

Monthly Report

Macro economy:

After a small dip in December, China's CPI has increased steadily, with March CPI reached 5.4%. The difference between the CPI tail and released CPI is a measure of inflation pressure. Rather than narrowing, inflation pressure has been substantial during the last two month. ***With inflation expected to be high, more than expected interest rate and RRR hike risk will be heightened and will weigh down on the market.***

With inflation rising and economy slowing, there is higher risk of stagflation. We looked back in history and found over the last 10 years, there were two periods when CPI was above 5%. Once was in 3Q04 and the other was between 2Q07 and 2Q08. During the first period, the economy was going strong and the second period was during the lead up to the financial crisis. ***China's current situation of above 5% CPI and slowing economy is uncharted territory for policy makers. Thus, the effectiveness of government policies to counter a potential stagflation remains questionable, which will weigh on the stock market.***

Recommended Stocks

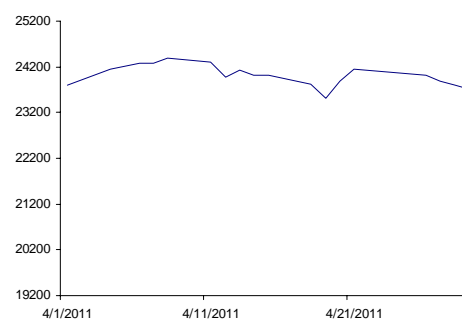
	Current Price	2011 estimated P/E	2011 estimated dividend yield
GCL-Poly (03800.HK)	\$5.45	11.396X	1.163%
China Wireless (02369.HK)	\$2.93	10.974X	2.389%

Hang Seng Index			
Index (%)	5 Days	1 Mth	YTD
HSI	(2.09)	(0.71)	2.60
HSCEI	(4.05)	(2.56)	3.26
Red Chip	(3.63)	(1.07)	2.79
Shanghai A	(1.09)	(1.17)	4.44
Shenzhen A	(2.82)	(4.16)	(5.99)

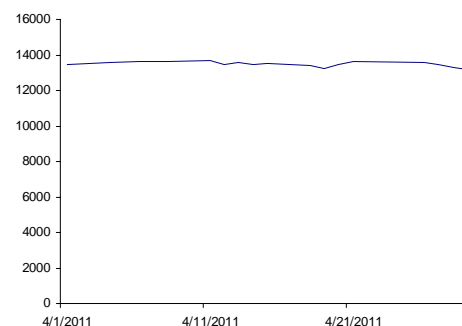
Source: bloomberg

Ended at 3/5/2011

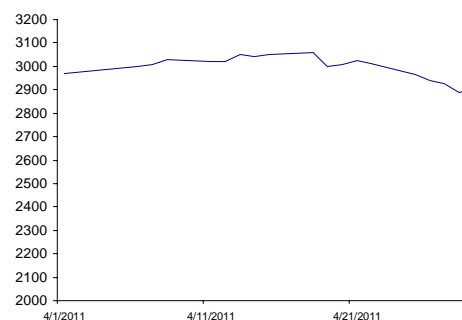
HSI 1M Performance



HSCEI 1M Performance



SHCOMP 1M Performance



Stock picks:
GCL-Poly (03800.HK)

Investment Rating & Valuation: For its IPP business, we use a target PB to give TP of HK\$0.31. For its solar business, we use the average of FCFF method and target PE to give TP of HK\$5.40 representing 12X FY2011E PER.

Key Assumptions: 1) Nuclear disaster in Japan will shift the government focus to other non-conventional environmental friendly energy source, such as solar energy. We estimate ASP for polysilicon and wafer over \$60/ton and \$0.8/w respectively in 2011. 2) Cost cut in polysilicon and wafer manufacturing continues for GCL, we expect that the production cost for polysilicon will reach \$20/kg and non-si cost for wafer reach \$0.20/w.

How we differ from consensus: 1) Overcapacity of polysilicon; 2) Credibility of its aggressive cost cuts; 3) The strategy of its downstream integration is over exaggerated. For supply side, we believe the most of the capacity ramp up next year is “ineffective” and therefore the overcapacity situation is not that severe. Secondly, we believe the cost cut of GCL is the main result of its fast learning curve climbing and advanced technical improvement, which is not easy to be copied. Finally, we appreciate their downstream integration strategy to expand its cost leadership.

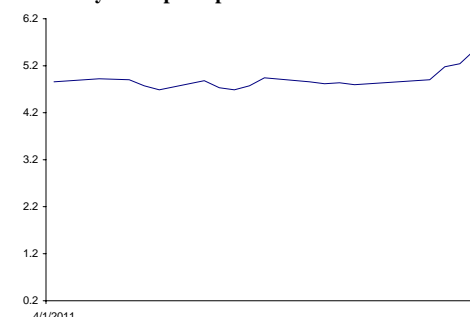
Catalysts for share price performance: 1) Stronger than expected stimulus package policy; 2) Spot price for polysilicon and wafer rise.

Risks: 1) Spot price keep declining for polysilicon and wafer, due to the fierce competition; 2) High non-Si manufacturing cost in Wafer; 3) Financial condition worsening.

GCL-Poly (03800.HK)	
2011 estimated P/E	11.396X
2011 estimated P/B	3.609X
2011 estimated dividend yield	1.163%

Source: Bloomberg

GCL-Poly stock price performance



China Wireless (02369 HK)

Investment Rating & Valuation: Regarding the falling ASP, stabilizing GPM and the doubling of handset shipments in 2011, our 2011E-2012E EPS forecast for China Wireless are HK\$0.31 and HK\$0.40. TP is HK\$ 5.17. 'Buy' rating.

Key Assumptions: We expect handset shipments to double to 10M in 2011. We lower our 2011 ASP forecast to HK\$820.

How we differ from consensus: Market is worried about GPM shrinkage in 2011, but we believe GPM will become stable in 2011. China Wireless has already rolled out its flagship handset, N930, which will also support its GPM in 2011.

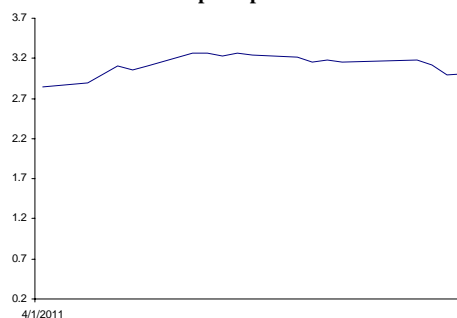
Catalysts for share price performance: 1) A continuous news flow of 3G development in mainland China; 2) Result of CM's 3G terminal procurement

Risks: Release of the CDMA iPhone and new products from HTC, Huawei and ZTE as well as other companies.

China Wireless (02369.HK)	
2011 estimated P/E	10.974X
2011 estimated P/B	3.455X
2011 estimated dividend yield	2.389%

Source: Bloomberg

China Wireless stock price performance



Disclosure of Interests :

Ms. Ellie Chan, Mr. Jeffrey Mok, the Analysts, and their associates do not have any financial interests in the listed corporation(s) mentioned in this report.

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