

MITA No. 013/06/2008

12 March 2009

# Olam International Ltd

Initiating Coverage

## BUY

### S\$1.19

### Fair Value: S\$1.37

Stock Code: OLAM.SI  
 Reuters: O32  
 ISIN Code: OLAM SP  
 Bloomberg:

Event: Initiate Coverage

#### General Data

Issued Capital (m)	1,713
Mkt Cap (S\$/US\$m)	2,039/1,334
Major Shareholder	
Kewalram Singapore Ltd	(24.28%)
Free Float (%)	69.5%
NAV per share (S cents)	48.1
Daily Vol 3-mth ('000)	10,717
52Wk High (S\$)	3.190
52Wk Low (S\$)	0.835

## Gravity-defying growth

**Resilient to recession.** Olam International Ltd (Olam) has been delivering consistent revenue and earnings growth since its listing in 2005, and growth momentum is expected to sustain despite the global recession. Management has guided for 16% to 20% topline CAGR and 25% to 30% earnings CAGR over the next three years. These goals are achievable, given that demand for food is relatively inelastic and earnings are therefore less vulnerable to the global economic downturn. Olam has already proven its resilience by delivering a 32.9% growth in 1H09 core earnings despite the recent collapse of commodity prices, demonstrating its ability to perform under difficult conditions.

**Growth opportunities abound.** The global economic turmoil has presented Olam with organic and inorganic growth opportunities. The group has been expanding its market share at the expense of weaker competitors who have been ousted as a result of the credit crunch and economic downturn. At the same time, distressed assets have emerged following the financial meltdown, presenting the group with M&A opportunities. Management has articulated its interest to pursue bite-sized acquisitions, but remains cautious to contain its gearing levels.

**But gearing is relatively high.** Olam's key weakness, in our view, is its high gearing ratio. It is more heavily geared than its peers, with total debt to equity ratio of 4.67x, substantially higher than its peers, whose gearing ratios range from 0.48x to 1.38x. Even after adjusting for its hedged inventories and receivables, gearing remains above that of its peers'. The group's reliance on debt could pose refinancing risks in the event of a protracted credit crunch. Rising interest costs could also erode profit margins should the group find itself unable to pass on these higher costs to its customers.

**Valuations near historical trough; initiate with BUY.** The equity market meltdown has brought Olam down to its trough valuations. We see value is emerging at current levels although the volatility could persist in the near term. Olam's key investment merit lies in its resilient earnings growth profile against a climate of earnings contraction. We initiate coverage on the stock with a **BUY** rating and S\$1.37 fair value estimate based on 10x FY10 PER. Key risks include high gearing, counter-party risk, and dilution risk from its convertible bonds.

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Year to 30 Jun	Turnover (S\$m)	EBIT (S\$m)	Net Profit (S\$m)	EPS (cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	5,455.5	273.6	109.0	6.7	20.8	17.7	2.9
FY 08	8,111.9	366.5	150.8	10.1	49.6	11.8	2.1
FY 09F	9,186.0	566.9	185.7	10.8	7.5	11.0	3.5
FY 10F	9,942.3	505.7	235.1	13.7	26.6	8.7	2.9

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

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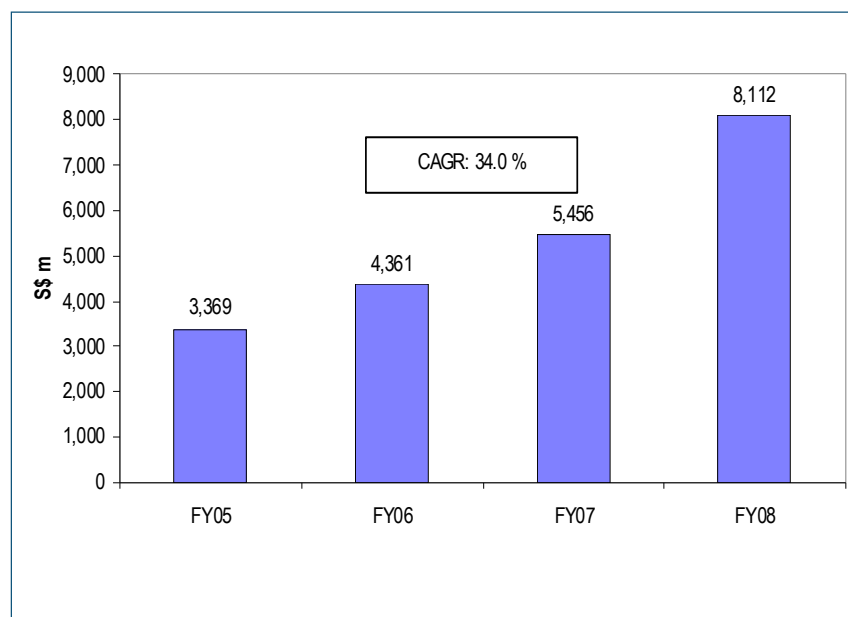
## Section A: Investment Highlights

Olam is a global integrated supply chain manager of agricultural products and food ingredients. It focuses on four types agricultural commodities: (i) edible nuts, spices and beans, (ii) confectionary and beverage ingredients, (iii) food staples and packaged foods, and (iv) fibre and wood products. Headquartered in Singapore, Olam's operations are diversified across 20 products, 60 countries, and 6,500 customers.

Listed on the SGX Mainboard, Olam is a component of the Straits Times Index and MSCI Singapore.

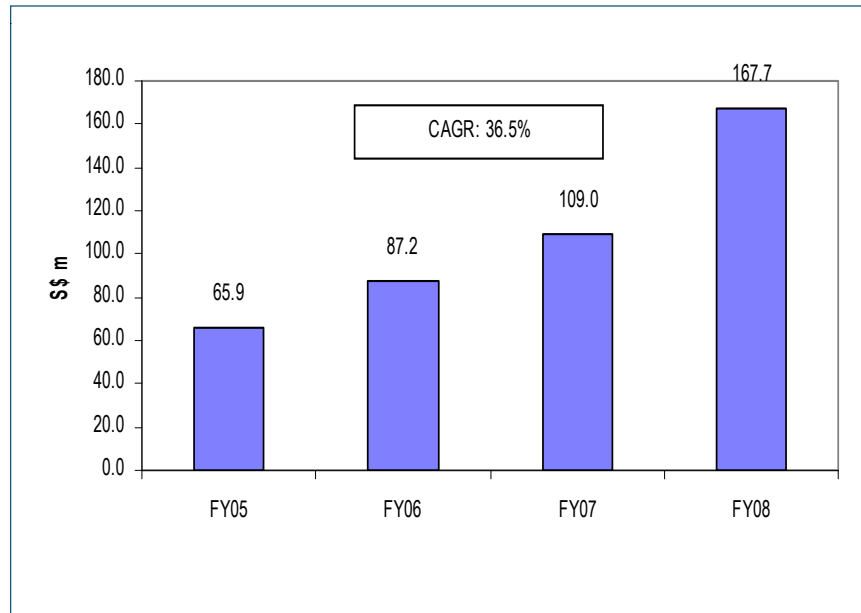
**Strong track record.** Olam International Ltd (Olam) has delivered consistent revenue and earnings growth since its listing in 2005. Revenue has grown at a compound annual growth rate (CAGR) of 34.0% while earnings have similarly risen by 36.5%. Despite the recent collapse of commodity prices, Olam continued to deliver a 32.9% growth in 1H09 core earnings on the back of a 20.2% growth in volume, demonstrating its ability to perform under difficult conditions.

