Regional Strategy - China

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Slowing in nominal but stabilizing in real. Overweight equity for the long term.

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Phillip Securities Research Pte Ltd

HSCEI: 9698.83 (-2.39% ytd)
CSI300: 2295.59 (-2.14% ytd)

2011 Real GDP / Inflation: 9.2% / 4.1%
2012(f) Real GDP / Inflation: 7.8% / 2.5%

China's GDP growth has slowed down to 7.6% y-y in 2q12, after the 8.1% y-y pace in the first quarter. But on seasonally adjusted q-q basis, GDP advanced 1.8% in 2q12, slightly faster than the 1.6% q-q pace in 1q12. Despite the moderating growths in nominal terms, retail sales, fixed asset investment, industrial production, after adjusted for their respective price indices, all show stabilization. External demand continues to weigh as export growth grew only 1.0% y-y in July. Overall though, we speculate that the real economy might be stabilizing. HSBC PMI which tracks smaller businesses also shows improvement, contradicting the official PMI.

The physical property market would remain as a yoke restraining the nation's growth as two benchmark rate cuts in early June and July provoked a price increase which may put on hold further interest rate cuts in the near term, despite sharply eased inflation actually increasing monetary policy options. That is, they would like to cut to aid the broad economy but a responsive housing market restrains that. Going forward, we think quantitative measures on the money supply (RRR cuts, Reverse Repos) and moderate fiscal stimuli are the more likely near term options till the government feels comfortable about house prices again, or if the economy takes a drastic turn. In regard to the recent sharp ease of inflation and the expected future loosening, we adjust our expectation for whole year GDP growth to 7.8% y-y from previous 8.0%, and whole year inflation to 2.5% from previous 3.5%. Downside risks remain from Europe and the US.

For the Equity market outlook, generally speaking we do not see the current macro data support a bull market. But short term rallies from speculations on policy rate cuts or positive EU/US news are still probable. Another point to take is that, although we are suggesting that the Chinese economy is stabilizing in real terms, a slowdown in nominal terms is what poses a challenge to stock market, as enterprise profitability and the market sentiment are more aligned with nominal outcome in the short run. To put it clearer, even if the real growth is still there, it does not necessarily translate into a well performing stock market. But from the long term 3-5yr perspective, the historically low P/Es make the H and A share market as an attractive buy and holds. We are bullish on the bond market for short/middle term perspective. And we hold a positive outlook for CNY in the long run.

- ***PhillipETF recommends 2828.HK as a proxy for the H-share HSCEI and 83188.HK as a proxy for the A-share CSI300.***
- ***PhillipCFD has long/short "H Shares Index HKD5 CFD" and long/short "FTSE China A50 Index USD1 CFD"***
- ***Head of Research China's top picks are: BoCom (3328.HK) and China BlueChemical (3893.HK).***

Growth Outlook:

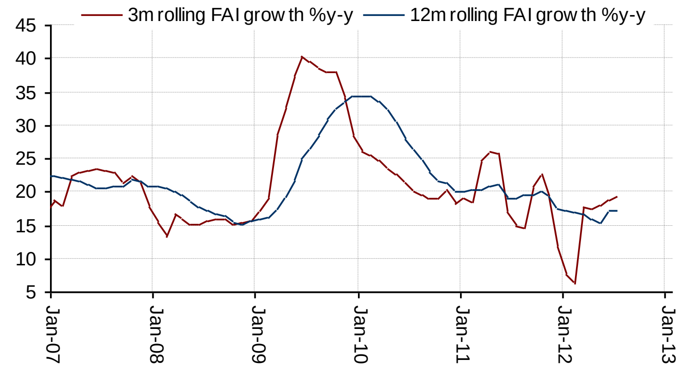
- Despite China's real GDP growth seemingly having slowed to 7.6% y-y in 2q12, compared to the 8.1% y-y growth in 1q12, on seasonally adjusted q-q basis, GDP actually quickened to 1.8% in 2q12, slightly faster than the 1.6% q-q pace in 1q12. The government has a target whole year growth rate of 7.5%, which we see no difficulties to achieve, as there remains monetary and fiscal policy options on significantly eased inflation. The government has indicated that policy will err on the side of growth, as Premier Wen Jiabao pledged to ***"put growth to a more important position"*** and conduct some **"*real and effective projects*"**. Following the saying, National Development and Reform Commission (NDRC) has accelerated the process of approving of local government proposed investment projects. However, in fear of inflating the real property market bubble again and exacerbate bad loan in banking system, national wide stimuli like 2009 is unlikely. So far, China's state council recently announced projects of up to 2.4tr RMB over several years on energy saving and emission reduction, as a part of the 12th five year plan. The projects would be financed through state money, local government borrowing from banks and private sector

- In the session below, we investigate fixed asset investment (FAI), retail sales, household income, export, industrial value added, PMI, and housing sales in details, from which we see that, despite the moderations in nominal term, most of the metrics are stabilizing in real terms.

