

# China / Hong Kong Market Focus

## Quarterly Strategy Outlook

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 April 2015

### Favor new normal and H-share picks in 2Q

- We highlight beneficiaries of China's reforms and targeted growth areas
- H-shares offer best value given widening China-HK stock connect channels
- Added CMH, FEH, and CEL to our top ten BUY list

**Liquidity conditions are favourable for 2Q.** Although 2014 results were generally disappointing (pg5), we believe the market outlook is not that bad for 2Q15. The Fed is more dovish, leading to a softer USD. Liquidity in China should remain accommodative given weak macro indicators and downside CPI risk (pg7). Part of China's liquidity can flow to Hong Kong as China-HK stock connect expands. Shenzhen-HK stock connect should also be announced soon. We lift our year-end HSI target to 26,900 and leave our HSCEI target unchanged at 14,200. Meanwhile, our year end CSI300 target remains at 4,000, but we expect the index can pass 4,500 in mid-2015 before retreating in 2H.

**Highlighting four additional investment themes for 2Q.** We continue to like beneficiaries from more accommodative policies from China, as highlighted in our 2015 outlook report. We highlight four additional investment themes for 2Q. We select a basket of companies that can benefit from China's reforms and targeted growth areas (pg14). They tap into China's plan to modernize industries, capture a larger share of manufacturing value chain, control pollution, improve healthcare, enhance trade through new silk road plan, and more reforms for SOEs and financial markets. We also like companies that can benefit from expected widening of China-HK stock connects, including the launch of Shenzhen-HK stock connect, which we expect to be announced this month (pg17). We also highlight laggards than can become attractive with the right catalysts (pg19). However, we remain cautious on Hong Kong plays since we see risk of a repeat in Occupy protests in the summer (pg18). Our matrix on page 21 summarizes which stocks fit our favored themes for 2Q.

**Favor new economy sectors in new sector weighting.** We have downgraded airlines, China property, and Hong Kong property, but upgraded internet and software, healthcare, and oil. Following these changes, we are now overweight on China banks, non-bank financials, environmental, internet and software, and healthcare. On the other hand, we are underweight on China F&B, gaming, HK property, REITs, and HK retailers (pg22).

**Added CMH, FEH, and CEL to our top ten.** We have added China Merchants Holdings (144.HK), Far East Horizon (3360.HK), and China Everbright Ltd (165.HK) into our top ten BUY list (pg26). We like CMH as a beneficiary of China's new silk road plan. Another beneficiary of China's reforms is FEH, which has exposures to healthcare services, medical equipment leasing, and leasing of construction equipment. Meanwhile, we like CEL as a beneficiary of China's SOE reform. To make room for these additions, we have taken out CCB (939.HK), Sino Ocean Land (3377.HK), and Anhui Conch (914.HK).

HSI : 25,276

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#### Top Ten BUY list

Ticker	Closing price (HK\$)	FY16F				Tgt Price (HK\$)	
		PBV (X)	PER (X)	yield (%)	ROE (%)		
China Everbright Ltd	165.HK	22.00	1.1	2.3	49.5	46.8	26.89
C Resources Land	1109.HK	22.55	1.2	10.8	2.5	11.1	24.43
China Merchants	144.HK	30.70	1.1	13.8	2.5	7.9	36.60
China Merchants Bk	3968.HK	19.72	0.9	6.0	5.1	16.6	22.39
Far East Horizon	3360.HK	7.26	0.9	6.0	4.2	16.1	8.40
Haier Electronics	1169.HK	21.55	2.4	12.1	0.8	21.8	27.78
Kingdee	268.HK	3.70	3.1	22.7	0.7	14.4	3.20
Nexteer Automotive	1316.HK	8.01	2.4	10.7	1.9	25.0	9.30
Sinopharm Group	1099.HK	31.50	2.1	16.7	1.6	13.2	34.50
Tencent	700.HK	149.80	8.1	26.1	0.5	31.5	163.00

Source: Thomson Reuters, DBS Vickers

#### DBSV top pick performance vs. HSI

(28 Feb 2014 = 100)



Source: Bloomberg Finance L.P., DBS Vickers

Based on 2 April 2015 closing prices

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**Market outlook and index targets**

**Revised up HSI target to 26,900; HSCEI target unchanged at 14,200.** We are lifting our 2015 year-end HSI target from 25,700 to 26,900. Our new target is based on a higher PE multiple of 11.9x 2016F earnings. We believe upside will come from continued re-rating of Chinese companies, while the de-rating of global banks and gaming companies should be near an end. We are still more upbeat for H-shares, and leave our HSCEI target unchanged at 14,200. Thus we expect 12% upside until year end for the HSCEI and 6.4% for the HSI.

The CSI300 already breached our year end target of 4,000. However, as we noted at the start of the year, we expect A-shares to peak sometime in mid-2015. We expect A-share valuations to be more rational in 2H. This can be triggered by a combination of less accommodative policies after China's economy bottoms out, looser cross border capital controls to encourage bargain hunting in H-shares, and a large rollout in A-share IPOs. Our mid-year target for the CSI300 was 4,500 at the start of the year, but this may be too conservative after 1Q15's blistering performance.

**Performance of key indices in 1Q15**

Indices	As of	% change			
	3/31	1 week	1 month	YTD	2014
<b>Asia</b>					
HSI	24,901	2.1	0.3	5.5	1.3
HSCEI	12,346	2.8	1.3	3.0	10.8
HSCCI	4,650	3.6	(0.2)	6.9	(4.5)
Shanghai Comp.	3,748	1.5	13.2	15.9	52.9
Shenzhen Comp.	1,958	1.8	20.1	38.4	33.8
CSI300	4,051	2.0	13.4	14.6	51.7
NIKKEI 225	19,207	(2.6)	2.2	10.1	7.1
KOSPI	2,041	(0.0)	2.8	6.5	(4.8)
Taiex	9,586	(1.5)	(0.4)	3.0	8.1
STI	3,447	1.0	1.3	2.4	6.2
KLCI	1,831	0.9	0.5	3.9	(5.7)
SET	1,506	(0.6)	(5.1)	0.6	15.3
JCI	5,519	1.3	1.3	5.6	22.3
Sensex	27,957	(0.7)	(4.3)	1.7	29.9
<b>Others</b>					
Dow Jones	17,776	(1.3)	(2.0)	(0.3)	7.5
S&P 500	2,068	(1.1)	(1.7)	0.4	11.4
Nasdaq	4,901	(1.9)	(1.3)	3.5	13.4
FTSE 100	6,773	(3.5)	(2.5)	3.2	(2.7)
DAX 30	11,966	(0.3)	5.0	22.0	2.7

Source: Thomson Reuters, DBS Vickers

**HSI PE bands (5 year mean)**



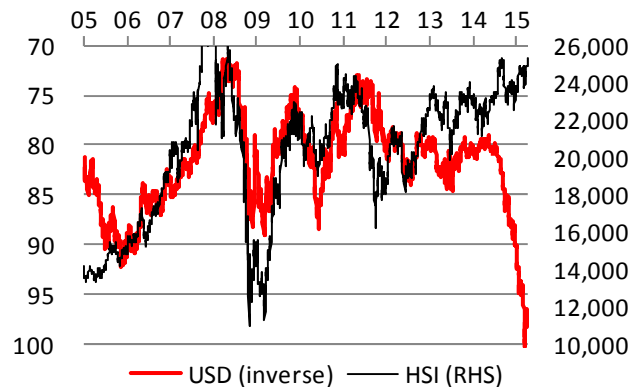
Sources: Bloomberg Finance L.P., DBS Vickers

**HSCEI PE bands (5 year mean)**



CSI300 PE bands (5 year mean)

HSI and USD correlation



Sources: Bloomberg Finance L.P., DBS Vickers

**2014 earnings were unexciting.** 36% of our universe reported disappointing 2014 results compared to just 26% of companies with positive surprises. This is disappointing as market earnings forecasts have been downward trending in 2H14, but cuts were not deep enough. Notable disappointments include China property developers, retailers, building materials, and household consumer goods. On the flip side, Hong Kong properties, REITs, and HK telecom services reported the best 2014 results relative to expectations.

**Sectors with disappointing 2014 results:**

- China properties - Agile, Sino Ocean Land, Soho China among several developers who missed consensus estimates.
- Retailers – Chinese department stores missed already low expectations; some apparel plays showed improving trends.
- Paper – ASP disappointment.
- Household/personal goods – Best Pacific, Sitoy, and TCL Multimedia among companies that missed forecasts.
- Cement – Conch missed estimates due to ASP; CR Cement missed due to overhead cost and tax rate.
- Steel – Maanshan missed forecasts.
- China telecom – Unicom missed estimates due to tax, costs, and competition.

**Positive surprises**

- HK properties – Development income was stronger than forecast for many HK developers.
- REITs – Better than expected interest expense and rental reversion for some REITs.
- HK telecom – iPhone 6 sales helped 2014 hardware revenue.
- Pharmaceuticals – Weigao and Consun beat estimates.

**Mixed**

- Food and beverage – Dairy beat expectations, but noodles and bottled beverages struggled.
- China banks – ABC and ICBC missed forecasts. BOC and BoCom beat estimates.

2014 earnings recap

Earnings revisions by sector	FY 2014 earnings report card FY14 (HK\$m)			Performance vs expectations Result Performance *				Comments
	2014	2013	y-o-y	Above	In Line	Below		
Properties (HK)	125,421	101,642	23%	6.6%	2.9%	2.2%	Above	
Real Estate Investment Trust	3,314	2,208	50%	2.9%	0.0%	0.7%	Above	
Telecom Services (HK)	5,014	4,755	86%	2.2%	0.0%	0.7%	Above	
Banking and Finance (HK)	29,484	26,401	12%	0.7%	1.5%	0.0%	Slightly above	
Pharmaceutical & Health Care	6,100	5,136	19%	1.5%	1.5%	0.7%	Slightly above	
Water Infrastructure, Environmenta	4,504	3,216	40%	0.7%	2.9%	0.0%	Slightly above	
Railway & Construction	3,457	2,750	26%	0.0%	0.7%	0.0%	In line	
Transportation - Ports & Airports	6,797	9,663	-30%	0.0%	1.5%	0.0%	In line	
Banking and Finance (China)	1,278,586	1,200,715	6%	2.2%	1.5%	2.2%	Mixed	
Conglomerates (HK)	18,577	19,120	-3%	0.7%	0.0%	0.7%	Mixed	
Food and Beverages	14,810	13,338	11%	1.5%	2.2%	1.5%	Mixed	
Hardware & Equipment	3,758	3,696	2%	0.7%	0.7%	0.7%	Mixed	
Industrials	5,031	4,954	2%	1.5%	1.5%	1.5%	Mixed	
Media	1,650	1,949	-15%	0.7%	0.0%	0.7%	Mixed	
Auto manufacturers & dealers	23,046	22,607	2%	1.5%	2.2%	2.2%	Slightly below	
Software & Computer Services	30,553	21,395	43%	0.0%	0.7%	0.7%	Slightly below	
Telecom Services (China)	173,919	187,219	-7%	0.0%	1.5%	0.7%	Slightly below	
Household/Personal (China/HK)	13,450	15,891	-15%	0.0%	5.1%	3.6%	Below	
Properties (China)	75,155	82,342	-9%	0.0%	5.1%	7.3%	Below	
Retailers	11,663	13,689	-15%	1.5%	5.8%	5.1%	Below	
Steel, aluminium & copper	17,327	(10,514)	nm	0.0%	0.7%	2.2%	Below	
<b>DBSV Coverage</b>	<b>1,880,688</b>	<b>1,758,217</b>	<b>7%</b>	<b>26%</b>	<b>38%</b>	<b>36%</b>		

\* Calculates the no. of companies in the respective sector that reported above/below/inline results vs. the total no. of companies that have reported results

Sources: DBS Vickers

**Liquidity conditions are favourable for more gains.** Although 2014 results were lacklustre, we remain upbeat on the market's outlook given favourable liquidity conditions, upcoming Shenzhen-HK stock connect, and attractive valuations in Hong Kong compared to A-shares.

We do not think a US interest rate hike is imminent, and expect the USD strength to soften, which are positive to most Hong Kong listed companies. The HSI has also correlated positively with a softer USD. The latest US economic data have been weaker than expected. Notably,

March payrolls dropped to just 129k. The Fed was also more dovish than expected in their mid-March statement.

Meanwhile in China, macro indicators continue to weaken and the PBOC has been more vocal about deflation risk. We expect China's CPI to trend back down towards 0.8% during 2Q. In turn, China's real benchmark lending rate will increase to 4.5%, which is a trigger for past interest rate cuts. We expect another 25bps cut in interest rates in 2Q, which will help fan market excitement.

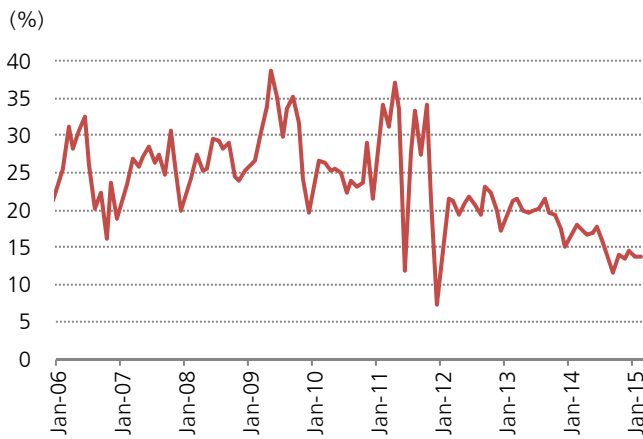
China's GDP and industrial production



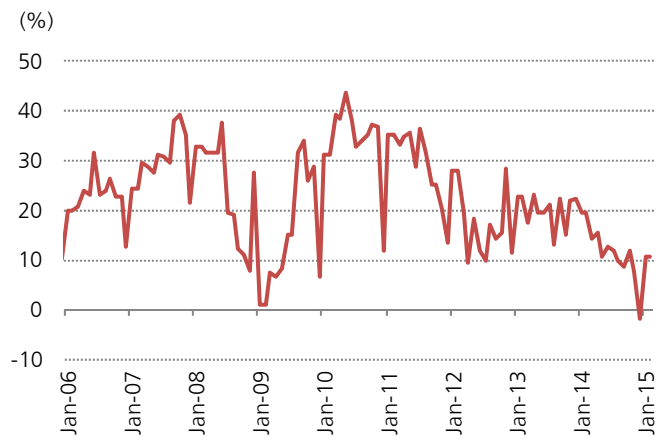
China's retail sales growth



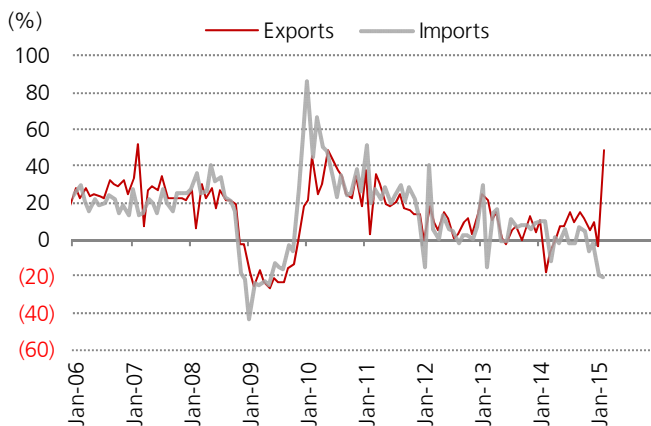
China's urban fixed asset investment growth



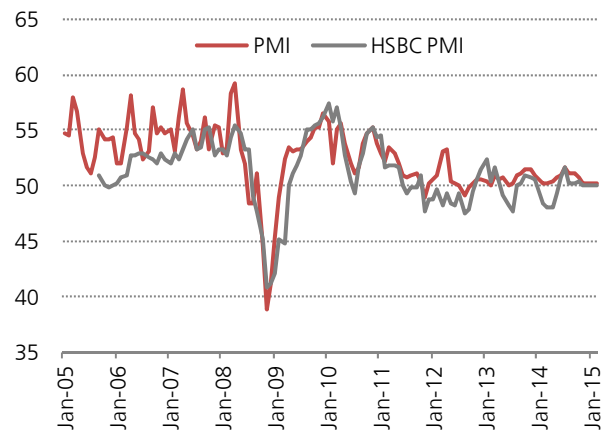
China's property fixed asset investment growth



China's exports and imports

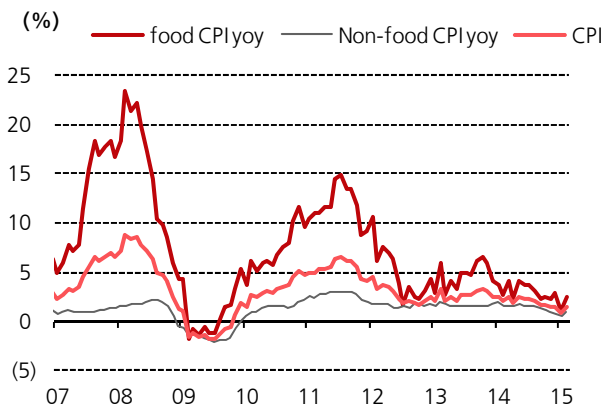


China's PMI

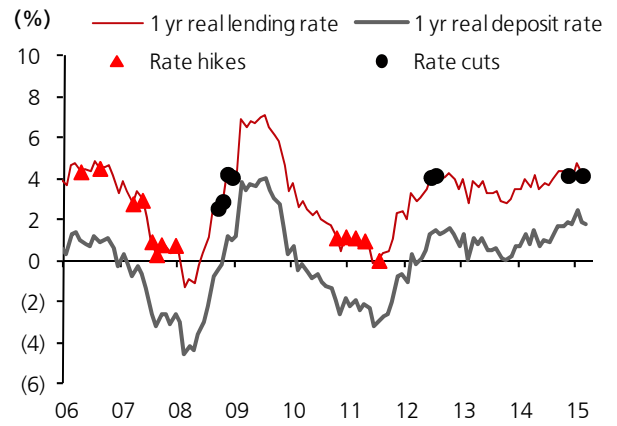


Sources: WIND, DBS Vickers

**China's CPI**



**China's real interest rate**



Sources: NBS of China, PBOC, DBS Vickers

Investment themes

**Theme 1: Expected reforms and targeted growth in China's new normal**

**Basket of reform and structural growth plays.** Given China's decelerating GDP and shaky earnings trends, we believe sectors and companies with structural growth outlooks will outperform in the near term. In one of our strategist blogs in March, we highlighted several areas China will focus on in attaining higher quality growth.

- Financial reforms to better channel savings to the economy. This is positive to insurance companies, brokerages, asset managers, and non-bank financing companies.
- China will increase economic collaboration with neighboring countries in developing the Silk Road Economic Belt and the 21<sup>st</sup> Century Maritime Silk Road. This will benefit railway, ports, power infrastructure, and construction companies. We highlight China Merchants Holdings (144.HK) in our top ten list as a Silk Road pick.
- China will also encourage Chinese companies to go global, particularly for eight identified industries: Chinese railway, electric power, communications, engineering machinery, automobile, aircraft, electronics, and other equipment. This will benefit leaders in these sectors in expanding overseas income streams.
- China will upgrade its manufacturing industry to include more innovation and technology integration. This will

benefit IT and software companies such as Kingsoft (3888.HK) and Kingdee (268.HK).

- In progressing towards a manufacturing power house, China has identified some industries to focus on: biomedicine and high-performance medical apparatus, information technology, energy saving vehicles, rail equipment, aerospace and aviation equipment, maritime engineering equipment and high-tech vessel manufacturing, new materials, high-end numerical control machinery and automation, and agricultural equipment.
- The country's fixed asset investments will continue to favour environmental protection, energy conservation, and silk road related projects.
- Policy makers have also earmarked reforms for SOEs, government budgeting and tax systems. Some beneficiaries are CNBM (3323.HK), Sinopharm (1099.HK), COFCO group, and China Everbright Limited (165.HK).
- The government will also encourage domestic consumption in areas such as healthcare, information goods, and leisure.

The table on the next few pages summarize China's 2015 government work report and targeted growth areas and reforms, plus a basket of stocks that can benefit.



**Highlights from 2015 Report on the Work of Government**

Highlighted plans	Stock implications
<b>III Deepening Reform and Opening Up</b>	
<b>Accelerate pricing reforms</b>	
The government will stop setting prices for most pharmaceuticals and delegate to lower-level governments the power to set prices for certain basic public services.	Negative to drug producers Shandong Weigao (1066.HK), China Shineway (2877.HK)
Expand the trials of pricing reforms for electricity transmission and distribution	Positive to industries that have high electricity costs and Wasion (3393.HK)
Carry out pricing reforms for water used in agriculture, and improve pricing policies to make them more conducive to energy conservation and environmental protection.	Positive to China Everbright Water (CEWL.SP), CEI (257.HK), Beijing Ent Water (371.HK), Sound Global (967.HK)
<b>Reform of fiscal and tax systems</b>	
We will devote serious energy to completing work to replace business tax with VAT across the board	Potential negative to sectors that have yet to implement VAT, such as properties and banks
Adjust and improve policies on consumption tax	
Extend price-based resource taxes to cover more types of resources	
<b>Financial reform to better serve the real economy</b>	
We will encourage qualified private investors to establish, in accordance with the law, small and medium-sized banks and other financial institutions	Slight negative to China banks
A deposit insurance system will be established. We will further liberalize interest rates and improve the central bank's framework for their regulation.	Slight negative to China banks
Launch the Shenzhen-Hong Kong Stock Connect on a trial basis at an appropriate time	Positive to brokerages such as Citic Securities (6030.HK), Haitong Securities (6837.HK), CGS (6881.HK), Guotai Junan (1788.HK)
We will strengthen the multilevel capital market and implement the reform to introduce a system of registration for issuing stocks.	Positive to China brokerages
We will develop regional equity markets to serve small and medium-sized enterprises, encourage the securitization of credit assets, prompt an expansion of the issuance of corporate bonds, and develop the financial derivatives market.	Positive to brokerages and insurance companies such as Ping An (2318.HK), China Life (2628.HK), China Taiping (966.HK)

Source: DBS Vickers

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**Highlights from 2015 Report on the Work of Government (con't)**


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**Reform of state-owned enterprises (SOEs) and state capital**

Introducing mixed ownership to SOEs, and both encourage and regulate equity investment made by non-state capital in SOE investment projects.

Positive to CNBM (3323.HK), Sinopharm (1099.HK), COFCO group of companies including China Agri (606.HK) and China Foods (506.HK)

Accelerate structural reform of the electricity, oil, and natural gas industries.

We will continue to push ahead with reforms in science, technology, education, culture, medical and health care, pensions, public institutions, and the housing provident fund.

Positive to healthcare companies in service value chain, including Yestar (2393.HK) and Phoenix (1515.HK)

**Making more use of foreign capital**

We will focus on making the service and manufacturing sectors even more open by halving the number of industries in which foreign investment is restricted

**Implementation of the "go global" strategy**

We will encourage Chinese companies to participate in overseas infrastructure development projects

Positive to railway and construction companies like China Comm Construction (1800.HK), China State Construction (3311.HK), CRCC (1186.HK), CRG (390.HK)

We will work to increase the international market share of Chinese railway, electric power, communications, engineering machinery, automobile, aircraft, electronics, and other equipment

Positive to companies in mentioned sectors, including CRCC (1186.HK), CSR Corp (1766.HK), CRG (390.HK), ZTE (763.HK), Lenovo (992.HK), Geely (175.HK), CSR Times Elec (3898.HK)

Encourage the metallurgical, building materials, and other industries to invest overseas

**New environment in all-round opening up**

We will work with the relevant countries in developing the Silk Road Economic Belt and the 21st Century Maritime Silk Road

Positive to infrastructure construction companies

We will work actively to develop pilot free trade zones in Shanghai, Guangdong, Tianjin, and Fujian

**Multilateral, bilateral, and regional opening up and cooperation**

Ensuring that agreements on free trade zones with the Republic of Korea and Australia are signed as soon as possible

Endeavoring to complete the talks on upgrading the China-ASEAN Free Trade Zone and on establishing the Regional Comprehensive Economic Partnership

Source: DBS Vickers

**Highlights from 2015 Report on the Work of Government (con't)**

**IV Balancing Steady Economic Growth and Structural Improvement**

**Foster growth areas of consumption**

<p>We will promote consumption in elderly care, domestic services, and health services, help strengthen spending on information goods and services, raise consumer spending on leisure and tourism, give impetus to green consumption, keep housing consumption stable, and encourage people to spend more on education, culture, and sports.</p>	<p>Positive to airlines, healthcare providers, Pico Far East (752.HK)</p>
<p>We will press ahead with the nationwide project to deliver telecoms, radio, television, and Internet service over a single broadband connection, accelerate the development of fiber-optic networks, significantly increase broadband speeds, develop logistics and express delivery services, and ensure that new forms of Internet-based spending, which combine online-offline activities, come to thrive.</p>	<p>Positive to Tencent (700.HK), JD (JD.US), China Fibre Optic (3777.HK)</p>

**Effective investment in public goods**

Launch a number of major new projects, including:

<p>Projects for rebuilding rundown urban areas and renovating dilapidated housing, urban underground pipe network projects, and other projects to improve living standards</p>	
<p>Major railway, highway, and inland waterway transport projects in the central and western regions</p>	<p>Positive to construction and building material companies like Anhui Conch (914.HK), Angang Steel (347.HK)</p>
<p>Agricultural projects on water conservancy and developing high-quality farmland</p>	
<p>Projects that involve major information, electricity, oil, and natural gas networks</p>	
<p>Clean energy projects, and oil, natural gas, and mineral resource supply projects</p>	<p>WTE operators CEI (257.HK), Dynagreen (1330.HK)</p>
<p>Energy-saving, environmental protection, and ecological conservation projects</p>	<p>Positive to Wasion (3393.HK), China Everbright Int'l (257.HK), water companies</p>
<p>We will invest over 800 billion yuan in railway construction and open over 8,000 kilometers of railways to traffic</p>	<p>Positive to railway companies</p>
<p>Construction on the 57 ongoing major water conservancy projects needs to be accelerated; construction will be started on an additional 27 such projects this year, and investment in the major water conservancy projects under construction will exceed 800 billion yuan. Projects to be weighted toward Central and Western China.</p>	

**Modernize agriculture**

<p>We will carry out work on designating permanent basic cropland throughout the country, and strengthen the building of irrigation and water conservancy facilities, and work hard to develop water-efficient agriculture.</p>	
<p>We will give high priority to building roads and water facilities. This year, we will ensure that 60 million more rural residents gain access to safe drinking water; that 200,000 kilometers of rural roads are built or upgraded</p>	
<p>We will increase rural incomes through multiple channels and keep narrowing the urban-rural income gap.</p>	<p>Positive to rural banks like CQRCB (3618.HK) and ABC (1288.HK)</p>

Source: DBS Vickers

**Highlights from 2015 Report on the Work of Government (con't)**

**Achieve breakthroughs in promoting a new type of urbanization**

We will redouble efforts to rebuild rundown urban areas and renovate dilapidated urban and rural housing. This year, our plan includes building an additional 7.4 million units of government-subsidized housing, of which 5.8 million are to be located in rundown urban areas, an increase of 1.1 million over last year.

