27 May 2010

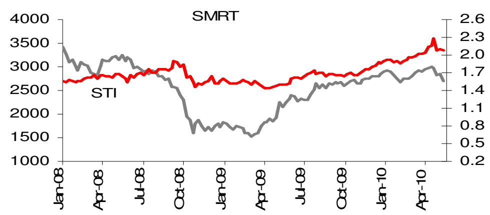
Upgrade to

BUY

Previous Rating: HOLD

Current Price: S$2.11

Fair Value: S$2.33



Reuters Code	SMRT.SI
ISIN Code	S53
Bloomberg Code	MRT SP
Issued Capital (m)	1,517
Mkt Cap (Sm/USm)	3,202 / 2,269
Major Shareholders	
Temasek Holdings	54.4%
Free Float (%)	45.6%
Daily Vol 3-mth ('000)	1,923
52 Wk Range	1.580 - 2.320

(S$ m)	FY09	FY10	FY11F	FY12F
Revenue	879.0	895.1	952.0	1001.0
EBIT	188.7	197.2	195.8	219.0
P/NTA (x)	4.7	4.4	4.2	3.9
EPS (cts)	10.7	10.7	10.8	12.1
PER (x)	19.7	19.7	19.5	17.4

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SMRT Corporation Ltd

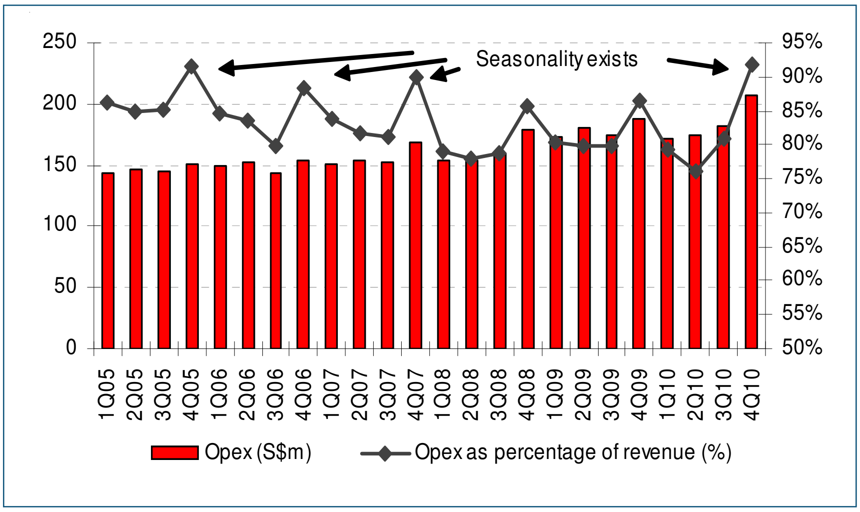
Time to board the train

Sell-down likely overdone. SMRT's share price immediately slumped by 5.7% the next trading day following its 4QFY10 results, as a hike in its operating expenses (opex) had caused the bottomline to miss market's expectations. We reckon that the market, which may have been overly optimistic previously, is now concerned that the ramp up of the Circle Line (CCL) may damp its profitability going forward, if its 4Q opex is used as a new baseline to estimate the incremental costs. However, our analysis of its historical quarterly opex shows that the 4Q results may possibly include an element of seasonality. Specifically, we observe that opex as a percentage of revenue is traditionally higher in 4Q, due possibly to year-end maintenance or staff bonuses, etc. Therefore, while we acknowledge that its 4Q results, to a certain extent, were impacted by operating costs from CCL, we believe that its most recent 4Q opex may not be the best reference point for its expected costs and that the sell-down due to this issue may be been overdone.

Healthy operating statistics. Operationally, we are still keenly positive on its developments of its core business segments. Monthly statistics provided by SMRT showed that the total monthly MRT ridership had jumped by 12.0% YoY (-2.2% MoM) in Apr, as opposed to 2.3% YoY growth (-4.4% MoM) in Apr 2009. Its monthly bus ridership similarly clocked a robust YoY growth of 6.3% (+13.8% MoM) in Mar, indicating healthy growth momentum in its bus operations. While management does not disclose the monthly progress on its rental space, we are optimistic that the group will be able to achieve a S$6m increase (+9.2%) in rental revenue for FY11 (as guided by management), considering the addition of rental space and encouraging take-up rates at Esplanade Xchange.

