SINGAPORE **Company Report**

OCBC Investment Research

MITA No. 013/06/2008

20 March 2009

SMRT Corporation Ltd

Initiating Coverage

BUY

S$1.56

Fair Value: S$1.83

Stock Code:	
Reuters:	SMRT.SI
ISIN Code	S53
Bloomberg:	MRT SP
Event:	Initiate Coverage

General Data

Issued Capital (m)	1,516
Mkt Cap (Sm/USm)	2,365 / 1,563
Major Shareholder	
Temasek Holdings	(54.37%)
Free Float (%)	45.6%
NTA per share (SGD)	0.42
Daily Vol 3-mth ('000)	2,119
52Wk High (S$)	2.010
52Wk Low (S$)	1.420

Kevin Tan
(65) 6531 9809
e-mail: KevinTan@ocbc-research.com

Inside track for incessant growth

Key beneficiary of Singapore's LT Master Plan. We believe SMRT, as one of the key public transport operators in Singapore, is well primed for the opportunities created by the Land Transport (LT) Master Plan. Under this new road map, Singapore will see sweeping changes to its entire spectrum of transportation services in the coming years. As it is part of the Land Transport Authority's (LTA) main strategic thrusts to make public transport a choice mode of transport for its population, and rail network the backbone of Singapore's public transport system, we believe SMRT is likely to benefit from the better connectivity and stronger ridership.

Likely to maintain 60% dividend payout ratio. We also see a strong case in SMRT's ability to uphold its profitability and dividend payout going forward. By looking at the time-series trend analysis of its operating costs breakdown, we observe that the electricity and diesel costs have been growing at an accelerated pace over the years, thereby contributing to a larger percentage of the costs. However, with the US real GDP projected to decline by 2.8% in 2009 and the global real GDP to fall by 0.8%, according to EIA, this is likely to keep the domestic consumption for all major fuels and their accompanying prices at low levels. Therefore, while we acknowledge that SMRT is likely to be burdened by higher labour costs following the commencement of the Circle Line, a higher expected ridership, coupled with lower percentage electricity and diesel costs, are likely to enable the group to uphold its profitability and dividend payout.

Initiating with BUY. We like SMRT for its defensive nature, consistently strong dividend payouts and strong operating cash flows. While the group is currently trading at a 18.8% premium to its Singapore-listed land transport peers' current PER, we feel that it is undemanding given its superior earnings margin of 18.7%, ROE of 22.8% and dividend yield of 5.0%. For FY08-12, we expect the group to register an EPS CAGR of 6.6%, thanks to a continued increase in ridership, higher rental and advertising revenue and expanded engineering services. We initiate coverage on SMRT with a **BUY** rating and S$1.83 fair value, based on two-stage Dividend Discount Model (DDM) valuation methodology. Our fair value implies a 17.3% upside potential and at 16.9x FY10F EPS, which is still slightly lower than 17.4x average PER seen in 2008. Key risks include exposure to volatile energy costs and compliance to performance standards set in its License & Operating Agreement.

Year to 31-Mar	Turnover (S$m)	Gross Profit (S$m)	Net Profit (S$m)	EV/ EBITDA (x)	EPS (SG cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	743.1	211.6	135.4	9.6	9.0	31.0	17.4	4.5
FY 08	802.1	258.4	149.9	8.4	9.9	10.5	15.8	5.0
FY 09F	876.4	287.4	155.5	7.8	10.3	3.6	15.2	5.1
FY 10F	906.2	301.0	164.5	7.4	10.9	5.8	14.4	5.4

Table of Content

Section A: Company Profile

Multi-modal transport service provider. SMRT Corporation Ltd (SMRT) is a multi-modal public transport service provider offering a range of integrated transport services. Established in 1987 and listed on the Singapore Exchange on 26 July 2000, SMRT operates Singapore's first Mass Rapid Transit system (North South and East West lines) and Light Rapid Transit system (Bukit Panjang) along a rail network of 89.4km and 7.8km, respectively. Since the acquisition of TIBS Holdings Ltd back in December 2001, the company has also expanded its fleet of buses to over 800, providing scheduled bus services between the western and north-western part of Singapore. In its non-fare business, SMRT manages and leases a fleet of approximately 3,000 taxis, provides Operations and Maintenance (O&M) services, engineering consultancy and project management services, as well as leasing of commercial and advertising spaces within its transport network.

Market leader in rail, operating in regulated environment. The group is 54.4% owned by Temasek Holdings. Bus and train fares in Singapore are regulated by the Public Transport Council (PTC), while licenses to operate a transport system are subject to compliance of performance standards as set out by the Land Transport Authority (LTA). Based on its FY08 annual report, SMRT operates two out of the three MRT lines in Singapore, covering 81.7% of the whole network. Its Bukit Panjang LRT system, on the other hand, makes up 27.1% of the LRT system by rail length. SMRT's bus and taxi operations also form a minority of respective transport systems, or approximately 26.5% and 12.3% respectively, based on fleet size.

Exhibit 1: SMRT's market position in various transport systems

Transport system	% of market size
MRT [1]	81.7% by rail length
LRT [2]	27.1% by rail length
Bus	26.5% by fleet size
Taxi	12.3% by fleet size

Source: Company, LTA

[1] North South and East West lines operated by SMRT, North East Line by SBS Transit

[2] Bukit Panjang LRT by SMRT, Punggol and Sengkang LRT by SBS Transit

Section B: Investment Case

i. Key Beneficiary of Land Transport Master Plan

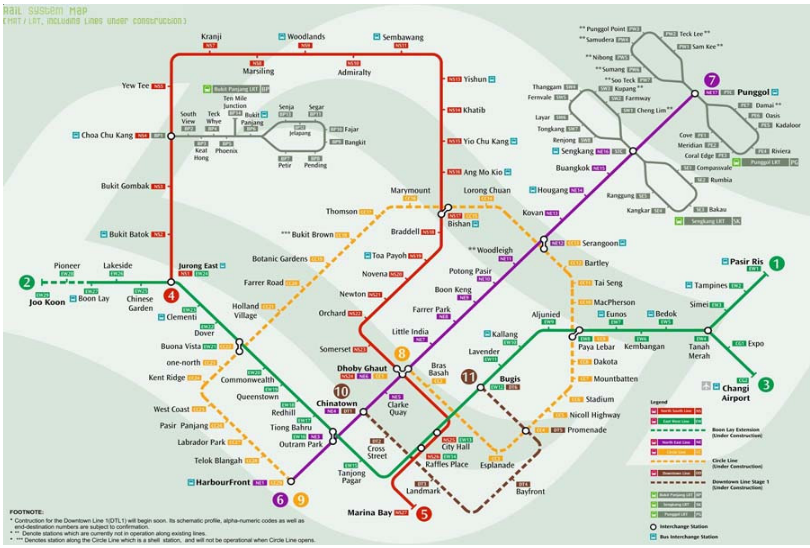
About Land Transport Master Plan. The 1996 White Paper on "A World Class Land Transport System" has guided the land transport development in Singapore and delivered a land transport system that served its population well. Over the intervening years, however, Singapore's economy and population have expanded significantly, hence raising the public's expectations and demand for an efficient and readily accessible transport system. By 2020, the Singapore government expects the travel demand to increase from 8.9m journeys/day in 2008 to about 14.3m journeys/day. Meanwhile, it is also seeing a declining trend in the public transport mode share during the morning peak hours, from 67% in 1997 to 63% in 2008. In order to cater to this significant increase in travel demand and to reverse the declining trend in mode share, the government has since drawn up a comprehensive road map where public transportation will be the centerpiece of the nation's land transport system. In March 2008, specifically, the LTA published the Land Transport Master Plan, a long-term plan that oversees the expansion and improvement of Singapore's land transport network over the next 10 to 15 years.