Positive to China State Construction (3311.HK)

People originally from rural areas who live and work in urban areas but have yet to gain urban residency will be able to access basic public services on the basis of their residence certificates

**Move forward in industrial structural upgrading, aiming at a medium-high level**

We will implement the "Made in China 2025" strategy

Upgrade China from a manufacturer of quantity to one of quality.

We will promote the extensive application of information technologies in industrialization, develop and utilize networking, digitalization, and smart technologies

We will launch major projects to develop high-end equipment, information networks, integrated circuits, new energy, new materials, biomedicines, aero engines, and gas turbines

We will develop the "Internet Plus" action plan to integrate the mobile Internet, cloud computing, and big data with modern manufacturing, to encourage development of e-commerce, industrial networks, and Internet banking, and to guide Internet-based companies to increase their presence in the international market.

Positive to Tencent (700.HK), Kingdee (268.HK)

We will deepen the reform and opening up of the service sector, and implement fiscal, tax, land, and pricing policies to support its development.

**Strengthen social security and increase individual income**

The basic pension benefits for enterprise retirees will be increased by 10%.

We will improve the mechanism for adjusting minimum wages.

**Promote fair access to and strengthen the quality of education**

We will move more quickly to help all schools providing compulsory education to meet standards, and improve basic conditions in boarding schools and schools that are poorly built and operated.

**Improve the basic medical and healthcare systems**

We will put a stop to the practice of charging more for medicines to make up for low prices for medical services, lower extortionate prices on medicines, make appropriate adjustments to medical service prices, and take measures such as reforming medical insurance payouts to control costs of medical services.

Source: DBS Vickers

**Highlights from 2015 Report on the Work of Government (con't)**

**Enable people to enjoy more of the fruits of cultural development**

We will put into practice core socialist values and promote fine traditional Chinese culture.

**Conserving energy, reducing emissions, and improving the environment**

This year, we will cut the intensity of carbon dioxide by at least 3.1%, reduce both chemical oxygen demand and ammonia nitrogen emissions by around 2%, and reduce emissions of sulfur dioxide and nitrogen oxides by around 3% and 5% respectively.

Prevent and control air pollution; carry out coordinated inter-regional prevention and control efforts; upgrade coal-burning power plants to achieve ultra-low emissions; and strive for zero-growth in the consumption of coal in key areas of the country.

Negative to coal producers  
 China Shenhua (1088.HK),  
 China Coal (1898.HK),  
 Yanzhou Coal (1171.HK)

We will promote the use of new-energy vehicles, reduce vehicle exhaust emissions

Positive to BYD (1211.HK)

In China, we will put great weight behind the development of wind power, photovoltaic power, and biomass energy, work actively to develop hydropower, stress safety in developing nuclear power, and exploit and utilize shale gas and coal seam gas.

Positive to GCL Poly (3800.HK),  
 Comtec Solar (712.HK), China  
 Wind Power (182.HK)

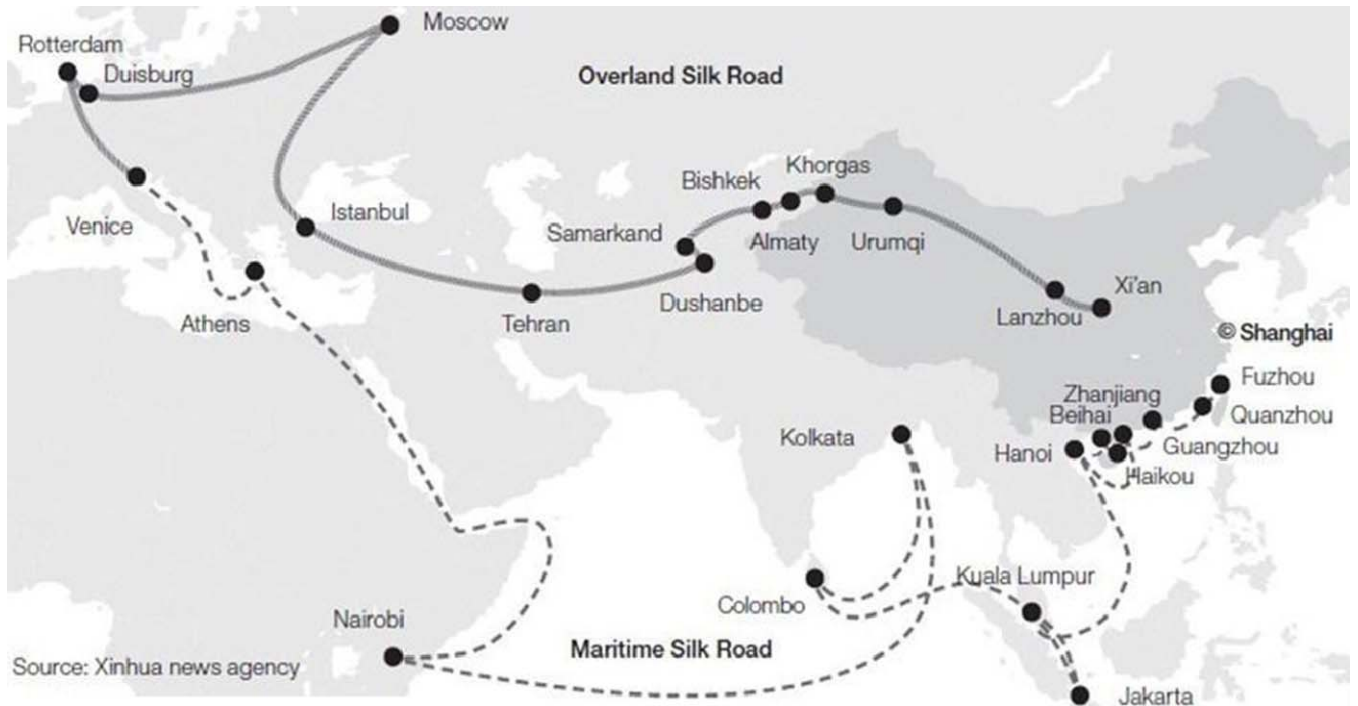
Source: DBS Vickers

## Basket of stocks that can benefit from policies highlighted in government work plan

Company Name	Code	Target			PE	PE	Yield	Yield	P/Bk	P/Bk	ROE	ROE
		Price	Price	Recom	14A	15F	14A	15F	14A	15F	14A	15F
		Local\$	Local\$		x	x	%	%	x	x	%	%
Shandong Weigao 'H'*	1066 HK	6.88	6.50	Hold	22.7	22.2	1.2	1.3	2.5	2.3	11.5	10.8
China Shineway Pharm.Gp.*	2877 HK	11.84	11.00	Hold	11.1	10.9	3.5	3.7	1.6	1.5	15.1	14.1
China Everbright Water*	CEWL SP	0.935	1.17	Buy	45.3	23.9	0.0	0.0	2.1	2.0	7.3	8.8
China Everbright Intl.*	257 HK	13.68	14.70	Buy	36.0	26.6	0.8	1.1	3.8	3.4	11.5	13.4
Beijing Ents.Water Group*	371 HK	5.48	5.90	Buy	26.4	20.6	1.4	1.5	3.0	2.7	14.8	13.8
Sound Global (Hkg) Susp - S	967 HK	7	10.71	Buy	14.7	11.6	0.0	0.0	2.3	1.9	17.3	18.3
Citic Securities 'H'	6030 HK	29.9	n.a.	NR	23.2	22.2	1.3	1.3	2.7	2.4	12.1	11.1
Haitong Securities Co. 'H'	6837 HK	19.96	n.a.	NR	19.9	16.5	1.6	1.7	2.2	2.0	11.9	12.9
China Galaxy Securities 'H'	6881 HK	9.2	n.a.	NR	14.6	12.2	2.2	2.1	1.9	1.6	13.9	14.2
Far East Horizon*	3360 HK	7.26	8.40	Buy	8.3	7.1	2.8	3.2	1.1	1.0	15.2	15.7
Ping An Insurance 'H'	2318 HK	93.15	n.a.	NR	15.1	13.9	1.0	1.1	2.0	2.0	16.4	14.9
China Life Insurance 'H'	2628 HK	34.95	n.a.	NR	24.5	18.6	1.4	1.7	2.8	2.5	12.4	14.0
China Taiping In.Hdg.	966 HK	27.1	n.a.	NR	19.0	19.1	0.0	0.0	2.1	1.9	13.4	10.6
China Nat.Bldg.Mra.'H'*	3323 HK	7.88	5.70	FV	5.7	5.2	2.6	2.9	0.7	0.7	14.6	13.5
Sinopharm Group 'H'*	1099 HK	31.5	34.50	Buy	22.1	20.1	1.2	1.3	2.3	2.3	11.7	12.1
China Everbright*	165 HK	22	26.89	Buy	14.5	5.9	2.2	20.4	1.1	1.1	8.0	18.0
China Foods*	506 HK	3.61	3.70	Buy	n.a.	49.1	0.0	0.0	1.7	1.7	(3.7)	3.4
Yestar Intl.Hdg.*	2393 HK	3.98	3.18	Buy	58.9	39.5	0.8	1.3	18.8	14.3	31.1	41.1
Phoenix Healthcare Group	1515 HK	14.48	n.a.	NR	41.8	38.1	1.2	0.4	5.9	5.1	14.2	13.9
China Comms.Con.'H'*	1800 HK	12.66	7.90	Hold	12.1	10.5	1.9	2.2	1.6	1.4	13.5	13.9
China Railway Con.'H'*	1186 HK	12.86	9.80	Hold	11.2	10.7	1.3	1.6	1.4	1.1	13.1	12.5
China Ste.Con.Intl.Hdg.*	3311 HK	11.48	13.00	Buy	12.9	10.6	2.3	2.8	2.3	1.9	19.3	20.0
China Mrch.Hdg.Intl.*	144 HK	30.7	36.60	Buy	17.3	14.9	2.5	2.5	1.2	1.1	7.8	7.6
CSR 'H'*	1766 HK	10.24	10.80	Hold	21.2	18.2	1.4	1.7	2.8	2.5	13.8	14.5
China Railway Group 'H'*	390 HK	8.74	6.30	Buy	14.0	12.1	1.1	1.2	1.6	1.4	11.7	12.2
Zte 'H'*	763 HK	18.4	23.00	Buy	20.0	17.7	1.2	1.4	2.0	1.9	10.6	11.0
Lenovo Group*#	992 HK	11.2	10.80	Buy	19.9	15.7	2.0	2.5	3.6	3.1	21.0	21.5
Geely Automobile Hdg.*	175 HK	4.19	3.70	Hold	20.6	11.9	0.6	1.3	1.7	1.5	8.6	13.4
Pico Far East Holdings*	752 HK	1.82	2.23	Buy	9.2	8.3	5.5	6.4	1.4	1.3	15.4	15.9
Tencent Holdings*	700 HK	149.8	163.00	Buy	46.1	37.1	0.3	0.4	13.9	10.6	34.5	31.8
Kingdee Intl.Sftw.Gp.*	268 HK	3.7	3.20	Buy	38.4	28.5	0.4	0.5	3.8	3.5	10.5	12.7
China Fbo.Network Sy.Gp.*	3777 HK	2.24	3.90	Buy	6.5	5.7	0.0	0.0	1.1	0.9	17.1	17.0
Anhui Conch Cement 'H'*	914 HK	29.95	32.20	Buy	11.5	10.1	2.7	3.1	1.9	1.6	18.1	17.4
Angang Steel 'H'*	347 HK	5.7	7.00	Buy	35.5	37.0	1.0	0.7	0.7	0.7	2.0	1.9
China Everbright Intl.*	257 HK	13.68	14.70	Buy	36.0	26.6	0.8	1.1	3.8	3.4	11.5	13.4
Dynagreen Env.Protc.Gp. 'H'	1330 HK	5.8	n.a.	NR	28.7	21.1	0.0	0.3	2.2	2.0	8.4	10.2
Wasion Group Holdings*	3393 HK	9.93	11.00	Buy	15.5	11.6	1.9	3.1	2.3	2.0	15.8	18.6
China Everbright Intl.*	257 HK	13.68	14.70	Buy	36.0	26.6	0.8	1.1	3.8	3.4	11.5	13.4
BYD 'H'	1211 HK	45.55	n.a.	NR	157.1	48.8	0.0	0.1	3.9	3.2	2.1	6.8
Gcl-Poly Energy Holdings	3800 HK	2.17	n.a.	NR	17.2	12.4	0.0	1.2	1.8	1.6	11.3	13.5
Comtec Solar Sys.Group	712 HK	1.05	n.a.	NR	n.a.	12.5	0.0	1.9	0.8	0.6	(6.0)	4.9
Concord New Energy Group	182 HK	0.54	n.a.	NR	15.0	9.3	0.0	0.9	0.9	0.8	6.0	8.6

Source: Thomson Reuters, \*DBS Vickers

China's new silk road plan to deepen economic cooperation and trade



Sources: Xinhua, DBS Vickers

**Theme 2: Expansion of China-HK stock connects**

**Brokers and new economy stocks to benefit from SZ-HK connect.** We expect SZ-HK stock connect will be announced this month, with the official launch coming later in 4Q15. The new connect should add 400-500 A-shares that can be invested through Hong Kong. These stocks will likely be members of the SZSE300 index, the Shenzhen companies in CSI300, and ChiNext 100 members. We expect Chinese brokers and their Hong Kong affiliates to benefit from the launch of SZ-HK connect. In addition, HK-listed companies may also receive a valuation boost if their Shenzhen peers are trading at much higher valuations. We find both software and medical equipment segments are trading at much lower valuations compared to Shenzhen counterparts.

**H-shares to benefit from expansion of SH-HK stock connect.** CSRC recently allowed China's mutual funds to invest through SH-HK stock connect instead of requiring QDII quotas. H-shares at deep discounts should benefit from expansion of connectivity between China and Hong Kong's equity markets. Other steps that can be taken include lowering the Rmb500,000 hurdle for personal investors seeking to make southbound trades.

**Potential A-shares allowed for SZ-HK connect**

	Market cap (Rmb m)	Stocks
Alternative energy	74,230	7
Automobiles and parts	301,757	11
Banks	211,118	2
Food and beverage	481,263	21
Chemicals	240,116	36
Construction and materials	168,715	18
Consumer electronics and components	373,259	23
Ind. electronic and electrical equipment	301,686	54
Financial Services	437,926	11
Telecom	14,084	2
General retailers	115,374	6
Health care equip and service	129,085	15
Household goods	295,316	8
Industrial engineering	460,990	54
Industrial metals and mining	286,018	11
Industrial transport	9,752	4
Travel and leisure goods	214,922	13
Media	307,049	14
Oil equipment	41,363	3
Personal goods	30,085	5
Pharmaceuticals & Biotechnology	644,818	43
Real Estate Investment & Services	304,055	5
Software & Computer Services	508,037	51
Environmental and infrastructure support	137,819	13
Technology Hardware & Equipment	332,100	31
Others	248,932	10

Sources: DBS Vickers



H-share to A-share discounts and premiums

Name	H-share Ticker	A-share Exchange	H-share vs. A-share	Name	H-share Ticker	A-share Exchange	H-share vs. A-share
SHENJI GROUP-H	300	Shanghai	-68%	DONGFANG ELECT-H	1072	Shanghai	-41%
ZHEJIANG SHIBA-H	1057	Shenzhen	-67%	CHINA RAIL CN-H	1186	Shanghai	-40%
SHANDONG MOLON-H	568	Shenzhen	-66%	PETROCHINA CO-H	857	Shanghai	-40%
BEIJING NORTH-H	588	Shanghai	-64%	CHINA INTL MAR-H	2039	Shenzhen	-39%
NORTHEAST ELEC-H	42	Shenzhen	-63%	ZOOMLION HEAVY-H	1157	Shenzhen	-38%
FIRST TRACTOR-H	38	Shanghai	-62%	GUANGSHEN RAIL-H	525	Shanghai	-38%
SINOPEC YIZHEN-H	1033	Shanghai	-61%	HISENSE KELON -H	921	Shenzhen	-37%
JINGCHENG MAC	187	Shanghai	-61%	GUANGZHOU AUTO-H	2238	Shanghai	-37%
YANZHOU COAL-H	1171	Shanghai	-58%	ANHUI EXPRESS-H	995	Shanghai	-36%
LUOYANG GLASS-H	1108	Shanghai	-58%	HAITONG SECURI-H	6837	Shanghai	-34%
CHONGQING IRON-H	1053	Shanghai	-56%	BYD CO LTD-H	1211	Shenzhen	-34%
CHINA SHIPPING-H	2866	Shanghai	-55%	CHINA CITIC BK-H	998	Shanghai	-34%
JINGWEI TEXTIL-H	350	Shenzhen	-55%	XINJIANG GOLD-H	2208	Shenzhen	-31%
SHANDONG XINHU-H	719	Shenzhen	-55%	NEW CHINA LIFE-H	1336	Shanghai	-31%
CMOC-H	3993	Shanghai	-55%	LIVZON PHARM-H	1513	Shenzhen	-30%
DALIAN PORT PD-H	2880	Shanghai	-54%	AIR CHINA LTD-H	753	Shanghai	-28%
NANJING PANDA-H	553	Shanghai	-54%	CITIC SECURITI-H	6030	Shanghai	-28%
SICHUAN EXP-H	107	Shanghai	-53%	ZTE CORP-H	763	Shenzhen	-27%
SINOPEC SHANG-H	338	Shanghai	-52%	CEB BANK-H	6818	Shanghai	-27%
MAANSHAN IRON-H	323	Shanghai	-52%	CHINA LIFE INS-H	2628	Shanghai	-25%
DONGJIANG ENVI-H	895	Shenzhen	-52%	SHANGHAI PHARM-H	2607	Shanghai	-25%
SHANDONG CHEN-H	1812	Shenzhen	-51%	ANGANG STEEL-H	347	Shenzhen	-24%
METALLURGICAL-H	1618	Shanghai	-51%	WEICHAI POWER-H	2338	Shenzhen	-23%
CHINA COSCO HO-H	1919	Shanghai	-50%	HUADIAN POWER-H	1071	Shanghai	-22%
TIANJIN CAP-H	1065	Shanghai	-50%	CHINA PETROLEU-H	386	Shanghai	-22%
ZIJIN MINING-H	2899	Shanghai	-49%	CHINA SHENHUA-H	1088	Shanghai	-20%
SHANGHAI ELECT-H	2727	Shanghai	-49%	CHINA MINSHENG-H	1988	Shanghai	-20%
ZHENGZHOU COAL-H	564	Shanghai	-49%	FOSUN PHARMA-H	2196	Shanghai	-17%
DATANG INTL PO-H	991	Shanghai	-48%	AGRICULTURAL-H	1288	Shanghai	-15%
ALUMINUM CORP-H	2600	Shanghai	-48%	GREAT WALL MOT-H	2333	Shanghai	-15%
CHINA COAL ENE-H	1898	Shanghai	-47%	BANK OF COMMUN-H	3328	Shanghai	-14%
CSR CORP LTD-H	1766	Shanghai	-46%	CHINA CONST BA-H	939	Shanghai	-14%
CHINA SHIPPING-H	1138	Shanghai	-46%	BANK OF CHINA-H	3988	Shanghai	-13%
BBMG CORP-H	2009	Shanghai	-46%	HUANENG POWER-H	902	Shanghai	-12%
CHINA OILFIELD-H	2883	Shanghai	-46%	CHINA PACIFIC-H	2601	Shanghai	-8%
GUANGZHOU SHIP-H	317	Shanghai	-45%	PING AN INSURA-H	2318	Shanghai	-5%
CHINA EAST AIR-H	670	Shanghai	-44%	IND & COMM BK-H	1398	Shanghai	-3%
JIANGXI COPPER-H	358	Shanghai	-44%	TSINGTAO BREW-H	168	Shanghai	-1%
CHINA RAIL GR-H	390	Shanghai	-43%	CHINA MERCH BK-H	3968	Shanghai	1%
SHENZHEN EXPRE-H	548	Shanghai	-43%	JIANGSU EXPRES-H	177	Shanghai	2%
CHINA COM CONS-H	1800	Shanghai	-42%	ANHUI CONCH-H	914	Shanghai	4%
CHINA SOUTHERN-H	1055	Shanghai	-41%	Vanke-H	2202	Shenzhen	10%

Source: Bloomberg Finance L.P., DBS Vickers

**Theme 3: Avoid HK plays given political risk**

**Remain cautious on Hong Kong companies due to political risk.** We highlighted the structural difficulties faced by Hong Kong's youths in an earlier strategist blog. We estimate the average household needs to save 50% of their income for 18 years just for the down payment of a 600sq ft home. The unemployment rate of Hong Kong's youth in their 20's has also widened against the overall rate in recent years. Public rental housing is also not an attractive solution since the queue has climbed to over 250k individuals from just over 100k in 2007.

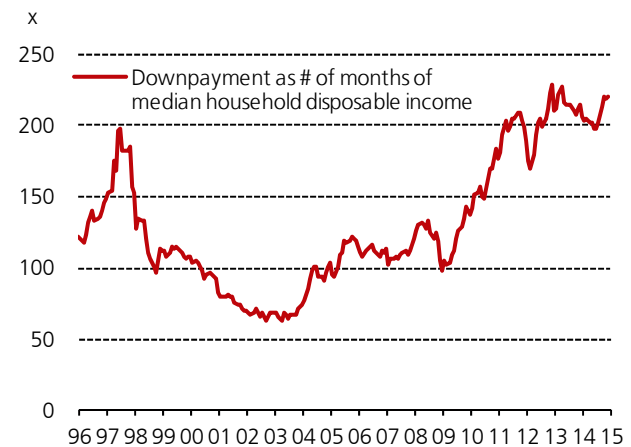
**Catch-22 situation for Hong Kong policy.** If property prices and income inequality are not dealt with, we see risk of a repeat of Occupy protests. But in tackling the above issues, Hong Kong companies' profitability will likely take a hit from property and wage policies. Both scenarios are not favourable for Hong Kong plays. We remain underweight on Hong Kong retailers, and prefer consumption plays with earnings from outside of Hong Kong such as Belle (1880.HK) and Samsonite (1910.HK). Similarly, we are cautious on Hong Kong's retail property landlords. We also see limited upside for Hong Kong property developers given policy headwinds and risk of mortgage rate increases. Higher mortgage rates may come from higher risk-weight floors by the HKMA, rather than changes in US interest rates.

**Mortgage affordability ratio**



Sources: CEIC., DBS Vickers

**# of months a household needs to save for down payment**

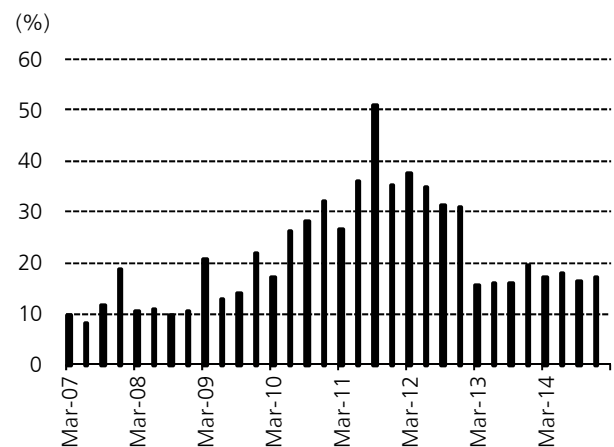


**Unemployment rate**



Sources: HK Census and Statistics Bureau, DBS Vickers

**% of primary property purchases by mainland buyers**



**Theme 4: Laggards to watch**

We believe near term excitement will revolve around new economy, silk road, and non-bank financial plays. However, this means laggards will increasingly offer value relative to the market. Provided the right conditions, we believe some are ripe for turnaround in mid-2015. We highlight these laggards to watch for:

**HSBC.** HSBC's 1 year forward dividend yield has increased to 5.8%. This is conservatively assuming the bank can only payout US\$0.5 during 2015 and 2016, unchanged from 2014 levels. Historically, HSBC's yield has only been this high during 1998, 2003, 2009, and 2011. Returns on purchases in those periods have been very positive in the subsequent 12 months. We believe the trigger for HSBC is more clarity on upcoming fines, which is the bank's largest earnings risk. We estimate HSBC can maintain its 2014 DPS of US\$0.5 if fines in 2015 and 2016 do not exceed US\$3bn each year.

