

China A-shares: Conviction List Update

Equity Research

Our current best stock ideas in A-shares

A-share additions to/removals from the AEJ Conviction List (CL)

Since our last publication on Sept. 24, we added the following A-share idea onto the AEJ CL.

Hualu-Hengsheng Chemical (600426 CH): (1) Solid growth from new projects: We expect the company to deliver a three-year earnings CAGR of 20% (vs. coverage average of 13%), underpinned by higher earnings contribution from its new adipic acid product. **(2) Attractive risk/reward:** The stock is trading at more than 1 standard deviation below the historical average P/E, relative to returns which are above mid-cycle. Our bear case study also suggests an attractive risk/reward trade off at +9% (bear case) vs. +45% (base case).

We removed **Chongqing Lummy Pharmaceutical** from the AEJ CL on Sept. 25, following a target price downgrade. On Sept. 28, we removed **Jiangsu Yangnong Chemical**, and replaced it with Hualu-Hengsheng.

Spotlighting our A-share ideas on the AEJ Conviction List

For the period **Sept. 24 to Oct. 8**, our A-share ideas on the AEJ CL generated **+1.4% alpha hedged against our A-share coverage universe (+12.8% since Sept. 1, 2011, +10.1% ytd)**, and **+0.3%/+2.7% alpha hedged with the CSI 300/500 Total Return index (+9.3%/+21.7% since Sept. 1, 2011, +5.6%/+5.7% ytd)**.

This report provides a fortnightly update of the A-share stocks that are on our AEJ CL, and therefore offer the best sector-relative alpha generation potential within our 203 stocks A-share coverage universe, driven by short-term catalysts and/or long-term fundamental opportunity. The A-share stocks on our AEJ CL are the following Buy-rated CL stocks: **Baosteel, Beijing Capital, Better Life, BlueFocus, Fiberhome, Hualu-Hengsheng, Industrial Bank, Jiangsu Yuyue, Jizhong Energy, Ping An (A), SAIC and Yantai Wanhua.**

Opportunities within Buy-rated stocks

In addition to our CL ideas, we also highlight Buy-rated A-share stocks that offer the most upside potential to the current share price, on a 12-month horizon. These stocks include: **Lushang Property, Jiangsu Zhongnan Construction, China Merchants Bank (A), Shenzhen World Union Properties, and Zhejiang Yankong Group.**

A-SHARE IDEAS ON THE AEJ CONVICTION LIST

	Bbg ticker	Rating	% upside to PT
Beijing Capital Development	600376 CH	Buy	86
Industrial Bank	601166 CH	Buy	61
Ping An Insurance Group (A)	601318 CH	Buy	50
Hualu-Hengsheng Chemical	600426 CH	Buy	45
Jizhong Energy Resources	000937 CH	Buy	44
Better Life Commercial	002251 CH	Buy	38
Yantai Wanhua Polyurethanes	600309 CH	Buy	36
Fiberhome Telecom Tech	600498 CH	Buy	31
Jiangsu Yuyue Medical	002223 CH	Buy	29
SAIC Motor	600104 CH	Buy	29
BlueFocus Communication	300058 CH	Buy	26
Baoshan Iron & Steel	600019 CH	Buy	18

Note: PT refers to our 12-month price target.

Note (2): The list of stocks in the tables in this report do not include all A-share ideas on the AEJ Conviction List.

RELATIVE PERFORMANCE SUMMARY

Relative performance: A-share ideas on AEJ CL			
Date	vs. A-share coverage	vs. CSI 300 (TR) index	vs. CSI 500 (TR) index
1 week	0.0%	0.0%	0.0%
2 weeks	1.4%	0.3%	2.7%
Year-to-date	10.1%	5.6%	5.7%
Since Sept 1, 2011	12.8%	9.3%	21.7%

Results presented above cannot be viewed as an indicator of future performance.

Source: Goldman Sachs Research estimates, Gao Hua Securities Research estimates, Datastream.

Ning Ma
+86(10)6627-3063 ning.ma@ghsl.cn Beijing Gao Hua Securities Company Limited
Kelvin Koh, CFA
+86(10)6627-3088 kelvin.koh@gs.com Goldman Sachs (China) L.L.C.

Goldman Sachs does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. For Reg AC certification and other important disclosures, see the Disclosure Appendix, or go to www.gs.com/research/hedge.html. Analysts employed by non-US affiliates are not registered/qualified as research analysts with FINRA in the U.S.

