Deutsche Bank
Markets Research

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Periodical

European Daily Focus

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For further details Focus on Global Research of the day, please see below from Page 7 the summaries of the report. The full research reports can be found on our DB Research website http://gm.db.com/equities

Today's DB Conference

9th Annual Global Consumer Conference @ Paris

Upcoming DB Conference

Deutsche Bank presents Wood Mackenzie @ Australia	20 June, 2012
9th Annual Global Consumer Conference @ Paris	19 – 21 June, 2012
Oil and Gas Exploration Day@ London	21 June, 2012
dbAccess Latin American Consumer Day @London	22 June, 2012
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Focus On Global Research

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Tgt KRW 1,706,000.00 to KRW1,640,000.00 . Component business to drive 2Q12 earnings

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US Daily Economic Notes
Will starts and permits confirm further housing improvement?

Global Commodities Daily
Relief Rally Fades

Report Published

Schibsted

Schibsted

Hold

Reuters: SBST.OL Exchange: OSL Ticker: SBST

Initiate with Hold, tgt NOK203. Medium term momentum, near term headwinds

Price (NOK)	187.60
Price target (NOK)	203.00
52-week range (NOK)	219.60 - 120.00
Market cap (NOK)(m)	20,066.4
Shares outstanding (m)	107
Oslo All-Share Index	442.9

FYE 12/31	2011A	2012E	2013E
Revenue (NOKm)	14,378	14,704	15,422
DB PBT (NOKm)	1,572	1,467	1,670
Stated PBT (NOKm)	1,331	1,506	1,670
DB EPS (NOK)	8.75	8.25	9.39
DPS (NOK)	3.50	3.90	4.30
P/E (DB EPS) (x)	17.6	22.7	20.0

Near term ad risk and start-up risks outweigh digital strength for now

Schibsted is Europe's digital media giant (in a field of pygmies). 12x 2012E EV/EBITDA (or 9.6x before start-up losses) compares to a European sector on 6x. What keeps us at HOLD is not so much that valuation gap as that success in digital start-ups may imply more near term loss, not less, and that ad markets are soft at present and print circulation trends are difficult.

Online Classifieds (OC) – Europe's digital stars

The established OC operations (Scandi, France, Spain) are strong, high margin and have years of double digit growth to come. The investment phase (i.e. lossmaking) OC operations represent c20 venture-capital type plays; Brazil is just the highest profile of these. We value them as a (modest) net negative, but they likely remain a sentiment positive. SCHB is perhaps the only European media stock able to undertake this form and scale of greenfield investment.

Print – fade curve only a little better than average

The Scandi print assets are leaders in digital migration – c18% of revenues. But their circ trends and inability to generate meaningful online content revenues are all too familiar. We see a steady profit erosion (-3% CAGR to 2015). To be clear, print is an important driver of traffic both to its own digital companions, but also to OC. This is not a separable business.

Target at NOK 203; ad risks keep us to a HOLD

Our DCF (pg. 7, equating to group at WACC 8.3%, g 2.3%) gives a target of NOK 203. c10% upside is modest, though – probably non-consensually – we have the start-ups as a net negative. But we do not see those start-ups delivering profit upside any time soon – if they work in 2012, they'll need more spend in 2013. Ad markets in Scandi are a bit soft (and terrible in Spain), meaning that EPS risk seems weighted to the downside. The established OC operations will drive superior profit growth in the medium term, but for now we start with a HOLD. Main risks (pg. 6): Scandi macro evolution, pace of migration in established digital operations and in Media Houses, execution and competition in start-ups, sentiment towards continued start-up losses.

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Alcatel-Lucent

Buy

Reuters: ALUA.PA Exchange: PAR Ticker: ALUA

Positive read-across from Interdigital patent sale

Price (EUR)	1.24
Price target (EUR)	2.00
52-week range (EUR)	4.16 - 1.11
Market cap (EUR)(m)	2,815.9
Shares outstanding (m)	2,267
Free float (%)	100
DJ (.STOXXE)	216.6

FYE 12/31	2011A	2012E	2013E
Revenue (EURm)	15,696	15,141	15,339
DB PBT (EURm)	262	186	413
Stated PBT (EURm)	277	372	158
DB EPS (EUR)	0.09	0.06	0.16
DPS (EUR)	0.00	0.00	0.00
P/E (DB EPS) (x)	30.2	20.8	7.8

Patent transaction momentum remains strong: Interdigital (NR) announced the sale of 1,700 patents & applications primarily related to 3G, LTE and WiFi/802.11 technolgies to Intel (Buy-rated, 27.34 USD) for $375m. The transaction implies proceeds per patent of around $220k, inline with a 2011-12 transaction range of $130k to $1.32m per patent. We recall that ALU has mandated RPX (NR) as a strategic partner to market its IP/patent portfolio of ~29k existing plus future patents to interested parties.