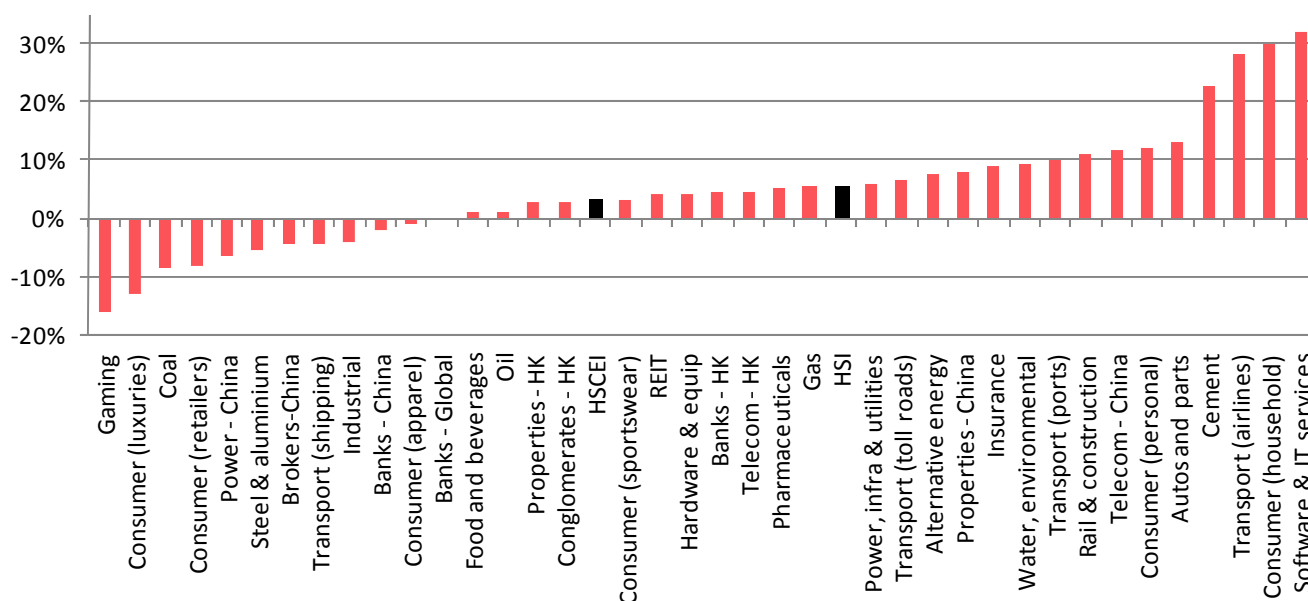
**Oil and commodities.** With the Fed turning more dovish, we believe USD has limited scope to strengthen from current levels. This should taper negative earnings revisions and investor sentiment for oil and commodity plays.

**Food and beverage.** We have been underweight on F&B for quite some time. The sector has de-rated to a level where valuations are more palatable. Lower commodity prices should also help margins in 2015 compared to 2014.

**Apparel and footwear.** The buoyant A-share market should have positive wealth impacts to consumption. Some apparel and footwear companies have shown signs of a turnaround in their latest results and updates.

**Gaming.** We foresee gaming revenues can return to growing on a y-o-y basis in 2H15.

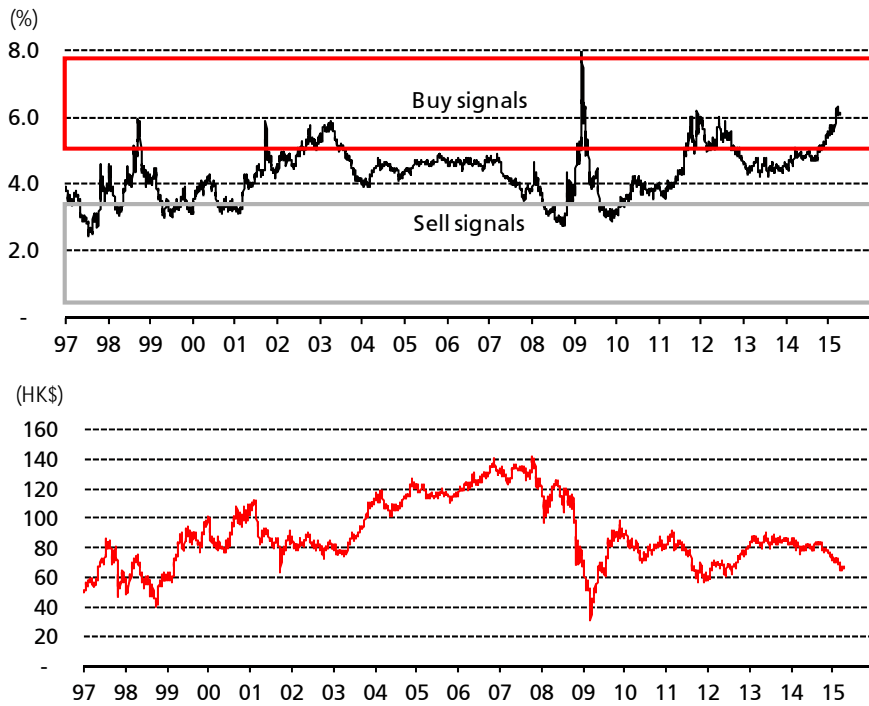
**1Q15 sector share price performance**



Source: Thomson Reuters, DBS Vickers

HSBC's dividend yield and stock price

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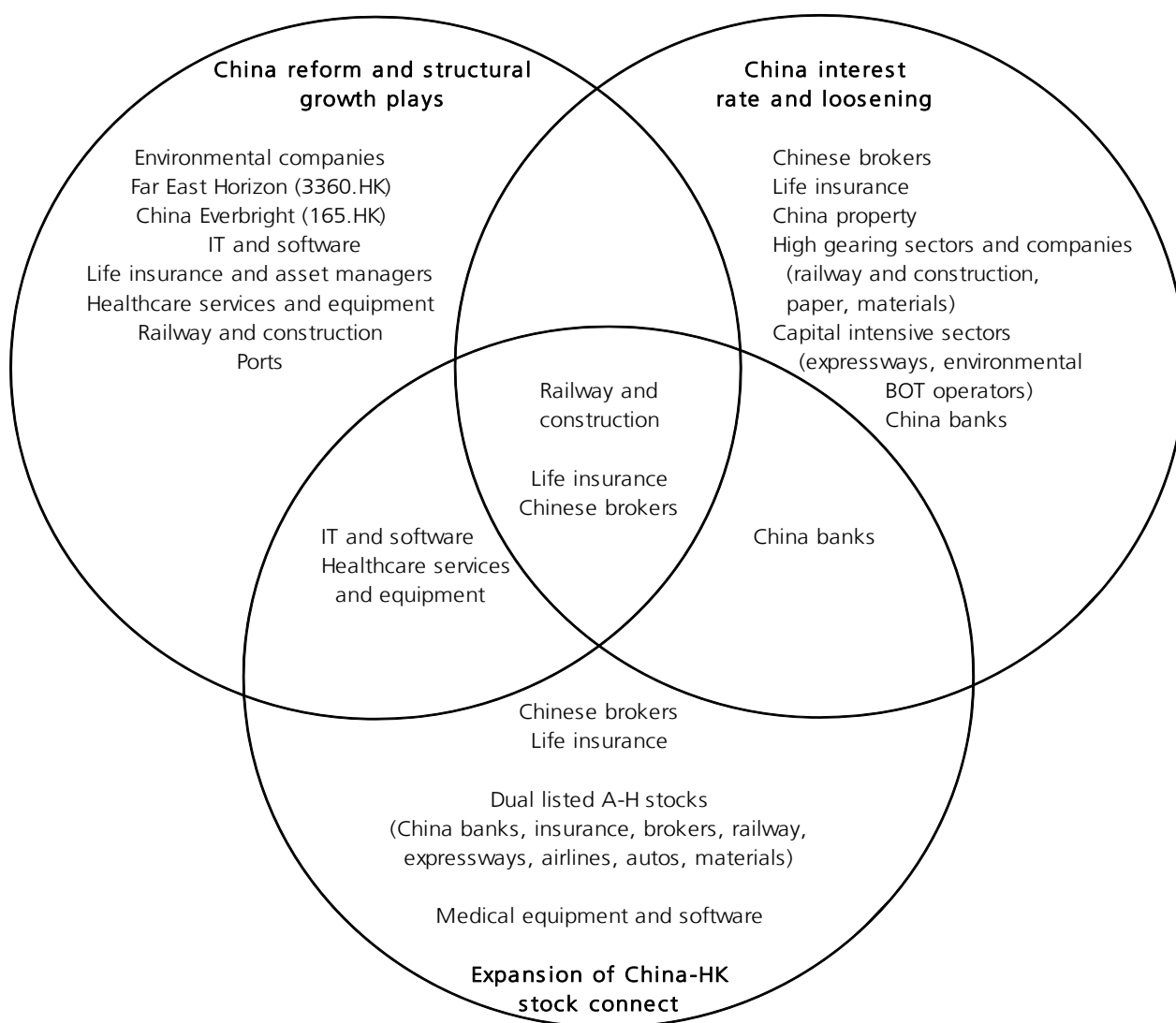
Source: Bloomberg Finance L.P., DBS Vickers

**Recommended sector weightings**

**Railway and construction, non-bank financials score best in our themes.** The following matrix highlights beneficiaries from China's reforms and target growth areas, expected monetary loosening, and widening of China-HK stock

connect. The sectors that scored best were railway and construction, life insurance companies, and Chinese brokers, which fit all three themes. Meanwhile, IT and software, healthcare and services, and China banks also scored well.

**Matrix**



Source: Bloomberg Finance L.P., DBS Vickers

**Downgraded airlines, China property, and Hong Kong property.** We have downgraded these three sectors for different reasons. Airlines have performed very well. But with oil price already at current levels, we believe it is time to take profit. Meanwhile, China property developers reported worse than expected 2014 earnings. For HK property developers, we see policy and mortgage rates being key risks for the rest of 2015.

**Upgraded internet and software, healthcare, and oil.** We believe new economy sectors will be in focus due to China's targeted reforms and growth areas. These sectors can be re-

rated on higher optimism for their longer term growth. Meanwhile, we are less bearish on oil given a softer USD and already steep oil price declines.

**Overweight on China banks, non-bank financials, environmental, internet and software, and healthcare.**

Following changes to our sector weightings, we are now overweight on these five sectors. They score well in our investment themes, and we expect news flow and sentiment to remain positive for these areas in 2Q. Please refer to pages 29-37 for a summary on our sector views.

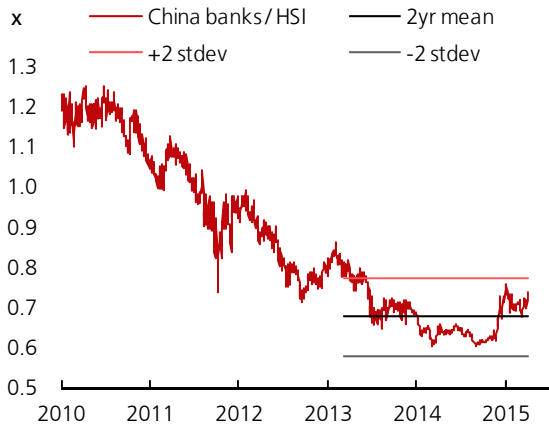
### Summary of sector views

Sector	Weighting	Change	Rationale
China banks	Overweight		Looser credit availability and accommodative policies to help asset quality
China non-bank financials	Overweight		Structural growth of capital markets; SZ-HK connect is a catalyst
Environmental	Overweight		Highlighted as a key focus area in recent government work report
Internet and software	Overweight	Upgraded	Pricy valuations; focus cannibalized by traditional sectors and new plays
Pharmaceutical + healthcare	Overweight	Upgraded	Wealth and aging population are drivers; prefer services and equipment
Apparel and footwear	Neutral		Prefer non-HK centric companies such as Belle
China airlines	Neutral	Downgraded	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		Anti-monopoly controls balances cheaper commodity input costs
China coal	Neutral		Documentary "Under the Dome" is scary
China IPPs	Neutral		Helped by lower coal prices, but power demand growth is only modest
China materials	Neutral		Silk road plans and rate cuts are near term positives
China property	Neutral	Downgraded	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
Hong Kong banks	Neutral		Medium term outlook is improving if rate hike is more certain
Hong Kong telecom	Neutral		Industry consolidation should help pricing in the future
Oil	Neutral	Upgraded	We are less negative on oil price after sharp declines and softer USD
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
Gaming	Underweight		Gaming revenue likely to remain weak until 2H15 at the earliest
Hong Kong property	Underweight	Downgraded	Occupy protests to accelerate supply increase; mortgage rate risk
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

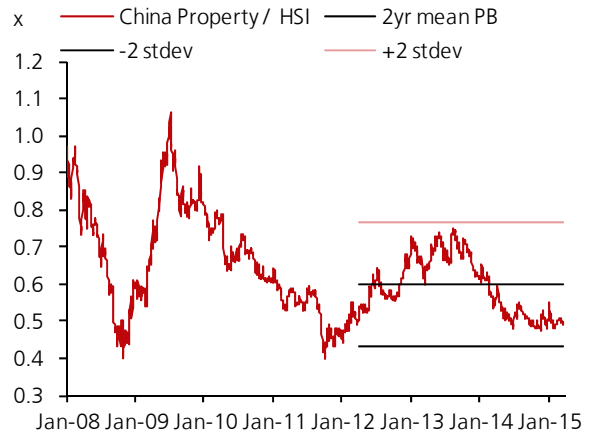
Source: DBS Vickers

Sector vs. market valuations

China banks PB / HSI PB



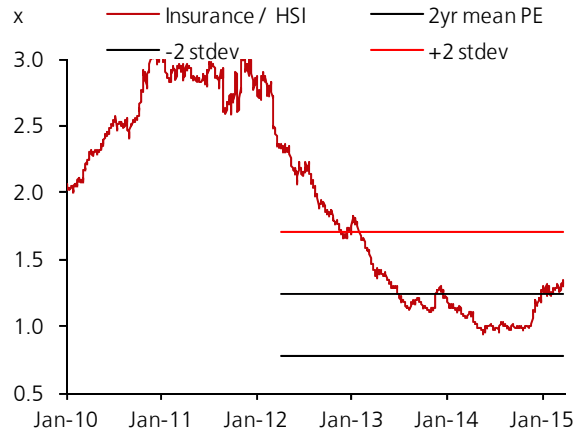
China property PB / HSI PB



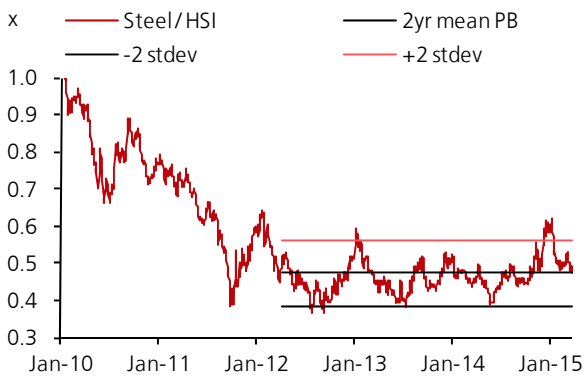
China brokers PE / HSI PE



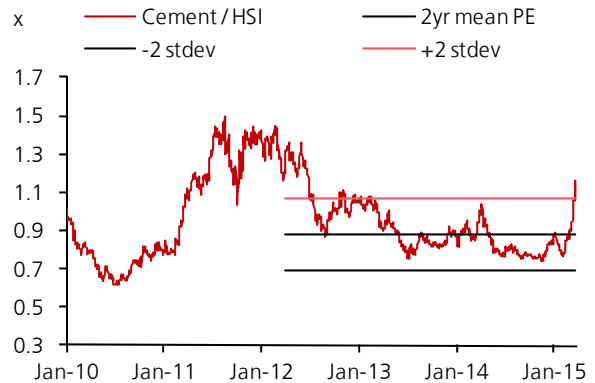
China insurance PE / HSI PE



China steel PB / HSI PB



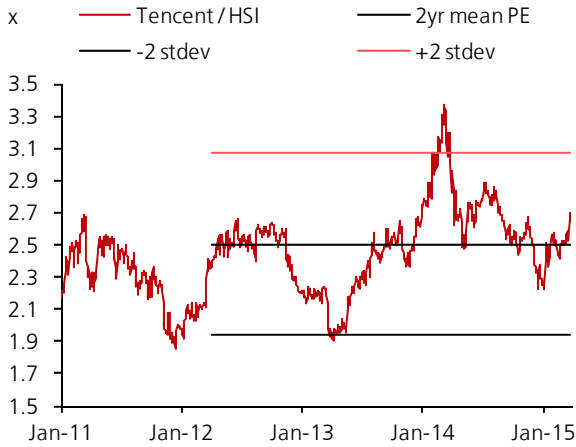
China cement PE / HSI PE



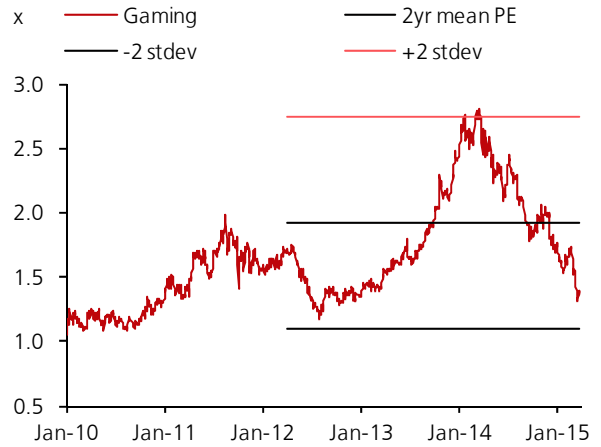
Sources: Bloomberg Finance L.P., DBS Vickers

Strategy Update

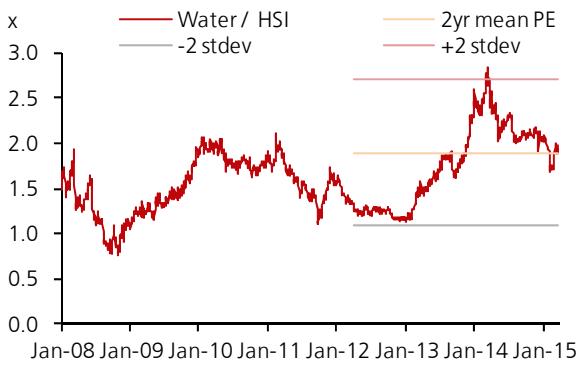
Tencent PE / HSI PE



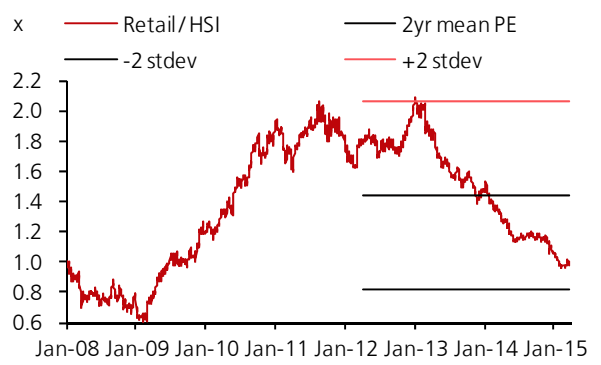
Gaming PE / HSI PE



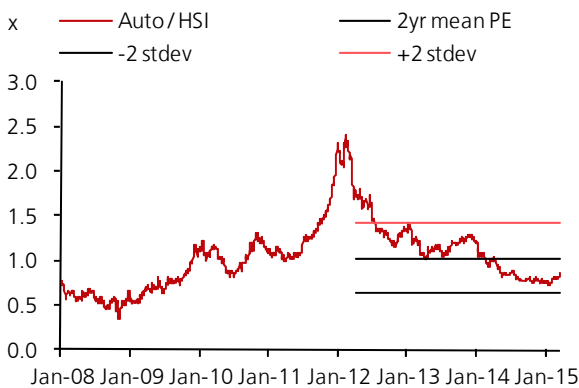
Water and environmental PE / HSI PE



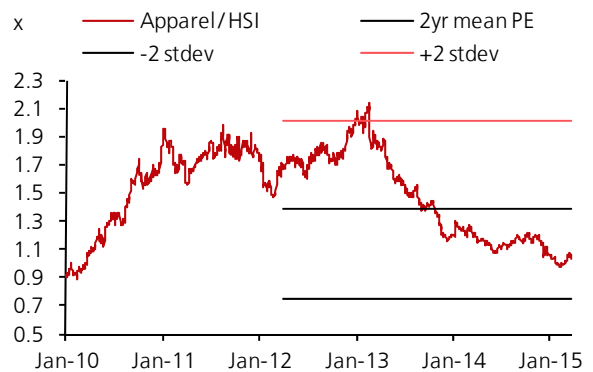
Retail PE / HSI PE



China autos PE / HSI PE



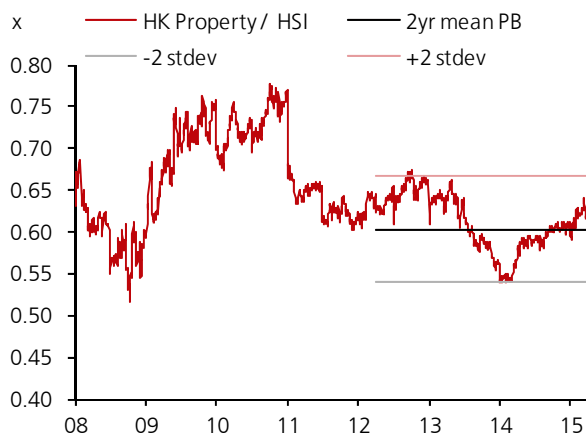
Apparel and footwear PE / HSI PE



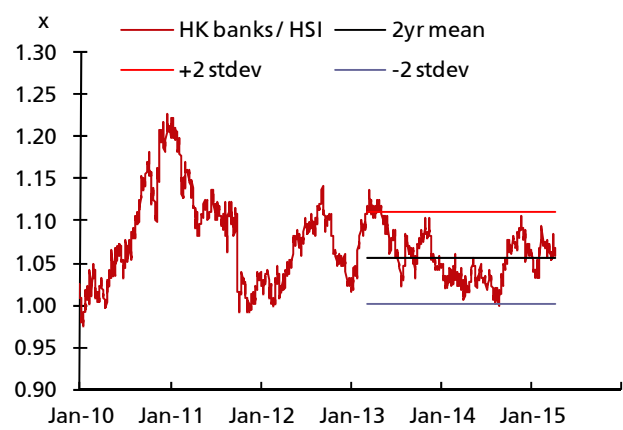
Sources: Bloomberg Finance L.P., DBS Vickers



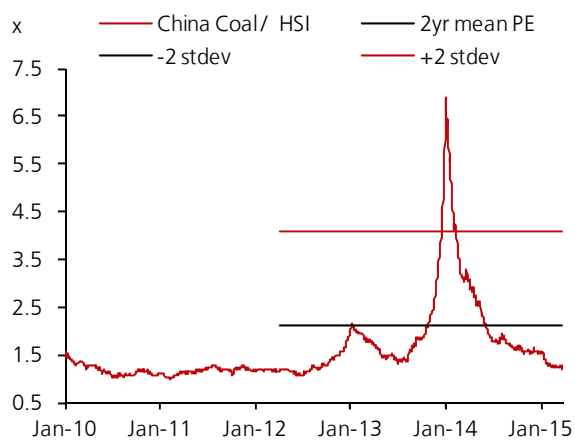
**HK property PB / HSI PB**



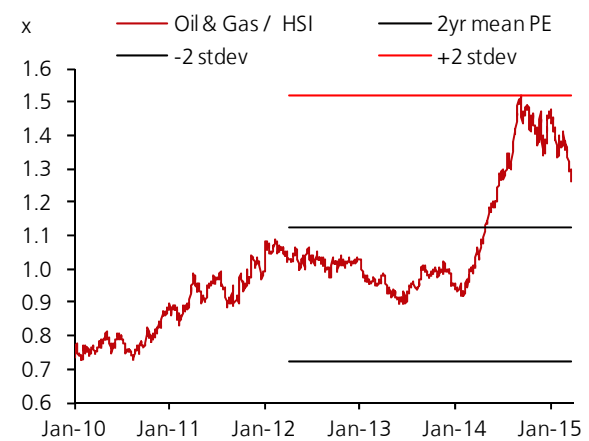
**HK banks PB / HSI PB**



**China coal PE / HSI PE**



**China oil and gas PE / HSI PE**



**China telecom PE / HSI PE**



Sources: Bloomberg Finance L.P., DBS Vickers

### Top ten BUY list

**Mixed performance for our top ten in 1Q15.** Our top ten list performed poorly in early 1Q15, dragged by performance of China Galaxy Securities following its share placement. China Hongqiao was another poor performer during 1Q15 due to the unexpected delay for its board meeting. Ironically, both stocks have bounced back after we took them out of our top ten. Meanwhile, China property picks also underperformed. Fortunately, our new economy picks performed well in March. Our top ten list gained 2.3% in simple average terms and 3.8% in market cap weighted terms since our 2015 outlook report on 6 January.

