

MITA No. 010/06/2008

14 May 2009

Pan-United Corporation Ltd

Downgrade to

HOLD

Previous Rating: BUY

S\$0.56

Fair Value: S\$0.52

Stock Code: PANU.SI
 Reuters: P52
 ISIN Code: PAN SP
 Bloomberg: PAN SP

Event: Results

General Data

Issued Capital (m)	552
Mkt Cap (S\$m/US\$m)	309/211
Major Shareholder	Ng Family (74%)
Free Float (%)	26%
NAV per share (S\$)	0.49
Daily Vol 3-mth ('000)	170
52Wk High (S\$)	0.688
52Wk Low (S\$)	0.315

Good business volume but difficult pricing environment

Slowing faster than expected. Pan-United Corp (PAN) reported 1Q09 revenue of S\$128.3m (+10% YoY, -12% QoQ) and PATMI of S\$9.9m (-15% YoY, -22% QoQ). The better topline was contributed mainly by greater volume of Ready Mixed Concrete (RMC) sold but softening prices and thinner margins took a toll on PAN's profit. While we signalled a slowing down in our previous reports, we did not expect the collapse of RMC prices of this magnitude.

Forecasts for RMC business. Business for the RMC business continues to be strong with infrastructure developments continuing on their run in 2009 (Exhibit 1 shows sustained volumes). However, competition and the fall in raw material costs have pressured selling prices. While the fluctuation clauses work to help buffer rising costs in the commodity boom cycle, it also works in a counter cycle to align prices to the current market environment. On top of decreasing ASPs for RMC, we also think that some competition has entered the market with "low-ball bids" to win some future work despite attaining thinner margins. Over the rest of 2009, we are expecting margins to eventually stabilise and possibly trend upwards again as commodity prices start its trek up. While the thinning margins will work against PAN's earnings in the near future, we think that it will eventually weed out weaker players who have no scalability to compete.

Port and Shipping. Management has signalled that the pick up in these two divisions will help buffer the fall in bottomline contribution from its key RMC business. In particular, the fully utilisation of its larger fleet of tugs and barges will help prop up bottomline as charter incomes from Singapore flagged vessels are tax exempt. The port in China is also seeing signs of life with China's stimulus package flowing through the system.

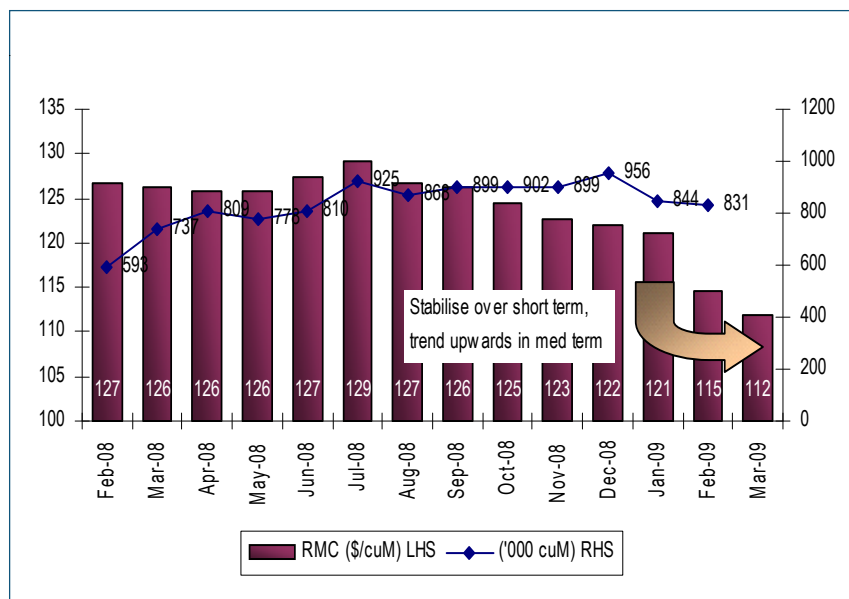
Share price run up lowers yield. We have refined our estimates and DDM parameters (Ke: 15% to 10%) with changes in required returns. Our DDM fair value is now S\$0.52 (prev. S\$0.47). While PAN's share price has risen, it continues to lag the FSSTI in price movements. Investors have typically piled into the company for its good dividend yields. However, the rise in its share price has caused FY09 yield to fall to ~6.8% while the stock trades at ~8x FY09F PER (above 7.3x FY08 PER where earnings grew at a much faster pace). With the limited upside, we are downgrading our rating to a **HOLD**.

