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Continuous Sequential Improvement

- We upgrade our call on the China Ports Sector to Overweight from Marketweight, with Cosco Pacific Limited (CP) (1199 HK, HKD 8.95, 5-STARS (Strong Buy)) as our preferred choice while China Merchants Holdings International (CMHI) (144 HK, HKD 22.85) is a 3-STARS (Hold).
- After suffering unprecedented declines in 1Q09, we believe that throughput has bottomed and the demand/supply scenario will turn positive for China's ports. For 2H09, we anticipate sequential improvement in throughput and higher utilisation, with YoY negative growth tapering in 3Q09 followed by a slight growth in 4Q09; on the back of a lower base in 2H08 as well as a restocking bounce for the festive period.
- In our view, the port operators offer better proxies than the shippers for investors' exposure to China's economic recovery. Though the shipping operators face similar pressures of lower freight delivered and reduced rates, the situation is further compounded by an increase in vessel completions coming on stream in 2009 and 2010. In contrast, with a few dominant players in the ports industry and a more conservative capex spend for 2009, capacity growth is better controlled for the port operators.
- With throughput stabilising, tariffs are under less pressure and balance sheets are under control given the tight rein that most operators have put on berth expansion. Hence, we see limited downside risk at current price levels. Sector wise, while earnings will fall from 2008 levels, we expect earnings growth to resume in 2010, and believe that the recent pull-back in stock prices present excellent entry levels.
- We have revised our 2009 and 2010 container throughput growth projections to -8.5% and 10.6% from -14.5% and 9.3%, respectively, to reflect normalization and an increase in China's market share. In addition, there is also less pressure on tariffs going forward, with higher utilisation as well as a lower empty box ratio. With the global economy on a more stable footing and the flow through of government expansionary budget spend in 2H09, we expect the outlook for ports to improve over the medium term.

Recommendation Table

Company	Bloomberg code	Target price (HKD)	Share price (HKD)	Recommendation
China Merchants	144 HK	26.00	25.50	3-STARS
Cosco Pacific	1199 HK	13.00	10.38	5-STARS

Source: Company data, S&P Equity Research estimates

Throughput has bottomed

Container throughput at major ports started to deteriorate since 4Q08 to unprecedented lows in 1Q09, with the ports at the Pearl River Delta (PRD) hardest hit. Different hubs were affected at varying rates with those most exposed to the US and Eurozone trades faring worst, while those concentrating on Intra-Asia and domestic trades less affected.

According to the Ports Association of China, the total container throughput of China's Top 10 Ports dropped 6.6% YoY in May 2009. Nevertheless, the MoM throughput decline has narrowed, with May 09 registering an 8.1% growth from April 09.

Container Throughput of China's Top Ten Ports

Mln TEUs	May 09	May 08	YoY % chg	MoM % chg	YTD 09	YTD 08	YoY% chg
Shanghai	2.08	2.35	(11.5)	6.7	9.68	11.36	(14.8)
Shenzhen	1.47	1.78	(17.4)	14.0	6.67	8.44	(21.0)
Qingdao	0.86	0.83	3.6	0.0	4.22	4.11	2.7
Guangzhou	0.97	1.04	(6.7)	7.8	4.09	4.88	(16.2)
Ningbo	0.81	0.88	(8.0)	11.0	3.8	4.28	(11.2)
Tianjin	0.77	0.73	5.5	1.3	3.45	3.35	3.0
Xiamen	0.39	0.44	(11.4)	11.4	1.77	1.97	(10.2)
Dalian	0.38	0.36	5.6	11.8	1.71	1.74	(1.7)
Lianyungang	0.25	0.24	4.2	8.7	1.07	1.11	(3.6)
Yingkou	0.25	0.16	56.3	25.0	0.96	0.81	18.5
Total	8.23	8.81	(6.6)	8.1	37.42	42.05	(11.0)

Source: Ports Association of China, S&P Equity Research estimates

The Bohai Rim region registered throughput growth in May 2009 (+4.9% YoY) when compared to PRD and Yangtze River Delta (YRD), mainly driven by Yingkou Container Terminal (+56.3% YoY) as it benefited from robust domestic trans-shipment business. In our opinion, the dividing trend of the Bohai Rim region to the PRD and YRD is largely due to the different types of cargoes being shipped through the north and south Chinese ports. Traditionally, provinces in the north mainly export machineries and raw materials while the southern provinces concentrate largely on light industries and consumer products such as garments, toys and shoes, segments which are usually harder hit in an economic downturn.

