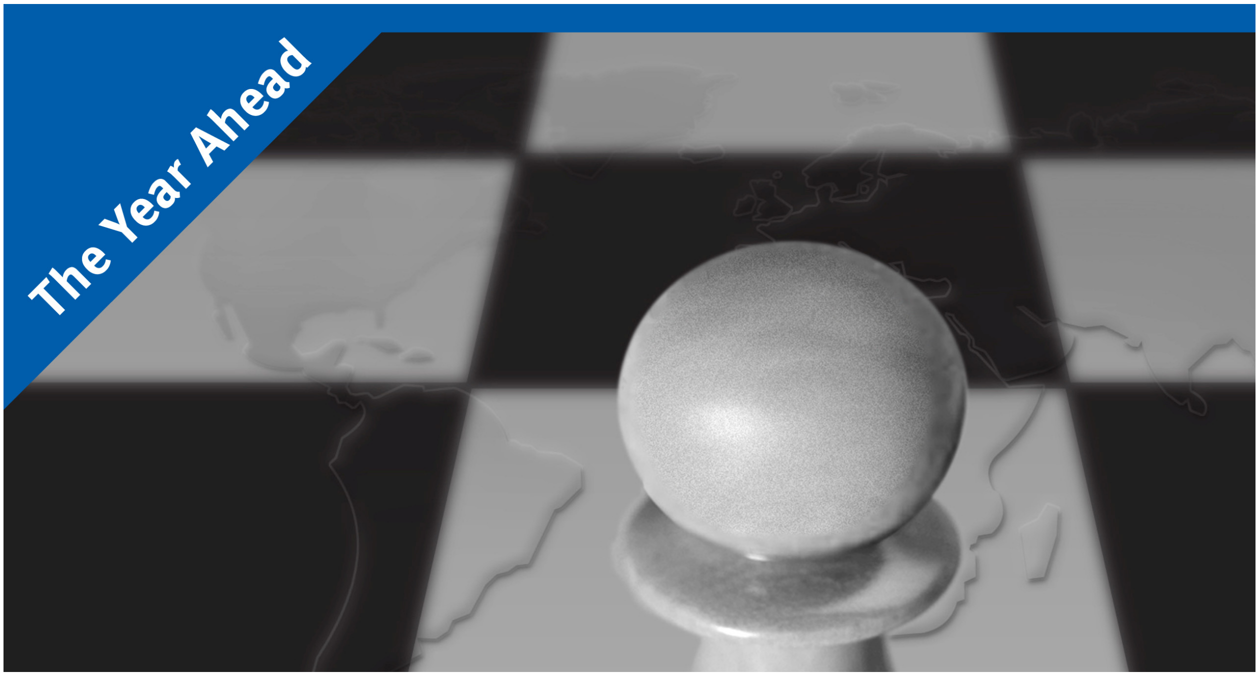
Emerging Markets Equity Research
17 November 2006

JPMorgan

Emerging Gambits 2007

The Right Moves for Right Now in Global Emerging Markets



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Key Trades and Themes for 2007

Theme	Rationale	Recommendations
South African banks	Compelling valuations	OW-FirstRand, Nedbank
ASEAN acceleration	Pro-growth monetary policy, firming currencies	OW-Philippines, upgrade Thailand to OW
Turkish financials	Policy mix from CBRT reining in inflation expectations	OW-Sabanci Holding
China growth and Renminbi revaluation	Low interest rate, high economic growth drive re-rating	OW-China, Chinese homebuilders
Taiwan	Inexpensive; Vista-driven PC cycle; M&A unlocking value	OW-Taiwan
Russia	Liquidity and consumption boom	OW-VimpelCom, Lukoil
Poland	Positive earnings surprises amid fixed investment boom	Prefer construction sector, banks

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Welcome to **Emerging Gambits 2007, The Year Ahead** — JPMorgan's best equity investment ideas for right now across the world's emerging markets.

We put three questions to our emerging markets sector analysts and strategists: What are the key drivers of investment performance? Where do our views differ from consensus? What are the investment implications expressed in terms of Top Picks and Stocks to Underweight? *Emerging Gambits 2007* is the result of this collaboration.

The first part of the report sets out our thinking on the macro trends that form the backdrop against which the industry sectors operate in emerging markets—in particular, our strategic assessment of the equity markets as impacted by macro-economic factors.

The second part provides a sector-by-sector analysis of major emerging market groups. Our specific equity investment ideas are based on our top conviction Overweights and Underweights in each sector by region.

We have focused throughout on actionable ideas, themes and trends that derive from our collaborative approach and non-consensus views.

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Global Emerging Markets Outlook Summary

Macro Strategy	Page	Title
Emerging Markets Equity Strategy	7	2007: The more things change, the more they stay the same
Emerging Markets Macro Strategy	21	Slower yet steady growth

Investment Summary by Sector

Sector	Page	Title	Top Picks	Stocks To Underweight
Autos	33	Volume growth versus margin expansion pressure	Great Wall Motor Company Limited	China Motor
Conglomerates	34	Opportunities in Indonesia and Turkey	Astra International, Sabanci Holding	
Consumer	35	Bull in a China shop	Astral Foods Ltd, China Yurun Food Group, Companhia Brasileira de Distribuicao	Li Ning Co Ltd, Organizacion Soriana
Financials	36	Cautious on growth banking sectors in China and India, bullish on LatAm retail	Banco Itau, China Life Insurance Co. Ltd, FirstRand Ltd, Kookmin Bank, Nedbank Group Ltd, Public Bank, Sanlam Ltd	ABSA Group Ltd, Chinatrust Financial Holdings, Corpbanca, Old Mutual
Industrials	38	Containing manufacturing costs is key	Embraer SA, Imperial Holdings, Reunert Ltd	
Infrastructure	40	Macro environment provides solid foundation	Aveng Ltd, CIMSA, Corporacion Geo, Shenzhen Expressway	Hopewell Highway Infrastructure Ltd., Pretoria Portland Cement Co, Rossi Residencial S.A.
Metals and Mining	42	Look for pricing strength and re-rating	China Shenhua Energy, DRDGold Ltd, Maanshan Iron and Steel, Ternium	CSN
Oil and Gas	44	Full Throttle	Braskem, Lukoil, Sasol Ltd, Thai Oil Public Company	Copesul, Tatneft, Thai Petrochemical Industry
Pharmaceuticals	46	Prescription for growth: Exports	Aurobindo Pharma Ltd, Torrent Pharmaceuticals Ltd	Biocon Ltd
Property	47	High economic growth supports positive property cycle	Ayala Land, China Overseas Land & Investment, China Vanke Company, Taiwan Fertilizer Co Ltd	New World China Land
Pulp and Paper	48	Bearish on pulp prices; prefer low cost producers	Suzano	Sappi
Technology Hardware	49	Focused players with high entry barriers should outperform	Advanced Semiconductor Engineering, High Tech Computer, Hon Hai Precision, LG Philips LCD, Mediatek, TSMC	Chi Mei Optoelectronics, Compal Electronics, Inc., Inotera Memories, Inc.
Technology Software and IT Services	51	Growth story to continue	Infosys Technologies, Sohu.com, Tata Consultancy Services, Totvs	
Telecom and Media	53	Strong upside potential in mobile	Bharti Airtel Limited, Grupo Televisa SA, Naspers Ltd, Vimpelcom	Magyar Telekom, Telmex SA
Transportation	55	Amidst oil price impact, stock picking critical	Malaysia Airlines	Copa Holdings, S.A., Pacific Basin Shipping
Utilities	56	Pricing power	Energias do Brasil, Xinao Gas	Copasa, Perusahaan Gas Negara

Source: JPMorgan.

Note on ratings explanation: Overweight/Top Picks: Over the next six to twelve months, we expect this stock will outperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe. **Underweight**: Over the next six to twelve months, we expect this stock will underperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.

Investment Summary by Region

Asia	Top Picks	Stocks to Underweight
China	China Life Insurance Co. Ltd, China Overseas Land & Investment, China Shenhua Energy, China Vanke Company, China Yurun Food Group, Great Wall Motor Company Limited, Maanshan Iron and Steel, Shenzhen Expressway, Sohu.Com, Xinao Gas	Hopewell Highway Infrastructure Ltd., Li Ning Co Ltd, New World China Land, Pacific Basin Shipping
India	Aurobindo Pharma Ltd, Bharti Airtel Limited, Infosys Technologies, Tata Consultancy Services, Torrent Pharmaceuticals Ltd	Biocon Ltd
Indonesia	Astra International	Perusahaan Gas Negara
Malaysia	Malaysia Airlines, Public Bank	
Philippines	Ayala Land	
South Korea	Kookmin Bank, LG Philips LCD	
Taiwan	Advanced Semiconductor Engineering, High Tech Computer, Hon Hai Precision, MediaTek Inc., Taiwan Fertilizer Co Ltd, TSMC	Chi Mei Optoelectronics, China Motor, Chinatrust Financial Holdings, Compal Electronics, Inc., Inotera Memories, Inc.
Thailand	Thai Oil Public Company	Thai Petrochemical Industry

Source: JPMorgan.

Latin America	Top Picks	Stocks to Underweight
Argentina	Ternium	
Brazil	Banco Itau, Braskem, Companhia Brasileira de Distribuicao (CBD), Embraer SA, Energias do Brasil, Suzano, Totvs	Copasa, Copesul, CSN, Rossi Residencial S.A.
Chile		Corpbanca
Mexico	Corporacion Geo, Grupo Televisa SA	Organizacion Soriana, Telmex SA
Panama		Copa Holdings, S.A.

Source: JPMorgan.

EMEA	Top Picks	Stocks to Underweight
Hungary		Magyar Telekom
Russia	Lukoil, Vimpelcom	Tatneft
South Africa	Astral Foods Ltd, Aveng Ltd, DRDGold Ltd, FirstRand Ltd, Imperial Holdings, Naspers Ltd, Nedbank Group Ltd, Reunert Ltd, Sanlam Ltd, Sasol Ltd	ABSA Group Ltd, Old Mutual, Pretoria Portland Cement Co, Sappi
Turkey	CIMSA, Sabanci Holding	

Source: JPMorgan.

Global Emerging Markets Equity Strategy

2007: The more things change, the more they stay the same

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Appreciate the consistency . . .

In many respects, we expect 2007 to be a similar year for GEM equities to 2006, in terms of local operating conditions:

- Headline growth rates in all regions remain robust, with domestic demand a key constituent of growth.
- Consensus earnings growth estimates broadly continue to outstrip those for developed markets, with risks in some places skewed to the upside (SA, Turkey, and Poland in particular).
- External indebtedness continues to decline, while current account surpluses remain robust, limiting fundamental vulnerability to short-term capital flows.

In addition, most emerging markets continue to enjoy pro-growth monetary policy, and where real interest rates are high, the bias in monetary policy tends to be towards loosening.

We expect Indonesia to continue to cut interest rates to 8.5% by March 2007, from the current 10.75%; and the Philippines from 7.5% currently to 7% by March 2007. Brazil should continue to reduce the Selic to 12.75% by year-end from 13.75% currently, Turkey should start to ease its overnight rate at mid-year (to 16% by year-end, from 17.5% currently), and Israel should continue to loosen.

Table 1: Emerging market GDP and domestic demand growth

	Real GDP growth		Domestic demand	
	2006E	2007E	2006E	2007E
Argentina	8.5	7.5	9.6	8.2
Brazil	3.2	3.5	4.1	4.5
Chile	4.0	5.5	7.3	7.4
Mexico	4.9	3.3	6.3	4.4
China	10.6	9.5	9.0	9.1
India	8.0	7.0	9.7	9.0
Indonesia	5.3	5.8	3.5	5.8
Korea	5.1	4.5	4.1	3.8
Malaysia	5.4	5.1	7.7	3.8
Philippines	5.5	5.5	3.8	3.8
Taiwan	4.0	4.4	1.4	3.4
Thailand	4.8	5.0	4.2	5.3
South Africa	4.2	4.5	7.5	4.6
Czech Rep.	6.5	5.2	4.9	3.4
Hungary	3.8	2.5	1.7	-0.2
Poland	5.3	5.0	4.7	4.9
Russia	7.0	6.7	12.2	10.9
Turkey	4.3	2.4	4.2	1.9

Source: JPMorgan Economics.

Table 2: Improving external account

	Current Account %GDP		External Debt %GDP	
	2006E	2007E	2006F**	2007F**
Taiwan	5.7	5.0	15.3	14.2
Korea	0.1	-0.4	17.9	16.8
South Africa	-5.7	-4.8	21.0	22.8
Brazil	1.4	0.4	21.5	18.9
China	8.1	6.2	9.9	8.1
Mexico	0.0	-1.0	18.6	17.6
India	-1.7	-2.2	15.9	15.3
Russia	10.6	6.3	21.7	17.5
Malaysia	12.0	11.6	47.5	43.3
Thailand	0.8	0.1	23.4	20.9
Chile	4.5	1.4	30.8	29.0
Turkey	-6.7	-5.2	42.4	40.8
Indonesia	2.6	1.2	34.2	25.0
Poland	-1.4	-1.5	43.3	39.8
Hungary	-8.0	-6.0	80.4	77.4
Czech Rep	-3.1	-2.7	33.9	30.3
Philippines	3.5	2.3	50.0	39.2

Source: JPMorgan Economics.

Table 3: Emerging market valuation

	P/E		Earnings growth	
	2006E	2007E	2006E	2007E
Brazil*	10.5	9.0	10.4	16.8
Korea	11.3	10.0	-1.3	12.9
Hungary*	10.7	10.2	7.1	4.1
Turkey*	11.9	10.3	28.7	15.1
Thailand	10.5	10.4	5.1	1.2
South Africa*	13.5	11.4	36.1	18.0
Russia*	12.6	11.8	13.0	6.5
Taiwan	15.1	12.4	17.5	21.9
Philippines	16.0	13.1	7.5	22.2
Indonesia	16.1	13.4	17.1	20.5
Malaysia	15.5	13.5	5.2	14.9
China	14.5	13.7	18.9	5.7
Poland*	14.3	14.4	4.0	-0.6
Mexico*	13.6	14.9	31.0	-8.5
Czech Republic*	18.0	15.4	25.5	16.8
Chile*	19.5	18.0	33.2	8.8
India	21.7	18.3	19.4	18.3

Source: IBES, Datastream, MSCI, JPMorgan estimates.

Table 4: Real rates

Country	Real Rates	2007 Real
Turkey	7.7	9.8
Brazil	9.2	8.4
Indonesia	-3.3	3.1
South Africa	3.9	2.1
Mexico	3.6	1.6
India	1.0	1.3
Philippines	-1.3	-0.8
Russia	-4.0	na
Thailand	0.7	3.5
Korea	2.1	2.0
Poland	3.0	2.4
Malaysia	-0.3	0.7
Taiwan	0.7	0.0
China	0.3	0.3

Source: Bloomberg, JPMorgan Economics.

In other emerging economies we expect central banks to remain on hold, or to hike modestly, lagging the Fed.

Broadly speaking, this is a fundamental backdrop which we believe will be conducive to a continued re-rating of emerging markets as an asset class.

…but do not ignore the US yield curve

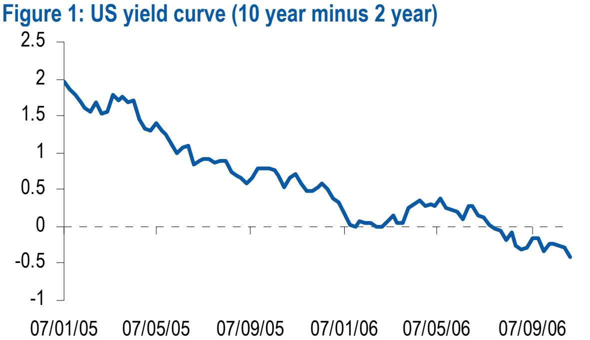
The key risk for the asset class, in our view, continues to be external, stemming from the trajectory of the US economy in 2007. We believe that there are two scenarios, both of which pose some risk for EM equities, while our base case is broadly positive.

Scenario 1: The base case

Our base case envisages the US economy returning to 3% growth in 2007, driven by continuing strength in investment and consumer spending, the latter Should be fine boosted by declining gasoline costs and mortgage interest costs. In the near term, however, we expect 4Q GDP to slow to 2.5%, driven by a steep slowdown in manufacturing.

A moderation in growth, accompanied by US long-end bond yields at c4.6-4.8% is a bullish scenario for EM. First, it suggests that the Fed will remain on hold in spite of stalling productivity growth and rising ULCs. Second, perceptions of a stable, or falling, cost of US borrowing and a weak US$ are bullish for carry trades. Under this scenario, high-yielding EM sovereign spreads should narrow, and currencies strengthen, fueling risk appetite. Third, risk appetite in the context of moderating US growth should put the spotlight on robust domestic demand stories, which abound in EM. In this scenario, international allocation to the asset class should rise.

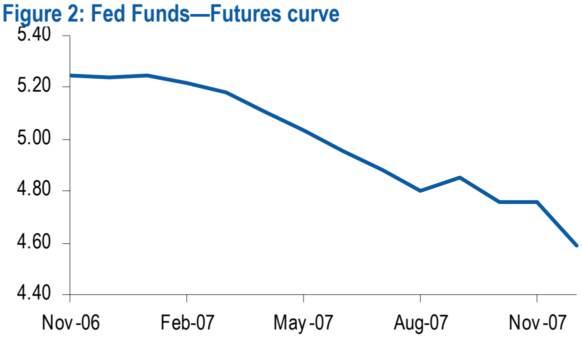
Figure 1: US yield curve (10 year minus 2 year)



Source: Bloomberg, JPMorgan.

However, this scenario is not without risk. The yield curve is inverted (Figure 1) and Fed Funds' futures are only pricing cuts next year (Figure 2). Under our base case, the Fed will resume the hikes in June '07, which the market certainly seems to be unprepared for. The adjustment in expectations could result in a sell-off similar to April/May 2004, where a sudden spike in bond yields at the outset of monetary tightening pulled the rug out from under risk.

Figure 2: Fed Funds—Futures curve



Source: Bloomberg, JPMorgan.

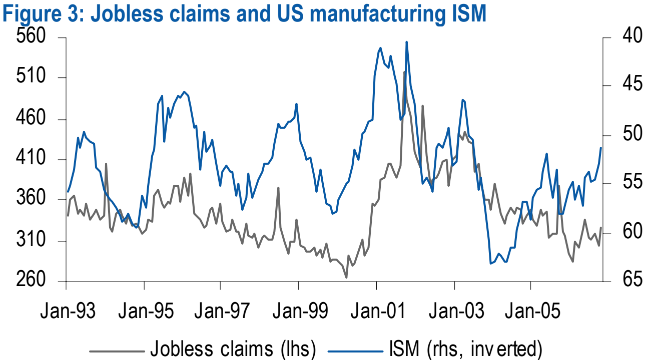
Under our base case, therefore, we are mindful of the possibility of a Q2 sell-off. With implied volatility low, buying puts would be a low-cost way to build protection into EM portfolios.

Under our base case, we see a window of opportunity for EM in general, and for high-risk trades in particular—smaller Asian markets, Turkey, SA, and potentially even a supportive environment for Hungary. However, our high-risk positions will have to be tactical. We envisage closing our Turkish overweight in Q1, at this stage.

Scenario 2: US hard-landing

The US manufacturing ISM is edging towards 50, with a move below indicating a contraction in manufacturing. Our US economics team points out that there is a strong relationship between jobless claims and the ISM survey (Figure 3). A meaningful deterioration in labor market conditions would clearly be supportive for a moderation in inflation, but would also augur a far steeper slowdown.

Figure 3: Jobless claims and US manufacturing ISM



Source: Bloomberg, JPMorgan.

Though we would anticipate domestic demand in EM remaining resilient under this scenario, and the operating conditions we have laid out above remaining intact, fighting the correlation with the S&P would be a tough call. This scenario would be likely to result in stagnation, and a grind lower in EM.

Key markers to watch will be US 10-year yields (a decisive move below 4.5% would indicate real market pessimism of a hard landing), and the ISM manufacturing survey.

South African banks: Compelling valuations

Table 5: South African Top Picks

Company
Astral Foods Ltd
Aveng Ltd
DRDGold Ltd
Imperial Holdings Ltd
Naspers Ltd
Sanlam Ltd
Sasol Ltd

Source: JPMorgan.

Given our key assumptions of a benign interest rate outlook and a range-bound rand exchange rate, we believe SA banks offer compelling value. We see the sector as some 25% undervalued. But there are a number of headwinds that may well prevent banks from attaining our values in the short term. These headwinds include:

Continued uncertainty as to where (and when) we reach the peak of the interest rate cycle.
Continued volatility in the rand exchange rate.
The Competition Commission enquiry into collusion in the bank sector.
The National Credit Act, which takes effect from June 2007.
Political uncertainty ahead of the presidential candidate nominations in 1Q 2007.

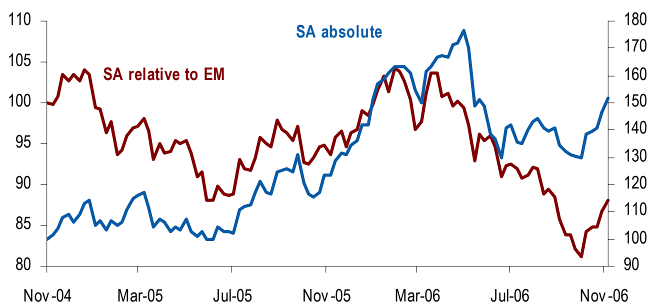
Nevertheless, investors appear to have factored in much bad news already that interest rate increases will negatively impact banks, both through slower advances growth and, more importantly, higher bad debt charges. With regards to growth prospects, our macro analysis suggests that we should see a pick up in corporate lending as corporates encounter capacity constraints. Also, SA's go-for-growth policy appears to be on track and the resulting employment creation and growth of the emerging middle class could provide a fillip to bank consumer credit growth.

Our analysis of asset quality suggests that banks books are in excellent shape. Secured lending has risen as a proportion of total lending and loan to market values on mortgages, by far the largest asset class, are close to record lows. While we expect income statements will show very high percentage increases in bad debt charges, we see the charges as a proportion of advances remaining modest by historic standards.

All said, given that banks are now trading at a 25% discount on a valuation basis and our view of still significant economic growth prospects for the SA economy, we recommend an overweight on this sector.

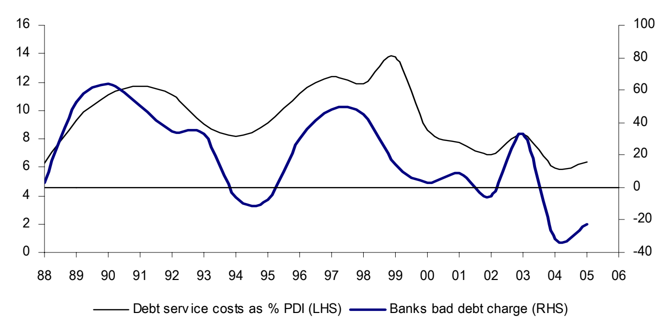
We are Overweight **Nedbank** and **FirstRand.**

Figure 4: South Africa—Absolute and relative to emerging markets



Source: Datastream, MSCI. Chart show performance of MSCI South Africa (base value of 100, 5 Nov '04) and MSCI South Africa relative to MSCI EM (base value of 100, 5 Nov'04)

Figure 5: Debt service costs % of PDI and change in banks bad debt charge



Source: SARB, i-nET and JPMorgan calculations. Units %yoy

ASEAN acceleration

We remain overweight Philippines and upgrade Thailand to overweight and Malaysia and Indonesia to neutral. These countries share pro-growth monetary policy, firming currencies and should benefit from a decline in gasoline prices, boosting consumption.

Table 6: ASEAN Top Picks

Company
Astra International
Public Bank
Thai Oil Public Company
Ayala Land
Malaysia Airlines

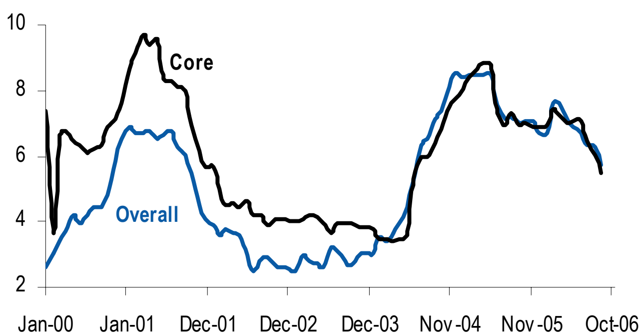
Source: JPMorgan.

Is the Philippines the next India? As was the case with India three years ago, the Philippines has a reputation of underachieving its economic potential, struggling with poor macro policy and a large fiscal deficit. We think this is now changing. The decline in 10-year bond yields to 7.8% demonstrates a key part of the change. The government's reform initiatives, determined tax collection efforts and controlled expenditure has led to budget surplus for three consecutive months in the first half of the year and a fiscal deficit till July at just 39% of the targeted 2006 deficit. It was India's success at reducing the long-term cost of capital that has been key to its higher growth rates. The Philippines appears to be going through the same transition.

JPMorgan now expects a 25bp cut in Philippines' policy rates to 7.25% and a further cut of 25bp in 1Q07; three month interbank rates at 5.6% are already below this today. This forecast cut in interest rates adds the Philippines to the small club of countries cutting interest rates; the other members are Brazil and Indonesia. Both Brazilian and Indonesian equity markets have performed well driven by declining interest rates.

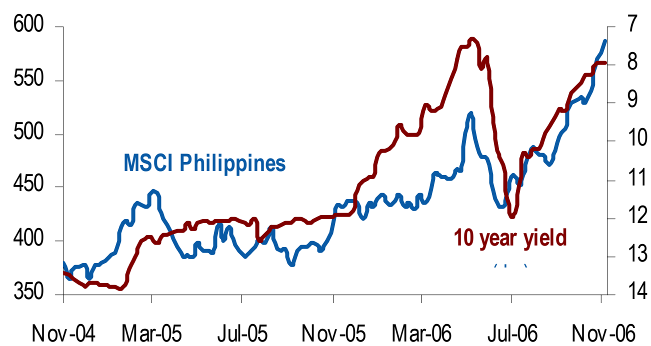
Exports have shown consistent growth year to date, while the balance of payments has also shown a positive trend. A loan to deposit rate of below 60%, historically low interest rates and increasing quality of banks' assets indicate an increased ability of the business to leverage to enhance profitability. We expect this market to begin to outperform the regional index.

Figure 6: Philippines—Consumer prices



Source: JPMorgan Economics. Note: 'Core' consumer prices exclude food, beverage, tobacco, fuel, light and water. Units %yoy

Figure 7: Philippines—10-year yield and MSCI Philippines



Source: DataStream, MSCI, Bloomberg (10Yr yield is PMMT10Y Index).

Table 7: 2007E earnings growth outlook

%

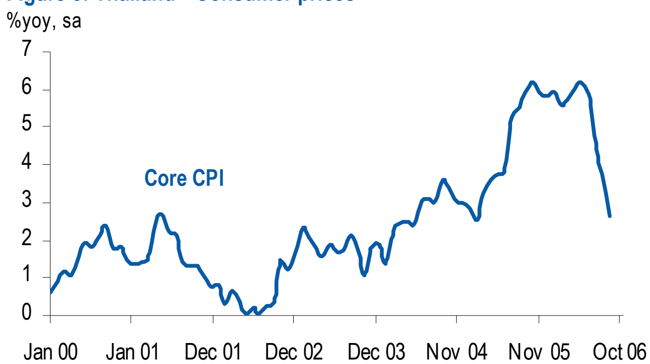
	Average	Median
Philippines	22.2	15.8
Taiwan	21.9	8.9
Indonesia	20.5	20.4
India	18.3	21.3
South Africa	18.0	16.7
Brazil	16.8	17.7
Malaysia	14.9	13.5
Korea	12.9	11.0
Turkey	12.9	11.3
Emerging Markets	12.4	15.2
Czech, Hungary, Poland	6.9	11.5
Russia	6.5	4.9
China	5.7	17.1
Thailand	1.2	4.9
Mexico	-8.5	15.0

Source: Datastream, I/B/E/S, MSCI, JPMorgan.
Note: Average earnings growth calculated based on aggregate of MSCI constituents using profit-weighted approach. IBES numbers used for stocks not covered by JPMorgan.

The drivers of Thai equities are a combination of pro-growth monetary policy, rising real incomes as energy prices fall and potentially greater clarity on the new-government's economic policy. The equity strategy team expects that both economic and profit forecasts will be revised higher over 2007. JPMorgan now forecasts that Thailand will cut interest rates early in 2007, as inflationary pressures ease.

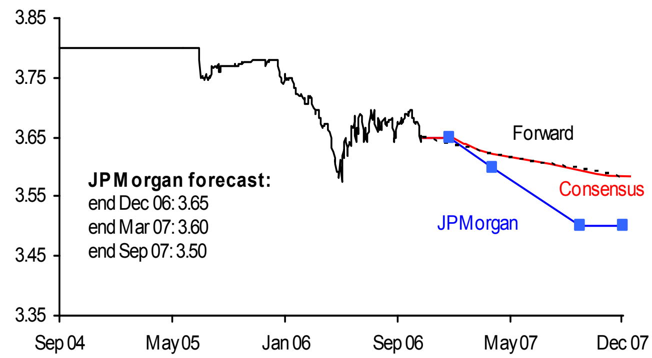
The risks to our view are rise in oil prices, failure of the new government to execute growth policies, slippage of policy and election time lines (planned in October 2007) and the average foreign funds overweight position on Thailand.

Figure 8: Thailand—Consumer prices



Source: JPMorgan Economics.

Figure 9: Malaysian ringgit forecast



Source: Datastream, Consensus Inc., JPMorgan Economics.

Turkish financials

Table 8: Turkish Top Picks

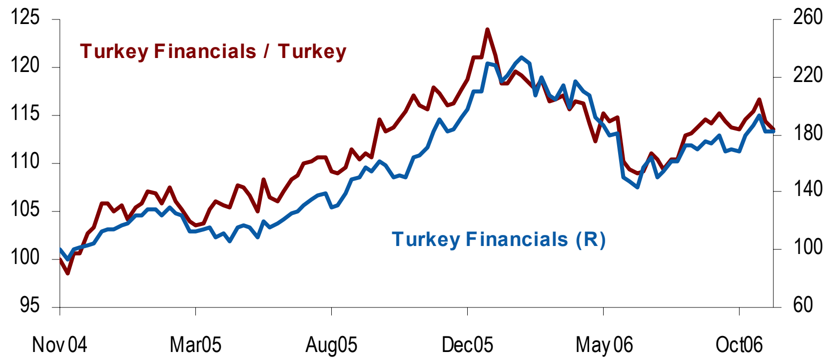
Company
CIMSA
Sabanci Holding

Source: JPMorgan.

A successful policy mix from the CBRT and a recovery in risk appetite are reining in inflation expectations. October inflation has surprised on the downside, and November could post a more significant moderation as electricity prices are held flat. With a low Treasury redemption schedule, there is scope for bonds to rally, which is a major driver of equity earnings and returns, particularly for financials. Sabanci Holdings gives access to Akbank at a discount.

The sector has run hard recently, and could be set for some short-term pullback. However, we anticipate a rally into the end of 4Q and early in 1Q as the market discounts an unwinding of monetary tightening, and as EU-related concerns fade. The 2007 presidential and parliamentary elections (May and 4Q, respectively) will be a source of noise and political risk further out in the year. Our biggest concern at this stage is over a relaxation of the government's fiscal stance, which could keep the CBRT hawkish, resulting in an overshoot of market expectations on monetary easing.

Figure 10: MSCI Turkey financials—Absolute and relative to MSCI Turkey



Source: Datastream, MSCI.

Table 9: Chinese Top Picks

Company
China Life Insurance Co. Ltd
China Overseas Land & Investment
China Shenhua Energy
China Vanke Company
China Yurun Food Group
Great Wall Motor Company Limited
Maanshan Iron and Steel
Shenzhen Expressway
Sohu.Com
Xinao Gas

Source: JPMorgan.

China growth and renminbi revaluation

Our Long China position has proved to be a successful non-consensus call (the average emerging markets fund is still underweight China). We continue to believe that China will outperform emerging markets driven by:

High economic growth which is helping drive median EPS growth in 2007 of 17%.

Low interest rates, with 10-year bond yields of 3.1%.

The combination of low interest rates and high growth should continue to drive a re-rating of this market.

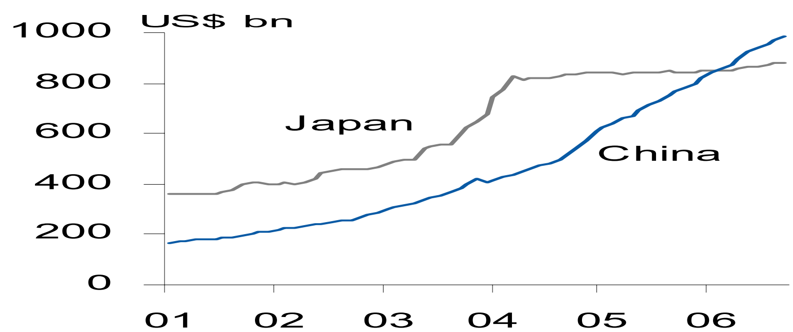
This economy has the flexibility to manage a slowdown in US demand.

The average emerging market fund is 1.4% underweight China. If recent IPOs enter the index then this underweight may increase to greater than 3%.

Renminbi appreciation.

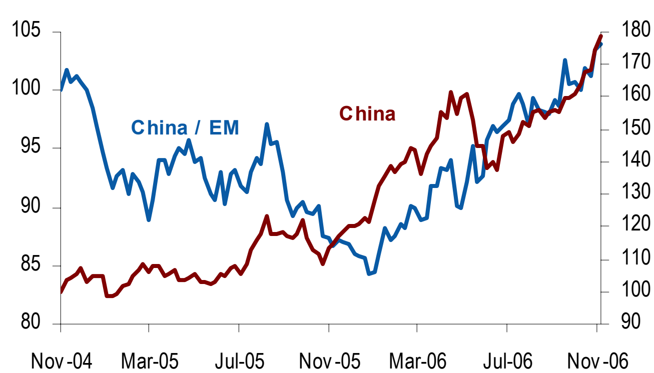
Our favored subsector remains the Chinese homebuilders. It offers exposure to rapid economic growth, demographic trends and accelerating consumption. The JPMorgan universe of Chinese homebuilders has a median 2007 P/E and dividend yield of 13.4x and 2.4%, respectively, and thus we believe the current real estate stocks have already factored in the short-term macro-tightening risks.

Figure 11: China and Japan—Forex reserves



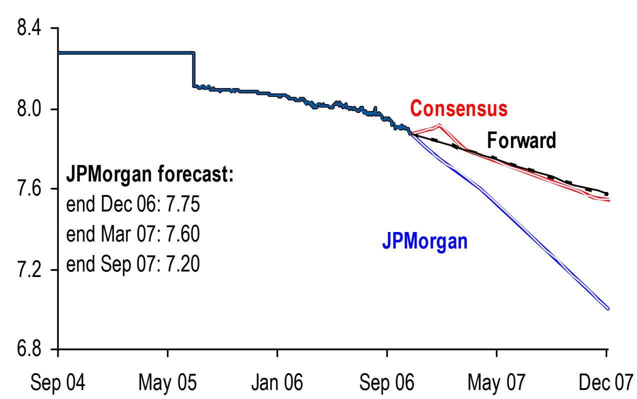
Source: JPMorgan Economics.

Figure 12: MSCI China absolute and relative to emerging markets



Source: Datastream, MSCI. Chart show performance of MSCI China (base value of 100, 5 Nov'04) and MSCI China relative to MSCI EM (base value of 100, 5 Nov'04)

Figure 13: Chinese yuan forecast



Source: Datastream, Consensus Inc., JPMorgan Economics.

Taiwan: PC cycle, plus M&A unlocking value

Taiwan remains an inexpensive market with a combination of political deadlock and a consumer credit problem depressing investor confidence. President Chen political problems may provide a catalyst to break the current deadlock, but for now we see positive micro-driver for stocks. Based on the premium cash dividend to bond yield, this market is the cheapest globally; dividend 3.7% and 10-year bonds 2.2%.

We remain positive on Taiwan. In 2007, we forecast 20% EPS growth and 4% yield. The combination of deep value and a period of negative earnings revision suggest that investor confidence is low. The 2007 drivers of the market are likely to be Vista-driven PC demand, potential cross-straights progress (i.e. tourism), for capital reduction and private equity activity in the market.

This position should be funded by selling out of Brazil and/or Korea. The risks to this view are general North Asian geopolitical risk, US hard landing and the domestic political issues in Taiwan.

Table 10: Taiwan Top Picks

Company
Taiwan Fertilizer
MediaTek Inc.
Advanced Semiconductor Engineering
TSMC
Hon Hai Precision
High Tech Computer

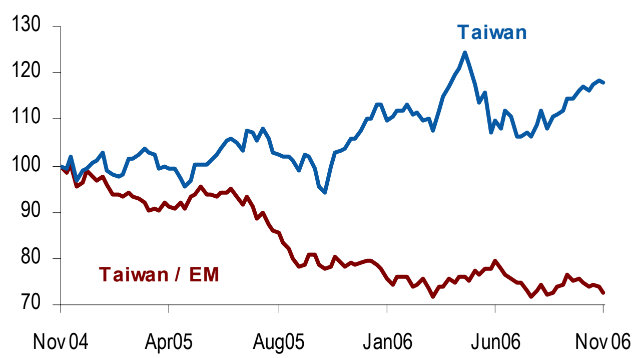
Source: JPMorgan.

Table 11: Dividend yields minus bond yields

Country	Ticker	Bond Yields	DY 06E	Difference
Taiwan	GVTW10YR INDEX	2.2	3.7	1.5
Malaysia	MGIY10Y INDEX	3.8	3.9	0.1
Singapore	MASB10Y INDEX	3.1	3.2	0.1
Japan	GJGB10 INDEX	1.7	1.1	-0.5
China	GCNY7YR INDEX	2.7	2.1	-0.6
Poland	POGB10YR INDEX	5.2	4.5	-0.7
Hong Kong	GHKGB10Y INDEX	3.8	2.9	-0.9
Thailand	GVTL10YR INDEX	5.0	3.4	-1.6
USA	USGG10YR INDEX	4.6	2.0	-2.6
Korea	GVSK10YR INDEX	4.9	1.7	-3.2
Philippines	GRPG10 INDEX	6.6	3.3	-3.3
South Africa	GSAB10YR INDEX	8.0	2.7	-5.3
Mexico	VRTBT10 INDEX	7.9	1.8	-6.0
India	GIND10YR INDEX	7.6	1.1	-6.5
Indonesia (3 year)	GIDN3YR INDEX	9.5	2.4	-7.0
Brazil (3 year)	BZAD3Y INDEX	13.3	0.0	-13.3
Turkey (2 year)	TGBY2YT0 INDEX	22.4	2.6	-19.8

Source: Bloomberg, JPMorgan estimates.

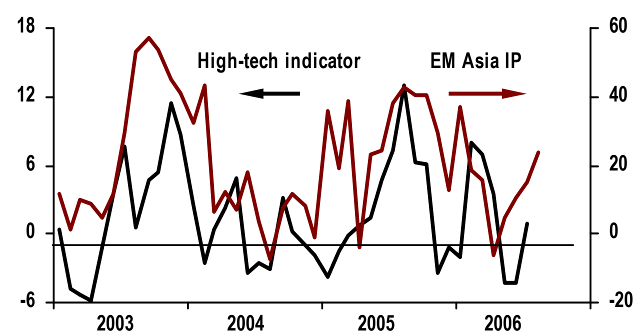
Figure 14: MSCI Taiwan relative to MSCI EMF



Source: Datastream, MSCI. Chart shows performance of MSCI Taiwan relative to MSCI Emerging Markets (base value of 100, 5 Nov `05).)

Figure 15: JPMorgan global high-tech indicator and EM Asia tech IP

%3m, saar; both scales; EM IP excludes China and India



Source: JPMorgan Economics.