Kelly Chia
 (65) 6531 9817
 e-mail: kelly@ocbc-research.com

Year to 31-Dec	Turnover (S\$m)	Operating Profit (S\$m)	Net Profit (S\$m)	EPS (cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	437.0	50.4	33.3	6.1	-12.0	9.2	7.9
FY 08	553.0	62.7	50.1	9.1	49.6	6.2	6.8
FY 09F	595.9	62.8	41.6	7.5	-16.9	7.4	6.8
FY 10F	636.8	68.6	44.7	8.1	7.3	6.9	7.0

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

Exhibit 1: Historical Monthly Demand



Source: BCA

Exhibit 2: Singapore's Anticipated Construction Projects

Project type	Low (\$b)	Ave (\$b)	High (\$b)
Public residential	3.5	3.7	3.8
Private residential	1.7	2.0	2.3
Industrial	1.3	2.0	2.7
Commercial	1.6	2.0	2.4
Institutional & Others	3.5	4.6	5.7
Civil Engineering	10.4	10.8	11.2
2009 Total value	22.0	25.1	28.1
BCA forecast 2010-2011	15.0	16.0	17.0

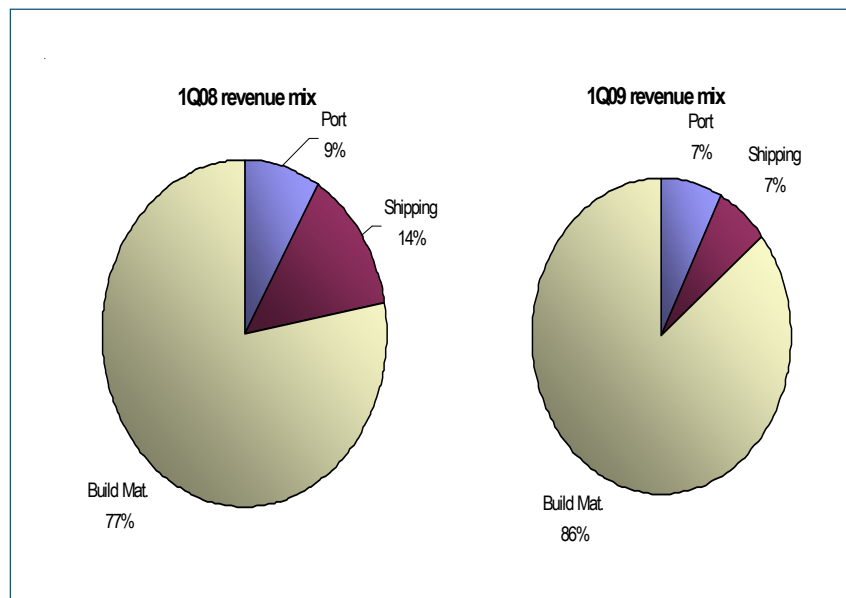
Source: BCA

Exhibit 3: Project Details

Anticipated Public Projects
HDB's Build-to-Order (BTO), Redevelopment & Rental Flats and Lift Upgrading
STB's International Cruise Terminal
NUS's Student Hostels and Teaching Facilities
JTC's International School Campus at Tampines
MOH's Redevelopment of SGH Pathology Education Research Building
MOH's Redevelopment of National Heart Centre
NParks's Phase 1 of Gardens by the Bay
Anticipated LTA Projects
MRT Downtown Line
MRT North-South Line Extension & Jurong East Connection
Proposed Major Arterial Road from CTE to Yishun Avenue 7
Widening of CTE from Braddell Road to Ang Mo Kio Avenue 1
Proposed Major Arterial Road from CTE to Yishun Avenue 7
Widening of CTE from Braddell Road to Ang Mo Kio Avenue 1

Source: BCA

Exhibit 4: Revenue mix by Business Segment



Source: Company

Pan U's Key Financial Data

Pan U Results	1Q08	1Q09	% Chg	4Q08	% Chg
Year Ended 31 Dec (S\$ m)	(S\$m)	(S\$m)	(YoY)	(S\$m)	(QoQ)
Total Revenue (S\$m)	117.1	128.3	9.6%	145.0	-11.5%
Raw materials, subcon, other direct costs	-84.6	-98.8	16.8%	-113.7	-13.1%
Gross Profit	32.5	29.4	-9.3%	31.3	-5.8%
Other operating income	1.5	1.0	-34.1%	3.3	-70.4%
Staff costs	-4.3	-5.3	22.9%	-5.0	5.2%
Depreciation expenses	-3.6	-4.0	12.6%	-3.7	8.6%
Other operating expenses	-8.9	-7.3	-18.0%	-14.2	-48.7%
Profit from operations	17.2	13.8	-19.5%	11.6	18.9%
Finance costs, net	-1.5	-1.8	19.9%	-1.9	-4.3%
Exceptional items	0.0	0.0	NM	2.7	NM
Income from associates	0.3	0.5	75.7%	0.4	14.6%
Profit before income tax	16.0	12.5	-21.6%	12.8	-2.7%
Income Tax	-2.7	-1.4	-48.2%	-1.2	20.7%
Profit after tax	13.2	11.1	-16.1%	11.7	-5.0%
Minority Interests	-1.5	-1.2	-21.0%	1.1	NM
Profit after tax and MI	11.7	9.9	-15.5%	12.7	-22.3%

