
YoY (%)	11.9	60.5	12.6	13.9
EPS (HK\$)	0.881	1.450	1.696	1.978
CFPS (Rmb)	0.938	1.420	1.590	1.804
DPS (Rmb)	0.027	0.062	0.070	0.160
DPS (HK\$)	0.031	0.072	0.085	0.198

Source: Company, Daiwa forecasts

Price and relative performance



Source: Bloomberg, Daiwa

Earnings-forecasts revisions (Rmb m)

	FY09E	FY10E	FY11E
Net profit - new	3,191	3,687	4,200
Net profit - previous	3,191	3,687	4,200
Change (%)	0	0	0
EPS (Rmb) - new	1.245	1.403	1.598
EPS (Rmb) - previous	1.262	1.458	1.661
Change (%)	(1.3)	(3.8)	(3.8)

Source: Daiwa forecasts

- A successful share placement by Chaoda Modern Agriculture (Chaoda) yesterday should relieve market concerns about the company's debt-repayment risk, while we believe the resulting EPS dilution is manageable.

Impact

- According to Bloomberg, Chaoda placed 80.4m new shares in the market at HK\$4.94-5.17 per share (an 8-12% discount to yesterday's closing price). Based on the mid-point of the placement price, the proceeds would amount to HK\$406m (about Rmb358m).
- We estimate the shareholding of the company chairman, Kwok Ho, would be reduced from 25.2% to 24.4%, and the EPS dilution to Chaoda would be 3.2%.
- We expect the company to use the proceeds, together with its cash on hand (Rmb1.28bn as at 30 June 2008), to finance the redemption of Rmb1.4bn of convertible bonds (CB) in May 2009. While we believe Chaoda was able to repay its CBs even before the share placement, given its strong cash flow and capex flexibility, the increased capital should reduce market concerns about the company's debt-repayment ability. Moreover, its financial position has been strengthened such that it is now in a better position to repay Rmb1.5bn in senior guarantee notes that expire in February 2010.
- In addition, repayment of the CBs would avoid potential EPS dilution as conversion of the CBs should result in a 9.5% increase in share capital.
- As a result of the share placement, and the slightly larger number of shares outstanding since November 2008 (due to a share-option exercise in January and February 2009), we have revised down our EPS forecasts by 1.3-3.8% for FY09-11, while maintaining our earnings forecasts.

Valuation

- Although there is very limited EPS dilution for FY09, as a result of a revision in Daiwa's Renminbi exchange-rate forecast (to US\$:Rmb:6.70 from US\$:Rmb6.30 for 2009), we have lowered our target price to HK\$7.10 from HK\$7.70. The target price is still based on a PER of 5x on our FY09 EPS forecast (based on our June 2009 exchange-rate forecast), which we think is still undemanding.

Catalysts and action

- We maintain our **1 (Buy)** rating on the stock as we believe the current valuation remains attractive and expect market concern about Chaoda's liquidity risk to diminish going forward.
- The next share-price catalysts should come from the company's interim results, due in March, and its CB redemption in May.

Taiwan Economy

Broad-based slump prompts a downward revision to our real GDP forecasts

Economy: Taiwan

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Summary

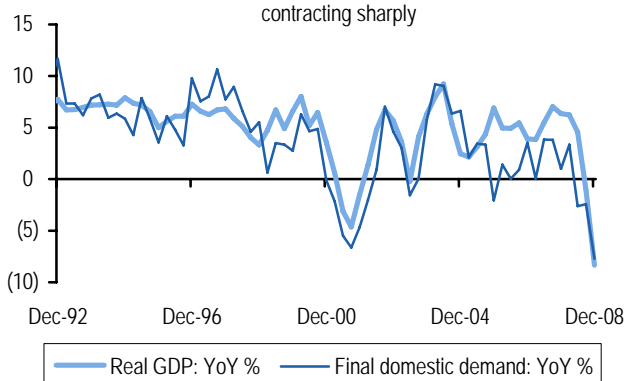
- We now forecast Taiwan's real GDP for 2009 to contract by 4.5% (from the previous forecast of -1.2%). With the weaker NT dollar, we forecast the current-account surplus to increase to 8% of GDP for 2009.

