UOBKayHian

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Momentum picks up in 4Q09 with SSS growth re-accelerating to 3.8% yoy and retail discount narrows.

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Update

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Beneficiary of industry consolidation. Management is more positive on the outlook and initial response from retailers on new products is good.

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Oil & Gas: Oil imports hit alarming level in China
Airline: Chinese airlines turn profitable
Internet: National communication integration one step closer to reality

Key Indices

	Prev Close	1D %	1W %	1M %	YTD %
Key Indices					
DJIA	10710.6	0.3	1.0	2.0	2.7
S&P 500	1148.5	0.2	0.6	3.1	3.0
FTSE 100	5498.2	0.5	(0.5)	3.4	1.6
AS30	4929.4	(0.5)	(0.8)	4.6	0.4
CSI 300	3469.1	1.4	(0.1)	(3.2)	(3.0)
FSSTI	2909.5	0.7	(0.1)	4.0	0.4
HSI	21717.0	(0.1)	(2.5)	(0.4)	(0.7)
HSCEI	2645.2	0.5	2.3	6.0	4.4
HSCCI	1294.7	0.4	0.3	1.9	1.7
Shanghai A	1691.4	0.3	(0.2)	1.5	0.5
Shanghai B	10953.8	0.4	2.5	8.6	3.9
Shenzhen A	749.4	0.4	2.0	5.6	2.0
Shenzhen B	8290.0	1.1	0.6	6.2	1.2
JCI	2645.2	0.5	2.3	6.0	4.4
KLCI	1294.7	0.4	0.3	1.9	1.7
KOSPI	1685.8	0.3	(0.2)	1.5	0.5
Nikkei 225	10907.7	0.4	2.5	8.6	3.9
SET	749.4	0.4	2.0	5.6	2.0
TWSE	8290.0	1.1	0.6	6.2	1.2
BDI	3235	1.9	2.7	(8.4)	7.7
CPO (RM/mt)	2480	(1.7)	(5.7)	0.9	(4.3)
Nymex Crude (US$/bbl)	79	(0.6)	(4.6)	11.7	(0.5)

Top Volume

Stock	Price (HK$)	Chg (%)	Volume ('000)
BANK OF CHINA-H	3.95	(1.0)	497,691
CHINA CONST BA-H	6.11	(1.0)	361,516
CHINA TELECOM-H	3.52	3.5	186,080
ISHARE FTSE/XINH	13.9	0.0	126,210
RENHE COMMERCIAL	2.11	0.0	124,130

Top Gainers

Stock	Price (HK$)	Chg (%)	Volume ('000)
CHINA SOUTH A-H	2.79	10.7	96,924
CHINA EAST AIR-H	2.87	8.7	24,482
LENOVO GROUP LTD	5.9	7.9	64,235
CHINA AGRI-INDUS	11.96	7.6	29,456
CHINA RES ENT	30.8	5.1	10,570

Top Losers

Stock	Price (HK$)	Chg (%)	Volume ('000)
CHINA SHENHUA -H	37.75	(4.4)	38,382
SHIMAO PROPERTY	12.68	(4.4)	49,248
CHINA COAL ENERG	13.96	(3.5)	113,744
CHINA RES LAND	15.08	(3.3)	36,631
WEICHAI POWER-H	71.25	(3.2)	1,255

Note: Based on top 100 stocks by market capitalisation

Key Assumptions

		2008	2009F	2010F
GDP (% yoy)				
US		1.1	(2.5)	2.60
Euro Zone		0.7	0.1	1.20
Japan		(0.6)	(5.4)	1.35
Singapore		1.2	(2.1)	4.50
Malaysia		4.6	(2.2)	4.90
Thailand		2.6	(3.2)	4.30
Indonesia		6.0	4.4	5.20
Hong Kong		2.5	(3.3)	4.00
China		9.0	8.0	8.50
		2009	**2010F**	**2011F**
Brent Crude Oil	(US$/bbl)	79	75	85
Aluminium *	(US$/mt)	2,197	2,042	2,176
Copper *	(US$/mt)	7,342	6,509	6,950
Gold Price London *	(US$/ounce)	1,097	1,136	1,156
Iron Ore *	(USc/dmtu)	97	105	108
CPO	(US$/mt)	753	765	n.a.
BDI		2,617	3,000	3,300

** Bloomberg*
Source: UOB, UOB Kay Hian

Chemical Fertiliser

Heading for a sustainable recovery

China's fertiliser sector is expected to recover in 2010. The recovery is likely to be sustainable as a shift in dietary patterns will underpin long-term growth in fertiliser demand.