For 2009, the Bohai Rim region will recover earlier and continue to outperform as industrial production in this region has been exceeding the national average. We believe that this region is more exposed to activities of State-Owned-Enterprises (SOEs), many of which are beneficiaries of increased government spending and aggressive loan expansion.

Nevertheless, we expect China's exports to gradually show a mild improvement in 2H09 from the distressed levels in 1Q09, on the back of a seasonal pick up, inventory restocking bounce and order completion by year end. In addition, we expect better economic data as the expansionary fiscal policies of global governments start to manifest from 2H09. Ports that posted bigger YoY declines in 2008, such as Shanghai and Shenzhen will see more obvious pick up due to a low base. However, we also expect to see continued, albeit more subdued gains for ports that have posted continuous positive growth, such as Tianjin and Qingdao.

Laden boxes increasing

For port operators, besides the changes in tariffs, unit revenue or average selling price (ASP) is also impacted by changes in cargo mix, such as heavy boxes versus empty ones, international cargo versus domestic ones, or hinterland cargo versus transshipments as different rates are levied for these segments. Unlike previous years, from 4Q08, the proportion of both empty boxes shot up at many ports in China. This is in line with the decline in exports and represented a structural change in container boxes handled and decreased average unit port income.

For e.g., from Nov 2008, Shanghai International Port (Group) Co (SIPG) (600018 CH, CNY6.00, Not Ranked) started offering drastically reduced terms to clients to place a minimum stipulated number of containers at its terminals. These carriers are charged zero storage fees and discounted handling fees for storing empty containers at its terminals. It is believed that this reduced rate could run as high as 50% off regular rates. In return for forgoing storage revenue and standard handling fees, the container throughput levels at SIPG's terminals were artificially pushed up, as throughput volume measures container volume handled, not cargo loaded and unloaded. It was believed that other ports such as Dalian Port, Tianjin Port and Ningbo Port have implemented similar measures.

However, recent anecdotal evidence has pointed to an improvement in conditions, with the proportion of empty boxes at these ports reduced since end 1Q09. It is believed that in Shanghai, the proportion of these empty boxes have fallen from 31% in Jan and Feb 2009 to 26% in Mar 2009, hinting at higher demand for boxes and better utilization rates. In addition, with the manufacture of new boxes decimated since 3Q08, and the scrapping of old boxes, more of these empty boxes will be utilized, resulting in normalization of tariffs.

Similarly, conditions at the Shenzhen ports have stabilized. Empty box return flows are also under control, as according to the Shenzhen Port Authority, full box ratios have rebounded from the low 52% registered in Feb 2009, to a constant 66% for May 2009 and June 09, thereby translating into a better QoQ performance.

Shenzhen container ports – Throughput and Full Box Ratios

Monthly Throughput ('000 TEUs)	Jun 09	May 09	Apr 09	Mar 09	Feb 09	Jan 09
Shenzhen – Overall	1411	1471	1307	1356	1008	1524
YoY (%)	-20	-16	-25	-21	-26	-17
chg vs last 3-mth avg (%)	2	20	1	3	38	12
Full Box Ratio						
Shenzhen-Overall (%)	66	66	71	71	54	62
Shenzhen West (%)	74	71	74	75	60	66
Shenzhen East (%)	62	60	66	66	48	59

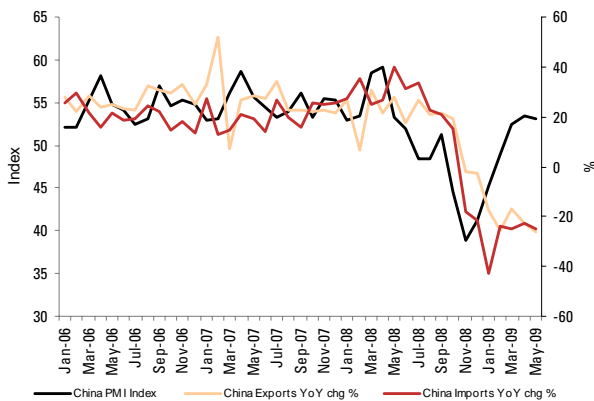
Source: Shenzhen Port Authority

Key benchmarks looking up

Though China's exports in June 2009 were down 21.4% YoY, the quantum of contraction has declined when compared to May 2009's decline of 26.3% YoY. We are more positive going forward as key leading indicators such as China's Purchasing Manager Index (PMI) and US' ISM manufacturing index are starting to show positive signs of improvement.

