NOMURA

China Investor Forum 2014

EQUITY: ASIA EX-JAPAN PRODUCT MANAGEMENT

The real Shanghai connect (Day Two)

The future is in the details

Global Markets Research

4 September 2014

Research analysts

Asia Ex-Japan Research Team

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More of the nitty-gritty

After the wide perspectives of Day One, the keynotes and panel discussions on the second day at the China Investor Forum 2014 became a bit more granular and a little more focused on the immediate opportunities and challenges facing various industries in China. From financial sector reforms and challenges facing retailers to the impact of e-commerce on real estate and the mechanics of Stock Connect, there was enough to keep investors stimulated. Alongside, our enviable roster of mega-caps and budding businesses kept bringing it all back to the bottom line. We are proud to have hosted over 70 of China's leading companies and ten of Japan's top enterprises over these two days, and once again we bring you a pack of quick notes from the public meetings.

Fig. 1: Prof Xiqing Gao on reform in the Chinese financial system

Source: Nomura

More on the way

You've seen a few already, and do look out for more company and sector notes from our analysts over the next few days as they distil their learnings. Apart from the panels, presentations and meetings, we conducted quite a few sector-specific tours before and after the forum, and these too will inform upcoming research reports. But for now, it's arigato and sayonara to Shanghai!

Special thanks to all the analysts and sales persons on the ground who contributed to these reports.

See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Contents

Keynote: Thoughts on reform of the Chinese financial system

Government recognises the urgency

Kicking off proceedings on the second day of the China Investor Forum 2014, Prof Xiqing Gao of Tsinghua University presented an optimistic outlook for financial system reform in China. What makes him confident it will work this time after past false dawns?

- The importance of financial markets to China as a whole is a new milestone. Financial and capital markets made their debut in China only after 1992 and it is only very recently that they have become as influential as they are now, with strong links to the rest of world.
- The government is more serious now – the third plenum contained many measures to address financial market reforms. The new leadership in Beijing appears to have more political will to push reforms.
- Reform would also bring China in sync with the external environment, which has seen a return to stronger regulation. US financial deregulation peaked with the 1999 repeal of the Glass-Steagall Act and subsequently, since the Enron bankruptcy and global financial crisis (GFC), there has been a paradigm shift toward re-regulation in the western financial system, from Sarbanes-Oxley to the Dodd-Frank Act. In contrast, in China, the regulatory environment over the past 30 years has actually worsened, with 1) increasing government interventions/controls and 2) the increasing domination of the state-owned segment in the economy, which has caused too much 'squeezing out' of China's more vibrant and innovative private sector. Thus SOEs' market share and profitability gains have come with a deterioration of China's overall economic efficiency and productivity.

Progress is being made

The current leadership's reform plan clearly addresses China's problems, with measures to reduce government intervention as well as the invitation of private capital to participate in the SOEs. In particular, regulators' roll-out of "negative lists" – under which activities not expressly prohibited are implicitly permitted -- represents a significant and constructive departure from the traditional regulatory philosophy of "that which is not explicitly allowed is prohibited." There is a criticism that the list, which now has 200 items, is way too long, but at least it is a start. The Shanghai Free Trade Zone recently talked about shortening the list, so good progress there. Meanwhile, "power lists" which define government authority and responsibility vested in it by the citizens add further clarity to the government's intents.

On the rise of internet financing and "shadow banking," Prof Gao is not too worried as he sees these developments simply as efforts to get around rigid regulations and provide financing to private companies that have been squeezed out of traditional bank credit by SOEs. In fact, many big banks themselves are behind many of these innovative products as they know this is a way to get funds to SMEs. According to Prof Gao, NPLs for shadow banking are only 0.5%, way below NPLs of 1.5% at traditional banks.

But challenges remain

Still, it will not be a trivial task to push these reforms through as real-economic vested interests are at stake, against 30 years ago when the resistance to reform mainly came in the form of ideological debate within the Communist Party.

Importantly, there has to be progress in judicial reform. China needs to move to "rule of law" urgently from the "rule of persons" at present. The current system works because it is wielded by good rulers or leaders. But that may not always be the case. Rule of law puts in place a system or mechanism for the functioning of society regardless of who is in charge.

Speaker:
Xiqing Gao
Professor, School of Law, Tsinghua University and former Vice-Chairman and President, China Investment Corporation

Moderator:
Michael Kurtz - NIHK
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Keynote: Shanghai-HK Stock Connect

Today's lunch keynote presentation was by James Fok, Chief of Staff, Head of Group Strategy, Hong Kong Exchanges and Clearing Ltd and Lisa Yingying Li, Manager, Global Business Development, Shanghai Stock Exchange. In a detail-packed session, they walked the audience through:

- Order routing, clearing, settlement procedures
- Eligible securities
- Eligible investors
- Quotas, daily and aggregate
- Trading rules
- Market cap, turnover, valuations
- Shareholding disclosure requirements and shareholder protection rights

We present the key discussion points and investor dialogue below.

Progress report

Launch of the programme is on track for sometime in October, although no specific date was disclosed. Testing was conducted successfully recently.

Equal partnership, ie, 50:50 sharing between HKex and Shanghai.

This programme is seen as an important step for China to open up its market to **international participation** but in a gradual and controllable manner. It will also facilitate the internationalisation of and liquidity of RMB use. If successful, this programme may also pave the way for new financial products to be traded in China, particularly hedging tools and derivative products that are currently unavailable in China.

Speaker:

James Fok
Chief of Staff, Head of Group Strategy, Hong Kong Exchanges and Clearing Ltd

Lisa Yingying Li
Manager, Global Business Development, Shanghai Stock Exchange

Moderator:

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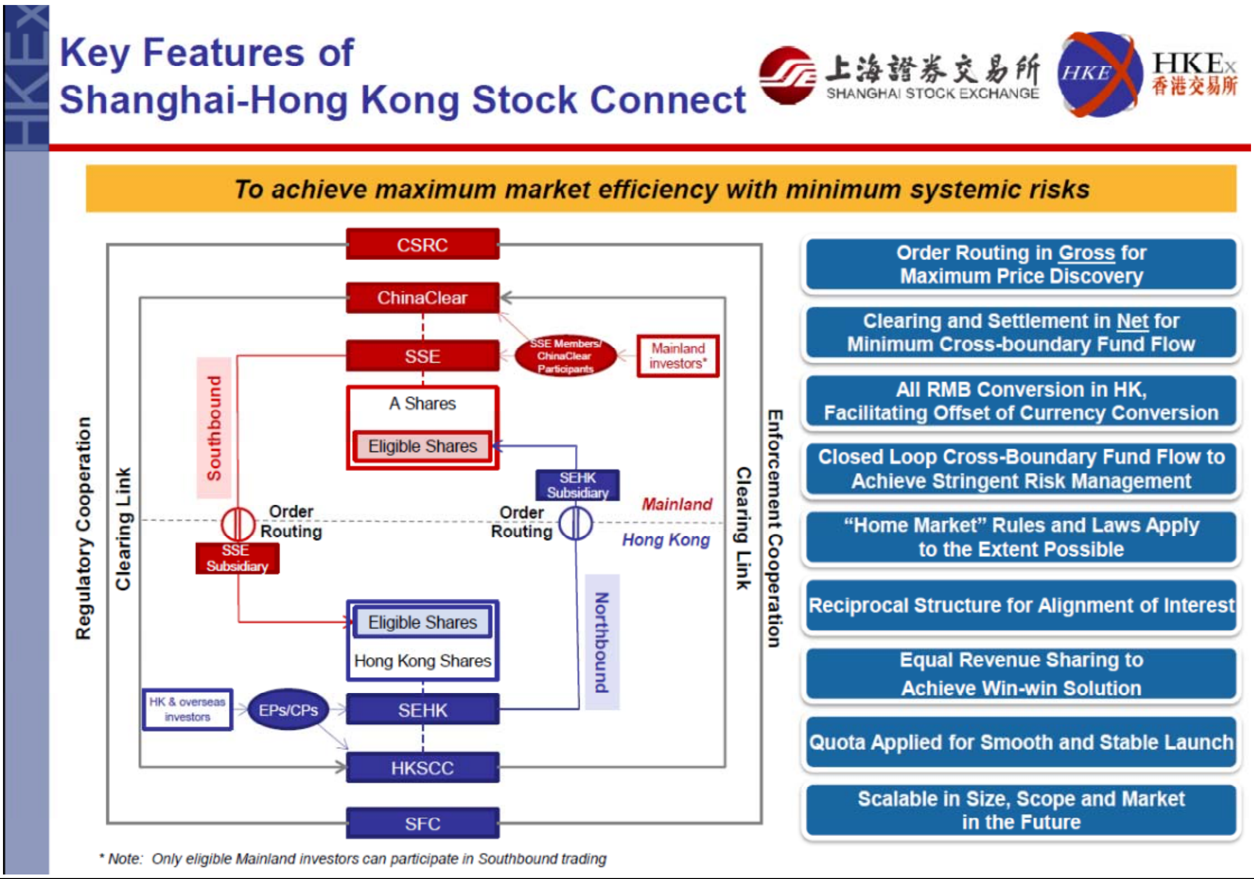
Fig. 2: Stock Connect in one chart