A-share ideas on AEJ CL – reasons for inclusion

Stock	Reasons for inclusion in AEJ Conviction List
Baosteel (600019 CH)	<ul style="list-style-type: none"> Baosteel is the largest steel company in China, which manufactures and markets a variety of iron and steel products. We favor Baosteel given our preference for industry champions amid macro uncertainty and weak sector fundamentals. As the country's leading steel producer, we believe Baosteel should offer relatively high earnings and share price resilience relative to other A-share metals and mining names. Baosteel is significantly undervalued, as the stock is currently trading at historical trough valuations on FY12E P/E and P/B.
Beijing Capital Development Co. (600376 CH)	<ul style="list-style-type: none"> Beijing Capital develops and markets residential, office, and commercial buildings in Beijing. We like BCD as we believe: (1) It stands to benefit the most from any mass market demand recovery in Beijing, given its leading position in Beijing and its mass-market product focus; (2) It stands to benefit more than peers as it has de-rated relative to peers since tightening began in May 2010; and (3) It has strong potential to become a nationwide player given its well-established footprint across China. The stock is trading at higher discount to 2012E NAV and at a lower P/E vs. A-share peers.
Better Life Commercial Chain Share Co. (002251 CH)	<ul style="list-style-type: none"> Better Life operates a chain of supermarkets, general merchandise stores and household electrical appliances stores in China. Our positive view is underpinned by: (1) Significant growth potential: We think Better Life is well positioned to deliver solid top-line growth over 2012E-2014E, thanks to ample room for growth in Hunan, the province where Better Life is based. Our analysis suggests that Hunan has a big urban population, low urbanization rates, high propensity to spend, and high retail sales; and (2) Sound strategy: Better Life's multiple-format strategy should enable it to penetrate well in regional markets and 2-/3-tier cities, and we expect a robust 2012E revenue yoy growth of 25%-63% across its various business segments. Better Life also appears undervalued on a PEG basis relative to its A-share supermarket peers.
BlueFocus Communication (300058 CH)	<ul style="list-style-type: none"> BlueFocus is a renowned public relations company in China. It provides public relations and brand management services. We believe BlueFocus has the potential to become one of China's largest communication groups amid a rapidly growing advertising and marketing industry, given its long-term strategic focus on developing multiple independent public relations brands, as well as other value-added communications services BlueFocus is also currently trading at attractive valuations on PEG and P/E vs. its sector peers while delivering a high 2012E-2014E net profit CAGR of 31%.
Fiberhome Telecom Tech (600498 CH)	<ul style="list-style-type: none"> Fiberhome designs and manufactures telecommunication products. Our positive view is driven by: (1) Leverage to secular uptrend in fiberoptic broadband market: Fiberhome is a key beneficiary of a structural uplift in fiberoptic broadband spending, underpinned by carriers' commitment to invest in the transport network and the fast growth access network; (2) Multiple catalysts ahead: Solid 2012 results, the potential announcement of the national broadband strategy in 3Q12, and CM's potential broadband license grant in 4Q12 are key positive catalysts. Attractive valuation: Fiberhome is trading at attractive P/E levels relative to history (since 2009).
Hualu-Hengsheng Chemical (600426 CH)	<ul style="list-style-type: none"> Hualu-Hengsheng Chemical manufactures fertilizer and other chemical products. Our positive view stems from: (1) We expect elevated prices for soft commodities to boost agrochemicals demand via acreage expansion and improved affordability of agrochemical inputs for farmers; (2) we believe the market is overly concerned on slow EG project ramp-up; and (3) we believe Hualu-Hengsheng has a solid growth profile, given robust growth potential from new products. Attractive valuation: Stock is trading at more than 1 std deviation below historical average, versus above mid-cycle returns.
Industrial Bank (601166 CH)	<ul style="list-style-type: none"> Industrial Bank, one of the 10 largest Chinese banks, provides personal, institutional and electronic banking services. Our positive view is supported by: (1) Favorable positioning in the attractive inter-bank business with high ROE and strong growth over the long term; (2) Likely continuing above expected balance sheet growth through 2013; (3) relatively strong capital base after finished private placement in FY12; and (4) relatively strong management team and execution capability. The stock currently trades at both lower P/B and P/E relative to its peers despite above-peer ROE and modestly above-peer earnings growth outlook
Jiangsu Yuyue Medical Equipment (002223 CH)	<ul style="list-style-type: none"> Jiangsu Yuyue Medical Equipment is one of the largest medical equipments manufacturers in China. Our positive view is underpinned by: (1) Export orders for oxygenators a bright spot: We expect strong full year growth in oxygenator revenues of 57%+ yoy; (2) Strong product pipeline: We estimate launch of new products (glucose meters/test strips), while air purifiers may see initial revenues in 3Q; (3) Gross margin improvement: Prices for key materials have been trending down, paving the way for margin improvement this year. The stock is trading at a 3-year low of fwd P/E while we believe it should offer attractive higher EBIT growth in FY12E.
Jizhong Energy Resources (000937 CH)	<ul style="list-style-type: none"> Jizhong Energy produces and markets coal products, generates electric power, and manufactures cement. Our positive view is based on: (1) Jizhong's good execution, which we can learn from its high efficiency of acquisition and cost control; (2) rapid expansion, which we expect to continue over 2012E-2013E; (3) increase in its raw coal production due to asset injections from its parent and technological upgrades in its mines; and (4) the rising profile of its parent with raw coal production achieving over 100mt in 2011 paved the road for the capacity expansion. Also, Jizhong's parent company's agreement with Cinda allows for potential asset injections to be considered. Attractive valuation: Jizhong's P/E is lower than the coal sector median.
Ping An (A) (601318 CH)	<ul style="list-style-type: none"> Ping An, one of the largest insurance companies in China, provides a variety of insurance service and financial services. Our positive view on Ping An is underpinned by both company and industry specific factors. Company: We forecast Ping An to achieve rapid yoy EV growth of 17%/14% in 2012E/2013E. In our view, Ping An's management team is best in class in terms of agent productivity, training, product strategy, and IT support. Industry: We have a constructive view on China's life insurers in 2H12, given: (1) Loosening policies (ie, RRR cuts) are likely to drive up premium growth; (2) Potential launch for tax-deferred corporate pension will improve life insurance's long term penetration; (3) More high-margin protection type riders will enhance NBM; and (4) Continued expansion in investment channels will help improve life insurers' investment return. We believe the stock is attractively valued on P/EV and NBM vs. A-share peers.
SAIC (600104 CH)	<ul style="list-style-type: none"> SAIC Motor, one of the four largest auto companies in China, manufactures and markets automobiles and related parts Although in general industry is faced with price erosion and fierce competition, we believe the market is undervaluing SAIC's future earnings stability, due to: (1) strong passenger car market share gains, and the ability to maintain high market share over the next three years; (2) strong product portfolios and improvement in product mix; (3) well-paced capacity expansion