Sector Event

Fertiliser consumption fell in 2009; nitrogen unscathed due to inelastic demand. According to International Fertilizer Industry Association (IFA), aggregate consumption in 2008-09 fell 6.7% yoy to 156.4m tonnes of nutrients. Consumption is estimated to have contracted more sharply for phosphate (-10.5%) and potash (-19.8%) fertilisers than for nitrogen fertiliser (-1.5%). Nitrogen nitrogen fertiliser is less affected as farmers cannot afford drastic cuts in nitrogenous fertiliser application rates without suffering immediate yield penalties, unlike with phosphate and potash fertilisers.

Global demand set to rebound in 2010. IFA forecasts global fertiliser consumption in 2009-10 to stage a small rebound of 1.0% to 158.0m tonnes given the persistently depressed context in 2009 and the expectation of a progressive recovery in 2010. It further projects a full recovery for nitrogen (+1.6% yoy), a small rebound for phosphate (+3.0% yoy), and a further decline for potash (-4.5% yoy). Given expectation of a continued recovery in world economic activities, global fertiliser demand is likely to rebound to a positive growth rate of 4.9% yoy for 2011.

Domestic demand to recover in tandem. China's fertiliser exports have revived on the global demand recovery and the government's new export tax policy to lower off-season tariffs from 10% to 7%, which has relieved inventory pressure and pushed up selling prices in the domestic market. Seeing a lower inventory level and strong fertiliser selling prices, distributors will be more willing to build up their stocks in the winter off-season to prepare for sales in the following spring planting season.

Shift in dietary patterns to underpin long-term growth in fertiliser demand. We expect long-term growth in the demand for chemical fertilisers to be underpinned by a shift in dietary patterns from grains to more varied products including meat and vegetables. Increasing intake of meat fuels the consumption of feed crops which in turn raises fertiliser demand. Shifting to cash crop plantation, on the other hand, implies increased utilisation of fertilisers as cash crops consume more nutrients than grains per unit output.

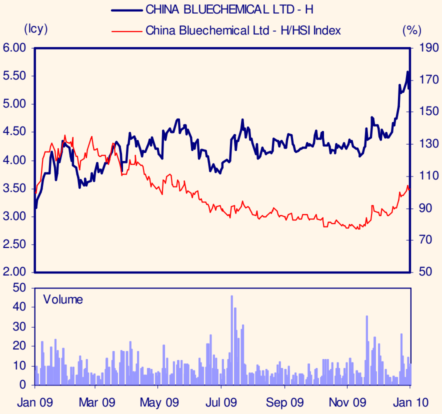
Relatively balanced supply/demand for urea segment. As of end-08, total capacity for phosphorous fertiliser was about 20m tonnes, while production was merely 12.6m tonnes, implying a 63% utilisation rate for the industry. We expect 3m tonnes of additional capacity to come on stream by 2010, raising total capacity to 23m tpa. Thus, the utilisation rate for the phosphate segment will remain at about 60% over the next couple of years. The urea segment is in a much better position. As of end-08, China had a total of 60.4m tpa urea capacity, while production amounted to 56.5m tonnes, implying a 93.5% utilisation rate. We expect overall capacity to reach 67m tpa by end-09 with production totalling 62m tonnes in 2009.

CHINA

Chemical Fertiliser

OVERWEIGHT

Price Chart



Source: Bloomberg

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Stock	Rec	Price 14 Jan 10 (lcy)	Net Profit 2008 (Rmbm)	Net Profit 2009F (Rmbm)	Net Profit 2010F (Rmbm)	EPS 2008 (Rmb)	EPS 2009F (Rmb)	EPS 2010F (Rmb)	PE 2008 (x)	PE 2009F (x)	PE 2010F (x)	ROE 2008 (%)	Market Cap (US$m)	Yield 2008 (%)
Bluechem	BUY	5.30	1,635.3	1,187.8	1,616.5	0.35	0.26	0.37	13.3	18.1	12.6	12.1	3,144.7	2.0
China XLX	BUY	0.67	346.4	105.3	305.5	0.35	0.11	0.31	9.7	31.8	11.0	7.2	475.6	2.4
Sinofert	HOLD	5.52	1,443.3	(1,666.3)	1,484.7	0.21	(0.24)	0.21	23.5	n.a.	23.0	(12.9)	4,687.0	1.0
Changjiang	BUY	0.31	79.9	82.5	79.9	0.27	0.23	0.27	5.7	6.6	5.7	37.1	80.4	0.0

Industry consolidation to continue and big players to win. The number of nitrogen and phosphate fertiliser producers has dropped 20% and 25% in the last eight years. Industry consolidation should continue due to government-driven industry liberalisation, intensifying competition and cost pressure. Large players with operational efficiency, easier access to resources and proximity to the market will capture market share from smaller ones.

