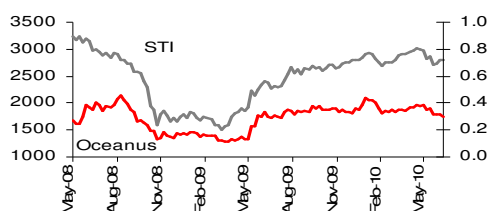


18 June 2010

Maintain

HOLD

Previous Rating: HOLD

Current Price: S\$0.325
Fair Value: S\$0.32


Oceanus Group Ltd

China's torrential rains raise concerns

Torrential rain wrecks havoc in southern China. According to various media reports¹, heavy downpours in southern China have triggered heavy floods over the past couple of days, with the provinces of Fujian, Sichuan and Guangxi being among the hardest hit. China's National Meteorological Centre has issued a yellow alert for heavy rain across parts of China, and authorities have warned local governments to prepare for "possible floods and geological disasters". The floods have so far claimed at least 42 lives and damaged more than 7,000 houses, while economic losses in these three regions have been estimated to amount to RMB830m. Weather authorities have warned that the rain will continue for several days.

Oceanus' operations unscathed for now. Oceanus Group's (Oceanus) land-based abalone farms are situated along the coastal lines of Fujian and Guangdong. As with any aquaculture or agriculture farmer, its biological assets constitute the bulk of the group's assets, therefore deeming it vulnerable to natural disasters. Fortunately, management has reassured us that its operations have so far been running smoothly. According to them, rainfall in its area of operations has not been exceptionally heavy and no damages have been reported thus far.

Vigilant risk management procedures in place. Oceanus has employed several risk management measures. These include insuring 50% of its biological assets, segregating its tanks to prevent the spread of diseases, and ensuring constant clean water circulation. However, as we highlighted in our initiation report, the group is not immune to natural disasters. Should unusual weather patterns persist, potential risks may emerge in the form of changes to temperature or water conditions, and these could affect the breeding climate, which in the worst case scenario may result in higher mortality or a slower growth profile for its livestock.

Trimming our FV to S\$0.32 to reflect heightened risk profile. We are keeping our estimates unchanged as Oceanus' operations appear unaffected by the torrential rains at the moment. However, we are introducing a 10% discount to our valuation parameter to reflect the heightened operational risk environment, thereby deriving a lower fair value estimate of S\$0.32 (previously S\$0.365). We maintain our **HOLD** rating on Oceanus.

¹ Channel News Asia, Xinhua News Agency etc.

Reuters Code	OCGL.SI
ISIN Code	579
Bloomberg Code	OCNUS SP
Issued Capital (m)	2,017
Mkt Cap (S\$m / US\$m)	655 / 473
Major Shareholders	
Bestglobal Enterprises Corp	16.0%
Free Float (%)	56.1%
Daily Vol 3-mth ('000)	10,071
52 Wk Range	0.275 - 0.470

(RMB m)	FY08	FY09	FY10F	FY11F
Revenue	319.0	362.2	380.4	830.1
EBIT	369.6	442.0	447.8	413.6
P/NAV (x)	3.2	2.0	1.9	1.7
EPS (cts)	11.9	19.3	13.6	14.9
PER (x)	13.2	8.1	11.5	10.6

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Oceanus' Key Financial Data

EARNINGS FORECAST					BALANCE SHEET				
Year Ended 31 Dec (RMB m)	FY08	FY09	FY10F	FY11F	As at 31 Dec (RMB m)	FY08	FY09	FY10F	FY11F
Sales of aquaculture products	319.0	362.2	380.4	830.1	Cash and cash equivalents	40.7	561.1	457.3	340.6
Fair value changes less costs	518.2	651.4	760.2	1,028.1	Biological assets	445.0	831.0	1,210.8	1,408.8
Sales of canned products, F&B	-	66.2	72.9	78.5	Property, plant, and equipment	448.2	690.8	859.2	1,010.8
Other operating income	4.7	1.6	2.4	0.0	Total assets	949.4	2,140.0	2,582.2	2,875.4
Total operating income	523.0	719.3	835.4	1,106.6	Debt	0.0	0.0	0.0	0.0
Operating expenses	-153.4	-277.2	-387.7	-693.0	Current liabilities excluding debt	21.0	264.6	239.7	244.2
EBIT	369.6	442.0	447.8	413.6	Total liabilities	68.1	604.2	579.3	583.8
Profit before tax	219.3	412.3	380.5	413.6	Shareholders equity	879.4	1,535.8	2,004.8	2,297.6
Profit for the year	193.1	339.3	333.0	361.9	Total equity	881.3	1,535.8	2,002.9	2,291.6
Profit attributable to shareholders	193.5	343.2	334.9	366.1	Total equity and liabilities	949.4	2,140.0	2,582.2	2,875.4

CASH FLOW					KEY RATES & RATIOS				
Year Ended 31 Dec (RMB m)	FY08	FY09	FY10F	FY11F		FY08	FY09	FY10F	FY11F
Op profit before working cap. chang	137.7	-162.1	149.6	314.0	EPS (RMB cents)	11.9	19.3	13.6	14.9
Working cap, taxes and int	0.8	234.0	-137.5	-107.4	NAV per share (RMB cents)	49.8	78.6	81.7	93.6
Net cash from operations	138.5	71.9	12.1	206.6	EBIT margin (%)	70.7	61.5	53.6	37.4
Purchase of PP&E	-422.0	-285.8	-250.0	-250.0	Net profit margin (%)	37.0	47.7	40.1	33.1
Other investing flows	37.1	-2.3	0.0	0.0	PER (x)	13.2	8.1	11.5	10.6
Investing cash flow	-384.9	-288.1	-250.0	-250.0	Price/NAV (x)	3.2	2.0	1.9	1.7
Financing cash flow	284.2	736.7	134.1	-73.2	EV/EBITDA (x)	7.8	5.1	5.0	5.3
Net cash flow	37.8	520.4	-103.9	-116.6	Dividend yield (%)	0.0	0.0	1.7	1.9
Cash at beginning of year	2.9	40.7	561.1	457.3	ROE (%)	22.0	22.3	16.7	15.9
Cash at end of year	40.7	561.1	457.3	340.6	Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash

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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- 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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For OCBC Investment Research Pte Ltd



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