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**Pan Asia: China City Gas Sector: Being Selective is Key in 2012**

**[Analyst: Dave Dai]** The China City Gas sector stocks' outperformed the HSCEI by 25% in 2011. This year however, will prove trickier and will more clearly illustrate that not all China gas companies were "created equal," given upcoming gas-price reform and a slowdown in household connection fees due to the property sector clamp-down. Dave estimates that the gas-price reform (currently piloting in 2 southern provinces) may eventually result in a 19% price hike nationwide in 12 months time, leading to increased margin pressure. An additional risk is the policy-driven property sector contraction, which could mean 15% less connection fees from households. Most of the players in this space have about 40-45% earnings exposure to the segment, except for Beijing Enterprises which derives virtually none of its earnings from connection fees. Overall however, we are believers of the underlying strong demand story in the space, estimating a 19% volume demand CAGR over the next 12<sup>th</sup> Five Year Plan period, buttressed by an increase in imported gas. Our top pick for growth is ENN Energy (ENN) which is poised to see the largest organic sales volume growth, given its 82% exposure to the new gas source locations, much more than its peers. Dave views the potential acquisition of China Gas as synergistic and at fair value provided ENN (+Sinopec) does not increase the bid. The stk's valuation has become more attractive at 14% 2012 PER discount to its peers. We rated as Buy with DCF TP of HK\$34 and we believe that its strong sales mix to an industrial client base with high pass-through power should mitigate the potential effect of the gas-price reform. Our defensive top pick is Beijing Enterprises (BJE), rated Outperform (upgraded from HOLD) on its high concentration in gas distribution business exclusively for all the Beijing gas-fired power plants. Additionally, BJE has very little revenue exposure to household connection fees, making it relatively unscathed in the aftermath of gas-price reform. We raise our NAV-based TP from HK\$ 40.4 to HK\$53.1 or 18x FY'12 PER, just slight above its 5 year average.

**Link to report:** <http://asiaresearch.daiwacm.com/eg/cgi-bin/files/CNCCityGasSector120103.pdf#page=1>

HK/China: **Wharf Holdings (4 HK, m/c US\$13.9bn, Buy) - market concerns overdone. 57% disc to NAV**

**[Analyst Jonas Kan]** Wharf mgmt attended our HK Corporate Day yesterday. Concerns on sharp slowdown in retail sales appear overdone. Our analyst Jonas reiterates his Buy recommendation on Wharf. The share is trading at 57% discount to NAV. The company's Nov YoY retail sales remain strong, 34% for Harbour City and 21% for Times Square (vs 28% and 21% in October). We think significant slowdown near term is unlikely unless certain event trigger a notable decline in Mainland visitors to HK. China property contract sales for 2011 was about 10% below target which is respectable under prevailing market condition. The group's rental income growth in China is growing, with the occupancy rate in Wheelock Square rising to 80% and the achieved rent rising to over Rmb400/sqm. Reopening of Chongqing Time Square and new contribution from Chengdu Times Square next year should help sustain momentum. Ocean terminal lease issue could drag on but the impact should be limited (HK\$3 vs NAV of HK\$82). Overall, Jonas views market concerns on slowdown in retail rental and property sales are overdone. The share is trading at 57% discount to NAV vs historical average since 1990 of 31%. Maintain Buy, TP HK\$56, target 31% discount to NAV.

**Link to report:** [http://asiaresearch.daiwacm.com/eg/cgi-bin/files/20120103hk\\_WharfHoldings.pdf#page=1](http://asiaresearch.daiwacm.com/eg/cgi-bin/files/20120103hk_WharfHoldings.pdf#page=1)

Taiwan: **ASE (2311 TT, m/c US\$5.7b, O/pf) - IDM backend outsourcing: US\$2bn incremental business potential**

**[Analyst: Ashley Chung]** Ashley notes Sony, Panasonic and Toshiba all announced large-scale reorganization plans in 2011 and all of them plan to aggressively outsource. One month ago, Toshiba (No.4 IDM worldwide/IDM stands for integrated device manufacturers) announced to consolidate its 6 factories into 3 =>first time in history. Our back-of-envelope calculation suggests these three IDMs will outsource a further US\$2bn (~10% of global backend market size) in 2012-13. Daiwa notes that six leading Japanese IDMs together have a US\$6-7bn annual addressable market in the backend business, of which we estimate only 20% is currently outsourced (mostly in memory and logic ICs). Our US\$2bn incremental outsourcing opportunity is

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calculated based on an analysis that consumer/entertainment/power ICs will see greatest outsourcing with Japanese IDMs likely to keep testing/packaging of image sensors in-house and more than 80% of memory ICs already outsourced. Powertech's acquisition of Greatek shows that industry players are serious about the potential IDM outsourcing opportunities as Powertech already has good relationship with Toshiba. We believe ASE (2311 TT, TP NT\$30, O/PF) will be the major beneficiary of this structural change. It currently owns largest market share (30%) amongst the Japanese IDMs. BUY.