Russian liquidity and consumption boom

Table 12: Russian Top Picks

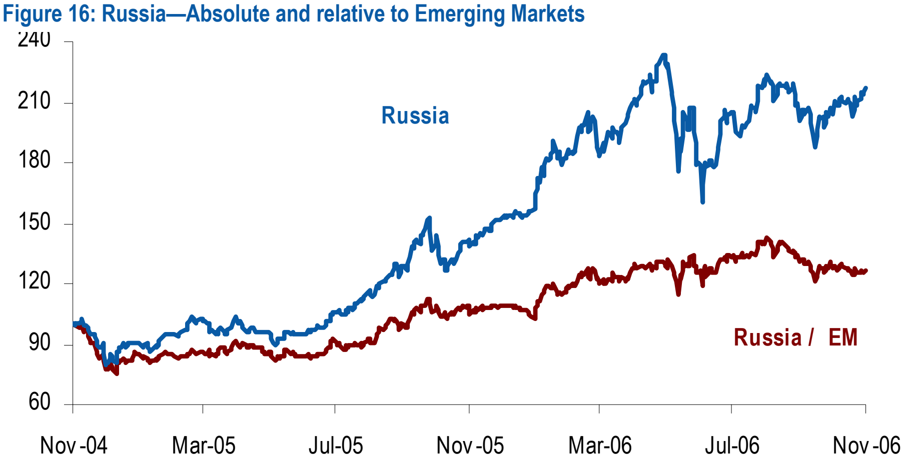
Company
Lukoil
Vimpelcom

Source: JPMorgan.

Russia is an uncomfortable Long while crude prices are slipping, and there is near-term risk of foreigners liquidating their positions. However, we believe that the appeal of the Russian story is firmly rooted in local factors, above and beyond the crude price: first, a structural consumer story that is enjoying a cyclical upswing driven by pre-election federal government spending, and nascent consumer credit markets, and; second, robust domestic liquidity conditions, where Russian corporates and savers have a structural bias towards equities, and CBR intervention is leading to a liquidity glut. We do not believe that the domestic liquidity position will deteriorate until either: (i) the current account surplus is eroded, which our economists estimate would take a move in the oil price to US$35-40 per barrel; or (ii) disinflation is so pronounced or banking sector reform so extreme, that bank deposits start to offer a positive real return.

Our preference is for wireless and media stories: we like Overweight-rated **Vimpelcom** and **CTC Media**, and the more diversified play of **Sistema.** In energy, our preference is for gas over oil. Among the oils, we favor **Lukoil**, which could be a beneficiary of gas sector liberalization. We also like **Mechel,** which we expect stands a good chance of becoming an acquisition candidate in the consolidation of the Russian steel sector.

Figure 16: Russia—Absolute and relative to Emerging Markets



Source: Datastream, MSCI. Chart shows performance of MSCI Russia (base value of 100, 10 Nov'04) and MSCI Russia relative to MSCI EM (base value of 100, 1o Nov'04).

Polish domestic demand

We see scope for a big positive earnings surprise in Poland in 2007, as the fixed investment-led boom continues, with a brisk growth rate of 10%. We do not expect the market to re-rate, as inflation rises fast, monetary policy starts to tighten and spreads widen. However, earnings surprise will drive returns, supported by domestic liquidity and a scarcity of sellers as consensus foreign funds are underweight.

Our preference is for mid-cap stocks, in particular those geared to the fixed investment spend, and the construction sector. Among the large caps, we see banks as most likely to benefit from the booming domestic demand. We favor PKO BP, for its proximity to the government.

Country and Region Index Performance

Country/Region		Local Currency 1 month	Local Currency 12 months	Local Currency 06YTD	US$ 1 month	US$ 12 months	US$ 06YTD
Emerging Markets	**MSCI EM**	3.6%	26.4%	16.9%	4.6%	30.0%	19.0%
Developed Markets	MSCI EAFE	0.7%	16.4%	10.2%	3.0%	23.8%	17.2%
World	MSCI AC World	1.4%	14.9%	10.8%	2.5%	18.4%	14.1%
US	S&P 500	1.4%	12.1%	10.9%	1.4%	12.1%	10.9%
UK	MSCI United Kingdom	0.6%	13.2%	9.9%	3.2%	23.8%	21.8%
G7	MSCI G7	1.1%	12.8%	9.3%	1.9%	15.5%	12.0%
Emerging Asia	**MSCI EM Asia**	3.8%	25.1%	16.0%	5.2%	31.8%	20.1%
China	MSCI China	9.9%	58.1%	48.9%	10.0%	57.5%	48.3%
India	MSCI India	5.2%	58.5%	41.8%	6.3%	60.6%	41.9%
Indonesia	MSCI Indonesia	4.7%	65.6%	42.6%	5.6%	81.3%	53.7%
Korea	MSCI Korea	2.6%	10.1%	0.9%	4.8%	22.6%	9.1%
Malaysia	MSCI Malaysia	3.9%	15.2%	15.0%	5.2%	19.7%	19.6%
Pakistan	MSCI Pakistan	-3.6%	13.7%	7.0%	-3.8%	11.9%	5.4%
Philippines	MSCI Philippines	10.9%	35.3%	35.7%	11.4%	48.0%	44.7%
Sri Lanka	MSCI Sri Lanka	12.2%	9.9%	39.1%	10.4%	3.8%	31.8%
Taiwan	MSCI Taiwan	-0.1%	13.6%	6.1%	1.1%	16.2%	6.5%
Thailand	MSCI Thailand	3.8%	10.9%	3.8%	6.5%	24.8%	16.5%
Latin America	**MSCI Latin America**	4.1%	33.5%	22.5%	3.6%	32.8%	26.6%
Argentina	MSCI Argentina	17.2%	58.4%	51.9%	18.2%	52.9%	49.4%
Brazil	MSCI Brazil	3.9%	30.0%	16.5%	2.9%	29.9%	25.8%
Chile	MSCI Chile	4.0%	16.7%	20.0%	4.9%	16.5%	16.6%
Colombia	MSCI Colombia	2.2%	25.6%	4.3%	5.7%	25.9%	4.6%
Mexico	MSCI Mexico	3.0%	42.6%	31.5%	2.5%	39.5%	28.1%
Peru	MSCI Peru	6.3%	50.3%	45.6%	6.6%	52.7%	49.5%
Venezuela	MSCI Venezuela	4.9%	68.7%	70.2%	3.5%	61.7%	49.4%
EMEA	**MSCI EM EMEA**	2.8%	24.6%	15.3%	4.3%	25.0%	11.9%
Czech Republic	MSCI Czech Republic	4.2%	13.3%	6.9%	7.6%	29.2%	20.1%
Egypt	MSCI Egypt	2.5%	9.3%	3.8%	2.7%	10.1%	4.1%
Hungary	MSCI Hungary	3.3%	11.1%	9.2%	8.2%	17.7%	15.3%
Israel	MSCI Israel	-2.3%	-7.2%	-13.2%	-3.1%	0.6%	-7.9%
Poland	MSCI Poland	0.7%	21.5%	15.7%	4.7%	40.2%	26.2%
Russia	MSCI Russia	2.7%	54.9%	39.6%	2.7%	56.5%	41.0%
South Africa	MSCI South Africa	5.5%	30.6%	21.1%	8.7%	21.7%	5.8%
Turkey	MSCI Turkey	0.8%	10.0%	-4.9%	2.5%	3.5%	-11.4%

Source: MSCI. Values as of 13 November 2006.

Sector Index Performance: Developed and Emerging Classifications

	MSCI The World Index (Developed Markets)						MSCI G7					
	Local Currency			US$			Local Currency			US$		
	1 mth	12 mths	06YTD	1 mth	12 mths	06YTD	1 mth	12 mths	06YTD	1 mth	12 mths	06YTD
Consumer Discretionary	1.9%	15.3%	11.4%	3.0%	18.3%	14.3%	1.9%	14.8%	11.2%	2.8%	17.2%	13.7%
Consumer Staples	0.9%	11.0%	10.1%	2.0%	14.4%	13.6%	0.7%	9.8%	9.1%	1.5%	12.4%	11.9%
Energy	5.6%	15.7%	10.1%	6.6%	20.0%	14.3%	5.6%	15.5%	10.2%	6.5%	19.7%	14.2%
Financials	0.0%	15.9%	12.1%	1.2%	20.2%	16.2%	-0.3%	13.8%	10.4%	0.7%	17.0%	13.6%
Healthcare	-2.0%	5.0%	3.6%	-1.2%	7.5%	6.2%	-2.4%	4.1%	2.5%	-1.8%	6.0%	4.5%
Industrials	1.1%	15.6%	9.2%	2.2%	18.7%	11.9%	0.5%	13.4%	7.1%	1.3%	15.3%	8.9%
Information Technology	1.0%	8.8%	5.9%	1.5%	10.1%	7.0%	1.1%	9.0%	6.2%	1.5%	9.6%	6.7%
Materials	3.0%	24.5%	14.3%	4.5%	29.9%	19.0%	2.8%	24.0%	13.6%	4.0%	28.6%	17.7%
Telecom Services	2.1%	12.5%	15.3%	3.5%	17.6%	20.6%	0.7%	10.6%	14.8%	1.8%	14.6%	19.1%
Utilities	3.5%	24.8%	20.0%	4.8%	29.8%	24.7%	3.8%	22.8%	18.0%	5.0%	27.1%	22.2%

Source: MSCI. Values as of 13 November 2006.

	MSCI Emerging Markets						MSCI EM Europe					
	Local Currency			US$			Local Currency			US$		
	1 mth	12 mths	06YTD	1 mth	12 mths	06YTD	1 mth	12 mths	06YTD	1 mth	12 mths	06YTD
Consumer Discretionary	3.3%	14.8%	3.2%	4.8%	18.9%	4.4%	2.1%	21.0%	4.3%	4.8%	23.1%	4.0%
Consumer Staples	3.0%	28.8%	21.5%	3.9%	31.1%	22.8%	0.8%	29.2%	15.9%	2.3%	24.9%	11.1%
Energy	4.3%	40.2%	26.4%	4.8%	41.9%	28.7%	1.6%	38.5%	25.4%	2.0%	41.9%	27.7%
Financials	3.9%	29.7%	19.2%	5.2%	34.2%	21.5%	0.8%	27.8%	15.3%	3.5%	31.8%	16.6%
Healthcare	-4.6%	-7.6%	-14.9%	-4.3%	-1.4%	-11.1%	-1.9%	20.1%	14.6%	2.3%	30.4%	23.3%
Industrials	3.8%	32.4%	22.9%	5.1%	36.7%	24.9%	0.4%	18.5%	5.1%	2.3%	12.6%	-1.3%
Information Technology	-0.4%	12.0%	2.6%	1.1%	17.9%	5.7%	-5.4%	8.2%	-2.3%	-1.6%	24.8%	6.6%
Materials	5.2%	33.9%	26.2%	6.2%	34.7%	26.7%	1.5%	81.8%	60.7%	2.6%	88.1%	64.1%
Telecom Services	7.1%	32.0%	26.5%	7.8%	33.7%	27.2%	7.7%	20.3%	19.7%	9.1%	25.3%	22.9%
Utilities	4.6%	28.0%	21.3%	5.5%	33.7%	26.9%	10.6%	63.8%	46.3%	12.6%	76.2%	56.0%

Source: MSCI. Values as of 13 November 2006.

Sector Index Performance: Emerging Markets

	MSCI EM Asia						MSCI Latin America					
	Local Currency			US$			Local Currency			US$		
	1 mth	12 mths	06YTD	1 mth	12 mths	06YTD	1 mth	12 mths	06YTD	1 mth	12 mths	1 mth
Consumer Discretionary	0.5%	5.2%	-5.8%	2.0%	13.0%	-0.9%	7.2%	37.1%	26.9%	6.6%	35.8%	26.1%
Consumer Staples	3.5%	29.0%	22.5%	5.1%	37.5%	28.2%	2.0%	30.3%	22.3%	1.6%	29.1%	23.5%
Energy	7.9%	47.0%	37.4%	8.8%	51.7%	40.7%	8.0%	49.1%	24.6%	7.3%	48.2%	32.9%
Financials	5.1%	32.6%	21.7%	6.3%	40.2%	26.5%	1.8%	33.3%	26.0%	1.3%	32.9%	32.9%
Healthcare	5.3%	29.1%	19.7%	6.6%	33.3%	21.8%	8.5%	25.0%	9.2%	7.5%	24.9%	17.9%
Industrials	4.0%	35.1%	24.0%	5.5%	42.6%	28.9%	3.2%	27.3%	19.1%	2.8%	27.0%	21.8%
Information Technology	-0.4%	12.1%	2.3%	1.1%	18.3%	5.6%	NA	NA	NA	NA	NA	NA
Materials	6.3%	27.8%	25.4%	7.8%	34.6%	29.5%	5.1%	26.3%	17.9%	4.5%	25.8%	22.5%
Telecom Services	9.6%	38.3%	35.1%	10.5%	43.8%	38.9%	3.4%	38.4%	26.5%	2.9%	36.6%	26.6%
Utilities	5.1%	21.3%	14.9%	6.3%	28.4%	19.9%	0.2%	20.0%	17.0%	0.1%	20.5%	21.1%

Source: MSCI. Values as of 13 November 2006.

	MSCI EM EMEA						MSCI South Africa					
	Local Currency			US$			Local Currency			US$		
	1 mth	12 mths	06YTD	1 mth	12 mths	06YTD	1 mth	12 mths	06YTD	1 mth	12 mths	1 mth
Consumer Discretionary	8.6%	28.1%	14.5%	11.6%	23.0%	4.4%	11.5%	30.0%	16.8%	14.8%	21.0%	2.0%
Consumer Staples	5.0%	24.2%	16.4%	7.5%	18.2%	5.9%	6.8%	23.1%	18.2%	10.1%	14.7%	3.3%
Energy	1.5%	33.6%	22.1%	2.2%	35.4%	21.5%	0.8%	16.8%	10.4%	3.9%	8.8%	-3.6%
Financials	2.5%	22.8%	11.7%	4.8%	23.3%	8.0%	4.9%	24.9%	13.6%	8.0%	16.3%	-0.8%
Healthcare	-7.8%	-15.8%	-22.6%	-7.6%	-9.3%	-18.6%	3.5%	51.7%	41.7%	6.7%	41.3%	23.8%
Industrials	3.6%	26.9%	21.3%	5.8%	22.6%	12.2%	4.2%	33.5%	29.6%	7.3%	24.3%	13.3%
Information Technology	-0.7%	8.7%	9.2%	0.0%	9.7%	8.6%	6.0%	61.8%	45.6%	9.2%	50.7%	27.2%
Materials	4.2%	52.2%	38.9%	6.4%	48.8%	29.6%	5.7%	48.7%	36.2%	8.8%	38.5%	19.0%
Telecom Services	7.2%	16.5%	15.2%	8.9%	17.4%	12.7%	6.2%	17.1%	12.2%	9.4%	9.1%	-2.0%
Utilities	10.5%	61.5%	44.9%	12.4%	73.6%	54.3%	NA	NA	NA	NA	NA	NA

Source: MSCI. Values as of 13 November 2006.

Global Emerging Markets Macro Strategy

Slower yet steady growth

Economics

Key Drivers

***Asia.* China growth slowdown is marginal while the rest of Asia accelerates into year-end.** China is slowing on schedule, so content policymakers are likely to take only small tightening measures like another nudging up of interest rates, a reserve requirement hike, and possibly widening the CNY trading band. Elsewhere in Asia, growth is re-accelerating after a tech-driven slowdown that is likely to keep most central banks in pause mode.

***Latin America.* Growth should remain anchored by strong domestic demand in 2007.** The expected slowdown in global growth and moderation in commodity prices should further erode the contribution of net trade to GDP growth in most Latin economies next year. But the resilience of domestic demand, which is being fueled by low inflation, strong currencies, low unemployment and comfortable fiscal positions, should prevent a sharp deceleration of economic activity in the region.

Emerging Europe and Middle East. With the Fed on hold, the Bank of Japan is unlikely to raise interest rates quickly; and with oil prices declining, **the overall macro outlook** for Emerging Europe and the Middle East in the next six months **is encouraging.** While Hungary and some oil exporters (though not Russia) may see materially slower growth next year, the rest of the region is forecast to enjoy solid growth and declining interest rates (except for Poland and the Czech Republic). Moreover, the carry trade is back in fashion as emerging markets and global fund managers are flush with funds to invest.

***South Africa.* Policy focused on managing imbalances.** The mechanisms are in place to facilitate a more balanced growth in 2007, with both fiscal and monetary policy now on a more conservative path. Export competitiveness should get a boost from the weaker rand. Upside risks to interest rates are likely to remain until there is more convincing evidence that a rotation in growth is taking place, with a slower growth in consumption and an improvement in exports. Despite rising interest rates, the growth outlook for the economy remains favorable, underpinned by strong fixed investment spending. We estimate GDP growth will remain between 4.0-4.5% in the year ahead.

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GDP growth: Global, developed and emerging markets
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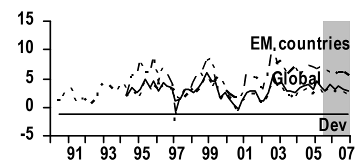


Source: JPMorgan.

Note: Data as of October 27, 2006.

Our Non-Consensus Views

Asia. **Growth in Taiwan and China should outperform** consensus expectations in 2007; India and Singapore to underperform. China is no longer a source of global disinflation/deflation. We expect Korea's current account to tip into full-year deficit in 2007.

Latin America. **Growth in 2007 should moderate back to the 2005 pace.** JPMorgan's average 2007E growth forecast of 4.4% oya for the region is lower than this year's projection of 5.2%, but similar to the pace seen in 2005. In turn, consensus calls for lower growth rates of 4.8% and 4.1%, respectively. At the country level, our growth forecasts for Argentina (7.5%) and Chile (5.5%) stand above consensus, while those for Brazil, Colombia, Mexico and Peru are in line.

Emerging Europe and Middle East. **Hungary should see a sharp narrowing of its fiscal and current-account deficits in 2007**, but progress after that should be slower than the market anticipates because of the possibility of difficulties in gaining political support for structural reforms. Slovakia is likely to adopt the euro in January 2009 as the new government's fiscal sensibilities have emerged. We believe Turkish interest rates will stay high for longer than the markets expect because domestic demand has shown surprising resilience to high interest rates.

South Africa. **Upside risks to interest rates to remain through 2007.** Although interest rates are expected to peak at 9% by the end of this year, we believe upside risks will remain in 2007. Both fiscal and monetary policy will have to remain disciplined over the medium term to reduce the country's vulnerability to swings in balance of payments capital flows.

Credit/Fixed Income/Bonds

Key Drivers

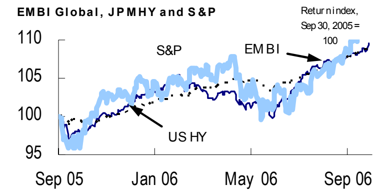
***Asia.* Bond and credit should stay in rally mode, though positions are starting to get crowded.** Local bond yields have fallen sharply in Indonesia and the Philippines, though we believe that rate will continue to fall a bit more before they start to bottom out. The same is true for Malaysia and Thailand. In Korea, the market should give up hopes for a rate cut, in our view, unless risks from North Korea reappear. In Asia credit, high yield bonds should continue to outperform, and we favor high yield names in China and Indonesia. Thailand CDS is back to pre-coup levels, so it no longer looks appealing.

***Latin America.* Rates normalization has largely run its course in the region.** JPMorgan now expects the central banks of Chile and Mexico to remain on hold for the remainder of the year, and to keep their policy rates of 5.25% and 7.00%, respectively, unchanged in 2007. Colombia is the only Latin country that we expect to keep tightening into 2007 in order to contain the buildup of inflation pressures, taking its policy rate to at least 8% next year—a prospect that we think is now almost fully priced in by the market.

Emerging Europe and Middle East. JPMorgan expects **Hungarian rates to increase 50bp to 8.25% by end-2006**, then remain at that level until the first half of next year. In Poland, we see rates on hold for the rest of this year, then 50bp of rate hikes in the first half of next year. By end-2006 we see Czech rates 100bp below euro area rates, and we expect that differential to remain intact in 2007.

***South Africa.* Limited supply to keep curve inverted.** The latest update on the fiscal projection in the next three years in the Medium Term Budget Policy Statement paints a fairly bleak supply picture. With the first-ever budget surplus expected in FY2007/08, the public sector borrowing requirement has been slashed by more than 50% versus the February estimates. If demand continues, we think that both the bond and swap curve will invert further as we still do not expect the SARB to embark on a rate cutting cycle next year.

EMBI Global, JPMHY, S&P 500



Source: JPMorgan estimates.

Spreads and yields, actual and forecast

	Current	Year Ago	Est for end-Dec
EMBIG	188	242	200
EMBI+	187	253	210
Fed Funds	5.25	3.75	5.25
10-yr bond	4.67	4.56	4.25

Source: JPMorgan estimates.

Note: Data as of October 27, 2006.

Our Non-Consensus Views

Asia. **Market is too hopeful of a rate cut in Korea**; we expect BOK to stay on hold unless North Korea risks reappear. If oil prices stay flat to down, we would expect Thailand to cut rates as early 1H07.

Latin America. **Further monetary easing in the pipeline in Brazil.** In 2007, Brazil should maintain the distinctive feature of the second-half of 2006, of being the only Latin America country where the central bank is still in an easing mode. JPMorgan pencils in another 25bp cut before year-end to 13.50%, and another 75bp of easing in the first half of 2007. However, the market is only pricing in 10bp of rate cuts in the whole of next year.

Emerging Europe and Middle East. JPMorgan expects **Turkey to stay high for longer** than the market expects. We expect rates to begin to fall in June 2007, after inflation oya finally falls below double digits in May.

South Africa. **Higher US yields put upside risks to our forecast.** Our forecast for the bond yield is fairly in line with consensus, but it is worth pointing out that cross-market valuation will look increasingly expensive for South African bonds if UST yields rise according to our forecasts. With our expectation of the Fed funds rates moving to 6% by middle of next year and domestic policy rate to reach 9% by end-2006, a sudden risk aversion among clients could push South African bond yields higher quickly, similar to the global EM sell-off back in May/June 2006.

Foreign Exchange

Key Drivers

Asia. **Asia FX is back in favor.** A long position in ADXY (the JPM-Bloomberg index of regional FX) should capture the broad trend. In terms of specific currencies, the low volume environment favors high carry positions in PHP and IDR, which can be funded by low yielders like SGD and TWD.

Latin America. **The strength of external accounts should erode moderately in 2007, but currencies should not weaken excessively.** Lower commodity prices and export demand, together with strong imports due to solid domestic demand, should reduce the region's current account surplus from an estimated 2% of GDP in 2006 to 0.7% of GDP in 2007. While Colombia was the only country with a current account deficit in 2006, external gaps should also swing into a small deficit in Chile and Mexico next year. This would remove some of the fundamental support for these currencies, although the resilience of FDI, remittances and portfolio inflows should prevent an unduly high depreciation of Latin currencies.

Emerging Europe and Middle East. JPMorgan expects developments in the US to be conducive to a Fed pause that lasts at least until March 2007. In that context, we see more **gains for selected CEEMEA currencies**, such as the RUB, CZK, RON, and ILS.

South Africa. **Global sentiment should remain the key driver for the rand**. The expected Fed pause and resulting recovery in risk appetite should support the rand in the near term as US data confirm a narrow path between recession fears and higher inflation risks. Some renewed ZAR weakness is likely later in Q4 as fears build over further Fed rate hikes. A combination of tighter monetary policy and sustained ZAR weakness will likely be needed to bring down the current account deficit. Recent SARB commentary has probably not specifically been aimed at weakening the rand, although the SARB's continued focus on the current account deficit as a risk factor shows the extent to which domestic economic imbalances are driving monetary policy.

Our Non-Consensus Views

Asia. Multi-year **outperformance of KRW is likely over**, while PHP and IDR still have more strength left, in our view. We expect CNY to appreciate well beyond what is priced into NDFs.

Latin America. **JPMorgan's FX forecasts for Chile, Colombia and Venezuela stand below consensus.** Our end-2007 forecasts against the USD for CLP of 540 and COP of 2475 diverge from the consensus projections of 550 and 2530, respectively. In turn, we expect Venezuela to maintain its FX rate fixed at 2150 once again next year. In general, we expect Latin currencies to depreciate moderately in nominal terms but not necessarily so in real terms in every case.

Emerging Europe and Middle East. Greater confidence in the Slovak government's commitment to the January 2009 EMU entry target and the unwind of market shorts should deliver **further near-term SKK gains**.

South Africa. **Fed tightening a risk for the rand.** Higher US yields next year should lead to further rand weakness. 50bp more of Fed rate hikes next year will likely trigger weakness in EM currencies saddled with large current account deficits.

Macroeconomic Outlook

Economic Snapshot	Real GDP Growth (% oya)			Consumer Prices (%oya)			Current Account Balance (% GDP)		
	2005	2006E	2007E	2005	2006E	2007E	2005	2006E	2007E
Emerging Asia	7.4	7.6	6.8	3.0	3.2	3.2	5.0	5.4	4.8
China	10.2	10.6	9.5	1.8	1.5	2.5	7.2	8.6	7.9
India	8.4	8.0	7.0	4.2	5.6	5.3	-1.3	-1.7	-2.2
Indonesia	5.6	5.3	5.8	10.5	13.5	6.2	0.1	2.6	1.2
Korea	4.0	5.1	4.5	2.8	2.5	3.1	2.1	0.2	-0.3
Malaysia	5.2	5.1	5.1	3.1	3.8	2.7	15.2	12.0	11.6
Philippines	5.0	5.5	5.5	7.6	6.9	6.3	2.4	3.5	2.3
Taiwan	4.0	4.0	4.4	2.3	1.0	2.0	4.6	5.7	5.0
Thailand	4.5	4.5	4.0	4.5	4.7	2.0	-2.4	0.8	0.1
Latin America	4.4	5.2	4.4	6.4	5.5	5.5	1.7	2.1	0.8
Argentina	9.2	8.5	7.5	9.6	10.9	9.7	3.2	2.5	2.0
Brazil	2.3	3.2	3.5	6.9	4.2	4.4	1.8	1.4	0.4
Chile	6.3	5.0	5.5	3.1	3.6	2.7	-1.3	4.5	1.4
Colombia	5.2	5.4	4.5	5.0	4.3	4.9	-1.6	-1.8	-1.7
Mexico	3.0	4.9	3.3	4.0	3.6	3.4	-0.6	0.0	-1.0
Peru	6.4	6.6	5.5	1.6	2.1	2.4	1.3	2.0	0.5
Venezuela	9.3	9.0	6.0	16.0	13.6	17.0	18.2	15.8	8.2
EMEA	5.5	5.5	4.9	6.6	5.4	5.4	1.0	1.0	0.0
Czech Republic	6.1	6.5	5.2	1.9	2.9	3.7	-2.1	-3.1	-2.7
Hungary	4.1	3.8	2.5	3.6	3.8	6.8	-7.3	-8.0	-6.0
Poland	3.4	5.3	5.0	2.1	1.2	2.1	-1.6	-1.4	-1.5
Russia	6.4	7.0	6.7	9.0	7.0	5.6	10.9	10.4	5.8
Turkey	7.4	4.3	2.4	12.5	9.9	9.5	-6.4	-6.7	-5.2
Egypt	4.5	6.8	6.0	11.4	4.1	9.7	3.3	1.7	1.2
Israel	5.2	4.3	3.5	2.4	2.9	2.3	2.9	1.5	1.7
South Africa	4.9	4.2	4.5	3.4	4.9	6.9	-4.2	-5.7	-4.8
US	3.2	3.3	2.8	3.4	3.3	2.2	-6.3	-6.6	-6.6
Euro area	1.5	2.8	2.5	2.2	2.2	2.1	-0.3	-0.4	-0.5
Japan	2.6	2.6	2.6	-0.3	0.2	0.3	3.7	3.8	4.1
Global	3.2	3.6	3.3	2.7	2.7	2.3	...	...	...
Developed market economies	2.5	3.0	2.7	2.2	2.3	1.8	-1.9	-2.1	-2.2
Emerging market economies	6.1	6.4	5.7	4.7	4.5	4.5	3.4	3.8	3.0

Source: Datastream, JPMorgan estimates. Rates and estimates are as of 27 October 2006.

Policy Rates

Policy Interest Rate Forecast						Forecast		
	Official Interest Rate	Current	Last change	Dec-06E	Mar-07E	Jun-07E	Sep-07E	Dec-07E
Asia/Pacific	GDP-weighted average	2.64		2.65	2.77	2.93	3.1	3.24
China	1-year working capital	6.12	18 Aug 06 (+27bp)	6.3	6.3	6.3	6.3	6.3
India	Reverse repo rate	6	25 Jul 06 (+25bp)	6	6.25	6.25	6.5	6.5
Indonesia	BI rate	10.25	7 Nov 06 (-50bp)	9.75	8.5	8.5	8.5	8.5
Korea	Overnight call rate	4.5	10 Aug 06 (+25bp)	4.5	4.5	4.5	4.5	4.5
Malaysia	Overnight policy rate	3.5	26 Apr 06 (+25bp)	3.5	3.5	3.5	3.5	3.5
Philippines	Reverse repo rate	7.5	20 Oct 05 (+25bp)	7.25	7	7	7	7
Taiwan	Official discount rate	2.625	28 Sep 06 (+12.5bp)	2.625	2.625	2.75	2.875	3
Thailand	14-day repo rate	5	7 Jun 06 (+25bp)	5	4.5	4.5	4.5	4.5
The Americas	GDP-weighted average	5.69		5.67	5.66	5.89	6.32	6.32
Brazil	SELIC overnight rate	13.75	18 Oct 06 (-50bp)	13.25	12.75	12.5	12.5	12.5
Chile	Discount rate	5.25	14 Jul 06 (+25bp)	5.25	5.25	5.25	5.25	5.25
Mexico	Repo rate	7	21 Apr 06 (-25bp)	7	7	7	7	7
EMEA	GDP-weighted average	3.85		4.06	4.26	4.46	4.46	4.46
Czech Republic	2-week repo rate	2.5	27 Sep 06 (+25bp)	2.5	2.75	3	3	3
Hungary	2-week deposit rate	8	24 Oct 06 (+25bp)	8.25	8.25	8.25	8	7.5
Poland	7-day intervention rate	4	28 Feb 06 (-25bp)	4	4.25	4.5	4.5	4.5
Turkey	Overnight borrowing rate	17.5	20 Jul 06 (+25bp)	17.5	17.5	17.25	16.75	16
South Africa	Repo rate	8.5	12 Oct 06 (+50bp)	9	9	9	9	9
US	Federal funds rate	5.25	29 Jun 06 (+25bp)	5.25	5.25	5.5	6	6
Euro area	Refi rate	3.25	5 Oct 06 (+25bp)	3.5	3.75	4	4	4
Japan	Overnight call rate	0.25	14 Jul 06 (+25bp)	.25	0.5	.75	1	1.25
Global	GDP-weighted average	4.28		4.34	4.43	4.63	4.86	4.89
Global ex-US	GDP-weighted average	3.78		3.87	4.01	4.19	4.27	4.32

Source: Datastream, JPMorgan estimates. Rates and estimates as of 10 November 2006.

Exchange Rates

vs. US$	Current	Dec-06E	Mar-07E	Jun-07E	Sep-07E	Annual Average 2007E	2008E	2009E	2010E	2011E
Majors										
EUR	1.26	1.28	1.26	1.28	1.29	1.28	1.28	1.23	1.18	1.13
JPY	119	119	120	119	118	118	111	108	105	102
GBP	1.88	1.93	1.91	1.94	1.95	1.94	1.83	1.73	1.64	1.55
JPMorgan USD Index (2000=100)	89.3	89.5	90.4	89.9	89.5	89.9	89.2	90.3	90.8	90.9
Emerging Asia										
CNY	7.89	7.75	7.60	7.40	7.20	7.39	6.30	5.80	5.50	5.00
IDR	9105	8900	8800	8800	9000	8920	10000	10500	11000	11400
INR	45.3	45.5	46.0	45.5	45.0	45.4	45.5	44.0	42.0	42.0
KRW	950	980	990	990	990	990	1000	1100	1030	970
MYR	3.67	3.65	3.60	3.55	3.50	3.56	3.30	3.45	3.50	3.60
PHP	49.9	49.0	48.0	48.5	49.0	48.7	52.0	54.0	56.0	56.0
TWD	33.2	33.5	33.1	32.6	32.0	32.4	31.0	31.0	30.0	28.0
THB	37.0	37.0	36.8	36.5	36.2	36.5	40.0	40.0	39.0	38.0
Latin America										
ARS	3.09	3.10	3.15	3.15	3.15	3.15	3.25	3.35	3.45	3.55
BRL	2.14	2.20	2.20	2.25	2.30	2.26	2.50	2.60	2.68	2.75
CLP	523	530	540	540	540	538	550	555	560	560
COP	2517	2400	2375	2400	2425	2415	2500	2600	2700	2800
MXN	10.8	10.8	11.1	11.2	11.3	11.2	11.9	12.0	12.1	12.2
PEN	3.28	3.23	3.25	3.26	3.28	3.26	3.35	3.40	3.45	3.45
VEB	2145	2150	2150	2150	2150	2150	2400	2675	3000	3350
EM EMEA										
RUB	26.8	26.2	25.9	25.6	25.3	25.6	25.1	25.2	25.0	24.8
TRY	1.46	1.50	1.53	1.55	1.58	1.55	1.65	1.71	1.77	1.82
CZK	28.3	27.8	27.5	27.3	27.0	27.3	26.6	26.0	25.5	25.5
SKK	36.4	36.5	36.3	36.2	36.1	36.2	36.0	34.5	34.5	34.5
EGP	5.73	5.75	5.70	5.65	5.60	5.65	5.50	5.30	5.15	5.10
ILS	4.28	4.15	4.15	4.15	4.20	4.19	4.32	4.40	4.50	4.65
ZAR	7.52	7.75	7.81	7.88	7.94	7.88	7.25	7.50	7.75	8.00

Source: Reuters, JPMorgan estimates. Exchange rates are as of 27 October 2006.

Base Economic Statistics: International Comparisons

	2005 Nominal GDP $ billion	2005 GDP per capita $	2005 Population million	1980-2005 Average CPI % oya	1980-2005 Average Real GDP % oya	2005 Unemployment Rate %	2005 Budget Balance % GDP
US	12485	42122	296.4	3.9	3.0	5.1	-2.6
Japan	4551	35526	128.1	1.3	2.4	4.4	-7.2
Germany	2733	33050	82.7	2.5	1.9	11.7	-3.3
China	2226	1692	1315.8	6.3	9.7	4.5	-1.1
France	2126	35145	60.5	4.0	2.0	9.9	-2.9
UK	2225	37087	60.0	4.9	2.3	4.8	-3.6
Italy	1766	30392	58.1	6.5	2.4	7.7	-4.1
Latin America							
Argentina	182	4697	38.7	318.5	1.7	11.6	2.1
Brazil	796	4325	183.9	458.0	2.4	9.8	-3.3
Chile	115	7078	16.3	13.4	4.9	8.1	3.5
Colombia	122	2681	45.6	19.1	3.2	13.5	0.0
Mexico	768	7180	107.0	35.7	2.5	3.5	-0.2
Peru	79	2838	28.0	496.9	2.3	7.6	-0.4
Venezuela	139	5197	26.7	31.6	1.4	13.0	-1.0
EMEA							
Czech Republic	124	12160	10.2	…	…	8.5	-2.6
Hungary	109	10813	10.1	13.5	1.8	7.0	-6.1
Poland	303	7866	38.5	54.6	1.7	18.2	-2.5
Russia	763	5331	143.2	…	…	7.6	7.5
Turkey	361	4938	73.2	56.6	4.2	10.6	-2.0
Egypt	90	1279	70.0	11.9	5.5	11.0	-3.2
Israel	130	19291	6.7	54.6	4.1	9.0	-1.9
South Africa	239	5054	47.4	10.6	2.3	26.5	-1.5
Asia-Pacific							
Australia	711	34897	20.4	5.0	3.3	5.1	0.8
New Zealand	107	25923	4.1	6.0	2.6	3.7	3.8
Hong Kong	178	25594	6.9	5.6	5.5	5.7	1.0
Singapore	117	26995	4.3	2.0	6.9	3.2	1.0
India	798	720	1109.5	8.1	5.9	…	-4.1
Indonesia	281	1262	222.8	11.3	5.0	11.0	-0.5
Korea	788	16472	47.8	6.2	6.6	3.7	2.7
Malaysia	131	5159	25.3	3.2	6.3	3.5	-3.8
Philippines	98	1185	83.1	10.4	2.9	11.3	-3.7
Taiwan	347	15224	22.8	3.1	6.6	4.1	-2.0
Thailand	175	2717	64.2	4.7	5.9	1.7	0.5

Source: JPMorgan.

Sectors

Autos

Volume growth versus margin erosion pressure

Asia Pacific
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Key Drivers

Asia Pacific: Domestic demand growth, margin pressure, and export market share gains are three key drivers for the Emerging Asia auto sector. We expect India and China to see continued strong volume growth in FY07 on the back of strong economic growth and relatively low penetration rates. However, we expect both markets to face heightening margin erosion pressure, especially in the upper-medium segment for sedans in China, and the two-wheeler segment in India. Last but not least, market share gains in overseas markets should continue to be a key driver for the Korean auto sector.

Our Non-Consensus Views

Asia Pacific: We remain positive on Great Wall Motor due to: (1) its competitive cost advantages in labor, land, vertical integration (from auto parts to completed vehicles), efficient management, and logistics areas; and (2) our view that it will achieve great success in the economy car business where we believe its current business model of extremely low cost, flashy exterior design and reasonably good quality would be put to best use.

Top Pick		Stock to Underweight	
Great Wall Motor Company Limited	China	China Motor	China

Conglomerates

Opportunities in Indonesia and Turkey

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Key Drivers

Asia Pacific: We remain positive on the conglomerates sector as regionally, economic conditions continue to improve. Regional conglomerates, on average, performed very well in 2006. On a simple average basis, share prices of JPMorgan regional conglomerates stocks universe have surged 23% YTD. We are strongly positive on Astra International on the back of a strong recovery in the Indonesian motor industry. The company currently has a market share of 55% of Indonesia's auto market and 50% of the motorcycle market.

CEEMEA: We have identified four key drivers that differentiate the Turkish conglomerates from each other. These are sector exposure, synergy potential within the group structure, management's adherence to financial discipline and corporate governance, and the level of discount to their NAV.

Our Non-Consensus Views

Asia Pacific: For regional conglomerates, we are bullish on Astra International. The company should also benefit from further potential SBI rate cuts.

CEEMEA: Consensus values the Turkish conglomerates at around their net asset values (NAV). In the past, these diversified companies used to trade at premiums sometimes as high as 50% due to the lack of liquidity and imperfections in the market such as unsophisticated investors opting for market proxy companies. We believe Turkish conglomerates should be trading more in line with their global counterparts at a 10-15% discount. Liquidity in the Turkish market has improved and investors are now more sophisticated in forming their own diversified portfolios.

Top Picks	
Astra International	Indonesia
Sabanci Holding	Turkey

Consumer

Bull in a China shop

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Key Drivers

Asia Pacific: The China consumer story will remain hot, in our view; we stay Overweight. Despite the strong recent run-up in stock prices, we believe this sector will continue to offer strong returns going into 2007. Steep valuations are justified, in our view, by strong (2-3-year) growth rates and relatively low execution risks.

Latin America: We continue to favor retailers over beverage and cosmetics stocks, as we believe retailers will continue to benefit from their investments in direct consumer credit, a highly lucrative business in Latin America.

South Africa: Key driver of the farming sector should be the movement in soft commodity prices. However, movement in maize prices (affects chicken producers) should be somewhat mitigated by strong consumer demand, whereas fluctuations in sugar prices are difficult to offset.

Our Non-Consensus Views

Asia Pacific: In China, retailers have cheaper valuations versus brands despite faster growth and stronger free cash flow generating ability. Within the retail space, we prefer department stores and electronics retailers over supermarkets.