**Exhibit 1: Revenue, FY05 - FY08**



Source: Company

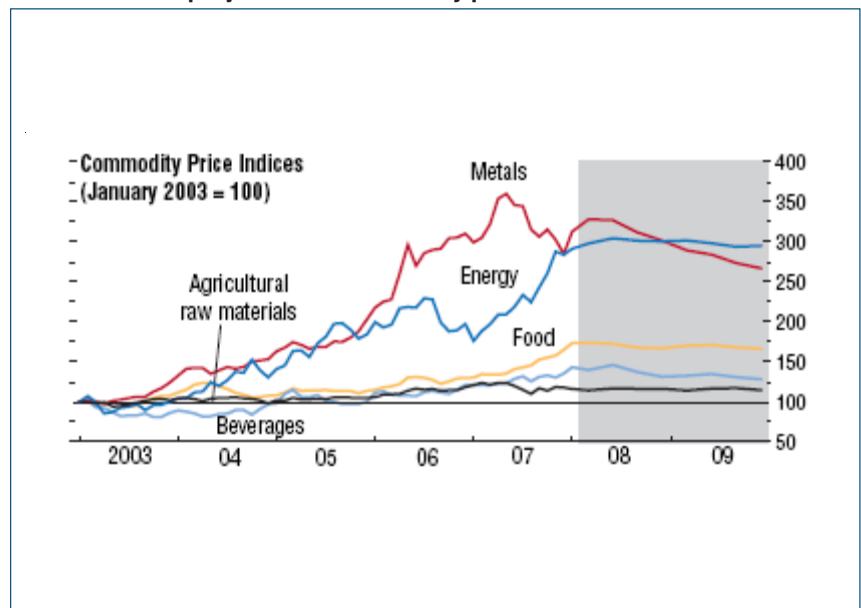
Exhibit 2: Net profit, FY05 - FY08



Source: Company

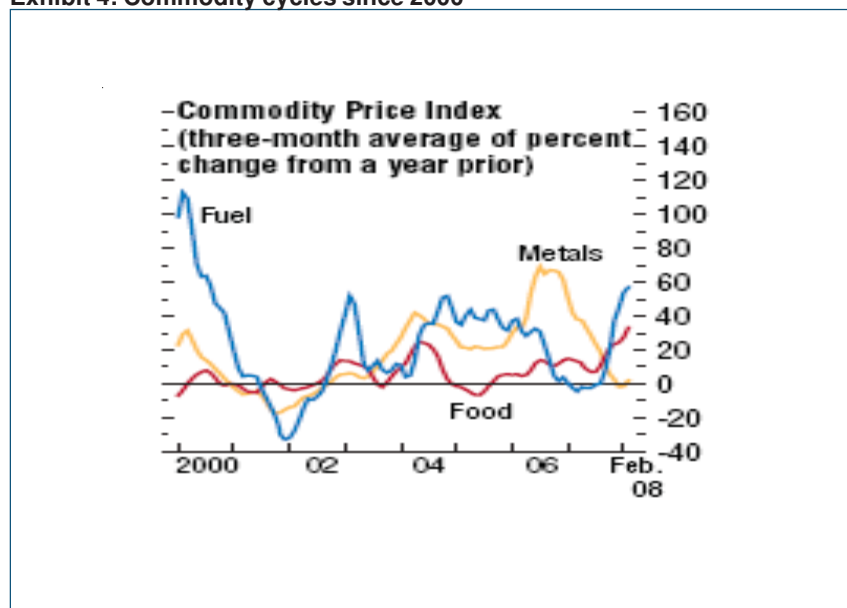
**Resilient to economic contraction.** Despite the global economic recession, Olam remains confident of sustaining its earnings growth momentum. Management guides for 16% to 20% topline CAGR and 25% to 30% earnings CAGR over the next three years. These goals are achievable, given that demand for food is relatively inelastic and less susceptible to the global economic turmoil. Agricultural products are less prone to cyclical volatility of commodities as compared to metals and energy, as illustrated in exhibits 3 and 4.

Exhibit 3: IMF's projection of commodity prices



Source: IMF World economic outlook database Apr 08

Exhibit 4: Commodity cycles since 2000



Source: IMF World economic outlook database Apr 08

**Growth opportunities abound.** The global economic turmoil has presented Olam with organic and inorganic growth opportunities. Organic growth opportunities could arise from market share gains as the economic crisis ousts weaker competitors, while inorganic growth could come from mergers and acquisitions (M&A) as distressed assets have emerged following the financial meltdown.

**Improving cash flow from operations.** Lower commodity prices have helped to improve Olam's operating cash flows by lowering its working capital requirements. Cash flow from operations improved significantly to S\$627.1m in Dec 08 from S\$125.8m in Dec 07. We expect disinflation to further ease working capital requirements, boosting the group's cash position.

**But gearing is high.** Olam's key weakness, in our view, is its high gearing ratio relative to its peers. Total debt to equity ratio stands at 4.67x, substantially higher than its peers, whose gearing ratios range from 0.48x to 1.38x. Even after stripping out its liquid inventories and hedged receivables, adjusted gearing stands at 0.55x vs. its peer Noble Group Ltd (Noble) which has an adjusted net cash position. Olam's high gearing could pose refinancing risks in the event of a protracted credit crunch. Rising interest costs could also erode profit margins should the group find itself unable to pass on these higher costs to its customers.

**Valuations near historical trough; initiate with BUY.** The equity market meltdown has brought Olam down to its trough valuations. We see value is emerging at current levels, although near term volatility could persist along with broad market uncertainty. Olam's key investment merit lies in its resilient earnings growth profile against a climate of earnings contraction. We initiate coverage on the stock with a **BUY** rating and S\$1.37 fair value estimate based on 10x FY10 PER. Key risks include high gearing, counter-party risk, and dilution risk from its convertible bonds.