### Performance of our top ten list (6 Jan 2015 – 2 Apr 2015)

	Dates		Perf.
	From	to	(%)
<u>Top ten list before change in this report</u>			
Anhui Conch (914.HK)	06-Jan	02-Apr	4.4%
CCB (939.HK)	06-Jan	02-Apr	2.0%
CMB (3968.HK)	06-Jan	02-Apr	4.6%
CR Land (1109.HK)	06-Jan	02-Apr	1.3%
Haier (1169.HK)	06-Jan	02-Apr	13.2%
Kingdee (268.HK)	09-Mar	02-Apr	37.5%
Nexteer (1316.HK)	09-Mar	02-Apr	6.4%
Sino Ocean (3377.HK)	17-Feb	02-Apr	0.6%
Sinopharm (1109.HK)	26-Mar	02-Apr	5.9%
Tencent (700.HK)	03-Feb	02-Apr	10.9%
<u>Past top ten picks</u>			
CH. Fiber Optic (3777.HK)	06-Jan	03-Feb	-6.6%
Wasion (3393.HK)	06-Jan	03-Feb	-4.6%
Country Garden (2007.HK)	06-Jan	17-Feb	-8.4%
Value Partners (806.HK)	06-Jan	09-Mar	-0.3%
CH. Galaxy Sec. (6881.HK)	06-Jan	09-Mar	-21.5%
CH. Hongqiao (1378.HK)	03-Feb	26-Mar	-18.7%
HSI	06-Jan	02-Apr	7.6%
HSCEI	06-Jan	02-Apr	5.6%

Source: Thomson Reuters, DBS Vickers

**Adding CMH, FEH, and CEL to top ten list.** We have added China Merchants Holdings Int'l (144.HK), Far East Horizon (3360.HK), and China Everbright Limited (165.HK) into our top ten BUY list. We like CMHI as a beneficiary of China's new silk road plan. Another beneficiary of China's reforms is FEH, which has exposures to healthcare services, medical equipment leasing, and leasing of construction equipment. Meanwhile, CEL will benefit from SOE reform for its parent, as asset restructuring can unlock its deep discount to NPV.

**Lowering old economy exposure.** To make room for the above additions, we have taken out CCB (939.HK), Sino Ocean Land (3377.HK), and Anhui Conch (914.HK). We continue to like CCB and Sino Ocean Land with respect to most of their peers, but we already have CMB (3968.HK)

and CR Land (1109.HK) as our banking and property picks. Meanwhile, we have turned less bullish on Anhui Conch following disappointing ASP trends.

### Our updated top ten list:

#### China Everbright Ltd. (165.HK)

- CEL will benefit from SOE parent's restructuring, as it will unlock value by disposing minority stakes in Everbright Securities and Everbright Bank back to parent
- The value of CEL's Everbright Securities stake is higher than CEL's market cap; CEL is trading at over 50% discount to NPV
- Recovery of equity markets and resumption of IPOs help CEL's core private equity business exit past investments

#### 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 Merchants Holdings (144.HK)

- CMH is already strategically positioned with a presence in some ports along the maritime silk road plan
- We expect CMH to be involved in construction or investing in new ports along the maritime silk road plan
- We also see potential earnings upside from monetization of its 1m-sqm land holding in the Qianhai area

#### 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

#### 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

Haier Electronics (1169.HK)

- Property sales recovery can help appliance sales outlook
- Rising logistics revenue contribution thanks to Strategic Cooperation with Alibaba Group and M&A activity (e.g. Shanghai Boyol)
- Parent's A-share discount is narrower after A-share rally

Kingdee (268.HK)

- Software and information technology solutions should be in demand as China pushes for technology upgrades
- Core product Enterprise Resource Planning (ERP) solutions should see increasing penetration and adoption
- Cloud business is a key driver, with expected medium term growth of 50%+ p.a.

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

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 other new products
- We project Tencent can grow its revenues by 50% CAGR during FY14-16

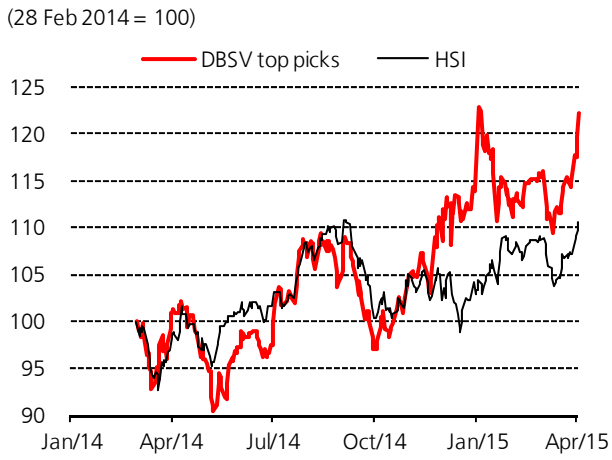
**Valuation table for our Top Ten Picks**

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 Everbright Ltd	165.HK	22.00	BUY	26.89	5.9	2.3	153.1	18.0	46.8	1.1	1.1	20.4	49.5
C Resources Land	1109.HK	22.55	BUY	24.43	12.2	10.8	(9.0)	11.2	11.1	1.2	1.2	2.2	2.5
China Merchants	144.HK	30.70	BUY	36.60	14.9	13.8	11.8	7.6	7.9	1.1	1.1	2.5	2.5
China Merchants Bk	3968.HK	19.72	BUY	22.39	6.7	6.0	8.0	17.1	16.6	1.1	0.9	4.5	5.1
Far East Horizon	3360.HK	7.26	BUY	8.40	6.9	6.0	16.4	15.7	16.1	1.0	0.9	3.6	4.2
Haier Electronics	1169.HK	21.55	BUY	27.78	14.2	12.1	18.5	22.7	21.8	2.9	2.4	0.7	0.8
Kingdee	268.HK	3.70	BUY	3.20	28.7	22.7	30.6	12.7	14.4	3.5	3.1	0.5	0.7
Nexteer Automotive	1316.HK	8.01	BUY	9.30	13.0	10.7	25.9	25.3	25.0	3.0	2.4	1.5	1.9
Sinopharm Group	1099.HK	31.50	BUY	34.50	20.2	16.7	15.3	12.1	13.2	2.3	2.1	1.3	1.6
Tencent	700.HK	149.80	BUY	163.00	33.6	26.1	32.1	31.8	31.5	10.6	8.1	0.4	0.5
<b>Simple average</b>					<b>15.6</b>	<b>12.7</b>	<b>30.3</b>	<b>17.4</b>	<b>20.4</b>	<b>2.8</b>	<b>2.3</b>	<b>3.8</b>	<b>6.9</b>

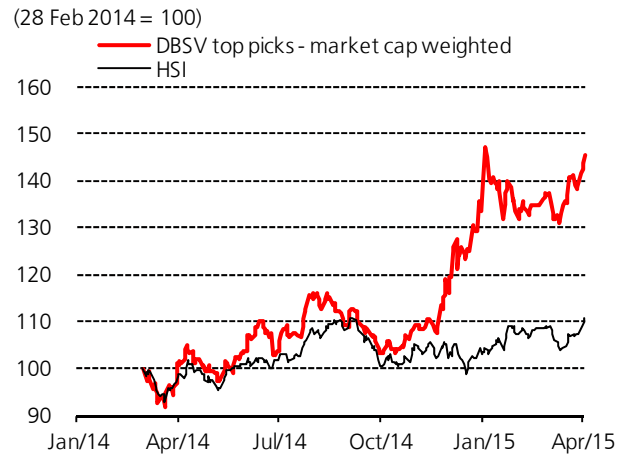
Source: DBS Vickers, Thomson Reuters

Strategy Update

Relative performance of top ten pick vs. HSI



Market cap weighted relative performance



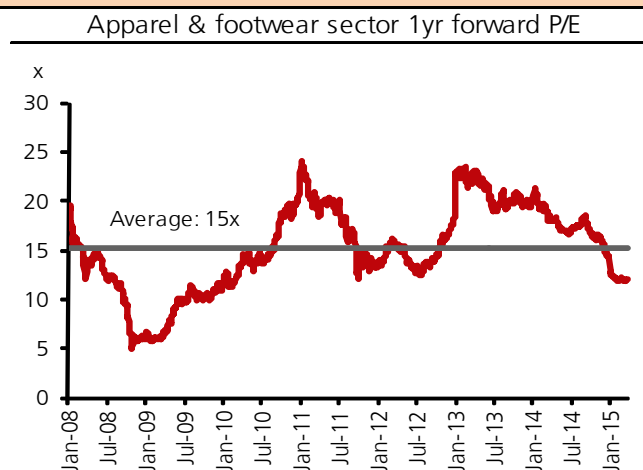
Sources: Thomson Reuters, DBS Vickers

**Summary of sector views**

**Sector outlooks in alphabetical order**

**Apparel and footwear**  
**Neutral**                      Top BUY(S): Belle (1880.HK)                      Least preferred: n.a.

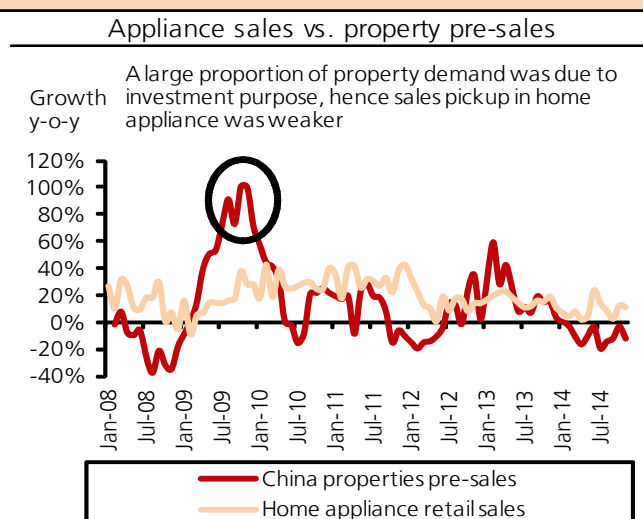
Sales momentum of apparel and footwear companies have yet to see any significant recovery, but there are initial signs that business performance could be bottoming out. Latest operating numbers from footwear players Belle and Le Saunda saw slight improvement in the Dec-Feb quarter vs previous quarter, while casual wear brand Giordano also posted decent sales recovery in China during Jan-Feb, and sportswear players continued to see steady SSSG and order book growth. With easier base effect and healthier store portfolio for most players in general, there is a good chance that business performance will continue to stabilize in the next few quarters. But in lack of visibility at this stage, we remain selective and stick to player with strong brand names and good operating efficiency. Our top pick is Belle, which has shown strong resilience in margin performance as well as continual improvement in its sportswear operation.



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**China appliances**  
**Neutral**                      Top BUY(S): Haier (1169.HK)                      Least preferred: Skyworth (751 HK)

We expect slow sales development for the entire sector, partially dragged by transaction volume decline in the properties market. That said, leading home appliance players with high sales contribution from rural markets should outperform, thanks to lower penetration there. We continue to like Haier Electronics (1169.HK) for its steady sales performance of white goods, robust distribution revenue growth from 3rd-party customers, and rising logistics contribution.



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Source: Thomson Reuters, DBS Vickers

Sector outlooks in alphabetical order (con't)

**China autos and parts**

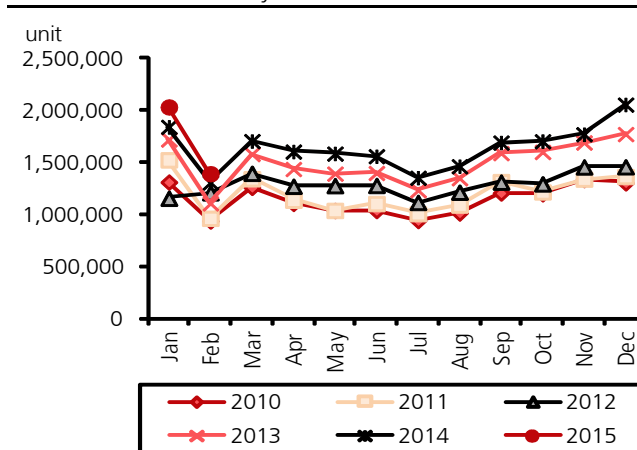
Neutral

Top BUY(S): Nexteer (1316.HK)  
MintH (425.HK)

Least preferred: n.a.

The auto sector was under selling pressure ahead of their results release last month. With the moderation in industry volume sales growth this year, the market is becoming more selective in the investment names. Among the three auto segments, we prefer the auto parts players because of their globalisation strategy to tap the better growth potentials. We like Nexteer (1316) and MintH (425) for their global growth prospects. For the automakers, the Japanese player have reported 20% FY14 earnings expansion and Dongfeng Motor (489) is our preferred pick. The auto industry is entering into the slow months, which is also a good opportunity to accumulate these names.

Monthly PV sales in China



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**China banks**

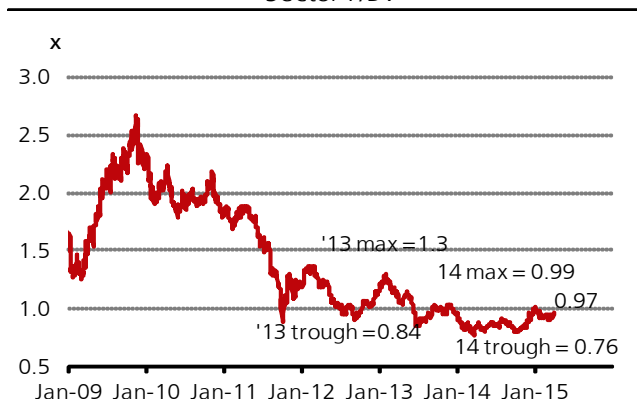
Overweight

Top BUY(S): CCB (939.HK)  
CMB (3968.HK)

Least preferred: ABC (1288.HK)

We believe the current rally on Chinese banks will continue due to multiple positive factors: 1) accommodative monetary policies 2) capital market reform and mixed ownership reform 3) more clarity and quota for local government debt swap program and thus better asset quality outlook 4) more banks to adopt employee stock incentive plan 5) exploration on banks' subsidiary spin-off (Everbright Bank's wealth management department). These catalysts, together with previous measures (PBOC giving more flexibility to banks' loan-to-deposit ratio (LDR) and loan quota management, and introducing a registration system for ABS issuance to simplify the process), suggest more upside in the near term. Slow earnings growth in 4Q14 and rising NPL ratios were largely within expectation and we expect earnings and asset quality to improve in upcoming 1Q15 results release. PBOC's symmetric rate cut in Feb and deposit insurance scheme adoption will only have slightly negative impacts on banks this year. We prefer joint-stock banks given that these banks are better equipped to compete in a liberalised market and have stronger deposit franchises compared to municipal banks. We continue to like CMB(A&H) among joint-stock banks and CCB-H and ICBC-A among large caps.

Sector P/BV



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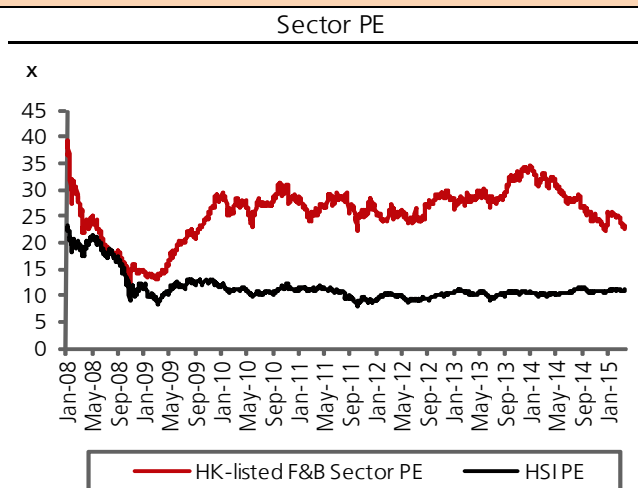
Source: Thomson Reuters, DBS Vickers

Sector outlooks in alphabetical order (con't)

**China F&B**  
**Underweight**

Top BUY(S): Want Want (151.HK)    Least preferred: Nil

FY14 results for F&B sector were mostly disappointing across the board – topline sales were hampered by weaker than expected consumer demand, which offset benefits from lower raw material costs. Overall speaking, beverages (tea, juice, dairy beverage) and instant noodles are expected to see softer demand YTD, whilst rice-crackers could post some improvement through stronger gift pack sales on CNY timing impact. Two key points were highlighted across the board – product innovation and margin expansion will be the key focuses in FY15. We have downgraded Tingyi to a HOLD on disappointing beverage sales and pricey valuation, though the Company remains fundamentally sound in the medium term. We maintain a BUY on Want Want as a clear beneficiary from the lower milk powder costs. We also like China Modern Dairy for its undemanding valuation, while China Food is our pick for earnings turnaround.



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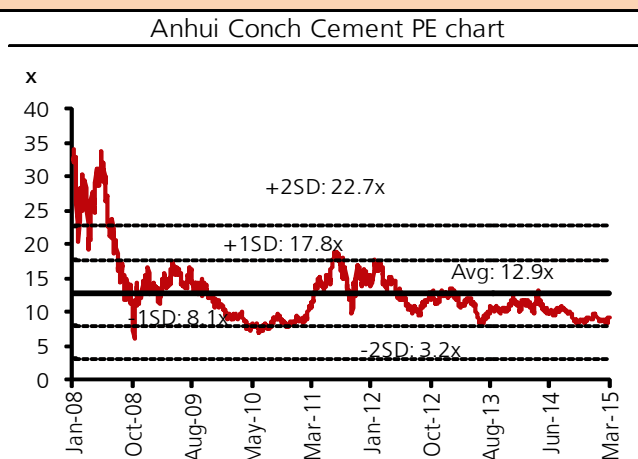
**China materials**  
**Neutral**

Top BUY(S): Baosteel (600019.CH)    Least preferred: Shanshui Cement (691.HK)  
Anhui Conch-A (600585.SS)

We like growth name and quality stock with cheap valuation.

Baosteel has optimized products mix and we expect potential supply deficit of high-end oriented silicon steel to support its FY15 earnings. The company inaugurated steel e-commerce business in FY13 and has recorded 125% volume growth in FY14. We expect the company's e-commerce sales volume to expand at 83% CAGR in FY14-18F when China's steel e-commerce is likely to reap a Rmb650mn turnover on our estimates.

Sitting on strong balance sheet, Anhui Conch hiked dividend payout to 31% from 20% previously. We expect earnings growth in FY15 remain intact based on a 12% sales volume growth target. Currently, the counter is trading at 9.4x FY15F PE (below historical average of 13.0x) and Rmb460/t EV/tonne (which is 1.1 S.D below historical average).



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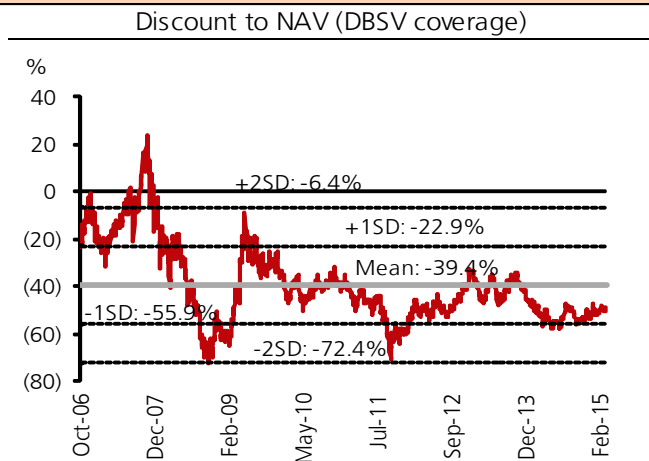
Source: Thomson Reuters, DBS Vickers

**Strategy Update**

**Sector outlooks in alphabetical order (con't)**

<b>China property</b>		
<b>Neutral</b>	Top BUY(S): COLI (688.HK) CR Land (1109.HK) China Vanke (2202.HK)	Least preferred: Evergrande (3333.HK)

The sector is now trading at 6.5x FY15F PE, 0.7x P/BV and 55% discount to NAV (vs. its historical average of 9.1x/1.1x/39%). We expect continuous sales recovery to support sector performance. Our top picks are COLI, CR Land, and Vanke. Sino-Ocean Land in the mid-cap universe has the potential to see high earning growth in 2016 after two years' restructuring efforts.



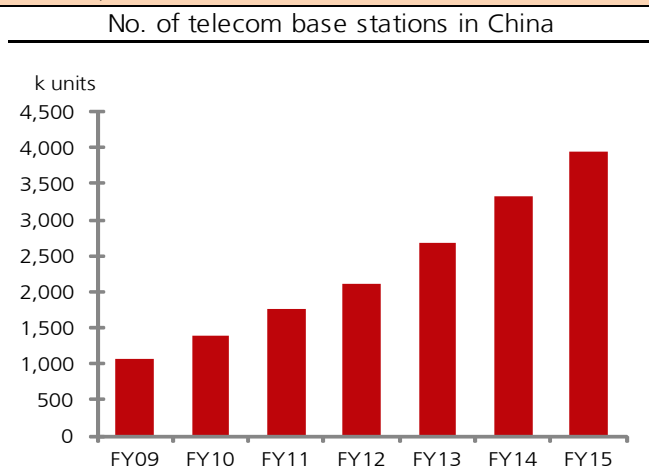
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<b>China telecom and equipment</b>		
<b>Neutral on carriers and equipment</b>	Top BUY(S): ZTE (763.HK) China Fibre Optic (3777.HK)	Least preferred: Nil

China Mobile (CM)'s launch of 4G service (based on TD-LTE) encourages existing 2G subs to upgrade to 4G directly, in the absence of mobile number portability (MNP). The 4G service has been well received compared to its 3G service, and CM is regaining consumer confidence. CM has first mover advantage, and we have remained positive on CM. On the other hand, CU is facing a bigger challenge to acquire 3G/4G subs.

Three operators are expected to transfer tower assets to the jointly and newly established towerco. The potential one off gain as well as the capex and opex savings will be positive to the sector.

CM is investing at all cost to build its 4G network over these two years. CM has built 720k 4G base stations, and targets 1m by end of FY15. CT's and CU's investment will also be more aggressive after receiving FD-LTE licenses early this year. Telecom infrastructure players are beneficiaries. We like ZTE (763 HK) and China Fiber Optic (3777 HK).



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Source: Thomson Reuters, DBS Vickers



**Sector outlooks in alphabetical order (con't)**

**Environmental  
 Overweight**

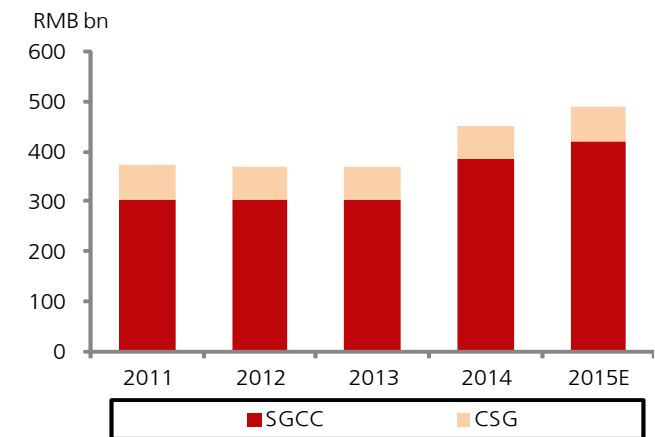
Top BUY(S): Wasion (3393.HK)  
 Jiangnan Group (1366 HK)

Least preferred: Tianjin Capital (1065.HK)

Chinese government's resolve to address its environmental issues (including water scarcity, water safety, smog and haze problems, etc.) has resulted in huge investment plans from various bureaus. Total budgeted investment in the power grid amounts to Rmb2.55trn in the 12th Five Year Plan (FYP). State Grid has plans to invest Rmb150bn in restructuring and construction the power network in 30 major cities in 2014. Total investment in waste water treatment has been raised to Rmb430m in the 12th FYP. These investments have given rise to more business opportunities for water sector, energy savings industry and clean energy sector. In addition, the recent interest rate cut by the PBOC is positive to all of the players in these sectors as they have high debt level. We like Wasion because it is poised to be re-rated along with increasing sales percentage of its total solution services. We also like Jiangnan Group because it is a key beneficiary of the accelerated development of the ultra high voltage power network and increasing demand for specialty cables.

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Investment on power grids



SGCC: State Grid Corporate of China  
 CSG: China Southern Power Grid

**Hong Kong banks**

**Neutral**

Top BUY(S): BOCHK (2388.HK)  
 HSB (11.HK)

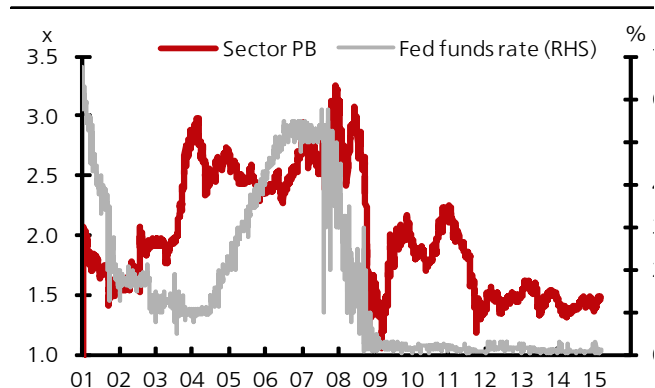
Least preferred: BEA (23.HK)

We are Neutral towards Hong Kong banks in 1H15, but will be increasingly positive in 2H15. ROE enhancement from expected US\$ interest rate hikes is closer on the horizon and can be a strong positive catalyst. Hong Kong banks have potential for large re-rating when US\$ interest rate hikes kick off, given substantial ROE and earnings enhancements. We prefer Hang Seng Bank (11.HK) and BOCHK (2388.HK) at this moment. Both banks have corporate actions (disposals of non-core businesses) that are capital enhancing and positive to dividend outlook.