**Link to report:** <http://asiaresearch.daiwacm.com/eg/cgi-bin/files/AsiaBackendSector120103.pdf#page=1>

**Korea: Korea Internet and Online Game Sector (Positive) – too early to be concerned on competition**

**[Analyst: Thomas Kwon]** Korea's major mobile-game developers have been re-rated last year, riding on strong demand on mobile-games with increasing penetration of mobile devices. However, share prices of major mobile-game developers experienced sharp corrections after the game show in November 2011, due mainly to the investors' increased concerns on intensifying competition from PC game developers. Daiwa Analyst, Thomas Kwon admits competition to intensify going forward, but the existing PC game developers may take time to catch up. Rather, Thomas believes that investors should focus on strong industry growth for the time-being, which may be more than enough to offset intensifying competition. Thomas expects Korea's mobile-game market to grow by 22% in 2012 and a double digit growth in 2013. While top pick in this sector remains Gamevil (063080 KS, BUY, Mkt Cap USD328m, TP W90,000) on the back of stronger earnings growth outlook in 2012, in the longer-term, Com2uS (078340 KS, BUY, Mkt Cap USD219m, TP W35,000) also looks attractive on the back of the Co's focus on social networking games where higher growth is expected.

**Link to report:** [http://asiaresearch.daiwacm.com/eg/cgi-bin/files/20120103kr\\_KoreaInternetandOnlineGameSector.pdf#page=1](http://asiaresearch.daiwacm.com/eg/cgi-bin/files/20120103kr_KoreaInternetandOnlineGameSector.pdf#page=1)

**ASEAN: Ascendas REIT (AREIT SP, m/c US\$3b, U/pf >> HOLD) – placement risk**

**[Analyst: David Lum]** Post the 10.3% unit price correction in December, David has upgraded his recommendation on A-REIT from Underperform to Hold. However, he believes the risk of a private placement by A-REIT is real and credible as after its recent acquisitions, its gearing would increase by about 2ppts to 37.7-39.9% for FY12-14, a level similar to CapMall Trust's gearing for 2011-13 before its private placement announcement. We do not believe A-REIT needs to acquire aggressively, but even a few minor acquisitions this year could raise its gearing to the 40-45% range, well above those of its industrial S-REIT peers and the current weighted average of 35% for the S-REIT sector. We have revised up our FY12-14 DPU forecasts by 1.6-2.1%, which incorporates the 8 Dec 2011 acquisitions (assuming that they will remain entirely debt-funded over several years). We have also increased our target price, pegged to parity with our finite-life Gordon Growth Model valuation, to S\$1.87. Hence while valuations are now more reasonable trading slightly above its book value (as at 30 Sep 2011) of S\$1.77 and at a 12-month forward DPU yield of 7.7% compared with the weighted SREIT sector average of 7.5%, we prefer those high yielding SREITs that trade at discounts to book value like CapitaCommercial Trust, CDL Hospitality Trusts and Cambridge Industrial Trust.

**Link to report:** [http://asiaresearch.daiwacm.com/eg/cgi-bin/files/20120103sg\\_AREIT.pdf#page=1](http://asiaresearch.daiwacm.com/eg/cgi-bin/files/20120103sg_AREIT.pdf#page=1)

**India: EXIDE (EXID IN, m/c US\$ 1.8bn, PT 123, O-PF) – Recharging Time**

**[Analyst: Navin Matta]** Navin recently met with Exide's management and also spoke with couple of other listed/unlisted battery players to gauge current demand & competitive trends. Post his interaction, he concludes that while the current industry dynamics remain unfavorable, the replacement demand is likely to rebound meaningfully in FY13. Exide with its brand strength and distribution network should be able to regain most of its lost market share, albeit over an extended period. Some key takeaways: 1) Four-wheeler replacement demand continues to remain soft due to weak OEM sales in FY09. Strong inverter demand has mainly driven the volume growth in last 2-3 months. 2) More than the competition, mgt is concerned over increasing presence of unorganized segment as it is tougher to regain market share from this segment, which besides a 25-30% price advantage, have been continuously investing in product quality improvement. 3) Regained OEM mkt share but recouping replacement market share may take another 2-3 quarters. Besides 8-10% price cut in Sep'11, co has increased dealer margins by 1-2% and upped its promotional activities. Overall, after underperforming Sensex and its nearest competitor Amara Raja (AMRJ IN) by ~15% over the past three months EXID stock px trades at 12.9x FY13E EPS (ex-Insurance value) and offers a favorable risk reward. Maintain O-PF with PT 123 (12% Upside)



Wednesday Jan 4<sup>th</sup>, 2012

**Japan: Resources & trading sector outlook – short-term +ve, long term -ve**

**[Analyst: Jiro Iokibe]** Jiro believes resources price such as iron ore, coking coal will go up until around April and that will be positive catalyst for trading companies' share price for the same period. We meanwhile see the stocks will lose momentum after that. There are three reasons why we are bullish on resources price in the short term; 1) We believe nations around the world will begin to ease monetary policy. 2) Supply and demand tends to be tighten from seasonality of March quarter. 3) Supply volume will not increase so much this year. On trading companies stocks, we would like to highlight the cheap valuation, such as around 5x in FY12 PER, PBR 0.8x. On the other hand, we foresee price decline in metal resources from latter half of 2012. In Australia and other countries, investment boom for resources development started in late 2010. It is very likely the total production volume will surpass the demand in 2013 and price decline is expected to begin in latter half of 2012. So we prefer Itochu(8001 JP, R1) for CEO's strong leadership & good resources business, Mitsui & CO(8031 JP, R2) for expectation of resources price rebound, new mid term plan, Marubeni(8002 JP, R2) as high beta stock for resources price in order.