SMRT is among key beneficiaries. We believe SMRT, as one of the key public transport operators in Singapore, is well primed for the opportunities created by the Master Plan. Under this new road map, Singapore will see sweeping changes to its entire spectrum of transportation services, ranging from bus, rail to taxi in the coming years. As it is part of the LTA's main strategic thrusts to make public transport a choice mode of transport for its population and to manage the road usage to keep the traffic smooth at all times, we believe SMRT is likely to benefit from these initiatives, and enjoy years of stable, sustainable growth.

<u>Making Public Transport A Choice Mode</u>

Expansion of RTS network and capacity. We are especially heartened to learn of the growth opportunities presented to the group in the area of the rail network expansion. With the vision to make the rail network the backbone of Singapore's public transport system, the government is intending to spend at least S$40b to double the Rapid Transit System (RTS) network from 138km to 278km by 2020.

Exhibit 2: Singapore rail network



Source: LTA

Upcoming rail lines and extensions to boost ridership. Among the major investments in the new lines and extensions, in addition to the upcoming Circle Line (CCL), are the Thomson Line (TSL), Eastern Region Line (ERL), Tuas Extension to East-West Line (EWL) and the North-South Line (NSL) Extension in the Marina Bay area. This vastly expanded and denser rail network is likely to extend the reach of the train system to a wider group of people and places, hence resulting in better connectivity for commuters and stronger ridership. As communicated by SMRT in its FY08 annual report, the network is likely to carry triple the number of journeys, rising from 1.4m/day to 4.6m/day by 2020. More details on the respective lines are given in the following exhibit.

Exhibit 3: Chronological summary of upcoming rail lines

Rail line	Description
Boon Lay Extension (BLE)	3.8km long, 2 stations. Commenced operations in Feb 2009. Contract to operate is awarded to SMRT.
Circle Line (CCL)	Expect to fully complete from 2010 onwards. 33.3km long with 29 stations. Divided into 5 stages. Contract awarded to SMRT by LTA to operate for initial period of 10 years from date of opening and to extend for additional 30 years, subject to good performance. CCL Stage 1. 5.4km long, 6 stations. Stretched along Bras Basah corridor, Marina Centre and National Stadium area. CCL Stage 2. 5.6km long, 5 stations. Extended from Stadium Boulevard to Upper Paya Lebar Road/ Bartley Road. CCL Stage 3. 5.7km long, 5 stations. Completed and expected to commence operations in mid-2009. CCL Stage 4 and 5. 17km long, 13 stations. Run along Marymount Road to Harbourfront Centre.
Downtown Line (DTL)	Expect to fully complete by 2016. 40km long, facilitating travel from north-western and eastern areas of the island to the Central Business District and Marina Bay. To be built in 3 stages. DTL Stage 1. 4.3km long, 6 stations. Expect to complete in 2013. Contract awarded to SMRT. DTL Stage 2. 16.6km long, 12 stations. Expect to complete in 2015. DTL Stage 3. 19.1km long, 15 stations. Expect to complete in 2016. Still in the planning stages.
NSL and EWL Extensions	NSL to be extended 1km southwards from Marina Bay station to Marina South. EWL to be extended 14km to Tuas. Both extensions expected to be completed by 2015.
Thomson Line (TSL) and Eastern Region Line (ERL)	TSL and ERL expected to be built by 2018 and 2020 respectively. Both lines will add another 48km in total to rail network.

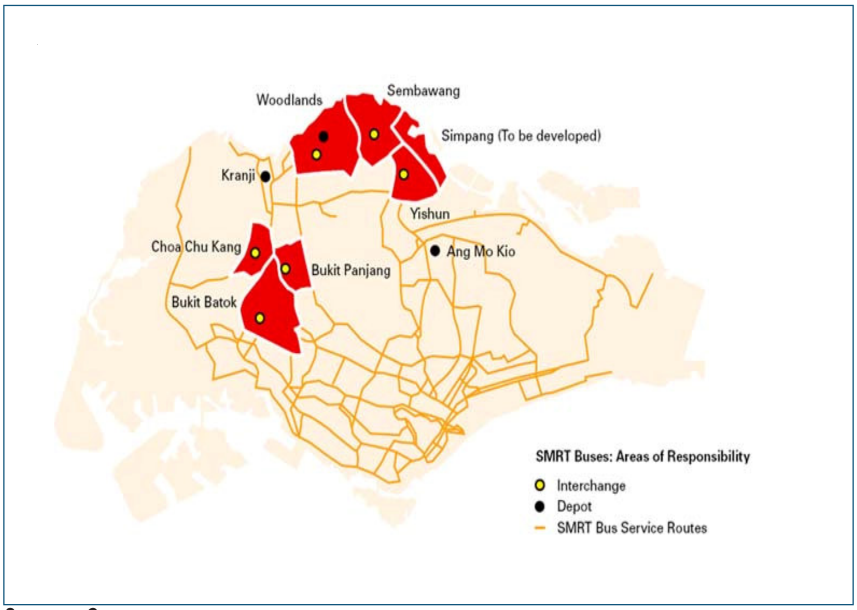
Source: LTA, OIR

Greater contestability not necessarily a minus. One of the targets set by the LTA was to encourage greater efficiency and service standards for commuters through the introduction of greater contestability in the public transport industry. To achieve this, the government will be shortening the operating license period for future RTS lines from 30 years currently to 10-15 years. Following this, operators would then have to compete for the right to operate the rail services and meet service obligations or risk being replaced at the end of their term. While this may potentially disrupt/pose a threat to SMRT's sturdy growth profile, we believe that SMRT is well-positioned to compete for these new lines, given the proven track record it has established over the years. Even as a consolidation of the rail network may seem unlikely under this new direction from government, we note that the overall market size is growing significantly, and hence provides ample opportunities for the group.

Steady revenue stream from existing lines. Moreover, all existing contracts by the group (as well as competitors) are still valid. SMRT's current license to operate the NSL and EWL, as well as the Bukit Panjang LRT system, will be in force till 2028 (Its competitor, SBS Transit, is licensed to operate the North-East Line (NEL) till 2033). This is in addition to the contract secured for the CCL in August 2001, which entitles SMRT to operate it for a period of 10+30 years starting from its date of opening.

Integrated public transport system to drive ridership. In the area of bus services, we see growth opportunity for the group as its bus businesses are currently limited to the North and North-Western parts of Singapore. With the LTA taking on the role of a central bus network planner by 2009 to enhance the integration and efficiency of public transport services (bus and rail), we feel that commuters would be more enticed by the affordability, accessibility and reliability of public transport services to take on public traveling going forward. This would in turn translate to higher rail and bus ridership. While SMRT has been affected by implementation of more stringent Quality of Service (QoS) standards by PTC and LTA, it may well place it in good stead to capture a possibly enlarged bus service market when it gradually opens up for competition.

