



# Asian Small Caps Weekly

## WEEKLY SMALL THOUGHT

Mark Chang

### What's new this week?

Are you spending for the Chinese New Year? Want to get exposure to the spending of ultra high-net-worth groups in China, then please read our company visit note on **Sparkle Roll (970 HK)**, a super luxury product distributor in China. For exposure to rural spending, read our initiation report on **Chigo (449 HK)**, the 4<sup>th</sup> largest air conditioner brand in China.

Last week, we visited Beijing, it was cold but our visits were quite fruitful. In addition to Sparkle Roll, we visited several other companies, of which, we found **Beijing Jinkelong (814 HK)**, **Duoyuan Global Water (DGW US)** and **American Dairy (ADY US)** interesting. These names are all under-covered with attractive valuations compared to peers based on management's guidance.

John Choi will visit 11 Small Cap companies in Korea next week (see the list of upcoming visits for details). Let us know if you have any questions related to these companies.

### Company visit: Sparkle Roll (970 HK; market cap: USD251m)

Sparkle Roll is the sole Beijing distributor for luxury automobiles Bentley, Rolls Royce and Lamborghini for more than eight years. The company was back-door listed in mid-2008, injecting its automobile business, and added other luxury products such as watches, jewellery and wines in its portfolio in 2009.

Automobile dealership accounts for 70% of the total turnover and expects to add one or two more brands in the near future. The addition of other products such as watches (Richard Mille, DeWitt, and Parmigiani), jewellery (Boucheron) and fine wines (Groupe Duclot) to leverage its high-net-worth client portfolio.

Sparkle Roll delivered a net profit of HKD36m for 1HFY10, and management is guiding net profit of HKD80m for 2HFY10. For FY11, management expects at least 50% of profit growth as the company has a stronger order backlog on its dealership businesses and new products in the portfolio.

### Idea of the week

This week Mark Chang has initiated coverage on Chigo (449 HK), with a BUY rating. Mark believes Chigo is well positioned to leverage the strong demand arising from the government's rural home-appliance subsidy program. We forecast Chigo will generate 19% earnings CAGR over 2009-11, based on the strength of its qualified product offering under China's rural-consumption policy and a recovery in the export market.

## Top Story

### Chigo Holdings: Cool running (Mark Chang)

- 449 HK; Initiate with BUY; CP: HKD4.96; TP: HKD5.60
- A big beneficiary of China's rural subsidies.
- A 22% share in segments affected by energy-saving policies.
- Cheapest of all the appliance peers on consensus estimates.

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## SMALL CAP PICKS

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## Regional Small Cap Team

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## BNPP Events

### Company Roadshows

- **KT Corp**, US (16-24 Feb)
- **REXLot**, EU (22-26 Feb)
- **Naga Corp**, US (22-26 Feb)
- **Ctrip**, HK (22-23 Feb)

### Opportunities Lunch Series

- **Kingdee Int'l**, HK (24 Feb)

### Conference/Corporate Days

- **Machinery Corporate Day**, HK (26 Feb)
- **India Conference**, India (3-5 Mar)

## Upcoming/Recent Co. Visits

### Week of 15 Feb

Shinsegae Food System (031440 KS)  
Woongjin Thinkbig (095720 KS)  
Hyundai Food System (114410 KS)  
LG Fashion (093050 KS)  
Kangwon Land (035250 KS)  
LG Hausys (108670 KS)  
Hana Tour (039130 KS)  
Pulmuone (017810 KS)  
Cheil Worldwide (030000 KS)  
Mode Tour (080160 KS)  
Hansome (20000 KS)

### Recent company visits

Yucheng Technologies (YTEC US)  
AGTech (8279 HK)  
Shenzhou (2313 HK)  
Haier (1169 HK)  
Sparkle Roll (970 HK)  
ChinaEDU (CEDU US)  
Duoyuan Global Water (DGW US)  
New Oriental (EDU US)  
VODone (82 HK)  
American Dairy (ADY US)  
Beijing Jinkelong (814 HK)  
Ko Yo Ecological Agrotech (827 HK)  
China LotSynergy (8161 HK)  
REXLot (555 HK)

*BNP Paribas Securities Asia research is available on Thomson One, Bloomberg, TheMarkets.com, Factset and on <http://equities.bnpparibas.com>. Please contact your salesperson for authorisation. Please see the important notice on the back page.*