Economic Metrics:

- **Fixed Asset Investment:** Investment is one of the most important growth drivers in China. Due to the non-availability of this statistics, FAI, which accounts for around 60% of the total GDP, is usually used as a proxy. We have adjusted the nominal FAI data of National Bureau of Statistics (NBS) by the corresponding FAI price index, and plotted the 3m and 12m rolling real growth rate in Fig 1. On the graph, we see that after a slump in early this year, the 3m rolling FAI growth rate has remained above the 12m curve for several months through July, indicating stabilization in investment. Going forward, we expect the moderate uptrend of 3m rolling growth to continue, guiding the mild upward turn in the trend of 12m growth rate, as investment in private sectors gradually responds to the on-going loosening and further moderate-scale government projects come in. This would more likely be a moderate process, contrasting to the sharp rise in early 2009, where the government announced the 4 trillion investment plan.

Fig. 1 Real Growth of FAI



- **Consumption**: Similarly as it was for investment, we are lacking of specific stats for consumption in the market. Retail sales, which takes up about 40% of China GDP, is used as a proxy. In July, nominal retail sales rose by 13.7% y-y, slower than an average of 14.4% y-y growth through the first half of the year. However, real retail sales advanced 12.1% y-y in July, which is faster than the pace of 11.2% in the first half of the year. The reason behind is that the retail sales price has grown at a significantly slower y-y pace in July. Growths of 3m and 12m rolling real retail sales are shown in Fig 2. From the graph, we see that the 3m rolling growth has reached the bottom in second half of 2011, and remained robust thereafter at above 10% and even slightly trended up.

- To answer whether the growth of real consumption can sustain, we investigate the growth of real household disposable income, as shown in Fig. 3. Rural household income data is only updated yearly, therefore, we are lacking of timely data for rural household income. But from the graph, we see the real yearly rural household disposable income has been growing at above 8% for the past few years, and achieved a growth rate of about 11.7% in 2011. As for urban household, the disposable income shows a clear improvement since the end of 2011. This is explained by inflation slowing down as well as a sticky nominal income growth. Hence, for the near term, the real disposable income has not posted a clear cap that limits consumption growth.

Fig.2 Real Growth of retail sales

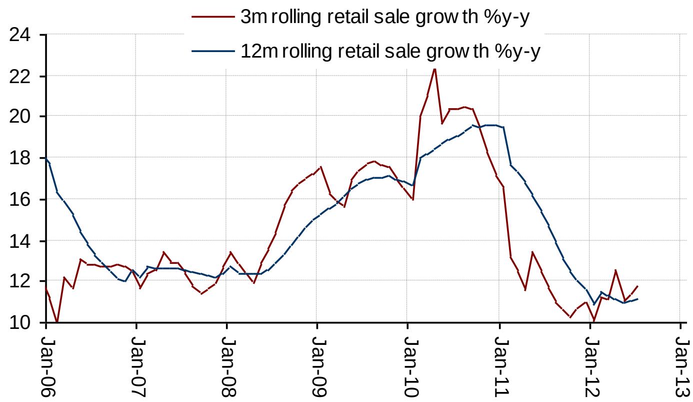
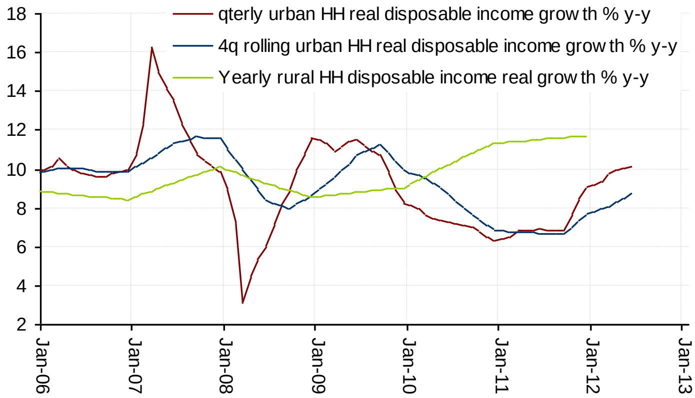


Fig.3 Growth of urban/rural household real disposable income



- Moreover, the government has been striving to bolster domestic demand by a series of policies that favours consumption, such as income tax reduction, and social security and social healthcare reforms (See our earlier China strategy report). The enduring effort to curb housing price and the government led economic housing projects also works to boost the domestic real consumption.

- Risks: Though the real growth for consumption is quite robust, a prolonged slowdown in nominal demand may eventually translate to a real slowdown, as sticky labour costs and falling sale price could shrink corporate profit margin, which results in enterprises laying off employees, hurting household real income, and in turn, the real consumption. To avert falling into such a vicious cycle, the government plays a key role. For the short run, the government would rely on accommodating monetary and fiscal policies due to their immediate effects. For the long run, more jobs would be created in service industry as the government has pledged to reform the industrial structure, shifting the growth focus gradually from secondary industry (manufacturing and construction) to tertiary industry (services).

- **Exports:** International trade slowed down sharply in July, with nominal export growth slumped to 1.03% y-y from June's 11.25% y-y pace, indicating a harsh external environment. As shown in Fig 4, the 3m rolling real export growth is still on an uptick thanks to the boosts in May and June, with 12m rolling growth hovering at a rate close to 0. Distinctive from the stabilizing real private consumption and investment, which the government has sufficient power to guard, export is a major downside risk due to its extremely high dependency on the health of foreign economies. Growths of real export to US, EU and ASEAN are exhibited in Fig 4a, 4b and 4c respectively, with export to US accounts for about 20% of China's total export, export to EU another 20% and export to ASEAN contributes about 10%.