Valuation

CBC is our top pick. We prefer CBC to other chemical fertiliser players due to its superior cost structure, given its larger scale and ready access to cheap natural gas supply which allows for potential margin expansion when coal-based producers come under cost pressure from coal price hikes. CBC's SOE background suggests less risk from corporate governance relative to private companies, and stronger ability to identify and secure new projects that could add value to shareholders. We have raised earnings forecasts for 2010-11 by an average of 8% to reflect the demand recovery, and raised our target price to HK$7.12 based on 17x 2010F PE, which implies a 30% discount to A-share listed peers' average of 25x forward PE. Reiterate BUY.

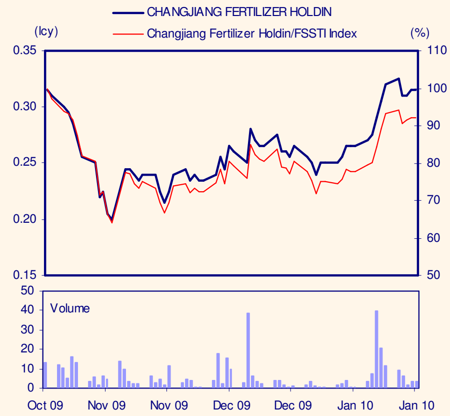
Reiterate BUY on CXLX. We like CXLX for its leading operational efficiency among coal-based producers. The stock is trading at 10.8x 2010F PE, a hefty discount to A-share listed peers' average of 25x. We expect the re-rating for the stock to continue after the dual listing in Hong Kong. We believe it is justifiable for the stock to trade at a 20% discount to CBC to account for its lower efficiency and private background. Thus, we apply a 14x forward PE as the basis of valuation to derive a target price of S$0.86, or HK$4.69. Maintain BUY.

Upgrade Sinofert to HOLD. We raise our earnings forecasts for 2010-11 by 20.5% and 18.7% to factor in higher potash gross margins on lower-than-expected import prices. The market expects the company to have continued making losses in 2H09, and the share price movements would reflect a strong turnaround in 2010. The stock is nonetheless trading at a stretched valuation of 21.6x 2010F PE. Given that Sinofert is historically trading at smaller discounts to A-share listed peers than CBC and CXLX, we use a 20x forward PE as the valuation basis, which implies a 20% discount to domestic peers' average PE. We raise our target price to HK$4.80 from HK$3.60, and upgrade Sinofert from SELL to HOLD with an entry price of HK$4.00.

Maintain BUY on CJF on cheap valuation. The major reason behind our BUY call on CJF is its undemanding valuation of 5.7x 2010F PE, and potential M&As as short-term catalysts. There would, however, also be risk of a possible equity refinancing to fund the acquisitions if the potential refinancing and acquisitions turn out to have a net dilutive effect on EPS. Maintain BUY with a target price of S$0.42 based on 8x 2010F PE.

Price Chart

Source: Bloomberg



Source: Bloomberg

Company	Ticker	Market Cap (US$m)	Price 14 Jan 10 (Rmb)	ROE (%)	PE 2009F (x)	PE 2010F (x)	Price/ Book (x)
QINGHAI SALT-A	000792 CH	6,676.8	59.70	51.5	31.0	21.8	16.7
YUNNAN YUNTIAN-A	600096 CH	2,249.1	26.30	18.6	279.8	26.9	3.5
LIAONING HUAJI-A	000059 CH	2,154.0	12.48	6.6	48.2	18.6	2.3
SHANDONG HUALU-A	600426 CH	1,742.0	24.40	17.2	27.0	20.9	4.5
SICHUAN LUT-A	000912 CH	930.5	11.04	12.6	63.9	26.5	2.6
HUBEI YIHUA CH-A	000422 CH	1,838.3	23.30	14.0	42.4	23.6	6.0
JIANGSU CHENG-A	600078 CH	918.0	9.60	8.4	62.1	36.3	4.1
LUXI CHEMICAL-A	000830 CH	937.8	6.17	10.2	30.9	20.4	2.7
NANJING REDSUN-A	000525 CH	708.5	17.35	1.8	64.4	27.2	7.8
CHONGQING JIAN-A	000950 CH	1,104.5	18.70	31.9	27.3	17.5	3.3
SICHUAN CHEMICAL	000155 CH	614.8	9.01	7.9	23.5	22.9	2.4
SICHUAN MEIFEN-A	000731 CH	700.6	9.60	13.2	23.3	17.3	2.8
JIANGSU YANGNO-A	600486 CH	826.0	43.07	21.4	27.8	23.3	3.7
HEBEI CANGZHOU-A	600230 CH	806.8	20.95	16.3	50.1	19.0	4.9
SHAANXI XINGHU-A	002109 CH	605.3	11.47	18.8	27.3	18.5	4.2
LIER CHEMICAL -A	002258 CH	691.2	23.52	17.0	36.7	26.9	5.8
SHENZHEN NOPO -A	002215 CH	1,009.9	34.95	25.6	52.5	37.0	11.3
ZHEJIANG SHEN-A	600226 CH	483.5	12.43	12.1	23.0	21.4	2.9
GUIZHOU CHITIA-A	600227 CH	660.6	12.20	11.6	26.6	27.2	2.2
SHENZHEN BATIA-A	002170 CH	490.3	11.15	12.6	146.5	22.0	6.3
LIUZHOU CHEMICAL	600423 CH	611.4	15.45	6.9	82.1	31.2	3.1
ANHUI HUAXING -A	002018 CH	502.2	14.16	30.8	28.6	18.3	4.8
ANHUI LIUGUO C-A	600470 CH	448.2	13.67	6.4	48.7	30.1	2.8
HEBEI WEIYUAN	600803 CH	409.0	11.95	2.3	381.0	40.7	7.3
Average				**15.6**	**68.9**	**24.8**	**4.9**

