

HK / China Market Strategy

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Summary

- Market outlook
 - Market uptrend derailed by A-share correction
 - Foresee A-share risk despite policy support; turnaround point to be when there is revival of MSCI inclusion talks
 - Cautious on companies with European exposure

- Prefer value sectors and bombed out picks at start of 3Q
 - Sectors with value but improving fundamentals
 - China banks
 - Hong Kong banks
 - China property
 - Oversold stocks
 - Valuation and dividend yield screens

- Sector and stock picks
 - Upgraded HK banks and gaming
 - Downgraded non-bank financials and materials
 - Added Citic Bank, Yestar, Wasion, Dah Sing Financial to top ten
 - Excluded Kingdee, China Everbright Ltd, Haier, and China Merchants

A-shares – 2008 experience

CSI 300 Index



#	Date	News or datapoint
1	3/16/2007	27bps increase in benchmark lending rates
2	5/18/2007	18bps increase in benchmark lending rates
3	5/29/2007	MOF raised stamp duty tax in hopes to cool the market
4	7/20/2007	27bps increase in benchmark lending rates
5	8/22/2007	18bps increase in benchmark lending rates
6	9/14/2007	27bps increase in benchmark lending rates
7	9/28/2007	Regulators approved Rmb149bn in IPOs during September to cool market
8	11/9/2007	PBOC raised RRR by 50bps to 13.5%
9	12/21/2007	18bps increase in benchmark lending rates
10	1/16/2008	PBOC raised RRR by 50bps to 15%

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A-shares – 2008 experience

CSI 300 Index

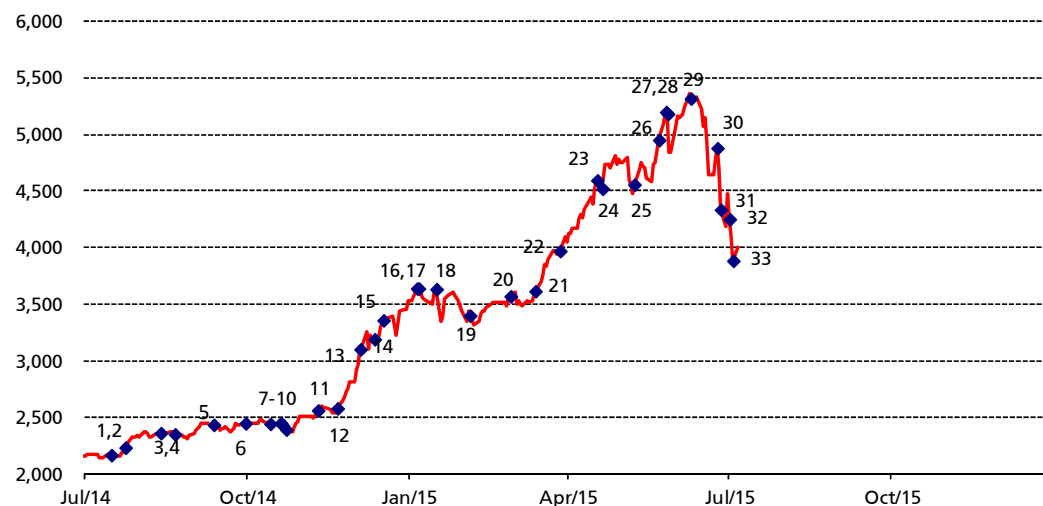


11	2/1/2008	Regulators ended a five-month freeze on stock investment funds
12	3/6/2008	Finance Minister said government will consider taxation policy in capital market
13	3/19/2008	PBOC raises RRR by 50bps to 15.5%
14	4/23/2008	MOF cuts stamp duty tax back to 0.1%
15	5/12/2008	Massive earthquake in Sichuan Province
16	8/8/2008	Beijing Olympics opening ceremony
17	9/16/2008	PBOC cut benchmark rates by 27bps
18	9/19/2008	Government purchases stocks in SOE banks
19	10/31/2008	CSRC suspends IPOs
20	6/30/2009	Government resumes IPO in June 2009

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A-shares – this cycle

CSI 300 Index

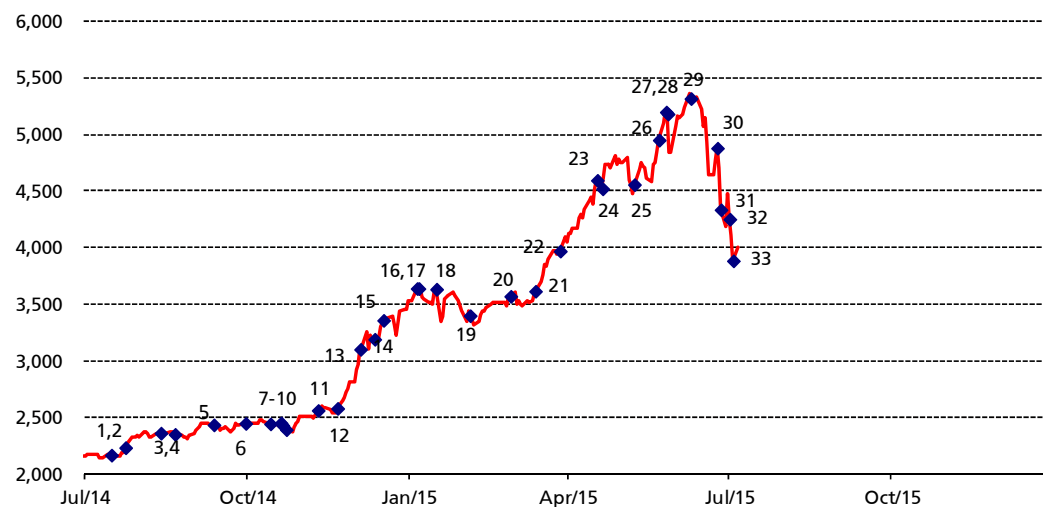


#	Date	News or datapoint
1	7/16/2014	China's 2Q GDP growth was slightly above estimates at 7.5%
2	7/24/2014	HSBC Flash PMI surprised by rising to 52
3	8/13/2014	July TSF and new loan were way below estimates
4	8/21/2014	HSBC flash PMI disappointed at 50.3 vs. 51.7 in prior month and forecast of 51.5
5	9/12/2014	Disappointing TSF and industrial production data
6	9/30/2014	China loosens mortgage policies by expanding pool of eligible buyers
7	10/14/2014	1st batch of Chinese brokers receive approval for Southbound stock connect
8	10/20/2014	PBOC said planning to inject Rmb200bn into joint stock banks
9	10/21/2014	China 3Q GDP slowed to 7.3% but beat forecasts of 7.2%; Gov-student talks in HK
10	10/23/2014	HSBC CH manufacturing flash PMI improved to 50.4 and beat forecasts
11	11/10/2014	HKEX announced SH-HK stock connect will begin on 17 November
12	11/21/2014	PBOC announced benchmark interest rate cuts
13	12/4/2014	CBRC sought feedback on draft rules for WMPs; allows indirect equity investments
14	12/12/2014	Nov Rmb loans topped expectations at Rmb853bn vs. forecasts of Rmb655bn
15	12/17/2014	China Securities Journal reported China may ease LDR ratio requirement
16	1/5/2015	Premier Li Keqiang said Shenzhen-HK stock connect should be next

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A-shares – this cycle

CSI 300 Index



#	Date	News or datapoint
17	1/6/2015	HKEX said it would allow short selling for northbound SH-HK trades in near future
18	1/16/2015	Large Chinese brokers penalized for breaching margin financing rules
19	2/4/2015	50bps RRR cut and an additional 50bps cut for qualified lenders
20	2/27/2015	China cut benchmark rates by 25bps
21	3/13/2015	China's NPC ends with focus on quality growth in China's new normal
22	3/27/2015	CSRC allows China mutual funds to invest in HK stocks through SH-HK stock connect
23	4/17/2015	China policy makers caution on stock market frenzy; 7 measures to cool sentiment
24	4/20/2015	Cut RRR by 100bps on Sunday, releasing an estimated Rmb1.4trn in reserves
25	5/8/2015	PBOC cut 1 year benchmark lending rate by 25bps
26	5/22/2015	Mutual fund recognition announcement over the weekend
27	5/26/2015	FTSE adds A-share to its EM index
28	5/27/2015	Huijin trimmed stakes in ICBC, CCB
29	6/9/2015	MSCI review did not include A-shares in emerging market index
30	6/24/2015	Regulators announced they will lift 75% loan to deposit ratio cap
31	6/26/2015	25bps symmetrical interest rate cut; conditional RRR cut for qualified lenders
32	7/1/2015	CSRC announced a 30% transaction fee cut; flexibility given to margin calls
33	7/3/2015	CSRC said it will reduce IPOs; China Securities Finance capital boost from 24 to 100bn

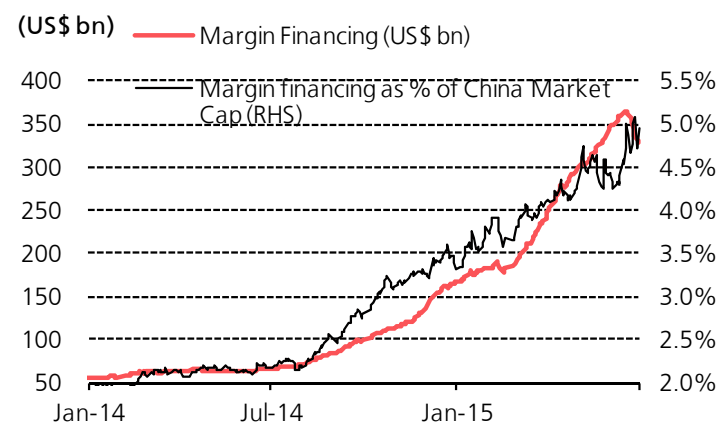
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A-share drags

CSI 300

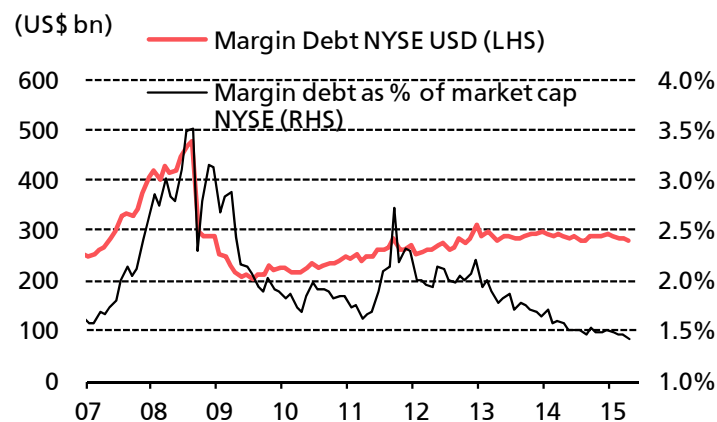


Margin financing size in China



- Large gains since mid-2014
 - CSI 300 still up 80%
 - Market cap still up Rmb18trn
- Margin financing is 4.9% of market cap in China
 - 1.4% - 3.5% for NYSE
- Rmb740bn selling activity for every 1ppt decline in margin financing

Margin financing size on NYSE

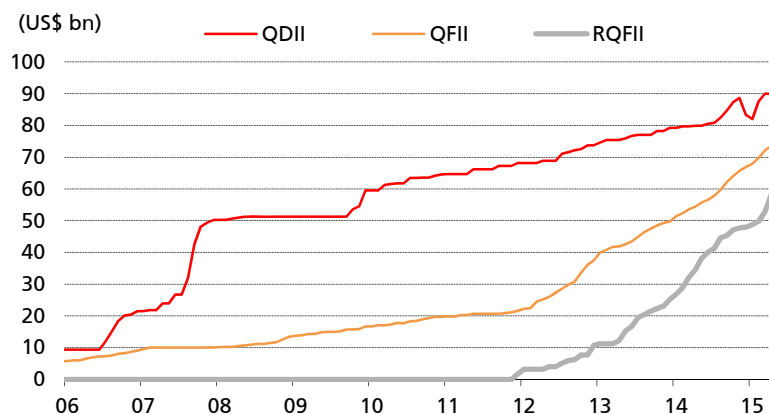


Sources: CEIC, WIND, Bloomberg Finance L.P.