- Growth of nominal export to US slumped to only 0.56% y-y in July, comparing to an average gain of 13.7% y-y in the first half of 2012. Our calculation of July real export shows a 3.4% y-y fall. In Fig. 4a, we observe a top formed on the 3m rolling real export growth, with the lagging 12m rolling growth still picking up. Though the July slump could be a one time reading, we do see strong headwinds as US economic indicators such as manufacturing new order for durable goods (ex-transportation/defence) and capital expenditures are showing signs recession risk. The approaching fiscal cliff also posts an added risk that hampers the nation's weak economic recovery. (For more details, refer to our Global Macro, Asset Strategy report on 26 July 2012). Going forward, a nominal growth rate of single digit could be the new norm for export to US, much depending on the US government's actions (possible QE or fiscal stimulus).

- Outlook for export to EU remains dim, due to the prolonged Europe debt crisis. Nominal export to EU plunged by 16.24% y-y in July, compared to a drop of 0.86% y-y in the 6 month period through June. After the adjustment by export price index, real export fell by 19.55% y-y in July, comparing to an average of 4.17% y-y contraction in the first half of the year. There is unlikely a fundamental change for the region's crisis in the foreseeable future (see GMAS 26th July), but the anticipated ECB intervention in the secondary bond markets could remain as a positive factor.

- Export to ASEAN is a stabilizer. As shown in Fig. 4c, the 3m rolling real export to ASEAN has shown a strong pick up since the beginning of 2012. In fact, ASEAN is one of the best performers in the slowing down global context, benefiting from MNCs shifting their business to nations like Philippines and Vietnam for their cheaper labour cost. The outlook of export to ASEAN would likely remain positive in the future.

Fig.4 Real Export Growth

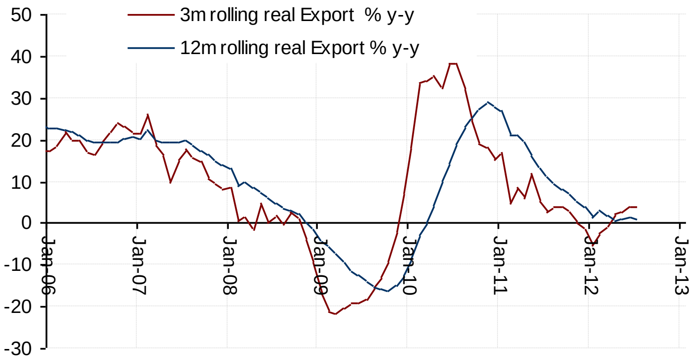


Fig.4a Growth of Real Export to US

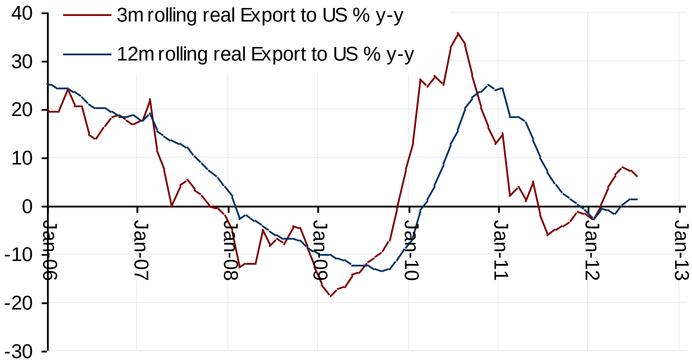


Fig.4b Growth of Real Export to EU

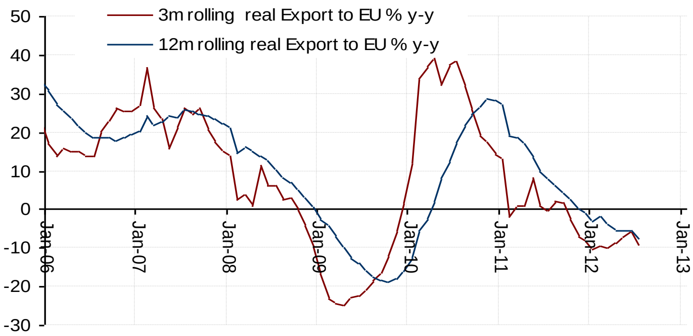


Fig.4c Growth of Real Export to ASEAN

- **Value Added of Industry:** Plotted in Fig 5a, 3m rolling and 12m rolling growth rate of nominal industrial value added are still resting in a downward trend. NBS reported a 9.2% y-y growth in July, after the 9.5% y-y pace in June and 9.6% y-y pace in May. However, this mild downward trend may not be as ominous as it appears after adjustment to real value. PPI fell by 2.87% y-y in July, after the 2.08% y-y drop in June and 1.4% y-y drop in May. The PPI adjusted 3m rolling industrial value added are shown in Fig 5b. As can be seen from the graph, most the time the two curves traced each other well. There are two major discrepancies since 2004, one occurring at the end of 2008 just before the government announced the 4 trillion stimuli. The other is now. For both of these two periods, PPI reports a negative y-y growth, according to which the PPI adjusted industrial output growth starts pick up while nominal industrial output growth is still trending downward. Such discrepancy might also be a clue that the government has started bolstering investment, a sign of stabilizing.