IP monetisation could de-risk ALU's b/s further: We believe ALU could generate meaningful proceeds from monetising its IP/patents in H212 which should help to further de-leverage its balance sheet (Q112 net cash E722m/E91m net debt after adjusting for cash trapped in its Chinese JV). Although our balance sheet analysis suggests limited liquidity risk for ALU in 2012-13, we believe the market remains seriously concerned about the company's balance sheet, which an upcoming sale/monetisation of patents could address. If we assume RPX manages to license/sell between 1,000 and 3,000 of ALU's patents close to historic monetisation levels of $130k to $1.32m per patent, then we estimate a (very wide) range of potential proceeds between ~$130m up to $3.5+bn. We believe any sizeable tripledigit $m proceeds would be a positive catalyst for the stock. Adding our view of improving revenue momentum (US & China Capex=~50% of revenues) from Q212 and a likely margin trough in Q112, we maintain our Buy rating.

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C&W Communications

Buy

Reuters: CWC.L Exchange: LSE Ticker: CWC

More positive conditions (perhaps sufficient) in place

Price (GBP)	29.00
Price target (GBP)	60.00
52-week range (GBP)	45.16 - 27.28
Market cap (GBP)(m)	731.2
Shares outstanding (m)	2,521
Free float (%)	100
FTSE 100 INDEX	5,491.1

FYE 3/31	2012A	2013E	2014E
Revenue (USDm)	2,875	2,834	2,844
DB PBT (USDm)	404	426	468
Stated PBT (USDm)	104	399	468
DB EPS (USD)	0.06	0.06	0.07
DPS (USD)	0.08	0.04	0.04
P/E (DB EPS) (x)	9.8	7.1	6.3

Our East Coast roadshow (12-14 Jun) with CWC mgt (CEO & CFO) provided evidence that some of the necessary, and in our view perhaps sufficient, conditions are in place for a more positive equity performance.

In Jamaica, whilst regulatory changes are only slightly EBITDA +ve from day 1 (15 July), enaction of MTR reductions to a symmetrical J$5 provides the necessary condition to allow CWC to regain market share from Digicel and reverse the recent slide in profitability. As a result, LIME Jamaica has announced mobile price cuts of 40-62%.

Panama mobile remains competitive and CWC has invested to protect market share which has been stable above 50%. Lower EBITDA in H2 was also substantially due to lower 'lumpy' Enterprise contract wins and low carrier capacity availability. The pipeline for Enterprise apparently remains strong with a number of potential contracts in Panama and elsewhere in Central America, being pursued. New carrier capacity is being added. Govt stake sale (49 to 25%) could prove helpful for minority leakage.

Macao continues to benefit from the economy/casino growth. Only one new fixed licence has been awarded. Recently reduced inter-operator roaming tariffs should prove elastic over time. Local mgt is targetting the 80% of 28m visitors (LTM) who leave their handset switched off, in order to boost lucrative mobile data revenues.

Increasing Telco M&A globally improves the ability of CWC to rationalise its disparate portfolio. Mgt believes there is interest in CWC assets, but (correctly in our view) is adamant that they will not be sold cheaply. There appears to be a number of investment opportunities for any potential cash raised. In our view, the value of CWC's associate assets (c.$400m) is overlooked by the market.

Mgt. view that growing interest in mobile data is a positive and CWC's integrated network helps on backhaul. Last years capex hike sees HSPA+ roll-out achieved across all of CWC's major markets. The focus is now on monetisation and maximising returns on incremental capex (total capex c$50m lower in 12/13 vs 11/12).

Mgt view the recently reduced dividend ($4c, 8.8% yield) as both sustainable and growable. Current net debt of 2.5x proportionate EBITDA is at the top-end of the Co's self-imposed leverage targets and well within bank covenants. Equity issuance is viewed by management as extremely unlikely at co's current low multiple even if attractive investment opportunities became available. TP 60p.

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Ericsson

Hold

Reuters: ERICb.ST Exchange: STO Ticker: ERICb

Rising competitive pressure in Managed Services

Price (SEK)	63.30
Price target (SEK)	61.00
52-week range (SEK)	93.50 - 58.85
Market cap (SEK)(m)	203,319.6
Shares outstanding (m)	3,241
OMX Stockholm Index	305.6

FYE 12/31	2011A	2012E	2013E
Revenue (SEKm)	226,921	228,437	231,896
DB PBT (SEKm)	21,864	14,854	19,525
Stated PBT (SEKm)	18,121	18,248	19,365
DB EPS (SEK)	5.61	4.23	5.06
DPS (SEK)	2.50	2.50	2.50
P/E (DB EPS) (x)	13.8	14.9	12.5

NSN & Chinese share gains could impact Services margins

Our proprietary contract tracker suggests share gains for NSN & ZTE in new managed services at the expense of Ericsson and in our view increasing industry pricing and margin pressure. With Ericsson's Professional Services margins well above best-in-class IT Services peers, we see potential downside pressure here in the mid-term. Despite a likely networks earnings trough in H112, we believe a recovery is already reflected in Ericsson's premium valuation vs global peers and maintain HOLD.

