

Major Market Indicators

	7 Feb	6 Feb	3 Feb
Mkt. Turn.(mn)	61,415	72,135	63,439
Stock Advances	461	678	682
Stock Declines	617	457	404
HSI	20,699	20,709	20,756
Change	-11	-47	+17
HSI Turn.(\$mn)	20,438	24,415	20,156
HSCEI	11,500	11,564	11,605
Change	-65	-40	+22
HSCEI Turn.(\$mn)	13,591	17,348	15,563

HSI Technical Indicators

10-days MA	20,484
50-days MA	19,024
250-days MA	21,043
14-days RSI	69.7
Secondary resistance	21,500
Primary resistance	21,000
Primary support	20,484
Secondary support	20,000

HSI Chart



Source: Reuters

HSCEI Technical Indicators

10-days MA	11,396
50-days MA	10,367
250-days MA	11,468
14-days RSI	66.5
Secondary resistance	12,000
Primary resistance	11,750
Primary support	11,000
Secondary support	10,500

HSCEI Chart



The Hang Seng Index is expected to trade at 20,700-21,000 today

Since the Greece government has further pushed back its talk on budget cut, investors are concerned on the uncertainty of the issue, US stock slightly declined on Monday. Local stocks opened 98 points higher on Tuesday, however it turned to loss in later session. The Hang Seng Index finished the day at 20,699, lost 10 points while H share index fell 65 points to 11,499. Market turnover reduced to HK\$61.4bn. China Telecom (0728) continued its recent weakness and fell 0.5% whilst China Unicom (0762) rebounded 3.2%. China Insurance (2628) plunged 2.2% amid the retreated A-share market. Solar energy plays have seen buying interest, GCL-POLY (3800) soared 6.1%.

Since Greece government has not reached the budget cut deal, US stock market opened lower on Tuesday. However, there are market talks afterward saying that a final draft is being prepared, together with good corporate earnings from Coca Cola, US stock market reversed early loss. The Dow and the Nasdaq added 33 points (to 12,878) and 2 points (to 2,904) respectively. On the other hand, commodity price rebounded, oil price rose US\$1.5 per barrel to US\$98.4 while gold price added US\$23 to US\$1,748 per ounce. Local blue chips performed well on the US ADR market, which will help the local stock market to open higher on Wednesday. However, the volatile performance of A share market which might cap the upside for HK stock market in the near term. Besides, investors short term focus will eye on the Greece debt issue and mainland CPI to be released on Thursday.

Technical Analysis

Hang Seng closed with gyro on Tuesday. Technically, MACDs gaps continue narrowed, showing that market momentum is turning weak. The first resistance would be 21,000, while next resistance would be 21,500. For support, the first support would be 10DMA (20,484), while next support would be seen at 20,000.

Refined Product Price Increase

- NDRC announced that China will raise the retail prices for gasoline and diesel by Rmb300 per tonne starting Feb. 8. The government official said that the price increase have already been delayed due to CNY factor.

HSI Futures

	7 Feb	6 Feb	3 Feb
Feb	20,781	20,661	20,755
Volume	71,832	65,761	56,171
Open interests	89,873	88,397	86,026
Mar	20,734	20,618	20,708
Volume	726	789	666
Open interests	6,043	5,953	6,156

HSCEI Futures

	7 Feb	6 Feb	3 Feb
Feb	11,570	11,533	11,608
Volume	43,663	39,604	40,326
Open interests	108,047	106,894	106,930
Mar	11,578	11,538	11,635
Volume	206	146	505
Open interests	4,546	4,567	4,571

Ten Most Active Stocks

Stock	Code	Chg (\$)	Close (\$)	Turn (\$mn)
ICBC	1398	-0.010	5.45	1,517
CCB	0939	-0.060	6.32	1,341
TENCENT	0700	-2.200	183.60	1,213
HSBC				
HOLDINGS	0005	+0.500	68.40	1,053
BANK OF CHINA	3988	-0.040	3.35	1,032
CNOOC	0883	+0.200	16.78	998
CHINA LIFE	2628	-0.500	22.75	989
CHINA MOBILE	0941	+0.300	77.95	941
SINOPEC CORP	0386	-0.060	9.28	780
AIA	1299	-0.050	25.75	738

