

Equities

26 May 2011 | 36 pages

When to Accumulate Risk Assets

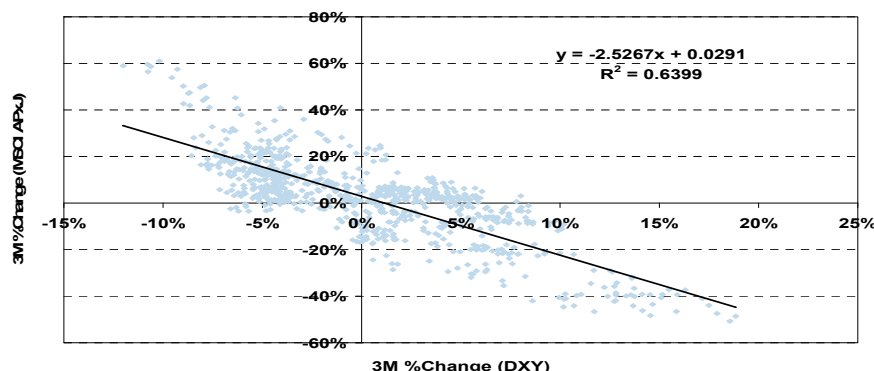
Market Structural Buy – What to Purchase after a Correction

■ Derivatives
■ Equities

Daniel Lam, CFA
+852-2501-2718
daniel.k.lam@citi.com

- **When to Buy Risky Assets** — 78.28 is CIRA's 0-3M forecast for DXY, 3% higher than current levels. From historic regression, this corresponds to a 5% correction in Asian equities (to 453 in MSCI Asia Pacific ex-Japan, from 475.17 on 23-May-11). We recommend accumulating risk assets when the index approaches this level.
- **Still constructive medium term** — Fear of slowing growth, European sovereign problems and excessive short positioning caused the USD to rebound and hurt risk assets. However: 1) CIRA believes US growth is still on track, 2) Asia still delivering robust economic data, 3) Liquidity still abundant as real rates remain low vs. history.
- **Six Trades** — 1) **Buy HSCEI 29-Dec-11 1x2 call spreads** at 2.75% premium to express moderately bullish upside in China and take advantage of flat skew, 2) For investors who need a hedge for the short term, consider either **AS51 1x1 16-Jun-11 93%/ATM put spreads** to take advantage of steep skew, or **Hang Seng 29-Jun-11 95% puts** as IVOL nears all-time low with relatively flat skew, 3) **Express upside via calls** to take advantage of a low volatility. Screen of stocks that rallied by +60%/+20% in the past 12M/3M and still have 20% upside to CIRA target price, 4) **Long EM over DM outperformance call**: 12M 105% outperformance call structure of equally weighted basket of (HSCEI, NIFTY, KOSPI2 and TWSE) over SPX costs 4.1% premium. EM underperformed DM in the past month despite robust economic data. Fears of growth slowdown may induce investors to go for EM, 5) **Buy worst-of commodities call**: 3Yr USD ATM worst-of call on copper, nickel and gold costs 5.1% premium. Buy Dec-12 Nickel futures as it lagged other commodities over the past month. Consider substituting agricultural commodities such as corn to cheapen premium, 6) **Scale into currencies on inflationary theme: KRW, MYR and AUD**

Regressing MSCI APxJ vs. DXY*. 3% Rise in DXY => 5% Fall in Asian Equities



Source: Citi Investment Research and Analysis
* Using data for the last three years

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Citi Investment Research & Analysis is a division of Citigroup Global Markets Inc. (the "Firm"), which does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Contents

| | |
|---|-----------|
| Structurally Bullish: When and What to Buy | 3 |
| When to Accumulate? | 3 |
| Still Constructive Medium-Term | 4 |
| Trades Summary | 10 |
| 1. Buy HSCEI 1x2 Call Spreads | 10 |
| 2. Short-Term Hedges via AS51 Put Spreads and Hang Seng Puts | 12 |
| 3. Express Upside via Calls | 13 |
| 4. Long Outperformance Call: EM over DM | 14 |
| 5. Buy Worst-of Commodities Call on Weakness | 14 |
| 6. Long Currencies with Inflationary Pressure | 19 |
| Evergrande Real Estate Group | 24 |
| Valuation | 24 |
| Risks | 24 |
| Kia Motors | 24 |
| Valuation | 24 |
| Risks | 24 |
| Yanzhou Coal Mining | 25 |
| Valuation | 25 |
| Risks | 25 |
| Hyundai Mobis | 25 |
| Valuation | 25 |
| Risks | 26 |
| Hyundai Motor | 26 |
| Valuation | 26 |
| Risks | 26 |
| Appendix A-1 | 29 |

Structurally Bullish: When and What to Buy

This research report is not intended for US clients other than Qualified Institutional Buyers. Investing in options is not suitable for all investors. Please see the disclosures concerning the risks of investing in options below and discuss with your Financial Advisor whether this particular options strategy is suitable for you. Note that all option prices are indications, based on closing prices as of May 24, 2011. Interested investors should contact our trading desk for updated price and liquidity information. Also, complex option strategies may entail higher commissions costs. Please direct all options-specific questions to Daniel Lam.

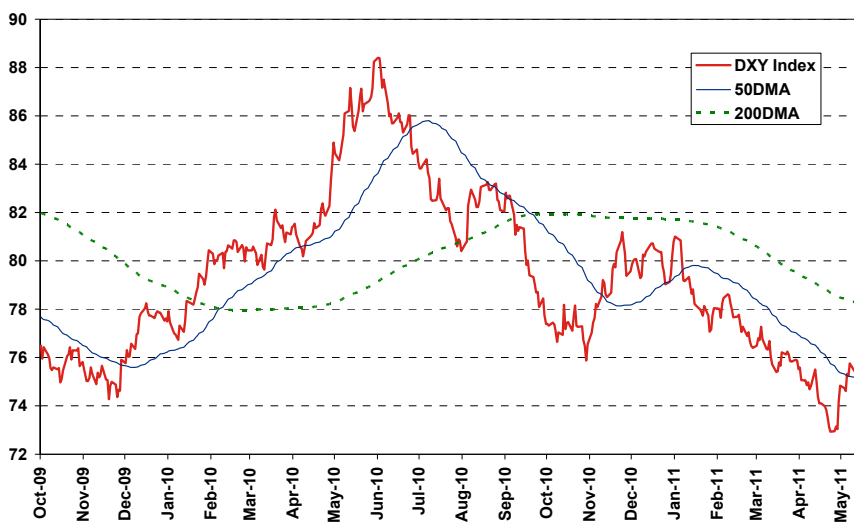
When to Accumulate?

In May-11, we saw: 1) USD rebound from technically oversold level, 2) fear of slowing growth induced investors to unwind "risk-on" positions and cover shorts on funding currency, i.e. USD, and 3) Continuing problems in European Sovereign leading to falling EUR => rising DXY.

We advised investors to hedge against a USD rebound in the recent article [What is China Hungry for? - Five Trades for "The Changing Shape of Global Mining Markets" \(19-Apr-11\)](#) via 16-Jun-11 AS51 put spreads. While we are cautious short-term, we are constructive over the medium-term (see next section). We analyse the DXY to look for accumulation levels for risky assets:

- Technically, DXY has risen above its 50DMA. The next stop is 200DMA, which is now at 78 (Figure 1).

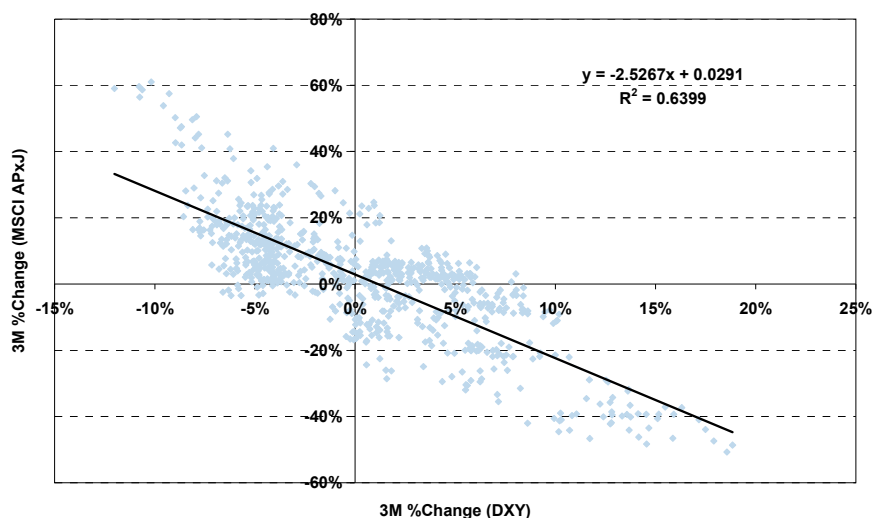
Figure 1. DXY rose above its 50DMA. Next stop is 200DMA, currently at 78



Source: Citi Investment Research and Analysis

- Incidentally, 78.28 is CIRA's latest Fx Forecast for DXY in 0-3M horizon. This represents 3% upside for DXY, using 76.142, the closing level on 23-May-11.
- How do we "connect" currency moves with Asian equities? We regress 3M change in DXY vs. 3M change in MSCI Asia Pacific ex-Japan index (Figure 2). R-Squared is reasonable at 0.64. We work out the index level suggested by the regression at various DXY models (Figure 3). **A 3% appreciation in USD corresponds to 453 for the index or a 5% correction from 475.17, the closing level on 23-May-11**

Figure 2. Regression of MSCI Asia Pacific ex-Japan vs. DXY*



Source: Citi Investment Research and Analysis

* Using data for the last three years.

Figure 3. 3% Rise in DXY to 78 => 4.7% Drop to 453 in MSCI Asia Pacific ex-Japan*

| Change in DXY | Corresponding Change in MSCI APxJ | Level in DXY | Level in MSCI APxJ |
|---------------|-----------------------------------|--------------|--------------------|
| 3% | -4.7% | 78.4 | 453 |
| 4% | -7.2% | 79.2 | 441 |
| 5% | -9.7% | 79.9 | 429 |
| 6% | -12.3% | 80.7 | 417 |
| 7% | -14.8% | 81.5 | 405 |
| 8% | -17.3% | 82.2 | 393 |
| 9% | -19.8% | 83.0 | 381 |
| 10% | -22.4% | 83.8 | 369 |

Source: Citi Investment Research and Analysis

* As of 23-May-11. DXY = 76.142, MSCI Asia Pacific ex-Japan = 475.17

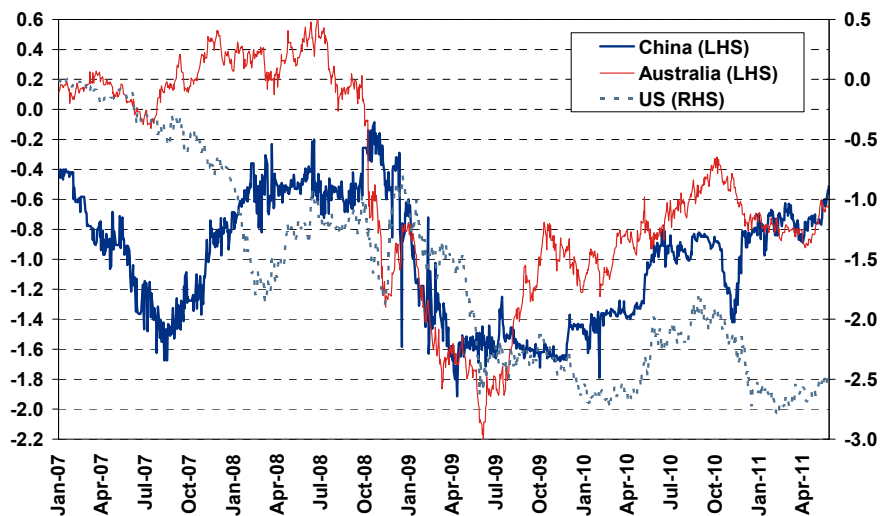
Investors may consider adding risks to their portfolio as DXY reaches 78, or when Asian equities correct by another 5%. CIRA remains structurally bearish USD/bullish risk assets over 6-12M horizon (See our next section).