NSN & Chinese competition heating up in managed services

We believe market share & pricing pressure in managed services is increasing this year. Our contract tracker shows that NSN has materially increased its ytd share of new contracts from 11% in 2011 to ~33% with sizeable wins in Russia & India. Also, Huawei & ZTE (Buy, HKD14.70) continue to gain market share in developed and emerging markets with Huawei scoring its first developed market wins with O2 UK & Sunrise. We believe Ericsson is suffering from this heightened competitiveness, with its ytd share of managed contracts down to ~30% tracking meaningfully below 2011's ~50%.

Services margins could come under pressure mid-term

Ericsson's ~16% Professional Services EBITA margins (38% of group EBITA) remain well above best-in-class IT Services/Consulting peers at ~7 to 14%. We believe a step-up in competitive & pricing pressure in new managed services contracts could impact margins in H212 & 2013 once the lower margin structure of recent contracts starts to feed into the company's services P&L.

Maintain sub-consensus EPS, valuation unattractive vs peers

While we believe Ericsson's Gross Margins are bottoming out at the 33 to 34% level, we do not expect a meaningful recovery in the next 12 months. Assuming such a stabilization the stock trades on a relatively unattractive 12.5x 2013E P/E vs. 8x to 11.5x for global equipment peers. Our sensitivity analysis indicates Ericsson would need to see GM's recover to 36+% for the stock to trade on a more attractive sub10x P/E, which we view as unlikely. HOLD.

SEK61 target unchanged, risks

Our SEK61 target price is based on a 14.5x 2012E P/E/12x ex-cash, in line with the stock's historical mid-cycle multiple and a 10% discount to our SOTP valuation. Key up/downside risks: Capex or market share swings or pricing pressure, better/worse ST-Ericsson performance, value-destructive M&A.

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European Registrations

May car volumes down 10%, Apr+May SAAR better than Q1

Companies Mentioned

Porsche (PSHG_p.DE),EUR40.53 Buy Price Target EUR60.00

Toyota Motor (7203.T),¥3,055 Buy Price Target ¥4,150

Daimler (DAIGn.DE),EUR34.74 Hold Price Target EUR42

Fiat (FIA.MI),EUR3.63 Hold Price Target EUR4

Volkswagen AG (VOWG.DE),EUR116.75 Buy Price Target EUR165

Registrations fall 10% in May

May car registrations fell by 10% in W. Europe (EU 18) (source: LMC) with YTD volumes reaching 5.3mn units, -8%. May was impacted by the calendar effect in some countries. SAAR however has remained broadly stable sequentially at 12.3mn/yr in May. On a reported basis only the UK posted a gain in volumes in May. YTD SAAR of 12.1mn/yr is broadly in line with our FY estimate of 12.0mn units. In the five core markets, demand for Korean OEMs, Toyota and Porsche gained the most in May with the French OEMs and Fiat posting the weakest numbers. ACEA reports May figures on 15 June.

5 Core markets – Volatile trends from the calendar effect

Core markets performed better in May than the overall region with a decline of 7% (-8% YTD) with easier comps. However, May was impacted by the calendar effect in some countries, with Germany and France having fewer selling days, Spain and UK more. On a reported basis, May volumes only grew in the UK (+8% YoY (adj. -2% YoY), +3% YTD) while the rest recorded declines: Germany (-5% YoY (adj. +5%), stable YTD), France (-16% YoY (adj. -3%), -17% YTD), Italy (-14% YoY, -19% YTD) and Spain (-8% YoY (adj. -12%), -7% YTD). Overall, the key markets remain weak with the first two months of Q2 volumes down 6% YoY, off easier comps.

May SAAR stable sequentially, YTD broadly in line with our estimate for FY12

With the eighth consecutive monthly volume decline in the region, W. European May SAAR was 12.3mn/yr vs. 12.4mn/yr in April (12.1mn/yr YTD). Spain and Italy remain rather weak as the SAAR for Spain was 720k/yr, slightly better than Apr but still rather weak historically. Italian SAAR was also weak at 1.6mn/yr. French SAAR fell to 1.86mn/yr - the lowest since Dec. '08. German SAAR remained buoyant above 3.3mn/yr. YTD, SAAR is ~7% above our estimates for Germany and ~4% above for the UK, while for Italy it is ~5% below. Our estimates are broadly similar to the YTD SAAR in France and Spain.

