

# How to Spend Your Lai See

## SECTOR REVIEW

### Small stocks, big profits

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- It is a joyful Chinese New Year – a recent survey shows that 30% of people are paying ‘bigger’ Lai See amid an improving economy this year. Total circulation of Lai See money in China is estimated at US\$25 bn a year. One meaningful way to make use of this ‘lucky money’ is to invest it in the stock market.
- Many Chinese are calling 2007 the Year of the ‘Golden Pig’, as the pig is a lucky animal in the Chinese horoscope. The Hang Seng Index has shown a favourable upward trend in the past three Years of the Pig.
- In this report, we focus on five key ‘Lai See’ picks, with an average potential upside of 47%, and put our regional ‘Heads’ together to identify 13 other ideas in Asia. Our Heads of China and Hong Kong Research also share their own particular view on the market outlook and their top picks for the Year of the Pig.

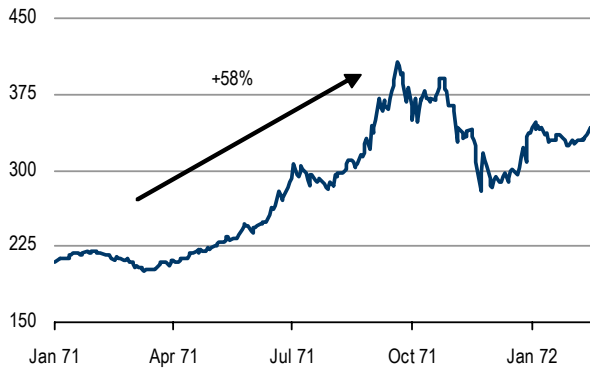


Source: Credit Suisse

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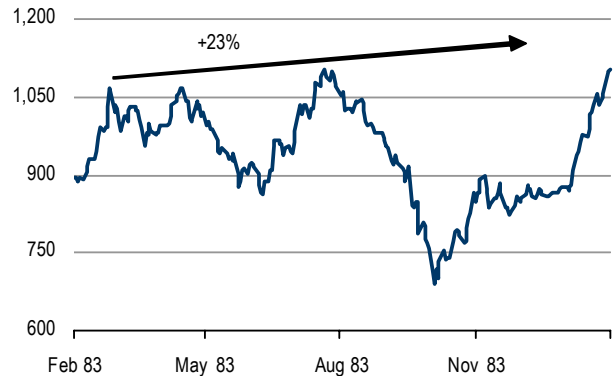
# Focus charts

**Figure 1: Hang Seng Index in the 1971 Year of the Pig**



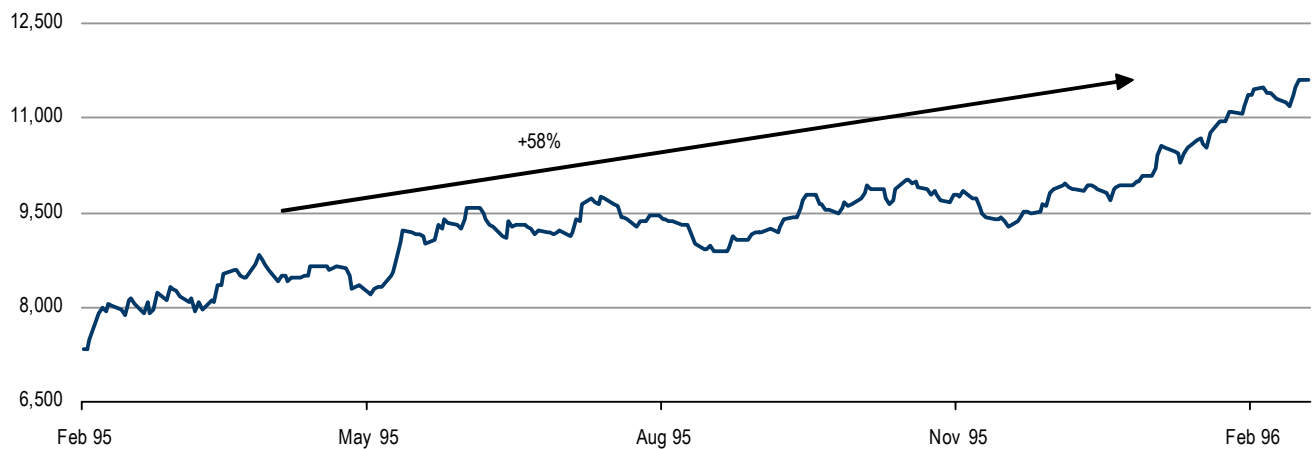
Source: Datastream, Credit Suisse estimates

**Figure 2: Hang Seng Index in the 1983 Year of the Pig**



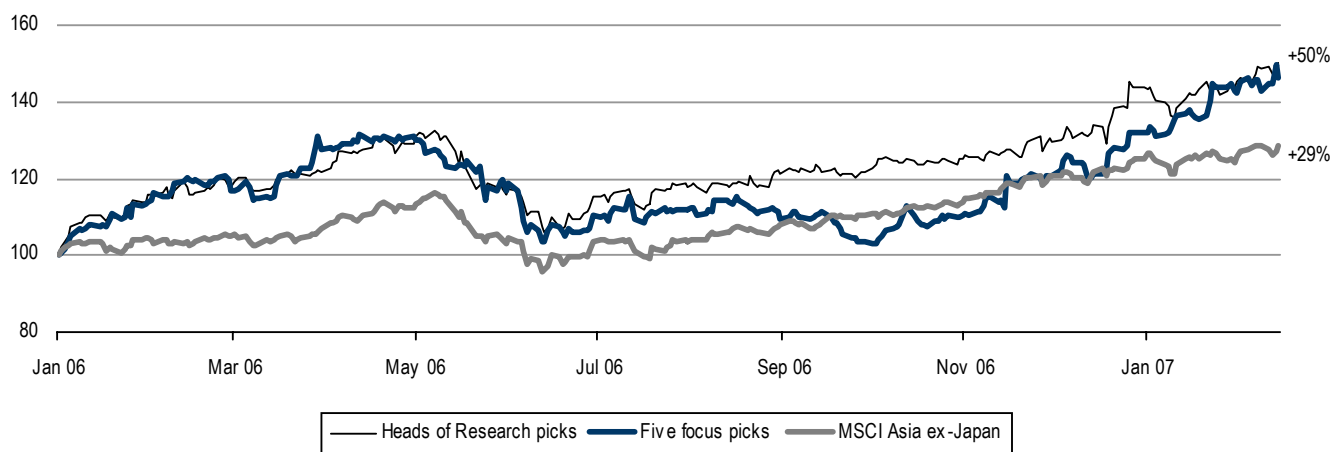
Source: Datastream, Credit Suisse estimates

**Figure 3: Hang Seng Index in the 1995 Year of the Pig**



Source: Datastream, Credit Suisse estimates

**Figure 4: The focus Lai See picks and Heads of Research picks outperformed MSCI Asia ex. Japan in the Year of the Dog**



Source: Datastream, Credit Suisse estimates

# Focus charts

**Figure 5: Valuation table of the five Lai See focus picks**

Stock code	Company	Rating	Price	Market cap (US\$ mn)	CY07E		CY08E		CY07E yield (%)	Target price	Pot. upside (%)
					EPS chg (%)	P/E (x)	EPS chg (%)	P/E (x)			
0571.HK	eSun	O	HK\$7.05	740	-18.5	8.0	32.1	6.1	-	HK\$10.20	44.7
EVGN.KL	Evergreen Fibreboard	O	RM1.32	181	30.9	8.1	34.6	6.0	6.2	RM2.00	51.5
GEMS.SI	Gems TV	O	S\$1.50	1,005	54.0	18.4	47.3	12.5	1.6	S\$1.94	29.2
2548.TW	Huaku Construction	O	NT\$63.30	329	66.8	5.4	25.2	4.3	8.5	NT\$99.00	56.4
SF.BK	Siam Future	O	Bt8.80	125	0.4	9.5	-22.8	12.2	4.2	Bt13.50	53.4
<b>Average</b>					<b>26.8</b>	<b>9.9</b>	<b>23.3</b>	<b>8.2</b>	<b>4.1</b>		<b>47.0</b>

Source: Company data, Credit Suisse estimates

**Figure 6: Valuation table of the China top picks**

Stock code	Company	Rating	Price (HK\$)	Market cap (US\$ mn)	CY07E		CY08E		CY07E yield (%)	Target price (HK\$)	Pot. upside (%)
					EPS chg (%)	P/E (x)	EPS chg (%)	P/E (x)			
2866.HK	China Shipping Container Lines	O	3.01	2,324	100.0	37.3	400.0	7.5	0.6	3.2	6.3
0728.HK	China Telecom	O	3.70	38,342	11.5	12.2	20.7	10.1	2.6	4.2	13.5
2727.HK	Shanghai Electric	O	4.07	6,197	16.7	19.0	14.3	16.7	1.9	5.0	22.9
0576.HK	Zhejiang Expressway	O	6.12	3,403	5.6	15.9	15.8	13.8	4.2	7.0	14.4

Source: Company data, Credit Suisse estimates

**Figure 7: Valuation table of the Hong Kong top picks**

Stock Code	Company	Rating	Price (HK\$)	Market cap (US\$ mn)	CY07E		CY08E		CY07E yield (%)	Target price (HK\$)	Pot. upside (%)
					EPS chg (%)	P/E (x)	EPS chg (%)	P/E (x)			
0002.HK	CLP Holdings Limited	O	58.80	18,124	8.1	13.7	0.2	13.7	4.4	69.0	17.3
0010.HK	Hang Lung Group	O	26.65	4,546	37.4	15.3	34.7	11.3	2.4	33.9	27.2
0011.HK	Hang Seng Bank	O	111.30	27,235	8.6	16.3	9.5	14.9	5.2	123.0	10.5
0013.HK	Hutchison Whampoa	O	79.45	43,354	-63.4	41.4	99.5	20.7	2.2	97.0	22.1

Source: Company data, Credit Suisse estimates

**Figure 8: 13 picks for the Year of the Pig from our sector and country heads**

Code	Stock	Price	Market	Analyst	Why?
0011.HK	Hang Seng Bank	HK\$111.30	Hong Kong	Bill Stacey	Lot of resources to expand financial services into China
HLAA.SI	Hong Leong Asia	S\$2.00	Singapore	Bradley Burch	A collection of China businesses at half of China multiples
0010.HK	Hang Lung Group	HK\$26.65	Hong Kong	Clifford Lam	Cheap and leveraged play of Hang Lung Properties
TACC.SI	Total Access Comms	\$4.10	Thailand	Colin McCallum	Highly geared to regulatory change in Thai cellular market
5009.TWO	Gloria Material	NT\$52.40	Taiwan	Ernest Fong	Leading speciality steel maker for advanced applications
0906.HK	China Netcom	HK\$19.92	China	Jeff Kahng	Free upside on potential 3G licence and ind. restructuring
0200.HK	Melco	HK\$15.66	Hong Kong	Kenny Lau	Cheapest Macau gaming concession holder
2353.TW	Acer Inc	NT\$60.70	Taiwan	Manish Nigam	Potential to become the no. 3 PC player in the world
CTRS.JK	Ciputra Surya	Rp950	Indonesia	Mirza Adityaswara	Beneficiary of a surge in investment demand for property
LUPN.BO	Lupin	Rs598.50	India	Nilesh Jasani	Exposure of the medicine for long-term or chronic diseases
EVGN.KL	Evergreen Fibreboard	RM1.32	Malaysia	Stephen Hagger	Upside on closing price gap between MDF and plywood
0914.HK	Anhui Conch Cement	HK\$24.75	China	Trina Chen	Most efficient cement producer and consolidator in China
2727.HK	Shanghai Electric	HK\$4.07	China	Vincent Chan	Beneficiary of China's growing power plant projects

Source: Company data, Credit Suisse estimates

# Kung Hei Fat Choi

## Lai See, Lai See

Of all the traditional Chinese festivals, the New Year is perhaps the most elaborate and important. This is a time for the Chinese to congratulate each other and themselves on having passed through another year, a time to see out the old year and to welcome in the New Year.

Giving red packets during Chinese New Year is a tradition. 'Good luck' money is wrapped in little envelopes called Lai See (see Figure 9). The packet is usually red or gold in colour, symbolising good luck and vitality. Lai See is typically handed out to children and unmarried people by their parents, grandparents, relatives, close neighbours and friends. Bosses also give Lai See to their colleagues on the first working day of the New Year for luck in the coming year.

Chinese New Year is the most elaborate and important festival for Chinese

Red packet, or Lai See, symbolises good luck and vitality

**Figure 9: Lai See packets**



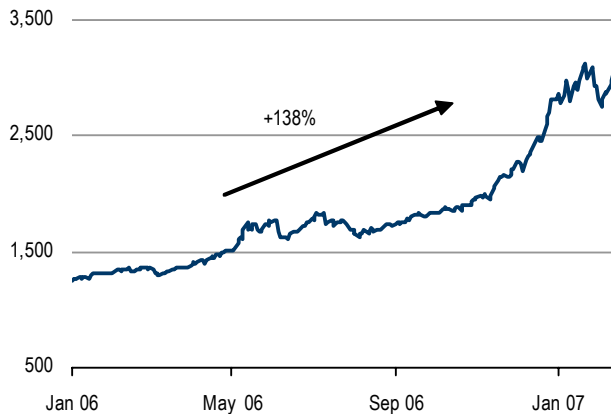
Source: Credit Suisse

According to an unofficial survey, each child or unmarried person receives US\$100-300 of Lai See money on average during the Chinese New Year in Hong Kong. There are no statistics on how much Lai See money is given out in China. If we assume each mainland child under 15 receives Lai See money of US\$50 on average in a year, the total amount could reach US\$13 bn in China. Assuming the total amount of Lai See money to unmarried people and employees is of a similar size, the total circulation of Lai See money in China is estimated to be US\$25 bn a year. This is equivalent to about 39 days of trading turnover on the Shanghai stock market!

Lai See money's circulation in China is estimated to reach US\$25 bn a year

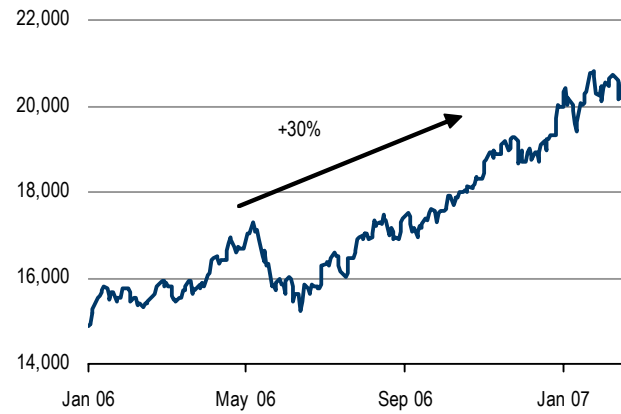
Shanghai's 'A' Share Index and Hong Kong's Hang Seng Index recorded spectacular returns of 130% and 30%, respectively, in the Year of the Dog. The Lai See payers are likely to give 'bigger' Lai See so that even a three-year-old child can share the joy of a stock market bull run. According to a survey conducted by the Hong Kong Research Association, about 30% of Lai See givers are paying more Lai See amid an improving economy this Chinese New Year.

**Figure 10: Shanghai 'A' Share Index**



Source: Datastream, Credit Suisse estimates

**Figure 11: Hang Seng Index**



Source: Datastream, Credit Suisse estimates

Mr Joseph Yam, Chief Executive of the Hong Kong Monetary Authority (HKMA), called on people to protect the environment to use good-as-new notes ('fit notes'), instead of brand-new notes for Lai See last Chinese New Year. The public seemed to respond positively – the HKMA printed 226 mn new notes in 2006, or 25% less than the year before. The HKMA saved about HK\$37 mn on printing costs and, most importantly, saved about 1,300 trees.

HKMA printed fewer new notes, and saved HK\$37 mn and 1,300 trees

There may be fewer people using brand-new notes, or even 'fit notes' this year. Why? Has the public become more environmentally conscious? Not necessarily. Given the continuous appreciation of the renminbi, people from Hong Kong should be more pleased to receive Lai See in renminbi than in Hong Kong dollars. Mr Yam should not be too complacent when he sees the demand for brand-new Hong Kong dollar notes continuing to fall this year. The burden of printing brand-new notes for Lai See may simply be shifting from the HKMA to the People's Bank of China.