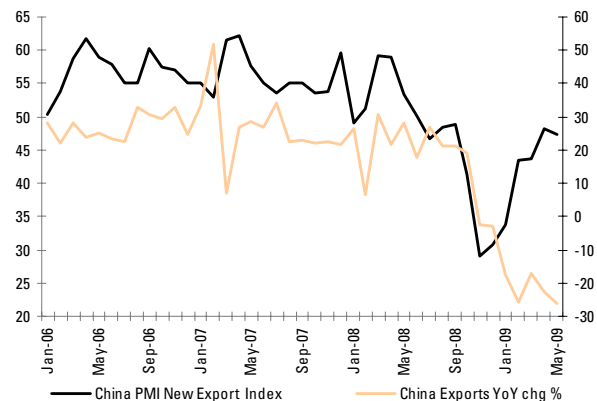
China's PMI edged up to 53.2 in Jun 2009. This is the fourth consecutive month that the PMI has exceeded the expansionary threshold of 50.

China PMI Leads Exports and Imports



Source: CEIC

China PMI New Export Orders On an Uptrend



Source: CEIC

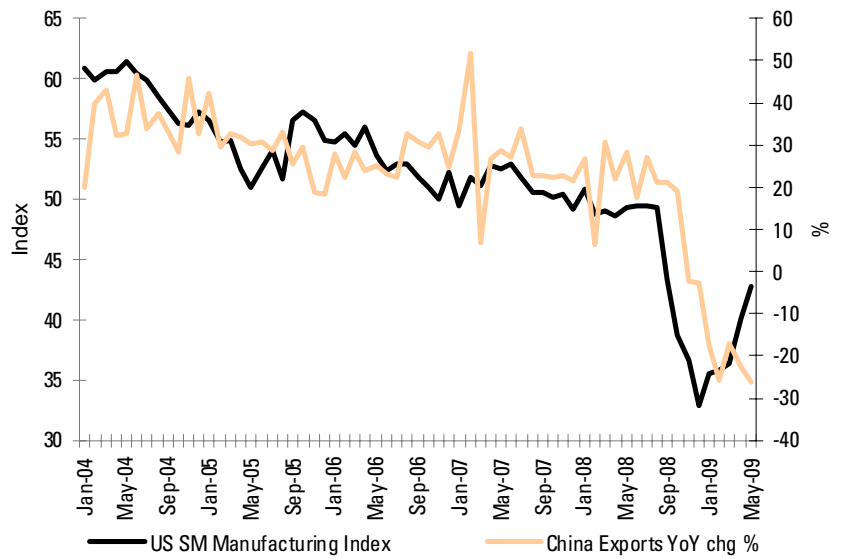
Similarly, the PMI new export orders are also on the uptrend and looks set to breach the psychological 50 expansionary level, which is a positive indicator for China's 2H09 exports, in our view.

In addition, according to the National Bureau of Statistics (NBS), China's industrial production continued to grow at 8.9% YoY in May 2009 (Apr 09 was 7.3% YoY). Coupled with the higher PMI, this implies that industrial production is likely to continue its upward trajectory. Similarly, the National Development & Reform Commission (NDRC) has projected that China's total export value is expected to decline 12% YoY in 2009, which translates to a significant improvement in 2H09, stemming from a likely turnaround in 4Q09.

In 2010, domestic demand will remain very strong, whilst the recovery in the US and Europe will provide a net export kicker. S&P projects GDP growth of 8+% for 2010.

Likewise, the US ISM manufacturing index, which has historically shown high correlation with China's exports are showing signs of improvement; rising for five consecutive months. This further reinforces our view towards a 2H09 recovery for the port sector, which is consistent with S&P's economists' forecasts of global GDP bottoming in 2H09. Though the headline ISM remains below 50, it has been on a rising trend since hitting its 12-month low of 32.9 in Dec 09, to register at 44.8 in Jun 2009. More importantly, the ISM new order component reached 49.2, which is an increase of 213% from its low in Dec 2008.