Source: HKEx/SSE presentation

Restrictions

Some restrictions are meant to be temporary to facilitate a smooth launch, and may be relaxed or removed in due course depending on how well the program runs. These include:

- Daily quota of RMB13bn – initially this may hit limit rather quickly, at which point trading may be suspended. Eventually this will be sorted out once there are enough buying and selling volumes in the market.
- No naked short selling allowed.
- No margin and SBL facilities.
- No rights issues or capital raising – but these are under discussion.
- No day trades or block trades.

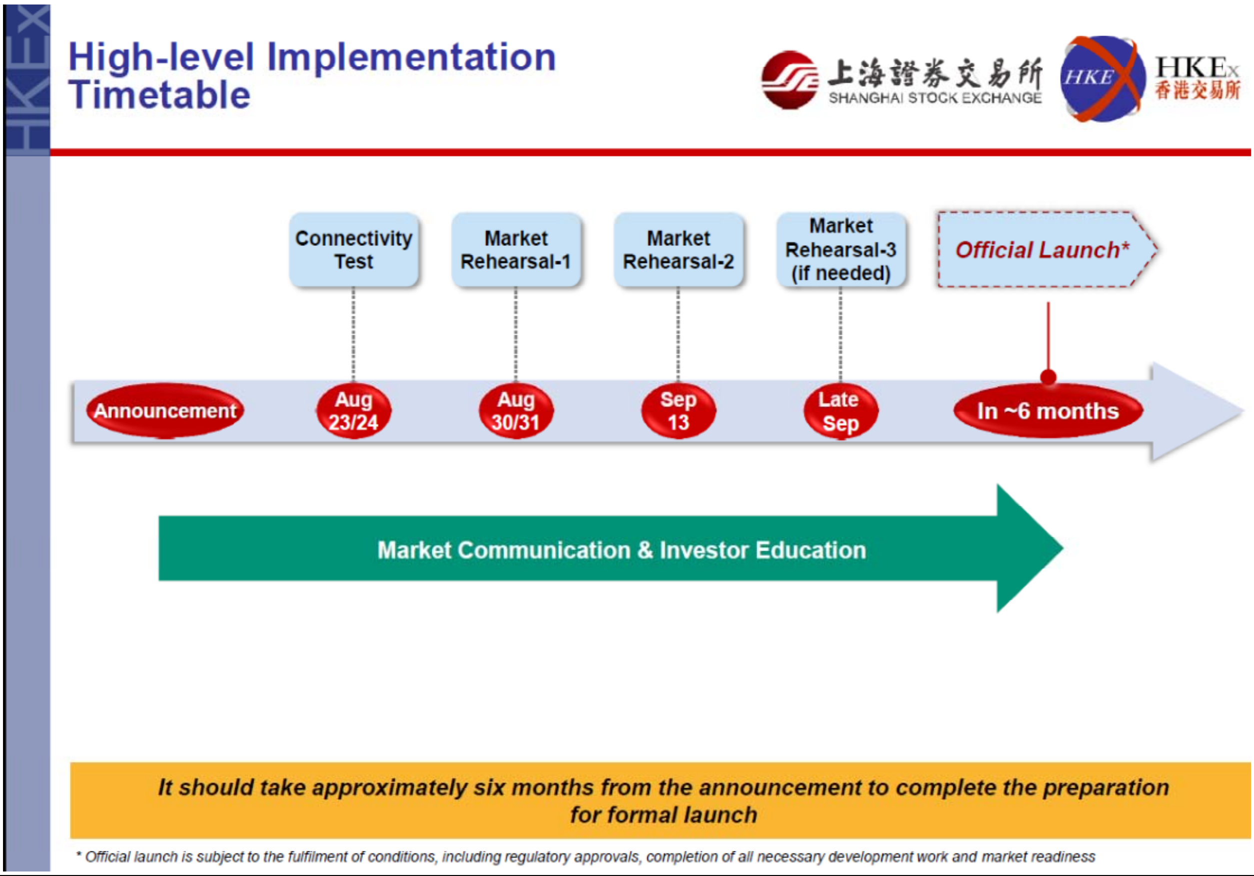
Intended benefits of the program

- For HK – increased turnover and volatility as more retail participation is expected. Currently, the HK market has 80% institutional participation vs Shanghai's 80% retail participation.
- For Shanghai – increased accessibility and participation from global institutional investors into A-shares. The A-share market now has among the largest market capitalisations in the world but offers attractive valuations with P/E at 8-10x and P/B at 1.2-1.4x, well below other global market multiples.

Some concerns raised

- Tax issues – there is need for clarity. Still being discussed.
- Will there be liquidity stress on the RMB? PBoC is looking into this.
- What is the attitude of management of A-share companies towards giving more accessibility to global investors? Are they willing and keen?
- Policing – how much and how deeply can regulators check market participants?

Fig. 3: Implementation timetable



Source: HKEx/SSE presentation

Panel discussion: China's changing banking landscape – challenge and opportunity

Ms Jennifer Qin, Lead Partner, Deloitte Asia Pacific Investment Management industry practice and co-leader, Deloitte China Global Financial Services Industry banking and securities audit practice

- China's state-owned banks' monopoly in its banking system as the sole provider of funds to all borrowers is starting to break down. A diversity of participants such as private equity funds and venture capital funds are stepping in to facilitate intermediation between savers and borrowers. Rapid growth of trust funds and the development of the micro-financing companies and P2P lending platforms are becoming a "disruptive force" in the market, e.g. providing funding in rural areas and to smaller borrowers, later joined by grass-root entrepreneurs to practice banking in China. This is a very encouraging trend of increasing direct interaction between lenders and borrowers.
- What are the pre-dominant factors that drove/facilitated this process? 1) The opening up of the banking sector, 2) innovation by the capital-seekers that lack access to capital through traditional channels, 3) rapid personal and institutional wealth accumulation in China that created demand for wealth management with better rates of return than what is available through the state banks.
- On whether the evolution of the banking sector landscape -- especially with the growth of trust loans and shadow banking in China – represents more a capital-efficiency enhancing process or more an increase in systemic risks, Ms Qin believes it does not pose a systemic risk but does raise competitive pressures.
- Ms Qin has grown incrementally more cautious on the financial system balance sheet in China over the past two years, due to the 1) overall deterioration of economic conditions and 2) temporary decline in liquidity.
- On the prioritisation for reforms by the Chinese regulators, Ms Qin highlights: 1) the State Council's interest in making financing more direct, thereby reducing intermediation costs, as well as 2) how the banks are effectively diversifying their revenue streams from traditional NIM-driven sources.