**Exhibit 1: Textile/Apparel Peer Valuation Table**

Ticker	Company name	BNP rec	Market cap (USD m)	Share price (LC)	Performance			P/E		P/BV FY1	EV/EBITDA FY1	Div yield FY1	ROE FY1	Fiscal YE
					1-wk (%)	1-mth (%)	3-mth (%)	FY1 (x)	FY2 (x)					
2698 HK	Weiqiao Texti 'H'		816.2	5.29	(2.5)	(9.3)	(9.6)	6.8	7.2	0.4	na	4.3	na	12/2008
1382 HK	Pacific Textile	BUY	892.5	4.77	(3.5)	(4.8)	41.2	10.5	9.3	1.9	5.7	4.9	19.3	03/2009
420 HK	Fountain Set		135.9	1.33	(7.7)	0.8	(1.5)	6.0	na	na	na	4.5	na	08/2009
321 HK	Texwinca Hdgs		1,227.7	7.15	(2.8)	(11.8)	(0.7)	9.5	8.2	2.2	6.4	6.7	23.0	03/2009
2313 HK	Shenzhou Int'l	BUY	1,530.1	9.55	(5.0)	(8.7)	18.9	8.6	7.5	2.7	6.3	4.6	35.9	12/2008
311 HK	Luen Thai Hldgs		104.7	0.82	(2.4)	2.5	8.0	na	na	na	na	na	na	12/2008
3398 HK	China Ting Group		350.3	1.30	(6.6)	1.6	8.5	9.3	6.8	1.2	5.2	8.5	11.7	12/2008
111770 KS	Youngone Corp		344.2	9,770	(3.7)	(13.6)	17.0	5.8	5.5	0.9	7.2	2.5	18.9	12/2008
105630 KS	Hansae Co		199.4	7,700	(0.9)	(4.8)	18.9	4.5	4.0	1.8	3.5	1.3	67.0	12/2008
1477 TT	Makalot Industri		283.6	59.20	0.9	(1.0)	1.2	9.7	8.7	2.5	na	8.3	28.9	12/2008
1451 TT	Nien Hsing Text		311.5	16.90	(0.9)	(2.6)	(0.6)	na	na	na	na	na	na	12/2009
1473 TT	Tainan Ent		145.7	31.80	3.2	(7.8)	35.9	18.9	12.6	1.0	na	6.2	5.9	12/2008
<b>Average</b>								<b>9.0</b>	<b>7.8</b>	<b>1.6</b>	<b>5.7</b>	<b>5.2</b>	<b>26.3</b>	

Sources: Bloomberg consensus estimates for all except Pacific Textile and Shenzhou where we use BNP Paribas estimates

**Exhibit 2: Regional Education Peer Valuation Table**

Ticker	Company name	BNP rec	Market cap (USD m)	Share price (LC)	Performance			P/E		P/BV FY1	EV/EBITDA FY1	Div yield cap	ROE price	Fiscal YE
					1-wk (%)	1-mth (%)	3-mth (%)	FY1 (x)	FY2 (x)					
EDU US	New Oriental-ADR	REDUCE	2,572.6	68.29	(4.4)	(14.3)	(3.9)	35.9	27.1	5.7	22.8	—	18.2	05/2009
DL US	China Distan-ADR		214.8	6.19	(1.6)	(7.3)	(11.2)	21.9	15.1	na	22.5	—	7.3	09/2009
ATAI US	Ata Inc-ADR		82.9	3.70	4.8	(22.1)	(11.5)	na	528.6	na	na	na	12.2	03/2009
RLS SP	Raffles Education	BUY	696.6	0.38	(6.1)	(15.4)	(11.5)	21.5	17.7	1.7	14.6	—	8.4	06/2009
072870 KS	Mega Study		1,165.8	213,000	(3.6)	(6.6)	(15.3)	16.5	13.7	4.5	11.2	1.3	31.8	12/2009
NED US	Noah Educati-ADR		149.9	3.97	(2.9)	(21.5)	(21.1)	9.0	7.8	na	na	na	7.4	06/2009
CAST US	Chinacast Educat		295.4	6.67	(0.7)	(15.8)	(8.5)	15.3	11.7	na	9.7	na	na	12/2008
CEDU US	Chinaedu Cor-ADR		122.7	7.53	(0.4)	(3.7)	3.0	28.6	25.1	na	8.6	na	2.4	12/2008
EDSL IN	Educomp Solution		1,331.2	651.10	(9.7)	(17.0)	(10.6)	23.6	17.8	4.8	14.1	0.2	30.1	03/2009
NIIT IN	NIIT Ltd		241.6	67.95	(4.5)	(8.0)	8.3	15.7	12.4	2.2	8.7	2.0	13.8	03/2009
APTR IN	Aptech Ltd		169.2	168.75	(5.0)	(19.9)	(12.5)	na	na	na	na	na	na	12/2009
<b>Average</b>								<b>20.9</b>	<b>67.7</b>	<b>3.8</b>	<b>14.0</b>	<b>0.6</b>	<b>14.6</b>	

Sources: Bloomberg consensus estimates for all except New Oriental and Raffles where we use BNP Paribas estimates

**Exhibit 3: China Appliance Peer Valuation Table**

Ticker	Company name	BNP rec	Market cap (USD m)	Share price (LC)	Performance			P/E		P/BV FY1	EV/EBITDA FY1	Div yield cap	ROE price	Fiscal YE
					1-wk (%)	1-mth (%)	3-mth (%)	FY1 (x)	FY2 (x)					
449 HK	Chigo Holdings	BUY	326.8	4.96	(1.4)	(2.9)	18.6	8.5	7.1	1.2	6.4	3.7	17.2	12/2008
1070 HK	TCL Multimedia T		900.4	6.92	(14.2)	(28.6)	(15.9)	18.5	11.2	1.9	10.6	1.3	10.5	12/2008
1169 HK	Haier Electronic		1,071.9	4.11	0.5	(22.2)	19.8	na	na	na	na	na	na	12/2008
921 HK	Hisense Elec-H		763.1	2.76	(9.9)	(33.0)	(21.4)	na	na	na	na	na	na	12/2008
751 HK	Skyworth Digital		2,467.9	7.62	(2.2)	(6.6)	27.7	13.8	10.1	3.2	11.5	2.9	25.3	03/2009
<b>Average</b>								<b>13.6</b>	<b>9.4</b>	<b>2.1</b>	<b>9.5</b>	<b>2.6</b>	<b>17.7</b>	

Sources: Bloomberg consensus estimates for all except Chigo where we use BNP Paribas estimates