Fig.5a Growth of Nominal Industrial Value Added

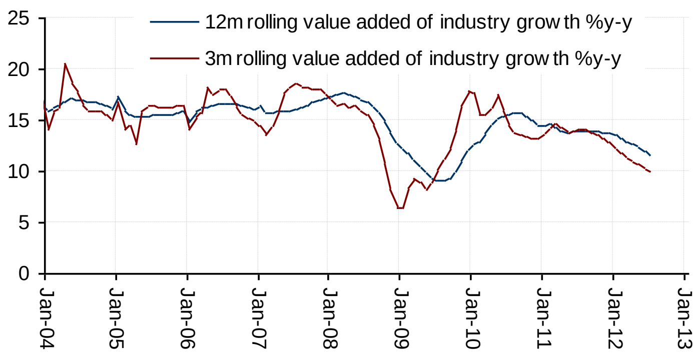
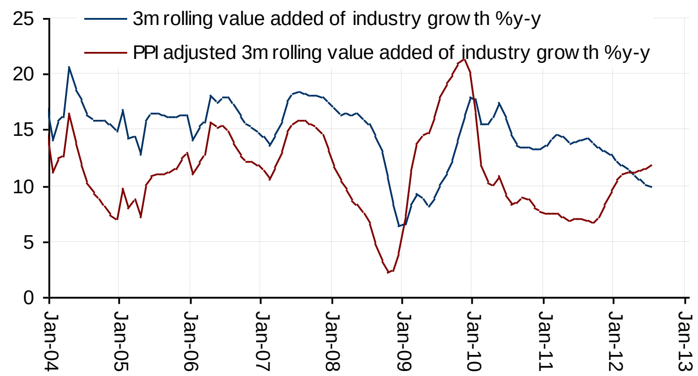
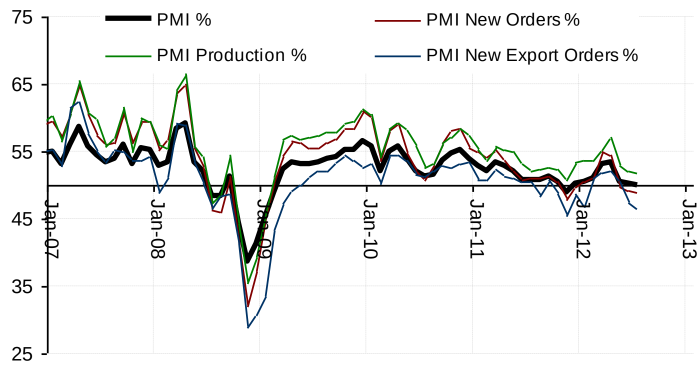


Fig.5b Growth of Industrial Value Added, PPI adjusted



- **PMI:** As shown in Fig 6, Government manufacturing PMI fell slightly to 50.1 in July, from June's 50.2, indicating almost non-expanding. Sub reading for new order fell slightly to 49.0, from June's 49.2. Production fell to 51.8, from June's 52.0. Export order fell to 46.6 from June's 47.5, indicating a faster contraction. In contrast to the official reading, however, HSBC manufacturing PMI, which has a major focus on small and medium enterprises, has instead shown a much more significant improvement, reporting 49.3 in July, implying a slower contraction, compared to June's 48.2. As the HSBC reading improvement dominates the official reading decrease, we are tilt to the speculation that the nation's manufacturing is likely stabilizing. In the second half of 2012, new export order could remain weak, as we has discussed above. But domestic orders could pick up as more monetary loosening and fiscal stimuli come into effect.

Fig.6 PMI



- **Housing Market:** As we have addressed in our earlier report (**See May 24 China strategy report**), despite the prevailing housing bubbles in tier 1 and some tier 2 cities, we believe the housing bubble is benign in general based on two major arguments: Firstly, the earlier fall in price should be taken as a government led deflation rather than a market led bubble burst. Secondly, the high housing price to household income ratio would gradually step down with household income catching up fast at a 2 digit nominal growth rate. Further to these arguments, the recent pick up in housing price and household sales, shown in Fig 7a and 7b respectively, demonstrated a robust demand and also dispelled the fear of bubble burst. Going forward, the nation's growth would remain fettered by the real property market if price surprises on the upside as that would restrain monetary loosening. Ideally they would want to see prices stable but volumes robust.

