

8 April 2009

Market Update

Weak earnings could dampen sentiment

Global indices have rallied in recent weeks. In the last few weeks, most key indices rebounded, with some indices now in positive territory for the year. For example, the STI rebounded from the trough of -17.4% to be up 2.3% for the year now. Others have erased some losses, for example, the Dow is now down 11.2% versus down 26.3% at 2009 trough.

Global recession is deeper than anticipated; confidence remains frail. Most economic numbers have pointed to significantly lower economic activities. This has hurt consumer demand and corporates have cut-back on capital expenditures and investments. While the worst appears to be over, aided by recent mega economic stimulus packages and the G20's pledge of more than US\$1 trillion in aid, the recovery process is still slow. The pace of decline may have also bottomed, but the coming 1-2 quarters are likely to continue to show signs of economic deterioration. The spectre of more job cuts remains and in the most recent release, US employers cut 663,000 jobs in March, bringing the total since Dec 2007 to 5.1m.

Decline in corporate earnings. Based on the S&P 500 companies, analysts are expecting 1Q earnings to drop 37% (-31% expected for 2Q and -18% in 3Q). This could mean more job cuts, extending even to Asia. Other lingering concerns include the decline in asset prices and tight credit conditions. If S&P500 outlook is any indication, Singapore corporates could also see similar double-digit decline in earnings.

What about M&A? Merger and acquisitions should technically be rife at current valuations, but unfortunately, funding is difficult to come by. In addition, offers may not be attractive enough for sellers to bite (IBM's recent offer for Sun Microsystems was rejected). Meanwhile, US banks are still in a bad shape, as most are burdened with toxic assets and there is still no clear resolution and some may have to ultimately write-off these assets.

Earnings will dominate in coming weeks. Key government actions have supported the market in recent weeks. Risk aversion is likely to remain (as seen from the still anaemic trading volume), although early signs of tentative recovery should help to cheer the market. Overall, the soon-to-be dished out dividend payments for blue chips in the coming 1-3 weeks should help to provide some temporary share price support in Singapore, but May could see weakness from weak corporate results.

Near term correction ahead. As the STI has recovered some 24% from recent lows in less than a month, we see near-term resistance ahead. In addition, most of the stocks with BUY ratings under our coverage have also appreciated quite significantly. For example, SembCorp Marine rose 64% from 2009 trough to peak, and we downgraded it recently to a HOLD. Similarly, DBS was raised to a BUY on 4 Mar 2009, and it has appreciated 22% since. We see some near term correction ahead, but on price weakness, our picks are ***Ezra, Golden Agri, Hyflux, Midas, MobileOne, Pacific Andes, Raffles Education, SingTel, SMRT, Spore Post, StarHub, Straits Asia Resources, Suntec and UOL.***

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Exhibit 1: OIR's Stock Picks

Stocks	Price	Fair Value	Hist PER (x)	PER 1 (x)	PER 2 (x)	Net Yield (%)
Ezra Hldgs	0.820	1.010	1.8*	5.4	3.9	5.5
Golden Agri-Resources	0.300	0.400	1.4	6.1	5.7	1.7
Hyflux	1.720	2.030	15.3	14.7	12.8	2.0
Midas Hldgs	0.505	0.630	13.1	11.5	8.7	2.5
MobileOne	1.500	2.120	8.9	9.3	8.7	8.6
Pacific Andes Hldgs	0.185	0.300	2.6	2.7	3.0	10.8
Raffles Education Corp	0.410	0.600	9.5	7.9	8.1	8.5
SinghTel	2.530	3.090	10.2	12.3	12.2	4.8
SMRT Corp	1.480	1.830	15.0	14.4	13.6	5.4
Spore Post	0.760	0.930	9.8	9.6	10.1	8.0
StarHub	1.980	2.880	10.8	10.7	10.4	9.1
Straits Asia Resources	0.875	1.150	5.1	2.2	6.0	17.2
Suntec REIT	0.625	0.800	9.0	7.9	9.3	15.1
UOL Group	2.000	2.590	10.8	6.1	7.5	3.8

Note: As some of the BUY stocks have appreciated strongly recently, we are in the process of reviewing our ratings and these are not included in the list above.