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Source: Thomson Reuters, DBS Vickers

Sector P/BV vs. Fed funds rate



Sector outlooks in alphabetical order (con't)

**Hong Kong property and REITS**

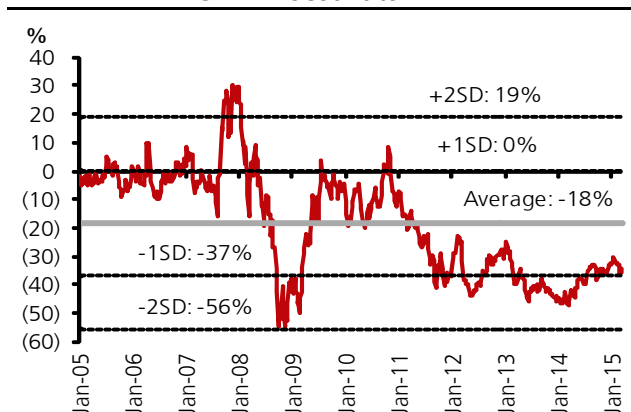
**Neutral on developers** Top BUY(S): SHKP (16.HK)

Least preferred: Hang Lung Group (10.HK)

**Underweight on REITS**

SHKP is trading at a 35% discount to our appraised current NAV. Recent project launches were greeted with positive response. This should point to better earnings visibility. Rental income is going from strength to strength. The counter should hold appeal to those seeking exposure in Hong Kong property market

SHKP Discount to NAV



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**Hong Kong telecom**

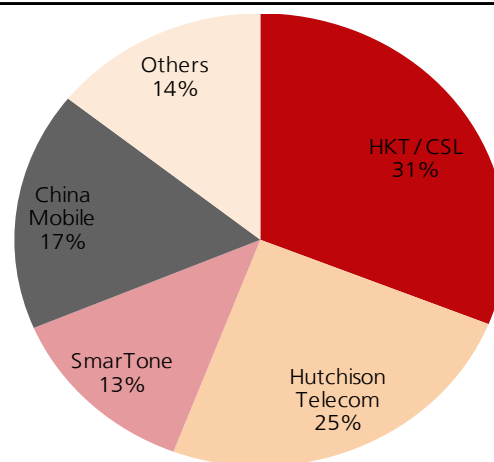
**Neutral**

Top BUY(S): Smartone(315.HK)

Least preferred: Nil

Hong Kong mobile operators raised their monthly tariffs by around HK\$30-40 in 3Q14 during the launch of the new iPhone 6 and iPhone 6 plus. We see ARPU stabilization thereafter. Strong handset sales also enhance overall performance in 2H14. We believe that Smartone (315.HK) will be a key beneficiary due to its high revenue contribution from mobile business and its exposure to high-end customers. HKT's acquisition of CSL eliminated a relatively price-aggressive mobile operator in the market. This sets the stage for a more rational mobile data monetisation in the future. Moreover, the re-auction of 2.1GHz frequency spectrum took place in Dec 2014. SMT gained an additional 10MHz spectrum, while China Mobile (HK) obtained 20MHz spectrum. The average consideration was only slightly higher than the reserve price. The overhang on losing spectrum or increase in spectrum utilization fee should be removed. We rate BUY on Smartone (315.HK), and HOLD on Hutchison Telecom (215.HK) and HKT Trust (6823.HK) on valuation ground. Note that HKBN (1310.HK), the second largest residential broadband operator, was recently listed on HKEx in Mar 2015.

Mobile market share



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Source: Thomson Reuters, DBS Vickers

**Summary of sector views (con't)**

**Pharmaceutical and healthcare**

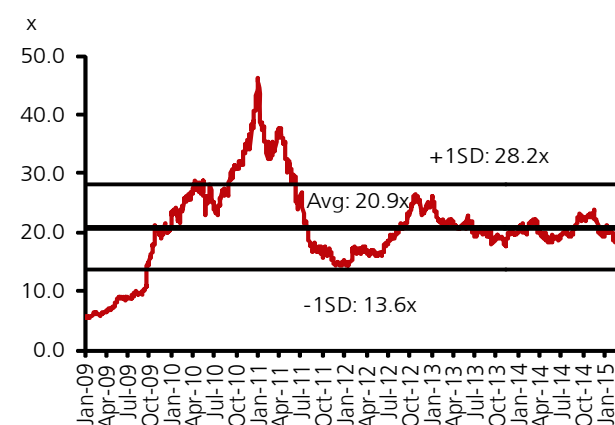
**Neutral**

Top BUY(S): Sinopharm (1099.HK)  
 Yestar (2393.HK)

Least preferred: Microport (853.HK)

Ongoing anti-corruption campaign, control on medical insurance spending, price cut (particularly generic drugs) resulted in slowdown of pharmaceutical sales growth in 2014 (from 20% in 2013 to 13% in 2014). We believe those factors will continue to affect the sector performance. However, We believe Sinopharm (1099 HK) can deliver higher-than-industry growth thanks to market share gain. Yestar (2393 HK) is developing its in-vitro diagnosis devices business which is in huge demand. Both names will be able to avoid industry risk to deliver decent earnings growth.

Sector average P/E



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**Rail and construction**

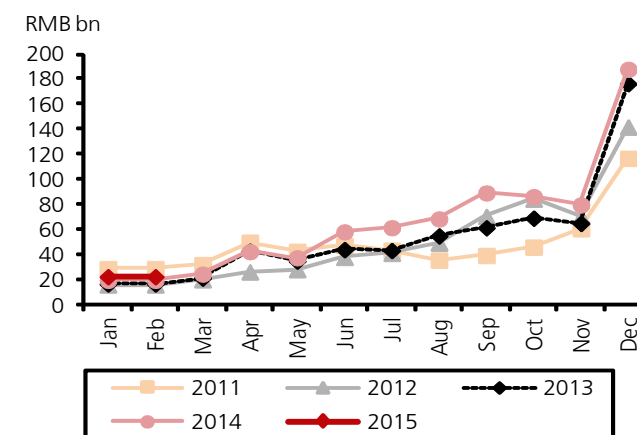
**Neutral**

Top BUY(S): n.a.

Least preferred: n.a.

The overseas drive with the proposals of new infrastructure investment bank and merger of the train makers show China's ambition to "export" its expertise in infrastructure project management. More countries are joining the Asian Infrastructure Investment Bank to tap the business potentials from emerging markets. In addition, China's railway infrastructure spending this year remains at similar level as 2014, around Rmb800bn. The positive news flows should continue to support the high valuation of the infrastructure sector. We expect infrastructure companies' orderbook to expand as more projects are being awarded. Unfortunately the sector's share prices have run up significantly to price in most positives. We still like CSR (1766.HK), CCC (1800) and CRCC's (1186.HK) outlooks, but recommend to wait for cheaper entry points

Railway FAI



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Source: Thomson Reuters, DBS Vickers

## Sector outlooks in alphabetical order (con't)

## Retailers

## Underweight

Broadly speaking, operating environment for most retailers could remain tough this year. Specifically, recent anti-parallel trade protests that popped up here and there in HK, and substantial currency depreciation in selective regions amid loosening monetary policies (e.g. Euro Zone and Japan) have drawn certain Mainland tourists out of HK/Macau, especially the bigger spenders.

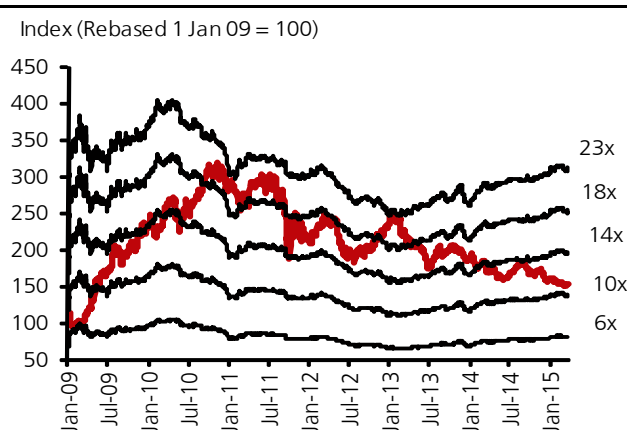
The HK "tourist plays" selling cosmetics, jewellery and watches have seen a significant fall in ticket sizes and unexciting performance so far during 1Q15. Nevertheless, their latest share price correction, some of which by >20% YTD might prompt medium-term investors to start revisiting again. We still prefer jewellery retailers (e.g. Chow Tai Fook, Luk Fook, Chow Sang Sang) given their solid consumer demand, especially from strong bridal sales commonly found in 2H of each year, and attractive valuations. Others that we like include Samsonite, with sound fundamentals, M&A potentials and good growth prospects given a recovering US, new growth drivers in Europe, and its popularity among Chinese to ride on the Mainland travel boom in coming years. Global names like Prada could also potentially look interesting over the next 12-18 months on low base.

Elsewhere, more patience might be required across department stores and hypermarket operators in China, amid intensifying competition from pure online plays and rising operating costs that could hit these segments the most. Some of them seem to offer good value at current price levels, yet catalysts are remote, perhaps except for possibility of asset-heavy retailers to start spinning off self-owned properties to try unlocking their intrinsic value.

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Source: Thomson Reuters, DBS Vickers

HK &amp; China retailers - PE bands



**Sector outlooks in alphabetical order (con't)**

**Textiles**

**Neutral**

Top BUY(S): Texhong (2678.HK)

Least preferred: Nil

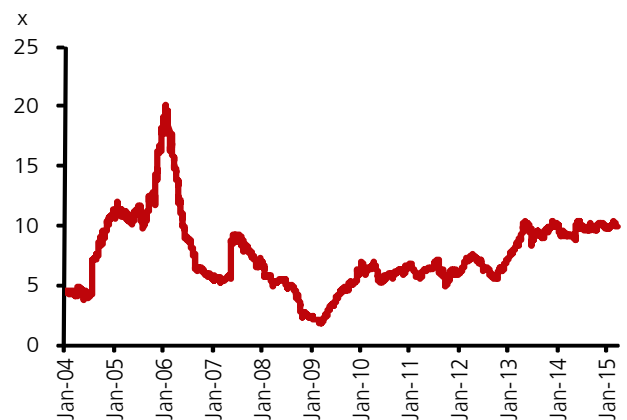
2015 looks to be a better year after a challenging 2014. Stabilized raw material prices should offer a benign operating environment.

That being said, sector leaders Shenzhou Int'l (2313) and Pacific Textiles have been trading at near peak valuations.

We believe Texhong (2678 HK) offers good risk:reward due to its eminent margin recovery.

In the long run, growth drivers such as manufacturing capacity increase in ASEAN countries remains. Upstream players such as fabric makers are preferred due to higher entry barriers.

Sector P/E ratio



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*Source: Thomson Reuters, DBS Vickers*

# China Everbright Limited (Bloomberg: 165 HK | Reuters: 0165.HK)

## BUY HK\$20.75

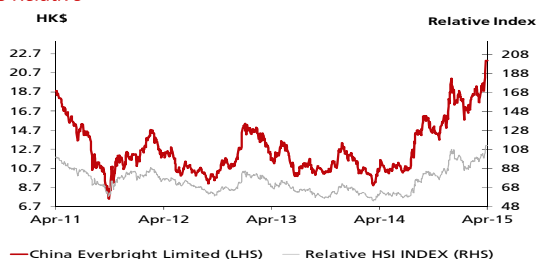
### Price Target : 12-Month HK\$ 26.89

#### Analyst

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#### Price Relative



#### Forecast & Valuation

FY Dec (HK\$ m)	2013A	2014A	2015F*	2016F*
Turnover	2,299	3,000	8,837	24,307
EBITDA	1,686	1,821	7,474	21,848
Pre-tax Profit	1,800	2,972	8,321	21,663
Net Profit	1,347	2,560	6,279	16,347
Net Pft (Pre Ex.)	1,347	2,560	6,279	16,347
EPS (HK\$)	0.78	1.51	3.73	9.70
EPS Gth (%)	18.0	93.5	146.0	160.4
Diluted EPS (HK\$)	0.78	1.51	3.73	9.70
DPS (HK\$)	0.31	0.48	4.49	10.88
BV Per Share (HK\$)	16.69	20.75	20.59	20.90
PE (X)	26.5	13.7	5.6	2.1
EV/EBITDA (X)	22.2	22.6	5.5	1.7
Net Div Yield (%)	1.5	2.3	21.6	52.4
P/Book Value (X)	1.2	1.0	1.0	1.0
Net Debt/Equity (X)	CASH	0.1	0.1	CASH
ROAE (%)	4.7	8.0	18.0	46.8

\* include gains from disposal of CEB & CES, and special dividends

Consensus EPS (HK\$):		1.67	1.78
Other Broker Recs:	B: 4	S: 0	H: 1

#### At A Glance

Issued Capital (m shrs)	1,685
Mkt. Cap (HK\$m/US\$m)	34,969 / 4,511
Major Shareholders	
China Everbright Holdings (%)	50.6
Free Float (%)	49.4
Avg. Daily Vol. ('000)	3,911

Source: Company, Thomson Reuters, HKEx, DBS Vickers

#### Profile

China Everbright Limited (CEL) is a diversified financial services company focusing on cross-border asset management in mainland China and Hong Kong. Its parent is China Everbright Group (CE Group), one of the largest state-owned financial conglomerates in China, along with CITIC Group and Ping An Group. CEL's macro asset management platform includes Primary Market Investment, Secondary Market Investment and Structured Financing & Investment. Moreover, as a substantial shareholder of China Aircraft Leasing Company (CALC, 1848 HK), CEL is actively developing an aircraft leasing business in China, Europe and emerging markets.

CEL is the second largest shareholder of Everbright Securities (CES, 601788 CH) and third largest of China Everbright Bank (CEB, 601818 CH). CEL plans to divest the remaining A-shares in CEB and CES to its parent company CE Group, likely by 2016, in order to centralise its resources to develop its core asset management businesses.

#### Valuation

Parent restructuring unlocks value; Initiate with BUY.

CEL's minority stake in CES is worth more than CEL's own market cap, but it only contributes 35% of CEL's profit in normal years. CEL is divesting its shareholding of CEB and CES to its parent CE Group, pending the SOE group's restructuring. CEL's huge discount to NPV should narrow upon completion of divestments. We also expect ROE enhancement for CEL.

Our DDM-based TP implies 30% upside from current price, even if it carries a 40% discount to CEL's NPV.

#### Rationale

##### Right place: Upbeat on China's asset management outlook

- China's growing high-net-worth population
- Disintermediation trend
- Booming capital markets
- Rmb internationalisation

##### Right time: Super beneficiary of China's capital market structural rebound

- Easier project exits for CEL's core business of primary market investment funds
- We expect 4-10 projects to kick off their divesting phase in the coming two years
- Higher market values for CEL's shares in CES and CEB

#### Risks

##### Delay in group restructuring and share divestments

- CEL's divestments of CES and CEB shares are pending CE Group's completion of restructuring, which may not be concluded in the short term, as deal negotiations may take time.

##### High exposure to property sector

- CEL has high exposure to China's property sector. Although mezzanine finance is relatively safe, these projects still face risks of property price collapse or weaker-than-expected demand.

##### Increasing competition in China

- Potential restrictions and investigations on SOE companies
- Higher offshore Rmb rate may increase CEL's funding cost

# China Merchants Bank (Bloomberg: 3968 HK | Reuters: 3968.HK)

**BUY HK\$19.28**

**Price Target : 12-Month HK\$ 22.39**

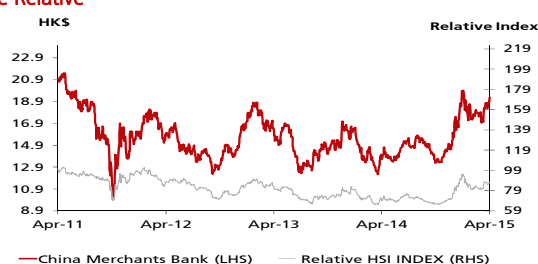
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**Price Relative**



**Forecast & Valuation**

FY Dec (RMB m)	2013A	2014A	2015F	2016F
Pre-prov. Profit	78,555	104,954	114,095	128,803
Pre-prov. Profit Gth (%)	21	34	9	13
Pretax Profit	68,425	73,431	76,194	84,765
Net Profit	51,743	55,911	58,015	64,541
EPS (RMB)	2.30	2.22	2.30	2.56
EPS (HK\$)	2.93	2.83	2.96	3.30
EPS Gth (%)	10	(4)	4	11
PE (X)	6.6	6.8	6.5	5.8
DPS (HK\$)	0.79	0.86	0.89	1.00
Div Yield (%)	4.1	4.4	4.6	5.2
BV Per Share (HK\$)	13.39	15.94	18.46	21.25
P/Book Value (x)	1.4	1.2	1.0	0.9
ROAE (%)	22.2	19.3	17.1	16.6
ROAE (ex-exceptional) (%)	22.2	19.3	17.1	16.6
ROA (%)	1.39	1.28	1.15	1.14
Consensus EPS (RMB):			2.45	2.72
Other Broker Recs:		B: 20	S: 4	H: 7

**At A Glance**

Issued Capital - H shares (m shs)	4,591
- Non H shrs (m shs)	20,629
H shs as a % of Total	18
Total Mkt. Cap (HK\$m/US\$m)	486,238 / 62,755
Major Shareholders	
China Merchants Group (%)	18.6
COSCO Group (%)	6.2
Major H Shareholders (%)	
JPMorgan Chase & Co. (%)	8.1
BlackRock, Inc. (%)	7.8
Templeton Asset Management Ltd. (%)	6.0
H Shares-Free Float (%)	78.1
Avg. Daily Vol.(‘000)	24,719

Source: Company, Thomson Reuters, HKEx, DBS Vickers

**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.

**Valuation**

We continue to like CMB as the bank is able to maintain fast growth balanced by a prudent risk policy. We believe CMB has better-than-peers ability to compete in the upcoming more liberalised market, given its strong retail franchise, better corporate governance and outstanding liquidity management. Re-rating catalysts for both CMB-A and CMB-H shares are improving asset quality signals and policies, potential launch of employee stock incentive plan, division spin-off and expansion of banks' allowed businesses.

**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.

**Risks**

**Exposure to regulatory changes, East China markets**

- Worse-than-expected asset quality due to slower domestic economic growth. The bank operates mostly in coastal areas, thus export growth is also key.
- Faster interest rate liberalisation process might cause more severe net interest margin contraction.

# China Merchants Hldgs (Bloomberg: 144 HK | Reuters: 0144.HK)

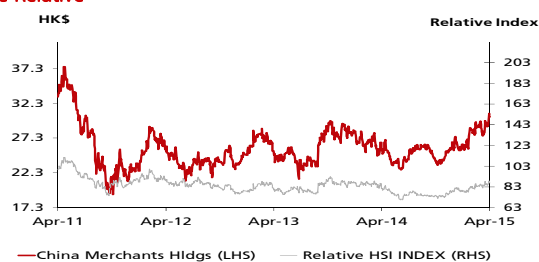
## BUY HK\$30.35

Price Target : 12-Month HK\$ 36.60

### Analyst

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### Price Relative



### Forecast & Valuation

FY Dec (HK\$ m)	2013A	2014A	2015F	2016F
Turnover	7,758	8,257	8,589	8,961
EBITDA	8,023	8,289	9,158	9,715
Pre-tax Profit	5,781	6,169	7,141	7,673
Net Profit	4,213	4,526	5,269	5,698
Net Pft (Pre Ex.)	4,213	4,526	5,269	5,698
EPS (HK\$)	1.68	1.78	2.06	2.22
EPS (HK\$)	1.68	1.78	2.06	2.22
EPS Gth (%)	9.2	5.9	15.6	8.1
Diluted EPS (HK\$)	1.68	1.47	1.72	1.86
DPS (HK\$)	0.77	0.77	0.77	0.77
BV Per Share (HK\$)	19.23	26.31	27.59	29.04
PE (X)	18.1	17.1	14.8	13.7
P/Cash Flow (X)	24.1	33.1	26.3	23.5
P/Free CF (X)	nm	nm	81.4	59.6
EV/EBITDA (X)	13.4	11.5	10.5	9.8
Net Div Yield (%)	2.5	2.5	2.5	2.5
P/Book Value (X)	1.6	1.2	1.1	1.0
Net Debt/Equity (X)	0.4	0.1	0.1	0.1
ROAE (%)	9.0	7.8	7.6	7.9
Consensus EPS (HK\$):			1.91	2.10
Other Broker Recs:	B: 14		S: 1	H: 0

### At A Glance

Issued Capital (m shrs)	2,564
Mkt. Cap (HK\$/US\$m)	77,822 / 10,038
Major Shareholders	
China Merchants Group Limited (%)	75.0
Free Float (%)	25.0
Avg. Daily Vol. ('000)	4,089

### Profile

China Merchants Holdings International is the largest public port operator in China, with throughput volume of its invested terminals in Mainland China accounting for nearly one-third of China's total container throughput. It also has port investments in HK, Taiwan, Africa and Europe. China Merchant Holdings International also has an associate stake in CIMC, the world's largest container manufacturer. It is c.56% owned by the China Merchants Group, a leading State Owned Enterprise in China.

### Valuation

Our TP of HK\$36.6 for CMHI is based on sum-of-parts valuation. Port operations are valued using a DCF methodology (7% WACC, 2% terminal growth for consolidated operations; 8.5% WACC, 2% terminal growth for associates and joint ventures) while the 25.45% stake in CIMC is valued at market price. Meanwhile, logistics, investments as well as corporate liabilities are valued at FY14 NAV.

### Rationale

#### Steady organic growth coupled with potential for acquisitions or monetisation of Qianhai land.

- We expect continued steady growth for the Group's well-diversified portfolio of port operations, with potential earnings upside to come from 1) acquisitions using its HK\$9.5bn cash hoard and 2) monetisation of its 1m-sqm land holding in the Qianhai area, which lies within the Guangdong Free Trade Zone.

#### Solid growth track record and prospects.

- CMHI has had a strong growth track record over the last decade, from growing its presence within China to currently expanding its international container terminal portfolio. We project earnings to grow at a double-digit CAGR from FY14 to FY16F.

### Risks

#### Vulnerable to potential sustained decline in throughput volumes in Western Shenzhen.

- CMHI currently derives over 1/3 of its operating earnings (including associate and JV contributions) from its port operations in Western Shenzhen, which has recently seen volumes decline in the first three months of 2014. A sustained throughput decline in this region could affect the Group's earnings.

#### Overpaying for an acquisition or buying a non-complementary business.

- The risk exists that the Group may overpay for an acquisition or buy a business that does not complement its current businesses, and destroy shareholder value.

Source: Company, Thomson Reuters, HKEx, DBS Vickers



# China Resources Land (Bloomberg: 1109 HK | Reuters: 1109.HK)

**BUY HK\$22.25**

**Price Target : 12-Month HK\$24.43**

## Analyst

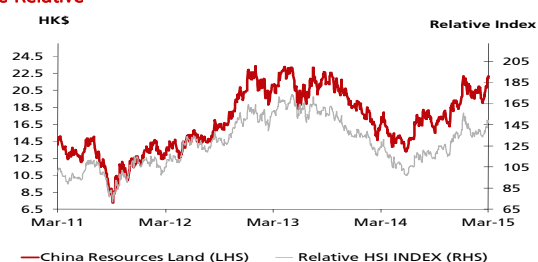
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## Price Relative



## Forecast & Valuation

FY Dec (HK\$m)	2013A	2014A	2015F	2016F
Turnover	71,389	88,381	106,603	121,200
EBITDA	24,483	27,972	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	8,746	10,489	12,028	13,646
EPS (HK\$)	2.52	2.52	1.84	2.09
EPS Gth (%)	38.6	0.0	(27.0)	13.5
DPS (HK\$)	0.44	0.50	0.50	0.56
BV Per Share (HK\$)	14.55	16.56	18.06	19.58
PE (X)	8.8	8.8	12.1	10.6
EV/EBITDA (X)	7.2	6.6	8.9	7.9
Net Div Yield (%)	2.0	2.2	2.2	2.5
P/Book Value (X)	1.5	1.3	1.2	1.1
Net Debt/Equity (X)	0.4	0.4	0.6	0.6
ROAE (%)	19.1	16.2	11.2	11.1
Consensus EPS (HK\$)			2.19	2.55
Other Broker Recs:		B: 25	S: 0	H: 4

## At A Glance

Issued Capital (m shrs)	6,531
Mkt Cap (HK\$m/US\$m)	145,311 / 18,744
Major Shareholders (%)	
China Resources (Holdings)	65.02
Free Float (%)	34.98
Avg Daily Volume (m shrs)	14.1

## Profile

China Resources Land Limited is a PRC developer focusing on nationwide residential development and shopping mall investment (MIXc and Rainbow City). As a state-owned red-chip, the company enjoys strong support from parent company through asset injection.

## Valuation

Our valuation for China Resources Land is based on a 12.4x blended FY15/16 price-earnings

## Rationale

**Decent growth driven by both property sales and rental**

- Abundant saleable resources after asset injection
- Better mix of saleable resources as well
- 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 2016

**Capital tailwinds**

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

## Risks

**Macroeconomic risk**

- If China's economy slows faster than expected and triggers a hard landing, the property sector will be affected substantially.

**Policy risk**

- Unexpected sector tightening and loosening, which is likely to trigger a sector wide re-rating or de-rating, in which bottom up research will become less important.