Panelists:

Jennifer Qin
Lead Partner, Deloitte Asia Pacific Investment Management Industry Practice and Co-Leader, Deloitte China Global Financial Services Industry Banking and Securities Audit Practice

Simon Rabinovitch
Asia Economics Editor, The Economist

Dr Zou Xin
Deputy General Manager of Corporate Strategy and Investor Relations, ICBC

Moderator:

Michael Kurtz - NIHK
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Fig. 4: L-R: Michael Kurtz, Jennifer Qin, Simon Rabinovitch, Dr Zou Xin

Source: Nomura

Mr Simon Rabinovitch, Asia Economics Editor, *The Economist*

- Counter to general perceptions, the foreign media's reporting of China's financial system is not negatively biased – at least not beyond the inherent negative tilt for news reporting in general (ie, the media "will always talk about the car that crashed not the car that didn't crash"). The existing market trend is the guidepost for framing the story – and China financial reporters take cues from, rather than leading, market sentiment.
- While there has been improving access to information (including listed-banks' disclosures as well as bond prospectuses), access to top regulators for information and commentary/guidance has become even more restrictive.
- In terms of historical regional comparisons with China's current juncture, past emerging market crises rooted in excessive external debt build-ups (e.g. 1997-98 SE-Asia or Korea) is not comparable for China (where external leverage is not problematic). More powerful parallels can be drawn with late-1980s Japan, i.e. interest rate liberalisation, excessive lending to real estate developers, and problematic corporate governance. But contrasts with even 'bubble era' Japan are still considerable: for example China's banking system is still predominately state-owned; and current equity-market sentiment in China is very downbeat, vs. the euphoria during Japan's 1980s. So there is no perfect analytical precedent for China today.
- Overall, Mr Rabinovitch expects financial liberalisation to carry risks of still-higher systemic volatility in the near-medium term, but sees the eventual impact on China's longer-term outlook as more positive.

Dr Zou Xin, Deputy General Manager of Corporate Strategy and IR, ICBC

- Dr Zou thinks most foreign investors operate with relatively limited knowledge of the situation in China's financial system, saying they only know "50% of the story".
- The key word for China's banking landscape in Dr Zou's view is divergence or even polarisation. Namely, investors need to differentiate winners from losers within the sector rather than analyzing the entire banking system as one unitary basket of risk and opportunity.
- Deposit interest rate liberalisation will only happen after the proper set-up of deposit insurance and bankruptcy policies, likely substantially later than the "next 1-2 years" timetable indicated by PBoC Governor Zhou in March.
- In any case, interest rate liberalisation is more about the price-sensitivity of the borrowers (i.e. lending rates) than about the cost of deposits. ICBC is optimising the structure of its borrowers by diversifying away from SOEs to include more higher-margin SME-oriented loans. Plus, on funding costs, ICBC compares favourably among the China banks.
- ICBC is also adapting to the changing technological landscape – for example responding to the rise of e-commerce with 'eICBC' which will kick off within this year and encompass ePayments, eInvestment, eFinancing, and the incorporation of mobile social media platforms.
- The "obvious undervaluation" of the A-share listed banks relative to their H-listed counterparts presents opportunities for long-term investors in Dr Zou's view.

Presentation: Online is the new black

The impact of e-commerce on China's retail real estate sector

Key message

Michael Klibaner, the head of Jones Lang LaSalle (JLL) Greater China Research, made a presentation on China's e-commerce development and its impact on retail and logistics property.

The key views of Mr. Klibaner include: 1) China's e-commerce market has significant potential and will reach USD1tn by 2020, which is 3-4 times the current level; 2) retail malls that are selling standardised commodity products or unbranded-low-value products will be impacted the most by e-commerce; 3) malls in future should offer products that cannot be purchased online, such as high-end branded products, or experiential services such as cinemas and entertainment; and 4) while e-commerce will negatively affect the physical retail market, it will also generate huge demand and growth potential for logistics property.

Speaker:

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Moderator:

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Forum takeaways

- **Huge potential for China e-commerce market:** JLL believes China's e-commerce market will reach USD1tn by 2020, considering the ongoing fast increase in the number of internet users (currently about 43% of the population) and online shoppers (currently 40% in China versus 70-80% in mature markets such as the US, the UK and Japan).
- **Retail malls selling standardised commodity products or unbranded-low-value products will be impacted the most:** JLL believes the standardised commodity products, such as digital products which buyers don't need to see or try on, can easily be replaced by online shopping. Therefore, shopping malls that sell such commodity products or unbranded-low-value products will be hit the most by e-commerce.
- **How should malls cope with this new trend?** To cope with the new trend, retail malls need to offer something that cannot be easily available through e-commerce, including high-end branded products, experience-based services, eg, cinemas, restaurants, beauty shops, etc.
- **E-commerce benefits the logistics sector:** China currently still lacks modern warehouses to support the fast-growing e-commerce business. According to JLL's data, there are only 15mn sqm of modern warehouses in the top 20 cities in China.

Fig. 5: L-R: Jeffrey Gao, Michael Kilbaner

Source: Nomura

Presentation: Challenges of the Chinese retail market

Speaker:

Tomohiro Saegusa
Head of China Operations, Ito Yokado

Moderator:

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Saegusa-san, Head of Ito Yokado's China operations does not think that slowing GDP growth in China is necessarily a bad thing for companies in consumer sector. He stressed a number of structural changes that are taking place now in the Chinese consumer market that he believes, will play out for years to come. He compared consumer behaviour transformation in China to that in Japan and suggested best ways to ride the change instead of losing out.

Structural changes in Chinese consumer market

- GDP in key cities is likely to catch up with other global cities within 10 years. E.g. we see Shanghai's GDP catching up with that of Paris etc. So, there is more money to be spent.
- Higher proportion of China's GDP growth will be driven by consumption and less by investment.
- Earlier, the Chinese consumers used to be satisfied by simply owning a product. But now, they need to find products that differentiate themselves from others. Young consumers are becoming increasingly more impulsive with their purchases too, and want to set their own trends instead of following others.

Consumer behaviour in Japan went through 3 stages:

- 1970-1982: high growth stage,
- 1983 -2012: stable growth,
- 2013 to now: mature market.

Saegusa-san reckons that some cities in China are already in the mature phase now, but most of the China is still in 1990's stable growth phase. During this time, a lot of large retailers are likely to struggle to catch up with changing consumer tastes and may eventually lose market share just like what happened in the case of Japan.

How to capture changing behaviour

- **Focus on value add:** Consumers are increasingly looking more at the service portion vs. purely on the product. Services typically call for higher margin and can help offset rising rental and labor costs.
- **Deepen customer interaction:** He suggested engaging with the customers by giving them an experience inside the shop which should boost returning customer rate. This can be done, for example, by organising promotional events in the store or by creating differentiated shopping environment. He also cautioned what the companies should not do in their efforts to engage with the customers by citing the example of some Japanese companies which focused too much on merely expanding the store space, when instead they should have spent more effort on improving the product merchandise and existing store environment and on efficiency.

Company updates

Bona: Picture of motion

(Bona US, Not Rated)

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Key message

Bona is a Chinese film company with the following four business segments: 1) film production and investment (primarily domestic but the company has a co-production unit with Fox and Universal); 2) film distribution (theatrical/internet/mobile/foreign outlets); 3) movie theaters (currently 22 theaters in Tier 1-2 cities); and 4) talent agency (primarily tier 2-3 talents). As a percentage of 2013 profit contribution: movie theaters (52%), film distribution (34%), film investment and production (13%) and talent agency (1%).

