21 August 2009

Equity Strategy
Pan-Asia

HSBC Global Research

AI – Asia Insights

A rationale for re-rating

- **We find a neat theoretical explanation for Asia's re-rating**
- **Volatility relative to the US has fallen sharply over the past two years, justifying much lower equity risk premiums**
- **On the new ERPs, Asian markets remain below fair value**

Asian equities have been dramatically re-rated relative to the rest of the world since late last year. Since October, MSCI Asia ex Japan has outperformed MSCI World by 35% (Chart 1). Partly this is just a matter of beta: in the first nine months of the 1998-9 rally, too, Asia outperformed by 47% and in 2003 by 16%. But there has also been a strong feeling (although perhaps waning a little recently) among global investors that Asia will be the only place to invest in over coming years, as the US and Europe stumble from the after-effects of deleveraging and the unwinding of fiscal and monetary stimulus.

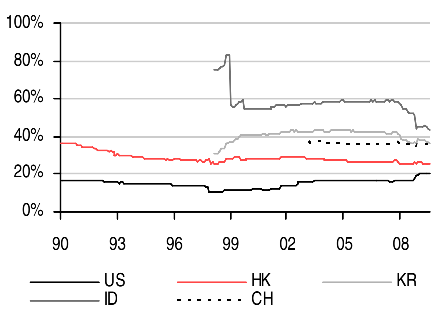
An Asian re-rating "is all very well in practice, but does it work in theory?", to quote the French proverb. When we recently reworked the assumptions we use to calculate country equity risk premiums, we stumbled across a neat theoretical explanation of why Asia deserves to be re-rated – and why, despite PEs being somewhat high relative to history, Asian stock markets may actually still be below fair value.

Our valuation methodology assumes that a market's riskiness can be estimated from its historical volatility in USD terms over the past 10 years, relative to the volatility of the US. As chart 2 shows, Asian 10-year volatility has fallen sharply in the past two years, partly because the Asia crisis has fallen out of the data (and also out of investors' minds) but, more importantly, because US volatility rose more in 2007-8 than Asian volatility did. The effect of this is to reduce our equity risk premiums in Asia considerably: China's falls to 6% from 7.5%, Korea's to 6.5% from 8%, Indonesia's to 7.5% from 11.5%.

1. MSCI Asia ex Japan relative to MSCI World

Source: HSBC, Datastream

2. Annualised 10-yr m-o-m volatility, MSCI indexes



Source: HSBC, Datastream

Issue no. 86
Garry Evans*
Strategist
The Hongkong and Shanghai Banking Corporation Limited
+852 2996 6916
garry.evans@hsbc.com.hk

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HSBC strategy recommendations

Market Recommendations

Market	HSBC recommendation	Previously	Rel Perf 3 mnth	End-2009 target	Current index	Change (%)
Japan	Underweight	Underweight	-1.6%	850	943	-9.9%
Australia	Neutral	Neutral	10.5%	3,800	4,374	-13.1%
China	Over	Over	1.1%	60	58	4.1%
Korea	Under	Under	0.1%	1,300	1,546	-15.9%
Taiwan	Neutral	Neutral	-10.6%	7,000	6,789	3.1%
Hong Kong	Over	Over	2.0%	20,000	19,954	0.2%
India	Neutral	Neutral	-8.3%	14,000	14,810	-5.5%
Singapore	Over	Over	-0.6%	2,500	2,523	-0.9%
Malaysia	Over	Over	2.2%	1,100	1,156	-4.8%
Indonesia	Under	Under	14.1%	1,800	2,278	-21.0%
Thailand	Under	Under	3.3%	550	631	-12.9%
Philippines	Under	Under	3.6%	2,300	2,761	-16.7%
New Zealand	Under	Under	-1.1%	n.a	2,094	n/a
Pakistan	Under	Under	-2.9%	n/a	7,953	n/a
Vietnam	No weight	No weight	16.1%	450	508	-11.5%