- The last time for NDRC to adjust refined product price is in Oct 2011. Both gasoline and diesel retail price cut by Rmb300 per ton. Hence, the latest price upward adjustment will push gasoline and diesel price to last year high level.
- Refined product price increase will favor those have sizable downstream operations companies like Sinopec(0386.HK) and PetroChina(0857.HK). However, as international oil price keep going up, it will offset the impact of refined price adjustment, we believe the two mentioned oil companies refinery operation earnings are still depressed.
- In fact, Sinopec share price performed well in the recent months, which is driven by speculation on the launch of a new pricing adjustment mechanism for refined product. However, NDRC officials revealed that the new mechanism is still waiting for consensus which might imply it could not launch in the short term. Together with strong oil price, we expect CNOOC (0883.HK) to outperform the sector in the near term.

Discount on interest rate of first home buyers

- The PBC initialed diversified housing credit policies last year in order to adjust the mainland property market. Encouraged the first suite mortgaged rate to use benchmark, while mortgage rate of second homes must 1.1 times higher than the benchmark. However, given the contraction of property turnover, banks recently cut rate to attract buyer.
- According to sources, some banks in cities, such as Beijing, Shenzhen and Guangzhou branches, offer first time homes buyers of interest rate discount. Some of promotions mainly corporate with large developers on first hand projects sales. Besides, clients must have certain amount of deposit in the banks. While the first home mortgage rate discount ranged from 5% to 10% off. It is expected that the mortgage rate concessions would help to enhance the purchasing power.
- With the downward adjustment of mainland deposit reserve ratio, bank capital is beginning to loosen, so can offer better rate to attract customers, it is expecting that the mortgage interest rate is in downtrend. However, we believe that the bank launched mortgage rate discount was only individual cases, which does not mean the relaxation of regulation.
- At the same time, the actual trading of residential sales in Mainland remains weak, and the turnover of major cities in January hit recent low. It is expected that the January sales of Mainland property counter is not optimistic. With the low turnover and property price may further adjusted. It is expecting the profit margin of mainland developers will under pressure.

ZTE (0763.HK)

1. Company:

The Group is principally engaged in the design, development, production, distribution, installation and maintenance of a broad range of advanced telecommunications systems and equipment. The Group sold its product to clients over 60 countries in the world.

2. Revenue breakdown:

Geographically speaking, China, Asia (not include China), Africa, Europe and US, accounted for 44.3%, 18.2%, 13.4% and 24.1% respectively.

3. Reasons:

3Q11 Revenue Rose 14% yoy: ZTE 3Q11 operating profit dropped 38% yoy to Rmb299mn, but it is mainly due to Euro depreciation resulted in forex loss of Rmb1bn. Its sale revenue rose 14% yoy to Rmb21bn.

Aggressively Explore International Market, will be its Long term earnings driver: Aggressively explore international market, which hurt its gross margin in the near term. However, it will be long term earnings driver for the Group.

Benefit from strong demand on Intelligent Phone: Benefit from strong demand of low cost 3G intelligent phone handset as well as the potential market for TD_LTE, we expect intelligent phone to be ZTE major earnings driver in the future.

4. Financial estimation and Analysts recommendation:

Rmb mn	FY10	FY11	FY12	FY13	Brokers	Rating	Target price	Report issue date
Revenue	70,264	85,409	104,043	124,801	Nomura	Buy	31.00	6-Feb-12
Net profit	3,250	3,188	3,927	4,718	JP	Buy	26.00	3-Feb-12
EPS	0.975	0.943	1.162	1.391	CLSA	Buy	27.30	1-Feb-12

5. **Recommendation:** Share price oversold. Target price: HK\$24.20, Stop Loss:HK\$20.00.

