NOMURA
NOMURA SECURITIES MALAYSIA SDN BHD

Wai Kee Choong +60 3 2027 6893 waikee.choong@nomura.com

NEW THEME

Action

Who would have thought Malaysia's population would have doubled to 28mn in the past 30 years, and grown by nearly 5mn in the past decade alone? To put this into perspective, the 5mn increase is more than the entire population of Singapore and close to Hong Kong's. Even less well known is the remarkable increase in the indigenous group or Bumiputera – mainly comprising the ethnic Malay population – which has more than doubled from 8.1mn in 1980 to an estimated 17.0mn this year.

Anchor themes

After close to a year of promoting the earnings upgrade story, we are introducing a brand new theme — Malaysia's consumption boom. The potential impact is under-researched and overlooked by the street, in our view.

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

Stocks for action

We recommend a group of stocks which we believe will be the prime beneficiaries of the consumption boom in Malaysia.

Stock	Nomura rating	Share price	Price target
Maybank (MAY MK)	BUY	7.70	9.25
Genting (GENM MK)	BUY	2.70	3.70
Media Prima (MPR MK)	BUY	2.09	2.50
SP Setia (SPSB MK)	BUY	4.13	5.06
QSR Brands (QRS MK)	BUY	4.25	5.47

Note: prices as at 21 July, 2010 close; local currency

Malaysia Boleh #19: the untold story (I)

① Malaysia's consumption boom

Malaysia's population surprisingly has risen by nearly 5mn over the past decade, an increase that is more than the entire population of Singapore and close to Hong Kong's. Perhaps even less well known is the remarkable growth in the indigenous group or Bumiputera – mainly the Malay population, but also comprising aboriginal populations in Borneo – which has more than doubled from 8.1mn in 1980 to an estimated 17.0mn this year. The strong population growth has also seen household formation increase by 23% to more than 6mn over the past ten years.

② Young demographic

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.

③ Strong surge in middle class

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 to 60% of households earning less than RM1,000/month back in 1990. This has given rise to a much bigger middle-income consumer group and a meaningful bankable population, underpinning record car and property sales.

④ How to ride the consumption boom?

We recommend a group of stocks that we expect to be prime beneficiaries of the consumption boom. Our picks under this brand new theme are Maybank, Media Prima, Genting Malaysia, SP Setia, Malaysia Airline System, Axiata, QSR Brands, Evergreen Fibreboard, DiGi.Com and Alliance Financial Group.

Analysts

Wai Kee Choong
+60 3 2027 6893
waikee.choong@nomura.com

Julian Chua
+60 3 2027 6892
julian.chua@nomura.com

Jacinda Loh
+60 3 2027 6889
jacinda.loh@nomura.com

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

Muzhafar Mukhtar
+60 3 2027 6891
muzhafar.mukhtar@nomura.com

Daniel Raats
+852 2252 2197
daniel.raats@nomura.com

B. Roshan Raj
+65 6433 6961
broshan.raj@nomura.com

Andrew Lee
+852 2252 6197
andrew.lee@nomura.com

Tanuj Shori
+65 6433 6981
tanuj.shori@nomura.com

Min Chow Sai
+65 6433 6959
minchow.sai@nomura.com

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The untold story

Significant potential to consumption boom overlooked

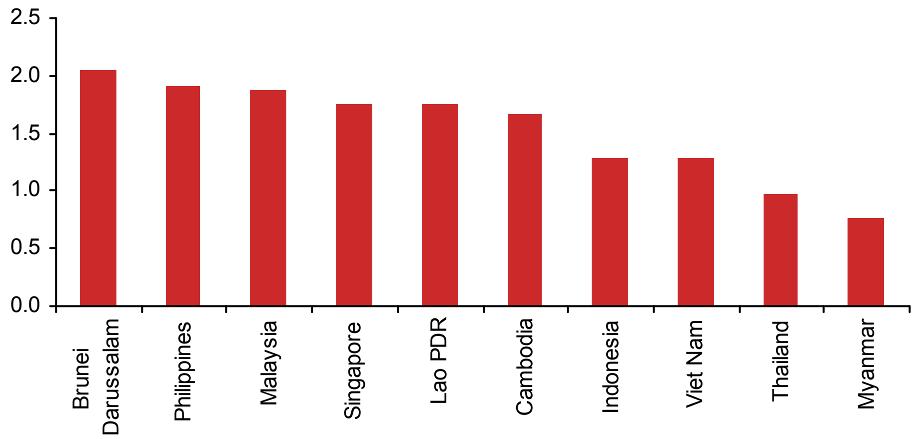
Malaysia's population has doubled to 28mn over the past 30 years, growing at an average 2.4% pa. In the past decade alone, the population has grown by nearly 5mn. To put this figure into perspective, the 5mn increase is larger than the entire population of Singapore and close to Hong Kong's population of 6.98mn.

In the past decade alone, Malaysia has seen surprisingly strong population growth that exceeds Singapore's entire population

According to government statistics, Malaysia has one birth every 58 seconds and a net increase in population of one person every 56 seconds. The population has grown at a rate of about 560K per year or nearly 2% pa over 2000-10. We estimate that the population in Malaysia will surpass 30mn by 2015F. Between 2000 and 2008, Malaysia recorded one of the fastest-growing population base within the Asean region.

Malaysia's population looks set to surpass the 30mn mark by 2015F

Exhibit 1. ASEAN: population growth 2000-08 (%)



Source: UNESCAP

A large and growing Malay population

What we believe is more surprising and remains relatively over-looked is the significant increase in the indigenous group or Bumiputera, which consists mainly of the Malay population and now accounts for 60% of Malaysia's entire population (Malaysia also has a diverse if small group of indigenous non-Malays, including Borneo's Dayaks). This segment has more than doubled over the past 30 years from 8.1mn in 1980 to an estimated 17.0mn this year. The next largest ethnic group, the Chinese, has grown at a slower pace, from 4.4mn in 1980 to an estimated 6.5mn in 2010, and now accounts for 23% of the population (down from 32% in 1980). The decline here has largely been filled by non-citizens, mainly foreign workers that now comprise nearly 9% of the nation's headcount.

Bumiputeras — mainly Malays — have more than doubled over the past 30 years from 8.1mn in 1980 to about 17.0mn in 2010…

Government forecasts show the Bumiputera population growing at about 1.7% pa over the next five years (similar to the growth rate over 2000-10) to 18.5mn and accounting for 62% of the total population. The government expects the Chinese population to grow at a slower pace of 1.2% pa to 6.7mn, and the immigrant population to decline at about 2.2% pa through 2015F.

… and are likely to grow by about 1.7% pa over the next five years to 18.5mn

Exhibit 2. Malaysia: population breakdown and growth

	1980		1990		2000		2010F		2015F	
Bumiputeras	8.1	59%	11.1	61%	14.3	61%	17.0	60%	18.5	62%
Chinese	4.4	32%	5	27%	5.8	25%	6.5	23%	6.7	22%
Indian	1.1	8%	1.4	8%	1.7	7%	1.9	7%	2.0	7%
Others	0.1	1%	0.7	4%	1.7	7%	2.9	10%	2.6	9%
Total	13.7		18.2		23.5		28.3		29.8	

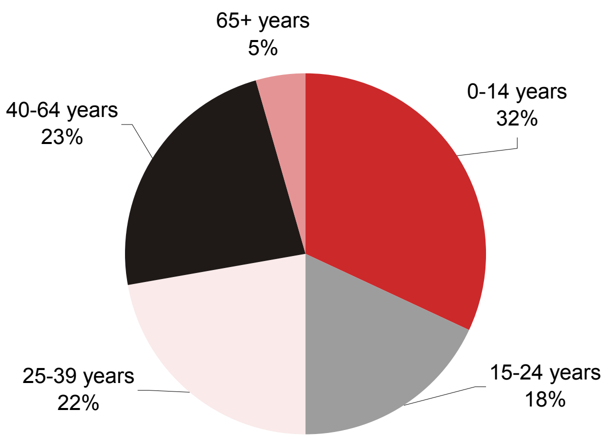
Source: 10th Malaysia Plan

Young demographic

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

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. Furthermore, the young population profile and high rate of household formation (2% pa growth) also feeds into demand for mortgages and car financing.

Exhibit 3. Malaysia: population breakdown by age group



Source: CEIC

Strong GDP per capita growth …

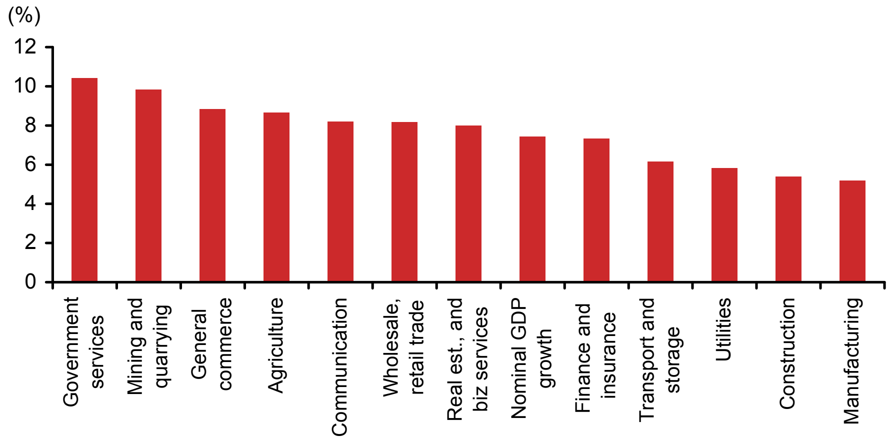
Comparatively high GDP per capita growth, despite fast-growing population

Even with the population growing at a clip, Malaysia enjoys a relatively high GDP per capita in the region. Its GDP per capita (in current terms) was US$6,897 in 2008, comparing favourably with Thailand's US$3,939 and Indonesia's US$2,329. After PPP adjustment, the GDP per capita levels are at US$14,082 for Malaysia, US$8,232 for Thailand and US$3,980 for Indonesia.

Malaysia's GDP per capita has risen at a decent pace of 9% pa since 2000. Sectors leading the growth have been government services, mining/quarrying, accommodation and restaurants (ie, tourism-related sectors), agriculture, telcos, general commerce and business services. If we could distil these into three main areas, they would be government, commodities and the services sector. Manufacturing, however, has lagged, expanding at just 5% pa.

Exhibit 4. Malaysia: nominal GDP growth 2000-2009

GPD growth led by government, commodities and services sector



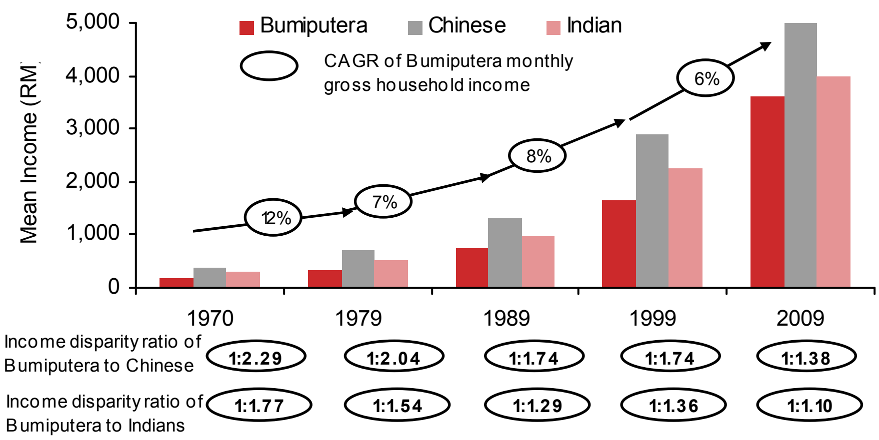
Source: Bank Negara Malaysia

… strong surge in middle-class consumers

A growing middle class means a meaningful bankable population…

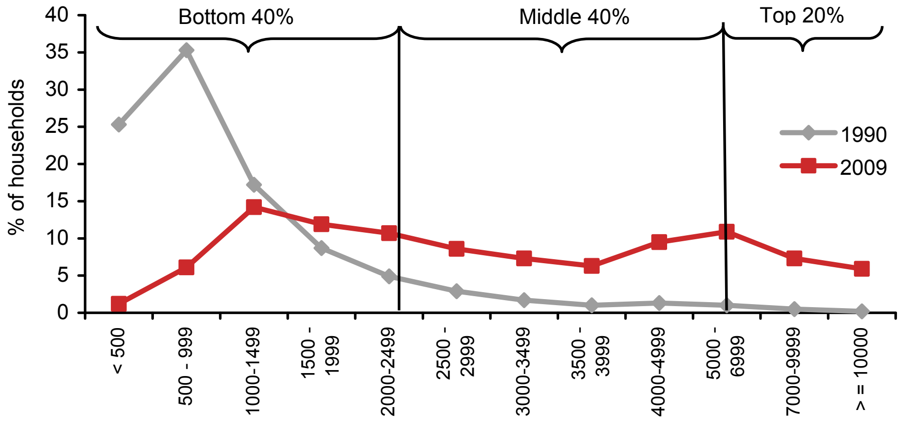
After 20 years of robust economic growth and development, not only has GDP per capita risen at a healthy pace, income levels are also more evenly distributed than they were in 1990. Some 55% of households now earn at least RM2,500/month, compared to 60% of households earning less than RM1,000/month in 1990. This has given rise to a far bigger middle-income consumer group and a meaningful bankable population. Among the three major ethnic groups, Bumiputera household incomes have grown the fastest, at 6% pa over 1999-2009, narrowing the income gap between Chinese and Bumiputera households to 35% in 2007, from 43% in 1999.

Exhibit 5. Malaysia: mean monthly gross household income 1970-2000 (RM)



Source: 10th Malaysia Plan

Exhibit 6. Malaysia: distribution of households by income 1990, 2009 (%)



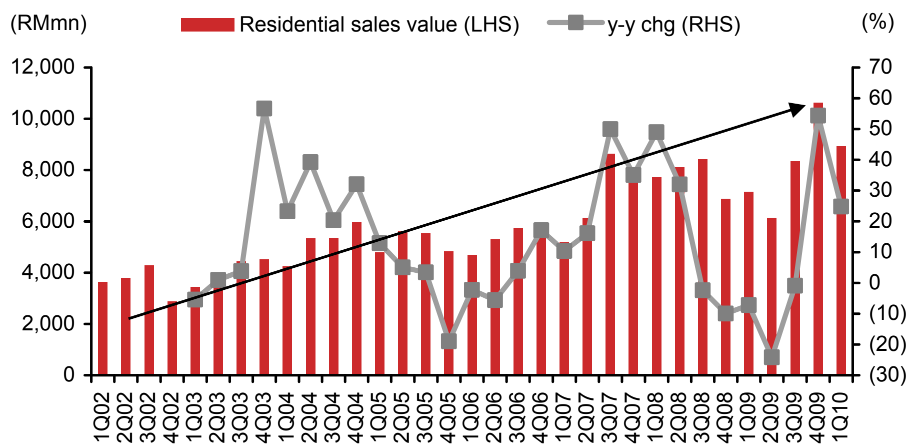
Source: 10th Malaysia Plan

Property sales reaching record highs …

… underpinning record property and auto sales

Residential property sales transactions in the top four states (Kuala Lumpur, Selangor, Penang and Johor) reached a record high of RM32.3bn in 2009. This was achieved in spite of the weak 1H09, which saw global recession and the worst GDP contraction since the 1998 economic crisis. Property sales in 4Q09 alone reached RM10.6bn for these states, up about 23% from the previous quarterly peak of RM8.6bn in 3Q07 and nearly quadruple the sales recorded in 4Q02.

Exhibit 7. Malaysia: residential sales value for KL, Selangor, Penang, Johor

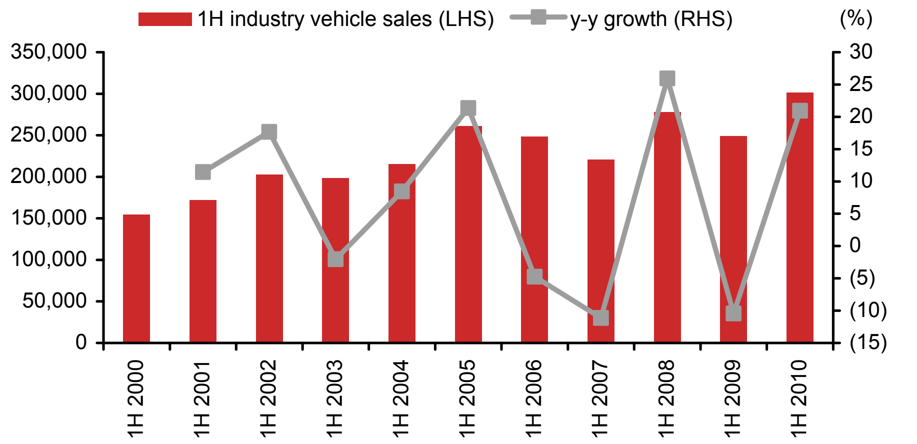


Source: Valuation and Property Services Department

… as are auto sales

Similarly, auto sales, a good indicator of consumer sentiment, have done very well, reaching record levels this year. Total vehicle sales rose by 21% y-y in 1H10, with all segments showing strong growth. Interestingly, in spite of the recession in 1H09, total passenger car sales held up, falling by a mere 2% y-y in 2009, owing to a strong rebound in the second half.

Exhibit 8. Malaysia: 1H vehicle sales (units)



Source: Malaysian Automotive Association

Structural changes have taken place

Malaysia's structural changes overlooked

Fund flow data suggest that the structural re-rating story seems to be playing out well for Indonesia, which attracted inflow of US$1.18bn in the year to date. This compares with Thailand's US$93mn and Malaysia's US$160mn over the same period. Despite being structurally wealthier, Malaysia is lagging behind in terms of attracting new fund inflows.

