Strategy | ASEAN
2011 Outlook

NOMURA
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And the ASEAN Research Team

TOP DOWN

ASEAN: four themes for 2011

Investors are increasingly thinking about Southeast Asia as an economic region, even as ASEAN hopes to create a single market by 2015. As an economic region, ASEAN boasts a collective GDP of US$1.5tn and has a combined population of 590mn. Given ASEAN's increasing population of middle-income earners and abundant natural resources, we believe its medium-term prospects are well underpinned. We see four themes that could play out for ASEAN in 2011: 1) consumption, driven by burgeoning middle-class populations; 2) infrastructure, as ASEAN governments invest to lift growth potential; 3) commodities, with which ASEAN is well endowed and from which it will benefit from rising prices; and 4) M&A, as more companies within ASEAN acquire within the region. We believe that the banks, and consumer-, commodity- and infrastructure-related stocks will benefit from these themes.

① **ASEAN – Combined GDP of US$1.5tn**

② **Theme 1: Rising middle income supports consumption**

③ **Theme 2: Lifting growth potential through infrastructure**

④ **Theme 3: ASEAN is well endowed with natural resources**

⑤ **Theme 4: More cross-border M&A within ASEAN**

Note: Southeast Asia was, during the 1500 to 1700s, the source of well sought-after spices ranging from cinnamon, cloves to nutmeg. It was the desire to control this trade that led to the colonisation of Southeast Asia.

Nomura Anchor Reports examine the key themes and value drivers that underpin our sector views and stock recommendations for the next 6 to 12 months.

Stocks for action

We focus on companies that can benefit from our pan-ASEAN themes of infrastructure, consumption, commodities and M&A.

Stock	Rating	Price	Price target
OCBC (OCBC SP)	BUY	9.94	11.80
IndoAgri (IFAR SP)	BUY	2.83	3.20
Keppel Corp (KEP SP)	BUY	10.98	13.10
Maybank (MAY MK)	BUY	8.49	10.70
Genting M'sia (GENM MK)	BUY	3.36	4.12
Sime Darby (SIME MK)	BUY	8.77	11.10
Bank Mandiri (BMRI IJ)	BUY	6,450	6,800*
PGAS (PGAS IJ)	BUY	4,350	5,100

Pricing as at 28 December 2010; * Price target under review

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And the ASEAN Research team

Don't miss our companion outlook reports on Asia and Global Economics, published 6 December 2010.

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Action

Viewed as an economic region, ASEAN has a GDP of US$1.5tn and a population of 590mn. With an increasing middle-income population and plentiful natural resources, we think four themes will play out for ASEAN — consumption, infrastructure, commodities, and M&A. We believe banks, consumer, and commodity-and infrastructure-related stocks will benefit most.

Anchor themes

- Rising middle-income populations, in addition to increasing rural incomes due to firmer commodity prices, will underpin domestic consumption in our view.
- We believe infrastructure investments in ASEAN will lift ASEAN's growth potential and facilitate the creation of a single market by 2015.

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ASEAN: four themes for 2011

① ASEAN — combined GDP of US$1.5tn

We think ASEAN's medium-term prospects are underpinned by an increasing middle-income population, abundant natural resources, and pro-growth policies. Collectively, ASEAN's GDP of US$1.5tn is ahead of both Russia's and India's.

② Theme 1: increase in middle-income population supports consumption

Our economists estimate that ASEAN's middle-class population could reach 300mn by 2014, which should underpin consumption growth. Consumer companies (Astra, QSR, F&N, Genting Malaysia) and banks (Maybank, OCBC, Mandiri) look well positioned to benefit from the consumption theme.

③ Theme 2: lifting growth through infrastructure

Indonesia is investing up to US$150bn in infrastructure to lift its growth potential, while Malaysia plans to invest up to RM58.4bn to shift towards a higher-income economy. Thailand's Thai Khemkhaeng (Stimulus Package 2) has allocated THB571bn for logistics and transportation. Material suppliers (Holcim, Siam Cement) and regional banks (CIMB, Maybank, OCBC) could benefit from the infrastructure theme.

④ Theme 3: ASEAN well endowed with resources

Indonesia, Malaysia, and Thailand are rich in agricultural and mineral resources. With commodity prices likely remaining on an uptrend, plantation and coal plays in ASEAN are beneficiaries. We like Golden Agri, Indofood Agri, Sime Darby, London Sumatra, and Adaro.

⑤ Theme 4: more cross-border M&A within ASEAN

We are likely to see increased M&A activity as ASEAN companies see acquisition opportunities within Southeast Asia. Companies that have been active on the M&A front who may continue or who have been reported to be interested in making acquisitions include F&N, DBS, PTT Group, Semen Gresik, Axiata, and Maybank.

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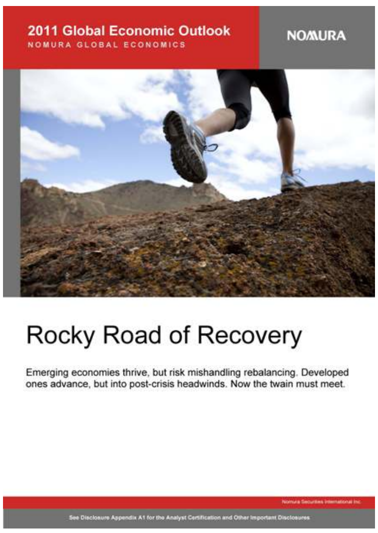
Also see our Anchor Report: Asia Pacific Strategy — *Deflation, inflation and the return of the productive economy* (6 December, 2010)

Also see our NOMURA: 2011 Global Economic Outlook — *Rocky Road of Recovery* (6 December, 2010)



Overview

ASEAN — overview

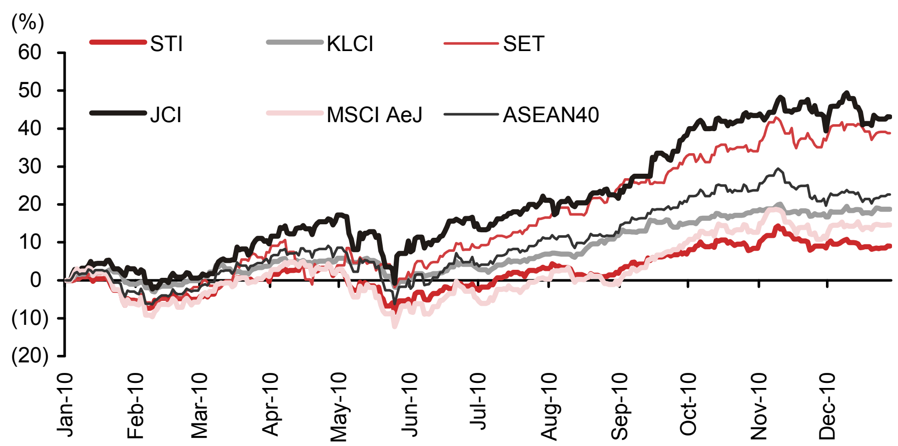
Country strategy view

Top-down regional view

Sean Darby, our Chief Asia Strategist, expects Asian equities to produce absolute returns and believes investors will revisit large-cap Asian blue chips that have lagged, as these companies will be able to manage higher costs and grow bottom-line earnings. He continues to like a barbell of both North Asia and South-East Asian stocks.

From an ASEAN perspective he believes that Malaysia provides the best balance for commodities, consumption, and monetary conditions while he finds Indonesia still expensive. He thinks that Singapore could continue to provide near-benchmark market returns in 2011, similar to 2010. (See our *Asia Pacific Strategy Outlook*, 6 December, 2010.)

Exhibit 1. ASEAN markets relative market performance – 2010



Source: Bloomberg

Our ASEAN country strategists believe that ASEAN markets can continue to show good, positive returns in 2011 even after the strong gains seen in 2010. Wai Kee Choong, our Malaysian strategist, believes that Malaysia can show more than 20% (including currency gain) returns in 2011 underpinned by strong domestic factors including favourable policies, demographics, and strong underlying earnings growth. He likes the consumption, commodities, and M&A themes for Malaysia in 2011.

Although Indonesia showed strong gains of 43% in 2010, Wilianto Ie, our Indonesia strategist, believes the JKSE can still post returns of 15-20% tracking at-least-market EPS growth. He likes the infrastructure theme, which has not been fully appreciated, and commodity plays, given the strength in prices of hard and soft commodities.

Jit Soon Lim, our Singapore strategist, expects returns of 10-15% for Singapore, supported by persistent negative real rates and loose monetary conditions. He prefers the reflation plays in Singapore eyeing banks, commodities, offshore, and office plays.

We discuss these countries later in this report.

Exhibit 2. ASEAN — country views

Country	Nomura view
Indonesia	Wilianto Ie believes that **infrastructure** and **commodities** will be key themes for Indonesia in 2011. The land-acquisition bill, which is expected to be passed in mid-2011, will be a key catalyst for the market. While building materials, contractors and toll-road companies are direct beneficiaries, the spillover effect will benefit other sectors including **banks** and **consumer** companies. In addition, rising soft and hard commodity prices will be positive for plantation and resources names in Indonesia. At the macro level, we expect GDP growth to be resilient, growing by 6.2% and 6.7% for 2011 and 2012, respectively, underpinned by domestic demand and improvement in infrastructure spending. A favourable demographic picture of an expanding middle class will reinforce domestic demand. We expect the Indonesia market to at least track 2011's market EPS growth of 20%.
Malaysia	Wai Kee Choong, our Malaysia strategist, is Bullish on Malaysia as conditions are conducive for a further rerating. Economic policies will be supportive with the recent budget promoting increased private-sector participation to boost the economy. Against the backdrop of an ongoing consumption boom driven by a younger and wealthier population, rising commodity prices, and ample domestic liquidity, we highlight three themes that will play out – consumption and asset reflation, commodities, and increased M&A activity. We like the **consumer**, **property**, **banks**, and **commodity** sectors. Our economist believes Malaysia's GDP can grow 5.2% in 2011 and 5.5% in 2012.
Singapore	Jit Soon Lim expects the Singapore market to show a 10-15% return in 2011, underpinned by continued loose monetary conditions and negative real interest rates in 2011. Valuations are still reasonable at 1.6x price-to-book and a P/E of 14x on EPS growth of 11% for 2011. Reflation will be a key driver with the **banks**, **commodities**, **offshore marine**, and **office** sectors likely beneficiaries. Although our economists see GDP growth moderating to 5.3% (15.3% in 2010), this is more sustainable given that Singapore is already growing above potential. A strong currency to moderate growth and inflation will, however, be supportive of the Singapore stock market.
Thailand	With real GDP growth almost at two-decade highs, close to record-high exports, and ongoing broad-money growth, the Thai market has been able to overcome investor fears over domestic politics. Domestic consumption has proved resilient and capacity utilisation has returned to historical trend. While tourism languishes and FDI flows remain mixed, the credit cycle has been sustainable enough to promote a consumer recovery. The stock market has benefited from a revival in domestic consumption with loan growth, housing/consumer borrowing all rising from single-digit percentages. Indeed, individual loan growth has risen at a double-digit-percentage clip despite business loan growth remaining subdued. The property market has also been buoyant with transaction volumes up over 35% in a year and prices rising by around 20%. Market valuations are still inexpensive (P/E of 12x), with an EPS growth forecast of 18% in 2011. The credit boom and rising property prices have led to some wealth effects boosting consumption. Retail sales remain firm and with the terms-of-trade positive, the rise in agriculture prices has also supported strong consumption. We expect GDP growth to ease to 4.8% in 2011 while the interest-rate normalisation process has been put on hold in the context of large-scale capital inflows and rapid appreciation of the THB. We expect the BoT to hike rates again in 2Q11.

Source: Nomura research

Thinking of ASEAN collectively

As a region, the equal of Russia or India

Investors are increasingly looking at the ASEAN market as a collective economic region. Indeed, when viewed as such, ASEAN's fundamentals and prospects look promising with a population of 590mn and total nominal GDP of US$1.5tn, comparable with Russia's and India's. As we put forth in this report, we believe the fast-growing middle class will support domestic consumption while ASEAN governments look to improve GDP prospects through infrastructure investments.

Highlighting prospects for AEC

We also draw attention to the proposed ASEAN Economic Community (AEC), which hopes to achieve a single market and production base where there will be a free flow of goods, services, investments, capital, and skilled labour. The AEC will likely strengthen ASEAN's competitiveness through greater economies of scale and efficiency. Academics have estimated that ASEAN economic welfare should rise by 5.3% or US$69bn. (See *Realising the ASEAN Economic Community*, edited by Michael Plummer and Chia Siow Yue.) Amid plans for the AEC, investors will likely view ASEAN markets collectively.

While the road to the AEC has not been smooth, given the differing stages of economic development of the member countries, ASEAN heads of state seem committed and have set up an institutional framework (ASEAN Secretariat and ASEAN Charter) and targets achieving the AEC by 2015. ASEAN, for example, has identified priority sectors for rapid liberalisation and during the ASEAN Ministerial Summit in Hanoi in November 2010 unveiled a master plan to enhance connectivity across the region. Subsequently the ASEAN Multilateral Agreement on Full Liberalisation of Passenger Air Services, extending unlimited air-traffic rights to all cities with international airports in ASEAN with full third-, fourth-, and fifth-freedom rights, was signed. These are first steps towards this vision of an AEC.

Even as the AEC is a work in progress, ASEAN member states are pursuing macro-economic policies that will sustain long-term growth, helped by favourable demographics. Indonesia, Malaysia, and Thailand also have strong resources sectors – Indonesia and Malaysia being, respectively, the largest producers of palm oil and rubber – and Thailand a key rice producer. Strong commodity prices over the past few years are raising rural incomes. Against this backdrop, we identify four themes that could have implications across the ASEAN countries in 2011 in the Exhibit below. We discuss these themes later in this report.

Exhibit 3. ASEAN themes

Theme	Implications — Nomura views	Stock picks
Infrastructure	To upgrade their economies and improve connectivity, the ASEAN countries are embarking on large infrastructure programmes. Wilianto Ie, our Indonesia strategist, likes Holcim, Semen Gresik and Indocement as potential beneficiaries on increased infrastructure investment in Indonesia. In Malaysia, Wai Kee Choong, our Malaysia strategist, likes contractors like IJM and Gamuda. We highlight Holcim, Semen Gresik, and Siam Cement as potential beneficiaries of increased cement demand across ASEAN. Banks are also proxies for the infrastructure theme as infrastructure projects need to be financed. Mandiri, CIMB, OCBC, and Maybank are potential beneficiaries.	Holcim, Semen Gresik, Siam Cement, Mandiri, CIMB, OCBC, Maybank
Consumption	Rising middle-income populations in ASEAN will drive increased consumption within ASEAN. ASEAN companies who have strong brand equity and market shares across ASEAN will benefit from the consumption theme. For example, F&N is well positioned with strong franchises across ASEAN in dairies, soft drinks, and breweries. Within Malaysia, QSR is a key consumption play, while Petrafoods has a strong chocolate confectionary franchise in Indonesia and Philippines. We think banks are also good proxies for the consumption theme, with Maybank and OCBC well positioned given their franchises in ASEAN.	F&N, QSR, Maybank, OCBC, Genting Malaysia
Commodities/ Resources	ASEAN is endowed with a strong agricultural and resource base. Indonesia and Malaysia provide 90% of the world's crude palm oil. Thailand accounts for over 30% of world's rice exports and over 30% of rubber latex production. Higher commodity prices will lift rural incomes and drive domestic consumption. We are positive on the palm oil sector as we expect the average CPO price to be sustained at RM3,000 for 2011 (vs 2,625 in 2010). We like Golden Agri and Indofood Agri which are listed in Singapore and Indonesian-listed London Sumatra. We like Sime Darby in Malaysia as a turnaround story.	Golden Agri, Indofood Agri, Lonsum, Sime Darby
M&A	Cross-border M&A across ASEAN picked up in 2010. As ASEAN becomes more integrated, companies within ASEAN are likely to look within ASEAN for potential acquisition targets. Semen Gresik is looking to acquire capacity in Malaysia while DBS is looking to expand across ASEAN. Having proposed the acquisition of Straits Resources, the PTT group may still be looking for potential acquisitions in Indonesia and may use Straits Asia as the vehicle.	DBS, Semen Gresik, Axiata, Maybank

Source: Nomura research

Our stock picks for ASEAN are summarised in the next Exhibit which incorporates our thematic and sector views.

Exhibit 4. ASEAN top picks for 2011

	Price (LCY) 28 Dec 10	Price target	Rating	P/E (x) 2011F	P/BV (x) 2011F	Yield (%) 2011F	Nomura comments
Singapore							
OCBC (OCBC SP)	9.94	11.80	BUY	12.5	1.5	3.4	Footprint in Singapore, Malaysia and Indonesia provides opportunity to tap consumption and wealth-management theme in ASEAN.
Noble Group (NOBL SP)	2.14	2.52	BUY	14.6	2.5	1.2	Upstream coal assets and additional contribution from soft commodity assets to boost earnings growth for Noble.
Indofood Agri (IFAR SP)	2.83	3.20	BUY	13.8	2.0	0	Strong leverage to CPO price strength and higher growth from its large immature areas.
Fraser & Neave (FNN SP)	6.46	7.24	BUY	14.9	1.4	2.6	Well-entrenched F&B footprint in ASEAN with strong brand equity. Expanding across ASEAN with Indonesia providing good long-term potential.
Keppel Corp (KEP SP)	10.98	13.10	BUY	15.8	2.5	3.4	Recovery in oil price and rig orders to support re-rating. Property earnings to remain steady while infrastructure sees expansion as new projects are added.
Malaysia							
Maybank (MAY MK)	8.49	10.70	BUY	13.6	2.0	4.4	Visible consumer franchise in Malaysia, well-positioned to ride the consumer spending boom.
CIMB (CIMB MK)	8.55	10.00	BUY	13.7	2.2	1.4	Positioned to benefit from buoyant capital markets in 2011 against a backdrop of positive GDP growth and ample liquidity in Malaysia/SE Asia.
Sime Darby (SIME MK)	8.77	11.10	BUY	14.1	2.2	3.9	Rising CPO prices should underpin earnings; Sime Darby's non-plantations business also enjoys a healthy outlook from exposure to strong Asian economic performance.
Genting Malaysia (GENM MK)	3.36	4.12	BUY	14.2	1.6	1.9	GENM should see organic growth, with meaningful contributions from the newly acquired UK and US operations kicking in from 2H11.
Axiata (AXIATA MK)	4.71	5.90	BUY	13.1	1.7	3.4	Positive earnings growth led by XL, potential upside to Celcom's data growth and possible upside surprise on margins, driven by continued cost-saving initiatives.
Indonesia							
Bank Mandiri* (BMRI IJ)	6,450	6,800	BUY	14.4	2.6	2.4	Proven management, sector-leading scale and robust operating ratios leave it best-positioned to leverage off Indonesia's steadily broadening macro-economic momentum.
PGAS (PGAS IJ)	4,350	5,100	BUY	14.3	5.4	3.6	PGN is ideally positioned to benefit from a marked lift in domestic-gas utilisation over the medium term. Also PGN is the least-expensive stock in the Asia-Pacific midstream gas space.
London Sumatra (LSIP IJ)	12,350	14,650	BUY	12.9	3.3	3.5	Key beneficiary of strong soft-commodity prices (palm oil and rubber) given its pure exposure to upstream agri. Reasonable valuation with strong balance sheet.
Indosat (ISAT IJ)	5,150	7,000	BUY	14.2	1.5	1.6	We remain optimistic on Indosat's ability to improve its operational performance further, in terms of revenue share and cost reduction.

* Price Target under review

Source: Bloomberg, Nomura research (Visit www.nomura.com/research for PT methodology and risks of individual stocks)

ASEAN sector views

We are positive on ASEAN commodity plays, with Ken Arief Wong bullish on crude palm oil equities. Sachin Gupta is less positive on ASEAN telcos given slow growth prospects but Indonesian telcos still show growth potential. On ASEAN utilities, Daniel Raats likes Thai power play GLOW and PGN in Indonesia. In the Philippines, he prefers thermal energy play EDC. For ASEAN banks, Anand Pathmakanthan likes OCBC and Maybank for their exposure to the growth potential in ASEAN. In Indonesia he likes Bank Mandiri as a play on infrastructure and consumption in Indonesia. Detailed sector views can be found on pages 48 to 74.

Exhibit 5. ASEAN sector views — Banks, Commodities, Telcos and Utilities

Sector	Sector views — Nomura	Stock picks
Bullish		
Banks	With S$ interest rates remaining low until 2012 and provisioning levels normalising in the 10-40bps range, **Anand Pathmakanthan** forecasts average EPS growth of 13% for the banks in FY11. Ability to grow higher-margin offshore assets aggressively and drive NIM-supportive balance sheet trends will be keys to mitigating NIM drag. Valuations are attractive with P/B below historical means, P/Es just above 10x and dividend yield averaging 5%. **OCBC** with its scaled-up ASEAN platform and wide, tangibly synergistic product base is our pick for Singapore. **Julian Chua** expects 2011 to be another strong year for Malaysian banks given strong household balance sheets and a buoyant economy. Competition will stay intense (especially in mortgages and auto lending) but we expect a 50bps increase in OPR to support overall NIMs. Julian sees bright prospects for the domestic capital markets in 2011 on a healthy pipeline of bond issuance and M&A. Julian expects 11% sector EPS growth for FY11F on 13% growth in pre-provision earnings. Julian likes **Maybank**, which is well positioned to ride the consumer boom, and **CIMB**, the country's leading investment bank. In Indonesia, the combination of strong fiscal credentials, steady monetary policy and stable politics that were the tailwind for Indonesian asset-price outperformance should remain in 2011. Banks will continue to benefit with new sources of loan demand and fee-income generation emerging even as credit quality and efficiency improve. With infrastructure financing set to be a key driver, we recommend a basket of state-owned banks anchored by Mandiri (macro proxy, infra exposure) with BNI (valuation play) and Rakyat (rural income growth). Anand expects **Thai** banks to report strong earnings growth, averaging 20% over FY10F-12F, as all P&L drivers show moderate but collective expansion. However, valuations appear to reflect this already, having surpassed pre-crisis records despite underlying political uncertainty and lack of capex cycle traction. The best visibility is in consumer finance and the overseas funding of Thai corporates, underscoring well-positioned and aggressive SCB as our top pick in Thailand.	OCBC, Maybank, Mandiri, SCB
Commodities	**Ken Arief Wong** is bullish on the ASEAN palm oil sector on CPO price assumption upgrades of 5-20% for 2011-12F. Tighter supply/demand fundamentals for vegetable oils, higher crude-oil prices (Nomura expects US$95/bbl in 2011), and increased fund flows into the commodities space should provide support for higher CPO prices (and lead to P/E expansion). He prefers Singapore-listed GGR and IFAR for their high leverage to CPO price strength and strong CPO production growth, Sime Darby on the likelihood of internal improvements post write-downs, and London Sumatra on attractive valuations and sustainable practices. **Tanuj Shori** is positive on the midstream space driven by company-specific catalysts. He likes Noble, as he believes it is most exposed to bullish commodity markets and can surprise on earnings. He is also positive on Olam as its asset picks continue to surprise (urea deal in Gabon), and further M&A can act as a catalyst. We also like Mewah due to its cheap valuation, economies of scale, and exposure to Africa.	Golden Agri, Indofood Agri, Sime Darby. London Sumatra, Noble
Neutral		
Telco	**Sachin Gupta,** Head of Regional Telecoms, expects that 2011 will be another difficult and volatile year for ASEAN telcos. He prefers Indonesia, Malaysia, and Thailand, while Singapore and the Philippines should be avoided. He likes Indonesia because of its relatively appealing growth along with relatively benign competitive and regulatory risks. For Malaysia, he likes the emerging data growth story, along with a stable 3-6% yield. Thailand is likely to see stable operational trends, while the ~10% yield is a key appeal (excluding True). In Singapore, he expects much higher competitive pressures in broadband and wireless, which is also likely to be the case in the Philippines. Key themes: 1) data growth and its impact on profitability, 2) revenue diversification into non-carriage businesses, and 3) changes to capex/ dividends. His key stock picks are Indosat, M1, and XL based on a mix of valuations and earnings upside – 29% total returns on average.	M1, Axiata, Indosat
Utilities	**Daniel Raats** is bullish on gas- and power-market fundamentals in Indonesia and the Philippines, with PGN and EDC as his top picks. He has also turned more positive on Thai IPPs, where Glow remains his top pick. Wedged monopolistically between easing domestic and international gas/LNG supply constraints and outstanding natural-gas demand fundamentals within Indonesia, he views PGN as the perfect mix of defensiveness and growth, ideally positioned to benefit from what he thinks will be a marked lift in domestic gas utilisation over the medium term. Also PGN is the least-expensive stock in the Asia-Pacific midstream gas space. EDC is a vertically integrated market leader in geothermal energy production, and is well positioned to benefit from a secular lift in geothermal utilisation both within the Philippines and in other resource-rich locales, such as Indonesia, which, with ~27GW (c.40% of global geothermal reserves) of unexplored resources, he believes is a potential game-changer for the industry. Thailand's pre-January 2011 small power producer (SPP) capacity awards should add spark to the sector, while a strong rebound in demand and healthy consumption prospects bode well for medium-term capacity growth and PPA renewal prospects. Glow is his top pick as its capacity-driven 25% three-year EPS growth has not been fully priced in.	PGN, EDC. Glow

Source: Nomura research

ASEAN economics views

Prospects, challenges, and responses

Concrete pillars of growth in ASEAN

Our economists, Yougesh Khatri and Euben Paracuelles, hold constructive views about the 2011 growth prospects for ASEAN economies but see inflation and capital inflows as key policy challenges. Supportive macro policy, pent-up demand for electronics, robust regional and emerging market demand (particularly China), and inventory rebuilding contributed to ASEAN's breakneck recovery from growth of 1.5% in 2009 to 7.5% in 2010, such that most countries are at or above their potential (trend) levels of output. Our forecast of growth slowing to 5.8% in 2011 (which is still above consensus) reflects the high 2010 base and a return to a more sustainable output path. ASEAN countries are open and are thus particularly vulnerable to another global downturn (which is not our baseline but is a key risk). We believe ASEAN countries can continue along their trend output paths despite subpar G3 growth as they rebalance towards domestic demand (stronger currencies and low interest rates will contribute but more important is the fast-growing middle class and the increased focus on infrastructure and social safety nets) and increasing links with China and other emerging markets.

But rapid changes, even for the better, bring their own challenges

The rapid ascent of Asia is creating to two interrelated challenges for the region – namely surging commodity prices and surging capital flows. We expect commodity (particularly food) prices to continue to increase for structural reasons (see *The coming surge in food prices*, 13 September, 2010), which would hit ASEAN's headline inflation hard given the large share of food and fuel in CPI baskets. Demand-side inflation pressures are also expected to build in 2011 as capacity constraints bite. Also related to the higher growth (and interest-rate) differentials with advanced economies and strong fundamentals, ASEAN countries are attracting large net capital inflows. Capital inflows have contributed to fairly sizable appreciations in ASEAN currencies during 2010 and central banks – concerned about the pace of appreciations – have been actively intervening. The cost of mopping up the liquidity associated with reserve accumulation is high for most ASEAN countries and there has been a proliferation of the use of capital controls and macro-prudential measures in Asia (see our special report, *The case for capital controls in Asia*, 4 November, 2010). Monetary policy normalisation in ASEAN has likely been constrained by the prospect of rate hikes leading to greater capital inflows. This increases the risk of monetary policy falling behind the curve in the region, and this does not bode well for the inflation outlook. (See pages 24 to 35 for commentaries on the economic outlook for the ASEAN countries.)

Exhibit 6. ASEAN – key economic forecasts for 2011

	Singapore	Malaysia	Indonesia	Thailand	Philippines
GDP growth – 2010 (%)	15.5	7.0	5.9	7.7	7.0
GDP growth – 2011 (%)	5.3	5.2	6.5	4.8	5.4
Unemployment (%)	1.7	3.1	na	1.4	6.5
CPI (%)	3.2	3.3	6.6	4.2	5.0
Current account balance (% of GDP)	15.7	14.6	0.8	1.8	4.0
Fiscal balance (% of GDP)	0.8	(5.3)	(1.7)	(2.3)	(3.0)
Interest rate (%)	0.40	3.25	7.5	2.75	5.25
Exchange rate (vs USD)	1.22	2.88	8520	27.8	40.9

Source: Nomura Global Economics

Main themes

ASEAN themes

Theme 1: Infrastructure

Infrastructure has a big impact on a nation's ability to create and sustain a long-term competitive advantage. A ranking of the level of infrastructure development by the Asian Development Bank Institute shows that the Malaysia, Thailand, and Indonesia did not show material changes from 2000 to 2005.

Exhibit 7. Ranking of key ASEAN countries according to level of infrastructure development

	1991		2000		2005	
Country	Index	Rank	Index	Rank	Index	Rank
US	25.96	1	22.95	1	20.66	1
Japan	16.28	5	18.65	4	18.58	2
Singapore	15.73	6	20.11	2	17.66	3
Malaysia	5.10	37	8.65	27	9.21	29
Thailand	4.17	43	5.48	38	5.89	42
Vietnam	0.91	92	1.85	75	3.27	61
Indonesia	**2.23**	**69**	**2.74**	**63**	**3.21**	**62**

Index= Research and Information System for Developing Countries Infrastructure Index (RII) where RIIit=RIS Infrastructure Index of the i-th country (104 countries) in t-th time (namely, 1991, 2000, 2005), Wjt=weight of the j-th aspect of infrastructure in t-th time, and Xjit=value of the j-th aspect of infrastructure for the i-th country in the –th time point. Each of the infrastructure variables is normalised for the size of the economy so that it is not affected by the scale. The Wjt are estimated with the help of principal component analysis (PCA). The aspects of infrastructure covered in the construction of the composite index are transport infrastructure, ICT infrastructure, Energy infrastructure and Financial Infrastructure

Source: Asian Development Bank Institute (May 2009)

Room for more investment

As Yougesh Khatri our ASEAN economist points out, the investment-to-GDP ratios in most ASEAN countries are in his view too low, suggesting that investments are likely to increase especially in an environment of low interest rates and strong capital inflows and ambitious infrastructure plans in the region.

Wide infrastructure build-out in the offing

Even as competition from other countries increases, it is important that the ASEAN countries start to refocus on improving their infrastructure. Fortunately, the governments in ASEAN recognise this and are responding. Malaysia has announced a long-term economic plan to transform the country and this would entail infrastructure spending totalling RM58bn over 2011 to 2015. In Jakarta, the government has increased the allocation of infrastructure development (ie, the budget allocated to the Ministry of Public Works) from 4.6% in 2010 to 6.9% in 2011, representing a 57% y-y increase to Rp56.5tn. Meanwhile, a land-acquisition bill is being tabled in Parliament to facilitate the acquisition of land for infrastructure developments. Thailand and the Philippines are also embarking on projects to improve their basic infrastructure. These investments also tie in with the broader vision of ASEAN to enhance connectivity through investments in infrastructure, ie, roads, rail links, ports, and airports. ASEAN has mooted the idea of an ASEAN infrastructure fund that could spur public- and private-sector participation in the development of infrastructure, especially in Indonesia and Thailand.

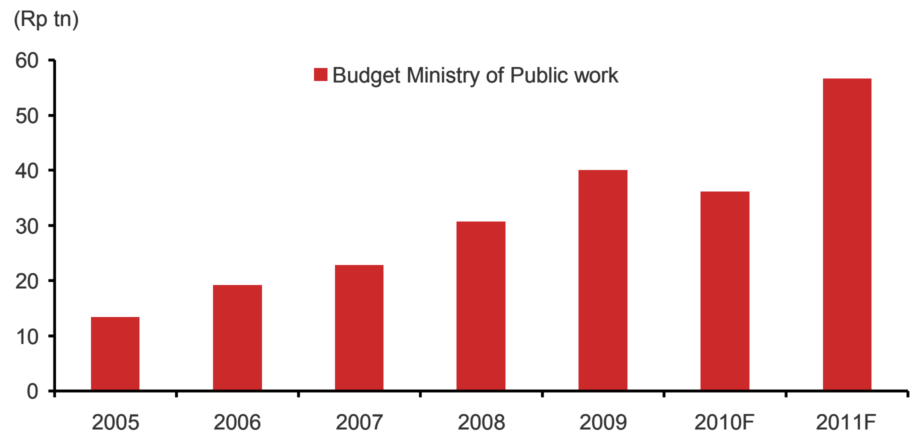
Exhibit 8. Proposed infrastructure spend in ASEAN

Country	Infrastructure spending
Indonesia	Indonesia government targets over Rp1.4tn (~US$150bn) of infrastructure investments through 2014, two-thirds of which is to be raised through the private sector.
Malaysia	Under the 10th Malaysia Plan (2011~2015), the Malaysia government is allocating about RM58.4bn (~US$19bn) for various infrastructure projects, including MRT in Greater KL and various PPPs.
Thailand	Under the Thai Khemkhaeng 2555 (Strong Thailand 2012) fiscal stimulus program, the government aims to spend a total of Bt1.4tn (~US$43bn) and focuses on infrastructure projects and investments in agriculture, education and health.
Philippines	Under the Comprehensive and Integrated Infrastructure Program (CIIP), the Philippine government aims for Php3,326bn (~US$76bn) of infrastructure spending over 2009~16, of which PHP400bn is expected to come from PPP.

Source: Nomura research

Indonesia

Exhibit 9. Government infrastructure spending



Source: Ministry of Finance

Wilianto Ie, our Indonesian strategist, believes that the proposed land-acquisition bill (expected to be approved by 1H11) will help accelerate infrastructure projects in Indonesia by facilitating more speedy land acquisition and allow infrastructure projects to proceed. The impact will likely be felt beyond the toll roads, railroads, and flood canals that currently face problems related to land acquisition. Other infrastructure projects such as seaports, airports, and power plants are also likely to benefit as they need road access and transmission grids to be feasible. Wilianto Ie believes that the passage of the bill will help the government meet its infrastructure development target of US$140bn over the next five years.

Toll road operators stand to gain

The potential beneficiaries of increased infrastructure spending are toll road operators **Jasa Marga** (JSMR IJ) and **Citra Marga** (CMNP IJ), and to a lesser extent **Astra International** (ASII IJ), which has continued to express interest in participating in Indonesian infrastructure projects. He notes that listed contractors have relatively small market caps (US$100-500mn), with Wijaya Karya (WIKA IJ) and Adhi Karya (ADHI IJ) being the more liquid names. The building material companies like **Krakatau Steel** (KRAS IJ), cement company **Holcim Indonesia** (SMCB IJ), Semen Gresik will likely be direct beneficiaries as well. Other potential spin-offs identified by Wilianto Ie:

Exhibit 10. Indonesia – indirect impact from infrastructure spending

Sector	Potential Impact – Nomura view	Stocks affected
Banks	Government owned banks are likely to be in the forefront of financing the infrastructure projects, ie, Bank Negara Indonesia, Bank Mandiri.	BNI, Mandiri
Property	An indirect beneficiary of improved infrastructure is the property sector as improved infrastructure creates better accessibility, and in the process improves land values.	Bumi Serpong Damai, Lippo Karawaci
Consumer	Logistics is a major barrier for modern retailers to penetrate deep into smaller towns. Acceleration of infrastructure projects will help reduce logistics costs, improve movement of goods, and thus help ease inflationary pressure in the long run. It will likely also introduce competition in the regions currently dominated by strong consumer companies with deep distribution networks, such as **Unilever Indonesia** (UNVR IJ), **Indofood** (INDF IJ), and the major cigarette companies.	

Source: Nomura research

Malaysia

Under the New Economic Plan and in conjunction with the 10th Malaysia Plan, the Malaysian government announced an ambitious RM230bn plan to shift Malaysia towards a high-income and high-productivity economy by 2015 with a target per-capita income of US$12,140. (See *Comprehensive but not unexpected*, 12 June, 2010)

Exhibit 11. Development expenditure under 10th Malaysia Plan

Expenditure	Amount (RMmn)
52 High-impact projects	62,700
Infrastructure	23,400
Facilitation fund for strategic projects	20,000
SMEs (WCGS)	10,000
Venture capital	5,150
Education	5,276
Crime	4,950
Workforce training	1,658
Environment	1,500
Healthcare	1,237
Government Services	850
Housing and welfare	689
Other development expenditure	92,591
Total	**230,000**

Source: Economic Planning Unit, Nomura research

To kick off its economic plan, the government announced in its 2010-2011 budget in October 2009, with development expenditure totalling RM58bn including plans to build a mass rapid transit rail project in the greater KL area. We believe these infrastructure projects will benefit contractors in Malaysia like Gamuda and IJM.

Exhibit 12. Infrastructure and development budget under 2010-2011 budget

Projects	Amount (RMmn)
MRT Project	
The Mass Rapid Transit (MRT) in Greater KL (Klang Valley). This project, with an estimated private investment of RM40bn, is expected to start in 2011 and to be complete by 2020.	40,000
Public-Private Partnership Initiatives	
The government will intensify the Public-Private Partnership (PPP) initiatives. Several PPP projects identified under the 10th Malaysia Plan will be implemented in 2011 through private investment of RM12.5bn. Among the PPP projects are:	12,500
Ampang-Cheras-Pandan Elevated Highway; Guthrie-Damansara Expressway; Damansara-Petaling Jaya Highway; Pantai Barat-Banting-Taiping Highway; Sungai Dua-Juru Highway; and Paroi-Senawang-KLIA Highway.	
Corridor and Regional Development	
The government allocates RM850mn in infrastructure support for infrastructure around regional corridors including:	850
RM339mn for Iskandar Malaysia for highways, housing and improving public transportation;	
RM133mn for Northern Corridor Economic Region (NCER), including development of an Agri Products Processing Centre, Tourism Infrastructure and Biotech Incubator Centre; and,	
RM93mn for Sarawak Corridor of Renewable Energy (SCORE), including waters supplies, telecommunication, airport and roads. For the Sabah Development Corridor, RM110mn budgeted for the palm oil industry, agro-industrial precinct and integrated farming centre.	
Total	**58,350**

Source: Budget 2011

Singapore

Exhibit 13. Singapore budget 2010 – key development expenditure (annual)

Area	(S$bn)	Remarks
Healthcare	0.64	Upgrade works for restructured hospitals, redevelopment of SGH Pathology building, development of National Electronic Health Record system and the construction of new nursing homes and community hospitals
Education	1.06	Includes building and expanding schools for implementation of single-session primary schools, ITE's third regional campus and NUS University Town
Transport	4.50	64% earmarked for rail transport projects (Circle Line, Jurong East Modification, the Downtown Line); remainder for construction of Marina Coastal Expressway, road improvement works, development of bus interchanges, among others

Source: Singapore Government

Singapore plans to spend S$4.5bn

Improving and upgrading infrastructure has always been a key policy by the Singapore government to improve productivity and maintain competitiveness. In its 2010 budget, the Singapore government allocated S$4.5bn for transport infrastructure. In addition it announced plans to spend S$60bn over the next 10 years to improve Singapore's rail network, doubling the current network to 280km, with the addition of three rail lines, ie, the Downtown Line, the Thomson Line, and the Eastern Region Line.

Thailand

Under the Thai Khemkhaeng (TKK project) or Stimulus Package II worth THB1.43tn, the Thai government hopes to invest in infrastructure development, especially in the rural sector and targeted at increasing agricultural land, flood-alleviation schemes, paved roads, and developing schools and hospitals. The major projects in SPII programmes will comprise 106km of double-track railways, six mass-transit lines in Bangkok and its periphery, the highway expansion and maintenance (4,200km) projects, new IPP (Independent Power Producer) and SPP (Small Power Producer) projects, as well as irrigation expansion and maintenance projects.

Exhibit 14. Thai Khemkhaeng project

	Stimulus Package II (2009-2012)	THBbn	% share
1	Logistic & Transportation	571.52	39.9
2	Water resource management	238.52	16.7
3	Energy and alternative energy	205.81	14.4
4	Educational human-resource development	137.97	9.6
5	Public-health infrastructure development	99.40	6.9
6	Community development	91.71	6.4
7	Communication	24.81	1.7
8	Creativity economy	17.59	1.2
9	Science and technology	12.13	0.8
10	Tourism infrastructure development	10.03	0.7
11	Tourism	8.51	0.6
12	Social welfare	8.48	0.6
13	Natural resources and environment	4.86	0.3
	Total	**1,431.33**	**100.0**

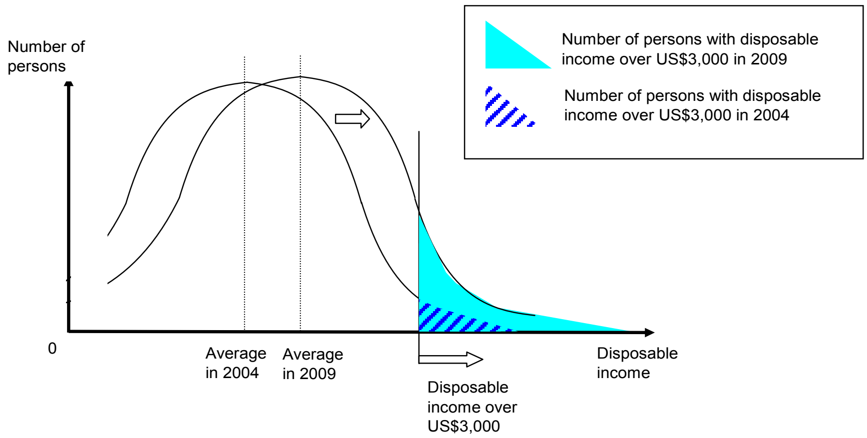
Source: MOF, Chodechai Suwanaporn, 'Government's "Thai Khemkhaeng" plan has a lot of potential' (8 September, 2009)

From an ASEAN perspective, regional banks, contractors and material suppliers could benefit from ASEAN trade and investment under this theme. We believe regional banks like OCBS, UOB, CIMB, and Maybank may be able to participate in financing infrastructure projects across ASEAN especially if they are funded by supranational agencies. Building material suppliers such as Holcim or Semen Gresik may have access to a larger market outside Indonesia.

Theme 2: Middlisation of ASEAN — ASEAN's growing middle class

Tomo Kinoshita, Deputy Head of Asian Economics, analysed the improving demographic profile of Asia highlighting the increasing population of the middle-income group in Asia supported by strong economic growth, currency appreciation, strong savings, and access to credit. This shift in middle income as a result of economic growth creates a growing population of people on middle incomes. He termed this trend "the Middlisation of Asia".

Exhibit 15. Burgeoning middle income as income rises



Source: Nomura Global Economics

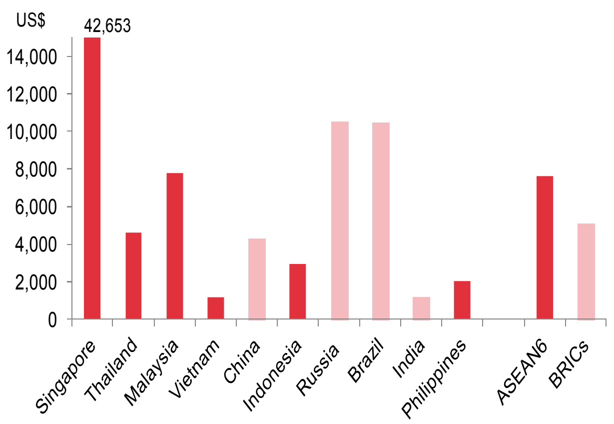
Much of ASEAN can now start to spend on domestic consumption

As these economies grow and reach their per-capita threshold, we see a pattern of strong domestic consumption as people start to consume to improve their quality of life. Indeed similar work done by the Asia Development Bank points to a virtuous cycle of a rising middle class supporting economic development and sustaining political stability. (See *The Rise of Asia's Middle Class*, ADB, 2010.)

ASEAN considered on its own is just shy of Brazil's figure in GDP terms, and has higher per capita income than BRIC as a whole

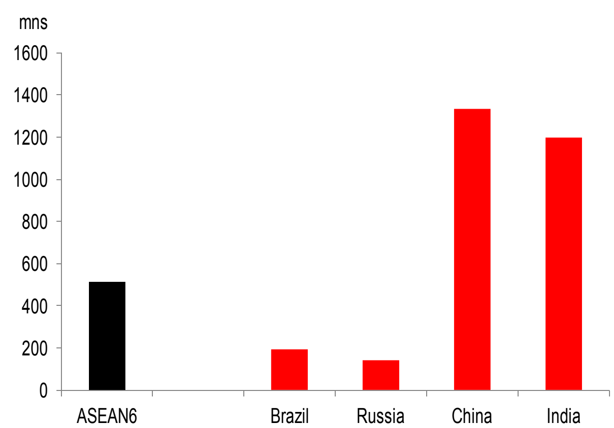
Within Asia, the ASEAN countries have the characteristics that support a growing middle class. Indeed, viewed as an economic bloc, the fundamentals of ASEAN are impressive. For example, the combined economies of ASEAN have a total nominal GDP of US$1.5tn, comparable to Russia's and India's and just 5% smaller than Brazil's. The average per-capita income for ASEAN is higher than that for the BRIC countries.

Exhibit 16. Per capital GDP: ASEAN vs BRIC



Source: CEIC, Nomura estimates

Exhibit 17. Population: ASEAN vs BRICs



Source: CEIC, Nomura estimates

Vibrant demography, too

In terms of demographics, ASEAN has a combined population of 590mn which is larger than Brazil's and Russia's combined. More importantly, the average population is young, and the middle class is growing fast as income levels improve.

Defining the middle class as households with a disposable income of US$3,000 and above per year, Tomo Kinoshita has studied the growing middle-class phenomenon in Asia and points to the "middlisation" of the populations in Asia.

Exhibit 18. Burgeoning middle income as income rises

US$3000 criteria

(millions)		2004	2009	2014
India	Urban area	na	26.0	147.7
	Rural area	na	na	82.1
China	Urban area	43.9	307.9	504.9
	Rural area	na	0.4	108.8
Indonesia	Whole economy	1.6	50.4	149.7
Thailand		21.0	32.9	39.9
Korea		41.9	45.0	46.9
Taiwan		22.4	22.6	23.0
Hong Kong		5.2	5.2	5.5
Malaysia		14.7	21.3	27.0
Philippines		3.0	20.3	47.7
Singapore		3.7	3.9	4.3
Vietnam		na	1.8	28.4
Japan		127.7	127.7	126.7
Asia ex-Japan		157.3	537.7	1,215.7

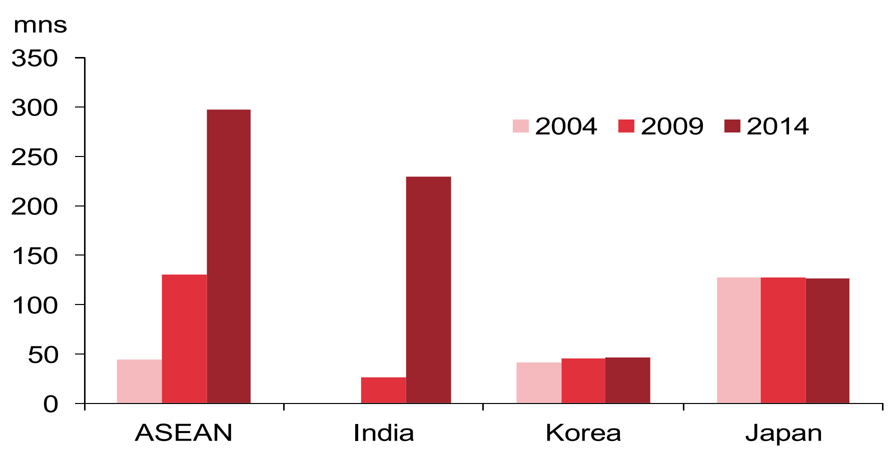
US$5000 criteria

(millions)		2004	2009	2014
India	Urban area	na	na	71.7
	Rural area	na	na	na
China	Urban area	na	150.4	414.2
	Rural area	na	na	5.5
Indonesia	Whole economy	na	9.9	96.3
Thailand		6.4	22.4	35.8
Korea		37.2	42.1	45.9
Taiwan		21.4	21.9	22.7
Hong Kong		4.9	5.0	5.4
Malaysia		4.0	12.2	22.9
Philippines		0.0	3.4	27.4
Singapore		3.5	3.8	4.2
Vietnam		na	na	5.9
Japan		127.7	127.7	126.7
Asia ex-Japan		77.4	271.1	757.7

Source: Nomura Global Economics, CEIC

In the case of Thailand, Tomo Kinoshita estimates that the middle-income population will increase by 7mn, or 21%, from 2009 to 2014. Similarly, Indonesia had only 1.6mn people defined as having an annual disposal income of US$3,000 in 2004. By 2009, that number had increased to 50.4mn and is expected to rise to 150mn by 2014. In other words, the ASEAN countries of Indonesia, Thailand, Malaysia, and the Philippines are expected to undergo significant expansion of their middle-income populations. He predicts the middle class in ASEAN will expand significantly to 300mn by 2014 despite the strong growth seen over the past five years.

Exhibit 19. Growing middle class: ASEAN, India, Korea and Japan

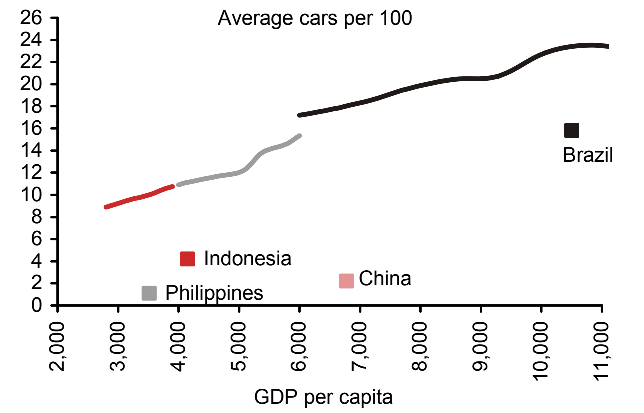


Source: Nomura Global Economics (middle class defined as number of people in the household where per-person annual income was above US$3,000)

This burgeoning middle class will have significant implications for demand for goods and services, ie, housing, consumer durable products, financial and healthcare services.

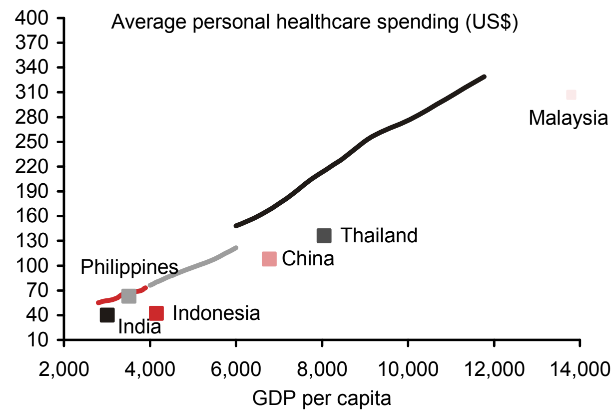
Work done by our strategy team suggests that when countries reach a per-capita income of more that US$3,000 they experience a demand curve for goods and services. This is a key reason supporting our consumption theme for ASEAN, ie, a rising middle-income group driving consumption.

Exhibit 20. Demand for cars



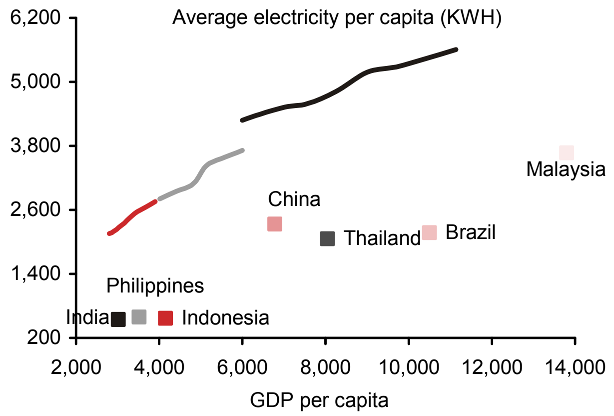
Source: Nomura research

Exhibit 21. Demand for healthcare



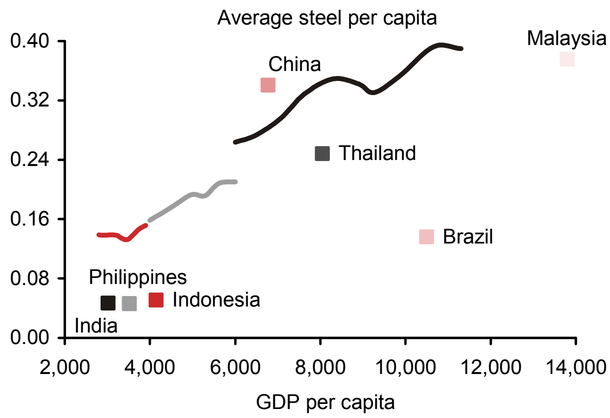
Source: Nomura research

Exhibit 22. Demand for electricity



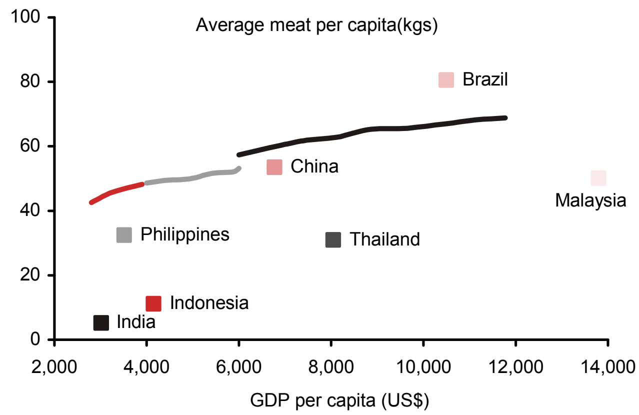
Source: Nomura research

Exhibit 23. Demand for steel



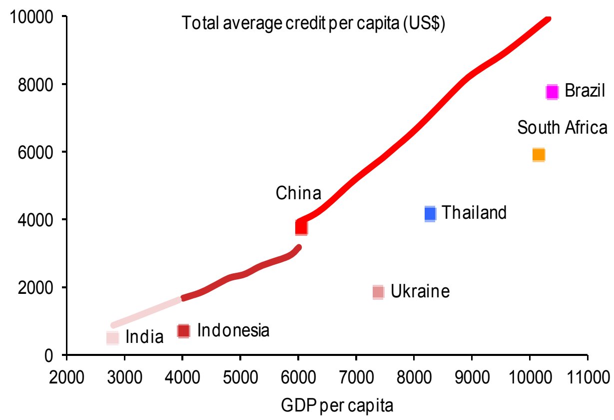
Source: Nomura research

Exhibit 24. Demand for meat



Source: Nomura research

Exhibit 25. Demand for credit



Source: Nomura research

Note: GDP per capita based on purchasing-power-parity (PPP) per capita GDP (source: IMF)

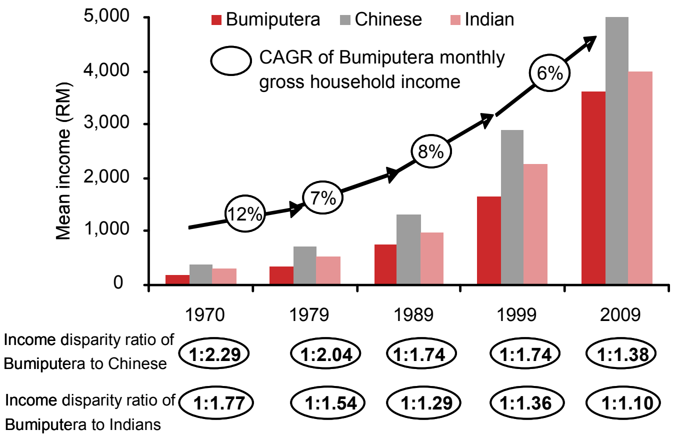
Wai Kee Choong, our Malaysian strategist, believes that strong demographic trends in Malaysia will support strong consumption in Malaysia. For example, Malaysia's population has doubled to 28mn over the past 30 years, growing at an average 2.4% pa. More importantly, given a relatively high birth rate, Malaysia has a young population base, with 50% of the population under the age of 25 years and 73% below the age of 40. The young population tends to consume more and is a key driver of consumption growth, in our view. The young population profile and high rate of household formation (2% pa growth) also feeds into demand for mortgages and car financing.

Some 50% of the population is under the age of 25

After 20 years of robust economic growth and development, not only has GDP per capita risen at a healthy pace, income levels are also more evenly distributed than they were in 1990. Some 55% of households now earn at least RM2,500/month, compared with 60% of households earning less than RM1,000/month in 1990. This has given rise to a bigger middle-income group and a meaningful bankable population.

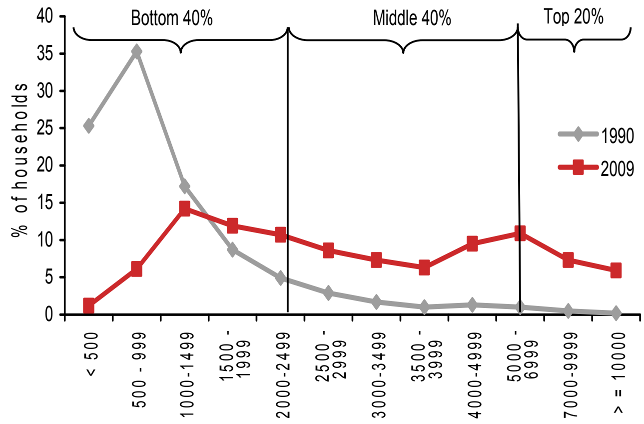
A growing middle class means a meaningful bankable population

Exhibit 26. Malaysia: mean monthly gross household income 1970-2000 (RM)



Source: 10th Malaysia Plan

Exhibit 27. Malaysia: distribution of households by income 1990, 2009 (%)



Source: 10th Malaysia Plan

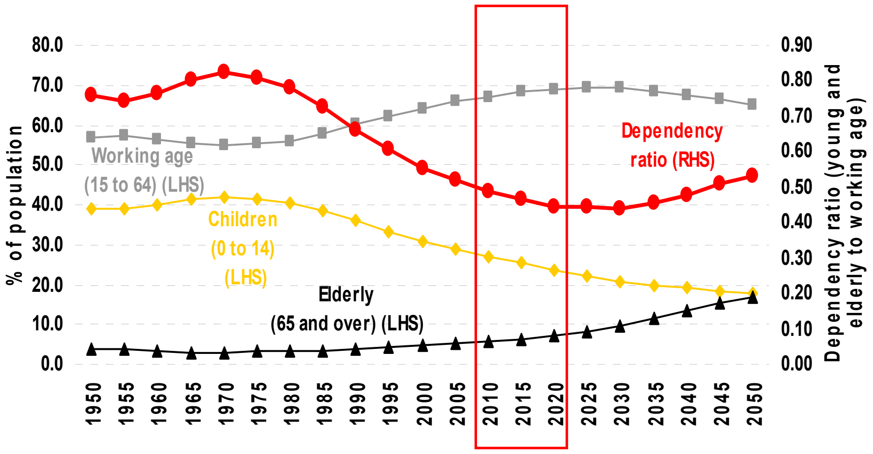
This burgeoning middle class is a source of strong domestic consumption. Wai Kee Choong prefers the consumer plays like QSR and the banks, such as Maybank, AMMB, and AFG for exposure to the consumption theme in Malaysia.

