Top Views

Asia Economics - More G2 easing imminent: PK Basu P3
ECB and Fed to act amid fiscal impasse; Asia has absorptive capacity

- We expect modest easing by the Fed (prior to the electoral season starting in September), although there is little immediate need for QE.
- Explicit quantitative easing likely by the EFSF, plus an additional rate cut by the ECB this quarter. The ECB will "do whatever it takes" to preserve the Euro, while awaiting the September 12th verdict of the German constitutional court on the validity of German participation in the ESM, and the latter's key role in creating a banking union for the Eurozone.
- Asia has greater capacity to absorb liquidity flows (that would arise from the gradual return of risk appetite), as currencies are under-valued (except PHP) and foreign reserves have been flat for the past year.

CN: Consumer Staples Monthly Jacqueline Ko 11
Pre-Blackout Updates: Key Highlights | OVERWEIGHT

- In this report, we highlight key takeaways from our pre-blackout calls with companies under our coverage. We have also summarized some major industry news and key trends. Vinda (3331), CRE (291), China Foods (506) and Biostime (1112) remain as our top picks.
- Our recent channel checks reaffirm our bullish view over home & personal care, baby care and food, dairy, brewery and snacks sub-sectors. We are equal weight on food retailer and wine category. We suggest to underweight restaurants, meat, beverages, edible oil, instant noodles, liquor & tobacco.

MY: Banking Sector Stats Desmond Ch'ng 12
Business loans gather momentum | NEUTRAL

- Loan growth in June was fairly robust at 12.6% YoY - having risen over the past few months; this was the fastest pace thus far this year.
- While household (HH) loan growth has held steady at close to 11.8% YoY (11.7% YoY in May), non-HH loans have gathered momentum and were up 13.6% YoY in June (13.4% YoY in May).
- Annualized loan growth of 12.7% is currently ahead of our 2012 loan growth forecast of 10.5%. Our forecast is maintained for now, while our Neutral call on the sector is unchanged.
- We maintain our BUYs on HL Bank, HL Financial Group and Public Bank and SELLs on CIMB, RHB Capital and BIMB Holdings.

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Today's Content…

Country	
Regional	Economics
China	Consumer Staples Monthly
Malaysia	Banking Sector Stats
Indonesia	Timah
India	Maruti Suzuki
Philippines	Union Bank of Philippines
Indonesia	Unilever

Top Buys…

Company	Ticker	Spot	Target	Upside (%)
Siam Makro	MAKRO TB	328.00	478.00	45.73
Philex Mining Corp	PX PM	22.40	30.61	36.65
Vinamilk	VNM VN	89500	118000	31.84
Venture Corp	VMS SP	7.46	9.65	29.36
SembMarine	SMM SP	4.86	6.20	27.57
LICHF	LICHF IN	261.00	332.00	27.20
First Philippine Holdings	FPH PM	77.50	97.80	26.19
KLCC Property	KLCC MK	5.09	6.38	25.34
B. Armada	BAB MK	3.92	4.88	24.49
Kiatnakin Bank	KK TB	40.75	49.00	20.25
Yes Bank	YES IN	365.85	434.00	18.63
China State Construction	3311 HK	8.10	9.45	16.67

Top Sells…

Company	Ticker	Spot	Target	Downside (%)
Jai Prakash Associates	JPA IN	73.35	47.00	35.92
GMA Network Inc	GMAP PM	10.28	6.90	32.88
Ayala Land	ALI PM	21.85	15.00	31.35
Uni-President	220 HK	7.39	5.60	24.22

Maybank-KE Events

Date	Event	Location
1 Aug	Yinson Holdings Non-Deal Roadshow	HK
2 Aug	Perisai Petroleum Non-Deal Roadshow	HK
2 Aug	RFM Corporation Non-Deal Roadshow	KL

SEE APPENDIX I FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Company Notes

1H12 RESULTS Mcap USD0.7b ADTV USD0.8m
IJ: Timah (TINS IJ) Lucky Ariesandi 13
Materials | Weak Result Due to Unfavourable Price | BUY | Upside 21%

- We cut our ASP assumption for Timah by 3% to USD21.5k/tonne and our production (and sales) volume forecast by 7% to 37k tonnes following the company's weak 1H12 result.
- Tin consumption has fallen by 7% YoY in 5M12 as demand for electronic goods fell. But, the GoI's decision to not renew the contract of work for Koba Tin might tilt the global supply-demand balance towards a deficit.
- We deem the price correction excessive as supply-demand situation remains supportive of higher tin price in the future. We raise our recommendation to BUY with lower TP of IDR1,610 (2013F PER of 19.5x)

1Q13 REVIEW Mcap USD5.8b ADTV USD21.5m
IN: Maruti Suzuki (MSIL) Jigar Shah 14
Cons. Discr. | Expect More EPS Downgrades | SELL | Downside 10%

- MSIL's Q1 EPS fell 30% QoQ and 18% YoY due to sharp depreciation in INR vs the JPY, which inflated royalty and manufacturing costs. Despite strong demand for its diesel cars, which led to 20% increase in selling price YoY, MSIL could not benefit as the drop in volume of petrol cars hurt overall volume.
- We are concerned about the recent labor problems at its plant, which led to closure of half of its capacity and reduced production. In April, we downgraded our FY13F EPS to Rs67 and expect another downgrade if the lockout continues for a few more days.
- We maintain SELL on MSIL with TP of Rs1,005/sh based on PER of 15x FY13F.

2Q12 REVIEW Mcap USD1.5b ADTV USD0.5m
PH: Union Bank of the Philippines (UBP) Katherine Tan 15
Financials | Improved core lending but lower trading gains | HOLD | Upside 2.7%

- Union Bank of the Philippines' 2Q12 earnings dropped 43% YoY and 57% QoQ to PHP1.2b mainly due to lower trading income.
- Net interest income, however, improved substantially 16.4% YoY to PHP1.9b, driven by lower funding costs as interest expense fell 20% YoY.
- Operating expenses went down 1.2% but the lower revenue this quarter increased cost-to-income ratio to 54.5% from 38.4% in the previous quarter.
- We are adjusting 12-month target price to PHP100/sh, now more heavily weighted in favor of 2013 earnings. This is equivalent to 1.7x 2012F PBV. HOLD rating maintained.

1H12 RESULTS Mcap USD20b ADTV USD3.9m
IJ: Unilever (UNVR.IJ) Katarina Setiawan 16
Con. Staples | Good Results | HOLD | Upside 8.7%

- Unilever posted 1H12 net profit of IDR1,163b, up 18% YoY on the back of 17% YoY revenue growth. The result is slightly above our expectations. Gross margins have improved by 560bps to 50.7% in 2Q12 from 50.2% in 1Q12.
- Unilever's 1H12 capital expenditure amounted to IDR560b. As it completed the expansion of its skin care factory in FY11, it is now focusing on expansion of its detergent products. In addition, we expect Unilever to expand its hair care product offering as it completed the acquisition of Albert Culver in FY11.

Maybank Kim Eng

Co. Reg No: 198700034E
MICA (P) : 099/03/2012

Regional

Economics

1 August 2012

More G2 easing imminent

FOMC and ECB to act amid fiscal impasse

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We expect modest easing by the Fed (prior to the political season), although there is little immediate need for QE. We expect the US Federal Open Market Committee (FOMC) to ease monetary policy this week, most likely by lowering the interest rate on banks' excess reserves (from 0.25% to 0.1%). A mild form of quantitative easing (much smaller than the US$600bn in QE2) is also likely to be announced. We believe that the state of the US economy does not warrant another round of QE yet, but this week's meeting is the last opportunity for the Fed to act before the presidential election season (beginning from September), during which the Fed rarely takes monetary policy action (for fear of appearing partisan).