Exhibit 4: Coverage by SMRT's bus services



Source: Company

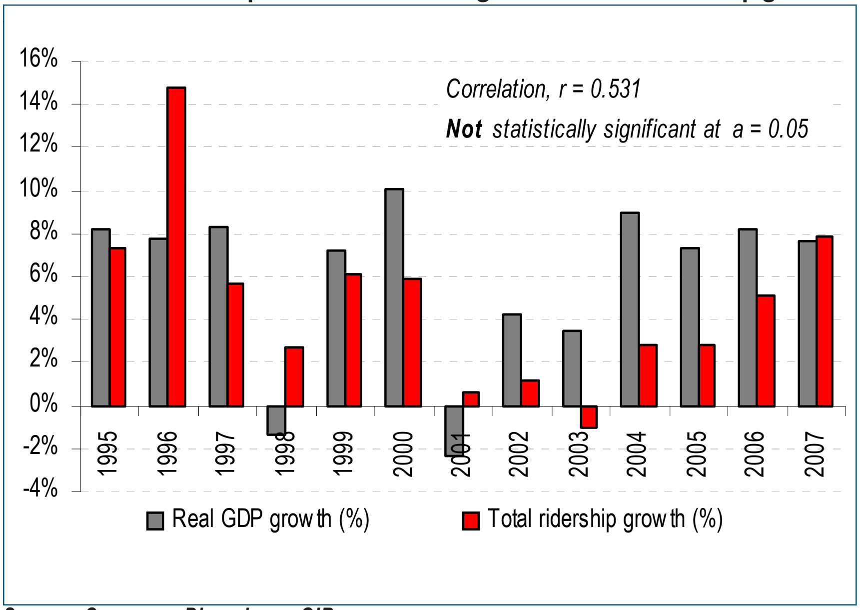
Managing Road Usage

Road usage control indirectly promotes public transport. There are also measures taken by the government which may indirectly influence commuters' choice of transport and drive the use of public transport services. One of these is to manage the demand for road use by restraining vehicle usage and controlling its growth. To accomplish this, the Singapore government will be introducing a more extensive Electronic Road Pricing (ERP) coverage and higher ERP charges to cut down the vehicle traffic. In addition, it will be lowering the vehicle growth rate to 1.5% from 3% currently via lower COE (Certificate of Entitlement) quotas from 2009 onwards (to be reviewed after three years). The parking supply in the city will also be reduced with accompanying rising parking charges. These policies are likely to have the effect, in our view, of discouraging commuters to use private transport but inducing them to adopt public transport as the preferred mode of travel.

ii. A Growing Ridership Trend

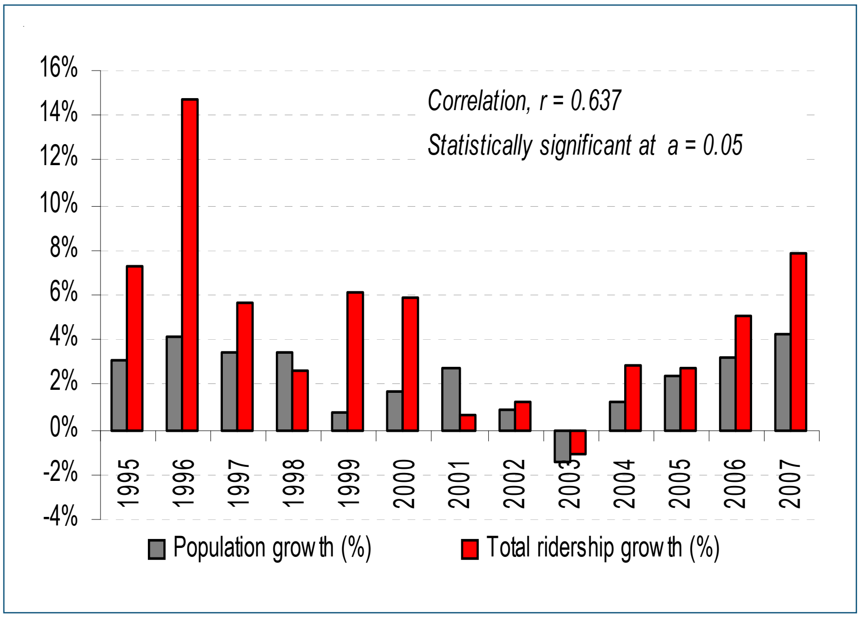
GDP and population as major growth drivers. As a public transport operator, SMRT's revenue is predominantly determined by ridership growth (and average fare per trip, although it is regulated by PTC). As such, we further investigate the factors that may affect the biggest driver for the group's revenue - the rail ridership growth. In our broad-based assessment, we identify two major causes, GDP growth and population growth, which are widely cited as reasons for affecting the revenue growth of SMRT's rail business. To uncover any relationship between them, we have plotted the annual historical data of the real GDP growth and population growth versus the ridership growth as follow.

Exhibit 5: Relationship between real GDP growth and rail ridership growth



Source: Company, Bloomberg, OIR

Exhibit 6: Relationship between population and rail ridership growth

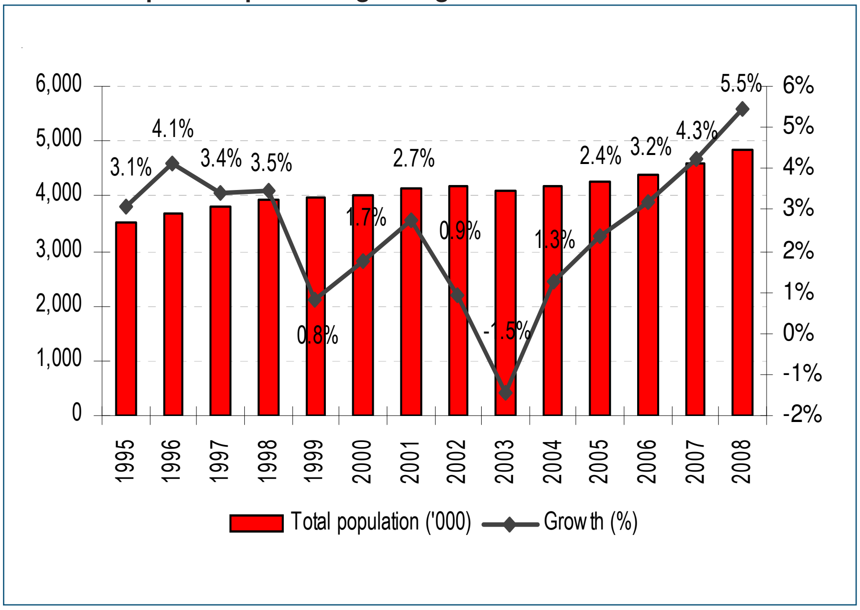


Source: Company, Singapore Department of Statistics, OIR

Population growth may be better indicator for ridership growth. While it appears that both the real GDP growth and population growth are positively correlated to the rail ridership growth, as can be seen graphically and mathematically from the positive correlation coefficient (r > 0, positively correlated; r < 0, negatively correlated), we have performed a t-statistic test to ascertain its significance. Interestingly, at a 95% confidence level, we observe that the coefficient of correlation, r, is not statistically significant from zero in the test for correlation between real GDP growth and ridership growth, but is statistically significant for the correlation between population growth and ridership growth. Assuming that all conditions to the t-test are met, this suggests that the rail ridership growth may be more closely linked to population growth in Singapore, rather than GDP growth. With the nation's population not expected to decline (abruptly) going forward, we believe that SMRT's rail ridership, hence revenue, should at least show some meaningful (if not, modest) growth.