	<p>and high utilization rate (above 100% during 12E-14E); and (4) new modular strategy from SVW, which could result in additional potential cost savings since 2013E.</p> <ul style="list-style-type: none"> We believe the stock is attractively valued at trough P/E levels relative to its EPS growth in 2012E.
<p>Yantai Wanhua Polyurethanes (600309 CH)</p>	<ul style="list-style-type: none"> Yantai Wanhua Polyurethane is the largest MDI manufacturer in the Asia Pacific region. It develops, manufactures, and markets pure isocyanate, polymeric isocyanate, polyurethane, and other related chemical products. Our positive view is supported by 1) We believe 3Q gross margin will further expand from 2Q levels given the current product and raw material trend; 2) The production resumption of Ningbo base is expected to further contributing to gross margin expansion by increasing self-sufficiency of raw materials; 3) The declining MDI imports deteriorates the already tight supply condition of the domestic market therefore tends to push up the MDI price. The stock is trading at near-trough P/E valuations, which we believe is unjustified given solid margin expansion and earnings growth prospects.

CL additions/removals for the period between Sep.24 and Oct.8

Hualu-Hengsheng Chemical (600426.SS, Buy, on Conviction List)

Source of opportunity

We add HLHS to CL Buy with a new 12-month target price of Rmb9.70 (up 2% from Rmb9.50 and representing 57% potential upside), primarily due to strong growth from new projects and HLHS's attractive risk/reward within our coverage.

Strong growth from new projects. We project three-year sales/net income CAGRs of 25%/20% vs. the 16%/13% averages for peers under our coverage. Its 160k mt of new adipic acid capacity kicked in earlier this year, and we expect the sales contribution of adipic acid to rise to 14% in 2013E (from 8% currently) when full utilization is reached (see Exhibits 35 and 37).

We believe market overly concerned on slow EG project ramp-up. The shares began underperforming the market in June 2011 when HLHS announced EG project delays. We believe EG project delays will not impact HLHS's net income significantly as we expect only c. 2% sales contribution from EG with a 50% utilization rate in 2014E.

Attractive valuation despite our conservative assumptions. HLHS is trading at a 2013E P/E of 12X and a 2013E P/B of 1.0X (more than 1 std deviation below historical averages despite above-average returns) vs. its 2013E-14E average ROE of 9% (see Exhibits 38-39). Moreover, our bear case study yields an attractive risk/reward trade-off at +17% (bear case) vs. +57% (base case).

Catalysts

We expect urea demand to beat market expectations on the back of high crop prices in 2H12E and 2013E. We also expect a recovery in chemical demand on improving macro conditions in 2013E.

Valuation

We raise our EPS estimates 17%/6%/27% for 2012E/13E/14E to factor in lower thermal coal costs and slightly higher chemical product prices in 2013E-14E. Our estimates are 6%/22%/22% below Wind consensus as we factor in a slower chemicals demand recovery. We roll over our sector-relative P/B vs. ROE valuation methodology to 2013E from 2012E. Our new 12-month target price of Rmb9.70 is based on a 2013E P/B of 1.6X vs. a 2013E-14E average ROE of 9% (previously 1.7X 2012E P/B vs. 8% 2012E-13E average ROE).

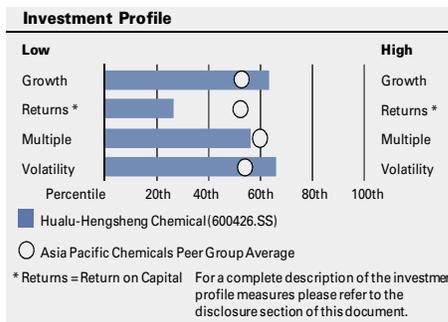
Key risks

Downside risks include: 1) A further drop in urea prices due to domestic oversupply. Urea prices dropped 17% from their peak in May of this year and are close to industry average cost, so we see limited risk of a further price drop. 2) No macro improvement in 2013E and 2014E.

Carol Jin

+86(10)6627-3467 carol.jin@ghsl.cn Beijing Gao Hua Securities Company Limited

Link to the report: https://360.gs.com/gs/portal/?st=1&action=action_binary&d=13769796



Key data	Current
Price (Rmb)	6.02
12 month price target (Rmb)	9.70
Market cap (Rmb mn / US\$ mn)	5,740.8 / 911.0
Foreign ownership (%)	--

	12/11	12/12E	12/13E	12/14E
EPS (Rmb)	0.37	0.46	0.50	0.64
EPS growth (%)	8.8	22.3	10.7	27.2
EPS (diluted) (Rmb)	0.37	0.46	0.50	0.64
EPS (basic pre-ex) (Rmb)	0.37	0.46	0.50	0.64
P/E (X)	16.2	13.2	12.0	9.4
P/B (X)	1.1	1.0	1.0	0.9
EV/EBITDA (X)	13.0	7.8	7.3	6.3
Dividend yield (%)	0.0	0.0	0.8	1.1
ROE (%)	7.2	8.2	8.4	9.8
CROCI (%)	2.4	10.2	9.8	9.9



Share price performance (%)	3 month	6 month	12 month
Absolute	(15.8)	(32.6)	(39.4)
Rel. to Shanghai SE A Share Index	(6.7)	(20.9)	(27.6)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 9/26/2012 close.

