

The Market

VN Index Up Led by Materials & Industrials; LSX Fell Below 1,000; CSX Hit New Low

VN Index edged higher to close at 417.55, up 0.86% on Tuesday, led by basic materials and industrial stocks amid global commodities' rally ahead of Fed's Bernanke testimony. Refrigeration Electrical Engineering (REE) jumped 4.94% while Petrovietnam Fertilizer (DPM) surged 2.04%. The HCM market turnover improved to VND 782.66 billion (USD 37.5 million), up 39.6% from Monday's figure. Foreign investors continued to accumulate key stocks worth VND 21.2 billion (USD 1 million) on a net basis.

LSX Index fell 1.11% to close below 1,000 at 998.87. BCEL dipped 1.37% to close at LAK 7,200, after reaching its 7-month high on Monday. EdL Gen also declined 1.06% to close at LAK 4,650, the lowest level since June 27. The market turnover was low at LAK 213.9 million (USD 26,700), up 35.3% from the day earlier. Meanwhile, the CSX Index continued to fall to a fresh new low at 672.04 as PPWSA closed at KHR 6,250, below its IPO price of KHR 6,300 in April. The market turnover was KHR 194.5 million (USD 47,400), the highest level since June 15, up 43% from Monday's figure.

Despite Lao market's retreat, foreign investors continued to accumulate the stocks worth LAK 65 million (USD 8,100) on Tuesday, adding to LAK 1.875 billion (USD 200,000) net bought month-to-date. We recommend investors to accumulate EdL-Gen and BCEL as they offer attractive upside from the current level. Our fair valuation estimate for EdL-Gen is LAK 10,277/USD 1.28 (121% upside) and BCEL is LAK 9,300/USD 1.16 (29% upside).

The News

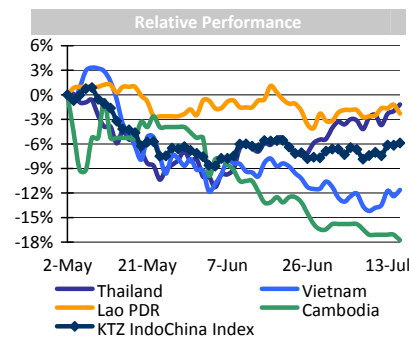
- **Myanmar** - EU Hopes to Propose Allowing Tariff-Free Imports from Myanmar
- **Lao PDR** - Consultants Say Lao Dam's Redesign Will Protect Environment
- **Lao PDR** - Thai Ratchaburi Electricity Buys More Shares in EDL-Gen
- **Vietnam** - Banks Only Cut Rates For Selected Borrowers

The Comment

CK: Xayaburi Project Suspended – Negative (Consensus TP Bt8.75)

The Lao government's decision to suspend construction of the Xayaburi project may create negative sentiment on CK's share price. The suspension could lead to doubts about the viability of the project from auditors and possibly require CK to reverse unbilled revenue of about Bt8bn from this project.

- *Lao government suspends Xayaburi project*
- *Probably a huge provision at CK*
- *IPO of CKP could also be postponed*



	Last	Chg	(%)
FTSE ASEAN	567	+4	+0.8
Singapore	3,015	+16	+0.5
Thailand	1,224	+10	+0.8
Malaysia	1,639	+3	+0.2
Indonesia	4,081	+33	+0.8
Philippines	5,285	-13	-0.2
Vietnam	418	+4	+0.9
Lao PDR	999	-11	-1.1
Cambodia	672	-5	-0.8

Source: Bloomberg as of July 17

Per USD	Last	Chg	(%)
Baht	31.57	-0.05	-0.16
Dong	20,840	-20.00	-0.10
Kip	8,018.00	-5.50	-0.07
Riel	4,084.10	-17.90	-0.44
Kyat	873.84	-4.83	-0.55

Per Baht	Last	Chg	(%)
Dong	660.11	+0.00	+0.00
Kip	254.02	+0.12	+0.05
Riel	129.00	0.00	0.00
Kyat	27.68	-0.12	-0.44

Source: Bloomberg as of July 17

Upcoming Market Holiday:

Thailand

- Aug 2: Asarnha Bucha Day
- Aug 13: Substitution for H.M. The Queen's Birthday

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Myanmar - EU Hopes to Propose Allowing Tariff-Free Imports from Myanmar

