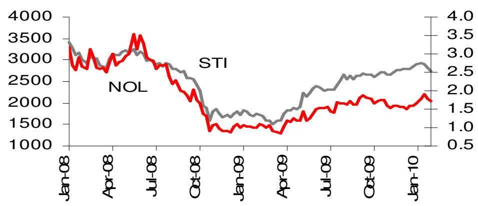
3 February 2010

Maintain
HOLD

Previous Rating: HOLD

Current Price: S$1.73
Fair Value: S$1.63



Reuters Code	NEPS.SI
ISIN Code	N03
Bloomberg Code	NOL SP
Issued Capital (m)	2,582
Mkt Cap (Sm/USm)	4,467 / 3,170
Major Shareholders	
Temasek Holdings	68%
Free Float (%)	32%
Daily Vol 3-mth ('000)	13,917
52 Wk Range	0.768 - 1.980

(US$ m)	FY07	FY08	FY09F	FY10F
Revenue	8,160.0	9,285.1	5,873.8	6,204.0
Gross Profit	1,294.4	956.1	352.4	620.4
P/NAV (x)	0.6	0.7	1.1	1.2
EPS (cts)	35.3	5.6	-26.5	-5.9
PER (x)	3.3	20.6	N.A.	N.A.

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Neptune Orient Lines Ltd

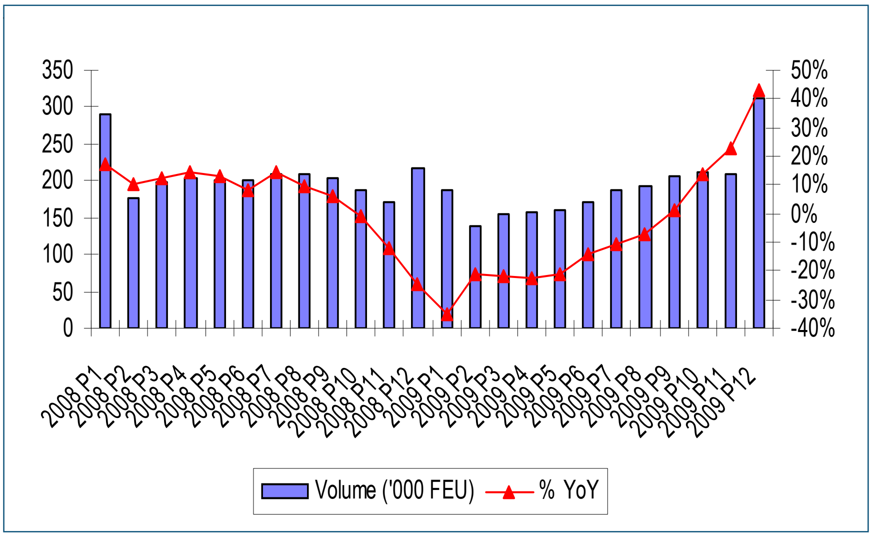
Recovery underway

Light at the end of the tunnel? The shipping industry has seen a string of optimistic news flow of late. Freight volumes appear to have bottomed out, industry experts are unanimously forecasting higher freight rates in 2010, liners are turning increasingly sanguine, and some market watchers are predicting that shipping lines could return to the black in 2010 after suffering an estimated US$20b of losses in 2009. Such encouraging signs bode well for Neptune Orient Lines (NOL), which has been in the red since 4Q08. While management has predicted that losses could persist till at least 1H10, we expect losses to narrow in FY10 as compared to FY09, buoyed by improved prospects in 2H10 as well as concerted efforts by the global shipping industry to curb losses. Order cancellations of new vessels have also helped to stem overcapacity problems. Coupled with the improved economic outlook, demand and supply fundamentals could experience some tightening in 2010.

