

MITA No. 010/06/2008

13 May 2009

Neptune Orient Lines Ltd

Maintain

SELL

Previous Rating: SELL

S\$1.44

Fair Value: S\$0.815

Stock Code:

Reuters:

ISIN Code

Bloomberg:

NEPS.SI

N03

NOL SP

Event:

Results

General Data

Issued Capital (m)	1,475
Mkt Cap (S\$m/US\$m)	2,124/1,454
Major Shareholder	
Temasek Holdings	(68%)
Free Float (%)	32.0%
NAV per share (US cents)	156
Daily Vol 3-mth ('000)	15,218
52Wk High (S\$)	4.160
52Wk Low (S\$)	0.850

Still in the red

Deeper in the red. Neptune Orient Lines Ltd (NOL) turned in a poor set of 1Q09 results. The group reported a net loss of US\$244.6m vs. a US\$120.7m profit a year ago. 1Q09 losses were wider than the US\$148.5m loss incurred in 4Q08. Revenue slumped 35.9% YoY and 32.6% QoQ to US\$1.5b. Key culprits for NOL's weak performance were the slump in global trade flows coupled with deteriorating freight rates across all trade lanes. A reduction in non-recurring gains from asset disposals (US\$3m in 1Q09 vs. US\$18m in 1Q08) magnified the slump in earnings. The group's poor performance led to a net operating cash outflow of US\$139.4m in 1Q09 as compared to an inflow of US\$212.9m a year ago.

Revenue declined across all segments. Container Shipping, the group's key revenue contributor, saw revenue slide 35.9% YoY to US\$1.3b on the back of depressed freight rates and lower demand for container freight. Average revenue per FEU (Forty-foot Equivalent Unit) has fallen 16% YTD owing to lower bunker recovery and core freight rates, while volume handled has slumped 27% as a result of the global economic downturn. Utilisation of its container shipping network continued heading south despite the group's capacity reduction efforts, coming in at just 80% in 1Q09 as compared to 95% in 1Q08 and 83% in 4Q08 (exhibit 1). This brings the group's utilisation rate down to levels seen during the previous crisis in 2002. The Logistics and Terminals segments similarly suffered revenue contraction as a result of lower throughput volumes. Revenue from Logistics declined 33.6% YoY to US\$241m while that from Terminals fell 22.8% to US\$112m.

Not out of the woods yet. While NOL has been taking proactive measures to contain costs and improve asset utilisation, these have not been sufficient to mitigate the group's rapid revenue decline. Management has put in place cost-reduction initiatives that could result in US\$550m of cost savings for the year, and we expect these to take some pressure off the group's earnings in subsequent quarters. Notwithstanding this, NOL expects operating conditions to remain challenging for the year ahead, and has reiterated its projection of full year losses for FY09, which we had already taken account into our estimates. NOL's revival hinges on the recovery of global trade flows, which remains uncertain at this juncture. We are keeping our estimates and **SELL** rating unchanged. Our fair value estimate remains at S\$0.815.