Exhibit 9. Investment flows at a glance (US$mn)

	Mutual funds investing				Foreign investing				
	4-week	12-week	YTD	2009	1-week	4-week	12-week	YTD	2009
Asia ex-Japan	2,302	890	4,865	19,109	4,482	4,599	(4,609)	15,584	59,985
India	547	323	1,389	5,667	1,546	2,976	2,811	8,365	17,591
Indonesia	318	253	1,183	3,975	216	453	532	1,074	1,382
Japan	(536)	(1,834)	1,674	(5,461)	1,952	487	(14,724)	19,758	17,668
Korea	283	210	2,282	5,017	1,572	692	(3,319)	5,614	24,816
Philippines	2	33	80	99	5	40	18	367	137
Taiwan	888	255	536	3,423	1,129	329	(2,674)	719	14,922
Thailand	58	(441)	93	1,172	15	109	(1,977)	(555)	1,136
Australia	58	314	1,538	5,301	-	-	-	-	
China	1,232	2,223	3,654	12,195	-	-	-	-	
Developed Europe	(1,634)	(4,064)	(12,083)	2,506	-	-	-	-	
EMEA	84	(153)	2,673	2,017	-	-	-	-	
Hong Kong	129	(1,179)	(755)	1,418	-	-	-	-	
Latin America	(114)	(2,074)	(2,217)	8,786	-	-	-	-	
Malaysia	56	1	160	457	-	-	-	-	
New Zealand	(1)	(2)	2	11	-	-	-	-	
Singapore	234	(191)	(543)	1,091	-	-	-	-	
US	(16,376)	(13,329)	(21,354)	(44,349)	-	-	-	-	

Source: Bloomberg, EPFR Global, Nomura research

Higher average crude oil and crude palm oil prices

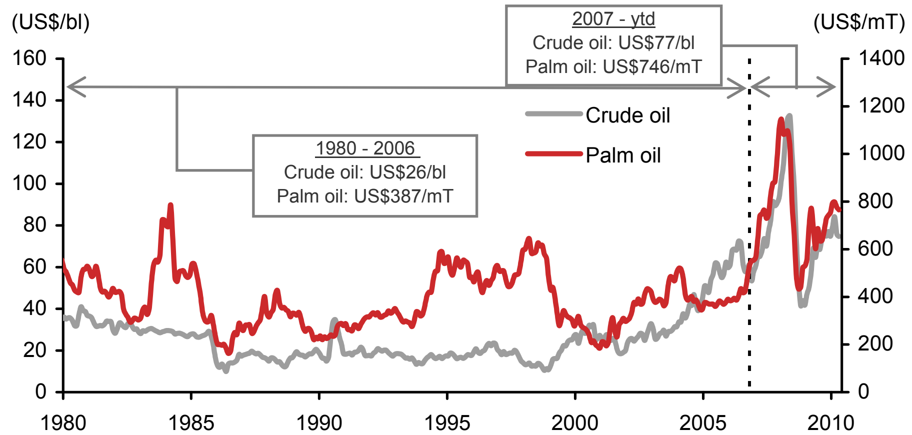
Higher crude oil and crude palm oil prices have made Malaysia as a whole a much richer country

Thanks to high crude oil and crude palm oil prices, Malaysia is structurally a much stronger economy today than it was a decade ago, in our view. 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 seen between 1980 and 2006. With crude oil and crude palm oil prices trading at high levels since 2007, Malaysia as a whole is a richer country as a result.

The effects of sustained high commodity prices are also finally filtering down to farmers and small settlers. From personal cars to mass-market property sales, all recent statistics point to significant potential upside in domestic consumption. 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.

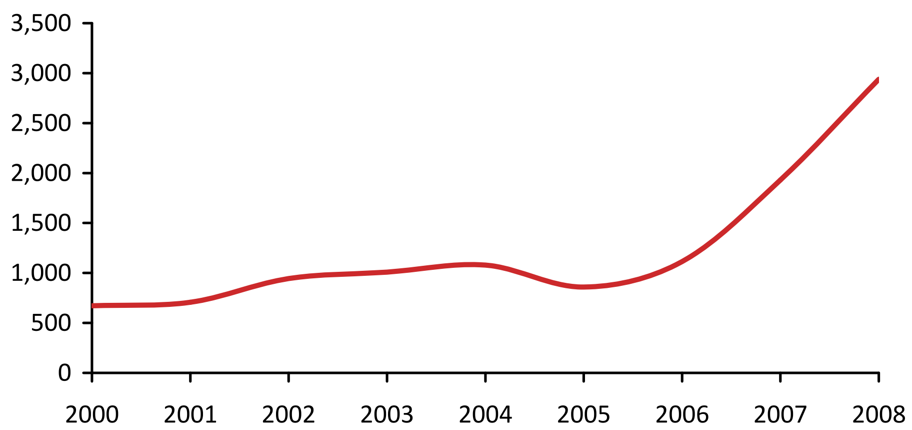
The benefits of stronger commodity prices are finally starting to filter down to farmers and small settlers

Exhibit 10. Historical average crude oil and crude palm oil prices



Source: IMF, Nomura research

Exhibit 11. Average settlers incomes have risen in tandem with CPO price



Source: Federal Land Development Authority

Exhibit 12. Settlers stand to benefit from higher commodity prices

State	Palm oil	Rubber	Total settlers
Pahang	40,500	2,623	43,123
Johor	24,483	3,158	27,641
Negeri Sembilan	6,846	9,583	16,429
Terengganu	7,133	330	7,463
Perak	4,154	1,760	5,914
Kedah	108	3,077	3,185
Kelantan	3,115	-	3,115
Selangor	1,722	207	1,929
Sabah	1,649	-	1,649
Melaka	801	529	1,330
Perlis	-	857	857
Total	**90,511**	**22,124**	**112,635**

Source: Federal Land Development Authority

Action points: stock selections

We recommend a group of stocks which we believe will be the prime beneficiaries of the consumption boom. Our picks under this brand new theme are Maybank, Media Prima, Genting Malaysia, SP Setia, Malaysia Airline System, Axiata, QSR Brands, Evergreen Fibreboard, DiGi.Com and Alliance Financial Group.

Exhibit 13. Top Buys

Company	Ticker	Mkt cap (US$mn)	Local price	TP (lc)	Upside (%)	Avg daily vol 3M (US$mn)	Normalised EPS growth (%)		Norm P/E (x)			P/BV (x)		Yield (%)			ROE (%)	
							FY10F	FY11F	FY09	FY10F	FY11F	FY10F	FY11F	FY09	FY10F	FY11F	FY10F	FY11F
BUY																		
Alliance Financial Group	AFG MK	1,425	2.96	3.65	23	1.8	31	31	19.9	15.2	11.6	1.6	1.3	2.1	2.2	3.4	11	12
Axiata Group	AXIATA MK	10,714	4.08	4.50	10	10.9	30	17	20.8	16.1	13.7	1.7	1.6	0.0	0.0	3.3	13	12
DiGi.Com	DIGI MK	5,739	23.74	27.60	16	3.8	5	2	18.4	17.5	17.1	10.7	9.5	7.5	4.6	4.7	65	59
Evergreen Fibreboard	EVF MK	258	1.62	3.41	110	0.2	70	21	9.8	5.8	4.8	1.0	0.9	0.0	6.2	6.8	19	20
Genting Malaysia	GENM MK	4,959	2.70	3.70	37	5.3	(2)	5	12.2	12.1	11.6	1.4	1.3	2.1	2.2	2.4	12	12
Malaysian Airline System	MAS MK	2,182	2.10	2.40	14	0.6	n.a.	225	n.a.	35.1	10.8	1.7	1.5	0.0	0.0	0.0	8	15
Malayan Banking	MAY MK	16,947	7.70	9.25	20	22.2	41	16	25.0	14.5	12.5	1.9	1.8	0.8	1.9	4.8	14	15
Media Prima	MPR MK	635	2.09	2.50	20	0.5	53	14	27.8	18.2	16.0	2.1	1.9	4.4	2.8	3.1	12	13
SP Setia	SPSB MK	1,306	4.13	5.06	23	1.2	17	18	24.5	20.9	17.7	2.1	2.0	2.5	2.9	3.4	10	11
QSR Brands	QSR MK	379	4.25	5.47	29	0.7	40	15	13.2	10.8	9.3	1.2	1.1	2.4	3.3	3.8	17	18

Note: prices as of 21 July, 2010 close

Source: Bloomberg, Nomura estimates

Alliance Financial Group Bhd AFG MK

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Maintained

BUY

Julian Chua +60 3 2027 6892 julian.chua@nomura.com

Action

With its high proportion of variable rate loans and low-cost deposits, AFG is positively leveraged to the rising interest rate environment. Furthermore, given its strong exposure to the consumer sector (60% of total loans), we expect average loan growth of 14% pa over the next three years. Maintain BUY.

Catalysts

Further OPR hikes by the Central Bank would benefit AFG. We perceive AFG as a potential M&A play if DBS seeks to establish a Malaysia presence.

Anchor themes

The anticipated turnaround in the economy this year will be the key growth driver for bank earnings. Rising loan growth, lower credit costs and stable margins should sustain strong earnings recovery.

Closing price on 21 Jul	RM2.96
Price target	RM3.65
	(set on 8 Apr 10)
Upside/downside	23.3%
Difference from consensus	14.1%
FY12F net profit (RMmn)	518
Difference from consensus	20.8%

Source: Nomura

Nomura vs consensus

Consensus may have underestimated operational growth and interest margins. We also think that AFG can surprise positively on asset quality.

Strong niche in consumer, SMEs

① Consumer, SME business accounts for 85% of total loans

Although the smallest domestic banking group with about 2% of assets and 3% loan market share, AFG has carved a niche for itself in the consumer and SME space operating from a network of 102 branches. Mortgages, which accounts for nearly 40% of total loans, clocked a CAGR of 21% over the past four years (vs industry: 9%).

② Civil service loans – the new growth area

Last year, AFG forged a partnership with the Angkasa cooperative to extend personal loans to government servants using the cooperative's network. Ticket sizes for these loans typically range from several thousand to RM30,000 for a duration of two to three years. Lending rates are high (we estimate in the mid-teens level) and the loan is secured on direct salary deduction from the employee. The loan book for this segment has already reached nearly RM1bn (from zero a year ago) and management aims to maintain the present run rate.

③ NIM on uptrend

AFG benefits from Bank Negara rate hikes as >80% of its loans are floating rate which reprices immediately, while low-cost current/savings deposits account for 41% of total customer deposits. We have built in a 42bps expansion in NIMs over the next two years to 2.44% on the assumption that the overnight policy rate will rise to 3.5% next year.

④ Stock still trades at reasonable valuations

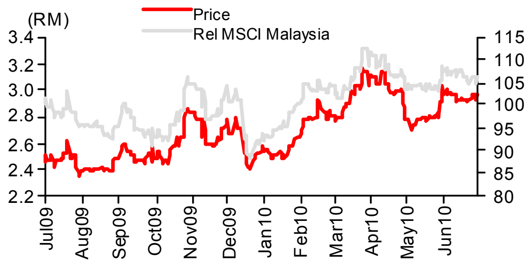
AFG is trading at 1.5x P/BV, which is just above its post crisis mean P/BV of 1.4x. Given the strong loan growth, improving margins and good asset quality, AFG's EPS is expected to rise >30% over the next two years.

Key financials & valuations

31 Mar (RMmn)	FY10	FY11F	FY12F	FY13F
PPOP	510	640	820	900
Reported net profit	301	395	518	573
Normalised net profit	301	395	518	573
Normalised EPS (RM)	0.19	0.26	0.33	0.37
Norm. EPS growth (%)	31.0	31.2	31.0	10.6
Norm. P/E (x)	15.2	11.6	8.9	8.0
Price/adj. book (x)	1.55	1.31	1.19	1.08
Price/book (x)	1.55	1.31	1.19	1.08
Dividend yield (%)	2.2	3.4	4.5	5.2
ROE (%)	10.6	12.3	14.1	14.2
ROA (%)	0.95	1.15	1.34	1.36
Earnings revisions				
Previous norm. net profit		395	518	-
Change from previous (%)		-	-	-
Previous norm. EPS (RM)		0.26	0.33	-

Source: Company, Nomura estimates

Share price relative to MSCI Malaysia



	1m	3m	6m
Absolute (RM)	(2.0)	(4.8)	17.0
Absolute (US$)	(2.8)	(5.3)	22.9
Relative to Index	(2.5)	(4.9)	16.0
Market cap (US$mn)			1,425
Estimated free float (%)			70.0
52-week range (RM)			3.16/2.36
3-mth avg daily turnover (US$mn)			1.77
Stock borrowability			Hard
Major shareholders (%)			
Vertical Theme			29.1
EPF			15.7

Source: Company, Nomura estimates

Valuation methodology

Our price target of RM3.65 is based on FY12F fair value of RM3.98, rolled back to FY11F using a cost of equity of 8.55%. Our price target assumes a dividend payout of 40%, an ROE of 13.9%, a cost of equity of 8.55% and a terminal growth rate of 3.9%. It implies an FY11F P/E of 14.4x and P/BV of 1.6x.

Risks to our investment view

- Higher-than-expected loan charge-offs and sluggish loan growth if the domestic economy recovers more slowly than we expect
- Delay in further policy rate hikes by Bank Negara would result in slower margin expansion than forecast

Financial statements

Profit and Loss (RMmn)					
Year-end 31 Mar	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
Interest income	1,250	1,094	1,455	1,768	1,910
Interest expense	(589)	(478)	(690)	(853)	(920)
Net interest income	**662**	**617**	**765**	**915**	**990**
Net fees and commissions	132	132	155	170	185
Trading related profits	97	51	50	60	60
Other operating revenue	168	264	300	355	390
Non-interest income	**397**	**448**	**505**	**585**	**635**
Operating income	**1,058**	**1,065**	**1,270**	**1,500**	**1,625**
Depreciation	(51)	(56)	(60)	(60)	(65)
Operating expenses	(513)	(499)	(570)	(620)	(660)
Employee share expense	-	-	-	-	-
Op. profit before provisions	**494**	**510**	**640**	**820**	**900**
Provisions for bad debt	(190)	(101)	(102)	(115)	(120)
Other provision charges	-	-	-	-	-
Operating profit	**303**	**409**	**538**	**705**	**780**
Amortisation	0	0	0	0	0
Other non-operating income					
Associates & JCEs	0	0	0	0	0
Pre-tax profit	**303**	**409**	**538**	**705**	**780**
Income tax	(74)	(107)	(143)	(187)	(207)
Net profit after tax	**229**	**302**	**395**	**518**	**573**
Minority interests	0	(0)	(0)	(0)	(0)
Other items					
Preferred dividends					
Normalised NPAT	**229**	**301**	**395**	**518**	**573**
Extraordinary items					
Reported NPAT	**229**	**301**	**395**	**518**	**573**
Dividends	(97)	(99)	(157)	(206)	(238)
Transfer to reserves	**132**	**202**	**239**	**312**	**335**
Valuation and ratio analysis					
FD normalised P/E (x)	20.0	15.2	11.6	8.9	8.0
FD normalised P/E at price target (x)	24.7	18.8	14.3	10.9	9.9
Reported P/E (x)	19.9	15.2	11.6	8.8	8.0
Dividend yield (%)	2.1	2.2	3.4	4.5	5.2
Price/book (x)	1.7	1.6	1.3	1.2	1.1
Price/adjusted book (x)	1.7	1.6	1.3	1.2	1.1
Net interest margin (%)	2.84	2.33	2.58	2.68	2.61
Yield on interest earning assets (%)	5.37	4.13	4.90	5.17	5.04
Cost of interest bearing liabilities (%)	2.27	1.71	2.29	2.51	2.50
Net interest spread (%)	3.10	2.42	2.61	2.66	2.55
Non-interest/operating income (%)	37.5	42.1	39.8	39.0	39.1
Cost to income (%)	53.3	52.1	49.6	45.3	44.6
Effective tax rate (%)	24.5	26.3	26.5	26.5	26.5
Dividend payout (%)	42.2	32.9	39.6	39.8	41.5
ROE (%)	8.6	10.6	12.3	14.1	14.2
ROA (%)	0.77	0.95	1.15	1.34	1.36
Operating ROE (%)	11.3	14.3	16.7	19.2	19.3
Operating ROA (%)	1.02	1.29	1.57	1.82	1.85
Growth (%)					
Net interest income	3.9	(6.8)	24.0	19.6	8.2
Non-interest income	4.2	12.9	12.8	15.8	8.5
Non-interest expenses	22.0	(2.8)	14.3	8.8	6.5
Pre-provision earnings	(9.8)	3.3	25.5	28.1	9.8
Net profit	(39.7)	31.6	31.2	31.0	10.6
Normalised EPS	(41.5)	31.0	31.2	31.0	10.6
Normalised FDEPS	(39.7)	31.6	31.2	31.0	10.6

Source: Nomura estimates

NIMs to expand on the back of Central Bank's rate hikes

Balance Sheet (RMmn)					
As at 31 Mar	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
Cash and equivalents	4,998	3,565	4,000	3,000	3,000
Inter-bank lending	199	150	199	199	199
Deposits with central bank	199	259	235	256	278
Total securities	6,681	6,086	7,681	8,681	8,681
Other interest earning assets					
Gross loans	19,590	21,410	25,000	28,000	31,500
Less provisions	(872)	(761)	(894)	(970)	(1,057)
Net loans	**18,718**	**20,648**	**24,106**	**27,030**	**30,443**
Long-term investments	0	0	0	0	0
Fixed assets	337	163	280	280	280
Goodwill	369	362	362	362	362
Other intangible assets					
Other non IEAs	354	431	159	576	732
Total assets	**31,854**	**31,664**	**37,022**	**40,383**	**43,974**
Customer deposits	25,575	23,628	28,000	31,000	34,500
Bank deposits, CDs, debentures	1,191	2,290	2,500	2,500	1,500
Other interest bearing liabilities	1,261	1,766	1,958	1,958	2,285
Total interest bearing liabilities	**28,027**	**27,684**	**32,458**	**35,458**	**38,285**
Non interest bearing liabilities	1,061	1,028	1,061	1,061	1,450
Total liabilities	**29,088**	**28,712**	**33,519**	**36,519**	**39,735**
Minority interest	5	5	8	8	8
Common stock	1,548	1,548	1,550	1,550	1,550
Preferred stock					
Retained earnings	481	595	955	1,316	1,317
Proposed dividends					
Other equity	733	804	990	990	1,364
Shareholders' equity	**2,762**	**2,947**	**3,495**	**3,856**	**4,232**
Total liabilities and equity	**31,854**	**31,664**	**37,022**	**40,383**	**43,974**
Non-performing assets (RM)	*875*	*806*	*950*	*1,008*	*1,071*
Balance sheet ratios (%)					
Loans to deposits	76.6	90.6	89.3	90.3	91.3
Equity to assets	8.7	9.3	9.4	9.5	9.6
Asset quality & capital					
NPAs/gross loans (%)	4.5	3.8	3.8	3.6	3.4
Bad debt charge/gross loans (%)	0.97	0.47	0.41	0.41	0.38
Loss reserves/assets (%)	2.74	2.40	2.41	2.40	2.40
Loss reserves/NPAs (%)	99.7	94.4	94.1	96.3	98.7
Tier 1 capital ratio (%)	10.3	11.7	11.7	12.0	12.2
Total capital ratio (%)	14.7	16.0	15.4	15.6	15.5
Growth (%)					
Loan growth	19.8	10.3	16.7	12.1	12.6
Interest earning assets	24.1	5.2	18.7	12.2	9.5
Interest bearing liabilities	17.6	(1.2)	17.2	9.2	8.0
Asset growth	15.1	(0.6)	16.9	9.1	8.9
Deposit growth	19.8	(7.6)	18.5	10.7	11.3
Per share					
Reported EPS (RM)	0.15	0.19	0.26	0.33	0.37
Norm EPS (RM)	0.15	0.19	0.26	0.33	0.37
Fully diluted norm EPS (RM)	0.15	0.19	0.25	0.33	0.37
DPS (RM)	0.06	0.06	0.10	0.13	0.15
PPOP PS (RM)	0.32	0.33	0.41	0.53	0.58
BVPS (RM)	1.78	1.90	2.26	2.49	2.73
ABVPS (RM)	1.78	1.90	2.26	2.49	2.73
NTAPS (RM)	1.55	1.67	2.02	2.26	2.50

Source: Nomura estimates

Credit costs expected to stay low going forward

Axiata Group Berhad AXIATA MK

TELECOMS | MALAYSIA

B Roshan Raj +65 6433 6961 broshan.raj@nomura.com
Sachin Gupta, CFA +65 6433 6968 sachin.gupta@nomura.com
Pankaj Suri (Associate)

Maintained

BUY

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Action

Notwithstanding the solid revenue growth outlook, Axiata has been working on various group-level opex and capex savings initiatives. Our review of its cost items suggests a 130bp margin improvement this year and potential upside to our medium-term estimates. Additionally, Axiata's capex trends are likely to moderate, as it tries to improve its 7% ROIC versus an 8-13% cost of capital in different subsidiaries. Initiatives like network sharing (Bangladesh, Malaysia) and outsourcing of non-core activities are a key step in this regard. Maintain BUY.

