Monday, 07 June 2010

CREDIT SUISSE

Asian Daily (Global Edition)

EPS, TP and Rating changes

	EPS		TP		
(% change)	T+1	T+2	Chg	Up/Dn	Rating
Shanda	3	12	4	(5)	N (U)
JSW Steel	0	5	0	(34)	U (U)
SAIL	(6)	(5)	(15)	(16)	U (U)
Tata Steel		5	(20)	(18)	U (U)
SK Telecom	9	5	(20)	9	N (O)
LG Telecom	(13)	(15)	(11)	10	N (O)
KT Corp.	(6)	3	3	27	O (O)
Minor International	Initiation			40	O (NA)

C^3: Connecting clients to corporates

Hong Kong

China Power International (2380.HK) NDR
Date 08 June, Hong Kong
Coverage Analyst Edwin Chen

Tong Yang Life Insurance (082640.KS) NDR
Date 21-22 June, Hong Kong
Coverage Analyst Seok Yun

Singapore

Tong Yang Life Insurance (082640.KS) NDR
Date 23 June, Singapore
Coverage Analyst Seok Yun

US

Synnex (2347.TW) NDR
Date 21-25 June, US
Coverage Analyst Robert Cheng

China Merchants Holdings (0144.HK) NDR
Date 25-June - 02-July, US
Coverage Analyst Ingrid Wei

Europe

Lenovo Group (0992.HK) NDR
Date 07-08 June, UK
Coverage Analyst Robert Cheng

China Power International (2380.HK) NDR
Date 08-18 June, Europe
Coverage Analyst Edwin Chen

Others

China Investment Conference 2010
Date 23-25 June, Shanghai
Coverage Analyst Vincent Chan

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Asian indices - performance

(% change)	Latest	1D	1W	3M	YTD
ASX300	4,442	(0.8)	(0.2)	(6.7)	(8.8)
CSEALL	4,354	0.5	2.4	13.9	28.6
Hang Seng	19,780	0.0	0.1	(4.8)	(9.6)
H-SHARE	11,376	(0.2)	(1.2)	(4.6)	(11.1)
JCI	2,823	0.4	4.0	9.5	11.4
KLSE	1,294	0.0	2.0	(0.4)	1.7
KOSPI	1,664	0.1	3.5	1.8	(1.1)
KSE100	9,637	0.2	1.2	0.1	2.7
NIFTY	5,136	0.5	1.4	0.9	(1.3)
PCOMP	3,357	0.1	3.2	9.4	10.0
RED CHIP	3,683	0.1	(0.8)	(8.6)	(9.3)
SET	771	0.7	4.6	6.6	5.0
STI	2,807	0.5	2.4	0.6	(3.1)
TWSE	7,345	(0.2)	0.7	(4.2)	(10.3)
VNINDEX	510	(0.2)	(0.5)	(0.6)	3.2

Thomson Financial Datastream

Asian currencies (vs US$)

(% change)	Latest	1D	1W	3M	YTD
A$	1.2	(0.6)	(2.6)	(9.7)	(8.6)
Bt	32.6	0.1	(0.3)	0.2	2.1
D	18,975.0	0.0	0.2	0.4	(2.6)
NT$	32.2	(0.3)	(0.5)	(0.8)	(0.7)
P	46.3	(0.7)	(0.5)	(0.5)	(0.5)
PRs	85.2	0.2	0.2	(0.5)	(1.1)
Rp	9,199.0	0.0	(0.2)	(0.2)	2.1
Rs	46.7	(0.7)	(0.6)	(1.9)	(0.4)
S$	1.4	0.0	(1.0)	(1.0)	(0.8)
SLRs	113.6	0.0	0.1	0.5	0.6
W	1,202.0	(2.2)	(0.7)	(4.8)	(3.7)

Thomson Financial Datastream

Global indices

(% change)	Latest	1D	1W	3M	YTD
DJIA	9,932	(3.2)	(3.2)	(6.0)	(4.8)
S&P 500	1,065	(3.4)	(3.5)	(6.5)	(4.5)
NASDAQ	2,219	(3.6)	(2.6)	(4.6)	(2.2)
SOX	348	(4.4)	(3.6)	(0.9)	(3.2)
EU-STOX	2,376	(1.8)	(0.6)	(7.8)	(8.1)
FTSE	5,126	(1.6)	(1.3)	(8.5)	(5.3)
DAX	5,939	(1.9)	(0.1)	1.0	(0.3)
CAC-40	3,456	(2.9)	(1.7)	(11.6)	(12.2)
NIKKEI	9,901	(0.1)	1.4	(4.5)	(6.1)
TOPIX	890	(0.1)	1.3	(2.3)	(1.9)
10 YR LB	3.20	(4.8)	(2.7)	(11.1)	(16.5)
2 YR LB	0.73	(10.7)	(5.2)	(14.7)	(36.0)
US$:E	1.20	(1.8)	(2.8)	(12.4)	(17.0)
US$:Y	91.9	0.8	(0.4)	(1.7)	0.5
BRENT	70.7	(0.8)	(3.6)	(11.0)	(8.5)
GOLD	1,219.7	1.8	0.5	7.5	10.4
VIX	35.5	20.4	19.5	103.7	63.7

Thomson Financial Datastream

MSCI Asian indices – valuation & perf.

	EPS grth.		P/E (x)		Performance		
MSCI Index	10E	11E	10E	11E	1D	1M	YTD
Asia F X Japan	36	13	12.5	11.1	2.6	(1.9)	(6.2)
Asia Pac F X J.	31	15	12.9	11.2	2.9	(3.2)	(8.9)
Australia	10	24	14.3	11.6	(2.5)	(14.5)	(15.7)
China	25	16	12.7	10.9	0.0	(5.6)	(9.4)
Hong Kong	21	9	14.9	13.7	(0.1)	(6.0)	(7.8)
India	25	22	16.4	13.5	0.0	(5.6)	(2.5)
Indonesia	21	19	14.0	11.8	0.4	(6.5)	8.3
Korea	50	6	9.1	8.5	0.1	(10.1)	(4.4)
Malaysia	23	14	15.1	13.2	(0.3)	(5.7)	5.0
Pakistan	37	13	7.2	6.4	0.2	(10.0)	(1.3)
Philippines	23	12	15.0	13.4	0.2	(1.7)	6.1
Singapore	20	10	13.7	12.5	(0.1)	(5.5)	(5.5)
Taiwan	84	12	12.5	11.1	(0.6)	(10.1)	(12.2)
Thailand	19	19	11.4	9.6	0.7	(6.5)	7.1

* IBES estimates

South Korea

Taiwan

Thailand

O=Outperform N=Neutral U=Underperform R=Restricted OW= Overweight MW=Market Weight UW=Underweight

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Top of the pack ...

Korea Telecoms Sector -- Maintain MARKET WEIGHT

Status quo: Expect results of 1Q10 to replicate for the next 12 months

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- Following KCC's announcement to cap the marketing cost-to-rev ratio at 22%, we make a thorough review of the new policy's impact on telcos' earnings as well as their smartphone strategy.
- After reviewing various aspects of the new policy, we conclude that the impact of the new cap on Korean telcos will be marginal, given the number of loopholes in the regulation (including revenue discount) and lack of effective regulatory tools to contain telcos' marketing costs.
- Based on key earnings assumption changes, we make major earnings adjustments, downward rather than upward, for key Korean telcos mostly on the back of new marketing cost assumptions (please refer to other dailies for more details).
- Based on our new target P/E of 9.5x, we raise our 12-month target price for KT to W60,000 from W58,000, while we cut our target price for SKT to W183,000 from W230,000. With downward earnings adjustments, we also cut LGT's target price to W8,500 from W9,500.

Valuation metrics

Company	Ticker	CS rating	Price Local	Price Target	Year T	P/E (x) T+1	P/E (x) T+2	P/B (x)
SK Telecom	017670 KS	O	167,500	183,000	12/09	10.3	9.2	1.1
KT Corp.	030200 KS	O	47,350	60,000	12/09	8.6	7.7	1.1
LG Telecom	032640 KS	O	7,750	8,500	12/09	4.1	6.5	0.8
SK Broadband	033630 KS	U	5,890	5,200	12/09	NM	75.2	1.3

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM
Source: Company data, Credit Suisse estimates

Implications of new marketing cost cap policy

Despite KCC's new policy announcement to cap marketing cost-to-revenue to 22% for 2010, we doubt whether telcos' marketing costs would fall significantly from 1Q10 levels. Although KCC hinted at a follow-up legislation to enhance enforcement, the new regulation is a simple policy guidance that has no legal obligations for telcos. After two weeks of the official announcement, we could not find any indications from our distribution checks that telcos have cut marketing costs. In fact, given higher MNP (mobile number portability) subscribers and handset shipments in May, up 97% MoM and 35% MoM, respectively, there is a growing concern that KCC's new policy would have no impact on telcos' marketing cost strategy.

That said, as we expect a more direct restriction on handset subsidy to be implemented from 3Q10, we expect a slight decline in overall marketing costs versus 1Q10. For 1Q10, SKT, KT, and LGT spent 28.0%, 15.3%, and 26.5% of revenue on marketing, respectively. Although much higher than the KCC-mandated 22%, our new 2010E marketing cost-to-revenue assumptions for SKT, KT and LGT are 26.5%, 17.1%, and 25.1%, respectively. With KCC Chairman's current term expiring at end-2010, we expect KCC's tighter control on marketing costs to ease as we enter into 2011; this could push up marketing spend again.

Mobile competition outlook

Although mobile market share remains unchanged since the launch of iPhone, we believe KT will benefit from the inflow of high-end subscribers, resulting in higher ARPU growth. As indicated by a number of surveys, 56% of KT's iPhone subscribers are previously from SKT while the remaining 28% and 16% are from KT and LGT. Given iPhone's higher ARPU (W52,000 vs the average 1Q10 ARPU of W31,652), we believe much of the new users of iPhone will be the highest-end Korean mobile subscribers. On a relative basis, SKT is also picking up higher number of smartphone subscribers that generate similar ARPU to that of iPhone. However, with most of SKT's smartphone subscribers being its existing high-end subscribers making switches to smartphone from feature phone, SKT is generating much slower ARPU growth than KT. In order for SKT to post similar ARPU improvement to that of KT, we estimate the company's current smartphone-based market share of 50% will need to increase to 65% (i.e., KT's current smartphone market share to fall from 50% to 35%), which looks unlikely in the near term.

Target price adjustments

We believe SKT's historical valuation premium of 15-30% to KT is no longer justifiable, given KT's improving market position. If KT maintains stronger earnings on its successful smartphone and data strategy for the next three to four quarters, KT is likely to trade in line with or at a premium to SKT, based on its superior handset line-up, integrated network coverage, and initiatives to release the most innovative products. We thus set our target P/E for SKT and KT at 9.5x for 2011E.

Figure 1: Valuation comparison

	P/E (x)*		EV/EBITDA (x)		FCF yield (%)		Divd yield (%)	
	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
Current share price-based valuation								
SKT	9.4	8.7	3.9	3.7	16.1	16.7	5.6	5.6
KT	9.1	7.5	3.5	3.2	10.1	16.5	5.9	6.6
LGT	9.4	7.6	4.5	6.1	13	15.9	3.8	4.7
SKBB	n.a.	75.9	4.9	4.3	n.a.	n.a.	n.a.	n.a.
Target price-based valuation								
SKT	10.3	9.5	4.2	4	14.7	15.3	5.1	5.1
KT	11.6	9.5	4.1	3.8	7.9	13	4.7	5.2
LGT	5.2	8.4	4.8	6.5	11.8	14.4	3.4	4.2
SKBB	n.a.	66.4	4.6	4	n.a.	n.a.	n.a.	n.a.

* Based on normalised EPS.
Source: Credit Suisse estimates

As of close of business on 6 Jun 2010, Credit Suisse Securities (Europe) Limited, Seoul Branch performs the role of liquidity provider on the warrants of which underlying asset is KT/SKT and hold 13,356,450/11,213,150 warrants concerned. These may be warrants that constitute part of a hedged position

Sinopec --- Maintain OUTPERFORM

Starting to perform – reasons why it might continue

EPS: ◄► TP: ◄►

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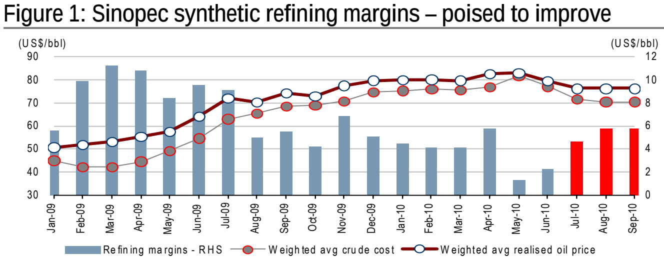
- Domestic prices were recently cut in China, raising concerns in the market. Given the trend, we expect another cut in a month's time. Hence, we argue why this might be an opportunity to buy Sinopec.
- Is there a bias on the NDRC's part to cut prices rather than hiking them? Our analysis suggests that there isn't – at least since June 2009. NDRC delayed two price hikes in February and April 2009; however, despite this, 2Q09 margins were very strong.
- We believe the policy is working, and investor confidence will rise. Margins in June should fall as price cuts meet expensive crude. However, even with another potential cut, July and August margins will likely improve.
- The risk for Sinopec, paradoxically, is a sharp fall in oil prices. That could, however, hurt its peers even more, given valuations.
- Sinopec is cheap – at the lower end of its P/B range and relative to its peers. This should provide support. It is already showing signs of relative performance. In a range-bound oil price environment, catalysts could line up to drive performance. We reiterate our OUTPERFORM rating.

Bbg/RIC	386 HK / 0386.HK	Price (03 Jun 10)			5.98
Rating (prev. rating)	O (O) [V]	TP (Prev. TP)			7.70 (7.70)
Shares outstanding (mn)	86,702.00	Est. pot. % chg. to TP			29
Daily trad vol - 6m avg (mn)	118.6	52-wk range			7.15 - 5.52
Daily trad val - 6m avg (mn)	100.1	Mkt cap (bn)			518.5/ 66.5
Free float (%)	24.1	Performance	1M	3M	12M
Major shareholders	CPC 75.84%	Absolute (%)	(2.9)	(2.9)	(0.5)
		Relative (%)	2.9	2.5	(6.7)

Year	12/08A	12/09A	12/10E	12/11E	12/12E
Revenues (mn)	1,452,101	1,285,217	1,702,824	1,794,881	1,938,101
EBITDA (mn)	73,946	134,918	147,394	166,721	175,113
Net profit (mn)	29,769	61,760	65,529	74,361	77,948
EPS	0.34	0.71	0.76	0.86	0.90
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS	n.a.	n.a.	0.76	0.83	0.88
EPS growth (%)	(47.3)	107.5	6.1	13.5	4.8
P/E (x)	15.3	7.4	6.9	6.1	5.8
Dividend yield (%)	2.3	3.4	3.4	3.4	3.4
EV/EBITDA (x)	9.4	5.1	4.8	4.2	3.9
P/B (x)	1.4	1.2	1.1	0.9	0.8
ROE (%)	9.4	17.5	16.4	16.3	15.1
Net debt (net cash)/equity (%)	66.3	55.5	52.7	45.2	41.4

Note1:Ord/ADR=100.0000.Note2:Sinopec explores for/produces crude oil/natural gas in China. It owns refineries making petrochemical products like gasoline, diesel, jet fuel, kerosene, ethylene, synthetic fibres/rubber/resins, chemical fertilizers. It also trades petrochemical products.

Figure 1: Sinopec synthetic refining margins – poised to improve



Source: Bloomberg, Datastream, Credit Suisse estimates

The first cut is the deepest for margins

Sinopec gets hurt when oil prices fall rapidly. The first cut in product prices, like for June, hurts margins the most. We expect margins to fall in June. That said, even if prices are cut again in July, we expect margins to start improving (see Figure 1).

NDRC – no bias towards pricing cuts

We believe there is no bias on the NDRC's part in making price cuts vs raising prices. There have only been two instances when the NDRC missed making price changes – in February and April 2009. On both these instances, we note that domestic gasoline and diesel prices were at a significant premium to international prices. And refining margins in 2Q09 were the highest in recent history.

Figure 2: Domestic price hikes/cuts since the new product pricing policy

Price hike/ cut on:	Benchmark crude (US$/bbl) Now	22D ago	% chg.	Date where px hike/cut due	Date where px hike/cut comes	Delay (days)
15-Jan-09	40.39	42.43	-4.8%	15-Jan-09	15-Jan-09	0
25-Mar-09	44.43	40.39	10.0%	23-Feb-09	25-Mar-09	23
1-Jun-09	58.33	44.43	31.3%	27-Apr-09	1-Jun-09	24
30-Jun-09	68.98	58.33	18.2%	30-Jun-09	30-Jun-09	0
29-Jul-09	65.10	68.98	-5.6%	29-Jul-09	29-Jul-09	0
2-Sep-09	72.99	65.10	12.1%	27-Aug-09	2-Sep-09	3
30-Sep-09	67.75	72.99	-7.2%	1-Oct-09	30-Sep-09	0
10-Nov-09	75.96	67.75	12.1%	6-Nov-09	10-Nov-09	1
14-Apr-10	80.74	75.96	6.3%	7-Apr-10	14-Apr-10	3
1-Jun-10	76.84	80.74	-4.8%	28-May-10	1-Jun-10	1

Source: Bloomberg, industry data, Credit Suisse estimates

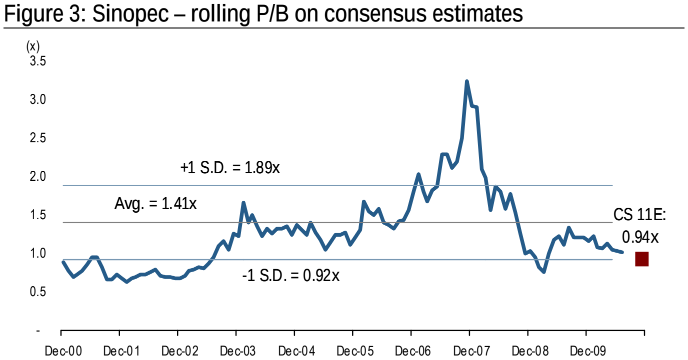
Policy is working; catalysts lining up

The government policy is working – this is the biggest positive. It has worked when oil was US$87/bbl, and it has continued to work when oil has come off. Barring a sharp fall in oil prices, we see catalysts lining up. As oil stabilises and drifts upwards, the bias will be towards hikes again and this will give a kicker to margins. Improving earnings on a QoQ basis, underpinned by improved gas pricing and growth from Puguang, are other catalysts. Valuations provide downside support.

The risk to Sinopec is a sharp fall in oil prices – it is as sensitive to oil prices as CNOOC or PetroChina is. However, downside for CNOOC is probably greater, given its recent performance.

Cheap relative to history

Figure 3: Sinopec – rolling P/B on consensus estimates



Source: Datastream, company data, Credit Suisse estimates

Macau Gaming Sector

2010 GGR to grow 40.5% YoY – are we overly aggressive?

Gabriel Chan, CFA / Research Analyst / 852 2101 6523 / gabriel.chan@credit-suisse.com

- Two key questions often asked by investors are whether our 40.5% YoY growth assumption for Macau gaming sector's 2010 gross gaming revenue (GGR) is overly aggressive and whether the existing robust growth would invite intervention from the Chinese government.
- We believe the existing growth rate is not supernormal. If we smooth out the low base comparison by looking at a two-year CAGR from January-May 2010, the normalised growth rate has been only 21.6%.
- On the other hand, our 40.5% GGR growth assumption implies that 2H10 YoY growth rate will slow down to only 19.4% (or even lower at 12.2% in 4Q10) and decline 12% HoH, which we believe should be acceptable from the Chinese government's point of view.
- We believe it is reasonable for mass-market GGR to increase along China consumer spending, which is on a steady growth track. For the high-roller segment, with liquidity remaining ample and unlikely to a see drastic decline in the near term, we believe there is sufficient cushion for our GGR forecast.