Latin America: We take a "back to basics" approach in which we contrast positive catalysts with valuation. We favor turnaround stories such as CBD and Comerci and Underweight companies that are suffering more from competition such as Soriana.

South Africa: We believe that increasing input costs for chicken producers will largely be offset by increased demand.

Top Picks		Stocks to Underweight	
China Yurun Food Group	China	Li Ning Co Ltd	China
Companhia Brasileira de Distribuicao (CBD)	Brazil	Organizacion Soriana	Mexico
Astral Foods Ltd	South Africa		

Financials

Cautious on growth banking sectors in China and India, bullish on LatAm retail

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Key Drivers

Asia Pacific: We believe that banks focusing purely on balance sheet growth would be disappointed. We believe success in raising ROEs and earnings growth depends on: (1) leveraging balance sheets through M&A or managing down capital; (2) focusing on household savings (as a region, Asia finances global growth) to generate fee income—notably through wealth management products; and (3) achieving a closer link between costs and revenues to improve productivity. Key themes to focus on are cyclical positioning, wealth management, capital management, consolidation and interest rates. In the Chinese insurance sector, deregulation, robust premium growth and favorable business mix are dominating the scene in life, while the non-life subsector continues to suffer from excessive price competition.

Latin America: Retail loan growth continues to be the key driver of profitability in the Latin American markets. In certain markets, including Brazil, Peru and, to a lesser extent, Mexico, additional reductions in country spreads driven by improvement in sovereign ratings should provide support to valuations in the midterm.

South Africa: Key drivers for insurers will be capital efficiency and new business volume growth. Increased competition between life offices and non-life competitors may also impact materially on margins. Moreover, tapping the emerging market should offer key upside surprise, although changes to commission regulations seem likely to hinder this progress. **With regard to banks, the quality of advances has improved materially over the past five years,** and we expect NPLs to be well contained through the interest rate cycle. We believe growing corporate demand and growth of the emerging middle class will bolster the industry's medium-term growth prospects.

Top Picks		Stocks to Underweight	
Kookmin Bank	South Korea	Chinatrust Financial Holdings	Taiwan
China Life Insurance Co. Ltd	China	Corpbanca	Chile
Public Bank	Malaysia	Old Mutual plc	South Africa
Banco Itau	Brazil	ABSA Group Ltd	South Africa
Sanlam	South Africa		
FirstRand Ltd	South Africa		
Nedbank Group Ltd	South Africa		

Our Non-Consensus Views

Asia Pacific: We are cautious on growth banking sectors in China and India as we view the credit cycle as stretched, although in the near term there should be a continuation of strong volume growth and relatively benign credit conditions. Our non-consensus call on Taiwan financials reflects our view that underlying profitability has been seriously damaged and valuations remain expensive. In the Chinese insurance sector, the requirement to raise solvency standards should alleviate competition in non-life; in the life insurance market, the convergence of insurance and banks is virtually inevitable, in our view; premium growth should remain strong, driven by further expansion in bancassurance.

Latin America: Chile has solid fundamentals. In an environment where we might still see additional rate hikes in the US, a market with less energetic growth but with solid fundamentals and good defensive characteristics, such as Chile, may be attractive.

South Africa: We expect insurers to re-engineer their balance sheets to become more capital efficient. This includes backing capital with lower risk assets, which would reduce the required level of capital. **SA banks offer compelling value in our view**, but uncertainty on interest rates, politics and regulatory issues may prevent the realization of this value in the short term.

Industrials

Containing manufacturing costs is key

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Key Drivers

Latin America: Low cost labor gives Latin American aerospace companies a manufacturing advantage over their North American and European counterparts. A company able to combine this low cost advantage with high quality engineering and marketable designs will likely enjoy considerable sustainable success as it takes market share from competitors with a higher cost base.

South Africa: The key concern for the packaging sector revolves around the impact of input costs and companies' ability to pass those on to their customers. The input costs include polymer for plastic companies, energy costs for glass packaging companies, steel and aluminum for metal packaging companies, and paper costs. Consumer orientated stocks' P/Es have de-rated and shares underperformed due to the interest rate up-cycle and rand weakness (large import component in cost of sales). However, the middle class and job creation should provide secular growth in consumer markets. We now expect an approach to the peak in the interest rate cycle in December 2006, and believe the time is opportune to shift back in selected attractively priced cyclical counters. **In the electronics space, we continue to witness a preference by investors for those companies that exhibit an exposure to the fixed investment cycle**, also seen as an alternative to the building & construction companies. We have identified the following opportunities as major growth drivers: (1) Eskom's expansion of generation capacity and de-mothballing of existing power stations;
(2) refurbishment of old power reticulation networks at local authority level;
(3) continued strength of the building and construction industry despite a worsening interest rate environment; (4) Gautrain project, expected to be rolled out between 2006 and 2011; and (5) Transnet's refurbishment program of rail infrastructure, and rolling stock such as locomotives.

Top Picks	
Embraer SA	Brazil
Imperial Holdings	South Africa
Reunert Ltd	South Africa

Our Non-Consensus Views

Latin America: While aerospace is perceived by many to be somewhat immune to low-cost competition due to the highly engineered nature of its products, we believe that as long as the engineering capability is as good as that in high-cost economies such as North America and Europe, **low-cost manufacturing will continue to offer powerful and sustainable competitive advantage**.

South Africa: We believe that glass packaging companies will be able to recover input cost increases from their customers. We believe real wage growth and reduction in import duties will partly offset the effect of an increase in car financing costs on car affordability. In addition, business mix improvement toward higher margin aftermarket activities will limit the potential margin decline on car imports in a weakened rand environment, in our view. We think certain consumer-orientated stocks have become oversold. In our view, **Reunert is a core portfolio holding and a preference of ours in the GFCF segment.** With c50% of total headline earnings derived from the Electrical Engineering division, including Siemens Telecommunications, our investment case is firmly fixed on the exposure to the fixed investment segment of the economy.

Infrastructure

Macro environment provides solid foundation

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Key Drivers

Asia Pacific: Given the rising opportunities in acquiring projects, debt restructuring, road management, and rising competition in the toll road sector, **we believe the incentive for companies to uncover and create additional value for shareholders will become the key factor to differentiate one company's value from another;** we believe this will also become the key driver for the share price performance and the long-term success of a company.

Latin America: The main driver in the next 2-3 years should be the expected drop in interest rates, coupled with banks returning to the mortgage market. In Brazil, we project that interest rates will drop from the current 13.75% to 12.75% next year, with significant upside risk for lower than expected rates. In Mexico, interest rates are already low (28-day Cetes currently at 7.0% versus 8.2% two years ago and 18% in 2000), paving the way for banks to significantly increase mortgages soon.

CEEMEA: We have a positive view on the Turkish cement sector based on a combination of favorable factors. We expect strong and sustainable growth in domestic cement consumption due to the pent-up demand in residential housing, falling interest rates, the impending mortgage law and a backlog of infrastructure projects pending at various stages. We think that EU accession talks will have a double positive impact on the sector as they should: (1) increase the FDI channeled to large-scale industrial investments; and (2) encourage private residential (holiday/retirement) house ownership by Europeans in Turkey.

South Africa: Expenditure on the back of the government's cR372 billion in FY06-08E infrastructure budget has clearly started feeding into the strong order-book and revenue growth. However, local construction margins remain depressed due to the tail-end of problem contracts (a legacy from years of low civil works demand) and aggressive provisioning. Scarce civil capabilities provide material margin recovery potential. In addition, specialization in high-growth regions (such as the Middle East) or sectors (oil and gas engineering) may reward investors.

Top Picks		Stocks to Underweight	
Shenzhen Expressway	China	Hopewell Highway Infrastructure Ltd.	China
Corporacion Geo	Mexico	Rossi Residencial S.A.	Brazil
CIMSA	Turkey	Pretoria Portland Cement Co	South Africa
Aveng Ltd.	South Africa		

Our Non-Consensus Views

Asia Pacific: We believe Anhui Expressway is undervalued at the current price and valuation multiples, given that: (1) the Anhui province should enjoy fast development in the coming years due to its approximate location to the Yangtze River Delta; (2) the company is relatively safe from any threat from competing expressways; and (3) asset injection from the parent company remains a medium–term driver for the company's growth.

Latin America: While **in Brazil, working capital management could deteriorate** with more cash being demanded for land purchases and more competition forcing companies to give more incentives to sell their launches; **in Mexico, we believe revenue growth could be higher than the 15-18% target** as guided by companies.

CEEMEA: We are more positive on the Turkish cement sector than consensus because we believe that: (1) the interest rate hike is only short-lived with limited impact on demand; (2) high profitability is sustainable as we expect cement prices to remain strong; and (3) there is scope for increased government spending on infrastructure projects prior to elections in 2007.

South Africa: Although cement players should be natural beneficiaries from accelerating infrastructure spending, **late-cycle residential demand has driven industry utilization rates above 95%, forcing imports at no-to-low profits likely at least until 2H08 when new capacity will be commissioned**. Cement price increase may just be enough to recover cash cost inflation. We prefer construction players over cement companies at this early point in the infrastructure upcycle.

Metals and Mining

Look for pricing strength and re-rating

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Key Drivers

Asia Pacific: The Chinese government's efforts to curb overinvestment in aluminum and steel sectors and shut down small coal mines appears to be slowing down capacity growth. The combined effect is prolonged strong metal and coal prices, and we continue to expect metal and coal prices to remain strong. We are bullish on steel as we expect a turnaround in the earnings of Chinese steel companies. We expect steel prices to go up in 2007 and 2008, on the back of improving fundamentals. The fixed asset investment in steel fell 1% Y/Y in the first eight months of 2006, pointing to a slowdown in growth in capacity.

Latin America: As international steel prices soften, strong local economies should be a key variable to keep an eye on in Latin America, as domestic sales are typically more profitable. In addition, we believe that there will be an increase in supply side discipline, and the effect of proactive actions to prevent oversupply should be a key driver for steel producers, softening and shortening the pricing cycles. On the mining side, we think the main driver to watch is the outcome of annual iron ore price negotiations. We expect a 7.5% price increase in 2007.

South Africa: A weaker rand has helped the local miners. **Rand-denominated gold and platinum group metals prices have strongly outperformed dollar-denominated prices, which should translate into strong profit growth and cash flow** since costs are mostly rand-denominated. Moreover, in our view, both gold and platinum are fundamentally well supported for the foreseeable future. The current business environment favors strong performance from locally focused, more marginal miners.

Top Picks		Stock to Underweight	
Maanshan Iron & Steel	China	CSN (SID)	Brazil
China Shenhua Energy	China		
Ternium	Argentina		
DRDGold Ltd	South Africa		

Our Non-Consensus Views

Asia Pacific: Our view on coal and aluminum prices is much less pessimistic than consensus. **We believe the Chinese government's efforts to cool down overinvestment in the aluminum sector will make large capacity expansion much more difficult than before, even though smelters have the incentive to expand.** We continue to expect strong spot coal prices on the back of the government's shutting down of small coal mines to reduce the death toll among miners and save coal resources. Maanshan Iron & Steel is our top pick in China's steel sector. We believe the company provides the best leverage on rising steel prices as 50% of the capacity expansion will be completed by mid-2007, while expansion is slowing down for the whole industry. We like China Shenhua because of its strong volume growth, value-added acquisitions, competitive coal prices and low costs.

Latin America: We believe factors such as consolidation, integration with raw materials and creation of truly global companies are causing positive structural changes in the steel industry. We expect to see supply-side discipline increase in the sector, causing pricing cycles to become shorter and less volatile, and paving the way for a re-rating of the industry.

South Africa: We maintain our Overweight rating on DRDGold. Our numbers indicate that at current prices, this stock is trading at an unusually undemanding 80% of its DCF value. Gold shares usually trade at a premium, often a substantial one. Our thesis on DRD is supported by our expectation for improving operational performance leading to an improvement in cost trends, as well as an increase in production, a virtuous combination considering where we see the valuation.

Oil and Gas

Full throttle

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Key Drivers

Asia Pacific: The key driver that we see for the Asian oil and gas industry is demand for both upstream and downstream products. At the upstream level, the push to secure crude oil and gas reserves drives exploration and acquisition activities of all Asian upstream firms. At the downstream level, rising consumption of oil products results in very high utilization rates of the available refining capacity.

Latin America: Investors remain generally underweight on the Brazilian petrochemical industry despite positive developments. Industry key drivers are: (1) steeper decline in oil and naphtha prices compared with natural gas prices —a positive for mostly naphtha-based Brazilian crackers; (2) strong GDP growth prospects due to monetary easing in Brazil, while global GDP and demand growth outlook for petrochemical products might show deceleration; (3) recently announced price increase in the local market, which should underscore earnings momentum in coming quarters, especially as feedstock pricing remained stable in 3Q and should decline in 4Q; and (4) relatively stable and potentially weaker currency, which should inhibit imports, compared with 2005.

CEEMEA: Positive stance on Russian oils that stand to benefit from developments is not fully priced in by the market, in our view: (1) a gradual increase in crude processing at the expense of less-profitable exports; (2) tax credits assigned to highly depleted oil fields and new fields under development in East Siberia; (3) bullish outlook for domestic Russian gas prices; and (4) expected improvement in crude pricing power for Russian oils. CEE refineries should be supported by strong and sustained growth in regional fuel demand, expected recovery in refining margins, and companies' ongoing generation of considerable cash surpluses.

South Africa: Sasol should be viewed as an alternative energy stock. Sasol's global dominance in CTL and GTL should be a significant driver for growth going forward, and we expect 17% CAGR in production volumes for 2005-15 versus integrated oil sector's CAGR of 2-3%. Our view is supported by comments from Shell suggesting that international oil companies will be increasingly dependent on unconventional sources of oil (oil sands, GTL, CTL, deep water) for growth. Sasol will start its first overseas GTL plant in 2007, adding 10% to fuel capacity. It will also double its Polymer capacity by bringing one of the world's lowest cost ethylene plants in Iran on stream. If legislation is passed in the US Senate next year extending the subsidy on FT fuels to 2020, Sasol could see a substantial re-rating on potential for a very substantial US rollout of CTL.

Top Picks		Stocks to Underweight	
Thai Oil Public Company	Thailand	Thai Petrochemical Industry Plc	Thailand
Braskem	Brazil	Copesul	Brazil
Lukoil	Russia	Tatneft	Russia
Sasol Ltd	South Africa		

Our Non-Consensus Views

Asia Pacific: We believe the market is overly bearish on the refining sector. While gross refining margins (GRM) have been on a downward trend since May 2006, we believe that fundamental capacity/demand for the industry supports further strength in GRM for the next 3-4 years.

Latin America: We believe that **local economic dynamics in Brazil can sustain high demand growth and increasing price spreads** for petrochemical products in the medium term despite a less favorable scenario in international markets.

CEEMEA: Crude forecasts above market consensus in the near term. Our crude price forecasts are now US$2/bl above market consensus for 2007 and US$3/bl below for 2008. Despite market uncertainty over whether the recent fall in crude prices is a correction or start of more substantial downward re-rating, we believe the market remains fundamentally robust.

South Africa: We believe Sasol should be viewed as an alternative energy stock that will globalize its CTL and GTL businesses over the next 10 years, and not as a pure domestic SA company. Growth should transform from 2-3% per year to mid-teens. Consequently, Sasol should trade on a high-teen P/E multiple, in our view, in line with the Canadian oil sands stocks, reflecting a similar growth profile.

Pharmaceuticals

Prescription for growth: Exports

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Key Drivers

Asia Pacific: The recent pickup in the Indian market indicates that growth over the next 12-24 months should be above historical levels due to multiple factors. While the US remains a highly competitive market, given India pharma's low base, we expect it to remain an important growth driver for the next 2-3 years. This could be boosted further if companies spot some unique opportunities, in our view. Similarly, we expect export to other markets to continue to grow at a healthy pace.

Our Non-Consensus Views

Asia Pacific: We like Aurobindo for its backward integration, anti-AIDs pipeline and the large number of filings in the US. It should also benefit from its filings in other markets. **We also like Torrent** for its cheap valuations and see it reaping the benefits of its investments in the more profitable branded markets of India and Brazil. **We are negative on Biocon,** as we see costs outpacing its visible short-term revenue drivers. While the US statin market for Biocon should be very competitive, growth from contract research is fully priced into our estimates.

Top Picks		Stock to Underweight	
Aurobindo Pharma Ltd	India	Biocon Ltd	India
Torrent Pharmaceuticals Ltd	India		

Property

High economic growth supports positive property cycle

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Key Drivers

Asia Pacific: We are bullish on Emerging Markets' property sectors and prefer them over Developed Asia. The key driver is high economic and income growth supporting demand. Our top market is China, which we expect will maintain 8% GDP growth over the medium term, with property demand being further underpinned by rapid urbanization. We also like the Philippines due to the substantially improved government budget and thriving remittances from overseas workers. We also like Taiwan, where property values are gradually improving and supply is fairly tight.

Our Non-Consensus Views

Asia Pacific: Despite concerns over government austerity measures, we remain constructive on China's property market outlook as we see strong end-user needs due to a rapid rise in income and spending levels creating a huge upgrading demand. In addition, JPMorgan is bullish on China Rmb and we estimate Rmb/US$ exchange rate to hit 7.0 by end-2007, or some 12% appreciation from here. Such a sharp increase would boost the valuations of property stocks in China, and overseas developers with high exposure in China.

Top Picks		Stock to Underweight	
China Vanke Company	China	New World China Land	China
China Overseas Land & Investment	China		
Ayala Land	Philippines		
Taiwan Fertilizer Co Ltd	Taiwan		

Pulp and Paper

Bearish on pulp prices; prefer low-cost producers

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Key Drivers

Latin America: We believe pulp market fundamentals, capacity expansions and acquisitions are the key drivers for Brazilian pulp and paper companies. We strongly believe that the increased focus on pulp (versus paper) is the right move for these companies as their low-cost base of production gives them a competitive advantage globally. Still, we expect the pulp cycle to start declining next year. Although earnings of these companies should be strong, even in a cyclical downturn (given low levels of costs), we favor companies with specific drivers such as capacity expansions and consolidation of acquisitions that should lead to earnings growth in 07E and 08E even in face of declining pulp prices.

South Africa: South Africa is a relatively small market for pulp and paper. We believe key drivers are regional GDP growth and currency. Paper demand in South Africa has typically tracked local GDP growth rates, and currency has been the most significant "wild card." A weak rand has typically been positive for the South African paper industry as it limits imports and makes exporting more attractive.

Our Non-Consensus Views

We believe the emerging market pulp market is heading for a downturn next year, and we continue to have one of the more bearish calls on the Street for pulp pricing in the medium term. We expect the new capacity to come mainly from Brazil and Chile (totaling 3.7mt in '07) to outstrip our projected 3.5% growth in market pulp demand. To keep the market balanced, we estimate that ~2mt of capacity closures would be necessary. At this point, it seems to be an unfeasible target, based on historical trends of only 0.8-1.0mt of capacity closures per year. In addition, higher pulp prices and stabilizing currencies make capacity closures less likely now than they were earlier in the year. Hence, we expect supply to outstrip demand next year and operating rates to begin declining, taking pulp prices down with them. Our NBSK forecast is US$726/t in 2007E and US$690/t in 2008E.

Top Pick		Stock to Underweight	
Suzano	Brazil	Sappi	South Africa

Technology Hardware

Focused players with high entry barriers should outperform

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Key Drivers

PC, handsets, consumer electronics: After three consecutive years of 12+% growth, the PC market slowed down considerably in 2006, due to weakening end demand and issues with Intel platform transition. Notebook PCs have continued to grow at 20+%, but desktops have seen muted growth. While unit growth has been quite strong in notebooks, ASP erosion has been very severe in 2006, negatively affecting margins across the food chain. We continue to believe that emerging markets and high-end (3G, PDA/smart phone) markets are the growth drivers for handsets. Leading vendors are more focused on emerging markets. Sony PS3 launch has again been hit by component shortages, but we still expect 2007 to be a good year for game consoles with all three consoles in the market.

Semiconductor-foundries: Following the 2H06 slowdown due to inventory correction, we estimate that the foundry business will bottom out in 1Q07 with higher trough utilization across the board compared to the previous cycle. The controlled capex spending among the leading foundries in 2006/07 and slowdown of “easy” capital infusion from Chinese foundries will lead to moderate capacity growth and create a backdrop that may allow leading foundry TSMC to sustain its high ROIC in 2007. We expect another year of substantial earnings growth of big four back-end companies as a result of industry structural change and continuous capex discipline. The migration to substrate-based packaging/testing raises the capital and technical bar higher for new comers.

Semiconductor-memory: We expect severe NAND oversupply in 1H07 due to the lack of application and seasonal slowdown. Hence, we believe that the ability to lead technology migration will become more critical to survive severe price pressure. With seasonal pullback in demand and additional supply from major NAND Flash makers, we expect NAND prices to remain weak until mid-2007.

Displays: In 2007, we expect flat panel TV demand to remain robust and estimate LCD TVs and PDP TVs to show strong growth of 72% Y/Y and 61% Y/Y, respectively, thanks to continued price reductions. Although there are concerns over profitability due to stiffened competition in the flat panel market and continuous ASP decline, we believe that panel/set makers could overcome such challenge through improved scalability.

Top Picks		Stocks to Underweight	
High Tech Computer	Taiwan	Compal Electronics, Inc.	Taiwan
Hon Hai Precision	Taiwan	Inotera Memories, Inc.	Taiwan
TSMC	Taiwan	Chi Mei Optoelectronics	Taiwan
Advanced Semiconductor Engineering	Taiwan		
Mediatek	Taiwan		
LG Philips LCD	South Korea		

Our Non-Consensus Views

PC, handsets, consumer electronics: We expect sub-seasonal growth for PCs in 4Q06, especially desktops, due to the Vista overhang. 2007 looks like a healthy year for PC with the launch of Vista, end of platform transitions and attractive pricing after price wars in 2006. We expect PC growth to bounce back to 13-14% in 2007. Notebooks should remain strong, driven by consumer demand while desktops should post only a modest recovery, although corporate replacement cycle could pose upside surprise. Apple should succeed in its digital home approach given the strong content and simplified usage model.

We recommend investors to participate in PC unit growth through components (casing, hinge) and selected notebook ODMs like Wistron and Inventec. In handsets, we like niche plays with high entry barriers like HTC, exposed to PDA phones. Broad-based EMS plays like Hon Hai should outperform in FY07 with core growth re-accelerating due to multiple new CE products.

We expect 22% of Y/Y handset shipment growth in 4Q06, which results in 22% Y/Y growth in 2H06 compared to 25% in 1H06. We expect handset shipments to grow 23.4% in FY06E and slow down to 14% in 2007E. We expect emerging markets to contribute to 77% of the growth in FY07.

Sony PS3 launch has again been hit by component shortages, but we still expect 2007 to be a good year for game consoles with all three consoles in the market.

Semiconductor-foundries: Our stock picks for foundry and back-end are TSMC, ASE on the back of superior profitability, leading edge technology, pioneer design capability and excellent shareholder return. We also like Mediatek due to its bundling strategy of radios into handset platform, exit of baseband rivals and solid pipeline of TV customers.

Semiconductor-memory: DRAM spot prices finally ceased climbing in October 2006, and we expect them to decline moderately heading towards seasonal slowness. The main risk lies in the possibility of excessive wafer supply growth. We do not expect the new Windows O/S to trigger an upsurge in demand in the near term. We believe the impact will not hit a full swing until the end of 2007.

Displays: The launch of Vista OS (designed to support wide-screen monitor displays) is expected to boost demands for 19” or 20”+ wide screens. We forecast 37” + sizes to account for more than 35% of total LCD TV annual shipments in 2007. We expect second-tier panel makers to be behind the growth curve of large-size TV panels (40” +) lacking support from brand customers.

Technology Software and IT Services

Growth story to continue

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Key Drivers

China: Given the increase in Internet penetration in China (growing at 20% Y/Y), our coverage companies continue to see healthy growth in revenue. Online advertising continues to see a stable and strong secular growth, driven by higher consumer spending, increase in brand investments and growth in recognition of the Internet as a mainstream media. For the online game segment in China, we expect revenue to be volatile. Some gamers are likely to switch from traditional MMORPG to free games (item-based model). On the other hand, Internet user growth and increase in game penetration in lower-tier cities should drive growth of MMORPG. We expect equilibrium to be reached in 2H07, and we expect the game sector to resume stable growth from that point on. While China's wireless sector could see some sequential Q/Q growth in 2007, the long-term prospects of the sector are still uncertain, given the regulatory risk and concentration of payment gateway. Further, wireless-related companies are likely to see margin decline in 2007 due to higher content fees and an increase in promotion costs.

India: We see evidence of increasing recognition of offshore as a strategic imperative in the higher offshore penetration in newer service offerings like infrastructure management, testing, package implementation, and consulting, as well as continued growth in existing services. Size is becoming a major differentiator, with the large Indian players moving up the ladder in bidding for and winning larger multi-million, multi-year deals. We believe that large Indian IT companies will continue to gain market share at the expense of smaller players over the next four to five years. We believe that overall wage inflation remains under control, especially for the large companies with a large employee base.

Latin America: Underpenetrated ERP with absence of price deflation. Growth in Brazilian Enterprise Resource Planning (ERP) remains much stronger than GDP, driven by one-way substitution of internally developed software for ERP solutions. Churn is low in this space as migration is very costly. Absence of deflationary pressures makes prices fairly stable, with maintenance revenue providing good stability. We believe investors will continue to pay a premium for better corporate governance standards at these technology companies relative to other Brazilian stocks.

Top Picks	
Sohu.com	China
Tata Consultancy Services	India
Infosys Technologies	India
Totvs	Brazil

Our Non-Consensus Views

China: We are Overweight on Sohu. As the purest online ad-player, and the official 2008 Beijing Olympics website sponsor, the company should benefit from the growth in secular online advertising in China in both the medium term (as the Olympics approach) as well as the long term.

India: We expect stable margins leading to an overall 30+% EPS CAGR over FY06-08E for all the large players in the sector.

Latin America: Very strong distribution system, allied with a higher degree of software customization, should help domestic companies fend off competition from larger international players such as SAP and Oracle. Growth from small and medium enterprises should outpace overall growth in the market, given the need for these companies to increase their overall competitiveness as Latin America opens its economies.

Telecom and Media

Strong upside potential in mobile

Key Drivers

Asia Pacific: Three themes to drive the sector in 2007—organic growth, regulatory reform and capital management. India is at the center of the growth theme, and we expect that with just 35% wireless population coverage at present, compared with 98% in China, there is still good upside potential for India mobile sub-growth. Thus, we expect the strong to get stronger, and we highlight Bharti as one of our top picks for its excellent market position.

Latin America: Growth available in wireless; opportunities limited in fixed. Most mobile markets continue to display robust growth rates, and growth is also accelerating in broadband and Pay TV. AMX is the strongest pure play mobile, while NETC is the main Pay TV play—further strengthened at present by the acquisition of Vivax. Fundamentals are challenging for most wireline incumbents and interest is restricted to special situations such as TEO in Argentina, BRP in Brazil or the Telemar restructuring—we believe the latter will probably be a watershed event in Brazilian corporate governance practices. In media, we remain optimistic on the long-term advertising growth potential of the Mexican market. Indeed, Televisa is our top pick in the LatAm and CEEMA media universe.

CEEMEA: Attractive valuations in Russian telecom and Egyptian mobile. The region's main driver is mobile growth in Russia/CIS and the Middle East/North Africa along with growth and margin improvement in Russian wirelines. Several attractive investment options exist in Russian mobile and wirelines and Egyptian mobile, in our view. Advertising markets are growing fast throughout the region, with CME being the most attractive vehicle.

South Africa: The **media sector should be driven by increasing spending power of the emerging black middle class**. This purchasing power should drive sales of both pay TV and magazines. The key negative will likely be the specter of increased competition in the pay TV space.

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Top Picks		Stocks to Underweight	
Bharti Airtel Limited	India	Telmex SA	Mexico
Grupo Televisa SA	Mexico	Magyar Telecom	Hungary
Vimpelcom	Russia		
Naspers Ltd	South Africa		

Our Non-Consensus Views

Asia Pacific: We are cautious on China's telecom market in 2007 as regulatory-led restructuring, including doubling of the number of wireless operators and likely asymmetric policies, will likely create significant volatility in the sector throughout the year. The counterargument to our cautious view is mainly related to an overall bullish macro stock market environment in China.

Latin America: Mexican advertising market potential. We believe that the market is underestimating the growth potential of the Mexican television advertising market, which we think offers as much long-term growth potential as many CEE markets.

CEEMEA: Russian mobile revenue, margin potential underrated. We believe stock prices of Russian mobile operators and VIP, in particular, are factoring in a pessimistic revenue growth outlook due to the perception that subscriber growth is coming to an end and usage per user is largely static. We believe that stabilization in US dollar pricing should allow revenue growth to start beating expectations again after a period of frequent disappointments around quarterly results.

South Africa: Media—we believe managements will not make value-destroying acquisitions with the cash on the balance sheet.

Transportation

Amidst oil price impact, stock picking critical

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Key Drivers

Asia Pacific: The outlook for the transport sector is hitched unequivocally with the strength of the US economy, in our view. Amidst the gloom and uncertainty over oil prices, we see selective situations that offer attractive returns. Lower oil prices have made some airlines among the best performing blue chips in their respective markets. A number of companies are getting their houses in order and unlocking value not yet recognized in their share prices. Other companies are bothered with excess regulation, policy inertia or even excessive capex.

Latin America: We are concerned about Brazil's domestic capacity growth exceeding demand growth in 2007, which could lead to RASK pressures that lower fuel costs may not be able to offset. Varig is irrelevant for now, in our view, with GOL & TAM stepping into the long-awaited duopoly spotlight. But we believe yield and RASK production is unimpressive, and unlikely to improve as growth accelerates.

Our Non-Consensus Views

Asia Pacific: Our top airline pick for 2007 is Malaysia Airlines. The company is well ahead of target in its turnaround, yet its stock appears grossly underowned and suffers from a restricted free float. We believe the share price reflects its asset base—so we would buy the airline for "free".

Latin America: Copa Holdings' (CPS) fundamentals are pointing in the right direction, management is firing on all cylinders, but its valuation no longer appeals to us. At 9.8x 2007E EV/EBITDAR, CPA is trading at a 9% premium to its more time-tested, profit-proven global peer group, having risen 63% since August (versus S&P 500 +8%). Our opinion is—good story, expensive stock.

Top Pick		Stocks to Underweight	
Malaysia Airlines	Malaysia	Pacific Basin Shipping	China
		Copa Holdings, S.A.	Panama

Utilities

Pricing power

Asia Pacific

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Latin America

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Key Drivers

Asia Pacific: Emerging industry themes include: (1) widening gas shortages might continue to push up prices; (2) growing water shortages might boost returns; (3) greater push towards clean energy development and energy efficiency to benefit hydro IPPs, equipment suppliers, city gas utilities and relatively efficient IPPs; (4) corporate restructuring plays (e.g., privatization of assets, debt restructuring and spin-off of non-core assets); and (5) industry restructuring plays.

Latin America: In Brazil, we expect investors to increasingly focus on: (1) generation price deregulation in view of tight supply-demand outlook and gas shortages; (2) genco concession renewal risk (applies only for state-owned gencos); (3) discos' next wave of tariff resets in 2007-09; (4) de-leveraging upside from lower Selic rates and potentially weaker currency; and (5) privatization rhetoric post-elections. **In Chile, the key drivers are:** (1) rising international interest rates, which should make high-dividend stocks compelling versus local fixed income; and (2) deteriorating outlook for commodity prices, given that the most traded stocks are in the mining and electricity sectors.

Our Non-Consensus Views

Asia Pacific: Companies with stronger greenfield capacity expansion in the next 1-2 years, and larger exposure to the water and gas supply businesses, are likely to provide locked-in EPS growth. In addition, those utilities with positive FCF (or stronger turnaround potential in the next 1-2 years), zero fuel risk, and solid operating cash flow yields are likely to provide stronger downside protection and lower beta.

Latin America: We believe the tariff reset risk for electricity distribution companies is mostly overstated; and we favor liquid, privately run electric discos given their ability to accrue above-regulated returns with limited downside risk from inefficient capex. In comparison, we believe Brazilian water utilities' valuations are rich given that the timing for creating and consolidating the regulatory framework for the water/waste sector in Brazil might disappoint. Finally, while private sector IPPs remain defensive with stable operating cash flows and relatively high dividend yields, we believe that growth for gencos might disappoint in the very near term, and that the concession renewal risk for state-owned gencos remains generally understated.

Top Picks		Stocks to Underweight	
Xinao Gas	China	Perusahaan Gas Negara	Indonesia
Energias do Brasil	Brazil	Copasa	Brazil

JPMorgan

Top Picks

Advanced Semiconductor Engineering

www.aseglobal.com

Overweight

NT$30.35

26 October 2006

Price Target: NT$39

Taiwan

Semiconductors

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Company description
Advanced Semiconductor Engineering is the leading semiconductor back-end packaging and testing company servicing the main customers of fabless and IDM companies worldwide. Following a fire hazard in its plant, the company has turned around its operations and profitability significantly since 2005 by consolidating operations and reducing costs. ASE's aggressive capacity expansion in 2004 appears to be paying off, and it is now enjoying improving and, we believe, sustainable profitability.

Positive share price drivers
We believe there would be a significant share price upside to ASE within a six- to nine-month investment horizon on the back of (1) capex discipline across the back-end sector remaining intact, which would lead to sustainable high utilization and stable selling price and help continuous margin/profitability expansion; (2) high entrance bar/less competition on the advanced substrate-based package and testing; the high capex spending and high technological barrier keep newcomers from the competition; and (3) an undemanding valuation. This high profitability has yet to be included in the price, in our view. ASE is trading at 7.7x forward P/E and close to previous trough forward P/B (1.6x) with 27% ROE in 2007E.

Negative share price drivers
Potential share price downsides would come from: (1) revenue growth slowdown in 2007E/2008E due to a high 2006 growth base and limited capacity additions due to continuous cautious capex spending; (2) revenues and earnings would be further impacted if the end demands of the communications sector turned out to be worse than expected; (3) ASE has yet demonstrated the ability for high dividend payout ratio, though we believe it will start paying out more cash in 2007.

Valuation and price target
ASE is trading at a narrower P/B range—with the peak P/B declining and trough P/B rising, supported by the improving profitability. ASE's share is trading at 7.7x FY07E P/E and 1.7x of FY07E P/B, close to previous trough of 1.6x forward P/B, with 27% FY07E expected ROE. Our June 2007 DCF-based PT of NT$39 or 1.9x one year forward P/B implies ~30% share price potential from current level. Risks to our price target include irrational capacity expansion and continued communication demand weakness.

Company data

52-week range (NT$)	21.1–39.4
Mkt cap. (NT$B)	133.06
Mkt cap. (US$B)	137.67
Shares O/S (MM)	4.19
Free float (%)	60
Year-end	December

Source: Datastream.

Bloomberg: 2311 TT / ASX US, Reuters: 2311.TW / ASX US

NT$ in millions, year-end Dec	FY05	FY06E	FY07E	FY08E
Sales	86,132	102,830	110,149	118,816
Net profit	-4692	18510	18605	23019
EPS (NT$)	-1.04	3.98	3.96	4.83
FD EPS (NT$)	-1.04	3.98	3.40	4.26
DPS (NT$)	0.00	0.66	0.99	1.61
Sales growth (%)	5.4	19.4	7.1	7.9
Net profit growth (%)	-210.3	494.5	0.5	23.7
EPS growth (%)	-205.1	484.6	-0.6	22.0
ROE (%)	-11.0	37.2	26.8	25.7
P/E (x)	NA	8.2	8.3	6.8
FD P/E (x)	NA	8.2	9.6	7.7

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 26 October 2006.

Astra International

www.astra.co.id

Overweight

Rp13,500

30 October 2006

Price Target: Rp14,500

Indonesia

Conglomerates

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Company data

52-week range (Rp)	8,200 – 14,100
Mkt cap. (Rp B)	54,653
Mkt cap. (US$MM)	6,004
Shares O/S (MM)	4,048
Free float (%)	49.09
Year-end	December

Source: Bloomberg.

Company description
Astra International is a prominent conglomerate in Indonesia, with an exposure to various industries: automotive, financial services, agriculture, machinery, mining, infrastructure, and information technology. The company is the leader in the car and motorcycle business in Indonesia, commanding about 50% market share in both segments. Astra International is the fourth-largest company on the Jakarta Stock Exchange, by market capitalization, and is 51%-owned by Singapore-based Jardine Cycle & Carriage.

Positive share price drivers
We believe that Astra International will benefit from the revival of auto sales in Indonesia, which we expect to continue to gain momentum in FY07, supported by a recovery in consumer purchasing power and the low interest rate environment. In addition, the strong performance of Astra Agro Lestari and United Tractors (the company's agriculture and machinery & mining contracting subsidiaries) is likely to continue to support the performance of Astra International. This is due to favorable industry prospects, which include firm CPO and coal prices, in addition to palm oil estate expansion, and coal-fired power plants projects in the country.

Negative share price drivers
Competition in the auto industry, especially in the motorcycles segment, is likely to further heighten with the entry of new players, which is expected to exert negative pressure on margins. Meanwhile, Astra International's business diversification into the infrastructure industry raises some concerns on the profitability of the projects and its long-term commitment in the industry.

Valuation and price target
We maintain an Overweight rating on Astra International with a DCF-based, September 2007 price target of Rp14,500 per share. Risks to our target price are: (1) unexpected changes in interest rate movements, (2) increasing volatility of the Rupiah against the US dollar, and (3) a deterioration of consumers' credit quality in the company's auto financing division.

Bloomberg: ASII IJ, Reuters: ASII.JK
Rp in billions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	61,172	54,170	62,333	71,558
Net profit	5,457	3,910	5,484	6,623
EPS (Rp)	1,348	966	1,355	1,636
FD EPS (Rp)	1,348	966	1,355	1,636
DPS (Rp)	370	440	404	290
Sales growth (%)	36.2	(11.4)	15.1	14.8
Net profit growth (%)	0.9	(28.3)	40.2	20.8
EPS growth (%)	1.0	(28.3)	40.2	20.8
ROE (%)	29.6	18.0	21.8	22.2
P/E (x)	10.0	14.0	10.0	8.3
FD P/E (x)	10.0	14.0	10.0	8.3

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 30 October 2006.

Astral

www.astralfoods.co.za

Overweight

R94

31 October 2006

Price Target: R108.45

South Africa

Consumer

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Company data

52-week range (R)	67-96
Mkt cap. (ZARMM)	4,080
Mkt cap. (US$MM)	2.5
Shares O/S (MM)	43
Free float (%)	100
Year-end	September

Source: Company reports, Bloomberg, JPMorgan estimates.

Company description
Astral Foods is a leading South African food group with key activities in animal feed, animal feed pre-mix, broiler genetics, broiler operations and the production and sales of day-old broilers and hatching eggs.

Positive share price drivers
Cash returns to shareholders: The company has a history of returning cash to shareholders via both dividends and share buybacks. We believe this practice will continue going forward.

Strong fundamentals: Poultry prices are increasing on the back of increased demand, rising international prices and lower levels of imports. Demand is driven by the growing middle class as they move up the protein value chain (i.e., pilchards to chicken), international prices are increasing because of decreasing supply, and imports are being negatively affected by the weakening rand.

Negative share price drivers
Diseases: The threat represented by Avian Influenza (AI) remains but has abated to a large extent. Newcastle disease has also impacted several small operators and at one stage led to an industry shortage of eggs.

Input costs: Animal feed (largely maize) represents the single most important cost in poultry production. The maize price has been on an upward trajectory over the past few months.

Valuation and price target
The price target of R108.45 (May 2007) is calculated by increasing the average intrinsic value (9555cps) by the group's cost of equity (c.14%). The average intrinsic value is determined using both a DCF approach as well as a P/E relative approach. Our recommendation remains Overweight, and key risks to our price target and rating are the impact of diseases, level of imports, and greater than expected raw material price increases.

