Resistance turns support

Sector Performance*	
Outperformers	**Underperformers**
Energy, consumer goods, financials	Materials, industrial goods, services, telecommunications, utilities, properties & construction, IT, conglomerates

** Based on HSCI Indexes*

Market Highlights

After almost two weeks of rallies that were just interrupted by a moderate setback on Monday, profit taking intensified as the HSI breached the 22,000 mark during Thursday's mid-session with an increased turnover of nearly $80b. By the time the index reached an intraday high of 22,250, the rallies had amounted to 1,875 points, or over 9%, in the run-up that started on 5 October. Despite the pullback, the index still ended Thursday with a 113-point gain at a fresh closing high of 21,999. The strength of the banking counters helped keep the index in positive territory, as other constituents generally succumbed to profit taking, except oil plays that continued to be buoyed by firmer oil prices. **HSBC Holdings (0005.HK, $89.70, HOLD)** and the China banks still posted significant gains for the day.

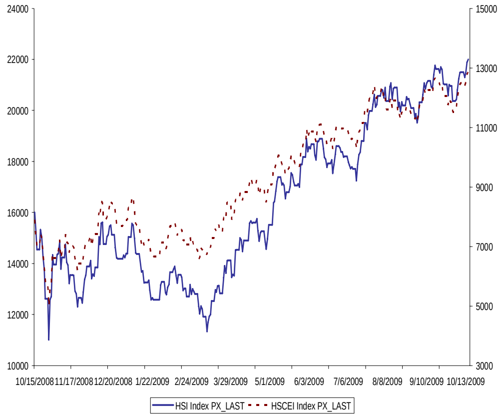
Positive quarterly earnings reports provided the major excitement for Wall Street, and this was felt by other markets around the world. The earnings surprises from Intel and JPMorgan Chase were especially pertinent, as they confirmed the ongoing recovery in the bellwether IT and financial industries. **Lenovo Group (0992.HK, $4.53, HOLD)** may deserve a re-rating, as the more bullish projection for chip demand from Intel means a fast pick-up in PC sales ahead. Intel was especially upbeat about the demand for chips used in traditional notebook PCs, which has been more robust than that for low-end netbooks. This should be particularly positive for Lenovo, which has kept its marketing focus on notebooks. Elsewhere, the auto sector was a star performer on the back of a 34% yoy rise in 9M09 vehicle sales to 9.7m in mainland China. The industry is on track to reach a sales target of 12m this year, a trend that should sustain next year; carmakers are betting that the various vehicle purchase incentives would remain in place after their expiry at the end of this year. Vehicle distributor **DCH Holdings (1828.HK, $3.43, BUY)** remains a bargain.

Company/Industry News Focus

The People's Bank of China released the much-awaited monetary statistics for September, which showed larger-than-expected new lending for the month. Expectations had been lowered by the earlier news that last month the Big Four had granted this year's lowest monthly total of Rmb110b of new loans, while the actual figure for all banks came in at Rmb517b, speeding up from Rmb410b in August. As such, new loans granted in 9M09 soared 149% to Rmb8.67t. Loan growth was up 34.2% yoy to Rmb39.0t, or 33.8% after including foreign currency loans with a relatively slower growth rate. Concerns of a contraction in liquidity were unfounded as M2 grew 29.3% yoy.

The implications for China banks are still positive, as the central bank appears to have tolerated the fast credit creation. In fact, the excess liquidity issue could also be attributed to the upsurge in capital inflow with China's foreign exchange reserve reaching US$2.27t at

HSI and HSCEI - 12M



Market Statistics

Indices	Day Hi	Day Lo	Close	Change
HSI (Blue Chips)	22,250	21,971	21,999	+113(+0.5%)
HSCCI (Red Chips)	4,183	4,125	4,130	+3(+0.1%)
HSCEI (H-shares)	13,046	12,841	12,860	+82(+0.6%)
GEMI (GEM)	686	675	683	+12(+1.7%)

