COMMENTARY

November 7, 2008

Dear clients and colleagues,

If there is anyone out there who expected the Obama victory as a turning point of the market sentiment, this week is not the answer. The pre-election rally was followed by a sharp two-day slump. Worse-than-expected data continued to worry investors. US auto sales in Oct came in at 17-year low, ISM Manufacturing Index at 26-year low, and US unemployment rate at 14-year high.

In the next 6 to 12 months, we will not be surprised to see more bad news due to lagging effects of policy change. However, rate cuts and stimulus measures have been effectuated at such an aggressive manner and a worldwide scale that we believe the global economy is on the right track. Just this week, several central banks slashed their interest rates again and signaled further reduction if necessary, including Bank of Korea, Bank of England and European Central Bank. As a result, global financing cost continued to decline. LIBOR today is at 4-year low.

We reiterate our optimism on the fundamentals of global economy, and continue to focus on our portfolio and stock pickings.

Several companies in our portfolio reported this week. On balance, these companies continued to report very strong numbers. For example, Alvarion (ALVR UQ), a leading provider of WiMAX™ and wireless broadband solutions, announced record revenue that grew 23%. Net income grew 29%. Comstock Resources (CRK UN), an energy company operating in Texas and Louisiana, reported fourfold profit increase from continuing operations, which reflects strong production growth (+23%) combined with higher oil and gas price. Perot Systems (PER UN), a global provider of IT services and business solutions, reported revenue up 9%, and EPS up 25%. Ormat Technologies (ORA UN), a pure play in the US geothermal power sector, reported revenue up 26% with profit flat, due to weakening US$ and expenses related to an acquisition which did not materialize. Autogrill (AGL IM), reported revenue up 13% but profit drop of 14% due to lower operating margin. Alfresa (2784 JT), a Japanese healthcare consortium, reported revenue up 17%, but profit drop of 34%. Nakanishi (7716 JQ), a leading manufacturer of precision rotary instruments for dental and industry use, reported revenue growth of 5% with flat EPS.

The company we will profile this week is Chico's FAS, www.chicosfas.com
(CHS UN, US$3.03). market cap: US$542M, no debt, cash US$278M, gross margin 52.7%, 1yr return: -75%, ev/t12 ebitda: 2.3x.

Established in 1983, Chico's FAS, Inc. is a women's specialty retailer in the US, operating under 3 brands: Chico's, White House | Black Market, and Soma Intimates. It has over 1000 stores across the country. Front-line stores are all in the up-scale locations.

Competitive advantage: Strong brand with distinctive product selection and in-house design; nationwide distribution network.

Growth Strategy: Distribution strategy through new-store opening and existing store expansion.

Investment theme:

Niche player with strong brand: Unique design and excellent quality capture a niche market of fashion-conscious mature women aged 35-55 with moderate and high income.

Big growth potential: In terms of store number, overall US market for Chico's and WH|BM stores is expected to be 700-800 each. The numbers of existing stores represent about 60% of that market potential. In terms of population, currently the company has 3.5M member customers, and estimated the target market size as 15 million customers. There are over 63 million women aged 25-55 in the US.

Solid balance sheet: Debt free, cash rich. Growth has been mainly supported by strong cash flows, not by external financing. Since the first two share offerings in 1993, the company has not issued any more shares.

Strong management team: All members have rich experience in the apparel retail industry. The CEO has been with the firm since 1993.

Valuation:

Stock is oversold. From 2000 to 2008, net sales increased 10 folds, but Ev/t12 ebitda dropped from 9.5x to 2.3x. Although recent sales records and near-term outlook are not rosy due to difficult macroeconomic conditions, we believe Chico's strong balance sheet will help weather the financial crisis. With more retailers filing bankruptcy, the company is likely to gain market share after the turmoil thanks to its competitive advantages.

Our target price is $5, for a 65% expected return.

So much for the market excitements this week. Can we still enjoy the nice weekend ahead? Yes, we can.

Best regards

Qing Ji
Analyst