Fundamentals

- Taiwan's real GDP contracted 8.4% YoY for 4Q08, the sharpest drop since the quarterly GDP numbers began in 1952. The severity of the contraction in real imports (which declined by 22.6% YoY for 4Q08) had suggested that domestic demand was falling off a cliff, but the actual numbers were worse than the Bloomberg-consensus estimate of a 6.8% YoY contraction in real GDP for the quarter. Government consumption and investment increased by 2.2% YoY and 7.9% YoY, respectively, but all the other components of domestic demand declined. Private consumption fell 1.7% YoY, while private fixed investment declined by a sharp 32.2% YoY for 4Q08.
- Taiwan's Central Bank of China cut the key policy rate by 25 basis points to 1.25% on 18 February in a bid to boost domestic demand. Seven rate cuts since December, however, have done little to boost loan demand – which has remained anaemic, continuing a decade-long period of sluggish loan growth. With deposits accelerating to 8.7% YoY growth by the end of 2008, while loan growth was only 2.6% YoY, Taiwan's loan-deposit ratio declined to 83.2% by December 2008. There remains ample liquidity in the banking system, but banks are reluctant to lend, especially given their exposure to toxic foreign assets.
- The government was slow to announce a meaningful fiscal-stimulus package, with the November 2008 package worth 4.4% of GDP (NT\$483bn) but spread over four years. On 2 February 2009, NT\$715bn was added to the package – NT\$320bn of which was for 2009 alone. However, with the total stimulus for this year equivalent to a modest 3.3% of GDP, we do not think the economy will receive enough of a counter-cyclical boost. We thus forecast real GDP to contract by 10.5% YoY for 1Q09 and by about 5.5% for 2Q09 before the impact of the fiscal and monetary stimulus begins to be felt in 2H09. We are revising down our forecast for 2009 real GDP to a contraction of 4.5%, and believe the NT dollar is likely to depreciate to US\$:NT\$36.50 by mid-2009 before recovering to US\$:NT\$34.60 by the end of the year.

Slumping domestic demand leads record GDP fall

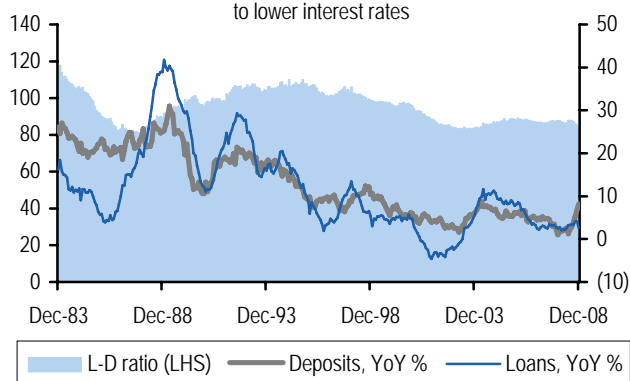
Taiwan's domestic demand, sluggish since 2005, is now contracting sharply



Source: CEIC, Daiwa

Lower interest rates have not boosted loan growth

Bank liquidity improves, as loans fail to respond to lower interest rates



Source: CEIC, Daiwa

Cambridge Industrial Trust (CREIT SP)

Rating: 1

Interest rate slippage

Construction and real estate: Singapore

David Lum, CFA (65) 6329 2102 (david_lum@dir.com.sg)

Target price: **S\$0.46** (+91.7%)

Unit price: S\$0.24 (19 Feb)

Reuters code CMIT.SI

What has changed?

