Wednesday, 19 May 2010

CREDIT SUISSE

Asian Daily (Asia Edition)

EPS, TP and Rating changes

	EPS		TP		
(% change)	T+1	T+2	Chg	Up/Dn	Rating
Sina	27	12	6	51	O (O)
SJM	24	24	15	62	O (O)
Wilmar International	0	0	(17)	(8)	U (N)
LG Telecom	0	(8)	(10)	21	O (O)
Acer	(11)	(7)	(12)	21	O (O)

C[3]: Connecting clients to corporates

Hong Kong

China Railway Group (0390.HK) NDR
Date 19 May, Hong Kong
Coverage Analyst Ingrid Wei

Cathay Financial Holding (2882.TW) NDR
Date 19-20 May, Hong Kong
Coverage Analyst Chung Hsu

"A Date with David" – China Wireless (2369.HK)
Date 20 May, Hong Kong
Coverage Analyst Kenny Lau

Bonjour (0653.HK) NDR
Date 25 May, Hong Kong
Coverage Analyst Marisa Ho

Industry Expert Meetings : China Property Expert - Prof. Jianhai CAO
Date 26 May, Hong Kong
Coverage Analyst Jinsong Du

Frasers Commercial Trust (FRCR.SI) NDR
Date 01 June, Hong Kong
Coverage Analyst Tricia Song

Singapore

Tat Hong (TAT.SI) Post FY10 Results
Date 25 May, Singapore
Coverage Analyst Su Tye Chua

Industry Expert Meetings : China Property Expert - Prof. Jianhai CAO
Date 27 May, Singapore
Coverage Analyst Jinsong Du

US

Huaneng Power International Inc (0902.HK) NDR
Date 04-20 May, US
Coverage Analyst Edwin Chen

REXLot Holdings (0555.HK) Post Results NDR
Date 17-21 May, US
Coverage Analyst Gabriel Chan

E-House China Holdings (EJ.N) NDR
Date 26 May, US
Coverage Analyst Jinsong Du

Europe

Singapore Telecom (STEL.SI) NDR
Date 17-20 May, Europe
Coverage Analyst Sean Quek

Taiwan Fertilizer (1722.TW) NDR
Date 17-21 May, Europe
Coverage Analyst Sidney Yeh

Sina (SINA.OQ) NDR
Date 24 May, UK
Coverage Analyst Wallace Cheung

Standard Chartered (2888.HK) NDR
Date 24-26 May, Europe
Coverage Analyst Sanjay Jain

Contact cseq.events@credit-suisse.com or Your usual sales representative.

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1Q10 results much stronger than expected – reiterate SJM as our top pick in the sector

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New report: Site visit takeaways; lowering 2010 volume estimates

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The discussion about implementation of new auto tax intensifies: short-term negative

Singapore

Singapore Airlines (SIAL.SI) – Maintain O — Sam Lee (17)
Flight disruption in Europe depressed April traffic, but demand outlook unaffected

Asian indices - performance

(% change)	Latest	1D	1W	3M	YTD
ASX300	4,465	0.1	(1.7)	(3.6)	(8.3)
CSEALL	4,258	0.4	1.0	13.0	25.8
Hang Seng	19,945	1.2	(1.0)	0.3	(8.8)
H-SHARE	11,426	1.7	(0.7)	1.4	(10.7)
JCI	2,834	0.5	(0.6)	11.0	11.8
KLSE	1,330	(0.3)	(0.8)	5.8	4.5
KOSPI	1,643	(0.5)	(1.6)	3.1	(2.3)
KSE100	10,082	0.5	(1.2)	1.9	7.4
NIFTY	5,066	0.1	(1.4)	3.7	(2.6)
PCOMP	3,265	(0.7)	0.1	9.6	7.0
RED CHIP	3,734	1.6	(0.5)	(4.7)	(8.0)
SET	760	0.9	(1.6)	8.5	3.5
STI	2,844	0.4	(0.5)	3.2	(1.8)
TWSE	7,585	(0.2)	(0.3)	1.9	(7.4)
VNINDEX	508	(0.6)	(4.9)	0.3	2.7

Thomson Financial Datastream

Asian currencies (vs US$)

(% change)	Latest	1D	1W	3M	YTD
A$	1.2	(0.3)	(3.0)	(2.5)	(3.5)
Bt	32.3	(0.4)	(0.1)	2.7	3.0
D	19,010.0	(0.1)	0.1	(0.6)	(2.8)
NT$	31.8	0.0	(0.5)	0.7	0.4
P	45.2	0.2	(0.4)	2.3	1.9
PRs	84.5	0.1	(0.4)	0.5	(0.3)
Rp	9,126.0	(0.2)	(0.2)	2.3	2.9
Rs	45.6	(0.2)	(0.8)	1.7	2.0
S$	1.4	(0.4)	(0.7)	1.6	0.7
SLRs	113.7	0.0	0.0	0.6	0.5
W	1,149.5	(0.5)	(1.0)	0.5	0.7

Thomson Financial Datastream

Global indices

(% change)	Latest	1D	1W	3M	YTD
DJIA	10,570	(0.5)	(1.7)	1.7	1.4
S&P 500	1,128	(0.8)	(2.4)	1.9	1.1
NASDAQ	2,328	(1.1)	(2.0)	3.8	2.6
SOX	351	(2.4)	(3.8)	2.4	(2.5)
EU-STOX	2,457	1.3	(1.1)	(2.2)	(5.0)
FTSE	5,307	0.9	(0.5)	(0.3)	(1.9)
DAX	6,156	1.5	2.0	8.4	3.3
CAC-40	3,617	2.1	(2.1)	(3.5)	(8.1)
NIKKEI	10,243	0.1	(1.6)	1.2	(2.9)
TOPIX	914	(0.7)	(2.0)	2.8	0.7
10 YR LB	3.40	(2.4)	(3.5)	(10.5)	(11.3)
2 YR LB	0.75	(6.1)	(9.9)	(18.9)	(34.0)
US$:E	1.23	(1.1)	(3.1)	(9.1)	(14.8)
US$:Y	92.3	0.6	0.7	(0.4)	0.1
BRENT	73.1	(1.4)	(8.7)	(4.8)	(5.4)
GOLD	1,214.5	(0.7)	(1.5)	9.5	10.7
VIX	31.4	1.8	10.8	52.1	44.7

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	12.4	10.9	0.0	(8.1)	(4.6)
Asia Pac F X J.	30	15	12.8	11.0	(1.1)	(10.2)	(6.3)
Australia	8	23	14.9	12.1	(4.5)	(15.6)	(10.5)
China	25	17	12.8	10.9	(3.0)	(10.2)	(10.1)
Hong Kong	20	10	15.3	13.9	(1.9)	(10.1)	(7.1)
India	28	22	16.5	13.6	(1.7)	(7.0)	(0.7)
Indonesia	21	18	13.8	11.6	(1.7)	(4.3)	8.6
Korea	48	7	9.1	8.6	(4.6)	(8.7)	(1.5)
Malaysia	25	14	15.5	13.6	(1.4)	(1.5)	10.0
Pakistan	41	14	7.8	6.8	(2.8)	(7.2)	3.9
Philippines	23	13	14.7	13.1	(1.9)	(1.7)	5.9
Singapore	19	10	14.2	13.0	(1.1)	(7.4)	(2.7)
Taiwan	77	13	13.4	11.7	(2.8)	(7.6)	(8.2)
Thailand	19	18	10.3	8.7	(2.5)	0.6	5.4

* IBES estimates

Wilmar International (WIL SP) – Downgrade to U — Tan Ting Min (18)
Wilmar investigated for tax fraud; management categorically denies any wrong doing

South Korea

Duzon Bizon (012510.KS) — Minseok Sinn (19)
Korea small-cap visit

LG Telecom (032640 KS) – Maintain O — Jeff Kahng (20)
Target price cut to W9,500; still cheap, but lack of share price catalysts to hurt share performance

Taiwan

Taiwan Hardware Sector — Robert Cheng (4)
Maintain conservative view on PC brands; likely to miss 2Q10 guidance

Acer (2353 TT) – Maintain O — Robert Cheng (21)
Valuation coming to accumulate level

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

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Top of the pack ...

Asia Equity Strategy: China Consumer Stocks

New report: Priced for perfection, but starting to disappoint

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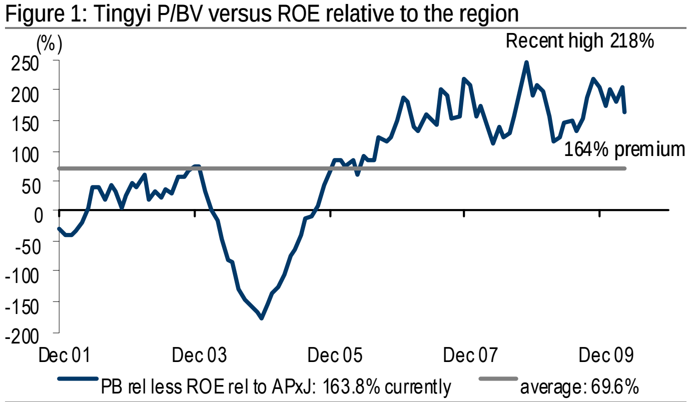
- There have been three downgrades in China consumer stocks so far. In our 6 April report, *Any cheap consumer stocks?*, we suggested switching from overvalued Chinese consumer stocks trading at large premiums to cheaper Korean names such as Kia Motors and Hyundai Mobis trading at close to 100% discounts. Although these stocks are now up about 30% in terms of relative performance, we believe there is room for further upside.
- The three China consumer stocks that have seen EPS downgrades so far are Tingyi, China Mengniu Dairy and Gome Electrical Appliances. For Tingyi, CS China consumer analyst, Kevin Yin, has cut 2010-12E earnings by 10-11%. But as Figure 1 illustrates, Tingyi still trades at a 164% premium to the region.
- We still suggest switching to Kia Motors and Hyundai Mobis. While both Kia Motors and Hyundai Mobis have risen 15% since 6 April and they do have some European exposure, they are still trading at 83% and 66% discounts, respectively. Please see our full report for details.

Figure 1: Tingyi P/BV versus ROE relative to the region



Source: Company data, Credit Suisse estimates

China consumer stocks: priced for perfection, but starting to disappoint

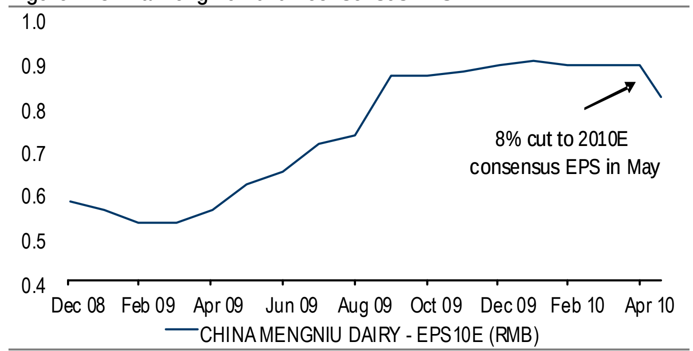
What we have noticed in the past six weeks since we wrote our 6 April report, *Any cheap consumer stocks left?*, is that three of those Chinese consumer stocks have disappointed on the earnings front.

Tingyi: Tingyi reported results on 17 May. CS China Consumer analyst, Kevin Yin, highlights that Tingyi's 1Q 2010 earnings increased 10.1% YoY to US$102 mn, 5% below consensus estimates. According to Kevin, the disappointment mainly came from a 5 p.p. gross margin erosion due to rising raw material costs. While the stock has started to fall, Figure 1 highlights that it still trades at a 164% premium to the region on our P/BV versus ROE valuation model.

The 164% premium is more than 2x the stock's average premium since 2001 of 70%. Importantly, the 164% premium uses the current ROE of 29%. Implied ROE (that is the ROE at which that premium falls to zero) is almost double that at 45%. We highlight that CS's Kevin Yin has cut 2010-12E earnings for Tingyi by 10-11%.

China Mengniu: China Mengniu reported results on 28 April 2010. Figure 2 highlights that 2010E consensus EPS for China Mengniu has been cut by 8% this month. While Mengniu's premium has dropped in the past two years due to the milk scandal, we note that the premium is still 83%. The 83% premium uses current ROE of 14.6%, but we estimate implied ROE at 22%.

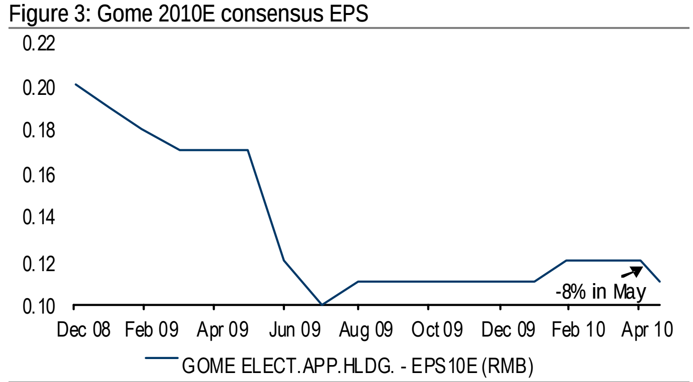
Figure 2: China Mengniu 2010E consensus EPS



Source: IBES, Credit Suisse estimates

Gome: Figure 3 highlights an 8% cut in Gome's 2010E consensus EPS in the month of May. According to CS *Consumer Weekly* published on 10 May 2010, property tightening could be a major headwind for Gome and other appliance retailers. There is a 6-12 month lag between property sales volumes shrinking and home appliance sales falling.

Figure 3: Gome 2010E consensus EPS



Source: Company data, Credit Suisse estimates

Since 31 December 2009, Li Ning's 2010E consensus EPS has been upgraded by 0.9%. With Hengan the upgrade is just 0.5%. For the region as a whole over that time period, the upgrade is 5%. With Chinese property stocks trading at the biggest discount in 10 years and pricing is cooling in the physical property market, we find it inconsistent that China consumer stocks are still trading at such high premiums. Historically, property prices and transaction volumes have also been key drivers of trends in Chinese consumption.

Taiwan Hardware Sector

Maintain conservative view on PC brands; likely to miss 2Q10 guidance

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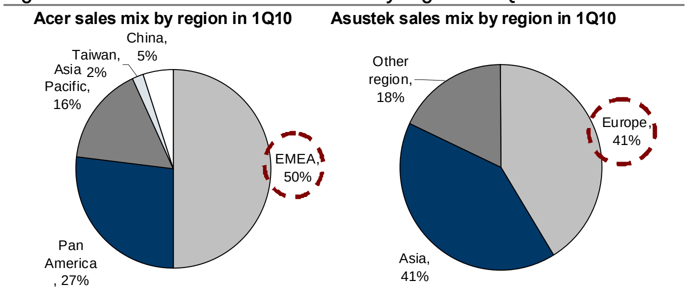
- Acer and Asustek have turned soft on 2Q10 guidance, and their share prices have dropped by 23% and 12%, respectively, in the past two months on concerns about the EUR's weakness. We have highlighted our conservative view in downstream tech, especially for PC brand players, in our hardware report: "*Switch from PC brands to ODMs*", published on 19 March.
- Acer is likely to miss its previous 2.7% operating margin guidance in 2Q10. However, Acer is confident about demand and maintains its 2Q10 sales/shipments guidance of flat QoQ. Asustek has also turned conservative on the European market, and is talking about flat QoQ of its NB/Eee PC shipments in 2Q10, from its former guidance of 0-10% QoQ shipment growth (Asustek will be re-listed on June 24). With only 15-20% sales exposure in Europe, Lenovo is conservative on its March 2010 quarter results and has the highest valuation among Asian PC brands.
- Acer still targets 3% operating margin in 2010E, and will take price cutting to its ODM partners and component suppliers. Compal is Acer's biggest ODM supplier and will face the greatest pressure in 2H10. We expect its 2Q10 shipments to be down by 4% QoQ versus the company's guidance of flat QoQ. Wistron might also face pressure on the 2Q10 guidance. Quanta can still have around 15% QoQ growth in shipments because of new models for Apple and HPQ.
- Although there are no official changes in guidance, some brands and ODMs may find it challenging to meet their original guidance. We still maintain our conservative view on the downstream space during 2Q10. Hon Hai is still a relative outperformer in the current environment and still our top pick in the downstream space. Quanta's share performance should also be better than peers on the back of its attractive valuation of 9.2x 2010E P/E, 6.6% cash yield and 42% YoY sales growth in 2010.