Ridership expected to grow still. Even if the ridership growth should moderate in tandem with the contraction in GDP growth, as in Exhibit 5, we note that it is largely a positive, not negative, growth. However, our view now is that the expected deep and protracted global recession, unlike previous two short recessions, is likely to lead to a structural change in commuters' behavior, that is, to switch from private to public transport. Thus, it may even serve as a catalyst for a stronger growth in ridership. Further, we highlight that the only time since 1995 that the ridership actually declined was in 2003 - during the Severe Acute Respiratory Syndrome (SARS) period. This decline, we feel, is mainly due to the fear of contracting of the communicable disease; barring any outbreak of such disease, we do not expect any major change to ridership growth trend.

Exhibit 7: Population profile - a growing trend

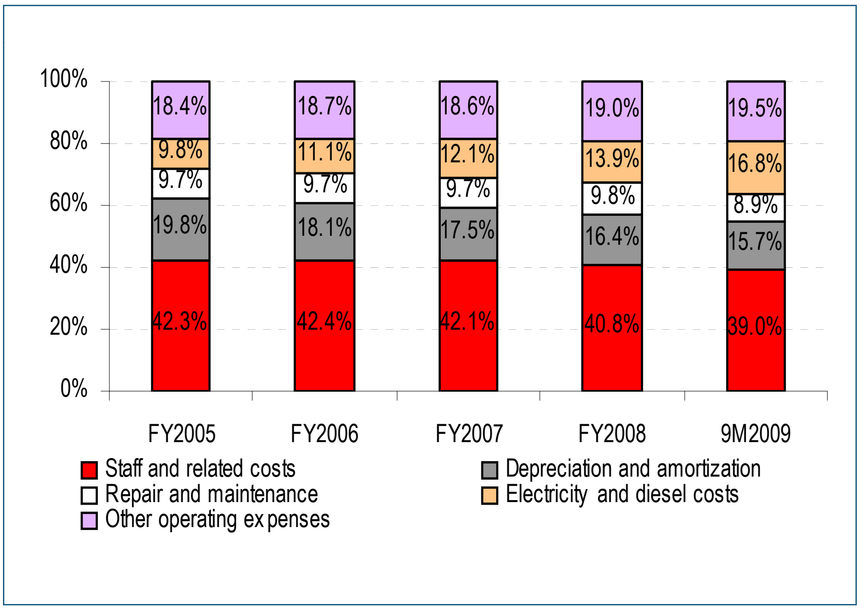


Source: Singapore Department of Statistics, OIR

iii. SMRT as a Dividend-Paying Machine

Likely to maintain profitability and dividend payout. We also see a strong case in SMRT's ability to uphold its profitability and dividend payout going forward. By looking at the time-series trend analysis on its operating costs breakdown, we observe that the electricity and diesel costs have been growing at an accelerated pace over the years, thereby contributing to a larger percentage of the costs. In 9MFY09, in particular, the electricity and diesel costs had surged 34.1% to S$89.1m and made up 16.8% of the operating costs (14.3% for 9MFY08), due to higher prices and consumption.

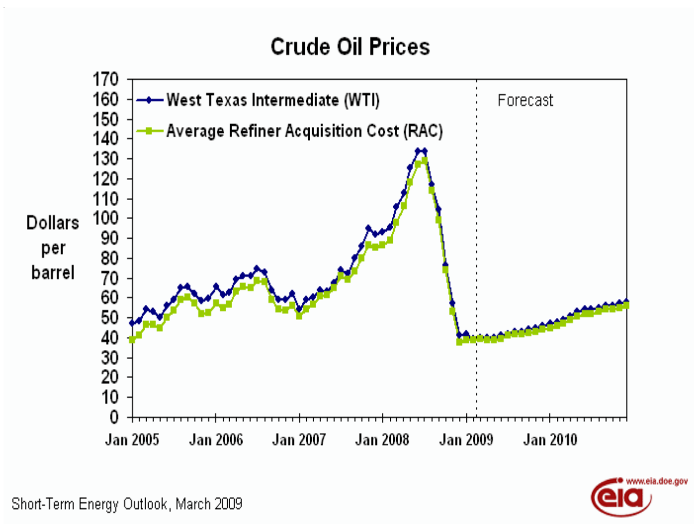
Exhibit 8: Operating costs breakdown



Source: Company, OIR

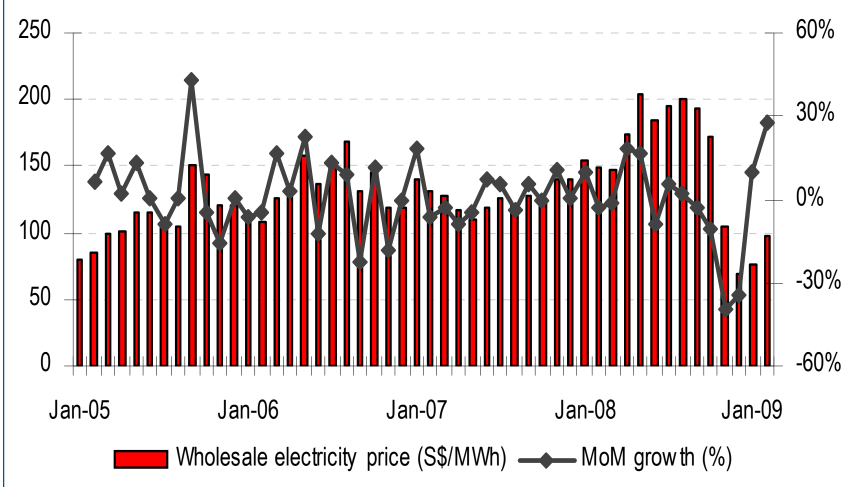
Electricity and diesel costs set to ease significantly. However, with the exception of 4QFY09 where electricity is still contracted at higher rates, we do not think that this is likely to be the situation anymore. Over the past six months, the monthly average price of West Texas Intermediate (WTI) crude oil had fallen from US$133 per barrel in July to US$41 in December and January. With the US real GDP projected to decline by 2.8% in 2009 and the global real GDP (weighted according to shares of world oil consumption) to fall by 0.8%, according to Energy Information Administration (EIA), this is likely to keep the domestic consumption for all major fuels and their accompanying prices at low levels. Based on the current economic conditions and world crude oil supply assumptions, the US government agency now expects the WTI prices to average US$42 per barrel in 2009 and US$53 per barrel in 2010, significantly lower than the prices seen several months ago. As there is a apparent relationship between the crude oil prices and electricity/diesel prices (compare crude oil and wholesale electricity prices in following two exhibits), we believe that these lower expected crude oil prices would directly translate to lower electricity and diesel costs for the group, hence relieving it of its soaring operating expenses. In fact, we note that the new six-month contract secured by SMRT starting from April 2009 has already seen a 25% rate reduction from its previous contract. Therefore, while we acknowledge that SMRT is likely to be burdened by higher labour costs following the commencement of the CCL, a higher expected ridership, coupled with lower percentage electricity and diesel costs, are likely to enable the group to uphold its profitability.