Forum takeaways

- Low China film attendance per capita at 0.9 per year (vs Korea/US 4 per year) and low box office per capita USD2.7 (vs Korea USD28 and US USD33).
- China's box office receipts grew at 31% CAGR from 2000-2013, and the company expects China's box office receipts to grow at roughly 30% for the next few years.
- Bona believes China and the US will eventually represent 50% of the global market thus it is important to have strong positions in these two markets. The company notes that in 2013, China box office was at USD3.6bn (vs USD10.9bn in the US).
- Bona regards movie content (ie, film IP) as key with near-term growth opportunities in distribution. The company plans to add another 28 movie theaters by 2016, and increase its internet, TV and foreign distribution.
- In the longer-term, the company plans to venture into theme parks, video/mobile games, mobile TV series etc, but still believes that the key to tap the post 90's and millennia's spending power.
- The company expects to defend their 20% market share of gross receipts given their relatively strong movie pipeline (vs competitors).

China Vanke Co: Improving sell-through

(2202 HK, Buy, target price HKD19.01)

Analyst:
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Key message

Management is confident about achieving contracted sales of over CNY200-210bn in 2014F. The company believes that market sentiment has already started to improve, with August sell-through rate improving to 55% from 50% in July. The company doesn't see land prices coming down yet and, therefore, it has only acquired two land parcels in August and keeps looking for M&A opportunities. We maintain our Buy rating on Vanke. In particular, we note that if the interbank financing comes through, it can potentially improve the company's financing cost significantly.

Forum takeaways

- **Contracted sales:** August contracted sales reached CNY15bn, with CNY18bn from new launches (vs. CNY17bn in July) and 55% sell-through rate (vs. 50% in July). For the full year, the company appears confident about achieving contracted sales of over CNY200-210bn. By August, Vanke had achieved contracted sales of CNY129.5bn.
- **Landbank:** 1) the company prefers Tier 1 and Tier 2 cities, and some selective coastal Tier 3 cities with net population inflows; 2) according to the company, land prices have not dropped much yet because local governments are still holding land prices at high levels; and 3) Vanke is searching for more M&A opportunities, especially the property divisions of non-real-estate companies.
- **Market:** 1) the company believes there is not much investment demand in 1H14 owing to the strict policies, so sales should mostly come from first home buyers and upgraders; and 2) based on Vanke's research, no country has observed a significant housing price decline until its urbanisation level reached 70%; therefore, the company believes the current ASP drop in China should be temporary.

Datang International Power: Towards pure power

(991 HK, Buy, target price: HKD5.50)

Analyst:
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Key message

We hosted meetings for Datang International Power during the Nomura China Investment Forum in Shanghai on 3 September. As expected, most investors were interested in Datang's progress in the disposal of its coal-chemical and coal-to-gas ("non-power") projects. As such, we expect the release of further information regarding the disposal of the non-power business to: 1) remove the overhang from uncertainties on the asset disposal; 2) provide Datang with more resources for further expansion in the power business; and 3) allow the company to concentrate on power generation, with a focus on large-scale, efficient coal-fired power generation, renewable energy, and nuclear power generation.

Overall, we believe the current valuation is attractive, and the market has yet to fully factor in the potential upside for Datang when it becomes a pure power generator. We maintain Buy and our TP of HKD5.5, implying upside of 20%.

Forum takeaways

- **Disposal of non-power businesses:** The exact asset portfolio to be disposed of has yet to be decided. However, the company noted that apart from the coal-chemical and coal-to-gas projects, the Shengli coal-mine will also be included in the disposal. For the timing of completion, management maintained its previous target, ie, by end-2014, with further details/circular scheduled to be released in October.
- **Power generation business strategy:** Upon disposal of the non-power businesses, the company will concentrate on its power generation business, with a focus on large-scale, efficient coal-fired power generation, renewable energy, and nuclear power generation. In particular, consistent with our view, management expressed its bearish view on the gas-fired power generation projects, at least in the short term. In 1H14, all three gas-fired power projects for the company recorded operating losses, at CNY20mn / CNY45mn / CNY63mn for Shaoxing / Jiangshan / Baochang, respectively. The losses were mainly attributable to: 1) low utilisation due to insufficient gas supply; 2) low feed-in-tariff, especially amid the upstream gas price hike; and 3) insufficient, or delayed government subsidy payment.

For more information, please refer to our note from the ground and recent sector report:

Quick Note - Datang International Power (991 HK, Buy) - China Forum 2014 takeaways
China Power - On-grid tariff cut: How does it impact IPPs?

Dongfeng: Limited near-term catalysts

(489 HK, Buy, target price HKD16.60)

Analyst:
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Key message

Dongfeng (DF) reported a strong set of 1H14 results last Friday, however our analyst Benjamin Lo expects near-term growth momentum to slow in 3Q-4Q14F for both DF-Nissan and DF-Honda, as the companies will be busy destocking in 3Q14F and do not have major new model launches in the near term.

DF share price has had a strong run since the beginning of June (up 20%-plus) in anticipation of a strong 1H14, suggesting that much of the good results is already priced in. Given our projection of a slower 2H14F growth momentum and in the absence of near-term positive catalysts, we see limited scope for further consensus earnings upgrades. As recommended in our sector report in July, we continue to advise investors to switch into domestic OEMs such as Great Wall Motor (2333 HK, Buy) and Geely (175 HK, Buy) given our expectations of a 2H14F recovery.

Forum takeaways

- **Inventory:** DF-Nissan and DF-Honda passenger vehicle (PV) inventory levels are over 2 months (dealer and OEM combined) in July and August, which is higher than the average of 1.5-2 months. Hence July and August wholesale volumes were only flattish and might be slightly down y-y given the destocking by dealers. DF management believes wholesale volume should begin to improve from September onwards after dealer destocking and as we enter the start of the peak season.

- **Earnings growth:** We expect 3Q14F earnings growth will likely to face a slowdown (vs 1H14), as projected in our last report. Considering a lack of major new model launches by the end of this year, we believe DF is unlikely to repeat its 21% y-y PV sales volume growth in 1H14.

For more details: Quick Note - Dongfeng Motor (489 HK, Buy) - Strong 1H14 results already priced in

Huadian Fuxin: Sustainable strong and steady growth

(816 HK, Buy, target price HKD5.85)

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Key message

Huadian Fuxin is transforming to alternative energy company from an IPP, and plans to position itself to become the clean energy platform for the Huadian Group. Our analyst continues to be positive on his sector top pick, Huadian Fuxin as: 1) he looks for 30% 2013-16F CAGR wind capacity growth for the company with two large-scale coal-fired assets and several small-scale hydro/distributed/solar assets in the pipeline; 2) Huadian Fuxin offers a unique and diversified portfolio of generation assets, and 3) stable cash flow from the traditional business offers strong support to new energy business development.

Forum takeaways

- **Equity raising:** In terms of the equity raising, the company will need approvals from both the board and the government agency. This year total investment for the company stands at CNY10bn which includes CNY500mn investment in nuclear power and CNY2.5bn investment in wind power.
- **Wind power:** Last year's financing rate was slightly below 6pct and this year's financing rate is slightly above 6pct, and management aims for more than 10pct ROI for wind projects. The majority of its wind farm equipments will be out of its warranty period soon but management believes it is unlikely there would be any major increase in the repairs and maintenance expenses.
- **Nuclear power:** Its nuclear power station is currently operating smoothly (vs Datang which experienced some technical problem). In 2H14, nuclear generation will kick in (revenue generated will offset part of the amortisation, with commercial output likely to begin in Oct/Nov)
- **Hydro power and thermal:** Hydropower generation would record positive growth y-y given the favourable water situation in July/Aug while its thermal IPP business continues to remain steady.