**Section B: SWOT Analysis**

**Exhibit 5: Swot Analysis**

Strengths	Weaknesses
Strong track record  Well diversified  High barriers to entry  Dividend policy - 25% of NPAT  Resilient to commodity cycles	High gearing  Imperfect inventory hedges  Illiquid nature of certain products  Unable to participate in economic recovery (via metals and energy)
Opportunities	Threats
Adjacent products and markets  Mergers and acquisitions	Geopolitical risk  Refinancing risk in light of credit crunch  Counter-party risk  Slowing demand  Supply-side risk

Source: OIR

**Strengths**

**Sound business model.** Olam's focus on agricultural commodities allows it to be a specialised niche player with keen market intelligence in this space, while its portfolio spread of 20 different products, its presence in 60 countries, and its reach to 6500 customers and over 200,000 suppliers ensures that the group's operations are well-diversified. In addition, Olam's integration of supply chain activities from sourcing (upstream) and processing (mid-stream) to distribution (downstream) enables it to capture a higher share of the profit pool.

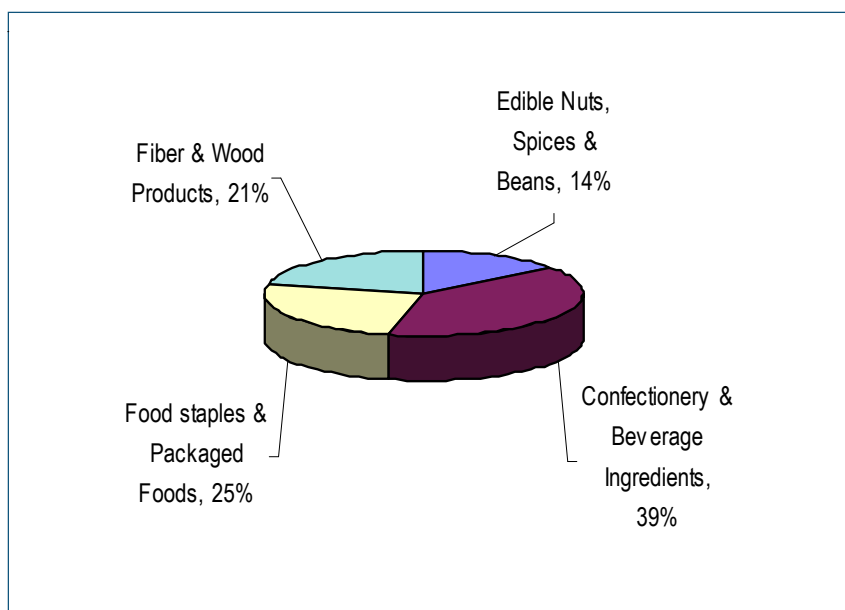
**Exhibit 6: Integrated supply chain**



Source: Company

**Less susceptible to cyclical volatility.** Olam's focus on food products (edible products accounted for 79% of the group's revenue in FY08) deems it less vulnerable to volatility of commodities cycles and economic growth cycles. The relative inelastic demand for food products, as compared to the other asset classes such as energy and metals, ensures that demand will remain resilient regardless of booms and busts of commodities cycles. However, this strength can also limit its growth opportunities, as we will discuss later.

**Exhibit 7: Segmental revenue, FY08**



Source: Company

**Good track record.** Olam has a proven track record of steady revenue and earnings growth. Net profit has been growing regardless of booms and busts of the commodities cycle - evidence of the price-neutrality of Olam's business model. Between FY05 and FY08, net profit expanded at a CAGR of 36.5% while revenue recorded a 34.0% CAGR. Even during the recent collapse of commodity prices, Olam continued to deliver a 32.9% growth in 1H09 core earnings on the back of a 20.2% growth in volume, demonstrating its ability to perform under difficult conditions.

Management remains confident of sustaining its growth rate in the medium term. It has guided for revenue to grow between 16% - 20% CAGR, and for earnings to grow between 25% - 30% CAGR over the next three years. This should form the backbone of its dividends, which amounts to 25% of NPAT in accordance with Olam's dividend policy.

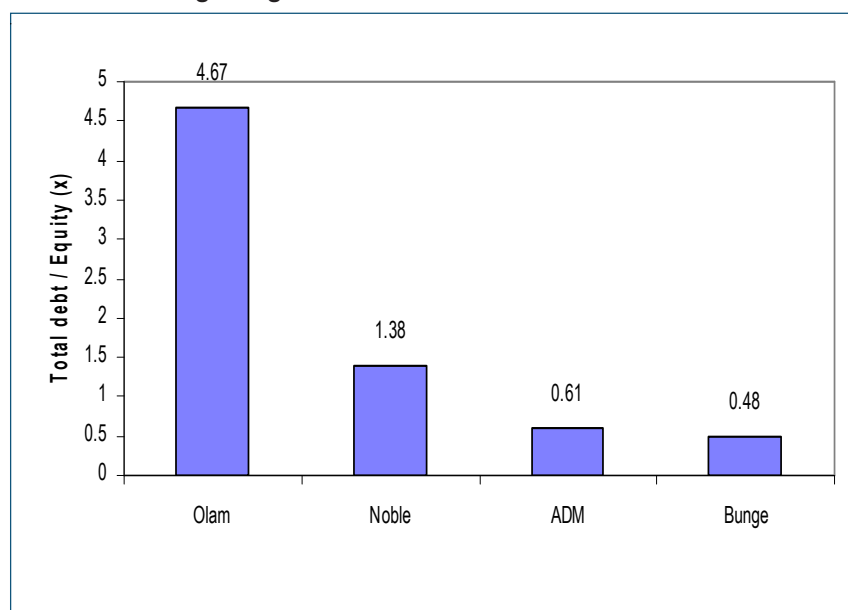
**High barriers to entry.** Supply chain managers derive significant benefits from economies of scale, which creates high barriers to entry for new entrants. Besides critical mass, effective risk management, strong origination capabilities and acute market intelligence are crucial to the success of supply chain managers.

The recent plunge in commodity prices has forced smaller supply chain managers with weak risk management capabilities out of business, creating growth opportunities for stronger and larger players such as Olam. We believe that the ongoing economic crisis will continue to present the group with organic and inorganic growth opportunities.

### Weaknesses

**High gearing.** Olam's gearing ratio is highest among its listed peers. Total debt to equity ratio stands out at 4.67x, substantially higher than its peers, whose gearing ratios range from 0.48x to 1.38x.

**Exhibit 8: Gross gearing**



Source: OIR, Bloomberg

It is important to note that commodities supply chain managers typically require high levels of debt, relative to other sectors, in order to finance their heavy working capital requirements. However, inventories are highly liquid in nature and can somewhat be treated as cash. As such, a more meaningful gauge of gearing is to strip out their liquid, readily marketable inventories. On this basis, Olam would report an adjusted net gearing ratio of 0.55x (as of Dec 08), which is substantially lower than its gross gearing but still higher than its peer Noble which has an adjusted net cash position.

Olam has acknowledged its high gearing and has since committed to reduce its gearing ratio. The group's previous and revised targets are captured below.