Market data

FSSTI		1,629
Market cap	(US\$m)	125.22
EV	(US\$m: 09E)	367.6
3-mth avg daily T/O	(US\$m)	0.48
Units outstanding	(m)	796
Free float	(%)	100.0
Major shareholder	Schroder Investment Management (6.1%)	
Exchange rate	S\$/US\$	1.526

Performance (%)*

	1M	3M	6M
Absolute	(12.7)	6.7	(61.3)
Relative	(6.4)	9.0	(35.2)

Source: Daiwa

Note: *Relative to FSSTI

Investment indicators

	2009E	2010E	2011E
PER (x)	n.a.	n.a.	n.a.
P/NAV (x)	0.4	0.4	0.4
DPU yield (%)	20.2	20.8	21.2
ROE (%)	n.a.	n.a.	n.a.
ROA (%)	n.a.	n.a.	n.a.
Net leverage ratio (%)	39.7	42.2	45.6

Source: Daiwa forecasts

- We met the management team including CEO Chris Calvert on 19 February, and got his view on the refinancing announcement (released on 18 February) and plans for Cambridge.

Impact

- Management clarified that the increase in the effective interest rate to 7.2% (from 6.6% previously announced in December 2008) will result in a cash interest rate of 5.5% (from 4.9% previously), due to the settlement and amortisation of the now ineffective part of the previous 5-year interest rate swap for the S\$390.1m three-year syndicated term loan.

- Calvert was not happy with the relatively high interest rate, but with tight credit conditions and to make the most of the existing swap, we believe the objective was to get the financing done and to move on. We have revised down our distribution-per-unit (DPU) forecasts by 5.0-5.6% for FY09-11 on higher cash borrowing costs.

Valuation

- We have lowered our six-month target price based on our RNG valuation method to S\$0.46 from S\$0.49 on the higher borrowing-cost assumption of 7.2% (from 6.6% previously).

Catalysts and action

- We maintain our **1 (Buy)** rating for Cambridge because the forecast DPU yields of more than 20% and implied trading yields (for its underlying assets) of 15% are favourable, in our opinion, relative to the stability of its industrial-property portfolio (currently 99.2% occupied with only about 5% of leases up for renewal over the next five years), absence of refinancing risk, and still-solid (in our view) leverage (debt-to-assets) ratio of about 40%.
- We believe Cambridge's unit-price performance trigger would be the resilience of the portfolio evidenced by several quarters of predictable DPU payouts.
- We believe Cambridge's major risk factor would be a dilutive equity fundraising announcement. After the refinancing, Calvert has signaled that he is looking to strengthen the characteristics of the property portfolio, including reducing the top-tenant concentration from 60%, and bolster the balance sheet by possibly raising equity (if market conditions permit) to provide further cushion against property-value decline. Calvert appears attuned to unitholder concerns and we hope that any equity fundraising announcement would be innovative and not too dilutive.

Income summary (\$m)

Yr to 31 Dec	2008	2009E	2010E	2011E
Revenue	72.3	74.3	76.4	77.1
YoY (%)	36.3	2.8	2.8	0.9
Net-property income	62.8	64.8	66.6	67.2
YoY (%)	37.1	3.2	2.8	0.9
Distribution	47.9	38.6	39.7	40.5
YoY (%)	33.9	(19.4)	2.9	2.1
EPU (\$)	0.042	(0.013)	(0.008)	(0.019)
YoY (%)	(76.4)	n.a.	n.a.	n.a.
DPU (\$)	0.060	0.048	0.050	0.051
YoY (%)	(4.0)	(19.4)	2.9	2.1

Source: Cambridge Industrial Trust, Daiwa forecasts

Note: *From 25 July to 31 December

Price and relative performance



Source: Bloomberg, Daiwa

Earnings-forecasts revisions (\$m)

Year to 31Dec	FY09E	FY10E	FY11E
NPI - new	64.8	66.6	67.2
NPI - old	64.8	66.6	67.2
Change (%)	0.0	0.0	0.0
Borrowing costs - new	(26.7)	(28.4)	(28.4)
Borrowing costs - old	(24.7)	(26.0)	(26.0)
Change (%)	8.3	9.0	9.0
DPU(¢) - new	4.84	4.98	5.09
DPU(¢) - old	5.10	5.28	5.38
Change (%)	(5.0)	(5.6)	(5.5)