Total Mkt Turnover ($m):	80,415	YTD Daily Avg:	61,028
Main Board	**79,952**	**99%**	**60,751**
Blue Chips	28,999	36%	
Red Chips	8,451	11%	
H-shares	22,659	28%	
GEM Board	**463**	**1%**	**277**

HSI Futures	Hi	Lo	Close	Change
Oct	22,280	21,946	22,003	+95
Vol / Open int.	59,099 /	86,018		
Nov	22,220	21,896	21,955	+95
Vol / Open int.	625 /	1,037		

HSCEI Futures	Hi	Lo	Close	Change
Oct	13,067	12,787	12,815	-14
Vol / Open int.	34,655 /	81,936		
Nov	13,060	12,791	12,812	-15
Vol / Open int.	618 /	1,204		

Moving Averages

	10-day	50-day	250-day
HSI	21,250	20,813	16,402
HSCEI	12,295	11,962	9,261

Other Key Asian Market Indexes

Indexes	Close	Change
AOI (Australia)	4,860	+29 (+0.6%)
Composite Index (Kuala Lumpur)	1,247	+0 (+0.0%)
CSI 300	3,240	+12 (+0.4%)
KOSPI (Korea)	1,659	+10 (+0.6%)
Nikkei 225 (Japan)	10,239	+178 (+1.8%)
SET Index (Thailand)	701	-31 (-4.2%)
Shanghai A-shares	3,127	+10 (+0.3%)
Shenzhen A-shares	1,077	+4 (+0.4%)
Straits Times Index (Singapore)	2,709	+0 (+0.0%)
TAIEX (Taiwan)	7,710	+15 (+0.2%)

Source: Bloomberg

end-September, up 19.3% yoy. This may have helped contribute to a 27.8% yoy increase in total deposits to Rmb59.8t. To address the excess liquidity issue, deeper reforms are needed in China's capital markets, such as opening up fund-raising channels to foreign enterprises to absorb the country's foreign currency reserve. China Investment Corp. is effectively doing this job overseas, but exclusively for the central government's coffers.

Strategy

The market is just a bit nervous awaiting a break in the HSI's rising streak. However, the strong performances of selected sectors indicate that investors are just looking for alternative buying ideas. Among the losers, the pullback of gold stocks should be temporary, as investors believe the US dollar will remain weak in the long term, though it will be hard to find an internationally acceptable currency to replace the greenback in the foreseeable future. Upstream players remain our favorites with signs that commodity prices will remain resilient. On the whole, we expect the HSI to consolidate at around 22,000 as it makes its way up toward the year-end rally.
Analyst: Marco Mak

Daily Spotlights

Sichuan Expressway (0107.HK, $3.30, BUY)

- Thanks to the company's better-than-expected 1H09 results and resilient toll income growth, we have penciled up our FY09 and FY10 earnings forecasts by 16% and 14% to Rmb758m and Rmb880m. The company possesses solid earnings growth prospects on the back of both its organic and acquisition growth. Based on a forward FY10 P/E of 11.8x, we recommend accumulation on the toll road stock with a revised target price of $3.80.
- Since the company adopted merger accounting for the acquisition of the entire shareholding of Sichuan Chengle Expressway, which was satisfied by a total consideration of Rmb1.1b and completed on 30 June, its historical results have been restated to include SCE's contribution. Boosted by a solid 14% top-line growth and effective cost control, SE's 1H09 bottom line jumped 34% yoy to Rmb414m.
- As a compensation for the nil dividend payment last year pending the A-share issuance, the company declared a generous interim DPS of Rmb0.13. Management has pledged to resume payouts of not less than 40% of its distributable profits for three consecutive years after the completion of its A-share issue on 27 July, compared to its average payout ratio of 38% during FY97-07.
- The Chengyu, Chengya and Chengle expressways, and the Chengbei Exit Expressway, which shared the company's 1H09 toll income in a 49:28:18:5 mix, reported 8%, 16%, 29% and 19% yoy leaps in toll income during 1H09. The encouraging performance was partly due to a lower base for comparison, as SE's toll operation was affected by the snowstorms and Sichuan earthquake in 1H08, while post-earthquake reconstruction projects induced additional traffic demand.
- Though the stipulated tax rate has been modified to 25% with the unification of the tax rates for foreign and domestic enterprises starting 1 January 2008, the profit tax rate for the group will remain at 15% till FY10-end, as the tax policies promoting the development of western China will continue to apply until the end of the preferential period.
- Having won the bid for the BOT contract for the Chengdu-Meishan section of the Chengdu-Zigong-Luzhou-Chishui Expressway, the company is mulling further expansion opportunities. It plans to purchase the Chengnan Expressway and the Sichuan section of the Suiyu Expressway before the end of this year. The addition of these three highways will increase the total attributable length of its toll road portfolio by some 80%. *Analyst: Cho Fook Tat*