People in Hong Kong may be more willing to receive Lai See in renminbi, due to its appreciation

## Year of the 'Golden Pig'?

How do the people make use of the lucky money? Some may buy toys, gadgets, clothes or save it in the bank. However, wouldn't it be more meaningful to make your Lai See money grow into a bigger fortune? One way to grow your Lai See money would be to invest in the stock market. Focusing on small caps could be the most appropriate tactic (as the money is too little for investing in big-cap stocks).

One way to grow Lai See money is to invest it in the stock market

### Is the Year of the Pig an auspicious one for stock investment?

Many Chinese are calling 2007 the Year of the 'Golden' Pig. The pig is a lucky animal in the Chinese horoscope – the Chinese see that pigs eat food all the time, enjoy sleeping all day long and worry about nothing during their entire lives. Chinese also like the shiny gold, which is a sign of wealth and prestige. It is a Chinese folk custom to prefix 'golden' to something believed to be lucky, such as a 'golden pig', 'golden monkey', etc. However, according to the traditional stem-branch system of the Chinese calendar, 2007 is actually a 'Fire Pig', or 24<sup>th</sup> out of the 60 stem-branches in the system, and not actually a 'Golden Pig' year. Since fire is equivalent to the colour red in the traditional Chinese five-element system, 2007 is also called the 'Red Pig' year.

The pig is a lucky animal in the Chinese horoscope

No matter how we refer to the 2007 Year of the Pig, what we are interested is whether 2007 a good year to invest our Lai See money in the stock market. There is a Chinese folk belief that the 12 Chinese horoscopes may have some effect on the general investment environment for the whole year.

The past three Years of the Pig recorded favourable returns in the stock market

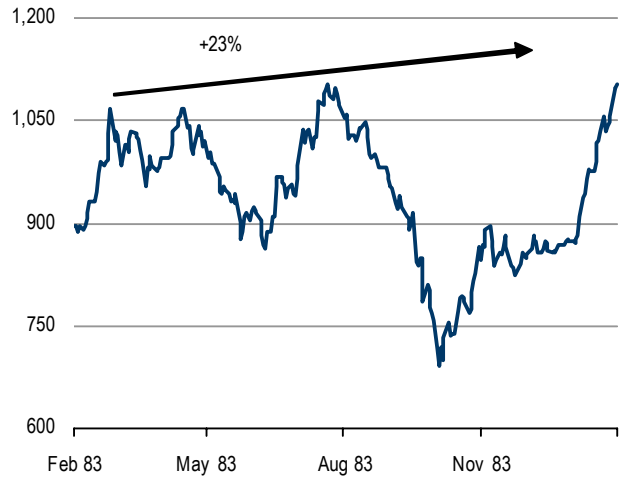
In the past three Years of the Pig (1971, 1983 and 1995), the Hang Seng Index rose 58%, 23% and 58%, respectively (see Figures 12, 13 and 14).

**Figure 12: Hang Seng Index in the 1971 Year of the Pig**



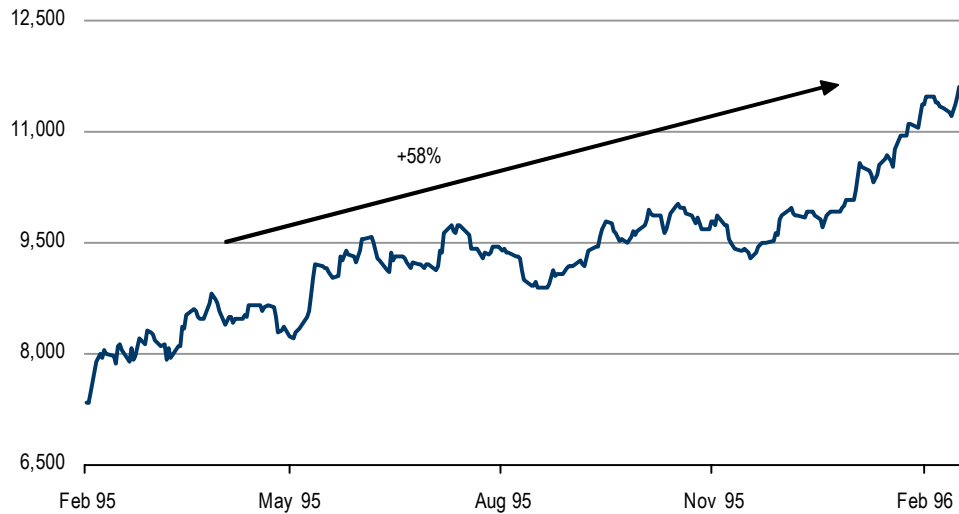
Source: Datastream, Credit Suisse estimates

**Figure 13: Hang Seng Index in the 1983 Year of the Pig**



Source: Datastream, Credit Suisse estimates

**Figure 14: Hang Seng Index in the 1995 Year of the Pig**



Source: Datastream, Credit Suisse estimates

Previous Years of the Pig showed favourable upward trends. These pigs seemed able to fly. Nevertheless, investors should always exercise the usual rational judgement and caution when they are planning to grow their Lai See by investing in the stock market.



## The focus Lai See picks

In order to grow their Lai See money, which is usually a small amount, we believe that investors should focus on small caps, where the initial investment cost is relatively small, but not the growth potential – small stocks, potentially big profits.

To grow the small amount of Lai See money, focus on small caps

We have picked five small caps in the region with average potential upside of 47% by our estimates, over the next 12 months (or until you receive your next batch of Lai See money). They come from different sectors in different markets – Macau gaming, Malaysia forest products, Singapore home shopping, Taiwan and Thailand property – each with a unique story. Our five focus picks are:

### Hong Kong

- eSun Holdings (0571.HK, HK\$7.05, OUTPERFORM, TP HK\$10.20)

### Malaysia

- Evergreen Fibreboard (EVGN.KL, RM1.32, OUTPERFORM, TP RM2.00)

### Singapore

- Gems TV (GEMS.SI, S\$1.50, OUTPERFORM, TP S\$1.94)

### Taiwan

- Huaku Construction (2548.TW, NT\$63.30, OUTPERFORM, TP NT\$99.00)

### Thailand

- Siam Future Development (SF.BK, Bt8.80, OUTPERFORM, TP Bt13.50)

Figure 15: Valuation table of the five Lai See focus picks

Stock code	Company	Rating	Price	Market cap (US\$ mn)	CY07E		CY08E		CY07E yield (%)	Target price	Pot. upside (%)
					EPS chg (%)	P/E (x)	EPS chg (%)	P/E (x)			
0571.HK	eSun	O	HK\$7.05	740	-18.5	8.0	32.1	6.1	-	HK\$10.20	44.7
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<b>Average</b>					<b>26.8</b>	<b>9.9</b>	<b>23.3</b>	<b>8.2</b>	<b>4.1</b>		<b>47.0</b>

Note: O = OUTPERFORM

Source: Company data, Credit Suisse estimates

It is our belief that undemanding valuations are a prerequisite for a small-cap stock to perform. Given the inherent risk of lower trading liquidity, business volatility and a general lack of research coverage, Lai See money, not the widows-and-orphans funds, should be the more appropriate source of funds to invest in small caps.

Our five Lai See picks have average P/Es of 9.9x, with potential upside of 47%

The five focus Lai See picks are trading at estimated 2007E P/Es ranging from 5.4x to 18.4x, or an average of 9.9x, some 32% cheaper than the 14.5x of the MSCI Asia ex. Japan Index. We expect an average potential upside of 47%.

**Figure 16: Hong Kong – eSun**



Source: Datastream, Credit Suisse estimates

**Figure 17: Malaysia – Evergreen**



Source: Datastream, Credit Suisse estimates

**Figure 18: Singapore – Gems TV**



Source: Datastream, Credit Suisse estimates

**Why? Gabriel Chan believes:**

eSun is a leading entertainment company in Asia and has organised numerous concerts in Hong Kong, Las Vegas and other cities around the world. In addition, eSun also manages over 30 leading Asian pop stars. We believe it can leverage off its entertainment business by arranging for its Asian pop stars to perform in Macau, which should attract not only mainland Chinese, but also tourists from South-East Asia. Unlike other Macau gaming companies, eSun will receive an advance positive cash inflow from the formation of the JV before the casinos actually open. Macau Studio City should be on solid ground to compete with other casinos. A reasonable discount to NAV of 14% would translate into a 45% potential upside.

**Why? Hon Sze Leong believes:**

Global medium-density fibreboard (MDF) prices have risen 24% YoY, pulled up by the rising price of plywood, for which MDF is the closest substitute. The rise in plywood prices is the result of global demand exceeding tropical timber resources, which are constrained by environmental issues. Evergreen Fibreboard is on an acquisition and expansion drive to become one of the top ten MDF players in the world. It has recently announced the acquisition of a competitor that will add 14% to FY07 earnings onwards, and we expect more corporate developments to unfold over the course of 2007. Our target price of RM2.00, or potential upside of 52%, values Evergreen on an FY07E P/E of 13x, or a PEG ratio of 0.4x.

**Why? Clarice Khoo believes:**

Gems TV's business model of an integrated manufacturer and a TV home shopping retailer of coloured gemstone jewellery differentiates it from other home shopping channels and 'bricks and mortar' retailers with the strong value proposition it offers to end-consumers. With the scalability of the low-cost manufacturing base in Thailand, it capitalises on its first-mover advantage to expand into new markets, such as the US, which we estimate will contribute over 50% of total core revenue in FY08E. We believe that at 17x FY08E P/E, or potential upside of 29%, it represents an attractive risk-reward profile, given Gems TV's short history and the execution risks related to its expansion plans.



**Figure 19: Taiwan – Huaku**



Source: Datastream, Credit Suisse estimates

**Figure 20: Thailand – Siam Future**



Source: Datastream, Credit Suisse estimates

**Why? Sidney Yeh believes:**

Huaku plans to launch five projects, with an estimated value of NT\$11.9 bn in 1H07, as Huaku remains very positive on Taipei City property. We are positive on its new strategy of diverse locations in Taipei City. We estimate that blended project margins will climb to 36.5% this year, up from 34.4% in 2006. Of the five projects, the margins range from 20-50%, in our modelling, compared with the company's guidance of 20-35%. All the projects launched this year should filter into earnings for 2007, 2008 and 2009. After the recent panic selling, Huaku now trades at a very cheap valuation of 5.4x FY07E and 4.3x FY08E P/E. Our target price of NT\$99 represents potential upside of 56%.

**Why? Sai Sarinee Sernsukskul believes:**

Siam Future looks set for another strong year, driven by the opening of its Esplanade Mall and Pattaya Mall. Average retail space is expected to rise 74% YoY in 2007. With the opening of Kaset Navamin and Ratchayothin in 2008, average retail space will rise a further 12% YoY. The Esplanade is now 95% booked and the Kaset Navamin project has secured three anchor tenants, which take up half of its lettable space. We like its 'utility-like' business model (through back-to-back long-term leases to tenants and long-term leases from land owners) and 'growth option'. Management indicated that there are likely to be more projects in the pipeline. Our target price of Bt13.5 represents 53% potential upside.

# Golden Pigs in China & Hong Kong

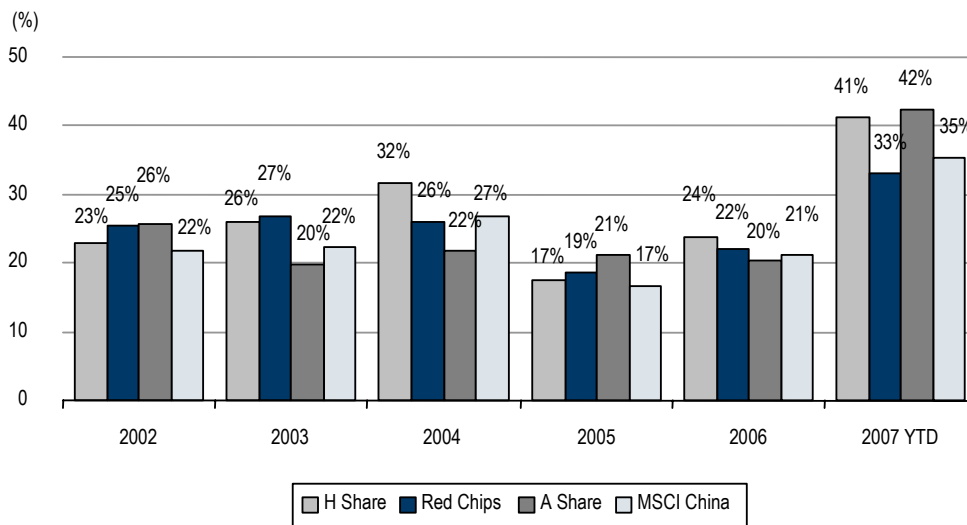
## China – the pig can run! Both back and forth

Vincent Chan, China Research

As an investor, if you want to survive in the Year of the Pig, you better not be lazy, you need to remain nimble – and a dose of whisky every night to calm yourself down before going to bed might not be a bad idea. Generally speaking, don't be a pig. Why? Because we expect a roller-coaster year for China stocks. In the year to date, we have already seen that the volatility of China stocks has increased substantially compared to over the past few years, and there are very good reasons why such volatility is likely to continue or even increase through the next year. We suggest investors be prepared for it.

Market volatility likely to continue or even increase

**Figure 21: Volatility Index of China stocks – annualised standard deviation of weekly change**



Source: Datastream, Credit Suisse estimates

There are good reasons for such high volatility, in our view. On the one hand, we expect economic growth in China to remain strong, inflation remains low, the trade surplus remain large and the renminbi to appreciate to RMB7.4:US\$ or even higher by the end of 2007. However, we believe that most of the good news has already been discounted, and that the market is already very expensive. Based on the 99 China stocks that we currently cover, the simple average P/E of these stocks in 2007E and 2008E are 30.6x and 22.8x, respectively – this is a very expensive market! However, as past boom-bust cycles in the stock market show us, there is seldom a meaningful correction in stock markets if the economic/corporate earnings growth outlook remains good and only the market is expensive. Therefore, we expect appetite and apprehension to continue to co-exist in the market this year, and this should generate volatility.

Stock markets seldom see a meaningful correction if the economic/corporate earnings growth outlook remains good

A shares are still likely to outperform H shares this year, in our view, despite the higher valuation. Is this ironic? Yes, but we live in an ironic world anyway. We believe the domestic A-share market will probably continue to correct for a while, given the government's recent stance to cool down the stock market. However, the big picture for this market is that liquidity is abundant. Even after the rapid expansion and P/E rerating of the A-share market, the total market cap of the Shanghai and Shenzhen markets (including A and B shares) is still around RMB10.6 tn. This is huge in absolute terms, but it is still less than one-third of outstanding deposits at RMB33.5 tn – very low compared to other markets. We believe that there is simply abundant liquidity to support a much bigger stock market boom (or bubble) in China after this correction.

A shares are still likely to outperform H shares this year

To prevent this from happening, we believe the government would have to undertake very aggressive measures basically to destroy the confidence of domestic investors in the market. But is this likely to happen, after the government spent so much effort and money to revive the A-share market after its prolonged four-year bear market? Unlike previous unfulfilled statements on the non-tradable share reform of A shares, the government (as the major shareholder of most companies) has really spent massive amounts of money to compensate minority shareholders in order to return investor confidence in the market.

The Chinese government is unlikely to undertake aggressive measures to cool down the stock market

After the massive rally in 2006, valuations of Chinese financials and many consumer goods companies have reached a very demanding level. Therefore, they are likely to correct more compared to many other sectors, such as telecoms, commodities and transportation. We like China Telecom (0728.HK, HK\$3.70, OUTPERFORM, TP HK\$4.20), China Shipping Container Lines (2866.HK, HK\$3.01, OUTPERFORM, TP HK\$3.20), Shanghai Electric (2727.HK, HK\$4.07, OUTPERFORM, TP HK\$5.00) and Zhejiang Expressway (0576.HK, HK\$6.12, OUTPERFORM, TP HK\$7.00).

Chinese financials and many consumer goods stocks are likely to correct more

**China top picks for the Year of the Pig**

**Figure 22: Shanghai Electric**



For our regional utilities analyst Angello Chan's best-rated China stock there are a number of catalysts that could help the stock to perform: 1) we believe China's power demand is likely to be revised upwards by the NDRC (National Development and Reform Commission), since actual power demand in the past two years had been consistently higher than forecast. This could lead to more power plant construction projects being approved, in our view, and thus be good for the company's orders; 2) China has finalised the third generation nuclear power technology transfer and award the contract to Westinghouse (not listed). With the standard decided, new projects should be granted, and we expect Shanghai Electric to receive a large share of the orders; 3) the recent drive by the Chinese government in energy efficiency to encourage more power projects to buy equipment from large manufacturers, such as Shanghai Electric, of which the production technology is more advanced; 4) we believe that the corruption scandal, which created an overhang on the company's share price performance in 2006, is likely to be alleviated with the publication of its internal audit by a major independent international accounting firm.