Source: HSBC

Sector Recommendations

Sector	HSBC recommendation	Previously	Rel Perf 3 mnth	Markets overweight	Markets underweight
Financials	Neutral	Neutral	1.1%	CH, IN	KR, SG
Industrials	Over	Over	-1.8%	HK, SG, TW	
IT	Neutral	Neutral	0.5%		
Consumer discretionary	Over	Neutral	4.8%	CH, TW	KR
Materials	Under	Under	3.5%		CH, IN
Telecoms	Neutral	Under	-3.7%		
Consumer staples	Neutral	Neutral	0.5%	IN	KR, TW
Utilities	Under	Under	-7.5%		HK
Energy	Neutral	Over	-9.2%		
Healthcare	Under	Under	0.2%		

Source: HSBC

HSBC Asia Super Ten

Code	Company	Country/region	Sector	Analyst	Price (local, 19 Aug)	Target price	Upside to target (%)	HSBC rating	Mkt cap (USDm)
2409 TT	AU Optronics	Taiwan	Electronic Equipment	Frank Su	33.70 (TWD)	51.46 (TWD)	52.7	OW(V)	8,958
3328 HK	Bank of Communications	China	Commercial Banks	Todd Dunivant	9.07 (HKD)	11.00 (HKD)	21.3	OW(V)	59,857
688 HK	China Overseas Land & Inv	China	Real Estate	Louisa Fok	17.46 (HKD)	21.60 (HKD)	23.7	OW(V)	18,397
1072 HK	Dongfang Electric Corp	China	Electrical Equipment	Gary Chiu	34.20 (HKD)	38.40 (HKD)	12.3	OW(V)	4,648
JM SP	Jardine Matheson	Singapore	Conglomerates	Mark Webb	29.00 (USD)	35.50 (USD)	22.4	OW(V)	18,409
030200 KS	KT Corp	Republic Of Korea	Diversified Telecoms	Tucker Grinnan	38,400 (KRW)	54,000 (KRW)	40.6	OW	8,042
005930 KS	Samsung Electronics	Republic Of Korea	Semiconductors	Nam Park	730,000 (KRW)	940,000 (KRW)	28.8	OW(V)	86,247
700 HK	Tencent Holdings Ltd.	China	Internet	Tucker Grinnan	114.70 (HKD)	150.00 (HKD)	30.8	OW(V)	26,709
2303 TT	United Microelectronics	Taiwan	Semiconductors	Steve Pelayo	13.05 (TWD)	15.50 (TWD)	18.8	OW(V)	5,143
763 HK	ZTE Corporation	China	Communications Equip.	Tucker Grinnan	35.80 (HKD)	41.00 (HKD)	14.5	OW(V)	8,515

Note: HSBC's Asia Super Ten is drawn from stocks with a market cap greater than USD5bn, on which HSBC analysts have an Overweight rating and which fit our strategist's overall sector preferences.
Source: HSBC

The value of valuation

We have never claimed that valuation is the be-all-and-end-all of strategy analysis. After all, to quote one example, China H shares have traded at a forward PE in the range of 7-25x over the past two years. What information does that give you about what their fair value trading range could possibly be?

Valuation analysis is useful, however, in a number of specific ways. It is important to give analysts a rough cost of equity assumption (i.e. equity risk premium plus risk-free rate) for their DCF models and to help them make a call on how much they have to assume a stock will rise before it counts as an Overweight. From a macro point of view, too, disaggregating the assumptions (in terms of growth, interest rates or risk) that are behind a market's valuation often gives useful information on where consensus expectations are.

Pared back to its bare bones, strategy is simply a matter of making calls on the three key elements in the Gordon Growth model:

$P=D/(k-G)$

where a market's fair value is driven by D (dividends in one year's time), k (the cost of equity) and G (the future growth rate of dividends). The three key elements are growth, and the two components of k: interest rates and risk.

But how to calculate risk

Of these, risk is the hardest to calculate. Over the past five years or so, HSBC's global strategy team has developed a methodology for calculating the equity risk premium of each country based simply on the volatility of its MSCI index in USD terms relative to that of the US.

We do this because the historic outperformance of equities over bonds is easy to calculate for the US, given the availability of a long (and reliable) series of historic data for that market, but much harder in most other countries. When we originally carried out the work, for the 20 years to 2005, we found that the ERP in the US came out at about 3.5%. For a market that had double the volatility of the US, therefore, we apply an ERP of 7%. (The US was – and still is – the least volatile market in the world.) We chose to take the annualised volatility of monthly data over the past 10 years – which we figured was about the period that investors had in mind when they considered where to invest. To avoid spurious accuracy (and having to make too frequent changes to the numbers) we rounded the ERPs to the nearest 0.5%.

