

MITA No. 010/06/2008

8 May 2009

Hyflux Ltd

Maintain

BUY

Previous Rating: BUY

S\$1.91

Fair Value: S\$2.11

Stock Code: HYFL.SI
 Reuters: 600
 ISIN Code: HYF SP
 Bloomberg: Results

Event: Results

General Data	
Issued Capital (m)	525
Mkt Cap (S\$m/US\$m)	1,003/682
Major Shareholder	
Olivia Lum	(33.8%)
Free Float (%)	52.5%
NTA per share (RMB)	0.44
Daily Vol 3-mth ('000)	1,705
52Wk High (S\$)	3.720
52Wk Low (S\$)	1.110

Still upbeat about the water sector

Seasonally weaker 1Q09 results. Hyflux Ltd posted its 1Q09 results last night. Revenue fell 1.6% YoY at S\$88.2m, mainly due to the continued weakness in industrial sales in China (down 35.1%), hit by the challenging economic conditions. But municipal sales managed to grow 7.3% YoY, driven by its still strong order pipeline in that segment. Gross margin also improved from 23.3% in 1Q08 to 33.2%, largely aided by lower raw material prices as well as subcontractor's costs. Nevertheless, due to the absence of a tax credit in 1Q09 (versus S\$1.1m in 1Q08), net profit slipped 11.5% to S\$5.1m. On a sequential basis, revenue tumbled 50.8%, while net profit tumbled 62.0%, highlighting the usual seasonality of its revenue stream; the first quarter typically records the lowest revenue due to the long Chinese New Year holiday in China (See Exhibit 1).

Upbeat about Algeria, China prospects. Going forward, management believes that the outlook for the water industry remains upbeat, especially in Middle East & North Africa (MENA). Hyflux is particularly bullish about its growth potential in Algeria, as it has just achieved financial close for the US\$443m Magtaa Desalination Plant - touted to be the largest in the world with a capacity of 500k m³/day. Construction of the US\$200m Tlemcen Plant is also progressing well and is expected to be operational by end 2009. Meanwhile, management is also equally upbeat about its prospects in China, where the company is building and/or operating as many as 30 water treatment plants. One area that Hyflux sees potential is in the growth of water tariffs in China, which are still extremely low by international standards. Although tariffs have grown some 60% between 2003 and 2007, the average is around US\$0.20/m³ versus global average of US\$3.00/m³.

Expect seasonal uptick in 2Q09. Although management did not provide an update of its order book - EPC jobs last stood at S\$1.14b (end Dec 08), the ongoing projects to be completed should ensure that revenue and earnings see the seasonal uptick in 2Q09 and the rest of the year. As such, we are leaving our FY09 estimates unchanged despite 1Q09 revenue and earnings meeting just 14.4% and 8.3% of our full year estimates. And given the recent re-rating of the equity market, we correspondingly raise our valuation from 16x (trough) to 18x FY09F EPS and our fair value from S\$1.87 to S\$2.11. Maintain **BUY**.

Carey Wong

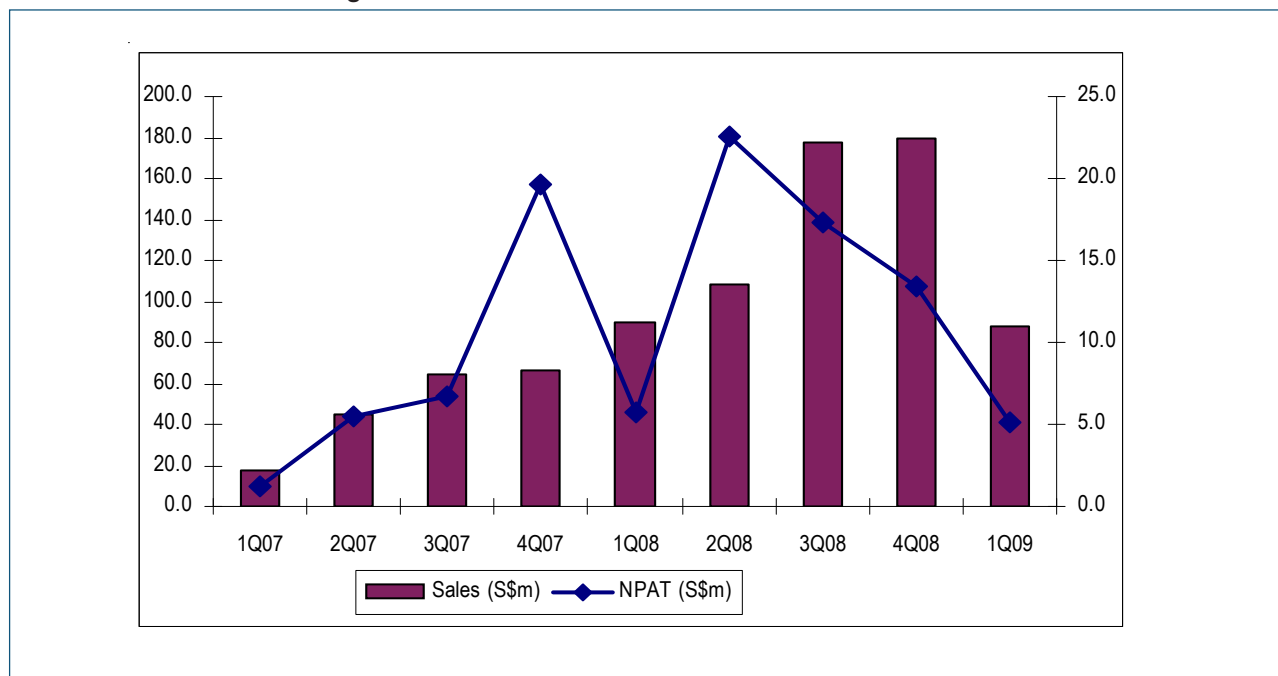
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Year to 31 Dec	Turnover (S\$m)	EBITDA (S\$m)	Net Profit (S\$m)	EPS (cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	192.8	43.6	32.9	6.3	111.0	30.2	1.0
FY 08	554.2	87.2	59.0	11.3	78.1	17.0	1.8
FY 09F	611.6	95.1	61.5	11.7	4.2	16.3	1.8
FY 10F	672.6	104.9	70.7	13.5	14.9	14.2	1.8

Please refer to the important disclosures at the back of this document.

Exhibit 1: Revenue and Earnings Trend



Source: Bloomberg

Hyflux's Key Financial Data

Hyflux Results Year Ended 31 Dec (\$ m)	1Q08 (\$m)	1Q09 (\$m)	% Chg (YoY)	4Q08 (\$m)	% Chg (QoQ)
Revenue	89.6	88.2	-1.6%	179.2	-50.8%
Gross profit	20.9	29.3	40.2%	50.0	-41.5%
Gross margin	23.3%	33.2%		27.9%	
EBITDA	8.8	11.6	31.5%	20.3	-43.2%
Depreciation & amortisation	-2.1	-2.4	16.0%	-3.2	-24.6%
Net interest	-1.6	-2.2	43.7%	-1.7	34.7%
FV Adjustment	-0.2	0.0	nm	-0.2	nm
Associates	0.5	-0.9	nm	-0.9	nm
Exceptionals	-0.1	0.0	nm	-0.1	nm
Pre-tax profit	5.4	6.0	12.4%	14.3	-57.8%
Tax	1.1	-1.8	nm	-1.4	21.5%
Minority interests	-1.0	0.1	nm	0.3	-79.6%
Net profit	5.7	5.1	-10.6%	13.4	-61.7%
Underlying profit	5.8	5.1	-11.5%	13.5	-62.0%
Net margin	6.5%	5.8%		7.5%	

Exhibit 2: Segmental Revenue

Segments (S\$ m)	1Q08	1Q09	% YoY	4Q08	% QoQ
Municipal	70.3	75.40	7.3%	165.5	-54.4%
Industrial	19.1	12.40	-35.1%	13.6	-8.7%
Others	0.1	0.40	300.0%	0.2	118.6%
Total	89.5	88.20	-1.5%	179.2	-50.8%

EARNINGS FORECAST

Year Ended 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Revenue	192.8	554.2	611.6	672.6
EBITDA	43.6	87.2	95.1	104.9
Depreciation & amortisation	-7.2	-9.7	-9.4	-10.8
Operating Profit	36.4	77.5	85.6	94.2
Net interest	-6.3	-5.5	-12.1	-10.2
Associates	1.3	-1.4	0.0	0.0
Exceptionals	10.8	0.0	0.0	0.0
Pre-tax profit	38.7	70.4	73.5	83.9
Tax	-2.0	-8.2	-8.8	-10.1
Minority interests	-3.7	-3.2	-3.2	-3.2
Net profit	32.9	59.0	61.5	70.7
Underlying profit	22.1	59.1	61.5	70.7
Earnings per share (cents)	6.3	11.3	11.7	13.5
Fully diluted earnings per share (cents)	6.2	11.3	11.5	13.2

BALANCE SHEET**As at 31 Dec (S\$ m)**

	FY07	FY08	FY09F	FY10F
Cash	121.0	90.7	47.7	81.9
Other current assets	218.5	293.4	287.0	305.1
Fixed assets	62.6	56.9	65.4	72.7
Other long term assets	147.4	405.5	543.6	544.7
Total assets	549.5	846.6	943.8	1,004.3
Current liabilities less debt	100.9	274.3	250.0	279.2
Debt	198.5	258.1	332.8	308.7
Other long term liabilities	3.1	6.3	6.3	6.3
Total liabilities	302.4	538.7	589.2	594.2
Shareholders equity	239.8	297.5	341.1	393.4
Minority interests	7.3	10.4	13.5	16.7
Total equity and liabilities	549.5	846.6	943.8	1,004.3
NTA per share (cents)	38.0	44.0	52.3	62.3

CASH FLOW**Year Ended 31 Dec (S\$ m)**

	FY07	FY08	FY09F	FY10F
Operating profit before working cap. changes	47.4	98.4	117.8	116.3
Working capital changes	29.2	-67.3	-45.0	-4.0
Interest and tax	-8.5	-8.6	-20.7	-19.4
Net cash from operations	68.2	22.5	52.1	92.8
Capex	-30.4	-18.8	-18.0	-18.0
Other investing flows	-111.9	-77.8	-134.7	1.5
Investing cash flow	-142.3	-96.6	-152.7	-16.5
Change in equity	4.7	3.3	0.0	0.0
Net change in debt	140.8	50.7	74.8	-24.1
Dividends paid	-7.0	-9.9	-18.0	-18.0
Others	-0.3	-0.7	0.0	0.0
Financing cash flow	138.1	43.3	56.8	-42.1
Forex adjustments	1.1	1.2	0.0	0.0
Net cash flow	65.2	-29.6	-43.8	34.2
Cash at beginning of year	55.8	121.0	91.5	47.7
Add: Bank overdraft and fixed deposit pledged to banks	0.0	-0.7	0.0	0.0
Cash at end of year	121.0	90.7	47.7	81.9

Key Ratios

PER (x)	30.2	17.0	16.3	14.2
Price/NTA (x)	5.0	4.3	3.7	3.1
EV/EBITDA (x)	24.8	13.4	13.5	11.7
Dividend yield (%)	1.0	1.8	1.8	1.8
ROIC (%)	5.1	10.6	9.1	10.1
ROE (%)	9.2	19.9	18.0	18.0
Net gearing (%)	32.3%	56.2%	83.6%	57.7%
PE to growth (x)	0.3	0.2	3.9	1.0

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

The analyst/analysts who wrote this report holds 1,875 shares in the above security.

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