In Malaysia, banks well leveraged to consumption

We believe Singapore banks with exposure to Malaysia like OCBC and UOB are also positioned to tap consumption growth in Malaysia. Fraser and Neave, via its 57%-owned subsidiary F&N Holdings, has a dominant soft drinks and dairies franchise in Malaysia and is well positioned to benefit from Malaysia's consumption story.

Wilianto Ie, our Indonesia strategist, reiterates the consumption theme in Indonesia, given its large population base of 237mn people and its favourable demographics. He highlights that Indonesia's dependency ratio (ie, the non-working age to working age population ratio) has been declining and is likely to continue to fall in the next decade due to its young population.

Exhibit 28. Falling dependency ratio



Source: World Bank, Statistics Indonesia, UN

Against this backdrop of a burgeoning middle class, the consumption theme is likely to be a recurring theme. Consumer companies like Astra International and banks will be key beneficiaries of this consumption story, in our view.

Naturally, consumer themes are leveraged into discretionary spending

Looking from a regional context, we note that the companies within ASEAN that have been able to benefit from this broader consumption trend are F&N and Petrafoods and the regional banks such as CIMB, Maybank, OCBC, and UOB.

Likewise are the more powerful regional banks

As ASEAN becomes more integrated economically, more companies in ASEAN countries should have business interests spanning the ASEAN region. Asia Pacific Breweries is an example of a consumer company that is already well entrenched across ASEAN with a presence in Singapore, Malaysia, Thailand, and Indonesia.

Theme 3: Agriculture and resources

Broad-base of commodities back local economies

ASEAN is endowed with a strong agricultural and resource base. Indonesia and Malaysia together supply 90% of the world's crude palm oil. Thailand accounts for over 30% of the world's rice exports and over 30% or rubber latex production. In terms of resources, Indonesia contributes 32% of the world's thermal coal exports.

This is where nearly all the world's palm oil comes from

A key driver for Malaysia and Indonesia is the stronger crude oil palm price outlook in 2011. Our regional palm oil analyst believes that the average CPO price is likely to be more than RM3,000 per tonne in 2011 and beyond compared with the average of RM2,625 in 2010. Against this backdrop he likes the palm oil plays, with the more attractively priced players listed in Singapore and Indonesia. He likes Golden Agri and Indofood Agri in Singapore and London Sumatra in Indonesia. In Malaysia, Ken prefers Sime Darby.

Our Indonesia and Malaysian strategists agree and believe that commodity and resources will be a key theme for both countries in 2011.

Impact on Indonesia

It may not come readily to mind, but Indonesia supplies a third of the world's thermal coal

Wilianto Ie notes that a combination of higher volumes and higher prices will likely benefit Indonesian commodity firms in 2011F. Indonesian coal companies, for example, missed some production targets in 2010 due to heavy rains. In addition, poor weather raised the cost of logistics and production. However, normalised weather conditions in 2011 should prompt a recovery in production and an easing in cost pressure. (See *Indonesia strategy – Key themes for 2011*, 23 November 2010.)

Similarly, palm oil companies have also seen lower production and yields due to fruit evacuation problems (poor road conditions), difficulties in implementing fertilising programmes (difficult access, rain washing away fertiliser), and reduced pollination causing below-normal harvests in 2010. On the other hand, the heavy rains have quickly replenished the moisture deficit caused by the El Nino drought in late 2009-early 2010, and this should help the palm oil harvest in 2011.

As production improves in 2011, and with prices of coal and CPO expected to be higher in 2011, the coal and palm oil plantation companies are likely to see strong earnings. We expect the coal price to continue to rise through 2011F, owing to a combination of strong demand from India and China and tight supply in major coal exporting countries such as Australia, South Africa, and Indonesia.

Our focus stocks on the commodity theme for Indonesia are Adaro, ITMG, United Tractors, and London Sumatra.

Exhibit 29. Stocks with commodity exposure

	Sector	Mkt-cap (US$mn)	P/E 11F (x)	EPS-growth 2010 (%)	EPS-growth 2011F (%)	P/BV 2010 (x)	ROE 2010 (%)
Adaro	**Coal**	**8,577**	**14.2**	**(30.9)**	**79.0**	**4.0**	**16.8**
ITMG	**Coal**	**6,274**	**12.6**	**(4.3)**	**54.4**	**7.0**	**36.7**
Bukit Asam	Coal	5,174	13.7	(17.3)	50.4	7.0	35.4
Bayan Resources	Coal	4,785	21.7	355.8	216.2	15.3	20.4
Inco Indonesia	Nickel	5,356	13.6	90.0	5.3	2.9	22.3
Aneka Tambang	Nickel, Gold	2,744	13.6	154.5	17.5	2.1	18.3
United Tractors	**Heavy equip, contract mining**	**8,233**	**15.3**	**6.3**	**19.1**	**4.5**	**26.5**
Delta Dunia	Contract mining	827	9.2	500.0	25.6	8.6	112.0
Hexindo Adiperkasa	Heavy equipment	665	11.3	25.0	40.0	6.1	38.8
Astra Agro	Palm oil plantation	4442	13.1	3.6	76.9	5.8	26.2
London Sumatra	**Palm oil, rubber plantation**	**1,867**	**14.7**	**36.5**	**16.1**	**3.6**	**23.4**
Sampoerna Agro	Palm oil plantation	644	13.2	28.7	19.1	2.8	19.3
BW Plantations	Palm oil plantation	460	14.4	15.6	21.9	3.7	23.4
Bakrie Plantations	Palm oil, rubber plantation	551	10.3	(68.2)	70.2	0.6	5.5
Gozco Plantations	Palm oil plantation	231	8.7	(33.2)	73.8	1.8	14.1

Note: **focus stocks in bold**.

Source: Bloomberg, Nomura estimates (for Astro Agri), I/B/E/S

Impact on Malaysia

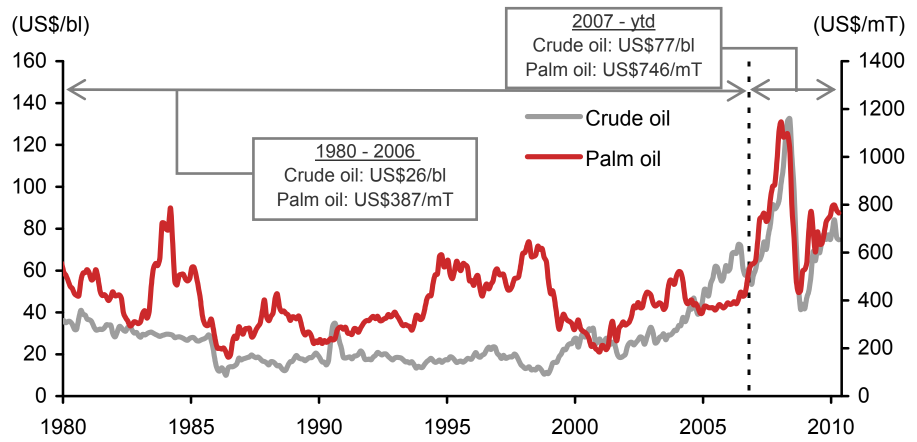
Thanks to high crude-oil and crude palm oil prices, Wai Kee Choong highlights that Malaysia has a structurally much stronger economy than a decade ago. Directly and indirectly, taxes from oil and oil-related sectors account for as much as 70% of Malaysia's federal government revenue. The average crude-oil price, which hovered at around US$26/bbl between 1980 and 2006, has averaged at US$77/bbl since 2007. Similarly, for crude palm oil, the average price since 2007 is 93% higher than the US$387/mt price seen between 1980 and 2006.

Higher crude oil and crude palm oil prices have made Malaysia as a whole a much richer country

The effects of sustained high commodity prices are also finally filtering down to farmers and small settlers. In the past, small plantation settlers and planters were not profitable due to high production or planting costs. However, the commodities, cashflows and profitability have since significantly improved. From personal cars to mass-market property sales, all recent statistics point to significant potential upside in domestic consumption.

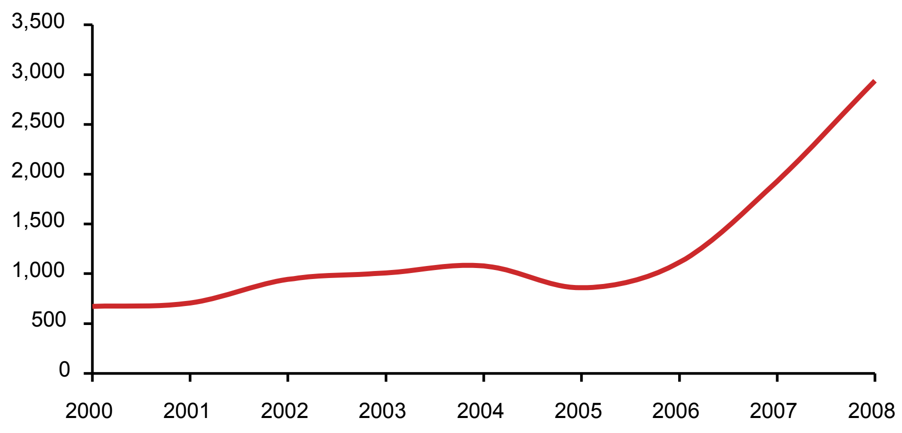
The benefits of stronger commodity prices are finally starting to filter down to farmers and small settlers

Exhibit 30. Historical average crude-oil and crude palm oil prices



Source: IMF, Nomura research

Exhibit 31. Average settlers' incomes have risen in tandem with CPO price



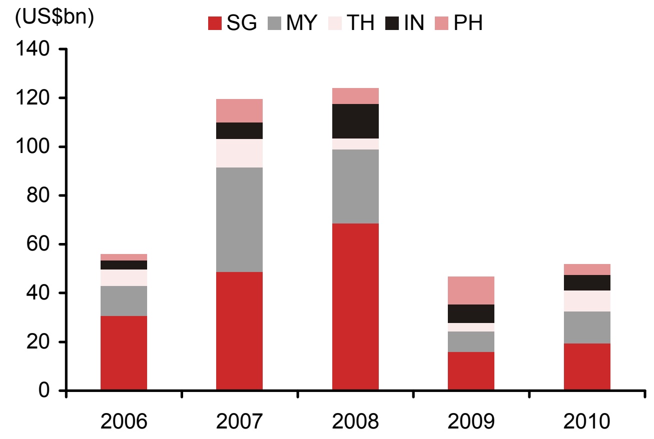
Source: Federal Land Development Authority

Theme 4: ASEAN cross-border investments and M&A

Linkages will promote M&A

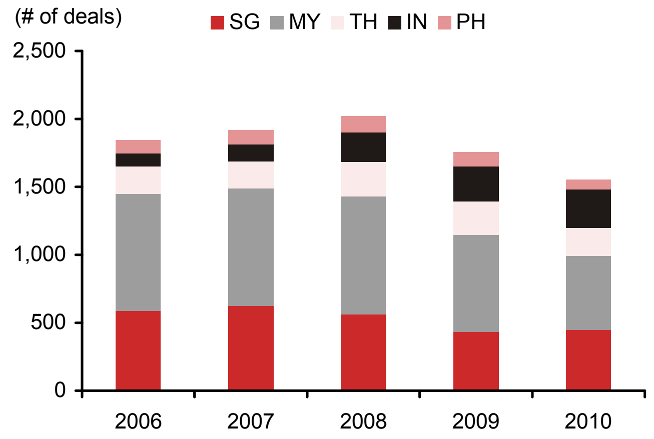
Even as the ASEAN governments look to integrate their economies to support a single market and production base by 2015, we believe companies within ASEAN will increasingly be more comfortable about investing within their own region. As shown in the following table, we have seen many instances of ASEAN cross-border investments.

Exhibit 32. M&A activities in ASEAN (value)



Source: Thomson One

Exhibit 33. M&A activities in ASEAN (# of deals)



Source: Thomson One

Exhibit 34. Notable intra-ASEAN M&A activities and investments

Acquirer	Target	Remarks
Singaporean acquirers		
Temasek Holdings	Danamon, Alliance Financial (AFG)	Temasek acquired 68% of Bank Danamon in June 2003, 29% of AFG in March 2005.
Jardine Cycle & Carriage	Astra International	JCNC acquired 31% of Astra in 2000, and increased the stake to 50.1% by August 2005.
Parkway Holdings	Pantai Holdings	Parkway acquired a 31% stake in Pantai for RM312mn in September 2005, and later increased its shareholding to 40% along with a restructuring of stakes with Khazanah.
Frasers Centrepoint Trust	Hektar REIT	FCT acquired a 27% stake in Hektar REIT for RM104.5mn (S$46.6mn) in May 2007. It acquired a further 4% stake for RM17.3mn in April 2008 taking its total holding to 31%.
Asia Pacific Breweries	PT Multi Bintang	APB acquired 68.5% of PT Multi Bintang for Rp2.23tn (US$240mn) in December 2009.
Wilmar	PBB	Wilmar acquired 65.8% and 28% stakes in PGEO Group and Kuok Oils & Grains Pte Ltd, respectively, from PPB in 2006 for US$2.7bn.
Petra Foods	F&B units in Malaysia/Philippines	Petra acquired the snacks business of Nestle in the Philippines.
SATS	JAS Indonesia (JV)	49.8% equity stake in PT Jas Indonesia.
Malaysian acquirers		
Maybank	BII	Acquired a 55.6% stake in BII through the acquisition of Sorak Financial Holdings from Temasek and Kookmin Bank for US$1.24bn in December 2009.
Axiata	Excelcomindo	Axiata acquired a 27.3% stake in Excelcomindo through its unit Indocel Holdings for US$314mn in June 2005 and subsequently increased its stake to the current 83.8%.
CIMB	Bank Niaga	CIMB acquired 51% of Bank Lippo for around RM2.07bn in November 2008, which led to its merger with Bank Niaga (63.4%-owned by CIMB). CIMB now owns 77.8% of CIMB Niaga.
YTL	MMP Reit	YTL acquired a 26% stake in MMP Reit for US$202.6mn in October 2008. YTL currently owns a 28.87% stake in the REIT (renamed Starhill Global REIT).
YTL	PowerSeraya	YTL Power acquired 100% of PowerSeraya for S$3.8bn in March 2009.
Khazanah	Parkway Holdings	Khazanah purchased an 18.3% stake in Parkway in April 2008 for US$427mn, and eventually launched a full takeover in 2010.
IOI, Sime Darby	Plantations in Indonesia	IOI acquired the several Indonesian plantation companies in 2007, including 33% of PT Bumitama Gunajaya Agro, 67% of PT Agro Mandiri Sejahtera, and PT Ketapang Sawit Lestari, among others. Sime Darby acquired a total of 204,237 hectares of estates in Indonesia, which represents 38.4% of the company's planted area.
Genting group	Integrated resort in Singapore	Genting group invested S$5bn in the integrated resort on Sentosa Island.
Indonesian acquirers		
Lippo	OUE	Lippo acquired 55% of UOE from United Overseas Bank for S$990mn in May 2006.
Thailand acquirers		
Banpu	Coal mines in Indonesia	Banpu owns a 73.7% stake in Indominco Mandi and Trubaindo Coal in Indonesia through its subsidiary Indo Tambangraya (ITMG); it also has a majority stake in PT Kitadin, Jorong and Bharinto coal mines through ITMG.
PTT	Straits Asia	PTT acquired a 60% stake in Straits Bulk & Industrial for US$220mn in April 2009, which gave it an indirect holding of a 28.26% stake in Straits Asia resources. Further, PTT directly acquired another 18.84% stake (total 47.1%) in Straits Asia for US$109mn.

Source: Company data, Bloomberg, Nomura research

Singapore and Malaysia should become that much more interwoven

As ASEAN pursues greater integration with reduced trade and investment barriers, we believe there is significant potential for companies within ASEAN to increase their investments across ASEAN. In our view, some future corporate action could involve:

- **Iskandar development region:** The rapprochement between Malaysia and Singapore could spur greater cooperation and investments, especially in the Iskandar region. These investments could involve tourism, manufacturing, healthcare, and education.
- **Corporate M&A and restructuring:** Temasek Holdings can look to divest its stakes in Danamon and AFG (Temasek's new direction, *2 June 2009*) while Axiata could look to increase its stake in M1/takeover. (Follow the money*, 5 August 2010*).
- **Increased property investments:** We are seeing the start of Malaysian developers entering the Singapore market, eg, IOI, Sunway, YTL.
- **Natural resources and infrastructure:** Indonesia will likely see increased interest from companies in ASEAN looking to participate in the development of its natural resources and infrastructure investments.
- **Tourism and healthcare:** ASEAN is well endowed with tourism attractions and infrastructure and has a viable private healthcare sector. We could see more investments in this area.

Wai Kee Choong highlights that the M&A theme in Malaysia has started to gather pace with recent developments in the property and banking sectors. (See: *The rally is still young*, 6 December, 2010.)

In the property sector, at least three mergers have been announced recently: the UEM-Sunrise merger, the IJM Land-MRCB merger, and the Sunway Holdings and Suncity combination. These combinations could presage cross-border M&A activity as they regionalise.

In banking, there could be further consolidation in Malaysia since the last major in-market mergers were in 2006 when CIMB acquired Southern Bank. Hong Leong Bank, for example, has made a proposal to acquire EON bank. Other potential M&As could include Alliance Financial Group being acquired by a foreign bank and AMMB and RHB Capital combining (see our report *Who dares wins,* 30 April 2010 http://www.nomura.com/research/GetPub.aspx?pid=385123). In Indonesia, we are seeing out-of-market M&A activity within ASEAN with Semen Gresik looking to acquire cement plants in Malaysia.

Thailand also looking to branch out as the region grows more confident

Thai companies have also been on the look-out for M&A both within Thailand and elsewhere. Some notable M&A transactions include Banpu's US$2bn takeover offer to acquire a 100% stake in Australia's Centennial Coal; Thai Union Frozen Products (TUF TB) Euro680mn acquisition of MW Brands in Europe, making it the world's largest tuna canner. Within ASEAN, Siam Cement (SCC TB) announced its intention to invest in a US$4bn new petrochemical complex in Vietnam and build a greenfield cement plant in Indonesia. In the power & utility sector, EGCO acquired a 52% stake in Quezon Power in the Philippines. Cal-Comp Electronics (CCET TB) in the electronics sector has been active in M&A and recently acquired Avaplas, a plastic-parts production company in Singapore.

We summarise potential acquirers in ASEAN below.

Exhibit 35. Potential acquirers in ASEAN

Acquirer	Potential targets	Remarks
Singaporean		
F&N	F&B business across ASEAN	Recently acquired 23% of Cocoaland and King's Creameries. Looking to acquire more downstream assets across ASEAN. APB acquired PT Bintang in Indonesia.
DBS	Looking to expand its ASEAN footprint	Danamon and AFG have been identified as potential targets by observers (Who dares wins, 30 April 2010)
CapitaLand group	Properties in ASEAN	Recently acquired Queensbay Mall in Penang for S$275.6mn.
Malaysian acquirers		
Maybank	Looking to build its investment banking network across ASEAN	Acquired BII in 2009.
YTL	Power, Infrastructure, property assets	YTL already owns assets in Singapore but may look to expand into the ASEAN region.
Axiata	Looking to expand regionally	May look to consolidate its control of M1 eventually.
Indonesian acquirers		
Semen Gresik	Cement plants in Malaysia	Plans to acquire two Malaysian cement plants. (Reuters, 4 May 2010)
Lippo Group	Property	Expanded into Singapore.
Thailand acquirers		
Siam Cement	Expanding into ASEAN and Asia	Planning greenfield cement plant in Indonesia.
Big C	May look to expand into ASEAN	Recently acquired Carrefour's hypermarket operations in Thailand.
PTT	Coal assets in Indonesia	PTT further acquired a 40% stake in PTT Asia Pacific Mining for US$546mn in November 2010, which gave it a 45.6% stake in Straits Asia Resources. Straits Asia may become PTT's vehicle for Indonesia.

Source: Company data, Bloomberg, Nomura research

Singapore Economic Outlook

Back to trend

Yougesh Khatri / Euben Paracuelles

After a strong recovery, Singapore's economy is likely operating at full potential and we expect growth to revert to the 5-6% medium-term trend which, for an advanced economy, is impressive.

In Singapore the future is in services and more value-added manufacturing

Activity: Asia's most open economy was also the fastest growing in 2010, clocking 15.5% y-y growth, by our estimates. We expect growth to slow to 5.3% in 2011F, while the government targets 4-6%. As a hub for a fast growing Asia, with diversifying drivers of growth, we believe Singapore can maintain a growth rate of 5-6% in the medium term. We expect services to continue to perform well, with rising tourism and new attractions such as the integrated resorts. Financial and trade services are also well positioned to continue to grow, as Asian growth, in general, expands and becomes more integrated. Manufacturing will likely continue to diversify and move further up the value chain: the electronics sector saw a resurgence in investment commitments in 2010, led by electronics services and R&D activities. Bio-med, having contributed nearly a fifth of the remarkable 2010 growth, is becoming increasingly important.

Inflation ticking up; tightening would seem in store

Inflation and monetary policy: The Monetary Authority of Singapore (MAS) surprised markets again in October by increasing the slope and width of the SGD NEER band. MAS indicated price pressures are building, given: 1) high resource utilisation levels; 2) a tight labour market; 3) a diminishing cyclical productivity boost; and 4) greater pass-through from rising commodity prices given buoyant domestic demand. We share this concern about increasing inflation – our estimates of a positive output gap suggest demand-side pressures could push inflation beyond the 2-3% MAS target in 2011F and so we could see further tightening in 2011F.

In fine point, we see policy moving to support of productivity; on a wider horizon, we expect fresh blood, but the island's long-standing policy continuity to hold

Policies: The MAS move of targeting stronger S$ NEER appreciation has put further downward pressure on record-low S$ short-term rates, and is likely contributing to property price pressures (and bubble concerns). In 2010, the government took various measures to cool the property market (eg, extending the holding period to impose the seller's stamp duty and decreasing loan-to-valuation ratios to 70% for buyers with other mortgages). If these measures fail to cool prices, we expect more macro-prudential and administrative measures in 2011. The fiscal stance was contractionary in 2010, and we expect a larger fiscal surplus to be run in 2011, which complements monetary policy in addressing overheating. Fiscal policy has appropriately shifted from counter-cyclical support towards structural measures to boost productivity. The government is likely to call elections in 2011, which will usher in the next generation of leaders. We expect policy continuity.

Exhibit 36. Forecast details

% y-y growth unless otherwise stated	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	2010F	2011F	2012F
Real GDP [sa, % q-o-q, annualised]	**(18.7)**	18.1	1.6	22.4	(15.5)	17.9	(1.9)	26.3			
Real GDP	**10.6**	15.5	5.5	4.5	5.6	5.5	4.6	5.4	15.5	5.3	5.8
Private consumption	**5.2**	5.0	5.5	4.7	5.0	5.0	5.5	4.9	5.9	5.0	5.0
Government consumption	**7.5**	7.5	5.0	7.0	5.0	5.0	4.2	9.0	8.8	5.4	6.5
Gross fixed capital formation	**5.6**	7.6	12.0	12.0	11.0	11.0	4.7	7.4	7.0	11.5	8.4
Exports (goods & services)	**20.4**	8.6	7.0	7.2	7.8	8.0	7.1	6.9	18.0	7.5	9.3
Imports (goods & services)	**17.4**	7.5	8.5	8.9	9.0	9.2	7.1	7.4	15.8	8.9	10.3
Contributions to GDP (% points):											
Domestic final sales	**4.2**	6.2	5.9	4.9	5.0	5.1	3.9	4.2	5.2	5.2	4.7
Inventories	**(3.7)**	5.4	1.0	0.8	0.4	0.2	0.6	0.3	1.9	0.6	0.9
Net trade (goods & services)	**11.4**	4.9	(1.3)	(1.2)	0.2	0.2	1.5	0.9	8.8	(0.5)	0.5
Unemployment rate (sa, %)	**2.1**	1.7	1.7	1.7	1.7	1.7	2.0	2.0	2.1	1.7	2.0
Consumer prices index	**3.4**	3.9	3.2	3.4	3.2	3.1	3.5	2.9	2.8	3.2	3.0
Exports	**27.5**	11.3	13.2	11.6	9.2	15.4	12.9	12.3	27.3	12.3	14.3
Imports	**22.5**	14.7	21.1	17.4	20.7	15.1	12.9	12.8	25.7	18.5	15.4
Merchandise trade balance (US$bn)	**11.8**	6.2	2.4	5.9	3.6	7.5	2.8	6.1	34.5	19.4	18.2
Current account balance (% of GDP)	**23.4**	10.6	11.0	16.3	20.0	15.3	12.8	16.8	17.3	15.7	15.7
Fiscal Balance (% of GDP)									0.4	0.8	0.8
3-month SIBOR (%)	**0.51**	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Exchange rate (SG$/US$)	**1.32**	1.29	1.27	1.25	1.24	1.22	1.21	1.20	1.29	1.22	1.17

Notes: Numbers in bold are actual values; others forecasts. Interest rate and currency forecasts are end of period; other measures are period average. All forecasts are modal forecasts (ie, the single most likely outcome). Table reflects data available as of 6 December 2010.

Source: CEIC and Nomura Global Economics.

Risks: Key downside risks are external, such as a renewed slump in the global economy or an escalation of tensions in the Korean peninsula. Potential large-scale capital inflows and low interest rates raise the risk of asset bubbles and disruptive corrections. Increased volatility of Singapore's ever more important but volatile biomed sector and a reduction in the predictability of output.

Malaysia Economic Outlook

Reform awaits a mandate

Yougesh Khatri / Euben Paracuelles

Reforms may stall until elections, likely in 2011, and could deliver a firm mandate for the prime minister.

Malaysia also looking for greater productivity, aiming to be more than a commodity exporter and low value-added assembler

Activity: With our real GDP growth forecast of 7% for 2010F, we estimate the output gap has turned positive. We thus expect below-trend growth of 5.2% in 2011F to return to trend output levels (the government targets 5-6%). This is consistent with the fading of temporary growth drivers, such as inventory re-stocking, policy stimulus and pent-up demand for electronics. We expect private consumption to hold up in 2011F, supported by a growing “middle class”, a strong labour market and rising commodity prices. Investment-to-GDP plummeted after the Asia crisis, but is now targeted by the government to increase due to ambitious infrastructure plans under the Economic Transformation Program. We expect buoyant commodity exports in 2011F, but these may mask an underlying deterioration in export competitiveness. Aware of this, the authorities are aiming to increase productivity and competitiveness in their array of development plans. Execution is the key risk and this will, in turn, depend on the outcome of the next elections.

Inflation and monetary policy: Monetary conditions were tightened in 2010 via real effective exchange-rate appreciation and three 25bps rate hikes. We expect Bank Negara (BNM) to keep its monetary policy on hold in 1Q 2011F until there is more clarity on the global picture and given its “moderate inflation” projection through 2011F. We are more concerned about CPI inflation, expecting it to rise to 3.3% in 2011F. We believe this should impel BNM to resume raising rates, with 25bps hikes each in 2Q and 3Q11. Monetary conditions should also tighten through further ringgit appreciation, given the large current-account surplus and potential for larger capital inflows. We do not expect Malaysia to impose controls on inflows in the near future – BNM recently further liberalised the capital account and set a 70% loan-to-valuation ratio cap on third mortgages in a bid to curb property market speculation. More macro-prudential measures are likely, in our view.

Politics and fiscal policy: We expect an election to be called in 2011 (as early as 1H), which could see further fiscal support for growth. Reforms are likely to pause in the meantime, but we would expect to see them gain momentum after the elections – in our base case, the ruling coalition maintains a majority providing Prime Minister Najib with a “legitimate” mandate. The 2011 budget targets a deficit of 5.4% of GDP, less than the 5.6% estimated for 2010, but higher than expectations. The budget and the deferral of the goods and services tax (GST) may cast doubt on the government’s commitment to fiscal consolidation given the 10th Malaysia Plan targets a federal government fiscal deficit of 5.3% in 2011F and 2.8% by 2015F.

Exhibit 37. Forecast details

% y-y growth unless otherwise stated	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	2010F	2011F	2012F
Real GDP	**5.3**	4.4	4.6	4.7	5.6	5.7	6.0	5.2	7.0	5.2	5.5
Private consumption	**7.1**	5.7	4.5	5.0	4.7	4.7	5.0	5.5	6.4	4.7	5.3
Government consumption	**(10.2)**	3.0	7.0	7.0	7.0	7.0	5.5	5.6	1.2	7.0	6.0
Gross fixed capital formation	**9.8**	6.0	8.0	8.0	8.0	8.0	11.0	11.0	8.6	8.0	11.0
Exports (goods & services)	**6.6**	8.5	4.2	5.2	7.0	8.0	9.3	11.9	11.7	6.2	9.1
Imports (goods & services)	**11.0**	10.6	6.2	7.2	8.3	9.4	11.0	9.1	16.9	7.9	9.3
Contributions to GDP (% points):											
Domestic final sales	**4.5**	4.8	4.8	5.3	5.2	5.4	5.6	6.2	5.5	5.2	6.1
Inventories	**4.4**	1.0	1.0	1.0	1.3	1.3	0.7	(4.6)	4.8	1.1	(1.1)
Net trade (goods & services)	**(3.5)**	(1.4)	(1.2)	(1.6)	(0.8)	(1.0)	(0.3)	3.5	(3.2)	(1.1)	0.5
Unemployment rate (%)	**3.2**	3.2	3.1	3.1	3.0	3.0	3.0	3.0	3.4	3.1	3.0
Consumer prices index	**1.9**	2.1	2.5	3.2	4.2	3.4	3.5	3.4	1.7	3.3	3.2
Exports	**23.2**	16.5	13.2	13.2	15.0	16.0	16.7	18.6	27.2	14.4	15.7
Imports	**29.9**	12.6	11.2	11.2	12.3	12.9	18.6	15.8	30.7	11.9	15.9
Merchandise trade balance (US$bn)	**7.1**	12.6	13.7	9.0	9.3	15.9	15.3	12.0	38.4	47.9	55.1
Current account balance (% of GDP)	10.1	16.3	16.4	12.1	11.5	18.2	16.5	15.3	13.0	14.6	15.7
Fiscal Balance (% of GDP)									(5.6)	(5.3)	(4.2)
Overnight policy rate (%)	**2.75**	2.75	2.75	3.00	3.25	3.25	3.25	3.25	2.75	3.25	3.25
Exchange rate (MYR/US$)	**3.09**	3.08	3.00	2.97	2.93	2.88	2.84	2.80	3.08	2.88	2.72

Notes: Numbers in bold are actual values; others forecast. Interest rate and currency forecasts are end of period; other measures are period average. All forecasts are modal forecasts (ie, the single most likely outcome). Table reflects data available as of 6 December 2010.

Source: CEIC and Nomura Global Economics

Risks: The major downside risks relate to a relapse in the global recovery and lower commodity prices. A medium-term upside risk is rapid reform progress leading to an investment boom; a key downside risk is insufficient reform momentum to escape the "middle-income trap".

Indonesia Economic Outlook

Poised for take off

Yougesh Khatri / Euben Paracuelles

Building on robust domestic demand, infrastructure development is likely to unleash growth.

A confluence of positives in Indonesia

Activity: We expect domestic demand-driven growth to rise from the forecast 5.9% in 2010 to 6.5% in 2011F and 7% in 2012F. We expect favourable demographics with a rapidly expanding middle class, a strengthening IDR, higher wages, and fast-growing credit (from a low base) to keep consumption growth above 5%. Investment is likely to be driven by a robust consumption growth outlook, political stability, booming commodity exports, likely further sovereign credit rating upgrades on sound economic fundamentals and fiscal space for accelerated infrastructure spending. We believe the government's aim of raising GDP growth to above 7% by 2014F will be achieved sooner given that constraints to infrastructure development – land acquisition, financing, conflicting regulations – are being addressed through a soon-to-be-tabled land-acquisition bill, an increased fiscal allocation for infrastructure and the donor-supported Indonesia Infrastructure Guarantee Fund. Stronger import growth (associated with stronger consumption and investment) and higher net income outflows (associated with the increase in foreign holdings of Indonesian equity and debt) are expected to reduce the current account balance to 0.8% and 0.6% of GDP in 2011F and 2012F, respectively, and lead to an eventual deficit in the medium term.

Inflation and monetary policy: Bank Indonesia (BI) kept its policy rate on hold at 6.50% throughout 2010, as it expects inflation to remain within the 4-6% y-y target through 2011. In contrast, we forecast a pick-up in inflation to 6.6% in 2011F and see upside risks relating to commodity and administered price increases and capacity constraints starting to bite. BI raised the primary reserve requirement (RR) for banks from 5% to 8% in November 2010 and from March 2011, will re-link the RR to banks' loan-to-deposit ratios outside a 78-100% range. We do not expect the first rate hike until 2Q11, given BI's inflation forecast and its concerns about excessive capital inflows, IDR strength, and the March RR change. BI has taken measures to reduce foreign holdings of central bank bills (SBI). Unless there is a prolonged pull-back from risk (eg, sparked by EU debt problems), strong capital flows to Indonesia are expected to continue and we expect further capital control measures on short-term debt.

Fiscal policy: The 2011 budget targets a pick-up in infrastructure spending to IDR122tn (10% of spending) and a modest fiscal deficit of 1.7% of GDP (from our forecast of 1.2% in 2010F). With the government's planned revisions to procurement regulations, we also expect higher rates of expenditure realisation in 2011F.

Exhibit 38. Forecast details

% y-y growth unless otherwise stated	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	2010F	2011F	2012F
Real GDP	**5.8**	5.8	6.4	6.4	6.4	6.9	6.6	6.7	5.9	6.5	7.0
Private consumption	**5.2**	5.3	5.2	5.2	5.2	5.2	5.3	5.3	4.8	5.2	5.3
Government consumption	**3.0**	1.0	4.0	5.0	3.0	5.0	6.0	5.0	(2.8)	4.3	4.9
Gross fixed capital formation	**8.9**	9.5	10.0	10.3	10.9	11.7	11.8	12.8	8.5	10.8	12.9
Exports (goods & services)	**11.3**	5.0	5.8	5.8	5.8	6.0	6.2	6.3	12.2	5.9	6.3
Imports (goods & services)	**11.0**	5.9	5.2	5.2	6.0	6.7	7.0	7.1	13.9	5.8	7.1
Contributions to GDP (% points):											
Domestic final sales	**5.2**	5.5	5.6	5.7	5.8	6.5	6.2	6.4	4.5	5.9	6.6
Inventories	**0.1**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0
Net trade (goods & services)	**1.3**	0.3	0.8	0.7	0.6	0.4	0.4	0.3	0.7	0.6	0.4
Consumer prices index	**6.2**	6.1	6.5	7.1	6.2	6.6	6.2	6.1	5.1	6.6	5.8
Exports	**25.4**	16.5	10.3	10.0	9.9	6.4	9.5	9.7	28.3	9.1	9.6
Imports	**32.1**	24.7	13.7	11.4	12.1	12.2	12.2	12.3	37.0	12.3	12.2
Merchandise trade balance (US$bn)	**9.1**	11.2	8.8	9.1	9.4	10.2	8.8	9.2	37.8	37.4	37.6
Current account balance (% of GDP)	**0.7**	1.4	0.8	1.0	0.7	0.6	0.6	0.8	1.1	0.8	0.6
Fiscal Balance (% of GDP)									(1.2)	(1.7)	(1.6)
Bank Indonesia rate (%)	**6.50**	6.50	6.50	6.75	7.50	7.50	7.50	7.50	6.50	7.50	7.50
Exchange rate (IDR/US$)	**8,908**	8,970	8,900	8,800	8,680	8,520	8,440	8,360	8,970	8,520	8,200

Notes: Numbers in bold are actual values; others forecast. Interest rate and currency forecasts are end of period; other measures are period average. All forecasts are modal forecasts (ie, the single most likely outcome). Table reflects data available as of 6 December 2010.

Source: CEIC and Nomura Global Economics

Risks: Renewed global financial turmoil is a key external risk. Better-/worse-than-expected progress with infrastructure is a key up/downside risk to the outlook. A substantial and unexpected rise in international oil prices could trigger an administered fuel price increase and a stepped increase in inflation. The end-2010 deadline for establishing a consolidated financial supervisor (OJK) is approaching, but its form is still unclear, creating regulatory uncertainty/risks that will likely spill over into 2011.

Thailand Economic Outlook

Still all about political risks

Yougesh Khatri / Euben Paracuelles

The economy proved to be resilient in the face of a raft of negative political events in 2010, largely on a strong bounce-back in external demand. But a repeat in 2011 may be difficult.

We expect growth to come down from a strong 2010; politics is again going to take a toll, we think

Activity: We expect GDP growth to ease to 4.8% in 2011F from an estimated 7.7% in 2010, driven mainly by the fading of the extraordinary contribution of the large inventory build-up in 2010, as well as weak net exports. In addition, consumer spending is also likely to slow as sentiment weakens again amid rising political uncertainty. This has been the case in the past four election cycles: private consumption has tended to be weak in the run-up to elections, and recover modestly afterwards. That said, investment spending is still likely to grow by a solid 7% in 2011F, by our estimates, led by an acceleration in government-led infrastructure projects (under the second stimulus plan, SP2), particularly following the recent floods and ahead of the elections. Funds for SP2 are already secured and with the slow progress in implementation so far, we believe, some of these funds may be put to use to repair infrastructure damaged by the floods in late October 2010.

Elections an evergreen source of unease

Politics: Despite leading a fragmented coalition, the ruling Democrat Party (DP) has stayed in power longer than most expected, surviving a series of violent protests and a legal case calling for its dissolution. Regardless, the bigger test still lies ahead: elections must be called before December 2011. The government is likely to push these out as far as possible to allow more time to implement populist policies, but even so we do not rule out a pro-Thaksin government returning to power. The Thai Parliament has approved a first reading of a bill to change the constitutional provision from multi-seat to single-seat constituency, which arguably could favour the opposition. Meanwhile, the dismissal of the electoral fraud case against the DP on a small technicality, along with the trial of jailed opposition leaders, could spur more anti-government protests, accusing the courts of applying double standards. Political uncertainty looks set to rise in 2011, in our view.

Monetary and FX policy: We expect the Bank of Thailand (BoT) to hike rates again in 2Q11F, consistent with our forecast of CPI inflation rising to 4.2% in 2011F and 4.4% in 2012F. In our view, the BoT likely sees real policy rates as being too low, which explains its assertion that the normalisation process is still incomplete. However, the pace of future hikes will also depend on capital inflows, THB movement and external conditions. Thailand re-imposed recently a withholding tax on government bond purchases by foreign investors. We believe capital controls, as well as continued sterilised FX intervention, capital outflow liberalisation and macro-prudential measures are in store (but we do not expect draconian capital controls in the near term, such as those imposed in 2006).

Exhibit 39. Forecast details

% y-y growth unless otherwise stated	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	2010F	2011F	2012F
Real GDP [sa, % q-o-q, annualised]	**(2.7)**	2.4	20.1	(1.4)	0.0	3.8	6.3	9.4			
Real GDP	**6.7**	3.3	4.5	4.7	4.9	5.3	5.2	5.7	7.7	4.8	5.2
Private consumption	**5.0**	5.0	4.5	4.5	5.0	5.0	5.9	5.7	5.1	4.8	5.9
Public consumption	**2.0**	5.0	4.0	4.0	5.0	5.0	10.1	11.0	6.3	4.5	8.8
Gross fixed capital formation	**8.0**	8.1	6.2	6.5	7.4	7.6	11.1	7.5	9.8	6.9	8.9
Exports (goods & services)	**11.7**	8.8	8.0	8.0	9.0	10.0	7.1	9.2	14.5	8.8	10.1
Imports (goods & services)	**21.2**	11.1	10.0	10.0	12.0	12.0	12.3	14.3	21.7	11.0	13.0
Contribution to GDP (%points):											
Domestic final sales	**4.7**	4.6	3.7	4.3	4.8	4.6	5.9	5.8	5.3	4.3	5.8
Inventories	**4.9**	(1.3)	0.2	0.2	0.2	0.2	0.0	2.3	3.2	0.2	(0.2)
Net trade (goods & services)	**(2.6)**	0.3	0.5	0.2	(0.4)	0.5	(1.3)	(1.4)	(0.7)	0.2	(0.1)
Exports	**21.9**	5.0	7.5	10.8	11.4	11.8	13.3	14.7	23.7	10.4	14.9
Imports	**30.5**	9.1	10.2	15.4	14.5	13.4	6.2	8.8	33.1	13.4	8.3
Merchandise trade balance (US$bn)	**2.8**	1.5	1.2	2.7	1.6	0.9	0.0	0.0	10.6	6.4	21.8
Current account balance (US$bn)	**2.0**	3.1	3.6	1.0	2.1	0.3	3.8	(0.1)	13.2	7.0	5.1
(% of GDP)	**2.6**	3.8	3.8	1.1	2.1	0.3	3.5	(0.1)	4.0	1.8	1.2
Fiscal balance (% of GDP, fiscal year basis)									**(1.3)**	(2.3)	(2.6)
Consumer prices	**3.3**	3.0	3.5	4.2	4.7	4.2	3.4	4.4	3.3	4.2	4.4
Unemployment rate (sa, %)	1.1	1.1	1.0	1.0	1.0	1.1	1.6	1.6	1.1	1.4	1.6
Overnight repo rate (%)	**1.75**	2.00	2.00	2.25	2.75	2.75	3.00	3.25	2.00	2.75	3.25
Exchange rate (THB/US$)	**32.3**	29.5	29.0	28.5	28.1	27.8	27.6	27.3	29.5	27.8	26.8

Notes: Numbers in bold are actual values; others forecast. Interest rate and currency forecasts are end of period; other measures are period average. All forecasts are modal forecasts (ie, the single most likely outcome). Table reflects data available as of 6 December 2010.

Source: CEIC and Nomura Global Economics

Risks: Growth remains externally dependent, with large spill-over effects from the export and tourism sectors to domestic demand, so, politics aside, a renewed global downturn is a key downside risk. Higher global food prices are positive for Thai growth but high oil prices are negative.

Philippines Economic Outlook

Making inroads

Yougesh Khatri / Euben Paracuelles

Fiscal improvements are likely to continue in 2011 and the government is starting to address infrastructure deficiencies, which should attract more private investment.

Labour, at home and via remittances underpin the economy

Activity: For 2011F we forecast GDP growth of 5.4%, rising to 5.7% in 2012F. Consumption should remain a steady source of growth, driven by strong overseas Filipino worker remittances which, in turn, have benefited from increased worker deployment earlier this year. Deployment is likely to rise further given demand for higher skilled workers, eg, medical workers to ageing developed economies. The business process outsourcing sector, which grew 22.5% in 2008-09 despite the crisis, will likely continue to see solid expansion. The Aquino administration's strong mandate, the perception of its firm commitment to improving governance and the recent credit ratings upgrade by S&P are bolstering business sentiment, which reached a record high in 3Q10. Testimony to all this was the larger-than-expected turnout by private investors at the November infrastructure summit, where PHP130bn (1.4% of GDP) of planned infrastructure projects were announced. While 100% rollout of these projects is unlikely in the near-term, a successful and transparent tender process by mid-2011 could, in our view, kick-start further implementation against the backdrop of an increasingly upbeat private sector. Private investment, after stagnating since the mid-1990s, could finally take off.

Fiscal policy: Inroads have been made in narrowing the fiscal deficit, via rationalisation of expenditure and importantly, some improvement in revenue collections via tax administration measures. Given that these tie in with the President's anti-corruption platform, we expect the momentum on fiscal consolidation to continue into 2011; though sustaining it into 2012 will be more challenging, we believe. Achieving tax-to-GDP targets will involve unpopular reforms to widen the tax base and the President breaking his electoral promise not to pass new tax measures – possibly at a time when his approval ratings start to decline (if history is any guide). A key test is the large revenue-generating, but politically unpopular, measures to be tabled in the Congress by 2012.

Inflation and monetary policy: We forecast CPI inflation of 4.2% for 2011F and 5.0% for 2012F, well above Bangko Sentral's (BSP) forecasts of 2.4% and 2.8%, respectively. While inflation is likely to remain tame over the next few months, we expect it to rise due to global commodity prices and an already positive output gap. We expect BSP to hike rates from 2Q11F, albeit in a measured manner given the government's ambitious 7-8% GDP growth target for 2011F, and limited fiscal space to support it. Some of the tightening is also likely to be done via currency appreciation.

Exhibit 40. Forecast details

% y-y growth unless otherwise stated	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	2010F	2011F	2012F
Real GDP [sa, % q-o-q, annualised]	**(1.9)**	5.1	9.0	13.1	(5.7)	7.2	10.8	13.0			
Real GDP	**6.5**	5.9	4.4	6.2	5.1	5.6	6.1	6.1	7.0	5.4	5.7
Private consumption	**4.2**	5.1	4.8	6.4	5.8	5.8	6.0	5.8	4.8	5.7	5.5
Government consumption	**(6.1)**	6.1	4.0	3.8	3.7	2.9	5.0	7.0	6.2	3.6	7.4
Gross fixed capital formation	**13.4**	16.4	11.6	4.3	11.5	8.4	11.8	13.0	18.0	8.7	14.7
Exports (goods & services)	**29.9**	17.2	8.0	6.6	(10.2)	0.4	6.0	5.0	25.3	0.4	6.1
Imports (goods & services)	**18.2**	13.8	12.0	12.2	0.4	2.9	7.0	12.0	18.3	6.4	9.0
Contribution to GDP growth (% points):											
Domestic final sales	**5.3**	7.2	6.1	6.2	7.0	6.4	7.3	7.8	7.4	6.4	7.7
Inventories	**(0.9)**	1.6	0.0	0.8	0.8	(1.5)	(1.8)	0.7	(0.2)	0.0	0.4
Net trade (goods & services)	**6.1**	(0.7)	(1.8)	(2.4)	(6.4)	(1.3)	(0.6)	(3.4)	2.2	(2.9)	(1.6)
Exports	**39.9**	17.2	8.0	6.6	(10.2)	0.4	6.0	5.0	32.6	0.6	8.2
Imports	**21.1**	13.8	12.0	12.2	0.4	2.9	7.0	12.0	22.8	6.8	10.0
Merchandise trade balance (US$bn)	**0.9**	(0.3)	(2.0)	(1.9)	(0.7)	(0.7)	(2.3)	(3.1)	(2.0)	(5.3)	(6.7)
Current account balance (US$bn)	1.3	1.9	1.4	2.0	2.3	3.2	2.1	1.2	7.6	8.8	8.7
(% of GDP)	2.8	3.5	2.9	3.6	4.1	4.9	3.6	1.9	4.0	4.0	3.3
Fiscal balance (% of GDP)									(3.6)	(3.0)	(2.7)
Consumer prices	**3.8**	2.7	3.4	4.3	5.8	6.5	6.0	5.4	3.7	5.0	5.4
Unemployment rate (sa, %)	6.7	6.5	6.5	6.5	6.5	6.5	6.4	6.3	7.0	6.5	6.3
Reverse repo rate (%)	**4.00**	4.00	4.00	4.50	4.75	5.00	5.50	6.00	4.00	5.00	6.50
91-day T-Bill yield (%)	**3.99**	4.00	4.13	4.75	5.00	5.25	6.00	6.75	4.00	5.25	7.25
Exchange rate (PHP/US$)	**44.0**	43.2	42.4	41.9	41.4	40.9	40.4	39.9	43.2	40.9	38.9

Notes: Numbers in bold are actual values; others forecast. Interest rate and currency forecasts are end of period; other measures are period average. All forecasts are modal forecasts (ie, the single most likely outcome). Table reflects data available as of 6 December 2010.

Source: CEIC and Nomura Global Economics

Risks: S&P's credit ratings upgrade (with others likely soon, in our view), coming early in the administration, could risk engendering government complacency in terms of the fiscal reform agenda. A surge in commodity prices, in particular those of oil and rice, are key downside risks to growth.

Vietnam Economic Outlook

Higher growth and inflation ahead

Yougesh Khatri / Euben Paracuelles

High inflation and VND devaluation are symptoms of weak fundamentals, but we are optimistic that policy and reforms are getting back on track, so the economy can grow at its full potential.

Strong foundation should allow nation to outgrow a rough patch

Activity: Vietnam's favourable demographics, size, location and natural resources underlie its huge potential and, we think, the government's 2011F GDP growth target of 7.0-7.5% is achievable. Vietnam's impressive growth has been accompanied by large growth and inflation swings in recent years. The associated "stop-go" policies and "twin deficits" have made investors more cautious. With strong growth momentum in recent quarters, policymakers seem to have re-focused on stability, marked by rate hikes in October. Beyond the 11th Communist Party Congress in January 2011, we believe there is scope for tighter policies and reforms – such as improving the efficiency of public investment, further reforming state-owned enterprises/banks and strengthening the financial sector. Progress in delivering sounder fundamentals – which we expect in H1 – should attract foreign investment, boost competitiveness and be positive for the longer-term outlook.

Inflation and monetary policy: Inflation is likely to exceed 9% in 2010 (vs the target of 8%) and is expected to pick up further with international food and commodity prices and minimum wage hikes expected in January. Upside inflation risks stem from demand-side pressures, more administrative (power and fuel) price hikes and more/larger VND devaluations. Benchmark interest rates were hiked 100bps on 5 November (given VND pressures and rising inflation) and we expect another 100bps hike and a VND devaluation in 1Q11 (following two devaluations in 2010). We also expect the government to impose further price controls in 2011 as inflation rises.

Fiscal and other policies: We forecast a fiscal deficit of 4.2% of GDP in 2010F and expect further consolidation into 2011, with a deficit of 3.6% vs a targeted 5.3%. Bank capital adequacy requirements were raised from 8% to 9% on 1 October and the loan-to-deposit ratio capped at 80% of deposits (after allowing a more liberal definition of deposits). The large trade deficit and a heavily managed exchange rate have eroded FX reserves (estimated to be US$13.5bn at end-June). There are signs that the trade deficit is beginning to narrow (on a 12-month rolling basis) which could help rebuild FX reserves – a likely policy priority in 2011.

Exhibit 41. Forecast details

% y-y growth unless otherwise stated	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	2010F	2011F	2012F
Real GDP [sa, % q-q, annualised]	**8.2**	5.7	5.0	8.3	10.2	7.1	3.8	7.3			
Real GDP	**7.2**	7.2	6.9	6.4	7.5	7.9	7.1	6.9	6.7	7.2	7.5
Private consumption									8.0	8.0	8.2
Public consumption									5.0	6.0	6.5
Gross fixed capital formation									8.2	8.5	10.0
Contribution to GDP growth (% points):											
Domestic final sales									9.0	9.2	10.1
Inventories									0.5	0.5	0.0
Net trade (goods & services)									(2.7)	(2.7)	(2.9)
Exports	**36.2**	21.0	19.5	17.6	17.7	18.4	17.1	17.3	23.1	18.2	16.8
Imports	**13.0**	8.4	14.9	13.9	15.8	13.3	13.7	14.6	19.0	14.4	14.2
Merchandise trade balance (US$bn)	**(2.1)**	(4.5)	(3.3)	(2.6)	(2.1)	(4.2)	(3.1)	(2.4)	(12.9)	(12.1)	(11.7)
Current account balance (US$bn)									(10.0)	(9.2)	(8.7)
(% of GDP)									(9.8)	(8.0)	(6.5)
Fiscal balance (% of GDP)									(4.2)	(3.6)	(3.3)
Consumer prices	**8.4**	10.5	10.8	11.6	11.6	9.2	8.0	8.6	9.1	10.8	8.7
Unemployment rate (%)									5.5	5.0	4.5
Base rate (%)	**8.00**	9.00	10.00	10.00	10.00	10.00	10.00	10.00	9.00	10.00	10.00
Refinance rate (%)	**8.00**	9.00	10.00	10.00	10.00	10.00	10.00	10.00	9.00	10.00	10.00
Exchange rate (VND/US$)	**19,490**	19,500	20,000	20,000	20,000	20,000	20,000	20,000	19,500	20,000	20,000

Notes: Numbers in bold are actual values; others forecast. Interest rate and currency forecasts are end of period; other measures are period average. All forecasts are modal forecasts (ie, the single most likely outcome). Table reflects data available as of 6 December 2010.

Source: General Statistics Office of Vietnam, State Bank of Vietnam, World Bank, CEIC and Nomura Global Economics

Risks: Inconsistent macro policies could trigger further downgrades (after Fitch downgraded its long-term FX debt rating by one notch to B+ in July, citing external vulnerabilities, a weak banking system and inconsistent macro policy). Given still-elevated vulnerabilities, a loss of investor confidence (triggered, for example, by another boom-bust policy cycle) could result in a vicious spiral which, in the worst case, could lead to a balance of payments crisis. Other key risks are external (such as spill-over effects from problems in Europe).

Exhibit 42. Valuation methodologies and risks to PT – Singapore

Company	Valuation methodology	Risks to PT
OCBC	Our Gordon Growth-based fair value (13% sustainable ROE, 9% WACC, 5% long-term growth) is S$11.00, but better appreciation of GE generates a sum-of-the-parts PT of S$11.80, or 2.0x FY11F adjusted BV (1.8x stated book), or 15x FY11F P/E.	A renewed worsening in credit conditions and another knock-on lurch down in property prices and demand would impact loan growth and loan-loss provisioning negatively, given that almost 50% of its loanbook is either mortgages or building & construction (largely property developer) loans. While we are relatively comfortable with the Singapore loanbook (60% of total book) given the relative strength of domestic corporates and the broad lack of leverage in the system, the Malaysian book (18% of total) appears more vulnerable and could surprise negatively if there is poor official execution of the sizeable fiscal stimulus measures announced by the Malaysian government. Finally, in relation to the recent acquisition of IAPB, significant attrition of relationship managers (RMs) and/or clients would erode value creation expectations.
DBS	Our PT of S$16.00 implies 1.4x stated FY11F P/BV (key assumptions: 12.0% ROE, 9.5% cost of capital, 5.0% long-term growth).	A double-dip scenario would, more so than ASEAN-centric peers, erode loan growth and asset quality associated with the group's regional corporate and SME (largely HK/China-centric) client bases, while product and/or staff setbacks related to the many initiatives articulated by new CEO Piyush Gupta would necessitate a continuing "execution risk" discount for the group. Potential for competitors to disturb DBS' current and savings accounts (CASA) dominance in Singapore, and hence place its fixed-rate lending strategy in jeopardy, is ever-present but is a low-probability event, in our view (it is much harder to build a deposit franchise than to grow assets via lending).
Fraser and Neave	We value F&N on a SOTP valuation methodology - market prices for its listed stakes, Nomura NAV estimates for its property assets, 5x FY10 EV/EBITDA for Times Publishing and FNN Foods. Our price target of S$7.24/share is derived after applying a 5% conglomerate discount to our NAV.	Changes to equity market risk premiums, as well as any unexpected improvement/deterioration in the outlook for the economy and physical real estate markets could see the stock trade above or below our SOTP NAV estimate.
Keppel	Our price target of S$13.10 remains pegged at a 5% discount to our SOTP value of S$13.80 (method unchanged, discount in line with Sembcorp Industries'). We value the O&M division using a DCF over a 15-year period. This incorporates a drop in offshore and marine earnings from FY10F, and a WACC of 7.5% (in line with our WACC valuation for Sembcorp Marine). The group's other businesses (ie, Keppel T&T, K1 Ventures) are valued at the current market price levels while Keppel Land is based on Nomura's published price target.	Our price target could be hurt by a larger-than-expected fall in margins from the group's O&M division; a significant and continued fall in orderbook build-up; a bigger-than-expected decline in the asset values and rents at its property division, or a collapse in margins at its infrastructure division.
SembMarine	Our price target of S$6.03 is based on our sum-of-the-parts (SOTP) valuation, comprising a DCF valuation (WACC 7.5%, 0% terminal growth over a 15-year period and incorporating a forecast earnings decline from FY11F) of the group's shipyard businesses, which includes the three Singapore yards, as well as earnings from overseas yards including Cosco Shipyard Group, and its remaining 4.8% stake in Cosco Corp.	A sharp downturn in oil prices could have a negative impact on potential offshore rig orders, as well as lead to potential further delivery delays. Extensive cancellations of the group's O&M orderbook, or significant losses incurred on these O&M projects, or more associate losses could also have a negative impact on our price target.
Indofood Agri	We value the company at 15x FY11F P/E. We believe this valuation peg of +0.7x SD above its mean is reasonable, given our bullish CPO view.	Higher-than-expected vegetable-oil production (or oilseed production) globally including palm oil or lower-than-expected crude oil prices for 2011 are key negative risks to CPO prices (and in turn negative for the earnings of upstream palm oil companies).
Golden Agri	We value the company at 15x FY11F P/E. We believe this mid-cycle valuation of +0.7x SD above the stock's mean is reasonable in the context of our bullish CPO view.	Risks include higher-than-expected oilseed production and lower-than-expected crude-oil prices, which would impact CPO prices (and therefore earnings) negatively.
Noble Group	We value Noble using a residual dividend model, with a 9% cost of equity, 2.5% terminal growth rate and long-term ROE of 12% to arrive at our price target of S$2.52.	The key company-specific risk, in our view, would be execution of its targeted processing facilities to generate more trading volumes. On the funding side, the interest cost could always be the swing factor because of ~80% leverage.
CCT KREIT,	Our price targets are based on our assessment of the intrinsic value of the underlying real estate owned by the REIT based on a 10-year DCF.	An unexpected decline in economic activity and/or office demand could potentially negatively affect our rental and occupancy expectations, which could adversely impact our DPU estimates, as well as our valuation of the underlying real estate assets.
Biosensors	We value Biosensors on a SOTP methodology — DCF for its base business, Terumo royalties and BioMatrix (9.7% WACC), 9.2x exit P/E to account for DES business valuation. We value its 50% stake in JWMS at 22x P/E.	1) Potential termination of BioMatrix's distributorship with Krauth in Germany; 2) single-product company.
Venture Corp	Our price target of S$11.50 is peer-derived P/BV adjusted for goodwill.	Downside risks to our price target could stem from delays in the ramp of enterprise IT budget spending.
M1	DCF valuation (WACC: 7.7%, 10% cost of equity, 3% cost of debt, terminal growth rate: 1%)	1) More aggressive competition in Singapore; 2) limited ability to offer fixed-mobile bundles; and 3) a macro slowdown in Singapore.