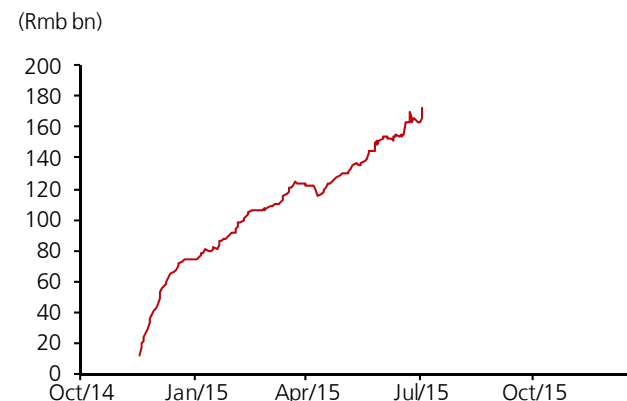
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A-share drags - MSCI

QFII and RQFII size

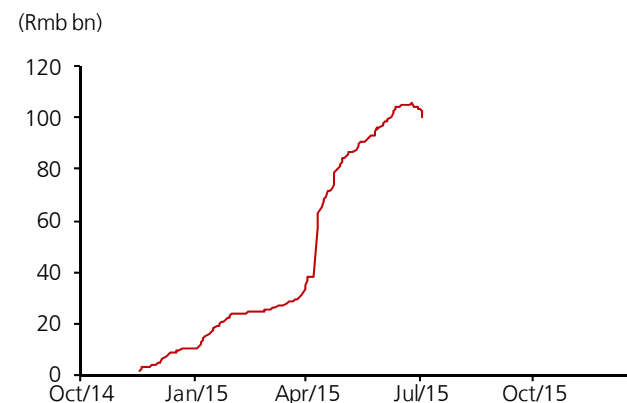


Northbound aggregate quota



- MSCI inclusion was key catalyst
- Need to address issues before inclusion:
 - Quota allocation
 - Capital mobility
 - Beneficial ownership

Southbound aggregate quota

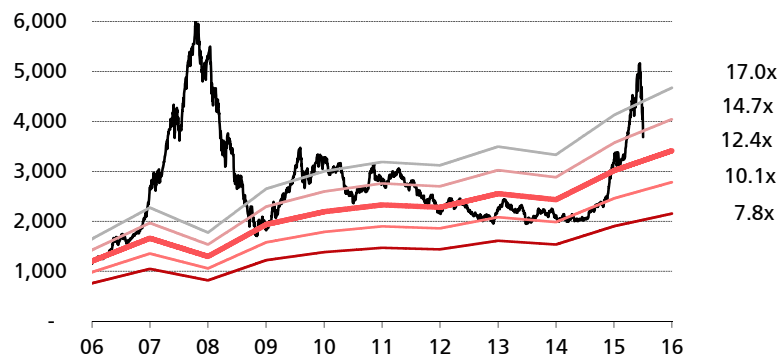


Sources: CEIC, Bloomberg Finance L.P.

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A-shares: How low can it go?

SHCOMP PE bands

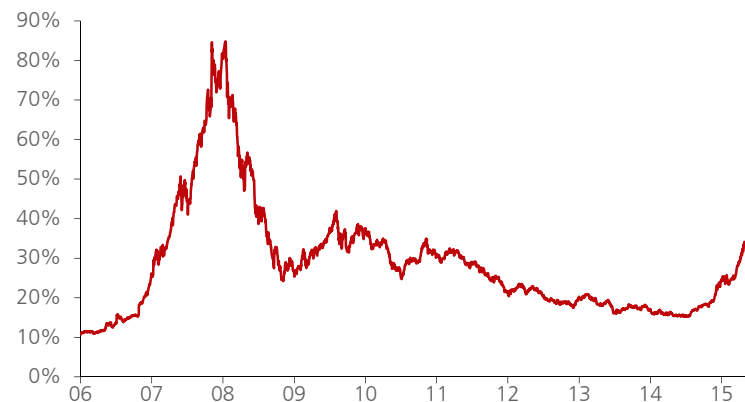


SZCOMP PE bands



- 5 year mean PE:
 - SH: 3,250; SZ: 2,080; CSI: 3,530
- 1 standard deviation below mean:
 - SH: 2,650; SZ: 1,750; CSI: 2,840
- Market cap as % of M2
 - 28% vs. 2014 low of 15%

A-share market cap as % of M2

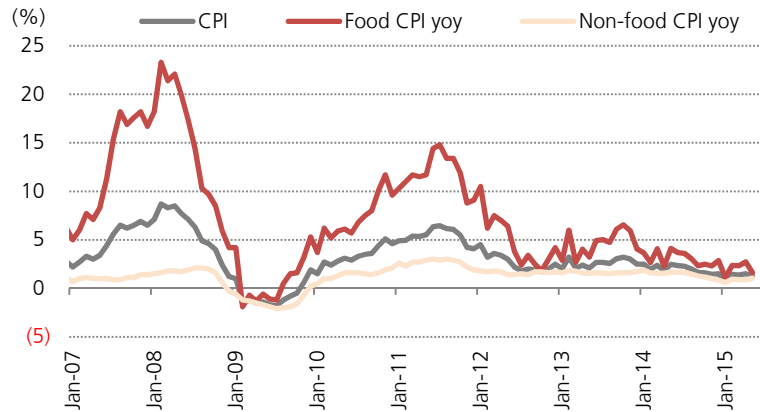


Sources: National Bureau of Statistics, Bloomberg Finance L.P.

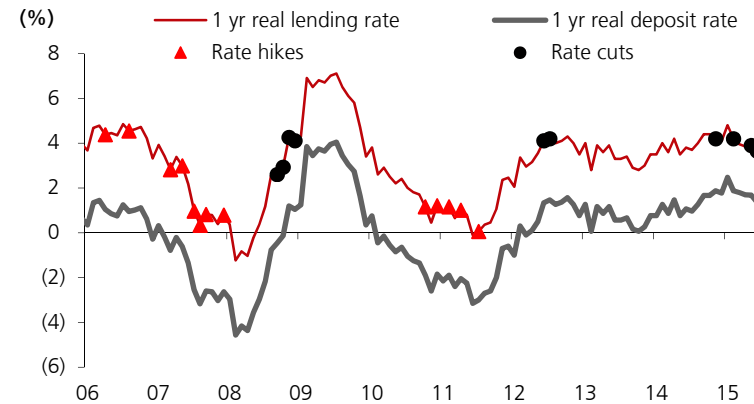
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Silver lining: policy flexibility

China's CPI is on downtrend

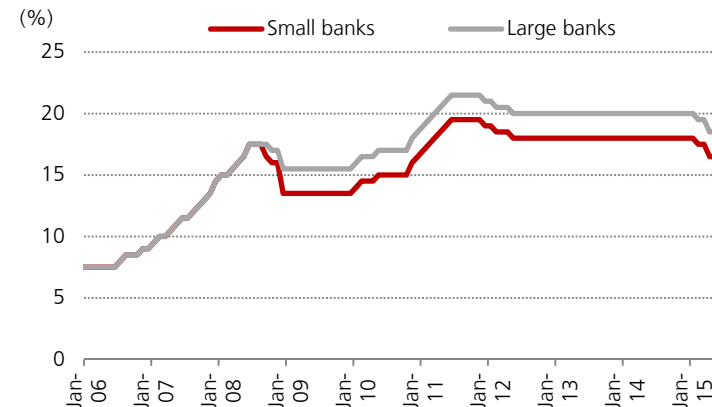


China's real lending rate and benchmark rate changes



- Expecting at least 1 more rate cut in 2015 due to deflation risk
- Expecting 150bps RRR cuts for rest of year
- New money supply expected to be Rmb14trn this year

RRR cuts

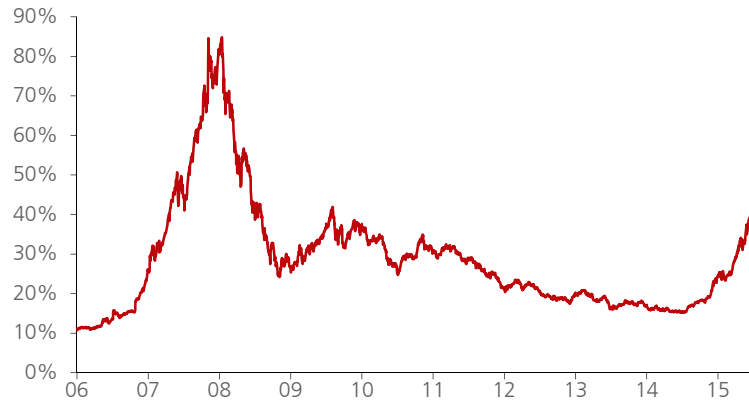


Sources: National Bureau of Statistics, Bloomberg Finance L.P.

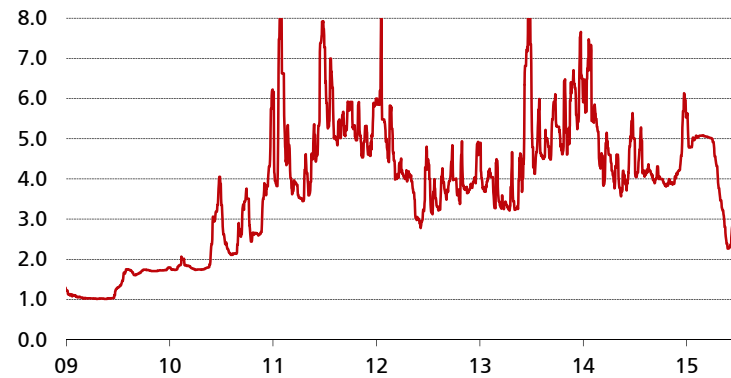
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Other investment classes are not compelling

A-share market cap as % of M2

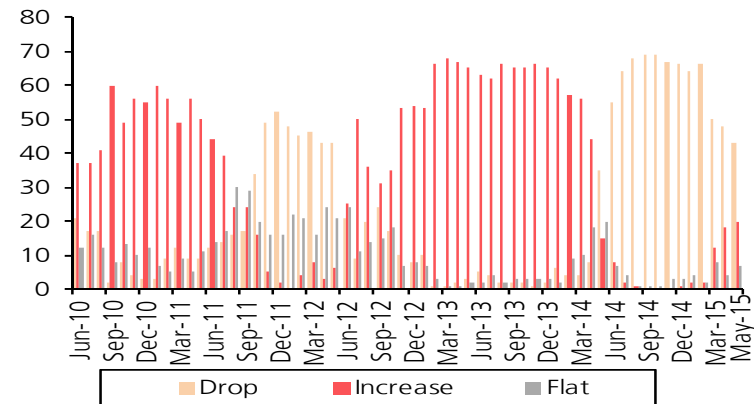


1 month SHIBOR



- Rate cuts mean lower yields for money market funds and fixed income
- Property destocking to cap price appreciation in near term

Cities with positive or negative property price movements

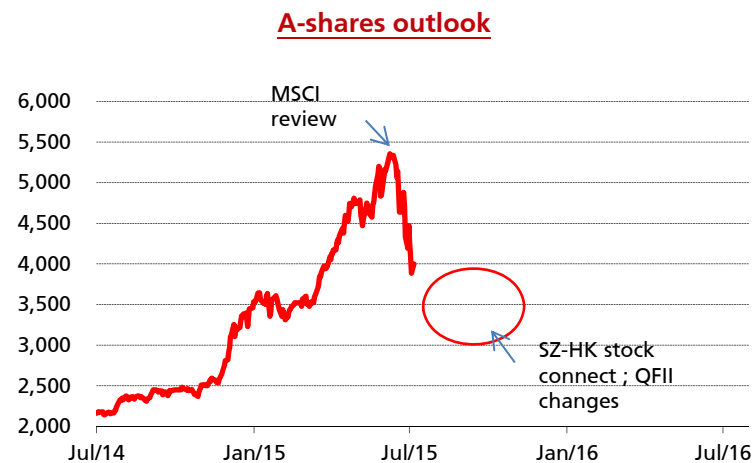


Sources: NBS, Soufun, Bloomberg Finance L.P.

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M is for MSCI

- Foresee M shape for A-shares
- Relaxing capital withdrawal limits for QFII and RQFII investments, to increase capital mobility to meet potential fund redemptions.
- Increasing stock connect daily net buying quotas, to minimize tracking error due to inability to buy on certain days.
- Increasing accumulative stock connect quota and continued expansion of QFII and RQFII quotas.



Companies most affected by A-share swings

Sector	Companies	Impact
Chinese brokers	Citic Sec (6030.HK), Haitong (6837.HK), CGS (6881.HK), GF Sec (1776.HK)	A-share activity decline to impact trading fees; IPO slowdown to impact capital market fees; forced buying may lead to losses
Non-bank financials	CEL (165.HK) Value Partners (806.HK)	A-share price of Everbright Sec. and Everbright Bank determine how much CEL will receive when CEL disposes the stakes to parent Everbright Group in the coming 18 months. A-shares amount to 16% of AUM for VP's SFC-authorized funds
Stocks that shot up due to expensive A-share peers	Kingdee (268.HK), Kingsoft (3888.HK), Netdragon (777.HK), Phoenix (1515.HK)	Negative sentiment and fund flow

Sources: Bloomberg Finance L.P.