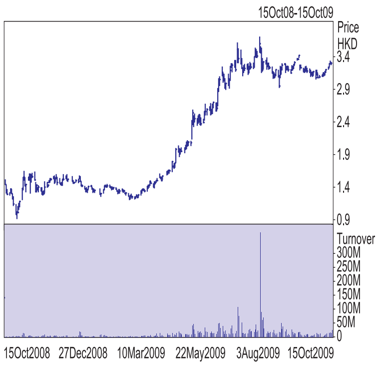
Price Information **(H-shares)**

Issued shares: 895.3m (29.3% of total issued shares)
Current market cap: $2,954m
Target price: $3.80 **Next** 12M: +15%
Past 1M: +3%; 3M: +2%; 12M: +129%

P/L Information

Y/E: 31/12	FY08	FY09F	FY10F
Net profit	Rmb544m	Rmb758m	Rmb880m
EPS	Rmb21.3 cents	Rmb27.3 cents	Rmb28.8 cents
	+10%	*+28%*	*+5%*
DPS	-	Rmb17.0 cents	Rmb12.0 cents
P/E	13.6	10.6	10.1
Yield	-	5.9%	4.1%

Share Price - 12M



Sinolink Worldwide Holdings (1168.HK, $1.64, BUY)

- On the heels of the late September placement of $500m in convertible bonds, on 9 October Sinolink announced a top-up placing of 290m shares by its major shareholder at $1.87 apiece, diluting its stake from 47.6% to 43.7% after the sale and subscription transactions. The placement, expanding Sinolink's issued share capital by 8.8%, raised about $525m. As of mid-09, Sinolink sat on a net cash position of $2.7b. As all of its existing projects are expected to be completed in the coming three years, the developer is eager to replenish its land bank and may have identified some targets.
- We believe the Huangpu District plot 8-1 site at the Bund in Shanghai is one of the sites Sinolink is aiming for. It has been offered for bidding by the local government on 24 September. The site, covering an area of 57,276 m^2 with 270,000 m^2 of developable GFA, is one of the city's best located for comprehensive use. Based on the accommodation value of Rmb36,481/m^2 and Rmb33,826/m^2 achieved on two nearby sites in mid-September, the value of plot 8-1 could reach Rmb10b. Given the massive investment required for the development, Sinolink may team up with other partners at the auction, which will be held next January.
- Sinolink quadrupled its turnover to $1,450m for 1H09 and the bottom line rose nearly sevenfold to $498m. The results were boosted by surging property sales which made up 96% of revenue in 1H09, with the rest from rental income, property management and others, which in total dropped 5% yoy. Gross margin tumbled from 70% in 1H08 to 59% in 1H09 as more lower-priced units were sold at its luxury project Mangrove West Coast in Shenzhen.
- As the recent fund-raising exercises will only lower our estimated fully-diluted NAV slightly from $2.90/share to $2.82/share, we maintain our Buy recommendation with a target price of $1.97, based on a 30% discount to our revised NAV estimate. *Analyst: Danielle Wang*

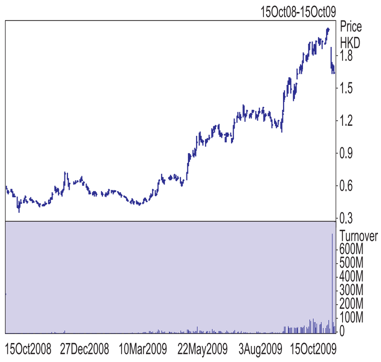
Price Information

Issued shares: 3,588.3m
Current market cap: $5,885m
Target price: $1.97 **Next** 12M: +20%
Past 1M: -9%; 3M: +30%; 12M: +188%