Figure 1: Acer and Asustek's sales mix by region in 1Q10



Source: Company data

Figure 2: Asian PC brands' NB 2Q10 official guidance versus CS estimate and current situation

	1Q10 shipments QoQ (mn units)		2Q10 guidance	2Q10 CS estimate	2Q10 Current situation
Acer	9.4	-1%	flat QoQ	down 1% QoQ	No change in official guidance, but margin may be challenging
Asustek	4.1	-9%	up 0-10%	up 5% QoQ	Shipments might meet the low end of guidance
Lenovo	4.1	-7%	n.a.	up 4% QoQ	Management is conservative on March quarter results, which the company will report at the end of May.

Source: Company data, Credit Suisse estimates

Figure 3: NB ODM 2Q10 official guidance versus CS estimate and current situation

	1Q10 shipment QoQ (mn units)		2Q10 Guidance	2Q10 CS estimate	2Q10 Current situation
Quanta	11.0	-4%	up 15-20% QoQ	up 15% QoQ	Shipments momentum should remain strong in 2Q10
Compal	12.6	-4%	flat QoQ	down 5% QoQ	No official change in shipments guidance.
Wistron	6.4	-16%	up 5-10%	up 7.5% QoQ	They see some deferred shipments from April/May to June, and expect a rebound in June.
Inventec	4.0	-12%	up 10-15% QoQ	n.a.	

Source: Company data, Credit Suisse estimates

Figure 4: The top-three NB ODM shipment

mn units	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10E	3Q10E	4Q10E	FY09	FY10E
Quanta	6.9	7.9	9.7	11.4	10.8	12.4	14.0	15.3	35.9	52.4
Compal	6.3	7.9	10.5	13.0	12.5	12.0	12.7	13.2	37.8	50.4
Wistron	5.3	6.0	6.8	7.6	6.4	6.9	8.0	8.4	25.7	29.7
Total	18.5	21.8	27.0	32.0	29.6	31.3	34.7	36.9	99.4	132.6
QoQ									YoY	
Quanta	-32%	14%	23%	17%	-6%	15%	13%	10%	-2%	46%
Compal	1%	25%	33%	24%	-4%	-4%	6%	4%	48%	33%
Wistron	-22%	13%	13%	12%	-16%	8%	17%	4%	18%	16%
Total	-20%	18%	24%	19%	-7%	6%	11%	6%	18%	33%

Source: Company data, Credit Suisse estimates

Figure 5: PC valuation matrix

	Code	TP	Rating	P/E (x) 2010E	P/E (x) 2011E	P/B (x) 2010E	P/B (x) 2011E	EPS growth 2010E	EPS growth 2011E
Brand									
Acer	2353 TT	91.1	O	12.4	9.2	2.0	1.8	44%	34%
Asustek	2357 TT	64.0	N	11.4	10.0	1.1	1.0	57%	13%
Lenovo	0992.HK	-		23.0	17.3	3.6	3.1	50%	33%
Dell	DELL	12.5	N	13.0	11.6	3.5	2.9	18%	12%
HPQ	HPQ	65.0	O	10.7	9.5	2.5	2.1	16%	13%
Apple	AAPL	315.0	O	18.9	16.7	5.2	4.0	48%	13%
EMS/ODM									
Hon Hai	2317 TT	189.0	O	12.8	11.2	2.2	1.9	25%	15%
Quanta	2382 TT	81.0	O	9.2	8.7	2.1	1.9	6%	6%
Compal	2324 TT	56.9	O	6.8	7.2	1.6	1.5	27%	-6%
Inventec	2356 TT	10.0	N	11.4	n.a.	1.3	n.a.	-1%	n.a.
Wistron	3231 TT	70.0	O	8.7	7.7	1.7	1.5	24%	13%

Source: Company data, Credit Suisse estimates

SJM -- Maintain OUTPERFORM

1Q10 results much stronger than expected – reiterate SJM as our top pick in the sector EPS: ▲ TP: ▲

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

- SJM's 1Q10 net profit grew 451% YoY to HK$760 mn, much better than our and the street's expectations – about 35% and 40% of our original forecast and consensus estimates, respectively.
- The strong growth was mostly driven by: 1) across-the-board market share gains in both self-operated and third-party casinos, and addition of Oceanus, and 2) margin improvement from third-party casinos due to favourable amendment in contract terms.
- Due to the better-than-expected 1Q10 results, we revise up our FY10-12 earnings forecasts by about 24%. We believe our forecasts are conservative, as they imply about 25-30% HoH earnings decline in 2H10 due to a potential slowdown in the gaming market amid uncertain economic conditions.
- We thus raise our target price to HK$7.80, based on 8x FY11E EV/EBITDA and fully diluted number of shares; our target price is above the conversion price of its outstanding CBs. We reiterate our OUTPERFORM rating on SJM.

Bbg/RIC	880 HK / 0880.HK	Price (17 May 10 , HK$)			4.81
Rating (prev. rating)	O (O) [V]	TP (Prev. TP HK$)			7.80 (6.80)
Shares outstanding (mn)	5,000.00	Est. pot. % chg. to TP			62
Daily trad vol - 6m avg (mn)	15.0	52-wk range (HK$)			5.47 - 2.55
Daily trad val - 6m avg (US$ mn)	8.7	Mkt cap (HK$/US$ mn)			24,050.0/ 3,083.6
Free float (%)	25.0	Performance	1M	3M	12M
Major shareholders	STDM	Absolute (%)	(8.2)	14.8	81.5
		Relative (%)	1.8	19.6	54.6

Year	12/08A	12/09A	12/10E	12/11E	12/12E
Revenues (HK$ mn)	28,165	34,353	48,222	50,742	55,548
EBITDA (HK$ mn)	1,550	2,121	4,028	4,330	4,842
Net profit (HK$ mn)	796	907	2,634	2,868	3,440
EPS (HK$)	0.18	0.18	0.53	0.57	0.69
- Change from prev. EPS (%)	n.a.	n.a.	24	24	24
- Consensus EPS (HK$)	n.a.	n.a.	0.36	0.50	0.54
EPS growth (%)	(55.0)	(1.5)	190.5	8.9	20.0
P/E (x)	26.1	26.5	9.1	8.4	7.0
Dividend yield (%)	1.2	1.9	5.5	6.0	7.2
EV/EBITDA (x)	16.0	11.0	5.0	4.1	2.9
P/B (x)	2.8	2.8	2.3	2.0	1.7
ROE (%)	10.7	10.6	25.2	24.0	24.7
Net debt (net cash)/equity (%)	(3.3)	(21.4)	(47.3)	(62.9)	(78.3)

Note1:SJM conducts casino gaming operations and gaming-related activities in Macau..

Strong results were driven by market share gains and…

SJM's first-ever quarterly operating results were better than our and the street's expectations. Overall gross gaming revenue (GGR) was up 74% YoY (or 30% QoQ) to HK$12.7 bn, outpacing the industry growth rate of 58%. SJM's overall market share rose from 28.8% in 1Q09 to 31.9% in 1Q10, a result of the across-the-board market share gain at its flagship ship casino Grand Lisboa and its third-party casinos, and the addition of Oceanus in December 2009. SJM's 1Q10 revenue of HK$12.8 bn was about 29% of our original full-year forecast or 30% of consensus' full-year estimate.

…margin improvements, especially at third-party casinos

Overall EBITDA was HK$1,096 mn, up 155% YoY, representing about 31% of our original full-year forecast or 32% of consensus estimates. The even stronger growth rate compared to that of its GGR was largely due to the significant margin improvement at the third-party casino, from less than 2% to about 4% in 1Q10, as a result of favourable amendments in contract terms; SJM can now retain 3% and 5% of high-roller and mass-market GGR, respectively, from third-party casinos. Note that Grand Lisboa's overall margin fell from about 17% in FY09 to 16% in 1Q10, which, according to management, was primarily due to an increase in revenue contribution from the lower-margin high-roller business.

We raise our FY10-12 earnings estimates by 24%

Net profit was HK$760 mn, up 451% YoY, representing about 36% of our original full-year forecast or 40% of consensus estimates. Due to the better-than-expected 1Q10 results, we increase our FY10-12 earnings forecasts by about 24%. We believe our forecasts are conservative, as they imply about 25-30% HoH earnings decline in 2H10 due to a potential slowdown in the gaming market amid uncertain economic conditions, particularly in the high-roller segment, which could be affected by a potential liquidity tightening and a correction in the China property market.

2Q10 outlook still appears positive

According to management, the overall industry GGR in May showed a sequential MoM improvement in the first two weeks of the month. Given that April 2010 was the record-high month, and SJM does not expect a decline in its market share, it is likely that SJM will see a QoQ improvement in both its revenue and net profit, in our view.

On the other hand, management stated that it expects no impact from the opening of Encore by Wynn Macau (1128.HK, HK$11.48, UNDERPERFORM [V], TP HK$11.50), given the differences in targeted customers, as SJM focuses more on the mid- to low-end Mainland Chinese players.

In terms of the medium-term outlook, management expects some softness in the high-roller segment due to above concerns. However, it has not seen any signs of deterioration yet.

We raise our target price to HK$7.80; maintain OUTPERFORM

Due to the stronger-than-expected 1Q10 results and the resultant upward revisions in our earnings forecasts, we raise our target price from HK$6.80 to HK$7.80, based on 8x FY11E EV/EBITDA and fully diluted number of shares; our target price is above the conversion price of its outstanding convertible bonds (HK$5.24). With 62% potential upside from the current levels, an attractive dividend yield of about 5.5% (note SJM is currently the only Macau casino operator that has committed to pay dividends, with a minimum payout ratio of 50%), we reiterate maintain our OUTPERFORM rating on SJM, which continues to be our top pick in the Macau gaming sector.

Sina -- Maintain OUTPERFORM

1Q10 results beat consensus and guidance; strong 2Q10 advertising guidance — EPS: ▲ TP: ▲

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- 1Q10 non-GAAP diluted EPS was US$0.34, up 9.9% QoQ, above our and consensus estimates, on better advertising and WVAS revenue, cost control and the inclusion of CRIC results. Net cash was US$729 mn (or US$12.0 net cash per ADR), up 0.9% QoQ.
- Non-GAAP brand advertising revenue grew 46.7% YoY, ahead of guidance. Sina guided 2Q10 non-GAAP ad revenue at US$70-72 mn, implying 44-48% YoY growth, and 4-7% above our estimates. As such, we raise Sina's brand ad revenue growth estimates to 39% (from 37%) for 2010 and 22% in 2011.
- Sina Mini-blog has attracted a lot of attention from advertisers, and Mini-blog indirectly benefited brand ad revenue. Management plans to improve traffic and user experience before monetisation.
- Due to better 1Q10 results and strong 2Q10 guidance, we raise our 2010E EPS by 27%. We also raise our DCF target price from US$50 to US$53. Trading at 12x non-GAAP ex-CRIC and cash 2010E P/E, Sina looks attractive. We reiterate our OUTPERFORM rating. Sina Mini-blog could be a huge 'hidden' value of the stock.

Bbg/RIC	SINA US / SINA.OQ	Price (18 May 10 , US$)	35.11
Rating (prev. rating)	O (O) [V]	TP (Prev. TP US$)	53.00 (50.00)
Shares outstanding (mn)	60.92	Est. pot. % chg. to TP	51
Daily trad vol - 6m avg (mn)	1.8	52-wk range (US$)	47.03 - 0.00
Daily trad val - 6m avg (US$ mn)	52.5	Mkt cap (US$ mn)	2,139.0
Free float (%)	95.0		
Major shareholders	n.a.		

Performance	1M	3M	12M
Absolute (%)	(6.9)	(7.7)	25.5
Relative (%)	3.2	(4.9)	7.3

Year	12/08A	12/09A	12/10E	12/11E	12/12E
Revenues (US$ mn)	369.6	358.6	396.6	478.9	556.5
EBITDA (US$ mn)	106.5	91.0	122.0	158.9	172.0
Net profit (US$ mn)	80.6	411.9	107.6	137.1	143.4
EPS (US$)	1.33	6.93	1.66	2.06	2.13
- Change from prev. EPS (%)	n.a.	n.a.	27	12	7
- Consensus EPS (US$)	n.a.	n.a.	1.27	1.67	2.15
EPS growth (%)	37.9	419.8	(76.1)	24.3	3.4
P/E (x)	26.3	5.1	21.2	17.1	16.5
Dividend yield (%)	0	0	0	0	0
EV/EBITDA (x)	14.5	16.3	11.3	7.9	6.5
P/B (x)	3.2	1.6	1.6	1.5	1.3
ROE (%)	12.4	3.0	8.0	9.1	8.6
Net debt (net cash)/equity (%)	(81.4)	(59.1)	(58.5)	(58.5)	(58.3)

Note1:Sina is i) the largest Internet portal in China, in terms of traffic and revenue, providing Chinese-language content and services; ii) the most popular blog service provider in China; iii) one of the largest Wireless VAS providers in China.Note2:EPS = Diluted EPS; Net profit = Reported net profit.

1Q10 results above guidance and forecast

1Q10 non-GAAP diluted EPS was US$0.34, up 9.9% QoQ and 47.6% YoY, above our estimates of US$0.221 and consensus' US$0.233, on better advertising and WVAS revenue, cost control and the inclusion of CRIC results. Blended gross margin improved from 55.8% in 4Q09 to 56.6% in 1Q10 on improved gross margin of brand ad. Operating margin was 17.2% above our estimates of 9.3% on higher revenue, and declining sales and marketing expenses. Net cash was US$729 mn (or US$12.0 net cash per ADR), up 0.9% QoQ. Account receivable was down from US$75.0 mn in 4Q09 to US$71.7 mn.

2Q10 guidance indicates strong advertising growth

Non-GAAP brand advertising revenue was US$53.3 mn, up 46.7% YoY, 1.9% above our estimates and ahead of guidance. Management explained the strong brand ad growth came from nearly all segments – auto, financials, IT and telecom. Management guided 2Q10 non-GAAP ad revenue at US$70-72 mn, implying 44-48% YoY growth, and 4-7% above our estimates, driven by improving advertising market, and positive impact from the World Cup and World Expo. Non-GAAP brand ad margin fell from 59.9% in 4Q09 to 57.7% in 1Q10, but was above our estimates of 49.2%. As such, we raise its brand ad revenue growth estimates to 39% (from 37%) for 2010 and 22% in 2011.

Non-GAAP non-ad revenue was US$26 mn, down 15% YoY, at the high end of its guidance, as WVAS revenue was US$24.6 mn, down 14.1% QoQ, but 6.0% above our estimates. Non-GAAP non-ad revenue guidance is US$20-21 mn, below our estimates, as management assumed the WAP billing system will not resume in 2Q and weakness in other segment. WVAS gross margin was down from 50.3% in 4Q09 to 49.4% in 1Q10 due to declining WVAS revenue.

Sina Mini-blog (similar to Twitter) unique visitors doubled in 1Q10. Management admitted that Sina Mini-blog has attracted a lot of attention from advertisers, which opened Sina-certified Mini-blog to communicate with its customers. Currently, more than 400 corporates (international and domestic brands) have opened certified Mini-blog on Sina, though not all of them are Sina's existing customers. Thus, Mini-blog indirectly benefited Sina's brand ad revenue. Management plans to improve traffic and user experience before monetisation.

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

US$ mn	4Q09A	1Q10	QoQ (%)	1Q10E	Act./Est.	2Q10E
Advertising	63.2	54.3	-14	53.3	2	71.8
WVAS	28.6	24.6	-14	23.2	6	19.5
Others*	1.7	1.5	-14	1.9	-22	1.5
Total revenue*	93.5	80.3	-14	78.3	3	92.8
Net profit	372.1	24.4	-93	8.3	192	22.4
EPS (dil.) (US$)	0.31	0.34	10	0.22	54	0.38

* Non-GAAP guidance – US$90-93 mn
Source: Company data, Credit Suisse estimates

Due to better 1Q results and strong 2Q guidance, we raise our 2010E EPS by 27% and 2011 by 12%. We also raise our DCF target price from US$50 to US$53, implying 24x 2010E non-GAAP ex-CRIC and cash P/E. Trading at 12x Non-GAAP ex-CRIC and cash 2010E P/E, Sina is attractive. We reiterate our OUTPERFORM rating and believe it can benefit from the rising brand ad market. Also, Sina Mini-blog could be a huge 'hidden' value of the stock.