Li Ning

Gaining momentum

Li Ning saw a modest recovery from the trough of 3Q09 with same-store sales growth picked up to 3.8% and retail discount narrowed. Maintain BUY with target price of HK$31.70, based on 25x 2010F PE or 1x PEG.

Corporate Event

SSS growth picked up. Li Ning saw a 3.8% yoy growth in same-store sales (SSS) in 4Q09, a reversal from an 8.2% yoy drop in 3Q09. This should be due to the improvement in consumer sentiment and the lower base in 4Q08. Management targets a 10% SSS growth for 2010.

Store openings in line with target. Li Ning added about 800 outlets in 2009, raising the total number to over 7,000 as at end-09. In 2010-11, the Group plans to increase its store count by 10% annually.

De-stocking underway. The Group's distributors saw modest improvement in inventories and retail discount from 3Q09 to 4Q09. This should underpin the orderbook growth in 2010.

Stock replenishment to pump up in 1H10. With inventories at channel declined and retail sales picked up, we expect distributors to increase replenishment orders in 1H10, which will spur the Group's sales growth.

Expect recovery in orderbook growth. Given the lower base in 3Q09 and the drawdown of 3Q09 inventories, we expect orderbook growth to accelerate further in 3Q10 from +15.4% yoy in 2Q10.

Operating Figures

	1H08	2H08	1H09	3Q09	4Q09
SSS growth	26	26	0	(8.2)	3.8
Average retail discount	15	16	18	22	21

Source: Li Ning, UOB Kay Hian

Management is optimistic for 2010. Management projects industry growth of 15-16% for 2010 and is targeting an above-industry sales growth for Li Ning. We forecast a turnover growth of 18% per year in 2010-11.

Stock Impact

Li Ning's SSS growth for 4Q09 outpaced that of Kappa (1%) and Belle (3%). We believe the better-than-expected number should further boost share price.

We maintain our forecast of a 25% EPS CAGR for 2010-11, based on an average 18% annual turnover growth and margin improvement from economy of scale.

The Group is holding its 3Q10 trade fair on 2 Mar 10 and will release its 2009 results on 16 Mar 10. These are share price catalysts.

Earnings Risk

If China's retail market slows down in 2010, heavier discounting will be needed to push sales. This will affect its margins.

CHINA

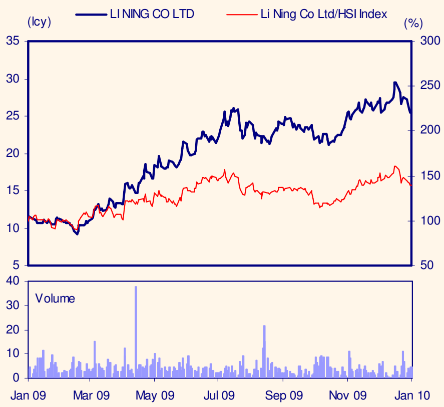
Li Ning (2331 HK)

BUY

Current Price: HK$25.50
Target Price: HK$31.70

Sector	Consumer
52-Wk Avg Daily Vol. ('000)	3,069
Market Cap (HK$m)	26,533
(US$m)	3,424
Major Shareholders (%)	
Li Ning	32.0
FY09 Book NTA/Share (HK$)	2.67
FY09 ROE (%)	39.2
FY09 Net Cash/Share (HK$)	1.34
Results Due	
Interim:	Sep
Final:	Apr