**Exhibit 9: Lower gearing targets**

	Net Debt:Equity Revised target	Net Debt:Equity Previous target
Short term assets (inventories & receivables)	2.5x - 3.5x	4.0x - 5.0x
Capex and M&A	1.5 : 1	2 : 1
Adjusted gearing (Net of liquid hedged inventories & receivables)	0.5x – 1.0x	1.0x - 2.0 x

Source: Company

**Imperfect inventory hedges.** Olam's business model is structured such that earnings are neutral to commodity price movements. However, lurking residual risks from imperfect inventory hedges could threaten the group's profits.

86% of its inventories are hedged or sold forward, reducing its exposure to price-risks. (This is slightly below Noble's 91% portion of hedged inventories.) The residual unhedged portion of Olam's inventories arises from products such as peanuts and spices, which are not exchange-traded. A sudden plunge in prices of these commodities could result in losses.

**Illiquidity of certain products.** In addition, Olam's ability to convert its inventory into cash hinges on its ability to liquidate its products. Some of the products in their portfolio, such as spices and wood, are relatively less liquid. Potential risks could arise should the demand for these commodities dry up. This may result in inventory build up, marked-to-market losses, or even realised losses should Olam dispose of them below intrinsic value.

**The cons of being niche.** We mentioned earlier that Olam's focus on agricultural commodities mitigates the negative impact of the economic downturn on the group's earnings. On the flip side, this focus could also deny the group from participating in the economic recovery when demand for other commodity classes such as metals and energy resurges. For instance, it will not stand to gain from government pump-priming activities involving infrastructural and manufacturing projects as much as its peer Noble would.

### Opportunities

**Expansion into adjacent products and markets.** Olam's business model can be replicated in new markets and products, offering the group continued growth opportunities. Its products can be shipped to any country in the world where demand arises, while its core competencies can be extended to adjacent products.

**Market share gains.** Olam has grown its market share over the years partly via acquisitions. The emergence of distressed assets in the marketplace presents further opportunities for M&A. Management remains keen on bite-sized acquisitions but is cautious to contain its gearing levels. Besides acquisitions, Olam can also seize opportunities to gain market share from its ailing competitors who have been ousted from the industry as a result of the global economic crisis and credit crunch.

### Threats

**Geopolitical risk.** A substantial portion of Olam's products are sourced from emerging nations such as Africa, Middle East and Asia. Changes in regulatory framework or policies (including tax structures, grants, import and export laws) could adversely impact Olam's operations. In some of these countries, enforcement of legal contracts or contractual agreements could also be challenging.

**Weakening demand.** A protracted global economic recession would inevitably weaken consumer demand for commodities. Management has already warned that its Fibre & Woods segment could face stronger headwinds as the economic slump crimps demand for industrial raw materials. A deepening recession could hurt Olam's revenue through lower volumes and tumbling commodity prices.

**Supply-side risk.** The scalability of Olam's operations obviously relies on its ability to secure agricultural supplies. Urbanization, climate change and availability of credit for farmers are factors that could affect agricultural output.

Rapid urbanization of traditional agricultural countries such as Brazil, Vietnam, China and Indonesia could put a strain on the amount of arable land available. As more land gets earmarked for infrastructure developments, the portion of arable land decreases. In addition, climate change has affected harvests, resulting in erratic commodity price fluctuations.

The credit crunch has resulted in a credit drought for farmers, resulting in a double whammy of higher farming costs and uncertain demand for their crop. With limited bargaining power to increase selling prices, farmers have been reducing output.

**Rising finance costs.** Banks have been tightening their credit lines in light of the credit crunch. This could translate to higher interest costs for Olam. In its mitigation, Olam argues that it has so far been able to pass higher interest costs to its customers, therefore maintaining its net profit margin.

**Counter-party risk.** Some of Olam's customers have been unable to obtain letters of credits (LCs) due to the global credit crunch, resulting in higher counter-party risk in the absence of credit insurance. Olam has attempted to circumvent this problem by delivering its products onshore to its destination market. However, by doing so, it is extending its cash cycle and assumes the additional responsibility of distribution and cash collection.

## Section C: Porter's Five Forces

Exhibit 10: Competitive position



Source: OIR

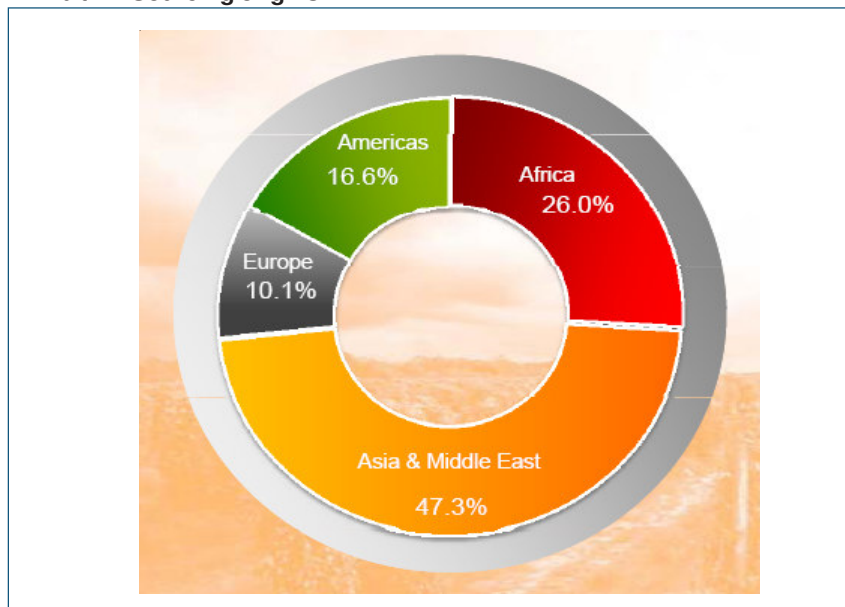
**High barriers to entry.** As we highlighted in earlier, Olam's business model entails high barriers to entry arising from the integration of its supply chain activities. Barriers to entry are reinforced through economies of scale, risk management skills, origination capabilities and acute market intelligence, deterring new entrants from competing in the marketplace.

Supply chain managers derive significant benefits from economies of scale. Having cemented its presence in multiple countries and set up investments in fixed assets, Olam's business model is scalable across new markets and new products.

Furthermore, strong risk management skills are crucial to ensure the survival of commodities supply chain managers. Wild swings in commodity cycles have exposed the vulnerability of supply chain managers and has led to the demise of players with weaker risk management discipline. A disciplined risk management approach, as well as firm understanding of the industry's demand and supply forces, is essential in the trade.

**Low bargaining power of suppliers.** Olam's sourcing origins are well diversified across Asia & Middle East, Africa, Americas and Europe (exhibit 11). On top of this, it has over 200,000 suppliers, ensuring that no single supplier dominates its revenue or earnings. As such, we believe that each individual supplier has low bargaining power since Olam can choose to procure from a wide pool of suppliers at any one time.