Figure 2: Key changes in earnings estimates

	FY10 forecast			FY11 forecast		
US$ mn	Old	New	Chg. (%)	Old	New	Chg. (%)
Advertising	278	281	1	342	343	0
WVAS	94	91	-3	112	110	-1
Others*	27	25	-8	28	25	-11
Total revenue*	380	378	-1	464	460	-1
Net profit*	97	114	18	130	148	14
EPS (dil.) (US$)*	1.46	1.73	19	1.94	2.23	15
Net margin (%)	21	30		26	32	

* Non-GAAP; Source: Credit Suisse estimates

China Property Sector

New report: Site visit takeaways; lowering 2010 volume estimates

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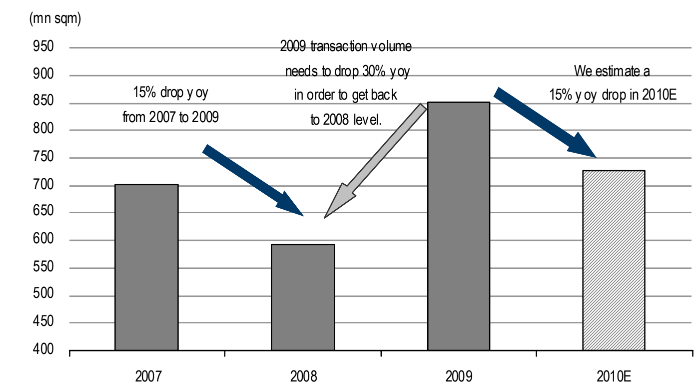
- Our latest site visits suggest that in early May, sell-through rates of most projects fell from 60-70% to 20-40%, but prices largely remain unchanged. Our pricing assumption for 2010 is unchanged since late 2009, implying a 30% decline from the current level.
- In view of the government's stiffer-than-expected tightening measures, we expect transaction volumes for the rest of 2010 to fall substantially and FY10 volumes to fall 15% YoY, as it did in 2008. We cut our 2010E volumes by 16-39%. We cut 2010E and 2011E EPS by 4-15% and 12-20%, and NAV by 6-17%, respectively.
- We apply a conservative approach to derive our target price by using NAV discounts of the January-August 2008 period, the previous trough market valuation. Hence, on average, we cut our target prices by 30%. We maintain our OUTPERFORM rating on COLI, Vanke, CR Land, KWG, Shimao, Sino-Ocean, PolyA and PolyHK, and NEUTRAL rating on GZ R&F. We downgrade Greentown to UNDERPERFORM, and Evergrande and Hopson to NEUTRAL. Our top picks are COLI, Vanke and KWG.

Figure 1: We expect a 15% YoY drop in 2010E transaction volumes



Source: CEIC, Credit Suisse estimates

Figure 2: Summary of revisons in volumes sold and target price

Developers	Rating New	Rating Old	2010E GFA sold (mn sq m) New	Old	% change	YoY % change	12-mth NAV (HK$)	Target discount (%)	New TP (HK$)	% chg from Old TP	Potential upside (%)
COLI	O	O	4.05	4.87	-17	-15	19.68	-10	17.70	-16	25
CR Land	O	O	1.84	2.43	-24	-15	24.27	-30	17.00	-29	29
China Vanke – A (Rmb)	O	O	5.64	7.74	-27	-15	10.50	-10	9.50	-27	37
China Vanke B	O	O	5.64	7.74	-27	-15	11.93	27 spread	7.90	-39	18
Evergrande	N	O	4.79	7.15	-33	-15	6.10	-60	2.40	-50	6
Greentown	U	N	3.05	3.81	-20	-15	16.62	-60	8.30	-30	(4)
Guangzhou R&F	N	N	1.98	3.22	-39	-15	17.80	-45	9.80	-57	8
Hopson	N	O	1.22	1.62	-25	-15	24.80	-60	9.90	-49	7
KWG	O	O	0.93	1.10	-16	Flat	10.70	-45	5.90	-8	47
Poly – A (Rmb)	O	O	4.50	5.27	-15	-15	19.20	-10	17.30	-17	71
Poly (Hong Kong)	O	O	1.27	1.44	-12	-12	14.10	-30	9.90	-18	55
Shimao Property	O	O	2.13	2.90	-27	-15	20.20	-30	14.10	-20	28
Sino Ocean	O	O	1.22	1.46	-16	-15	11.44	-30	8.00	-27	50
										-30	

O=OUTPERFORM, N=NEUTRAL, U=UNDERPERFORM; prices are as of 17 May 2010.
Source: Bloomberg, company data, Credit Suisse estimates.

Figure 3: Valuation summary – China developers

Company	RIC	Rating	Share price (HK$)	Target price (HK$)	+/- (%)	Mkt cap (US$ bn)	Current NAV (HK$/sh)	(Disc)/ prem. (%)	+12M NAV (HK$/sh)	(Disc)/ prem. (%)	Core P/E (x) FY09	FY10	FY11	Yield (%) FY09	P/B (x) FY10	Net gearing FY10 (%)
COLI	0688.HK	O	14.16	17.70	25	14.8	16.88	(16)	19.68	(28)	15.5	14.5	12.7	1.4	2.4	57.1
CR Land	1109.HK	O	13.18	17.00	29	8.5	21.66	(39)	24.29	(46)	20.5	13.8	11.1	1.8	1.8	44.5
China Vanke - A (Rmb)	000002.SZ	O	6.92	9.50	37	9.8	8.50	(19)	10.50	(34)	14.3	10.6	10.3	1.0	2.1	34.6
China Vanke - B	200002.SZ	O	6.70	7.90	18	1.1	9.66	(31)	11.93	(44)	12.2	9.0	8.8	1.0	1.8	34.6
Evergrande	3333.HK	N	2.26	2.40	6	4.4	5.97	(62)	6.09	(63)	129.6	4.2	3.8	0.1	0.5	20.4
Greentown	3900.HK	U	8.61	8.30	(4)	1.7	15.95	(46)	16.62	(48)	16.1	9.4	7.1	3.5	1.3	172.5
GZ R&F	2777.HK	N	9.11	9.80	8	3.8	15.80	(42)	17.80	(49)	10.2	7.1	6.3	4.5	1.3	116.9
Hopson	0754.HK	N	9.22	9.90	7	1.7	22.00	(58)	24.80	(63)	5.5	4.9	3.7	2.7	0.5	42.0
KWG	1813.HK	O	4.01	5.90	47	1.5	10.10	(60)	10.70	(63)	13.2	7.8	6.7	1.2	0.9	70.2
Poly – A (Rmb)	600048.SS	O	10.10	17.30	71	5.9	16.70	(40)	19.20	(47)	9.5	9.7	7.3	1.6	1.2	66.5
Poly (Hong Kong)	0119.HK	O	6.39	9.90	55	2.6	12.20	(48)	14.10	(55)	22.1	17.2	12.0	0.7	1.0	52.9
Shimao Property	0813.HK	O	11.04	14.10	28	5.1	17.66	(37)	20.20	(45)	12.6	8.9	8.0	2.6	1.4	78.5
Sino Ocean	3377.HK	O	5.35	8.00	50	3.9	9.60	(44)	11.44	(53)	20.2	11.4	10.0	1.5	1.1	45.1

Note: O=OUTPERFORM,N=NEUTRAL,U=UNDERPERFORM; prices are as of 17 May 2010
Source: Bloomberg, Company data, Credit Suisse estimates

Global

China Field Trip

China's threat to European capital goods companies

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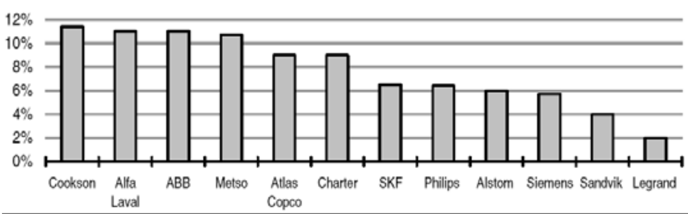
- We spent last week meeting with 20 domestic and international companies and industry experts. Competitive environment: We continue to believe that Chinese manufacturers pose a major risk to European capital goods companies on a 12-36 month view. The most imminent risks are in power equipment (especially T&D) and construction equipment.
- Focus away from government spending: Even in areas where international companies have significant IP barriers to entry, such as nuclear, it is clear that international suppliers will be rapidly replaced by local suppliers.
- Short-term positives medium-term risks: The conclusive response from all the companies was that current trading has continued to be very strong, sustaining the very strong momentum from 1Q 10.
- Positive for Philips, Cookson, Alfa; negative for ABB, Alstom, Sandvik. Philips benefits from being more focused on consumption and having a strong brand and Cookson seems to be facing limited local or international competition.

Figure 1: Exposure to China, 2008 sales



Source: Company data, Credit Suisse research

Investment themes in China

The clear short term message from our China trip is that almost everything in China is growing at a healthy rate and margins have been rising. The only areas of dissent with the otherwise bullish outlook were the T&D and generation equipment markets, which are expected to decline again in 2010.

We still believe that Chinese companies will have a detrimental impact on the prospects of European companies in China and globally. We see European companies losing share in China and eventually coming under pressure outside China as these companies internationalise.

What are companies saying?

Current trading: The assessment of current trading by the companies that we met was positive with the exception of the power generation and Transmission & distribution equipment. It would seem that the sharp recovery of volumes over the last 9 months has had a positive impact on margins as well as sales.

Concern about policy tightening: A frequent point made in presentations was that the current strength in the Chinese economy had produced a policy response that had not yet been felt by companies operating in China.

Where is the best growth in China?

The feedback from company presentations supported our China strategist, Vincent Chan's thesis that the axis of growth in China is moving away from infrastructure and towards construction and in the medium term towards consumption. The best prospects for growth we believe are in areas related to rising consumption or mining. For construction equipment companies mining continues to surprise on the upside and we believe that consumer spending should be an area of positive surprise.

Competitive risks

The most acute and imminent risk we see is to the Transmission and distribution and large domestic appliances sectors. The next high risk areas but on a slightly longer time frame are Coal fired power generation equipment, motors and welding. The end markets where we see the least risk and on the longest time frame are low voltage equipment, automation systems, tooling and heat treatment.

Competitive response

The large number of international companies we met on this trip enabled us to gain a fuller understanding of how international companies are looking to defend against up-and coming Chinese competitors. We believe the three main defensive tactics being employed are: acquisition, localisation of R&D (thinking low cost), and market segmentation.

Company rankings

The companies that we believe have the greatest and most imminent risk are Electrolux, ABB and Charter. The companies with the least risk and on the longest time frame are in our view Bodycote, Geberit, Legrand and Schneider.

End market discussions

Chinese power spending has peaked. When the head of the State grid of China announced on 18th January that T&D spending would be reduced by 26% in 2010 and would then remain depressed we thought it was treated with scepticism by the market, but this has now become the working assumption for domestic manufacturers.

Transmission and Distribution: After an exceptional year of spending of Rmb399bn spending would be in the region of Rmb250-300bn. This implies a decline in total spending of 24% in 2010 and a potential for a further decline in 2011.

Power generation: Based on the current guidance of government authorities we believe coal fired power generation equipment volumes may fall by c40% over the next 5 years leaving it 55% below peak and excess manufacturing capacity of 50GWs.

Construction Equipment: We were impressed by the rapid progress companies like Sany and Lonking are making in the construction equipment markets. At the moment the main focus of the domestic players is taking market share from international companies in China, but we expect the focus to increasingly be the international emerging markets.

(This is an extract from our China Field Trip thematic report, Assessing the competitive landscape, published on 17 May 2010. For details, please see the CS Research & Analytics website.)

Regional

Alpha Scorecard International

Analysing the performance and predictions of our factor model

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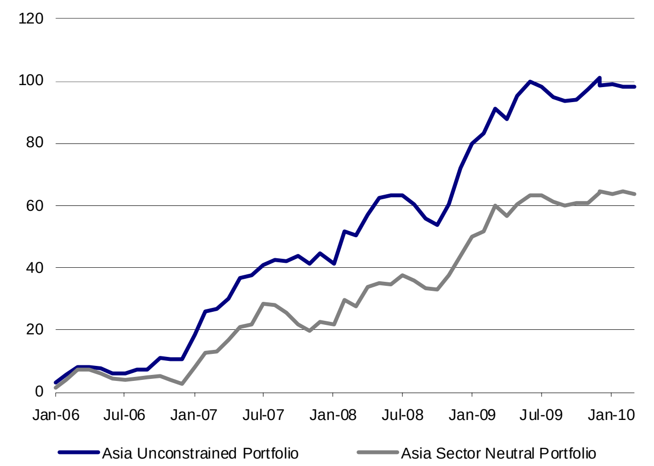
- Alpha Scorecard International uses our 10-factor model to rank Asian stocks. We highlight the best and worst ranked stocks and sectors in each market.
- Hong Kong highlights: Large cap real estate stocks dominate the list of top-ten stocks in Hong Kong scoring high on Profit Trends and Relative Value. Utilities along with banks and diversified financials are part of the short portfolio.
- Key findings in Korea: Capital goods dominate the long portfolio in Korea followed by banks/insurance scoring well on Price Reversal and Earnings Momentum. At the other end of the spectrum, consumer and technology stocks are in the short portfolio due to low scores on Historical Growth and Traditional Value.
- What to choose in China: At the industry level, the areas that stand out are automobiles, transportation, diversified financials and retail dominating the top quintile, whereas energy, food & beverage, and capital goods dominate the bottom quintile. Materials and insurance stocks are found in both the top and bottom quintiles.

Figure 1: Asia 10 factor long/short and sector neutral portfolio returns



Source: Credit Suisse Quantitative Equity Research

Figure 2: Top and bottom 10 stocks in Hong Kong, Korea and China based on equal weighted decile rank

Sedol	Name of company	US$ mkt cap (mn)	Price (Lcl curr)	Weighted decile score	Sector	CS rating	Sedol	Name of company	US$ mkt cap (mn)	Price (Lcl Curr)	Weighted decile score	Sector	CS rating
Hong Kong top 10							Hong Kong bottom 10						
619118	Chinese Estates Hl	3,037	1.56	12.1	Real Estate		B3B9H9	Glorious Property	2,483	2.48	4.3	Real Estate	
603050	Hang Lung Prop	14,815	3.57	27.8	Real Estate	N	633987	1st Pacific Co	2,627	5.29	4.3	Div Financials	
643557	Wharf(Hldgs)	13,995	5.08	39.6	Real Estate	O	609701	CLP Holdings	16,958	54.85	4.3	Utilities	N
619027	Cheung Kong(Hldgs)	27,603	11.92	92.8	Real Estate	O	615816	HSBC Hldgs	167,834	74.60	4.1	Banks	O
607564	Bk Of East Asia	7,114	3.50	27.3	Banks	N	643655	Hongkong&China Gas	16,353	17.72	4.1	Utilities	U
698148	Wheelock & Company	5,796	2.85	22.2	Real Estate		B28XTR	GCL-Poly Energy Hl	3,042	1.53	4.1	Utilities	
685992	Sun Hung Kai Prop	34,178	13.30	103.5	Real Estate	O	665911	Orient O/Seas Intl	4,535	56.40	4.0	Transportation	O
648631	Kerry Properties	6,193	4.32	33.6	Real Estate	N	B4JSTL	Wynn Macau Ltd	7,772	11.66	3.8	Consumer	U
663376	New World Devel Co	6,556	1.68	13.1	Real Estate		639036	Guoco Group	3,442	81.40	3.4	Div Financials	
B14WZ4	Champion Real Esta	2,275	0.47	3.7	Real Estate		B5BCW8	United Company Rus	16,222	8.31	2.5	Materials	O
Korea top 10							Korea bottom 10						
652073	LG Electronics Inc	14,263	111,500	7.1	Con. Durables	N	621167	Doosan Infracore C	2,651	17,800	4.5	Capital Goods	
B01VZN	LG Display Co Ltd	14,414	45,550	6.7	Technology	O	B15SK5	Amorepacific (New)	4,493	869,000	4.5	Household	O
644662	Hyundai Heavy Inds	15,560	231,500	6.7	Capital Goods	U	649676	Korean Air Lines	4,818	75,700	4.5	Transportation	
B0RNRF	Hana Financial Grp	5,845	31,200	6.6	Banks	N	650531	KT Corporation	11,165	48,350	4.5	Telecom	O
666111	Doosan Corporation	2,036	92,400	6.4	Capital Goods		649700	OCI Company Ltd	4,624	228,500	4.4	Materials	O
615593	Dongbu Insurance	2,376	37,950	6.4	Insurance	O	626418	NCsoft Corpn	3,639	189,500	4.1	Software	O
634427	Daewoo Internation	3,035	34,050	6.4	Capital Goods		624965	Daewoo Securities	3,531	21,000	4.1	Div Financials	U
615525	Samsung Fire & Mar	8,128	194,000	6.3	Insurance	O	656861	Hyundai Dept Store	2,079	103,500	4.1	Retailing	O
653426	Woori Finance Hldg	11,655	16,350	6.3	Banks	N	B0C5YV	Celltrion Inc	2,126	22,150	4.0	Pharma	
B04PZG	SK Networks Co Ltd	2,261	10,300	6.3	Capital Goods		677164	Samsung SDI	6,688	166,000	3.9	Technology	U
China top 10							China bottom 10						
611552	Beiqi Foton Motor	2,407	17.93	7.5	Automobiles		640988	Harbin Pharm Co	3,942	21.67	3.8	Pharma	
611690	Shanxi Taigang St	5,040	6.04	7.5	Materials		626383	China Unicom (Hk)L	28,307	9.35	3.7	Telecom	O
670625	PICC Property & Ca	3,237	7.29	7.4	Insurance	U	642539	Aluminum Corp Chn	3,532	6.97	3.7	Materials	O
667324	Shanxi Coal Intern	2,428	22.10	7.4	Capital Goods		B19RB3	Poly Real Estate G	7,306	10.90	3.7	Real Estate	O
622098	Poly (Hong Kong) I	2,836	6.89	7.3	Real Estate	O	B60B6Z	China First Heavy	5,401	5.64	3.5	Capital Goods	
616383	Dong Feng Automobi	2,182	5.60	7.3	Automobiles		651959	Heilongjiang Agric	3,406	13.08	3.3	F & B	
617115	Zhejiang Medicine	2,981	34.00	7.2	Pharma		671163	China Yangtze Powe	20,721	12.86	3.3	Utilities	
635353	Fuyao Glass Indust	3,119	9.81	7.1	Automobiles		671029	Qh Saltlake Indust	8,205	18.26	3.1	Materials	
660922	Jiangsu Shuanglian	2,052	17.29	7.1	Materials		B4X9DB	China Shipbuilding	7,307	7.50	3.0	Capital Goods	
608697	Saic Motor Co. Ltd	16,717	17.41	7.1	Automobiles		B57JY2	China Minsheng Ban	3,412	7.72	3.0	Banks	N

Source: Credit Suisse Quantitative Equity Research.

