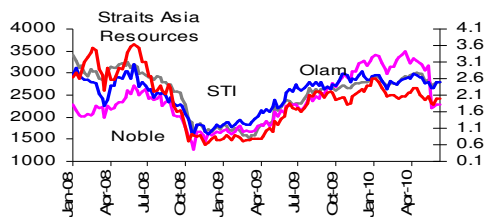


15 June 2010

# Overweight

## Commodities

### Expect volatility ahead



**1Q CY10 wrap up.** Following the closure of the 1Q CY10 reporting season, we conduct a post-mortem on interim results posted by commodity plays within our coverage universe and provide an analysis of their exposure to Europe. The recent quarter favoured commodity supply chain managers Noble Group (Noble) and Olam International (Olam) - both of which posted satisfactory results with Noble's earnings growing 27.5% YoY to US\$115.0m and Olam's core net profit improving 34.1% to S\$83.7m - over pure-play miner Straits Asia Resources (SAR), which disappointed with a 68.4% dip in net profit to US\$11.2m. The near-term outlook continues to favour commodity supply chain managers as recent acquisitions start to gain traction, while SAR on the other hand is likely to endure another lacklustre quarter before earnings recover in 2H CY10.

**Exposure to Europe.** Recent Euro zone worries have sent global stock markets plunging, and Noble, Olam and SAR have not been spared. Their stock prices have fallen by 8% to 16% over the past two months. Among the three, Olam has the highest exposure with 27% of sales derived from Europe. Noble supplies 10% of its total tonnage to the continent, while SAR has no exposure as its products are exported to Asian countries such as India and Japan. Although headline numbers suggest that Olam has significant exposure to Europe, we highlight that its portfolio consists of food products for which demand tends to be relatively inelastic. Therefore we do not expect a slowdown in Europe to have a huge impact on its earnings.

**Share price volatility: a double-edged sword.** Having demonstrated their resilience during the 2008/2009 global economic downturn, we are confident that these companies will be able to withstand near-term challenges including moderating economic growth, especially since most of them have emerged with stronger balance sheets post-crisis. Nevertheless, while medium-term growth prospects remain largely intact, we expect heightened share price volatility in the near term in view of the stocks' high betas and economic sensitivity. For instance, during the worst of the recent downturn, these stocks fell by 72% - 86%, but thereafter staged a strong recovery with gains amounting to as much as 630% (Exhibits 4-6). We view the anticipated volatility as stock picking opportunities for long-term investors and maintain our **BUY** ratings on **Noble** [FV: S\$2.42] and **Olam** [FV: S\$3.61]. **SAR** remains a **HOLD** [FV: S\$1.82].

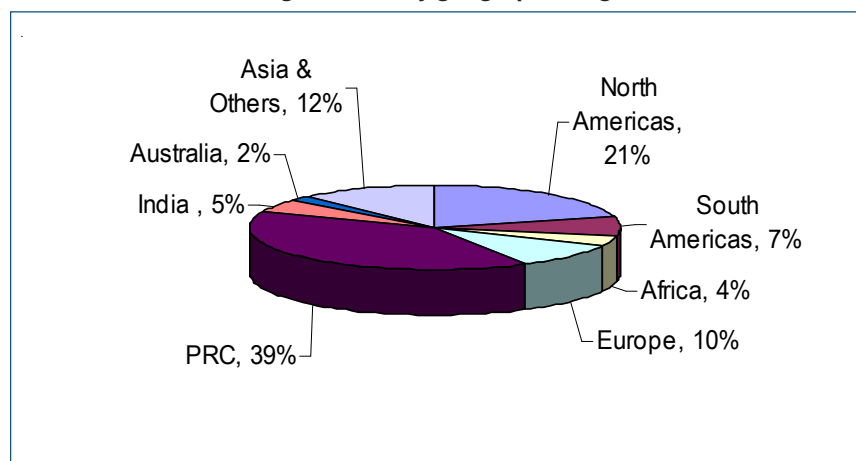
	Share Price	Rating	Fair Value	P/E Hist	P/E Current	P/B
	S\$		S\$			
Noble	1.79	BUY	2.42	11.6	13.5	2.3
Olam	2.56	BUY	3.61	24.1	22.6	3.0
Straits Asia Res	2.01	HOLD	1.82	11.8	15.8	3.1

**Lee Wen Ching**  
 (65) 6531 9806  
 e-mail: wenching@ocbc-research.com

**Noble: Emerging markets remain key growth engines.** Emerging economies have been, and continue to be Noble's key destination markets and growth drivers. As of 1Q FY10, the group delivered 60% of total tonnage to emerging markets, with China being its largest market accounting for 39% of total volume (Exhibit 1). Europe only accounted for 10% of total tonnage. While a slowdown in Europe could hamper trade flows and demand for hard commodities, we believe that the group's well-diversified operations, both in terms of geographical markets and product portfolio, should mitigate overall risks.