Exhibit 11: Sourcing origins



Source: Company

**High bargaining power of buyers.** Olam's customers are deemed to have high bargaining power for two main reasons: (i) homogeneity of products, and (ii) keen competition among supply chain managers.

The lack of differentiation among agricultural crop leaves price as the key differentiating factor influencing purchasing decisions. Coupled with this, Olam faces stiff competition from other supply chain managers who are able to deliver similar products, sometimes at more competitive prices. As such, pricing could be extremely competitive and buyers, who are spoilt for choice, are likely to have the upper hand in bargaining.

Olam has several mitigating factors that can strengthen its bargaining power as a supplier. For one, its sales are well diversified across 6,500 customers and 60 countries, reducing its dependence on any single customer. On top of this, Olam differentiates its products by offering organic certification and traceability, as well as various forms of customised marketing solutions.

**Ready availability of product substitutes...** Switching costs are relatively low for buyers of agricultural products due to product homogeneity, as mentioned above. For instance, buyers can easily switch from corn sugar to cane sugar, depending on which is more competitively priced. In addition, substitutes such as artificial sweetener add to the range of product substitutes.

... **And supplier substitutes.** Moreover, supply chain managers can easily be substituted by one another given the similarity of products, making switching costs low for buyers. In fact, buyers could enhance their cost efficiency by shopping among various supply chain managers to obtain the best pricing.

**Intense rivalry among peers.** Product homogeneity, the perishable nature of agricultural produce, low switching costs, lack of branding and high level fragmentation within the industry has led to intense rivalry among supply chain managers. However we could see a trend of consolidation within the industry in the near future as the economic crisis re-shapes the competitive landscape.

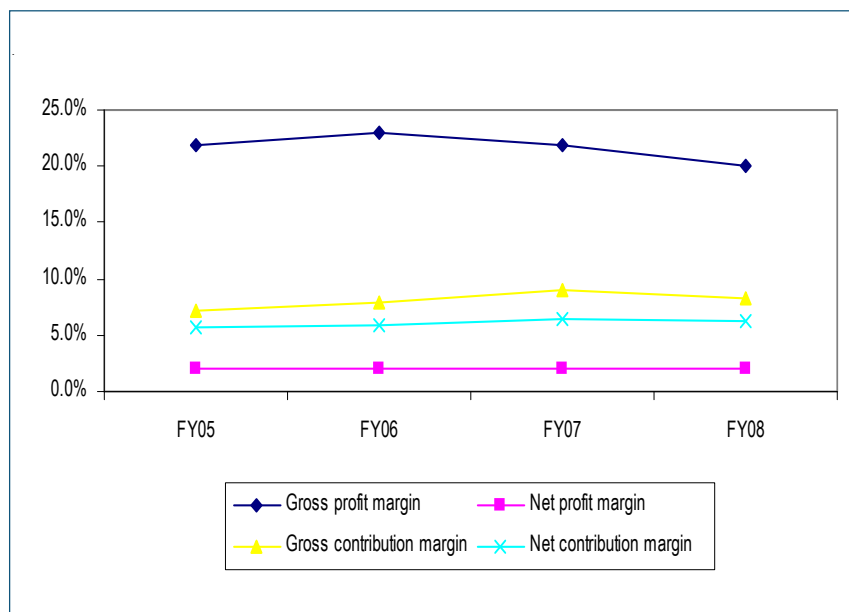
To sum up its competitive position, Olam stands to gain from the industry's high barriers to entry and the relatively low bargaining power of its suppliers, but is in a less favourable position in respect to its customers' strong bargaining power, the substitutability of its products and services, as well as the intense rivalry among its peers.

**Section D: Overview of Recent Performance**

**Consistent revenue and earnings growth even in tough times.** Olam has a proven track record of steady revenue and earnings growth. Over the past three years, net profit has expanded at a CAGR of 36.5% while revenue has recorded a 34.0% CAGR. Despite the recent collapse of commodity prices, Olam continued to deliver a 32.9% growth in 1H09 core earnings on the back of a 20.2% growth in volume, demonstrating its ability to perform under difficult conditions.

**Steady margins.** Profit margins have displayed a strong level of consistency, in line with Olam's assertion that its business model is volume-driven and price neutral. Gross profit margins have been hovering between 20% and 23%, while net profit margin has held within a tight 2.0% to 2.1% range. Gross contribution and net contribution, another key performance indicator, have also turned in steady margins since the group's listing.

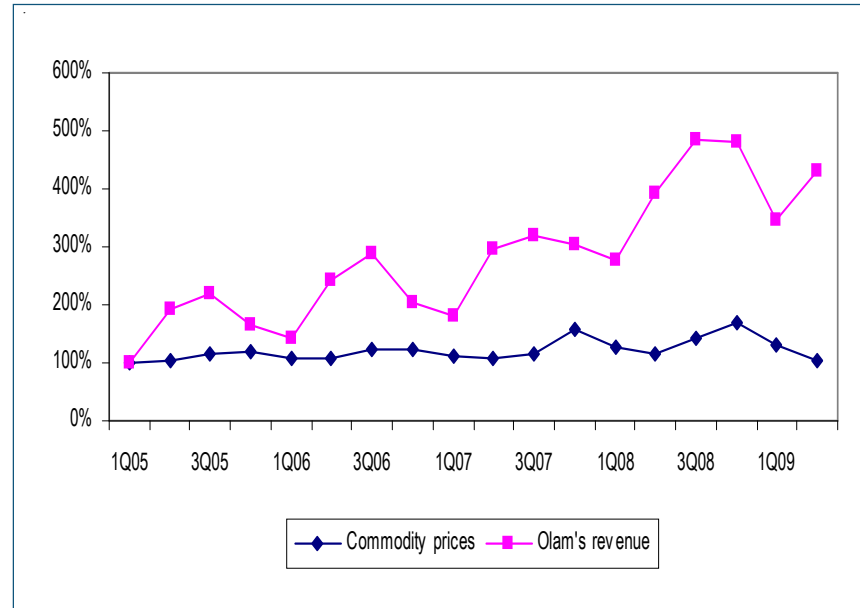
**Exhibit 12: Consistent profit margins**



Source: Company, OIR

**Secret to success: Volume growth.** Olam's consistent revenue and earnings growth can be attributed to growth in volume handled, which is in turn tied to the firm's market share. Revenue has surged by fourfold since 2005 despite commodity prices holding relatively constant, implying that volume growth has been the group's key revenue driver.

