

MITA No. 010/06/2008

13 March 2009

# S'pore Press Holdings

Upgrade to

## BUY

Previous Rating: HOLD

### S\$2.32

### Fair Value: S\$2.84

Stock Code:

Reuters: SPRM.SI

ISIN Code T39

Bloomberg: SPH SP

Event:

Update

#### General Data

|                        |                 |
|------------------------|-----------------|
| Issued Capital (m)     | 1,592           |
| Mkt Cap (S\$m/US\$m)   | 3,694/<br>2,415 |
| Major Shareholder      | NA              |
| Free Float (%)         | 100             |
| NAV per share (S\$)    | 1.28            |
| Daily Vol 3-mth ('000) | 6,307           |
| 52Wk High (S\$)        | 4.508           |
| 52Wk Low (S\$)         | 2.310           |

### Attractive valuation. Upgrade to BUY

**Falling revenue...** Our checks in the industry have indicated that Singapore Press Holding's (SPH) print advertising took a heavy hit in Nov/Dec period despite the last ditch advertising efforts by retailers to bring the year end to a less dismal sales closing. The lack of major events in Singapore in the first two months along with the dismal job market in the private sector did not help. As such, we expect adex and classified revenues to be negatively impacted. We initially expected print revenue to register a 3.6% YoY fall for FY09F but now knock it down to a 6.7% YoY drop to factor in the cratering economy. Circulation numbers should remain flattish for FY09 as we do not expect heavy subscription cancellations.

**...But controlling costs.** As shown from its historical operating data, SPH has three consecutive quarters of falling newsprint consumption while charge out prices (Exhibit 2 & 3) have been going up. With the volumous usage for the US presidential elections over, charge prices have thankfully started to tail off since the start of the year. Unfortunately, as SPH historically buys its raw materials on a 6 months forward basis, we are expecting high newsprint costs from Jan - Jun 2009. On the staffing front, SPH's forge into new media businesses have been moderated by aggressive wage cuts announced yesterday.

**Mark-To-Market losses might continue.** We believe that SPH has not changed its equity and bond portfolios with its external fund managers since the last quarter. With the volatile equity and bond market, our initial assumptions of a return to a positive accretion from its investments are likely invalid in view of potential MTM losses overwhelming dividend income that it will receive from its investments.

**Silver lining: Paragon and Sky@Eleven.** Thankfully, SPH's two property plays keep its head above water against a drowning property market. Paragon continues to sustain almost full occupancy even after its S\$45m upgrade to add 29,000 sqft of space and Sky@Eleven's progressive contribution will buffer its earnings.

**Attractive valuation.** SPH fell 23% since the downgrade in our last report. While we have lowered our SOTP fair value to S\$2.84 (prev: S\$3.13) as we align its valuation peg with its peers, we are upgrading SPH to **BUY** based on attractive valuations with dividend yield at ~9%. We are also impressed by the swift action taken to contain staffing cost, its highest expense component.

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| Year to<br>31 Aug | Turnover<br>(S\$m) | Operating Profit<br>(S\$m) | Net Profit<br>(S\$m) | EPS<br>(cents) | EPS Growth<br>(%) | PER<br>(x) | Div Yield<br>(%) |
|-------------------|--------------------|----------------------------|----------------------|----------------|-------------------|------------|------------------|
| FY 07             | 1,172.4            | 434.2                      | 504.8                | 31.6           | 17.2              | 7.4        | 11.2             |
| FY 08             | 1,316.2            | 501.7                      | 437.4                | 27.3           | -13.5             | 8.5        | 11.6             |
| FY 09F            | 1,321.5            | 474.4                      | 367.6                | 22.9           | -16.0             | 10.1       | 9.3              |
| FY 10F            | 1,201.0            | 431.8                      | 394.7                | 24.6           | 7.4               | 9.4        | 9.3              |