Source: Daiwa forecasts

19 February 2009 (No. of pages: 9)

Oversea-Chinese Banking Corporation (OCBC SP)

6-mth rating: **4**Target price: **S\$4.37** (-10.6%)Share price: **S\$4.89** (18 Feb)

David Lum, CFA

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Banks: Singapore

Earnings risk trumps a few positives

Underperform rating maintained

- We maintain our **4** (*Underperform*) rating for Oversea-Chinese Banking Corporation (OCBC) after the company announced its 4Q FY08 results (on 18 February). The 4Q FY08 net profit of S\$301m, down 30% YoY, was 23% lower than our forecast.

Earnings risk is still on the downside

- Following the 4Q FY08 results, we have revised down our core cash-EPS forecasts by 2.3% for FY09 and 9.1% for FY10. We have revised up our NPL and net-allowance forecasts.
- Provision-related visibility remains poor, and there is nothing to suggest that this would be the last downward revision to our earnings forecasts.

Zero-growth DDM-derived target price of S\$4.37

- We have raised our six-month target price, based on a zero-growth dividend-discount model valuation, marginally to S\$4.37 (from S\$4.15 previously), which includes the 14¢ dividend declared for 2H FY08.
- We believe OCBC's dividend is resilient, but it would still be at risk, in our opinion, if the company's core net profit declines sharply.

Reuters code

OCBC.SI

Market data

FSSTI		1,651
Market cap	(US\$bn)	9.99
3-mth avg daily T/O	(US\$m)	22.78
Shares outstanding	(m)	3,127
Free float	(%)	80.8
Major shareholder	Lee Foundation (19.2%)	
Exchange rate	S\$/US\$	1.530

Performance (%)*	1M	3M	6M
Absolute	(3.6)	2.1	(40.7)
Relative	1.1	4.7	(0.3)

Source: Daiwa

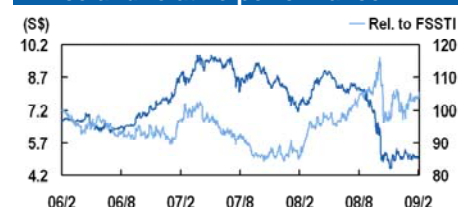
Note: *Relative to FSSTI

Investment indicators

		2009E	2010E	2011E
PER	(x)	10.4	9.9	7.6
PBR	(x)	1.0	0.9	0.9
Dividend yield	(%)	5.7	5.7	7.0
ROE	(%)	10.1	10.2	12.5
ROA	(%)	1.1	1.0	1.3

Source: Daiwa forecasts

Price and relative performance



Source: Bloomberg, Daiwa

Income summary

Year to 31 Dec	Operating profit		Pre-tax profit		Net profit		EPS		DPS (\$\$)
	(\$\$m)	(%)	(\$\$m)	(%)	(\$\$m)	(%)	(\$\$)	(%)	
2007	2,600	3.7	2,539	2.6	2,071	3.5	0.659	4.0	0.280
2008	2,573	(1.0)	2,085	(17.9)	1,749	(15.5)	0.546	(17.2)	0.280
2009E	2,855	10.9	2,071	(0.7)	1,549	(11.4)	0.469	(14.1)	0.280
2010E	3,017	5.7	2,174	5.0	1,630	5.2	0.492	5.0	0.280
2011E	3,189	5.7	2,743	26.1	2,099	28.8	0.641	30.3	0.340

Source: Company, Daiwa forecasts

Note: The investment indicators and income summary on the front page of this report, as well as the back-page financial summary, are all based on the forex assumptions set out in the table at the back of this report, unless stated otherwise.

This is an excerpt from our report issued yesterday. Please contact us for further details.

19 February 2009 (No. of pages: 9)

Shriram Transport Finance (SHTF IN)

6-mth rating: **Not rated**

Target price: n.a.