US ISM manufacturing Index ahead of China's export growth



Source: CEIC, Bloomberg

Ports better proxies to recovery

China's ports industry is unique due to its oligopoly nature. With several key players dominating the industry, this translates into high switching costs for customers. Therefore, the demand/supply balance is not the only criteria in pricing power, and tariffs have remained relatively stable industry wide, without any players ever launching a price war to compete for market share, even in the competitive PRD. Our view is consistent with port operators' stable pricing strategy for 2009. In our view, ASPs will remain stable going forward but we do not expect operators to raise nominal rates given the lackluster performance of the shippers and have imputed flat tariffs for 2010.

The port industry has high entry barriers, due to heavy upfront investments and the high operational expertise required. In China, only a handful of investors are involved in the industry with the local governments still owning the majority stakes and controlling the rights of allocating resources and managing calls from shipping companies.

In addition, most major ports do not have overlapping segments with each other meaning low competition from nearby ports. For e.g., for the key coastal ports, Shanghai caters mainly to Shanghai, Jiangsu province and the north part of Zhejiang province; Ningbo ports serve the south part of Zhejiang. The three northern ports also have their own hinterland. For instance, Qingdao mainly caters to Shandong province, while Tianjin targets the Beijing-Tianjin-Hebei corridor and Dalian port serves the three provinces in north-east China. The only exception is the PRD, where Hong Kong port, Shenzhen port and Nansha port share the same hinterland.

China's port operators have historically been able to weather downturns with limited earnings or DPS deterioration, and none have ever registered losses, as opposed to the shipping operators, which in addition to the vagaries of freight rates, have to contend with volatility of bunker fuel costs. Hence we are comfortable that despite significant earnings downgrades, all operators will still be profitable. In our estimates, throughput will have to fall by at least 50% before the port operators are loss making, which in our view is a highly unlikely scenario.

Port operators have been able to make swift response to the downturn in volumes, reducing capex spend and delaying commencement of new berths, which will alleviate supply pressures and maintain utilisation rates. Shippers, on the other hand, have less flexibility, with a flood of new vessel completions coming through from 2009 to 2011. In contrast with the ports, many shippers will be loss making in 2009 and losses are likely to extend to 2010, given the immense pressure from falling freight rates as well as overcapacity.

Forward throughput adjusted up

With recent economic data such as the PMI, industrial production and Asian trade showing positive signs, China's export prospects are turning more positive.

Based on our revised demand forecasts, we expect most of the key coastal ports to maintain utilisation at around 65% to 70% in 2009 and 2010. Managers have been prudent, delaying investment or construction of new projects, and deferring operations of newly commissioned berths when the demand outlook started deteriorating, which have helped sustain utilisation.

May to September is traditionally a high season for container throughput volume, as evidenced during 2004 to 2007. Therefore, if previous trends are adhered to, we expect throughput volume to continue to normalise and improve on a MoM basis.

Container throughput at China's 10 major ports were better than our expectation, declining by only 11.0% YoY in the January to May 2009 period, mainly due to the less than expected decline at Shenzhen and more resilient growth at the Northern ports helped by relatively strong domestic trade.

In our view, the rate of decline will taper in 3Q09, followed by a mild YoY recovery in 4Q09, given the low base effect of 4Q08. We therefore are revising our throughput growth forecast for China to -8.5% and 10.6% from the previous -14.5% and 9.3% for 2009 and 2010, respectively.

Change in Throughput forecasts for China's Major Ports

YoY Growth (%)	Previous Forecasts			Adjusted Forecasts		
	2008A	2009F	2010F	2008A	2009F	2010F
Shanghai	7.1	-13.5	8.0	7.1	-10	10.5
Shenzhen	1.5	-23.0	6.0	1.5	-17.0	9.5
Ningbo	19.9	-9.0	7.5	19.9	-6.5	10.5
Qingdao	9.1	-2.5	6.2	9.1	3.5	9.0
Tianjin	19.7	-8.5	12.0	19.7	4.0	10.5
Dalian	18	-5.0	11.5	18	2.0	10.3
Xiamen	8.8	-12.5	11.0	8.8	-7.5	10.0
Others	15.5	-18.5	12.5	15.5	-9	12.5
Total	11.5	-14.5	9.3	11.5	-8.5	10.6

Source: Ministry of Communications, S&P Equity Research estimates

Earnings & Valuations

We upgrade our stance on China's ports sector to Overweight from Marketweight, on the back of better throughput and a brighter economic outlook. We expect cumulative earnings for stocks within our coverage to decline in 2009, followed by moderate growth of 10% in 2010.