We have updated the calculations about once every 12 or 18 months. But when we reran the data this summer (for the first time since the start of 2008), we found something rather surprising had happened: the ERPs for Asia had fallen rather sharply (Table 3). Only Australia saw a rise in the premium; other markets saw rather dramatic declines.

3. HSBC assumptions for equity risk premium (%)

	New ERP	Old ERP	Change (ppts)
Japan	3.5	4.5	-1.0
Australia	4.5	3.5	1.0
China	6.0	7.5	-1.5
Hong Kong	4.5	5.5	-1.0
India	6.5	7.0	-0.5
Indonesia	7.5	11.5	-4.0
Malaysia	4.0	6.5	-2.5
Philippines	5.5	7.5	-2.0
Singapore	4.5	5.5	-1.0
Republic Of Korea	6.5	8.0	-1.5
Taiwan	5.5	6.0	-0.5
Thailand	5.5	9.0	-3.5

Source: HSBC

And the reason was quite simple: stock market volatilities relative to the US had fallen sharply (Table 4). In the 10 years to July 2009, the volatility of the US market averaged 20.3%, compared to 16.4% in the 1997-2007 period. By contrast, some Asian markets saw volatility actually fall: most spectacularly in Indonesia to 43.0% from 57.7%, but also in bigger markets such as Korea. And, even when volatility rose, it was by much less than in the US. Taiwan's volatility, for example, rose to 31.6% from 29.5% but it fell to 1.56x US volatility compared to 1.79x in the earlier period.

4. 10-year annualised stock market volatility

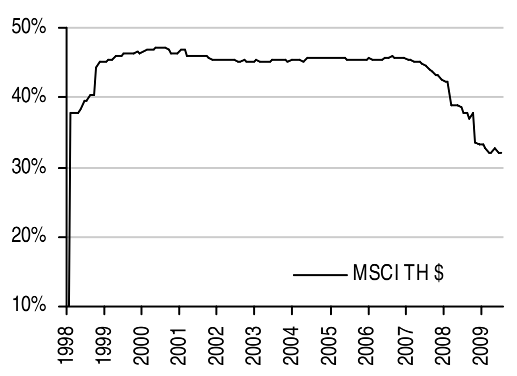
	1999-2009	Rel to US	1997-2007	Rel to US
US	20.3%		16.4%	
Australia	25.3%	1.24	19.7%	1.20
China	34.9%	1.72	36.4%	2.21
Hong Kong	25.8%	1.27	25.8%	1.57
India	37.6%	1.85	32.3%	1.97
Indonesia	43.0%	2.12	57.7%	3.51
Japan	20.8%	1.03	20.5%	1.25
Korea	36.2%	1.78	40.5%	2.46
Malaysia	21.6%	1.06	31.5%	1.92
Philippines	30.6%	1.51	35.1%	2.13
Singapore	25.8%	1.27	25.7%	1.56
Taiwan	31.6%	1.56	29.5%	1.79
Thailand	32.1%	1.58	42.5%	2.59
Asia ex-Japan	26.6%	1.31	24.1%	1.47
Asia Pacific	21.0%	1.03	18.5%	1.12

Source: HSBC, Datastream

Why did Asian volatility fall relative to the US? There are three main reasons:

- The 1997-8 Asian crisis fell out of the data. This was particularly noticeable for Asean markets. Thailand, for example, saw the 10-year volatility fall from around 45% in 2000-7 to only 32% (Chart 5). But isn't this just an artificial trick of the data-period we chose? Not entirely. We would argue that it does also reflect (if a little crudely) investors' perceptions: no one any longer expects a repeat of the Asia crisis, whereas back in 2003 this was more at the forefront of their minds.