Source: Nomura research

Exhibit 43. Valuation methodology and risks to PT – Malaysia, Indonesia, Thailand & Philippines

Company	Valuation methodology	Risks to PT
Axiata Group	Our price target is based on a sum of the valuations of subsidiaries and associates. We use DCF methodology for valuing the four key subsidiaries: Celcom, XL, AxB, and Dialog using WACCs of 7.7%, 12.6%, 7.7%, and 8.0%, respectively; our terminal growth rates are 2.5%, 3%, 1.5%, and 1.5%, respectively.	Key downside risks include aggressive price competition; weaker-than-expected take-up of wireless broadband in Malaysia; and tariff wars and regulatory risks in Indonesia, India, Sri Lanka, and Bangladesh.
CIMB Group Holdings	Our Gordon Growth-based target price implies a FY11F price-to-book multiple of 2.5x. The higher price target is driven by our higher earnings estimates; we keep our cost of equity (9.25%) and terminal growth rates (4.25%) unchanged.	Downside risks to our call include a reversal in sentiment, leading to a downswing in capital markets. This would likely impact CIMB's earnings. A weaker economic growth outlook in Malaysia and/or Indonesia could result in lower loan growth and higher credit costs for both businesses.
Genting Malaysia	We are setting our price target based on the stock's average historical discount to DCF-based RNAV since 1997. On average, GENM shares have traded at a 12% discount to DCF-based RNAV since then. Applied to our DCF-derived RNAV estimate for FY11F, this translates into a price target of RM4.12/share. GENM's intrinsic value, if measured by the discounted cashflow (DCF) model, comes to RM4.69/share (before discounts), on our estimate. In deriving this value, we have discounted its future cashflow by a weighted average cost of capital (WACC) of 9.7%. The WACC is derived from a cost of equity of 9.7%, a risk-free rate of 3.75%, an equity risk premium of 4.5%, and beta of 1.32.	Risk: Although we believe to a large extent fear of potential loss of revenue to the two Singapore casinos has been largely priced in, a sharper-than-expected fall in GENM's revenue would likely see the shares trading at a sharper discount to RNAV. Conversely, a lower-than-expected loss in revenue could be an upside risk to our estimates and price target. Historically, the shares have traded at up to a 45% discount to RNAV in 1998 and 34% discount in 2001.
Malayan Banking	Our Gordon Growth-based price target is derived after imputing a FY12F ROE forecast of 16.2%. Our price target implies a P/BV of 2.5x, which is just above its post-crisis average P/BV of 2.4x.	Risks: 1) weaker-than-expected economic growth could result in slower loan growth and higher credit costs; and 2) Bank Negara curbs on mortgage LTV would result in slower growth in the consumer space.
Sime Darby	We value Sime Darby using a SOTP valuation: 1) ascribing a P/E multiple of 18x to its plantations division FY11F PAT, 14x to heavy equipment FY11F PAT, 15x to automobiles FY11F PAT, 10x to Utilities FY11F PAT, and 8x to others; and 2) valuing the property business at RNAV.	Risks to the group include poor execution of its restructuring, weaker-than-expected CPO production and a sharp fall in CPO prices.
SP Setia	We peg SPSB's price target at parity to our RNAV-based and diluted fair value (after accounting for any warrants conversion), derived from a combination of a net present value of profits from ongoing projects at a discount rate of 9% and revaluation surplus of land values above their book value.	Risks to our PT include: 1) any project delays or disappointing take-up rates could dent our earnings forecasts. Profit margin could also vary at different stages of billing – a slower actual schedule might result in a difference between actual reported net profit and our estimates. Project delays could arise from longer-than-expected approval/completion on land acquisition and building designs; 2) Project concentration in Johor / Klang Valley - While the company has stepped up its diversification efforts in recent years by securing projects in Vietnam and China, the bulk of its portfolio still consists of projects in Malaysia, and in particular, residential projects in Johor and Klang Valley. Its operational as well as stock performance is therefore closely tied to the Johor and Klang Valley residential markets; and, 3) a double-dip or recessionary scenario occurring.
Media Prima	Our DCF-based price target uses a discount rate of 10.3% (risk -free rate 3.75%, beta of 1.3x and terminal growth rate of 2%).	Risks include the following: 1) if the global recovery is slower than expected, consumer demand/sentiment and ultimately advertising spending will follow; 2) forex changes – a sharp depreciation in the ringgit would lead to significantly higher costs of programming content and newsprint; and, 3) competition – if competitors become more aggressive in gaining TV adex market share, it may result in greater discounting for ad space.
Bank Mandiri	Gordon Growth model (ROE: 22%, terminal growth rate: 9%, cost of capital: 14%).	Setbacks in the tentatively rebounding global and domestic economic recovery could be a significant blow both to earnings and to the balance sheet.
London Sumatra	Our PT is pegged to 15.3x FY11 P/E, +0.9x above standard deviation.	Lower yield and a drop in CPO prices.
Siam Commercial Bank	Gordon Growth model (ROE: 17.5%, terminal growth rate: 5%, discount rate of 11%).	Sharper-than-expected spike in its non-mortgage retail portfolio, sustained political uncertainty.
PT XL Axiata	DCF valuation (WACC:12.6%, 9% cost of debt, 14% cost of equity, 20% gearing, terminal growth rate 3%).	1) Limited growth in non-voice services; and, 2) higher-than-expected competition.
Indosat	DCF valuation (WACC:11.8%, 9% cost of debt, 14% cost of equity, 30% gearing, terminal growth rate 3%).	1) Potential sub-optimal execution from new management; 2) more aggressive competition; and, 3) deterioration in macro conditions.
PGAS	We value PGAS using a DCF methodology with WACC at 9.5% and a 3% terminal growth assumption	Continued strengthening of the Rp relative to the US$, weaker-than-expected realised gas distribution flows and an inability to pass on what we expect will be a marked rise in future gas costs to customers.
Glow Energy	DCF with WACC = 8%, terminal growth assumption of 1.5%.	Regulatory issues in the Map Tha Put Industrial Estate, significant project delays, political unrest.
EGCO	DCF with WACC = 7.5%, terminal growth assumption of 1.5%.	Political unrest, uncertainty surrounding PPA extension.
Ratchaburi Electric	DCF with WACC =7.0%, terminal growth assumption of 1.5%.	Political unrest, problems with the execution of Ratch's growth pipeline in Laos.
EDC	FCFF with WACC = 9.9% and terminal growth assumption of 2.0%.	Over the near term, we see significant discontinuities in the regulatory environment as the key downside risk for the sector and EDC. On a firmspecific level, while our PT is by no means predicated on success in bidding for Bacman and a portion of the 559MW Unified Leyte contracted capacity (we currently assume EDC wins neither bid), EDC's share price may be adversely impacted by a sentiment-related sell-down should its bids 1) either fail, or 2) should competitive forces prompt the company to over-pay. Risks associated with EDC's Miyazawa II bullet repayment due in FY10 have been mitigated through hedging.

Source: Nomura research

Singapore

BEARISH

Action

We see 10-15% market returns in Singapore in 2011 underpinned by attractive valuation, favourable liquidity conditions, and a strong S$. Industry drivers support our positive stance towards banks (attractive valuation), commodities (food inflation), offshore marine (capex cycle) and office property (cyclical upswing).

Anchor themes

We believe sector-specific news will likely help the market rerate in 2011, including the food inflation theme, a new capex cycle for the offshore sector, and higher pre-commitments for office space. We see steady margins and loan growth for the banks in 2011.

A strong currency, reasonable valuation, and policy flexibility support Singapore's market outlook in 2011. Cooperation within ASEAN to improve trade while cross-border investments between Singapore and Malaysia could accelerate.

Stocks for action

We are positive on sectors that benefit from reflation and higher commodity prices. These include banks, commodities, offshore marine and commercial property.

Stock	Rating	Local price	Price target
OCBC (OCBC SP)	BUY	9.94	11.8
DBS (DBS SP)	BUY	14.42	16.0
CCT (CCT SP)	BUY	1.51	1.68
Golden Agri (GGR SP)	BUY	0.8	0.85
Noble (NOBL SP)	BUY	2.14	2.52
Keppel (KEP SP)	BUY	10.98	13.1
SembMarine (SMM SP)	BUY	5.15	6.03
Biosensors (BIG SP)	BUY	1.14	1.5
Fraser & Neave (FNN SP)	BUY	6.46	7.24

Prices as of 28 Dec closing.

An ASEAN proxy

① Favourable liquidity conditions to support the market in 1H2011

We believe Singapore is one of the few countries in Asia unlikely to impose capital controls and it looks poised to benefit from an easier global liquidity environment in 2011. This is against a backdrop of attractive valuations (13x PE, 11% market EPS growth, and dividend yield of 3.2%) on our estimates.

② Bullish on banks and upstream commodity plays

Banks have started to stir from their undervalued positions with **OCBC** rerating strongly in 4Q10. We think this momentum will continue, underpinned by regional growth and steady NIMs in 2011. We are positive on upstream commodity plays like **Golden Agri** and **Indofood Agri** on rising CPO prices. We like **Noble** for its upstream coal assets and the increasing contribution from its midstream investments.

③ Offshore marine to see upswing in rig upgrading/build cycle

With a higher oil-price outlook (we forecast US$95/barrel for 2011) and the start of a new rig upgrading cycle for the offshore sector (regulation-driven), we believe **Keppel** and **Semb Marine** will likely rerate positively in 2011.

④ Stick with Office; policy overhang on Residential

The upswing in the office asset cycle will, we think, support further rerating in the office plays. We remain positive on **CCT**, **K-REIT** and **Suntec.** Potential policy risks for the residential sector will likely undermine share price performance of the developers.

⑤ Themes: M&A, ASEAN and favourable policies

We think easy credit conditions will encourage M&A/restructuring activity while broader ASEAN cooperation will likely spur cross-border investments. Singapore's strong fiscal situation suggests to us more investments to entrench Singapore's long-term competitiveness.

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And the Singapore Research Team

Drilling down

Constructive view of Singapore in 2011

While we have a constructive view of Singapore in 2011, a tug-of-war between key macro factors will likely create some degree of volatility in 2011. Global reflationary efforts and currency appreciation will provide the impetus for the Singapore market to rerate higher but the spectre of protectionism and over-extended global bond markets may dampen sentiment as the year progresses, in our view.

While we have a constructive view of Singapore in 2011, a tug-of-war between key macro factors will likely create some degree of volatility in 2011

As a financial centre, Singapore is unlikely to impose capital controls on monetary inflows into Asia as a consequence of surplus liquidity generated from the developed countries. This has the unintended consequence of keeping interest rates in Singapore low against the backdrop of rising inflation. The persistence of negative real interest rates in Singapore will likely support asset prices. In addition to market returns, currency gains will likely provide another source of returns to US$-based investors.

We believe 2011 will likely see Singapore's GDP growth slow significantly to 5.3% from 15.5% in 2010; this slower growth should be in line with the government's focus on long-term sustainable growth underpinned by productivity growth. With output fully restored, monetary and fiscal policies have shifted to moderating inflationary expectations.

The services sector, which is less dependent on global growth, will likely be a key driver of growth in 2011. In spite of the slower growth, we believe unemployment will be resilient, ranging between 2.1% and 2.5%, with wage pressures building even as the effects of a strong currency start to moderate growth.

Policy makers will likely have to contend with the following macro issues in 2011:

- The impact of negative real interest rates;
- Singapore's competitiveness if the S$ appreciates too sharply; and
- Wage pressures against the backdrop of the removal of job credits and an increase in worker levies.

Themes in 2011

We see four themes that may be play out for the Singapore market in 2011:

Theme 1: Currency strength, low interest rates, and policy responses

Against the backdrop of easy global liquidity conditions and in the light of Singapore's currency stance, real interest rates are likely to remain negative, supporting the uptrend in asset prices. In spite of three sets of administrative measures introduced since September 2009, the residential property market remains firm. The government may therefore introduce more measures to cap residential prices from appreciating further.

Possible negative consequences of the S$'s strength include the potential loss of relative competitiveness for Singapore's exports and translation losses from the overseas earnings of Singapore companies.

Theme 2: General elections

Although the general elections are unlikely to have any impact on the market, we believe the government could announce policies that would improve the welfare of Singaporeans and strengthen the social safety net.

Theme 3: M&A/restructuring

We expect the M&A and restructuring theme will continue into 2011 as companies look to bolt on new capabilities and geographies through acquisition. Low interest rates could also encourage companies to become more active in M&A and restructuring.

Theme 4: Creating an ASEAN Economic Community

ASEAN appears committed to achieving a single market and production base by 2015. A key thrust behind the AEC is connectivity, which will likely see increased infrastructure spending in ASEAN. Increased spending on infrastructure would create opportunities for ASEAN companies to finance and build these infrastructure projects.

Sector strategy

We believe reflation will be a key rerating driver in 2011 and therefore we are bullish on the banks, commodities and commodity-related sectors, and commercial property. We are less positive on telcos, which we believe will underperform as risk appetite improves. We are also bearish on gaming companies, given what we see as their rich valuations.

Exhibit 44. Sector views – Nomura coverage

Sector	Nomura sector view	Stock picks (BUY)
Bullish		
Banks/Financials	Valuations for the Singapore banks are attractive, with price/books of 1.3x FY11F on ROEs of 10% to 13% and attractive dividend yields. In addition, we expect earnings growth for the banks to average 14% in 2011. Banks are also seen as proxies to the market in a reflationary environment. **OCBC** and **DBS** are Anand Pathmakanthan's preferred picks among the Singapore banks. OCBC has managed to chalk up strong loan-growth momentum, while its distinctive wealth management/ insurance franchise differentiates it from its peers. DBS is starting to show signs of focusing on its core franchises to drive growth and profitability. Improvements in its LDRs and impressive top management hires should put the group on the path to improving ROEs, we believe. Meanwhile, **UOB** (UOB SP, NEUTRAL) appears to have underperformed its peers in loan growth, reflecting a conservative lending posture and perhaps more exposure to Thailand and a higher LDR in Indonesia and Malaysia.	OCBC, DBS
Commodities	Ken Wong, our ASEAN plantations analyst, is positive on the upstream plays like **Golden Agri** and **Indofood Agri** on the back of our positive view on CPO. Tanuj Shori likes **Noble** for its upstream coal asset and strong earnings rebound in 2011 as its mid-stream assets contribute more materially. His Buy on **Olam** (OLAM SP, BUY) reflects his positive view on its fertiliser investment in Gabon. While Tanuj Shori likes **Wilmar**'s (WIL SP, BUY) long-term potential, short-term price performance may be constrained.	Golden Agri. Indofood Agri, Noble, Olam
Neutral		
Property	**REITs:** Tony Darwell is bullish on the recovery in the asset cycle for the office sector, as rents and capital values improve. He likes **CCT**, **K-REIT**, and **Suntec** (SUN SP, BUY). He sees mispricing in the retail and industrial sectors, which remain exposed to a contraction in demand. **Developers:** Min Chow maintains a cautious view on developers given the recent policy measures and weakening fundamentals with rising vacancies and historically low yields. He is selectively positive on stocks with attractive valuation, especially **UOL** (UOL SP, BUY).	CCT, K-REIT, Suntec REIT.
Conglomerates	Lisa Lee is bullish on the recovery in capex spending for the Offshore and Marine sector in 2011 driven by the higher oil price and increased regulatory requirements in the Gulf of Mexico. She likes **Keppel** and **SMM.** The Petrobras contract is also a potential catalyst. Jitsoon Lim likes **F&N** for its growing F&B business and potential alliances with new shareholder Kirin Holdings. The group could also look to restructure its F&B and property businesses.	Keppel, SMM , F&N
Transport	**Airlines. SIA** (SIA SP, BUY) looks well positioned to benefit from the recovery in the aviation cycle as premium travel recovers. Jim Wong has a BUY on SIA and believes the momentum of improving premium traffic and lower fuel costs will underpin recovery. **Land transport.** As the government changes its public transport policies to increase usage of public transport, changes in the short term may affect operators' profitability. Lisa Lee has NEUTRAL calls on both **SMRT** (MRT SP, NEUTRAL) and **Comfort Delgro** (CD SP, NEUTRAL). **Shipping.** Andrew Lee, our regional shipping analyst, has a NEUTRAL on **NOL** (NOL SP, NEUTRAL), as valuations appear to have already priced in the rebound in rates while the outlook appears to be weakening in the face of new supply and slowing demand.	SIA
Bearish		
Gaming	Our gaming analyst, Choong Wai Kee, believes analysts have generally overestimated the potential of the gaming market in Singapore as borne out by **Genting Singapore**'s (GENS SP, REDUCE) 3Q results. He believes the stock is overvalued and maintains a REDUCE. Min Chow Sai is negative on **CDL H-REIT** (CDREIT SP, REDUCE) on valuation grounds, as the shares have priced in optimistic scenarios for occupancies and room rates.	
Telco	Sachin Gupta believes that while the sector offers stability of cashflow, strong balance sheets, and potential for capital management there are few catalysts to help rerate. He has a NEUTRAL on **Singtel** (ST SP, NEUTRAL) and maintains REDUCE on **Starhub** (STH SP, REDUCE) given the erosion in its core business. He likes **M1** for its dividend yield and as a potential M&A target (M1 SP, BUY).	M1

Source: Nomura research

Stock picks

In line with our reflation theme and sector views, we outline our top picks for 2011.

Exhibit 45. Top picks for Singapore market

	Price (S$) 28 Dec 10	Rating	Price target (S$)	P/E (x) FY11F	P/BV (x) FY11F	Yield (%) FY11F	Nomura comment
Reflation							
OCBC (OCBC SP)	9.94	BUY	11.80	12.5	1.5	3.4	Private banking platform will diversify earnings while capital ratios are strong. Relatively larger overseas platform compared with peers'.
DBS (DBS SP)	14.42	BUY	16.00	11.2	1.4	5.0	Increasingly tangible traction in leveraging core franchise strength and building an execution base for regional growth initiatives should deliver substantial restructuring gains over the medium term.
Property related exposure							
K-REIT (KREIT SP)	1.42	BUY	1.62	20.4	1.0	4.9	Play on prime Grade-A office space. Acquisition of 1/3 stake in MBFC 1 & 2 will be yield-accretive and increase its exposure to international grade space to 70% of its valuation.
CCT (CCT SP)	1.51	BUY	1.68	21.6	1.1	4.6	CCT remains the dominant office landlord in Singapore in terms of International Grade-A (IGA) office space, with 2.3mn sf, equal to 72% of its total office portfolio and 62.6% of its commercial portfolio.
Commodity and Energy related exposure							
Golden Agri (GGR SP)	0.80	BUY	0.85	14.2	1.1	1.4	We believe Golden Agri offers strong growth potential on the back of its strong mature hectarage increases in the coming years. GGR's problems with environmentalists could start to wane as it starts to meet conditions set by RSPO.
Indofood Agri (IFAR SP)	2.83	BUY	3.20	13.8	2.0	0	IndoAgri offers strong leverage to CPO price strength and higher growth from its large immature areas, with increasingly diversified exposure to its growing non-palm plantations like rubber and sugar.
Noble (NOBL SP)	2.14	BUY	2.52	14.6	2.5	1.2	Commodity price upcycle, along with strong performance in agri (oilseeds and sugar), energy (coal), and locked margins in FY11F should ensure a good FY11 for the company.
Keppel Corp (KEP SP)	10.98	BUY	13.10	15.8	2.5	3.4	Although O&M revenues appear to be peaking, infrastructure and property are providing some cushioning. Optionality on Brazil contracts. Stock has also correlated well with oil price.
Sembcorp Marine (SMM SP)	5.15	BUY	6.03	17.2	3.9	2.9	We expect strong order momentum to continue, particularly from the production-platform segment, following a series of jack-up orders announced recently. Optionality on Brazil contracts.
Situational and M&A							
Biosensors* (BIG SP)	1.14	BUY	1.50	15.1	3.7	0	Strong growth for its stent sales in EU and Asia, continued growth in China and potential revenue share from Japan underpin prospects. Recent positive clinical trial data at TCT could provide impetus for new products. New shareholder Hony Capital could help enhance its China presence.
Fraser and Neave (FNN SP)	6.46	BUY	7.24	14.9	1.4	2.6	Strong F&B growth outlook with optionality on its property assets. Potential split of F&B and property may unlock value. New shareholder Kirin could help create new products for its F&B business.
Venture Corp (VMS SP)	9.33	BUY	11.50	14.0	1.3	5.4	Successfully restructured its business mix with less reliance on printing and imaging. Test and Measurement and Retail Systems solutions now provide greater balance. Strong cashflows, improving margins, and strong dividend yield make Venture an attractive company, we believe.

* March FYE; FY12F estimates

Source: Bloomberg, Nomura estimates

Malaysia

BULLISH

Action

Sentiment has turned even more bullish, sparked by a series of M&A actions in the consumer and property sectors. The increased level of corporate activity is reminiscent of the bull market days of the 1990s, in our view. With GDP recovery on track and corporate earnings picking up, we believe 2011 will be another good year for the Malaysian market. In addition to consumption-related property, banking and consumer sectors, we also like the asset reflation theme in the commodities-related palm oil sector.

Anchor themes

We recently introduced the *Malaysia's consumption boom* story. We believe this is an interesting theme not properly researched and overlooked by the street.

While the consensus earnings upgrades cycle is likely to remain in positive territory, we believe the Malaysia consumption boom story will be the next focus.

Stocks for action

We recommend a group of stocks which we believe will be prime beneficiaries of the consumption boom in Malaysia, such as Maybank, AMMB, Media Prima, SP Setia and Genting Malaysia.

Stock	Rating	Price	Price target
Maybank (MAY MK)	BUY	8.49	10.70
AMMB (AMM MK)	BUY	6.99	7.30
CIMB (CIMB MK)	BUY	8.55	10.00
Sime Darby (SIME MK)	BUY	8.77	11.10
SP Setia (SPSB MK)	BUY	5.76	6.11
Genting Malaysia (GENM MK)	BUY	3.36	4.12
Media Prima	BUY	2.59	2.90

Pricing as of 28 Dec 2010

Back to the '90s again

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① Still going strong in 2011

The buoyant stock market in 2010 is likely to be sustained into 2011. After surging over 30% in 2010, we look for a further 13% potential upside in 2011. We believe our recently introduced the *Malaysia consumption boom* story (see our report dated 5 Nov 2010) will continue to be an important theme in 2011. The increase in M&A activities in the past few weeks in the property, construction and consumer sectors is creating more excitement and momentum for the market.

② Bullish on residential property

We continue to be Bullish on Malaysia residential on the unlocking of latent demand from an incrementally higher income earning population, favourable demographics and positive government policies. The 10th Malaysia Plan echoed the government's support in boosting affordability in the property sector with the introduction of 100% financing schemes for first-time buyers of houses not priced higher than RM350,000 and a 50% exemption on stamp duties for first-time home buyers. Relative to the region, regulatory risk is lower in Malaysia, in our view.

③ Banks and plantations are our other picks

We believe fairly robust economic conditions will continue to underpin loan growth for 2011. We expect both consumer and capital markets to drive top-line growth. Our economists expect a 75bps OPR increase next year which is supportive of margins. Maintain Overweight on banks. We recently upgraded our view of the plantation sector to Bullish on our higher CPO price assumptions. We think tighter supply/demand fundamentals for the vegetable oil complex, higher crude oil prices and increased flows into the commodities space provide support for higher CPO prices and our more positive view on the plantations sector.

④ Index target and sector strategy

Our bottom-up analysis implies that the FBM KLCI index target will rise a further 13% to 1,700 by end-2011F. With more corporate activities taking place, sector rotation is likely to be a key strategy in outperformance. Stocks we like include Maybank, AMMB, CIMB, Media Prima, SP Setia, Genting Malaysia and Sime Darby.

Exhibit 46. Sector views

Source: Nomura Research

Exhibit 47. Malaysia: Nomura forecasts

% y-y growth unless otherwise stated	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	2010	2011	2012
Real GDP	5.3	4.4	4.6	4.7	5.6	5.7	6.0	5.2	7.0	5.2	5.5
Private consumption	7.1	5.7	4.5	5.0	4.7	4.7	5.0	5.5	6.4	4.7	5.3
Government consumption	(10.2)	3.0	7.0	7.0	7.0	7.0	5.5	5.6	1.2	7.0	6.0
Gross fixed capital formation	9.8	6.0	8.0	8.0	8.0	8.0	11.0	11.0	8.6	8.0	11.0
Exports (goods & services)	6.6	8.5	4.2	5.2	7.0	8.0	9.3	11.9	11.7	6.2	9.1
Imports (goods & services)	11.0	10.6	6.2	7.2	8.3	9.4	11.0	9.1	16.9	7.9	9.3
Contributions to GDP (% points):											
Domestic final sales	4.5	4.8	4.8	5.3	5.2	5.4	5.6	6.2	5.5	5.2	6.1
Inventories	4.4	1.0	1.0	1.0	1.3	1.3	0.7	(4.6)	4.8	1.1	(1.1)
Net trade (goods & services)	(3.5)	(1.4)	(1.2)	(1.6)	(0.8)	(1.0)	(0.3)	3.5	(3.2)	(1.1)	0.5
Unemployment rate (%)	3.2	3.2	3.1	3.1	3.0	3.0	3.0	3.0	3.4	3.1	3.0
Consumer prices index	1.9	2.1	2.5	3.2	4.2	3.4	3.5	3.4	1.7	3.3	3.2
Exports	23.2	16.5	13.2	13.2	15.0	16.0	16.7	18.6	27.2	14.4	15.7
Imports	29.9	12.6	11.2	11.2	12.3	12.9	18.6	15.8	30.7	11.9	15.9
Merchandise trade balance (US$bn)	7.1	12.6	13.7	9.0	9.3	15.9	15.3	12.0	38.4	47.9	55.1
Current account balance (% of GDP)	10.4	16.3	16.4	12.1	11.5	18.2	16.5	15.3	13.0	14.6	15.7
Fiscal Balance (% of GDP)									(5.6)	(5.3)	(4.2)
Overnight policy rate (%)	2.75	2.75	2.75	3.00	3.25	3.25	3.25	3.25	2.75	3.25	3.25
Exchange rate (RM/US$)	3.09	3.08	3.00	2.97	2.93	2.88	2.84	2.80	3.08	2.88	2.72

Notes: Numbers in bold are actual values; others forecast. Interest rate and currency forecasts are end of period; other measures are period average. All forecasts are modal forecasts (i.e., the single most likely outcome). Table last revised 15 December 2010.

Source: CEIC and Nomura Global Economics

Indonesia

BEARISH

Action

Despite the recent rally, we are Bullish on Indonesia on an absolute basis, as underlying fundamentals continue to support growth and a further re-rating. We see two investment themes in 2011: commodities and infrastructure, and Astra International and the banks remaining proxies to the IDX. Stocks in the focus sectors include: Adaro, ITMG, United Tractors, London Sumatra, Jasa Marga, Holcim Indonesia, Semen Gresik and PGAS.

Anchor themes

The new land acquisition bill is expected to be passed in 1H11, lifting the last stumbling block. This should boost GDP growth in 2011 beyond the 5.9% estimated for 2010, create jobs and improve logistical efficiency.

Commodities companies will likely see volume returning to normal, easing cost pressure, and selling prices supported by quantitative easing. In the meantime, infrastructure development should boost GDP growth.

Stocks in focus sectors

We believe companies exposed to infrastructure and upstream commodity producers will be potential winners in 2011F. PGAS, Bank Negara and Bank Mandiri are stocks under our coverage exposed to the infrastructure theme.

Stock	Rating	Price	Price target
Bank Negara Indonesia (BBNI IJ)*	BUY	3,600	4,500
PGAS (PGAS IJ)	BUY	4,250	5,100

* Our PT is under review; pricing as of 28 Dec 10

Positioning for 2011: commodities and infrastructure

① Government to kick start infrastructure projects

The proposed land acquisition bill will enable the government to accelerate infrastructure projects as it allows speedy land acquisition. Under the proposed bill, land rights in public infrastructure corridors will be cancelled, owners will be compensated, and any dispute will be taken to court and ruled on in 30 days. Currently, it takes about two years (often longer) to clear land and less than a year to build the road as a land owner who refuses to sell can hold back a project. The proposed bill should solve this problem and allow infrastructure projects to start almost immediately. We think the impact will go beyond operators to suppliers, contractors, banks and properties.

② Commodities

Higher volumes and prices will likely propel commodity stocks higher in 2011. Normalising weather should allow higher production of coal and palm oil companies in 2011 (volume was hurt by heavy rains in 2010), ease cost pressure, and lead to 15-25% earnings growth, before any impact from higher prices. The current spot coal price is US$107/t versus the YTD average of US$97 in 2010, while palm oil spot price is 30% higher at US$1,070/t (YTD average US$824/t).

③ Strong macro picture; stable rupiah

We think Indonesia’s fundamentals remain solid; Nomura economics team estimates GDP growth accelerating from 5.9% in 2010F to 6.7% in 2012F. The budget deficit is likely to stay below 2% and inflation of 4-6% is near an historical low; our economics team expects an interest rate hike only in mid-2011. Strong inflows to buy treasury bills (SBI) prompted Bank Indonesia to introduce soft capital controls, indicating Bank Indonesia’s intention to keep the rupiah stable.

④ Stocks in focus

Stocks in the focus sectors of infrastructure and commodities include Jasa Maga (not rated), Holcim Indonesia (not rated), Semen Gresik (not rated), Adaro (not rated), ITMG (not rated), London Sumatra (LSIP IJ, Rp12,000, BUY), United Tractors (not rated) and PGAS (PGAS IJ, Rp4,250, BUY). Macro plays are Bank

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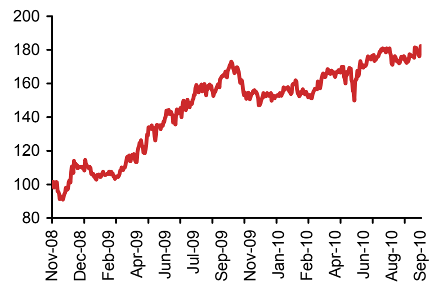
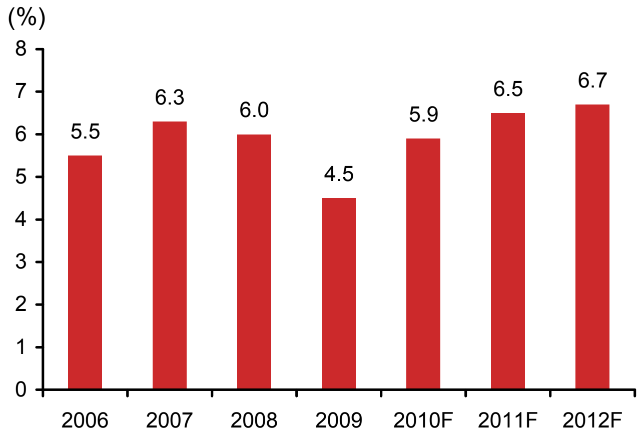
JCI relative to CRB index



Source: Bloomberg, Nomura International (HK)

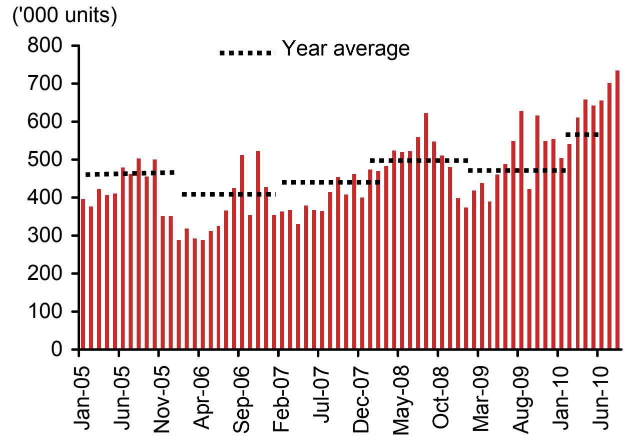
Mandiri (BMRI IJ, Rp6,400, BUY) and Bank Negara Indo (not rated). Astra International (not rated) has been a proxy to the sector due to its diversified business, good corporate governance, solid balance sheet and largest market cap in Indonesia. Rising input costs will likely also put margin pressure on staple consumer companies as there is normally two to four quarters time lag between rising input costs and ability of staple consumer companies to increase price.

Exhibit 48. GDP growth set to accelerate



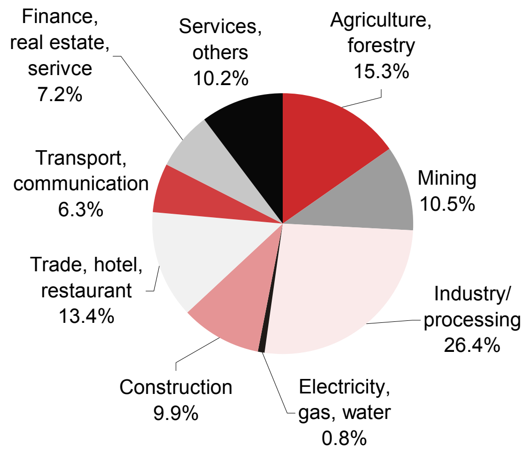
Source: Statistics Indonesia, Nomura Global Economics

Exhibit 49. Domestic motorcycle sales (Indonesia)



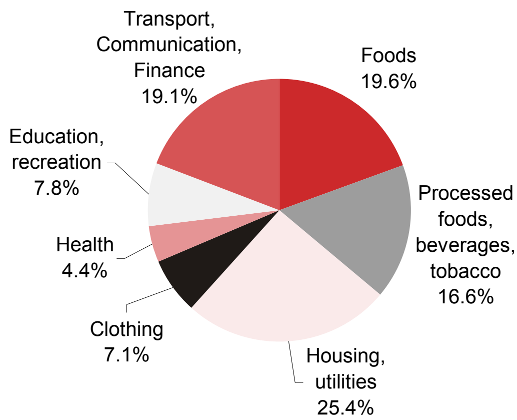
Source: AISI (Indonesian Motorcycle Association), Nomura

Exhibit 50. GDP breakdown



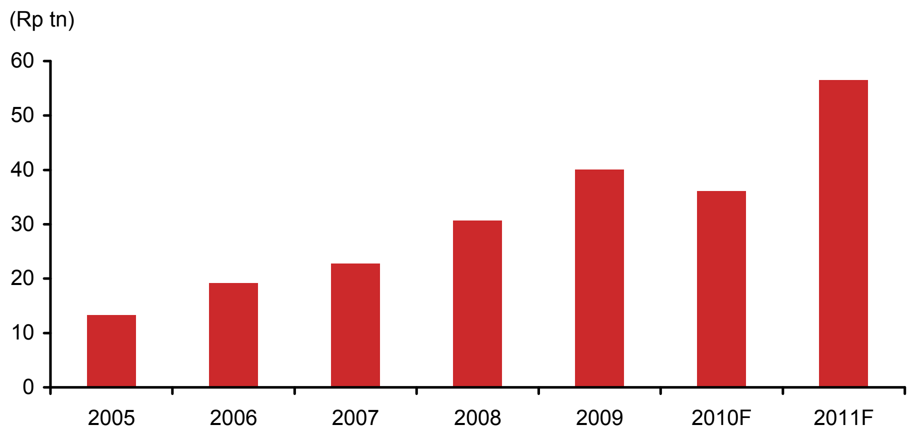
Source: Statistics Indonesia, Nomura

Exhibit 51. Inflation basket



Source: Statistics Indonesia, Nomura

Exhibit 52. Infrastructure: Budget Ministry of Public Works



Source: Ministry of Finance, Nomura

Thailand

BEARISH

Action

With Thailand's FX reserves booming, we believe the THB should remain well bid, particularly as the terms of trade are still positive. Domestic consumption has been resilient despite political concerns, and capacity utilisation has returned to its historical trend. While tourism languishes and FDI flows remain mixed, we think the credit cycle has been sustainable enough to promote a consumer recovery.

Anchor themes

Thailand still trades on inexpensive multiples with consensus EPS growth forecasting 18% for 2011. We think higher pay-outs than the rest of the region and a still decent 4% dividend yield should see investors amply rewarded in 2011.

With continued momentum into 4Q10, growth could exceed 7% in 2010 and ease to 4.8% in 2011 on our estimates. Interest rate normalisation has been put on hold in the context of large-scale capital inflows and rapid appreciation of the THB. We expect the BoT to hike rates again in 2Q11.

Stocks for action

We continue to prefer the sectors of agriculture, banks, domestic consumer stocks and energy.

Stock	Rating	Price	Price target
Glow Energy (GLOW TB)	BUY	46	55

Pricing as of 28 Dec 10

A growth sweet spot

① Momentum first, political concerns later

Thai equities performed impressively in 2010 and we expect a repeat in 2011. At the beginning of 2010, the rating for Thailand as an investment destination was weak. Despite improving terms of trade and solid bank balance sheets, the equity market was overshadowed by political concerns. Since then, export growth has improved markedly, the currency recently touched year highs versus the US dollar and domestic issues have been put aside.

The most significant turnaround has been in export pricing, largely as a result of the agriculture sector but also because of an increased number of foreign plants operating in Thailand. Component and intermediate goods have seen a strong rebound, underwriting non-commodity exports. This improvement has allowed companies to experience a bounce in their operating leverage and, hence, earnings have picked up faster than in the rest of the region. A soft exchange rate at the start of the year also benefited exporters, but now there are signs that the stronger currency has begun to constrain Thailand's production sector.

② A domestic consumption story

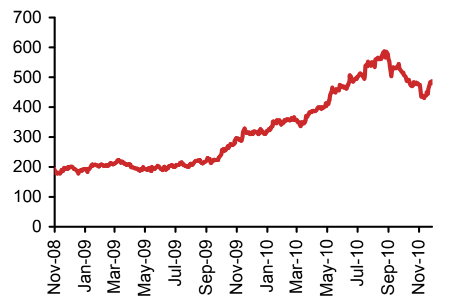
The stock market also benefited from a revival in domestic consumption with loan growth, housing and consumer borrowing all rising from single-digit percentages. Broad money supply has also revived, helped by a firm balance of payments surplus. Interestingly, this has occurred even though government expenditure has begun to recede since fiscal stimulus was delayed following the 2008-09 financial crisis. What seems to have happened is that, whether by coincidence or design, private-sector credit growth has been able to offset the contraction in public spending. Indeed, individual loan growth has risen at a double-digit percentage clip despite business loan growth remaining subdued.

Thailand has also participated in a property boom with transaction volumes up over 35% in a year and prices rising by around 20% in many cities. To some extent the credit boom and rising property prices have led to a wealth effect boosting consumption. Retail sales remain firm and with the terms of trade positive, the rise in agricultural prices has also supported strong consumption within the agriculture sector.

Analyst

Thailand Research Team

Thai food producers vs SET

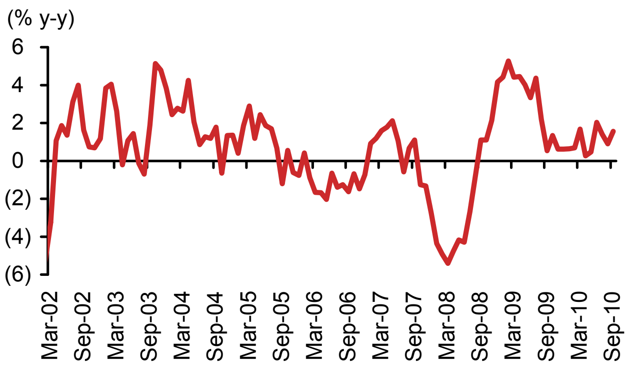


Note: FTSE Food producers / SET

Source: Datastream, Bloomberg, Nomura research

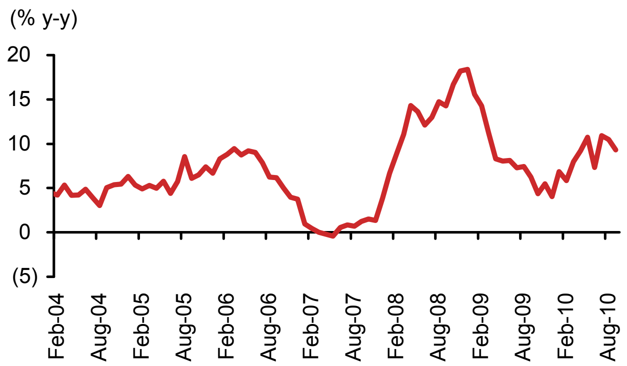
The improvement in equity prices has also been accompanied by the authorities allowing the exchange rate to appreciate. With real GDP growth at an almost two-decade high, close to record high exports, and ongoing broad money growth, the equity market has been able to overcome investor concerns about domestic politics.

Exhibit 53. Thailand: terms of trade



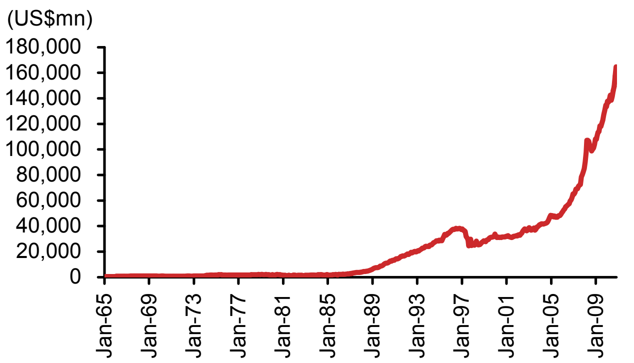
Source: CEIC; Nomura International (HK) Limited – Investment Strategy

Exhibit 54. Thailand: banks' loan growth



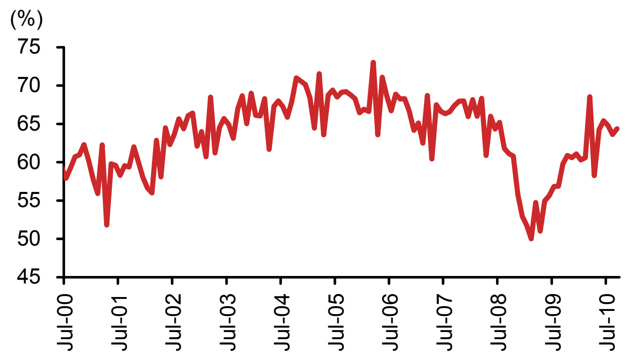
Source: CEIC; Nomura International (HK) Limited – Investment Strategy

Exhibit 55. Thailand: forex reserves



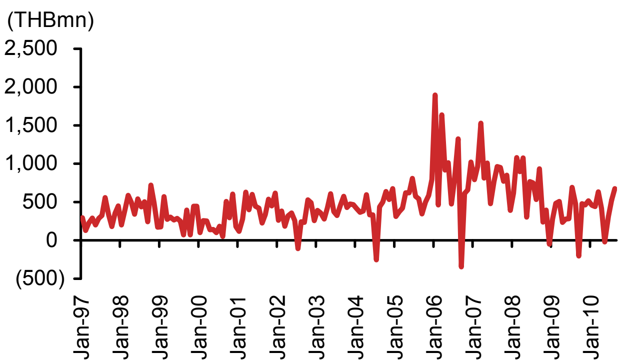
Source: CEIC, Nomura International (HK) Limited – Investment Strategy

Exhibit 56. Thailand: capacity utilisation



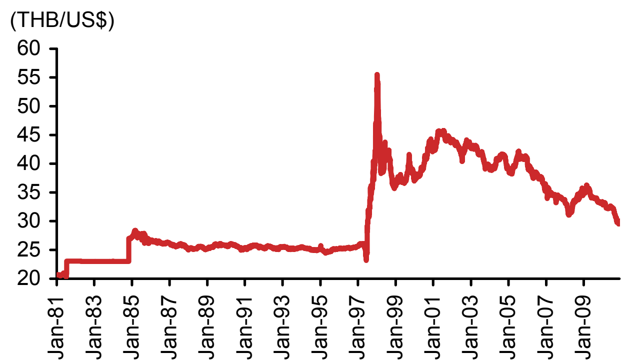
Source: CEIC; Nomura International (HK) Limited – Investment Strategy

Exhibit 57. Thailand: FDI



Source: CEIC; Nomura International (HK) Limited – Investment Strategy

Exhibit 58. US$/baht



Source: Bloomberg; Nomura International (HK) Limited – Investment Strategy

ASEAN Banks

BULLISH

Action

Sector operating dynamics across ASEAN look set to extrapolate on key trends seen in 2010, ie, sustained top-line pressure in the S$ space, 20%-plus loan growth from Indonesia, and a good balance of volume and margin delivery from Malaysia and Thailand. With costs, provisioning and balance sheet issues benign and macro backdrop robust, investors will reward growth over ROE-sapping conservativeness.

Catalysts

Evidence of a strong and sustained resumption in private sector capex (boost to lending) and gradual interest rate uptrend (margin positive) are key catalysts.

Anchor themes

In Sing, sustained S$ loan growth and margin pressure are key drags; in Malaysia, reviving corporate activity, a macro transformation programme and M&A interest are supports; in Indo, a robust economy may see lift from a potential infrastructure boom; in Thai, further re-rating requires crystallisation of private sector capex cycle.

Stocks for action

OCBC's steadily lessening exposure to S$ lending is a structural positive; Maybank (consumer finance) and CIMB (capital market) give balanced exposure to Malaysia; Mandiri is the favoured macro proxy in Indo; SCB is attractive as a relative laggard.

Stock	Rating	Local price	Price target
OCBC (OCBC SP)	BUY	9.94	11.80
Maybank (MAY MK)	BUY	8.49	10.70
Bank Mandiri (BMRI IJ)	BUY	6,450.00	6,800.00
Siam Commercial Bank (SCB TB)	BUY	104.00	108.00

Prices as of 28 Dec.

2011: more of the (Bullish) same

① Singapore: working around sustained margin drag

Net interest margin (NIM) weakness will, barring an unexpected S$ interest rate rebound (we expect the benchmark 3-month SIBOR to remain depressed around the current 40bp level into 2012), remain a key drag over FY11F. With balance sheet strength not in question, breaking FY10's sharp underperformance vis-à-vis regional peers requires bettering loan and fee income growth, with margin-supportive offshore asset growth and tapping cross-platform synergies a priority. Core holding OCBC is structurally best positioned to deliver on these, in our view.

② Malaysia: a strong year ahead for consumer & capital markets

Fairly robust economic conditions will continue to underpin loan growth for 2011, we expect. Both consumer and capital markets will drive top-line growth while asset quality remains robust. Our economics team expects a 50bp OPR increase next year, which is supportive of margins. Remain Overweight.

③ Indonesia: premium rests on sustained macro momentum

The macro combination of strong fiscal credentials, steady monetary policy and stable politics that were the tailwind for Indonesian asset price outperformance should remain in place in 2011. Banks will remain key beneficiaries with new sources of loan demand and fee income generation emerging even as credit quality and efficiency improve. With infrastructure financing set to be a key driver, we recommend a basket of state-owned banks anchored by Mandiri (macro proxy, infra exposure), with BNI (valuation play) and Rakyat (rural income growth).

④ Thailand: waiting on the capex cycle

We expect Thai banks to report strong earnings growth, averaging 20% over FY10F-12F, as all P&L drivers show moderate but collective expansion. However, valuations appear to already reflect this expectation, in our view, having surpassed pre-crisis records despite continued underlying political uncertainty and lack of capex cycle traction. The best visibility is in retail finance and the funding of Thai corporates investing offshore, underscoring well-positioned and aggressive SCB as our top pick.

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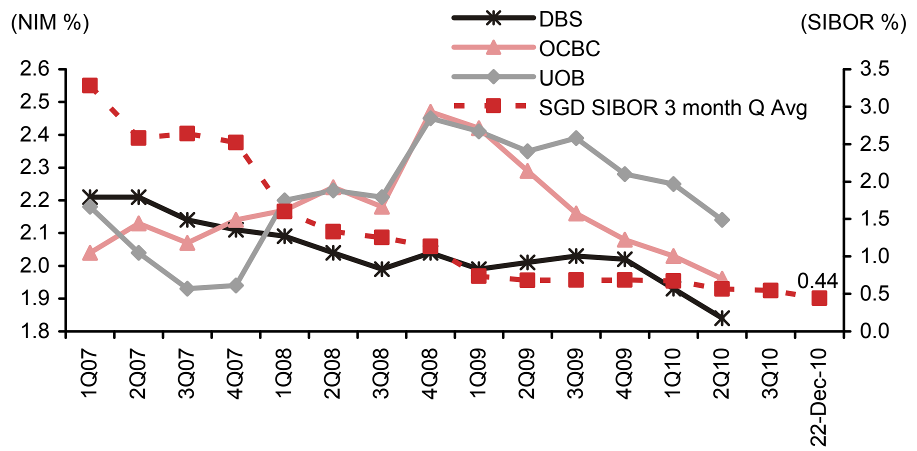
Manjith Nair (Associate)

Sing banks: working around sustained margin drag

Facing a prolonged period of S$ interest rate weakness, Sing banks need to work around the resulting margin drag by generating more loan and fee income volumes, while maintaining operating and credit cost discipline. An increasing premium will be attached to the ability to expand offshore franchises and cross-sell fee products. Against an attractive sector valuation backdrop — ie, P/B valuations below historical means, P/Es just above 10x and dividend yield averaging around 5% — OCBC with its scaled-up ASEAN platform and wide, tangibly synergistic product base is best-positioned in our view to navigate sustained S$ margin pressure and decelerating S$ loan growth.

- **2010F: margin decline casts a pall over strong earnings recovery.** Sing banks are on track to deliver 20-25% earnings growth in FY10F, but as underscored by sharp share price underperformance vs regional peers, investors are ignoring the one-off earnings bounce from normalising loan-loss provisioning and trading gains, and instead focusing on weak operating income traction, the latter underpinned by seven straight quarters of NIM decline as interbank rates have plunged. Unrewarded also are robust balance sheets and full BASEL III compliance (ie, core equity ratios would remain above the key 10% level, even if immediately adopted).

Exhibit 59. Sing banks: margin trend vs SIBOR



Source: Company data, Bloomberg

- **2011F: driving loan volumes, fee income the priority.** With S$ interest rates unlikely to budge until at least 2012 and provisioning levels normalising in the 10-40bps range (FY09: 50-115bps), forecast sector FY11F average earnings growth of 13% depends on sustained recovery in loan and fee income flow volumes. Capacity to aggressively grow higher-margin offshore assets, drive NIM-supportive balance sheet trends eg, rising CASA deposit share, LDR, and leverage cross-selling synergies from a broader product base will be keys to mitigating likely sustained NIM drag from broadly pressured asset yields.
- **Risks: competition, mortgage dependence flagged.** With liquidity ample, economic growth solid and BASEL III proving much less of a hindrance to growth than initially anticipated, competitive pressures will continue to intensify, we expect, posing headwinds to volume growth and NIM. Further, noting more than 80% of S$ loan growth since January 2009 has come from mortgages, additional cross-ASEAN government administrative measures to cool property markets will likely weigh on lending, especially if SME and corporate demand does not pick up.

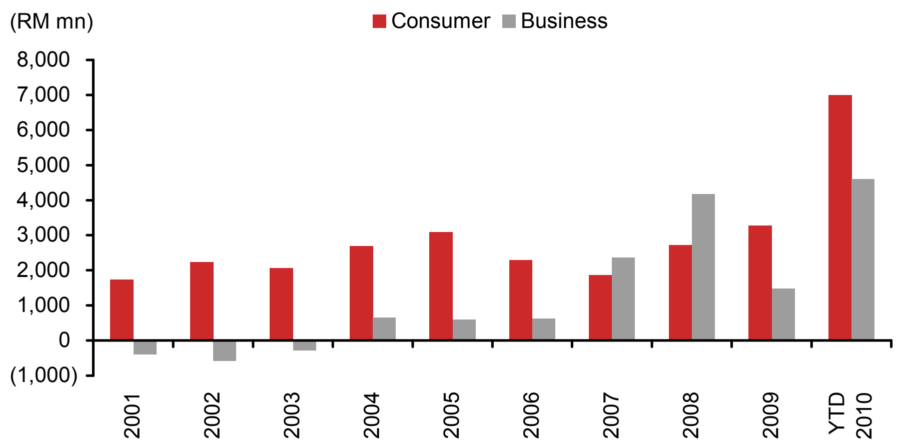
- **Stock selection: OCBC as core holding, DBS for beta.** We expect OCBC to continue to build on relative outperformance in the wake of robust 3Q10 results as it sidesteps NIM pressure via a growth-supportive ASEAN operating footprint and synergy-rich multi-product wealth management platform. DBS is showing increasingly tangible traction in leveraging its core S$ deposit base advantage but interest rates remain a key earnings driver – we estimate every 100bp change in SIBOR will impact earnings by c.12%. We believe UOB will continue to lag peers given a conservative outlook and narrow product platform.

Malaysian banks: a strong year ahead for consumer & capital markets

Loan growth for 2010F and 2011F is expected to fall in double-digit territory, by our estimates. Assuming a constant RM7bn increase in loans per month (RM4.5bn from consumer, RM2.5bn from businesses), we arrive at 2011F loan growth of about 10%. We are bullish on the Malaysian consumer, given the favourable demographic structure (fast-growing, young population with rising income levels). Our bottom-up forecast suggests growth of 11%.

- **2010F: a very strong year for Malaysia banks.** Malaysia banks have bounced back admirably from the 2009 recession and are expected to record 39% net earnings growth (ex-exceptionals). The stellar results can be attributed to a pick-up in loan growth, coupled with better NIMs (owing to Bank Negara's three OPR hikes) and lower loan loss provisions.

Exhibit 60. Consumer and business monthly incremental loan volumes



Source: Bank Negara Malaysia

- **2011F: making hay while the sun shines.** We anticipate another strong year for the consumer business. At current levels, we believe that the average household is in good shape. Debt service ratio is comfortable, at 25% average household income. Household savings in the form of financial assets are huge and outnumber household liabilities by 2.5x to 1. Asset quality will remain robust as the economy is still expected to remain at full employment levels, in our view. In-sector competition will stay intense (especially mortgages and auto lending), but we expect a 50bp increase in OPR to support overall NIMs.

- **Capital markets: entering a sweet spot.** We see bright prospects for the domestic capital markets in 2011. Strong market liquidity and tighter corporate spreads should lead to a healthy pipeline for bond issuance. Bankers are also guiding for a strong M&A deal pipeline with several high-profile deals already announced recently. Our economics team's expectations for a strengthening of the ringgit should result in better FX flows, leading to improved FX income for banks.

- **Stock selection: Maybank (consumer), CIMB (capital markets), AMMB.** Sector earnings growth for FY11F is expected to hit 18% on the back of 13% growth in preprovision earnings while credit losses remain benign. We like Maybank – it is well positioned to ride the consumer boom with the largest branch network and biggest customer base of any bank. We reiterate our BUY on CIMB as the country's leading investment banker.

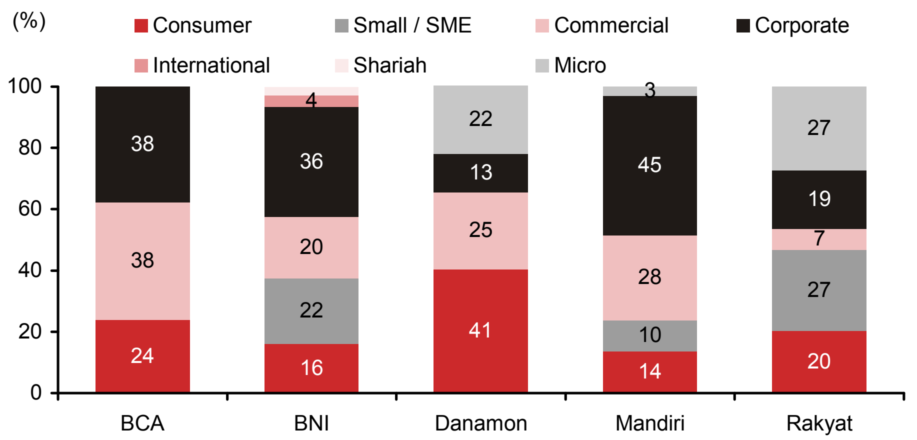
Indo banks: premium rests on sustained macro momentum

Indo banks were the star performers within ASEAN over 2010 – underlying macro-economics, fiscal and monetary indicators are solid, investment-grade status beckons and banks, in our view, have the governance and balance sheets to deliver on the strong growth prospects inherent in a system where financial activity in intensifying from a very low base — ie, loan-to-GDP ratio is still below 30% vis-à-vis India at almost double that.

Indonesian bank premium multiples (2.5x-4x FY11F book) reflect a strong structural growth story and high profitability (ie, 6% average NIM, ROE in the 20-30% range), both these valuation drivers appearing sustainable into the medium term. The state-owned banks (Mandiri, BNI, Rakyat) are best positioned, in our view, to reap broad upside from an infrastructure financing boom and rising rural incomes as commodity prices surge.

- **Operating income: robust trajectory.** With Indonesia's loan-to-GDP ratio among the lowest in Asia, Bank Indonesia's projected 2010 sector loan growth of 20-22% is considered a medium-term base case and sustainable given the robust health of the banking sector. Contrary to expectations of a significant decline due to lower interest rates and competition, the banks are seeing relatively stable NIM on a combination of falling funding costs, expansion outside competitive Greater Jakarta and faster growth in higher-margin segments such as micro and consumer finance. NIM will likely trend lower over the medium term but at a progressive pace, with volumes to ease.

Exhibit 61. Indo banks: loan book composition (1H10)



Source: Company data, Nomura research

- **Asset quality, capital: improving trend.** Broadly improved risk management and stricter Bank Indonesia supervision has the sector NPL ratio now trending below 4%, with only one bank (the fraudulent Bank Century) failing during the credit crisis. At the same time, rising profitability and among the highest ROEs in Asia mean capital ratios can support sustained rapid asset growth and the phased introduction of BASEL II, aided by rights issues and debt-raising.

- **Macro backdrop: on track for investment grade.** Citing strong economic stewardship and demonstrated ability to navigate recent economic and political headwinds, ratings agencies have been busy upgrading Indonesia's sovereign debt – attaining BRIC-like investment-grade ratings within 12-18 months is anticipated, in our view. The resulting positive impact on Indonesian asset prices and borrowing costs will broadly stimulate investment and consumption.
- **Themes: infrastructure spend, M&A.** A proposed 28% y-y hike (to IDR122tn or US$13.5bn) in infrastructure spending within the 2011 Budget and traction for supporting amendments to the land acquisition law and procurement regulations mean another potential jump in credit demand. Foreign banks continue to look to expand in Indonesia, primarily via mid-cap acquisitions.