Bloomberg: ARL SJ, Reuters: ARLJ.J
Rand in millions, year-end September

	FY05	FY06E	FY07E	FY08E
Sales	4,613	4,867	5,273	5,792
Net profit	416	499	488	502
EPS (SA cps)	961	1,203	1,205	1,269
DPS (SA cps)	380	500	524	577
Sales growth (%)	14	6	8	10
Net profit growth (%)	57	20	-2	3
EPS growth (%)	54	29	0	5
ROE (%)	48	45	36	32
P/E (x)	9.8	7.8	7.8	7.4

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 31 October 2006.

Aurobindo Pharma Ltd

www.aurobindo.com

Overweight

Rs602

26 OCtober 2006

Price Target: Rs770

India

Pharmaceuticals

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Company data

52-week range (Rs)	740-296
Mkt cap. (RsMM)	32,913
Mkt cap. (US$MM)	732
Shares O/S (MM)	53.3
Free float (%)	44.2
Year-end	March

Source: Company reports, Bloomberg, JPMorgan.

Company description
Aurobindo, started in 1989, is a leading bulk player with FY06 revenue of Rs17 billion; 85% of its revenue comes from bulk and c. 15% from formulation. Penicillin's contribution has declined to less than 30% of sales in FY06 from 50% in FY99, while Cephs' contribution has increased to 32% from 12% in the same period. It has invested $60 million in China for fermentation-based Pen-G and SSPs. Since FY00, it has pursued opportunities in the generic and ARV space and has invested $250 million ($200 million capex) in creating infrastructure. The company has a clear strategy to serve the world generic market—on its own, in the pure generic market and through partners in the branded generic market. We see cost competitiveness and scale as its core competitive advantages.

Positive share price drivers
Aurobindo is well positioned in anti-retrovirals and in the US generic business as it has a fully integrated model. We believe it is one of the few companies to make ARV bulk on a large scale, and it has received a number of approvals from the USFDA. As ARV is a large and underserved market and with increasing fund availability, we believe Aurobindo's business will continue to grow. Also, with six or seven ANDA filings per quarter, Aurobindo has one of the fastest filing paces. With a spate of product approvals, its US business should grow. It also has some interesting products in its pipeline, even though approvals may come a few months after the patents expire. It is now expanding in other markets such as Europe and South Africa.

Negative share price drivers and risks to price target
With several filings, quality could become an issue. We think management is looking into this issue, especially after the recent developments in other companies. Also, it is important to file at least some difficult-to-make products, although we believe it has made some interesting filings.

Valuation and price target
The stock looks attractive at 11.5x FY08E EPS. Our Mar-08 target price of Rs770 is based on 15x FY08E EPS. We believe Aurobindo's growth should continue for next 3-4 years as it should get the benefit of filing in various markets.

Reuters: ARBN.BO, Bloomberg: ARBP IN
Rs in millions, year-end March

	FY05A	FY06A	FY07 E	FY08E
Turnover	13,169	15,821	22,765	26,922
Net profit (adjusted)	-106	548	2,141	3,572
EPS (Rs)	-2.1	8.0	31.4	52.3
DPS (Rs)	0.6	0.2	3.7	8.7
Turnover growth %	-10	21	43	18
Profit growth %	nm	nm	nm	67
EPS growth %	nm	nm	nm	67
ROE %	-1.5	7.2	22.7	29.7
ROCE %	-0.4	5.7	10.4	12.9
BV per share (Rs)	133.6	144.5	179.5	233.1
PE (x)	nm	nm	19.2	11.5

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 26 October 2006.

Aveng

www.aveng.co.za

Overweight

R31.40

27 October 2006

Price Target: R31.00

South Africa

Construction & Materials

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Company data

52-week range (ZAR)	R16.40 -29.11
Mkt cap. (ZARM)	11,065
Mkt cap. (US$M)	1,450
Shares O/S (M)	396
Index: JSE All-share	4,770
Free float (%)	100
Year-end	June

Source: I-Net

Company description
Aveng is a construction company with geographic exposure in Southern Africa and Australia as well as a material portion of profit generated from building materials and steel beneficiation. Aveng owns a 46% stake in Holcim South Africa. Both local and Australasian construction and engineering business trade on historically low margins following a depressed demand cycle for civil works.

Positive share price drivers
The main attraction that we see in Aveng is the margin recovery potential in the local and Autralasian construction businesses. Order books have grown materially on the back of the start in government infrastructure spending in South Africa and energy and logistics infrastructure in Australasia. We anticipate that there is risk to upside on margin expectations for FY07E-FY09E as government spending coincides with required investments for the 2010 soccer World Cup. In the short term (6m) we believe that steel trading and beneficiation margins will continue to surprise on the upside as the company can benefit from steel inventory in a market situation faced with a supply shortage.

Negative share price drivers
The growth contribution from Holcim South Africa should be limited due to capacity constraints and the lack of an approved capacity expansion plan (The current proposed sale by parent company Holcim Ltd from Switzerland of its 54% to a BEE company may lead to further delays in a decision). However low growth is already anticipated by the market, in our view. Also we anticipate that supply constraints in steel will limit growth prospects in this business in FY08E.

Valuation and price target, risks to price target
Although Aveng's share price seems to have recovered well, it has underperformed Murray & Roberts (MUR) by 10% ytd. On a fundamental view (better cash generation from construction operations throughout previous cycle) and looking into FY08E we continue to prefer MUR. However, HEPS recovery is stronger in our expectations for Aveng and on C06E PE of c15.2 it trades on 6% discount to MUR. Our TP (Nov-07) of R31 is based on a SOP approach.

Bloomberg: AEG SJ, Reuters: AEGJ.J
ZAR in millions, year-end June

	FY05	FY06	FY07E	FY08E
Sales	13,535	16,054	19,578	22,663
Net profit	346	588	968	1.097
EPS (ZARcps)	969	1,225	1,479	1,706
FD EPS (HK$)	83	145	225	253
DPS (ZARcps)	23	38	69	78
Sales growth (%)	15	19	22	16
Net profit growth (%)	83	70	65	13
EPS growth (headline, %)	50	75	55	13
ROE (%)	22.0	24.2	25.6	25.7
P/E (x)	14.9	11.8	9.8	8.5
FD P/E (x)	15.9	12.6	10.5	9.1

Source: Company, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 24 October 2006.

Ayala Land

www.ayalaland.com.ph

Overweight
Php15
26 October 2006
Price Target: Php17.80

Philippines
Real Estate

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Company data

52-wk range (Php)	8.70-15.50
Market cap (PhpMM)	167,773.60
Market cap (US$MM)	3,362
Share O/S (MM)	10,824
Free float (%)	~35
Year-end	December

Source: Bloomberg.

Company description

Ayala Land is the largest and most diversified developer in The Philippines with interests in housing, retail, office and hotel development. It is the major landlord in the prime CBDs of Makati and Fort Bonifacio. While traditionally known as a high-end property developer, Ayala Land has leveraged on its brand equity to aggressively tap the fast-growing middle and mass housing residential markets.

Positive share price drivers

We see three key share price drivers for the stock: (1) Key beneficiary of reflating property prices, given that it is the largest landlord in the prime CBDs of Makati and Fort Bonifacio. Based on our estimates, Ayala's land bank and development properties in the Makati, account for over 60% of its NAV. (2) Margin upside from Ayala's ability to adjust prices by +5-10% Y/Y and lock in costs at below market rates. We forecast margins to improve to 38% in FY08E from 34% in FY05. (3) ROE expansion from 9% in FY05 to 11.5% over the next three years from a combination of earnings growth and more active balance sheet management.

Negative share price drivers

(1) Sharp rise in interest rates, should the government fall short of its fiscal targets. (2) Weakened homebuyer confidence, should there be political fallout from the mid-term elections, which will happen in May 2007. (3) Higher-than-expected increase in input costs from higher international oil and commodity prices.

Valuation and price target

The stock is currently trading at a 20% discount to our FY07E NAV estimate of Php18.70/share against the peak period discount of 8%. The NAV is based on a residual valuation of Ayala's land bank and a 8% cap rate for Ayala's rental projects. Our June 2006 price target of Php17.80 is a 5% discount, which is one standard deviation above the historical mean. Key risks are political risk from the upcoming elections, a significant rise in interest rates and margin pressure.

Bloomberg: ALI PM; Reuters: ALI.PS
Php in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Operating revenues	22,061	23,487	26,625	30,180
Operating profit	7,962	8,353	9,257	10,086
Net profit	3,617	4,160	4,711	5,273
EPS (Php)	0.34	0.39	0.44	0.49
Net cash (debt)	3,967	4,187	2,677	(705)
Gearing (%)	27.9	31.5	22.1	15.4
ROE (%)	9.4	10.5	11.1	11.5
ROA (%)	4.7	5.2	5.7	6.1
P/E (x)	35.0	38.8	34.3	30.6
P/BV (x)	4.20	3.94	3.67	3.39
Dividend yield (%)	2.0	1.0	1.0	1.0

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 26 October 2006.

Banco Itau Holding Financeira

www.itau.com.br

Overweight

R$73.30

27 October 2006

Price Target: R$83

Brazil

Financials

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Company data

52-week range (R$)	52.6-74.0
Mkt cap. (R$MM)	81,212
Mkt cap. (US$MM)	37,790
Shares O/S (MM)	1130
Free float (%)	51.7
Year-end	December

Source: Bloomberg.

Company description
Itau is the second-largest private bank in Brazil in terms of assets and second in terms of market capitalization. Like most of its competitors, it follows a universal banking model, and apart from commercial banking, it is a leader in the asset management, insurance, pension plan and consumer finance segments. Itau is well known for its franchise strength and diversified earnings stream.

Positive share price drivers
Healthy loan growth expectations, sustained margins and further franchise expansion appear supportive of returns for the sector. In sum, we expect limited convergence of Brazilian bank returns to Emerging Market averages in the near term as the sector benefits from comparatively high rates and a strong universal banking model. Itau is our top pick in Brazil, based on: (1) strong book value growth and high operating margins; (2) lower relative vulnerability to interest-sensitive earnings; and (3) anticipated reversion to mean of provisioning levels across sector peers towards Itau's more conservative levels.

Negative share price drivers and risks to price target
While strong quarterly profitability and steady book value growth should leave the market comfortable with the outlook for Itau, we recognize that a shift in sentiment on sector profitability and growth could limit upside. We see additional risk of a potential deterioration in profitability from higher than expected provisions or from a sharp decline in interest rates, impacting margins negatively.

Valuation and price target
We currently have a Dec-07 price target of R$83 per share, which is based on the Gordon Growth Model. The price target implies that the stock should be trading at 3.6x 2007E book value and 13.7x 2007E earnings. The stock is currently trading at 3.1x 2007E book value and 11.8x 2007E earnings.

Bloomberg: ITAU4 BZ, Reuters: ITAU4.SA
R$ in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Banking revenue	21,010	25,110	30,441	34,685
Net profit	5,251	5,994	7,612	9,009
EPS (R$)	4.76	5.30	6.36	7.53
FD EPS (R$)	4.76	5.30	6.36	7.53
DPS (R$)	1.68	1.72	2.12	2.63
Banking revenue growth (%)	25.1	19.5	21.2	13.9
Net profit growth (%)	-7	41	26	13
EPS growth (%)	-7	41	26	13
ROE (%)	25	31	30	29

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Bharti Airtel Limited

www.bhartiairtel.in

Overweight

Rs504.35

26 October 2006

Price Target: Rs550

India

Telecom Services

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Company data

52-week range (Rs)	305 - 509
Mkt cap. (RsMM)	955,178
Mkt cap. (US$MM)	21,165
Shares O/S (MM)	1,894
Free float (%)	31.9
Year-end	March

Source: Bloomberg.

Company description

Bharti Airtel (Bharti) is India's leading private sector integrated telecom service provider. Bharti has three business divisions: mobile services, broadband, telephone (B&T), and enterprise services. The company offers GSM-based mobile services in all 23 telecom circles and provides B&T services in 90 cities across India. The enterprise business serves carriers (wholesale long-distance voice and data services), as well as corporations (end-customers). Bharti is a founding member of SEA-ME-WE-4 consortium (comprising 15 other regional carriers), which commissioned a state-of-the-art sub-sea cable system in late 2005.

Positive share price drivers

(1) Continued momentum in wireless subscriber net-additions: Bharti's market share of subs and absolute net-adds have continuously inched up since the beginning of the year. (2) A slower rate of decline in average revenue per user; wireless ARPUs were surprisingly stable in 1Q07 despite much lower marginal/new sub ARPUs. (3) Reduction in annual license fees and spectrum charges by the government (regulator TRAI has already recommended this). (4) The allocation of additional 2G spectrum would ease the pressure on capex, emanating from high and growing MOUs. (5) USO subsidy support for rollout of wireless networks in rural areas.

Negative share price drivers

(1) Continued decline in wireless tariffs, especially in the long-distance segment, could further propel phone usage (MOUs) and thus, impact capex. (2) Network rollout by Maxis Aircel, Idea cellular, Hutch Essar and Reliance Comm in new telecom circles (likely next year)—all these operators are keen to expand their GSM footprint, but have been held back so far due to the lack of additional spectrum. (3) BSNL's planned GSM expansion by 60 MM lines over the next three to four years.

Valuation and price target

Our December-2007 price target of Rs550 is at a 10% premium to DCF value. Bharti shares trade at 11.9x rolling 1-year forward EV/EBITDA, which is 13% higher than last six months' average of 10.5x. The key risk is lower-than-expected profitability of wireless business due to lower margins and/or higher capex.

Bloomberg: BHARTI IN, Reuters: BRTI.BO

Rs in millions, year end March

	FY06	FY07E	FY08E	FY09E
Sales	116,215	179,402	238,769	291,708
Net profit	22,567	37,225	50,455	62,591
EPS (Rs)	**11.9**	**19.6**	**26.6**	**33.0**
Fully diluted EPS (Rs)	**11.9**	**19.6**	**26.6**	**33.0**
DPS (Rs)	0.0	0.0	3.0	5.0
Sales growth (%)	42.5	54.4	33.1	22.2
Net profit growth (%)	106.4	65.0	35.5	24.1
EPS growth (%)	107.2	64.6	35.5	24.1
ROE (%)	30.2	32.9	31.9	29.7
P/E (x)	42.3	25.7	19.0	15.3
Fully-diluted P/E (x)	42.3	25.7	19.0	15.3

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 26 October 2006.

Braskem

www.braskem.com.br

Overweight

US$14.08

27 October 2006

Brazil

Oil and Gas

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Company data

52-week range (US$)	9.2-22.5
Mkt cap. (R$MM)	5,577
Mkt cap. (US$MM)	2,608
ADR O/S (MM)	185
Free float (%)	52
Year-end	December

Source: Company and Bloomberg.

Company description

Braskem is Latin America's leading petrochemical group, with US$5.6 billion in net revenues (50% first; 50% second generation) and US$7.2 billion in total assets. It was created in 2001 as a result of the merger of Northern Brazil-based petrochemical naphtha-cracker Copene and several other second-generation companies, integrated through 13 production units in Brazil, with total production capacity of 1,280 kta of ethylene, 1,180 kta of polyethylene, and 560 kta of propylene. Braskem also owns 30% of Southern Brazil-based 1,135 kta naphtha cracker Copesul, and is now preparing its internationalization into Venezuela.

Positive share price drivers

(1) Declining oil prices and naphtha costs compared to natural gas costs. (2) High GDP growth prospects for Brazil while the global GDP growth outlook might start decelerating. (3) Recently announced price increases in the Brazilian market, mainly for thermoplastic resins, which should underscore earnings momentum in the coming quarters. (4) New expansion projects at relatively low costs.

Negative share price drivers

(1) Additional deterioration in international pricing/margins scenario through the medium to long term. (2) Potentially higher than expected increase in domestic supply. (3) Poorer than expected domestic GDP growth and consumption of plastics. (4) Higher risk aversion to volatile Venezuela. (5) Potentially lower competitiveness in Brazil versus final product imports, mainly from China. (6) Stronger visibility and liquidity of less liquid Brazilian petrochemical stocks.

Valuation

Although not particularly inexpensive versus global peers, we rate Braskem Overweight within our universe of Brazilian petrochemical stocks due to what we believe is an outstanding competitive position (i.e., pricing power, on a relative basis), better diversification between first and second generations, strong liquidity and visibility in the stock market and attractive valuation versus domestic peers. Braskem's stock trades in line with our estimated replacement cost (versus 108% and 193% for Suzano and Copesul, respectively), at a relatively attractive 4.9-5.0x EV/EBITDA for 2006E-07E, and at a discount to our estimated DCF-based valuation.

Bloomberg: BAK, Reuters: BAK.US

US$ in millions, year-end December (consolidated)

	FY05	FY06E	FY07E	FY08E
Sales	5,598	5,438	5,026	5,053
EBITDA	1,043	963	939	1,173
Net profit	290	159	141	380
EBITDA Mg (%)	18.6	17.7	18.7	23.2
EPADR (US$)	1.57	0.86	0.76	2.05
DPADR (US$)	0.75	0.23	0.19	0.51
Sales growth (%)	19.9	-2.9	-7.6	0.5
Net profit growth (%)	11.3	-45.1	-11.6	170.1
ROE (%)	14.7	7.3	7.0	16.9
P/E (x)	9.0	16.4	18.6	6.9
EV/EBITDA (x)	4.5	4.9	5.0	4.0

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

China Life Insurance Company Ltd

www.e-chinalife.com

Overweight
HK$16.64
26 October 2006
Price Target: HK$14.50

China
Insurance

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Company data

52-week range (HK$)	5.75-16.68
Mkt cap. (HK$MM)	445,370
Mkt cap. (US$MM)	57,099
Shares O/S (MM)	26,765
Index: HSI	18353
Free float (%)	28
Year-end	December

Source: Datastream

Company description
China Life Insurance Company Ltd was registered in Beijing on 30 June 2003 and listed in New York and Hong Kong on 17 and 18 December 2003, respectively. The company is the largest life insurance company in China, with one of the most extensive distribution networks. The company is 72.2%-owned by its parent, CLIC. China Life owns 60% of China Life Insurance Asset Management Co., which is the largest institutional investor in China.

Positive share price drivers
The insurance market in China is still young, with a very low penetration rate. Life insurance premiums were growing at 29.9% CAGR over the past ten years. The rising interest rate environment should improve returns on investment. Being the largest nationwide life insurance provider, China Life is well positioned to benefit from the state government's plans to extend and upgrade insurance services to the rural areas and the agricultural segment in the next few years. Foreign competition remains largely concentrated in several major cities only.

Negative share price drivers
We see the convergence of the banking and insurance industry as a threat in the long term, but we believe China Life is the most defensive among all the local life insurance companies. The major cities are becoming saturated by the increasing entrance of local and foreign insurance companies, and the competition should shift toward central and western China, where China Life has had an overwhelming dominance in the past. Management is still localized and concerns about corporate governance will likely remain.

Valuation and price target, risks to price target
Based on the conventional valuation measures (such as embedded value) used by life insurance companies across markets, the higher valuation of China Life reflects the stronger market potential, in our view. China Life is now ranked among the top five insurance companies in the world by market capitalization. We expect China Life to continue to trade at premium valuations to international peers in the developed markets. Our Dec-06 price target of HK$14.5 is based on our appraisal valuation assuming a new business multiple of 19.5x.The key risk is a slowdown in premiums growth and disappointment in investments.

Bloomberg: 2628 HK, Reuters: 2628.HK
Rmb in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Net profit	9,306	14,339	17,036	20,263
Net premiums earned	80,038	100,696	124,165	148,758
Total Investment income	16,435	25,902	31,241	37,457
EPS (RMB)	0.35	0.54	0.64	0.76
EPS growth (%)	29.8	54.1	18.8	18.9
P/E (x)	50.4	32.1	26.2	21.6
Dividend yield (%)	0.3	0.5	0.6	0.7
ROE (%)	12.7	16.6	17.1	17.5
Embedded value (HK$)	4.04	5.04	6.26	7.61
P/EV (x)	4.1	3.3	2.7	2.2
Implied new biz multiple (x)	46.8	33.3	23.1	16.3

Source: Company, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 26 October 2006.

China Overseas Land & Investment

www.coli.com.hk

Overweight

HK$6.87

27 October 2006

Price Target: HK$7.0

China

Real Estate

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Company data

52-week range (HK$)	2.325-6.87
Market cap (HK$B)	47.9
Market cap (US$B)	6.1
Shares outstanding (MM)	6,970
Free float (%)	47
Year end	December

Source: Company reports, Datastream.

Company description

COLI is a red-chip company, controlled by China State Construction Engineering Corporation (CSCEC)—China's largest state-owned construction company. Established in 1979, COLI first participated in property development in Hong Kong in 1983 and was listed in 1992. COLI's parent currently holds a 53% stake in the company. The group is principally engaged in property development and investment in Hong Kong and the People's Republic of China. Mr Kong Qing Ping is the chairman and CEO of the company.

Positive share price drivers

COLI would likely see a huge jump in project completions in 2007 and a projected CAGR of 55% over FY06E-07E in contract sales, underpinned by a large untapped market and expansion into existing markets and new cities. We expect COLI to achieve a CAGR of 80% (including the Macau business) or 50% (excluding Macau) over FY06-07E due to the strong production pipeline in China. It has already built up a low-cost land bank of 13.5 million sq. m. that should be sufficient to generate a full development schedule over the next four to five years. We believe there may be a special dividend from the infrastructure business spin-off next year. Policy measures have no major impact on COLI's property sales. It secured HK$10 billion in contract sales in the first eight months of 2006 and targets HK$12 billion for the full year against HK$7.5 billion in FY05.

Negative share price drivers

The company continues to invest in Hong Kong property, which may increase the risk profile. It may lack recurrent income after the infrastructure business spin-off. Another risk is that the Chinese government may introduce more regulatory measures if property prices continue rising significantly.

Valuation and price target

COLI remains one of our top picks in the sector given its size and liquidity. Our June 2007 price target is HK$7.0 based on 12x FY07E P/E (16.5x 2007E P/E, excluding the profit contribution from La Cite, the only Macau project) and on par with our revised NAV estimate. The major risks are a sharp slowdown in China's economy and further policy interference in the property market.

Bloomberg: 688 HK; Reuters: 0688.HK

HK$ in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	7,931	10,878	14,841	20,431
Net profit	1,277	2,205	3,952	4,738
FD-Core EPS (HK$)	0.170	0.326	0.565	0.672
DPS (HK$)	0.070	0.111	0.198	0.238
Sales growth (%)	-8	37	36	38
Net profit growth (%)	19	73	79	20
EPS growth (%)	48	92	73	19
ROE (%)	10.3	17.8	24.4	21.9
Core P/E (x)	40.4	21.1	12.2	10.2
FD-NAV per share (HK$)	6.96			
Discount to NAV (%)	-1			

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006

China Shenhua Energy

www.csec.com

Overweight

HK$ 13.86

2 November 2006

Price Target: HK$ 19.0

China

Mining

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Company data

52-week range (HK$)	8-15.9
Mkt cap. (HK$MM)	47104
Mkt cap. (US$MM)	6057
Shares O/S (MM)	18,090
Free float (%)	19
Year-end	December

Source: Datastream.

Company description

China Shenhua Energy is the leading integrated coal-based energy company focusing on the coal and power businesses in China, with coal reserves of 5.7 billion tonnes and a gross power generation capacity of 6525 KW by the end of 2006. In 2005, the company's external coal sales reached 121.1 million tonnes.

Positive share price drivers

All the positives—including strong organic growth (11% CAGR 2005-2010); low cost (among the world's lowest cost producers); value-added acquisitions; and competitive contract prices (its contract prices are 10-20% below spot)—remain intact and should continue to drive up stock performance.

We expect spot coal prices to remain firm in 2007 on a fairly balanced market, with the risk of supply growth on the downside as the Chinese government is shutting down small coal mines.

Negative share price drivers

China will cut export VAT rebates on thermal coal to zero from 8%, effective from 15 December 2006. China might further increase export tariffs, which might result in cost increases.

Valuation and price target

Our June 2007 price target of HK$19/share is derived by applying 30% premium to our DCF value of HK$14.3/share as we expect upcoming acquisitions to add value. Recent global acquisitions were priced at US$3.5-5.4/t compared to Shenhua's last acquisition of high quality coal assets at US$0.8/t EV reserve. The key risks to our price target are lower-than-expected coal prices and less attractive acquisitions.

Bloomberg: 1088 HK; Reuters: 1088.HK

Rmb in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	52,242	63,423	69,894	74,178
Net profit	15,632	19,247	21,095	22,637
EPS (Rmb)	0.86	1.06	1.17	1.25
EPS(% Y/Y)	45.0	23.1	9.6	7.3
BPS (Rmb)	3.05	3.57	4.61	5.54
DPS (Rmb)	0.12	0.26	0.28	0.30
P/E (x)	15.19	12.34	11.26	10.49
P/B (x)	4.31	3.68	2.85	2.37
EV/EBITDA(x)	9.33	7.48	6.37	5.46
Dividend yield (%)	1.0	1.9	2.1	2.3
ROE (%)	38.8	32.2	28.5	24.7

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 2 November 2006.

China Vanke Company

www.vanke.com.cn

Overweight
HK$9.5

26 October 2006

Price Target: HK$9.80

China

Real Estate

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Company data

52 wk range (HK$)	3.65-9.60
Market cap (HK$MM)	32,805
Market cap (US$MM)	4,205
Share O/S (MM)^	3,970
Free float (%)	83
Year-end	December

Source: Bloomberg. ^ Including A and B shares.

Company description

China Vanke (CV) is the largest listed home builder in China in terms of construction volume and is one of the first listed, private enterprises in China. CV initially focused on the Shenzhen property market but later expanded into other densely populated cities. Over the past 20 years, sales revenue has surged by 150 times to over Rmb9 billion while net profit has increased by 290 times to over Rmb1.3 billion. Currently it has a landbank of 20 million sq. m. and over 80 projects across 27 cities.

Positive share price drivers

China Vanke offers a broad-based exposure to the housing market, which we believe is in a multi-year secular uptrend. Its diversified land bank and mid-end housing segment focus help limit the downside risk of property price correction in any single market. Management guides that completion volume would reach 3.3 million sq. m. in 2006, 52% higher than the 2005 levels. Vanke can benefit from volume and market share expansion apart from housing price growth in China.

Negative share price drivers

The negatives are: (1) Rising competition from other developers which are aggressively replenishing landbank in second-tier cities; and (2) near-term uncertainties in the Shanghai and Yangtze River Delta region. (3) Further government austerity measures.

Valuation and price target

The stock is trading at 13x FY07E P/E, which is lower than its average valuation of 14.9x since 2001. Our June 2007 price target of HK$9.80 is based on the stock trading at par to NAV, and at 13.2x FY07E P/E. Risks to the price target include slowdown of the China economy and further policy measures.

Bloomberg: 200002 CH; Reuters: 200002.SZ

Rmb in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	9,921	14,988	21,613	30,261
Net profit	1,365	2,022	2,918	3,972
EPS (Rmb)	0.39	0.51	0.74	1.00
Fully diluted EPS(Rmb)	0.37	0.51	0.74	1.00
DPS (Rmb)	0.15	0.19	0.28	0.35
Net profit growth (%)	56	48	44	36
Fully EPS growth (%)	52	29	44	36
ROE (%)	16.3	18.3	21.4	23.2
FD P/E (x)	26.1	18.9	13.3	9.7
NAV (HK$)		9.83		
Discount to NAV		-3%		
Div yield (%)	1.6%	2.0%	2.9%	3.7%

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 26 October 2006.

China Yurun Food Group

www.yurun.com

Overweight

HK$6.7

26 October 2006

Price Target: HK$8.2

China

Food & Food Manufacture

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Company data

52-week range (HK$)	3.3-7.0
Mkt cap. (HK$MM)	9,728
Mkt cap. (US$MM)	1,247
Shares O/S (MM)	1,452
Free float (%)	39
Year-end	December

Source: Bloomberg, Company.

Company description

Yurun is the third-largest meat product supplier in China. The company offers a wide range of raw pork and processed meat products. Yurun was listed on the Hong Kong main board on 3 October 2005, with an IPO price of HK$3.7. Yurun operates in a highly fragmented raw pork industry where the unique nature of the servicing radius provides a quasi-monopolistic operating environment for the players. We believe that there are business opportunities in consolidating the inefficient SOEs, for large players like Yurun.

Positive share price drivers

Yurun is expanding its slaughtering capacity to increase the proportion of its chilled meat business, taking advantage of the stable margin benefit that the industry practice provides, which allows it to preserve its earnings momentum, under the rising hog price environment. Yurun's strong operating cash flow allows it to achieve growth without any further funding, barring major acquisitions. The strong balance sheet allows the company to award a possible higher dividend payout ratio, than the currently expected 25%.

Negative share price drivers

Limited by the servicing radius, chilled meat providers need to keep investing in new slaughtering houses to ensure large geographical coverage. Operational efficiency could be affected broadly in two ways—lower capacity utilization and high capital expenditure. The need to invest in new slaughtering capacities to serve new areas could result in higher-than-expected capital expenditure in the form of high asking prices from existing operators in M&As or higher land prices for green field projects.

Valuation and price target

Yurun is currently trading at 16xFY07E P/E and represents 0.7xPEG FY06E/09E. We have a DCF derived Dec-07 price target of HK$8.2. Key risks being potential outbreak of animal disease epidemics, lower-than-expected output, and increasing bargaining power of food retailers on price.

Bloomberg: 1068 HK; Reuters: 1068.HK

Rmb in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	4454	4991	7649	10739
Net profit	359	521	619	818
EPS (Rmb)	0.34	0.36	0.43	0.56
DPS (Rmb)	0.07	0.09	0.11	0.14
Sales growth (%)	72	12	53	40
Net profit growth (%)	112	45	19	32
EPS growth (%)	86	4	19	32
ROE (%)	25	21	21	24
P/E (x)	20	19	16	12
Dividend yield (%)	1.0	1.3	1.6	2.1

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 26 October 2006.

CIMSA

www.cimsa.com.tr

Overweight

TRY8.70

27 October 2006

Price Target: TRY12.80

Turkey

Infrastructure

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Company data

52-week range (TRY)	11.60 – 5.75
Mkt cap. (TRYMM)	1.055.4
Mkt cap. (US$MM)	724.8
Shares O/S (MM)	121.3
Free float (%)	27.1
Year-end	December

Source: Company Data, Bloomberg.

Company description

Established in 1975, Cimsa is a leading company in the Turkish cement industry. Currently, the company has 2.3 million tons grey clinker and 1.1 million tons white clinker production capacity, which correspond to 4.6 million tons grey cement and 1.1 million tons white cement grinding capacity. In addition, Cimsa has 17 ready-mix cement plants with a total annual production capacity of 1.5 million m3. The company's production facilities are located in Mersin (Mediterranean region), Kayseri (Central Anatolia) and Eskisehir (Central Anatolia).

Positive share price drivers

Cimsa is the best play in the Turkish infrastructure (cement) sector, in our view, due to its high profitability, product and market flexibility, expanding market share, earnings growth, and compelling valuation. We forecast an earnings CAGR of 17% in the next two years.

Negative share price drivers and risks to price target

We believe the main risk is a change in the current and expected macroeconomic conditions in Turkey triggered by external or internal factors which would impact the assumptions we use in our models. Also, the tax authority levied a fine on Cimsa for TRY20.6 million (US$4 million) due to irregularities found in Cimsa's tax calculations between 2001 and 2003. Cimsa has appealed this verdict in the courts. If the decision is not overturned, there will be a decrease in earnings and cash flow.

Valuation and price target

Trading at an FY06E EV/EBITDA of 5.1x and P/E 06 of 8.5x, Cimsa is at a 45% discount to its Emerging Markets' peer group. Also, at US$190/ton clinker capacity, Cimsa trades at a 15% discount to its Turkish counterparts. The biggest downside risk that we see to our six-month DCF-based price target of TRY12.80 is macroeconomic volatility in Turkey. Also, cement prices may come under pressure after 2008, if all the capacity expansion and greenfield projects announced this year are realized, adding 15 million tons to the current installed capacity. Meanwhile, if Turkey signs the Kyoto Protocol, limits will be imposed on CO^2 emissions, which would increase costs, putting pressure on margins.

Bloomberg: CIMSA TI, Reuters: CIMSA.IS

TRY in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	358.1	498.1	568.2	681.7
Net profit	109.5	126.3	150.1	176.1
EPS (TRY)	0.903	1.041	1.238	1.452
DPS (TRY)	0.390	0.370	0.417	0.619
Sales growth (%)	21.4	39.1	14.1	20
Net profit growth (%)	68.3	15.4	18.9	17.3
EPS growth (%)	68.3	15.4	18.9	17.3
ROE (%)	19	19	19.7	20.4
P/E (x)	9.6	8.4	7.0	6.0

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Companhia Brasileira de Distribuicao

www.cbd-ri.com.br/eng

Overweight

R$63.18

27 October 2006

Price Target: R$86

Brazil

Consumer

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Company data

52-week range (R$)	55.12-98.9
Mkt cap. (R$MM)	7,172
Mkt cap. (US$MM)	3,360
Shares O/S (MM)	114
Free float (%)	23.5
Year-end	December

Source: Bloomberg.

Company description

Companhia Brasileira de Distribuicao (CBD) is the largest Brazilian retailer. The company operates three types of stores—supermarkets, hypermarkets and electronics/home appliance stores. CBD stores are segmented under four formats: (1) Pao de Acucar, a neighborhood supermarket that caters mostly to affluent customers; (2) CompreBem and Sendas supermarkets, directed to a lower income public; (3) Extra hypermarkets for all income levels; and (4) Extra/Eletro stores that sell home appliances and furniture.

Positive share price drivers

(1) Same-store-sales reverted to positive ground, the catalyst investors were waiting for. We believe this is the first sign that price cuts are having a positive impact on traffic generation to stores. (2) CBD is expanding its credit offering through its finance JV with Banco Itau, which has been a highly lucrative business. (3) We believe CBD's Internet business should expand with new management and the high bargaining power with suppliers from its bricks and mortar business.

Negative share price drivers

(1) Competition is increasing as Wal-Mart is more aggressively growing in Brazil. (2) CBD maintains a dual-class share structure, but the family now has a substantial stake of non-voting shares, which should provide some comfort to investors. (3) Cannibalization in some stores is still present, although the closure of underperforming stores should minimize this risk.

Valuation and price target

CBD is currently trading at a deep discount to its peers at an EV/EBITDA of 5.8x, and we believe the recovery in same-store-sales and management initiatives to cut expenses should boost investor confidence. Our sum-of-the-parts discounted cash flow valuation (retail + credit) indicates that CBD's fair valuation is around R$86, which is our August 2007 price target. Risks to our price target are a delay in customer perception of the new pricing policy, increased competition, and a slowdown in the Brazilian economy that could affect staples consumption and credit negatively.

Bloomberg: PCAR4 BZ, Reuters: PCAR4.SA

R$ in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	13,413	14,143	15,892	17,400
Net profit	289	301	423	659
EPS (R$)	2.54	2.64	3.71	5.79
Sales growth (%)	7	5	12	9
Net profit growth (%)	-22	4	40	56
EPS growth (%)	-22	4	40	56
ROE (%)	7	7	9	13
P/E (x)	28.7	25.4	18.7	12.2
FV/EBITDA (x)	7.9	6.6	5.6	5.4

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Corporacion Geo

www.casasgeo.com

Overweight

Ps49.11

27 October 2006

Price Target: Ps55.00

Mexico

Infrastructure

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Company data

52-week range (Ps)	31.40-52.00
Mkt cap. (PsMM)	27,360
Mkt cap. (US$MM)	2,548
Shares O/S (MM)	536.4
Free float (%)	78
Year-end	December

Source: Bloomberg.

Company description

Geo is the leading housing developer in Mexico and the largest homebuilder in Latin America. With operations in 33 cities across 19 states, Geo is the most geographically diversified homebuilder in Mexico, covering approximately 76% of the country's population.

Positive share price drivers

Geo's balance sheet was significantly transformed in the past few years, with its net debt to capital ratio improving to 10% in 2005 from 40% in 2000; while its ROIC ratio rose to 20% from 13%. We believe that the inclusion of Gilberto Perez Alonso as new CEO will result in Geo becoming a more efficiently run company. Also, in our view, Geo has the balance sheet to grow at stronger rates. The move toward building larger projects should help Geo to grow more aggressively than its current growth rates.

Negative share price drivers

Geo is one of the most inefficient homebuilders as measured by operating expense to revenue; we see room to improve efficiency by around 100bp.

Valuation and price target

The company is currently trading at 7.8x 2007E EV/EBITDA (land-adjusted) and 16.4x 2007E earnings. Our DCF-based price target of Ps55 for Dec-07 assumes that the stock will be trading at 8.5x 2007E EV/EBITDA land-adjusted multiple, a 10% discount to Urbi, a 5% premium to Homex and a 20% premium to Ara.

Risks that we see to our price target are: (1) Geo's weaker geographical coverage, with the largest exposure to the least attractive set of states, could lower sales volumes going forward. (2) Almost 100% of total sales for Geo are provided by government-controlled institutions. Any management changes could impact mortgage flow from these institutions.

Bloomberg: GEOB MM, Reuters: GEOB.MX

Ps in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	10,092	12,086	13,919	16,300
Net profit	1,139	1,311	1,666	2,055
EPS (Ps.))	2.12	2.44	3.11	3.83
Sales growth (%)	28	20	15	17
Net profit growth (%)	42	15	27	23
EPS growth (%)	41	15	27	23
ROE (%)	25.2	23.0	23.2	22.7
EV/EBITDA		9.7	8.3	6.8
P/E		20.9	16.4	13.3

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

DRD Gold

www.drdgold.co.za

Overweight

R9.59

27 October 2006

Price Target: R14.60

South Africa

Gold

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Company data

52-week range (ZAR)	7.00 – 12.10
Mkt cap. (ZARMM)	3130
Mkt cap. (US$MM)	427
Shares O/S (MM)	326
Free float (%)	100
Year-end	June

Source: Bloomberg.

Company description

DRD produces half of its gold through its 85%-held SA subsidiary, unlisted DRDGold SA, which operates two marginal mines—Blyvoor and ERPM—and the country's largest surface dump re-treatment business. The rest of its production is sourced from 79% owned ASX-listed Emperor, which owns 20% of PNG-based Porgera (a world class mine operated by 75% owner Barrick Gold), the Tolukuma mine, also based in PNG, and the Vatukoula mine, based in Fiji. The group recently completed a corporate restructuring that saw assets packaged more simply and the rationalization of the group's black economic empowerment strategy in SA. We expect DRD to deliver improving operational performances (off a low base) over the next six months, leading to higher production and industry competitive costs containment. The group has announced that it is investigating a number of organic growth options. Management also wants to establish a "third geographic leg," probably elsewhere in Africa.

Positive share price drivers and risks

We believe the key specific driver would be delivery of the improving operational performance. A higher dollar gold price and a weaker rand would be generic positives.

Negative share price drivers

Failure to deliver the improved production and costs containment would be an issue. Furthermore, if management develops its "Argonaut" (ultra-deep) project in SA, we would be concerned since the investment required would exceed DRD's capacity, in our view, and add substantial technical risk. In the past, the group has had a propensity to periodically visit the stock market for money, which has led to dilution. Although, on the basis of the current balance sheet and operational plans, we believe a revisit would be unnecessary, it cannot be ruled out, in our view.

Valuation and price target

Assuming JPMorgan's forecast exchange rates and prices, our DCF-based model yields a valuation of R9.70, to which we apply a premium of 50% to arrive at a six-month price target of R14.60, recognizing our positive operational and gold price outlook. The principal upside and downside risks to our valuation and price target are inaccuracies in metal price and exchange rate forecasting, and inaccuracies in estimating future production and costs.