Source: Datastream, Credit Suisse estimates

**Figure 23: China Telecom**



Valuation of the company, at 11.5x 2007E P/E, is very reasonable compared with other Chinese companies. Most importantly, our telecoms analyst, Jeffrey Tan expects China to issue 3G licences this year, and China Telecom is likely to get one of them. We believe that this would be a major new growth driver for the company, and would help the company to overcome its current problems, i.e., the fixed line to mobile switch, which hurts the subscription base of the company.

Source: Datastream, Credit Suisse estimates

**Figure 24: China Shipping Container**



Source: Datastream, Credit Suisse estimates

Credit Suisse's Asian transportation research team has upgraded its outlook for container freight rates. Most importantly, we expect container freight rates to stabilise in 2007, after being down by almost 10% from the peak in 2004, and start to go up again in 2008. Given the high operating leverage in this sector, a 1% change in freight rates could lead to a 30% increase in net profits on average. We believe that China Shipping Container should benefit significantly from this cyclical upturn. However, the only caveat is that the share prices of stocks in this sector have rallied in the past two weeks. Investors should wait for some correction in share prices before entering, in our view.

**Figure 25: Zhejiang Expressway**



Source: Datastream, Credit Suisse estimates

At 15.9x 2007E P/E and with a 4.2% dividend yield, our China analyst, Jason Baverstock, believes this stock could prove very defensive and favoured by investors in a volatile stock market environment. It is no longer trading at a premium to other expressway companies, even though it deserves a premium, given its track record of consistently being able to deliver better-than-sector average returns. Also, with its strong cash position and robust cash flow generating ability ahead, we believe the company is in a very good position to either increase its dividend payout or purchase more highway projects from its parent company.

**Figure 26: Valuation table of the China top picks**

Stock code	Company	Rating	Price (HK\$)	Market cap (US\$ mn)	CY07E		CY08E		CY07E yield (%)	Target price (HK\$)	Pot. upside (%)
					EPS chg. (%)	P/E (x)	EPS chg (%)	P/E (x)			
2866.HK	China Shipping Container Lines	O	3.01	2,324	100.0	37.3	400.0	7.5	0.6	3.2	6.3
0728.HK	China Telecom	O	3.70	38,342	11.5	12.2	20.7	10.1	2.6	4.2	13.5
2727.HK	Shanghai Electric	O	4.07	6,197	16.7	19.0	14.3	16.7	1.9	5.0	22.9
0576.HK	Zhejiang Expressway	O	6.12	3,403	5.6	15.9	15.8	13.8	4.2	7.0	14.4

Note: O = OUTPERFORM

Source: Company data, Credit Suisse estimates

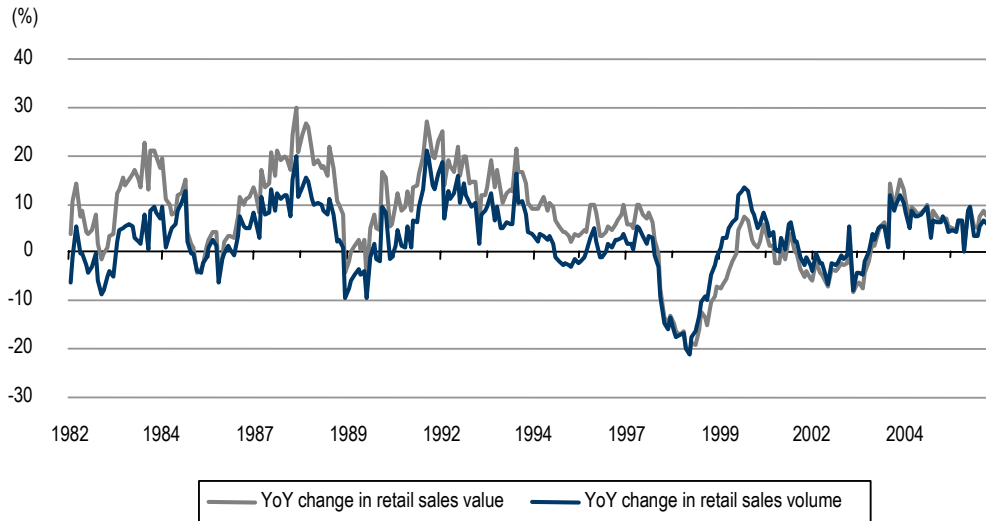
## Hong Kong – The great piggy bank robbery

### Clifford Lam, Hong Kong Strategy and Regional Property Research

Quite unlike the last Year of the Pig (1995), when we saw a decline in retail sales, we believe that the focus of 2007 will be on 'spending'. However, unlike the pick-up in 2003/04, which was driven by tourists, we expect private domestic consumption to drive retail sales in 2007. With the increase in salaries, fat bonuses and the wealth effect created by all those IPOs, it just seems logical that many of us would go out and buy new clothes, new furniture, a new car, or treat ourselves to a nice dinner or a nice vacation.

The focus in 2007 is on spending

Figure 27: YoY change in retail sales value and sales volume



Source: Datastream, Credit Suisse estimates

### Property – Only if you are buying things <HK\$3 mn or >HK\$30 mn

What about property? We believe that the housing market, particularly the secondary market, will rebound in 2007 and that a 5-10% increase in prices is quite possible. However, if you really see property as an investment, we would only suggest buying flats <HK\$3 mn (driven by salary increases from first-time home buyers) or >HK\$30 mn (driven by the wealth effect and the influx of liquidity).

Appetite for property as an investment has reduced substantially

Unlike the early 1990s, when most of us were more than willing to hand over our hard-earned cash (and Lai See money) to property developers, there are so many other alternatives nowadays. One could buy a flat in Beijing, Shanghai or even Macau; give a private banker a call and see what structured product they might have; or, go out and buy a limited edition watch or a Ferrari (yes, we are serious). All of these 'alternative investments' would yield you a better return, in our view. We believe that, for end-users, new homes in the up-graders' market are just too expensive at a 15-20% premium to the secondary market. Do some math and see how much more you need to pay if you are upgrading in Hong Kong.

Upgrade your car rather than your apartment ... it might make more sense economically

### Cars, watches and handbags – limited runs, the name of the game

Conventional wisdom says that 80% of the wealth is concentrated in 20% of the population. After the worldwide asset price inflation over the past couple of years, our guess is that the ratios are closer to 80% and 2%. Do you know that out of the 1.2 mn salary-tax payers in Hong Kong, the top 100,000 contribute more than 60%? There is only one direction for prices of luxury goods to go. So rather than spending HK\$3 mn on a down-payment for an average flat, go buy a Ferrari F430 (not to mention the F599), as quotas for 2007 productions are changing hands at about HK\$200,000+. People appear willing to buy the

If you had paid a 10% deposit on a 25 Porsche GT3 last summer, someone would be willing to buy it from you for HK\$150,000+ now

quota of a March 2007 production Porsche GT3 (HK\$1.7 mn) at HK\$150,000. Why? All of them are on limited runs. Dealers of Japanese cars are still giving out discounts to move inventory. Believe it or not, in our view your luxury good purchases can make money so long as they are on limited production runs.

**What about the stock market?**

Here comes the hard part. What about the stock market? We believe that being an investor in the stock market will be tough in the Year of the Pig. With retail and luxury spending the only theme in the Year of the Pig, there isn't much to drive the stock market. Large developers selling ten homes at HK\$200 mn each does not really contribute much to the bottom line. Negative real interest rates? With the chances of an earlier-than-expected US interest rate cut becoming more remote, we would not count on it. Frankly, the Hang Seng Index now reflects less on Hong Kong and increasingly more on China. This may be disappointing, but we are not going to give you a Hang Seng Index target here. Rather, we believe that stock picking is far more important. We like Hutchison Whampoa (0013.HK, HK\$79.45, OUTPERFORM, TP HK\$97.00), Hang Lung Group (0010.HK, HK\$26.65, OUTPERFORM, TP HK\$33.89), Hang Seng Bank (0011.HK, HK\$111.30, OUTPERFORM, TP HK\$123.00) and CLP Holdings (0002.HK, HK\$58.80, OUTPERFORM, TP HK\$69.00).

We see no theme in the Year of the Pig – stock-picking continues to be more important

**Hong Kong top picks for the Year of the Pig**

**Figure 28: Hutchison Whampoa**



Source: Datastream, Credit Suisse estimates

When was the last time you took a real look at Hutchison? Hutchison is probably the most under-owned large-cap stock in Hong Kong, which is exactly the reason to have it in the Year of the Pig, in our view. Our conglomerate analyst, Cusson Leung, expects a continuous narrowing of 3G losses and, based on simple operating leverage, we believe that this should be an easy earnings turnaround story with ~HK\$19 bn incremental earnings over the next two years. Don't forget about China either. Together with Cheung Kong (0001.HK, HK\$102.50, OUTPERFORM, TP HK\$109.73), the two stocks have one of the biggest landbanks in China among the listed companies. At 20.7x 2008E P/E, any positives from 3G are likely to induce a sharp rerating, in our view.

**Figure 29: Hang Lung Group**



Source: Datastream, Credit Suisse estimates

The story is simple – 99% of HLG's NAV is Hang Lung Properties (0101.HK, HK\$22.10, OUTPERFORM, TP HK\$23.61). Hence, HLG is a pure proxy to HLP. However, while HLP is trading at par to its FY08E NAV, HLP is trading at a 30% discount. All other holding companies, which are less of a proxy to their listed stub, are at much narrower discounts. Somehow, this gap has to close. This is a leveraged play into the much sought after investment property in China too. Every HK\$1 movement in HLP's share price would translate into HK\$1.6 in HLG. Cheap and leveraged – what more could you ask for, in our view?



**Figure 30: CLP Holdings Limited**



Source: Datastream, Credit Suisse estimates

Recommending a utility company at the beginning of the year may seem rather boring, but we think CLP is different. Believe it or not, this is a growth story. With the government going 'greener' and the fact that there are no hydro resources in Hong Kong, we believe that it is just a matter of time before the government gives CLP approval to build the proposed HK\$8 bn LNG terminal as part of the post-2008 Scheme of Control (SoC) review. Furthermore, our utilities analyst, Angello Chan, believes that with the increasing public capex in infrastructure, power grid-related capex should increase as well. All are expected to drive growth beyond 2008E, despite the new SoC arrangement. Trading at a 2007E P/E of just 13.5x,, the valuation is undemanding, in our view.

**Figure 31: Hang Seng Bank**



Source: Datastream, Credit Suisse estimates

Few investors would see Hang Seng Bank as a China play. However, we believe this is likely to change in 2007. As one of the eight foreign banks to have received approval to incorporate in China, HSB is poised to double its footprint to 30 outlets by mid-year. Furthermore, HSB owns 16% of Industrial & Commercial Bank of China (1398.HK, HK\$4.62, OUTPERFORM [V], TP HK\$4.38), which we estimate could generate as much as a HK\$5-10 bn gain if it listed on the A-share market. Is 5x P/B expensive? Our banks analyst, Jay Luong, believes not. Using the Gordon Growth model, HSB has, in the past ten years, delivered growth well above where share price valuations have suggested in an ex-growth market, i.e., Hong Kong. With China opening up for HSB, we believe the stock is likely to fare even better in the next ten years as well.

**Figure 32: Valuation table of the Hong Kong top picks**

Stock code	Company	Rating	Price (HK\$)	Market cap (US\$ mn)	CY07E		CY08E		CY07E yield (%)	Target price (HK\$)	Pot. upside (%)
					EPS chg (%)	P/E (x)	EPS chg (%)	P/E (x)			
0002.HK	CLP Holdings Limited	O	58.80	18,124	8.1	13.7	0.2	13.7	4.4	69.0	17.3
0010.HK	Hang Lung Group	O	26.65	4,546	37.4	15.3	34.7	11.3	2.4	33.9	27.2
0011.HK	Hang Seng Bank	O	111.30	27,235	8.6	16.3	9.5	14.9	5.2	123.0	10.5
0013.HK	Hutchison Whampoa	O	79.45	43,354	-63.4	41.4	99.5	20.7	2.2	97.0	22.1

Note: O = OUTPERFORM

Source: Company data, Credit Suisse estimates

# Putting our heads together

In addition to the five well-chosen Lai See focus picks, our country and sector heads have carefully selected 13 of their favourite stocks from their sectors or countries. The 'official' potential upside of some of these 13 stocks is less than that of the five focus picks. However, the heads of research believe that these supplementary picks for the Year of the Pig could have much more potential upside if the business environment is right.

Another 13 picks from our heads of research ...

These 13 interesting stocks come from different sectors in China, Hong Kong, India, Indonesia, Malaysia, Singapore, Taiwan and Thailand, with FY07E P/E ratios ranging from 7x to 24.4x.

... with P/Es ranging from 7x to 24.4x

**Figure 33: 13 picks for the Year of the Pig from our sector and country heads**

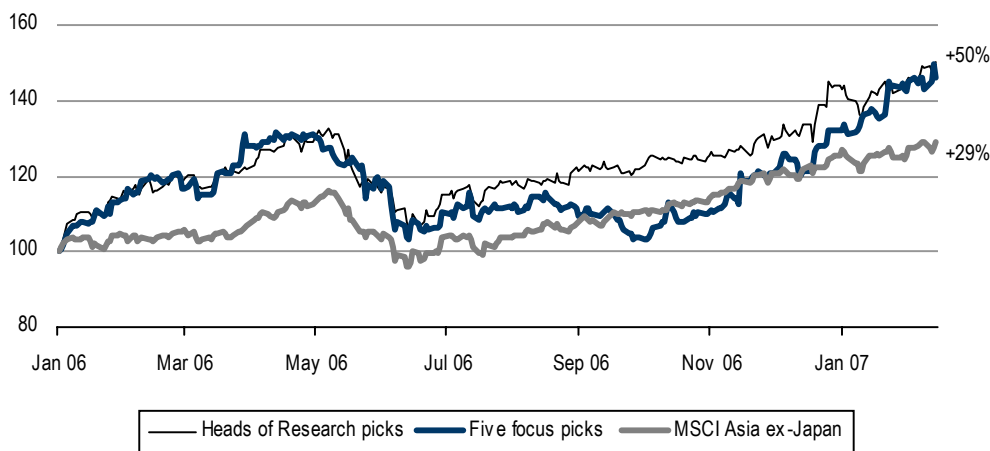
Code	Stock	Price	Market	Analyst	Why?
0011.HK	Hang Seng Bank	HK\$111.30	Hong Kong	Bill Stacey	Lot of resources to expand financial services into China
HCAA.SI	Hong Leong Asia	S\$2.00	Singapore	Bradley Burch	A collection of China businesses at half of China multiples
0010.HK	Hang Lung Group	HK\$26.65	Hong Kong	Clifford Lam	Cheap and leveraged play of Hang Lung Properties
TACC.SI	Total Access Comms	\$4.10	Thailand	Colin McCallum	Highly geared to regulatory change in Thai cellular market
5009.TWO	Gloria Material	NT\$52.40	Taiwan	Ernest Fong	Leading specialty steel maker for advanced applications
0906.HK	China Netcom	HK\$19.92	China	Jeff Kahng	Free upside on potential 3G licence and ind. restructuring
0200.HK	Melco	HK\$15.66	Hong Kong	Kenny Lau	Cheapest Macau gaming concession holder
2353.TW	Acer Inc	NT\$60.70	Taiwan	Manish Nigam	Potential to become the no. 3 PC player in the world
CTRS.JK	Ciputra Surya	Rp950	Indonesia	Mirza Adityaswara	Beneficiary of a surge in investment demand for property
LUPN.BO	Lupin	Rs598.50	India	Nilesh Jasani	Exposure of the medicine for long or chronic diseases
EVGN.KL	Evergreen Fibreboard	RM1.32	Malaysia	Stephen Hagger	Upside on closing price gap between MDF and plywood
0914.HK	Anhui Conch Cement	HK\$24.75	China	Trina Chen	Most efficient cement producer and consolidator in China
2727.HK	Shanghai Electric	HK\$4.07	China	Vincent Chan	Benefit from China's growing power plant projects

Source: Company data, Credit Suisse estimates

Last year, our heads of research also carefully chose 12 stock ideas for the Year of the Dog. This equal-weighted portfolio recorded a return of 50% in the Year of the Dog, outperformed the MSCI Asia ex. Japan by 16%.