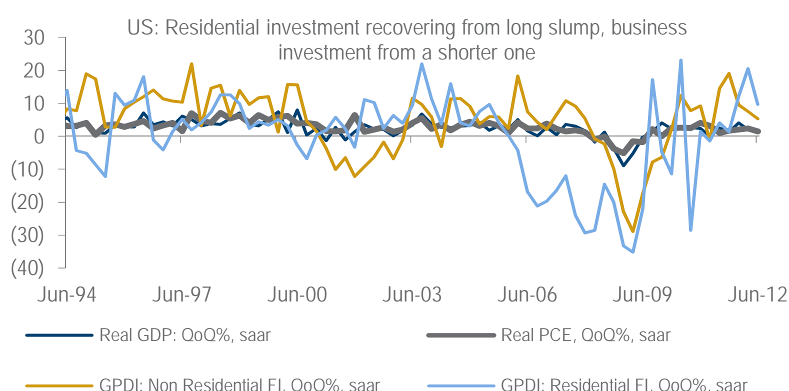
Explicit quantitative easing likely by the EFSF, plus an additional rate cut by the ECB this quarter. We believe the Eurozone's June 28th-29th pledge to create a banking union by end-2012 (with the ESM injecting capital into weak banks, in exchange for centralized regulation of Europe's banks by the ECB) provides the contours for a credible solution to the Euro crisis. But the ESM cannot come into being until the German constitutional court rules it legal (on September 12th); and in the interim, the ECB needs to counteract market volatility caused by the absence of progress toward banking union. ECB president Mario Draghi made clear on July 26th that the ECB will do "whatever it takes" to preserve the Euro. We interpret this to mean that the EFSF will buy Euro-periphery sovereign bonds – and the ECB will resume intervening in the secondary bond markets to keep spreads on such paper from widening beyond "reasonable" levels. Additionally, the ECB is likely to commit to expanding its monetary base further, including via another 25bp policy rate cut this month or next.

Asia has greater capacity to absorb liquidity flows, as currencies are under-valued (except PHP) and foreign reserves flat for the past year. Asia's foreign reserves (US$5.27tn at end-June 2012) are lower than they were in August 2011 (US$5.37tn), so Asia has no real challenge of excessive capital inflows – of the sort that it experienced during QE1 and QE2. The only exception is the Philippines (where foreign reserves are up 10.3% YoY, and the central bank cut rates last week to fend off additional capital inflows). For the rest of Asia, any improvement in risk-appetite – arising from the modest easing in the US, and more aggressive moves by the ECB – will present a welcome opportunity to reverse the depreciation of Asian currencies in the year-to-date, and allow external liquidity to boost asset markets.

US cyclical weakness suggests scope for Fed easing

Consumption and net exports slowed the US economy, which is now powered by fixed-investment spending. The US economy lost momentum in 2Q 2012, with real GDP growing just 1.5% QoQ (saar, seasonally-adjusted annualized rate), despite the strength of fixed investment spending (+6.2% QoQ, saar), which was led in particular by the 9.8% (QoQ, saar) growth of residential investment. After contracting severely for five consecutive years (2006-2010, both years inclusive), residential fixed investment has now expanded for each of the last five quarters, with particular strength in the latest 3 quarters (chart 1). Business investment also grew 5.4% QoQ in 2Q 2012 (slower than the previous two quarters, but still a robust pace), but private consumption expenditure (PCE) decelerated to just 1.5% QoQ growth. And with imports (+6%) outpacing export growth (+5.3%) during the quarter, net trade subtracted 0.3 percentage points from GDP growth in 2Q 2012.

Chart 1: GDP and PCE weak, despite robust fixed-investment spending



Source: Maybank-KE, CEIC

More importantly, the **forward-looking gauges suggest that the US economy is likely to lose momentum toward the end of 2012**. ISM manufacturing new orders – an excellent 6-month leading indicator of US demand for Asian exports (chart 2 below) – fell below 50 (the mark that divides contraction from expansion) in June 2012, the first reading below 50 in 39 months. The precipitous 12.3 point fall in the new orders index (from May to June) suggests a sharp moderation in this key forward-looking indicator (which leads US manufacturing, and US demand for Asia's exports, by about 6 months).

July ISM new orders are likely to be near 50 (better than June, but much worse than Nov11-May12). The next (July 2012) reading for ISM's manufacturing index (including its new orders sub-component) will be released at 10am (EST) on August 1st (just a few hours before the end of the FOMC's meeting). The turmoil and uncertainty in Europe is beginning to have an impact on business confidence in the US too. But an additional factor hurting US confidence is the prospect of the "fiscal cliff" at the end of 2012: in the absence of political action (to achieve a fiscal compromise), the US will face a fiscal contraction of 3% of GDP in 2013 (as the Bush tax cuts expire, and unemployment benefits are not extended). The combination of these two sources of uncertainty (US fiscal, and Euro-related) have contributed to a generally weaker set of regional manufacturing surveys in recent weeks (Philadelphia, the most reliable of the indices, showed only a slight improvement in new orders, and most of the other regional surveys – Richmond, Empire State, etc. – showed sluggishness in new orders). The Chicago PMI rose to 53.7 in July (from 52.7 in June, and against consensus expectations of 52 for July), led by a rise in new orders. We expect ISM manufacturing new orders to be just over 50 (still a weak number) in July 2012 (albeit better than June).

Chart 2: US demand for Asian exports set to weaken at end-2012

Source: Maybank-KE, CEIC

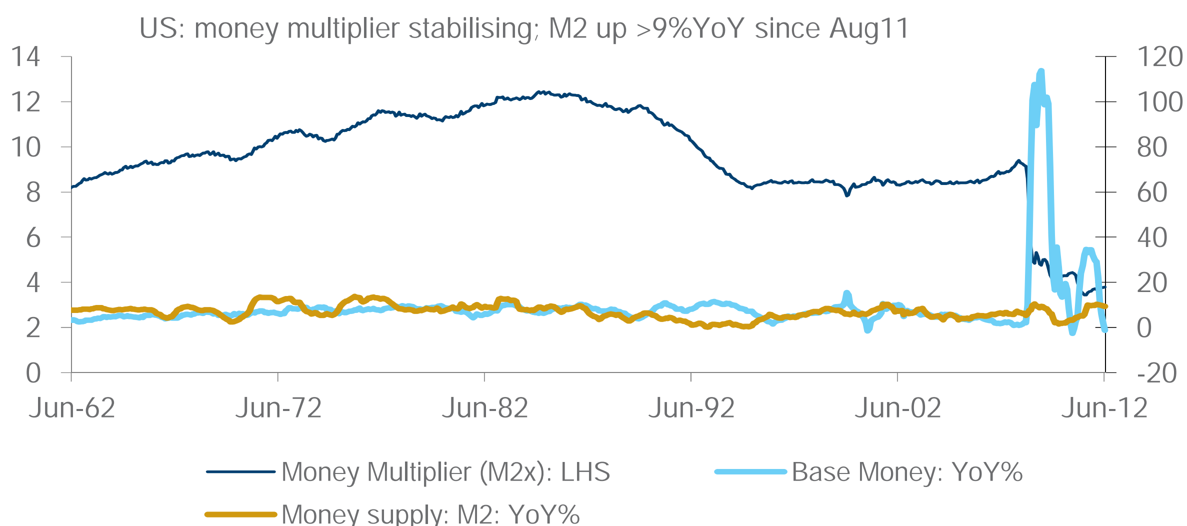
Asia exports should accelerate slightly in 2H 2012…We continue to expect Asian exports to accelerate slightly in 2H 2012, aided by stronger US demand (in July-November 2012), and the lagged impact of China's policy easing in May-July 2012 (which we expect to be reinforced by another 100bp of RRR cuts in 3Q 2012, that will provide a boost to China's domestic and import demand, thus boosting intra-Asian exports). Consequently, we expect Asia's exports to expand 9-10% in 2012 (slightly faster than the 8% growth in 1H 2012).

