STRATEGY
EQUITIES RESEARCH

CHINA STRATEGY

DANCE OF THE DRAGON

SUMMARY
FAI-driven 2012

In the face of the global slowdown, we expect the Chinese government to resume infrastructure investment to ensure 8%+ real GDP growth in 2012. Administrative and monetary tightening since 2010 allows ample room for policy flexibility, but concerns about inflation and asset bubble implies that easing in 2012 may be much more subtle and gradual than it was in 2009. Thus, China is unlikely to see a repeat of the V-shape recovery of 2009. We expect China to continue to trade at a discount to S&P 500 and below its long-term mean leading PE of 11x amid continued volatility.

CATALYST
More bad news before any good news

We believe the current selective easing is only aimed at maintaining social stability prior to the turn of the year, but may be inadequate to secure growth. After we see a few months of more hard-landing signs, an infrastructure-investment-driven 2012 will probably involve easing off of credit and property markets, most likely around 2Q12. We expect the emerging bond market to take more funding responsibility in 2012 and beyond to avoid excessive risk concentration on the banking system.

IMPLICATIONS
Capex-funding deficit should trigger cuts to EPS forecasts

Analysis into ~2,280 listed companies suggests that overall financial health is worse now than it was in 2008. We believe the debt burden of provincial governments will hurt free cash flows of broad-based enterprises, leading to further consensus EPS forecasts cuts. The de-stocking process, which took only one quarter in 2009, may take at least three quarters this time. Combined with declining margins and slowing earnings growth, upside from government easing is counteracted by issues at the corporate level.

COMMENTS
Volatile market, most upside potential to be seen over 2Q-3Q12

We expect 2012 to see two opposing forces: 1) China's attractiveness as a high growth economy and a decline in equity investors' risk appetite, and 2) the benefit of easing being mitigated by overall de-stocking process. Our base case index target of 12,600 implies 10x leading P/E and 5% EPS growth, but the current volatility means that most upside potential will likely be seen only during 2Q-3Q12. We overweight: Coal, cement, construction and coal mining machinery, natural gas, department stores and tourism plays. We underweight: life insurance, consumer staple, steel and shipping sectors.

SUGGESTED SECTOR WEIGHTINGS

Sector weightings	-- Sector performance--		
	4-wk (%)	3-mth (%)	6-mth (%)
Overweight			
Coal	(1.9)	(0.6)	(12.3)
Cement	3.8	(19.4)	(27.9)
Construction machinery & suppliers	(9.8)	(15.3)	(34.9)
Coal mining equipments	7.6	5.0	(16.8)
Natural gas	(1.7)	(1.6)	(8.0)
Department stores	(7.5)	(19.6)	(23.7)
Tourism	(18.7)	(28.4)	(35.5)
Equalweight			
Banks	(2.5)	(9.4)	(30.7)
Property	(3.6)	(22.1)	(31.0)
IPPs	22.0	21.1	(6.7)
Auto	1.2	0.6	(17.7)
Telecom	(1.5)	0.3	6.5
Brokerage	1.3	na	na
Consumer discretionary (excluding department stores & tourism)	(2.7)	(20.8)	(42.8)
Underweight			
Life insurance	4.2	(9.3)	(25.0)
Steel	2.9	(21.2)	(45.5)
Shipping	(14.2)	(15.3)	(44.9)
Consumer staple	1.6	3.1	(6.5)

Share prices as at 23 November 2011

Sources: Bloomberg consensus estimates; BNP Paribas estimates

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25 NOVEMBER 2011

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Fixed asset investment to be the main driver in 2012

The China market has performed as the beta of the European debt crisis since June 2011, reflecting emerging markets' nature of being a high-risk asset class. Domestic economic conditions and policy making have done nothing to reduce stock market volatility. The rise in defaults in China's shadow banking system in Wenzhou (Zhejiang province) in September, combined with growing signs of property market correction across China, pushed the HSCEI to its low point of 8,100, while at the same time, China's CDS touched a peak (Exhibit 1). An 8,100 index level is below our worst-case HSCEI target of 8,500 under zero 12-month EPS growth and implies -1SD P/E (7x) as at end-2012. In other words, the market seemed too bearish to make fundamental sense to us. The selective easing triggered about 30% appreciation of the HSCEI in October, but overall concerns about China's exposure to the global slowdown in the next 2-3 years remain overwhelming.

EXHIBIT 1: HSCEI touched its low point of 8,100 in September, meanwhile China's CDS was high pointed

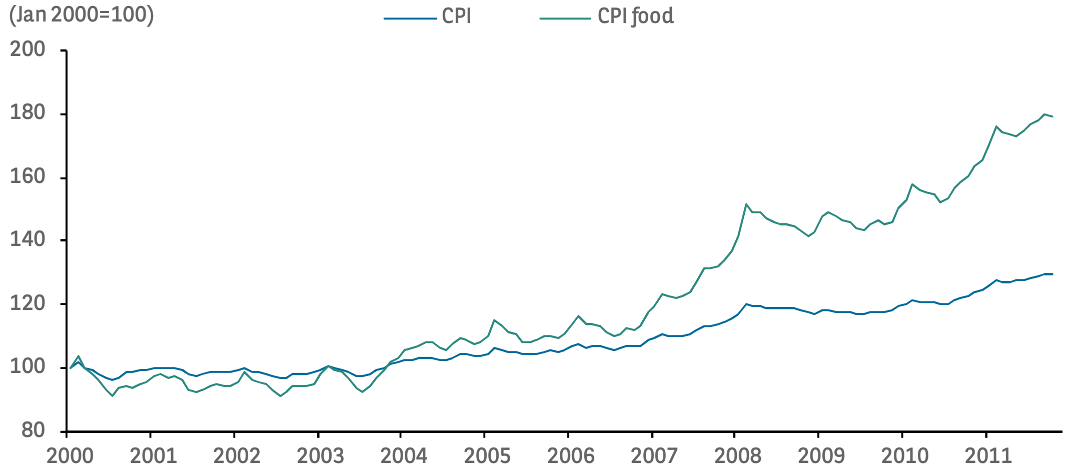
Sources: Bloomberg; BNP Paribas

Looking into 2012, we expect China to remain a trading market, driven by two sets of opposing forces. On the liquidity front, we believe China's attraction as a high growth economy (we forecast 8.5% real GDP growth in 2012) will counteract its risk of being an emerging economy to global investors. On the fundamental side, the government's gradual easing measures we anticipate (detailed discussion later in this report) will counteract the risk of potential earnings disappointments from broad-based overcapacity and capex deficit. We believe the bull force will modestly overpower the bear force over the next 12 months, such that the HSCEI should struggle upwards amid volatility.

Discussion of the China market outlook can always start from policy formulation. The long-awaited "selective easing" that finally arrived in October 2011 has had only a mild impact on the real economy so far, in our view. Key elements of the current easing are focused on two areas: 1) encouraging banks to intensify SME lending (loan amount lower than RMB5m) by lowering the risk weight factor from 100% to 75% and allowing banks to issue SME-dedicated financial bonds as a way to circumvent the restriction on the loan-to-deposit ratio, and 2) granting banks extra loan quota in 4Q11 to carry on the infrastructure constructions in progress, as any funding shortage for these projects can cause a delay in salary payments to thousands of construction workers, which would aggravate the government's concerns about social stability.

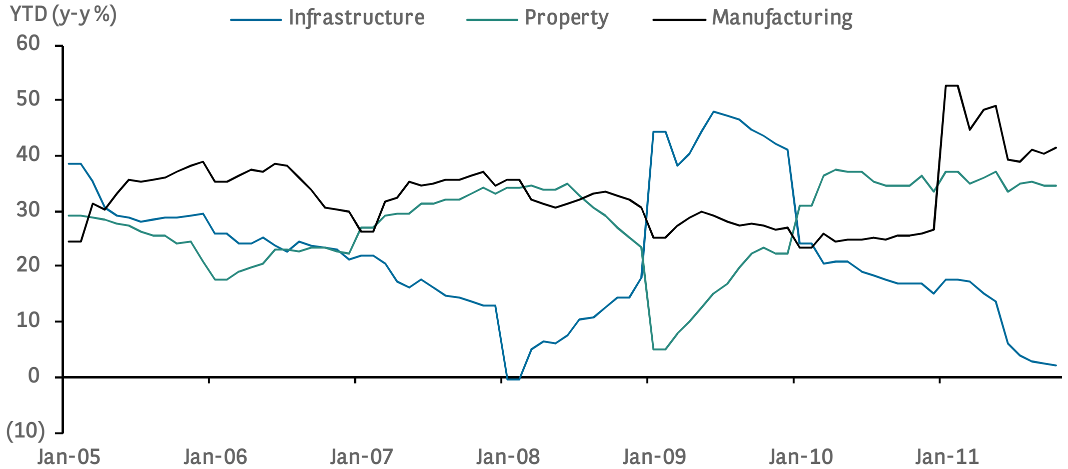
We believe the current level of easing has a clear specific target of stabilising the huge farm workforce – a key factor to ensure social stability – before the turn of the year. But, this will probably be inadequate to deliver 8%+ real GDP growth in 2012 amid visible export growth slowdown and cooling off of the domestic property market. Combined with growing certainty of inflation easing, it is very likely that the China government may launch more meaningful easing measures in 2012, implying the potential of investment recovery in the public infrastructure segment. As the chart below shows, after adopting a tightening policy for ~24 months (including administrative tightening by the CBRC and monetary tightening by the PBOC), China's infrastructure investment, led by local government funding platforms (LGFPs), has dropped from 30%+ y-y growth in 2009 to 2% at end-9M11. As Exhibit 3 indicates, the low level of infrastructure investment growth implies flexibility for easing in 2012.

EXHIBIT 2: China's inflationary pressure started to ease



Sources: NBS; CEIC; BNP Paribas

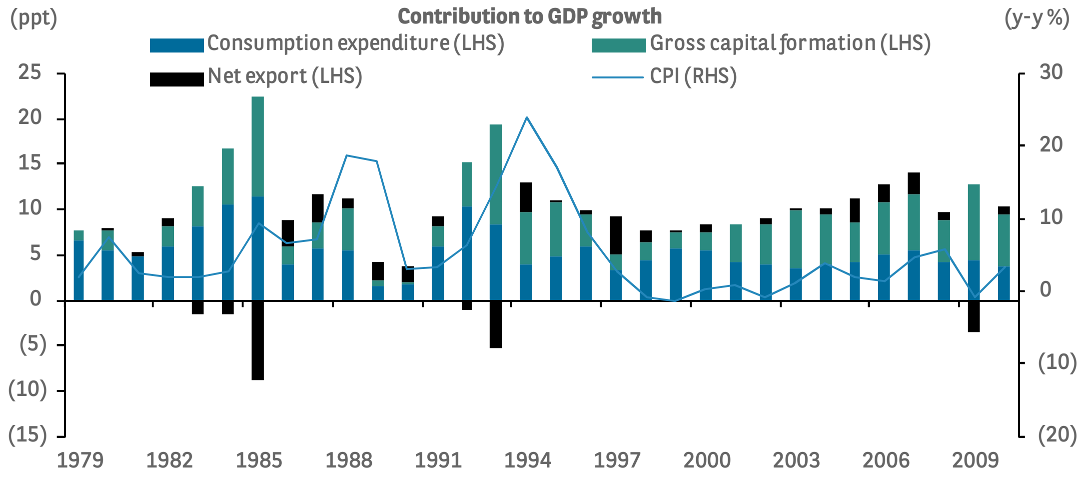
EXHIBIT 3: Infrastructure FAI had nearly no growth in 2011



Sources: NBS; CEIC; BNP Paribas

Exhibit 4 shows a clear replacement function between domestic fixed asset investment (FAI) and net export. We observe that China's FAI had soared in the years when y-y export growth had declined, including 1985, 1993 and 2009 (following the global financial crisis). This had resulted in an uptick in real GDP growth. We believe this is a direct reflection of the strong execution ability of China's one-party political regime, as well as the strong push by the provincial governments to augment local GDP. Given the prospect of export growth slowing in 2012 (our macro team expects net export to decline 14.6% y-y in 2012 and decline 26.4% in 2013), we estimate overall FAI growth will have to remain high at 19% y-y in 2012 and increase slightly to 19.2% in 2013 to deliver 8.5% real GDP growth in 2012 and 8.3% in 2013.

EXHIBIT 4: There is a clear replacement function between domestic FAI and net export



Sources: NBS; CEIC; BNP Paribas

Exhibits 5-6 show the infrastructure FAI that we estimate China will need to deliver 19% y-y overall FAI growth, under different assumptions of FAI growth for manufacturing and property. For instance, if FAI in the property and manufacturing sectors grows 20% y-y each in 2012, then infrastructure FAI would have to increase 12% y-y, or by RMB9.8t, to deliver the 19% overall FAI growth. Assuming that 80% of aggregate infrastructure investment during 2009-11 are related to the grand stimulus package in 2009, we estimate about 86% of the stimulus-related projects will be completed by end-2011, equivalent to RMB19.6t out of a total of RMB22.6t we estimate by assuming 13% FAI price inflation over 2009-11. For instance, under the assumption of property and manufacturing FAI growth of 20% y-y each in 2012, we estimate FAI for new infrastructure projects would have to be roughly RMB6.8t, which is significant. But, if property investment growth falls to zero in 2012 as a result of tightening, we estimate infrastructure FAI would have to deliver 30% y-y growth, equivalent to RMB11.3t, in 2012 – which is 54% higher than that seen in 2009 under stimulus efforts.

EXHIBIT 5: Sensitivity analysis of 2012E Infrastructure FAI growth to property and manufacturing FAI growth

2012 infrastructure FAI growth (y-y %)		-------- 2012 property FAI growth (y-y %) --------						
		-20	-10	0	10	20	30	40
2012 manufacturing FAI Growth (y-y %)	5	63.7	55.0	46.2	37.5	28.8	20.0	11.3
	10	58.2	49.4	40.7	32.0	23.2	14.5	5.7
	15	52.6	43.9	35.1	26.4	17.7	8.9	0.2
	20	47.1	38.3	29.6	20.9	12.1	3.4	(5.3)
	25	41.5	32.8	24.1	15.3	6.6	(2.2)	(10.9)
	30	36.0	27.2	18.5	9.8	1.0	(7.7)	(16.4)
	35	30.4	21.7	13.0	4.2	(4.5)	(13.2)	(22.0)

Source: BNP Paribas estimates

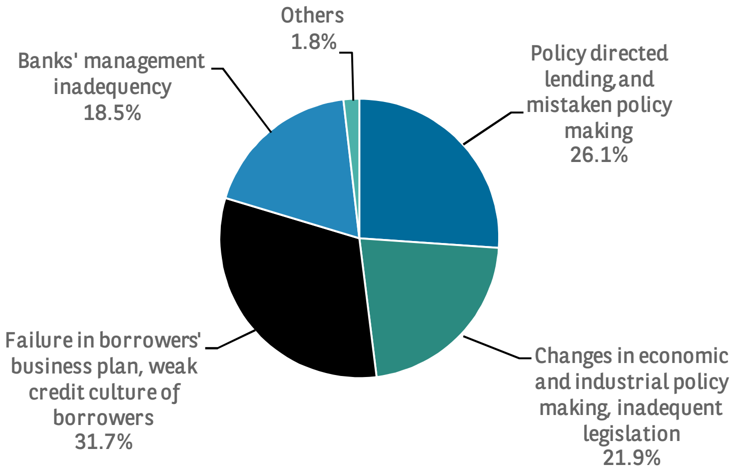
EXHIBIT 6: Sensitivity analysis of 2012E Infrastructure FAI to property and manufacturing FAI growth

2012 infrastructure FAI (RMB b)		-------- 2012 property FAI growth (y-y %) --------						
		-20	-10	0	10	20	30	40
2012 manufacturing FAI growth (y-y %)	5	14,300	13,537	12,774	12,011	11,248	10,484	9,721
	10	13,816	13,052	12,289	11,526	10,763	10,000	9,237
	15	13,331	12,568	11,805	11,042	10,279	9,516	8,752
	20	12,847	12,084	11,320	10,557	9,794	9,031	8,268
	25	12,362	11,599	10,836	10,073	9,310	8,547	7,784
	30	11,878	11,115	10,352	9,589	8,825	8,062	7,299
	35	11,393	10,630	9,867	9,104	8,341	7,578	6,815

Source: BNP Paribas estimates

However, in our view, the cost of boosting the economy by breaking ground for infrastructure investments will be three fold: 1) A rush to boost government-led investment could cause the banks to loosen their standard of credit-risk management, potentially leading to an increase in bank NPLs; Exhibit 7 indicates that a large part of China banks' NPL bailed out since late 1990s has been related to non-commercial government-led investments. 2) Inflation will rise. We see growing inflation concerns in 2010 and 2011 following rampant LGFP investments were rather similar with the inflationary trend of the late 1980s and mid-1990s following the 1993 investment boom. 3) Overcapacity in broad-based industrial sectors, which would squeeze the pricing power of midstream and downstream players. We have run a detailed financial performance analysis on ~2,200 A-share listed companies in the latter part of this report to see how debt at the government level has hurt free cash flows of broad-based enterprises.

EXHIBIT 7: Banks' old NPL - cause of formation



Sources: PBOC; BNP Paribas

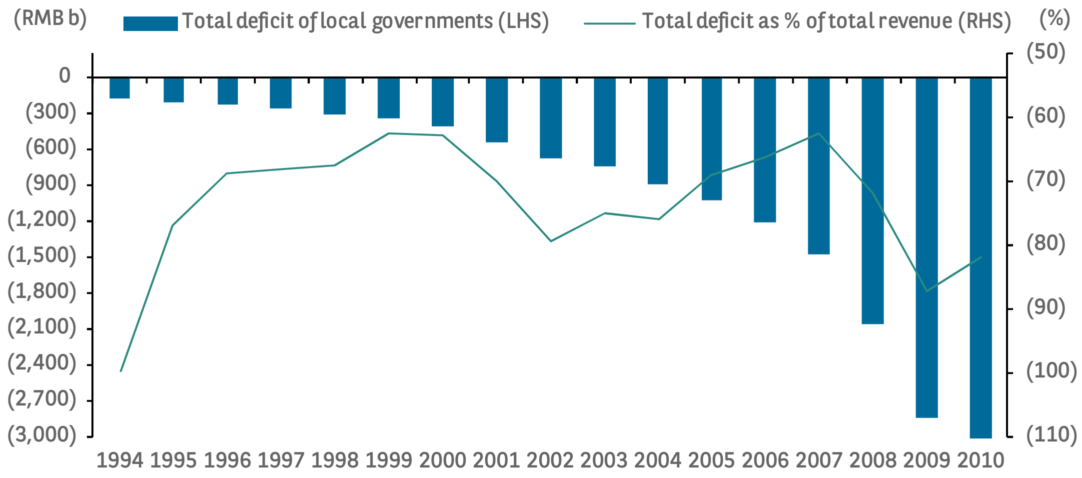
Tightening since August 2009, led by the CBRC's lending restrictions to LGFPs, indicates that China's top policymakers have learned from the hard lessons of the past cycles and tried to protect the banking system by limiting its exposure to non-commercial government projects. Banks' asset quality is critical for China equity investors given the heavy weight of the banking sector in the HSCEI. This naturally leads to a follow-up question: How can China's policy makers be sure of banks' asset quality if they shift back to easing policy? The concern becomes even more acute given China's affluent eastern coastal areas are already developed. So, the next stage of infrastructure investment that aims to close the wealth gap will most likely happen in the mid-west to western parts of China, where we believe local governments' fiscal strength does not support debt servicing.

EXHIBIT 8: Sector weighting of H-listed China equities (including red chips)

By GICS sector	------------------------------ Weightings ------------------------------		
	H shares	Red chips	H shares +red chips
Financials	51.1	12.9	43.1
Industrials	8.7	7.4	8.5
Materials	5.3	2.5	4.7
Consumer discretionary	2.0	1.9	2.0
Energy	26.3	18.5	24.7
Utilities	1.6	3.8	2.1
Telecommunication services	2.7	48.2	12.2
Health care	1.0	0.1	0.8
Consumer staples	0.6	2.7	1.1
Information technology	0.7	1.9	1.0
	100.0	**100.0**	**100.0**

Sources: Bloomberg; BNP Paribas

EXHIBIT 9: Provincial governments' fiscal deficits and as % of total revenue



Sources: CEIC; BNP Paribas

We believe several changes will have to happen to resolve the paradox between growing infrastructure investment needs and protecting the stability of the banking system.

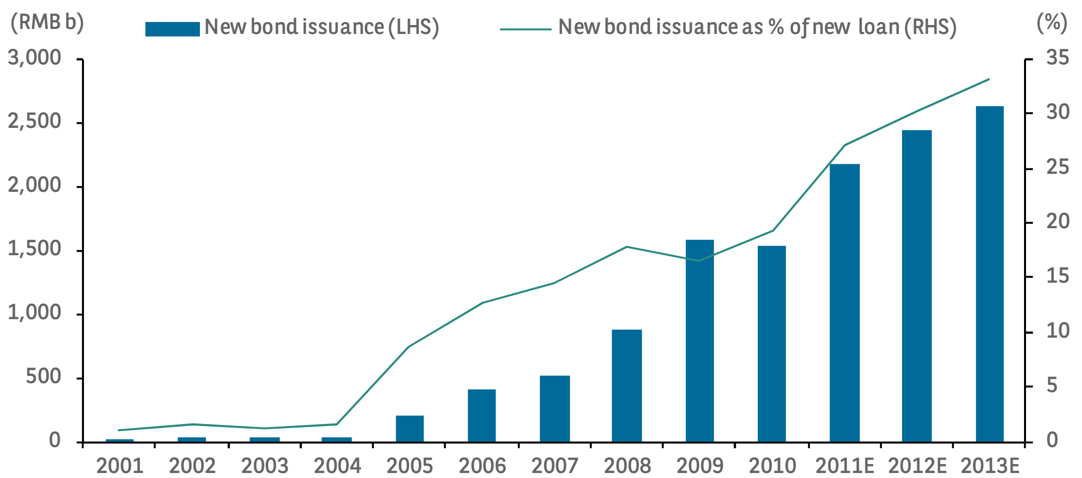
First, we expect China's rising bond market to take over more funding responsibility from banks as the financing channel for infrastructure investments. In such a scenario, the corporate bond market, including the ABS, STFB (short-term financing bill) and MTN (mid-term note) markets, would see a strong increase in new offerings to raise money for LGFPs in 2012 and beyond. This would push annual corporate bond offerings to rise from 19% of annual new credit in 2010 to our forecasted 33% in 2013, representing an increase from RMB1.5t worth of new offerings in 2010 to RMB2.5t in 2013.