Catalysts

Continued operational strength in domestic and overseas businesses remains the key catalyst. FY10F dividend guidance could positively surprise.

Anchor themes

The focus for Malaysian telcos is on driving data growth, both on handsets and WBB. Broadband penetration remains low, providing solid growth opportunity.

Closing price on 21 Jul	RM4.08
Price target	RM4.50
	(set on 4 Jun 10)
Upside/downside	10.3%
Difference from consensus	10.8%
FY11F net profit (RMmn)	2,508
Difference from consensus	2.1%

Source: Nomura

Nomura vs consensus

Our above-consensus price target is driven by our expectation of continued growth at Celcom and XL, and easing investment risks.

Upside from cost control

① Margins could positively surprise

Axiata's opex saving initiatives have been in focus since FY09, when margin improved by 100bps y-y to 39.4%; we expect another 130bp improvement this year. Based on our scenario analysis, a 100bp margin uplift would improve earnings by 5%. While Axiata's FY10F guidance implies a 40.1% margin, we see room for a positive surprise.

We believe that subsidiaries Robi and Dialog have meaningful scope to improve margins from 34% and 22%, respectively, in FY09. However, in terms of impact, Celcom and XL remain key – we expect a 200bp margin improvement for XL and an 80bp decline for Celcom this year. Over the medium term, margins are likely to trend lower by 20-30bps pa due to competition and higher contributions from the lower-margin data segments.

② Focus on returns to drive better ROIC

Apart from Celcom, the return on invested capital (ROIC) for Axiata's remaining subsidiaries remains below their cost of capital, ranging from negative at Dialog to 11% at XL. The current 0.4x sales to asset turn for Axiata suggests sub-optimal utilisation of existing assets and we believe this will drive cautious investments ahead. As such, we believe recent initiatives like asset sharing and outsourcing of non-core activities are likely to drive better asset utilisation and ROIC. The resulting capex savings should improve FCF. While currently, we estimate a RM3.0-3.4bn run-rate FCF pa over the next three years, implying a 9-10% yield, there could be upside surprise.

③ Valuation remains attractive

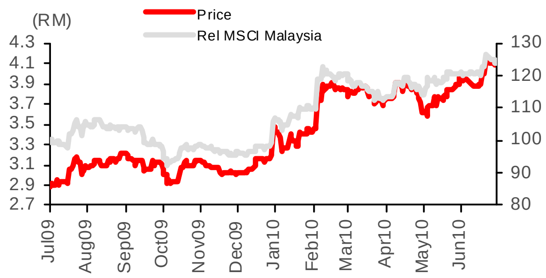
At 13.7x FY11F P/E and 5.7x EV/EBITDA, Axiata's valuation remains reasonable in view of its 9-12% average growth in revenue and earnings over the next three years.

Key financials & valuations

31 Dec (RMmn)	FY09	FY10F	FY11F	FY12F
Revenue	13,105	14,970	16,548	18,118
Reported net profit	1,653	2,453	2,508	2,824
Normalised net profit	1,653	2,145	2,508	2,824
Normalised EPS (RM)	0.20	0.25	0.30	0.33
Norm. EPS growth (%)	226.4	29.8	16.9	12.6
Norm. P/E (x)	20.8	16.1	13.7	12.2
EV/EBITDA (x)	8.7	6.5	5.7	5.0
Price/book (x)	1.9	1.7	1.6	1.5
Dividend yield (%)	0.0	0.0	3.3	4.9
ROE (%)	11.2	12.6	11.8	12.5
Net debt/equity (%)	56.7	28.9	18.9	10.3
Earnings revisions				
Previous norm. net profit		2,145	2,508	2,824
Change from previous (%)		-	-	-
Previous norm. EPS (RM)		0.25	0.30	0.33

Source: Company, Nomura estimates

Share price relative to MSCI Malaysia



	1m	3m	6m
Absolute (RM)	3.0	9.4	17.6
Absolute (US$)	2.1	8.8	23.5
Relative to Index	2.8	9.6	16.9
Market cap (US$mn)			10,714
Estimated free float (%)			31.7
52-week range (RM)			4.15/2.89
3-mth avg daily turnover (US$mn)			10.90
Stock borrowability			Hard
Major shareholders (%)			
Khazanah Nasional Berhad			44.5
Employees Provident Fund Board			15.2

Source: Company, Nomura estimates

Valuation methodology

We use a DCF methodology in valuing the four key subsidiaries (Celcom, XL, Robi and Dialog), using WACCs of 7.7%, 12.8%, 7.7% and 8.0%, and terminal growth rates of 2.5%, 3%, 1.5% and 1.5%, respectively.

Risks to our investment view

Key downside risks include aggressive price competition, weaker-than expected take-up of wireless broadband in Malaysia, tariff wars and regulatory risks in Indonesia, India, Sri Lanka and Bangladesh.

Financial statements

Income statement (RMmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Revenue	11,348	13,105	14,970	16,548	18,118
Cost of goods sold	(3,352)	(3,501)	(3,902)	(4,358)	(4,825)
Gross profit	**7,996**	**9,604**	**11,068**	**12,191**	**13,293**
SG&A	(5,978)	(7,307)	(7,739)	(8,554)	(9,289)
Employee share expense	(29)	918	320	300	325
Operating profit	**1,989**	**3,214**	**3,648**	**3,937**	**4,329**
EBITDA	**4,356**	**5,157**	**6,250**	**6,762**	**7,350**
Depreciation	(2,319)	(2,860)	(2,921)	(3,126)	(3,346)
Amortisation	(48)	918	320	300	325
EBIT	**1,989**	**3,214**	**3,648**	**3,937**	**4,329**
Net interest expense	(1,015)	(649)	(591)	(446)	(367)
Associates & JCEs	(59)	101	524	247	306
Other income	-	-	-	-	-
Earnings before tax	**914**	**2,666**	**3,582**	**3,738**	**4,268**
Income tax	(435)	(910)	(895)	(934)	(1,067)
Net profit after tax	**480**	**1,756**	**2,686**	**2,803**	**3,201**
Minority interests	27	(103)	(233)	(295)	(377)
Other items	-	-	(308)	-	-
Preferred dividends					
Normalised NPAT	**506**	**1,653**	**2,145**	**2,508**	**2,824**
Extraordinary items	-	-	308	-	-
Reported NPAT	**506**	**1,653**	**2,453**	**2,508**	**2,824**
Dividends	-	-	-	(1,129)	(1,694)
Transfer to reserves	**506**	**1,653**	**2,453**	**1,380**	**1,130**
Valuation and ratio analysis					
FD normalised P/E (x)	68.0	20.8	16.1	13.7	12.2
FD normalised P/E at price target (x)	75.0	23.0	17.7	15.2	13.5
Reported P/E (x)	68.0	20.8	14.0	13.7	12.2
Dividend yield (%)	-	-	-	3.3	4.9
Price/cashflow (x)	13.9	7.3	5.9	5.6	5.2
Price/book (x)	3.1	1.9	1.7	1.6	1.5
EV/EBITDA (x)	11.7	8.7	6.5	5.7	5.0
EV/EBIT (x)	25.7	13.9	11.1	9.8	8.5
Gross margin (%)	70.5	73.3	73.9	73.7	73.4
EBITDA margin (%)	38.4	39.4	41.7	40.9	40.6
EBIT margin (%)	17.5	24.5	24.4	23.8	23.9
Net margin (%)	4.5	12.6	16.4	15.2	15.6
Effective tax rate (%)	47.5	34.1	25.0	25.0	25.0
Dividend payout (%)	-	-	-	45.0	60.0
Capex to sales (%)	46.9	25.1	24.0	20.0	18.0
Capex to depreciation (x)	2.3	1.2	1.2	1.1	1.0
ROE (%)	4.8	11.2	12.6	11.8	12.5
ROA (pretax %)	6.8	9.6	11.9	12.0	13.1
Growth (%)					
Revenue	13.5	15.5	14.2	10.5	9.5
EBITDA	5.3	18.4	21.2	8.2	8.7
EBIT	(20.4)	61.6	13.5	7.9	10.0
Normalised EPS	(70.4)	226.4	29.8	16.9	12.6
Normalised FDEPS	(70.4)	226.4	29.8	16.9	12.6
Per share					
Reported EPS (RM)	0.06	0.20	0.29	0.30	0.33
Norm EPS (RM)	0.06	0.20	0.25	0.30	0.33
Fully diluted norm EPS (RM)	0.06	0.20	0.25	0.30	0.33
Book value per share (RM)	1.33	2.15	2.44	2.61	2.74
DPS (RM)	-	-	-	0.13	0.20

Source: Nomura estimates

We forecast double-digit FY09-12F CAGRs for revenue and EBITDA

Cashflow (RMmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
EBITDA	4,356	5,157	6,250	6,762	7,350
Change in working capital	122	(195)	762	458	406
Other operating cashflow	(1,991)	(216)	(1,167)	(1,081)	(1,109)
Cashflow from operations	**2,487**	**4,746**	**5,846**	**6,140**	**6,647**
Capital expenditure	(5,324)	(3,290)	(3,593)	(3,310)	(3,261)
Free cashflow	**(2,837)**	**1,457**	**2,253**	**2,830**	**3,386**
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**	**4,271**	**2,830**	**3,386**
Cash dividends	(30)	90	90	(1,039)	(1,604)
Equity issue					
Debt issue	10,477	(8,118)	(750)	(750)	(750)
Convertible debt issue					
Others	103	5,260	-	-	-
Cashflow from financial acts	**10,551**	**(2,768)**	**(660)**	**(1,789)**	**(2,354)**
Net cashflow	**1,363**	**(1,325)**	**3,611**	**1,041**	**1,031**
Beginning cash	1,968	3,331	2,006	5,617	6,658
Ending cash	3,330	2,006	5,617	6,658	7,689
Ending net debt	16,692	10,317	5,956	4,165	2,383

Source: Nomura estimates

Balance sheet (RMmn)					
As at 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash & equivalents	3,331	2,006	5,617	6,658	7,689
Marketable securities					
Accounts receivable	1,540	1,559	2,051	2,267	2,482
Inventories	77	35	35	35	35
Other current assets	129	97	97	97	97
Total current assets	**5,077**	**3,698**	**7,800**	**9,057**	**10,304**
LT investments	5,914	181	181	181	181
Fixed assets	14,960	15,815	16,487	16,671	16,586
Goodwill					
Other intangible assets	8,326	8,563	8,563	8,563	8,563
Other LT assets	3,075	8,887	7,304	7,461	7,677
Total assets	**37,352**	**37,144**	**40,335**	**41,933**	**43,311**
Short-term debt	9,477	2,149	1,899	1,649	1,399
Accounts payable	4,538	4,263	5,517	6,191	6,812
Other current liabilities	195	221	221	221	221
Total current liabilities	**14,211**	**6,634**	**7,638**	**8,062**	**8,433**
Long-term debt	10,546	10,173	9,673	9,173	8,673
Convertible debt					
Other LT liabilities	898	1,457	1,457	1,457	1,457
Total liabilities	**25,655**	**18,264**	**18,768**	**18,692**	**18,563**
Minority interest	481	696	930	1,224	1,602
Preferred stock					
Common stock	3,753	8,445	8,445	8,445	8,445
Retained earnings	7,463	9,739	12,192	13,572	14,701
Proposed dividends					
Other equity and reserves					
Total shareholders' equity	**11,217**	**18,184**	**20,637**	**22,017**	**23,146**
Total equity & liabilities	**37,352**	**37,144**	**40,335**	**41,933**	**43,311**
Liquidity (x)					
Current ratio	0.36	0.56	1.02	1.12	1.22
Interest cover	2.0	5.0	6.2	8.8	11.8
Leverage					
Net debt/EBITDA (x)	3.83	2.00	0.95	0.62	0.32
Net debt/equity (%)	148.8	56.7	28.9	18.9	10.3
Activity (days)					
Days receivable	39.4	43.2	44.0	47.6	48.0
Days inventory	8.3	5.9	3.3	3.0	2.7
Days payable	463.3	458.8	457.4	490.4	493.2
Cash cycle	(415.6)	(409.7)	(410.1)	(439.8)	(442.6)

Source: Nomura estimates

Balance sheet gearing should decline

B Roshan Raj +65 6433 6961 broshan.raj@nomura.com
Sachin Gupta, CFA +65 6433 6968 sachin.gupta@nomura.com
Pankaj Suri (Associate)

Maintained

BUY

NOMURA SINGAPORE LIMITED

Action

Data growth remains a key opportunity for Digi, as the current 21% revenue contribution remains below peers' 30-35%. Improvement in postpaid and wireless broadband will be important drivers, in our view, and recent trends suggest Digi is making some headway. Its postpaid revenue contribution is now 29%, up 300bp y-y, while WBB net-adds have picked up to 45k, from 25-26k in prior quarters. Digi's 6% dividend yield remains sustainable, while under-geared balance sheet suggests a potential special dividend of 7-8% effective yield in 3Q10F. Reaffirm BUY.

Catalysts

Capital management and operational improvement in cellular and broadband metrics stand as potential catalysts.

Anchor themes

The focus for Malaysian telcos is on driving data growth, both on handsets and WBB. Broadband penetration remains low, providing strong growth opportunity.

Closing price on 21 Jul	RM23.74
Price target	RM27.60
	(set on 21 Jul 10)
Upside/downside	16.3%
Difference from consensus	17.3%
FY11F net profit (RMmn)	1,077
Difference from consensus	-5.8%

Source: Nomura

Nomura vs consensus

Our price target is higher than consensus, as we see limited risks of higher-than-expected capex.

Progress in postpaid, broadband

① 2Q10 : strong growth due to postpaid

In 2Q10, revenue and EBITDA increased 11% y-y each, while NPAT grew 19% y-y. Revenue and earnings were each ~3% ahead of consensus, driven by strong 25% y-y growth in postpaid while prepaid grew 7% y-y. Postpaid net-adds improved to 55k vs an average of 26k for the prior four quarters, while ARPU increased 1% both q-q and y-y. Prepaid was relatively weaker with 102k net-adds vs an average of 170k for the prior four quarters. ARPU declined 4% y-y in the quarter. Data now contributes 20.7% of mobile revenues, up 130bp y-y.

② Revised margin guidance suggests better cost controls

Although FY10F revenue guidance of exceeding 5% revenue growth remains unchanged, we believe there is room for positive surprise, as 1H revenue was already up 8% y-y. At the same time, cost savings initiatives are underway and the company's improved EBITDA guidance to 'stable margins' from 'further pressure' is a reflection of that. We note that Digi's 43% EBITDA margin lags Celcom's 45% and Maxis' 50% - suggesting potential cost saving opportunity. We believe incoming CFO, Mr Borge has led such initiatives at Total Access Communication Public Company Limited (DTAC). The signing of the network sharing agreement with Celcom by the end of the year could be another key step in this direction, in our view.

③ Potential for a special dividend in 3Q10F

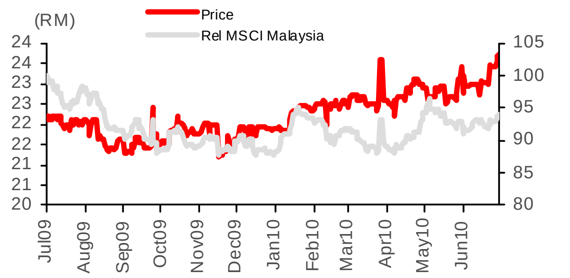
Digi's net-debt/equity remains below its stated target of 0.5x-0.8x. As such, we see scope for some incremental gearing and another special dividend in 3Q10F. Inclusive of a special dividend, the total yield could be 7-8%, on our estimates.

Key financials & valuations

31 Dec (RMmn)	FY09	FY10F	FY11F	FY12F
Revenue	4,919	5,217	5,429	5,608
Reported net profit	1,000	1,055	1,077	1,103
Normalised net profit	1,000	1,055	1,077	1,103
Normalised EPS (RM)	1.29	1.36	1.39	1.42
Norm. EPS growth (%)	(13.5)	5.4	2.1	2.4
Norm. P/E (x)	18.4	17.5	17.1	16.7
EV/EBITDA (x)	8.9	8.2	7.8	7.5
Price/book (x)	12.1	10.7	9.5	8.5
Dividend yield (%)	7.5	4.6	4.7	4.8
ROE (%)	58.5	64.8	58.5	53.6
Net debt/equity (%)	32.3	net cash	net cash	net cash
Earnings revisions				
Previous norm. net profit		1,055	1,077	1,103
Change from previous (%)		-	-	-
Previous norm. EPS (RM)		1.36	1.39	1.42

Source: Company, Nomura estimates

Share price relative to MSCI Malaysia



	1m	3m	6m
Absolute (RM)	1.3	5.0	8.5
Absolute (US$)	0.4	4.5	13.9
Relative to Index	1.1	5.3	7.4
Market cap (US$mn)			5,739
Estimated free float (%)			32.2
52-week range (RM)			23.74/21.20
3-mth avg daily turnover (US$mn)			3.83
Stock borrowability			Hard
Major shareholders (%)			
TELENOR SA			49.0
EPF			17.2

Source: Company, Nomura estimates

Valuation methodology

We derive our price target using DCF valuation, assuming 7.8% WACC, 8.5% cost of equity, 5% cost of debt and 15% gearing. Our terminal growth rate is at 1%.