China

Spreadtrum (SPRD, Not Rated)--

Takeaways from 1Q10 conference call

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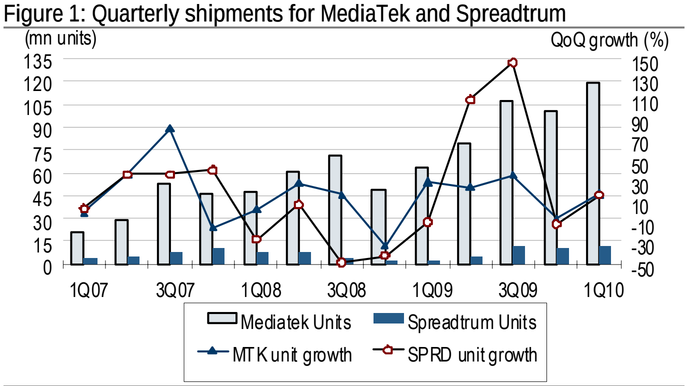
- Spreadtrum (SPRD) hosted its 1Q10 investor conference call on 18 May. On the back of a 17% shipment growth and a 2.2% blended ASP increase on baseband ICs, driven by TD-SCDMA growth, its 1Q10 sales came in at US$52 mn, up 23% QoQ and 534% YoY, beating its guidance. SPRD's 1Q10 net income/EPS at US$6.6 mn/US$0.13 was much higher than 4Q09's US$1.3 mn/US$0.03.
- Management guided 2Q10 sales to be US$65-68 mn, up 25-30% QoQ with a stable gross margin. Spreadtrum expects its product mix in 2Q10 to be similar to 1Q10's. Management has attributed its strong shipment sales momentum to new customers in 1Q10.
- Management has stressed that it will continue investing in R&D to improve product quality and customer service. It also expects its inventory to go up in 2Q10. SPRD's sales are currently healthy, and it expects its sales to keep growing steadily.
- SPRD aims to gain market share in China's 2.5G and TD-SCDMA segments. It maintains its view that TD-SCDMA should see better demand in 2H10, and it is confident about its market position.

Credit Suisse Equity Research does not cover Spreadtrum and does not offer an investment view on the company or any securities related to the company.

Figure 1: Quarterly shipments for MediaTek and Spreadtrum



Source: Company data, Credit Suisse estimates

Key takeaways: 1Q10 review

- SPRD's 1Q10 sales were US$52.1 mn (versus its guidance of US$40-43 mn), up 23% QoQ and 534% YoY. Its 1Q10 gross margin went up to 45.5% from 42.2% in 4Q09, better than its previous flattish gross margin guidance. Management was surprised that customer orders on 2.5G surged in March.
- The 1Q10 opex ratio decreased to 31.2% from 36.3% in 4Q09 due to a larger sales base. As a result, operating income leaped to US$7.5 mn from US$2.5 mn in 4Q09.
- 1Q10 net income totalled US$6.6 mn (EPS of US$0.13), much better than 4Q09's net income of NT$1.4 mn (EPS of US$0.03), the third consecutive profitable quarter since 3Q09.
- SPRD's baseband/RF chipset shipments rose by 17.6% QoQ and more than 300% YoY. Its RF IC shipments (including units grouped in chipset shipments) were also up by 35.3% QoQ and by more than 500% YoY. Meanwhile, SPRD's baseband ASP went up by 2.2% QoQ and 34.8% YoY, thanks to a larger contribution from higher-priced TD-SCDMA. The ASP for RF dropped by 1.0% QoQ but rose by 15.7% YoY.
- SPRD has been gaining market share in China's 2.5G and 3G markets. It is also expanding its customer base, with each of the top four customers accounting for 10%-plus of total sales. Notably, there was a big jump in Samsung's RF order in 1Q10, though management does not expect this to continue into the rest of this year.
- Management disclosed that most of its shipments so far had addressed China's domestic demand. Nevertheless, it has started looking at emerging markets such as India, and expects to see some results on this front later this year.

2Q10 guidance

- Management expects 2Q10 sales to reach US$65-68 mn, representing a 24.7-30.5% QoQ growth versus the US$52.1 mn number in 1Q10. This sales guidance is stronger than MediaTek's -5–+2% QoQ change.
- SPRD's 2Q10 gross margin guidance is in line with 1Q10. Managementbelieves that ASP erosion will continue, and expects to offset the pricing pressure by improving its cost structure and introducing new products with a higher ASP. It considers the current pricing environment to be relatively better than the market's conservative expectation. It also expects its product mix change toward TD-SCDMA and other mid- to high-range products to support its overall margins.
- SPRD aims to keep strengthening its product quality and client support and to introduce new products in the high-end 2.5G market. Further, management believes there is still room for it to gain market share in the low-end 2.5G market, especially in emerging markets, in the future.

Other key information

- In the 2.5G segment, both the domestic Chinese and international market are important for SPRD. It expects the sales contribution from emerging markets to pick up in 2H10, and it believes emerging markets present a greater opportunity than China. Meanwhile, SPRD introduced some new features for its low-end 2.5G phones, such as higher frame rates for DSC and video recording.
- In the TD-SCDMA segment, SPRD has penetrated into top tier Chinese customers. Management believes its products have the highest level of integration compared with its peers. It indicated TD-SCDMA products carry higher ASP and gross margin, and it expects to benefit from the take-off of TD-SCDMA in coming years.
- According to management, it is too early to comment on 4G or the Long Term Evolution (LTE) market, and the company will focus on 2.5G and 3G only in the near future.
- With SPRD's consistent focus on R&D, its opex will likely increase. Nevertheless, with the subsidy it gets from the government, it aims to control its opex increase at 10% YoY this year.
- SPRD has indicated that its major foundry process is 0.15micron, but it is developing products based on 65nm and 45nm processes.

Hong Kong

Hong Kong Economics ---

The unemployment rate remained unchanged at 4.4% in April

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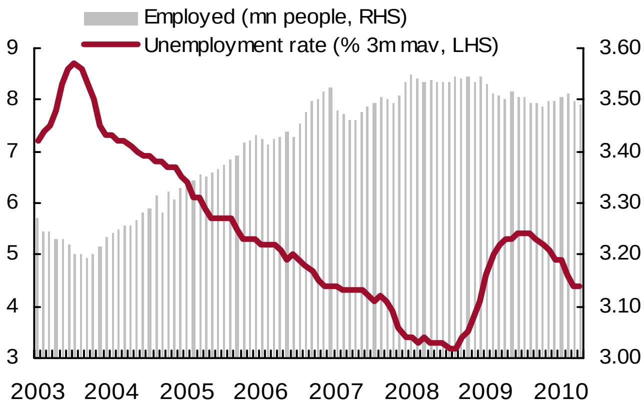
- The headline unemployment rate remained unchanged at 4.4% (seasonally adjusted) in February-April. We think the rate could stay largely stable in the near term, as growth momentum moderates and new job seekers enter the market upon improved confidence.
- We noticed that some industries saw a pick-up in their unemployment rate, hinting at a near-term hold in employment conditions.
- The rise in fixed investments should raise the demand for construction workers, but the impact may not be seen as early as we anticipated. Stabilisation of the European debt situation should be positive for Hong Kong's international trade and job opportunities in related industries.

Figure 1: The unemployment rate stayed unchanged at 4.4% and may stay stable in the near term, in our view



Source: Census and Statistics Department, Credit Suisse

The headline unemployment rate remained unchanged at 4.4% (seasonally adjusted) in February-April. On a non-seasonally adjusted basis, the number of employed has fallen 6.3 thousand from the prior three-month period, reflecting the seasonal dip after the Chinese New Year festival. The number of unemployed has increased, on the other hand, potentially mixed with the increased number of job seekers. We think the headline unemployment rate could stay largely stable in the near term, as growth momentum moderates and new job seekers enter the market upon improved confidence.

Some industries saw a pick-up in their unemployment rate, hinting at a near-term hold in employment conditions. The unemployment rate (nsa) of the construction sector (8.6%) and retail/accommodation/food services (6.2%) saw two consecutive months of increases. Manufacturing (4.8%) and transport/storage (4.2%) also edged up, while other industries remained largely unchanged.

The construction sector may see more job openings later in the year when private construction activities commence. The rise in fixed investments should raise the demand for construction workers, but the impact may not be seen as early as we anticipated. This is in view of the still-weak private construction activities in 1Q10, despite continued robustness in public construction projects. Externally, stabilisation of the European debt situation should be positive for Hong Kong's international trade and job opportunities in related industries.

Hong Kong Property Sector -- Maintain MARKET WEIGHT

Takeaway from group meeting with Midland Realty

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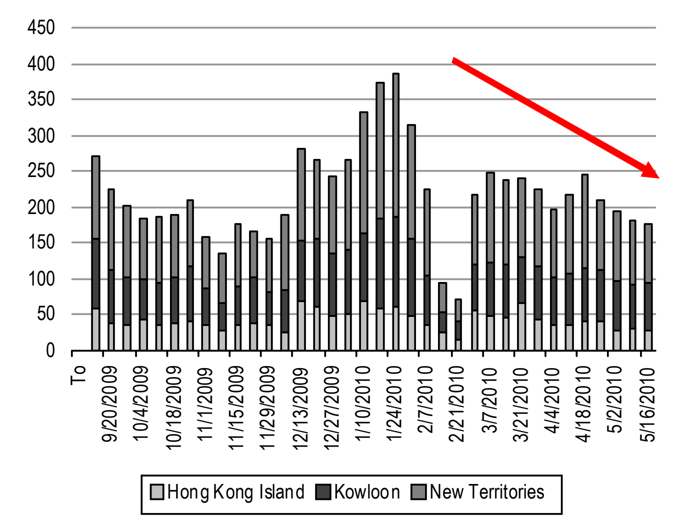
- Midland's view is that property transactions will continue to slow until we start to see some correction in prices. The investment demand from mainlanders has substantially reduced. This is starting to affect transactions in commercial properties as well.
- While primary launches are being delayed, we are also likely to see the primary-to-secondary premium contracting further. At the same time, the supply of rental residential units is increasing which may put pressure on rents in the near term.
- It is worth closely monitoring the potential change in cap rates of commercial properties as strata-titled transactions slow. This could potentially affect the valuation of investment properties.
- The valuations of developers are starting to look reasonable at an average of 23% discount to NAV. However, before prices start correcting, we believe it is too early to accumulate developers. Our preference remains the landlords, such as Hongkong Land, Great Eagle and Wharf.

Figure 1: Hong Kong secondary property transactions (35 key estates)



Source: Midland Realty.

Transaction volumes will continue to slow

We hosted an investor group meeting with Midland Holdings Ltd (1200.HK, HK$6.30, Not rated) on 18 May. We believe the key takeaway from management is that transaction volumes in both the primary and secondary markets are likely to slow in 2Q10, but property prices are unlikely to crash. Given the lack of direction, the primary launches by developers have also been delayed. Midland's management expects the secondary transaction level to drop 25-30% in 2Q10.

Are mainlanders still buying Hong Kong properties?

Midland's management believes there are two types of demand for property from mainlanders. Demand from cash-rich mainlanders who want to buy a property to live in Hong Kong continues to be strong. This was reflected in the surge in the number of applications from Chinese nationals for the investment immigration scheme and the momentum continues. For example, the number of applications has increased from 581 in 2008 to 4,537 in 2009. However, management believes investment demand from the mainlanders is being affected by the tightening in China right now.

Investment in commercial properties begins to slow

The residential market aside, management has also started to see a slowdown in investment activities in commercial properties, i.e., strata-titled offices. It is likely that the cap rates for strata-titled offices have already bottomed.

Primary premium is likely to contract

Given the slowdown in transactions and the perceived risk of the government's intervention while primary launches are being delayed, management believes that the primary to secondary premium is also likely to contract. The average premium, which stood at 30% in March 2010, has declined to 23% in April 2010.

Supply of rental units is increasing

Unlike in previous down-cycles, most property owners currently have strong balance sheets and holding power. Thus, there is unlikely to be any fire-sale taking place. It is because of this strong holding power and current poor sentiment, that property owners have willingly turned their property-for-sale into property-for-rent. As a result, supply in the rental market is increasing and is expected to put pressure on rental levels in the near term.

Our view on the property market

Overall, Midland's view on the property market is in line with ours: transaction volumes are coming off and there are no strong catalysts in the near term to revive the up-trend, unless we see a 5-10% drop in prices and bargain hunting by end-users starts to trickle in. The rather significant correction in the developers' stocks over the last few weeks has caused them to trade at an average discount of 23%. Nonetheless, we believe these stocks are likely to remain underperformers before we start to see prices coming down.

In our opinion, one other point which is worth noting is the slowdown in commercial property transactions. As the cap yield of commercial properties in 2009 has compressed significantly, driven by the inflow of capital, it is likely that cap rates have actually bottomed and will likely start trending up. If this is indeed the case, it is likely to have an impact on the valuation of property investors. The strata-titled market is completely different from properties being owned by major landlords but we believe transaction cap rates are likely to affect the valuation benchmark as well.

India

India Market Strategy -- Maintain UNDERWEIGHT

It's economic sweetspot with falling commodity prices and relatively resilient flows

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- Falling commodity prices are alleviating pressure on all three of India's fundamental vulnerabilities – inflation, fiscal deficit and current account deficit.
- The above positives coincide with inflation obtaining a statistical support from base effect and fiscal boost from extremely strong 3G auctions. Domestic macro could turn into a perfect backdrop, if monsoon rains arrive on time in the coming three weeks.
- As long as the root cause of falling commodity prices, the troubles in Europe, do not cause a risk aversion led redemption wave, the market could experience an unexpectedly positive fundamental support in these seasonally weak months, particularly with corporates' guidance remaining positive.
- By no means the pressure on interest rates and dependency on external flows have diminished sustainably. However, the environment is good enough for investors to tactically add capital goods as well as select consumer durables and banks. These recommendations are valid for investors without dire views on the events in Europe.

Risks are macro and they seem to be waning

We met investors around the world over the past few weeks with our views established in March. In summary, we argued that in direct contrast to 2008, the risk for the market in coming months is top-down rather than bottom-up. If one assumes a strong economic growth for the periods ahead, earnings forecasts and even valuations are broadly supportive. The problem, in our view, is that economic future is not as certain as widely believed.

Our contention has been that macro risks are significantly higher than generally perceived. Far too many critical economic parameters are at the extreme end of their historical range, which in our eyes is a strong warning signal of rising circularities and possible sustainability issues. Inflation, fiscal deficit, current account deficit, deposit growth and real interest rates are five critical indicators that are out of the middle, stable zone of their respective historical bands.

Low-probability scenario panning out?

In March, we had argued that there are three different ways the unstable economy could roll forward:

1) Good case (assigned extremely low probability earlier): If global commodity prices settle 25-30% lower compared with March, but without material impact on capital flows to India and if this is accompanied by significant domestic investment reforms, we could have an extremely positive economic and market prospects for the period ahead.