The picks of our 12 heads of research last year recorded a 50% return, outperforming MSCI Asia ex. Japan by 16%

**Figure 34: The focus Lai See picks and heads of research picks outperformed MSCI Asia ex. Japan in the Year of the Dog**



Source: Datastream, Credit Suisse estimates

The equal-weighted portfolio of our five focus picks last year also recorded a return of 50% in the Year of the Dog, outperformed the MSCI Asia ex. Japan by 16%.

Five Lai See picks last year also recorded 50% return, outperforming MSCI Asia ex. Japan by 16%

After the neck-and-neck competition between the heads of research picks in the Year of the Dog, our heads of research have bent their minds to choosing 13 picks this year in order to be the stock picker in the Year of the Pig.

We wish investors a successful and prosperous Year of the Pig. Kung Hei Fat Choi!

**Bill Stacey – Regional Banking Research**



Chinese New Year sees people hope for prosperity in the times ahead. If their hopes are fulfilled, they will need a bank, an investment advisor and a range of other financial services. We firmly view the financial sector as the ideal haven for Lai See money. Hang Seng Bank provides more than its share of crisp new notes for the red packets – and gets them back in low-cost deposits. It is putting its shareholders’ money to good work, in our view, investing in and expanding in China. It has the resources to do this on a scale that smaller Hong Kong banks do not have, and what we consider a pool of Chinese management talent to drive that expansion that few of the larger banks have. It is our top pick for the Year of the Pig. Insurance, however, is not a sector for optimists. Insurers sell protection from bad luck. Despite this, the China insurers have done extremely well in the past 12 months. We consider this a good time to be *short* China Life Insurance (2628.HK, HK\$23.15, U, TP HK\$16.50). High equity markets mean less insurance sales; the risk of disappointment from the highest insurance valuations in the region is enormous, in our view.

**Hang Seng Bank (0011.HK, HK\$111.3, OUTPERFORM, TP HK\$123.00)**

Market cap (US\$ mn)	3-yr EPS CAGR (%)	FY07E P/E (x)	FY07E P/B (x)	FY07E yield (%)	FY07E ROE (%)
27,235	9.5	16.3	5.2	5.3	31.4

**Bradley Burch – Singapore Research**



A collection of above-average businesses in China (Singapore management and, nowadays, governance standards) at just over half the China market multiples. Plus, you get a local building materials business that is currently printing Lai See (speaking figuratively, of course). For example, HLA was making decent profits selling manufactured sand at S\$10/tonne during the summer (among other products). By the beginning of this year, the building boom pushed sand prices to around S\$20/tonne. Since Indonesia joined the countries banning natural sand exports, the price of HLA’s sand has shot up to S\$35/tonne, with industry sources predicting S\$50/tonne after Chinese New Year.

**Hong Leong Asia (HLAA.SI, S\$2.00, OUTPERFORM, TP S\$2.58)**

Market cap (US\$ mn)	3-yr EPS CAGR (%)	FY07E P/E (x)	FY07E P/B (x)	FY07E yield (%)	FY07E ROE (%)
496	46.7	8.5	1.6	5.3	17.2

**Colin McCallum – Regional Telecoms Research**



Total Access Communications, the second-largest player in Thailand's three-player cellular market, held a 30.8% market share by subscriber and a 33.3% market share by revenue as at 3Q06. Penetration is currently only 55.6%. Furthermore, TAC is highly geared to the positive impact of regulatory change. TAC had been paying 40% of revenue to various regulatory bodies, but has strong legal grounds for this to be cut to 25% following the introduction of an interconnection regime. Interconnection should also help to solve the other key problem with the Thai cellular market – aggressive price competition. Assuming that tariffs stabilise and the regulatory changes proceed, TAC could grow its EBITDA at 36.8% YoY into FY07E, earnings could rise 94.4%, and the stock could be rerated by 57%, by our estimates.

**Total Access Communications (TACC.SI, \$4.10, OUTPERFORM, TP \$6.45)**

Market cap (US\$ mn)	3-yr EPS CAGR (%)	FY07E P/E (x)	FY07E P/B (x)	FY07E yield (%)	FY07E ROE (%)
1,945	3.7	7.3	1.4	5.8	20.6

**Clifford Lam – Hong Kong and Property Research**



The story is simple – 99% of HLG's NAV is Hang Lung Properties (0101.HK, HK\$22.10, O, TP HK\$23.61); hence, HLG is a pure proxy for HLP. However, while HLP is trading at par to its FY08E NAV, HLP is at a 30% discount. All other holding companies, which are less of a proxy to their listed stub, are at much narrower discounts. Somehow, this gap has to close, in our view. This is also a leverage play into the much-sought-after investment property in China. Every HK\$1 movement in HLP's share price would translate into HK\$1.6 in HLG. Cheap and leveraged – what more could you ask for?

**Hang Lung Group (0010.HK, HK\$26.65, OUTPERFORM, TP HK\$33.89)**

Market cap (US\$ mn)	3-yr EPS CAGR (%)	FY07E P/E (x)	FY07E P/B (x)	FY07E yield (%)	FY07E ROE (%)
4,546	35.0	15.4	1.3	2.3	8.9

**Ernest Fong – Taiwan Research**



When taking a plane, people often take for granted the R&D, not to mention the costs, that go into making the plane safe and airworthy. Well, the next time your plane takes off and lands, think of Gloria Material, Taiwan's leading speciality steel maker, specialising in stainless and alloy steel for advanced applications. Gloria has been qualified by many global industrial heavyweights, the most recent being Boeing (BA, \$89.94, O, TP \$104.00, MW) to provide speciality steel for landing gear. With ten Ph.Ds in a staff of 55 working in Gloria's R&D division, it could be said that Gloria has relatively more Ph.Ds than most tech companies in Taiwan. Therefore, we believe the stock should continue its rerating, as current valuations are closer to the run-of-the-mill (pun intended) steel companies.

**Gloria Material Technology (5009.TWO, NT\$52.40, OUTPERFORM, TP NT\$58.00)**

Market cap (US\$ mn)	3-yr EPS CAGR (%)	FY07E P/E (x)	FY07E P/B (x)	FY07E yield (%)	FY07E ROE (%)
460	48.2	10.8	2.9	6.0	27.2

**Jeffrey Kahng, Regional Telecoms Research**



We believe China Netcom offers free upside on its potential 3G mobile licence (2H07) and industry restructuring. Assuming a three-player mobile market and no upfront licence cost, we forecast substantial value for the number-three mobile licence in China. We value its fixed-line business using DCF at HK\$16.33/share and probability-weighted mobile potential upside of HK\$3.21/share. Predicting the outcome of 3G is difficult, but we believe investors will be well rewarded by owning China Netcom, given its low valuation, high dividend yield and lower 3G technology risk. For China Telecom (0728.HK, HK\$3.7, O, TP HK\$4.20), there may be negative market sentiment and start-up problems if it has to build CDMA or TDSCDMA network. China Mobile (0941.HK, HK\$75.0, N, TP HK\$71.30) should remain the strongest player, with solid results in 4Q06 and 1Q07 expected to support the share price further. For China Unicom (0762.HK, HK\$10.4, N, TP HK\$10.25), we believe its high valuation means more downside risk if M&A does not come through. Lastly, Telefónica's (TEF.MC, Eu 17.15, O, TP Eu 17.50, MW) recent announcement of plans to raise its stake in Netcom from 5% to 9.9% should provide technical support for China Netcom.

**China Netcom Group Corp (0906.HK, HK\$19.92, OUTPERFORM, TP HK\$19.50)**

Market cap (US\$ mn)	3-yr EPS CAGR (%)	FY07E P/E (x)	FY07E P/B (x)	FY07E yield (%)	FY07E ROE (%)
16,847	(2.6)	11.4	1.2	3.7	13.8

**Kenny Lau, CFA – Regional Small-cap Research**



With the profit-taking after the spin-off of its Macau gaming JV, Melco PBL (MPEL.OQ, \$18.08, O [V], TP \$26.20), in the US, by our estimates, Melco has become the cheapest Macau gaming concession holder. Melco-PBL has the most balanced product mix between the fast-growing mass market and the lucrative high-roller segment in Macau, in our view. This should help the company achieve a superior return on investment and sustainable long-term growth. While the market has low expectations for its Crown Macau (grand opening schedule for April 2007), our gaming analyst, Gabriel Chan, believes that this six-star, high-roller-focused casino should run well with the help of Crown's prestige clientele and the leading junkets in Macau. Melco is currently trading at 10.8x 2009E P/E, which makes it the cheapest among its four listed competitors, which are trading at 22.7-36.3x 2009E P/E (based on I/B/E/S consensus estimates). Investing the Lai See money in Melco should see more upside than playing in its Crown Macau casino.

**Melco (0200.HK, HK\$15.66, OUTPERFORM [V], TP HK\$26.10)**

Market cap (US\$ mn)	3-yr EPS CAGR (%)	FY07E P/E (x)	FY07E P/B (x)	FY07E yield (%)	FY07E ROE (%)
2,462	n.a.	n.a.	6.2	-	n.a.

**Manish Nigam – Regional Technology Research**



We believe that Windows Vista, multi-core processors and emerging areas are catalysts that will accelerate global PC unit growth in 2007, assuming the global economy remains intact. Although competition from Hewlett-Packard (HPQ, \$42.83, O, TP \$50.00, MW), Dell (DELL, \$23.90, O, TP \$28.00, MW) and Lenovo (0992.HK, HK\$3.13, U, TP HK\$2.72) undoubtedly remains, the three primary pillars behind our positive stance on Acer are: 1) profitable growth through economies of scale and strengthening global branding, 2) a good position in the improved unit growth cycle in 2007, EMEA and emerging markets, and 3) an effective indirect business model and competitive cost structures. In 2006, despite price competition, Acer was able to outgrow its peers and gain market share. As PC peers' (mainly Dell) aggressive pricing strategy did not translate into market share (in fact, it simply resulted in margin erosion for the company), we expect pricing to remain disciplined in 2007. In the longer term, we believe that Acer can become the number-three PC player in the world, based on its strengthening brand recognition and strengths in the NB PC market.

**Acer Inc. (2353.TW, NT\$60.70, OUTPERFORM, TP NT\$75.00)**

Market cap (US\$ mn)	3-yr EPS CAGR (%)	FY07E P/E (x)	FY07E P/B (x)	FY07E yield (%)	FY07E ROE (%)
4,247	14.9	10.9	2.0	5.8	18.3



**Mirza Adityaswara – Indonesia Research**



Indonesia's interest rate has dropped below 10% for only the second time in its history, and the robust economic growth outlook should fuel the country's property sector. Focusing on land lot sales, the most attractive asset class for property investors, in our view, given the low maintenance cost, CTRS should benefit from a surge in investment demand for property. At the current share price level of Rp950, CTRS is trading at a 48% discount to its 2007E NAV of Rp1,819/share. We value CTRS at a 30% discount to 2007E NAV, or at Rp1,275/share, implying 36% potential upside from the current level.

**Ciputra Surya Tbk PT (CTRS.JK, Rp950.00, OUTPERFORM [V], TP Rp1275.00)**

Market cap (US\$ mn)	3-yr EPS CAGR (%)	FY07E P/E (x)	FY07E P/B (x)	FY07E yield (%)	FY07E ROE (%)
207	(45.9)	24.4	1.6	2.4	6.5

**Nilesh Jasani – India Research**



The last thing one thinks of these days, probably, when one thinks of India, is a pharmaceutical company. But the Year of the Pig is unlikely to belong to India's high-profile growth stories, in our view, given some variable macro changes. We believe pharmaceuticals is likely to be one of the few sectors providing shelter. The competitive environment in the world of medicine is such that it pays more to serve those with long-term or chronic diseases than those with acute diseases. This is where Lupin is making a significant transition, which is having a stabilising influence on its growth pattern. Elsewhere, Lupin has demonstrated strong execution in the US market, and we expect its US growth to continue with several new launches. Lupin has also outperformed the Indian formulations market in the past two years. The bulk of Lupin's fixed investment is now behind it, and we expect margins to improve as leverage comes into play.

**Lupin Ltd (LUPN.BO, Rs598.50, OUTPERFORM, TP Rs698.31)**

Market cap (US\$ mn)	3-yr EPS CAGR (%)	FY07E P/E (x)	FY07E P/B (x)	FY07E yield (%)	FY07E ROE (%)
1,087	37.6	23.1	5.9	0.7	25.0

**Stephen Hagger – Malaysian Equities**



Evergreen is a medium density fibreboard (MDF) manufacturer. MDF is broadly inter-changeable with plywood, so MDF prices normally show a similar trend to plywood prices. Tropical hardwood plywood prices have been surging for the past 12 months, due to: 1) reduced supply of logs and plywood from Indonesia, due to a crackdown on illegal logging and a lack of investment in the downstream industry, 2) increased demand from Japan as its economy recovers, causing a surge in housing starts, and 3) increased demand from China and India. Evergreen is unloved by domestic investors, due to a disastrous IPO and being unknown to foreign investors. However, we have found the controlling shareholders to be reliable, and we expect liquidity to improve as the share price rises. Given that the free float is 50%, the average traded volume should increase. The stock is trading at an undemanding 2007E P/E of 8.1x, with earnings risk lying on the upside if plywood prices continue to rise and as the gap between MDF and plywood prices closes. Based on our target price of RM2.0, this stock offers 52% potential upside.

**Evergreen Fibreboard Bhd (EVGN.KL, RM1.32, OUTPERFORM, TP RM2.00)**

Market cap (US\$ mn)	3-yr EPS CAGR (%)	FY07E P/E (x)	FY07E P/B (x)	FY07E yield (%)	FY07E ROE (%)
181	31.1	8.1	1.4	6.2	17.9

**Trina Chen – Regional Basic Materials Research**



In the basic materials space, we are most excited about the Chinese cement sector, and our top pick is Anhui Conch, the most efficient cement producer in China, in our view, and a consolidator in the eastern and southern regions of the country. With a cyclical recovery on the back of two to three years of troughed market, we expect margins to recover to mid-cycle levels in 2007E and 2008E, driving Anhui Conch to deliver earnings growth of 57% in 2007E and 22% in 2008E. The long-awaited closure of small vertical kilns, thanks to the renewed focus on the environment and energy/resources, combined with accelerated M&A activity in the sector, are pointing the way to the consolidation, which could prove a powerful rerating story for the cement sector in general. Our 12-month target price is HK\$30, on the back of the cyclical recovery along. In a 'blue sky' scenario, where the Chinese cement sector achieves the profitability (or ASPs rise 15% from the current level, and all else being equal) of an averaged consolidated market, we would expect a multi-year target price of HK\$45.

**Anhui Conch Cement (0914.HK, HK\$24.75, OUTPERFORM, TP HK\$30.00)**

Market cap (US\$ mn)	3-yr EPS CAGR (%)	FY07E P/E (x)	FY07E P/B (x)	FY07E yield (%)	FY07E ROE (%)
4,963	57.7	15.5	3.0	1.0	19.2

**Vincent Chan – China Research**



The top pick China stock of Angello Chan, our regional utilities analyst. We see a number of potential catalysts that could help the stock to outperform: 1) China's power demand is likely to be revised upwards by the National Development and Reform Commission, as actual power demand in the past two years has been consistently higher than forecast. This could lead to more power plant construction projects being approved – good for the company's order book, 2) China has finalised the third-generation nuclear power technology transfer and awarded the contract to Westinghouse – with the standard decided, new projects should be granted, and we expect Shanghai Electric to receive a large share of the order, 3) the recent drive by the Chinese government in energy efficiency to encourage more power projects to buy equipment from large manufacturers, such as Shanghai Electric, whose production technology is more advanced, and 4) the corruption scandal that had been an overhang for the company's share price performance in 2006 is likely to be alleviated with the publication of its internal audit by a major independent international accounting firm.

**Shanghai Electric Group Co., Ltd (2727.HK, HK\$4.07, OUTPERFORM, TP HK\$5.00)**

Market cap (US\$ mn)	3-yr EPS CAGR (%)	FY07E P/E (x)	FY07E P/B (x)	FY07E yield (%)	FY07E ROE (%)
6,197	16.1	19.1	3.2	1.9	16.6



## Five Lai See Focus Picks

# eSun Holdings Limited

(0571.HK / 571 HK)

## Completing the missing link

Rating	<b>OUTPERFORM*</b>
Price (15 Feb 07)	7.05 (HK\$)
Target price	10.20 (HK\$) <sup>1</sup>
Chg to TP (%)	44.7
Mkt cap (HK\$ mn)	5,778.91 (US\$ 740.09)
Enterprise value (HK\$ mn)	5,460.29
Number of shares (mn)	819.70
Free float (%)	61.70
52-week price range	8.53 - 3.18

\* Stock ratings are relative to the relevant country index

<sup>1</sup> Target Price is for 12 months

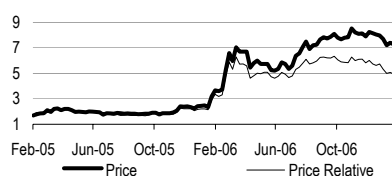
[V] = Stock considered volatile (see Disclosure Appendix).