**Exhibit 4: Regional Auto Parts Valuation Table**

Ticker	Company name	BNP rec	Market cap (USD m)	Share price (LC)	Performance			P/E		P/BV	EV/EBITDA	Div yield cap	ROE price	Fiscal YE
					1-wk (%)	1-mth (%)	3-mth (%)	FY1 (x)	FY2 (x)					
319 HK	China Metal Int'l	BUY	286.9	2.22	(3.2)	(13.4)	11.5	14.6	9.9	1.2	7.3	2.3	8.3	12/2008
425 HK	Minth Group	BUY	1,253.6	10.08	(1.6)	(12.7)	5.7	14.5	12.0	2.3	10.4	1.7	16.6	12/2008
868 HK	Xinyi Glass Hold	REDUCE	1,389.6	6.09	(4.0)	(14.2)	(3.2)	19.2	14.3	2.5	13.0	2.1	14.8	12/2008
1319 TT	Tong Yang Indust		685.8	47.25	(0.5)	(17.5)	(13.3)	13.9	12.2	2.1	11.6	2.7	12.4	12/2008
6605 TT	Depo Auto Parts		389.7	75.30	(3.5)	(11.9)	(8.1)	11.9	9.7	1.5	5.8	6.9	13.8	12/2008
1536 TT	Hota Ind Mfg Co		71.1	14.40	0.7	4.0	22.0	na	18.5	na	na	na	na	12/2008
1522 TT	Tyc Brother		191.6	21.90	1.2	(18.7)	0.2	12.7	11.3	1.2	5.2	3.4	10.9	12/2008
BHFC IN	Bharat Forge Co		1,187.7	247.65	(9.5)	(13.0)	(10.2)	60.7	24.4	3.0	15.0	0.6	5.2	03/2009
RAI IN	Rico Auto Inds		69.1	25.55	(3.0)	(20.6)	(2.2)	60.3	11.6	1.1	7.4	1.7	1.8	03/2009
AH TB	Aapico Hitech		59.1	8.65	(4.5)	(10.1)	4.3	68.7	10.6	0.6	13.5	2.4	(0.5)	12/2008
STANLY TB	Thai Stanley Ele	BUY	264.5	114.50	(2.6)	(5.0)	(0.4)	7.9	9.1	1.3	3.0	4.4	17.2	03/2009
600660 CH	Fuyao Group-A		3,619.8	12.35	(3.9)	(10.5)	(5.5)	23.8	17.2	5.8	14.3	1.5	24.3	12/2008
012330 KS	Hyundai Mobis	BUY	12,099.7	144,000	(3.7)	(6.6)	(9.3)	9.2	8.8	1.8	5.7	0.7	22.9	12/2009
7241 JP	Futaba Industrl		549.6	705	(12.4)	(9.1)	45.1	na	na	na	na	na	na	03/2009
7229 JP	Yutaka Giken Co		272.1	1,650	2.5	20.4	42.2	8.4	7.2	na	na	1.3	na	03/2009
255 HK	Lung Kee Hldg		289.2	3.58	(3.0)	(17.2)	(10.0)	9.4	7.7	1.2	3.8	6.6	12.5	12/2008
TRW US	TRW Automotive		2,574.2	21.88	(11.2)	(13.6)	(5.9)	45.1	11.7	1.5	5.9	-	4.0	12/2008
<b>Average</b>								<b>25.4</b>	<b>12.3</b>	<b>1.9</b>	<b>8.7</b>	<b>2.6</b>	<b>11.7</b>	

Sources: Bloomberg consensus estimates for all except China Metal, Minth Group, Xinyi, Hyundai Mobis and Thai Stanley where we use BNP Paribas estimates

**Exhibit 5: Regional Lottery Valuation Table**

Ticker	Company name	BNP rec	Market cap (USD m)	Share price (LC)	Performance			P/E		P/BV	EV/EBITDA	Div yield cap	ROE price	Fiscal YE
					1-wk (%)	1-mth (%)	3-mth (%)	FY1 (x)	FY2 (x)					
555 HK	REXLot Holdings	BUY	1,020.6	1.04	(1.0)	8.6	50.7	25.1	11.4	2.2	19.0	0.2	9.2	12/2008
8161 HK	China LotSynergy	BUY	304.8	0.32	(16.0)	(8.7)	—	(31.9)	17.8	2.8	(86.0)	—	(8.5)	12/2008
8279 HK	Agtech Holdings		108.3	0.24	6.8	(1.7)	(26.6)	na	na	na	na	na	na	06/2009
8156 HK	China Vanguard G		152.9	0.37	2.9	(11.1)	(20.0)	na	na	na	na	na	na	06/2009
82 HK	Vodone Ltd		646.0	2.16	(5.4)	3.4	5.0	36.0	9.0	5.1	43.3	1.4	14.7	12/2008
<b>Average</b>								<b>9.7</b>	<b>12.7</b>	<b>3.4</b>	<b>(7.9)</b>	<b>0.5</b>	<b>5.1</b>	

Sources: Bloomberg consensus estimates for all except Rexlot Holdings and China Lotsynergy where we use BNP Paribas estimates