Bloomberg: DRD SJ, Reuters: DRDJ.J

ZAR in millions, year-end June

	FY06	FY07E	FY08E	FY09E
Sales	1,575	3,224	4,098	3,728
Net profit	(336)	268	822	705
EPS (ZAR)	(1.10)	0.87	2.67	2.29
FD EPS (ZAR)	(1.10)	0.87	2.67	2.29
DPS (ZAR)	0	0	0	0
Sales growth (%)	2	105	27	-9
Net profit growth (%)	NA	NA	207	-14
EPS growth (%)	NA	NA	207	-14
ROE (%)	-11	7	18	13
P/E (x)	NA	11.0	3.6	4.2
FD P/E (x)	NA	11.0	3.6	4.2

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Embraer SA

www.embraer.com

Overweight

US$41.76

27 October 2006

Price Target: US$45.00

Brazil

Industrials

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Company data

52-week range (US$)	31.74–43.75
Mkt cap. (US$MM)	7,704
Shares O/S (MM)	186
Free float (%)	97.51
Year-end	December

Source: Reuters, Bloomberg.

Company description
Embraer was formed in 1969 by the Brazilian government to develop and produce aircraft for its air force. The company was privatized by the government in 1994 and became a publicly held company. Embraer manufactures aircraft for commercial, defense and corporate aviation, and is focused on the manufacture of jets for the regional market. It is also aggressively expanding into the corporate jet market.

Positive share price drivers
Embraer's low cost labor gives it a sustainable cost advantage over commercial aircraft rivals Boeing, EADS, and the major corporate jet manufacturers such as Cessna and Bombardier. Demand for 70-110 seat aircraft should pick up as the health of US carriers improves and scope restrictions continue to erode. Embraer's E-Jets should drive its share of the regional jet market to a sustainable 70+%. The business jet market represents a strong growth opportunity as the Phenom family has already booked 300 orders, with the first delivery set for 2008.

Negative share price drivers
The aerospace supply chain is coming under increasing strain due to the global increase in production, and these issues have affected Embraer's production schedule in Q3 2006. New aircraft from China and Russia may go into production by the end of the decade and represent additional competition for Embraer products. The strong *real* has also cut into profit margins.

Valuation and price target, and risks
Embraer trades at 12.8x our 2007 EEPS estimate of $3.25, an 11% discount to the aerospace/defense companies in our coverage universe, and a 25% discount to Boeing, Bombardier and EADS. We arrive at our 12-month price target of $45 by applying an 11.3x multiple to our 2008 EPS estimate. Risks to our rating and price target include a concentrated customer base, a slow market for 50-seat regional aircraft, a difficult aircraft finance market, and the sustainability of global economic growth.

Bloomberg: ERJ, Reuters: ERJ

US$ in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	3,830	4,094	5,174	6,171
Net profit	446	415	603	743
EPS (US$)	2.55	2.25	3.25	4.00
FD EPS (US$)	2.55	2.25	3.25	4.00
DPS (US$)	2.55	2.25	3.25	4.00
Sales growth (%)	11	7	26	19
Net profit growth (%)	17	-7	45	23
EPS growth (%)	17	-11	44	23
ROE (%)	30.0	23.8	29.4	29.9
P/E (x)	16.4	18.4	12.8	10.4

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Energias do Brasil

www.energiasdobrasil.com.br

Overweight

R$28.75

27 October 2006

Price Target: R$37

Brazil

Utilities

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Company data

52-week range (R$)	20.6-33.9
Mkt cap. (R$MM)	4,745
Mkt cap. (US$MM)	2,222
Shares O/S (MM)	165
Free float (%)	34
Year-end	December

Source: Company and Bloomberg.

Company description

Controlled by Portugal-based EDP and listed in July 2005, Energias do Brasil (EdB) is a mid-size vertical company, with 6.0% of Brazil's distribution market share and ~3 million final consumers serviced via three distribution concessions located in the SP, ES and MS states. The company also has ~1,050MW of hydro generation capacity (year-end 2006), representing 1% of generation market share in Brazil.

Positive share price drivers

(1) Generation upside with the recent start-up of 452MW Peixe Angical plus 50MW Mascarenhas for 4Q06. (2) Limited disco tariff downside versus peers and stronger margin upside from cost-cutting gain. (3) Strong energy demand growth prospects in Brazil, mainly at Escelsa and Enersul subsidiaries. (4) Defensive balance sheet and sound financial situation with stable and more visible cash flows from the genco business.

Negative share price drivers

(1) Regulatory risk, including a steeper than expected cut in tariffs in 2007/08, i.e., during the company's next tariff reset. (2) Below-expectation GDP and electricity demand growth. (3) Failure in delivering margin expansion from cost cutting, with potential above-inflation increases in controllable costs. (4) Global liquidity crisis and consequent higher liquidity risk premium required by investors versus EdB's relatively low US$3 million/day trading volume. (5) Lower political risk or improved corporate governance for our universe of mostly state-owned utilities, as these would outperform quasi-private managed EdB.

Valuation and price target

We rate EdB Overweight due to an attractive DCF-based and asset-based valuation, stronger EBITDA growth prospects, and its relatively high risk-adjusted discount to Brazilian peers on nearly all valuation metrics, including EV per RAB. Our R$37/1,000 Dec-06 price target is based on a mix of our estimated DCF and short-term valuation multiples. Risks to our price target are low GDP and demand growth, high interest rates and a weaker *real*, higher regulatory risk mainly from a negative tariff reset, higher loss rates and SG&A cost structure.

Bloomberg: ENBR3 BZ, Reuters: ENBR3.SA

US$ in millions, year-end December (consolidated)

	FY05	FY06E	FY07E	FY08E
Sales	1,851	2,106	2,043	2,123
EBITDA	391	525	548	574
Net profit	188	170	191	256
EBITDA Mg (%)	21.1	24.9	26.8	27.0
EPS (US$)	1.14	1.03	1.16	1.55
DPS (US$)	0.39	0.39	0.39	0.39
Sales growth (%)	32.7	13.8	-3.0	3.9
Net profit growth (%)	125.3	-9.9	12.7	33.9
ROE (%)	12.5	10.0	11.9	14.9
P/E (x)	11.8	13.1	11.6	8.7
EV/EBITDA (x)	8.2	6.1	5.9	5.6

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

FirstRand Ltd

www.firstrand.co.za

Overweight

R18.11

27 October 2006
Price Target: R27.96

South Africa
Banks

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Company data

52-week range (R$)	15.4 - 20.9
Mkt cap. (R$MM)	109,865.3
Mkt cap. (US$MM)	15,132.9
Shares O/S (MM)	563.4
Free float (%)	75
Year-end	June

Source: Company data, Bloomberg, JPMorgan.

Company description
FirstRand Limited (FSR) is one of South Africa's largest financial services groups. It was formed in 1998 when the financial services businesses of RMBH (namely RMB and Momentum) acquired the financial services businesses of Anglo American, FNB, WesBank and Southern Life. The three main operating subsidiaries are FirstRand Bank (banking operations), Momentum (life assurance) and Discovery (health insurance). The group offers a full range of retail, commercial, corporate and investment banking services, as well as life assurance and short-term insurance services. Internationally, the business has operations in Botswana, Namibia, Swaziland, Ireland, and Australia.

Positive share price drivers
In our view, the most significant driver of the company's share price would be the unfolding of a benign interest rate environment in line with our forecasts. Clarity on the outcome of the Competition Commission enquiry into fees would remove some of the negative sentiment toward banks. FSR's ability to deliver sustainable higher ROEs relative to its peers will, in our view, be a differentiator and a share price driver.

Negative share price drivers
In our view, the risks to inflation and interest rates are on the upside. Rand exchange rate volatility is also a concern and likely to retard bank price performance until it has found some stability. The political uncertainty ahead of the presidential candidate nominations in 1Q 2007 may also negatively impact sentiment. Fear of a worse than expected outcome from the Competition Commission inquiry may also weigh negatively on the share price.

Valuation and price target
We believe South African banks are only likely to re-rate strongly towards our price targets as clarity emerges on the issues raised above, around 1Q 2007. We have set our 12-month price target of R27.96 by rolling our economic profit values 12 months forward at the discount rate of 12.97%. Key risks to our valuation and target price are significant variation to our spread and lending growth assumptions, higher interest rates, and a collapse of property prices.

Bloomberg: FSR SJ, Reuters: FSRJ.J
ZAR in millions, year-end June

	FY06	FY07E	FY08E	FY09E
Normalised headline earnings	8,081	9,731	11,353	13,296
HEPS (ZAR) - diluted	1.52	1.84	2.14	2.49
DPS (ZAR)	0.61	0.74	0.86	1.00
Operating income growth (%)	23	13	12	14
Net profit growth (%)	24	18	15	18
EPS growth (%)	11	22	16	16
ROE (%)	24	25	25	25
P/E (x)	11.1	9.4	8.1	6.9

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Great Wall Motor Company Limited

www.gmw.com.cn

Overweight

HK$6.36

27 October 2006

Price Target: HK$8.77

China

Automobile Manufacture

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Company data

52-week range (HK$)	2.4-7.2
Mkt cap. (HK$MM)	6,005
Mkt cap. (US$MM)	772
Shares O/S (MM)	944
Free float (%)	28
Year-end	December

Source: Company reports, Bloomberg.

Company description
Great Wall Motor Company is China's leading producer of pick-up trucks, sport-utility vehicles (SUVs), and crossover utility vehicles (CUVs), marketed under its Great Wall brand name. It exports to 85 countries such as Middle East, Russia, South America and Italy, which account for around 30% of sales. Additionally, it produces principle auto parts for assembling pick-up trucks and SUVs. Despite the overcapacity issue in China's auto sector, the company enjoys a high net margin of around 12%, due to its superior cost control capability. The company also plans to manufacture economy cars from 4Q07.

Positive share price drivers
We expect FY05-08E EPS CAGR of 27% to be driven by: (1) strong volume growth. We expect Great Wall Motor to sell 78,420, 118,425 and 162,500 vehicles in FY06, FY07, and FY08, respectively; and (2) stable margins.
Contributions from its new models launches in FY07, including the right-hand drive version of the existing models, the diesel-engine fired Hover CUV, K2 (the new high-end pick-up trucks), the MPV model, and economy cars. We see upside from strong export growth. We estimate strong export growth from 14,000 in FY05 to 55,000 in FY07. Last but not least, we see the company's venture into the production of economy cars as a major driver of its medium-term earnings growth since we believe its business model is of: (a) extremely competitive cost structure, (b) good quality, and (c) flashy exterior design. This could prove most successful in the production of economy cars since the segment with around 1.8 million demand is growing at 35% per annum in China, and offers great growth potential.

Negative share price drivers
There is an overhang as the company plans to issue 151 million new H shares to fund its auto parts projects for supply to economy cars. The deal is subject to the shareholders' approval on November 13, 2006.

Valuation and price target
At HK$6.36, the stock is trading at 8.2x FY07E P/E, declining to 6.8x in FY08E. Our DCF-based Aug-07 price target is set at HK$8.77, translating into around 10.8x FY07E P/E. Risks to price target are: (1) a steep rise in sales prices of raw materials such as steel sheets; (2) the heightening price competition in China's domestic market; and (3) high oil prices which could hurt SUV demand.

Bloomberg: 2333 HK, Reuters: 2333 HK
Rmb in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	3810	5545	7569	9553
Net profit	441	680	762	913
EPS (Rmb)	0.47	0.72	0.81	0.97
DPS (Rmb)	0.10	0.14	0.16	0.19
ROE (%)	12.6	16.6	15.6	15.7
P/E (x)	14.2	9.2	8.2	6.8
P/B (x)	1.8	1.5	1.3	1.1
Dividend yield (%)	1.6	2.4	2.6	3.2

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Grupo Televisa

www.televisa.com

Overweight

US$24.95

27 October 2006

Price Target: US$27

Mexico

Media

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Company data

52-week range ($)	16.13-24.95
Mkt cap. (US$MM)	14,491
Shares O/S (MM)	581
Free float (%)	74
Year-end	December

Source: Bloomberg, JPMorgan.

Company description

Grupo Televisa is a leading television broadcaster in Mexico with a presence in pay-TV, cable, gaming, publishing, and radio. It also provides substantial programming content to Univision, the leading Spanish language broadcaster in the U.S., under a royalty arrangement.

Positive share price drivers

We continue to believe that the market is underestimating the long-term growth potential in Mexican advertising in absolute terms and in relation to the CEEMEA region, and that the bias to our television ad revenue estimates for Mexico is on the upside. We believe Televisa stock is significantly undervalued even after discounting that, in our view, the company has the best diversification potential of any media stock we cover. The company has seen growth in gaming, pay-TV, convergence, and in international markets. Recent launch of the gaming business, particularly the coming launch of National lottery, should drive a re-rating of Televisa as it gains traction in this lucrative business segment.

Valuation and price target

We are Overweight on Televisa and have an end-2007 price target (NYSE: TV) of US$27 per ADR, based on 7.5x 2008E FV/EBITDA. In our view, the main risks for Televisa are macro-related. Televisa could suffer from an economic slowdown in Mexico and/or the US, which could result in a slowdown in the advertising market. From an industry standpoint, we believe that the risk to our rating and price target comes more from potential pressures on global media valuations than from risks to the television industry in Mexico, which we view as limited. At the company-specific level, we believe the key risk to our Overweight rating and price target includes the risk that concerns over UVN continue to linger for some time.

Bloomberg: TV, Reuters: TV

Mx P$ in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	32,754	39,039	45,469	53,959
Net profit	6,682	7,945	8,993	12,143
EPS (Mx P$)	11.51	13.68	15.48	20.91
DPS (Mx P$)	0.69	0.18	0.18	0.17
Sales growth (%)	10.7	19.2	16.5	18.7
Net profit growth (%)	115.7	18.9	13.2	35.0
EPS growth (%)	115.7	18.9	13.2	35.0
ROE (%)	23	26	22	24
P/E (x)	17.6	15.0	13.9	10.8

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

High Tech Computer

www.htc.com

Overweight

NT$833

27 October 2006

Price Target: NT$1,203

Taiwan

Computer Hardware

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Company data

52-week range (NT$)	279.2–983.3
Mkt cap. (NT$B)	364
Mkt cap. (US$B)	10.9
Shares O/S (MM)	436
Free float (%)	35
Year-end	December

Source: Datastream.

Company description

High Tech Computer (HTC) designs, manufactures and markets Smartphone and PDA mobile devices. These are available as HTC-branded devices and as products individually customized for operator and device partners. Founded in 1997, High Tech Computer Corp. is a technology provider specializing in converged mobile devices. It has established very unique partnerships with key mobile operators, including the leading five European mobile operators, the top four US operators, and many fast-growing Asian operators.

Positive share price drivers

Steady margin expansion is driven by changing platform, increasing sales to operator customers, and ODM project with higher margins. Significant expansion of product portfolio in terms of number and variety should lead to lower revenue volatility and better margin outlook. Enterprise solutions could become the next critical earnings driver. Strong lead in 3G technology and software customization capability could serve as effective entry barriers for Taiwan ODMs.

Negative share price drivers

Competition from other major global OEMs could pressurize HTC's margins if the growth of the converged handheld market slows down. Own brand initiative, if not executed well, could lead to substantially higher OPEX and earnings decline. Loss of part or all of PALM ODM order (accounting for around 8-10% of HTC's FY07 sales based on our estimate), which is likely to happen in 1H08.

Valuation and price target

HTC's stock is currently trading at 18.6x and 11.6x adjusted P/E and 8.1x and 5.2x P/B on 73% and 65% ROE for FY06E and FY07E, respectively. HTC is the only Asian tech stock on the LONG side of both our CORE and Trading portfolios as well as on our Asia Analysts' Focus List. Our DCF-based June 2007 PT of NT$1,203 implies 18.2x FY07E P/E and 14.3x FY08E P/E, both adjusted for employee bonus. Risks to PT are: (1) operators' strategy in providing handset subsidies to drive data revenue; (2) competition between HTC and other major global players; (3) a high correlation between HTC's share price movement and its monthly sales volatility; and (4) the general demand outlook for the global handset industry.

Bloomberg: 2498 TT; Reuters: 2498.TW

NT$ in billions, year-end December	FY05	FY06E	FY07E	FY08E
Sales	72.8	111.3	163.6	213.3
Operating profit	12.8	25.9	39.5	50.1
Pre-tax EPS (NT$)	29.1	60.3	90.9	114.1
Net profit	11.8	24.7	37.6	45.8
EPS (NT$)	28.3	57.4	85.5	102.7
MV of employee bonus	4.0	6.4	7.2	7.5
Employee bonus adjusted EPS (NT$)	20.2	44.8	71.8	89.1
P/E (x)	29.4	14.5	9.7	8.1
Employee bonus adjusted P/E (x)	41.1	18.6	11.6	9.3
Y/E BPS (NT$)	55.3	103.0	160.4	220.7
P/B (x)	15.1	8.1	5.2	3.8
ROE (%)	68.6	73.4	65.4	54.2
Dividend yield (%)	1.4	1.4	2.8	4.2

Source: Company reports, Datastream, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Hon Hai Precision

www.foxconn.com

Overweight

NT$215.50

31 October 2006

Price Target: NT$252

Taiwan

Electonic Manufacturing Services

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Company data

52-week range (NT$)	119.2-224
Mkt cap. (NT$B)	1,075
Mkt cap. (US$B)	32.3
Shares O/S (MM)	4,990
Free float (%)	78
Year-end	December

Source: Bloomberg.

Company description

Hon Hai is a leading global EMS vendor with ~25% market share. The company operates under its unique CMMS (Component Module, Move and Service) model encompassing most parts of the supply chain. Computing accounts for 50% of revenues while handsets form 30%. New areas like consumer electronics and automotive are the next growth areas. HPQ, Apple and Sony are key customers.

Positive share price drivers

Re-accelerating core growth could trigger re-rating. After relatively muted core growth in FY05-06, we forecast a re-acceleration to 35% in 2007, driven by a sharp increase in consumer electronics exposure. This could drive a re-rating for the stock, which has underperformed subsidiary companies like FIH and Foxconn Tech in the last two years.

Consumer electronics key to growth in 2007. We expect CE exposure to grow significantly in 2007 and forecast 150% revenue growth, driven by multiple new products (PS3 assembly, iPhone, Digital Hub) and the impact of Premier Image acquisition.

Strong growth in Networking reduces dependence on PC. Networking business should post healthy 25% growth in 2007, driven by market share gains in Cisco switching business. We expect Hon Hai to expand into other networking products within Cisco, with an incremental contribution from new business with Juniper.

Negative share price drivers

Weakening earnings growth due to market share saturation. Hon Hai already holds a large market share in desktop PC EMS and in the top 2 OEMs for handsets. A slowdown in the pace of further market share gain could weaken earnings momentum. For FY07E/08E, we do not see a big risk due to strong growth in consumer and networking.

Valuation and price target

The stock is currently trading at 19x/15x/12x FY06E /07E /08E EPS. Our June 2007 price target is NT$252 (15x 12M forward earnings) and we expect the next re-rating trend to coincide with earnings momentum upswing in 1H07. The stock is on our Analyst Focus List and on the Long side of our AP Tech Core Portfolio.

Bloomberg: 2317 TT; Reuters: 2317.TW

NT$ in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	911,774	1,268,314	1,696,854	2,171,544
Net profit	40,785	55,984	75,604	94,731
EPS (NT$)	8.51	11.25	14.64	18.04
FD EPS (NT$)	8.51	11.25	14.64	18.04
Sales growth (%)	68.3	39.1	33.8	28
Net profit growth (%)	37.1	37.3	35	25.3
EPS growth (%)	33.8	32.1	30.2	23.2
ROE (%)	22.4	23.9	25.8	26.2
P/E (x)	25.3	19.2	14.7	11.9
FD P/E (x)	25.3	19.2	14.7	11.9

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 31 October 2006.

Imperial Holdings

www.imperial.co.za

Overweight

R146.50

27 October 2006

Price Target: R160.00

South Africa

Diversified Industrials

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Company data

52-week range (ZAR)	R119 -176
Mkt cap. (ZARM)	29,975
Mkt cap. (US$M)	3,875
Shares O/S (M)	210
Index: JSE All-share	4,770
Free float (%)	90
Year-end	June

Source: I-Net

Company description
Imperial Holdings is a diversified but vertically integrated company with businesses that centre around a 'mobility' theme. Approximately 50% of group net profits is currently derived from vehicle and related (e.g., financing and insurance products) markets. The balance is derived from a mixture of transport & logistics, vehicle and aviation leasing, car rental & tourism. The offshore and aviation businesses combined deliver c15% 'stable' currency earnings.

Positive share price drivers
Imperial has de-rated and its share price underperformed by more than 25% in Q2 & Q306 on concerns over a slowdown in new car sales on the back of interest rate increases and the potential negative effect of currency weakness on gross margin in car imports. With 1) end to rate increases in sight, in our view, and levels remaining subdued, 2) real wage increases, and 3) import duty reductions, we anticipate limited pressure on car affordability and continued healthy trading in car and related markets. Also many other non-car-related businesses should benefit from an uptick in inflation (e.g., transport), rand weakness (e.g., aviation leasing and tourism) and even interest rate increases (fleet management).

Negative share price drivers
A view on the interest cycle and currency is critical at this stage for Imperial's share performance, despite the groups' balanced exposure. A further de-rating of consumer orientated stocks could be triggered if interest rate and currency expectations deteriorate.

Valuation and price target, risks to price target
On earnings growth expectations of c20% and 15%, respectively, for FY07E and FY08E, the stock looks attractively valued at 10.5 P/E to June 07 and a C07 cash yield of c9%. Our Nov-07 TP of R160 assumes that the shares will trade on an exit P/E of 13x, representing a 10% discount to other SA industrials. The risks to our TP include 1) interest rate increases beyond our estimated peak prime rate of 12.5% by Dec-06, 2) significant weakening of the rand 3) loss of some importer rights (unlikely in our view).

Bloomberg: IPL SJ, Reuters: IPLJ.J

ZAR in millions, year-end June

	FY05	FY06	FY07E	FY08E
Sales	42,605	54,105	66,588	75,034
Net profit	2,184	2,247	2,765	3,242
EPS (ZARcps)	969	1,225	1,479	1,706
FD EPS (HK$)	909	1,148	1,379	1,580
DPS (ZARcps)	395	474	564	669
Sales growth (%)	23	27	23	13
Net profit growth (%)	35	3	23	17
EPS growth (headline, %)	16	26	20	15
ROE (%)	22.0	24.2	25.6	25.7
P/E (x)	14.9	11.8	9.8	8.5
FD P/E (x)	15.9	12.6	10.5	9.1

Source: Company, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Infosys Technologies

www.infosys.com

Overweight

Rs2,085

2 November 2006

Price Target: Rs2,375

India

eBusiness/IT Services

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Company data

52-week range (Rs)	1,225-2,151
Mkt cap. (RsB)	1,159
Mkt cap. (US$B)	25.8
Shares O/S (MM)	556
Free float (%)	80
Year-end	March

Source: Bloomberg.

Company description

Infosys Technologies is the bellwether stock in the Indian IT Services space with revenues of US$2.1 billion in FY06. The company provides an array of services including application development and maintenance, package implementation, testing, BPO and consulting to 450+ clients. Infosys has 66,000+ employees including 9,500+ in Progeon, its BPO arm. It provides services across several verticals including the financial, manufacturing, telecom and retail sectors. The company has the best disclosure and high corporate governance levels.

Positive share price drivers

(1) Infosys is seeing excellent revenue momentum driven by strength in new service lines and continued demand for off-shoring. Visibility remains strong with 7,700+ net employee additions in the quarter. 2Q07 was the best quarter since FY01 despite the 7x difference in size, indicating strength in the offshore environment. (2) Management has raised its revenue guidance by 4% and EPS guidance by 5% with upbeat commentary. Overall, management has guided 46% Y/Y revenue and EPS growth in FY07. We expect consensus estimate upgrades leading to further share price upside. (3) Infosys indicated it was seeing improvement in the pricing environment, which could result in further margin expansion.

Negative share price drivers and risks to price target

(1) Macro slowdown in IT spending environment. (2) Higher-than-expected wage inflation. (3) Appreciation of the rupee against the US dollar.

Valuation and price target

Our December 2007 price target is Rs2,375 based on a combination of P/E multiples and DCF fair values. Our price target is based on one-year forward P/E multiple of 22.5x, similar to the last one-year average. Our December 2007 DCF fair value estimate is Rs1,695. We estimate 10-year revenue CAGR of 22%, long-term EBIT margins of 23.5%, cost of capital 12.5% and long-term ROIC of 31%. Our price target implies a premium of 40% to our fair value estimate. We believe that strong offshore demand environment and accelerating EPS growth justify this premium.

Bloomberg: INFO IN/INFY US; Reuters: INFY.BO/INFY US

Rs in millions, year-end March

	FY05	FY06E	FY07E	FY08E
Sales	71,202	95,214	140,126	186,366
Net profit	18,319	24,564	37,704	49,088
EPS (Rs)	34.1	44.9	67.9	88.3
FD EPS (Rs)	34.1	44.9	67.9	88.3
DPS (Rs)	9.2	22.5	11.0	15.0
Sales growth (%)	46.7	33.7	47.2	33.0
Net profit growth (%)	46.8	34.1	53.5	30.2
EPS growth (%)	45.0	31.8	51.3	30.1
ROE (%)	36.4	35.7	39.9	39.8
P/E (x)	61.2	46.5	30.7	23.6
FD P/E (x)	61.2	46.5	30.7	23.6

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 2 November 2006.

Kookmin Bank

www.kbstar.co.kr

Overweight

W74,900

31 October 2006

Price Target: W105,000

Korea

Banks

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Company data

52-week range (W)	89,900-63,300
Market cap (WB)	25,195
Market cap (US$MM)	26,738
Shares issued	336.4
Free float (%)	95.9
Avg daily value (WB)	29.5
Avg daily value (US$MM)	102.1
Avg daily volume (MM shares)	1.3
Exchange rate (W/US$1)	942

Source: Datastream.

Company description

Kookmin Bank (KMB) is an amalgamation of five different banks and Kookmin Card, with the union of Kookmin Bank and Housing & Commercial Bank in 2001 being the key merger. KMB is currently the largest financial services provider in Korea with assets of over W198 trillion and more than 1,300 branches nationwide. KMB's forte is in the retail business segment and is widely recognized as "the people's bank". KMB is listed both in KRX and NYSE.

Positive share price drivers

Under the currently competitive landscape, profitable organic growth seems to be less effective strategy for large Korean banks implying that KMB's current standalone valuation may be burdensome at this time. Thus, we continue to believe that the acquisitive growth strategy will prove to be a better coherent strategy for boosting shareholders' value. The acquisition of KEB should be EPS-accretive and more importantly, should enable KMB to refocus on healthy growth. In addition, we believe, KMB is likely to maintain the current asset yield spread as well as stable credit costs, considering its conservative loan growth strategy.

Negative share price drivers

The deal between KMB and KEB is currently awaiting approval by the prosecutor's office, which is investigating the legitimacy of Lone Star's ownership of KEB. The delay of approval may have a negative effect on KMB. On the operational side, rising costs, especially after the M&A of KEB are probably the main concern.

Valuation and price target

Our June 2007 price target of W105,000 (after taking into account the KEB acquisition impact), based on our discount dividend model, implies 2.4x FY06E BV and 2.1x FY07E BV. The key risk to our price target is the deterioration of the

Bloomberg: 060000 KS; Reuters: 060000.KS

Won in billions, year-end December

	FY05	FY06E	FY07E	FY08E
Net profit	2,252	2,879	3,390	3,113
Basic EPS (rep'd) (W)	6,974	8,558	10,082	9,258
Cash adj. EPS (W)	6,554	8,433	8,478	9,046
Cash DPS (W)	550	1,000	3,000	5,500
Basic EPS growth (%)	284.9	22.7	17.8	(8.2)
Cash adj. EPS growth (%)	239.5	28.7	0.5	6.7
ROE (%)	21.0	21.1	21.3	17.7
Cash adj. ROE (%)	19.7	20.8	17.9	17.3
P/E (basic) (x)	10.7	8.8	7.4	8.1
P/E (cash adj.) (x)	11.4	8.9	8.8	8.3
BVPS (W)	36,824	44,390	50,385	54,204
Tangible NAV (W)	35,679	43,479	49,707	53,759
P/B (x)	2.0	1.7	1.5	1.4
Dividend yield (%)	0.7	1.3	4.0	7.3

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 31 October 2006.

LG Philips LCD

www.lgphilips-lcd.com

Overweight

W28,550

27 October 2006

Price Target: W40,000

Korea

Electronics

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Company data

52-week range (W)	46,800-28,100
Mkt cap. (WB)	10,216
Mkt cap. (US$MM)	10,784
Shares O/S (MM)	358
Free float (%)	24.2
Year-end	December

Source: Bloomberg, Company reports, JPMorgan.

Company description

LG Philips LCD is a leading supplier of TFT-LCD panels, with around 20% global market share—TV panels accounted for 51% of LPL's total revenue in 3Q06, followed by desktop monitors at 22%, and notebook PC panels at 22%. LG Electronics and Philips hold 37.9% and 32.9% of LPL's stakes, respectively.

LPL announced initiatives of 5.5G investment, which will improve profitability by addressing the increasing demand for high-end monitors, while pushing back 8G investment, taking the current market status into consideration.

Positive share price drivers

We believe that meaningful earnings recovery in 2H07and onwards, driven by the full ramp-up of the P7 line, and ongoing cost reductions, would lead to a re-rating of the stock. If we observe historical trends, LPL's share price tends to move around five to six months ahead of actual profit improvement. Thus, we estimate that if its earnings show a meaningful recovery in 2H07, the stock will show an upward trend in the beginning of 1H07. In addition, LPL has a strong presence in the large-size TV market (40′+) on the back of its 7.5G line ramp-up. This will be a differentiation factor among major panel makers, in our view.

Negative share price drivers and risks to price target

The risks to our price target are sudden or substantial changes in panel prices and a slowdown in the LCD TV market. In addition, Won appreciation may present downside risk to LPL earnings. Finally, a prolonged downturn cycle of the TFT-LCD industry may cause additional cash call in 2007.

Valuation and price target

LPL remains our top pick as we believe that it would benefit from robust flat panel TV demand, driven by large-size panels, given its strong presence in the large-size TV market. Although the stock has performed poorly due to a series of disappointing earnings, we continue to believe that the stock is near its floor value and should gradually recover in 2007. We maintain an Overweight rating with a DCF-derived Jun-07 target price of W40,000.

Bloomberg: 034220 KS, Reuters: 034220.KS

Won in billions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	10,076	10,927	13,664	15,999
Operating profit	470	-908	217	1,574
Net profit	517	-784	243	1,525
EPS (W)	1,514	-2,190	678	4,261
Cash	1,580	147	912	1,549
ROE (%)	7.8	-10.7	3.4	19.3
P/E (x)	18.9	-13.0	42.1	6.7
BPS (W)	21,451	19,323	20,001	24,262
EV/EBITDA (x)	5.4	8.0	4.1	2.3
Dividend yield (%)	0.0	0.0	0.0	0.0

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Lukoil

www.lukoil.com

Overweight

$82.30

27 October 2006

Price Target: $100

Russia

Oil and Gas

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Company description
Lukoil is Russia's only blue chip oil stock, with a diversified resource base in upstream and high quality assets in Russia and Eastern Europe in downstream. A strategic alliance with western major ConocoPhillips, as well as a shareholder-friendly ownership structure with large free float and no government ownership, makes the company one of the lowest risk stocks in our sector universe. Lukoil is also the most transparent among Russian oil companies, with a long track record of quarterly financial accounts under US GAAP.

Positive share price drivers
The most important driver, in our view, is the positive impact from the ongoing refinery upgrades to the company's financial performance, as well as the market's recognition of the value that the gas operations add to the bottom line in the foreseeable future. Tax breaks granted by the Russian authorities to oil producers will also have a positive impact on the stock's performance, albeit a rather limited one, in our view.

Negative share price drivers
The Russian stock market in general, and Lukoil shares in particular, are vulnerable to crude price fluctuations. If the current negative trend in crude prices is sustained into the foreseeable future, Lukoil's shares may underperform, as the selling pressure is likely to be stronger in a widely held liquid stock than in a lesser known name. Lukoil's shares would also suffer if the company loses an edge that it currently enjoys over rivals, be it a better development strategy, transparency, or capital efficiency.

Valuation and price target
Our DCF-based valuation puts the company's 2007 year-end price target at $100 per share. As with any other DCF model, Lukoil's DCF valuation is fairly sensitive to the macro assumptions, most importantly assumptions on crude and oil product prices, FX rates, and inflation. Lukoil runs the risks of underperforming and our price target would also be at risk if the company's operating environment proves to be less benign than what we currently forecast.

Company data

52-week range (US$)	60.00-96.00
Mkt cap. (US$MM)	67,979.8
Shares O/S (MM)	826.0
Free float (%)	60
Year-end	December

Source: Company reports, JPMorgan estimates.

Bloomberg: LKOH RU, Reuters: LKOH.RTS
US$ millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	45,843	60,122	58,226	56,837
Net profit	6,443	8,520	7,390	7,181
EPS (US$)	7.80	10.31	8.95	8.69
FD EPS (US$)	7.57	10.02	8.69	8.44
DPS (US$)	1.15	1.55	1.34	1.30
Sales growth (%)	60.3	31.1	-3.2	-2.4
Net profit growth (%)	51.7	32.2	-13.3	-2.8
EPS growth (%)	48.9	32.2	-13.3	-2.8
ROE (%)	27.1	27.9	19.7	16.5
P/E (x)	10.6	8.0	9.2	9.5
FD P/E (x)	10.9	8.2	9.5	9.7

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Malaysian Airline System Bhd

www.malaysiaairlines.com

Overweight

M$3.54

1 November 2006

Price Target: M$7.00

Malaysia

Airlines

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Company data

52-week range (M$)	2.68-3.54
Mkt cap. (M$MM)	4,436
Mkt cap. (US$MM)	1,215
Shares O/S (MM)	1,253
Free float (%)	100
Year-end	December

Source: Datastream.

Company description

Malaysia Airlines (MAS) is the leading flag carrier in Malaysia and operates an extensive range of domestic and international services across its passenger and cargo network. The company is currently 69% owned by Malaysian Government.

Positive share price drivers

We like MAS because the airline is about to complete an extensive restructuring, in which it slashed costs, cut unprofitable routes, trimmed headcount by almost a third and sold off non-core assets. We believe that MAS is well ahead of its stated turnaround plans, outlined in its manifesto, MAS Way. Yet, we do not believe that any of this is reflected in the share price. In our view, the current share price represents the current market value of the residual assets left in the business, namely prime real estate. As MAS does not own any aircraft, the airline can produce very impressive returns on equity, none of which is invested in the airline operation. We like airlines that downsize to profitability and especially those airlines where the airline operations are not priced into the underlying shares. We highlight that MAS predicament is very similar to Air Canada, which has made itself a market darling after its near-death experience following 9/11.

Negative share price drivers

The main risk to MAS would arise from vicissitudes in local politics. We note that MAS' restructuring has allowed Malaysia to deregulate its domestic aviation market, so any plan to reverse MAS' turnaround would have significant ramifications across the economy.

Valuation and price target

We value MAS on a sum-of-the-parts basis, namely, the underlying net asset value per share plus a 8.0x 2007E P/E for the airline operation. We have set the P/E valuation in line with Thai Airways, which we think shares a very similar risk profile to MAS, both stocks are government owned, with a lackluster domestic business which have been recently deregulated. Our Dec-07 PT is based on a market valuation of the company's assets plus an 8x P/E on forecast 2007 earnings. The key structural risks for MAS are reversal of recent political reforms in Malaysia; reversal of deregulation of the domestic market; changes in the current executive management team and low share market turnover.

Bloomberg: MAS MK; Reuters: MASM.KL

M$ in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	8,851	12,684	13,100	13,368
Operating profit	-1,479	-37	825	1,141
Net profit	-1,265	449	710	1,021
EPS (M$)	-1.01	0.36	0.57	0.81
Equity (MM)	1,997	2,251	2,960	3,981
ROE (%)	-47.6	-2.4	27.2	29.4
P/E (x)	NM	9.9	6.2	4.3
EV/EBITDA (x)	-2.6	10.9	3.7	2.1
P/BV (x)	2.2	2.0	1.5	1.1
Dividend yield (%)	0.7	0.0	0.0	0.0

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 1 November 2006.

Maanshan Iron & Steel—H

www.magang.com.cn

Overweight

HK$3.15

2 November 2006

Price Target: HK$3.60

China

Steel

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Company data

52-week range (HK$)	2.29–3.275
Mkt cap. (HK$MM)	5,459
Mkt cap. (US$MM)	702
Shares O/S (MM)	6,455
Free float (%)	39
Year-end	December

Source: Datastream.

Company description

Maanshan manufactures and sells iron and steel products. Its major products are wire rods, sections, plates, train wheels and hot-rolled and cold-rolled products. The company's volume sales reached 9.6 million tonnes in 2005—among the top 10 steel producers in China. Management expects strong volume growth to continue with five million tonnes of flat product expansion, which is expected to be completed by end-2007.

Positive share price drivers

Maanshan will complete the five million tonnes capacity expansion by mid-2007. The new capacity expansion is in value-added flat products—HRC and CRC. We expect volume sales to go up by 11% Y/Y in 2007E and 35% Y/Y in 2008E. After the expansion, high-end flat products would account for over 60-70% of the total volume. We expect earnings to grow by 37% in 2007E and 57% in 2008E on improving steel prices and volume growth.

Negative share price drivers

We expect a roll-over of iron ore and coking coal prices. This means that costs are unlikely to fall next year.

The upcoming "bonds with warrants" issue might dilute earnings growth slightly (probably 5-10%).

Valuation and price target

We derive our June 2007 price target of HK$3.60 (adjusted for Rmb0.16/share dividend) by applying 1.25x P/B to the FY07E BPS of Rmb3.2. The key risks are lower than expected steel prices and/or delay in capacity expansion.

Bloomberg: 323 HK, Reuters: 0323.HK

Rmb in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	32,083	32,738	40,366	54,728
Net profit	2,910	2,014	2,750	4,305
EPS (Rmb)	0.45	0.31	0.43	0.67
EPS (% Y/Y)	-19	-31	37	57
BPS (Rmb)	2.7	2.9	3.2	3.6
DPS (Rmb)	0.16	0.12	0.17	0.27
P/E (x)	7.1	10.2	7.5	4.8
P/B (x)	1.2	1.1	1.0	0.9
EV/EBITDA (x)	4.9	6.4	5.4	3.4
Dividend yield (%)	5.0	3.9	5.4	8.4
ROE (%)	17	11	14	20

Source: Company, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 2 November 2006.

Mediatek

www.mtk.com.tw

Overweight

NT$326

30 October 2006

Price Target: NT$450

Taiwan

Semiconductors

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Company data

52-week range (NT$)	252.27-376.82
Mkt cap. (NT$B)	315.7
Mkt cap. (US$B)	9.50
Shares O/S (MM)	968
Free float (%)	72
Year-end	December

Source: Datastream.

Company description

Mediatek, established in 1997, is the biggest fabless house in Taiwan and also one of the top 10 in the world. It is the biggest chip supplier for PC optical storage drives, consumer DVD products and China handset products. The company is also the emerging leader in digital TV, GPS and Bluetooth solutions space.

Positive share price drivers

Mediatek is renowned for bringing niche products into mass markets, rather than competing in mature products. After significant success in popularizing MP3/ camera phones in China, we believe the upcoming new features would be Bluetooth and FM tuner in 2007, and GPS and mobile TV in 2008. This is a win-win situation for Mediatek and its customers. The bundling strategy allows much faster customer penetration for Mediatek, while technical issues like radio interference issues will be resolved faster and thus better time-to-market for handset OEMs.

Mediatek's TV business has been ramping very quickly as well, registering a growth of 6x from 1Q to 3Q. Given the strong customer win pipeline, we believe the TV business can add 10+% incremental revenues in 2007.

Negative share price drivers

Mediatek's progress in TD-SCDMA solution is 12 months behind T3G, Spreadtrum and ADI. If 3G takes off quickly, Mediatek may risk losing market share.