We have monitored the financial leverage and refinancing risks of the stocks we cover and most have healthy balance sheets with net gearing below 35%. Refinancing risks are low for both, due to their high proportion of long term debt.

For the stocks under our coverage, CP remains our preferred choice. In our view, CP is better placed in the current cycle, with the lowest valuation amongst peers. CP's geographically diversified port portfolio gives it a better earnings base as it has a larger exposure to ports in the YRD and Bohai Rim, which have better outlooks. CP's relationship with China Cosco Holdings Co. Ltd (China Cosco) (1919HK, HKD9.68, Not Ranked) also provides some assurance on throughput volume.

Among the operators, we believe that CMHI is at most risk, with a high premium placed on its industry leadership position. Key concerns are the extensive exposure to PRD/HK ports as well as lack of shareholding by shippers. This opens CMHI's ports to potential deterioration of pricing power compared to other port operators. CMHI also has a complex shareholding structure which reduces its control over cashflows. CMHI's share is trading at a large premium to its peers.

Peer Valuation

	China Merchants	Cosco Pacific	Dalian Port	Xiamen Int'l Port	Shenzhen Chiwan
Share price @ Jul 16, 2009	HKD25.50	HKD10.38	HKD3.36	HKD1.56	CNY15.44
Bloomberg Code	144 HK	1199 HK	2880 HK	3378 HK	000022 CH
Market Cap	61,788	20,303	3,570	1,539	7,176
PER 2009 (x)	22.9	13.1	15.0	13.7	20.9
PER 2010 (x)	19.8	11.9	14.1	15.3	17.8
P/B 2009 (x)	1.9	1.0	1.3	1.1	2.2
P/B 2010 (x)	1.8	1.0	1.2	1.0	1.9
FYE	Dec	Dec	Dec	Dec	Dec

Source: Bloomberg data, S&P Equity Research estimates

China Merchants Holdings (00144 HK, 3-STARS)

- China Merchants Holdings International (CMHI) is the largest Chinese port operator by market capitalisation, with about 65% of its total capacity emanating from the export oriented hubs of the Pearl River Delta (PRD).
- With CMHI's focus on Western Shenzhen ports, especially in Shekou, the recent underperformance of container port throughput growth in the area (on higher exposure to US and Europe trade and lower value added goods) has resulted in negative sentiment.
- Nevertheless, we believe that 2H09 throughput growth will pick up as China's exports growth, while still showing negative growth, has seen the reduction tapering on a MoM basis. We believe that this pattern of reduction will continue in 3Q09 before showing a positive growth in 4Q09, as the Chinese government is targeting a 12% YoY growth in exports for 2009.
- CMHI is currently trading at 22.9x and 19.8x PER for 2009 and 2010, respectively, which is at a premium to peers due to its comparatively large market capitalisation. Upside going forward, is limited in our view, given that there are cheaper alternatives for exposure to the ports sector.

Key Forecast Table (CNY mln)

Fiscal year end December	2008A	2009E	2010E	2011E	CAGR (%)
Revenues	4,135	3,712	4,097	4,597	3.6
EBITDA, adj.	2,791	1,830	2,179	2,439	-4.4
Pre-tax profit, reported	4,014	3,143	3,624	4,132	1.0
Net profit, reported	3,706	2,699	3,125	3,569	-1.2
EPS (HKD), reported	1.53	1.11	1.29	1.47	-1.2
P/E (x)	16.7	22.9	19.8	17.3	-
DPS (HKD)	0.68	0.49	0.57	0.65	-1.6
Dividend yield (%)	2.7	1.9	2.2	2.5	-