Still Constructive Medium-Term

Price action in rates curves may shed some light. If we concentrate on the 2Yr/10Yr space (Figure 4):

- We first saw EM rate curve bear flatten as inflation returns to these markets the fastest after a financial crisis
- Following that, over the past month we saw bear flattening in pseudo-emerging markets such as Australia
- US rates curve remain the “flattening laggard”

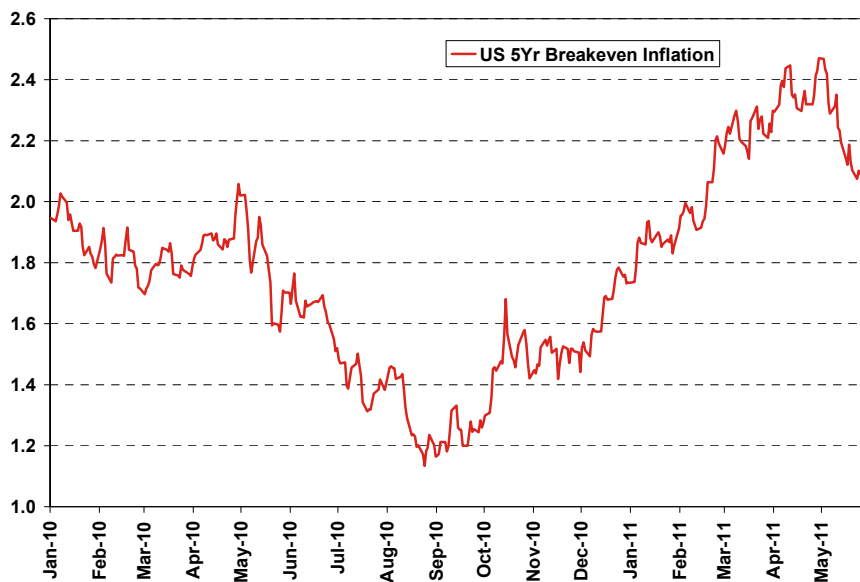
Figure 4. EM rates curve flattened first, followed by pseudo-EM...Could US be next?*



Source: Citi Investment Research and Analysis
* 2Yr/10Yr IRS Spread

Recent data shows the US curve has in fact been bull flattening, coming from a fall in longer-term yields caused by a pullback in breakeven inflation (Figure 5).

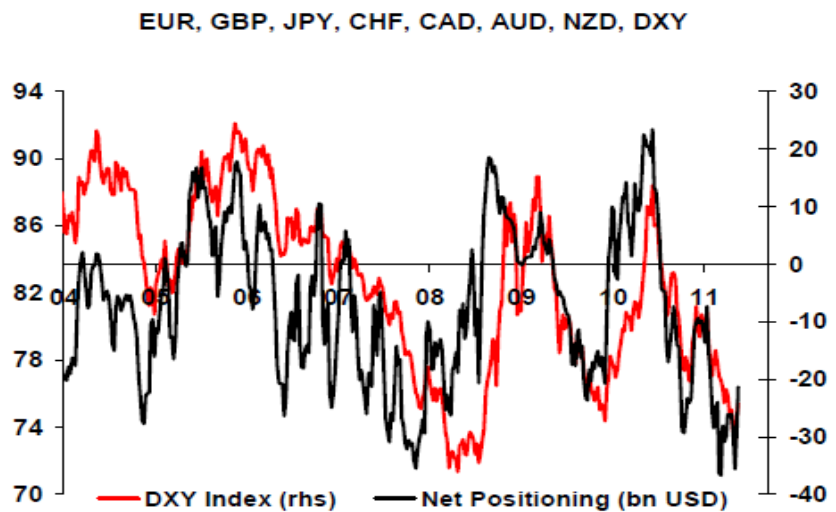
Figure 5. US 5Yr breakeven inflation pulled back



Source: Citi Investment Research and Analysis

Fear in growth slowdown, alongside excessive speculative short position, caused the USD to rebound from an oversold state over the past few weeks (Figure 6). This has been hurting risk assets.

Figure 6. Still large short positions in USD

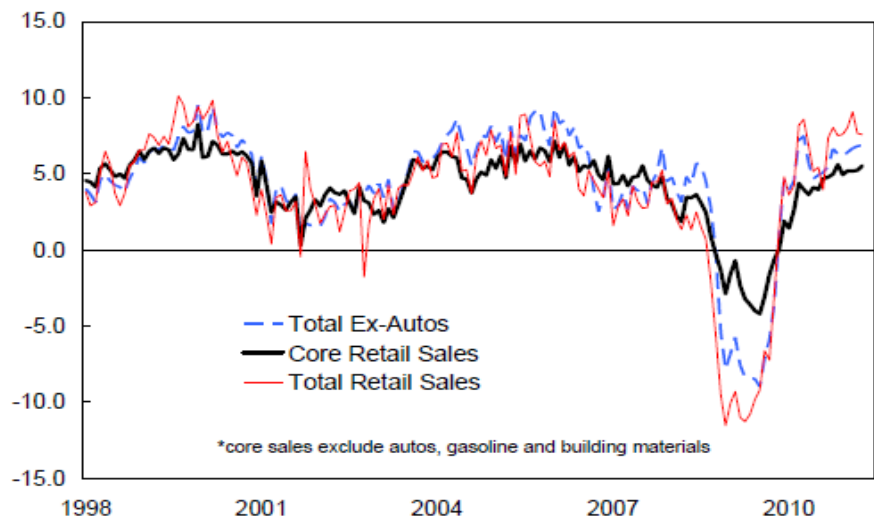


Source: Citi Investment Research and Analysis

While short-term uncertainties may continue, we remain constructive about Asia and risk assets over the medium term:

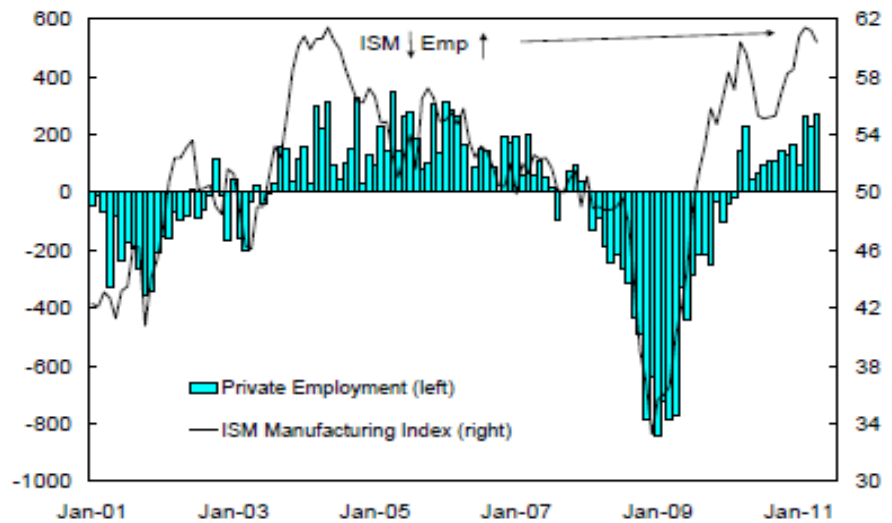
- CIRA's Economics team believes despite recent disappointments, US growth recovery remains on track. For example:
 - US sales figures still look healthy (Figure 7)
 - US private payroll still has room to catch up with ISM Manufacturing indices (Figure 8)

Figure 7. US retail sales, ex-autos and core retail sales, YoY, still looking strong



Source: Citi Investment Research and Analysis

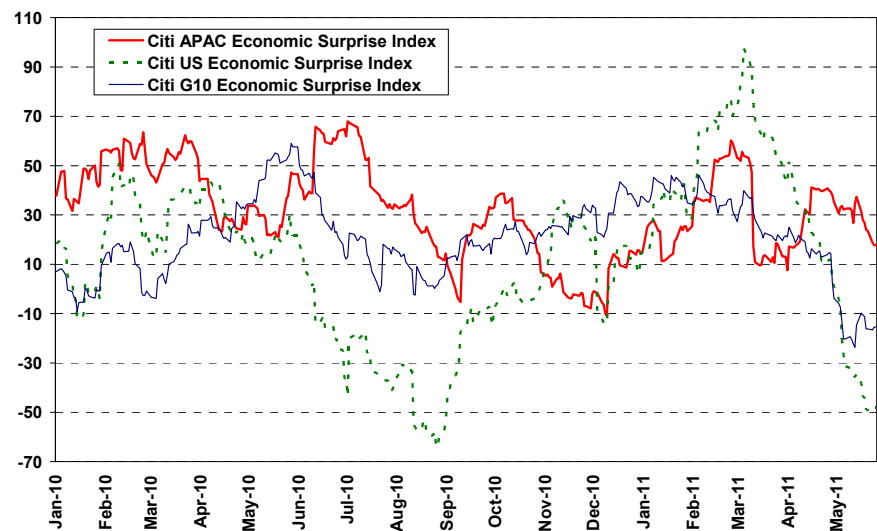
Figure 8. US private payrolls have room to catch up with ISM manufacturing indices



Source: Citi Investment Research and Analysis

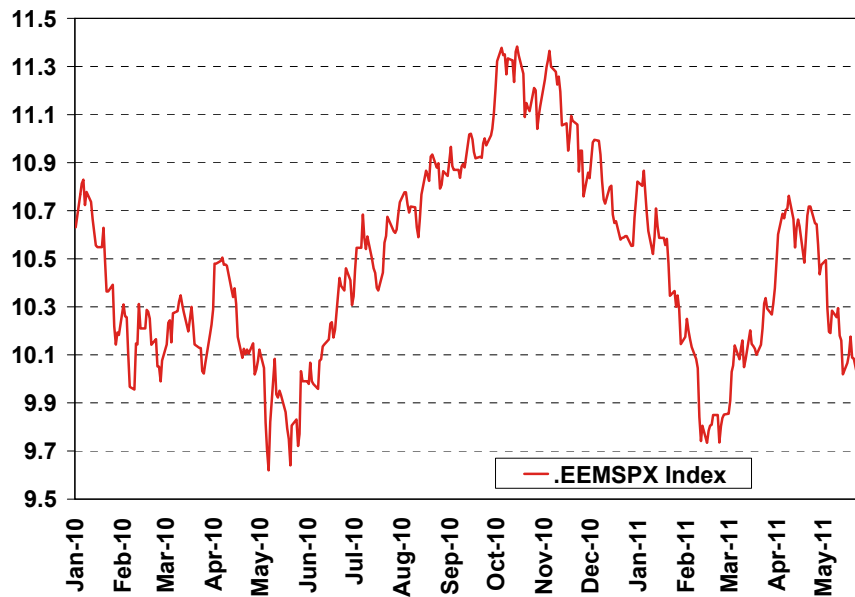
- Despite global growth concerns, Asia is still delivering robust economic data vs. DM (Figure 9). Yet EM has underperformed DM over the past month (Figure 10), due to elevated levels of actual inflation vs. expected inflation (Figure 11). However, as investors fear a global growth slowdown, they would look to buy into inflationary markets such as China and India – because there is growth in these markets. Moreover, as Asia is a net importer of commodities, the fall in cost of purchase would help alleviate inflation

Figure 9. Asia still delivering robust economic data vs. DM...



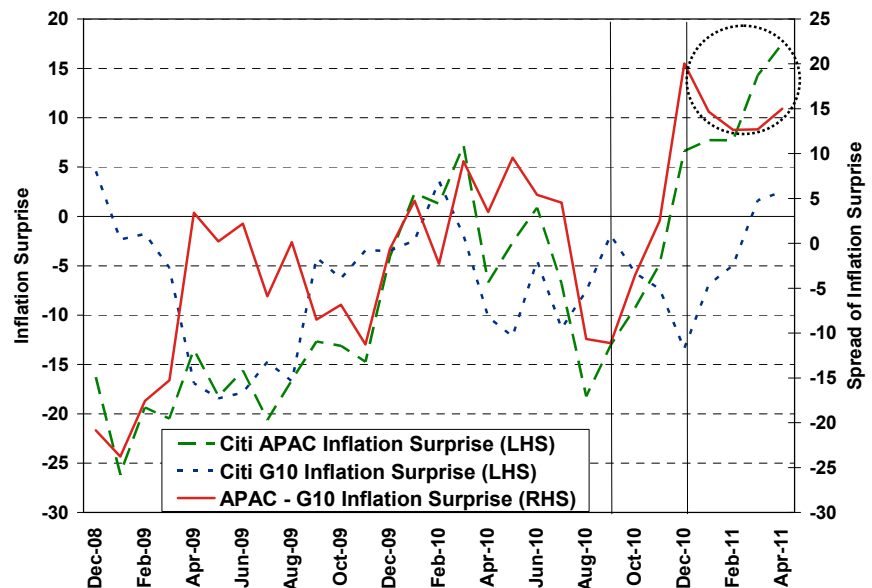
Source: Citi Investment Research and Analysis

Figure 10. ... yet EM has underperformed DM over the past month...



