

# China A-Share Strategy

## The 50 MMA eligible stocks that we favour



### Equity Strategy

China

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### A prelude to the opening up of China's capital market

Despite some concerns by global investors on the outlook for China's economic growth, we believe they will not overlook the gradual opening up of the A-share market of the world's second-largest economy, fifth-largest market by market capitalisation, the most inexpensive market in Asia and, of course, the worst performer among major emerging markets in the past four years.

### Market implications of Shanghai-Hong Kong Mutual Market Access (MMA)

Once implemented, MMA will enable global investors to trade 568 eligible stocks listed on the Shanghai Stock Exchange. Unlike uncertainties in application timeframe and quota size for QFII and RQFII, we believe MMA is a more market-orientated mechanism and expect it to be relatively flexible and transparent. The 568 eligible MMA stocks have a combined market cap of US\$2.17trn (or 55% of the total A-share market cap) and an average daily turnover of US\$10.3bn (32% of the total A-share turnover). Their weighted 2013 PE is 8.5x, compared with the 12.2x weighted 2013 PE for the entire A-share universe.

### The 50 MMA eligible stocks that we favour

1) Stocks with deep A/H-share discounts, e.g. Conch Cement, Jiangsu Expressway, Ping An Insurance. 2) Stocks with valuations lower than peers in Hong Kong and other markets, e.g. Poly Real Estate, Haier, Yili Industrial, Shanghai Int'l Airport. 3) Stocks with high dividend yields, e.g. SAIC Motor, China Construction Bank, Daqin Railway. 4) A-shares with scarcity value, e.g. Kweichow Moutai, CYTS Tours, Hengrui Medicine. 5) Stocks with leading global market share, e.g. ICBC, CSR Corporation. 6) Stocks with high growth profiles, e.g. Yonyou Software, Linyang Electronics.

# Contents

<b>Investment overview .....</b>	<b>5</b>
<b>Deep A/H-share discount.....</b>	<b>9</b>
Anhui Conch Cement - A .....	10
Jiangsu Expressway - A .....	11
China Pacific Insurance - A.....	12
Tsingtao Brewery - A .....	13
CITIC Securities - A .....	14
Huaneng Power International - A.....	15
Key Call: China Merchants Bank - A .....	16
Ping An Insurance (Group) - A .....	17
China Petroleum and Chemical Corp - A .....	18
Haitong Securities - A .....	19
<b>Valuations lower than peers in Hong Kong &amp; other markets ....</b>	<b>21</b>
Poly Real Estate.....	22
Qingdao Haier Co. ....	23
Key Call: Inner Mongolia Yili Industrial.....	24
Shanghai International Airport.....	25
Baosteel.....	26
Offshore Oil Engineering.....	27
Bank of Beijing .....	28
<b>High dividend yield.....</b>	<b>29</b>
SAIC Motor.....	30
China Construction Bank - A .....	31
Key Call: Daqin Railway .....	32
Fuyao Glass.....	33
<b>A share stocks with scarcity value .....</b>	<b>35</b>
Kweichow Moutai .....	36
China CYTS Tours Holding.....	37
China International Travel Service .....	38
China Yangtze Power .....	39
Jiangsu Hengrui Medicine .....	40
Guizhou Yibai Pharmaceutical.....	41
Shinva Medical Instrument.....	42
Zhejiang Huahai Pharmaceutical .....	43

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Tonghua Dongbao Pharmaceutical .....	44
People.cn .....	45
Yonghui Superstores .....	46
Jonjee Hi-Tech Industrial and Commercial .....	47
Jiangsu Kanion Pharmaceutical .....	48
China Auto Research Institute .....	49
<b>Leading global market share .....</b>	<b>51</b>
Industrial & Commercial Bank of China A .....	52
China Shenhua Energy - A .....	53
Shanghai International Port (Group) .....	54
Inner Mongolia Eerduosi Cashmere Product .....	55
CSR Corp - A .....	56
Yantai Wanhua Polyurethanes .....	57
NARI Technology Development .....	58
Zhejiang Chint Electrics .....	59
Sanan Optoelectronics .....	60
<b>High growth profile .....</b>	<b>61</b>
Yonyou Software .....	62
Jiangsu Linyang Electronics .....	63
Shanghai Jahwa United .....	64
Zhengzhou Yutong Bus .....	65
Xiamen Faratronic .....	66
Zhongjin Gold .....	67
<b>Appendix .....</b>	<b>69</b>

Figure 1: The 50 MMA eligible stocks that we favour

		Deep A/H-share discount	Valuations lower than peers in HK & other markets	High dividend yield	A-shares with scarcity value	Leading global market share	High growth profile
600585	Conch Cement	✓				✓	
600377	Jiangsu Expressway	✓		✓			
601601	China Pacific Insurance	✓					
600600	Tsingtao Brewery	✓					
600030	CITIC Securities	✓					
600011	Huaneng Intl	✓		✓			
600036	CMB	✓		✓			
601318	Ping An Insurance	✓					✓
600028	Sinopec	✓		✓			
600837	Haitong Securities	✓					
600048	Poly Real Estate		✓				
600690	Qingdao Haier		✓				
600887	Yili Industrial		✓				
600009	Shanghai International Airport		✓		✓	✓	
600019	Baosteel		✓				
600583	Offshore Oil Engineering		✓				
601169	Bank of Beijing		✓				
600104	SAIC Motor		✓	✓		✓	✓
601939	CCB	✓		✓			
601006	Daqin Railway		✓	✓			
600660	Fuyao Glass		✓	✓			
600519	Kweichow Moutai		✓		✓		
600138	China CYTS				✓		
601888	China International Travel				✓		✓
600900	China Yangtze Power			✓	✓		
600276	Hengrui Medicine				✓		✓
600594	Yibai Pharmaceutical				✓		✓
600587	Shinva Medical Instrument				✓		✓
600521	Huahai Pharmaceutical				✓		✓
600867	Tonghua Dongbao				✓		✓
603000	People.cn				✓		
601933	Yonghui Superstores				✓		✓
600872	Jonjee Hi-Tech				✓		✓
600557	Kanion Pharmaceutical				✓		
601965	China Automotive Engineering Research Institute				✓		✓
601398	ICBC	✓		✓		✓	
601088	China Shenhua Energy	✓		✓		✓	
600018	SIPG				✓	✓	
600295	Eerduosi		✓		✓	✓	
601766	CSR Corporation	✓				✓	✓
600309	Wanhua Chemical		✓	✓		✓	✓
600406	Guodian NARI				✓	✓	✓
601877	Zhejiang Chint Electrics		✓	✓		✓	✓
600703	Sanan Optoelectronics					✓	✓
600588	Yonyou Software						✓
601222	Linyang Electronics						✓
600315	Shanghai Jahwa						✓
600066	Yutong Bus		✓				✓
600563	Xiamen Faratronic						✓
600489	Zhongjin Gold						✓

Note: UBS-S Buy-rated stocks in bold.

Source: UBS estimates

# Investment overview

Against the backdrop of the expected implementation of the Shanghai-Hong Kong Mutual Market Access (MMA), we favour the following six investment themes: deep A/H-share discounts; valuations lower than peers in Hong Kong and other markets; high dividend yields; stocks with scarcity value; stocks with leading global market shares; and stocks with high-growth profiles.

## 1. Deep A/H-share discounts

With the gradual opening up of the A-share market, we believe the valuation discrepancy between A shares and H shares will shrink. Although the two markets are segregated, the price discrepancy between A/H dual-listed stocks may gradually narrow with overseas investors accounting for an increasingly bigger market share. If MMA is implemented, we estimate investments by overseas investors (QFII + RQFII + MMA) will reach Rmb900bn, or around 10% of the A-share free-float market cap.

For dual-listed stocks, A shares whose prices are significantly lower than their H-share counterparts may record upside.

## 2. Valuations lower than peers in Hong Kong and other markets

The transaction structure of the A-share market differs significantly to mature markets. Around 80% of A-share market trading turnover was by retail investors, while institutional investors accounted for around 80% of trading turnover in the H-share market. A market driven by retail investors is characterised by frequent trading, a focus on short-term performance and the pursuit of small caps with high volatility

As the A-share market recorded net capital outflow in the past few years (attracted by banks' wealth management products with guaranteed returns and property projects with high returns), retail investors abandoned large caps with stable earnings and focussed on small caps with 'stories'. This led to valuations of a number of mature companies being significantly lower than peers in Hong Kong and other markets.

We believe global investors who assess stock valuations based on global investment methods will be interested in those stocks. For instance, global investors comparing SAIC Motor to global auto OEM stocks instead of A-share peers, for example, may find that valuations are significantly lower than global peers.

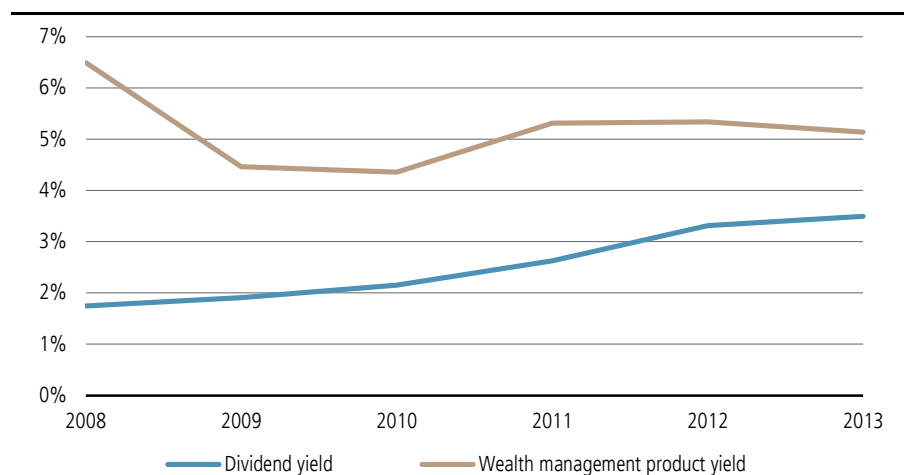
## 3. High dividend yields

Domestic retail investors are more interested in stock price rises than dividend yields. High dividend yield stocks have failed to deliver in a market driven by retail investors in the past several years. We believe things are changing, however:

a) Overseas investors generally prefer stocks with stable earnings and high dividend payouts. With the opening up of the A-share market and a rise in the share of overseas investors, stocks with high dividend yields may become more attractive.

b) Bank wealth management product yields are falling. In the past, product yields were generally higher than dividend yields, making stocks less attractive to retail investors. With the continued fall of the benchmark risk-free rate, guaranteed returns for retail investors are also declining. As a result, they may pay more attention to stocks with high dividend yields in the future.

**Figure 2: Yield of wealth management products vs. CSI300 dividend yield**



Source: Wind

#### **4. A shares with scarcity value**

There are some exceptional sub-sectors within the A-share market exposed to China consumption, which we believe will be a more stable part of the Chinese economy. These sectors generally have high ROE and low leverage. Among them, Chinese liquor which has a low valuation, as well as traditional Chinese medicine (TCM), domestic media and tourism which have high earnings growth. Compared with H shares, there are more A shares operating in niche markets in the pharmaceutical, capital goods and raw materials sectors.

#### **5. High growth profiles**

a) Companies with high growth profiles generally represent parts of the Chinese economy that are growing more rapidly, including internet-related sectors, environmental protection and new energy. These sectors may benefit from the rapid development of the internet, policy support, rising residential income and stronger demand for a cleaner environment.

b) China's economy is now at a stage characterised by fast M&A growth. With the China Securities Regulatory Commission revoking approval for general M&A cases (that is, excluding asset injections), we believe some A-share companies may grow rapidly via M&A.

#### **6. Stocks with leading global market shares**

Some A-share companies have secured leading shares in a number of niche markets around the world, with competitiveness on par with their global peers. We believe these companies are worthy of close attention from global investors.

Among the UBS-S coverage universe, we favour the following 50 MMA eligible stocks, and they are categorised as shown in Figure 1. In Figure 3, we have divided the 50 stocks into six groups based on their respective predominant themes, with basic financials and profiles provided below.

**Figure 3: The 50 MMA eligible stocks that we favour**

Code	Company	GICS sector	A-share mkt cap	Avg. daily turnover	A-H	Dividend	14E PE	EPS (Rmb)			ROE
			(US\$ m)	(US\$ m)	discount	yield		2013	2014E	2015E	(14E, %)
600585	Conch Cement	Raw materials	11,122	59	25.6	2.0%	6.9	1.8	2.5	2.7	26.1
600377	Jiangsu Expressway	Industrial	3,705	5	21.2	6.3%	10.8	0.5	0.6	0.6	14.2
601601	China Pacific Insurance	Finance	19,185	44	17.0	2.1%	17.5	1.0	1.1	1.2	9.5
600600	Tsingtao Brewery	Consumer staples	4,525	18	17.2	1.1%	25.3	1.4	1.6	1.7	12.2
600030	CITIC Securities	Finance	19,042	151	16.9	1.3%	18.9	0.5	0.6	0.7	7.7
600011	Huaneng Intl	Utilities	10,398	15	16.5	6.2%	6.7	0.9	0.9	0.7	19.3
600036	CMB	Finance	33,206	81	16.2	6.2%	4.4	2.3	2.2	2.3	19.8
601318	Ping An Insurance	Finance	31,050	173	15.1	1.6%	9.8	3.6	4.1	4.6	20.7
600028	Sinopec	Energy	73,467	50	16.0	4.8%	8.0	0.5	0.6	0.7	12.9
600837	Haitong Securities	Finance	11,916	92	9.0	1.3%	17.3	0.4	0.5	0.6	8.0
600048	Poly Real Estate	Finance	9,999	81		3.4%	3.1	1.0	1.3	1.6	23.5
600690	Qingdao Haier	Consumer discretionary	7,389	38		2.7%	8.4	1.5	1.8	2.1	29.8
600887	Yili Industrial	Consumer staples	11,496	95		2.3%	18.4	0.9	1.3	1.5	22.9
600009	Shanghai International Airport	Industrial	4,121	14		2.3%	12.2	1.0	1.1	1.2	11.0
600019	Baosteel	Raw materials	11,238	13		2.4%	9.8	0.3	0.4	0.5	6.3
600583	Offshore Oil Engineering	Energy	5,099	31		1.4%	9.2	0.6	0.8	0.8	19.2
601169	Bank of Beijing	Finance	11,463	42		2.2%	4.7	1.3	1.4	1.7	18.0
600104	SAIC Motor	Consumer discretionary	29,413	51		7.3%	6.6	2.2	2.5	2.7	19.0
601939	CCB	Finance	6,035	15	13.5	7.7%	4.3	0.9	0.9	0.9	19.8
601006	Daqin Railway	Industrial	16,425	31		6.3%	6.9	0.9	1.0	1.0	18.4
600660	Fuyao Glass	Consumer discretionary	2,859	16		5.6%	8.0	1.0	1.1	1.2	26.2
600519	Kweichow Moutai	Consumer staples	30,060	77		2.4%	11.7	13.3	14.0	15.6	33.5
600138	China CYTS	Consumer discretionary	1,703	18		0.0%	28.0	0.8	0.8	1.0	14.7
601888	China International Travel	Consumer discretionary	4,880	16		1.3%	20.4	1.4	1.5	1.9	15.8
600900	China Yangtze Power	Utilities	17,085	16		4.4%	11.1	0.5	0.6	0.6	11.9
600276	Hengrui Medicine	Medical care	7,879	24		0.3%	32.6	0.8	1.0	1.2	21.2
600594	Yibai Pharmaceutical	Medical care	2,541	10		0.3%	27.0	1.2	1.5	2.0	26.3
600587	Shinva Medical Instrument	Medical care	2,039	19		0.2%	18.2	1.2	1.7	2.5	13.5
600521	Huahai Pharmaceutical	Medical care	1,531	12		1.7%	27.8	0.4	0.4	0.6	11.0
600867	Tonghua Dongbao	Medical care	2,100	18		1.4%	35.5	0.2	0.4	0.5	17.2
603000	People.cn	IT	3,176	36		0.7%	44.4	0.5	0.8	1.1	18.7
601933	Yonghui Superstores	Consumer staples	3,722	19		1.4%	21.9	0.2	0.3	0.4	17.0
600872	Jonjee Hi-Tech	Consumer staples	1,278	16		0.8%	27.0	0.3	0.4	0.5	13.1
600557	Kanion Pharmaceutical	Healthcare	2,156	16		0.4%	35.2	0.5	0.8	1.0	18.6
601965	CARI	Consumer discretionary	1,278	8		1.6%	17.1	0.7	0.7	0.9	13.4
601398	ICBC	Finance	146,390	29	14.5	7.6%	4.6	0.7	0.8	0.7	19.5
601088	China Shenhua Energy	Energy	36,626	28	18.2	6.6%	6.8	2.3	2.0	2.2	13.8
600018	SIPG	Industrial	16,222	28		2.9%	15.2	0.2	0.3	0.3	12.9
600295	Eerduosi	Raw materials	728	10		1.6%	12.6	0.7	0.6	0.7	8.9
601766	CSR Corporation	Industrial	9,176	33	9.6	1.9%	12.7	0.3	0.4	0.4	13.6
600309	Wanhua Chemical	Raw materials	5,350	26		4.6%	9.9	1.3	1.5	1.9	31.5
600406	Guodian NARI	Industrial	5,826	64		0.7%	18.5	0.7	0.8	1.0	29.0
601877	Zhejiang Chint Electrics	IT	3,683	6		4.4%	12.1	1.5	1.9	2.1	33.2
600703	Sanan Optoelectronics	IT	5,245	55		1.0%	23.3	0.5	0.6	0.8	18.5
600588	Yonyou Software	IT	2,827	39		1.7%	25.7	0.5	0.6	0.8	19.7
601222	Linyang Electronics	Industrial	1,304	9		0.9%	18.2	1.0	1.3	1.5	15.9
600315	Shanghai Jahwa	Consumer staples	3,727	36		1.5%	24.0	1.2	1.4	1.8	26.8
600066	Yutong Bus	Industrial	3,666	29		2.8%	10.8	1.4	1.7	1.9	22.3
600563	Xiamen Faratronic	IT	1,453	13		1.7%	27.7	1.3	1.5	1.7	19.5
600489	Zhongjin Gold	Raw materials	3,660	16		0.6%	29.3	0.1	0.3	0.3	7.5

Note: Based on closing price as of 22 July 2014.

Source: Wind, UBS-S estimates

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## Deep A/H-share discount

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# Anhui Conch Cement - A

## The most competitive cement producer in China

### A national industry leader with the highest profitability

Conch Cement had a production capacity of 250mt at end-2013, second only to China National Building Materials (CNBM). With a 2013 net profit of Rmb9.4bn and ROE of 18%, Conch's profitability is the highest in China. Its capacity is distributed across the east, south, southwest, and northwest of China.

### We expect market share and earnings to rise on supply-demand improvement

Benefiting from obsolete capacity closures and government restrictions on new capacity additions, China's incremental cement capacity YoY growth has continued to decline, and we expect 0.8%/-0.7% capacity growth in 2014/2015. Although demand growth has also slowed, we believe it will still outpace supply growth and the supply-demand balance may continue to improve. As an industry leader, Conch has advantages in terms of costs, resources, management, and capital. It has a market share of just 10%, and its profitability is slightly better than the historical average. We expect the company's capacity and profitability to rise due to faster inorganic expansion and M&A.

### We expect a share price re-rating from MMA

Conch Cement A-shares are trading at a significant discount to its H-shares. We believe the Mutual Market Access (MMA) programme will significantly improve the valuation of Conch Cement's A shares. The company's strong cost controls, healthy cash flow, and robust balance sheet may also bring a valuation premium to A-share peers.

### Valuation: price target of Rmb26.35 with a Buy rating

We estimate 2014/2015/2016 EPS of Rmb2.51/Rmb2.72/Rmb2.94. We base our price target on 10.5x 2014E PE, which is at the low end to middle of its historical valuation range.

### Equities

China  
Building Materials

**12-month rating Buy**

**12m price target Rmb26.35**

**Price Rmb17.24**

**RIC:** 600585.SS **BGG:** 600585.CH

### Trading data and key metrics

<b>52-wk range</b>	Rmb19.10-14.09
<b>Market cap.</b>	Rmb99.3bn/US\$16.0bn
<b>Shares o/s</b>	4,000m (ORDA)
<b>Free float</b>	44%
<b>Avg. daily volume ('000)</b>	15,878
<b>Avg. daily value (m)</b>	Rmb262.7
<b>Common s/h equity (12/14E)</b>	Rmb56.7bn
<b>P/BV (12/14E)</b>	1.6x
<b>Net debt / EBITDA (12/14E)</b>	0.3x

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	2.51	2.24
<b>12/15E</b>	2.72	2.60
<b>12/16E</b>	2.94	2.94

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
<b>Revenues</b>	48,654	45,766	55,262	64,991	68,122	74,787	82,126	88,151
<b>EBIT (UBS)</b>	15,589	8,018	12,711	18,796	20,601	22,036	25,045	25,184
<b>Net earnings (UBS)</b>	11,590	6,308	9,380	13,310	14,428	15,606	17,659	17,858
<b>EPS (UBS, diluted) (Rmb)</b>	2.19	1.19	1.77	2.51	2.72	2.94	3.33	3.37
<b>DPS (Rmb)</b>	0.35	0.25	0.35	0.50	0.82	0.88	1.00	1.01
<b>Net (debt) / cash</b>	(14,522)	(15,617)	(10,937)	(5,724)	3,767	13,237	24,851	37,134
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
<b>EBIT margin %</b>	32.0	17.5	23.0	28.9	30.2	29.5	30.5	28.6
<b>ROIC (EBIT) %</b>	32.2	14.9	22.0	30.2	30.4	30.8	33.6	32.7
<b>EV/EBITDA (core) x</b>	7.7	9.6	6.7	4.8	4.1	3.5	2.8	2.4
<b>P/E (UBS, diluted) x</b>	10.1	13.6	9.5	6.9	6.3	5.9	5.2	5.1
<b>Equity FCF (UBS) yield %</b>	1.4	4.1	7.3	7.1	12.2	13.9	16.4	17.7
<b>Net dividend yield %</b>	1.6	1.5	2.1	2.9	4.7	5.1	5.8	5.9

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb17.24 on 22 Jul 2014 22:37 HKT

# Jiangsu Expressway - A

## Defensive stock in the toll road sector

### JSE is the major toll road operator in Jiangsu province

Jiangsu Expressway (JSE) is a subsidiary of SOE Jiangsu Communications, which holds a 54% stake. JSE is engaged in the construction and operation of toll roads and bridges, including the Shanghai-Nanjing Expressway (SNE), National Expressway 312, the Nanjing Section of the Nanjing-Lianyungang Highway, the Xicheng Expressway, the Guangjing Expressway, the Jiangyin Yangtze Bridge, and the Sujiahang Expressway. Toll road operations contributed more than 70% of total revenue in 2013, while the rest came from ancillary business, property sales, and advertising and other businesses.

### Significant discount to H share reflects lack of local investor interest

We attribute the major reason behind the A share's significant discount to the H share to the difference in in A-share and H-share investor appetite. In other words, we think A-share investors prefer stocks with higher growth profiles, while H-share investors favour Jiangsu Expressway's strong cash flow-generating ability and a consistent/high dividend payout ratio.

### Limited downside to yield; upside if profit grows

JSE is the only listed toll road operators that has not delivered a decline in DPS since its IPO, due to its strong cash flow generating ability and management's commitment to a stable if not rising dividend every year. Thus, we see limited downside to its current dividend yield. On the other hand, we expect an upside if net profit grows in 2014E on organic traffic growth and the contribution from property development.

### Valuation: price target of Rmb8.81 with a Buy rating

We estimate 2014/2015/2016 EPS at Rmb0.56/Rmb0.59/Rmb0.65. We derive our price target from a DCF-based methodology, assuming a WACC of 8.1%.

### Equities

China  
Transportation Services

**12-month rating** **Buy**

**12m price target** **Rmb8.81**

**Price** **Rmb6.02**

**RIC:** 600377.SS **BGG:** 600377.CH

### Trading data and key metrics

<b>52-wk range</b>	Rmb6.35-5.15
<b>Market cap.</b>	Rmb32.4bn/US\$5.22bn
<b>Shares o/s</b>	3,816m (ORDA)
<b>Free float</b>	10%
<b>Avg. daily volume ('000)</b>	5,604
<b>Avg. daily value (m)</b>	Rmb32.0
<b>Common s/h equity (12/14E)</b>	Rmb19.9bn
<b>P/BV (12/14E)</b>	1.5x
<b>Net debt / EBITDA (12/14E)</b>	0.6x

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	0.56	0.56
<b>12/15E</b>	0.59	0.60
<b>12/16E</b>	0.65	0.65

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	7,215	7,587	7,412	8,292	9,118	10,556	10,990	9,136
EBIT (UBS)	3,387	3,346	3,532	3,752	3,978	4,339	4,749	4,264
Net earnings (UBS)	2,430	2,333	2,619	2,801	2,992	3,287	3,777	3,436
EPS (UBS, diluted) (Rmb)	0.48	0.46	0.52	0.56	0.59	0.65	0.75	0.68
DPS (Rmb)	0.36	0.36	0.38	0.39	0.42	0.46	0.53	0.48
Net (debt) / cash	(4,725)	(4,015)	(4,075)	(2,878)	(1,044)	944	3,067	5,145
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	46.9	44.1	47.7	45.2	43.6	41.1	43.2	46.7
ROIC (EBIT) %	16.3	16.5	18.4	20.3	23.0	26.0	29.0	27.8
EV/EBITDA (core) x	7.5	6.6	6.3	6.4	5.8	4.9	4.1	4.0
P/E (UBS, diluted) x	12.5	11.7	10.6	10.8	10.1	9.2	8.0	8.8
Equity FCF (UBS) yield %	10.9	9.6	8.6	9.7	11.6	12.6	14.1	13.2
Net dividend yield %	6.0	6.6	6.9	6.6	7.0	7.7	8.8	8.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb6.02 on 22 Jul 2014 22:37 HKT

# China Pacific Insurance - A

## Impressive life insurance performance

### Net profit up 44.3% despite sizeable provision; performance beats consensus

A leading general insurance company in China, CPIC's life insurance and P&C business has been ranked among the top three in the sector since 2004. It has the strongest capital in the sector, and has been outperforming its major sector peers for many years in terms of new business value growth. CPIC reported a Q114 net profit of Rmb3.21bn, up 44.2% from Rmb2.23bn a year earlier, and representing 32.7% of our full-year estimate. Since the company made a substantial impairment provision of Rmb2.41bn in Q114 (only Rmb260m was made in Q113), its performance beat market consensus. The sharp rise in net profit was partially due to rapid growth in premium income, effective cost controls, and a slight decline in the effective tax rate.

### Life insurance performing well, more time needed to transform P&C

CPIC's Q114 total life insurance premium income was Rmb38.35bn, up 25.2% YoY, although growth was slower than sector growth of 44.2%. Notably, high-margin new personal insurance policies grew 43.8%. Given the strong growth in new personal insurance policies, we expect CPIC's new business value (NBV) growth to stay ahead of major sector peers in H114. The company's Q114 total property and casualty (P&C) premium income was Rmb23.52bn, up 13.2% YoY, but slower than 17.2% sector growth. We think the company's strategy will focus more on earnings from underwriting at the cost of a slowdown in premium growth.

### Balance sheet expansion drives high growth; upside for investment yield

Due to rapid growth in premium income, CPIC's Q114 investment assets rose significantly, up 7.8%, QoQ (higher than 6.3% full-year growth in 2013), indicating balance sheet expansion. We believe 2014 net investment yield could rise 30-40bp, accompanied by an increase in spreads and improvement in investment asset structure. Considering the company's 5.0% net investment yield in 2013, we expect an upside to our investment yield assumption of 5.0-5.2% in calculating embedded value.

### Valuation: price target of Rmb22.57 with a Buy rating

Currently CPIC has an A/H discount of 17-20%. The discount is likely to shrink after the start of the mutual market access between the stock exchanges of Hong Kong and Shanghai. We estimate 2014/2015/2016 EPS at Rmb1.08/Rmb1.22/Rmb1.36. We derive our price target from a sum-of-the-parts valuation, implying 1.22x 2014E PE, or an implied NBV multiple of 4.4x.

### Equities

China  
Insurance, Full-Line

**12-month rating** **Buy**

**12m price target** **Rmb22.57**

**Price** **Rmb18.92**

**RIC:** 601601.SS **BVG:** 601601.CH

### Trading data and key metrics

<b>52-wk range</b>	Rmb20.27-15.08
<b>Market cap.</b>	Rmb171bn/US\$27.6bn
<b>Shares o/s</b>	9,062m (ORDA)
<b>Free float</b>	45%
<b>Avg. daily volume ('000)</b>	13,316
<b>Avg. daily value (m)</b>	Rmb230.3
<b>Common s/h equity (12/14E)</b>	Rmb105bn
<b>P/BV (12/14E)</b>	1.7x

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	1.08	1.26
<b>12/15E</b>	1.22	1.48
<b>12/16E</b>	1.36	1.76

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Highlights (Rmb)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EPS (local GAAP, diluted)	0.97	0.59	1.02	1.08	1.22	1.36	1.49	1.65
EPS (UBS, diluted)	0.97	0.59	1.02	1.08	1.22	1.36	1.49	1.65
Emb value EPS (UBS)	1.48	1.61	1.71	1.99	1.95	1.95	1.99	2.03
Emb value per share (UBS)	13.21	14.93	15.93	18.44	21.05	23.78	24.97	26.22
DPS (Rmb)	0.35	0.35	0.40	0.38	0.43	0.48	0.52	0.58
TNAV per share (UBS)	8.76	10.43	10.71	11.41	12.27	13.23	14.26	15.41
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
P/E (local GAAP, diluted) x	22.0	34.6	18.1	17.5	15.5	13.9	12.7	11.5
P/Emb value EPS (UBS) x	14.3	12.7	10.8	9.5	9.7	9.7	9.5	9.3
P/EV per share (UBS) x	1.6	1.4	1.2	1.0	0.9	0.8	0.8	0.7
RoEV (UBS) %	17.8	17.5	17.0	17.1	14.7	13.0	12.3	11.9
Return on TNAV (UBS) %	11.0	5.4	9.5	9.5	9.9	10.3	10.4	10.7
Net dividend yield %	1.6	1.7	2.2	2.0	2.3	2.5	2.8	3.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb18.92 on 22 Jul 2014 22:37 HK

# Tsingtao Brewery - A

## One of the largest breweries in China

### One of the largest breweries in China

As one of the four largest breweries in China, Tsingtao Brewery has established more than 50 beer production bases via mergers and restructuring, acquisitions, and joint ventures since the late 1990s, completing its nationwide strategic deployment. Products under the company's flagship Tsingtao Beer brand account for more than 50% of sales volume.

### We expect sales volume to reach 10m kl in 2014

We expect 2014 sales volume to reach c10m kl, up 12% YoY, mainly due to: 1) 5-6% organic growth; and 2) inorganic expansion. The company completed integration with Suntory last year, which started contributing to sales volume in May 2014. Tsingtao also acquired Jiahe Brewery in Shijiazhuang, Hebei, and Zhonglong Beer in Xuanhua, Zhangjiakou, Hebei.

### Fiercer competition in the mid-range and high-end segments

Tsingtao is facing fierce competition in the mid-range and high-end segments from Anheuser-Busch InBev, which has built large production bases in Guangdong, Guangxi, and Hebei, and plans to acquire Jinshibo and Big Boss Beer in Jiangsu province. Tsingtao also faces challenges in Guangdong province from slower overall growth as Snow Beer's acquisition of Kingway Brewery has intensified competition. Zhujiang Beer and Budweiser are building mid-range to high-end production capacity in Guangdong, implying that competition could increase.