EXHIBIT 10: New bond offerings to see strong increase

	Total bond offering (RMB b)	*Growth (y-y %)*	Corporate bond (RMB b)	*Growth (y-y %)*	MTN (RMB b)	*Growth (y-y %)*	STFB (RMB b)	*Growth (y-y %)*
2006	5,710	-	100.0	-	-	-	292.0	-
2007	7,976	*39.7*	172.0	*72.9*	-	-	335.0	*14.7*
2008	7,073	*(11.3)*	237.0	*37.6*	174.0	-	433.0	*29.3*
2009	8,647	*22.3*	425.0	*79.7*	689.0	*296.4*	461.0	*6.5*
2010	9,509	*10.0*	363.0	*(14.7)*	492.0	*(28.5)*	674.0	*46.2*
Jan-Oct 2011	5,834	*(31.9)*	210.0	*(31.8)*	551.0	*21.9*	519.0	*(11.3)*

Sources: CEIC; BNP Paribas

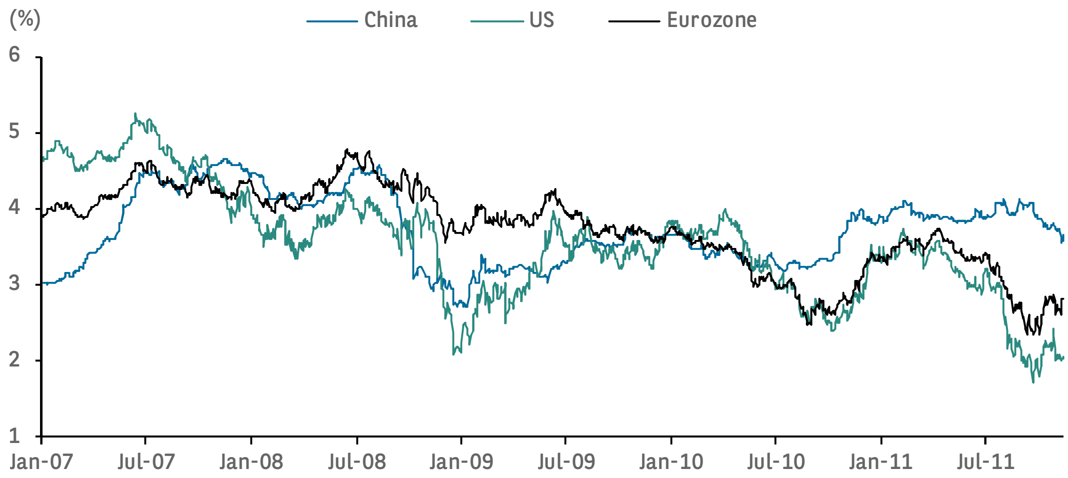
EXHIBIT 11: New bond issuance to increase as % of new loans



New bond issuance including corperate bonds, MTNs, STFBs and ABS
Sources: CEIC; Wind; BNP Paribas estimates

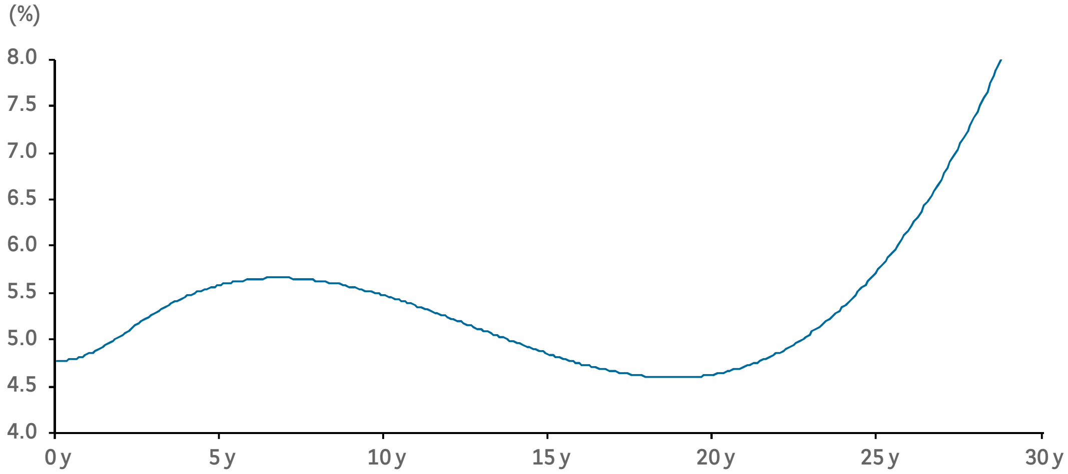
Interestingly enough, the recent movement in China's bond market seems to anticipate the potential structural changes in issuers' mix. Exhibit 12 shows the decline in China's 10-year bond yield since mid-2011. Exhibit 13 shows that the corporate bond yield curve is in an awkward inverted shape, predicting a slowdown in economic growth and also potential new offerings from issuers with lower-credit grades. As a result, recent offerings by issuers that enjoyed implicit credit backing by the Central Government, such as the Ministry of Railway and China Development Bank, have seen relatively high over-subscription. In fact, the Shanghai Municipal Government bond placed in mid-November 2011 saw the rates (3.1% for 1-year bill and 3.3% for 5-year bill) below those for treasury bonds placed a month before (3.26% for 1 year and 3.55% for 5 year), reflecting the highly cautious sentiment of bond investors.

EXHIBIT 12: 10-year government bond yield – China, US and Euro-zone



Sources: Wind; BNP Paribas

EXHIBIT 13: China corporate bond yield curve shows an inverted shape



Sources: Wind; BNP Paribas

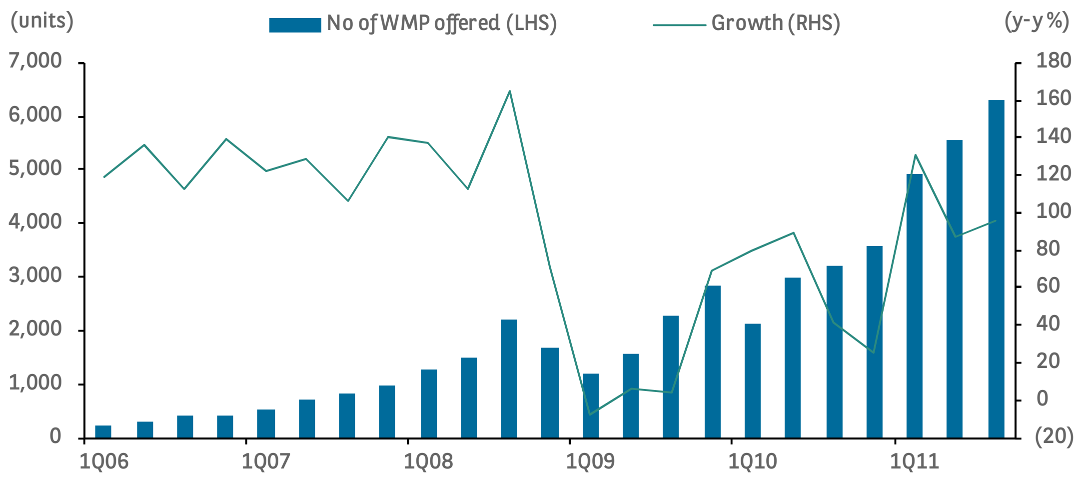
EXHIBIT 14: Ministry of Railway's bond offerings in 2011

Issue date	Bond code	Bond name	Issue size (RMB b)	Maturity	Coupon (%)
2011-01-30	011102001.IB	11 铁道 SCP001	10.00	180 days	3.92
2011-02-17	011102002.IB	11 铁道 SCP002	10.00	181 days	3.92
2011-02-24	011102003.IB	11 铁道 SCP003	10.00	182 days	3.92
2011-04-02	1181153.IB	11 铁道 CP01	20.00	1 year	4.10
2011-05-23	1182163.IB	11 铁道 MTN1	20.00	5 years	4.98
2011-06-13	1181272.IB	11 铁道 CP02	15.00	1 year	4.35
2011-07-25	1181329.IB	11 铁道 CP03	18.73	1 year	5.18
2011-08-10	011102004.IB	11 铁道 SCP004	20.00	90 days	5.55
2011-08-22	011102005.IB	11 铁道 SCP005	15.00	90 days	5.25
2011-10-18	1180142.IB	11 铁道 01	10.00	7 years	5.59
2011-10-18	1180143.IB	11 铁道 02	10.00	20 years	6.00

Sources: Wind; BNP Paribas

The natural follow-up question in anticipating a rise in LGFP bond is: Who will be the investor? We expect banks to use the rapidly increasing wealth management product (WMP) offerings to offload the LGFP risk from their balance sheets. One important fact here is that China's bond market has two segregated parts: the inter-bank market and the exchange market. The majority of new bond issuances (about 76%) and trading happens in the inter-bank market, which is only open to commercial banks and a few insurance companies. Retail investors and general enterprises can only access the exchange bond market that is rather trivial in comparison. The accessibility advantage allows banks to bundle bonds from the inter-bank market into WMP and sell them to their retail and corporate clients. In other words, WMP is the critical bridge that channels deposits from corporate and households to local government FAI, by passing banks' balance sheets.

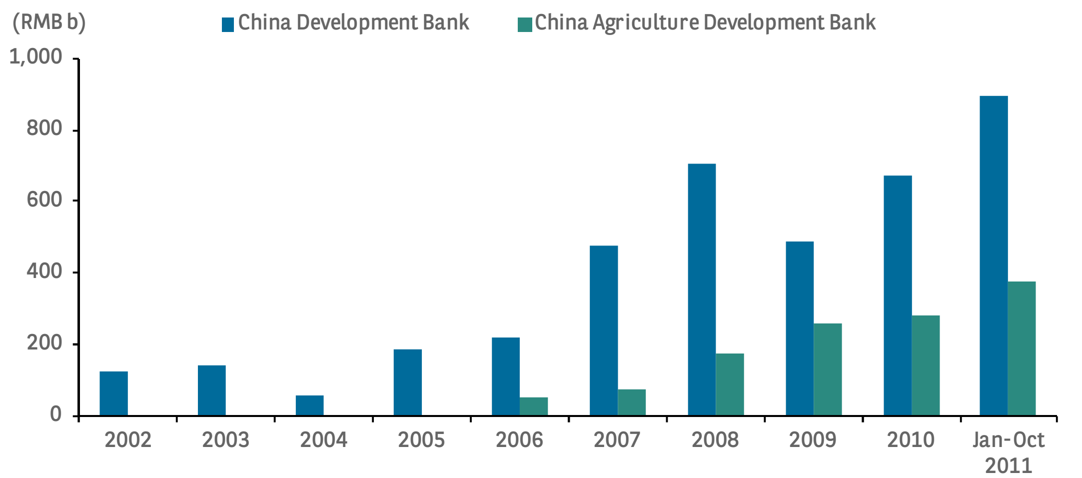
EXHIBIT 15: Rapid growth in China banks' wealth management products (WPM)



Sources: Wind; BNP Paribas

Second, we expect policy banks to take more share of lending from commercial banks for social-welfare-type of infrastructure investments. One key area that the CBRC focuses on when it tightens banks' lending to LGFPs is separating projects that carry commercial purposes (gauged by the level of direct operating cash flow generation) from those done for public service, and lifts banks' provision coverage and capital adequacy requirements if the lending is for the latter purpose, unless the relevant LGFP increases collateral to back up its borrowings. This has been one important reason for the retardation of many construction projects in 2011 so far. However, as the policy banks are supposed to fulfill their social-servicing duties, these administrative lending conditions are not very binding for the China Development Bank and the China Agricultural Development Bank. Exhibit 16 shows the surge in China Development Bank's financial bond offerings, which we view as the evidence that the bank is prepared to expand its lending from 2012 (CDB is not deposit-taking). We would view this positively in that it would mitigate the exposure of listed commercial banks to local government projects.

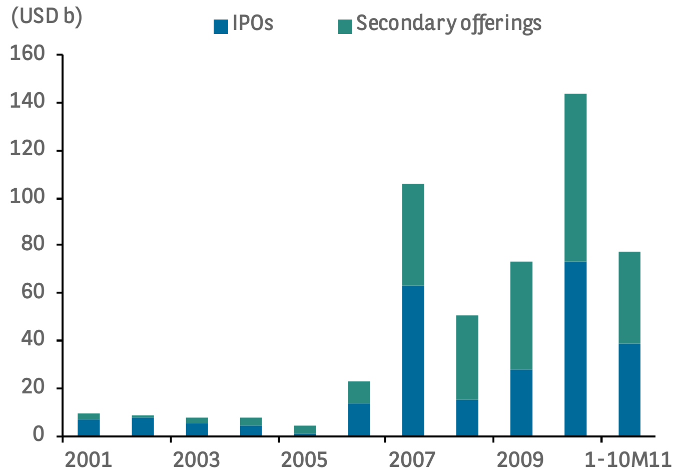
EXHIBIT 16: China Development Bank's financial bond offerings have surged



Sources: Wind; BNP Paribas

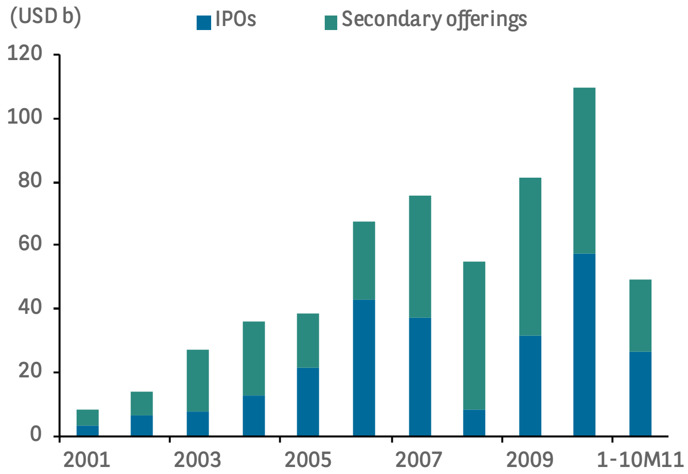
Furthermore, we believe local governments will open up the equity portion of their infrastructure projects to enterprises from both the public and private sectors to ease the funding pressure. This implies that fund raising in China's equity market will remain strong, which, in the past, has tended to cap the upside of China's equity market. As Exhibits 17-18 indicate, China has increased the size of its equity fund raising since 2010, and we should see massive fund offerings for years to come. In addition to the need to finance infrastructure projects of the central and local governments, strong equity fund raising is part of the long process of shifting from bank-loan-dominated indirect financing to more diversified financing channels including direct financing from the bond market. While we believe such a change would be positive for stability of the banking system in the longer term, it would be negative for equity investors in near to mid term.

EXHIBIT 17: Capital raised in mainland China stock market



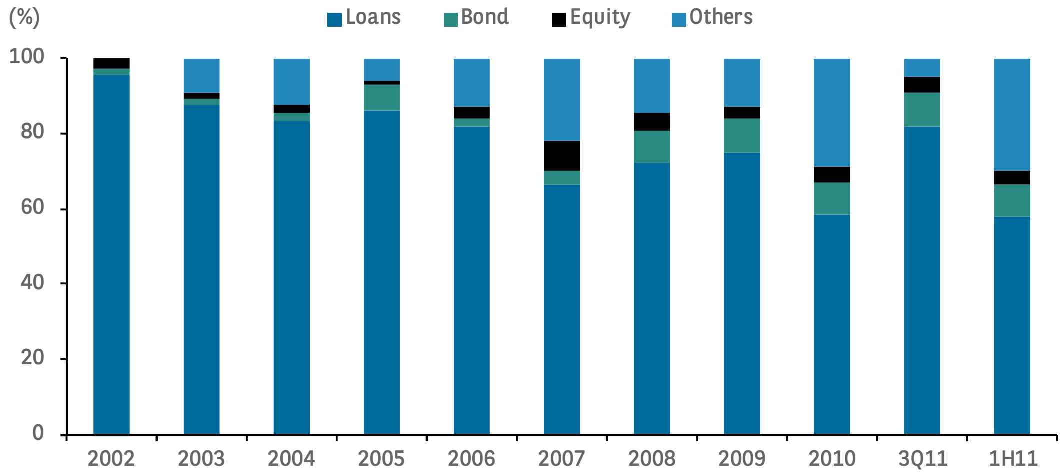
Sources: Wind; World Federation of Exchanges members; BNP Paribas

EXHIBIT 18: Capital raised in Hong Kong stock market



Sources: Wind; World Federation of Exchanges members; BNP Paribas

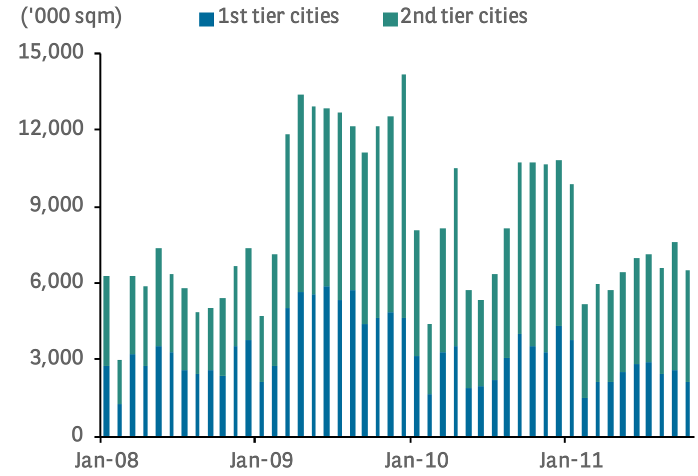
EXHIBIT 19: Bank credit to take less portion out of total social funding



Sources: CEIC; BNP Paribas

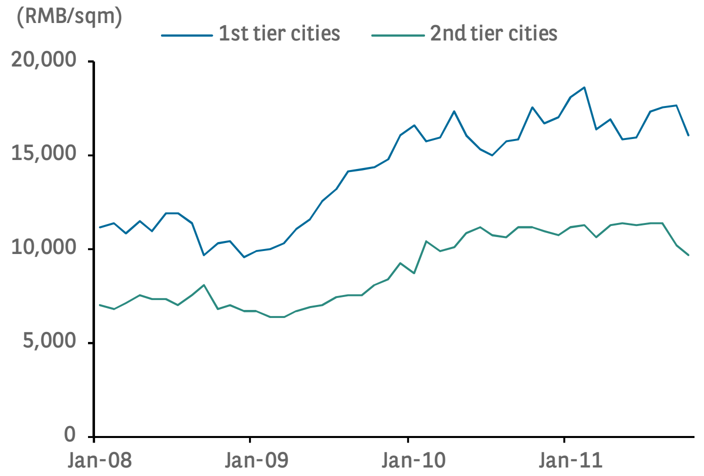
Our outlook for China's FAI-driven growth pattern in 2012 inevitably revolves around policy for the real-estate sector. Since the harsh tightening of 2010, which started with banks' stringent lending standards to land developers and home mortgages and which subsequently escalated to home-purchase restrictions in many tier-1 and tier-2 cities, the astonishingly resilient property market is now finally showing signs of weakening. Exhibit 20 shows that transaction volumes in both tier-1 and tier-2 cities have been falling since mid-2011, and news about a ~20% price decline for new offerings is becoming increasingly common. Concerns about a possible hard landing of the property market seem reasonable in view of the fact that developers' inventory days have build up rapidly to a high level (Exhibit 22) amid slowing sales.

EXHIBIT 20: Property transaction volume – tier-1 vs tier-2 cities



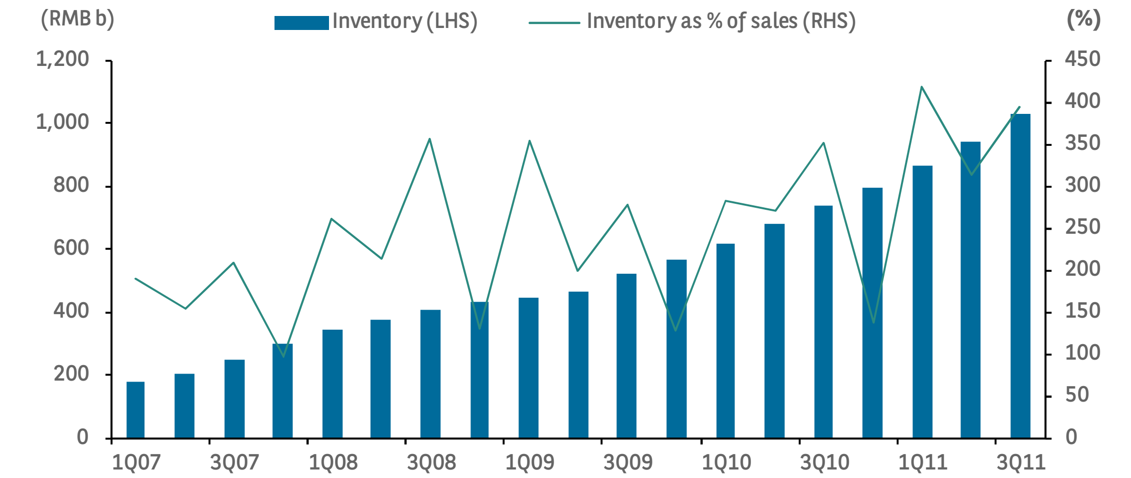
Sources: CEIC; Wind; BNP Paribas

EXHIBIT 21: Property ASP – tier-1 vs tier-2 cities



Sources: CEIC; Wind; BNP Paribas

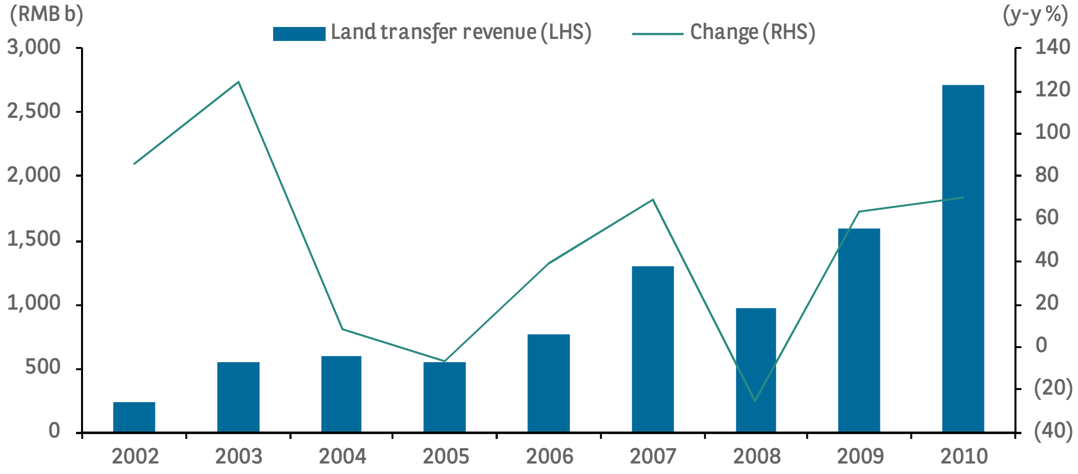
EXHIBIT 22: A-share listed property developers' inventory now at a high level



Sources: Wind; company data; BNP Paribas

We believe hard-landing pressure may be a pre-condition for the Chinese government to pull back its harsh tightening measures. A visible export growth slowdown, or even a decline, may not be a supportive backdrop for China's policy makers to take the near-term pain of a hard landing of the property market for longer-term benefit. Furthermore, as we expect infrastructure investment to be the key economic growth driver for 2012 and 2013, an easing off of the property market will be critical for provincial governments to generate proceeds from land sales for ground breaking. Under China's financing requirement for FAI, infrastructure projects are required to pay down 25% of the project value as shareholders' capital before bank loans can cover the rest 75% of the fund requirement. In other words, without property market easing, we believe China will not be able to lift GDP growth amid export slowdown.

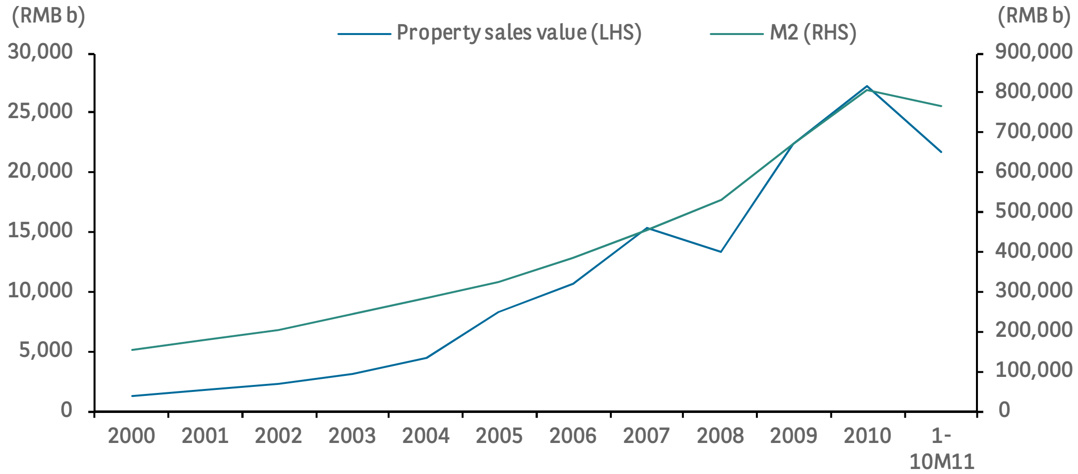
EXHIBIT 23: Land sales proceeds of local governments



Sources: Ministry of Land and Resources; CEIC; BNP Paribas

If the government removes home purchase restrictions and lowers lending restrictions to home buyers, we believe the property market can recover quickly. Given China's thousands of years of agrarian culture, holding property is still viewed as the primary destination for wealth accumulation and a must for family building. Also, ample liquidity and the need to hedge inflation pushed investment demand for property. As Exhibit 24 shows, China's annual property sales have closely tracked money supply in the past 10 years. Although the tightening measures of 2008 broke the correlation between property sales and money supply, the correlation was quickly restored on policy easing in 2009. This means the property market has been a reservoir absorbing the excess liquidity in the system, with tightening in the past two years helping to prevent the reservoir from bursting. Unless we see new reservoirs (including equity and bond markets) growing to similar sizes and attractiveness for private households or unless the property market remains weak for the next 2-3 years such that it breaks the cultural attachment to this asset class, we believe property will remain the primary choice of investment in China. This should provide solid support for the property market to recover on any easing.