Risks to our investment view

Key risks to our rating and price target for DiGi include a continued macro slowdown, increased competition, pricing pressure and weaker-than-expected take-up of broadband services.

Financial statements

Expect 6% revenue growth for FY10F

Income statement (RMmn)					
Year-end 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
Revenue	4,827	4,919	5,217	5,429	5,608
Cost of goods sold	(1,333)	(1,454)	(1,528)	(1,598)	(1,660)
Gross profit	**3,494**	**3,465**	**3,689**	**3,830**	**3,948**
SG&A	(1,958)	(2,071)	(2,241)	(2,375)	(2,470)
Employee share expense	-	-	-	-	-
Operating profit	**1,536**	**1,393**	**1,448**	**1,456**	**1,477**
EBITDA	**2,172**	**2,125**	**2,239**	**2,310**	**2,366**
Depreciation	(636)	(731)	(791)	(855)	(889)
Amortisation	-	-	-	-	-
EBIT	**1,536**	**1,393**	**1,448**	**1,456**	**1,477**
Net interest expense	12	(27)	(42)	(20)	(6)
Associates & JCEs	-	-	-	-	-
Other income	-	-	-	-	-
Earnings before tax	**1,548**	**1,366**	**1,406**	**1,436**	**1,471**
Income tax	(406)	(366)	(352)	(359)	(368)
Net profit after tax	**1,142**	**1,000**	**1,055**	**1,077**	**1,103**
Minority interests	-	-	-	-	-
Other items	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Normalised NPAT	**1,142**	**1,000**	**1,055**	**1,077**	**1,103**
Extraordinary items	-	-	-	-	-
Reported NPAT	**1,142**	**1,000**	**1,055**	**1,077**	**1,103**
Dividends	(1,444)	(1,384)	(844)	(862)	(883)
Transfer to reserves	**(302)**	**(384)**	**211**	**215**	**221**
Valuation and ratio analysis					
FD normalised P/E (x)	16.0	18.4	17.5	17.1	16.7
FD normalised P/E at price target (x)	18.6	21.4	20.3	19.9	19.5
Reported P/E (x)	16.0	18.4	17.5	17.1	16.7
Dividend yield (%)	7.9	7.5	4.6	4.7	4.8
Price/cashflow (x)	9.0	11.2	9.0	9.5	9.3
Price/book (x)	9.6	12.1	10.7	9.5	8.5
EV/EBITDA (x)	8.5	8.9	8.2	7.8	7.5
EV/EBIT (x)	12.1	13.6	12.7	12.4	12.0
Gross margin (%)	72.4	70.4	70.7	70.6	70.4
EBITDA margin (%)	45.0	43.2	42.9	42.6	42.2
EBIT margin (%)	31.8	28.3	27.8	26.8	26.3
Net margin (%)	23.7	20.3	20.2	19.8	19.7
Effective tax rate (%)	26.2	26.8	25.0	25.0	25.0
Dividend payout (%)	126.5	138.3	80.0	80.0	80.0
Capex to sales (%)	18.5	14.6	13.6	14.3	13.5
Capex to depreciation (x)	1.4	1.0	0.9	0.9	0.9
ROE (%)	65.7	58.5	64.8	58.5	53.6
ROA (pretax %)	40.3	32.3	33.9	34.5	35.8
Growth (%)					
Revenue	10.3	1.9	6.1	4.1	3.3
EBITDA	3.0	(2.2)	5.4	3.2	2.4
EBIT	7.6	(9.3)	3.9	0.5	1.5
Normalised EPS	5.0	(13.5)	5.4	2.1	2.4
Normalised FDEPS	5.0	(13.5)	5.4	2.1	2.4
Per share					
Reported EPS (RM)	1.49	1.29	1.36	1.39	1.42
Norm EPS (RM)	1.49	1.29	1.36	1.39	1.42
Fully diluted norm EPS (RM)	1.49	1.29	1.36	1.39	1.42
Book value per share (RM)	2.47	1.96	2.23	2.51	2.79
DPS (RM)	1.88	1.78	1.09	1.11	1.14

Source: Nomura estimates

Cashflow (RMmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
EBITDA	2,172	2,125	2,239	2,310	2,366
Change in working capital	266	(89)	225	48	40
Other operating cashflow	(406)	(381)	(407)	(414)	(423)
Cashflow from operations	**2,032**	**1,655**	**2,057**	**1,943**	**1,984**
Capital expenditure	(893)	(718)	(708)	(776)	(759)
Free cashflow	**1,139**	**937**	**1,349**	**1,168**	**1,225**
Reduction in investments	(10)	(0)	-	-	-
Net acquisitions					
Reduction in other LT assets					
Addition in other LT liabilities					
Adjustments	14	15	14	36	49
Cashflow after investing acts	**1,143**	**951**	**1,362**	**1,204**	**1,274**
Cash dividends	(1,501)	(1,376)	(844)	(862)	(883)
Equity issue	(100)	-	-	-	-
Debt issue	198	523	-	-	-
Convertible debt issue	-	-	-	-	-
Others	14	-	-	-	-
Cashflow from financial acts	**(1,389)**	**(853)**	**(844)**	**(862)**	**(883)**
Net cashflow	**(246)**	**99**	**519**	**342**	**391**
Beginning cash	577	331	430	949	1,291
Ending cash	331	430	949	1,291	1,682
Ending net debt	67	492	(27)	(369)	(760)

Source: Nomura estimates

Balance sheet (RMmn)					
As at 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash & equivalents	331	430	949	1,291	1,682
Marketable securities	10	11	11	11	11
Accounts receivable	421	420	447	465	480
Inventories	17	13	13	13	13
Other current assets	-	-	-	-	-
Total current assets	**779**	**874**	**1,419**	**1,779**	**2,186**
LT investments	-	-	-	-	-
Fixed assets	2,870	2,896	2,883	2,874	2,813
Goodwill	-	-	-	-	-
Other intangible assets	994	950	881	811	742
Other LT assets	12	12	12	12	12
Total assets	**4,656**	**4,732**	**5,195**	**5,476**	**5,752**
Short-term debt	298	150	150	150	150
Accounts payable	1,494	1,429	1,680	1,746	1,802
Other current liabilities	476	447	447	447	447
Total current liabilities	**2,267**	**2,026**	**2,277**	**2,343**	**2,399**
Long-term debt	100	772	772	772	772
Convertible debt	-	-	-	-	-
Other LT liabilities	392	413	413	413	413
Total liabilities	**2,759**	**3,211**	**3,462**	**3,528**	**3,584**
Minority interest	-	-	-	-	-
Preferred stock	-	-	-	-	-
Common stock	78	78	78	78	78
Retained earnings	1,819	1,444	1,655	1,870	2,091
Proposed dividends	-	-	-	-	-
Other equity and reserves	-	-	-	-	-
Total shareholders' equity	**1,897**	**1,521**	**1,732**	**1,948**	**2,168**
Total equity & liabilities	**4,656**	**4,732**	**5,195**	**5,476**	**5,752**
Liquidity (x)					
Current ratio	0.34	0.43	0.62	0.76	0.91
Interest cover	na	51.6	34.7	74.2	232.8
Leverage					
Net debt/EBITDA (x)	0.03	0.23	net cash	net cash	net cash
Net debt/equity (%)	3.5	32.3	net cash	net cash	net cash
Activity (days)					
Days receivable	29.3	31.2	30.3	30.6	30.8
Days inventory	3.5	3.8	3.1	3.0	2.9
Days payable	367.1	366.8	371.3	391.2	391.0
Cash cycle	(334.3)	(331.8)	(337.9)	(357.6)	(357.3)

Source: Nomura estimates

Balance sheet gearing remains low

Evergreen Fibreboard Bhd EVF MK

BASIC MATERIALS | MALAYSIA

Muzhafar Mukhtar +60 3 2027 6891 muzhafar.mukhtar@nomura.com
Wai Kee Choong +60 3 2027 6893 waikee.choong@nomura.com

Maintained

BUY

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Closing price on 21 Jul	RM1.62
Price target	**RM3.41**
	(set on 1 Jun 10)
Upside/downside	110.4%
Difference from consensus	**45.7%**
FY11F net profit (RMmn)	173.8
Difference from consensus	**47.3%**

Source: Nomura

Action

EVF is well-positioned to capitalise on the global economic recovery. We expect earnings to rebound 70% in 2010 as the company's earnings begin to reflect capacity increases acquired during the recession. We believe the stock is inexpensive vs historical valuations, especially considering the company's improved fundamentals.

Catalysts

We think the street is underestimating EVF's earnings potential and believe earnings forecast upgrades will continue as the company posts better-than-expected results in the next few quarters.

Anchor themes

Medium density fibreboard is the fastest growing primary wood product, and its consumption is closely correlated to GDP. We expect demand to improve most in regions emerging fastest from the recession.

Nomura vs consensus

We are more optimistic than consensus on Evergreen's sales and margin recovery

Asia's third-largest producer still at just 5x FY11F P/E

① Well positioned

Long-term medium density fibreboard (MDF) consumption trends indicate strong demand growth, particularly in Asia. With 85% of its sales exposure to Asian countries (including a direct presence in Indonesia, Thailand and Malaysia), the third-largest capacity in the region and improved cost control, EVF is well-geared for this.

② Selling price and costs still in line with our expectations

Signs of returning demand have continued to come through, with EVF reporting 7-8% ytd increases for its benchmark MDF prices in June. Raw material costs on the other hand have remained fairly flat, with EVF's rubberwood costs having declined 6% ytd in May, mitigating the 7% increase seen in resin prices.

③ Liquidity not as poor as widely believed

Whilst investor concerns regarding mandate limits on trading values/volumes are valid, we believe that the stock is more liquid than many people think. Various measures related to trading activity, price resiliency and spread tightness have indicated that on average, the stock's liquidity is actually on par with several FBMKLCI constituents.

④ Still inexpensive, reiterate BUY with RM3.41 price target

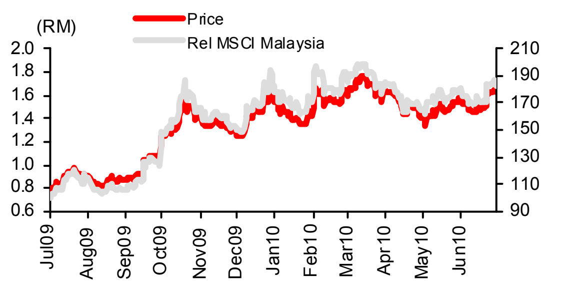
Whilst the stock price has risen 13% since 28 May 2010, compared to a 6% increase in the FBMKLCI, the stock still looks inexpensive at 4.8x FY11F P/E, vs its historical mean of 7.6x (using actual 12-month forward earnings). The closest comparable peers in Asia and South America, are trading at 8-13x, using Bloomberg consensus estimates. We reiterate our BUY call with a price target of RM3.41 based on 11x our 12-month forward earnings estimate.

Key financials & valuations

31 Dec (RMmn)	FY09	FY10F	FY11F	FY12F
Revenue	772	988	1,124	1,216
Reported net profit	85.0	144.1	173.8	191.2
Normalised net profit	85.0	144.1	173.8	191.2
Normalised EPS (RM)	0.17	0.28	0.34	0.37
Norm. EPS growth (%)	10.7	69.7	20.6	10.0
Norm. P/E (x)	9.8	5.8	4.8	4.3
EV/EBITDA (x)	8.0	4.4	3.1	2.4
Price/book (x)	1.2	1.0	0.9	0.8
Dividend yield (%)	0.0	6.2	6.8	8.8
ROE (%)	12.9	19.2	20.3	19.7
Net debt/equity (%)	42.6	25.0	3.6	net cash
Earnings revisions				
Previous norm. net profit		144.1	173.8	191.2
Change from previous (%)		-	-	-
Previous norm. EPS (RM)		0.28	0.34	0.37

Source: Company, Nomura estimates

Share price relative to MSCI Malaysia



	1m	3m	6m
Absolute (RM)	2.5	(1.2)	2.5
Absolute (US$)	1.7	(1.8)	7.7
Relative to Index	2.0	(1.3)	0.8
Market cap (US$mn)			258.4
Estimated free float (%)			54.2
52-week range (RM)			1.76/0.78
3-mth avg daily turnover (US$mn)			0.24
Stock borrowability			Hard
Major shareholders (%)			
Kuo Family			45.8
Lembaga Tabung Haji			5.8

Source: Company, Nomura estimates

Valuation methodology

To derive our price target of RM3.41 for EVF, we ascribe our 12-month forward earnings estimate a P/E of 11x, which is +1 standard deviation above the historical mean for EVF's 12-month forward P/E using actual earnings.

Risks to our investment view

Due to the high correlation between MDF consumption and GDP, a slower-than-expected global economic recovery would likely cause MDF demand to recover at a slower rate. Given that a significant proportion of its sales comes from Asia Pacific and the Middle East (85% of FY09 revenue), slower-than-expected economic recoveries in these regions would impact EVF's sales and margins. Higher-than-expected costs would also cause EVF's margins to fall short of our expectations. As the company primarily does not hedge export sales, large and sudden currency swings may result in weaker-than-expected sales.

Financial statements

Income statement (RMmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Revenue	731	772	988	1,124	1,216
Cost of goods sold	(533)	(562)	(666)	(739)	(795)
Gross profit	**198**	**209**	**322**	**385**	**420**
SG&A	(127)	(129)	(152)	(171)	(185)
Employee share expense	-	-	-	-	-
Operating profit	**71**	**81**	**170**	**215**	**235**
EBITDA	**111**	**140**	**230**	**276**	**298**
Depreciation	(40)	(59)	(60)	(61)	(63)
Amortisation	(0)	(1)	(0)	(0)	(0)
EBIT	**71**	**81**	**170**	**215**	**235**
Net interest expense	(9)	(16)	(10)	(5)	1
Associates & JCEs	2	2	4	5	5
Other income	0	14	-	-	-
Earnings before tax	**64**	**81**	**164**	**214**	**242**
Income tax	5	0	(16)	(28)	(36)
Net profit after tax	**69**	**81**	**148**	**187**	**206**
Minority interests	8	4	(3)	(13)	(14)
Other items	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Normalised NPAT	**77**	**85**	**144**	**174**	**191**
Extraordinary items	-	-	-	-	-
Reported NPAT	**77**	**85**	**144**	**174**	**191**
Dividends	(22)	-	(51)	(56)	(73)
Transfer to reserves	**55**	**85**	**93**	**117**	**118**
Valuation and ratio analysis					
FD normalised P/E (x)	10.8	9.8	5.8	4.8	4.3
FD normalised P/E at price target (x)	22.8	20.6	12.1	10.1	9.1
Reported P/E (x)	10.8	9.8	5.8	4.8	4.3
Dividend yield (%)	2.6	-	6.2	6.8	8.8
Price/cashflow (x)	6.3	5.8	4.6	3.3	3.4
Price/book (x)	1.4	1.2	1.0	0.9	0.8
EV/EBITDA (x)	10.9	8.0	4.4	3.1	2.4
EV/EBIT (x)	16.9	13.7	5.9	3.9	3.0
Gross margin (%)	27.1	27.1	32.6	34.3	34.6
EBITDA margin (%)	15.2	18.2	23.3	24.6	24.5
EBIT margin (%)	9.7	10.5	17.2	19.1	19.4
Net margin (%)	10.5	11.0	14.6	15.5	15.7
Effective tax rate (%)	(8.3)	(0.3)	10.0	13.0	15.0
Dividend payout (%)	28.2	-	35.6	32.5	38.0
Capex to sales (%)	34.0	2.5	2.0	2.2	2.5
Capex to depreciation (x)	6.2	0.3	0.3	0.4	0.5
ROE (%)	13.4	12.9	19.2	20.3	19.7
ROA (pretax %)	7.5	7.2	14.8	18.8	20.7
Growth (%)					
Revenue	(0.1)	5.6	28.0	13.8	8.1
EBITDA	(32.8)	26.6	63.9	20.2	8.0
EBIT	(48.1)	14.3	109.6	26.6	9.5
Normalised EPS	(35.4)	10.7	69.7	20.6	10.0
Normalised FDEPS	(35.4)	10.7	69.7	20.6	10.0
Per share					
Reported EPS (RM)	0.15	0.17	0.28	0.34	0.37
Norm EPS (RM)	0.15	0.17	0.28	0.34	0.37
Fully diluted norm EPS (RM)	0.15	0.17	0.28	0.34	0.37
Book value per share (RM)	1.19	1.37	1.55	1.78	2.01
DPS (RM)	0.04	-	0.10	0.11	0.14

Source: Nomura estimates

Sales growth finally reflects capacity growth with demand recovery

Cashflow (RMmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
EBITDA	111	140	230	276	298
Change in working capital	22	(8)	(32)	5	(21)
Other operating cashflow	0	11	(16)	(28)	(36)
Cashflow from operations	**133**	**143**	**182**	**253**	**241**
Capital expenditure	(248)	(19)	(20)	(25)	(30)
Free cashflow	**(116)**	**124**	**162**	**228**	**211**
Reduction in investments	-	-	-	-	-
Net acquisitions	(161)	-	-	-	-
Reduction in other LT assets	(2)	(2)	(4)	(5)	(5)
Addition in other LT liabilities	(9)	(3)	-	-	-
Adjustments	22	7	9	12	16
Cashflow after investing acts	**(265)**	**126**	**167**	**235**	**222**
Cash dividends	(22)	-	(51)	(56)	(73)
Equity issue	-	-	-	-	-
Debt issue	234	(67)	(97)	(89)	(54)
Convertible debt issue	-	-	-	-	-
Others	(12)	(22)	(15)	(12)	(9)
Cashflow from financial acts	**200**	**(90)**	**(163)**	**(158)**	**(136)**
Net cashflow	**(65)**	**37**	**3**	**78**	**86**
Beginning cash	142	76	113	116	194
Ending cash	76	113	116	194	279
Ending net debt	393	300	199	33	(107)

Source: Nomura estimates

We expect EVF to be in a net cash position by 2012

Balance sheet (RMmn)					
As at 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash & equivalents	76	113	116	194	279
Marketable securities	-	-	-	-	-
Accounts receivable	44	57	72	75	84
Inventories	137	112	183	144	208
Other current assets	33	28	49	39	56
Total current assets	**289**	**310**	**420**	**452**	**627**
LT investments	-	-	-	-	-
Fixed assets	903	885	845	809	776
Goodwill	18	18	18	18	18
Other intangible assets	15	15	14	14	14
Other LT assets	21	23	27	32	37
Total assets	**1,246**	**1,251**	**1,324**	**1,324**	**1,472**
Short-term debt	255	102	94	59	59
Accounts payable	56	47	75	60	86
Other current liabilities	96	81	127	101	145
Total current liabilities	**407**	**231**	**296**	**220**	**289**
Long-term debt	215	310	221	167	113
Convertible debt	-	-	-	-	-
Other LT liabilities	8	5	5	5	5
Total liabilities	**630**	**546**	**523**	**393**	**407**
Minority interest	6	2	5	18	32
Preferred stock	-	-	-	-	-
Common stock	128	128	128	128	128
Retained earnings	373	458	551	668	787
Proposed dividends	-	-	-	-	-
Other equity and reserves	110	118	118	118	118
Total shareholders' equity	**611**	**704**	**797**	**914**	**1,032**
Total equity & liabilities	**1,246**	**1,251**	**1,324**	**1,324**	**1,472**
Liquidity (x)					
Current ratio	0.71	1.35	1.42	2.05	2.17
Interest cover	8.0	5.0	17.6	40.2	na
Leverage					
Net debt/EBITDA (x)	3.55	2.13	0.87	0.12	net cash
Net debt/equity (%)	64.4	42.6	25.0	3.6	net cash
Activity (days)					
Days receivable	24.0	23.8	23.8	23.8	23.9
Days inventory	75.0	80.8	80.8	80.8	81.0
Days payable	35.0	33.5	33.5	33.5	33.6
Cash cycle	64.0	71.1	71.1	71.1	71.3

Source: Nomura estimates

NOMURA

NOMURA SECURITIES MALAYSIA SDN BHD

Wai Kee Choong +60 3 2027 6893 waikee.choong@nomura.com
Nishit Jalan (Associate)

Maintained

BUY

Action

Genting Malaysia (GEMN), which owns Malaysia's only casino, is set to be one of the prime beneficiaries of the country's consumption boom. At 4.5x FY11F EV/EBITDA, it looks appealing on a risk-reward basis. Its recent proposed acquisitions of UK and US casinos will exhaust most of its cash and remove concerns about how it would use its significant cash reserves. Maintain BUY.