2) Bad case (medium probability): Say, the policymaking in India remains as pro-growth as now without concerns about rising imbalances. Additionally if external capital flows remain strong enough to fund the consistently rising current account deficit, the last few months' economic boom on the back of over-consumption (our view) could continue for as long as these conditions stay the same. In the fundamentally worst case, this could be a few quarters as the longer such a growth lasts, the worse would be the aftermath. Under this scenario, however, there would be sharp gains in risky assets such as equities in the foreseeable future.

3) Ugly case (our base case): Capital flow dependent circular economic system does not continue for more than six months due to the changes in any of many risk factors – weather, policy change, sharp rises in commodity prices, global risk aversion, etc.

In our meetings, few investors argued against our discussions on deteriorating fundamentals that underpin the current growth cycle, but still a large majority felt that scenario B, the bad case, is far more likely for India due to lack of other investment opportunities in the global emerging market space.

Many positives, but not the time to lower guard

We would certainly not prefer the economy to keep rising simply on the back of capital flows, as at least one of the series, viz current account deficit, could fall in a non-stabilising spiral over time. But, as we return to office, we also notice that the chances of the good case described above seem to have risen materially of late.

Sharp global commodity price correction makes inflation fall to 7-8% by 3Q10 quite possible. More importantly, it could stabilise the current account deficit too at least for a few quarters. There are fiscal benefits too from weak commodities, but fiscal balance gets a far larger Rs300 bn boost from an exceptionally strong 3G auction.

Adding to the positives are a surprise fall in long bond yield, partly due to improving fiscal deficit and partly because of expectations of more relaxed foreign investment guidelines. Earnings season was uneventful in published results, but expectedly positive in guidance. The biggest positive, however, has to be the relatively muted impact on external capital flows despite the shocks from Europe, China and commodity markets.

Low commodity prices and stable flows, if they persist, have the potential to materially improve macro fundamentals. While they may be negative for earnings of commodity companies, the counterbalancing economic positives should prove far more important.

Of course, neither lower commodity prices nor resiliency in flows could be taken as given. There are additional, material risks in weather, imminent fall in domestic money market liquidity, disinvestment process if markets remain weak and sudden, large global financial losses from the global market volatility.

In conclusion, macro environment has taken a turn for good. As the market weakens with further orderly falls in commodity prices in particular, investors should accumulate capital goods, private sector banks and select consumer discretionary stocks.

India Financial Sector

New report: Standard Chartered IDR Listing

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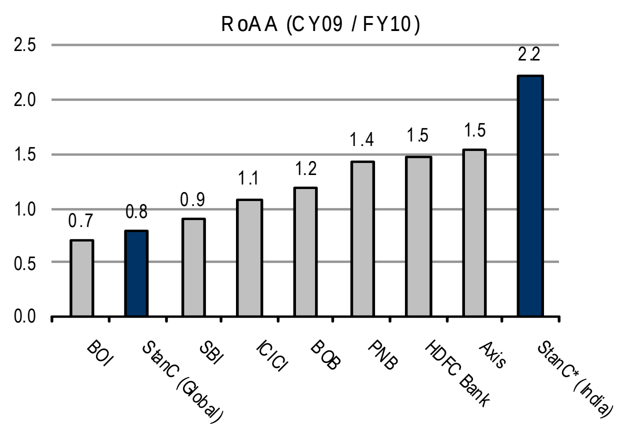
- STAN is the largest foreign bank (94 branches) and among the most profitable banks in India (ROAs of 2.2%). India contributes 7% of its assets, 15% of income and 21% of profit. Management expects India to be the largest contributor to its profit in CY10.
- It is a quality emerging markets-focussed bank with 80% of its profits now from Asia. Sanjay Jain, our regional financials analyst, believes the bank is well positioned to deliver a 24% earnings CAGR over CY09-11 and 17% ROE. He sees 20% upside to the Hong Kong listed stock.
- The bank's upcoming IDR (Indian Depository Receipt) issue provides a high quality diversification option to domestic investors.
- However, the bank's overall profitability (0.8% ROA) and 10% loan growth pace is relatively low compared to Indian banks. Primary investors in Indian banks (foreigners and insurers own 60-80% of free float) have regulatory restrictions/little interest in owning IDRs. We expect STAN IDRs to trade at a discount to that of local banks and with fungibility restrictions discount to Hong Kong and London listings as well.

Figure 1: Highly profitable Indian franchise but global ROAs are lower



* Data is for FY09 (Apr'08-Mar'09), Source: Company data

Highly profitable India franchise

STAN is the largest foreign bank in India with over 150 years of presence, a 94-branch network across 37 cities and a US$32 bn asset base. The bank enjoys strong brand equity in the corporate and high income retail segments in the country. These operations generated pre-tax profit of US$1.1 bn last year and its 2.2% ROA compares favourably to that of local banks. Management expects India to be the largest profit contributor this year. Owing to regulatory constraints the bank has not been able to scale its operations at the pace of local banks. However, its Indian operations now contribute 12% of its income and 21% of its profit and it is one of the fastest growing geographies for the bank.

EM focused quality bank franchise

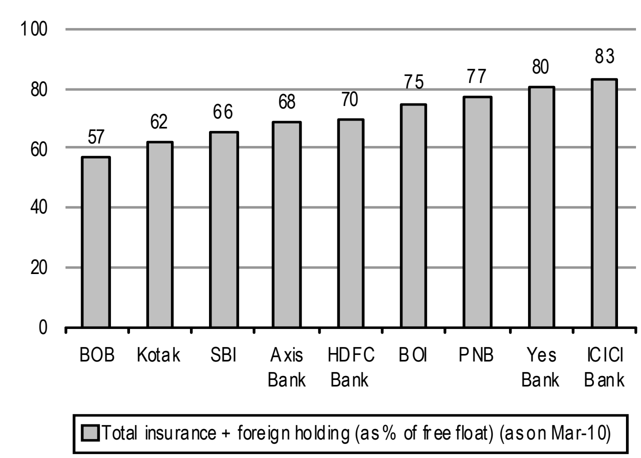
STAN is a quality emerging markets focussed banking franchise and its largest markets are in Asia, with Hong Kong, Singapore and India now contributing 38% of its operating income and 56% of profit. Sanjay Jain, our regional financials analyst, believes the bank is on strong growth footing with stable funding, presence in growth markets and moderating provisioning, the bank is forecasted to deliver a 24% earnings CAGR over the next two years and 17% ROE. He sees 20% upside to the Hong Kong listed stock at his fair value target of 2.0x CY11 book.

IDRs could trade at a discount

While STAN's Indian operations' profitability is high, the overall bank's profitability (0.8% CY09 ROA) is relatively low compared to the Indian banks. Moreover, with its diversified presence, its healthy (10%) loan growth pace is slower than the local banks (particularly the well-run private ones).

The bank's upcoming IDR (Indian Depository Receipt) issue provides a high quality diversification option to domestic investors. However, foreign interest in these instruments would be limited on account of lower liquidity and domestic insurers are not allowed to own IDRs. Retail and HNI interest will also be dampened by the higher taxation on both dividend and capital gains on IDRs compared to the rates on local stocks. Therefore, with little appeal to the primary investors in Indian banks (insurers and foreigners own 60-80% of free float), IDR trading multiples are likely to be discounted to that of the Indian banks. Also, with restrictions on fungibility, IDRs may trade at a discount to the bank's Hong Kong and London listing multiples.

Figure 2: Limited appeal of IDRs to insurers* & FIIs** – the primary investors in Indian banks



* Insurers are not allowed to invest in StanC IDR, ** Liquidity is low for FIIs compared to other exchanges where StanC trades. Source: Capital Line

Indonesia

Indonesia Cement Sector --- Maintain OVERWEIGHT

April cement data remained strong, up 12% YoY; Semen Gresik is our top pick on valuations

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- Indonesia's April cement sales volumes stayed strong, posting a 12% YoY increase (despite a 6% MoM decline) to 3.2 m tonnes. This resulted in YTD figures rising by 16%, in line with our forecast (31% of our 2010 forecast).
- Sumatra saw the highest YoY volumes in April, but on a YTD basis, eastern Indonesia and East & Central Java are the key drivers. Holcim Indonesia and Indocement appeared to have taken advantage of Semen Gresik's capacity constraints (worsened by the plants' overhaul this year as well).
- The more aggressive move by Holcim Indonesia and Indocement could also be a reason for the declining trend in ASPs (retail level) (-3% in the past three months) outside their main Java market. When new players penetrate new markets, ASP tends to decline.
- We maintain our OVERWEIGHT stance on the sector, and our top pick remains Semen Gresik, given its cheaper valuation and 23% potential upside to our target price.

Figure 1: April cement sales volumes by company and region

(mn tonnes)	Apr-10	Apr-09	MoM (%)	YoY (%)	YTD-10	YTD-09	YoY (%)	%10E
Total domestic cement supply								
W Java & Jakarta	0.94	0.81	1%	16%	3.57	3.17	13%	31%
East&central Java	0.75	0.75	-8%	0%	3.23	2.75	18%	29%
Java	1.69	1.56	-3%	8%	6.80	5.92	15%	30%
Sumatra	0.77	0.64	-3%	19%	3.05	2.72	12%	32%
Other regions	0.74	0.65	-14%	13%	3.08	2.48	24%	33%
Total	3.19	2.85	-6%	12%	12.93	11.12	16%	31%
By companies								
Semen Gresik	1.34	1.32	-10%	2%	5.59	5.09	10%	
Indocement	0.99	0.84	-4%	19%	3.98	3.30	20%	
Holcim Indonesia	0.45	0.35	2%	26%	1.75	1.41	25%	
Total export for both clinker and cement								
Semen Gresik	0.01	0.03	-35%	-72%	0.04	0.24	-84%	
Indocement	0.18	0.14	321%	23%	0.27	0.29	-5%	
Holcim Indonesia	0.18	0.13	3%	39%	0.58	0.48	20%	
Total	0.37	0.31	59%	21%	0.90	1.02	-12%	
ASP (Rp/bag)	Apr-10	Price increase (%)			YTD-10	YTD-09	YoY (%)	
		1M	3M	12M				
W Java & Jakarta	53,250	0%	0%	1%	53,192	52,633	1%	
East&central Java	51,950	0%	0%	1%	51,906	51,589	1%	
Sumatra	50,825	-1%	-3%	-2%	51,800	52,316	-1%	
Other regions	57,491	-1%	-3%	4%	58,749	55,589	6%	
Average	54,291	-1%	-2%	1%	55,193	53,802	3%	

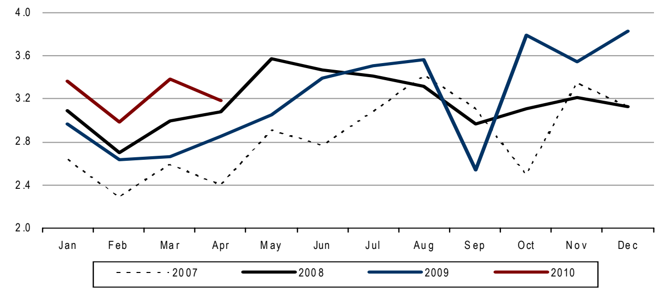
Source: Indonesian Cement Association (ASI), Credit Suisse estimates.

Figure 2: Valuation comparison

	PER (x)		EPS growth	EV/EBITDA	EV/tonne
	FY10E	FY11E	(%)	FY10E	(US$/t)
Semen Gresik	12.3	10.77	17.3	8.0	243
Indocement	18.1	15.42	13.8	11.4	289
Holcim Indonesia	17.8	13.58	1.0	8.7	178

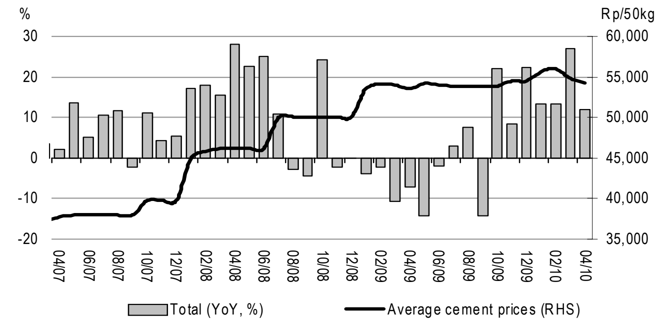
Semen Gresik (Persero) (SMGR.JK, Rp8100.00, OUTPERFORM, TP Rp10000.00), Indocement (INTP.JK, Rp15400.00, OUTPERFORM [V], TP Rp14800.00), Holcim Indonesia TBK PT (SMCB.JK, Rp2100.00, NEUTRAL [V], TP Rp1900.00). Source: Company data, Credit Suisse estimates.

Figure 3: Monthly domestic cement sales volumes (mn t)



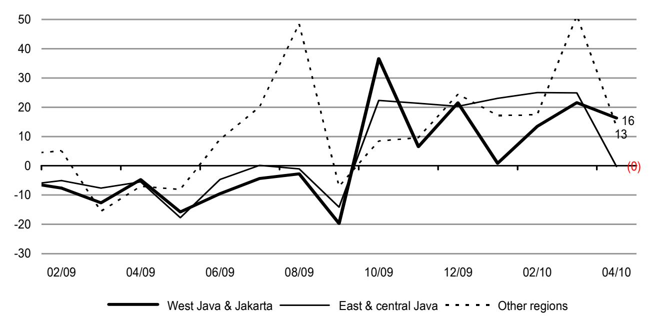
Source: Indonesian Cement Association (ASI).

Figure 4: YoY monthly demand growth and ASP trends



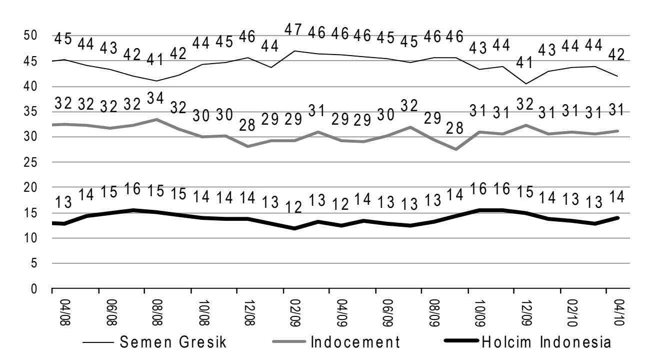
Source: Indonesian Cement Association (ASI).

Figure 5: YoY demand growth by region



Source: Indonesian Cement Association (ASI).

Figure 6: Key players – market share trend



Source: Indonesian Cement Association (ASI).

Astra International -- Maintain NEUTRAL

The discussion about implementation of new auto tax intensifies: short-term negative EPS: ◄► TP: ◄►

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- After being delayed since the beginning of the year, our short-term cautious stance on the new auto tax system for Astra is gaining momentum, with the local government, led by Jakarta and East Java, currently mulling the discussions. Normally, this would be the last process before final approvals.
- The impact of the new auto tax system, if fully implemented, should increase auto prices (both cars and motorcycles) by 12-15%, in our view. The biggest impact would be driven by the higher registration tax (from 10% currently to 15-20%).
- Although volume impact depends on pricing strategy, our sensitivity analysis suggests that every 10% decline in car volumes (from our base case) would impact the bottom line by 2-3%, while every 10% decline in motorcycles result in an impact of 1.3-1.4%.
- Although Astra's share price has dropped by 11% in the past two weeks (since our downgrade), we maintain our NEUTRAL rating. We would turn more positive if the stock were to retreat by another 10-15%.

Bbg/RIC	ASII IJ / ASII.JK	Price (17 May 10 , Rp)	41,900.00
Rating (prev. rating)	N (N) [V]	TP (Prev. TP Rp)	52,000 (52,000)
Shares outstanding (mn)	4,048.40	Est. pot. % chg. to TP	24
Daily trad vol - 6m avg (mn)	5,300.0	52-wk range (Rp)	47150 - 18100
Daily trad val - 6m avg (US$ mn)	0.9	Mkt cap (Rp/US$ bn)	169,626.1/ 18.6

		Performance	1M	3M	12M
Free float (%)	49.9				
Major shareholders	Jardine Cycle and Carriage	Absolute (%)	(2.3)	15.6	129.0
		Relative (%)	(0.3)	5.8	42.2

Year	12/08A	12/09A	12/10E	12/11E	12/12E
Revenues (Rp bn)	97,064	98,526	128,033	147,299	164,209
EBITDA (Rp bn)	14,706	16,411	19,841	22,365	25,142
Net profit (Rp bn)	9,191	10,027	12,687	13,834	15,233
EPS (Rp)	2,270	2,480	3,134	3,417	3,761
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (Rp)	n.a.	n.a.	2,895	3,255	3,308
EPS growth (%)	41.0	9.2	26.4	9.0	10.1
P/E (x)	18.5	16.9	13.4	12.3	11.1
Dividend yield (%)	1.8	2.8	2.8	3.0	3.3
EV/EBITDA (x)	13.2	11.8	10.0	8.9	7.9
P/B (x)	5.1	4.3	3.6	3.1	2.7
ROE (%)	22.7	20.5	22.2	20.9	20.3
Net debt (net cash)/equity (%)	44.6	33.1	35.2	27.4	21.8

Note1:PT Astra International Tbk assembles and distributes automobiles, motorcycles, and their related spare parts. Through its subsidiaries, the Company also operates in the mining, development of plantations, financial and information technology..

