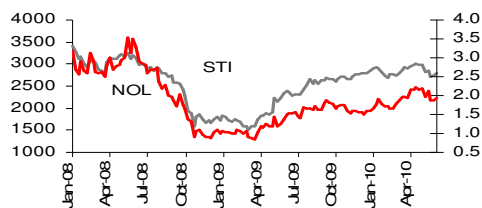


29 June 2010

Maintain

BUY

Previous Rating: BUY

Current Price: S\$2.03
Fair Value: S\$2.35


Reuters Code	NEPS.SI
ISIN Code	N03
Bloomberg Code	NOL SP
Issued Capital (m)	2,582
Mkt Cap (S\$m/US\$m)	5,242 / 3,782
Major Shareholders	
Temasek Holdings	68%
Free Float (%)	32%
Daily Vol 3-mth ('000)	18,501
52 Wk Range	1.360 - 2.350

(US\$ m)	FY08	FY09	FY10F	FY11F
Revenue	9,285.1	6,515.6	8,667.2	9,939.6
Gross Profit	956.1	-20.4	866.7	1,192.7
EPS (Cts)	5.6	-28.7	1.1	11.8
PER (x)	25.5	N.A.	135.7	12.2
P/NAV (x)	0.9	1.3	1.3	1.2

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Neptune Orient Lines Ltd

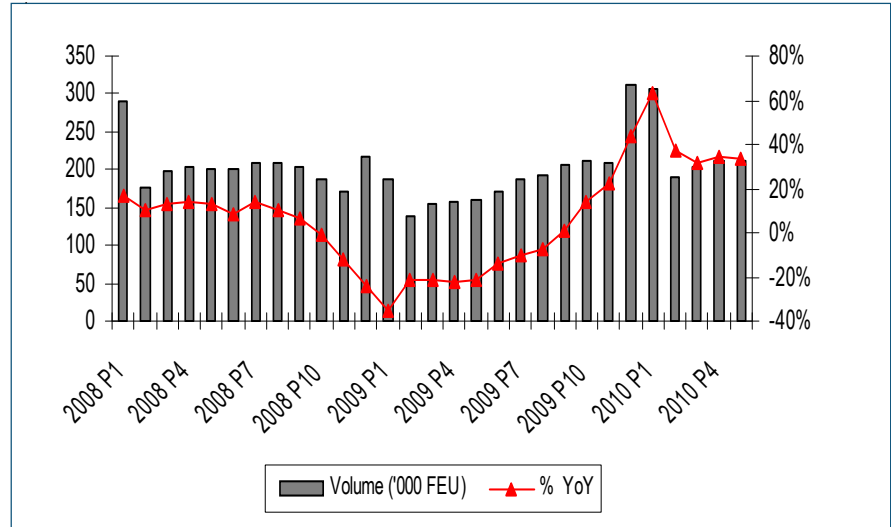
On track for turnaround in FY10

On track to return to profitability in FY10. Recent data reaffirms our expectation for Neptune Orient Lines (NOL) to return to profitability in FY10 following six consecutive quarters of losses since 4Q08. The group recently reported a 33.6% YoY increase in shipping volumes recorded between 1 May and 28 May, or Period 5 (P5), buoyed by higher Intra-Asia and Transpacific volumes. Average revenue per FEU (Forty-foot Equivalent Unit) rose 19.0% YoY thanks to improved core freight rates, bringing revenue up 59.0% YoY. Year to date, volumes have jumped 41.0% YoY and average freight rate has risen 7.4% YoY, lifting the group's container shipping revenue by 51.5% as compared to the same period a year ago.

Transpacific demand on the rise. Annual Transpacific contract negotiations appear positive, with CEO Mr Ron Widdows expressing confidence that freight rate increases should lift these trades back to a "small profit" after huge losses sustained in 2009-2010. The Transpacific Stabilization Agreement (TSA) reported a 24.1% YoY increase in traffic to the US West Coast in May 2010, while the National Retail Federation forecasts an average 12.6% YoY increase in retail import shipments through US container ports in Jun-Oct 2010. Stronger-than-expected peak season demand has spurred liners to implement peak season surcharges and reactivate previously idled capacity - a sign that liners are regaining their bargaining power amid tighter demand and supply fundamentals. According to AXS Alphaliner, more than 37,000 TEU (Twenty-foot Equivalent Unit) of vessel capacity was reactivated in Apr and May, bringing idle global containership capacity to its lowest level since Dec 2008.

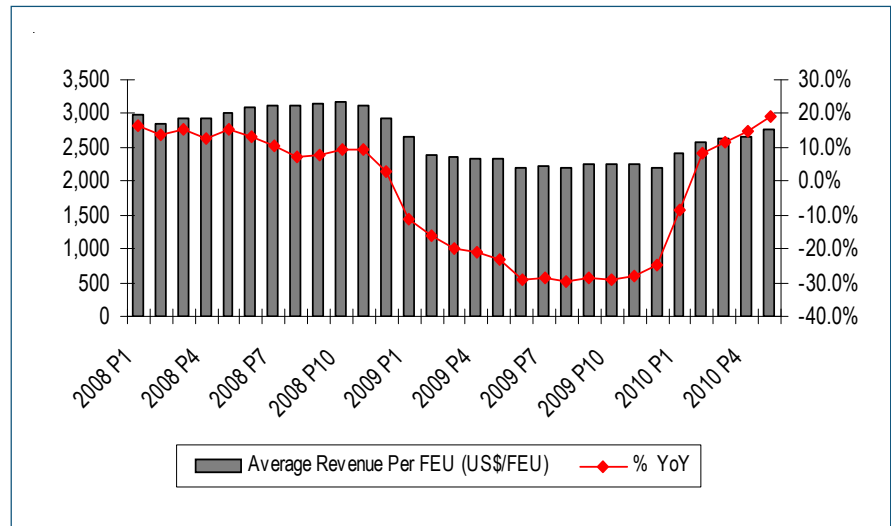
Maintain BUY - US, Asia and Middle East to support recovery. NOL yesterday successfully established a US\$1.5b medium term note programme, proceeds of which will be used for general corporate purposes. The issue enhances its financial flexibility in the event that credit markets become constrained. Recent Euro zone worries have created an overhang on the stock, which has fallen by 12% from its recent peak. We believe that negatives have been reflected at current levels and highlight that the positive economic developments in US, Asia and Middle East, which together account for 80% of the group's volumes, will support the group's recovery. We maintain our **BUY** rating on NOL and keep our fair value estimate at S\$2.35. Key catalysts include a return to profitability, which we anticipate could happen as soon as 2Q10, as well as strong operating data.