### Research Analysts

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- More than just casinos.** In order to transform Macau into the Las Vegas of the east, the gaming city needs to offer other elements besides new casinos. We find these elements in eSun.
- An 'offer you can't refuse'.** In April and December 2006, eSun entered into agreements to sell 40% and 20% interests in the Macao Studio City to New Cotai (not listed) and CapitaLand (CATL.SI, S\$7.40, UNDERPERFORM, TP S\$5.78), respectively. With minimum guaranteed rental from the casinos, plus the HK\$3.5 bn net disposal gain in cash from the two partners, eSun's actual investment cost in the project is only HK\$2.6 bn.
- Leveraging off Asian pop stars.** eSun is a leading entertainment company in Asia and has organised numerous concerts in Hong Kong, Las Vegas and other cities around the world. In addition, eSun also manages over 30 leading Asian pop stars. We believe that the company can leverage off its entertainment business by arranging for its Asian pop stars to perform in Macau, which should attract not only mainland Chinese, but also tourists from south-east Asia.
- Undemanding valuation.** Unlike other Macau gaming companies, which normally have massive cash outflow before the casinos actually open, eSun will receive an advance positive cash inflow from the formation of the JV. We believe that Macao Studio City is on solid ground to compete with other casinos, given company CEO Mr Friedman's expertise in the gaming business and eSun's close working relationships with Asian pop stars. eSun is currently trading at a 38% discount to its fair NAV per share, which we believe is excessive. Our target price of HK\$10.20 is based on a more reasonable discount to NAV of 14%. With 38% potential upside, we rate eSun OUTPERFORM.

### Share price performance



The price relative chart measures performance against the HANG SENG index which closed at 20538.42 on 15/02/07. On 15/02/07 the spot exchange rate was HK\$7.81/US\$1

Performance over	1M	3M	12M
Absolute (%)	-9.4	-13.3	122.0
Relative (%)	-11.5	-19.4	66.7

### Financial and valuation metrics

Year	12/05A	12/06E	12/07E	12/08E
Revenue (HK\$ mn)	141.0	167.8	201.5	244.0
EBITDA (HK\$ mn)	-71.1	-31.2	-27.7	-21.7
EBIT (HK\$ mn)	213.9	116.5	99.7	136.1
Net income (HK\$ mn)	210.5	866.5	721.5	952.8
EPS (CS adj., HK\$)	0.29	1.08	0.88	1.16
- change from prev. EPS (%)	n.a.	0.0	0.0	0.0
- consensus EPS	n.a.	1.91	1.87	0.12
EPS growth (%)	-235.4	267.0	-18.3	32.1
P/E (x)	24.0	6.5	8.0	6.1
Dividend yield (%)	—	—	—	—
EV/EBITDA (x)	-80.7	-175.2	-176.2	-189.8
P/B (x)	2.5	1.7	1.4	1.2
ROE (%)	10.3	25.9	17.8	19.0
Net debt/equity (%)		net cash	net cash	net cash

Source: Company data, Thomson Financial Datastream, Credit Suisse estimates



# Key financial data

## Key earnings drivers

Year-end 31 Dec	2004A	2005A	2006E	2007E	2008E
Macau's GGR (US\$ bn)	5.0	5.6	6.8	8.0	9.7
YoY growth (%)	44.3	11.3	21.3	18.9	20.8
Macau's tourist visitation (mn)	16.7	18.7	21.7	24.9	28.7
YoY growth (%)	40.2	12.2	15.8	15.0	15.0

## Profit and loss

Year-end 31 Dec (HK\$ mn)	2004A	2005A	2006E	2007E	2008E
<b>Net sales</b>	<b>152.8</b>	<b>141.0</b>	<b>167.8</b>	<b>201.5</b>	<b>244.0</b>
Cost of goods sold	139.4	123.4	141.9	169.6	204.3
<b>Gross profit</b>	<b>13.3</b>	<b>17.6</b>	<b>25.9</b>	<b>31.9</b>	<b>39.7</b>
Operating costs	73.9	96.9	77.2	80.8	83.7
<b>Operating profit</b>	<b>(60.6)</b>	<b>(79.3)</b>	<b>(51.3)</b>	<b>(48.9)</b>	<b>(44.0)</b>
Non-operating inc./(exp.)	6.8	2.6	3.4	4.0	4.9
<b>EBIT</b>	<b>(31.9)</b>	<b>213.9</b>	<b>116.5</b>	<b>99.7</b>	<b>136.1</b>
Interest/expense	12.7	2.9	8.0	2.0	(3.7)
Exceptionals	(109.7)	(2.4)	756.4	621.2	810.0
<b>Pre-tax profit</b>	<b>(147.5)</b>	<b>211.2</b>	<b>868.3</b>	<b>722.9</b>	<b>954.7</b>
Taxes	(2.0)	0.7	1.7	1.4	1.9
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>(145.5)</b>	<b>210.5</b>	<b>866.5</b>	<b>721.5</b>	<b>952.8</b>
Net profit ex. excep.	(145.5)	210.5	866.5	721.5	952.8
<b>EPS</b>	<b>(0.22)</b>	<b>0.29</b>	<b>1.08</b>	<b>0.88</b>	<b>1.16</b>

## Profit and loss common statement

Year-end 31 Dec (%)	2004A	2005A	2006E	2007E	2008E
<b>Net sales</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Cost of goods sold	91	87	85	84	84
<b>Gross profit</b>	<b>9</b>	<b>13</b>	<b>15</b>	<b>16</b>	<b>16</b>
Operating costs	48	69	46	40	34
<b>Operating profit</b>	<b>(40)</b>	<b>(56)</b>	<b>(31)</b>	<b>(24)</b>	<b>(18)</b>
Non-operating inc./(exp.)	4	2	2	2	2
<b>EBIT</b>	<b>(21)</b>	<b>152</b>	<b>69</b>	<b>49</b>	<b>56</b>
Interest/expense	8	2	5	1	(2)
Exceptionals	(72)	(2)	451	308	332
<b>Pre-tax profit</b>	<b>(97)</b>	<b>150</b>	<b>517</b>	<b>359</b>	<b>391</b>
Taxes	(1)	1	1	1	1
Minorities	0	0	0	0	0
<b>Net profit</b>	<b>(95)</b>	<b>149</b>	<b>516</b>	<b>358</b>	<b>391</b>
Net profit ex. excep.	(95)	149	516	358	391

## Cash flow statement

Year-end 31 Dec (HK\$ mn)	2004A	2005A	2006E	2007E	2008E
<b>EBIT</b>	<b>(31.9)</b>	<b>213.9</b>	<b>116.5</b>	<b>99.7</b>	<b>136.1</b>
Depr./amort.	5.3	5.7	16.8	17.1	17.5
Change in working capital	16.0	(17.7)	(69.7)	(8.6)	(10.8)
Other cashflow (inc. provision spend)	(28.7)	(293.2)	(167.8)	(148.6)	(180.2)
Investment Income/FX adjustment	0.0	0.0	0.0	0.0	0.0
Cash tax	(3.8)	0.3	3.3	1.7	1.4
Net interest expense (P&L)	12.7	2.9	8.0	2.0	(3.7)
<b>Operating cash flow</b>	<b>(35.5)</b>	<b>(91.7)</b>	<b>(107.6)</b>	<b>(42.1)</b>	<b>(38.8)</b>
Capex	26.8	38.9	4.2	5.0	6.1
Decrease (incr.) in investments	(38.2)	(3.6)	0.0	0.0	0.0
<b>Cash flow from investments</b>	<b>(11.4)</b>	<b>35.3</b>	<b>4.2</b>	<b>5.0</b>	<b>6.1</b>
Preferred Dividends	-	-	-	-	-
Dividends	0.0	0.0	0.0	0.0	0.0
Share capital	0.0	155.4	432.2	0.0	0.0
Adjustment factor	3.3	202.3	563.8	1,150.6	4.9
<b>Net chge in cash &amp; cash equiv.</b>	<b>(33.6)</b>	<b>227.8</b>	<b>876.2</b>	<b>1,101.5</b>	<b>(36.3)</b>

Source: Company data, Credit Suisse estimates

## Company description

eSun Holdings invests in and produces entertainment events, provides artiste management services, operates websites, licenses motion pictures, produces television programmes, operates satellite television channel, and provides advertising agency services.

## Balance sheet

Year-end 31 Dec (HK\$ mn)	2004A	2005A	2006E	2007E	2008E
Cash and ST investments	18.5	177.1	449.3	1,025.3	1,799.0
Receivables	63.2	78.5	58.7	70.5	85.4
Inventory	0.8	3.1	5.0	6.0	7.3
Other current assets	2.7	0.0	0.0	0.0	0.0
<b>Total current assets</b>	<b>85.2</b>	<b>258.8</b>	<b>513.1</b>	<b>1,101.9</b>	<b>1,891.8</b>
Net fixed assets	166.0	207.7	195.1	183.0	171.7
Other assets	1,707.0	1,820.3	2,788.2	2,936.8	3,116.9
Assoc. & other LT invest.	-	-	-	-	-
<b>Total LT assets</b>	<b>1,873.1</b>	<b>2,028.1</b>	<b>2,983.3</b>	<b>3,119.8</b>	<b>3,288.6</b>
<b>Total assets</b>	<b>1,958.3</b>	<b>2,286.8</b>	<b>3,496.3</b>	<b>4,221.7</b>	<b>5,180.3</b>
Short-term debt	180.7	4.0	4.0	4.0	4.0
Payables	108.7	108.6	21.0	25.2	30.5
Other current liabilities	-	-	-	-	-
<b>Total current liabilities</b>	<b>292.3</b>	<b>116.0</b>	<b>26.7</b>	<b>30.7</b>	<b>36.4</b>
Long-term debt	19.0	126.5	126.5	126.5	126.5
Other liabilities	13.3	0.1	0.1	0.1	0.1
Preferred stock	-	-	-	-	-
<b>Total liabilities</b>	<b>324.6</b>	<b>242.6</b>	<b>153.4</b>	<b>157.3</b>	<b>163.0</b>
Shareholders funds	1,633.6	2,044.2	3,343.0	4,064.5	5,017.3
<b>Total liabilities and equity</b>	<b>1,958.3</b>	<b>2,286.8</b>	<b>3,496.3</b>	<b>4,221.7</b>	<b>5,180.3</b>

## Key ratios and valuation

Year-end 31 Dec	2004A	2005A	2006E	2007E	2008E
<b>Valuation ratios</b>					
P/E (x)	n.m.	24.0	6.5	8.0	6.1
EV/sales (x)	39.1	40.7	32.5	24.2	16.8
EV/EBITDA (x)	n.m.	n.m.	n.m.	n.m.	n.m.
P/BVPS (x)	2.9	2.5	1.7	1.4	1.2
<b>Growth (%)</b>					
Sales (%)	56.2	(7.7)	19.0	20.1	21.1
EBIT (%)	nm	nm	(45.5)	(14.4)	36.5
Net profit (%)	nm	nm	311.7	(16.7)	32.1
EPS (%)	nm	nm	267.0	(18.3)	32.1
<b>Margins (%)</b>					
EBITDA margin	(31.7)	(50.4)	(18.6)	(13.8)	(8.9)
EBIT margin	(20.9)	151.7	69.4	49.5	55.8
Pre-tax margin	(96.6)	149.8	517.3	358.7	391.3
Net margin	(95.2)	149.3	516.3	358.0	390.5
<b>ROE analysis (%)</b>					
EBIT margin (%)	(39.7)	(56.2)	(30.6)	(24.2)	(18.0)
Asset turnover (x)	0.1	0.1	0.0	0.0	0.0
Interest burden (x)	2.4	(2.7)	(16.9)	(14.8)	(21.7)
Tax burden (x)	1.0	1.0	1.0	1.0	1.0
Financial leverage (x)	1.2	1.1	1.0	1.0	1.0
ROE (%)	(8.9)	10.3	25.9	17.8	19.0
<b>Liquidity ratios</b>					
Net debt/equity (%)	11.1	(2.3)	(9.5)	(22.0)	(33.3)
Interest coverage ratio (x)	(3.8)	(24.4)	(3.9)	(13.6)	5.8

Source: Company data, Credit Suisse estimates

# Evergreen Fibreboard Bhd (EVGN.KL /

EVF MK)

## Green for go!

Rating	<b>OUTPERFORM*</b>
Price (15 Feb 07)	1.32 (RM )
Target price	2.00 (RM ) <sup>1</sup>
Chg to TP (%)	51.5
Mkt cap (RM mn)	633.60 (US\$ 181.24)
Enterprise value (RM mn)	746.78
Number of shares (mn)	480.00
Free float (%)	50.00
52-week price range	1.32 - 0.80

\* Stock ratings are relative to the relevant country index

<sup>1</sup> Target Price is for 12 months

### Research Analysts

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- Event.** Global medium-density fibreboard (MDF) prices have risen 24% YoY, pulled up by rising plywood prices for which MDF is the closest substitute. The rise in plywood prices is the result of global demand exceeding tropical timber resources, which are constrained by environmental issues. MDF, being reconstituted plantation wood, is an environmental friendly and longer-term solution to tropical timber plywood.
- View.** Evergreen Fibreboard, with a net gearing of only 3%, is on an acquisition and expansion drive to become one of the top ten MDF players in the world. It has recently announced the acquisition of a Malaysian competitor that should add 14% to earnings from FY07E onwards, and we expect more corporate developments to unfold over the course of 2007. These should include investments upstream to become more cost-efficient and regional expansion.
- Catalyst.** The release of quarterly financial results in 2007, which should convince the market that Evergreen can deliver the profits we are forecasting. We are projecting EPS growth of 31% in FY07 and 35% in FY08, which are 10% and 20% above consensus, respectively. Another catalyst would be the announcement of corporate developments that are earnings accretive.
- Valuation:** Our target price of RM2.00 per share values Evergreen at an FY07E P/E of 12x or a PEG ratio of only 0.4x, based on its projected average EPS growth of 33% p.a. over the next two years.