Exhibit 9: WTI crude oil price trend and outlook



Source: Energy Information Administration (EIA)

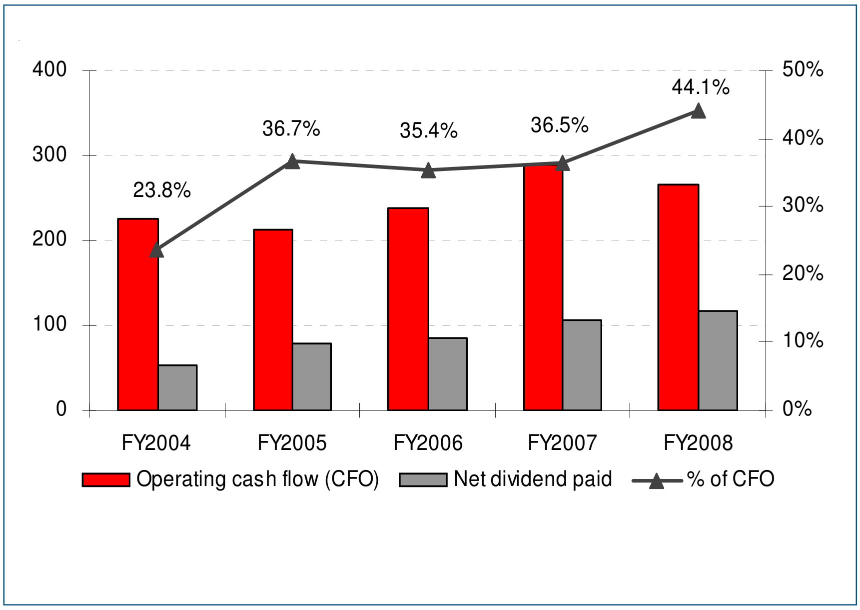
Exhibit 10: Wholesale electricity price and growth



Source: Energy Market Company (EMC), OIR

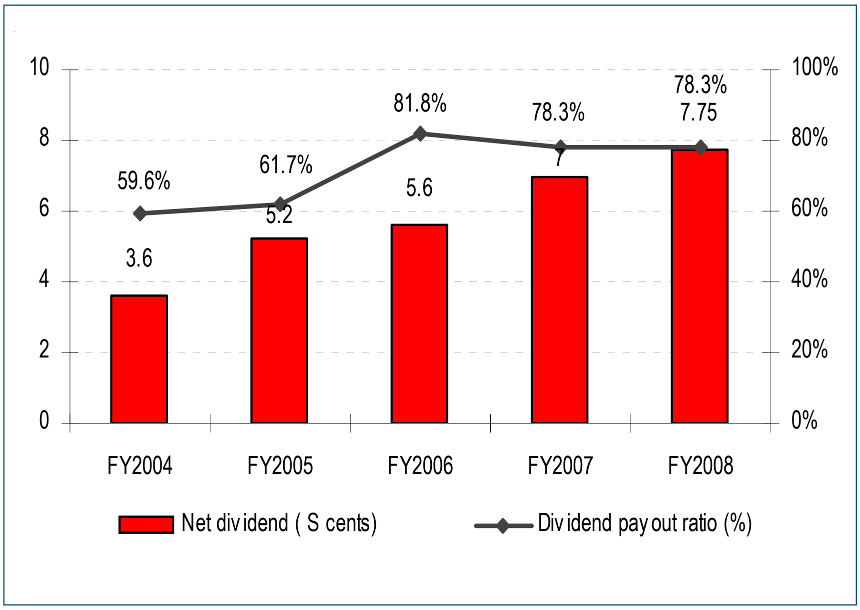
Minimum dividend payout ratio of 60% to be expected. Lastly, we note that the group will endeavour to maintain or increase its dividend payout each year, targeting a minimum payout ratio of 60% of PATMI per year for its interim and final dividends. We think that this is highly achievable given its strong and sturdy growth, and the burgeoning operating cash inflows the group has exhibited in the recent years (See Exhibit 11). Over the past three fiscal years (FY06-08), SMRT has actually delivered cash dividends with payout ratios in excess of 60%, in line with what it has committed. In its latest 1HFY09 results, SMRT has again proven its ability by paying an interim dividend of 1.75 S cents (62.3% of 2QFY09 PATMI), maintaining its dividend payout from the previous corresponding period. Hence, looking ahead, we can expect similarly attractive dividend payouts from SMRT, as its profitability, as well as operating cash flows, is likely to remain relatively defensive despite the recessionary conditions in global economy.

Exhibit 11: Strong dividend-paying ability (dividend always < 50% of CFO, S$'m)



Source: Company, OIR

Exhibit 12: Dividend payout trend and ratio

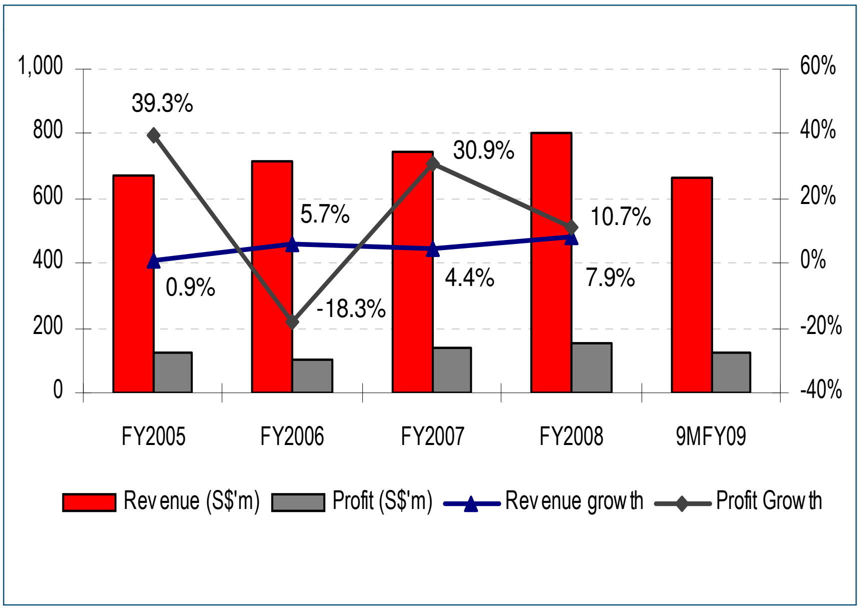


Source: Company, OIR

Section C: Financial Review and Forecasts

Steady growth profile. SMRT has consistently been posting steady growth in turnover and earnings over the past fiscal years. For FY05-08, the group managed a three-year revenue CAGR of 6.0%, backed by increased ridership and growth from its rental and advertising businesses. Despite higher operating costs, the group has also been able to keep its earnings growth in pace, with a three-year CAGR of 5.8%.

Exhibit 13: Sales and earnings trend

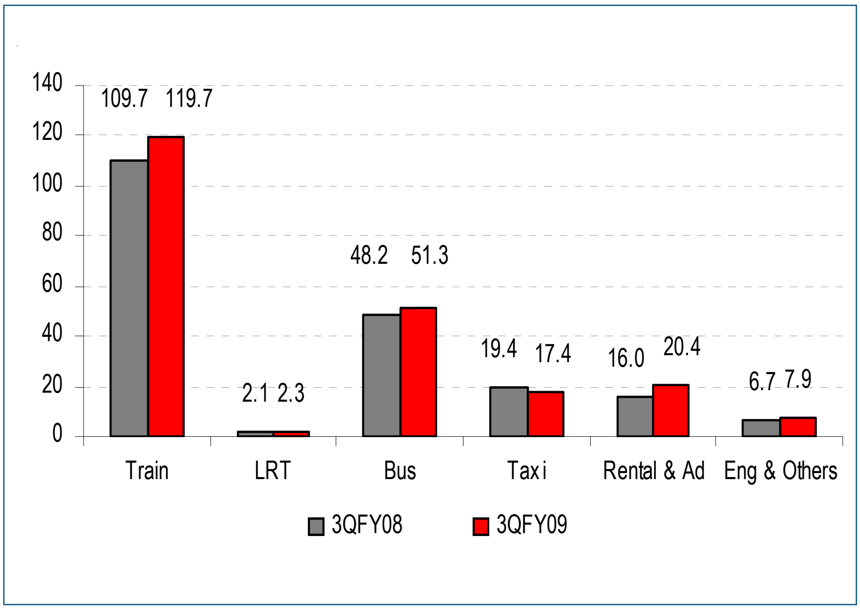


Source: Company, OIR

Note: FY06 profit was lower by 18.3% mainly due to write-back of deferred and current tax provisions, and impairment loss on goodwill in FY05. Excluding the exceptional items, FY06 profit would have increased by ~13.3%.