Good end to 2009, sustainability is the main wild card. NOL ended the year with an encouraging set of operational data in Period 12 (P12), 2009. Container shipping revenue grew 7.4% YoY and 46.9% PoP (period on period) to US$684.1m - the second highest level recorded in two years. Revenue recovery was driven by a strong rebound in shipping volume (up 43.3% YoY and 50.2% PoP), partially offset by continued weakness in freight rates (down 25.1% YoY and 2.2% PoP). While NOL's P12 performance came as a pleasant surprise, we refrain from turning bullish at this juncture as it remains to be seen if such volumes can be sustained. Furthermore, freight rates remain in the doldrums and still have some way to go before reaching break-even levels.

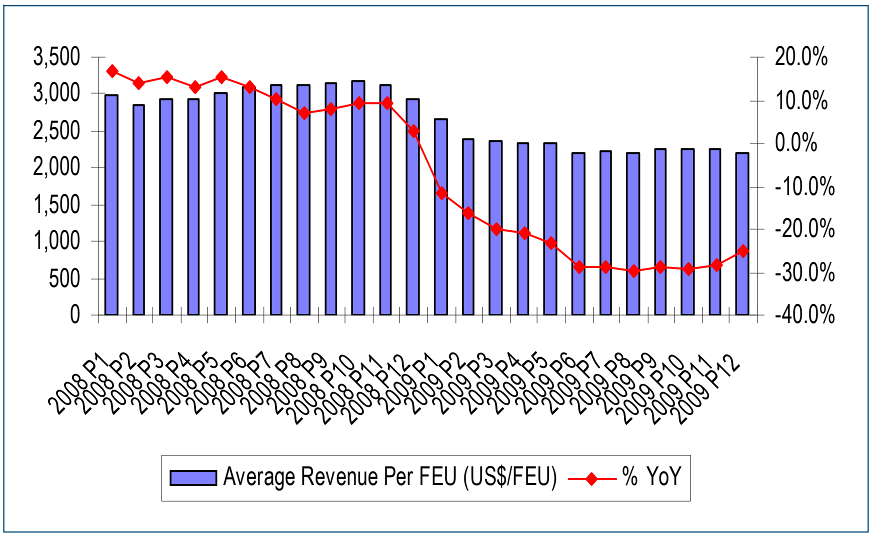
Awaiting concrete signs of recovery; maintain HOLD. We are keeping our estimates and **HOLD** rating intact pending the group's FY09 results due next Thursday, 11 Feb 2010. Management's guidance will be crucial in setting the tone for its outlook. In view of the improving operating environment, we have lifted our valuation peg to 1.1x FY10F NTA (from 1.0x), deriving a fair value estimate of S$1.63 (previously S$1.48). We do not rule out the possibility of further upward adjustments should NOL display concrete signs of a recovery. The stock is currently trading at 1.2x FY10F NTA, below the 1.46x it traded at during recovery phase in 2003.