For additional details please refer to below:

Huadian Fuxin (816 HK, Buy) - Sustainable strong and steady growth
Quick Note - Huadian Fuxin (816 HK, Buy) - Best 1H14 results among peers as expected

Kingsoft: Leading service provider

(3888 HK, Not Rated)

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Key message

We met with Francie Lu, IR director of Kingsoft today. Kingsoft is a leading internet service provider in China with a focus on Cheetah Mobile (47% revenues), online games (41% revenues), WPS (9% revenues) and Cloud (3% of revenues). Unsurprisingly, Cheetah Mobile was the key area of excitement in our discussions during our meeting, and management is clearly upbeat about Cheetah Mobile's near-term growth prospects.

Forum takeaways

- **Cheetah Mobile.** Cheetah Mobile is the fastest growing business segment in the group now (in 2Q14 up 139% y-y/ 20% q-q), and management is targeting 100% growth in 2015. Within Cheetah Mobile, its mobile segment is growing faster than the PC segment. In 2Q14, mobile grew 42% q-q, accounting for 20% of revenue (vs 8% last year), and management expects its mobile business to overtake the PC segment by 2015. Management guided that its mobile user base has jumped over 6x y-y and has already exceeded 300mn users, well on track to meet its FY target.

- **Publisher of mobile apps.** Cheetah Mobile is the number one publisher of mobile apps in Google Play Tools worldwide, and the company's collaboration with China internet leaders (eg Baidu (BIDU US, Buy), Tencent (700 HK, Buy) and Xiaomi) has given it an advantage over its peers (eg, Xiaomi now pre-installs Clean Master on some its smartphones).
- **Internet security software provider.** Cheetah Mobile is the number two internet security software provider in China led by its Clean Master anti-virus. The company currently has 25% of market share in the anti-virus market, and its biggest competitor in this business is Qihoo (QIHU US, Buy) which has 75% share overall. But according to management, if we look at anti-virus on mobile alone, Cheetah Mobile is actually growing faster than Qihoo.
- **Google Play's ranking list.** Management clarified that its recent drop from Google Play's ranking list was due to some technical issues involving one of its partners. This was only a temporary issue and it was quickly resolved. Hence, they are back on the ranking list again, management guided that there is minimal impact on the company.
- **WPS and cloud.** Kingsoft sees these business segments as longer-term prospects, and will continue to invest in these two business segments.

Lee & Man Paper Manufacturing: Better second half

(2314 HK, Buy, target price HKD5.90)

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Key message

We hosted Lee & Man Paper (LMP) at Nomura's Investment Forum Asia 2014. Management reiterated its positive stance for 2H14. This is also in line with our view that 2H14F will be better than 1H14. Management stated that it expects sales volumes, ASPs and EBIT margin to be higher in 2H vs 1H14. Management also confirmed that for this month it has revised upwards ex-factory prices of some of the company's products. Recall Umpaper reported on 2 Sept that LMP increased ex-factory prices by CNY50/tonne for its linerboard and coated duplex board products in Dongguan in Sept.

Forum takeaways

Management indicated that this time the price hike did not apply to all types of products and all types of customers; however, management anticipates a price hike across the board in the later part of this year with the help of: 1) approaching traditional peak season (orderbook recently has been good which should support price hike), and 2) speeding-up the retirement of inefficient capacities.

Management noted that Guangdong government has already completed the draft on closing inefficient capacities in Dongguan and how to compensate the manufacturers that have been required to close their inefficient capacities. According to management, there will be some 58 paper manufacturers (this is in addition to the recent retirement list announced by MIIT, hence total capacities closures will be even higher than our expectation) that are required to close in Dongguan, total compensation paid by the provincial government in aggregated will be at CNY2.1bn (or an estimated average of CNY300-500/tonne) depending on different types of the machine.

For more details, see our note from the ground and recent sector update:

Quick Note - Lee & Man Paper Manufacturing (2314 HK, Buy) - China Investor Forum 2014 takeaways
Quick Note - China Packaging Paper - Capacity closures coming faster and larger

Macau gaming: Still a grind

(MGM 2282 HK, Buy, target price HKD35; Sands 1928 HK, Buy, target price HKD62)

Key message

The key messages from the MGM China and Sands China investor meetings include: 1) Not expecting any meaningful VIP pick-up in 2014 with both companies describing the recent VIP weakness as a demand issue (i.e., players keeping a low profile in light of China's anticorruption crackdown) rather than a supply issue (i.e., the liquidity issue among the small/mid-sized junkets have been resolved); 2) mass outlook was mixed with Sands projecting a more cautious tone, while MGM pointed to company specific drivers, that should enable them to grow above the market (see more below).

Both indicated transit visa tightening may have had a higher-than-expected impact on mass players; 3) both companies guided to ~10% y-y increase in labour costs for the next several year, in line with our estimates; and 4) while it could take a 2–3 months for mass players to adapt to the smoking ban, neither company is expecting a material impact from the Oct 6 smoking ban on the mass floor.

A lack of positive catalysts through year-end (and potentially Q1'15, which also lap a tough VIP comp) could keep investors on the sidelines, in our view. There could be risk to 2014F consensus GGR growth estimate of 4–6% if VIP does not show the seasonal ramp in Oct (albeit off a low Sept base). As September is not a seasonally strong month, we are looking for mid-to-high single-digit y-y decline.

For more details, see our note from the ground and recent sector report:

Quick Note - Macau Gaming - China Investor Forum 2014 takeaways

Macau Gaming - Another round of GGR cuts, now what?

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Shanghai Industrials

(363 HK, Buy, target price HKD32.80)

Key message

The main topic was the toll road business. Derek Fung, head of corporate communications, said there were accounting policy changes in relation to the depreciation for the Jing Hu expressway in the last half, so there was a slight fall in net profit. They believe they can keep single-digit revenue growth for at least the next three years, and also maintain high-single-digit volume growth.

An important development is that SI is going to buy a bridge (4.5m volume/day) from its parent company. This is very profitable and the deal is happening because parent company SIIC is actively participating in SOE reform.

Forum takeaways

- Toll roads maintained steady growth in revenue and traffic flow. Environment revenue and net profit increased by 41.3% and 60.9%.
- Waiting for a tariff hike by local government.
- Working on getting new road projects to strengthen earnings growth.
- The environment business continues to pursue M&A growth, in both asset size and market share of handling capacity, in water services and waste-to-energy operations.

For more information, see our last report:

Shanghai Industrial Hldgs (363 HK, Buy) - M&A newsflow should pick up by year-end

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Sino-Ocean Land Holdings

(3377 HK, Buy, target price HKD5.11)

Key message

The company appeared very confident about meeting its 2014 full-year sales target of CNY40bn, with over CNY70bn of saleable resources. According to management, peak sales season should start from September with monthly sales of over CNY5bn. The company indicated that it will be more flexible on cutting prices in 2H14F, by an overall magnitude of around 10-15%. The company is still cautious and selective in new land acquisitions, mainly focusing on small land parcels in Tier 1 cities and some Tier 2 cities in which it has a presence. The growth visibility of the company is improving, in our view.