**Exhibit 6: China Healthcare Valuation Table**

Ticker	Company name	BNP rec	Market cap (USD m)	Share price (LC)	Performance			P/E		P/BV	EV/EBITDA	Div yield cap	ROE price	Fiscal YE
					1-wk (%)	1-mth (%)	3-mth (%)	FY1 (x)	FY2 (x)					
2877 HK	China Shineway	BUY	1,785.8	16.78	2.8	1.9	36.0	16.7	14.7	4.7	12.2	2.7	28.8	12/2008
2005 HK	Lijun Intl Pharm	BUY	311.0	1.14	(3.4)	(13.5)	(16.1)	10.7	9.1	1.5	7.4	3.3	15.4	12/2008
MR US	Mindray Medi-ADR	BUY	3,918.9	36.32	1.2	(0.6)	13.4	28.4	24.1	6.8	22.2	0.7	25.2	12/2008
8199 HK	Shandong Weig-H	BUY	3,926.7	28.35	2.2	7.3	(0.5)	39.0	28.7	9.0	31.4	0.7	25.0	12/2008
WX US	Wuxi Pharmat-ADR	BUY	1,100.7	16.12	(2.1)	(8.7)	9.2	19.4	15.9	3.4	9.0	—	21.2	12/2008
<b>Average</b>								<b>22.8</b>	<b>18.5</b>	<b>5.1</b>	<b>16.4</b>	<b>1.5</b>	<b>23.1</b>	

Source: BNP Paribas estimates



# Sparkle Roll 970 HK

CHINA / CONSUMER DISCRETIONARY

CLOSE

HKD0.73

## KEY STOCK DATA

YE Mar (HKD m)	2007	2008	2009
Revenue	102.1	156.7	611.5
Rec. net profit	11.4	5.9	(190.0)
Recurring EPS (HKD)	0.01	0.01	(0.13)
EPS Growth (%)	nm	nm	nm
Recurring P/E (x)	nm	nm	na
Dividend yield (%)	-	-	1.4
EV/EBITDA (x)	nm	nm	nm
Price/book (x)	2.8	2.3	2.3
ROE (%)	28.6	21.9	23.2

Sources: Sparkle Roll; Bloomberg; BNP Paribas



Next results	June 2010
Mkt cap (USD m)	251
3m avg daily turnover (USD m)	0.6
Free float (%)	50
Major shareholder	Sparkle Roll Holdings (30%)
12m high/low (HKD)	0.90 / 0.31

## A luxury product distributor

- China's leading super-luxury product distributor.
- Stable margin for luxury automobiles distribution.
- New luxury products to leverage its current customer portfolio.
- Working capital requirement for new business lines.

### An up-and-coming high-end lifestyle company

Sparkle Roll, through a back-door listing in mid-2008, is the sole Beijing distributor for luxury automobiles Bentley, Rolls Royce and Lamborghini. Moreover, through the introduction of other luxury products such as watches, jewellery and wines in its portfolio, Sparkle Roll is committed to becoming the leading luxury-product distributor in China.



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### Key driver: luxury automobiles

Before injecting the business into the listco, Sparkle Roll had been the sole distributor for Bentley in Beijing for more than eight years. Margin has been relatively stable (at the 10% level), save for 2008, when the introduction of a 30% luxury tax in China affected the company. Dealership business accounts for 70% of the group turnover, with 6% coming from high-margin maintenance services. Sparkle Roll is introducing Bugatti to its luxury-car portfolio and expects to add one or two more brands in the coming 12-18 months. Management expects its dealership relationship to be renewed for the next few years and margin to be relatively stable at 8-10% range.

### New luxury products to serve high net-worth individuals

Sparkle Roll has more than 900 luxury vehicle owners and accumulated 16,000 customer base through major shareholder's other luxury product businesses. To further leverage its strong high-net-worth client portfolio, Sparkle Roll introduced other luxury products such as watches (Richard Mille, DeWitt and Parmigiani), Jewellery (Boucheron) and fine wines (Groupe Duclot) in 2009. These businesses will kick-start the 2010 opening of flagship outlets in Beijing and Shanghai.

### Significant increase in working capital requirement

Unlike its luxury-vehicle dealership business with limited working capital requirements, the new businesses will require a significant increase in working capital. The total incremental working capital requirement for 2010 is guided at RMB200m. Management expects to be supported by its latest external fund-raising efforts in January 2010, and the coming disposal of its legacy animation business.

### Financial and guidance

FY09 was a year of transformation with major write-off of legacy business. Sparkle Roll delivered a net profit of HKD36m in 1HFY10 and is guiding a net profit of HKD80m in 2HFY10. For FY11, management is guiding profit growth at least 50%, as the company has a strong order backlog on its dealership businesses and new products in its portfolio.

**Exhibit 1: Key Income Statement**

<b>YE 31 Mar (HKD m)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Revenue	107.3	102.2	102.1	156.7	611.5
COGS	(59.0)	(55.4)	(76.9)	(128.1)	(627.7)
Gross profit	48.4	46.8	25.2	28.7	(16.2)
SG&A	(36.2)	(32.8)	(15.0)	(22.9)	(36.6)
Other operating income	1.6	1.1	0.5	1.5	29.7
Operating profit	13.8	15.1	10.7	7.3	(23.0)
Net interest	(1.4)	(1.5)	(0.4)	(0.2)	(16.5)
Other non-operating income/(expense)	1.5	1.6	0.8	1.2	(146.3)
Pre-tax profit	13.8	15.3	11.1	8.3	(185.7)
Tax	1.6	(1.6)	0.3	(2.1)	(6.0)
After-tax profit	15.5	13.6	11.4	6.2	(191.8)
Minority interest	3.7	—	0.0	0.4	(1.8)
Net profit for equity holders	11.8	13.6	11.4	5.9	(190.0)
EPS – basic (HKD)	0.02	0.02	0.01	0.01	(0.13)
EPS – diluted (HKD)	0.02	0.02	0.01	0.01	(0.13)