… but will then weaken in 1Q 2013, as the US begins grappling with its fiscal cliff. The prospect of the fiscal cliff is likely to result in heightened uncertainty in markets toward the end of 2012, as neither the debt ceiling nor the fiscal cliff are likely to be effectively addressed before the US general election (first week of November). Thereafter, however, the winner of the Presidential election will perforce be in a much stronger position to get his way on the contours of a fiscal compromise: (a) normally, the (incumbent re-elected, or newly elected) President's party gains ground in Congress on his "coat-tails" (i.e., his party usually gains seats in states that the presidential winner wins); and (b) the president's mandate from the people gives him much stronger moral authority to negotiate (especially versus the "lame duck" Congress that remains in place for two months after the general election, until the oath-taking in late-January). Whether Obama or Romney wins the presidency, however, at least a modest fiscal contraction is likely in 1Q 2013: if Obama is re-elected, taxes will be raised on those earning more than US$250,000, whereas a Romney presidency would result in substantial spending cuts. On either outcome, we estimate a fiscal contraction of at least 1% of GDP for the US in 2013 as the longer-term debt issues are addressed.

QE3 unnecessary, but Fed still likely to ease

QE3 is unnecessary from the US.... We continue to believe that QE3 (a third round of US quantitative easing) is unnecessary, because the US money multiplier has risen from its trough over the past half-year – and consequently, M2 (broad money) growth has been above 9% YoY ever since August 2011. In the immediate aftermath of a banking crisis, the Fed (like any other central bank) steepened the yield curve – to enable banks to rebuild their balance sheets (over a 3-year period). The deliberate flattening of the yield curve (through Operation Twist) since August 2011 has served the purpose of inducing banks to lend – and net bank credit in the US has risen steadily since August 2011.

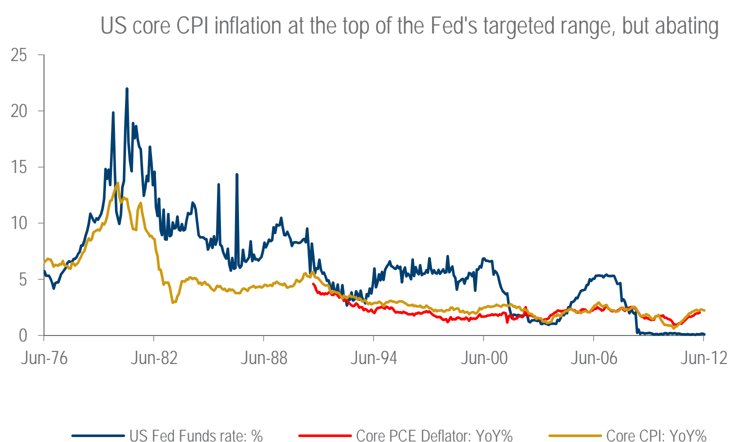
Chart 3: US M2 (money supply) is rising nearly 10%YoY, as the money multiplier is past its trough



Source: Maybank-KE

… but some easing still likely, to preclude further disinflation amid a deceleration of M2, and uncertainty caused by fiscal impasse. Although not needed, we think further monetary easing is still likely, for two key reasons: (a) Despite the rise in the money-multiplier, M2 growth is now likely to be gin edging down in the absence of additional quantitative easing (asset purchases by the Fed, to e xpand its balance sheet). With a yea r having elapsed since the end of QE2, th e US monetary base declined 1.2% YoY in June 2012 – and i s likely to decline further in su bsequent months; and (b) core inflation is ab ating (after a brief period when it was rising), to 2.2% YoY in Ju ne 2012 and likely further in subsequent months.

Chart 4: The US Fed has defeated deflation, and inflation is contained too



Source: Maybank-KE, CEIC

The above two reasons do not make a compelling case for QE3 – but instead make only a case for a modest amount of monetary ease. However, the continued weakness of the labou r market (evident in three consecutive months during which non-farm payrolls have risen by less than 100,000 monthly) suggests that disinflation will gain ground in subsequent months. And, most important, the fiscal dysfunction is likely to oblige the Fed to take offsetting action in September-November 2012 (amid the uncertainty engendered by the political impasse on dealing with the fiscal cliff and debt ceiling). The FOMC typically does not ease

monetary policy in September of a presidential election year – as that can be perceived as a partisan action to favour the incumbent. Thus, although there is currently only a weak argument for further monetary easing, we expect the FOMC to ease policy at this week's meeting.

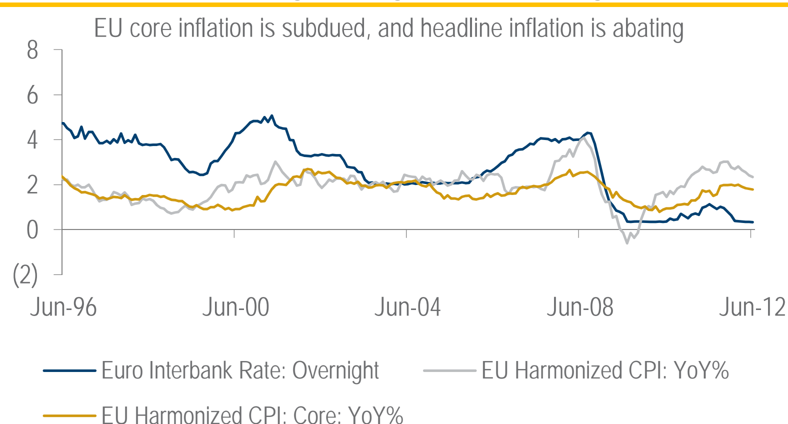
Action is likely to involve a smaller version of QE, or a cut in either the discount rate or the interest-rate on excess reserves. We think the likeliest action would be a reduction in the interest rate the Fed pays on banks' excess reserves held at the Fed (which currently total US$1.49tn). Cutting this rate from 0.25% currently to zero would be one option (similar to what the ECB did in early-July), but the Fed may choose to cut this to 0.1% (for fear that a zero rate may cause further instability in money-market funds); even such a cut would have a significant impact on the money-multiplier, by reducing banks' incentive to hold excess reserves. Another option would be to cut the discount rate (at which banks borrow from the Fed) by 25bp to 0.5% -- but this would be less effective currently, since relatively few banks need to use the Fed's discount window. The least likely action would be a new round of quantitative easing (QE3); even if the Fed decides to go ahead with QE3, the size of the (multi-month) asset-buying program is likely to much smaller than during QE2 (US$600bn over 8 months), and will likely involve purchases of not just Treasury bonds, but also agency debt and asset-backed securities (ABS).