### Valuation: price target of Rmb45.00 with a Neutral rating

Tsingtao Brewery's A/H discount has been widening over the past three years, and it is currently 15%. We think this is mainly because: 1) there are many sub-sectors in the A-share market: investors are not paying much attention to the beer sector as its sales growth and profitability were poor relative to the liquor sector in 2010-12 and the dairy sector in 2013; 2) Tsingtao Brewery is preferred by overseas investors as the company's cash flow, balance sheet, and dividend ratio are higher than other H-share listed F&B companies, and a long-term sector consolidation trend is visible. We think the A/H spread is likely to narrow with MMA and stronger SOE reform expectations. We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool, assuming a WACC of 8.6%.

### Equities

China  
Distillers & Brewers

**12-month rating** **Neutral**

**12m price target** **Rmb45.00**

**Price** **Rmb40.31**

**RIC:** 600600.SS **BBG:** 600600.CH

### Trading data and key metrics

<b>52-wk range</b>	Rmb49.77-37.96
<b>Market cap.</b>	Rmb54.5bn/US\$8.78bn
<b>Shares o/s</b>	1,351m (ORDA)
<b>Free float</b>	18%
<b>Avg. daily volume ('000)</b>	2,369
<b>Avg. daily value (m)</b>	Rmb96.3
<b>Common s/h equity (12/14E)</b>	Rmb18.4bn
<b>P/BV (12/14E)</b>	3.0x
<b>Net debt / EBITDA (12/14E)</b>	NM

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	1.59	1.65
<b>12/15E</b>	1.71	1.91
<b>12/16E</b>	1.92	2.19

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	23,158	25,782	28,291	31,931	34,453	37,187	40,154	43,372
EBIT (UBS)	2,414	2,291	2,332	2,569	2,806	3,157	3,521	3,817
Net earnings (UBS)	1,738	1,759	1,918	2,150	2,314	2,588	2,917	3,223
EPS (UBS, diluted) (Rmb)	1.29	1.30	1.42	1.59	1.71	1.92	2.16	2.39
DPS (Rmb)	0.26	0.40	0.45	0.50	0.54	0.61	0.68	0.76
Net (debt) / cash	4,154	5,106	6,629	6,119	5,856	6,748	9,145	11,765
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	10.4	8.9	8.2	8.0	8.1	8.5	8.8	8.8
ROIC (EBIT) %	38.2	26.6	27.5	28.4	24.9	24.2	25.6	27.5
EV/EBITDA (core) x	13.6	13.7	14.9	13.4	12.3	10.9	9.5	8.4
P/E (UBS, diluted) x	26.6	26.0	28.1	25.3	23.5	21.0	18.7	16.9
Equity FCF (UBS) yield %	(1.4)	1.6	2.1	0.1	0.8	3.0	5.9	6.5
Net dividend yield %	0.8	1.2	1.1	1.3	1.3	1.5	1.7	1.9

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb40.31 on 22 Jul 2014 22:37 HKT

# CITIC Securities - A

## Lower funding cost and balance sheet expansion may underpin growth in 2014

### A leader in China's securities sector; H114 net profit up 93.2% YoY

CITIC Securities is the largest broker in China. As an industry leader in both traditional and innovative businesses, its assets, net profit and market share are all the highest among peers. Its H114 NP was Rmb4.1bn, up 93.2% YoY. ROE was 4.56%, or c3.3% excluding REITs impact, up 0.9ppt YoY.

### Further rise in brokerage market share; investment bank revenue up

The company recorded net brokerage revenue of Rmb1.76bn in Q114 (up 76.1% YoY), mainly attributable to the consolidated results of CLSA. According to Wind, the company's brokerage market share rose from 6.18% at the end of 2013 to 6.46% in H114, up 0.28ppt. Net investment bank revenue was Rmb410m, up 53.5% YoY, due mainly to the resumption of IPOs.

### Capital intermediary business and lower funding costs to drive further growth

CITIC's balance sheet expanded in H114. Total assets increased 25.2% from end-13. The H114 average short-term financing rate was 5.11%, down c20bp from 5.30% in H213. Its capital intermediary business maintained rapid growth in H114. As of end-H114, the margin financing and securities lending balance was Rmb37.6bn and the market cap of stock collateral was Rmb47.2bn, up 12% and 141% HoH, respectively. The growth rate of margin financing and securities lending was lower than the industry average rate of 17%. For H214, we think the growth rate could slow due to a high base effect. Considering the company's advantages in client assets and comprehensive financial services, we remain positive on the strong growth potential of its stock collateral business. We believe the A/H-share discount, c15% currently, will narrow over time after the launch of the MMA program between Hong Kong and Shanghai, thereby bringing visible upside potential for the A shares.

### Valuation: Buy rating and price target of Rmb15.32

Given rising leverage, higher spread and contribution from the REITs business, we maintain our 2014/2015/2016 EPS estimates at Rmb0.63/Rmb0.74/Rmb0.82. Our sum-of-the-parts price target implies 1.8x 2014E P/BV.

### Equities

China  
Diversified Financial

12-month rating **Buy**

12m price target **Rmb15.32**

Price **Rmb12.00**

RIC: 600030.SS BBG: 600030 CH

### Trading data and key metrics

52-wk range	Rmb13.56-10.05
Market cap.	Rmb135bn/US\$21.8bn
Shares o/s	9,839m (ORDA)
Free float	67%
Avg. daily volume ('000)	69,447
Avg. daily value (m)	Rmb798.1
Common s/h equity (12/14E)	Rmb93.7bn
P/BV (12/14E)	1.4x
Tier 1 ratio	-

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
12/14E	0.63	0.60
12/15E	0.74	0.73
12/16E	0.82	0.79

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	24,630	11,306	15,841	22,046	24,524	27,310	29,547	31,808
Profit before tax	14,615	5,055	6,635	9,447	10,953	12,263	13,039	13,755
Net earnings (local GAAP)	12,576	4,237	5,244	6,995	8,181	9,084	9,732	10,255
Net earnings (UBS)	12,576	4,237	5,244	6,995	8,181	9,084	9,732	10,255
Tier 1 ratio %	-	-	-	-	-	-	-	-
EPS (UBS, diluted) (Rmb)	1.14	0.38	0.48	0.63	0.74	0.82	0.88	0.93
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
ROE (UBS) %	16.0	4.9	6.0	7.7	8.4	8.7	8.7	8.6
P/POP (diluted)	8.5	25.5	19.4	14.0	12.1	10.8	10.1	9.6
P/BV x	1.6	1.5	1.5	1.4	1.3	1.2	1.1	1.1
P/BV (UBS) x	1.6	1.5	1.5	1.4	1.3	1.2	1.1	1.1
P/E (UBS, diluted)	11.0	30.6	25.9	18.9	16.2	14.6	13.6	12.9
Net dividend yield %	3.4	2.6	1.2	1.7	1.8	2.1	2.3	2.5

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb12.00 on 22 Jul 2014 22:37 HKT

# Huaneng Power International - A

## Sector leader with a visible discount to H-share

### Largest power producer in the A-share market

Huaneng Power International (a subsidiary of China Huaneng Group) is the largest listed independent power producer in China, operating power plants in 15 provinces. It went public on the New York Stock Exchange in 1994 before listing in Hong Kong and Shanghai. It acquired Singapore-based Tuas Power in H108. It had installed capacity of nearly 67GW (including Tuas Power) by end-2013.

### Tariff cut likely to eliminate uncertainty

In recent years, uncertainty associated with the extent and timing of a power tariff reduction has been weighing on the company's share price. We expect this risk to be eliminated after a tariff cut. We think the market has overestimated the negative impact on coal-fired power producers of lower power tariffs, and has overlooked the continued decline in coal prices. We also expect the government to provide coal-fired power companies with reasonable returns, rather than excessively cutting power tariffs because of current high returns. The historical average ROE of listed thermal power companies is 13-14%, which is not low. We assume power tariffs will be lowered by Rmb0.02/kWh, or 4.4%, on 1 October 2014.

### Top pick in thermal power sector

Huaneng Power is our top pick in the power sector due to its high returns and low valuation. We expect a 2014/2015E ROE of 19%/14%, and think its valuation is very compelling, with a large A-share to H-share discount.

### Valuation: price target of Rmb7.50 with a Buy rating

We expect 2014/2015/2016 EPS of Rmb0.91/Rmb0.71/Rmb0.77. We derive our price target from a DCF-based methodology, assuming a WACC of 6.8%.

### Equities

China  
Electric Utilities

**12-month rating** **Buy**

**12m price target** **Rmb7.50**

**Price** **Rmb6.14**

**RIC:** 600011.SS **BBG:** 600011 CH

### Trading data and key metrics

<b>52-wk range</b>	Rmb6.15-4.61
<b>Market cap.</b>	Rmb90.8bn/US\$14.6bn
<b>Shares o/s</b>	10,500m (ORDA)
<b>Free float</b>	31%
<b>Avg. daily volume ('000)</b>	15,887
<b>Avg. daily value (m)</b>	Rmb90.2
<b>Common s/h equity (12/14E)</b>	Rmb70.3bn
<b>P/BV (12/14E)</b>	1.2x
<b>Net debt / EBITDA (12/14E)</b>	4.0x

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	0.91	0.81
<b>12/15E</b>	0.71	0.82
<b>12/16E</b>	0.77	0.78

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	133,056	133,967	133,833	130,811	132,571	140,035	148,163	154,801
EBIT (UBS)	8,741	18,221	26,457	27,156	22,868	23,872	25,255	26,430
Net earnings (UBS)	1,075	6,460	12,186	12,826	10,001	10,886	12,038	13,135
EPS (UBS, diluted) (Rmb)	0.08	0.46	0.87	0.91	0.71	0.77	0.86	0.93
DPS (Rmb)	0.05	0.21	0.38	0.41	0.32	0.35	0.39	0.42
Net (debt) / cash	(158,525)	(156,893)	(146,367)	(154,362)	(165,076)	(163,378)	(151,462)	(137,022)
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	6.6	13.6	19.8	20.8	17.2	17.0	17.0	17.1
ROIC (EBIT) %	4.6	8.9	13.0	13.0	10.2	10.2	10.8	11.6
EV/EBITDA (core) x	9.9	7.8	6.0	6.0	6.9	6.7	6.1	5.9
P/E (UBS, diluted) x	67.7	13.2	6.9	6.7	8.6	7.9	7.2	6.6
Equity FCF (UBS) yield %	(11.4)	4.9	17.2	0.2	(2.4)	9.1	20.4	23.9
Net dividend yield %	1.0	3.5	6.4	6.7	5.2	5.7	6.3	6.8

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb6.14 on 22 Jul 2014 22:37 HKT



## Key Call: China Merchants Bank - A

### Sector-leading retail business; strong execution

#### Retail business leads peers; profitability might stay ahead of the pack

Established in 1987, China Merchants Bank (CMB) was the first joint-stock commercial bank held by enterprise legal persons in China. Headquartered in Shenzhen, the bank led the Chinese banks in adjusting operational strategies by accelerating the development of retail, intermediary and SME businesses, thus forming a unique operational model.

#### Strong execution ability; breakthroughs expected in transformation

In the midst of interest rate liberalisation and financial disintermediation we believe CMB may have more competitive advantages than peers, and this should support its above-sector ROE over the medium and long term. We believe the bank's competitiveness lies in: 1) the ability to maintain its retail business advantage amid interest rate liberalisation, giving it cost advantages over peers; 2) new management, which we think has stronger execution ability. Loans granted to small and micro enterprises grew markedly, and this should help it in its 'second transformation' endeavour, which centres on higher risk pricing; and 3) a relatively high capital adequacy ratio and strong organic capital-generating ability.

#### Share of two types of loans up steadily; higher NPLs in line with the sector

In Q114, CMB's net profit before allowance increased 41% YoY, beating expectations. Loans granted to small and micro enterprises rose 3% and 9%, respectively, from the beginning of the year and their share of the bank's total loans grew slightly QoQ to 30%. NPL ratios for the two types of loans fell 8bp and 0bp to 1.85% and 0.64%, respectively, over the same period and were largely stable. The NPL balance grew 8% QoQ while the NPL ratio rose 2bp QoQ to 0.85% in Q114.

#### Valuation: Buy, price target of Rmb13.63

Our 2014/2015/2016 EPS estimates are Rmb2.25/Rmb2.26/Rmb2.71. We derive our price target of Rmb13.63 from a DDM model (assuming 13.7% COE). Its current A/H share price discount of 17% is the highest among comparable companies. We expect its strong profitability and emerging effect of business transition to drive its A/H share price discount to narrow.

#### Equities

China  
Banks, Ex-S&L

**12-month rating** **Buy**

**12m price target** **Rmb13.63**

**Price** **Rmb9.98**

**RIC:** 600036.SS **BBG:** 600036.CH

#### Trading data and key metrics

<b>52-wk range</b>	Rmb11.91-9.46
<b>Market cap.</b>	Rmb261bn/US\$42.1bn
<b>Shares o/s</b>	20,629m (ORDA)
<b>Free float</b>	32%
<b>Avg. daily volume ('000)</b>	41,960
<b>Avg. daily value (m)</b>	Rmb422.8
<b>Common s/h equity (12/14E)</b>	Rmb307bn
<b>P/BV (12/14E)</b>	0.8x
<b>Tier 1 ratio</b>	9%

#### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	2.25	2.35
<b>12/15E</b>	2.26	2.63
<b>12/16E</b>	2.71	2.88

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	96,298	113,433	132,699	148,897	168,375	191,751	227,127	270,373
Profit before tax	47,122	59,564	68,425	73,695	74,075	88,662	107,358	128,737
Net earnings (local GAAP)	36,129	45,273	51,743	56,745	57,038	68,269	82,665	99,127
Net earnings (UBS)	36,129	45,273	51,743	56,745	57,038	68,269	82,665	99,127
Tier 1 ratio %	8.2	8.5	9.3	9.4	9.4	9.5	9.7	9.4
EPS (UBS, diluted) (Rmb)	1.67	2.10	2.30	2.25	2.26	2.71	3.28	3.93
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
ROE (UBS) %	24.2	24.8	22.2	19.8	17.4	18.1	18.8	20.4
P/POP (diluted)	4.9	3.6	3.4	2.9	2.7	2.4	2.0	1.7
P/BV x	1.7	1.2	1.1	0.8	0.7	0.6	0.5	0.4
P/BV (UBS) x	1.8	1.3	1.2	0.8	0.7	0.6	0.5	0.5
P/E (UBS, diluted)	7.5	5.2	5.1	4.4	4.4	3.7	3.0	2.5
Net dividend yield %	3.3	5.6	5.3	5.6	4.5	5.4	6.6	7.9

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb9.98 on 22 Jul 2014 22:37 HKT



# Ping An Insurance (Group) - A

## Solid fundamentals, attractive valuation

### Current business structure supports Ping An's competitive advantage

An integrated financial services provider, Ping An Insurance Group's core businesses include insurance, banking, and investment. With its life insurance, P&C insurance, banking and investment businesses performing well, the company's cross-selling ability is among the strongest in China. While many continue to argue that Ping An's diversified business strategy is complicating the investment case for the stock, we believe the current business structure has contributed greatly to Ping An's success. With increasing overall distribution costs for financial products and accelerating financial deregulation in China, Ping An's "one brand, multiple products" strategy should continue to help the firm deliver superior long-term returns for shareholders, in our view.

### Concerns on Ping An Trust should subside with improving disclosure

We believe market concerns about China's trust sector are misplaced, and we consider Ping An Trust one of the best-run trusts in China. More importantly, we expect better disclosure by Ping An Trust at the trust-company level to improve investor confidence in the group.

### Strong new business value growth and improving yield

With improving product differentiation and distribution efficiency, we expect China life insurance companies to post strong new business value (NBV) growth in 2014. We expect Ping An Life's NBV to grow 13-19% in 2014E, delivering above-trend NBV growth since 2012. Given the improving investment yield environment, we also reiterate our view that there are upside risks to our long-term EV investment yield assumptions.

### Valuation: Buy, price target of Rmb62.01

Currently the company has an A/H discount of 14-18%. We believe the discount is likely to narrow with mutual market access between the stock exchanges of Hong Kong and Shanghai. However, given that the stock is noticeably undervalued, we expect accelerating overall improvement of its life insurance business to be a catalyst for a stock re-rating. We estimate 2014/2015/2016 EPS at Rmb4.10/Rmb4.61/Rmb5.31. Our sum-of-the-parts-based price target of Rmb62.01 implies 1.35x 2014E P/EV and 5.8x implied NBV.

### Equities

China  
Insurance, Full-Line

**12-month rating** **Buy**

**12m price target** **Rmb62.01**

**Price** **Rmb40.22**

**RIC:** 601318.SS **BGG:** 601318.CH

### Trading data and key metrics

<b>52-wk range</b>	Rmb44.25-32.08
<b>Market cap.</b>	Rmb318bn/US\$51.3bn
<b>Shares o/s</b>	7,916m (ORDA)
<b>Free float</b>	31%
<b>Avg. daily volume ('000)</b>	22,376
<b>Avg. daily value (m)</b>	Rmb888.4
<b>Common s/h equity (12/14E)</b>	Rmb225bn
<b>P/BV (12/14E)</b>	1.8x

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	4.10	4.28
<b>12/15E</b>	4.61	5.04
<b>12/16E</b>	5.31	6.04

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Highlights (Rmb)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EPS (local GAAP, diluted)	2.50	2.53	3.56	4.10	4.61	5.31	6.24	7.11
EPS (UBS, diluted)	2.50	2.53	3.56	4.10	4.61	5.31	6.24	7.11
Emb value EPS (UBS)	3.55	5.11	4.19	5.13	5.68	5.58	5.86	6.15
Emb value per share (UBS)	29.77	36.11	41.64	46.02	52.57	59.25	59.25	59.25
DPS (Rmb)	0.40	0.45	0.65	0.74	0.83	0.96	1.12	1.28
TNAV per share (UBS)	12.29	15.42	17.54	21.96	27.38	33.89	41.71	50.80
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
P/E (local GAAP, diluted) x	17.9	16.1	11.1	9.8	8.7	7.6	6.4	5.7
P/Emb value EPS (UBS) x	12.6	8.0	9.4	7.8	7.1	7.2	6.9	6.5
P/EV per share (UBS) x	1.5	1.1	0.9	0.9	0.8	0.7	0.7	0.7
RoEV (UBS) %	19.1	22.8	16.4	16.9	15.9	13.6	14.3	15.0
Return on TNAV (UBS) %	19.5	18.3	21.6	20.7	18.7	17.3	16.5	15.4
Net dividend yield %	0.9	1.1	1.6	1.8	2.1	2.4	2.8	3.2

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb40.22 on 22 Jul 2014 22:37 HKT

# China Petroleum and Chemical Corp - A

## China's largest refined oil supplier, accelerating specialisation of segment operation

### Largest oil product supplier in China

China Petroleum and Chemical Corp (Sinopec) is China's largest oil refiner and petrochemicals producer. It owns the largest refined oil wholesale and retail sales network in China, which includes 30,000 gas stations, and sells 60% of China's refined oil. It is also China's second-largest oil and gas producer, with 2013 output of 442m BOE.

### Oil upgrade and shale gas development to be earnings drivers

With oil prices elevated and crude oil production stable, we expect Sinopec's upstream oil earnings to remain stable. We expect Sinopec's development of shale gas in Fuling to boost the company's natural gas production from 19bcm in 2013 to 35bcm in 2017E. There may be a Rmb0.8/cm upside potential to its realised natural gas price, so we expect the key upstream earnings driver to change from oil to gas. China is due to fully implement Phase V emission standards for gasoline and diesel by 2017, and will gradually raise prices, which we expect to help expand Sinopec's gross refining margin from US\$0.8/ barrel to US\$2.5/barrel.

### A/H discount of 15%, organic growth potential likely underestimated

Sinopec's A share is trading at a discount of 15% to its H-share, which we attribute to pressure from continued conversion of convertible bonds on its A-share price. However, we maintain our view that the A share market has underestimated Sinopec's long-term organic growth potential: as the company develops towards diversified retail operations through implementation of its mixed ownership reform, we expect it to maximise the use of its existing retail network. Moreover, with increasingly strict supervision of the quality of refined oil, we think the value of its refined oil retail network is likely to rise.

### Valuation: price target of Rmb6.20 with a Buy rating

We estimate 2014/2015/2016 EPS at Rmb0.62/Rmb0.68/Rmb0.71. We base our price target on 10x 2014E PE.

### Equities

China  
Oil Companies, Major

**12-month rating** **Buy**

**12m price target** **Rmb6.20**

**Price** **Rmb4.99**

**RIC:** 600028.SS **BGG:** 600028.CH

### Trading data and key metrics

<b>52-wk range</b>	Rmb5.44-4.26
<b>Market cap.</b>	Rmb607bn/US\$97.9bn
<b>Shares o/s</b>	91,052m (ORDA)
<b>Free float</b>	39%
<b>Avg. daily volume ('000)</b>	43,538
<b>Avg. daily value (m)</b>	Rmb221.0
<b>Common s/h equity (12/14E)</b>	Rmb614bn
<b>P/BV (12/14E)</b>	1.0x

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	0.62	0.63
<b>12/15E</b>	0.68	0.70
<b>12/16E</b>	0.71	0.68

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
<b>Net earnings (UBS)</b>	70,853	63,797	61,344	76,238	82,548	87,045	92,212	98,396
<b>EPS (UBS, diluted) (Rmb)</b>	0.61	0.54	0.50	0.62	0.68	0.71	0.76	0.81
<b>CEPS (UBS, diluted) (Rmb)</b>	1.17	1.13	1.21	1.32	1.48	1.58	1.70	1.81
<b>DACF (UBS)</b>	160,067	160,123	170,737	187,959	210,601	226,458	244,139	262,088
<b>Net DPS (Rmb)</b>	0.18	0.18	0.24	0.25	0.27	0.29	0.30	0.32
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
<b>Production (000 boe/d)</b>	1,117	1,172	1,213	1,264	1,365	1,444	1,544	1,654
<b>ROACE (UBS) %</b>	10.3	7.9	6.9	7.6	7.6	7.2	6.9	7.1
<b>EV/DACF (UBS) x</b>	5.2	4.8	4.8	4.8	4.5	4.4	4.3	4.1
<b>Price/CEPS (UBS, diluted) x</b>	5.2	4.5	4.1	3.8	3.4	3.2	2.9	2.8
<b>P/E (UBS, diluted) x</b>	10.0	9.5	9.7	8.0	7.4	7.0	6.6	6.2
<b>Net dividend yield %</b>	2.9	3.5	4.9	5.0	5.4	5.7	6.1	6.5

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb4.99 on 22 Jul 2014 22:37 HKT

# Haitong Securities - A

## Prudent operation; interest income likely to become a bright spot of earnings growth

### One of China's largest securities firms, H114 net profit up 7.7% YoY

Haitong Securities was one of the earliest securities companies established in China. It ranks No.2 in terms of overall strength in the securities sector with prudent operations. It ranks the fifth place for its brokerage, underwriting and margin financing and securities lending businesses. H114 revenue was Rmb6.72bn (+18.5% YoY) and net profit was Rmb2.88bn (+7.7% YoY). The company's ROE was 4.55% in H114, up 0.1ppt YoY, which is quite rare.

### Q1 investment banking revenue up 151%, investment income to improve in Q2

Q114 investment banking revenue was Rmb520m, up 151% YoY, mainly attributable to the resumption of IPOs in China and the rapid growth in bond underwriting revenue. Q114 investment income fell 41.5% YoY to Rmb687m, due mainly to the high base in 2013. Q214 net profit was up 35.6% YoY. Considering the strong performance of the proprietary bond trading business, we think the company's investment income will improve notably in Q214.

### Balance sheet expansion, leasing and credit may drive up interest income

The company's balance sheet expanded in H114. Total assets as at end-H114 expanded 27.5% HoH. Its latest short-term funding cost was 4.77%, much lower than the 5.1% and 5.35% of the previous two tranches. Credit business growth remained strong in H114. Its margin trading and securities lending and the market cap of stock collateral repo increased 27.2%/112% over the previous year. We believe its interest income could increase rapidly, benefiting from credit business growth, lower funding costs and the consolidation of the financials of UniTrust Finance & Leasing, which should be another bright spot for 2014 earnings. We believe the A-H-share discount on Haitong's shares, 5-10% currently, will narrow over time after the launch of the MMA programme, thereby some upside potential for the A shares.

### Valuation: Buy rating and price target of Rmb11.67

As the company is focusing on domestic and overseas M&A and exploring new financing models, we will monitor potential M&A. We maintain our 2014/2015/2016 EPS estimates at Rmb0.53/Rmb0.64/Rmb0.71 and our price target of Rmb11.67 (based on a sum-of-the-parts methodology), which implies 1.70x 2014E P/BV.

### Equities

China  
Diversified Financial

12-month rating **Buy**

12m price target **Rmb11.67**

Price **Rmb9.13**

RIC: 600837.SS BBG: 600837 CH

### Trading data and key metrics

52-wk range	Rmb13.27-8.83
Market cap.	Rmb89.0bn/US\$14.3bn
Shares o/s	8,092m (ORDA)
Free float	67%
Avg. daily volume ('000)	43,792
Avg. daily value (m)	Rmb406.3
Common s/h equity (12/14E)	Rmb65.7bn
P/BV (12/14E)	1.3x
Tier 1 ratio	-

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
12/14E	0.53	0.52
12/15E	0.64	0.61
12/16E	0.71	0.71

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	9,342	9,166	10,302	12,779	15,367	17,065	18,803	20,523
Profit before tax	4,227	4,061	5,338	6,599	7,941	8,821	9,722	10,613
Net earnings (local GAAP)	3,103	3,038	4,035	5,070	6,116	6,800	7,499	8,191
Net earnings (UBS)	3,103	3,038	4,035	5,070	6,116	6,800	7,499	8,191
Tier 1 ratio %	-	-	-	-	-	-	-	-
EPS (UBS, diluted) (Rmb)	0.38	0.33	0.42	0.53	0.64	0.71	0.78	0.85
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
ROE (UBS) %	6.9	5.9	6.7	8.0	9.0	9.3	9.5	9.7
P/POP (diluted)	15.6	17.4	20.2	13.3	11.0	9.9	9.0	8.2
P/BV x	1.6	1.5	1.7	1.3	1.2	1.2	1.1	1.0
P/BV (UBS) x	1.6	1.5	1.7	1.3	1.2	1.2	1.1	1.0
P/E (UBS, diluted)	23.8	28.0	26.6	17.3	14.3	12.9	11.7	10.7
Net dividend yield %	1.7	1.3	1.1	1.6	2.0	2.3	2.5	2.7

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb9.13 on 22 Jul 2014 22:37 HKT

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## Valuations lower than peers in Hong Kong & other markets

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# Poly Real Estate

## A leading property developer with project deployment and financing advantages

### China's second-largest listed property developer in terms of contract sales

Poly Real Estate (Poly) is China's second-largest listed property developer in terms of contract sales. It is mainly engaged in the development and sale of residential and commercial properties. It posted contract sales of Rmb125.3bn for 2013. Its major products are small and medium-sized residential properties. Poly's projects are mainly located in tier-one and tier-two cities—52 cities in the Yangtze River Delta, Pearl River Delta, Bohai Bay, and China's mid-west. The company also develops office buildings, hotels, and shopping centres, holding about 1m sqm of commercial properties.

### High execution efficiency and low-cost financing channels

Poly has one of the most efficient execution capabilities among domestic developers, and rapid project turnover. As its products mainly cater to rigid demand from first-time homebuyers, it has strong risk resistance. With the help of its shareholders, Poly also has advantages in obtaining low-cost capital, and is able to maintain a high degree of financial leverage. Therefore, we expect the company to post strong sales growth and a high return on capital.

### Valuation significantly below major A- and H-share listed developers

Poly is trading at 4.6x/3.7x 2014/2015E PE, which is significantly below the A-share developer average of 6.4x/5.2x and H-share China developer average of 7.0x/6.7x. We believe the company's valuation reflects A-share investors' excessive concerns about the company's financials and the decline in sales growth. With continued policy loosening and the acceleration of project launches by the company in H114, we expect sales growth to gather pace.

### Valuation: price target of Rmb8.90 with a Buy rating

Our price target is based on 2014E EPS of Rmb1.27 and a target PE of 7.0x, with a 30% discount to the company's end-2014 NAV per share estimate.

### Equities

China

Real Estate

12-month rating

**Buy**

12m price target

**Rmb8.90**

Price

**Rmb5.79**
**RIC:** 600048.SS **BGB:** 600048.CH

### Trading data and key metrics

<b>52-wk range</b>	Rmb7.61-4.39
<b>Market cap.</b>	Rmb62.0bn/US\$9.99bn
<b>Shares o/s</b>	10,707m (ORDA)
<b>Free float</b>	45%
<b>Avg. daily volume ('000)</b>	82,513
<b>Avg. daily value (m)</b>	Rmb423.9
<b>Common s/h equity (12/14E)</b>	Rmb63.2bn
<b>P/BV (12/14E)</b>	1.0x
<b>Net debt / EBITDA (12/14E)</b>	5.4x

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	1.27	1.25
<b>12/15E</b>	1.57	1.50
<b>12/16E</b>	1.86	1.76

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
<b>Revenues</b>	47,036	68,906	92,356	103,144	140,564	179,651	127,976	87,374
<b>EBIT (UBS)</b>	10,423	13,945	16,417	21,443	30,419	37,368	26,489	17,881
<b>Net earnings (UBS)</b>	6,582	8,509	10,807	13,549	16,763	19,874	14,160	8,347
<b>EPS (UBS, diluted) (Rmb)</b>	0.61	0.79	1.01	1.27	1.57	1.86	1.32	0.78
<b>DPS (Rmb)</b>	0.12	0.15	0.20	0.25	0.31	0.37	0.26	0.16
<b>Net (debt) / cash</b>	(68,188)	(81,522)	(99,086)	(118,461)	(119,910)	(123,870)	(124,115)	(120,370)
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
<b>EBIT margin %</b>	22.2	20.2	17.8	20.8	21.6	20.8	20.7	20.5
<b>ROIC (EBIT) %</b>	10.5	11.4	11.0	11.7	14.4	15.9	10.3	6.7
<b>EV/EBITDA (core) x</b>	12.0	11.2	11.1	8.6	6.7	5.7	8.4	12.6
<b>P/E (UBS, diluted) x</b>	9.2	8.9	7.2	4.6	3.7	3.1	4.4	7.4
<b>Equity FCF (UBS) yield %</b>	(13.2)	4.0	(12.6)	100.2	102.5	84.1	67.3	30.3
<b>Net dividend yield %</b>	2.1	2.2	2.7	4.4	5.4	6.4	4.6	2.7

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb5.79 on 22 Jul 2014 22:37 HKT

## Qingdao Haier Co.

### Private placement to KKR could lead to asset injections

#### Leading washing machine and refrigerator manufacturer in China

Qingdao Haier (Haier) is a diversified home appliance manufacturer in China. It manufactures and distributes refrigerators, washing machines, air conditioners, and water heaters, and also provides related services. It has the largest share in the global refrigerator and washing machine market, and the third largest share of China's air conditioner market. Given its positioning as a mid-range to high-end product company, we believe Haier's distribution channels and product patterns are more responsive to frequent changes in consumer preferences and the uptrading trend in home appliance consumption than those of its peers. We believe Haier is aggressively transforming itself into a user-interactive platform for smart appliances and smart homes, and pushing forward the convergence of online and offline channels.

#### A/C and distribution business grew rapidly, valuation could rise

In 2013 and Q114, Haier's air conditioner and distribution businesses posted around 20% revenue growth and became the main revenue drivers. Given channel expansion and stronger product strength, we think Haier's air conditioner business is likely to maintain rapid growth in the next two years. With greater efforts on developing third-party brands for its distribution business, Haier's logistics operations are likely to benefit from the cooperation with Alibaba. The average 2014E PE of the H share and overseas home appliances stocks are 11.7x and 17.5x, respectively, while Haier's 2014E PE is only 8.4x. With the launch of MMA in October, we expect Haier's valuation to rise and be on par with its H-share and overseas peers.