Valuation and price target

Mediatek is trading at 14x/9x Taiwan GAAP FY06/07E P/E multiple, much lower than other fabless peers in Asia who continue to trade at 11-13x FY07E. We remain bullish on Mediatek, with OW rating and June 2007 PT of NT$450. Our target price is based on 20x US GAAP trailing P/E. We recommend buying now rather than wait for 1H07 weakness. Risk to our PT and rating is faster-than-expected TD-SCDMA take-off in China.

Bloomberg: 2454 TT, Reuters: 2454.TW

NT$ in billions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	46.3	53.5	69.7	84.0
Net profit	18.3	23.3	34.1	43.2
EPS (NT$)	19.5	24.3	34.9	43.2
Adj. EPS (NT$)	14.2	20.0	29.2	35.1
DPS (NT$)	8.1	9.8	14.6	20.8
Sales growth (%)	18.2	15.5	30.4	20.5
Net profit growth (%)	27.6	27.5	46.4	26.6
EPS growth (%)	25.5	24.9	43.5	23.7
ROE (%)	38.3	38.9	44.3	44.0
P/E (x)	16.7	13.4	9.3	7.6
Adj. P/E (x)	22.9	16.3	11.1	9.3

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 30 October 2006.

Naspers

www.naspers.com

Overweight

R131

31 October 2006

Price Target: R151.23

South Africa

Telecom and Media

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Company data

52-week range (R)	97-133
Mkt cap. (ZARMM)	43022
Mkt cap. (US$MM)	2.5
Shares O/S (MM)	321
Free float (%)	100
Year-end	September

Source: Company reports, Bloomberg, JPMorgan estimates.

Company description

Naspers is a multinational media company with principal operations in electronic media (including pay-television, Internet and instant-messaging subscriber platforms and the provision of related technologies) and print media (including the publishing, distribution and printing of magazines, newspapers and books, and the provision of private education services). Naspers' most significant operations are located in South Africa, and other operations are located elsewhere in Sub-Saharan Africa, Greece, Cyprus, the Netherlands, the US, Thailand, China and Brazil. Many of Naspers' businesses hold leading market positions, and Naspers capitalizes on these strong positions when expanding into new markets.

Positive share price drivers

Naspers is quite favorably positioned to tap the increased discretionary income in South Africa, especially among the burgeoning black middle class via its pay TV and print media businesses. The company is also exposed to growing incomes in China and Brazil via Tencent (China) and Abril (Brazil). In FY04, the Mediterranean businesses were producing losses of R69 million, whereas in FY06, these same operations produced profits of R294 million. We expect this operation to continue to do well.

Negative share price drivers

In previous years, management has lost c.US$100 million in its pursuit of investment in broadband operations in the US, as well as Internet ventures in China. It appears management is on an acquisition drive. Management has also mentioned that the SA government is contemplating the licensing of a new competitor in the pay TV arena.

Valuation and price target

Naspers' price target of R151.23 (June 2007) is based on the DCF sum-of-the-parts less 5% holding company discount and a 5% N share discount. The price target is derived by unwinding the valuation by Naspers' cost of equity. Key risks are underestimation of both the regulatory risk and the competitive environment.

Bloomberg: NPN SJ, Reuters: NPNJ.J

Rand in millions, year-end September

	FY06	FY07E	FY08E	FY09E
Sales	15,706	17,666	19,777	21,725
Net profit	2,067	2,768	3,364	3,888
EPS (SA cps)	624	846	1,034	1,200
DPS (SA cps)	104	141	172	200
Sales growth (%)	16	11	11	9
Net profit growth (%)	10	34	22	16
EPS growth (%)	25	36	22	16
ROE (%)	32	30	27	24
P/E (x)	21.0	15.5	12.7	10.9

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 31 October 2006.

Nedbank Group Ltd

www.nedbank.co.za

Overweight

R114.10

27 October 2006

Price Target: R170.66

South Africa
Banks

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Company data

52-week range (R))	87.0 - 138.4
Mkt cap. (R$MM)	55501.8
Mkt cap. (US$MM)	7644.8
Shares O/S (MM)	449.4
Free float (%)	50
Year-end	December

Source: Company data, Bloomberg, JPMorgan.

Company description
The Nedbank Group is South Africa's fourth-largest banking group. Its main wholly owned operating entity, Nedbank Limited, consists of three core operating divisions—Nedbank Corporate, Nedbank Retail and Nedbank Capital. Nedbank Group is majority-owned (51.9%) by Old Mutual Plc and its subsidiaries. Internationally, the group has banking interests in several Southern African countries, namely Lesotho, Mauritius, Malawi, Namibia, Swaziland and Zimbabwe.

Positive share price drivers
In our view, the most significant driver of the company's share price will be the unfolding of a benign interest rate environment in line with our forecasts. Clarity on the outcome of the Competition Commission inquiry into fees would remove some of the negative sentiment toward banks. NED's ability to deliver improvement in its ROE, contain costs and return lower than expected impairment charges will, in our view, be a share price driver that should become evident with reported results over the next year.

Negative share price drivers
In our view, the risks to inflation and interest rates are on the upside. Rand exchange rate volatility is also a concern and likely to retard bank price performance until it has found some stability. The political uncertainty ahead of the presidential candidate nominations in 1Q 2007 may also negatively impact sentiment. Fear of a worse than expected outcome from the Competition Commission inquiry may also weigh negatively on the share price.

Valuation and price target
We believe the South African banks are only likely to re-rate strongly towards our price targets as clarity emerges on the issues raised above, around 1Q 2007. We have set our 12-month price target of R170.66, by rolling our economic profit values 12 months forward at the discount rate of 12.97%. Key risks to our valuation and target price are significant variation to our spread and lending growth assumptions, higher interest rates, and a collapse of property prices.

Bloomberg: NED SJ, Reuters: NEDJ.J
ZAR in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Normalised headline earnings	3,167	4,303	4,904	5,448
HEPS (ZAR) - diluted	7.91	10.88	12.91	14.68
DPS (ZAR)	2.90	4.40	5.28	6.05
Operating income growth (%)	11	17	11	10
Net profit growth (%)	72	34	14	11
EPS growth (%)	64	38	19	14
ROE (%)	16	19	20	20
P/E (x)	12.6	10.5	8.8	7.8

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Public Bank

www.publicbank.com.my

Overweight

M$6.80

26 October 2006

Price Target: M$8.00

Malaysia

Banks

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Company data

52-week range (M$)	6.1-6.9
Mkt cap. (M$MM)	23,811
Mkt cap. (US$MM)	6,491
Shares O/S (MM)	3,294
Free float (%)	70
Year-end	December

Source: Bloomberg.

Company description

Founded in 1966 by Tan Sri Teh Hiong Piao, Public Bank has grown to be the third-largest bank in Malaysia. Public Bank remains focused on its core strengths in the retail banking market and on increasing market share through organic growth. Public Bank has operations in Hong Kong, Cambodia, Vietnam, Laos, and Sri Lanka.

Positive share price drivers

(1) Playing the consumer growth theme: We are likely to see a re-acceleration of consumer loans in 2007 due to improving consumer sentiment on the back of stable interest rates, improved levels of disposable income as global oil prices moderate and what we see as an improving "feel good" factor in the run-up to the general election. In our view, Public Bank is best positioned to take advantage, given its strong momentum of growing consumer loans, especially in the attractive Chinese segment. (2) Benefiting from higher interest rates: Public Bank has benefited from the widening spreads as interest rates rise due to its ability to keep funding costs low because of its high level of low-cost deposits (34% vs the industry average of 21%). (3) Management continues to deliver strong profits: Public Bank's management has continued to deliver above-market top-line growth despite the slowing economic momentum and extremely competitive environment, while keeping both operating costs and loan loss provisions low. An improving outlook should augur well for the bank in 2007. (4) Foreign shareholding is at a historical low. Public Bank's foreign shareholding has fallen from 36.7% by end-Dec 2004 to 25.9% by end-Sept 2006.

Negative share price drivers

Consumer sentiment continues to weaken with decelerating loan growth resulting in lower growth prospects and compressed margins, as competition becomes more intense.

Valuation and price target

The stock is trading at a P/E of 11.7x and 10.5x for FY07E and FY08E, respectively, and has a dividend yield of 6.4%. Our December 2007 price target of M$8.00 is based on a two-stage DDM valuation methodology. Key risks include loan momentum slowdown and asset degradation.

Bloomberg: PBKF MK; Reuters: PUBMe.KL

M$ in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Net profit	1,450	1,779	1,986	2,206
Basic EPS (sen)	44.2	52.0	58.1	64.5
Cash adj. EPS (sen)	44.2	52.0	58.1	64.5
DPS (sen)	39.6	41.6	43.6	48.4
Basic EPS growth (%)	11.8	17.7	11.7	11.0
ROE (%)	17.0	20.5	21.9	23.0
Cash adj. ROE (%)	17.0	20.5	21.9	23.0
P/E (basic) (x)	15.4	13.1	11.7	10.5
P/E (cash adj.) (x)	15.4	13.1	11.7	10.5
BVPS (RM)	2.48	2.59	2.73	2.89
P/B (x)	2.74	2.63	2.49	2.35
Dividend yield (%)	5.8	6.1	6.4	7.1

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 26 October 2006.

Reunert

www.reunert.com

Overweight

7,699c

27 October 2006

Price Target: 8,430c

South Africa

Industrials

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Company data

52-week range (c)	4734-8027
Mkt cap. (RMM)	15,042
Mkt cap. (US$MM)	2.1
Shares O/S (MM)	195.355
Free float (%)	100
Year-end	September

Source: I-Net.

Company description

Reunert is the largest listed electrical engineering and electronics group, with a market capitalisation of R15.7 billion. Total revenue in FY05 was R7.0 billion, and we expect it to surpass the R8 billion mark in FY06E. Headline earnings of cR700 million in FY05 imply a net margin of about 10%. Today, there are four focused operations—Electrical Engineering, Office Systems, Consumer Products & Services and Reutech, in addition to the 40% investment in Sietel, and 49.9% in "New Venture", a joint venture (JV) financing company in partnership with PSG.

Positive share price drivers

(1) Liberalization of the South African telecoms industry (Nashua Mobile and Sietel). (2) Mobile market in Africa with significant upside potential given the low levels of mobile penetration in most markets (Sietel). (3) Eskom's upgrade of generation and transmission capacity (African Cables and CBI). (4) Country-wide power reticulation upgrades (African Cables and CBI). (5) Migration from black and white to colour printing (Nashua Office Systems).

Negative share price drivers

(1) Slowdown or collapse in fixed-investment spending. (2) The recent JV announced with PSG may not deliver as planned. (3) BEE transaction is done at significant discount to the current market price.

Valuation and price target

We calculate a 12-month price target of 8430cps. Our valuation is based on a simple average of a P/E, EV/EBITDA and DCF calculation. In terms of our EV/EBITDA and DCF calculations, we add our valuations of Reunert's attributable stakes in Sietel and "New Venture" to derive a SOTP value for the total business. Risks to price target: (1) substantial strengthening of the rand could weaken the position of export-oriented businesses such as CBI and Reutech to compete internationally; (2) delays or even cancellations of large-scale projects such as Eskom capacity enhancement/electrification projects; (3) further rise in interest rates and significant slowdown in consumer spending.

Bloomberg: RLO.SJ, Reuters: RLOJ.J
Rand in millions, year-end September

	FY05	FY06E	FY07E	FY08E
Sales	7,037	8,501	9,710	10,857
Net profit	708	896	1,057	1,208
EPS (c)	408	514	604	687
DPS (c)	222	260	305	350
Sales growth (%)	12.6	20.8	14.2	11.8
Net profit growth (%)	34.4	26.6	17.9	14.3
EPS growth (%)	47.2	25.8	17.6	13.6
ROE (%)	56.1	53.0	56.4	56.7
P/E (x)	18.9	15.0	12.7	11.2

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

SABANCI HOLDING

www.sabanci.com

Overweight

TRY6.20

27 October 2006

Price Target: TRY8.10

Turkey

Conglomerates

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Company data

52-week range (TRY)	7.13 -3.85
Mkt cap. (TRYMM)	11,160
Mkt cap. (US$MM)	7,665
Shares O/S (MM)	1,800
Free float (%)	25.2
Year-end	December

Source: Company data, Bloomberg.

Company description

Sabanci Holding, established in 1967, is the largest conglomerate in terms of market capitalization as well as asset size, and the second-largest in terms of revenues (after Koc Holding) in Turkey. The group controls over 30 companies in eight main sectors, and we expect consolidated revenues to reach US$11.4 billion. The company has longstanding JVs with strong foreign partners. Main investments are in financial services, tire and reinforcement materials, automotive, cement, food and retail, chemicals, textiles and energy sectors. The financial sector represents 52% of total NAV.

Positive share price drivers

Sabanci Holding has exposure to some of the most attractive sectors in Turkey—banking, insurance, retail and cement. Any positive development in these sectors should have a positive impact on the company’s shares. For example, interest rate cuts by the Central Bank would be crucial for the future performance of these sectors. On the other hand, further divestitures in non-core assets such as textiles and chemicals sectors should also be welcomed by the market.

Negative share price drivers

The market expects the company to be active in the privatization of electricity distribution. The tenders are expected in January 2007. Being left out or over-paying aggressively are major downside risks. The interruption of expansion into power generation and the distribution sector would create a major downside risk.

Valuation and price target

We value Sabanci Holding using a sum-of-the-parts methodology. Based on this, the shares are currently trading at a 33% discount to the sum of the underlying assets’ value. Our six-month price target of TRY8.10 is set at a 10% discount to NAV. A macroeconomic crisis in Turkey due to either external or internal factors poses a risk to our positive rating and price target. Also, being left out in the electricity distribution rights’ privatization tenders could exert pressure on the shares.

Bloomberg: SAHOL TI, Reuters: SAHOL.IS

TRY in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	14,223	17,125	20,512	24,437
Net profit	689.8	809	1,105	1,244.5
EPS (TRY)	0.38	0.45	0.61	0.69
DPS (TRY)	0.06	0.07	0.08	0.11
Sales growth (%)	23	20.4	19.8	19.1
Net profit growth (%)	2	17	36	12
EPS growth (%)	-36.5	17	36	12
ROE (%)	10.6	12	14.3	15
P/E (x)	16.2	13.8	10	9

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Sanlam Limited

www.sanlam.co.za

Overweight

R17.10

27 October 2006

Price Target: R18

South Africa

Financials

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Company data

52-week range (c)	1,780-1,181
Mkt cap. (ZARMM)	39,990
Mkt cap. (US$MM)	5,413
Shares O/S (MM)	2,339
Free float (%)	100
Year-end	December

Source: I-Net, RIMES, Reuters.

Company description

Sanlam is one of the largest financial services providers in South Africa, offering individual and group life insurance and investment products. It also has asset management and short-term insurance businesses. As of December 31, 2005, the group had R444 billion in assets under management.

Positive share price drivers

Sanlam has a flexible balance sheet as it can shift shareholder assets into lower risk classes to release capital. It also benefits from the industry shift to off-balance sheet products, as its significant outflows reduce the overall capital requirements. Our valuation is defensive, since only 7% of it is attributed to Sanlam's new business. New business pressures in the industry should impact Sanlam less than its peers, and Sanlam is also showing signs of gaining market share. Management is aggressively focusing on achieving good ROEs. This could create more excess capital and further capital reduction.

Negative share price drivers

Sanlam may use some of its excess capital for acquisitive growth. We see limited synergies in the local life industry given the mature market. Other options, including offshore acquisitions, would come with additional risks. The local life book continues to leak assets at a rate of 7% p.a. This should pressure future earnings, which are currently being buoyed by strong equity markets. The company is strong in the middle market, which we do not believe is saving. We believe it will take a number of years for the growing black middle market to save significantly and turn its 'net outflows' to a 'net inflows' situation.

Valuation and price target

We derive our September 2007 price target by applying a 15% discount to our one-year forward appraisal value based on our expectations of sustainable returns. Our one-year price target is 1,800 SAcps.

Risks to rating, earnings and price target: Concerns over the use of excess capital pose a key risk to Sanlam. Negative news flow on new business flows relating to new commission levels, further regulatory pressures and declining equity markets are other risks.

Bloomberg: SLM J.J, Reuters: SLA.NM

ZAR, year-end December

	FY05	FY06E	FY07E	FY08E
Normalised earnings per share (ZAR)	1.50	1.85	1.94	2.08
Core earnings per share (ZAR)	1.30	1.44	1.53	1.65
Dividend per share (ZAR)	0.65	0.70	0.75	0.80
NAV per share (ZAR)	11.43	12.75	13.92	15.12
ROE (%)	13.1	14.5	13.9	13.8
P/E (using Core EPS)	13.2	11.8	11.3	10.5
Earnings yield (using Core EPS) %	7.6	8.4	8.9	9.6
Dividend yield (%)	3.8	4.1	4.4	4.7

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Sasol Ltd

www.sasol.com

Overweight
R249.00
27 October 2006
Price Target: R309

South Africa
Integrated Oils

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Company data

52-week range (SAc)	19,300–28,300
Mkt cap. (RMM)	169,222.6
Mkt cap. (US$MM)	23,139.96
Shares O/S (MM)	680
Free float (%)	0.74
Year-end	June

Source: Rimes, Reuters, I-Net.

Company Description

Sasol is an alternative energy company that converts coal (CTL) and gas (GTL), using the Fischer –Tropsch (FT) process, into gasoline/diesel (65%) and chemicals (35%). It is the world's biggest commercial user of FT and caters to approximately 28% of South Africa's domestic fuel needs and 90% of petrochemicals through the process. Historically, Sasol has been a solely domestic South African company, but higher oil prices look set to transform Sasol as it rolls out its technology across the globe. The company's current domestic production is 150,000 bbl/d. Sasol currently targets 450,000bbl/d of additional capacity through partnerships by 2014 via its GTL business. It has additional plans for 160,000bbl of CTL through two projects in China. We estimate Sasol's volume CAGR to be 17.8% vs. the oil gas sector's CAGR of 2-4% over the next 10 years.

Positive share price drivers

Oryx 1, Sasol's first non-South African FT plant, is expected to come on stream in Qatar in 1Q07. Oryx should add 10% to 2008 fuel volumes and, importantly for Sasol, it should enhance the company's engineering and project execution credibility. In 1Q07, Sasol is due to start its Iranian Arya petrochemical complex, which should double Polymer capacity. Sasol is also due to exit its underperforming Olefins and Surfactants business. Announcements of further FT projects would stimulate Sasol's share price, particularly if the projects are in developed world locations. We believe Sasol could announce full-scale feasibility studies in Australia (GTL) and the US (CTL). The US Senate is due to debate an extension to the US$21/bbl FT tax credit in 2007. If this tax credit is extended it would likely make CTL investments very attractive in the US.

Negative share price drivers

Sasol is geared to oil prices and thus declining oil prices are a drag on its earnings. The South African government is looking at imposing a windfall tax, and the tax task team's recommendation document is due out in the next month, with the Treasury due to make a final decision in Feb 07. Any additional taxes would clearly impact Sasol.

Valuation and price target

Based on a weighted PE/ DCF, our Sept-2007 target price for Sasol is R309. Risks to our price target are global recession, weaker than expected oil prices,

Bloomberg:
Rand in millions, year-end June

	FY06	FY07E	FY08E	FY09E
EV/ EBITDA	6.9	6.1	5.9	6.4
P/E	10.9	9.9	9.3	10.5
EBITDA	24597	28433	29564	27171
Headline EPS	22.9	25.1	26.7	23.8

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Shenzhen Expressway

www.sz-expressway.com

Overweight

HK$4.50

26 October 2006

Price Target: HK$5.00

China

Infrastructure

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Company data

52-week range (HK$)	2.325-4.46
Mkt cap. (HK$MM)	9,813
Mkt cap. (US$MM)	1,258
Shares O/S (MM)	2,181
Free float (%)	34
Year-end	December

Source: Datastream.

Company description

Shenzhen Expressway (SHE) is the toll road construction and management arm of the Shenzhen municipal government and has first right of refusal to develop and operate expressway and highway projects in Shenzhen. SHE owns a total of 18 toll road assets (most of these operate in Shenzhen), while the balance is spread across Guangdong, Hubei, Hunan, and Jiangsu provinces. Currently, SHE is focusing on the construction of Nanguang Expressway, Yanba C Expressway, Guangzhou 2nd Ringroad and reconstruction of Qinglian Class 1 Highway, which will be converted into a four-lane expressway by August 2008.

Positive share price drivers

(1) Continued strong economic development of the Pearl River Delta should support the organic traffic volume and revenue growth of SHE's operating expressways. (2) Completion of Nanguang and Qinglian expressways' restructure project could more than double SHE's operating asset length, revenue and net profit in 2009. (3) Issuance of convertible with bonds will further lower financial costs. (4) Implementation of weight-based tariff system in FY07/08 could further raise average tariff by 5-15% and improve SHE's operating margin as overweight commercial vehicles are reduced. (5) Management is determined to sustain SHE's growth through further toll road acquisition after 2008.

Negative share price drivers

(1) SHE will continue to hike its net gearing in the coming 1-2 years as it carries out large capex for the construction of greenfield projects; and the company will be sensitive to further interest rate hikes. (2) The potential approval of unified tax code could raise SHE's corporate income tax from the current 15% to 25%.

Valuation and price target

Given the strong revenue and profit growth outlook until FY09, we maintain our Overweight rating with a DCF-based Jun-07 price target of HK$5.00, which translates into an FY09E P/E of 12x, EV/EBITDA of 5.7x, and ROE of 11.7%. Risks to price target are: (1) slower-than-expected traffic growth; (2) further interest rate hike; and (3) further asset acquisition.

Bloomberg: 548 HK, Reuters: 0548.HK

HK$ in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	911	1,219	1,447	1,760
Net profit	553	589	586	607
EPS (HK$)	0.253	0.270	0.269	0.278
DPS (HK$)	0.12	0.13	0.13	0.14
Sales growth (%)	79.1	33.8	18.6	21.7
Net profit growth (%)	31.9	6.5	-0.5	3.7
EPS growth (%)	31.9	6.5	-0.5	3.7
ROE (%)	8.7	8.9	8.5	8.4
P/E (x)	18.7	17.6	17.7	17.0
EV/EBITDA (x)	14.6	11.3	9.5	7.8

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 26 October 2006.

Sohu.com

www.sohu.com

Overweight

US$23.50

27 October 2006

Price Target: US$29.00

China

Internet

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Company description

Sohu.com is one of the top internet portals in China. Its Chinese language web properties include www.sohu.com, search engine www.sogou.com, online alumni club www.chinaren.com, and its games information portal www.17173.com. Sohu's business spans two main segments—online advertising and wireless value-added services (WVAS), besides a small presence in online games. In 3Q06, Sohu's online advertising revenue was US$23.9 million (67% of total revenue–59% from brand advertising and 8% from paid search). WVAS revenue was US$8.8 million (25% of revenue), other revenue (online games, etc.) was US$2.7 million (8% of revenue). Sohu is the official sponsor of internet content services for the Beijing 2008 Olympics, and also has a number of other significant sports-related partnership deals (such as with the NBA and China Interactive Sports).

Positive share price drivers

(1) The ability to continue delivering solid results could lead to multiples expansion, (2) as the 2008 Olympics approach, advertisers will ramp up related promotions, providing upside risk to our 2007 forecast, (3) in 2007, Sohu plans to put a stronger focus on execution and selling its ad inventory, and (4) potential upside from monetization of social networks (alumni sites, bulletin boards, etc).

Negative share price drivers

Potential negative share price drivers are: (1) Any slowdown in the economy that could result in lower online advertising revenue growth. (2) Significant market share loss in online advertising to competing websites.

Valuation and price target

Sohu currently trades at ~24x FY07E adjusted diluted EPS. Our Dec-07 target price of US$29 implies 30x FY07E and 26x FY08E adjusted diluted EPS, or 22x FY07E and 18x FY08E EV/EBITDA. The valuation tracks the mid-point of the stock's historical 12-month forward valuation range. The price target is also in line with our DCF valuation. Risks to our target include a slowdown in the economy that could impact online advertising growth, significant market share loss to other websites and uncertainty in wireless segment due to policy changes by operators.

Bloomberg: SOHU US, Reuters: SOHU

US$ in millions, year-end December

	FY05	FY06E	FY07E	FY08E		FY05	FY06E	FY07E	FY08E		
Sales	108.3	135.9	160.3	197.7	ROE (%)	25	22	19	18	52-Week range	US$15.1-29.4
Operating Profit (EBIT)	24.9	24.8	30.2	39.2	ROIC (%)	14	14	14	13	Shares Outstg	37Mn
EBITDA	31.7	39.7	46.5	57.2	*Qtr GAAP EPS (US$*	**1Q**	**2Q**	**3Q**	**4Q**	Avg daily vol	0.7Mn
Pre Tax Profit	29.8	27.7	33.8	43.8	**EPS (FY05)**	0.15	0.18	0.21	0.23	Index (NASD)	2,379
Reported Net profit	29.8	26.3	30.7	37.3	**EPS (FY06E)**	0.16	0.19	0.18	0.17	Free float	46%
Reported EPS (US$)	**0.77**	**0.68**	**0.77**	**0.92**	**EPS (FY07E)**	0.15	0.18	0.21	0.22	Dividend Yld (%)	0%
P/E (x)	**30.5**	**34.4**	**30.4**	**25.5**		1M	3M	12M		Price Target	US$ 29.0
Adjusted EPS (Ex-123R share comp exp)	**0.77**	**0.86**	**0.96**	**1.13**	Abs. Perf.(%)	1.9	-0.7	44.4		Avg hold. period	111 days
Adjusted P/E (x)	**30.5**	**27.2**	**24.5**	**20.9**	Rel. Perf.(%)	-3.1	-11.8	28.8			
EV/EBITDA	25.7	20.6	17.6	14.3	Market Cap	US$	0.84B				
P/B (x)	6.6	5.1	4.0	3.2	Cash	119.1	147.7	193.7	243.6		
Y/E BPS (US$)	3.5	4.6	5.9	7.3	Equity	129.8	172.6	224.1	284.6		

Source: Datastream, Company reports, JPMorgan estimates. Note: We have included 123R expense adjustments starting 2006E. Share price and valuations are as of 27 October 2006.

Suzano

www.suzano.com.br

Overweight

$7.91

27 October 2006

Price Target: US$9.50

Brazil

Pulp and Paper

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Company data

52-week range (BRL)	11.34-16.88
Mkt cap. (BRL$MM)	5,305
Mkt cap. (US$MM)	2,485
Shares O/S (MM)	314
Free float (%)	35
Year-end	December

Source: Bloomberg.

Company description
Suzano is a Brazilian producer of market pulp, paper and paperboard. It has a capacity of 550kt of market pulp and 840kt of integrated paper production in addition to its 50% stake in Ripasa, which adds another 120kt of market pulp and 260kt of paper capacity. The company was started by the Feffer family more than 80 years ago; they still have control of the company, although the day-to-day management is in the hands of professional managers.

Positive share price drivers
Suzano continues to be our top pick in the Brazilian pulp and paper sector due to our expectations for: (1) Highest EBITDA growth in the next few years in the sector. Due to the Mucuri mill expansion of 1.1mt as well as the incorporation of 50% of Ripasa, we expect Suzano's EBITDA to keep growing both in 2007E and in 2008E despite our forecasts of declining pulp prices. Growth of 18% in 2007E and 50% in 2008E should be significantly higher than the single-digit growth expected for VCP and Aracruz in this time. (2) Improved share liquidity. Suzano's shares traded an average of $6 million per day in October, compared to less than $1 million at the beginning of the year. (3) Highest upside potential based on DCF. Our DCF analysis points to 20% upside potential from the current share price, which is higher than the upside we see for both VCP (+11%) and Aracruz (flat).

Valuation and price target
Our Overweight rating and $9.50/share price target for end-2007 is based on a combination of DCF analysis and earnings momentum. We believe the company's expected earnings momentum will help drive the share price higher to reach our DCF fair value of $9.50/share. We have decreased the role of EV/EBITDA in our analysis as company-specific events lead to distorted multiples for Suzano as well as its peers. We see five main risks to our rating and price target on Suzano: (1) pulp prices weaker or stronger than expected; (2) Ripasa consortium delays; (3) decline in share liquidity; (4) delays or cost overruns in the Mucuri mill expansion; and (5) potential weakness in the domestic paper market.

Bloomberg: SUZB5
US$ in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	1,057	1,331	1,556	2,006
EBITDA	849	998	1,257	2,038
Net income	202	204	118	312
EPS (US$)	0.71	0.69	0.38	0.99
DPS (US$)	0.09	0.15	0.06	0.22
EBITDA growth (%)	-2	31	18	50
EBITDA margin (%)	33	34	35	40
ROE (%)	16	11	7	16
P/E (x)	6.7	12.5	21.3	8.1
EV/EBITDA (x)	6.8	9.6	8.6	5.8

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Taiwan Fertilizer

www.taifer.com.tw

Overweight

NT$56.3

24 October 2006

Price Target: NT$64

Taiwan

Property

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Company data

52-week range (NT$)	30.4–63.3
Mkt cap. (NT$B)	54.3
Mkt cap. (US$B)	1.6
Shares O/S (MM)	980
Free float (%)	65
Year-end	December

Source: Systex.

Company description

Taiwan Fertilizer is a leading player in the domestic fertilizer industry, with around 70% market share. The company produces various kinds of fertilizers and related chemical products. Nonetheless, as it sees limited upside in the fertilizer business, the company decided to expand into two new areas for long-term growth—land development for its idle land assets across Taiwan and the deep ocean water project.

Positive share price drivers

(1) Execution of land development projects, especially the land in Nan-kang, Taipei city, starting from early 2007. This should help clear the market's concern about management execution ability. (2) There are potentially more land disposals in Taiwan in 2007. For instance, the land disposed in 4Q06 is ~70% higher than our and market expectations, which leads to a revision of our 2006 earnings and NAV forecast. (3) The company fits well into our regional reflation theme and our expectation that asset play stocks will continue to perform in 2007, driven by a healthy property market, low interest rate environment and the company's determination to unlock its hidden value. (4) The fertilizer business, including overseas upstream and domestic downstream operations, should continue to be a cash cow for the company, going forward.

Negative share price drivers

Farmable land in Taiwan is decreasing, which forces the company to develop more high-end or value-added fertilizer products to sustain profitability.

Valuation and price target

The stock is trading at ~20% discount to our NAV of NT$71/share. Our one-year price target (Oct-07) of NT$64/share is based on a 10% discount to NAV. The risk to our analysis and price target lies in the company's ability to execute its projects and unlock the hidden value of its land assets across Taiwan. .

Bloomberg: 1722 TT, Reuters: 1722.TW

NT$ in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	10,380	11,970	12,477	13,164
Net profit	2,942	4,063	2,126	2,110
EPS (adj.-NT$)	3.10	4.16	2.18	2.16
PER (x)	18.2	13.5	25.9	26.1
PBR (x)	1.1	1.1	1.1	1.1
ROE (%)	7.5	8.4	4.3	4.3
Div yield (%)	3.0	3.9	5.8	3.0
Net debt (cash) to equity (%)	-16.8	-20.9	-19.2	-20.2
Revenue growth (%)	13.6	15.3	4.2	5.5
PAT growth (%)	48.6	38.1	-47.7	-0.8
EPS growth (%)	48.6	38.1	-47.7	-0.8

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 24 October 2006.

Tata Consultancy Services

www.tcs.com

Overweight

Rs1,080

2 November 2006

Price Target: Rs1,325

India

eBusiness/IT Services

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Company data

52-week range (Rs)	694–1175
Mkt cap. (RsB)	1,057
Mkt cap. (US$B)	23.5
Shares O/S (MM)	979
Free float (%)	15
Year-end	March

Source: Bloomberg.

Company description

Tata Consultancy Services (TCS) is Asia's largest IT services company, with revenues of over US$2.9 billion in FY06. The company has 78,000+ employees with significant experience across vertical domains (including BFSI, manufacturing and telecom) and technology platforms. TCS today serves 700+ clients. It has the widest portfolio of service offerings in the Indian IT space and its skill set straddles the entire IT services value chain—from pure IT outsourcing to traditional application development and maintenance, package implementation, consulting assignments, complex turnkey projects and BPOs.

TCS has built global delivery centers (GDCs) in several locations including Eastern Europe and China. We believe that as these centers scale up, they will provide an alternative source for talent.

Positive share price drivers

(1) Strong momentum on revenues driven by ramp-ups in new large deals.
(2) Margin expansion as acquisitions are integrated into the TCS fold.
(3) Any large deal announcement. (4) Continued improvement in pricing.

Negative share price drivers and risks to price target

(1) Macro slowdown in IT spending environment. (2) Integration issues regarding acquisitions. (3) Appreciation of the rupee against the US dollar.

Valuation and price target

Our December 2007 price target of Rs1,325/share is based on a combination of P/E multiples and DCF fair values to derive our price target. Our price target assumes a one-year forward P/E multiple of 20.3x, in line with the past year's average one-year trailing multiple of 20.5x.

Our December 2007 DCF fair value estimate is Rs945 and our price target implies a premium of 40% to this. We estimate a 10-year revenue CAGR of 20%, long-term EBIT margins of 23.5%, weighted average cost of capital (WACC) assumption of 12.8% and long-term ROIC of 32%.

Bloomberg: TCS IN, Reuters: TCS.BO

Rs in millions, year-end March

	FY05	FY06E	FY07E	FY08E
Sales	97,272	132,454	184,150	236,257
Net profit	22,539	28,831	41,958	54,159
EPS (Rs)	23.5	29.7	42.9	55.3
FD EPS (Rs)	23.5	29.7	42.9	55.3
DPS (Rs)	5.8	3.8	5.5	5.8
Sales growth (%)	36.6	36.2	39.0	28.3
Net profit growth (%)	39.8	27.9	45.5	29.1
EPS growth (%)	39.2	26.4	44.3	29.1
ROE (%)	90.0	63.8	54.8	45.6
P/E (x)	46.0	36.4	25.2	19.5
FD P/E (x)	46.0	36.4	25.2	19.5

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 2 November 2006.

Ternium

www.ternium.com

Overweight

US$24.98

27 October 2006

Price Target: US$34.16

Argentina

Metals and Mining

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Company data

52-week range (US$)	19.91-30.00
Mkt cap. (US$MM)	4,996
Shares O/S (MM)	200
Free float (%)	14
Year-end	December

Source: Company reports, Bloomberg

Company description

Ternium is a flat and long steel producer in Latin America, with an output of around 10Mtpy of finished products, which puts it within the top 20 largest steel companies in the world. It is a holding company created to gather all of Techint's group (its main shareholder) assets in common flat and long steel businesses. It comprises mainly three formerly independent companies—Siderar in Argentina, Sidor in Venezuela, and Hylsamex in Mexico.

Positive share price drivers

(1) Delivering performance and building a strong reporting history, as so far the company has only three quarters of comparable performance (due to the acquisition of Hylsamex in late 2005). (2) Increased visibility with the investing community through more sell-side coverage, and company meetings with investors. (3) Effective participation in the consolidation of the steel industry in Latin America. (4) Benefits from the implementation of debottlenecking investments at Sidor and Hylsamex in 2007.

Negative share price drivers

(1) Delay in making an acquisition move and consequent inadequate or underleveraged balance sheet. (2) Potential risk of overpaying for acquisitions. (3) Possible eventual government intervention in Ternium's assets in Venezuela.

Valuation and price target

Our May 2007 price target of US$34.16 is based on DCF and multiples. The company is one of the cheapest stocks in our universe, trading at an adjusted EV/EBITDA multiple of 2.8x FY06E and 2.3x FY07E, and we see room to expand its multiples as the company continues to deliver solid results and reap the benefits of incremental capex. Main risks to our rating and price target are: (1) difficulties in integrating the separate entities (Sidor, Siderar, Hylsamex) into one business; (2) as an active player in the consolidation of steel, Ternium risks overpaying for assets; (3) political risk, as its main operating units are located in Mexico, Argentina and Venezuela; and (4) a steeper decline in global steel prices than we are anticipating.

Bloomberg: TX, Reuters: TX US

US$ in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	4,448	6,737	6,810	6,535
Net profit	704	903	976	1,048
EPS (US$)	0.58	0.45	0.49	0.52
FD EPS (US$)	0.58	0.45	0.49	0.52
DPS (US$)	0.31	0.01	-	0.24
Sales growth (%)	178	51	1	-4
Net profit growth (%)	54	28	8	7
EPS growth (%)	49	-23	8	7
ROE (%)	38	24	21	20
P/E (x)	6.2	5.5	5.1	4.8
FD P/E (x)	6.2	5.58	5.1	4.8

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Thai Oil Public

www.thaioil.co.th

Overweight

Bt61.0

26 October 2006

Price Target: Bt80

Thailand

Oil and Gas

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Company data

52-week range (Bt)	73.5-57.0
Mkt cap. (BtMM)	124,442
Mkt cap. (US$MM)	3,354
Shares O/S (MM)	2,040
Free float (%)	40
Year-end	December

Source: SET.

Company description
Thai Oil Public (TOP) owns and operates one of Thailand's most complex and biggest (220,000bbl/day) refineries. The company also has interests in related industries, including petrochemicals (paraxylene), lube base oil and power generation (both for internal usage and sales to the grid). TOP recently moved into alternative energy with a small investment in an ethanol plant (used for the production of gasohol). It is currently expanding its oil refining capacity (through de-bottlenecking) by 23% to 270,000bbl/day. The expansion is scheduled for completion by end-2007.

Positive share price drivers
Thailand's liberalized refining regime enables TOP to be fully exposed to the regional refining industry. In our analysis, we believe that the Asian oil refining industry will remain buoyant for the next 2-3 years, underpinned by continued product demand growth (especially in China) and insufficient capacity addition (made worse by a very tight oil and gas contracting industry and high material costs). We also think there is a possibility of TOP participating in the new round of bidding for new private power mandates, scheduled for sometime next year.

Negative share price drivers
In the short term, regional refining margins have been disappointing. Despite a steady decline in crude oil costs, product prices (diesel, gasoline, jet) have declined even more quickly, resulting in margin contraction. We expect margins to pick up, especially given that lower crude costs will lead, ultimately, to better product demand. However, if refining margins do not recover, or weaken further, this should be very negative for share prices.

Valuation and price target
TOP shares trade on 7.7x P/E FY07E. Our Jun-07 price target of Bt80/share is based on DCF. Key risks: (1) a sustained weakness in GRM; and (2) a substantial delay in the start-up of the company's expanded capacity.

Bloomberg: TOP TB, Reuters: TOP.BK

Bt in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	249,111	267,830	261,438	231,730
Net profit	17,522	17,355	16,083	15,929
Core EPS (Bt)	8.59	8.51	7.88	7.81
F/D EPS (Bt)	8.59	8.51	7.88	7.81
DPS (Bt)	3.50	3.50	3.50	3.50
Sales growth (%)	35	8	(2)	(11)
Net profit growth (%)	21	(1)	(7)	(1)
EPS growth (%)	21	(1)	(7)	(1)
ROE (%)	35.7	31.1	24.7	19.7
Core P/E (x)	7.1	7.2	7.7	7.8
FD P/E (x)	7.1	7.2	7.7	7.8

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 26 October 2006.

Torrent Pharmaceuticals Limited

www.torrentpharma.com

Overweight
Rs198
26 October 2006
Price Target: Rs310

India
Pharmaceuticals

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Company data

52-week range (Rs)	336-137
Mkt cap. (RsMM)	15919
Mkt cap. (US$MM)	352
Shares O/S (MM)	84.6
Free float (%)	25.9
Year-end	March

Source: Company reports, Bloomberg, JPMorgan.

Company description

Torrent Pharma is a well established domestic branded formulation company with a strong presence in the CNS, gastro and antibiotics segments. Torrent has recently almost doubled its field force to 2,500 and grown its domestic business (50% of sales) rapidly. Moreover, it has also established a strong presence in Brazil (12% of sales). It has recently acquired a German business (20% of sales) to pave its entry into the European branded market. Thus, compared with other Indian companies, Torrent has more branded business. The company is late into the US and has a very modest game-plan.