Source: Citi Investment Research and Analysis

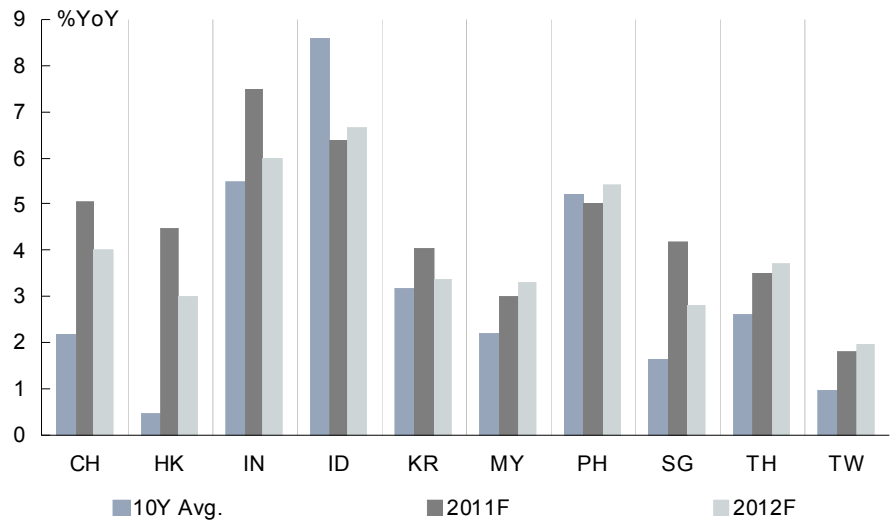
Figure 11. ...due to higher than expected inflation numbers in Asia



Source: Citi Investment Research and Analysis

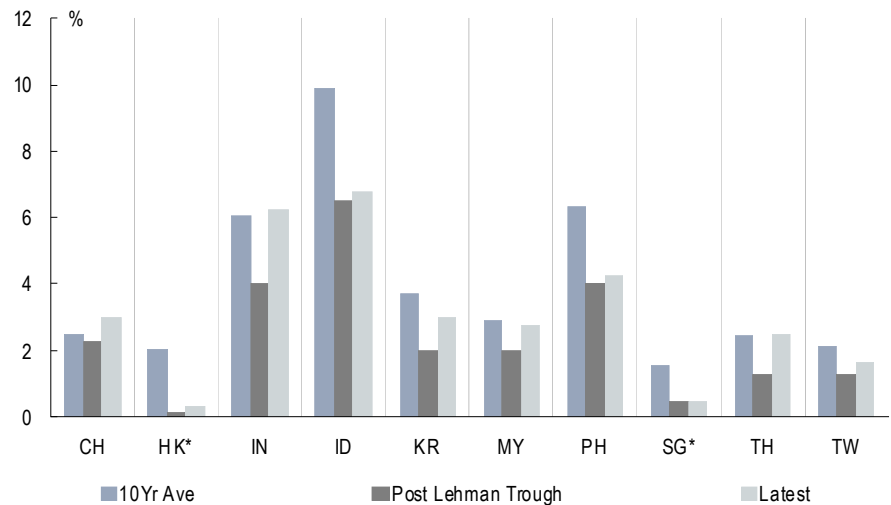
- Lastly, real rates remain very low in Asia compared to history (Figure 12 and Figure 13). As such, there is still plenty of liquidity support in these markets

Figure 12. Inflation is forecast to remain above 10Yr history for most...



Source: Citi Investment Research and Analysis

Figure 13. ...yet policy rates/short-term rates are well below 10Yr history



Source: Citi Investment Research and Analysis

Trades Summary

- Buy HSCEI 1x2 call spreads: Moderate upside. Small premium due to flat skew
- Short-term hedges via AS51 put spread and Hang Seng puts
- Express upside via calls: Lock-in profit while volatility is low
- Long outperformance call: EM Asia basket over SPX
- Use weaknesses to buy worst-of call on commodities
- Long currencies with inflationary pressure: MYR, KRW, AUD

1. Buy HSCEI 1x2 Call Spreads

Despite market correction, Asian skew is still relatively flat vs. DM skew (Figure 14). HSCEI skew is trading at the lower-end of its 2Yr percentile.

Figure 14. HSCEI skew at lower-end of its 2Yr percentile

| Index | 3M ATM IVOL | 3M 90%/110% Skew | IVOL %-tile* | Skew %-tile* |
|---------------------|--------------|------------------|--------------|--------------|
| SPX | 16.7% | 10.0% | 14.0% | 69.1% |
| TWSE | 17.1% | 3.3% | 11.2% | 35.8% |
| AS51 | 17.4% | 8.2% | 31.9% | 81.3% |
| Hang Seng | 17.6% | 3.7% | 2.6% | 23.1% |
| KOSPI2 | 18.5% | 6.3% | 34.3% | 59.4% |
| NKY | 19.5% | 7.9% | 18.2% | 70.4% |
| HSCEI | 20.0% | 3.2% | 0.2% | 20.4% |
| FTSE/Xinhua A50 ETF | 20.2% | 2.2% | 0.2% | 59.1% |
| NIFTY | 21.0% | 5.9% | 25.2% | 26.0% |
| SX5E | 22.1% | 9.3% | 23.0% | 71.4% |

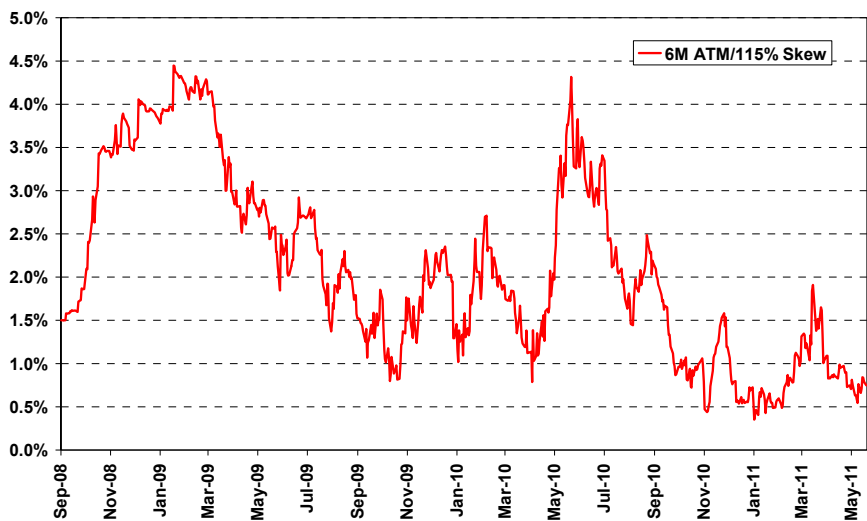
Source: Citi Investment Research and Analysis

* 2Yr Percentile

We explained our rationale why we like China in the article [Tightening Priced-In: Buy China! - 8 Trades as Asia Strikes Back](#) (06-Apr-11). We would like to express our moderately bullish view and take advantage of the flat skew (Figure 15) by:

- Recommending clients **buy HSCEI 29-Dec-11 1x2 call spread**. Referencing 12,680.99, we have ATM as lower strike, and 115% (or 14,583.14) as higher strike. The structure costs a 2.75% premium (IVOL at 21.5% and 22.2% for ATM and 115% strike respectively)

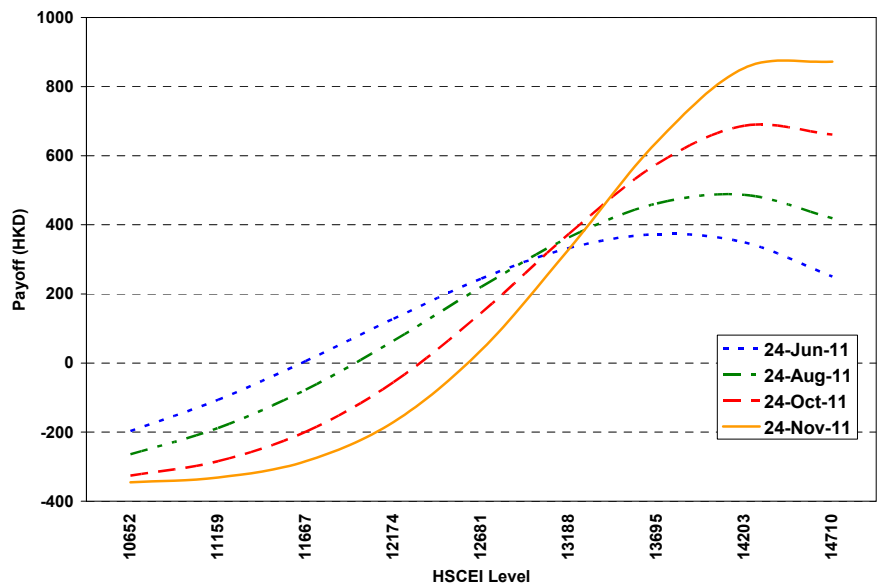
Figure 15. HSCEI 6M ATM/115% skew at low-end of the range



Source: Citi Investment Research and Analysis

- Figure 16 shows payoff at various dates of this structure, assuming volatility does not change. This structure works best if market grinds, rather than ratchets, up. In a nutshell, it starts making money if market rises by more than 2.75%. Because we sold 2x upside calls to finance a 1x ATM call, it starts to eat into profit if the market rises strongly. Upside breakeven is 27.5% at expiry.

Figure 16. HSCEI 1x2 call spread works best if market grinds, rather than ratchets up



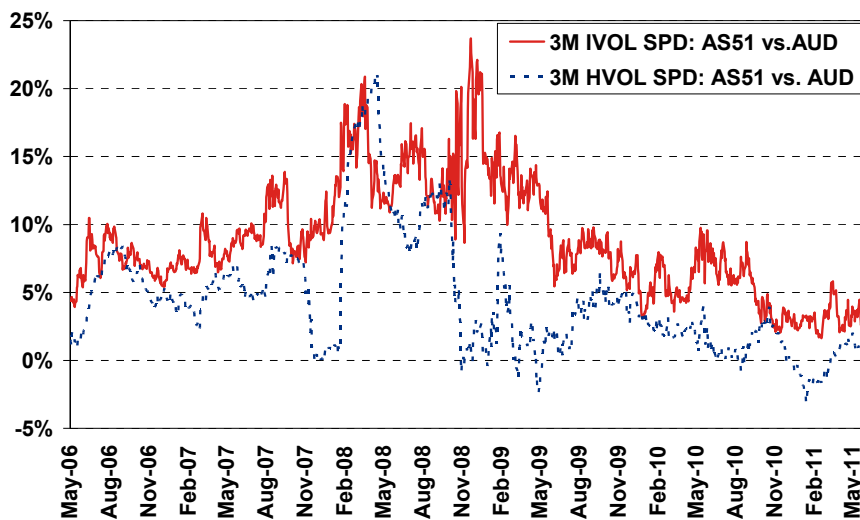
Source: Citi Investment Research and Analysis

2. Short-Term Hedges via AS51 Put Spreads and Hang Seng Puts

We recommend investors accumulate risky assets after the market pulls back by 5%. However, if investors need to hedge against existing positions for the short-term, they should look at two other indices we highlight in Figure 14 -- AS51 and Hang Seng:

- We still see best value in AS51 put spreads – a reiteration of our idea in the article [What is China Hungry for? - Five Trades for “The Changing Shape of Global Mining Markets”](#) (19-Apr-11):
 - It makes sense as the index has the steepest skew among key global indices
 - Using spot reference at 4,628.80, **1x1 AS51 16-Jun-11 4,300/4,625 put spreads (about 93%/ATM)** would cost an indicative 1.3% premium – which gives over 4x risk-reward. The structure would be selling skew at 7% vol points (IVOL at 24.1% and 17.3% for 93% and ATM strikes respectively). The maximum loss is the premium paid.
 - We still see AS51 IVOL trading at historic cheap levels vs. AUD IVOL (Figure 17) and a value hedge against short-term USD strength

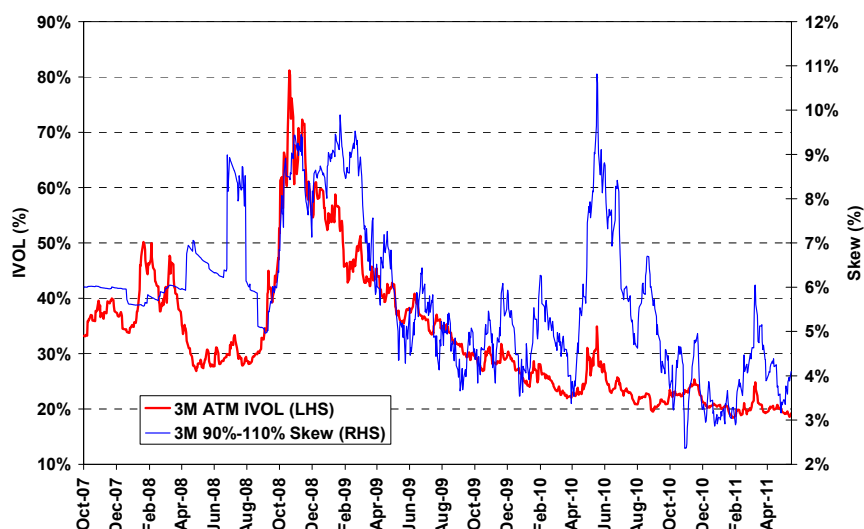
Figure 17. AS51 IVOL still trading at undemanding level vs. AUD's



Source: Citi Investment Research and Analysis

- Elsewhere, Hang Seng IVOL is near its all-time low with its skew relatively flat (Figure 18), making puts cheap:
 - CIRA has raised its forecast for 2011 Hong Kong CPI to 5.5% YoY, higher than Government's forecast of 5.4% YoY. Earlier in the month, HKMA stated Hong Kong may hike rates even though the FED may still be on hold
 - Using spot reference at 22,730.79, **Hang Seng 29-Jun-11 puts** (about 95% strike) would cost an indicative 78bps, or 18.9% IVOL (2M/1M HVOL = 13.9%/12.9% respectively). The maximum loss is the premium paid.

