

Market Update

Swine flu and the impact on the Singapore Market

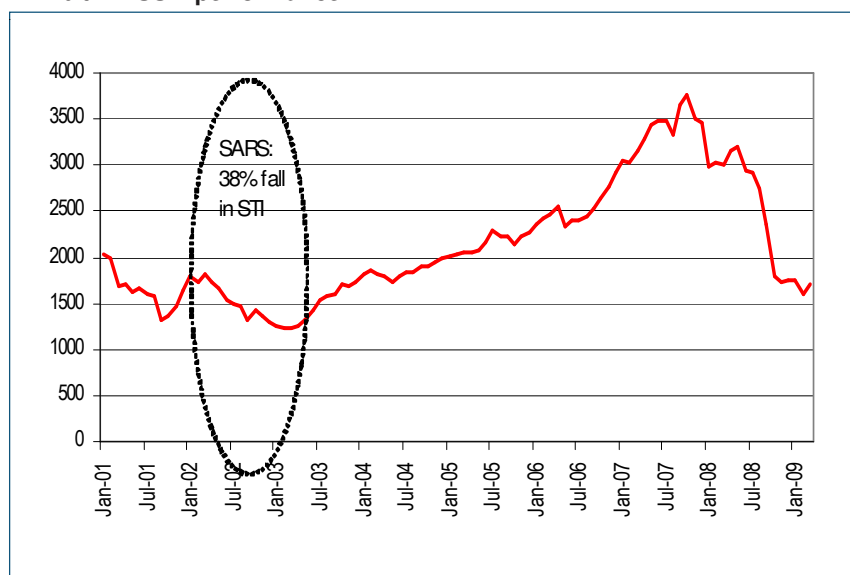
Swine flu could turn into another SARS. The WHO (World Health Organization) has just raised the influenza pandemic alert from 3 to 4 and warned that the swine flu outbreak in America (Mexico, US and now spreading to Canada) could develop into another pandemic like the SARS outbreak we saw in 2002-2003. During that period, the STI dropped nearly 38% over a one-year period. However, in the aftermath of SARS, we also saw the index staging a remarkable recovery of 58% in the 10 months following the incident.

Stocks likely to be affected. During the last SARS outbreak, businesses that were affected included food stocks (especially those which dealt with pork-related products), travel-related companies, as well as retail-related companies (shoppers stayed home as the virus was easily spread through close contact). This time around, we believe that the same businesses will also be affected, although the extent of the impact may be lessened by the fact that many of these companies have already been sold down sharply due to the economic downturn. In fact, current valuations are already relatively close to the valuations seen during the height of the SARS scare.

Stocks that could benefit. On the other hand, we also saw that some businesses benefited indirectly from the SARS incident. Some of these businesses included telcos (as corporates curbed their air travel and relied on teleconferencing and video calls to conduct their meetings). Other businesses that offered an alternative source of food (such as fish) also performed admirably during the SARS period. On the valuation front, most of these stocks have fallen sharply due to the economic crisis and we believe there may be room for capital appreciation.

More time needed to assess impact on economy. Given that the outbreak is still in its early stage and health experts are themselves learning more about the virus, more time will be needed to ascertain the extent of impact on the global economy. If the virus turns out to be less virulent than expected, investor sentiment may recover quickly, supporting share prices. As it is, we have already seen the earlier signs of market reaction yesterday, and this is a situation that warrants close monitoring to ascertain the impact and extent of the spread in the coming days.

Exhibit 1: FSSTI performance



Source: Bloomberg

Air travel sector

Singapore Airlines (SIA, unrated) was hit hard by SARS as it started parking planes in the desert for the first time to manage the cratering number of passengers going on flights. Back then, SIA's P/B valuation was cut by half from 1.8x to 0.9x and its share price fell by about 38%. Today, SIA trades at ~0.8x P/B, even lower than the SARS period.

Singapore Airport Terminal Services (SATS, Unrated) was surprisingly more resilient than SIA registering a 26% decline in share price. SATS trades at ~1x P/B today (SARS: 1.7x).

Directly impacted by fewer flights from its parent, **SIA Engineering** (unrated) suffered a 29% decline in its topline and a 37% decline in the share performance during the SARS period.

Recommendation: We will be cautious trying to pick these counters despite a dip in share prices as fundamentals are still weak and the flow through of higher cost cutting on the corporate and personal travel front would impact the earnings for these companies.

Hospital sector

During SARS, only **Parkway Holdings** (HOLD, FV: S\$1.15) and **Raffles Medical** (unrated) were publicly traded. In general, revenue remained flattish but net profit inched up. Share prices for both stocks dipped ~35%. The two hospitals were trading at a historical P/B of about 1.5-1.8x. Today, Parkway and Raffles Medical trades at 1x and 2x P/B, respectively.

Recommendation: While Singapore was a hot spot for SARS, the current swine flu is still relatively further away from home with its base in Mexico. However, Parkway and Raffles Medical now garner a significant amount of their businesses from foreign patients. Any lock-down in air travel for the region may impede their earnings.