Discussion about imposing new auto tax intensifies

Based on our talks with Astra, we learn that the discussion about the implementation of the prolonged new auto tax system has intensified among the local regency areas recently. The local government at the regency (DPRD) of Jakarta areas (the main city for auto market) and east Java areas are currently mulling the approval and implementation of the new tax. Normally, once it goes to this level of discussion, the likelihood of implementation is higher. This could happen as early as next month. We see this as short-term negative news for Astra International.

Background and impact on new auto tax

The new, higher auto tax had been approved (back in early August 2009, please refer to our daily dated 7 August 2009) by the parliament, supposedly to be effective starting early 2010. Based on our rough calculation, the impact on ASP could range from 12-15%. There are four types of auto taxes:

- Higher registration tax: The new tax will increase the registration tax from 10% currently to 15-20%, depending on the local government. This new, higher registration tax would impact ASP the most.
- Introducing progressive tax: The progressive tax is applicable for more than one vehicle owned and ranges from 2-10%, depending on the local government. Due to the lack of a proper monitoring system and database, this tax (which has been the key reason why the new auto tax system being delayed) may not be imposed.
- Increasing luxury tax: The government would also increase the ceiling for the luxury tax for big-sized engines (more than 2.0L) from 75% currently to 200%. The impact of this is relatively small for the auto industry, as this market accounts for less than 10%.
- Introduction of fuel tax (around 5%): This tax has the least impact on the auto market, in our view.

Impact on Astra's earnings depends on ASP strategy

It is a bit difficult to expect the impact of the new tax depending on the players' pricing strategy. The positive news is that the Indonesian auto market is an oligopolistic market and, hence, pricing power is quite high. Historically, volumes have dropped in an event of significant price increases (+10% or more), but recovery has been three-six-month long.

We believe that Astra has the ability to mitigate the impact of the new auto tax on volumes, given its current abnormally high margins (record high during 4Q09-1Q10) due to its stable pricing policy, despite the costs (driven by the strengthening of the rupiah) has come off since 4Q09. Although this strategy would impact margins, volumes may not disappoint as much.

Based on our sensitivity analysis (only for volumes), every 10% reduction is car sales volumes would impact Astra's earnings by 2-3%, while every 10% decline in motorcycles would result in an impact 1.3-1.4%. Impact on cars is more sensitive compared with motorcycles given: 1) higher contribution (27% of profit versus motorcycles of only 14%) and 2) nature of the business as a more volume-driven auto retailer.

Figure 1: Sensitivity on car sales volumes

	-10% from BC		-20% from BC		-30% from BC	
	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
Revenues	(4.1)	(4.3)	(9.0)	(9.4)	(13.4)	(14.1)
Operating profit	(2.1)	(2.4)	(4.5)	(5.2)	(6.7)	(7.8)
Net income	(2.4)	(2.6)	(5.2)	(5.7)	(7.8)	(8.6)

Source: Credit Suisse estimates.

Figure 2: Sensitivity on motorcycle sales volumes

	-5% from BC		-10% from BC		-15% from BC	
	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
Revenues	(0.5)	(0.4)	(0.9)	(0.9)	(1.4)	(1.3)
Operating profit	(0.3)	(0.3)	(0.6)	(0.6)	(0.9)	(0.9)
Net income	(0.7)	(0.7)	(1.4)	(1.3)	(2.1)	(2.0)

Source: Credit Suisse estimates.

Singapore

Singapore Airlines -- Maintain OUTPERFORM

Flight disruption in Europe depressed April traffic, but demand outlook unaffected

EPS: ◄► TP: ◄►

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- SIA's April passenger and cargo traffic fell 10-13% MoM, worse than its peer, Cathay Pacific, likely due to its greater exposure to Europe (25% versus CX's <20% of revenue). As we highlighted before, we think the flight disruption is a supply problem and not a demand one.
- Moreover, part of the revenue is being deferred but not lost, and some variable costs were saved as flights were not operated. SIA earlier estimated the unrecovered loss from this event could be around S$20 mn (loss of revenue plus related costs), less than 2% of our projected FY11E earnings.
- SIA is reporting its 4Q10/FY3/10 results this Monday. Data from its Taiwan peers and comments from CX management suggest that the yield improvement has continued.
- SIA's 12-month forward P/B of 1.2x and EV/EBITDAR of 5.2x are below the historical averages of 1.3x and 7.2x, respectively. Our target price of S$17.50 implies 1.5x forward P/B, the mid-point between the historical average and one standard deviation above.

Bbg/RIC	SIA SP / SIAL.SI
Rating (prev. rating)	O (O)
Shares outstanding (mn)	1,192.00
Daily trad vol - 6m avg (mn)	2.5
Daily trad val - 6m avg (US$ mn)	33.5
Free float (%)	43.0
Major shareholders	Temasek Hldgs: 57%

Price (17 May 10 , S$)			14.56
TP (Prev. TP S$)			17.50 (17.50)
Est. pot. % chg. to TP			20
52-wk range (S$)			15.94 - 10.50
Mkt cap (S$/US$ bn)			17.4/ 12.5
Performance	1M	3M	12M
Absolute (%)	(6.2)	(1.6)	43.3
Relative (%)	(0.4)	(3.0)	8.2

Year	3/08A	3/09A	3/10E	3/11E	3/12E
EBITDRAF (S$ mn)	3,863	2,909	2,228	3,397	4,173
Net profit (S$ mn)	2,049	1,062	207	1,248	1,944
EPS (S$)	1.68	0.89	0.17	1.05	1.64
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (S$)	n.a.	n.a.	0.09	0.65	1.01
EPS growth (%)	(2.7)	(46.8)	(80.5)	503.4	55.8
P/E (x)	8.7	16.3	83.5	13.8	8.9
Dividend yield (%)	6.9	2.7	1.2	3.3	7.4
EV / EBITDRAF (x)	5.1	7.8	10.1	6.5	5.1
P/B (x)	1.1	1.2	1.3	1.3	1.2
ROE (%)	13.1	7.3	1.6	8.9	13.1
Net debt (net cash)/equity (%)	(5.2)	9.1	7.0	4.4	(0.7)

Note1: Singapore Airlines Limited provides air transportation, engineering, airport terminal, and other services. The Company's airline operation covers Asia, Europe, the Americas, South West Pacific, and Africa.

Positive demand growth with high load factors

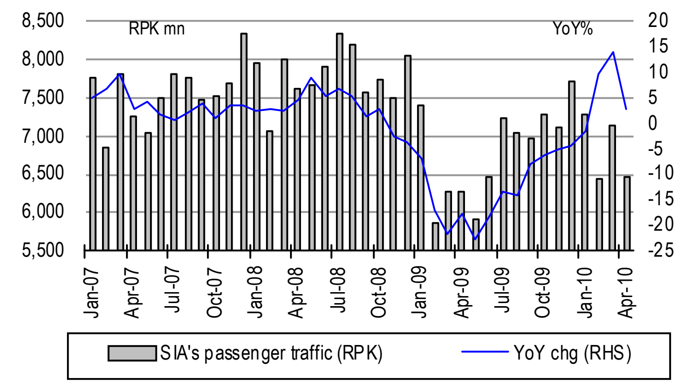
Figure 1: SIA – monthly operating numbers

	Apr-10	Apr-09	YoY%	Mar-10	Mar-09	YoY%
Pax capacity (ASK mn)	8,320	8,688	-4.2	8,833	9,032	-2.2
Pax traffic (RPK mn)	6,456	6,275	2.9	7,141	6,271	13.9
Pax load factor (%)	77.6	72.2	5.4	80.8	69.4	11.4
Cargo capacity (ACTK mn)	845	890	-5.1	917	958	-4.2
Cargo traffic (RCTK mn)	546	516	5.8	627	560	12.0
Cargo load factor (%)	64.6	58.0	6.6	68.4	58.5	9.9

Source: Company data, Credit Suisse estimates

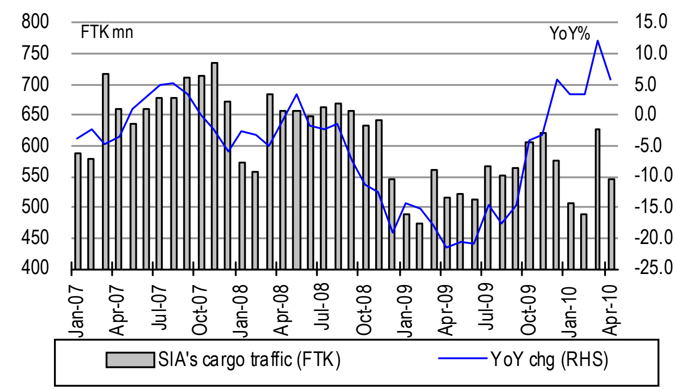
SIA's April passenger traffic grew 2.9% YoY but fell 10% MoM. April passenger traffic growth was below last quarter's traffic growth of +6.8% YoY. The load factor fell 3% MoM, but remains decent at 78%. On a YoY basis, all regions, except for the south-west Pacific, reported an increase in load factor. April cargo traffic was up 6% YoY but down 13% MoM. The load factor fell MoM to 65%, still a relatively high level by historical standards.

Figure 2: April passenger traffic fell 10% MoM, +3% YoY



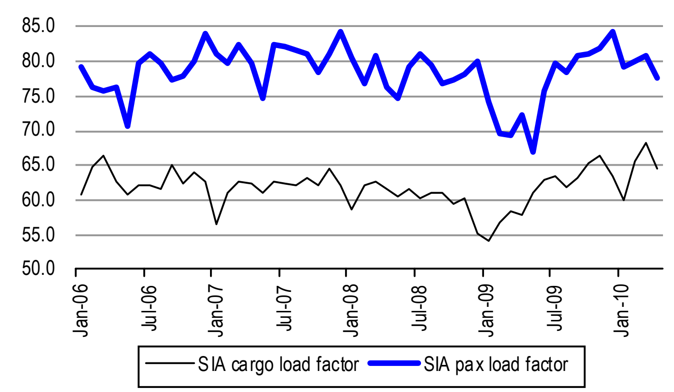
Source: Company data, Credit Suisse estimates

Figure 3: April cargo fell 13% MoM, +6% YoY



Source: Company data, Credit Suisse estimates

Figure 4: Passenger and cargo load pulled back from historical highs



Source: Company data, Credit Suisse estimates

Wilmar International--- Downgrade to UNDERPERFORM

Wilmar investigated for tax fraud; management categorically denies any wrong doing EPS: ◄► TP: ▼

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- *The Jakarta Globe* reported that Wilmar is being investigated for tax fraud involving Rp3.6 tn (US$395 mn). We expect a knee-jerk downward reaction to Wilmar's share price.
- Wilmar has "categorically denied the allegations that the value added tax restitution claims are questionable and fictitious, and denied any allegation of collusion with tax officials".
- This is likely a misunderstanding between Wilmar and the tax authorities, but we believe that Wilmar's share price will underperform until the issue is cleared up, which could take months. We have downgraded Wilmar to UNDERPERFORM from Neutral, as market sentiment on the stock will be affected adversely. The target price has been cut to S$5.70 from S$6.88.
- Assuming that the allegations are baseless, Wilmar's share price will look attractive closer to S$5.30.

Bbg/RIC	WIL SP / WLIL.SI	Price (18 May 10 , S$)			6.19
Rating (prev. rating)	U (N)	TP (Prev. TP S$)			5.70 (6.88)
Shares outstanding (mn)	6,385.68	Est. pot. % chg. to TP			(8)
Daily trad vol - 6m avg (mn)	10.6	52-wk range (S$)			7.17 - 4.45
Daily trad val - 6m avg (US$ mn)	44.3	Mkt cap (S$/US$ bn)			39.5/ 28.4
Free float (%)	17.0	Performance	1M	3M	12M
Major shareholders	Wilmar Hldgs Pte Ltd	Absolute (%)	(10.7)	(1.9)	39.1
	48.5%	Relative (%)	(5.6)	(4.5)	6.5

Year	12/08A	12/09A	12/10E	12/11E	12/12E
Revenues (US$ mn)	29,145	23,885	30,095	33,135	36,569
EBITDA (US$ mn)	2,140	2,360	2,611	2,872	3,150
Net profit (US$ mn)	1,531	1,882	1,741	1,915	2,137
EPS (US$)	0.23	0.28	0.27	0.29	0.33
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (US$)	n.a.	n.a.	0.28	0.31	0.37
EPS growth (%)	83.0	21.7	(6.7)	10.0	11.6
P/E (x)	19.1	15.6	16.8	15.2	13.7
Dividend yield (%)	1.2	1.2	1.1	1.3	1.4
EV/EBITDA (x)	14.0	13.7	12.6	11.2	10.0
P/B (x)	3.0	2.6	2.2	2.0	1.7
ROE (%)	17.6	18.3	14.8	14.1	13.7
Net debt (net cash)/equity (%)	24.9	40.7	39.7	31.0	23.2

Note1:Ord/ADR=10.0000.Note2:Wilmar International is involved in oil palm cultivation and milling. The company refines, processes, brands, trades and distributes palm oil and lauric related products. In addition, Wilmar trades in soya bean, crude soya bean oil, grains and fertiliser..

Wilmar is being investigated for tax fraud and corruption

The Jakarta Globe reported that a taxation officer to the House of Representatives Working Committee, Bambang, is investigating Wilmar on tax fraud involving Rp3.6 tn (US$395 mn).

Bambang claimed that Wilmar conducted "fictional transactions among its entities, fabricating financial reports and arranged bogus transfer pricing to receive the restitutions". Wilmar reportedly received tax restitutions worth Rp800 bn (US$88 mn) in 2007 and Rp900 bn (US$99 mn) in 2008. In 2009, Wilmar was reportedly going to receive a restitution of Rp1.9 tn (US$208 mn).

Wilmar categorically denies the allegations

In a press release, Wilmar has stated that "it is fully confident that its subsidiaries are and have at all times been in full compliance with all relevant Indonesian value added tax laws. The Company categorically denies the allegations that the value-added tax restitution claims are questionable and fictitious, and further categorically denies any allegation of collusion with tax officials referred to in those reports which the Company hereby states are completely untrue and unsubstantiated."

Wilmar has indicated that the tax restitutions in question refer to 'Value added tax' which is typically payable for domestic purchases and restitution of value added tax payments arises out of refunds for exports of palm oil out of Indonesia.

The investigation could be an overhang on the share price

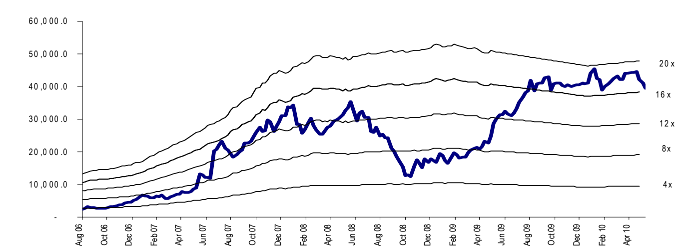
The news could weigh down on Wilmar's share price, as long as the investigations are underway, even if there is no truth to the allegations. We expect a knee-jerk downward reaction to Wilmar's share price.

The tax restitutions account for 15%, 6% and 11% of Wilmar's FY07, FY08 and FY09 net profits, respectively. The penalty for tax matters in Indonesia is four times the amount in question.

Wilmar is fundamentally fairly valued

Based on our earnings forecasts, we believe that Wilmar is fundamentally fairly valued at FY10E P/E of 17x. Wilmar is trading at the top end of its historical forward P/E trading range of 5-19x.

Figure 1: Wilmar's forward P/E range



Source: Credit Suisse estimates.

Downgrade to UNDERPERFORM

This is likely a misunderstanding between Wilmar and the tax authorities, but we believe that Wilmar's share price will underperform until the issue is cleared up, which could take months. We have downgraded Wilmar to UNDERPERFORM from Neutral, as market sentiment on the stock will be affected adversely. The target price has been cut to S$5.70 from S$6.88, assuming a 2010 sector P/E average of 15.5x.

When will Wilmar look attractive? Assuming that the allegations are baseless, Wilmar's share price will look attractive closer to S$5.30.