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MSCI revival – positive for fund flows

Expected fund flows assuming full inclusion

Country	Current weight %	Weight upon full A-share inclusion %	Implied Fund flow: (US\$ bn)
China	25.1	21.1	(60.2)
China-A	-	16.0	240.0
South Korea	14.9	12.5	(35.7)
Taiwan	12.5	10.5	(29.9)
Brazil	7.9	6.6	(19.0)
South Africa	7.8	6.5	(18.6)
Other	31.9	26.8	(76.6)

Expected fund flows assuming A-share and Korea changes

Country	Current weight %	Weight upon full A-share inclusion %	Implied Fund flow: (US\$ bn)
China	25.1	23.7	(20.7)
China-A	-	18.0	270.0
South Korea	14.9	-	(222.9)
Taiwan	12.5	11.8	(10.3)
Brazil	7.9	7.5	(6.5)
South Africa	7.8	7.3	(6.4)
Other	31.9	30.2	(26.4)

- As estimated USD1.5trn in AUM track the MSCI Emerging Market Index
- Expected inflows to A-shares to be USD240bn
- But other markets including H-shares to see outflows
 - Outflows will be mitigated if South Korea is reclassified as developed market (similar to FTSE)

Sources: MSCI, DBS Vickers

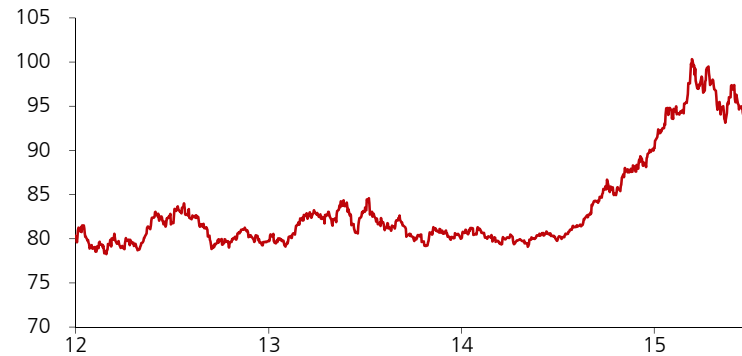
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Greece – currency risk

Euro



USD



CNY / EUR



CNY



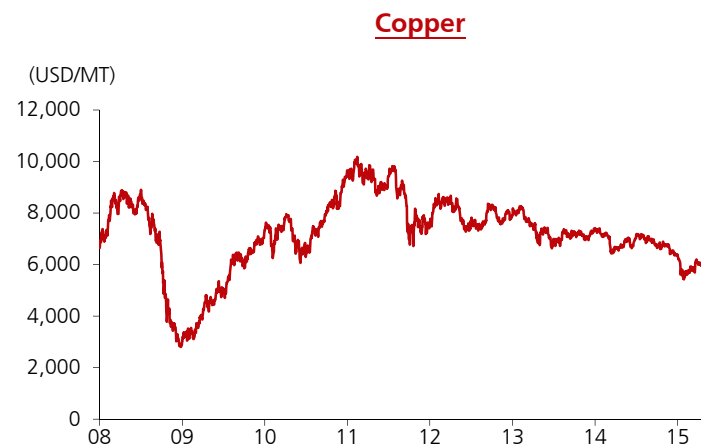
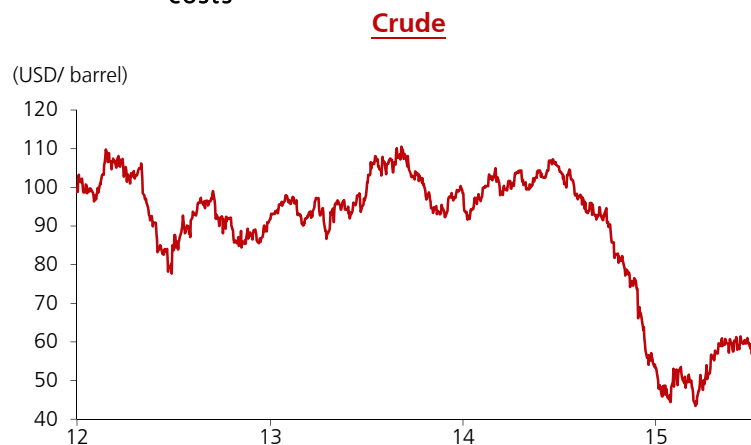
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Some companies can benefit

Beneficiaries from lower Euro and commodity prices

	Sector	Companies	Impact
Positive impact	Airlines	China Southern Airlines (1055.HK), China Eastern Airlines (670.HK), Air China (753.HK), Cathay Pac (293.HK)	Cheaper jet fuel costs as stronger USD helps depress oil price
	Companies with Euro costs	L'occitane (973.HK) HKEX (388.HK)	Skincare products are manufactured in France LME fees are in USD but costs are in GBP
	Sino-foreign auto JVs	Brilliance China (1114.HK), Dongfeng (489.HK), GAC (2238.HK)	Cheaper import costs of European and Japanese parts. Lower cost of commodities.
	Companies with commodity costs	Railway and construction	Lower cost of materials



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But more will be hurt

Companies hurt by lower Euro and commodity prices

	Sector	Companies	Impact
	Companies with Europe operations	HSBC (5.HK)	Share price has correlated with GBP strength in past
		Standard Chartered (2888.HK)	
		Hutchison (13.HK)	European contributions to be lower in USD/HKD terms
		Cheung Kong (1.HK)	Mainly exposure through Hutchison
		Esprit (330.HK)	
		Prada (1913.HK)	
		Coach (6388.HK)	
Negative impact	Upstream oil	CNOOC (883.HK), PetroChina (857.HK)	Strong USD dampens commodity price outlook
	Sectors impacted by commodity price declines	Alternative energy	Lower fossil fuel prices may hurt demand of solar panels
		Oil equipment	Offshore exploration becomes less profitable with lower crude price
		Jewellers	Gold price decline to hit inventory and ASP
	Exporters	Li & Fung (494.HK)	Exports or sales to Europe. Even if purchase is settled in USD or Rmb, purchasing power will be lower given Euro depreciation.
		Techtronic (669.HK)	
		Johnson Electric (179.HK)	
		Vtech (303.HK)	
		Lenovo (992.HK)	
		TCL Comm (2618.HK)	

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HSI and HSCEI

HSCEI

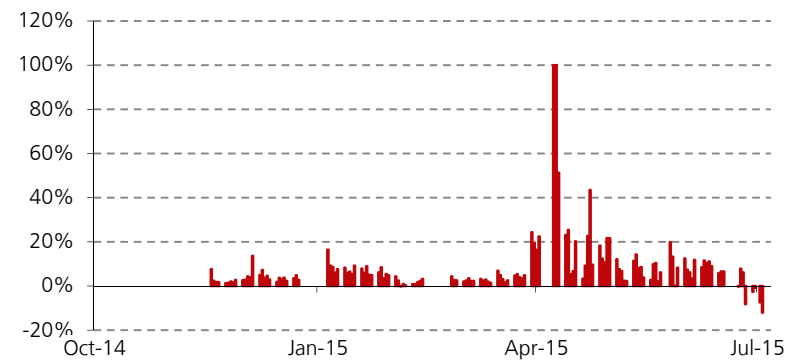


HSI



Southbound stock connect trades

(% of daily quota of Rmb 10.5bn)



- 5 year mean PE:
 - HSI: 22,850; HSCEI: 12,700
- 1 standard deviation below mean:
 - HSI: 20,600; HSCEI: 10,640

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July trend may be broken

Monthly heat map for HSI performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2005	(3.6)	3.5	(4.8)	2.9	(0.3)	2.4	4.8	0.2	3.5	(6.8)	3.8	(0.4)
2006	5.9	1.1	(0.7)	5.4	(4.8)	2.6	4.3	2.5	0.9	4.5	3.5	5.3
2007	0.7	(2.3)	0.8	2.6	1.6	5.5	6.5	3.5	13.2	15.5	(8.6)	(2.9)
2008	(15.7)	3.7	(6.1)	12.7	(4.8)	(9.9)	2.9	(6.5)	(15.3)	(22.5)	(0.6)	3.6
2009	(7.7)	(3.5)	6.0	14.3	17.1	1.1	11.9	(4.1)	6.2	3.8	0.3	0.2
2010	(8.0)	2.4	3.1	(0.6)	(6.4)	1.8	4.5	(2.4)	8.9	3.3	(0.4)	0.1
2011	1.8	(0.5)	0.8	0.8	(0.2)	(5.4)	0.2	(8.5)	(14.3)	12.9	(9.4)	2.5
2012	10.6	6.3	(5.2)	2.6	(11.7)	4.4	1.8	(1.6)	7.0	3.9	1.8	2.8
2013	4.7	(3.0)	(3.1)	2.0	(1.5)	(7.1)	5.2	(0.7)	5.2	1.5	2.9	(2.4)
2014	(5.5)	3.6	(3.0)	(0.1)	4.3	0.5	6.8	(0.1)	(7.3)	4.6	(0.0)	(1.6)
2015	3.8	1.3	0.3	13.0	(2.5)	(4.9)						

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Longer term trend – outflow from China

A-share premium over H-shares



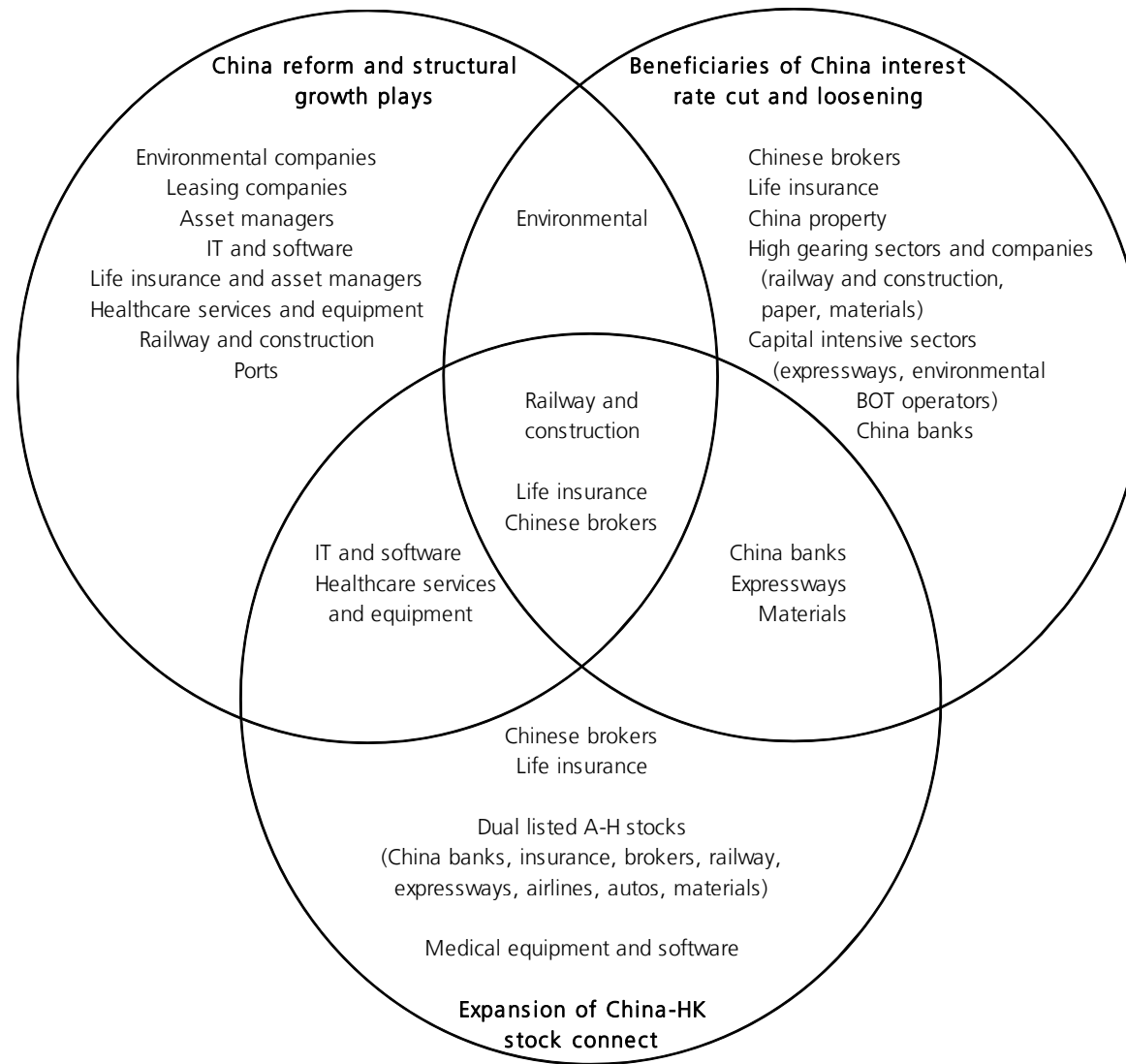
- China is relaxing its capital account; freer flow of capital will benefit Hong Kong
- H-shares are on average 26% cheaper than A-shares
- China wealth diversifying to offshore is a long term trend
- CSRC allowed China mutual funds to invest in Hong Kong through stock connect on 27 March, 2015
- Mutual fund recognition
- If A-shares are included in MSCI EM, China weight will increase

Sources: WIND, Bloomberg Finance L.P.