EXHIBIT 24: China's annual property sales have tracked M2 closely in the past 10 years

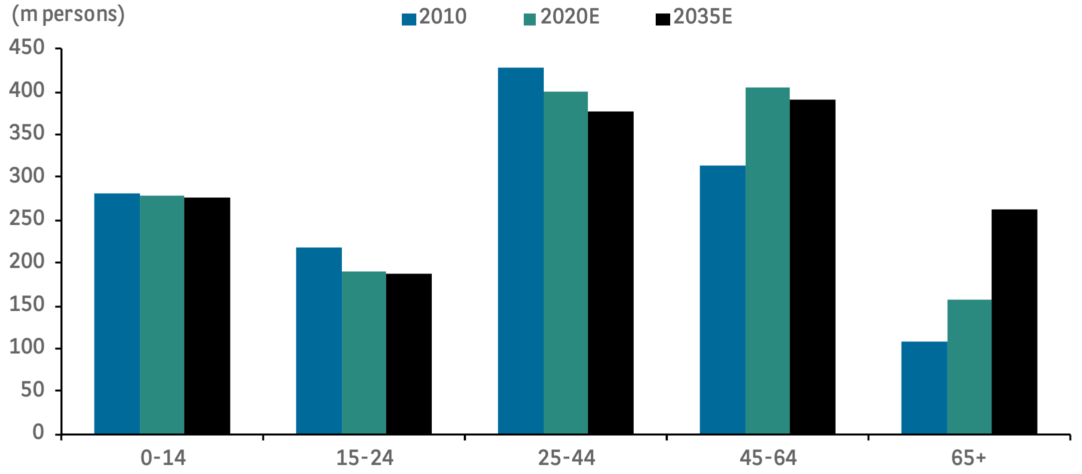


Sources: CEIC; BNP Paribas

Clearly, the easiest counter argument for our expectation for an FAI-driven economic growth in 2012 is: Why doesn't the government adopt fiscal easing to boost consumption, which is a healthier growth pattern that the government claims to favour repeatedly? Yes, we have seen the China government offering subsidies to boost consumption on certain consumer items (home appliances, automobiles, etc) and it has waived minor taxation items and administrative surcharges on micro businesses. But, this is too trivial to count for a fiscal-measure-driven consumption growth.

Basically, we see no meaningful fiscal easing for the next 5 years, if not much longer. So, any measures to counter-play the economic downcycle will be driven by monetary and administrative easing measures, in our view. Our belief stems from the fact that China will see a rapid increase in its aged population mix in the next 10 years. As Exhibit 25 shows, the prime working population, which we characterise as those between 25 and 45 years of age, will drop from ~430m in 2010 to ~400m in 2020, while the population of 65+ years will grow from ~100m in 2010 to ~160m in 2020. Yet, at the same time, China's public pension pool is in serious anaemic status, which means that fiscal policy will have to be kept tight in order to fill up the public pension pool before the aged population arrives. So, the pattern of China's fiscal income growth outpacing GDP growth should continue.

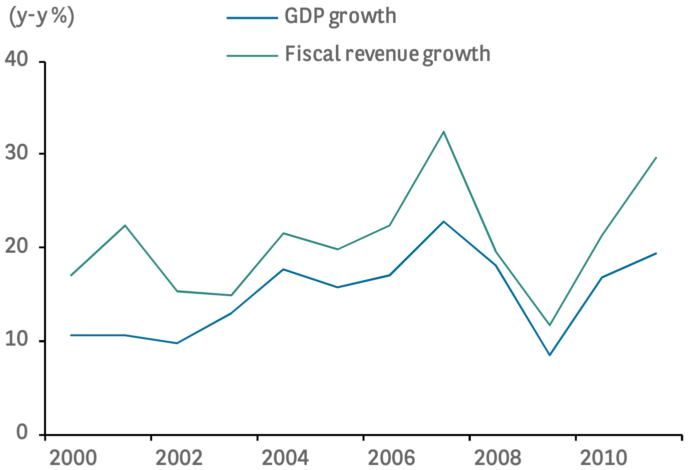
EXHIBIT 25: China population's aging outlook



Sources: World Bank; BNP Paribas estimates

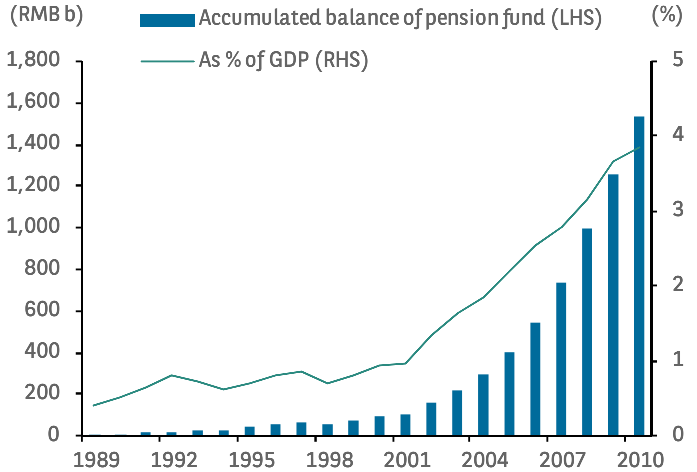
Furthermore, we highlight that several tax-reduction measures implemented by the government can easily be reversed. This is particularly true for private SMEs who have many miscellaneous tax items, which they try to avoid paying. So, efforts to dodge taxes determine the actual cash tax payment of broad-based SMEs. This suggests that the government's efforts to collect taxes sometimes have a bigger impact on the actual fiscal income than the nominal tax rate. For instance, the recent reform in Shanghai to shift the business tax of logistics and cultural companies to a value-added tax (VAT) system can be a move to increase enterprises' taxation burden, rather than reduce it. This is because VAT, as a tax that involves both upstream suppliers and downstream customers, is the most difficult tax to dodge for enterprises.

EXHIBIT 26: China's fiscal income outgrows GDP



Sources: CEIC; BNP Paribas

EXHIBIT 27: Pension fund balance as % of GDP



Sources: CEIC; BNP Paribas

Corporate earning cycle: Easing determines the de-stocking process

We believe the pace and magnitude of policy easing in 2012 will determine how much longer China's painful de-stocking process will last. Our analysis of the 9M11 financial performance of A-share listed companies produced a few critical symptoms of corporate China in general. In a nutshell, Chinese enterprises' capacity expansion plans have not yet been affected by global slowdown. Also, the government's grand stimulus efforts since 4Q08 have substantially stretched the debt burden of provincial governments, putting pressure on free cash flows of enterprises. The de-stocking process, which lasted only one quarter in 2009, is likely to persist for at least three quarters this time around. The government's policy easing on infrastructure construction should help to accelerate the de-stocking process, but might increase inventory build-up. The capex deficit situation, which we view as a leading indicator for consensus EPS cuts, will likely persist. This should largely dilute the benefit of the government's easing policy in 2012 and make the stock market more volatile.

We have examined 2,285 companies listed in the domestic A-share market to assess the health of China Inc, given it is a much broader base than the ~160 companies listed in the Hong Kong market. By comparing the same set of data in 2008 with 2011, we detect similar symptoms, which seem to have the same root causes – over-investment and consequent inflation, which triggered tightening. The symptoms in 1Q-3Q11 seem more severe than those in 1Q-3Q08, but the medicine (stimulus package) used to quell the symptoms in 2008 is not looking easy in 2011. Therefore, a V-shaped recovery of the equity market may be hard to repeat in the next 6-12 months.

- **Deterioration in operating cash flow and working capital items in 1Q-3Q11 was no better than that in 1Q-3Q08, with the construction, machinery and property sectors being the worst hit. Unlike 2008, the de-stocking process is likely to continue for the next few quarters.**

  During the nine-month period of 1Q-3Q11, aggregate operating cash flow of all listed companies (excluding financials) fell 20% y-y, nearly as bad as the 23% y-y decline seen in the nine-month period of 1Q-3Q08. The absolute size of the operating cash flow increased just 33% from RMB443b in 1Q-3Q08 to RMB592b in 1Q-3Q11, despite total net profit rising 83% from RMB395b to RMB722.6b and the total number of listed companies rising from ~1,580 to ~2,280 (+44%) over the same period. More sectors (16 out of 22) suffered operating cash flow deterioration (on a y-y basis) in 1Q-3Q11 than in 1Q-3Q08 (11 out of 22 sectors), with machinery, construction and property being the worst three sectors posting massive negative operating cash flows.

EXHIBIT 28: Broad-based industries are in worse financial health now than they were in 2008

	----------- Operating cash flow-----------				-------------------Capex -------------------				--------------- Capex deficit ---------------			
	1-3Q11 (RMB b)	***Change (y-y %)***	**1-3Q08 (RMB b)**	***Change (y-y %)***	**1-3Q11 (RMB b)**	***Change (y-y %)***	**1-3Q08 (RMB b)**	***Change (y-y %)***	**1-3Q11 (RMB b)**	***Y-Y Chg (RMB b)***	**1-3Q08 (RMB b)**	***Y-Y Chg (RMB b)***
Agriculture	4.8	*87.0*	2.9	*5.3*	5.8	*(7.7)*	3.5	*37.4*	(1.0)	*2.7*	(0.5)	*(0.8)*
Auto	14.4	*(56.5)*	8.8	*30.8*	22.3	*24.8*	9.6	*42.0*	(7.8)	*(23.2)*	(0.7)	*(0.7)*
Conglomerate	14.4	*up*	2.1	*5.5*	19.6	*106.2*	7.6	*124.4*	(5.1)	*10.0*	(5.5)	*(4.1)*
Construction	(89.8)	*down*	5.5	*up*	54.9	*35.0*	15.2	*79.3*	(144.7)	*(65.5)*	(9.7)	*1.5*
Consumer electronics	(3.3)	*turn loss*	5.8	*334.4*	50.3	*76.5*	10.5	*63.1*	(53.5)	*(26.1)*	(4.7)	*0.4*
Energy	436.0	*(2.6)*	227.7	*(29.4)*	336.6	*12.7*	261.7	*24.9*	99.4	*(49.5)*	(34.1)	*(146.9)*
F&B	38.4	*44.2*	14.4	*(1.0)*	18.3	*64.5*	7.4	*10.0*	20.1	*4.6*	7.0	*(0.8)*
IT	32.6	*(23.8)*	15.4	*(19.7)*	71.1	*(3.6)*	22.8	*7.3*	(38.5)	*(7.5)*	(7.3)	*(5.3)*
Machinery	(47.7)	*turn loss*	9.4	*(38.9)*	96.8	*44.7*	31.0	*56.3*	(144.5)	*(114.9)*	(21.6)	*(17.1)*
Manufacturing	0.0	*(88.4)*	0.1	*(89.4)*	4.0	*(11.0)*	1.8	*45.0*	(4.0)	*0.3*	(1.6)	*(1.7)*
Materials	68.3	*67.3*	55.0	*(12.0)*	106.4	*12.5*	108.4	*11.5*	(38.1)	*15.6*	(53.4)	*(18.6)*
Media	0.4	*(85.6)*	2.1	*10.7*	3.5	*39.7*	2.1	*2.4*	(3.1)	*(3.3)*	0.0	*0.2*
Paper	2.3	*(39.8)*	5.0	*70.1*	12.9	*10.6*	6.0	*(0.1)*	(10.6)	*(2.7)*	(0.9)	*2.1*
Petrochemicals	19.0	*(0.4)*	19.3	*(1.0)*	59.3	*58.6*	38.9	*39.9*	(40.4)	*(22.0)*	(19.6)	*(11.3)*
Pharmaceuticals	5.2	*(62.6)*	8.3	*7.7*	19.2	*49.6*	6.6	*45.1*	(14.0)	*(15.1)*	1.7	*(1.5)*
Property	(59.7)	*up*	(38.2)	*down*	7.1	*(2.0)*	6.2	*5.4*	(66.9)	*19.6*	(44.4)	*(13.4)*
Retail, wholesale	(4.3)	*turn loss*	9.4	*45.5*	25.0	*43.6*	14.0	*51.5*	(29.2)	*(23.9)*	(4.6)	*(1.8)*
Textile, apparel	(3.6)	*turn loss*	4.1	*5.1*	11.4	*45.9*	10.8	*31.5*	(15.1)	*(11.8)*	(6.7)	*(2.4)*
Tourism	3.8	*(5.1)*	5.6	*(21.5)*	11.8	*27.9*	8.8	*26.4*	(8.0)	*(2.8)*	(3.2)	*(3.3)*
Transport	90.7	*(8.2)*	53.5	*(8.7)*	93.6	*8.2*	64.7	*29.5*	(2.9)	*(15.2)*	(11.2)	*(19.8)*
Utilities	69.5	*(0.8)*	26.9	*(44.6)*	94.7	*(3.7)*	88.4	*25.0*	(25.2)	*3.1*	(61.6)	*(39.3)*
Wood	0.7	*28.9*	0.3	*73.2*	1.5	*59.4*	2.1	*195.0*	(0.8)	*(0.4)*	(1.8)	*(1.3)*
Total ex-financials	**592.1**	***(19.8)***	**443.3**	***(23.2)***	**1,126.1**	***19.3***	**727.8**	***26.5***	**(534.0)**	***(328.2)***	**(284.5)**	***(286.1)***

Sources: Wind; BNP Paribas

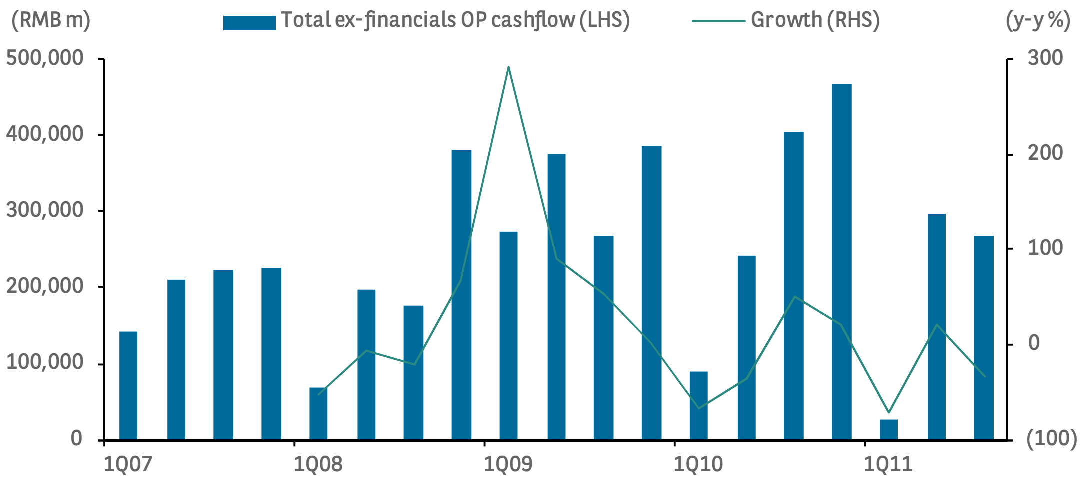
During 3Q11, continued deterioration in operating cash flow was obvious across most sectors, with declines of 33.4% y-y and 9% q-q for all sectors ex-financials. Only two sectors, F&B and utility, reported flat growth in operating cash flow, while eight sectors showed negative operating cash flow, led by construction (-RMB21b) and property (-RMB16b). Seven sectors reported large declines (over 40% y-y) in operating cash flow and another five sectors shifted from a positive status in 3Q10 to a negative status in 3Q11, with drops in machinery (down RMB26b y-y), construction (down RMB22b y-y) and materials (down RMB14b y-y) being the largest.

EXHIBIT 29: 3Q11 operating cash flow and capex by sector

Sector	**------------------------ Operating cash flow**		**------------------------**
	3Q11 (RMB m)	**3Q10 (RMB m)**	***Change (y-y %)***
Agriculture	(193)	(116)	*stay negative*
Auto	10,394	17,224	*(39.7)*
Conglomerate	(1,7 4)	998	*turn negative*
Construction	(21,174)	1,676	*turn negative*
Consumer electronics	(2,998)	(336)	*stay negative*
Energy	171,729	178,760	*(3.9)*
F&B	15,432	12,351	*24.9*
IT	14,174	23,898	*(40.7)*
Machinery	(563)	25,694	*turn negative*
Manufacturing	125	(128)	*turn positive*
Materials	17,729	32,056	*(44.7)*
Media	37	1,148	*(96.8)*
Paper	660	1,205	*(45.3)*
Petrochemicals	4,950	14,925	*(66.8)*
Pharmaceuticals	(525)	4,510	*turn negative*
Property	(16,446)	(4,636)	*stay negative*
Retail, wholesale	3,234	13,735	*(76.5)*
Textile, apparel	278	1,458	*(80.9)*
Tourism	3,784	5,003	*(24.4)*
Transport	40,409	46,676	*(13.4)*
Utilities	30,344	28,297	*7.2*
Wood	(297)	220	*turn negative*
Total ex-financials	**269,349**	**404,620**	***(33.4)***

Sources: Wind; BNP Paribas

EXHIBIT 30: Deterioration in operating cash flow no better than in 2008

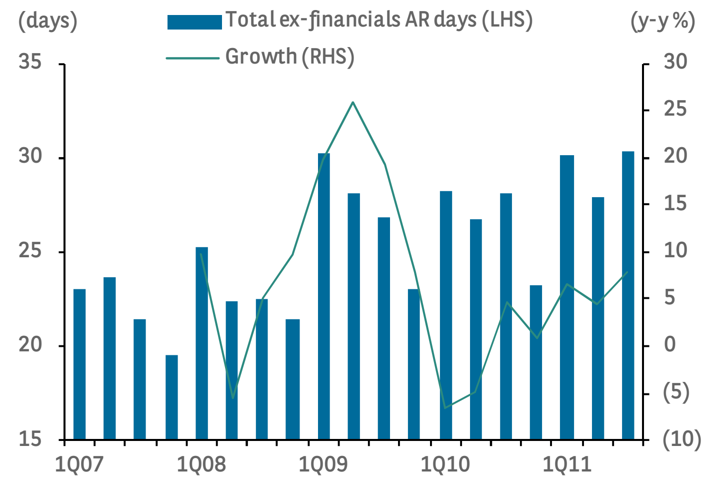


Sources: Wind; BNP Paribas

We attribute the weakening operating cash flow mainly to a steady increase in account receivable days. Given that growth in infrastructure investment, which has a long supply chain, slowed to a mere 2% y-y at end-9M11 due to credit tightening, supplier financing became increasingly common. For instance, the machinery and construction sectors (most directly affected by infrastructure investment) saw their y-y account receivables growing by 30 days and 11 days from 3Q10 to 3Q11. Upstream players responded to the growth with an increase in account payable days. As a result, the downstream manufacturing sector saw its account receivables increasing by 10 days from 3Q10 to 3Q11. And obviously, SMEs, which are the end suppliers to many infrastructure investments, faced most difficulty in collecting receivables from their customers. As mentioned earlier in the report, the weak operating cash flow of enterprises may have caused delays in salary payments and a possible increase in unemployment, which prompted the government to ease credit as a way to forestall social instability.

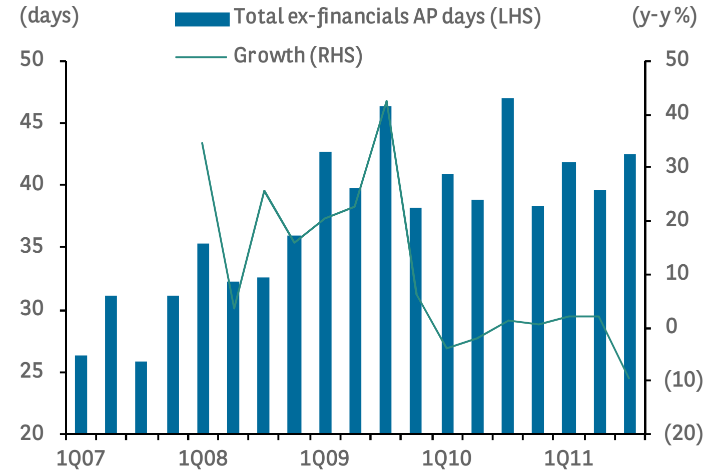
We believe operating cash flows will continue to decline in 4Q11 and 1Q12. The 4Q08 recovery was a direct result of the China government's stimulus efforts, with bank credit rising substantially in November and December 2008. We believe this will not be repeated in the next few quarters. The weakening property sales and a visible slowdown in export growth are the most useful leading indicators of the potential further deterioration in operating cash flow, in our view.

EXHIBIT 31: Increases in AR days indicate liquidity pressure



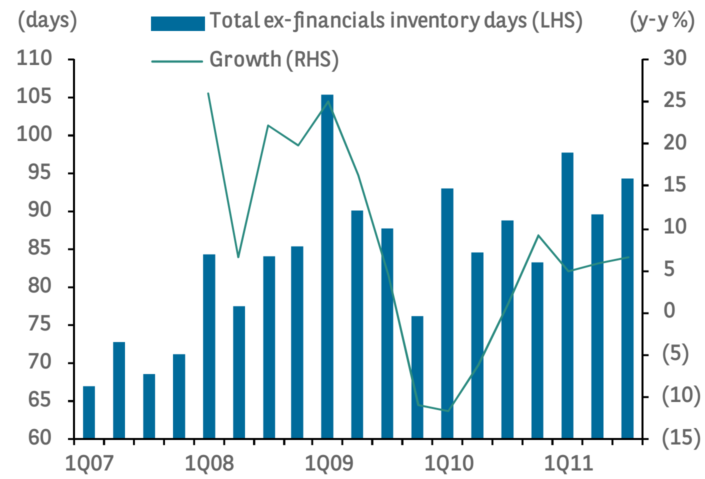
Sources: Wind; BNP Paribas

EXHIBIT 32: Increase in AP days reflects pressure of credit tightening



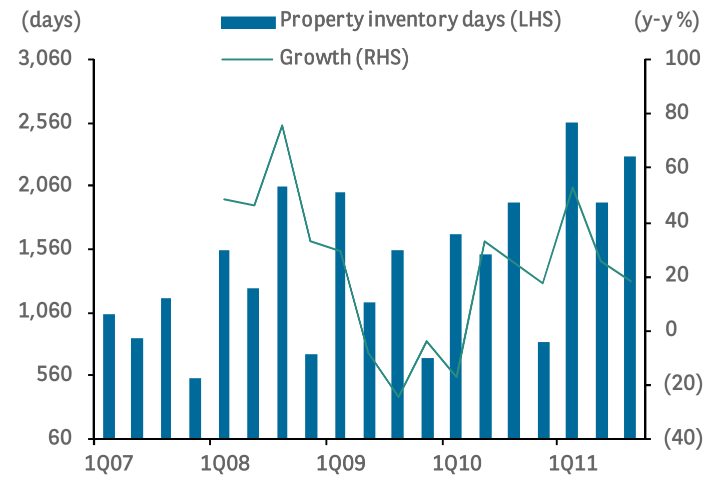
Sources: Wind; BNP Paribas

EXHIBIT 33: Rapid de-stocking in 2009 unlikely to repeat in 2012



Sources: Wind; BNP Paribas

EXHIBIT 34: High property inventory reflects stress on de-stocking



Sources: Wind; BNP Paribas

We also observe deterioration in the working capital cycle. At end-3Q11, inventory days for overall ex-financial sectors rose 12% to 94, from 84 in 3Q10. Notably, property inventory days increased to almost an all-time high (only slightly below 1Q11), even worse than the peak level of 2008, indicating the stress on property de-stocking. High inventory levels suggest that the overcapacity issue in China has worsened after the government's stimulus efforts in 2009 (when rapid de-stocking was seen, with inventory days dropping ~30%), and this may prolong the de-stocking period in 4Q10-1H12 without another stimulus package.

Furthermore, it is alarming to us that account payable days were as high 43 at end-3Q11, 30% above the 33 days at end-3Q08. This indicates the working-capital status of the broad-based industrials has worsened rapidly under the credit tightening environment, when upstream businesses realised the challenge of credit availability and opted largely for supplier financing by extending the account payable days. This has created a ripple effect in the economy with midstream and downstream businesses getting squeezed.