Fig.7a 40 major cities average housing price

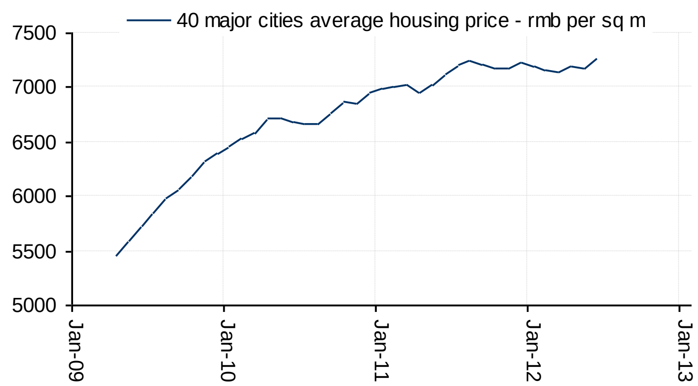
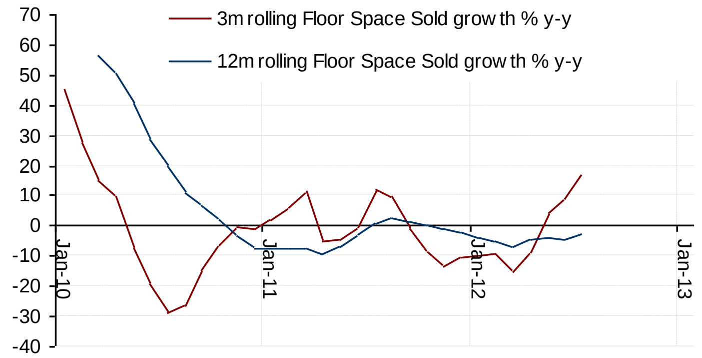


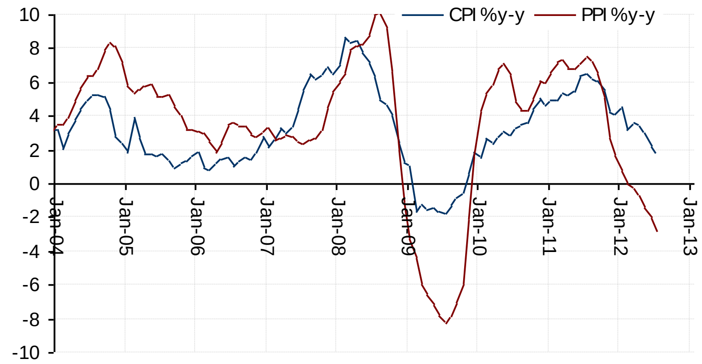
Fig.7b 40 major cities floor space sold growth



Inflation & Monetary Policy:

- Shown in Fig 8, inflation has eased sharply to 1.8% y-y in July, after the 2.2% y-y pace in June and compares favourably to a whole year target inflation of 4.0%. PPI fell by 2.87% y-y, marking a fifth straight y-y drop, compared to the 2.08% y-y drop in June. Comparing the CPI 1.8%y-y to a benchmark deposit rate of 3.00%, **very roughly speaking, translates to a potential of 120 basis points cut before it triggers speculation**. There is therefore ample room for rate cuts for the broad economy ex-housing price risk. Going forward, we expect the inflation to hover below 2.0% for the following few months, and then pick up mildly towards the end of the year as the on-going monetary loosening and fiscal stimuli comes into effect. However, some upside risk has presented itself from the recent heat wave in Europe and the severe drought in US, which would curb crop supply, pushing up food price in the second half of the year.

Fig 8. CPI & PPI



- The government has already conducted three 50 bp Required Reserve Ratio (RRR) cuts since last Nov and two benchmark lending interest cuts (25 bp and 31 bp respectively) in early June and early July. As for monetary policy, the government has announced to ***"strengthen the proactive fine tune"***, which is clearly a stronger tone compared to the previous ***"prudent monetary policy"***, implying a more flexible liquidity in the future. However in view of the house price uptick we think a wait and see approach will be taken before any further decisions on 25 bp benchmark interest cuts. More likely quantitative measures in RRR/reverse-repos will be taken. Having said this, any sharp downturn in the broad economy would probably see the PBoC throw caution to the wind and slice interest rates.

Fiscal Policy:

- China's state council recently announced projects of up to 2.4tr RMB over several years on energy saving and emission reduction, as a part of the 12th five year plan. The projects would be financed through state money, local government borrowing from banks and private sector. But as discussed in the Growth Outlook part above, we do not expect a national wide large scale stimulus like the 4 trillion investment plan in 2009, as the nation is still burdened with the leftover banking system bad loan, as well as problems such as excess capacity in certain industries. For the long run, the government has committed to gradually shifting the growth focus from secondary industry to tertiary industry, boosting service industry employment and at the same time, reduce the economy's reliance on foreign demand by strengthening domestic consumption. Though with large scale stimuli being unlikely, we expect the government would still manage to bolster the economy through a series of sector specific stimuli that align with its long term goal. The central government has announced to support the growth of the middle region of the country, including 6 provinces: Shanxi, Anhui, Jiangxi, Hunan, Hubei and Henan, focusing on those industries that are conducive to domestic consumptions such as transportation and logistics. In addition, as the NDRC accelerates the pace of investment approvals, many provinces are trying to solicit central government support by proposing local projects. Some outstanding examples include Guizhou province proposing a 3 trillion rmb investment over the next 10 years to build itself into a "national park" province, Changsha city proposing investment plans that summed up to 800 bn rmb and Guangzhou proposing up to 200 bn rmb. Though most of these proposals would likely be aborted eventually, we believe the central government would still be able to pick out some valuable investment from the basket of choices.