Sources: Sparkle Roll; Bloomberg

**Exhibit 2: Key Balance Sheet Data**

<b>As at 31 Mar (HKD m)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Cash & ST investments	4.1	2.3	5.3	27.2	71.6
Receivables	21.6	27.7	31.3	19.7	22.2
Inventories	21.4	43.7	65.3	59.9	86.8
Other current assets	16.9	16.7	17.0	77.1	72.8
Property, plant and equipment	16.1	15.3	16.3	21.8	18.8
Investments & LT receivables	—	—	1.6	—	—
Other LT assets	130.6	129.5	135.0	206.1	607.1
Total assets	210.7	235.3	271.7	411.8	879.2
ST debt	8.5	14.6	9.2	0.9	33.4
Account payables	8.5	7.9	9.7	9.9	12.9
Income tax payables	—	—	—	—	—
Other current liabilities	12.1	9.4	6.1	39.2	66.3
LT debt	65.1	15.2	—	—	183.7
Deferred tax	—	—	—	—	—
Other liabilities	—	—	—	2.8	3.9
Minority interest	3.5	7.4	2.4	—	—
Total equity	113.0	180.7	244.3	358.9	579.0
Total equity & liabilities	210.7	235.3	271.7	411.8	879.2

Sources: Sparkle Roll; Bloomberg

**Exhibit 3: Key Cash Flow Statement Data**

<b>YE 31 Mar (HKD m)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Net profit	11.8	13.6	11.4	5.9	(190.0)
Cash flow from operating activities	(2.6)	(15.9)	(16.5)	(38.4)	49.7
Cash flow from investing activities	(56.0)	(0.1)	(4.6)	(9.0)	(22.0)
Cash flow from financing activities	5.4	14.3	22.7	70.5	16.7
Net change in cash	(53.3)	(1.8)	1.6	23.2	44.5
Free cash flow	(3.1)	(16.1)	(18.5)	(39.1)	37.7

Sources: Sparkle Roll; Bloomberg



# Chigo Holdings 449 HK

CHINA / CONSUMER DURABLES & APPAREL  
PREPARED BY BNP PARIBAS SECURITIES ASIA

**TARGET**  
**PRIOR TP**  
**CLOSE**  
**UP/DOWNSIDE**

**HKD5.60**  
**N/A**  
**HKD4.98**  
**+12.4%**

# BUY

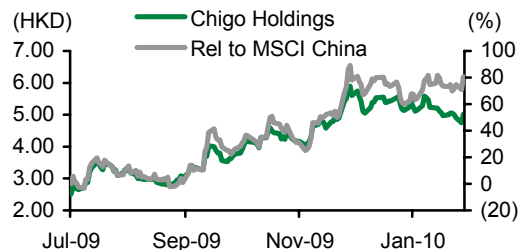
## HOW WE DIFFER FROM THE STREET

	BNP	Consensus	% Diff
Target Price (HKD)	5.60	7.36	(23.9)
EPS 2009 (RMB)	0.51	0.52	(1.9)
EPS 2010 (RMB)	0.62	0.63	(1.6)

	Positive	Neutral	Negative
Market Recs.	2	0	0

## KEY STOCK DATA

YE Dec (RMB m)	2009E	2010E	2011E
Revenue	5,950	6,945	7,887
Rec. net profit	287	346	405
Recurring EPS (RMB)	0.51	0.62	0.72
Prior rec. EPS (RMB)	-	-	-
Chg. In EPS est. (%)	N/A	N/A	N/A
EPS Growth (%)	129.9	20.4	16.9
Recurring P/E (x)	8.5	7.1	6.1
Dividend yield (%)	3.7	4.6	5.4
EV/EBITDA (x)	6.4	5.9	5.3
Price/book (x)	1.2	1.0	0.9
Net debt/Equity	36.9	39.6	40.6
ROE (%)	17.9	17.2	16.9



Share price performance	1 Month	3 Month	6 Month
Absolute (%)	(7.0)	17.4	119.4
Relative to Country (%)	0.3	25.2	54.0

Next results	March 2010
Mkt cap (USD m)	327
3m avg daily turnover (USD m)	0.5
Free float (%)	33
Major shareholder	Chigo Group (67%)
12m high/low (HKD)	5.90/2.27
3m historic vol. (%)	47.8

Sources: Bloomberg consensus; BNP Paribas estimates

## INDUSTRY OUTLOOK ↑

## INITIATION

# Cool running

- Initiate with **BUY**; TP of **HKD5.60**, based on 8x 2010E P/E.
- A big beneficiary of China's rural subsidies.
- A 22% share in segments affected by energy-saving policies.
- Cheapest of all the appliance peers on consensus estimates.

## Initiate with a BUY; TP of HKD5.60

We initiate coverage of Chigo Holdings with a BUY rating and TP of HKD5.60, based on 8x 2010E P/E and supported by our DCF analysis. As the No 4 air-conditioner brand in China with around 7% market share, we believe the company is well-positioned to leverage the strong demand arising from the government's rural home-appliance subsidy program. We forecast Chigo will generate 19% earnings CAGR over 2009-11, due to the strength of its qualified product offering under China's rural-consumption policy and a recovery in the export market. Although Chigo is smaller than other appliance players, the stock is under-covered and we find valuations attractive.



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## Biggest beneficiary of high-energy efficiency policy

Chigo has the highest number of products (403) that qualify under China's energy-efficiency policy, with a 22% market share. We believe this leading position has allowed the company to capture the strong domestic sales momentum since 2H09 and should last to the end of 2010 at least. Group margin is also enhanced, due to the higher contribution from the government policy.

## Recovery of export business – next potential driver

Compared to peers, Chigo has always generated a higher portion of turnover from the export business, with over 70% of exports on an OEM basis. Chigo's export orders grew over 20% y-y in 4Q09, a trend which appears to have continued into 1Q10, with strong order momentum from suppliers of air-compressor parts.