A-share ideas on AEJ CL – performance and valuation

Share price performance summary

Stock	Bbg ticker	Stock rating	Market cap (US\$m)	12-mth AVDT (US\$m)	Currency	Share price	12-mth price target	% upside/ (downside)	Date added to CL	Relative returns (%)			Absolute returns (%)		
										1-wk	1-mth	LTD	1-wk	1-mth	LTD
Beijing Capital Development	600376 CH	Buy	2,302	18	Rmb	9.68	18.00	86	4-Jun-12	0	(2)	(9)	0	(3)	(29)
Industrial Bank	601166 CH	Buy	20,612	94	Rmb	12.01	19.30	61	9-Mar-12	0	(2)	(2)	0	1	(11)
Ping An Insurance Group (A)	601318 CH	Buy	52,825	141	Rmb	41.94	62.95	50	19-Jan-12	0	5	18	0	7	13
Hualu-Hengsheng Chemical	600426 CH	Buy	1,012	10	Rmb	6.67	9.70	45	8-Oct-12	0	0	0	0	0	0
Jizhong Energy Resources	000937 CH	Buy	4,707	43	Rmb	12.79	18.45	44	19-May-11	0	(2)	(2)	0	7	(44)
Better Life Commercial	002251 CH	Buy	914	3	Rmb	21.25	29.40	38	28-Feb-12	0	(4)	16	0	(4)	(7)
Yantai Wanhua Polyurethanes	600309 CH	Buy	4,762	24	Rmb	13.84	18.78	36	1-Jun-12	0	7	1	0	9	(8)
Fiberhome Telecom Tech	600498 CH	Buy	1,862	15	Rmb	24.26	31.80	31	25-Jun-12	0	10	8	0	8	(8)
Jiangsu Yuyue Medical	002223 CH	Buy	1,021	9	Rmb	15.69	20.20	29	22-Dec-11	0	(6)	(6)	0	(4)	(2)
SAIC Motor	600104 CH	Buy	18,347	46	Rmb	13.54	17.42	29	19-Sep-11	0	5	17	0	15	(11)
BlueFocus Communication	300058 CH	Buy	1,345	7	Rmb	21.30	26.94	26	11-Aug-11	0	6	50	0	1	66
Baoshan Iron & Steel	600019 CH	Buy	12,762	22	Rmb	4.58	5.40	18	15-Sep-11	0	(6)	15	0	5	(8)
Average			10,206	36				41		0	1	9	0	3	(4)
Median			3,504	20				37		0	(1)	4	0	3	(8)
													2-wk	YTD	Since Sept 1 2011
A-share CL ideas relative to GS A-share Rated Coverage universe (%)													1.4	10.1	12.8
A-share CL ideas relative to the CSI 300 Total Return Index (%)													0.3	5.6	9.3
A-share CL ideas relative to the CSI 500 Total Return Index (%)													2.7	5.7	21.7

(1) The prices in this report are based on the market close of September 28, 2012 for individual A-share Conviction Calls. Relative performance of individual A-share Conviction Calls is calculated relative to rated A-share Conviction Call sector from September 1, 2011. (2) LTD denotes live-to-date performance, i.e. performance since the stock was added to the AEJ CL. Results presented above cannot be viewed as an indicator of future performance. Link to Asia-Pacific Research: <https://360.gs.com/gir/portal/research/ir/asia/>. For important disclosures, please go to <http://www.gs.com/research/hedge.html>

Valuation, returns, leverage, growth, GS vs. consensus

Stock	Stock rating	P/E (x)		Price/Book (x)		EV/GCI (x)		Dividend yield (%)		Return on equity (%)		CROCI (%)		Net debt/Equity (%)		YoY EPS growth (%)		GS vs IBES EPS (%)	
		FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2
Beijing Capital Development	Buy	6.8	5.6	1.1	0.9	1.0	1.0	3.0	3.6	17	17	11	15	83	40	14	21	(1)	1
Industrial Bank	Buy	4.6	4.5	0.9	0.8	0.8	0.8	4.1	4.6	21	19	23	21	nm	nm	16	2	1	(7)
Ping An Insurance Group (A)	Buy	13.0	10.7	2.1	1.8	nm	nm	1.5	1.8	18	18	nm	nm	nm	nm	29	21	6	6
Hualu-Hengsheng Chemical	Buy	14.7	13.2	1.2	1.1	0.8	0.8	0.0	0.8	8	8	10	10	78	77	22	11	(6)	(23)
Jizhong Energy Resources	Buy	13.0	12.4	1.9	1.6	0.9	0.8	1.5	1.5	15	14	16	15	13	7	(25)	4	(7)	(11)
Better Life Commercial	Buy	17.4	14.0	2.8	2.3	1.5	1.3	0.0	0.0	17	18	15	16	8	(13)	27	24	(1)	(5)
Yantai Wanhua Polyurethanes	Buy	12.8	10.4	3.6	2.9	2.0	1.5	4.3	2.4	30	31	24	23	65	85	26	23	5	(1)
Fiberhome Telecom Tech	Buy	20.0	15.5	2.2	2.0	2.5	2.0	1.1	1.4	13	13	23	25	(37)	(34)	21	29	(3)	1
Jiangsu Yuyue Medical	Buy	27.4	20.6	6.2	5.0	7.0	5.6	0.7	0.9	25	27	33	35	(24)	(25)	34	33	3	9
SAIC Motor	Buy	7.0	7.2	1.3	1.1	0.9	0.8	3.6	4.2	19	17	45	37	(31)	(34)	6	(2)	(1)	(10)
BlueFocus Communication	Buy	33.8	25.5	7.5	6.4	9.0	7.5	1.2	1.6	24	27	43	44	(32)	(35)	55	33	6	5
Baoshan Iron & Steel	Buy	6.8	12.8	0.7	0.7	0.4	0.4	7.0	3.7	11	6	5	6	30	31	60	(47)	4	(16)
Average		14.8	12.7	2.6	2.2	2.4	2.0	2.3	2.2	18	18	23	22	15	10	24	13	0	(4)
Median		13.0	12.6	2.0	1.7	1.0	1.0	1.5	1.7	18	18	23	21	11	(3)	24	21	0	(3)