Source: Company, Thomson Reuters, HKEx, DBS Vickers

# Far East Horizon (Bloomberg: 3360 HK | Reuters: 3360.HK)

## BUY HK\$7.12

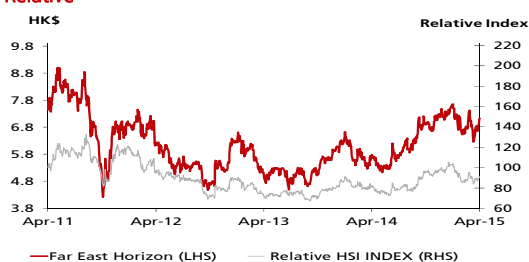
### Price Target : 12-Month HK\$ 8.40

#### Analyst

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#### Price Relative



#### Forecast & Valuation

FY Dec (RMB m)	2013A	2014A	2015F	2016F
Pre-prov. Profit	3,127	3,948	4,628	5,151
Pre-prov. Profit Gth (%)	29	26	17	11
Pretax Profit	2,601	3,211	3,758	4,324
Net Profit	1,913	2,296	2,678	3,083
EPS (RMB)	0.58	0.70	0.81	0.94
EPS (HK\$)	0.74	0.89	1.04	1.21
EPS Gth (%)	22	20	16	15
PE (X)	9.6	8.0	6.8	5.9
DPS (HK\$)	0.23	0.23	0.26	0.30
Div Yield (%)	3.2	3.2	3.7	4.2
BV Per Share (HK\$)	5.46	6.75	7.48	8.46
P/Book Value (x)	1.3	1.1	1.0	0.8
ROAE (%)	14.2	15.2	15.7	16.1
ROAE (ex-exceptional) (%)	14.2	15.2	15.7	16.1
ROA (%)	2.60	2.33	2.21	2.15

Consensus EPS (RMB):

Other Broker Recs: B: 6 S: 1 H: 1

#### At A Glance

Issued Capital (m shrs)	3,292
Mkt. Cap (HK\$/US\$m)	23,455 / 3,025
Major Shareholders	
Greatpart Limited (%)	27.9
KKR Future Holdings I Limited (%)	17.9
JPMorgan Chase & Co. (%)	10.0
Cathay Life Insurance Co., Ltd. (%)	9.0
Prime Capital Management (%)	6.1
Free Float (%)	29.1
Avg. Daily Vol. ('000)	2,877

Source: Company, Thomson Reuters, HKE, DBS Vickers

#### Profile

Far East Horizon (FEH) is the largest independent lessor in China with total assets close to Rmb100bn as at Jun 2014. It is also the second largest lessor in terms of registered capital behind ICBC Leasing. FEH has more than 20 years of experience in the leasing industry and focuses on eight industries, including healthcare, education and infrastructure construction. The company experienced rapid growth with an earnings CAGR of 31% from 2011-2013.

#### Valuation

Our DDM-TP of HK\$8.40 implies 1.12x FY15F P/BV. It is an optimal time to invest in FEH as the macro policy environment is conducive. Most importantly, the company is evolving itself into a healthcare provider to capitalise on healthcare reform opportunities. FEH's valuations are attractive when compared to global leasing peers and A/H healthcare providers. We also believe FEH deserves a trading premium over H-share banks, judging by higher earnings growth and better asset quality outlook.

#### Rationale

##### Fast lease growth

- We expect fast lease growth will continue, given China's low lease penetration ratio, industrial upgrading and New Silk Road plan.

##### Positive policy environment

- More supportive regulatory environment will promote lease development

##### Hospital management has great potential amid healthcare reform

- Hospital management will provide another leg of growth and improve ROA

##### Less bad debt headwind

- We see less asset quality pressure for FEH compared to banks

#### Risks

##### Competition risk

- Increasing competition from bank-affiliated leasing companies and new entrants may put pressure on pricing

##### Asset quality risk

- Asset quality may deteriorate if China's macro economy worsens

##### Currency risk

- Rmb depreciation and US interest hike may lift funding cost and eat into earnings

##### Execution risk

- Execution risk during expansion into new sectors and hospital acquisitions

# Haier Electronics (Bloomberg: 1169 HK | Reuters: 1169.HK)

**BUY HK\$20.75**

**Price Target : 12-Month HK\$ 27.78**

**Analyst**

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**Price Relative**



**Forecast & Valuation**

FY Dec (RMB m)	2014A	2015F	2016F	2017F
Turnover	67,134	74,854	83,350	92,679
EBITDA	3,279	4,040	4,806	5,661
Pre-tax Profit	3,166	3,805	4,551	5,368
Net Profit	2,447	2,906	3,434	3,997
Net Pft (Pre Ex.)	2,447	2,906	3,434	3,997
EPS (RMB)	1.02	1.21	1.43	1.67
EPS (HK\$)	1.28	1.52	1.79	2.09
EPS Gth (%)	20.1	18.8	18.2	16.4
Diluted EPS (HK\$)	1.08	1.29	1.49	1.73
DPS (HK\$)	0.12	0.15	0.17	0.20
BV Per Share (HK\$)	6.00	7.39	9.06	10.97
PE (X)	16.3	13.7	11.6	10.0
P/Cash Flow (X)	13.7	12.5	10.9	9.3
P/Free CF (X)	19.1	20.3	17.3	14.3
EV/EBITDA (X)	9.2	7.8	6.3	5.0
Net Div Yield (%)	0.6	0.7	0.8	1.0
P/Book Value (X)	3.5	2.8	2.3	1.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	25.5	22.7	21.8	20.8
Consensus EPS (RMB):		1.04	1.21	1.45
Other Broker Recs:		B: 9	S: 0	H: 0

**At A Glance**

Issued Capital (m shrs)	2,693
Mkt. Cap (HK\$m/US\$m)	55,920 / 7,213
Major Shareholders	
Haier Group Corporation (%)	58.7
CAP III AIV (Cayman), L.P. (%)	5.2
Free Float (%)	36.0
Avg. Daily Vol. ('000)	2,901

Source: Company, Thomson Reuters, HKEx, DBS Vickers

**Profile**

Haier Electronics stands as the leading washing machine / water heater manufacturer in China. Since 2010, the company has expanded downstream to operate distribution, logistics and after-sales services to expedite growth.

**Valuation**

Our target price is based on 19x 12-mth rolling ex-cash price to earnings ratio (PE) on a fully diluted basis.

**Rationale**

**Expanded into downstream for better growth prospects**

- Haier has increasingly expanded into downstream for better growth prospects. Riding on its unparalleled network in the rural markets, we believe the company stands to be a long-term winner in this area.

**Investment by Alibaba Group**

- Alibaba Group's recent strategic investment could also enhance the company's e-commerce outlook.

**Risks**

**Slowdown in demand, fluctuations in raw material prices, weak property market**

- Unexpected slowdown in the demand for white goods; fluctuations in raw material prices such as steel and plastic; potentially weakened China property sales development.

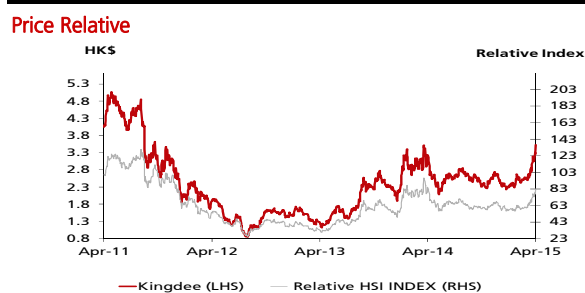
# Kingdee (Bloomberg: 268 HK | Reuters: 0268.HK)

## BUY HK\$3.53

Price Target : 12-Month HK\$ 3.20

### Analyst

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### Forecast & Valuation

FY Dec (RMB m)	2013A	2014A	2015F	2016F
Turnover	1,602	1,547	1,742	1,954
EBITDA	529	571	644	744
Pre-tax Profit	137	226	315	403
Net Profit	126	197	268	344
Net Pft (Pre Ex.)	126	197	268	344
EPS (RMB)	0.05	0.08	0.10	0.13
EPS (HK\$)	0.06	0.10	0.13	0.16
EPS Gth (%)	N/A	53.7	34.7	26.6
Diluted EPS (HK\$)	0.06	0.09	0.12	0.16
DPS (HK\$)	0.00	0.01	0.02	0.02
BV Per Share (HK\$)	0.86	0.97	1.07	1.20
PE (X)	56.4	36.7	27.2	21.5
P/Cash Flow (X)	17.2	14.3	14.2	12.4
P/Free CF (X)	25.8	16.5	16.5	14.0
EV/EBITDA (X)	14.6	13.2	11.5	9.7
Net Div Yield (%)	0.0	0.4	0.5	0.7
P/Book Value (X)	4.1	3.7	3.3	2.9
Net Debt/Equity (X)	0.3	0.1	0.0	CASH
ROAE (%)	7.6	10.5	12.7	14.4
Consensus EPS (RMB):			0.10	0.12
Other Broker Recs:		B: 6	S: 1	H: 0

### At A Glance

Issued Capital (m shrs)	2,577
Mkt. Cap (HK\$m/US\$m)	9,103 / 1,174
Major Shareholders	
Xu Shao Chun (%)	30.8
FIL Limited (%)	10.1
FMR LLC (%)	8.1
Credit Suisse Group AG (%)	8.0
Free Float (%)	69.3
Avg. Daily Vol. ('000)	17,746

Source: Company, Thomson Reuters, HKEx, DBS Vickers

### Profile

Kingdee is the second largest Chinese provider of ERP software in China with a focus on small and medium enterprises

### Valuation

We have a BUY recommendation on the stock based on 25x FY15 price earnings ratio

### Rationale

#### Continued upside for business software in China

- The enterprise resource planning (ERP) industry is expected to grow by double-digits each year driven by the increasing penetration or adoption in China. Kingdee will accelerate cloud and mobile application developments on top of its traditional ERP products. We expect benefits from operating leverage to flow through, resulting in margin expansion over the next two to three years.

### Risks

#### Cyclical uncertainties

- Product demand slow down due to poor economic activity.

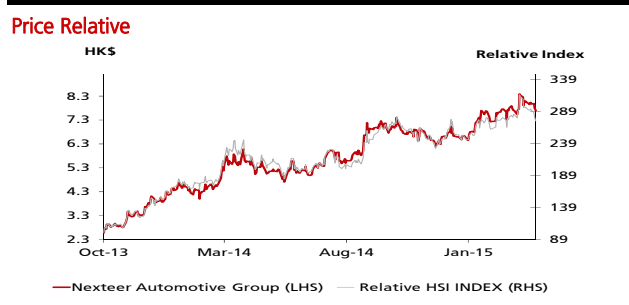
# Nexteer Automotive (Bloomberg: 1316 HK | Reuters: 1316.HK)

**BUY HK\$7.69**

**Price Target : 12-Month HK\$ 9.30**

**Analyst**

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**Forecast & Valuation**

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)	17.0	15.4	11.9	9.6
P/Cash Flow (X)	8.3	9.8	7.6	6.7
P/Free CF (X)	35.7	28.0	14.2	9.2
EV/EBITDA (X)	9.3	8.0	6.8	5.3
Net Div Yield (%)	1.2	1.3	1.7	2.1
P/Book Value (X)	3.3	3.6	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	0.10
Other Broker Recs:	B: 7		S: 0	H: 1

**At A Glance**

Issued Capital (m shrs)	2,498
Mkt. Cap (HK\$m/US\$m)	19,208 / 2,478
Major Shareholders	
Aviation Industry Corporation of China (%)	67.3
Mondrian Investment Partners Limited (%)	7.0
Free Float (%)	25.7
Avg. Daily Vol.('000)	2,052

Source: Company, Thomson Reuters, HKEx, DBS Vickers

**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.

**Valuation**

Strong orders on hand provide delivery visibility and support earnings growth. Based on its earnings outlook and growth momentum, we arrived at our TP based on FY15 earnings, pegged to 15x PE.

**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

**Risks**

**Product recalls**

- May result in high warranty liability

**Currency fluctuation**

- Affects overall profitability from its overseas business

**Rise in raw material costs**

- Profit margin compression

# Sinopharm Group (Bloomberg: 1099 HK | Reuters: 1099.HK)

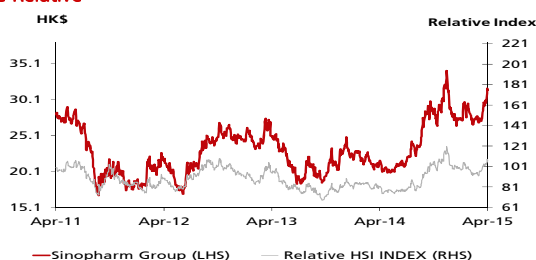
## BUY HK\$31.40

Price Target : 12-Month HK\$ 34.50

### Analyst

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mark\_kong@hk.dbsvickers.com

### Price Relative



### Forecast & Valuation

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	7,155	8,660	10,600
Net Profit	2,875	3,466	4,194	5,131
Net Pft (Pre Ex.)	2,875	3,467	4,196	5,134
EPS (RMB)	1.14	1.25	1.52	1.85
EPS (HK\$)	1.43	1.57	1.90	2.32
EPS Gth (%)	27.8	9.9	21.0	22.3
Diluted EPS (HK\$)	1.43	1.57	1.90	2.32
DPS (HK\$)	0.38	0.42	0.51	0.63
BV Per Share (HK\$)	13.58	13.60	15.07	16.88
PE (X)	22.0	20.0	16.6	13.5
P/Cash Flow (X)	11.4	20.0	22.0	25.0
P/Free CF (X)	66.8	36.2	39.6	50.6
EV/EBITDA (X)	9.3	8.6	7.5	6.8
Net Div Yield (%)	1.2	1.3	1.6	2.0
P/Book Value (X)	2.3	2.3	2.1	1.9
Net Debt/Equity (X)	0.3	0.3	0.3	0.4
ROAE (%)	11.7	12.1	13.2	14.5
Consensus EPS (RMB):		1.29	1.56	1.87
Other Broker Recs:		B: 12	S: 0	H: 4

### At A Glance

Issued Capital - H shares (m shs)	1,193
- Non H shrs (m shs)	1,574
H shs as a % of Total	43
Total Mkt. Cap (HK\$m/US\$m)	86,887 / 11,214
Major Shareholders	
CNPCC (%)	56.9
Major H Shareholders (%)	
JPMorgan Chase & Co. (%)	10.0
OppenheimerFunds, Inc (%)	10.1
BlackRock, Inc. (%)	8.1
Matthews International Capital Mgmt,	6.0
Mirae Asset Global Inv. (HK) Ltd. (%)	5.9
H Shares-Free Float (%)	59.9
Avg. Daily Vol. ('000)	5,654

Source: Company, Thomson Reuters, HKEx, DBS Vickers

### Profile

The largest pharmaceutical distributor in China

### Valuation

Our TP of HK\$34.5 is based on 22x 15F PE, representing 10% premium to healthcare sector average (20x). It deserves a premium because 1) faster-than-industry sales growth; 2) its parent company (China National Pharmaceutical Group Corp) has been chosen by the central government to carry out reforms for major subsidiaries to strengthen its operations. Announcements of any progress can be a share price catalyst.

### Rationale

#### Solid earnings growth

- Revenue increase
- Operating cost % in sales drop

### Risks

#### Price cut and high gearing

- This company is vulnerable to a fall in the price of its products.
- High gearing

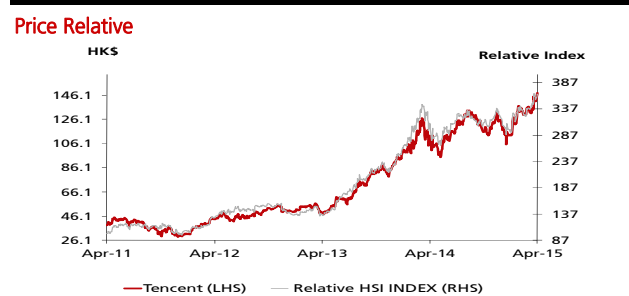
# Tencent (Bloomberg: 700 HK | Reuters: 0700.HK)

**BUY HK\$148.00**

Price Target : 12-Month HK\$ 163.45

**Analyst**

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**Forecast & Valuation**

FY Dec (RMB m)	2014A	2015F	2016F	2017F
Turnover	78,932	98,942	124,536	157,629
EBITDA	31,652	41,324	52,521	65,814
Pre-tax Profit	29,013	36,076	46,727	59,393
Net Profit	23,810	29,518	38,467	48,894
Net Pft (Pre Ex.)	24,224	32,880	42,296	53,305
EPS (RMB)	2.60	3.22	4.20	5.34
EPS (HK\$)	3.25	4.03	5.25	6.68
EPS Gth (%)	53.6	24.0	30.3	27.1
Diluted EPS (HK\$)	3.14	3.89	5.07	6.45
DPS (HK\$)	0.44	0.55	0.72	0.91
BV Per Share (HK\$)	10.75	14.19	18.67	24.36
PE (X)	45.5	36.7	28.2	22.2
P/Cash Flow (X)	33.1	30.4	23.6	18.8
P/Free CF (X)	39.9	37.0	28.0	22.0
EV/EBITDA (X)	32.6	24.5	18.9	14.6
Net Div Yield (%)	0.3	0.4	0.5	0.6
P/Book Value (X)	13.8	10.4	7.9	6.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	34.5	31.8	31.5	30.5
Consensus EPS (RMB):		3.32	4.37	5.34
Other Broker Recs:		B: 39	S: 0	H: 1

**At A Glance**

Issued Capital (m shrs)	9,373
Mkt. Cap (HK\$m/US\$m)	1,388,011 / 179,040
Major Shareholders	
Naspers Limited (%)	33.6
Ma Huateng (%)	10.2
JPMorgan Chase & Co. (%)	6.3
Zhang Zhidong (%)	6.2
Free Float (%)	43.8
Avg. Daily Vol.('000)	21,285

Source: Company, Thomson Reuters, HKEx, DBS Vickers

**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 large active user base for Weixin and Mobile QQ platforms, offering good monetization potential.

**Valuation**

We benchmark our Target Price for Tencent at 0.9x core PEG, or 32x 12-month rolling core PE.

**Rationale**

**Leading online game player**

- Tencent enjoys leading positions in client games and web games, and it has increasingly focused on the mobile game segment leveraging on its Weixin and Mobile QQ platforms.

**Online ads segment drives growth**

- Leveraging on its “Guangdiantong” ads system, Tencent could offer more performance-based ads on its key platforms, so as to enhance sales growth and profitability ahead.

**Risks**

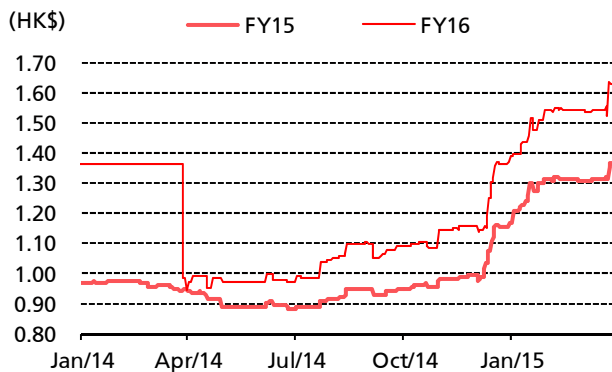
**User experience is the key**

- Potential downside could include unsuccessful monetization efforts on Weixin and Mobile QQ that could affect user experience.

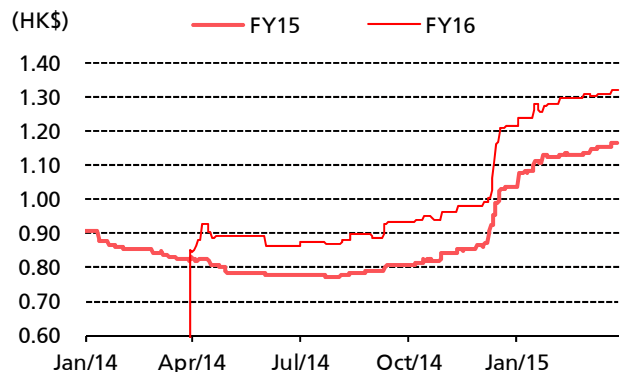
Strategy Update

Appendix: Best EPS revisions among index stocks in 1Q15

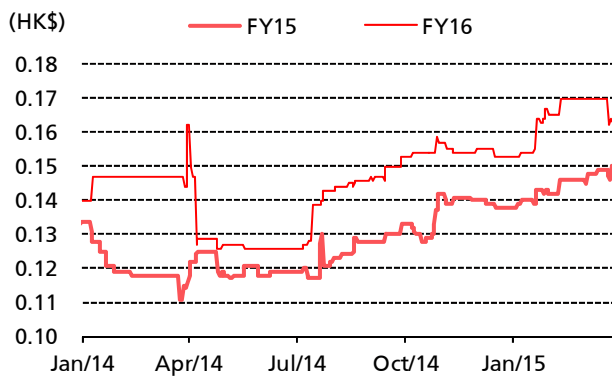
Consensus earnings revisions for Citic Sec (6030.HK)



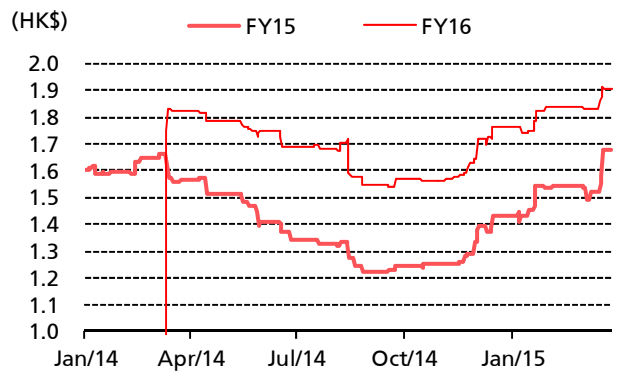
Consensus earnings revisions for Haitong Sec (6837.HK)



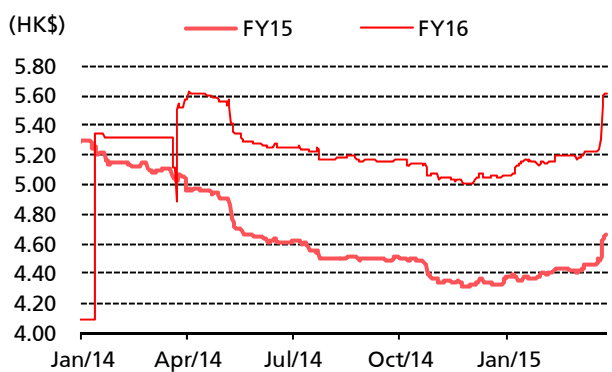
Consensus revisions for Zijin Mining (2899.HK)



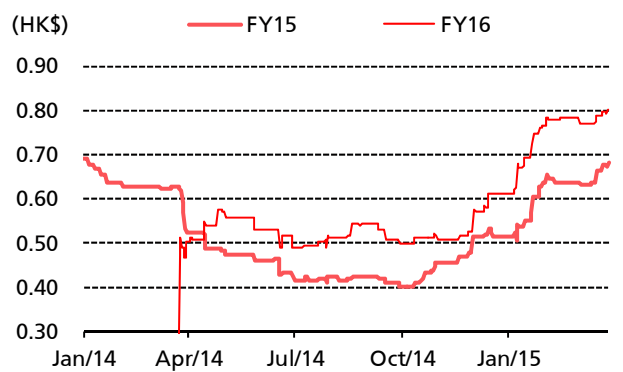
Consensus earnings revisions for Cathay Pac (293.HK)



Consensus revisions for Greatwall (2333.HK)



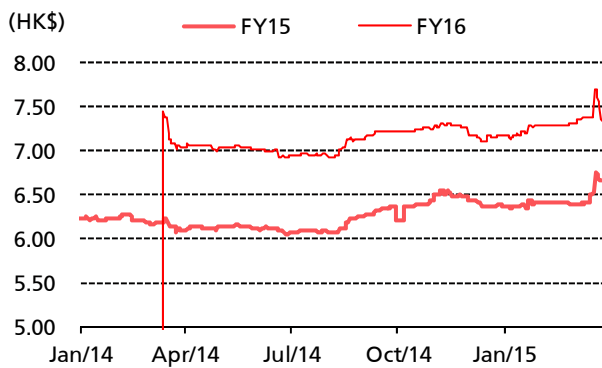
Consensus earnings revisions for Air China (753.HK)



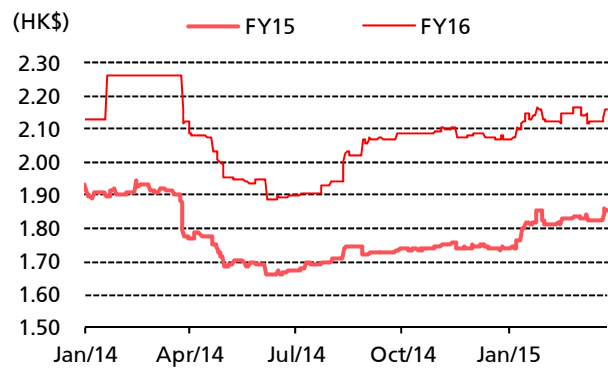
Sources: Bloomberg Finance L.P., DBS Vickers



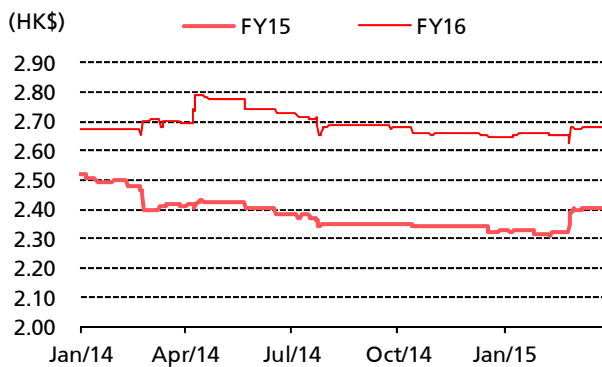
**Consensus earnings revisions for Ping An (2318.HK)**