Catalysts

Consensus earnings upgrades post 2Q10 earnings, scheduled to be released in August 2010, would likely be a catalyst for a re-rating of the stock.

Anchor themes

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 21 Jul	RM2.70
Price target	**RM3.70**
	(set on 13 Jul 10)
Upside/downside	36.9%
Difference from consensus	34.9%
FY11F net profit (RMmn)	1,336
Difference from consensus	6.1%

Source: Nomura

Nomura vs consensus

There are more sell ratings on the Street. We recently raised our earnings estimates, and expect consensus to follow after the 2QFY10 results announcement.

Key beneficiary of Malaysia consumption boom

① Most bad news discounted

We expect Malaysia's consumption boom and rising GDP per capita to continue to drive earnings growth for GENM, which owns and runs the country's only casino. Its strong 14% jump in 1QFY10 gaming revenue underscores our view that the large middle class is largely responsible for driving consumption in the country. We expect GENM to be one of the prime beneficiaries of booming consumption.

② Domestic operation could surprise on the upside

Despite increased competition from the two new casinos in Singapore, we expect GENM's earnings to decline only 0.5% in FY10F before rising by a modest 4.2% in FY11F. We still believe that the market-share loss in the mass market segment is temporary. The upcoming 2QFY10 earnings announcement (around end-August) is likely to provide a share-price catalyst, in our view.

③ Reaffirm BUY with a price target of RM3.70

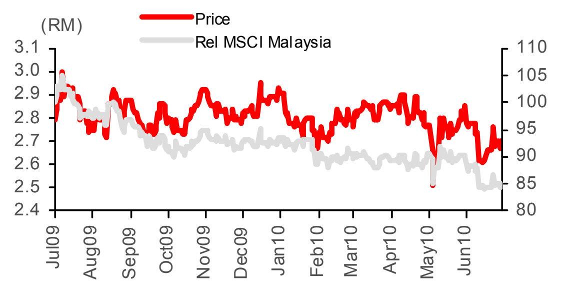
In our opinion, GENM's long-term earnings prospects could also be lifted by its proposed acquisition of a UK casino business *(see our note: Nothing much left to discount, 13 July, 10)* and its proposed investment in a New York casino and race-course business *(see our note: The only horse in the race, 6 July, 10)*. Trading at 4.5x FY11F EV/EBITDA, GENM may be the most inexpensive gaming stock globally, in our view, and even if we were to exclude the cash component, the stock would be trading at a 17% discount to the Asian gaming average of 9.5x FY11F earnings, based on Nomura estimates. We reaffirm our BUY call with a price target of RM3.70, representing potential upside of 36.9% from current levels.

Key financials & valuations

31 Dec (RMmn)	FY09	FY10F	FY11F	FY12F
Revenue	4,992	4,968	5,177	5,334
Reported net profit	1,324	1,274	1,336	1,399
Normalised net profit	1,305	1,274	1,336	1,399
Normalised EPS (RM)	0.23	0.22	0.23	0.25
Norm. EPS growth (%)	(5.1)	(1.5)	4.8	4.7
Norm. P/E (x)	12.2	12.1	11.6	11.1
EV/EBITDA (x)	5.5	5.2	4.5	3.8
Price/book (x)	1.5	1.4	1.3	1.2
Dividend yield (%)	2.1	2.2	2.4	2.5
ROE (%)	14.3	12.0	11.6	11.2
Net debt/equity (%)	net cash	net cash	net cash	net cash
Earnings revisions				
Previous norm. net profit		1,274	1,336	1,399
Change from previous (%)		-	-	-
Previous norm. EPS (RM)		0.22	0.23	0.25

Source: Company, Nomura estimates

Share price relative to MSCI Malaysia



	1m	3m	6m
Absolute (RM)	(5.3)	(4.9)	(7.2)
Absolute (US$)	(6.1)	(5.4)	(2.6)
Relative to Index	(5.8)	(5.0)	(9.5)
Market cap (US$mn)			4,959
Estimated free float (%)			51.7
52-week range (RM)			3.00/2.51
3-mth avg daily turnover (US$mn)			5.35
Stock borrowability			Hard
Major shareholders (%)			
Genting			48.3

Source: Company, Nomura estimates

Valuation methodology

On average, GENM shares have traded at a 12% discount to discounted cashflow-(DCF) based RNAV since 1997. Applied to our DCF-derived RNAV estimate for FY10F, this translates into a price target of RM3.70/share. GENM's intrinsic value, if measured by the DCF model, comes to RM4.20/share (before discounts), on our estimates. 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.

Risks to our investment view

Although we believe, to a large extent, that the fear of potential loss of revenue to the two Singapore casinos has been largely priced in, a shaper-than-expected fall in GENM's revenue would likely see the shares trading at a sharper discount to RNAV. Conversely, lower-than-expected losses in revenue could be an upside risk to our estimates and price target. The shares traded at up to a 45% discount to RNAV in 1998 and a 34% discount to RNAV in 2001.

Financial statements

Income statement (RMmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Revenue	4,887	4,992	4,968	5,177	5,334
Cost of goods sold	(2,904)	(3,072)	(3,121)	(3,257)	(3,335)
Gross profit	**1,983**	**1,919**	**1,846**	**1,920**	**1,998**
SG&A	(230)	(250)	(248)	(259)	(267)
Employee share expense					
Operating profit	**1,753**	**1,670**	**1,598**	**1,661**	**1,731**
EBITDA	**2,013**	**1,940**	**1,892**	**1,977**	**2,069**
Depreciation	(260)	(270)	(294)	(316)	(338)
Amortisation	-	-	-	-	-
EBIT	**1,753**	**1,670**	**1,598**	**1,661**	**1,731**
Net interest expense	114	78	101	119	134
Associates & JCEs	1	-	-	-	-
Other income	-	(1)	-	-	-
Earnings before tax	**1,868**	**1,746**	**1,699**	**1,781**	**1,865**
Income tax	(493)	(441)	(425)	(445)	(466)
Net profit after tax	**1,375**	**1,305**	**1,274**	**1,336**	**1,399**
Minority interests	0	0	0	0	0
Other items	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Normalised NPAT	**1,375**	**1,305**	**1,274**	**1,336**	**1,399**
Extraordinary items	(741)	18	-	-	-
Reported NPAT	**634**	**1,324**	**1,274**	**1,336**	**1,399**
Dividends	(280)	(323)	(343)	(363)	(385)
Transfer to reserves	**354**	**1,000**	**932**	**973**	**1,014**
Valuation and ratio analysis					
FD normalised P/E (x)	11.6	12.2	12.1	11.6	11.1
FD normalised P/E at price target (x)	15.9	16.8	16.6	15.9	15.1
Reported P/E (x)	24.5	11.7	12.1	11.5	11.0
Dividend yield (%)	1.8	2.1	2.2	2.4	2.5
Price/cashflow (x)	9.0	9.6	10.4	10.0	9.6
Price/book (x)	1.9	1.5	1.4	1.3	1.2
EV/EBITDA (x)	5.7	5.5	5.2	4.5	3.8
EV/EBIT (x)	6.5	6.4	6.1	5.3	4.5
Gross margin (%)	40.6	38.5	37.2	37.1	37.5
EBITDA margin (%)	41.2	38.9	38.1	38.2	38.8
EBIT margin (%)	35.9	33.5	32.2	32.1	32.5
Net margin (%)	13.0	26.5	25.7	25.8	26.2
Effective tax rate (%)	26.4	25.3	25.0	25.0	25.0
Dividend payout (%)	44.2	24.4	26.9	27.2	27.5
Capex to sales (%)	5.4	2.6	7.2	6.9	6.7
Capex to depreciation (x)	1.0	0.5	1.2	1.1	1.1
ROE (%)	7.7	14.3	12.0	11.6	11.2
ROA (pretax %)	31.4	30.5	26.3	27.2	28.2
Growth (%)					
Revenue	12.3	2.2	(0.5)	4.2	3.0
EBITDA	15.6	(3.6)	(2.5)	4.5	4.6
EBIT	17.1	(4.7)	(4.3)	4.0	4.2
Normalised EPS	24.4	(5.1)	(1.5)	4.8	4.7
Normalised FDEPS	19.1	(5.1)	0.8	4.8	4.7
Per share					
Reported EPS (RM)	0.11	0.23	0.22	0.23	0.25
Norm EPS (RM)	0.24	0.23	0.22	0.23	0.25
Fully diluted norm EPS (RM)	0.23	0.22	0.22	0.23	0.24
Book value per share (RM)	1.45	1.76	1.94	2.11	2.29
DPS (RM)	0.05	0.06	0.06	0.06	0.07

Source: Nomura estimates

We are projecting a decline in FY10 revenue as we expect it to witness a loss in mass-market share.

Cashflow (RMmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
EBITDA	2,013	1,940	1,892	1,977	2,069
Change in working capital	121	51	60	19	14
Other operating cashflow	(416)	(369)	(468)	(457)	(479)
Cashflow from operations	**1,719**	**1,622**	**1,485**	**1,539**	**1,604**
Capital expenditure	(262)	(130)	(357)	(357)	(357)
Free cashflow	**1,457**	**1,492**	**1,128**	**1,182**	**1,247**
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**	**1,302**	**1,381**
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**	**951**	**1,009**
Beginning cash	3,052	4,555	5,272	6,169	7,120
Ending cash	4,555	5,272	6,169	7,120	8,129
Ending net debt	(4,555)	(5,272)	(6,169)	(7,120)	(8,129)

Source: Nomura estimates

Balance sheet (RMmn)					
As at 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash & equivalents	4,555	5,272	6,169	7,120	8,129
Marketable securities	5	-	-	-	-
Accounts receivable	201	204	141	146	150
Inventories	60	62	62	64	66
Other current assets	-	-	-	-	-
Total current assets	**4,821**	**5,538**	**6,372**	**7,330**	**8,345**
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**	**13,241**	**14,275**
Short-term debt	-	-	-	-	-
Accounts payable	541	635	632	659	679
Other current liabilities	238	200	200	200	200
Total current liabilities	**779**	**835**	**832**	**859**	**879**
Long-term debt	-	-	-	-	-
Convertible debt	-	-	-	-	-
Other LT liabilities	312	367	367	367	367
Total liabilities	**1,091**	**1,202**	**1,199**	**1,225**	**1,245**
Minority interest	7	7	7	6	6
Preferred stock	-	-	-	-	-
Common stock	590	590	590	590	590
Retained earnings	7,384	8,408	9,308	10,281	11,295
Proposed dividends	-	-	-	-	-
Other equity and reserves	351	1,139	1,139	1,139	1,139
Total shareholders' equity	**8,325**	**10,137**	**11,037**	**12,010**	**13,024**
Total equity & liabilities	**9,423**	**11,346**	**12,242**	**13,241**	**14,275**
Liquidity (x)					
Current ratio	6.19	6.63	7.66	8.54	9.50
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	10.2
Days inventory	7.5	7.3	7.2	7.1	7.2
Days payable	65.1	69.9	74.1	72.3	73.4
Cash cycle	(44.7)	(47.8)	(54.2)	(55.2)	(56.1)

Source: Nomura estimates

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

Malaysian Airline System MAS MK

AIRLINES | MALAYSIA

Jacinda Loh +60 3 2027 6889 jacinda.loh@nomura.com

Maintained

BUY

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Action

We see MAS's turnaround story gaining traction with cost savings continuing to improve FY10F earnings, with a leg-up in FY11F as the bulk of its new fleet arrives to drive its yield-improvement strategy further. While headwinds remain in the form of competition and a potentially costly hedge, we reaffirm our BUY rating on the scope for upside coming from a low base with an added boost from its new fleet.

Catalysts

Catalysts for the stock are a better-than-expected rebound in passenger numbers and yield improvements occurring earlier than expected.

Anchor themes

Asia-Pacific airlines have rebounded faster than widely expected on growing penetration in the world's largest aviation market. We see competitive headwinds in FY10F for Malaysian airlines and prefer players with robust balance sheets and turnaround potential.

Closing price on 21 Jul	RM2.10
Price target	**RM2.40**
	(set on 31 May 10)
Upside/downside	14.4%
Difference from consensus	11.8%
FY11F net profit (RMmn)	593
Difference from consensus	51.7%

Source: Nomura

Nomura vs consensus

Consensus is generally negative; our earnings forecasts are higher as we expect the cost-driven turnaround to gather momentum with fleet renewal to give higher yields.

MAS fly

① Strong advance bookings; visibility now six months

In line with other airlines under the regional transport team's coverage, MAS is also seeing strong forward bookings – from three to four months visibility previously to six months currently. The company is seeing a better rebound in economy segments and consequently expects yields / volumes to trend upwards in 3Q/4Q10. On the back of a revival of Malaysian consumer confidence (from 1998-type lows), we highlight MAS as a potential beneficiary as the company estimates it commands a 50-60% market share of Malaysian outbound traffic.

② Fleet renewal benefits to accrue in FY11-12F

Given its fleet renewal kicks off from 4Q10F with five firm deliveries of new B738s, we expect this cost-driven turnaround to gather momentum in FY11-12F, as its fleet renewal increases fuel efficiency, resulting in an overall fall in cost/ASK by 5-7%. Similarly, its bid to improve yields is likely to take firm hold by then, as it replaces its ageing fleet. Headwinds remain in the form of high fuel hedging costs averaging US$100/barrel for 60% of its needs should crude oil prices continue trending flat. However, we believe those concerns have largely been priced in, as MAS will still benefit from buying 40% of its fuel needs at a lower oil price vs our assumption of US$85 for FY10F.

③ Balance sheet robust post RM2.67bn rights issue

With its rights issue completed in March 2010, MAS is now well placed to gear up for its firm deliveries of 56 aircraft until 2016. We see gearing hitting in FY12F at >1x, as MAS takes delivery of A380s.

④ Reaffirm BUY and price target of RM2.40

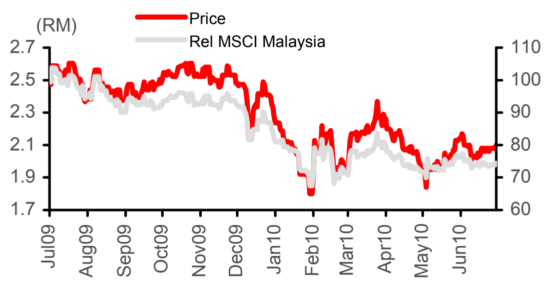
We reaffirm our BUY rating and price target of RM2.40, as we see MAS's yield improvement and cost reductions, driven by its fleet renewal strategy, yielding substantive improvements by FY11F.

Key financials & valuations

31 Dec (RMmn)	FY09	FY10F	FY11F	FY12F
Revenue	11,574	13,417	15,196	17,285
Reported net profit	496	183	593	661
Normalised net profit	(667)	183	593	661
Normalised EPS (RM)	(0.31)	0.06	0.19	0.22
Norm. EPS growth (%)	(370.1)	na	224.6	11.4
Norm. P/E (x)	na	35.1	10.8	9.7
EV/EBITDA (x)	na	10.2	7.0	5.0
Price/book (x)	5.9	1.7	1.5	1.3
Dividend yield (%)	0.0	0.0	0.0	0.0
ROE (%)	20.2	8.5	15.3	14.7
Net debt/equity (%)	net cash	net cash	89.7	105.8
Earnings revisions				
Previous norm. net profit		183	593	661
Change from previous (%)		-	-	-
Previous norm. EPS (RM)		0.06	0.19	0.22

Source: Company, Nomura estimates

Share price relative to MSCI Malaysia



	1m	3m	6m
Absolute (RM)	(1.9)	(7.5)	(7.8)
Absolute (US$)	(2.7)	(8.0)	(3.2)
Relative to Index	(2.4)	(7.5)	(10.1)
Market cap (US$mn)			2,182
Estimated free float (%)			14.0
52-week range (RM)			2.60/1.80
3-mth avg daily turnover (US$mn)			0.60
Stock borrowability			Hard
Major shareholders (%)			
Khazanah Nasional			69.0
Employees Provident Fund			13.0

Source: Company, Nomura estimates

Valuation methodology

We have arrived at our price target by pegging it at 1.8x FY11F P/BV, at the mid-cycle of its historical valuations. At these levels, FY12F P/BV falls to 1.2x, narrowing the valuation gap between MAS and its peers.

Risks to our investment view

The key price target risks for MAS are the possibility of variance in passenger volumes/yields, oil prices and currency movements from Nomura estimates, as well as further delays of MAS's fleet deliveries. Current sentiment on the uncertainty of the strength of the economic rebound, political and environmental (i.e., the Eyjafjallajokull volcanic eruption in Iceland) headwinds could persist in the next few quarters, dampening its possible performance further.