Figure 18. Hang Seng IVOL and skew near their lows



Source: Citi Investment Research and Analysis

3. Express Upside via Calls

Since volatility is low in general, there is value expressing bullish positions via upside calls instead of stocks. This is especially useful if investors want to lock in profit on names that have rallied, and keep downside to premium paid.

We recommend investors express upside via 3M 110% calls for the stocks in Figure 19, which is a screen of Pan-Asian stocks that fulfill the following:

- Rallied by more than 60% and 20% for the last 12 and 3 months respectively
- Still more than 20% to CIRA price target
- CIRA has BUY ratings

Figure 19. Pan-Asia candidates to express upside via calls

| Ticker | Name | Country | Last Px* | ETR | 12M Rtn | 3M Rtn | Premium** | IVOL |
|-----------|---------------|---------|----------|-------|---------|--------|-----------|-------|
| 3333 HK | Evergrande*** | China | 5.67 | 16.9% | 200.9% | 64.9% | 5.0% | 43.0% |
| 000270 KS | Kia Motors | Korea | 70400 | 32.1% | 153.2% | 22.3% | 5.1% | 42.0% |
| 1171 HK | Yanzhou Coal | China | 29.9 | 27.1% | 91.7% | 32.5% | 4.7% | 41.5% |
| 012330 KS | Hyundai Mobis | Korea | 344000 | 33.4% | 86.4% | 29.7% | 4.3% | 38.0% |
| 005380 KS | Hyundai Motor | Korea | 230500 | 34.5% | 71.6% | 31.7% | 4.5% | 39.0% |

Source: Citi Investment Research and Analysis

* As of 24-May-11

** 3M 110% Call. Indicative.

*** ETR falls short, but including as it is one of CIRA's top picks in Chinese properties, and it has exceeded return screen by large margin

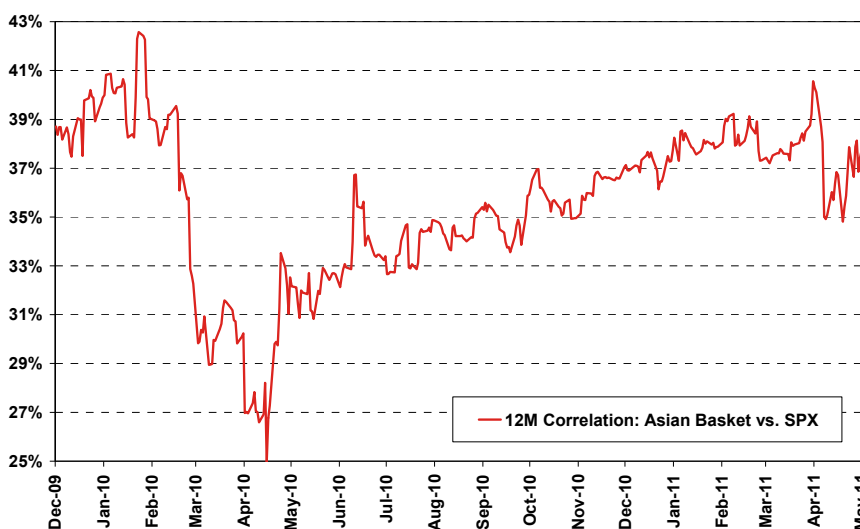
Kia Motors (000270.KS; W70,200; 1M); Hyundai Motor (005380.KS; W230,500; 1M); Hyundai Mobis (012330.KS; W343,000; 1M); Yanzhou Coal Mining (1171.HK; HK\$30.25; 1M); Evergrande Real Estate Group (3333.HK; HK\$5.60; 1H)

4. Long Outperformance Call: EM over DM

Based upon our argument earlier in this article, we reiterate buying EM over DM. We recommend investors buy a **12M 105% outperformance call structure of an equally weighted basket of (HSCEI, NIFTY, KOSPI2 and TWSE) over SPX**, at a 4.1% premium, which is the maximum loss for this structure:

- **Payoff at Expiry = Max (0%, 12M return on Asian basket – 12M return on SPX -5%)**
- Investors are short correlation because they want underlyings to diverge in performances. Figure 20 shows correlation between Asian basket and SPX is currently high vs. history, making such structures attractive.

Figure 20. Outperformance call makes sense: high correlation between Asian Basket and SPX



Source: Citi Investment Research and Analysis

5. Buy Worst-of Commodities Call on Weakness

In the article [What is China Hungry for? - Five Trades for “The Changing Shape of Global Mining Markets”](#) (19-Apr-11), we highlight the risk of USD rebound in the short term, and corrections in risk currencies and commodities. However, in the longer-term we are structurally bullish on commodities:

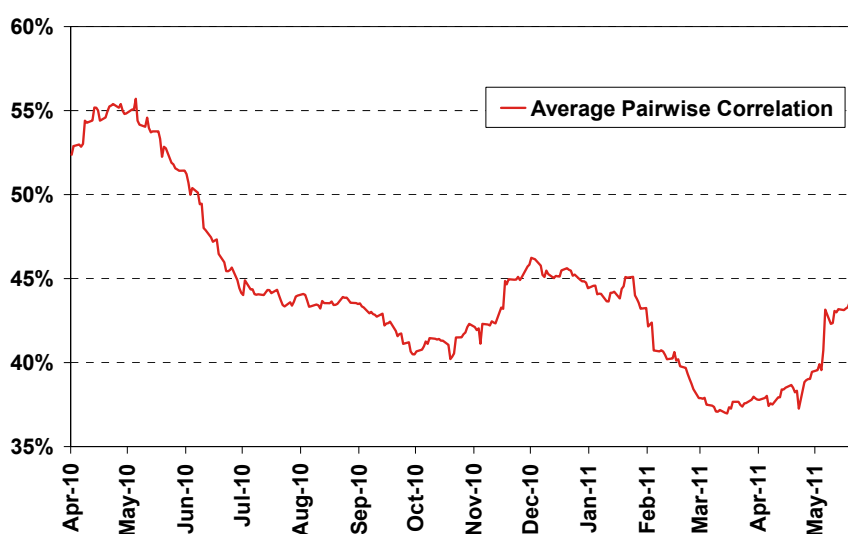
- CIRA commodities research team believes the recent sell-off has brought commodities back to levels that better reflect supply and demand fundamentals [Global Commodities Daily: Fundamentals Back to the Fore](#) (16-May-11).
- Ongoing global recovery with strong EM growth
- Structurally weak USD medium to long-term (i.e. 3M and beyond)
- Prospects of higher demand for commodities for inflation protection

We reiterate our trading idea in the aforementioned article: to buy **3Yr USD ATM Worst-Of Call on copper, nickel and gold** – three metals which China has low reserve cover, at an indicative 5.1% premium for spot underlyings. At expiry:

$$\text{Payoff} = \text{Notional} * \text{Max} [\text{Min} (\% \text{ Return Copper}, \% \text{ Return Nickel}, \% \text{ Return Gold}), 0]$$

Breakdown in correlation between the three commodities is one key risk. If any one of them does not perform, investors will suffer. We update average pairwise correlation between the three commodities. While it has risen since our last update due to market correction, it is still low vs. history (Figure 21).

Figure 21. Value in worst-of call between copper, nickel and gold as average pairwise correlation is still low*



Source: Citi Investment Research and Analysis
* 6M correlation

On average, the futures curves are still showing flat or backwardation, which leads to low option premium. Buying this worst-of call structure is expressing the view that the curves would go into contango:

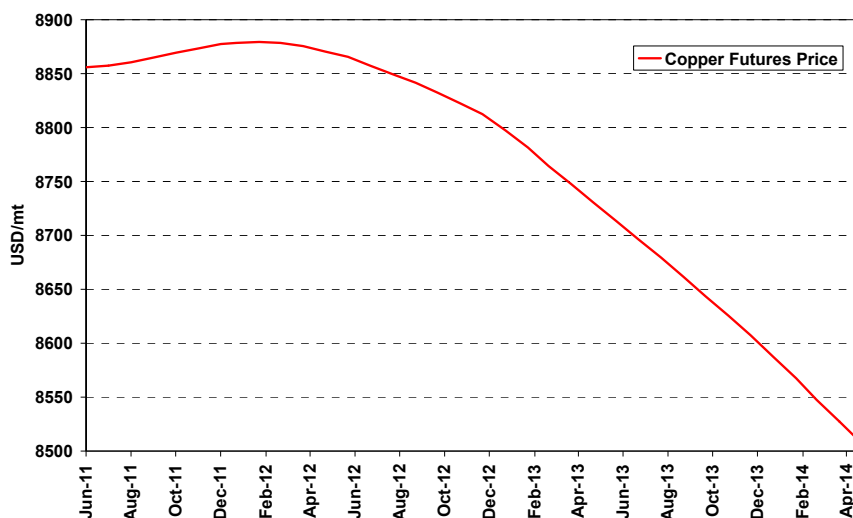
- The shape of the copper futures curve is similar to a month ago – flattish till Feb-12, then falls (Figure 23)

Figure 22. BBG futures page on commodities

| Commodity | BBG Ticker |
|-----------|-----------------|
| Copper | LPA <Comdty> CT |
| Nickel | LNA <Comdty> CT |
| Gold | GCA <Comdty> CT |

Source: Citi Investment Research and Analysis

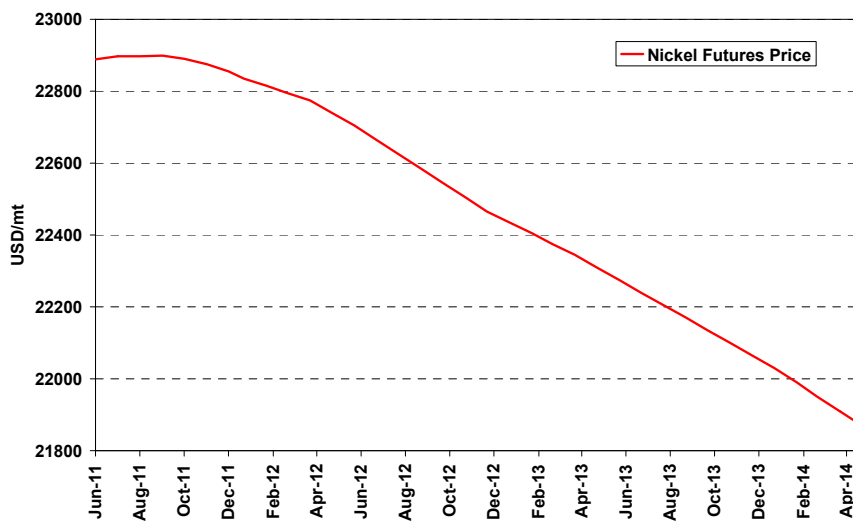
Figure 23. Copper futures curve flattish till Feb-12, then falls



Source: Citi Investment Research and Analysis

- Nickel futures curve deteriorated somewhat since our last update, heading south from Q411 (Figure 24).

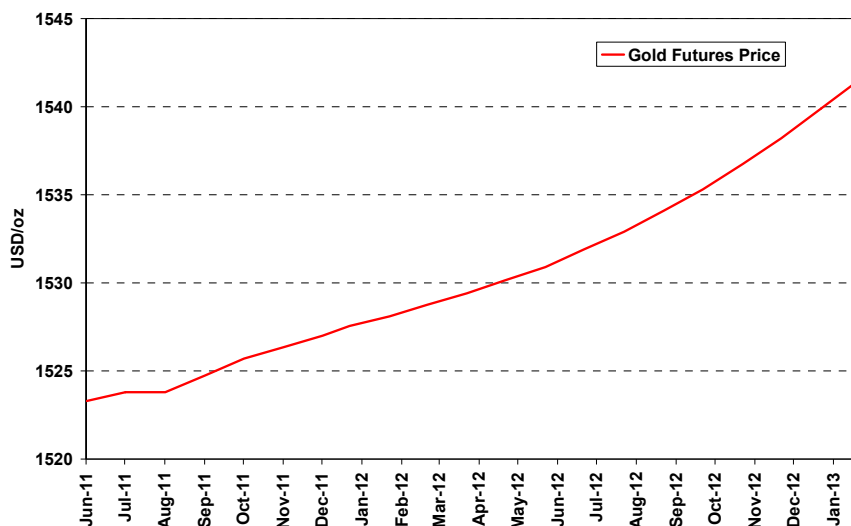
Figure 24. Nickel futures curve heads south from Q411



Source: Citi Investment Research and Analysis

- Gold futures curve is still upward sloping, but not too severe, with Feb-13 prices 1% higher than currently (Figure 25)

Figure 25. Gold futures: Feb-13 1% higher than current price



Source: Citi Investment Research and Analysis

This structure is slightly more expensive compared to a month ago, due to:

- Rise in commodities' IVOL, and
- Investors are long correlation – which has risen (Figure 21)

Thus, while there has been a fall in delta, these two factors would offset some of the mark-down in option premium. If they bought into the trade earlier, we recommend buying the laggard and express their view of medium-term rebound. Nickel is the laggard amongst the three commodities (Figure 26):

- Investors may consider **buying Dec-12 Nickel futures**, which trade at 2% lower than front-month futures. Nickel curve is the most downward sloping amongst our three commodities (Figure 24). There is reasonable liquidity going out a couple of years.
- CIRA is out-of-consensus for nickel, and believes fundamentals remain strong [Global Commodities Daily: Fundamentals Back to the Fore](#) (16-May-11). Global stainless steel output rose 21% in 2010, and from all accounts this strong rise in production followed through into 2011. While the Japan earthquake took out over 45ktpy of nickel capacity, stainless mills were not directly affected. This should help keep the market tight.