#### KKR private placement finalised, M&A and governance improvement expected

Haier has completed the private placement to Kohlberg Kravis Roberts (KKR), increasing its shares by 10%. This event could lead to the acquisition of the parent's overseas home appliance assets and its domestic 3C (brown goods, mobile phones, and PC) assets. We estimate acquisitions could increase Haier's revenue 40% and profit 30-40%. We think corporate governance is likely to improve after the private placement, resulting in higher profitability.

#### Valuation: Buy, price target of Rmb24.00

Our 2014/2015/2016 EPS estimates are Rmb1.80/Rmb2.12/Rmb2.50. We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCM tool, assuming 10.9% WACC. We have a Buy rating.

#### Equities

China

Household Products, Durable

12-month rating

Buy

12m price target

Rmb24.00

Price

Rmb15.12

RIC: 600690.SS BBG: 600690 CH

#### Trading data and key metrics

52-wk range Rmb22.35-11.08

Market cap. Rmb40.8bn/US\$6.57bn

Shares o/s 2,696m (ORDA)

Free float 52%

Avg. daily volume ('000) 13,641

Avg. daily value (m) Rmb200.8

Common s/h equity (12/14E) Rmb18.3bn

P/BV (12/14E) 2.2x

Net debt / EBITDA (12/14E) NM

#### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
12/14E	1.80	1.75
12/15E	2.12	2.07
12/16E	2.50	2.58

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	73,663	79,857	86,488	95,693	106,099	116,901	128,590	142,264
EBIT (UBS)	3,915	4,905	5,718	6,658	7,470	8,477	9,572	10,945
Net earnings (UBS)	2,690	3,269	4,168	4,884	5,781	6,816	7,798	8,916
EPS (UBS, diluted) (Rmb)	1.00	1.22	1.53	1.80	2.12	2.50	2.87	3.28
DPS (Rmb)	0.17	0.37	0.46	0.54	0.64	0.75	0.86	0.98
Net (debt) / cash	11,075	14,427	18,735	22,205	27,004	33,323	40,351	48,318
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	5.3	6.1	6.6	7.0	7.0	7.3	7.4	7.7
ROIC (EBIT) %	(360.5)	(380.6)	(415.6)	<-500	>500	>500	>500	<-500
EV/EBITDA (core) x	5.3	3.9	4.2	4.1	3.3	2.5	2.9	2.7
P/E (UBS, diluted) x	12.2	9.1	9.0	8.4	7.1	6.0	5.3	4.6
Equity FCF (UBS) yield %	14.2	14.5	12.8	11.5	13.3	17.4	19.8	22.8
Net dividend yield %	1.4	3.4	3.3	3.6	4.2	5.0	5.7	6.5

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb15.12 on 22 Jul 2014 22:37 HKT

# Key Call: Inner Mongolia Yili Industrial

## Leading China's dairy industry

### Company background

Inner Mongolia Yili Industrial (Yili) was established in 1993 to produce dairy products. It has five divisions: liquid milk; ice cream; milk powder; yogurt; and pure milk, with over 80 subsidiaries. It has been the top producer and seller of ice cream in China for 10 consecutive years and of UHT milk for seven years. It is one of the only two domestic dairy producers with sales of over Rmb10bn.

### Yili's milk powder brands and channels to form benign tiers

We believe Yili's infant milk powder will form three benign tiers in terms of brand and channel: 1) Pro-kido will gradually become a mass market product after its revenue exceeds Rmb3bn. The I-Protech series under this brand will focus on thousands of core baby shops, stores and supermarkets, with an effectively controlled pricing system. 2) Tofer brand, which was launched to market in 2014, is now cooperating with high-quality baby shops in the form of O2O, and its products are undersupplied. 3) Yili Gold will help the company gain further market share.

### Yili is entering an earnings inflection point

We believe Yili's net profit growth will reach the inflection point even without the ban on its equity incentive shares being lifted, mainly because: 1) Yili's liquid milk, low temperature liquid milk, milk powder and cold drink businesses are all in a stage of earnings improvement. 2) We estimate that advertising expenses, which account for around 50% of sales expenses, are unlikely to continue increasing significantly. We estimate its 2014/2015/2016 sales expense ratios will drop 0.9ppt/0.6ppt/0.4ppt YoY.

### Valuation: Key Call—Buy

We believe the current share price factors in investor concerns about profitability and the shares granted under its equity incentive plan becoming tradable. As its PE is about 40% below that of H-share peers, we believe its share price is undervalued at the current level. We expect the company's earnings to enter a period of high growth and assign a Buy rating. We derive our price target of Rmb36.00 from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCM tool, assuming a WACC of 6.4%. Our price target implies 28x/23x 2014E/2015E PE.

### Equities

China  
Food Products

**12-month rating** **Buy**

**12m price target** **Rmb36.00**

**Price** **Rmb23.26**

**RIC:** 600887.SS **BGG:** 600887.CH

### Trading data and key metrics

<b>52-wk range</b>	Rmb34.19-20.88
<b>Market cap.</b>	Rmb71.3bn/US\$11.5bn
<b>Shares o/s</b>	3,064m (ORDA)
<b>Free float</b>	72%
<b>Avg. daily volume ('000)</b>	25,492
<b>Avg. daily value (m)</b>	Rmb574.7
<b>Common s/h equity (12/14E)</b>	Rmb19.0bn
<b>P/BV (12/14E)</b>	3.7x
<b>Net debt / EBITDA (12/14E)</b>	NM

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	1.27	1.26
<b>12/15E</b>	1.53	1.56
<b>12/16E</b>	1.76	1.85

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	37,266	41,736	47,779	54,055	60,051	66,051	72,191	78,428
EBIT (UBS)	1,697	1,649	2,495	3,904	4,988	5,819	6,603	7,520
Net earnings (UBS)	1,809	1,717	2,621	3,877	4,689	5,380	6,094	6,860
EPS (UBS, diluted) (Rmb)	0.75	0.72	0.86	1.27	1.53	1.76	1.99	2.24
DPS (Rmb)	0.25	0.33	0.13	0.32	0.39	0.47	0.54	0.62
Net (debt) / cash	921	(581)	4,087	9,365	11,495	14,328	17,826	22,099
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	4.6	4.0	5.2	7.2	8.3	8.8	9.1	9.6
ROIC (EBIT) %	41.4	26.7	27.8	39.6	49.8	51.5	53.5	56.9
EV/EBITDA (core) x	12.1	12.9	18.3	14.3	11.4	9.8	8.6	5.5
P/E (UBS, diluted) x	16.8	19.8	26.7	18.4	15.2	13.2	11.7	10.4
Equity FCF (UBS) yield %	(2.4)	(2.0)	2.3	8.1	4.5	5.8	7.0	8.0
Net dividend yield %	2.0	2.3	0.6	1.4	1.7	2.0	2.3	2.7

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb23.26 on 22 Jul 2014 22:37 HKT



# Shanghai International Airport

## International hub with Disney, SOE reform themes

### Company profile

Shanghai International Airport operates Shanghai Pudong International Airport, which has three runways and two terminals, and is designed to handle 60m passengers a year. Currently, the company's revenue comes mainly from aeronautical revenue (landing and take-off, parking, and passenger facility charges), non-aeronautical revenue (retail and rental), and investment income (Pudong International Airport Aviation Oil Supply and JCDecaux Momentum Shanghai Airport Advertising).

### Increased peak-hour aircraft movements create room for profit growth

The company said it will raise Pudong Airport's peak-hour capacity to 74 aircraft movements, 13.8% higher than the previous level of 65 aircraft movements, which will go into effect on 1 July 2014. However, given frequent summer thunderstorms, and based on normal considerations for Pudong Airport, we think its hourly flight schedule in summer and autumn 2014 will not exceed 70 aircraft movements (+7.6%). Pudong Airport's current capacity utilisation rate is 79%, or just 59% if based on the airport's highest possible capacity, indicating sufficient capacity. We expect a substantial increase in peak-hour aircraft movements to maintain double-digit growth in aeronautical and non-aeronautical revenue, creating room for core business profit growth.

### Catalysts: increase in outbound tourists, SOE reforms, Disney Resort

About 50% of the company's passengers come from international and regional routes, and continued high growth in outbound tourists is likely to lift the revenue as airport charges for outbound flights are higher than for domestic flights. State-owned enterprise (SOE) reforms are likely to result in asset injections, such as Shanghai Hongqiao International Airport and Pudong Airport Cargo Terminal. We think Shanghai Disney Resort, due to begin operating at end-2015, could lift the company's 2016 passenger traffic by more than 25% YoY and its profit by nearly 30%.

### Valuation: price target of Rmb15.00 with a Buy rating

Our 2014/2015/2016 EPS estimates are Rmb1.09/Rmb1.25/Rmb1.62. We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCM tool, assuming a WACC of 8.5%. The stock is trading at 12.2x/1.27x 2014E PE/PB, significantly below the average valuation of comparable companies in Europe and Oceania (21.6x/1.8x) and in Asia (22.2x/2.08x).

### Equities

China  
Transportation Services

**12-month rating Buy**

**12m price target Rmb15.00**

**Price Rmb13.26**

**RIC:** 600009.SS **BVG:** 600009.CH

### Trading data and key metrics

<b>52-wk range</b>	Rmb16.82-12.22
<b>Market cap.</b>	Rmb25.6bn/US\$4.12bn
<b>Shares o/s</b>	1,927m (ORDA)
<b>Free float</b>	57%
<b>Avg. daily volume ('000)</b>	5,655
<b>Avg. daily value (m)</b>	Rmb74.4
<b>Common s/h equity (12/14E)</b>	Rmb20.1bn
<b>P/BV (12/14E)</b>	1.3x
<b>Net debt / EBITDA (12/14E)</b>	NM

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	1.09	1.10
<b>12/15E</b>	1.25	1.24
<b>12/16E</b>	1.62	1.42

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
<b>Revenues</b>	4,611.21	4,720.41	5,215.13	5,755.73	6,348.15	7,693.30	8,448.90	9,183.28
<b>EBIT (UBS)</b>	1,467.32	1,500.88	1,969.31	2,209.90	2,522.81	3,376.14	3,790.62	4,197.39
<b>Net earnings (UBS)</b>	1,500.87	1,580.59	1,873.20	2,102.92	2,404.70	3,113.31	3,528.87	3,952.67
<b>EPS (UBS, diluted) (Rmb)</b>	0.78	0.82	0.97	1.09	1.25	1.62	1.83	2.05
<b>DPS (Rmb)</b>	0.60	0.37	0.30	0.11	0.12	0.16	0.18	0.21
<b>Net (debt) / cash</b>	928.54	4,178.87	6,262.83	9,138.06	12,189.50	15,729.62	19,751.59	46,770.46
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
<b>EBIT margin %</b>	31.8	31.8	37.8	38.4	39.7	43.9	44.9	45.7
<b>ROIC (EBIT) %</b>	11.2	12.9	19.1	23.0	28.5	40.9	48.9	77.0
<b>EV/EBITDA (core) x</b>	10.9	9.8	8.8	7.9	7.2	5.7	1.2	0.8
<b>P/E (UBS, diluted) x</b>	17.1	15.1	14.1	12.2	10.6	8.2	7.2	6.5
<b>Equity FCF (UBS) yield %</b>	18.4	20.1	8.1	9.6	9.9	11.6	13.0	13.7
<b>Net dividend yield %</b>	4.5	3.0	2.2	0.8	0.9	1.2	1.4	1.5

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb13.26 on 22 Jul 2014 22:37 HKT

# Baosteel

## Competitive core business; good potential for non-steel businesses

### The most competitive steel company in China

Baosteel has the most competitive technologies in the domestic steel industry. The company has pursued a strategy of product quality and differentiation, and focuses on high-tech and high value-added steel products. Baosteel mainly produces high-end sheet products and has the largest share of the domestic market with its cold-rolled automobile sheet and high-grade oriented silicon steel products. In 2013, the company produced 22m tonnes of crude steel and sold 21.99m of steel billets.

### Benefiting from steady demand growth for sheet products

Year-to-date there has been stable demand growth for sheet products from the automobile and home appliance sectors (China's auto/TV/air conditioner output rose 9%/13%/10% YoY, respectively, in January-May 2014). Against a backdrop of structural adjustment and micro stimulus policies, we think demand for sheet products (mainly from auto and home appliance manufacturers) will continue to grow steadily and outstrip building steel demand. Baosteel has taken an average 50% share of the domestic high-end cold-rolled auto sheet market in recent years, with higher selling prices than peers.

### Pushing diversification forward; non-steel business has good potential

In addition to improving the competitiveness of its core business, Baosteel has been developing non-steel businesses such as eCommerce and information technology. The company is actively building its eCommerce industry chain that mainly consists of Shanghai Steel Trading Center, Bsteel.com.cn and Shanghai Banking Movable Property Pledge Information Platform, and developing its Baosight Software IT business. Baosteel plans to increase the revenue contribution of the non-steel business to 30% by 2018, and we expect rapid profit and revenue growth for the non-steel business in the mid-to-long-term.

### Valuation: Buy rating with a price target of Rmb5.00

Our 2014/2015/2016 EPS estimates are Rmb0.43/0.48/0.40. Baosteel has maintained a 50% dividend payout ratio and a high dividend yield. Our price target is based on 0.7x 2014E P/BV (calculated as (ROE-g) / (COE-g)) and 2014E net asset per share. As the leading flat product producer in China, Baosteel's ROE is much higher than Anshan Iron & Steel's (second leading steel product producer), but has a lower valuation (Baosteel's 2014E P/BV is 0.6x, while Anshan-H's 2014 P/BV is 0.64x). As such, we think Baosteel is undervalued.

### Equities

China

Steel

12-month rating

Buy

12m price target

Rmb5.00

Price

Rmb4.23

RIC: 600019.SS BBG: 600019 CH

### Trading data and key metrics

52-wk range Rmb4.64-3.56

Market cap. Rmb69.7bn/US\$11.2bn

Shares o/s 16,472m (ORDA)

Free float 100%

Avg. daily volume ('000) 17,057

Avg. daily value (m) Rmb68.6

Common s/h equity (12/14E) Rmb116bn

P/BV (12/14E) 0.6x

Net debt / EBITDA (12/14E) 2.3x

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
12/14E	0.43	0.44
12/15E	0.48	0.50
12/16E	0.40	0.57

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	222,415	191,203	189,612	193,231	197,110	205,053	228,307	231,001
EBIT (UBS)	8,288	2,533	6,428	9,468	10,658	8,959	7,474	7,707
Net earnings (UBS)	7,362	10,090	5,818	7,102	7,974	6,555	5,485	5,679
EPS (UBS, diluted) (Rmb)	0.42	0.58	0.35	0.43	0.48	0.40	0.33	0.34
DPS (Rmb)	0.20	0.14	0.10	0.22	0.24	0.20	0.17	0.17
Net (debt) / cash	(57,551)	(39,866)	(43,871)	(41,281)	(45,136)	(49,261)	(48,388)	(45,589)
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	3.7	1.3	3.4	4.9	5.4	4.4	3.3	3.3
ROIC (EBIT) %	5.1	1.6	4.3	6.2	6.8	5.5	4.5	4.6
EV/EBITDA (core) x	7.7	9.5	6.9	6.1	5.4	5.4	5.9	5.7
P/E (UBS, diluted) x	14.3	8.1	12.9	9.8	8.7	10.6	12.7	12.3
Equity FCF (UBS) yield %	(3.8)	5.2	0.8	5.0	(0.4)	(0.2)	6.0	8.0
Net dividend yield %	3.3	2.9	2.2	5.1	5.7	4.7	3.9	4.1

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb4.23 on 22 Jul 2014 22:37 HKT

# Offshore Oil Engineering

## Offshore construction and installation leader, business internationalisation underway

### A specialist leader in offshore construction and installation

Offshore Oil Engineering (CNOOC Engineering) is an offshore engineering subsidiary of China National Offshore Oil Corporation (CNOOC). It specialises in offshore production platform construction, offshore engineering project installation, pipeline laying and onshore module manufacturing. Its most important client is CNOOC, which contributes 81% of total revenue, although it is expanding aggressively into international markets. While the industry has high entry barriers, the company has many large special facilities and vessels, owns world-class fabrication yards in Qingdao and Zhuhai, and has many years of building experience for CNOOC. It has therefore formed strong shallow water operation, installation and delivery capabilities.

### From shallow water to deep water, from China to the world

The company's traditional businesses are mainly construction and installation of production platforms and jacket stents for shallow water projects. With domestic projects expanding into deep water, Offshore Oil Engineering is capable of laying pipeline in deep water and manufacturing the topside of floating production storage and offloading (FPSO) facilities. It is trying to master building deep water platforms like Spar and tension leg platforms (TLP). As CNOOC spends more capex overseas, Offshore Oil Engineering is also expanding into international markets. We expect international revenue to account for 40% of total revenue by 2015, and believe LNG orders from Ichthy in Australia and Yamal in Russia will reinforce the company's internationalisation strategy.

### High growth likely in 2014

We look for revenue growth of 31.0% and profit growth of 24.8% in 2014, as the construction and installation boom in China in 2014 implies high turnover and capacity utilisation. We expect solid growth in 2015 based on the overseas businesses, which we believe will offset a decline in domestic operations.

### Valuation: significant valuation discount to global peers, Buy rating

Our 2014/2015/2016 EPS estimates are Rmb0.77/Rmb0.79/Rmb0.80. We derive our price target of Rmb10.50 from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool, assuming a WACC 9.2%. Our price target implies 13.6x 2014E PE. Compared with the average 19x/13x 2014E/2015E PE of globally comparable companies such as McDermott, Technip, and Saipem, the company is trading at a discount.

### Equities

China

Oil Drilling, Equipment &amp; Services

12-month rating

Buy

12m price target

Rmb10.50

Price

Rmb7.15

RIC: 600583.SS BBG: 600583 CH

### Trading data and key metrics

52-wk range Rmb9.30-7.04

Market cap. Rmb27.8bn/US\$4.48bn

Shares o/s 3,889m (ORDA)

Free float 52%

Avg. daily volume ('000) 16,809

Avg. daily value (m) Rmb122.4

Common s/h equity (12/14E) Rmb19.1bn

P/BV (12/14E) 1.7x

Net debt / EBITDA (12/14E) NM

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
12/14E	0.77	0.75
12/15E	0.79	0.87
12/16E	0.80	0.96

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	7,385	12,383	20,339	26,825	28,056	29,361	32,414	35,605
EBIT (UBS)	604	1,040	3,088	4,344	4,270	4,332	4,419	4,566
Net earnings (UBS)	180	848	2,744	3,425	3,475	3,531	3,609	3,702
EPS (UBS, diluted) (Rmb)	0.05	0.22	0.62	0.77	0.79	0.80	0.82	0.84
DPS (Rmb)	0.04	0.03	0.10	0.00	0.00	0.00	0.00	0.00
Net (debt) / cash	(521)	(2,190)	453	3,859	6,017	9,676	13,654	29,046
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	8.2	8.4	15.2	16.2	15.2	14.8	13.6	12.8
ROIC (EBIT) %	5.3	9.5	22.5	28.6	27.6	26.9	27.8	46.0
EV/EBITDA (core) x	25.0	12.2	7.0	4.6	4.0	3.9	3.8	1.0
P/E (UBS, diluted) x	NM	26.3	11.7	9.2	9.1	9.0	8.8	8.5
Equity FCF (UBS) yield %	4.9	1.8	6.6	14.7	8.1	13.5	14.6	55.6
Net dividend yield %	0.5	0.5	1.4	0.0	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb7.15 on 22 Jul 2014 22:37 HKT

# Bank of Beijing

## Leading city commercial bank, business restructuring has great potential

### Leader among city commercial banks, leading its peers in operational efficiency

Bank of Beijing was established in 1996 via the merger of 90 urban credit cooperatives in Beijing, and is one of the oldest city commercial banks in China. The bank is headquartered in Beijing. Since its listing, the bank's branches and business have extended to all major economic regions in China. Due to its many large corporate customers, locational advantages and incentives, the company leads its peers in operating efficiency at the employee and organisational level.

### Business restructuring has great potential, might underpin earnings growth

We believe Bank of Beijing's business restructuring has great potential. Specifically: 1) the company's SME customers are mainly medium-sized customers, and we believe small and micro companies have large development potential; 2) as the company's current loans are concentrated in Beijing and the Bohai Rim, it should benefit from many big companies being located/headquartered in the area (Beijing and Bohai Rim), as the pressure on loan asset quality should be small; 3) the bank's ability to control costs and strong provision capacity may provide support for earnings growth—its cost-to-income ratio recovered slightly in Q114, but remains at 17.2%, the lowest among its peers, reflecting high operational efficiency.

### Q114 NPL ratio flat QoQ, asset quality pressure may be less than peers

Bank of Beijing's Q114 NPL ratio remained flattish at 0.65% QoQ, the lowest level among the 16 listed banks. We estimate the bank's end-2013 overdue/NPL at 102%, also at a low-end among its peers. We believe the company may face the pressure of a NPL rebound against the backdrop of an overall economic growth decline and restructuring. But our analysis of the overdue/NPL ratio shows that short-term rebound pressure may be smaller than its peers.

### Valuation: Buy, price target of Rmb8.25

We estimate Bank of Beijing's 2014/2015/2016 EPS at Rmb1.45/Rmb1.66/Rmb1.91. We derive our price target of Rmb8.25 from a DDM model (assuming 13.7% COE). As the stock is trading at 4.7x/0.78x 2014E PE/PB, below the average of A-share and H-share comparable companies, we think its valuation is attractive.

### Equities

China

Banks, Ex-S&amp;L

12-month rating

**Buy**

12m price target

**Rmb8.25**

Price

**Rmb6.73**
**RIC:** 601169.SS **BBG:** 601169 CH

### Trading data and key metrics

<b>52-wk range</b>	Rmb7.42-5.79
<b>Market cap.</b>	Rmb71.1bn/US\$11.5bn
<b>Shares o/s</b>	10,560m (ORDA )
<b>Free float</b>	10%
<b>Avg. daily volume ('000)</b>	27,095
<b>Avg. daily value (m)</b>	Rmb177.3
<b>Common s/h equity (12/14E)</b>	Rmb91.8bn
<b>P/BV (12/14E)</b>	0.8x
<b>Tier 1 ratio</b>	11%

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	1.45	1.44
<b>12/15E</b>	1.66	1.62
<b>12/16E</b>	1.91	1.67

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	20,385	27,820	30,697	36,056	42,098	49,284	57,986	68,644
Profit before tax	11,397	14,770	16,821	19,625	22,527	25,887	29,803	35,293
Net earnings (local GAAP)	8,947	11,675	13,459	15,262	17,520	20,134	23,180	27,451
Net earnings (UBS)	8,947	11,675	13,459	15,262	17,520	20,134	23,180	27,451
Tier 1 ratio %	9.6	10.9	10.4	10.5	10.6	10.7	10.8	10.9
EPS (UBS, diluted) (Rmb)	1.00	1.20	1.27	1.45	1.66	1.91	2.20	2.60
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
ROE (UBS) %	19.3	19.1	18.0	18.0	17.7	17.6	17.5	19.1
P/POP (diluted)	4.8	3.4	3.6	3.0	2.6	2.2	1.8	1.5
P/BV x	1.3	1.0	0.9	0.8	0.7	0.6	0.5	0.4
P/BV (UBS) x	1.3	1.0	0.9	0.8	0.7	0.6	0.5	0.4
P/E (UBS, diluted)	7.3	5.5	5.5	4.7	4.1	3.5	3.1	2.6
Net dividend yield %	2.2	5.1	2.1	4.3	4.9	5.7	6.5	7.7

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb6.73 on 22 Jul 2014 22:37 HKT

## High dividend yield

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# SAIC Motor

## Valuation likely to improve on stable sales growth

### H114 sales targets met ahead of schedule; sales intentionally slower in June

SAIC Motor sold 2.86m units in H114 (up 11.6% YoY), of which Shanghai VW and Shanghai GM contributed 940,000 units (up 19.9% YoY) and 840,000 units (up 7.9% YoY), respectively, equivalent to 59% and 53% of their full-year sales targets. As the two JVs have met their half-year sales targets ahead of schedule, they intentionally slowed sales in June—up 1.1% and 7.6% YoY, respectively.

### New model launches gather pace; 10% profit CAGR over 2014-16E

Shanghai VW will launch several new models in the next three years, including an A-class sedan, a B-class SUV, and a C-class sedan. Shanghai GM will also roll out new models, including an A-class SUV, a Cadillac ATS, a new-generation Regal and Lacrosse, and a Chevrolet Trax. We expect product mix and profit margin at the two JV's to continuously improve, and expect a 10% CAGR for SAIC Motor's profit in 2014-16E.

### We expect high dividend payout ratio to be maintained

Given that the company has: 1) ample cash on hand (nearly Rmb90bn); and 2) adequate cash flow annually to cover capex, we expect SAIC Motor to be able to sustain its high dividend payout ratio. We expect its dividend yield ratio to reach 9% in 2015E.

### Valuation: price target of Rmb18.90 with a Buy rating

We estimate 2014/2015/2016 EPS at Rmb2.50/Rmb2.74/Rmb2.81. We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool, assuming a WACC of 9.7%, and implying 7.6x 2014E PE.

### Equities

China  
Automobile Manufacturers

12-month rating **Buy**

12m price target **Rmb18.90**

Price **Rmb16.54**

RIC: 600104.SS BBG: 600104.CH

### Trading data and key metrics

52-wk range	Rmb16.54-11.99
Market cap.	Rmb182bn/US\$29.4bn
Shares o/s	11,026m (ORDA)
Free float	100%
Avg. daily volume ('000)	17,694
Avg. daily value (m)	Rmb268.5
Common s/h equity (12/14E)	Rmb152bn
P/BV (12/14E)	1.2x
Net debt / EBITDA (12/14E)	NM

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
12/14E	2.50	2.49
12/15E	2.74	2.78
12/16E	2.81	2.90

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	433,095	478,433	563,346	625,132	678,676	724,974	770,541	808,084
EBIT (UBS)	28,614	23,788	14,471	17,432	19,783	24,347	25,467	25,584
Net earnings (UBS)	20,222	20,752	24,804	27,533	30,186	31,024	31,879	31,079
EPS (UBS, diluted) (Rmb)	1.83	1.88	2.25	2.50	2.74	2.81	2.89	2.82
DPS (Rmb)	0.30	0.60	1.20	1.33	1.46	1.50	1.54	1.50
Net (debt) / cash	53,637	41,901	71,521	62,076	55,370	51,720	47,798	43,100
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	6.6	5.0	2.6	2.8	2.9	3.4	3.3	3.2
ROIC (EBIT) %	130.6	73.0	57.4	84.0	71.4	79.3	82.4	83.5
EV/EBITDA (core) x	2.3	2.2	2.1	2.3	1.7	0.9	0.3	-0.3
P/E (UBS, diluted) x	9.0	7.5	6.6	6.6	6.0	5.9	5.7	5.9
Equity FCF (UBS) yield %	2.6	2.3	3.0	1.9	4.3	6.9	7.0	7.1
Net dividend yield %	1.8	4.2	8.1	8.1	8.8	9.1	9.3	9.1

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb16.54 on 22 Jul 2014 22:37 HKT

# China Construction Bank - A

## Constantly changing business mix; strong capital and deposit capacity

### Transformation underpins position as a Big 5 bank, bullish on its fundamentals

China Construction Bank (CCB) is one of the five largest state-owned commercial banks in China. The bank is headquartered in Beijing, with branches covering all the key regions in China. It used to specialise in providing infrastructure loans but now provides a wide range of commercial banking products and services. We expect the company to maintain stable earnings growth and believe its strong organic capital generating and accumulating capabilities and adequate reserves will provide some defence against deteriorating sector fundamentals.

### Prudent operations and strong capital and deposit capabilities

We think CCB operates prudently, and is strong in terms of capital and deposits. We believe its attributes include: 1) stronger organic capital generating and accumulating capabilities than peers and its capital strength could support CCB's business expansion; 2) a solid client base, which helps the bank to maintain deposit costs at a relatively low level compared with other listed banks. The duration of CCB's loans were relatively long in the past as infrastructure and property loans accounted for a larger part of the bank's overall loans; however, we expect loan pricing to improve as the bank has gradually adjusted its loan structure over the past few years.

### NPL ratio on an uptrend; capital ratios still one of the highest in the sector

The NPL ratio rose 3bp QoQ to 1.02% and the NPL balance grew 7% QoQ in Q114. We estimate credit cost was 49bp, up 5bp YoY. The provision-to-loan ratio was stable at 2.65%. Core tier 1 ratio/consolidated capital adequacy ratio increased 36bp/16bp QoQ to 11.11%/13.5%, demonstrating its strong organic capital generating and accumulating capabilities. Its capital ratios remain among the highest in the sector.

### Valuation: Buy, price target of Rmb5.33

We estimate the company's 2014/2015/2016 EPS at Rmb0.90/Rmb0.89/Rmb0.97. We base our price target on a DDM model, assuming 12.9% COE. Its 2014E dividend yield of 5.8% is high compared with peers; we believe its strong profitability will support a high dividend yield.

### Equities

China

Banks, Ex-S&amp;L

12-month rating

Buy

12m price target

Rmb5.33

Price

Rmb3.90

RIC: 601939.SS BBG: 601939 CH

### Trading data and key metrics

52-wk range Rmb4.53-3.78

Market cap. Rmb1,130bn/US\$182bn

Shares o/s 9,594m (ORDA)

Free float 4%

Avg. daily volume ('000) 22,424

Avg. daily value (m) Rmb90.6

Common s/h equity (12/14E) Rmb1,216bn

P/BV (12/14E) 0.8x

Tier 1 ratio 11%

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
12/14E	0.90	0.93
12/15E	0.89	0.99
12/16E	0.97	1.02

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	399,403	462,533	511,140	558,561	601,067	637,117	722,738	824,279
Profit before tax	219,107	251,439	279,806	293,430	289,492	315,788	365,015	419,687
Net earnings (local GAAP)	169,258	193,179	214,658	225,430	222,347	242,538	280,381	322,410
Net earnings (UBS)	169,258	193,179	214,658	225,430	222,347	242,538	280,381	322,410
Tier 1 ratio %	11.0	11.3	10.8	11.4	11.7	12.1	12.7	13.2
EPS (UBS, diluted) (Rmb)	0.68	0.77	0.86	0.90	0.89	0.97	1.12	1.29
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
ROE (UBS) %	22.4	22.0	21.4	19.8	17.1	16.4	16.7	16.8
P/POP (diluted)	4.7	3.8	3.5	2.8	2.7	2.6	2.2	2.0
P/BV x	1.5	1.2	1.1	0.8	0.7	0.6	0.5	0.5
P/BV (UBS) x	1.5	1.2	1.1	0.8	0.7	0.6	0.5	0.5
P/E (UBS, diluted)	7.1	5.7	5.2	4.3	4.4	4.0	3.5	3.0
Net dividend yield %	4.9	6.1	6.7	5.8	5.7	6.2	7.2	8.3

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb3.90 on 22 Jul 2014 22:37 HKT



## Key Call: Daqin Railway

### A leading provider of heavy-duty and efficient railway transport services

#### China's largest specialised coal railway transport company

Daqin Railway is controlled by China Railway Corporation's Taiyuan Railway Administration, which holds a 62% stake. The company is China's largest specialised coal railway transport company in terms of freight volume. It operates two coal railway transport lines: the Datong-Qinhuangdao line and the Fengtai-Shahe-Datong line. In 2010, the company acquired assets worth Rmb32.8bn from Taiyuan Railway Administration. Coal transport volume on the Daqin line was 445mt in 2013.

#### A rise in rail freight rates to spur Daqin's earnings growth potential

With effect from 15 February 2014, rail freight rates were increased by an average Rmb0.015/t/km, with the coal freight base rate 1 up from Rmb13.8/t/km to Rmb15.5/t/km and base rate 2 up from Rmb0.0753/t/km to Rmb0.089/t/km. Cross-line coal transport on Daqin's three lines (Datong-Qinhuangdao, Beijing-Taiyuan and Fengtai-Shahe-Datong) and other rail lines was priced at national rates, while coal transport on its own lines was subject to a rate hike of Rmb0.015/t/km. We estimate cross-line freight volume at around 95% of total freight volume on the Datong-Qinhuangdao line, and this implies further rate hikes for the company as national rail freight rates rise.