Price Chart



Source: Bloomberg

Analyst

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Year to Dec 31	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (Rmb)	Yield (%)
2007	4,349	682	474	0.458	60	48.8	33.0	0.229	1.0
2008	6,690	1,071	721	0.696	52	32.1	21.3	0.486	2.2
2009F	8,166	1,362	894	0.891	28	25.1	16.3	0.544	2.4
2010F	9,615	1,617	1,083	1.114	25	20.1	13.2	0.659	2.9
2011F	11,135	1,868	1,271	1.393	25	16.1	11.0	0.773	3.5

Consensus Net Profit – FY09: Rmb920m
– FY10: Rmb1,122m

Valuation/Recommendation

Based on our earnings forecasts, Li Ning is trading at 20x 2010F PE, lower than the average of 25-30x for other leading China consumer stocks like Belle, Parkson, Golden Eagle and Hengan. Given its leading position in sportswear industry, Li Ning had traded at parity to these companies. We set our 12-month target price for Li Ning at HK$31.70, based on 25x 2010F PE, on a par to 1-year roll-over PE for leading consumer stocks. **Maintain BUY.**

Orderbook Growth of Li Ning

	Order Growth (%)	Apparel ASP (Rmb)	Apparel Vol (m)	Footwear ASP (Rmb)	Footwear Vol (m)
1Q09	36	10.0	24.0	6.0	39.0
2Q09	31.6	11.8	18.8	10.2	18.9
3Q09	12.7	15.1	5.9	4.7	2.5
4Q09	14.5	12.6	10.4	1.9	3.0
1Q10	11.6	8.7	7.7	3.3	1.9
2Q10	15.4	6.4	16.1	3.1	1.2

Source: Li Ning

Profit & Loss

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	4,349	6,690	8,166	9,615	11,135
EBIT	610	960	1,198	1,439	1,678
Pre-tax Profit	619	929	1,212	1,464	1,715
Net Profit	474	721	894	1,083	1,271

Balance Sheet

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	2,174	2,818	3,440	4,601	5,932
Total Assets	2,781	4,337	4,959	6,120	7,451
Current Liabilities	977	2,087	2,153	2,350	2,350
Long-Term Loans	-	-	-	-	-
Shareholders' Funds	1,745	1,896	2,660	3,490	4,460
Total Equity & Liabilities	2,781	4,337	4,959	6,120	7,451

Cash Flow

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	393	699	913	1,101	1,285
Investing	(312)	(425)	(86)	(76)	(63)
Financing	(67)	(336)	(216)	(253)	(301)
Net Cash In/(Out) Flow	14	(62)	610	773	921
Begin Cash & Cash Equiv.	839	850	788	1,398	2,171
End'g Cash & Cash Equiv.	850	788	1,398	2,171	3,092

Valuation

Short Name	Ticker	Market Cap (US$m)	PE 2008 (x)	PE 2009F (x)	PE 2010F (x)	2009-10 EPS CAGR	2009 PEG (x)
SPORTSWEAR							
Li Ning	2331 HK Equity	3,404	32.2	25.1	20.1	26.5	0.9
China Dongxiang	3818 HK Equity	3,955	22.1	18.2	14.9	21.6	0.8
Anta	2020 HK Equity	3,714	23.7	22.3	18.6	23.3	1.0
DEPARTMENT STORES							
Parkson	3368 HK Equity	5,206	42.3	34.5	26.4	26.6	1.3
Golden Eagle	3308 HK Equity	3,343	42.8	32.7	26.5	27.1	1.2
F&B							
China Mengniu	2319 HK Equity	5,491	Loss	28.2	22.0	n.a.	n.a.
Tsing Tao Brew	168 HK Equity	7,393	72.1	66.5	60.2	9.4	7.1
China Huiyuan	1886 HK Equity	1,075	56.7	38.4	31.2	34.8	1.1
Tingyi	322 HK Equity	13,191	35.8	33.7	27.8	35.1	0.8
Want Want China	151 HK Equity	9,338	36.8	32.1	24.4	20.4	1.6
CONSUMER STAPLES							
Hengan	1044 HK Equity	8,035	46.2	35.8	31.0	22.2	1.6
ELECTRONIC RETAILERS							
Gome	493 HK Equity	5,469	78.9	28.3	22.5	25.9	1.1
SUPERMARKETS							
Lianhua	980 HK Equity	1,890	33.4	29.1	23.6	19.1	1.5
Wumart	8277 HK Equity	2,173	42.6	34.3	27.8	23.8	1.4
FOOTWEAR							
Belle	1880 HK Equity	10,545	37.2	32.0	28.7	13.9	2.3
APPAREL							
Ports Design	589 HK Equity	1,824	29.5	25.8	22.5	14.5	1.8

VTech

Well positioned to take advantage of the economic reocovery

VTech's management is more optimistic on outlook given the launch of new products. The new set of rules governing the safety of Chinese toys will trigger industry consolidation which is positive for VTech. Maintain BUY.