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Forum takeaways

- **Sales:** 1) the company seemed very confident about meeting its full-year sales target of CNY40bn. The chairman sets strict targets at the project level and this is the most important KPI for project managers, according to management; 2) management believes August sales should be around CNY2.3bn, followed by a significant pick-up to CNY5bn each month starting from September, based on current launch plans; 3) full-year saleable resources of total CNY71bn (CNY29bn brought forward from 2013, CNY2bn from new launches in 1H14, and CNY40bn from new launches in 2H14F); and 4) 1H14 sell-through rate was 45%, and the company targets to achieve 55% sell-through in 2H14 in order to meet its full-year sales target. By July, the company had achieved sales of CNY15.1bn, which is 38% of its 2014 sales target.
- **Pricing strategy:** (1) the company cut prices by 5-10% in 1H14 for selective projects in Dalian, Shanghai, Zhongshan, etc.; (2) the company will be more flexible on cutting prices in 2H14 to boost its sales, and the overall magnitude of the cuts may reach 10-15%, according to management.
- **Margin:** Gross margin for sold but unbooked sales is around 20-25%.
- **Landbank:** The company bought 10 land parcels in 1H14 at an average price of CNY5,400/sqm. The company has strict standards on land acquisitions: 1) it requires gross margin to be over 30% and IRR to be over 25%, or gross margin to be over 25% and IRR to be over 30%; 2) it only acquires land parcels in existing cities or their surrounding cities; and 3) it only acquires small size land parcels with total GFA around 200k-300k sqm to increase asset churn.
- **Investment property:** Commercial property takes 30% of the company’s land portfolio, in terms of cost. The company plans to hold 80% of its commercial properties and sell the rest that are not located in core areas of high tier cities.

For more information on Sino-ocean, please see our note:

Sino-Ocean Land Holdings (3377 HK, Buy) - Mgmt shows confidence on stable growth

Sinopec: Marketing business sale remains on track

(386 HK, Buy, target price HKD 9.80)

Key message

We hosted Sinopec (386 HK, Buy) on the second day of Nomura's China Investment Forum. Sinopec gave a more sober view on the earnings outlook for 2H vs. PetroChina (857 HK, Buy). But we still like the stock for valuation re-rating as the marketing business sale remains on track, and details should crystallise by late September. We maintain our Buy and TP of HK9.80 based on SOTP, offering about 20% share price upside from current levels.

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Forum takeaways

- **Operational updates:** Specifically, Sinopec is now guiding for much lower refining profits for 3Q vs. 2Q amid weakening oil prices and recent NDRC fuel price cuts. While the petrochemical losses have narrowed during 3Q, the improvement might not offset the domestic refining profit decline. There is a strong likelihood that Sinopec's chemical division could achieve full year breakeven, erasing all the 1H losses.

- **Fuel marketing business:** Sinopec confirmed that 37 companies have been short-listed as potential partners in the fuel marketing business. Evaluations of their business proposals are ongoing and should be completed this month. Likely partners include Tencent (700 HK, Buy), Ping An (2318 HK, Not rated), China Life (2628 HK, Not rated), ENN Energy (2688 HK, Buy), and those that could provide innovative management, best retail industry practices and financial capital. These potential JV partners will have the majority number of board seats in the rebranded Sinopec fuel marketing biz. Near-term spinoff is ruled out by Sinopec.
- **Optimistic on Sichuan Fuling shale gas development:** The firm reiterates the long term optimism toward the Sichuan Fuling shale gas development. Currently Sinopec has only explored less than 6% of the entire Fuling block, with potential exploration surprises ahead when more wells are drilled in the coming two years. Monetising these gas reserves will be easy due to the excess capacity of the existing gas pipeline from Puguang Sichuan to Shanghai where Sinopec could sell the Fuling shale gas at much higher prices.

For more details on Sinopec, please see our note:

Sinopec (386 HK, Buy) - Profit growth momentum accelerating

Sun Art Retail: Offline and online expansion to continue

(6808 HK, Not Rated)

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Key message

We hosted management from RT-Mart China (which is run by Sun Art Retail (6808 HK, NR), China's largest hypermarket operator) at China Investment Forum. Below we present takeaways from the meeting with Peter Huang, Executive Director, Sun Art Retail Group and Chairman of RT-Mart China, and Nelson Hsu, CFO, RT-Mart China.

As per management, 1H revenue weakness was equally due to impacts from e-commerce competitors and anti-corruption. Prepaid card sales also fell 18% y-y (accounting for 13% of revenues, vs. 16% in 1H13). Management seemed confident of rental income still delivering >20% y-y growth (1H: 23.1%), as rent for new stores start from a low base, and thus offering more room to grow.

Forum takeaways

Management maintained its store opening target of upwards of 50 for FY14F, even though only 4 were opened in the 1H14. Management acknowledged that this was much more aggressive than its peers, but still thinks the target is achievable, as the stores are doing well and productivity is high. As well, recent store openings pace has picked up (10 stores were opened in August and expect even more to be opened in September).

Management spent a lot of time discussing the new e-commerce platform, Feiniu.com, which was launched in Jan'14. Right now, it is still insignificant in terms of revenue, but management seems confident that revenues will eventually surpass offline store revenues. Management pointed out that its strategy is to be a full-range (all product categories), one-stop online shopping centre, which is fairly unique in China.

GPM for its online store is in fact higher than the hypermarket offline stores' >10%, due to product positioning. The company targets selling fresh produce to mid and high-end customers. Management seemed confident that the company's prices are already the lowest and most competitive, so it does not expect competitors to beat in terms of prices.

The company currently use third-party logistics firms only in remote cities. While the company has plans to expand its logistics network, it does not see the need for any significant capex to build warehouses, as its offline storefronts already serve this purpose. In addition, management foresees at least 2-3 Feiniu-dedicated warehouses (leased) in each province (50-60 nationwide) in the next 5-10 years. The company forecasts capex of RMB6-7bn in FY14F (1H: RMB1.8bn). As well, management does not expect much upside in CPI inflation this year.

Tingyi Holdings: Recipe for a tastier 2H margin

(322 HK, Buy, target price HKD26)

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Key messages

Key messages from the investor meetings include: 1) Tingyi raised the price of bowl noodles to CNY4.0 from CNY3.8 since the beginning of Aug in some regions. The price increase will spread wider across the nation, but management has not provided a detailed timeline and 2) Tingyi has phased out the free ham sausage for lurou noodles (卤肉面) around the nation and that for pickled vegetable beef noodles (老坛酸菜面) in cities where its market share reaches 70%. Management is not concerned about losing market share to UPC, as it believes UPC would follow a similar strategy in order to boost its gross margin.

Considering the company's recent measures, we believe GPM during 2H14F will improve, partially offsetting weak top-line growth. Management has given priority to profitability and bottom-line growth. We maintain our Buy rating.

Forum takeaways

- **Beverages:** Sales in Jul and Aug were very weak; management expects sales could be even worse in Sep due to the cool weather.
- **Raw material:** Beverage raw material prices have shown a downward trend, which could partially offset top-line growth weakness.
- **Integration with PepsiCo:** After the integration with PepsiCo (PEP US, NR), the company will incur one-off staff compensation costs. Yet according to management, the cost will not have a significant impact on 2H14F earnings given that 1) the company has recorded provisions for the compensation costs and 2) PepsiCo will carry part of the cost as well.

For more details, see our recent note:

Quick Note - Tingyi Holdings (322 HK, Buy) - Noodles competition becoming more rational

United Photovoltaic: New kid on the block

(686 HK, Not Rated)

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Key message

The Chinese government is currently providing support to the solar power sector, and has set selling price of CNY1/W since mid-2013 for 20 years. United Photovoltaic (PV) is a downstream PV company, listed in Hong Kong in Jun 2013 which buys and operate solar power stations. Competitors in China include Shunfeng (1165 HK, Not Rated) and GCL Poly (3800 HK, Reduce).

Forum takeaways

Business model for a 100MW plant:

- Annual revenue = 1500 hours x CNY1/W (selling price) x 100MW = CNY150mn.
- Cost = approx. CNY20mn (which is CNY0.12-0.2/W).
- Cost breakdown = operating cost + financial cost + depreciation.
- Investment = CNY1bn (20% equity, 80% loan).
- VAT= 8.5% (which is reduced from 17% by the government and will be set off in the first 3-5 years).

