Deregulation and private sector growth; Economic monthly

THEME OF THE DAY
China Strategy - Deregulation and private sector growth (Jun Ma)
The third plenary session of the Party Congress in November will announce a mega reform plan. We believe that promoting private sector development – by providing private firms with equal access to investment opportunities and financing sources, as compared with SOEs – will likely be the most meaningful part of this reform plan. In addition to the words in the plan, we also see China’s commitment to promoting the private sector via indication of its desire to join the negotiations of the TPP (Trans Pacific Partnership), a pre-condition of which is that participating countries will permit private firms and SOEs to compete on an equal footing. The launch of the Shanghai Free Trade Zone is also a precursor for China’s move towards TPP membership, in our view. (Jun Ma – 852 2203 8308)


Asia Economics Monthly - September (Jun Ma)
China: Economic outlook: July and August data suggests that the Chinese economy is on path towards a healthy recovery which, in our view, could last for another year or two. We believe that the improvement in external demand, the rise in money velocity, and an increase in local government revenue for infrastructure spending will likely support a more sustainable recovery than perceptions.

Hong Kong: Economy regained some strength in Q2, but... The economy rebounded a little in Q2 after a slow start to the year. But softer-than-expected consumption and a weak start to retail sales in Q3 have led us to slightly lower our 2013 growth forecast to 3.2%. The 2014 forecast is unchanged at 5.0% and a recent upgrade to our Eurozone growth forecast adds some upside risk to this forecast. (Jun Ma – 852 2203 8308)


China Cement Sector - dbAccess trip: Demand improving at the expense of credit worsening (Johnson Wan)
We completed a dbAccess investor trip in the second week of September, visiting companies along the cement value chain in Eastern China. Our channel checks indicate that expectations are probably too high after production halts in July-August. [Continued on next page]

HK/China sector analysts’ top picks
Financials - ICBC, BOC, Pingan, China Life, Haitong Securities; Telecom - China Telecom; Property - COLI, CR Land, Shimao, Country Garden; Auto - Brilliance China, Baixin; Transportation - Cathay Pacific, China Shipping Development; Construction - CRCC; Consumer - CTF, Hengen, Wulmart, L’Occitane; Energy/Chemicals - Sinopac, Sinofert; Utilities - Huadian, Huaneng, Beijing Enterprise, Longyuan; Metal/Mining - CR Cement; Shenhua Energy; Gaming – Sands, Galaxy; Internet - Sina, Soufun; Healthcare – Sihuan Pharmaceutical, Sino Biopharmaceutical; Small-mid caps - Home Inns, CCS.

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Although we see signs of a pickup in 4Q, we also see emerging risks that could derail the recovery as: 1) credit remains tight and working capital continues to worsen for downstream players; 2) competition between leading cement players has intensified since the end of the production halts, and 3) the shortage of aggregates may affect construction activity. Position in low-cost names with strong pricing power such as CRC and Conch. (Johnson Wan– 852 2203 6163)

http://pull.db-gmresearch.com/p/46-7A0C/21516261/0900b8c08742db0b.pdf

Asia Local Markets Monthly - All eyes on the Fed (Jun Ma)
As China recovers, the US accelerates, and EU bottoms, what matters the most for Asia? Despite a dramatic increase in gross trade share with China in the past decade, Asia’s largest economy makes up only 8.5% of total exports value-added from ASEAN. The comparable figure vis-à-vis the US is 16%, while EU matters more than all (19.6%). From China’s vantage point, the figures are even more dramatic—ASEAN accounts for just 4.8% of China’s total value-added in exports. The US (24%) and EU (25%) have substantially greater share. A G2 recovery, therefore, is much more important for Asia than regional domestic demand, and EU matters even more than the US. (Jun Ma – 852 2203 8308)


Update - Hong Kong Monthly: Take profit in Hi-Li flattener (Linan Liu)
Economic outlook: Stronger growth in Europe and the US should lift Hong Kong exports and drive GDP growth higher through 2014. (Linan Liu - +852 2203 8709)


China Edge P124 - Hawkish Guangdong tender guidelines; price war to start (Jack Hu)
The final GD drug tender guidelines were released last Friday, with the key elements of the guidelines unchanged. After our conversion with executives, we believe most companies with non-exclusive products are prepared to initiate a price war at the same magnitude of the Fujian tender. As GD is the first large province to start EDL/RDL tender, it is likely that larger-than-expected price erosion will occur in incoming drugs tenders. We believe this would be negative to bellwethers such as Sinopharm (1099.HK) and Sino Biopharma (1177.HK), but positive for companies with exclusive products such as Sihuan (460.HK). (Jack Hu – 852 2203 6208)

http://pull.db-gmresearch.com/p/2074-C6C8/21235404/0900b8c08747bd92.pdf

Property - “Sustainable economy” is emerging after “intelligent city” (Tony Tsang)
National Development and Reform Commission announced it would choose around 100 cities to develop pilot cities of “sustainable economy” by 2015. (Tony Tsang – 852 2203 6256)


