

Weekly Flag Report



01/12/2008 – 07/12/2008

Highlights:

- China's Central Economic Work Conference started today. According to reports, it will focus on the implementation of stimulus policies. Renminbi depreciation may also be discussed. We think news flow during the conference period might cause some volatility in the market, especially sectors such as infrastructure, construction materials and agriculture.
- Agriculture sector was still in good shape. Led by **China Green (904 HK, HK\$5.85, BUY)**, share prices of farming companies rose mildly while fertilizer companies stood steadily after price rally the prior week.
- Sportswear sector performed poor except **Anta (2020 HK, HK\$3.49, BUY)**, which is our top pick among the sector. The counter is still trading at 34.3% discount to **Lining (2331 HK, HK\$10.90)** in terms of one-year forward P/E ratio. Meanwhile **China Dongxiang (3818 HK, HK\$2.04)** looks also attractive given the company's rich cash position (HK\$5.7bn at end-Jun or HK\$1.04 per share) and strong brand equity.
- Railway sector continued to perform strongly being a key focus of the government's fiscal stimulus package. We think that another beneficiary sector is the cement sector. Valuations in this sector are more reasonable in our view. We are particularly favourable on **Shanshui Cement (691 HK, HK\$1.57)**, which has good market exposure in both Shandong and Liaoning.

Table 1: Valuation gap of comparables

Sub-sector	Valuation rich	Cur Yr Fwd P/E (x)	Valuation attractive	Cur Yr Fwd P/E (x)
Footwear	Belle (1880 HK)	13.0	Daphne (210 HK)	5.0
Sportswear	Lining (2331 HK)	14.3	China Dongxiang (3818 HK)	10.1
Tech	Net Dragon (777 HK)	8.2	China Automation (569 HK)	5.9
Cement	Asia Cement (743 HK)	11.9	Shanshui Cement (691 HK)	6.4