Valuation metrics

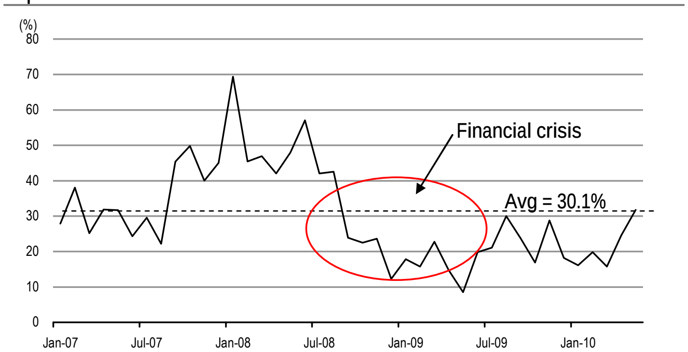
Company	Ticker	CS rating	Price Local	Price Target	Year T	P/E (x) T+1	P/E (x) T+2	P/B (x)
Galaxy	27 HK	O	3.74	4.80	12/09	21.6	10.3	1.8
MPEL	MPEL US	N	4.24	4.65	12/09	NM	NM	0.7
Sands China	1928 HK	O	11.14	13.30	12/09	25.8	27.7	2.9
SJM	880 HK	O	5.56	8.00	12/09	10.2	9.2	2.7
Wynn Macau	1128 HK	N	13.00	13.30	12/09	18.3	16.3	9.5

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM
Source: Company data, Credit Suisse estimates

Existing growth is not supernormal

While the 67% YoY growth rate recorded in the first five months was certainly eye-catching, we do not consider it to be supernormal, as we are comparing this to a low base, when the Macau gaming market was still impacted by the global financial crisis during the same period last year. If we smooth out the low base comparison by looking at a two-year CAGR, the normalised growth rate from January to May has been only 21.6%, which was slower than the average two-year CAGR growth rate of 30.1% since 2007.

Figure 1: Growth rate on a two-year CAGR basis does not look supernormal



Source: DICJ, Credit Suisse estimates.

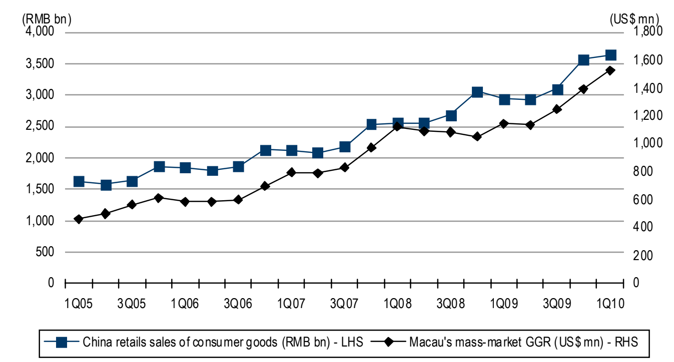
Our forecast has sufficient buffer for a potential slowdown

On the other hand, our 40.5% GGR growth assumption implies that YoY growth in 2H10 will be 19.4% in 2H10 (or even lower at 12.2% in 4Q10), which we believe should be acceptable from the Chinese government's point of view when compared with China's GDP growth rate of about 9-11%, as well as Macau gaming market's 2004-08 CAGR of 27.4%. Furthermore, our full-year forecast also implies a 12% HoH decline in 2H10 GGR, which is against a typical seasonality of 10-15% HoH growth in the second half.

Mass-market gaming is a form of private consumption

From another angle, we are less concerned about the growth sustainability of the mass-market segment, which accounts for about 28% of GGR but over 50% of the industry EBITDA. In our view, the mass-market segment is largely a form of private consumption, albeit one having higher volatility compared with economic conditions. On the other hand, we reiterate our view that visa restriction is not the right strategy to slow down GGR growth in Macau, as hardcore players will continue to go to Macau on packaged tours. Moreover, the reduced visitation would have a greater negative impact on the non-gaming sectors, against Macau government's plan of diversifying its economy.

Figure 2: Mass-market GGR versus China retail sales of consumer goods



Source: DICJ, CEIC

Ample liquidity provides cushion to the high-roller segment

For the high-roller segment, the key function of junket operators is to provide credit for gamblers as there is currency control in China. To slow down growth, liquidity available to junket operators would have to be reduced. In our view, liquidity is a function of two things: 1) working capital and 2) money velocity. It is the working capital in Macau in HK$/US$ that is more important, as it is required to buy rolling-chips for high-rollers. We believe the existing working capital level remains healthy, which has been proven by our checks that junket operators have been successful in raising extra funding from their private sources, while some casino operators are also offering extra advanced commissions. The question is what can Chinese government do to reduce money velocity. In our view, the government has been doing this the macro level, which is seen in the reduction in loan growth, among others. However, we believe there is a limit to how far these measures can go, given the uncertainty on European sovereign debt and the resultant impact on economic growth.

Minor International ------------------------------------Initiating Coverage with OUTPERFORM

New report: Structural shift paying off

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- We are initiating coverage with an OUTPERFORM rating, using share price underperformance on political concerns as a good buying opportunity.
- We believe its strategic shift to focusing on aggressive expansion in hotel management service and QSR businesses will significantly reduce MINT's political exposure and drive an impressive 2010-13 EPS CAGR of 23%. Earnings and cash flow should become much better in quality and less volatile.
- We believe the valuation has not reflected structurally big improvements in its cash flow quality. An ability to show good growth and ROE expansion should trigger a significant rerating over the next 12 months, in our view.
- MINT's 12-month forward P/E and P/B are below their means and at discounts to sector comparables. Our DCF-based target price of Bt14 implies impressive 40% potential upside with the stock worth Bt13.40 using a replacement value approach. Potential acquisition deals could add further potential upside.

Bbg/RIC	MINT TB / MINT.BK
Rating (prev. rating)	O (NA) [V]
Shares outstanding (mn)	3,254.32
Daily trad vol - 6m avg (mn)	7.0
Daily trad val - 6m avg (US$ mn)	2.3
Free float (%)	45.2
Major shareholders	Minor Holding (16.8%)

Price (03 Jun 10 , Bt)			10.00
TP (Prev. TP Bt)			14.00 (NA)
Est. pot. % chg. to TP			40
52-wk range (Bt)			12.70 - 7.10
Mkt cap (Bt/US$ mn)			32,543.2/ 999.0
Performance	1M	3M	12M
Absolute (%)	5.3	(12.3)	24.2
Relative (%)	4.9	(15.8)	(5.6)

Year	12/08A	12/09A	12/10E	12/11E	12/12E
Revenues (Bt mn)	15,814	16,460	19,218	22,096	25,129
EBITDA (Bt mn)	3,602	2,965	3,376	4,072	4,982
Net profit (Bt mn)	1,892	1,400	1,574	1,900	2,605
EPS (Bt)	0.56	0.41	0.48	0.58	0.79
- Change from prev. EPS (%)	n.a.	n.a.			
- Consensus EPS (Bt)	n.a.	n.a.	0.53	0.70	0.79
EPS growth (%)	1.3	(25.9)	15.7	20.7	37.0
P/E (x)	18.0	24.3	21.0	17.4	12.7
Dividend yield (%)	2.3	2.3	1.9	2.9	4.4
EV/EBITDA (x)	13.3	18.1	16.9	13.3	9.8
P/B (x)	3.1	2.9	2.7	2.4	2.1
ROE (%)	18.1	12.3	13.5	14.8	18.2
Net debt (net cash)/equity (%)	63.0	87.6	92.6	74.8	50.4

Note1: Minor International Pcl is one of the largest hospitality and leisure companies in the Asia Pacific region with over 1,000 restaurants and 27 hotel and resorts.

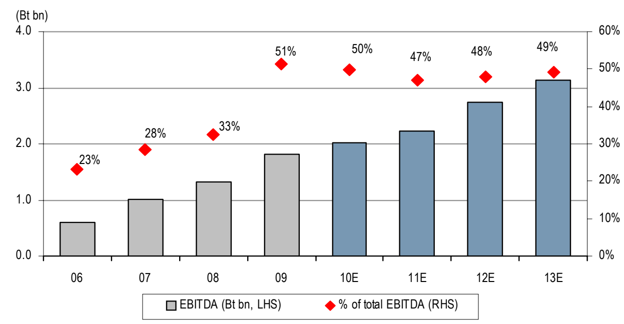
Hotel management and QSR to dominate earnings

Unlike in the past, MINT's future earnings and ROE are expected to be driven by its aggressive expansion in hotel management service (under its own successfully invented brand, Anantara) and quick service restaurants (QSR). We forecast contributions from these two will rise from 28% of total EBITDA in 2007 to 49% by 2013 (Figure 1), driving an impressive 2010-13E EPS CAGR of 23% (Figure 2).

Self-owned hotel business is no longer a key driver

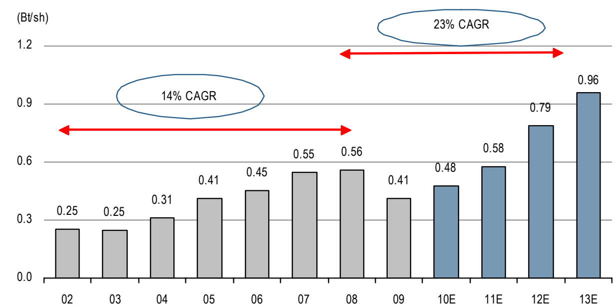
To account for the higher political risk and rising supply of luxury hotel rooms in Thailand (particularly, Bangkok), we incorporate very conservative assumptions for its self-owned hotel business. We estimate MINT's revenue per average room (RevPar) to remain at 36% and 32% below the peak level in 2011 and 2012, respectively. With a lower contribution from this segment, MINT should be a lot less susceptible to Thailand's negative political incidents.

Figure 1: EBITDA from hotel management and QSR



Source: Company data, Credit Suisse estimates.

Figure 2: QSR and hotel management service to drive EPS growth



Source: Company data, Credit Suisse estimates.

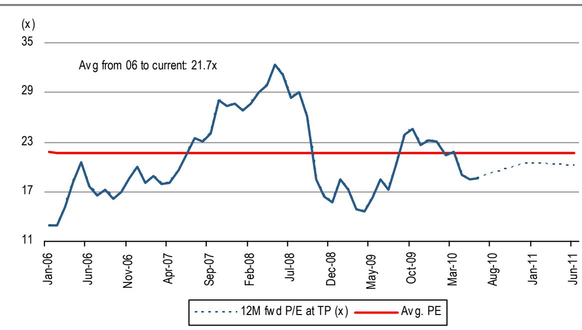
Plenty of valuation upside

Our DCF and replacement cost models indicate fair values of Bt14 (our target price) and Bt13.40, respectively. We also see limited downside risk as our bearish case, assuming no cash flow growth from 2010, suggests a Bt10.10 fair value. Both the 12-month forward P/E and P/B are at discounts to their means and sector comparables.

Risks

Key risks include a potential delay in expansion of its QSR outlets and construction of the hotels under contract management. We also see domestic political risk and the global economic crisis as the two key macro risks, particularly for its self-owned hotel business.

Figure 3: 12-month forward P/E at discount to the mean



Source: Company data, Credit Suisse estimates.

Regional

Asia Pacific Strategy

Credit Suisse GEM valuation snapshot

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Figure 1: Historical valuations

4 Jun10	12M P/E (x)		Trailing P/B (x)		Trailing DY (%)	
	Current	5-yr avg.	Current	5-yr avg.	Current	5-yr avg.
Argentina	9.0	11.0	1.1	2.4	3.1	1.6
Brazil	9.5	9.5	1.9	2.3	2.9	3.2
Chile	14.8	16.3	2.4	2.2	1.6	2.2
China	11.8	13.4	2.3	2.7	2.4	2.1
Czech Republic	10.4	13.4	2.1	2.5	6.4	4.0
Egypt	10.7	11.6	2.0	4.0	3.7	3.3
Hungary	9.0	9.7	1.4	2.2	1.6	2.5
India	15.8	16.1	3.4	4.1	1.0	1.1
Indonesia	13.0	11.8	4.1	3.8	1.8	2.9
Israel	10.9	12.7	2.2	2.4	2.3	2.1
Korea	8.8	10.5	1.4	1.6	1.3	1.7
Malaysia	13.9	14.1	2.0	2.0	2.3	2.7
Mexico	13.1	12.8	2.6	3.0	1.8	1.9
Morocco	14.2	15.4	4.3	4.9	4.2	3.3
Pakistan	6.7	9.5	1.9	2.7	6.9	5.9
Philippines	14.3	13.5	2.6	2.3	2.8	2.6
Poland	12.1	12.1	1.5	2.1	3.1	3.9
Russia	5.9	9.0	1.1	1.9	1.9	1.7
South Africa	10.7	10.7	2.3	2.8	2.4	3.0
Taiwan	11.9	14.8	1.8	1.9	2.8	4.2
Thailand	10.6	10.0	1.9	1.9	3.3	3.9
Turkey	8.9	9.1	1.8	1.8	2.7	3.0
Con. discretionary	11.6	11.8	2.3	2.2	1.4	1.9
Con. staples	16.5	15.8	3.2	3.3	2.0	2.3
Energy	8.1	9.0	1.4	2.1	2.3	2.4
Financials	10.9	11.7	1.8	2.1	2.3	2.5
Health care	13.9	15.9	4.1	3.4	0.6	0.9
Industrials	12.5	12.9	1.7	2.1	1.7	2.1
Info technology	11.4	15.0	2.4	2.3	1.9	2.3
Materials	9.7	10.0	2.0	2.2	2.0	3.4
Telecoms	11.2	12.4	2.3	2.9	3.9	3.1
Utilities	10.7	12.9	1.3	1.2	3.1	3.0
EMF	10.7	11.5	1.9	2.2	2.2	2.5
EM Asia	11.6	12.5	2.0	2.1	2.0	2.5
EM Europe	6.9	9.5	1.3	1.9	2.4	2.3
EM Latin America	10.7	10.7	2.1	2.5	2.6	2.8

Figure 2: Forecast valuations (IBES estimates)

4 Jun 10	EPS growth (%)			3M chg. in est. (%)		P/E (x)		
	2009	2010	2011	2010	2011	2009	2010	2011
Argentina	15.0	24.9	16.4	0.8	0.6	15.8	12.7	10.9
Brazil	1.2	-4.4	5.1	-1.0	-0.5	10.2	10.6	10.1
Chile	-30.8	35.8	21.1	-1.4	-0.8	15.4	11.7	9.6
China	-37.5	12.2	28.9	1.5	-0.1	11.3	10.1	7.8
Czech Republic	9.6	25.5	21.5	0.9	1.6	20.5	16.4	13.5
Egypt	5.9	20.7	18.9	1.6	2.0	16.9	14.0	11.8
Hungary	20.0	32.2	8.5	2.4	-0.5	14.9	11.3	10.4
India	57.1	49.7	6.5	8.4	5.0	13.5	9.1	8.5
Indonesia	-18.7	23.4	14.3	1.1	1.0	18.5	15.1	13.2
Israel	15.1	23.8	19.3	-2.2	-2.2	17.6	14.2	11.9
Korea	11.5	-9.3	2.0	-0.2	0.5	15.3	16.9	14.0
Malaysia	-23.4	36.6	13.1	3.9	-0.1	9.9	7.2	6.4
Mexico	15.1	23.2	12.2	1.9	1.5	18.5	15.0	13.4
Morocco	-28.8	13.8	19.6	0.0	-0.6	14.9	13.1	10.9
Pakistan	-24.2	30.9	29.5	6.5	6.5	8.6	6.6	5.1
Philippines	-25.3	27.8	30.2	-0.5	0.1	16.3	12.8	9.8
Poland	15.0	24.9	16.4	0.8	0.6	15.8	12.7	10.9
Russia	1.2	-4.4	5.1	-1.0	-0.5	10.2	10.6	10.1
South Africa	-30.8	35.8	21.1	-1.4	-0.8	15.4	11.7	9.6

Figure 2 (continued): Forecast valuations (IBES estimates)

	EPS growth (%)			3M chg. in est. (%)		P/E (x)		
	2009	2010	2011	2010	2011	2009	2010	2011
Taiwan	38.4	83.7	11.9	9.0	3.6	23.0	12.5	11.1
Thailand	19.8	18.9	18.6	1.4	2.2	13.5	11.4	9.6
Turkey	1.8	17.1	14.7	2.8	0.7	11.1	9.5	8.3
Cons. discretionary	46.9	22.6	17.2	3.9	3.2	15.2	12.4	10.6
Consumer staples	37.0	14.8	17.3	1.2	1.8	20.5	17.9	15.2
Energy	-11.0	15.6	15.0	3.2	1.1	9.9	8.6	7.5
Financials	6.6	28.7	21.3	1.6	1.0	15.3	11.9	9.8
Health care	12.8	33.2	5.6	-0.1	-4.0	18.7	14.2	13.5
Industrials	44.5	32.4	18.9	3.0	1.5	17.8	13.5	11.3
Info.technology	71.9	85.6	6.3	11.5	6.0	21.7	11.7	11.0
Materials	-26.4	71.3	32.7	9.8	16.8	19.1	11.2	8.4
Telecoms	-5.9	9.5	9.8	-1.1	-1.5	13.1	11.6	10.6
Utilities	30.5	24.9	43.5	-0.2	5.5	15.8	12.7	8.8
EMF	4.3	33.4	18.7	4.2	4.0	15.4	11.5	9.7
EM Asia	23.8	39.6	13.1	4.5	2.6	17.0	12.2	10.8
EM Europe	-21.6	25.2	26.0	5.0	4.8	9.6	7.7	6.1
EM Latin America	1.6	27.2	25.8	4.5	8.8	15.3	11.9	9.5

Figure 3: Index – absolute performance in US$ (%)

4 Jun 10	1W	1M	3M	YTD	12M
Argentina	3.0	-7.1	-0.6	-4.4	41.2
Brazil	-0.7	-8.6	-11.8	-15.6	13.9
Chile	-1.8	-3.5	-4.1	-2.3	21.8
China	-0.6	-5.6	-3.9	-9.4	7.3
Colombia	-0.6	-1.0	0.6	8.1	42.8
Czech Republic	-1.7	-11.7	-13.5	-15.0	-7.2
Egypt	2.4	-13.0	-6.3	3.0	8.2
Hungary	-11.7	-25.1	-22.6	-23.6	18.4
India	-0.1	-5.6	-2.3	-2.5	18.4
Jordan	-1.5	-5.6	-4.4	-11.0	-23.6
Indonesia	4.9	-6.5	8.7	8.3	48.4
Israel	-1.0	-9.3	-13.0	-8.1	15.4
Korea	2.0	-10.1	-1.4	-4.4	31.9
Malaysia	2.8	-5.7	3.3	5.0	27.9
Mexico	-0.9	-6.0	-2.3	-2.1	29.7
Morocco	1.3	-9.2	-2.3	0.2	-10.9
Pakistan	1.9	-10.0	-3.1	-1.3	30.7
Peru	-2.3	3.8	3.2	0.4	28.7
Philippines	3.2	-1.7	9.3	6.1	26.9
Poland	-8.0	-15.4	-17.5	-18.9	13.7
Russia	-0.6	-10.1	-9.8	-8.4	10.4
South Africa	-4.7	-6.9	-6.5	-6.8	15.5
Taiwan	-0.2	-10.1	-4.4	-12.2	6.9
Thailand	5.4	-6.5	5.3	7.1	30.5
Turkey	-2.9	-9.3	3.8	-4.4	48.9
Consumer discretionary	-0.4	-6.9	0.6	-3.8	39.5
Consumer staples	0.8	-4.2	-1.9	-1.9	36.1
Energy	0.5	-7.9	-8.0	-12.3	0.4
Financials	-0.6	-7.3	-4.6	-8.2	19.8
Health care	-1.1	-6.3	-5.9	0.2	25.9
Industrials	0.1	-9.1	-7.1	-7.4	5.4
Information technology	0.7	-9.4	-0.7	-6.9	30.6
Materials	-2.9	-10.1	-9.6	-10.1	20.4
Telecommunication services	0.1	-5.2	-3.4	-4.7	4.1
Utilities	-0.8	-7.0	-5.2	-7.2	9.0
EMF	-0.4	-7.8	-5.0	-7.7	16.9
EM Asia	0.7	-7.5	-2.1	-6.1	16.8
EM Europe	-2.5	-11.5	-9.8	-10.3	15.0
EM Latin America	-0.8	-7.2	-8.8	-11.4	18.4

Note: Sectors are EMF sectors. Source for all figures: MSCI, IBES Aggregates.