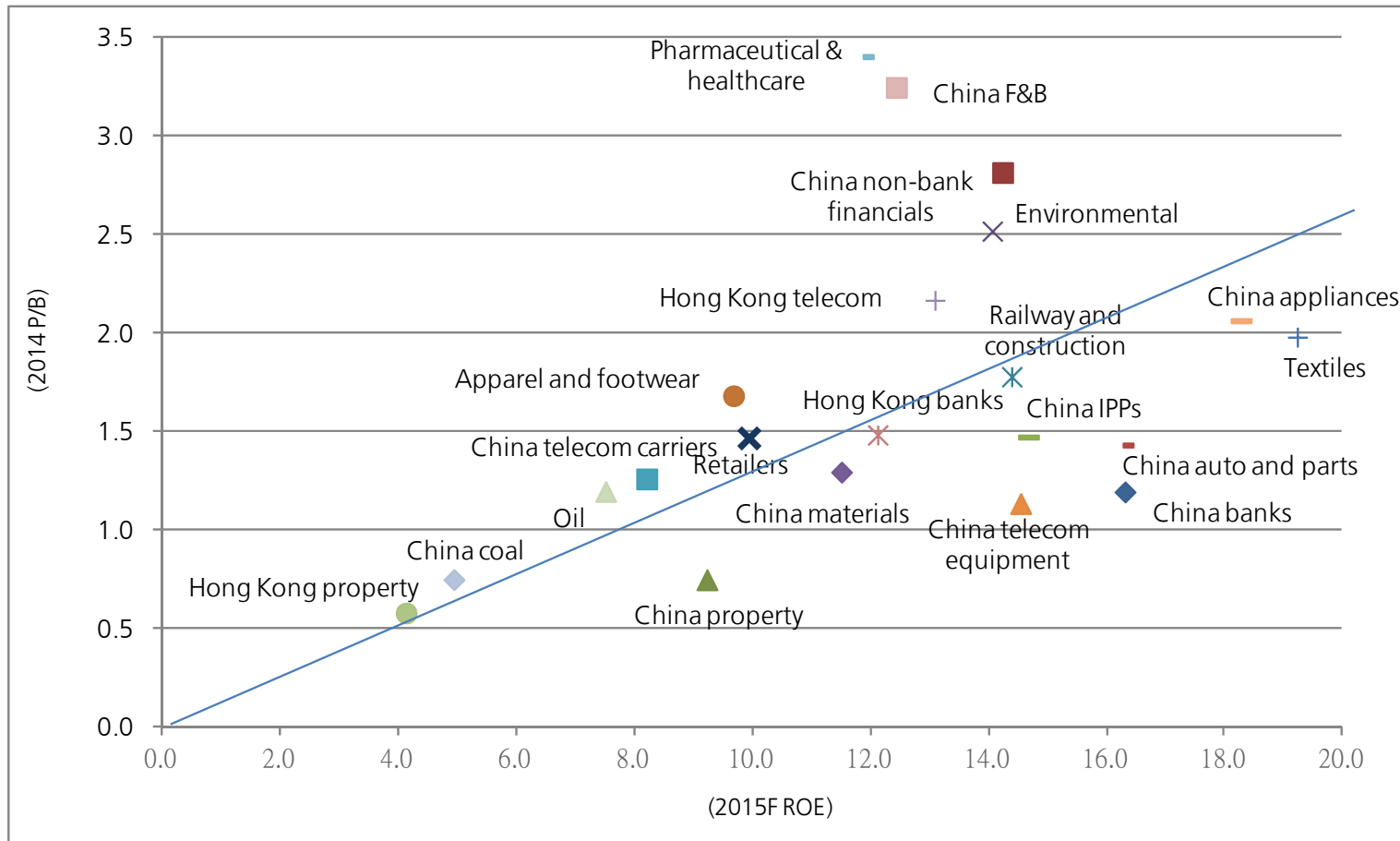
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Our past themes

- “New normal” themes have played out
- Still like segments with positive earnings momentum, such as environmental, healthcare services, and e-commerce



Prefer value sectors

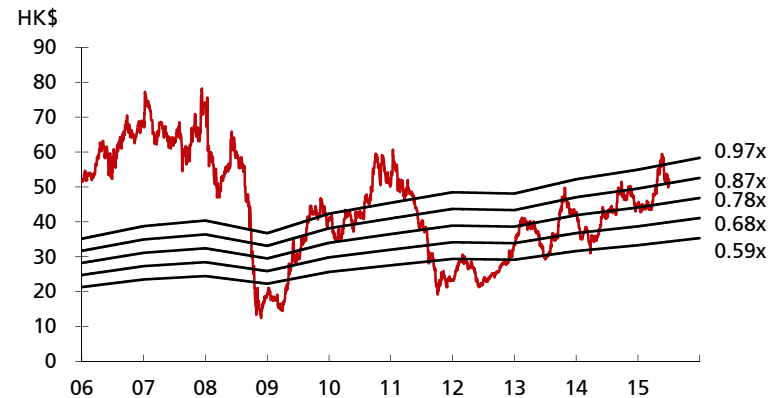


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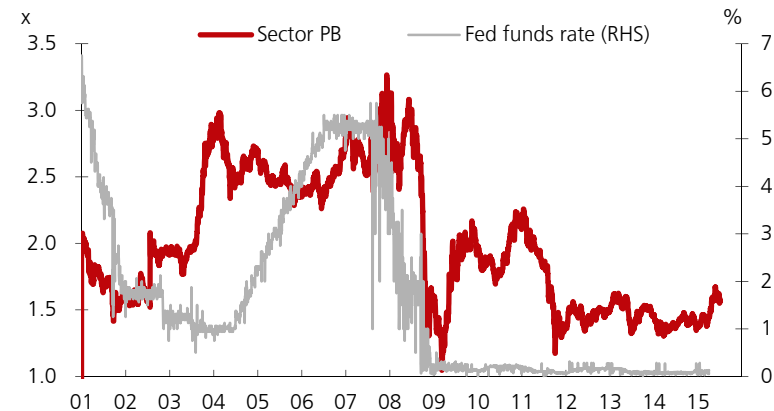
Prefer value sectors – Hong Kong banks

- Rare beneficiary of USD interest rate normalisation
 - 100bps increase can help earnings by 12-20%
 - Smaller banks are more sensitive
- Capital market activity to help fees in 2015
- Chinese FI to accelerate expansion – M&A excitement
- We like Dah Sing Financial (440.HK) and Hang Seng Bank (11.HK)

DSF PB band



HK banks' PB vs. Fed funds rate



Sources: Bloomberg Finance L.P.

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Hong Kong banks

Hang Seng Bank fee income growth during 2007 rally

(HK\$ m)	1H06	2H06	1H07	2H07	1H08	2H08
Stockbroking services	398	407	738	1,247	808	551
Retail investment funds	484	312	728	948	773	311
Structured investment products	32	62	249	412	297	44
Private banking	160	171	333	667	177	57
Cards	403	457	483	565	623	681
Other fee streams	558	630	632	680	690	692
Gross fee income	2,035	2,039	3,163	4,519	3,368	2,336
Fee expense	(253)	(324)	(301)	(495)	(341)	(394)
Net fee income	1,782	1,715	2,862	4,024	3,027	1,942
Net profit of bank	6,190	5,848	8,867	9,375	9,064	5,035
(yoy %)	1H06	2H06	1H07	2H07	1H08	2H08
Stockbroking services	71%	57%	85%	206%	9%	-56%
Retail investment funds	-16%	-9%	50%	204%	6%	-67%
Structured investment products			678%	565%	19%	-89%
Private banking	68%	116%	108%	290%	-47%	-91%
Cards	21%	23%	20%	24%	29%	21%
Other fee streams	1%	14%	13%	8%	9%	2%
Gross fee income	14%	27%	55%	122%	6%	-48%
Fee expense	18%	45%	19%	53%	13%	-20%
Net fee income	13%	24%	61%	135%	6%	-52%

- Stockbroking fees were up 85-200% during 2007 rally
- Other wealth management fee streams also performed well
- Drove net fee income to grow 61-135%
- Net fees as % of total income increased to 29% from 20% before the rally

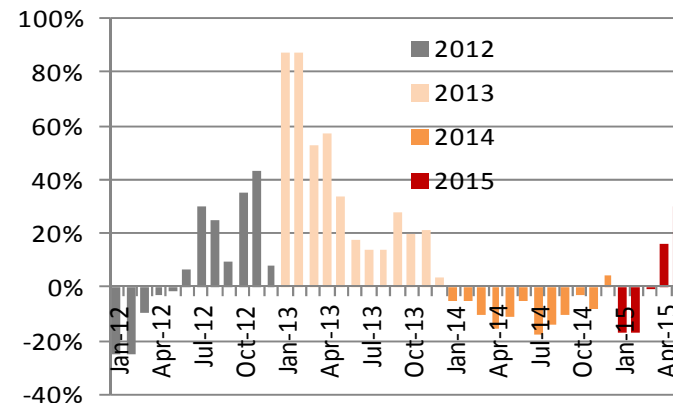
Sources: Hang Seng Bank

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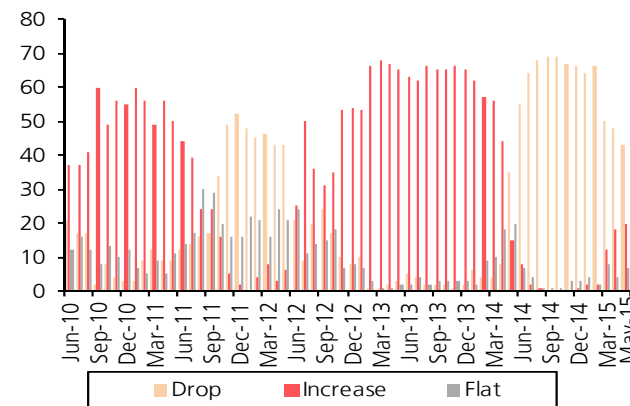
Prefer value sectors – China property

- Sector has favorable P/BV vs. ROE compared to other sectors.
- Property sales volumes are improving starting in 2Q, as loosening measures begin to take hold.
- Property price trends are also normalizing, with more cities reporting flat or higher property prices.
- Interest burden is lower after interest rate cuts.
- China's liquidity and savings will seek other asset classes as A-share rally takes a break. Properties are a likely destination as fixed income yields are still trending down.
- Top picks are: CR Land, Vanke, Franshion

Monthly sales y-o-y growth



Property price trends are improving

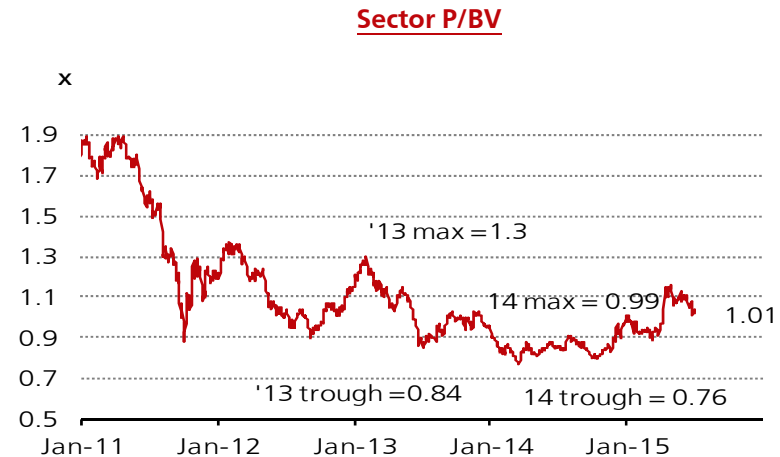


Sources: Bloomberg Finance L.P.

Prefer value sectors – China banks

- Sector has re-rated but is still only trading at P/BV of 1.0x.
- Better NIM and ROE clarity as we are near the end of interest rate liberalization. We still expect Chinese banks to have ~15% ROE in a low interest rate and high credit cost environment.
- The sector's P/BV vs. ROE compares favorably against other sectors.
- Ongoing LGFV loan – bond swap, interest rate cuts, and cash flow improvement of developers help asset quality.
- Banks are beginning to branch out to new businesses like brokerages.
- Mixed ownership reforms are also a positive development.
- Our top picks are BoCom 3328.HK, CMB 3968.HK, and Citic 998.HK

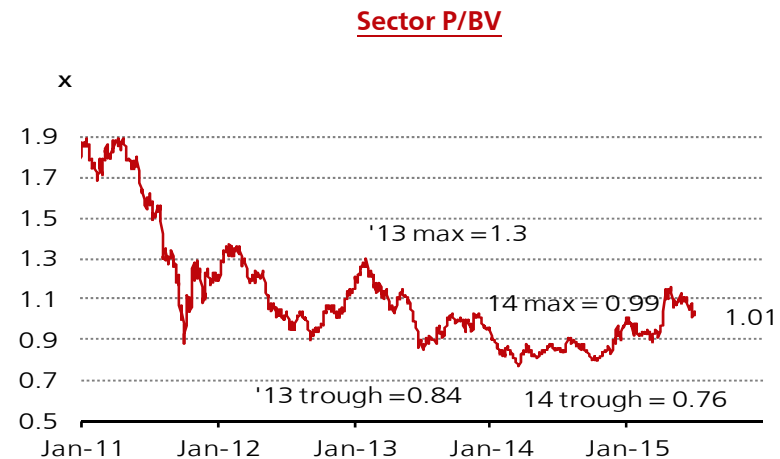
Sources: Bloomberg Finance L.P.



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Sources: Bloomberg Finance L.P.