Burmese authorities are now discussing the lifting of tariff taxes with European countries under the EU-Asean Free Trade Agreement (FTA). Officials from the Ministry of Commerce are now negotiating on the removal of the tariffs, following the EU suspension of sanctions in April, an official said. The European Union said on Friday it would look to reinstate preferential access for imports from Myanmar, following international recognition of progress on labor reforms in the country. The EU hopes to propose allowing tariff-free imports from Burma under its "everything but arms" initiative for less developed countries, said the statement, which did not give a time frame for a decision. Currently, the EU has granted GSP status to 176 developing countries, of which 6 are Asean members. GSP grants lower or zero tariffs for those countries. The objective is to help developing countries expand the sale of their products to European countries and to promote the industrialization of developing countries. The EU revoked Myanmar's GSP status 15 years ago in response to the military junta's crackdown on the democracy movement. *Among other frontier Indochina countries, particularly Lao PDR and Cambodia, garment manufacturers benefit from the EU's relaxation of rules of origin for imports of garments from January 2011. In Lao, garment exports to EU and the U.S., the two main markets, rose by about 17% to USD226 million last year. In Cambodia, export of garments and footwear to the EU rose sharply by 51.1% to USD 1.62 billion in 2011, primarily driven by the relaxation from EU. Numbers of foreign investors, particularly Japanese firms, are expanding their production bases into the Indochina countries to enjoy those trade privileges and cheap labor costs.*

Lao PDR - Consultants Say Lao Dam's Redesign Will Protect Environment

A redesign of the much-criticised Xayaburi dam on the Mekong River will ensure the project has no negative impact on the environment, foreign consultants told a delegation Tuesday. A Bangkok-based environmentalist group insisted that the technology involved had never been tested on a South-East Asian river. The 3.5-billion-dollar project in northern Laos will be the region's first dam to employ fish ladders, which have been used on dam sites in northern Europe. Consulting firms Poyry of Finland and the French Compagnie Nationale du Rhone said a redesign will ensure that fish can travel up and down the river. "From our perspective the fisheries issue has not been addressed," said Kirk Herbertson, Southeast Asia policy coordinator of the International Rivers organisation. "Scientists have said there is simply not enough known about all of these migratory fish species in the Mekong, in order to make a conclusion right now that such technology will work," he said. Technicians from a multi-governmental organisation and from donors including the Asian Development Bank, World Bank and embassies of Cambodia, Thailand and Vietnam visited the project Tuesday. *We believe the dam redesign might provide some hope for Lao PDR to go ahead with the project. The 1,260 MW Xayaburi dam would benefit Lao as the exporter and Thailand as the buyer and construction contractor. Thailand is a major buyer of electricity from Lao targeting to reach 7,000 MW by 2020.*

Lao PDR - Thai Ratchaburi Electricity Buys More Shares in EDL-Gen

Ratchaburi Electricity Generating Holding Plc has invested Bt627.5 million in newly-issued shares of Electricité Du Laos-Generation Plc (EDL-Gen), to maintain its stake in the Laos-based electricity company. The investment in 35 million right issue shares was completed by its subsidiaries - RATCH-LAO Services Co Ltd (RATCH-LAO) and RH International (Singapore) Corp Pte Ltd (RHIS). Plus the company's previous subscriptions in 2011, RATCH accumulatively holds 123,947,351 shares in EDL-Gen, representing 10.11% of total EDL-Gen's shares and the subscription value is about Bt2.084 billion. EDL-Gen, a leading IPP of Lao and a subsidiary of Electricité Du Laos (EDL), currently owns 7 projects with total capacity of 387 megawatts. The fund raised from right issue will be used for acquiring another 5 operated power plants with combined capacity of 494 megawatts from EDL. Consequently, this transaction is considered low risk and worthwhile because it strengthens the company's liquidity and cash flow. In April 2012, the company has realised Bt68 million dividends from EDL-Gen. *We have a BUY recommendation on EDL-Gen (EDL LS) with a fair value estimation of LAK 10,227 (USD 1.28), a 120% upside from the current level of LAK 4,650 (USD 0.58). Prospective dividend yield is at 10.3% in 2012 and 13.8% in 2013.*