Asia Pacific Strategy

Credit Suisse valuation snapshot

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Figure 1: Country – DDM-based valuations

4 Jun 10	Implied discount rate (IDR) (%)			Equity risk premium (ERP) (%)		
	Current	5Y avg.	Std Dev.	Current	5Y avg.	Std Dev.
Australia	12.8	11.3	1.3	7.4	6.0	0.4
China	13.0	12.0	0.6	9.7	8.0	1.0
Hong Kong	10.1	9.6	0.7	7.6	6.1	0.7
India	12.8	13.0	0.7	5.0	5.5	1.2
Indonesia	14.3	14.7	1.6	5.4	3.4	1.1
Korea	11.9	12.3	0.7	7.0	7.1	1.2
Malaysia	11.1	10.9	0.3	7.1	6.6	0.6
Singapore	10.9	10.3	0.3	8.1	7.5	0.7
Taiwan	11.4	11.4	0.6	10.0	9.4	0.9
Thailand	13.0	14.4	1.0	9.7	9.8	1.1
Asia ex Japan	11.3	11.2	0.4	7.9	7.1	0.7

Figure 2: Sector – DDM-based valuations

4 Jun 10	Market implied growth rate (MIGR) (%)		
	Current	5-year average	Std Dev.
Cons. discretionary	5.2	7.5	3.7
Consumer staples	5.3	8.3	3.5
Energy	0.8	3.8	4.1
Financials	4.3	8.6	4.1
Health care	6.9	10.4	3.8
Industrials	5.0	8.6	4.2
Information tech	10.1	12.6	2.3
Materials	1.9	6.4	3.9
Telecom services	5.4	8.7	3.4
Utilities	5.5	6.6	2.1

Figure 3: Historical valuations

4 Jun 10	12M forward P/E (x)		Trailing P/B (x)		Trailing dividend yield (%)	
	Current	5-yr avg.	Current	5-yr avg.	Current	5-yr avg.
Australia	11.7	13.7	1.9	2.5	4.1	4.3
China	11.8	13.4	2.3	2.7	2.4	2.1
Hong Kong	14.4	15.9	1.4	1.7	3.1	3.0
India	15.8	16.1	3.4	4.1	1.0	1.1
Indonesia	13.0	11.8	4.1	3.8	1.8	2.9
Japan	15.3	17.9	1.1	1.6	1.8	1.6
Korea	8.8	10.4	1.4	1.6	1.3	1.7
Malaysia	13.9	14.0	2.0	2.0	2.3	2.7
Philippines	14.3	13.5	2.6	2.3	2.8	2.6
Singapore	13.2	14.1	1.7	1.9	3.1	3.1
Taiwan	11.9	14.7	1.8	1.9	2.8	4.2
Thailand	10.6	10.0	1.9	1.9	3.3	3.9
Cons. Discretionary	14.5	12.9	2.2	2.1	1.9	2.5
Consumer Staples	16.2	16.4	2.6	3.2	2.8	2.9
Energy	13.0	11.8	2.1	2.8	2.4	2.7
Financials	13.3	13.5	1.6	1.9	3.4	3.7
Health Care	16.9	19.6	4.1	4.2	1.9	1.7
Industrials	14.5	14.4	1.5	1.9	2.2	2.7
Information Tech	16.4	15.3	2.3	2.3	1.9	2.4
Materials	14.0	11.4	2.2	2.6	2.0	3.1
Telecom Services	11.4	13.0	2.0	2.6	4.6	3.8
Utilities	14.9	14.3	1.6	1.6	2.6	3.0
Asia Pacific	13.1	15.1	1.5	1.8	2.3	2.3
Asia ex Japan	11.9	12.9	1.9	2.0	2.2	2.6
Asia Pac ex Japan	11.9	13.2	1.9	2.1	2.7	3.1

Figure 4: Forecast valuations (IBES estimates)

4 Jun 10	EPS growth (%)			3-mth chg. in EPS est. (%)		P/E (x)		
	2009	2010	2011	2010	2011	2009	2010	2011
Australia	-19.4	9.6	23.7	0.8	2.8	15.7	14.3	11.6
China	15.0	24.9	16.4	0.8	0.6	15.8	12.7	10.9
Hong Kong	-4.0	21.5	8.9	1.1	-0.1	18.1	14.9	13.7
India	9.6	25.5	21.5	0.9	1.6	20.5	16.4	13.5
Indonesia	5.9	20.7	18.9	1.6	2.0	16.9	14.0	11.8
Japan	-115.6	nm	75.4	3.5	2.9	-68.0	28.3	15.9
Korea	57.1	49.7	6.5	8.4	5.0	13.5	9.1	8.5
Malaysia	-18.7	23.4	14.3	1.1	1.0	18.5	15.1	13.2
Philippines	15.1	23.2	12.2	1.9	1.5	18.5	15.0	13.4
Singapore	-10.9	20.4	10.0	2.2	2.6	16.5	13.7	12.5
Taiwan	38.4	83.7	11.9	9.0	3.6	23.0	12.5	11.1
Thailand	19.8	18.9	18.6	1.4	2.2	13.5	11.4	9.6
Cons. discretionary	31.4	17.8	13.2	5.1	5.2	15.3	12.9	11.4
Consumer staples	7.1	5.8	15.1	1.1	1.0	18.3	17.3	15.0
Energy	-0.4	23.0	18.8	1.6	1.5	15.7	12.8	10.8
Financials	0.3	21.0	15.1	0.6	-0.2	15.6	12.9	11.2
Health care	23.5	15.6	13.2	-2.0	-3.4	23.1	20.1	17.8
Industrials	-8.1	63.8	14.4	4.9	2.0	22.3	13.6	11.9
Information tech	76.3	90.4	6.4	11.8	6.1	22.3	11.7	11.0
Materials	-16.7	34.5	30.7	5.2	8.0	16.4	12.1	9.3
Telecom services	-2.6	3.7	5.7	0.1	-0.2	12.2	11.8	11.2
Utilities	35.0	21.8	14.3	-1.9	0.5	18.9	15.5	13.6
Asia Pacific	87.1	44.6	17.6	3.4	2.7	20.2	13.9	11.8
Asia F X Japan	17.2	36.4	12.6	4.1	2.4	17.1	12.5	11.1
Asia Pac F X Japan	4.6	30.7	15.3	3.4	2.5	16.9	12.9	11.2

Note: PE and EPS growth numbers for Australia and Japan corresponds to Jun 09-11 and Mar 09-11; and EPS change numbers correspond to Jun 10-11 and Mar 10-11, respectively.

Figure 5: Index – absolute performance in US$ (%)

(4 Jun 10) US$ – price index	1W	1M	3M	YTD	12M
MSCI Australia	-2.4	-14.5	-14.3	-15.7	17.6
MSCI China	-0.6	-5.6	-3.9	-9.4	7.3
MSCI Hong Kong	0.0	-6.0	-5.8	-7.8	3.2
MSCI India	-0.1	-5.6	-2.3	-2.5	18.4
MSCI Indonesia	4.9	-6.5	8.7	8.3	48.4
MSCI Japan	0.1	-7.4	-4.5	-1.4	2.8
MSCI Korea	2.0	-10.1	-1.4	-4.4	31.9
MSCI Malaysia	2.8	-5.7	3.3	5.0	27.9
MSCI Philippines	3.2	-1.7	9.3	6.1	26.9
MSCI Singapore	1.4	-5.5	-0.6	-5.5	18.6
MSCI Taiwan	-0.2	-10.1	-4.4	-12.2	6.9
MSCI Thailand	5.4	-6.5	5.3	7.1	30.5
Cons. discretionary	1.0	-7.7	2.3	-1.0	38.1
Consumer staples	1.6	-6.1	-6.3	-6.6	26.1
Energy	-0.5	-8.6	-3.6	-8.5	5.4
Financials	-0.5	-10.4	-7.0	-10.7	15.1
Health care	1.6	-11.0	-8.0	-6.6	21.3
Industrials	0.3	-10.0	-8.2	-7.9	4.9
Information tech	0.8	-9.4	-0.8	-7.0	31.8
Materials	-2.8	-11.1	-13.1	-15.5	15.8
Telecom services	1.7	-4.9	-1.2	-3.0	-2.8
Utilities	0.6	-3.8	-1.3	-2.2	8.0
MSCI AC Asia Pacific	-0.0	-8.5	-5.2	-5.8	10.0
MSCI AC Asia ex JP	0.7	-7.2	-2.4	-6.2	15.3
MSCI AC Asia Pacific ex JP	-0.1	-9.3	-5.8	-8.9	15.9

Source for all figures: MSCI, Factset, Thomson Financial Datastream, Credit Suisse.
Note: All sectoral data refers to Asia Pacific ex Japan.

Asia Oil and Gas Sector -- Maintain UNDERWEIGHT

US DOE inventory data – demand continues to improve, refining can outperform expectations

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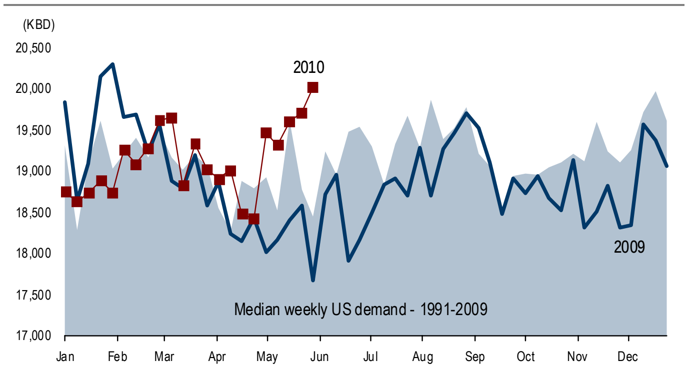
- US oil demand is finally starting to fire, led by the industrials complex. Distillates and other products demand have surged over the past few weeks. A US recovery is finally coming through after prolonged speculation. This is positive for the oil complex.
- That said, we believe while it is supportive of oil, it is bigger for refining. Oil is capped by large spare capacity, and, in our view, oil prices are currently pricing in future tightness in markets, and remains dramatically over not only cash cost levels, but also above levels that endanger capex.
- As the US demand recovery gains momentum, we believe refining can outperform expectations. If oil price returns to US$90/bbl levels, it would only meet consensus estimate. If oil price averages US$80/bbl, it would disappoint consensus. If oil price does average US$80/bbl, and the oil-to-refining ratio settles at +1 sd above the historical average (10.2x), refining margins would average US$8/bbl. This could surprise consensus, which is still bearish on refining.
- We prefer refiners in Asia to the E&P names. SK Energy, Thai Oil, Reliance and Sinopec are our top picks. We advise investors to avoid CNOOC, COSL and Cairn India.

Figure 1: Valuation comparison – Asia oils

					Target	P/E (x)		P/B (x)	EV/EBITDA	
Company	Ticker	Rat.	FX	Price	price	FY10E	FY11E	FY10E	FY10E	FY11E
Stocks we like										
SK Energy	096770	O	W	108k	181k	9.4	6.8	1.15	7.8	6.6
Thai Oil	TOP.BK	O	Bt	43.75	54.0	10.0	6.6	1.26	5.5	3.8
Reliance Ind.	RELI.BO	O	Rs	1,011	1,217	20.5	14.4	2.71	12.5	9.3
Sinopec	0386.HK	O	HK$	5.98	7.70	6.9	6.1	1.06	4.8	4.2
Stocks we don't like										
CNOOC	0883.HK	U	HK$	12.10	11.00	10.6	11.1	2.33	5.1	5.2
COSL	2883.HK	N	HK$	8.97	8.00	11.1	10.4	1.44	7.8	6.9
Cairn India	CAIL.BO	N	Rs	291.1	277.0	52.5	12.5	1.63	38.2	8.1

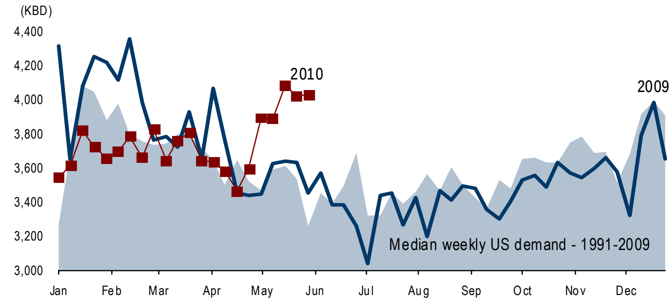
Source: Company data, Credit Suisse estimates

Figure 2: US total oil demand – improved sharply over the past few weeks



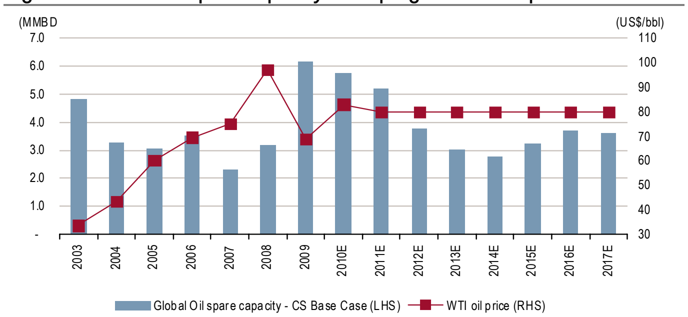
Source: US DOE, Credit Suisse estimates

Figure 3: US distillates demand – leading the recovery



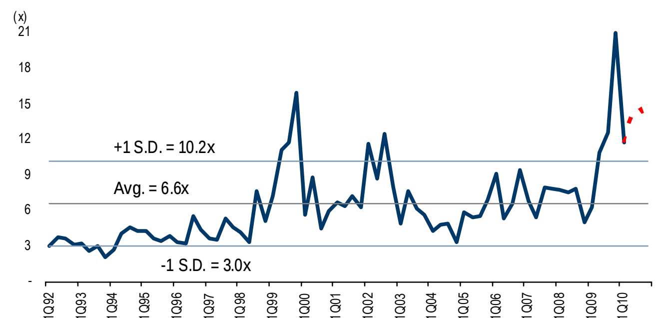
Source: US DOE, Credit Suisse estimates

Figure 4: Global oil spare capacity – keeping a lid on oil prices



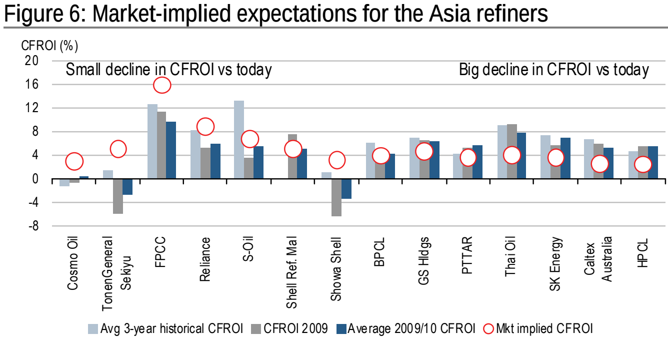
Source: IEA, industry data, Credit Suisse estimates

Figure 5: Ratio of oil price to refining margins



Source: Bloomberg, Credit Suisse estimates

Figure 6: Market-implied expectations for the Asia refiners



Note: Based on 5% asset growth and 6% WACC. Source: HOLT, CS estimates

Asia Small-Cap Sector ---

David & Goliath Small-Cap Weekly: from soft goods to hard goods

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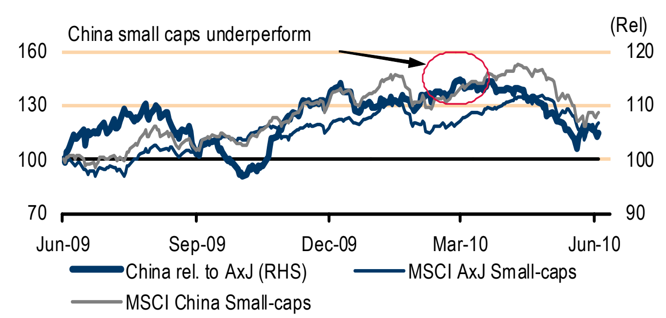
- The latest issue of our regional small-cap weekly, *David & Goliath* (D&G) has been published.
- More investors are anticipating general earnings downgrades amid a potential slowdown in 2H10. There is rising interest in the battered China consumer sector, which we believe is adversely affected by the China's tightening.
- Home appliances stocks were hit the most in the past two months, given concerns about potential weaker demand on slower property sales. However, their statistical correlation is too low to denote a causal relationship. The sports apparel plays, which are perceived not to be related to the properties, are holding up well.
- We believe the Chinese government will take a more proactive stance to encourage the consumption, in case of a slowdown in exports. It should make the home appliances sector more interesting than the more expensive sports apparel sector.
- In this issue of D&G, we include 22 small-cap stories from the region, with two key stories – Johnson Electric and Quality Houses.

Figure 1: China small caps lead underperformance in the region



Source: Datastream, Credit Suisse estimates

Cover story: from soft goods to hard goods

D&G has heard more investors anticipating general earnings downgrades amid a potential slowdown in 2H10, after a year of worldwide economic recovery/rebound. Although there is no consensus on the magnitude of the potential earnings downgrades, D&G can see the rising interest in the battered China consumer sector, which we believe is adversely affected by China's tightening. Some investors believe that the China small caps, which have started to underperform the regional peers since March 2010 (Figure 1), should be the first to recover once the market correction is over.

Little correlation between home appliances and properties

Home appliances stocks were hit the most in the past two months, given concerns about potential weaker demand on slower China property sales. While the home appliances companies continue to post good double-digit YoY growth, some analysts try to interpret the potential impact based on the correlation coefficients between the property monthly sales and home appliance sales of 0.3-0.5. However, D&G remembers his university professor of statistics saying that a coefficient below 0.7 usually denotes a non-causal or even a random relationship. At the same time, the more expensive sports apparel plays, which are perceived to have no correlation to the properties, have been holding up well (Figure 2).

Figure 2: Selected China consumer plays

Ticker	Stock	Price (HK$)	CY10E P/E (x)	From 1Y highs (%)
1070.HK	TCL Multimedia	5.61	8.9	(38)
0751.HK	Skyworth	6.75	10.4	(32)
0331.HK	PCD Stores	2.28	24.1	(30)
0493.HK	GOME	2.34	15.7	(23)
2331.HK	Li Ning	26.25	20.4	(16)
1968.HK	Peak Sports	5.96	13.4	(8)
2020.HK	Anta Sports	13.90	19.9	(6)
1368.HK	Xtep	6.28	14.9	(3)

Source: Company data, Credit Suisse estimates

More favourable policies on home appliances

It is our view that the Chinese government will take a more proactive stance to encourage the China consumption, not the infrastructure, sector in case of a slowdown in exports. The extension and expansion of the 'swapping old for new' subsidy programme is a good example. D&G believes that the enhancement of 'home appliances to the countryside' and introduction of 'promotion of energy-saving TV' subsidy programmes will be two potential policies that the government will launch later this year. They should make the home appliances sector more interesting than the sports apparel sector, which has outperformed and at much higher valuations.

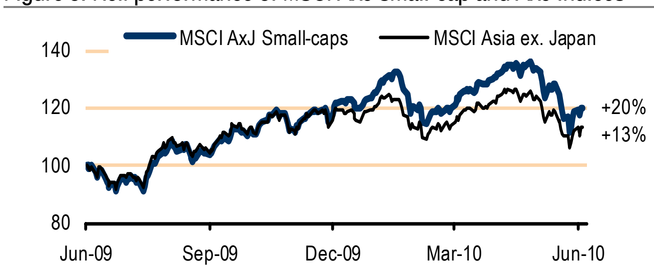
Davids of the week

In this issue of D&G weekly, we include 22 small-cap stories in the region. The two key small-cap stories are:

Hong Kong: Johnson Electric (0179.HK, HK$4.05, OUTPERFORM [V], TP HK$4.40) has completed the seven-year restructuring programme. It should see more operating leverage this year when business recovers. The stock trades at 14.1x FY03/11E P/E, with 9% potential upside (Kenny Lau, CFA, kenny.lau@credit-suisse.com).

Thailand: Quality Houses (QH.BK, Bt1.99, OUTPERFORM [V], TP Bt3.35) is expanding into the low-priced housing segment, making its 2010-11E new launches grow from Bt35 bn to possibly Bt50 bn. The stock trades at 8.1x 2010E P/E, at a 40% discount to NAV with 68% potential upside (Chai Techakumpuch, chai.techakumpuch@credit-suisse.com).