## Valuation and risks

Chigo is the cheapest stock, at 7.1x 2010E P/E with 10% earnings growth on our forecasts, among Chinese appliance peers (Exhibit 23). We attribute Chigo's low valuation to the newly listed and relative small market cap and liquidity status. However, we believe the current 20% discount to the peer average is not warranted. We assign 8x 2010E P/E, a 10% discount to the peer average, to arrive at our HKD5.60 target price for Chigo. We believe the 10% discount is fair, based on Chigo's industry position and growth potential.

Risks to our forecasts: 1) end/changes in government subsidy policy; 2) copper price risk; 3) fierce competition; and 4) reliance on suppliers.

[Click here for full story](#)



# Thematic Strategy

10 FEBRUARY 2010

PREPARED BY BNP PARIBAS SECURITIES ASIA

## Introducing five structural themes

- We identify five structural themes to generate significant alpha in the years ahead.
- The five themes are: **Alternative Energy, Rural Asia, Demographic Challenges, Economic Rebalancing and New Emerging Markets.**
- The report drills down to the drivers behind the themes from a macro perspective.
- We suggest a list of stocks offering direct exposure to each theme.

We identify five structural themes that should critically influence Asia's economic growth and should have potential to generate significant alpha in the years ahead. The five themes are: Alternative Energy, Rural Asia, Demographic Challenges, Economic Rebalancing, and New Emerging Markets. This report analyses the drivers behind the themes from a top-down perspective, and includes a list of stocks offering direct exposure to them (page 4). We plan to revisit these themes over the course of the year when there are new developments.

**Theme #1: Alternative Energy: Investing for a greener Asia** – We believe environmental change, accelerating investment, government support and strong demand from EM will drive the increased use of alternative energy. We suggest investors select low-cost and efficient Asian producers with reasonable valuation that may offer exposure to the theme.

**Theme #2: Rural Asia: Policy support to last** – The urban consumption theme is well recognised, but the spending power in rural China and India, driven by supportive policies and rising income, is less analysed. We focus on under-penetrated consumer products and select beneficiaries, including farming equipment and agricultural-related industries.

**Theme #3: Demographics: Aging challenge** – Asia's elderly population is expected to increase at a 4.0% CAGR over the next decade, far exceeding the 0.6% CAGR for the rest of population. The challenge is most pressing for Singapore, Hong Kong and China. We suggest a list of healthcare stocks for exposure to the theme.

**Theme #4: Economic Rebalancing: Producers moving up the value chain** – It's not only about consumption! Our analysis reveals a different angle to this theme: China's manufacturers need to move up the value chain as the economy rebalances away from low value-added industries. We suggest stocks that fit into this theme.

**Theme #5: New Emerging Markets** – Korea will likely graduate from the MSCI emerging market to developed market this year; and this may have positive liquidity repercussion among large caps in Korea. UAE and Qatar are most likely to achieve emerging market status in 2010, while Nigeria could be placed on review for upgrade to emerging market.



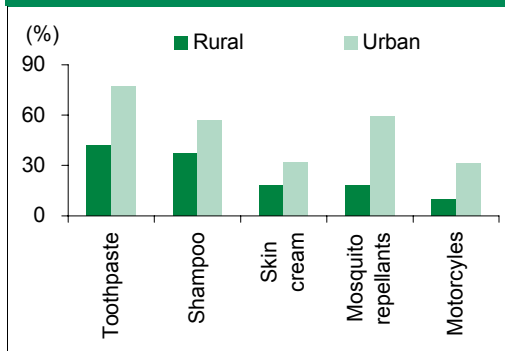
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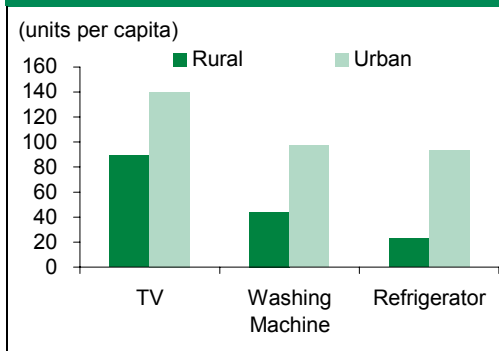
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**Exhibit 1: Consumer Products Penetration In Rural India, 2008**



Sources: Industry data; BNP Paribas

**Exhibit 2: White Goods Penetration In Rural China, 2008**



Sources: CEIC; BNP Paribas



# Thai Stanley Electric STANLY TB

THAILAND / AUTOMOBILES & COMPONENTS

<b>TARGET</b>	<b>THB166.00</b>	<b>BUY</b>
<b>PRIOR TP</b>	<b>THB144.00</b>	
<b>CLOSE</b>	<b>THB113.00</b>	
<b>UP/DOWNSIDE</b>	<b>+46.9%</b>	
		<b>UNCHANGED</b>

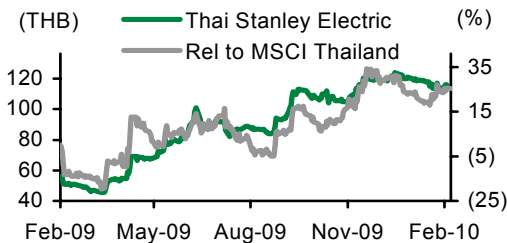
## HOW WE DIFFER FROM THE STREET

	BNP	Consensus	% Diff
Target Price (THB)	166.00	138.00	20.3
EPS 2010 (THB)	12.40	12.24	1.3
EPS 2011 (THB)	14.00	13.53	3.5