While the original article focused on China's need for metals, there is rising demand for agricultural commodities as well, such as corn (Futures: C 1 <Comdty> CT). It is used to feed animals in China, which are then consumed as meat:

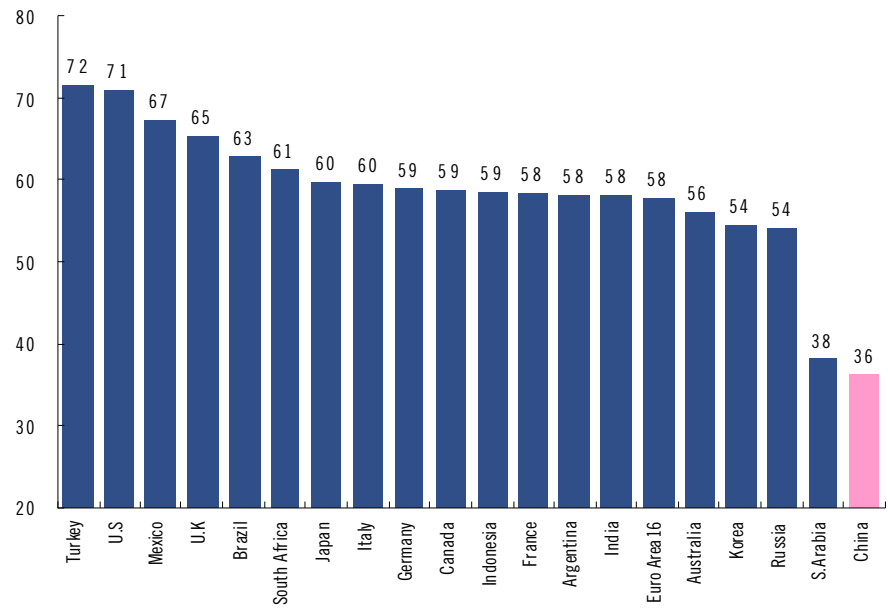
- Corn fits into our China wage inflation story well. CIRA China Strategist, Minggao Shen, highlighted China is now at its Lewis turning point in wages. Rapid wage rise would lead to increase in consumption, an area where China is lagging its G20 peers, and where the government would like to stimulate to drive growth (Figure 27). There has been a shift to a protein diet in China, as evidenced by increase in consumption of meat, eggs and milk at the expense of grains (Figure 28). Dining out has also risen (Figure 29).

Figure 26. Price change since last update

| Commodity | Price Change* |
|-----------|---------------|
| Nickel | -10.6% |
| Copper | -4.3% |
| Gold | 2.4% |

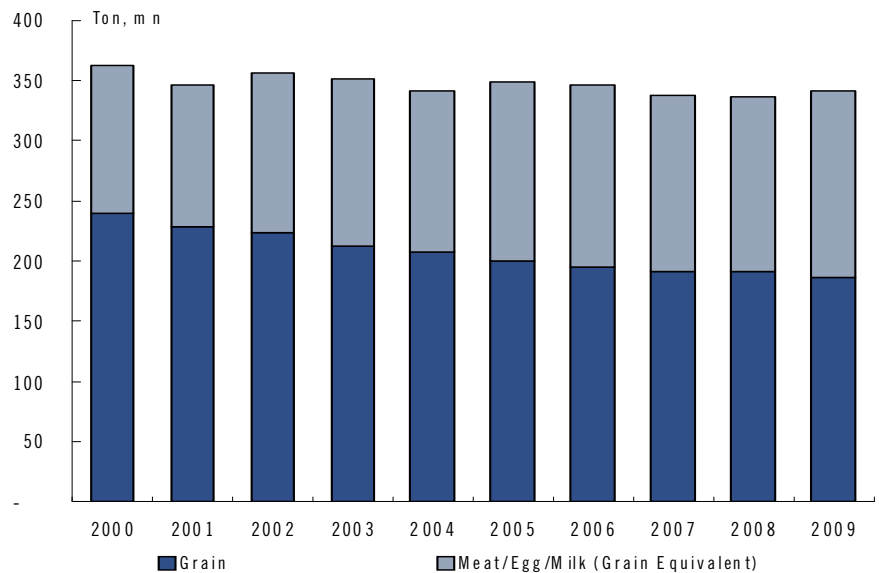
Source: Citi Investment Research and Analysis
* Since 19-Apr-11

Figure 27. China has lowest private consumption as % of GDP amongst G20 countries*



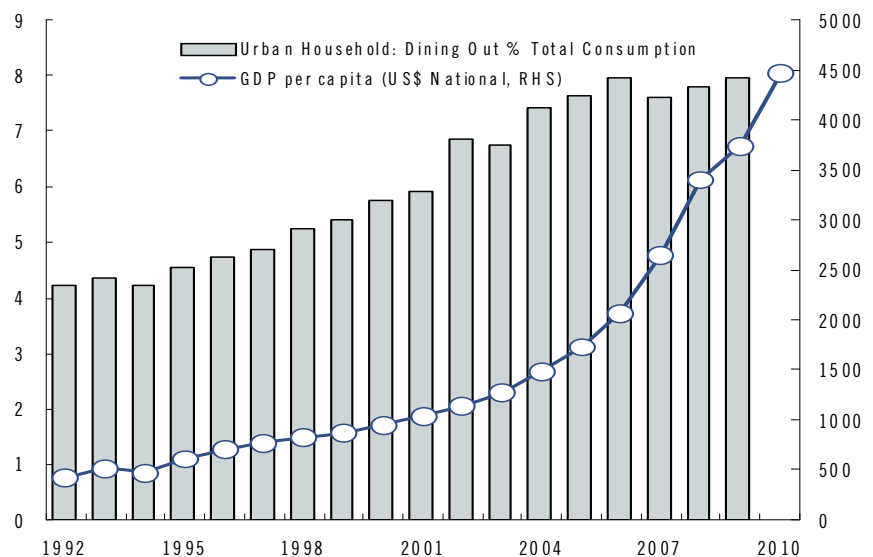
Source: Citi Investment Research and Analysis
* 2009 Data

Figure 28. Chinese rising consumption of protein diet at the expense of grain



Source: Citi Investment Research and Analysis

Figure 29. Chinese dining out more as GDP rises



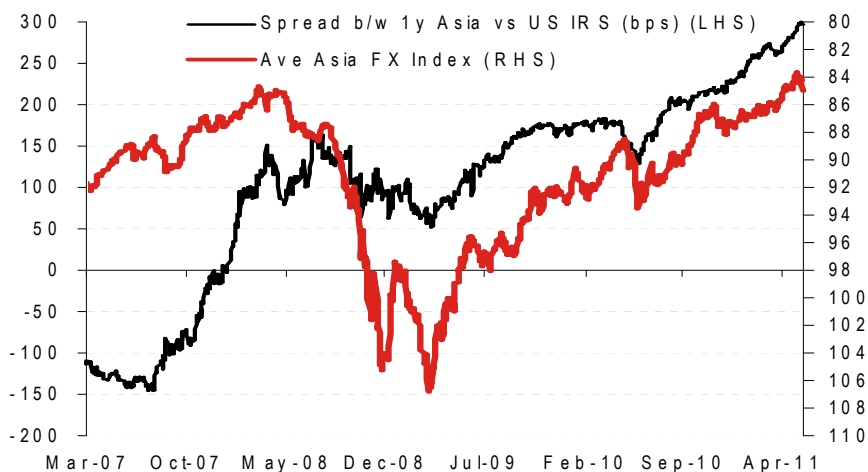
Source: Citi Investment Research and Analysis

- Corn prices have held up vs. the other three commodities. As comparison, it was down 1.3% since 19-Apr-11 due to tight supply. However, its futures curve is more downward sloping than the three commodities. For example, Jul-14 futures are 18% lower in price vs. Jul-11's. This also meant structures involving corn would be cheaper. For example, if investors feel they do not want multiple metals in our structure, they may consider **3Yr USD ATM Worst-Of Call on Copper, HSCEI and Corn** instead. The premium paid could be halved vs. our original three underlyings.

6. Long Currencies with Inflationary Pressure

Fears of slowing global growth have, for the moment, taken inflation pressure off. Currencies pulled back vs. USD. However, CIRA's economics team believes Asian Central Banks will continue to use monetary tools to control domestic inflation. Widening interest-rate differential between Asia and US is still supportive for Asian Fx (Figure 30).

Figure 30. Rising interest rate differential supports Asian Fx



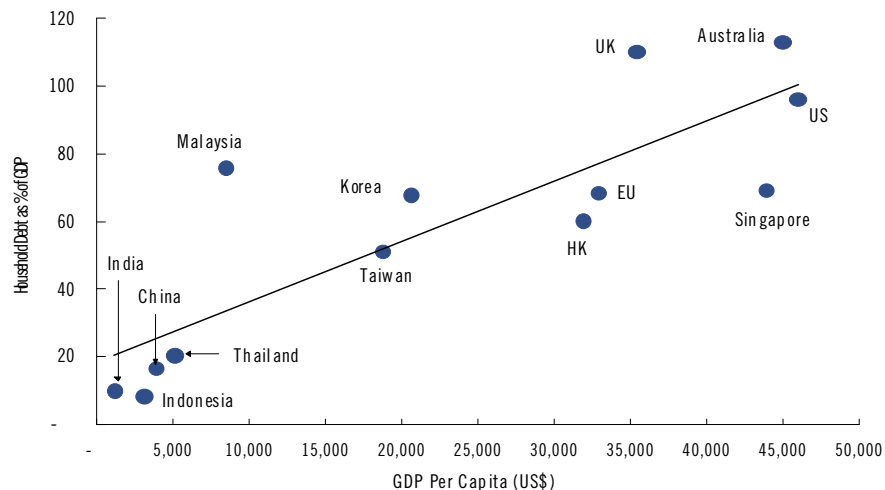
Source: Citi Investment Research and Analysis

We recommend investors **scale into KRW and MYR** against USD:

- According to CIRA Asia Pacific Chief Economist, Johanna Chua, high household debt burden means Korea and Malaysia would likely prefer currency appreciation vs. interest rate hike to curb inflationary pressure (Figure 31). For example, Bank of Korea skipped a rate hike in its most recent meeting on 13-May-11
- In such a shaky environment, we recommend investors to scale-into MYR around the current zone that we have seen this week, i.e. from 3.042 to 3.07.

Thanks to Citi Fx desk for their broader thoughts

Figure 31. High household debt burden means Korea and Malaysia should lean towards currency appreciation to control inflation



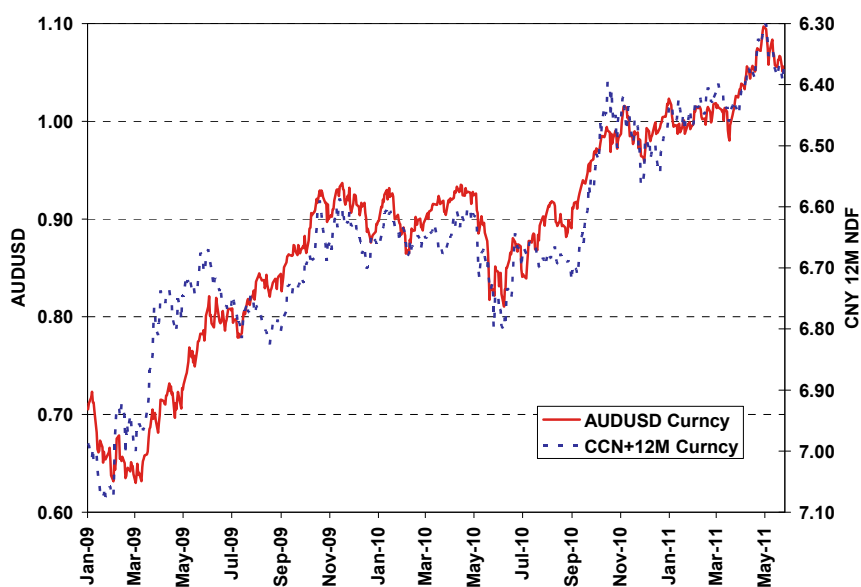
Source: Citi Investment Research and Analysis

We would be **buyers on AUDUSD** on dips:

- CIRA's latest Fx forecast for AUDUSD is 1.01 over 0-3M horizon, before reaching its longer-term target at 1.1.

