COMMENTARY

GLOBAL ALPHA

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Dear clients and colleagues,

Extreme volatility has driven the market for another week. Despite joint efforts of major central banks, there is no quick fix to the economic slowdown.

The market did not show any sign of sustainable rally. Investors are so nervous that they do not react to data in a rational fashion. Yesterday was a good example. Because the data were mixed on the inflation (positive) and industrial output (negative), Dow was literally stir-fried up and down. As the earnings season started, you will be bombarded with more corporate news on top of the macro news. How can we digest all these? How can we see the forest without being blinded by a leave?

We believe the real sign lies in the credit market, the origin of the crisis. Credit condition is improving, albeit slowly. LIBOR spread continued its decline for the 5th day, after US$254B of emergency cash provided by central banks and US$59.2B of government bailout on UBS. Many countries announced the guarantee of bank deposits. We remain positive and expect the credit condition to ease gradually.

This week, one company in our portfolio reported its Q3 earnings. AptarGroup (ATR US) is a world leader of dispensing systems. Products include pumps, dispensing closures and aerosol valves. Q3 sales were up 10% and EPS were US$ 0.57/share, up 8% y/y. Fundamentals remain solid and the company plans to introduce many new products in 2009.

Due to the overshooting and uncertainties in the market, many good stocks become very cheap, attracting companies to buy back their shares. The company I will present this week has bought nearly 0.1% of their outstanding shares in the past few days. It is called HongKong and Shanghai Hotels.

HongKong and Shanghai Hotels (45 HK), www.hshgroup.com, is engaged in the ownership and management of prestigious hotel, commercial and residential properties in key destinations in Asia and the USA. Three revenue streams are: 1) Nine hotels: eight under the brand of Peninsula (78% of revenue in 2007); 2) Seven properties: for lease and sales (12%); 3) Four ancillary businesses: clubs and consultancy services (10%). It was incorporated in 1866, one of the first companies listed on the HK Stock Exchange.

Mkt cap: USD1.2B, div. yield: 2.82%, adjusted p/e: 8.7x, p/b: 0.43, roe 18.2%, net debt/assets: 4%, ev/t12 ebitda: 6.1x, operating margin: 25.9%, 1-yr return: -51%.

Competitive Advantage: Strong brand of Peninsula leads to healthy pipeline. Peninsula Shanghai is opening in 2009. A co-development of hotel project in Paris is also planned.

Growth Strategy: Develop new high-end hotels catering to growing affluent travelers especially Asians. Maintain a steady and sustainable growth.

Insider Ownership: Chairman and his family (Kadoorie) hold 55% of shares in issue. This family has been the shareholder since the turn of the 20th century.

Our target price for the company is HK$ 9.9. The stock currently trades at HK$ 6.56.

Have a good week.

Qing Ji, Analyst