Figure 3: Rel. performance of MSCI AxJ small-cap and AxJ indices



Source: Datastream, Credit Suisse estimates

China

China Resources Land -- Maintain OUTPERFORM

MoM decline of 64% in May sales confirmed our concerns; shopping mall remains the bright spot EPS: ◄► TP: ◄►

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- In line with our expectations, CR Land has underperformed its peers YTD in contracted sales growth. In May, CR Land only posted Rmb700 mn in contracted sales – a decline of 64% MoM or 68% YoY – the biggest decline among Chinese developers under Credit Suisse coverage.
- YTD, CR Land has achieved only 24% of management's FY10 contracted sales guidance of the Rmb27 bn. We believe CR Land will slash its guidance soon. We expect FY10 contracted sales of Rmb18.9 bn.
- Given the current market sentiment, we believe the timing of (and the share price reaction to) potential asset injections this year will be highly uncertain.
- Nevertheless, we believe shopping malls (currently 24% of its end-2010E NAV) should increasingly become CR Land's key differentiator in the sector. The recent successful launch of MixC Hangzhou shopping mall should help. CR Land is trading at a 40% discount to its end-2010E NAV, versus its historical average of 33%. We maintain OUTPERFORM.

Bbg/RIC	1109 HK / 1109.HK	Price (04 Jun 10 , HK$)			14.60
Rating (prev. rating)	O (O) [V]	TP (Prev. TP HK$)			17.00 (17.00)
Shares outstanding (mn)	5,035.24	Est. pot. % chg. to TP			16
Daily trad vol - 6m avg (mn)	15.2	52-wk range (HK$)			20.10 - 13.18
Daily trad val - 6m avg (US$ mn)	33.7	Mkt cap (HK$/US$ mn)			73,514.4/ 9,431.6
Free float (%)	30.2	Performance	1M	3M	12M
Major shareholders	China Resources Holding 62.0%	Absolute (%)	7.7	(11.1)	(7.1)
		Relative (%)	13.6	(7.8)	(13.9)
NAV (HK$)	24.0	Prem./(disc) to NAV (%)			(39.2)

Year	12/07A	12/08A	12/09E	12/10E	12/11E
EBITDA (HK$ mn)	2,019	2,585	5,030	9,313	10,372
Net profit (HK$ mn)	836	1,693	3,143	4,790	5,949
EPS (HK$)	0.23	0.36	0.62	0.95	1.18
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (HK$)	n.a.	n.a.	0.67	0.91	1.19
EPS growth (%)	71.3	53.3	75.0	52.4	24.2
P/E (x)	62.8	41.0	23.4	15.4	12.4
Dividend yield (%)	0.7	0.8	1.6	2.2	2.7
EV/EBITDA (x)	42.6	34.7	16.4	10.0	8.9
ROE (%)	5.0	6.5	9.2	12.1	13.8
Net debt (net cash)/equity (%)	49.3	51.0	21.0	44.5	38.2

Note1:China Resources Land is a leading property developer in China with attributable land bank of 23mn sqm in 18 cities. Besides residential, CR Land has relatively high exposure in investment property particularly retail.

Disappointing May sales confirmed our earlier concerns about near-term growth

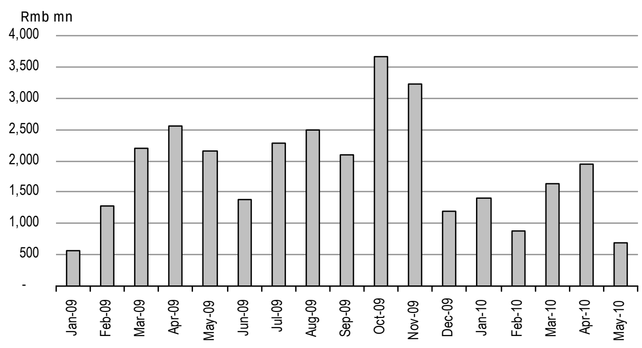
CR Land's May sales were around Rmb700 mn, -64% MoM or -68% YoY. This represents the largest MoM fall among all the Chinese developers under Credit Suisse coverage (vs an average of ~45%). YTD, total sales value was Rmb6.6 bn or -25% YoY, representing 35% of our 2010E sales target of Rmb18.9 bn – again one of the lowest percentage achieved YTD within our coverage universe.

This situation is in line with the FY10E outlook we discussed in our *11 January 2010 CR Land* research notes, after our Chengdu visit.

Lack of new projects is the key reason for the weak sales, due to the conventional pricing strategy

Based on our discussion with management, we believe the lack of sufficient new project launches is the key reason.

Figure 1: CR Land's monthly contracted sales (Jan-09 to May-10)



Source: Company data

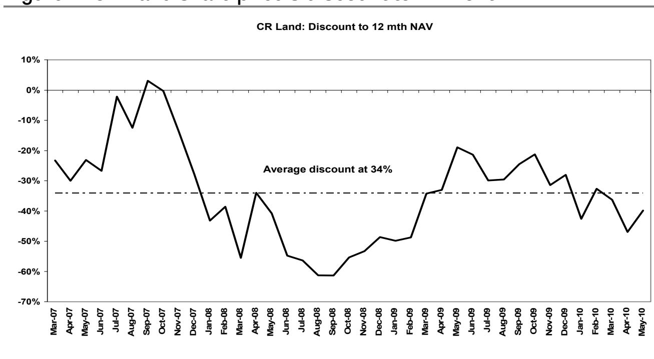
Many developers currently choose to launch new projects with low pricing amid the policy tightening, while keeping existing projects' prices largely unchanged – to avoid alienating the existing buyers. CR Land is doing so as well. This year, however, CR Land has relatively limited number of new projects available for sales. Therefore, the lack of pricing flexibility in the near term will hurt the sales, in our view.

Valuation still looks attractive – long-term growth and exposure to premium shopping malls

We remain positive on CR Land' long-term growth potential in China's residential property market. We also maintain our view that its premium shopping mall brand, MixC, should be a key differentiator for CR Land.

Shopping malls are not subject to the policy risks for residential markets and the over-supply issue for the office market, in our view.

Figure 2: CR Land share price's discount to 12-month NAV



Source: Credit Suisse estimates

China Vanke Co Ltd-A -- Maintain OUTPERFORM

May sales stronger than peers as we expected; flexibility in sales schedule with attractive valuation EPS: ◄► TP: ◄►

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- On 6 June 2010, China Vanke announced that its May contracted sales were at Rmb5.1 bn, -34% MoM or -20% YoY, in line with our May 18 view that Vanke's May sales should be better than most of its peers. Its total contracted sales from January to May were Rmb28 bn, +17% YoY – 48% of our FY10 contracted sales estimate.
- The 12% MoM drop in ASP was mainly a result of sales volume drop in cities with high ASPs, such as Beijing and Shenzhen, in our view. With increased exposure to smaller cities and small-scale projects in major cities, we expect Vanke to enjoy more flexibility in pre-sales schedules than most of its peers.
- With some new projects being scheduled to be launched in June, we expect Vanke to post relatively strong contracted sales in June. We believe Vanke's strong brand name and high asset-turn model should benefit the company amid policy changes.
- China Vanke is currently trading at a 31% discount to end-2010E NAV (versus its historical average of 9% premium) and 11x FY10E P/E. We maintain our OUTPERFORM rating.

Bbg/RIC	000002 CH / 000002.SZ	Price (04 Jun 10 , Rmb)			7.28
Rating (prev. rating)	O (O) [V]	TP (Prev. TP Rmb)			9.50 (9.50)
Shares outstanding (mn)	9,680.26	Est. pot. % chg. to TP			30
Daily trad vol - 6m avg (mn)	148.0	52-wk range (Rmb)			14.45 - 6.92
Daily trad val - 6m avg (US$ mn)	238.0	Mkt cap (Rmb/US$ bn)			70.5/ 10.3
Free float (%)	85.3	Performance	1M	3M	12M
Major shareholders	CRC (14.73%)	Absolute (%)	(2.3)	(22.5)	(33.0)
		Relative (%)	3.1	(19.6)	(37.8)

Year	12/07A	12/08A	12/09E	12/10E	12/11E
Revenues (Rmb mn)	35,527	40,992	48,881	52,145	57,947
EBITDA (Rmb mn)	8,035	7,003	9,256	12,158	12,981
Net profit (Rmb mn)	4,844	4,033	5,330	7,179	7,354
EPS (Rmb)	0.46	0.37	0.48	0.65	0.67
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (Rmb)	n.a.	n.a.	0.48	0.66	0.78
EPS growth (%)	n.a.	(20.0)	32.2	34.7	2.5
P/E (x)	15.9	19.8	15.0	11.2	10.9
Dividend yield (%)	1.4	0.7	0	1.2	1.6
EV/EBITDA (x)	9.8	11.9	8.6	7.0	6.5
P/B (x)	2.6	2.5	2.1	1.8	1.6
ROE (%)	16.6	12.7	14.3	16.4	14.9
Net debt (net cash)/equity (%)	27.0	40.2	23.9	34.6	28.8

Note1:China Vanke, one of the largest residential developer in China, was establisehd in 1984 and first engaged into residential development in 1988. Its currently has a land bank of ~30mn sqm with presence all over China.

May sales – a relatively small drop of 34% MoM; 48% of our 2010 estimate achieved

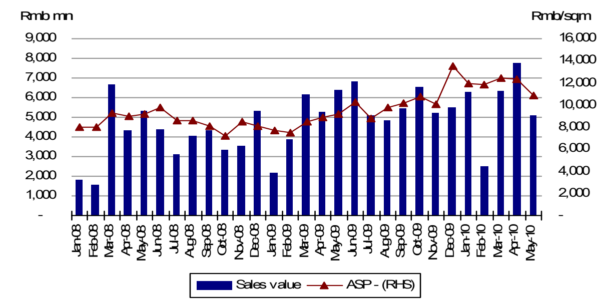
China Vanke's May contracted sales were at Rmb5.5 bn, -34% MoM or -20% YoY. Its sales volume in May was 470,000 sq m, -26% MoM or -33% YoY. Its implied ASP for May was Rmb10,872/sq m, -12% MoM but +18% YoY.

From Jan to May, China Vanke's total contracted sales value was Rmb28 bn (+17% YoY) and its sales volume was 2.34 mn sq m (-17% YoY).

The 12% drop in ASP was mainly due to volume drop in major cities such as Beijing and Shenzhen.

Bohai Rim region posted a 13% MoM drop in ASP – the highest among all four regions, but only a 5% drop in volume – the lowest among regions. This shows that the sharp volume decline in Beijing may have been partially compensated by relatively much stronger volume in smaller cities within Bohai Rim, in our view.

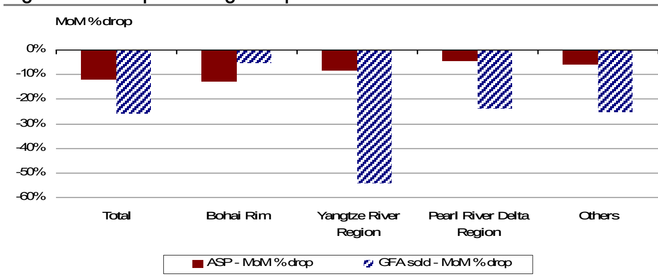
Figure 1: Monthly contracted sales and ASP (Jan-08 to May-10)



Source: Company data

On the other hand, Yangtze River Delta region had a smaller ASP drop but a 54% MoM drop in transaction volume – in line with the fact that many property markets in Yangtze River Delta are investment-driven.

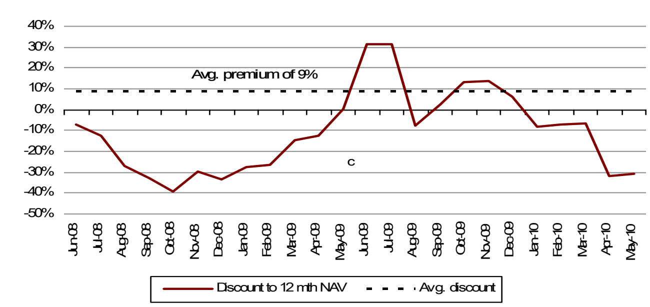
Figure 2: MoM percentage drops in ASP and GFA sold



Source: Company data

Attractive valuation – Vanke remains one of our sector top picks

Figure 3: Discount to 12-month NAV



Source: Company data, Credit Suisse estimates

Shanda -- Upgrade to NEUTRAL

1Q10 results below consensus; earnings upgrade due to better GAME revenue guidance — EPS: ▲ TP: ▲

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- Shanda's 1Q10 diluted EPS is US$0.49, 24% below Bloomberg consensus at US$0.643 and 9% below our forecast because: 1) revenue was 3% below forecast, 2) sales and marketing expenses were 15% above forecast and 3) effective tax rate at 30.4% was above our forecast at 28%. Excluding GAME and HRAY cash, SNDA parent level net cash was Rmb7.2 bn in 1Q10 (or net cash per share was US$15.8).
- GAME revenue guidance was down 3% QoQ or up 1% QoQ, above our expectation. Shanda's new licenced game, Dragon Nest, a 3D MMORPG, was under close beta testing, but is already ranked among the top ten in Baidu's ranking. We expect Dragon Nest to be under open beta test in 3Q10, likely a catalyst for revenue. Also, the share buyback plan of both SNDA and GAME will stablise their share prices.
- Despite weak 1Q10 results, we raise 2010E diluted EPS by 3% mainly due to better GAME guidance. DCF target price was up from US$39.5 to US$41.0. Despite our long-term negative view on the sustainability of Mir II and Woool, Shanda is trading at a P/E of 8.0x ex. cash 2010 and is undemanding. We upgrade our rating on Shanda from Underperform to NEUTRAL.

Bbg/RIC	SNDA US / SNDA.OQ	Price (04 Jun 10 , US$)			42.98
Rating (prev. rating)	N (U) [V]	TP (Prev. TP US$)			41.00 (39.50)
Shares outstanding (mn)	67.74	Est. pot. % chg. to TP			(5)
Daily trad vol - 6m avg (mn)	1.4	52-wk range (US$)			63.66 - 38.50
Daily trad val - 6m avg (US$ mn)	12.4	Mkt cap (US$ mn)			2,911.6
Free float (%)	39.5	Performance	1M	3M	12M
Major shareholders	Tianqiao Chen	Absolute (%)	(2.7)	11.6	(32.2)
		Relative (%)	2.7	15.7	(37.1)

Year	12/08A	12/09A	12/10E	12/11E	12/12E
Revenues (Rmb mn)	3,569	5,241	5,397	5,658	5,804
EBITDA (Rmb mn)	1,795	2,606	2,195	2,141	2,085
Net profit (Rmb mn)	1,232	1,593	932	820	762
EPS (Rmb)	17.0	23.0	13.5	11.7	10.7
- Change from prev. EPS (%)	n.a.	n.a.	3	12	43
- Consensus EPS (Rmb)	n.a.	n.a.	17.7	24.4	36.9
EPS growth (%)	(11.2)	35.4	(41.3)	(13.3)	(8.3)
P/E (x)	17.3	12.8	21.8	25.1	27.4
Dividend yield (%)	0	0	0	0	0
EV/EBITDA (x)	9.2	3.0	3.5	3.1	2.7
P/B (x)	5.3	1.7	1.6	1.5	1.4
ROE (%)	29.9	12.1	6.4	5.2	4.5
Net debt (net cash)/equity (%)	(87.1)	(104.9)	(97.8)	(98.9)	(98.4)

Note1:Ord/ADR=.5000.Note2:Shanda is the largest online game operator in China providing more than 14 game including MMORPG, advanced casual games and board & chess games.Note3:EPS = Diluted EPADS; Net profit = Reported net profit; 1ADS = 2 ordinary shares.

1Q10 below consensus due to weaker revenue, higher cost

Shanda's 1Q10 diluted EPS is US$0.49, 24% below Bloomberg consensus at US$0.643 and 9% below our forecast because: 1) revenue was 3% below forecast, 2) sales and marketing expenses were 15% above forecast and 3) effective tax rate at 30.4% was above our forecast at 28%. Revenue was down 13% QoQ as revenue from all business lines declined. Total revenue was US$193 mn (or Rmb1,318 mn), down 13% QoQ due to decline in GAME's revenue. Operating profit was down 37% QoQ and 3% above our forecast due to higher sales and marketing expenses. The effective tax rate was 30.4% in 1Q10, above 23.2% in 4Q09, due to an operating loss at Hurray. Net cash was Rmb10.4 bn, down 14% QoQ due to the GAME share buyback and SNDA investment. Excluding GAME and HRAY cash, SNDA's parent level net cash was Rmb7.2 bn in 1Q10 (or net cash per share was US$15.8.)

GAME guidance above expectation

GAME MMOG's revenue was Rmb1,023 mn, down 19% QoQ and 6% below our forecast, due to failure of new expansion packs and new game contribution, whereas casual game revenue was Rmb93.5 mn, up 48% QoQ and 31% below our forecast.

MMOG Active's paying account was 9.62 mn, up 2% QoQ and 2% below our forecast and ARPU was Rmb35.4, down 21% QoQ and 5% below our forecast. Casual games Active's paying account was 1.1 mn, up 6% QoQ and 32% above our forecast. Casual game ARPU was Rmb29.1, up 39% QoQ and 1% below our forecast.

GAME's revenue guidance is down 3% QoQ or up 1% QoQ above our expectation. GAME would launch around eight games in 2H10 or 1H11, a potential catalyst for revenue growth. Shanda's new licenced game, Dragon Nest, a 3D MMORPG, was under close beta testing, but is already ranked among the top ten in Baidu's ranking. We expect that Dragon Nest will be under open beta test in 3Q10, likely a catalyst for revenue.

On 1 March 2010, GAME announced a share repurchase of up to US$150 mn in the next 24 months. As of date, GAME has repurchased 2.9 mn ADSs for US$20.1 mn. In 1Q10, GAME had US$426 mn net cash on hand. Also, SNDA announced a US$200 mn share repurchase plan. We expect that the buyback plan of both SNDA and GAME will stabilise their share prices.

Figure 1: 1Q10 results summary and 2Q10 earnings forecast

(Rmb mn)	4Q09A	1Q10A	QoQ (%)	4Q09E	Act./Est.	2Q10E
Shanda Games	1,336	1,143	-14%	1,166	-2%	1,121
Shanda Online	295	253	-14%	257	-2%	249
Others	202	196	-3%	227	-13%	222
Elimination	(319)	(274)	-14%	(284)	-4%	(271)
Total revenue	1,514	1,318	-13%	1,366	-3%	1,321
Net profit	369	230	-38%	255	-10%	242
EPADR (US$) (dil.)	0.78	0.49	-37%	0.54	-9%	0.51

Source: Company data, Credit Suisse estimates

Despite weak 1Q10 results, we raise 2010E diluted EPS by 3% and 2011E by 10%, mainly due to better GAME guidance. DCF target price was up from US$39.5 to US$41.0 (including US$17 from GAME, US$18 net cash by end of 2010). Despite our long-term negative view on the sustainability of Mir II and Woool, Shanda is trading at a P/E of 8.0x ex. cash 2010 and is undemanding. We upgrade our rating on Shanda from Underperform to NEUTRAL.

Figure 2: Key changes in earnings estimates

	FY10 forecast			FY11 forecast		
(Rmb mn)	Old	New	Chg. (%)	Old	New	Chg. (%)
Shanda Games	4,620	4,555	-1%	4,594	4,610	0%
Shanda Online	1,023	1,011	-1%	1,026	1,032	1%
Others	1,047	929	-11%	1,315	1,103	-16%
Elimination	(1,137)	(1,104)	-3%	(1,149)	(1,087)	-5%
Total revenue	5,553	5,392	-3%	5,786	5,658	-2%
Net profit	916	929	1%	743	820	10%
EPADR (US$) (dil.)	1.92	1.97	3%	1.53	1.71	12%

Source: Credit Suisse estimates

India

India Strategy ---------- Maintain UNDERWEIGHT

Long-term implications of being a top-ten global current account deficit country

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- India's inflation and fiscal deficit are stabilizing series, with the worst most likely behind in headline terms. This is not true for current account deficit (CAD), which in 2009 was the eighth highest globally, in absolute terms, and likely headed to top five in 2010.
- Absolute CAD amount matters as it represents the economy's external capital dependence. Bottom-up, absolute CAD could continue to worsen with faster growth, reviving investment cycle and increasingly import-sensitive consumption. Commodity prices could provide a relief but this may not last perpetually.
- Top-down, the non-recovering savings rate amid rising investment rate implies CAD could worsen even as a percentage of GDP in coming years. Hence, India's growth remains linked to global capital flows.
- From an investment viewpoint, investors can not ignore global events and assume India's economic growth as given. Any major global crisis could have reverberations locally, if capital flows dry up. Conversely, if local policymakers decide to focus on CAD, interest rates could rise materially. In either case, we recommend that investors stay overweight on the relatively defensive IT and pharma sectors.