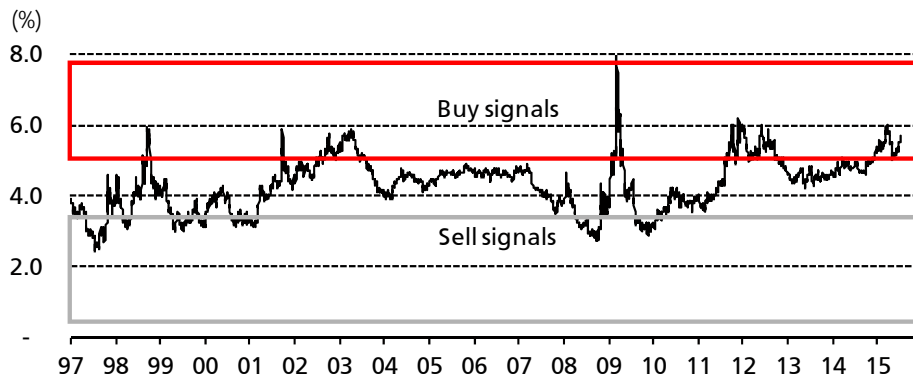
Dividend yield plays in our universe

Ticker	Company	FY15F (%)	Ticker	Company	FY16F (%)
165	China Everbright Ltd	21.1	165	China Everbright Ltd	51.1
531	Samson Holding	11.6	531	Samson Holding	11.6
6139	Jinmao Investment	8.8	6139	Jinmao Investment	9.1
1880	Belle Int'l	8.3	832	Central China	9.0
806	Value Partners Group	8.0	321	Texwinca	8.0
303	VTech	7.1	303	VTech	7.6
832	Central China	7.0	891	Trinity Ltd	7.5
321	Texwinca	7.0	709	Giordano	7.5
709	Giordano	6.8	494	Li & Fung	7.5
1382	Pacific Textile	6.8	410	Soho China	7.3
814	Beijing Jingkelong	6.6	813	Shimao Property	7.0
494	Li & Fung	6.5	653	Bonjour Holdings	7.0
653	Bonjour Holdings	6.4	311	Luen Thai	6.9
1700	Springland Int'l	6.3	1382	Pacific Textile	6.9
813	Shimao Property	6.3	1700	Springland Int'l	6.8
1300	Trigiant Group	6.2	2678	Texhong Textile Group	6.7
5	HSBC Holdings	6.2	814	Beijing Jingkelong	6.6
891	Trinity Ltd	6.1	6823	HKT Trust	6.5
410	Soho China	6.1	5	HSBC Holdings	6.4
569	China Automation	6.0	1378	China Hongqiao Group	6.3

- Companies on this list with low earnings risk: Texwinca, Giordano, Pacific Textile

Dividend yield plays in our universe

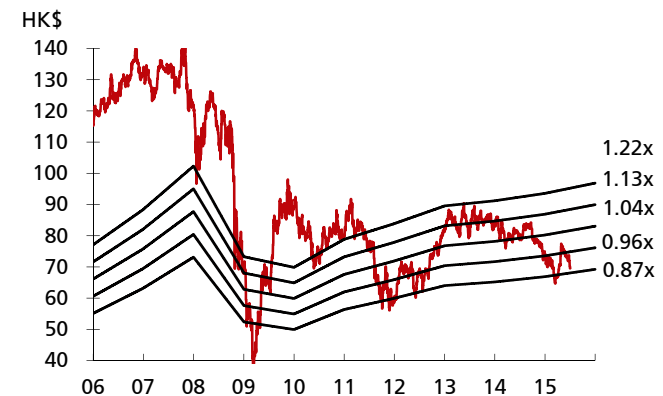
HSBC dividend yields and share price



- HSBC's forward dividend yield approaching 6.0% (historical trough except 2009 crash)
- Dividend confidence can improve with clarity on regulatory fines
- HQ move can also help core earnings by ~5%
- Euro and GBP trends are risks



HSBC's P/BV



Sources: Bloomberg Finance L.P.

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Lowest PEG and PE stocks in universe

Ticker	Company	Rec	PEG		PE	
			('14-'16)	14	15F	16F
165	China Everbright Ltd	B	0.12	17.8	7.2	2.8
81	COGO	B	0.13	7.1	3.8	2.9
2678	Texhong Textile	B	0.21	16.4	6.3	5.1
486	United Co RUSAL	B	0.22	25.8	6.7	5.4
881	ZhongSheng	B	0.24	12.5	7.3	5.4
311	Luen Thai	B	0.24	10.6	5.9	5.1
1148	Xinchen China	B	0.30	11.5	8.4	6.0
832	Central China	B	0.30	4.9	4.6	3.6
1366	Jiangnan Group	B	0.37	9.0	7.7	5.8
489	Dongfeng Motor	B	0.39	6.1	5.2	4.5
1728	China ZhengTong	B	0.41	11.1	8.3	6.9
2238	Guangzhou Auto	B	0.44	10.7	8.1	7.0
337	Greenland (HK)	B	0.45	117.2	27.4	8.9
1828	Dah Chong Hong	B	0.46	9.8	8.0	6.7
3777	China Fiber Optic	B	0.49	7.7	6.8	5.8
3360	Far East Horizon	B	0.51	8.3	7.1	6.1
173	K. Wah Intl	B	0.53	16.9	16.1	9.7
2111	Best Pacific	B	0.60	15.7	12.0	9.9
3968	CMB	B	0.64	8.2	7.2	6.4

Ticker	Company	FY16F (x)
165	China Everbright Ltd	2.2
81	China Overseas Grand Oceans	2.5
832	Central China	3.3
1378	China Hongqiao Group	4.0
3777	China Fiber Optic Network	4.2
311	Luen Thai	4.4
489	Dongfeng Motor Group	4.4
2678	Texhong Textile Group	4.4
3323	China Nat'l Bldg Mat	4.5
605	China Financial Services	4.5
3383	Agile Property	4.7
881	ZhongSheng	4.9
1988	China Minsheng Bank	5.0
813	Shimao Property	5.0
486	United Co RUSAL PLC	5.0
998	China CITIC Bank	5.0
856	VST Holdings	5.0
1366	Jiangnan Group	5.1
2342	Comba	5.2
1300	Trigiant Group	5.3

- Xincheng Power, Jiangnan, Zhengtong, Dah Chong Hong, Far East Horizon, Best Pacific, and CMB are interesting names

Oversold stocks in panic selling

Code	Company	1 week			Rec	PE		Div. yield	Notes
		perf.	Price	TP		2015F	2016F	2015F	
2393	Yestar International	(39.7)	2.2	4.27	B	20.0	13.3	2.3	
806	Value Partners Group	(30.2)	9.6	17.8	B	8.4	10.7	8.0	Yes if A-shares stabilize
1070	TCL Multimedia	(28.8)	3.91	4.9	FV	11.6	9.9	2.6	
268	Kingdee	(28.7)	3.57	6.8	B	31.0	23.6	0.5	Yes if A-shares stabilize
1068	China Yurun	(28.6)	2.3	3.8	H	58.3	33.3	-	
337	Greenland (Hong Kong)	(27.4)	4.51	8.28	B	20.5	6.7	-	
493	Gome Elec Appliances	(26.5)	1.33	1.95	H	13.3	12.0	3.0	Yes if A-shares stabilize
506	China Foods	(25.4)	3.7	5.58	H	50.4	32.4	-	
1065	Tianjin Cap Environmental	(24.7)	4.81	3.6	S	16.6	15.8	1.2	
605	China Financial Services	(23.8)	0.64	0.9	B	5.6	4.5	2.7	
814	Beijing Jingkelong	(23.4)	1.9	2.2	H	13.9	12.6	6.6	
569	China Automation	(22.6)	1.06	1.8	B	9.0	8.5	6.0	
165	China Everbright Ltd	(21.5)	21.3	26.89	B	5.7	2.2	21.1	Yes if A-shares stabilize
323	Maanshan I & S	(21.5)	2.12	1.87	FV	58.0	20.0	0.6	
1300	Trigiant Group	(20.2)	1.9	3.3	B	5.7	5.3	6.2	
3393	Wasion Group	(19.9)	9.95	14	B	12.1	10.1	2.9	
2342	Comba	(19.5)	1.77	3.5	H	6.1	5.2	4.1	
1833	Intime Department Store	(18.8)	8.97	9.7	FV	14.4	12.5	3.1	
1366	Jiangnan Group	(18.6)	1.93	2.9	B	6.7	5.1	3.7	
2678	Texhong Textile Group	(18.1)	6.15	9.5	B	5.5	4.4	5.4	
751	Skyworth	(17.6)	5.98	7.75	H	5.2	8.5	2.6	
980	Lianhua Supermarket	(17.3)	4.48	5.41	FV	80.2	62.6	-	
1224	CC Land	(16.8)	1.63	2.28	H	6.5	6.8	3.1	
856	VST Holdings	(16.8)	2.47	3.6	B	5.5	5.0	5.4	
347	Angang Steel	(15.8)	4.65	7	B	30.2	24.1	0.8	
763	ZTE	(15.6)	16.92	23	B	16.0	14.2	1.6	
2618	TCL Communication	(15.3)	6.26	7.4	H	6.8	6.8	4.4	
1186	China Railway Construction	(15.3)	10.32	17	B	8.5	8.0	1.8	

After July 6

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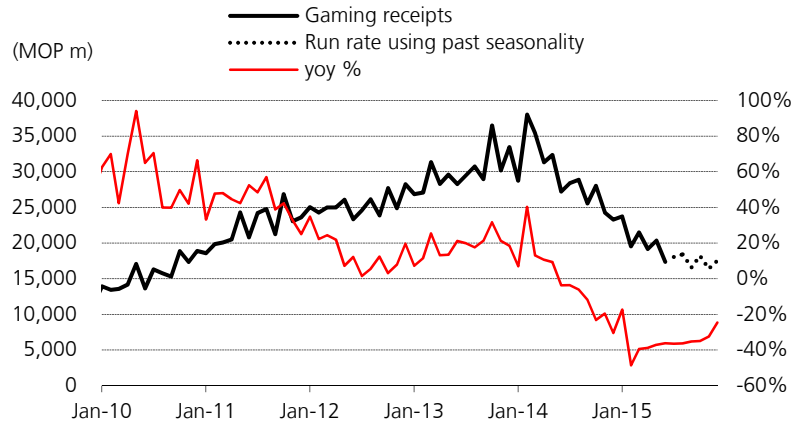
Sector recommendations from our reports

Sector	Weighting	Change	Rationale
China banks	Overweight		LGFV loan-bond swap, mixed ownership, and new businesses are positives
Hong Kong banks	Overweight	Upgraded	A rare sector that can benefit from USD interest rate normalisation
Environmental	Overweight		Prefer smaller caps with better valuations and growth potential
Internet and e-commerce	Overweight		E-commerce continues to gain share of retail sales and services
Pharmaceutical + healthcare	Overweight		Wealth and aging population are drivers; prefer services and equipment
Apparel and footwear	Neutral		Prefer non-HK centric companies like Belle
China airlines	Neutral		Earnings upgrades thanks to falling oil price; large H-share discount
China appliances	Neutral		Outlook to improve on back of expected rebound in property sales
China auto and parts	Neutral		Slow car sales balances cheaper commodity input costs
China coal	Neutral		Documentary "Under the Dome" is scary; structurally unattractive
China IPPs	Neutral		Helped by lower coal prices; prefer operators with more alternative exposure
China non-bank financials	Neutral	Downgraded	We look to revisit this sector when SZ-HK stock connect kicks off
China property	Neutral		Expecting sales recovery due to rate cut, HPR and mortgage policies
China retailers	Neutral		Positive wealth effect helps counter anti-graft and e-competition drags
China telecom carriers	Neutral		VAT reform will still impact 2015 earnings
China telecom equipment	Neutral		4G network capex to slow slightly in 2015 and more significantly in 2016
Gaming	Neutral	Upgraded	Worst seems to be over for y-o-y gaming revenue declines
Hong Kong telecom	Neutral		Industry consolidation should help pricing in the future
Oil	Neutral		Potential downside risk from strong USD if Greece exits
Railway and construction	Neutral		Positive outlook, but valuations are less attractive after run up
Textiles	Neutral		Stable outlook for 2015 offset by near peak valuations
China F&B	Underweight		High valuations cap upside, particularly with earnings downgrades
China materials	Underweight	Downgraded	Mismatch between share price gain and decelerating domestic FAI
Hong Kong property	Underweight		US interest rate cycle and HK political pressure are key risks
HK REITs	Underweight		Rising risk appetite and US\$ interest rate normalization are key risks
HK retailers	Underweight		Unfavorable structural change in mainland tourist spending behavior

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Upgraded gaming to Neutral

Macau gaming receipts



Gaming sector PE vs. market



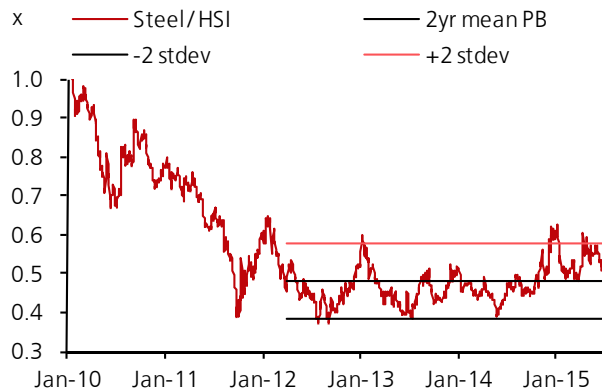
- Assuming month-on-month seasonality for rest of the year
- Y-o-y revenue growth decline to narrow to 20% by year end
- Relative valuation near trough level

Sources: CEIC.

