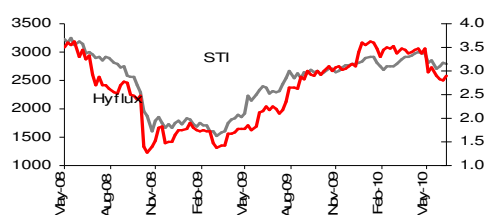


15 June 2010

Maintain

BUY

Previous Rating: BUY

Current Price: S\$3.03
Fair Value: S\$4.19


Hyflux Ltd

Potential SIWW catalyst

Stock sold down recently. After posting a seasonally softer set of 1Q10 results in early May, Hyflux Ltd shares have fallen by some 17.3% to hit a low of S\$2.68 in early Jun; in comparison, the broader market (STI) fell just 2.8%. We suspect there were several reasons behind the sharp sell-off - the key one being the slow progress made in sewing up the Libyan contracts (management had previously acknowledged that its timeline of 12 months was "aggressive" and now expects the conclusion to come in 2H10). Another reason was the recent credit tightening measures in China, which have resulted in fears that tighter credit may slow new order flows.

China outlook is not as bleak. But we think it is important to note that the PRC government's main intention of tightening credit is to cool the red-hot property market and not derail its overall economic growth. Furthermore, China is still pumping money to resolve its chronic water shortage problem - Xinhua¹ recently reported that China's northwest Shaanxi Province plans to spend RMB54.5b (S\$13b) on water projects in the next five years to expand the province's water supply capacity by 1.5b m³. In any case, we believe that Hyflux should not have any issue with getting access to credit, given its earlier deals with JBC Corp of Japan (co-develop green field water projects in China) and also a "strategic co-operation agreement" with the Bank of Jiangsu for financing facilities worth up to RMB3b.

Singapore International Water Week. Meanwhile, another near-term catalyst could potentially come from the 3rd Singapore International Water Week (SIWW) to be held in late Jun. The event organizers² have announced that they expect a record turnout at the event this year, boosted by the debut of two new country pavilions, a 10% increase in the number of participating companies, and more than 70 co-located events to date. More importantly, we believe that the event could see Hyflux inking deals for more water-treatment projects. As a recap, the SIWW event last year resulted in over S\$2.2b worth of contracts being signed, which included Hyflux's Libyan contracts (estimated at S\$1.5b).

Backed by impressive order book. Currently, Hyflux is still sitting on an impressive order book, which we estimate to be around S\$1827m (S\$727m for EPC, S\$1100m for O&M) as of end-Mar. Given Hyflux's proven track record, we believe that securing more contracts should not be an issue. Maintain **BUY** with S\$4.19 fair value (based on 25x FY10F EPS).

Reuters Code	HYFL.SI
ISIN Code	600
Bloomberg Code	HYF SP
Issued Capital (m)	571
Mkt Cap (S\$m / US\$m)	1,730 / 1,247
Major Shareholders	
Olivia Lum	31.2%
Free Float (%)	52.5%
Daily Vol 3-mth ('000)	1,900
52 Wk Range	2.010 - 3.770

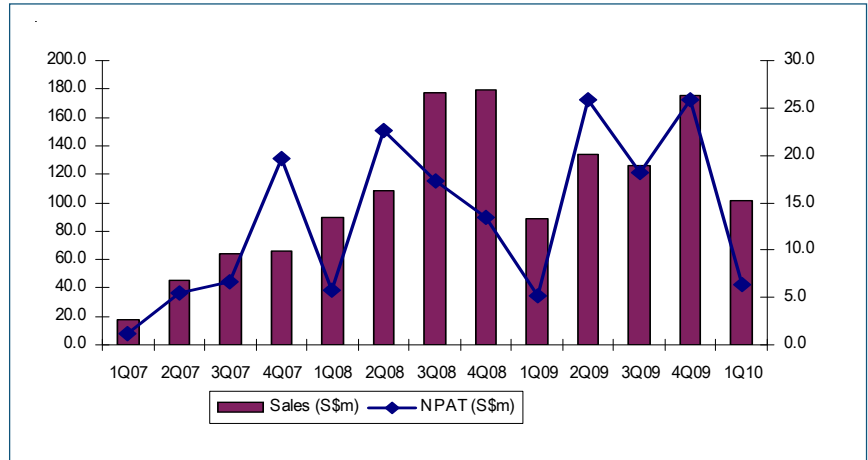
(S\$ m)	FY08	FY09	FY10F	FY11F
Revenue	554.2	524.8	647.1	731.4
EBITDA	87.2	101.3	122.8	128.4
EPS (cts)	11.3	14.3	16.8	17.8
PER (x)	26.9	21.2	18.1	17.0
P/NTA (x)	6.9	5.8	4.8	4.1