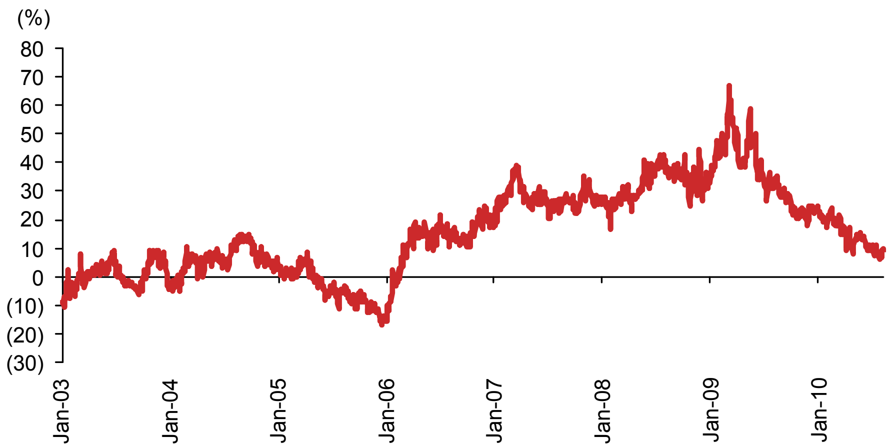
Thai banks: waiting on the capex cycle

The Thai banking sector has been among the best performers in Asia, even before factoring in the strength of the baht. The rapid recovery in economic momentum in the wake of the political disturbances over April-May has caught both investors and bank managements by surprise. Loan growth has rebounded (though still lagging ASEAN peers as capex cycle remains elusive), fee income growth has been resilient, margins are expanding as interest rates rise and asset quality has remained on an improving trend.

However, while Thai banks continue to trade at a discount to regional peers despite already having surpassed their historical record P/B valuation multiples, we believe this discount is justified given continued political uncertainties and lack of a structural inflection in the operating environment. We consider our top pick SCB as the best play on retail banking, and we believe its relatively aggressive stance on gaining market share deserves a premium within what remains a broadly moderate growth landscape. We also like BAY for its high-margin consumer finance niche and ROE upside, which we see reaching 14% in FY12F, from 10% currently on a mix of earnings growth and capital management.

- **Loan growth and fee income:** most banks are guiding for FY11F loan growth of 7-8%, a modest deceleration from export-boosted FY10F, on a mix of government (especially via provincial projects), retail and corporate demand. The latter is coming mainly from offshore acquisition and investment activity rather than domestic re-investment, underpinning SCB's market-leading 12% loan growth guidance. Fee income growth will continue to grow in the double digits, underpinned by infrastructure investment and low interest rates, with recent revisions to electronic banking fees to have only a marginal impact.

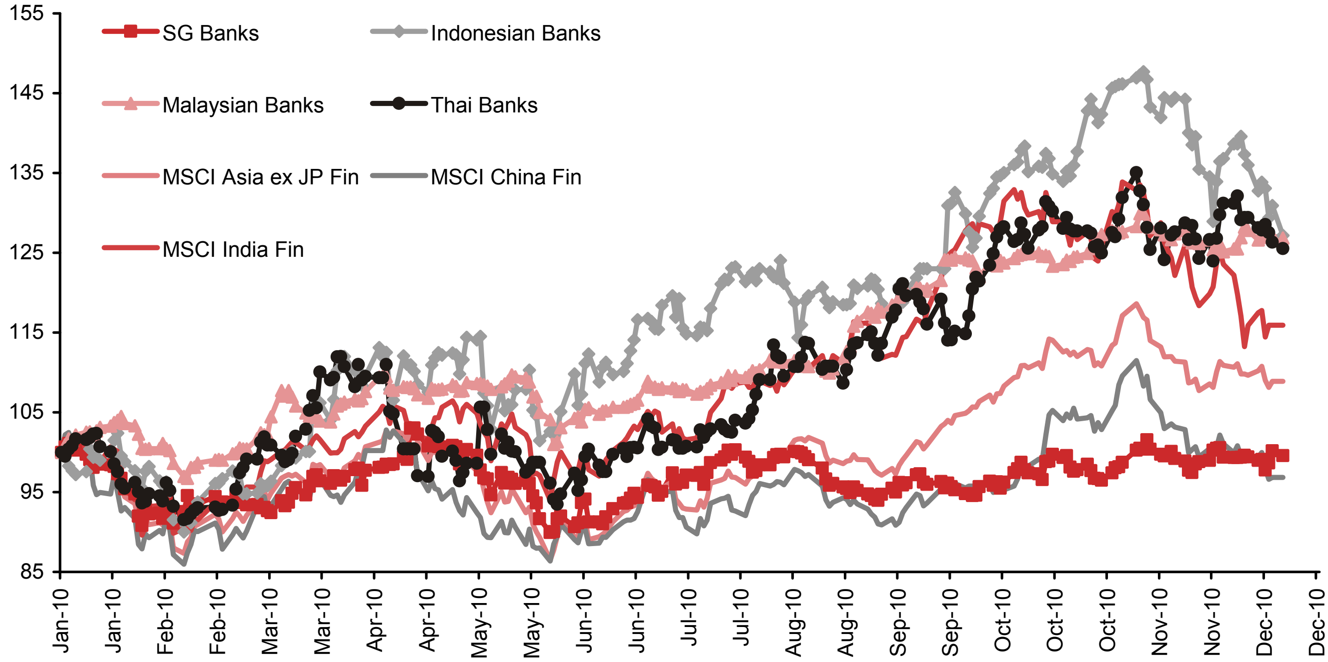
Exhibit 62. Premium of SCB over KBank (on P/1-year forward BV)



Source: Company data, Nomura estimates

- **Interest rates and NIM:** with Bank of Thailand underscoring its desire to see rates normalise and generate a positive real return via an unexpected 25bp hike in policy rate in December 2010, the industry is looking for rates to rise another 50-75bps over 2011F. This will be broadly supportive of “big four” bank NIM, given 70-80% of lending is floating rate while CASA deposit share is c.60%. Concerns about the knock-on impact on baht strength and export competitiveness are recognised but Thai corporates have been able to adjust to the currency quite well thus far and are expected to continue to be able to cushion the impact.
- **NPL, asset quality:** in common with ASEAN peers, Thai banks are seeing a broad improvement in NPL ratios (declining to 5.7% q-q- in 3Q, from 5.9%; loan loss coverage rising to 83%) and underlying indicators with the guidance for FY11F being benign. NPL sales are anticipated with BAY indicating much improved market conditions that are seeing bid prices now exceeding 50%.
- **Capital, ROE:** with 3Q sector Tier-1 and CAR ratios at an ample 12.5% and 16.9%, respectively, BASEL III and IAS 19 (pension provisioning; implemented from 1Q11) impacts can be absorbed (ie, core equity ratios ex-Krung Thai to stay above 10%), especially given moderate asset growth and low dividend payouts. With ROA averaging c.140bps and leverage a regionally low 10x, sector ROE is expected to trend towards 14% in 2011, from just over 13%.

Exhibit 63. ASIAN banks: YTD share performance



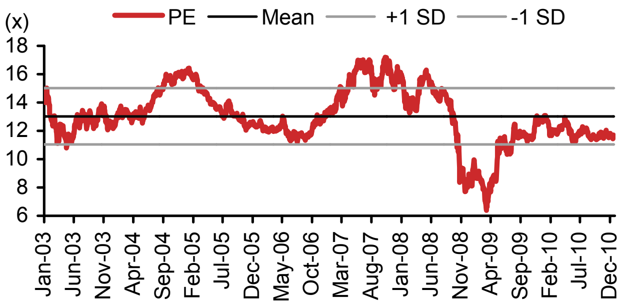
Source: Bloomberg, Nomura Research

Exhibit 64. ASEAN banks: valuation summary

Country	Company	Nomura rating	Market cap (US$mn)	Price (local)	P/E (x) FY10F	P/E (x) FY11F	P/BV (x) FY10F	P/BV (x) FY11F	Yield (%) FY10F	Yield (%) FY11F	RoA (%) FY10F	RoA (%) FY11F	ROE (%) FY10F	ROE (%) FY11F	EPS growth (%) FY10F	EPS growth (%) FY11F
Singapore																
DBS SP	DBS	BUY	25,651	14.42	13.7	11.3	1.3	1.2	4.2	5.0	0.5	1.1	5.4	11.1	16.7	21.9
OCBC SP	OCBC	BUY	25,587	9.94	14.0	12.4	1.6	1.5	3.0	3.4	1.1	1.2	11.9	12.4	18.3	12.7
UOB SP	UOB	NEUTRAL	21,757	18.10	12.1	10.8	1.4	1.3	4.4	5.0	1.2	1.3	12.2	12.4	19.0	12.0
Malaysia																
AFG MK	Alliance Financial Group	BUY	1,541	3.080	16.2	11.8	1.6	1.5	1.9	3.2	1.0	1.2	10.6	13.0	26.7	36.8
AMM MK	AMMB Holdings	BUY	6,810	6.990	21.2	15.5	2.2	2.0	1.3	2.6	1.1	1.4	11.6	13.3	26.9	36.4
CIMB MK	CIMB Group Holdings	BUY	20,540	8.550	17.1	13.8	2.5	2.2	1.1	1.4	1.5	1.6	16.3	17.0	25.0	24.0
MAY MK	Malayan Banking	BUY	19,422	8.490	15.7	13.7	2.2	2.0	4.8	4.4	1.2	1.3	14.5	15.4	74.2	14.8
PBKF MK	Public Bank	NEUTRAL	14,817	12.980	15.3	13.8	3.7	3.3	3.5	3.9	1.3	1.3	25.3	24.9	16.4	10.6
Thailand																
SCB TB	Siam Commercial Bank	BUY	11,687	104.00	14.3	12.1	2.2	2.0	2.9	3.8	1.8	2.0	16.3	17.3	18.7	18.9
BBL TB	Bangkok Bank	NEUTRAL	9,168	145.0	11.8	9.9	1.3	1.2	2.8	3.8	1.3	1.5	11.5	12.6	13.0	18.8
KBANK TB	Kasikorn Bank	NEUTRAL	9,870	124.5	16.7	13.5	2.1	1.9	2.0	2.4	1.2	1.4	13.2	15.1	19.9	23.6
BAY TB	Bank of Ayudhya	BUY	5,080	25.25	16.7	12.7	1.6	1.5	4.0	5.1	1.1	1.4	9.7	12.4	37.3	31.8
Indonesia																
BBCA IJ	Bank Central Asia	NEUTRAL	17,620	6450.0	19.5	17.1	4.8	4.1	2.3	2.6	2.7	2.7	26.8	26.0	19.4	14.0
BDMN IJ	Bank Danamon Indonesia	NEUTRAL	5,272	5700.0	19.2	16.0	2.7	2.5	2.6	3.1	2.4	2.5	14.9	16.2	62.0	19.9
BMRI IJ	Bank Mandiri	BUY	15,006	6450.0	15.9	14.4	3.3	2.6	2.2	2.4	2.0	2.2	22.3	21.1	19.1	10.8
BBRI IJ	Bank Rakyat Indonesia	BUY	14,494	10600.0	14.6	11.5	3.9	3.1	2.1	2.6	2.6	2.9	29.5	29.8	23.0	26.0
BBNI IJ	Bank Negara Indonesia	BUY	7,645	3700.0	14.6	14.3	2.5	1.8	2.1	2.1	1.7	1.8	18.4	16.0	55.5	2.3

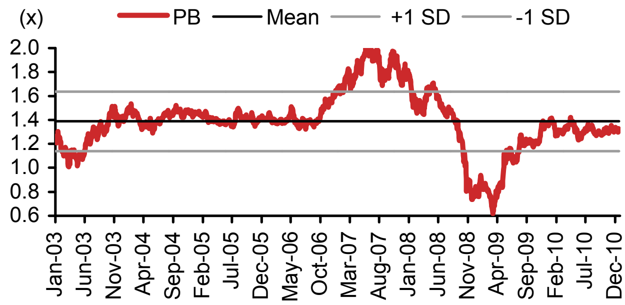
Source: Bloomberg, Nomura estimates (closing price of 28 December, 2010)

Exhibit 65. Singapore banks: historical P/E band



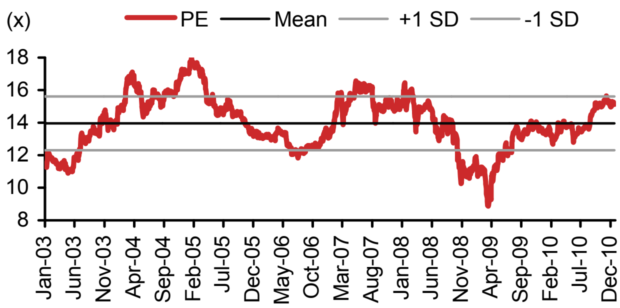
Source: Bloomberg, Nomura estimates

Exhibit 66. Singapore banks: historical P/B band



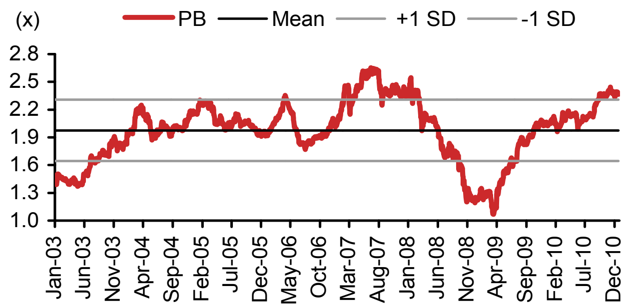
Source: Bloomberg, Nomura estimates

Exhibit 67. Malaysia banks: historical P/E band



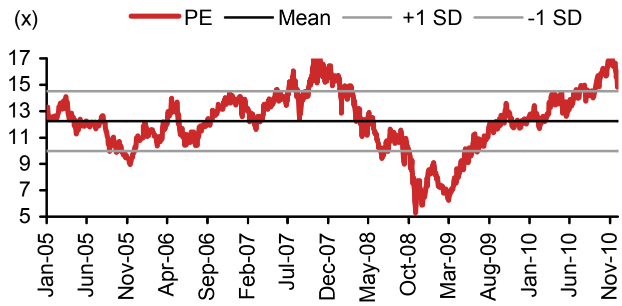
Source: Bloomberg, Nomura estimates

Exhibit 68. Malaysia banks: historical P/B band



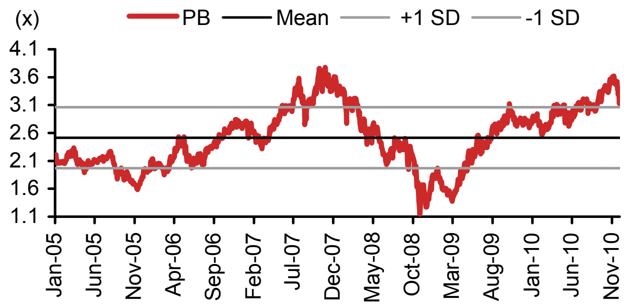
Source: Bloomberg, Nomura estimates

Exhibit 69. Indonesia banks: historical P/E band



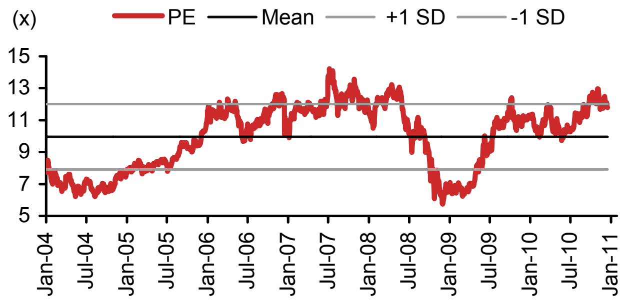
Source: Bloomberg, Nomura estimates

Exhibit 70. Indonesia banks: historical P/B band



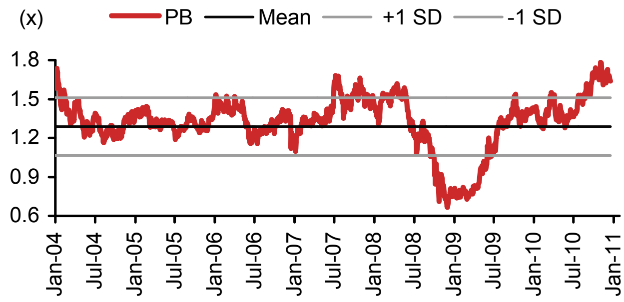
Source: Bloomberg, Nomura estimates

Exhibit 71. Thailand banks: historical P/E band



Source: Bloomberg, Nomura estimates

Exhibit 72. Thailand banks: historical P/B band



Source: Bloomberg, Nomura estimates

ASEAN Soft commodities/agri

BULLISH

Action

Amidst the soft commodity rally and food inflation, we believe, upstream will benefit the most, as higher commodity prices will flow down to their earnings and valuation multiples. GGR, IFAR, Sime Darby and London Sumatra are our top picks for 2011 in CPO. We remain positive on the midstream space driven by company-specific catalysts, where we like Olam and Noble's asset strategy and earnings growth over the next two-three years, Wilmar's new business contribution from sugar, rice and flour, and Mewah's Africa exposure. UVAN and KSL are our top picks in Thailand.

Catalysts

Supply-driven imbalances and consolidation will drive near- to medium-term newsflow and implied price reactions for soft commodities and related equity plays.

Anchor themes

Dominant themes: 1) China/India consumption; 2) food inflation and price controls; 3) weather patterns; 4) US$ and crude oil movements; 5) business restructuring.

Stocks for action

We like upstream palm oil plays on our expectations of higher CPO prices; midstream companies on company specific catalysts; and Thai Agri names, which are less crowded trades.

Stock	Rating	Price (28 Dec)	Price Target	Upside (%)
Indofood Agri (IFAR SP)	BUY	2.83	3.20	13.1
Golden Agri (GGR SP)	BUY	0.795	0.85	6.9
Sime Darby (SIME MK)	BUY	8.77	11.10	26.6
Lonsum (LSIP IJ)	BUY	12,350	14,650	18.6
Mewah (MII SP)	BUY	1.05	1.30	23.8
Noble (NOBL SP)	BUY	2.14	2.52	17.8
Olam (OLAM SP)	BUY	3.15	3.90	23.8
Wilmar (WIL SP)	BUY	5.63	7.60	35.0
KSL (KSL TB)	BUY	13.20	16.20	22.7
UVAN (UVAN TB)	BUY	89.25	104.00	16.5

Agri-commodities the place to be

① Bullish on palm oil; BUY GGR, IFAR, Sime Darby and Lonsum

We are Bullish on the ASEAN palm oil sector on our CPO price assumption upgrades of 5-20% for 2011-12F. We think tighter supply/demand fundamentals for vegetable oils, higher crude oil prices (Nomura expects US$95/bbl in 2011) and increased fund flows into the commodities space should provide support for higher CPO prices (and lead to P/E expansion). We prefer Singapore-listed GGR and IFAR for their high leverage to CPO price strength and strong CPO production growth; Sime Darby on the likelihood of internal improvements post write-downs, and Lonsum on attractive valuations and sustainable practices.

② We continue to like Thai agri plays, and M&A theme

Our Capital Nomura Securities analyst likes KSL, UVAN, LST and TVO. Overall, we continue to like consolidation and M&A stories in the region, which, in our view, will benefit rubber plays, small planters and niche mid-/downstream plays.

③ Also like Noble, Mewah, Olam & Wilmar: company-specific catalysts

We still like Noble, as we believe it is most exposed to bullish commodity markets and can surprise on earnings vs Street expectations. Agri and energy seem to be doing well, particularly sugar, soybean and coal. We recently added Mewah to our BUY list, owing to its cheap valuation, economies of scale, and exposure to Africa. Wilmar, in our view, is now trading at a good entry point post correction, for solid long-term exposure (we are positive on FY11's growth driven by strong volumes and Sucrogen). We are positive on Olam as its asset picks continue to surprise (urea deal in Gabon), and we believe any further M&A activity can act as a catalyst for the stock.

④ Weather patterns, policy decisions, US$ and crude oil support

Potential weakness in the US dollar, strength in crude oil prices reigniting biodiesel demand, key government policy interventions and weather patterns will be the key themes in 2011F for key vegetable oils, oilseeds, sugar and grains, in our view. An improved weather scenario should however be favourable for supply, especially going into 2H10. We think increased consumption from China and India will remain a key driver for demand growth for key food commodities and thus any price controls from these governments may pose a risk to sentiment (and

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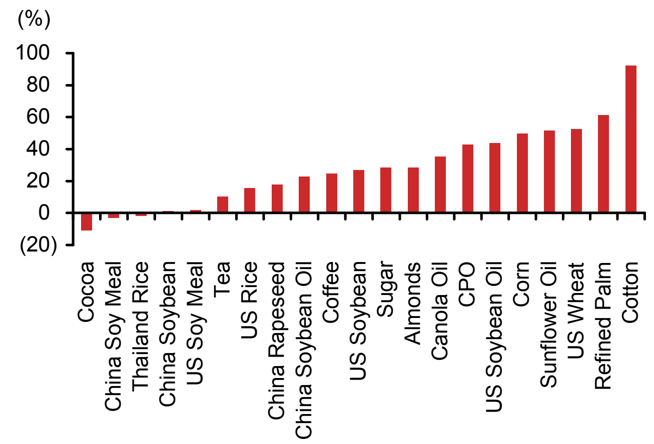
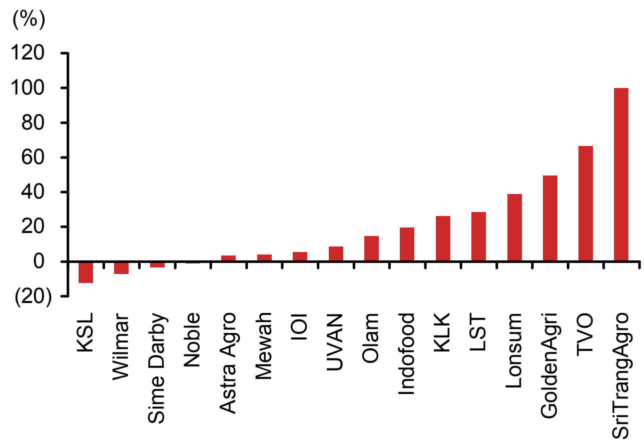
downstream margins). Further catalysts to watch out for include the EU's policy decisions on palm oil, Asia's biodiesel policies, India's export policies on sugar, as well as other input cost trends.

Exhibit 73. Commodity prices – year to date



Source: Bloomberg

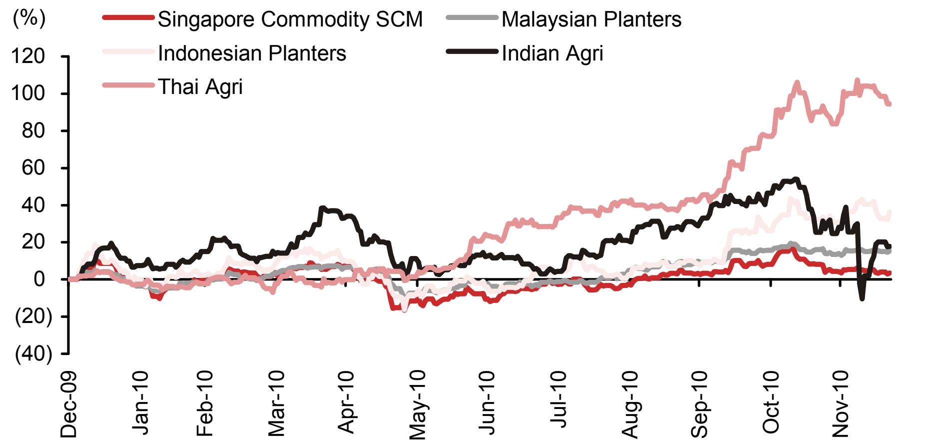
Exhibit 74. Stock prices – year to date



Note: STA's YTD return is 650%, here not shown for scaling purposes

Source: Bloomberg

Exhibit 75. Sectoral performance YTD



Source: Bloomberg

Exhibit 76. Sector stock View – Commodities

	Price S$ 28 Dec	Price target	Rating	P/E (x) FY11F	P/B (x) FY11F	Yield % FY11F	Comments
Olam* (OLAM SP)	3.15	3.90	BUY	20.4	3.0	1.4	Any positive announcement in the Gabon fertilizer project, possible merger with Louis Dreyfus, or other M&A activity may act as a catalyst.
Noble (NOBL SP)	2.14	2.52	BUY	14.5	2.5	1.2	Commodity price upcycle, along with strong performance in agri, energy, and locked margins in FY11F should ensure a good FY11 for the company.
Golden Agri (GGR SP)	0.795	0.85	BUY	14.2	1.1	1.4	Environmental pushback (eg, from Greenpeace) should ease, new plantings should normalise in FY11; could see acquisitions, in our view.
Indofood Agri (IFAR SP)	2.83	3.20	BUY	14.0	2.1	na	Sizeable maiden contribution from sugar expected to be seen in FY11. Strong production growth and strong CPO prices should keep earnings firm.
Sime Darby* (SIME MK)	8.77	11.10	BUY	15.1	2.3	3.5	We think share price should re-rate going forward as the company renews itself internally (operational improvement under the new management)
Lonsum (LSIP IJ)	12,350	14,650	BUY	12.9	3.3	3.5	Good leverage to CPO and rubber prices. Valuations lowest within our planters coverage. Strong balance sheet, decent growth & good sustainability practices.
Mewah (MII SP)	1.05	1.30	BUY	11.5	2.0	na	We like Mewah for its leadership in W Africa pack oil, scale in palm refining, cheap valuation compared to peers and likely high capex intensity post listing.
Wilmar (WIL SP)	5.63	7.60	BUY	15.4	2.0	1.3	Sucrogen contribution and positive oilseed crushing margins should help the company deliver strong earnings growth in FY11F.

* values adjusted for calendar year 2011

Source: Nomura research (Visit www.nomura.com/research for PT methodology and risks of individual stocks)

Valuation

Sime Darby: We value Sime Darby using a SOTP valuation: 1) ascribing a P/E multiple of 18x to its plantations division FY11F PAT, 14x to heavy equipment FY11F PAT, 15x to automobiles FY11F PAT, 10x to Utilities FY11F PAT, and 8x to others; 2) valuing the property business at RNAV, to arrive at our PT of RM11.10.

Golden Agri: We now value the company at 15x FY11F P/E (rolling-forward), versus our previous basis of 12x P/E FY10F. We believe this mid-cycle valuation of +0.7x SD above the stock's mean is reasonable in the context of our bullish CPO view. Our PT is S$0.85.

IndoAgri: We now value the company at 15x FY11F P/E (rolling-forward) versus our previous 13x P/E FY10F. We believe this valuation peg of +0.7x SD above its mean is reasonable, given our bullish CPO view. Our PT is S$3.20.

Wilmar: We value Wilmar on a SOTP basis by ascribing the bracketed multiples to its FY11F earnings from plantation (16.5x), palm and laurics (16.5x), consumer pack (22x), oilseed processing (16.5x), and other business (15x). We also value the sugar businesses (Sucrogen and Indonesia) and the rice and flour business by DCF. Our new price target, after building in lower crush margins is S$7.60.

Olam: We still use a residual dividend model, with an 8.75% cost of equity, a 2.5% terminal growth rate and a long-term ROE of 12% for Olam's existing business. Building in our earnings estimates arrives at our core business value of S$3.40 for Olam. We add back the DCF value of the urea venture (S$0.40) and palm (S$0.06) to get our new price target of S$3.90 (rounded).

Noble: We value Noble using a residual dividend model, with a 9% cost of equity, 2.5% terminal growth rate and long-term ROE of 12% to arrive at our price target of S$2.52.

Mewah: We value Mewah on an SOTP basis, ascribing 13x to its bulk segment FY11F earnings (at 20% discount to Wilmar) and 16x to its consumer pack FY11F earnings (at 25% discount to Wilmar and Chinese downstream companies) to arrive at our price target of S$1.30.

London Sumatra: We derive our price target of Rp14,650 by pegging it to 15.3x FY11F P/E. This is based on a valuation of +0.9x above its standard deviation. The 15.3x peg is still 22% below Lonsum's peak valuations of 19.7x in mid-2008 when CPO prices rose to ~RM4,000/tonne.

KSL (Capital Nomura Securities): Our price target of THB16.20 is based on a DCF methodology with a WACC of 8% and long term growth rate of 3%.

UVAN (Capital Nomura Securities): Our price target of THB104 is based on 11x FY11F P/E, in line with historical average.

Risks to price target

Sime Darby: Risks to the group include poor execution of its restructuring, weaker-than-expected CPO production and a sharp fall in CPO prices.

Golden Agri: Risks include higher-than-expected oilseed production and lower-than-expected crude oil prices, which would impact CPO prices (and therefore earnings) negatively.

IndoAgri: Higher-than-expected vegetable oil production (or oilseed production) globally including palm oil or lower-than-expected crude oil prices for 2011 are key negative risks to CPO prices (and in turn negative for the earnings of upstream palm oil companies).

Wilmar: Any delay in execution of Indonesian sugar plantation can have downsides to our target price and earnings estimates. The acquisition of Sucrogen, meanwhile, is still subject to regulatory clearance. Shortage of raw materials (eg, palm oil, oilseed) could hurt trading volumes of Wilmar's merchandising and processing businesses. Reduced bargaining power attributable to falling demand could hurt profitability. Underlying growth in volumes and profitability could be constrained by the regulatory framework. Major fluctuations in raw material and product prices also represent a risk to profitability.

Olam: Any execution delay or substantial underperformance in the Gabon ventures can lead to downside to our price target. We are building in significant volume expansion in existing commodities. Any lower-than-expected contribution could negatively impact our estimates. Other downside risks include lower-than-expected contributions from associates and new investments; supply chain management; commodity and forex fluctuations; and a drop in world trade volumes. Volatility in almond prices could pose downside risk to our NPV calculations.

Noble: The key company-specific risk in our view would be execution of its targeted processing facilities to generate more trading volumes. For example, it is targeting ~3mn MT of crushing capacity in Argentina (which would imply roughly 8% of Argentina's crushing market) — the key risk in our view here would be tapping demand for these additional volumes of soy meal and soy oil. China currently satisfies most of its soy meal and soy oil requirements from soybeans crushed domestically and thus exporting crushed soy meal from Argentina to Europe or China is prone to demand risks.

Similarly, the sugar industry in Brazil is plagued by various regulations and competition is heating up with global giants such as Bunge entering the market. Sustaining volumes with good profitability will remain a challenge, in our view.

Noble is the most leveraged name to commodity cycle. If commodity prices correct, the company's earnings potential will get negatively impacted. To add, working capital may be a concern with rising commodity prices.

On the funding side, the interest cost can always be the swing factor because of ~80% leverage.

Mewah: Lower-than-expected volume growth, muted margin expansion, or a de-rating in valuation multiples on macro slowdown are downside risks to our estimates and PT.

London Sumatra: The main risks to our view and earnings are lower-than-expected CPO prices, especially if CPO production (together with other vegetable oils globally) comes in stronger than expected (watch for 2H2011 where there may be a recovery), or slower-than- expected demand from the main CPO consuming markets of China, India and the Eurozone. Lower-than-expected production is also a negative risk to earnings, while on the company front, slower-than-expected plantings would be negative to future growth.

KSL (Capital Nomura Securities): Downside risks are lower-than-expected sugar or ethanol prices.

UVAN (Capital Nomura Securities): Downside risks include lower-than-expected CPO prices.

ASEAN Telecom services

NEUTRAL

Action

We expect Asean telcos to face another difficult and volatile year in 2011F. Key themes to focus on: 1) data growth and its impact on profitability, 2) revenue diversification into non-carriage businesses, and 3) changes to capex/ dividends. We expect Indonesia to offer the most attractive growth profile (despite some near-term price cuts) and Malaysia /Thailand to have the best yield appeal. Singapore and the Philippines should be avoided as we believe competition will likely pick up further. Our key stock picks are: Axiata, Indosat, M1 and XL.

Catalysts

Competition, regulations, capex, dividend surprises and M&A.

Anchor themes

Data growth will be the key revenue driver – but incremental returns are lower, and competition and regulations remain a risk. We maintain a NEUTRAL sector view.

Stocks for action

Our key picks reflect a combination of cash and earnings growth opportunities.

Stock	Rating	Local price	Price target
Axiata (AXIATA MK)	BUY	4.71	5.90
M1 (M1 SP)	BUY	2.36	2.65
PT XL AXIATA (EXCL IJ)	BUY	5,300	7,500
Indosat (ISAT IJ)	BUY	5,150	7,000

Prices in local currency, as of Dec 28, 2010.

2011 – no easy runs again

① Opportunities from data; Risks from capex and M&A

With operators gearing up to introduce more smart-phones, tablet PCs and applications, we remain upbeat on the outlook for data usage and revenue. We estimate contribution of data to mobile revenues to increase to 22% in 2011F from 15% in 2010F. At the same time, a stable trend in voice (around 70% revenue contributor in 2010F, on our estimates), will be an added positive. Within data, broadband will be a key area of activity, particularly in Malaysia and Singapore. We also recognize that growth in data is likely to keep operators hard-pressed to identify incremental cost saving opportunities. Outsourcing, improved network configuration, infrastructure sharing, divestment of non-core assets etc. are likely to be pursued actively, which could provide margin resilience. Risks from competition and regulation will continue to remain, potentially a tad higher this year. Also, themes related to monitoring and lowering of roaming charges could be seen at inter-operators/ government levels. Capex will remain a likely concern, as operators boost their networks to support data traffic. M&A will be another discussion point with activities in the telco and non-telco segments.

② Indonesia leads the motley pack; Philippines lags behind

Within ASEAN telcos, our preferred markets are Indonesia, Malaysia and Thailand, while Singapore and the Philippines should be avoided. We prefer Indonesia because of its relatively appealing growth along with relatively benign competitive and regulatory risks. For Malaysia, we like the emerging data growth story, along with a stable 3-6% yield, on our estimates. Thailand is likely to see stable operational trends, while the ~10% yield is a key appeal (excluding True). In Singapore, we expect much higher competitive pressures in broadband and wireless, which will also be the case in the Philippines, in our view.

③ Key stock picks

Axiata, Indosat, M1 and XL are our preferred stocks, based on a mix of valuations and potential earnings upside – 32% total returns on average. StarHub is our least preferred, as we see risks to its integrated business from competition and adverse impact from mandated content sharing. Globe could also see further earnings compression; we have a REDUCE rating on Globe.

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Exhibit 77. ASEAN telcos – snapshot

Region	Opportunities	Risks	Catalysts	Recommendation
Indonesia	Solid growth in revenue from both voice and data.	Aggressive competition driven by tariff cuts in voice and data	Operational improvement	Positive
Malaysia	Data growth, +3 to 6% yield	Price wars led by new operators	Capital management and steady operational trends	Positive
Philippines	Mobile data/broadband, increase in voice usage, enterprise services	Price competition, a matured wireless market	Unexciting operational outlook, margin pressure/ flat to increasing capex	Negative
Singapore	Data growth	NBN driven pricing pressure and data driven margin pressure	Capital management	Negative
Thailand	- Growing smart phone users - Better-than-expected cost control and ability to keep capex lower than expected - One of three options (upgrade existing spectrum, MVNO with TOT and 3G license auction by NBTC) to provide 3G service can be exercised	- Price war from MNP implementation - Uncertainty on concession contract legal status	Higher dividend payout ratio or special dividend	Neutral

Source: Company reports, Nomura research

Exhibit 78. Data as a % of mobile service revenue

		1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10
Singapore	SingTel	31.0	32.0	34.0	32.0	32.0	32.0	34.0	35.0	36.0	37.0	38.0
	StarHub	20.9	21.8	22.7	22.5	24.4	25.7	26.2	27.4	29.5	29.5	30.6
	MobileOne	23.2	22.7	23.8	24.1	25.1	25.1	26.4	27.1	29.8	31.8	32.7
Malaysia	Maxis	27.8	28.4	29.4	30.5	30.7	31.4	32.9	34.4	34.8	36.6	39.2
	Digi	19.3	18.7	18.6	19.7	20.1	19.4	19.2	19.8	20.6	21.2	23.2
	Celcom	23.0	24.0	25.0	26.0	27.0	28.0	29.0	30.0	31.5	32.5	35.0
Indonesia	Telkomsel	31.8	26.4	18.6	24.3	25.7	27.1	28.5	28.5	28.0	28.0	30.1
	Indosat	30.0	30.0	30.0	30.0	31.0	31.0	32.0	32.0	32.0	32.0	35.0
	XL Axiata	34.2	31.8	31.6	31.5	34.2	36.0	38.2	38.9	39.0	40.6	41.3
Philippines	PLDT	55.4	55.1	54.3	53.7	54.6	54.1	52.9	51.3	47.7	47.2	48.6
	Globe Telecom	47.6	47.9	47.3	47.3	51.6	50.4	51.3	48.2	49.7	47.7	47.9
Thailand	True	10.6	11.8	12.5	12.3	12.7	12.3	13.4	14.6	13.9	14.7	15.6
	AIS	12.5	12.7	13.5	12.7	12.8	13.5	14.9	15.5	16.5	17.0	17.3
	DTAC	11.4	13.8	14.8	16.1	11.9	11.8	12.6	12.8	12.8	13.3	14.4

Source: Capital Nomura Securities estimates, Nomura estimates. AIS, Total Access and True are covered by Capital Nomura Securities

Exhibit 79. Asia ex- Japan valuations

	Bloomberg ticker	Rating	Currency	Local price	Mkt Cap (US$ mn)	PE (x) 09	10E	11E	EV/EBITDA (x) 09	10E	11E	Div yield (%) 09	10E	11E	FCF yield (%) 09	10E	11E
Wireless																	
AIS	ADVANC TB	Neutral	THB	84	7,748	14.2	12.0	12.3	5.7	5.2	5.3	13.4%	14.8%	11.3%	10.5%	13.4%	12.2%
Axiata Group	AXIATA MK	Buy	MYR	4.7	10,469	24.1	15.3	13.1	7.0	6.3	5.8	0.0%	0.0%	3.4%	3.9%	12.6%	8.8%
Bharti Airtel	BHARTI IN	Neutral	INR	342	27,770	14.8	19.2	16.1	8.4	9.3	7.5	0.3%	0.5%	0.9%	2.2%	-40.9%	4.0%
China Mobile	941 HK	Buy	HK$	76	198,027	10.9	10.4	10.2	4.8	4.6	4.3	4.0%	4.3%	4.5%	7.0%	8.9%	10.8%
Digi.com	Digi MK	Buy	MYR	25	5,104	19.4	16.8	16.4	9.2	8.3	7.9	7.1%	5.9%	4.9%	4.8%	8.0%	6.8%
Far EasTone	4904 TT	Neutral	NT$	42	4,323	15.0	15.7	15.9	5.4	6.0	6.0	6.6%	5.7%	5.7%	11.2%	6.8%	8.7%
Globe	GLO PM	Reduce	PHP	810	2,336	10.1	10.1	9.6	4.4	4.4	4.2	13.4%	9.1%	8.6%	7.1%	6.4%	7.0%
Idea Cellular	IDEA IN	Reduce	INR	68	4,821	24.7	29.5	23.9	8.1	9.7	8.1	0.0%	0.0%	0.0%	-7.8%	-28.7%	-2.2%
Maxis	Maxis MK	Neutral	MYR	5.3	10,502	17.3	17.4	16.8	10.1	9.7	9.4	2.8%	6.0%	6.0%	4.8%	3.8%	5.4%
MobileOne	M1 SP	Buy	S$	2.36	1,544	14.6	13.8	13.2	7.7	7.6	7.4	5.7%	5.8%	6.0%	4.3%	9.6%	8.1%
PT XL Axiata	EXCL IJ	Buy	IDR	5,300	5,009	16.6	15.8	11.3	8.7	5.9	5.2	0.0%	0.0%	2.2%	6.3%	7.5%	10.5%
Reliance Com	RCOM IN	Reduce	INR	139	6,151	15.6	14.1	9.8	6.8	6.4	5.4	0.6%	1.2%	2.8%	-2.0%	-20.4%	9.4%
SK Telecom	017670 KS	Buy	KRW	180,500	12,211	11.3	11.3	8.7	4.8	4.7	4.3	5.2%	5.2%	5.2%	7.0%	14.8%	17.1%
Taiwan Mobile	3045 TT	Buy	NT$	68.8	8,172	14.8	14.5	14.2	9.4	9.1	9.2	6.6%	6.2%	6.3%	6.6%	7.4%	6.5%
Total Access	DTAC TB	Buy	THB	42.8	3,139	15.2	10.1	11.2	5.3	4.3	4.5	3.3%	7.3%	8.9%	12.8%	13.5%	12.7%
Average						**15.9**	**15.1**	**13.5**	**7.0**	**6.8**	**6.3**	**4.6%**	**4.8%**	**5.1%**	**5.2%**	**1.5%**	**8.4%**
Median						**15.0**	**14.5**	**13.1**	**7.0**	**6.3**	**5.8**	**4.0%**	**5.7%**	**5.2%**	**6.3%**	**7.5%**	**8.7%**
Integrated																	
China Telecom	728 HK	Neutral	HK$	4.0	41,711	19.2	17.5	16.0	4.7	4.4	4.0	1.5%	1.8%	2.2%	13.1%	10.6%	11.8%
China Unicom	762 HK	Buy	HK$	11.14	34,372	22.8	21.8	18.2	4.1	4.3	4.3	2.0%	2.0%	1.7%	-9.6%	-10.7%	-4.9%
Chunghwa	2412 TT	Buy	NT$	75	24,933	16.6	15.8	16.0	7.8	8.1	8.2	8.1%	9.7%	7.0%	6.5%	7.1%	6.6%
KT Corp	030200 KS	Buy	KRW	49,200	10,764	9.7	9.5	8.1	4.6	4.4	4.3	4.1%	4.1%	4.1%	2.0%	5.4%	6.4%
LG Uplus	032640 KS	Neutral	KRW	7,470	3,222	8.3	8.9	8.9	4.0	4.0	3.5	3.6%	2.6%	2.6%	25.0%	5.3%	9.3%
PLDT	TEL PM	Buy	PHP	2,550	10,386	10.8	11.5	11.9	5.8	6.4	6.3	9.3%	6.1%	5.9%	4.6%	8.2%	9.1%
PT Indosat	ISAT IJ	Buy	IDR	5,150	3,109	24.0	18.3	14.2	5.5	5.2	4.7	2.9%	1.6%	2.5%	-25.8%	-8.9%	0.7%
PT Telkom	TLKM IJ	Neutral	IDR	8,000	17,549	15.3	15.0	13.1	4.7	4.4	4.2	3.6%	3.4%	4.6%	5.8%	9.2%	11.0%
SingTel	ST SP	Neutral	S$	3.1	35,955	12.9	13.1	12.8	7.7	7.5	7.2	4.5%	4.9%	5.5%	6.7%	5.8%	5.9%
SK Broadband	033630 KS	Reduce	KRW	5,260	1,305	n/m	n/m	37.5	9.0	6.3	5.0	0.0%	0.0%	0.0%	-24.7%	-3.3%	2.8%
StarHub	STH SP	Reduce	S$	2.6	3,281	14.5	17.5	16.3	7.9	8.6	8.1	7.3%	7.6%	7.6%	9.8%	7.0%	6.5%
TM	T MK	Buy	MYR	3.5	3,264	23.2	24.9	21.6	4.5	5.4	5.2	5.7%	5.6%	5.6%	6.5%	2.5%	7.1%
Telstra	TLS AU	Neutral	A$	2.8	30,789	8.3	8.9	9.7	4.3	4.5	4.7	10.1%	10.1%	9.4%	12.1%	13.6%	11.9%
True	TRUE TB	Reduce	THB	7.0	1,536	n/m	n/m	n/m	6.1	6.1	6.0	0.0%	0.0%	0.0%	4.0%	6.2%	3.0%
Average						**15.5**	**15.2**	**13.9**	**5.8**	**5.7**	**5.4**	**4.5%**	**4.2%**	**4.2%**	**2.6%**	**4.1%**	**6.2%**
Median						**14.9**	**15.4**	**13.7**	**5.1**	**5.3**	**4.8**	**3.8%**	**3.7%**	**4.3%**	**6.2%**	**6.0%**	**6.6%**

Note: AIS, Total Access and True are covered by Capital Nomura Securities; prices as of Dec 28, 2010; Ratings and Price Targets are as of the date of the most recently published report (http://www.Nomura.com) rather than the date of this document.

Source: Capital Nomura Securities estimates, Nomura estimates

ASEAN Power & utilities

Mixed

Action

We are bullish on gas and power market fundamentals in Indonesia and the Philippines, with PGN and EDC as our top picks. We have turned more positive on the Thai IPP space, where Glow remains our top pick; EGCO and Ratch are valuation BUYs. We are Neutral on the Malaysian power sector, reflecting our view on the industry's dominant player, Tenaga.

Catalysts

RP power: Robust demand and power tariffs harbour greenfield expansion opportunities; asset privatisations. Indo gas: strong demand supported by industrial growth and gas' cost advantage; easing supply constraints.

Anchor themes

We are broadly more positive on the Indonesian and Philippine power markets given tight supply, robust medium-term consumption growth expectations and, for the latter, an unregulated generation sector and pro-investment regulatory regime.

Stocks for action

PGN is our top pick in Indonesia. In the Philippines we continue to like EDC's organic and M&A-driven growth prospects. Glow is our preferred exposure in Thailand.

Stock	Rating	Price	Price target
Perusahaan Gas Negara (PGAS IJ)	BUY	4,250	5,100
Energy Development Corp (EDC PM)	BUY	5.77	6,40
Glow Energy (GLOW TB)	BUY	46	55

Pricing as at 28 Dec 2010

Bullish on Indonesia and the Philippines

① PGN is our top pick in Indonesia

Wedged monopolistically between easing domestic and international gas/LNG supply constraints and outstanding natural gas demand fundamentals within Indonesia, we view PGN as the perfect mix of defensiveness and growth, ideally positioned to benefit from what we believe will be a marked lift in domestic gas utilisation over the medium term. Moreover, as PGN is the least expensive stock in the Asia-Pacific midstream gas space, the market appears to be overlooking a potential structural lift in volumes once PGN's two planned LNG terminals come on line in 2012-13F.

② EDC a market leader in geothermal energy

EDC is a vertically integrated market leader in geothermal energy production, and we believe it to be well positioned to benefit from a secular lift in geothermal utilisation both within the Philippines and in other resource-rich locales, such as Indonesia, which, with ~27GW (c.40% of global geothermal reserves) of unexplored resources, we believe is a potential game changer for the industry.

③ Position in Glow for growth, EGCO and Ratch for value

Thailand's pre-January 2011 small power producer (SPP) capacity awards should, in our view, add spark to the sector, while a strong rebound in demand and healthy consumption prospects bode well for medium-term capacity growth and PPA renewal prospects. Glow remains our top pick in this space, as we believe that the group's capacity-driven 25% three-year EPS CAGR has yet to be fully priced by the market. We think that Ratch and EGCO both appear attractive for value investors.

④ Overwhelming headwinds in Malaysia

We believe Malaysia's fuel-subsidy rationalisation plan will likely underpin sustained upward pressure on tariffs and could create downstream cost bottlenecks, crowding out an already overdue base tariff review. Moreover, with elections looming, we believe the implementation of structural reforms for natural gas prices, TNB's tariff-setting mechanism and the balance of risks in the industry – in our view, all precondition to a sustainable rerating of TNB – are unlikely over the near term.

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Philippines and Indonesia: Bullish

Philippines and Indonesia power and gas

BULLISH

We remain Bullish on the Philippines' power sector…

We remain bullish on the Philippines' power sector given robust demand-growth prospects, a positive outlook on spot tariffs, and scope for further M&A-driven growth

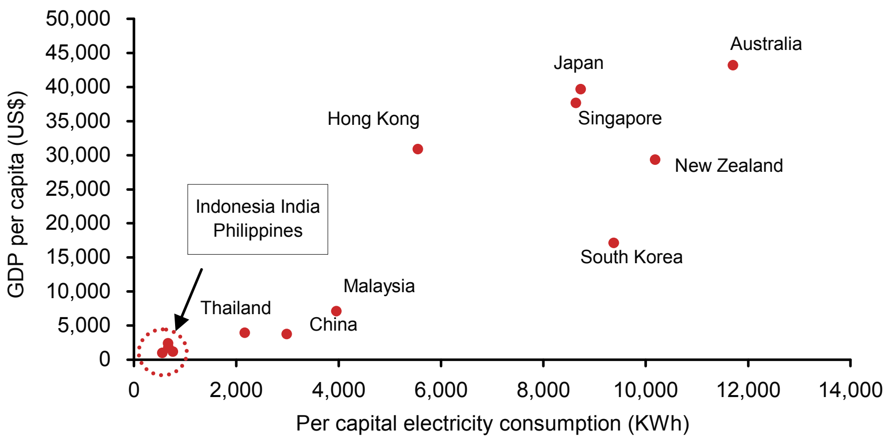
While Indonesia's power sector remains essentially "uninvestable", we maintain our Bullish view on the Philippines' power sector, with a preference for the unregulated generation segment of the electricity supply chain, which we believe offers more attractive risk-adjusted returns given: 1) lagging per-capita consumption and robust economic growth prospects, which we believe underpin strong medium-term demand growth prospects; 2) a constrained supply outlook; 3) attractive government incentives for renewable energy projects; 4) a positive stance on spot market tariffs; and, 5) significant near-term opportunities to build capacity both through greenfield development and acquisitive growth under the Philippines' power sector restructuring and privatisation drive.

EDC remains our top pick; Meralco is still a Reduce

Our top sector pick is Energy Development Corp (EDC PM, BUY). In our view, EDC's market leader position in geothermal energy, as well as its expertise across the entire geothermal value chain and its competitive cost structure, positions it well to benefit from what an expected marked uptick in geothermal energy utilisation in the Philippines and other resource-rich countries such as Indonesia. Despite an improved outlook for both the level and volatility of Meralco's (MER PM, Php202, REDUCE) ROICs following the company's migration to the Performance Based Regulatory (PBR) regime in May 2009, our valuations suggest the protracted battle for control of Meralco's board has seen the company's share price more than discount the associated upside. We retain our Reduce rating for Meralco.

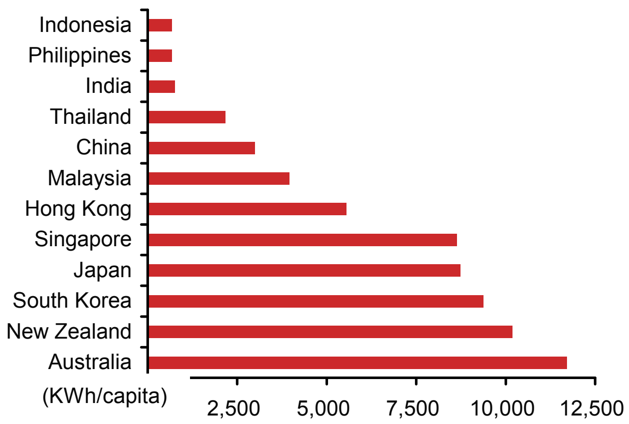
Even after adjusting for their relative stages of economic development, Indonesia and the Philippines are distinct laggards relative to regional peers in the electricity consumption versus GDP per capita matrix

Exhibit 80. Electricity consumption and GDP per capita



Source: BP Statistical Review (2010), World Bank, CIA Factbook, Nomura research

Exhibit 81. Per-capita electricity consumption (2009)



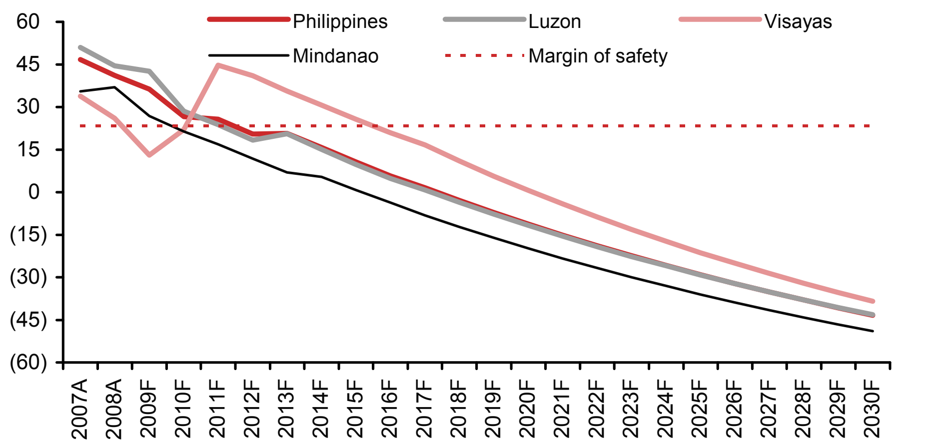
Source: BP Statistical Review (2010), World Bank, Nomura research

Exhibit 82. ASEAN electricity access (2008)

Country	Population (mn)	Electrification rate (%)	Rural pop w/o electricity (mn)	Urban pop w/o electricity (mn)
Myanmar	49.2	13	29.8	13.0
Cambodia	14.7	24	10.1	1.1
Laos	6.0	55	2.4	0.3
Indonesia	228.3	65	74.0	7.1
Philippines	89.5	86	10.8	1.7
Vietnam	86.1	89	9.4	0.1
Malaysia	27.0	99	0.2	0.0
Thailand	64.2	99	0.4	0.0
Brunei	0.4	100	0.0	0.0
Singapore	4.7	100	0.0	0.0
Total	**570.2**	**72**	**137.1**	**23.3**

Source: EIA, Nomura research

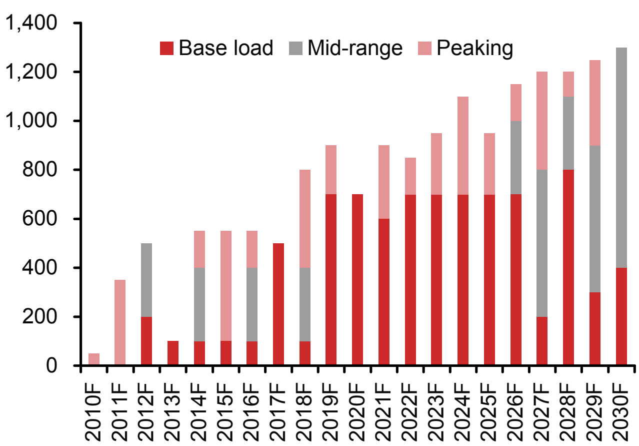
Exhibit 83. Philippines: Reserve margin projections by grid



Source: DOE, Nomura research

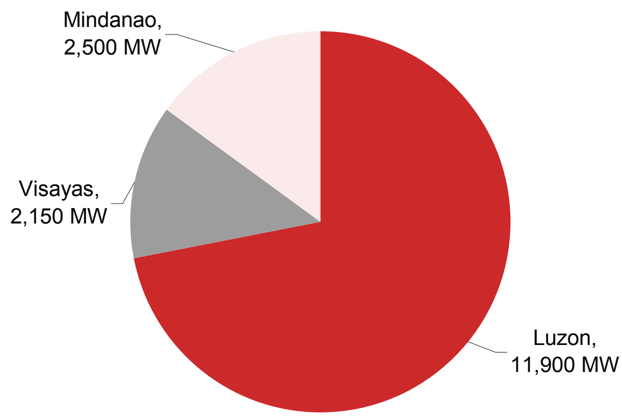
Reserve margins are rapidly declining in all three grids, suggesting ample greenfield growth opportunities

Exhibit 84. Philippines: Capacity prospects



Source: DOE, Nomura research

Exhibit 85. Philippines: Capacity prospects by grid (2010-30F)



Source: DOE, Nomura research

…and the Indonesian natural-gas space

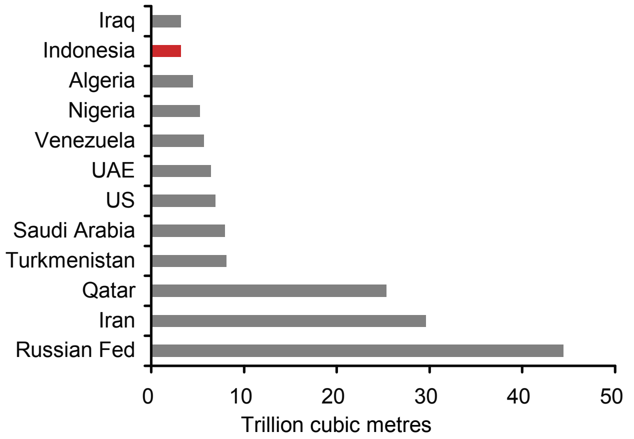
Perusahaan Gas Negara (PGN) has share of more than 50% and 90% of Indonesia's gas transmission and distribution markets, respectively, as well as a tight grip on the country's high-consumption centres, so we believe that it has unparalleled positioning to benefit from what promises to be a secular reorientation in Indonesia's energy mix and a marked uptick in domestic natural gas utilisation.

Despite abundant resources, utilisation remains low

Despite abundant natural gas resources, domestic utilisation remains low

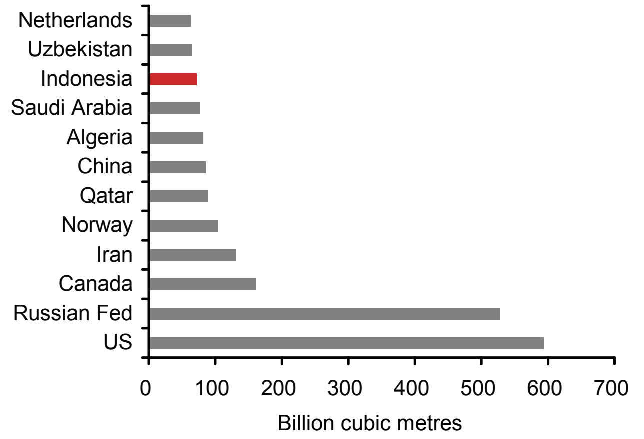
Indonesia has abundant natural gas and CBM reserves, but — in the wake of a long legacy of oil-based fuel subsidies, a mismatch between production and consumption zones, inadequate gas transportation infrastructure and a preference amongst upstream producers to export production as LNG to Japan, Korea, and Taiwan, where prices offered are at a steep premium to domestic prices — natural gas utilisation in Indonesia remains extremely low relative to that of its regional peers.