VW and Korean OEMs continues to gain the most

In May, except for the Korean OEMs, Porsche and Toyota, the rest recorded declines. YTD, the former two and Daimler posted the only gains. However, Fiat, and French OEMs continued to suffer. YTD, so far VW has gained the most m/share in the core markets (+150bp) with the Korean OEMs and luxury carmakers following close behind (+110bp each for both groups). This mainly stems from losses at the French OEMs(-250bp) and Fiat (-85bp).

FY volume estimate for the region unchanged

We leave unchanged our FY volume estimate of 14.3mn units, -6%. However, we upgrade by 100k units to 1.9mn, -2% YoY, our UK estimate and downgrade by 100k units our Italian market estimate (to 1.55mn, -11%).

Valuation/Risks

We use EV/Sales and EV/EBITDA valuation methodologies for companies with extensive liabilities and a P/E valuation approach for companies that generate adequate free cash flow and consistently grow earnings. The primary sector risk is higher/lower-than-expected production in N.A. or Europe, driven by higher/lower-than-expected economic and/or freight growth.

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Electronics Supply Chain

Reducing estimates on macro concerns

Company	Currency	Rating	Closing Price	Target Price Old	Target Price New	Upside to tgt (%)	Mkt Cap	Reuters Code
Amphenol	USD	Buy	56.44	64	63	12%	9.3bn	APH.N
Arrow Electronics	USD	Buy	33.71	49	44	31%	4.7bn	ARW.N
Avnet	USD	Buy	31.54	42	40	27%	5.2bn	AVT.N
Benchmark Electronics	USD	Hold	14.11	19	16	13%	958m	BHE.N
Celestica	USD	Hold	7.68	9	8	4%	2.1bn	CLS.N
Fabrinet	USD	Buy	12.22	22	17	39%	634m	FN.N
Jabil Circuit	USD	Hold	19.01	24	20	5%	5.3bn	JBL.N
Molex	USD	Buy	24.72	32	29	17%	4.5bn	MOLX.OQ
Plexus	USD	Buy	30.64	42	37	21%	1.2bn	PLXS.OQ
Sanmina-SCI	USD	Hold	7.39	9	8	8%	898m	SANM.OQ
TE Connectivity	USD	Hold	32.53	36	34	5%	16bn	TEL.N
Flextronics	USD	Buy	6.42	8	-	25%	4.8bn	FLEX.OQ

Source: Deustech Bank

Revising estimates and price targets to reflect slower macro environment

We are reducing our estimates and cutting our price targets on the Technology Supply Chain names to better reflect the current slow macro environment. By segment, we have primarily reduced our growth expectations for the telecom and networking segments, where we believe the hoped-for C2H-12 recovery is still uncertain. We have also reduced our growth assumptions for the server and storage segments. We believe that market sentiment currently reflects a slowdown, but does not assume a full-blown recession. For safer investments, we would focus on quality names like APH, MOLX, PLXS and distributors ARW and AVT. For the recovery, our top picks are FLEX and FN.

Reducing 2H growth assumptions

Speaking with companies over the past few weeks, we believe macro concerns are starting to result in more cautious spending by customers. Companies are still seeing slow growth in the U.S., but Europe remains challenged, and Asia is starting to slow. There is still demand, but many companies have noted some programs are taking longer to move from forecasts to actual orders. Based on a slower demand environment, we have cut our C2H-12 revenue growth assumptions to 4-5% H/H, down from our previous assumptions of +7-8% H/H. This is below 10-year average 2H/1H growth of 11% for EMS, 6% for connectors, and 5% for the distributors Arrow and Avnet. We would also note that our 4-5% H/H growth comes after dismal 1H results and we are modelling Y/Y revenue declines for the majority of the supply chain companies.

Valuation reflects slowdown but not recession; balance sheets in better shape

While valuations for the group have come down over the past few months, supply chain stocks are currently pricing in a numbers cut but not a full-blown recession on the scale of 2008-2009. P/E valuations remain at the low end of historical ranges, and below average levels, but in most cases have not hit trough levels. On P/sales supply chain stocks are largely trading at the low end of historical ranges, while a few are trading at their average. Our analysis of debt levels of supply chain companies shows that most have reduced their net debt over the past 3 years, and we are not concerned about liquidity.

Top picks: focus on quality and then company-specific catalysts

Supply chain stocks as a rule are not particularly safe investments during a downturn, as they tend to decline more than the overall market. For investors that want some relatively safe names to invest in during a turbulent period, we would focus on high-quality stocks that have had consistent performance over the past 10 years, which would include APH, MOLX, PLXS, and the distributors ARW and AVT. Out of the recovery, we would focus on names with companyspecific catalysts like FLEX and FN.