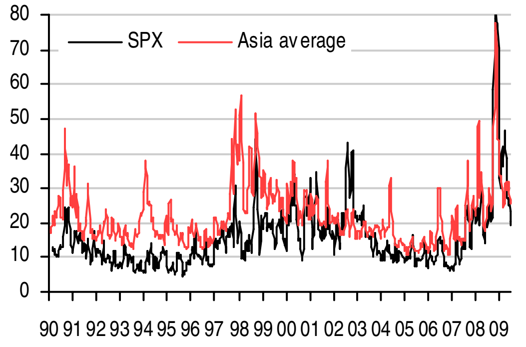
5. 10-year average volatility of MSCI Thailand



Source: HSBC, Datastream

- More importantly, Asian volatility did not rise as much as US volatility during the credit crunch of 2007-8 – perhaps not surprising given that the problems emanated from the US. As Chart 6 shows, 10-day historic volatility in Asia (using an average of 12 local indexes) was typically much higher than SPX volatility in the 1990s, a little higher in the 2003-6 period, but then very similar during the spike in 2007-8: both peaked at around 80%.

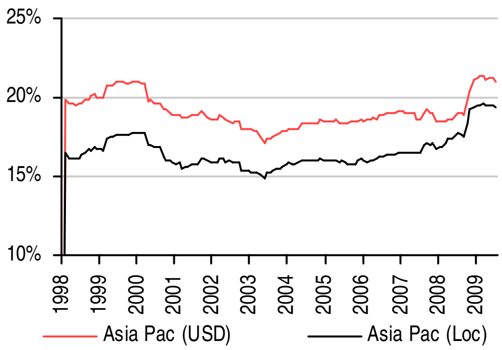
6. 10-day historic volatility



Source: HSBC, Bloomberg

- Lower currency volatility. As Asian currencies have become more closely pegged to the USD, and the great currency volatility of the 1990s has fallen out of the data, the gap between 10-year index volatility in USD and in local currency terms has narrowed. For Asia Pacific as a region this is shown in Chart 7. It is particularly significant in markets such as Indonesia and Thailand which suffered currency crises in the late 1990s. Less obviously, the volatility of the yen and Malaysian ringgit has also fallen in recent years.

7. Volatility of MSCI AP in USD and local currency terms



Source: HSBC, Datastream

Impact of lower risk premiums

As you can imagine, the new lower ERP assumptions make a big difference when applied to DCF or dividend discount models.

Regular readers will be familiar with the three-stage dividend discount model we have used for some years to value markets (Table 8).

Stage (1) uses analysts' consensus forecasts for 12 and 24 months' time. For stage (2), we make some assumptions (based on history) about the growth rate and duration of a period of super-normal growth (in the case of both India and China, for example, we assume 12% annual EPS growth will continue for 12 years). And we have a terminal stage (3) where we assume 6% growth in perpetuity in each market (except Japan, where we assume only 4% because of its demographic issues). We also make some assumptions about the dividend payout ratio (not shown here).

Using the new equity risk premiums (and current 10-year US treasuries as the risk-free rate, except for Australia, where we use the local government bond yield), we find that every market currently looks undervalued relative to calculated fair value, in some cases dramatically so: Singapore 53% too cheap, Malaysia 59%, even MSCI China 41%. The only markets that appear to be close to fair value are Korea, Japan and Indonesia.

By contrast, most markets did not look cheap on our old ERP assumptions. As shown in the bottom line in Table 8, seven out of the 12 markets were overvalued previously, Indonesia by as much as 91% and Korean by 40%. Only Australia (which now looks less undervalued under a higher ERP assumption) and Singapore looked good value previously.

What could be wrong

Does this make any sense? In general, we think it does. Asia is less risky relative to the US than it was previously (although, let us be clear, it is still riskier than the US – just less so than before). That is because of the region's current account surpluses, relatively robust banking systems and increasingly diversified stock markets. And the rational expectation of growth rates in Asia is that they should not slow significantly compared to what has been achieved over the past 10 years. Compared to developed economies, then, the risk/growth trade-off for Asia looks preferable. In our view, Asia deserves a premium.

8. HSBC dividend discount model, MSCI indexes

Inputs	AU	CH	HK	ID	IN	JP	MY	KR	PH	SG	TH	TW
Stage 1: next 2 years forecast EPS growth (%)	9.6	16.9	9.8	11.7	18.0	n/m	7.8	27.8	13.4	6.8	16.1	52.1
Growth in stage 2 (%)	8.0	12.0	7.0	12.0	12.0	6.0	8.0	8.0	9.0	9.0	9.0	7.0
No. of years of excess growth	10	12	10	12	12	10	10	10	10	10	10	10
Stage 3: perpetual growth (%)	6.0	6.0	6.0	6.0	6.0	4.0	6.0	6.0	6.0	6.0	6.0	6.0
COE (%)	9.5	9.5	8.0	11.0	10.0	7.0	7.5	10.0	9.0	8.0	9.0	9.0
Result												
Under/over valued (%)	-22.5	-40.7	-21.5	-9.2	-19.1	-8.4	-59.4	-5.2	-32.6	-52.9	-47.4	-16.9
…using old ERP	-43.1	-8.3	15.9	91.0	-6.1	22.3	10.9	40.4	11.7	-29.2	22.2	-3.9

Source: HSBC

Where could our assumptions be wrong?