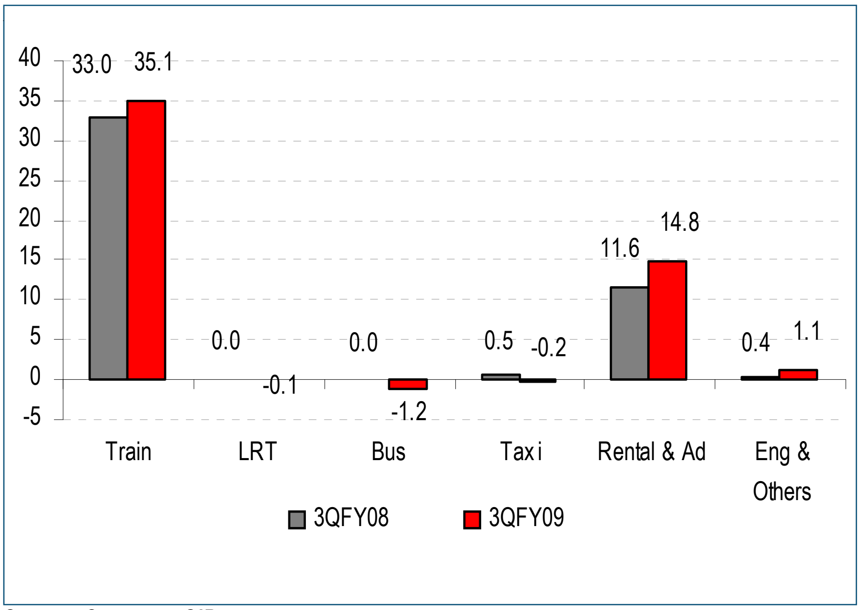
3QFY09 results review. In its most recent 3QFY09 results, the group registered a 8.4% YoY growth (-3.5% QoQ) in revenue to S$219.0m, mainly driven by increased train and bus ridership, and higher rental and advertising revenue. However, total operating costs increased faster by 9.8% YoY (-3.5% QoQ) due to increases in staff and related costs, energy costs and other operating expenses. Together with higher income tax expenses, net profit was up at a slightly slower 7.6% YoY (-3.2% QoQ) to S$41.2m.

Exhibit 14: : Segmental revenue breakdown (S$' m)



Source: Company, OIR

Exhibit 15: Segmental operating profit breakdown (S$' m)

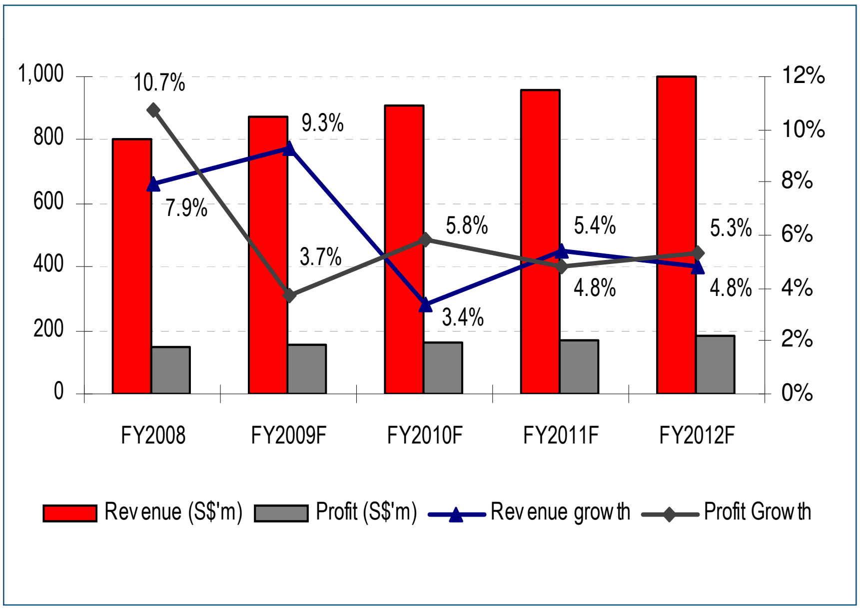


Source: Company, OIR

Segmental business performance. On a segmental basis, train operations continued to contribute a majority 54.6% of 3QFY09 revenue. While revenue from this segment grew 9.1% YoY to S$119.7m on the back of higher average ridership, operating profit rose at a slower pace of 6.3% to S$35.1m, due to higher electricity costs. LRT, Bus and Taxi operations all sank into the red at operating profit level during 3QFY09 amid higher energy costs, higher staff and maintenance costs, and lower average hired-out fleet, respectively. The only other significant contributor of operating profit came from its rental and advertising businesses, which had over the quarter hit a 27.8% YoY growth in revenue to S$20.4m and a 28.6% YoY growth in operating profit to S$14.8m. Despite a strong 17.9% increase in revenue from its engineering and other services due to consultancy services in the Palm Jumeirah Project, the amount contributed to the top line and operating profit was relatively small at S$7.9m and S$1.1m.

Business outlook. For 4QFY09, management is expecting revenue from the Train and Bus operations, as well as that from rental and advertising to be higher YoY due to ridership growth, increased total lettable rental space and advertising on its network, respectively. However, operating expenses is also expected to be higher YoY due to higher energy costs, staff and related costs. For 9MFY09, we note that the group had already racked up revenue of S$662.0m (82.5% of FY08 revenue) and net income of S$124.1m (82.7% of FY08 profit). Hence, SMRT is set to produce another set of growth in FY09, even if it were to encounter a 10-20% YoY decline in 4QFY09 top and bottom line, according to our sensitivity analysis.

Exhibit 16: Revenue and earnings forecasts



Source: Company, OIR estimates

Forecasts and analysis. For FY10-12, we believe SMRT would continue to deliver growth to both its revenue and profitability, thanks to a continued increase in ridership, higher rental and advertising revenue and expanded engineering services. Growth in FY10 revenue, in our view, is likely to be slower though, due to an effective 4.6% reduction in bus and train fares from April 2009, partially offset by marginal contribution in CCL revenue. However, we believe FY10 earnings growth would outpace its revenue growth due to a positive impact from lower energy costs and proactive cost containment, partially offset by higher staff and related costs from the commencement of the CCL. As for FY11-12, we expect the growth in revenue and net income to stabilize in the range of 4.5-5.5% from higher ridership/ better utilization in its existing lines and CCL (which will be opened up in phases), but impacted possibly by a recovery in energy prices and higher operating costs. The exhibit below summaries some of our key forecast figures and the variances from the market consensus estimates.