Growth & Inflation Forecast:

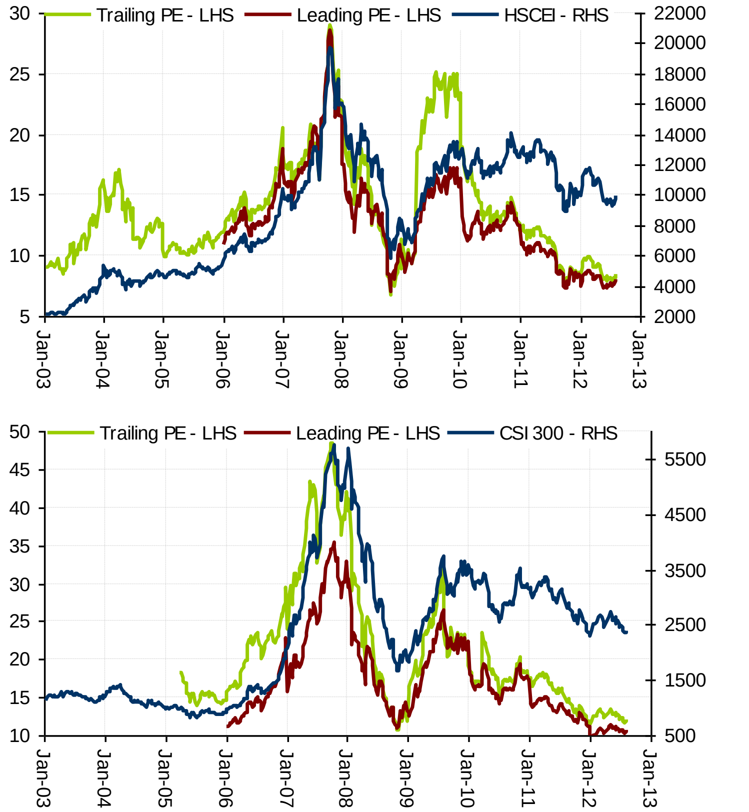
- To recap, nominal FAI and retail sales growths are still moderating while real FAI and retail sales have been stabilizing or even shown nascent sign of reacceleration. The current real growths are mainly attributed to the sharply easing price indices in the past few months. Growth of nominal industrial value added has been trending downward, but might also suggest stabilizing if we take into account the falling PPI. The recent pick up in real property price and sales adds evidence to our earlier conclusion that the housing price bubble is likely benign. Major downside risk comes still comes from exports, our view is that EZ and US will be macro headwinds going forward (see Global Macro Asset Strategy 26th July). The government's policy options has increased with the sharply eased inflation, which would likely hover about the current level and gradually trend up towards the end of the year due to the loosening and the anticipated rising food price. Taking all these into account, **we revise our forecast for the whole year GDP growth to be 7.8% y-y from previous 8.0% y-y, with inflation of 2.5% from previous 3.5% over the year.**

Asset Strategy

- **Equity Market**: As shown in Fig 9, both H-share market (HSCEI) and A-share market (CSI300) are still in downward trends. With the facts we have presented above, we do not see the current economic fundamentals supportive of a bull market. Though real FAI and retail sales do show signs of stabilization due to the eased inflation, it does not necessarily point to a well performing stock market in the short run as corporation profit margin would be squeezed by a falling sales and a more sticky labour cost. Therefore, we are saying China stock market could remain weak for the foreseeable future. However, we do not eliminate the possibility of short term rallies triggered by loosening policies and positive news from Europe and US. **In regard to this, we assign a marketweight rating to China stock market from short run perspective. But for the long run, 3-5yr perspective, we are Overweighting China stocks as the market is so cheaply priced.** This is a good time to adopt a buy and hold strategy as P/E ratios are at historical low, or even have undershot the readings post Lehman meltdown (See Fig 9). In addition, the leading P/E tracing below the trailing P/E indicates the market is expecting a positive earning growth. Counterargument may be that the current low valuation reflects the risks in the nation's real property market. However, supported by the arguments on real property market in our two China strategy reports, we have concluded the risk could be overestimated.

- **As a proxy to the CSI300, the main A-share benchmark index, we recommend the physically backed ETF, ChinaAMC CSI300 ETF (83188.HK). For H-share we recommend 2828.HK which tracks HSCEI.** Over the long term, the two indices track each other well. HSCEI index is a comprehensive index for all the China companies that listed in Hong Kong, while CSI300, as its name suggests, contains 300 good quality, large cap and high liquidity A-shares traded in Shanghai and Shenzhen exchange, and makes up over 60% of total market value and over 80% of market total earnings. The composition of CSI300 is updated every six months (remove low ranking stocks and add in new high ranking ones). The 83188.HK is traded in CNY but the 2828.HK is traded in HKD. But as both ETFs/indices have their underlying earnings in CNY, the exchange risk for HK investors is the HKD-CNY (not the trading currency denomination as commonly perceived), which in our view sees the CNY appreciate over the longer term (see Currency Outlook). Thus the real choice between 83188.HK and 2828.HK, over the longer term investment horizon, should focus on the index constituents, and in this case we prefer the 83188.HK as the CSI300 is a better proxy for good quality, large cap, highly liquid stocks.