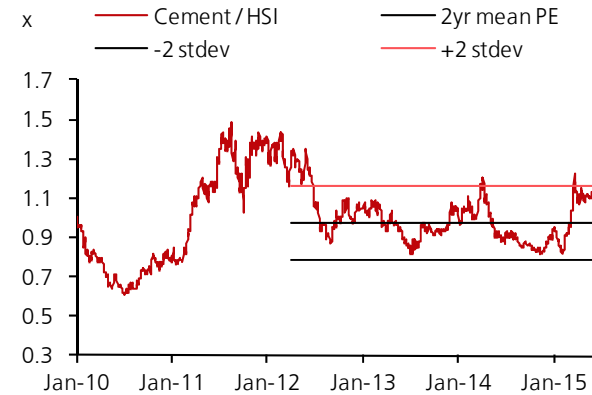
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Downgrade materials to Underweight

Steel PB vs. HSI PB



Cement PE vs. HSI PE



Steel rebar price



Iron ore import price



Sources: Bloomberg Finance L.P., CEIC.

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Cautious on Hong Kong retail

CNY appreciation against the YEN



Mainland visitor



- Tourism is slowing due to discrimination and currency trends
- Easier overseas visa applications for Mainland Chinese
- Visa entry into Hong Kong becoming more restrictive
- Continued minimum wage increase
 - Retail and catering employ low skilled labor

Discriminatory protests against Mainland shoppers



Sources: Bloomberg Finance L.P., CEIC, WantChinaTimes.

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Cautious on Hong Kong retail

Share price performance from start of SARS to lowest point of HSI

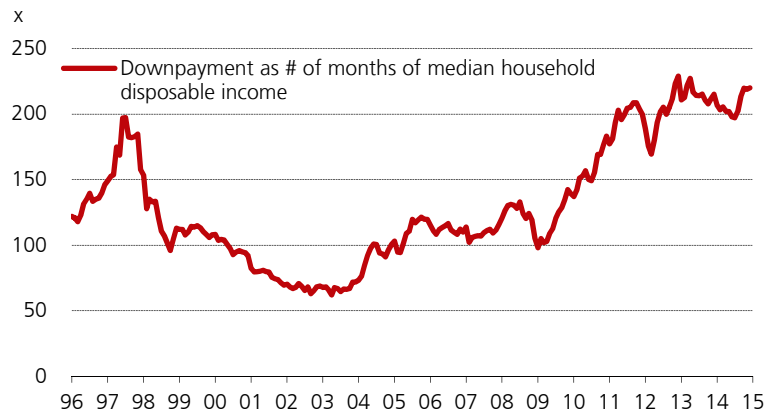
Sector	Company	Ticker	Price performance	
			Feb 28, '03 to Apr 25, '03	Apr 25, '03 to May 26, '03
	HANG SENG INDEX	HSI	-7.8%	12.9%
	HANG SENG CHINA ENT INDX	HSCEI	-5.0%	20.0%
Airlines	CATHAY PAC AIR	293	-22.0%	17.1%
Airlines	CHINA EAST AIR-H	670	-27.5%	37.8%
Airlines	CHINA SOUTHERN-H	1055	-29.9%	42.7%
Hotels&Motels	SHANGRI-LA ASIA	69	-23.7%	17.0%
Hotels&Motels	HK&S HOTELS	45	-24.3%	33.0%
Real Estate Oper/Develop	GREAT EAGLE	41	-20.4%	12.5%
Retail-Perfume&Cosmetics	SASA INTL HLDGS	178	-23.5%	28.0%
Retail-Jewelry	CHOW SANG SANG	116	-7.3%	3.9%
Retail-Jewelry	LUK FOOK HLDGS I	590	-28.1%	31.6%
Retail-Apparel/Shoe	GIORDANO INTL	709	-16.5%	32.3%
Retail-Restaurants	CAFE DE CORAL	341	-4.6%	14.0%
Retail-Restaurants	FAIRWOOD HLDGS	52	-14.6%	2.6%
Real Estate Oper/Develop	HYSAN DEV	14	-8.3%	12.7%
Diversified Operations	WHARF HLDG	4	-20.9%	17.0%
Real Estate Oper/Develop	HANG LUNG GROUP	10	-11.4%	12.0%
Investment Companies	CKH HOLDINGS	1	-16.1%	18.2%
Real Estate Oper/Develop	HENDERSON LAND D	12	-16.0%	14.5%
Real Estate Oper/Develop	SHK PPT	16	-20.5%	12.3%
Diversified Operations	SWIRE PACIFIC-A	19	-14.8%	19.9%
Diversified Banking Inst	HSBC HLDGS PLC	5	-2.1%	11.9%
Commer Banks Non-US	HANG SENG BANK	11	-10.9%	9.9%
Commer Banks Non-US	BANK EAST ASIA	23	-5.5%	8.7%
Feminine Health Care Prd	HENGAN INTL	1044	-6.7%	12.4%

Sources: Bloomberg Finance L.P.

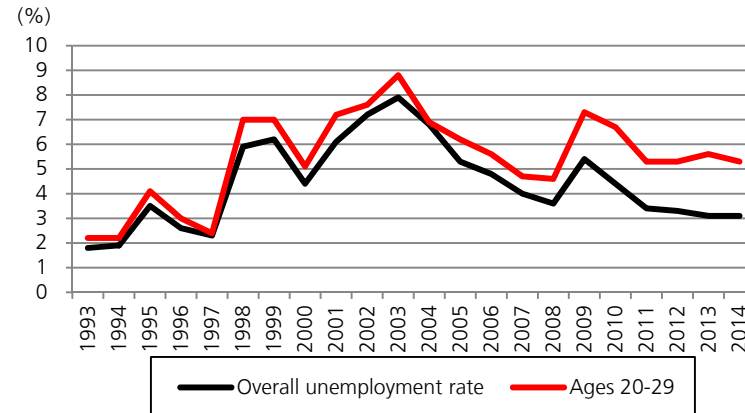
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Cautious on Hong Kong property and REITs

Number of months needed to save for downpayment



Unemployment rate

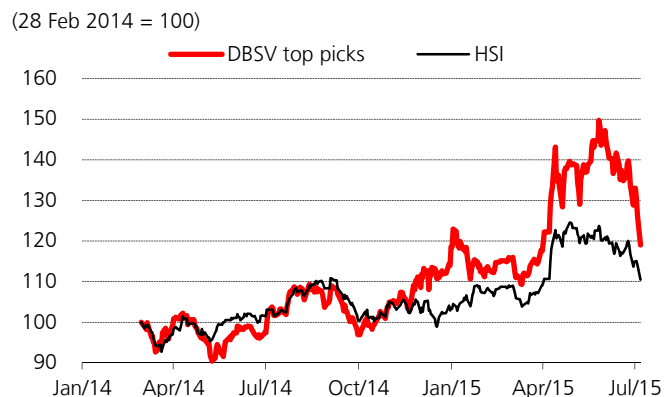


- High property prices: a key discontent factor
- Median household (HK\$25,000 income per month) needs to save 50% of income for more than 16 years just for down payment of a 600sq.ft flat
- HK government will be forced to adopt more socialist policies
- Unfavorable interest rate cycle
- Slowing tourism has knock on effect on retail properties
 - Prefer commercial property as Chinese companies are expanding to Hong Kong

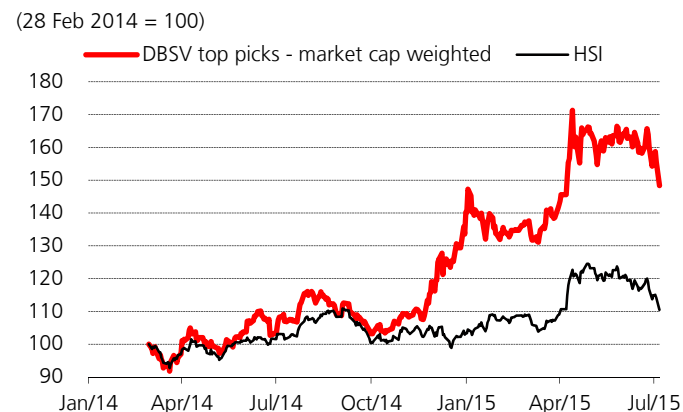
Sources: CEIC.

Top ten picks

Top ten pick performance – simple average



Top ten pick performance – relative performance



Top picks	Ticker	Closing price (HK\$)	DBSV rating	Tgt Price (HK\$)	PER		EPS	ROE		PBV		Div yield	
					FY15F (X)	FY16F (X)	CAGR 14-16 (%)	FY15F (%)	FY16F (%)	FY15F (X)	FY16F (X)	FY15F (%)	FY16F (%)
China Citic Bank	998.HK	5.97	BUY	8.31	5.4	5.0	4.6	14.6	13.7	0.7	0.7	5.5	6.3
CMB	3968.HK	21.60	BUY	26.82	6.9	6.1	12.8	18.3	17.5	1.2	1.0	4.4	4.9
CR Land	1109.HK	22.25	BUY	31.30	12.5	11.3	(11.6)	10.7	10.3	1.2	1.1	2.2	2.4
Dah Sing Fin.*	440.HK	47.95	NR	n.a.	9.3	8.6	3.0	8.5	8.7	0.8	0.7	2.8	2.9
Far East Horizon	3360.HK	6.74	BUY	7.92	7.2	6.6	6.6	14.1	13.7	0.9	0.8	3.2	3.8
Nexteer Auto	1316.HK	7.85	BUY	9.30	12.1	9.8	26.5	27.0	26.7	2.9	2.3	1.6	2.0
Sinopharm Group	1099.HK	30.50	BUY	43.60	18.4	15.0	19.4	12.8	14.0	2.2	2.0	1.5	1.8
Tencent	700.HK	146.50	BUY	184.00	32.7	25.4	32.1	31.8	31.4	10.3	7.9	0.4	0.5
Wasion Group	3393.HK	9.95	BUY	14.00	12.1	10.1	24.1	17.1	17.4	1.8	1.7	2.9	3.5
Yestar Intl.	2393.HK	2.20	BUY	4.27	20.0	13.3	56.5	23.6	22.4	3.2	2.8	2.3	3.8
Simple average					14.6	11.8	18.8	18.2	18.0	2.7	2.3	2.4	2.8

* consensus estimates

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Top ten picks

China Citic Bank (998.HK)

- Turnaround effect in earnings after adopting strict standard to categorize NPL and setting aside ample provision
- Strong fee income growth may continue driven by innovative business and cooperation with internet companies
- Attractive valuation: lowest among H-share China banks, significant discount (43%) to A-share

China Merchants Bank (3968.HK)

- Best deposit franchise among joint stock banks
- More nimble to compete effectively after China's financial reforms and deregulations
- Valuation premium over sector has narrowed

China Resources Land (1109.HK)

- Contracted sales likely to pick up strongly
- One of the few developers who has the potential to succeed in China's retail market place
- Asset injection is a potential catalyst if price is attractive

Dah Sing Financial (440.HK)

- Trading below book value; can re-rate back to book value when ROE is expected to return to double digits in a higher interest rate environment
- Capital market activity should help fee incomes in near term
- One of two family owned banks remaining in Hong Kong; M&A excitement can be a bonus

Far East Horizon (3360.HK)

- The push for automation, calls to improve healthcare and education, and China's new silk road plan will increase equipment capex in FEH's core leasing industries
- Financial reforms help FEH lower funding cost, while VAT reform makes equipment leasing attractive from borrowers' tax standpoint
- FEH is also branching into healthcare services and operates 4 hospitals with ~1,000 beds

Nexteer (1316.HK)

- Nexteer is the world's leading electronic power steering producer
- Push for fuel-efficiency is triggering shift from hydraulic power steering to electronic systems
- Traditionally strong in the US, Nexteer is expanding to China to augment growth

Top ten picks

Sinopharm (1099.HK)

- Healthcare is highlighted as a focus area in China's government work report; parent company is also pilot for SOE reform
- Aging population and rising wealth underpin the industry's demand growth
- Large drug distributors like Sinopharm has been gaining market share with its reliability in supply and ability to extend credit

Tencent (700.HK)

- New advertising offerings help drive revenue growth; Tencent only has 5% market share in online ads
- We foresee Tencent can better monetize its >800m users through new ad offerings and new apps
- We project Tencent can grow its revenues by 50% CAGR during FY14-16

Wasion (3393.HK)

- Energy metering and energy efficiency management company. Customers include the State Grid, the Southern Grid, various industries and local governments in China, Egypt, Indonesia, Thailand, Vietnam, Brazil.
- The company has been winning overseas contracts to augment growth. Latest contract wins include a US\$9.4m AMI contract in Tanzania. It has also won Rmb68m and Rmb10m AMI contracts in Mexico and Brazil through partnership with Siemens. Total overseas contract value amounts to >Rmb300m YTD.
- China's power grid needs upgrading to minimize energy loss as part of China's conservation plans. The company benefits from increasing ADO sales orders.

Yestar (2393.HK):

- We project EPS CAGR to be 43% from 2014-2017. This is driven by M&A, which the company funded with its recent placement.
- In-vitro diagnostic (IVD) demand should pick up as hospitals offer more medical services to counter the revenue loss from drug price controls.
- Potential future M&A are catalysts. Yestar's net cash level is estimated to be Rmb29m after placement and acquisitions of distributors of Roche IVD products.