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

## Exhibit 1: SOTP valuation

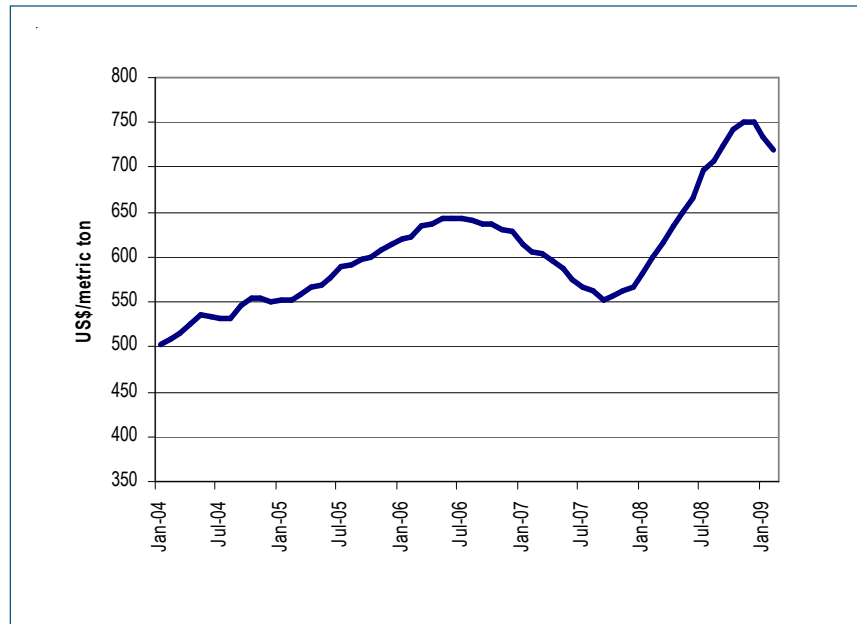
|                              | S\$<br>million   | Percent<br>stake | S\$ value<br>per share | Comments  |
|------------------------------|------------------|------------------|------------------------|---|
| <b>Core Print Operations</b> | \$2,592.7        | 100.0%           | \$1.62                 | 12x FY09F EBIT. Premium to peer due to stronger margins |
| <b>Non-core assets</b>       |                  |                  |                        |   |
| Paragon Building             | \$1,260.0        | 100.0%           | \$0.79                 | Net of debt, Valuation at S\$1.8bn                      |
| Sky@Eleven Condo             | \$439.8          | 100.0%           | \$0.27                 | See below for valuation                                 |
| MobileOne                    | \$264.1          | 13.92%           | \$0.16                 | Value based on OIR's target price for M1                |
| <b>Total</b>                 | <b>\$4,556.6</b> |                  | <b>\$2.84</b>          |   |

Source: OIR estimates

| Times Industrial-Condo project (S\$m)         |     |    |              |
|---|-----|----|--------------|
| Book value of Times Building land:            |     | \$ | 11           |
| Knight Frank valuation on 28 Jun 07 at:       |     | \$ | 280          |
| Cap gains:                                    |     | \$ | 269 TAX FREE |
| Pretax profit:                                |     | \$ | 477          |
| Taxable profit:                               |     | \$ | 208 TAXABLE  |
| Tax payable:                                  | 18% | \$ | 37           |
| Total profit after tax from condo development |     | \$ | 440          |

**Newsprint costs.** For the first time, SPH provided the investing community the pricing peg for its newsprint costs when it reported its FY08 results. While there were no updates for the most recent 1Q09 results, our research found price indices that roughly mirrored SPH's newsprint costs (exhibit 2 & 3). The fall in newsprint costs was primarily due to a reduction in demand after the US presidential elections. However, even though Jan 09 finally saw prices start to fall, we expect SPH to reap the falling price only in mid 2009 as it purchases its newsprint paper on a 5-6 months forward basis.