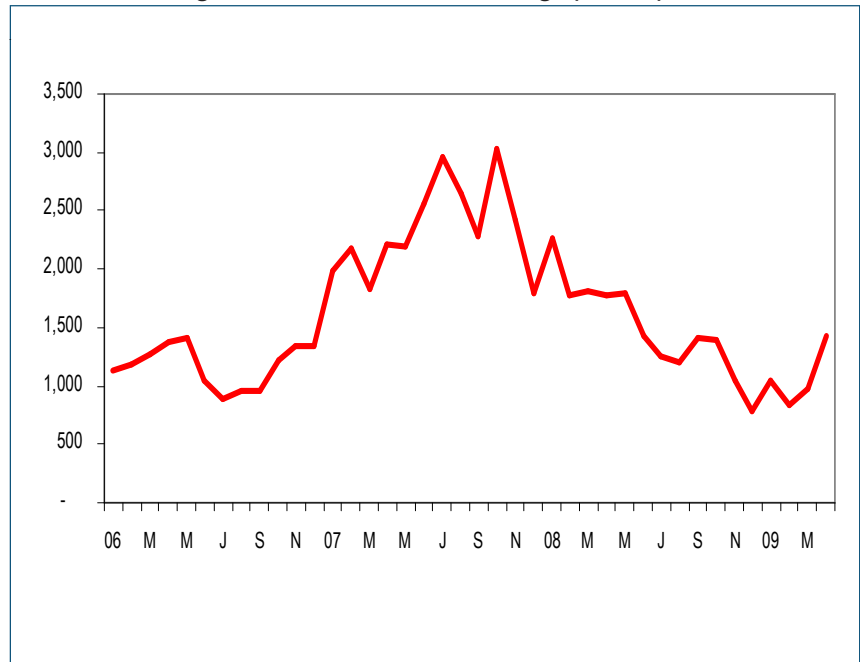
Exhibit 2: Dividend Schedule of STI's Stocks

Company	Div	Ex-Date	Record Date	Payable Date
CapitaLand	S\$0.07	06-May-09	08-May-09	22-May-09
City Dev	S\$0.075	05-May-09	07-May-09	22-May-09
Comfordelgro	S\$0.024	04-May-09	06-May-09	18-May-09
Cosco	S\$0.07	28-Apr-09	30-Apr-09	15-May-09
DBS	S\$0.14	14-Apr-09	16-Apr-09	29-Apr-09
Jardine Cycle & Carriage	US\$0.36	13-May-09	15-May-09	24-Jun-09
Keppel Corp	SS\$0.21	28-Apr-09	30-Apr-09	12-May-09
MobileOne	S\$0.072	09-Apr-09	14-Apr-09	27-Apr-09
NOL	S\$0.04	17-Apr-09	21-Apr-09	05-May-09
OCBC	S\$0.14	24-Apr-09	28-Apr-09	17-Jun-09
Sembcorp Ind	S\$0.11	22-Apr-09	24-Apr-09	08-May-09
Sembcorp Marine	S\$0.06	24-Apr-09	28-Apr-09	13-May-09
ST Eng	S\$0.128	28-Apr-09	30-Apr-09	19-May-09
Starhub	S\$0.045	20-Apr-09	22-Apr-09	07-May-09
UOB	S\$0.40	07-May-09	11-May-09	25-May-09
Wilmar	S\$0.045	06-May-09	08-May-09	21-May-09

Source: Company announcements

Note: Div includes normal & special dividends

Exhibit 3: Trading Volume on the Stock Exchange (million)