Financial statements

Income statement (RMmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Revenue	15,504	11,574	13,417	15,196	17,285
Cost of goods sold	(13,026)	(10,135)	(10,976)	(12,056)	(13,657)
Gross profit	**2,477**	**1,440**	**2,442**	**3,140**	**3,627**
SG&A	(2,172)	(2,068)	(2,150)	(2,277)	(2,530)
Employee share expense	-	-	-	-	-
Operating profit	**305**	**(628)**	**292**	**863**	**1,097**
EBITDA	**633**	**(312)**	**666**	**1,533**	**2,391**
Depreciation	(328)	(316)	(374)	(670)	(1,294)
Amortisation	-	-	-	-	-
EBIT	**305**	**(628)**	**292**	**863**	**1,097**
Net interest expense	(61)	(85)	(106)	(247)	(411)
Associates & JCEs	20	12	12	12	12
Other income	-	-	-	-	-
Earnings before tax	**265**	**(701)**	**197**	**627**	**698**
Income tax	(19)	31	(12)	(31)	(35)
Net profit after tax	**246**	**(670)**	**186**	**596**	**663**
Minority interests	1	3	(3)	(3)	(3)
Other items	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Normalised NPAT	**247**	**(667)**	**183**	**593**	**661**
Extraordinary items		1,163	-		
Reported NPAT	**247**	**496**	**183**	**593**	**661**
Dividends	-	-	-	-	-
Transfer to reserves	**247**	**496**	**183**	**593**	**661**
Valuation and ratio analysis					
FD normalised P/E (x)	18.3	na	35.1	10.8	9.7
FD normalised P/E at price target (x)	21.0	na	40.2	12.4	11.1
Reported P/E (x)	18.3	9.1	35.1	10.8	9.7
Dividend yield (%)	-	-	-	-	-
Price/cashflow (x)	na	na	7.6	3.3	2.4
Price/book (x)	1.0	5.9	1.7	1.5	1.3
EV/EBITDA (x)	7.3	na	10.2	7.0	5.0
EV/EBIT (x)	14.6	na	22.8	12.3	10.9
Gross margin (%)	16.0	12.4	18.2	20.7	21.0
EBITDA margin (%)	4.1	(2.7)	5.0	10.1	13.8
EBIT margin (%)	2.0	(5.4)	2.2	5.7	6.3
Net margin (%)	1.6	4.3	1.4	3.9	3.8
Effective tax rate (%)	7.2	na	6.0	5.0	5.0
Dividend payout (%)	-	-	-	-	-
Capex to sales (%)	4.9	7.9	15.9	30.7	18.0
Capex to depreciation (x)	2.3	2.9	5.7	7.0	2.4
ROE (%)	6.1	20.2	8.5	15.3	14.7
ROA (pretax %)	5.4	(10.0)	4.2	8.1	7.7
Growth (%)					
Revenue	1.8	(25.3)	15.9	13.3	13.7
EBITDA	(48.1)	(149.3)	na	130.1	56.0
EBIT	(65.1)	(305.7)	na	195.6	27.2
Normalised EPS	(69.6)	(370.1)	na	224.6	11.4
Normalised FDEPS	(69.6)	(370.1)	na	224.6	11.4
Per share					
Reported EPS (RM)	0.11	0.23	0.06	0.19	0.22
Norm EPS (RM)	0.11	(0.31)	0.06	0.19	0.22
Fully diluted norm EPS (RM)	0.11	(0.31)	0.06	0.19	0.22
Book value per share (RM)	2.04	0.36	1.23	1.43	1.66
DPS (RM)	-	-	-	-	-

Source: Nomura estimates

Cost cutting to continue in FY10-12F, resulting in costs rising at a slower pace, while the top-line rebounds on improved yields

MAS has special exemption from the government, which exempts it from paying taxes on all sources of income until 2015; it needs only pays a minimal tax for overseas subsidiaries

Cashflow (RMmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
EBITDA	633	(312)	666	1,533	2,391
Change in working capital	(1,328)	1,822	(922)	(433)	(216)
Other operating cashflow	71	(3,158)	1,101	872	492
Cashflow from operations	**(624)**	**(1,648)**	**845**	**1,972**	**2,667**
Capital expenditure	(764)	(914)	(2,127)	(4,662)	(3,108)
Free cashflow	**(1,387)**	**(2,561)**	**(1,283)**	**(2,689)**	**(441)**
Reduction in investments	(15)	(8)	-	-	-
Net acquisitions					
Reduction in other LT assets	81	195	(120)	-	-
Addition in other LT liabilities	114	613	(727)	-	-
Adjustments	(200)	(12)	-	-	
Cashflow after investing acts	**(1,408)**	**(1,772)**	**(2,130)**	**(2,689)**	**(441)**
Cash dividends					
Equity issue	0	-	1,671	-	-
Debt issue	546	865	1,927	2,639	1,317
Convertible debt issue					
Others					
Cashflow from financial acts	**546**	**865**	**3,598**	**2,639**	**1,317**
Net cashflow	**(862)**	**(907)**	**1,468**	**(50)**	**876**
Beginning cash	4,434	3,572	2,665	4,133	4,083
Ending cash	3,572	2,665	4,133	4,083	4,959
Ending net debt	(2,273)	(832)	(87)	3,744	5,114

Source: Nomura estimates

Balance sheet (RMmn)					
As at 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash & equivalents	3,572	2,665	4,133	4,083	4,958
Marketable securities	-	-	-	-	-
Accounts receivable	2,020	1,447	1,969	2,236	2,549
Inventories	380	385	525	1,043	1,359
Other current assets	795	287	287	287	287
Total current assets	**6,767**	**4,785**	**6,914**	**7,649**	**9,154**
LT investments	73	81	81	81	81
Fixed assets	2,465	3,044	4,865	8,856	10,670
Goodwill	106	110	110	110	110
Other intangible assets	1	34	34	34	34
Other LT assets	659	464	584	584	584
Total assets	**10,072**	**8,518**	**12,588**	**17,315**	**20,634**
Short-term debt	425	288	414	629	497
Accounts payable	2,409	2,236	2,596	2,947	3,360
Other current liabilities	2,054	2,973	2,354	2,354	2,354
Total current liabilities	**4,887**	**5,497**	**5,363**	**5,930**	**6,211**
Long-term debt	873	1,545	3,632	7,198	9,575
Convertible debt	-	-	-	-	-
Other LT liabilities	114	727	-	-	-
Total liabilities	**5,875**	**7,770**	**8,995**	**13,128**	**15,786**
Minority interest	11	12	12	12	12
Preferred stock	-	-	-	-	-
Common stock	1,671	1,671	3,342	3,342	3,342
Retained earnings	(2,129)	(5,590)	(5,408)	(4,815)	(4,154)
Proposed dividends	-	-	-	-	-
Other equity and reserves	4,643	4,655	5,647	5,647	5,647
Total shareholders' equity	**4,186**	**736**	**3,582**	**4,175**	**4,835**
Total equity & liabilities	**10,072**	**8,518**	**12,588**	**17,315**	**20,634**
Liquidity (x)					
Current ratio	1.38	0.87	1.29	1.29	1.47
Interest cover	5.0	(7.4)	2.8	3.5	2.7
Leverage					
Net debt/EBITDA (x)	net cash	na	net cash	2.44	2.14
Net debt/equity (%)	net cash	net cash	net cash	89.7	105.8
Activity (days)					
Days receivable	45.2	54.7	46.5	50.5	50.7
Days inventory	10.5	13.8	15.1	23.7	32.2
Days payable	76.1	83.6	80.3	83.9	84.5
Cash cycle	(20.4)	(15.2)	(18.7)	(9.7)	(1.7)

Source: Nomura estimates

Gearing to hit above 1x in FY12F as its A380s are delivered

Maintained

BUY

NOMURA

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Julian Chua +60 3 2027 6892 julian.chua@nomura.com

Action

Armed with the most visible banking franchise in Malaysia, Maybank looks well positioned to benefit from the growth in private consumption spending. The bank has beefed up its consumer division over the past 12 months and results are beginning to show. Reiterate BUY.

Catalysts

With foreign ownership still low at just 12.9%, investors remain sceptical on the stock. As more positive datapoints unfold, we expect an upward re-rating for Maybank.

Anchor themes

The economic recovery this year will be the key growth driver for bank earnings. Stronger loan growth, lower credit costs and stable margins should sustain a healthy earnings recovery from here.

Closing price on 21 Jul	RM7.70
Price target	**RM9.25**
	(set on 13 May 10)
Upside/downside	20.1%
Difference from consensus	10.4%
FY11F net profit (RMmn)	4,353
Difference from consensus	7.9%

Source: Nomura

Nomura vs consensus

We are more optimistic than ever on BII and group asset quality. Our credit cost assumptions should take ROE to >15% by FY12F.

Formidable consumer franchise

① Best distribution network

Maybank has 382 branches nationwide, making it the most visible bank in Malaysia. By comparison, CIMB has 321 branches and Public Bank has 248. In terms of customer accounts, Maybank also leads the pack with 9mn customers, versus CIMB's 5.3mn and Public Bank's 5mn-plus. Because of its easy accessibility, low-cost current and savings deposit accounts make up 44% of total domestic customer deposits, far higher than the industry average of about 28%.

② Domestic consumer lending picking up

Maybank's domestic consumer loan growth lagged the overall industry rate between FY02-09. However, with management putting greater resources into this space (ie, building relationships with developers, a mobile sales force), the group's market share has started to stabilise and improve.

③ Improving asset quality

In 2Q FY10, the charge-off rate declined to 53bps, from 96bps in 1Q FY10, which was affected by several chunky NPLs. For 3Q FY10, the credit cost fell further to 35bps. In FY09, the provision charge was 108bps. Going forward, management aims to reduce the credit cost back to 50bps or less, essentially returning to FY08 levels.

④ Stock still trading at attractive levels

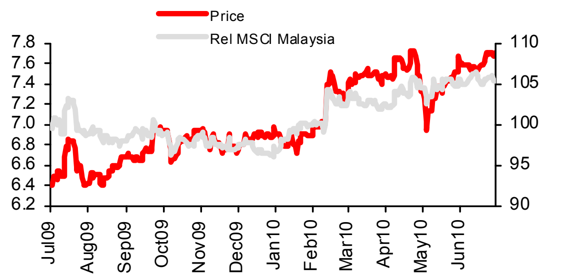
Maybank is trading just above its -1 standard deviation P/BV level. With ROE likely to trend higher to 15%, we expect the stock to gradually trend higher to its mean P/BV range of 2.4x. We maintain our BUY rating and price target of RM9.25.

Key financials & valuations

30 Jun (RMmn)	FY09	FY10F	FY11F	FY12F
PPOP	4,960	6,248	6,956	7,855
Reported net profit	692	3,754	4,353	4,960
Normalised net profit	2,181	3,754	4,353	4,960
Normalised EPS (RM)	0.38	0.53	0.62	0.70
Norm. EPS growth (%)	(40.1)	41.1	16.0	13.9
Norm. P/E (x)	25.0	14.5	12.5	11.0
Price/adj. book (x)	2.19	1.91	1.75	1.64
Price/book (x)	2.19	1.91	1.75	1.64
Dividend yield (%)	0.8	1.9	4.8	5.4
ROE (%)	3.1	14.1	14.6	15.4
ROA (%)	0.24	1.15	1.24	1.32
Earnings revisions				
Previous norm. net profit		3,754	4,353	4,960
Change from previous (%)		-	-	-
Previous norm. EPS (RM)		0.53	0.62	0.70

Source: Company, Nomura estimates

Share price relative to MSCI Malaysia



	1m	3m	6m
Absolute (RM)	0.4	2.8	10.3
Absolute (US$)	(0.5)	2.2	15.9
Relative to Index	(0.1)	2.7	8.9
Market cap (US$mn)			16,947
Estimated free float (%)			35.0
52-week range (RM)			7.72/6.40
3-mth avg daily turnover (US$mn)			22.19
Stock borrowability			Hard
Major shareholders (%)			
Skim Amanah Saham Bumiputera			46.7
EPF			11.0

Source: Company, Nomura estimates

Valuation methodology

Our DDM-based price target of RM9.25 assumes an FY11F dividend payout of 60%, ROE of 14.6%, cost of equity of 8.8% and terminal growth rate of 3.7%. Our price target implies FY11F P/E of 15.1x and P/BV of 2.1x.

Risks to our investment view

We see potential downside risks from: 1) a weaker-than-expected economic recovery, which could result in higher credit costs; and 2) a delayed operational turnaround of Bank Internasional Indonesia, which could drag down Maybank's group earnings.

Financial statements

Profit and Loss (RMmn)					
Year-end 30 Jun	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Interest income	11,468	11,570	11,350	13,470	15,620
Interest expense	(6,041)	(5,650)	(4,700)	(6,100)	(7,490)
Net interest income	**5,427**	**5,920**	**6,650**	**7,370**	**8,130**
Net fees and commissions	1,775	2,058	2,500	2,600	2,750
Trading related profits	20	(57)	500	350	400
Other operating revenue	2,408	2,599	2,720	3,045	3,315
Non-interest income	**4,203**	**4,600**	**5,720**	**5,995**	**6,465**
Operating income	**9,630**	**10,519**	**12,370**	**13,365**	**14,595**
Depreciation	(184)	(146)	(190)	(190)	(190)
Operating expenses	(4,071)	(5,413)	(5,932)	(6,219)	(6,550)
Employee share expense					
Op. profit before provisions	**5,375**	**4,960**	**6,248**	**6,956**	**7,855**
Provisions for bad debt	(804)	(1,896)	(1,106)	(977)	(1,051)
Other provision charges	-	-	-	-	-
Operating profit	**4,571**	**3,064**	**5,142**	**5,980**	**6,804**
Amortisation	-	-	-	-	-
Other non-operating income					
Associates & JCEs	(1)	100	148	154	184
Pre-tax profit	**4,570**	**3,163**	**5,289**	**6,133**	**6,988**
Income tax	(1,084)	(924)	(1,428)	(1,656)	(1,887)
Net profit after tax	**3,486**	**2,239**	**3,861**	**4,477**	**5,101**
Minority interests	(74)	(59)	(107)	(124)	(142)
Other items					
Preferred dividends					
Normalised NPAT	**3,412**	**2,181**	**3,754**	**4,353**	**4,960**
Extraordinary items	(484)	(1,489)	0	0	0
Reported NPAT	**2,928**	**692**	**3,754**	**4,353**	**4,960**
Dividends	(1,770)	(425)	(1,062)	(2,590)	(2,941)
Transfer to reserves	**1,158**	**267**	**2,692**	**1,762**	**2,019**
Valuation and ratio analysis					
FD normalised P/E (x)	12.3	25.0	14.5	12.5	11.0
FD normalised P/E at price target (x)	14.7	30.0	17.4	15.0	13.2
Reported P/E (x)	14.3	64.6	14.5	12.5	11.0
Dividend yield (%)	4.7	0.8	1.9	4.8	5.4
Price/book (x)	1.9	2.2	1.9	1.8	1.6
Price/adjusted book (x)	1.9	2.2	1.9	1.8	1.6
Net interest margin (%)	2.62	2.52	2.50	2.56	2.63
Yield on interest earning assets (%)	5.54	4.92	4.27	4.68	5.05
Cost of interest bearing liabilities (%)	2.74	2.32	1.73	2.08	2.39
Net interest spread (%)	2.81	2.60	2.53	2.59	2.65
Non-interest/operating income (%)	43.6	43.7	46.2	44.9	44.3
Cost to income (%)	44.2	52.8	49.5	48.0	46.2
Effective tax rate (%)	23.7	29.2	27.0	27.0	27.0
Dividend payout (%)	60.4	61.4	28.3	59.5	59.3
ROE (%)	15.2	3.1	14.1	14.6	15.4
ROA (%)	1.11	0.24	1.15	1.24	1.32
Operating ROE (%)	23.7	13.9	19.2	20.1	21.2
Operating ROA (%)	1.74	1.06	1.58	1.70	1.81
Growth (%)					
Net interest income	5.7	9.1	12.3	10.8	10.3
Non-interest income	13.0	9.4	24.4	4.8	7.8
Non-interest expenses	12.9	33.0	9.6	4.8	5.3
Pre-provision earnings	6.1	(7.7)	26.0	11.3	12.9
Net profit	7.4	(36.1)	72.1	16.0	13.9
Normalised EPS	6.9	(40.1)	41.1	16.0	13.9
Normalised FDEPS	6.9	(50.9)	72.1	16.0	13.9

Source: Nomura estimates

Includes a RM1.6bn impairment charge for BII, MCB investments

Balance Sheet (RMmn)					
As at 30 Jun	FY08	FY09	FY10F	FY11F	FY12F
Cash and equivalents	27,644	23,608	25,000	25,000	25,000
Inter-bank lending	8,957	6,299	10,050	10,050	9,870
Deposits with central bank	5,872	4,051	4,360	4,672	4,981
Total securities	36,551	58,074	62,450	67,450	73,104
Other interest earning assets	-	-	-	-	-
Gross loans	171,155	193,363	209,000	225,000	242,000
Less provisions	(6,541)	(7,580)	(8,180)	(8,700)	(9,240)
Net loans	**164,614**	**185,783**	**200,820**	**216,300**	**232,760**
Long-term investments	2,219	2,630	2,780	2,950	3,100
Fixed assets	1,215	1,422	1,712	1,712	1,712
Goodwill	0	4,374	4,600	4,600	4,600
Other intangible assets					
Other non IEAs	22,029	24,498	28,170	32,034	33,885
Total assets	**269,101**	**310,739**	**339,941**	**364,768**	**389,012**
Customer deposits	187,112	212,599	235,000	255,000	275,000
Bank deposits, CDs, debentures	24,554	28,782	28,283	28,283	28,283
Other interest bearing liabilities	14,862	18,219	19,481	19,481	19,481
Total interest bearing liabilities	**226,528**	**259,599**	**282,764**	**302,764**	**322,764**
Non interest bearing liabilities	22,481	25,372	27,750	30,000	32,000
Total liabilities	**249,009**	**284,971**	**310,514**	**332,764**	**354,764**
Minority interest	789	869	900	950	1,000
Common stock	4,881	7,078	7,078	7,078	7,078
Preferred stock					
Retained earnings	8,130	7,988	10,999	13,526	15,720
Proposed dividends					
Other equity	6,291	9,833	10,450	10,450	10,450
Shareholders' equity	**19,302**	**24,899**	**28,527**	**31,054**	**33,248**
Total liabilities and equity	**269,101**	**310,739**	**339,941**	**364,768**	**389,012**
Non-performing assets (RM)	*6,472*	*6,715*	*6,270*	*6,750*	*7,260*
Balance sheet ratios (%)					
Loans to deposits	91.5	91.0	88.9	88.2	88.0
Equity to assets	7.2	8.0	8.4	8.5	8.5
Asset quality & capital					
NPAs/gross loans (%)	3.8	3.5	3.0	3.0	3.0
Bad debt charge/gross loans (%)	0.47	0.98	0.53	0.43	0.43
Loss reserves/assets (%)	2.43	2.44	2.41	2.39	2.38
Loss reserves/NPAs (%)	101.1	112.9	130.5	128.9	127.3
Tier 1 capital ratio (%)	10.5	11.0	11.0	11.0	11.0
Total capital ratio (%)	14.4	15.0	14.5	14.4	14.2
Growth (%)					
Loan growth	16.9	12.9	8.1	7.7	7.6
Interest earning assets	9.2	17.7	9.2	7.5	7.5
Interest bearing liabilities	5.4	14.6	8.9	7.1	6.6
Asset growth	4.8	15.5	9.4	7.3	6.6
Deposit growth	14.3	13.6	10.5	8.5	7.8
Per share					
Reported EPS (RM)	0.54	0.12	0.53	0.62	0.70
Norm EPS (RM)	0.63	0.38	0.53	0.62	0.70
Fully diluted norm EPS (RM)	0.63	0.31	0.53	0.62	0.70
DPS (RM)	0.36	0.06	0.15	0.37	0.42
PPOP PS (RM)	0.99	0.85	0.88	0.98	1.11
BVPS (RM)	3.95	3.52	4.03	4.39	4.70
ABVPS (RM)	3.95	3.52	4.03	4.39	4.70
NTAPS (RM)	3.95	2.90	3.38	3.74	4.05

Source: Nomura estimates

Bad debt provisions falling rapidly at home and in Indonesia

Media Prima MPR MK

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NOMURA SECURITIES MALAYSIA SDN BHD

Julian Chua +60 3 2027 6892 julian.chua@nomura.com

Maintained
BUY

Closing price on 21 Jul	RM2.09
Price target	RM2.50
	(set on 11 Mar 10)
Upside/downside	19.6%
Difference from consensus	-3.1%
FY11F net profit (RMmn)	144.9
Difference from consensus	-20.3%

Source: Nomura

Action

With our economics team forecasting strong economic growth of 7% for 2010, we expect the TV adex recovery in Malaysia to kick in, while the acquisitions of NSTP and an outdoor competitor will likely also contribute this year. We expect a strong earnings CAGR of 34% over the next three years. Maintain BUY.