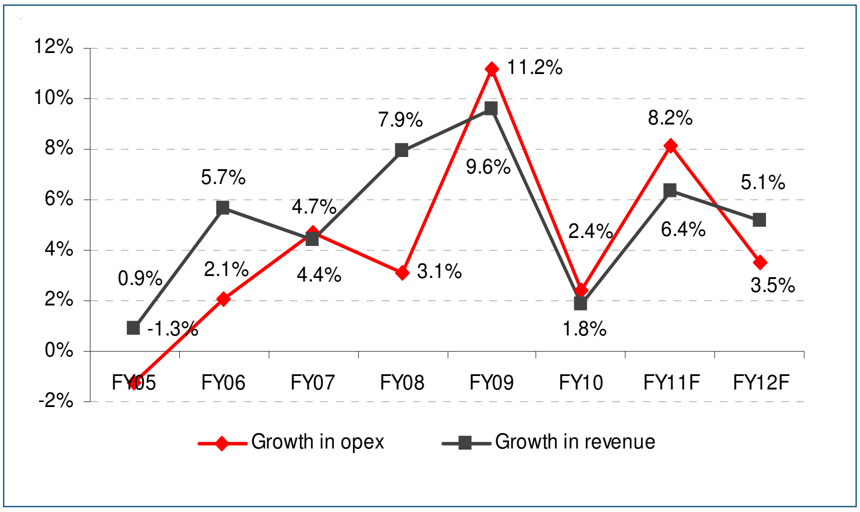
Upgrade to BUY. In the longer term, we continue to like SMRT for its growth story in the public transport sector space, its consistently strong operating cashflows and dividend payouts. We maintain our view that the group is likely to capture a significantly higher ridership with the progressive opening of CCL stations (LTA expects ridership of 0.5m/day, when fully operational). Together with a return of tourism, opening of integrated resorts and major events (e.g. F1 Grand Prix, YOG), that should bolster its performance in FY11. We are upgrading SMRT to **BUY** with S$2.33 fair value (maintained) as the recent weakness in its share price now presents a good opportunity to accumulate the stock.

Exhibit 1: Time-series analysis on quarterly opex



Source: Company, OIR

Exhibit 2: Growth profile of revenue and operating costs



Source: Company, OIR

Exhibit 3: Comparison of OIR and consensus forecasts

	OIR		Consensus		Variance	
	FY11F	FY12F	FY11F	FY12F	FY11F	FY12F
Revenue (S$m)	952.0	1,001.0	982.1	1,042.2	-3.1%	-3.9%
EBIT (S$m)	195.8	219.0	213.6	235.2	-8.3%	-6.9%
Net income (S$m)	163.9	184.0	177.4	195.0	-7.6%	-5.7%

Source: Bloomberg, OIR estimates

SMRT's Key Financial Data

EARNINGS FORECAST Year Ended 31 Mar (S$m)	FY09	FY10	FY11F	FY12F
Revenue	879.0	895.1	952.0	1,001.0
EBITDA	299.0	314.3	314.7	343.4
Depreciation & amortization	-110.4	-117.1	-118.8	-124.3
EBIT	188.7	197.2	195.8	219.0
Net interest	-3.2	-6.2	-5.0	-4.4
Associates and JVs	0.3	0.8	2.0	2.6
Profit before tax	185.8	191.7	192.9	217.2
Income tax expense	-23.0	-28.8	-28.9	-33.2
Minority interests	0.0	0.0	0.0	0.0
PATMI	162.7	162.9	163.9	184.0

BALANCE SHEET As at 31 Mar (S$m)	FY09	FY10	FY11F	FY12F
Bank and cash balances	245.6	326.0	350.1	409.5
Other current assets	146.7	105.7	111.2	116.9
Property, plant, and equipment	1,061.5	1,036.6	1,020.2	998.9
Total assets	1,501.5	1,583.2	1,596.5	1,640.1
Debt	250.0	250.0	250.0	250.0
Current liabilities excluding debt	266.3	317.7	313.6	326.9
Total liabilities	779.4	813.2	791.5	787.7
Shareholders equity	722.1	770.0	805.0	852.4
Minority interests	0.0	0.0	0.0	0.0
Total equity and liabilities	1,501.5	1,583.2	1,596.5	1,640.1

CASH FLOW Year Ended 31 Mar (S$m)	FY09	FY10	FY11F	FY12F
Op profit before working cap. chg.	319.3	338.5	316.7	346.0
Working cap, taxes and int	-36.3	-9.7	-43.6	-30.0
Net cash from operations	283.1	328.8	273.1	315.9
Purchase of PP&E	-139.5	-100.7	-120.0	-120.0
Other investing flows	-13.6	-28.8	0.0	0.0
Investing cash flow	-153.1	-129.4	-120.0	-120.0
Financing cash flow	-117.1	-118.6	-129.0	-136.6
Net cash flow	12.8	80.7	24.1	59.4
Cash at beginning of year	232.5	245.6	326.0	350.1
Cash at end of year	245.6	326.0	350.1	409.5

KEY RATES & RATIOS	FY09	FY10	FY11F	FY12F
EPS (SG cents)	10.7	10.7	10.8	12.1
NTA per share (SG cents)	44.9	48.4	50.7	53.9
EBIT margin (%)	21.5%	22.0%	20.6%	21.9%
Net profit margin (%)	18.5%	18.2%	17.2%	18.4%
PER (x)	19.7	19.7	19.5	17.4
Price/NTA (x)	4.7	4.4	4.2	3.9
EV/EBITDA (x)	10.7	9.9	9.9	8.9
Dividend yield (%)	3.7%	4.0%	4.0%	4.5%
ROE (%)	23.3%	21.8%	20.8%	22.2%
Net gearing (%)	0.6%	Net Cash	Net Cash	Net Cash

Source: Company data, OIR estimates

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

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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