### Share price performance



The price relative chart measures performance against the KUALA LUMPUR COMPOSITE index which closed at 1258.63 on 15/02/07

On 15/02/07 the spot exchange rate was RM 3.50/US\$1

Performance over	1M	3M	12M
Absolute (%)	6.5	9.1	48.3
Relative (%)	-4.6	-10.9	9.3

### Financial and valuation metrics

Year	12/06A	12/07E	12/08E	12/09E
Revenue (RM mn)	528.1	701.6	811.3	905.5
EBITDA (RM mn)	90.2	129.8	168.7	193.1
EBIT (RM mn)	67.0	94.8	133.7	158.8
Net income (RM mn)	59.8	78.3	105.4	126.9
EPS (CS adj., RM )	0.12	0.16	0.22	0.26
- change from prev. EPS (%)	n.a.	0.0	0.0	0.0
- consensus EPS	n.a.	0.15	0.18	
EPS growth (%)	9.8	30.9	34.6	20.4
P/E (x)	10.6	8.1	6.0	5.0
Dividend yield (%)	3.0	6.2	8.3	10.0
EV/EBITDA (x)	7.2	5.8	4.0	3.0
P/B (x)	1.5	1.4	1.2	1.1
ROE (%)	15.0	17.9	21.8	23.4
Net debt/equity (%)	2.6	23.3	6.0	net cash

Source: Company data, Thomson Financial Datastream, Credit Suisse estimates

# Key financial data

## Key earnings drivers

Year-end 31 Dec	2005A	2006E	2007E	2008E	2009E
Capacity (cu m p.a.)	748,000-	748,000-	1,116,000-	1,116,000-	1,116,000-
Production (cu m p.a.)	550,958-	652,000-	768,800-	899,400-	1,009,400-
MDF avg selling price (US\$/cu m)	219-	229-	268-	265-	264-
Rubberwood cost (RM/t)	90-	113-	110-	110-	110-
Glue cost (RM/t)	1093-	1142-	1300-	1250-	1250-

## Profit and loss

Year-end 31 Dec (RM mn)	2005A	2006A	2007E	2008E	2009E
<b>Net sales</b>	<b>457.5</b>	<b>528.1</b>	<b>701.6</b>	<b>811.3</b>	<b>905.5</b>
Cost of goods sold	318.3	373.9	515.0	580.1	643.7
<b>Gross profit</b>	<b>139.2</b>	<b>154.2</b>	<b>186.6</b>	<b>231.2</b>	<b>261.8</b>
Operating costs	-	-	-	-	-
<b>Operating profit</b>	<b>54.3</b>	<b>67.0</b>	<b>94.8</b>	<b>133.7</b>	<b>158.8</b>
Non-operating inc./ (exp.)	-	-	-	-	-
<b>EBIT</b>	<b>54.3</b>	<b>67.0</b>	<b>94.8</b>	<b>133.7</b>	<b>158.8</b>
Interest/expense	2.9	2.5	3.1	4.4	(0.5)
Exceptionals	-	-	-	-	-
<b>Pre-tax profit</b>	<b>54.1</b>	<b>68.6</b>	<b>94.7</b>	<b>132.3</b>	<b>162.3</b>
Taxes	(4.9)	3.3	9.0	14.9	18.7
Minorities	(4.5)	(5.5)	(7.4)	(12.0)	(16.7)
<b>Net profit</b>	<b>54.5</b>	<b>59.8</b>	<b>78.3</b>	<b>105.4</b>	<b>126.9</b>
Net profit ex. excep.	54.5	59.8	78.3	105.4	126.9
<b>EPS</b>	<b>0.11</b>	<b>0.12</b>	<b>0.16</b>	<b>0.22</b>	<b>0.26</b>

## Profit and loss common statement

Year-end 31 Dec (%)	2005A	2006A	2007E	2008E	2009E
<b>Net sales</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Cost of goods sold	70	71	73	72	71
<b>Gross profit</b>	<b>30</b>	<b>29</b>	<b>27</b>	<b>28</b>	<b>29</b>
Operating costs	-	-	-	-	-
<b>Operating profit</b>	<b>12</b>	<b>13</b>	<b>14</b>	<b>16</b>	<b>18</b>
Non-operating inc./ (exp.)	-	-	-	-	-
<b>EBIT</b>	<b>12</b>	<b>13</b>	<b>14</b>	<b>16</b>	<b>18</b>
Interest/expense	1	0	0	1	(0)
Exceptionals	-	-	-	-	-
<b>Pre-tax profit</b>	<b>12</b>	<b>13</b>	<b>13</b>	<b>16</b>	<b>18</b>
Taxes	(1)	1	1	2	2
Minorities	(1)	(1)	(1)	(1)	(2)
<b>Net profit</b>	<b>12</b>	<b>11</b>	<b>11</b>	<b>13</b>	<b>14</b>
Net profit ex. excep.	12	11	11	13	14

## Cash flow statement

Year-end 31 Dec (RM mn)	2005A	2006A	2007E	2008E	2009E
<b>EBIT</b>	<b>54.3</b>	<b>67.0</b>	<b>94.8</b>	<b>133.7</b>	<b>158.8</b>
Depr./amort.	24.8	23.2	35.0	35.0	34.3
Change in working capital	26.3	4.7	12.2	0.6	9.0
Other cashflow (inc. provision spend)	-	-	-	-	-
Investment Income/FX adjustment	2.1	2.0	0.0	0.0	0.0
Cash tax	1.2	3.3	9.0	14.9	18.7
Net interest expense (P&L)	2.9	2.5	3.1	4.4	(0.5)
<b>Operating cash flow</b>	<b>50.9</b>	<b>81.7</b>	<b>105.4</b>	<b>148.9</b>	<b>165.9</b>
Capex	36.3	135.0	55.0	20.0	20.0
Decrease (incr.) in investments	(12.2)	0.0	(107.0)	0.0	0.0
<b>Cash flow from investments</b>	<b>24.2</b>	<b>135.0</b>	<b>(52.0)</b>	<b>20.0</b>	<b>20.0</b>
Preferred Dividends	-	-	-	-	-
Dividends	39.6	19.2	39.1	52.7	63.5
Share capital	-	-	-	-	-
Adjustment factor	109.1	2.5	3.1	4.4	(0.5)
<b>Net chge in cash &amp; cash equiv.</b>	<b>69.0</b>	<b>(72.5)</b>	<b>(95.7)</b>	<b>76.2</b>	<b>82.4</b>

Source: Company data, Credit Suisse estimates

## Company description

Evergreen Fibreboard Bhd. manufactures medium density fiberboard (MDF), knocked-down wooden furniture, and doors. The company, through its subsidiaries, also manufactures particle board and MDF and laminates MDF, particleboard, and plywood.

## Balance sheet

Year-end 31 Dec (RM mn)	2005A	2006A	2007E	2008E	2009E
Cash and ST investments	117.7	45.2	(50.5)	25.7	108.1
Receivables	49.1	63.6	86.1	87.0	106.2
Inventory	50.4	48.1	80.5	64.0	96.2
Other current assets	21.3	21.3	21.3	21.3	21.3
<b>Total current assets</b>	<b>238.5</b>	<b>178.1</b>	<b>137.3</b>	<b>197.9</b>	<b>331.7</b>
Net fixed assets	263.0	374.8	394.8	379.8	365.5
Other assets	18.4	18.4	18.4	18.4	18.4
Assoc. & other LT invest.	-	-	-	-	-
<b>Total LT assets</b>	<b>281.4</b>	<b>393.3</b>	<b>413.2</b>	<b>398.2</b>	<b>383.9</b>
<b>Total assets</b>	<b>519.9</b>	<b>571.4</b>	<b>550.6</b>	<b>596.2</b>	<b>715.6</b>
Short-term debt	13.1	13.1	13.1	13.1	13.1
Payables	28.0	37.8	48.2	48.5	58.7
Other current liabilities	21.3	22.4	(47.9)	(55.3)	(9.5)
<b>Total current liabilities</b>	<b>62.4</b>	<b>73.3</b>	<b>13.3</b>	<b>6.2</b>	<b>62.2</b>
Long-term debt	43.1	43.1	43.1	43.1	43.1
Other liabilities	16.0	16.0	16.0	16.0	16.0
Preferred stock	-	-	-	-	-
<b>Total liabilities</b>	<b>121.5</b>	<b>132.4</b>	<b>72.5</b>	<b>65.4</b>	<b>121.3</b>
Shareholders funds	398.4	439.0	478.1	530.8	594.3
<b>Total liabilities and equity</b>	<b>519.9</b>	<b>571.4</b>	<b>550.6</b>	<b>596.2</b>	<b>715.6</b>

## Key ratios and valuation

Year-end 31 Dec	2005A	2006A	2007E	2008E	2009E
<b>Valuation ratios</b>					
P/E (x)	11.6	10.6	8.1	6.0	5.0
EV/sales (x)	1.3	1.2	1.1	0.8	0.6
EV/EBITDA (x)	7.3	7.2	5.8	4.0	3.0
P/BVPS (x)	1.7	1.5	1.4	1.2	1.1
<b>Growth (%)</b>					
Sales (%)	17.7	15.4	32.8	15.6	11.6
EBIT (%)	(12.6)	23.5	41.4	41.0	18.8
Net profit (%)	21.1	9.8	30.9	34.6	20.4
EPS (%)	21.1	9.8	30.9	34.6	20.4
<b>Margins (%)</b>					
EBITDA margin	17.3	17.1	18.5	20.8	21.3
EBIT margin	11.9	12.7	13.5	16.5	17.5
Pre-tax margin	11.8	13.0	13.5	16.3	17.9
Net margin	11.9	11.3	11.2	13.0	14.0
<b>ROE analysis (%)</b>					
EBIT margin (%)	11.9	12.7	13.5	16.5	17.5
Asset turnover (x)	0.9	0.9	1.3	1.4	1.3
Interest burden (x)	1.0	1.0	1.0	1.0	1.0
Tax burden (x)	1.0	0.9	0.8	0.8	0.8
Financial leverage (x)	1.3	1.3	1.2	1.1	1.2
ROE (%)	17.2	15.0	17.9	21.8	23.4
<b>Liquidity ratios</b>					
Net debt/equity (%)	(16.3)	2.6	23.3	6.0	(9.0)
Interest coverage ratio (x)	27.7	35.4	41.2	38.3	(368.1)

Source: Company data, Credit Suisse estimates

# Gems TV Holdings Ltd

(GEMS.SI / GEMS.SP)

## Rock star

Rating	<b>OUTPERFORM* [V]</b>
Price (15 Feb 07)	1.50 (S\$)
Target price	1.94 (S\$) <sup>1</sup>
Chg to TP (%)	29.2
Mkt cap (S\$ mn)	1,545 (US\$ 1,008)
Enterprise value (US\$ mn)	854
Number of shares (mn)	1,030.30
Free float (%)	31.90
52-week price range	1.55 - 1.17

\* Stock ratings are relative to the relevant country index

<sup>1</sup> Target Price is for 12 months

### Research Analysts

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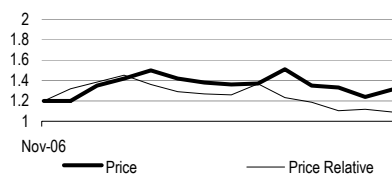
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- Event.** We initiated coverage of Gems TV on 11 January 2007, and we believe strongly in the growth prospects of this company. Its interesting and scaleable integrated business model sets it apart from its 'peers', in our view. Within its first year of integration, it achieved a net profit of US\$29 mn (+441%). Driven mainly by its US expansion, we expect a two-year net profit CAGR of 61%.
- View.** Gems's business model of an integrated manufacturer and a TV home shopping retailer of coloured gemstone jewellery differentiates the company from other home shopping channels and 'bricks and mortar' retailers with the strong value proposition it offers to end-consumers. This is the result of its upstream integration (from jewellery manufacturing in Thailand to TV home shopping retailing in the UK and recently, the US and Germany), jewellery specialisation and an interactive selling format (reverse auction). With the scaleability of the low-cost manufacturing base in Thailand, it capitalises on its first-mover advantage to expand into new markets, such as the US, which we estimate will contribute over 50% of total core revenue in FY08E.
- Catalyst.** We see further growth in incremental data on the expansion into new markets, especially the US since its launch in November 2006. There is the possibility of contributions from Japan and China (sales not in forecasts).
- Valuation.** Our (June) FY08E target price of S\$1.94 is based on 17x P/E, the lower of its two 'peers' – TV home shopping players and small integrated gemstone players. In arriving at this target price for Gems TV, we looked at several comparable industries, as there are no direct comparable companies. The average two-year forward P/E for small integrated gemstone players was 17.6x; it was 17.2x for TV home shopping players and 22.2x for retail/online jewellery players. However, all groups were growing slower than we believe Gems TV will. We believe that at 17x it represents an attractive risk-reward profile, given Gems' short history and execution risks related to its expansion plans. We maintain our OUTPERFORM rating.

### Share price performance



The price relative chart measures performance against the SINGAPORE STRAITS TIMES(NEW) index which closed at 3252.49 on 15/02/07

On 15/02/07 the spot exchange rate was S\$1.53/US\$1

Performance over	1M	3M	12M
Absolute (%)	11.9	11.1	—
Relative (%)	4.5	-5.1	—

### Financial and valuation metrics

Year	6/06A	6/07E	6/08E	6/09E
Revenue (US\$ mn)	137.6	230.5	381.9	423.2
EBITDA (US\$ mn)	43.3	46.2	106.8	122.1
EBIT (US\$ mn)	41.4	43.5	99.1	114.5
Net income (US\$ mn)	28.8	32.7	74.3	86.8
EPS (CS adj., US\$)	0.03	0.03	0.07	0.08
- change from prev. EPS (%)	n.a.	0.0	0.0	0.0
- consensus EPS	n.a.	0.03	0.06	0.07
EPS growth (%)	172.9	-2.6	111.9	16.8
P/E (x)	28.0	28.7	13.6	11.6
Dividend yield (%)	8.7	1.0	2.2	2.6
EV/EBITDA (x)	22.9	18.5	7.4	6.0
P/B (x)	22.1	5.0	3.8	3.0
ROE (%)	114.1	27.3	31.6	28.9
Net debt/equity (%)		net cash	net cash	net cash

Source: Company data, Thomson Financial Datastream, Credit Suisse estimates

# Key financial data

## Key earnings drivers

Year-end 30 Jun	2005A	2006A	2007E	2008E	2009E
UK ASP (\$\$)	52.3	83.5	101.1	101.1	101.1
US ASP (\$\$)	0.0	0.0	120.0	120.0	120.0
UK - No. of items sold ('000s)	66.3	1,485.0	1,331.2	1,461.6	1,589.3
US - No. of items sold ('000s)	0.0	0.0	708.0	1,674.6	1,892.0

## Profit and loss

Year-end 30 Jun (US\$ mn)	2005A	2006A	2007E	2008E	2009E
<b>Net sales</b>	<b>39.3</b>	<b>137.6</b>	<b>230.5</b>	<b>381.9</b>	<b>423.2</b>
Cost of goods sold	25.2	66.2	123.4	191.1	211.3
<b>Gross profit</b>	<b>14.1</b>	<b>71.4</b>	<b>107.1</b>	<b>190.8</b>	<b>211.9</b>
Operating costs	7.2	32.7	63.5	91.7	97.3
<b>Operating profit</b>	<b>7.6</b>	<b>41.4</b>	<b>43.5</b>	<b>99.1</b>	<b>114.5</b>
Non-operating inc./(exp.)	-	-	-	-	-
<b>EBIT</b>	<b>7.6</b>	<b>41.4</b>	<b>43.5</b>	<b>99.1</b>	<b>114.5</b>
Interest/expense	(0.0)	(0.3)	(3.2)	(7.1)	(9.4)
Exceptionals	-	-	-	-	-
<b>Pre-tax profit</b>	<b>7.6</b>	<b>41.7</b>	<b>46.8</b>	<b>106.2</b>	<b>124.0</b>
Taxes	2.2	12.9	14.0	31.9	37.2
Minorities	-	-	-	-	-
<b>Net profit</b>	<b>5.3</b>	<b>28.8</b>	<b>32.7</b>	<b>74.3</b>	<b>86.8</b>
Net profit ex. excep.	5.3	28.8	32.7	74.3	86.8
<b>EPS</b>	<b>0.01</b>	<b>0.03</b>	<b>0.03</b>	<b>0.07</b>	<b>0.08</b>

## Profit and loss common statement

Year-end 30 Jun (%)	2005A	2006A	2007E	2008E	2009E
<b>Net sales</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Cost of goods sold	64	48	54	50	50
<b>Gross profit</b>	<b>36</b>	<b>52</b>	<b>46</b>	<b>50</b>	<b>50</b>
Operating costs	18	24	28	24	23
<b>Operating profit</b>	<b>19</b>	<b>30</b>	<b>19</b>	<b>26</b>	<b>27</b>
Non-operating inc./(exp.)	-	-	-	-	-
<b>EBIT</b>	<b>19</b>	<b>30</b>	<b>19</b>	<b>26</b>	<b>27</b>
Interest/expense	(0)	(0)	(1)	(2)	(2)
Exceptionals	-	-	-	-	-
<b>Pre-tax profit</b>	<b>19</b>	<b>30</b>	<b>20</b>	<b>28</b>	<b>29</b>
Taxes	6	9	6	8	9
Minorities	-	-	-	-	-
<b>Net profit</b>	<b>14</b>	<b>21</b>	<b>14</b>	<b>19</b>	<b>21</b>
Net profit ex. excep.	14	21	14	19	21

## Cash flow statement

Year-end 30 Jun (US\$ mn)	2005A	2006A	2007E	2008E	2009E
<b>EBIT</b>	<b>7.6</b>	<b>41.4</b>	<b>43.5</b>	<b>99.1</b>	<b>114.5</b>
Depr./amort.	0.5	1.9	2.6	7.7	7.6
Change in working capital	(4.5)	(14.3)	(30.0)	(0.5)	(4.9)
Other cashflow (inc. provision spend)	0.9	1.6	11.3	22.7	21.1
Investment Income/FX adjustment	0.0	0.0	0.0	0.0	0.0
Cash tax	0.3	2.8	14.0	31.9	37.2
Net interest expense (P&L)	0.0	0.3	3.2	7.1	9.4
<b>Operating cash flow</b>	<b>4.2</b>	<b>27.5</b>	<b>10.2</b>	<b>90.1</b>	<b>91.7</b>
Capex	0.6	1.7	6.6	20.4	6.6
Decrease (incr.) in investments	-	-	-	-	-
<b>Cash flow from investments</b>	<b>0.6</b>	<b>1.7</b>	<b>6.6</b>	<b>20.4</b>	<b>6.6</b>
Preferred Dividends	-	-	-	-	-
Dividends	2.9	13.0	0.0	9.8	22.3
Share capital	-	-	-	-	-
Adjustment factor	3.6	(5.1)	133.4	(0.6)	(0.6)
<b>Net chge in cash &amp; cash equiv.</b>	<b>4.2</b>	<b>7.7</b>	<b>137.1</b>	<b>59.3</b>	<b>62.2</b>