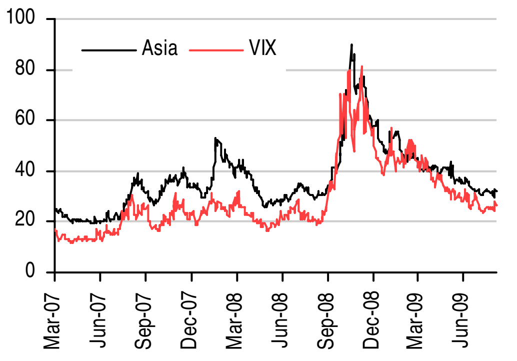
- Our US equity risk premium assumption could be too low. If we update the calculation of the US ERP to include the 2005-9 period, it comes out at 3.65%. Our rounding methodology still, therefore, still justifies 3.5% but it is not far away from our needing to round it up to 4%. And perhaps investors will make a rational judgement that stock markets will be more volatility for the next few years than they have been in the past 10.

- Asian growth could slow. As stock markets become more mature and less volatile, this may be a sign that growth is maturing too. Perhaps it is excessive to think that China can continue to see earnings growth of 12% for more than a decade to come. For the moment, though, we think there are still good arguments to believe that this level of growth can continue.

- Asian volatility relative to the US could rise again. This might happen, for example, if the US recovers more quickly than the consensus currently believes, or if the problems in the financial system are now largely fixed. Indeed, the VIX has fallen this year faster than Asian implied volatility, getting back to around 25%, with a discount to Asian volatility similar to that in 2007 (Chart 9). Perhaps last year was an anomaly. If this situation continues for a while, our Asian ERPs might rise again when we next refresh our calculations.

But, in the end, we don't see any of these objections being powerful enough to override the conclusion that, given its continuing strong growth and risk that is much lower than in the past, Asian equities continue to offer good long-term value.

9. Implied volatility of US and Asia markets



Source: HSBC, Bloomberg

Changes to Asia Super Ten

We have made two deletions and two additions to our list of Asia Super Ten stocks, to reflect analyst rating changes and stock price moves. The full list of Super Ten stocks, with up-to-date target prices is shown on p2 of this AI.

- We remove **Hindustan Unilever** (HUVR IN, Neutral, INR258.60), which our analyst recently lowered from Overweight. We see the pros and cons of the FMCG sector now very finely balanced: on the negative side, valuations are high, margin expansion is likely to be limited in future, ad-spend is increasing and the monsoon has been poor. We set a target price for Hindustan Unilever based on a 26x 2011e EPS (5-year average 25x). Upside risks are better margin expansion and market share increase; downside risks are sluggish volume growth and more intense competition. (See *Indian FMCG – Take a breather*, 6 August 2009 for details.)

- We remove **Samsung Fire and Marine Insurance** (000810 KS, Overweight (V), KRW208,000) since the stock has risen by 9% since the start of the quarter. Our target price of KRW227,000 is based on 2.4x 2010e BV (growth model assumes 19% ROE, 10.8% COE, 5% growth rate). Key downside risks include lower premium growth and a price war in the auto segment.

- We add **United Microelectronics** (2303 TT, Overweight (V), TWD13.05). Valuation, at a PB of 1.0x, is well below historic ranges, particularly in comparison to TSMC. Fundamentals are improving, with the company's 3Q guidance looking for higher ASPs and utilisation – but this is not yet priced in. Our target price of TWD15.50 is based on a PB of 1.2x. Risks to our rating include: weak end-demand, relatively high customer concentration, potential increased competition, struggles with the technology roadmap.
- We add **China Overseas Land** – also known as COLI (688HK, Overweight (V), HKD17.46) to give us more exposure to liquidity-driven sectors in general, and to China property in particular. We particularly like this stock because COLI has an efficient land bank, a disciplined land acquisition strategy and a strong balance sheet. Our target price of HKD21.6 is based on a 10% premium to our 12-month forward NAV estimate. Risks to our investment view include delays in projects, unexpected tightening measures for the property sector and weaker-than-expected economic growth in China. (See our most recent report, *1H results highlight margin stabilisation*, 14 August 2009, for details.)