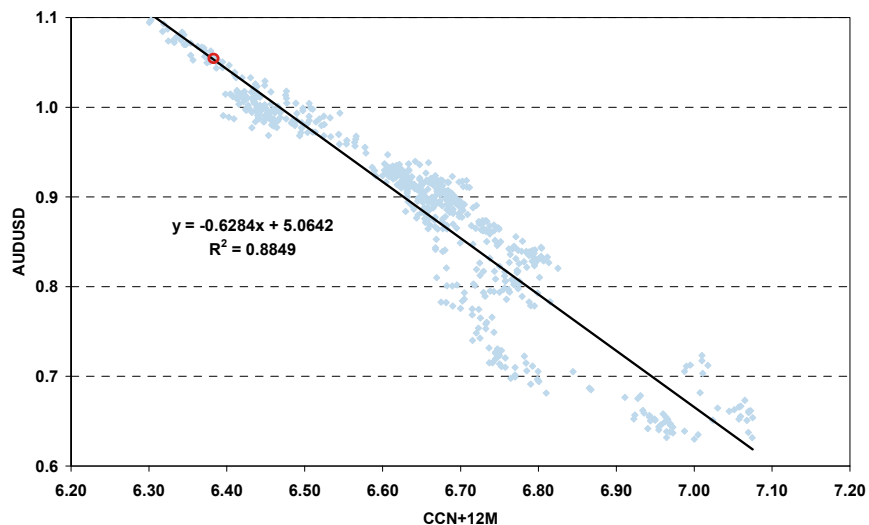
- Technical support at 1.0475 (55DMA) has been breached on 25-May-11. It can dip further to 1.025 – at that stage investors may look to accumulate.
- Figure 32 shows an update on the relationship between AUD and CNY. The R-Squared of the two currencies is close to 0.90 (Figure 33).

Figure 32. AUD and CNY continue to move closely in tandem...



Source: Citi Investment Research and Analysis

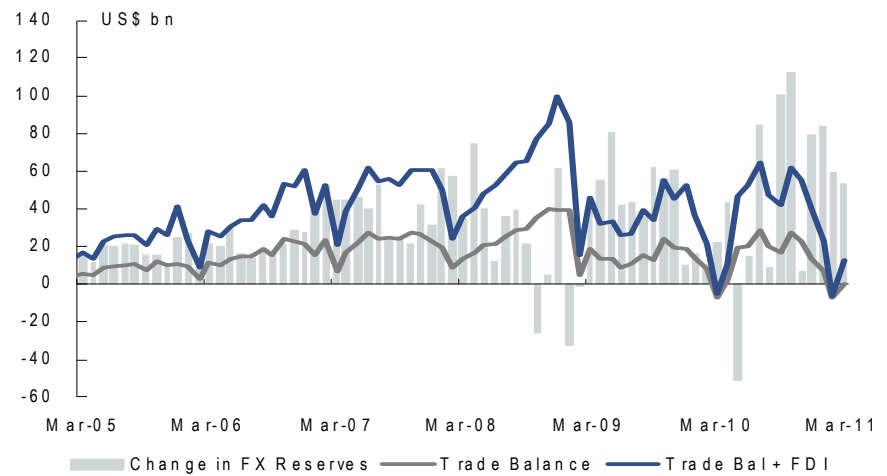
Figure 33. ...at R-Squared close to 0.9



Source: Citi Investment Research and Analysis

- CIRA's China Macro team is maintaining their medium to long-term view of gradual appreciation in CNY. In their opinion, pace of appreciation in the short-term is likely to be slower given policy tightening is coming to an end. However, with large build-up in reserves, there is still pressure for CNY to strengthen (Figure 34), which statistically would point towards a rising AUD.

Figure 34. Pressure for CNY Appreciation Building



Source: Citi Investment Research and Analysis

OPTIONS RISK DISCLOSURE — PLEASE READ CAREFULLY

This section discusses possible options strategies that you may choose to employ in conjunction with the company securities discussed herein. If you choose to engage in the options transactions discussed within this document, you must have an approved options account and will be subject to certain criteria which may ultimately prevent you from engaging in certain option strategies. It is important for you as an investor to know and understand that Options do involve risk and sometimes, significant risk, therefore may not be appropriate for all investors. If you buy options, the maximum loss is the premium. If you sell put options, the risk is the entire notional below the strike. If you sell call options, the risk is unlimited. The actual profit or loss from any trade will depend on the price at which the trades are executed. The prices used herein are historical and may not be available when you order is entered. Commissions and other transaction costs are not considered in these examples.

Please speak to your Financial Advisor to ensure you have a full understanding of the risk and reward of the strategy you are considering. Strategies that are opened or closed differently than what is discussed in this document could have a significantly different outcome from what is described. It should be noted that certain Index options might have special settlement dates or settlement requirements that are different from traditional equity options. Commissions, taxes, and margin costs have not been included but will affect the outcome of any option transaction and should be considered. However, they can have a significant impact on the profitability of options transactions and should be considered carefully before entering into any option strategy. Because of the importance of tax considerations to all option transactions, the investor considering options should consult with his/her tax advisor as to how their tax situation is affected by the outcome of contemplated options transactions. Certain options trades/strategies must be executed in a margin account. Transactions executed in a margin account can require the investor to periodically deposit additional collateral into the account in order to maintain the positions. The preceding language is not a full description of all possible risks associated with options trading.

For a more complete description on the uses and risks of options, please see the document titled Characteristics and Risks of Standardized Options. If you would like an additional copy of this document please contact Citigroup Global Markets Inc., Options Department, 390 Greenwich Street, New York, NY 10013 or from your Morgan Stanley Smith Barney Financial Advisor. Options are not suitable for all investors. Before entering into any transaction using listed options, investors should read and understand the current Options Clearing Corp. Disclosure Document (Characteristics and Risks of Standardized Options) at <http://www.theocc.com/about/publications/character-risks.jsp>, http://www.theocc.com/components/docs/May_2010_ODD_Definitive_Supplement.pdf and http://www.theocc.com/components/docs/January_2011_ODD_Definitive_Supplement.pdf. Investing in options other than Standardized Options may entail additional risks.

Evergrande Real Estate Group

Valuation

Our HK\$6.63/sh target price for Evergrande is based on a 30% discount to our estimated NAV of HK\$9.47/share. We use a 30% discount based on the historical range for tier-two China property companies, such as Agile and R&F. The discount compares with Shimao's, Longfor's and CRL's 20% NAV discounts, and COLI's and Vanke's 15%. We believe this is conservative in light of Evergrande's strong operating and financial performance, and growth. We revised up NAV significantly from our previous HK\$7.4/sh after we factored in the rapid expansion in the landbank after the aggressive acquisitions made (mainly since Oct 10).

Risks

We rate Evergrande High Risk given the company's short trading history. The most notable downside risks that could impede the stock from reaching our target price include any failure by Evergrande to deliver on the execution front, and further concerns on management credibility. The company has a short track record given that it took only five years to grow from a Guangzhou developer to a top national player. In addition, on the policy front, tightening measures and policy changes by the central government with regard to mortgage applications and approvals, project financing, and property pre-sales could adversely affect the bottom line and cash flow of property developers, as well as homebuyer sentiment.

Kia Motors

Valuation

Our PBVR-based 12-month target price for Kia Motors is set at W93K. We employ a Gordon Growth Model to fairly capture mid-to-longer term earnings sustainability. We derive our target PBVR based on $(ROE-g)/(COE-g)$ model, with the assumption of 1) sustainable ROE at 23.1%, 2) cost of equity at 9.9% (risk-free rate: 3.5%, market risk premium: 6.0% and beta: 1.1) and 3) terminal growth rate at 2.0%. Key assumptions to reach our sustainable ROE at 23.1% include sustainable EBIT margin at 8.0%, non-OP / turnover at 8.2% (i.e. equity-income from subsidiaries including overseas operations) and asset-to-equity (leverage) at 1.6x. Our target price of W93,000 implies 10.8x 2011E P/E, which is in between of historical average of 7.7x and +1 standard deviation of 12.3x (excluding 2006-2008 when "E" was abnormal).

Risks

We rate KIA Medium Risk based on our quantitative risk-rating system, which tracks 260-day historical share price volatility. Downside risks that could prevent the stock from reaching our target price include: 1) Worse-than-expected demand recovery; 2) Global share gains slow down due to fierce competition; and 3) Any unexpected reversal in the KRW.

Yanzhou Coal Mining

Valuation

We value the coal business using DCF at a WACC of 10% and a long-term blended price at Rmb950/t or US\$147/t. We marked up our long-term coal price assumption to be at par with 2013 price estimate on blended average basis, in order to reflect our more positive view on coal price with the world reviewing long-term energy policies, and also to reward the company's efforts to enhance the quality of coal assets. We give a discretionary 3x EV/EBITDA to other business. We arrive at an intrinsic value of HK\$32.84 for existing business.

We see more upside from the up-and-coming Yushuwan project in Yulin, Shaanxi, and also the Shilawusu project in Inner Mongolia. We value the two projects on an individual basis by applying DCF model. Our base case suggests HK\$2.74/s for the 51% stake in Shilawusu, and HK\$2.4 for the 41% stake in Yushuwan.

We sum the value for existing business and the new assets that could be added into the company's portfolio, and arrive at a new target of HK\$37.99/s.

Risks

We rate Yanzhou Medium Risk, according to our quantitative risk-rating system, which tracks 260-day historical share price volatility. We think the company has delivered a proven track record on its capability of consolidating acquired assets with the existing business well.

Risks on the downside derive from policy of local government, timetable for Yushuwan and Shilawusu, operation and corporate finance of Felix. It may need to buy additional capacity from other shareholders of the port. The company has to fulfill its commitment to relist Felix before 2012. It will start repaying loans of US\$3 bil from 2012. If the company needs to pay the mining rights for Yushuwan and Shilawusu at the same time, it should have to raise capital. All corporate finance arrangements will be discussed and largely settled in 2011. Uncertainties imply downside risks.

Hyundai Mobis

Valuation

We value Mobis at W459K by separately valuing the module-manufacturing and after-market divisions to reflect discrepancies in profitability and the nature of each business: 1) module-manufacturing division - Mobis' transformation into a "real" auto parts producer will likely dissipate the inherent valuation discount vs. Hyundai Motor in the mid-to-longer term, leading us to assign implied P/E (12.1x) from our Hyundai Motor target price (= zero discount on module-manufacturing division); we estimate the value of module-manufacturing at W10,600bn or W108,862 per share; 2) after-market division - we apply fair P/E of 14.5x, in line with trading P/E of CIRA Korea consumer universe based on 2011E as the dynamics of after-market business are similar to slow-but-steady growth consumer stocks, with high cash-flow returns and low incremental CAPEX; we value the after-market division at W12.4trn or W127,628 per share; 3) we add value of equity-income (W14.0trn; applying 9.0x P/E multiple to 2011E after-tax equity-income estimates at W1,557bn) and non-core asset value of W7,668bn (30% discount to BV as of 2010) including a 21% stake in Hyundai Motor and 2011E net cash (W3,067bn) to reach our target price; we apply a 30% discount to value investment securities and equity-income securities, in line with general holding company discounts in Korea.

Risks

We rate Hyundai Mobis shares Medium Risk, in line with our quantitative risk-rating system, which tracks 260-day historical share price volatility. We believe a Medium Risk is warranted due to its positive operational outlook and ability to weather the storm from currency movements. Downside risks that could prevent the stock from reaching our target price include: 1) worse-than-expected auto demand may further dent module business profitability; 2) Stronger KRW may cause downside in top-line given HMB's high dependence on exports; and 3) a slower-than-expected turnaround of the former AUTONET business may hurt profitability.

Hyundai Motor

Valuation

Our PBVR-based 12-month target price of W310K is based on a Gordon Growth Model to estimate the value of Hyundai Motor to fairly capture mid-to-longer term earnings sustainability. We derive our target PBVR based on $(ROE-g)/(COE-g)$ model, with the assumption of 1) sustainable ROE at 20.6%, 2) cost of equity at 9.9% (risk-free rate: 3.5%, market risk premium: 6.0% and beta: 1.1) and 3) terminal growth rate at 2.0%. Key assumptions to reach our sustainable ROE at 20.6% include sustainable EBIT margin at 10.3%, non-OP / turnover at 11.9% (i.e. equity-income from subsidiaries including overseas operations) and asset-to-equity (leverage) at 1.4x. Our target price implies 12.1x 2011E P/E, which is close to +1 standard deviation since 2001.