Share price: Rs183.95 (18 Feb)

Diversified financials: India

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Managing well in tough times

- The largest asset-financing non-banking financial company (NBFC) in India:** Shriram Transport Finance Company (STFL) focuses on financing new and pre-owned commercial vehicles (CVs). As at the end of 3Q FY09, the company had Rs227.9bn of total assets under management (AUM, outstanding loans plus securitised loans) with disbursements totalling Rs88bn. The company had 470 branches and around 13,002 employees as at December 2008. Currently, STFL has a 20-25% share of the pre-owned market, and a 7-8% share of the new CV segment. This fiscal year, the pre-owned segment accounts for almost 83% of disbursements (up from 73% for FY08), due to the continued slowdown in the new CV market.
- Difficult business model to replicate:** As the market for truck (CV) operators is very fragmented (we estimate over 80% of the trucks in India are owned by individuals), we believe a localised approach, extensive branch network and strong valuation skills are essential. Accordingly, we believe it should come as no surprise that STFL is the only significant player in the organised sector, where most of the financing is provided by local money lenders.
- High yields due largely to unorganised market:** Yields on pre-owned truck financing are quite attractive, at 20-24%. In an industry dominated by money lenders that have limited resources (and hence charge exorbitant interest rates), we believe high yields are a reflection of the demand-supply mismatch in pre-owned CV financing, rather than the asset-quality risk. STFL's asset quality remains healthy, in our view, with gross non-performing assets (NPAs) of 1.9% and net NPAs of 0.9% as at December 2008. High yields and the regular securitisation of loans also help to keep net-interest margins (NIMs) very high, resulting in high ROEs (27% for FY08).
- Vertical integration and new business to help diversify income streams:** We believe the company's new initiatives to finance passenger vehicles, multi-utility vehicles, tractors and agriculture equipment, along with freight handling and bill discounting, will help to diversify STFL's income streams. The company has also formed tie-ups with local private financiers (money lenders) to disburse loans in the pre-owned segment. It had tie-ups with 510 local financiers (as at December 2008), and plans to increase this number to 2,000 over the next two-to-three years. While the company recorded a 14% YoY rise in disbursements for the first nine months of FY09, the current slowdown in the new CV space is affecting its business, with 3Q FY09 disbursements declining on a year-on-year basis. While disbursements for the pre-owned segment declined only slightly in 3Q FY09, those for the new CV segment fell by 79% YoY.

This is an excerpt from our report issued yesterday. Please contact us for further details.

Global Auto Monthly February 2009

Auto sales to continue falling globally; US could be first to escape slump

Global Auto Team

Summary

- US new car sales volume for January dropped 39% y/y to a seasonally adjusted annual rate (SAAR) of 9.57 million vehicles, the lowest since December 1981. However, this was partly due to substantial declines in fleet sales. While US auto sales remain sluggish, they have remained roughly flat since falling to 10 million in October 2008. Sales financing is also weak but has slowly improved, and we now sense less risk of further sales declines. While auto sales continue to fall substantially worldwide, the US will most likely be the first to see an end to the decline.
- December sales in Europe fell 18% y/y. This seems to suggest that sales declines have eased from the 26% drop in November, but given that there were more shopping days than a year earlier, actual sales may have been worse. January sales in Japan fell 20%--the trend of sharp declines in registered vehicles and further drops in mini vehicles continues.
- December sales in emerging countries saw substantial drops. Sales in China fell 12% y/y, a greater-than-expected decline following November. Indian sales were down 20%, while Thai sales also continued to fall. As in November, Indonesian sales were flat y/y, but will likely enter a downtrend going forward.