P/L Information

Y/E: 31/12	FY08	FY09F	FY10F
Net profit	$343m	$697m	$688m
EPS	10.4 cents	19.4 cents	19.2 cents
	-71%	*+86%*	*-1%*
DPS	5.0 cents	5.8 cents	5.8 cents
P/E	15.7	8.4	8.5
Yield	3.0%	3.6%	3.5%

Share Price - 12M



Tracking of HSI Constituents

SEHK Code	Stock	Close ($)	Change (%)	Turnover ($m)	P/E (x)	Yield (%)	Index Change	Weighting (%)
	Finance							**50.5**
5	HSBC Hldgs	89.70	1.3	2468.8	26.6	5.1	41.1	14.6
11	Hang Seng Bank	112.20	(0.4)	288.3	15.2	5.6	(1.5)	1.5
23	Bank of E Asia	29.45	1.4	131.6	1619.7	0.8	2.9	1.0
388	HKEx	140.30	0.3	1091.9	29.4	3.1	1.7	2.7
939	CCB	6.82	1.5	2388.9	15.0	3.2	26.0	8.1
1398	ICBC	6.25	0.3	1961.0	16.7	3.0	4.8	6.8
2318	Ping An	66.95	0.6	434.6	1476.3	0.3	2.2	1.7
2388	BOC Hong Kong	17.66	0.3	843.0	55.9	2.5	0.9	1.1
2628	China Life	35.60	(1.0)	1818.7	41.8	0.7	(10.1)	4.7
3328	Bankcomm	10.26	1.0	402.4	15.6	2.2	5.4	2.5
3988	Bank of China	4.50	1.8	2183.3	15.9	3.3	23.5	6.0
	Utilities							**4.6**
2	CLP Hldgs	52.50	0.1	140.5	12.1	4.7	0.4	1.7
3	HK & China Gas	19.86	0.5	134.2	30.8	1.8	1.5	1.4
6	HK Electric	42.10	(0.2)	139.4	11.2	5.0	(0.5)	1.0
836	China Res Power	17.32	0.5	237.1	42.7	0.7	0.6	0.6
	Properties							**9.6**
1	Cheung Kong	100.40	0.3	680.7	15.0	2.4	1.6	2.4
12	Henderson Land	53.20	(1.8)	130.9	7.1	2.1	(3.9)	1.0
16	SHK Prop	117.80	(1.0)	526.6	29.2	2.1	(7.1)	3.2
83	Sino Land	15.06	1.1	152.6	19.5	2.7	1.5	0.6
101	Hang Lung Prop	29.00	(1.7)	173.9	29.0	2.3	(4.0)	1.1
688	China Overseas	17.48	1.3	332.3	27.0	0.7	3.5	1.3
	Com & Ind							**35.3**
4	Wharf (Hldgs)	40.10	(1.0)	138.4	17.6	2.0	(2.1)	1.0
13	Hutchison	54.45	(0.5)	617.6	13.2	3.2	(2.1)	2.0
17	New World Dev	16.74	0.7	156.9	30.4	1.8	1.2	0.7
19	Swire Pacific 'A'	93.15	0.1	210.4	23.9	2.6	0.2	1.5
66	MTR Corporation	28.00	1.8	240.6	19.0	1.7	2.8	0.7
144	China Mer Hldgs	26.55	0.8	272.8	18.1	2.6	0.8	0.5
267	CITIC Pacific	21.00	0.5	125.2	-3.7	1.4	0.5	0.5
291	China Resources	24.95	2.0	118.4	25.7	1.6	2.3	0.5
293	Cathay Pac Air	13.42	0.3	102.7	-6.2	0.2	0.2	0.3
330	Esprit Hldgs	55.20	1.7	410.1	14.5	5.2	4.1	1.1
386	Sinopec Corp	7.05	0.3	1037.0	18.1	1.9	1.3	2.1
494	Li & Fung	34.50	3.9	315.7	49.8	1.7	13.2	1.6
700	Tencent	138.30	0.4	790.4	78.6	0.3	1.9	2.4
762	China Unicom	10.86	(1.3)	300.2	35.5	2.1	(3.9)	1.4
857	PetroChina	10.00	0.4	2010.5	14.0	3.2	3.3	3.7
883	CNOOC	12.02	1.0	1426.5	10.7	3.3	8.3	3.8
941	China Mobile	78.35	(0.8)	2431.8	12.3	3.5	(15.1)	8.3
1088	China Shenhua	35.05	0.1	682.7	23.1	1.5	0.7	2.1
1199	COSCO Pacific	12.14	3.8	124.3	12.8	3.1	1.9	0.2
2038	FIH	6.05	6.7	398.5	45.4	0.0	3.1	0.2
2600	CHALCO	9.13	(0.1)	428.111841.8		0.7	(0.2)	0.6