Exhibit 2: US newsprint costs (pegged to US)



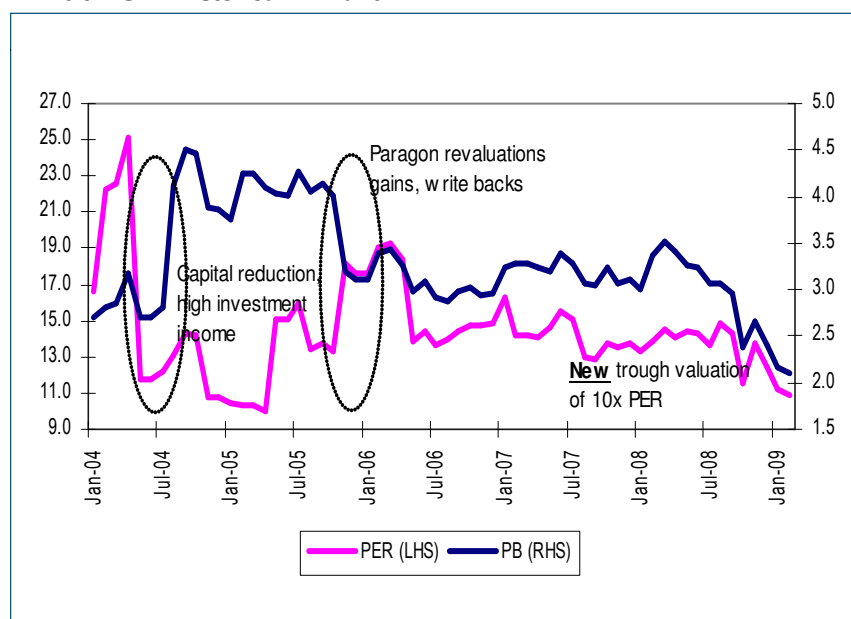
Source: Bloomberg

Exhibit 3: SPH newsprint price (pegged to Hong Kong)



Source: Company, RISI

Exhibit 4: SPH Historical PER and PB



Source: Bloomberg

## SPH's Key Financial Data

### EARNINGS FORECAST

Year Ended 31 Aug (S\$ m)

|  | FY07      | FY08      | FY09F        | FY10F        |
|--|-----------|-----------|--------------|--------------|
| Revenue (incl sky@eleven)                    | 1,172.4   | 1,316.2   | 1,321.5      | 1,201.0      |
| Operating expenses                           | -738.3    | -814.5    | -847.1       | -769.2       |
| Operating profit                             | 434.2     | 501.7     | 474.4        | 431.8        |
| Associates                                   | 3.0       | -0.7      | -6.6         | 2.4          |
| Investment income                            | 146.2     | 47.7      | -28.8        | 30.1         |
| Exceptionals                                 | 0.0       | -26.7     | 0.0          | 0.0          |
| Pre-tax profit                               | 583.4     | 522.0     | 438.9        | 464.4        |
| Tax  | -77.6     | -86.1     | -72.9        | -69.7        |
| Minority interests                           | -0.9      | 1.5       | 1.5          | 0.0          |
| Net profit                                   | 504.8     | 437.4     | 367.6        | 394.7        |
| Earnings per share (S\$ cents)               | 31.6      | 27.3      | 22.9         | 24.6         |
| Fully diluted earnings per share (S\$ cents) | 31.6      | 27.3      | 22.9         | 24.6         |
| EPS growth                                   | 17.2%     | -13.5%    | -16.0%       | 7.4%         |
| Operating profit margin (%)                  | 37.0      | 38.1      | 35.9         | 36.0         |
| Net profit margin (%)                        | 43.1      | 33.2      | 27.8         | 32.9         |
| <b>Net revenue revision</b>                  | <b>NA</b> | <b>NA</b> | <b>-1.8%</b> | <b>-2.1%</b> |
| <b>Net operating profit revision</b>         | <b>NA</b> | <b>NA</b> | <b>7.0%</b>  | <b>3.6%</b>  |
| <b>Net profit revision</b>                   | <b>NA</b> | <b>NA</b> | <b>6.4%</b>  | <b>3.2%</b>  |
| <b>Segment revenues</b>                      |           |           |              |              |
| Newspaper and print                          | 959.4     | 1,014.3   | 965.0        | 983.0        |
| Sky@Eleven                                   | 71.3      | 138.7     | 190.6        | 44.0         |
| Paragon rentals                              | 106.5     | 116.6     | 115.3        | 118.9        |
| Others                                       | 35.2      | 46.6      | 50.5         | 55.0         |