FY1 stands for the upcoming reporting fiscal year, and FY2 for the next fiscal year after FY1. For banks, we substitute MV/AE (market cap over average equity) for EV/GCI and CROAE (cash returns on average equity) for CROCI.

Source: Company data, Datastream, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Latest research and analyst contacts

Stock	Ticker	Rating	Link to latest research, including catalysts/valuation	Analyst email	Analyst tel. no.
Baoshan Iron & Steel	600019 CH	Buy	https://360.gs.com/gs/portal/?action=action.doc&d=13745163	julian.zhu@gs.com / jefferson.zhang@ghsl.cn	852-2978-7367 / 86-21-2401-8945
Beijing Capital Development Co.	600376 CH	Buy	https://360.gs.com/gs/portal/?action=action.doc&d=13707330	jason.sun@ghsl.cn	86-10-6627-3187
Better Life Commercial Chain	002251 CH	Buy	https://360.gs.com/gs/portal/?action=action.doc&d=13518263	weibo.hu@ghsl.cn	86-21-2401-8944
BlueFocus Communication	300058 CH	Buy	https://360.gs.com/gs/portal/?action=action.doc&d=13766867	xufa.liao@ghsl.cn	86-21-2401-8902
Fiberhome Telecom Tech	600498 CH	Buy	https://360.gs.com/gs/portal/?action=action.doc&d=13546247	sam.z.li@ghsl.cn	86-10-6627-3326
Hualu-Hengsheng Chemical	600426 CH	Buy	https://360.gs.com/gs/portal/?action=action.doc&d=13769796	carol.jin@ghsl.cn	86-10-6627-3467
Industrial Bank	601166 CH	Buy	https://360.gs.com/gs/portal/?action=action.doc&d=13666924	ning.ma@ghsl.cn	86-10-6627-3063
Jiangsu Yuyue Medical	002223 CH	Buy	https://360.gs.com/gs/portal/?action=action.doc&d=13749715	fengqi.qian@ghsl.cn / wei.du@ghsl.cn	86-21-2401-8929 / 86-21-2401-8928
Jizhong Energy Resources	000937 CH	Buy	https://360.gs.com/gs/portal/?action=action.doc&d=13745226	yong.han@ghsl.cn	86-21-2401-8948
Ping An Insurance Group (A)	601318 CH	Buy	https://360.gs.com/gs/portal/?action=action.doc&d=13589990	ning.ma@ghsl.cn	86-10-6627-3063
SAIC	600104 CH	Buy	https://360.gs.com/gs/portal/?action=action.doc&d=13769838	yipeng.yang@ghsl.cn	86-10-6627-3189
Yantai Wanhua Polyurethanes	600309 CH	Buy	https://360.gs.com/gs/portal/?action=action.doc&d=13570238	tao.wei@ghsl.cn	86-21-2401-8923

Source: Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Buy-rated A-share ideas with most potential upside to TP