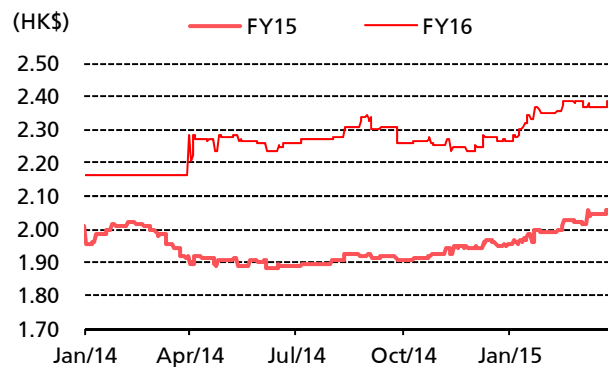
**Consensus earnings revisions for China Life (2628.HK)**



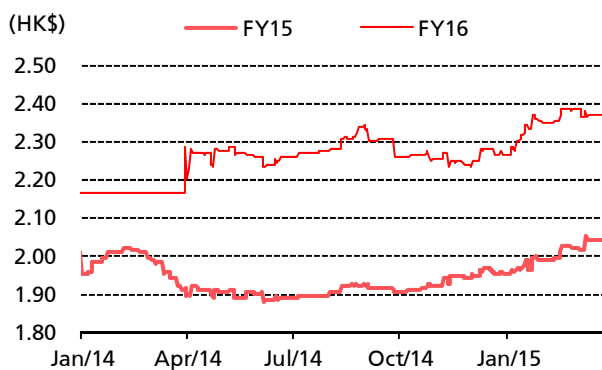
**Consensus revisions for AIA (1299.HK)**



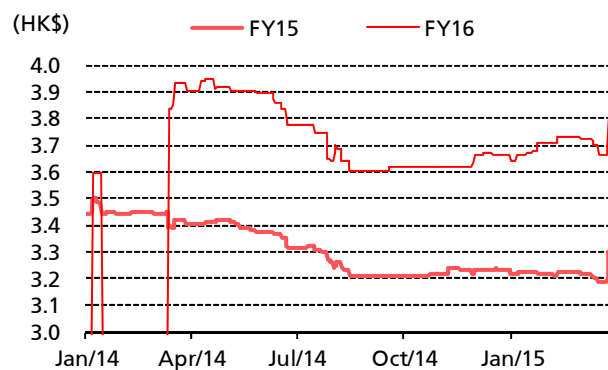
**Consensus earnings revisions for CPIC (2601.HK)**



**Consensus revisions for NCI (1336.HK)**



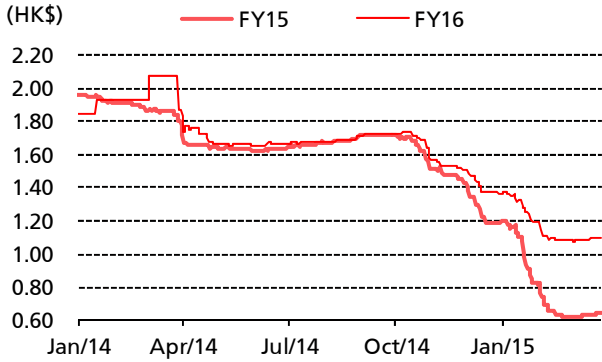
**Consensus earnings revisions for COLI (688.HK)**



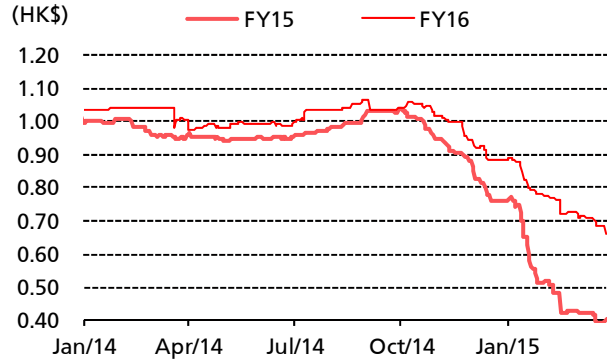
Sources: Bloomberg Finance L.P., DBS Vickers

Appendix: Worst EPS revisions among index stocks in 1Q15

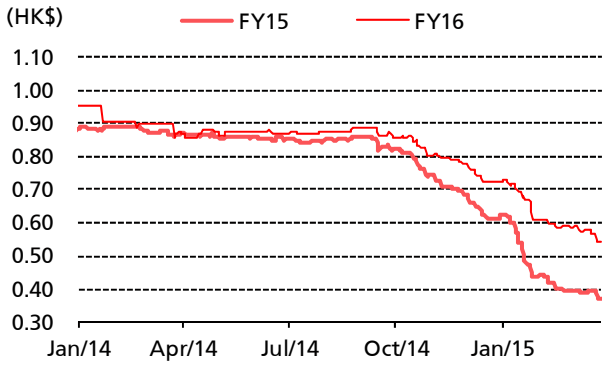
Consensus earnings revisions for CNOOC (883.HK)



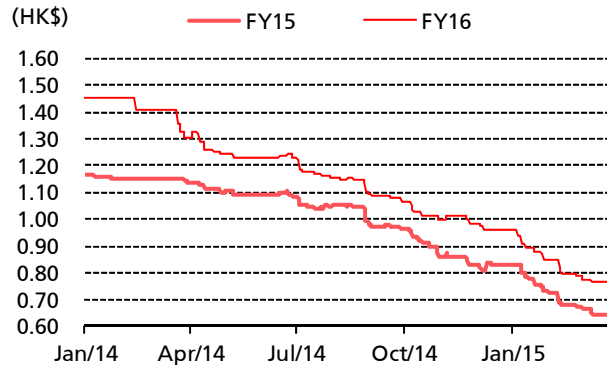
Consensus earnings revisions for Petrochina (857.HK)



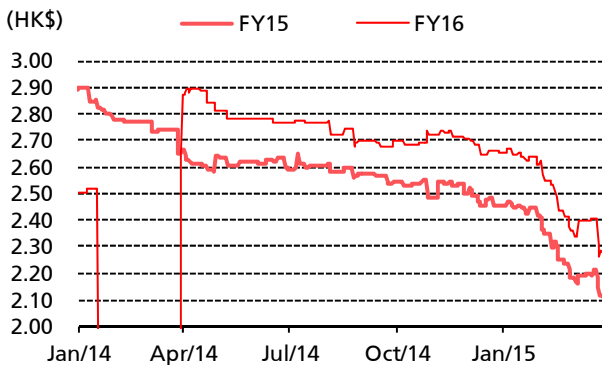
Consensus earnings revisions for Sinopec (386.HK)



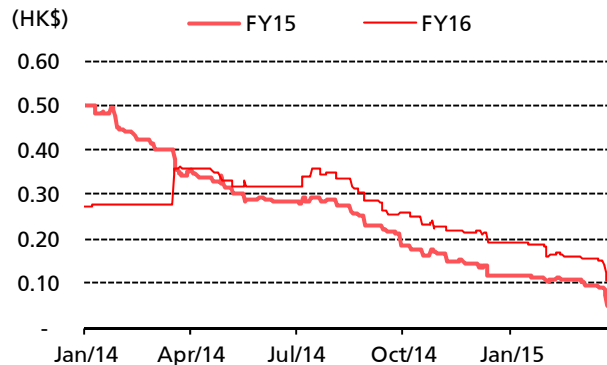
Consensus earnings revisions for Kunlun Energy (135.HK)



Consensus earnings revisions for Shenhua (1088.HK)

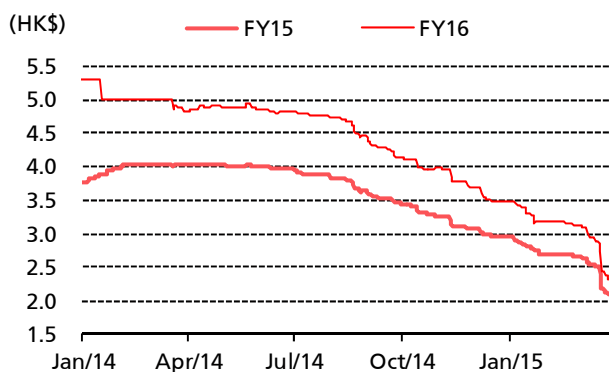


Consensus earnings revisions for China Coal (1898.HK)

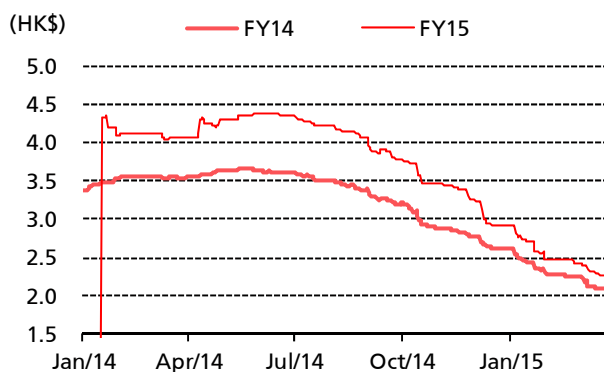


Sources: Bloomberg Finance L.P., DBS Vickers

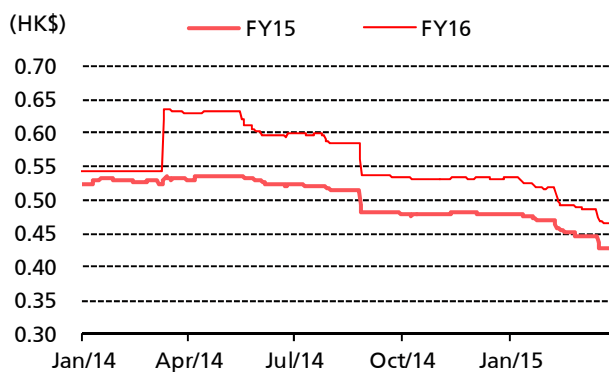
**Consensus earnings revisions for Galaxy (27.HK)**



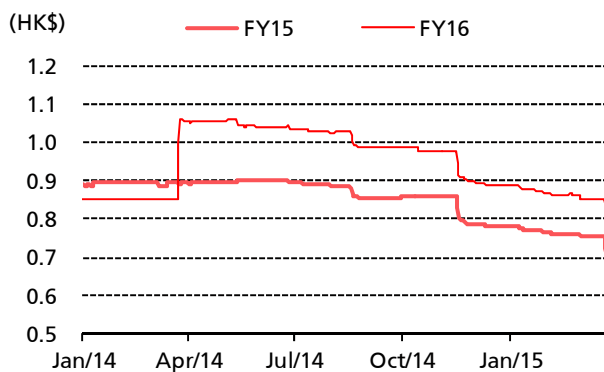
**Consensus earnings revisions for Sands (1928.HK)**



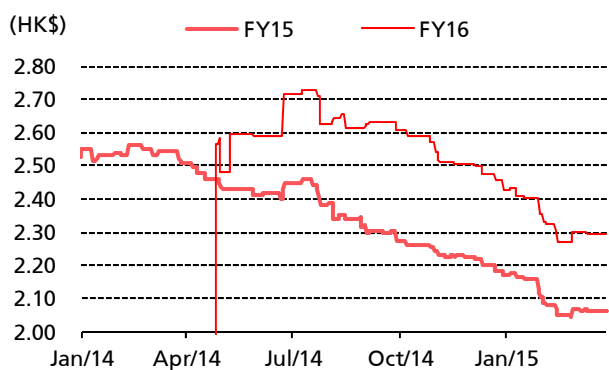
**Consensus revisions for Want Want (151.HK)**



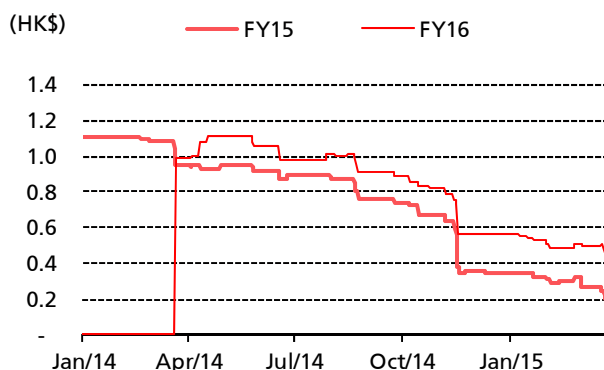
**Consensus earnings revisions for Tingyi (322.HK)**



**Consensus earnings revisions for Tsingtao (168.HK)**



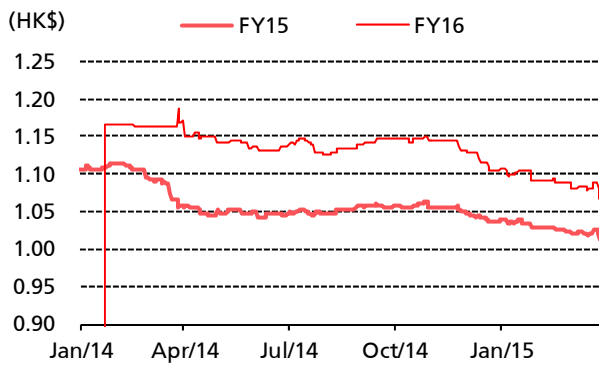
**Consensus revisions for China Resources (291.HK)**



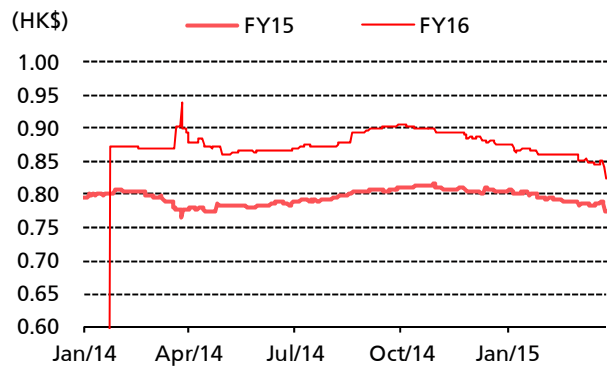
Sources: Bloomberg Finance L.P., DBS Vickers

Strategy Update

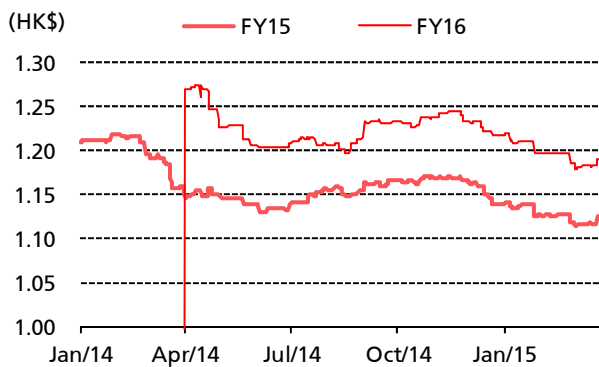
Consensus earnings revisions for ICBC (1398.HK)



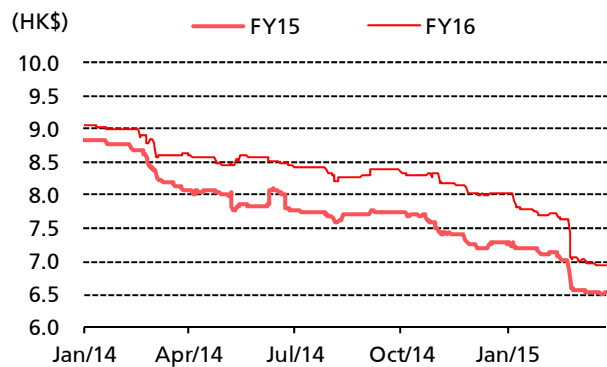
Consensus earnings revisions for BOC (3988.HK)



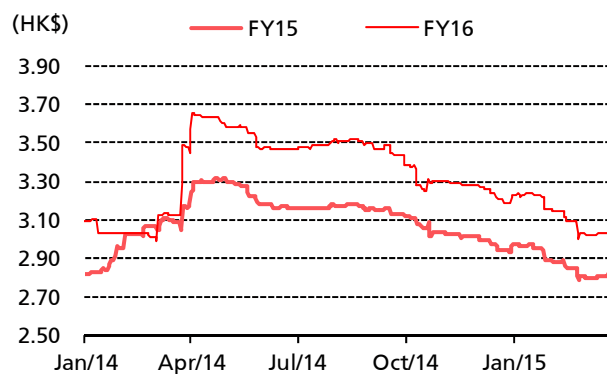
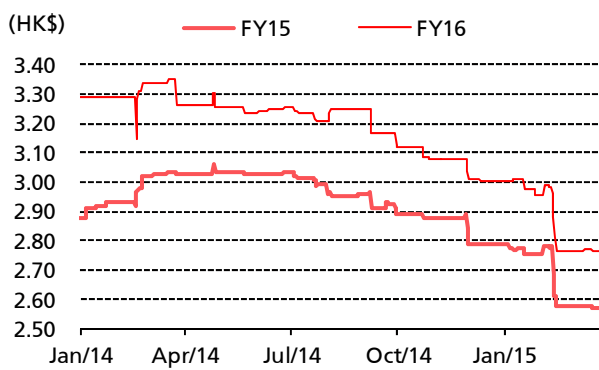
Consensus revisions for BoCom (3328.HK)



Consensus earnings revisions for HSBC (5.HK)

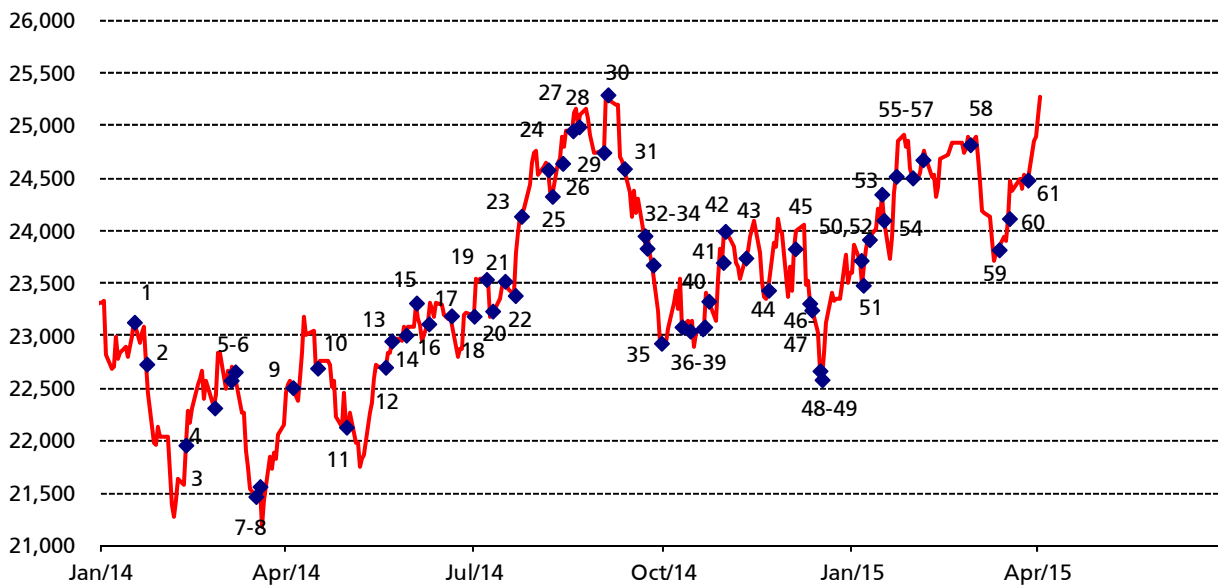


Consensus earnings revisions for Bank of East Asia (23.HK) Consensus revisions for Anhui Conch (914.HK)



Sources: Bloomberg Finance L.P., DBS Vickers

Appendix: HSI and news flow



#	Date	News or datapoint
1	1/17/2014	Market talk of potential default on Zhenfu trust products pick up
2	1/23/2014	Market flash manufacturing PMI dipped below 50 to 49.6
3	2/11/2014	China exports grew 10.6% vs. forecasts of 0.1%
4	2/25/2014	CNY depreciated sharply from 6.095 to 6.12
5	3/5/2014	Chaori Solar warns it may miss bond payment
6	3/7/2014	Large disappointment in China exports, which declined 18.1% y-o-y
7	3/17/2014	Crimean parliament asked to separate from Ukraine to join Russian Federation
8	3/19/2014	Yuebao size grew to Rmb500bn, raising concerns for bank deposit growth
9	4/4/2014	HKEX announced mutual market access proposed scheme
10	4/16/2014	China 1Q GDP of 7.4% slightly beat estimates of 7.3%
11	4/30/2014	CNY reached a 2014 low at 6.267
12	5/19/2014	China issued Document 140 to regulate interbank / shadow banking business
13	5/22/2014	HSBC Flash PMI surprised by rising to 49.7 from 48.1
14	5/29/2014	China urges local governments to quicken spending
15	6/3/2014	PBOC cuts RRR by 50bps for selective banks; PBOC relending facility for SMEs
16	6/9/2014	China export growth rebounded to 7%, above forecasts
17	6/20/2014	HSBC Flash PMI surprised by rising to 50.8
18	7/1/2014	HKMA began to defend HK\$ peg with injections to meet demand
19	7/7/2014	China extends relending facility for building affordable housing
20	7/10/2014	Irregularities found in accounts of Portugal's biggest listed bank
21	7/16/2014	China's 2Q GDP growth was slightly above estimates at 7.5%
22	7/21/2014	Suzhou and Wuhan loosen HPR policies
23	7/24/2014	HSBC Flash PMI surprised by rising to 52
24	8/6/2014	Russia imposed sanctions on Western food imports
25	8/8/2014	July China export was much better than forecast; US bombs Iraq targets
26	8/13/2014	July TSF and new loan were way below estimates
27	8/18/2014	China FDI in July disappointed
28	8/21/2014	HSBC flash PMI disappointed at 50.3 vs. 51.7 in prior month and forecast of 51.5
29	9/2/2014	Occupy Central downsizing; Big 4 banks Aug loan rebound; Ukraine ceasefire
30	9/4/2014	ECB announced fresh measures including rate cuts and buying ABS

Source: Thomson Reuters, DBS Vickers

## Appendix: HSI and news flow (con't)

#	Date	News or datapoint
31	9/12/2014	Disappointing TSF and industrial production data
32	9/22/2014	HK university students begin week-long boycott of classes for Suffrage
33	9/23/2014	HSBC flash PMI surprised positively after gaining from 50.2 to 50.5
34	9/26/2014	Police fires tear gas at demonstrators on the 28th, a Sunday night
35	9/30/2014	China loosens mortgage policies by expanding pool of eligible buyers
36	10/10/2014	Agile confirms chairman is under house custody
37	10/14/2014	1st batch of Chinese brokers receive approval for Southbound stock connect
38	10/20/2014	PBOC said planning to inject Rmb200bn into joint stock banks
39	10/21/2014	China 3Q GDP slowed to 7.3% but beat forecasts of 7.2%; Gov-student talks in HK
40	10/23/2014	HSBC CH manufacturing flash PMI improved to 50.4 and beat forecasts
41	10/30/2014	US 3Q GDP beat forecasts and grew 3.5%
42	10/31/2014	Bank of Japan expands liquidity pumping
43	11/10/2014	HKEX announced SH-HK stock connect will begin on 17 November
44	11/21/2014	PBOC announced benchmark interest rate cuts
45	12/4/2014	CBRC sought feedback on draft rules for WMPs; allows indirect equity investments
46	12/11/2014	Police oversee clearing of main Occupy protest site in Admiralty
47	12/12/2014	Nov Rmb loans topped expectations at Rmb853bn vs. forecasts of Rmb655bn
48	12/16/2014	Russian Ruble crashes on Black Tuesday
49	12/17/2014	China Securities Journal reported China may ease LDR ratio requirement
50	1/5/2015	Premier Li Keqiang said Shenzhen-HK stock connect should be next
51	1/6/2015	HKEX said it would allow short selling for northbound SH-HK trades in near future
52	1/9/2015	CK and Hutchison announced restructuring
53	1/15/2015	Swiss Franc abandons Euro cap
54	1/16/2015	Large Chinese brokers penalized for breaching margin financing rules
55	1/22/2015	Draghi announced EUR 1trn QE for the Eurozone from Mar'15 to Sept'16
56	1/30/2015	Minsheng Bank's president resigns after corruption investigation reports
57	2/4/2015	50bps RRR cut and an additional 50bps cut for qualified lenders
58	2/27/2015	China cut benchmark rates by 25bps
59	3/13/2015	China's NPC ends with focus on quality growth in China's new normal
60	3/18/2015	Fed minutes indicate a still patient approach to rate hikes
61	3/27/2015	CSRC allows China mutual funds to invest in HK stocks through SH-HK stock connect