EXHIBIT 35: A-share 3Q11 balance sheet strength analysis by sector

Sector	Net debt/equity 3Q11 (%)	3Q10 (%)	Change (y-y ppt)	2Q11 (%)	Change (q-q ppt)	Inventory days 3Q11 (day)	3Q10 (day)	Change (y-y %)	A/R days 3Q11 (day)	3Q10 (day)	Change (y-y %)	A/P days 3Q11 (day)	3Q10 (day)	Change (y-y %)
Agriculture	4.3	18.9	*(14.6)*	(1.9)	*turn net debt*	138	148	*(6.7)*	29	37	*(20.8)*	30	39	*(23.8)*
Auto	(37.7)	(55.1)	*stay net cash*	(51.4)	*stay net cash*	36	27	*29.8*	15	11	*38.8*	74	89	*(16.4)*
Conglomerate	25.9	29.2	*(3.3)*	21.7	*4.2*	187	162	*15.2*	23	24	*(3.2)*	34	34	*(0.4)*
Construction	20.7	(4.9)	*turn net debt*	8.6	*12.2*	121	102	*19.5*	57	51	*13.0*	96	83	*15.7*
Consumer electronics	(5.8)	(20.9)	*stay net cash*	(12.5)	*stay net cash*	94	77	*21.3*	56	51	*8.4*	50	51	*(2.1)*
Energy	6.3	6.0	*0.3*	8.3	*(1.9)*	36	39	*(5.9)*	11	11	*1.3*	29	30	*(3.2)*
F&B	(30.1)	(20.1)	*stay net cash*	(28.3)	*stay net cash*	81	83	*(2.6)*	11	13	*(9.0)*	22	23	*(3.0)*
IT	(5.5)	(7.6)	*stay net cash*	(9.8)	*stay net cash*	72	61	*17.8*	60	55	*9.0*	83	98	*(15.3)*
Machinery	(12.7)	(27.0)	*stay net cash*	(18.8)	*stay net cash*	124	109	*13.8*	89	73	*22.3*	98	71	*38.1*
Manufacturing	(1.6)	9.3	*turn net cash*	6.8	*turn net cash*	169	142	*19.2*	49	43	*13.2*	35	25	*40.9*
Materials	38.3	47.0	*(8.7)*	39.0	*(0.7)*	72	73	*(0.5)*	14	14	*1.5*	33	34	*(4.9)*
Media	(30.7)	(19.6)	*stay net cash*	(35.0)	*stay net cash*	124	93	*33.0*	59	52	*14.0*	88	67	*31.3*
Paper	40.4	33.0	*7.5*	33.3	*7.1*	113	92	*22.7*	47	49	*(5.3)*	58	50	*16.0*
Petrochemicals	31.0	38.0	*(7.0)*	28.1	*2.9*	65	65	*1.2*	25	27	*(7.8)*	34	36	*(6.1)*
Pharmaceuticals	(23.3)	(16.0)	*stay net cash*	(27.3)	*stay net cash*	88	81	*8.3*	63	55	*15.3*	43	39	*10.5*
Property	34.5	33.4	*1.1*	30.8	*3.8*	2,297	1,938	*18.5*	15	15	*(1.1)*	103	86	*19.5*
Retail, wholesale	(6.7)	(14.1)	*stay net cash*	(10.0)	*stay net cash*	60	54	*10.9*	13	12	*4.6*	25	27	*(7.9)*
Textile, apparel	21.9	24.3	*(2.4)*	21.6	*0.3*	185	173	*6.9*	31	36	*(13.9)*	34	34	*(0.9)*
Tourism	22.2	19.1	*3.1*	21.7	*0.5*	206	183	*12.3*	39	37	*6.2*	39	43	*(9.5)*
Transport	21.7	34.3	*(12.6)*	24.7	*(3.0)*	17	15	*12.1*	21	20	*4.4*	43	38	*13.0*
Utilities	151.3	153.9	*(2.5)*	151.6	*(0.3)*	36	37	*(3.4)*	34	39	*(11.2)*	41	45	*(8.3)*
Wood	(7.1)	35.3	*turn net cash*	(5.7)	*stay net cash*	174	145	*20.2*	54	50	*9.7*	36	28	*28.3*
Total ex-financials	**15.9**	**16.6**	***(0.7)***	**14.6**	***1.3***	**94**	**89**	***6.5***	**30**	**28**	***7.9***	**43**	**47**	***(9.4)***

Sources: Wind; BNP Paribas

EXHIBIT 36: Working capital situation deteriorated

	Inventory days End-3Q11 (day)	Change (y-y %)	End-3Q08 (day)	Change (y-y %)	AR days End-3Q11 (day)	Change (y-y %)	End-3Q08 (day)	Change (y-y %)	AP days End-3Q11 (day)	Change (y-y %)	End-3Q08 (day)	Change (y-y %)
Agriculture	138	*(6.7)*	153	*(2.3)*	29	*13.9*	34	*(1.0)*	30	*(23.8)*	28	*(2.2)*
Auto	36	*29.8*	57	*27.0*	15	*25.2*	22	*30.9*	74	*(16.4)*	82	*46.5*
Conglomerate	187	*15.2*	148	*0.7*	23	*9.6*	44	*3.9*	34	*(0.4)*	49	*6.0*
Construction	121	*19.5*	139	*28.5*	57	*15.0*	48	*6.1*	96	*15.7*	67	*10.9*
Consumer electronics	94	*21.3*	80	*0.4*	56	*(0.3)*	56	*2.4*	50	*(2.1)*	53	*1.7*
Energy	36	*(5.9)*	45	*69.3*	11	*3.4*	10	*104.4*	29	*(3.2)*	29	*114.8*
F&B	81	*(2.6)*	97	*6.7*	11	*(8.5)*	15	*(9.0)*	22	*(3.0)*	29	*4.5*
IT	72	*17.8*	74	*17.4*	60	*7.2*	57	*21.8*	83	*(15.3)*	75	*11.3*
Machinery	124	*13.8*	115	*27.7*	89	*20.3*	66	*19.7*	98	*38.1*	74	*9.4*
Manufacturing	169	*19.2*	162	*5.6*	49	*16.2*	40	*(5.9)*	35	*40.9*	26	*2.5*
Materials	72	*(0.5)*	76	*15.7*	14	*4.6*	12	*(12.1)*	33	*(4.9)*	30	*10.5*
Media	124	*33.0*	101	*35.0*	59	*14.7*	36	*(1.9)*	88	*31.3*	76	*101.5*
Paper	113	*22.7*	104	*33.6*	47	*3.9*	47	*(4.5)*	58	*16.0*	48	*3.1*
Petrochemicals	65	*1.2*	66	*21.9*	25	*3.2*	25	*0.4*	34	*(6.1)*	34	*15.1*
Pharmaceuticals	88	*8.3*	92	*10.1*	63	*6.3*	62	*(1.8)*	43	*10.5*	44	*(3.4)*
Property	2,297	*18.5*	2,058	*75.9*	15	*7.4*	27	*15.7*	103	*19.5*	107	*50.8*
Retail, wholesale	60	*10.9*	52	*10.8*	13	*11.0*	12	*(7.8)*	25	*(7.9)*	27	*1.5*
Textile, apparel	185	*6.9*	173	*34.8*	31	*6.6*	37	*18.7*	34	*(0.9)*	32	*(12.4)*
Tourism	206	*12.3*	115	*8.5*	39	*(0.9)*	41	*33.4*	39	*(9.5)*	46	*79.6*
Transport	17	*12.1*	15	*6.2*	21	*(4.3)*	24	*(14.2)*	43	*13.0*	45	*0.2*
Utilities	36	*(3.4)*	35	*19.3*	34	*(4.8)*	44	*(2.5)*	41	*(8.3)*	46	*8.5*
Wood	174	*20.2*	146	*60.6*	54	*11.8*	52	*16.4*	36	*28.3*	31	*37.0*
Total ex-financials	**94**	***6.5***	**84**	***22.3***	**30**	***8.4***	**23**	***5.0***	**43**	***(9.4)***	**33**	***25.6***

Sources: Wind; BNP Paribas

- **On the back of rapid capex expansion, capex deficit in 1Q-3Q11 surged to a record high. Thus, we see the potential for further cuts to consensus EPS estimates. New capex is likely to slow, which should improve liquidity. This, in turn, should drag down new demand and top-line growth in the coming quarters.**

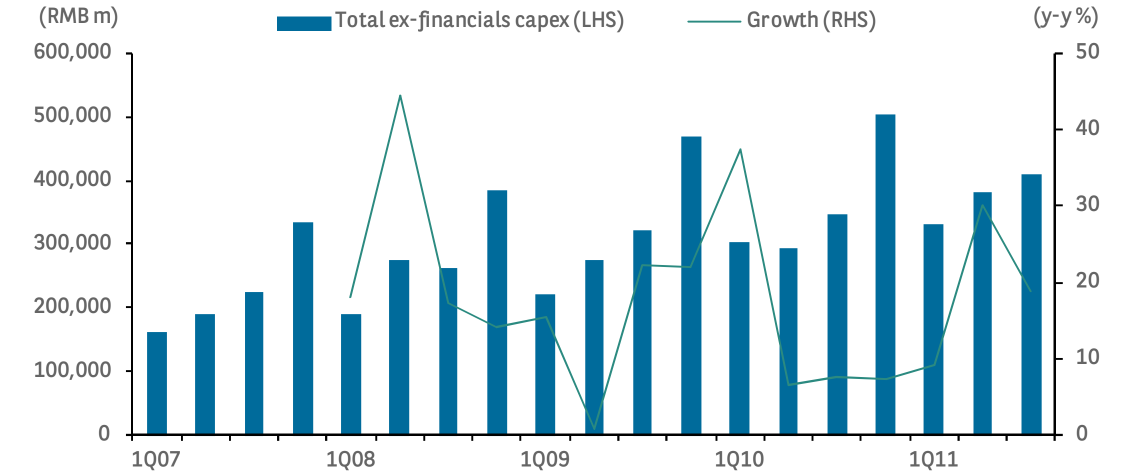
We observe that companies have continued to increase their capex, with 1-3Q11 capex totalling RMB1,126b (excluding financial sector), up 19% y-y and up 55% over 1Q-3Q08 levels. Capex deficit spiked to a record high of RMB534b during 1Q-3Q11, nearly double the deficit of RMB284b in 1Q-3Q08. It is worth noting that, in 2008 when the financial crisis just hit, the 3Q08 capex deficit had expanded by a much lower magnitude (from RMB75b in 2Q08 to RMB87b in 3Q08), and shrank rapidly to RMB2b in 4Q08 after the government eased credit towards the year-end. Capex continued to increase at an alarming rate in 3Q11. Excluding the financial sector, capex increased 18.9% y-y and 7.3% q-q. 11 out of the 22 sectors reported capex increases of over 20% y-y, including big-spending sectors such as machinery (+35% y-y), petrochem (+88% y-y), construction (+40% y-y) and smaller sectors such as retail & wholesale (+82% y-y), F&B (+69% y-y) and pharmaceutical (+58% y-y). We believe this reflects that broad-based enterprises are taking a rather bullish view of China's longer-term economic growth to justify their strategy to expand market share.

EXHIBIT 37: 3Q11 capex by sector

Sector	------------------------------ Capex	------------------------------	
	3Q11 (RMB m)	3Q10 (RMB m)	*Change (y-y %)*
Agriculture	2,140	2,044	*4.7*
Auto	10,527	10,246	*2.7*
Conglomerate	3,598	3,408	*5.6*
Construction	19,243	13,766	*39.8*
Consumer electronics	14,852	12,037	*23.4*
Energy	121,340	101,282	*19.8*
F&B	6,810	4,041	*68.5*
IT	27,486	28,644	*(4.0)*
Machinery	36,411	27,009	*34.8*
Manufacturing	1,827	2,342	*(22.0)*
Materials	38,969	31,990	*21.8*
Media	1,057	929	*13.8*
Paper	4,408	5,564	*(20.8)*
Petrochemicals	23,064	12,264	*88.1*
Pharmaceuticals	8,012	5,061	*58.3*
Property	2,253	2,109	*6.8*
Retail, wholesale	10,536	5,798	*81.7*
Textile, apparel	3,990	2,801	*42.5*
Tourism	4,306	2,900	*48.5*
Transport	32,530	33,226	*(2.1)*
Utilities	37,243	37,739	*(1.3)*
Wood	405	371	*9.1*
Total ex-financials	**411,007**	**345,570**	***18.9***

Sources: Wind; BNP Paribas

EXHIBIT 38: Capex is at a higher base than it was in 2008



Sources: Wind; BNP Paribas

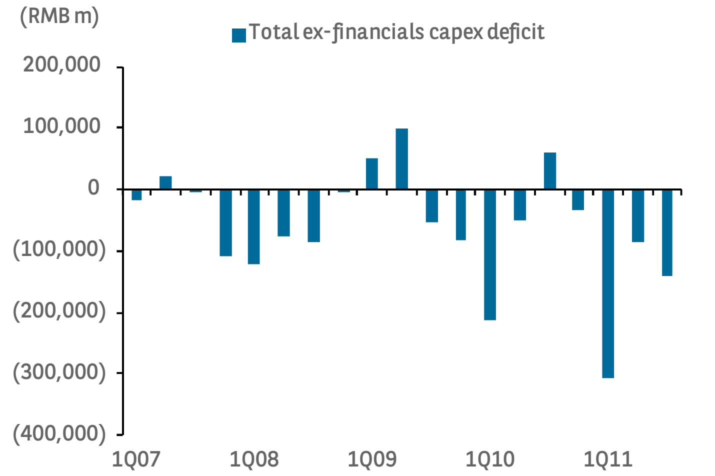
As a result, A-share stocks suffered capex-funding deficits for the fourth consecutive quarter in 3Q11. With accelerating capex and contracting operating cash flow, 3Q11 capex-funding deficit increased 63% q-q to RMB142b, from a FCF surplus of RMB59b in 3Q10. The deficit represents an annualised 8% of shareholders' funds. 19 out of 22 sectors had capex-funding deficits, with construction (RMB40b), machinery (RMB37b), materials (RMB21b) and property (RMB19b) seeing the largest deficits. And, their deficits were very large in terms of percentage of shareholders' equity. Only one sector (F&B) had a small surplus of operating cash flow versus capex. Also, despite a strong 3Q11 FCF surplus of RMB50b for the energy sector, the y-y decline of 35% to RMB27b was a significant contributor to the worsening of the overall funding deficit.

EXHIBIT 39: 3Q11 capex-funding deficit and as a percentage of shareholders' funds by sector

Sector	-------------- Capex deficits --------------			- Funding deficits/shareholders' equity -	
	3Q11	3Q10	Change	3Q11	3Q10
	(RMB b)	(RMB b)	(RMB b)	(%)	(%)
Agriculture	(2.3)	(2.2)	(0.2)	(4.3)	(2.9)
Auto	(0.1)	7.0	(7.1)	(0.1)	3.2
Conglomerate	(5.3)	(2.4)	(2.9)	(4.9)	(1.8)
Construction	(40.4)	(12.1)	(28.3)	(10.8)	(2.7)
Consumer electronics	(17.9)	(12.4)	(5.5)	(9.5)	(5.1)
Energy	50.4	77.5	(27.1)	2.5	3.4
F&B	8.6	8.3	0.3	5.7	4.3
IT	(13.3)	(4.7)	(8.6)	(3.2)	(1.0)
Machinery	(37.0)	(1.3)	(35.7)	(5.2)	(0.1)
Manufacturing	(1.7)	(2.5)	0.8	(4.8)	(3.8)
Materials	(21.2)	0.1	(21.3)	(2.8)	0.0
Media	(1.0)	0.2	(1.2)	(2.9)	0.5
Paper	(3.7)	(4.4)	0.6	(5.8)	(5.6)
Petrochemicals	(18.1)	2.7	(20.8)	(5.9)	0.7
Pharmaceuticals	(8.5)	(0.6)	(8.0)	(4.4)	(0.2)
Property	(18.7)	(6.7)	(12.0)	(5.2)	(1.6)
Retail, wholesale	(7.3)	7.9	(15.2)	(4.1)	3.1
Textile, apparel	(3.7)	(1.3)	(2.4)	(3.4)	(1.0)
Tourism	(0.5)	2.1	(2.6)	(0.5)	1.7
Transport	7.9	13.4	(5.6)	1.5	2.1
Utilities	(6.9)	(9.4)	2.5	(1.7)	(2.0)
Wood	(0.7)	(0.2)	(0.6)	(6.3)	(0.8)
Total ex-financials	**(141.7)**	**59.1**	**(200.7)**	**(1.9)**	**0.7**

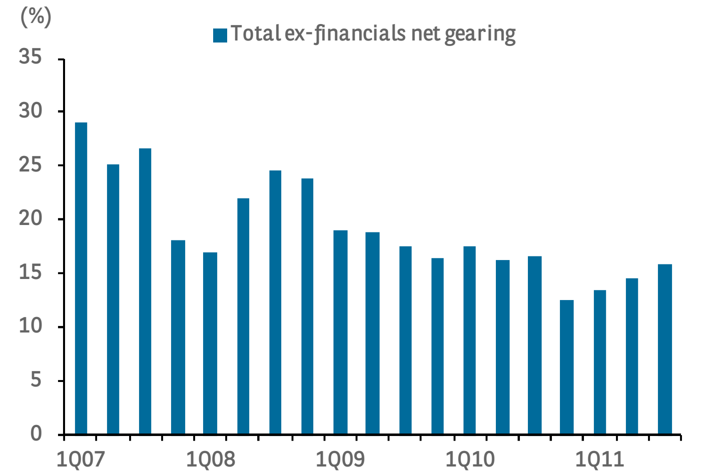
Sources: Wind; BNP Paribas

EXHIBIT 40: YTD capex-funding deficit surges to a record-high level



Sources: Wind; BNP Paribas

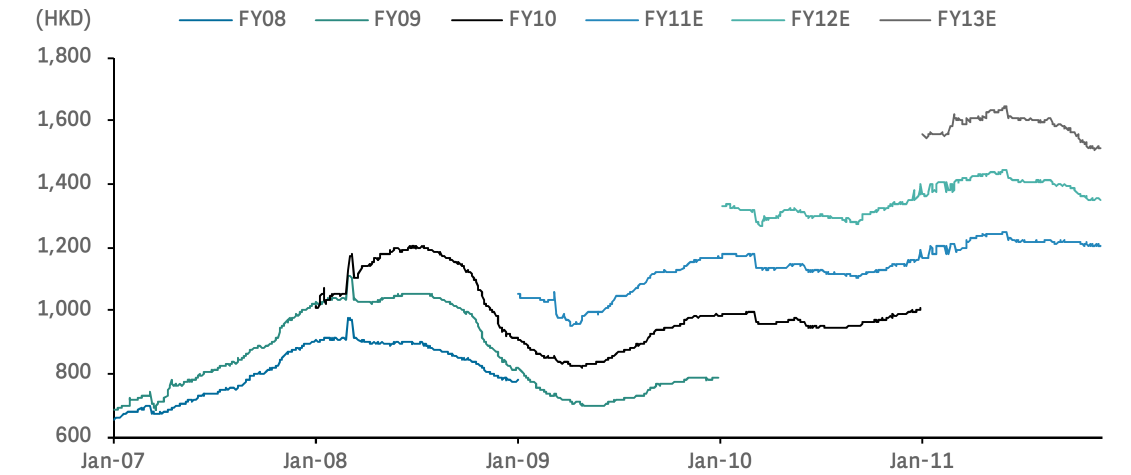
EXHIBIT 41: Lower net gearing at end-3Q11 than that in 2008



Sources: Wind; BNP Paribas

We reiterate our view that the capex-funding deficit is the leading indicator for consensus EPS cuts. This is because: 1) Tight free cash flow situation should force companies to slow their new capex, which would drag down new demand and impact top-line growth for most sectors. Of course, the magnitude of the slowdown can be mitigated if the China government pushes easing efforts in 2012. 2) Listed companies will continue to raise money from the equity and bond markets in 2012, which creates dilution risk for current shareholders and also pushes up the cost of funding, both dilute EPS. The experience of 2008 shows that the capex-funding deficit had emerged about 6 months before we saw downgrades to consensus EPS estimates. Exhibit 42 shows that, since 2H11, consensus has cut y-y EPS growth forecast for 2012 from 15.4% to 12%, but we believe more cuts are needed to reflect fully the impact of the painful destocking process.

EXHIBIT 42: Consensus EPS estimates for HSCEI stocks, 2008-2013E



Source: Bloomberg; BNP Paribas

- **Net profit growth to decelerate – forward 2012 PE to be below long-term average**

Thanks to the high inflation and low base in 3Q10, turnover growth held up very well in 3Q11. Almost all sectors posted double-digit y-y growth, adding up to an aggregate turnover growth of 25.1%, or 26.4% for ex-financials. However, 3Q11 net profit growth slowed q-q and was far behind turnover growth. Excluding financials, overall net profit rose 21.8% y-y in 1Q11, 14.7% y-y in 2Q11 and slipped to 7.3% y-y in 3Q11. For ex-financials, gross margin contracted 1.1ppt y-y, due to rising costs (peaking of inflation) and negative economies of scale (retreated market demand). SG&A expenses (+18.7% y-y) as a percentage of revenue shrank for most sectors, with property and construction being the notable exceptions. Finance costs jumped 60.2% y-y, led by energy (up RMB6.2b y-y or 206%), construction (up RMB2.6b y-y or 163%) and utilities (up RMB2.6b y-y or 31%). Negative free cash flow evidently forced companies to borrow more money to fund capex. Net margins (-0.9ppt y-y) fell in line with gross margins. Margin squeeze was seen in 13 sectors, with largest contractions in transportation (-6.5ppt y-y) and utilities (-3.8ppt y-y).

EXHIBIT 43: A-share 3Q11 P&L summary

	------ Sales ------		COGS	- Gross margin -		SG&A	------ EBIT ------		-- EBIT margin --		Fin cost	---- Net profit ----		- Net margin -	
	3Q11	*Chg*	*Chg*	3Q11	*Chg*	*Chg*	3Q11	*Chg*	3Q11	*Chg*	*Chg*	3Q11	*Chg*	3Q11	*Chg*
	(RMB m)	*(y-y %)*	*(y-y %)*	(%)	*(y-y ppt)*	*(y-y %)*	(RMB)	*(y-y %)*	(%)	*(y-y ppt)*	*(y-y %)*	(RMB m)	*(y-y %)*	(%)	*(y-y ppt)*
Agriculture	26,362	*45.1*	*46.9*	17.2	*(1.0)*	*29.5*	2,028	*26.6*	7.7	*(1.1)*	*22.4*	1,583	*37.0*	6.0	*(0.4)*
Auto	174,037	*11.0*	*12.5*	17.1	*(1.1)*	*11.2*	11,362	*(4.1)*	6.5	*(1.0)*	*(0.6)*	6,463	*(6.5)*	3.7	*(0.7)*
Conglomerate	43,882	*23.8*	*22.1*	18.4	*1.2*	*25.0*	5,586	*22.6*	12.7	*(0.1)*	*59.5*	2,798	*3.2*	6.4	*(1.3)*
Construction	516,463	*15.2*	*13.6*	10.6	*1.2*	*25.4*	19,582	*53.0*	3.8	*0.9*	*163.3*	9,741	*42.0*	1.9	*0.4*
Consumer electronics	92,271	*34.3*	*37.3*	16.7	*(1.8)*	*21.5*	5,085	*19.4*	5.5	*(0.7)*	*313.9*	3,128	*(4.9)*	3.4	*(1.4)*
Energy	1,451,105	*37.8*	*43.5*	22.3	*(3.1)*	*13.9*	122,676	*9.9*	8.5	*(2.1)*	*206.1*	86,684	*8.7*	6.0	*(1.6)*
F&B	95,031	*24.5*	*23.6*	31.3	*0.5*	*18.6*	13,057	*33.6*	13.7	*0.9*	*5.3*	9,195	*33.8*	9.7	*0.7*
Financials	744,462	*17.6*	*35.1*	33.4	*(8.7)*	*19.3*	0	*0.0*	0.0	*0.0*	*0.0*	239,420	*19.4*	32.2	*0.5*
IT	169,110	*20.6*	*19.5*	23.3	*0.7*	*19.6*	9,706	*37.1*	5.7	*0.7*	*491.4*	4,924	*5.4*	2.9	*(0.4)*
Machinery	439,998	*17.5*	*20.2*	18.1	*(1.9)*	*14.7*	39,288	*7.2*	8.9	*(0.9)*	*76.0*	26,228	*(0.3)*	6.0	*(1.1)*
Manufacturing	22,559	*27.0*	*32.3*	17.3	*(3.3)*	*19.6*	2,581	*15.7*	11.4	*(1.1)*	*(3.0)*	1,797	*20.8*	8.0	*(0.4)*
Materials	614,661	*26.3*	*24.4*	11.3	*1.4*	*25.1*	38,163	*52.0*	6.2	*1.0*	*30.6*	20,884	*44.3*	3.4	*0.4*
Media	7,922	*0.4*	*(4.6)*	32.7	*3.5*	*8.5*	1,405	*11.4*	17.7	*1.8*	*(89.2)*	1,120	*24.7*	14.1	*2.8*
Paper	24,108	*11.5*	*13.6*	16.7	*(1.5)*	*18.5*	1,840	*(6.4)*	7.6	*(1.5)*	*47.5*	769	*(29.9)*	3.2	*(1.9)*
Petrochemicals	195,464	*32.9*	*33.0*	15.5	*(0.1)*	*24.4*	14,314	*35.6*	7.3	*0.1*	*28.9*	7,499	*32.2*	3.8	*(0.0)*
Pharmaceuticals	82,613	*19.0*	*21.1*	29.9	*(1.2)*	*21.3*	11,204	*25.0*	13.6	*0.6*	*41.9*	8,234	*22.2*	10.0	*0.3*
Property	65,300	*24.5*	*17.6*	38.0	*3.6*	*38.8*	13,362	*37.2*	20.5	*1.9*	*23.1*	7,672	*34.5*	11.7	*0.9*
Retail, wholesale	318,928	*35.3*	*35.9*	11.1	*(0.4)*	*28.9*	12,877	*53.0*	4.0	*0.5*	*28.5*	7,792	*54.4*	2.4	*0.3*
Textile, apparel	45,918	*20.8*	*20.1*	19.9	*0.4*	*10.8*	4,598	*24.4*	10.0	*0.3*	*24.8*	2,669	*26.8*	5.8	*0.3*
Tourism	28,319	*33.3*	*35.2*	33.3	*(0.9)*	*26.4*	5,742	*35.5*	20.3	*0.3*	*40.3*	3,735	*32.2*	13.2	*(0.1)*
Transport	183,558	*12.4*	*22.8*	22.8	*(6.5)*	*11.9*	28,924	*(22.2)*	15.8	*(7.0)*	*0.6*	19,576	*(30.2)*	10.7	*(6.5)*
Utilities	155,417	*21.4*	*28.3*	14.7	*(4.6)*	*16.1*	21,965	*(9.7)*	14.1	*(4.9)*	*30.5*	7,318	*(32.5)*	4.7	*(3.8)*
Wood	5,221	*18.7*	*18.4*	25.6	*0.2*	*10.5*	475	*13.5*	9.1	*(0.4)*	*1.6*	262	*56.5*	5.0	*1.2*
Total ex-financials	**4,758,247**	***26.4***	***28.1***	**18.2**	***(1.1)***	***18.7***	**385,821**	***14.0***	**8.1**	***(0.9)***	***60.2***	**240,072**	***7.3***	**5.0**	***(0.9)***
Total	**5,502,708**	***25.1***	***28.9***	**20.2**	***(2.3)***	***18.9***	**385,821**	***14.0***	**7.0**	***(0.7)***	***60.2***	**479,491**	***13.1***	**8.7**	***(0.9)***

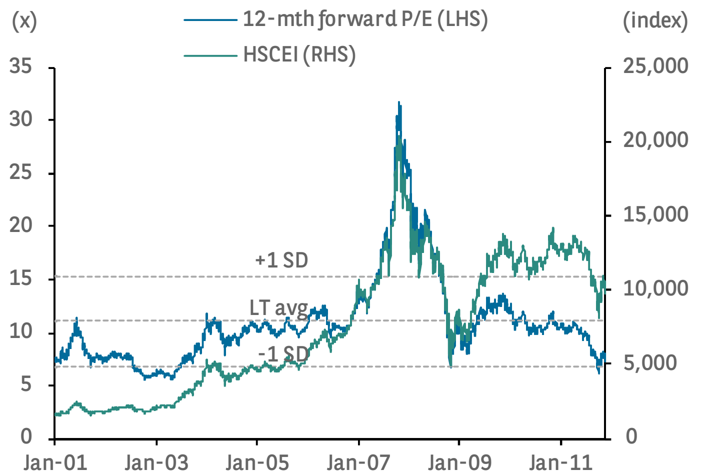
Sources: Wind; BNP Paribas

We believe the margin slide and earnings growth deceleration indicate that the easy days of high growth and high profitability are over, and that the China market may consistently trade below its long-term average. Apart from the pressure of EPS cuts, we believe investors will assign lower valuation multiples to China equities due to visible growth slowdown in the mid to long term and due to a decrease in risk appetite across the board. Furthermore, concerns about banks' longer-term asset quality means that equity investors will probably reward China's next stage of easing measures much less than they did back in the 2009 grand stimulus package. Thus, in our view, the recovery of the China market in 2012 will be far less exciting than the V-shaped recovery seen in 2009 and any run-up will likely last for a far shorter period.