Eurozone's anemic M3 growth allows room for ease

The Eurozone's credible plan for centralized bank regulation and capital injections by the ESM… The EU summit last month (June 28th-29th) devised a credible initiative to break the sovereign-bank feedback loop that has bedeviled Spain and other EU-periphery economies this year. The plan envisaged the European Stability Mechanism (ESM, the Eurozone's permanent bail-out vehicle, originally slated to come into force on 1st July 2012) directly injecting capital into (i.e., taking partial ownership of) troubled Spanish banks (and also Irish banks, where the ESM's capital would replace about 30% of GDP worth of capital previously injected by the Irish government). The ESM's capital injection would occur in exchange for all Eurozone members agreeing to a centralized system of bank regulation (to be run by the ECB), including a possible system of Eurozone-wide deposit insurance. In our view, *this plan of "banking union" constitutes a credible framework for resolving the Eurozone crisis.*

… is still hostage to the Sept 12th hearing by Germany's constitutional court. The plan has not yet been implemented, however, because the ESM did not come into being at the beginning of July 2012 (as previously planned). The ESM treaty requires ratification by members who collectively make at least 90% of the contributions to the ESM. The largest contributor, Germany (with 27% of contributions), has not yet ratified the treaty – as the German Constitutional Court began hearing a petition challenging the constitutionality of the ESM, and that court will only render its verdict on 12th September 2012. So the implementation of the ESM remains on hold pending the German Constitutional Court's verdict. The uncertainty engendered by this delay in implementing the plan for a Eurozone banking union caused Spanish bond yields to soar anew in July 2012, rising as high as 7.75% (far above the 6% level that is considered the ceiling of fiscal sustainability).

Chart 5: EU inflation abating, although above ECB target



Source: Maybank-KE, CEIC

ECB (and ESFS) likely to resume some quantitative easing, and another policy rate cut is likely this quarter. ECB (European Central Bank) president Mario Draghi's promise on July 26th that the ECB was "ready to do whatever it takes" to preserve the Euro suggests to us: (a) that the ECB is likely to cut its policy rate again either on Thursday August 2nd or at its next meeting in September; and (b) that the European Financial Stability Facility (EFSF) is likely to intervene in the primary sovereign-bond markets of Spain, Italy (as well as Portugal and Ireland if necessary), with the ECB backstopping EFSF purchases through intervention in the secondary markets. The Bundesbank has objected to direct ECB purchases of sovereign bonds, but Draghi has pointed out that the ECB's mandate allows it to counter "excessive

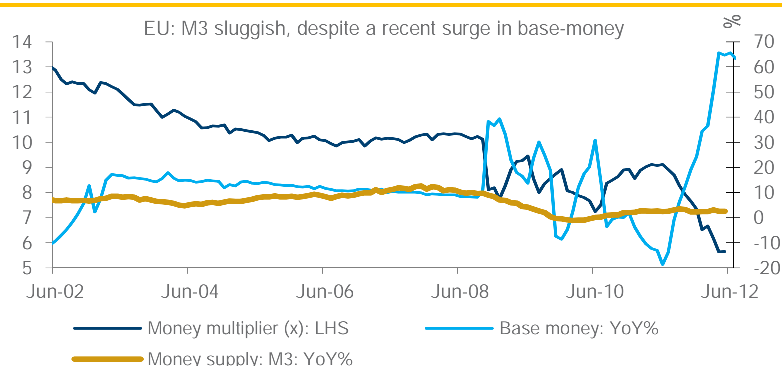
spreads on sovereign bonds that are caused by fears of the Eurozone's break-up". Hence we expect the EFSF-ECB two-punch outlined above.

ECB has a Twin Pillars approach, targeting not just inflation…In the Eurozone, the ECB officially adopts a "Twin Pillars" approach to monetary policy. While the markets focus primarily on the inflation target ("at or below 2%YoY for headline inflation"), the other pillar is often forgotten: M3 growth of 4.5%YoY. As the chart above shows, headline CPI inflation (the ECB's target) is indeed still above the ECB's comfort zone (2.4%YoY in May and June 2012), but well below the level of November 2011 (3% YoY) and December 2011 (2.8% YoY) when the ECB cut its policy rate by 25bp each. And although the ECB does not formally target core inflation, it is worth noting that core CPI inflation (1.8% YoY in May, 1.7% in June) has been below 2% YoY throughout the period since end-2008.

…but also an explicit M3-growth target (which it seems to have ignored for the past 3 years). The adoption of a formal M3-growth target is an unusual aspect of the ECB's approach to monetary policy – although that "pillar" appears to have been ignored for much of the past three years. As the chart below shows, M3 growth in the EU has not exceeded 3.5% YoY at any time since July 2009 (i.e., it has consistently been more than 1pp below the officially-proclaimed M3-growth target), and M3 is currently (June 2012) growing just 2.5% YoY. The ECB did cut its policy rate in July 2012 to 0.75% (and also reduced its interest rate on banks' excess reserves to zero from 0.25%). Given that M3-growth is subdued, and inflation (although marginally above the ECB target) is moderating, we believe there is ample scope for the ECB to ease policy further.

With the money-multiplier weak, we expect the ECB to aggressively boost liquidity, especially until the ESM can play its role in creating a banking union for the Eurozone. The ECB's aggressive LTRO (Long-Term Refinancing Operation) has also failed to bolster M3 growth (chart below). Instead, the Eurozone's money-multiplier has collapsed – as European banks used these funds to invest in sovereign bonds (for the yield pick-up) rather than to lend to non-bank and non-government customers. This is a fairly standard response by banks in the immediate aftermath of a financial crisis. Further aggressive expansion of the Eurozone's monetary base will weaken the Euro further, and slightly bolster the pace of M3 growth – with both factors helping to alleviate the Eurozone's ongoing recession. Until the ESM comes into existence (sometime after the German Constitution Court verdict), and the Eurozone completes its banking union (toward the end of 2012), the onus will be on the ECB to substantially bolster liquidity further.

Chart 6: M3 growth in the Eurozone remains anemic, despite ECB easing



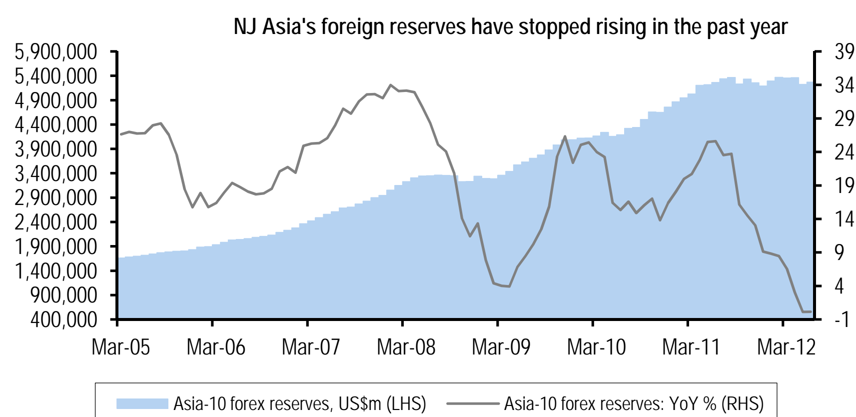
Source: Maybank-KE, CEIC

Asia: renewed liquidity inflows easier to absorb now

Asia's foreign reserves have been flat for the past year, so Asia now has greater capacity to absorb new liquidity inflows. During past episodes of QE, Asia has been concerned about the upward pressure on Asian currencies arising from the impact of additional flows of liquidity to the region. In the past year, however, Asian currencies have depreciated against the soaring US$. One unusual consequence of this is that non-Japan Asia's foreign reserves (US$5.27tn at the end of June 2012) are lower than the peak level reached in August 2011 (US$5.37tn; chart 7 below). Even China has seen its foreign reserves decline in 2Q 2012, despite a sharp improvement in its trade surplus during the quarter – suggesting substantial capital flight from China during the period.