Source: Company data, Credit Suisse estimates

## Company description

Gems TV is an integrated manufacturer & TV home shopping retailer of coloured gemstone jewellery. It is on TV networks in the UK, US & Germany and has plans for Japan & China

## Balance sheet

Year-end 30 Jun (US\$ mn)	2005A	2006A	2007E	2008E	2009E
Cash and ST investments	4.9	15.7	152.8	212.1	274.3
Receivables	1.6	0.5	6.0	10.0	11.0
Inventory	16.9	34.2	70.7	78.2	85.1
Other current assets	1.1	3.1	3.1	3.1	3.1
<b>Total current assets</b>	<b>24.6</b>	<b>53.5</b>	<b>232.6</b>	<b>303.4</b>	<b>373.6</b>
Net fixed assets	6.6	6.9	11.0	23.9	23.2
Other assets	6.6	8.1	8.5	8.8	9.1
Assoc. & other LT invest.	-	-	-	-	-
<b>Total LT assets</b>	<b>13.3</b>	<b>15.0</b>	<b>19.5</b>	<b>32.7</b>	<b>32.3</b>
<b>Total assets</b>	<b>37.8</b>	<b>68.5</b>	<b>252.1</b>	<b>336.1</b>	<b>405.9</b>
Short-term debt	0.0	0.0	0.0	0.0	0.0
Payables	4.5	4.8	15.2	23.6	26.1
Other current liabilities	11.9	9.8	16.3	27.4	30.3
<b>Total current liabilities</b>	<b>20.2</b>	<b>30.2</b>	<b>47.0</b>	<b>66.5</b>	<b>71.9</b>
Long-term debt	1.1	1.2	1.2	1.2	1.2
Other liabilities	2.5	0.6	0.6	0.6	0.6
Preferred stock	-	-	-	-	-
<b>Total liabilities</b>	<b>23.9</b>	<b>31.9</b>	<b>48.8</b>	<b>68.3</b>	<b>73.7</b>
Shareholders funds	14.0	36.5	203.3	267.8	332.3
<b>Total liabilities and equity</b>	<b>37.8</b>	<b>68.5</b>	<b>252.1</b>	<b>336.1</b>	<b>405.9</b>

## Key ratios and valuation

Year-end 30 Jun	2005A	2006A	2007E	2008E	2009E
<b>Valuation ratios</b>					
P/E (x)	76.2	27.9	28.7	13.5	11.6
EV/sales (x)	25.5	7.2	3.7	2.1	1.7
EV/EBITDA (x)	124.1	22.9	18.5	7.4	6.0
P/BVPS (x)	57.6	22.0	4.9	3.8	3.0
<b>Growth (%)</b>					
Sales (%)	174.3	250.4	67.6	65.7	10.8
EBIT (%)	nm	448.0	5.2	127.6	15.6
Net profit (%)	nm	441.4	13.7	127.0	16.8
EPS (%)	nm	172.9	(2.6)	111.9	16.8
<b>Margins (%)</b>					
EBITDA margin	20.6	31.5	20.0	28.0	28.9
EBIT margin	19.2	30.1	18.9	25.9	27.1
Pre-tax margin	19.3	30.3	20.3	27.8	29.3
Net margin	13.6	20.9	14.2	19.5	20.5
<b>ROE analysis (%)</b>					
EBIT margin (%)	19.8	32.3	19.9	27.2	28.4
Asset turnover (x)	1.5	2.4	1.4	1.2	1.1
Interest burden (x)	1.0	1.0	1.1	1.1	1.1
Tax burden (x)	0.7	0.7	0.7	0.7	0.7
Financial leverage (x)	2.2	2.1	1.3	1.2	1.2
ROE (%)	46.6	114.1	27.3	31.6	28.9
<b>Liquidity ratios</b>					
Net debt/equity (%)	(25.6)	(39.5)	(74.5)	(78.7)	(82.2)
Interest coverage ratio (x)	-	-	(14.3)	(15.0)	(12.9)

Source: Company data, Credit Suisse estimates

# Huaku Construction Corp.

(2548.TW / 2548 TT)

Rating	<b>OUTPERFORM*</b>
Price (15 Feb 07)	63.30 (NT\$)
Target price	99.00 (NT\$) <sup>1</sup>
Chg to TP (%)	56.4
Mkt cap (NT\$ mn)	10,848.61 (US\$ 329.69)
Enterprise value (NT\$ mn)	13,983.47
Number of shares (mn)	171.38
Free float (%)	70.00
52-week price range	81.7 - 31.6

\* Stock ratings are relative to the relevant country index  
<sup>1</sup> Target Price is for 12 months

## Research Analysts

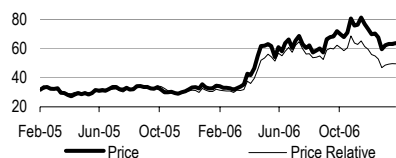
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## Oversold

- **More diverse project locations.** Huaku plans to launch five projects, with an estimated value of NT\$11.9 bn in 1H07, compared with NT\$3.9 bn in 2005 and NT\$10.0 bn in 2006, as Huaku remains very positive on Taipei City property. Unlike its strategy in 2006, with projects concentrated in the Neihu area, these projects are of diverse locations in Taipei City. We are positive on this strategy, given the increasing supply in the Neihu area.
- **Project margin to trend up.** Contrary to the street's worry about margin decline for new projects launched in 2007, we estimate that blended project margins will climb to 36.5% this year, up from 31.9% in 2005 and 34.4% in 2006. Of the five projects, the margins range from 20-50%, in our modelling, compared with the company's guidance of 20-35%. All these projects launched this year would filter into earnings for 2007, 2008 and 2009.
- **Forecast risk is on the upside.** We maintain with our earnings forecasts for 2007 and 2008. Consensus forecasts on Huaku seem low to us. Our current 2007 and 2008 earnings forecasts are 74% and 46%, respectively, locked in by projects launched in 2006. We believe the forecast risk is on the upside, rather than on the downside, as we have not yet factored in the higher project margin assumption for projects launched in 1H07.
- **Very attractive valuation.** After the recent panic selling, Huaku now trades at very cheap valuations of 5.4x FY07E and 4.3x FY08E EPS. Given the street's lower expectations, the high percentage of earnings locked in and its cheap valuation, we strongly believe that this is a very good entry point to this quality developer.

## Share price performance



The price relative chart measures performance against the TAIWAN SE WEIGHTED index which closed at 7809.45 on 15/02/07

On 15/02/07 the spot exchange rate was NT\$32.91/US\$1

Performance over	1M	3M	12M
Absolute (%)	4.8	-15.9	85.9
Relative (%)	4.5	-22.1	57.1

## Financial and valuation metrics

Year	12/05A	12/06E	12/07E	12/08E
Revenue (NT\$ mn)	5,863.7	6,386.2	8,449.3	10,871.7
EBITDA (NT\$ mn)	1,095.6	1,234.4	2,184.3	2,708.0
EBIT (NT\$ mn)	1,090.9	1,233.8	2,183.7	2,707.4
Net income (NT\$ mn)	1,101.2	1,206.3	2,013.1	2,519.9
EPS (CS adj., NT\$)	7.07	6.98	11.64	14.58
- change from prev. EPS (%)	n.a.	0.0	0.0	0.0
- consensus EPS	n.a.	7.11	7.85	9.57
EPS growth (%)	147.3	-1.3	66.9	25.2
P/E (x)	9.0	9.1	5.4	4.3
Dividend yield (%)	5.7	5.6	8.5	8.7
EV/EBITDA (x)	12.4	11.3	6.7	5.4
P/B (x)	3.1	2.9	2.1	1.7
ROE (%)	34.4	31.8	39.2	38.6
Net debt/equity (%)	85.4	82.5	73.4	56.7

Source: Company data, Thomson Financial Datastream, Credit Suisse estimates



# Key financial data

## Company description

Huaku Construction Corporation builds, sells and leases commercial and residential buildings which are constructed by independent contractors.

## Profit and loss

Year-end 31 Dec (NT\$ mn)	2004A	2005A	2006E	2007E	2008E
<b>Net sales</b>	<b>2,318</b>	<b>5,864</b>	<b>6,386</b>	<b>8,449</b>	<b>10,872</b>
Cost of goods sold	1,604	4,368	4,649	5,597	7,363
<b>Gross profit</b>	<b>714</b>	<b>1,496</b>	<b>1,737</b>	<b>2,853</b>	<b>3,508</b>
Operating costs	213	405	503	669	801
<b>Operating profit</b>	<b>501</b>	<b>1,091</b>	<b>1,234</b>	<b>2,184</b>	<b>2,707</b>
Non-operating inc./(exp.)	(30)	(31)	23	(35)	(9)
<b>EBIT</b>	<b>501</b>	<b>1,091</b>	<b>1,234</b>	<b>2,184</b>	<b>2,707</b>
Interest/expense	16	1	1	40	60
Exceptionals	-	-	-	-	-
<b>Pre-tax profit</b>	<b>428</b>	<b>1,111</b>	<b>1,261</b>	<b>2,109</b>	<b>2,638</b>
Taxes	40	10	55	96	118
Minorities	0	0	-	-	-
<b>Net profit</b>	<b>388</b>	<b>1,101</b>	<b>1,206</b>	<b>2,013</b>	<b>2,520</b>
Net profit ex. excep.	388	1,101	1,206	2,013	2,520
<b>EPS</b>	<b>2.9</b>	<b>7.1</b>	<b>7.0</b>	<b>11.6</b>	<b>14.6</b>

## Profit and loss common statement

Year-end 31 Dec (%)	2004A	2005A	2006E	2007E	2008E
<b>Net sales</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Cost of goods sold	69	74	73	66	68
<b>Gross profit</b>	<b>31</b>	<b>26</b>	<b>27</b>	<b>34</b>	<b>32</b>
Operating costs	9	7	8	8	7
<b>Operating profit</b>	<b>22</b>	<b>19</b>	<b>19</b>	<b>26</b>	<b>25</b>
Non-operating inc./(exp.)	(1)	(1)	0	(0)	(0)
<b>EBIT</b>	<b>22</b>	<b>19</b>	<b>19</b>	<b>26</b>	<b>25</b>
Interest/expense	1	0	0	0	1
Exceptionals	-	-	-	-	-
<b>Pre-tax profit</b>	<b>18</b>	<b>19</b>	<b>20</b>	<b>25</b>	<b>24</b>
Taxes	2	0	1	1	1
Minorities	0	0	-	-	-
<b>Net profit</b>	<b>17</b>	<b>19</b>	<b>19</b>	<b>24</b>	<b>23</b>
Net profit ex. excep.	17	19	19	24	23

## Cash flow statement

Year-end 31 Dec (NT\$ mn)	2004A	2005A	2006E	2007E	2008E
<b>EBIT</b>	<b>501</b>	<b>1,091</b>	<b>1,234</b>	<b>2,184</b>	<b>2,707</b>
Depr./amort.	15	5	1	1	1
Change in working capital	(5,263)	(1,987)	(961)	(1,890)	(1,230)
Other cash flow (inc. provision spend)	2,957	853	(68)	(245)	(278)
Investment Income/FX adjustment	(26)	53	6	0	0
Cash tax	-	-	-	-	-
Net interest expense (P&L)	-	-	-	-	-
<b>Operating cash flow</b>	<b>(1,816)</b>	<b>13</b>	<b>212</b>	<b>48</b>	<b>1,200</b>
Capex	1	0	0	0	0
Decrease (incr.) in investments	26	(7)	0	0	0
<b>Cash flow from investments</b>	<b>27</b>	<b>(7)</b>	<b>0</b>	<b>0</b>	<b>0</b>
Preferred dividends	-	-	-	-	-
Dividends	23	297	561	611	1,028
Share capital	0	0	0	0	0
Adjustment factor	1,937	384	553	531	(103)
<b>Net chg. in cash &amp; cash equiv.</b>	<b>71</b>	<b>107</b>	<b>204</b>	<b>(31)</b>	<b>69</b>

Source: Company data, Credit Suisse estimates

## Balance sheet

Year-end 31 Dec (NT\$ mn)	2004A	2005A	2006E	2007E	2008E
Cash and ST investments	153	208	406	375	444
Receivables	634	123	35	46	60
Inventory	6,182	7,546	9,234	11,698	12,260
Other current assets	118	341	373	446	533
<b>Total current assets</b>	<b>7,087</b>	<b>8,217</b>	<b>10,049</b>	<b>12,565</b>	<b>13,297</b>
Net fixed assets	10	7	6	6	5
Other assets	30	37	45	54	64
Assoc. & other LT invest.	230	220	226	226	226
<b>Total LT assets</b>	<b>270</b>	<b>264</b>	<b>277</b>	<b>285</b>	<b>295</b>
<b>Total assets</b>	<b>7,357</b>	<b>8,481</b>	<b>10,325</b>	<b>12,850</b>	<b>13,592</b>
Short-term debt	2,523	2,943	3,543	4,143	4,143
Payables	268	429	191	230	303
Other current liabilities	2,131	1,898	2,782	3,334	2,614
<b>Total current liabilities</b>	<b>4,922</b>	<b>5,270</b>	<b>6,516</b>	<b>7,707</b>	<b>7,059</b>
Long-term debt	285	0	0	0	0
Other liabilities	18	11	11	11	11
Preferred stock	-	-	-	-	-
<b>Total liabilities</b>	<b>5,225</b>	<b>5,281</b>	<b>6,527</b>	<b>7,717</b>	<b>7,070</b>
Shareholders' funds	2,131	3,200	3,799	5,132	6,522
<b>Total liabilities and equity</b>	<b>7,357</b>	<b>8,481</b>	<b>10,325</b>	<b>12,850</b>	<b>13,592</b>

## Key ratios and valuation

Year-end 31 Dec	2004A	2005A	2006E	2007E	2008E
<b>Valuation ratios</b>					
P/E (x)	22.1	9.0	9.1	5.4	4.3
EV/sales (x)	5.8	2.3	2.2	1.7	1.3
EV/EBITDA (x)	26.2	12.4	11.3	6.7	5.4
P/BVPS (x)	4.0	3.1	2.9	2.1	1.7
<b>Growth (%)</b>					
Sales (%)	41.7	153.0	8.9	32.3	28.7
EBIT (%)	8,839.5	117.9	13.1	77.0	24.0
Net profit (%)	2,611.6	183.6	9.5	66.9	25.2
EPS (%)	2,147.6	147.3	(1.3)	66.9	25.2
<b>Margins (%)</b>					
EBITDA margin	22.3	18.7	19.3	25.9	24.9
EBIT margin	21.6	18.6	19.3	25.8	24.9
Pre-tax margin	18.5	18.9	19.8	25.0	24.3
Net margin	16.7	18.8	18.9	23.8	23.2
<b>ROE analysis (%)</b>					
EBIT margin (%)	21.6	18.6	19.3	25.8	24.9
Asset turnover (x)	0.3	0.7	0.6	0.7	0.8
Interest burden (x)	0.9	1.0	1.0	1.0	1.0
Tax burden (x)	0.9	1.0	1.0	1.0	1.0
Financial leverage (x)	3.5	2.7	2.7	2.5	2.1
ROE (%)	18.2	34.4	31.8	39.2	38.6
<b>Liquidity ratios</b>					
Net debt/equity (%)	124.5	85.4	82.5	73.4	56.7
Interest coverage ratio (x)	32.0	756.6	1,409.3	54.6	45.1

Source: Company data, Credit Suisse estimates



# Siam Future Development PCL

(SF.BK / SF TB)

## Defensive with growth option

Rating	<b>OUTPERFORM*</b>
Price (15 Feb 07)	8.80 (Bt)
Target price	13.50 (Bt) <sup>1</sup>
Chg to TP (%)	53.4
Mkt cap (Bt mn)	4,478.69 (US\$ 133.91)
Enterprise value (Bt mn)	5,429.88
Number of shares (mn)	508.94
Free float (%)	37.84
52-week price range	10.70 - 5.50

\* Stock ratings are relative to the relevant country index

<sup>1</sup> Target Price is for 12 months

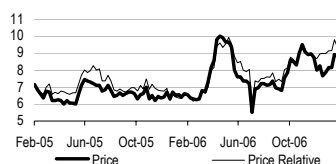
### Research Analysts

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- More mall openings.** We believe that Siam Future is set for another strong year, driven by the opening of its Esplanade Mall (in December 2006) and Pattaya Mall (in August 2007). As a result, average retail space is expected to rise 74% YoY in 2007. With the openings of Kaset Navamin and Ratchayothin in 2008, average retail space will rise a further 12% YoY.
- Bookings good so far.** According to management, the Esplanade is now 95% booked and the Kaset Navamin (an outdoor life style mall) project has secured three anchor tenants: Major Cineplex (MAJO.BK, Bt16.00, not rated), Villa Supermarket and Cementhai Showroom, which take up half of its lettable space.
- Revised up earnings.** We recently revised up our 2007 and 2008 EPS forecasts by 13% and 43%, respectively, to factor in the contributions from new malls. Due to the dilution from the 2006 rights issue, 2007E EPS would effectively grow just 0.4% YoY. However, we are still 22% and 12% above consensus estimates for 2007 and 2008, respectively.
- Defensive with growth option.** Our target price is Bt13.5 (53% potential upside), taking into account the contributions from new malls. We maintain an OUTPERFORM rating, due to the company's 'utility-like' business model (through back-to-back, long-term leases to tenants and long-term leases from landowners) and the 'growth option'. In addition, management indicated that there are likely to be more projects in the pipeline, which we have not factored into our target price.