Corporate Event

Industry consolidation. According to *South China Morning Post*, China, the European Commission and the US are negotiating a common set of rules governing the safety of Chinese toys. After the US made voluntary safety requirements mandatory in 2008, recalls of China-made toys fell to 41 in 2009 from 162 in 2008. We believe the new set of rules will trigger the next round of industry consolidation as the smaller manufacturers which found profitability eroded after the global financial crisis are likely to suffer further from higher testing and raw material costs. Major players such as VTech are likely to benefit from the industry consolidation.

Optimistic on outlook. Management is now more optimistic on the outlook for the Group. Key drivers will be recovery in the US and European markets and launching of new products. The Group will release two new platform products (one under V. Smile Family) in Electronic Learning Products (ELP) segment for 2010. Management prefer to not reveal specifics of new products but stating that initial feedback from trials with retailers is very positive. This is a key development as a means of the Group re-igniting its ELP business as sales of platform products and related softwares only accounted for 20% of sales of ELP in 1HFY10 given maturing of V. Smile platform which was launched in 2004. Compared to sales of traditional ELPs, sales of platform products and software offer higher-dollar margin to offset an increase in sales and marketing expenses. Management expects margins to continue to improve due to higher operating leverage.

Entering the corporate market. For the telecommunication products (TP) division, VTech gained market share in the US as a key competitor has exited the market in FY09 and FY10. The Group launched new products for the small-medium-size enterprise (SME) segment in the US with an addressable market size of about US$1.6b, higher than the consumer market size of US$1.3b. The Group's new product launches and stabilised ASP should help steer the TP division towards moderate growth in the next couple of years.

Strong demand for LED lighting products. Regarding the contract manufacturing services (CMS) division, management saw a pick-up in order inflows in 2HFY10, given the stabilising global economy. The strong demand for LED lightings creates growth opportunities for the CMS division. VTech is expected to benefit from the industry consolidation within the EMS market as small players are forced to exit the market due to increasing competition

Stock Impact

VTech is well positioned to benefit from the economic recovery. With increased operational efficiencies and cost controls, we believe VTech is able to report higher earnings growth in FY10 and beyond.

HONG KONG

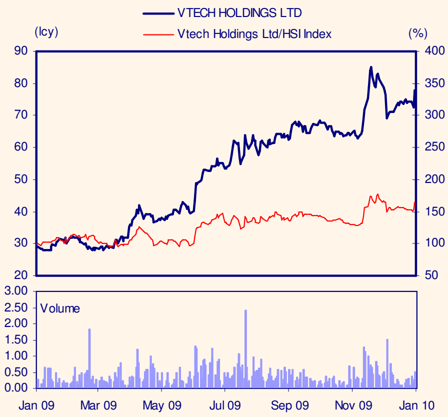
VTech (303 HK)

BUY

Current Price: HK$77.70
Target Price: HK$89.50
(Previous: HK$74.80)

Sector	Industrials
52-Wk Avg Daily Vol. ('000)	399
Market Cap (HK$m)	19,110
(US$m)	2,079
Major Shareholders (%)	
Allan Wong	39.5
FY10 NAV/Share (HK$)	15.90
FY10 ROE (%)	42.8
FY10 Net Cash/Share (HK$)	11.50
Results Due	
Interim:	November
Final:	June

Price Chart



Source: Bloomberg

Analyst

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Year to 31 Mar	Turnover (US$m)	EBITDA (US$m)	Net Profit (US$m)	EPS (HK$)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (HK$)	Yield (%)
2008	1,552	254	216	6.9	16.9	11.2	6.1	4.9	6.3
2009	1,448	182	144	4.6	(33.9)	17.0	5.9	4.1	5.3
2010F	1,402	242	201	6.4	38.6	12.3	8.6	4.4	5.7
2011F	1,617	281	237	7.5	17.7	10.4	7.2	5.0	6.5
2012F	1,824	314	268	8.5	13.1	9.2	6.1	5.5	7.1

Consensus Net Profit – FY10: US$194m
– FY11: US$216m

Earning Revision

Our earnings forecasts remain unchanged as they are at the high-end of consensus.

Earnings Risk

Massive slowdown in consumer spending in the US and Europe, further margin erosion and sector de-rating.

Valuation/Recommendation

VTech has proven it has navigated its way through the difficult environment and benefitted from an industry consolidation, triggered by the new rules to govern toys safety. We expect the Group to deliver strong results due to the launch of new products and higher operating leverage. We expect net profit CAGR of 22.6% for FY09-12. VTech is in a net cash position with no borrowings and this provides financial resources to gain market share. We raise our target price from HK$74.80 to HK$89.50 based on 12x FY11F PE, (previously 10x). Our new target PE is in line with that of its peers and other export plays such as Techtronic (669 HK), Johnson Electric (179 HK) and Yue Yuen (551 HK). We used a higher PE as export-related companies have been re-rated given stronger-than-expected rebound in exports in Dec 09. Maintain BUY.