#### Net profit to increase by 17% YoY; current dividend yield at 8.5%

In January-May 2014, freight volume on the Datong-Qinhuangdao line was 186mt, up 1.7% YoY, and 41% of our full-year estimate of 452mt. The company's target for the Datong-Qinhuangdao line is 460mt this year, slightly above our estimate. Excluding the impact of the shift from a business tax to VAT, we expect the rise in freight rates and freight volume to underpin around 17% YoY net profit growth in 2014. The company maintains a stable dividend policy, with a dividend payout ratio of c50% for the past four years. We expect its dividend payout ratio to remain stable or even rise in future. We think the current est. dividend yield of 8.5% is attractive.

#### Valuation: price target of Rmb11.10

We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool, assuming an 8.8% WACC.

#### Equities

China  
Transportation Services

12-month rating **Buy**

12m price target **Rmb11.10**

Price **Rmb6.85**

RIC: 601006.SS BBG: 601006.CH

#### Trading data and key metrics

52-wk range Rmb7.99-5.84  
Market cap. Rmb102bn/US\$16.4bn  
Shares o/s 14,867m (ORDA)  
Free float 33%  
Avg. daily volume ('000) 21,168  
Avg. daily value (m) Rmb141.0  
Common s/h equity (12/14E) Rmb83.4bn  
P/BV (12/14E) 1.2x  
Net debt / EBITDA (12/14E) NM

#### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
12/14E	1.00	1.01
12/15E	1.05	1.11
12/16E	1.07	1.22

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	43,497	44,604	49,813	54,780	57,824	60,270	62,049	63,802
EBIT (UBS)	14,675	13,582	14,165	16,840	17,439	17,805	18,183	18,527
Net earnings (UBS)	11,699	11,503	12,691	14,794	15,545	15,968	16,454	16,813
EPS (UBS, diluted) (Rmb)	0.79	0.77	0.85	1.00	1.05	1.07	1.11	1.13
DPS (Rmb)	0.39	0.39	0.43	0.58	0.65	0.68	0.00	0.00
Net (debt) / cash	(13,979)	(9,946)	(5,746)	575	3,733	6,685	9,411	13,121
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	33.7	30.4	28.4	30.7	30.2	29.5	29.3	29.0
ROIC (EBIT) %	24.1	21.5	22.0	26.2	27.4	28.0	28.6	29.2
EV/EBITDA (core) x	6.4	5.3	5.0	4.0	3.5	3.3	3.1	2.9
P/E (UBS, diluted) x	10.2	8.8	8.3	6.9	6.6	6.4	6.2	6.1
Equity FCF (UBS) yield %	6.9	8.0	8.7	14.7	12.5	12.8	13.2	13.5
Net dividend yield %	4.8	5.7	6.1	8.5	9.4	9.9	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb6.85 on 22 Jul 2014 22:37 HKT



# Fuyao Glass

## Auto glass sector leader with low valuation, high dividend

### Market leader in China, No.3 globally

Fuyao Glass is the largest automotive glass maker in China, and the third-largest globally, representing 97% of its core revenue. It has a 60% share of the domestic OEM auto glass market, and a 10% share of the global market.

### Business strategy: likely to resume growth on overseas expansion

We estimate a 2014-20 domestic revenue CAGR of 8%, and we think Fuyao's strategy to expand overseas could become a new revenue growth point. We expect Fuyao's overseas business to post a revenue CAGR of 20% in 2014-20E. Phase I of the company's Russian plant, with a capacity of 1m units of auto glass, began production in September 2013 and product delivery in April 2014. Phase II of the plant (with a capacity of 2m units) is due to begin production after 2015. Its 3m-unit project in the US is due to start production in 2015. We expect Fuyao's global market share to reach 36% in 2020E, ranking it first globally.

### Competitive advantage: flexible manufacturing better suits the auto sector

We believe Fuyao's small-scale, customised auto glass production process—with more steps involving human labour than other auto glass makers—better suits the needs of vehicle OEMs, which release new car models after short R&D periods. With relatively low automated equipment usage costs, Fuyao's products have a much higher gross margin than the products of its peers. We believe this higher gross margin provides greater bargaining flexibility than overseas competitors, allowing Fuyao to attract clients and expand its market share.

### Valuation: price target of Rmb12.60 with a Buy rating

We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool, assuming a WACC of 8.3%, and implying 11.5x 2014E PE. We think Fuyao is a typical A-share market subsector leader, with low valuations and a high dividend.

### Equities

China

Auto Parts

**12-month rating** **Buy**
**12m price target** **Rmb12.60**
**Price** **Rmb8.85**
**RIC:** 600660.SS **BBG:** 600660 CH

### Trading data and key metrics

<b>52-wk range</b>	Rmb9.12-7.12
<b>Market cap.</b>	Rmb17.7bn/US\$2.86bn
<b>Shares o/s</b>	2,003m (ORDA)
<b>Free float</b>	63%
<b>Avg. daily volume ('000)</b>	10,265
<b>Avg. daily value (m)</b>	Rmb85.9
<b>Common s/h equity (12/14E)</b>	Rmb9.05bn
<b>P/BV (12/14E)</b>	2.0x
<b>Net debt / EBITDA (12/14E)</b>	0.4x

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	1.10	1.07
<b>12/15E</b>	1.21	1.22
<b>12/16E</b>	1.35	1.35

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	9,689	10,247	11,501	13,843	15,309	16,828	18,359	19,658
EBIT (UBS)	1,929	2,034	2,483	2,891	3,206	3,645	3,991	4,182
Net earnings (UBS)	1,513	1,525	1,918	2,209	2,430	2,711	2,984	3,141
EPS (UBS, diluted) (Rmb)	0.76	0.76	0.96	1.10	1.21	1.35	1.49	1.57
DPS (Rmb)	0.40	0.50	0.50	0.55	0.61	0.68	0.74	0.78
Net (debt) / cash	(3,039)	(1,702)	(2,131)	(1,486)	(736)	116	1,140	2,367
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	19.9	19.8	21.6	20.9	20.9	21.7	21.7	21.3
ROIC (EBIT) %	22.9	24.7	29.0	28.6	30.1	32.5	33.8	34.1
EV/EBITDA (core) x	8.5	6.1	7.4	4.8	4.1	3.5	3.0	2.2
P/E (UBS, diluted) x	13.3	10.4	8.5	8.0	7.3	6.5	5.9	5.6
Equity FCF (UBS) yield %	1.8	5.9	9.8	9.9	10.9	12.1	13.8	15.7
Net dividend yield %	4.0	6.3	6.1	6.2	6.9	7.6	8.4	8.9

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb8.85 on 22 Jul 2014 22:37 HKT

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## A share stocks with scarcity value

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# Kweichow Moutai

## Leading high-end liquor producer

### Leading high-end liquor producer

Kweichow Moutai is one of the most well-known companies in China's domestic liquor industry; the Moutai spirit it produces is widely known as the 'Chinese national spirit'. The company's main product is Moutai (53% alcohol by volume (ABV)), and it manufactures ultra-premium 15-, 30- and 50-year vintages. It has also developed a lower alcohol Moutai range, with 43%, 38% and 33% ABV, and other product ranges to expand its market share. In 2013, the company's production volume was 52,487t.

### Supply-demand temporarily balanced, we expect 2014 revenue to rise 3%

We think Moutai has reached a temporary supply-demand balance in the Rmb850-900/bottle price range, after substantial wholesale price declines in 2013. The company has guided for 3% revenue growth in 2014. We expect revenue from Feitian Moutai to rise 15%, while revenue from other wine products and Moutai vintages may continue to decline.

### SOE reform still under consideration

We think the current weak sector fundamentals provide a good opportunity for state-owned enterprise (SOE) reform. If the company makes positive progress in restructuring product mix and introducing strategic investors, and if it aligns the interests of various parties regarding its share-incentive scheme and employee stock ownership plan, we think it will gain impetus from the capital market, improve its efficiency as an SOE, providing more capacity for growth.

### Valuation: price target of Rmb187.00 with a Buy rating

We remain positive on the stock due to the company's major brands and stable market share. We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool, assuming a WACC of 9.2%.

### Equities

China  
Distillers & Brewers

**12-month rating** **Buy**

**12m price target** **Rmb187.00**

**Price** **Rmb163.20**

**RIC:** 600519.SS **BBG:** 600519 CH

### Trading data and key metrics

<b>52-wk range</b>	Rmb163.59-107.96
<b>Market cap.</b>	Rmb186bn/US\$30.0bn
<b>Shares o/s</b>	1,142m (ORDA)
<b>Free float</b>	43%
<b>Avg. daily volume ('000)</b>	2,524
<b>Avg. daily value (m)</b>	Rmb367.5
<b>Common s/h equity (12/14E)</b>	Rmb51.0bn
<b>P/BV (12/14E)</b>	3.7x
<b>Net debt / EBITDA (12/14E)</b>	NM

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	13.96	13.93
<b>12/15E</b>	15.63	15.39
<b>12/16E</b>	17.28	17.45

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
<b>Revenues</b>	18,402	26,455	31,071	32,459	36,084	40,185	45,043	50,562
<b>EBIT (UBS)</b>	11,987	18,416	21,393	22,154	24,794	27,385	30,541	34,097
<b>Net earnings (UBS)</b>	8,763	13,308	15,137	15,941	17,845	19,730	22,011	24,559
<b>EPS (UBS, diluted) (Rmb)</b>	7.67	11.65	13.25	13.96	15.63	17.28	19.27	21.51
<b>DPS (Rmb)</b>	4.00	3.77	6.47	6.35	5.96	6.66	7.35	8.21
<b>Net (debt) / cash</b>	18,255	22,062	25,185	32,005	42,195	53,542	66,349	80,785
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
<b>EBIT margin %</b>	65.1	69.6	68.9	68.3	68.7	68.1	67.8	67.4
<b>ROIC (EBIT) %</b>	-	-	-	106.1	112.5	116.6	122.4	128.6
<b>EV/EBITDA (core) x</b>	14.4	11.3	7.0	6.9	5.9	5.0	4.1	3.4
<b>P/E (UBS, diluted) x</b>	22.0	17.4	11.6	11.7	10.4	9.4	8.5	7.6
<b>Equity FCF (UBS) yield %</b>	4.4	3.3	4.1	7.5	9.1	10.2	11.4	12.8
<b>Net dividend yield %</b>	2.4	1.9	4.2	3.9	3.7	4.1	4.5	5.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb163.20 on 22 Jul 2014 22:37 HKT

# China CYTS Tours Holding

## Gubei Water Town could be a new earnings driver

### Company background

China CYTS Tours Holding (CYTS) is mainly engaged in scenic-spot operations, travel agency, hotel, and fair and exhibition services. The scenic spot operations business contributes more than 30% gross profit to the company.

### Bullish on scenic spot development; profit growth from business replication

CYTS is experienced in developing scenic spots, and we believe it is also good at generating profit from them. We are positive about the company's ability to replicate its successful business model; Gubei Water Town could be a good example. In 2013, CYTS's diluted ROE was 10.95%, higher than the industry average of 3.96%, while the gearing ratio was around 51%, also higher than the industry average of 36.1%.

### Wuzhen stake may boost earnings; Gubei could be a new growth driver

1) Wuzhen: Given the acquisition of a stake in Wuzhen Tourism and the high growth of tourist traffic in Q214 from a low base, we expect CYTS's 2014 revenue growth to be above 25% and attributable net profit of Rmb209m. 2) Gubei Water Town: Since the trial runs of Gubei Water Town in early 2014, the number of visitors has beaten expectations. We estimate Gubei's 2014/2015/2016 tourist traffic at 1.1m/1.9m/2.8m visits. The current admission price is Rmb80/visit, which is likely to increase to Rmb150/visit following the official operations in October. In addition, with the increase in the number of hotel rooms and wider choices in consumer goods, we expect per-customer transaction in Gubei to rise significantly from the current Rmb150-170. We estimate 2014/2015/2016 attributable net profit from Gubei would be -Rmb27m/Rmb42m/Rmb87m.

### Valuation: Buy rating and price target of Rmb26.00

We estimate the company's 2014/2015/2016 EPS at Rmb0.78/Rmb0.97/Rmb1.20. We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool, assuming a WACC of 9.6%.

### Equities

China  
Recreational Products & Services

**12-month rating Buy**

**12m price target Rmb26.00**

**Price Rmb21.88**

**RIC:** 600138.SS **BBG:** 600138.CH

### Trading data and key metrics

<b>52-wk range</b>	Rmb21.96-15.28
<b>Market cap.</b>	Rmb9.09bn/US\$1.47bn
<b>Shares o/s</b>	415m (ORDA)
<b>Free float</b>	100%
<b>Avg. daily volume ('000)</b>	5,063
<b>Avg. daily value (m)</b>	Rmb105.9
<b>Common s/h equity (12/14E)</b>	Rmb3.11bn
<b>P/BV (12/14E)</b>	3.4x
<b>Net debt / EBITDA (12/14E)</b>	NM

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	0.78	0.79
<b>12/15E</b>	0.97	0.95
<b>12/16E</b>	1.20	1.10

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	8,421	10,280	9,316	10,631	12,217	14,159	16,260	18,652
EBIT (UBS)	643	719	490	654	795	983	1,137	1,276
Net earnings (UBS)	267	296	324	378	467	581	676	764
EPS (UBS, diluted) (Rmb)	0.64	0.71	0.78	0.78	0.97	1.20	1.40	1.58
DPS (Rmb)	0.20	0.15	0.00	0.13	0.15	0.18	0.21	0.00
Net (debt) / cash	602	60	(515)	608	1,049	1,634	2,341	3,169
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	7.6	7.0	5.3	6.2	6.5	6.9	7.0	6.8
ROIC (EBIT) %	22.1	23.4	18.5	26.1	31.2	37.6	42.8	47.6
EV/EBITDA (core) x	9.2	9.1	10.3	10.4	9.4	7.6	6.3	5.3
P/E (UBS, diluted) x	22.9	23.2	20.8	28.0	22.6	18.2	15.6	13.8
Equity FCF (UBS) yield %	(7.6)	(5.7)	(2.6)	13.4	5.6	6.9	8.2	10.9
Net dividend yield %	1.4	0.9	0.0	0.6	0.7	0.8	1.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb21.88 on 22 Jul 2014 22:37 HKT

# China International Travel Service

## Largest beneficiary of high growth in the duty-free market

### Company background

China International Travel Service is a major travel agency with the most complete suite of products in China and a leader in the domestic duty-free sector. It has two subsidiaries: China International Travel Service, Head Office and China Duty Free Group. The company's most important profit source is duty-free merchandise.

### Scarcity value, strong profitability and low leverage

It is the only company with a licence to operate a nationwide duty-free business in China and we expect it to benefit the most from the high growth of China's duty-free market; it generated over 60% of its net profit from the duty-free businesses. In 2013, its diluted ROE was 14.3%, significantly higher than the 3.96% of the catering and tourism industry; its gearing ratio was only 25.1%, 19.8ppt/11ppt below the average of the A-share market/catering and tourism industry.

### Higher foot traffic and more spending to drive high duty-free revenue growth

Continued high growth in the number of China tourists, particularly outbound tourists, could boost duty-free consumption significantly, in our view. Due to its small floor space, the Dadonghai duty-free shop has a penetration rate of only 6-8% and is unable to accommodate all foot traffic in peak seasons. However, we expect the Haitang Bay Shopping Centre to absorb higher traffic flow, with a 7% penetration rate in 2014, and rising gradually from 2015. We estimate the Centre will introduce many more luxury brands priced at Rmb5,000-8,000, which should result in higher tourist spending. We expect the per capita duty-free spending in Sanya to be Rmb3,816, Rmb4,045 and Rmb4,247 in 2014, 2015 and 2016., respectively.

### Valuation: Buy, price target of Rmb39.00

We maintain our EPS estimates. We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCM tool, assuming 8.6% WACC. We have a Buy rating on the stock.

### Equities

China  
Recreational Products & Services

**12-month rating** **Buy**

**12m price target** **Rmb39.00**

**Price** **Rmb30.99**

**RIC:** 601888.SS **BGG:** 601888.CH

### Trading data and key metrics

<b>52-wk range</b>	Rmb43.96-30.09
<b>Market cap.</b>	Rmb30.3bn/US\$4.88bn
<b>Shares o/s</b>	976m (ORDA)
<b>Free float</b>	25%
<b>Avg. daily volume ('000)</b>	2,108
<b>Avg. daily value (m)</b>	Rmb67.3
<b>Common s/h equity (12/14E)</b>	Rmb9.73bn
<b>P/BV (12/14E)</b>	3.1x
<b>Net debt / EBITDA (12/14E)</b>	NM

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	1.52	1.57
<b>12/15E</b>	1.88	1.90
<b>12/16E</b>	2.30	2.25

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	12,695	16,134	17,448	19,959	23,567	27,582	32,089	37,205
EBIT (UBS)	953	1,310	1,705	1,976	2,463	3,036	3,713	4,336
Net earnings (UBS)	685	1,006	1,295	1,481	1,833	2,244	2,734	3,187
EPS (UBS, diluted) (Rmb)	0.78	1.14	1.41	1.52	1.88	2.30	2.80	3.26
DPS (Rmb)	0.10	0.35	0.21	0.25	0.30	0.36	0.41	0.41
Net (debt) / cash	2,952	3,924	7,004	8,261	10,073	12,267	14,931	18,020
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	7.5	8.1	9.8	9.9	10.5	11.0	11.6	11.7
ROIC (EBIT) %	71.0	64.9	74.6	85.1	122.9	135.8	143.8	173.8
EV/EBITDA (core) x	18.9	14.5	13.0	10.5	7.8	5.8	4.2	3.7
P/E (UBS, diluted) x	34.6	24.3	23.3	20.4	16.5	13.5	11.1	9.5
Equity FCF (UBS) yield %	(2.4)	3.4	1.8	4.4	6.3	7.6	9.3	10.8
Net dividend yield %	0.4	1.3	0.6	0.8	1.0	1.2	1.3	1.3

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb30.99 on 22 Jul 2014 22:37 HKT

# China Yangtze Power

## Likely to benefit the most from MMA among power companies

### China's largest listed hydropower company

Established on 4 November 2002 and listed on the Shanghai Stock Exchange on 18 November 2003, China Yangtze Power is the largest listed hydropower company in China. The company owns the Three Gorges Dam power station and the Gezhouba Power Station, with combined installed capacity of 25.277GW. The company sells electricity mainly to central China (Hubei, Hunan, Henan, Jiangxi and Chongqing), eastern China (Shanghai, Jiangsu, Zhejiang and Anhui) and to Guangdong Province.

### Xiluodu/Xiangjiaba stations fully operational, asset injection likely to kick-off

Xiluodu power station, invested in by China Three Gorges Corporation (the controlling shareholder of China Yangtze Power), started operations at end-June 2014, while the last power generation set at Xiangjiaba power station began operations on 10 July 2014. Both stations have a combined installed capacity of 20.26GW, equivalent to the capacity of the Three Gorges Dam. Based on an earlier statement by China Three Gorges Corporation, we expect it to inject the two stations into Yangtze Power after they are operational.

### Likely to be the largest beneficiary of MMA among power companies

Yangtze Power is China's largest listed hydropower corporation with stable annual earnings and dividend payouts. Due to a lack of pure hydropower plays in the Hong Kong stock market, and Yangtze's earnings stability and high dividend payouts, which we believe appeals to overseas investors, we expect stock liquidity to increase significantly following its inclusion in the Shanghai-Hong Kong Mutual Market Access (MMA), and thereby become the largest beneficiary among power companies.

### Valuation: Buy rating and price target of Rmb10.04

We estimate the company's 2014/2015/2016 EPS at Rmb0.58/Rmb0.61/Rmb0.58. We derive a price target of Rmb10.04 from a DCF-based methodology, assuming a WACC of 6.5%.

### Equities

China  
Electric Utilities

**12-month rating Buy**

**12m price target Rmb10.04**

**Price Rmb6.42**

**RIC:** 600900.SS **BGG:** 600900.CH

### Trading data and key metrics

<b>52-wk range</b>	Rmb7.09-5.57
<b>Market cap.</b>	Rmb106bn/US\$17.1bn
<b>Shares o/s</b>	16,500m (ORDA)
<b>Free float</b>	37%
<b>Avg. daily volume ('000)</b>	13,516
<b>Avg. daily value (m)</b>	Rmb82.5
<b>Common s/h equity (12/14E)</b>	Rmb83.1bn
<b>P/BV (12/14E)</b>	1.3x
<b>Net debt / EBITDA (12/14E)</b>	2.4x

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	0.58	0.60
<b>12/15E</b>	0.61	0.62
<b>12/16E</b>	0.58	0.58

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	20,700.38	25,781.97	22,697.64	24,100.95	24,487.75	24,487.75	24,487.75	24,487.75
EBIT (UBS)	11,493.39	15,067.26	12,128.52	13,219.18	13,402.28	13,357.51	13,312.73	13,267.96
Net earnings (UBS)	7,699.90	10,352.01	9,070.74	9,566.91	9,993.14	9,581.87	9,956.54	9,322.95
EPS (UBS, diluted) (Rmb)	0.47	0.63	0.55	0.58	0.61	0.58	0.60	0.57
DPS (Rmb)	0.25	0.33	0.28	0.30	0.31	0.30	0.31	0.29
Net (debt) / cash	(83,890.79)	(63,528.53)	(56,830.73)	(47,289.93)	(37,491.74)	(27,934.95)	(17,593.94)	(7,962.63)
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	55.5	58.4	53.4	54.8	54.7	54.5	54.4	54.2
ROIC (EBIT) %	8.3	11.5	9.9	11.2	11.9	12.5	13.2	14.0
EV/EBITDA (core) x	10.9	7.4	8.5	7.0	6.4	5.9	5.3	4.8
P/E (UBS, diluted) x	15.3	10.4	12.7	11.1	10.6	11.1	10.6	11.4
Equity FCF (UBS) yield %	4.1	13.2	15.1	16.4	16.6	16.2	16.2	15.4
Net dividend yield %	3.6	5.1	4.0	4.6	4.8	4.6	4.8	4.5

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb6.42 on 22 Jul 2014 22:37 HKT

# Jiangsu Hengrui Medicine

**Leading pharmaceutical company with the strongest R&D capability; an example to peers**

## Strongest R&D capability in China

Hengrui Medicine (Hengrui) is a leading preparation manufacturer in China with the strongest innovation and R&D capability. It produces anti-tumour, surgical and metabolic drugs, contrast agents and anti-infectives. The company continues to expand the product line and is a typical high-quality generic drug maker in China, with Oxaliplatin and Docetaxel being examples of domestic medicines replacing imported products. In 2013, the company posted Rmb6.2bn in revenue and an Rmb1.22bn net profit (excluding one-offs), up 14% and 17%, respectively.

## Generic drugs approved faster; rapid growth could resume

We believe Hengrui's strong R&D capability is evidenced by its products that have been approved and those in the R&D stage in recent years. After the China Food and Drug Administration raised the drug approval threshold in 2007, the company's new products have continued to be approved, reflecting strong R&D capability. Since H213, Hengrui has entered a drug approval boom, and we think the growth outlook for newly approved generic drugs such as Tegafur Gimeracil Oteracil Potassium and Iodixanol is better than it was for older generic drugs. We think Hengrui will have four to five new generic drugs approved each year, and that the company's revenue and profits will grow at a faster pace as we expect sales of these drugs to rise rapidly.

## Innovative drugs likely to reap returns this year; setting an example

Hengrui's R&D expenses account for around 10% of its total revenue pa, which is high for China's pharmaceutical companies. The company has one of the most complete R&D systems among domestic peers and a pipeline of innovative drugs. We think its innovative drugs business will begin to make a profit this year with Apatinib and long-acting GCSF likely to be granted approval in 2014, each of which may record Rmb2bn in incremental revenue. We think Hengrui could be an example for successful innovation in the pharmaceutical industry in China. We expect the company to launch one to two innovative drugs every year, driving profits and providing strong support to its valuation.

## Valuation: Buy rating and price target of Rmb40.90

Our 2014/2015/2016 EPS estimates are Rmb1.00/1.22/1.52. We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool, assuming a WACC of 6.0%. Hengrui is our most preferred pharmaceutical stock in the MMA list.

## Equities

China  
Pharmaceuticals

**12-month rating** **Buy**

**12m price target** **Rmb40.90**

**Price** **Rmb32.48**

**RIC:** 600276.SS **BBG:** 600276 CH

## Trading data and key metrics

<b>52-wk range</b>	Rmb35.51-27.27
<b>Market cap.</b>	Rmb48.6bn/US\$7.83bn
<b>Shares o/s</b>	1,496m (ORDA)
<b>Free float</b>	100%
<b>Avg. daily volume ('000)</b>	3,306
<b>Avg. daily value (m)</b>	Rmb105.7
<b>Common s/h equity (12/14E)</b>	Rmb7.72bn
<b>P/BV (12/14E)</b>	6.3x
<b>Net debt / EBITDA (12/14E)</b>	NM

## EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	1.00	0.99
<b>12/15E</b>	1.22	1.22
<b>12/16E</b>	1.52	1.51

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	4,550	5,435	6,203	7,677	9,531	11,770	14,360	17,519
EBIT (UBS)	1,028	1,238	1,532	1,831	2,258	2,848	3,474	4,239
Net earnings (UBS)	848	1,038	1,219	1,489	1,818	2,281	2,805	3,013
EPS (UBS, diluted) (Rmb)	0.57	0.69	0.81	1.00	1.22	1.52	1.87	2.01
DPS (Rmb)	0.07	0.07	0.09	0.10	0.55	0.64	0.74	0.88
Net (debt) / cash	939	1,319	1,850	2,168	2,481	3,214	4,200	4,975
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	22.6	22.8	24.7	23.8	23.7	24.2	24.2	24.2
ROIC (EBIT) %	34.9	32.8	34.3	33.9	33.6	34.6	35.2	35.8
EV/EBITDA (core) x	30.6	24.0	22.7	22.8	18.5	14.6	11.8	9.6
P/E (UBS, diluted) x	43.6	32.7	34.7	32.6	26.7	21.3	17.3	16.1
Equity FCF (UBS) yield %	(.0)	1.4	1.4	0.8	0.8	1.8	2.3	2.0
Net dividend yield %	0.3	0.3	0.3	0.3	1.7	2.0	2.3	2.7

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb32.48 on 22 Jul 2014 22:37 HKT



# Guizhou Yibai Pharmaceutical

## Extensive products in the pipeline, advantages gradually emerging

### TCM maker with ability to acquire drugs with many products in the pipeline

Yibai's products include prescription and over-the-counter drugs, covering anti-tumour, cardiovascular and reproductive medicines, with a leading position in the first two segments. It has one of the strongest sales team in China. More importantly, it has a complete suite of products and ample products in its pipeline, giving it an advantage at a time when new drugs are scarce.

### Impressive ability to choose products and strong capability for M&A

We think Yibai is not particularly good at R&D, but it seems to have an impressive ability to choose, evaluate and acquire products. It has obtained a number of valuable drugs via M&A in recent years, including Lobaplatin, Reteplase, and Baogong Zhixue Keli (a haemostatic drug), which have effectively enriched Yibai's product mix. We expect Yibai's value to emerge gradually, given the current industry environment of stringent product approval and scarcity of drugs.

### Expected to grow rapidly in the next five years; re-rating likely to continue

We think that in the coming years the sales of Yibai's drugs with the largest potential will grow rapidly, while those for its other existing important drugs should grow steadily; we also think Yibai will be able to exploit the market potential of its traditional Chinese medicines (TCM). We expect the sales of its existing important drugs such as Aidi to grow steadily, its drugs with the largest potential, such as Reteplase and Lobaplatin to maintain their high growth and become the key drivers of its performance in the next five years, and some of its unique tier-three drugs, such as Xinmaitong capsules, to generate around Rmb300 in revenue. We expect sales growth to be underpinned by the company's products in all three tiers. We look for Yibai's earnings to continue to beat market expectations and drive up the company's valuation.

### Valuation: price target of Rmb49.00; Buy rating

Our 2014/2015/2016 EPS estimates are Rmb1.47/Rmb1.97/Rmb2.54. We derive our Rmb49.00 price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool (WACC of 7.7%). We assign Yibai a Buy rating. It is one of our most favoured TCM makers among the MMA eligible stocks.

### Equities

China  
Pharmaceuticals

**12-month rating** **Buy**

**12m price target** **Rmb49.00**

**Price** **Rmb39.79**

**RIC:** 600594.SS **BBG:** 600594.CH

### Trading data and key metrics

**52-wk range** Rmb42.99-28.35

**Market cap.** Rmb14.4bn/US\$2.31bn

**Shares o/s** 361m (ORDA)

**Free float** 64%

**Avg. daily volume ('000)** 1,160

**Avg. daily value (m)** Rmb45.3

**Common s/h equity (12/14E)** Rmb2.49bn

**P/BV (12/14E)** 6.3x

**Net debt / EBITDA (12/14E)** 0.3x

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	1.47	1.41
<b>12/15E</b>	1.97	1.82
<b>12/16E</b>	2.54	2.39

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	1,903	2,253	2,940	3,789	4,881	6,297	7,871	9,682
EBIT (UBS)	336	397	546	719	957	1,232	1,510	1,836
Net earnings (UBS)	253	314	444	584	780	1,005	1,232	1,503
EPS (UBS, diluted) (Rmb)	0.72	0.87	1.23	1.47	1.97	2.54	3.11	3.79
DPS (Rmb)	0.08	0.15	0.21	0.25	0.33	0.43	0.52	0.64
Net (debt) / cash	(85)	(109)	(192)	(220)	(240)	(286)	(255)	(102)
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	17.7	17.6	18.6	19.0	19.6	19.6	19.2	19.0
ROIC (EBIT) %	30.8	28.3	29.5	30.3	31.8	31.9	30.9	30.5
EV/EBITDA (core) x	17.2	15.0	17.3	18.1	14.0	10.9	8.9	7.3
P/E (UBS, diluted) x	26.1	21.2	23.9	27.0	20.2	15.7	12.8	10.5
Equity FCF (UBS) yield %	2.1	1.2	0.0	0.6	0.8	0.9	1.7	2.8
Net dividend yield %	0.4	0.8	0.7	0.6	0.8	1.1	1.3	1.6

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb39.79 on 22 Jul 2014 22:37 HKT

# Shinva Medical Instrument

## China's leading medical device company

### China's leading medical device company

Shinva is a large state-owned enterprise that designs, develops, produces and sells medical devices. Its businesses mainly cover three segments: medical devices & consumables, pharmaceutical equipment, and medical services. Shinva leads the China market in equipment for infection prevention, pharmaceuticals, medical-use environmental protection, and radiation therapy.

### The only A-share company with business in the three segments

With Shinva's expansion into the three major segments of "medical devices, healthcare services and pharmaceutical equipment", its future direction for inorganic expansion will mainly be through medical devices and healthcare services: 1) for medical devices, the main direction of future expansion is in-vitro diagnostics and haemodialysis; 2) for healthcare services, it plans to create a medical management group operating at least 100 hospitals by acquiring hospitals that specialise in fields such as orthopaedics and cancer; 3) Shinva will have basically secured its position in the pharmaceutical equipment segment after acquiring Chengdu Yingde. Shinva is the only A-share listed company with businesses in all the three segments of medical devices, pharmaceutical equipment and medical services.

### An SOE with adequate incentives in place; bullish on long-term growth

Among state-owned enterprises (SOEs), Shinva has adequate incentives in place and it has used cash incentives in the past. Earlier in 2014, Shinva launched a more scientific programme to evaluate economic value added (EVA), net profit growth rate, core revenue growth rate, and accounts receivables + payables + other receivables + stock/revenue, and to focus more on quality of growth. Management has also pledged to purchase Shinva shares in the secondary market with no less than 50% of received incentive bonuses, to ensure management and investor interests are aligned. We think Shinva is one of few SOEs with adequate incentives in place; hence, we are bullish on the company's long-term growth outlook.