Current capacity is at 467MW (in P/L):

- Additional 65MW which to be accounted for in the company's P/L in 1H15.
- Its acquisition of a 20MW project in Qinghai is in progress (estimated consolidation in 2H14).
- All in all, total the company's capacity will be raised to 552 MW (467+65+20).
- Other than those mentioned, the company guided that there is about 500-1000MW new capacity additions via M&A under negotiation.

Leverage:

- Debt/Capital = 80%.
- Debt/Equity > 400%.
- Average loan cost = 7-8%.
- The company is trying to replace its short term loans by long-term loans (7-13 years), with lower interest rates.
- Expansion of scale is a key factor, which can allow the company to get loans easier at lower rates.

Agenda: Wednesday, 3 Sep, 2014

Agenda

*Open to media

Wednesday, September 3	Pudong Shangri-la, The River Wing, Shanghai	
8:15 AM	**Registration** (Breakfast will be served)	
8:50-9:00 AM	**Grand Ballroom, River Wing, Level 3** **Welcome Remarks *** Mr. Minoru SHINOHARA, CEO, Asia ex-Japan, Nomura	
9:00-09:50 AM	**Keynote: Financial Innovation and Development of Shanghai Pilot Free Trade Zone *** Mr. LI Jun, China (Shanghai) Pilot Free Trade Zone Administration Deputy Secretary-General *Moderator:* Mr. SHEN Hong, Shanghai Bureau Chief, The Wall Street Journal and Dow Jones Newswires	
10:00-10:50 AM	**Presentation: China under Xi Jinping: the changing landscape of elite politics and reforms** Professor ZHENG Yongnian, Professor and Director of East Asian Institute, National University of Singapore *Moderator:* Dr. ZHU Wen Hui, Senior research fellow, Bauhinia Foundation, Research Centre, Anchor and Commentator on Phoenix TV *Panelist:* Ms. Wendy LIU, Head of China Equity Research, Nomura	
10:50-11:00 AM	**Morning Refreshments**	
	Changan Room, River Wing, Level 3	**Suzhou Room, River Wing, Level 3**
11:00-11:50 AM	**Panel discussion: How do we soft land an asset bubble?** *Moderator:* Ms. Wendy LIU, Head of China Equity Research, Nomura *Panelists:* Mr. Jin CAI, Vice President ,China Federation Logistics & Purchasing Mr. Liqun ZHANG, Senior Research Fellow of Macro Economic Research Department, DRC Mr. Peng ZHANG, Senior Research Fellow, Ministry of Finance	**Panel discussion: China's natural gas transformation – winners & losers** *Moderator:* Mr. Gordon KWAN, Regional Head of Oil & Gas Research, Equity Research, Asia ex-Japan, Global Markets, Nomura *Panelists:* Mr. Jack FANG, Director, Hans Energy Mr. Zefeng MAO, Joint Company Secretary, PetroChina Company Limited Mr. Colin SHEK, China editor for Interfax Energy, and Shanghai bureau chief for Interfax
12:00-1:20 PM	**Grand Ballroom, River Wing, Level 3** **Lunch Keynote: Out of the Balance Sheet Recession and into a QE 'Trap' *** Mr. Richard KOO, Chief Economist, Nomura Research Institute	
	Changan Room, River Wing, Level 3	**Suzhou Room, River Wing, Level 3**
1:30-2:20 PM	**Presentation: Demographic challenges in China - Lessons from ABENOMICS** Mr. Kosuke MOTANI, Chief Senior Economist, Economist Department, Japan Research Institute, Ltd and Senior Advisor, Regional Planning Department, The Development Bank of Japan, Ltd	**Presentation: What China should do in the environmental industry from the experience in Japan on the road of environmental protection?** Mr. Shoji ONOGI, President, Japan-China Environment Service Center *Moderator:* Mr. Joseph LAM, Power, Utilities & Renewables Energy, Equity Research, Nomura
2:30-3:20 PM	**Panel discussion: China's aging society and its implications** *Moderator:* Ms. Emma LIU, Head of China Consumer Research, Asia ex-Japan / China, Hong Kong, Nomura *Panelists:* Mr. Yu ZHAO, Group Deputy General Manager, Fushouyan Mr. Di LU, The Board Office Senior Manager, Shanghai Pharmaceutical	**Panel discussion: Online education - a replacement or supplement to physical learning center?** *Moderator:* Mr. Chao WANG, China Media/Internet, Hong Kong, Nomura *Panelists:* Mr. Zhuoming HUANG, Education Expert, Ex-EDU Mr. Kingson LIU, Founder, enhance.cn Mr. Jack HUANG, Founder, Xuexibao
3:20-3:30 PM	**Afternoon Refreshments**	
3:30-4:20 PM	**Panel discussion: Outlook on China property sector - are we at a turning point?** *Moderator:* Mr. Jeffrey GAO, Head of China Property Research, Nomura *Panelists:* Mr. LIU Yuan , Vice President (Property Research), Centaline Group Mr. Liqun ZHANG, Senior Research Fellow of Macro Economic Research Department, DRC Mr. Joe ZHOU, Head of Research, Shanghai and East China, Residential Market, JLL	**Presentation: Home revolution – Opportunities in Eco-Smart Home** *Moderator:* Mr. Joseph LAM, Power, Utilities & Renewables Energy, Equity Research, Nomura *Panelists:* Mr. Alessandro BISAGNI, Founder & Managing Director, Bisagni Environmental Enterprise Mr. Shawn QU, CEO, Canadian Solar Mr. Xin Cong ZHU, Vice President, U-Home (Smart Home Unit of Haier Electronics)
4:30-5:20 PM	**Panel discussion: Mobile gaming - blue ocean or red sea?** *Moderator:* Mr. Chao WANG, China Media/Internet, Hong Kong, Equity Research, Nomura *Panelists:* Mr. Tao HONG, Founder, Gamelook	**Presentation: China and Semiconductors - Brave New World or Same Old Story?** Mr. Christopher THOMAS, Senior Advisor, Asia Leadership Team, McKinsey & Company *Moderator:* Mr. Leping HUANG, China Technology and
	Mr. Quanxin SUN, VP, Mokylin Mr. Hang ZENG, Director of Strategic Analysis, Chukong Technologies Inc. Co., Ltd, Author of Mobile Empire	Telecom Research, Asia ex-Japan, Nomura