Sector strategy: Favour coal, cement, natural gas, and branded consumers

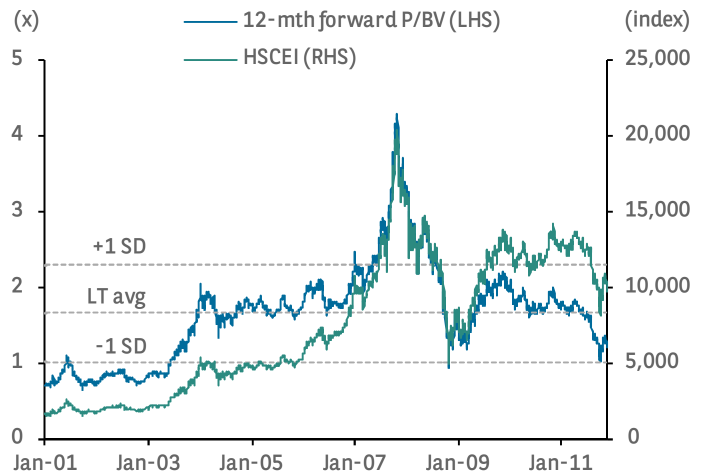
Given our outlook of a volatile 2012 – in which the government's potential easing measures to boost infrastructure investments will be intertwined with EPS cuts and de-stocking – we believe the China market will trade below its 10-year average 12-month forward PE of 11x. In our base case where we assume 10x 12-month forward PE and an average 5% cut to consensus EPS growth forecast for 2012, we peg the HSCEI target at 12,600, implying about 26.5% upside potential from current levels. In our bull case where we assume 10% EPS growth and 11x 12-month forward PE, we set our HSCEI target at 14,400, implying 45% upside potential from current levels.

EXHIBIT 44: P/E of China universe nearing mean – 1x SD



Sources: Bloomberg; BNP Paribas

EXHIBIT 45: China universe trades below mean P/BV



Sources: Bloomberg; BNP Paribas

EXHIBIT 46: HSCEI scenario analysis by P/E

HSCEI (index)				-------------------- P/E multiple	--------------------			
2012E EPS growth (%)	6x	7x	8x	9x	10x	11x	12x	13x
(5)	6,919	8,072	9,226	10 379	11,532	12,685	13,838	14,992
0	7,238	8,444	9,650	10,856	12,063	13,269	14,475	15,681
5	7,556	8,815	10,074	11,334	12,593	13,852	15,112	16,371
10	7,874	9,186	10,499	11,811	13,123	14,436	15,748	17,060
15	8,192	9,558	10,923	12,288	13,654	15,019	16,385	17,750
20	8,511	9,929	11,347	12,766	14,184	15,603	17,021	18,439

HSCEI consensus EPS estimates as at 18 November 2011
Sources: Bloomberg consensus estimates; BNP Paribas estimates

EXHIBIT 47: Implied upside/(downside) to current HSCEI levels

Implied upside/ (downside) (%)				-------------------- P/E multiple	--------------------			
2012E EPS growth (%)	6x	7	8x	9x	10x	11x	12x	13x
(5)	(30.5)	(18.9)	(7.3)	4.2	15.8	27.4	39.0	50.6
0	(27.3)	(15.2)	(3.1)	9.0	21.2	33.3	45.4	57.5
5	(24.1)	(11.5)	1.2	13.8	26.5	39.1	51.8	64.4
10	(20.9)	(7.7)	5.4	18.6	31.8	45.0	58.2	71.3
15	(17.7)	(4.0)	9.7	23.4	37.1	50.8	64.6	78.3
20	(14.5)	(0.3)	14.0	28.2	42.5	56.7	71.0	85.2

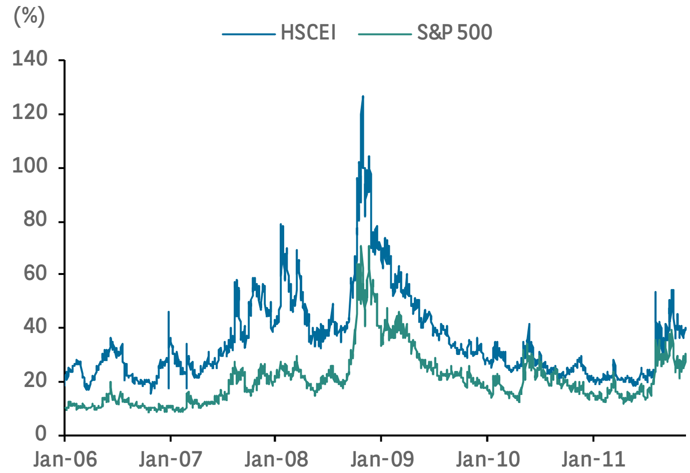
HSCEI as at 18 November 2011
Source: BNP Paribas estimates

However, we believe a more important message than setting the index target is that most upside potential will likely be seen only between 2Q12 and 3Q12. This is because we expect concerns about tight credit conditions relative to investment needs to persist through 1Q12, and also the property market should stay weak and add to the concerns of a hard landing. We anticipate a more meaningful easing will happen in 2Q12, which will likely include more loosening of monetary conditions and subtle easing of the property market. Exhibits 48 and 49 show that the valuation gap between the China and US markets was at the same level since mid-2011 as it was back in 2008 post the global financial crisis and volatility of the HSCEI is above that of S&P 500. 2012 is unlikely to see the valuation gap narrowing as quickly as it did in 2009, suggesting that timing the market will matter more to investors focused on China.

EXHIBIT 48: HSCEI vs S&P 500 relative forward P/E

Sources: Bloomberg; BNP Paribas

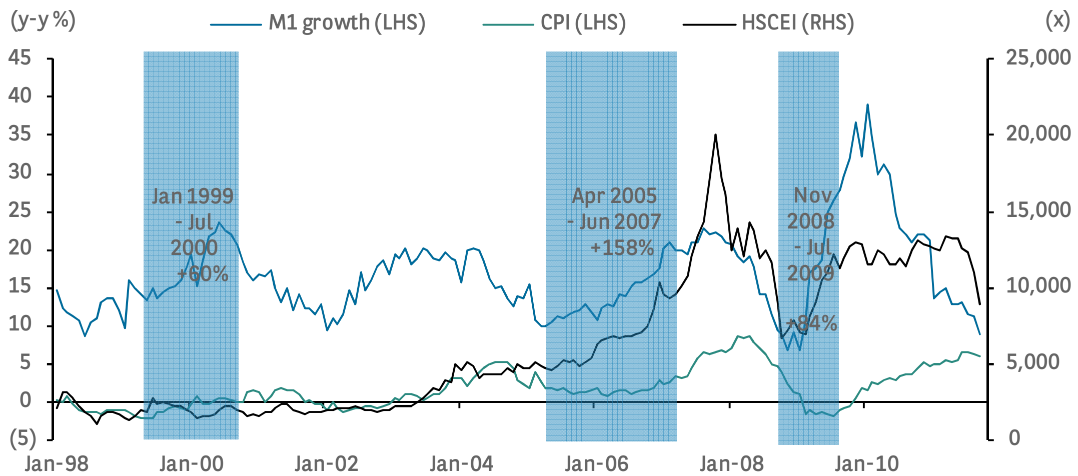
EXHIBIT 49: Volatility comparison - HSCEI vs S&P 500



Sources: Bloomberg; BNP Paribas

Furthermore, the emergence of a shadow banking system (whose size we believe swings within a wide range of RMB5t to RMB10t) in China makes the traditional M1 growth vs index performance prediction much less useful. Exhibit 50 shows that, although M1 growth has dipped to a single-digit territory since September 2011, the shadow lending market emerged strongly in 2011. This indicates that the real level of money supply is much higher. Although there is little data to track the movement of the shadow lending market, we believe the recent surge in default cases from this segment may lead to rapid wealth erosion, thus reducing credit supply. We believe 1Q12 is likely to be the bottom of real money supply growth, which implies that weakness will last into 1Q12 before more meaningful easing happens.

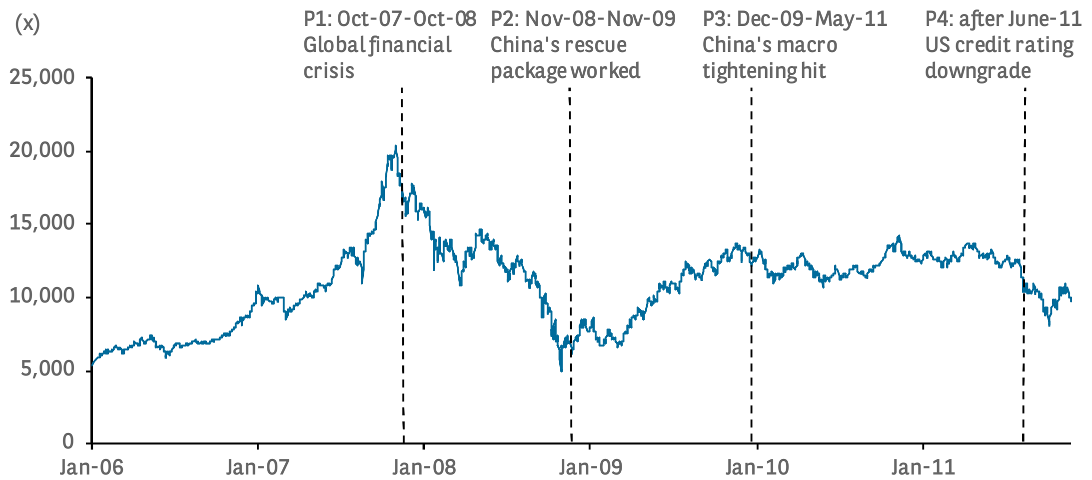
EXHIBIT 50: M1 fails to capture money supply in the alternative market, HSCEI may test lower levels



Sources: Bloomberg; CEIC; BNP Paribas

We break down the performance of the HSCEI into four periods (see Exhibit 51). The first phase is from October 2007 to October 2008, when we saw the sharpest sell-down. It is worth noting that consensus EPS forecasts lagged equity market reaction during this period. The HSCEI collapsed about 40%, while consensus EPS estimates for 2008 and 2009 were increased 5-10%. We saw EPS cuts only after the Lehman Brothers bankruptcy; EPS estimates were trimmed 28% for 2009 and 23% for 2010 during October 2008 to June 2009. During this period, outperformers were mostly consumer staples and expressways, while underperformers were mostly land developers, paper makers and some non-ferrous metals names (see Exhibits 52-29 for details).

EXHIBIT 51: HSCEI reaction in the past crisis period



Sources: Bloomberg; BNP Paribas

The second phase is from November 2008 to November 2009, when China's grant stimulus package worked and the HSCEI rallied 165%. During this period, outperformers, which were mostly the underperformers in phase one and auto names, emerged on the best performers list, as they were direct beneficiaries of the government's fiscal subsidy. Telcos, IPPs and expressway companies were underperformers during this period. We believe there will no similar stimulus package this time around, so we see no clear upside catalyst in sight that can sharply prop up the stock market.

The third phase is the long, boring, flattish market that lasted from December 2011 to May 2011 after China started monetary and administrative tightening. Given the significant lingering impact of the massive stimulus package, sectors that were direct beneficiaries of the FAI stand out, which include construction materials, capital goods and auto names. Land developers flipped to the underperformers list. It is worth noting that China's giant-sized banks are neither on the outperformer nor the underperformer list for all these three periods.

The fourth phase starts from June 2011 when we saw the latest rounds of sell-downs after S&P downgraded the US, escalation in Europe debt crisis, and the market worried about a second dip in global economies. We saw consumer staple names (such as Hengan, Want Want, and China Mengniu), as well as China Mobile, standing out as defensive plays, together with oil and energy names. High-end auto sales remained strong amid overall auto sales slowdown, which resulted in the outperformance of Brilliance China and Zhengtong auto dealer.

EXHIBIT 52: Top 20 outperformers during the 2008 global crisis (from Oct-07 to Oct-08)

Stock	Ticker	Price chg (%)	Rel to HSCEI (%)
Wumart Stores	1025 HK	(19.5)	229.1
Sohu	SOHU US	(24.8)	207.4
Lianhua Supermarket	980 HK	(31.2)	181.3
Hengan	1044 HK	(32.0)	177.9
BYD	1211 HK	(36.7)	158.7
Tingyi	322 HK	(39.9)	145.7
China Yurun Food	1068 HK	(41.8)	137.9
Tencent	700 HK	(45.8)	121.6
Jiangsu Expressway	177 HK	(50.3)	103.3
HK&China Gas	3 HK	(50.3)	103.0
Golden Eagle	3308 HK	(50.4)	102.9
Baidu	BIDU US	(51.8)	97.2
Tsingtao Brewery	168 HK	(52.5)	94.0
Huabao	336 HK	(52.6)	93.8
CR Gas	1193 HK	(52.9)	92.4
China Unicom	762 HK	(53.7)	89.2
Sina	SINA US	(54.9)	84.4
Ctrip.com Int'l	CTRP US	(55.1)	83.4
CNInsure	CISG US	(55.6)	81.4
Anhui Expressway	995 HK	(58.1)	71.1

Sources: Bloomberg; BNP Paribas

EXHIBIT 53: Top 20 underperformers during the 2008 global crisis (from Oct-07 to Oct-08)

Stock	Ticker	Price chg (%)	Rel to HSCEI (%)
Nine Dragons Paper	2689 HK	(96.6)	(86.1)
CNBM	3323 HK	(94.8)	(78.8)
Lee & Man Paper	2314 HK	(94.6)	(77.9)
Hopson Development	754 HK	(94.4)	(77.0)
SPG Land	337 HK	(93.8)	(74.6)
China Shipping Cont	2866 HK	(93.7)	(74.2)
TCC International	1136 HK	(93.7)	(74.1)
Hunan Nonferrous	2626 HK	(93.5)	(73.6)
C C Land	1224 HK	(93.2)	(72.1)
China COSCO	1919 HK	(92.7)	(70.1)
China Molybdenum	3993 HK	(92.4)	(69.0)
BJ Capital Land	2868 HK	(92.4)	(68.9)
Shenzhen Investment	604 HK	(91.5)	(65.4)
China Eastern Airlines	670 HK	(91.3)	(64.3)
Guangzhou R&F	2777 HK	(90.7)	(61.9)
Great Wall Motor	2333 HK	(90.5)	(61.3)
Chalco	2600 HK	(90.5)	(61.0)
Angang Steel	347 HK	(90.4)	(60.6)
Jiangxi Copper	358 HK	(89.9)	(58.7)
Harbin Power	1133 HK	(89.8)	(58.3)

Sources: Bloomberg; BNP Paribas

EXHIBIT 54: Top 20 outperformers during Nov-08 to Nov-09 when China's stimulus package worked

Stock	Ticker	Price chg (%)	Rel to HSCEI (%)
Skyworth	1 HK	2,149.2	748.4
Nine Dragons Paper	2689 HK	1,850.0	635.5
Geely Auto	175 HK	1,364.2	452.3
Lee & Man Paper	2314 HK	1,168.6	378.5
SPG Land	337 HK	1,111.2	356.8
Haier	1169 HK	926.1	287.0
Brilliance China Auto	1114 HK	879.3	269.4
CNBM	3323 HK	860.0	262.1
Dongfeng Motor	489 HK	828.8	250.3
Poly HK	119 HK	680.0	194.2
Hopson Development	754 HK	677.9	193.4
BJ Capital Land	2868 HK	650.9	183.3
Minmetals Land	230 HK	650.8	183.2
Great Wall Motor	2333 HK	630.1	175.4
Jiangxi Copper	358 HK	605.3	166.0
Hunan Nonferrous	2626 HK	565.2	150.9
Greentown	3900 HK	540.1	141.5
First Tractor	38 HK	522.9	134.9
BYD	1211 HK	522.7	134.9
Zijin Mining	2899 HK	509.0	129.7

Sources: Bloomberg; BNP Paribas

EXHIBIT 55: Top 20 underperformers during Nov-08 to Nov-09 when China's stimulus package worked

Stock	Ticker	Price chg (%)	Rel to HSCEI (%)
China Unicom	762 HK	19.8	(54.8)
Guangshen Railway	525 HK	30.5	(50.8)
Sohu	SOHU US	31.7	(50.3)
China Mobile	941 HK	35.8	(48.8)
CR Power	836 HK	37.5	(48.1)
CRCC	1186 HK	37.8	(48.0)
Huaneng Power	902 HK	50.5	(43.2)
Datang Int'l Power	991 HK	52.2	(42.6)
Jiangsu Expressway	177 HK	57.4	(40.6)
Beijing Capital Int'l Airport	694 HK	64.0	(38.1)
Sinopec	386 HK	72.9	(34.8)
China Telecom	728 HK	73.5	(34.6)
China Merchants	144 HK	80.8	(31.8)
Sina	SINA US	81.4	(31.6)
SOHO China	410 HK	84.9	(30.3)
CCC	1800 HK	88.7	(28.8)
CRG	390 HK	91.1	(27.9)
Anhui Expressway	995 HK	93.9	(26.9)
HK&China Gas	3 HK	99.2	(24.9)
Pacific Basin Shipping	2343 HK	100.3	(24.4)

Sources: Bloomberg; BNP Paribas

EXHIBIT 56: Top 20 outperformers amid China's macro tightening (from Dec-09 to May-11)

Stock	Ticker	Price chg (%)	Rel to HSCEI (%)
Great Wall Motor	2333 HK	214.9	214.8
Baidu	BIDU US	204.1	204.1
Brilliance China Auto	1114 HK	200.0	199.9
Haitian Int'l	1882 HK	198.3	198.2
Sina	SINA US	156.8	156.8
China State Construction	3311 HK	145.5	145.4
Chigo	449 HK	145.0	144.9
Xinyi Glass	868 HK	142.5	142.5
Ajisen (China) Hdgs	538 HK	139.0	139.0
OOIL	316 HK	135.0	134.9
First Tractor	38 HK	123.2	123.1
Anhui Conch Cement	914 HK	112.8	112.8
Yanzhou Coal	1171 HK	107.9	107.9
Haier	1169 HK	98.3	98.3
CNBM	3323 HK	93.6	93.6
CR Cement	1313 HK	88.6	88.6
Lianhua Supermarket	980 HK	80.9	80.9
Sany International	631 HK	79.6	79.6
PICC	2328 HK	76.2	76.2
Zhuzhou CSR	3898 HK	67.5	67.5

Sources: Bloomberg; BNP Paribas

EXHIBIT 57: Top 20 underperformers amid China's macro tightening (from Dec-09 to May-11)

Stock	Ticker	Price chg (%)	Rel to HSCEI (%)
BYD	1211 HK	(65.3)	(65.3)
Poly HK	119 HK	(53.8)	(53.8)
Li Ning	2331 HK	(46.9)	(47.0)
Nine Dragons Paper	2689 HK	(46.7)	(46.7)
Sino-Ocean Land	3377 HK	(46.4)	(46.4)
Angang Steel	347 HK	(46.1)	(46.1)
Minmetals Land	230 HK	(45.2)	(45.2)
Hopson Development	754 HK	(43.1)	(43.2)
SPG Land	337 HK	(42.1)	(42.1)
Glorious Property	845 HK	(37.2)	(37.2)
Greentown	3900 HK	(36.8)	(36.8)
BJ Capital Land	2868 HK	(36.4)	(36.4)
CRG	390 HK	(35.7)	(35.8)
Shanghai Jin Jiang	2006 HK	(34.0)	(34.0)
Beijing Capital Int'l Airport	694 HK	(32.4)	(32.4)
Zijin Mining	2899 HK	(32.1)	(32.2)
Shenzhen Investment	604 HK	(31.9)	(31.9)
CRCC	1186 HK	(31.2)	(31.2)
China Shipping Dev	1138 HK	(30.3)	(30.3)
China COSCO	1919 HK	(30.3)	(30.3)

Sources: Bloomberg; BNP Paribas

EXHIBIT 58: Top 20 outperformers since US credit rating downgrade in June 2011

Stock	Ticker	Price chg (%)	Rel to HSCEI (%)
Brilliance China Auto	1114 HK	14.2	51.8
China Mobile	941 HK	6.1	41.0
CR Gas	1193 HK	5.5	40.2
Hengan	1044 HK	3.1	36.9
China Telecom	728 HK	3.0	36.9
China Mengniu Dairy	2319 HK	2.8	36.6
Sinopec	386 HK	2.3	36.0
China Southern Airlines	1055 HK	1.3	34.6
ENN Energy	2688 HK	0.0	32.9
HK & China Gas	3 HK	(0.3)	32.4
Want Want China	151 HK	(1.5)	30.9
Beijing Capital Int'l Airport	694 HK	(1.9)	30.4
IMM	1683 HK	(3.2)	28.6
PICC	2328 HK	(3.3)	28.5
China Unicom	762 HK	(3.7)	28.0
Baidu	BIDU US	(4.2)	27.3
China ZhengTong	1728 HK	(4.2)	27.3
China Coal Energy	1898 HK	(4.8)	26.5
CR Power	836 HK	(5.6)	25.4
China Shenhua Energy	1088 HK	(9.6)	20.2

Sources: Bloomberg; BNP Paribas

EXHIBIT 59: Top 20 underperformers since US credit rating downgrade in June 2011

Stock	Ticker	Price chg (%)	Rel to HSCEI (%)
Chigo	449 HK	(62.4)	(50.0)
Agile Property	3383 HK	(59.8)	(46.6)
SITC International	1308 HK	(57.7)	(43.8)
Goldwind	2208 HK	(57.1)	(43.0)
Huabao	336 HK	(55.6)	(41.0)
China Yurun Food	1068 HK	(55.5)	(40.8)
China Shipping Cont	2866 HK	(55.0)	(40.2)
KWG Property	1813 HK	(53.1)	(37.7)
CNInsure	CISG US	(52.8)	(37.3)
Sinoma	1893 HK	(52.1)	(36.4)
Li Ning	2331 HK	(51.9)	(36.1)
SPG Land	337 HK	(51.0)	(34.8)
Rongsheng Heavy	1101 HK	(50.7)	(34.5)
Anta Sports	2020 HK	(49.5)	(32.9)
BBMG	2009 HK	(49.1)	(32.4)
China Molybdenum	3993 HK	(48.8)	(31.9)
Lianhua Supermarket	980 HK	(48.6)	(31.8)
China COSCO	1919 HK	(48.4)	(31.4)
Xinyi Glass	868 HK	(47.1)	(29.8)
China Hongqiao	1378 HK	(46.9)	(29.4)

Sources: Bloomberg; BNP Paribas

Given our expectation of a FAI-driven growth in 2012, we recommend Overweight coal, cement, construction machinery plays and natural gas sectors in the next 12 months, together with department stores and tourism from the consumer space. The best proxy to our favored sectors, in our view, are China Shenhua Energy (1088 HK), Yanzhou Coal (1171 HK), Sany Int'l (631 HK), Anhui Conch (914 HK, Not rated), CNBM (3323 HK, Not rated), CR Gas (1193 HK), Kunlun Energy (135 HK), Zoomlion (3157 HK), Weichai Power (2338 HK), Golden Eagle (3308 HK), Intime Department Store (1833 HK), and Home Inns (HMIN US, Not rated). Among our picks for FAI plays, we note that the capital goods sector suffers the most capex-funding deficit in 2011, hence is likely to slightly lag the market recovery.