	Positive	Neutral	Negative
Market Recs.	11	0	0

## KEY STOCK DATA

YE Mar (THB m)	2010E	2011E	2012E
Revenue	7,232	8,032	8,764
Rec. net profit	950	1,072	1,134
Recurring EPS (THB)	12.40	14.00	14.81
Prior rec. EPS (THB)	9.50	11.92	13.19
Chg. in EPS est. (%)	30.6	17.5	12.2
EPS growth (%)	(13.8)	12.9	5.8
Recurring P/E (x)	9.1	8.1	7.6
Dividend yield (%)	3.8	4.3	4.6
EV/EBITDA (x)	2.9	2.5	2.1
Price/book (x)	1.2	1.1	1.0
Net debt/equity	(34.3)	(39.1)	(43.0)
ROE (%)	13.5	13.9	13.4



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(3.3)	6.4	110.9
Relative to country (%)	4.7	6.8	26.0

Next results	May 2010
Mkt cap (USD m)	260
3m avg daily turnover (USD m)	0.1
Free float (%)	47
Major shareholder	Stanley Electric Co Ltd (30%)
12m high/low (THB)	124.00/45.50
3m historic vol. (%)	23.3

Sources: Bloomberg consensus; BNP Paribas estimates

## RECENT COMPANY & SECTOR RESEARCH

Shifting up to higher gear ..... 9 Oct 2009

## INDUSTRY OUTLOOK ↑

## TRANSFER OF COVERAGE

# Lighting up with recovery

- TP hiked 15% to reflect better long-term sales, earnings outlook.
- Margin set to be sustained at over 20% despite annual discounts.
- LED lamps new growth area – high margin and gaining popularity.
- At 8.1x P/E, 2.5x EV/EBITDA and decent 4.3% dividend yield; BUY.

### Auto turnaround proxy

As the market leader in lighting equipment for vehicles, Thai Stanley Electric (STANLY) is benefiting from the rebound in the global auto industry. The recent recall of Toyota and Honda cars could derail demand but we don't expect this to last long. STANLY has seen its order book shoot up in 4QFY10E (ending March 2010) with the strengthening world economy further boosting car sales and hence demand for its products. We raise our DCF-based TP to THB166.00/share on an average hike of 13% in FY11-13E earnings. Although we prefer Somboon Advance Technology (SAT) for its growth story, STANLY is a proxy for the auto industry recovery as it has the largest market cap, is reasonably cheap and has a solid balance sheet. Reaffirm BUY.



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### Rising utilisation with no margin pressure

We expect STANLY's utilisation to exceed 80% in FY11-13E from around 72% in FY10E. Despite annual margin discount negotiations by auto makers, we forecast STANLY to be able to sustain gross margin at over 20% in these years given: 1) low pressure for margin discounts from auto makers in the cycle's upturn; 2) rising prices plastic resins – its key raw materials – should be offset by an increased sales proportion of high-margin LED lamps; and 3) with its successful waste reduction project introduced last year, its defect rate should be contained at a low level.

### LED lamps – an area for future growth

STANLY produces LED tail-lamps for the Honda *Accord*, *Civic* and some motorcycle models. Margins are higher than for normal halogen lamps – they are priced 5-10x higher for cars and 2-3x for motorbikes. Given their increasing popularity, we forecast LED lamp sales to make up 15% of the total by FY13E from less than 10% now, supporting blended margins.

### Decent valuations, decent dividend yield

STANLY's net cash position of THB2.5b and EBITDA of THB2.0b pa look more than sufficient to fund potential new investments. Despite its share price having rallied 30% over the past six months, its 8.1x P/E, 2.5x EV/EBITDA and 1.1x P/BV in FY11E are still below their five-year historical ranges. STANLY offers nearly a 4.3% dividend yield, above its listed peers' and a 10% free cash flow yield. Risks to our FY11E earnings estimate lie with how smoothly the global economy recovers which will impact auto demand and margins. Baht strength also affects margins as imported raw material costs are low in comparison with export revenues.





# Minth Group 425 HK

CHINA / AUTOMOBILES & COMPONENTS

**TARGET**  
**PRIOR TP**  
**CLOSE**  
**UP/DOWNSIDE**

**HKD12.58**  
**HKD12.58**  
**HKD9.83**  
**+28.0%**

**BUY**  
**UNCHANGED**

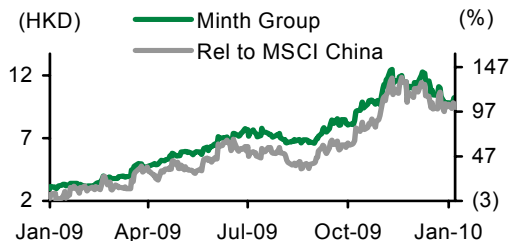
## HOW WE DIFFER FROM THE STREET

	BNP	Consensus	% Diff
Target Price (HKD)	12.58	12.89	(2.4)
EPS 2009 (RMB)	0.61	0.62	(1.6)
EPS 2010 (RMB)	0.74	0.74	0.0

	Positive	Neutral	Negative
Market Recs.	4	1	0

## KEY STOCK DATA

YE Dec (RMB m)	2009E	2010E	2011E
Revenue	2,305	2,713	3,207
Rec. net profit	580	704	847
Recurring EPS (RMB)	0.61	0.74	0.89
Prior rec. EPS (RMB)	0.61	0.74	0.89
Chg. in EPS est. (%)	0.0	0.0	0.0
EPS growth (%)	36.9	21.3	20.3
Recurring P/E (x)	14.2	11.7	9.7
Dividend yield (%)	1.8	2.1	2.6
EV/EBITDA (x)	10.2	8.5	6.9
Price/book (x)	2.2	1.9	1.7
Net debt/equity	(30.9)	(30.8)	(31.8)
ROE (%)	16.6	17.7	18.6