Only the Philippines needed to fend off capital inflows; the rest of Asia would welcome some inflows, and modest currency appreciation (reversing the year-to-date depreciations). China's foreign reserves are still marginally higher in June 2012 than a year earlier (+1.3% YoY). The only two other Asian economies with a higher level of foreign reserves currently than a year ago are the Philippines (+10.3% YoY) and South Korea (+2.6% YoY) – and it should not be surprising that those two countries' central banks cut interest rates last week. Especially in the Philippines case, the rate cut was primarily aimed at fending off excessively large capital inflows. However, all the other Asian economies have seen their foreign reserves decline over the past year – and their currencies (including the RMB) have depreciated in the current year-to-date. Consequently, they face no problem of excessive capital inflows. An improvement in global risk appetite – and consequent modest appreciation of Asian currencies – would be broadly welcome for most of Asia, where currencies are now largely under-valued.

Chart 7: Asia's foreign reserves flat for the past year



Source: Maybank-KE, CEIC

Overweight

Consumer Staples Monthly

Pre-Blackout Updates: Key Highlights

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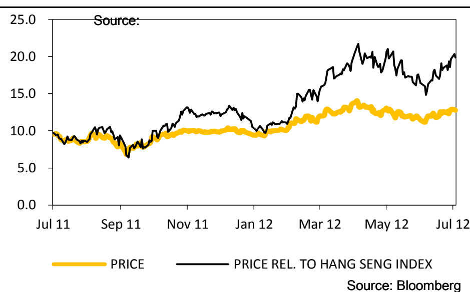
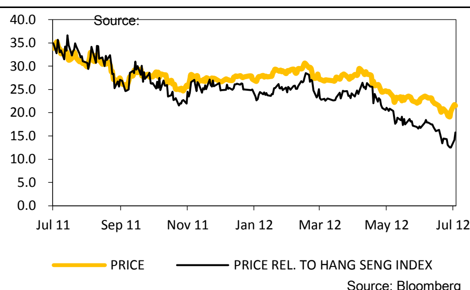
Vinda (3331)



Source: Bloomberg

CRE (291)



Source: Bloomberg

Overweight	Equal-weight	Underweight
▪ Household & Personal Care	▪ Food retailer	▪ Restaurants
▪ Baby care and baby food	▪ Wine	▪ Meat
▪ Dairy related		▪ Beverages
▪ Brewery		▪ Edible oil
▪ Snacks		▪ Instant noodles
		▪ Liquor & tobacco

BUYs	HOLD	SELLs/SHORTs
▪ CRE (291)*	▪ Want Want (151)	▪ UPC (220)
▪ Vitasoy (345)	▪ Hengan (1044)	▪ Café de Coral (341)
▪ China Foods (506)*	▪ Tingyi (322)	▪ Ajisen (538)
▪ Biostime (1112)*		▪ China Yurun (1068)
▪ Prince Frog (1259)		▪ China Huiyuan Juice (1886)
▪ China Mengniu (2319)		
▪ Vinda (3331)*		

** Conviction buy*

1H12 Coverage updates. Vinda (3331, BUY) saw strong sales volume growth and decent margin expansion. **CRE (291, BUY)** achieved its guided mid-single digit SSSG and br ewery sales volume growth, but cost pressures still linger. **Want Want (151, HOLD)** anticipates uninspiring flavoured milk sales volume growth in 2Q after an ASP hike in March. **Yurun (1068, SELL)**'s chairman quit and **Ajisen (538, SELL)** issued a profit alert. **Prince Frog(1259, BUY)** saw solid children's skincare product sales but its non-core units suffered. **Hengan (1044, HOLD)**'s diapers and t issue units disappointed in 1H but growth momentum is picking up at its tissue unit in July on new capacity and more extensive promotions; also, its sanitary napkins unit maintained strong growth throughout 1H. **Mengniu (2319, BUY)**'s 1H results will be weak but this is well-anticipated. We expect **China Foods(506,BUY)** to deliver strong set of results on the back of structural portfolio enhancements and improved operating efficiency. Our top picks are Vinda, CRE, China Foods and **Biostime(1112 HK,BUY)**.

Shanghai visit wrap-up. We attended the 12th Shanghai International Children-Baby-Maternity Industry Expo on 19 July. We witnessed the rapidly expanding baby and child care sector as there were more than 2,000 brands from 80 c ountries with products ranging from apparel, skincare, nutritional products, accessories and infant formula participating in the exhibition. PF introduced its high-end baby skincare brand "Ein.b" at the expo. Despite heightened competition, we still see massive growth potential for the existing players given a projected 20% industry sales CAGR in the near to medium term on deepe ning penetration, as well as the 16m births each year. Biostime and **Goodbaby (1086, NR)** are still worth a look, in our view.

Industry trends. We also visited 10 supermarkets, hypermarkets and maternity specialty stores during our three-day stay in Shanghai. One notable trend is reduced in-store promotional activities by F&B players. Other key observations include: i) beverage demand seems to have picked up Q oQ with the hot summer, while milk tea/jasmine tea/iced sweet pear and sour plum juice are stealing the shine from traditional RTD tea and juice drinks; ii) the rising presence of **Vitasoy (345, BUY);** iii) confidence in processed meat is still weak; iv) fading enthusiasm over spicy and pickled mustard noodles, though this could be due to the hot weather.

Major industry news. The carcinogen Aflatoxin was found in Nanshan Bywise brand infant formula, while A-share listed Bright Dairy was associated with three quality issues in one month. Jinmailang and foreign milk powders were involved in unfounded food safety scares. Xinhua news said the NDRC was in talks with major cooking oil producers as some of them had begun to adjust peanut oil prices in July. Foreign milk powder brands have kicked off another round of price hikes with an average increment of 10%. Moutai's retail prices fell by 44% from a year ago on reduced public spending budgets.

Banking

Neutral *(unchanged)*

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Business loans gather momentum

A faster pace. Loan growth in June was fairly robust at 12.6% YoY and it is the fastest pace thus far this year, having risen steadily over the past few months. While household (HH) loan growth has held steady at close to 11.8% YoY (11.7% YoY in May), non-HH loans have steadily gathered momentum and were up 13.6% YoY in June (13.4% YoY in May). Annualized loan growth of 12.7% is currently ahead of our 2012 loan growth forecast of 10.5%. Our forecast is maintained for now, while our Neutral call on the sector is unchanged. We maintain our BUYs on **HL Bank**, **HL Financial Group** and **Public Bank** and SELLs on **CIMB**, **RHB Capital** and **BIMB Holdings**.

HH loan growth at 11.8% YoY. Non-residential property loan growth slipped, while personal and credit card loans continued to trend down. Residential property lending remained resilient while, share margin financing and auto loans kept momentum going.