Exhibit 1: Container shipping volume, Jan 08 - present



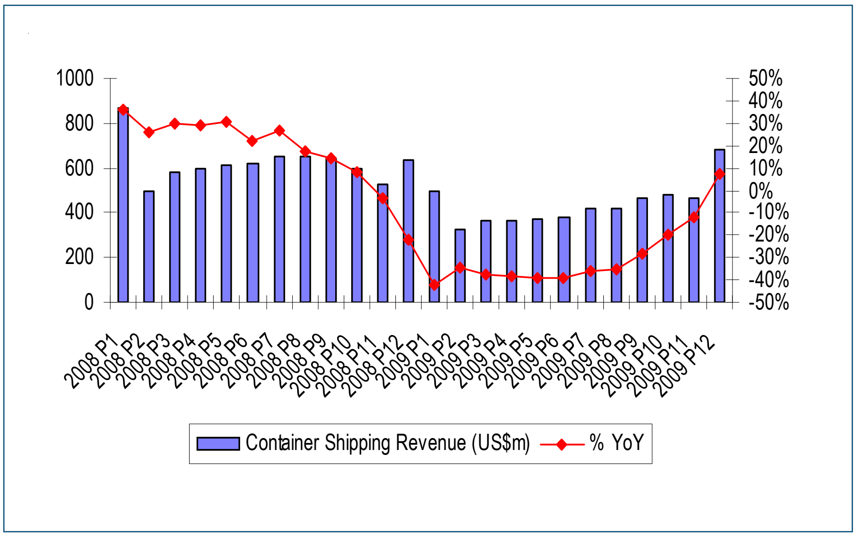
Source: Company, OIR

Exhibit 2: Freight rates, Jan 08 - present



Source: Company, OIR

Exhibit 3: Container shipping revenue, Jan 08 - present



Source: Company, OIR

NOL's Key Financial Data

EARNINGS FORECAST Year Ended 31 Dec (US$m)	FY07	FY08	FY09F	FY10F
Revenue	8,160.0	9,285.1	5,873.8	6,204.0
Gross profit	1,294.4	956.1	352.4	620.4
Net op expenses	-674.9	-792.0	-966.4	-702.0
EBIT	619.4	164.1	-614.0	-81.6
Finance cost	-44.0	-34.9	-29.0	-29.0
Associates / JVs	10.4	8.0	4.0	4.0
PBT	585.9	137.2	-639.0	-106.6
PAT	532.0	88.3	-678.5	-146.8
Minority interests	9.2	5.1	5.9	6.2
Net profit	522.8	83.1	-684.4	-153.0

BALANCE SHEET As at 31 Dec (US$m)	FY07	FY08	FY09F	FY10F
Cash and cash equivalents	504.4	429.2	428.8	339.0
Other current assets	1,379.8	1,061.3	778.4	818.1
Property, plant, equipment	2,812.8	3,642.6	3,558.9	3,472.6
Total assets	5,008.7	5,444.6	5,077.6	4,941.1
Debt	591.5	1,244.6	967.0	967.0
Current liabilities excluding debt	1,489.7	1,468.2	1,107.7	1,117.1
Total liabilities	2,301.5	2,940.0	2,291.6	2,301.8
Shareholders equity	2,661.9	2,460.5	2,736.1	2,583.2
Total equity	2,707.2	2,504.6	2,786.0	2,639.3
Total equity and liabilities	5,008.7	5,444.6	5,077.6	4,941.1

CASH FLOW Year Ended 31 Dec (US$m)	FY07	FY08	FY09F	FY10F
Op profit before working cap.	861.1	498.9	-384.3	148.7
Working cap, taxes and interest	-33.2	0.9	-156.5	-98.6
Net cash from operations	827.9	499.8	-540.8	50.1
Purchase of PP&E	-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	682.4	0.0
Net cash flow	-189.9	-75.1	-0.4	-89.9
Cash at beginning of year	694.3	504.4	429.2	428.8
Cash at end of year	504.4	429.2	428.8	339.0

KEY RATES & RATIOS	FY07	FY08	FY09F	FY10F
EPS (US cents)	35.3	5.6	(26.5)	(5.9)
NAV per share (US cents)	181.4	167.3	106.0	100.1
EBIT margin (%)	7.6%	1.8%	-10.5%	-1.3%
PBT margin (%)	7.2%	1.5%	-10.9%	-1.7%
Net profit margin (%)	6.4%	0.9%	-11.7%	-2.5%
PER (x)	3.3	20.6	N.A.	N.A.
Price/NAV (x)	0.6	0.7	1.1	1.2
Dividend yield (%)	8.1%	4.6%	0.0%	0.0%
ROE (%)	19.6%	3.4%	-25.0%	-5.9%
Net gearing (%)	3.3%	33.1%	19.7%	24.3%

Source: Company data, OIR estimates

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

RATINGS AND RECOMMENDATIONS:
OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented.
- However, OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon. OIR's Buy = More than 10% upside from the current price; Hold = Trade within +/-10% from the current price; Sell = More than 10% downside from the current price.
- 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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