**Exhibit 13: Revenue vs. commodity prices**



Source: OIR

## Section E: Business Segments

Exhibit 14: Olam's products

Business segments:	Product offering:	Revenue contribution (FY08)	Net contribution margin
Edible Nuts, Spices & Beans	Cashew, peanuts, other edible nuts, sesame, spices, beans	14%	11%
Confectionery & Beverage Ingredients	Cocoa, coffee, sheanuts	39%	4%
Food staples & Packaged Foods	Dairy products, packaged foods, rice, wheat, barley, canola, palm, sugar	25%	5%
Fiber & Wood Products	Cotton, wood products, rubber	21%	8%

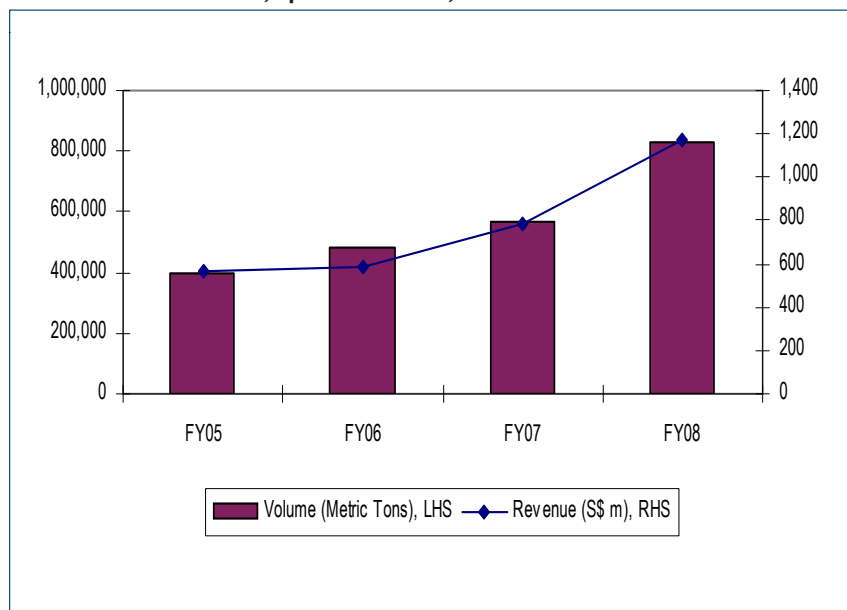
Source: Company, OIR

**Seasonal nature of business.** Being in the business of agriculture, Olam's revenue and earnings are subject to seasonality. 1H (July to December) typically forms 30% to 40% of the year's earnings, while 2H (January to June) forms the remaining 60% to 70% of the group's annual net profit. Seasonality arises from different harvesting seasons across the globe. As such, the group's results are more meaningful when analysed on a YoY basis, rather than QoQ.

**Edible nuts, spices & beans.** This segment is the group's smallest revenue contributor but reaps the highest net contribution margin. Volume and revenue have posted steady growth of 28% and 27% CAGR, respectively, between FY05 and FY08. The segment continued to deliver credible gains in 1H09 with volume increasing 28.8% YoY, leading to a corresponding 23.1% improvement in revenue.

We expect demand for nuts, spices and beans to remain robust despite the challenging economic environment. There is room for price contraction given the general environment of disinflation, but volume growth should offset price declines. Our projections imply a 23.5% growth in revenue in FY09.

Exhibit 15: Edible nuts, spices & beans, FY05 - FY08

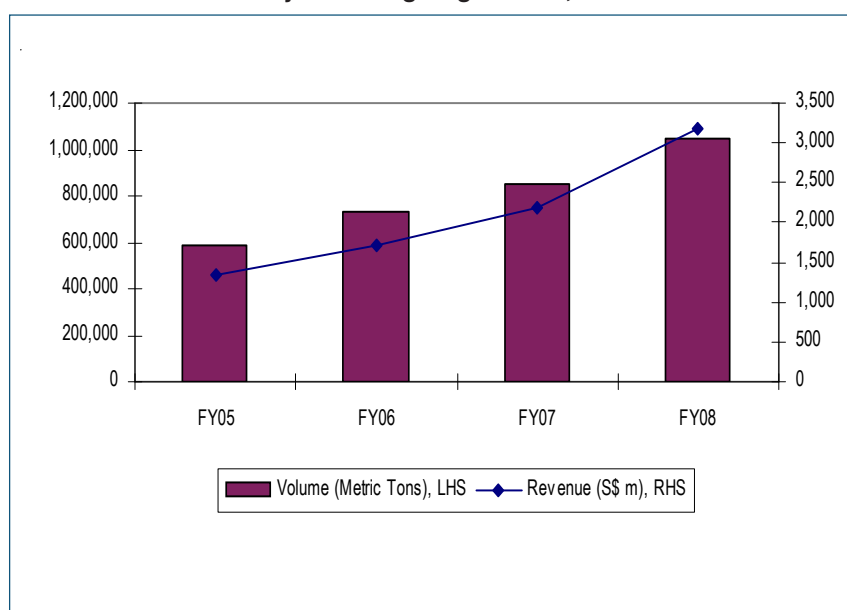


Source: Company, OIR

**Confectionery & beverage ingredients.** The group's largest revenue contributor, this segment deals with products such as cocoa and coffee. Revenue recorded a 33% CAGR between FY05 and FY08 on the back of a 21% growth in volume. Growth momentum continued in 1H09 with revenue gaining 25.9% YoY and volume increasing 24.0%.

We view this segment as another resilient pillar of support for the group as demand for confectionery and beverage products should carry low demand elasticity. Again, we expect growing volumes to offset the impact of disinflation, and are projecting a 23.5% improvement in FY09 revenue.

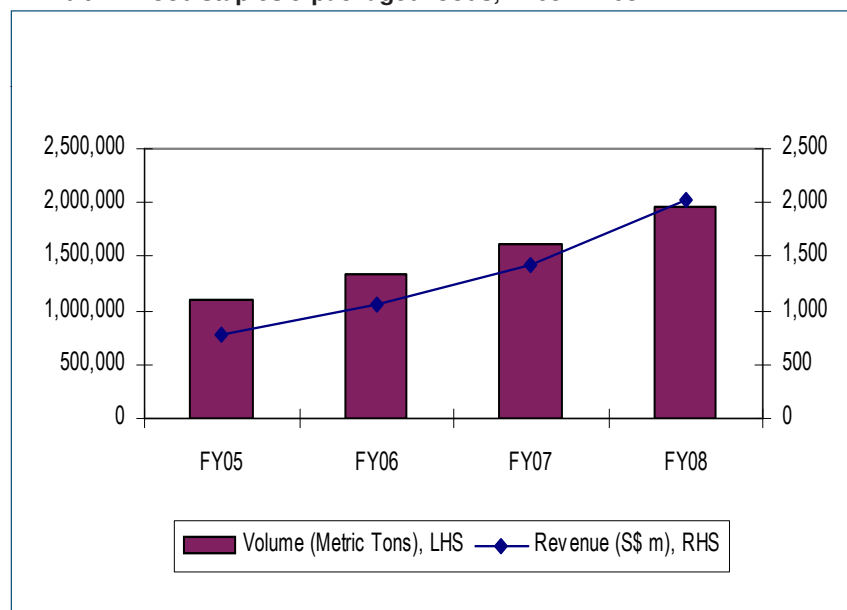
Exhibit 16: Confectionery & beverage ingredients, FY05 - FY08



Source: Company, OIR

**Food staples & packaged foods.** This segment, which encompasses dairy products, rice, and sugar is Olam's second largest revenue contributor. Revenue grew at 37% CAGR and volume at 21% CAGR from FY05 to FY08. Growth tapered slightly in 1H09 with revenue increasing by a smaller 9.7% YoY due to weaker performance from dairy products following China's melamine scandal which led to supply constriction. Nevertheless, consumer demand for staple food products should remain robust in the medium term. We expect FY09 revenue to grow by 8%.