Peer Valuation

Company	Ticker	Price (LC)	---------- PE (x) ---------- FY10F	FY11F	P/B (x)
VTech	303 HK	77.7	17.0	12.3	5.2
Leapfrog	LF US	3.5	(12.9)	15.6	1.4
Mattel	MAT US	19.4	15.7	12.5	2.9
Hasbro	HAS US	31.2	14.2	14.4	2.9
Uniden	6815 JP	206.0	-	-	0.2

Source: Bloomberg, UOB Kay Hian

Profit & Loss

Year to 31 Mar (US$m)	2008	2009	2010F	2011F	2012F
Turnover	1,552	1,448	1,402	1,617	1,824
EBIT	229	154	212	249	281
Pre-tax Profit	238	159	222	261	296
Net Profit	216	144	201	237	268

Balance Sheet

Year to 31 Mar (US$m)	2008	2009	2010F	2011F	2012F
Current Assets	662	612	677	804	946
Total Assets	775	723	781	900	1033
Current Liabilities	318	278	272	314	353
Long-Term Loans	5	4	7	7	7
Shareholders' Funds	452	440	501	579	672
Total Equity & Liabilities	775	723	781	900	1033

Cash Flow

Year to 31 Mar (US$m)	2008	2009	2010F	2011F	2012F
Operating	223	185	243	275	308
Investing	(48)	(13)	(29)	(44)	(40)
Financing	(136)	(169)	(138)	(152)	(172)
Net Cash In/(Out) Flow	39	2	76	79	97
Begin Cash & Cash Equiv.	247	285	288	364	443
End'g Cash & Cash Equiv.	285	288	364	443	540

Market Commentary

Launch of CSI Cross-Straits 500 Index: Trading BUY the constituents of CSI HK 100 Index

The CSI Cross-Straits 500 Index will be launched next Monday, 18 Jan 10. According to the China Securities Index Company Limited (CSI), the CSI Cross-Straits 500 Index will comprise 500 constituents, of which 300 come from CSI 300 Index, 100 from CSI HK 100 Index, and 100 from the top 100 securities by market capitalisation in the Taiwan market.

Constituents of the CSI Cross-Straits 500 Index would be reviewed every six months. Constituent adjustments are implemented on the first trading day of January and July each year.

According to CSI, the CSI Cross-Straits 500 index will cover about 75% of the combined market capitalisation of stock markets in the three regions and about 53% of the combined trading volume.

The base date of the index is 31 Dec 04 and the base value is 1,000. The value of the index was 1,462 as of the close of 30 Dec 09, up 46.2% from the base date.

The respective Rmb-, HK$-, NT$- and US$-denominated price indices will be launched at the same time. The Foreign Exchange Rate from Thomson Reuters will be used to calculate the index value.

Short Name of CSI Cross-Straits 500 Index denominated in Rmb, US$, HK$ and NT$

Code	Short Name	Name
H11108	CSI Cross-Straits 500	CSI Cross-Straits 500 Index
H11118	CSI Cross-Straits 500 (USD)	CSI Cross-Straits 500 Index (USD)
H11128	CSI Cross-Straits 500 (HKD)	CSI Cross-Straits 500 Index (HKD)
H11138	CSI Cross-Straits 500 (TWD)	CSI Cross-Straits 500 Index (TWD)

The above index quotation could be obtained from the CSI website (www.csindex.com.cn), Thomson Reuters and Bloomberg.

Our view

Not only will the CSI Cross-Straits 500 Index be a good barometer for gauging the overall performance of the Greater China market with a combined market capitalisation of US$6463b as of 13 Jan 10, it will also serve as the basis for the development of related index products and derivatives.

Since the CSI Cross-Straits 500 Index will comprise of 100 constituents from the CSI HK 100 Index, for local Hong Kong investors, we recommend Trading BUY the constituents of CSI HK 100 Index. The table below lists the constituents of CSI HK 100 Index.

Among the constituents, we prefer HKEx (388) which would benefit from the increasing trading activities of the constituents of CSI HK 100 Index, in anticipation of funds being set up with CSI Cross-Straits 500 Index as the underlying index.