New Motor Vehicle Sales (000 units)						Chart 1
	Jan 08	Jan 09	Y/y %	Jan 08	Jan 09	Y/y %
Japan	377	302	-19.9	377	302	-19.9
US	1,039	655	-39.4	1,039	655	-36.9
	Dec 07	Dec 08	Y/y %	Jan-Dec 07	Jan-Dec 08	Y/y %
Japan	368	306	-16.7	5,354	5,082	-5.1
US	1,384	891	-35.6	16,089	13,195	-18.0
Europe	1,125	925	-17.8	15,960	14,712	-7.8
China	839	742	-11.6	8,792	9,381	6.7
Thailand	64	59	-8.3	631	615	-2.5
Indonesia	39	40	1.2	435	608	39.8
India	115	92	-19.9	1,509	1,536	1.8
Canada	120	94	-21.2	1,651	1,634	-1.0
Total	4,055	3,149	-22.3	50,420	46,764	-7.3

Source: Japan Automobile Dealers Association, Japan Mini Vehicles Association, Ward's Automotive, Association des Constructeurs Européens d'Automobiles (ACEA), China Association of Automobile Manufacturers (CAAM), ASTRA, CEIC; compiled by DIR.

Notes: 1) US y/y sales figures adjusted for differences in number of business days.

2) European figures total of 27 EU countries and European Free Trade Association (EFTA).

All of Daiwa's Global and Japanese equity research reports are available on Daiwa's own website 'L-zone' <http://lzone.daiwasmbc.co.jp> and 'DIRJ' Page on Bloomberg.

Daiwa forex assumptions (vs. US\$)

Year end	Rmb	HK\$	W	S\$	NT\$	A\$	Rs	Rp
2006	7.810	7.780	929.6	1.534	32.596	1.294	44.270	8,994
2007	7.300	7.800	935.8	1.440	32.428	1.125	39.413	9,400
2008	6.828	7.750	1,259.6	1.430	32.792	1.423	48.803	11,120
2009E	6.700	7.800	1,300.0	1.460	32.600	1.481	48.750	10,600
2010E	6.450	7.800	1,240.0	1.430	32.400	1.333	47.700	9,850

Source: Daiwa

Note: The investment indicators and income summaries in this report are based on the forex assumptions set out in this table, unless stated otherwise.

Analyst company visits/results announcements/analyst meetings

	Date	Company	Event	Time*	Remarks	Analyst
	20 Feb	Parkson	Announcements & analyst briefing	18:30 (China)	FY08 results	Nicolas Wang
	2 Mar	HSBC	Announcements (M)	-	FY08 results	Steven Chan
	2 Mar	Hang Seng Bank	Announcements (M)	-	FY08 results	Steven Chan
	2 Mar	Pacific Basin Shipping	Announcements (M)	17:45 (Hong Kong)	FY08 results	Geoffrey Cheng
New	4 Mar	Hong Kong Exchanges & Clearing	Announcements (M)	-	FY08 results	Jonas Kan
	5 Mar	Want-want	Announcements	-	FY08 results	Nicolas Wang
	6 Mar	Want-want	Analyst briefing	9:00 (China)	FY08 results	Nicolas Wang
New	12 Mar	Wing Hang Bank	Announcements (M)	-	FY08 results	Steven Chan
	Mid-March	New World Department Store China	Announcements	-	1H FY09 results	Nicolas Wang
	Late March	Golden Eagle	Announcements	-	FY08 results	Nicolas Wang
	8 Apr	Tsingtao Brewery	Announcements	-	FY08 results	Nicolas Wang
	Early April	Intime	Announcements	-	FY08 results	Nicolas Wang
	Mid-late April	Tingyi	Announcements	-	FY08 results	Nicolas Wang
	Late April	Uni-president	Announcements	-	FY08 results	Nicolas Wang

Note: AU = Australia, CN = China, HK = Hong Kong, JA = Japan, KR = Korea, SG = Singapore, TW = Taiwan, US = United States, EU = Europe
M = Meeting T = Teleconference # Pending/tentative + Local time

Asia Pacific Markets Closed

	 Hong Kong	 China	 Singapore	 Malaysia	 Korea	 Taiwan	 Australia	 New Zealand	 India	 Thailand	 Philippines	 Indonesia
Feb 09				2, 9			6			9		
Mar 09				9					10-11			26