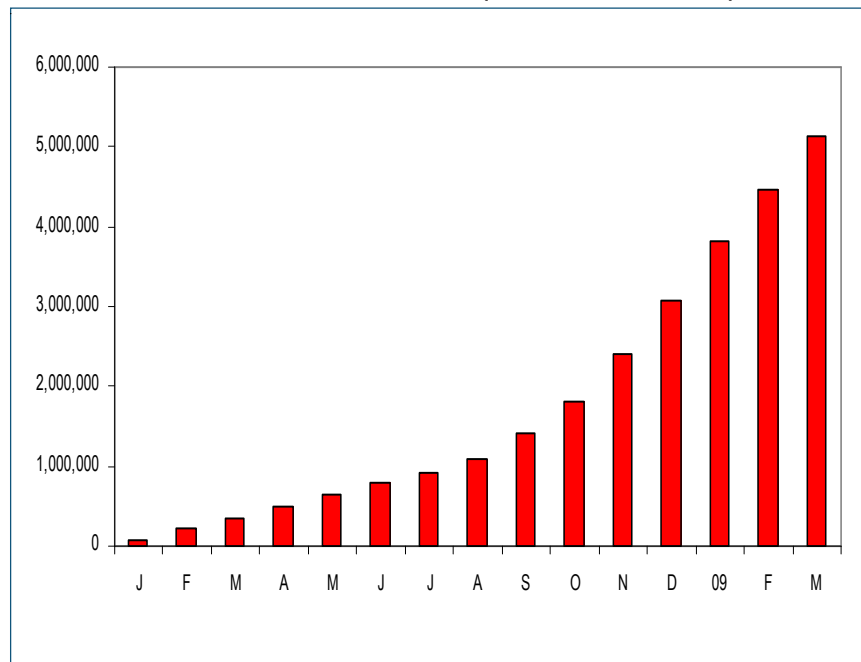
Source: Bloomberg

Exhibit 4: US Unemployment Rate (%)



Source: Bloomberg

Exhibit 5: Cumulative Job Loss in the US (Jan 2008 to Mar 2009)



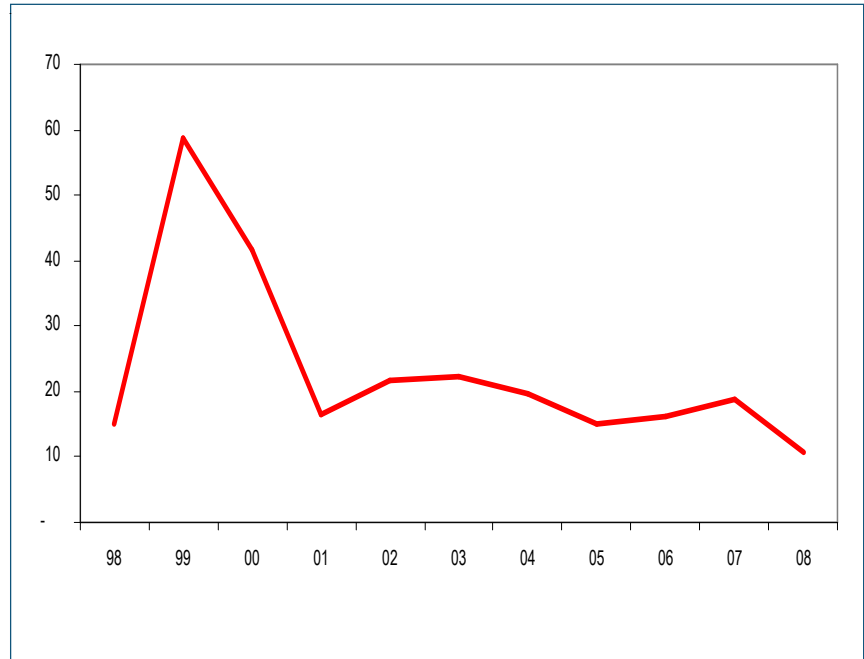
Source: Bloomberg

Exhibit 6: Key Economic Growth Rates

GDP (%)	2006	2007	2008	2009	2010
US	2.80	2.00	1.10	-2.50	1.80
Euro	3.05	2.63	0.70	-2.90	0.50
Japan	2.03	2.40	-0.58	-6.00	0.20
China	11.60	13.00	9.00	7.70	8.50
Singapore	8.15	7.78	1.25	-5.25	2.90

Source: Bloomberg

Exhibit 7: Singapore Market PER (x)



Source: Bloomberg

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