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(15.1)	12.0	229.0
Relative to country (%)	(10.6)	14.8	95.4

Next results	March 2010
Mkt cap (USD m)	1,207
3m avg daily turnover (USD m)	2.3
Free float (%)	49
Major shareholder	Chin Jong Hwa (51%)
12m high/low (HKD)	12.48/2.97
3m historic vol. (%)	57.3

Sources: Bloomberg consensus; BNP Paribas estimates

## RECENT COMPANY & SECTOR RESEARCH

Growing from auto stimulus .....	10 Nov 2009
Managing growth.....	26 Aug 2009

## INDUSTRY OUTLOOK ↑

# Managed growth

- Toyota recall will NOT affect Minth; provides further opportunities.
- High auto sales target along with rising auto sales will be a plus.
- Minth has the ability to pass on the rising raw material costs.
- Maintain BUY rating and TP of HKD12.58 based on 15x 2010E P/E.

### No impact from Toyota recall

Toyota recalled more than 75,000 units of vehicles in China – all of them were manufactured by FAW Toyota (RAV4). We estimate Toyota only accounts for 8% of Minth's 2009E revenue with RAV4 contributing only 10% of the 8%. In a worse case scenario, even if we assume no revenue from RAV4, Minth will continue to supply other brands that have a sizeable market share. We have learned that Toyota will open up to more suppliers outside their affiliated suppliers list, which will benefit Minth greatly due to Minth's low cost and high precision products.

### Auto sales expansion

With the auto stimulus policy extended to 2010, we believe the Chinese auto components sector will continue to benefit. We estimate auto sales will grow 18% in 2010 and many automakers in China have already increased their sales target by almost 21%. Hence aggregate demand for automotive components will be growing at the same rate.

### Ability to pass rising raw material prices

Most of Minth's customers, especially Japanese car companies, request Minth to use high quality materials to ensure consistently high quality of its components supplied, which allows Minth to pass through the higher material costs to them. For its non-Japanese customers, higher material costs can be easily absorbed through operational efficiencies as it continues to enlarge production volume. Minth's scale and productivity improvements should enable it to absorb increases in labour costs. We are not concerned about labour cost hikes.

### Valuation: maintain BUY and TP of HKD12.58

Given Minth Group's solid operating and financial strengths, we believe that it should trade at a premium to both global automotive components players and listed Chinese automobile assembly companies due to its high earnings visibility, more focused management, strong balance sheet with net cash position, and more robust growth, while its premium to its global larger brethren are due to its better growth prospects. It is now trading at 11.7x 2010E EPS and it provides a good entry point. We maintain our BUY recommendation and TP of HKD12.58 (based on 15x 2010E EPS).



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# Shanghai Corporate Day Takeways

11 FEBRUARY 2010

## China

- **Glorious Property & Yuexiu Property:** Sector-wise, we maintain our cautious view as we expect developers will remain under pressure, at least in 1H10, from further policy tightening. We continue to prefer quality government-backed companies over highly-gearred or low margin developers. Our top picks in the sector are COLI (BUY, TP: HKD17.3), CR Land (BUY, TP: HKD17.5) and Sino-ocean Land (BUY, TP: HKD7.7). On the other hand, we advise investors to sell out of GZ R&F (REDUCE, TP: HKD9.7).
- **Golden Eagle:** It has seen one of the strongest recoveries among Chinese retailers in 2009. The company will continue to deliver solid top line as well as bottom line growth going into 2010. Start up losses from new stores should come down this year with only 2 new store additions. Maintain our BUY rating on the stock.
- **Shanghai Electric:** The company is facing challenges in the wind-turbine segment, a segment where Dongfang Electric is well positioned. Its backlog of wind-turbine is much smaller than Sany Group's, and also lags Dongfang Electric. Moreover, demand for new thermal installation after 2010 is uncertain. We hold a REDUCE rating with HKD3.00 TP.
- **Lonking:** The sector might be negatively affected by the lack of affordability among its end customers and the slowing down of property construction projects, although such an impact will not materialize until the second half of the year. We hold a BUY rating on Lonking, with target price of HKD6.88, as we believe its fundamentals could improve in 2010 and its excavator segment will drive growth over three years. The downside risk is the severe than expected credit tightening.
- **Shenzhou Intl:** We believe Shenzhou is on track to deliver strong 2009 and 2010 results. Recent pull back on the share price creates good entry point with attractive valuation and dividend yield. Near-term catalyst is the result of Fast Retailing (key customer of Shenzhou) in end Feb-09.
- **Giant Interactive & Shanda Games:** We continue with our Overweight rating for the China online gaming sector on: 1) expected fast but sustainable growth in the foreseeable future; iResearch forecasts online game market in China will have a 20% CAGR from 2010 to 2013, 2) the counter-cyclical nature of market contraction, and 3) attractive average valuation.

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All share prices are as at market close on 11 February 2010 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as  $(\text{target price}^* - \text{current price}) / \text{current price}$ . If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is REDUCE. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. In addition, we have key buy and key sell lists in each market, which are our most commercial and/or actionable BUY and REDUCE calls and are limited to at most five key buys and five key sells in each market at any point in time.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

\*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

**Should you require additional information please contact the relevant BNP Paribas research team or the author(s) of this report.**

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