Lee Wen Ching

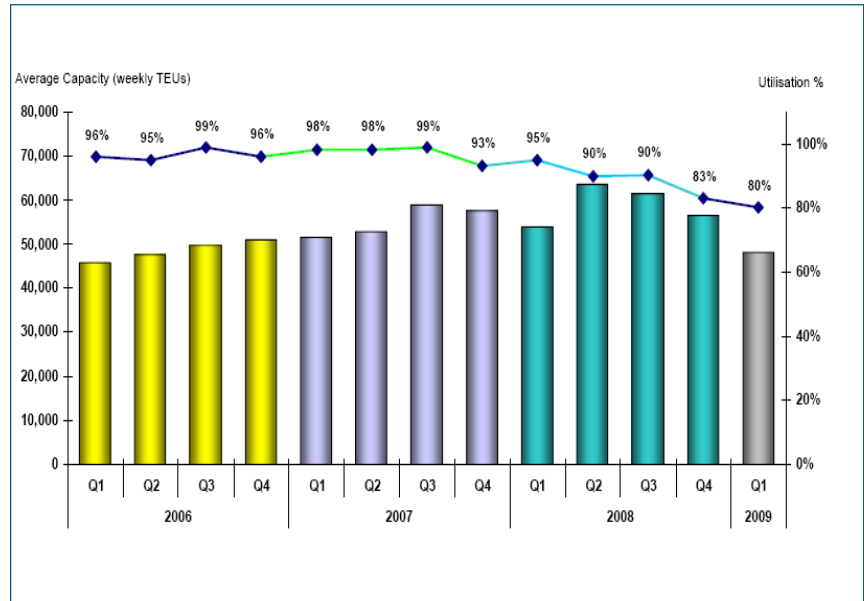
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Year to 31 Dec	Turnover (US\$m)	EBIT (US\$m)	Net Profit (US\$m)	EPS (US cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	8,160.0	619.4	522.8	35.3	41.8	2.7	9.7
FY 08	9,285.1	164.1	83.1	5.6	-84.1	17.1	5.6
FY 09F	6,542.5	-341.0	-422.5	-28.6	nm	-	-
FY 10F	6,902.9	-87.7	-170.2	-11.5	nm	-	-

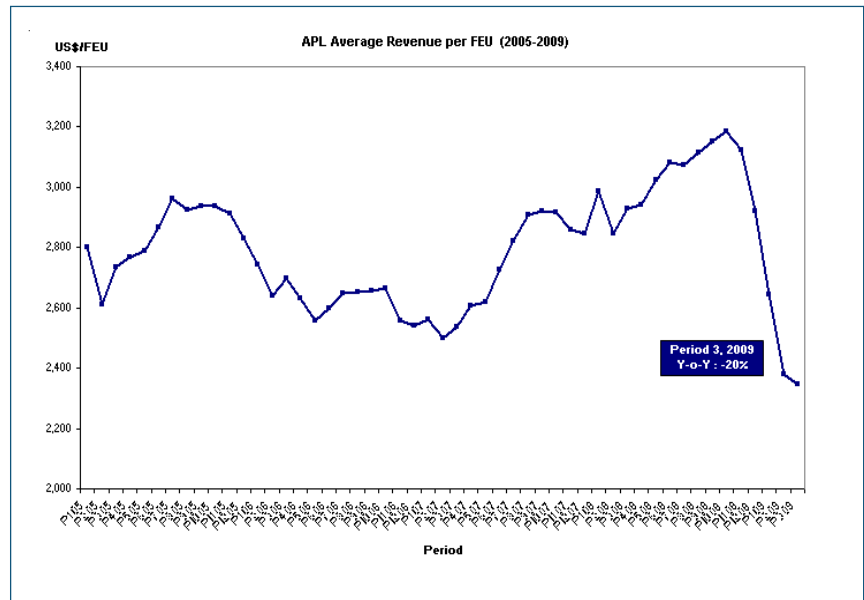
Please refer to the important disclosures at the back of this document.

Exhibit 1: Container shipping network capacity and utilisation



Source: Company

Exhibit 2: NOL's average freight rate



Source: Company

NOL's Key Financial Data

NOL Results Year Ended 31 Dec (US\$ m)	1Q08 (US\$m)	1Q09 (US\$m)	% Chg (YoY)	4Q08 (US\$m)	% Chg (QoQ)
Revenue	2,406.9	1,542.9	-35.9%	2,289.2	-32.6%
Cost of sales	-2,099.2	-1,607.1	-23.4%	-2,163.1	-25.7%
Gross Profit	307.7	-64.3	N.M.	126.1	N.M.
Other gains	23.1	5.6	-75.8%	9.9	-43.6%
Expenses	-192.6	-161.2	-16.3%	-256.7	-37.2%
EBIT	138.3	-219.8	N.M.	-120.6	82.2%
Finance costs	-7.5	-14.5	93.8%	-12.0	20.9%
Share of associates / JV profit	2.9	1.1	-60.8%	2.3	-50.6%
Profit before tax	133.7	-233.2	N.M.	-130.3	78.9%
Tax	-11.3	-11.0	-2.7%	-17.0	-35.6%
Profit for the year	122.4	-244.2	N.M.	-147.3	65.7%
Minority interests	1.7	0.4	-76.2%	1.2	-64.6%
Profit attributable to shareholders	120.7	-244.6	N.M.	-148.5	64.7%