**RDA Microelectronics (RDA US)**  
Speaker: Ms. Lily Dong, CFO

**Spreadtrum Communications (SPRD US)**  
Speaker: Ms. Shannon Gao, CFO

**Sunny Optical Technology (Group) (2382 HK)**  
Speaker: Ms. Jasmine Wong, Joint Company Secretary & Financial Controller

**TCL Communication Technology (2618 HK)**  
Speakers: Mr. Sunny Yan, Director of Corporate Finance; Mr. Michael Zhang, Manager of Finance

**China Smartphone Day (Thursday Jan 5<sup>th</sup>)**



Island Shangri la HONG KONG

**<Wed Jan 4<sup>th</sup>>**

**Link REIT (823 HK, m/c US\$8.23b, TP\$32.30)**  
Time Slot: 11am \* small-group  
Speaker: Mr. Hubert Chak, Director (Corporate Development)

**Midland (1200 HK, m/c US\$1.47b, TP\$4.60)**  
Time Slos: 4pm \* small-group  
Speakers: Mr. Gordon Tse, Snr Director, Corp Finance & Mr. Buggle Lau, Chief Analyst

**Regal REIT (1881 HK, m/c US\$1.02b, TP\$2.3)**  
Time Slot: 2pm  
Speakers: Mr. Francis Chiu, Executive Director – Asset Management & Mr. Simon Lam, Executive Director, Finance

**Henderson Land (12 HK, m/c US\$12.39b, TP\$56.6)**  
Time Slots: 2pm \* small-group/ 3pm/ 4pm  
Speaker: Mr. John Yip, Executive Director

**<Fri Jan 6<sup>th</sup>>**

**SHK & Co (86 HK, m/c US\$1.4b)**  
Time Slots: 4pm \*small-group  
Speaker: Ms. Nancy Chen, Head of IR

**Sino Land (83 HK, m/c US\$8.54b, TP\$15.93)**  
Time Slots: 3pm \* small-group  
Speakers: Ms. Valencia Lee, Asso Director & Mr. Steven Mak, GM (Corp Finance)

**<Mon Jan 9<sup>th</sup>>**

**Soundwill (878 HK, m/c US\$298m, TP\$12.6)**  
Time Slots: 9am/10am/ 11am \* small-group  
Speakers: Mr. Dickson Lau, FC & Mr. Victor Chan, Director

**Café de Coral (341 HK, m/c US\$18b, TP\$29.2)**  
Time Slots: 4pm  
Speakers: Mr Mike Lim, CFO; Dr. Helen Li, Director of Corp Logistics

**CSI Properties (497 HK, m/c US\$240m)**  
Time Slot: 4pm \* small-group  
Speaker: TBC

**<Tue Jan 10<sup>th</sup>>**

**Hutchison Port (HPHT SP, m/c US\$5.88b, US\$0.77)**  
Time Slots: 9am \* small-group  
Speaker: Ms. Winnie Mak, Manager – Accounting & Finance



**Hong Kong Corporate Summit 2012**  
early January – at Daiwa HK Office



**Mingchun Sun & Colin Bradbury & Sector Analysts - CH outlook**  
**HK - Jan 6 (Conrad HK)**  
**SG - Jan 17 (Tower Club SG)**

**Major themes addressed**

- Will 2012 be a repeat of 2008 — not only in China but globally?
- How similar is China's economy today to that in 2008?
- Would a Lehman-style acute crisis in Europe trigger a precipitous fall in China's economy?
- What policy action would Chinese policymakers introduce in the face of an acute European crisis?
- Will the property market collapse in 2012 and when will the government start easing its property-tightening policies?
- Will inflation become a concern again in 2012?
- Will there be a solution to local government financing vehicle (LGFV) problems?
- How much loan growth can Chinese banks attain and will NPL risks materialise in 2012?
- How much upside or downside do we see in the MSCI China and H shares?
- What sectors will benefit or suffer as economic growth slows while the government pushes for a structural transformation of the economy?
- What are Daiwa's stock picks for 2012?



**<HK>**

Jan 5-6 – Mingchun Sun - Reg Macro (HK)  
 Jan 6 – Mingchun Sun & Colin Bradbury – CH outlook “Back to 2008?”  
 \* LUNCHEON (Conrad HK)  
 Jan 9-10 – Jennifer Law – CH Insurance (HK)

**<SG>**

Jan 16-17 – Mingchun Sun - Reg Macro (SG)  
 Jan 17 – Mingchun Sun & Colin Bradbury – CH outlook “Back to 2008?” \*  
 LUNCHEON (Atlantic Dinning, Tower Club SG)

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