**Exhibit 17: Food staples & packaged foods, FY05 - FY08**

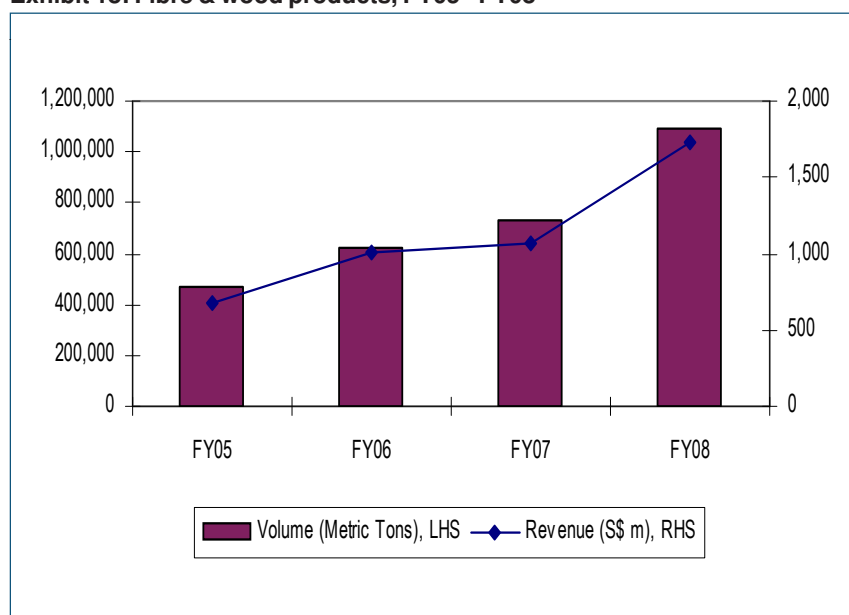


Source: Company, OIR

**Fibre & wood products.** Fibre and wood products will probably be the group's weakest link in FY09. Demand for raw materials such as wood could dwindle as the global economic crisis drags production and manufacturing activities, dampening demand for industrial raw materials.

Volume and revenue have grown by 33% and 37% CAGR, respectively, over the past three years. For 1H09, revenue inched up by a mere 5.6% YoY. We think that growth momentum here has peaked and are projecting a 6% revenue contraction in FY09 on lower volume and prices.

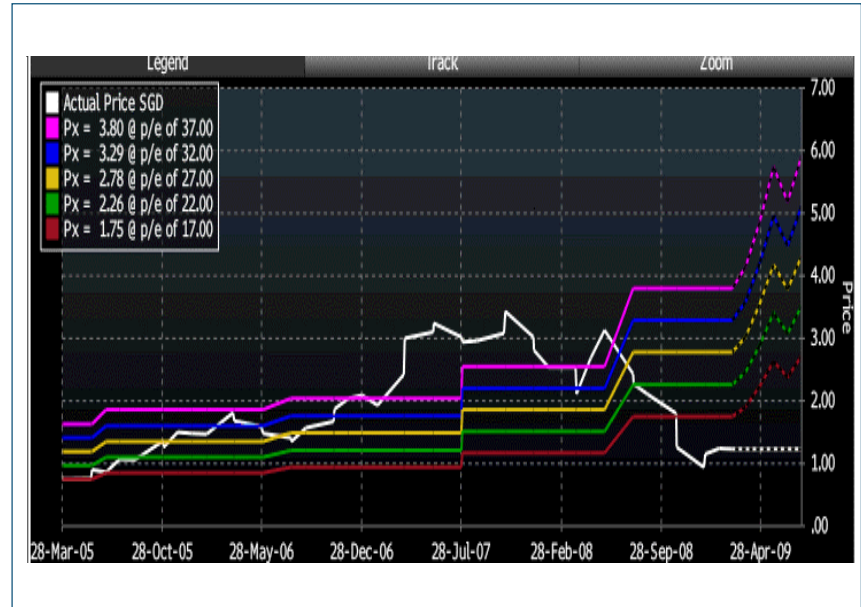
**Exhibit 18: Fibre & wood products, FY05 - FY08**



Source: Company, OIR

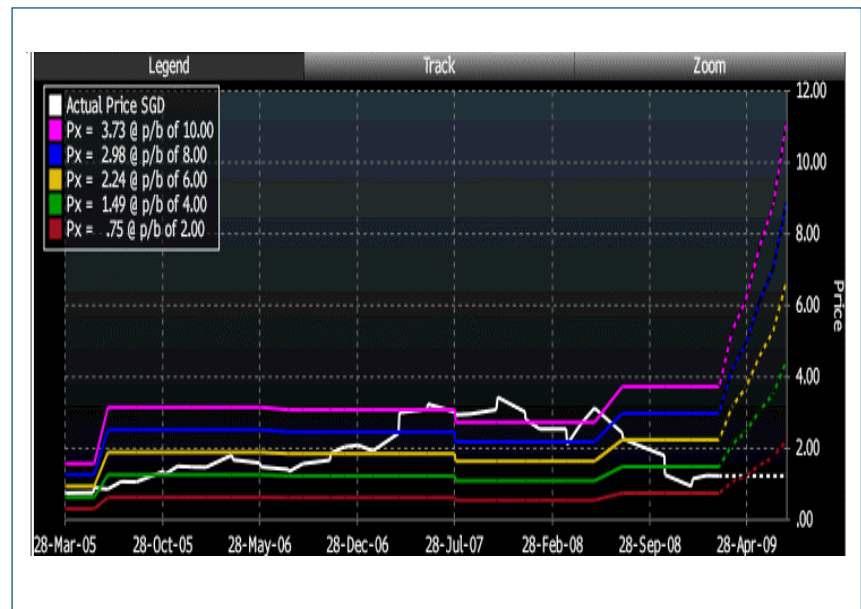
Section F: Peers Comparison and Valuation

Exhibit 19: Olam's historical PE ratio



Source: Bloomberg

Exhibit 20: Olam's historical P/Book ratio



Source: Bloomberg

**Trading at historical lows.** Olam is hovering close to its historical low valuations in terms of both PER and P/Book, suggesting that value is emerging at current levels. The stock traded at a high of 49x PER and 12x P/Book in May 2007, and plunged to a low of 7x PER and 2x P/Book in Oct 2008.