Exhibit 86. Global gas-resource rank (2009)



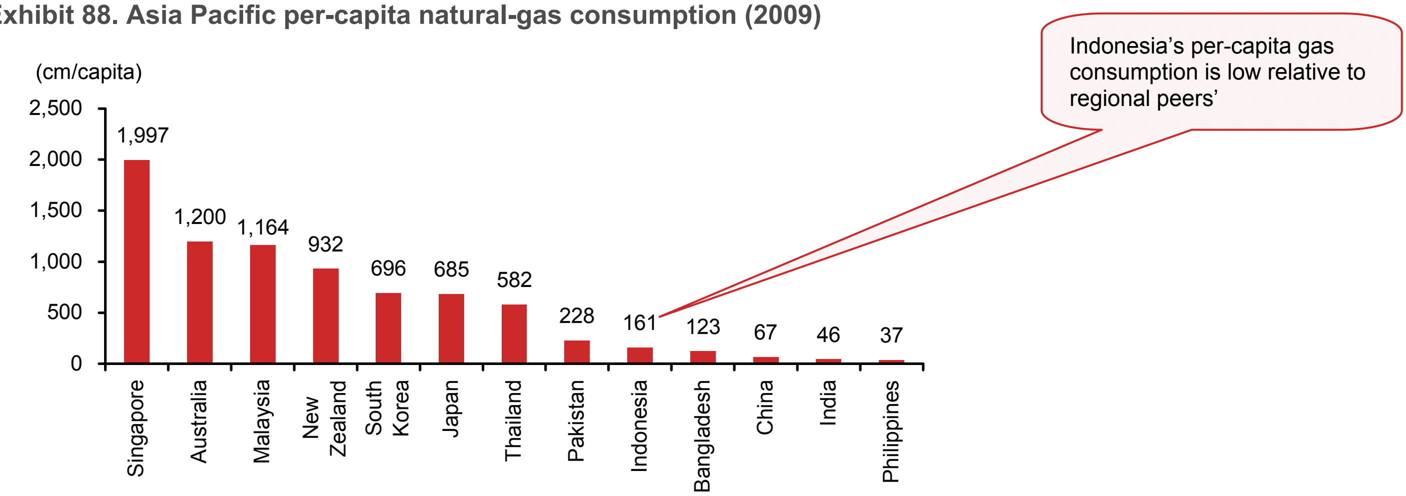
Source: BP Statistical Review (2009)

Exhibit 87. Global gas-production rank (2009)



Source: BP Statistical Review (2009)

Exhibit 88. Asia Pacific per-capita natural-gas consumption (2009)

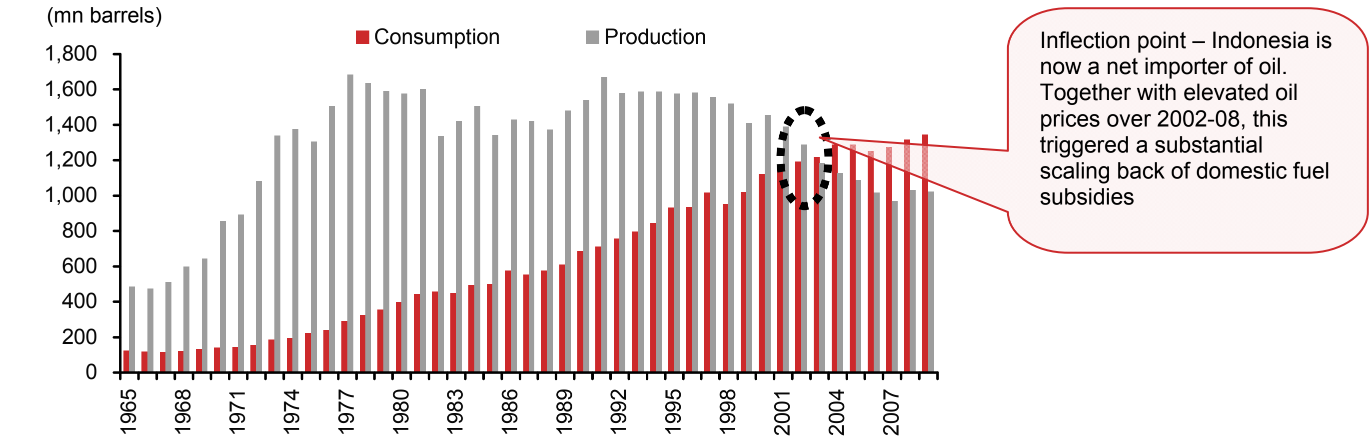


Source: BP Statistical Review (2010), World Bank, Nomura research

With Indonesia now a net oil importer, government policy is increasingly geared towards promoting domestic gas utilisation

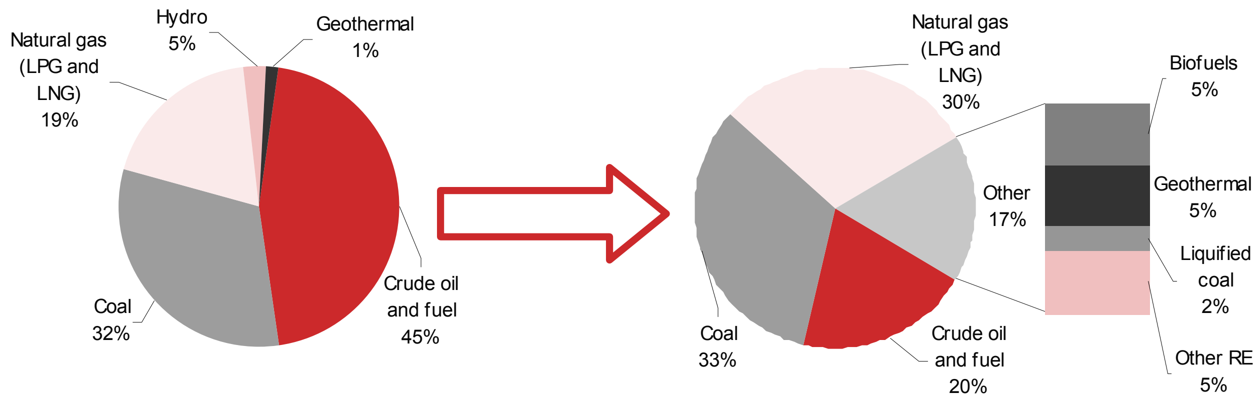
We believe that this is about to change. Oil production has been on a downward trajectory since 1992 on the back of the natural maturation of oil production fields, low reserve replacement and decreased upstream investment and exploration. This has seen Indonesia turn into a net importer of oil (in 2004), revisit the extent of oil-based fuel subsidies and suspend its long-standing membership of OPEC (in 2008); as a result, government policy has refocused towards reducing the country's heavy dependence on oil in favour of abundant, lower-cost fuels such as coal and natural gas. Indonesia's National Energy Policy targets elevating natural gas's standing from ~19% of the country's existing primary energy mix as at end 2009 to ~30% by 2025F.

Exhibit 89. Indonesia: Oil production and consumption trends



Source: Ministry of Energy and Mineral Resources

Exhibit 90. Indonesia: Existing and targeted primary fuel mix



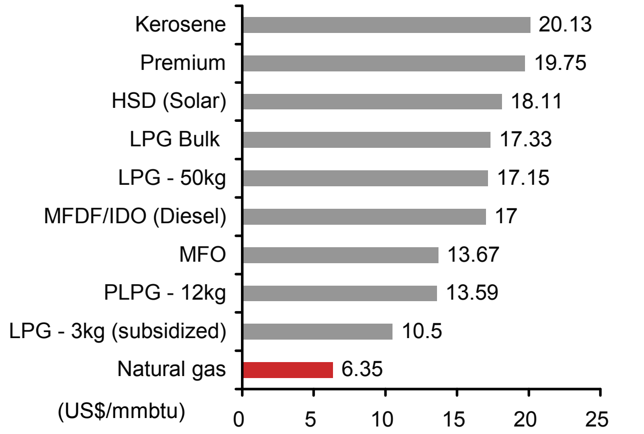
Source: Presidential Decree No.5/2006, Nomura research

Extremely strong demand fundamentals

Demand fundamentals are strong on the back of robust industrial and power sector growth and a strong substitution effect

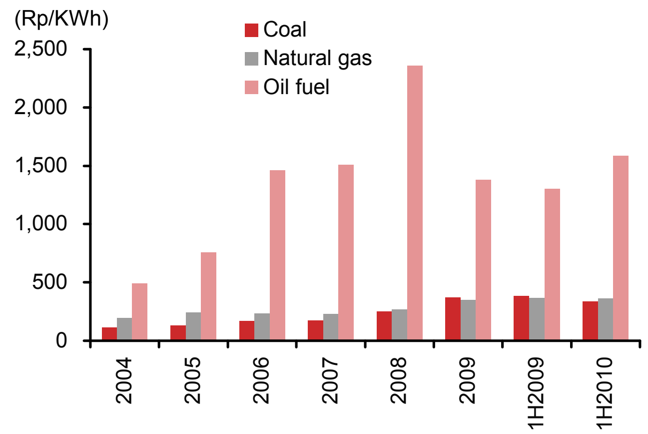
Demand fundamentals are strong, in our view. On the back of 9.2% projected average annual growth in electricity demand and a target of lifting the country's electrification ratio from 65% currently to 91% by 2019, Indonesia's government expects installed capacity to rise from 29GW to 82GW in 10 years (~5GW pa), with gas-fired capacity expected to more than double from 6GW currently to 14GW over the period as PT PLN endeavours to tilt its production mix away from vastly more expensive oil-fuels. Similarly, given strong expected medium-term GDP growth and a favourable cost advantage relative to competing non-coal fuel sources, industrial natural gas demand growth is expected to be robust over the medium term.

Exhibit 91. Industrial fuel cost comparison (2009)



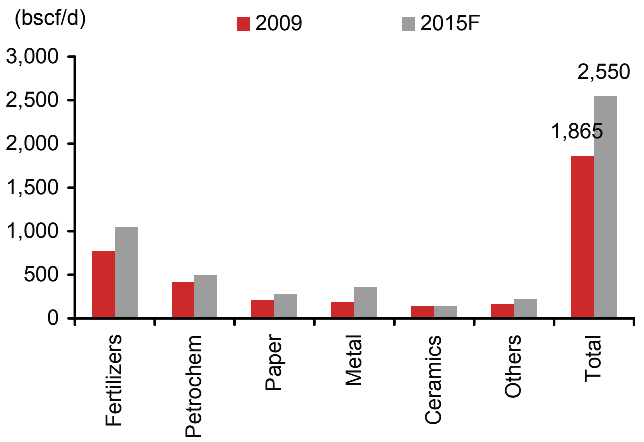
Source: PGN, Nomura research

Exhibit 92. PLN's per-unit generation costs



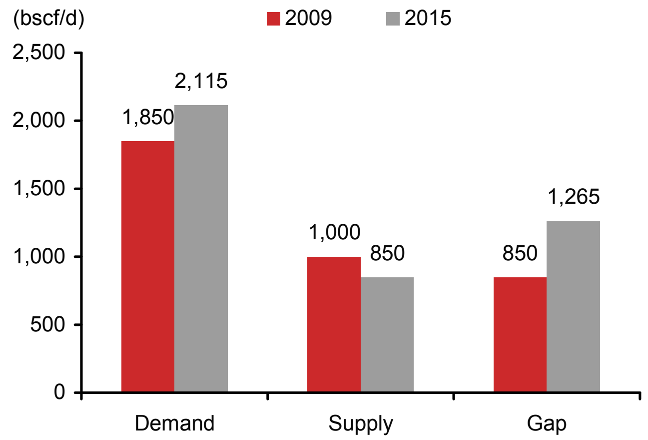
Source: PLN, Nomura research

Exhibit 93. Power sector gas-demand forecasts



Source: PLN, Nomura research

Exhibit 94. Industrial sector gas-demand forecasts



Source: Ministry of Industry, Nomura research

Infrastructure, easing LNG supply constraints a positive

Indonesia's DMO and investment in LNG reception capabilities should significantly ease supply bottlenecks, in our view

As PGN is a mid- to downstream operator, we believe that it stands to benefit from what appears to be a looming over-supply in regional LNG markets over the medium term, which together with government's 25% domestic market obligation, the group's new cost-plus pricing mandate, and pending investments in LNG reception and regasification facilities in West Java and North Sumatra, should greatly enhance PGN's ability to compete for both domestic and internationally sourced natural gas over the medium term.

Thailand: Neutral / Malaysia: Bullish

Thailand and Malaysia power sector

NEUTRAL / BULLISH

Turning more positive on Thailand

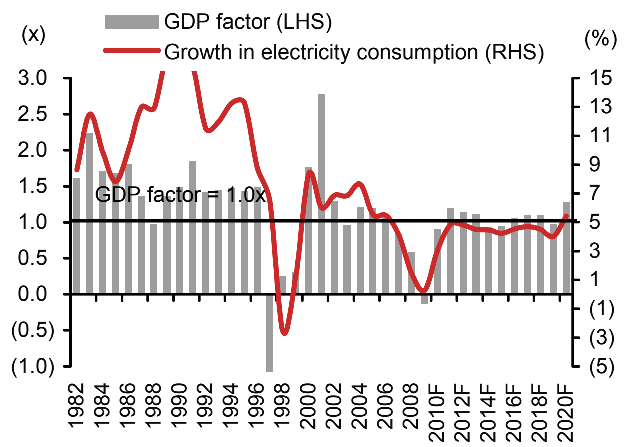
Since July 2009, our stock preferences in Thailand have been tilted towards companies with a strong, secure capacity pipeline and a more cycle-sensitive business model with exposure to the near-term earnings catalysts of: 1) a reflation in industrial utilisation and, by extension, an uptick in electricity sales volumes; and 2) improved margins for off-grid electricity and steam sales, given a growing spread between fuel costs and grid-tariffs. While the volume- and margin-driven quarterly uptick in earnings has, in our view, run its course, **we still favour Glow Energy (GLOW TB, BUY).** Our view reflects an expected structural lift in the group's capacity base (+52% over FY09/12F) which, beyond top-line growth, should also lift margins through economies of scale and scope and improved blended operating efficiency, underpinning an expected 25% three-year EPS CAGR. Moreover, with demand up 12% for 9M10 and given likely delays to capacity awarded in the most recent (2007) round of IPP capacity awards, regulators are again looking to bolster capacity, primarily through SPP/very small power producer (VSPP) projects and cross-border (Laos) hydro initiatives. Although competition among the generating companies will be strong, we believe the pending 2,000MW SPP capacity award will add spark to the sector.

Key investment themes for 2011F

We expect a 10-year demand CAGR of ~5.7%

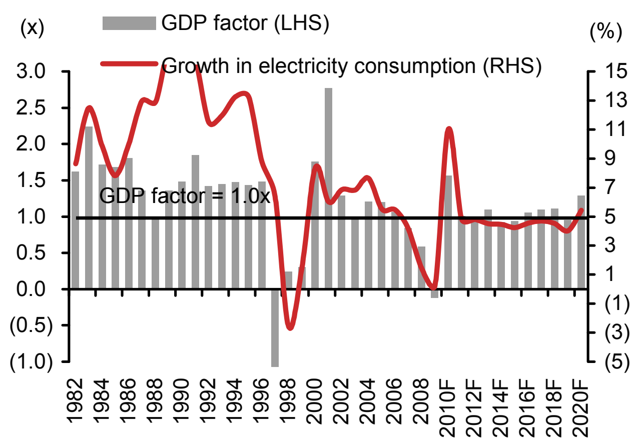
Strong rebound in demand, momentum outlook positive. While y-y electricity demand growth likely eased over 2H 2010 and should ease further in 2011, as we move away from 1Q FY09's trough, we think Thailand's healthy economic growth prospects should support robust power off-take trends over our investment horizon, led at the margin by the fortunes of the dominant manufacturing sector. We expect electricity volumes to witness a 10-year CAGR of ~5.7%.

Exhibit 95. PDP 2010F demand growth and GDP multipliers



Source: EPPO, PDP2010, Nomura estimates

Exhibit 96. Nomura demand growth and GDP multipliers

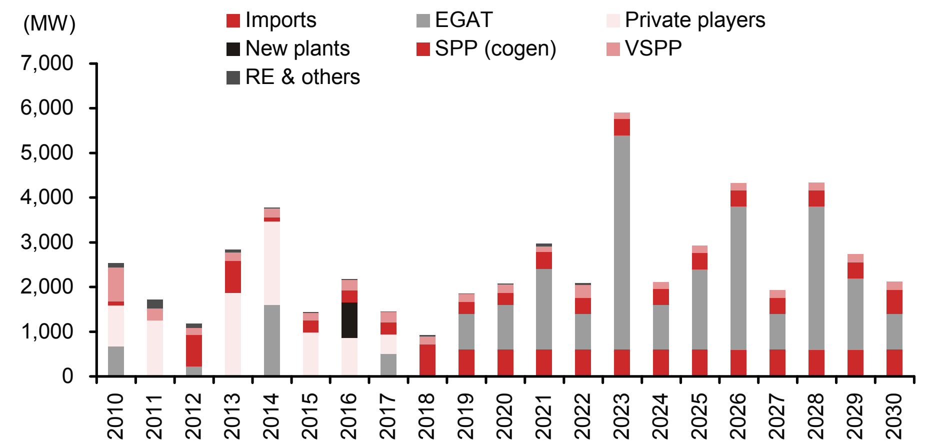


Source: EPPO, PDP2010, Nomura estimates

Brightened capacity-addition prospects. Highly insulated PPAs and, in the case of SPPs such as Glow, normalised capacity utilisation numbers mean that Thai IPPs are unlikely to benefit directly from the uptick in sales volumes. However, we believe the strong rebound in power demand has significantly improved prospects for future capacity wins, with SPP and imported coal and hydro capacity clearly favoured by planners. Factoring stronger-than-expected YTD peak demand growth and assuming that demand growth projections supporting Thailand's power-development plan materialise over 2011F-20F, we estimate that Thailand needs a further 25GW of dependable capacity over the next 10 years to sustain the power system's integrity and reliability.

Our analysis suggests the system needs a further 25GW of dependable capacity over 2011/20F to maintain its integrity

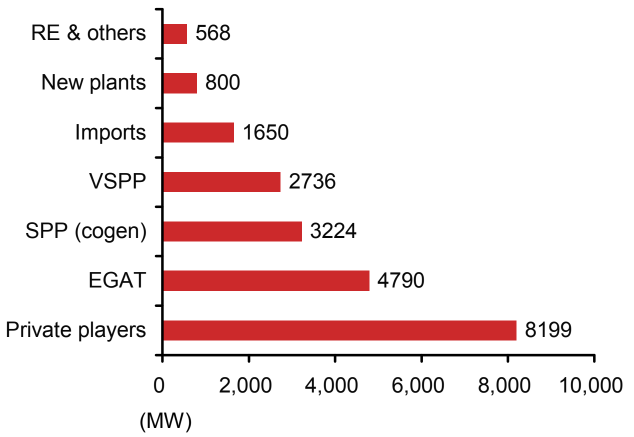
Exhibit 97. Thailand: Planned 2010/20F capacity additions by owner



Note: Private players refer to IPP capacity, either domestic or imported, that has already been allocated to a private sector entity.

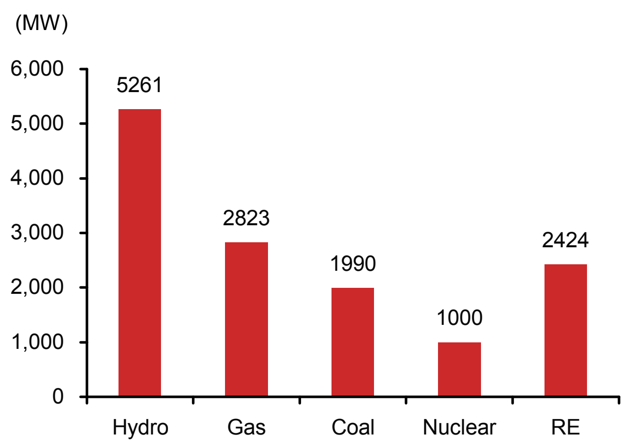
Source: PDP2010

Exhibit 98. Capacity additions by owner (2010/20F)



Source: EPPO, EGCO, Nomura research

Exhibit 99. Net capacity additions by fuel (2010/20F)

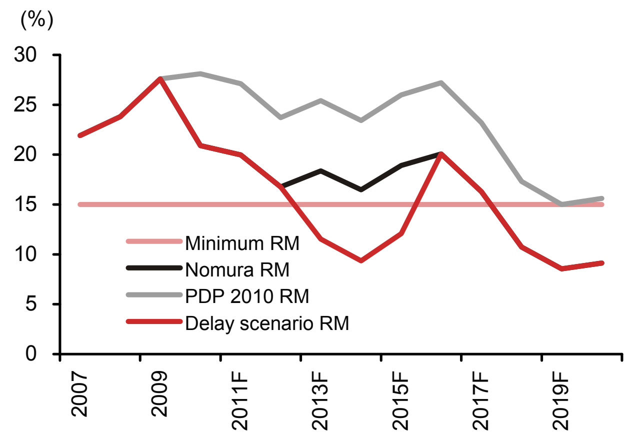


Source: EPPO, Nomura research

IPP capacity delays a positive for incumbents. While prospects for additional domestic IPP capacity additions appear glum, we believe stronger-than-expected YTD peak loads, combined with a probable (minimum) two-year delay in the COD of Siam Energy's and National Power Supply's capacities (combined around ~2.1GW), together with the government's desire to boost power supply in Thailand's southern provinces, greatly enhance EGCO's prospects for securing PPA extensions for its two primary plants, REGCO and KEGCO.

Likely delays to ~2.1GW of IPP capacity awarded in 2007 bode well for PPA extensions

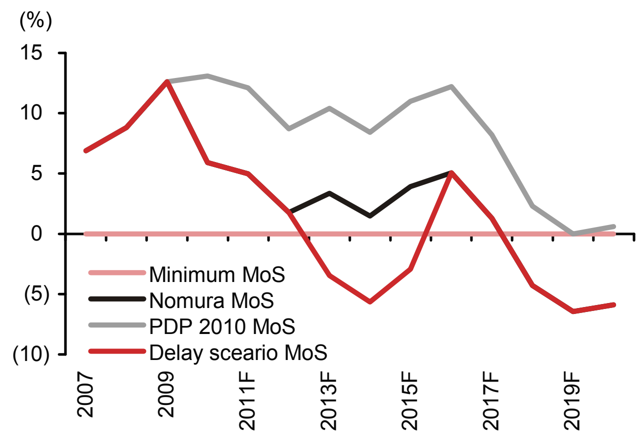
Exhibit 100. Reserve-margin scenario analysis



Note: RM = reserve margin

Source: PDP2010, EPPO, Nomura estimates

Exhibit 101. MoS scenario analysis



Note: MoS = margin of safety

Source: PDP 2010, EPPO, Nomura estimates

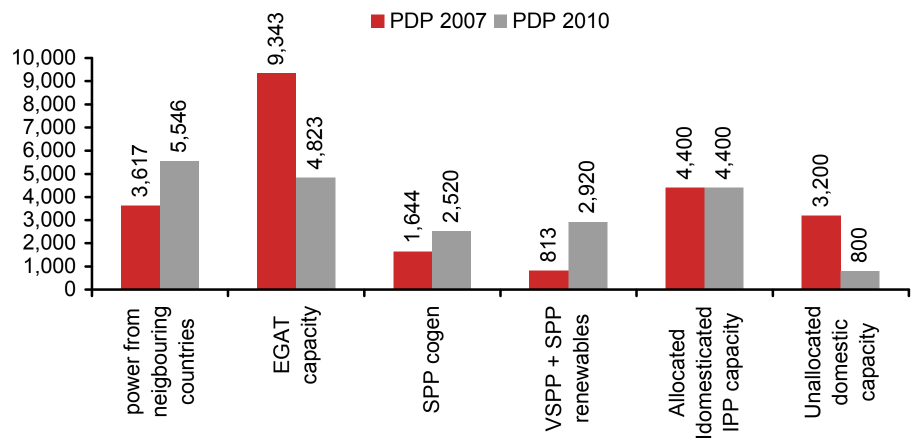
SPP/VSPP capacity favoured. Successive revisions to Thailand's PDP have ushered in a progressively more sombre reality for IPP prospects within Thailand; this has not been the case for SPPs and renewable-energy technologies, where Thailand is placing an increasing emphasis through its SPP and VSPP programmes. By 2020F, we expect the private sector-owned SPP, VSPP and renewable-energy technologies to account for 16% (~7,252MW) of the country's installed capacity mix, from only 8% (~2,520MW) currently. We believe the pending 2,000MW SPP capacity award (bidding results should be public by end January 2011) could add spark to the sector.

Thailand's power development plan clearly favours small scale (SPP) capacity…

Cross-border projects an important growth node. As Thailand endeavours to diversify its generating mix in ways it is unable to do domestically — whether because of geographical limitations (for hydro projects) or opposition from the public and environmental groups (for coal-fired and hydro projects) — we believe that neighbouring countries, especially Laos, will become an important growth node for Thai-listed IPPs. By 2020F, Thailand's PDP 2010 forecasts that imports will account for ~14% of the country's aggregate installed capacity, equating to a net capacity increase of almost 6GW over the period. While Ratch has no operational plants in Laos yet (both EGCO and Glow do), over the next five to six years Laos will account for the vast majority of its growth (~905MW), in our view.

…and imported capacity, largely from Laos

Exhibit 102. Thailand: 2010/20F capacity additions by ownership type (MW)



Source: PDP2010

Pipeline matters. The capacity or availability component of Thai IPP payments, designed to compensate for the IPP for fixed investment costs (including debt-servicing costs), generally declines towards the back end of the PPA term as IPP debt is progressively retired. This pattern is especially strong for the more dated IPPs, where a lack of depth in the Thai debt capital markets at inception made it difficult to match funding duration with the long-dated nature of PPAs. While declining capacity payments hold little implication for cashflow profiles given the matching principle, since plants are generally depreciated on a straight line basis, operating profit typically drops off sharply towards the end of a PPA. Moreover, a strong asset pipeline also serves to keep effective tax rates below the country's normal corporate tax rate of 30%. Under the country's Board of Investment (BOI) Tax Incentive Scheme, power plants are typically exempt from income tax in the first eight years from the date of first generating operating income, after which a tax rate of 50% of the ordinary corporate tax rate applies for a period of five years; thereafter, income is fully taxed. Accordingly, in the absence of portfolio replenishment, IPP accrual-based earnings can deteriorate sharply as the portfolio matures.

Stock recommendations

Glow Energy remains our top pick in the sector

Glow Energy (GLOW TB): BUY. Glow remains our top pick in the sector. A recent bout of profit taking on the back of news of a 2-month delay in Gheco One once again sees Glow trading at levels (FY11/12F PER of 13.1x and 9.6x) that we feel are not fully reflective of the group's capacity-driven, 25% three-year EPS CAGR. With a PT of THB55/share, we reaffirm our BUY rating.

We are also valuation buyers of EGCO and Ratch

Electricity Generating Co (EGCO TB, Php 102): BUY. We believe likely completion delays to National Power Supply's and Siam Energy's 2.1GW of IPP capacity, the government's desire to boost power supply in the south and the pending 2,000MW SPP capacity awards should see the market revisit EGCO's heavily discounted valuations (FY11F EV/EBITDA and P/B: 4.8x and 0.9x). Reaffirm BUY with a PT of THB110/share.

Ratchaburi Electric (RATCH TB, Php 38): BUY. YTD underperformance and Ratch's recent drop on Banpu's stake disposals offers an attractive entry point for value investors looking to gain a foothold on Ratch's steady capacity growth profile, bolstered by a first-mover advantage in Laos, and lock in the most attractive yield (6.6%) in the ASEAN power space. With a THB41/share PT, we maintain our BUY call.

Malaysia: Neutral

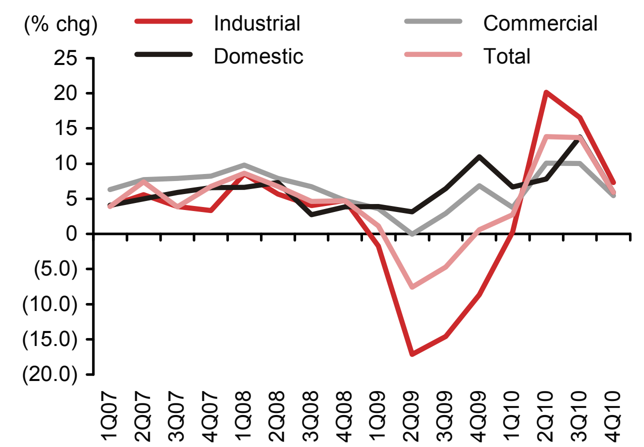
Malaysia

NEUTRAL

We are NEUTRAL on the Malaysian power sector, reflecting our view on TNB as the industry's dominant, vertically integrated player

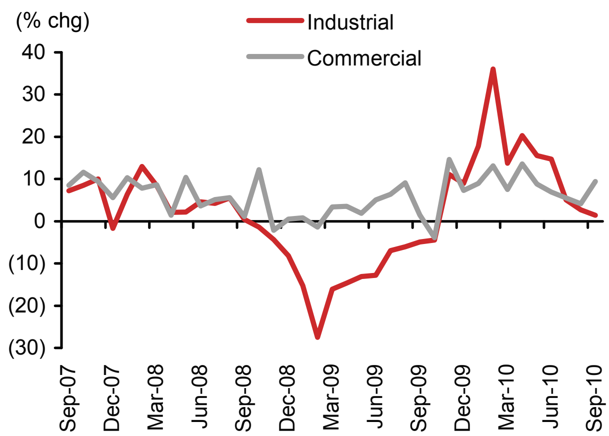
We approach 2011 with a NEUTRAL stance on the Malaysian power sector, reflecting our view on Tenaga (TNB MK, RM 8.35; NEUTRAL) as Malaysia's dominant generating company and the industry's sole downstream off-taker. While electricity consumption demand has picked up strongly in 2010 and we expect momentum will likely remain healthy into the coming year, this is being driven primarily by low-margin industrial segment sales. Moreover, with gas supplies to the power industry capped and tariffs stagnant, we see increased near-term margin pressure given upwardly trending coal costs and the fact that, at the margin, incremental demand will likely be met with more costly coal-fired generation. Over a more extended horizon, an increased dependence on internationally sourced coal, in the absence of an automatic tariff-setting mechanism and a credible regulatory environment, creates scope for amplified volatility and a downward bias in TNB's operating margins, in our view. Moreover, with elections looming, we believe that the implementation of structural reforms to natural gas prices, TNB's tariff-setting mechanism, and the balance of risks in the industry – in our view, all preconditions to a sustainable rerating of TNB – are unlikely over the near term.

Exhibit 103. TNB volume growth (quarterly)



Source: Company data, Nomura research

Exhibit 104. TNB volume growth (monthly)



Source: Company data, Nomura research

Exhibit 105. Malaysia: Capacity and peak-demand projections

Capacity, peak demand and RM projections	FY08	FY09	FY10	FY11F	FY12F	FY13F	FY14	FY15F	FY16F	FY17F	FY18F	FY19F	FY20F
Capacity projections (MW)													
TNB installed capacity	**10,836**	**11,530**	**11,530**	**11,530**	**11,530**	**11,530**	**12,152**	**13,152**	**13,152**	**13,152**	**13,152**	**13,152**	**13,152**
Hydro	1,911	1,911	1,911	1,911	1,911	1,911	**2,533**	2,533	2,533	2,533	2,533	2,533	2,533
Conventional thermal (coal)	3,670	3,670	3,670	3,670	3,670	3,670	3,670	**4,670**	4,670	4,670	4,670	4,670	4,670
Conventional thermal (Oil & gas)	840	840	840	840	840	840	840	840	840	840	840	840	840
Combined cycle	2,762	3,456	3,456	3,456	3,456	3,456	3,456	3,456	3,456	3,456	3,456	3,456	3,456
Gas turbine	1,653	1,653	1,653	1,653	1,653	1,653	1,653	1,653	1,653	1,653	1,653	1,653	1,653
IPP's installed capacity	**8,887**	**10,287**	**10,287**	**10,287**	**10,287**	**10,287**	**10,287**	**10,287**	**11,287**	**11,287**	**11,287**	**11,287**	**11,287**
- IPP Gas/oil	6,787	6,787	6,787	6,787	6,787	6,787	6,787	**6,787**	**6,787**	**6,787**	**6,787**	**6,787**	**6,787**
- IPP Coal	2,100	3,500	3,500	3,500	3,500	3,500	3,500	3,500	**4,500**	4,500	4,500	4,500	4,500
Total	**19,723**	**21,817**	**21,817**	**21,817**	**21,817**	**21,817**	**22,439**	**23,439**	**24,439**	**24,439**	**24,439**	**24,439**	**24,439**
Peak demand projections (MW)													
Peak demand	14,007	14,245	15,072	15,675	16,224	16,872	17,505	18,162	18,843	19,502	20,185	20,891	21,622
Peak demand growth	2.84	1.70	5.8	4.00	3.5	4.0	3.8	3.8	3.8	3.5	3.5	3.5	3.5
Reserve margin projections (%)													
Implied reserve margin	41	53	45	45	39	35	29	28	29	30	25	21	17

Note: The analysis above assumes that all of Malaysia's existing 1st generation IPPs have their PPAs extended

Source: Company data, Nomura estimates

Janamanjung expansion

Ulu Jelai and Hulu Terengganu

All ~4100MW of first generation PPA extended

A further 1,000MW assumed to be awarded to IPPs

For upstream IPPs, an increasingly constrained investment universe following the privatisation of Tanjong and highly insulated PPAs mean little exposure to more robust volume trends. However, reserve margins are once again approaching levels conducive to creating opportunities to win capacity, with the government looking to allocate an additional 1,000MW of coal-fired capacity by early 2011. Moreover, given the strength of Malaysia's consumption rebound in 2010F and with Bakun's 1,800MW capacity no longer destined to service Malaysia's shores, we see little alternative to regulators extending substantially all of the c.4,100MW of first-generation PPAs due to mature over 2014/16F.

With Bakun no longer destined to supply power to peninsular Malaysia, we expect substantially all of the first generation PPAs to be extended

ASEAN stock picks

OCBC OCBC SP

FINANCIALS/BANKS | SINGAPORE

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BUY

Action

Peer-beating 3Q results underscore the structural benefits of a scaled-up ASEAN presence and a broad, synergistic product platform that positions the group well to circumvent sustained S$ margin pressure and decelerating S$ loan growth. BUY OCBC on rising market appreciation of its success in integrating a quality, synergy-rich financial services conglomerate that has promising, differentiated growth.

Catalysts

Seamless integration of ING Asia Private Bank, tangible ASEAN growth traction, a market re-rating of Great Eastern, and raising Bank of Ningbo stake to 20%.

Anchor themes

Facing a prolonged period of S$ interest rate weakness, Sing banks need to work around the resulting margin drag by generating more loan and fee income volumes, while maintaining operating and credit-cost discipline. An increasing premium will be attached to ability to expand offshore franchises and cross-sell fee products.

Closing price on 28 Dec	S$9.84
Price target	S$11.80
	(set on 11 Aug 10)
Upside/downside	18.7%
Difference from consensus	15.7%
FY11F net profit (S$mn)	2,619
Difference from consensus	0.0%

Source: Nomura

Nomura vs consensus

Potential for net interest margin to post a meaningful medium-term recovery is uncertain, given pushing out of interest rate expectations into 2012 and a pick-up in competition.

Strategy in motion

① Core operations: firing on all engines

Compared to sustained net interest margin (NIM) contraction at peers, OCBC saw 3Q NIM edge up 2bps, underpinned by rising CASA share of deposits (to 48.3%, surpassing UOB) and higher LDR, +400bps q-q to 88% (peers: 80%-82%). Loan growth (+22% YTD) and fee income traction were also significantly better even as asset quality (gross NPL ratio: 1.1%) and provisioning continued to be the best in the sector.

② ASEAN footprint: scaled-up and ready to grow

The Malaysian operations now contribute 25% of group earnings, with the commercial banking subsidiary (including the Islamic banking arm) now the largest foreign bank by assets, while 87%-owned life insurer Great Eastern (GE) is launching Takaful (Islamic insurance) in 1Q11. In Indonesia, 85%-owned OCBC NISP has been in investment mode for three years, doubling branches to over 400 and building a high-quality deposit base – 2011 should see growth accelerate off this top-tier base, in our view.

③ Product platform: comprehensive and synergistic

The acquisition of Bank of Singapore (BOS; consolidated 1Q10), adds further cross-selling potential amongst commercial bank, life insurer (GE), and private bank (BOS). The latter has generated S$1bn in mortgages already for the bank with further cost and revenue synergies to be tapped on optimised integration and incentivisation.

④ Capital: comfortable despite BASEL III

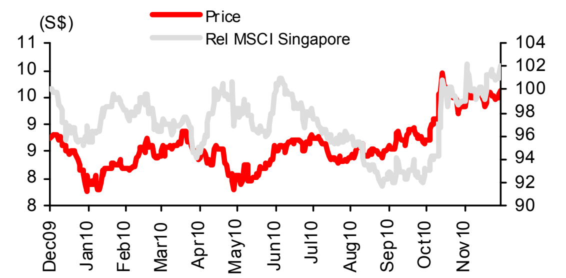
OCBC's core equity ratio should remain above 10% (3Q: 11.5%) post-BASEL III deductions centring on GE and 13.7%-owned Bank of Ningbo. According to Bloomberg, management said it would raise this stake to 20% should the opportunity be presented, thus allowing for equity accounting). While OCBC has lost some "optionality" in terms

Key financials & valuations

31 Dec (S$mn)	FY09	FY10F	FY11F	FY12F
PPOP	2,973	3,148	3,520	3,863
Reported net profit	1,962	2,340	2,619	2,871
Normalised net profit	1,962	2,340	2,619	2,871
Normalised EPS (S$)	0.62	0.72	0.80	0.87
Norm. EPS growth (%)	28.7	15.7	11.3	9.6
Norm. P/E (x)	16.4	13.9	12.5	11.4
Price/adj. book (x)	1.89	1.79	1.65	1.53
Price/book (x)	1.70	1.61	1.50	1.39
Dividend yield (%)	2.8	3.0	3.4	3.8
ROE (%)	11.3	11.9	12.4	12.7
ROA (%)	1.04	1.13	1.15	1.17
Earnings revisions				
Previous norm. net profit		2,340	2,619	2,871
Change from previous (%)		-	-	-
Previous norm. EPS (S$)		0.72	0.80	0.87

Source: Company, Nomura estimates

Share price relative to MSCI Singapore



	1m	3m	6m
Absolute (S$)	3.3	12.4	11.7
Absolute (US$)	5.1	14.4	19.4
Relative to Index	3.0	10.4	2.7
Market cap (US$mn)			25,587
Estimated free float (%)			70.0
52-week range (S$)			10.24/8.08
3-mth avg daily turnover (US$mn)			40.99
Stock borrowability			Easy
Major shareholders (%)			
Lee Family			31.0

Source: Company, Nomura estimates

of room to acquire, there is no pressing product gap for now. OCBC is also working on containing risk-weighted asset (RWA) growth to further optimise capital usage.

Valuation methodology

Our Gordon Growth-based fair value (13% sustainable ROE, 9% WACC, 5% long-term growth) is S$11.00, but factoring the value for GE generates a sum-of-the-parts PT of S$11.80, or 2.0x FY11F adjusted BV (1.8x stated book), or 15x FY11F P/E.

Risks to our investment view

Renewed worsening in credit conditions and another knock-on lurch down in property prices and demand would impact loan growth and loan loss provisioning negatively, given that almost 50% of its loan book is either mortgages or building & construction (largely property developer) loans. While we are relatively comfortable with the Singapore loan book (60% of total book), given the relative strength of domestic corporates and the broad lack of leverage in the system, the Malaysian book (18% of total) appears more vulnerable and could surprise negatively if there is poor official execution of the sizeable fiscal stimulus measures announced by the Malaysian government. Finally, in relation to the acquisition of IAPB, a significant attrition of relationship managers (RMs) and/or clients would erode value-creation expectations.

Financial statements

Profit and Loss (S$mn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Interest income	5,267	4,190	4,138	4,749	5,236
Interest expense	(2,483)	(1,364)	(1,235)	(1,397)	(1,515)
Net interest income	**2,784**	**2,825**	**2,903**	**3,352**	**3,720**
Net fees and commissions	774	730	909	1,001	1,106
Trading related profits	(18)	285	563	519	526
Other operating revenue	714	975	954	1,049	1,155
Non-interest income	**1,470**	**1,990**	**2,426**	**2,569**	**2,787**
Operating income	**4,254**	**4,815**	**5,329**	**5,921**	**6,507**
Depreciation	(61)	(58)	(70)	(76)	(82)
Amortisation	(47)	(47)	(47)	(47)	(47)
Operating expenses	(1,793)	(1,737)	(2,064)	(2,278)	(2,515)
Employee share expense					
Op. profit before provisions	**2,352**	**2,973**	**3,148**	**3,520**	**3,863**
Provisions for bad debt	(447)	(429)	(122)	(137)	(148)
Other provision charges	-	-	-	-	-
Operating profit	**1,905**	**2,544**	**3,026**	**3,384**	**3,715**
Other non-operating income	-	-	-	-	-
Associates & JCEs	6	(1)	3	6	9
Pre-tax profit	**1,911**	**2,543**	**3,029**	**3,390**	**3,724**
Income tax	(314)	(389)	(492)	(549)	(602)
Net profit after tax	**1,597**	**2,154**	**2,538**	**2,841**	**3,122**
Minority interests	(111)	(192)	(198)	(222)	(251)
Other items	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Normalised NPAT	**1,486**	**1,962**	**2,340**	**2,619**	**2,871**
Extraordinary items	263	-	-	-	-
Reported NPAT	**1,749**	**1,962**	**2,340**	**2,619**	**2,871**
Dividends	(865)	(909)	(985)	(1,116)	(1,248)
Transfer to reserves	**884**	**1,053**	**1,355**	**1,502**	**1,623**

Fee income boosted by the consolidation of Bank of Singapore (1Q10) and profit rebound at Great Eastern

Valuation and ratio analysis					
FD normalised P/E (x)	20.7	16.4	13.9	12.5	11.4
FD normalised P/E at price target (x)	24.5	19.5	16.6	14.8	13.5
Reported P/E (x)	17.6	16.0	13.9	12.5	11.4
Dividend yield (%)	2.8	2.8	3.0	3.4	3.8
Price/book (x)	1.9	1.7	1.6	1.5	1.4
Price/adjusted book (x)	2.0	1.9	1.8	1.7	1.5
Net interest margin (%)	2.33	2.23	2.04	2.07	2.09
Yield on interest earning assets (%)	4.42	3.31	2.91	2.93	2.94
Cost of interest bearing liabilities (%)	2.17	1.14	0.94	0.97	0.98
Net interest spread (%)	2.25	2.17	1.96	1.97	1.96
Non-interest/operating income (%)	34.6	41.3	45.5	43.4	42.8
Cost to income (%)	43.6	37.3	40.1	39.8	39.9
Effective tax rate (%)	16.4	15.3	16.2	16.2	16.2
Dividend payout (%)	49.5	46.3	42.1	42.6	43.5
ROE (%)	11.1	11.3	11.9	12.4	12.7
ROA (%)	0.98	1.04	1.13	1.15	1.17
Operating ROE (%)	12.1	14.6	15.4	16.1	16.4
Operating ROA (%)	1.07	1.35	1.46	1.49	1.51

Faster-growing, higher-margin ASEAN loan books coupled with improving liability dynamics (i.e. rising CASA share, LDR) should deliver modest margin stabilization going forward

Growth (%)					
Net interest income	24.0	1.5	2.8	15.5	11.0
Non-interest income	(24.5)	35.4	21.9	5.9	8.5
Non-interest expenses	10.4	(3.1)	18.8	10.4	10.4
Pre-provision earnings	(4.5)	26.4	5.9	11.8	9.7
Net profit	(20.8)	32.0	19.2	11.9	9.6
Normalised EPS	(20.9)	28.7	15.7	11.3	9.6
Normalised FDEPS	(20.9)	25.7	17.9	11.9	9.6

Source: Nomura estimates

Balance Sheet (S$mn)					
As at 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash and equivalents	3,866	7,244	5,618	4,602	5,344
Inter-bank lending	15,353	15,821	17,403	19,144	21,058
Deposits with central bank	3,163	5,927	4,597	3,765	4,372
Total securities	24,167	28,166	30,749	33,572	36,656
Other interest earning assets	-	-	-	-	-
Gross loans	81,336	82,341	102,926	115,277	126,806
Less provisions	(1,528)	(1,465)	(1,687)	(1,866)	(2,035)
Net loans	**79,808**	**80,876**	**101,239**	**113,411**	**124,771**
Long-term investments	10,389	7,453	8,049	8,693	9,389
Fixed assets	2,391	2,374	2,354	2,334	2,314
Goodwill	3,376	3,362	4,057	4,010	3,963
Other intangible assets	-	-	-	-	-
Other non IEAs	38,874	43,077	44,800	46,592	48,456
Total assets	**181,386**	**194,300**	**218,868**	**236,123**	**256,323**
Customer deposits	94,078	100,633	117,314	126,218	137,143
Bank deposits, CDs, debentures	17,787	14,877	15,660	16,036	16,443
Other interest bearing liabilities	6,010	6,863	6,853	6,853	6,854
Total interest bearing liabilities	**117,876**	**122,373**	**139,828**	**149,108**	**160,440**
Non interest bearing liabilities	44,949	50,148	55,731	61,976	68,964
Total liabilities	**162,825**	**172,521**	**195,559**	**211,085**	**229,404**
Minority interest	2,687	2,808	3,006	3,228	3,479
Common stock	5,520	6,210	6,210	6,210	6,210
Preferred stock	1,000	1,166	1,166	1,166	1,166
Retained earnings	7,685	9,103	10,435	11,943	13,572
Proposed dividends	-	-	-	-	-
Other equity	1,669	2,492	2,492	2,492	2,492
Shareholders' equity	**15,874**	**18,971**	**20,303**	**21,811**	**23,440**
Total liabilities and equity	**181,386**	**194,300**	**218,868**	**236,123**	**256,323**
Non-performing assets (S$)	*1,182*	*1,417*	*1,417*	*1,417*	*1,417*
Balance sheet ratios (%)					
Loans to deposits	86.5	81.8	87.7	91.3	92.5
Equity to assets	8.8	9.8	9.3	9.2	9.1
Asset quality & capital					
NPAs/gross loans (%)	1.5	1.7	1.4	1.2	1.1
Bad debt charge/gross loans (%)	0.55	0.52	0.12	0.12	0.12
Loss reserves/assets (%)	0.84	0.75	0.77	0.79	0.79
Loss reserves/NPAs (%)	129.3	103.4	119.0	131.7	143.6
Tier 1 capital ratio (%)	14.9	16.0	15.5	15.3	15.0
Total capital ratio (%)	15.2	16.5	16.5	16.5	16.4
Growth (%)					
Loan growth	11.9	1.3	25.2	12.0	10.0
Interest earning assets	5.6	6.8	17.7	10.3	10.0
Interest bearing liabilities	5.8	3.8	14.3	6.6	7.6
Asset growth	3.9	7.1	12.6	7.9	8.6
Deposit growth	6.0	7.0	16.6	7.6	8.7
Per share					
Reported EPS (S$)	0.57	0.62	0.72	0.80	0.87
Norm EPS (S$)	0.48	0.62	0.72	0.80	0.87
Fully diluted norm EPS (S$)	0.48	0.60	0.71	0.80	0.87
DPS (S$)	0.28	0.28	0.30	0.34	0.38
PPOP PS (S$)	0.76	0.94	0.96	1.07	1.18
BVPS (S$)	5.14	5.85	6.18	6.64	7.14
ABVPS (S$)	5.01	5.26	5.56	6.01	6.51
NTAPS (S$)	4.04	4.81	4.95	5.42	5.93

Source: Nomura estimates

Showing good progress in building CASA share within the customer deposit base; 3Q10 share at a record 48.3% (compared to 31.2% in 1Q08)

Incorporates capital drag from the acquisition of ING as well as raising of US$500mn Tier II sub-debt in Nov 2009

Noble Group NOBL SP

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We like Noble for its strategic asset portfolio, which looks poised to deliver a strong FY11F due to improving macro, strong profitability and volumes, led by locked-in margins and new assets like Sempra, Berau Coal, soybean & sugar plants. We reiterate our view that Noble is the best proxy to the macro upswing, and strong momentum in agri and energy should continue next year. Balance sheet remains strong, with a war chest of ~US$2bn to fund likely acquisitions. Reaffirm Noble as our top BUY; valuation at 14.6x FY11F P/E looks undemanding in cyclical upswing.

Catalysts

Enhanced volumes/margins on maturing pipeline; growth opportunities through its association with CIC; asset acquisitions; potential coal asset restructuring.

Anchor themes

Commodity price volatility implies balance sheet strength merits a premium. Also, strong demand prompts a favourable stance towards stocks leveraged to recovery.

Closing price on 28 Dec	S$2.14
Price target	S$2.52
	(set on 9 Nov 10)
Upside/downside	17.8%
Difference from consensus	18.9%
FY11F net profit (US$mn)	706
Difference from consensus	-0.1%

Source: Nomura

Nomura vs consensus

Our higher-than-consensus PT reflects the impact of recent deals like the Berau Coal stake; we think Noble deserves a higher multiple in the strong macro environment.

All-around beneficiary of improving macro and commodity markets

① Asset portfolio points to a strong outlook ahead

Noble's strategic asset profile is set to benefit its bottom-line owing to contribution from new assets such as the Timbues soybean crushing plant, Cerradinho sugar mills and oil/gas trading, Sempra, Berau Coal, and the Meridiano sugar plant contributing from 4Q10. These should benefit from improving commodity markets in coal, oil and gas and sugar, which point to a strong year ahead for Noble, in our view.

② Better margin outlook in agri & MMO in 4Q10F & FY11F

Management has projected a bullish outlook for FY11F and revisited its guidance of US$1bn in earnings over three years (to FY13F). Noble has locked in higher Chinese soy crushing margins and better Metal, mineral and ore (MMO) gross margins (due to contango) through a large part of FY11F as well. Noble is also diverting its cane to sugar production to take advantage of the drought around its Brazilian mills. Logistics volumes, however, may remain low due to a shift in iron ore contracts to C&F contract form.

③ Uncertainty over mgmt departures to be short term

Departures in senior management in quick succession over the past two months (CFO Mr Marzo, Executive Chairman Mr Brown and Director Mr O'Donnell) have raised concerns over succession planning. However, we think that although there may be near-term investor concern over these moves, it should revert to business as usual, with continued earnings delivery seen from 4Q10 onwards.

④ Reaffirm BUY; valuation still undemanding

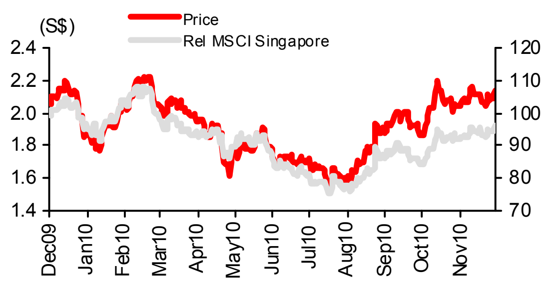
Our price target of S$2.52 represents potential upside of 18% from current levels and implies 17.2x FY11F P/E. Current valuation of 14.6x FY11F P/E looks undemanding, and we reaffirm our BUY, as Noble should be a key beneficiary of an improving macro environment and a spike in cyclical commodity prices on the back of QE2, and any M&A activity on the back of its high cash balances may be a key catalyst.

Key financials & valuations

31 Dec (US$mn)	FY09	FY10F	FY11F	FY12F
Revenue	31,183	46,479	56,359	64,770
Reported net profit	556	472	706	809
Normalised net profit	430	472	706	809
Normalised EPS (US$)	0.082	0.079	0.119	0.136
Norm. EPS growth (%)	(21.4)	(3.2)	49.7	14.6
Norm. P/E (x)	19.6	21.9	14.6	12.8
EV/EBITDA (x)	15.0	13.4	10.1	9.0
Price/book (x)	3.0	2.9	2.5	2.1
Dividend yield (%)	1.3	1.1	1.2	1.8
ROE (%)	23.1	14.9	19.1	18.8
Net debt/equity (%)	88.1	101.9	112.7	105.5
Earnings revisions				
Previous norm. net profit		472	706	809
Change from previous (%)		-	-	-
Previous norm. EPS (US$)		0.079	0.119	0.136

Source: Company, Nomura estimates

Share price relative to MSCI Singapore



	1m	3m	6m
Absolute (S$)	4.9	14.4	20.2
Absolute (US$)	6.7	16.4	28.5
Relative to Index	4.6	12.4	11.9
Market cap (US$mn)			9,939
Estimated free float (%)			51.6
52-week range (S$)			2.22/1.56
3-mth avg daily turnover (US$mn)			39.05
Stock borrowability			Easy
Major shareholders (%)			
Noble Temple Trading			24.2
China Investment Corp			14.8

Source: Company, Nomura estimates

Valuation methodology

We still value Noble using a residual dividend model with a 9% cost of equity, 2.5% terminal growth rate and a long-term ROE of 12% to arrive at our price target of S$2.52.

Risks to our investment view

The key company-specific risk, in our view, would be the execution of its targeted processing facilities to generate more trading volumes. For example, it is targeting ~3mn MT of crushing capacity in Argentina (which would imply roughly 8% of Argentina's crushing market) — the key risk here, in our view, would be tapping demand for these additional volumes of soy meal and soy oil. China currently satisfies most of its soy meal and soy oil requirements from soybeans crushed domestically, and thus, exporting crushed soy meal from Argentina to Europe or China is prone to demand risks.

Similarly, the sugar industry in Brazil is plagued with various regulations and competition is heating up with global giants such as Bunge entering the market. Sustaining volumes with good profitability will remain a challenge, in our view.

Noble is the most leveraged name to the commodity cycle. If commodity prices correct, the company's earnings potential would be negatively impacted. In addition, working capital may be a concern with rising commodity prices.

On the funding side, interest costs can always be the swing factor because of ~80% leverage.

Financial statements

Income statement (US$mn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Revenue	36,090	31,183	46,479	56,359	64,770
Cost of goods sold	(34,743)	(30,078)	(44,904)	(54,341)	(62,488)
Gross profit	**1,348**	**1,105**	**1,575**	**2,018**	**2,282**
SG&A	(568)	(423)	(693)	(807)	(867)
Employee share expense					
Operating profit	**780**	**682**	**882**	**1,211**	**1,415**
EBITDA	**889**	**819**	**1,008**	**1,433**	**1,666**
Depreciation	(56)	(116)	(108)	(211)	(236)
Amortisation	(53)	(22)	(18)	(11)	(14)
EBIT	**780**	**682**	**882**	**1,211**	**1,415**
Net interest expense	(192)	(163)	(301)	(341)	(418)
Associates & JCEs	(16)	(25)	-	-	-
Other income	38	126	-	-	-
Earnings before tax	**610**	**620**	**581**	**870**	**997**
Income tax	(87)	(65)	(105)	(157)	(179)
Net profit after tax	**523**	**555**	**477**	**713**	**818**
Minority interests	(2)	1	(5)	(7)	(8)
Other items		(126)			
Preferred dividends					
Normalised NPAT	**521**	**430**	**472**	**706**	**809**
Extraordinary items	57	126	-	-	-
Reported NPAT	**577**	**556**	**472**	**706**	**809**
Dividends	(68)	(108)	(107)	(118)	(177)
Transfer to reserves	**509**	**448**	**364**	**588**	**633**
Valuation and ratio analysis					
FD normalised P/E (x)	14.0	19.6	21.9	14.6	12.8
FD normalised P/E at price target (x)	16.5	23.1	25.8	17.2	15.0
Reported P/E (x)	12.3	14.8	21.0	14.0	12.2
Dividend yield (%)	1.0	1.3	1.1	1.2	1.8
Price/cashflow (x)	4.8	na	49.6	20.5	12.9
Price/book (x)	4.0	3.0	2.9	2.5	2.1
EV/EBITDA (x)	11.2	15.0	13.4	10.1	9.0
EV/EBIT (x)	12.8	18.1	15.3	12.0	10.5
Gross margin (%)	3.7	3.5	3.4	3.6	3.5
EBITDA margin (%)	2.5	2.6	2.2	2.5	2.6
EBIT margin (%)	2.2	2.2	1.9	2.1	2.2
Net margin (%)	1.6	1.8	1.0	1.3	1.2
Effective tax rate (%)	14.2	10.5	18.0	18.0	18.0
Dividend payout (%)	11.8	19.4	22.8	16.7	21.8
Capex to sales (%)	1.6	2.4	1.6	0.8	0.8
Capex to depreciation (x)	10.5	6.5	7.1	2.1	2.1
ROE (%)	34.0	23.1	14.9	19.1	18.8
ROA (pretax %)	11.9	7.9	8.2	9.4	9.6
Growth (%)					
Revenue	53.6	(13.6)	49.1	21.3	14.9
EBITDA	99.5	(7.8)	23.0	42.1	16.3
EBIT	91.9	(12.5)	29.3	37.3	16.9
Normalised EPS	121.6	(21.4)	(3.2)	49.7	14.6
Normalised FDEPS	122.1	(21.3)	(5.0)	49.7	14.6
Per share					
Reported EPS (US$)	0.12	0.11	0.08	0.12	0.14
Norm EPS (US$)	0.10	0.08	0.08	0.12	0.14
Fully diluted norm EPS (US$)	0.10	0.08	0.08	0.11	0.13
Book value per share (US$)	0.37	0.56	0.57	0.67	0.78
DPS (US$)	0.01	0.02	0.02	0.02	0.03

Source: Nomura estimates

RoE boost post the Sempra acquisition

Cashflow (US$mn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
EBITDA	889	819	1,008	1,433	1,666
Change in working capital	631	(2,044)	(771)	(911)	(782)
Other operating cashflow	(50)	415	(37)	(39)	(117)
Cashflow from operations	**1,470**	**(810)**	**199**	**482**	**767**
Capital expenditure	(585)	(753)	(764)	(434)	(491)
Free cashflow	**885**	**(1,562)**	**(564)**	**49**	**276**
Reduction in investments	141	39	(78)	-	-
Net acquisitions	(90)	(267)	-	-	-
Reduction in other LT assets	(89)	(8)	(187)	-	0
Addition in other LT liabilities	94	3	189	0	(0)
Adjustments	(56)	(151)	(590)	(526)	(26)
Cashflow after investing acts	**886**	**(1,947)**	**(1,231)**	**(478)**	**250**
Cash dividends	(68)	(108)	(107)	(118)	(177)
Equity issue	97	736	79	-	-
Debt issue	(2)	928	3,074	(350)	893
Convertible debt issue	-	-	-	-	-
Others	(265)	9	(642)	(432)	(454)
Cashflow from financial acts	**(238)**	**1,566**	**2,404**	**(900)**	**263**
Net cashflow	**648**	**(381)**	**1,173**	**(1,378)**	**513**
Beginning cash	671	1,318	937	2,110	733
Ending cash	1,318	937	2,110	733	1,245
Ending net debt	1,238	2,604	3,465	4,493	4,873

Source: Nomura estimates

Balance sheet (US$mn)					
As at 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash & equivalents	1,318	937	2,110	733	1,245
Marketable securities					
Accounts receivable	931	1,141	1,783	2,162	2,484
Inventories	1,757	3,415	3,076	3,722	4,280
Other current assets	2,502	3,016	3,667	4,439	5,104
Total current assets	**6,509**	**8,508**	**10,636**	**11,055**	**13,114**
LT investments	129	90	168	168	168
Fixed assets	1,190	1,726	2,529	2,741	2,981
Goodwill	35	35	35	35	35
Other intangible assets	8	6	88	88	88
Other LT assets	282	290	477	477	477
Total assets	**8,153**	**10,655**	**13,933**	**14,564**	**16,862**
Short-term debt	506	609	883	533	1,119
Accounts payable	3,507	3,866	3,937	4,764	5,478
Other current liabilities	93	71	184	242	292
Total current liabilities	**4,107**	**4,546**	**5,004**	**5,540**	**6,889**
Long-term debt	1,788	2,652	4,692	4,692	5,000
Convertible debt	261	280	0	0	0
Other LT liabilities	135	139	327	327	327
Total liabilities	**6,292**	**7,617**	**10,023**	**10,559**	**12,216**
Minority interest	10	83	510	18	26
Preferred stock					
Common stock	506	1,321	1,400	1,400	1,400
Retained earnings	1,399	1,809	2,173	2,761	3,394
Proposed dividends					
Other equity and reserves	(54)	(174)	(174)	(174)	(174)
Total shareholders' equity	**1,851**	**2,955**	**3,399**	**3,987**	**4,620**
Total equity & liabilities	**8,153**	**10,655**	**13,933**	**14,564**	**16,862**
Liquidity (x)					
Current ratio	1.58	1.87	2.13	2.00	1.90
Interest cover	4.1	4.2	2.9	3.6	3.4
Leverage					
Net debt/EBITDA (x)	1.39	3.18	3.44	3.14	2.93
Net debt/equity (%)	66.9	88.1	101.9	112.7	105.5
Activity (days)					
Days receivable	9.5	12.1	11.5	12.8	13.1
Days inventory	18.7	31.4	26.4	22.8	23.4
Days payable	31.4	44.7	31.7	29.2	30.0
Cash cycle	(3.1)	(1.2)	6.1	6.4	6.6

Source: Nomura estimates

Higher gearing levels post the recent debt raising

Indofood Agri Resources IFAR SP

CONSUMER RELATED/AGRI-RELATED | SINGAPORE

Maintained

BUY

Ken Arieff Wong +60 3 2027 6895 kenarieff.wong@nomura.com

Closing price on 28 Dec	S$2.83
Price target	S$3.20
	(set on 19 Oct 10)
Upside/downside	13.1%
Difference from consensus	19.9%
FY11F net profit (Rpmn)	2,016,596
Difference from consensus	11.6%

Source: Nomura

Action

We like IndoAgri (IFAR) for its strong leverage to CPO price strength and higher growth from its large immature areas. Furthermore, IndoAgri offers increased diversified exposure to rubber and sugar upstream earnings from its growing non-palm plantations. It has sound management and good environmental practices, with subsidiary Lonsum being the largest Indonesia-listed producer of certified sustainable palm oil. Maintain BUY.