We recommend investors Equal-weight the bank and property sectors as we expect China to continue to report over 8% real GDP growth in 2012 and the property market to likely see a V-shaped recovery in 2012 after a short-lived correction. There is no worry over banks' asset quality and overall NPL ratio is likely to be maintained at around 1% for the system over the next 2-3 years, which we believe is critical to support the floor level for the HSCEI. However, we do expect to see lagged earnings cuts for the banking sector, due to the lower-than-expected margin trend. On the asset side, banks would lose their pricing power on loans if credit conditions are eased further. On the liabilities side, we believe the competition over funding sources will intensify given that enterprises and households will likely to continue to drive the outflow of deposits to wealth management products for higher returns. As Exhibit 60 indicates, the banking sector has seen little cuts to earnings forecast so far. IPP, auto, telecom, securities brokerage and consumer discretionary plays (excluding department stores and tourism) are also the sectors we rate as Equalweight.

EXHIBIT 60: HSCEI consensus 2012E EPS estimate changes

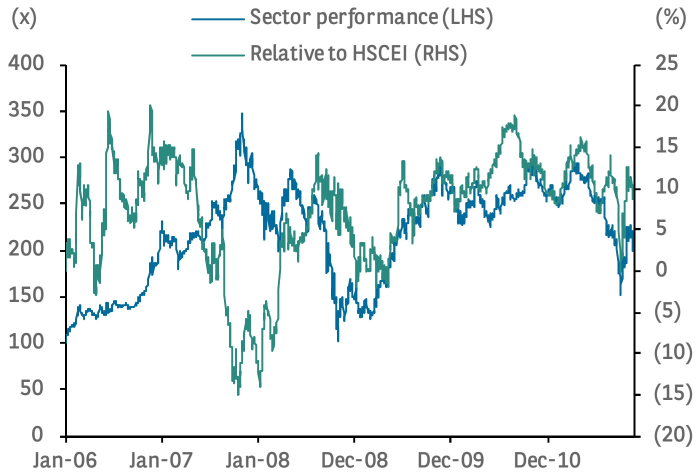
	4-wk EPS est change (%)	3-mth EPS est change (%)	6-mth EPS est change (%)
HSCEI	(0.4)	(0.9)	(2.7)
Breakdown by sector			
Consumer discretionary	2.1	(6.0)	(21.0)
Consumer staples	(3.3)	(6.0)	(5.4)
Energy	(1.4)	(2.7)	(7.0)
Financials	(0.3)	0.1	(1.0)
Health care	(2.3)	(3.3)	(10.2)
Industrials	(9.4)	(18.8)	(7.2)
Information technology	(0.9)	(6.2)	(11.8)
Materials	(1.7)	(8.5)	(11.3)
Telecommunication services	(2.7)	(3.1)	(1.4)
Utilities	(5.5)	(15.2)	(25.3)

Sources: Bloomberg; BNP Paribas

Our Underweight calls on the life insurance and consumer staple sectors might seem contrarian to the view of many investors. We believe the consensus expectation that life insurance growth will bottom out in 2012 is too optimistic. We expect the life insurance sector to suffer multi-year long growth bottlenecks, caused by structural issues related with the agency distribution channel and the lack of taxation benefit of insurance products, which makes it difficult to compete against China's booming wealth management products offerings. A potential return of inflationary concerns in 2H12 may put margins under pressure for consumer staple names, which hardly make them defensive. Apart from life insurance and consumer staples, we Underweight the steel and shipping sectors on concerns about massive over-capacity.

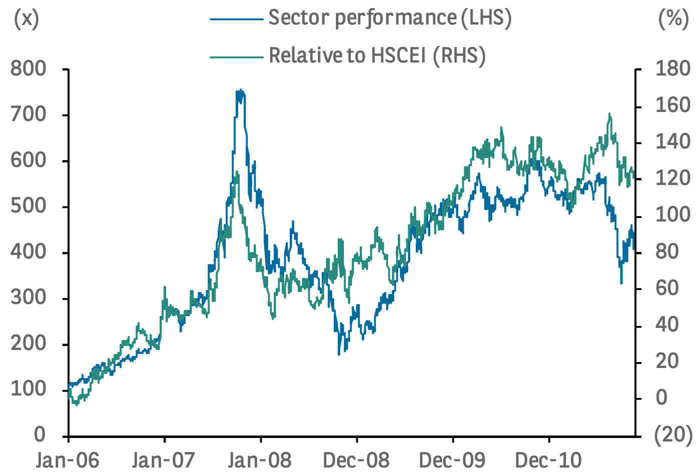
Sector performance and relative to HSCEI since 2006

EXHIBIT 61: Bank stocks have performed broadly in line with the market index since 2006



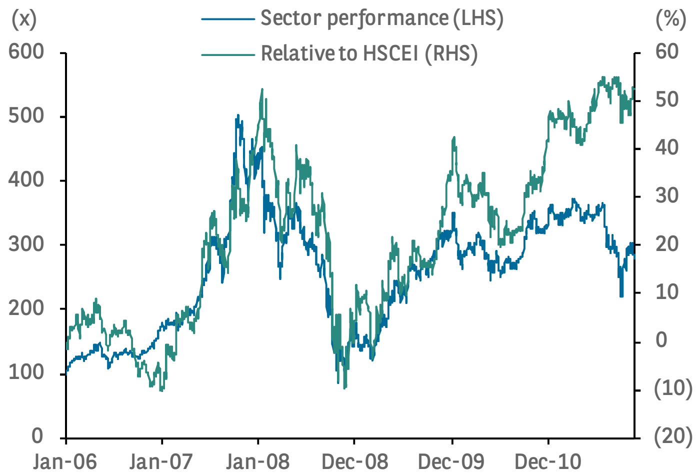
Sources: Bloomberg; BNP Paribas

EXHIBIT 62: Insurance stocks have outperformed the market index ~120% since 2006



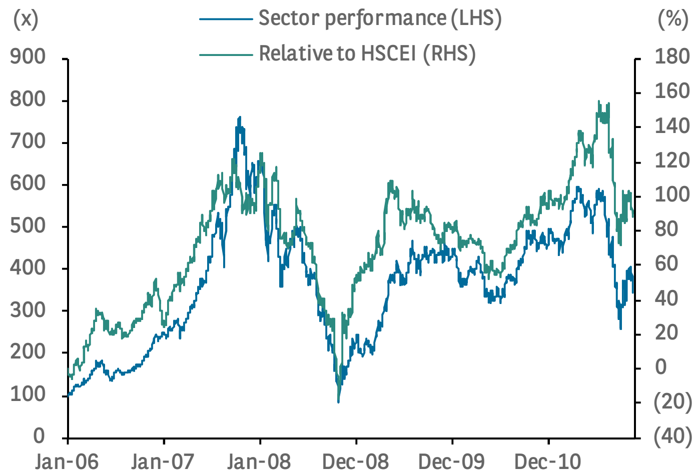
Sources: Bloomberg; BNP Paribas

EXHIBIT 63: Energy stocks have outperformed the market index ~50% since 2006



Sources: Bloomberg; BNP Paribas

EXHIBIT 64: Basic material stocks have outperformed the market index ~100% since 2006

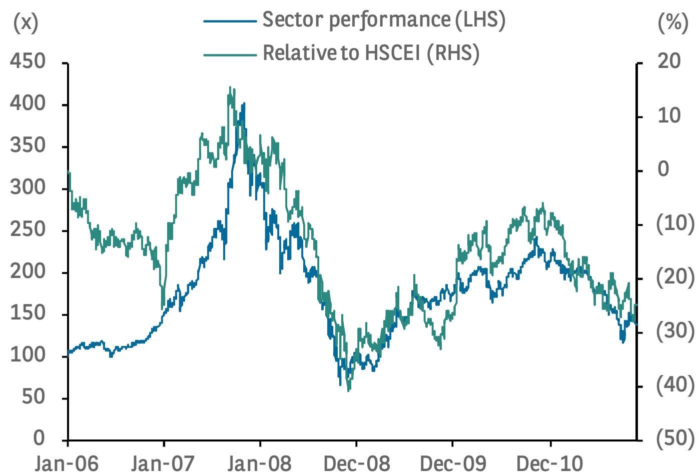


Sources: Bloomberg; BNP Paribas

EXHIBIT 65: Construction stocks have strongly outperformed the market index by over 200% since 2006

Sources: Bloomberg; BNP Paribas

EXHIBIT 66: Transportation stocks have underperformed the market index by ~30% since 2006

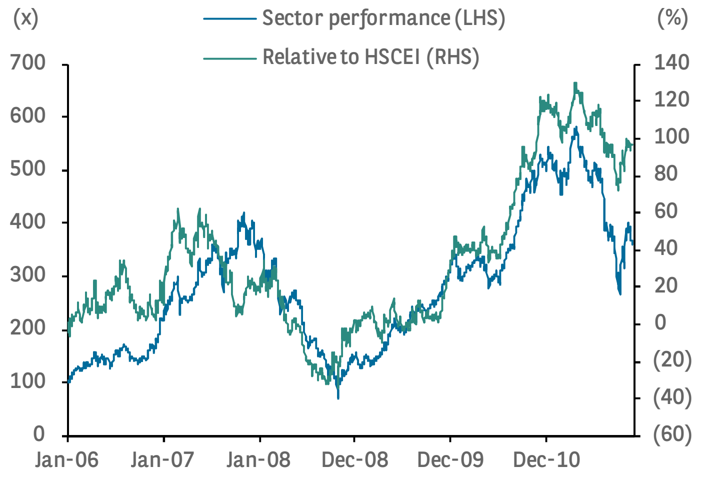


Sources: Bloomberg; BNP Paribas

EXHIBIT 67: Property stocks have traded in line with market index since 2006

Sources: Bloomberg; BNP Paribas

EXHIBIT 68: Capital goods have outperformed the market index by ~100% since 2006

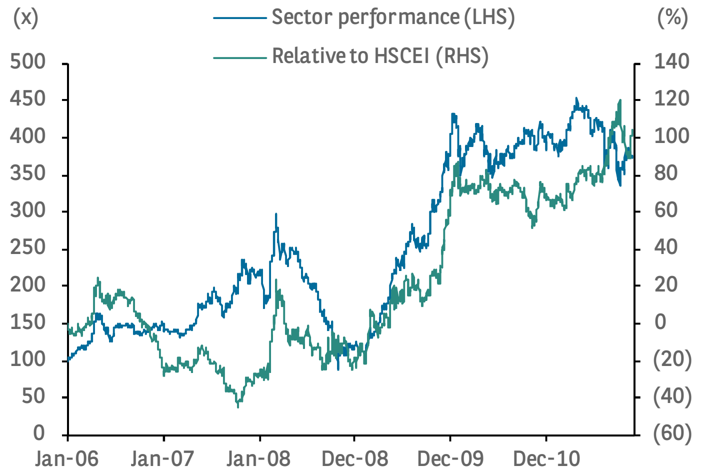


Sources: Bloomberg; BNP Paribas

EXHIBIT 69: Utility stocks have underperformed the market index by ~ 30% since 2006

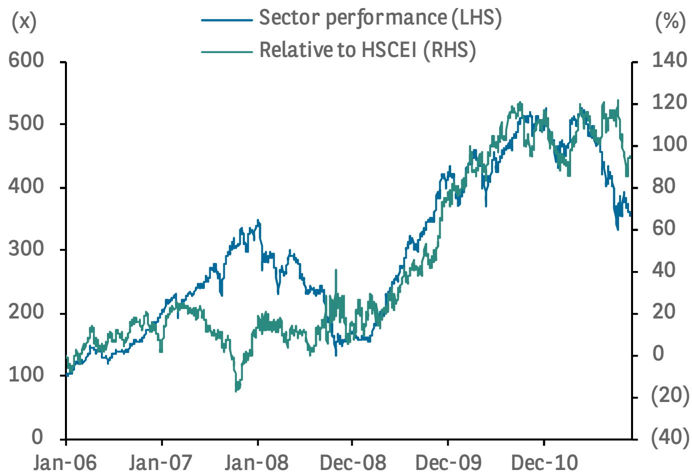
Sources: Bloomberg; BNP Paribas

EXHIBIT 70: Renewable stocks have outperformed the market index by ~100% since 2006



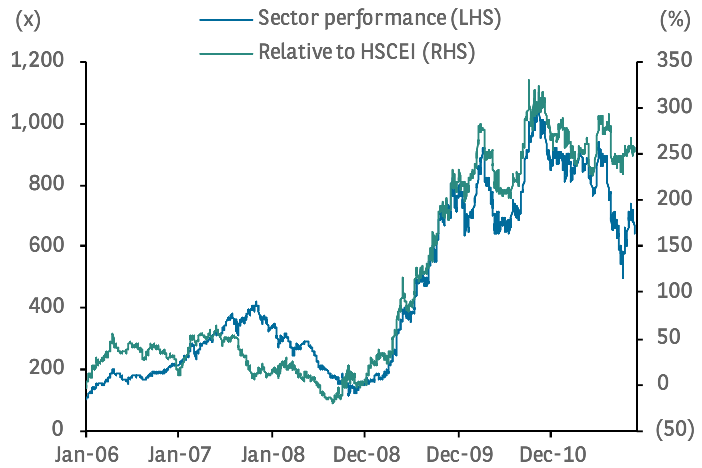
Sources: Bloomberg; BNP Paribas

EXHIBIT 71: Consumer stocks have outperformed the market index by ~100% since 2006



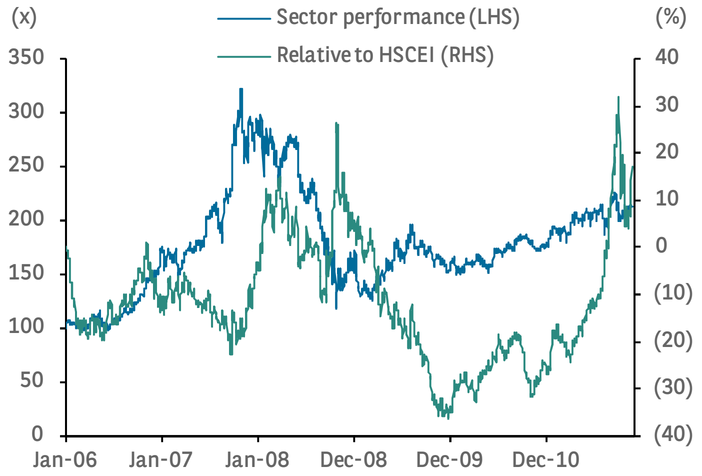
Sources: Bloomberg; BNP Paribas

EXHIBIT 72: Auto stocks have strongly outperformed the market index by ~250% since 2006



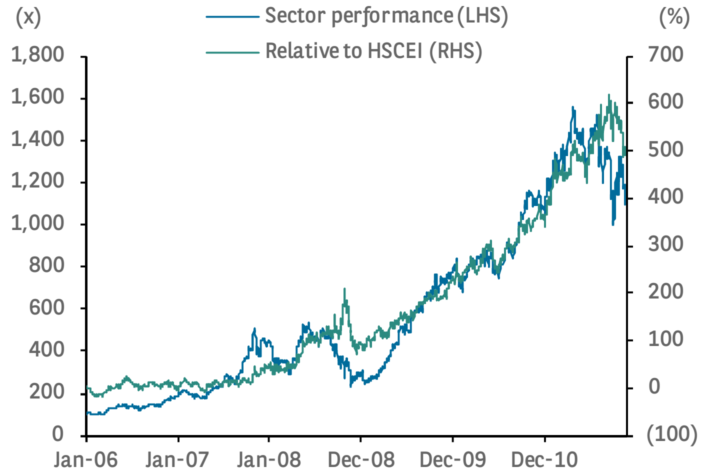
Sources: Bloomberg; BNP Paribas

EXHIBIT 73: Telecom stocks have underperformed the market index by ~20% since 2006



Sources: Bloomberg; BNP Paribas

EXHIBIT 74: Internet stocks have strongly outperformed the HSCEI index by ~500% since 2006



Sources: Bloomberg; BNP Paribas

Valuation band of 60 biggest China stocks

EXHIBIT 75: ICBC (1398 HK) forward P/BV band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 76: BOC (3988 HK) forward P/BV band chart

Sources: Bloomberg; BNP Paribas

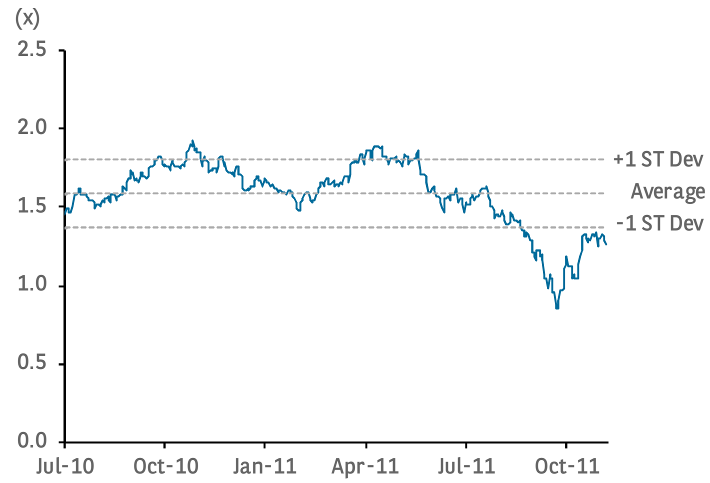
EXHIBIT 77: CCB (939 HK) forward P/BV band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 78: BoComm (3328 HK) forward P/BV band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 79: ABC (1288 HK) forward P/BV band chart



Sources: Bloomberg; BNP Paribas

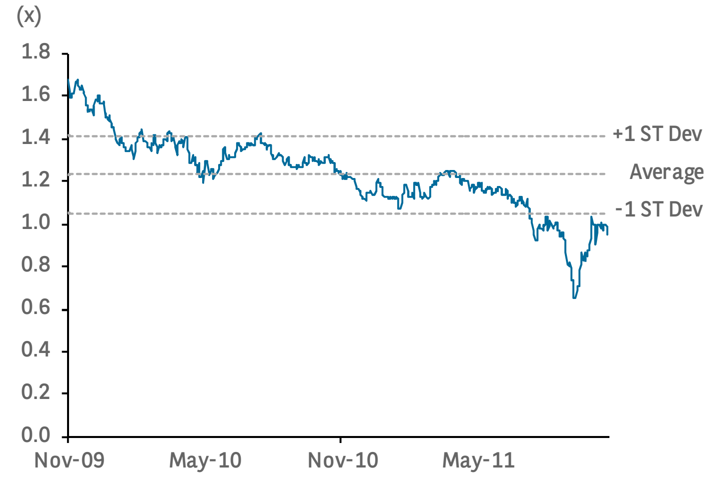
EXHIBIT 80: CMB (3968 HK) forward P/BV band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 81: China CITIC Bank (998 HK) forward P/BV band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 82: Minsheng Bank (1988 HK) forward P/BV band chart

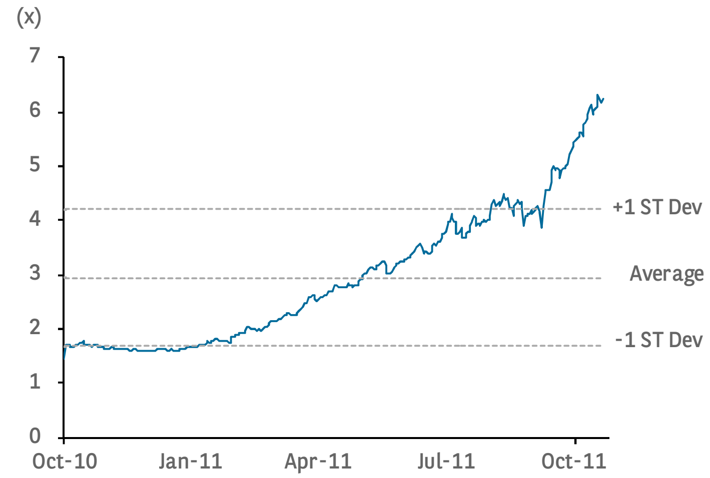


Sources: Bloomberg; BNP Paribas

EXHIBIT 83: China Life (2628 HK) forward P/BV band chart

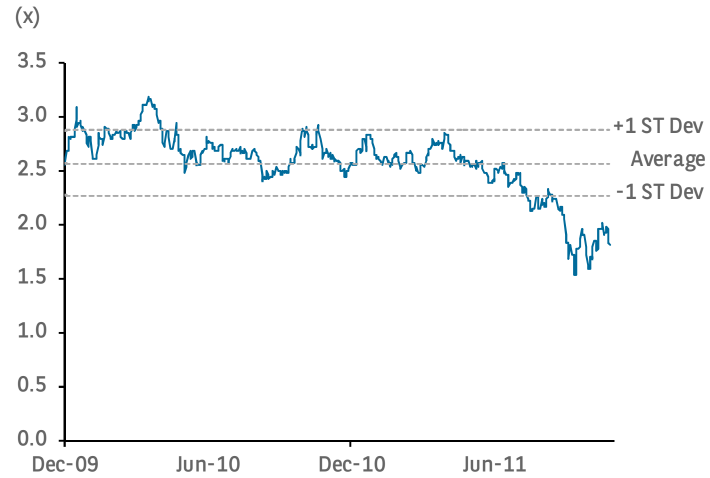
Sources: Bloomberg; BNP Paribas

EXHIBIT 84: AIA (1299 HK) forward P/BV band chart



Sources: Bloomberg; BNP Paribas

EXHIBIT 85: CPIC (2601 HK) forward P/BV band chart



Sources: Bloomberg; BNP Paribas

EXHIBIT 86: PICC (2328 HK) forward P/BV band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 87: Ping An Insurance (2318 HK) forward P/BV band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 88: Sinopec (386 HK) forward P/E band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 89: CNOOC (883 HK) forward P/E band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 90: PetroChina (857 HK) forward P/E band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 91: China Shenhua Energy (1088 HK) forward P/E band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 92: China Coal (1898 HK) forward P/E band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 93: Yanzhou Coal (1171 HK) forward P/E band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 94: Angang Steel (347 HK) forward P/BV band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 95: Anhui Conch Cement (941 HK) forward P/BV band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 96: CNBM (3323 HK) forward P/BV band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 97: Zijin Mining (2899 HK) forward P/BV band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 98: Jiangxi Copper (358 HK) forward P/BV band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 99: Chalco (2600 HK) forward P/BV band chart

Sources: Bloomberg; BNP Paribas

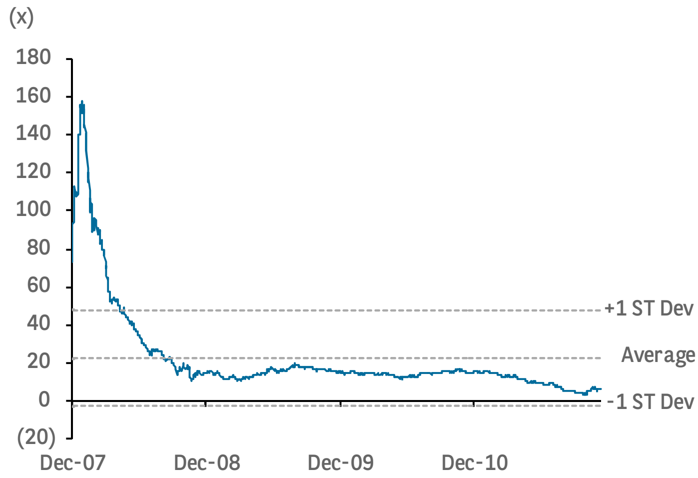
EXHIBIT 100: CCC (1800 HK) forward P/E band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 101: CRCC (1186 HK) forward P/E band chart