Appendix

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China Citic Bank (998 HK)

Company profile

China CITIC Bank Corporation Ltd (Citic) provides a full range of commercial banking services including RMB and foreign currency deposits, loans, international and domestic settlements, currency trading, bank guarantees, and export credit. Citic Bank has close to 900 branches in China, and over 30 branches in HK, Macau, US, and Singapore.

Financial summary

FY Dec (RMB m)	2013A	2014A	2015F	2016F
Pre-prov. Profit	64,378	78,043	87,688	100,178
Pre-prov. Profit Gth (%)	18	21	12	14
Pretax Profit	52,549	54,574	57,769	64,149
Net Profit	39,175	40,692	41,923	45,630
EPS (RMB)	0.84	0.87	0.87	0.93
EPS (HK\$)	1.07	1.09	1.10	1.19
EPS Gth (%)	26.0	4.0	0.0	6.0
PE (X)	5.6	5.5	5.4	5.0
DPS (HK\$)	0.32	0.00	0.33	0.37
Div Yield (%)	5.4	0.0	5.5	6.3
BV Per Share (HK\$)	6.16	6.94	8.07	9.13
P/Book Value (x)	1.0	0.9	0.7	0.7
ROAE (%)	18.5	16.8	14.6	13.7
ROAE (ex-exceptional (%))	18.5	16.8	14.6	13.7
Consensus EPS (RMB):			0.89	0.95
Other Broker Recs:		B: 10	S: 6	H: 11

Rationale

Backed by decent ROE and positive catalysts

- Decent return on equity (ROE) even factoring in higher provisions to meet regulatory requirements. We believe CITIC can sustain ROE of about 14% after capital raising, even if we assume higher provisions for the bank to meet the 2.5% provision to loan ratio.
- Potential catalysts include cooperation with internet companies, group restructure, mixed ownership reform and employee incentives, and better-than-expected asset quality.

Sources: DBS Vickers

China Merchants Bank (3968 HK)

Company profile

China Merchants Bank Co., Ltd. (CMB) provides a wide range of commercial banking services including deposit, loan, bill discount, government bonds underwriting and trading, interbank lending, letter of credit, bank guarantee, and other related services. CMB is headquartered in Shenzhen, and has around 950 outlets. CMB also owns Wing Lung Bank in Hong Kong.

Financial summary

FY Dec (RMB m)	2013A	2014A	2015F	2016F
Pre-prov. Profit	78,555	104,954	130,678	152,267
Pre-prov. Profit Gth (%)	21	34	25	17
Pretax Profit	68,425	73,431	82,034	90,842
Net Profit	51,743	55,911	62,462	69,168
EPS (RMB)	2.30	2.22	2.48	2.74
EPS (HK\$)	2.94	2.77	3.12	3.52
EPS Gth (%)	10.0	-4.0	12.0	11.0
PE (X)	7.3	7.8	6.9	6.1
DPS (HK\$)	0.79	0.84	0.94	1.06
Div Yield (%)	3.7	3.9	4.4	4.9
BV Per Share (HK\$)	13.45	15.58	18.33	21.54
P/Book Value (x)	1.6	1.4	1.2	1.0
ROAE (%)	22.2	19.3	18.3	17.5
ROAE (ex-exceptional (%))	22.2	19.3	18.3	17.5
Pre-prov. Profit	78555	104954	130678	152267
Pre-prov. Profit Gth (%)	21	34	25	17
Consensus EPS (RMB):			2.44	2.71
Other Broker Recs:		B: 20	S: 4	H: 8

Rationale

Well-positioned to weather interest rate liberalisation

- For 2015, we expect CMB to better weather NIM pressure following China's rate cuts and liberalisation, because CMB has lower deposit cost, is able to issue RMBS, and grow higher-yield loans using its existing project reserves in the interbank business after MBS issuance.

Asset quality pressure eased in CMB's key areas

- CMB's gross NPL formation ratio, the leading index for NPL ratio, declined 4bps q-o-q. Based on our estimates, this is the first decline after continuous increases since 2H11.
- CMB reported lower NPL balance and ratio in Southeast coastal areas and the Pearl River Delta, where its headquarters is located.

Sources: DBS Vickers

China Resources Land (1109 HK)

Company profile

China Resources Land Limited is a PRC developer focusing on nationwide residential development and shopping mall investment (MixC and Hi 5). As a state-owned red-chip, the company enjoys strong support from parent company through asset injection over the past few years.

Financial summary

FY Dec (HK\$m)	2013A	2014A	2015F	2016F
Turnover	71,389	88,381	106,603	121,200
EBITDA	24,102	27,320	26,137	30,815
Pre-tax Profit	24,278	26,786	25,199	29,522
Net Profit	14,696	14,708	12,028	13,646
Core Profit	9,031	10,978	12,028	13,646
EPS (HK\$)	2.52	2.52	1.77	1.97
EPS Gth (%)	38.6	0.0	(29.7)	11.0
DPS (HK\$)	0.44	0.50	0.48	0.53
BV Per Share (HK\$)	14.55	16.56	18.88	19.91
PE (X)	8.8	8.8	12.5	11.3
EV/EBITDA (X)	7.3	6.8	8.8	7.8
Net Div Yield (%)	2.0	2.2	2.2	2.4
P/Book Value (X)	1.5	1.3	1.2	1.1
Net Debt/Equity (X)	0.4	0.4	0.5	0.5
ROAE (%)	19.1	16.2	10.7	10.3
Consensus EPS (HK\$)			2.16	2.47
Other Broker Recs:		B: 27	S: 0	H: 4

Rationale

Decent growth driven by both property sales and rental

- Abundant saleable resources after asset injection
- Better mix of saleable resources after asset injection
- Rental growth will be driven by new malls

Less margin compression pressure in 2015 and 2016

- Cost saving efforts start to bear fruits
- More Shenzhen projects with higher margins to contribute earnings in part of 2015 and full year 2016

Capital tailwinds

- Strong access to low cost funding.
- Strong holding power of IPs

Nexteer Automotive Group (1316 HK)

Company profile

Nexteer is the world's leading producer of steering systems, and counts major automakers as its customers. The company's key products are electronic power steering (EPS) and hydraulic power steering (HPS) systems and driveline.

Financial summary

FY Dec (US\$ m)	2013A	2014A	2015F	2016F
Turnover	2,387	2,978	3,329	3,905
EBITDA	231	356	414	503
Pre-tax Profit	151	215	267	331
Net Profit	109	161	208	258
Net Pft (Pre Ex.)	109	162	209	259
EPS (US\$)	0.06	0.06	0.08	0.10
EPS (HK\$)	0.45	0.50	0.65	0.80
EPS Gth (%)	72.1	10.5	29.1	24.0
Diluted EPS (HK\$)	0.45	0.50	0.65	0.80
DPS (HK\$)	0.09	0.10	0.13	0.16
BV Per Share (HK\$)	2.36	2.12	2.67	3.34
PE (X)	17.3	15.7	12.1	9.8
P/Cash Flow (X)	8.5	10.0	7.8	6.8
P/Free CF (X)	36.4	28.6	14.5	9.4
EV/EBITDA (X)	9.5	8.2	6.9	5.4
Net Div Yield (%)	1.2	1.3	1.6	2.0
P/Book Value (X)	3.3	3.7	2.9	2.3
Net Debt/Equity (X)	0.5	0.5	0.4	0.2
ROAE (%)	29.6	25.8	27.0	26.7
Consensus EPS (US\$):			0.08	0.1
Other Broker Recs:		B: 6	S: 0	H: 1

Rationale

Strong earnings outlook

- Tapping China, the world's largest automotive market.

Fuel-efficient car development

- Global trend towards fuel-efficient vehicles trigger shift from HPS to EPS.

Solid track record

- Its long history with General Motors gives Nexteer an advantage over other players in the supply of steering products.

Sources: DBS Vickers

Sinopharm Group (1099 HK)

Company profile

The largest pharmaceutical distributor in China.

Rationale

Solid earnings growth

- Revenue increase.
- Operating cost % in sales drop.

Financial summary

FY Dec (RMB m)	2014A	2015F	2016F	2017F
Turnover	200,131	236,155	278,663	328,822
EBITDA	8,899	10,691	12,824	15,039
Pre-tax Profit	5,935	7,597	9,281	10,951
Net Profit	2,875	3,677	4,491	5,299
Net Pft (Pre Ex.)	2,875	3,678	4,493	5,302
EPS (RMB)	1.14	1.33	1.62	1.91
EPS (HK\$)	1.42	1.66	2.03	2.39
EPS Gth (%)	27.8	16.6	22.1	18.0
Diluted EPS (HK\$)	1.42	1.66	2.03	2.39
DPS (HK\$)	0.38	0.45	0.55	0.65
BV Per Share (HK\$)	13.55	13.67	15.25	17.09
PE (X)	21.4	18.4	15.0	12.7
P/Cash Flow (X)	11.1	20.0	22.5	24.4
P/Free CF (X)	64.9	37.3	42.1	49.2
EV/EBITDA (X)	9.1	8.4	7.4	6.7
Net Div Yield (%)	1.3	1.5	1.8	2.1
P/Book Value (X)	2.2	2.2	2.0	1.8
Net Debt/Equity (X)	0.3	0.3	0.3	0.3
ROAE (%)	11.7	12.8	14.0	14.8
Consensus EPS (RMB):		1.31	1.58	1.89
Other Broker Recs:		B: 9	S: 0	H: 6

Sources: DBS Vickers

Tencent (700 HK)

Company profile

Tencent stands as a dominant leader in China's online game industry, with rising exposure to the fast-growing mobile game segment. It also rides on the large active user bases for Weixin and Mobile QQ platforms, offering good monetization potential.

Financial summary

FY Dec (RMB m)	2014A	2015F	2016F	2017F
Turnover	78,932	99,012	125,160	158,615
EBITDA	33,751	42,346	53,430	66,851
Pre-tax Profit	29,013	36,295	46,709	59,366
Net Profit	23,810	29,516	38,453	48,872
Core Profit (non-GAAP)	24,224	32,880	42,296	53,305
Core EPS (HK\$)	3.30	4.48	5.77	7.27
Core EPS (RMB)	2.64	3.59	4.62	5.82
Core EPS Gth (%)	42.7	35.7	28.6	26.0
Diluted EPS (HK\$)	3.13	3.88	5.06	6.43
DPS (HK\$)	0.44	0.55	0.71	0.91
BV Per Share (HK\$)	10.73	14.16	18.63	24.31
Core PE (X)	44.3	32.7	25.4	20.1
P/Cash Flow (X)	32.8	29.6	23	18.4
P/Free CF (X)	40.2	34.5	26.5	21.1
EV/EBITDA (X)	30.3	23.7	18.4	14.2
Net Div Yield (%)	0.3	0.4	0.5	0.6
P/Book Value (X)	13.6	10.3	7.9	6.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	34.5	31.8	31.4	30.5

Note: Non-GAAP core profit mainly excludes share-based compensation, amortization and impairment expenses

Consensus EPS (RMB):	3.25	4.3	5.47
Other Broker Recs:	B: 36	S: 0	H: 2

Rationale

An online game leader

- Tencent enjoys leading positions in client games and web games, and it has increasingly focused on mobile games, building on the company's mobile platforms such as Weixin and Mobile QQ.

Advertising to drive medium-term growth

- Leveraging on large user bases of Weixin and Mobile QQ, Tencent could launch more online ads on these platforms to enhance its sales growth and profitability ahead.
- We expect the company to register >80% online ad revenue CAGR over FY14-FY16, on top of 65% ad revenue growth last year. Online ad revenue could account for c.22% of Tencent's total revenue in FY16, versus c.11% last year.

Sources: DBS Vickers

Wasion Group Holdings (3393 HK)

Company profile

Wasion is a leading energy metering and energy efficiency management expert, focusing on providing integrated solutions in efficient and effective energy management and energy saving, particularly for Advanced Metering Infrastructure and Advanced Distribution Operations. Apart from the State Grid and the Southern Grid, it also provides system solutions to various industries and local governments. Its major markets are China and emerging markets, such as Egypt, Indonesia, Thailand, Chile, Vietnam, Brazil, etc.