Source: Company data, S&P Equity Research estimates

China Merchant Holdings

Income statement data

Fiscal year end December (HKD mln)	2007A	2008A	2009E	2010E	2011E
Revenues	3,345	4,135	3,712	4,097	4,597
EBITDA, adj.	2,129	2,791	1,830	2,179	2,439
Depreciation and amortisation	-626	-758	-798	-848	n.a.
EBIT, adj.	3,613	4,014	3,143	3,624	4,132
Net financial income (expenses)	-535	-276	-111	-136	-230
Associates & affiliates	2,705	2,663	2,621	2,858	3,283
Pre-tax profit, reported	3,613	4,014	3,143	3,624	4,132
Income tax	-174	-220	-157	-181	-207
Effective Tax Rate (%)	4.8	5.5	5.0	5.0	5.0
Minorities	-350	-320	-287	-317	-356
Net profit, reported	3,545	3,706	2,699	3,125	3,569
Net profit, adjusted	2,838	2,564	2,699	3,125	3,569

Growth

Revenues (%)	-15.6	23.6	-10.2	10.4	12.2
EBITDA, adjusted (%)	103.1	31.1	-34.4	19.1	11.9
EBIT, adjusted (%)	31.7	11.1	-21.7	15.3	14.0
Net profit, adjusted (%)	29.2	-9.7	5.3	15.8	14.2

Margin

EBITDA margin (%)	63.6	67.5	49.3	53.2	53.0
EBIT margin (%)	108.0	97.1	84.7	88.4	89.9
Net profit margin, adjusted(%)	84.8	62.0	72.7	76.3	77.6

Balance sheet data

Fiscal year end December (HKD mln)	2007A	2008A	2009E	2010E	2011E
Cash and cash equivalents	1,230	2,806	2,519	3,468	4,676
Other current assets	2,666	2,409	3,933	4,171	4,480
Fixed assets	11,201	12,921	13,123	13,274	13,374
Intangible assets	0	0	0	0	0
Other long-term assets	30,589	32,357	26,127	27,415	28,969
Total assets	45,686	50,493	45,702	48,328	51,499
Interest-bearing debt	13,297	11,483	8,500	8,500	8,500
Other liabilities	3,914	6,296	2,343	2,524	2,758
Minority interests	1,633	2,434	2,679	2,958	3,280
Total liabilities	18,844	20,213	13,521	13,981	14,538
Shareholders' equity	26,842	30,280	32,181	34,347	36,961
Total equity and liabilities	45,686	50,493	45,702	48,328	51,499

Source: Company data, Standard & Poor's Equity Research estimates *DPS Prior to 2006 has not been adjusted for the end-2007 1:2 stock split

Cosco Pacific (01199 HK, 5-STARS)

- As the most geographically diverse of the listed port operators (the group has port operations spread out across all of China's eight major port hubs, Hong Kong and overseas such as Singapore and Antwerp), Cosco Pacific (CP) has arguably suffered less due to its diversification than some of its more focused peers, as under the current downturn, different port hubs have experienced different magnitudes of volume growth slowdown.
- Its relationship with China Cosco provides some assurance on throughput volumes. In addition, we also note that CP's ports will most likely benefit from any consolidation of services that are affected by China Cosco.
- Conditions at CP's container leasing division have also stabilised, as the bulk of the leases are 10-year terms with the majority up for renewal in 2012. Utilisation has not fallen below 90% in 2009 and leasing income will ensure consistent earnings flow in the medium term, despite a lack of sale and leaseback activities.
- At current levels, CP is the cheapest port player in the sector relative to its listed peers, and is currently trading at 13.1x and 11.9x PER for 2009 and 2010 respectively. The takeover of the Piraeus Port in Greece further expands CP's geographical reach and will result in an earnings kicker from 2010.

Key Forecast Table (CNY mln)

Fiscal year end December	2008A	2009E	2010E	2011E	CAGR (%)
Revenues	338	314	344	376	3.6
EBITDA, adj.	351	342	367	385	3.1
Pre-tax profit, reported	275	266	292	320	5.2
Net profit, reported	275	229	252	279	0.5
EPS (USD), reported	0.12	0.10	0.11	0.12	0.5
EPS (HKD), reported	0.95	0.79	0.87	0.97	0.5
P/E (x)	10.9	13.1	11.9	10.7	-
DPS (USD)	0.05	0.04	0.04	0.05	0.5
DPS (HKD)	0.38	0.32	0.35	0.39	0.5
Dividend yield (%)	3.7	3.1	3.4	3.7	-

