

MITA No. 010/06/2008

13 May 2009

Noble Group

Downgrade to

HOLD

Previous Rating: BUY

S\$1.51

Fair Value: S\$1.62

Stock Code:

Reuters: NOBG.SI

ISIN Code N21

Bloomberg: NOBL SP

Event: Update

General Data	
Issued Capital (m)	3,232
Mkt Cap (S\$m/US\$m)	4,880 / 3,340
Major Shareholder	Noble Temple Trading Inc (33.97%)
Free Float (%)	46.0
NAV per share (US cents)	62.0
Daily Vol 3-mth ('000)	23,348
52Wk High (S\$)	2.700
52Wk Low (S\$)	0.460

Marginal dilution from placement

Placement to have minimal dilutive impact. Noble Group Ltd (Noble) has announced a placement of 84.7m new shares at S\$1.52 per share. The new shares will enlarge the group's existing share base by a marginal 2.6%, and will raise net proceeds of US\$86.2m, which will be used for general corporate purposes. Concurrent with the placement, major shareholder Noble Temple Trading Inc (in which Noble's CEO Mr Richard Elman has a deemed interest) will place out 36.3m vendor shares, representing 1.1% of Noble's issued capital. The placement shares have been priced at a 2.5% discount to the weighted average price from 11 to 12 May 09 prior to trading halt. Dilutive impact from the new share placement is insignificant - our FY09F EPS has been trimmed to 11.3 US cents from 11.6 US cents. NAV is expected to increase to 59 US cents from 58 US cents.

No pressing need for additional funds. Looking at its strong balance sheet, Noble has no urgent need for additional funds. The group's adjusted net cash position (cash and readily marketable inventories less debt) improved to US\$376m in 1Q09 from US\$358m in 4Q08. Available credit facilities remained ample at US\$4.2b. According to management, funds raised from this placement will be used for general working capital purposes, and will come in handy should commodity prices rise. We reckon that additional funds will also strengthen Noble's position for future acquisition opportunities, such as its ongoing bid for Gloucester Coal Ltd, which could cost the group US\$281.4m. In addition, this placement, which was largely targeted at institutional investors, will serve to diversify the group's institutional shareholder base.

Reduce to HOLD on valuations. Noble has demonstrated its ability to manoeuvre harsh operating conditions by delivering a strong set of 1Q09 results with volume growth seen across all its segments. Nevertheless, its outlook remains highly dependent on the recovery of the real economy, which remains unconvincing at this juncture. In view of the recent rally, we are adopting a more cautious stance on the stock. We have tweaked our fair value estimate to S\$1.62 (from S\$1.66) to account for dilution. Given the limited upside to our fair value estimate, we reduce our rating to **HOLD**.

Lee Wen Ching

(65) 6531 9806

e-mail: wenching@ocbc-research.com

Year to 31 Dec	Turnover (US\$m)	Gross Profit (US\$m)	Net Profit (US\$m)	EPS (US cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	23,497.1	823.7	258.1	8.3	49.3	12.8	2.3
FY 08	36,090.2	1,347.6	577.3	17.5	110.4	6.1	4.2
FY 09F	29,318.0	1,055.4	376.2	11.3	-35.0	9.3	2.7
FY 10F	30,857.5	1,110.9	414.8	12.5	10.3	8.5	3.0

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

Noble's Key Financial Data

EARNINGS FORECAST

Year Ended 31 Dec (US\$ m)	FY07	FY08	FY09F	FY10F
Revenue	23,497.1	36,090.2	29,318.0	30,857.5
Cost of sales and services	-22,673.5	-34,742.6	-28,262.6	-29,746.7
Gross Profit	823.7	1,347.6	1,055.4	1,110.9
Other income and gains	20.9	103.9	29.3	30.9
Selling, administrative and operating expenses	-391.8	-567.6	-439.8	-478.3
Share of profits and losses (net of tax) of:				
Jointly-controlled entities	1.6	5.8	0.0	0.0
Associates	-5.2	-21.6	0.0	0.0
Profit before interest and tax	449.2	868.1	645.0	663.4
Net finance income	-146.0	-192.1	-200.7	-173.6
Profit before tax	303.3	676.0	444.3	489.8
Tax	-44.8	-96.2	-66.6	-73.5
Profit for the year	258.5	579.7	377.6	416.3
Net profit attributable to shareholders	258.1	577.3	376.2	414.8
Minority interests	0.4	2.5	1.5	1.5
Fully diluted earnings per share (US cents)	8.3	17.5	11.3	12.5
Profitability Ratios				
Gross margin (%)	3.5%	3.7%	3.6%	3.6%
PBT margin (%)	1.9%	2.4%	2.2%	2.2%
Net profit margin (%)	1.1%	1.6%	1.3%	1.3%

BALANCE SHEET

As at 31 Dec (US\$ m)	FY07	FY08	FY09F	FY10F
Cash and cash equivalents	670.6	1,318.2	1,792.9	1,661.6
Other current assets	4,788.3	5,190.6	3,870.0	4,113.3
Property, plant, and equipment	566.3	1,003.8	1,248.7	1,483.7
Other non-current assets	677.9	640.0	640.0	640.0
Total assets	6,703.1	8,152.6	7,551.5	7,898.6
Debt	2,544.1	2,556.1	2,556.1	2,556.1
Current liabilities excluding debt	2,566.7	3,600.4	2,735.4	2,768.3
Non-current liabilities excluding debt	34.5	135.3	29.3	30.9
Total liabilities	5,145.3	6,291.8	5,320.8	5,355.3
Shareholders equity	1,549.6	1,851.1	2,219.5	2,530.5
Minority interests	8.2	9.7	11.2	12.7
Total equity	1,557.8	1,860.9	2,230.6	2,543.3
Total equity and liabilities	6,703.1	8,152.6	7,551.5	7,898.6
NAV per share (US cents)	59.8	57.6	67.3	76.7

CASH FLOW

Year Ended 31 Dec (US\$ m)	FY07	FY08	FY09F	FY10F
Operating profit before working cap. changes	532.9	958.1	700.1	728.4
Working capital changes, taxes and interests	-892.2	512.3	82.3	-456.0
Net cash from operations	-359.3	1,470.4	782.5	272.4
Purchase of property, plant and equipment	-238.3	-506.2	-300.0	-300.0
Other investing flows	-335.1	-78.3	0.0	0.0
Investing cash flow	-573.4	-584.4	-300.0	-300.0
Financing cash flow	824.7	-176.9	-7.9	-103.7
Net cash flow	-107.9	709.1	474.6	-131.3
Net foreign exchange differences	-0.5	-4.5	0.0	0.0
Cash at beginning of year	579.6	471.1	1,175.8	1,650.4
Cash at end of year	471.1	1,175.8	1,650.4	1,519.1
Cash balances and bank overdrafts	199.5	142.5	142.5	142.5
Cash and cash equivalents at end of year	670.6	1,318.2	1,792.9	1,661.6

Key Ratios

PER (x)	12.8	6.1	9.3	8.5
Price/NAV (x)	1.8	1.8	1.6	1.4
EV/EBITDA (x)	11.1	4.9	5.9	5.9
Dividend yield (%)	2.3	4.2	2.7	3.0
ROE (%)	20.6	34.0	16.9	16.4
Gearing including RMI (%)	120.9	66.9	34.4	35.4

Source: Company data, OIR estimates

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Carmen Lee
Head of Research

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