**BALANCE SHEET**

| <b>As at 31 Aug (S\$ m)</b>   | <b>FY07</b> | <b>FY08</b> | <b>FY09F</b> | <b>FY10F</b> |
|-------------------------------|-------------|-------------|--------------|--------------|
| Cash and equivalents          | 122.2       | 211.0       | 302.8        | 329.4        |
| Other current assets          | 1,003.8     | 927.2       | 739.4        | 722.1        |
| Fixed assets                  | 488.9       | 490.3       | 481.6        | 473.7        |
| Other long term assets        | 1,523.5     | 1,522.1     | 1,581.1      | 1,581.1      |
| Total assets                  | 3,138.4     | 3,150.7     | 3,104.8      | 3,106.2      |
| Current liabilities less debt | 339.1       | 366.6       | 327.9        | 309.5        |
| ST and LT Debt                | 574.7       | 574.4       | 545.7        | 518.3        |
| Other long term liabilities   | 98.1        | 108.4       | 108.5        | 105.5        |
| Total liabilities             | 1,012.0     | 1,049.4     | 982.1        | 933.3        |
| Shareholders equity           | 2,126.4     | 2,101.3     | 2,122.7      | 2,172.9      |
| Minority interests            | 3.3         | 12.4        | 10.8         | 10.8         |
| Total equity and liabilities  | 3,138.4     | 3,150.7     | 3,104.8      | 3,106.2      |
| NTA per share (S\$ cents)     | 132.0       | 128.6       | 130.0        | 133.1        |

**CASH FLOW**

| <b>Year Ended 31 Aug (S\$ m)</b>             | <b>FY07</b> | <b>FY08</b> | <b>FY09F</b> | <b>FY10F</b> |
|--|-------------|-------------|--------------|--------------|
| Operating profit before working cap. changes | 512.1       | 588.0       | 547.7        | 503.8        |
| Working capital changes                      | 14.2        | -48.7       | -107.4       | -35.7        |
| Dividends paid                               | -383.2      | -432.7      | -344.6       | -344.6       |
| Interest, tax and others                     | -86.3       | -82.2       | -92.2        | -76.8        |
| Net cash from operations                     | 56.9        | 24.4        | 3.6          | 46.7         |
| Capex  | -59.9       | -55.9       | -40.0        | -40.0        |
| Other investing flows                        | 76.1        | 120.8       | 181.6        | 71.2         |
| Investing cash flow                          | 16.2        | 64.9        | 141.6        | 31.2         |
| Change in equity                             | 28.4        | 19.0        | 0.0          | 0.0          |
| Net change in debt                           | -40.4       | -0.3        | -28.8        | -27.3        |
| Financing cash flow                          | -32.3       | -0.4        | -53.4        | -51.3        |
| Net cash flow                                | 40.8        | 88.9        | 91.8         | 26.6         |
| Cash at beginning of year                    | 81.4        | 122.2       | 211.0        | 302.8        |
| Cash at end of year                          | 122.2       | 211.0       | 302.8        | 329.4        |

**Key Ratios**

|                    |      |      |      |      |
|--------------------|------|------|------|------|
| PER (x)            | 7.4  | 8.5  | 10.1 | 9.4  |
| Price/NTA (x)      | 1.8  | 1.8  | 1.8  | 1.7  |
| EV/EBITDA (x)      | 5.7  | 5.9  | 7.3  | 6.9  |
| Dividend yield (%) | 11.2 | 11.6 | 9.3  | 9.3  |
| ROA (%)            | 16.1 | 13.9 | 11.8 | 12.7 |
| ROE (%)            | 23.7 | 20.8 | 17.3 | 18.2 |
| Net gearing (%)    | 21.3 | 17.3 | 11.4 | 8.7  |
| PE to growth (x)   | NA   | NA   | NA   | 1.3  |

*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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