Risks

We rate Hyundai Motor shares Medium Risk based on our quantitative risk-rating system, which tracks 260-day historical share price volatility. Downside risks that could prevent the stock from reaching our target price include: 1) worse-than-expected demand recovery; 2) global market share gains slow down due to fierce competition; and 3) any unexpected reversal in the KRW.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

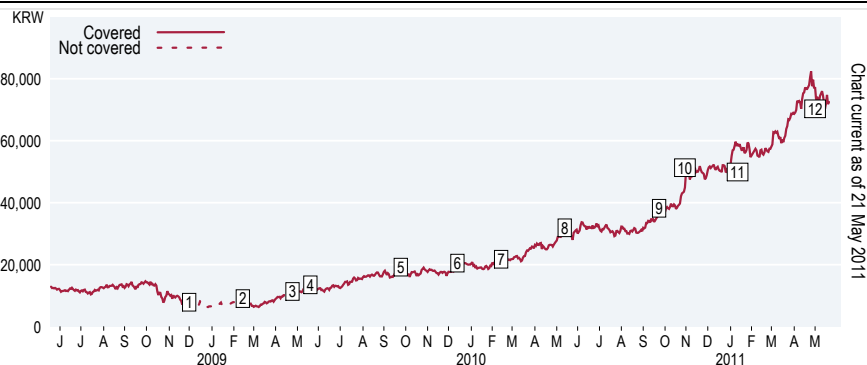
IMPORTANT DISCLOSURES

Kia Motors (000270.KS)

Ratings and Target Price History Fundamental Research

Analyst: Ethan Kim

Covered since February 13 2009



| Date | Rating | Target Price | Closing Price |
|-------------|---------------------|--------------|---------------|
| 1 30-Nov-08 | Coverage terminated | | |
| 2 13-Feb-09 | *3H | *6,500.00 | 8,400.00 |
| 3 24-Apr-09 | 3H | *7,300.00 | 10,250.00 |
| 4 20-May-09 | 3H | *11,500.00 | 12,900.00 |

* Indicates change

| Date | Rating | Target Price | Closing Price |
|-------------|--------|--------------|---------------|
| 5 24-Sep-09 | *1M | *24,000.00 | 18,500.00 |
| 6 14-Dec-09 | 1M | *25,000.00 | 19,450.00 |
| 7 12-Feb-10 | 1M | *28,000.00 | 21,050.00 |
| 8 13-May-10 | 1M | *40,000.00 | 31,150.00 |

| Date | Rating | Target Price | Closing Price |
|--------------|--------|--------------|---------------|
| 9 23-Sep-10 | 1M | *44,000.00 | 34,850.00 |
| 10 29-Oct-10 | 1M | *55,000.00 | 44,900.00 |
| 11 12-Jan-11 | 1M | *73,000.00 | 58,800.00 |
| 12 1-May-11 | 1M | *93,000.00 | 76,900.00 |

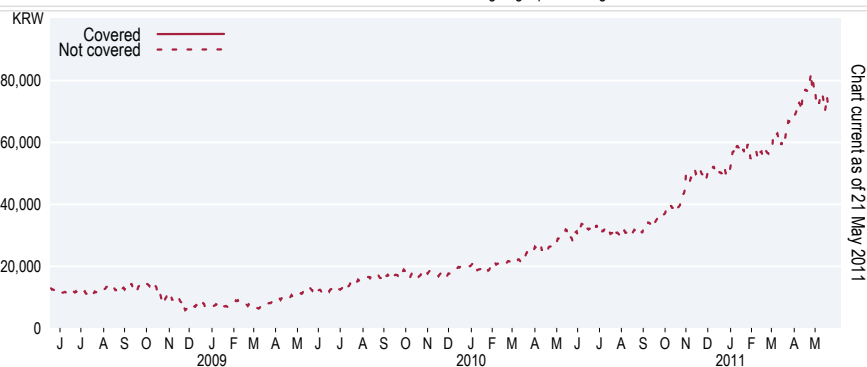
Rating/target price changes above reflect Eastern Standard Time

Kia Motors (000270.KS)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Ethan Kim

Covered since February 13 2009



* Indicates change

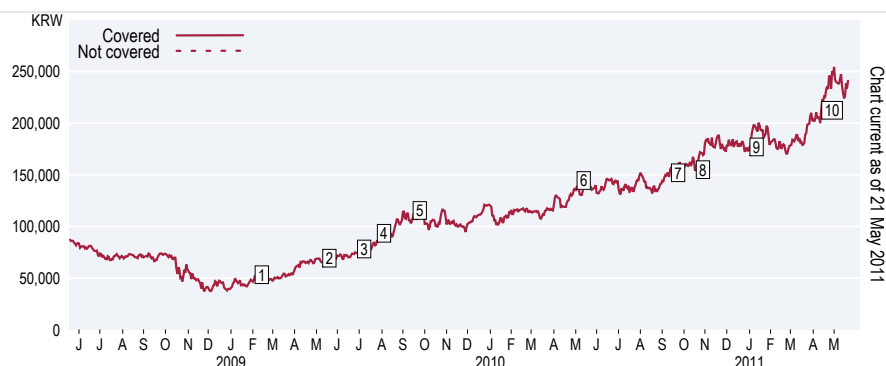
Rating/target price changes above reflect Eastern Standard Time

Hyundai Motor (005380.KS)

Ratings and Target Price History Fundamental Research

Analyst: Ethan Kim

Covered since November 26 2008



| | Date | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 1 | 13-Feb-09 | *2H | *59,000.00 | 52,200.00 |
| 2 | 20-May-09 | *1M | *80,000.00 | 67,300.00 |
| 3 | 8-Jul-09 | 1M | *91,500.00 | 78,200.00 |
| 4 | 5-Aug-09 | 1M | *120,000.00 | 92,400.01 |

* Indicates change

| | Date | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 5 | 24-Sep-09 | 1M | *160,000.00 | 110,500.00 |
| 6 | 13-May-10 | 1M | *175,000.00 | 141,500.00 |
| 7 | 23-Sep-10 | 1M | *200,000.00 | 155,500.00 |
| 8 | 28-Oct-10 | 1M | *215,000.00 | 169,000.00 |

| | Date | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 9 | 12-Jan-11 | 1M | *250,000.00 | 193,500.00 |
| 10 | 28-Apr-11 | 1M | *310,000.00 | 250,500.02 |

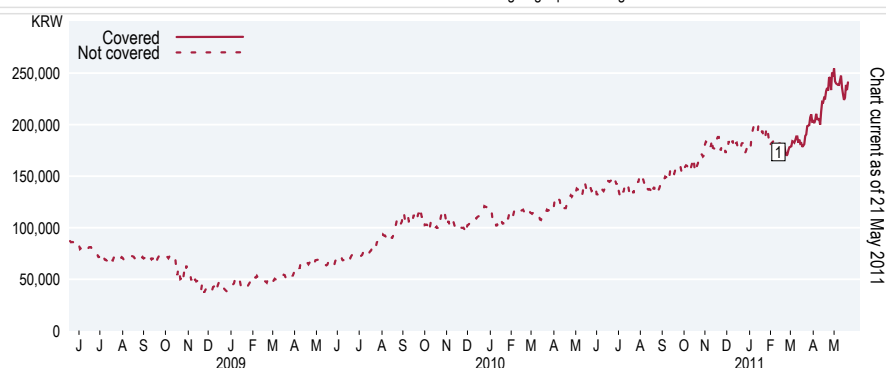
Rating/target price changes above reflect Eastern Standard Time

Hyundai Motor (005380.KS)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Ethan Kim

Covered since November 26 2008



| | Date | Rating | Target Price | Closing Price |
|---|-----------|---------|--------------|---------------|
| 1 | 11-Feb-11 | *ADD MP | - | 175,500.00 |

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Hyundai Mobis (012330.KS)

Ratings and Target Price History Fundamental Research

Analyst: Ethan Kim

Covered since November 26 2008



| | Date | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 1 | 13-Feb-09 | *1H | *108,000.00 | 75,500.00 |
| 2 | 27-Apr-09 | 1H | *125,000.00 | 95,400.00 |
| 3 | 20-May-09 | *1M | *150,000.00 | 113,000.00 |
| 4 | 30-Aug-09 | *2M | *162,000.00 | 147,000.00 |

* Indicates change

| | Date | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 5 | 24-Sep-09 | 2M | *195,000.00 | 177,500.00 |
| 6 | 12-Jan-10 | *1M | 195,000.00 | 148,500.00 |
| 7 | 23-May-10 | 1M | *233,000.00 | 185,000.00 |
| 8 | 23-Sep-10 | 1M | *307,000.00 | 244,500.00 |

| | Date | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 9 | 8-Nov-10 | 1M | *370,000.00 | 283,000.00 |
| 10 | 12-Jan-11 | 1M | *400,000.00 | 307,000.00 |
| 11 | 2-May-11 | 1M | *459,000.00 | 366,000.00 |

Rating/target price changes above reflect Eastern Standard Time

Hyundai Mobis (012330.KS)

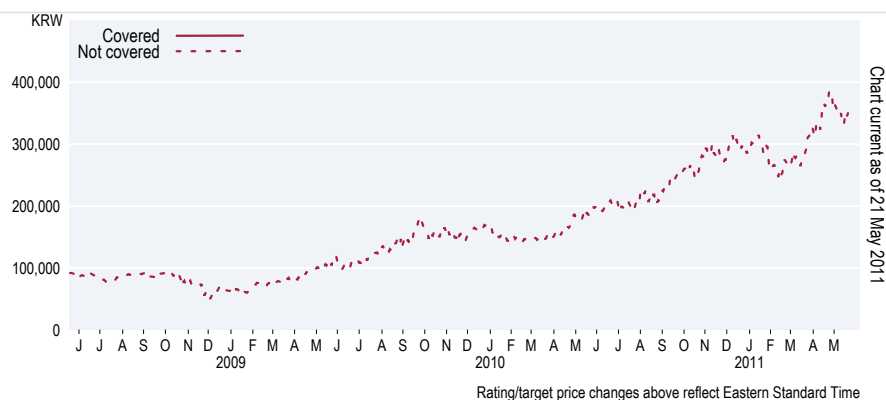
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Ethan Kim

Covered since November 26 2008



Yanzhou Coal Mining (1171.HK)

Ratings and Target Price History

Fundamental Research

Analyst: Scarlett Y Chen, CFA

Covered since November 29 2010



Yanzhou Coal Mining (1171.HK)

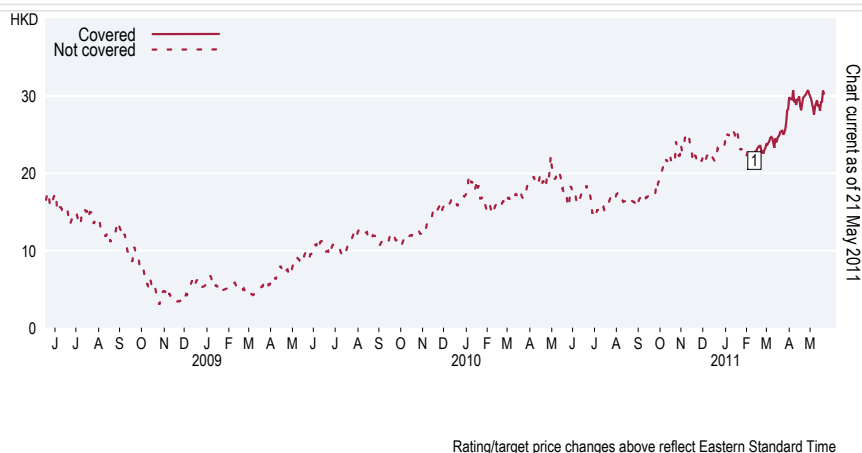
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Scarlett Y Chen, CFA

Covered since November 29 2010



**Evergrande Real Estate Group
(3333.HK)**

Ratings and Target Price History

Fundamental Research

Analyst: Oscar Choi

Covered since October 11 2010

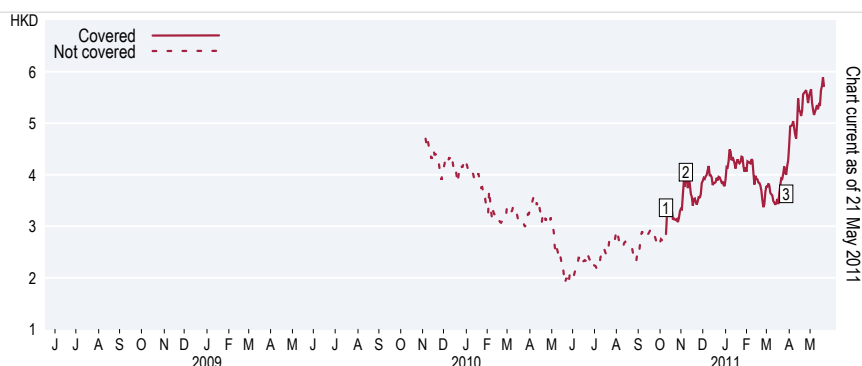


Chart current as of 21 May 2011

| | Date | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 1 | 11-Oct-10 | *1H | *5.13 | 2.85 |

* Indicates change

| | Date | Rating | Target Price | Closing Price |
|---|----------|--------|--------------|---------------|
| 2 | 8-Nov-10 | 1H | *5.18 | 4.05 |

| | Date | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 3 | 29-Mar-11 | 1H | *6.63 | 4.00 |

Rating/target price changes above reflect Eastern Standard Time

**Evergrande Real Estate Group
(3333.HK)**

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Oscar Choi

Covered since October 11 2010

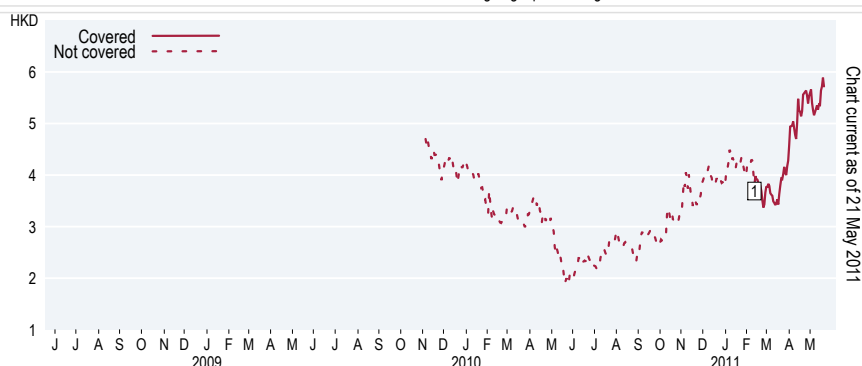


Chart current as of 21 May 2011

| | Date | Rating | Target Price | Closing Price |
|---|-----------|---------|--------------|---------------|
| 1 | 11-Feb-11 | *ADD MP | - | 3.81 |

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Citigroup Global Markets Korea Securities Limited (CGMK) performs the role of liquidity provider on the warrants of which the underlying asset is Kia Motors. As at 25 May 11, CGMK holds 3,399,990 Citi ELW 0C56, 3,388,600 Citi ELW 1027, 1,447,740 Citi ELW 1076, 3,365,500 Citi ELW 1254, 3,400,000 Citi ELW 1262, 2,739,690 Citi ELW 1300, 3,539,550 Citi ELW 1301, 3,544,660 Citi ELW 1369, 3,399,000 Citi ELW 1370, 3,400,000 Citi ELW 1411, 3,600,000 Citi ELW 1462, 3,399,900 Citi ELW 1463, 3,400,000 Citi ELW 1485 Call warrants & 90,029 shares of Kia Motors.