Fig.9 Both H-share and A-share market are valuation lows comparable to the Lehman meltdown. ETF proxy for the CSI300 is the physically backed 83188.HK, for the H-share is 2828.HK.



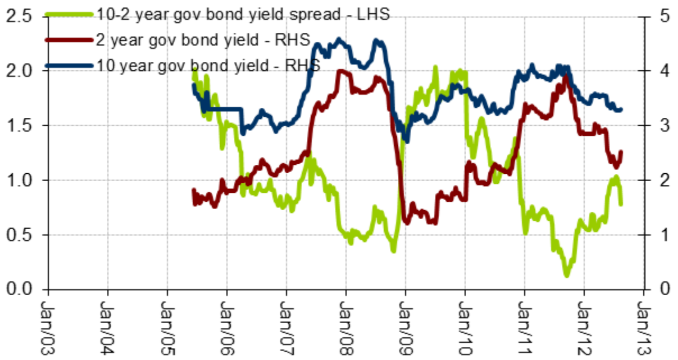
- **Bond Market:** Stocks and bonds can both be in a bull run at the same time, although when stocks are in a bear, the appeal for bonds increases and its bull run continues. This can be seen in Fig.10 below (contrasting the HSCEI and S&P China Bond Composite Index) during the 2008 stock market bear and 2011 bear till today – bonds are still rising,. Fig 11 shows the S&P indices for China corporate bonds, government bonds and the composite. Fig 12 shows the yields of government bonds with 2/10 year maturities, together with the spread. We see both 2/10 year yields are trending downward, resulting from the monetary loosening so far: three RRR cuts since last November and two benchmark interest cuts in early June and July. ***Going forward, we expect the bull run in bond market to continue as the rate cuts window has just opened***. Although we think the PBoC will adopt a wait and see regarding rate-cuts, stabilization of house price data, weak external demand, sharply eased inflation all suggests that the overall balance of risks tilts toward a resumption of rate cuts in the medium term.

Between stocks and bonds, the latter is the obvious overweight in the near to medium term. Over the very long term, we still think stocks represent a good investment entry point.

Fig.10 Bullish bond market and bearish stock market in 2008 and 2011 till today

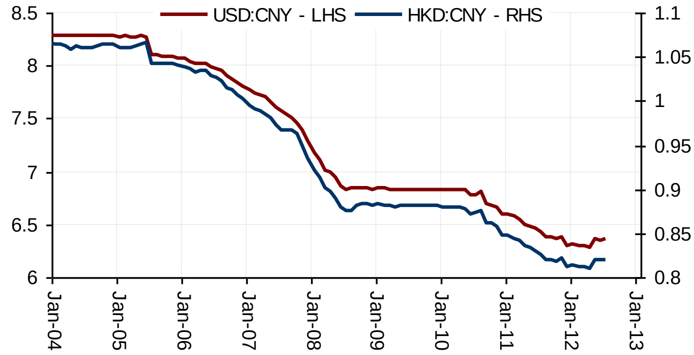
Fig.11 Bonds market in a bull run

Fig.12 Government 2y/10y bond yields and spread



- **Currency Outlook:** The HKD peg to the USD implies that we examine the USD-CNY relationship. As foreign investors, we would want to see the CNY appreciate against the USD and consequently the HKD. Until today, CNY exchange rate has been under strong regulation due to the government's limited openings on capital account. Following the earlier currency valuation dispute, CNY had appreciated in a mild manner since the second half of 2010 (shown in Fig 13). The appreciation paused early this year as foreign direct investment (FDI) slows down amid the concerns on a weakening China growth. Despite that the Chinese government claims CNY exchange rate has reached a reasonable level, CNY is still moderately undervalued and would likely resume the mild appreciation when the global economy bottoms out from the trough. Besides that, the sharply eased inflation, which increases the purchasing power of the currency, also enhances the attractiveness of the currency. To sum up, **we expect CNY exchange rate to remain relatively stable in the short term, but tilt upward in the long run.** This also backs our equity market strategy of overweighting China equity market in the long run.

Fig.11 USD:CNY, HKY:CNY exchange rates



STOCK PICKS:

- ***Head of Research China's top picks are: BoCom (3328.HK) and China BlueChemical (3893.HK).***

Bank of Communications (3328.HK)

Company Introduction

Bank of Communications (BoCom or the Group) was founded in 1908, which was the one of Big-4 in early stage of domestic banking sector. BoCom was restructured in 1986 and operated in April 1987. It was the first state-owned commercial bank in China and today it is the one of top five largest state-owned banks located in Shanghai. BoCom was listed in H and A Shares in Jun 2005 and May 2007 respectively.