Catalysts

Sustained high CPO prices, a pick-up in FFB yields and further uptick in commodities could lead to a further re-rating of the stock.

Anchor themes

Tighter global vegetable oils outlook, stronger crude oil prices and a weaker US dollar lead us to expect higher CPO prices for 2011 – a key driver for upstream earnings and valuations.

Nomura vs consensus

We are more Bullish on our FY11-12F forecasts for CPO prices, which translate to higher earnings forecasts for plantation companies under our coverage.

Diversified, strong growth

① Current CPO prices imply even more upside potential

IFAR's current valuation of 13.8x FY11F P/E is still below our target 15x P/E and is reasonable at current high CPO prices (P/Es of plantation companies tend to expand with rising CPO prices). Current FY11F CPO futures prices of RM3,700/mT are 23% higher than our FY11F assumption of RM3,000/mT, so if CPO prices were to remain at current high levels, we see a further ~50% potential upside to our price target.

② Strong mature hectarage growth with sound management; good environmental practices

Indofood offers one of the strongest mature hectarage growth in our coverage (10-15% in FY10-12F) along with good leverage to high CPO prices. We like its strong management, sound corporate governance and environmental practices (its subsidiary Lonsum is the largest producer of certified sustainable palm oil among listed Indonesian planters – a positive in our view).

③ Strategically poised to benefit from other commodities

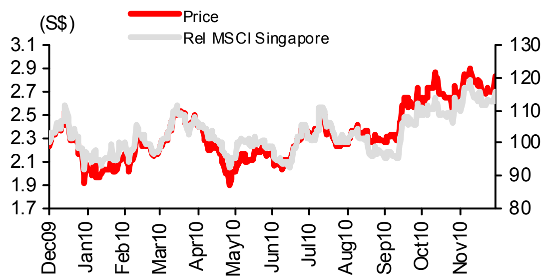
We expect the group's sugar business to contribute (conservatively) 4-5% of the group's operating profit by FY11F-FY12F, after the commissioning of the sugar factory (8,000 tpd) in FY11F. Furthermore, IndoAgri (mainly through its subsidiary London Sumatra), owns more than 17,000ha of mature rubber plantations, which produce more than 28,000mT of rubber a year. Although rubber accounts for only 10% of the group's palm oil mature hectarage, it provides the group with 6%-10% (FY10F-12F) of op profits, on our estimates, and is poised to benefit from structural supply issues. We also expect the intensifying competition in the Indonesian cooking oil market to stabilise by 1HFY11F. Key risks to our call are higher-than-expected vegetable oil production (or oilseed production) globally or lower-than-expected crude oil prices for 2011, which might be negative to CPO prices.

Key financials & valuations

31 Dec (Rpmn)	FY09	FY10F	FY11F	FY12F
Revenue	9,040,32	12,789,1	15,017,4	16,625,0
Reported net profit	1,586,33	1,135,78	2,016,59	2,421,00
Normalised net profit	1,223,47	1,135,78	2,016,59	2,421,00
Normalised EPS (Rp)	850	789	1,402	1,683
Norm. EPS growth (%)	(17.7)	(7.2)	77.6	20.1
Norm. P/E (x)	22.8	24.5	13.8	11.5
EV/EBITDA (x)	11.1	10.8	7.1	5.7
Price/book (x)	3.0	2.5	2.0	1.7
Dividend yield (%)	0.0	0.0	0.0	0.0
ROE (%)	18.3	10.9	16.2	16.2
Net debt/equity (%)	54.6	43.0	26.9	11.6
Earnings revisions				
Previous norm. net profit		1,135,78	2,016,59	2,421,00
Change from previous (%)		-	-	-
Previous norm. EPS (Rp)		789	1,402	1,683

Source: Company, Nomura estimates

Share price relative to MSCI Singapore



	1m	3m	6m
Absolute (S$)	6.4	25.2	29.8
Absolute (US$)	8.2	27.4	38.8
Relative to Index	5.1	22.4	21.0
Market cap (US$mn)			3,157
Estimated free float (%)			24.1
52-week range (S$)			2.91/1.89
3-mth avg daily turnover (US$mn)			14.08
Stock borrowability			Easy
Major shareholders (%)			
PT Indofood Sukses			69.0
Bank of New York Mellon			6.9

Source: Company, Nomura estimates

Financial statements

Income statement (Rpmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Revenue	11,840,499	9,040,325	12,789,171	15,017,408	16,625,074
Cost of goods sold	(7,711,395)	(5,814,962)	(8,952,419)	(10,512,186)	(11,637,552)
Gross profit	**4,129,104**	**3,225,363**	**3,836,751**	**4,505,222**	**4,987,522**
SG&A	(1,318,169)	(583,732)	(1,299,347)	(595,176)	(386,855)
Employee share expense					
Operating profit	**2,810,935**	**2,641,631**	**2,537,404**	**3,910,047**	**4,600,667**
EBITDA	**3,042,902**	**2,984,636**	**3,037,322**	**4,489,965**	**5,260,585**
Depreciation	(231,967)	(343,005)	(499,918)	(579,918)	(659,918)
Amortisation					
EBIT	**2,810,935**	**2,641,631**	**2,537,404**	**3,910,047**	**4,600,667**
Net interest expense	(339,801)	(376,641)	(444,083)	(421,926)	(436,718)
Associates & JCEs	-	-	-	-	-
Other income	(4,833)	-	-	-	1,000
Earnings before tax	**2,466,301**	**2,264,990**	**2,093,320**	**3,488,121**	**4,164,949**
Income tax	(734,428)	(654,420)	(523,330)	(872,030)	(1,041,237)
Net profit after tax	**1,731,873**	**1,610,570**	**1,569,990**	**2,616,091**	**3,123,712**
Minority interests	(491,873)	(387,091)	(434,204)	(599,495)	(702,703)
Other items	247,000				
Preferred dividends					
Normalised NPAT	**1,487,000**	**1,223,479**	**1,135,787**	**2,016,596**	**2,421,009**
Extraordinary items	(247,000)	362,856			
Reported NPAT	**1,240,000**	**1,586,335**	**1,135,787**	**2,016,596**	**2,421,009**
Dividends	-	-	-	-	-
Transfer to reserves	**1,240,000**	**1,586,335**	**1,135,787**	**2,016,596**	**2,421,009**
Valuation and ratio analysis					
FD normalised P/E (x)	18.7	22.8	24.5	13.8	11.5
FD normalised P/E at price target (x)	21.2	25.8	27.8	15.6	13.0
Reported P/E (x)	22.5	17.6	24.5	13.8	11.5
Dividend yield (%)	-	-	-	-	-
Price/cashflow (x)	10.6	35.5	9.7	9.5	8.4
Price/book (x)	3.5	3.0	2.5	2.0	1.7
EV/EBITDA (x)	10.5	11.1	10.8	7.1	5.7
EV/EBIT (x)	11.3	12.6	13.0	8.1	6.5
Gross margin (%)	34.9	35.7	30.0	30.0	30.0
EBITDA margin (%)	25.7	33.0	23.7	29.9	31.6
EBIT margin (%)	23.7	29.2	19.8	26.0	27.7
Net margin (%)	10.5	17.5	8.9	13.4	14.6
Effective tax rate (%)	29.8	28.9	25.0	25.0	25.0
Dividend payout (%)	-	-	-	-	-
Capex to sales (%)	13.5	17.3	13.6	12.7	12.1
Capex to depreciation (x)	6.9	4.6	3.5	3.3	3.0
ROE (%)	16.4	18.3	10.9	16.2	16.2
ROA (pretax %)	15.8	13.1	11.0	15.6	17.0
Growth (%)					
Revenue	82.0	(23.6)	41.5	17.4	10.7
EBITDA	101.3	(1.9)	1.8	47.8	17.2
EBIT	104.0	(6.0)	(3.9)	54.1	17.7
Normalised EPS	54.0	(17.7)	(7.2)	77.6	20.1
Normalised FDEPS	54.0	(17.7)	(7.2)	77.6	20.1
Per share					
Reported EPS (Rp)	862	1,103	789	1,402	1,683
Norm EPS (Rp)	1,034	850	789	1,402	1,683
Fully diluted norm EPS (Rp)	1,034	850	789	1,402	1,683
Book value per share (Rp)	5,506	6,567	7,860	9,456	11,276
DPS (Rp)	-	-	-	-	-

Source: Nomura estimates

Looking forward to strong EPS growth after a relatively weak FY10F

Cashflow (Rpmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
EBITDA	3,042,902	2,984,636	3,037,322	4,489,965	5,260,585
Change in working capital	362,632	(373,804)	(268,338)	18,679	(19,001)
Other operating cashflow	(773,460)	(1,825,990)	112,558	(1,569,594)	(1,915,929)
Cashflow from operations	**2,632,074**	**784,842**	**2,881,542**	**2,939,050**	**3,325,655**
Capital expenditure	(1,600,911)	(1,561,539)	(1,745,208)	(1,905,342)	(2,004,429)
Free cashflow	**1,031,163**	**(776,697)**	**1,136,334**	**1,033,708**	**1,321,227**
Reduction in investments	(173,511)	(51,064)	30,347	-	(1,000)
Net acquisitions	227,456	(424,984)			
Reduction in other LT assets	(398,215)	(401,875)	(575,027)	155,750	117,851
Addition in other LT liabilities	(203,557)	345,805	(302,059)	22,158	338,947
Adjustments					
Cashflow after investing acts	**483,336**	**(1,308,815)**	**289,596**	**1,211,616**	**1,777,025**
Cash dividends					
Equity issue	(74,806)	-	-	-	-
Debt issue	298,224	702,894	161,631	192,111	211,322
Convertible debt issue					
Others					
Cashflow from financial acts	**223,418**	**702,894**	**161,631**	**192,111**	**211,322**
Net cashflow	**706,754**	**(605,921)**	**451,227**	**1,403,727**	**1,988,347**
Beginning cash	1,701,512	2,408,266	1,802,345	2,253,572	3,657,299
Ending cash	2,408,266	1,802,345	2,253,572	3,657,299	5,645,647
Ending net debt	3,848,319	5,157,134	4,867,538	3,655,922	1,878,897

Source: Nomura estimates

Balance sheet (Rpmn)					
As at 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash & equivalents	2,408,266	1,802,345	2,253,572	3,657,299	5,645,647
Marketable securities	-	-	-	-	-
Accounts receivable	860,405	752,702	1,064,833	1,250,357	1,384,212
Inventories	910,542	1,082,557	1,378,325	1,456,622	1,451,302
Other current assets	231,379	273,535	482,592	484,834	589,029
Total current assets	**4,410,592**	**3,911,139**	**5,179,321**	**6,849,112**	**9,070,190**
LT investments	1,379,283	1,430,347	1,400,000	1,400,000	1,401,000
Fixed assets	11,116,548	13,709,553	14,643,189	16,525,002	18,504,992
Goodwill	2,972,134	3,155,786	3,155,786	3,155,786	3,155,786
Other intangible assets	239,314	294,327	250,000	250,000	250,000
Other LT assets	744,780	1,146,655	1,721,682	1,565,931	1,448,080
Total assets	**20,862,651**	**23,647,807**	**26,349,978**	**29,745,831**	**33,830,047**
Short-term debt	2,379,649	1,746,464	1,921,110	2,113,221	2,324,544
Accounts payable	962,911	979,911	1,508,621	1,771,466	1,961,107
Other current liabilities	483,409	199,073	218,980	240,878	264,966
Total current liabilities	**3,825,969**	**2,925,448**	**3,648,712**	**4,125,566**	**4,550,617**
Long-term debt	3,876,936	5,213,015	5,200,000	5,200,000	5,200,000
Convertible debt	-	-	-	-	-
Other LT liabilities	2,184,244	2,530,049	2,227,990	2,250,148	2,589,095
Total liabilities	**9,887,149**	**10,668,512**	**11,076,702**	**11,575,713**	**12,339,712**
Minority interest	3,053,817	3,530,781	3,964,985	4,564,480	5,267,182
Preferred stock	-	-	-	-	-
Common stock	3,554,996	3,554,996	3,554,996	3,554,996	3,554,996
Retained earnings	4,366,689	5,893,518	7,753,296	10,050,642	12,668,157
Proposed dividends	-	-	-	-	-
Other equity and reserves	-	-	-	-	-
Total shareholders' equity	**7,921,685**	**9,448,514**	**11,308,292**	**13,605,638**	**16,223,153**
Total equity & liabilities	**20,862,651**	**23,647,807**	**26,349,978**	**29,745,831**	**33,830,047**
Liquidity (x)					
Current ratio	1.15	1.34	1.42	1.66	1.99
Interest cover	8.3	7.0	5.7	9.3	10.5
Leverage					
Net debt/EBITDA (x)	1.26	1.73	1.60	0.81	0.36
Net debt/equity (%)	48.6	54.6	43.0	26.9	11.6
Activity (days)					
Days receivable	26.5	32.6	25.9	28.1	29.0
Days inventory	49.5	62.6	50.2	49.2	45.7
Days payable	44.4	61.0	50.7	56.9	58.7
Cash cycle	31.6	34.1	25.4	20.4	16.0

Source: Nomura estimates

We do not assume any dividend payout as yet, but further upside is possible as gearing reduces on strong cashflows

Fraser and Neave FNN SP

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Action

Fraser and Neave (F&N) is one of the few stocks within ASEAN with strong franchises in soft-drinks, dairies and beer, and in our view is well positioned to ride the consumption theme in ASEAN. We see property complementing F&B earnings, with steady development in profit contributions from presold projects.

Catalysts

The advent of Kirin Holdings as a shareholder should focus investor attention on the potential of the group's F&B activities. The alliance with Kirin could result in more product launches and leveraging the distribution channels of both companies.

Anchor themes

We believe F&N is growing its F&B business to be as large as its property business via organic growth and possible M&A. Longer term, we think there is a possibility that the group could separate its property and F&B activities.

Closing price on 28 Dec	S$6.46
Price target	**S$7.24**
	(set on 3 Dec 10)
Upside/downside	12.0%
Difference from consensus	11.9%
FY11F net profit (S$mn)	605
Difference from consensus	-6.4%

Source: Nomura

Nomura vs consensus

We believe investors have not fully focused on the expansion of the F&B business.

Riding ASEAN's consumption growth

① Well positioned in ASEAN with a strong franchise

With dominant F&B franchises in Malaysia, we believe F&N is well positioned to ride the growth of consumption in ASEAN. The advent of Kirin as a new shareholder could help broaden the group's product range, in our view.

② Expanding F&B footprint in ASEAN

F&N is expanding into Indonesia, Thailand and Indochina. The group launched local production of 100plus in Indonesia and has introduced new teas in Singapore and Malaysia. The acquisition of a 23% stake in Cocoaland and King's Creameries should broaden its product range.

③ Overseas property to complement Singapore operations

We expect property development contribution to remain steady following successful launches in Singapore and overseas. The group is looking to recycle its Bedok Point and Changi City Point projects through its REIT vehicles, according to *On Course (V)* (5 Dec 2010)

④ M&A and potential restructuring

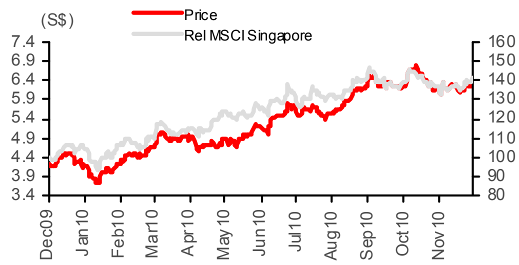
With a strong balance sheet, we believe F&N is open to M&A to accelerate the expansion of its F&B business, or it could embark on capital management to improve returns. As the group's F&B activities approach the size of the property business in profit terms, we think there is a possibility these two businesses could be separated.

Key financials & valuations

30 Sep (S$mn)	FY09	FY10	FY11F	FY12F
Revenue	5,333	5,697	6,188	6,968
Reported net profit	360	660	605	677
Normalised net profit	358	583	605	677
Normalised EPS (S$)	0.26	0.42	0.43	0.49
Norm. EPS growth (%)	(15.7)	62.7	3.9	11.8
Norm. P/E (x)	25.1	15.5	14.9	13.3
EV/EBITDA (x)	13.3	9.9	9.8	8.5
Price/book (x)	1.6	1.5	1.4	1.3
Dividend yield (%)	2.1	2.6	2.6	2.6
ROE (%)	6.4	10.7	9.3	9.7
Net debt/equity (%)	65.5	46.8	48.4	36.4
Earnings revisions				
Previous norm. net profit		583	605	677
Change from previous (%)		-	-	-
Previous norm. EPS (S$)		0.42	0.43	0.49

Source: Company, Nomura estimates

Share price relative to MSCI Singapore



	1m	3m	6m
Absolute (S$)	4.7	3.2	24.5
Absolute (US$)	6.5	5.0	33.1
Relative to Index	3.4	(0.1)	15.3
Market cap (US$mn)			6,979
Estimated free float (%)			75.0
52-week range (S$)			6.80/3.73
3-mth avg daily turnover (US$mn)			9.71
Stock borrowability			Easy
Major shareholders (%)			
Kirin Holdings			15.0
Great Eastern Limited			10.0

Source: Company, Nomura estimates

Reiterate BUY

Valuation

Exhibit 106. SOTP Valuation — F&N

Listed companies	Stake (%)	Value (S$mn)	Remarks
F&N Malaysia (FNH MK)	57.3	1,399	Marked-to-market
Asia Pacific Breweries (APB SP)	39.7	1,774	Marked-to-market
Fung Choi Media (FUNG SP)	29.5	38	Marked-to-market
Frasers Centrepoint Trust (FCT SP)	42.7	468	Marked-to-market
China Dairy (CDG SP)	29.5	14	Marked-to-market
Vinamilk (VNM VN)	10.0	117	Marked-to-market
Frasers Commercial Trust (FCOT SP)	23.2	116	Marked-to-market
Valuation of listed investments		3,927	
Unlisted assets			
Times Publishing		310	5x FY11F EV/EBITDA
Myanmar Brewery		60	Book Value
FNN Foods Singapore		102	9x FY11F EV/EBITDA
Royalties for soft drinks/dairies brands		740	Capitalized at 10%
FCOT Convertible perpetual units		343	Following sale of Alexandra Technocentre to FCOT
AFS quoted investments		33	Book value
Property portfolio			
Development properties		5,363	DCF of development profits
Investment properties (includes serviced residence)		2,024	Book value
Property held for development (Bedok/Changi)		137	Book value
REIT management business		96	3% of REIT assets managed
Adjusted net debt		(2,455)	Adjusted for net debt of APB and FNH
SOTP Valuation		**10,680**	
Price Target (S$/share)		**7.24**	5% conglomerate discount to SOTP

Source: Nomura research estimates

We value F&N on a SOTP valuation methodology (unchanged), using market prices for its listed stakes, Nomura NAV estimates for its property assets, 5x FY11F EV/EBITDA for Times Publishing and FNN Foods. Our price target of S$7.24/share reflects the market value of subsidiaries and associates, as well as our tweaked estimates and is derived after applying a 5% conglomerate discount to our NAV.

Risks to our price target:

- Changes to equity market risk premiums.
- Unexpected deterioration in the outlook for the economy and physical real estate markets.
- Movements in the value of its listed entities.

Financial statements

Income statement (S$mn)					
Year-end 30 Sep	FY08	FY09	FY10	FY11F	FY12F
Revenue	4,990	5,333	5,697	6,188	6,968
Cost of goods sold	(3,316)	(3,558)	(3,709)	(3,894)	(4,089)
Gross profit	**1,674**	**1,775**	**1,988**	**2,294**	**2,879**
SG&A	(944)	(990)	(999)	(1,298)	(1,767)
Employee share expense	-	-	-	-	-
Operating profit	**730**	**785**	**989**	**996**	**1,112**
EBITDA	**879**	**947**	**1,141**	**1,150**	**1,267**
Depreciation	(149)	(162)	(152)	(154)	(154)
Amortisation	-	-	-	-	-
EBIT	**730**	**785**	**989**	**996**	**1,112**
Net interest expense	(65)	(66)	(62)	(49)	(51)
Associates & JCEs	27	12	63	90	92
Other income	9	14	19	-	-
Earnings before tax	**701**	**744**	**1,009**	**1,036**	**1,154**
Income tax	(169)	(173)	(270)	(238)	(265)
Net profit after tax	**532**	**571**	**738**	**798**	**888**
Minority interests	(132)	(83)	(242)	(193)	(212)
Other items	24	(130)	86	-	-
Preferred dividends	-	-	-	-	-
Normalised NPAT	**424**	**358**	**583**	**605**	**677**
Extraordinary items	12	1	77	-	-
Reported NPAT	**436**	**360**	**660**	**605**	**677**
Dividends	(188)	(188)	(238)	(238)	(238)
Transfer to reserves	**248**	**172**	**422**	**367**	**438**
Valuation and ratio analysis					
FD normalised P/E (x)	21.2	25.1	15.5	14.9	13.3
FD normalised P/E at price target (x)	23.7	28.2	17.3	16.7	14.9
Reported P/E (x)	20.6	25.0	13.6	14.9	13.3
Dividend yield (%)	2.1	2.1	2.6	2.6	2.6
Price/cashflow (x)	11.4	7.7	21.7	14.6	20.4
Price/book (x)	1.7	1.6	1.5	1.4	1.3
EV/EBITDA (x)	14.9	13.3	9.9	9.8	8.5
EV/EBIT (x)	17.8	16.0	11.3	11.2	9.6
Gross margin (%)	33.5	33.3	34.9	37.1	41.3
EBITDA margin (%)	17.6	17.8	20.0	18.6	18.2
EBIT margin (%)	14.6	14.7	17.4	16.1	16.0
Net margin (%)	8.7	6.7	11.6	9.8	9.7
Effective tax rate (%)	24.2	23.3	26.8	23.0	23.0
Dividend payout (%)	43.1	52.3	36.1	39.4	35.2
Capex to sales (%)	13.4	8.9	(1.4)	11.4	(0.2)
Capex to depreciation (x)	4.5	2.9	(0.5)	4.6	(0.1)
ROE (%)	8.2	6.4	10.7	9.3	9.7
ROA (pretax %)	6.3	6.4	8.8	8.8	9.4
Growth (%)					
Revenue	5.5	6.9	6.8	8.6	12.6
EBITDA	8.8	7.7	20.5	0.8	10.1
EBIT	7.8	7.6	26.0	0.7	11.7
Normalised EPS	17.5	(15.7)	62.7	3.9	11.8
Normalised FDEPS	17.5	(15.7)	62.7	3.9	11.8
Per share					
Reported EPS (S$)	0.31	0.26	0.47	0.43	0.49
Norm EPS (S$)	0.30	0.26	0.42	0.43	0.49
Fully diluted norm EPS (S$)	0.30	0.26	0.42	0.43	0.49
Book value per share (S$)	3.80	4.01	4.41	4.67	4.99
DPS (S$)	0.14	0.13	0.17	0.17	0.17

Source: Nomura estimates

Cashflow (S$mn)					
Year-end 30 Sep	**FY08**	**FY09**	**FY10**	**FY11F**	**FY12F**
EBITDA	879	947	1,141	1,150	1,267
Change in working capital	85	793	(494)	(796)	17
Other operating cashflow	(174)	(565)	(233)	263	(844)
Cashflow from operations	**790**	**1,176**	**415**	**617**	**441**
Capital expenditure	(667)	(474)	79	(703)	15
Free cashflow	**123**	**702**	**494**	**(86)**	**456**
Reduction in investments	(174)	(26)	(720)	(44)	(44)
Net acquisitions	-	-	-	-	-
Reduction in other LT assets	(85)	(353)	343	-	-
Addition in other LT liabilities	17	(20)	48	2	3
Adjustments		(303)	(166)	127	(414)
Cashflow after investing acts	**(120)**	**-**	**-**	**-**	**-**
Cash dividends	(65)	(66)	(316)	(238)	(238)
Equity issue	16	11	33	-	-
Debt issue	521	(134)	(726)	278	(626)
Convertible debt issue	-	-	-	-	-
Others	(471)	799	1,066	(39)	865
Cashflow from financial acts	**2**	**610**	**56**	**0**	**0**
Net cashflow	**(118)**	**610**	**56**	**0**	**0**
Beginning cash	1,151	1,033	1,643	1,699	1,699
Ending cash	1,033	1,643	1,699	1,699	1,699
Ending net debt	4,402	3,658	2,876	3,154	2,528

Source: Nomura estimates

Balance sheet (S$mn)					
As at 30 Sep	**FY08**	**FY09**	**FY10**	**FY11F**	**FY12F**
Cash & equivalents	1,033	1,643	1,699	1,699	1,699
Marketable securities	-	-	-	-	-
Accounts receivable	1,005	971	1,274	1,383	1,558
Inventories	5,045	4,431	4,701	5,438	5,476
Other current assets	196	281	270	271	271
Total current assets	**7,279**	**7,326**	**7,944**	**8,791**	**9,004**
LT investments	699	725	1,445	1,489	1,533
Fixed assets	4,953	4,854	3,284	3,284	3,284
Goodwill	-	-	-	-	-
Other intangible assets	406	420	650	650	650
Other LT assets	189	542	199	199	199
Total assets	**13,526**	**13,868**	**13,523**	**14,414**	**14,671**
Short-term debt	2,080	1,693	1,909	2,187	1,560
Accounts payable	1,245	1,442	1,489	1,617	1,821
Other current liabilities	269	302	323	246	273
Total current liabilities	**3,594**	**3,437**	**3,721**	**4,050**	**3,654**
Long-term debt	3,355	3,608	2,666	2,666	2,666
Convertible debt	-	-	-	-	-
Other LT liabilities	159	139	187	190	192
Total liabilities	**7,108**	**7,184**	**6,574**	**6,905**	**6,513**
Minority interest	1,135	1,099	806	998	1,210
Preferred stock	-	-	-	-	-
Common stock	1,330	1,342	1,375	1,375	1,375
Retained earnings	-	-	-	-	-
Proposed dividends	-	-	-	-	-
Other equity and reserves	3,953	4,243	4,768	5,135	5,574
Total shareholders' equity	**5,283**	**5,585**	**6,143**	**6,510**	**6,948**
Total equity & liabilities	**13,526**	**13,868**	**13,523**	**14,414**	**14,671**
Liquidity (x)					
Current ratio	2.03	2.13	2.13	2.17	2.46
Interest cover	11.3	11.8	15.9	20.3	21.8
Leverage					
Net debt/EBITDA (x)	5.01	3.86	2.52	2.74	2.00
Net debt/equity (%)	83.3	65.5	46.8	48.4	36.4
Activity (days)					
Days receivable	79.4	67.7	71.9	78.4	77.2
Days inventory	523.7	486.1	449.3	475.1	488.4
Days payable	132.7	137.8	144.2	145.6	153.9
Cash cycle	470.4	415.9	377.0	407.9	411.8

Source: Nomura estimates

Keppel Corp KEP SP

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Action

We reiterate BUY on Keppel Corp with a price target of S$13.10. Our FY12F earnings forecast incorporates an upturn in offshore earnings on more robust new order flows from the recent pickup in new jack-up rig contract awards. Moreover, we believe Keppel is the front-runner to benefit from Petrobras' 28-rig capex plan, given its exposure to all three parts of the tender.

Catalysts

A resumption of new O&M contract awards (eg, from Petrobras) and a strong pipeline of infrastructure/utilities projects are potential positive catalysts.

Anchor themes

With oil prices trading within capex-positive levels, we maintain our positive view on Singapore offshore rig builders. We believe robust financials built in the 2005-08 upcycle will stand them in good stead to replenish order books.

Closing price on 28 Dec	S$10.98
Price target	**S$13.10**
	(set on 1 Dec 10)
Upside/downside	19.3%
Difference from consensus	9.2%
FY11F net profit (S$mn)	1,105
Difference from consensus	-5.3%

Source: Nomura

Nomura vs consensus

Our FY12F earnings and price target are marginally ahead of consensus on our more positive outlook on the O&M and property segments.

Firmer order book growth ahead

① Primed to benefit from pick-up in jack-up rig capex

Keppel looks well placed to gain from the nascent pick-up in demand for high-specification jack-up rigs as the market leader in the design and building of such rigs in the previous 2005 to mid-2008 boom. We expect ageing, low-spec rigs to be retired increasingly, given the divergence in demand towards a relatively small, very busy fleet of high-spec jack-up units. Leading rig-builders such as Keppel stand to benefit from the ensuing new order revival, in our view.

② Brasfels yard to see solid contract inflow in 2011F

Keppel's Brazilian shipyard Brasfels is close to signing contracts for the topside integration of two FPSO vessels slated for Petrobras' pre-salt projects in Brazil's Santos basin, according to Upstream. We believe Brasfels is currently the most viable shipyard in Brazil and that it stands in good stead to secure more rig orders.

③ Deepwater capex revival beckons on new safety rules

We expect deepwater capex spend to resume in the medium term as rig owners realign, retool or renew their fleets to meet new regulatory requirements both within the US Gulf and in other key offshore areas.

④ Maintain BUY – PT of S$13.10

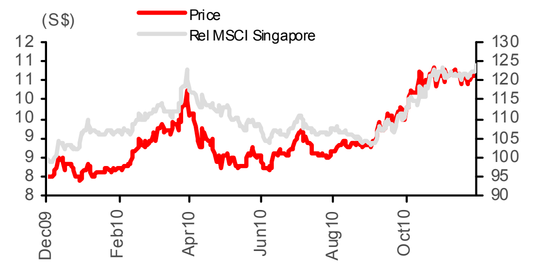
Our price target of S$13.10 (based on a 5% discount to our SOTP valuation of S$13.80) implies 19% potential upside from current levels. The shares are trading at FY11P/E and FY12F P/E of 15.8x and 14.3x, respectively, compared with the historical range of 7-22x, and dividend yield of around 3.4% looks attractive relative to peers.

Key financials & valuations

31 Dec (S$mn)	FY09	FY10F	FY11F	FY12F
Revenue	12,247	10,736	11,354	12,128
Reported net profit	1,625	1,327	1,105	1,227
Normalised net profit	1,303	1,327	1,105	1,227
Normalised EPS (S$)	0.82	0.83	0.69	0.77
Norm. EPS growth (%)	19.4	1.9	(16.8)	11.1
Norm. P/E (x)	13.4	13.2	15.8	14.3
EV/EBITDA (x)	8.2	8.8	10.3	9.3
Price/book (x)	2.3	2.5	2.5	2.3
Dividend yield (%)	3.4	3.4	3.4	3.4
ROE (%)	30.7	23.4	20.5	21.4
Net debt/equity (%)	net cash	net cash	net cash	net cash
Earnings revisions				
Previous norm. net profit		1,327	1,105	1,227
Change from previous (%)		-	-	-
Previous norm. EPS (S$)		0.83	0.69	0.77

Source: Company, Nomura estimates

Share price relative to MSCI Singapore



	1m	3m	6m
Absolute (S$)	1.7	21.9	25.3
Absolute (US$)	3.4	24.0	34.0
Relative to Index	1.3	20.0	17.4
Market cap (US$mn)			13,579
Estimated free float (%)			68.4
52-week range (S$)			11.04/8.09
3-mth avg daily turnover (US$mn)			41.56
Stock borrowability			Easy
Major shareholders (%)			
Temasek Holdings			21.6

Source: Company, Nomura estimates

Valuation methodology

Our price target of S$13.10 remains pegged at a 5% discount to our SOTP value of S$13.80 (discount in line with Sembcorp Industries). We value the O&M division using DCF over a 15-year period. This incorporates a drop in offshore and marine (O&M) earnings from FY11F and a WACC of 7.5% (in line with our WACC valuation for Sembcorp Marine).

The group's other businesses (ie, Keppel T&T, K1 Ventures) are valued at current market price levels, while Keppel Land, K-REIT and MobileOne are based on Nomura's latest published price targets of S$5.50, S$1.62 and $2.65, respectively.

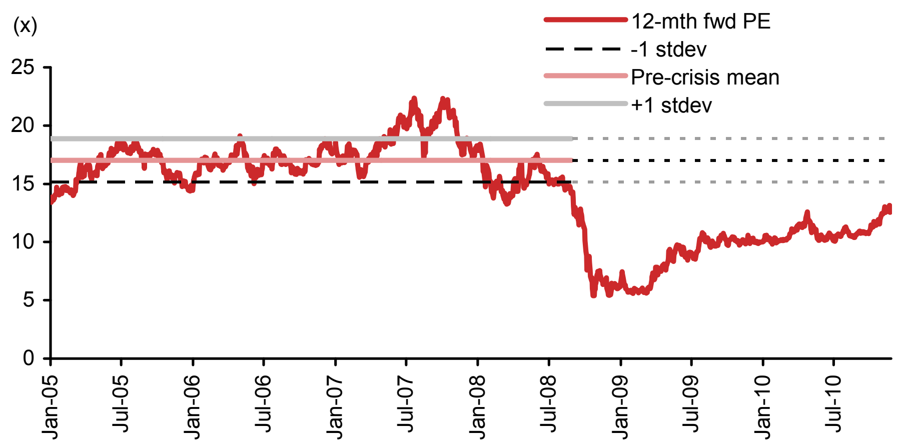
Risks to our price target. Our price target could be negatively affected by a larger-than-expected fall in margins from the group's O&M division; a significant and continued decline in order book build-up; a bigger-than-expected decline in the asset values and rents or sales at its property division; or a collapse in margins or revenue at its infrastructure division.

Exhibit 107. Keppel Corp: SOTP valuation for group businesses

(S$mn)	Value	Comments	Value per KCL share (S$)	(%) of SOTP
Offshore/rig building (100%)	13,579.9	Based on NPV of O&M earnings	8.52	61.8
Infrastructure (includes KGT)	2,308.2	DCF Cogen/NPVQatar. KGT market.	1.45	10.5
Property - KepLand	4,373.8	Fair value of KepLand	2.75	19.9
Property - trust	128.3	Market value of K-Reit	0.08	0.6
Keppel Bay development	1,067.5	NPV of Keppel Bay	0.67	4.9
KepT&T (81%)	267.6	Market value of Kep T&T (less M1)	0.17	1.2
k1 Ventures (42%)	100.7	Market value of k1 Ventures	0.06	0.5
M1 stake	438.7	Price target of M1	0.28	2.0
Estimated net cash/investments	(280.0)		(0.18)	(1.3)
Total value of KCL group	21,984.6	S$mn		
RNAV of Keppel Corporation	**S$13.80**	S$ per share	13.80	100
Price target based on 5% discount	**S$13.10**	S$ per share		

Source: Company data, Nomura estimates

Exhibit 108. KEP: 12-month forward P/E



Source: Bloomberg, Nomura estimates

Financial statements

Income statement (S$mn)					
Year-end 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
Revenue	11,805	12,247	10,736	11,354	12,128
Cost of goods sold	(8,633)	(8,809)	(7,702)	(8,404)	(9,084)
Gross profit	**3,173**	**3,438**	**3,034**	**2,950**	**3,045**
SG&A	(1,934)	(1,934)	(1,424)	(1,632)	(1,573)
Employee share expense					
Operating profit	**1,238**	**1,505**	**1,610**	**1,318**	**1,471**
EBITDA	**1,378**	**1,679**	**1,795**	**1,514**	**1,679**
Depreciation	(139)	(174)	(185)	(196)	(208)
Amortisation	-	-	-	-	-
EBIT	**1,238**	**1,505**	**1,610**	**1,318**	**1,471**
Net interest expense	4	29	26	27	28
Associates & JCEs	354	322	187	195	203
Other income	-	-	-	-	-
Earnings before tax	**1,597**	**1,856**	**1,823**	**1,539**	**1,702**
Income tax	(288)	(348)	(307)	(275)	(278)
Net profit after tax	**1,309**	**1,508**	**1,516**	**1,264**	**1,424**
Minority interests	(223)	(205)	(188)	(160)	(196)
Other items	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Normalised NPAT	**1,085**	**1,303**	**1,327**	**1,105**	**1,227**
Extraordinary items	13	322	-	-	-
Reported NPAT	**1,098**	**1,625**	**1,327**	**1,105**	**1,227**
Dividends	(555)	(602)	(602)	(602)	(602)
Transfer to reserves	**543**	**1,023**	**725**	**502**	**625**
Valuation and ratio analysis					
FD normalised P/E (x)	16.0	13.4	13.2	15.8	14.3
FD normalised P/E at price target (x)	19.1	16.0	15.7	18.9	17.0
Reported P/E (x)	15.9	10.8	13.2	15.8	14.3
Dividend yield (%)	3.2	3.4	3.4	3.4	3.4
Price/cashflow (x)	7.9	7.8	8.2	9.7	7.7
Price/book (x)	2.3	2.3	2.5	2.5	2.3
EV/EBITDA (x)	10.0	8.2	8.8	10.3	9.3
EV/EBIT (x)	10.9	9.0	9.7	11.7	10.5
Gross margin (%)	26.9	28.1	28.3	26.0	25.1
EBITDA margin (%)	11.7	13.7	16.7	13.3	13.8
EBIT margin (%)	10.5	12.3	15.0	11.6	12.1
Net margin (%)	9.3	13.3	12.4	9.7	10.1
Effective tax rate (%)	18.0	18.7	16.9	17.9	16.4
Dividend payout (%)	50.5	37.1	45.4	54.5	49.1
Capex to sales (%)	3.4	3.9	5.4	6.1	5.7
Capex to depreciation (x)	2.9	2.8	3.1	3.5	3.3
ROE (%)	22.4	30.7	23.4	20.5	21.4
ROA (pretax %)	11.1	12.7	12.3	10.1	10.9
Growth (%)					
Revenue	13.2	3.7	(12.3)	5.8	6.8
EBITDA	17.1	21.9	6.9	(15.7)	10.9
EBIT	17.9	21.5	7.0	(18.2)	11.7
Normalised EPS	91.7	19.4	1.9	(16.8)	11.1
Normalised FDEPS	91.7	19.4	1.9	(16.8)	11.1
Per share					
Reported EPS (S$)	0.69	1.02	0.83	0.69	0.77
Norm EPS (S$)	0.68	0.82	0.83	0.69	0.77
Fully diluted norm EPS (S$)	0.68	0.82	0.83	0.69	0.77
Book value per share (S$)	4.72	4.81	4.44	4.33	4.68
DPS (S$)	0.35	0.38	0.38	0.38	0.38

Source: Nomura estimates

FY10F EBIT declines based on lower O&M and divestment of SPC

Cashflow (S$mn)					
Year-end 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
EBITDA	1,378	1,679	1,795	1,514	1,679
Change in working capital	691	399	152	88	357
Other operating cashflow	140	175	185	196	234
Cashflow from operations	**2,208**	**2,252**	**2,133**	**1,798**	**2,270**
Capital expenditure	(400)	(480)	(580)	(690)	(690)
Free cashflow	**1,808**	**1,772**	**1,553**	**1,108**	**1,580**
Reduction in investments	382	(198)	(79)	33	(302)
Net acquisitions	(300)	637	(250)	(250)	(300)
Reduction in other LT assets	39	116	(1)	235	(160)
Addition in other LT liabilities	(8)	231	212	213	213
Adjustments	(56)	(650)	(673)	(646)	(385)
Cashflow after investing acts	**1,865**	**1,908**	**762**	**693**	**646**
Cash dividends	(1,098)	(602)	(602)	(602)	(602)
Equity issue	-	-	-	-	-
Debt issue	-	-	-	-	-
Convertible debt issue	-	-	-	-	-
Others	(124)	(615)	(746)	(208)	-
Cashflow from financial acts	**(1,222)**	**(1,217)**	**(1,348)**	**(810)**	**(602)**
Net cashflow	**644**	**690**	**(587)**	**(117)**	**44**
Beginning cash	1,601	2,245	2,936	2,349	2,231
Ending cash	2,244	2,935	2,349	2,232	2,275
Ending net debt	(275)	(1,177)	(238)	(5)	(49)

Source: Nomura estimates

Balance sheet (S$mn)					
As at 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
Cash & equivalents	2,245	2,936	2,349	2,231	2,276
Marketable securities	331	457	502	527	676
Accounts receivable	1,971	1,727	1,779	1,797	1,621
Inventories	3,319	3,178	3,004	3,063	2,883
Other current assets	327	288	288	288	288
Total current assets	**8,192**	**8,586**	**7,921**	**7,906**	**7,744**
LT investments	3,131	3,203	3,237	3,178	3,332
Fixed assets	1,947	2,157	2,637	3,117	3,597
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other LT assets	3,477	3,361	3,362	3,127	3,287
Total assets	**16,746**	**17,307**	**17,158**	**17,329**	**17,960**
Short-term debt	226	841	1,009	1,125	1,125
Accounts payable	3,940	4,052	3,971	4,022	3,941
Other current liabilities	825	688	799	913	996
Total current liabilities	**4,990**	**5,581**	**5,779**	**6,059**	**6,062**
Long-term debt	1,745	918	1,102	1,102	1,102
Convertible debt	-	-	-	-	-
Other LT liabilities	381	412	424	437	450
Total liabilities	**7,116**	**6,911**	**7,305**	**7,598**	**7,614**
Minority interest	2,152	2,727	2,782	2,837	2,894
Preferred stock	-	-	-	-	-
Common stock	825	833	833	833	833
Retained earnings	3,772	5,152	4,538	4,577	5,203
Proposed dividends	2,882	1,683	1,700	1,483	1,416
Other equity and reserves					
Total shareholders' equity	**7,478**	**7,669**	**7,071**	**6,893**	**7,452**
Total equity & liabilities	**16,746**	**17,307**	**17,158**	**17,329**	**17,960**
Liquidity (x)					
Current ratio	1.64	1.54	1.37	1.30	1.28
Interest cover	na	na	na	na	na
Leverage					
Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Activity (days)					
Days receivable	57.7	55.1	59.6	57.5	51.6
Days inventory	129.5	134.6	146.5	131.7	119.8
Days payable	148.6	165.6	190.1	173.6	160.4
Cash cycle	38.6	24.1	16.0	15.6	11.0

Source: Nomura estimates

Healthy balance sheet, net cash allows strategic investment opportunities, in our view

CapitaCommercial Trust CCT SP

PROPERTY | SINGAPORE

NOMURA
NOMURA SINGAPORE LIMITED

Maintained
BUY

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Action

CCT remains the dominant office landlord in Singapore with 2.3mn sf of International Grade A (IGA) office space, comprising 72% of its total office portfolio and 63% of its commercial portfolio. While acquisition opportunities in the IGA office market may prove to be elusive, we see unit price performance driven by expectations of revaluations to CCT underlying BV given rising office values. BUY.

Catalysts

With 4% yields in the physical office market, valuations remain attractive, potentially prompting further capital inflows, higher asset prices and higher REIT book values.

Anchor themes

A faster-than-expected pick-up in rents and capital values has been supported by a squeeze in "reported" vacancy. Stronger demand coupled with anticipated stock demolitions will likely see lower-than-expected peak vacancy underpinning the current momentum in rental growth.

Closing price on 28 Dec	S$1.51
Price target	S$1.68
	(set on 18 Oct 10)
Upside/downside	11.4%
Difference from consensus	17.6%
FY11F net profit (S$mn)	197.9
Difference from consensus	-2.7%

Source: Nomura

Nomura vs consensus

We believe the market continues to focus on relative yields rather than the underlying asset value of CCT's portfolio and the potential for asset revaluations.

Asset play

① News flow likely to see upside surprise

News flow in the office sector is likely to underpin our expectations of a positive surprise in the outlook for office rentals and asset values. Manpower's Employment Outlook Survey (released in December 2010) highlighted a continued improvement in hiring expectations for 1Q11, following firm hiring trends over the course of 2010, with 30% of employers expecting to increase their headcount versus 27% in the previous year's survey. We believe the relatively consistent optimism regarding job hiring augers well for further pre-commitments and leasing activity underpinning rental expectations.

② Office landlords – tied to the asset cycle

While office REITs are depicted as "yield plays", with the underlying yield tied to the three-year reversionary lease cycle, we view office REITs as tax efficient landlords. Indeed, CCT's unit price performance since listing shows a 0.79x correlation to the JLL Capital Value Index, with a two-quarter lag. Consequently, we believe investors should keep an eye on asset values rather than simply focusing on yield to assess potential unit price performance. With CBD strata title offices now asking S$2,600/psf, we see further potential upside in en bloc asset values in 2011.

③ Occupancy risk reflected in our forecasts

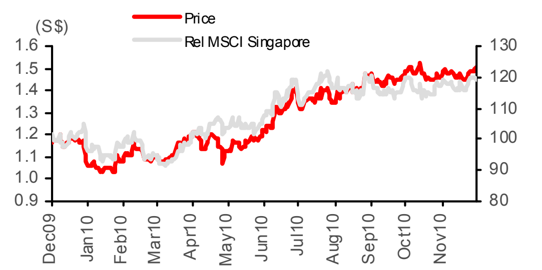
Our near-term DPU figures are broadly in line with the market, as we factor in potential for vacancy risk in the portfolio, notwithstanding our expectation of a sustained recovery in office rents (we assume average vacancy of 90% for 6 Battery Rd and 94% for Capital Tower over 2011-13F). While we believe asset prices are central to the re-rating of CCT, the faster-than-expected turnaround in office rents is likely to cushion the negative reversionary cycle, providing support and a potential upside surprise to DPU. Maintain BUY, with our price target at S$1.68 per share.

Key financials & valuations

31 Dec (S$mn)	FY09	FY10F	FY11F	FY12F
Revenue	403.3	387.5	360.2	368.5
Income for distribution	(836)	343	198	208
Normalised dist income	199	211	198	208
Normalised DPU (S$)	0.071	0.075	0.070	0.073
Norm. DPU growth (%)	(35.6)	5.8	(6.3)	5.0
Norm. P/E (x)	10.6	20.2	21.6	20.5
BVPU (S$)	1.41	1.44	1.44	1.43
Price/book (x)	1.1	1.0	1.1	1.1
DPU yield (%)	4.7	4.9	4.6	4.9
ROE (%)	(20.6)	8.7	5.0	5.3
Gearing (%)	36.2	31.2	27.3	27.0
Earnings revisions				
Previous norm. net profit		210.7	197.9	208.4
Change from previous (%)		-	-	-
Previous norm. DPU (S$)		0.075	0.070	0.073

Source: Company, Nomura estimates

Share price relative to MSCI Singapore



	1m	3m	6m
Absolute (S$)	3.4	4.1	23.8
Absolute (US$)	5.2	6.0	32.4
Relative to Index	2.1	0.9	14.5
Market cap (US$mn)			3,285
Estimated free float (%)			0.0
52-week range (S$)			1.53/1.03
3-mth avg daily turnover (US$mn)			7.78
Stock borrowability			Easy
Major shareholders (%)			
CapitaLand			30.5

Source: Company, Nomura estimates

Drilling down

Levered to the office cycle

Our price target is based on a 10-year DCF of forecast net property income from the underlying assets. For comparative and indicative purposes, we have adopted an alternative valuation approach based on "comparable sales". The comparable sales approach is used by most real estate valuers when assessing a property's valuation in conjunction with a DCF. It is perhaps most useful at turning points in the cycle, as it provides market-based evidence of future expectations, whereas DCF valuations in essence reflect "reasonable assumptions", specifically rental growth. While often sales transaction volumes tend to be low at turning points, Singapore has seen increasing volumes of transactions, with these transactions implying: 1) a sustained compression in office yields; and/or 2) faster rental growth expectations than our current forecasts. Our intrinsic NAV for CCT based on the comparable sales approach (for indicative purposes) is some 15.5% higher than our DCF valuation.

Exhibit 109. CapitaCommercial Trust: asset valuation

				Discounted cashflow valuations					Comparables sales		
Building	Use	NLA, car spaces, hotel rooms	FY11F Net property income, 100% occupied (S$mn)	FY11F capital value (S$mn)	FY11F passing net rent (S$/ psf pm)	FY11F capital value (S$ psf, per car space per key)	Initial yield (%)	Terminal yield (%)	FY11F capital value (S$ psf, car space room)	Implied value (S$mn)	Initial yield (%)
Capital Tower	Office	740,951	43.2	1,254.3	4.86	1,693	3.44	4.25	2,000	1,482	2.91
Six Battery Road	Office	497,211	53.6	1,073.4	8.98	2,159	4.99	4.00	2,400	1,193	4.49
HSBC Building	Office	200,469	13.0	350.6	5.40	1,749	3.70	4.75	1,950	391	3.32
Bugis Village	Office	122,236	7.7	144.8	5.22	1,185	5.28	4.75	1,200	147	5.22
Golden Shoe Car Park	Retail	44,315	4.2	72.3	7.89	1,630	5.81	6.75	1,800	80	5.26
Golden Shoe Car Park	Carpark	1,053	4.0	64.5	316.00	61,239	6.19	7.25	65,000	68	5.83
Market Street Car Park	Retail	26,081	2.5	49.7	7.85	1,906	4.94	6.75	2,000	52	4.71
Market Street Car Park	Carpark	704	1.7	28.8	205.70	40,896	6.04	7.25	45,000	32	5.49
One George Street	Office	448,008	50.3	1,010.6	9.35	2,256	4.98	4.25	2,400	1,075	4.68
Wilkie Edge	Office	103,208	5.1	104.3	4.13	1,011	4.90	4.75	1,250	129	3.96
Wilkie Edge	Retail	42,928	3.0	53.8	5.89	1,253	5.64	5.50	1,250	54	5.65
Raffles City	Office	228,187	15.9	372.7	5.80	1,633	4.26	4.00	1,900	434	3.67
Raffles City	Retail	241,931	37.9	660.1	13.04	2,728	5.74	6.50	3,250	786	4.81
Raffles City	Hotel/other	1,218	35.0	615.0	5.75	504,931	5.70	6.00	550,000	670	5.23
Total			**277.0**	**5,854.8**			**4.73**			**6,592.5**	**4.20**
	Stake (%)	Share price/ fair value (local currency)	Share price/ fair value (S$/share)	Attrib capital value (S$mn)							
Associates											
- Quill Capita Trust	30.0	390	0.46	53.3						53.3	
Total gross assets				**5,908.1**						**6,645.8**	

Source: Nomura estimates

Exhibit 110. CapitaCommercial Trust: net asset valuation

	Discounted cashflow valuation (S$mn)	Comparables sales (S$mn)
Total gross assets	**5,908.1**	**6,645.8**
Less FY11 net debt	(1,171.1)	(1,171.1)
Adjustments for capex	20.3	20.3
Adj FY11 net debt	(1,150.9)	(1,150.9)
Net Asset value	**4,757.3**	**5,494.9**
Outstanding units FY11	2,828.56	2,828.56
Net asset valuation	**1.68**	**1.94**

Source: Nomura estimates

Valuation methodology and price target risk

Price target: Our price target is based on our assessment of the intrinsic value of the underlying real estate owned by the REIT based on a 10-year DCF. Our price target for CCT is S$1.68 per share.

Risks to our investment view: An unexpected decline in economic activity and/or office demand could have a negative impact on our rental and occupancy expectations, which could adversely affect our DPU estimates and our valuation of underlying real estate assets.

Financial statements

Income statement (S$mn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Rental income	335	403	388	360	369
Other Revenue					
Revenue	**335**	**403**	**388**	**360**	**369**
Land rent & property tax	(42)	(38)	(38)	(35)	(35)
Property management fees	(9)	(11)	(11)	(10)	(11)
Other operating expenses	(50)	(54)	(53)	(50)	(51)
Management expenses	(16)	(20)	(21)	(20)	(20)
Trust expenses	(1)	(1)	(2)	(2)	(2)
Other operating expenses					
EBITDA	**203**	**281**	**264**	**244**	**251**
Depreciation	(1)	(3)	(3)	(3)	(3)
Amortisation of intangible assets					
EBIT	**202**	**278**	**261**	**242**	**249**
Net property income	**233**	**300**	**286**	**265**	**272**
Net interest expense	(78)	(86)	(67)	(58)	(55)
Associates & JCEs	4	4	4	4	4
Other income					
Earnings before tax	**128**	**196**	**199**	**188**	**199**
Income tax	0	0	0	0	0
Net profit after tax	**128**	**196**	**199**	**188**	**199**
Minority interests					
Other & non tax deductible items	25	3	12	10	10
Preferred dividends					
Normalised income for distn	**153**	**199**	**211**	**198**	**208**
Extraordinary items	204	(1,035)	133	-	-
Income for distribution	**357**	**(836)**	**343**	**198**	**208**
Valuation and ratio analysis					
FD normalised P/E (x)	13.7	10.6	20.2	21.6	20.5
FD normalised P/E at price target (x)	15.3	11.8	22.5	24.0	22.9
Reported P/E (x)	5.9	na	12.4	21.6	20.5
Dividend yield (%)	7.3	4.7	4.9	4.6	4.9
Price/book (x)	0.5	1.1	1.0	1.1	1.1
EV/EBITDA (x)	32.8	21.0	20.2	21.9	21.4
EV/EBIT (x)	32.9	21.2	20.4	22.1	21.7
EBIT margin (%)	60.3	69.0	67.5	67.1	67.5
Effective tax rate (%)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
ROA (pretax %)	3.4	4.5	4.8	4.6	4.7
Growth (%)					
Revenue	39.7	20.3	(3.9)	(7.0)	2.3
EBITDA	30.3	38.2	(5.9)	(7.5)	2.9
EBIT	30.6	37.5	(6.0)	(7.6)	2.9
Normalised EPU	26.6	29.7	(47.7)	(6.3)	5.0
Normalised FDEPU	26.6	29.7	(47.7)	(6.3)	5.0
DPU	25.9	(35.6)	5.8	(6.3)	5.0
Per unit					
Reported EPU (S$)	0.26	(0.60)	0.12	0.07	0.07
Norm EPU (S$)	0.11	0.14	0.07	0.07	0.07
Fully diluted norm EPU (S$)	0.11	0.14	0.07	0.07	0.07
Book value per unit (S$)	2.97	1.41	1.44	1.44	1.43
DPU (S$)	0.11	0.07	0.07	0.07	0.07

Source: Nomura estimates

Decline in revenue reflects 2010 asset disposals

Cashflow (S$mn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
EBITDA	203	281	264	244	251
Change in working capital	78	(182)	183	(6)	2
Other operating cashflow	(126)	96	(245)	(41)	(54)
Cashflow from operations	**155**	**195**	**202**	**197**	**199**
Capital expenditure	(34)	(27)	(14)	(20)	(36)
Free cashflow	**121**	**167**	**188**	**177**	**164**
Acquisition of investment properties	(1,296)	-	-	-	-
Net acquisitions	(2)	(2)	583	-	-
Reduction in other LT assets	-	-	-	-	-
Addition in other LT liabilities	8	(2)	5	16	(1)
Adjustments	6	(7)	(5)	(16)	1
Cashflow after investing acts	**(1,163)**	**156**	**772**	**177**	**164**
Cash dividends	(134)	(175)	(211)	(198)	(208)
Equity issue	-	828	-	-	-
Debt issue	977	(577)	(400)	(200)	175
Convertible debt issue	351	13	38	-	(183)
Others	-	(0)	(0)	0	(0)
Cashflow from financial acts	**1,194**	**89**	**(572)**	**(398)**	**(217)**
Net cashflow	**31**	**246**	**199**	**(221)**	**(53)**
Beginning cash	35	67	312	512	291
Ending cash	67	312	512	291	238
Ending net debt	2,521	1,711	1,150	1,171	1,216

Source: Nomura estimates

Balance sheet (S$mn)					
As at 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash & equivalents	67	312	512	291	238
Accounts receivable	19	9	9	9	9
Other current assets	10	195	11	11	11
Total current assets	**96**	**516**	**531**	**310**	**258**
Investment properties	5,143	6,359	5,521	5,268	5,288
Acquisitions	1,364	-	(267)	-	-
Capital expenditure	1	1	14	20	36
Net appreciation in value	204	(839)	-	-	-
Associates	64	63	63	63	63
Other LT assets					
Total assets	**6,871**	**6,100**	**5,862**	**5,661**	**5,644**
Short-term debt	696	235	35	35	10
Accounts payable	83	71	70	65	66
Other current liabilities	15	20	19	18	19
Total current liabilities	**794**	**326**	**124**	**118**	**95**
Long-term debt	1,541	1,425	1,225	1,025	1,225
Convertible debt	351	363	401	401	218
Other LT liabilities	31	29	34	50	49
Total liabilities	**2,717**	**2,144**	**1,785**	**1,594**	**1,587**
Minority interest					
Preferred stock					
Common stock	4,155	3,956	3,956	3,956	3,956
Retained earnings					
Proposed dividends					
Other equity and reserves	-	-	121	111	101
Non convertible prefs					
Total unitholders' funds	**4,155**	**3,956**	**4,077**	**4,067**	**4,057**
Total units' funds & liabilities	**6,871**	**6,100**	**5,862**	**5,661**	**5,644**
Leverage					
Interest cover	2.6	3.2	3.9	4.2	4.6
Gross debt/property assets (%)	38.2	36.2	31.2	27.3	27.0
Net debt/EBITDA (x)	12.4	6.1	4.4	4.8	4.8
Net debt/equity (%)	60.7	43.2	28.2	28.8	30.0
Dupont decomposition					
Net margin (%)	106.4	(207.4)	88.6	55.0	56.5
Asset utilisation (x)	0.06	0.06	0.06	0.06	0.07
ROA (%)	5.9	(12.9)	5.7	3.4	3.7
Leverage (Assets/Equity x)	1.5	1.6	1.5	1.5	1.4
ROE (%)	8.8	(20.6)	8.7	5.0	5.3

Source: Nomura estimates

Malayan Banking MAY MK

FINANCIALS/BANKS | MALAYSIA

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NOMURA SECURITIES MALAYSIA SDN BHD

Maintained

BUY

Action

We like Maybank's visible consumer franchise in Malaysia; we believe it is well positioned to ride the consumer spending boom. The dividend policy is likely to stay high as there is now greater clarity on Basel III coupled with the dividend reinvestment programme. We reaffirm our BUY rating.

