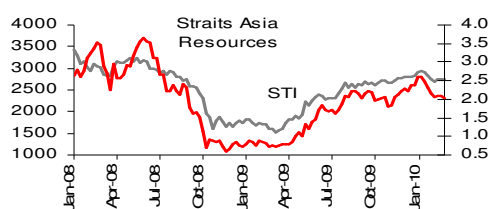


5 March 2010

Maintain

SELL

Previous Rating: SELL

Current Price: S\$1.97
Fair Value: S\$1.76


Reuters Code	STRLSI
ISIN Code	AJ1
Bloomberg Code	SAR SP
Issued Capital (m)	1,129
Mkt Cap (S\$m/US\$m)	2,224 / 1,713
Major Shareholders	
PTT Asia Pacific Mining	45.60%
Free Float (%)	47.2%
Daily Vol 3-mth ('000)	12,767
52 Wk Range	0.760 - 2.740

(US\$ m)	FY08	FY09	FY10F	FY11F
Revenue	585.2	748.4	703.9	953.6
Gross Profit	227.5	300.3	228.9	335.5
EPS (cts)	11.4	12.0	9.5	14.8
PER (x)	12.0	11.3	14.3	9.2
P/NAV (x)	3.9	3.2	3.0	2.6

Lee Wen Ching
 (65) 6531 9806
 e-mail: wenching@ocbc-research.com

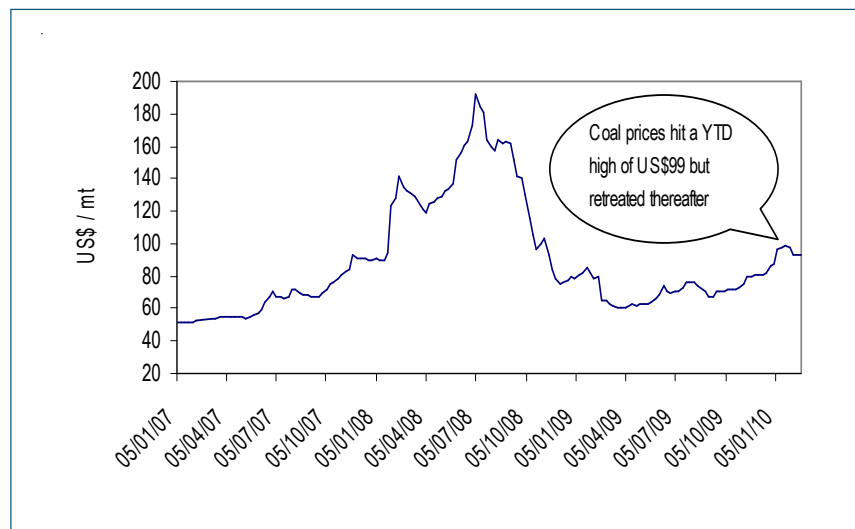
Straits Asia Resources

Conference call with new CEO

Introduces new CEO. Straits Asia Resources Ltd (SAR) hosted a conference call last evening to discuss its FY09 results (released on 24 Feb 10), during which the group's new CEO Mr Martin Purvis was introduced to the financial community. Mr Purvis, who succeeded Mr Richard Ong with effect from 1 March 2010, has been a director of SAR since its IPO in Nov 06 and is also the CEO of SAR's parent company PTT Asia Pacific Mining. Mr Purvis has had over 25 years of experience in the resource industry and has been working with Mr Ong in pioneering SAR's growth. During the call, SAR highlighted that its growth strategy remains unchanged despite the change of management, and allayed concerns over management continuity by stressing its experienced team which continues to run day-to-day operations.

Shift towards floating-rate contracts increases earnings volatility. As a recap, SAR posted a 7.3% growth in FY09 earnings to US\$133.5m on higher coal prices and production volumes. Average selling price (ASP) rose to US\$82.14/ton from US\$71.00/ton a year ago while the group increased its sales to 9.21m tonnes from 8.59m tonnes. Moving into FY10, management guided for weaker ASP in the range of "high US\$60s to mid US\$70s" amid the current environment of lower energy prices. We expect higher production volumes to partially offset the impact of lower selling prices on the group's revenue. 70% of its FY10 output has been committed to date, but the pricing of these contracts is mostly index-linked. The group's shift to floating-rate contracts from fixed-rate contracts exposes its earnings to price risk.