Valuation and risks

We believe most investors focus on P/E when evaluating supply chain names; see our valuation and risk sections for each company

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Korea consumer 2H12 outlook

Three reasons why the dept store segment appears attractive

Company	Currency	Rating		Closing	Target Price		Upside	Mkt Cap	Reuters
		Old	New	Price	Old	New	to tgt (%)		Code
CJ O Shopping	KRW	Hold	Buy	169800	312000	247000	45%	1529bn	035760.KQ
Shinsegae	KRW	Hold	Buy	221500	278000	275000	24%	2594bn	004170.KS
AmorePacific	KRW	Buy	Hold	1084000	1250000	1150000	6%	6641bn	090430.KS
KT&G	KRW	Buy	Hold	81400	87000	-	7%	10887bn	033780.KS
Emart	KRW	Buy	-	254000	355000	300000	18%	7122bn	139480.KS
HDS	KRW	Buy	-	133500	214000	190000	42%	4212bn	069960.KS
Hyundai HS	KRW	Buy	-	108000	176000	157000	45%	1692bn	057050.KS
ORION Corp	KRW	Hold	-	949000	583000	1060000	12%	5011bn	001800.KS
Cheiljedang	KRW	Buy	-	340000	406000	-	19%	4434bn	097950.KS
LG H&H	KRW	Buy	-	600000	686000	-	14%	9027bn	051900.KS
Lotte Shopping	KRW	Buy	-	296000	425000	-	44%	11240bn	023530.KS
Nong Shim	KRW	Hold	-	205000	234000	-	14%	1411bn	004370.KS

Source: Deutsche Bank

Turning positive on retail for Korea consumer sector

We are turning positive on the Korea retail sector, expecting consumption to recover from 2H12 with PCE growth assumptions of 2.3%~2.4% in 2H12 vs. 1.4% in 2Q. Expecting economic recovery to benefit discretionary consumer players the most, we select dept store as the most preferred segment in the sector. Meanwhile, we see cosmetics sector, our preferred sector in 1H12, less attractive in the short term with pricey valuations and limited upside risks to our earnings forecasts. We upgrade Shinsegae and CJOS to Buy from Hold while downgrading AmorePacific and KT&G to Hold from Buy. We suggest HDS, Shinsegae and Cheiljedang as our top Buys in the sector.

Time to seek bargain-hunting opportunities among department stores

We are changing our stance on Korea retailers, now preferring the dept store segment to discount stores and TV home shopping. We expect dept store companies' earnings growth to start recovering from 2H12 and return to a long-term expansion phase in 2013, given three major factors: a) recovery of consumption fundamentals in 2H12; b) ASP increase from the high-end segment growth; c) store expansion cycle favorable to SSS growth in 2013. Furthermore, we believe dept store companies can expand their operating margins in 2013 once economic conditions recover. For the past 14 years, while they passed through the down-cycle, dept stores focused on cost restructuring, which resulted in margin expansion during the up-cycle. With a more positive stance on Korea retailers, we upgrade Shinsegae and CJOS to Buy from Hold and recommend HDS and Shinsegae as our sector top picks.

Cosmetics' near-term attractiveness weakening due to valuations

We continue to favor cosmetics companies LG H&H and AmorePacific, given their attractive long-term growth outlook driven by: a) ongoing ASP increases with premiumization; b) increasing overseas business opportunities on the back of solid brand images in the Asia Pacific region; and c) distribution network expansion gaining market share from overseas brands. However, we are suggesting a slightly more conservative stance on cosmetics companies' near-term share performance, seeing weaker upside to our valuations than retail sector. We downgrade AmorePacific to a Hold from a Buy.

Food & beverage (F&B) earnings' momentum to slow gradually

We believe F&B companies' earnings momentum will gradually decelerate from 2H12. We see limited upside potential to ASP hikes for the next six months, given weakening inflation. In addition, raw material prices are stabilizing, but not declining enough to reduce F&B companies' raw material cost burden. Furthermore, KRW depreciation in 1H12 will impact negatively F&B companies' earnings in 2H12.

Valuations and risks

Key downside risks to the retail sector: 1) additional government regulations on the retail industry and 2) slower-than-expected margin expansion due to market competition. Key upside risk to F&B sector: investor sentiment could focus more on defensive stocks in the event of a longer-than-expected global economic recession.