Catalysts

Gains in consumer market share in mortgages, auto loans and credit cards are expected to boost overall loan growth.

Anchor themes

Malaysia's strong population growth rate is feeding into the consumption boom. The young population base and surge in the middle class are creating a large bankable population. Household debt has risen but household financial assets are currently 2.5x debt levels, suggesting leverage levels are still comfortable.

Closing price on 28 Dec	RM8.49
Price target	RM10.70
	(set on 30 Sep 10)
Upside/downside	26.0%
Difference from consensus	5.9%
FY12F net profit (RMmn)	5,014
Difference from consensus	4.5%

Source: Nomura

Nomura vs consensus

Consensus is mixed on Maybank's ability to sustain double-digit profit gains from here.

Banker to the masses

① Loan growth expected to accelerate next year

Anaemic 1Q FY11 loan growth of 1% q-q – attributed by management to lumpy corporate repayments – is unrepresentative of the full-year loan growth trend, in our view. Loan growth y-y in other segments has been strong: 14% in the domestic consumer segment, 39% in Indonesia and 7% in Singapore. Excluding the domestic commercial/corporate segment, loan growth was 11% y-y and within striking distance of our full-year loan growth estimate of 12%. Management guidance is that there was some pick-up in loan drawdown momentum in October, which could continue into 2011.

② Net interest margin likely to remain stable

In FY10, Maybank's NIMs received a 5bps boost from the three Overnight Policy Rate hikes totalling 75bps. For FY11F, we forecast margins will remain flat. Our economics team expects Bank Negara to resume rate hikes next year. This should be positive for Maybank given its high proportion of CASA deposits (37% of total deposits), which do not reprice when interest rates rise. However, given ongoing competition in the domestic consumer segment, and in Singapore and Indonesia, we expect margins will remain relatively flat.

③ Asset quality: approaching the bottom for FY11F

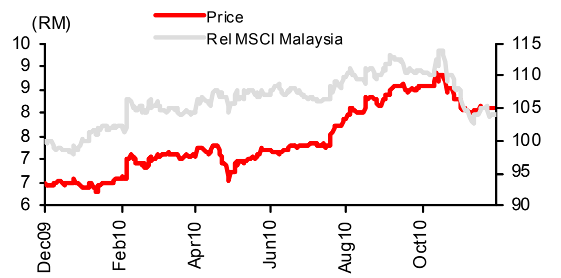
Post implementation of stricter accounting standards for NPL recognition, there was a 7bps increase in the impaired loans ratio to 4.7%. This was largely attributed to asset quality weakness at BII [BNII IJ, not rated] where NPLs rose to 3.5% from 2.9% y-y. While worse than we had expected, it appears to be near an inflexion point given: 1) corporate NPL in the transport sector are unlikely to be repeated – these are legacy corporate accounts granted prior to Maybank's entry; 2) SME/commercial loan growth has been reined in to exercise greater control over underwriting quality; and 3) the seasonal downturn in collections from auto loans with the Lebaran (Eid Al-Fitr) holidays.

Key financials & valuations

30 Jun (RMmn)	FY10	FY11F	FY12F	FY13F
PPOP	6,460	7,086	8,015	8,825
Reported net profit	3,818	4,416	5,014	5,571
Normalised net profit	3,818	4,416	5,014	5,571
Normalised EPS (RM)	0.54	0.62	0.71	0.79
Norm. EPS growth (%)	43.5	15.7	13.5	11.1
Norm. P/E (x)	15.7	13.6	12.0	10.8
Price/adj. book (x)	2.16	2.04	1.90	1.76
Price/book (x)	2.16	2.04	1.90	1.76
Dividend yield (%)	4.9	4.4	5.0	5.6
ROE (%)	14.5	15.4	16.4	16.9
ROA (%)	1.18	1.25	1.30	1.36
Earnings revisions				
Previous norm. net profit		4,416	5,014	5,571
Change from previous (%)		-	-	-
Previous norm. EPS (RM)		0.62	0.71	0.79

Source: Company, Nomura estimates

Share price relative to MSCI Malaysia



	1m	3m	6m
Absolute (RM)	(2.4)	(2.5)	11.9
Absolute (US$)	(0.2)	(2.7)	16.5
Relative to Index	(3.9)	(6.8)	(3.8)
Market cap (US$mn)			19,422
Estimated free float (%)			35.0
52-week range (RM)			9.29/6.72
3-mth avg daily turnover (US$mn)			23.68
Stock borrowability			Hard
Major shareholders (%)			
Skim Amanah Saham Bumiputera			44.9
EPF			11.8

Source: Company, Nomura estimates

Financial statements

Profit and Loss (RMmn)					
Year-end 30 Jun	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
Interest income	11,570	10,955	13,550	15,750	17,300
Interest expense	(5,650)	(4,184)	(6,050)	(7,440)	(8,350)
Net interest income	**5,920**	**6,771**	**7,500**	**8,310**	**8,950**
Net fees and commissions	2,058	2,607	2,800	3,000	3,250
Trading related profits	(57)	534	450	500	540
Other operating revenue	2,599	2,960	3,145	3,405	3,725
Non-interest income	**4,600**	**6,101**	**6,395**	**6,905**	**7,515**
Operating income	**10,519**	**12,872**	**13,895**	**15,215**	**16,465**
Depreciation	(146)	(182)	(190)	(200)	(210)
Amortisation	-	-	-	-	-
Operating expenses	(5,413)	(6,230)	(6,619)	(7,000)	(7,430)
Employee share expense					
Op. profit before provisions	**4,960**	**6,460**	**7,086**	**8,015**	**8,825**
Provisions for bad debt	(1,896)	(1,211)	(1,018)	(1,134)	(1,189)
Other provision charges	-	-	-	-	-
Operating profit	**3,064**	**5,249**	**6,068**	**6,881**	**7,636**
Other non-operating income					
Associates & JCEs	100	122	154	184	214
Pre-tax profit	**3,163**	**5,370**	**6,222**	**7,065**	**7,850**
Income tax	(924)	(1,402)	(1,680)	(1,907)	(2,119)
Net profit after tax	**2,239**	**3,968**	**4,542**	**5,157**	**5,730**
Minority interests	(59)	(150)	(126)	(143)	(159)
Other items					
Preferred dividends					
Normalised NPAT	**2,181**	**3,818**	**4,416**	**5,014**	**5,571**
Extraordinary items	(1,489)	0	0	0	0
Reported NPAT	**692**	**3,818**	**4,416**	**5,014**	**5,571**
Dividends	(425)	(2,920)	(2,649)	(3,010)	(3,344)
Transfer to reserves	**267**	**899**	**1,767**	**2,004**	**2,227**
Valuation and ratio analysis					
FD normalised P/E (x)	27.6	15.7	13.6	12.0	10.8
FD normalised P/E at price target (x)	34.7	19.8	17.1	15.1	13.6
Reported P/E (x)	71.2	15.7	13.6	12.0	10.8
Dividend yield (%)	0.7	4.9	4.4	5.0	5.6
Price/book (x)	2.4	2.2	2.0	1.9	1.8
Price/adjusted book (x)	2.4	2.2	2.0	1.9	1.8
Net interest margin (%)	2.52	2.57	2.56	2.55	2.55
Yield on interest earning assets (%)	4.92	4.16	4.63	4.84	4.93
Cost of interest bearing liabilities (%)	2.32	1.55	2.04	2.31	2.44
Net interest spread (%)	2.60	2.61	2.59	2.53	2.49
Non-interest/operating income (%)	43.7	47.4	46.0	45.4	45.6
Cost to income (%)	52.8	49.8	49.0	47.3	46.4
Effective tax rate (%)	29.2	26.1	27.0	27.0	27.0
Dividend payout (%)	61.4	76.5	60.0	60.0	60.0
ROE (%)	3.1	14.5	15.4	16.4	16.9
ROA (%)	0.24	1.18	1.25	1.30	1.36
Operating ROE (%)	13.9	19.9	21.1	22.5	23.2
Operating ROA (%)	1.06	1.62	1.71	1.79	1.87
Growth (%)					
Net interest income	9.1	14.4	10.8	10.8	7.7
Non-interest income	9.4	32.6	4.8	8.0	8.8
Non-interest expenses	33.0	15.1	6.2	5.8	6.1
Pre-provision earnings	(7.7)	30.2	9.7	13.1	10.1
Net profit	(36.1)	75.1	15.7	13.5	11.1
Normalised EPS	(40.1)	43.5	15.7	13.5	11.1
Normalised FDEPS	(50.9)	75.1	15.7	13.5	11.1

Source: Nomura estimates

Dividend payout to stay high at 60%

Balance Sheet (RMmn)					
As at 30 Jun	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
Cash and equivalents	23,608	28,708	25,000	25,000	25,000
Inter-bank lending	6,299	8,915	10,050	9,870	9,870
Deposits with central bank	4,051	4,471	4,784	5,121	5,409
Total securities	58,074	54,170	67,450	68,104	68,104
Other interest earning assets	-	-	-	-	-
Gross loans	193,363	213,258	239,000	265,000	288,000
Less provisions	(7,580)	(7,703)	(8,980)	(9,582)	(8,755)
Net loans	**185,783**	**205,555**	**230,020**	**255,418**	**279,245**
Long-term investments	2,630	2,471	2,950	3,100	3,250
Fixed assets	1,422	1,712	1,712	1,712	1,712
Goodwill	4,374	4,481	4,600	4,600	4,600
Other intangible assets					
Other non IEAs	24,498	26,216	24,673	24,549	23,267
Total assets	**310,739**	**336,700**	**371,239**	**397,473**	**420,457**
Customer deposits	212,599	236,910	263,000	285,000	303,000
Bank deposits, CDs, debentures	28,782	23,258	28,283	28,283	28,283
Other interest bearing liabilities	18,219	20,991	19,481	19,481	19,471
Total interest bearing liabilities	**259,599**	**281,159**	**310,764**	**332,764**	**350,754**
Non interest bearing liabilities	25,372	26,876	30,000	32,000	35,150
Total liabilities	**284,971**	**308,035**	**340,764**	**364,764**	**385,904**
Minority interest	869	788	950	1,000	450
Common stock	7,078	7,078	7,078	7,078	7,077
Preferred stock					
Retained earnings	7,988	9,926	11,558	13,742	16,137
Proposed dividends					
Other equity	9,833	10,873	10,889	10,889	10,889
Shareholders' equity	**24,899**	**27,877**	**29,524**	**31,709**	**34,103**
Total liabilities and equity	**310,739**	**336,700**	**371,239**	**397,473**	**420,457**
Non-performing assets (RM)	*6,715*	*6,186*	*8,365*	*8,480*	*9,216*
Balance sheet ratios (%)					
Loans to deposits	91.0	90.0	90.9	93.0	95.0
Equity to assets	8.0	8.3	8.0	8.0	8.1
Asset quality & capital					
NPAs/gross loans (%)	3.5	2.9	3.5	3.2	3.2
Bad debt charge/gross loans (%)	0.98	0.57	0.43	0.43	0.41
Loss reserves/assets (%)					
Loss reserves/NPAs (%)	112.9	124.5	107.4	113.0	95.0
Tier 1 capital ratio (%)	11.0	11.1	11.2	11.0	11.1
Total capital ratio (%)	15.0	14.9	15.1	14.8	14.7
Growth (%)					
Loan growth	12.9	10.6	11.9	11.0	9.3
Interest earning assets	17.7	7.4	14.4	8.4	7.1
Interest bearing liabilities	14.6	8.3	10.5	7.1	5.4
Asset growth	15.5	8.4	10.3	7.1	5.8
Deposit growth	13.6	11.4	11.0	8.4	6.3
Per share					
Reported EPS (RM)	0.12	0.54	0.62	0.71	0.79
Norm EPS (RM)	0.38	0.54	0.62	0.71	0.79
Fully diluted norm EPS (RM)	0.31	0.54	0.62	0.71	0.79
DPS (RM)	0.06	0.41	0.37	0.43	0.47
PPOP PS (RM)	0.85	0.91	1.00	1.13	1.25
BVPS (RM)	3.52	3.94	4.17	4.48	4.82
ABVPS (RM)	3.52	3.94	4.17	4.48	4.82
NTAPS (RM)	2.90	3.31	3.52	3.83	4.17

Source: Nomura estimates

Loan growth driven by consumer sector

CIMB Group Holdings CIMB MK

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Maintained

BUY

Action

We expect capital markets to be buoyant in 2011 against a backdrop of positive GDP growth and ample liquidity in Malaysia/South East Asia. Group asset quality and growth momentum have been stronger than our prior expectations. While P/BV at 2.4x has moved above the +1 standard deviation level, we think the stock could trend closer to its post-crisis peak of 2.9x given the strong capital markets. BUY.

Catalysts

We expect capital markets revenue and asset quality to beat consensus estimates, and this should underpin CIMB's stock performance.

Anchor themes

A liberal US monetary policy, coupled with the commodities boom, is fostering positive macro conditions for Malaysian economic growth and capital markets. The Malaysia market has lagged some of its Asean peers such as the Philippines, Indonesia and Thailand.

Closing price on 28 Dec	RM8.55
Price target	RM10.00
	(set on 8 Nov 10)
Upside/downside	17.0%
Difference from consensus	14.5%
FY11F net profit (RMmn)	4,650
Difference from consensus	0.1%

Source: Nomura

Nomura vs consensus

Consensus appears divided on the growth outlook for the stock. We are more optimistic on domestic capital market prospects.

2011 = 2007 + the 90s?

① Capital markets entering a sweet spot

Amid ample liquidity, the Malaysian asset reflation theme is manifesting itself in strong property demand, while the stock market is near historical peaks. Moreover, there are several high-profile deals lined up, such as the privatisation of Plus Expressways and the acquisition of Sunrise by UEM Land. Add to this mix the ongoing divestment of the government's stakes in government-linked entities as well as firming commodity prices, and we believe the capital markets will continue to excite investors and corporates next year. This scenario reminds us of the liquidity-led rally of 2007 and the property/stock market boom of the mid-1990s.

② CIMB recorded consensus-beating results

CIMB's 9M10 net profit accounted for 74% of the consensus full-year forecast. Given 4Q10 is likely to be stronger with the completion of the two mega IPOs (AIA HK and Petronas Chemicals), full-year results are likely to come in ahead of consensus expectations. Management has retained its FY10F ROE guidance of 16% but highlighted a promising 4Q following its best quarter of IPOs ever. We believe the declared special dividend of RM1bn was due to the minimal impact from implementing Basel II and greater clarity over Basel III, and this in our view is positive for the stock

③ We expect decent FY11 loan growth albeit with NIM squeeze

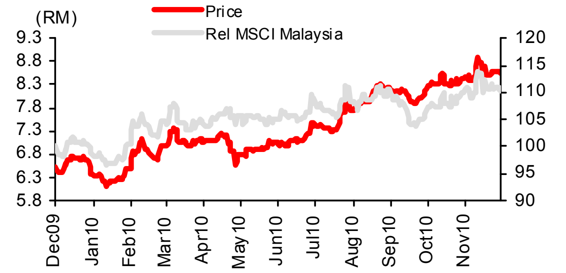
We expect FY10F loan growth of 14% for the group, led by a strong 23% y-y growth at CIMB Niaga and a 15% expansion in domestic consumer loans. Corporate loans, however, are expected to lag at 8% y-y. The key drivers for FY11F growth of 13% will still be Indonesia and domestic consumers, particularly the mortgage segment. However, we factor in a 6bp decline in NIMs owing to stiff competition in these same growth segments. We expect asset quality to be stable.

Key financials & valuations

31 Dec (RMmn)	FY09	FY10F	FY11F	FY12F
PPOP	4,952	5,809	6,889	7,530
Reported net profit	2,807	3,734	4,650	5,132
Normalised net profit	2,807	3,734	4,650	5,132
Normalised EPS (RM)	0.40	0.50	0.63	0.69
Norm. EPS growth (%)	45.7	26.4	24.5	10.4
Norm. P/E (x)	21.6	17.1	13.7	12.5
Price/adj. book (x)	2.94	2.48	2.16	1.89
Price/book (x)	2.94	2.48	2.16	1.89
Dividend yield (%)	1.5	1.1	1.4	1.6
ROE (%)	15.0	16.3	17.0	16.4
ROA (%)	1.26	1.46	1.62	1.62
Earnings revisions				
Previous norm. net profit		3,734	4,650	5,132
Change from previous (%)		-	-	-
Previous norm. EPS (RM)		0.50	0.63	0.69

Source: Company, Nomura estimates

Share price relative to MSCI Malaysia



	1m	3m	6m
Absolute (RM)	1.7	3.9	21.3
Absolute (US$)	3.9	3.7	26.4
Relative to Index	0.2	(0.4)	6.0
Market cap (US$mn)			20,540
Estimated free float (%)			55.0
52-week range (RM)			8.90/6.11
3-mth avg daily turnover (US$mn)			26.04
Stock borrowability			Hard
Major shareholders (%)			
Khazanah			29.0
EPF			14.2

Source: Company, Nomura estimates

Financial statements

Profit and Loss (RMmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Interest income	9,590	10,540	12,200	13,730	15,300
Interest expense	(4,930)	(4,471)	(5,290)	(5,950)	(6,750)
Net interest income	**4,661**	**6,069**	**6,910**	**7,780**	**8,550**
Net fees and commissions	1,813	2,150	2,350	2,600	2,700
Trading related profits	317	730	600	750	850
Other operating revenue	949	1,721	2,370	2,750	3,050
Non-interest income	**3,080**	**4,601**	**5,320**	**6,100**	**6,600**
Operating income	**7,741**	**10,670**	**12,230**	**13,880**	**15,150**
Depreciation	(216)	(320)	(350)	(370)	(420)
Amortisation	0	0	0	0	0
Operating expenses	(3,906)	(5,398)	(6,071)	(6,621)	(7,200)
Employee share expense					
Op. profit before provisions	**3,619**	**4,952**	**5,809**	**6,889**	**7,530**
Provisions for bad debt	(861)	(1,174)	(750)	(750)	(750)
Other provision charges	-	-	-	-	-
Operating profit	**2,758**	**3,778**	**5,059**	**6,139**	**6,780**
Other non-operating income	-	-	-	-	-
Associates & JCEs	(42)	34	25	30	35
Pre-tax profit	**2,716**	**3,812**	**5,084**	**6,169**	**6,815**
Income tax	(703)	(765)	(1,170)	(1,419)	(1,568)
Net profit after tax	**2,013**	**3,047**	**3,914**	**4,750**	**5,247**
Minority interests	(61)	(240)	(180)	(100)	(115)
Other items					
Preferred dividends					
Normalised NPAT	**1,952**	**2,807**	**3,734**	**4,650**	**5,132**
Extraordinary items	0	0	0	0	0
Reported NPAT	**1,952**	**2,807**	**3,734**	**4,650**	**5,132**
Dividends	(662)	(927)	(688)	(920)	(1,020)
Transfer to reserves	**1,290**	**1,880**	**3,047**	**3,730**	**4,112**
Valuation and ratio analysis					
FD normalised P/E (x)	31.3	21.6	17.1	13.7	12.5
FD normalised P/E at price target (x)	36.7	25.2	20.0	16.1	14.6
Reported P/E (x)	31.3	21.5	17.0	13.7	12.4
Dividend yield (%)	1.1	1.5	1.1	1.4	1.6
Price/book (x)	3.5	2.9	2.5	2.2	1.9
Price/adjusted book (x)	3.5	2.9	2.5	2.2	1.9
Net interest margin (%)	3.11	3.45	3.35	3.29	3.25
Yield on interest earning assets (%)	6.40	5.99	5.91	5.81	5.81
Cost of interest bearing liabilities (%)	2.92	2.32	2.42	2.43	2.49
Net interest spread (%)	3.48	3.68	3.49	3.38	3.32
Non-interest/operating income (%)	39.8	43.1	43.5	43.9	43.6
Cost to income (%)	53.2	53.6	52.5	50.4	50.3
Effective tax rate (%)	25.9	20.1	23.0	23.0	23.0
Dividend payout (%)	33.9	33.0	18.4	19.8	19.9
ROE (%)	11.9	15.0	16.3	17.0	16.4
ROA (%)	1.00	1.26	1.46	1.62	1.62
Operating ROE (%)	16.8	20.2	22.1	22.4	21.6
Operating ROA (%)	1.42	1.69	1.98	2.14	2.14
Growth (%)					
Net interest income	6.0	30.2	13.9	12.6	9.9
Non-interest income	(21.1)	49.4	15.6	14.7	8.2
Non-interest expenses	(3.1)	38.2	12.5	9.1	8.7
Pre-provision earnings	(11.2)	36.8	17.3	18.6	9.3
Net profit	(6.3)	43.8	33.0	24.5	10.4
Normalised EPS	(11.7)	45.7	26.4	24.5	10.4
Normalised FDEPS	(11.7)	45.3	26.1	24.5	10.4

Source: Nomura estimates

Three-year non-interest income CAGR of 10% pa

Balance Sheet (RMmn)					
As at 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash and equivalents	24,409	28,729	25,194	26,194	30,000
Inter-bank lending	4,063	2,383	13,335	13,335	13,335
Deposits with central bank	2,736	844	1,506	1,682	1,844
Total securities	37,264	44,811	48,000	53,100	58,100
Other interest earning assets	-	-	-	-	-
Gross loans	122,537	148,905	170,000	192,000	215,000
Less provisions	(5,155)	(6,687)	(9,951)	(10,445)	(11,058)
Net loans	**117,382**	**142,218**	**160,049**	**181,555**	**203,942**
Long-term investments	914	649	175	175	175
Fixed assets	1,820	2,126	1,274	1,274	1,274
Goodwill	7,156	9,362	9,676	9,676	9,676
Other intangible assets	-	-	-	-	-
Other non IEAs	10,992	9,316	11,645	14,773	12,591
Total assets	**206,736**	**240,438**	**270,854**	**301,765**	**330,937**
Customer deposits	153,425	178,882	208,000	235,000	260,000
Bank deposits, CDs, debentures	7,119	10,132	8,201	8,201	8,201
Other interest bearing liabilities	20,302	16,284	15,537	15,537	15,537
Total interest bearing liabilities	**180,845**	**205,298**	**231,738**	**258,738**	**283,738**
Non interest bearing liabilities	7,528	12,494	12,635	12,635	12,635
Total liabilities	**188,373**	**217,792**	**244,373**	**271,373**	**296,373**
Minority interest	1,098	2,102	851	900	960
Common stock	3,578	3,532	7,434	7,434	7,434
Preferred stock	200	200	200	200	200
Retained earnings	5,234	6,832	9,355	13,317	17,529
Proposed dividends	-	-	-	-	-
Other equity	8,252	9,981	8,641	8,541	8,441
Shareholders' equity	**17,264**	**20,545**	**25,630**	**29,492**	**33,604**
Total liabilities and equity	**206,736**	**240,438**	**270,854**	**301,765**	**330,937**
Non-performing assets (RM)	*6,056*	*7,417*	*10,779*	*10,973*	*11,324*
Balance sheet ratios (%)					
Loans to deposits	79.9	83.2	81.7	81.7	82.7
Equity to assets	8.4	8.5	9.5	9.8	10.2
Asset quality & capital					
NPAs/gross loans (%)	4.9	5.0	6.3	5.7	5.3
Bad debt charge/gross loans (%)	0.70	0.79	0.44	0.39	0.35
Loss reserves/assets (%)	2.49	2.78	3.67	3.46	3.34
Loss reserves/NPAs (%)	85.1	90.2	92.3	95.2	97.7
Tier 1 capital ratio (%)	9.2	11.1	10.7	10.3	11.0
Total capital ratio (%)	13.9	15.1	15.7	14.4	15.0
Growth (%)					
Loan growth	22.4	21.2	12.5	13.4	12.3
Interest earning assets	16.8	17.8	17.2	12.0	11.0
Interest bearing liabilities	15.1	13.5	12.9	11.7	9.7
Asset growth	13.1	16.3	12.6	11.4	9.7
Deposit growth	20.9	16.6	16.3	13.0	10.6
Per share					
Reported EPS (RM)	0.27	0.40	0.50	0.63	0.69
Norm EPS (RM)	0.27	0.40	0.50	0.63	0.69
Fully diluted norm EPS (RM)	0.27	0.40	0.50	0.62	0.69
DPS (RM)	0.09	0.13	0.09	0.12	0.14
PPOP PS (RM)	0.51	0.70	0.78	0.93	1.01
BVPS (RM)	2.41	2.91	3.45	3.97	4.52
ABVPS (RM)	2.41	2.91	3.45	3.97	4.52
NTAPS (RM)	1.41	1.58	2.15	2.67	3.22

Source: Nomura estimates

Falling charge-off rates reflect stronger asset quality

Sime Darby SIME MK

CONSUMER RELATED/AGRI-RELATED | MALAYSIA

Maintained

BUY

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Action

We are bullish on Sime Darby on our improved outlook for CPO prices and compelling valuations. We believe that the company provides a compelling re-rating story post its oil and gas issues last fiscal year, as the new management team gets underway with its plans. Further, Sime Darby's non-plantations business enjoys a healthy outlook from exposure to strong Asian economic performance. BUY.

Catalysts

Proof of new management's ability to improve performance and drive efficiency, as well as sustained high CPO prices will likely support a re-rating.

Anchor themes

Tighter global vegetable oils outlook, stronger crude oil prices and a weaker US dollar lead us to expect higher CPO prices for FY11 – a key positive driver for upstream earnings and valuations.

Closing price on 28 Dec	RM8.77
Price target	RM11.10
	(set on 19 Oct 10)
Upside/downside	26.6%
Difference from consensus	31.7%
FY12F net profit (RMmn)	3,744
Difference from consensus	9.5%

Source: Nomura

Nomura vs consensus

We think the Street may be under-estimating the restructuring potential of the group post its large write-downs last year.

Love the unloved

① BUY on CPO outlook and restructuring

We are bullish on Sime Darby with a BUY rating on an improved outlook for the palm oil sector (we recently upgraded CPO prices for 2011F by 5-12%), as well as improving sentiment surrounding the group's restructuring. Sime Darby's strong liquidity and large index-weighting could be seen as a good proxy to improving sentiment on Malaysia. Risks to the group include poor execution of its restructuring and a sharp fall in CPO prices.

② Write-down woes behind us – look to the future

The new group CEO at the FY10 results briefing came out to reassure investors that there would be no more write-downs stemming from the four infamous projects (where write-downs amounted to close to RM2.1bn in FY10/June). Other businesses within the group, including plantations, heavy industrials, autos and property, remain unaffected operationally, and as the group moves away from the issues, we believe that the market will re-focus itself on the growth drivers of the company.

③ Focus on low-hanging fruit, but execution will be key

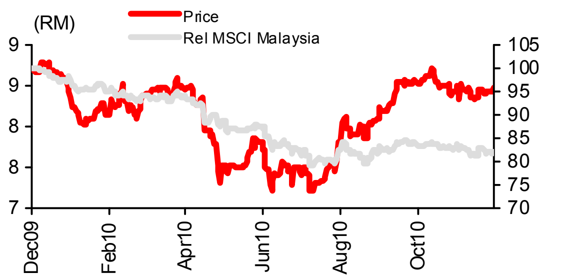
Recently appointed CEO Dato' Bakke Salleh has management experience across various industries. Focus for the group will be in four steps: to turnaround the energy & utilities (E&U) business, maximise potential across businesses, improve corporate culture and review the group's portfolio mix. With the E&U turnaround underway, we believe that the next focus will be on enhancing the business. Dato' Bakke has identified low-hanging fruit, such as improving Sime's low CPO oil extraction rates, where a 1% increase could improve plantation EBIT by 1.7%, on our estimates.

Key financials & valuations

30 Jun (RMmn)	FY10	FY11F	FY12F	FY13F
Revenue	32,952	36,945	41,427	46,125
Reported net profit	727	3,266	3,744	4,011
Normalised net profit	727	3,266	3,744	4,011
Normalised EPS (RM)	0.12	0.54	0.62	0.67
Norm. EPS growth (%)	(68.1)	349.4	14.6	7.1
Norm. P/E (x)	72.5	16.1	14.1	13.1
EV/EBITDA (x)	19.2	9.1	8.1	7.6
Price/book (x)	2.6	2.4	2.2	2.1
Dividend yield (%)	0.7	3.1	3.9	4.2
ROE (%)	3.5	15.4	16.3	16.3
Net debt/equity (%)	12.5	15.7	17.2	17.2
Earnings revisions				
Previous norm. net profit		3,266	3,744	4,011
Change from previous (%)		-	-	-
Previous norm. EPS (RM)		0.54	0.62	0.67

Source: Company, Nomura estimates

Share price relative to MSCI Malaysia



	1m	3m	6m
Absolute (RM)	0.3	4.5	8.3
Absolute (US$)	2.6	4.4	12.8
Relative to Index	(1.1)	0.3	(7.5)
Market cap (US$mn)			17,034
Estimated free float (%)			28.6
52-week range (RM)			9.10/7.50
3-mth avg daily turnover (US$mn)			18.77
Stock borrowability			Hard
Major shareholders (%)			
Permodalan Nasional Bhd			56.1
Employees Provident Fund			15.3

Source: Company, Nomura estimates

Financial statements

Income statement (RMmn)					
Year-end 30 Jun	FY09	FY10	FY11F	FY12F	FY13F
Revenue	31,014	32,952	36,945	41,427	46,125
Cost of goods sold	(27,045)	(29,709)	(30,884)	(34,559)	(38,755)
Gross profit	**3,969**	**3,243**	**6,060**	**6,868**	**7,370**
SG&A	(818)	(967)	(1,256)	(1,386)	(1,516)
Employee share expense					
Operating profit	**3,151**	**2,276**	**4,804**	**5,481**	**5,854**
EBITDA	**3,969**	**3,243**	**6,060**	**6,868**	**7,370**
Depreciation	(818)	(967)	(1,256)	(1,386)	(1,516)
Amortisation					
EBIT	**3,151**	**2,276**	**4,804**	**5,481**	**5,854**
Net interest expense	(94)	(170)	(194)	(193)	(191)
Associates & JCEs	15	(364)	106	113	121
Other income					
Earnings before tax	**3,072**	**1,742**	**4,715**	**5,401**	**5,784**
Income tax	(731)	(887)	(1,179)	(1,350)	(1,446)
Net profit after tax	**2,341**	**855**	**3,536**	**4,051**	**4,338**
Minority interests	(61)	(128)	(270)	(308)	(329)
Other items	-	-	-	1	2
Preferred dividends					
Normalised NPAT	**2,280**	**727**	**3,266**	**3,744**	**4,011**
Extraordinary items					
Reported NPAT	**2,280**	**727**	**3,266**	**3,744**	**4,011**
Dividends	(1,145)	(363)	(1,633)	(2,059)	(2,206)
Transfer to reserves	**1,135**	**363**	**1,633**	**1,685**	**1,805**
Valuation and ratio analysis					
FD normalised P/E (x)	23.1	72.5	16.1	14.1	13.1
FD normalised P/E at price target (x)	29.3	91.8	20.4	17.8	16.6
Reported P/E (x)	23.1	72.5	16.1	14.1	13.1
Dividend yield (%)	2.2	0.7	3.1	3.9	4.2
Price/cashflow (x)	55.7	14.5	19.1	11.9	10.0
Price/book (x)	2.5	2.6	2.4	2.2	2.1
EV/EBITDA (x)	13.7	19.2	9.1	8.1	7.6
EV/EBIT (x)	17.3	28.9	11.4	10.2	9.6
Gross margin (%)	12.8	9.8	16.4	16.6	16.0
EBITDA margin (%)	12.8	9.8	16.4	16.6	16.0
EBIT margin (%)	10.2	6.9	13.0	13.2	12.7
Net margin (%)	7.4	2.2	8.8	9.0	8.7
Effective tax rate (%)	23.8	50.9	25.0	25.0	25.0
Dividend payout (%)	50.2	50.0	50.0	55.0	55.0
Capex to sales (%)	6.8	9.1	8.1	7.2	6.5
Capex to depreciation (x)	2.6	3.1	2.4	2.2	2.0
ROE (%)	10.6	3.5	15.4	16.3	16.3
ROA (pretax %)	10.3	5.9	14.1	14.5	14.1
Growth (%)					
Revenue	(8.9)	6.2	12.1	12.1	11.3
EBITDA	(32.9)	(18.3)	86.9	13.3	7.3
EBIT	(38.3)	(27.8)	111.1	14.1	6.8
Normalised EPS	(35.1)	(68.1)	349.4	14.6	7.1
Normalised FDEPS	(35.1)	(68.1)	349.4	14.6	7.1
Per share					
Reported EPS (RM)	0.38	0.12	0.54	0.62	0.67
Norm EPS (RM)	0.38	0.12	0.54	0.62	0.67
Fully diluted norm EPS (RM)	0.38	0.12	0.54	0.62	0.67
Book value per share (RM)	3.56	3.40	3.67	3.96	4.26
DPS (RM)	0.19	0.06	0.27	0.34	0.37

Source: Nomura estimates

Sharp drop from more than RM2bn in the energy division write-downs, which should no longer recur, in our view

Cashflow (RMmn)					
Year-end 30 Jun	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
EBITDA	3,969	3,243	6,060	6,868	7,370
Change in working capital	(1,735)	1,786	(662)	(763)	(514)
Other operating cashflow	(1,288)	(1,398)	(2,635)	(1,665)	(1,602)
Cashflow from operations	**946**	**3,631**	**2,763**	**4,440**	**5,254**
Capital expenditure	(2,123)	(2,993)	(3,000)	(3,000)	(3,000)
Free cashflow	**(1,178)**	**637**	**(237)**	**1,440**	**2,254**
Reduction in investments	(201)	124	(138)	(142)	(146)
Net acquisitions	87	162	(101)	(101)	(101)
Reduction in other LT assets	125	(273)	(359)	(395)	(435)
Addition in other LT liabilities	(457)	5	62	(20)	(54)
Adjustments	645	603	922	922	922
Cashflow after investing acts	**(979)**	**1,258**	**149**	**1,704**	**2,440**
Cash dividends	(2,366)	(1,145)	(363)	(1,633)	(2,059)
Equity issue	-	-	1	2	3
Debt issue	778	1,983	251	261	271
Convertible debt issue					
Others	(270)	(700)	(700)	(700)	(699)
Cashflow from financial acts	**(1,858)**	**138**	**(812)**	**(2,070)**	**(2,484)**
Net cashflow	**(2,836)**	**1,396**	**(662)**	**(366)**	**(43)**
Beginning cash	6,474	3,638	5,033	4,371	4,005
Ending cash	3,638	5,033	4,371	4,005	3,961
Ending net debt	1,970	2,556	3,470	4,097	4,411

Source: Nomura estimates

Balance sheet (RMmn)					
As at 30 Jun	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
Cash & equivalents	3,638	5,033	4,371	4,005	3,961
Marketable securities	-	-	-	-	-
Accounts receivable	5,875	5,263	5,901	6,617	7,367
Inventories	5,627	5,217	5,849	6,558	7,302
Other current assets	2,665	3,275	3,655	4,099	4,285
Total current assets	**17,804**	**18,787**	**19,775**	**21,278**	**22,915**
LT investments	4,718	4,595	4,732	4,874	5,021
Fixed assets	9,470	10,844	12,564	13,864	15,164
Goodwill	129	109	109	109	109
Other intangible assets	-	-	-	-	-
Other LT assets	3,318	3,591	3,950	4,345	4,780
Total assets	**35,440**	**37,926**	**41,130**	**44,470**	**47,988**
Short-term debt	3,594	3,302	3,467	3,641	3,823
Accounts payable	6,421	7,056	7,911	8,871	9,876
Other current liabilities	593	1,331	1,464	1,610	1,771
Total current liabilities	**10,607**	**11,689**	**12,842**	**14,122**	**15,471**
Long-term debt	2,013	4,287	4,373	4,461	4,550
Convertible debt	-	-	-	-	-
Other LT liabilities	814	819	881	861	807
Total liabilities	**13,434**	**16,795**	**18,096**	**19,443**	**20,827**
Minority interest	621	681	951	1,259	1,589
Preferred stock	-	-	-	-	-
Common stock	3,005	3,005	3,005	3,005	3,005
Retained earnings	10,683	10,060	11,693	13,378	15,183
Proposed dividends	-	-	-	-	-
Other equity and reserves	7,698	7,385	7,385	7,385	7,385
Total shareholders' equity	**21,385**	**20,450**	**22,083**	**23,768**	**25,573**
Total equity & liabilities	**35,440**	**37,926**	**41,130**	**44,470**	**47,988**
Liquidity (x)					
Current ratio	1.68	1.61	1.54	1.51	1.48
Interest cover	33.6	13.4	24.7	28.4	30.7
Leverage					
Net debt/EBITDA (x)	0.50	0.79	0.57	0.60	0.60
Net debt/equity (%)	9.2	12.5	15.7	17.2	17.2
Activity (days)					
Days receivable	68.9	61.7	55.1	55.3	55.3
Days inventory	72.2	66.6	65.4	65.7	65.3
Days payable	90.8	82.8	88.4	88.9	88.3
Cash cycle	50.2	45.5	32.1	32.1	32.3

Source: Nomura estimates

Increasing net debt to ~20% has been a target set by the previous management

Genting Malaysia Bhd GENM MK

GAMING, HOTELS & LEISURE | MALAYSIA

Maintained

BUY

NOMURA

NOMURA SECURITIES MALAYSIA SDN BHD

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Action

Malaysia's GGR has been resilient in 2010 despite competition from the two newly opened casinos in Singapore. GENM should comfortably see decent organic growth, with meaningful contributions from the newly acquired UK and US operations seen kicking in from 2H11. Despite its sustainable and growing EBITDA of US$650mn, GENM is at a modest-looking 6.4x FY11F EV/EBITDA, on our estimates. BUY.

Catalysts

We see further street upgrades to reflect the turning around of the UK business and to take into account the newly acquired US business.

Anchor themes

We believe GENM offers investors good exposure to the strong and rising domestic consumption story. Competition for its mass market business is likely to be short-lived. Its domestic operation should continue to generate strong cashflows.

Closing price on 28 Dec	RM3.36
Price target	RM4.12
	(set on 25 Nov 10)
Upside/downside	22.7%
Difference from consensus	13.9%
FY11F net profit (RMmn)	1,353
Difference from consensus	-0.6%

Source: Nomura

Nomura vs consensus

We continue to believe GENM's recent acquisition of the UK business will spring surprises, starting in 2011. EBITDA expansion should lead to street upgrades.

US$650mn EBITDA priced at 6x

① Resilient mass market business

Despite competition from the two newly opened casinos in Singapore, we believe GENM's core Malaysian gaming business is intact. It chalked up a commendable 2.7% y-y growth in gaming revenue to RM1.2bn in 2Q, bringing 1H to 8.2% y-y growth. Thanks to a better luck factor, its EBITDA margin was unchanged at 39%.

② EBITDA expansion in 2011F

Stripping out the effect of poor luck factor and weaker sterling against the Singapore dollar, business volume in its recently acquired UK casino business showed further improvement in 3Q earnings. We reiterate our view that a price tag of 1.2x the written-down book value of the UK assets is a decent price for GENM to gain access to the UK casino market, with over 30% market share. We see scope for positive surprises to consensus and our assumed EBITDA contribution in 2011F. Similarly, we think its new US slot machines business could spring surprises in EBITDA contribution from 2H11F.

③ Favourable outlook

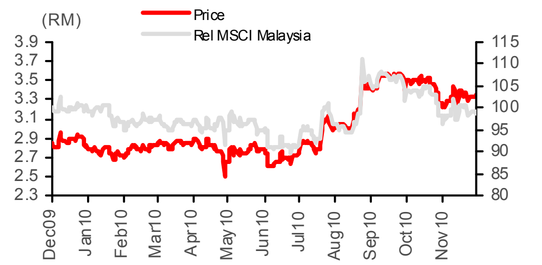
As the novelty starts to wear off in Singapore, we think growth in visitor arrivals for GENM will pick up in 2011F. GENM at one stage had lost more customers in the southern region, but we believe the trend has stabilised. Longer term, we think affordability could be an issue for Malaysian punters, since it costs more to gamble in Singapore. Malaysia's casino is highly correlated to GDP growth, and given the relationship between gaming revenue and GDP, we see continued upside surprises in consensus and our gaming revenue assumptions. Despite having a sustainable, growing EBITDA of US$650mn, GENM is priced at a modest-looking 6.4x FY11F EV/EBITDA, on our estimates.

Key financials & valuations

31 Dec (RMmn)	FY09	FY10F	FY11F	FY12F
Revenue	4,992	4,968	5,214	5,449
Reported net profit	1,324	1,274	1,353	1,455
Normalised net profit	1,305	1,274	1,353	1,455
Normalised EPS (RM)	0.23	0.22	0.24	0.26
Norm. EPS growth (%)	(5.1)	(1.5)	6.2	7.5
Norm. P/E (x)	15.2	15.1	14.2	13.2
EV/EBITDA (x)	7.5	7.2	6.4	5.4
Price/book (x)	1.9	1.7	1.6	1.5
Dividend yield (%)	1.7	1.8	1.9	2.0
ROE (%)	14.3	12.0	11.7	11.6
Net debt/equity (%)	net cash	net cash	net cash	net cash
Earnings revisions				
Previous norm. net profit		1,274	1,353	1,455
Change from previous (%)		-	-	-
Previous norm. EPS (RM)		0.22	0.24	0.26

Source: Company, Nomura estimates

Share price relative to MSCI Malaysia



	1m	3m	6m
Absolute (RM)	2.8	(1.5)	20.9
Absolute (US$)	5.0	(1.6)	25.9
Relative to Index	1.0	(6.1)	5.2
Market cap (US$mn)			6,424
Estimated free float (%)			51.7
52-week range (RM)			3.64/2.51
3-mth avg daily turnover (US$mn)			5.14
Stock borrowability			Hard
Major shareholders (%)			
Genting			48.3

Source: Company, Nomura estimates

Financial statements

Income statement (RMmn)					
Year-end 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
Revenue	4,887	4,992	4,968	5,214	5,449
Cost of goods sold	(2,904)	(3,072)	(3,121)	(3,269)	(3,371)
Gross profit	**1,983**	**1,919**	**1,846**	**1,945**	**2,078**
SG&A	(230)	(250)	(248)	(261)	(272)
Employee share expense					
Operating profit	**1,753**	**1,670**	**1,598**	**1,684**	**1,806**
EBITDA	**2,013**	**1,940**	**1,892**	**2,000**	**2,143**
Depreciation	(260)	(270)	(294)	(316)	(338)
Amortisation	-	-	-	-	-
EBIT	**1,753**	**1,670**	**1,598**	**1,684**	**1,806**
Net interest expense	114	78	101	119	134
Associates & JCEs	1	-	-	-	-
Other income	-	(1)	-	-	-
Earnings before tax	**1,868**	**1,746**	**1,699**	**1,804**	**1,939**
Income tax	(493)	(441)	(425)	(451)	(485)
Net profit after tax	**1,375**	**1,305**	**1,274**	**1,353**	**1,454**
Minority interests	0	0	0	0	0
Other items	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Normalised NPAT	**1,375**	**1,305**	**1,274**	**1,353**	**1,455**
Extraordinary items	(741)	18	-	-	-
Reported NPAT	**634**	**1,324**	**1,274**	**1,353**	**1,455**
Dividends	(280)	(323)	(343)	(363)	(385)
Transfer to reserves	**354**	**1,000**	**932**	**990**	**1,070**
Valuation and ratio analysis					
FD normalised P/E (x)	14.5	15.2	15.1	14.2	13.2
FD normalised P/E at price target (x)	17.8	18.7	18.5	17.5	16.2
Reported P/E (x)	30.4	14.6	15.0	14.1	13.2
Dividend yield (%)	1.5	1.7	1.8	1.9	2.0
Price/cashflow (x)	11.2	11.9	12.9	12.3	11.5
Price/book (x)	2.3	1.9	1.7	1.6	1.5
EV/EBITDA (x)	7.6	7.5	7.2	6.4	5.4
EV/EBIT (x)	8.7	8.7	8.6	7.6	6.5
Gross margin (%)	40.6	38.5	37.2	37.3	38.1
EBITDA margin (%)	41.2	38.9	38.1	38.4	39.3
EBIT margin (%)	35.9	33.5	32.2	32.3	33.1
Net margin (%)	13.0	26.5	25.7	26.0	26.7
Effective tax rate (%)	26.4	25.3	25.0	25.0	25.0
Dividend payout (%)	44.2	24.4	26.9	26.8	26.5
Capex to sales (%)	5.4	2.6	7.2	6.8	6.5
Capex to depreciation (x)	1.0	0.5	1.2	1.1	1.1
ROE (%)	7.7	14.3	12.0	11.7	11.6
ROA (pretax %)	31.4	30.5	26.3	27.6	29.4
Growth (%)					
Revenue	12.3	2.2	(0.5)	5.0	4.5
EBITDA	15.6	(3.6)	(2.5)	5.7	7.1
EBIT	17.1	(4.7)	(4.3)	5.4	7.2
Normalised EPS	24.4	(5.1)	(1.5)	6.2	7.5
Normalised FDEPS	19.1	(5.1)	0.8	6.2	7.5
Per share					
Reported EPS (RM)	0.11	0.23	0.22	0.24	0.26
Norm EPS (RM)	0.24	0.23	0.22	0.24	0.26
Fully diluted norm EPS (RM)	0.23	0.22	0.22	0.24	0.25
Book value per share (RM)	1.45	1.76	1.94	2.11	2.30
DPS (RM)	0.05	0.06	0.06	0.06	0.07

Source: Nomura estimates

We are projecting a decline in FY10F revenue, as we have projected a loss in mass market share

Cashflow (RMmn)					
Year-end 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
EBITDA	2,013	1,940	1,892	2,000	2,143
Change in working capital	121	51	60	22	21
Other operating cashflow	(416)	(369)	(468)	(463)	(498)
Cashflow from operations	**1,719**	**1,622**	**1,485**	**1,559**	**1,667**
Capital expenditure	(262)	(130)	(357)	(357)	(357)
Free cashflow	**1,457**	**1,492**	**1,128**	**1,203**	**1,310**
Reduction in investments	1,384	(1,039)	-	-	-
Net acquisitions	265	(215)	-	-	-
Reduction in other LT assets	(1)	(310)	-	-	-
Addition in other LT liabilities	14	55	-	-	-
Adjustments	(1,188)	1,108	101	119	134
Cashflow after investing acts	**1,931**	**1,090**	**1,229**	**1,322**	**1,444**
Cash dividends	(280)	(300)	(331)	(351)	(372)
Equity issue	(147)	(74)	-	-	-
Debt issue	-	-	-	-	-
Convertible debt issue	-	-	-	-	-
Others	-	-	-	-	-
Cashflow from financial acts	**(428)**	**(374)**	**(331)**	**(351)**	**(372)**
Net cashflow	**1,503**	**717**	**898**	**971**	**1,072**
Beginning cash	3,052	4,555	5,272	6,169	7,141
Ending cash	4,555	5,272	6,169	7,141	8,212
Ending net debt	(4,555)	(5,272)	(6,169)	(7,141)	(8,212)

Source: Nomura estimates

Balance sheet (RMmn)					
As at 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
Cash & equivalents	4,555	5,272	6,169	7,141	8,212
Marketable securities	5	-	-	-	-
Accounts receivable	201	204	141	147	153
Inventories	60	62	62	65	68
Other current assets	-	-	-	-	-
Total current assets	**4,821**	**5,538**	**6,372**	**7,352**	**8,433**
LT investments	934	1,977	1,977	1,977	1,977
Fixed assets	3,638	3,491	3,553	3,593	3,612
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other LT assets	30	340	340	340	340
Total assets	**9,423**	**11,346**	**12,242**	**13,263**	**14,363**
Short-term debt	-	-	-	-	-
Accounts payable	541	635	632	664	693
Other current liabilities	238	200	200	200	200
Total current liabilities	**779**	**835**	**832**	**863**	**893**
Long-term debt	-	-	-	-	-
Convertible debt	-	-	-	-	-
Other LT liabilities	312	367	367	367	367
Total liabilities	**1,091**	**1,202**	**1,199**	**1,230**	**1,260**
Minority interest	7	7	7	6	6
Preferred stock	-	-	-	-	-
Common stock	590	590	590	590	590
Retained earnings	7,384	8,408	9,308	10,298	11,368
Proposed dividends	-	-	-	-	-
Other equity and reserves	351	1,139	1,139	1,139	1,139
Total shareholders' equity	**8,325**	**10,137**	**11,037**	**12,027**	**13,097**
Total equity & liabilities	**9,423**	**11,346**	**12,242**	**13,263**	**14,363**
Liquidity (x)					
Current ratio	6.19	6.63	7.66	8.52	9.44
Interest cover	na	na	na	na	na
Leverage					
Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Activity (days)					
Days receivable	12.9	14.8	12.7	10.1	10.1
Days inventory	7.5	7.3	7.2	7.1	7.2
Days payable	65.1	69.9	74.1	72.3	73.7
Cash cycle	(44.7)	(47.8)	(54.2)	(55.2)	(56.4)

Source: Nomura estimates

After the acquisition of the UK and US casino business, GENM will still have US$500mn cash

Axiata Group Berhad AXIATA MK

TELECOMS | MALAYSIA

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BUY

Action

For FY11F, we continue to see growth in Axiata's earnings, led by: 1) solid revenue and earnings growth at XL; 2) potential upside to Celcom's data growth as it gets more active with Smartphones and broadband; and 3) possible upside surprise in margins, driven by continued cost-saving initiatives. Axiata's 13% average earnings growth over FY10F-12F will be one of the highest in regional telcos, according to our estimates. We also see upside bias to our 3-5% dividend yield forecast. BUY.

Catalysts

Continued operational strength in domestic and overseas businesses remains a potential catalyst. FY10F dividend timing could be a positive surprise.

Anchor themes

Celcom is likely to provide a consistent cash flow stream; XL to provide the revenue / earnings growth appeal; trends at subsidiaries, associates can improve.

Closing price on 28 Dec	RM4.71
Price target	RM5.90
	(set on 15 Nov 10)
Upside/downside	25.3%
Difference from consensus	20.4%
FY11F net profit (RMmn)	3,044
Difference from consensus	3.3%

Source: Nomura

Nomura vs consensus

Our above-consensus price target is driven by the expectation of continued growth at XL and Robi, and easing investment risk.

Consistent execution set to continue

① Data growth remains key for XL and Celcom

XL's strong execution in FY10 is likely to continue in FY11F and we see another 13-15% growth in revenue and EBITDA with scope for upside surprises. Data is already a key revenue contributor – 41% of mobile revenue in 3Q10 versus 38% in 3Q09 – and we expect it to drive the medium-term growth trend at XL. Barring a marked pick-up in cellular competition, we see limited risks to XL's operational outlook.

Celcom is likely to increase its visibility in the Smartphone segment, where both Maxis and Digi have so far been more active. Increasing broadband coverage beyond current 70-75% levels and more aggressive broadband pricing appear likely, in our view – to drive broadband growth and offset competition from WiMAX operators.

Cost management will be a key focus area across the group and could be a driver for possible margin surprises ahead, in our view. We expect Celcom to progress on executing its network-sharing plans with Digi. In our opinion, XL could continue to drive revenue growth ahead of expenses – a further margin uplift, and margins at other subsidiaries could hold stable.

② Limited M&A initiatives, near-term

Axiata sold its non-mobile operations in Thailand and Pakistan in 2010, and remains committed to focussing on mobile *(Company media release, 23 December, 2010)*. Hence, we believe that it is likely to continue exploring disposal of non-mobile assets over the next 12-18 months. However, a material M&A initiative may not unfold in the near term. As such, we see limited cashflow risks over the medium term and see potential upside to our 3-5% yield forecasts.

③ Axiata remains our key regional pick

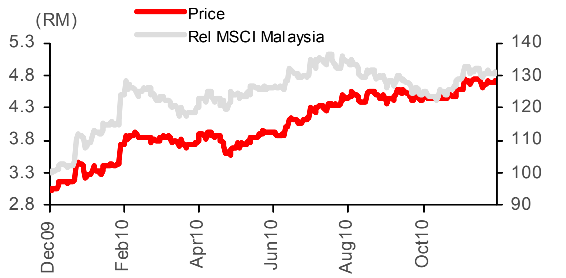
At 13.1x FY11F P/E, Axiata's valuation remains attractive compared to 14x for regional peers. It remains our key regional telco pick.