Telco Sector

In general, we believe that this sector should benefit if the swine flu does turn out to be a world-wide pandemic. This could possibly translate into higher demand/usage of IDD services and even broadband services as corporations and consumers shy away from physical travel. In fact, we did see a trend in the valuation of telcos rising during the SARS period.

SingTel (BUY FV: S\$3.09) saw its PER jumped to 17.1x in 2003, while **MobileOne** (BUY, FV: S\$2.12) climbed to 10.5x PER. Currently, SingTel is trading around 10x PER, M1 is around 9.3x; **StarHub** (BUY, FV: S\$2.88) was not listed then but the stock currently trades around 10.4x, just above its 10.0x low (Dec '08).

Food Sector

In the food sector, the reaction is likely to be more mixed. Those with exposure to pork-related businesses could face a significant drop in demand. Some of these companies will include **People's Food** (Unrated), currently trading at 4.1x PER, which is already below the 4.5x PER achieved during the SARS period, although still above its 3.1x low (Mar '09). On the other hand, companies that provide a food substitutes such as fish or chicken (the latter is to a lesser extent due to intermittent bird flu concerns) could benefit from the switch away from pork. One of these companies would be **Pacific Andes** (BUY, FV: S\$0.30); we note that its valuation hit 12.1x PER during the SARS period, while it is currently trading at 2.8x, just off its 1.8x low (Oct '08). **China Fishery** (unrated) could also benefit; the stock is currently trading at 4.2x PER and its peak valuation achieved was around 23x (May '06).

REIT Sector

A widespread pandemic/epidemic is likely to affect stocks related to travel and tourism. Hospitality-linked REITs such as **CDL Hospitality Trusts** (unrated) and **Ascott Residence Trust** (BUY, FV: S\$0.57) will likely be affected in such a scenario. We believe the impact will be larger on CDL-HT which derives its revenue from short-stay hotel properties. On a broader scale, retail REITs like **Frasers Centrepoint** (HOLD, FV: S\$0.62) and **Suntec REIT** (BUY, FV: S\$0.80) could also be affected - especially premium malls that rely on high tourist traffic vis-à-vis suburban malls. During the SARS crisis, **Ascott Group** (now fully owned by CapitaLand) saw a contraction in PER multiples from 20x to 11x. Big picture: we feel the macroeconomic crisis has already pushed sector valuations to distressed levels. A pandemic scenario would depress near-term yields, but our investment calls should be relatively unaffected.

Property sector

Prior to the SARS period in 2003, property sector in Singapore was also experiencing a recovery in transaction volume. New property launches and primary transaction volumes increased by 13.8% and 37.1% YoY to 9,507 units and 9,485 units respectively in 2002. When SARS hit Singapore in 2003, property launches and sales plunged 45.1% and 45.6% YoY to 5,216 units and 5,156 units respectively during the year as buyers avoided launches and showflats on fear of contacting the virus. The weakness in new launches and sales extended to 2004, before picking up again in 2005.

While current property launches and primary transaction volumes had already fallen below that during the SARS period due to the financial and economic crisis (only 4,264 primary transactions in 2008), we still expect any sustained outbreak of the Swine flu to the Asian region to have a negative impact on property launches and sales. Economic condition could further worsen and buyers' sentiments will be negatively affected. Similar to the SARS period, potential buyers are likely to avoid visiting show-flats for fear of contacting the virus.

For **Keppel Land (BUY, S\$2.07 fair value)** and **UOL Group (BUY, S\$2.58 fair value)**, their current price-book ratios have already fallen below that at end-March 03 and downside risk is likely to be lower than **CapitaLand (HOLD, S\$2.43 fair value)** and **City Developments (HOLD, S\$5.53 fair value)**.

Exhibit 2: Comparison of developers' valuation during SARS and now

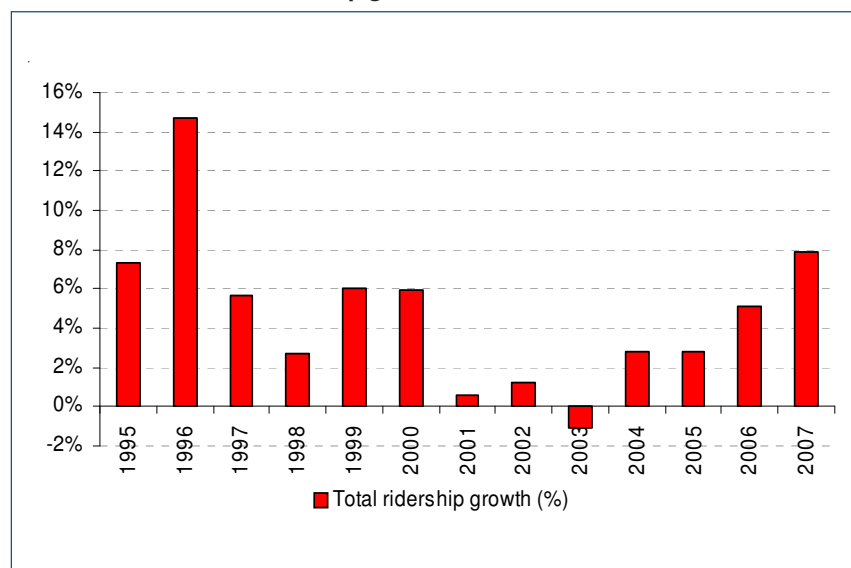
	Mid March 02		End March 03		% change in share price between Mid-Mar 02 and End-Mar 03	Current	
	Share price	Price-Book ratio	Share price	Price-Book ratio		Share price	Price-Book ratio
CapitaLand Ltd	1.35	0.70	0.77	0.38	-43.01	2.59	0.87
City Developments	6.45	1.52	3.41	0.74	-47.04	5.83	0.98
Keppel Land	1.79	0.80	1.16	0.57	-35.08	1.76	0.50
UOL Group	1.52	0.65	1.40	0.61	-7.57	2.06	0.48
Simple Average		0.92		0.58	-33.18		0.71