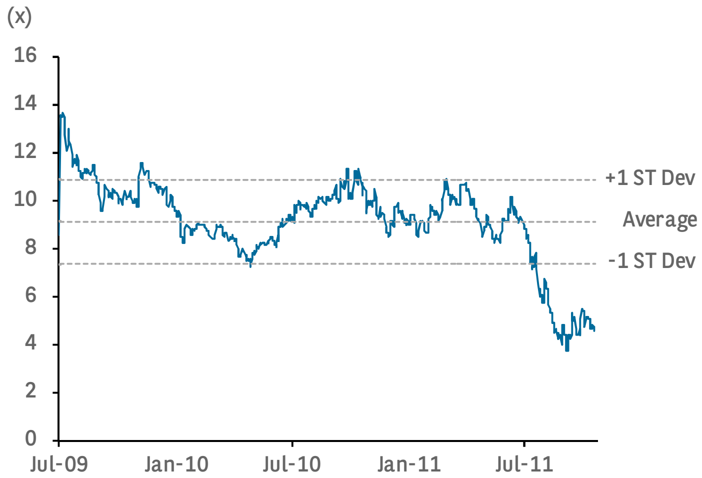
Sources: Bloomberg; BNP Paribas

EXHIBIT 102: CRG (390 HK) forward P/E band chart



Sources: Bloomberg; BNP Paribas

EXHIBIT 103: BBMG (2009 HK) forward P/E band chart



Sources: Bloomberg; BNP Paribas

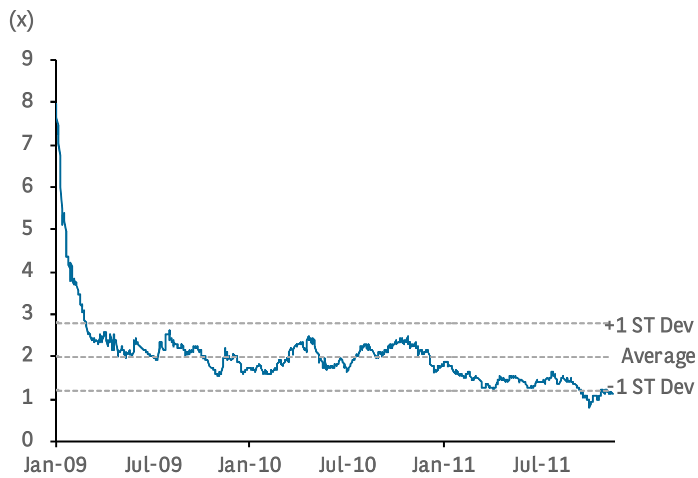
EXHIBIT 104: China COSCO (1919HK) forward P/BV band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 105: China Merchants (144 HK) forward P/BV band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 106: China Eastern Airlines (670 HK) forward P/BV band chart



Sources: Bloomberg; BNP Paribas

EXHIBIT 107: China Southern Airlines (1055 HK) forward P/BV band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 108: Air China (753 HK) forward P/BV band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 109: China Vanke (200002 CH) forward P/E band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 110: China Overseas Land (688HK) forward P/E band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 111: CR Land (1109 HK) forward P/E band chart

Sources: Bloomberg; BNP Paribas

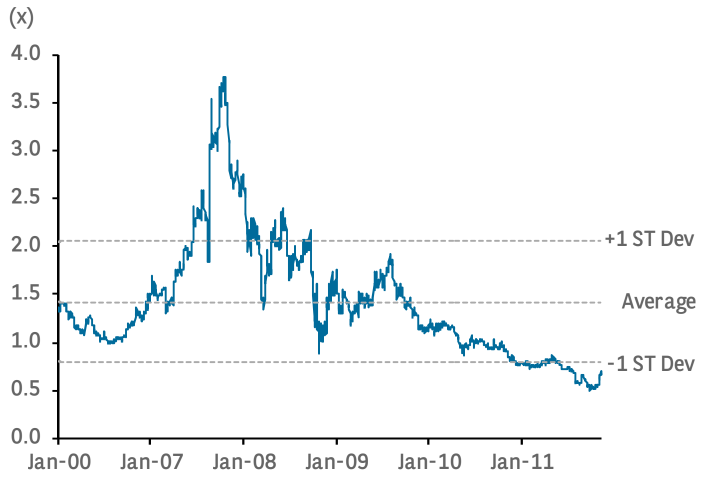
EXHIBIT 112: Huaneng Power (902 HK) forward P/BV band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 113: CR Power (836 HK) forward P/BV band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 114: Datang Int'l Power (991 HK) forward P/BV band chart



Sources: Bloomberg; BNP Paribas

EXHIBIT 115: China Longyuan (916 HK) forward P/E band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 116: Kunlun Energy (135 HK) forward P/E band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 117: HK&China Gas (3 HK) forward P/E band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 118: BYD (1211 HK) forward P/E band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 119: Guangzhou Auto (2238 HK) forward P/E band chart

Sources: Bloomberg; BNP Paribas

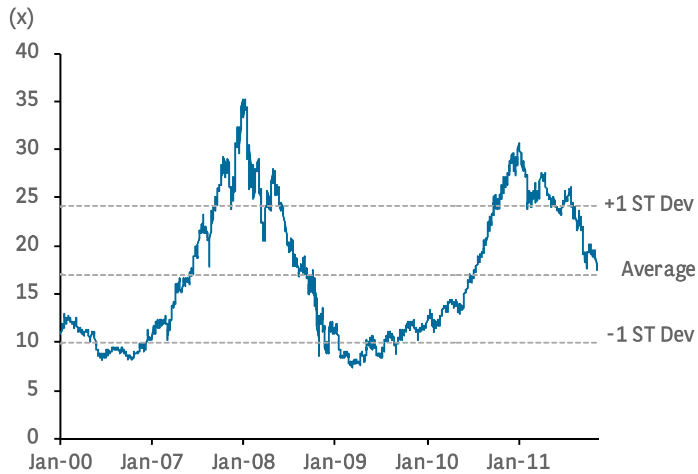
EXHIBIT 120: Dongfeng Motor (489 HK) forward P/E band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 121: Great Wall Motor (2333 HK) forward P/E band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 122: China Resources Enterprise (291 HK) forward P/E band chart



Sources: Bloomberg; BNP Paribas

EXHIBIT 123: Hengan (1044 HK) forward P/E band chart

Sources: Bloomberg; BNP Paribas

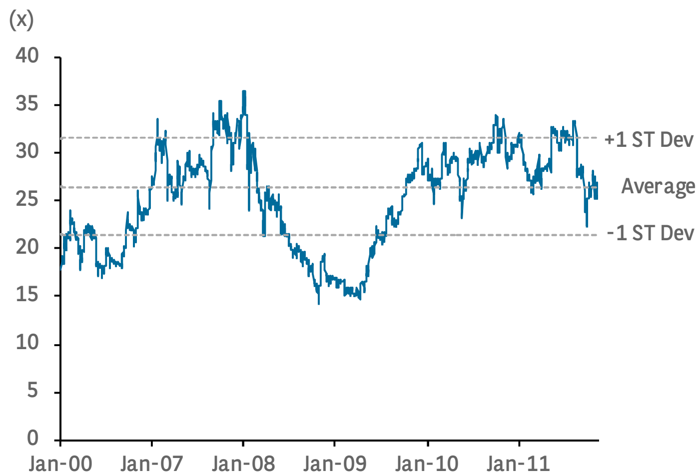
EXHIBIT 124: China Mengniu Dairy (2319 HK) forward P/E band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 125: Tsingtao Brewery (168 HK) forward P/E band chart

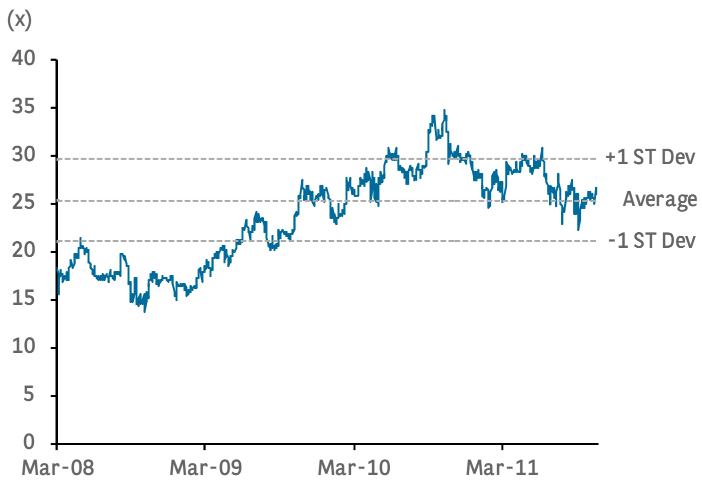
Sources: Bloomberg; BNP Paribas

EXHIBIT 126: Tingyi (322 HK) forward P/E band chart



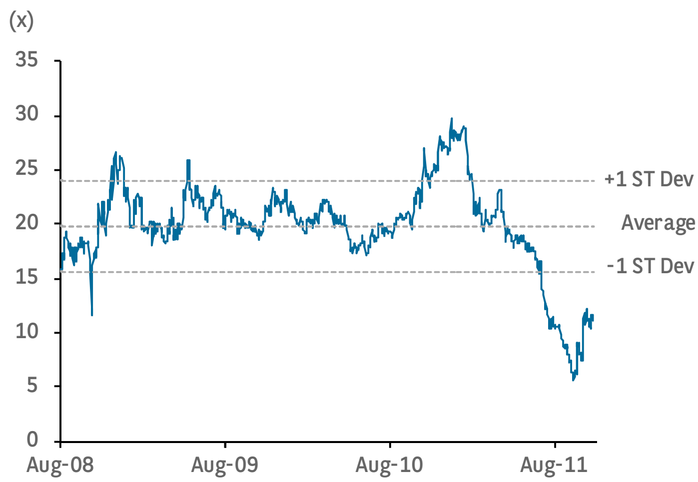
Sources: Bloomberg; BNP Paribas

EXHIBIT 127: Want Want China (151 HK) forward P/E band chart



Sources: Bloomberg; BNP Paribas

EXHIBIT 128: CSR (1766 HK) forward P/E band chart



Sources: Bloomberg; BNP Paribas

EXHIBIT 129: China Mobile (941 HK) forward P/E band chart

Sources: Bloomberg; BNP Paribas

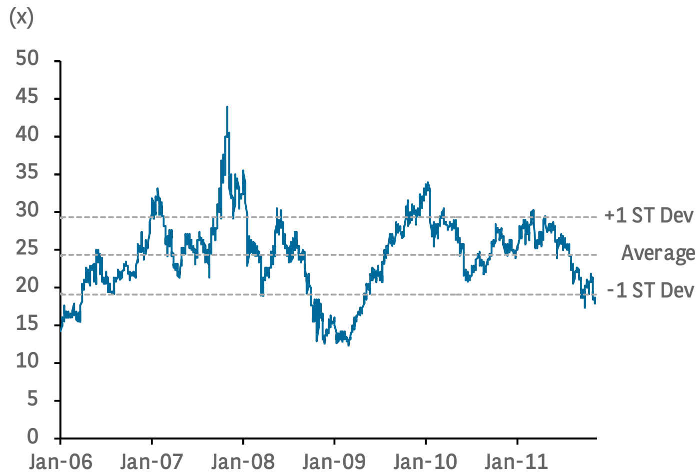
EXHIBIT 130: China Telecom (728 HK) forward P/BV band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 131: China Unicom (762 HK) forward P/E band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 132: Tencent (700 HK) forward P/E band chart



Sources: Bloomberg; BNP Paribas

EXHIBIT 133: Baidu (BIDU US) forward P/E band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 134: Sina (SINA US) forward P/BV band chart

Sources: Bloomberg; BNP Paribas

EXHIBIT 135: China stock valuation table

Company	BBG code	Market cap (USD m)	3-mth daily t/o (USD m)	Share price (LC)	Price performance 1M (%)	3M (%)	6M (%)	- EPS growth - '11E (%)	'12E (%)	------------- P/E ------------- 1-yr min (x)	1-yr max (x)	'11E (x)	'12E (x)	-- P/BV -- '11E (x)	'12E (x)	-- Yield -- '11E (%)	'12E (%)	--- ROE --- '11E (%)	'12E (%)	Beta Rel to MSCI AP (ex-JP) (x)
Financials																				
ICBC	1398 HK	223,644	238.6	4.19	(2.5)	(10.1)	(31.3)	22.3	10.9	5.4	11.1	7.1	6.4	1.5	1.3	5.3	5.7	23.2	22.2	1.08
BOC	3988 HK	114,560	155.8	2.38	(14.6)	(20.3)	(42.7)	11.3	8.1	4.8	10.2	5.5	5.1	0.9	0.8	6.7	7.0	17.8	17.4	0.95
BoComm	3328 HK	42,028	23.1	4.85	(0.8)	(10.6)	(31.5)	21.5	7.1	4.9	9.6	6.0	5.6	1.1	1.0	3.8	4.0	19.7	18.4	1.06
CCB	939 HK	169,101	334.5	5.20	(1.5)	2.7	(26.1)	20.7	12.0	6.0	10.9	7.7	6.9	1.6	1.4	4.9	5.3	22.3	21.6	0.99
ABC	1288 HK	130,816	101.6	3.08	3.3	(17.0)	(30.8)	20.3	15.6	5.1	11.7	7.8	6.7	1.6	1.4	4.4	5.2	21.8	21.7	1.21
CMB	3968 HK	39,114	53.8	13.66	(3.8)	(9.7)	(27.2)	29.5	7.3	5.9	13.5	8.6	8.0	1.8	1.5	2.6	2.8	22.9	20.8	1.25
China CITIC Bank	998 HK	28,889	21.8	4.07	9.6	1.0	(21.5)	21.1	3.6	4.4	8.6	6.3	6.1	1.1	1.0	3.7	3.8	19.5	17.3	1.21
Minsheng Bank	1988 HK	24,018	29.4	6.00	1.2	(4.4)	(16.3)	41.4	6.6	4.3	8.1	6.4	6.0	1.3	1.1	2.4	2.5	21.2	19.3	0.94
China Life	2628 HK	76,505	144.5	19.50	9.4	(2.6)	(24.8)	(22.0)	34.1	14.6	35.4	21.0	15.7	2.6	2.3	1.5	1.8	12.9	15.8	0.91
AIA	1299 HK	36,545	113.9	23.15	(0.6)	(7.4)	(9.4)	(21.8)	24.4	97.3	153.3	134.6	108.2	13.1	11.8	0.2	0.2	9.9	11.4	0.72
CPIC	2601 HK	25,298	32.8	22.60	0.7	(20.4)	(29.3)	21.2	24.1	13.8	27.5	18.6	15.0	2.3	2.0	1.7	2.0	12.7	14.3	0.94
PICC	2328 HK	14,724	35.8	10.04	(4.1)	(15.8)	(5.5)	68.8	14.8	8.4	17.4	12.7	11.1	3.4	2.7	2.1	1.6	29.3	25.1	1.13
Ping An Insurance	2318 HK	48,218	130.2	51.40	1.3	(15.8)	(34.8)	16.5	31.0	11.3	35.5	19.2	14.6	3.0	2.5	0.9	1.2	17.0	18.8	1.16
CNInsure	CISG US	291	4.5	5.81	(25.3)	(52.4)	(63.2)	0.5	(11.5)	4.2	16.1	4.2	4.7	0.5	0.5	5.4	5.7	14.8	13.2	0.90
CITIC Securities	6030 HK	19,403	na	13.70	1.3	na	na	na	(34.9)	94.8	144.1	82.8	127.2	10.9	10.4	0.5	0.3	14.5	8.4	1.61
Energy																				
Sinopec	386 HK	97,245	96.9	8.03	10.0	16.4	9.7	5.9	7.6	6.8	10.1	9.2	8.5	1.5	1.3	2.7	2.9	16.9	15.9	0.80
CNOOC	883 HK	79,547	154.0	13.90	1.5	(2.4)	(23.1)	26.9	(5.2)	7.5	13.9	9.0	9.5	2.4	2.0	3.7	3.5	28.3	22.7	1.12
PetroChina	857 HK	272,709	116.4	9.58	(2.1)	2.2	(7.5)	3.4	8.9	10.3	15.6	12.2	11.2	1.7	1.6	3.6	3.9	14.5	14.3	0.97
China Shenhua	1088 HK	80,759	78.5	32.60	(2.8)	3.3	(7.7)	18.9	13.6	10.8	16.5	14.3	12.6	2.8	2.4	2.6	2.9	20.7	20.1	1.05
China Coal	1898 HK	18,125	40.2	8.98	4.2	(8.2)	(7.9)	32.3	16.1	7.9	17.8	12.1	10.4	1.5	1.3	2.2	2.6	12.4	13.0	1.28
Yanzhou Coal	1171 HK	16,782	66.0	17.68	(4.2)	(11.4)	(39.7)	(0.2)	6.0	7.0	17.1	9.4	8.8	2.0	1.8	3.2	3.4	22.8	20.5	1.34
MMC	975 HK	2,871	2.7	6.14	(11.2)	(28.3)	(34.6)	104.2	123.1	65.5	282.5	157.4	70.6	25.4	18.5	0.0	0.0	17.0	31.9	0.68
SouthGobi	1878 HK	1,157	0.5	50.50	(15.0)	(30.8)	(44.8)	(103.6)	1,416.7	152.5	2,073.7	2,104.2	138.7	13.8	12.3	0.0	0.0	1.9	6.4	1.15
Basic materials																				
Angang Steel	347 HK	5,499	9.5	4.53	2.4	(22.1)	(46.7)	(69.0)	118.2	20.8	134.0	51.5	23.6	0.6	0.6	1.5	2.5	1.6	2.7	1.36
Maanshan Steel	323 HK	3,118	5.8	2.09	3.8	(19.6)	(43.5)	(52.4)	79.4	13.2	65.4	30.7	17.1	0.6	0.6	1.4	2.3	2.3	3.7	1.31
Nine Dragons Paper	2689 HK	2,973	7.5	5.02	1.2	(8.5)	(31.9)	5.7	23.5	5.7	29.1	11.2	9.1	1.1	0.9	1.9	2.4	10.2	11.6	1.55
Lee & Man Paper	2314 HK	1,751	2.9	2.90	8.6	(20.1)	(40.7)	(14.8)	20.5	5.6	18.5	8.5	7.0	1.0	1.0	3.8	4.4	12.9	14.8	1.43
ACC	914 HK	14,498	80.5	23.25	0.4	(20.4)	(24.0)	101.2	4.7	7.4	17.2	10.0	9.5	2.7	2.2	1.8	2.0	30.3	24.2	1.38
Asia Cement	743 HK	685	2.3	3.32	(3.4)	(34.3)	(38.2)	149.7	1.7	3.4	8.8	4.0	4.0	0.6	0.6	7.5	8.0	15.4	15.0	1.10
CNBM	3323 HK	6,442	104.8	9.00	14.3	(22.4)	(36.4)	118.9	1.2	3.8	12.0	6.2	6.1	1.8	1.4	1.8	1.8	31.7	24.2	1.60
CR Cement	1313 HK	4,868	13.5	5.59	5.1	(10.9)	(19.3)	121.1	21.5	5.1	11.3	8.1	6.6	1.9	1.5	1.8	2.2	27.4	26.0	1.24
Sinoma	1893 HK	1,489	5.6	3.20	(4.1)	(16.7)	(53.0)	51.1	16.3	4.5	17.8	6.9	6.0	1.0	0.9	2.5	2.9	15.8	15.1	1.36
TCC Int'l	1136 HK	1,226	2.5	2.85	(14.7)	(22.3)	(30.0)	115.8	21.5	3.6	8.2	4.6	3.8	0.7	0.6	4.2	4.9	17.2	18.8	1.31
Shanshui Cement	691 HK	2,092	9.9	5.79	10.5	(18.6)	(27.4)	172.9	6.2	4.3	10.4	6.1	5.7	2.1	1.6	4.6	5.1	38.3	31.4	1.34
Zijin Mining	2899 HK	13,174	17.9	3.08	2.3	(14.1)	(13.4)	33.6	23.5	5.6	18.1	10.5	8.5	2.4	2.0	2.7	3.4	25.0	24.3	1.28
Jiangxi Copper	358 HK	11,387	53.6	16.66	2.4	(13.1)	(29.7)	34.9	3.9	5.1	13.0	7.8	7.5	1.4	1.3	1.9	2.0	19.8	17.9	1.56
Chalco	2600 HK	13,868	19.1	3.49	(6.8)	(31.1)	(46.4)	65.0	17.2	28.6	82.5	35.3	30.1	0.9	0.8	0.5	1.0	2.9	4.0	1.40
China Hongqiao	1378 HK	2,937	0.3	3.90	1.8	(31.3)	(49.2)	21.4	21.2	2.9	7.8	3.8	3.2	1.2	0.9	3.4	7.9	43.1	32.5	1.04
China Molybden	3993 HK	2,121	2.2	3.35	1.8	(15.7)	(48.3)	25.0	14.4	9.5	31.4	13.4	11.7	1.4	1.3	3.8	3.6	10.6	11.5	1.35
Hunan Nonferrous	2626 HK	924	2.3	1.92	(6.7)	(8.9)	(33.4)	na	11.0	3.4	11.0	5.3	4.8	0.6	0.5	7.3	8.0	10.7	10.9	1.02

(continued on next page)

EXHIBIT 135: China stock valuation table (cont'd)

	BBG	Market	3-mth	Share	Price performance			- EPS growth -		------------P/E ------------				-- P/BV --		-- Yield --		--- ROE ---		Beta Rel to MSCI AP
Company	code	cap	daily t/o	price	1M	3M	6M	'11E	'12E	1-yr min	1-yr max	'11E	'12E	'11E	'12E	'11E	'12E	'11E	'12E	(ex-JP)
		(USD m)	(USD m)	(LC)	(%)	(%)	(%)	(%)	(%)	(x)	(x)	(x)	(x)	(x)	(x)	(%)	(%)	(%)	(%)	(x)
Construction																				
CCC	1800 HK	10,309	13.8	5.42	6.3	6.9	(21.1)	11.5	7.8	5.3	10.1	7.3	6.7	1.2	1.0	3.3	3.6	16.8	16.5	1.11
CRCC	1186 HK	8,443	9.9	4.41	5.7	23.3	(34.8)	76.4	8.1	4.8	18.4	7.3	6.7	0.9	0.8	3.5	3.9	13.0	12.7	1.13
CRG	390 HK	9,296	14.1	2.31	(0.8)	9.9	(40.0)	(12.2)	11.7	4.3	19.4	7.5	6.7	0.7	0.6	2.5	2.9	10.1	10.3	1.39
China State Constr	3311 HK	2,342	7.5	4.90	(12.1)	(11.6)	(35.6)	25.5	31.5	6.5	18.6	11.6	8.8	1.9	1.7	2.5	3.2	19.9	20.6	1.24
BBMG	2009 HK	5,548	13.6	5.60	(7.9)	(27.7)	(47.0)	34.3	19.3	4.5	14.1	6.0	5.0	1.2	1.0	2.1	2.6	21.1	20.0	1.30
Transport																				
China COSCO	1919 HK	8,536	10.1	3.31	(20.3)	(16.3)	(51.8)	(167.8)	(80.4)	(15.8)	(26.7)	(7.3)	(37.2)	0.8	0.8	0.2	0.7	(10.5)	(2.7)	1.28
CSCL	2866 HK	4,233	6.9	1.29	(10.9)	(30.3)	(56.2)	(148.3)	(78.7)	(14.1)	(32.3)	(7.4)	(34.9)	0.6	0.6	0.0	0.2	(7.7)	(2.8)	1.29
China Shipping Dev	1138 HK	3,012	7.6	4.58	(29.5)	(18.9)	(41.8)	(33.4)	29.2	10.6	30.6	13.6	10.6	0.7	0.6	2.3	2.8	4.8	5.6	1.23
Pacific Basin Shipping	2343 HK	812	1.9	3.38	(7.9)	(7.9)	(29.1)	(68.6)	64.7	110.7	213.9	198.8	120.7	4.2	4.1	0.3	0.4	2.3	3.6	1.15
SITC Int'l	1308 HK	564	1.1	1.67	(12.9)	(30.7)	(61.4)	(11.8)	18.4	34.2	146.6	43.9	37.1	6.6	5.9	0.7	0.9	16.7	18.4	1.30
OOIL	316 HK	2,734	4.8	34.60	(3.0)	(9.8)	(44.6)	(91.1)	19.2	93.5	255.2	130.1	109.1	5.0	4.8	0.2	0.3	3.5	4.6	1.04
Sinotrans	598 HK	763	0.3	1.40	(17.6)	(4.1)	(26.3)	12.0	19.0	7.0	15.0	8.3	7.0	0.6	0.6	3.5	4.2	7.1	8.1	0.80
COSCO Pacific	1199 HK	3,041	10.6	8.70	(15.0)	(15.0)	(41.4)	5.9	0.7	49.9	114.3	58.0	57.6	6.6	6.2	0.7	0.7	11.9	11.3	1.38
China Merchants	144 HK	6,817	16.5	21.15	(6.5)	(6.1)	(35.0)	(10.7)	(9.5)	9.6	17.8	9.9	10.9	1.2	1.2	4.8	4.2	13.1	11.0	1.18
Dalian Port	2880 HK	1,812	0.5	1.86	6.3	(9.3)	(35.3)	(12.3)	13.0	7.1	17.9	9.6	8.5	0.6	0.6	4.2	4.8	6.7	7.3	1.08
Anhui Expressway	995 HK	1,104	0.6	4.51	(6.7)	(1.1)	(30.3)	13.7	10.0	6.2	13.6	8.3	7.6	1.2	1.1	5.5	6.0	15.0	15.1	0.92
Guangshen Railway	525 HK	3,420	1.3	2.70	3.1	(2.6)	(15.8)	20.5	0.8	8.5	13.4	10.7	10.6	0.8	0.7	4.0	4.0	7.2	7.3	0.86
Jiangsu Expressway	177 HK	4,611	3.8	6.91	9.0	4.7	(12.8)	3.4	9.7	9.1	18.4	13.4	12.2	2.0	1.9	5.4	5.8	15.9	16.1	0.73
Sichuan Expressway	107 HK	1,815	0.7	3.03	(7.9)	(7.0)	(31.3)	5.1	10.4	6.0	14.5	7.7	7.0	1.0	0.9	4.0	4.5	14.0	13.9	0.84
Zhejiang Expressway	576 HK	2,708	3.0	4.68	1.2	(4.3)	(20.6)	(0.7)	4.4	9.3	18.4	10.9	10.5	1.3	1.3	6.5	6.8	12.6	12.3	0.86
China Eastern Airlines	670 HK	6,735	4.9	2.91	3.2	(20.9)	(16.4)	(3.6)	(5.4)	5.2	10.9	6.9	7.3	1.6	1.3	0.4	0.7	25.6	19.9	1.13
China Southern Airlines	1055 HK	7,705	11.5	3.80	(14.0)	(26.3)	(8.2)	(20.0)	(10.2)	5.6	9.6	6.8	7.6	1.2	1.0	0.3	0.3	18.6	13.3	1.12
Air China	753 HK	12,649	12.3	5.61	(3.8)	(25.6)	(28.3)	(30.0)	(3.6)	6.9	13.2	7.8	8.1	1.4	1.2	1.9	1.8	18.7	15.4	1.21
Beijing Capital Int'l Airport	694 HK	1,956	1.5	3.54	6.3	(4.6)	(3.8)	60.0	21.0	10.8	22.6	15.8	13.1	1.1	1.0	2.5	3.0	7.0	7.9	0.85
TravelSky	696 HK	1,472	1.3	3.86	12.3	(2.5)	(17.8)	15.1	8.5	8.6	16.9	10.9	10.1	1.5	1.4	3.3	3.5	14.5	14.2	0.97