Cheung Kong Infa (1038.HK)

6. Company:

The principal activities of the Group are engaged in development, investment and operation of infrastructure businesses in Hong Kong, the Mainland, Australia, New Zealand, the United Kingdom, Canada and the Philippines. Major shareholder Hutchison (0013.HK) holds 84.6% stake.

7. Revenue breakdown:

.HK Electric (0006.HK) accounted for 35% of CKI's 1H11 operating profit while UK and Australian business accounted for 42% and 23% respectively.

8. Reasons:

Interim Profit Rose 96% yoy: Thanks to the contribution from the UK Power Network acquired in 2010, its interim profit rose 96% yoy..

Privatization of Europe Utilities Favor CKI: Given the finance need of Europe government, they will privatize some of their utilities operation. The trend will favor to CKI for further acquisition.

Have Sufficient Financial Resources for Future Acquisition: After the acquisition of UK water business, CKI net debt to cash ratio remained low at 19% which will have sufficient financial resources for future acquisition

9. Financial estimation and Analysts recommendation: The estimated net profit for 2011 would be HK\$7,525mn. The earning per share of 2011 and 2012 would be HK\$3.279 and HK\$3.566 respectively.

HK\$ mn	FY10	FY11	FY12	FY13	Brokers	Rating	Target price	Report issue date
Revenue	2,814	3,499	3,845	3,924	JP Morgan	Buy	50.00	19-Jan-12
Net profit	5,028	7,525	8,204	8,486	Samsung	Buy	55.00	13-Jan-12
EPS	2.23	3.279	3.566	3.704	Goldman Sachs	Neutral	49.00	1-Dec-11

10. Recommendation: Target price: HK\$47.50, Stop Loss: HK\$39.00.

KGI Quarterly Stocks Pick Data

Code	Company	Last close price (HK\$)	2011 EPS (HK\$)	2012 EPS(HK\$)	2011 P/E	2012 P/E
38	First Tractor	8.70	0.64	0.83	13.6	10.5
135	Kunlun Energy	12.66	0.74	0.91	17.1	13.9
270	Guangdong	4.70	0.42	0.46	11.1	10.3
316	OOIL	47.50	2.02	2.09	23.6	22.8
338	Shanghai Pechem	3.02	0.33	0.40	9.1	7.6
392	Beijing Ent	45.25	2.51	2.93	18.0	15.4
525	Guangdong	2.90	0.31	0.31	9.4	9.3
688	China Overseas	14.48	1.54	1.70	9.4	8.5
728	China Telecom	4.30	0.27	0.31	16.0	13.9
751	Skyworthdigital	3.49	0.46	0.52	7.6	6.7
823	Link REIT	28.10	1.27	1.36	22.1	20.6
857	Petrochina	11.60	0.95	1.04	12.3	11.1
880	SJM	14.22	1.00	1.17	1.2	12.2
1171	Yanzhou	19.18	0.59	0.72	32.6	26.7
1193	China Res	11.34	0.49	0.55	23.1	20.7
1288	ABC	3.84	0.72	0.82	5.4	4.7
1299	AIA	25.75	1.17	1.66	21.9	15.5
1828	DCH Holdings	10.06	0.83	0.97	12.2	10.3
2238	GAC group	8.16	0.80	0.96	10.2	8.5
2388	BOC HK	20.90	1.82	1.75	11.5	11.9

Economic Calendar

Date	Country	Event
Feb 9	Thur	U.S. 02/04 Initial Claims
Feb 9	Thur	U.S. 01/28 Continuing Claims
Feb 10	Fri	U.S. Dec Trade Balance
Feb 10	Fri	U.S. Feb Mich Sentiment

Result / Dividend Announcement Schedule

Date	Stock	Code	Event	Forecast Earning	Actual earning (per share)
08/02/2012	Wed	SMIC	0981.HK	Results	
09/02/2012	Thur	Lenovo Group	0992.HK	Results	
09/02/2012	Thur	Manulife-S	0945.HK	Final Results	

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