Source: Bloomberg

Transport Sector

We believe public transportation stocks as well as those related to the transport industry will be impacted by any outbreak of the flu. **SMRT Corporation**, for example, registered a 2.7% decline in its FY04 (ended Mar '04) revenue on what we observe as its first ever decline in train ridership since 1995. This drop, according to management, was partly due to the SARS outbreak and the generally weakened economic conditions. For **ComfortDelgro**, the SARS phenomenon had also caused a reduction in its taxi rentals and inflated its expenses because of the preventive measures that had to be taken. However, we note that the extent of the impact was different among the transport players. While ComfortDelgro's 2003 profit had fallen by as much as S\$31m (or decrease of 18.8%) arising from the outbreak, SMRT had managed to post a 24.2% YoY rise in FY04 net profit. SMRT was trading at its lowest PER of 13.6x (vs. trailing PER of 14.1x) and lowest P/BV of 2x (vs. trailing P/BV of 3.2x) during the SARS period. No historical data is available for ComfortDelgro during the period.

Exhibit 3: SMRT's rail ridership growth



Source: Company

WHO just raised its pandemic alert to 4

(Reproduced from WHO Statement)

The Emergency Committee, established in compliance with the International Health Regulations (2005), held its second meeting on 27 April 2009.

The Committee considered available data on confirmed outbreaks of A/H1N1 swine influenza in the United States of America, Mexico, and Canada. The Committee also considered reports of possible spread to additional countries.

On the advice of the Committee, the WHO Director-General decided on the following.

The Director-General has raised the level of influenza pandemic alert from the current phase 3 to phase 4.

The change to a higher phase of pandemic alert indicates that the likelihood of a pandemic has increased, but not that a pandemic is inevitable.

As further information becomes available, WHO may decide to either revert to phase 3 or raise the level of alert to another phase.

This decision was based primarily on epidemiological data demonstrating human-to-human transmission and the ability of the virus to cause community-level outbreaks.

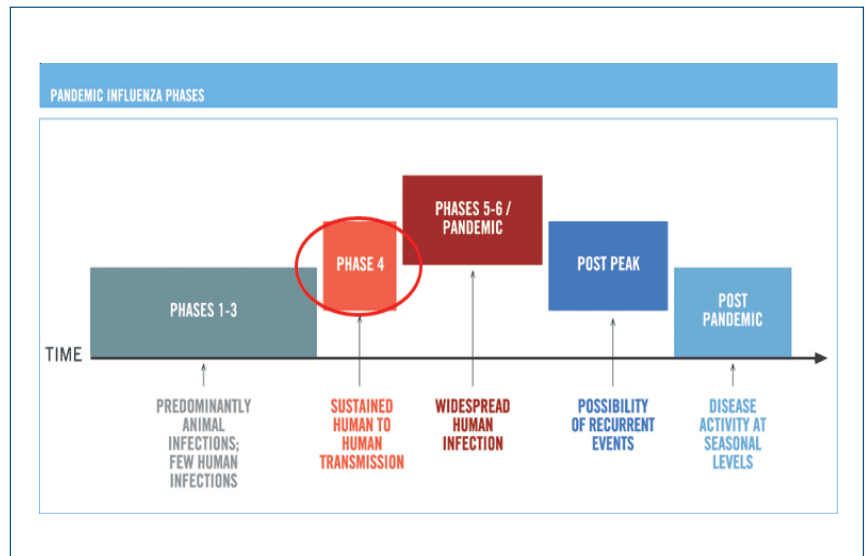
Given the widespread presence of the virus, the Director-General considered that containment of the outbreak is not feasible. The current focus should be on mitigation measures.

The Director-General recommended not to close borders and not to restrict international travel. It was considered prudent for people who are ill to delay international travel and for people developing symptoms following international travel to seek medical attention.

The Director-General considered that production of seasonal influenza vaccine should continue at this time, subject to re-evaluation as the situation evolves. WHO will facilitate the process needed to develop a vaccine effective against A/H1N1 virus.

The Director-General stressed that all measures should conform with the purpose and scope of the International Health Regulations.

Exhibit 4: WHO guidelines on influenza phases



Source: WHO

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Carmen Lee
Head of Research

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