Stock	Bbg ticker	Stock rating	Market cap (US\$m)	12-mth AVDT (US\$m)	Currency	Share price	12-mth price target	% upside/ (downside)	P/E (x)		P/B (x)		Return on equity (%)	
									FY1	FY2	FY1	FY2	FY1	FY2
Lushang Property	600223 CH	Buy	575	4	Rmb	3.61	5.88	63	8.4	6.3	2.1	1.6	28	28
Jiangsu Zhongnan Construction	000961 CH	Buy	1,750	8	Rmb	9.42	15.09	60	8.9	6.7	1.6	1.3	21	22
China Merchants Bank (A)	600036 CH	Buy	32,599	87	Rmb	10.16	16.20	59	5.5	4.9	1.1	0.9	22	21
Shenzhen World Union Properties	002285 CH	Buy	618	4	Rmb	11.90	18.47	55	15.8	10.2	2.5	2.2	17	23
Zhejiang Yankon Group	600261 CH	Buy	886	6	Rmb	8.63	13.30	54	22.9	16.7	2.3	2.1	13	13
Hubei Huitian Adhesive	300041 CH	Buy	213	4	Rmb	12.68	19.50	54	15.6	13.0	1.4	1.3	9	11
Gemdale Corp	600383 CH	Buy	3,143	46	Rmb	5.03	7.70	53	6.9	6.2	1.0	0.8	15	14
China Vanke (A)	000002 CH	Buy	14,638	70	Rmb	8.43	12.33	46	6.6	6.2	1.4	1.2	24	21
Beijing Ultrapower Software	300002 CH	Buy	968	10	Rmb	16.05	23.10	44	13.7	11.0	1.9	1.7	15	17
ZTE Corporation (A)	000063 CH	Buy	5,901	43	Rmb	11.16	16.00	43	13.4	9.8	1.4	1.3	11	14
Shenzhen Beauty Star Co.	002243 CH	Buy	278	3	Rmb	6.77	9.57	41	17.0	13.3	2.2	1.9	14	16
Beijing Hualubaina Film & TV Co.	300291 CH	Buy	446	9	Rmb	46.72	65.90	41	23.6	18.2	3.0	2.7	21	16
Xian Aero-Engine	600893 CH	Buy	2,028	21	Rmb	11.70	16.40	40	46.2	34.8	3.0	2.9	7	8
Poly Real Estate Group	600048 CH	Buy	12,221	63	Rmb	10.76	15.00	39	9.1	7.0	1.8	1.5	22	23
Agricultural Bank of China (A)	601288 CH	Buy	127,129	30	Rmb	2.46	3.40	38	5.2	4.4	1.1	0.9	22	23
Average			13,560	27				49	14.6	11.2	1.9	1.6	17	18
Median			1,750	10				46	13.4	9.8	1.8	1.5	17	17

The prices in this report are based on the market close of September 28, 2012.

Source: Company data, Datastream, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Conviction List: Rigorous process for selection and monitoring

Selection. The 51 stocks on the AEJ CL represent our best current ideas in our 802-stock coverage universe. These Conviction Calls are where our analysts see strong relative return potential within their respective stock coverage groups through exploiting short-term catalysts and/or long-term fundamental opportunities. Our Investment Review Committee (IRC), comprising Directors of Research and senior sector analysts, works closely with our analysts to source ideas and keep them timely and relevant.

Monitoring. We track performance for each Conviction Call on a total return, equal weight, local currency, and daily rebalance methodology. If a stock reaches our target price or moves against our rating, we consider whether to keep it on the AEJ CL or to remove it to lock in gains or limit losses. We regularly review each Conviction Call to check the validity of our rating and to verify if more attractive alternatives exist. For more detail, please refer to our weekly 'Asia: Conviction List Update' publication.

Disclosure Appendix

Reg AC

We, Ning Ma and Kelvin Koh, CFA, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Investment Profile

The Goldman Sachs Investment Profile provides investment context for a security by comparing key attributes of that security to its peer group and market. The four key attributes depicted are: growth, returns, multiple and volatility. Growth, returns and multiple are indexed based on composites of several methodologies to determine the stocks percentile ranking within the region's coverage universe.

The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

Quantum

Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

GS SUSTAIN

GS SUSTAIN is a global investment strategy aimed at long-term, long-only performance with a low turnover of ideas. The GS SUSTAIN focus list includes leaders our analysis shows to be well positioned to deliver long term outperformance through sustained competitive advantage and superior returns on capital relative to their global industry peers. Leaders are identified based on quantifiable analysis of three aspects of corporate performance: cash return on cash invested, industry positioning and management quality (the effectiveness of companies' management of the environmental, social and governance issues facing their industry).

Disclosures

Coverage group(s) of stocks by primary analyst(s)

Ning Ma: China Brokers, China Financials.

China Brokers: CITIC Securities (A), China Merchants Securities, Everbright Securities, Haitong Securities (A).

China Financials: Agricultural Bank of China (A), Agricultural Bank of China (H), Bank of Beijing, Bank of China (A), Bank of China (H), Bank of Communications (A), Bank of Communications(H), Bank of Nanjing, Bank of Ningbo, China CITIC Bank (A), China CITIC Bank (H), China Construction Bank (A), China Construction Bank (H), China Everbright Bank, China Life Insurance Company (A), China Life Insurance Company (H), China Merchants Bank (A), China Merchants Bank (H), China Minsheng Banking (A), China Minsheng Banking (H), China Pacific Insurance (A), China Pacific Insurance (H), China Taiping Insurance Holdings, Chongqing Rural Commercial Bank, Far East Horizon, Hua Xia Bank, Industrial Bank, Industrial and Commercial Bank of China (A), Industrial and Commercial Bank of China (H), New China Life Insurance (A), New China Life Insurance (H), PICC Property and Casualty, Ping An Bank Co., Ping An Insurance Group (A), Ping An Insurance Group (H), Shanghai Pudong Development Bank.

Company-specific regulatory disclosures

Compendium report: please see disclosures at <http://www.gs.com/research/hedge.html>. Disclosures applicable to the companies included in this compendium can be found in the latest relevant published research

Distribution of ratings/investment banking relationships

Goldman Sachs Investment Research global coverage universe

	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
Global	31%	55%	14%	48%	41%	35%

As of July 1, 2012, Goldman Sachs Global Investment Research had investment ratings on 3,480 equity securities. Goldman Sachs assigns stocks as Buys and Sells on various regional Investment Lists; stocks not so assigned are deemed Neutral. Such assignments equate to Buy, Hold and Sell for the purposes of the above disclosure required by NASD/NYSE rules. See 'Ratings, Coverage groups and views and related definitions' below.