Furthermore, Noble has demonstrated its resilience by emerging from the 2008/2009 global economic downturn in good shape with a strong balance sheet, partly boosted by China Investment Corp's US\$642.2m strategic investment. We believe that its strong financial standing will give it an advantage over its competitors in the event that credit markets become constrained.

**Exhibit 1: Noble's tonnage volume by geographic segments**

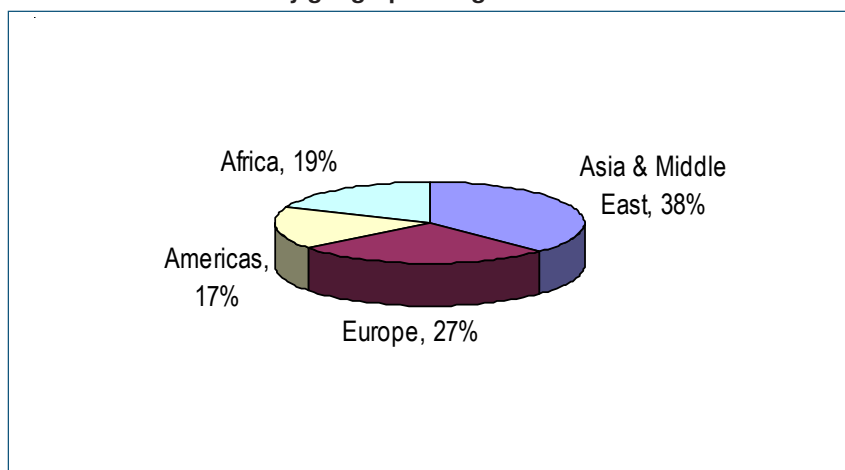


Source: Company

**Olam: Recession-proof portfolio.** As of 9M FY10, Olam derived 27% of sales from Europe, its second largest destination market after Asia and Middle East, which accounted for 38% of sales (Exhibit 2). While the headline numbers suggest that Olam has a relatively large exposure to Europe, we highlight that Olam's product portfolio consists mainly of edible food products, for which demand tends to be relatively inelastic. Food products constituted 81% of the group's 9M FY10 volumes.

Olam's earnings and volumes remained relatively resilient during the 2008/2009 economic downturn, and we believe that its recession-proof portfolio should support its earnings throughout economic cycles.

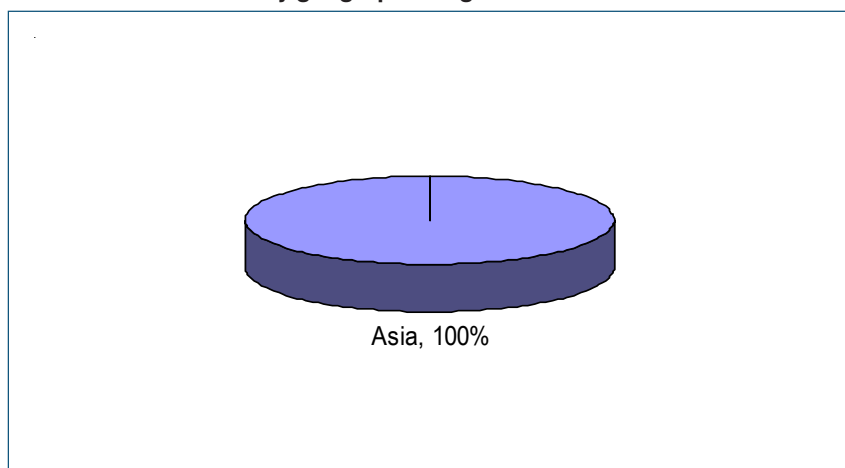
**Exhibit 2: Olam's sales by geographic segments**



Source: Company

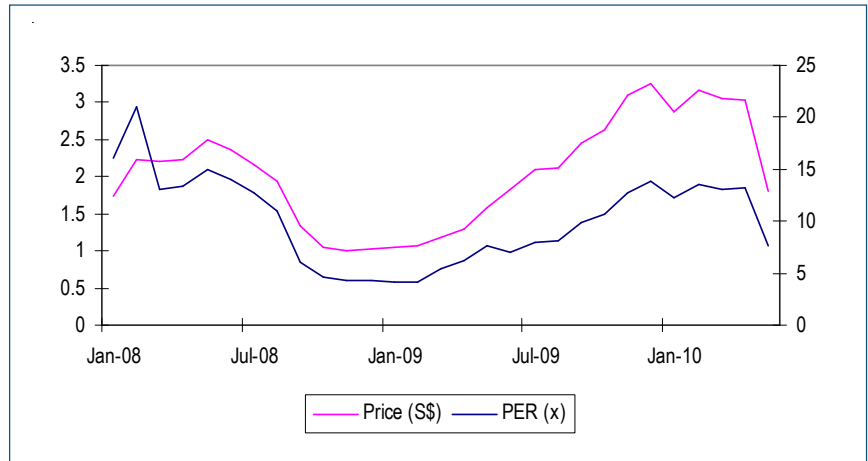
**Straits Asia Resources: Heating up the Asian market.** SAR does not derive any sales from Europe. Coal from its Sebuk mine is exported to Japan, while Jembayan's output is sold to Asian countries such as India, Taiwan and Malaysia. As such, we do not expect Euro zone woes to directly impact its earnings.