Rating and target-price information

Company name	Bloomberg code	Country	6M rating		6M target price*		Date
			Previous	Latest	Previous	Latest	
Oversea-Chinese Banking Corporation	OCBC SP	Singapore	4 –	4	4.15 ↑	4.37	19-Feb-09
China Automation Group	569 HK	China	1 –	1	1.8 ↑	1.85	19-Feb-09
ST Engineering	STE SP	Singapore	3 –	3	2.85 ↓	2.5	18-Feb-09
Chi Mei Optoelectronics	3009 TT	Taiwan	3 –	3	13.0 ↓	12.0	17-Feb-09
MediaTek	2454 TT	Taiwan	4 ↑	2	223 ↑	351	17-Feb-09
China Green	904 HK	China	n.a. →	2	n.a. →	6.28	17-Feb-09
China Essence Group	CESS SP	China	2 ↓	4	0.75 ↓	0.23	17-Feb-09
Parkson Retail Group	3368 HK	China	4 –	4	6.95 ↓	6.87	17-Feb-09
Tsingtao Brewery	168 HK	China	n.a. →	4	n.a. →	12.06	16-Feb-09
NCsoft	036570 KS	Korea	3 ↓	4	41,000 ↑	60,000	16-Feb-09
Rio Tinto	RIO AU	Australia	1 ↓	3	72.85 ↓	63.09	16-Feb-09
Webzen	069080 KS	Korea	3 –	3	5,300 ↑	6,300	16-Feb-09
DBS Group	DBS SP	Singapore	4 –	4	7.40 ↑	7.56	16-Feb-09
Hyundai Securities	003450 KS	Korea	4 –	4	7,870 ↑	9,050	16-Feb-09
Daishin Securities	003540 KS	Korea	4 –	4	12,300 ↑	13,750	16-Feb-09
Sitra Holdings International	SITRA SP	Singapore	5 →	T	0.07 →	T	16-Feb-09
Man Wah	MWH SP	China	1 →	T	0.28 →	T	16-Feb-09
Lorenzo International	LOREN SP	Singapore	2 →	T	0.09 →	T	16-Feb-09

Note: Daiwa's 18 most recent rating/target-price changes

*Local currency; T: terminated

Recently published reports

	Sub title	No. of pages	Date of publication
Research reports*			
Shriram Transport Finance	Managing well in tough times	9	19-Feb-09
Oversea-Chinese Banking Corporation	Earnings risk trumps a few positives	9	19-Feb-09
Bank of East Asia	Get ready for a sharp rebound in net profit for FY09	10	18-Feb-09
Chi Mei Optoelectronics	Orders from China support shipment increases	10	17-Feb-09
MediaTek	Rating upgrade – not too late	10	17-Feb-09
China Green	Initiation of coverage: strong and defensive	18	17-Feb-09
China Essence Group	On second thoughts	8	17-Feb-09
Tsingtao Brewery	Re-initiation of coverage: not in the mood for beer	29	16-Feb-09
NCsoft	Good momentum, but valuation challenging	12	16-Feb-09
Rio Tinto	Revisions to earnings forecasts, target price and rating	7	16-Feb-09
Daily bullets**			
Bank of East Asia	Get ready for a sharp rebound in net profit for FY09	1	19-Feb-09
China Automation Group	Revising down our earnings forecast on higher provisions	1	19-Feb-09
Novatek Microelectronics	4Q08 conference - no surprise	1	19-Feb-09
Hong Kong Property Developers	Looking into the re-launched units of developers	1	19-Feb-09
Hong Kong Property Developers	Some revival of interest in luxury residential properties	1	19-Feb-09
Suntech Power	Flight to quality	1	19-Feb-09
Notebook Sector	Another risk to a 2Q recovery: Windows 7	1	19-Feb-09
Compal Electronics	4Q FY08 results prove again its execution ability	1	19-Feb-09

*The 10 most recent reports published by Daiwa

**Comments published in the previous day's edition of *Daiwa's Asia Pacific Daily*

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