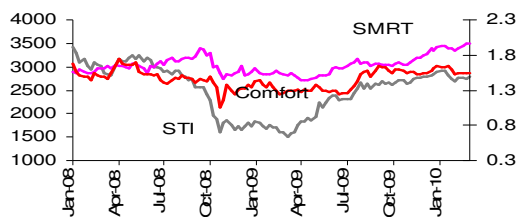


8 March 2010

Overweight

Land Transport Sector

Prospects looking bright



Transportation stocks fared well in 2009. Singapore public transportation stocks have performed well in 2009, in line with market expectations. ComfortDelGro (**NOT RATED**), for example, saw revenue from both its taxi and rail operations in Singapore grow by 3.9% and 2.5% respectively in FY09, boosted by larger taxi fleet, higher volume of cashless transactions and an increase in average daily rail ridership. While revenue from its bus operations was 6.0% lower due to fare reduction and lower bus ridership, operating profit was up 163.4% due mainly to lower fuel costs. SMRT (**BUY**, S\$2.05 fair value) similarly saw its revenue from train operations increased by 0.7% for 9MFY10 due to higher rail ridership and contribution from Circle Line (CCL) Stage 3, notwithstanding the fare reduction exercise. Its bus and taxi operations, on the other hand, reversed the operating losses in 9MFY09 despite a 4.4% and 2.4% decline in segmental sales.

OVERWEIGHT on Singapore Land Transport sector. Going forward, we continue to view the Singapore Land Transport Sector positively. We believe the Singapore Land Transport (LT) Masterplan, as initiated by government in 2008, would boost the connectivity and usage of public transport significantly. The CCL, part of government's initiatives to make the rail network the backbone of Singapore's public transport system, is likely to result in higher rail ridership. According to LTA, the CCL Stage 3 (which started operations in May 2009) will be joined by 11 more stations (CCL Stages 1-2) following the commencement of their operations on 17 April 2010. This is expected to result in a jump in ridership from this stretch of rail network from 30k in last November to 200k commuters. We believe an expected growth in population, higher tourist arrivals from key events such as the opening of the Integrated Resorts may be additional catalysts for a higher ridership number and this in turn will result in higher revenue for public transport operators. In July, PTC is also expected to exercise another fare revision for both bus and train. We are banking on flat-to-marginal increase in average fares, or limited downside from current fare levels.

	Share Price (\$)	Fair Value (\$)	Current Yield (%)	Rating	Valuation
ComfortDelGro *	1.54	NA	3.8	NOT RATED	NA
SMRT	1.96	2.05	4.1	BUY	DDM

* Based on Bloomberg consensus

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SMRT as preferred stock. SMRT is our preferred stock for the sector as we believe it is the key beneficiary from the LT Masterplan (operator of CCL). We see possibility for commuters to switch from other modes of transport to rail when the CCL is progressively opened for operations. We also like its defensive nature, strong operating cashflows and decent yield of 4.1%.

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

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Published by OCBC Investment Research Pte Ltd