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Construction Machinery

Close to the bottom; prefer Zoomlion to Lonking in the near term

Company	Currency	Rating		Closing	Target Price		Upside	Mkt Cap	Reuters
		Old	New	Price	Old	New	to tgt (%)		Code
Zoomlion	HKD	Sell	Hold	10.70	6.78	10.5	-2%	16bn	1157.HK
Lonking	HKD	Hold	Sell	2.03	2.82	1.58	-22%	12bn	3339.HK

Source: Deutsche Bank

Sentiment in 2H12 likely to improve, but concerns still exist

We turn less cautious on the construction machinery sector, as we believe it has come close to the bottom and that sentiment is likely to improve in 2H12 due to policy easing on infrastructure projects and better liquidity. However, we believe a strong rally is unlikely, with concerns about near-term weak demand for wheel loaders (Lonking's major product) and the financial leasing effects on Zoomlion's cash flow. We upgrade Zoomlion to Hold from Sell but downgrade Lonking to Sell from Hold. We recommend a pair trade to long Zoomlion/short Lonking in the near term due to Zoomlion's stronger earnings growth in 2012. We prefer railway names in 2H12.

Earthmoving: cutting our 2012 demand assumptions

Demand for wheel loaders/excavators in 4M dropped over 30% (worse than our expectations) due to the drop in FAI in infrastructure. Demand for earthmoving in the near term may continue to be weak. We believe it will recover gradually and that the decline will narrow starting from July or August due to policy easing, but the recovery is unlikely to be meaningful. We expect demand for wheel loader/excavator to drop 14% (previously +8%)/24% in 2012 (+3%).

Concrete machinery: better growth in 2012, but rising uncertainty in 2013-14

Concrete pump trucks' 4M12 sales volume rose over 10% (better than our expectation) driven by the rise in the ready-mix ratio and producers' favourable financial leasing conditions. We expect the trend to continue for one year at least due to a low ready-mix ratio in China. We forecast China's 2012 sales volume of concrete machinery to grow 10% (previously 0%). However, blind competition (such as cutting the upfront payment ratio) may cloud the medium-term outlook.

Upgrading Zoomlion to Hold; downgrading Lonking to Sell; we prefer rail names

We raise Zoomlion's 2012-13E earnings by 34% to reflect the better demand growth of concrete machinery and raise our target price to HK$10.50 (from HK$6.78) due mainly to earnings upgrade and a higher target multiple. We cut Lonking's 2012-13E earnings by 49% to reflect lower assumptions on wheel loader sales volumes, and we reduce our target price to HK$1.58 (from HK$2.82), due mainly to our earnings downgrade. We recommend a pair trade of long Zoomlion/short Lonking, as 1) we think Zoomlion can deliver a solid earnings result for 1H12 vs. a sharp drop in Lonking's 1H12 profits, 2) Zoomlion has a better financial situation, and 3) we see more earnings downside risk for Lonking, as we forecast revenue from concrete machinery to account for 50% of Zoomlion's 2012 revenue, whereas Lonking's sales exposure to earthmoving is about 80%. We prefer rail names (CRG/CRC/CCC) to construction machinery names in 2H12 due to their better earnings visibility. We expect earnings for CRG/CRG/CCC to improve qoq and new orders to pick up gradually in 2H12.

Valuing China's construction machinery companies on 2012E PE; risks

Our target prices are based on FY12E PEs of 7.6x for Zoomlion (from 6.5x) and 6.0x for Lonking (5.5x), for which we currently use average 2008-09 trading levels instead of the low end of the trading range in the 2008-09 trough, as we expect the sector to be close to the bottom and ready for a pick-up in 4Q12/2013. Upside risks: higher FAI and credit easing. Downside risk: rising competition.

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SEC

Buy

Reuters: 005930.KS Exchange: KSC Ticker: 005930

Tgt KRW 1,706,000.00 to KRW1,640,000.00 . Component business to drive 2Q12 earnings

Price (KRW)	1,243,000
Price target (KRW)	1,640,000
52-week range (KRW)	1,410,000.00 - 680,000.00
Market cap (USDm)	158,241
Shares outstanding (m)	147.3
Net debt/equity (%)	-10.5
Book value/share (KRW)	803,405
Price/book (x)	1.55

FYE 12/31	2011A	2012E	2013E
Sales (KRWbn)	165,002	198,311	208,212
Net Profit (KRWbn)	13,359.2	21,244.3	22,388.3
DB EPS (KRW)	90,694	144,226	151,992
PER (x)	9.9	8.6	8.2
Yield (net) (%)	0.6	0.4	0.4

Slightly lowering the target price to reflect a weak macro environment

We expect SEC to report an operating profit of W6.5tr, up 10% qoq driven by 1) improving profitability in semiconductors (mainly DRAM, LSI), 2) margin improvement in display from higher utilization and 3) seasonal earnings improvement in the CE division. We believe its component business would be the main driver for 2Q12 earnings improvement while the set business would show slower improvement due to weak macros. We estimate the component business's OP at W1.7tr in 2Q12 (vs W1.0tr in 1Q12) while earnings from the set business should remain flat at W4.8tr. We retain Buy (given valuation) but cut our TP by 4% to W1,640,000 to reflect the weakening macro environment.