BEWG - Acquisition spree continues (0371.HK , Buy, Target Price: HKD 3.20, Closing Price: HKD 2.97, Kai-Ting Wong)
BEW announced another large-scale water asset acquisition last night. This is the third large-scale water asset acquisition in the last three months. This year, the company has added c.5mn tons/day water projects (excl. 1.2mn tons/day asset injection), which is 2.5x its annual capacity addition target and 50% of its total capacity in 2012. We continue to expect more acquisitions going forward given rapid privatisation and consolidation in the sector. (Kai-Ting Wong– 852 2203 6235)


- China TMT Daily – Weixin public account monetization; also, BIDU, 0728.HK
- Utility/Alternative Energy – BEW to acquire nine water/sewage projects
- China Financial Daily – Major shareholders sold MSB A-shares for around Rmb 1bn
- Inside the Great Wall – Shanghai City Counsellor’s Office - Shanghai FTZ Plan will be announced on 29 Sep
- Asia Consumer & Media Daily – China Household – Bonds issuance
- Asia Data Flash – Data Flash - Asia Economic Diary: Sep 16 - 20
MARKET NEWS

- **China to invest 80 bln yuan in exploring oil, gas this year** – China’s investment in exploration of oil and gas resources is expected to stand at 80 billion yuan (13.07 billion U.S. dollars) in 2013, according to the Ministry of Land and Resources. (Xinhuanet)

- **World Bank president expects China to hit GDP growth target but warns of tapering risk** – China should hit its GDP growth target of 7.5 percent this year, World Bank Group President Jim Yong Kim said. But he warned that rising interest rates in emerging markets in response to reports that the U.S. is preparing to scale back its quantitative easing (QE) program show that significant risk remains (Reuters)

- **Shanghai Trade Zone to Open This Month as Li Tackles Reform** – An opening ceremony for a Shanghai free-trade zone to test economic reforms is planned for this month, with Chinese Premier Li Keqiang set to officiate, two people with knowledge of the matter said. (Bloomberg Finance LP)

- **China approves iron ore futures trading** – China’s top securities regulator, the China Securities Regulatory Commission (CSRC), said that it has endorsed the Dalian Commodity Exchange (DCE) to carry out iron ore futures trading. (Xinhuanet)

- **Interest rate liberalization on way, policy adviser says** – China is actively developing rules to establish a deposit-insurance system and to manage financial institutions’ bankruptcies - two steps widely believed to herald the final interest rate liberalization, a senior official said. (China Daily)

- **China’s August power consumption growth at 18-month high** – China’s electricity consumption, a common indicator of economic activity, rose 13.7 percent year on year in August, marking its fastest growth since March 2012, according to official data. (Xinhuanet)

- **China’s motorcycle exports down 2.0% in Aug** – China’s motorcycle exports fell 2.0% year on year or 8.7% month on month to 729,900 units in Aug this year, according to the latest statistics released by the China Association of Automobile Manufacturers (CAAM). (The Standard)

- **China speeds up development of Ningxia pilot zone** – China has decided to set up an inter-ministerial meeting mechanism to speed up development of a pilot economic zone in Ningxia, an inland autonomous region in northwest China. (Xinhuanet)

- **China sets caps for rare earths exploration** – The Ministry of Land and Resources announced the maximum amount of rare earths for the exploration has been set at 93,800 metric tons for 2013. (China Daily)

- **China to raise retail fuel prices** – China’s gasoline and diesel retail prices will be raised starting Saturday, the country’s top economic planner said. The benchmark retail prices of gasoline and diesel will rise by 0.07 yuan (1.1 U.S. cent) per liter, the National Development and Reform Commission (NDRC) said in a statement on its website (Xinhuanet)

- **Beijing’s fixed asset investment up 7.8% in Jan-Aug** – Beijing saw its fixed asset investment grow 7.8% year on year to RMB 411.92 billion in the first eight months of this year, according to the latest statistics released by the Beijing Statistics Bureau. (Bloomberg Finance LP)

- **Shenzhen’s CPI up 2.5% in Aug** – Shenzhen saw its consumer price index (CPI) increase 2.5% year on year in Aug this year, according to the latest statistics released by the Shenzhen Statistics Bureau. (China Knowledge)
DB EVENTS

DB COMPANY ROADSHOWS
Newocean Energy Holdings Limited: Company Update - SHA 9/24 & BEI 9/25
Aixtron SE: Company Update - SHA 10/11 & HK 10/18
Fenwei Energy Consulting Corporation: Company Update - HK 9/16-17
Yangzijiang Shipbuilding Holdings Limited: Company Update - SG 9/16
New World Department Store China Ltd: Company Update - HK 9/26 & SG 10/3-4
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Castrol India Limited: Company Update - HK 9/20

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Joe Liew: Regional Transport and Malaysian Strategy Sector Update - BKK 9/16-17
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Johnson Wan: China Cement and Paper - HK 9/18-19
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Appendix 1

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<tr>
<td>Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.</td>
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