Source: Company data, S&P Equity Research estimates

Cosco Pacific Holdings Ltd

Income statement data

Fiscal year end December (USD mln)	2007A	2008A	2009E	2010E	2011E
Revenues	299	338	314	344	376
EBITDA, adj.	380	351	342	367	385
Depreciation and amortisation	-84	-93	-87	-91	-90
EBIT, adj.	296	259	255	276	295
Net financial income (expenses)	-39	-46	-59	-69	-81
Associates & affiliates	187	155	158	176	197
Pre-tax profit, reported	451	275	266	292	320
Income tax	-18	5	-32	-35	-38
Effective Tax Rate (%)	3.9	n.m.	12.0	12.0	12.0
Minorities	-5	-5	-5	-5	-4
Net profit, reported	428	275	229	252	279
Net profit, adjusted	337	275	229	252	277

Growth

Revenues (%)	0.5	13.1	-7.0	9.6	9.2
EBITDA, adjusted (%)	0.8	-7.7	-2.7	7.4	5.0
EBIT, adjusted (%)	2.5	-12.7	-1.5	8.4	7.0
Net profit, adjusted (%)	15.8	-18.5	-16.7	10.0	10.1

Margin

EBITDA margin (%)	127.2	103.9	108.6	106.5	102.3
EBIT margin (%)	99.1	76.5	81.0	80.1	78.4
Net profit margin, adjusted(%)	112.7	81.3	72.8	73.0	73.6

Balance sheet data

Fiscal year end December (USD mln)	2007A	2008A	2009E	2010E	2011E
Cash and cash equivalents	387	429	634	420	182
Other current assets	217	241	167	183	199
Fixed assets	1,474	1,628	1,998	2,498	2,998
Intangible assets	4	5	4	4	4
Other long-term assets	1,790	1,911	1,959	2,014	2,014
Total assets	3,872	4,213	4,761	5,118	5,396
Interest-bearing debt	914	1,424	1,606	1,806	1,956
Other liabilities	183	143	173	188	203
Minority interests	62	94	94	94	94
Total liabilities	1,159	1,661	1,874	2,089	2,254
Shareholders' equity	2,712	2,552	2,887	3,029	3,141
Total equity and liabilities	3,872	4,213	4,761	5,118	5,396

Source: Company data, Standard & Poor's Equity Research estimates *DPS Prior to 2006 has not been adjusted for the end-2007 1:2 stock split

Glossary

S&P STARS - Since January 1, 1987, Standard & Poor's Equity Research Services has ranked a universe of common stocks based on a given stock's potential for future performance. Under proprietary STARS (STock Appreciation Ranking System), S&P equity analysts rank stocks according to their individual forecast of a stock's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350 Index or S&P 500 Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective.

S&P Quality Rankings (also known as **S&P Earnings & Dividend Rankings**)- Growth and stability of earnings and dividends are deemed key elements in establishing S&P's earnings and dividend rankings for common stocks, which are designed to encapsulate the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+ Highest	B+ Average	C Lowest
A High	B Below Average	D In Reorganization
A- Above Average	B- Lower	NR Not Ranked

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Abbreviations Used in S&P Equity Research Reports

CAGR- Compound Annual Growth Rate
CAPEX- Capital Expenditures
CY- Calendar Year
DCF- Discounted Cash Flow
EBIT- Earnings Before Interest and Taxes
EBITDA- Earnings Before Interest, Taxes, Depreciation and Amortization
EPS- Earnings Per Share
EV- Enterprise Value
FCF- Free Cash Flow
FFO- Funds From Operations
FY- Fiscal Year
P/E- Price/Earnings
PEG Ratio- P/E-to-Growth Ratio
PV- Present Value

R&D- Research & Development
ROE- Return on Equity
ROI- Return on Investment
ROIC- Return on Invested Capital
ROA- Return on Assets
SG&A- Selling, General & Administrative Expenses
WACC- Weighted Average Cost of Capital

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In North America

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In Europe

As of June 30, 2009, research analysts at Standard & Poor's Equity Research Services Europe recommended 27.7% of issuers with buy recommendations, 46.8% with hold recommendations and 25.5% with sell recommendations.

In Asia

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4-STARS (Buy): Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

3-STARS (Hold): Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

2-STARS (Sell): Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price is not anticipated to show a gain.

1-STARS (Strong Sell): Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks: In North America the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are generally the S&P Europe 350 Index and the S&P Asia 50 Index.

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