Figure 2: Valuation comparisons

			Rat-		Target	P/E (x)			
Calendarised		Price	ing	Ticker	price	2008	2009	10E	11E
Sime Darby	RM	8.26	U	SIME MK	7.90	18.0	19.2	15.7	14.3
IOI Corp	RM	5.26	U	IOI MK	5.00	19.1	20.4	17.9	16.3
KLK	RM	16.60	N	KLK MK	14.30	17.9	23.6	18.2	17.2
Genting Plant.	RM	6.63	N	GENP MK	6.40	13.4	24.9	15.5	14.2
Wilmar	SGD	6.19	U	WIL SP	5.70	19.1	15.6	16.8	15.2
Indofood Agri	SGD	2.19	O	IFAR SP	2.65	26.2	13.7	14.3	14.5
Astra Agro	IDR	20300	N	AALI IJ	21070	12.1	19.3	16.9	17.3
London Sumatra	IDR	8850	O	LSIP IJ	10800	13.0	17.1	13.5	13.9
Sampoerna Agro	IDR	2325	O	SGRO IJ	3200	10.0	15.6	11.0	11.1

Source: Company data, Credit Suisse estimates

South Korea

Duzon Bizon (012510.KS) -- NOT RATED

Korea small-cap visit

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- We recently visited Duzon Bizon (Duzon), a leading ERP solution provider in Korea targeting SMEs.
- Management is bullish on the growth outlook of its new businesses (i.e., ubiquitous billing, online e-tax invoices, IFRS solutions), thanks to the government's policy support and its unique strong client franchise on SMEs, while it anticipates the conventional ERP business to continue working as a solid cash cow.
- Along with the strong revenue growth, management also anticipates a sharp improvement in its operating profit (OP) margin from 33% in 1Q10 to 43% in 2010E and 46% in 2011E, respectively, as revenues from its new businesses are unlikely to require any material incremental cost.
- Potential for dilution exists via 4.0 mn convertible preferred shares, currently held by a financial investor, which can be converted into common shares after 18 November 2010 at a conversion price of W5,613/share.

Figure 1: Duzon Bizon – company snapshot (as at 18 May 2010)

Price (W)	21,000
Market cap (W bn, fully diluted)	623
Shares outstanding: 29.7 mn shares, including 4.0 mn convertible preferred shares that can be converted into common shares at W5,613/share after 18 November 2010	
Foreign ownership (fully diluted)	18.2%
52-weeks price range (W)	815 – 23,350
Daily trading value - 6M avg (W bn)	7.0
Free float (fully diluted)	50.8%
Major shareholders (including the 4.0 mn convertible preferred shares)	CEO and related parties - 29.7%, HSBC Private Equity - 13.5%, Treasury shares - 6.0%

Source: WISENET, Company data

Figure 2: Duzon Bizon – summary financials and valuation

(W bn)	2008	2009	2010E	2011E	2012E
Revenues	65.2	16.6	137.2	150.9	163.1
Operating profit	3.1	6.7	49.4	55.1	59.7
Net profit	-5.5	2.3	40.8	57.7	63.3
P/E	n.a	n.a	15.1	10.7	9.7
EV/EBITDA	n.a	n.a	10.0	8.9	8.5
P/B	n.a	14.6	7.1	4.4	3.4
ROE (%)	n.a	n.a	57.2	47.8	36.2

Note: 2009 results are for only between 18 Nov. and 31 Dec. due to the merger with Duzon Dass and Duzon Digitalware on 18 November. Duzon will be 100% exempted from income tax from 2011 to 2015 due to relocation of its HQ office from Seoul to Gangwon Province in early 2011. Per share data is fully diluted for the 4.0 mn convertible pref shares. Source: Bloomberg consensus, Company data

A leading ERP solution provider for SMEs

Duzon Bizon (Duzon, 012510.KS, W21,000, NOT RATED) is Korea's leading enterprise resource planning (ERP) solution provider. Duzon has mainly targeted small and medium-size enterprises (SMEs) as its key market, whereas other major ERP players in the domestic market (i.e., SAP, Oracle) generally target large companies. About 100,000 SMEs and more than 90% of the total 8,500 tax accountant offices in Korea (which have 2.0 mn SME/self-employed clients out of total 3.3 mn in Korea) currently use Duzon's Lite ERP solutions.

Steady revenues from ERP solution business

Duzon anticipates its ERP business to work as a solid cash cow, due to affordable pricing, quick installation period, high flexibility and dominant market share of its ERP solutions. Its leading 90%-plus share in the 8,500 tax accountant office ERP market indicates that Duzon's solution is already an industry standard. While management expects addition of >4,000 new Lite ERP clients (ASP of W2.3 mn) and >800 new standard/ extended ERP clients (ASP of W11 mn/W35 mn) per annum over the next few years, it also expects 60-75% of the new clients to sign up maintenance contracts on top of its current 48,000 and 8,500 maintenance clients on the Lite and standard/extended ERP solutions (average annual fee of W0.55 mn and W1 mn/W2.7 mn, respectively).

Management is very bullish on outlook of new businesses

1) Ubiquitous billing: U-billing systems send various bills (i.e., tax bills, utility bills) with 2D-code to payers so that they conveniently pay the bills at CVS (instead of banks) with cash or credit card. While there are about 530,000 bills issued in Korea per annum, Duzon expects U-billing revenues of W9 bn in 2011E by charging commission of W200-500 per U-billing transaction. Duzon has exclusively installed its 2D-code readers at about 11,000 CVS for the U-billing business. 2) Online e-tax invoice: Korean government in January 2010 introduced online e-tax invoices to replace conventional paper tax invoices (mandatory adoption to 400,000 corporate from January 2011 and to 1.0 mn book keeping self-employed people in January 2012). Duzon anticipates benefiting from its current direct 100,000 and indirect 2.0 mn SME clients who are familiar with Duzon's ERP. Management expects revenues of W15 bn in 2011E by charging W100-200 per issuance of an online e-tax invoice, while there will be >500 mn online e-tax invoice issuances per annum from 2011. 3) IFRS solution: Management also anticipates a sharp growth in IFRS solution revenues from W2 bn in 2009 to W14 bn in 2010E and W10 bn in 2011E, due to mandatory adoption of IFRS accounting by listed companies in 2011 and its own strong client base. 827 listed companies (46% of total) currently use Duzon's ERP or software.

Figure 3: Duzon Bizon – consensus forecast vs management guidance

	2009	1Q10	2010E		2011E		2012E	
(W bn)	Adj.		Cons.	Guid.	Cons.	Guid.	Cons.	Guid.
Revenues	94	32	137	147	151	179	163	215
ERP - sale	46	18	n/a	66	n/a	77	n/a	87
ERP - maintenance	30	8	n/a	33	n/a	36	n/a	40
IFRS solution	2	3	n/a	14	n/a	10	n/a	8
U-billing	0	0	n/a	3	n/a	9	n/a	15
Online e-tax invoice	1	1	n/a	11	n/a	15	n/a	18
Others	15	2	n/a	19	n/a	34	n/a	47
COGS & SG&A	73	22	88	84	96	96	103	108
Operating profit	22	11	49	63	55	83	60	107
Net profit	8	9	41	55	58	93	63	120
OP margin (%)	23.1	32.6	36.0	42.7	36.5	46.3	36.6	49.7

Note: 2009 adjusted results are consolidated numbers of Duzon Bizon, Duzon Dass and Duzon Digitalware after deducting internal transactions between the companies.
Source: Bloomberg, Company data

LG Telecom -- Maintain OUTPERFORM

Target price cut to W9,500; still cheap, but lack of share price catalysts to hurt share performance EPS: ▼ TP: ▼

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- Following further reviews of 1Q10 results and new consolidated IFRS-based financials, we lower our 2010-12E earnings for LGT.
- We cut our 2010-11E EBITDA by 10% and 11%, while lower normalised net profit by 7% and 8%, respectively. Most of our adjustments were driven by higher opex assumptions as well as lowering growth outlook for wireless.
- Despite announcement of KCC's new marketing cost cap policy (marketing cost-to-revenue ratio to be capped at 22% for 2010), we do not expect any major changes to our earnings estimates due to: 1) lack of regulatory tools to enforce lower marketing costs and 2) a possible reduction in mobile tariffs and/or higher investment to offset savings from marketing costs.
- Based on our earnings adjustments, we cut our target price to W9,500 from W10,500 based on P/E of 8x (unchanged), which is at a 20% discount to SKT's target P/E. Hence, with our new target price implying 20% potential upside, we maintain our OUTPERFORM rating.

Bbg/RIC	032640 KS / 032640.KS	Price (18 May 10 , W)			7,880.00
Rating (prev. rating)	O (O)	TP (Prev. TP W)			9,500 (10,500)
Shares outstanding (mn)	514.80	Est. pot. % chg. to TP			21
Daily trad vol - 6m avg (mn)	1.0	52-wk range (W)			9440 - 7500
Daily trad val - 6m avg (US$ mn)	10.5	Mkt cap (W/US$ bn)			4,056.6/ 3.5
Free float (%)	45.9	Performance	1M	3M	12M
Major shareholders	LG Corp (30.57%)	Absolute (%)	0.6	(0.9)	(15.7)
		Relative (%)	6.2	(2.2)	(28.9)

Year	12/08A	12/09A	12/10E	12/11E	12/12E
Revenues (W bn)	4,798	7,587	8,492	8,203	8,450
EBITDA (W bn)	778	898	1,477	1,119	1,223
Net profit (W bn)	283.6	462.3	971.5	618.1	665.7
EPS (W)	1,023	898	1,887	1,201	1,293
- Change from prev. EPS (%)	n.a.	n.a.	0	(8)	(12)
- Consensus EPS (W)	n.a.	n.a.	1,356	1,298	1,424
EPS growth (%)	3.0	(12.2)	110.2	(36.4)	7.7
P/E (x)	7.7	8.8	4.2	6.6	6.1
Dividend yield (%)	2.5	3.2	4.7	5.1	5.7
EV/EBITDA (x)	6.1	6.9	4.1	5.2	4.7
P/B (x)	1.1	1.0	0.8	0.8	0.7
ROE (%)	14.4	11.6	20.2	11.8	11.7
Net debt (net cash)/equity (%)	35.7	54.4	40.1	34.0	29.0

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 readjustments

Following further reviews of 1Q10 results and new consolidated IFRS-based financials, we cut our 2010-2012E earnings. Although we have not made any drastic changes to our marketing cost assumptions on the back of new marketing cost policy, we believe our previous estimates under-assumed key opex items, including depreciation and other commission costs.

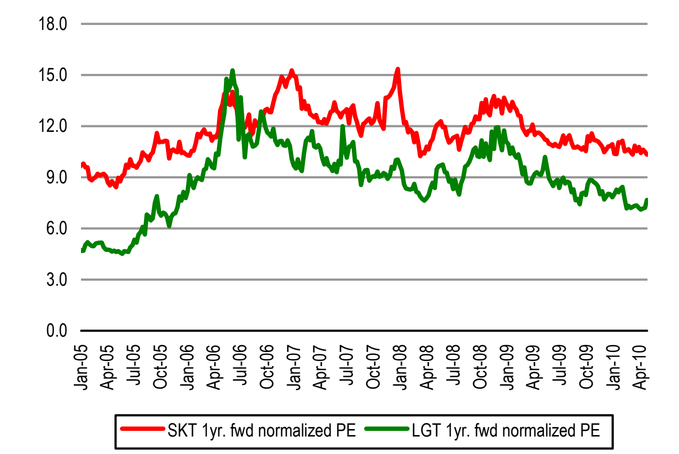
We also made a slight downward adjustment to LGT's wireless operations based on slower ARPU growth. For 1Q10, the company's monthly ARPU fell 3.0% QoQ and 1.8% YoY to W26,557 while data ARPU to total ARPU was only 11.5% (versus 12.0% in 4Q09). We believe the company's fall in wireless ARPU was driven by departure of high-end subscribers to competitors' new smartphone offering. Given lack of competitive smartphone line-up in the near term, LGT may face further difficulty in retaining its high-end subscriber base.

Figure 1: 2010-12E earnings revision

	Act.	CS new est.			CS old est.			Consensus		
(W bn)	09A	10E	11E	12E	10E	11E	12E	10E	11E	12E
Sales	7,587	8,492	8,203	8,450	8,470	8,200	8,451	7,309	7,425	7,981
1) Service rev.	6,117	6,503	6,758	6,997	6,515	6,760	7,003			
Wireless	3,531	3,598	3,687	3,740	3,610	3,688	3,746			
TPS	883	1,038	1,139	1,250	1,038	1,139	1,250			
Data	1,161	1,334	1,455	1,576	1,334	1,455	1,576			
Telephony	523	510	451	402	510	451	402			
Others	19	22	25	29	22	25	29			
2) Handset rev.	1,407	1,457	1,404	1,407	1,423	1,400	1,402			
3) Other rev.	63	532	40	46	532	40	46			
Op. profit	654	1,223	861	961	1,392	1,000	1,099	840	808	929
EBITDA	898	1,477	1,119	1,223	1,646	1,259	1,362	1,654	1,666	1,825
Net profit	462	972	618	666	971	674	756	617	568	657
Norm. net profit	462	545	618	666	584	674	756			
EBITDA margin	11.8%	17.4%	13.6%	14.5%	19.4%	15.4%	16.1%	22.6%	22.4%	22.9%
Marketing costs/rev.	24.5%	22.9%	22.5%	22.6%	22.5%	22.5%	22.5%			

Source: Company data, Credit Suisse estimates

Figure 2: 1-year forward P/E comparison: LGT versus SKT



Source: Company data, Credit Suisse estimates

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)
SKT	017670 KS	O	168,500	230,000	12/09	10.4	9.3	1.1
KT	030200 KS	O	47,300	58,000	12/09	8.6	7.7	1.1
LGT	032640 KS	O	7,880	10,500	12/09	4.2	6.9	0.8

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

Rating history (032640 KS)

Date	Old rating	New rating	Old TP	New TP
Mar.31. 2009	OUTPERFORM	OUTPERFORM	W9,500	W10,500

As of close of business 17 April 2010, Credit Suisse Securities (Europe) Limited, Seoul Branch performs the role of liquidity provider on the warrants of which underlying assets are SKT/KT and holds 11,904,430/13,359,220 of warrants concerned. These may be warrants that constitute part of a hedged position.

Taiwan

Acer -- Maintain OUTPERFORM

Valuation coming to accumulate level

EPS: ▼ TP: ▼

Robert Cheng / Research Analyst / 8862 2715 6361 / robert.cheng@credit-suisse.com
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- We reduce Acer's 2010 earnings forecast by 11%, with 2.8% operating profit margin (OPM), and have lowered our target price from NT$103.6 to NT$91.1 (based on 15x 2010E P/E) to reflect the impact from a sharp EUR depreciation and our house view of a continued weak EUR.
- We have been conservative on PC brands due to currency risk and commodity prices (*Taiwan Hardware Sector: Switch from PC brands to ODM* on 19 March), and had recommended investors cut weightings in Acer/Asustek. While concerns still remain, we believe the sharp stock price fall means now it is too late to sell aggressively.
- We have cut Acer's 2Q10 OPM forecast to 2.4%, from 2.7%. Management is confident sales/shipments guidance will remain flat, likely due to its low price strategy and flexible business model.
- Although near-term volatility will likely last, we believe Acer is a good long-term investment target, given its strong track record of stable margin under currency volatility and 7% opex (the lowest in PC brands). Acer aims to push its China sales and will take aggressive cost cuts in 2H10. Reiterate OUTPERFORM. Probably an entry point will emerge by end-June in the seasonal pick-up.