Price target and rating history chart(s)

Compendium report: please see disclosures at <http://www.gs.com/research/hedge.html>. Disclosures applicable to the companies included in this compendium can be found in the latest relevant published research

Regulatory disclosures

Disclosures required by United States laws and regulations

See company-specific regulatory disclosures above for any of the following disclosures required as to companies referred to in this report: manager or co-manager in a pending transaction; 1% or other ownership; compensation for certain services; types of client relationships; managed/co-managed public offerings in prior periods; directorships; for equity securities, market making and/or specialist role. Goldman Sachs usually makes a market in fixed income securities of issuers discussed in this report and usually deals as a principal in these securities.

The following are additional required disclosures: **Ownership and material conflicts of interest:** Goldman Sachs policy prohibits its analysts, professionals reporting to analysts and members of their households from owning securities of any company in the analyst's area of coverage. **Analyst compensation:** Analysts are paid in part based on the profitability of Goldman Sachs, which includes investment banking revenues. **Analyst as officer or director:** Goldman Sachs policy prohibits its analysts, persons reporting to analysts or members of their households from serving as an officer, director, advisory board member or employee of any company in the analyst's area of coverage. **Non-U.S. Analysts:** Non-U.S. analysts may not be associated persons of Goldman, Sachs & Co. and therefore may not be subject to NASD Rule 2711/NYSE Rules 472 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

Distribution of ratings: See the distribution of ratings disclosure above. **Price chart:** See the price chart, with changes of ratings and price targets in prior periods, above, or, if electronic format or if with respect to multiple companies which are the subject of this report, on the Goldman Sachs website at <http://www.gs.com/research/hedge.html>.

Additional disclosures required under the laws and regulations of jurisdictions other than the United States

The following disclosures are those required by the jurisdiction indicated, except to the extent already made above pursuant to United States laws and regulations. **Australia:** Goldman Sachs Australia Pty Ltd and its affiliates are not authorised deposit-taking institutions (as that term is defined in the Banking Act 1959 (Cth)) in Australia and do not provide banking services, nor carry on a banking business, in Australia. This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act, unless otherwise agreed by Goldman Sachs. **Brazil:** Disclosure information in relation to CVM Instruction 483 is available at <http://www.gs.com/worldwide/brazil/area/gir/index.html>. Where applicable, the Brazil-registered analyst primarily responsible for the content of this research report, as defined in Article 16 of CVM Instruction 483, is the first author named at the beginning of this report, unless indicated otherwise at the end of the text. **Canada:** Goldman, Sachs & Co. has approved of, and agreed to take responsibility for, this research in Canada if and to the extent it relates to equity securities of Canadian issuers. Analysts may conduct site visits but are prohibited from accepting payment or reimbursement by the company of travel expenses for such visits. **Hong Kong:** Further information on the securities of covered companies referred to in this research may be obtained on request from Goldman Sachs (Asia) L.L.C. **India:** Further information on the subject company or companies referred to in this research may be obtained from Goldman Sachs (India) Securities Private Limited; **Japan:** See below. **Korea:** Further information on the subject company or companies referred to in this research may be obtained from Goldman Sachs (Asia) L.L.C., Seoul Branch. **New Zealand:** Goldman Sachs New Zealand Limited and its affiliates are neither "registered banks" nor "deposit takers" (as defined in the Reserve Bank of New Zealand Act 1989) in New Zealand. This research, and any access to it, is intended for "wholesale clients" (as defined in the Financial Advisers Act 2008) unless otherwise agreed by Goldman Sachs. **Russia:** Research reports distributed in the Russian Federation are not advertising as defined in the Russian legislation, but are information and analysis not having product promotion as their main purpose and do not provide appraisal within the meaning of the Russian legislation on appraisal activity. **Singapore:** Further information on the covered companies referred to in this research may be obtained from Goldman Sachs (Singapore) Pte. (Company Number: 198602165W). **Taiwan:** This material is for reference only and must not be reprinted without permission. Investors should carefully consider their own investment risk. Investment results are the responsibility of the individual investor. **United Kingdom:** Persons who would be categorized as retail clients in the United Kingdom, as such term is defined in the rules of the Financial Services Authority, should read this research in conjunction with prior Goldman Sachs research on the covered companies referred to herein and should refer to the risk warnings that have been sent to them by Goldman Sachs International. A copy of these risks warnings, and a glossary of certain financial terms used in this report, are available from Goldman Sachs International on request.

European Union: Disclosure information in relation to Article 4 (1) (d) and Article 6 (2) of the European Commission Directive 2003/126/EC is available at <http://www.gs.com/disclosures/europeanpolicy.html> which states the European Policy for Managing Conflicts of Interest in Connection with Investment Research.

Japan: Goldman Sachs Japan Co., Ltd. is a Financial Instrument Dealer under the Financial Instrument and Exchange Law, registered with the Kanto Financial Bureau (Registration No. 69), and is a member of Japan Securities Dealers Association (JSDA) and Financial Futures Association of Japan (FFAJ). Sales and purchase of equities are subject to commission pre-determined with clients plus consumption tax. See company-specific disclosures as to any applicable disclosures required by Japanese stock exchanges, the Japanese Securities Dealers Association or the Japanese Securities Finance Company.