Exhibit 1: Container shipping volume, Jan 08 - present

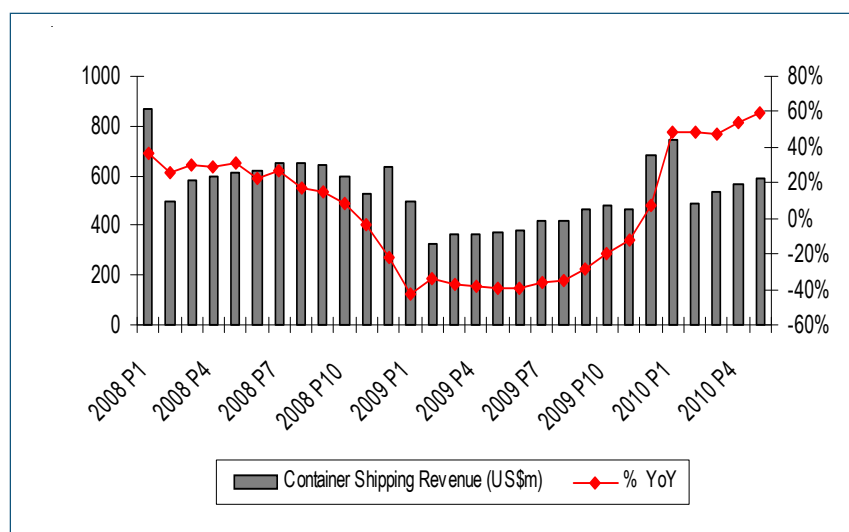


Source: Company, OIR

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)	FY08	FY09	FY10F	FY11F
Revenue	9,285.1	6,515.6	8,667.2	9,939.6
Gross profit	956.1	-20.4	866.7	1,192.7
Net op expenses	-792.0	-623.9	-738.0	-779.1
EBIT	164.1	-644.3	128.7	413.7
Finance cost	-34.9	-59.3	-47.0	-47.0
Associates / JVs	8.0	3.4	4.0	4.0
PBT	137.2	-700.1	85.7	370.7
PAT	88.3	-739.1	36.0	313.8
Minority interests	5.1	1.7	8.7	9.9
Net profit	83.1	-740.8	27.3	303.8

BALANCE SHEET

As at 31 Dec (US\$m)	FY08	FY09	FY10F	FY11F
Cash and cash equivalents	429.2	333.0	425.8	759.3
Other current assets	1,061.3	1,171.1	1,199.2	1,351.9
Property, plant, equipment	3,642.6	3,509.3	3,411.7	3,309.8
Total assets	5,444.6	5,340.6	5,363.9	5,748.2
Debt	1,244.6	939.8	939.8	939.8
Current liabilities excluding debt	1,468.2	1,337.2	1,333.5	1,461.6
Total liabilities	2,940.0	2,500.4	2,493.2	2,624.5
Shareholders equity	2,460.5	2,796.6	2,818.5	3,061.6
Total equity	2,504.6	2,840.2	2,870.7	3,123.7
Total equity and liabilities	5,444.6	5,340.6	5,363.9	5,748.2

CASH FLOW

Year Ended 31 Dec (US\$m)	FY08	FY09	FY10F	FY11F
Op profit before working cap.	498.9	-269.3	370.2	659.5
Working cap, taxes and interest	0.9	-281.2	-132.0	-125.3
Net cash from operations	499.8	-550.6	238.2	534.3
Purchase of PP&E	-879.0	-89.1	-140.0	-140.0
Other investing flows	36.0	16.1	0.0	0.0
Investing cash flow	-843.1	-73.0	-140.0	-140.0
Financing cash flow	268.1	527.4	-5.5	-60.8
Net cash flow	-75.1	-96.2	92.8	333.5
Cash at beginning of year	504.4	429.2	333.0	425.8
Cash at end of year	429.2	333.0	425.8	759.3

KEY RATES & RATIOS

	FY08	FY09	FY10F	FY11F
EPS (US cents)	5.6	(28.7)	1.1	11.8
NAV per share (US cents)	167.3	108.3	109.2	118.6
EBIT margin (%)	1.8%	-9.9%	1.5%	4.2%
PBT margin (%)	1.5%	-10.7%	1.0%	3.7%
Net profit margin (%)	0.9%	-11.4%	0.3%	3.1%
PER (x)	25.5	N.A.	135.7	12.2
Price/NAV (x)	0.9	1.3	1.3	1.2
Dividend yield (%)	3.9%	0.0%	0.1%	1.6%
ROE (%)	3.4%	-26.5%	1.0%	9.9%
Net gearing (%)	33.1%	21.7%	18.2%	5.9%

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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Carmen Lee
Head of Research

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