Summary

- As our mentioned in the previous report, by the end of 1Q2012, BoCom's CAR, especially for Core CAR, was close to the bottom line of CBRC, representing the larger capital pressures, and therefore the Group faced large demand of financing;

- According to the conference call last time, we believe the prices of financing plan are quite reasonable, which can increase the level of the Group's capital obviously;

- The fund of private placement would be used for the improvement of capital, therefore might have no much effects to the profits. We maintain 12-m target price on HK$6.56, 21% higher than its latest closing price, equivalent to P/E5.2x and P/B1.2x in 2013 respectively, and we recommend Buy rating.

- We received the announcement that A+H private placement plan of BoCom was approved by CSRC on 11th Aug. According to the plan, BoCom would issue new shares of 12.337 billion, 20% of total capital shares, with the amount of RMB56.6 billion approximately.

- In A Shares, BoCom would issue the shares to seven institutional investors, including MOF, Social Security Fund (SSF), Ping An Asset Management, FAW Group, Shanghai Hai Yan, CNTC Zhejiang, and Yunnan Hongta. Total shares placed are 6.542 billion, with the offering price of RMB4.55 per share, and total volume would achieve to RMB29.765 billion approximately (Refer to table 1 at the back).

- Meanwhile, in H Shares, there are 8 institutional investors subscribing the shares, including MOF, HSBC, SSF, Best Investment, China Life (Overseas) and New China Life (NCL) and so on, with total shares of 5.835 billion, and the fund of HK$32.852 billion approximately based on the offering price of HK$5.63 per share.

- Additionally, the lock-up periods of A and H Shares investors are 36 and 3 months respectively.

- We noted the major shareholders of BoCom actively supported private placement plan, representing their strong confidence in BoCom's development in future. After the offering, MOF is still the largest shareholder of BoCom with 26.5% of total shares. HSBC and SSF are the second and third largest shareholders of BoCom, with 19% and 13.9% of total shares respectively (Refer to table 2 at the back).

- After the offering, we expect BoCom's CAR and Core CAR would increase to 14.5% and 11% respectively in 2012.

Risks

- Asset quality deteriorated due to the growth of NPLs;

- Share price goes down continually affected by the markets in the short term.

China BlueChemical（HK.3893）

Company Introduction

China BlueChemical Ltd is a large modern enterprise engaged in R&D, production and marketing of fertilizers and chemicals as a subsidiary of CNOOC. As one of the Chinese nitrogen fertilizer manufacturers with the largest outputs and highest energy consumption efficiency, the company takes production, development and sales of natural gas-based urea and synthetic chemicals of high added value as main business, with its huge sale network covering over 20 provinces in China.

Investment Summary

- The company's substantial growth in performance largely benefits from continuous growth of international grain demand and prices, robust fertilizer demand and considerable year-on-year growth in fertilizer prices. With rapid and steady growth of the Chinese economy, market demand for chemicals is also keeping growing.

- The parent company CNOOC is China's largest offshore oil and gas producer. Benefiting from cheap natural gas supplied by the parent company, the profitability of China BlueChemical fertilizer sector leads the industry.

- With constant rise in raw material prices, production costs of chemical enterprises are increasing. The company may utilize its advantages of high capacity and low cost to further expand its chemical business advantages.

- Since China's 12th Five-Year Plan policies vigorously supports agriculture, integration of the agricultural sector is a major trend. As the leading fertilizer manufacturer in the industry, the company will fully benefit from integration of the agricultural sector and further expand its business advantages.

- In light of expectation of a steady growth in the company performance, we predict the company will realize EPS HKD0.57 in 2012. The current valuation remains low and is expected to return to a reasonable level, hence 6-month target price to be HKD6.34. In combination with dividend, its overall yield rate is expected to reach 27.1%, hence "buy" rating granted.

Table 1. A+H Private placement of BoCom in 2012

	Current shares (mn)	New shares (mn)	Shares after placement (mn)	Portion	Issued price (RMB and HK$)	Fund to be raised (RMB mn)	Fund to be raised (HK$ mn)	RMB/HK$
A Shares	32,709	6,542	39,251	53%	4.55	29,766	36,612	1.23
H Shares	29,177	5,835	35,012	47%	5.63	26,708	32,851	
Total	61,886	12,377	74,263	100%		56,474	69,463	

Source: PSR, Company report

Table 2. Major shareholders of BoCom after the offering

A Shares	Subscription (Million shares)	Amount (RMB Million)	% of enlargeed total shares
MOF	2,530	11,513	20.40%
SSF	1,877	8,542	2.50%
Ping An Asset	705	3,210	1.30%
FAW Group	440	2,000	1.10%
Shanghai Haiyan	440	2,000	0.90%
CNTC Zhejiang	330	1,500	0.40%
Yunnan Hongta	220	1,000	0.90%
Total	**6,542**	**29,765**	**27.6%**
H Shares	**Subscription (Million shares)**	**Amount (RMB Million)**	**% of enlargeed total shares**
MOF	759	4,273	6.1%
HSBC	2,356	13,264	19.0%
SSF	1,406	7,913	11.4%
Best Investment	276	1,552	0.4%
China Life (Overseas)	276	1,552	0.4%
China Re Asset	276	1,552	0.4%
CSCF	276	1,552	0.4%
NCL	212	1,194	0.3%
Total	**5,835**	**32,852**	**38.3%**

Source: PSR, Company report

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