Ratings, coverage groups and views and related definitions

Buy (B), Neutral (N), Sell (S) -Analysts recommend stocks as Buys or Sells for inclusion on various regional Investment Lists. Being assigned a Buy or Sell on an Investment List is determined by a stock's return potential relative to its coverage group as described below. Any stock not assigned as a Buy or a Sell on an Investment List is deemed Neutral. Each regional Investment Review Committee manages various regional Investment Lists to a global guideline of 25%-35% of stocks as Buy and 10%-15% of stocks as Sell; however, the distribution of Buys and Sells in any particular coverage

group may vary as determined by the regional Investment Review Committee. Regional Conviction Buy and Sell lists represent investment recommendations focused on either the size of the potential return or the likelihood of the realization of the return.

Return potential represents the price differential between the current share price and the price target expected during the time horizon associated with the price target. Price targets are required for all covered stocks. The return potential, price target and associated time horizon are stated in each report adding or reiterating an Investment List membership.

Coverage groups and views: A list of all stocks in each coverage group is available by primary analyst, stock and coverage group at <http://www.gs.com/research/hedge.html>. The analyst assigns one of the following coverage views which represents the analyst's investment outlook on the coverage group relative to the group's historical fundamentals and/or valuation. **Attractive (A).** The investment outlook over the following 12 months is favorable relative to the coverage group's historical fundamentals and/or valuation. **Neutral (N).** The investment outlook over the following 12 months is neutral relative to the coverage group's historical fundamentals and/or valuation. **Cautious (C).** The investment outlook over the following 12 months is unfavorable relative to the coverage group's historical fundamentals and/or valuation.

Not Rated (NR). The investment rating and target price have been removed pursuant to Goldman Sachs policy when Goldman Sachs is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances. **Rating Suspended (RS).** Goldman Sachs Research has suspended the investment rating and price target for this stock, because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon. **Coverage Suspended (CS).** Goldman Sachs has suspended coverage of this company. **Not Covered (NC).** Goldman Sachs does not cover this company. **Not Available or Not Applicable (NA).** The information is not available for display or is not applicable. **Not Meaningful (NM).** The information is not meaningful and is therefore excluded.

Global product; distributing entities

The Global Investment Research Division of Goldman Sachs produces and distributes research products for clients of Goldman Sachs on a global basis. Analysts based in Goldman Sachs offices around the world produce equity research on industries and companies, and research on macroeconomics, currencies, commodities and portfolio strategy. This research is disseminated in Australia by Goldman Sachs Australia Pty Ltd (ABN 21 006 797 897); in Brazil by Goldman Sachs do Brasil Corretora de Títulos e Valores Mobiliários S.A.; in Canada by Goldman, Sachs & Co. regarding Canadian equities and by Goldman, Sachs & Co. (all other research); in Hong Kong by Goldman Sachs (Asia) L.L.C.; in India by Goldman Sachs (India) Securities Private Ltd.; in Japan by Goldman Sachs Japan Co., Ltd.; in the Republic of Korea by Goldman Sachs (Asia) L.L.C., Seoul Branch; in New Zealand by Goldman Sachs New Zealand Limited; in Russia by OOO Goldman Sachs; in Singapore by Goldman Sachs (Singapore) Pte. (Company Number: 198602165W); and in the United States of America by Goldman, Sachs & Co. Goldman Sachs International has approved this research in connection with its distribution in the United Kingdom and European Union.

European Union: Goldman Sachs International, authorized and regulated by the Financial Services Authority, has approved this research in connection with its distribution in the European Union and United Kingdom; Goldman Sachs AG, regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht, may also distribute research in Germany.

General disclosures

This research is for our clients only. Other than disclosures relating to Goldman Sachs, this research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Other than certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgment.

Goldman Sachs conducts a global full-service, integrated investment banking, investment management, and brokerage business. We have investment banking and other business relationships with a substantial percentage of the companies covered by our Global Investment Research Division. Goldman, Sachs & Co., the United States broker dealer, is a member of SIPC (<http://www.sipc.org>).

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

The analysts named in this report may have from time to time discussed with our clients, including Goldman Sachs salespersons and traders, or may discuss in this report, trading strategies that reference catalysts or events that may have a near-term impact on the market price of the equity securities discussed in this report, which impact may be directionally counter to the analysts' published price target expectations for such stocks. Any such trading strategies are distinct from and do not affect the analysts' fundamental equity rating for such stocks, which rating reflects a stock's return potential relative to its coverage group as described herein.

We and our affiliates, officers, directors, and employees, excluding equity and credit analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives, if any, referred to in this research.

This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. Investors should review current options disclosure documents which are available from Goldman Sachs sales representatives or at <http://www.theocc.com/about/publications/character-risks.jsp>. Transaction costs may be significant in option strategies calling for multiple purchase and sales of options such as spreads. Supporting documentation will be supplied upon request.

In producing research reports, members of the Global Investment Research Division of Goldman Sachs Australia may attend site visits and other meetings hosted by the issuers the subject of its research reports. In some instances the costs of such site visits or meetings may be met in part or in whole by the issuers concerned if Goldman Sachs Australia considers it is appropriate and reasonable in the specific circumstances relating to the site visit or meeting.

All research reports are disseminated and available to all clients simultaneously through electronic publication to our internal client websites. Not all research content is redistributed to our clients or available to third-party aggregators, nor is Goldman Sachs responsible for the redistribution of our research by third party aggregators. For all research available on a particular stock, please contact your sales representative or go to <http://360.gs.com>.

Disclosure information is also available at <http://www.gs.com/research/hedge.html> or from Research Compliance, 200 West Street, New York, NY 10282.

© 2012 Goldman Sachs.

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of The Goldman Sachs Group, Inc.