Key financials & valuations

31 Dec (RMmn)	FY09	FY10F	FY11F	FY12F
Revenue	13,105	15,638	17,266	18,644
Reported net profit	1,653	2,940	3,044	3,315
Normalised net profit	1,653	2,605	3,044	3,315
Normalised EPS (RM)	0.20	0.31	0.36	0.39
Norm. EPS growth (%)	226.4	57.6	16.8	8.9
Norm. P/E (x)	24.1	15.3	13.1	12.0
EV/EBITDA (x)	9.7	6.3	5.5	4.8
Price/book (x)	2.2	1.9	1.7	1.6
Dividend yield (%)	0.0	0.0	3.4	5.0
ROE (%)	11.2	15.0	13.9	14.1
Net debt/equity (%)	56.7	25.2	14.0	3.9
Earnings revisions				
Previous norm. net profit		2,605	3,044	3,315
Change from previous (%)		-	-	-
Previous norm. EPS (RM)		0.31	0.36	0.39

Source: Company, Nomura estimates

Share price relative to MSCI Malaysia



	1m	3m	6m
Absolute (RM)	2.8	6.1	19.8
Absolute (US$)	5.1	5.9	24.9
Relative to Index	1.4	1.8	4.6
Market cap (US$mn)			12,856
Estimated free float (%)			31.7
52-week range (RM)			4.76/3.03
3-mth avg daily turnover (US$mn)			19.02
Stock borrowability			Hard
Major shareholders (%)			
Khazanah Nasional Berhad			44.5
Employees Provident Fund Board			15.2

Source: Company, Nomura estimates

Financial statements

We expect a double-digit FY09-12F CAGR in revenue and EBITDA

Income statement (RMmn)					
Year-end 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
Revenue	11,348	13,105	15,638	17,266	18,644
Cost of goods sold	(3,140)	(3,538)	(3,791)	(4,215)	(4,575)
Gross profit	**8,207**	**9,567**	**11,847**	**13,052**	**14,069**
SG&A	(6,190)	(7,270)	(7,652)	(8,343)	(9,019)
Employee share expense	(29)	918	400	200	200
Operating profit	**1,989**	**3,214**	**4,595**	**4,909**	**5,250**
EBITDA	**4,356**	**5,157**	**7,202**	**7,841**	**8,419**
Depreciation	(2,319)	(2,860)	(3,007)	(3,132)	(3,369)
Amortisation	(48)	918	400	200	200
EBIT	**1,989**	**3,214**	**4,595**	**4,909**	**5,250**
Net interest expense	(1,015)	(649)	(560)	(411)	(320)
Associates & JCEs	(59)	101	141	230	270
Other income	-	-	173	-	-
Earnings before tax	**914**	**2,666**	**4,349**	**4,728**	**5,200**
Income tax	(435)	(910)	(1,044)	(1,182)	(1,300)
Net profit after tax	**480**	**1,756**	**3,305**	**3,546**	**3,900**
Minority interests	27	(103)	(366)	(502)	(585)
Other items	-	-	(335)	-	-
Preferred dividends					
Normalised NPAT	**506**	**1,653**	**2,605**	**3,044**	**3,315**
Extraordinary items	-	-	335	-	-
Reported NPAT	**506**	**1,653**	**2,940**	**3,044**	**3,315**
Dividends	-	-	-	(1,370)	(1,989)
Transfer to reserves	**506**	**1,653**	**2,940**	**1,674**	**1,326**
Valuation and ratio analysis					
FD normalised P/E (x)	78.5	24.1	15.3	13.1	12.0
FD normalised P/E at price target (x)	98.4	30.1	19.1	16.4	15.0
Reported P/E (x)	78.5	24.1	13.5	13.1	12.0
Dividend yield (%)	-	-	-	3.4	5.0
Price/cashflow (x)	16.0	8.4	6.1	5.8	5.4
Price/book (x)	3.5	2.2	1.9	1.7	1.6
EV/EBITDA (x)	13.0	9.7	6.3	5.5	4.8
EV/EBIT (x)	28.4	15.6	9.8	8.8	7.8
Gross margin (%)	72.3	73.0	75.8	75.6	75.5
EBITDA margin (%)	38.4	39.4	46.1	45.4	45.2
EBIT margin (%)	17.5	24.5	29.4	28.4	28.2
Net margin (%)	4.5	12.6	18.8	17.6	17.8
Effective tax rate (%)	47.5	34.1	24.0	25.0	25.0
Dividend payout (%)	-	-	-	45.0	60.0
Capex to sales (%)	46.9	25.1	23.0	20.0	17.0
Capex to depreciation (x)	2.3	1.2	1.2	1.1	0.9
ROE (%)	4.8	11.2	15.0	13.9	14.1
ROA (pretax %)	6.8	9.6	13.6	14.7	15.6
Growth (%)					
Revenue	13.5	15.5	19.3	10.4	8.0
EBITDA	5.3	18.4	39.7	8.9	7.4
EBIT	(20.4)	61.6	43.0	6.8	6.9
Normalised EPS	(70.4)	226.4	57.6	16.8	8.9
Normalised FDEPS	(70.4)	226.4	57.6	16.8	8.9
Per share					
Reported EPS (RM)	0.06	0.20	0.35	0.36	0.39
Norm EPS (RM)	0.06	0.20	0.31	0.36	0.39
Fully diluted norm EPS (RM)	0.06	0.20	0.31	0.36	0.39
Book value per share (RM)	1.33	2.15	2.50	2.70	2.86
DPS (RM)	-	-	-	0.16	0.24

Source: Nomura estimates

Cashflow (RMmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
EBITDA	4,356	5,157	7,202	7,841	8,419
Change in working capital	122	(195)	491	403	317
Other operating cashflow	(1,991)	(216)	(1,204)	(1,393)	(1,420)
Cashflow from operations	**2,487**	**4,746**	**6,489**	**6,851**	**7,316**
Capital expenditure	(5,324)	(3,290)	(3,597)	(3,453)	(3,169)
Free cashflow	**(2,837)**	**1,457**	**2,892**	**3,398**	**4,147**
Reduction in investments	(5,914)	5,734	-	-	-
Net acquisitions	(441)	(1)	-	-	-
Reduction in other LT assets	(5,914)	-	2,018	-	-
Addition in other LT liabilities	(71)	559	-	-	-
Adjustments	5,990	(6,304)	-	-	-
Cashflow after investing acts	**(9,188)**	**1,444**	**4,910**	**3,398**	**4,147**
Cash dividends	(30)	90	90	(1,280)	(1,899)
Equity issue					
Debt issue	10,477	(8,118)	(1,250)	(750)	(750)
Convertible debt issue					
Others	103	5,260	-	-	-
Cashflow from financial acts	**10,551**	**(2,768)**	**(1,160)**	**(2,030)**	**(2,649)**
Net cashflow	**1,363**	**(1,325)**	**3,750**	**1,368**	**1,498**
Beginning cash	1,968	3,331	2,006	5,756	7,125
Ending cash	3,330	2,006	5,756	7,125	8,623
Ending net debt	16,692	10,317	5,316	3,198	950

Source: Nomura estimates

Balance sheet (RMmn)					
As at 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash & equivalents	3,331	2,006	5,756	7,125	8,623
Marketable securities					
Accounts receivable	1,540	1,559	2,142	2,365	2,554
Inventories	77	35	35	35	35
Other current assets	129	97	97	97	97
Total current assets	**5,077**	**3,698**	**8,031**	**9,622**	**11,309**
LT investments	5,914	181	181	181	181
Fixed assets	14,960	15,815	16,405	16,726	16,527
Goodwill					
Other intangible assets	8,326	8,563	8,563	8,563	8,563
Other LT assets	3,075	8,887	7,094	7,234	7,414
Total assets	**37,352**	**37,144**	**40,274**	**42,326**	**43,993**
Short-term debt	9,477	2,149	1,899	1,649	1,399
Accounts payable	4,538	4,263	5,337	5,963	6,469
Other current liabilities	195	221	221	221	221
Total current liabilities	**14,211**	**6,634**	**7,458**	**7,834**	**8,090**
Long-term debt	10,546	10,173	9,173	8,673	8,173
Convertible debt					
Other LT liabilities	898	1,457	1,457	1,457	1,457
Total liabilities	**25,655**	**18,264**	**18,088**	**17,964**	**17,720**
Minority interest	481	696	1,062	1,564	2,150
Preferred stock					
Common stock	3,753	8,445	8,445	8,445	8,445
Retained earnings	7,463	9,739	12,679	14,353	15,679
Proposed dividends					
Other equity and reserves					
Total shareholders' equity	**11,217**	**18,184**	**21,124**	**22,798**	**24,124**
Total equity & liabilities	**37,352**	**37,144**	**40,274**	**42,326**	**43,993**
Liquidity (x)					
Current ratio	0.36	0.56	1.08	1.23	1.40
Interest cover	2.0	5.0	8.2	12.0	16.4
Leverage					
Net debt/EBITDA (x)	3.83	2.00	0.74	0.41	0.11
Net debt/equity (%)	148.8	56.7	25.2	14.0	3.9
Activity (days)					
Days receivable	39.4	43.2	43.2	47.6	48.3
Days inventory	8.9	5.8	3.4	3.1	2.8
Days payable	494.5	454.0	462.1	489.3	497.3
Cash cycle	(446.2)	(405.1)	(415.5)	(438.6)	(446.2)

Source: Nomura estimates

Bank Mandiri BMRI IJ

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BUY

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Action

Mandiri's proven management, sector-leading scale and robust operating ratios leave it best-positioned to leverage off Indonesia's steadily broadening macro-economic momentum. Targeted market share gains via a well-articulated second-phase transformation plan and a pending rights issue should sharply narrow the qualitative and hence valuation gap with premium-priced market leader BCA. BUY.

Catalysts

Execution of tax-reducing rights issue, loan growth from infrastructure financing and tangible market share gains in BCA-dominant high-ROA segments are catalysts.

Anchor themes

The pieces are in place for Indonesian banks to experience a sustained period of supernormal growth within an under-penetrated market, underpinned by mutually reinforcing supports of political stability, pro-growth policies and settled interest rate and FX outlooks. Loan growth, margin and ROE will continue to top regional peers'.

Closing price on 28 Dec	Rp6,450
Price target	**Rp6,800**
	(set on 15 Jun 10)
Upside/downside	5.4%
Difference from consensus	7.9%
FY11F net profit (Rpbn)	10,599
Difference from consensus	-3.2%

Source: Nomura

Nomura vs consensus

Changing loan book composition, marked by rapid growth in higher-margin but higher-cost micro and retail segments, could see upside to operating and credit cost forecasts.

Indonesia's banker

① Loan growth: choice infrastructure theme proxy

Substantially increased federal budget allocation and pending passing of a land-acquisition bill are stoking expectations infrastructure spend will kick-start in 2011; this will be executed primarily via state-owned enterprises for which a state bank like Mandiri, already having Rp9tn undrawn toll-road financing on its books, is a primary funding source. Mandiri also has the national infrastructure and branding to tap related positives for supply-chain and low- and middle-income job creation.

② Margins, liquidity: positive guidance

Management expects Mandiri to buck a declining margin trend for the broad sector on a combination of rising LDR (from low 70s currently into the 80s), progressive rebalancing of its loan book away from corporate into higher-margin retail and converging CASA deposit share (56%) with that of BCA (73%). Though Mandiri now has Rp26tn excess liquidity, further funding is being generated from a sell-down of the variable rate government bond portfolio (Rp82tn or 20% of assets).

③ Strategy: targeting broad market leadership

Ambitious growth (doubling capitalisation) and ROE (25%) targets have been planned for the second phase of Mandiri's transformation (to 2014). Leveraging a complete product platform and infrastructure, management aims to narrow profitability and valuation gaps with BCA by market share gains in high-ROA niches–eg, high-margin consumer finance, low-cost deposits and fee-generative transactional banking.

④ Capital: US$1.5bn rights issue in 1H11

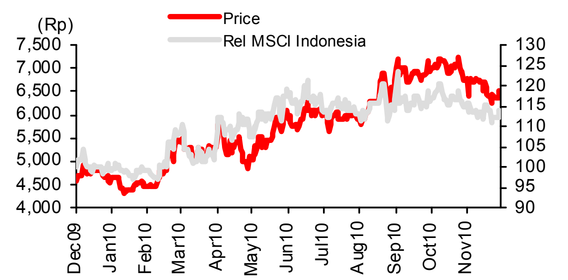
The Rp13tn-14tn rights issue should i) boost Mandiri's Tier-1 equity ratio to 15% (3Q: 9.9%), allowing it to support its annual loan growth target (18%-22%); and ii) allow access to the free float-linked tax benefit enjoyed by peers–eg, reduce its corporate tax rate to 20% from 25%.

Key financials & valuations

31 Dec (Rpbn)	FY09	FY10F	FY11F	FY12F
PPOP	12,431	14,098	16,030	18,132
Reported net profit	7,156	8,505	10,599	11,844
Normalised net profit	7,156	8,505	10,599	11,844
Normalised EPS (Rp)	340	405	476	502
Norm. EPS growth (%)	33.7	19.0	17.4	5.5
Norm. P/E (x)	18.9	15.9	14.4	12.8
Price/adj. book (x)	3.86	3.29	2.57	2.26
Price/book (x)	3.86	3.29	2.57	2.26
Dividend yield (%)	1.8	2.2	2.4	2.7
ROE (%)	21.8	22.3	21.1	18.7
ROA (%)	1.90	2.01	2.17	2.10
Earnings revisions				
Previous norm. net profit		8,505	10,599	11,844
Change from previous (%)		-	-	-
Previous norm. EPS (Rp)		405	476	502

Source: Company, Nomura estimates

Share price relative to MSCI Indonesia



	1m	3m	6m
Absolute (Rp)	(4.4)	(4.4)	5.7
Absolute (US$)	(4.6)	(5.2)	5.8
Relative to Index	(1.6)	(2.9)	(5.8)
Market cap (US$mn)			15,006
Estimated free float (%)			30.0
52-week range (Rp)			7,250/4,325
3-mth avg daily turnover (US$mn)			14.63
Stock borrowability			Hard
Major shareholders (%)			
Government of Indonesia			66.7

Source: Company, Nomura estimates

Financial statements

Profit and Loss (Rpbn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Interest income	27,336	32,599	35,483	40,685	46,806
Interest expense	(12,051)	(15,241)	(15,791)	(18,279)	(21,741)
Net interest income	**15,285**	**17,358**	**19,692**	**22,405**	**25,064**
Net fees and commissions	3,424	4,311	5,389	6,467	7,760
Trading related profits	(53)	179	60	56	109
Other operating revenue	1,230	1,173	1,290	1,419	1,561
Non-interest income	**4,601**	**5,663**	**6,739**	**7,942**	**9,430**
Operating income	**19,887**	**23,021**	**26,431**	**30,348**	**34,494**
Depreciation	(596)	(625)	(657)	(689)	(724)
Amortisation	-	-	-	-	-
Operating expenses	(8,784)	(9,966)	(11,676)	(13,628)	(15,639)
Employee share expense					
Op. profit before provisions	**10,507**	**12,431**	**14,098**	**16,030**	**18,132**
Provisions for bad debt	(2,595)	(1,996)	(2,500)	(2,400)	(3,000)
Other provision charges	-	-	-	-	-
Operating profit	**7,912**	**10,435**	**11,598**	**13,630**	**15,132**
Other non-operating income	156	390	200	210	221
Associates & JCEs	-	-	-	-	-
Pre-tax profit	**8,068**	**10,824**	**11,798**	**13,840**	**15,352**
Income tax	(2,753)	(3,626)	(3,216)	(3,140)	(3,378)
Net profit after tax	**5,315**	**7,199**	**8,583**	**10,700**	**11,975**
Minority interests	(2)	(43)	(77)	(101)	(131)
Other items	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Normalised NPAT	**5,313**	**7,156**	**8,505**	**10,599**	**11,844**
Extraordinary items	-	-	-	-	-
Reported NPAT	**5,313**	**7,156**	**8,505**	**10,599**	**11,844**
Dividends	(1,859)	(2,505)	(2,977)	(3,710)	(4,145)
Transfer to reserves	**3,453**	**4,651**	**5,528**	**6,889**	**7,698**

Does not factor in potential write-backs from written-off IDR1tn Garuda loan (to be repaid following pending IPO of the national airline)

Valuation and ratio analysis					
FD normalised P/E (x)	25.5	18.9	15.9	14.4	12.8
FD normalised P/E at price target (x)	26.9	20.0	16.8	15.1	13.5
Reported P/E (x)	25.3	18.9	15.9	13.6	12.8
Dividend yield (%)	1.4	1.8	2.2	2.4	2.7
Price/book (x)	4.4	3.9	3.3	2.6	2.3
Price/adjusted book (x)	4.4	3.9	3.3	2.6	2.3
Net interest margin (%)	4.94	5.04	5.07	4.99	4.80
Yield on interest earning assets (%)	8.84	9.46	9.13	9.06	8.96
Cost of interest bearing liabilities (%)	4.13	4.66	4.31	4.36	4.51
Net interest spread (%)	4.71	4.79	4.83	4.70	4.45
Non-interest/operating income (%)	23.1	24.6	25.5	26.2	27.3
Cost to income (%)	47.2	46.0	46.7	47.2	47.4
Effective tax rate (%)	34.1	33.5	27.3	22.7	22.0
Dividend payout (%)	35.0	35.0	35.0	35.0	35.0
ROE (%)	17.8	21.8	22.3	21.1	18.7
ROA (%)	1.57	1.90	2.01	2.17	2.10
Operating ROE (%)	26.5	31.8	30.4	27.2	23.9
Operating ROA (%)	2.34	2.77	2.75	2.79	2.68

Rising interest rates and gains in CASA capture would pose upside risk to margin outlook

Growth (%)					
Net interest income	19.5	13.6	13.4	13.8	11.9
Non-interest income	36.3	23.1	19.0	17.8	18.7
Non-interest expenses	15.2	13.4	17.2	16.7	14.8
Pre-provision earnings	32.1	18.3	13.4	13.7	13.1
Net profit	22.2	34.7	18.9	24.6	11.7
Normalised EPS	21.4	33.7	19.0	17.4	5.5
Normalised FDEPS	20.5	34.7	19.1	10.8	11.7

Source: Nomura estimates

Balance Sheet (Rpbn)					
As at 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash and equivalents	8,389	8,868	10,753	12,377	10,291
Inter-bank lending	58,731	64,230	70,653	83,831	92,215
Deposits with central bank	13,354	16,056	17,661	20,311	23,357
Total securities	91,583	96,767	101,730	107,061	111,158
Other interest earning assets	-	-	-	-	-
Gross loans	174,499	198,547	236,884	285,426	344,837
Less provisions	(11,860)	(12,452)	(13,000)	(12,000)	(12,000)
Net loans	**162,639**	**186,095**	**223,884**	**273,426**	**332,837**
Long-term investments	11,520	9,828	11,991	14,748	18,140
Fixed assets	4,601	4,961	5,011	5,061	5,111
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other non IEAs	7,622	7,812	8,615	9,506	10,493
Total assets	**358,439**	**394,617**	**450,298**	**526,323**	**603,603**
Customer deposits	289,112	319,550	366,630	421,517	487,346
Bank deposits, CDs, debentures	8,700	11,103	12,213	13,434	14,778
Other interest bearing liabilities	13,225	11,832	12,260	12,945	13,728
Total interest bearing liabilities	**311,037**	**342,486**	**391,103**	**447,897**	**515,852**
Non interest bearing liabilities	16,860	16,833	17,973	19,199	20,521
Total liabilities	**327,897**	**359,319**	**409,076**	**467,096**	**536,373**
Minority interest	28	189	112	11	(120)
Common stock	10,453	10,485	10,485	11,796	11,796
Preferred stock	-	-	-	-	-
Retained earnings	13,179	17,859	23,859	31,481	39,616
Proposed dividends	-	-	-	-	-
Other equity	6,882	6,765	6,765	15,938	15,938
Shareholders' equity	**30,514**	**35,109**	**41,110**	**59,216**	**67,350**
Total liabilities and equity	**358,439**	**394,617**	**450,298**	**526,323**	**603,603**
Non-performing assets (Rp)	*11,007*	*7,153*	*7,153*	*7,869*	*8,656*

Balance sheet ratios (%)					
Loans to deposits	60.4	62.1	64.6	67.7	70.8
Equity to assets	8.5	8.9	9.1	11.3	11.2
Asset quality & capital					
NPAs/gross loans (%)	6.3	3.6	3.0	2.8	2.5
Bad debt charge/gross loans (%)	1.49	1.01	1.06	0.84	0.87
Loss reserves/assets (%)	3.31	3.16	2.89	2.28	1.99
Loss reserves/NPAs (%)	107.8	174.1	181.7	152.5	138.6
Tier 1 capital ratio (%)	12.8	12.4	11.7	15.1	13.9
Total capital ratio (%)	15.7	15.4	14.4	17.6	16.3
Growth (%)					
Loan growth	29.6	14.4	20.3	22.1	21.7
Interest earning assets	11.8	11.3	14.0	17.1	15.5
Interest bearing liabilities	14.3	10.1	14.2	14.5	15.2
Asset growth	12.3	10.1	14.1	16.9	14.7
Deposit growth	16.9	10.5	14.7	15.0	15.6
Per share					
Reported EPS (Rp)	255	340	405	476	502
Norm EPS (Rp)	255	340	405	476	502
Fully diluted norm EPS (Rp)	253	340	406	449	502
DPS (Rp)	88	119	142	157	176
PPOP PS (Rp)	503	591	672	719	769
BVPS (Rp)	1,452	1,670	1,960	2,510	2,855
ABVPS (Rp)	1,452	1,670	1,960	2,510	2,855
NTAPS (Rp)	1,452	1,670	1,960	2,510	2,855

Source: Nomura estimates

Loan growth has upside risk should infrastructure-related credit demand pick-up

Reflects a 1-for-8 rights issue at IDR4,000 per share; allows Mandiri to take advantage of a lower effective tax rate (20%)

Perusahaan Gas Negara PGAS IJ

POWER & UTILITIES | INDONESIA

Maintained

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BUY

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Action

Wedged monopolistically between easing domestic and international LNG supply constraints and outstanding natural gas demand fundamentals within Indonesia, we view PGN as the an attractive mix of defensiveness and growth, with positioning to benefit from what promises to be a secular lift in domestic gas utilisation. We reiterate our BUY rating with a PT of Rp 5,100/share.

Catalysts

Robust demand led by power sector and industrial growth, and gas' cost advantage relative to other fuels; easing infrastructure constraints

Anchor themes

We are upbeat on the gas distribution sector, considering: 1) favourable government policies, 2) robust demand growth underpinned by the transition to clean and low-cost energy; 3) stable margins attributable to strong cost pass-through capability and 4) potential upside from the new energy initiatives.

Closing price on 28 Dec	Rp4,350
Price target	Rp5,100
	(set on 8 Nov 10)
Upside/downside	17.2%
Difference from consensus	5.8%
FY11F net profit (Rpbn)	7,397
Difference from consensus	na

Source: Nomura

Nomura vs consensus

Our earnings and valuations are broadly in line with consensus estimates.

Giving it gas?

① Positioned to benefit from secular lift in gas utilisation

With a 50% gas transmission market share and a virtual monopoly in distribution, and a tight grip on Indonesia's consumption centres, PGN has distinctive positioning to benefit from what we expect will be a marked lift in domestic gas penetration as Indonesia re-orientates its primary energy mix away from oil towards cheaper, abundant fuel sources such as coal and natural gas.

② Strong demand fundamentals

According to industry estimates, natural gas is targeted to account for 30% of Indonesia's primary energy mix by 2025, up from 19% currently. Given a significant cost advantage relative to competing non-coal fuel sources and robust economic growth prospects, we expect a sharp rise in domestic natural gas demand led at the margin by Indonesia's power sector and industrial consumers.

③ Supply constraints easing

We view PGN as key beneficiary of the looming regional LNG supply glut, which together with government's 25% domestic market obligation, the company's new 'cost-plus' pricing mandate and pending investments in LNG reception and regasification facilities is expected to sharply enhance PGN's ability to compete for both domestic and internationally sourced gas without sacrificing margin.

④ Maintain BUY; 12m PT of Rp5,100/share

We reiterate our BUY rating on PGN with an unchanged DCF-derived PT of Rp 5,100/share, suggesting 17% potential upside through price appreciation and a further 3.6% through yield. At a 17x DCF-implied PER (regional peers: 17x-25x), steady earnings growth prospects and unmatched ROEs, valuations appear undemanding.

Key financials & valuations

31 Dec (Rpbn)	FY09	FY10F	FY11F	FY12F
Revenue	18,024	19,095	21,066	21,973
Reported net profit	6,229	6,550	7,397	7,559
Normalised net profit	5,265	6,388	7,259	7,559
Normalised EPS (Rp)	221.4	268.6	305.2	317.8
Norm. EPS growth (%)	39.3	21.3	13.6	4.1
Norm. P/E (x)	19.6	16.2	14.3	13.7
EV/EBITDA (x)	11.8	9.9	8.6	8.0
Price/book (x)	8.8	6.8	5.4	4.5
Dividend yield (%)	3.0	3.2	3.6	3.7
ROE (%)	66.1	48.7	42.9	35.6
Net debt/equity (%)	38.3	6.5	net cash	net cash
Earnings revisions				
Previous norm. net profit		6,388	7,259	7,559
Change from previous (%)		-	-	-
Previous norm. EPS (Rp)		268.6	305.2	317.8

Source: Company, Nomura estimates

Share price relative to MSCI Indonesia

	1m	3m	6m
Absolute (Rp)	0.6	13.0	10.8
Absolute (US$)	0.5	12.2	11.0
Relative to Index	2.3	13.3	(1.9)
Market cap (US$mn)			11,695
Estimated free float (%)			43.1
52-week range (Rp)			4,600/3,250
3-mth avg daily turnover (US$mn)			16.88
Stock borrowability			Hard
Major shareholders (%)			
Government of Indonesia			56.9
Fidelity International			1.9

Source: Company, Nomura estimates

Financial statements

Income statement (Rpbn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Revenue	12,794	18,024	19,095	21,066	21,973
Cost of goods sold	(5,227)	(7,220)	(6,754)	(7,452)	(8,000)
Gross profit	**7,566**	**10,804**	**12,341**	**13,614**	**13,973**
SG&A	(2,909)	(3,128)	(3,276)	(3,525)	(3,693)
Employee share expense					
Operating profit	**4,657**	**7,676**	**9,065**	**10,089**	**10,280**
EBITDA	**6,370**	**9,297**	**10,729**	**11,903**	**12,226**
Depreciation	(1,712)	(1,621)	(1,664)	(1,814)	(1,947)
Amortisation	-	-	-	-	-
EBIT	**4,657**	**7,676**	**9,065**	**10,089**	**10,280**
Net interest expense	(488)	(398)	(223)	(96)	66
Associates & JCEs					
Other income	126	5	5	5	5
Earnings before tax	**4,295**	**7,283**	**8,848**	**9,999**	**10,351**
Income tax	(476)	(1,814)	(2,252)	(2,534)	(2,588)
Net profit after tax	**3,819**	**5,469**	**6,595**	**7,465**	**7,763**
Minority interests	(171)	(204)	(207)	(206)	(204)
Other items					
Preferred dividends					
Normalised NPAT	**3,647**	**5,265**	**6,388**	**7,259**	**7,559**
Extraordinary items	(3,014)	964	162	138	-
Reported NPAT	**634**	**6,229**	**6,550**	**7,397**	**7,559**
Dividends	(1,000)	(3,115)	(3,275)	(3,698)	(3,779)
Transfer to reserves	**(366)**	**3,115**	**3,275**	**3,698**	**3,779**
Valuation and ratio analysis					
FD normalised P/E (x)	28.9	19.6	16.2	14.3	13.7
FD normalised P/E at price target (x)	33.9	23.0	19.0	16.7	16.0
Reported P/E (x)	157.5	16.6	15.8	14.0	13.7
Dividend yield (%)	1.0	3.0	3.2	3.6	3.7
Price/cashflow (x)	27.5	16.6	11.6	10.6	10.2
Price/book (x)	14.1	8.8	6.8	5.4	4.5
EV/EBITDA (x)	18.0	11.8	9.9	8.6	8.0
EV/EBIT (x)	24.6	14.3	11.7	10.1	9.5
Gross margin (%)	59.1	59.9	64.6	64.6	63.6
EBITDA margin (%)	49.8	51.6	56.2	56.5	55.6
EBIT margin (%)	36.4	42.6	47.5	47.9	46.8
Net margin (%)	5.0	34.6	34.3	35.1	34.4
Effective tax rate (%)	11.1	24.9	25.5	25.3	25.0
Dividend payout (%)	157.8	50.0	50.0	50.0	50.0
Capex to sales (%)	10.6	10.0	11.9	10.5	8.0
Capex to depreciation (x)	0.8	1.1	1.4	1.2	0.9
ROE (%)	9.6	66.1	48.7	42.9	35.6
ROA (pretax %)	22.6	34.8	40.4	43.6	43.9
Growth (%)					
Revenue	45.4	40.9	5.9	10.3	4.3
EBITDA	55.6	46.0	15.4	10.9	2.7
EBIT	51.1	64.8	18.1	11.3	1.9
Normalised EPS	70.0	39.3	21.3	13.6	4.1
Normalised FDEPS	70.3	47.1	21.3	13.6	4.1
Per share					
Reported EPS (Rp)	28	262	275	311	318
Norm EPS (Rp)	159	221	269	305	318
Fully diluted norm EPS (Rp)	151	221	269	305	318
Book value per share (Rp)	309	493	638	811	973
DPS (Rp)	44	131	138	156	159

Source: Nomura estimates

PGN's 3.7% forward yield looks comfortably sustainable at a 50% payout ratio

Very attractive return metrics despite under-leveraged balance sheet

Healthy earnings growth prospects, with upside risks should PGN secure supply for its two planned LNG reception terminals

Cashflow (Rpbn)					
Year-end 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
EBITDA	6,370	9,297	10,729	11,903	12,226
Change in working capital	459	(1,118)	407	387	497
Other operating cashflow	(3,197)	(1,930)	(2,247)	(2,529)	(2,582)
Cashflow from operations	**3,632**	**6,248**	**8,888**	**9,761**	**10,141**
Capital expenditure	(1,353)	(1,799)	(2,278)	(2,205)	(1,764)
Free cashflow	**2,279**	**4,449**	**6,611**	**7,556**	**8,377**
Reduction in investments	121	(24)	-	-	-
Net acquisitions					
Reduction in other LT assets					
Addition in other LT liabilities					
Adjustments	147	704	246	326	420
Cashflow after investing acts	**2,547**	**5,129**	**6,857**	**7,882**	**8,797**
Cash dividends	(786)	(1,242)	(3,115)	(3,275)	(3,698)
Equity issue	562	-	-	-	-
Debt issue	(318)	(52)	(931)	(1,503)	(1,510)
Convertible debt issue					
Others	262	(741)	(469)	(422)	(354)
Cashflow from financial acts	**(279)**	**(2,035)**	**(4,514)**	**(5,199)**	**(5,562)**
Net cashflow	**2,268**	**3,093**	**2,343**	**2,682**	**3,235**
Beginning cash	1,232	3,500	6,593	8,936	11,619
Ending cash	3,500	6,593	8,936	11,619	14,853
Ending net debt	9,276	4,490	985	(3,339)	(8,083)

Source: Nomura estimates

Strong FCFF profile to support investment, dividends

Balance sheet (Rpbn)					
As at 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
Cash & equivalents	3,500	6,593	8,936	11,619	14,853
Marketable securities	14	37	37	37	37
Accounts receivable	1,589	1,650	1,736	1,904	1,973
Inventories	15	14	15	17	17
Other current assets	80	969	1,016	1,102	1,141
Total current assets	**5,197**	**9,263**	**11,740**	**14,678**	**18,021**
LT investments					
Fixed assets	17,613	17,329	17,943	18,334	18,152
Goodwill					
Other intangible assets					
Other LT assets	2,740	2,078	2,078	2,078	2,078
Total assets	**25,551**	**28,670**	**31,761**	**35,090**	**38,251**
Short-term debt	512	1,112	1,503	1,510	432
Accounts payable	699	828	878	968	1,010
Other current liabilities	2,087	1,790	2,281	2,833	3,397
Total current liabilities	**3,298**	**3,730**	**4,661**	**5,311**	**4,838**
Long-term debt	12,264	9,972	8,418	6,770	6,338
Convertible debt					
Other LT liabilities	1,919	2,191	2,261	2,261	2,261
Total liabilities	**17,480**	**15,893**	**15,340**	**14,342**	**13,438**
Minority interest	967	1,046	1,253	1,459	1,663
Preferred stock					
Common stock	2,297	2,424	2,424	2,424	2,424
Retained earnings	4,779	9,308	12,743	16,865	20,725
Proposed dividends					
Other equity and reserves	28	-	-	-	-
Total shareholders' equity	**7,103**	**11,732**	**15,167**	**19,289**	**23,150**
Total equity & liabilities	**25,551**	**28,670**	**31,761**	**35,090**	**38,251**
Liquidity (x)					
Current ratio	1.58	2.48	2.52	2.76	3.72
Interest cover	9.5	19.3	40.7	105.5	na
Leverage					
Net debt/EBITDA (x)	1.46	0.48	0.09	net cash	net cash
Net debt/equity (%)	130.6	38.3	6.5	net cash	net cash
Activity (days)					
Days receivable	38.7	32.8	32.4	31.5	32.3
Days inventory	1.2	0.7	0.8	0.8	0.8
Days payable	73.2	38.6	46.1	45.2	45.2
Cash cycle	(33.3)	(5.1)	(12.9)	(12.9)	(12.2)

Source: Nomura estimates

We expect the PGN to be cash positive by end FY11F

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Closing price on 28 Dec	Rp12,350
Price target	Rp14,650
	(set on 15 Dec 10)
Upside/downside	18.6%
Difference from consensus	6.9%
FY11F net profit (Rpmn)	1,305,315
Difference from consensus	8.9%

Source: Nomura

Action

We are bullish on palm oil prices in 2011F. Lonsum is likely to be a key beneficiary of strong soft commodity prices (palm oil, rubber), given its pure exposure to upstream agriculture. We think valuation at 12x FY11F P/E (the lowest among our coverage) is reasonable for a stable planter with a strong balance sheet, decent growth and healthy sustainability practices. We reiterate our BUY call.

Catalysts

Sustained high CPO prices, a pick-up in FFB yields and an improving overall outlook for commodities could help sustain a further re-rating of the sector.

Anchor themes

A tighter global vegetable oils outlook, a stronger crude oil price and a weaker US dollar point to higher CPO prices for next year – a key driver for upstream earnings and valuations.

Nomura vs consensus

We are above consensus, mainly on our more bullish palm oil and rubber price assumptions.

Attractively valued planter

① Pure upstream exposure at a reasonable value

Lonsum is one of the few mid/large-cap planters with pure upstream exposure (albeit with rubber and seeds). Our bullish view on palm oil prices for next year (+14% y-y), coupled with better CPO production (+8% y-y), underpins strong EPS growth of 41% y-y for FY11F. Strong rubber prices (+67% y-y) and better seed sales (+360% YTD), which we estimate will each contribute more than 20% of FY11F EBIT, also support our positive outlook. Valuation of 12.0x FY11F P/E is the lowest among our coverage, and we believe Lonsum could see further re-rating if CPO prices continue to show strength.

② Bullish on CPO prices, current prices imply more upside

We are bullish on upstream palm oil given our stronger-than-consensus expectations for CPO prices in 2011F. We think tighter supply/demand fundamentals for the vegetable oil complex, higher crude oil prices and strong fund flows into commodities will support strong CPO prices at least through 1H11F. Current CPO prices of above RM3,700/tonne are 23% above our 2011F assumptions. If sustained, this could push our PT up by 31% to Rp19,200, or 55% potential upside in this case.

③ Long heritage and best sustainable practices

Lonsum is one of the oldest agri-companies in the region, with a history spanning more than 100 years. It is a well-respected planter, and with a net cash balance sheet and strong cashflows, it remains one of the stronger players in this space. It is also the largest producer of certified sustainable palm oil among the listed Indonesian planters – a positive, in our view.

④ Maintain BUY, CPO price and production key risk

We maintain BUY, valuing the shares at a P/E of 15.3x FY11F EPS (+0.9SD above its mean, which we believe is fair in the current up-cycle). Downside risks include lower-than-expected CPO prices, weaker production and slower-than-expected planting.

Key financials & valuations

31 Dec (Rpmn)	FY09	FY10F	FY11F	FY12F
Revenue	3,199,687	3,539,120	4,230,923	4,595,629
Reported net profit	707,487	923,687	1,305,315	1,456,862
Normalised net profit	707,487	923,687	1,305,315	1,456,862
Normalised EPS (Rp)	518	677	957	1,068
Norm. EPS growth (%)	(23.7)	30.6	41.3	11.6
Norm. P/E (x)	23.8	18.2	12.9	11.6
EV/EBITDA (x)	14.0	11.3	8.6	7.6
Price/book (x)	4.4	3.9	3.3	2.9
Dividend yield (%)	1.7	2.2	3.5	4.3
ROE (%)	20.2	22.6	27.6	26.7
Net debt/equity (%)	net cash	net cash	net cash	net cash
Earnings revisions				
Previous norm. net profit		923,687	1,305,315	1,456,862
Change from previous (%)		-	-	-
Previous norm. EPS (Rp)		677	957	1,068

Source: Company, Nomura estimates

Share price relative to MSCI Indonesia

	1m	3m	6m
Absolute (Rp)	5.6	24.1	45.3
Absolute (US$)	5.4	23.1	45.3
Relative to Index	8.4	25.4	33.8
Market cap (US$mn)			1,867
Estimated free float (%)			40.5
52-week range (Rp)			12,750/7,400
3-mth avg daily turnover (US$mn)			3.00
Stock borrowability			Hard
Major shareholders (%)			
Indofood Agri Resources			59.5

Source: Company, Nomura estimates

Financial statements

Income statement (Rpmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Revenue	3,846,154	3,199,687	3,539,120	4,230,923	4,595,629
Cost of goods sold	(1,985,379)	(1,809,194)	(1,887,466)	(2,232,001)	(2,407,632)
Gross profit	**1,860,775**	**1,390,493**	**1,651,654**	**1,998,922**	**2,187,997**
SG&A	(546,359)	(371,842)	(411,805)	(381,969)	(398,754)
Employee share expense					
Operating profit	**1,314,416**	**1,018,651**	**1,239,849**	**1,616,954**	**1,789,243**
EBITDA	**1,436,530**	**1,171,436**	**1,419,861**	**1,822,626**	**2,018,500**
Depreciation	(122,114)	(152,785)	(180,012)	(205,672)	(229,257)
Amortisation					
EBIT	**1,314,416**	**1,018,651**	**1,239,849**	**1,616,954**	**1,789,243**
Net interest expense	(22,158)	(34,292)	11,734	34,690	51,835
Associates & JCEs					
Other income	34,458	23,780	(20,000)	(20,000)	(20,000)
Earnings before tax	**1,326,716**	**1,008,139**	**1,231,583**	**1,631,643**	**1,821,078**
Income tax	(399,161)	(300,652)	(307,896)	(326,329)	(364,216)
Net profit after tax	**927,555**	**707,487**	**923,687**	**1,305,315**	**1,456,862**
Minority interests					
Other items					
Preferred dividends					
Normalised NPAT	**927,555**	**707,487**	**923,687**	**1,305,315**	**1,456,862**
Extraordinary items	-	-	-	-	-
Reported NPAT	**927,555**	**707,487**	**923,687**	**1,305,315**	**1,456,862**
Dividends	(283,831)	(285,196)	(369,475)	(587,392)	(728,431)
Transfer to reserves	**643,724**	**422,291**	**554,212**	**717,923**	**728,431**
Valuation and ratio analysis					
FD normalised P/E (x)	18.2	23.8	18.2	12.9	11.6
FD normalised P/E at price target (x)	21.6	28.3	21.6	15.3	13.7
Reported P/E (x)	18.2	23.8	18.2	12.9	11.6
Dividend yield (%)	1.7	1.7	2.2	3.5	4.3
Price/cashflow (x)	11.5	22.4	11.7	9.7	9.2
Price/book (x)	5.3	4.4	3.9	3.3	2.9
EV/EBITDA (x)	11.7	14.0	11.3	8.6	7.6
EV/EBIT (x)	12.8	16.1	13.0	9.7	8.6
Gross margin (%)	48.4	43.5	46.7	47.2	47.6
EBITDA margin (%)	37.3	36.6	40.1	43.1	43.9
EBIT margin (%)	34.2	31.8	35.0	38.2	38.9
Net margin (%)	24.1	22.1	26.1	30.9	31.7
Effective tax rate (%)	30.1	29.8	25.0	20.0	20.0
Dividend payout (%)	30.6	40.3	40.0	45.0	50.0
Capex to sales (%)	15.0	14.7	11.3	15.4	14.1
Capex to depreciation (x)	4.7	3.1	2.2	3.2	2.8
ROE (%)	33.7	20.2	22.6	27.6	26.7
ROA (pretax %)	36.1	25.3	29.0	35.0	35.3
Growth (%)					
Revenue	32.6	(16.8)	10.6	19.5	8.6
EBITDA	31.4	(18.5)	21.2	28.4	10.7
EBIT	32.6	(22.5)	21.7	30.4	10.7
Normalised EPS	32.0	(23.7)	30.6	41.3	11.6
Normalised FDEPS	32.0	(23.7)	30.6	41.3	11.6
Per share					
Reported EPS (Rp)	680	518	677	957	1,068
Norm EPS (Rp)	680	518	677	957	1,068
Fully diluted norm EPS (Rp)	680	518	677	957	1,068
Book value per share (Rp)	2,343	2,795	3,201	3,727	4,261
DPS (Rp)	208	209	271	430	534

Source: Nomura estimates

Strong earnings growth, mainly from higher upstream commodity prices

Cashflow (Rpmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
EBITDA	1,436,530	1,171,436	1,419,861	1,822,626	2,018,500
Change in working capital	31,067	42,906	(23,984)	65,035	(12,559)
Other operating cashflow	(3,599)	(463,326)	40,565	(144,380)	(165,124)
Cashflow from operations	**1,463,998**	**751,016**	**1,436,442**	**1,743,281**	**1,840,817**
Capital expenditure	(578,177)	(469,746)	(400,000)	(650,000)	(650,000)
Free cashflow	**885,821**	**281,270**	**1,036,442**	**1,093,281**	**1,190,817**
Reduction in investments	-	-	-	-	-
Net acquisitions	95,764	(12,200)	(311,729)	(122,261)	(122,261)
Reduction in other LT assets	(196,013)	29,587	2,827	516	490
Addition in other LT liabilities	13,951	57,508	16,104	16,909	17,754
Adjustments					
Cashflow after investing acts	**799,523**	**356,165**	**743,644**	**988,444**	**1,086,800**
Cash dividends	(283,831)	(285,196)	(369,475)	(587,392)	(728,431)
Equity issue	-	-	-	-	-
Debt issue	6,345	(712,718)	13,278	(157,644)	6,380
Convertible debt issue					
Others	(46,052)	289,654	(29,999)	(29,998)	(29,997)
Cashflow from financial acts	**(323,538)**	**(708,260)**	**(386,196)**	**(775,034)**	**(752,048)**
Net cashflow	**475,985**	**(352,095)**	**357,448**	**213,411**	**334,752**
Beginning cash	558,359	1,034,344	682,249	1,039,697	1,253,108
Ending cash	1,034,344	682,249	1,039,697	1,253,108	1,587,860
Ending net debt	(86,626)	(447,249)	(791,419)	(1,162,474)	(1,490,846)

Source: Nomura estimates

Balance sheet (Rpmn)					
As at 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash & equivalents	1,034,344	682,249	1,039,697	1,253,108	1,587,860
Marketable securities	-	-	-	-	-
Accounts receivable	99,207	65,018	71,915	85,973	93,384
Inventories	213,719	192,133	200,445	237,034	255,686
Other current assets	52,540	24,962	13,702	16,381	17,793
Total current assets	**1,399,810**	**964,362**	**1,325,759**	**1,592,495**	**1,954,722**
LT investments					
Fixed assets	3,173,454	3,559,238	3,764,227	4,193,555	4,599,301
Goodwill					
Other intangible assets					
Other LT assets	358,264	328,677	325,850	325,334	324,844
Total assets	**4,931,528**	**4,852,277**	**5,415,837**	**6,111,384**	**6,878,867**
Short-term debt	330,919	204,450	214,673	53,668	56,352
Accounts payable	103,743	59,717	62,250	73,583	79,360
Other current liabilities	418,443	422,022	399,455	506,482	515,621
Total current liabilities	**853,105**	**686,189**	**676,377**	**633,733**	**651,332**
Long-term debt	616,799	30,550	33,605	36,966	40,662
Convertible debt					
Other LT liabilities	264,565	322,073	338,177	355,085	372,840
Total liabilities	**1,734,469**	**1,038,812**	**1,048,159**	**1,025,784**	**1,064,834**
Minority interest	-	-	-	-	-
Preferred stock					
Common stock	682,286	682,286	682,286	682,286	682,286
Retained earnings	1,612,185	2,070,867	2,625,079	3,343,002	4,071,433
Proposed dividends					
Other equity and reserves	902,588	1,060,312	1,060,312	1,060,312	1,060,313
Total shareholders' equity	**3,197,059**	**3,813,465**	**4,367,678**	**5,085,601**	**5,814,033**
Total equity & liabilities	**4,931,528**	**4,852,277**	**5,415,837**	**6,111,384**	**6,878,867**
Liquidity (x)					
Current ratio	1.64	1.41	1.96	2.51	3.00
Interest cover	59.3	29.7	na	na	na
Leverage					
Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Activity (days)					
Days receivable	7.7	9.4	7.1	6.8	7.1
Days inventory	40.5	40.9	38.0	35.8	37.5
Days payable	15.4	16.5	11.8	11.1	11.6
Cash cycle	32.8	33.8	33.2	31.5	33.0

Source: Nomura estimates

Strong balance sheet and good cashflow implies upside risks to dividend payout

Indosat ISAT IJ

TELECOMS | INDONESIA

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Maintained

BUY

Action

For the past 12 months, Indosat has been undertaking initiatives to align and re-align its processes, networks, and systems better to boost its market share and improve its returns profile. In 9M10, it maintained an average revenue and EBITDA share of 20% and 21%, respectively, which is promising but is below its historical levels. We expect further improvement throughout FY11F. There is some risk of price-wars emerging in the near term – led by the incumbent, which could create some volatility – but we think Indosat is better positioned to defend and win. BUY.

Catalysts

Positive catalysts include strong operational trends, revenue share gains and further cost cuts. Negatives could be another round of price war.

Anchor themes

Relatively low penetration, limited near-term regulatory risks and rational competition provide a relatively positive outlook for Indonesian telcos.

Closing price on 28 Dec	Rp5,150
Price target	**Rp7,000**
	(set on 1 Nov 10)
Upside/downside	35.9%
Difference from consensus	19.5%
FY11F net profit (Rpbn)	1,169
Difference from consensus	-20.6%

Source: Nomura

Nomura vs consensus

Our above-consensus price target is driven by expectation of a possible turnaround on more stable subscribers.

Good operational momentum, now to cost-cuts

① Gaining further market/revenue share

We remain optimistic on Indosat's ability to further improve its operational performance in terms of revenue share and also reduce costs further to improve its EBITDA share and returns profile – its current ROIC is extraordinarily low at 5% on our estimates. We understand management's ongoing focus is still very much on network and operational improvements, but this year, it will also likely to address its costs more closely, which could provide earnings surprises. We estimate 48% margins for FY10-11F. Further cost savings are likely to come from energy costs (on base stations), media placements, network maintenance and employee costs.

② Positive FCF – another year away?

Indosat is still modernising and rationalising its networks – leading to better capex terms and discounts. The company will, however, need to improve its coverage in all key islands, hence we do not anticipate a major decline in capex in the coming year (our forecast for cash capex is US$950mn). Despite this, we think the company will still likely turn FCF positive in FY11F.

③ FY11F guidance could provide margin surprises

Despite some pick-up in competitive intensity in 4Q10, we think the company will likely achieve its FY10F guidance of 16-17% wireless revenue growth with 48-49% EBITDA margins. Moreover, the focus at the upcoming result will be its FY11F guidance where high-single digit revenue growth y-y and improvement in margins is likely. We maintain a BUY – the stock looks inexpensive at 14.2x FY11F P/E with average FY10-12F EPS growth of 25%.

Key financials & valuations

31 Dec (Rpbn)	FY09	FY10F	FY11F	FY12F
Revenue	18,393	20,214	22,361	24,184
Reported net profit	1,498	730	1,169	1,892
Normalised net profit	1,069	1,530	1,969	2,392
Normalised EPS (Rp)	196.8	281.5	362.3	440.2
Norm. EPS growth (%)	(56.2)	43.0	28.7	21.5
Norm. P/E (x)	26.2	18.3	14.2	11.7
EV/EBITDA (x)	5.7	5.5	5.0	4.5
Price/book (x)	1.6	1.6	1.5	1.4
Dividend yield (%)	3.4	2.7	1.6	2.5
ROE (%)	8.5	4.1	6.4	9.8
Net debt/equity (%)	126.1	144.3	139.9	121.8
Earnings revisions				
Previous norm. net profit		1,530	1,969	2,392
Change from previous (%)		-	-	-
Previous norm. EPS (Rp)		281.5	362.3	440.2

Source: Company, Nomura estimates

Share price relative to MSCI Indonesia

	1m	3m	6m
Absolute (Rp)	(6.4)	(5.5)	3.0
Absolute (US$)	(6.5)	(6.3)	3.0
Relative to Index	(3.5)	(4.0)	(8.5)
Market cap (US$mn)			3,101
Estimated free float (%)			20.8
52-week range (Rp)			6,300/4,400
3-mth avg daily turnover (US$mn)			1.82
Stock borrowability			Hard
Major shareholders (%)			
Indonesia Comm. Ltd			65.0
Govt. of Indonesia			14.3

Source: Company, Nomura estimates

Financial statements

Income statement (Rpbn)					
Year-end 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
Revenue	18,658	18,393	20,214	22,361	24,184
Cost of goods sold	(6,075)	(6,657)	(7,176)	(7,983)	(8,634)
Gross profit	**12,583**	**11,736**	**13,038**	**14,378**	**15,550**
SG&A	(8,078)	(8,759)	(10,121)	(10,681)	(10,884)
Employee share expense	-	-	-	-	-
Operating profit	**4,505**	**2,978**	**2,917**	**3,698**	**4,667**
EBITDA	**9,288**	**8,774**	**9,713**	**10,733**	**11,524**
Depreciation	(4,556)	(5,561)	(6,500)	(6,740)	(6,562)
Amortisation	(227)	(235)	(295)	(295)	(295)
EBIT	**4,505**	**2,978**	**2,917**	**3,698**	**4,667**
Net interest expense	(1,398)	(1,734)	(1,869)	(2,064)	(2,068)
Associates & JCEs	-	-	-	-	-
Other income	(783)	988	-	-	-
Earnings before tax	**2,324**	**2,232**	**1,048**	**1,634**	**2,598**
Income tax	(420)	(677)	(262)	(408)	(650)
Net profit after tax	**1,904**	**1,555**	**786**	**1,225**	**1,949**
Minority interests	(27)	(56)	(56)	(56)	(56)
Other items	564	(429)	800	800	500
Preferred dividends	-	-	-	-	-
Normalised NPAT	**2,442**	**1,069**	**1,530**	**1,969**	**2,392**
Extraordinary items	(564)	429	(800)	(800)	(500)
Reported NPAT	**1,878**	**1,498**	**730**	**1,169**	**1,892**
Dividends	(1,021)	(939)	(749)	(438)	(701)
Transfer to reserves	**857**	**559**	**(19)**	**731**	**1,191**
Valuation and ratio analysis					
FD normalised P/E (x)	11.5	26.2	18.3	14.2	11.7
FD normalised P/E at price target (x)	15.6	35.6	24.9	19.3	15.9
Reported P/E (x)	14.9	18.7	38.3	23.9	14.8
Dividend yield (%)	3.6	3.4	2.7	1.6	2.5
Price/cashflow (x)	4.3	6.9	4.0	3.2	3.0
Price/book (x)	1.6	1.6	1.6	1.5	1.4
EV/EBITDA (x)	4.8	5.7	5.5	5.0	4.5
EV/EBIT (x)	9.8	16.9	18.4	14.6	11.2
Gross margin (%)	67.4	63.8	64.5	64.3	64.3
EBITDA margin (%)	49.8	47.7	48.1	48.0	47.7
EBIT margin (%)	24.1	16.2	14.4	16.5	19.3
Net margin (%)	10.1	8.1	3.6	5.2	7.8
Effective tax rate (%)	18.1	30.3	25.0	25.0	25.0
Dividend payout (%)	54.4	62.7	102.7	37.5	37.1
Capex to sales (%)	55.2	58.1	46.8	38.5	28.1
Capex to depreciation (x)	2.3	1.9	1.5	1.3	1.0
ROE (%)	11.1	8.5	4.1	6.4	9.8
ROA (pretax %)	10.8	6.1	5.4	6.6	8.2
Growth (%)					
Revenue	15.0	(1.4)	9.9	10.6	8.2
EBITDA	9.9	(5.5)	10.7	10.5	7.4
EBIT	11.8	(33.9)	(2.0)	26.8	26.2
Normalised EPS	55.1	(56.2)	43.0	28.7	21.5
Normalised FDEPS	55.1	(56.2)	43.0	28.7	21.5
Per share					
Reported EPS (Rp)	346	276	134	215	348
Norm EPS (Rp)	449	197	282	362	440
Fully diluted norm EPS (Rp)	449	197	282	362	440
Book value per share (Rp)	3,204	3,305	3,301	3,436	3,655
DPS (Rp)	188	173	138	81	129

Source: Nomura estimates

We expect a pick-up in revenue

We expect more prudent capital deployment

Cashflow (Rpbn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
EBITDA	9,288	8,774	9,713	10,733	11,524
Change in working capital	(471)	(1,609)	372	556	616
Other operating cashflow	(2,304)	(3,114)	(3,131)	(2,472)	(2,718)
Cashflow from operations	**6,513**	**4,051**	**6,954**	**8,817**	**9,421**
Capital expenditure	(10,308)	(10,685)	(9,450)	(8,618)	(6,793)
Free cashflow	**(3,795)**	**(6,633)**	**(2,496)**	**198**	**2,628**
Reduction in investments	(199)	(264)	-	-	-
Net acquisitions	-	-	-	-	-
Reduction in other LT assets	-	-	-	-	-
Addition in other LT liabilities	-	-	-	-	-
Adjustments	220	278	7	-	-
Cashflow after investing acts	**(3,774)**	**(6,619)**	**(2,489)**	**198**	**2,628**
Cash dividends	(1,021)	(939)	(749)	(438)	(701)
Equity issue	-	-	-	-	-
Debt issue	2,442	3,000	2,500	600	-
Convertible debt issue	-	-	-	-	-
Others	38	1,664	-	-	-
Cashflow from financial acts	**1,458**	**3,725**	**1,751**	**162**	**(701)**
Net cashflow	**(2,315)**	**(2,895)**	**(739)**	**360**	**1,927**
Beginning cash	8,053	5,738	2,836	2,097	2,458
Ending cash	5,738	2,843	2,097	2,458	4,385
Ending net debt	16,019	22,638	25,877	26,117	24,190

Source: Nomura estimates

Balance sheet (Rpbn)					
As at 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash & equivalents	5,738	2,836	2,097	2,458	4,385
Marketable securities	-	-	-	-	-
Accounts receivable	1,358	1,950	2,143	2,371	2,564
Inventories	242	112	121	135	146
Other current assets	2,354	2,241	2,241	2,241	2,241
Total current assets	**9,692**	**7,140**	**6,603**	**7,204**	**9,336**
LT investments	202	466	466	466	466
Fixed assets	38,394	44,429	46,630	47,757	48,378
Goodwill	1,833	1,580	1,285	989	694
Other intangible assets	753	825	793	761	729
Other LT assets	819	602	1,602	1,602	1,602
Total assets	**51,693**	**55,041**	**57,379**	**58,780**	**61,204**
Short-term debt	629	4,281	4,281	4,281	4,281
Accounts payable	609	537	579	645	697
Other current liabilities	9,438	8,250	8,781	9,513	10,280
Total current liabilities	**10,675**	**13,068**	**13,642**	**14,439**	**15,258**
Long-term debt	21,128	21,193	23,693	24,293	24,293
Convertible debt	-	-	-	-	-
Other LT liabilities	2,192	2,492	1,718	935	1,292
Total liabilities	**33,995**	**36,753**	**39,053**	**39,667**	**40,844**
Minority interest	289	331	387	444	500
Preferred stock	-	-	-	-	-
Common stock	543	543	543	543	543
Retained earnings	16,866	17,414	17,395	18,126	19,317
Proposed dividends	-	-	-	-	-
Other equity and reserves	-	-	-	-	-
Total shareholders' equity	**17,410**	**17,958**	**17,938**	**18,669**	**19,860**
Total equity & liabilities	**51,693**	**55,041**	**57,379**	**58,780**	**61,204**
Liquidity (x)					
Current ratio	0.91	0.55	0.48	0.50	0.61
Interest cover	3.2	1.7	1.6	1.8	2.3
Leverage					
Net debt/EBITDA (x)	1.72	2.58	2.66	2.43	2.10
Net debt/equity (%)	92.0	126.1	144.3	139.9	121.8
Activity (days)					
Days receivable	23.6	32.8	37.0	36.8	37.3
Days inventory	12.2	9.7	5.9	5.8	5.9
Days payable	31.8	31.4	28.4	28.0	28.4
Cash cycle	4.0	11.1	14.5	14.7	14.8

Source: Nomura estimates

Other Team Members:

Manjith Nair, Tushar Mohata, Neeraja Natarajan and Pankaj Suri (Associates) — All enquiries arising from this note should be directed to Jit Soon Lim.

Analyst Certification

We, Jit Soon Lim, Anthony Darwell, Wai Kee Choong, Julian Chua, Yuan Yiu Tsai, Nishit Jalan, Daniel Raats, Ivan Lee, Jacinda Loh, Ken Wong, B. Roshan Raj, Sachin Gupta and Sean Darby, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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Explanation of Nomura's equity research rating system in Europe, Middle East and Africa, US and Latin America for ratings published from 27 October 2008

The rating system is a relative system indicating expected performance against a specific benchmark identified for each individual stock. Analysts may also indicate absolute upside to price target defined as (fair value - current price)/current price, subject to limited management discretion. In most cases, the fair value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as discounted cash flow or multiple analysis, etc.

STOCKS
A rating of **'Buy'**, indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months.
A rating of **'Neutral'**, indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months.
A rating of **'Reduce'**, indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months.
A rating of **'Suspended'**, indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the company.
Benchmarks are as follows: **United States/Europe**: Please see valuation methodologies for explanations of relevant benchmarks for stocks (accessible through the left hand side of the Nomura Disclosure web page: http://www.nomura.com/research);**Global Emerging Markets (ex-Asia):** MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology.

SECTORS
A **'Bullish'** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months.
A **'Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months.
A **'Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months.
Benchmarks are as follows: **United States**: S&P 500; **Europe**: Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia.

Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Price Target - Current Price) / Current Price, subject to limited management discretion. In most cases, the Price Target will equal the analyst's 12-month intrinsic valuation of the stock, based on an appropriate valuation methodology such as discounted cash flow, multiple analysis, etc.
A **'Buy'** recommendation indicates that potential upside is 15% or more.
A **'Neutral'** recommendation indicates that potential upside is less than 15% or downside is less than 5%.
A **'Reduce'** recommendation indicates that potential downside is 5% or more.
A rating of '**Suspended'** indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the subject company.
Securities and/or companies that are labelled as '**Not rated'** or shown as '**No rating'** are not in regular research coverage of the Nomura entity identified in the top banner. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies.

SECTORS

A **'Bullish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.
A **'Neutral'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.
A **'Bearish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009 (and ratings in Europe, Middle East and Africa, US and Latin America published prior to 27 October 2008)

STOCKS

A rating of '1' or '**Strong buy'**, indicates that the analyst expects the stock to outperform the Benchmark by 15% or more over the next six months.
A rating of '2' or '**Buy'**, indicates that the analyst expects the stock to outperform the Benchmark by 5% or more but less than 15% over the next six months.
A rating of '3' or '**Neutral'**, indicates that the analyst expects the stock to either outperform or underperform the Benchmark by less than 5% over the next six months.
A rating of '4' or '**Reduce'**, indicates that the analyst expects the stock to underperform the Benchmark by 5% or more but less than 15% over the next six months.
A rating of '5' or '**Sell'**, indicates that the analyst expects the stock to underperform the Benchmark by 15% or more over the next six months.
Stocks labeled '**Not rated'** or shown as '**No rating'** are not in Nomura's regular research coverage. Nomura might not publish additional research reports concerning this company, and it undertakes no obligation to update the analysis, estimates, projections, conclusions or other information contained herein.

SECTORS

A **'Bullish'** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next six months.
A **'Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next six months.
A **'Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next six months.
Benchmarks are as follows: **Japan**: TOPIX; **United States**: S&P 500, MSCI World Technology Hardware & Equipment; **Europe**, by sector - *Hardware/Semiconductors*: FTSE W Europe IT Hardware; *Telecoms*: FTSE W Europe Business Services; *Business Services*: FTSE W Europe; *Auto & Components*: FTSE W Europe Auto & Parts; *Communications equipment*: FTSE W Europe IT Hardware; **Ecology Focus**: Bloomberg World Energy Alternate Sources; **Global Emerging Markets**: MSCI Emerging Markets ex-Asia.

Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Fair Value - Current Price)/Current Price, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value. Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.
A **'Strong buy'** recommendation indicates that upside is more than 20%.
A **'Buy'** recommendation indicates that upside is between 10% and 20%.
A **'Neutral'** recommendation indicates that upside or downside is less than 10%.
A **'Reduce'** recommendation indicates that downside is between 10% and 20%.
A **'Sell'** recommendation indicates that downside is more than 20%.

SECTORS

A **'Bullish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.
A **'Neutral'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.
A **'Bearish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

Price targets

Price targets, if discussed, reflect in part the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.

Disclaimers

Additional information available upon request
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