Citigroup Global Markets Korea Securities Limited (CGMK) performs the role of liquidity provider on the warrants of which the underlying asset is Hyundai Motor. As at 25 May 11, CGMK holds 3,219,990 Citi ELW 0C66, 3,584,360 Citi ELW 0C67, 3,399,880 Citi ELW 1093, 3,599,520 Citi ELW 1168, 3,399,980 Citi ELW 1169, 3,399,900 Citi ELW 1274, 3,599,900 Citi ELW 1275, 3,504,380 Citi ELW 1308, 3,399,030 Citi ELW 1309, 3,559,710 Citi ELW 1416, 3,265,610 Citi ELW 1417, 3,400,000 Citi ELW 1470, 3,600,000 Citi ELW 1471 Call warrants & 2,000 shares of Hyundai Motor.

Citigroup Global Markets Korea Securities Limited (CGMK) performs the role of liquidity provider on the warrants of which the underlying asset is Hyundai Mobis. As at 25 May 11, CGMK holds 3,205,240 Citi ELW 0B05, 3,371,810 Citi ELW 1105, 3,399,860 Citi ELW 1184, 3,396,560 Citi ELW 1260, 3,315,470 Citi ELW 1324, 3,399,500 Citi ELW 1393, 3,398,000 Citi ELW 1422, 3,400,000 Citi ELW 1493 Call warrants & 1,316 shares of Hyundai Mobis.

Citigroup Global Markets Inc. or its affiliates beneficially owns 1% or more of any class of common equity securities of Yanzhou Coal Mining. This position reflects information available as of the prior business day.

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of Hyundai Motor, Yanzhou Coal Mining, Evergrande Real Estate Group.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from Kia Motors, Hyundai Motor, Evergrande Real Estate Group.

Citigroup Global Markets Inc. or its affiliates expects to receive or intends to seek, within the next three months, compensation for investment banking services from Kia Motors, Hyundai Motor.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from Kia Motors, Hyundai Motor, Hyundai Mobis in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as investment banking client(s): Kia Motors, Hyundai Motor, Evergrande Real Estate Group.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, securities-related: Kia Motors, Hyundai Motor, Hyundai Mobis.

When to Accumulate Risk Assets

26 May 2011

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, non-securities-related: Kia Motors, Hyundai Motor, Hyundai Mobis.

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability which includes investment banking revenues.

The Firm is a market maker in the publicly traded equity securities of Yanzhou Coal Mining, Evergrande Real Estate Group.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Investment Research & Analysis product ("the Product"), please contact Citi Investment Research & Analysis, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention:

Legal/Compliance. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at www.citigroupgeo.com. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citi Investment Research & Analysis Ratings Distribution

| Data current as of 31 Mar 2011 | 12 Month Rating | | | Relative Rating | | |
|--|-----------------|------|------|-----------------|------|------|
| | Buy | Hold | Sell | Buy | Hold | Sell |
| Citi Investment Research & Analysis Global Fundamental Coverage | 52% | 37% | 11% | 9% | 82% | 9% |
| % of companies in each rating category that are investment banking clients | 43% | 41% | 41% | 51% | 41% | 45% |

Guide to Citi Investment Research & Analysis (CIRA) Fundamental Research Investment Ratings:

CIRA's stock recommendations include a risk rating and an investment rating.

Risk ratings, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).

Investment ratings are a function of CIRA's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.

Analysts may place covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" will be monitored daily by management. As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis.

To satisfy regulatory requirements, we correspond Under Review to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.

Relative three-month ratings: CIRA may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the analyst's coverage universe over a 3 month period. The relative call may highlight a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in his coverage universe, explaining the basis for this short-term view. This three-month view may be different from and does not affect a stock's fundamental equity rating, which reflects a longer-term total absolute return expectation. For purposes of NASD/NYSE ratings-distribution-disclosure rules, most preferred calls correspond to a buy recommendation and least preferred calls correspond to a sell recommendation. Any stock not assigned to a most preferred or least preferred call is considered non-relative-rated (NRR). For purposes of NASD/NYSE ratings-distribution-disclosure rules we correspond NRR to Hold in our ratings distribution table for our 3-month relative rating system. However, we reiterate that we do not consider NRR to be a recommendation.

For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings are: Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

NON-US RESEARCH ANALYST DISCLOSURES

Non-US research analysts who have prepared this report (i.e., all research analysts listed below other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The legal entities employing the authors of this report are listed below:

| | |
|---|---|
| Citigroup Global Markets Asia | Daniel Lam, CFA; Scarlett Y Chen, CFA; Oscar Choi; Johanna Chua; Minggao Shen |
| Citigroup Global Markets Korea Securities Ltd | Ethan Kim |

OTHER DISCLOSURES

Citigroup Global Markets Inc. or its affiliates beneficially owns 2% or more of any class of common equity securities of Yanzhou Coal Mining.

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the issuer(s) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Investment Research & Analysis (CIRA) does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of CIRA to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

Important Disclosures for Morgan Stanley Smith Barney LLC Customers: Morgan Stanley & Co. Incorporated (Morgan Stanley) research reports may be available about the companies that are the subject of this Citi Investment Research & Analysis (CIRA) research report. Ask your Financial Advisor or use smithbarney.com to view any available Morgan Stanley research reports in addition to CIRA research reports.

Important disclosure regarding the relationship between the companies that are the subject of this CIRA research report and Morgan Stanley Smith Barney LLC and its affiliates are available at the Morgan Stanley Smith Barney disclosure website at www.morganstanleysmithbarney.com/researchdisclosures. The required disclosures provided by Morgan Stanley and Citigroup Global Markets, Inc. on Morgan Stanley and CIRA research relate in part to the separate businesses of Citigroup Global Markets, Inc. and Morgan Stanley that now form Morgan Stanley Smith Barney LLC, rather than to Morgan Stanley Smith Barney LLC in its entirety. For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to www.morganstanley.com/researchdisclosures and https://www.citigroupgeo.com/geopublic/Disclosures/index_a.html.

This CIRA research report has been reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval was conducted by the same person who reviewed this research report on behalf of CIRA. This could create a conflict of interest.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in Australia through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in Brazil by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of Canada by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. This product is available in Chile through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is made available in France by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 1-5 Rue Paul Cézanne, 8ème, Paris, France. The Product is distributed in Germany by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. If the Product is made available in Hong Kong by, or on behalf of, Citigroup Global Markets Asia Ltd., it is attributable to Citigroup Global Markets Asia Ltd., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Product is made available in Hong Kong by The Citigroup Private Bank to its clients, it is attributable to Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. The Citigroup Private Bank and Citibank N.A. is regulated by the Hong Kong Monetary Authority. The Product is made available in India by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in Indonesia through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in Israel through Citibank NA, regulated by the Bank of Israel

and the Israeli Securities Authority. Citibank, N.A. Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in Italy by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. Foro Buonaparte 16, Milan, 20121, Italy. The Product is made available in Japan by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by Nikko Cordial Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Global Equities Online (GEO) website. If you have questions regarding GEO, please call (81 3) 6270-3019 for help. The Product is made available in Korea by Citigroup Global Markets Korea Securities Ltd., which is regulated by the Financial Services Commission, the Financial Supervisory Service and the Korea Financial Investment Association (KOFIA). Citibank Building, 39 Da-dong, Jung-gu, Seoul 110-180, Korea. KOFIA makes available registration information of research analysts on its website. Please visit the following website if you wish to find KOFIA registration information on research analysts of Citigroup Global Markets Korea Securities Ltd.

<http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03030&pageDiv=02>. The Product is made available in Malaysia by Citigroup Global Markets Malaysia Sdn Bhd, which is regulated by Malaysia Securities Commission. Menara Citibank, 165 Jalan Ampang, Kuala Lumpur, 50450. The Product is made available in Mexico by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comisión Nacional Bancaria y de Valores. Reforma 398, Col. Juárez, 06600 Mexico, D.F. In New Zealand the Product is made available through Citigroup Global Markets New Zealand Ltd. (Company Number 604457), a Participant of the New Zealand Exchange Limited and regulated by the New Zealand Securities Commission. Level 19, Mobile on the Park, 157 Lambton Quay, Wellington. The Product is made available in Pakistan by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in the Philippines through Citicorp Financial Services and Insurance Brokerage Philippines, Inc., which is regulated by the Philippines Securities and Exchange Commission. 20th Floor Citibank Square Bldg. The Product is made available in Poland by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego S.A. ul. Senatorska 16, 00-923 Warszawa. The Product is made available in the Russian Federation through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in Singapore through Citigroup Global Markets Singapore Pte. Ltd., a Capital Markets Services Licence holder, and regulated by Monetary Authority of Singapore. 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192. The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. This report is distributed in Singapore by Citibank Singapore Ltd ("CSL") to selected Citigold/Citigold Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigold/Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. Citigroup Global Markets (Pty) Ltd. is incorporated in the Republic of South Africa (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in Spain by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gasset, 4th Floor, Madrid, 28006, Spain. The Product is made available in Taiwan through Citigroup Global Markets Taiwan Securities Company Ltd., which is regulated by Securities & Futures Bureau. No portion of the report may be reproduced or quoted in Taiwan by the press or any other person. 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan. If the Product is related to non-Taiwan listed securities, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities. The Product is made available in Thailand through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangkok, Bangkok 10500, Thailand. The Product is made available in Turkey through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Büyükdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the U.A.E, these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA") to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different CIRA ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in United Kingdom by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in United States by Citigroup Global Markets Inc, which is a member of FINRA and registered with the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority.

Pursuant to Comissão de Valores Mobiliários Rule 483, Citi is required to disclose whether a Citi related company or business has a commercial relationship with the subject company. Considering that Citi operates multiple businesses in more than 100 countries around the world, it is likely that Citi has a commercial relationship with the subject company.

Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to CIRA's Products can be found at www.citigroupgeo.com.

Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations.

The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted.

Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount

invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product. CIRA concurrently disseminates its research via proprietary and non-proprietary electronic distribution platforms. Periodically, individual analysts may also opt to circulate research to one or more clients by email. Such email distribution is discretionary and is done only after the research has been disseminated via the aforementioned distribution channels.

© 2011 Citigroup Global Markets Inc. Citi Investment Research & Analysis is a division of Citigroup Global Markets Inc. Citi and Citi with Arc Design are trademarks and service marks of Citigroup Inc. and its affiliates and are used and registered throughout the world. All rights reserved. Any unauthorized use, duplication, redistribution or disclosure of this report (the "Product"), including, but not limited to, redistribution of the Product by electronic mail, posting of the Product on a website or page, and/or providing to a third party a link to the Product, is prohibited by law and will result in prosecution. The information contained in the Product is intended solely for the recipient and may not be further distributed by the recipient to any third party. Where included in this report, MSCI sourced information is the exclusive property of Morgan Stanley Capital International Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, redisseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI, Morgan Stanley Capital International and the MSCI indexes are services marks of MSCI and its affiliates. The Firm accepts no liability whatsoever for the actions of third parties. The Product may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the Product refers to website material of the Firm, the Firm has not reviewed the linked site. Equally, except to the extent to which the Product refers to website material of the Firm, the Firm takes no responsibility for, and makes no representations or warranties whatsoever as to, the data and information contained therein. Such address or hyperlink (including addresses or hyperlinks to website material of the Firm) is provided solely for your convenience and information and the content of the linked site does not in anyway form part of this document. Accessing such website or following such link through the Product or the website of the Firm shall be at your own risk and the Firm shall have no liability arising out of, or in connection with, any such referenced website.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST