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¹ http://www.mwr.gov.cn/english/news/201006/t20100608_215915.html

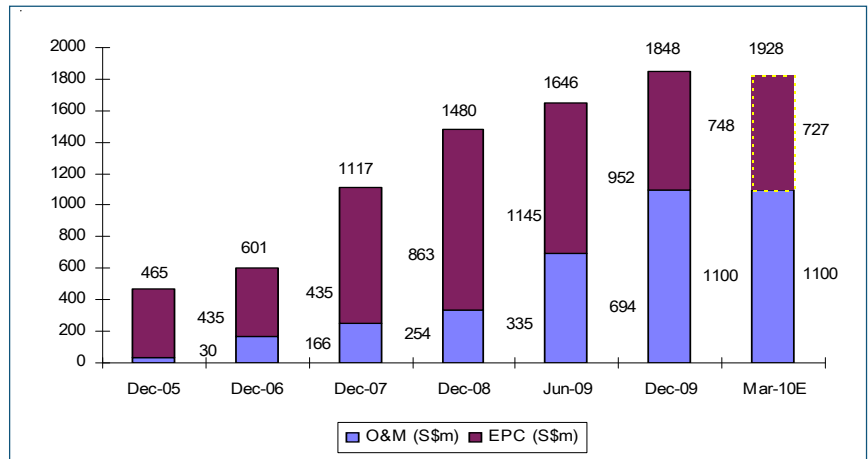
² http://www.acnnewswire.com/article.asp?art_id=3737&lang=EN

Exhibit 1: Quarterly Revenue and Earnings Trends



Source: Company, OIR

Exhibit 2: Order Book Estimation



Source: Company, OIR

Hyflux's Key Financial Data

EARNINGS FORECAST					BALANCE SHEET				
Year Ended 31 Dec (\$m)	FY08	FY09	FY10F	FY11F	As of 31 Dec (\$m)	FY08	FY09	FY10F	FY11F
Revenue	554.2	524.8	647.1	731.4	Cash	90.7	166.7	127.1	146.3
EBITDA	87.2	101.3	122.8	128.4	Other Current Assets	293.4	382.4	412.9	446.2
Depreciation & amortisation	-9.7	-16.5	-19.3	-18.7	Fixed Assets	56.9	134.9	130.7	127.0
Operating Profit	77.5	84.8	103.5	109.7	Other long term assets	405.5	388.5	423.7	418.2
Net interest	-5.5	-6.0	-7.7	-7.8	Total Assets	846.6	1,072.6	1,094.5	1,137.7
Associates	-1.4	2.6	2.2	2.0	Current Liabilities less Debt	274.3	272.6	278.6	314.5
Exceptionals	0.0	-1.4	0.0	0.0	Debt	258.1	400.3	359.5	307.6
Pre-tax profit	70.4	83.0	98.0	103.9	Other Long Term Liabilities	6.3	6.3	6.3	6.3
Tax	-8.2	-8.7	-9.8	-10.4	Shareholders Equity	297.5	365.2	421.9	481.2
Net Profit	59.0	75.0	88.2	93.6	Total Equity and Liabilities	846.6	1,072.6	1,094.5	1,137.7
CASH FLOW					KEY RATES & RATIOS				
Year Ended 31 Dec (\$m)	FY08	FY09	FY10F	FY11F		FY08	FY09	FY10F	FY11F
Profit Before Tax	70.4	83.0	98.0	103.9	EPS (S cents)	11.3	14.3	16.8	17.8
Working Capital Changes	-67.3	-44.9	-38.4	-3.5	Fully Diluted EPS (S cents)	11.0	14.0	16.4	17.4
Net Cash from Operations	22.5	54.8	44.8	118.2	PER (x)	26.9	21.2	18.1	17.0
Capex	-18.8	-8.6	-15.0	-15.0	Price/NTA (x)	6.9	5.8	4.8	4.1
Investing Cash flow	-96.6	-95.8	-17.3	-15.4	EV/EBITDA (x)	20.2	18.0	14.8	13.6
Change in Equity	3.3	4.7	0.0	0.0	Dividend Yield (%)	1.1	1.7	2.0	0.0
Net Debt Change	50.7	134.6	-40.8	-52.0	ROIC (%)	10.6	10.0	11.3	11.9
Financing Cash Flow	43.3	121.3	-67.1	-83.5	ROE (%)	19.9	20.9	20.9	19.4
Net Cash flow	-29.6	75.3	-39.6	19.2	Net Gearing (%)	56.2	64.0	55.1	33.5
Ending Cash Balance	90.7	166.7	127.1	146.3	PE to Growth (x)	0.3	0.8	1.0	2.8

Source: Company data, OIR estimates

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

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- 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.

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Head of Research

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