Bbg/RIC	2353 TT / 2353.TW	Price (17 May 10)			75.20
Rating (prev. rating)	O (O)	TP (Prev. TP)			91.10 (103.60)
Shares outstanding (mn)	2,643.00	Est. pot. % chg. to TP			21
Daily trad vol - 6m avg (mn)	18.8	52-wk range			103.0 - 55.8
Daily trad val - 6m avg (mn)	36.1	Mkt cap (bn)			198.8/ 6.2
Free float (%)	49.2	Performance	1M	3M	12M
Major shareholders	Stan Shih (2.8%)	Absolute (%)	(15.0)	(14.0)	29.6
		Relative (%)	(9.3)	(15.7)	10.7

Year	12/08A	12/09A	12/10E	12/11E	12/12E
Revenues (bn)	546.3	574.0	740.4	847.5	969.3
EBITDA (bn)	16.3	18.0	21.8	28.5	33.3
Net profit (bn)	11.7	11.4	16.3	21.9	25.5
EPS	4.4	4.2	6.1	8.1	9.5
- Change from prev. EPS (%)	n.a.	n.a.	(11)	(7)	(6)
- Consensus EPS	n.a.	n.a.	6.3	7.9	9.9
EPS growth (%)	(2.7)	(4.9)	43.7	34.2	16.5
P/E (x)	16.9	17.8	12.4	9.2	7.9
Dividend yield (%)	2.7	4.1	5.2	7.0	8.2
EV/EBITDA (x)	12.1	9.1	8.1	6.2	5.5
P/B (x)	2.4	2.2	2.0	1.8	1.6
ROE (%)	14.0	12.2	16.2	19.5	20.6
Net debt (net cash)/equity (%)	(10.5)	(43.8)	(28.5)	(23.9)	(18.4)

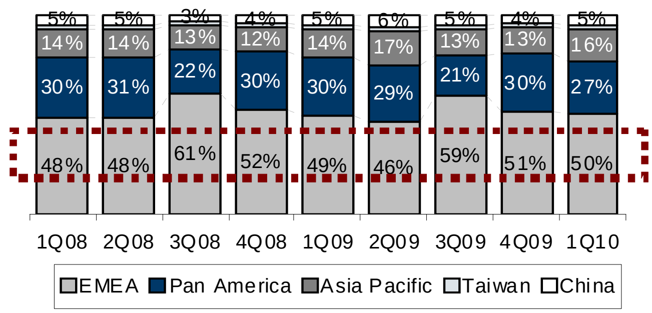
Note1:Ord/ADR=5.0000.Note2:Acer Inc. distributes semiconductor products, personal computers, computer peripherals, multimedia products, and computer software. The Company also provides maintenance and repair services to customers..

Figure 1: Acer earnings revision for 2010-11E

NT$ mn	2010E			2011E		
	New	Old	Diff.	New	Old	Diff.
Sales	740,374	762,080	-3%	847,500	878,645	-4%
Gross profit	71,624	74,407	-4%	82,345	85,667	-4%
Op. profit	20,876	23,302	-10%	27,543	29,600	-7%
Net income	16,323	18,263	-11%	21,900	23,545	-7%
Margin						
Gross margin	9.7%	9.8%		9.7%	9.7%	
Op. margin	2.8%	3.1%		3.2%	3.4%	
Net margin	2.2%	2.4%		2.6%	2.7%	

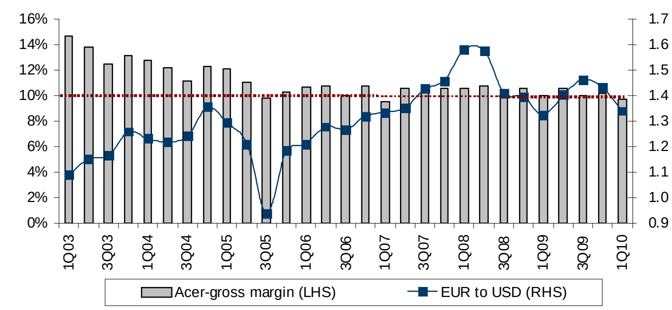
Source: Credit Suisse estimates.

Figure 2: Acer's sales mix by region



Source: Company data, Credit Suisse estimates

Figure 3: Acer quarterly gross margin versus EUR trend



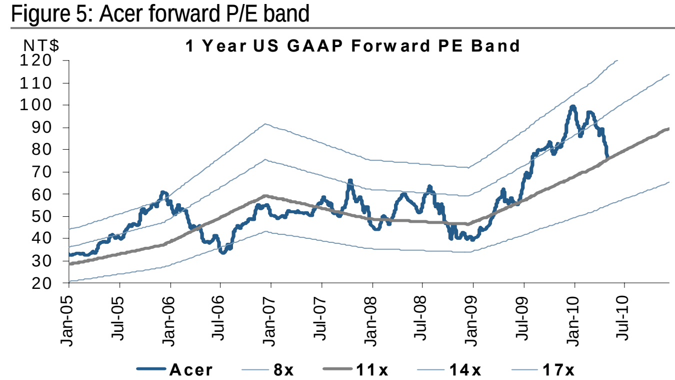
Source: Company data, Credit Suisse estimates

Figure 4: Acer quarterly P&L

NT$ mn	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10E	3Q10E	4Q10E
Sales	119,086	119,083	167,617	168197	162,130	160901	194332	223010
Gross profit	11,918	12,565	16,722	17122	15,714	15158	18891	21861
Op profit	2,571	3,043	4,754	4,972	4,386	3,895	5,677	6,919
Pre-tax profit	2,755	2,826	4,733	4,668	4,159	3,820	5,612	6,854
Net income	2,026	2,340	3,470	3,517	3,294	3,056	4,489	5,483
Margins								
Gross margin	*10.0%*	*10.6%*	*10.0%*	*10.2%*	9.7%	9.4%	9.7%	9.8%
OP. margin	*2.2%*	*2.6%*	*2.8%*	*3.0%*	2.7%	2.4%	2.9%	3.1%
Pre-tax margin	*2.3%*	*2.4%*	*2.8%*	*2.8%*	2.6%	2.4%	2.9%	3.1%
Net margin	*1.7%*	*2.0%*	*2.1%*	*2.1%*	2.0%	1.9%	2.3%	2.5%

Source: Company data, Credit Suisse estimates

Figure 5: Acer forward P/E band



Source: Company data, Credit Suisse estimates

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Companies mentioned

Singapore Airlines (SIAL.SI, S$14.56, OUTPERFORM, TP S$17.50)
Cathay Pacific (0293.HK, HK$15.28, OUTPERFORM, TP HK$17.90)
Duzon Bizon (012510.KS, W21,000, NOT RATED)
China Mengniu Dairy (2319.HK, HK$21.80, NEUTRAL, TP HK$26.80)
GOME Electrical Appliances Holding Limited (0493.HK, HK$2.29, OUTPERFORM [V], TP HK$3.34)
Hengan International (1044.HK, HK$54.65, NEUTRAL, TP HK$60.40)
Hyundai Mobis (012330.KS, W196,000, OUTPERFORM [V], TP W206,000)
Kia Motors (000270.KS, W31,700, NEUTRAL [V], TP W24,000)
Li Ning Co Ltd (2331.HK, HK$25.80, OUTPERFORM [V], TP HK$37.40)
Tingyi (0322.HK, HK$16.46, OUTPERFORM, TP HK$19.20)
Poly Real Estate Group (600048.SS, Rmb10.10, OUTPERFORM [V], TP Rmb20.80)
China Minsheng Banking Corporation (1988.HK, HK$7.51, NEUTRAL [V], TP HK$8.28)
PICC Property & Casualty (2328.HK, HK$7.01, UNDERPERFORM [V], TP HK$5.00)
Aluminum Corporation of China (2600.HK, HK$6.57, OUTPERFORM [V], TP HK$10.80)
China Unicom Hong Kong Ltd (0762.HK, HK$8.95, OUTPERFORM [V], TP HK$13.25)
Cheung Kong Holdings (0001.HK, HK$91.85, OUTPERFORM [V], TP HK$119.69)
Kerry Properties (0683.HK, HK$32.70, NEUTRAL [V], TP HK$46.79)
HSBC Holdings (0005.HK, HK$72.90, OUTPERFORM, TP HK$97.00)
Hang Lung Properties (0101.HK, HK$27.70, NEUTRAL [V], TP HK$29.42)
Wharf Holdings (0004.HK, HK$38.45, OUTPERFORM [V], TP HK$52.70)
Hang Seng Bank (0011.HK, HK$105.50, NEUTRAL, TP HK$110.00)
United Company Rusal Ltd. (0486.HK, HK$8.00, OUTPERFORM [V], TP HK$11.80)
Sun Hung Kai Properties (0016.HK, HK$101.20, OUTPERFORM [V], TP HK$135.83)
Orient Overseas International (0316.HK, HK$55.90, OUTPERFORM [V], TP HK$72.20)
Poly (Hong Kong) Investments Ltd (0119.HK, HK$6.39, OUTPERFORM [V], TP HK$12.00)
Wynn Macau (1128.HK, HK$11.36, UNDERPERFORM [V], TP HK$11.50)
Bank of East Asia (0023.HK, HK$26.95, NEUTRAL [V], TP HK$31.00)
Hong Kong and China Gas (0003.HK, HK$17.72, UNDERPERFORM, TP HK$16.10)
CLP Holdings Limited (0002.HK, HK$55.00, NEUTRAL, TP HK$59.00)
KT Corp (030200.KS, W47,300, OUTPERFORM, TP W58,000)
Hyundai Heavy Industries (009540.KS, W221,500, UNDERPERFORM [V], TP W206,000)
OCI Company Ltd (010060.KS, W224,500, OUTPERFORM [V], TP W270,000)
Hyundai Department Store Co. Ltd (069960.KS, W100,000, OUTPERFORM, TP W145,000)
Hana Financial Group (086790.KS, W29,900, NEUTRAL [V], TP W39,000)
Samsung Fire & Marine (000810.KS, W190,000, OUTPERFORM, TP W245,000)
Amorepacific Corp (090430.KS, W870,000, OUTPERFORM, TP W950,000)
LG Electronics Inc (066570.KS, W109,000, NEUTRAL [V], TP W114,500)
Daewoo Securities (006800.KS, W20,700, UNDERPERFORM [V], TP W16,700)
LG Display Co Ltd. (034220.KS, W43,900, OUTPERFORM, TP W55,000)
Woori Finance Holdings (053000.KS, W15,000, NEUTRAL [V], TP W17,000)
Samsung SDI (006400.KS, W168,500, UNDERPERFORM, TP W130,000)
Dongbu Insurance (005830.KS, W36,850, OUTPERFORM [V], TP W46,000)
NC Soft (036570.KS, W199,000, OUTPERFORM [V], TP W201,000)
KT&G Corp (033780.KS, W58,400, OUTPERFORM, TP W86,000)
1st Pacific Co, 633987, 5.23, Not Rated
Beiqi Foton Motor, 611552, 16.36, Not Rated
Celltrion Inc, B0c5yv, 21500, Not Rated
Champion Real Esta, B14WZ4, 3.6, Not Rated
China First Heavy, B60B6Z, 5.48, Not Rated
China Shipbuilding, B4X9DB, 7.5, Not Rated
China Yangtze Powe, 671163, 12.53, Not Rated
Chinese Estates Hl, 619118, 11.84, Not Rated
Daewoo Internation, 634427, 34500, Not Rated
Dong Feng Automobi, 616383, 5.12, Not Rated
Doosan Corporation, 666111, 91500, Not Rated
Doosan Infracore C, 621167, 17850, Not Rated
Fuyao Glass Indust, 635353, 9.07, Not Rated
Gcl-Poly Energy Hl, B28XTR, 1.38, Not Rated
Glorious Property, B3B9H9, 2.39, Not Rated
Guoco Group, 639036, 80.6, Not Rated
Harbin Pharm Co, 640988, 21.16, Not Rated
Heilongjiang Agric, 651959, 12.91, Not Rated
Jiangsu Shuanglian, 660922, 16.63, Not Rated
Korean Air Lines, 649676, 77000, Not Rated
New World Devel Co, 663376, 12.62, Not Rated
Qh Saltlake Indust, 671029, 17.02, Not Rated
Saic Motor Co. Ltd, 608697, 16.21, Not Rated

Shanxi Coal Intern, 667324, 20.1, Not Rated
Shanxi Taigang St, 611690, 5.54, Not Rated
Sk Networks Co Ltd, B04PZG, 10050, Not Rated
Wheelock & Company, 698148, 21.55, Not Rated
Zhejiang Medicine, 617115, 32.2, Not Rated
LG Telecom (032640.KS, W7,880, OUTPERFORM, TP W10,500)
SK Telecom (017670.KS, W168,500, OUTPERFORM, TP W230,000)
KT Corp (030200.KS, W47,300, OUTPERFORM, TP W58,000
Wilmar International Ltd (WLIL.SI, S$6.19, UNDERPERFORM, TP S$5.70)
Sime Darby (SIME.KL, RM8.24, UNDERPERFORM, TP RM7.50)
IOI Corporation (IOIB.KL, RM5.29, UNDERPERFORM, TP RM5.00)
Kuala Lumpur Kepong (KLKK.KL, RM16.60, NEUTRAL, TP RM14.30)
Genting Plantations Bhd (GENP.KL, RM6.64, NEUTRAL, TP RM6.40)
Indofood Agri Resources Ltd (IFAR.SI, S$2.17, OUTPERFORM [V], TP S$2.65)
PT Astra Agro Lestari Tbk (AALI.JK, Rp20150.00, NEUTRAL [V], TP Rp21070.00)
PT London Sumatra Indonesia (LSIP.JK, Rp8950.00, OUTPERFORM [V], TP Rp10800.00)
Sampoerna Agro Tbk (SGRO.JK, Rp2275.00, OUTPERFORM [V], TP Rp3200.00)
Acer Inc. (2353.TW, NT$75.20, OUTPERFORM, TP NT$91.1)
Asustek Computer (2357.TW, NT$50.40, NEUTRAL, TP NT$64.00)
Lenovo Group Ltd (0992.HK, HK$5.40)
Dell Inc. (DELL, $15.22, NEUTRAL, TP $12.50)
Hewlett-Packard (HPQ, $47.52, OUTPERFORM, TP $65.00)
Apple Inc. (AAPL, $254.22, OUTPERFORM, TP $315.00)
Toshiba (6502, ¥492, OUTPERFORM [V], TP ¥620, MARKET WEIGHT)
Sony (6758, ¥2,817)
Compal Electronics (2324.TW, NT$40.50, OUTPERFORM, TP NT$56.90)
Quanta Computer (2382.TW, NT$57.10, OUTPERFORM, TP NT$81.00)
Wistron (3231.TW, NT$53.10, OUTPERFORM [V], TP NT$70.00)
Inventec Co Ltd (2356.TW, NT$17.15, NEUTRAL, TP NT$10.00)
Hon Hai Precision (2317.TW, NT$141.00, OUTPERFORM, TP NT$189.00)
China Overseas Land & Investment (0688.HK, HK$14.16, OUTPERFORM [V], TP HK$17.70)
China Resources Land Ltd (1109.HK, HK$13.18, OUTPERFORM [V], TP HK$17)
China Vanke Co Ltd-A (000002.SZ, Rmb6.92, OUTPERFORM [V], TP Rmb9.50)
China Vanke Co Ltd-B (200002.SZ, HK$6.70, OUTPERFORM [V], TP HK$7.90)
Evergrande Real Estate Group Ltd (3333.HK, Rmb1.98, NEUTRAL [V], TP Rmb2.40)
Greentown China Holdings Ltd (3900.HK, HK$8.48, UNDERPERFORM [V], TP HK$8.30)
Guangzhou R&F Properties Co Ltd (2777.HK, HK$9.52, NEUTRAL [V], TP HK$9.80)
Hopson Development Holdings (0754.HK, HK$9.22, NEUTRAL [V], TP HK$9.90)
KWG Property Holding Limited (1813.HK, HK$4.01, OUTPERFORM [V], TP HK$5.90)
Poly Real Estate Group (600048.SS, Rmb10.10, OUTPERFORM [V], TP Rmb17.30)
Poly (Hong Kong) Investments Ltd (0119.HK, HK$6.39, OUTPERFORM [V], TP HK$9.90)
Shimao Property Holdings Ltd (0813.HK, HK$11.04, OUTPERFORM [V], TP HK$14.10)
Sino-Ocean Land Holdings Ltd (3377.HK, HK$5.35, OUTPERFORM [V], TP HK$8.00)
Axis Bank Limited (AXBK.BO, Rs1267.00, OUTPERFORM [V], TP Rs1510.00)
HDFC Bank (HDBK.BO, Rs1919.95, OUTPERFORM [V], TP Rs1928.00)
ICICI Bank (ICBK.BO, Rs899.25, NEUTRAL [V], TP Rs826.00)
Bank of Baroda (BOB.BO, Rs676.95, OUTPERFORM [V], TP Rs657.00)
Bank of India (BOI.BO, Rs327.10, NEUTRAL [V], TP Rs363.00)
Punjab National Bank Ltd (PNBK.BO, Rs1001.50, OUTPERFORM [V], TP Rs1167.00)
State Bank Of India (SBI.BO, Rs2250.00, UNDERPERFORM [V], TP Rs2178.00)
Kotak Mahindra Bank Ltd (KTKM.BO, Rs785.80, NEUTRAL [V], TP Rs774.00)
Union Bank of India (UNBK.BO, Rs292.70, OUTPERFORM, TP Rs332.00)
Yes Bank Ltd (YESB.BO, Rs273.20, UNDERPERFORM [V], TP Rs223.00)
Standard Chartered Plc (2888.HK, HK$185.10, OUTPERFORM [V], TP HK$234.00)

Disclosure Appendix

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