Source: Thomson Reuters, DBS Vickers

Appendix: DBSV universe comparison table

DBSV universe comparison table

Stock code	Stock name	Mkt Cap (US\$m)	Share Price (HK\$)	Target Price (HK\$)	upside (%)	Remd	PE (x) 14F	PE (x) 15F	PB (x) 14F	Yld (%) 14F	ROE (%) 14F
<b>Auto manufacturers &amp; dealers</b>											
1114	Brilliance China	9,997	15.42	15.30	-1	H	11.5	10.7	3.7	0.7	36.1
1728	China ZhengTong	1,186	4.16	5.50	32	B	9.1	6.8	0.9	2.4	10.2
1828	Dah Chong Hong	974	4.12	5.08	23	B	10.1	7.3	0.8	3.9	8.2
489	Dongfeng Motor Group	14,360	12.92	15.70	22	B	7.6	6.5	1.2	1.7	17.4
175	Geely Automobile	4,757	4.19	3.70	-12	H	20.8	12.0	1.7	0.6	8.6
2333	Great Wall Motor	21,468	54.70	48.10	-12	H	16.6	12.2	4.0	1.8	26.2
601633	Great Wall Motor-A @@@	20,185	51.43	49.65	-3	H	19.5	14.6	4.7	1.9	26.2
2238	Guangzhou Automobile	6,633	7.99	8.30	4	B	11.9	9.0	1.2	2.3	10.1
425	Minth Group	2,269	16.00	19.10	19	B	12.5	11.1	1.7	3.2	14.2
1316	Nexteer Automotive Group	2,581	8.01	9.30	16	B	16.9	13.0	3.7	1.2	24.1
1148	Xinchen China Power Hldgs	508	3.06	4.40	44	B	11.6	8.5	1.3	0.0	11.7
881	ZhongSheng	1,481	5.35	6.70	25	B	12.2	7.2	0.8	1.6	7.7
<b>Banking and Finance (China-A) @@@</b>											
601288	Agricultural Bank of China-A	138,455	3.65	3.27	-10	H	6.6	6.6	1.1	5.0	19.2
601988	Bank of China-A	26,315	4.36	4.05	-7	H	7.2	7.4	1.2	4.4	17.0
601328	Bank of Comm-A	61,119	6.38	6.33	-1	H	7.2	7.2	1.0	4.2	14.8
601998	China CITIC Bank-A	44,361	7.35	5.62	-24	S	8.4	7.7	1.3	2.3	1.0
601939	China Construction Bank-A	197,055	6.11	6.17	1	H	6.7	6.5	1.2	4.9	19.7
600036	China Merchants Bank-A	50,947	15.66	17.77	13	B	6.6	6.2	1.3	4.5	20.6
600016	China Minsheng Bank-A	42,603	9.67	9.12	-6	FV	7.1	6.4	1.4	1.4	21.1
601398	ICBC-A	222,984	4.85	5.30	9	B	6.2	6.1	1.1	5.3	19.7
<b>Banking and Finance (China)</b>											
1288	Agricultural Bank of China	162,983	3.89	4.12	6	H	5.5	5.5	1.0	6.0	19.2
3988	Bank of China	175,448	4.62	5.08	10	B	6.0	6.1	1.0	5.3	17.0
3328	Bank of Communications	64,760	6.76	7.91	17	B	6.0	5.9	0.8	5.1	14.8
998	China CITIC Bank	36,032	5.97	7.08	19	B	5.4	5.3	0.8	0.0	16.8
939	China Construction Bank	211,568	6.56	7.72	18	B	5.6	5.5	1.0	5.9	19.7
605	China Financial Services	261	0.59	0.90	53	B	6.2	5.1	0.8	2.4	14.0
3968	China Merchants Bank	64,156	19.72	22.39	14	B	7.0	6.7	1.2	4.3	19.3
1988	China Minsheng Bank	42,824	9.72	11.41	17	B	5.6	5.0	1.1	1.8	21.1
3618	Chongqing Rural Bank	6,262	5.22	5.69	9	B	5.6	5.0	0.9	4.9	17.6
1398	ICBC	268,960	5.85	6.41	10	B	5.8	5.7	1.1	5.6	19.7
<b>Banking and Finance (HK)</b>											
2388	Bank of China HK	38,325	28.10	26.40	-6	B	11.7	10.6	1.7	3.4	15.3
23	Bank of East Asia	10,416	30.90	33.50	8	H	11.3	10.6	1.1	3.8	9.8
165	China Everbright Ltd	4,783	22.00	26.89	22	B	14.5	5.9	1.1	2.2	8.0
2356	Dah Sing Banking Group	2,474	13.68	14.90	9	B	9.6	9.0	1.0	2.5	10.5
3360	Far East Horizon	3,083	7.26	8.40	16	B	8.1	6.9	1.1	3.2	15.2
11	Hang Seng Bank	34,676	140.60	143.80	2	B	15.6	13.4	1.9	4.0	16.7
5	HSBC Holdings	166,599	67.00	93.70	40	B	9.9	9.2	0.9	5.7	9.1
<b>Cement</b>											
914	Anhui Conch Cement	20,474	29.95	32.20	8	B	11.6	10.2	1.9	2.7	18.1
600585	Anhui Conch Cement-A @@@	15,764	23.06	25.79	12	B	11.1	9.8	1.9	3.5	18.1
3323	China Nat'l Bldg Mat	5,488	7.88	5.70	-28	FV	5.8	5.2	0.7	2.6	14.6
1313	China Resources Cement	3,860	4.58	5.10	11	H	7.1	7.8	1.1	2.9	15.9
691	Shanshui Cement	3,217	5.52	2.20	-60	FV	38.2	33.9	1.3	0.5	3.3
<b>Chemicals</b>											
746	Lee & Man Chemical	403	3.79	4.80	27	B	9.2	6.9	1.3	3.8	15.2
408	Yip's Chemical	320	4.40	8.50	93	B	11.9	6.4	0.8	3.9	6.9

Source: DBS Vickers

@@@ denominated in RMB

## DBSV universe comparison table (con't)

Stock code	Stock name	Mkt Cap (US\$m)	Share Price (HK\$)	Target Price (HK\$)	upside (%)	Remd	PE (x) 14F	PE (x) 15F	PB (x) 14F	Yld (%) 14F	ROE (%) 14F
<b>Conglomerates-HK</b>											
4	Wharf Holdings #	21,603	55.25	59.20	7	B	16.0	13.4	0.6	3.3	3.6
20	Wheelock #	10,471	39.95	41.00	3	B	10.0	8.4	0.7	2.7	4.5
<b>Food and Beverages</b>											
506	China Foods	1,303	3.61	3.70	2	B	nm	49.1	1.7	0.0	-3.7
2319	China Mengniu	10,137	40.10	41.30	3	H	26.3	23.3	2.9	0.9	12.8
1117	China Modern Dairy	1,775	2.85	3.00	5	B	10.3	12.8	1.7	0.4	17.4
1068	China Yurun	531	2.26	3.80	68	H	88.7	57.3	0.3	0.0	0.3
322	Tingyi Holding	12,174	16.84	17.60	5	H	30.4	26.6	4.0	1.6	13.5
168	Tsingtao Brewery	9,027	51.80	45.00	-13	H	28.1	29.3	3.6	1.1	13.5
600600	Tsingtao Brewery-A @@@	7,492	42.99	36.00	-16	FV	29.2	30.4	3.8	1.0	13.5
220	Uni-President China	3,148	5.65	5.00	-12	FV	63.3	36.7	1.8	0.3	3.0
345	Vitasoy	1,633	12.18	11.60	-5	H	40.9	33.5	7.2	1.7	18.2
151	Want Want China	15,265	8.97	9.80	9	B	24.6	21.0	7.4	2.1	31.1
<b>Hardware &amp; Equipment</b>											
2018	AAC Technologies Holdings	7,992	50.45	35.50	-30	H	19.6	17.1	5.3	2.3	29.3
552	China Comm Services	3,261	3.65	4.20	15	B	9.4	8.6	0.9	3.2	9.6
3777	China Fiber Optic Network	503	2.24	3.90	74	B	6.5	5.8	1.1	0.0	17.1
2342	Comba	531	2.45	3.50	43	H	15.9	8.4	1.1	1.6	6.8
992	Lenovo Group	16,050	11.20	10.80	-4	B	18.3	19.9	5.0	2.1	28.8
2618	TCL Communication	1,294	8.11	11.90	47	B	8.5	6.8	2.5	3.5	33.1
1300	Trigiant Group	306	1.82	4.10	125	B	4.4	4.4	1.0	7.0	21.3
856	VST Holdings	559	2.84	3.60	27	B	7.0	6.3	1.1	4.2	15.4
303	VTech	3,490	107.70	110.00	2	B	17.0	14.8	6.0	5.8	35.7
763	ZTE	8,159	18.40	23.00	25	B	19.8	17.4	2.0	1.3	10.6
<b>Household/Personal (China/HK)</b>											
1880	Belle Int'l	9,944	9.14	10.30	13	B	14.0	13.4	2.3	2.7	nm
2111	Best Pacific Int'l Hldgs	422	3.21	4.40	37	B	13.2	10.2	2.0	2.3	20.9
6388	Coach @ ^^^	964	27.10	48.10	77	H	12.8	11.3	4.4	3.2	36.0
210	Daphne International	547	2.57	2.40	-7	H	24.1	16.3	0.8	1.4	3.5
1169	Haier Electronics	7,488	21.55	27.78	29	B	16.9	14.2	3.6	0.6	25.5
1044	Hengan	14,965	94.75	87.70	-7	H	29.7	26.4	6.6	2.0	22.9
494	Li & Fung	8,186	7.59	11.30	49	B	13.4	13.4	3.4	4.4	16.4
2331	Li Ning	1,085	4.46	4.20	-6	H	nm	540.7	2.6	0.0	-33.7
311	Luen Thai	189	1.42	2.40	69	B	8.8	4.9	0.5	6.0	5.7
1382	Pacific Textile	2,038	10.92	10.40	-5	H	14.1	15.7	4.0	9.6	28.3
1913	Prada	15,283	46.30	44.00	-5	FV	22.5	31.3	5.2	2.0	25.1
531	Samson Holding	408	1.04	1.24	19	B	18.3	16.5	0.8	11.5	4.4
1910	Samsonite Int'l ^^	4,832	26.60	30.00	13	B	25.3	20.7	3.8	1.8	15.1
1023	Sitoy Group	633	4.90	4.69	-4	H	9.7	10.9	2.5	5.7	27.1
751	Skyworth	2,295	6.25	3.58	-43	FV	13.6	11.7	1.7	2.3	12.1
1836	Stella International	1,920	18.74	19.80	6	H	15.9	13.7	2.0	4.5	12.8
1070	TCL Multimedia ^^	1,132	6.58	4.25	-35	H	36.7	19.5	1.9	0.8	5.3
2678	Texhong Textile Group	1,010	8.85	9.50	7	B	20.6	8.0	1.9	1.5	9.1
321	Texwinca	1,248	7.00	8.10	16	B	14.3	12.1	1.6	6.9	11.3

Source: DBS Vickers

# P/NAV; @ denominated in USD; @@@ denominated in RMB; ^^ Valuation based on US-listed share; ^^ Core profit and EPS



**DBSV universe comparison table (con't)**

Stock code	Stock name	Mkt Cap (US\$m)	Share Price (HK\$)	Target Price (HK\$)	upside (%)	Remd	PE (x) 14F	PE (x) 15F	PB (x) 14F	Yld (%) 14F	ROE (%) 14F
<b>Industrials</b>											
569	China Automation	130	0.98	1.80	84	B	3.1	1.0	0.4	6.5	12.8
517	Cosco International	717	3.63	4.40	21	B	15.3	16.0	0.7	3.5	4.7
1366	Jiangnan Group	750	1.72	2.20	28	B	7.0	6.2	1.4	4.5	22.7
179	Johnson Electric	3,124	27.50	27.20	-1	H	15.3	15.3	1.8	2.1	12.6
2314	Lee and Man Paper	2,319	3.85	4.30	12	H	9.5	8.8	1.0	3.7	11.3
2689	Nine Dragons	3,046	5.06	4.50	-11	FV	10.9	14.9	0.7	2.0	7.5
669	Techtronic	6,273	26.55	25.50	-4	B	19.6	16.6	3.0	1.0	16.5
3393	Wasion Group	1,219	9.93	11.00	11	B	15.6	11.6	2.3	1.9	15.8
<b>Infrastructure</b>											
152	Shenzhen International	2,939	12.04	14.04	17	B	9.3	11.3	1.2	4.2	14.1
<b>Investment Services (China / HK)</b>											
388	HK Exchanges & Clearing	29,539	196.00	141.40	-28	S	46.6	35.8	12.0	1.9	24.7
806	Value Partners Group	1,847	7.78	8.47	9	B	17.7	15.9	4.1	2.4	25.4
<b>Media</b>											
752	Pico Far East	286	1.82	2.23	23	B	9.2	8.3	1.4	5.8	15.4
511	TVB	2,718	48.10	42.23	-12	FV	14.9	14.1	2.5	10.2	16.7
<b>Pharmaceutical &amp; Health Care</b>											
2877	China Shineway	1,263	11.84	11.00	-7	H	11.1	10.9	1.6	3.5	15.1
1681	Consun Pharmaceutical	731	5.67	6.80	20	B	21.5	16.8	3.2	0.8	15.7
853	Microport Scientific	745	4.06	2.55	-37	FV	n.a.	n.a.	2.2	0.0	-16.3
1066	Shandong Weigao	3,973	6.88	6.50	-6	H	22.9	22.4	2.5	1.2	11.5
1099	Sinopharm Group	11,244	31.50	34.50	10	B	22.2	20.2	2.3	1.2	11.7
2393	Yestar International	959	3.98	3.18	-20	B	59.4	39.9	19.0	0.8	31.1
<b>Properties (China)</b>											
3383	Agile Property #	2,496	4.94	4.21	-15	H	3.2	4.5	0.3	8.0	11.9
832	Central China #	600	1.91	2.31	21	B	4.2	4.0	0.3	7.1	14.2
1224	CC Land #	481	1.44	1.32	-8	H	3.5	5.4	0.3	3.5	7.4
81	China Overseas Grand Oceans	1,125	3.82	6.20	62	B	6.9	3.7	0.4	1.3	10.7
688	China Overseas #	27,573	26.15	29.90	14	B	7.7	8.0	1.1	2.1	22.8
1109	China Resources Land #	18,998	22.55	24.43	8	B	8.9	12.2	0.8	2.2	16.2
2007	Country Garden #	8,611	3.28	3.42	4	B	4.8	5.7	0.9	5.2	20.3
3333	Evergrande Real Estate #	7,322	3.88	3.25	-16	H	3.6	6.2	0.4	13.7	14.2
fsg sp	First Sponsor Group @@	1	1.22	1.57	29	B	28.2	13.3	0.6	1.6	3.2
817	Franshion Properties #	2,831	2.42	2.90	20	B	4.4	6.1	0.5	4.8	14.9
813	Shimao Property #	7,266	16.22	19.00	17	B	5.6	5.6	0.6	5.5	18.3
272	Shui On Land #	1,961	1.90	1.48	-22	FV	7.3	n.a.	0.4	3.2	4.5
3377	Sino-Ocean Land #	4,759	4.92	5.40	10	B	6.7	8.5	0.6	4.9	11.1
410	Soho China #	3,595	5.36	5.39	1	H	5.5	30.5	0.5	5.5	10.6
337	Greenland (Hong Kong) #	944	4.52	5.87	30	B	88.3	46.2	0.7	0.0	1.9
Yllg sp	Yanlord Land # @@	1,382	0.97	0.99	3	H	6.7	9.5	0.5	1.4	6.9
123	Yuexiu Property #	2,496	1.56	1.40	-10	H	5.4	8.5	0.5	4.7	9.3

Source: DBS Vickers

@@ denominated in SGD; # P/NAV

## DBSV universe comparison table (con't)

Stock code	Stock name	Mkt Cap (US\$m)	Share Price (HK\$)	Target Price (HK\$)	upside (%)	Remd	PE (x) 14F	PE (x) 15F	PB (x) 14F	Yld (%) 14F	ROE (%) 14F
<b>Properties (HK)</b>											
1	Cheung Kong #	47,626	159.40	168.00	5	B	6.9	12.7	0.8	6.7	14.3
41	Great Eagle #	2,337	27.60	29.00	5	H	9.4	10.8	0.4	2.7	3.8
10	Hang Lung Group # ^	6,388	36.55	42.25	16	H	14.0	13.5	0.8	2.2	4.9
101	Hang Lung Properties # ^	12,816	22.15	24.80	12	B	9.9	14.1	0.6	3.4	7.8
12	Henderson Land # ^	21,442	55.40	55.30	0	B	17.9	17.8	0.7	2.0	4.0
HKL SP	Hongkong Land # @	18,070	7.68	8.13	6	B	19.4	20.5	0.8	2.5	3.4
14	Hysan Development #	4,769	34.75	40.90	18	B	17.1	16.7	0.6	3.5	3.3
173	K. Wah Intl #	1,417	3.94	4.80	22	B	16.2	15.5	0.4	3.8	6.9
683	Kerry Properties #	5,070	27.20	31.70	17	B	9.0	13.8	0.4	3.3	5.6
488	Lai Sun Development #	448	0.17	0.25	45	B	2.3	14.2	0.2	1.4	7.4
66	MTR # ^	28,255	37.55	35.75	-5	H	18.9	22.0	1.1	2.8	7.3
17	New World Dev #	10,486	9.14	10.95	20	B	10.0	10.8	0.5	4.6	6.5
16	SHK Properties # ^	44,828	121.00	142.00	17	B	15.2	17.5	0.7	2.8	5.3
83	Sino Land #	9,935	12.70	14.58	15	B	15.1	17.6	0.6	3.9	4.6
1972	Swire Properties #	18,791	24.90	28.60	15	B	20.4	20.1	0.7	2.7	3.5
88	Tai Cheung #	503	6.32	7.44	18	B	3.9	15.0	0.4	4.7	16.5
369	Wing Tai Properties #	833	4.82	5.91	23	B	3.3	16.5	0.3	2.8	8.9
<b>Railway &amp; Construction</b>											
1800	China Comm Construction	26,415	12.66	7.90	-38	H	12.0	10.4	1.5	1.9	13.5
1186	China Railway Construction	20,467	12.86	9.80	-24	H	11.2	10.7	1.4	1.3	13.1
390	China Railway Group	24,015	8.74	6.30	-28	B	13.9	12.0	1.5	1.1	11.7
1766	CSR Corp	18,233	10.24	10.80	5	H	21.3	18.2	2.8	1.4	13.8
3311	China State Construction	5,942	11.48	13.00	13	B	12.9	10.6	2.3	2.3	19.3
<b>Real Estate Investment Trust</b>											
2778	Champion REIT	2,756	3.71	4.03	9	H	nmf	nmf	0.5	5.5	4.2
778	Fortune REIT	1,968	8.13	9.34	15	B	nmf	nmf	0.7	5.1	3.8
6139	Jinmao Investment	1,393	5.40	6.20	15	B	nmf	nmf	1.0	8.9	8.6
808	Prosperity REIT	523	2.85	3.23	13	B	nmf	nmf	0.6	5.7	3.6
435	Sunlight REIT	815	3.87	3.73	-4	B	nmf	nmf	0.5	5.2	2.9
823	The Link REIT	14,383	48.65	52.20	7	B	nmf	nmf	1.2	3.4	19.4
<b>Restaurants</b>											
538	Ajisen China	662	4.70	5.40	15	FV	18.7	15.8	1.6	3.2	8.8
341	Cafe de Coral	2,082	27.75	27.00	-3	H	27.5	27.1	4.3	2.5	16.0
<b>Retailers</b>											
814	Beijing Jingkelong	112	2.11	1.90	-10	H	16.9	15.7	0.4	5.9	2.5
653	Bonjour Holdings	278	0.63	0.69	10	H	11.2	11.1	3.7	6.5	39.0
291	China Resources Ent	4,748	15.20	31.00	104	B	18.1	14.9	0.8	2.2	4.5
116	Chow Sang Sang	1,491	17.08	21.91	28	B	10.7	9.8	1.3	3.6	13.1
330	Esprit Holdings	1,958	7.81	8.30	6	FV	72.1	105.1	0.9	0.9	1.3
709	Giordano	774	3.82	3.75	-2	H	14.7	13.7	2.1	6.6	13.6
393	Glorious Sun	215	1.59	1.80	13	H	11.7	9.3	0.7	6.8	5.9
3308	Golden Eagle %	2,415	10.48	10.28	-2	B	14.0	13.3	2.8	2.8	20.3
493	Gome Elec Appliances %	2,735	1.25	1.09	-13	H	13.2	12.5	1.0	3.0	7.8
3389	Hengdeli	926	1.50	1.30	-13	H	11.5	11.8	1.0	2.6	8.7
1833	Intime Department Store	1,715	6.12	5.56	-9	H	9.2	9.8	1.0	4.5	12.0
JD US	JD.com ^^@	41,194	29.49	36.50	24	B	705.0	576.3	6.8	0.0	-66.1
980	Lianhua Supermarket	648	4.49	3.97	-12	H	129.4	80.3	1.2	0.0	0.9

Source: DBS Vickers

^ EPS and Net Profit exclude fair value changes on investment properties; % - Fully Diluted EPS; # P/NAV; ^^Core profit and EPS; @ denominated in USD

**DBSV universe comparison table (con't)**

Stock code	Stock name	Mkt Cap (US\$m)	Share Price (HK\$)	Target Price (HK\$)	upside (%)	Remd	PE (x) 14F	PE (x) 15F	PB (x) 14F	Yld (%) 14F	ROE (%) 14F
<b>Retailers (cont'd)</b>											
1212	Lifestyle	2,980	14.18	15.73	11	B	10.9	11.2	2.1	4.2	19.9
590	Luk Fook %	1,759	23.15	35.66	54	B	7.3	8.6	1.8	5.5	26.5
825	New World Dept Stores	431	1.98	1.82	-8	H	6.4	10.1	0.5	17.9	8.0
398	Oriental Watch	90	1.22	1.57	29	H	34.4	23.8	0.3	4.9	0.9
3368	Parkson	627	1.78	1.66	-7	H	17.2	12.0	0.7	3.5	4.2
178	Sa Sa	1,472	4.01	5.35	33	H	12.2	12.3	4.9	5.9	43.5
1700	Springland Int'l	806	2.56	2.51	-2	H	8.1	8.0	1.0	6.5	13.0
891	Trinity Ltd	399	1.77	1.50	-15	H	19.1	17.9	0.9	3.8	4.7
1025	Wumart ^^	1,038	6.28	5.20	-17	H	16.5	17.2	1.7	0.0	10.5
<b>Software &amp; Computer Services</b>											
268	Kingdee	1,230	3.70	3.20	-14	B	38.7	28.7	3.9	0.4	10.5
700	Tencent ^^	181,128	149.80	163.00	9	B	45.6	33.6	14.0	0.3	34.5
<b>Steel, aluminium &amp; copper</b>											
347	Angang Steel	5,320	5.70	7.00	23	B	35.6	37.1	0.7	1.0	2.0
000898	Angang Steel-A @@@	5,898	6.32	6.10	-3	H	49.3	51.4	1.0	0.7	2.0
600019	Baoshan Iron & Steel Co-A	18,825	7.08	9.00	27	B	20.1	18.0	1.0	0.0	5.2
1378	China Hongqiao Group	3,918	4.93	6.50	32	B	4.4	3.9	0.7	5.8	18.1
323	Maanshan I & S	2,394	2.41	1.87	-22	H	67.4	66.0	0.6	0.0	1.0
600808	Maanshan I & S-A @@@	4,371	4.40	2.05	-53	FV	153.6	150.5	1.5	0.0	1.0
486	United Co RUSAL PLC	9,545	4.87	7.00	44	B	32.5	8.5	5.0	0.0	6.9
<b>Telecom Services (China)</b>											
941	China Mobile	271,514	102.80	120.00	17	B	15.3	15.6	2.0	2.8	13.3
762	China Unicom	39,850	12.90	11.20	-13	H	20.6	18.6	1.1	1.9	5.4
728	China Telecom	53,871	5.16	5.60	9	B	19.0	17.2	1.2	1.8	6.2
<b>Telecom Services (HK)</b>											
1883	CITIC Telecom	1,255	2.90	3.50	21	B	13.4	12.5	1.5	3.9	11.4
6823	HKT Trust	10,217	10.46	9.70	-7	H	24.8	22.3	2.0	4.5	8.7
215	Hutchison Telecom	2,319	3.73	3.50	-6	H	21.6	19.1	1.6	3.5	7.5
315	SmarTone	2,026	14.92	16.00	7	B	28.9	19.7	4.9	2.1	17.4
<b>Transportation - Ports &amp; Airports</b>											
694	Beijing Capital Intl Airport	4,620	8.27	6.35	-23	B	19.8	17.6	1.7	2.0	8.6
144	China Merchants Hldgs	10,155	30.70	36.60	19	B	17.3	14.9	1.2	2.5	7.8
1199	COSCO Pacific	4,043	10.66	13.00	22	B	13.7	13.0	0.8	2.9	6.3
<b>Water Infrastructure, Environmental</b>											
371	Beijing Enterprises Water %	6,156	5.48	5.90	8	B	26.4	20.6	3.0	1.4	14.8
257	China Everbright Intl	7,912	13.68	14.70	7	B	36.0	26.6	3.8	0.8	11.5
CEWL SP	China Everbright Water @@	1,709	0.94	1.17	25	B	45.4	23.9	2.1	0.0	7.3
SIIC SP	SIIC Environment @@	1,198	0.17	0.20	18	B	26.7	22.7	2.0	0.0	8.2
967	Sound Global	7,749	7.00	10.71	53	B	14.6	11.5	2.3	0.0	17.3
1065	Tianjin Cap Environmental	1,335	7.25	3.60	-50	S	26.9	25.0	2.0	1.4	7.6
600874	Tianjin Cap Environmental-A @@@	2,662	14.46	9.00	-38	S	67.0	62.3	4.9	0.6	7.6
UENV SP	United Envirotech @@	1,168	1.65	1.65	0	H	48.7	18.6	3.2	0.2	8.3

Source: DBS Vickers

@@ denominated in SGD; @@@ denominated in RMB

% - Fully Diluted EPS; ^^Core profit and EPS

@@@ denominated in RMB

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**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

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