HSBC Asia Super Ten - valuation summary

Code	Company	HSBC rating	Price (local, 19 Aug)	Target price	Valuation method	Key risks
2409 TT	AU Optronics	OW(V)	33.70 (TWD)	51.46 (TWD)	1.2x 09e BV (hist. avg. PB)	LCD TV demand could disappoint.
3328 HK	Bank of Communications	OW(V)	9.07 (HKD)	11.00 (HKD)	2.5x 1H10e BV (20.0% ROE, 11.5% COE, 6.0% growth)	Fee income growth, asset quality, NIM recovery, NPL coverage.
688 HK	China Overseas Land & Inv	OW(V)	17.46 (HKD)	21.60 (HKD)	10% premium to 12m fwd NAV of HKD19.65	Project delays and unexpected policy tightening.
1072 HK	Dongfang Electric Corp	OW(V)	34.20 (HKD)	38.40 (HKD)	15x 09/10e avg. EPS (hist. avg. PE). Blend with DCF (9.9% WACC, 2% term. growth)	Delay in commissioning new turbine facility; slower economic activity.
JM SP	Jardine Matheson	OW(V)	29.00 (USD)	35.50 (USD)	30% disc. to appraised valuation of USD51 (top of hist. range)	Consumption drop in Dairy Farm's markets; fall in HK Land's rentals or commodity prices.
030200 KS	KT Corp	OW	38,400 (KRW)	54,000 (KRW)	10x FY10e EPS (3-yr avg.)	Competition pushing up marketing spend, higher 4G spectrum costs.
005930 KS	Samsung Electronics	OW(V)	730,000 (KRW)	940,000 (KRW)	Avg. of: 1) 2.3x 09e BV, 2) SOTP using industry avg. EV/EBITDA, 3) DCF (12% WACC)	Stronger KRW, new TFT-LCD capacity, price erosion in key products.
700 HK	Tencent Holdings Ltd.	OW(V)	114.70 (HKD)	150.00 (HKD)	DCF (10.84% WACC, 4% term. growth)	Margin pressure from telco-content players, game item transaction risk.
2303 TT	United Microelectronics	OW(V)	13.05 (TWD)	15.50 (TWD)	1.2x 09/10e BV (below hist. trough)	Weak end-demand, customer concentration, technology roadmap issues.
763 HK	ZTE Corporation	OW(V)	35.80 (HKD)	41.00 (HKD)	21.7x 10e EPS (hist. 40% prem. to MSCI China)	Lower global capex and higher receivables/financing costs.

Note: HSBC's Asia Super Ten is drawn from stocks with a market cap greater than USD5bn, on which HSBC analysts have an Overweight rating and which fit our strategist's overall sector preferences.
Source: HSBC

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Disclosure appendix

Analyst certification

The following analyst(s), who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Garry Evans, Frank Su, Todd Dunivant, Louisa Fok, Gary Chiu, Mark Webb, Tucker Grinnan, Nam Park, Steven Pelayo, Percy Panthaki and John Russell

Important disclosures

Stock ratings and basis for financial analysis

HSBC believes that investors utilise various disciplines and investment horizons when making investment decisions, which depend largely on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations. Given these differences, HSBC has two principal aims in its equity research: 1) to identify long-term investment opportunities based on particular themes or ideas that may affect the future earnings or cash flows of companies on a 12 month time horizon; and 2) from time to time to identify short-term investment opportunities that are derived from fundamental, quantitative, technical or event-driven techniques on a 0-3 month time horizon and which may differ from our long-term investment rating. HSBC has assigned ratings for its long-term investment opportunities as described below.

This report addresses only the long-term investment opportunities of the companies referred to in the report. As and when HSBC publishes a short-term trading idea the stocks to which these relate are identified on the website at www.hsbcnet.com/research. Details of these short-term investment opportunities can be found under the Reports section of this website.