Source: Bloomberg

Table 2: Strong / Weak during the week

Company	Ticker	Price (HK\$)	Mkt. Cap (HK\$m)	1w price movement	6m price movement	Forward P/E
Agriculture						
China Green	904 HK	5.85	5,127.4	13.7%	-44.2%	8.8
Chaoda Modern	682 HK	4.60	11,648.9	5.6%	-54.2%	3.6
CP Pokphand	43 HK	0.16	453.7	-0.6%	-55.8%	n.a.
Catic Shenz-H	161 HK	1.73	1,174.5	-2.3%	-74.6%	n.a.
Sinofert Holding	297 HK	3.53	24,943.9	-4.8%	-38.6%	10.2
China Bluechem-H	3983 HK	2.82	13,000.2	0.4%	-46.7%	6.9
Huabao International	336 HK	5.16	15,942.8	3.6%	-29.3%	14.8
China Flavor Fragrance	3318 HK	1.06	523.1	8.0%	-59.1%	n.a.
Ecogreen	2341 HK	1.12	521.0	7.7%	-56.9%	2.9
Pac Andes Intl	1174 HK	0.45	840.2	2.3%	-74.1%	1.6
Food & Beverage						
Cafe De Coral	341 HK	13.12	7,270.0	1.2%	-17.0%	15.4
Tao Heung	573 HK	1.21	1,227.5	-2.4%	-49.6%	5.4
Fu Ji Food & Cat	1175 HK	2.69	1,450.7	3.1%	-78.2%	2.4
Uni-President	220 HK	1.76	6,335.0	-0.6%	-56.5%	11.7
Tingyi Hldg Co	322 HK	8.94	49,778.3	4.5%	-7.3%	28.0
China Huiyuan	1886 HK	10.36	15,187.6	10.8%	79.2%	38.1
China Mengniu Dairy	2319 HK	9.42	14,476.4	6.6%	-63.1%	41.6
China Yurun Food	1068 HK	8.53	13,014.1	0.0%	-32.0%	11.7
Footwear & Apparels						
Xtep International	1368 HK	1.43	3,102.0	-9.0%	-62.4%	5.9
Anta	2020 HK	3.49	8,690.1	5.8%	-54.1%	9.4
Li Ning Co Ltd	2331 HK	10.90	11,174.9	-8.8%	-49.7%	14.3
Pou Sheng Intl	3813 HK	0.59	2,176.2	-15.3%	-76.6%	4.4
China Dongxiang	3818 HK	2.04	11,614.9	-7.7%	-39.6%	10.1
Ports Design Ltd	589 HK	8.58	4,818.4	-2.9%	-64.1%	9.4
Giordano Intl	709 HK	1.68	2,506.0	-0.6%	-52.8%	7.0
I.T Ltd	999 HK	0.40	462.0	6.7%	-83.2%	2.7
Texwinca Hldg	321 HK	3.61	4,778.0	-3.7%	-45.1%	4.6
Bosideng Intl	3998 HK	0.74	5,834.8	11.9%	-46.8%	4.4
Daphne International	210 HK	1.52	2,489.6	-1.9%	-68.8%	5.0
Stella International	1836 HK	6.20	4,959.4	-3.0%	-56.6%	5.3
Belle International	1880 HK	3.78	32,218.8	2.1%	-57.5%	13.0
Others Consumer Stock						
Xinyu Hengdeli	3389 HK	0.89	2,211.2	-1.1%	-75.7%	4.0
Sa Sa Intl Hldgs	178 HK	1.62	2,251.4	1.9%	-50.7%	7.9
Bonjour Hldgs	653 HK	2.05	470.9	-3.8%	-59.7%	n.a.
Natural Beauty	157 HK	1.18	2,360.8	1.7%	-36.6%	9.1
Modern Beauty	919 HK	0.56	405.2	-5.1%	-81.9%	1.5
Channels						
New World Dept	825 HK	3.68	6,255.6	4.5%	-54.8%	11.3
Maoye Intl Hldgs	848 HK	0.60	3,083.9	5.3%	-80.9%	4.8
Intime Department	1833 HK	1.95	3,492.0	-3.0%	-64.6%	6.9
Golden Eagle Retail	3308 HK	4.19	7,635.3	0.0%	-47.6%	12.3
Parkson Retail	3368 HK	8.04	22,441.5	12.9%	-35.0%	22.4
Beijing Jingkelong	814 HK	2.43	1,009.9	1.2%	-56.1%	5.7
Lianhua -H	980 HK	8.66	5,411.4	-6.5%	-17.1%	13.5
Times Ltd	1832 HK	2.10	1,835.4	-6.7%	-36.4%	10.7
Wumart Stores	8277 HK	6.22	7,590.6	-0.2%	-15.8%	16.2
Gome Electrical	493 HK	1.12	14,289.8	0.0%	-75.7%	5.6
Pharmaceuticals / Healthcare						
United Laboratories	3933 HK	1.97	2,364.0	1.5%	-61.0%	4.0
Sino Biopharma	1177 HK	1.06	2,399.8	2.9%	-37.3%	9.1
China Renji Medical	648 HK	0.04	405.8	2.9%	-60.2%	5.8
Shandong Weigao-H	8199 HK	11.00	10,951.2	-0.7%	-13.4%	21.3
Guangzhou Pharm-H	874 HK	2.26	4,765.7	12.7%	-64.9%	10.7
China Shineway	2877 HK	4.39	3,556.1	2.4%	-30.5%	6.6
Wuyi International	1889 HK	0.73	1,231.0	9.1%	-40.5%	4.3
Mingyuan Medical	233 HK	0.45	1,288.9	1.1%	-63.6%	7.2
China Pharmaceutical	1093 HK	2.39	3,610.7	12.4%	-35.6%	4.8
Telecom						
China Telecom-H	728 HK	3.13	255,746.3	6.4%	-36.3%	10.0
China Unicom H	762 HK	9.96	234,108.3	8.0%	-35.1%	13.2
China Mobile	941 HK	81.00	1,618,211.0	10.9%	-29.8%	12.7
Telecom Equipment						
Comba Telecom Systems	2342 HK	1.20	1,025.3	31.5%	-52.4%	4.9
Centron Telecom	1155 HK	0.72	504.0	7.5%	-65.7%	2.7
Delta Networks I	722 HK	0.75	922.8	-14.3%	-69.4%	n.a.
China Comm Ser-H	552 HK	4.65	26,780.6	2.0%	-29.9%	16.9
Banks						
Bank Of China-H	3988 HK	2.50	856,959.8	-0.8%	-36.2%	7.7
Bank Of Commun-H	3328 HK	5.33	272,230.5	2.1%	-47.7%	7.9
China Const Bank-H	939 HK	4.80	1,130,862.0	12.9%	-29.9%	9.6
China Merch Bank-H	3968 HK	14.22	224,659.9	8.2%	-48.0%	7.9
Ind & Comm Bank -H	1398 HK	4.39	1,517,506.0	11.9%	-24.7%	11.1
Boc Hong Kong	2388 HK	9.26	97,586.8	4.9%	-55.9%	8.9
Ind & Comm Bank	349 HK	7.41	9,562.4	0.1%	-66.2%	6.9
Construction						
China Com Cons-H	1800 HK	9.26	137,279.5	4.4%	-44.8%	19.2
China Railway Group-H	390 HK	5.25	141,745.0	2.3%	-23.3%	36.6
China Railway Construction-H	1186 HK	11.26	146,105.3	9.6%	-10.8%	30.2
Zhuzhou CSR	3898 HK	6.90	7,481.4	15.0%	-3.5%	16.9
Technology & Media						
Tencent Holdings	700 HK	48.20	87,104.2	11.5%	-29.1%	29.8
Alibaba.Com Ltd	1688 HK	5.23	26,272.3	12.8%	-66.1%	17.8
Kingdee Intl Software	268 HK	0.80	1,537.6	2.6%	-57.7%	7.9
Netdragon Websoft	777 HK	3.58	1,858.0	25.0%	-65.6%	8.2
China Automation	569 HK	1.25	1,145.7	4.1%	-49.4%	5.9

Source: Bloomberg

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