Catalysts

The big advertising clients are increasing their adex budgets having scaled back last year amid the worst domestic slowdown since the 1998-99 economic crisis.

Anchor themes

Our favoured media space is television advertising, given Malaysia's favourable demographic profile (growing middle class, young population). We believe TV will continue to take adex market share from print over the next three years.

Nomura vs consensus

We have factored in more conservative operating margins in view of rising content costs

Mainstream media play

① Dominance in free-to-air TV, Malay print

MPB operates all four private free-to-air TV stations in Malaysia compared to the government's two stations. It controls an estimated 75% of total TV gross adex and enjoys 50% viewership share. It also publishes Harian Metro, the leading Malay daily newspaper with circulation of ~400K copies (market share of 36%). By comparison, the leading English daily – The Star – has a circulation of 300K.

② Adex on cyclical recovery

Due to the recession, Malaysia's adspend on TV declined an estimated 6% y-y in 2009. Advertisers scaled back their budgets, while media companies offered heavier discounts, especially to lower-yielding small- and medium-sized companies. This year, more than 70% of the top 20 advertisers have already put in a full-year TV adex commitment, compared to just 60% for the whole of last year.

③ Print sector – gaining market share, better cost control

Although structurally print media has been losing adex share to TV, we expect MPB's newspaper subsidiary to outperform given strong circulation growth for its Malay daily, Harian Metro. This was one of the few dailies to record circulation growth in 2009 (currently at ~400K, up from 350K in 1H09).

④ Stock trades in line with regional peers

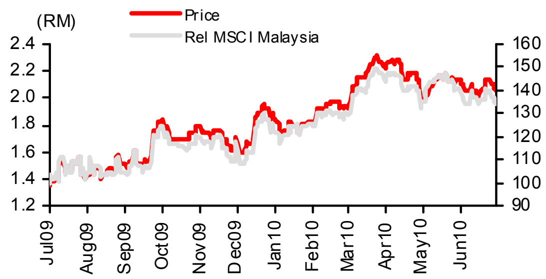
MPB trades at an FY11F EV/EBITDA of 7.2x vs the regional average of 9.0x. If we exclude India, the regional EV/EBITDA would be 7.0x, on our estimates. On a P/E basis, the stock trades at 16x FY11F earnings, also fairly consistent with region (ex-India) P/E of 15.5x, on our estimates.

Key financials & valuations

31 Dec (RMmn)	FY09	FY10F	FY11F	FY12F
Revenue	754	1,456	1,557	1,675
Reported net profit	194.8	127.5	144.9	173.7
Normalised net profit	73.8	127.5	144.9	173.7
Normalised EPS (RM)	0.075	0.115	0.131	0.157
Norm. EPS growth (%)	(49.5)	53.3	13.7	19.9
Norm. P/E (x)	27.8	18.2	16.0	13.3
EV/EBITDA (x)	14.4	8.0	7.2	6.2
Price/book (x)	2.1	2.1	1.9	1.8
Dividend yield (%)	4.4	2.8	3.1	3.7
ROE (%)	25.8	12.3	12.6	14.1
Net debt/equity (%)	46.5	34.2	27.7	20.9
Earnings revisions				
Previous norm. net profit		127.5	144.9	173.7
Change from previous (%)		-	-	-
Previous norm. EPS (RM)		0.115	0.131	0.157

Source: Company, Nomura estimates

Share price relative to MSCI Malaysia



	1m	3m	6m
Absolute (RM)	(1.9)	(5.4)	13.6
Absolute (US$)	(2.7)	(5.9)	19.3
Relative to Index	(2.4)	(5.5)	12.4
Market cap (US$mn)			635
Estimated free float (%)			55.0
52-week range (RM)			2.31/1.35
3-mth avg daily turnover (US$mn)			0.53
Stock borrowability			Hard
Major shareholders (%)			
Employees Provident Fund Board			23.4
Amanah Raya Bhd			12.6

Source: Company, Nomura estimates

Valuation methodology

Our 12-month DCF-based price target of RM2.50 uses a discount rate of 10.3% and a terminal growth rate of 2%. Our discount rate assumes a risk-free rate of 3.75%, a market risk premium of 5% and a beta of 1.3x.

Risks to our investment view

If the global economic recovery is slower than expected, consumer demand/sentiment and ultimately advertising spending will follow. Forex changes – further depreciation of the ringgit could lead to significantly higher costs of programme content and newsprint. Competition – If competitors become more aggressive in gaining TV ad market share, it may result in greater discounting for ad space.

Financial statements

Income statement (RMmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Revenue	815	754	1,456	1,557	1,675
Cost of goods sold					
Gross profit	**815**	**754**	**1,456**	**1,557**	**1,675**
SG&A	(657)	(648)	(1,241)	(1,320)	(1,399)
Employee share expense					
Operating profit	**158**	**106**	**215**	**237**	**276**
EBITDA	**197**	**156**	**305**	**332**	**375**
Depreciation	(39)	(50)	(90)	(94)	(99)
Amortisation	-	-	-	-	-
EBIT	**158**	**106**	**215**	**237**	**276**
Net interest expense	(20)	(24)	(38)	(38)	(37)
Associates & JCEs	21	17	-	-	-
Other income	1	-	0	0	0
Earnings before tax	**159**	**98**	**177**	**200**	**239**
Income tax	(42)	(24)	(44)	(50)	(60)
Net profit after tax	**118**	**74**	**133**	**150**	**179**
Minority interests	14	-	(5)	(5)	(6)
Other items	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Normalised NPAT	**131**	**74**	**127**	**145**	**174**
Extraordinary items	(45)	121	-	-	-
Reported NPAT	**86**	**195**	**127**	**145**	**174**
Dividends	(41)	(90)	(64)	(72)	(87)
Transfer to reserves	**45**	**105**	**64**	**72**	**87**

First full-year contribution from NSTP in FY10F

Valuation and ratio analysis					
FD normalised P/E (x)	14.1	27.8	18.2	16.0	13.3
FD normalised P/E at price target (x)	16.8	33.3	21.7	19.1	16.0
Reported P/E (x)	21.5	10.6	18.2	16.0	13.3
Dividend yield (%)	2.2	4.4	2.8	3.1	3.7
Price/cashflow (x)	51.1	9.5	17.8	10.3	9.0
Price/book (x)	3.4	2.1	2.1	1.9	1.8
EV/EBITDA (x)	10.9	14.4	8.0	7.2	6.2
EV/EBIT (x)	13.3	20.4	11.3	10.0	8.4
Gross margin (%)	100.0	100.0	100.0	100.0	100.0
EBITDA margin (%)	24.2	20.7	20.9	21.3	22.4
EBIT margin (%)	19.3	14.0	14.8	15.2	16.5
Net margin (%)	10.6	25.9	8.8	9.3	10.4
Effective tax rate (%)	26.1	24.5	25.0	25.0	25.0
Dividend payout (%)	47.4	46.3	50.0	50.0	50.0
Capex to sales (%)	6.3	7.9	4.6	4.7	4.8
Capex to depreciation (x)	1.3	1.2	0.7	0.8	0.8
ROE (%)	15.5	25.8	12.3	12.6	14.1
ROA (pretax %)	16.1	7.9	10.8	11.6	13.2
Growth (%)					
Revenue	11.7	(7.5)	93.3	6.9	7.5
EBITDA	1.1	(20.7)	95.3	8.7	13.2
EBIT	0.4	(32.9)	103.3	10.3	16.4
Normalised EPS	6.5	(49.5)	53.3	13.7	19.9
Normalised FDEPS	6.5	(49.5)	53.3	13.7	19.9
Per share					
Reported EPS (RM)	0.10	0.20	0.12	0.13	0.16
Norm EPS (RM)	0.15	0.08	0.12	0.13	0.16
Fully diluted norm EPS (RM)	0.15	0.08	0.12	0.13	0.16
Book value per share (RM)	0.62	0.97	1.01	1.07	1.15
DPS (RM)	0.05	0.09	0.06	0.07	0.08

Source: Nomura estimates

Cashflow (RMmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
EBITDA	197	156	305	332	375
Change in working capital	(81)	(37)	(88)	(14)	(14)
Other operating cashflow	(80)	97	(88)	(92)	(102)
Cashflow from operations	**36**	**217**	**130**	**226**	**258**
Capital expenditure	(51)	(60)	(67)	(73)	(80)
Free cashflow	**(15)**	**157**	**63**	**152**	**178**
Reduction in investments	(14)	135	(8)	(6)	(6)
Net acquisitions					
Reduction in other LT assets	(10)	(83)	-	-	-
Addition in other LT liabilities	3	92	-	-	-
Adjustments	27	(859)	(26)	(27)	(28)
Cashflow after investing acts	**(9)**	**(558)**	**29**	**119**	**144**
Cash dividends	(41)	(90)	(64)	(72)	(87)
Equity issue	12	92	30	-	-
Debt issue	28	213	37	(15)	(10)
Convertible debt issue					
Others	(67)	442	69	5	6
Cashflow from financial acts	**(68)**	**657**	**72**	**(82)**	**(91)**
Net cashflow	**(77)**	**99**	**101**	**37**	**53**
Beginning cash	128	51	150	251	288
Ending cash	51	150	251	288	341
Ending net debt	332	446	381	330	267

Source: Nomura estimates

Balance sheet (RMmn)					
As at 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash & equivalents	51	150	251	288	341
Marketable securities	-	-	-	-	-
Accounts receivable	280	335	374	400	430
Inventories	0	123	123	128	132
Other current assets	47	3	3	3	3
Total current assets	**378**	**610**	**751**	**818**	**905**
LT investments	362	226	234	240	246
Fixed assets	213	771	774	780	790
Goodwill					
Other intangible assets	179	397	397	397	397
Other LT assets	33	117	117	117	117
Total assets	**1,165**	**2,121**	**2,273**	**2,352**	**2,455**
Short-term debt	154	202	160	145	135
Accounts payable	191	305	241	258	277
Other current liabilities	31	14	30	30	30
Total current liabilities	**376**	**521**	**430**	**433**	**442**
Long-term debt	229	393	473	473	473
Convertible debt					
Other LT liabilities	20	112	112	112	112
Total liabilities	**625**	**1,026**	**1,015**	**1,017**	**1,027**
Minority interest	(12)	137	142	147	153
Preferred stock					
Common stock	854	945	975	975	975
Retained earnings	(525)	(410)	(347)	(274)	(187)
Proposed dividends					
Other equity and reserves	222	423	487	487	487
Total shareholders' equity	**551**	**958**	**1,116**	**1,188**	**1,275**
Total equity & liabilities	**1,165**	**2,121**	**2,273**	**2,352**	**2,455**
Liquidity (x)					
Current ratio	1.01	1.17	1.74	1.89	2.05
Interest cover	7.8	4.3	5.6	6.3	7.5
Leverage					
Net debt/EBITDA (x)	1.68	2.85	1.25	0.99	0.71
Net debt/equity (%)	60.1	46.5	34.2	27.7	20.9
Activity (days)					
Days receivable	120.1	149.0	88.8	90.6	90.6
Days inventory	na	na	na	na	na
Days payable	na	na	na	na	na
Cash cycle	na	na	na	na	na

Source: Nomura estimates

NSTP's balance sheet consolidated at end-FY09

SP Setia SPSB MK

PROPERTY | MALAYSIA

Min Chow Sai +65 6433 6959 minchow.sai@nomura.com
Vineet Verma (Associate)

Maintained

BUY

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Action

As per the latest sales update of end-June, 82% of this FY's sales target of RM2bn is now reached. The strong sales mirrored the bullish macro picture, which our economists believe is sustainable. We think the upcoming launch of KL Eco City is a catalyst to re-rate the stock in terms of addressing market concerns over the execution of the project and the sustainability of property sales growth. BUY.

Catalysts

Better-than-expected FY10F sales achieved by SPSB relative to the RM2.0bn target set and KL Eco City's launch.

Anchor themes

Demand fundamentals should underpin a sustained recovery in the Malaysia property market over the next 12 months. While a key risk remains higher interest rates, this should not alter the affordability picture significantly, especially with household income likely to rise in tandem with economic growth.

Closing price on 21 Jul	RM4.13
Price target	RM5.06
	(set on 19 May 10)
Upside/downside	22.5%
Difference from consensus	18.5%
FY11F net profit (RMmn)	237.4
Difference from consensus	1.5%

Source: Nomura

Nomura vs consensus

We believe the earnings and RNAV accretion from the KL Eco City project, with an estimated GDV of RM6bn, are not fully reflected in the shares.

FY10F sales target 82% reached

① RM1.64bn in sales achieved as of end-June

The company recently issued a sales update as of end-June — RM1.64bn in sales value was achieved during the first eight months of this FY, or 82% of this FY's sales target of RM2bn. The strong property sales mirrored the overall bullish macro picture in Malaysia — our economists raised our GDP forecast for 2010F twice in the first five months of this year and they believe the robust industrial production numbers point to sustained momentum that will provide another strong GDP number in 2Q10. As per our report published on 19 May *(Sales boost to underpin re-rating),* real GDP typically leads property sales by two to three quarters in Malaysia and achieved property sales typically drive SPSB's stock valuation.

② Lower sales in 3Q as company slows launches

The slower sales value of RM199mn achieved in 3Q10 was more on account of the company slowing launches as the sales target is reached, in our view. The only new product that was launched in 3Q10 was Setia Walk Tower 3 in Puchong where 124 units out of the c. 178 non-Bumi units were sold during the quarter at an average of RM420,000/unit (average price of RM360,000/unit for Tower 2 launched earlier this year).

③ Maintain BUY rating with price target RM5.06

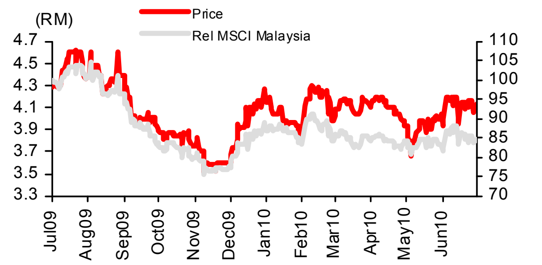
At FY11F yield of 3.4% and 18% discount to NAV of RM5.06, we believe valuation remains attractive. We see the upcoming launch of KL Eco City as the key catalyst to re-rate of the company in two ways: 1) to address the market's concern over the company's execution of a large-scale commercial/residential mixed development; and 2) to address concern over the sustainability of growth in property sales that can be achieved by the company in the next two to three years.

Key financials & valuations

31 Oct (RMmn)	FY09	FY10F	FY11F	FY12F
Revenue	1,408	1,569	1,803	2,066
Reported net profit	171.2	200.8	237.4	281.2
Normalised net profit	171.2	200.8	237.4	281.2
Normalised EPS (RM)	0.17	0.20	0.23	0.28
Norm. EPS growth (%)	(8.6)	17.2	18.2	18.4
Norm. P/E (x)	24.5	20.9	17.7	14.9
EV/EBITDA (x)	24.5	18.7	14.9	12.4
Price/book (x)	2.1	2.1	2.0	1.9
Dividend yield (%)	2.5	2.9	3.4	4.0
ROE (%)	8.5	9.9	11.4	12.8
Gearing (%)	0.0	0.0	0.0	0.0
Earnings revisions				
Previous norm. net profit		200.8	237.4	281.2
Change from previous (%)		-	-	-
Previous norm. EPS (RM)		0.20	0.23	0.28

Source: Company, Nomura estimates

Share price relative to MSCI Malaysia



	1m	3m	6m
Absolute (RM)	2.2	0.5	(2.8)
Absolute (US$)	1.4	(0.1)	2.1
Relative to Index	1.7	0.4	(4.9)
Market cap (US$mn)			1,306
Estimated free float (%)			46.0
52-week range (RM)			4.62/3.51
3-mth avg daily turnover (US$mn)			1.20
Stock borrowability			Hard
Major shareholders (%)			
PNB			32.0
EPF			15.0

Source: Company, Nomura estimates

Valuation methodology

We peg our 12-month price target for SPSB at parity to our estimate of its intrinsic NAV of RM5.06/share, based on our GDV estimates for its projects and a discount rate of 12% (used to derive the NPV of each project).

Risks to our investment view

Any project delays or disappointing take-up rates could dent our earnings forecasts. In addition, the bulk of the portfolio is represented by projects in Malaysia, especially in Johor and Klang Valley, giving rise to product concentration risk.