### Valuation: price target of Rmb105.00; Buy rating

We estimate Shinva's 2014-16 EPS at Rmb1.74/Rmb2.53/Rmb3.40. We derive our Rmb105.00 price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool (WACC of 6.9%), implying 60x 2014E PE. We have a Buy rating.

### Equities

China

Healthcare Providers

12-month rating

Buy

12m price target

Rmb105.00

Price

Rmb31.80

RIC: 600587.SS BBG: 600587 CH

### Trading data and key metrics

52-wk range Rmb93.19-31.80

Market cap. Rmb6.32bn/US\$1.02bn

Shares o/s 199m (ORDA)

Free float 60%

Avg. daily volume ('000) 1,841

Avg. daily value (m) Rmb121.4

Common s/h equity (12/14E) Rmb2.74bn

P/BV (12/14E) 2.3x

Net debt / EBITDA (12/14E) NM

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
12/14E	1.74	0.87
12/15E	2.53	1.20
12/16E	3.40	1.63

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	2,106	3,036	4,194	5,572	7,387	9,234	11,173	13,296
EBIT (UBS)	151	238	349	466	673	845	1,022	1,217
Net earnings (UBS)	99	155	210	347	503	676	807	902
EPS (UBS, diluted) (Rmb)	0.66	0.93	1.16	1.74	2.53	3.40	4.06	4.54
DPS (Rmb)	0.12	0.10	0.13	0.21	0.30	0.41	0.49	0.55
Net (debt) / cash	66	99	(144)	724	723	975	1,246	1,551
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	7.2	7.8	8.3	8.4	9.1	9.2	9.2	9.2
ROIC (EBIT) %	24.0	21.3	16.5	18.6	27.4	29.4	31.2	32.4
EV/EBITDA (core) x	24.0	16.7	23.4	11.6	8.2	6.3	5.0	3.9
P/E (UBS, diluted) x	41.1	28.8	40.3	18.2	12.6	9.3	7.8	7.0
Equity FCF (UBS) yield %	(3.4)	(3.8)	(5.9)	10.4	0.3	4.5	5.0	5.7
Net dividend yield %	0.4	0.4	0.3	0.7	1.0	1.3	1.5	1.7

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb31.80 on 22 Jul 2014 22:37 HKT

# Zhejiang Huahai Pharmaceutical

## First China pharmaceutical company to export finished dosages to EU and US on a large scale

### The first big supplier of finished dosages to Europe and the US

Zhejiang Huahai (Huahai) is China's first pharmaceutical manufacturer to distribute finished dosages on a large scale to the European and US markets. It is one of the world's biggest suppliers of ACE-inhibitors, angiotensin II receptor antagonists, and neurological active pharmaceutical ingredients (API). Supported by its API business, in 2006 Huahai began its upgrade to aim at exports of finished dosages. After nine years of effort, it has established a finished dosage export system, with annual sales of Losartan and many other drugs each exceeding US\$10m.

### Finished dosage exports established; could become a tier-1 generic drug maker

After nine years, Huahai has become a strong player in terms of R&D, drug application, quality control and distribution channels: 1) R&D and drug application: Huahai applies to Food and Drug Administration (FDA) for approval of 10-15 drugs every year and is a leader in R&D of sustained/controlled-release drugs. 2) Quality control: Huahai's products have passed FDA validation three times, with no deficiency detected. 3) Distribution channels: Huahai has established full-fledged distribution channels in the US, with Donepezil and other quality products having an over 30% share in the US market. We think Huahai's finished dosage export system has entered a virtuous cycle, and the company is likely to develop into a global tier-one generic drug maker.

### Huahai may unleash the potential of its dosage exports in the next three years

We think the number of Huahai's products being approved could peak in the next three years, unleashing the potential of the company's finished dosage export business: 1) in addition to the 14 drugs that have been approved, Huahai has more than 20 products pending FDA approval, most of which are cardiovascular and neurological drugs with visible cost advantages. It is likely to develop into an important finished dosage supplier, from being a major global API provider after these drugs are approved; 2) currently the company is focusing on R&D of sustained/controlled-release drugs and first generic drugs that have high technical entry barriers, and we expect the company to roll out more high-gross-margin products.

### Valuation: price target of Rmb14.00; Buy rating

Our 2014/2015/2016 EPS estimates are Rmb0.44/Rmb0.58/Rmb0.80. We derive our price target of Rmb14.00 from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool (WACC of 8.4%).

### Equities

China  
Pharmaceuticals

12-month rating **Buy**

12m price target **Rmb14.00**

Price **Rmb12.09**

RIC: 600521.SS BBG: 600521 CH

### Trading data and key metrics

52-wk range	Rmb17.01-9.92
Market cap.	Rmb9.49bn/US\$1.53bn
Shares o/s	785m (ORDA )
Free float	56%
Avg. daily volume ('000)	5,378
Avg. daily value (m)	Rmb58.1
Common s/h equity (12/14E)	Rmb3.19bn
P/BV (12/14E)	3.0x
Net debt / EBITDA (12/14E)	0.7x

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
12/14E	0.44	0.54
12/15E	0.58	0.68
12/16E	0.80	0.74

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	1,827.61	2,014.39	2,296.41	2,434.19	3,115.77	3,957.02	4,946.28	6,158.12
EBIT (UBS)	327.52	392.13	415.04	443.31	618.48	838.89	1,048.61	1,305.52
Net earnings (UBS)	229.27	297.04	318.66	342.03	458.44	624.61	767.61	982.29
EPS (UBS, diluted) (Rmb)	0.32	0.42	0.42	0.44	0.58	0.80	0.98	1.25
DPS (Rmb)	0.10	0.20	0.20	0.19	0.26	0.35	0.43	0.55
Net (debt) / cash	(153.53)	(141.94)	(14.37)	(364.15)	(564.43)	(672.27)	(609.56)	(540.10)
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	17.9	19.5	18.1	18.2	19.9	21.2	21.2	21.2
ROIC (EBIT) %	23.4	20.8	16.2	13.4	16.2	19.3	21.7	24.5
EV/EBITDA (core) x	15.3	12.1	17.5	17.0	12.4	9.4	7.5	6.0
P/E (UBS, diluted) x	33.3	23.6	33.6	27.8	20.7	15.2	12.4	9.7
Equity FCF (UBS) yield %	2.1	2.0	3.6	(1.8)	0.2	2.0	4.7	5.6
Net dividend yield %	0.9	2.0	1.4	1.6	2.1	2.9	3.5	4.5

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb12.09 on 22 Jul 2014 22:37 HKT

# Tonghua Dongbao Pharmaceutical

## A leading second-generation insulin manufacturer

### A leading insulin manufacturer in China

Dongbao's main products portfolio consists of second-generation recombinant human insulin bulk drugs and injections, zhenhaoning capsules, and dongbao gantai tablets, among others. It is a leading company in the domestic second-generation insulin field. As China's population is ageing, the incidences of diabetes have risen from 4.3% in 2007 to 9.4% in 2012. We expect Dongbao to benefit from the sharp increase in the number of diabetic patients.

### Dongbao could benefit the most from the primary-care insulin market growth

The firm moved into the primary-care market in 2009. We estimate it is already covering more than 4,000 prefectural/county-level hospitals, with comprehensive coverage of such hospitals likely in the future. Dongbao has been focusing on building its marketing network and educating doctors in the primary-care market for a long time. We believe the primary-care insulin will likely post the highest growth in the insulin market in the next few years, and Dongbao will benefit the most.

### Dongbao could become an anti-diabetic drug specialist in China

China is the country with the most diabetic patients in the world, at about 92.4m in 2012. This large patient base should provide a major market for anti-diabetic drugs. As it is a leading insulin-producing firm in China, with the launch of insulin analogues and oral anti-diabetic drugs to the market in future, Dongbao seems likely to become a global insulin specialist that can match Novo Nordisk and Eli Lilly.

### Valuation: price target of Rmb16.36; Buy rating

We estimate the company's 2014/2015/2016 EPS at Rmb0.36/Rmb0.49/Rmb0.62. We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool (WACC of 8.5%). We have a Buy rating on the company.

### Equities

China  
Pharmaceuticals

**12-month rating** **Buy**

**12m price target** **Rmb16.36**

**Price** **Rmb12.71**

**RIC:** 600867.SS **BBG:** 600867 CH

### Trading data and key metrics

<b>52-wk range</b>	Rmb16.79-10.36
<b>Market cap.</b>	Rmb13.0bn/US\$2.10bn
<b>Shares o/s</b>	1,025m (ORDA)
<b>Free float</b>	61%
<b>Avg. daily volume ('000)</b>	7,344
<b>Avg. daily value (m)</b>	Rmb89.6
<b>Common s/h equity (12/14E)</b>	Rmb2.28bn
<b>P/BV (12/14E)</b>	5.7x
<b>Net debt / EBITDA (12/14E)</b>	0.5x

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	0.36	0.27
<b>12/15E</b>	0.49	0.37
<b>12/16E</b>	0.62	0.49

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	784	992	1,204	1,568	2,009	2,511	3,089	3,706
EBIT (UBS)	55	134	235	535	686	857	1,054	1,265
Net earnings (UBS)	21	47	183	367	506	640	798	980
EPS (UBS, diluted) (Rmb)	0.02	0.04	0.18	0.36	0.49	0.62	0.78	0.96
DPS (Rmb)	0.13	0.13	0.08	0.15	0.21	0.27	0.33	0.41
Net (debt) / cash	59	(193)	(388)	(323)	(298)	(254)	(113)	82
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	7.0	13.5	19.5	34.1	34.1	34.1	34.1	34.1
ROIC (EBIT) %	3.0	6.9	11.0	22.6	25.8	28.2	30.5	32.3
EV/EBITDA (core) x	44.7	27.2	33.5	18.6	15.1	12.4	10.2	8.6
P/E (UBS, diluted) x	NM	NM	70.4	35.5	25.8	20.4	16.3	13.3
Equity FCF (UBS) yield %	3.0	0.2	(0.3)	1.3	1.6	2.1	3.3	4.2
Net dividend yield %	1.8	2.0	0.6	1.2	1.7	2.1	2.6	3.2

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb12.71 on 22 Jul 2014 22:37 HKT

# People.cn

## National team in China's Internet arena

### National team in China's Internet arena

People.cn is a portal site constructed by People's Daily, and is one of China's major sources for authoritative coverage of the news. With the help of its major shareholder, People.cn has advantages in obtaining licences and resources. In 2013, the company had revenue of Rmb1.03bn (up 45% YoY) and net profit of Rmb270m (up 30% YoY). Its revenue comes mainly from advertisements (53%), while the rest comes from mobile value-added services, IT services and Internet lottery sales.

### Becoming one of the mainstream portal websites in China

People.cn's market competitiveness has continued to improve over the past several years. Its average daily page views increased 50% YoY in 2013, with average daily page views at the end of 2013 being 63% higher than in early 2013; average daily user visits increased 76% YoY, with average daily user visits at the end of 2013 being 86% higher than in early 2013. According to iResearch iUserTracker data, in December 2013 the average number of unique visitors per day to People.cn reached 8.13m and the average daily active user (DAU) rate was 3.4%, topping other domestic news portal sites.

### Traffic monetisation could accelerate in 2014

The company successfully developed Internet lottery and literature businesses via M&A and investment in 2013. People.cn's Internet lottery contributed Rmb21m in revenue in 2013, and we expect a substantial revenue increase in 2014. In addition, we think other areas ready for monetisation (eg, Internet literature) may also become earnings drivers in 2014. The company's ability to monetise traffic could improve further in 2014, in our view.

### Valuation: price target of Rmb43.15

We estimate People.cn's 2014/2015/2016 EPS at Rmb0.80/Rmb1.13/Rmb1.44. We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool (WACC of 8.8%).

### Equities

China  
Internet Services

**12-month rating** **Neutral**

**12m price target** **Rmb43.15**

**Price** **Rmb35.62**

**RIC:** 603000.SS **BBG:** 603000.CH

### Trading data and key metrics

<b>52-wk range</b>	Rmb48.39-25.53
<b>Market cap.</b>	Rmb19.7bn/US\$3.17bn
<b>Shares o/s</b>	553m (ORDA)
<b>Free float</b>	27%
<b>Avg. daily volume ('000)</b>	4,815
<b>Avg. daily value (m)</b>	Rmb181.7
<b>Common s/h equity (12/14E)</b>	Rmb2.53bn
<b>P/BV (12/14E)</b>	7.8x
<b>Net debt / EBITDA (12/14E)</b>	NM

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	0.80	0.66
<b>12/15E</b>	1.13	0.89
<b>12/16E</b>	1.44	1.30

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	497	708	1,028	1,798	2,202	2,790	3,236	3,688
EBIT (UBS)	109	169	254	428	616	792	955	1,108
Net earnings (UBS)	139	210	273	443	625	797	956	1,107
EPS (UBS, diluted) (Rmb)	0.34	0.41	0.50	0.80	1.13	1.44	1.73	2.00
DPS (Rmb)	0.11	0.28	0.25	0.40	0.50	0.61	0.70	0.79
Net (debt) / cash	684	2,021	1,842	2,251	2,649	3,190	3,770	4,448
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	21.9	23.8	24.7	23.8	28.0	28.4	29.5	30.0
ROIC (EBIT) %	>500	228.5	78.9	97.0	151.6	191.8	217.0	220.5
EV/EBITDA (core) x	-	50.8	46.8	33.3	23.7	18.1	15.2	12.6
P/E (UBS, diluted) x	-	47.9	56.0	44.4	31.5	24.7	20.6	17.8
Equity FCF (UBS) yield %	-	0.3	(0.3)	2.7	3.0	4.0	4.5	5.2
Net dividend yield %	-	1.4	0.9	1.1	1.4	1.7	2.0	2.2

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb35.62 on 22 Jul 2014 22:37 HKT

# Yonghui Superstores

## From Fujian to China; may draw investor attention with superior earnings and growth potential

### Fresh produce supermarket sector leader; expanding nationwide

Yonghui Superstores is a retailer and distribution company whose primary goods are fresh farm produce. It also sells and distributes daily necessities, clothing and shoes. It was the first distribution company to distribute fresh farm produce to modern supermarkets in China and led the industrialisation of agriculture in Fujian Province. Yonghui has become a composite enterprise group, engaged in retail operations, modern logistics, food processing and modern agriculture, and is expanding from Fujian province to the east, to the north, and to other regions in China.

### Scarce in H-share market, may draw attention due to earnings and potential

Yonghui posted strong results in newly developed markets—2013 revenue in east China doubled, and rose 50% or more in other new markets, such as Henan province. In an unfavourable market, with weak retail sector fundamentals and a negative impact from eCommerce platforms, Yonghui recorded higher-than-peer growth on a strategy of aggressively opening new stores. In our view, as a supermarket stock, which is rather 'scarce' in the H-share market, Yonghui will likely draw attention from more QFIs with its good earnings and growth potential and may re-rate with the official launch of Mutual Market Access (MMA) in October.

### O2O platform development on SCM advantage and complete ERP system

Yonghui's supply chain management (SCM) is impressive, in our view, effectively solving the problems of a lack of reliable quality from fresh produce sources and substantial waste in the distribution and delivery process. The company is expanding its efficient supply chain system to the whole country, and is building its online sales business based on this. The company's online store and mobile app have begun operation, and are likely to become a fresh produce online-to-offline (O2O) platform in the future.

### Valuation: price target of Rmb8.75; Buy rating

Our 2014/2015/2016 EPS are Rmb0.32/Rmb0.42/Rmb0.53. We derive our Rmb8.75 price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool (WACC of 13%).

### Equities

China  
Retailers, Broadline

**12-month rating** **Buy**

**12m price target** **Rmb8.75**

**Price** **Rmb7.09**

**RIC:** 601933.SS **BGB:** 601933.CH

### Trading data and key metrics

<b>52-wk range</b>	Rmb7.62-5.55
<b>Market cap.</b>	Rmb23.1bn/US\$3.72bn
<b>Shares o/s</b>	3,254m (ORDA)
<b>Free float</b>	13%
<b>Avg. daily volume ('000)</b>	16,961
<b>Avg. daily value (m)</b>	Rmb110.8
<b>Common s/h equity (12/14E)</b>	Rmb6.49bn
<b>P/BV (12/14E)</b>	3.6x
<b>Net debt / EBITDA (12/14E)</b>	0.6x

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	0.32	0.29
<b>12/15E</b>	0.42	0.36
<b>12/16E</b>	0.53	0.47

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	17,732	24,684	30,543	38,179	46,578	56,825	69,326	84,578
EBIT (UBS)	632	737	869	1,565	2,059	2,554	2,967	3,705
Net earnings (UBS)	467	502	721	1,056	1,367	1,739	2,043	2,599
EPS (UBS, diluted) (Rmb)	0.15	0.16	0.23	0.32	0.42	0.53	0.63	0.80
DPS (Rmb)	0.05	0.08	0.00	0.15	0.19	0.24	0.28	0.36
Net (debt) / cash	(75)	718	1,280	(1,374)	105	604	1,383	2,880
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	3.6	3.0	2.8	4.1	4.4	4.5	4.3	4.4
ROIC (EBIT) %	20.5	19.3	20.9	25.1	27.5	34.7	38.3	47.0
EV/EBITDA (core) x	22.2	20.0	13.4	10.1	8.1	6.6	5.6	4.5
P/E (UBS, diluted) x	46.5	40.9	27.9	21.9	16.9	13.3	11.3	8.9
Equity FCF (UBS) yield %	(5.3)	(5.2)	2.2	(8.5)	10.3	6.7	8.4	12.6
Net dividend yield %	0.7	1.1	0.0	2.1	2.7	3.4	4.0	5.1

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb7.09 on 22 Jul 2014 22:37 HKT



# Jonjee Hi-Tech Industrial and Commercial

## A premium condiment company with high-growth potential

### A premium condiment company with high-growth potential

Jonjee's main businesses are condiments and property, contributing 85% and 10% of 2013 total revenue of Rmb2.3bn, respectively. Its condiment business has grown rapidly with a CAGR of 25% over the past five years and the company plans to pay more attention to the development of its condiment business. Its condiment products mainly include soy sauce, chicken powder and sauces. It has the second-largest share of China's soy sauce market (around 5%).

### May benefit from rapid soy sauce market growth and consumption upgrade

The market size of soy sauce was Rmb31.0bn in 2013. Benefiting from product mix upgrade and wider consumption of light soy sauce, we expect a 15% sales CAGR for the soy sauce market over the next three years. As the company's product mix is dominated by light soy sauce and mid to high-end products, we think it will benefit more from product mix upgrades and light soy sauce's popularity, to record faster-than-average growth. Driven by product strength, channel improvements, and capacity ramp-up, we think Jonjee will achieve 24% revenue growth in the next three years.

### Product mix upgrade and scale effect should boost profit margin significantly

We expect the company's net margin to continue to rise from 10.9% in 2013 to 13.2% in 2016, mainly attributed to: 1) rise in price per tonne driven by product mix upgrade; 2) higher gross margin underpinned by gradual technique improvement; 3) lower expense ratio due to economies of scale. We estimate 2014-16E CAGR of net profit at 32%.

### Valuation: price target of Rmb14.60 with a Buy rating

We are positive on Jonjee's improved profitability due to market share gains, product mix upgrades, and economies of scale. Using a sum-of-the-parts methodology, we estimate 2014/2015/2016 EPS at Rmb0.38/Rmb0.49/Rmb0.63 for the condiments business and apply 30x 2014E PE. For real estate business, our NAV/share estimate is Rmb3.20. Overall, we estimate 2014/2015/2016 EPS estimates of Rmb0.37/Rmb0.48/Rmb0.62. Our price target implies 39x/30x 2014/2015E PE. Jonjee could have valuation premium due to the scarcity value of the condiment sector and the rapid growth of the company.

### Equities

China  
Food Products

**12-month rating** **Buy**

**12m price target** **Rmb14.60**

**Price** **Rmb9.95**

**RIC:** 600872.SS **BBG:** 600872 CH

### Trading data and key metrics

<b>52-wk range</b>	Rmb12.51-7.56
<b>Market cap.</b>	Rmb7.93bn/US\$1.28bn
<b>Shares o/s</b>	797m (ORDA)
<b>Free float</b>	83%
<b>Avg. daily volume ('000)</b>	7,274
<b>Avg. daily value (m)</b>	Rmb74.5
<b>Common s/h equity (12/14E)</b>	Rmb2.36bn
<b>P/BV (12/14E)</b>	3.4x
<b>Net debt / EBITDA (12/14E)</b>	0.1x

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	0.37	0.37
<b>12/15E</b>	0.48	0.48
<b>12/16E</b>	0.62	0.62

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	1,735	1,754	2,318	2,820	3,448	4,109	4,773	5,643
EBIT (UBS)	157	147	277	401	500	635	798	971
Net earnings (UBS)	130	126	213	294	383	495	633	780
EPS (UBS, diluted) (Rmb)	0.16	0.16	0.27	0.37	0.48	0.62	0.79	0.98
DPS (Rmb)	0.00	0.05	0.08	0.11	0.14	0.19	0.24	0.29
Net (debt) / cash	68	223	(3)	(42)	162	360	738	1,103
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	9.1	8.4	11.9	14.2	14.5	15.4	16.7	17.2
ROIC (EBIT) %	8.3	8.0	13.4	16.6	19.0	22.7	26.9	30.8
EV/EBITDA (core) x	25.6	18.3	18.7	16.9	13.8	11.2	8.9	7.0
P/E (UBS, diluted) x	40.5	29.8	30.2	27.0	20.7	16.0	12.5	10.2
Equity FCF (UBS) yield %	(0.4)	(0.6)	(3.9)	0.8	3.6	4.4	6.9	7.5
Net dividend yield %	0.0	1.1	1.0	1.1	1.5	1.9	2.4	3.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb9.95 on 22 Jul 2014 22:37 HKT

# Jiangsu Kanion Pharmaceutical

## Leading modern TCM producer with strong R&D capabilities

### A leading modern TCM producer with strong R&D capabilities

Kanion Pharma (Kanion) is a modern traditional Chinese medicine (TCM) producer with strong R&D capabilities. Its product line includes two proprietary TCM injection drugs (anti-inflammatory and cardiovascular) and five proprietary essential drugs (gynaecological and orthopaedic). Reduning, a TCM injection which was approved by the regulators in 2005 and is used for 'heat-clearing' and detoxification, contributes nearly 50% of the company's revenue and has been the main earnings growth driver in recent years. Ginkgolide injection (approved at end-2012) is a new cardiovascular drug. We estimate the market size of the two major TCM injections combined to reach Rmb3bn.

### TCM injections are scarce and favoured by doctors

Since the government took disciplinary action in the TCM injection market in 2006, only four TCM injections have been approved by the government, including Ginkgolide. Most TCM injections have high prices and gross margins and a strong ability to maintain their prices as they are proprietary products. Doctors prefer high-priced drugs given the current incentive mechanisms in Chinese hospitals. As scarce drugs favoured by doctors, the TCM injection segment has been faster than the TCM sector. Of the 20 drugs with highest domestic sales volumes in 2013, seven were TCM injections, and two of them logged growth of over 35% even though their sales exceeded Rmb2bn.

### Superior quality control and evidence-based experiments bring potential

Kanion monitors the whole production process of TCM injections to ensure stability and uniformity of different batches. It conducted large evidence-based experiments for Reduning and Ginkgolide injections after they were launched in the market, to prove their safety and efficiency in a way accepted by the medical community in the west, which laid a solid foundation to promote the drugs by educating customers.

### Valuation: Buy rating and price target of Rmb35.70

We estimate 2014/2015/2016 EPS of Rmb0.76/Rmb1.02/Rmb1.15. We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCM tool, assuming a WACC of 7.5%. We are positive on Kanion's long-term growth potential, driven by its major products Reduning and Ginkgolide.

### Equities

China  
Pharmaceuticals

**12-month rating** **Buy**

**12m price target** **Rmb35.70**

**Price** **Rmb26.80**

**RIC:** 600557.SS **BBG:** 600557 CH

### Trading data and key metrics

**52-wk range** Rmb31.81-21.34

**Market cap.** Rmb13.4bn/US\$2.15bn

**Shares o/s** 499m (ORDA)

**Free float** 62%

**Avg. daily volume ('000)** 3,276

**Avg. daily value (m)** Rmb85.8

**Common s/h equity (12/14E)** Rmb2.21bn

**P/BV (12/14E)** 6.0x

**Net debt / EBITDA (12/14E)** 1.3x

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	0.76	0.75
<b>12/15E</b>	1.02	0.94
<b>12/16E</b>	1.15	1.16

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	1,538	1,903	2,230	2,679	3,479	4,234	5,123	6,199
EBIT (UBS)	227	301	364	486	642	729	1,009	1,277
Net earnings (UBS)	154	212	262	380	509	575	839	1,062
EPS (UBS, diluted) (Rmb)	0.31	0.43	0.52	0.76	1.02	1.15	1.68	2.13
DPS (Rmb)	0.06	0.06	0.07	0.10	0.11	0.15	0.17	0.25
Net (debt) / cash	(412)	(481)	(530)	(704)	(381)	(92)	133	(720)
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	14.7	15.8	16.3	18.1	18.4	17.2	19.7	20.6
ROIC (EBIT) %	13.6	15.3	16.4	18.3	21.5	23.1	28.5	27.1
EV/EBITDA (core) x	25.9	20.0	28.3	25.6	19.4	16.8	12.2	10.4
P/E (UBS, diluted) x	42.6	30.8	44.3	35.2	26.2	23.2	15.9	12.6
Equity FCF (UBS) yield %	3.9	6.4	5.8	2.7	7.4	7.9	9.3	3.3
Net dividend yield %	0.4	0.5	0.3	0.4	0.4	0.6	0.7	1.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb26.80 on 22 Jul 2014 22:37 HKT



# China Auto Research Institute

## First auto technical services stock in China could benefit from intensifying competition

### The only A-share listed company engaged in auto technical services

China Auto Research Institute (CARI) was established as the Chongqing Institute of Heavy Vehicles in 1965. Following a restructuring, it was renamed China Auto Research Institute in November 2010. The company's main businesses cover technical and industrial manufacturing services for vehicles. Its technical service business includes automotive testing and R&D services, while the manufacturing business covers the production of key parts for special purpose vehicles, rail transport, and fuel injection systems.

### Competition, laws and increased R&D spending may lead to rapid growth

We expect China's automotive technical services sector to post a sales volume CAGR of 30% in the next three years, mainly as: 1) Amid steady sales growth of the auto sector, intensifying competition among car makers could lead to launches of more new models and better quality of vehicles; 2) With the constant roll-out of China's auto-related laws, regulations and policies, we expect an increasing number of models to be announced; and 3) Chinese car makers are lagging far behind foreign peers in R&D inputs. We expect domestic auto OEMs to increase their R&D spending, thereby driving up demand for automotive technical services.

### Mainly engaged in automotive technical services sector

Automotive technical services have high technology, capital and licensing requirements. China's automotive technical services market is mainly composed of six participants. Of these, three auto testing centres, based in Shanghai, Changchun and Xiangfan, belong to SAIC Motor Corp, FAW Group Corp and DongFeng Automobile, respectively. The other three; namely, Tianjin Automotive Test Center, National Bus Quality Supervision and Test Center, and China Auto Research Institute, are independent third-party institutions. China Auto Research Institute is the only A-share listed company among them. We believe it will be able to increase its market share by expanding production capacity and leveraging its financing capabilities.

### Valuation: Buy, price target of Rmb18.60

We estimate 2014/2015/2016 EPS at Rmb0.72/Rmb0.94/Rmb1.28. We derive our price target of Rmb18.60 from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool, assuming a WACC of 8.7%. Our price target implies 26x 2014E PE.

### Equities

China  
Automobile Manufacturers

**12-month rating** **Buy**

**12m price target** **Rmb18.60**

**Price** **Rmb12.37**

**RIC:** 601965.SS **BBG:** 601965 CH

### Trading data and key metrics

<b>52-wk range</b>	Rmb17.33-8.42
<b>Market cap.</b>	Rmb7.93bn/US\$1.28bn
<b>Shares o/s</b>	641m (ORDA)
<b>Free float</b>	32%
<b>Avg. daily volume ('000)</b>	3,665
<b>Avg. daily value (m)</b>	Rmb45.1
<b>Common s/h equity (12/14E)</b>	Rmb3.64bn
<b>P/BV (12/14E)</b>	2.2x
<b>Net debt / EBITDA (12/14E)</b>	NM

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	0.72	0.69
<b>12/15E</b>	0.94	0.92
<b>12/16E</b>	1.28	1.28

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	1,947	1,143	1,500	1,703	2,099	2,545	3,038	3,548
EBIT (UBS)	235	306	381	468	630	879	1,150	1,438
Net earnings (UBS)	200	298	422	463	601	819	1,057	1,314
EPS (UBS, diluted) (Rmb)	0.45	0.53	0.66	0.72	0.94	1.28	1.65	2.05
DPS (Rmb)	0.00	0.10	0.10	0.11	0.14	0.19	0.25	0.31
Net (debt) / cash	246	1,565	1,516	1,644	2,018	2,605	3,419	4,472
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	12.1	26.8	25.4	27.5	30.0	34.6	37.8	40.5
ROIC (EBIT) %	51.3	28.2	24.9	25.3	31.1	41.2	51.5	62.3
EV/EBITDA (core) x	-	7.8	11.4	11.4	7.9	5.1	3.3	2.0
P/E (UBS, diluted) x	-	12.8	15.3	17.1	13.2	9.7	7.5	6.0
Equity FCF (UBS) yield %	-	(4.7)	(0.1)	2.5	5.7	8.6	11.7	15.1
Net dividend yield %	-	1.5	1.0	0.9	1.1	1.6	2.0	2.5

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb12.37 on 22 Jul 2014 22:37 HKT

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## Leading global market share

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# Industrial & Commercial Bank of China A

## A sector leader by assets; strong and comprehensive operating capacity

### Sector-leading assets; a strong competitor

Headquartered in Beijing, Industrial & Commercial Bank of China (ICBC) is the largest commercial bank in China by assets. Its branches in all the major regions of China provide a wide range of commercial banking products and services. We believe the bank has a quality customer base, a diversified business structure, and strong innovation ability and competitiveness.

### Integrated operations provide potential, deposit and capital positions strong

In the midst of financial disintermediation and interest rate liberalisation, we think ICBC will benefit from its rich funding sources, strong organic capital-generation ability, and diversified business structure. We believe the bank stands out as it is: 1) among the few China commercial banks that have outlets in as far as counties, which provide it with a consistently low deposit cost; 2) has licences for domestic and foreign operations covering major fields of diversified finance, with an integrated platform supporting growth in its intermediary business—its domestic integrated subsidiaries' net profit grew 76% in 2013, much faster than the parent's average growth; 3) has been transforming its business structure, shortening its loan turnover cycle further, and the bond investment yield rising steadily.

### NPL recovery slows on more disposals & write-offs, NPL ratio could rise further

ICBC's NPL balance grew 7% QoQ and NPL ratio rose 3bp QoQ to 0.97% in Q114. We believe more disposals and write-offs have slowed the NPL recovery: NPL write-offs were Rmb16.5bn (up 119% YoY) and packaged disposals amounted to Rmb14bn in 2013. We estimate that small and micro enterprises and the self-employed, which are vulnerable to risks, as well as companies in the Yangtze River Delta regions, contributed the most new NPLs (85%). Given the economic slowdown, we expect the bank's NPL ratio to rise further over the medium and long term.

### Valuation: Buy, price target of Rmb4.62

Our 2014/2015/2016 EPS estimates are Rmb0.75/Rmb0.73/Rmb0.79. We derive our price target of Rmb4.62 from a DDM model (assuming 12.8% COE). We like the bank for the medium- and long-term potential from its integrated operations and strong organic capital-generation ability.