Top ten and rising

Of India's three fundamental soft spots – inflation, fiscal deficit and current account deficit – the first two are stabilizing series, both in the short and medium term. For example, inflation may not have only peaked in the near term but is almost certain not to rise much above the current peak at any point in the foreseeable future. If an investor is reconciled to occasional spikes to 10% and average 6-7%, it ceases to be an issue, in our view.

With a similar logic, turning indifferent to fiscal deficit is even easier. For the current fiscal, it will likely reduce automatically due to the funding through asset sales, including spectrum licenses. In the medium term, inflation-helped rapidly growing nominal GDP makes it possible to argue that India's debt-to-GDP will stay stable, if not shrink, regardless of the assumptions on fiscal balances.

Current account deficit (CAD) is non-stabilizing, primarily in absolute terms but likely also as a percentage of GDP in years ahead, if not addressed vigorously. And, absolute numbers for CAD matter, as that is the funding required from the external world for growth rates to be sustained.

India's CAD was the eighth highest globally in 2009. Depending on oil prices and the pace at which the crisis-ridden European economies shrink their deficits, India's CAD could be in top five, if not top three, in 2010. India's own CAD remains under upward pressure because:

1. Fast growing nominal GDP means at a constant percentage of GDP, the absolute deficit could increase at 8-15% every year.
2. Exports and remittances are a function of slower growing global GDP, while imports are linked to the faster growing local growth without new export drivers or import substitution mechanisms.
3. Of late, deficit rose even amid a muted investment cycle due to consumption likely turning more import-sensitive with a shift in the consumption basket towards higher-end autos, technology products and other commodity-intensive items.
4. Even if commodity prices or heavy capital flows provide relief in the near term, such support would be needed in almost every period for CAD and FX reserves to stay at stable or improving levels.

Figure 1: Global CAD leaders in absolute amount

Country	2009 (US$ bn)	2008 (US$ bn)	CS estimates - 2010 as % of GDP
US	(419.9)	(706)	(3.3)
Spain	(78.8)	(154)	(4.0)
Italy	(53.7)	(78)	(1.8)
France	(52.5)	(56)	(2.8)
Australia	(51.6)	(55)	(3.2)
Canada	(43.5)	7	(1.9)
Greece	(37.1)	(51)	(7.3)
India	(31.5)	(31)	(3.3)
UK	(28.7)	(40)	(1.5)
Brazil	(24.3)	(28)	(2.4)

Source: Bloomberg, Credit Suisse estimates

Rising also as a percentage of GDP?

Current account balance = savings rate – investment rate

The above equation is an accounting identity in the same vein as total assets = total liabilities and capital in a corporate balance sheet.

India's net savings rate (as against the much popular gross savings rate, which is erroneous as we explained in our March 2010 report, *Everything…in excess…is harmful*) is around 21% as of now and stable, if not falling. This net rate fell from 26% two years ago due to the rise in fiscal expenditures. While the fiscal savings could improve from now, the likely falling household savings on account of extremely low real interest rates and as reflected in five-year low deposit growth means that overall savings rate is not improving at least as of now.

On the other hand, investment rate seems to have bottomed out as evident from a flurry of investment projects being announced by corporates in recent months. If all goes as well as reflected in most economists' models, the investment rate could rise 2-4% of GDP fairly quickly in the next few quarters.

Whether one analyzes top-down using the above accounting identity or bottom-up using trade drivers and remittances, it is conceivable that without substantially low commodity prices, India's CAD could worsen from the near record high in 2009 even as a percentage of GDP.

A CAD mean reversion would require a sharp reversal in domestic savings rate, which is unlikely without a rise in real interest rates. Otherwise, not only the stock market but even the economy will remain dependent on the global risk-aversion cycle. Once again like in 2008, investors would need to assume a reasonably stable world for fundamental growth expectations of India to materialise in coming years. In other words, the India decoupling arguments are unlikely to work in the extreme case for Europe.

JSW Steel --- Maintain UNDERPERFORM

The inertia of a correcting cycle

EPS: ▲ TP: ◄►

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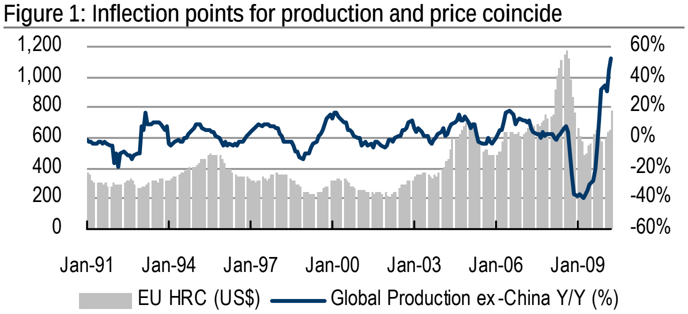
- We believe YoY growth in global production ex-China likely peaked in May, and the trend should stay downward for 6-8 months. Inflection points in this growth are coincident with inflection points in steel prices (Figure 1).
- Inertia is likely to keep news flow negative until end-CY10, even if the EU crisis does not cause a material deterioration in end-demand. The up-cycle that we saw over the past 12 months is likely to unwind: price falls leading to production cuts leading to declines in ore and coal prices, triggering more steel price declines.
- Past down-cycles have lasted 8-15 months. We do not expect this one to last that long because we are not starting from high inventory.
- Quarterly raw material pricing is likely to increase focus on the split of profit for steel companies into mining profit and conversion profit. For JSW, the profitability range is narrow as it is primarily a convertor, but its high leverage increases our target price volatility.
- We raise our FY11E EPS by 5% (based on improvements in US mills, and coal mine integration), but maintain our UNDERPERFORM rating and target price of Rs700, as debt goes up too for the coal mine, keeping equity value unchanged.

Bbg/RIC	JSTL IN / JSTL.BO	Price (03 Jun 10 , Rs)			1,065.40
Rating (prev. rating)	U (U) [V]	TP (Prev. TP Rs)			700 (700)
Shares outstanding (mn)	187.05	Est. pot. % chg. to TP			(34)
Daily trad vol - 6m avg (mn)	3.8	52-wk range (Rs)			1288.00 - 491.85
Daily trad val - 6m avg (US$ mn)	51.8	Mkt cap (Rs/US$ bn)			199.3/ 4.3
Free float (%)	53.5	Performance	1M	3M	12M
Major shareholders	Promoters 47%	Absolute (%)	(13.1)	(7.3)	82.4
		Relative (%)	(11.2)	(7.4)	59.4

Year	3/08A	3/09A	3/10E	3/11E	3/12E
Revenues (Rs mn)	123,455	158,863	188,969	242,722	304,977
EBITDA (Rs mn)	33,669	29,333	39,889	49,766	61,638
Net profit (Rs mn)	16,769	2,749	16,399	17,347	21,789
EPS (Rs)	96	15	88	93	116
- Change from prev. EPS (%)	n.a.	n.a.	0	5	0
- Consensus EPS (Rs)	n.a.	n.a.	88	104	149
EPS growth (%)	18.4	(84.8)	496.5	5.8	25.6
P/E (x)	11.0	72.5	12.2	11.5	9.1
Dividend yield (%)	1.6	0.2	1.0	1.0	1.0
EV/EBITDA (x)	9.8	12.7	9.3	8.6	6.9
P/B (x)	2.3	2.6	2.2	1.9	1.6
ROE (%)	17.2	10.6	13.2	1,714.7	1,462.4
Net debt (net cash)/equity (%)	139.5	205.6	172.8	200.5	167.0

Note1:JSW Steel is the third largest steel manufacturer in India..

Figure 1: Inflection points for production and price coincide



Source: Company data, Credit Suisse estimates

The cycle is just turning: inertia will matter for 4-6 months

Given the news flow on production cuts starting June, we believe global production ex-China likely peaked in April-May. Y/Y growth also peaked in May, and even if production were to follow a seasonal trend hereon, the Y/Y trend should stay downward for the next 6-8 months. This is important, as inflection points in Y/Y steel production ex-China are coincident with inflection points in steel prices (Figure 1).

The up-cycle that we saw over the past 12 months is likely to unwind: price falls causing postponed purchases, which beget more falls, leading to production cuts, which cause raw material prices to fall. This takes time, and the past down-cycles have lasted 8-15 months. We do not expect this one to last that long, but we expect downward momentum to last until end-CY10.

The underlying assumption here is that the EU crisis does not worsen and cause end-demand destruction. If that happens, the down-cycle could last longer than we currently expect.

Quarterly raw material pricing is likely to increase focus on the split of profit for steel companies into mining profit and conversion profit. For JSW, the profitability range is narrow as it is primarily a convertor, but high leverage increases our target price volatility.

Maintain UNDERPERFORM with our target price of Rs700

We increase our FY11 estimates by 5% (based on improvements in the US plate and pipe mill and integration of US coal mine), and keep our FY12 estimates unchanged. The coal mine integration, however, does not change our valuation for now, as it comes with an increase in debt incurred by the acquisition.

Figure 2: Changes in estimates

	FY11E		FY12E	
US$/ton	New	% chg	New	% chg
HRC India	716	-5	712	-5
Coking coal contract	219	-9	225	-6
Iron ore contract	116	11	120	14

Source: Company data, Credit Suisse estimates

Figure 3: Changes in estimates

	FY11E			FY12E		
	New	Old	% chg	New		% chg
India						
Sales volume (kt)	6,300	6,280	0	8,091	8,073	0
EBITDA US$/ton	170	172	-1	165	174	-5
US						
EBITDA (US$ mn)	32	1	nm	29	0	nm
Consolidated						
EBITDA (Rs mn)	49,766	48,642	2	61,638	60,671	2
Net income (Rs mn)	17,347	16,581	5	21,789	21,735	0

Source: Company data, Credit Suisse estimates

JFE deal crucial for the sentiment

Cash infusion from JFE is crucial for JSW to be in compliance with debt covenants as the planned expansion of 2.9mt needs more debt. The current stock price factors in the deal going through, and the new capacity commissioning on time: delays could cause disappointment.

Punjab National Bank-- Maintain OUTPERFORM

Management meet update

EPS: ◄► TP: ◄►

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- We spoke with Mr.K R.Kamath, Chairman of PNB, who stated that the bank's operating performance continues to be strong and asset-quality pressures appear manageable.
- The Chairman was confident of maintaining better-than-industry loan growth (~23%) and margins of 3.7-3.8% in FY11 as retail deposit accretion is still healthy.
- Given its sizeable restructured assets portfolio (6.5%), increased slippage in the past three quarters and its significant exposure to a couple of stressed corporates, there have been concerns about asset quality. However, Mr Kamath believes that the bank is comfortable and does not expect gross NPLs to rise over 2%
- With PNB being one of the best among peers in internal capital generation, he does not foresee equity raising for two years, even as he targets 20% growth.
- With one of the highest NIMs and leanest cost structures, PNB in our view, has strong earnings power that will enable it to absorb the potentially higher provisioning and still post ROEs of 20-22%. We maintain our OUTPERFORM rating (with our Rs1,167 target price; 16% upside).

Bbg/RIC	PNB IN / PNBK.BO	Price (04 Jun 10 , Rs)			1,011.05
Rating (prev. rating)	O (O) [V]	TP (Prev. TP Rs)			1,167 (1,167)
Shares outstanding (mn)	315.30	Est. pot. % chg. to TP			15
Daily trad vol - 6m avg (mn)	1.0	52-wk range (Rs)			1044.10 - 592.90
Daily trad val - 6m avg (US$ mn)	14.9	Mkt cap (Rs/US$ bn)			318.8/ 6.8
Free float (%)	42.2	Performance	1M	3M	12M
Major shareholders	Govt of India 57.8%	Absolute (%)	(2.3)	8.6	53.0
		Relative (%)	(2.2)	7.7	34.1

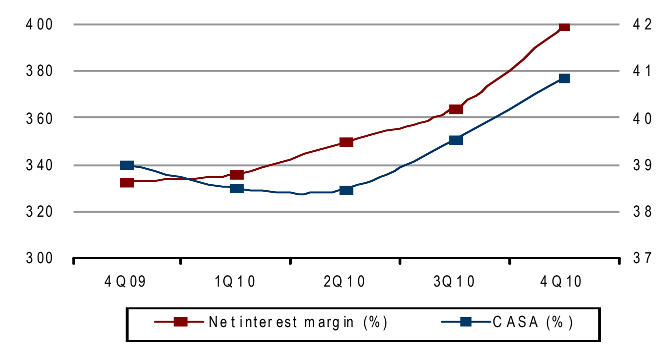
Year	3/08A	3/09A	3/10E	3/11E	3/12E
Pre-provisioning profit (Rs mn)	39,021	59,607	71,878	79,081	96,628
Net profit (Rs mn)	20,488	30,909	39,054	37,118	48,733
EPS (Rs)	65	98	124	118	155
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (Rs)	n.a.	n.a.	107	135	165
EPS growth (%)	33.0	50.9	26.4	(5.0)	31.3
P/E (x)	15.6	10.3	8.2	8.6	6.5
Dividend yield (%)	1.3	2.0	2.2	2.4	2.7
BVPS (Rs)	342	417	516	606	729
P/B (x)	3.0	2.4	2.0	1.7	1.4
ROE (%)	18.0	22.9	24.1	19.4	21.6
ROA (%)	1.1	1.4	1.4	1.1	1.2
Tier 1 (%)	9.0	9.0	9.2	8.6	8.3

Note1:PNB is the 2nd largest government-owned bank in India with about 4700 branches and an asset base of Rs2966bn at March 31, 2010.

Core profitability continues to be strong

PNB's core profitability continues to be superior than peers (pre-provisioning RoAs of ~2.5% compared to 1.5-2.0% for peers) on account of its higher margins and low opex costs. PNB's margins are currently the highest among peers at 399 bp (as of 4Q10), aided by its improving deposit franchise and deposit re-pricing benefits. Despite the impact of higher savings deposit rates (~15 bp), the bank expects to maintain margins of ~370-380 bp in FY11. Management is also confident of maintaining FY11 growth rates ahead of the system at ~22-23% levels, and YTD loans are up 20% YoY. However, drivers of loan growth are changing as the share of segments like power in infrastructure and real estate are close to exposure limits.

Figure 1: Improving deposit franchise aiding margin improvement



Source: Company data

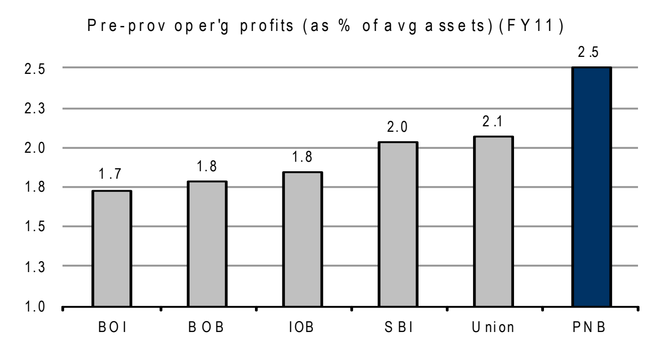
Asset quality manageable

PNB's rising credit costs (1.5% of loans in 4Q10 from 0.6% for 9M FY10 led by higher FY10 slippages of 2%), high proportion of restructured loans (6.5% of loans) and a couple of stressed accounts has led to some asset-quality concerns. Mr Kamath believes the bank is comfortable on the asset quality front. While it has a few chunky exposures that are currently stressed, overall he does not expect NPLs to rise above 2% (currently at 1.7%) even in a scenario of these turning to NPLs. The bank had a 1.8% slippage in FY10 and we are building in 2.0% of loans slipping to NPLs in FY11 (Rs37 bn). The coverage continues to be healthy at 69% (81% including write-offs).

No capital infusion over the next two years

The bank currently has a tier-I ratio of 9.2%. Considering the room for raising hybrid tier-I and strong internal capital generation, the bank does not foresee a need for capital infusion in the next two years, even as it expects the loan growth to be over 20% CAGR. This is in contrast to most of the other large government banks that are planning for additional equity capital this fiscal.

Figure 2: Superior profitability than peers



Source: Credit Suisse estimates

SAIL -- Maintain UNDERPERFORM

The inertia of a correcting cycle

EPS: ▼ TP: ▼

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- We believe YoY growth in global production ex-China likely peaked in May, and the trend should remain downward for 6-8 months. Inflection points in this growth are coincident with inflection points in steel prices (Figure 1).
- Inertia is likely to keep news flow negative until end-CY10, even if the EU crisis does not cause a material deterioration in end-demand. The up-cycle that we saw over the past 12 months is likely to unwind: price falls leading to production cuts leading to declines in ore and coal prices, triggering more steel price declines.
- Past down-cycles have lasted 8-15 months. We do not expect this one to last that long because we are not starting from high inventory.
- Quarterly raw material pricing is likely to increase focus on the split of profits for steel companies into mining profits and conversion profits. Much of SAIL's profit comes from mining ore – this is likely to be sustained. Conversion profit is only ~US$65/ton.
- We reduce our FY11/12 estimates by 5/11% as we our reduce steel price estimates. We lower our target price to Rs170 (from Rs200) as we roll forward to 2Q FY11-1Q FY12, 6x EV/EBITDA.

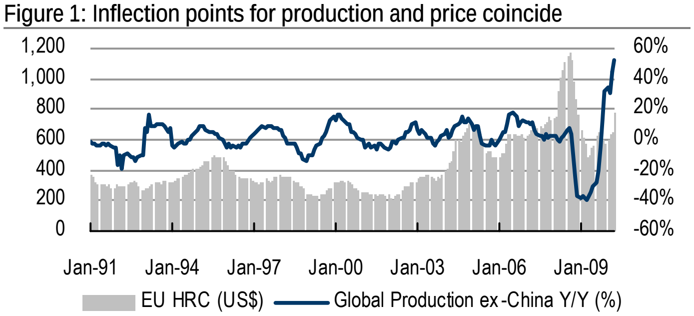
Bbg/RIC	SAIL IN / SAIL.BO
Rating (prev. rating)	U (U) [V]
Shares outstanding (mn)	4,130.40
Daily trad vol - 6m avg (mn)	10.1
Daily trad val - 6m avg (US$ mn)	36.7
Free float (%)	14.2
Major shareholders	Government 86%

Price (03 Jun 10 , Rs)			202.00
TP (Prev. TP Rs)			170 (200)
Est. pot. % chg. to TP			(16)
52-wk range (Rs)			255.30 - 140.40
Mkt cap (Rs/US$ bn)			834.3/ 17.9
Performance	1M	3M	12M
Absolute (%)	(7.8)	(10.8)	14.5
Relative (%)	(5.8)	(10.9)	0.1

Year	3/08A	3/09A	3/10E	3/11E	3/12E
Revenues (Rs mn)	395,673	431,501	418,896	475,956	504,939
EBITDA (Rs mn)	107,223	78,434	99,393	121,305	123,998
Net profit (Rs mn)	75,966	61,749	67,500	78,958	78,464
EPS (Rs)	18.4	14.9	16.3	19.1	19.0
- Change from prev. EPS (%)	n.a.	n.a.	(6)	(5)	(11)
- Consensus EPS (Rs)	n.a.	n.a.	16.3	18.7	21.5
EPS growth (%)	21.2	(18.7)	9.3	17.0	(0.6)
P/E (x)	11.0	13.5	12.4	10.6	10.6
Dividend yield (%)	1.8	1.3	1.3	1.3	1.3
EV/EBITDA (x)	7.0	9.4	7.8	6.8	7.1
P/B (x)	3.6	3.0	2.5	2.1	1.8
ROE (%)	36.6	27.7	24.5	22.6	19.2
Net debt (net cash)/equity (%)	(43.1)	(38.2)	(21.1)	(6.1)	7.1

Note1:SAIL is a vertically integrated public-sector steel manufacturer..