EARNINGS FORECAST				
Year Ended 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Revenue	437.0	553.0	595.9	636.8
Operating expenses	-66.2	-72.3	-81.9	-88.4
Operating profit	50.4	62.7	62.8	68.6
Finance costs	-5.5	-7.0	-8.8	-9.6
Extraordinary items	0.0	5.8	0.0	0.0
Associates income/(loss)	1.1	1.1	1.4	1.3
Pre-tax profit	46.0	62.6	55.4	60.4
Tax	-6.1	-9.2	-7.9	-9.1
Net profit after MI	33.3	50.1	41.6	44.7
Earnings per share (S\$cents)	6.1	9.1	7.5	8.1
Fully diluted earnings per share (S\$cents)	6.0	8.9	7.4	8.0
EPS growth	-12.0%	49.6%	-16.9%	7.3%
Dividend per share (S\$ cents)	4.5	3.8	3.8	3.9
EPS excl vessel/property sales (S\$cents)	6.1	8.0	7.5	8.1
Fully diluted EPS excl vessel/property sales (S\$cents)	6.0	7.9	7.4	8.0
EPS growth excl vessel/property sales	12.6%	32.5%	-6.1%	7.3%
Revenue revision	NA	NA	-4.9%	-8.7%
Net profit revision	NA	NA	-13.1%	-13.1%
Segmental revenue				
Basic Building Materials	346.8	446.2	491.2	525.6
Shipping	47.6	64.1	61.7	66.1
Port	42.6	42.8	43.0	45.1
Profitability ratios				
Net profit margin (%)	7.6	9.1	7.0	7.0

BALANCE SHEET

As at 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Cash and equivalents	61.1	66.2	33.1	32.0
Other current assets	136.1	146.1	166.3	175.7
Fixed assets	204.4	253.5	273.7	264.1
Other long term assets	56.5	27.8	28.9	28.9
Total assets	458.1	493.6	502.0	500.7
Debt (ST and LT)	94.8	101.3	68.0	35.0
Other short term liabilities	88.9	94.2	121.5	130.0
Other long term liabilities	4.7	6.2	0.0	0.0
Total liabilities	188.4	201.8	189.5	165.0
Shareholders equity (incl MI)	269.7	291.8	312.5	335.6
Total equity and liabilities	458.1	493.6	502.0	500.7
NAV per share (S\$ cents)	42.5	46.6	50.3	54.5

CASH FLOW

Year Ended 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Op Profit/(Loss) before working cap. changes	60.2	77.9	75.4	85.4
Working capital changes	-24.3	-27.7	-11.7	-19.2
Net cash from operations	35.9	50.2	63.7	66.2
Capex	-29.0	-53.8	-40.0	-10.0
Other investing flows	11.2	45.2	3.5	3.8
Total investing cash flow	-17.8	-8.6	-36.5	-6.2
Net change in debt	10.1	-0.2	-33.3	-33.0
Change in equity	1.0	0.5	0.0	0.0
Dividends paid	-33.5	-30.1	-21.0	-21.5
Total financing cash flow	-30.1	-36.9	-60.2	-61.2
Net cash flow	-11.9	4.7	-33.0	-1.2
Cash at beginning of year	73.5	61.1	66.2	33.1
Forex	-0.5	0.5	0.0	0.0
Cash at end of year	61.1	66.2	33.1	32.0

Key Ratios

PER (x)	9.2	6.2	7.4	6.9
Price/NAV (x)	1.3	1.2	1.1	1.0
Dividend yield (%)	7.9	6.8	6.8	7.0
ROA (%)	7.3	10.2	8.3	8.9
ROE (%)	12.3	17.2	13.3	13.3
Net gearing (%)	12.5%	12.0%	11.2%	0.9%
PE growth (x)	-0.8	0.1	-0.4	0.9

Source: Company data, OIR estimates

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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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