Financial summary

FY Dec (RMB m)	2013A	2014A	2015F	2016F
Turnover	2,412	2,812	3,685	4,400
EBITDA	567	649	849	1,018
Pre-tax Profit	440	542	726	889
Net Profit	401	482	651	797
Net Pft (Pre Ex.)	401	482	651	797
EPS (RMB)	0.43	0.51	0.66	0.79
EPS (HK\$)	0.54	0.64	0.82	0.98
EPS Gth (%)	24.0	18.5	29.1	19.3
Diluted EPS (HK\$)	0.54	0.64	0.82	0.97
DPS (HK\$)	0.16	0.19	0.29	0.35
BV Per Share (HK\$)	3.85	4.26	5.40	5.92
PE (X)	18.5	15.6	12.1	10.1
P/Cash Flow (X)	27.7	23.5	11.6	19.7
P/Free CF (X)	31.2	62.7	16.4	136.1
EV/EBITDA (X)	13.2	12.3	8.7	7.8
Net Div Yield (%)	1.6	1.9	2.9	3.5
P/Book Value (X)	2.6	2.3	1.8	1.7
Net Debt/Equity (X)	0.0	0.1	CASH	CASH
ROAE (%)	14.7	15.8	17.1	17.4
Consensus EPS (RMB):			0.64	0.78
Other Broker Recs:		B: 10	S: 0	H: 0

Sources: DBS Vickers

Rationale

Benefits from State Grid's investment plan

- State Grid will construct 50 new ADO substations
- Distribution automation at cities to increase from c.30% to 50%
- Investments in the construction and upgrade of the smart grid amounting to >Rmb80bn
- The above plans to drive strong demand for ADO solutions
- ADO sales are expected to more than double in FY15

Smart meter business remains solid

- We estimate that the penetration rate of smart meters would reach 76% by 2015, compared with 80% stated in the 12th Five Year Plan. Thus, installation will have to be accelerated
- We expect State Grid's tender size to remain stable at 80-90m units in 2015, compared with 91.7m units in 2014
- Current order on hand for smart meters amounts to c.Rmb500m

Strong growth in international market

- It has won a US\$12.3m AMI contract in Tanzania
- It has won Rmb68m and Rmb10m AMI contracts in Mexico and Brazil respectively through the strategic partnership with Siemens

Yestar International (2393 HK)

Company profile

A medical film and color photographic paper maker. An in-vitro diagnostic devices distributor.

Financial summary

FY Dec (RMB m)	2014A	2015F	2016F	2017F
Turnover	1,531	2,569	3,699	4,343
EBITDA	166	344	563	658
Pre-tax Profit	147	306	521	623
Net Profit	101	178	290	346
Net Pft (Pre Ex.)	101	178	290	346
EPS (RMB)	0.05	0.09	0.13	0.16
EPS (HK\$)	0.07	0.11	0.17	0.20
EPS Gth (%)	21.4	62.8	50.5	19.3
Diluted EPS (HK\$)	0.07	0.11	0.17	0.20
DPS (HK\$)	0.03	0.05	0.08	0.10
BV Per Share (HK\$)	0.21	0.68	0.80	0.91
PE (X)	32.6	20.0	13.3	11.1
P/Cash Flow (X)	28.6	13.2	10.9	10.1
P/Free CF (X)	31.4	13.7	11.1	10.2
EV/EBITDA (X)	19.3	10.4	6.6	5.4
Net Div Yield (%)	1.5	2.3	3.8	4.5
P/Book Value (X)	10.4	3.2	2.8	2.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	31.1	23.6	22.4	23.1
Consensus EPS (RMB):		0.09	0.12	0.15
Other Broker Recs:		B: 2	S: 0	H: 0

Rationale

Overall demand growth of medical film and color photographic paper

- We expect 11% for medical film and 5% for color photographic paper.

Market share gain

- It targets to increase their market share in medical film and color photographic paper from 18% & 43% in 2014 to 35% & 65% within 2 years.

In-vitro diagnostic business to drive earnings growth

- In Q4 2014 and Apr 2015, Yestar already announced to acquire two distributors of Roche (ROG VX) in-vitro diagnostic products. We expect the business will be a new driver for earnings in 2015 and 2016.

More acquisitions to come

- After the acquisition of in-vitro diagnostic business, we believe Yestar is still in talk with other M&A targets. Successful M&A could be a major catalyst for share price.

Sources: DBS Vickers

Jiangnan Group (1366 HK)

Company profile

Jiangnan Group is a leading producer of wires and cables in China with a strong foothold in the Ultra High Voltage (UHV) / Extra High Voltage (EHV) power cable segment. Thanks to its diligent efforts in R&D, Jiangnan Group is among the top qualified suppliers to the State Grid. Its prominent customer base and solid track record of iconic projects testify to its high product quality and leading market position.

Financial summary

FY Dec (RMB m)	2013A	2014A	2015F	2016F
Turnover	6,477	8,155	10,759	13,421
EBITDA	777	1,028	1,326	1,869
Pre-tax Profit	605	758	1,004	1,379
Net Profit	503	626	818	1,124
Net Pft (Pre Ex.)	461	626	818	1,124
EPS (RMB)	0.16	0.20	0.23	0.31
EPS (HK\$)	0.20	0.25	0.29	0.38
EPS Gth (%)	25.0	20.9	17.2	31.9
Diluted EPS (HK\$)	0.20	0.25	0.29	0.38
DPS (HK\$)	0.06	0.08	0.07	0.10
BV Per Share (HK\$)	0.93	1.19	1.31	1.59
PE (X)	9.4	7.8	6.7	5.1
P/Cash Flow (X)	6.8	10.4	37.6	6.6
P/Free CF (X)	16.0	11.1	nm	7.5
EV/EBITDA (X)	6.7	4.7	5.0	3.6
Net Div Yield (%)	3.0	4.0	3.8	4.9
P/Book Value (X)	2.1	1.6	1.5	1.2
Net Debt/Equity (X)	0.2	CASH	0.3	0.2
ROAE (%)	24.2	22.7	23.1	26.3
Consensus EPS (RMB):			0.25	0.31
Other Broker Recs:		B: 6	S: 0	H: 0

Rationale

Robust demand for EHV power cables

- Serious smog and haze problems have accelerated the construction of 12 transmission lines for the UHV power network
- The city underground grid for mainstream electricity supply needs to be upgraded as well
- Total investment in the power grid under the 12th Five Year Plan is estimated to increase by 37% from the previous plan.

Rising sales of specialty cables

- Increasing installation of renewable energy
- Rising investments in railway infrastructure
- Surging number of electric vehicles

M&A strategy

- Acquired a specialty cable company at 7.5x FY14 PE to expand market presence in specialty cable
- Acquired an EHV cable company at 7.5x FY14 PE to increase penetration with the State Grid
- Target to acquire an EPC engineering company to further increase sales

Sources: DBS Vickers

Texwinca (321 HK)

Company profile

Texwinca is one of the largest knitted fabric makers in the world. With its plant in Dongguan, China, the company supplies fabric to numerous apparel brands including Uniqlo, Gap, H&M, A&F etc. Apart from textile production, the company is also involved in garment manufacturing through its Vietnam-based associate Megawell, as well as in casual wear retailing under its own brand Baleno, and operates over 2,900 POS in China and HK.

Financial summary

FY Mar (HK\$ m)	2014A	2015A	2016F	2017F
Turnover	9,860	9,322	10,010	10,820
EBITDA	908	977	1,202	1,388
Pre-tax Profit	707	858	1,098	1,262
Net Profit	668	773	933	1,035
Net Pft (Pre Ex.)	668	773	933	1,035
EPS (HK\$)	0.49	0.56	0.68	0.75
EPS Gth (%)	-9.3	14.5	20.6	11.0
Diluted EPS (HK\$)	0.49	0.56	0.68	0.75
DPS (HK\$)	0.48	0.56	0.64	0.71
BV Per Share (HK\$)	4.31	4.40	4.46	4.53
PE (X)	16.4	14.3	11.9	10.7
P/Cash Flow (X)	11.4	12.8	11.7	10.3
P/Free CF (X)	13.7	14.6	15.4	13.5
EV/EBITDA (X)	10.0	9.1	7.3	6.3
Net Div Yield (%)	6.0	7.0	8.0	8.9
P/Book Value (X)	1.9	1.8	1.8	1.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	11.3	12.8	15.2	16.7
Consensus EPS (HK\$):			0.73	0.82
Other Broker Recs:		B: 6	S: 0	H: 2

Rationale

Growth to be fuelled by twin engines. We maintain our BUY rating on Texwinca following its decent FY15 results, which were largely in line with our expectations. We expect earnings growth to accelerate to 20% in FY16 on stronger order flow and improving margins on the textile front, as well as normalising profitability on the retail business. Despite higher capex (HK\$250m), strong cash flow and robust net cash should sustain its yield at an attractive 8%+.

More positive outlook on textile. US orders have seen strong recovery with Texwinca's production already running at full capacity since April (FY15 utilisation: 80%+). The better utilisation, coupled with continual focus on high value-added orders (rising ASP) and steady cotton price, should benefit margins. We expect textile revenue to resume growth following three consecutive years of decline; management is looking to add 15% of new capacity for FY16.

Retail normalising. Retail division Baleno has finally returned to the black with a mild EBIT of HK\$13m in FY15 on successful cost cutting. With leaner inventory (109 days) and healthier store portfolio (28% cut from peak store space), we expect SSSG to remain at a single digit (6% in FY15) and a more normalised retail profitability ahead. April-to-date sales have been on track with retail gross margin recovering to 50%+ level (FY15: 46.8%), and expansion to resume (15-20% new retail space in FY16).

Sources: DBS Vickers

Pacific Textiles (1382 HK)

Company profile

Pacific Textiles Holdings Limited manufactures customized knitted fabrics. The Company's fabrics are used in a broad range of fabrics, including men's, women's, and children's clothing, sportswear, swimwear, and inner-wear.

Financial summary

FY Mar (HK\$ m)	2014A	2015A	2016F	2017F
Turnover	7,423	6,907	7,867	8,997
EBITDA	1,464	1,314	1,483	1,671
Pre-tax Profit	1,311	1,220	1,289	1,454
Net Profit	1,117	1,075	1,130	1,274
Net Pft (Pre Ex.)	1,117	1,012	1,130	1,274
EPS (HK\$)	0.77	0.74	0.78	0.88
EPS Gth (%)	19.9	(3.8)	5.1	12.7
Diluted EPS (HK\$)	0.77	0.74	0.78	0.88
DPS (HK\$)	1.05	0.80	0.81	0.86
BV Per Share (HK\$)	2.72	2.42	2.40	2.45
PE (X)	15.2	15.8	15.1	13.4
P/Cash Flow (X)	12.6	13.4	15.1	13.1
P/Free CF (X)	15.7	19.6	21.9	17.1
EV/EBITDA (X)	10.4	12.3	11.1	9.9
Net Div Yield (%)	8.9	6.8	6.9	7.3
P/Book Value (X)	4.3	4.9	4.9	4.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	28.3	28.9	32.4	36.3
Consensus EPS (HK\$):			0.79	0.90
Other Broker Recs:		B: 5	S: 1	H: 4

Rationale

Growth to resume

FY16F is off to a great start as orders from Uniqlo and US clients have been encouraging. PT should be able to maintain margins even as labour costs continue to rise, as raw material prices remain benign and utilisation improves y-o-y. We upgrade PT to BUY as earnings growth will resume in the next few years with contribution from Vietnam.

Long term growth opportunity in Vietnam

The Vietnam textile plant started operation in June, after some delays. The plant is ramping up production and we expect more meaningful contribution in 2H16F and FY17F. This is a positive development as the group had been constrained by limited excess capacity at the core Panyu plant.

Attractive yield at over 7%

Pacific Textile has consistently paid out excess cash to shareholders. Even at current strong share price, normal dividend yield still exceeds 7%. There is also a strong potential for excess cash distribution

Sources: DBS Vickers

Giordano (709 HK)

Company profile

Giordano is mainly involved in the retail and distribution of casual apparel and accessories mainly under the brand Giordano, Giordano Ladies, Giordano Junior and BSX. In China, the company also sells products under two newer brands Beau Monde and Eula. The company currently has presence in over 30 markets in the Asia Pacific and Middle East regions.

Financial summary

FY Dec (HK\$ m)	2013A	2014A	2015F	2016F
Turnover	5,848	5,545	5,676	5,858
EBITDA	1,020	729	789	849
Pre-tax Profit	903	596	644	702
Net Profit	663	408	442	486
Net Pft (Pre Ex.)	663	408	442	486
EPS (HK\$)	0.43	0.26	0.28	0.31
EPS Gth (%)	(20.9)	(38.9)	8.3	9.9
Diluted EPS (HK\$)	0.43	0.26	0.28	0.31
DPS (HK\$)	0.40	0.25	0.27	0.29
BV Per Share (HK\$)	1.98	1.85	1.88	1.93
PE (X)	9.2	15.1	14.0	12.7
P/Cash Flow (X)	8.3	11.9	9.5	8.9
P/Free CF (X)	11.9	18.5	13.7	12.8
EV/EBITDA (X)	5.1	7.4	6.8	6.3
Net Div Yield (%)	10.2	6.4	6.8	7.5
P/Book Value (X)	2.0	2.1	2.1	2.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	21.8	13.6	15.1	16.2
Consensus EPS (HK\$):			0.28	0.30
Other Broker Recs:		B: 0	S: 4	H: 5

Rationale

A strong regional player

- With over 2,400 outlets across more than 30 markets in Asia Pacific and Middle East, Giordano's exposure in the region is one of the most comprehensive among peers.
- Regional exposure enables Giordano to diversify risk in certain markets.

Strong cash flow and generous dividend

- Giordano's business is highly cash generated, translating into strong cash position.
- Dividend policy has been consistent and generous, enable strong and stable yield.

Expect moderate improvement in FY15

- 1Q performance has been strong with SSSG recovering to 7%, partly due to base effect. The momentum has been sustaining into 2Q
- China has seen some stabilization in recent quarters. We expect this to sustain with likely improvement in profitability as impact from closures of loss-making stores kick in.
- However, environment remains challenging in certain markets such as Korea and Middle East

Sources: DBS Vickers

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