Segmental loan growth (YoY)

	June 12	May 12	Apr 12	Mar 12	Feb 12
Securities	16.9%	9.0%	10.8%	12.0%	13.3%
Transport vehicles	6.9%	6.6%	6.5%	7.1%	7.4%
Residential property	13.6%	13.7%	13.7%	13.9%	13.5%
Non-residential property	22.6%	23.7%	23.4%	22.7%	21.8%
Personal use	13.4%	14.6%	15.0%	15.5%	17.3%
Credit card	4.6%	5.0%	6.2%	6.6%	6.2%
Consumer durables	-18.6%	-18.5%	-9.7%	-22.7%	-25.4%
Construction	16.1%	15.5%	17.3%	19.2%	16.2%
Working capital	8.9%	9.3%	10.2%	10.4%	10.0%
Other purposes	22.6%	20.8%	8.7%	7.0%	5.4%
Total	12.6%	12.5%	12.1%	12.2%	11.9%

Source: BNM

Encouragingly, non-HH loan growth gathered pace at 13.6% YoY. Within the non-HH category, BNM reports a pick-up in momentum to 14.3% YoY in June for business loan growth, this being the fastest pace of expansion over the past two years. Notably, construction loans saw growth of 16% YoY, a pick-up from 15.5% in May 12.

Banking Sector – Peer Valuation Summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYRm)	TP (MYR)	PER (x) CY12E	PER (x) CY13E	P/B (x) CY12E	P/B (x) CY13E	ROAE (%) CY12E	ROAE (%) CY13E	Net yield CY12E	Net yield CY13E
AMMB	HOLD	6.42	19,351	6.30	12.0	11.1	1.6	1.5	14.1	14.0	3.5	3.8
BIMB	SELL	3.05	3,254	3.00	13.5	12.3	1.6	1.5	12.6	12.7	2.7	3.0
CIMB	SELL	7.85	58,347	6.80	13.7	12.4	2.1	1.9	15.8	16.1	3.3	3.6
HL Bank	BUY	13.66	25,680	14.60	13.8	12.9	2.1	1.9	15.6	15.1	1.6	1.7
Maybank *	NR	8.76	65,509	NR	12.7	11.5	1.8	1.7	15.3	15.4	5.9	6.5
Public Bank	BUY	14.36	50,718	16.00	13.1	12.1	2.9	2.6	23.1	22.7	3.8	4.2
RHB Cap	SELL	7.37	16,250	7.20	9.9	9.0	1.3	1.2	13.9	13.9	3.0	3.3
Simple average			**239,108**		**12.7**	**11.6**	**1.9**	**1.7**	**15.8**	**15.7**	**3.4**	**3.7**
HL Fin Grp	BUY	12.44	12,941	14.20	10.7	10.0	1.5	1.3	14.6	14.1	3.0	3.2

*NR = Not Rated; * Consensus estimates; Source: Maybank KE*

SEE APPENDIX I FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Timah

Weak result due to unfavorable tin price

BUY (upgrade)

Share price: IDR1,330
Target price: IDR1,610 *(From IDR1,960)*

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Stock Information

Description: Indonesia's largest tin producer and the world's largest tin exporter.

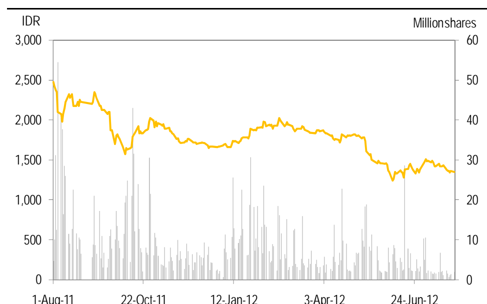
Ticker:	TINS.IJ
Shares Issued (m):	5,033
Market Cap (USD m):	707
3-mth Avg Daily Turnover (USD m):	0.8
IDX index:	4142
Free float (%):	35.0

Major Shareholders:	%
Government of RI	65.0

Key Indicators

ROE – annualised (%)	14.0
Net debt (cash) (IDR b):	54
NTA/shr (IDR):	1,251
Interest cover (x):	48.3

Historical Chart



Performance:

52-week High/Low IDR2,475/IDR1,240

	1-mth	3-mth	6-mth	1-yr	YTD
Absolute (%)	-3.6	-26.9	-29.3	-45.7	-20.8
Relative (%)	-8.3	-26.0	-34.3	-46.0	-29.6

Cutting forecast on weak result. Timah posted a 1H12 net profit of IDR336b, a sharp 51% drop from 1H11, on the back of plunging tin prices. The figure was below expectations, at just 44% of our previous FY12 net profit estimate. We cut our FY12 forecasts accordingly, mainly by lowering our ASP assumption by 3% to USD21.5k/tonne, and our production (and sales) volume forecasts by 7% to 37k tonnes.

Production lower than expected. On a quarterly basis, net profit fell 38% QoQ to IDR128b in 2Q12. Revenue dropped 10% QoQ as the company sold 9% less tin while tin prices fell 5% during the period. Timah managed to double its production to 10.1k tonnes from 4.8k tonnes in 1Q12, but overall, 1H12 production of 15k tonnes came in below our estimate of 38k tonnes for the full year. Timah's NPM fell 3ppts to 6.5% as a result.

The prevalent weakness in the tin market is not unfounded. Based on data from the World Bureau of Metal Statistics, tin consumption in 5M12 has fallen by 7% YoY to 145.1k tonnes as China booked less stellar economic growth and Europe grapples with the threat of a double-dip recession, lowering demand for electronic goods. Taiwan recorded a 6% YoY decrease in the manufacturing activity of computer and electronics instruments in 1H12. We do not think that the demand situation will improve much in the next 12 months, thus we do not expect price rebound to be forthcoming in the near future. However, there is a chance that there will be a 10-12k p.a. supply reduction from the GoI's decision not to renew Koba Tin's contract of work, which will further tilt the global supply-demand balance towards a deficit.

Upgrade recommendation to BUY as share price has fallen. We also cut our ASP assumption for 2013 and 2014 by 19% and 13% to USD21k/tonne and USD23.5k/tonne respectively, as we believe depressed demand will put a cap on any potential price rally. But we deem the recent correction excessive, as the supply-demand situation remains supportive of stronger tin prices in the future. We upgrade our recommendation to BUY from HOLD despite a lower TP of IDR1,610 (FY13F PER of 19.5x) from IDR1,960 previously.

Timah – Summary Earnings Table

FYE Dec (IDR b)	2010A	2011A	2012F	2013F	2014F
Revenue	8,339	8,750	7,532	7,532	8,478
EBITDA	1,559	1,617	1,044	1,053	1,917
Recurring Net Profit	948	897	463	415	987
Recurring Basic EPS (IDR)	188.3	178.2	91.9	82.4	196.0
EPS growth (%)	202	(5)	(48)	(10)	138
DPS (IDR)	31.2	94.2	89.1	46.0	57.7
PER (x)	8.5	9.0	17.5	19.5	8.2
EV/EBITDA (x)	4.9	5.0	8.0	8.0	4.3
Div Yield (%)	1.9	5.8	5.5	2.9	3.6
P/BV(x)	1.9	1.8	2.0	1.9	1.7
Net Gearing (%)	Net Cash	Net Cash	6	0	0
ROE (%)	24.8	20.4	10.7	10.1	21.7
ROA (%)	17.7	14.4	7.5	7.0	15.3
Consensus Net Profit (IDR b)	*763*	*1,189*	*1,147*	*1,141*	*1,246*

Source: Kim Eng

SEE APPENDIX I FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Kim Eng

India

Company Update **1 August 2012**

SELL *(Unchanged)*

Maruti Suzuki (MSIL)

Expect more EPS downgrades

Share price: Rs1,120/sh
Target price: Rs1,005/sh

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Stock Information

Description: MSIL, owned 54% by Suzuki, Japan, is the largest car manufacturer in India, with sales of more than 50%. MSIL specializes in A2 and A3 segment with best-selling models such as Alto and Swift