Positive share price drivers

Torrent has a rapidly growing formulation business, in both India and Brazil. These markets give gross margins of over 70% but entail high breakeven levels. Due to heavy investments in market development Torrent's margins have halved to 8%. However, with investments reaching a plateau we expect margins to move back to the original higher levels. Also, its low-priced German acquisition has the potential of turning around with product transfers and fresh management.

Negative share price drivers and risks to price target

Torrent's entry into the US is at a nascent stage and the recent FDA problem has pushed back its plans by over a year. This could lead to higher R&D costs if Torrent decides to ramp-up its filings. It is planning to expand geographically into Mexico, Australia and other markets. This could lead to higher investments in marketing. Having made significant investments in Brazil and India, there could be a negative impact on earnings if these markets slow down or become more competitive.

Valuation and price target

Against our Mar-07 price target of Rs 310, Torrent is one of the cheapest stocks in the sector, trading at only 12.8x FY08E EPS and 1.2x FY08E EV/sales. We believe this is very attractive given Torrent's sustainable high gross margin branded business and the management's focus on improving margins to original levels. Our price target is based on 20x FY08E EPS.

Reuters: TORP.BO, Bloomberg: TRP IN
Rs in millions, year-end March

	FY06A	FY07E	FY08E	FY09E
Turnover	9,445	11,507	13,684	15,624
Net profit (Adjusted)	566	741	1,311	1,777
EPS (Rs)	6.7	8.8	15.5	21.0
DPS (Rs)	1.8	2.4	3.5	4.1
Turnover growth %	85.1	21.8	18.9	14.2
Profit growth %	16.0	31.0	76.9	35.5
EPS growth %	16.0	31.0	76.9	35.5
ROE %	15.2	16.1	24.1	26.5
ROCE %	9.8	11.7	19.6	23.6
BV per share (Rs)	50.7	58.2	70.7	87.5
PE (x)	29.6	22.6	12.8	9.4

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 26 October 2006.

Totvs

www.totvs.com.br

Overweight

R$44.12

27 October 2006

Price Target: R$54

Brazil

Technology/Internet

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Company description

Formerly known as Microsiga, Totvs is a leading Enterprise Resource Planning (ERP) software provider in the Small and Medium Enterprise (SME) segment in Latin America, with a dominant 24% market share in Brazil.

Positive share price drivers

(1) Leader in the Brazilian mid-market ERP with a market share of 24%. (2) Has significant reach with a wide distribution system of franchisees. (3) Maintenance revenue provides stability, and sales of new license provide strong growth. (4) We expect gains in margins from scale and integration of platforms. Customers are sticky as churn is low due to expensive migration. Faces very little competition in the low end. (5) Cash raised in the IPO should enable Totvs to acquire smaller companies at accretive multiples. (6) Offers very strong corporate governance. Has 56% of voting shares as float. We forecast revenue CAGR of 17% in nominal local terms for 2006E-10E and an EBITDA CAGR of 22.7%. Discount to international peers should narrow with strong earnings momentum.

Valuation and price target

We have a price target of R$54 in April 2007, based on a DCF valuation in which we assume a 13.2% cost of equity (in US$). The key risks to our price target include a weaker SME segment growth and an increase in competition. The key downside risk to our Overweight rating and price target is that Totvs' niche market may not grow as strongly as we expect, putting its expansion at risk. Larger competitors could increase their focus on the Brazilian market and take market share from Totvs. Last, market expectations regarding the company's growth in the short term could be too optimistic

Company data

52-week range (R$)	27.5-46.95
Mkt cap. (R$MM)	1,177
Shares O/S (MM)	26.7
Free float (%)	56
Year-end	December

Source: Bloomberg, JPMorgan.

Bloomberg: TOTS3 BZ, Reuters: TOTS3.SA

R$ in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	314	378	455	530
Net profit	35	16	41	61
EPS (R$)	1.94	2.07	2.64	3.27
DPS (R$)	0.0	0.0	0.2	0.1
Sales growth (%)	23.7	23.6	19.7	16.3
Net profit growth (%)	162.6	-54.2	157.3	576.2
EPS growth (%)	162.6	-54.2	157.3	576.2
ROE (%)	64	4	9	11
P/E (x)	25.3	21.3	16.7	13.5

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

TSMC

www.tsmc.com

Overweight

NT$61.5

26 October 2006

Price Target: NT$75

Taiwan

Semiconductors

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Company description

As the worldwide leader in the pure foundry play space, TSMC has built and demonstrated a successful operating model of order-to-build semiconductor manufacturing evidenced by its rising profitability and shareholder return. Aided by its cutting-edge process technologies, pioneering design services, manufacturing productivity and product quality, TSMC has experienced strong growth along with its customers around the world.

Positive share price drivers

In a 12-month time horizon, we see a significant share price upside coming from: (1) Widening technology gap with peer companies. TSMC continues to dominate the 90nm market and this should remain unchanged as 65nm volume shipments begin; (2) ability to maintain high utilization and margins during the low season; (3) improving cost structure, with unrelenting focus on productivity and cost control delivering high profitability and shareholder returns; and (4) slowdown in 'easy' capital infusion in Chinese foundries, leading to moderating industry capacity.

Negative share price drivers

The slowdown in production and shipments due to inventory correction could be further affected if end demand turns out to be worse than expected. This could result in a muted 2H06 or 1H07.

Valuation and price target

We believe investors are yet to fully reward TSMC for consistency in profitability, high ROIC, and a growing dividend stream. We believe that a re-rating of TSMC is becoming more and more likely. Our DCF-based June 2007 price target of NT$75 (in addition to a ~5% cash dividend yield) does not include the assumption of a re-rating. With the high cash reserves and high profitability, TSMC could also look at a buyback as a way of returning cash to shareholders. We believe the main risk to our price target is a sharp slowdown in the US economic growth affecting key end markets like PC graphics and handsets.

Company data

52-wk range (NT$)	48.1–68.0
Mkt cap. (NT$B)	1588.14
Mkt cap. (US$B)	47.74
Shares O/S (MM)	25,823
Free float (%)	60
Year-end	December

Source: Datastream.

Bloomberg: 2330 TT/TSM US; Reuters: 2330.TW/TSM.N

NT$ in billions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	264.6	318.1	347.0	406.7
Net profit	93.6	126.4	139.1	161.2
EPS (NT$)	3.70	4.92	5.34	6.09
FD EPS (NT$)	2.91	4.06	4.17	4.94
DPS NT$)	2.50	3.54	3.83	4.38
Sales growth (%)	3.4	20.2	9.1	17.2
Net profit growth (%)	1.4	35.0	10.1	15.9
EPS growth (%)	0.5	33.3	8.4	14.1
ROE (%)	22.2	26.1	26.3	28.0
P/E (x)	16.6	12.5	11.5	10.1
FD P/E (x)	21.1	15.4	14.7	12.5

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 26 October 2006.

VimpelCom

www.vimpelcom.com/index.wbp

Overweight

US$65.07

27 October 2006

Price Target: US$90

Russia

Telecom and Media

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Company data

52-week range ($)	37.5-67
Mkt cap. (US$MM)	13,347
Shares O/S (MM)	205.12
Free float (%)	39
Year-end	December

Source: Bloomberg, JPMorgan.

Company description

VimpelCom is the second-largest mobile telecommunication service provider in Russia and the CIS. The company covers 78 regions in Russia, where 94% of its population lives, and the entire territories of Kazakhstan, Ukraine, Uzbekistan, Tajikistan and Georgia. As of September 1, 2006, VimpelCom's network had 51.9 million subscribers, including 4.4 million subscribers in the CIS, outside Russia.

Positive share price drivers

We continue to see VimpelCom (VIP) as one of our most favorite stocks in our telecom universe based on a combination of attractive valuation (4.1x 2007E EV/EBITDA) and a strong growth outlook (18% and 20% of 2006E-10E revenue and EBITDA CAGRs, respectively). We believe VimpelCom is the best vehicle to participate in the Russian mobile story. We estimate that the Russian mobile market could generate a pro forma revenue CAGR of 17.4% in 2006E-10E, beating investors' expectations. Usage in response to the price cuts implemented in the last few years is likely to be the key growth driver. With price discipline finally becoming evident, we expect ARPU growth to turn positive in 4Q06 and to pick up to around 10% annually and beyond. Margins and capex could also surprise on the upside. Although in the short term the margins could be slightly depressed by the introduction of CPP, they should improve in the long term, helped by scale and a lower marketing spend, in our view.

Valuation and price target

We are Overweight on VimpelCom, with a price target of $90 in end-2007; our estimates are based on a conservative 5.8 times EV/ 2007E EBITDA. In our view, the main risks for VimpleCom are: (1) expansion of the emerging markets risk premium and a deterioration in the global mobile industry sentiment; (2) further price erosion in the countries in which the company operates; and (3) escalation of the shareholder dispute.

Bloomberg: VIP, Reuters: VIP

$ in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	3,211	4,874	6,717	7,957
Net profit	615	829	1,350	1,840
EPS ($)	12.0	16.2	26.4	36.0
DPS ($)	-	-	3.4	21.4
Sales growth (%)	50	52	38	38
Net profit growth (%)	74	35	63	63
EPS growth (%)	75	35	63	63
ROE (%)*	25	26	33	36
P/E (x)	20.8	15.4	9.4	6.3

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

* Defined as net income divided by average equity.

Xinao Gas

www.xinaogas.com

Overweight

HK$7.8

27 October 2006

Price Target: HK$9.3

China

Natural Gas Pipeline and Distribution

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Company description

Xinao Gas is a renowned city gas distributor in China that operates in over 60 cities, covering a total urban population of over 33 million. The group focuses on piped-gas project cities with a strong industrial and commercial background, and is now diversifying into the CNG refueling station business.

Positive share price drivers

(1) Strong gas volume growth (three-year CAGR of more than 50% from 2005-08E), due to management's strategy of expanding connection rollouts in existing project cities, (2) concern on the gas price issue has been largely alleviated, and (3) CNG business potential (20-25% of gas volume in the long term).

Negative share price drivers

(1) Further CB conversion (38% unconverted) might lead to downward pressure on the stock. (2) An efficient end-user tariff approval process on gas-cost pass through is not yet in place.

Valuation and price target

The Dec-07 target price of HK$9.3 is determined based on a DCF model with a WACC of 10%, and a terminal growth rate of 5% in 2015. The stock is trading at 15x 2007E P/E and 9x EV/EBITDA. Risks to our price target are: (1) gas sale volume might prove to be lower than our expectation, and (2) potential delay in passing gas price increases to customers under the current gas pricing policy.

Company data

52-week range (HK$)	5.5-8.6
Mkt cap. (HK$MM)	7352
Mkt cap. (US$MM)	942
Shares O/S (MM)	939
Free float (%)	65
Year-end	December

Source: Bloomberg.

Reuters: 2688 HK; Bloomberg: 2688 HK

Rmb in millions, year-end December

	2005A	2006E	2007E	2008E
Sales	2,057	3,822	4,220	4,874
EBITDA	661	940	1,120	1,305
Net profit	303	401	503	609
EPS (Rmb cents/sh)	0.34	0.44	0.53	0.65
Net profit growth (%)	20.9	32.2	25.3	21.3
EPS growth (%)	15.4	27.8	22.6	21.3
ROE (%)	14.2	15.8	17.0	17.8
P/E (x)	23.4	18.3	15.0	12.3
EV/EBITDA (%)	14.6	10.3	8.6	7.4
P/B (x)	3.0	2.7	2.4	2.0
Dividend yield (%)	0.6	1.1	1.7	2.4

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Stocks to Underweight

Absa Group Ltd

www.absa.co.za

Underweight

R107.80

27 October 2006

Price Target: R128.70

South Africa

Financials

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Company data

52-week range (R)	88.8 - 124.0
Mkt cap. (RMM)	75392.4
Mkt cap. (US$MM)	10384.6
Shares O/S (MM)	670.1
Free float (%)	50
Year-end	December

Source: Company data, Bloomberg, JPMorgan.

Company description

Absa Group Limited is the third-largest bank in South Africa. Absa Bank is its principal operating subsidiary, accounting for 92% of assets and 72% of headline earnings. It provides banking services to domestic retail and wholesale customers and has the largest retail market share among the four major banks in the country. Other services include insurance and asset management. Barclays currently owns 57% of Absa. Approximately 33% of Absa's shares are held by South African investors. Retail is by far the most important element of Absa's business.

Positive share price drivers

In our view, the most significant driver of Absa's share price will be the unfolding of a benign interest rate environment in line with our forecasts. Clarity on the outcome of the Competition Commission enquiry into fees should remove some of the negative sentiment toward banks. Absa's ability to deliver improved ROEs as it grows its investment banking and African operations will, in our view, be a positive share price driver.

Negative share price drivers

In our view, risks to inflation and interest rates are on the upside. Rand exchange rate volatility is also a concern and likely to retard bank price performance until it has found some stability. The political uncertainty ahead of the presidential candidate nominations in 1Q 2007 may also negatively impact sentiment. Absa is the most exposed of the big four South African banks to retail consumers, and a more protracted or severe interest rate cycle would have the most impact on consumers. We expect Absa's impairments to display the largest relative correction to more normalized levels than its peers.

Valuation and price target

We believe the South African banks are only likely to re-rate strongly towards our price targets as clarity emerges on the issues raised above, around 1Q 2007. We have set our 12-month price target of R128.70 by rolling our economic profit values 12 months forward at the discount rate of 12.97%. Key risks to our valuation and price target are significant variation to our spread and lending growth assumptions, higher interest rates, and a collapse of property prices.

Bloomberg: ASA SJ, Reuters: ASAJ.J

ZAR in millions, year-end December

	FY05 (Mar05)	FY06E (Dec)	FY07E (Dec)	FY08E (Dec)
Normalised headline earnings	5,484	7,625	8,785	10,533
HEPS (ZAR) - diluted	8.42	10.74	12.33	14.68
DPS (ZAR)	2.90	4.59	5.25	6.26
Operating income growth (%)	14	43	13	14
Net profit growth (%)	22	60	15	20
EPS growth (%)	21	51	15	19
ROE (%)	25.7	27.4	24.9	25.2
P/E (x)	9.0	10.0	8.7	7.3

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Biocon Limited

www.biocon.com

Underweight

Rs377.25

26 October 2006

Price Target: Rs300

India

Pharmaceuticals

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Company data

52-week range (Rs)	532-306
Mkt cap. (RsMM)	37400
Mkt cap. (US$MM)	826
Shares O/S (MM)	100
Free float (%)	27%
Year-end	March

Source: Bloomberg, company reports, and JPMorgan.

Company description

Biocon is India's largest integrated biotech company, with a presence in biopharmaceuticals, enzymes, and custom and clinical research. Biocon has built a core expertise in fermentation and has successfully developed a basket of products for regulated markets, including statins. It hopes to be a significant player in the statin market coming off-patent in the US and the biosimilar market in Europe. Its current focus areas are in diabetes and oncology. It has India's largest plant for insulin, while in oncology it has tie-ups with CIMAB and Vaccinex for novel methods of treating cancer.

Negative share price drivers

Biocon's differentiation is its focus on innovation, with smart in-licensing of technologies and products. However, most of these projects are in early stage development and we are circumspect in judging its ability to fund these investments in the absence of significant revenue drivers in the short term. In statins, Biocon's European success will probably not be replicated in the US given the large number of companies that have filed DMFs in the US. We believe Syngene offers value, but it is fully priced into our estimates with an assumption of a CAGR of 38% in revenue in the next two years. Its insulin and Hr3 molecule, despite being small contributors to the top line, are estimated to grow at a healthy rate to $17 million and $7 million, respectively, by FY08. Other opportunities, including immuno-suppressants and European insulin supply, we would expect to take at least two to three years.

Positive share price drivers and risks to target price

Biocon could out-license any of its early-stage innovative products, which should be an upside risk for the stock. Moreover, it could capture a higher share in the statin market in the US than we estimate.

Valuation and price target

The stock is trading at 18.3x FY08E EPS and looks very expensive to us. Our Mar-07 price target of Rs300 is based on 15x FY08E EPS. We believe Biocon's earnings will be viewed unfavorably by the market as the cost from its recently commissioned biotech facility starts to be reflected in the earnings statement.

Reuters: BION.BO, Bloomberg: BIOS IN

Rs in millions, year-end March

	FY05A	FY06E	FY07 E	FY08E
Turnover	7,126	7,881	9,651	11,103
Net profit (adjusted)	1,975	1,740	1,560	2,003
EPS (Rs)	19.8	17.4	15.6	20.0
DPS (Rs)	2.3	2.9	3.5	5.0
Turnover growth %	31.8	10.6	22.5	15.0
Profit growth %	42.5	-11.9	-10.3	28.4
EPS growth %	42.5	-11.9	-10.3	28.4
ROE %	30.3	21.4	16.4	18.5
ROCE %	27.6	19.4	15.4	17.3
BV per share (Rs)	74.1	88.8	100.9	115.9
PE (x)	18.6	21.1	23.5	18.3

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 26 October 2006.

Chi Mei Optoelectronics

www.cmo.com.tw

Underweight
NT$34.3
7 November 2006
Price Target: NT$28
Taiwan
Semiconductor

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Company description

Chi Mei Optoelectronics (CMO) is the fourth-largest TFT maker, with a 13% market share. Its product focus is on TV panels, with customers including Funai, Vestel, and mostly white-box TV makers. Due to low profit in the TV business, CMO has successfully explored niche markets in wide-format monitors, such as 19”W and 22”W. Its fab technology migration is about two quarters behind AUO. The company’s revenue breakdown is 44% from TV, 41% from monitors, 12% from notebooks and 3% from small/medium-size panels After the AUO/QDI merger, CMO is further behind AUO in scale. It should maintain aggressive capex to prevent the gap from widening.

Positive share price drivers

Favorable pricing expected in 1H07 should allow the company to expand to catch up with top-three LCD suppliers. Increasing adoption rate for 22”W screens will help CMO increase its monitor market share as 22”W is a favorable panel size for CMO’s 5.5G fab.

Negative share price drivers

A potential panel price fall in 1H07 may force CMO to postpone its capacity expansion if panel prices fall to cash cost. Postponed expansion could cause CMO to fall farther behind market leaders, especially in constructing a next-generation fab for the 40”+ LCD market. Improvement in profits will likely be capped without tapping into next-generation technology for the fastest-growing segment of LCD TVs.

Valuation and target price

We believe our Dec-06 price target of NT$28, based on 1x FY07E book, reflects a reasonable entry point for this stock with low estimated ROEs. The key upside risk is stronger 1H07 demand, which would keep panel prices from falling.

Company data

52-week range (NT$)	31.97 - 49.81
Market cap (NT$B)	200
Market cap (US$B)	6.0
Shares outstg (Com)	5781.194
Avg daily volume	1,183
Free float (%)	61
Dividend yield (%)	0.8
Year-end	December

Source: Datastream, Company reports, JPMorgan estimates.

Reuters: 3009.TW; Bloomberg: 3009 TT

NT$ in billions (year-end Dec)	FY05	FY06E	FY07E	FY08E
Sales	152.8	190.2	242.8	301.3
EBITDA)	32.4	42.7	57.3	76.2
Operating profit	10.3	9.9	14.4	20.6
Pre-tax profit	8.0	6.5	11.2	16.1
Pre-tax EPS (NT$)	1.60	1.16	1.97	2.79
Net profit	8.1	5.4	10.5	15.1
EPS (NT$)	1.61	0.97	1.84	2.62
MV of employee bonus	3.3	1.5	0.7	1.8
Adjusted EPS (NT$)	0.96	0.76	1.73	2.34
Gross debt	83.1	181.2	245.3	254.2
Cash	20.7	24.7	37.7	46.1
Equity	145.1	181.8	191.0	205.1
ROE (%)	19.7	6.6	3.3	5.6
ROIC (%)	5.4	2.8	3.6	4.7
Y/E BPS (NT$)	24.10	28.72	30.20	32.64
P/E (x)	22.3	37.4	19.5	13.5

Source: Company reports, JPMorgan estimates. Note: Share price and valuations as of 7 November 2006.

China Motor

www.china-motor.com.tw

Underweight
NT$28.75
30 October 2006

Price Target: NT$24

Taiwan

Automobile Manufacture

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Company data

52-week range (NT$)	24.5-39.7
Mkt cap. (NT$B)	39.7
Mkt cap. (US$B)	1.2
Shares O/S (MM)	1,380
Free float (%)	60
Year-end	December

Source: Systex.

Company description

China Motor manufactures and assembles Mitsubishi passenger and commercial vehicles in Taiwan. In terms of sales volume, the company is the second-largest player in the Taiwan auto market, with a 17% market share (year to October 2006). In addition to its Taiwan operations, China Motor also runs a subsidiary—Southeast Motor in China (30%-owned)—which produces passenger vehicles under both the Southeast Motor and Mitsubishi Motor brands.

Negative share price drivers

There will most likely be a continued weak auto market in 2007. While we expect domestic auto sales to recover in 2007, we believe that the degree of recovery will be mild or in the single digits, to 380,000 to 390,000 units from ~360,000 units in 2006 (or a 29% Y/Y decline in 2006).

There will be limited new or redesigned models in Taiwan next year. China Motor is scheduled to launch a compact vehicle, *Colt Plus* (1.5 liters engine), in 1Q06. In the meantime, Yulon has recently introduced *Tiida* (1.6-1.8 liters passenger vehicle) in 3Q06, while Hotai will launch *Yaris* (1.5 liters hatchback) in November 2006. Compared with 2006, there are only limited strong new models in 2007.

Market expectations on the company's China operations are too high, in our view. Another risk to China Motor's share price performance is that consensus expectations on the company's earnings, especially from China, are too high, in our view. This could lead to an earnings downgrade should Southeast Motor disappoint again in 2007, as it has this year.

Positive share price drivers

Better than expected sales performance in the Taiwan and China markets is the main upside risk to the company's price performance. One-off disposal gain from its holding in Mitsubishi Motor could also boost its bottom line, which many local investors might interpret positively.

Valuation and price target

The stock is trading at 14.5x FY07E earnings. Our Sep-07 price target is NT$24, based on 10x FY07E P/E and DCF analysis. We believe the main risk to our PT is better than expected sales in the Taiwan and China markets.

Bloomberg: 2204 TT; Reuters: 2204.TW

NT$ in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	50,811	37,657	36,301	36,227
Net profit	4,571	3,971	2,820	3,021
EPS (adj.-NT$)	3.34	2.90	2.06	2.20
EPS (diluted-NT$)	3.27	2.79	1.98	2.12
PER- diluted (x)	8.8	10.3	14.5	13.6
PBR (x)	0.9	0.9	0.9	0.8
ROE (%)	10.9	9.0	6.2	6.5
Dividend yield (%)	7.0	5.2	5.3	4.5
Net debt (cash) to equity (%)	-5.2	-10.4	-9.6	-9.1
Revenue growth (%)	-9.7	-25.9	-3.6	-0.2
EPS growth (%)	-15.1	-13.1	-29.0	7.1

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 30 October 2006.

Chinatrust Financial Holdings

www.chinatrustgroup.com.tw

Underweight

NT$24.65

26 October 2006

Price Target: NT$20

Taiwan

Banks

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Company data

52-week range (NT$)	26.75— 20.27
Market cap (NT$MM)	196,443
Market cap (US$MM)	5,902
Shares outstanding (MM)	7,969
Free float (%)	75
Avg daily value (NT$MM)	489
Avg daily value (US$MM)	14.7
Avg daily volume (MM)	20.4
Exchange rate (NT$/US$1)	33.282

Source: Datastream.

Company description

Chinatrust is a leading financial holding company in Taiwan, whose main business line is commercial banking; it accounts for nearly 90% of earnings. Chinatrust is also a leading player in the credit card business, with a market share of 12% in revolving and 20% in card spending.

Positive share price drivers

The peak of provisions should be over in 2006, and we expect the bank to see a normalized provision trend going forward. The bank's plans to develop wealth management business and explore overseas opportunities in corporate banking (including lending and trading)/retail banking businesses (consumer credit/credit cards), particularly in ASEAN countries, may give a boost to the top line.

In the aftermath of consumer credit crisis, this could be the window of opportunity for Chinatrust to increase market share either organically or through acquisitions. Chinatrust has seen expansion of market share in credit card spending.

Negative share price drivers

We see the damage to underlying profitability as sustainable as an adverse shift in business mix leads to erosion in NII and fees. Historical highs in profitability are unlikely to be seen in the next few years, in our view, and to this extent we see a further downtrend in consensus estimates as a key driver (negative) for the stock. Restructured loans are another source of downside risk given a high default rate on these loans and, in our view, under-reserving. While we expect provisions to ease in 2007E versus 2006E, the recovery process is likely to be bumpy.

The fate of Chinatrust's stake in Mega FHC also remains a potential risk.

Valuation and price target

Despite more than a year's earnings being wiped out and substantial cuts in 2007E estimates, the stock's resilience makes this expensive, in our opinion, at 15x 2007E earnings and 1.66x book. This is particularly relevant given that we view sustainable ROE to have shifted down significantly. Our NT$20 price target (DDM-derived, Oct-07) suggests a 20% downside. Risks to our price target and estimates are a successful resolution of the Mega stake and credit quality.

Bloomberg: 2891 TT; Reuters: 2891.TW

NT$ in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Operating profit	33,577	33,806	29,268	31,200
Net profit	15,508	-2,631	14,129	16,635
EPS (NT$/share)	1.88	-0.29	1.70	1.99
DPS (NT$/share)	0.45	0.00	0.75	1.00
EPS growth (%)	4.4	-115.3	nm	17.5
ROE (%)	16.6	-2.1	12.1	12.9
P/E (x)	13.1x	nm	14.5x	12.4x
BVPS (NT$/share)	13.8	13.2	14.9	16.1
P/BV (x)	1.79x	1.86x	1.66x	1.54x
Dividend yield (%)	1.8	0.0	3.0	4.1

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 26 October 2006.

Compal Electronics

www.compal.com

Underweight

NT$27.80

30 October 2006

Price Target: NT$21.00

Taiwan

Computer Hardware

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Company data

52-week range (NT$)	27.60–35.94
Mkt cap. (NT$MM)	112,976
Mkt cap. (US$MM)	3,400
Shares O/S (MM)	4,063.9
Free float (%)	70
Year-end	December

Source: Datastream.

Company description

Established in 1984, Compal Electronics Inc. manufactures and markets notebook computers and color monitors. The company also manufactures LCD and other computer-related products.

Positive share price drivers

There is generally a strong market sentiment towards PC-related names, with the Vista introduction around the corner.

Negative share price drivers

Compal's earnings miss for seven quarters in a row has disappointed the market. For the longer term, we believe Compal's number 2 position in the notebook PC space is under threat by Wistron and Inventec, which are now catching up by adopting a multi-customer strategy.

For FY07, our bottom-up checks suggest that Compal's market share will decline among top customers (Dell, HP, Toshiba)—its 18million shipment target could be poised for downward revision. Compal Communications is unlikely to show earnings growth either, according to our JPMorgan's covering analyst for that company, Kevin Chang. Conditions appear to be getting even tougher in FY07, and we expect 15% Y/Y EPS decline.

We believe Compal could be downgraded as a tier-2 notebook ODM, at least from a profitability point of view, as Inventec may surpass its net income next year. This could reverse the valuation premium that it currently charges.

Vibo and Toppoly have not only caused higher non-operating losses, but also may have led to future cash calls, in our view, as they are capital-intensive investments.

Valuation and price target

Our June 2007 sum-of-the-parts-based PT is NT$21, implying 28% downside. Key risk is strong PC sentiment on Vista-led upgrade cycle.

Bloomberg: 2324 TT, Reuters: 2324.TW

NT$ in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	226,691	293,025	347,206	384,051
Net profit	8,418	8,483	7,705	7,498
EPS (NT$)	2.32	2.22	1.89	1.83
Adj. EPS (NT$)	2.10	2.02	1.72	1.66
DPS (NT$)	1.50	1.22	1.19	1.15
Sales growth (%)	5	29	18	11
Net profit growth (%)	28	1	-9	-3
EPS growth (%)	30	-4	-15	-3
ROE (%)	13.8	12.9	11.3	10.6
P/E (x)	12.0	12.5	14.7	15.2
Adj. P/E (x)	13.3	13.7	16.1	16.7

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 30 October 2006.

Copa Holdings, S.A.

www.copaair.com

Underweight

$36.46

27 October 2006

Panama

Transporation

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Company description

Copa Holdings, S.A. (CPA) is the holding company for Compania Panamena de Aviacion, S.A. (Copa), AeroRepublica S.A. (AeroRepublica), Oval Financial Leasing, Ltd. and OPAC, S.A. Copa is the principal airline operating subsidiary, providing passenger and cargo service through its hub in Panama City, Panama. Additionally, AeroRepbulica, a Colombian carrier, was acquired in 2Q05.

Negative share price drivers

Copa Holdings' fundamentals continue to impress us, and the company is making significant strides with its AeroRepublica subsidiary (we now expect AeroRepublica to be profitable in 3Q). But valuations are pointing in the wrong direction. CPA shares are up 63% (versus S&P 500 +8%) since mid-August and trading at a 9% 2007E EV/EBITDAR premium to its more time-tested profit-proven global peer group. We believe an Underweight rating is warranted until such time when we view valuation as more reasonable relative to peers, while acknowledging that Copa Holdings' execution and shareholder value creation have earned it a place at the table of the industry's global growth airlines.

Positive share price drivers

Copa Holdings is highly leveraged to demand fluctuations. Should the economies of Panama or Colombia strengthen, earnings would be positively affected. Furthermore, results are subject to variations in energy prices, exchange rate fluctuations and labor-related actions. All else equal, we could revisit our thesis if there was a substantive positive change in (1) the competitive environment, (2) Copa Holdings' valuation relative to its global low-cost peers, (3) the company's growth prospects, or (4) integration success of AeroRepublica.

Valuation

Copa Holdings' fundamentals appear to be pointing in the right direction, but valuation is no longer attractive, in our opinion. At 9.8x 2007E EV/EBITDAR, Copa Holdings is trading at a 9% premium to its more time-tested, profit-proven global peer group. As a result, we maintain our Underweight rating on the company.

Company data

52-week range ($)	20.31-40.44
Mkt cap. ($MM)	1,561
Shares O/S (MM)	43
Free float (%)	80%
Year-end	December

Source: Company reports, JPMorgan estimates.

Bloomberg: CPA, Reuters: CPA

$ in millions, year-end December

	FY05	FY06E	FY07E
Sales	608,574	832,558	947,837
Net profit	81,627	115,698	139,184
EPS ($)	1.91	2.70	3.24
FD EPS ($)	1.91	2.70	3.24
DPS ($)	NA	NA	NA
Sales growth (%)	52.2	36.8	13.8
Net profit growth (%)	18.9	41.7	20.3
EPS growth (%)	18.9	41.7	19.8
ROE (%)	33.2	33.1	29.3
P/E (x)	19.1	13.5	11.3
FD P/E (x)	19.1	13.5	11.3

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

COPASA

www.copasa.com.br

Underweight

R$19.92

27 October 2006

Brazil

Utilities

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Company data

52-week range (R$)	13.1-26.0
Mkt cap. (R$MM)	2,287
Mkt cap. (US$MM)	1,071
Shares O/S (MM)	115
Free float (%)	30
Year-end	December

Source: Company and Bloomberg.

Company description

COPASA is the Minas Gerais' state-owned water utility, with 4.1 million connections from water concessions in 610 of the 853 municipalities of the Minas Gerais state, and sewage concessions in 177 municipalities. COPASA services Brazil's second-largest state in terms of population and GDP, and is the second-largest water utility in Brazil (on revenues) after SABESP.

Positive share price drivers

(1) Strong expected volume and profitability growth due to the aggressive 2006-10 expansion capex plan targeted to supply water to additional 1.6 million people in the state and to collect sewage from 3.5 million people. (2) Talks of privatization could lead to outperformance; however, we believe privatization is highly unlikely in the Minas Gerais State. (3) COPASA has capacity to maintain the dividend payout close to 50% despite the high expansion capex budget.

Negative share price drivers

(1) High execution risk due to the lack of track record. (2) Already good operating efficiency ratios, but SG&A and provisions for un-collectibles might increase as the company grows aggressively. (3) Tariff upside might disappoint as we believe the MG State has limited room for increasing tariffs above inflation in view of COPASA's already relatively high tariff compared to richer states as Sao Paulo (SABESP). (4) Unhealthy capital structure with R$800 million in cash implies reinvestment risk or high dividends, which might be a negative catalyst for investors that bought in the February 2006 IPO (IPO set to raise equity to fund growth capex).

Valuation

COPASA is trading at a premium to our DCF-based equity value estimates even though we have already incorporated 100% of management's revenue targets in our model and a 48% EBITDA margin in 2010E versus 40% in 2005. We also believe that COPASA deserves to trade at an estimated 50% discount to peer SABESP on an EV/EBITDA basis due to negative FCF yield and low liquidity. COPASA's dividend yield also seems unattractive when compared with many Brazilian electrics or SABESP.

Bloomberg: CSMG3 BZ, Reuters: CSMG3.SA

US$ in millions, year-end December (consolidated)

	FY05	FY06E	FY07E	FY08E
Sales	632	759	741	817
EBITDA	251	297	304	353
Net profit	124	166	126	132
EBITDA Mg (%)	39.7	39.2	41.0	43.3
EPS (US$)	6.45	1.45	1.10	1.15
DPS (US$)	3.51	0.63	0.53	0.55
Sales growth (%)	40.5	20.1	-2.4	10.2
Net profit growth (%)	29.6	34.7	-24.1	4.7
ROE (%)	14.0	11.5	9.4	9.6
P/E (x)	1.4	6.4	8.5	8.1
EV/EBITDA (x)	4.5	3.8	3.8	3.2

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Copesul

www.copesul.com.br

Underweight

R$31.86

27 October 2006

Brazil

Oil and Gas

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Company data

52-week range (R$)	33.2-23.1
Mkt cap. (R$MM)	4,787
Mkt cap. (US$MM)	2,241
Shares O/S (MM)	150
Free float (%)	25
Year-end	December

Source: Company and Bloomberg.

Company description

Controlled by Brazil's leading petrochemical group Braskem (29%), and local oil refining/distribution company Ipiranga (29%), Copesul is a pure naphtha-based cracker located in Southern Brazil's petrochemical site of Triunfo, RS. Having undergone a major expansion in 1999, Copesul now has 1,135kton of ethylene capacity (34% of Brazilian market share).

Positive share price drivers

(1) International price spreads for basic petrochemicals versus naphtha costs should remain high through 2007 (given the commodity nature of its business, Copesul's selling prices are based on import parity with less than a month's time delay). (2) High earnings payout, given the company's high interest coverage and low leverage, and historically high dividend yields. (3) A continued scenario of strong *real*, which could lead second-generation companies (Suzano, followed by Braskem) to underperform first-generation companies as Copesul incentivizes imports from final plastic products and resins.

Negative share price drivers

(1) We believe Copesul is currently enjoying a historical peak, which, in our view, should start deteriorating from mid-2007. (2) Currently operating at full capacity, we believe Copesul has limited capacity growth and its market share should therefore decline as competitors begin their greenfield projects. (3) Corporate restructuring in Brazil, with increased visibility of other petrochem stocks, would compete with Copesul for funds flow. (4) Lower profitability would lead to lower dividends by 2008, thereby underscoring Copesul's unattractive dividend yields on a risk-adjusted basis.

Valuation

We rate Copesul Underweight in our universe of Brazilian petrochemical companies as it is trading expensively according to our DCF-based equity value calculation, and also on an asset valuation basis when compared with its implied 1999 expansion or its 1992 privatization price, greenfield projects or benchmarking M&A transactions. Moreover, we believe that Copesul deserves to trade at a discount to Braskem due to liquidity concerns.

Bloomberg: CPSL3 BZ, Reuters: CPSL3.SA
US$ in millions, consolidated, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	2,405	2,884	2,491	2,490
EBITDA	454	489	347	341
Net profit	243	243	180	170
EBITDA Mg (%)	18.9	17.0	13.9	13.7
EPADR (US$)	1.62	1.62	1.20	1.13
DPADR (US$)	1.61	1.60	1.19	1.12
Sales growth (%)	17.3	19.9	-13.6	0.0
Net profit growth (%)	17.8	0.3	-26.1	-5.5
ROE (%)	45.4	37.5	31.4	30.4
P/E (x)	9.2	9.2	12.5	13.2
EV/EBITDA (x)	5.1	4.7	6.6	6.8

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Corpbanca

www.corpbanca.cl

Underweight

US$25.40

27 October 2006

Price Target: US$25

Chile

Financials

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Company data

52-week range (US$)	22.0-29.59
Mkt cap. (Ch$MM)	600165
Mkt cap. (US$MM)	1,141
Shares O/S (MM)	45
Free float (%)	35
Year-end	December

Source: Bloomberg.

Company description

Corpbanca (BCA) is the fifth-largest private bank in Chile, with a market share of 5% in assets and 6% market share in loans, although it is concentrated more in the commercial business. Currently, it is trying to boost its presence in the highly competitive consumer lending segment, where it only has 4% of the market share.

Positive share price drivers

Chilean banks are enjoying a propitious time from an economic perspective. Our economists expect 5% GDP growth in 2006 and 5.5% in 2007. Furthermore, consumer demand is an important component of the current economic expansion, which together with continued improvement in employment and wage mass growth provides strong support for the demand for retail financial services.

Negative share price drivers

While BCA is trading at lower multiples than its larger peers in Chile (1.3x book value versus an average 3.1x for SAN and BCH), we believe the lower valuation is justified by the bank's weaker profitability. In short, after an early focus on the lower margin corporate segment, Corpbanca has found it difficult to switch to the more profitable, but highly competitive, consumer segment. This is partly the reason why it (with a 14% ROE) has failed to experience the significant improvement in profitability enjoyed by its larger peers.

Valuation and price target

Our Dec-07 price target of $25 is based on the Gordon Growth Model. The price target implies that the stock should be trading at 2007E 1.3x book value and 10.2x earnings. The stock is currently trading at 1.3x 2007E book value and 10.3x 2007E earnings. Risk to price target is the potential for a stronger than expected improvement in profitability from high-margin lending and more robust fee income growth.

Bloomberg: BCA, Reuters: BCA

Ch$ in billions except where noted, year-end December

	FY05	FY06E	FY07E	FY08E
Banking revenue	140	149	169	204
Net profit	52	46	61	78
EPS (US$)	2.25	1.86	2.48	3.02
FD EPS (US$)/	2.25	1.86	2.48	3.02
DPS (US$)	0.93	1.24	1.51	1.67
Banking revenue growth (%)	7.0	6.5	13.3	20.5
Net profit growth (%)	2.8	-12.7	33.6	28.3
EPS growth (%)	2.8	-17.2	33.6	21.6
ROE (%)	13.3	10.8	13.1	15.0

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

CSN

www.csn.com.br

Underweight
US$31.46
27 October 2006

Brazil
Metals and Mining

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Company data

52-week range (US$)	16.22-35.78
Mkt cap. (BRL$MM)	18,275
Mkt cap. (US$MM)	8,557
Shares O/S (MM)	272
Free float (%)	25
Year-end	December

Source: Bloomberg.

Company description
CSN is Brazil's second-largest flat steel producer, with over 5Mtpy of molten steel capacity. Besides the steel mill, CSN also owns its own iron ore and fluxes mines. It also has partial ownership of infrastructure assets that serve the steel plant, such as MRS railroad and Sepetiba port. The company is the sole producer of tin plates (utilized for packaging) in Brazil. CSN is increasing its iron ore production capacity and plans to invest in new flat steel mills and to enter in long steel and cement businesses.

Positive share price drivers
(1) A successful sale of a portion of its Casa de Pedra iron ore assets at rich valuation may bring upside for the stock; (2) CSN may actively participate in consolidation of the steel industry, or could possibly be a target in this process through a transaction that could trigger the 80% tag-along rights to its minority shareholders.

Negative share price drivers
(1) A failure in the sale of part of its iron ore assets or a transaction at low valuation levels may be seen as negative and harm CSN's share price; (2) Failure or delays in execution of its aggressive capex program, especially regarding the expansion of the iron ore facilities, could be perceived as negative by investors.