Operational updates. Production at the re-zoned Sebuk area looks likely to fall behind schedule. Having obtained the permission to extend its mining boundary in Aug 09, the group now faces another roadblock from the Indonesian government in the form of land use approvals. SAR hopes to obtain clearance and commence work on the re-zoned area by the middle of 2010, but a potentially lengthy approval process could impede its plans. Over at Jembayan, SAR is working on a replacement for the second loading facility that failed in Oct 09. It has budgeted US\$20-25m for the replacement facility and targets to provide more updates on this front in 2Q10. We have fine-tuned our estimates to incorporate management's latest guidance, leading us to lift our fair value estimate to S\$1.76 (from S\$1.73). We maintain our **SELL** rating on SAR.

Exhibit 1: Newcastle Coal spot price

Source: Bloomberg

Straits Asia Resources' Key Financial Data**EARNINGS FORECAST**

Year Ended 31 Dec (US\$m)	FY08	FY09	FY10F	FY11F
Revenue	585.2	748.4	703.9	953.6
Cost of sales	-357.7	-448.0	-475.0	-618.1
Gross profit	227.5	300.3	228.9	335.5
Other income	6.3	-1.0	3.7	3.7
Operating expenses	-37.8	-57.5	-54.2	-66.7
EBIT	196.0	241.8	178.4	272.4
Finance cost	-14.8	-22.9	-11.5	-11.4
PBT	181.2	218.9	166.9	261.0
Income tax	-56.8	-85.4	-60.1	-94.0
Net profit	124.4	133.5	106.8	167.0

BALANCE SHEET

As at 31 Dec (US\$m)	FY08	FY09	FY10F	FY11F
Cash and cash equivalents	170.6	31.8	46.7	49.2
Other current assets	72.3	139.5	150.5	200.4
Property, plant, equipment	110.1	121.8	246.1	275.0
Total assets	874.0	986.5	1,112.4	1,194.0
Debt	287.5	262.5	342.5	341.9
Current liabilities excluding debt	141.2	155.7	145.8	190.5
Total liabilities	498.2	514.4	597.6	612.3
Shareholders equity	375.7	472.1	514.9	581.7
Total equity	375.7	472.1	514.9	581.7
Total equity and liabilities	874.0	986.5	1,112.4	1,194.0

CASH FLOW

Year Ended 31 Dec (US\$m)	FY08	FY09	FY10F	FY11F
Op profit before working cap.	180.1	131.1	167.1	204.9
Working cap, taxes and interest	11.4	49.7	-3.1	-1.5
Net cash from operations	191.5	180.7	164.0	203.4
Purchase of PP&E	-72.6	-82.3	-190.0	-100.0
Investing cash flow	-65.1	-154.4	-190.0	-100.0
Financing cash flow	15.0	-165.1	40.9	-100.9
Net cash flow	141.4	-138.8	14.9	2.5
Cash at beginning of year	29.1	170.6	31.8	46.7
Cash at end of year	170.6	31.8	46.7	49.2
Cash and cash equivalents	170.6	31.8	46.7	49.2

KEY RATES & RATIOS

	FY08	FY09	FY10F	FY11F
EPS (US cents)	11.4	12.0	9.5	14.8
NAV per share (US cents)	34.4	41.8	45.6	51.5
PBT margin (%)	31.0%	29.3%	23.7%	27.4%
Net profit margin (%)	21.3%	17.8%	15.2%	17.5%
PER (x)	12.0	11.3	14.3	9.2
Price/NAV (x)	3.9	3.2	3.0	2.6
Dividend yield (%)	5.0%	5.2%	4.2%	6.5%
ROE (%)	33.1%	28.3%	20.8%	28.7%
Net gearing (%)	31.1%	48.9%	57.5%	50.3%
Interest cover (x)	13.3	10.5	15.6	23.8

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

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

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- 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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