* Session opens to media

Speaker biographies are available at http://www.nomuraasiaforums.com/

Agenda subject to change

Agenda: Thursday, 4 Sep, 2014

Thursday, September 4	Pudong Shangri-la, The River Wing, Shanghai	
8:30 AM	**Registration** (Breakfast will be served)	
09:00-9:50 AM	**Grand Ballroom, River Wing, Level 3**	
	Keynote Address: Thoughts on reforms of the Chinese financial system Mr. Xiqing GAO, Professor, School of Law, Tsinghua University and Former Vice-Chairman and President, China Investment Corporation *Moderator:* Mr. Michael KURTZ, Chief Asia Equity Strategist and Global Head of Equity Strategy, Nomura	
10:00-10:50 AM	**Changan Room, River Wing, Level 3**	**Suzhou Room, River Wing, Level 3**
	Presentation: Challenges of Chinese retail market Mr. Tomihiro SAEGUSA, Head of China Operations, Ito Yokado *Moderator:* Ms. Emma LIU, Head of China Consumer Research, Asia ex-Japan / China, Hong Kong, Nomura	**Presentation: The future of China's mobile carriers** Mr. Andy TAO, Vice Director, Senior Consultant for NRI, Telecom Team *Moderator:* Mr. Leping HUANG, China Technology and Telecom Research, Asia ex-Japan, Nomura
10:50-11:00 AM	**Morning Refreshments**	
11:00-11:50 AM	**Presentation: The bottlenecks in the development of electric vehicle and energy storage station in China** Professor Chengwei XIAO, Head of Electric Battery Material Taskforce, National 863 Project *Moderator:* Mr. Leping HUANG , China Technology and Telecom Research, Asia ex-Japan, Nomura	**Panel discussion: Innovative online marketing solution to target more precise audience** *Moderator:* Mr. Chao WANG, China Media/Internet, Hong Kong, Nomura *Panelists:* Mr. Simon WANG, VP, AdChina Mr. Eric WENG, Managing Director, Client Solutions, Carat
12:00-1:20 PM	**Grand Ballroom, River Wing, Level 3**	
	Lunch Keynote: Shanghai-Hong Kong Stock Connect Mr. James FOK, Chief of Staff, Head of Group Strategy, Hong Kong Exchanges and Clearing Limited Ms. Lisa YingYing LI, Manager, Global Business Development, Shanghai Stock Exchange *Moderator:* Ms. Wendy LIU, Head of China Equity Research, Nomura	
1:30-2:20 PM	**Changan Room, River Wing, Level 3**	**Suzhou Room, River Wing, Level 3**
	Panel discussion: China's Changing Banking Landscape: Challenge and Opportunity *Moderator:* Mr. Michael KURTZ, Chief Asia Equity Strategist and Global Head of Equity Strategy, Nomura *Panelists:* Ms. Jennifer QIN, Lead Partner, Deloitte Asia Pacific Investment Management industry practice and co-leader, Deloitte China Global Financial Services Industry banking and securities audit practice Mr. Simon RABINOVITCH, Asia Economics Editor, The Economist Dr. ZOU Xin, Deputy General Manager of Corporate Strategy and Investor Relations, ICBC	**Presentation: Online is the new Black - The impact of ecommerce on China's retail real estate sector** Mr. Michael KLIBANER, Regional Director, Head of Research – Greater China, JLL *Moderator:* Mr. Jeffrey GAO, Head of China Property Research, Nomura
2:30-3:20 PM	**Panel discussion: Future of industrials sector driven by automation** *Moderator:* Ms. Caren HUANG, Analyst, Machinery, Taiwan Equity Research, Nomura *Panelists:* Mr. Johnny HUANG, Analyst, Mechanical and Manufacturing Systems in Industrial Economics & Knowledge Centre (IEK), Industrial Technology Research Institute (ITRI) Mr. Wei WANG, Vice chief editor, Robot Technique and Application magazine	**Presentation: Auto demand outlook from a regional perspective and auto financing boom** Mr. John ZENG, Managing Director, LMC *Moderator:* Mr. Benjamin LO, Autos & Auto Parts, China, Research, Asia ex-Japan, Nomura

* Session opens to media

Speaker biographies are available at http://www.nomuraasiaforums.com/

Agenda subject to change

Appendix A-1

Analyst Certification

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Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Previous rating	Date of change	Sector rating
Huadian Power International	1071 HK	HKD 5.86	04-Sep-2014	Buy	Neutral	01-Sep-2014	N/A
ICBC	1398 HK	HKD 5.30	04-Sep-2014	Buy	Strong Buy	10-Dec-2008	N/A
Geely Automobile	175 HK	HKD 3.07	04-Sep-2014	Buy	Neutral	09-Jul-2014	N/A
Sands China	1928 HK	HKD 48.70	04-Sep-2014	Buy	Not Rated	10-Feb-2014	N/A
Uni-President China Holdings	220 HK	HKD 7.11	04-Sep-2014	Neutral	Buy	31-Oct-2013	N/A
China Vanke Co	2202 HK	HKD 15.32	04-Sep-2014	Buy	Not Rated	10-Apr-2014	N/A
MGM China	2282 HK	HKD 25.10	04-Sep-2014	Buy	Not Rated	10-Feb-2014	N/A
Lee & Man Paper Manufacturing	2314 HK	HKD 4.82	04-Sep-2014	Buy	Not Rated	21-Feb-2013	N/A
Great Wall Motor	2333 HK	HKD 33.35	04-Sep-2014	Buy	Neutral	13-Jan-2014	N/A
ENN Energy Holdings	2688 HK	HKD 56.50	04-Sep-2014	Buy	Neutral	07-Jun-2013	N/A
Tingyi Holdings	322 HK	HKD 22.05	04-Sep-2014	Buy	Neutral	31-Oct-2013	N/A
Sino-Ocean Land Holdings	3377 HK	HKD 4.53	04-Sep-2014	Buy	Not Rated	10-Apr-2014	N/A
Shanghai Industrial Hldgs	363 HK	HKD 25.90	04-Sep-2014	Buy	Not Rated	28-Aug-2012	N/A
GCL Poly Energy	3800 HK	HKD 2.92	04-Sep-2014	Reduce	Neutral	18-Jun-2013	N/A
Sinopec	386 HK	HKD 8.14	04-Sep-2014	Buy	Rating Suspended	25-Sep-2013	N/A
Dongfeng Motor	489 HK	HKD 13.92	04-Sep-2014	Buy	Neutral	09-Jul-2014	N/A
Sun Art Retail	6808 HK	HKD 9.29	04-Sep-2014	Not rated			N/A
Tencent Holdings	700 HK	HKD 129.40	04-Sep-2014	Buy	Not Rated	05-Mar-2014	N/A
Nissan Motor	7201 JP	JPY 1,023.0	04-Sep-2014	Buy	Neutral	28-Jul-2014	N/A
Honda Motor	7267 JP	JPY 3,555.0	04-Sep-2014	Neutral	Buy	10-Jul-2014	N/A
Huadian Fuxin	816 HK	HKD 4.82	04-Sep-2014	Buy	Not Rated	15-May-2014	N/A
PetroChina	857 HK	HKD 11.62	04-Sep-2014	Buy	Rating Suspended	25-Sep-2013	N/A
Datang International Power	991 HK	HKD 4.52	04-Sep-2014	Buy	Neutral	30-Jul-2012	N/A
Baidu	BIDU US	USD 227.45	03-Sep-2014	Buy	Not Rated	05-Mar-2014	N/A
Google Inc.	GOOG US	USD 577.94	03-Sep-2014	Buy	Not Rated	14-Jan-2014	Not rated
PepsiCo, Inc.	PEP US	USD 92.75	03-Sep-2014	Reduce	Not Rated	05-Aug-2014	Bearish
Qihoo	QIHU US	USD 85.67	03-Sep-2014	Buy	Not Rated	05-Mar-2014	N/A

Important Disclosures

Online availability of research and conflict-of-interest disclosures

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As at 30 June 2014. **The Nomura Group as defined in the Disclaimer section at the end of this report.*

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The rating system is a relative system, indicating expected performance against a specific benchmark identified for each individual stock, subject to limited management discretion. An analyst’s target price is an assessment of the current intrinsic fair value of the stock based on an appropriate valuation methodology determined by the analyst. Valuation methodologies include, but are not limited to, discounted cash flow analysis, expected return on equity and multiple analysis. Analysts may also indicate expected absolute upside/downside relative to the stated target price, defined as (target price - current price)/current price.

STOCKS

A rating of **'Buy'**, indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of **'Neutral'**, indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of **'Reduce'**, indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of **'Suspended'**, indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies. Securities and/or companies that are labelled as **'Not rated'** or shown as **'No rating'** are not in regular research coverage. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies. Benchmarks are as follows: **United States/Europe/Asia ex-Japan**: please see valuation methodologies for explanations of relevant benchmarks for stocks, which can be accessed at: http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology; **Japan:** Russell/Nomura Large Cap.

SECTORS

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Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan prior to 21 October 2013

STOCKS

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Target Price

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