Component business the main driver for 2Q12 earnings

We maintain our view that the component business would drive the 2H12 earnings, mainly driven by DRAM. We believe the DRAM industry could show a strong recovery in 2H12 due to low capex intensity (capex to sales ratio of 17% in 2012E), which should slow supply. However, NAND prices remained weak during the quarter due to slow end-demand and increased industry supply. We remain less optimistic on the NAND industry due to higher industry capex to sales of 46% in 2012E. We expect semiconductor operating profit to account for 18% of the total profit in 2Q12E, improving to 30% by 4Q12E.

Signs of a slowdown from weakening macro environment in 2Q12

We believe a key factor to watch out for in 2Q12 results is whether the weakness in end-demand is from product transition or a weak macro economy. There are several signs that could expose the weakness in end-demand: 1) shipments of SEC smartphones coming at the low end of guidance, 2) NAND price weakness due to end demand weakness (macro weakness + slowing NAND GB/sys growth), and 3) LCD shipment growth slightly weaker than expected. We continue to believe DRAM earnings could show the strongest growth in 2H12 as DRAM is more supply-driven than demand-driven.

Valuation and risks

We trim our EPS estimates by 1% for 2012 and 4% for 2013 to reflect slowerthan-expected end demand and a weak macro environment. Our TP is based on a 12-month rolling ROIC valuation methodology (to capture the earnings momentum, which is an important driver for tech stocks). Risks: 1) weak global demand, 2) stronger-than-expected DRAM supply, 3) litigation and 4) forex.

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Nippon Shokubai

Buy

Reuters: 4114.T Exchange: TYO Ticker: 4114

Tgt ¥1,250 to ¥1,090. Retain Buy: expect FY3/13 to beat consensus; new growth from FY3/14

Price (¥)	934
Price target - 12mth (¥)	1,090
52-week range (¥)	1,067 - 765
Market cap (¥bn)	190
Shares outstanding (m)	203
Foreign sholdg ratio (%)	19.8
TOPIX	739

FYE 3/31	2012A	2013E	2014E
Sales (¥bn)	320.7	334.0	354.0
OP (¥bn)	31.1	28.5	32.5
RP (¥bn)	33.1	30.0	34.0
NP (¥bn)	21.3	21.0	23.5
EPS (¥)	105	103	116
P/E (x)	8.9	9.0	8.1

Reiterating Buy: Focus on strengths in acrylic acid/SAP chain

We expect factors including firm demand for acrylic acid as an SAP input and benefits from softer raw material prices to prevent prices and spreads in the acrylic acid business from deteriorating as much as the company expects in FY3/13. The company is the world leader in superabsorbent polymers (SAP), a raw material for disposable diapers. SAP supply is tightening, a trend we anticipate for the foreseeable future, thus we expect the company to benefit from expanded output in FY3/14 and after. We retain our Buy rating.

SAP business: Set for stable 7% annual growth; we expect tighter supply for foreseeable future

The disposable diaper majors in the US and Japan plan to continue increasing output in 2012 and 2013, mainly in Asia. Supply of SAP, a raw material for those diapers, is currently tight, and there are no signs of it easing in the foreseeable future (see figures on pg 4 and after).

Acrylic acid business: Margins to stabilize on increased share of non-cyclical business

The business portfolio is becoming less exposed to economic trends and price movements by 1) lowering the weighting to acrylic esters (AES), which have a large number of applications in cyclical businesses, 2) expanding external sales of acrylic acid for SAP, and a higher ratio of in-house consumption, and 3) increasing production of specialty esters, eg, for automotive paints.

Our forecasts for FY3/13-FY3/15: Higher SAP production to support double-digit OP growth in FY3/14 and after

We revise our FY3/13 forecasts and add new forecasts for FY3/14 and FY3/15. We lower our FY3/13 OP forecast from ¥37bn to ¥28.5bn (EPS changed from ¥122 to ¥103).

Valuation and risk

We lower our TP from ¥1,250 to ¥1,090. We base it on consensus estimates for FY3/13 and a weighted average P/E of roughly 10.5x for fine chemicals operations. Downside risks include 1) price declines due to strong Chinese capacity expansion and increased capacity utilization for acryl products, and 2) a poorer SAP supply/demand balance resulting from substantial supply growth at rivals.

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US Daily Economic Notes — Will starts and permits confirm further housing improvement?