Figure 1: Inflection points for production and price coincide



Source: Company data, Credit Suisse estimates

The cycle is just turning: inertia will matter for 4-6 months

Given the news flow on production cuts starting June, we believe global production ex-China likely peaked in April-May. YoY growth also peaked in May; even if production were to follow a seasonal trend hereon, the Y/Y trend should remain downward for the next 6-8 months. This is important, as inflection points in Y/Y steel production ex-China are coincident with inflection points in steel prices (Figure 1).

The up-cycle that we saw over the past 12 months is likely to unwind: price falls causing postponed purchases, which beget more falls, leading to production cuts, which cause raw material prices to fall. This takes time, and the past down-cycles have lasted 8-15 months. We do not expect this one to last that long, but we expect downward momentum to last until end-CY10.

The underlying assumption here is that the EU crisis does not worsen and cause end-demand destruction. If that happens, the down-cycle could last longer than we currently expect.

Quarterly raw material pricing is likely to increase focus on the split of profit for steel companies into mining profit and conversion profit. For SAIL, a significant proportion of its profit comes from iron ore integration, which helps offset its high conversion cost. As iron ore prices fall, competitive advantage of SAIL can diminish, although for now we do not expect a material decline in iron ore prices.

Maintain UNDERPERFORM; lower target price to Rs170

We reduce our FY11/12 estimates by 5/11% as the reduction in steel price is higher than the cuts in coking coal prices vs our earlier assumptions (Figure 2). We maintain our volume estimates. Our target price reduces to Rs170 as we roll forward to 2Q FY11-1Q FY12.

The follow-on public offer (FPO) for SAIL has already been delayed to October 2010, and if the negative cycle in steel continues (as we expect), it could be delayed further. SAIL's plans to fund the expansion projects with a D/E of 1:1 could thus be at risk, but this is unlikely to slow down its expansion. Given US$1100/ton of added brown-field capacity and US$400/ton of modernization, we continue to find SAIL's capacity expensive.

We believe for investors wanting to stay invested in Indian steel stocks, SAIL would be the best option, with its iron ore integration helping sustain a US$200-plus/ton of EBITDA.

Figure 2: Changes in our estimates

	FY11E		FY12E	
US$/ton	New	% chg	New	% chg
HRC India	716	-5	712	-5
Coking coal contract	219	-9	225	-6
Sales volume (kt)	12,500	0	13,340	0
EBITDA $/t	216	-5	207	-10
EBITDA (Rs mn)	121,305	-5	123,998	-10
Net income (Rs mn)	78,958	-5	78,464	-11

Source: Company data, Credit Suisse estimates

Tata Steel -- Maintain UNDERPERFORM

The inertia of a correcting cycle

EPS: ▲ TP: ▼

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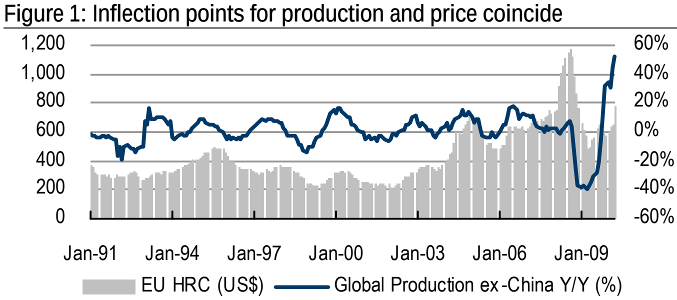
- We believe YoY growth in global production ex-China likely peaked in May, and the trend should stay downward for 6-8 months. Inflection points in this growth are coincident with inflection points in steel prices (Figure 1).
- Inertia is likely to keep news flow negative until end-CY10, even if the EU crisis does not cause a material deterioration in end-demand. The up-cycle that we saw over the past 12 months is likely to unwind: price falls leading to production cuts leading to declines in ore and coal prices, triggering more steel price declines.
- Past down-cycles have lasted 8-15 months. We do not expect this one to last that long because we are not starting from high inventory.
- Quarterly raw material pricing is likely to increase focus on the split of profit for steel companies into mining profit and conversion profit. For now, we do not build in declines in coal and ore prices, which could hurt Tata India's profit if they materialize.
- Our FY11E EPS rises 5% as we raise our FY11E EBITDA/ton for Corus, but our target price falls to Rs400 (from Rs500) as we roll forward our EV/EBITDA to 2Q11E-1Q12E. We maintain UNDERPERFORM.

Bbg/RIC	TATA IN / TISC.BO	Price (03 Jun 10 , Rs)			485.40
Rating (prev. rating)	U (U) [V]	TP (Prev. TP Rs)			400 (500)
Shares outstanding (mn)	886.19	Est. pot. % chg. to TP			(18)
Daily trad vol - 6m avg (mn)	14.3	52-wk range (Rs)			695.05 - 338.20
Daily trad val - 6m avg (US$ mn)	143.1	Mkt cap (Rs/US$ bn)			430.2/ 9.2
Free float (%)	69.7	Performance	1M	3M	12M
Major shareholders	Promoters 34%	Absolute (%)	(20.2)	(20.1)	0.7
		Relative (%)	(18.5)	(20.2)	(12.0)

Year	3/08A	3/09A	3/10E	3/11E	3/12E
Revenues (Rs mn)	1,315,359	1,473,293	1,017,578	1,026,358	1,076,212
EBITDA (Rs mn)	179,931	181,277	75,923	153,619	159,758
Net profit (Rs mn)	123,500	49,509	(20092)	58,211	61,119
EPS (Rs)	188	60	(23)	66	69
- Change from prev. EPS (%)	n.a.	n.a.		5	0
- Consensus EPS (Rs)	n.a.	n.a.	(23.2)	62.1	81.6
EPS growth (%)	157.3	(68.0)	n.a.	n.a.	5.0
P/E (x)	2.6	8.1	NM	7.4	7.0
Dividend yield (%)	3.7	3.6	3.9	3.6	3.6
EV/EBITDA (x)	5.6	5.6	12.4	6.1	5.4
P/B (x)	0.9	1.4	1.7	1.5	1.3
ROE (%)	22.0	38.2	(1.3)	20.0	18.3
Net debt (net cash)/equity (%)	141.1	181.6	199.6	167.3	125.3

Note1:Tata Steel is the sixth largest steel manufacturer globally. Its domestic operations have high vertical integration..

Figure 1: Inflection points for production and price coincide



Source: Company data, Credit Suisse estimates

The cycle is just turning: inertia will matter for 4-6 months

Given the news flow on production cuts starting June, we believe global production ex-China likely peaked in April-May. Y/Y growth also peaked in May, and even if production were to follow a seasonal trend hereon, the Y/Y trend should stay downward for the next 6-8 months. This is important, as inflection points in Y/Y steel production ex-China are coincident with inflection points in steel prices (Figure 1).

The up-cycle that we saw over the past 12 months is likely to unwind: price falls causing postponed purchases, which beget more falls, leading to production cuts, which cause raw material prices to fall. This takes time, and the past down-cycles have lasted 8-15 months. We do not expect this one to last that long, but we expect downward momentum to last until end-CY10.

The underlying assumption here is that the EU crisis does not worsen and cause end-demand destruction. If that happens, the down-cycle could last longer than we currently expect.

Quarterly raw material pricing is likely to increase focus on the split of profit for steel companies into mining profit and conversion profit.

Maintain UNDERPERFORM; lower our target price to Rs400

After management reduced high cost capacity, EBITDA/ton for Corus needs to be re-anchored at higher levels across cycles. We increase our FY11 estimates by 5% due to improvement in profitability at Corus.

However, our target price falls to Rs400 as we roll forward to 2Q11-1Q12. June 2010 quarter results should be strong for Tata Steel as it appears to be benefiting from full price increase, but the cost increases are only partial. In India, price increases taken in April 2010 have already been nullified by cuts in May and June 2010, hurting profitability materially from 2Q11.

We also reduce FY12E shipment from the new capacity expansion as blast furnace commissioning has been delayed by six months – this, however, has no impact on our valuation. Tata should be comfortable with covenant compliance until the September 2010 quarter but should need to raise funds to remain compliant in December 2010.

Figure 2: Changes in estimates

	FY11E		FY12E	
	New	% chg	New	% chg
India				
Sales volume (kt)	6,707	0	7,572	-9
EBITDA $/t	386	1	370	2
Corus				
Sales volume (kt)	13,110	-4	13,548	-8
EBITDA $/t	52	31	45	76
Others				
Sales volume (kt)	4,156	-1	4,175	0
EBITDA $/t	26	-11	27	-8
Consolidated				
EBITDA (Rs mn)	153,619	3	159,758	-2
Net income (Rs mn)	58,211	5	61,119	0

Source: Company data, Credit Suisse estimates

Malaysia

Malaysia Economics

Exports weakened in April, but it does not distract from our view that the recovery will continue

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- Merchandise exports fell 12.4% MoM in April (+26.6% YoY), reflecting lower electronics and commodity exports. The fall was partly seasonal, and partly a retreat from March's strong trade numbers.
- Similarly, imports fell 5.1% MoM (+27% YoY) in April. Imports of intermediate and consumption goods fell 5-9% MoM. In contrast, imports of capital goods rose 4% MoM in April. Trade surplus narrowed to RM9.2 bn in April from RM14.3 bn in March.
- We expect exports to rebound in May and to remain on an upward trend in the rest of 2010. The global manufacturing PMIs have moderated in May but remained at high levels, suggesting that global growth momentum may have peaked. We expect the global recovery to continue to improve, but at a slower pace.

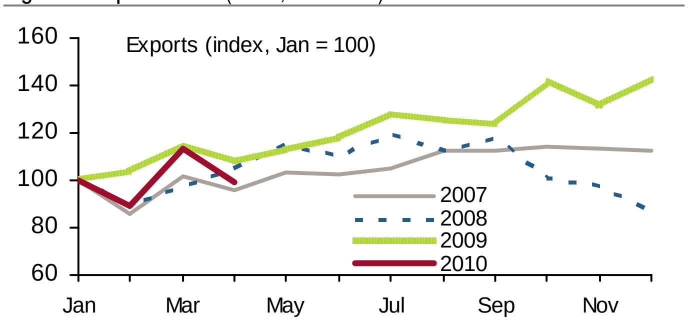
Figure 1: External trade (index, Dec-06 = 100)

Source: Department of Statistics, Credit Suisse estimates

Exports fell 12.4% MoM in April

Merchandise exports fell 12.4% MoM in April (+26.6% YoY), reflecting lower electronics and commodity exports. The fall was partly seasonal, and partly a retreat from March's strong trade numbers. Our seasonally-adjusted estimates suggest that exports fell 5% MoM in April. Electronics exports fell 7.3% MoM (+21.6% YoY) in April, while palm oil exports were down 21.7% MoM (+15.7% YoY). Similary, crude oil, refined petroleum products, and liquefied natural gas were all down MoM.

Figure 2: Exports trend (Index, Jan = 100)

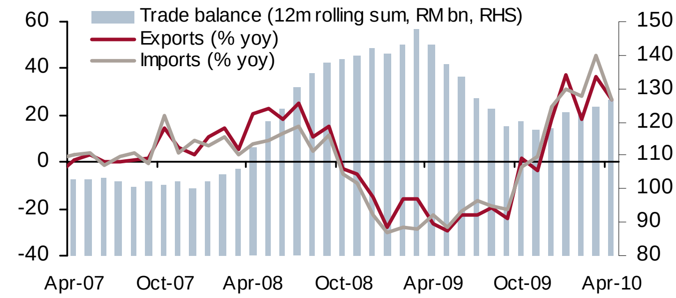


Source: Department of Statistics, Credit Suisse estimates

Imports also fell 5.1% MoM in April

Imports fell 5.1% MoM (+27% YoY) in April. Imports of intermediate and consumption goods fell 5-9% MoM. In contrast, imports of capital goods rose 4% MoM in April. We expect imports to recover along with exports. Strong consumer confidence and the government's stimulus measures should continue to help boost domestic demand and imports in the coming months. Trade surplus narrowed to RM9.2 bn in April from RM14.3 bn in March.

Figure 3: Trade balance



Source: Department of Statistics, Credit Suisse estimates

We expect exports to rebound in May

We expect exports to rebound in May and to remain on an upward trend in the rest of 2010. The global manufacturing PMIs moderated in May but remained at high levels, suggesting that global growth momentum may have peaked. We expect the global recovery to continue to improve, but at a slower pace. Although the risk is there, we do not expect the recent financial disturbance to hurt the prospect of the global recovery.

Figure 4: Major exports and imports

		% QoQ		% MoM		% YoY		
	08 share	Q4-09	Q1-10	Mar-10	Apr-10	Q4-09	Q1-10	Apr 10
Merchandise exports	100	11	0	27	-12	5	31	27
Electrical and electronics	38	11	-9	23	-7	19	36	22
Palm oil	9	4	14	29	-22	12	42	16
LNG	6	46	20	51	-35	-43	-14	33
Crude oil	6	32	4	-11	-7	2	69	93
Petroleum products	4	8	-10	11	-11	22	29	50
By destination								
Singapore	15	11	-9	26	-6	6	26	26
US	12	10	-12	36	-10	-7	11	6
EU	11	15	-9	19		1	-18	
Japan	11	20	5	22	-13	-27	14	38
China	10	6	2	40	-18	61	68	28
Thailand	5	18	11	14	-25	35	57	22
Merchandise imports	100	8	-5	28	-5	7	35	27
Capital goods	16	22	-18	17	4	17	10	14
Intermediate goods	68	4	-4	31	-5	0	38	27
Consumption goods	8	3	-2	28	-9	6	18	9

Source: Department of Statistics, Credit Suisse estimates

Malaysian Banks Sector

New report: 1Q10 results round-up: strong results trigger street upgrades

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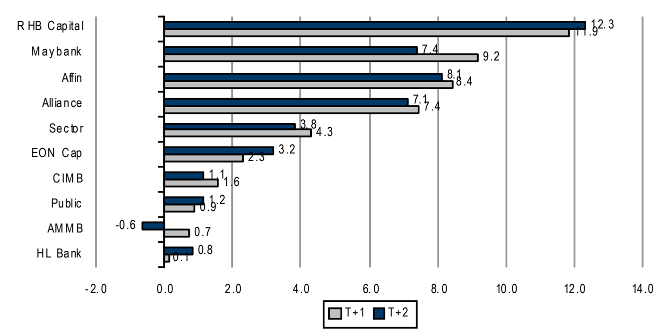
- 1Q10 results were largely in line with CS' and street's estimates for CIMB, Public and HL Bank, while Maybank and Alliance's profits were above CS' and street's expectations on the back of lower-than-expected credit cost.
- With the exception of HL Bank, the other banks registered more than 10% annualised consumer loan growth year-to-date. Bigger banks such as Maybank, Public and CIMB appear to have gained market share of consumer loans.
- Core equity tier 1 capital ratio of banks remained above 8%, with the exception of Public. Banks remained cautious on dividend guidance pending further clarification on BASEL 3. Banks expect more clarity by early 4Q10.
- Strong 1Q10 results triggered upgrades in street's earnings estimates. We believe there is further upside potential for street's earnings estimates with possible earnings surprises from: 1) improvements in credit cost, 2) firmer NIMs, 3) better prospects for non-interest income and 4) upside surprise from overseas operations. Our top sector picks are CIMB and Public.

Figure 1: Street's earnings revision over past 3 mths for T+1 and T+2 (%)



Source: Thomson One Analytics

1Q10 results in line to above expectations: Malaysian banks' 1Q10 results were largely in line to above the street's and CS' expectations. Maybank and Alliance's results exceeded CS' and street's expectations, while performances of the other banks under our coverage (i.e., CIMB, Public and HL Bank) were in line. Lower-than-expected credit cost was a common source of earnings surprise.

Bigger banks gained loan market share: With the exception of HL Bank, the other banks registered more than 10% annualised consumer loan growth year-to-date. Bigger banks such as Maybank, Public and CIMB appear to have gained market share of consumer loans. However, while loan growth of other banks (i.e., Public, Alliance and HL Bank) were in line with our expectations, overall loan growth year-to-date for CIMB and Maybank are still below our full-year forecasts due to slower-than-expected corporate loan growth. This can be partially attributed to disintermediation as certain corporates could have reverted to the debt capital market for funding.

Higher non-interest income for banks active in capital market operations: Banks with strong presence in capital market-related operations such as CIMB, Maybank and Public managed to grow their non-interest income. With the increase in trade flows and strengthening of the RM, these banks benefited from higher forex income (both transactional as well as translation gains).

Better asset quality and credit cost lower than expected: With the exception of HL Bank, all the other banks showed improvement in gross NPL ratio over the past quarter (i.e., 1Q10). The slight uptick in HL Bank's gross NPL ratio was mainly due to increase in default rate on working capital loans. We suspect this could be due to isolated corporate accounts and is not reflective of an industry-wide trend. Credit cost of all banks have so far been better than expected and this has been a key source of positive earnings surprises as well as earnings growth (please refer to table below for comparison of reported credit cost versus CS's estimate). With the adoption of FRS 139 by all banks by end 2010, we expect a wider differentiation of future credit cost among banks as provisions will be determined based on the most recent two-year default experience and speed of recovery. As such, banks with superior asset quality and NPL recovery could improve on provisions with the adoption of FRS 139.

Still cautious on dividend guidance due to BASEL 3: Core equity tier 1 capital ratio of banks remained above 8% with the exception of Public Bank. Banks remained cautious on dividend guidance pending further clarification on BASEL 3. Banks expect more clarity by early 4Q10.

Strong 1Q10 triggered street's earnings upgrades: We noticed a 2.4% upgrade in the current financial year's net profit estimates for banks in the past month and a 4.3% upgrade over the past three months. We believe there is further upside potential for street's earnings estimates with possible earnings surprises from: 1) improvements in credit cost, 2) firmer NIMs, 3) better prospects for non-interest income and 4) upside surprise from overseas operations.

Top sector picks: CIMB and Public

In our view, CIMB has the greatest potential for positive earnings surprises, while Public possesses defensive qualities and is a possible takeover target.

Valuation metrics

		CS	Price		Year	EPS Chg. (%)		TP (%)	Up/dn	EPS		EPS grth. (%)		P/E (x)		Div. yld. (%)	ROE	P/B
Company	Ticker	rating	Local	Target	T	T+1	T+2	Chg	(%)	T+1	T+2	T+1	T+2	T+1	T+2	T+1	(%)	(x)
Alliance FG	AFG MK	U	2.79	2.30	03/10	0	0	0	(18)	0.2	0.3	25	20	11.5	9.6	3.1	12.3	1.4
CIMB Group	CIMB MK	O	6.93	8.40	12/09	0	0	0	21	0.5	0.6	29	12	13.6	12.2	3.7	16.8	2.2
Hong Leong Bank	HLBK MK	N	8.43	8.60	06/09	0	0	0	2	0.5	0.6	(5)	14	15.4	13.5	1.9	14.3	2.1
HLFG	HLFG MK	O	8.06	9.35	06/09	0	0	0	16	0.6	0.7	(4)	25	14.1	11.2	2.1	12.6	1.7
Maybank	MAY MK	U	7.35	6.80	06/09	0	0	0	(7)	0.5	0.5	434	4	14.1	13.5	2.8	14.2	1.9
Public Bank	PBKF MK	O	11.58	14.60	12/09	0	0	0	26	0.9	1.0	20	23	13.5	11.0	4.9	24.8	3.1

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM; Source: Company data, Credit Suisse estimates

South Korea

Korea Insurers -- Maintain OVERWEIGHT

Positioned for potential rate hike

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- The combination of stronger-than-expected 1Q10 GDP growth and the recent completion of local elections is likely to elevate the market's anticipation of rate hikes over the coming months..
- This, plus the sector's strong price performance trends seen in a rising interest rate environment, supports our optimism towards the whole sector.
- While non-life insurers offer better equity story, we would also pick up a few life insurers given the combination of their higher leverage on rising interest rates and increased valuation merits.
- Our top picks remain those second-tier non-life insurers with relative valuation merits, such as LIG Insurance (002550.KS, W23,400, OUTPERFORM [V], TP W31,300), Meritz F&M (000060.KS, W7,850, OUTPERFORM [V], TP W11,000), and Korea Life (088350.KS, W7,740, OUTPERFORM [V], TP W10,800) given its highest leverage on rising interest rates.