### Equities

China

Banks, Ex-S&amp;L

12-month rating

Buy

12m price target

Rmb4.62

Price

Rmb3.43

RIC: 601398.SS BBG: 601398.CH

### Trading data and key metrics

52-wk range	Rmb4.08-3.23
Market cap.	Rmb1,250bn/US\$202bn
Shares o/s	262,224m (ORDA)
Free float	5%
Avg. daily volume ('000)	49,935
Avg. daily value (m)	Rmb176.2
Common s/h equity (12/14E)	Rmb1,478bn
P/BV (12/14E)	0.8x
Tier 1 ratio	11%

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
12/14E	0.75	0.80
12/15E	0.73	0.85
12/16E	0.79	0.90

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	470,601	529,720	578,901	623,002	662,534	706,688	762,109	823,467
Profit before tax	272,311	308,687	338,537	349,056	337,058	364,422	401,805	433,519
Net earnings (local GAAP)	208,265	238,532	262,649	268,592	259,335	280,384	309,169	333,589
Net earnings (UBS)	208,265	238,532	262,649	268,592	259,335	280,384	309,169	333,589
Tier 1 ratio %	10.1	10.6	10.6	11.1	11.3	11.6	12.1	12.4
EPS (UBS, diluted) (Rmb)	0.59	0.67	0.74	0.75	0.73	0.79	0.88	0.95
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
ROE (UBS) %	23.4	22.9	21.9	19.5	16.5	15.8	15.4	14.8
P/POP (diluted)	5.1	4.2	3.8	3.1	3.0	2.9	2.7	2.5
P/BV x	1.6	1.3	1.1	0.8	0.7	0.6	0.6	0.5
P/BV (UBS) x	1.6	1.3	1.1	0.8	0.7	0.6	0.6	0.5
P/E (UBS, diluted)	7.3	6.1	5.4	4.6	4.7	4.4	3.9	3.6
Net dividend yield %	4.7	5.9	6.6	5.6	5.4	5.8	6.4	6.9

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb3.43 on 22 Jul 2014 22:37 HKT

# China Shenhua Energy - A

## Integrated coal company with power, railway and coal chemicals businesses

### Largest integrated coal & energy company in China

China Shenhua (Shenhua) is a coal-based integrated energy company. It started its forward-looking strategic expansion into the power, railway and coal chemicals segments several years ago to reduce its dependence on coal earnings. The company has rich coal reserves of high quality and in favourable geological conditions. Shenhua is China's largest coal producer in terms of production volume—it produced 320mt of commercial coal in 2013—and it sold 510mt of coal in 2013.

### Integrated operation helps offset coal price declines

As Shenhua owns rail lines such as the Shen-Shuo-Huang Line, it can partially alleviate the impact of coal price declines on its earnings by increasing the sales proportion of seaborne coal. For example, the company's commodity coal ASP declined only 8.7% in 2013, compared to the 16.2% decrease in the Qinhuangdao 5,500Kcal coal price in the same year. Meanwhile, as it owns a power business, the company is able to take a share in the earnings expansion of the power sector caused by coal price declines. Also, at the group level, the company is engaged in various coal chemical businesses. Due to the company's leading technology and management, most of the coal chemical businesses are making good progress. Among them, the coal-to-olefins project in Baotou, which has better profitability, has been injected into the listed company.

### Low-cost competitive edge helps withstand downward cycle of coal prices

In 2013, 51.3% of Shenhua's operating profit was derived from its coal business. The company's coal resources have low ash, low sulphur, and low cost advantages. In the same period, the average unit production cost of the company's self-produced commodity coal was Rmb124.5/t, i.e. at a lower level in China's coal sector. We think having low costs is an important competitive edge for coal companies during a downcycle of coal prices.

### Valuation: price target of Rmb21.00; Buy rating

Our price target of Rmb21.00 is based on 10.5x 2014E PE. Shenhua's share price in the A-share market is at a 19% discount to its H-share.

### Equities

China

Mining

12-month rating

Buy

12m price target

Rmb21.00

Price

Rmb13.77

RIC: 601088.SS BBG: 601088 CH

### Trading data and key metrics

52-wk range Rmb17.89-12.85

Market cap. Rmb285bn/US\$45.9bn

Shares o/s 16,491m (ORDA)

Free float 26%

Avg. daily volume ('000) 10,071

Avg. daily value (m) Rmb144.4

Common s/h equity (12/14E) Rmb311bn

P/BV (12/14E) 0.9x

Net debt / EBITDA (12/14E) 0.6x

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
12/14E	2.02	2.00
12/15E	2.21	2.08
12/16E	2.35	2.13

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	209,225	254,575	283,797	256,490	275,083	291,914	305,794	310,188
EBIT (UBS)	68,602	69,834	71,592	58,038	63,517	67,854	69,932	68,461
Net earnings (UBS)	44,991	48,506	45,678	40,185	43,895	46,834	48,839	47,935
EPS (UBS, diluted) (Rmb)	2.26	2.44	2.30	2.02	2.21	2.35	2.46	2.41
DPS (Rmb)	0.90	0.96	0.91	0.71	0.77	0.82	0.86	0.84
Net (debt) / cash	7,072	(6,812)	(44,566)	(47,505)	(49,489)	(40,337)	(33,833)	(14,434)
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	32.8	27.4	25.2	22.6	23.1	23.2	22.9	22.1
ROIC (EBIT) %	29.4	24.8	21.1	15.1	15.2	15.1	14.6	13.7
EV/EBITDA (core) x	7.0	5.9	4.3	3.6	3.3	3.3	3.3	3.6
P/E (UBS, diluted) x	12.0	9.9	8.3	6.8	6.2	5.8	5.6	5.7
Equity FCF (UBS) yield %	6.2	4.5	1.0	3.7	5.1	9.5	9.0	13.8
Net dividend yield %	3.3	4.0	4.8	5.1	5.6	6.0	6.2	6.1

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb13.77 on 22 Jul 2014 22:37 HKT

# Shanghai International Port (Group)

## China's largest port operator with unique geographical advantages

### Company background

Shanghai International Port Group (SIPG) is the sole public terminal operator of Shanghai port. SIPG's main businesses include container and bulk handling, as well as port-related services and logistics business. Shanghai port posted throughput of 33.77m TEU in 2013, up 3.8% YoY. SIPG posted Rmb5.256bn in net profit in 2013, up 5.76% YoY.

### Global container and port services leader with steady growth

SIPG's container throughput has been the highest globally for four consecutive years, benefitting from unique regional advantages: its hinterland is Yangtze River Delta economic zone and it is the only port at the estuary of Yangtze River. SIPG's 5M14 container throughput came to 14.21m TEU, up around 5% YoY, faster than growth in the Yangtze River Delta and Pearl River Delta. We believe the implementation of its "Yangtze River Strategy" over many years has begun to take effect. Given the improved connection to bypasses in the Yangtze River area and growth in cargo from the hinterland, we expect SIPG to benefit in the long term. The latest HSBC PMI index showed its fourth consecutive monthly improvement and rose from 50.8 in May to 51 in June, hitting a YTD peak and indicating a gradual recovery in China's exports. We expect export container throughput to continue to rise YoY in Q2-Q314, underpinning the steady growth of SIPG's core business.

### Investment return could lead to 25% YoY growth in net profit in 2014

In December 2013, SIPG subscribed shares issued by Bank of Shanghai, accounting for 6.37% of the total shares of the latter (after the issuance). SIPG recognised investment income of Rmb192m in Q114. Boosted by investment income from Bank of Shanghai and the company's property business (cRmb1.8bn in total), we estimate SIPG's 2014 net profit will exceed Rmb6.6bn, up 25% YoY. We are positive on SIPG's investment in Bank of Shanghai, which should contribute stable investment income and also help the concerted development of SIPG's core business and its logistics and finance businesses in the Shanghai Free Trade Zone.

### Valuation: price target of Rmb4.62; Neutral rating

Our 2014/2015/2016 EPS estimates are Rmb0.29/Rmb0.30/Rmb0.27. Our price target is based on a DCF-based sum-of-the-parts methodology (WACC of 8.1%), implying 16x 2014E PE.

### Equities

China

Transportation Services

12-month rating

**Neutral**

12m price target

**Rmb4.62**

Price

**Rmb4.42**
**RIC:** 600018.SS **BBG:** 600018 CH

### Trading data and key metrics

<b>52-wk range</b>	Rmb6.93-2.42
<b>Market cap.</b>	Rmb101bn/US\$16.2bn
<b>Shares o/s</b>	22,755m (ORDA)
<b>Free float</b>	38%
<b>Avg. daily volume ('000)</b>	25,237
<b>Avg. daily value (m)</b>	Rmb114.8
<b>Common s/h equity (12/14E)</b>	Rmb52.8bn
<b>P/BV (12/14E)</b>	1.9x
<b>Net debt / EBITDA (12/14E)</b>	1.4x

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	0.29	0.28
<b>12/15E</b>	0.30	0.29
<b>12/16E</b>	0.27	0.29

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
<b>Revenues</b>	21,778.86	28,381.02	28,162.30	29,813.21	31,238.51	32,280.82	33,397.08	36,946.24
<b>EBIT (UBS)</b>	7,493.18	6,569.72	7,096.53	7,377.89	7,645.22	7,858.28	8,126.92	9,472.86
<b>Net earnings (UBS)</b>	4,477.21	4,812.47	5,103.27	6,604.78	6,788.63	6,111.48	7,090.37	7,195.99
<b>EPS (UBS, diluted) (Rmb)</b>	0.20	0.21	0.22	0.29	0.30	0.27	0.31	0.32
<b>DPS (Rmb)</b>	0.12	0.13	0.13	0.16	0.16	0.15	0.17	0.17
<b>Net (debt) / cash</b>	(9,997.03)	(12,146.06)	(16,376.76)	(14,626.76)	(13,260.58)	(12,535.24)	(10,308.92)	(8,702.93)
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
<b>EBIT margin %</b>	34.4	23.1	25.2	24.7	24.5	24.3	24.3	25.6
<b>ROIC (EBIT) %</b>	15.9	12.0	12.4	12.3	12.6	12.6	12.9	14.8
<b>EV/EBITDA (core) x</b>	9.0	7.2	9.3	10.6	10.0	9.7	9.1	8.0
<b>P/E (UBS, diluted) x</b>	18.5	12.7	16.1	15.2	14.8	16.5	14.2	14.0
<b>Equity FCF (UBS) yield %</b>	5.7	6.9	5.9	5.6	5.9	5.3	6.4	6.3
<b>Net dividend yield %</b>	3.2	5.0	3.5	3.6	3.7	3.3	3.8	3.9

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb4.42 on 22 Jul 2014 22:37 HKT

# Inner Mongolia Eerduosi Cashmere Product

## The most globally competitive ferrosilicon company

### Company profile

Eerduosi is the world's largest maker of cashmere products. Its products include dehaired cashmere, cashmere yarn, and cashmere sweaters, with a production and sales capacity of more than 10m units, accounting for a 40% share of the China market, and a 30% share of the global market. The company is also actively developing its ferrosilicon business. Relying on coal mines with 300mt of reserves, it has established an industry chain covering coal, power, silicon alloy, and waste recycling, and has become a world-class silicon alloy producer.

### Cost advantages in high-energy industry backed by group's rich resources

Eerduosi is located in the resource-rich Eerduosi basin. Erdos Group, Eerduosi's parent, has 6.0bn t of coal reserves, while Eerduosi has 300mt of coal reserves. The company provides energy to its downstream high-energy consuming businesses, with the advantage of its coal resources giving it a strong competitive edge in costs.

### Industry-leading ferrosilicon and calcium carbide capacity

The company's downstream capacity is mainly comprised of ferrosilicon and calcium carbide. The ferrosilicon market has a low concentration, with just six to seven producers with an annual capacity of more than 100,000t. The top five producers account for 26%/20% national capacity/output. With a ferrosilicon capacity of 680,000t, Eerduosi leads its competitors by a wide margin. In addition, we estimate the company has a calcium carbide capacity of 1.30mt, giving it a leading position in the industry. We expect the company's market share to improve, benefiting from the closure of small and medium-sized ferrosilicon and calcium carbide producers in China.

### Valuation: price target of Rmb9.70 with a Buy rating

We estimate 2014/2015/2016 EPS at Rmb0.58/Rmb0.69/Rmb0.48. We derive our price target from a DCF-based methodology, assuming a WACC of 7.35%.

### Equities

China

Mining

12-month rating

Buy

12m price target

Rmb9.70

Price

Rmb7.50

RIC: 600295.SS BBG: 600295 CH

### Trading data and key metrics

52-wk range Rmb9.52-6.23

Market cap. Rmb7.74bn/US\$1.25bn

Shares o/s 1,032m (ORDA)

Free float 31%

Avg. daily volume ('000) 1,652

Avg. daily value (m) Rmb12.5

Common s/h equity (12/14E) Rmb6.88bn

P/BV (12/14E) 1.1x

Net debt / EBITDA (12/14E) 5.6x

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
12/14E	0.58	-
12/15E	0.69	-
12/16E	0.48	-

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	13,632	13,508	13,910	15,486	16,382	17,624	18,066	18,560
EBIT (UBS)	2,348	1,679	1,773	2,139	2,614	2,145	2,149	1,738
Net earnings (UBS)	876	627	737	603	710	492	462	273
EPS (UBS, diluted) (Rmb)	0.85	0.61	0.71	0.58	0.69	0.48	0.45	0.26
DPS (Rmb)	0.10	0.10	0.00	0.18	0.34	0.24	0.22	0.13
Net (debt) / cash	(12,906)	(16,110)	(19,091)	(19,137)	(19,391)	(20,052)	(19,963)	(20,225)
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	17.2	12.4	12.7	13.8	16.0	12.2	11.9	9.4
ROIC (EBIT) %	11.7	7.1	6.6	7.4	8.7	6.9	6.8	5.4
EV/EBITDA (core) x	10.4	10.3	9.7	8.6	7.6	8.4	8.2	9.0
P/E (UBS, diluted) x	21.1	17.3	10.7	12.8	10.9	15.7	16.7	28.3
Equity FCF (UBS) yield %	(5.6)	(2.2)	(31.6)	(6.8)	8.8	8.7	18.1	15.9
Net dividend yield %	0.6	1.0	0.0	2.3	4.6	3.2	3.0	1.8

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb7.50 on 22 Jul 2014 22:37 HKT

# CSR Corp - A

## A leading high-end equipment manufacturer

### Business description: a leading rolling stock manufacturer in China

China CSR is one of the two largest rolling stock manufacturers in China, accounting for around 50% share of railway equipment market in China. As one of the largest railway markets, China had more than 10,000km high-speed railway in operation by end-2013. The railway market in China is also the one with the highest growth. Benefiting from its leading position in the China market, CSR is also competitive in the global market, and continually expanding its business in overseas market. In 2013, CSR logged revenue of Rmb97.9bn, up 8.2% YoY. Its overseas revenue is also growing, accounting for 7% of total revenue in 2013, and we expect the proportion to reach 10% in 2014.

### Upbeat on 2014 outlook, we expect demand for locomotives and EMUs to rise

Amid a macro-economic background of 'mini-stimulus' measures, the government's railway fixed-asset investment target for 2014 has been raised to Rmb800bn (up 21% YoY). China Railway Corp (CRC) held two rounds of bidding for 996 locomotives sets in May, equivalent to 82% of the tender volume for the whole of 2013. A new railway plan will be implemented on 1 July, with most incremental passenger train capacity coming from EMU trains. We expect 2014/2015/2016 EMU demand to reach 375/404/415 units. We expect locomotive demand to rise 9.7% YoY to 1,405 units in 2014, driven by the resumption of tenders and demand for new models.

### We expect delivery of EMUs to boost net profit

The new railway plan not only added new train lines to existing routes, it also opened several new routes, including the Beijing-Xiamen, and the Chengdu/Chongqing to Shanghai/Hangzhou/Nanjing high-speed lines. On the Beijing-Shanghai/Beijing-Guangzhou lines, 4.5/6.5 pairs of high-speed trains will be added, accounting for 8.5%/12% of new EMU trains nationwide. Given the large number of new high-speed railway lines that will commence operation in 2014, and demand from existing routes, we expect CSR to deliver 170 sets of EMUs this year, up 55% YoY, lifting net profit 26.5% YoY.

### Valuation: price target of Rmb5.40 with a Buy rating

We estimate the company's 2014/2015/2016 EPS at Rmb0.38/Rmb0.43/Rmb0.46. We derive our price target from a DCF-based methodology, assuming a WACC of 9.0%.

### Equities

China  
Heavy Machinery

12-month rating **Buy**

12m price target **Rmb5.40**

Price **Rmb4.83**

RIC: 601766.SS BBG: 601766 CH

### Trading data and key metrics

52-wk range	Rmb5.57-3.86
Market cap.	Rmb67.8bn/US\$10.9bn
Shares o/s	11,779m (ORDA)
Free float	25%
Avg. daily volume ('000)	37,492
Avg. daily value (m)	Rmb166.9
Common s/h equity (12/14E)	Rmb40.2bn
P/BV (12/14E)	1.7x
Net debt / EBITDA (12/14E)	NM

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
12/14E	0.38	0.37
12/15E	0.43	0.44
12/16E	0.46	0.50

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	80,301	89,999	97,347	110,261	121,757	131,425	138,849	146,771
EBIT (UBS)	5,478	5,523	5,852	7,255	8,295	9,095	9,654	10,142
Net earnings (UBS)	3,837	4,009	4,140	5,237	5,966	6,415	6,742	6,965
EPS (UBS, diluted) (Rmb)	0.32	0.30	0.30	0.38	0.43	0.46	0.49	0.50
DPS (Rmb)	0.21	0.09	0.09	0.11	0.13	0.14	0.15	0.15
Net (debt) / cash	2,668	5,174	3,730	6,299	5,918	9,078	13,293	18,213
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	6.8	6.1	6.0	6.6	6.8	6.9	7.0	6.9
ROIC (EBIT) %	26.1	20.3	16.7	18.4	19.4	19.7	20.2	20.8
EV/EBITDA (core) x	10.6	8.4	8.1	7.3	6.4	5.9	5.0	4.8
P/E (UBS, diluted) x	19.7	15.2	14.8	12.7	11.2	10.4	9.9	9.6
Equity FCF (UBS) yield %	0.3	(2.8)	0.7	6.8	2.8	8.4	10.2	11.4
Net dividend yield %	3.3	2.0	2.0	2.4	2.7	2.9	3.0	3.1

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb4.83 on 22 Jul 2014 22:37 HKT



# Yantai Wanhua Polyurethanes

## World's largest MDI producer; significant cost advantages from integrated operation

### Not just the largest MDI producer in the world

Yantai Wanhua (Wanhua) is a collectively owned enterprise controlled by the State-owned Assets Supervision and Administration Commission (SASAC) of Yantai City. In 2014, Wanhua will have methylene diphenylmethane diisocyanate (MDI) capacity of 1.4mt, making it the world's largest producer. Wanhua has used its strong R&D and integrated operation abilities to invent production methods and steadily reduce costs.

### MDI: High profitability from oligopoly; clear cost advantage from integration

The world's six MDI producers have maintained an oligopoly for a long time. On average, Wanhua has had a gross margin of 35% and an ROE of 30% over the past three years. China's MDI capacity will ramp up continually in 2014-16, which is likely to weigh on the MDI gross margin, but we believe the impact on Wanhua's earnings will be relatively mild, as: 1) Wanhua enjoys a significant cost advantage with its integrated operation – its coal-to-gas and aniline self-sufficiency rate may improve to 84% and its hydrogen supply from PDH production has cut costs sharply; 2) it has a client advantage, which even provides a price premium to its products; and 3) its 0.8mt capacity of the Bajiao Industry Zone project will start production later in 2014, and we expect full utilisation within three years.

### Bajiao project to drive growth in 2015-16E

The Bajiao Industry Zone, which is under construction, aims to become the world's leading integrated chemical park. Its main capacity includes 0.4mt in paint, 0.3mt in polyether polyols and 0.75mt in methyl tertiary-butyl ether (MTBE), which are expected to create a MDI-polyether polyol integrated polyurethane production capacity and to open up an integrated new market for propane dehydrogenation (PDH)-acrylic-paint. Also, in its next-generation technology pipeline, Wanhua has completed R&D on and pilot tests of poly carbonate (PC) materials, which we expect to help it expand to a third market, with a size of Rmb100bn in sales annually.

### Valuation: price target of Rmb20.96; Buy rating

Our 2014/2015/2016 EPS estimates are Rmb1.54/Rmb1.90/Rmb2.25. We derive our price target of Rmb20.96 from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool (WACC of 6.39%), implying 13.6x 2014E PE. We have a Buy rating on Wanhua.

### Equities

China  
Chemicals, Specialty

**12-month rating** **Buy**

**12m price target** **Rmb20.96**

**Price** **Rmb15.34**

**RIC:** 600309.SS **BBG:** 600309 CH

### Trading data and key metrics

<b>52-wk range</b>	Rmb21.12-14.33
<b>Market cap.</b>	Rmb33.2bn/US\$5.35bn
<b>Shares o/s</b>	2,162m (ORDA)
<b>Free float</b>	47%
<b>Avg. daily volume ('000)</b>	7,763
<b>Avg. daily value (m)</b>	Rmb121.6
<b>Common s/h equity (12/14E)</b>	Rmb11.5bn
<b>P/BV (12/14E)</b>	2.9x
<b>Net debt / EBITDA (12/14E)</b>	2.2x

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	1.54	1.62
<b>12/15E</b>	1.90	2.08
<b>12/16E</b>	2.25	2.60

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Highlights (Rmbk)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	13,662,307	15,942,127	20,237,973	24,409,660	28,559,302	33,414,383	39,094,829	45,740,950
EBIT (UBS)	2,874,617	3,896,309	4,519,084	5,267,324	6,448,363	7,544,584	8,827,164	10,327,781
Net earnings (UBS)	1,782,054	2,348,879	2,891,412	3,339,491	4,117,526	4,873,137	5,692,885	6,167,727
EPS (UBS, diluted) (Rmb)	0.82	1.09	1.34	1.54	1.90	2.25	2.63	2.85
DPS (Rmb)	0.60	0.70	0.70	0.81	0.99	1.18	1.38	1.49
Net (debt) / cash	(3,858,835)	(6,119,015)	(12,937,990)	(13,465,764)	(7,979,405)	(11,184,226)	(1,448,704)	5,055,189
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	21.0	24.4	22.3	21.6	22.6	22.6	22.6	22.6
ROIC (EBIT) %	25.8	28.0	22.4	20.1	23.9	25.4	28.7	37.8
EV/EBITDA (core) x	8.8	8.1	9.7	8.2	6.2	5.8	4.2	3.5
P/E (UBS, diluted) x	20.2	12.7	13.0	9.9	8.1	6.8	5.8	5.4
Equity FCF (UBS) yield %	(2.5)	(4.7)	(7.7)	3.6	22.4	(2.8)	38.8	29.5
Net dividend yield %	3.6	5.1	4.0	5.3	6.5	7.7	9.0	9.7

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb15.34 on 22 Jul 2014 22:37 HKT

# NARI Technology Development

## Domestic leader in electrical automation

### Domestic leader in electrical automation

NARI Technology Development (NARI) is the leader in electrical automation and automated control in China. It is also an industry leader in power distribution automation and transformation automation. Following an asset injection by the parent via private placement in 2013, we expect NARI's competitive edge in the power distribution and photovoltaic power markets to improve.

### Power distribution automation leader, may benefit from industry growth

Power distribution automation is a key area for power grid investment in the next five years, and we expect annual investment to rise from Rmb4.0bn currently to Rmb8.0bn. As a domestic leader in the power distribution automation market (more than 50% market share), we expect NARI to benefit from such projects in China.

### Leader in rail transport monitoring; may benefit from related projects

NARI is also an industry leader in rail transport monitoring systems, and has developed a rail transport signal system. With heavy investment in urban rail systems in China, NARI has developed business through metro turnkey projects, and may fully benefit from construction demand.

### Valuation: price target of Rmb18.00 and a Buy rating

We estimate 2014/2015/2016 EPS at Rmb0.83/Rmb1.05/Rmb1.28. We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool, assuming a WACC of 8.6%.

### Equities

China

Electric Components &amp; Equipment

12-month rating

**Buy**

12m price target

**Rmb18.00**

Price

**Rmb14.87**
**RIC:** 600406.SS **BBG:** 600406.CH

### Trading data and key metrics

**52-wk range** Rmb18.91-12.23

**Market cap.** Rmb32.8bn/US\$5.29bn

**Shares o/s** 2,206m (ORDA)

**Free float** 100%

**Avg. daily volume ('000)** 21,720

**Avg. daily value (m)** Rmb297.8

**Common s/h equity (12/14E)** Rmb7.84bn

**P/BV (12/14E)** 4.6x

**Net debt / EBITDA (12/14E)** NM

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	0.83	0.85
<b>12/15E</b>	1.05	1.05
<b>12/16E</b>	1.28	1.25

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	9,719	6,028	9,576	12,016	15,403	18,857	22,910	28,141
EBIT (UBS)	1,158	990	1,496	1,883	2,452	3,016	3,856	4,708
Net earnings (UBS)	894	1,056	1,600	2,016	2,549	3,109	3,925	4,766
EPS (UBS, diluted) (Rmb)	0.37	0.43	0.73	0.83	1.05	1.28	1.62	1.96
DPS (Rmb)	0.02	0.04	0.14	0.10	0.12	0.16	0.19	0.24
Net (debt) / cash	2,701	1,570	2,156	1,473	3,218	4,859	7,872	10,554
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	11.9	16.4	15.6	15.7	15.9	16.0	16.8	16.7
ROIC (EBIT) %	74.9	44.3	47.4	36.2	36.6	40.2	46.6	50.8
EV/EBITDA (core) x	27.1	26.0	17.8	15.6	11.5	8.9	6.2	4.6
P/E (UBS, diluted) x	45.8	30.1	19.0	17.9	14.2	11.6	9.2	7.6
Equity FCF (UBS) yield %	(0.8)	1.5	1.9	(2.4)	5.1	4.9	9.1	8.2
Net dividend yield %	0.1	0.3	1.0	0.7	0.8	1.1	1.3	1.6

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb14.87 on 22 Jul 2014 22:37 HKT

# Zhejiang Chint Electrics

## Leader in China's LV electrical equipment market

### LV electrical appliances widely distributed; sector to maintain steady growth

We believe there are market concerns about the impact of a slowing real estate market on the low-voltage (LV) electrical appliances sector. We believe LV electrical appliances used in real estate account for around only 20% of the total. A decline in real estate investment growth will have some impact but we estimate the LV sector can maintain 7-10% growth, because LV electrical appliances as consumer durables are widely distributed downstream, and will likely be given a boost by the development of smart grids and new energy.

### Chint's low-end market share gain likely to continue

Zhejiang Chint Electric's (Chint) market share increased from 10% in 2009 to 15% in 2013. It is the only company in the LV electrical appliances sector that has increased market share in the past few years. We believe low costs due to economies of scale, quality and brand, good management, and innovation capabilities are the factors behind its market share gains. We believe Chint will continue to increase its share based on these advantages, as sector growth rate could remain low and competition might intensify in the next few years.

### Upbeat on expansion into mid-range, high-end market, system integration

Chint's development strategy is to enter the mid-range to high-end market and system integration segment. We believe the prospects are bright, as the size of the mid-range and high-end market is around Rmb20bn and Chint's current revenue is some Rmb300m. Noark offers a product line that has performance advantages, in addition to a 150-strong customer service team and a rapid response mechanism that can cater to individual needs. We believe it can attain strong growth in these market segments.

### Valuation: Buy rating, price target of Rmb31.00

We estimate Chint's 2014/2015/2016 net profit at Rmb1.9bn/Rmb2.2bn/Rmb2.4bn, which implies EPS of Rmb1.88/Rmb2.14/Rmb2.38 and a net profit CAGR of around 17%. We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCM tool, assuming 9.6% WACC. Our price target implies 16x 2014E PE. We believe the market has overestimated the impact of real estate on Chint but underestimated Chint's growth potential from market share improvement.

### Equities

China

Electric Components &amp; Equipment

12-month rating

Buy

12m price target

Rmb31.00

Price

Rmb22.65

RIC: 601877.SS BBG: 601877 CH

### Trading data and key metrics

52-wk range Rmb29.00-19.93

Market cap. Rmb22.8bn/US\$3.67bn

Shares o/s 1,005m (ORDA)

Free float 24%

Avg. daily volume ('000) 1,181

Avg. daily value (m) Rmb25.8

Common s/h equity (12/14E) Rmb6.14bn

P/BV (12/14E) 3.7x

Net debt / EBITDA (12/14E) NM

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
12/14E	1.88	1.84
12/15E	2.14	2.14
12/16E	2.38	2.44

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	9,719	10,703	11,957	13,218	15,024	17,056	18,762	20,701
EBIT (UBS)	1,158	1,643	2,004	2,510	2,815	3,111	3,336	3,679
Net earnings (UBS)	895	1,235	1,489	1,891	2,153	2,403	2,594	2,884
EPS (UBS, diluted) (Rmb)	0.89	1.23	1.48	1.88	2.14	2.38	2.57	2.86
DPS (Rmb)	0.40	0.70	0.89	1.00	1.12	1.27	1.42	1.53
Net (debt) / cash	2,701	2,264	134	814	1,554	2,387	3,354	4,366
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	11.9	15.4	16.8	19.0	18.7	18.2	17.8	17.8
ROIC (EBIT) %	92.5	73.6	54.7	48.7	50.5	51.3	51.1	52.4
EV/EBITDA (core) x	12.3	7.4	9.9	8.1	7.1	6.3	5.7	5.0
P/E (UBS, diluted) x	20.2	12.5	14.8	12.1	10.6	9.5	8.8	7.9
Equity FCF (UBS) yield %	(1.6)	10.7	0.6	7.6	8.3	9.3	10.4	11.0
Net dividend yield %	2.2	4.5	4.1	4.4	4.9	5.6	6.3	6.8

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb22.65 on 22 Jul 2014 22:37 HKT

# Sanan Optoelectronics

## A leading China LED chip producer; scale and technology advantages

### A leading China LED chip producer; scale and technology advantages

Sanan Optoelectronics (Sanan) is a leading company in the LED chip industry in China. It now has 160 sets of metal organic chemical vapour deposition (MOCVD) equipment and is likely to add more than 100 sets in 2015, according to its expansion plan. Its overall LED chip capacity is the largest in China, giving it a significant scale advantage. Meanwhile, as a result of its R&D, the performance and quality of its products are approaching those of leading international peers and its products have a good reputation among downstream customers.

### Strong LED chip industry sentiment; continued gross margin improvement

Capacity utilization ratios at mainstream LED chip-makers remain elevated. We do not expect the sector's incremental capacity to be put into operation before end-2014; therefore, LED supply in 2014 is likely to remain tight. According to UBS's global LED supply-demand model, we estimate an LED chip supply-demand adequacy ratio of 3% in 2014. Sanan's gross margin has improved due to a higher capacity utilization ratio, economies of scale in its sales and recovering sector fundamentals. Sanan reported recurring net profit growth of 40% YoY in H114.

### Actively building partnerships with key downstream customers

Sanan has used its industrial status and influence in the LED chip area to cooperate strategically with key downstream backlight and lighting customers, including Shenzhen MTC (backlight), Yankon (lighting) and packaging companies such as Jufei Optoelectronics, Dongshan Precision and Hongli Opto-Electronic.

### Valuation: price target of Rmb22.13; Buy rating

Our 2014/2015/2016 EPS estimates are Rmb0.58/Rmb0.82/Rmb0.96. We derive our Rmb22.13 price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool (WACC of 8.9%), implying 38.16x/26.99x/23.06x 2014/15/16E PE.