EARNINGS FORECAST

Year Ended 31 Dec (US\$ m)	FY07	FY08	FY09F	FY10F
Revenue	8,160.0	9,285.1	6,542.5	6,902.9
Cost of sales	-6,865.6	-8,329.0	-6,149.9	-6,212.6
Gross Profit	1,294.4	956.1	392.5	690.3
Other gains	74.6	52.9	0.0	0.0
Expenses	-749.6	-844.9	-733.6	-778.0
EBIT	619.4	164.1	-341.0	-87.7
Finance costs	-44.0	-34.9	-41.0	-41.0
Share of associates / JV profit	10.4	8.0	4.0	4.0
Profit before tax	585.9	137.2	-378.0	-124.7
Tax	-53.9	-48.9	-37.9	-38.6
Profit for the year	532.0	88.3	-416.0	-163.3
Minority interests	9.2	5.1	6.5	6.9
Profit attributable to shareholders	522.8	83.1	-422.5	-170.2
EPS (US cents)	35.3	5.6	-28.6	-11.5
Profitability Ratios				
Gross margin (%)	15.9%	10.3%	6.0%	10.0%
EBIT margin (%)	7.6%	1.8%	-5.2%	-1.3%
PBT margin (%)	7.2%	1.5%	-5.8%	-1.8%
Net profit margin (%)	6.4%	0.9%	-6.5%	-2.5%

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

	FY07	FY08	FY09F	FY10F
Cash and cash equivalents	504.4	429.2	291.4	276.8
Trade receivables	1,044.7	828.7	523.4	483.2
Inventories	161.1	159.0	111.2	103.5
Other current assets	173.9	73.6	73.6	73.6
Property, plant, and equipment	2,812.8	3,642.6	3,555.2	3,464.9
Other non-current assets	311.8	311.4	311.4	311.4
Total assets	5,008.7	5,444.6	4,866.2	4,713.4
Debt	591.5	1,244.6	1,367.0	1,367.0
Current liabilities excluding debt	1,489.7	1,468.2	1,192.1	1,201.7
Non-current liabilities excluding debt	220.3	227.2	218.5	219.4
Total liabilities	2,301.5	2,940.0	2,777.6	2,788.1
Shareholders equity	2,661.9	2,460.5	2,038.0	1,867.8
Minority interests	45.3	44.0	50.6	57.5
Total equity	2,707.2	2,504.6	2,088.6	1,925.3
Total equity and liabilities	5,008.7	5,444.6	4,866.2	4,713.4
NAV per share (US cents)	181.4	167.3	138.2	126.6
NTA per share (US cents)	179.1	165.3	136.2	124.6

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

	FY07	FY08	FY09F	FY10F
Operating profit before working cap. changes	861.1	498.9	-107.6	146.5
Working capital changes, taxes and interests	-33.2	0.9	-10.5	-21.2
Net cash from operations	827.9	499.8	-118.1	125.3
Purchase of property, plant and equipment	-911.8	-879.0	-142.0	-140.0
Other investing flows	48.4	36.0	0.0	0.0
Investing cash flow	-863.5	-843.1	-142.0	-140.0
Financing cash flow	-154.4	268.1	122.3	0.0
Net cash flow	-189.9	-75.1	-137.8	-14.7
Cash at beginning of year	694.3	504.4	429.2	291.4
Cash at end of year	504.4	429.2	291.4	276.8

Key Ratios

PER (x)	2.7	17.1	-	-
Price/NAV (x)	0.5	0.6	0.7	0.8
Price/NTA (x)	0.5	0.6	0.7	0.8
EV/EBITDA (x)	1.7	5.2	-	17.6
Dividend yield (%)	9.7	5.6	0.0	0.0
ROE (%)	19.6	3.4	-20.7	-9.1
Net gearing (%)	3.3	33.1	52.8	58.4

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

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

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