COMMENTARY

GLOBAL ALPHA

February 26th, 2009

Dear clients and colleagues,

This week started with a black Monday on concern of a deepening recession. US stocks slumped to a 12-year low. Later on several economic data came out worse-than-expected, such as US housing prices, existing home sales, and consumer confidence, etc. Market sentiment is still shaky, despite the fact that stocks are at the cheapest valuation since 1986.

We remain positive on the market recovery this year. In the near term, the dust of liquidation may still take a while to settle down, with hedge funds struggling on their redemption backlogs.

Recently I spent one month in China, visiting 8 cities along the coastal areas such as Beijing, Shanghai and HK. As expected, global financial crisis has seriously affected China's economic growth, especially in the export-dependent southeast regions. The word 'Crisis' appears in headline news everyday and everywhere. However, there are calmness and slight optimism in the air behind the extreme caution of the tsunami effects. People appreciate the bold and swift government action, which rolled out a 4 trillion yuan (US$585 billion) stimulus package as early as in Nov 2008. The high saving rate of 35% also provides certain comfort for China to weather the uncertainties ahead. Later I will send you a detailed letter on my observations there.

7 of our companies reported year-end earnings, mostly good results. Unit Corp, a US energy company engaged in oil and gas drilling and exploration, had record sales up 17% y/y, down 6.8% q/q, and guided a cautious plan for 2009 in response to weakness in commodities prices. Ormat Technologies, a leading geothermal power producer in the US, reported sales up 16.5% y/y, up 11.8% q/q, and guided another 13%-17% sales growth in 2009. It will benefit directly from the US stimulus bill in taxation, cash grant and financing. Mine Safety Appliances, a global leader in sophisticated safety products, reported net sales up 15% y/y, up 8% q/q, and commented further cost-cutting to weather the economic slowdown.

This week we will profile:

Citic 1616 (1883 HK - HK$1.13)
www.citic1616.com

Citic 1616 is a telecom service provider with a leading position in inter-operator connectivity in Asia, particularly focusing on China & HK. It provides hubbing services to 304 telecom operators in 53 countries. In 1H2008 alone, it handled over 3.47 billion minutes of international and roaming voice traffic, and 0.99 billion SMS. Two biggest shareholders are Citic Pacific 53%, and Government of Singapore Investment Corp 8%.

Market cap $288M, no debt, cash $112.3M, div yield 4.5%, p/e 12/09 5.85x, roe 23.6%, ev/ebitda (TTM) 3.4x, sales: $247M, 3-year sales CAGR: 12%, one year return -35%.

Target Market Size
The company has 60% market share in voice hubbing from overseas to China, 20% market share in voice hubbing from China to overseas, and 80% market share in SMS hubbing in both ways.
Mobile subscribers in China will reach 681 million by 2010, growing at 13% per year.
SMS and MMS are expected to grow at 12.8% and 33.7% per year respectively.

Competitive advantages
First mover in the inter-operator industry in China where entry barriers are high.
Economy of scales: It is the No. 3 carrier in the world and No. 1 in Asia for voice hubbing services, ranked by international minutes.

Growth strategy
Increasing market penetration in China.
Actively looking for M&A opportunities for global expansion, backed by $112M cash.

Risk
General economic downturn.

Investment Theme
Favorable industry trend: China is the largest telecom market in the world with high growth potential.
International traffic is increasingly passed through hub operator, from 55.4% in 2006 to 56.4% in 2007.

Valuation
Target price = HK$2.48 for a 119% return, using DCF model at growth rate of 10% for the first 7 years, 6% at maturity, risk premium of 10%, and payout at maturity of 45%.

Have a good week.

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Analyst