Source: Bloomberg, HSI Services Ltd.

Tracking of HSCEI Constituents

SEHK Code	Stock	Close ($)	Change (%)	Turnover ($m)	P/E (x)	Yield (%)	Index Change	Weighting (%)
168	Tsingtao Brew	30.95	(3.0)	37.9	51.0	0.9	(1.8)	0.5
177	Jiangsu Express	6.34	(0.8)	54.6	17.5	4.8	(0.3)	0.3
323	Maanshan Iron	5.07	0.8	242.6	43.1	0.0	0.3	0.3
338	Shanghai Pechem	3.31	(2.4)	63.0	-3.4	0.0	(0.8)	0.3
347	Angang Steel	16.00	3.8	688.7	34.1	1.5	2.8	0.6
358	Jiangxi Copper	18.70	0.9	691.4	21.7	0.5	1.0	0.9
386	Sinopec Corp	7.05	0.3	1037.0	18.1	1.9	1.5	4.1
390	China Railway	6.66	(0.6)	177.3	93.1	0.0	(0.7)	1.0
489	Dongfeng Group	9.74	5.2	364.0	18.3	0.5	6.1	1.0
552	China Comservice	4.28	(1.2)	73.9	16.3	2.4	(0.4)	0.3
576	Zhejiangexpress	6.89	(0.4)	61.2	13.9	5.1	(0.2)	0.3
694	Beijing Airport	5.35	(2.6)	35.6	235.6	0.0	(1.2)	0.3
728	China Telecom	3.85	0.5	405.5	339.3	2.2	1.2	1.8
753	Air China	4.67	0.4	65.7	-5.3	0.0	0.2	0.4
857	PetroChina	10.00	0.4	2010.5	14.0	3.2	3.7	7.2
902	Huaneng Power	5.08	(2.7)	411.3	-13.6	2.2	(1.9)	0.5
914	Anhui Conch	56.35	(1.1)	57.0	32.1	0.6	(1.2)	0.8
939	CCB	6.82	1.5	2388.9	15.0	3.2	29.0	15.4
991	Datang Power	4.03	(1.0)	212.1	59.2	3.1	(0.6)	0.5
998	CITIC Bank	5.63	2.2	462.2	14.6	1.7	3.6	1.3
1088	China Shenhua	35.05	0.1	682.7	23.1	1.5	0.8	4.1
1133	Harbin Power	7.53	(0.9)	61.5	8.8	1.1	(0.2)	0.2
1138	China Ship Dev	11.68	(0.2)	125.4	6.5	2.9	(0.1)	0.5
1171	Yanzhou Coal	11.98	0.3	196.0	8.0	3.8	0.4	0.8
1186	China Rail Cons	10.84	(1.5)	210.6	29.5	1.0	(1.5)	0.8
1211	BYD Company	76.60	3.9	1113.6	135.0	0.0	10.1	2.1
1398	ICBC	6.25	0.3	1961.0	16.7	3.0	5.5	13.4
1800	China Comm Cons	8.97	(0.1)	208.6	19.3	1.2	(0.2)	1.4
1898	China Coal	10.88	(0.2)	334.0	17.8	1.6	(0.4)	1.5
1919	China COSCO	10.24	0.0	577.9	7.9	3.2	0.0	0.9
2318	Ping An	66.95	0.6	434.61476.3		0.3	2.5	3.2
2328	PICC P & C	5.57	(1.2)	144.81227.7		0.0	(0.8)	0.5
2600	CHALCO	9.13	(0.1)	428.111841.8		0.7	(0.2)	1.2
2628	China Life	35.60	(1.0)	1818.7	41.8	0.7	(11.5)	9.1
2727	SH Electric	3.86	(1.0)	37.1	16.0	1.8	(0.5)	0.4
2777	R&F Properties	14.60	0.8	167.9	13.2	2.2	0.5	0.5
2866	CSCL	3.09	(1.0)	192.2	680.9	0.0	(0.5)	0.4
2883	China Oilfield	8.58	2.5	246.8	11.0	1.9	1.4	0.5
2899	Zijin Mining	8.10	(3.3)	246.0	32.4	1.4	(5.0)	1.1
3323	CNBM	18.00	0.1	156.1	23.3	0.3	0.1	0.7
3328	Bankcomm	10.26	1.0	402.4	15.6	2.2	6.1	4.9
3968	CM Bank	18.78	2.8	1139.4	15.0	0.5	7.9	2.2
3988	Bank of China	4.50	1.8	2183.3	15.9	3.3	26.8	11.7
3993	CMOC	6.62	0.5	49.8	17.1	2.7	0.2	0.3