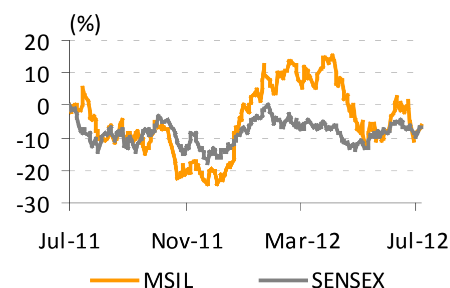
Ticker:	MSIL IN
Shares Issued (m):	289
Market Cap (US$bn):	5.8
6-mth Avg Daily Turnover (US$m):	21.5
SENSEX:	17,144
Free float (%):	45.8

Major Shareholders:	%
Suzuki Corporation	54.2

Key Indicators (FY13F)

ROE – annualised (%)	11.6
Net cash (Rs bn):	38.2
NTA (Rs/sh):	611.5
Interest cover (x):	49.7

Historical Chart



Performance:

52-week High/Low Rs1,429/Rs900

	1-mth	3-mth	6-mth	1-yr	YTD
Absolute (%)	*-0.8*	*-19.5*	*-8.1*	*-8.0*	*-21.2*
Relative (%)	*0.0*	*-17.8*	*-5.8*	*0.7*	*12.2*

Increased royalty, commodity and FX losses weigh on Q1 EPS. MSIL's Q1 EPS fell 30% QoQ and 18% YoY due to sharp depreciation in INR vs the JPY, which inflated its royalty and manufacturing costs. Despite strong demand for its diesel cars, which led to 20% increase in selling price YoY, MSIL could not benefit as drop in volume of petrol cars hurt overall volume. We are concerned about the recent labor problems at its plant, which led to closure of half of its capacity and reduced production. In April, we downgraded our FY13F EPS to Rs67 and expect another downgrade if the lockout continues for a few more days. We maintain SELL on MSIL with TP of Rs1,005/sh based on PER of 15x FY13F.

Strong Q1 revenue growth unlikely to sustain. MSIL's Q1 sales of Rs108bn (+27% YoY) are due to per unit selling price increase of 20%, even as volume rose only 5%. The high-priced diesel cars now account for 33% of MSIL's sales vs. 22% last year. We believe the recent lockout at the Manesar plant and govt's expected imposition of additional excise duty on diesel cars would impact MSIL's diesel car volume in the coming quarters.

Gross margin better, but high selling cost pressures net margin. MSIL's cost of manufacturing and royalty increase (240bp) was more than the decline in its RM cost (20bp). MSIL's depreciation also increased 30bp YoY due to expansion at the Manesar plant. Its Q1 EPS formed 22% of our FY13F EPS of Rs67. Unless the labor crisis is resolved and normal output starts soon, we will cut MSIL's FY13F volume, revenue and EPS.

Damage due to lockout at Manesar plant is under assessment. MSIL confirmed that apart from production loss, there is also a loss to the property and plant due to the incidence of violence. We estimate the production loss at 1.7k units/day and will hit sales of diesel cars such as Dzire and Swift hard. Competitors such as Hyundai, Nissan, Mahindra and Toyota will benefit because they have lined up products to lure buyers to shift from MSIL products (waiting period of 12-14 weeks on MSIL products may get longer).

PER of 16x FY13F has a built-in hope value. Despite the disappointing Q1 and ongoing labor crisis, investors have built in high hopes from MSIL. We believe, the current valuation does not capture the risk from the likely downgrade in earnings and dent in the market share. Historically, MSIL traded at PER of 10–15x. We maintain a TP of Rs1005/sh based on a PER of 15x FY13F.

MSIL – Summary Earnings Table

FY Mar 31 (Rs bn)	FY10	FY11	FY12	FY13F	FY14F
Revenue	298.2	370.9	359.2	410.6	466.8
EBITDA	37.6	32.3	23.5	30.2	34.6
Recurring Net Profit	26.2	23.8	16.8	19.3	21.7
Recurring Basic EPS (Rs)	90.9	82.5	58.2	67.0	75.2
EPS growth (%)	114	-9	-29	15	12
DPS (Rs)	6.0	7.5	4.8	7.7	8.2
PER (x)	12.1	13.3	18.9	16.4	14.6
EV/EBITDA (x)	7.3	7.7	11.1	9.0	8.2
Div Yield (%)	0.5	0.7	0.4	0.7	0.7
P/BV(x)	2.6	2.2	2.0	1.8	1.6
Net Debt/Equity (%)	NA	NA	NA	NA	NA
ROE (%)	24.1	18.0	11.2	11.6	11.6
ROA (%)	17.0	13.2	8.0	8.2	8.5
Consensus Net Profit (Rs bn)	-	-	-	*24.4*	*28.6*

Source: Company data, Bloomberg, KESI estimates

Maybank ATR Kim Eng

Philippines

Interim results

1 Aug 2012

Hold (unchanged)

Share price: PHP100.30
Target price: PHP100.00 *(from PHP95)*

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Stock Information

Description: Banking

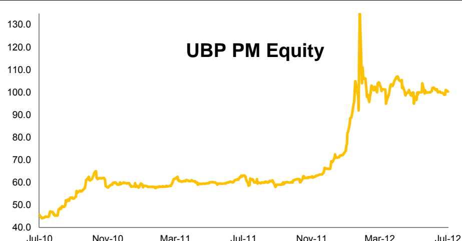
Ticker:	UBP PM / UBP.PS
Shares Issued (m):	641
Market Cap (PHP m):	64,292
Market Cap (USD m):	1,541
3-mth Avg Daily Volume (m):	0.52
PSEi:	5,307.66
Free float (%):	22.0

Major Shareholders:	%
Aboitiz Equity Ventures	43.3

Key Indicators

ROE (%)	17.8
Tier-1 CAR (%)	16.0
BV/share (₱)	59.34
NPL ratio (%)	6.9

Historical Chart



Source: Bloomberg

Performance:

52-week High/Low PHP 140/PHP 58

	1-mth	3-mth	6-mth	1-yr	YTD
Absolute (%)	0.3	(6.2)	31.6	59.2	52.0
Relative (%)	(0.9)	(8.2)	18.3	41.4	30.6

Union Bank of the Phils

Improved core lending but lower trading gains

Trading income down 43% in 2Q12. Union Bank of the Philippines' (UBP) 2Q12 earnings dropped 43% YoY and 57% QoQ to PHP1.2b mainly due to lower trading income, which fell 68% YoY and 76% QoQ to PHP641b. Recall that UBP reclassified all its held-to-maturity investments to available-for-sale in 2Q11 and reaped huge trading gains then as a result. The bank also took significant profits in their investment portfolio in 1Q12, leading to PHP2.6b trading income. Thus, the combined quarterly trading gains in 1H12 of PHP3.3b still drove net income 42% higher YoY to PHP4.1b. This accounted for 62% of both our full-year estimate and market consensus forecast.

Core lending business improves. Net interest income improved substantially 16.4% YoY to PHP1.9b in 2Q12. This was driven by lower funding costs as interest expense fell 20% YoY. Deposit liabilities were lower 7% YoY and 11% QoQ to PHP169b. Loans, on the other hand, went up 14% YoY on credit expansion from both consumer and middle-market sectors. The bank also benefitted from high-yielding investments as income from investment securities jumped 33% YoY. Based on our computation, annualized asset yield increased 26bps QoQ to 5.3%. Combined with lower costs, net interest margin climbed 46bps QoQ to 3.6%.