We remain keen on Korean insurers

Valuation metrics

Company	Ticker	CS Rating	Price Local	Price Target	Year T	P/E (x) T+1	P/E (x) T+2	P/B (x)
Samsung F&M	000810 KS	O	178,500	245,000	03/10	11.7	10.1	1.4
Dongbu Insurance	005830 KS	O	34,850	46,000	03/10	7.3	6.6	1.3
LIG Insurance	002550 KS	O	23,700	31,300	03/10	7.1	6.0	1.1
Hyundai M&F	001450 KS	O	23,600	27,000	03/10	8.1	7.1	1.3
Meritz F&M	000060 KS	O	7,850	11,000	03/10	5.3	4.5	1.1
Korea Life	088350 KS	O	7,840	10,800	03/10	11.9	10.5	1.1
TongYang Life	082640 KS	O	12,900	18,100	03/10	9.4	7.9	1.3

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM
Source: Company data, Credit Suisse estimates

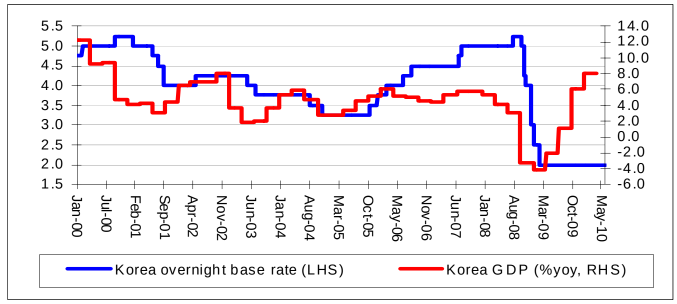
In our view, the combination of stronger-than-expected 1Q10 GDP growth (8.1% YoY from the low base seen a year ago) and the recent completion of local elections will elevate the market's anticipation of rate hikes over the coming weeks. While renewed EU concerns may well cause a bit more delay, we expect the BoK to begin to normalise its benchmark rates late in 3Q10 (with a cumulate hike of 75 bp in 2010, followed by another 150 bp hikes in 2011).

This, plus the sector's historically strong price performance trends seen in a rising interest rate environment, not only supports our optimism towards the whole sector, but also leads us to continue to advise investors to re-enter the sector using its recent weakness.

We continue to view that non-life insurers offers structurally better equity story given: 1) the combination of their better profitability with stronger growth trends, 2) relatively cheaper valuation, 3) much lower average crediting rates (hence lower interest rate risks).

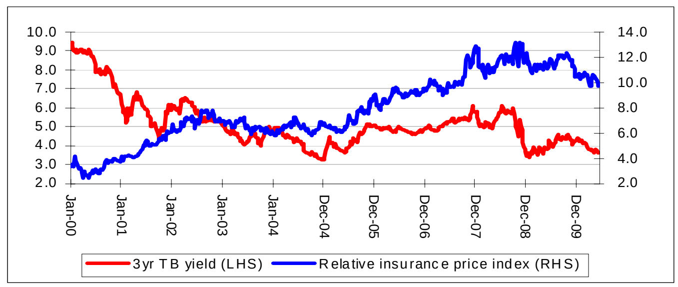
Meanwhile, life insurers offer much higher cyclical leverage on rising interest rates (given their deeper negative spread book). This, plus their recent sharp correction, suggests that a few life insurers may well deserve another look, such as Korea Life and Tongyang Life (082640.KS, W12,750, OUTPERFORM [V], TP W18,100).

Figure 1: Korea's overnight base rate versus GDP growth



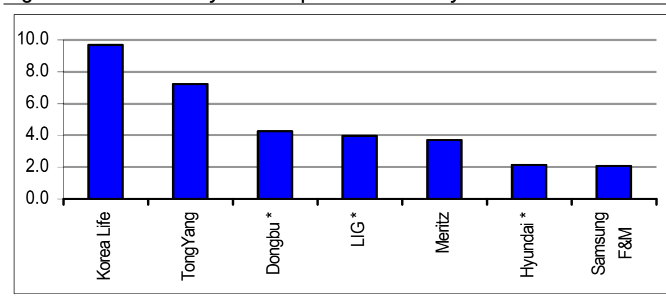
Source: BoK

Figure 2: Three-yr gov't bond yield versus insurance sector performance



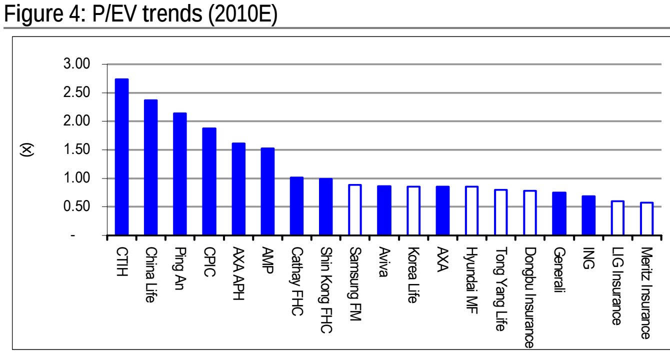
Source: KRX, DataStream

Figure 3: EV sensitivity to +25 bp in investment yields



Note*: based on the company's own FY09 disclosure Source: Company data

Figure 4: P/EV trends (2010E)



Source: Company data, Credit Suisse estimates

As of close of business on 3rd June 2010, Credit Suisse Securities (Europe) Limited, Seoul Branch performs the role of liquidity provider on the warrants of which underlying assets are Samsung Fire & Marine and holds 9,509,580 of warrants concerned. These may be covered warrants that constitute part of a hedged position.

SK Telecom --Downgrade to NEUTRAL

At the crossroads

EPS: ▼ TP: ▼

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- Given its larger subscriber base and strong hold on the high-end Korean mobile subscribers, SKT is under most threat from KT's iPhone strategy. Although SKT is also growing through its smartphone strategy, we believe it will not be easy to post a similar type of growth that KT is achieving with iPhone.
- Despite SKT's plan to release 10 additional smartphone line-ups and expand its WiFi hotspots to 10,000, we expect SKT to face tough competition from KT, which we believe has the best smartphone model (iPhone) and better network coverage (27,000 WiFi hotspots by the end of 2010E).
- Unless SKT makes a major breakthrough with its smartphone strategy and/or shows much stronger growth potential from its corporate wireless data service, it is unlikely to post a stronger earnings rebound than its peers.
- Based on marketing cost adjustments and new leased-line revenues (added to other revenue) of W120 bn and 126 bn for 2010E and 2011E, respectively, we raise our 2010-11 earnings estimates. Assuming a target 2011E P/E of 9.5x, we cut our target price to W183,000 from W230,000 and, hence, downgrade our rating to NEUTRAL from Outperform.

Bbg/RIC	017670 KS / 017670.KS	Price (04 Jun 10, W)			167,500.00
Rating (prev. rating)	N (O)	TP (Prev. TP W)			183,000 (230,000)
Shares outstanding (mn)	80.70	Est. pot. % chg. to TP			9
Daily trad vol - 6m avg (mn)	0.2	52-wk range (W)			190500 - 158500
Daily trad val - 6m avg (US$ mn)	37.5	Mkt cap (W/US$ bn)			13,525.0/ 11.3
Free float (%)	66.4	Performance	1M	3M	12M
Major shareholders	SK Group (23.09%)	Absolute (%)	(2.9)	(2.3)	(4.8)
		Relative (%)	0.3	(5.0)	(21.2)

Year	12/08A	12/09A	12/10E	12/11E	12/12E
Revenues (W bn)	11,675	12,101	12,691	13,063	13,275
EBITDA (W bn)	4,003	4,209	4,488	4,577	4,681
Net profit (W bn)	1,278	1,288	1,416	1,548	1,656
EPS (W)	15,736	15,956	17,760	19,172	20,515
- Change from prev. EPS (%)	n.a.	n.a.	9	5	3
- Consensus EPS (W)	n.a.	n.a.	19,397	22,016	22,989
EPS growth (%)	(22.2)	1.4	11.3	8.0	7.0
P/E (x)	10.6	10.5	9.4	8.7	8.2
Dividend yield (%)	5.6	5.6	5.6	5.6	6.0
EV/EBITDA (x)	4.3	4.2	3.8	3.7	3.5
P/B (x)	1.3	1.2	1.1	1.1	1.0
ROE (%)	11.9	11.5	12.0	12.0	12.0
Net debt (net cash)/equity (%)	38.6	39.3	31.8	26.4	21.7

Note1:Ord/ADR=.1111.Note2:SK Telecom Co., Ltd., an affiliate of SK Group, is largest mobile operator in South Korea that offers wide range of mobile telecommunications services that including the state-of-the-art wireless data service.

Smartphone strategy

We have a neutral view on SKT's latest plan to focus on Google's Android platform by releasing 10 new smartphone models in May-June and its decision to stay away from selling iPhone 4G. As suggested by the successful sale of SKT's smartphone line-ups in May, SKT is likely to regain its leadership in smartphone sales with new models, but it may necessarily grow the company's ARPU similar to iPhone's positive impact on KT's ARPU. In our view, this could be driven by: 1) SKT's relatively large subscriber size; and 2) most of SKT's smartphone subscribers being its existing high-end subscribers making switches to smartphones from feature phones. In order for SKT to post a similar ARPU improvement to that of KT, we estimate the company's current smartphone-based market share of 50% will need to improve up to 65% (i.e., KT's current smartphone market share to fall from current 50% to 35%), which looks unlikely in the near term.

New marketing cost scheme

Despite KCC's pressure to cut marketing costs, it would be difficult for SKT to control its marketing cost while pushing new smartphone line-up. Hence, we expect SKT, along with other telcos, to aggressively employ sales discount, a major loophole in the current marketing cost restriction. The company has already introduced a number of sales discount plans for smartphone models that would reduce the company's marketing cost burden.

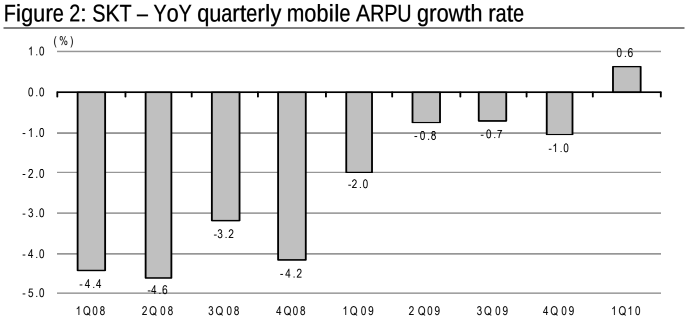
Unlike other marketing costs, sales discount is offered as a substitute to handset subsidies. Instead of giving direct handset subsidies that would be expensed when subscribers buy new handsets, a sales discount would be offered over a 24-month contract period that would be taken out from revenue line rather than being added into the total opex (i.e., lower revenue instead of higher opex). Although subscribers would end up paying similar costs at the end, the new scheme would help the company's short-term earnings while avoiding KCC regulation.

Figure 1: SKT earnings estimate revisions for 2010-11

	Actual	CS new est.		CS old est.		% ch.		Consensus	
(W bn)	FY09A	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
Total Sales	12,101	12,691	13,063	12,778	13,319	-2.9%	2.2%	12,486	12,948
Mobile voice	7,822	8,026	8,200	8,029	8,149	-2.1%	2.1%		
Mobile data	2,660	2,806	2,892	2,986	3,301	-3.0%	-3.2%		
VAS	394	414	462	422	480	-10.3%	9.5%		
Interconn.	1,225	1,325	1,384	1,340	1,389	-4.3%	3.3%		
Others	0	120	126	0	0	n.a.	n.a.		
Op. income	2179.3	2,246	2,331	2,250	2,411	-3.7%	3.6%	2,366	2,575
EBITDA	4,209	4,488	4,577	4,284	4,504	-1.9%	6.8%	4,539	4,727
Net profit	1,288	1,416	1,548	1,311	1,469	-7.4%	18.1%	1,532	1,725
EBITDA margin	34.8%	35.4%	35.0%	38.5%	39.3%			36.4%	36.5%
Mkting cost/rev	26.9%	26.5%	27.0%	26.2%	26.0%				

Source: Bloomberg, Company data, Credit Suisse estimates

Figure 2: SKT – YoY quarterly mobile ARPU growth rate



Source: Company data

Rating history (017670 KS)

Date	Old rating	New rating	Old TP	New TP
Jun.4. 2010	OUTPERFORM	NEUTRAL	W230,000	W183,000

As of close of business on 6 Jun 2010, Credit Suisse Securities (Europe) Limited, Seoul Branch performs the role of liquidity provider on the warrants of which underlying asset is KT/SKT and hold 13,356,450/11,213,150 warrants concerned. These may be warrants that constitute part of a hedged position.

LG Telecom ---Downgrade to NEUTRAL

Overwhemed

EPS: ▼ TP: ▼

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- Based on our doubts about the newly announced marketing cost cap policy, it is difficult for us to expect a major decline in LGT's marketing cost-to-revenue ratio from that of 1Q10. Hence, with a more flattish marketing cost outlook, we make another round of downward earnings estimate revisions for LGT.
- Although LGT's fixed-line operation is growing at a much faster rate with high profitability, the growth is being overshadowed by slower growth of mobile operation. For 2010-11, we expect fixed-line revenue to grow 12% and 6%, compared to mobile revenue growth of 2% and 3%, respectively.
- For mobile operation, we are still concerned about: 1) the company's planned upgrade to 4G LTE network; and 2) lack of smartphone line-up to compete against SKT and KT.
- Despite maintaining the same 2011E target P/E of 8.5x, we cut our target price to W8,500 from W9,500. Hence, with potential target price upside of 10%, we downgrade LGT from Outperform to NEUTRAL.

Bbg/RIC	032640 KS / 032640.KS	Price (04 Jun 10 , W)	7,750.00
Rating (prev. rating)	N (O)	TP (Prev. TP W)	8,500 (9,500)
Shares outstanding (mn)	514.80	Est. pot. % chg. to TP	10
Daily trad vol - 6m avg (mn)	1.0	52-wk range (W)	9440 - 7110
Daily trad val - 6m avg (US$ mn)	10.1	Mkt cap (W/US$ bn)	3,989.7/ 3.3
Free float (%)	45.9		
Major shareholders	LG Corp (30.57%)		

Performance	1M	3M	12M
Absolute (%)	(6.6)	(1.0)	(5.6)
Relative (%)	(3.6)	(3.8)	(21.8)

Year	12/08A	12/09A	12/10E	12/11E	12/12E
Revenues (W bn)	4,798	7,587	8,492	8,295	8,588
EBITDA (W bn)	778	898	1,331	971	1,096
Net profit (W bn)	283.6	462.3	848.4	523.7	609.7
EPS (W)	1,023	898	1,648	1,017	1,184
- Change from prev. EPS (%)	n.a.	n.a.	(13)	(15)	(8)
- Consensus EPS (W)	n.a.	n.a.	1,356	1,298	1,424
EPS growth (%)	3.0	(12.2)	83.5	(38.3)	16.4
P/E (x)	7.6	8.6	4.7	7.6	6.5
Dividend yield (%)	2.6	3.2	3.7	4.6	5.4
EV/EBITDA (x)	6.0	6.8	4.5	6.1	5.3
P/B (x)	1.1	1.0	0.9	0.8	0.7
ROE (%)	14.4	11.6	18.1	10.4	11.1
Net debt (net cash)/equity (%)	35.7	54.4	42.9	38.2	33.9

Note1:LG Telecom provides a wide range of personal communications services (PCS) using code division multiple access (CDMA) technology: call forwarding/waiting, call/data transfer, voice mail, Internet phone and authentication text-to-speech (TTS) services..

Earnings estimate revisions for 2010-11

Following further reviews of 1Q10 results and new consolidated IFRS financials, we make another round of 2010-12 earnings estimate revisions for LGT.

Higher marketing cost assumptions – Based on our doubts over the strict implementation of the new marketing cap policy, we assume higher marketing costs. We revise up our marketing cost-to-revenue ratio assumption for 2010 and 2011 to 25.1% and 25.2%, respectively, from 22.5%.

ARPU adjustments – We also make a slight downward adjustment to LGT's wireless operations, based on its slower ARPU growth rate. For 1Q10, LGT's monthly ARPU fell 3.0% QoQ and 1.8% YoY to W26,557, while data ARPU to total ARPU was only 11.5% (down from 12.0% in 4Q09). We believe LGT's wireless ARPU decline was driven by the departure of high-end subscribers due to competitors' new smartphone offering. Given the lack of competitive smartphone line-up in the near term, LGT could face further difficulties in retaining its high-end subscribers.

Figure 1: LG Telecom – earnings estimate revisions for 2010-11

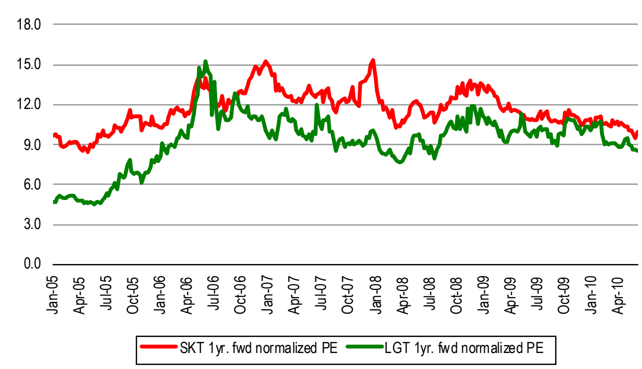
	Actual	CS new est.		CS old est.		% change		Consensus	
(W bn)	FY09A	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
Sales	7,587	8,492	8,295	8,470	8,200	0.3%	1.2%	7,309	7,425
(1) Service rev.	6,117	6,503	6,758	6,515	6,760	-0.2%	0.0%		
Wireless	3,531	3,598	3,687	3,610	3,688	-0.3%	0.0%		
TPS	883	1,038	1,139	1,038	1,139	0.0%	0.0%		
Data	1,161	1,334	1,455	1,334	1,455	0.0%	0.0%		
Telephony	523	510	451	510	451	0.0%	0.0%		
Others	19	22	25	22	25	-0.2%	0.0%		
(2) Handset	1,407	1,457	1,497	1,423	1,400	2.4%	6.9%		
(3) Other	63	532	40	532	40	0.0%	0.0%		
Operating profit	654	1,077	712	1,392	1,000	-22.6%	-28.8%	840	808
EBITDA	898	1,331	971	1,646	1,259	-19.1%	-22.9%	1,654	1,666
Net profit	462	848	524	971	674	-12.7%	-22.3%	617	568
Normalised NP	462	421	524	584	674	-27.9%	-22.3%		
EBITDA margin	11.8%	15.7%	11.7%	19.4%	15.4%			22.6%	22.4%
Mkting cost/rev	24.5%	25.1%	25.2%	22.5%	22.5%				

Source: Company data, Bloomberg, Credit Suisse estimates

Earnings estimate revisions for 2010-11

Based on our new earnigns adjustments, LGT no longer looks undervalued as it was previously. On a normalised PE basis, LGT trades at 2010E and 2011E of 9.4x and 7.6x, respectively. On an EV/EBITDA basis, LGT looks even even more expensive at 2010E and 2011E of 4.5x and 6.1x, respectively.

Figure 2: One-year forward P/E comparison – LGT vs SKT



Source: Company data, Credit Suisse estimates

Rating history (032640 KS)

Date	Old rating	New rating	Old TP	New TP
Jun.4. 2010	OUTPERFORM	NEUTRAL	W9,500	W8,500

As of close of business on 6 Jun 2010, Credit Suisse Securities (Europe) Limited, Seoul Branch performs the role of liquidity provider on the warrants of which underlying asset is KT/SKT and hold 13,356,450/11,213,150 warrants concerned. These may be warrants that constitute part of a hedged position.