HONG KONG

Market Commentary

Analyst

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Constituents of CSI HK 100 Index

Ticker	Stock	Ticker	Stock
0001.HK	Cheung Kong	0656.HK	Fosun Intl
0002.HK	CLP Holdings	0683.HK	Kerry Prop
0003.HK	HK and China Gas	0688.HK	China Overseas
0004.HK	Wharf Hldgs Ltd	0700.HK	Tencent
0005.HK	HSBC	0728.HK	China Telecom
0006.HK	Hongkong Electri	0753.HK	Air China
0008.HK	PCCW	0754.HK	Hopson Dev Hold
0010.HK	Hang Lung Group	0762.HK	China Unicom
0011.HK	Hang Seng Bank	0813.HK	Shimao Property
0012.HK	Henderson Land	0823.HK	Link Real Estate
0013.HK	Hutchison Wham	0836.HK	China Res Power
0014.HK	Hysan Dev	0857.HK	PetroChina
0016.HK	SHK PPT	0883.HK	CNOOC
0017.HK	New World Dev	0902.HK	Huaneng Power
0019.HK	Swire Pacific	0939.HK	Constr Bank
0023.HK	Bank East Asia	0941.HK	China Mobile
0044.HK	HK Aircraft Eng	0992.HK	Lenovo Group
0054.HK	Hopewell	0998.HK	CN Citic Bank
0066.HK	MTR Corporation	1044.HK	Hengan Intl
0069.HK	Shangri-La Asia	1088.HK	China Shenhua
0083.HK	Sino Land	1109.HK	China Res Land
0101.HK	Hang Lung Ppt	1138.HK	China Ship
0127.HK	Chinese Est H	1199.HK	COSCO Pacific
0144.HK	China Merch Intl	1212.HK	Lifestyle Intl
0148.HK	Kingboard Chem	1398.HK	ICBC
0151.HK	Want Want China	1688.HK	Alibaba.com
0165.HK	China Everbright	1800.HK	China Communictn
0203.HK	Denway Motors	1880.HK	Belle Intl
0242.HK	Shun Tak	1898.HK	CN Coal Energy
0267.HK	CITIC Pacific	1919.HK	China COSCO
0270.HK	Guangdong Invest	2007.HK	Country Garden
0272.HK	Shui On Land	2038.HK	Foxconn Intl
0276.HK	Mongolia Energy	2314.HK	Lee Man Paper
0291.HK	China Resouces	2318.HK	Cn Ping An
0293.HK	Cathay Pac Air	2319.HK	Mengniu Dairy
0297.HK	Sinofert	2328.HK	PICC P C
0302.HK	Wing Hang Bank	2332.HK	Hutch Telecom
0308.HK	China Travel	2388.HK	BOC Hong Kong
0316.HK	OOIL	2600.HK	Aluminium Corp
0330.HK	Esprit Holdings	2628.HK	China Life
0363.HK	Shanghai Ind	2689.HK	Nine Dragons
0386.HK	Sinopec Corp	2777.HK	R&F Properties
0388.HK	HKEX	2899.HK	Zijin Mining Grp
0390.HK	CN Railway Grp	3328.HK	Bank of Comm
0392.HK	Beijing Ent	3368.HK	Parkson Retail
0410.HK	SOHO China	3377.HK	Sino-Ocean Land
0493.HK	GOME	3383.HK	Agile Property
0494.HK	Li & Fung Ltd	3818.HK	China Dongxiang
0511.HK	TVB	3968.HK	Merchants Bank
0551.HK	Yue Yuen Ind	3988.HK	Bank of China

Source: China Securities Index Company Limited

Corporate

PetroChina aims to more than double Tarim gas output
PetroChina Co. aims to more than double natural gas output within a decade from the country's biggest gas-producing region as domestic demand for the cleaner-burning fuel rises. Annual gas production from its Tarim fields in the northwestern province of Xinjiang may reach 50b cum by 2020, compared with 18.1b cum last year, parent company China National Petroleum Corp. (CNPC) said in a statement on its website today. PetroChina Tarim's gas output may rise to 30b cum in 2015 and 40b cum in 2018, said CNPC. *(Source: Bloomberg)*

Sector

Oil: Oil imports hit alarming level in China
China's crude oil dependency reached alarming levels last year with more than half of the country's total oil consumption coming from abroad. Figures from the General Administration of Customs show imported oil in December hit a record 21.3m tons, pushing the country's total oil imports last year to 204m tons. *(Source: China Daily)*

Airline: Chinese airlines turn profitable
China's civil aviation industry turned around with a net profit of Rmb12.2b, bolstered by booming demand for air travel. The profit marked a huge improvement for Chinese airlines after the industry posted a record Rmb28b loss in 2008. *(Source: Shanghai Daily)*

Internet: National communication integration one step closer to reality
China will speed up the unification of its Internet, telecommunications and radio and television networks. China will carry out a test run for the merger by end-12, with full completion by 2015. *(Source: Shanghai Securities Journal)*

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