HSBC believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings and other considerations. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations. Investors should carefully read the definitions of the ratings used in each research report. In addition, because research reports contain more complete information concerning the analysts' views, investors should carefully read the entire research report and should not infer its contents from the rating. In any case, ratings should not be used or relied on in isolation as investment advice.

Rating definitions for long-term investment opportunities

Stock ratings

HSBC assigns ratings to its stocks in this sector on the following basis:

For each stock we set a required rate of return calculated from the risk free rate for that stock's domestic, or as appropriate, regional market and the relevant equity risk premium established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the implied return must exceed the required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However, stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Prior to this, from 7 June 2005 HSBC applied a ratings structure which ranked the stocks according to their notional target price vs current market price and then categorised (approximately) the top 40% as Overweight, the next 40% as Neutral and the last 20% as Underweight. The performance horizon is 2 years. The notional target price was defined as the mid-point of the analysts' valuation for a stock.

From 15 November 2004 to 7 June 2005, HSBC carried no ratings and concentrated on long-term thematic reports which identified themes and trends in industries, but did not make a conclusion as to the investment action that potential investors should take.

Prior to 15 November 2004, HSBC's ratings system was based upon a two-stage recommendation structure: a combination of the analysts' view on the stock relative to its sector and the sector call relative to the market, together giving a view on the stock relative to the market. The sector call was the responsibility of the strategy team, set in co-operation with the analysts. For other companies, HSBC showed a recommendation relative to the market. The performance horizon was 6-12 months. The target price was the level the stock should have traded at if the market accepted the analysts' view of the stock.

Rating distribution for long-term investment opportunities

As of 20 August 2009, the distribution of all ratings published is as follows:

Overweight (Buy)	34%	(34% of these provided with Investment Banking Services)
Neutral (Hold)	43%	(29% of these provided with Investment Banking Services)
Underweight (Sell)	23%	(30% of these provided with Investment Banking Services)

Information regarding company share price performance and history of HSBC ratings and price targets in respect of its long-term investment opportunities for the companies the subject of this report,is available from www.hsbcnet.com/research.

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HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
AU OPTRONICS	2409.TW	33.80	19-Aug-2009	1, 5, 6, 7
BANK OF COMMUNICATIONS	3328.HK	9.07	19-Aug-2009	2, 4, 5, 6, 7
CHINA OVERSEAS LAND & INV	0688.HK	16.82	19-Aug-2009	1, 4, 5, 11
DONGFANG ELECTRIC CORP	1072.HK	35.40	19-Aug-2009	1, 2, 5, 6, 7
HINDUSTAN UNILEVER LTD	HLL.NS	256.90	19-Aug-2009	1, 4, 5
JARDINE MATHESON	JARD.SI	27.62	19-Aug-2009	6, 7
KT CORP	030200.KS	37900.00	19-Aug-2009	6, 7
SAMSUNG ELECTRONICS	005930.KS	738000.00	19-Aug-2009	6, 11
SAMSUNG FIRE & MARINE	000810.KS	205000.00	19-Aug-2009	6
TENCENT HOLDINGS LTD.	0700.HK	112.10	19-Aug-2009	4, 6, 7, 11
ZTE CORPORATION	0763.HK	35.80	19-Aug-2009	4

Source: HSBC

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Additional disclosures

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Issuer of report

The Hongkong and Shanghai Banking Corporation Limited
Level 19, 1 Queen's Road Central
Hong Kong SAR
Telephone: +852 2843 9111
Telex: 75100 CAPEL HX
Fax: +852 2596 0200
Website: www.research.hsbc.com

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Global Equity Strategy Research Team

Europe

Robert Parkes
+44 20 7991 6716 robert.parkes@hsbcib.com

CEEMEA

John Lomax
+44 20 7992 3712 john.lomax@hsbcib.com

Wietse Nijenhuis
+44 20 7992 3680 wietse.nijenhuis@hsbcib.com

Asia

Garry Evans
+852 2996 6916 garryevans@hsbc.com.hk

Leo Li
+852 2996 6919 leofli@hsbc.com.hk

Steven Sun
+852 2822 4298 stevensun@hsbc.com.hk

Jacqueline Tse
+852 2996 6602 jacquelinetse@hsbc.com.hk

Vivek Misra
+91 80 3001 3699 vivekmisra@hsbc.co.in