#### Exhibit 21: Peers Comparison

	Currency	Price	Mkt Cap (\$m)	Net Margin (%)	Historical PER (x)	Est PER (x)	P/Book (x)	Div Yield	ROE (%)
ADM	USD	27.5	17,652	2.6	7.1	8.0	1.3	1.8	14.6
Bunge	USD	51.34	6,245	2.0	8.0	7.9	1.1	1.4	16.1
Noble	SGD	1.01	3,264	1.6	4.1	6.1	1.1	4.1	34.0
Average				2.1	6.4	7.3	1.1	2.4	21.5
Olam	SGD	1.19	2,039	2.1	11.8	11.0	2.4	3.5	23.6

Source: OIR estimates for Olam and Noble, Bloomberg for the rest

**Richer than its peers.** Compared to its peers, however, Olam's valuations appear rich. While dividend yield and ROE are above average, so are its PE and P/Book ratios. Nevertheless, we note that Olam has traditionally commanded a premium over its peers. Over the past two years, Olam has been trading at twice the valuations of its peers on a PER basis. In addition, while Olam has been trading between 7x and 49x PER since 2005, Noble has been trading at a lower 4x to 22x PER during the same period. We believe that Olam's premium valuations could be in part attributed to its consistent earnings growth profile. This also implies that the stock's valuations will hinge on the group's continued earnings accretion.

**Initiate with BUY.** If we were to value Olam based on the same 8x forward PER applied to Noble, we would derive a fair value estimate of S\$1.10. However, judging from Olam's historical valuation range, as well as resilient earnings outlook, we expect the stock to continue to command a premium over Noble.

As such, we value Olam at 10x FY10 PER, in line with the Straits Times Index and a 40% premium to its peers, translating into a fair value estimate to S\$1.37. We believe that the premium is justified given its resilient earnings growth profile against a climate of earnings contraction among its peers. The 40% premium is also narrower than Olam's historical 100% premium to its peers. We initiate coverage on Olam with a **BUY** rating.

## Olam's Key Financial Data

<b>EARNINGS FORECAST</b>				
<b>Year Ended 30 Jun (S\$ m)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
Sale of goods	5,455.5	8,111.9	9,186.0	9,942.3
Other income (including buy-back of CB)	22.1	40.5	101.0	0.0
Cost of goods sold	4,275.9	6,519.2	7,293.7	7,894.2
Gross Profit	1,201.7	1,633.2	1,993.3	2,048.1
Shipping and logistics	661.9	879.5	918.6	994.2
Commission and claims	68.2	61.0	73.5	79.5
Employee benefit expense	95.5	169.2	192.9	208.8
Depreciation	17.2	33.8	39.3	41.2
Net measurement of derivative instruments	0.2	-11.0	0.0	0.0
Forex gains	-43.7	-21.5	0.0	0.0
Other operating expenses	128.7	155.7	202.1	218.7
EBIT	273.6	366.5	566.9	505.7
Share of JV/associates profit	0.4	0.2	0.0	0.0
Finance costs	147.1	201.4	233.6	232.3
Profit before tax	126.2	165.0	333.3	273.3
Tax	-17.2	2.7	-46.7	-38.3
Profit for the year	109.0	167.7	286.7	235.1
Minority interests	0.0	0.0	0.0	0.0
Reported net profit	109.0	167.7	286.7	235.1
Core net profit	109.0	150.8	185.7	235.1
Core EPS (S cents)	6.7	10.1	10.8	13.7
<b>Profitability Ratios</b>				
Gross margin (%)	21.9%	20.0%	21.5%	20.6%
PBT margin (%)	2.3%	2.0%	3.6%	2.7%
Net profit margin (%)	2.0%	2.1%	3.1%	2.4%

**BALANCE SHEET**

<b>As at 30 Jun (S\$ m)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
Cash and cash equivalents	237.6	339.1	641.6	789.3
Inventories	1,163.2	1,790.2	1,653.5	1,590.8
Trade receivables	508.2	724.4	643.0	696.0
Other current assets	942.8	2,759.9	2,736.8	2,790.2
Property, plant, and equipment	129.3	403.4	424.1	442.9
Other non-current assets	196.5	213.3	525.2	525.2
<b>Total assets</b>	<b>3,177.6</b>	<b>6,230.3</b>	<b>6,624.1</b>	<b>6,834.4</b>
Debt	1,919.9	2,984.6	3,114.6	3,097.5
Current liabilities excluding debt	825.0	2,607.3	2,656.1	2,707.2
Non-current liabilities excluding debt	0.0	0.0	0.0	0.0
<b>Total liabilities</b>	<b>2,744.8</b>	<b>5,591.9</b>	<b>5,770.7</b>	<b>5,804.7</b>
Shareholders equity	432.7	638.4	853.4	1,029.7
Minority interests	0.0	0.0	0.0	0.0
<b>Total equity</b>	<b>432.7</b>	<b>638.4</b>	<b>853.4</b>	<b>1,029.7</b>
<b>Total equity and liabilities</b>	<b>3,177.6</b>	<b>6,230.3</b>	<b>6,624.1</b>	<b>6,834.4</b>
NAV per share (S cents)	27.8	37.3	49.8	60.1
NTA per share (S cents)	21.6	29.7	42.2	52.5

**CASH FLOW**

<b>Year Ended 30 Jun (S\$ m)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
Operating profit before working cap. changes	284.6	371.5	606.2	546.8
Working capital changes, taxes and interests	-445.2	-1,083.0	9.8	-263.2
<b>Net cash from operations</b>	<b>-160.6</b>	<b>-711.5</b>	<b>616.0</b>	<b>283.6</b>
Purchase of property, plant and equipment	-45.8	-74.2	-60.0	-60.0
Other investing flows	-215.5	-141.3	-311.9	0.0
<b>Investing cash flow</b>	<b>-261.4</b>	<b>-215.5</b>	<b>-371.9</b>	<b>-60.0</b>
Financing cash flow	362.8	952.2	58.3	-75.9
Forex	-20.6	-48.6	0.0	0.0
<b>Net cash flow</b>	<b>-79.8</b>	<b>-23.4</b>	<b>302.4</b>	<b>147.7</b>
Cash at beginning of year	267.4	187.6	164.3	466.7
Cash at end of year	187.6	164.3	466.7	614.4
Bank overdrafts	50.0	174.9	174.9	174.9
Cash and cash equivalents at end of year	237.6	339.1	641.6	789.3

**Key Ratios**

PER (x)	17.7	11.8	11.0	8.7
Price/NAV (x)	4.3	3.2	2.4	2.0
EV/EBITDA (x)	12.8	11.7	7.4	7.9
Dividend yield (%)	2.9	2.1	3.5	2.9
ROE (%)	25.2	23.6	21.8	22.8
Net gearing (%)	388.8	414.4	289.8	224.2

*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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