Exhibit 17: OIR and consensus estimates (19 Mar 2009)

	Revenue (S$'m)			Net Income (S$'m)		
	OIR	Consensus	Difference (%)	OIR	Consensus	Difference (%)
FY2009F	876.4	882.0	-0.6%	155.5	158.9	-2.1%
FY2010F	906.2	903.8	0.3%	164.5	171.1	-3.9%
FY2011F	955.2	948.6	0.7%	172.4	181.4	-5.0%
FY2012F	1001.0	998.3	0.3%	181.5	186.8	-2.8%

Source: Bloomberg, OIR estimates

Section D: Valuation and Recommendation

Initiating coverage with BUY recommendation. We like SMRT for its defensive nature, consistently strong dividend payouts and strong operating cash flows. While the group is currently trading at a 18.8% premium to its Singapore-listed land transport peers' current PER, we feel that it is undemanding given its superior earnings margin of 18.7%, ROE of 22.8% and dividend yield of 5.0%. For FY08-12, we expect the group to register an EPS CAGR of 6.6%, thanks to a continued increase in ridership, higher rental and advertising revenue and expanded engineering services. We initiate coverage on SMRT with a BUY rating and S$1.83 fair value, based on two-stage Dividend Discount Model (DDM) valuation methodology. Our fair value implies a 17.3% upside potential and at 16.9x FY10F EPS, it is still slightly lower than 17.4x average PER seen in 2008.

Exhibit 18: Valuation model

Multi-stage Dividend Discount Model				
Beta, b	0.52			
Growth rate, g	1.5%			
Risk free rate, R_f	2.2%			
Cost of Equity, K_e	6.5%			
	FY2009F	**FY2010F**	**FY2011F**	**FY2012F**
Dividend per ordinary share (SG cents)	8.00	8.50	8.75	9.00
Payout ratio (%)	78.0%	78.3%	77.0%	75.2%
Terminal value				183.31
Present value	8.00	7.98	7.72	159.28
Intrinsic value (S$)	1.83			
Upside Potential	17.3%			

Source: Bloomberg, OIR estimates

Exhibit 19: Peer comparison (19 Mar 2009)

Name	Price (S$)	Mkt Cap (S$ m)	Hist PE (x)	Curr PE (x)	Fwd PE (x)	Price/ Book (x)	Net Margin (%)	Sales/ Assets	Assets/ Equity	ROE (%)
COMFORTDELGRO	1.33	2,773.9	13.9	12.8	12.1	1.8	6.5	0.9	1.7	13.2
SBS TRANSIT LTD	1.65	507.7	12.5	NA	NA	2.0	5.7	1.4	2.0	16.5
Simple Average			13.2	12.8	12.1	1.9	6.1	1.2	1.9	14.8
SMRT CORP LTD	1.56	2,365.2	15.8	15.2	14.4	3.5	18.7	0.6	2.1	22.8

Source: Bloomberg, OIR estimates

Exhibit 20: Financial position and dividend yield

Name	Gross Gearing (%)	Net Gearing (%)	ST/LT Ratio (%)	TIE (Interim) (x)	Dividend Yield (%)
COMFORTDELGRO	26.5%	0.2%	70.0%	11.2	3.8%
SBS TRANSIT LTD	Zero debt	Zero debt	Zero debt	Zero debt	4.0%
SMRT CORP LTD	36.8%	1.7%	70.0%	27.3	5.0%

Source: Company, OIR

Note: All calculations based on most recent results (Dividend yield on full-year basis)

TIE = Times Interest Earned

Section E: Risk Factors

Exhibit 21: SWOT Analysis

Strengths	Weaknesses
Proven track record	Fares are regulated by PTC, beyond SMRT's control
Main operator of Singapore's public transport backbone network, MRT system	Operations and services subject to Licensing and Operating Agreement by LTA
	Subject to fluctuation in energy costs
Opportunities	**Threats**
Doubling of Rapid Transport System by 2020	Deregulation and competitive bidding of public transport services
Various initiatives by Singapore government to promote public transport	Affected by potential security, safety and disease outbreak risks
Expansion of transport and engineering services	

Source: OIR

Key Risk Factors

Regulatory and operational risks. SMRT operates in a regulated environment in which its operations and services have to meet operating performance and service standards specified by the respective license agreements with the Singapore government. The permission to operate the MRT System is derived from the License and Operating Agreement (LOA) signed with the LTA. Although the term of the LOA is for a period of 30 years starting from 1 April 1998, it may be terminated prematurely for various reasons, including breaching of any provisions of the LOA and failure to meet the prescribed operating performance standards. Hence, if happen, this would adversely affect its financial performance and business viability.

In addition, its Bus services are also subject to Quality of Service (QoS) standards, which have in place a penalty framework to enforce compliance. The penalty for non-compliance ranges from S$100/day/bus service to S$10,000/month/standard. Lastly, its fare adjustments must also be approved by PTC, and hence its primary influence of revenue is outside its control.

Energy cost risks. SMRT is exposed to energy cost risks that is outside its control, such as fluctuations in oil and diesel prices. This would directly affect its energy costs, and in turn its profitability. To mitigate the rising electricity costs, the group typically enters into electricity contracts for at least half a year or longer at fixed rates. In addition, it may also engage in forward currency exchange contracts to mitigate the currency risk arising from purchases of diesel in foreign currency.