Financial statements

Income statement (RMmn)					
Year-end 31 Oct	FY08	FY09	FY10F	FY11F	FY12F
Investment properties					
Property development					
Hotels/serviced apartments					
Other Revenue					
Revenue	**1,328**	**1,408**	**1,569**	**1,803**	**2,066**
EBIT contributions					
Investment properties					
Property development					
Hotels/serviced apartments					
Other income					
Management expenses					
EBITDA	**210**	**195**	**250**	**324**	**377**
Depreciation and amortisation	(11)	(14)	(16)	(19)	(23)
EBIT	**199**	**181**	**234**	**305**	**354**
Net interest expense	10	(3)	(4)	(4)	(5)
Associates & JCEs	15	(0)	11	8	28
Other income	40	54	54	54	54
Earnings before tax	**264**	**231**	**295**	**362**	**431**
Income tax	(78)	(60)	(76)	(94)	(112)
Net profit after tax	**187**	**171**	**218**	**269**	**319**
Minority interests	0	(0)	(18)	(31)	(38)
Other items	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Normalised NPAT	**187**	**171**	**201**	**237**	**281**
Extraordinary items	27	-	-	-	-
Reported NPAT	**213**	**171**	**201**	**237**	**281**
Dividends	(129)	(107)	(121)	(142)	(169)
Transfer to reserves	**85**	**64**	**80**	**95**	**112**
Valuation and ratio analysis					
FD normalised P/E (x)	22.4	24.5	20.9	17.7	14.9
FD normalised P/E at price target (x)	27.4	30.0	25.6	21.7	18.3
Reported P/E (x)	19.6	24.5	20.9	17.7	14.9
Dividend yield (%)	3.1	2.5	2.9	3.4	4.0
Price/cashflow (x)	10.4	7.0	25.3	14.4	12.9
Price/book (x)	2.1	2.1	2.1	2.0	1.9
EV/EBITDA (x)	20.3	24.5	18.7	14.9	12.4
EV/EBIT (x)	21.3	26.4	19.9	15.8	13.2
EBIT margin (%)	15.0	12.8	14.9	16.9	17.1
Effective tax rate (%)	29.4	25.9	25.9	25.9	25.9
Dividend payout (%)	60.4	62.3	60.0	60.0	60.0
ROA (pretax %)	8.2	6.2	7.8	9.3	10.4
Growth (%)					
Revenue	15.1	6.0	11.4	14.9	14.6
EBITDA	(22.1)	(7.1)	28.3	29.7	16.3
EBIT	(24.1)	(9.2)	29.4	30.3	16.0
Normalised EPS	(26.0)	(8.6)	17.2	18.2	18.4
Normalised FDEPS	(25.4)	(8.6)	17.2	18.2	18.4
Per share					
Reported EPS (RM)	0.21	0.17	0.20	0.23	0.28
Norm EPS (RM)	0.18	0.17	0.20	0.23	0.28
Fully diluted norm EPS (RM)	0.18	0.17	0.20	0.23	0.28
Book value per share (RM)	1.95	2.01	1.99	2.10	2.22
DPS (RM)	0.13	0.11	0.12	0.14	0.17

Source: Nomura estimates

New launches KL Eco City, Aeropod, Lai Thieu project in Vietnam and Hangzhou project in China to underpin revenue growth in FY11F

Cashflow (RMmn)					
Year-end 31 Oct	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
EBITDA	210	195	250	324	377
Change in working capital	85	(150)	(108)	(195)	(205)
Other operating cashflow	107	550	24	163	154
Cashflow from operations	**401**	**595**	**166**	**292**	**325**
Capital expenditure	(109)	(210)	(53)	(55)	(58)
Free cashflow	**293**	**385**	**114**	**237**	**267**
Reduction in investments					
Net acquisitions					
Reduction in other LT assets					
Addition in other LT liabilities					
Adjustments	27	-	(114)	(168)	(189)
Cashflow after investing acts	**(34)**	**277**	**(0)**	**69**	**78**
Cash dividends	(166)	-	(129)	(131)	(156)
Equity issue	85	(114)	-	-	-
Debt issue	287	130	-	-	-
Convertible debt issue					
Others	16	-	-	-	-
Cashflow from financial acts	**223**	**16**	**(129)**	**(131)**	**(156)**
Net cashflow	**188**	**293**	**(129)**	**(62)**	**(77)**
Beginning cash	405	593	886	757	694
Ending cash	593	886	756	694	617
Ending net debt	368	552	681	744	820

Source: Nomura estimates

Balance sheet (RMmn)					
As at 31 Oct	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash & equivalents	593	886	757	694	617
Properties held for sale					
Accounts receivable	241	327	369	430	499
Other current assets	942	1,097	1,207	1,400	1,616
Total current assets	**1,805**	**2,337**	**2,362**	**2,557**	**2,770**
Investment properties					
Other fixed assets (net)	80	146	153	150	157
Associates					
Other LT assets	129	60	71	79	107
Total assets	**3,316**	**3,952**	**3,996**	**4,195**	**4,444**
Short-term debt	74	331	331	331	331
Accounts payable	221	307	336	376	431
Other current liabilities	156	160	177	199	229
Total current liabilities	**451**	**797**	**844**	**906**	**991**
Long-term debt	886	1,107	1,107	1,107	1,107
Convertible debt					
Other LT liabilities	3	2	1	1	1
Total liabilities	**1,340**	**1,907**	**1,952**	**2,014**	**2,099**
Minority interest	0	-	18	49	87
Preferred stock					
Shareholders' Equity					
Other equity and reserves	267	280	272	272	272
Total shareholders' equity	**1,975**	**2,045**	**2,026**	**2,132**	**2,257**
Total equity & liabilities	**3,316**	**3,952**	**3,996**	**4,195**	**4,444**
Leverage					
Interest cover	na	57.9	60.0	72.5	76.5
Gross debt/property assets (%)					
Net debt/EBITDA (x)	1.75	2.84	2.73	2.29	2.18
Net debt/equity (%)	18.6	27.0	33.6	34.9	36.3
Dupont decomposition					
Net margin (%)	16.1	12.2	12.8	13.2	13.6
Asset utilisation (x)					
ROA (%)	8.2	5.9	6.4	7.0	7.7
Leverage (Assets/Equity x)					
ROE (%)	11.2	8.5	9.9	11.4	12.8

Source: Nomura estimates

Expanding ROE driven by asset turn and improving margin

QSR Brands Berhad QSR MK

CONSUMER RELATED/FOOD & BEVERAGE | MALAYSIA

Maintained

BUY

NOMURA

NOMURA SECURITIES MALAYSIA SDN BHD

Jacinda Loh +60 3 2027 6889 jacinda.loh@nomura.com

Action

Against a backdrop of favourable demographics, QSR is the most diversified KFC franchise owner in the region, with 830 KFC and Pizza Hut stores across ASEAN and India. We see 12-40% earnings growth over the next three years, driven by a young and high poultry-consuming population. Strong catalysts also exist via its start-up India presence. Its single-digit FY11F P/E compares favourably historically and versus its peers. We initiated on QSR on 21 July with a BUY; PT of RM5.47

Catalysts

1) Continued store openings in Malaysia and India; 2) sustained positive consumer sentiment; and 3) confidence in robust economic recoveries across the region.

Anchor themes

Strong GDP forecasts out of ASEAN and India are likely to spur an F&B demand recovery, with fast-food operators such as QSR benefiting from young populations and rising incomes across a diversified geographical base.

Closing price on 21 Jul	RM4.25
Price target	**RM5.47**
	(set on 21 Jul 10)
Upside/downside	28.8%
Difference from consensus	**14.0%**
FY11F net profit (RMmn)	147.4
Difference from consensus	**56.8%**

Source: Nomura

Nomura vs consensus

Broker coverage is limited; forecasts are wide ranging. We are above consensus as we see a better-than-expected recovery in its Malaysian business and are positive on its new India foray.

Lickin' good in India and ASEAN

① Buy KFC get "free" pizza

QSR is trading both at a 43% discount to its four-year mean and below its peers' P/Es (in the teens). The market appears to value QSR's 50% stake in listed subsidiary KFC Holdings Berhad at >100% of QSR's share price, implying a complete discount on the steadily performing Pizza Hut and KFC Cambodia operations (unlisted, directly under QSR), which together contribute about 20% to EBIT. Our price target implies a target multiple of 12x, midway between the stock's historical mean and -1SD.

② ASEAN region a robust growth contributor

GDP growth of 7% and 15.5% in 2010F for Malaysia and Singapore, respectively, augurs well for QSR, which generates 80% of its revenue from its KFC / Pizza Hut stores in those markets. We expect 40% EPS growth in FY10F on a double-digit same-store sales increase (albeit off a low base). Also, as Malaysia has a young, high poultry-consuming population, we see further growth in this market, given QSR's low urban penetration of 28%, vs ~50% at peers such as McDonalds.

③ New India presence could chart higher trajectory

KFC's low India penetration (half of McDonalds), similar favourable demographics and average sales starting at almost double those of Malaysia should give growth a leg up and provide sustainable growth prospects. Expansion from two to 30 stores by FY12F is planned.

④ Supply chain ownership is a focus

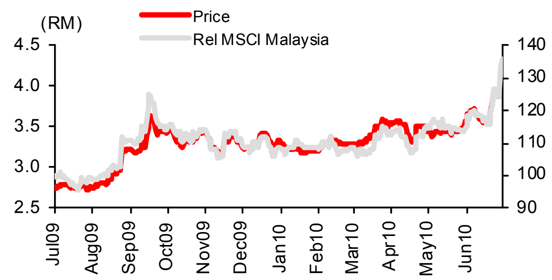
Plans for further expansion into broiler farms should, in our view, complete the missing "link" in QSR's ownership of the supply chain, enabling up to 20-30% of chicken needs to be supplied internally, to reduce dependence on contract farmers.

Key financials & valuations

31 Dec (RMmn)	FY09	FY10F	FY11F	FY12F
Revenue	2,760	3,002	3,233	3,485
Reported net profit	90.9	127.7	147.4	165.8
Normalised net profit	90.9	127.7	147.4	165.8
Normalised EPS (RM)	0.40	0.56	0.64	0.72
Norm. EPS growth (%)	6.6	40.4	15.4	12.5
Norm. P/E (x)	13.2	10.8	9.3	8.3
EV/EBITDA (x)	4.2	3.4	2.7	2.2
Price/book (x)	1.4	1.2	1.1	1.0
Dividend yield (%)	2.4	3.3	3.8	4.3
ROE (%)	13.8	17.4	17.6	17.4
Net debt/equity (%)	20.2	22.9	9.8	net cash
Earnings revisions				
Previous norm. net profit		127.7	147.4	165.8
Change from previous (%)		-	-	-
Previous norm. EPS (RM)		0.56	0.64	0.72

Source: Company, Nomura estimates

Share price relative to MSCI Malaysia



	1m	3m	6m
Absolute (RM)	19.0	19.7	27.2
Absolute (US$)	18.0	19.1	33.6
Relative to Index	18.3	19.5	26.7
Market cap (US$mn)			378.5
Estimated free float (%)			30.0
52-week range (RM)			4.25/2.73
3-mth avg daily turnover (US$mn)			0.66
Stock borrowability			Hard
Major shareholders (%)			
Kulim Malaysia Berhad			59.6
Lembaga Tabung Haji			8.2

Source: Company, Nomura estimates

Valuation methodology

We value QSR on FY11F diluted EPS of RM0.456, applied to our PE target multiple of 12x, the average between its 4 year historical mean and -1SD level to arrive at our PT of RM5.47.

Risks to our investment view

Downside risks include: 1) non-renewal of the franchise licence with Yum! after the 10+10-year contract period, 2) deteriorating domestic consumer confidence on worries of a double dip in QSR's key markets and 3) fewer-than-expected store openings.

Financial statements

Income statement (RMmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Revenue	533	2,760	3,002	3,233	3,485
Cost of goods sold	(163)	(1,166)	(1,281)	(1,406)	(1,546)
Gross profit	**370**	**1,594**	**1,721**	**1,827**	**1,939**
SG&A	(346)	(1,388)	(1,428)	(1,485)	(1,550)
Employee share expense	-	-	-	-	-
Operating profit	**24**	**206**	**294**	**342**	**389**
EBITDA	**50**	**320**	**413**	**476**	**539**
Depreciation	(24)	(104)	(119)	(134)	(149)
Amortisation	(2)	(10)	-	-	-
EBIT	**24**	**206**	**294**	**342**	**389**
Net interest expense	(9)	(12)	(13)	(13)	(16)
Associates & JCEs	57	-	-	-	-
Other income	26	36	37	38	40
Earnings before tax	**98**	**230**	**318**	**367**	**413**
Income tax	(14)	(72)	(95)	(110)	(124)
Net profit after tax	**84**	**158**	**222**	**257**	**289**
Minority interests	2	(67)	(95)	(109)	(123)
Other items					
Preferred dividends	-	-	-	-	-
Normalised NPAT	**85**	**91**	**128**	**147**	**166**
Extraordinary items					
Reported NPAT	**85**	**91**	**128**	**147**	**166**
Dividends	(19)	(23)	(32)	(37)	(41)
Transfer to reserves	**66**	**68**	**96**	**111**	**124**
Valuation and ratio analysis					
FD normalised P/E (x)	13.8	13.2	10.8	9.3	8.3
FD normalised P/E at price target (x)	17.7	17.0	13.9	12.0	10.7
Reported P/E (x)	11.4	10.7	7.6	6.6	5.9
Dividend yield (%)	1.9	2.4	3.3	3.8	4.3
Price/cashflow (x)	17.3	3.0	3.7	2.5	2.2
Price/book (x)	1.5	1.4	1.2	1.1	1.0
EV/EBITDA (x)	12.8	4.2	3.4	2.7	2.2
EV/EBIT (x)	16.9	6.6	4.8	3.8	3.0
Gross margin (%)	69.4	57.7	57.3	56.5	55.6
EBITDA margin (%)	9.4	11.6	13.7	14.7	15.5
EBIT margin (%)	4.4	7.5	9.8	10.6	11.2
Net margin (%)	16.0	3.3	4.3	4.6	4.8
Effective tax rate (%)	14.3	31.2	30.0	30.0	30.0
Dividend payout (%)	22.1	25.3	25.0	25.0	25.0
Capex to sales (%)	8.8	7.8	7.3	6.6	6.2
Capex to depreciation (x)	1.9	2.1	1.8	1.6	1.4
ROE (%)	15.4	13.8	17.4	17.6	17.4
ROA (pretax %)	9.9	14.7	14.4	15.3	16.3
Growth (%)					
Revenue	14.2	418.1	8.8	7.7	7.8
EBITDA	7.5	539.9	29.1	15.4	13.1
EBIT	(0.3)	770.3	42.5	16.5	13.8
Normalised EPS	27.3	6.6	40.4	15.4	12.5
Normalised FDEPS	13.1	4.3	22.6	15.4	12.5
Per share					
Reported EPS (RM)	0.37	0.40	0.56	0.64	0.72
Norm EPS (RM)	0.37	0.40	0.56	0.64	0.72
Fully diluted norm EPS (RM)	0.31	0.32	0.40	0.46	0.51
Book value per share (RM)	2.76	3.00	3.40	3.89	4.43
DPS (RM)	0.08	0.10	0.14	0.16	0.18

Source: Nomura estimates

Higher effective tax rate given certain expenses are disallowed for capital allowance, eg, leasehold improvements, interior design and renovation work

Cashflow (RMmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
EBITDA	50	320	413	476	539
Change in working capital	2	32	(75)	0	1
Other operating cashflow	5	(28)	(72)	(86)	(101)
Cashflow from operations	**56**	**324**	**266**	**391**	**438**
Capital expenditure	(47)	(215)	(220)	(215)	(215)
Free cashflow	**9**	**109**	**46**	**176**	**223**
Reduction in investments	(84)	605	-	-	-
Net acquisitions	(1)	(6)	-	-	-
Reduction in other LT assets	4	(621)	(52)	(49)	(51)
Addition in other LT liabilities	1	38	-	-	-
Adjustments	53	66	(50)	(58)	14
Cashflow after investing acts	**(18)**	**191**	**(56)**	**69**	**187**
Cash dividends	(19)	(23)	(49)	(37)	(41)
Equity issue	102	0	-	-	-
Debt issue	(72)	(18)	88	81	58
Convertible debt issue	-	-	-	-	-
Others	(6)	(16)	-	-	-
Cashflow from financial acts	**5**	**(57)**	**39**	**44**	**17**
Net cashflow	**(14)**	**134**	**(16)**	**113**	**204**
Beginning cash	42	28	162	146	259
Ending cash	28	162	146	259	463
Ending net debt	150	139	179	88	(44)

Source: Nomura estimates

Relatively positive free cashflow position despite expansion plans

Balance sheet (RMmn)					
As at 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash & equivalents	28	162	146	259	463
Marketable securities	-	-	-	-	-
Accounts receivable	30	166	195	209	226
Inventories	29	190	228	250	275
Other current assets	-	-	-	-	-
Total current assets	**87**	**519**	**569**	**719**	**964**
LT investments	605	-	-	-	-
Fixed assets	146	866	967	1,048	1,114
Goodwill	51	72	72	72	72
Other intangible assets	-	-	-	-	-
Other LT assets	14	636	688	736	787
Total assets	**903**	**2,093**	**2,296**	**2,575**	**2,937**
Short-term debt	6	37	61	35	59
Accounts payable	79	394	386	424	466
Other current liabilities	1	16	16	16	16
Total current liabilities	**86**	**447**	**463**	**475**	**541**
Long-term debt	173	265	264	311	359
Convertible debt	-	-	-	-	-
Other LT liabilities	10	48	48	48	48
Total liabilities	**269**	**759**	**775**	**834**	**948**
Minority interest	1	646	741	850	973
Preferred stock	-	-	-	-	-
Common stock	286	286	286	286	286
Retained earnings	307	379	483	599	728
Proposed dividends	(19)	(23)	(32)	(37)	(41)
Other equity and reserves	59	45	42	42	42
Total shareholders' equity	**633**	**687**	**780**	**891**	**1,015**
Total equity & liabilities	**903**	**2,093**	**2,296**	**2,575**	**2,937**
Liquidity (x)					
Current ratio	1.01	1.16	1.23	1.51	1.78
Interest cover	2.5	17.7	23.4	25.5	24.1
Leverage					
Net debt/EBITDA (x)	3.01	0.44	0.43	0.18	net cash
Net debt/equity (%)	23.7	20.2	22.9	9.8	net cash
Activity (days)					
Days receivable	20.8	12.9	21.9	22.8	22.9
Days inventory	47.8	34.2	59.6	62.1	62.2
Days payable	158.7	74.0	111.1	105.1	105.3
Cash cycle	(90.0)	(26.8)	(29.6)	(20.2)	(20.2)

Source: Nomura estimates

Other Team Members:
Pankaj Suri (Associate) — All enquiries arising from this note should be directed to B Roshan Raj.
Nishit Jalan (Associate) — All enquiries arising from this note should be directed to Wai Kee Choong.
Vineet Verma (Associate) — All enquiries arising from this note should be directed to Min Chow Sai.

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Nomura Securities Malaysia Sdn. Bhd. Tel: +60 3 2027 6811
Suite No 16.5, Level 16, Menara IMC, 8 Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia Fax: +60 3 2027 6888

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