### Equities

China

Electric Components &amp; Equipment

12-month rating

Buy

12m price target

Rmb22.13

Price

Rmb13.59

RIC: 600703.SS BBG: 600703 CH

### Trading data and key metrics

52-wk range Rmb18.77-12.47

Market cap. Rmb32.5bn/US\$5.24bn

Shares o/s 2,393m (ORDA)

Free float 93%

Avg. daily volume ('000) 16,320

Avg. daily value (m) Rmb244.0

Common s/h equity (12/14E) Rmb8.13bn

P/BV (12/14E) 4.0x

Net debt / EBITDA (12/14E) 1.8x

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
12/14E	0.58	0.65
12/15E	0.82	0.88
12/16E	0.96	1.10

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	1,747	3,363	3,732	5,669	8,236	9,863	10,923	12,075
EBIT (UBS)	541	598	977	1,430	2,142	2,525	2,840	3,152
Net earnings (UBS)	936	810	1,036	1,394	1,963	2,292	2,590	2,883
EPS (UBS, diluted) (Rmb)	0.43	0.37	0.48	0.58	0.82	0.96	1.08	1.20
DPS (Rmb)	0.20	0.13	0.15	0.16	0.20	0.29	0.38	0.38
Net (debt) / cash	(430)	(1,954)	(3,138)	(3,771)	(3,588)	(2,817)	(1,506)	19
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	31.0	17.8	26.2	25.2	26.0	25.6	26.0	26.1
ROIC (EBIT) %	11.3	8.3	11.1	13.8	18.1	19.8	21.3	23.0
EV/EBITDA (core) x	30.9	20.3	17.8	17.3	12.6	10.7	9.3	8.0
P/E (UBS, diluted) x	27.1	23.6	25.7	23.3	16.6	14.2	12.6	11.3
Equity FCF (UBS) yield %	(12.5)	(5.3)	(0.7)	2.1	4.0	6.0	7.6	8.4
Net dividend yield %	1.7	1.5	1.2	1.2	1.5	2.1	2.8	2.8

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb13.59 on 22 Jul 2014 22:37 HKT

## High growth profile

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# Yonyou Software

## A leader in China's management software sector

### A leading management software company in APAC

Yonyou Software (Yonyou) is one of the leading management software companies in the APAC region, and has the largest market share among the China players. The company's 2013 sales revenue and net profit came in at Rmb4.36bn and Rmb0.548bn, respectively. Now Yonyou faces two major opportunities/challenges: it needs to 1) grasp the new growth opportunity brought by technologies, such as mobile Internet/cloud computing, and increase revenue, and 2) improve its operating margins by lifting per-capita output.

### Small- and micro-business market: cloud computing sets sail

Yonyou's public cloud platform has rolled out a series of services, including client management, social networking for business, yidaizhang (outsourced accounting), www.mykuaiji.com (an accountant social networking website), and a developer community, and the number of its registered users has continuously increased. We expect the platform to be more attractive to small- and medium-sized companies and the number of active users is likely to increase rapidly, as more applications and new features, as well as financial services and telecom value-added services, come online. We estimate the number of enterprise users of the platform in 2014-16 will be 0.15m/0.6m/1m.

### Large-enterprise market: likely to resume growth

Due to Yonyou's greater competitive strength and the trend towards software localization, we think the revenue of Yonyou's large-enterprise software business is likely to increase at a faster pace in 2014, and the adjusted revenue-sharing pattern of high-end projects should also add impetus to revenue and profit growth there. We estimate revenue of Yonyou's large-enterprise software business will rise 30%/25%/17% YoY in 2014-16.

### Valuation: price target of Rmb21.00

Our 2014/2015/2016- EPS estimates are Rmb0.58/Rmb0.82/Rmb1.12, with a net profit CAGR of 33% over 2014-16E. We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool (WACC of 8.8%). We assign a Buy rating to Yonyou.

### Equities

China  
Software

**12-month rating** **Buy**

**12m price target** **Rmb21.00**

**Price** **Rmb15.04**

**RIC:** 600588.SS **BGG:** 600588.CH

### Trading data and key metrics

<b>52-wk range</b>	Rmb20.40-8.32
<b>Market cap.</b>	Rmb17.5bn/US\$2.83bn
<b>Shares o/s</b>	1,165m (ORDA)
<b>Free float</b>	42%
<b>Avg. daily volume ('000)</b>	16,381
<b>Avg. daily value (m)</b>	Rmb235.4
<b>Common s/h equity (12/14E)</b>	Rmb3.75bn
<b>P/BV (12/14E)</b>	4.7x
<b>Net debt / EBITDA (12/14E)</b>	NM

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	0.58	0.62
<b>12/15E</b>	0.82	0.76
<b>12/16E</b>	1.12	0.99

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	4,122	4,235	4,363	5,281	6,083	7,068	8,136	9,343
EBIT (UBS)	334	208	308	523	772	1,109	1,497	1,996
Net earnings (UBS)	537	380	548	681	950	1,308	1,716	2,213
EPS (UBS, diluted) (Rmb)	0.46	0.32	0.47	0.58	0.82	1.12	1.47	1.90
DPS (Rmb)	0.28	0.16	0.25	0.29	0.39	0.52	0.66	0.78
Net (debt) / cash	713	408	185	561	1,134	2,022	3,047	4,376
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	8.1	4.9	7.1	9.9	12.7	15.7	18.4	21.4
ROIC (EBIT) %	18.8	8.8	11.8	18.6	26.1	37.2	49.3	62.8
EV/EBITDA (core) x	36.8	41.1	24.6	24.7	17.3	12.0	8.6	6.1
P/E (UBS, diluted) x	32.2	36.9	20.2	25.7	18.5	13.4	10.2	7.9
Equity FCF (UBS) yield %	1.1	1.0	1.5	3.1	5.6	7.9	9.3	12.4
Net dividend yield %	1.9	1.4	2.7	1.9	2.6	3.4	4.4	5.2

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb15.04 on 22 Jul 2014 22:37 HKT

# Jiangsu Linyang Electronics

## Aspiring to become the largest distributed PV power operator in eastern China

### A key National Torch Plan high-tech corporation

Linyang Electronics (Linyang) is a key National Torch Plan high-tech corporation recognised by the State Ministry of Science and Technology of China. The company is mainly engaged in the manufacture and distribution of electronic energy meters, electricity consumption information management systems and end products, and is the leader in China's ammeter industry. It aims to be the largest distributed PV power operator in eastern China, and plans to develop 500MW to 800MW of distributed power generation stations in the next two to three years.

### Peak of distributed PV power likely in H214

According to the National Energy Administration, the target for installed distributed PV power capacity is 8GW in 2014. The distributed PV power generation business model is immature, which has resulted in difficulty meeting the target. Despite this, with continued testing of business models by companies and possible policy changes, we expect a bright future for developers and operators of distributed PV power stations. The rooftop distributed solar market will likely start in industrial and commercial buildings in eastern and central China. We expect the registration and approval procedure to be gradually implemented in June-July, with the peak of distributed PV power capacity construction likely in Q314 and Q414.

### Aspires to become the largest distributed PV power operator in eastern China

We think Linyang is well-positioned to become the leading distributed PV power operator, based on its experienced team and funding advantages. By taking full advantage of the close ties it has with grid power companies when selling electricity meters, the company is working with energy-saving service companies or subsidiaries affiliated with grid power companies to channel grid resources into the development of distributed PV power generation projects. It is actively exploring new models of distributed PV power generation, which are likely to be applied across the country.

### Valuation: Buy rating and price target of Rmb24.20

We estimate 2014/2015/2016 EPS of Rmb1.25/1.50/1.83. We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool, assuming a WACC of 8.8%. Our price target implies 19.4x/16.1x/13.2x 2014/2015/2016E PE.

### Equities

China

Electric Components &amp; Equipment

12-month rating

Buy

12m price target

Rmb24.20

Price

Rmb22.76

RIC: 601222.SS BBG: 601222 CH

### Trading data and key metrics

52-wk range Rmb26.78-15.71

Market cap. Rmb7.92bn/US\$1.28bn

Shares o/s 348m (ORDA)

Free float 30%

Avg. daily volume ('000) 2,137

Avg. daily value (m) Rmb44.8

Common s/h equity (12/14E) Rmb2.98bn

P/BV (12/14E) 2.7x

Net debt / EBITDA (12/14E) NM

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
12/14E	1.25	1.31
12/15E	1.50	1.65
12/16E	1.83	1.97

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	1,696	1,914	1,991	2,798	3,219	3,744	4,178	4,655
EBIT (UBS)	179	289	393	488	605	758	855	1,029
Net earnings (UBS)	188	303	372	445	532	651	723	860
EPS (UBS, diluted) (Rmb)	0.65	0.86	1.05	1.25	1.50	1.83	2.03	2.42
DPS (Rmb)	0.20	0.35	0.20	0.36	0.43	0.53	0.59	0.70
Net (debt) / cash	1,379	1,318	1,383	1,504	1,771	2,095	2,480	2,965
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	10.6	15.1	19.8	17.4	18.8	20.2	20.5	22.1
ROIC (EBIT) %	-	35.5	36.4	37.6	40.6	46.2	47.4	52.5
EV/EBITDA (core) x	-	6.6	10.5	12.7	10.0	7.6	6.4	4.9
P/E (UBS, diluted) x	19.5	11.9	16.3	18.2	15.2	12.4	11.2	9.4
Equity FCF (UBS) yield %	(3.3)	2.5	3.6	2.3	5.0	6.2	7.5	9.2
Net dividend yield %	1.6	3.5	1.2	1.6	1.9	2.3	2.6	3.1

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb22.76 on 22 Jul 2014 22:37 HKT



# Shanghai Jahwa United

## Domestically funded leading cosmetics company

### A leading cosmetics company in China

Jahwa is a domestically funded leader in the cosmetics industry in China. It owns the country's second largest brand of body wash and its fourth largest brand of men care products. It has successfully built the first domestic mid to high-end skin care brand. After Jahwa restructured in 2011, Ping An Trust replaced Shanghai SASAC as Jahwa's major shareholder. However, differences between investors and the incumbent management team, lead to the former chairman, general manager and some management staff leaving Jahwa. Although both parties are still sorting out their differences, we think the senior management team is basically stable, and the key personnel turmoil may come to an end.

### Consumption upgrades driving sector growth, market share likely to increase

China's cosmetics market is still in unbalanced growth. Mature regions, which have a 70% share, are still growing faster than the sector, showing that there is a considerable potential for consumption upgrades in the less developed regions. Against this backdrop, we think Jahwa is likely to continue to improve its market share of less than 5%: 1) mid-range to high-end Herborist: based on differentiated positioning via Chinese medicinal herbs, and driven by inorganic expansion, channel-wide reform, and product category expansion; 2) mass-market brand: supported by wide range of channels to expand consumer groups and product categories; 3) self-created brands to move into the fastest-growing infant care market segment, and may expand into the makeup and oral care market via inorganic acquisitions.

### New strategic plan released

Jahwa recently published its five-year strategic development plan, confirming the "super brand" status of Herborist and Liushen, the "major brand" status of GF and Maxam, and the "emerging brand" status of Giving. Together with inorganic expansion, it aims for revenue of Rmb12bn in 2018, implying a 2013-18 CAGR of 21.8%. We are positive on Jahwa, given its brands, complete product lines, thorough understanding of the local market and R&D capability. If the management team stabilises and focuses on its strategy, we think Jahwa will resume rapid growth.

### Valuation: price target of Rmb47.80; Buy rating

We estimate Jahwa's 2014/2015/2016 EPS at Rmb1.43/Rmb1.81/Rmb2.21. We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool (WACC of 7.1%).

### Equities

China  
Cosmetics

**12-month rating** **Buy**

**12m price target** **Rmb47.80**

**Price** **Rmb34.36**

**RIC:** 600315.SS **BGG:** 600315.CH

### Trading data and key metrics

<b>52-wk range</b>	Rmb57.41-31.12
<b>Market cap.</b>	Rmb23.1bn/US\$3.73bn
<b>Shares o/s</b>	673m (ORDA)
<b>Free float</b>	62%
<b>Avg. daily volume ('000)</b>	4,985
<b>Avg. daily value (m)</b>	Rmb168.4
<b>Common s/h equity (12/14E)</b>	Rmb3.88bn
<b>P/BV (12/14E)</b>	6.0x
<b>Net debt / EBITDA (12/14E)</b>	NM

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	1.43	1.44
<b>12/15E</b>	1.81	1.78
<b>12/16E</b>	2.21	2.23

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	3,577	4,504	4,469	5,138	6,186	7,348	8,785	10,326
EBIT (UBS)	336	524	751	956	1,232	1,522	1,851	2,133
Net earnings (UBS)	361	615	800	965	1,220	1,487	1,809	2,106
EPS (UBS, diluted) (Rmb)	0.57	0.91	1.19	1.43	1.81	2.21	2.69	3.13
DPS (Rmb)	0.27	0.47	0.51	0.61	0.78	0.95	1.15	1.34
Net (debt) / cash	862	1,329	1,733	2,029	2,400	2,859	3,419	4,080
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	9.4	11.6	16.8	18.6	19.9	20.7	21.1	20.7
ROIC (EBIT) %	65.0	108.6	111.1	94.9	107.3	114.9	120.8	121.3
EV/EBITDA (core) x	31.1	24.8	32.6	19.5	14.9	11.7	9.3	7.7
P/E (UBS, diluted) x	42.5	29.7	37.7	24.0	18.9	15.5	12.8	11.0
Equity FCF (UBS) yield %	1.7	3.9	2.9	2.9	3.7	4.6	5.6	6.5
Net dividend yield %	1.1	1.7	1.1	1.8	2.3	2.8	3.4	3.9

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb34.36 on 22 Jul 2014 22:37 HKT



# Zhengzhou Yutong Bus

## A China bus industry leader – may benefit further from urbanisation and new-energy bus promotion

### Largest bus and new-energy bus producer in China

Yutong Bus is mainly engaged in the manufacture and distribution of medium- and large-size coaches. It is the largest bus producer in China, with a c30% market share, and is also China's largest new-energy bus manufacturer. The company's products, categorised by their downstream usage, include long-haul buses, city buses, tourist buses, and school buses. Yutong reported H114 total sales of 23,389 buses, down 6% YoY; large/medium-size bus sales each declined by 10%, while light-duty bus sales rose 43% in H114. We estimate 2014 bus sales at 62,870 units (up 12.1% YoY).

### First beneficiary of new-energy vehicle development in China

We expect new-energy vehicles to be the first to develop significantly in public transport, as: 1) public buses' operating times and routes are relatively fixed, which provides great convenience for charging; 2) considering their own heavyweight and higher unit prices, incremental equipment accounted for just a small proportion of total weight and costs, so the per-vehicle fuel efficiency is much higher than that of privately-owned cars and their investment payback period is shorter; 3) buses are more mature products; and 4) policy support is stronger. Yutong has a leading advantage in the hybrid bus area and we believe it could have a 40% market share.

### Sales volume CAGR of traditional bus industry could be 12% in the next 3 years

We estimate: 1) long-haul bus sales volume growth will slow due to the negative impact from high-speed trains, with the CAGR likely to fall to 5% for the next three years; 2) city bus sales volume CAGR will be 15% for the next three years, benefiting from arising urbanisation ratio and increase in the urban population; 3) tourist bus sales volume CAGR will be 15% in the next three years due to increasing tourists and consumption upgrade; and 4) school bus sales volume CAGR will be 25% in the next three years on upgrade and improvement in related laws and regulations. As an industry leader, we believe Yutong's market share is likely to rise further and its traditional bus sales volume growth could be slightly higher than the industrial average.

### Valuation: price target of Rmb20.50; Buy rating

We estimate 2014/205/2016 EPS at Rmb1.66/Rmb1.89/Rmb2.15. We derive our Rmb20.50 price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool (WACC of 8.1%). Our price target implies 12.3x 2014E PE.

### Equities

China  
Automobile Manufacturers

12-month rating **Buy**

12m price target **Rmb20.50**

Price **Rmb17.89**

RIC: 600066.SS BBG: 600066.CH

### Trading data and key metrics

52-wk range	Rmb19.78-14.92
Market cap.	Rmb22.7bn/US\$3.66bn
Shares o/s	1,270m (ORDA)
Free float	61%
Avg. daily volume ('000)	12,511
Avg. daily value (m)	Rmb203.2
Common s/h equity (12/14E)	Rmb10.2bn
P/BV (12/14E)	2.2x
Net debt / EBITDA (12/14E)	NM

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
12/14E	1.66	1.68
12/15E	1.89	1.97
12/16E	2.15	2.25

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Highlights (Rmbk)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	16,931,926	19,763,459	22,093,827	25,182,532	28,134,235	31,185,363	34,207,890	37,553,267
EBIT (UBS)	1,332,749	1,539,827	1,852,676	2,170,821	2,478,660	2,801,946	3,136,086	3,525,815
Net earnings (UBS)	1,181,405	1,549,722	1,822,575	2,110,701	2,413,597	2,734,873	3,070,198	3,458,877
EPS (UBS, diluted) (Rmb)	1.14	1.28	1.43	1.66	1.89	2.15	2.41	2.72
DPS (Rmb)	0.15	0.41	0.50	0.58	0.66	0.75	0.84	0.95
Net (debt) / cash	1,046,352	2,496,566	3,914,408	5,628,961	7,589,429	9,784,775	12,223,628	14,935,236
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	7.9	7.8	8.4	8.6	8.8	9.0	9.2	9.4
ROIC (EBIT) %	90.2	46.9	39.5	47.4	57.4	69.7	84.6	104.3
EV/EBITDA (core) x	6.7	7.4	7.5	6.4	5.1	4.0	3.0	2.7
P/E (UBS, diluted) x	9.9	10.0	11.8	10.8	9.4	8.3	7.4	6.6
Equity FCF (UBS) yield %	3.9	(3.6)	4.5	9.9	11.2	12.5	13.9	15.4
Net dividend yield %	1.3	3.2	3.0	3.2	3.7	4.2	4.7	5.3

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb17.89 on 22 Jul 2014 22:37 HKT

# Xiamen Faratronic

## May continue to benefit from new-energy vehicle industry development

### Film capacitor industry leader in China with outstanding technical strengths

Xiamen Faratronic is the largest film capacitor and aluminium metallised film manufacturer in China, with an annual capacity of 4.5bn film capacitors and 2,500t of metallised film. Due to its outstanding technical strengths, its competitors are mainly overseas industry leaders. The company has strong management and its gross margin is much higher than domestic peers.

### We expect new-energy vehicles to be important for future growth

The company started manufacturing film capacitors for new-energy vehicles relatively early in the industry's development, and it has significant technical strengths. Faratronic has completed certifications with auto OEMs and manufacturers of electric motors. Unlike other segments of the new-energy vehicle industry chain, there is no overcapacity or excessive competition issues in the film capacitor segment. The company plans to focus capacity expansion on film capacitors for new energy vehicles, so we expect a higher percentage of revenue from this segment.

### Solid downstream demand: wind and solar power, frequency conversion, LED

Demand for film capacitors from the wind and solar power sectors is mainly driven by: 1) growth in installed capacity of solar and wind energy; and 2) film capacitors replacing electrolytic capacitors in this area. Due to an industry recovery, demand for the company's products from the wind and solar power markets has grown rapidly. Demand from LED lighting, industrial frequency converters, and frequency-alterable air-conditioners is also solid.

### Valuation: price target of Rmb44.50 with Buy rating

We estimate 2014/2015/2016 EPS at Rmb1.47/Rmb1.74/Rmb1.97. We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool, assuming a WACC of 9.7%, and implying 30.27x/25.57x/22.59x 2014/2015/2016E PE.

### Equities

China

Electric Components &amp; Equipment

12-month rating

Buy

12m price target

Rmb44.50

Price

Rmb40.03

RIC: 600563.SS BBG: 600563 CH

### Trading data and key metrics

52-wk range Rmb40.03-17.19

Market cap. Rmb9.01bn/US\$1.45bn

Shares o/s 225m (ORDA)

Free float 100%

Avg. daily volume ('000) 2,390

Avg. daily value (m) Rmb74.1

Common s/h equity (12/14E) Rmb1.80bn

P/BV (12/14E) 5.0x

Net debt / EBITDA (12/14E) NM

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
12/14E	1.47	1.49
12/15E	1.74	1.78
12/16E	1.97	2.11

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	1,325	1,232	1,327	1,593	1,918	2,262	2,584	2,948
EBIT (UBS)	325	280	327	403	461	520	599	690
Net earnings (UBS)	281	242	286	332	391	443	512	591
EPS (UBS, diluted) (Rmb)	1.25	1.08	1.27	1.47	1.74	1.97	2.27	2.63
DPS (Rmb)	0.60	0.60	0.70	0.79	0.81	0.94	0.95	1.08
Net (debt) / cash	436	598	703	1,049	1,245	1,485	1,802	2,145
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	24.5	22.7	24.6	25.3	24.0	23.0	23.2	23.4
ROIC (EBIT) %	34.7	30.3	35.4	46.5	57.7	63.7	73.1	83.6
EV/EBITDA (core) x	12.0	8.5	9.0	17.2	14.5	12.5	10.5	8.8
P/E (UBS, diluted) x	18.5	14.4	14.4	27.1	23.0	20.3	17.6	15.2
Equity FCF (UBS) yield %	5.3	8.2	6.1	6.0	4.2	5.0	5.9	6.5
Net dividend yield %	2.6	3.9	3.8	2.0	2.0	2.3	2.4	2.7

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb40.03 on 22 Jul 2014 22:37 HKT

## Zhongjin Gold

**A gold producer with growth potential; look out for asset injection by parent**

### Company profile

Zhongjin Gold Corporation Limited (Zhongjin Gold) was founded on 23 June 2000, with China National Gold Group Corporation (formerly China National Gold Corporation) as the lead sponsor, together with six other companies. It is a large gold company with the capacity to explore for, select, mine and dress, smelt and process gold. Its products include high-purity gold, standard gold, electrolyzed silver, electrolyzed copper and sulphuric acid.

### A top 3 gold miner in terms of reserves and output in China

As a large gold-producing country, China's gold output reached 428.2 tons in 2013, the highest in the world for the seventh year. Meanwhile, according to World Gold Council data, China's gold consumption reached 1,132 tons in 2013, surpassing India as the world's largest consumer of gold. As one of the top three gold mining companies in China, it is the only one that is owned by the central government. Its gold reserves had reached 601.1 tons by end-2013 and mining gold output was 25.6 tons in 2013.

### Asset injection by parent likely to double its gold reserves

Public data shows that Zhongjin Gold's controlling shareholder, China National Gold Group Corporation (CNGC), is China's largest owner of gold resources (over 1,200t, including the listed company's resources). CNGC is also among the five largest owners of copper reserves (8mt) and the three largest owners of molybdenum reserves (1.2mt) in China. Its total assets are above Rmb34bn. Given the cannibalisation between the parent and the listed company, we expect CNGC to progressively inject its gold assets into the listed company, likely doubling its gold reserves in the next two to three years.

### Valuation: price target of Rmb8.45

Based on our mineral output and gold price assumptions, we estimate 2014/2015/2016 EPS at Rmb0.26/Rmb0.27/Rmb0.34. Our price target of Rmb8.45 is based on the stock's historical average PE of 32.5x. We rate the company Neutral.

### Equities

China

Mining

12-month rating

**Neutral**

12m price target

**Rmb8.45**

Price

**Rmb7.71**
**RIC:** 600489.SS **BBG:** 600489 CH

### Trading data and key metrics

**52-wk range** Rmb10.96-7.45

**Market cap.** Rmb22.7bn/US\$3.66bn

**Shares o/s** 2,943m (ORDA)

**Free float** 48%

**Avg. daily volume ('000)** 8,855

**Avg. daily value (m)** Rmb68.3

**Common s/h equity (12/14E)** Rmb10.6bn

**P/BV (12/14E)** 2.1x

**Net debt / EBITDA (12/14E)** 1.5x

### EPS (UBS, diluted) (Rmb)

	UBS	Cons.
<b>12/14E</b>	0.26	0.18
<b>12/15E</b>	0.27	0.25
<b>12/16E</b>	0.34	0.27

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	33,209	36,052	30,491	38,324	35,477	36,944	37,010	38,531
EBIT (UBS)	3,343	3,020	1,053	1,265	1,323	1,595	1,731	2,181
Net earnings (UBS)	1,847	1,557	431	773	789	995	1,046	1,362
EPS (UBS, diluted) (Rmb)	0.64	0.53	0.15	0.26	0.27	0.34	0.36	0.46
DPS (Rmb)	0.03	0.16	0.04	0.08	0.08	0.10	0.12	0.14
Net (debt) / cash	(1,702)	(1,481)	(4,662)	(3,594)	(2,945)	(2,061)	(313)	1,693
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	10.1	8.4	3.5	3.3	3.7	4.3	4.7	5.7
ROIC (EBIT) %	33.0	24.1	7.1	7.9	8.4	10.3	11.6	15.7
EV/EBITDA (core) x	12.6	12.2	19.8	11.6	10.5	8.8	7.9	6.8
P/E (UBS, diluted) x	26.9	28.7	78.7	29.3	28.8	22.8	21.7	16.7
Equity FCF (UBS) yield %	0.2	(0.2)	(7.4)	6.0	4.8	5.9	9.8	10.6
Net dividend yield %	0.2	1.1	0.4	1.0	1.0	1.3	1.6	1.8

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb7.71 on 22 Jul 2014 22:37 HKT

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# Appendix

**Figure 4: MMA eligible A shares—dual-listed**

Stock code	Company	Stock code	Company	Stock code	Company
600011	Huaneng Power International,	600837	HAITONG Securities	601618	Metallurgical Corporation of China
600012	Anhui Expressway	600874	Tianjin Capital Environmental Protection Group	601628	China Life Insurance
600016	China Minsheng Banking	600875	Dongfang Electric Corporation	601633	Great Wall Motor
600026	China Shipping Development	600876	Luoyang Glass	601717	Zhengzhou Coal Mining Machinery Group
600027	Huadian Power International Corporation	601005	Chongqing Iron & Steel	601727	Shanghai Electric Group
600028	China Petroleum & Chemical Corporation	601038	First Tractor	601766	CSR Corporation
600029	China Southern Airlines	601088	China Shenhua Energy	601800	China Communications Construction
600030	CITIC Securities	601107	Sichuan Expressway	601808	China Oilfield Services
600036	China Merchants Bank	601111	Air China	601818	China Everbright Bank
600115	China Eastern Airlines Corporation	601186	China Railway Construction Corporation	601857	Petrochina
600188	Yanzhou Coal Mining	601238	Guangzhou Automobile Group	601866	China Shipping Container Lines
600196	Shanghai Fosun Pharmaceutical (Group)	601288	Agricultural Bank of China	601880	Dalian Port (PDA)
600332	Guangzhou Baiyunshan Pharmaceutical Holdings	601299	China CNR Corporation	601898	China Coal Energy
600362	Jiangxi Copper	601318	Ping An Insurance (Group) Company of China	601899	Zijin Mining Group
600377	Jiangsu Expressway	601328	Bank of Communications	601919	China COSCO Holdings
600548	Shenzhen Expressway	601333	Guangshen Railway	601939	China Construction Bank Corporation
600585	Anhui Conch Cement	601336	New China Life Insurance	601988	Bank of China
600600	Tsingtao Brewery	601390	China Railway Group	601991	Datang International Power Generation
600685	Guangzhou Shipyard International	601398	Industrial and Commercial Bank of China	601992	BBMG Corporation
600688	Sinopec Shanghai Petrochemical	601588	Beijing North Star	601998	China CITIC Bank Corporation
600775	Nanjing Panda Electronics	601600	Aluminum Corporation of China	603993	China Molybdenum
600806	Shenji Group Kunming Machine Tool	601601	China Pacific Insurance (Group)		
600808	Maanshan Iron & Steel	601607	Shanghai Pharmaceuticals Holding		

Source: UBS-S

**Figure 5: MMA eligible A shares—pure A share**

Stock code	Company	Stock code	Company	Stock code	Company	Stock code	Company	Stock code	Company
600000	Shanghai Pudong Development Bank	600021	Shanghai Electric Power	600059	Zhejiang Guyuelongshan Shaoxing Wine	600082	Tianjin Hi-Tech Development	600108	Gansu Yasheng Industrial (Group)
600004	Guangzhou Baiyun International Airport	600023	Zhejiang Zheneng Electric Power	600060	Hisense Electric	600085	Beijing Tongrentang	600109	Sinolink Securities
600005	Wuhan Iron and Steel	600031	Sany Heavy Industry	600062	China Resources Double-Crane Pharmaceutical	600088	China Television Media	600110	China-Kinwa High Technology
600007	China World Trade Center	600033	Fujian Expressway Development	600064	Nanjing Gaoke	600089	TBEA	600111	Inner Mongolia Baotou Steel Rare-Earth(Group) Hi-Tech
600008	Beijing Capital	600037	Beijing Gehua CATV Network	600066	Zhengzhou Yutong Bus	600094	Greatown Holdings	600112	Guizhou Changzheng Tiancheng Holding
600009	Shanghai International Airport	600038	Hafei Aviation Industry	600067	Citychamp Dartong	600096	Yunnan Yuntianhua	600114	NBTM New Materials Group
600010	Inner Mongolia Baotou Steel Union	600039	Sichuan Road&Bridge	600068	China Gezhouba Group	600097	Shanghai Kaichuang Marine International	600116	Chongqing Three Gorges Water Conservancy and Electric Power
600015	Hua Xia Bank	600048	Poly Real Estate Group	600073	Shanghai Maling Aquarius	600098	Guangzhou Development Group Incorporated	600118	China Spacesat
600017	Rizhao Port	600050	China United Network Communications	600078	Jiangsu Chengxing Phosph-Chemicals	600100	Tsinghua Tongfang	600119	Y.U.D.Yangtze River Investment Industry
600018	Shanghai International Port (Group)	600054	Huangshan Tourism Development	600079	Humanwell Healthcare (Group)	600101	Sichuan Mingxing Electric Power	600120	Zhejiang Orient Holdings
600019	Baoshan Iron & Steel	600056	China Meheco	600080	Ginwa Enterprise (Group)	600104	SAIC Motor Corporation	600121	Zhengzhou Coal Industry & Electric Power
600020	Henan Zhongyuan Expressway	600058	Minmetals Development	600081	Dongfeng Electronic Technology	600106	Chongqing Road&Bridge	600122	Jiangsu Hongtu High Technology
600123	Shanxi Lanhua Sci-Tech Venture	600246	Beijing Vantone Real Estate	600340	China Fortune Land Development	600439	Henan Rebecca Hair Products	600527	Jiangsu Jiangnan High Polymer Fiber
600125	China Railway Tielong Container Logistics	600248	Shaanxi Yanchang Petroleum Chemical Engineering	600343	Shaanxi Aerospace Power Hi-Tech	600446	Shenzhen Kingdom Technology	600528	China Railway Erju
600132	Chongqing Brewery	600251	Xinjiang Guannong Fruit & Antler Group	600348	Yang Quan Coal Industry (Group)	600449	Ningxia Building Materials Group	600532	Shandong Hongda Mining
600135	Lucky Film	600252	Guangxi Wuzhou Zhongheng Group	600350	Shandong Hi-Speed	600458	Zhuzhou Times New Material Technology	600535	Tasly Pharmaceutical Group
600138	China CYTS Tours Holding	600256	Guanghui Energy	600351	Yabao Pharmaceutical Group	600459	Sino-Platinum Metals	600536	China National Software & Service
600139	Sichuan Western Resources Holding	600257	Dahu Aquaculture	600352	Zhejiang Longsheng Group	600460	Hangzhou Silan Microelectronics	600545	Xinjiang Urban Construction(Group)
600141	Hubei Xingfa Chemicals Group	600258	BTG Hotels (Group)	600353	Chengdu Xuguang Electronics	600467	Shandong Homey Aquatic Evelopment	600546	Shanxi Coal International Energy Group
600143	Kingfa Sci.&Tech.	600259	Rising Nonferrous Metals Share	600363	Jiangxi Lianchuang Optoelectronic Science and Technology	600468	Tianjin Benefo Tejing Electric	600547	Shandong Gold Mining
600150	China CSSC Holdings	600260	Kaile Science and Technology Hubei	600366	Ningbo Yunsheng	600469	Aeolus Tyre	600549	Xiamen Tungsten
600153	Xiamen C&D Inc	600261	Zhejiang Yankon Group	600368	Guangxi Wuzhou Communications	600470	Anhui Liuguo Chemical	600551	Time Publishing and Media