Vietnam - Banks Only Cut Rates For Selected Borrowers

Commercial banks this week have begun to cut lending interest rates on existing loans to 15% as ordered by the State Bank of Vietnam, but their regulation implementations are quite different. Governor of the State Bank of Vietnam Nguyen Van Binh issued the directive on July 7, but failed to attach clear guidance on how exactly banks should follow the order, the credit institutions said. Although the order took effect on July 16, several banks were then still unable to reach an agreement on the rate cut to inform their branches to follow. For one example, N.T.K, CEO of a printing company in Ho Chi Minh City's District 1, said he borrowed VND100 billion from Eximbank at various interest rates, with the lowest standing at 16.5% a year. As the bank did not inform him of any rate reduction on July 16, he chose to contact the lender through his initiative, only to be told that the bank "is still considering and will announce the rate cut, if any, soon," he said. As another example, N.H.P, director of TM C Ltd Co, based in Phu Nhuan District, said he was rejected by Vietnam Textile and Garment Finance JSC when he asked to have the 19.5% rate slapped on his VND1 billion loan dropped to 15%. He said, "The lender said they only cut rates for short-term loans, while the central bank ordered that all existing loans be subject to the rate cut, with no specification put on their terms." *We believe the policy implementation has to be in place very soon in order to have the impact to the economy. Some banks said the real estate loans carry higher risks which they are reluctant to slash the lending rate to 15%, the same level as other loans. We believe the problems would probably applicable to term loans where the interest rates are fixed, which make it difficult for the banks to lower the rate. As such, loan restructuring has to be done quickly in an effort to curb the NPLs. Vietnam's bad debt rose to 8.6% of total loans in the banking system at the end of March, as businesses faced many difficulties in a slowing economy, according to the central bank. Non-performing loans stood at 3.07% at the end of last year.*

Ch. Karnchang

Negative

Xayaburi project suspended

Price Bt7.30

The Lao government's decision to suspend construction of the Xayaburi project may create negative sentiment on CK's share price. The suspension could lead to doubts about the viability of the project from auditors and possibly require CK to reverse unbilled revenue of about Bt8bn from this project. Investors should take a cautious view on the stock (consensus TP Bt8.75).

Lao government suspends Xayaburi project

The Lao government eventually decided to suspend construction of the Xayaburi 1,280-megawatt run-of-river hydropower project until all environmental concerns from neighboring countries can be resolved, said the Lao foreign minister in the MRC meeting last Friday. Meanwhile, Laos will allow representatives and technicians from neighboring countries to inspect the project site today.

Probably a huge provision at CK

The suspension could create doubts about the viability of the project from auditors; moreover, CK might be required to reverse unbilled revenue of about Bt8bn from this project (for preparation work along the Mekong riverbank that Xayaburi Power, CK's 50% held affiliate, hired CK to do) if the Lao government cannot address the environmental concerns of neighboring countries and indicate a timeframe for the resumption of construction. CK previously expected to start in-the-river works in the next 4-5 months. It is hoped that today's site visit generates positive comments from international consultants, which would help the Lao government to reassure neighboring countries. As such, the outcome of today's visit will go a long way toward determining the project's viability.

IPO of CKP could also be postponed

A potential suspension or delay of Xayaburi would significantly affect CK's earnings prospects as the project was expected to contribute around half of the company's revenue during the next 3-5 years. CK's backlog on hand would be reduced by 60% to Bt42bn without Xayaburi. The IPO of CK Power scheduled for 1H13 would also likely be postponed as it was planned to secure funds to develop Xayaburi. In addition, the provision of Bt8bn if CK has to reverse unbilled revenue would be hard for CK to bear, as it would turn its total equity of Bt7bn (as of the end of 1Q12) into a loss.



Stock Performance (%)

	1M	3M	12M
Absolute	4.3	-11.5	-7.6
Relative to SET	-0.1	-13.6	-14.2

Share data

Reuters / Bloomberg	CK.BK/CK TB
Sector	Property Development
Paid-up Shares (m)	1,652.59
Par (Bt)	1.00
Market cap (Bt bn / US\$ m)	12/382
Foreign limit / actual (%)	25.00/4.09
52 week High / Low (Bt)	8.50/5.55
Avg. daily T/O (shares 000)	4,578.07
NVDR (%)	3.59
Estimated free float (%)	56.90
Beta	0.79

Major Shareholders (04/05/2012)

Mahasiri Siam	20.10%
Ch. Karnchang Holdings	10.36%
CK Office Tower Co., Ltd.	5.51%

	FY12	FY13
Consensus EPS (Bt)	0.24	0.38
KT ZMICO vs. consensus	0.0%	0.0%

Company Profile

is a construction contractor specialising in basic infrastructure projects.

CGR 2011



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KT ZMICO RESEARCH – RECOMMENDATION DEFINITIONS

STOCK RECOMMENDATIONS

BUY: Expecting positive total returns of 15% or more over the next 12 months

TRADING BUY: Expecting positive total returns of 10% or more over the next 3 months

SELL INTO STRENGTH: Expecting total returns of not more than 10% over the next 3 months; share price has largely priced in fundamentals

BUY ON WEAKNESS: Expecting negative total returns of not more than -10% over the next 3 months, while expecting positive developments in the medium to longer term

SELL: Expecting negative total returns of 15% or more over the next 12 months

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index by at least 10% over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index by 10% over the next 12 months.

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