Source: Bloomberg, HSI Services Ltd.

Note: Announced historical figures are used in computing yield and P/E ratio.

Ten Largest Gainers

SEHK Code	Stock	Price ($)	Change (%)
8048	Excel Tech.	0.119	+40.0
143	Global Tech.	0.066	+37.5
1166	Solartech Int'l	0.163	+30.4
8239	Ming Kei Energy	0.074	+29.8
8061	AcrossAsia Ltd	0.092	+26.0
348	Lung Cheong	0.390	+21.9
990	Theme Int'l	0.900	+20.1
735	China Power	0.520	+19.1
8230	Shenzhen Dongjiang	2.900	+16.9
381	Kiu Hung	0.350	+16.7

Source: Bloomberg

Ten Largest Losers

SEHK Code	Stock	Price ($)	Change (%)
689	EPI Hldgs	0.235	-16.1
767	China Star	0.510	-15.0
630	Jackin Int'l	0.570	-14.9
8015	Qianlong Tech.	0.680	-13.9
8130	Brilliant Arts	0.210	-12.5
2953	Easyknit Enterprises	0.440	-12.0
399	United Gene	0.495	-11.6
8100	M Dream	0.132	-11.4
8198	MelcoLot Ltd	0.315	-11.3
1178	Vitop Bioenergy	0.112	-10.4

Source: Bloomberg

Ten Most Active

SEHK Code	Stock	Price ($)	Turnover ($m)
119	Poly Hong Kong	9.63	4250.0
5	HSBC	89.70	2470.0
941	China Mobile	78.35	2430.0
939	CCB	6.82	2390.0
3988	Bank of China	4.50	2180.0
857	PetroChina	10.00	2010.0
1398	ICBC	6.25	1960.0
2628	China Life	35.60	1820.0
883	CNOOC	12.02	1430.0
2823	iShares FTSE	14.22	1170.0

Source: Bloomberg

Notes: (1) "$" refers to HK dollars throughout this report unless otherwise stated. (2) Share prices and indices are as of 15 Oct 09 (HSI: 21,999)

Recommendation Policy
BUY if current price is more than 10% below AFV.
HOLD if current price within +/-10% from AFV.
SELL if current price is more than 10% above AFV.

AFV (Assessed Fair Value) is arrived at based on various appropriate valuations, including P/E, Yield, NAV, DCF, EV/EBITDA, and management quality, etc, with regard to prevailing interest rates and comparative valuations.