**Figure 5: MMA eligible A shares—pure A share (cont'd)**

Stock code	Company	Stock code	Company	Stock code	Company	Stock code	Company	Stock code	Company
600157	Wintime Energy	600262	Inner Mongolia North Hauler Joint Stock	600369	Southwest Securities	600475	Wuxi Huaguang Boiler	600552	Anhui Fangxing Science&Technology
600158	China Sports Industry Group	600266	Beijing Urban Construction Investment & Development	600372	China Avic Electronics	600478	Hunan Corun New Energy	600557	Jiangsu Kanion Pharmaceutical
600160	Zhejiang Juhua	600267	Zhejiang Hisun Pharmaceutical	600373	Chinese Universe Publishing and Media	600479	Zhuzhou Qianjin Pharmaceutical	600559	Hebei Hengshui Laobaigan Liquor
600161	Beijing Tiantan Biological Products Corporation	600268	Guodian Nanjing Automation	600375	Hualing Xingma Automobile (Group)	600480	Lingyun Industrial Corporation	600560	Beijing Aritime Intelligent Control
600162	Shenzhen Heungkong Holding	600269	Jiangxi Ganyue Expressway	600376	Beijing Capital Development	600481	Shuangliang Eco-Energy Systems	600561	Jiangxi Changyun
600166	Beiqi Foton Motor	600270	Sinotrans Air Transportation Development	600378	Sichuan Tianyi Science&Technology	600482	Fengfan Stock Company	600563	Xiamen Faratronic
600167	Luenmei Holding	600271	Aisino	600380	Joicare Pharmaceutical Group Industry	600486	Jiangsu Yangnong Chemical	600565	Chongqing Dima Industry
600168	Wuhan Sanzhen Industry Holding	600276	Jiangsu Hengrui Medicine	600382	Guangdong Mingzhu Group	600487	Hengtong Optic-Electric	600566	Hubei Hongcheng General Machinery
600170	Shanghai Construction Group	600277	Inner Mongolia Yili Energy	600383	Gemdale Corporation	600488	Tianjin Tianyao Pharmaceutical	600567	Anhui Shanying Paper Industry
600171	Shanghai Belling	600278	Orient International Enterprise	600386	Beijing Bashi Media	600489	Zhongjin Gold	600568	Zhong Zhu Holding
600172	Henan Huanghe Whirlwind	600280	Nanjing Central Emporium (Group) Stocks	600387	Zhejiang Haiyue	600491	Long Yuan Construction Group	600570	Hundsun Technologies
600175	Meidu Holding	600284	Shanghai Pudong Road & Bridge Construction	600388	Fujian Longking	600495	Jinxi Axle	600571	Sunyard System Engineering
600176	China Fiberglass	600285	Henan Lingrui Pharmaceutial	600389	Nantong Jiangshan Agrochemical&Chemicals	600496	Changjiang & Jinggong Steel Building (Group)	600572	Zhejiang CONBA Pharmaceutical
600177	Youngor Group	600287	Jiangsu Sainty	600391	Sichuan Chengfa Aero-Science & Technology	600497	Yunnan Chihong Zinc&Germanium	600575	Wuhu Port Storage & Transportation
600183	Shengyi Technology	600289	Bright Oceans Inter-Telecom Corporation	600395	Guizhou Panjiang Refined Coal	600498	Fiberhome Telecommunication Technologies	600577	Tongling Jingda Special Magnet Wire
600185	Gree Real Estate	600292	CPI Yuanda Environmental-Protection(Group)	600396	Shenyang Jinshan Energy	600499	Keda Clean Energy	600578	Beijing Jingneng Power
600190	Jinzhou Port	600295	Inner Mongolia Eerduosi Resources	600397	Anyuan Coal Industry Group	600500	Sinochem International Corporation	600580	Wolong Electric Group
600193	Shanghai Prosolar Resources Development	600298	Angel Yeast	600398	Heilan Home	600501	Aerosun Corporation	600582	Tian Di Science & Technology
600195	China Animal Husbandry Industry	600300	V V Food & Beverage	600403	Henan Dayou Energy	600502	Anhui Water Resources Development	600583	Offshore Oil Engineering
600197	Xinjiang Yilite Industry	600307	Gansu Jiu Steel Group Hongxing Iron & Steel	600405	Beijing Dynamic Power	600503	Deluxe Family	600584	Jiangsu Changjiang Electronics Technology
600199	Anhui Golden Seed Winery	600309	Wanhua Chemical Group	600406	NARI Technology	600507	Fangda Special Steel Technology	600586	Shandong Jinjing Science & Technology Stock

**Figure 5: MMA eligible A shares—pure A share (cont'd)**

Stock code	Company	Stock code	Company	Stock code	Company	Stock code	Company	Stock code	Company
600200	Jiangsu Wuzhong Industrial	600310	Guangxi Guidong Electric Power	600409	Tangshan Sanyou Chemical Industries	600508	Shanghai Datun Energy Resources	600587	Shinva Medical Instrument
600201	Inner Mongolia Jinyu Group	600312	Henan Pinggao Electric	600410	Beijing Teamsun Technology	600509	Xinjiang Tianfu Energy	600588	Yonyou Software
600208	Xinhu Zhongbao	600315	Shanghai Jahwa United	600415	Zhejiang China Commodities City Group	600510	Black Peony(Group)	600589	Guangdong Rongtai Industry
600210	Shanghai Zijiang Enterprise Group	600316	Jiangxi Hongdu Aviation Industry	600418	Anhui Jianghuai Automobile	600511	China National Medicines Corporation	600594	Guizhou Yibai Pharmaceutical
600216	Zhejiang Medicine	600317	Yingkou Port Liability	600420	Shanghai Shyndec Pharmaceutical	600513	Jiangsu Lianhuan Pharmaceutical	600596	Zhejiang Xinan Chemical Industrial Group
600218	Anhui Quanchai Engine	600318	Anhui Chaodong Cement	600422	Kunming Pharmaceutical Corp.	600516	Fangda Carbon New Material	600597	Bright Dairy & Food
600219	Shandong Nanshan Aluminium	600321	Sichuan Guodong Construction	600425	Xinjiang Qingsong Building Materials and Chemicals(Group)	600517	Shanghai Zhixin Electric	600611	Dazhong Transportation(Group)
600221	Hainan Airlines	600323	Grandblue Environment	600426	Shandong Hualu-Hengsheng Chemical	600518	Kangmei Pharmaceutical	600612	Lao Feng Xiang
600227	Guizhou Chitianhua	600325	Huafa Industrial Zhuhai	600428	COSCO Shipping	600519	Kweichow Moutai	600614	Shanghai Dingli Technology Development (Group)
600230	Cangzhou Dahua	600327	Wuxi Commercial Mansion Grand Orient	600432	Jinlin Ji En Nickel Industry	600521	Zhejiang Huahai Pharmaceutical	600616	Shanghai Jinfeng Wine
600236	Guangxi Guiguan Electric Power	600329	Tianjin Zhongxin Pharmaceutical Group Corporation	600433	Guangdong Guanbao High-Tech	600522	Jiangsu Zhongtian Technology	600618	Shanghai Chlor-Alkali Chemical
600238	Hainan Yedao (Group)	600333	Changchun Gas	600435	North Navigation Control Technology	600523	Guizhou Guihang Automotive Components	600620	Shanghai Tianchen
600239	Yunnan Metropolitan Real Estate Development	600335	Sinomach Automobile	600436	Zhangzhou Pientzhuang Pharmaceutical	600525	Changyuan Group	600622	Shanghai Jiabao Industry & Commerce(Group)
600240	Beijing HOMYEAR Real Estate	600337	Markor International Furniture	600438	Tongwei	600526	Zhejiang Feida Environmental Science & Technology	600623	Double Coin Holdings
600624	Shanghai Fudan Forward S&T	600717	Tianjin Port	600827	Shanghai Friendship Group Incorporated Company	600987	Zhejiang Hangmin	601566	Joeone
600626	Shanghai Shenda	600718	Neusoft Corporation	600828	Chengshang Group	600990	Anhui Sun-Create Electronics	601567	Ningbo Sanxing Electric
600628	Shanghai New World	600720	Gansu Qilianshan Cement Group	600829	Harbin Pharm. Group Sanjing Pharmaceutical Shareholding	600993	Mayinglong Pharmaceutical Group	601608	CITIC Heavy Industries
600633	Zhe Jiang Daily Media Group	600723	Beijing Capital Retailing Group	600830	Sunny Loan Top	600995	Yunnan Wenshan Electric Power	601636	Zhuzhou Kibing Group
600635	Shanghai Dazhong Public Utilities(Group)	600724	Ningbo Fuda	600831	Shaanxi Broadcast & Tv Network Intermediary(Group)	600997	Kailuan Energy Chemical	601666	Pingdingshan Tianan Coal. Mining
600636	Shanghai 3F New Materials	600729	Chongqing Department Store	600832	Shanghai Oriental Pearl (Group)	600998	Jointown Pharmaceutical Group	601668	China State Construction Engineering Corporation



**Figure 5: MMA eligible A shares—pure A share (cont'd)**

Stock code	Company	Stock code	Company	Stock code	Company	Stock code	Company	Stock code	Company
600637	BesTV New Media	600739	Liaoning Cheng Da	600833	Shanghai No.1 Pharmacy	600999	China Merchants Securities	601669	Power Construction Corporation of China
600638	Shanghai New Huang Pu Real Estate	600741	HUAYU Automotive Systems	600835	Shanghai Mechanical & Electrical Industry	601000	Tangshan Port Group	601678	Befar Group
600639	Shanghai Jinqiao Export Processing Zone Development	600742	Changchun FAWAY Automobile Components	600839	Sichuan Changhong Electric	601001	Datong Coal Industry	601688	Huatai Securities
600641	Shanghai Wanye Enterprises	600743	Hua Yuan Property	600845	Shanghai Baosight Software	601002	Gem-Year Industrial	601699	Shanxi Lu'An Environmental Energy Development
600642	Shenergy	600747	Dalian Daxian Enterprises Holdings	600846	Shanghai Tongji Science&Technology Industrial	601006	Daqin Railway	601700	Changshu Fengfan Power Equipment
600643	Shanghai AJ Corporation	600748	Shanghai Industrial Development	600850	Shanghai East-China Computer	601009	Bank of Nanjing	601718	Jihua Group Corporation
600648	Shanghai Waigaoqiao Free Trade Zone Development	600750	Jiangzhong Pharmaceutical	600858	Silver Plaza Group	601010	Wenfeng Great World Chain Development Corporation	601777	Lifan Industry (Group)
600649	Shanghai Chengtuo Holding	600754	Shanghai Jin Jiang International Hotels Development	600859	Beijing Wangfujing Department Store (Group)	601012	Xi'An Longi Silicon Materials Corp.	601789	Ningbo Construction
600650	Shanghai Jin Jiang International Industrial Investment	600755	Xiamen ITG Group	600863	Inner Mongolia Mengdian Huaneng Thermal Power Corporation	601018	Ningbo Port	601799	Changzhou Xingyu Automotive Lighting Systems
600651	Shanghai Feilo Acoustics	600756	Inspur software	600864	Harbin Hatou Investment	601058	Sailun Group	601801	Anhui Xinhua Media
600654	Shanghai Feilo	600759	Hainan Zhenghe Industrial Group	600867	Tonghua Dongbao Pharmaceutical	601098	China South Publishing & Media Group	601877	Zhejiang Chint Electrics
600655	Shanghai Yuyuan Tourist Mart	600761	Anhui Heli	600869	Far East Cable Corp.	601099	The Pacific Securities	601886	Jangho Group
600657	Cinda Real Estate	600765	Avic Heavy Machinery	600872	Jonjee Hi-Tech Industrial and Commercial Holding	601100	Jiangsu Hengli Highpressure Oil Cylinder	601888	China International Travel Service Corporation
600658	Beijing Electronic Zone Investment and Development	600770	Jiangsu Zongyi	600873	Meihua Holdings Group	601101	Beijing Haohua Energy Resource	601901	Founder Securities
600660	Fuyao Glass Industry Group	600773	Tibet Urban Development and Investment	600879	China Aerospace Times Electronics	601106	China First Heavy Industries	601908	Beijing Jingyuntong Technology
600662	Shanghai Qiangsheng Holding	600776	Eastern Communications	600880	Chengdu B-Ray Media	601117	China National Chemical Engineering	601918	SDIC Xinji Energy
600663	Shanghai Lujiazui Finance & Trade Zone Development	600777	Yantai Xinchao Industry	600881	Jilin Yatai (Group)	601118	China Hainan Rubber Industry Group	601928	Jiangsu Phoenix Publishing&Media Corporation
600664	Harbin Pharmaceutical Group	600778	Xinjiang Youhao(Group)	600882	Shandong Hualian Mining Holdings	601126	Beijing Sifang Automation	601929	Jishi Media
600666	Southwest Pharmaceutical	600780	Top Energy Shanxi	600884	Ningbo Shanshan	601139	Shenzhen Gas Corporation	601933	Yonghui Superstores
600667	Wuxi Taiji Industry	600783	Luxin Venture Capital Group	600886	SDIC Power Holdings	601158	Chongqing Water Group	601958	Jinduicheng Molybdenum
600668	Zhe Jiang Jian Feng Group	600784	Luyin Investment Group	600887	Inner Mongolia Yili Industrial Group	601166	Industrial Bank	601965	China Automotive Engineering Research Institute

**Figure 5: MMA eligible A shares—pure A share (cont'd)**

Stock code	Company	Stock code	Company	Stock code	Company	Stock code	Company	Stock code	Company
600673	Guangdong Hec Technology Holding	600785	Yinchuan Xinhua Commercial (Group)	600888	Xinjiang Joinworld	601168	Western Mining	601989	China Shipbuilding Industry
600674	Sichuan Chuantou Energy	600787	CMST Development	600893	Xi'An Aero-Engine Plc	601169	Bank of Beijing	601996	Guangxi Fenglin Wood Industry Group
600675	China Enterprise	600790	Zhejiang China Light&Textile Industrial City Group	600895	Shanghai Zhangjiang Hi-Tech Park Development	601179	China XD Electric	603000	People.Cn
600676	Shanghai Jiao Yun Group	600794	Zhangjiagang Freetrade Science and Technology	600897	Xiamen International Airport	601208	Sichuan Em Technology	603001	Zhejiang Aokang Shoes
600677	Aerospace Communications Holdings	600795	GD Power Development	600900	China Yangtze Power	601216	Inner Mongolia Junzheng Energy & Chemical Industry	603077	Sichuan Hebang Corporation
600682	Nanjing Xinjiekou Department Store	600797	Insigma Technology	600963	Yueyang Forest & Paper	601222	Jiangsu Linyang Electronics	603128	CTS International Logistics Corporation
600684	Guangzhou Pearl River Industrial Development	600801	Huaxin Cement	600965	Fortune Ng Fung Food (Hebei)	601225	Shaanxi Coal Industry	603167	Bohai Ferry
600686	Xiamen King Long Motor Group	600804	Dr. Peng Telecom&Media Group	600967	Baotou Beifang Chuangye	601231	Universal Scientific Industrial(Shanghai)	603308	Anhui Yingliu Electromechanical
600687	Gansu Gangtai Holding(Group)	600805	Jiangsu Yueda Investment	600970	Sinoma International Engineering	601233	Tongkun Group	603366	Jiangsu Sunrain Solar Energy
600690	Qingdao Haier	600809	Shanxi Xinghuacun Fen Wine Factory	600971	Anhui Hengyuan Coal Industry and Electricity Power	601258	Pang Da Automobile Trade	603399	Jinzhou New China Dragon Molybdenum
600694	Dashang	600811	Orient Group Incorporation	600973	Baosheng Science and Technology Innovation	601311	Camel Group	603555	Guirenniao
600697	Chang Chun Eurasia Group	600816	Anxin Trust	600975	Hunan New Wellful	601313	SJEC Corporation	603699	Neway Valve (Suzhou)
600702	Sichuan Tuopai Shede Wine	600820	Shanghai Tunnel Engineering	600976	Wuhan Jianmin Pharmaceutical Groups	601369	Xi'An Shaangu Power	603766	Loncin Motor
600703	Sanan Optoelectronics	600823	Shanghai Shimao	600978	Guangdong Yihua Timber Industry	601377	Industrial Securities		
600704	Zhejiang Material Industrial Zhongda Yuantong Group	600824	Shanghai Yimin Commercial Group	600979	Sichuan Guangan AAA Public	601388	Ye Chiu Metal Recycling (China)		
600705	AVIC Capital	600825	Shanghai Xinhua Media	600983	Hefei Rongshida Sanyo Electric	601515	Shantou Dongfeng Printing		
600708	Shanghai Haibo	600826	Shanghai Lansheng Corporation	600985	Anhui Leimingkehua	601555	Soochow Securities		

Source: UBS-S

**Figure 6: 20 MMA eligible A shares with the lowest valuation (2014F PE)**

All eligible stocks (x)			All eligible stocks (excluding banks) (x)		
Shanghai Pudong Development Bank	600000.SH	3.6	China State Construction Engineering Corporation	601668.SH	3.7
China State Construction Engineering Corporation	601668.SH	3.7	Shenzhen Expressway	600548.SH	4.3
China Everbright Bank	601818.SH	3.8	Poly Real Estate Group	600048.SH	4.6
Industrial Bank	601166.SH	3.8	China Communications Construction	601800.SH	4.7
Hua Xia Bank	600015.SH	3.9	Power Construction Corporation of China	601669.SH	4.9
Bank of Communications	601328.SH	4.1	Beijing Urban Construction Investment & Development	600266.SH	5.1
Bank of China	601988.SH	4.1	China Railway Construction	601186.SH	5.3
China Construction Bank	601939.SH	4.2	Xiamen C&D Inc	600153.SH	5.4
Agricultural Bank of China	601288.SH	4.2	China Railway Group	601390.SH	5.6
China Merchants Bank	600036.SH	4.2	Shanghai Shimao	600823.SH	5.6
China CITIC Bank	601998.SH	4.2	Dashang	600694.SH	5.7
Industrial and Commercial Bank of China	601398.SH	4.2	GD Power Development	600795.SH	5.8
China Minsheng Banking	600016.SH	4.2	Shandong Hi-Speed	600350.SH	5.8
Shenzhen Expressway	600548.SH	4.3	Beijing Capital Development	600376.SH	5.9
Bank of Beijing	601169.SH	4.6	Jiangsu Yueda Investment	600805.SH	6.0
Poly Real Estate Group	600048.SH	4.6	Guangzhou Pearl River Industrial Development	600684.SH	6.0
China Communications Construction	601800.SH	4.7	HUAYU Automotive Systems	600741.SH	6.4
Power Construction Corporation of China	601669.SH	4.9	SAIC Motor	600104.SH	6.6
Bank of Nanjing	601009.SH	4.9	China Shenhua Energy	601088.SH	6.7
Beijing Urban Construction Investment & Development	600266.SH	5.1	Daqin Railway	601006.SH	6.7

Note: Based on closing price as of 22 July 2014. Market consensus. Source: Wind

**Figure 7: 20 MMA eligible A shares with the lowest valuation (2013 P/BV, EV/EBITDA)**

Stocks with the lowest P/BV (x)			Stocks with the lowest EV/EBITDA (x)		
Maanshan Iron & Steel	600808.SH	0.5	Dashang	600694.SH	0.79
Jiangxi Ganyue Expressway	600269.SH	0.6	Beijing Capital Retailing Group	600723.SH	0.80
Wuhan Iron and Steel	600005.SH	0.6	China United Network Communications	600050.SH	2.17
China Coal Energy	601898.SH	0.6	Xinjiang Youhao(Group)	600778.SH	2.65
Baoshan Iron & Steel	600019.SH	0.6	HUAYU Automotive Systems	600741.SH	2.77
Bank of Communications	601328.SH	0.6	Shanghai Friendship Group	600827.SH	2.77
China Communications Construction	601800.SH	0.6	Shanghai Mechanical & Electrical Industry	600835.SH	2.78
Yueyang Forest & Paper	600963.SH	0.6	Beijing Wangfujing Department Store (Group)	600859.SH	2.85
China Railway Group	601390.SH	0.6	Guangzhou Baiyun International Airport	600004.SH	3.30
Shandong Nanshan Aluminium	600219.SH	0.7	Shenergy	600642.SH	3.36
China Everbright Bank	601818.SH	0.7	China National Chemical Engineering	601117.SH	3.54
China Southern Airlines	600029.SH	0.7	China Shenhua Energy	601088.SH	3.57
Guangshen Railway	601333.SH	0.7	SAIC Motor	600104.SH	3.68
Henan Zhongyuan Expressway	600020.SH	0.7	Zhengzhou Coal Industry & Electric Power	600121.SH	3.89
Shandong Hi-Speed	600350.SH	0.7	Chongqing Department Store	600729.SH	3.96
China Shipping Development	600026.SH	0.7	Yang Quan Coal Industry (Group)	600348.SH	4.28
Cinda Real Estate	600657.SH	0.7	Top Energy Shanxi	600780.SH	4.32
China Railway Construction	601186.SH	0.7	Anhui Expressway	600012.SH	4.44
Power Construction Corporation of China	601669.SH	0.7	Beijing Jingneng Power	600578.SH	4.47
China State Construction Engineering Corporation	601668.SH	0.7	Fangda Special Steel Technology	600507.SH	4.47

Note: Based on closing price as of 22 July 2014. Source: Wind

**Figure 8: 20 MMA eligible A shares with the fastest net profit growth**

2010-13 NP growth CAGR		
Henan Pinggao Electric	600312.SH	380.0%
Xinjiang Guannong Fruit & Antler Group	600251.SH	268.7%
Hubei Hongcheng General Machinery	600566.SH	262.4%
Gansu Gangtai Holding(Group)	600687.SH	250.7%
Offshore Oil Engineering	600583.SH	219.5%
Huadian Power International Corporation	600027.SH	170.9%
Nanjing Panda Electronics	600775.SH	169.3%
Shanghai East-China Computer	600850.SH	156.2%
Shenyang Jinshan Energy	600396.SH	148.8%
Wuhu Port Storage & Transportation	600575.SH	140.3%
Jiangsu Sainty	600287.SH	139.0%
Nanjing Central Emporium (Group)	600280.SH	131.1%
Nantong Jiangshan Agrochemical&Chemicals	600389.SH	114.3%
Dashang	600694.SH	113.1%
Zhejiang China Light&Textile Industrial City Group	600790.SH	107.4%
Beijing Jingneng Power	600578.SH	101.4%
CPI Yuanda Environmental-Protection(Group)	600292.SH	100.2%
Lucky Film	600135.SH	97.4%
Shanghai Electric Power	600021.SH	88.2%
SDIC Power Holdings	600886.SH	87.2%

Source: Wind

**Figure 9: 20 MMA eligible A shares with the highest dividend yield**

2013 dividend yield (%)			2013 dividend yield (%)		
Anyuan Coal Industry Group	600397.SH	14.41	Beijing Jingneng Power	600578.SH	7.14
China Construction Bank	601939.SH	7.69	China Everbright Bank	601818.SH	7.14
Industrial and Commercial Bank of China	601398.SH	7.63	Bank of Communications	601328.SH	7.03
Bank of China	601988.SH	7.63	Shengyi Technology	600183.SH	6.80
Yingkou Port Liability	600317.SH	7.54	China Shenhua Energy	601088.SH	6.61
Agricultural Bank of China	601288.SH	7.50	Joeone	601566.SH	6.60
Inner Mongolia Mengdian Huaneng Thermal Power Corporation	600863.SH	7.50	Shuangliang Eco-Energy Systems	600481.SH	6.55
Shanghai Pudong Development Bank	600000.SH	7.28	Jiangsu Expressway	600377.SH	6.31
SAIC Motor	600104.SH	7.26	Daqin Railway	601006.SH	6.28
Youngor Group	600177.SH	7.18	China CITIC Bank	601998.SH	6.22

Note: Based on closing price as of 22 July 2014. Source: Wind

**Figure 10: 20 MMA eligible A shares with the highest ROE**

2013 ROE		
Nanjing Central Emporium (Group)	600280.SH	54.7%
China Fortune Land Development	600340.SH	49.5%
Hubei Hongcheng General Machinery	600566.SH	49.1%
Neway Valve (Suzhou)	603699.SH	41.3%
Kweichow Moutai	600519.SH	39.4%
Anxin Trust	600816.SH	37.4%
Great Wall Motor	601633.SH	33.2%
Jiangsu Sainty	600287.SH	32.7%
Qingdao Haier	600690.SH	32.6%
Guirenniao	603555.SH	32.5%
Wanhua Chemical Group	600309.SH	32.2%
NARI Technology	600406.SH	32.2%
Zhejiang Chint Electrics	601877.SH	31.5%
Citychamp Dartong	600067.SH	30.9%
Shantou Dongfeng Printing	601515.SH	30.3%
Lao Feng Xiang	600612.SH	29.2%
Nantong Jiangshan Agrochemical & Chemicals	600389.SH	28.2%
Tasly Pharmaceutical Group	600535.SH	28.1%
Jiangsu Yueda Investment	600805.SH	27.9%
Guangzhou Pearl River Industrial Development	600684.SH	27.4%

Source: Wind

## Statement of Risk

We believe the medium-term downside risks for the A-share market are: 1) a slowdown in investment in real estate new starts, leading to insufficient upstream demand; 2) as mid-to-long-term money market interest rates remain higher than the manufacturing EBIT margin, the manufacturing sector's willingness to invest remains weak; and 3) a gradual QE exit, outflow of domestic funds, a long-lasting decline in new funds outstanding for foreign exchange, and continued tight liquidity.

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Neutral	FSR is between -6% and 6% of the MRA.	41%	30%
Sell	FSR is > 6% below the MRA.	11%	23%
UBS Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 30 June 2014.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category. 4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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Company Name	Reuters 12-month rating	Short-term rating	Price	Price date
Anhui Conch Cement - A <sup>13, 16a</sup>	600585.SS	Buy	N/A	Rmb17.6023 Jul 2014
Bank of Beijing	601169.SS	Buy	N/A	Rmb6.7423 Jul 2014
Baosteel <sup>3, 4, 5</sup>	600019.SS	Buy	N/A	Rmb4.2823 Jul 2014
China Auto Research Institute	601965.SS	Buy	N/A	Rmb12.1823 Jul 2014
China Construction Bank - A <sup>2, 4, 5, 16a</sup>	601939.SS	Buy	N/A	Rmb3.9323 Jul 2014
China CYTS Tours Holding	600138.SS	Buy	N/A	Rmb21.2323 Jul 2014
China International Travel Service	601888.SS	Buy	N/A	Rmb30.4623 Jul 2014
China Merchants Bank - A <sup>2, 4, 16a</sup>	600036.SS	Buy	N/A	Rmb10.0723 Jul 2014
China Pacific Insurance - A	601601.SS	Buy	N/A	Rmb19.2023 Jul 2014
China Petroleum and Chemical Corp - A <sup>2, 4, 16a, 16b</sup>	600028.SS	Buy	N/A	Rmb5.0223 Jul 2014
China Shenhua Energy - A <sup>4, 16a</sup>	601088.SS	Buy	N/A	Rmb13.8823 Jul 2014
China Yangtze Power	600900.SS	Buy	N/A	Rmb6.4723 Jul 2014
CITIC Securities - A <sup>16a</sup>	600030.SS	Buy	N/A	Rmb12.1223 Jul 2014
CSR Corp - A	601766.SS	Buy	N/A	Rmb5.0623 Jul 2014
Daqin Railway <sup>13</sup>	601006.SS	Buy	N/A	Rmb7.0223 Jul 2014
Fuyao Glass <sup>1, 4, 5, 13</sup>	600660.SS	Buy	N/A	Rmb8.7923 Jul 2014
Guizhou Yibai Pharmaceutical	600594.SS	Buy	N/A	Rmb39.6023 Jul 2014
Haitong Securities - A <sup>2, 4, 5, 16a</sup>	600837.SS	Buy	N/A	Rmb9.3423 Jul 2014
Huaneng Power International - A <sup>16b</sup>	600011.SS	Buy	N/A	Rmb6.1823 Jul 2014
Industrial & Commercial Bank of China A <sup>2, 4, 5, 16a</sup>	601398.SS	Buy	N/A	Rmb3.4423 Jul 2014
Inner Mongolia Eerduosi Cashmere Product	600295.SS	Buy	N/A	Rmb7.5023 Jul 2014
Inner Mongolia Yili Industrial	600887.SS	Buy	N/A	Rmb23.2323 Jul 2014
Jiangsu Expressway - A	600377.SS	Buy	N/A	Rmb6.1223 Jul 2014
Jiangsu Hengrui Medicine	600276.SS	Buy	N/A	Rmb32.1423 Jul 2014
Jiangsu Kanion Pharmaceutical	600557.SS	Buy	N/A	Rmb26.0023 Jul 2014
Jiangsu Linyang Electronics	601222.SS	Buy	N/A	Rmb22.8023 Jul 2014
Jonjee Hi-Tech Industrial and Commercial	600872.SS	Buy	N/A	Rmb9.9423 Jul 2014
Kweichow Moutai	600519.SS	Buy	N/A	Rmb163.8923 Jul 2014
NARI Technology Development	600406.SS	Buy	N/A	Rmb14.6623 Jul 2014
Offshore Oil Engineering	600583.SS	Buy	N/A	Rmb7.1923 Jul 2014
People.cn	603000.SS	Neutral	N/A	Rmb32.5023 Jul 2014
Ping An Insurance (Group) - A <sup>13, 16a, 22</sup>	601318.SS	Buy	N/A	Rmb41.0823 Jul 2014
Poly Real Estate <sup>2, 4</sup>	600048.SS	Buy	N/A	Rmb5.7923 Jul 2014
Qingdao Haier Co.	600690.SS	Buy	N/A	Rmb15.5223 Jul 2014
SAIC Motor	600104.SS	Buy	N/A	Rmb16.7123 Jul 2014
Sanan Optoelectronics	600703.SS	Buy	N/A	Rmb13.0723 Jul 2014
Shanghai International Airport <sup>13</sup>	600009.SS	Buy	N/A	Rmb13.2723 Jul 2014
Shanghai International Port (Group)	600018.SS	Neutral	N/A	Rmb4.4223 Jul 2014
Shanghai Jahwa United	600315.SS	Buy	N/A	Rmb34.0523 Jul 2014
Shinva Medical Instrument	600587.SS	Buy	N/A	Rmb29.7223 Jul 2014
Tonghua Dongbao Pharmaceutical	600867.SS	Buy	N/A	Rmb12.4023 Jul 2014

Company Name	Reuters 12-month rating	Short-term rating	Price	Price date
<b>Tsingtao Brewery - A</b>	600600.SS	Neutral	N/A Rmb40.19	23 Jul 2014
<b>Xiamen Faratronic</b>	600563.SS	Buy	N/A Rmb38.95	23 Jul 2014
<b>Yantai Wanhua Polyurethanes</b>	600309.SS	Buy	N/A Rmb15.45	23 Jul 2014
<b>Yonghui Superstores</b>	601933.SS	Buy	N/A Rmb6.99	23 Jul 2014
<b>Yonyou Software</b>	600588.SS	Buy	N/A Rmb14.26	23 Jul 2014
<b>Zhejiang Chint Electric</b>	601877.SS	Buy	N/A Rmb21.82	23 Jul 2014
<b>Zhejiang Huahai Pharmaceutical</b>	600521.SS	Buy	N/A Rmb11.96	23 Jul 2014
<b>Zhengzhou Yutong Bus</b>	600066.SS	Buy	N/A Rmb17.80	23 Jul 2014
<b>Zhongjin Gold</b>	600489.SS	Neutral	N/A Rmb7.77	23 Jul 2014

Source: UBS. All prices as of local market close.

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