KT Corp. -- Maintain OUTPERFORM

Going for the top

EPS: ▼ TP: ▲

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- We believe KT is in a position to replicate its strong 1Q10 results for least another 12 months on the back of its successful smartphone and data strategy.
- Although KT remains cautious on the impact of KCC's new marketing cost cap policy, we are doubtful whether the new policy would have negative impact on KT's current momentum in smartphone-based sub growth.
- If KT's current mobile growth offsets decline in fixed-line voice revenue and achieves annual top-line growth of 2-3%, we believe it is possible for the company to achieve annual operating profit growth of 7-10% on the back of its aggressive cost cutting measures, including further labour restructuring.
- Based on the same target 2011E P/E multiple of 9.5x as is with SKT, we raise our target price for KT to W60,000 from W58,000. With a potential upside of 27% from the current levels, we maintain our OUTPERFORM rating on KT

Bbg/RIC	030200 KS / 030200.KS	Price (04 Jun 10, W)	47,350.00
Rating (prev. rating)	O (O)	TP (Prev. TP W)	60,000 (58,000)
Shares outstanding (mn)	261.10	Est. pot. % chg. to TP	27
Daily trad vol - 6m avg (mn)	1.5	52-wk range (W)	50600 - 34600
Daily trad val - 6m avg (US$ mn)	57.6	Mkt cap (W/US$ bn)	12,363.7/ 10.3
Free float (%)	59.9		
Major shareholders	National Pension Corp, 9.22%		

Performance	1M	3M	12M
Absolute (%)	(2.8)	7.7	36.8
Relative (%)	0.4	4.8	13.3

Year	12/08A	12/09A	12/10E	12/11E	12/12E
Revenues (W bn)	11,785	18,956	19,681	20,044	20,313
EBITDA (W bn)	3,562	4,066	5,078	5,388	5,514
Net profit (W bn)	449	605	1,350	1,641	1,779
EPS (W)	1,649	2,317	5,170	6,285	6,812
- Change from prev. EPS (%)	n.a.	n.a.	(6)	3	2
- Consensus EPS (W)	n.a.	n.a.	5,557	6,226	6,670
EPS growth (%)	(53.1)	40.5	123.1	21.6	8.4
P/E (x)	28.7	20.4	9.2	7.5	7.0
Dividend yield (%)	2.4	4.2	5.9	6.5	7.0
EV/EBITDA (x)	4.8	4.6	3.6	3.3	3.1
P/B (x)	1.5	1.2	1.2	1.1	1.0
ROE (%)	5.1	5.8	12.6	14.7	15.0
Net debt (net cash)/equity (%)	54.6	60.1	53.5	46.1	39.0

Note1: Ord/ADR=.5000. Note2: KT Corp is the largest integrated telecom operator in Korea, with the dominant market share in local telephony, domestic and international long-distance services respectively..Note3: Our EPS estimates are based on KT's number of outstanding shares excluding its treasury stocks..

Earnings estimate revisions for 2010-11

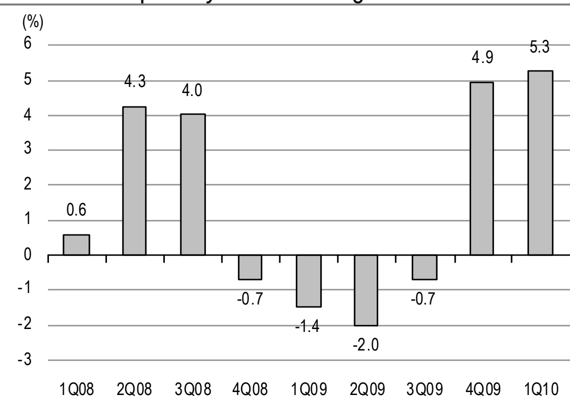
Without major changes to our marketing cost assumptions, the key changes to our earnings estimates are: 1) a stronger growth in our wireless revenue assumption, up 8.7% YoY and 3.2% YoY for 2010 and 2011, respectively, on higher ARPU contribution from smartphone subscriber growth; and 2) a faster decline in fixed-line telephony revenue – down 8.0% YoY and 5.5% YoY for 2010 and 2011, respectively. However, with 2010-11 EBITDA margin estimates of 25.8% and 26.9%, respectively, we see further margin upside for KT, with major restructuring initiatives not yet being reflected in our earnings model. For the next two years, it is possible for KT to see a significant decline in opex due to: 1) a further headcount reduction through early retirement programme; 2) plans to scrap the 2G CDMA service by the end of 2011; and 3) further synergies from the merger with KTF.

Figure 1: KT – earnings estimate revisions for 2010-11

	Actual	CS new est.		CS old est.		% change		Consensus	
(W bn)	FY09A	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
Total revenue	18,956	19,681	20,044	19,428	19,804	1.3%	1.2%	19,289	19,587
Telephony	4,853	4,463	4,216	4,606	4,432	-3.1%	-4.9%		
Wireless	9,661	10,498	10,839	10,093	10,341	4.0%	4.8%		
Internet	2,574	2,726	2,825	2,735	2,866	-0.3%	-1.4%		
Data	1,317	1,360	1,419	1,360	1,419	0.0%	0.0%		
Others	551	634	746	634	746	0.0%	-0.1%		
Operating profit	945	2,093	2,444	2,141	2,370	-2.2%	3.1%	2,152	2,358
EBITDA	4,066	5,078	5,388	5,122	5,306	-0.9%	1.6%	5,275	5,476
Net profit	605	1,350	1,641	1,446	1,653	-6.7%	-0.7%	1,400	1,582
EBITDA margin	21.5%	25.8%	26.9%	26.4%	26.8%			27.4%	28.0%
Mkting cost/rev	16.6%	17.1%	17.0%	16.7%	16.8%				

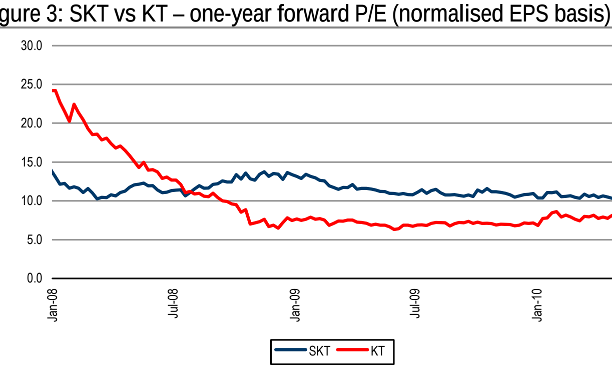
Source: Company data, Bloomberg, Credit Suisse estimates

Figure 2: KT – YoY quarterly mobile ARPU growth rate



Source: Company data.

Figure 3: SKT vs KT – one-year forward P/E (normalised EPS basis)



Source: Company data

Rating history (030200 KS)

Date	Old rating	New rating	Old TP	New TP
Jun.4. 2010	OUTPERFORM	OUTPERFORM	W58,000	W60,000

As of close of business on 6 Jun 2010, Credit Suisse Securities (Europe) Limited, Seoul Branch performs the role of liquidity provider on the warrants of which underlying asset is KT/SKT and hold 13,356,450/11,213,150 warrants concerned. These may be warrants that constitute part of a hedged position.

Taiwan

Everlight-- Maintain OUTPERFORM

JV with LGD/AmTRAN reaffirms our positive view

EPS: ◄► TP: ◄►

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- Everlight announced a JV in LED downstream with LGD/AmTRAN on 3 June. We spoke with the company for the details.
- Paid-in capital will be US$30 mn, with Everlight/LGD/AmTRAN each accounting for 60%/20%/20%. The JV's LED chip packaging capacity will be 100 mn/mo by end-10, solely allocated to Raken, an LGD-AmTRAN JV for TV assembly. Everlight will supply LED chips/light bars for Raken before the JV's capacity getting online.
- Due to the fast emergence of LED TV, TV makers are securing LED supplies by making alliances with established LED companies, which to some extent overrules the concern about potential oversupply for LEDs. We maintain our view that backlight LED supply will remain tight into end-10 due to insufficient qualified vendors.
- On 10 May, we upgraded Everlight to OUTPERFORM from Neutral on its strong 2010E earnings momentum and more secured LED die supply due to its investments in LED upstream players. This JV with leading TV makers proves its value and reaffirms our positive view on Everlight. We continue to like Everlight and recommend that investors accumulate the stock on weakness.

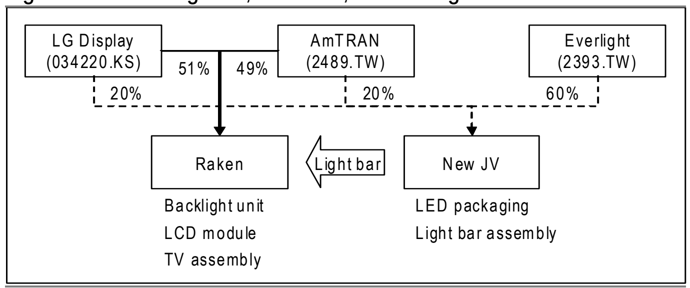
Bbg/RIC	2393 TT / 2393.TW	Price (04 Jun 10)			83.50
Rating (prev. rating)	O (O) [V]	TP (Prev. TP)			116 (116)
Shares outstanding (mn)	410.23	Est. pot. % chg. to TP			39
Daily trad vol - 6m avg (mn)	5.6	52-wk range			120.0 - 75.9
Daily trad val - 6m avg (mn)	17.8	Mkt cap (mn)			34,254.5/ 1,061.7
Free float (%)	70.8	Performance	1M	3M	12M
Major shareholders	Chairman Yeh	Absolute (%)	(13.5)	(10.7)	2.1
	(4.3%)	Relative (%)	(6.6)	(8.0)	(5.7)

Year	12/08A	12/09A	12/10E	12/11E	12/12E
Revenues (mn)	11,043	11,208	17,893	20,410	21,873
EBITDA (mn)	1,685	1,883	4,358	5,051	5,278
Net profit (mn)	1,358	1,800	3,021	3,430	3,511
EPS	3.76	4.86	7.23	8.19	8.38
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS	n.a.	n.a.	5.87	6.31	7.70
EPS growth (%)	(13.8)	29.3	48.7	13.3	2.3
P/E (x)	22.2	17.2	11.5	10.2	10.0
Dividend yield (%)	3.9	5.3	6.7	7.5	6.5
EV/EBITDA (x)	21.6	19.0	8.4	7.2	6.9
P/B (x)	3.1	2.4	2.2	2.0	1.9
ROE (%)	13.9	12.4	18.7	19.8	19.3
Net debt (net cash)/equity (%)	18.7	8.8	8.9	8.2	5.8

JV with LGD/AmTRAN a ticket to LGD supply chain

Everlight announced its JV with LG Display (LGD) and AmTRAN for LED chip packaging (located in the downstream of LED value chain) on 3 June. We spoke with the company to get more details about the JV. Paid-in capital for the JV will be US$30 mn, with Everlight investing US$18 mn (60%) and LGD/AmTRAN each US$6 mn (20% each). The JV will build 100 mn/mo LED chip packaging capacity in the first stage by end-2010, and plans to enter mass production in late 2010. The JV will be shipping LED light bars for TV backlight to Raken (not listed), a JV between LGD and AmTRAN for TV assembly for LGD. Meanwhile, Everlight will also produce LED chips and light bars for Raken. The 100 mn/mo LED chip packaging capacity will solely be allocated to Raken in current plan.

Figure 1: JVs among LGD, AmTRAN, and Everlight



Source: Company data

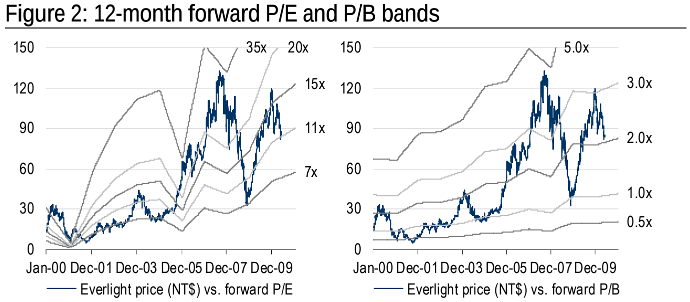
TV makers securing supply for LEDs by forging alliances

Due to the fast emergence of LED TV application, TV makers are securing LED supplies by making alliances with established companies in the LED value chain in addition to their in-house supply. The current bottleneck for LED supply is upstream LED die production due to insufficient qualified vendors. While LED upstream players are aggressively installing new MOCVD reactors, it takes, on an average, 4.5 months to ramp up a new reactor to production state, not to mention the relatively low yields of the new entrants to the industry. We believe LED supply for backlight applications will remain tight into end-2010, thus capping TV makers' shipments of LED TV.

Everlight's move reaffirms our positive view

We upgraded Everlight to OUTPERFORM from Neutral on 10 May on its strong 2010E earnings momentum as well as its better position than peer LED downstream packagers due to its diversified investments in LED upstream players (Epistar, Tekcore, and Huga). Amid the ongoing LED die shortage, Everlight has secured more supplies, making itself more valuable to the TV makers. This new JV with leading TV makers proves its value and reaffirms our positive view on Everlight. The stock has underperformed the index despite the company's sound top-line growth, which we believe is due to the weak sentiment for the LED sector stemming from concerns about a potential oversupply. In 2H10, we expect the increased LED TV penetration and the associated tight LED supply to overrule the concerns. The stock is trading at an attractive 10.8x mid-2011E EPS, versus our target 15x P/E multiple now – a good point to start accumulating the stock.

Figure 2: 12-month forward P/E and P/B bands



Source: TEJ, Credit Suisse estimates

Recently Published Research

Date	Title	Author(s)	Tel.	E-mail
Fri 4 Jun	Jump-Start	Asia Research Team	852 2101 6570	jahanzeb.naseer@credit-suisse.com
Fri 4 Jun	Korea Telecoms Sector	Jeff Kahng Jihong Choi	82 2 3707 3738 822 3707 3735	jeff.kahng@credit-suisse.com jihong.choi@credit-suisse.com
Fri 4 Jun	Malaysian Banks Sector	Danny Goh	603 2723 2083	danny.goh@credit-suisse.com
Fri 4 Jun	Minor International PCL	Thaniya Kevalee Siriporn Sothikul, CFA	662 614 6219 662 614 6217	thaniya.kevalee@credit-suisse.com siriporn.sothikul@credit-suisse.com
Thu 3 Jun	Thailand Energy Sector	Paworamon Suvarnatemee	662 614 6210	paworamon.suvarnatemee@credit-suisse.com
Wed 2 Jun	China Market Strategy	Vincent Chan Peggy Chan, CFA	852 21016568 852 2101 6305	vincent.chan@credit-suisse.com peggy.chan@credit-suisse.com
Wed 2 Jun	Hong Kong Property Sector	Cusson Leung, CFA Joyce Kwock	852 2101 6621 852 2101 7496	cusson.leung@credit-suisse.com joyce.kwock@credit-suisse.com

Companies Mentioned

Samsung Fire & Marine (000810.KS, W180,000, OUTPERFORM, TP W245,000)
Dongbu Insurance (005830.KS, W35,250, OUTPERFORM [V], TP W46,000)
Hyundai Marine & Fire (001450.KS, W23,500, OUTPERFORM [V], TP W27,000)
LIG Insurance Co Ltd (002550.KS, W23,400, OUTPERFORM [V], TP W31,300)
Meritz Fire & Marine Insurance Co Ltd (000060.KS, W7,850, OUTPERFORM [V], TP W11,000)
Korea Life Insurance (088350.KS, W7,740, OUTPERFORM [V], TP W10,800)
Tong Yang Life Insurance (082640.KS, W12,750, OUTPERFORM [V], TP W18,100)
China Petroleum & Chemical Corporation - H (0386.HK, HK$5.98, OUTPERFORM [V], TP HK$7.70)
PetroChina - H (0857.HK, HK$8.53, NEUTRAL, TP HK$10.10)
CNOOC Ltd (0883.HK, HK$12.34, UNDERPERFORM [V], TP HK$11.00)
China Petroleum & Chemical Corporation - H (0386.HK, HK$5.98, OUTPERFORM [V], TP HK$7.70)
CNOOC Ltd (0883.HK, HK$12.46, UNDERPERFORM [V], TP HK$11.00)
China Oilfield Services Ltd (2883.HK, HK$9.15, NEUTRAL [V], TP HK$8.00)
SK Energy (096770.KS, W109,500, OUTPERFORM, TP W181,000)
Reliance Industries (RELI.BO, Rs1029.20, OUTPERFORM [V], TP Rs1217.00)
Cairn India Ltd (CAIL.BO, Rs292.05, NEUTRAL [V], TP Rs277.00)
Thai Oil (TOP.BK, Bt45.00, OUTPERFORM [V], TP Bt54.00)
Steel Authority of India Ltd (SAIL.BO, Rs202.00, UNDERPERFORM [V], TP Rs170.00)
Tata Steel Ltd (TISC.BO, Rs485.40, UNDERPERFORM [V], TP Rs400.00)
JSW Steel Ltd (JSTL.BO, Rs1065.40, UNDERPERFORM [V], TP Rs700.00)
JFE Holdings Inc (5411, ¥3,090, NEUTRAL [V], TP ¥3,500, MARKET WEIGHT)
Everlight Electronics Co Ltd (2393.TW, NT$83.50, OUTPERFORM [V], TP NT$116.00)
LG Display Co Ltd. (034220.KS, W45,300, OUTPERFORM, TP W55,000)
Amtran Technology Co (2489.TW, NT$31.80)
Epistar Corporation (2448.TW, NT$88.30, OUTPERFORM [V], TP NT$133.00)
Tekcore (3339.TWO, NT$33.70, NOT RATED)
Huga (Emerging Board) (8199.TWE, NT$31.51, NOT RATED)
Johnson Electric Hdg. (0179.HK, HK$4.05, OUTPERFORM [V], TP HK$4.40)
Quality Houses (QH.BK, Bt1.99, OUTPERFORM [V], TP Bt3.35)
TCL Multimedia Technology Holdings Ltd (1070.HK, HK$5.61, OUTPERFORM [V], TP HK$9.85)
Skyworth Digital (0751.HK, HK$6.75, OUTPERFORM [V], TP HK$10.80)
PCD Stores (0331.HK, HK$2.28, OUTPERFORM [V], TP HK$3.75)
GOME Electrical Appliances Holding Limited (0493.HK, HK$2.34, OUTPERFORM [V], TP HK$3.34)
Li Ning Co Ltd (2331.HK, HK$26.25, OUTPERFORM [V], TP HK$37.40)
Anta Sports Products Limited (2020.HK, HK$13.90, OUTPERFORM [V], TP HK$19.40)
Peak Sports Products Co.Ltd. (1968.HK, HK$5.96, OUTPERFORM [V], TP HK$8.00)
Xtep (1368.HK, HK$6.28, OUTPERFORM, TP HK$7.90)
Punjab National Bank Ltd (PNBK.BO, Rs1011, OUTPERFORM [V], TP Rs1167.00)
Bank of Baroda (BOB.BO, Rs742.00, OUTPERFORM [V], TP Rs657.00)
Bank of India (BOI.BO, Rs333, OUTPERFORM [V], TP Rs363.00)
State Bank Of India (SBI.BO, Rs2337.00, UNDERPERFORM [V], TP Rs2178.00)
Indian Overseas Bank (IOBK.BO, Rs92.00, UNDERPERFORM [V], TP Rs94.00)
Union Bank of India (UNBK.BO, Rs316.00, OUTPERFORM [V], TP Rs332.00)
SK Telecom (017670.KS, W167,500, OUTPERFORM, TP W183,000)
LG Telecom (032640.KS, W7,750, OUTPERFORM, TP W8,500)
SK Broadband Co Ltd (033630.KQ, W5,890, UNDERPERFORM, TP W5,200)
KT Corp (030200.KS, W47,350, OUTPERFORM, TP W60,000)
China Resources Land Ltd (1109.HK, HK$14.60, OUTPERFORM [V], TP HK$17.00)
KT Corp (030200.KS, W47,350, OUTPERFORM, TP W60,000)
SK Telecom (017670.KS, W167,500, NEUTRAL, TP W183,000)
LG Telecom (032640.KS, W7,750, NEUTRAL, TP W8,500)
KT Corp (030200.KS, W46,500, OUTPERFORM, TP W60,000)
SK Telecom (017670.KS, W167,500, NEUTRAL, TP W183,000)
China Vanke Co Ltd-A (000002.SZ, Rmb7.28, OUTPERFORM [V], TP Rmb9.50)

Disclosure Appendix

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