**Exhibit 3: SAR's sales by geographic segments**



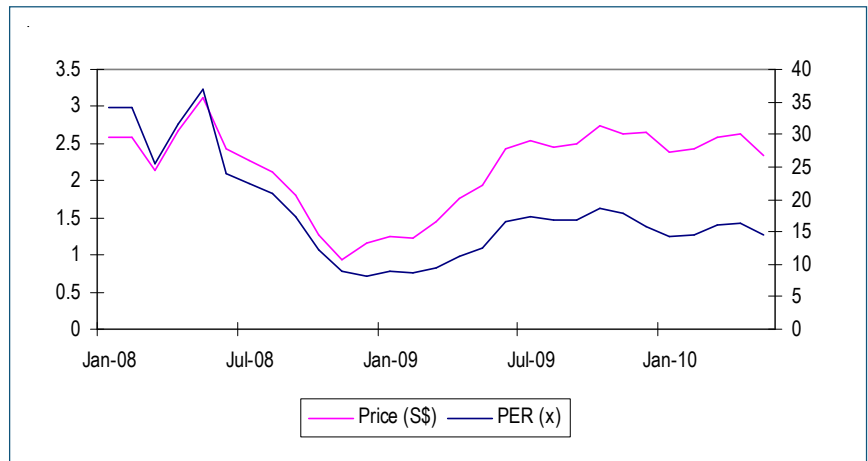
Source: Bloomberg

**Exhibit 4: Noble's price and PER, 2008 - present**



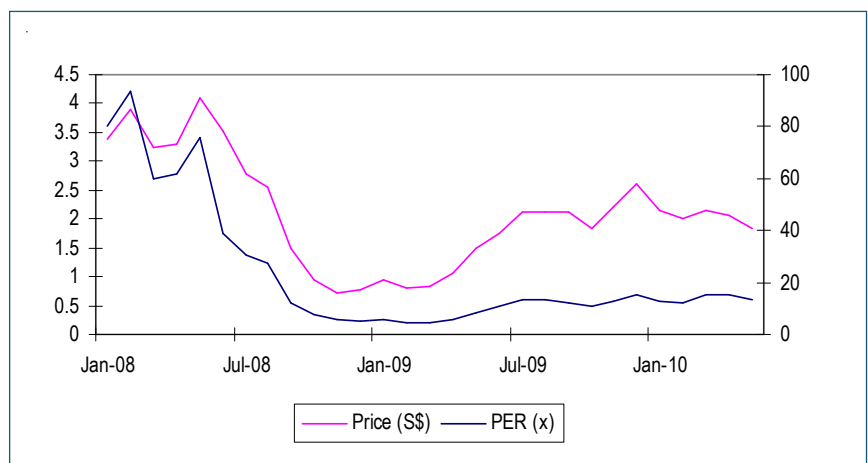
Source: Bloomberg

**Exhibit 5: Olam's price and PER, 2008 - present**



Source: Bloomberg

**Exhibit 6: SAR's price and PER, 2008 - present**



Source: Bloomberg

---

**SHAREHOLDING DECLARATION:**

The analyst/analysts who wrote this report holds NIL shares in the above security.

**RATINGS AND RECOMMENDATIONS:**

OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented.

- However, OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon. OIR's Buy = More than 10% upside from the current price; Hold = Trade within +/- 10% from the current price; Sell = More than 10% downside from the current price.

- For companies with less than S\$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

**DISCLAIMER FOR RESEARCH REPORT**

This report is solely for information and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our written consent. This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities mentioned herein. Whilst we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee its accuracy or completeness, and you should not act on it without first independently verifying its contents. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. You may wish to seek advice from a financial adviser regarding the suitability of the securities mentioned herein, taking into consideration your investment objectives, financial situation or particular needs, before making a commitment to invest in the securities. OCBC Investment Research Pte Ltd, OCBC Securities Pte Ltd and their respective connected and associated corporations together with their respective directors and officers may have or take positions in the securities mentioned in this report and may also perform or seek to perform broking and other investment or securities related services for the corporations whose securities are mentioned in this report as well as other parties generally.

Privileged/Confidential information may be contained in this message. If you are not the addressee indicated in this message (or responsible for delivery of this message to such person), you may not copy or deliver this message to anyone. Opinions, conclusions and other information in this message that do not relate to the official business of my company shall not be understood as neither given nor endorsed by it.

Co.Reg.no.: 198301152E

For OCBC Investment Research Pte Ltd



Carmen Lee  
Head of Research

Published by OCBC Investment Research Pte Ltd