Section F: Group Structure

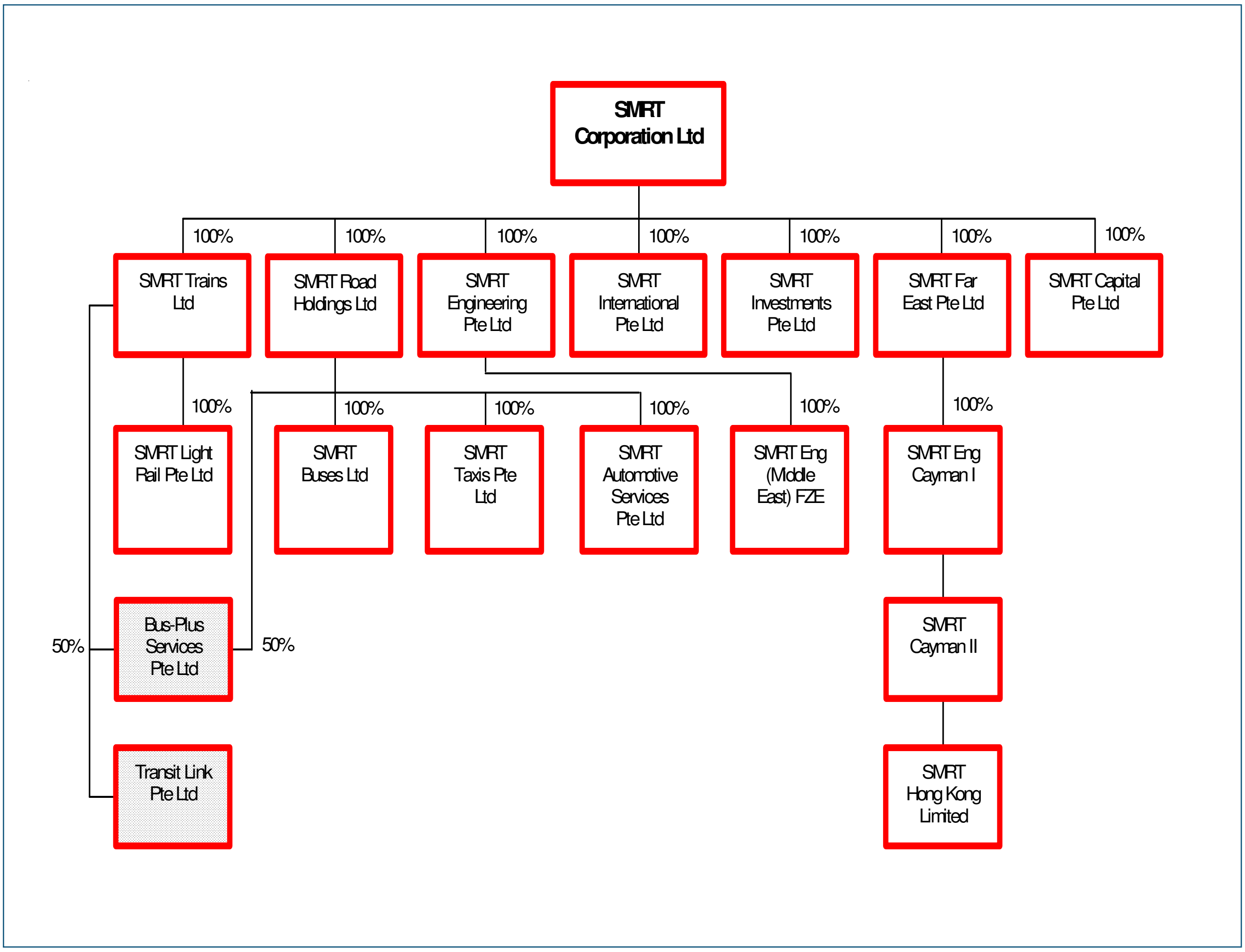


Exhibit 22: SMRT's business units

Subsidiary	Description
SMRT Trains Ltd	Incorporated in 1987 and operates the first MRT system in Singapore. The 89.4 km MRT system, which consists of the North South and East West lines, stretches over 51 stations. System will expand to include the Circle Line (33.3 km), which will interchange with the North South Line, East West Line and North East Line.
SMRT Investments Pte Ltd	Set up on 9 March 2000. Principal activities are in the marketing and leasing of media spaces as well as the marketing, leasing and management of commercial spaces within the SMRT network.
SMRT Engineering Pte Ltd	Set up on August 1999. Offers one-stop consulting services from project conceptualization to operations, maintenance and related assignments.
SMRT Light Rail Pte Ltd	Set up in 1997 and operates Singapore's first fully automated LRT system. Stretches over 7.8 km along 14 stations in Bukit Panjang.
SMRT Taxis Pte Ltd	Manages a fleet of over 3,000 taxis, including Prestige Mercedes, London taxis and SMRT SPACE MPV taxis.
SMRT Automotive Services Pte Ltd	Provides maintenance and repair services. Operates out of three workshops in Ang Mo Kio, Woodlands and Kranji.
SMRT Buses Ltd	Operates a fleet of over 800 buses and provides bus services between Western and North-Western part of Singapore.
Bus-Plus Services Pte Ltd	Incorporated in 1994 and operates a fleet of 47 air-conditioned chartered buses.
Transit Link Pte Ltd	A service company set up by SMRT and SBS Transit to ensure efficient and effective fare and network integration.
SMRT Engineering FZE	Provision of operations and maintenance services to the Palm Jumeirah Rail Transit System for the Nakheel project in the United Arab Emirates.

Source: Company

SMRT's Key Financial Data

INCOME STATEMENT Year Ended 31 Mar (S$ m)	FY07	FY08	FY09F	FY10F
Revenue	743.1	802.1	876.4	906.2
EBITDA	255.0	284.1	301.9	315.4
Depreciation & amortisation	-109.7	-106.1	-111.2	-114.9
Operating Profit	145.3	178.0	190.7	200.4
Finance costs	-9.9	-8.0	-7.6	-7.6
Interest and investment income	6.9	5.8	4.2	4.1
Associates	0.1	0.3	0.2	0.2
Pre-tax profit	142.3	176.2	187.5	197.0
Tax	-6.5	-26.2	-32.0	-32.5
Minority interests	-0.4	0.0	0.0	0.0
Net profit	135.4	149.9	155.5	164.5
Earnings per share (cents)	9.0	9.9	10.3	10.9
Fully diluted earnings per share (cents)	8.9	9.9	10.2	10.8

BALANCE SHEET As at 31 Mar (S$ m)	FY07	FY08	FY09F	FY10F
Cash	169.6	232.5	248.7	296.0
Other current assets	112.8	122.8	138.4	141.8
Fixed assets	1,046.2	1,032.8	1,032.1	1,008.2
Other long term assets	50.3	49.4	49.4	49.4
Total assets	1,379.0	1,437.6	1,468.6	1,495.4
Current liabilities less debt	177.4	229.9	246.1	252.5
Debt	250.0	250.0	250.0	250.0
Other long term liabilities	311.4	280.6	257.4	238.3
Total liabilities	738.8	760.5	753.5	740.8
Shareholders equity	640.2	677.1	715.1	754.5
Minority interests	0.0	0.0	0.0	0.0
Total equity and liabilities	1,379.0	1,437.6	1,468.6	1,495.4
NTA per share (cents)	39.6	41.9	44.4	47.0

CASH FLOW **Year Ended 31 Mar (S$ m)**	**FY07**	**FY08**	**FY09F**	**FY10F**
Operating profit before working cap. changes	261.6	298.5	302.1	315.5
Working capital changes	35.1	-11.5	7.0	2.9
Interest and tax	-6.3	-20.4	-38.7	-35.4
Net cash from operations	290.4	266.5	270.4	283.1
Capex	-91.1	-97.1	-130.0	-110.0
Other investing flows	-28.4	5.3	-6.7	-0.7
Investing cash flow	-119.5	-91.7	-136.7	-110.7
Change in equity	2.3	1.8	0.0	0.0
Net change in debt	-50.0	0.0	0.0	0.0
Dividends paid	-85.4	-113.6	-117.5	-125.1
Others	0.0	0.0	0.0	0.0
Financing cash flow	-133.0	-111.8	-117.5	-125.1
Net cash flow	37.9	63.0	16.1	47.3
Cash at beginning of year	131.7	169.6	232.5	248.7
Effect of exchange rate fluctuations on cash held	0.0	0.0	0.0	0.0
Cash at end of year	169.6	232.5	248.7	296.0
Key Ratios				
PER (x)	17.4	15.8	15.2	14.4
Price/NTA (x)	3.9	3.7	3.5	3.3
EV/EBITDA (x)	9.6	8.4	7.8	7.4
Dividend yield (%)	4.5	5.0	5.1	5.4
ROIC (%)	5.7	3.9	3.9	3.9
ROE (%)	22.1	22.8	22.3	22.4
Net gearing (%)	12.6	2.6	0.2	Net Cash
PE to growth (x)	0.6	1.5	4.2	2.5

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:
The analyst/analysts who wrote this report holds NIL shares in the above security.

RATINGS AND RECOMMENDATIONS:
OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented.
- However, OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon. OIR's Buy = More than 10% upside from the current price; Hold = Trade within +/-10% from the current price; Sell = More than 10% downside from the current price.
- 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

Carmen Lee
Head of Research

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