Valuation
CSN has announced a number of new ventures in the past few months—a new long steel mill, an intended tie-up with Wheeling Pittsburgh, and an expansion of its cement investment. We believe that the company is "juggling too many balls." While we value CSN's thirst to get the most value out of its assets, we think that this diversification strategy may demand disproportionate time and attention from management, adding performance risk to its investment. We remain comfortable with our Underweight rating on CSN based on our concerns over the company's aggressive capex strategy as well as its rich valuation. CSN trades at 6.5x FY06E and 5.5x FY07E EV/EBITDA, a premium to all its Latin American steel peers.

Bloomberg: SID, Reuters: SID US
BRL$ in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	10,038	8,782	11,185	12,929
Net profit	2,006	1,481	1,980	2,566
EPS (BRL$)	7.08	5.44	7.28	9.43
FD EPS (BRL$)	7.08	5.44	7.28	9.43
DPS (BRL$)	8.01	6.39	4.46	2.36
Sales growth (%)	2	-13	27	16
Net profit growth (%)	1	-26	34	30
EPS growth (%)	1	-23	34	30
ROE (%)	31	20	24	25
P/E (x)	6.9	11.5	9.4	7.7
FD P/E (x)	6.9	11.5	9.4	7.7

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Hopewell Highway Infrastructure

www.hopewellhighway.com

Underweight
HK$5.82
26 October 2006
Price Target: HK$5.60

China
Infrastructure

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Company description
Hopewell Highway Infrastructure Limited (HHI), a subsidiary company of Hopewell Holdings, builds and operates strategic expressway infrastructure in the Guangdong province, with a focus around the Pearl Delta Region. HHI currently owns and operates the Guangdong-Shenzhen Superhighway (GS Superhighway), Guangzhou East-South-West Ring Road, and Western Delta Route.

Positive share price drivers
We expect traffic volume growth on ESW Ringroad and Western Delta Route (I) to show strong growth in FY07; however, the two assets only contribute 15% of the company's total revenue in FY06.

Negative share price drivers
(1) As the traffic volume on GS Superhighway is reaching a high level of utilization rate, future growth on the expressway should be limited, unless HHI widens the road from the current six lanes to 10 lanes; (2) two parallel expressways to GS Superhighway are under construction, and their completion in FY07/08 could divert traffic from GS Superhighway; (3) the uncertain outcome of the Hong Kong-Zhuhai-Macau bridge should continue to limit upside of HHI's share price as it will involve large capex ahead, and traffic flow and tariff for the bridge at the beginning of the operation years would likely be insufficient to recover the cost.

Valuation and price target
With much concern over rising competition to GS Superhighway and uncertainty on the investment plan over the Hong Kong-Zhuhai-Macau Bridge, we believe HHI will underperform the market. We thus maintain our Underweight rating on HHI, with a DCF-based June-07 price target of HK$5.60. Our price target translates into an FY07E P/E of 12.8x, EV/EBITDA of 11.6x and dividend yield of 5.1%. Risks to target price are: (1) higher than expected traffic diversion caused by competing expressways to GS Superhighway in the region; and (2) issuance of equity to finance HK-Zhuhai-Macau Bridge.

Company data

52-week range (HK$)	4.95-6.4
Mkt cap. (HK$MM)	16,351
Mkt cap. (US$MM)	2,096
Shares O/S (MM)	2,921
Free float (%)	25
Year-end	June

Source: Datastream.

Bloomberg: 737 HK, Reuters: 0737.HK
HK$ in millions, year-end June

	FY06	FY07E	FY08E	FY09E
Sales	1,557	1,818	1,990	2,115
Net profit	1,127	1,265	1,380	1,414
EPS (HK$)	0.39	0.44	0.48	0.49
DPS (HK$)	0.24	0.29	0.33	0.34
Sales growth (%)	11	11	6	14
Net profit growth (%)	25	12	9	2
EPS growth (%)	25	12	9	2
ROE (%)	11.7	12.6	13.2	13.0
P/E (x)	14.8	13.2	12.1	11.8
EV/EBITDA	11.7	11.9	11.2	9.8

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 26 October 2006.

Inotera Memories

www.inotera.com

Underweight
NT$32.40
26 October 2006

Price Target: NT$29

Taiwan

Semiconductors

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Company data

52-week range (NT$)	27.0-39.3
Mkt cap. (NT$ B)	87.8
Mkt cap. (US$B)	2.6B
Shares O/S (MM)	2,711
Free float (%)	20
Year-end	December

Source: Bloomberg.

Company description
Inotera Memories was formed in 2003 as a joint venture between Qimonda and Nanya Tech. Inotera operates as a DRAM foundry and currently operates one 12" fab with a capacity of 65k wfpm and is currently building a new fab that would take its capacity to 120k wfpm by the end of 2007.

Negative share price drivers
Inotera continues to face yield problems in the 90nm ramp, resulting in limited bit growth and cost efficiencies. We are cautious about the outlook for future process migrations in trench technologies. Inotera's cost efficiencies peaked in 2Q06 due to the full ramp of the Fab 1. We expect depreciation and start-up expenses to increase sharply in 1H07 as Inotera starts to ramp the Fab 2, resulting in margin contractions. Slow 90nm transition with longer cycle times also limit the potential of cost downs through process migration. Aggressive capex plans by DRAM vendors could lead to oversupply in late 07.

Positive share price drivers
Vista is a key driver for memory content growth, and memory demand could surprise on the upside from a faster than expected adoption in PCs in 2007. New products, like NAND Flash, are in the pipeline. Inotera aims to copy its DRAM foundry model for other commodity products. While chances are limited in our view, any success in securing new products would be a positive driver.

Valuation and price target
Inotera is trading at 1.2x our estimates of FY07 book for a company generating 16% ROE in FY07. We expect margins and returns to decline in 2007 because of sharp increase in costs associated with Fab 2 ramp. Issues with 90nm ramp highlight inherent limitations in trench capacitor technology and put future process migrations at higher execution risk. We maintain Underweight with a December 2007 PT of NT$29 based on 1.1x FY07E book. The key risks to our PT are supply shocks in the industry due to delays in 80 and 70nm process transitions at various DRAM makers in 2007, and stronger than expected PC memory content growth.

Bloomberg: 3474 TT, Reuters: 3474.TW

NT$ in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	23,032	39,801	52,208	66,415
Net profit	5,930	14,482	12,718	12,425
EPS (NT$)	2.37	4.92	4.09	3.99
FD EPS (NT$)	2.37	4.92	4.09	3.99
DPS (NT$)	1.37	1.26	0.74	0.72
Sales growth (%)	286.4	72.8	31.2	27.2
Net profit growth (%)	557.9	144.2	-12.2	-2.3
EPS growth (%)	556.1	107.8	-16.9	-2.3
ROE (%)	12.6	19.6	15.5	13.5
P/E (x)	13.7	6.6	7.9	8.1
FD P/E (x)	13.7	6.6	7.9	8.1

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 26 October 2006.

Li Ning Co Ltd

www.lining.com

Underweight

HK$9.05

30 October 2006

Price Target: HK$7.00

China

Consumer & Media

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Company data

52-week range (HK$)	4.60-9.57
Mkt cap. (HK$MM)	9,292
Mkt cap. (US$MM)	1,191
Shares O/S (MM)	1,027
Free float (%)	55
Year-end	December

Source: Company and Datastream.

Company description

Established in 1989, Li Ning Co Ltd is the third-largest domestic sportswear marketer in China. It provides sportswear for basketball, soccer, running, tennis and general fitness. The company has limited international presence and its core market is in the tier-2 and tier-3 cities in China. Li Ning has achieved fast growth in the past five years, and has adopted a multi-brand strategy to cater to different segments.

Positive share price drivers

(1) Chinese sportswear market is growing fast, which could lead to significantly higher revenues for Li Ning in the future. (2) Better than expected improvement in operating efficiency could lead to robust earnings growth.

Negative share price drivers

Growth is not high enough, in our view. Li Ning's sales revenue grew from Rmb735 million in 2001 to Rmb2,451 million in 2005, representing a 35% CAGR. However, we believe that this quick growth is more due to the expanding Chinese sportswear market than significant market share acquisition from key competitors. We believe there is tougher competition ahead. Both Nike and Adidas have aggressively penetrated Li Ning's traditional market, and both these companies now achieve 40-50% of China sales from those small cities. On the flip side, Li Ning is not doing well in big cities. Going forward, we believe Li Ning will face greater competition pressure if this trend goes on. Li Ning's market position is not sustainable, in our view, given its overall weak financial strength and its limited spending in R&D and brand marketing, as compared to that of its competitors.

Valuation and price target

We do not think Li Ning's current trading premium over peers is warranted. We base our Jun-07 HK$7.00 price target on our DCF valuation, representing 28x FY06E P/E and 21x FY07E P/E and implying 25% potential downside from the current trading price. Key risks to our price target are higher than expected market growth or better than estimated operating efficiency.

Bloomberg: 2331 HK, Reuters: 2331.HK

HK$ in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	2,451	3,174	4,035	5,308
Net profit	188	262	344	453
EPS (HK$)	0.18	0.25	0.33	0.44
DPS (HK$)	0.07	0.10	0.13	0.17
Sales growth (%)	30.5	25.9	27.1	31.6
Net profit growth (%)	51.9	39.9	31.0	31.7
EPS growth (%)	31.8	39.5	31.0	31.7
ROE (%)	15.9	19.6	22.3	25.0
P/E (x)	50.6	36.3	27.7	21.0

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 30 October 2006.

Magyar Telecom

www.magyartelekom.hu/english/main.vm

Underweight
HUF961
27 October 2006

Hungary
Telecom and Media

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Company data

52-week range (HUF)	16.13-24.95
Mkt cap. (US$MM)	4,817
Shares O/S (MM)	207.6
Free float (%)	41
Year-end	December

Source: Bloomberg, JPMorgan.

Company description
Magyar Telecom is the principal provider of telecommunication services in Hungary. The company's services include telephony, data transmission, value-added and mobile services.

Negative share price drivers
(1) Unattractive DCF and relative valuations; (2) potential downside to our current fixed-line projections; (3) potential downside to our Hungarian mobile projections as Magyar Telekom Mobile Hungary could face more market share loss than we currently forecast; and (4) lack of catalysts that could create upside for the stock.

Indeed, we believe that Magyar Telekom faces the same negative secular trends as Cesky and TPSA in the fixed-line business, and we believe it is unlikely to post any meaningful growth in the mobile business. We see little scope for upside surprises to estimates in the foreseeable future. Since Magyar has the strongest track record in cash returns of the three, we see little potential for a re-rating going forward.

Valuation and risks
Our DCF points to almost no upside, and with EV/2007E EBITDA of 4.3x, we find relative valuation unattractive compared to other stocks in our coverage universe. The upside risks to our rating would be: (1) stronger resilience than we forecast in the fixed-line segment; (2) minority buyout of Magyar Telecom with a significant premium to the market share price; and (3) underestimated potential to grow internationally.

Bloomberg: MTEL HB, Reuters: MTEL.BU
HUF in millions (nominal terms), year-end December

	FY05	FY06E	FY07E	FY08E
Sales	620,697	637,533	651,217	653,520
Net profit	80,128	80505	90798	97111
EPS (HUF)	77.2	77.6	87.5	93.6
DPS (HUF)	83	93	97	109
Sales growth (%)	3.2	307.8	2.1	0.4
Net profit growth (%)	131.3	243.7	12.8	7.0
EPS growth (%)	131.3	243.7	12.8	7.0
ROE (%)*	15.3	15.8	18.8	20.8
P/E (x)	NM	12.8	11.8	11.1

Source: Company reports, Bloomberg, JPMorgan estimates.

Note: (1) Share price and valuations are of 27 October 2006. (2) * Defined as net income divided by average equity.

New World China Land

www.nwcl.com.hk

Underweight

HK$3.70

27 October 2006

Price Target: HK$3.20

China

Property

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Company data

52-week range (HK$)	2.50-4.425
Market cap (HK$B)	14.1
Market cap (US$B)	1.8
Shares outstanding (MM)	3,827
Free float (%)	30
Year end	June

Source: Company reports, Datastream.

Company description

New World China Land (NWCL) was spun off from New World Development (NWD) to hold the latter's property business in Mainland China, and was listed in July 1999. Some 150 million new shares were issued at an IPO price of HK$9.50. Following the listing, NWD effectively holds 70% of NWCL. NWCL is mainly engaged in property development and investment activities in over 17 cities in China. As of June 30, 2006, the group's shareholders' funds increased to HK$24 billion.

Positive share price drivers

NWCL has large bank amounting to 16 million sq m., spanning almost 20 cities, with 80% of its land bank in Guangzhou, Beijing, Shenyang and Wuhan. Rising land prices and the land acquisition process in the PRC being more regulated should bode well for developers like NWCL that hold relatively large landbanks. Some of them are very well located as they were acquired in the early 1990s.

Negative share price drivers

Given its low earnings and high asset base of HK$34 billion, NWCL is a low ROE stock. We believe the group would need to sell off its high cost assets before its ROE can improve. However, this may take a while as the group has accumulated too much land in the past, in our opinion. Judging from its poor earnings history in the past, we have not thus far been impressed with New World Group management.

Valuation and price target

We agree that NWCL's earnings outlook is improving, but its poor track record and low earnings base make it less appealing than its peers in our view. We believe upside will be hindered until the company delivers higher earnings relative to its size. Based on 50% discount to NAV, our Jun-07 price target is HK$3.20. Despite the higher volume, we believe development earnings will continue to be capped by lower margin. Management expects gross margins for projects to remain at 20% in comparison to its peers, which achieve 16-25% net margins (after tax) in general. Key risks to price target are if the company achieves faster sales than our expectations and delivers better earnings than our forecast.

Bloomberg: 917 HK, Reuters: 0917.HK

HK$ in millions, year-end June

	FY05	FY06	FY07E	FY08E
Sales	1,658	2,211	3,282	2,024
Net profit	166	741	397	526
Core EPS (HK$)	0.06	0.06	0.10	0.14
DPS (HK$)	0.03	0.04	0.05	0.06
Sales growth (%)	-34	33	48	-38
Net profit growth (%)	30	346	-46	32
EPS growth (%)	-19	12	62	32
ROE (%)	0.7	3.1	1.7	2.1
P/E (x)	64.7	57.7	35.6	26.9
NAV per share (HK$)			6.35	
Discount to NAV			-55	

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Old Mutual plc

www.oldmutual.com

Underweight

R23.73

27 October 2006

Price Target: R23.50

South Africa

Financials

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Company data

52-week range (c)	2499-1526
Mkt cap. (ZARMM)	130,025
Mkt cap. (US$MM)	17,599
Shares O/S (MM)	5,479
Free float (%)	100
Year-end	December

Source: I-Net, RIMES, Reuters.

Company description
Old Mutual plc is an international financial services group with diverse products across various regions. In SA, it has life and short-term insurance businesses as well as asset management (AM) and banking. In the US, it has life and AM; while in the UK and Europe, it runs largely an open platform life business.

Positive share price drivers
Old Mutual consists of various businesses across the world. Equity markets should impact most of these; however, overall it appears fairly well diversified against shocks. The Skandia businesses have exposure to growth markets throughout Europe where governments are relying on private savings to impart long-term financial security. The SA life operation is the largest player in the market, with diversified distribution channels and broad product mix. The company is focusing on cost reduction; however, it is difficult to assess materiality without targets.

Negative share price drivers
We see the Skandia transaction offering some long-term value, but we believe the price paid eliminates most medium-term benefits and exposes the group to risks. Old Mutual's US AM affiliates have a value bias. Flows in the US have favored value managers for the last five years; however, we expect this trend to shift towards growth, which may hurt cash flows. There are current investigations into both solvency and distribution, which could affect Fixed/Equity-indexed operations in the US. Additionally, negative publicity around commission rates may hamper sales of fixed annuities in the near term. The product will also likely become less appealing as credit spreads widen.

Valuation and price target
We derive our September 2007 price target (R23.50) by applying a 15% discount to our one-year forward appraisal value based on our expectations of sustainable returns.

Risks to rating, earnings and price target: Declining global equity markets pose the key risk. In SA, negative news flow on new business flows relating to new commission levels and further regulatory pressure are key life risks. A key global risk to our price target relates to the valuation and performance of F&G given the regulatory and solvency issues as well as the flat US yield curve and widening credit spreads.

Bloomberg: OML J.J, Reuters: OLM.NM

ZAR, year-end December

	FY05	FY06E	FY07E	FY08E
Normalised earnings per share (ZAR)	1.93	1.88	2.13	2.45
Core earnings per share (ZAR)	2.00	1.95	2.22	2.55
Dividend per share (ZAR)	0.67	0.84	0.96	1.09
NAV per share (ZAR)	11.10	12.55	13.84	15.16
ROE (%)	17.4	15.0	15.4	16.2
P/E (using Core EPS)	11.9	12.2	10.7	9.3
Earnings yield (using Core EPS) %	8.4	8.2	9.4	10.7
Dividend yield (%)	2.8	3.5	4.0	4.6

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Pacific Basin Shipping

www.pacbasin.com

Underweight

HK$4.99

2 November 2006

Price Target: HK$3.95

Hong Kong

Shipping

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Company data

52-week range (HK$)	3.10-5.22
Mkt cap. (HK$MM)	6,485
Mkt cap. (US$MM)	831
Shares O/S (MM)	1,300
Free float (%)	92
Year-end	December

Source: Datastream, Bloomberg.

Company description

Pacific Basin owns and operates a fleet of handysize drybulk carriers. Together with the International Handybulk Carrier pool, Pacific Basin transports mostly minor dry bulk cargoes predominantly in the Pacific and the Atlantic. It services many large international commodity companies. The company also has exposure in the handymax segment and is looking to enter the logistics business.

Positive share price drivers

There was sustained strength in the freight markets in the second half of the year, and Chinese demand for raw materials remains strong. This could sustain freight rates as the new year progresses. There has been speculation in 2006 (*South China Morning Post*, 13 June 2006) of management being in talks with buyers to sell the company; should this materialize, we believe it would be a major catalyst for the stock.

Negative share price drivers

The company is growing the handymax segment significantly, from 760 days in 2005 to over 5,000 days in 2006 and to similar levels in 2007. We believe the company must charter in additional tonnage in the handymax space to cope with demand from its clients. Charter rates remain high, and this could further drive up costs. In our view, the rapid growth of this business is responsible for cuts in margins. The Baltic Supramax index has been down and we think the company may have to book cargos at lower rates; also the stock's price may follow this trend as it tracks the freight markets on the way up.

Valuation and price target

Our end December 2007 price target of HK$3.95 is based on a combination of long-term price-to-book and EV-to-EBITDA multiples. We believe the company's valuations are rich, well above its long-term averages and above peers within the sector. The key risks are the potential sale of the company and a sustained rally in freight rates.

Bloomberg: 2343 HK, Reuters: 2343.HK

US$ in '000s, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	264,683	336,683	355,819	364,437
Operating profit	138,120	115,142	129,276	116,734
Net profit	147,143	124,930	112,143	97,747
EPS (US$)	0.116	0.097	0.086	0.075
EPS (HK$)	0.903	0.755	0.673	0.587
Equity (MM)	309,274	368,163	424,235	473,108
ROE (%)	54.3	36.9	28.3	21.8
P/E (x)	5.5	6.6	7.4	8.5
EV/EBITDA (x)	6.4	7.1	7.0	7.8
P/BV (x)	2.7	2.3	2.0	1.8
Dividend yield (%)	13.0	8.0	6.7	5.9

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 2 November 2006.

Perusahaan Gas Negara

www.pgn.co.id

Underweight

Rp11,400

30 October 2006

Price Target: Rp7,500

Indonesia

Gas pipeline

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Company data

52-week range (Rp)	5,100-13,950
Mkt cap. (Rp Bn)	51,704
Mkt cap. (US$MM)	5,674
Shares O/S (MM)	4,535
Free float (%)	30
Year-end	December

Source: Bloomberg.

Company description

Perusahaan Gas Negara is a gas transmission and distribution company, which primarily services industrial customers. Its major markets are West Java, East Java, and North Sumatra. The total current distribution volume is around 360 MMcfd (million cubic feet per day) of gas, accounting for around 10% of the total domestic gas consumption. The company is currently constructing transmission lines, the South Sumatra West Java (SSWJ) pipelines, to connect gas reserves in South Sumatra to industrial customers in West Java. Transgasindo, the 60%-owned subsidiary, transmits gas from South Sumatra to Singapore.

Positive share price drivers

With the completion of SSWJ pipeline projects, the company should be able to increase its distribution volume significantly as the new pipelines would convey an additional 650 MMcfd of gas by 2008E. The high energy price is beneficial to the company as it should attract industrial customers to convert from oil to gas.

Negative share price drivers

There is still a potential delay in the completion of the SSWJ project, and as a result, the company was unable to achieve analysts' forecasts. Supply is a risk as it may not be able to fill up the pipes as analysts have forecast, or if it can, the price for new gas could be much higher than the current price. This means that margin would be squeezed. Due to a lack of gas supply, the Duri-Dumai-Medan pipeline project could face delays. The demand for gas may not be as high as expected in the medium term, and therefore we see a high risk that the pipelines will not be fully utilized. PGAS's monopoly seems to have ended with more competition coming to the market.

Valuation and price target

The current share price reflects our view that PGAS is "priced for perfection," as we see more downside risks than upside ones. Our Dec-06 PT of Rp7,500/share is derived from a DCF valuation on rupiah cash flow, based on a cost of equity of 16.5% and 10x terminal growth multiple. The risks to our price target are lower than expected gas volume and distribution margins.

Bloomberg: PGAS IJ; Reuters: PGAS.JK

Rp in billions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	5,434	7,468	12,040	18,568
Net profit	862	1,575	2,238	3,831
EPS (Rp)	182	328	467	799
DPS (Rp)	63	99	164	233
Sales growth (%)	21.9	37.4	61.2	54.2
Net profit growth (%)	81.7	82.7	42.1	71.2
ROE (%)	23.4	33.2	37.2	47.3
P/E (x)	60.2	33.6	22.6	14.3
P/B (x)	12.9	10.3	8.1	5.8
EV/EBITDA (x)	26.4	20.4	11.7	7.8
Dividend yield (%)	1.0	1.4	2.0	3.5

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 30 October2006.

Pretoria Portland Cement

www.ppc.co.za

Underweight

R363.75

27 October 2006

Price Target: R359.00

South Africa

Infrastructure

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Company data

52-week range (ZAR)	R281-450
Mkt cap. (ZARMM)	19.563
Mkt cap. (US$MM)	2,528
Shares O/S (M)	54
Free float (%)	28
Year-end	September

Source: I-Net.

Company description

Pretoria Portland Cement (PPC) is the leading cement player in a consolidated cement industry in South Africa. Following the re-commissioning of an old kiln, the company will have cement capacity of 6.1 million tonnes in South Africa in 2006. An announced brown-field extension will add c1.25 million tonnes in 2Q08. The company also owns a 0.7 million-tonne cement plant in Zimbabwe, which is not consolidated in the group results.

Positive share price drivers

The outlook for continued growth in cement volumes is positive (we expect c9% growth in 2006E and c4% in 2007E), driven by affordable housing, alterations and civil and commercial developments. Cement provides a lower risk exposure to the fixed investment cycle than construction companies' project-based earnings streams, in our opinion. With short payback period on investment (under our current cement volume forecasts), we believe PPC's well timed (at least relative to competitors) capacity expansion program will extend its industry lead. However, we believe it is still too early to 'look through' FY07E and 1H08E capacity limits.

Negative share price drivers

PPC is running close to full capacity (we expect it to grow volumes by maximum 3-5% over c18 million until new capacity is scheduled to come online in April 2008). This should limit operational gearing, and therefore FY07E and 1H08E margin expansion potential, in our view. Also, with local cement prices at cUS$100 per tonne, and commitment to contain building material cost escalations, cement price increases are expected to only recover cost inflation (transport and energy driven). The company also runs relatively old equipment of 25-35 years and is conducting feasibility studies to modernize plant infrastructure. The 'capacity replacement cycle' may depress special dividend in FY07-08E.

Valuation and price target

Our price target (Oct-07) of R359, providing a total return of c4% from the yield, and our DCF value of R370 provide limited upside. Upside risk to price target could be derived from: (1) the exercise of cement pricing power beyond cost inflation; and (2) higher special dividends for FY07E.

Bloomberg: PPC SJ, Reuters: PPCJ.J

ZAR in millions, year-end September

	FY05	FY06E	FY07E	FY08E
Sales	3,974	4,629	5,085	5,556
Net profit	940	1,214	1,365	1,458
EPS (ZARcps)	1,749	2,257	2,539	2,712
FD EPS (HK$)	1,724	2,257	2,539	2,712
DPS (Ordinary only, ZARcps)	1,100	1,405	1,605	1,772
Sales growth (%)	16	16	10	9
Net profit growth (%)	35	3	23	17
EPS growth (headline, %)	18	31	12	7
ROE (%)	43.3	56.9	54.3	48.2
P/E (x)	20.8	16.1	14.3	13.4
FD P/E (x)	21.1	16.1	14.3	13.4

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Rossi Residencial S.A.

www.rossiresidencial.com.br

Underweight

R$26.00

27 October 2006

Price Target: R$24.00

Brazil

Infrastructure

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Company data

52-week range (R$)	8.48-30.00
Mkt cap. (R$MM)	1,999
Mkt cap. (US$MM)	934
Shares O/S (MM)	78.9
Free float (%)	57
Year-end	December

Source: Bloomberg.

Company description
Rossi Residential (RSID3) was founded in 1980 and is one of the largest developers of residential real estate properties in Brazil. It started with upper-income developments in the metropolitan region of Sao Paulo and has since made a foray into luxury, high middle income and affordable income segments, and commercial lots in an integrated manner. The company is active in 15 of the main cities of Brazil.

Positive share price drivers
In the preliminary stage of the growth cycle. Strong launches and contracted sales growth forecasts of 178% and 49%, respectively, in 2006. Rossi's margin expansion story remains in place, with net margins having gone up from 2.7% in 2002 to 5.0% in 2005, and we expect it to reach 12% this year. Also, EBITDA margins have improved significantly from a negative 2.1% in 2002 to 10% in 2005, with a forecast of 15% in 2006. Rossi had a strong cash position of R$554 million at the end of 2Q06 as a result of the share offering in February 2006, in which it had raised R$763 million.

Negative share price drivers
At current prices Rossi is trading at a similar multiple to Cyrela and Gafisa, which in our view deserve a higher multiple due to greater liquidity, higher returns and less margin uncertainty. The market seems to have already priced in Rossi's rapid growth forecasts for the next two years, and appears to be waiting to see if the growth can be met.

Valuation and price target
Our DCF-derived R$24 price target for December 2007 assumes that the company should be trading at a 17.2x 2007E P/E multiple, at par with Company S.A and at a 20-30% discount to Gafisa and Cyrela. Risks to price target: There could be further room for upside from a larger than expected improvement in margins. Any signals that Rossi will increase launches at a higher than expected rate could also bring further positive momentum to the stock.

Bloomberg: RSID3 BZ, Reuters: RSID3.SA
R$ in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	242	417	526	730
Net profit	20	56	111	150
EPS (R$)	0.26	0.71	1.40	1.91
Sales growth (%)	15	73	26	39
Net profit growth (%)	5	176	98	36
EPS growth (%)	5	176	98	36
ROE (%)	7.1	8.0	9.5	11.6
EV/EBITDA		28.2	15.7	10.7
P/E		35.8	18.1	13.3

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Sappi

www.sappi.com

Underweight

$14.16

27 October 2006

South Africa

Pulp and Paper

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Company data

52-week range (US$)	9.49—15.40
Mkt cap. (US$MM)	3,234
Shares O/S (MM)	228.4
Free float (%)	99
Year-end	September

Source: Reuters.

Company description

Sappi is the world's leading producer of coated fine paper and dissolving pulp. It operates in North America, Europe, and South Africa and sells in more than 100 countries. Fine paper accounted for 80% of Sappi's $5billion sales in FY05. Sappi also manufactures newsprint and packaging paper; pulp, and forest products; and manages 1.3 million acres of timberland in southern Africa. Based in Johannesburg, Sappi trades on the JSE under SAPJ.J and the NYSE under SPP.

Negative share price drivers

Global coated freesheet markets remain oversupplied, and we expect no material closures to be announced any time soon**.** We forecast coated freesheet operating rates to be 87% in 2007 (a rate of 92% has historically supported prices). European producers are mulling over capacity closures, but we think any meaningful action is unlikely and would be a case of "too little, too late." Coated paper is the most cyclical of all paper grades, and we expect growth rates to slow in 2007 on the back of a slowing economy and higher postal rates.

We believe Sappi's cost reduction efforts will continue to be too slow to affect the bottom line. We estimate Sappi's EBIT margin to improve to just 5% in 2007 versus a more normal 10%+.

Positive share price drivers

A weak rand vis-à-vis the U.S. dollar is the most significant upside risk. Every 10% move in the ZAR/$ rate equates to around $0.20 in annual EPS on our estimates. Additional coated freesheet closures would be positive for Sappi. We estimate that 600,000-800,000 tonnes would have to be removed in order to balance the market.

Valuation

Sappi is trading at an 8% EV/EBITDA premium to its global coated paper peers, which compares to a 10-15% historical discount, which we believe is warranted given the company's size, South African domicile, and below-peer group returns.

Bloomberg: SPP, Reuters: SPP

US$ in millions, year-end September

	FY05	FY06E	FY07E
Sales	5,018	4,899	5,119
Net profit	17	(31)	90
EPS	0.07	(0.14)	0.40
DPS	0.30	0.30	0.30
Sales growth (%)	6.1	(2.5)	4.5
Net profit growth (%)	(83.3)	NA	NA
EPS growth (%)	(83.3)	NA	NA
ROE (%)	0.9	(1.6)	4.3
P/E (x)	189.5	NM	35.7
EV/EBITDA (x)	9.9	9.3	7.3

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Organizacion Soriana

www.soriana.com

Underweight

Ps60

27 October 2006

Mexico

Consumer

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Company description

Organizacion Soriana is the second-largest food retailer in Mexico, operating three formats: (1) Soriana, its hypermarket format; (2) Mercado Soriana, its "bodega" format, which caters to less affluent costumers; and (3) City Club format, its cash-and-carry wholesaler business. Soriana has also ventured into the convenience store format; however, investors in Soriana do not participate in this business, as the controlling family is the only shareholder in those stores.

Positive share price drivers

(1) Same-store-sales are recovering after several quarters of sluggish performance due to increased competition and the strong Mexican peso against the US dollar, which jeopardized sales in the boarder cities. (2) Soriana is venturing into higher growth regions, due to the saturation of its key region (North). Although we see this move as positive, it would likely continue to hurt margins as competition is more intense in these regions.

Negative share price drivers

(1) Competition is increasing, with Walmex, Comerci and Chedraui being more aggressive, thus forcing Soriana to become more promotional and therefore hurting its margins. (2) Soriana will not offer credit on its own, which we believe will be one of the key competitive advantages and a future source of income on a highly profitable business for both Walmex and Comerci, which have recently decided to launch their own financial arms to provide credit. (3) Convenience stores will bypass Soriana shareholder structure. Soriana will only provide the merchandise on a cost basis; however, the investment is done through a family SPC.

Valuation

Although we view Soriana's valuation as attractive, we see more negative than positive catalysts in the short to medium term. Soriana continues to show a decline in margins, and since the company is quite efficient already, in our view, it has been harder to mitigate the pricing pressure impact with expense cutting. We still prefer Comerci (Overweight) over Soriana.

Company data

52-week range (Ps)	39.1-62.21
Mkt cap. (PsMM)	36,054
Mkt cap. (US$MM)	3,366
Shares O/S (MM)	600
Free float (%)	13.8
Year-end	December

Source: Bloomberg.

Bloomberg: SORIANAB MM, Reuters: SORIANAB.MX

In nominal Ps terms in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	48,394	57,270	69,311	81,338
Net profit	2,111	2,768	3,295	4,140
EPS (Ps)	3.52	4.61	5.49	6.90
Sales growth (%)	15	18	21	17
Net profit growth (%)	-20	31	19	26
EPS growth (%)	-20	31	19	26
ROE (%)	11	12	13	13
P/E (x)	17.5	13.5	11.4	9.6
FV/EBITDA (x)	8.6	7.3	6.1	4.9

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Tatneft

www.tatneft.ru

Underweight

$4.68

27 October 2006

Price Target: $5.00

Russia

Oil and Gas

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Company data

52-week range (US$)	3.50-6.40
Mkt cap. (US$MM)	9,313.2
Shares O/S (MM)	1,990.0
Free float (%)	70%
Year-end	December

Source: Company reports, JPMorgan estimates.

Company description

Tatneft is a regional oil player with a mature asset base in upstream, a network of retail stations throughout the country and effectively no refining capacity of its own. The company's production is concentrated in Tatarstan, where it develops highly depleted oil fields with low well flow rate and poor quality crude. The production growth for a number of years has been effectively flat and is unlikely to grow in the foreseeable future, in our opinion, even though the company's relatively high reserve life suggests such a possibility. We believe Tatneft's corporate governance is rather poor, and its relationship with the regional authorities is closer than minority investors would likely want it to be. The stock benefits from a relatively large free float and the company's reporting of its financials under US GAAP, which Tatneft does on an irregular basis.

Positive share price drivers

Tatneft will be one of the main beneficiaries of tax breaks introduced by the Russian authorities in 2H06 for its development of highly depleted oil fields. The monetary value of the company's tax credit is yet unknown; however, it is likely to be considerable.

Negative share price drivers

Rising production costs and inefficiencies were not too visible in the environment of steadily rising crude prices. However, if crude prices stagnate or start to decline as we forecast for 2007, we would expect Tatneft's financial performance to worsen dramatically, and the company's valuation multiples will likely not look as appealing as they do for 2006.

Valuation and price target

Our DCF-based valuation puts the company's 2007 year-end target price at $5.00 per share. Tatneft is a high cost producer, which means that it is more sensitive to crude price fluctuations than its rivals. Our Underweight recommendation and price target are based on the assumption of declining crude prices. If crude prices continue to rise, however, Tatneft would be in a good position to outperform the sector.

Bloomberg: TATN RU, Reuters: TATN.RTS

US$ millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	8,557	9,606	9,192	8,574
Net profit	1,169	1,649	1,191	836
EPS (US$)	0.59	0.83	0.60	0.42
FD EPS (US$)	0.50	0.71	0.51	0.36
DPS (US$)	0.04	0.07	0.05	0.03
Sales growth (%)	40.0	12.3	-4.3	-6.7
Net profit growth (%)	43.8	41.1	-27.8	-29.8
EPS growth (%)	43.8	41.1	-27.8	-29.8
ROE (%)	17.4	20.5	12.7	8.2
P/E (x)	8.0	5.6	7.8	11.1
FD P/E (x)	9.3	6.6	9.1	13.0

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 27 October 2006.

Telmex SA

www.telmex.com

Underweight

US$26.69

27 October 2006

Mexico

Telecom and Media

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Company data

52-week range ($)	17.61-27.52
Mkt cap. (US$MM)	27,892
Shares O/S (MM)	1,045
Free float (%)	50
Year-end	December

Source: Bloomberg, JPMorgan.

Company description

Telmex is the leading fixed-line incumbent in Mexico, with c.93% share of fixed lines. It is also the mother company of leading wireless operator of LatAm, America Movil, which was spun off from Telmex. Both Telmex and America Movil are owned by Carlos Slim.

Negative share price drivers

We believe Telmex should be the clear loser after the National CPP comes into effect through lower revenues in fixed-to-mobile calls as well as loss of market share in long distance to mobile operators. Telmex derived 80% of its revenues from voice in Mexico—53% from voice measured service revenues alone—and 77% from voice on a consolidated basis in 2Q06. This makes the company particularly vulnerable to wireless substitution of traffic and growth in VoIP services.

Valuation and risks

Despite the undemanding multiples, with around 12% 2007E free cash flow yield, we maintain our Underweight rating on Telmex. Indeed, we see limited upside to our DCF valuation based on current assumptions. Moreover, we believe that the risk to revenue estimates in the domestic business remains on the downside and international assets currently in the portfolio are unlikely to offer enough growth to offset the domestic pressures.

In our view, the stock would likely react positively if the company could show that it can stabilize or grow revenues and cash flow on a sustainable basis. In particular, we could be underestimating the potential growth in broadband, which could be adopted on a much greater scale than we currently envisage. Nevertheless, we believe that for this to happen, Telmex would need to considerably accelerate its international expansion beyond what we currently expect, buying cable assets, for instance, on a much larger scale. We also note that Telmex would likely remain more defensive than many faster growing stocks in our universe in the event of renewed market weakness.

Bloomberg: TMX, Reuters: TMX

Mx P$ in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	164,706	173,408	174,834	176,010
Net profit	27,611	28,478	28,109	27,991
EPS (Mx P$)	25.05	28.50	30.47	32.51
DPS (Mx P$)	4.54	5.18	5.32	5.40
Sales growth (%)	19	5	1	1
Net profit growth (%)	1	3	-1	0
EPS growth (%)	8	14	7	7
ROE (%)	29.4	25.7	25.8	25.7
P/E (x)	11.3	10.3	10.2	12.9

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are of 27 October 2006.

Thai Petrochemical Industry

www.tpigroup.co.th

Underweight

Bt7.20

26 October 2006

Price Target: Bt6.0

Thailand

Petrochemicals

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Company data

52-week range (Bt)	8.8-6.3
Mkt cap. (BtMM)	140,400
Mkt cap. (US$MM)	3,784
Shares O/S (MM)	19,500
Free float (%)	28
Year-end	December

Source: SET.

Company description

TPI is Thailand's most integrated oil refining and petrochemical company. TPI imports crude oil, which it refines into petroleum products (gasoline, diesel). More importantly, the firm also refines crude into naphtha and uses it as the key feedstock for its petrochemical production. The company's key products are PP, HDPE and ethylene. TPI just emerged from its multi-year financial difficulty—due to a fresh cash injection from Thailand's biggest company, PTT. TPI is now 31.5%-owned by PTT, and 30%-owned by the government-affiliated Vayupak Fund, Government Pension Fund, and the Government Savings Bank.

Positive share price drivers

As an integrated company, TPI is essentially a spreads play. The company benefits when petrochemical product prices are high and/or when crude oil prices (its key feedstock) are low. In the long term, the company plans to undertake a US$1.2 billion upgrade of its refinery / petrochemical complex—scheduled for completion by around end-2009 (by our estimates). We view this project positively, as it would enhance the company's oil product quality, improve its petrochemical integration and lower its logistics costs.

Negative share price drivers

A major correction in petrochemical product prices would be negative for TPI. However, a major surge in crude oil costs would be more negative, in our analysis. In addition, we are concerned that the company is just initiating its upgrade project. Given the current tightness in the oil and gas contracting industry, as well as high material costs, we see substantial budget and timing risks for the project.

Valuation and price target

TPI shares look expensive, trading at 14x FY07E P/E, while other Thai oil refiners and petrochemical firms trade at single-digit P/Es. Our Jun-07 price target of Bt6.0/share for TPI is based on an implied P/B of 1.0x. Key upside risks are: (1) continued strength of petrochemical prices, and (2) sustained weakness in crude oil prices.

Bloomberg: TPI TB, Reuters:TPI.BK

Bt in millions, year-end December

	FY05	FY06E	FY07E	FY08E
Sales	187,132	200,627	199,357	152,629
Net profit	9,529	9,127	10,051	23,422
Core EPS (Bt)	0.49	0.47	0.52	1.20
F/D EPS (Bt)	0.49	0.47	0.52	1.20
DPS (Bt)	0.00	0.00	0.21	0.48
Sales growth (%)	21	7	(1)	(23)
Net profit growth (%)	(15)	(4)	10	133
EPS growth (%)	(66)	(4)	10	133
ROE (%)	15.7	8.7	8.9	18.7
Core P/E (x)	14.7	15.4	14.0	6.0
FD P/E (x)	14.7	15.4	14.0	6.0

Source: Company reports, Bloomberg, JPMorgan estimates. Note: Share price and valuations are as of 26 October 2006.

JPMorgan

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