Commentary for Tuesday: We have more evidence that the housing sector has turned the corner and that a modest recovery is underway. The June NAHB index rose one point to 29 after the prior month was revised down a point. The index now stands at the highest level since May 2007 (30), and provides further confirmation that the housing recovery continues to gain momentum. Current conditions for single-family sales improved two points to 32—the highest level since March 2007 (36). The six-month outlook remained unchanged at 34, just shy of the most recent high of 35 in March and buyers' traffic remained unchanged at 23. At the regional level, builder sentiment was mixed as the Midwest (31 vs. 26) and West (33 vs. 29) posted modest gains while the Northeast (29 vs. 31) and South (26 vs. 28) experienced slight declines in the month. It is interesting to note that as we progress through the important spring selling season, we have yet to see any signs of deterioration in the data that would suggest that sales were pulled forward due to the unseasonably warm winter. Indeed, both April housing starts and permits were slightly above their Q1 average: housing starts were 717k in April versus 712k in Q1 while permits were 723k versus 720k, respectively. Figures for May are released this morning, and based on the NAHB data we expect housing activity to hold close to April's readings. However, be aware that these figures are prone to large revision in both directions so the May data should not be viewed in isolation.

The mild improvement in housing activity is also evident from home prices, which appear to have bottomed. For example, CoreLogic house prices increased at a +4.7% annualized pace in Q1, the largest gain since Q3 2009 (+5.0%). Higher home prices are definitely lifting owners' equity, which is also getting a boost from larger mortgage down payments and possibly the paying down of mortgage debt. The upshot is that equity was up $333 billion in Q1 2012 from its year earlier level, the largest gain since 2005. At the margin, a substantial headwind to the US household over the past several years, declining home prices, might become a small tailwind. Whether house prices rise further from their current levels will depend on two factors which are interconnected: the labor market and lending standards. The former needs to show improvement while banks need to loosen standards on real estate. At the moment, the risk is that home price gains stall because the labor market remains soft, causing bank hesitancy to lend. —JL & BR

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Global Commodities Daily Relief Rally Fades

Overview

Greek relief rally faded quickly on Monday as it failed to deliver the clarity that market participants crave. We believe that event risks in the Euro zone could remain the key features in the coming months and sustain headwinds in the commodities complex.

Industrial metals moved mostly lower as concerns remain following Greek elections. In aluminium, despite prices below marginal cost of production, Chinese marginal producers have maintained high levels of output. Due to increasing cost pressure, China’s Henan province (accounting for 22% of national output) may provide RMB0.05/kwh of electricity for aluminium smelters to comply with the central government’s measures to boost domestic growth in H2. According to Reuters, Guizhou province has already given a subsidy of RMB0.03/kwh. In China, power cost accounts for around 45% of aluminium cash cost and according to our estimates a subsidy of RMB0.05/kwh could lower aluminium production cost by RMB725 or USD115/ton (assuming 14.5 MWh/t of aluminium production). More than 3/4th (or 2.9mt) of aluminium smelter production in the Henan province are in the 4th quartile of the global cost curve (Figure 1) making them unviable at the current aluminium prices. Though this subsidy could give a breather to the loss making smelters, this might not be enough to make them profitable at the current aluminium prices.

ExxonMobil announced that it would terminate its shale-gas exploration efforts in Poland as exploratory wells had shown that flow rates were insufficient to be commercial. Although a number of other companies remain active in Poland including ConocoPhillips, Chevron and PGNiG, ExxonMobil's exit raises concerns about the development potential of Poland's shale gas resource after the Polish Geological Institute released reserve estimates ranging from 346 to 768bcm, smaller than estimates issued by the U.S. EIA in April 2011.

In thermal coal, the planned construction of a new coal export terminal at the Port of Newcastle may be delayed beyond its planned 2015 start date owing to the planning permission process and the project's technical complexity. The project is planned to meet Hunter Valley coal producers' needs on a take-or-pay basis and may not begin operations on its 34mt of capacity agreements until 2017. The project could also be hindered by an ongoing shortfall of rail capacity relative to port loading capacity, according to Platts.

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Appendix 1

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Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.
Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock
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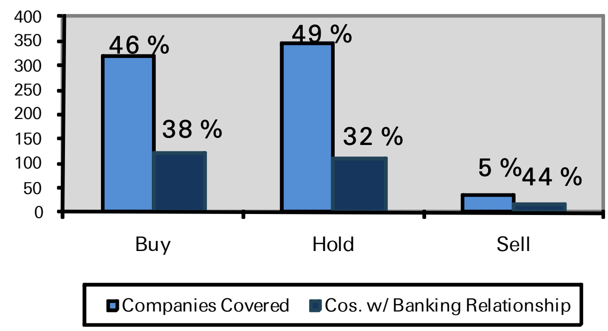

European Universe

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