Cost-to-income ratio of 54.5% in 2Q12. Operating expenses went down 1.2% but the lower revenue this quarter increased cost-to-income ratio to 54.5% from 38.4% in 1Q12. In 1H12, costs were up 15% to PHP3.7b as manpower expenses climbed 23% while taxes and licenses soared 48%. Meanwhile, provision charges were lower 79% to PHP77m in 2Q12, bringing 1H12 total to PHP260m.

Target price upgraded to PHP100/sh. We are keeping our earnings forecast of PHP6.5b (EPS: PHP10.15) based on a conservative assumption that there will be no huge trading gains in 2H12. However, we adjust our 12-month target price higher 5% to PHP100/sh, now more heavily weighted in favor of 2013 rather than 2012 earnings. At this price, UBP would be trading at 1.7x its estimated 2012 net tangible BVPS of PHP59.34. HOLD rating maintained.

Union Bank of the Philippines — Summary Earnings Table

Year End Dec 31 (PHPm)	2009A	2010A	2011A	2012F	2013F
Operating Income	12,341	13,228	15,237	14,633	15,485
Pre-provision Profit	6,394	6,730	8,359	7,355	7,751
Profit Before Tax	4,420	6,206	6,810	7,038	7,374
Net Profit To Common	4,325	5,372	6,595	6,510	6,799
EPS (PHP)	6.74	8.38	10.28	10.15	10.60
EPS growth (%)	109.1	24.2	22.8	(1.3)	4.4
Net DPS (PHP)	1.12	2.20	2.50	3.00	3.00
PER (x)	14.9	12.0	10.3	10.4	10.0
Net Div Yield (%)	1.1	2.2	2.5	3.0	3.0
PBV(x)	2.8	2.3	1.8	1.8	1.6
Book Value (PHP)	36.47	43.81	54.49	59.34	66.17
ROAE (%)	20.3	20.9	20.9	17.8	16.9
ROAA (%)	2.0	2.2	2.6	2.4	2.3
Consensus Net Profit (PHPm)	*na*	*na*	*na*	*6,584*	*7,374*

Source: Maybank ATR Kim Eng estimates

SEE APPENDIX I FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Kim Eng

Indonesia

Results Review

1 August 2012

HOLD (downgrade)

Share price: IDR24,250
Target price: IDR26,350

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Stock Information

Description: Unilever is Indonesia's largest publicly listed consumer goods company producing a wide range of products in the household & personal care and food & ice cream segments. It has commanding market share in most of its product categories. Established in 1933, the company is the oldest multi-national consumer goods producer in the country.

Ticker:	UNVR.IJ
Shares Issued (m):	7,630
Market Cap (US$ m):	19,544
3-mth Avg Daily Turnover (US$ m):	3.9
IDX index:	4142
Free float (%):	15

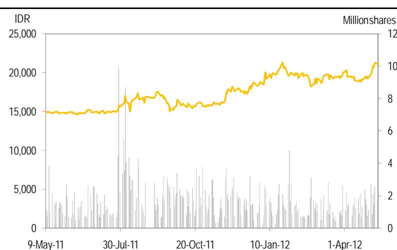
Major Shareholders:

Unilever Indonesia Holding B.V.	85

Key Indicators

ROE – annualised (%)	124.2
Net cash (IDR b):	Net cash
NTA/shr (IDR):	13,291
Interest cover (x):	77.5

Historical Chart



Performance:

52-week High/Low IDR24,550IDR15,000

	1-mth	3-mth	6-mth	1-yr	YTD
Absolute (%)	5.9	22.2	23.7	52.5	30.7
Relative (%)	1.2	23.1	18.6	53.7	22.0

Unilever Indonesia

Good Results

A good result. Unilever posted 1H12 net profit of IDR1,163b, up 18% Yo Y on the back of 17% Yo Y revenue growth, supported by sales volume growth of over 11% YoY. The numbers are slightly above our ex pectations. Household & Personal Care (HPC) products posted strong revenue growth of 18% YoY while growth from the Food & I ce Cream segment slowed to 12% YoY mainly due to a shortage in the supply of coconut sugar, which the company said has rece ntly normalised. Gross profit rose 15% YoY, slower than the 18% reve nue growth due to higher input costs, which prompted an 18% increase in costs of g oods sold. That resulted in gross margins declining to 50.5 % in 1H12 vs. 51.5% in 1 H11. However, on a quarterly basis, gross margins have impro ved by 560bps to 50.7% in 2Q12 from 50.2% in 1Q12 mainly due to weakening commodity prices.

Continue growing from expansion. Unilever's 1H12 capital expenditure amounted to IDR560b, out of a likely total of IDR1.3-1.4b this year. As it completed the expansion of its skin care factory in FY11, it is now focusing on expansion of its detergent products. The newest product, *So Klin liquid*, has been very well received by the market. In addition, we expect Unilever to expand its hair care prod uct offering as it completed the acquisitio n of Albert Culver in FY11. Some popular brands from Albert Culver in clude *TRESemmé, Alberto VO5, Nexxus, St. Ives, Simple and Noxzema*.

No worries from fuel price hike. In pa st years, Unilever's strong brand equity has allow ed it to pa ss on cost in creases without suffering volume loss. Earlier t his year, it increased the ASP of *Kecap Bango*, the best selling soy sauce in Indonesia, by 5%, and ASPs of its detergent products by 6 due to higher raw material prices. We believe there w ill be more ASP hikes if inflation accelerates. We are not worried about any potential impact on volumes. During the two sharp fuel price increases in 2005-2006 and 2008, Unilever recorded double-digit growth in revenues and net profit, as it was able to grow sales volumes despite sharp ASP increases.

A large dividend play. Despite its huge capex commitment of ~EUR350m over 2010-2012, we expect Unilever to maintain a high dividend p ayout ratio of 95-100%, as the company has the balance sheet to finance both its expansions and dividends of this magnitude.

Maintain TP, downgrade to HOLD. We maintain our forecast assumptions and TP at IDR26,350, which pegs the stock at 35x FY13 PER. As potential upside is less than 15%, we recommend HOLD.

Unilever Indonesia – Summary Earnings Table

FYE Dec (IDR b)	2009A	2010A	2011A	2012F	2013F
Revenue	18,247	19,690	23,469	27,566	31,884
EBITDA	4,368	4,824	5,709	6,649	7,892
Recurring Net Profit	3,043	3,382	4,165	4,812	5,745
Recurring Basic EPS (IDR)	399.0	443.9	545.7	630.5	752.6
EPS growth (%)	26.5	11.3	22.9	15.5	19.4
DPS (IDR)	244.6	299.7	379.0	421.7	518.4
PER (x)	60.8	54.6	44.4	38.5	32.2
EV/EBITDA (x)	42.2	38.3	32.3	27.7	23.3
Div Yield (%)	1.0	1.2	1.6	1.7	2.1
P/BV(x)	50.0	45.7	50.3	37.8	29.0
Net Gearing (%)	(23.2)	(3.2)	9.9	0.7	1.8
ROE (%)	82.2	83.6	113.3	98.2	90.0
ROA (%)	40.6	38.9	39.7	40.2	41.1
Consensus Net Profit (IDR b)				*4,620*	*5,279*

Source: Kim Eng

SEE APPENDIX I FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

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P.A. = Per Annum
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PEG = PE Ratio To Growth
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