### Share price performance



The price relative chart measures performance against the BANGKOK S.E.T. index which closed at 693.86 on 15/02/07. On 15/02/07 the spot exchange rate was Bt33.45/US\$1

Performance over	1M	3M	12M
Absolute (%)	14.3	-3.3	37.5
Relative (%)	8.1	2.3	43.8

### Financial and valuation metrics

Year	12/05A	12/06E	12/07E	12/08E
Revenue (Bt mn)	439.8	1,636.5	1,764.2	1,660.5
EBITDA (Bt mn)	204.5	768.6	972.8	846.9
EBIT (Bt mn)	155.1	428.0	638.0	639.8
Net income (Bt mn)	106.9	419.1	473.6	365.6
EPS (CS adj., Bt)	0.26	0.93	0.93	0.72
- change from prev. EPS (%)	n.a.	0.0	0.0	0.0
- consensus EPS	n.a.	0.91	0.76	0.64
EPS growth (%)	-60.6	258.6	0.4	-22.8
P/E (x)	34.1	9.5	9.5	12.2
Dividend yield (%)	1.1	4.2	4.2	3.3
EV/EBITDA (x)	28.5	7.1	6.5	6.8
ROE (%)	12.2	31.9	22.1	13.7
Net debt/equity (%)	150.4	55.0	70.9	47.3
Current est. NAV (Bt)	—	13.5	—	—
Disc./prem. to current NAV (%)	—	-34.7	—	—

Source: Company data, Thomson Financial Datastream, Credit Suisse estimates

# Key financial data

## Key earnings drivers

Year-end 30 Jun	2004A	2005A	2006E	2007E	2008E
Ending no. of stores	21	24	27	29	30
Year-end rentable sq m	61,250	96,838	193,306	221,990	256,672
Effective rentable sq m	44,003	69,964	115,729	207,648	221,699
Total land leased (rai)	57	119	146	157	182
Avg. rental rev./sq m/moth (ex. LPF)	287	276	371	367	417

## Profit and loss

Year-end 31 Dec (Bt mn)	2004A	2005A	2006E	2007E	2008E
<b>Net sales</b>	<b>615</b>	<b>440</b>	<b>1,637</b>	<b>1,764</b>	<b>1,661</b>
Cost of goods sold	139	248	826	799	800
<b>Gross profit</b>	<b>476</b>	<b>192</b>	<b>810</b>	<b>965</b>	<b>861</b>
Operating costs	60	73	148	164	196
<b>Operating profit</b>	<b>415</b>	<b>120</b>	<b>662</b>	<b>801</b>	<b>665</b>
Non-operating inc./(exp.)	7	35	25	25	25
<b>EBIT</b>	<b>423</b>	<b>155</b>	<b>687</b>	<b>826</b>	<b>690</b>
Interest/expense	(1)	(12)	(42)	(103)	(102)
Exceptionals	0	0	0	0	0
<b>Pre-tax profit</b>	<b>422</b>	<b>143</b>	<b>645</b>	<b>723</b>	<b>588</b>
Taxes	126	36	194	217	176
Minorities	86	1	32	32	46
<b>Net profit</b>	<b>210</b>	<b>106</b>	<b>419</b>	<b>474</b>	<b>366</b>
Net profit ex. excep.	210	106	419	474	366
<b>EPS</b>	<b>0.66</b>	<b>0.26</b>	<b>0.93</b>	<b>0.93</b>	<b>0.72</b>

## Profit and loss common statement

Year-end 31 Dec (%)	2004A	2005A	2006E	2007E	2008E
<b>Net sales</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Cost of goods sold	23	56	50	45	48
<b>Gross profit</b>	<b>77</b>	<b>44</b>	<b>50</b>	<b>55</b>	<b>52</b>
Operating costs	10	16	9	9	12
<b>Operating profit</b>	<b>68</b>	<b>27</b>	<b>40</b>	<b>45</b>	<b>40</b>
Non-operating inc./(exp.)	1	8	2	1	2
<b>EBIT</b>	<b>69</b>	<b>35</b>	<b>42</b>	<b>47</b>	<b>42</b>
Interest/expense	(0)	(3)	(3)	(6)	(6)
Exceptionals	0	0	0	0	0
<b>Pre-tax profit</b>	<b>69</b>	<b>32</b>	<b>39</b>	<b>41</b>	<b>35</b>
Taxes	21	8	12	12	11
Minorities	14	0	2	2	3
<b>Net profit</b>	<b>34</b>	<b>24</b>	<b>26</b>	<b>27</b>	<b>22</b>
Net profit ex. excep.	34	24	26	27	22

## Cash flow statement

Year-end 31 Dec (Bt mn)	2004A	2005A	2006E	2007E	2008E
Net income	210	107	419	474	366
Depreciation and amortisation	34	49	82	147	156
Changes in oper. assets & liabilities	374	(20)	171	19	27
<b>Cash flow from operations</b>	<b>618</b>	<b>137</b>	<b>460</b>	<b>273</b>	<b>375</b>
Purchases of PP&E	(907)	(1,540)	(888)	(1,843)	(50)
Deposit with restriction	16	6	0	0	0
Other change in non-current assets	(22)	(64)	8	0	0
Adjust for Minorities in B/S	0	0	32	537	46
<b>Cash flow from investments</b>	<b>(912)</b>	<b>(1,597)</b>	<b>(847)</b>	<b>(1,306)</b>	<b>(4)</b>
Increase (decrease) in ST debt	(36)	315	41	400	(50)
Increase (decrease) in LT debt	114	1,126	(252)	373	(277)
Capital increase	166	20	85	0	0
Capital adjustment	72	35	372	537	46
Dividend	(27)	(127)	(42)	(189)	(189)
<b>Cash flow from financing</b>	<b>290</b>	<b>1,370</b>	<b>203</b>	<b>1,122</b>	<b>(470)</b>
Net inc. (dec.) in cash & equivalents	(5)	(90)	(184)	89	(99)

Source: Company data, Credit Suisse estimates

## Company description

Siam Future Dev. is a small mall developer located mostly in Bangkok's suburbs. The malls are mainly neighbourhood, lifestyle, or convenience centres. The company does not normally own the land, but leases it on a long-term basis. Currently, it has 27 completed mall projects in hand.

## Balance sheet

Year-end 31 Dec (Bt mn)	2004A	2005A	2006E	2007E	2008E
Cash and ST investments	90	0	149	91	288
Receivables	124	131	131	141	133
Inventory	0	0	0	0	0
Other current assets	20	51	0	0	0
<b>Total current assets</b>	<b>234</b>	<b>182</b>	<b>280</b>	<b>233</b>	<b>421</b>
Net fixed assets	1,384	2,874	3,680	5,377	5,271
Other assets	44	108	232	487	474
Assoc. & other LT invest.	8	2	2	2	2
<b>Total LT assets</b>	<b>1,437</b>	<b>2,984</b>	<b>3,915</b>	<b>5,866</b>	<b>5,747</b>
<b>Total assets</b>	<b>1,670</b>	<b>3,166</b>	<b>4,195</b>	<b>6,099</b>	<b>6,168</b>
Short-term debt	7	319	360	760	710
Payables	187	38	128	124	124
Other current liabilities	173	343	373	407	425
<b>Total current liabilities</b>	<b>366</b>	<b>700</b>	<b>861</b>	<b>1,291</b>	<b>1,259</b>
Long-term debt	0	1,030	740	1,140	890
Other liabilities	444	539	863	1,116	1,244
Preferred stock	0	0	0	0	0
<b>Total liabilities</b>	<b>810</b>	<b>2,269</b>	<b>2,465</b>	<b>3,547</b>	<b>3,393</b>
Shareholders funds	860	897	1,730	2,553	2,775
<b>Total liabilities and equity</b>	<b>1,670</b>	<b>3,166</b>	<b>4,195</b>	<b>6,099</b>	<b>6,168</b>

## Key ratios and valuation

Year-end 31 Dec	2004A	2005A	2006E	2007E	2008E
<b>Valuation ratios</b>					
P/E (x)	13.4	34.1	9.5	9.5	12.2
EV/sales (x)	7.3	10.9	3.0	3.0	3.1
EV/EBITDA (x)	9.8	23.5	6.3	5.4	6.1
P/BVPS (x)	4.1	4.2	2.6	1.8	1.6
<b>Growth (%)</b>					
Sales (%)	287.6	-28.5	272.1	7.8	-5.9
EBIT (%)	851.1	-63.3	342.8	20.3	-16.4
Net profit (%)	521.9	-49.2	292.0	13.0	-22.8
EPS (%)	204.1	-60.6	258.6	0.4	-22.8
<b>Margins (%)</b>					
EBITDA margin	74.2	46.5	47.0	55.1	51.0
EBIT margin	68.8	35.3	42.0	46.8	41.6
Pre-tax margin	68.7	32.5	39.4	41.0	35.4
Net margin	34.2	24.3	25.6	26.8	22.0
<b>ROE analysis (%)</b>					
EBIT margin (%)	68.8	35.3	42.0	46.8	41.6
Asset turnover (x)	0.5	0.2	0.4	0.3	0.3
Interest burden (x)	1.0	0.9	0.9	0.9	0.9
Tax burden (x)	0.5	0.7	0.6	0.7	0.6
Financial leverage (x)	2.0	2.8	2.8	2.4	2.3
ROE (%)	32.4	12.2	31.9	22.1	13.7
<b>Liquidity ratios</b>					
Net debt/equity (%)	-9.7	150.4	55.0	70.9	47.3
Interest coverage ratio (x)	723.5	12.7	16.0	7.9	6.6

Source: Company data, Credit Suisse estimates



**Companies Mentioned** (Price as of 15 Feb 07)

Anhui Conch Cement Co. Ltd. (0914.HK, HK\$24.75, OUTPERFORM, TP HK\$30.00)  
Bank of East Asia (0023.HK, HK\$47.65, NEUTRAL, TP HK\$42.40)  
Boeing (BA, \$91.71, OUTPERFORM, TP \$104.00, MARKET WEIGHT)  
CapitalLand (CATL.SI, S\$7.40, UNDERPERFORM, TP S\$5.78)  
Cheung Kong Holdings (0001.HK, HK\$102.50, OUTPERFORM, TP HK\$109.73)  
China Life Insurance Co. (2628.HK, HK\$23.15, UNDERPERFORM, TP HK\$16.50)  
China Mobile Limited (0941.HK, HK\$75.00, NEUTRAL, TP HK\$71.30)  
China Netcom Group Corp (0906.HK, HK\$19.92, OUTPERFORM, TP HK\$19.50)  
China Shipping Container Lines (2866.HK, HK\$3.01, OUTPERFORM, TP HK\$3.20)  
China Shipping Development (1138.HK, HK\$11.64, OUTPERFORM, TP HK\$12.60)  
China Telecom (0728.HK, HK\$3.70, OUTPERFORM, TP HK\$4.20)  
China Unicom (0762.HK, HK\$10.40, NEUTRAL, TP HK\$10.25)  
Ciputra Surya Tbk PT (CTRS.JK, Rp950.00, OUTPERFORM [V], TP Rp1275.00)  
CLP Holdings Limited (0002.HK, HK\$58.80, OUTPERFORM, TP HK\$69.00)  
Dell, Inc. (DELL, \$24.38, OUTPERFORM, TP \$28.00, MARKET WEIGHT)  
eSun Holdings Limited (0571.HK, HK\$7.05, OUTPERFORM, TP HK\$10.20)  
Evergreen Fibreboard Bhd (EVGN.KL, RM1.32, OUTPERFORM, TP RM2.00)  
Gems TV Holdings Ltd (GEMS.SI, S\$1.50, OUTPERFORM [V], TP S\$1.94)  
Hang Lung Group (0010.HK, HK\$26.65, OUTPERFORM, TP HK\$33.89)  
Hang Seng Bank (0011.HK, HK\$111.30, OUTPERFORM, TP HK\$123.00)  
Hewlett-Packard (HPQ, \$42.68, OUTPERFORM, TP \$50.00, MARKET WEIGHT)  
Hong Leong Asia (HLAA.SI, S\$2.00, OUTPERFORM, TP S\$2.58)  
Huaku Construction Corp (2548.TW, NT\$63.30, OUTPERFORM, TP NT\$99.00)  
Hutchison Whampoa (0013.HK, HK\$79.45, OUTPERFORM, TP HK\$97.00)  
Industrial & Commercial Bank of China (1398.HK, HK\$4.62, OUTPERFORM [V], TP HK\$4.38)  
Lenovo Group Ltd (0992.HK, HK\$3.13, UNDERPERFORM, TP HK\$2.72)  
Lupin Ltd (LUPN.BO, Rs598.50, OUTPERFORM, TP Rs698.31)  
Major Cineplex Group Pcl (MAJO.BK, Bt16.00, NOT RATED)  
Melco (0200.HK, HK\$15.66, OUTPERFORM [V], TP HK\$26.10)  
Melco PBL Entertainment Macau Limited (MPEL.OQ, \$20.42, OUTPERFORM [V], TP \$26.20)  
MMI Holdings (MMIH.SI, S\$1.48, Restricted)  
Shanghai Electric Group Co., Ltd. (2727.HK, HK\$4.07, OUTPERFORM, TP HK\$5.00)  
Siam Future Development PCL (SF.BK, Bt8.80, OUTPERFORM, TP Bt13.50)  
Sunrise Bhd (SUNR.KL, RM2.21, NEUTRAL, TP RM2.45)  
Telefonica (TEF.MC, Eu17.05, OUTPERFORM, TP Eu17.50, MARKET WEIGHT)  
THE9 Ltd (NCTY.OQ, \$38.86, OUTPERFORM [V], TP \$42.00)  
Total Access Communications (TACC.SI, \$4.10, OUTPERFORM, TP \$6.45)  
Zhejiang Expressway Co Ltd (0576.HK, HK\$6.12, OUTPERFORM, TP HK\$7.00)

## Disclosure Appendix

### Important Global Disclosures

The analysts identified in this report each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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**Outperform:** The stock's total return is expected to exceed the industry average\* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

**Neutral:** The stock's total return is expected to be in line with the industry average\* (range of  $\pm 10\%$ ) over the next 12 months.

**Underperform\*\*:** The stock's total return is expected to underperform the industry average\* by 10-15% or more over the next 12 months.

*\*The industry average refers to the average total return of the analyst's industry coverage universe (except with respect to Asia/Pacific, Latin America and Emerging Markets, where stock ratings are relative to the relevant country index, and Credit Suisse Small and Mid-Cap Advisor stocks, where stock ratings are relative to the regional Credit Suisse Small and Mid-Cap Advisor investment universe.*

*\*\*In an effort to achieve a more balanced distribution of stock ratings, the Firm has requested that analysts maintain at least 15% of their rated coverage universe as Underperform. This guideline is subject to change depending on several factors, including general market conditions.*

*\*\*\*For Australian and New Zealand stocks a 7.5% threshold replaces the 10% level in all three rating definitions, with a required equity return overlay applied.*

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**Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.

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**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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*\*\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

*\*\*\*The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

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Neutral/Hold*	43%	(57% banking clients)
Underperform/Sell*	15%	(50% banking clients)
Restricted	3%	

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