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EXHIBIT 135: China stock valuation table (cont'd)

	BBG	Market	3-mth	Share	Price performance			- EPS growth -		------------P/E ------------				-- P/BV --		-- Yield --		--- ROE ---		Beta Rel to MSCI AP
Company	code	cap	daily t/o	price	1M	3M	6M	'11E	'12E	1-yr min	1-yr max	'11E	'12E	'11E	'12E	'11E	'12E	'11E	'12E	(ex-JP)
		(USD m)	(USD m)	(LC)	(%)	(%)	(%)	(%)	(%)	(x)	(x)	(x)	(x)	(x)	(x)	(%)	(%)	(%)	(%)	(x)
Property																				
Agile Prop	3383 HK	2,315	17.5	4.82	(12.2)	(46.3)	(58.7)	(27.3)	15.3	3.0	11.3	3.9	3.4	0.7	0.6	6.7	7.7	21.1	20.7	1.50
BJ Capital Land	2868 HK	462	0.5	1.70	6.7	(15.5)	(32.2)	19.9	5.5	2.2	5.8	3.1	3.0	0.6	0.5	9.8	10.8	18.2	15.9	1.33
C C Land	1224 HK	486	1.4	1.37	(7.5)	(26.2)	(46.6)	86.2	92.1	3.1	18.5	7.2	3.8	0.3	0.3	3.1	4.5	3.9	7.1	1.53
Central China	832 HK	486	0.2	1.56	(6.0)	(13.8)	(26.3)	47.9	17.8	3.0	6.8	4.0	3.4	0.8	0.7	7.0	7.9	20.6	21.0	0.97
China Vanke	200002 CH	12,044	3.9	7.22	(1.1)	(22.3)	(25.8)	33.8	26.2	5.7	12.9	8.2	6.5	1.5	1.3	1.7	2.1	19.0	19.3	1.08
COLI	688 HK	12,624	69.9	11.70	(8.0)	(19.4)	(22.9)	2.9	11.9	5.9	11.0	7.5	6.7	1.5	1.3	2.7	2.9	20.7	19.8	1.15
Country Garden	2007 HK	5,720	7.8	2.46	(0.4)	(16.6)	(17.3)	19.7	24.5	5.2	12.3	7.9	6.4	1.4	1.2	4.3	5.2	19.6	20.2	1.47
CR Land	1109 HK	7,804	25.9	10.18	2.0	(13.1)	(22.8)	(11.4)	15.6	6.1	14.9	9.6	8.3	1.1	1.0	3.1	3.6	11.6	12.5	1.22
Evergrande	3333 HK	5,656	38.9	2.83	2.8	(32.6)	(47.8)	20.6	24.3	2.9	9.6	4.6	3.7	1.4	1.1	5.1	6.1	35.4	32.3	1.64
Franshion	817 HK	1,798	2.3	1.52	(1.3)	(8.9)	(36.0)	1.1	32.8	4.6	13.5	8.0	6.1	0.6	0.5	2.5	3.4	8.0	9.5	0.88
Glorious Property	845 HK	1,130	2.9	1.11	2.7	(24.2)	(49.3)	(36.5)	22.6	2.8	9.3	3.8	3.1	0.5	0.4	3.0	4.2	14.4	14.9	1.20
Greentown	3900 HK	852	1.1	3.85	1.3	(31.4)	(50.5)	38.5	35.7	1.9	8.4	3.0	2.2	0.5	0.4	7.9	9.9	19.3	22.3	1.30
Guangzhou R&F	2777 HK	2,501	9.6	5.95	(8.6)	(30.8)	(41.1)	4.4	10.6	3.6	9.0	4.2	3.8	0.9	0.7	8.7	9.3	21.4	20.9	1.39
Guangzhou Investment	123 HK	1,275	2.1	1.04	(7.0)	(16.4)	(31.8)	78.3	(2.3)	4.4	10.8	4.7	4.9	0.5	0.5	5.1	5.6	11.9	10.5	1.18
Hopson Dev	754 HK	958	1.1	4.17	(9.7)	(28.0)	(38.5)	(62.7)	4.2	2.8	5.9	3.3	3.1	0.2	0.2	3.7	4.1	5.4	5.8	1.18
KWG Prop	1813 HK	906	5.1	2.33	(15.6)	(45.9)	(53.0)	40.2	24.8	3.0	12.2	3.8	3.0	0.5	0.4	5.7	7.2	14.7	16.1	1.40
Longfor	817 HK	1,798	2.3	1.52	(1.3)	(8.9)	(36.0)	1.1	32.8	4.6	13.5	8.0	6.1	0.6	0.5	2.5	3.4	8.0	9.5	0.88
Mingfa	846 HK	1,571	0.9	2.06	(9.4)	(19.2)	(17.6)	(20.5)	41.9	9.5	15.4	13.3	9.4	2.0	1.8	3.8	4.8	16.0	20.0	0.60
Minmetals Land	230 HK	338	0.4	0.78	(15.1)	(26.2)	(39.7)	(9.6)	86.7	2.2	9.8	4.5	2.4	0.4	0.3	2.1	2.9	8.1	13.7	1.29
Poly HK	119 HK	1,398	9.4	2.91	(3.8)	(33.2)	(47.0)	(8.1)	29.4	3.4	16.0	5.7	4.4	0.4	0.4	3.4	4.2	8.2	9.8	1.45
SPG Land	337 HK	200	0.1	1.48	(3.9)	(20.9)	(53.9)	(9.7)	6.3	1.6	5.8	1.9	1.8	0.3	0.3	5.8	6.7	17.2	16.1	1.21
Shenzhen Investment	604 HK	651	0.9	1.37	(12.5)	(23.9)	(41.7)	(15.9)	(3.8)	3.9	8.8	4.3	4.5	0.3	0.3	10.7	10.4	9.7	9.5	1.17
Shimao Prop	813 HK	2,665	16.0	5.59	(11.4)	(24.0)	(42.4)	(6.0)	10.8	4.0	10.8	4.5	4.1	0.7	0.6	6.8	7.2	15.5	15.5	1.42
Shui On Land	272 HK	1,424	2.8	2.10	(3.6)	(26.0)	(37.2)	(55.5)	23.3	5.9	13.0	8.6	7.0	0.4	0.4	4.1	4.6	5.0	6.1	1.18
Sino(Ocean Land	3377 HK	2,084	3.9	2.72	(10.6)	(18.7)	(30.7)	1.4	20.5	4.3	12.7	6.2	5.1	0.5	0.4	4.4	5.3	8.1	9.1	1.26
SOHO China	410 HK	3,362	6.6	4.91	(0.4)	(22.3)	(25.6)	(54.4)	159.4	6.5	16.4	15.3	5.9	1.3	1.1	4.7	6.1	7.3	19.8	0.97
Utilities & renewables																				
Huaneng Power	902 HK	10,154	6.5	3.99	21.9	21.2	(6.3)	(43.9)	45.9	14.2	29.3	25.4	17.4	1.0	1.0	2.5	3.5	4.3	5.9	0.69
Huadian Power	1071 HK	2,956	0.6	1.44	26.7	21.5	(14.0)	(176.0)	(342.1)	32.0	(136.6)	(75.8)	31.3	0.6	0.6	0.4	1.2	(0.5)	1.8	0.83
CR Power	836 HK	8,981	9.9	14.08	10.5	13.5	(1.9)	7.0	19.1	8.5	14.2	12.5	10.5	1.4	1.3	2.6	3.2	11.6	12.6	0.54
Datang Int'l Power	991 HK	8,727	5.5	2.46	32.5	28.5	(9.8)	(29.5)	29.7	9.9	20.6	16.6	12.8	0.9	0.8	2.2	2.8	5.7	6.6	0.90
China Longyuan	916 HK	5,382	8.5	5.53	(12.7)	(11.6)	(30.8)	31.3	24.2	12.4	23.4	15.6	12.5	1.6	1.5	1.2	1.4	10.6	11.7	1.00
Datang Renewable	1798 HK	1,262	0.5	1.35	15.4	(18.2)	(41.0)	32.7	35.3	7.1	20.1	11.3	8.4	1.0	1.0	1.2	1.6	9.4	11.3	1.03
Kunlun Energy	135 HK	6,590	17.4	10.30	(4.3)	0.4	(18.5)	51.6	22.6	13.7	19.4	13.9	11.3	1.9	1.7	1.7	2.1	18.9	16.7	0.93
HK&China Gas	3 HK	17,941	15.4	17.72	0.8	(0.1)	1.3	7.2	8.8	20.2	24.9	23.4	21.5	3.4	3.1	2.0	2.2	14.8	14.6	0.58
ENN Energy	2688 HK	3,473	6.0	25.50	(5.0)	5.1	(4.5)	24.9	21.3	15.5	23.1	21.2	17.4	3.8	3.2	1.3	1.7	18.6	19.3	0.82
CR Gas	1193 HK	2,955	6.0	11.58	5.3	2.5	10.3	14.9	22.7	15.8	19.5	19.8	16.1	3.0	2.6	1.1	1.4	17.0	17.6	0.79

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EXHIBIT 135: China stock valuation table (cont'd)

Company	BBG code	Market cap (USD m)	3-mth daily t/o (USD m)	Share price (LC)	Price performance 1M (%)	3M (%)	6M (%)	- EPS growth - '11E (%)	'12E (%)	------------P/E ------------ 1-yr min (x)	1-yr max (x)	'11E (x)	'12E (x)	-- P/BV -- '11E (x)	'12E (x)	-- Yield -- '11E (%)	'12E (%)	--- ROE --- '11E (%)	'12E (%)	Beta Rel to MSCI AP (ex-JP) (x)
Auto																				
Brilliance China Auto	1114 HK	5,257	24.3	8.00	5.9	(3.2)	9.9	43.4	34.2	11.1	27.4	21.9	16.3	4.9	3.8	0.1	0.2	25.3	26.4	1.23
BYD	1211 HK	8,034	12.8	17.26	26.2	26.7	(27.3)	(54.1)	38.7	16.7	67.0	33.9	24.4	1.9	1.8	0.3	0.4	6.2	8.0	1.26
Guangzhou Auto	2238 HK	5,419	8.1	6.73	(13.0)	(13.5)	(21.6)	(27.4)	20.8	8.4	16.6	10.1	8.3	1.4	1.2	2.1	2.6	15.1	16.0	0.84
Dongfeng Motor	489 HK	12,536	30.8	11.34	(10.3)	(4.4)	(14.9)	(1.7)	9.3	6.6	13.1	9.1	8.3	2.1	1.7	1.5	1.6	25.0	22.2	1.24
Great Wall Motor	2333 HK	4,877	11.6	10.22	6.2	2.9	(20.9)	19.5	16.4	6.0	12.9	8.6	7.4	1.9	1.6	2.0	2.4	25.2	22.7	1.11
Minth Group	425 HK	1,026	2.7	7.50	(12.4)	(15.2)	(29.9)	5.1	16.2	6.6	17.0	9.1	7.9	1.3	1.2	3.0	3.4	15.0	15.4	0.98
Xinyi Glass	868 HK	1,956	14.0	4.00	(5.0)	(7.6)	(47.5)	20.4	23.6	4.4	18.2	7.5	6.1	1.8	1.6	6.5	8.0	24.3	25.8	1.37
Geely Auto	175 HK	1,713	7.7	1.81	(9.6)	(15.6)	(40.9)	2.7	16.2	6.6	23.8	9.5	8.2	1.4	1.2	1.5	1.7	16.7	16.4	1.21
Zhongsheng Group	881 HK	3,173	4.5	12.98	0.2	4.3	(14.2)	32.1	47.8	9.2	24.5	17.5	11.9	3.4	2.7	1.2	1.8	20.6	24.2	0.90
China ZhengTong	1728 HK	2,295	8.9	8.00	10.3	(5.9)	(2.8)	86.7	90.2	9.6	27.8	23.8	12.5	2.5	2.1	0.3	0.6	13.6	19.6	1.17
Consumer																				
Golden Eagle Retail	3308 HK	4,071	12.2	16.58	(9.3)	(8.2)	(20.8)	26.7	27.8	16.4	43.2	26.5	20.7	7.2	5.8	1.2	1.5	30.0	31.1	1.09
GOME Electrical	493 HK	4,308	33.8	1.99	(12.3)	(39.1)	(28.9)	19.7	19.1	8.8	23.9	13.1	11.0	2.0	1.7	2.3	2.8	16.5	17.1	1.08
Parkson Retail	3368 HK	3,325	7.3	9.40	0.3	(7.8)	(21.5)	16.1	19.3	17.5	36.0	22.9	19.2	5.0	4.4	2.0	2.3	23.8	24.5	0.99
Lianhua Supermarket	980 HK	1,340	2.3	9.50	(22.1)	(28.5)	(49.4)	23.3	15.9	11.7	47.6	13.9	12.0	2.9	2.5	2.6	3.0	23.5	24.1	0.90
Wumart Stores	1025 HK	2,587	3.2	15.74	0.9	(15.4)	(9.0)	22.1	22.8	24.2	51.2	30.7	25.0	6.7	5.1	1.5	1.8	20.6	21.3	0.97
China Resources	291 HK	7,696	17.1	25.25	(11.5)	(19.1)	(20.0)	(55.7)	18.2	19.7	32.3	24.0	20.3	1.8	1.7	1.9	2.2	7.7	8.8	0.85
Hengan	1044 HK	11,526	24.7	72.50	9.0	20.6	14.0	8.5	29.9	24.2	32.5	33.5	25.8	7.7	6.8	1.9	2.5	23.8	27.3	0.73
China Mengniu Dairy	2319 HK	5,881	18.4	26.45	1.0	3.6	5.3	32.0	26.0	20.6	29.1	28.1	22.3	4.1	3.6	0.8	1.0	15.8	17.8	0.81
Tsingtao Brewery	168 HK	7,398	8.9	40.10	1.4	(7.0)	(8.8)	12.8	20.2	25.7	38.9	31.6	26.3	4.8	4.2	0.7	0.9	16.5	17.2	0.82
Tingyi	322 HK	16,101	23.4	22.65	5.2	4.2	(5.9)	(2.7)	30.1	25.5	37.1	35.0	26.9	7.9	6.8	1.4	1.9	23.6	26.4	0.67
Want Want China	151 HK	12,263	14.6	7.22	2.1	18.3	(3.6)	7.0	27.6	24.1	35.2	31.9	25.0	10.0	8.8	2.1	2.7	35.7	40.1	0.83
China Yurun Food	1068 HK	2,549	32.1	10.94	(7.3)	(38.4)	(58.6)	(12.8)	11.0	5.1	21.8	8.0	7.2	1.2	1.1	3.5	3.7	17.3	16.8	1.12
Huabao	336 HK	1,620	12.7	4.19	(11.1)	(32.9)	(65.2)	7.0	15.4	6.3	24.7	7.7	6.7	2.1	1.8	5.1	5.3	31.2	29.8	0.65
Haier	1169 HK	2,133	7.8	7.10	2.3	(17.5)	(25.1)	23.8	33.1	6.5	18.4	12.2	9.2	4.3	3.0	1.3	1.7	43.9	37.7	1.32
Skyworth	751 HK	1,237	6.2	3.73	(3.7)	(17.3)	(26.3)	22.2	7.1	3.9	10.0	6.6	6.2	1.2	1.0	4.6	5.0	18.0	17.3	1.43
Chigo	449 HK	251	1.1	0.23	(38.9)	(40.5)	(73.0)	(43.4)	78.1	3.3	26.1	7.2	4.1	0.8	0.7	2.2	5.2	11.4	16.3	1.11
Anta Sports	2020 HK	2,298	7.5	7.22	5.9	(24.5)	(49.7)	13.8	(0.7)	8.8	22.8	10.2	10.3	2.8	2.5	5.8	5.8	28.8	25.6	1.15
Li Ning	2331 HK	847	3.7	6.27	(8.1)	(30.6)	(55.0)	(53.9)	10.7	11.4	30.0	12.8	11.6	1.8	1.6	2.8	3.3	14.3	14.5	0.93
Ports Design	589 HK	914	2.5	12.54	(8.9)	(12.0)	(35.4)	(1.0)	16.5	10.3	29.0	15.1	12.9	3.8	3.4	3.9	4.6	27.7	28.0	1.08
Ajisen	538 HK	1,302	5.9	9.70	(0.2)	(4.0)	(38.9)	(4.9)	31.4	17.1	43.1	24.4	18.5	3.5	3.2	2.2	2.6	14.7	17.4	1.32
Ctrip.com Int'l	CTRP US	3,701	91.3	25.78	(25.2)	(34.2)	(40.2)	27.1	12.3	14.9	36.1	18.1	16.1	2.2	1.8	0.0	0.0	17.1	16.6	1.01
Home Inns	HMIN US	1,312	17.1	28.98	(9.9)	(18.0)	(21.4)	(9.7)	32.2	14.1	37.7	23.0	17.4	2.1	2.0	0.0	0.0	11.3	11.7	1.03
Shanghai Jin Jiang	2006 HK	576	0.5	0.99	3.2	(14.0)	(37.6)	65.4	11.1	8.8	27.5	11.0	9.9	0.7	0.6	4.0	4.0	6.2	6.3	1.13

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EXHIBIT 135: China stock valuation table (cont'd)

Company	BBG code	Market cap (USD m)	3-mth daily t/o (USD m)	Share price (LC)	Price performance 1M (%)	3M (%)	6M (%)	EPS growth '11E (%)	'12E (%)	P/E 1-yr min (x)	1-yr max (x)	'11E (x)	'12E (x)	P/BV '11E (x)	'12E (x)	Yield '11E (%)	'12E (%)	ROE '11E (%)	'12E (%)	Beta Rel to MSCI AP (ex-JP) (x)
Capital goods																				
Changsha Zoomlion	1157 HK	10,167	37.2	7.82	(16.3)	(32.1)	(42.9)	33.1	10.9	6.8	18.5	8.0	7.2	1.7	1.4	2.9	3.3	24.1	22.0	1.70
Lonking	3339 HK	1,411	11.5	2.53	(13.5)	(10.1)	(42.4)	2.0	5.5	5.0	15.0	6.1	5.7	1.6	1.3	4.4	4.7	29.5	25.4	1.44
Weichai Power	2338 HK	8,754	20.0	34.85	(1.5)	3.6	(24.4)	(8.0)	10.7	7.6	15.5	9.3	8.4	2.4	1.9	1.2	1.4	27.9	24.1	1.42
Harbin Power	1133 HK	1,259	4.9	6.94	(5.6)	(22.1)	(24.1)	8.1	9.0	6.6	17.9	8.6	7.9	0.9	0.8	1.8	2.2	10.4	10.9	1.21
Sany Int'l	631 HK	2,755	5.8	6.94	10.9	5.8	(24.6)	37.8	34.4	13.9	35.6	23.6	17.6	4.0	3.3	0.9	1.1	17.6	20.3	1.19
IMM	1683 HK	1,344	4.4	8.05	0.6	3.3	(0.7)	29.5	30.7	14.3	24.5	22.1	16.9	3.2	2.7	0.9	1.3	16.0	18.2	0.79
Goldwind	2208 HK	3,614	2.7	4.40	4.9	0.7	(57.8)	(70.4)	(1.4)	11.2	30.4	15.0	15.2	0.9	0.8	2.9	2.2	6.0	6.1	0.98
First Tractor	38 HK	753	3.1	6.83	14.1	8.8	(23.1)	(18.3)	29.4	5.9	21.3	13.0	10.1	1.2	1.1	2.0	2.7	12.2	13.8	1.53
Haitian Int'l	1882 HK	1,435	1.6	7.00	18.8	(8.1)	(32.1)	10.9	12.9	6.7	16.2	9.4	8.3	2.3	1.9	4.4	4.9	26.4	24.7	1.17
CSR	1766 HK	9,135	15.9	4.59	25.3	5.9	(37.1)	44.9	19.0	6.7	42.0	14.8	12.4	2.1	1.8	1.4	1.7	16.4	15.9	1.37
Zhuzhou CSR	3898 HK	2,421	9.2	16.86	16.6	(2.4)	(34.3)	47.2	14.4	8.4	33.6	14.5	12.7	3.4	2.9	2.4	3.0	25.5	24.5	1.40
Rongsheng Heavy	1101 HK	1,967	11.9	2.14	(11.3)	(27.7)	(57.1)	35.0	(1.0)	4.8	22.8	5.3	5.3	0.9	0.8	4.3	4.0	18.6	16.6	1.33
Technology																				
China Mobile	941 HK	193,777	268.0	74.90	(1.4)	(3.1)	8.6	3.9	2.9	10.9	13.0	12.1	11.8	2.3	2.1	3.6	3.8	20.3	18.9	0.58
China Telecom	728 HK	48,699	57.6	4.63	(4.9)	(2.1)	5.4	15.3	15.5	17.6	23.1	21.1	18.3	1.5	1.5	1.6	1.8	7.4	8.1	0.74
China Unicom	762 HK	48,193	103.2	15.76	1.7	16.4	(0.5)	44.4	97.4	45.9	76.8	68.2	34.6	1.8	1.7	0.6	1.2	2.6	5.3	0.71
Tencent	700 HK	36,462	117.6	154.40	(10.4)	(11.6)	(27.4)	29.9	25.2	20.4	41.0	26.8	21.4	9.3	6.7	0.4	0.6	38.8	34.8	1.10
Baidu	BIDU US	41,619	1113.0	119.55	(9.4)	(10.6)	(7.5)	88.2	52.1	5.0	8.1	6.3	4.1	2.8	1.7	0.0	0.0	55.9	49.5	1.04
Sina	SINA US	3,923	529.5	63.51	(31.2)	(31.2)	(42.0)	(397.7)	56.4	76.0	191.7	68.8	44.0	3.8	3.5	0.0	0.0	(5.8)	8.3	1.20
Sohu	SOHU US	1,839	105.1	48.31	(21.0)	(33.7)	(38.4)	25.9	17.8	8.3	22.6	9.8	8.3	1.8	1.5	0.0	0.0	21.6	21.2	1.14

Share prices as at 23 November 2011
Source: Bloomberg consensus estimates

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