

6 March 2009

Strategy

Sees 17% decline in 2009 earnings

2009 EPS decline of 17%. Following the end of the FY08 result season, we have cut the earnings for the companies under our coverage. We are now going for a 17% decline in 2009 earnings per share (EPS) for the stocks under our coverage with a more modest decline of 2% in 2010. This is down from a decline of 10% just a month ago for FY09 earnings. Overall, this means that we have grown significantly more negative after the recent FY08 result season.

Dire circumstances. Generally, the guidance and forward statements from most corporates, big or small, were not positive and the operating picture looks even more pessimistic now than before. In addition to slower topline growth, bottomline profits are going to be hit by higher expenses and higher provisions, among other deteriorating factors. Senior government officials have also indicated that Singapore's growth could contract by as much as 10% in 2009 and all these do not augur well for the Singapore market.

STI down 60% from recent 2007 high. We find it hard to see a clear bottom at this juncture as key global newsflow remains bleak, especially with recent high unemployment data (latest data from the US of unemployment rate of 7.6%). The STI is down 14% YTD, and down 5% alone this week. The equity market is likely to stay volatile and unpredictable for the near term due to dismal newsflow. Against this, we are falling back on historical trends to provide some indications. Based on the last two recent downtrends, the STI stocks fell an average of 55% (from 1999/2000 peaks to 2002/03 lows) and 75% from 1993/94 peaks to 1997/98 lows (see Exhibit 1). Currently, the STI stocks are down an average of 65% from 2007/08 peaks to current lows. Will it head lower?

Weakness ahead. Further downside cannot be discounted. On the technical side, we also see more weakness ahead. First support is seen at 1474 and next support is at 1216. Earnings will remain weak for this quarter and the next and may result in more earnings downgrades and be a drag on sentiment. However, equities have historically proven to be good longer term investment and at weaker price levels in the coming days, it may be a good time to look at some core blue chips. We continue to like the telco stocks and selective blue chips including SembCorp Marine and Ezra.

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Exhibit 1: STI: Peak to trough decline - Previous economic crisis vs current crisis (5 Mar 09)

STI Components	07/08 High	Last Done	Percent Decline	93/94 High	97/98 Low	Percent Decline	99/00 High	02/03 Low	Percent Decline
	Price (\$)	Price (\$)		Price (\$)	Price (\$)		Price (\$)	Price (\$)	
CapitaLand Ltd	7.13	1.89	73%	3.70	0.66	82%	2.69	0.68	75%
CapitaMall Trust	3.53	1.07	70%	N/A	N/A	N/A	N/A	0.96	N/A
City Developments Ltd	19.63	4.27	78%	8.25	2.26	73%	11.89	2.81	76%
Cosco Corp Singapore Ltd	8.12	0.73	91%	0.24	0.03	88%	0.14	0.06	56%
DBS Group Holdings Ltd	21.55	7.04	67%	8.89	2.88	68%	24.60	7.06	71%
Fraser and Neave Ltd	6.40	2.01	69%	3.24	0.50	85%	1.66	1.42	14%
Genting International PLC	1.06	0.42	60%	0.38	0.07	82%	0.91	0.13	86%
Golden Agri-Resources Ltd	1.23	0.29	77%	N/A	N/A	N/A	0.30	0.02	93%
Hongkong Land Holdings Ltd (US\$)	5.25	1.84	65%	4.18	0.70	83%	2.78	1.08	61%
Jardine Cycle & Carriage Ltd	22.60	8.77	61%	11.50	1.47	87%	9.04	2.42	73%
Jardine Matheson Holdings Ltd (US\$)	35.80	16.80	53%	10.93	1.50	86%	6.80	5.30	22%
Jardine Strategic Holdings Ltd (US\$)	19.20	8.90	54%	4.94	1.00	80%	3.34	2.16	35%
Keppel Corp Ltd	14.66	4.17	72%	4.01	0.49	88%	2.34	1.54	34%
Keppel Land Ltd	9.70	1.21	88%	5.25	0.43	92%	3.28	0.87	73%
Neptune Orient Lines Ltd	6.40	1.03	84%	2.20	0.19	92%	1.90	0.40	79%
Noble Group Ltd	2.70	1.02	62%	N/A	0.01	N/A	0.18	0.11	40%
Olam International Ltd	4.00	1.16	71%	N/A	N/A	N/A	N/A	N/A	N/A
Oversea-Chinese Banking Corp Ltd	9.80	4.12	58%	4.07	1.08	74%	5.69	2.97	48%
SembCorp Industries Ltd	6.90	2.03	71%	N/A	0.98	N/A	2.57	0.64	75%
SembCorp Marine Ltd	5.70	1.37	76%	0.89	0.29	68%	0.52	0.50	4%
SIA Engineering Co Ltd	4.98	1.70	66%	N/A	N/A	N/A	2.15	1.12	48%
Singapore Airlines Ltd	20.20	9.86	51%	8.31	4.46	46%	19.41	8.04	59%
Singapore Exchange Ltd	17.20	4.29	75%	N/A	N/A	N/A	1.15	0.86	25%
Singapore Press Holdings Ltd	4.58	2.47	46%	2.41	1.83	24%	6.24	2.76	56%
Singapore Technologies Engineering Ltd	3.89	2.28	41%	N/A	0.74	N/A	2.17	1.20	45%
Singapore Telecommunications Ltd	4.22	2.54	40%	4.53	1.80	60%	3.38	1.14	66%
StarHub Ltd	3.25	2.01	38%	N/A	N/A	N/A	N/A	N/A	N/A
United Overseas Bank Ltd	24.05	9.09	62%	8.58	2.59	70%	14.31	8.92	38%
Wilmar International Ltd	5.72	2.94	49%	N/A	N/A	N/A	5.00	0.50	90%
Yanlord Land Group Ltd	4.40	0.77	83%	N/A	N/A	N/A	N/A	N/A	N/A
	Average Decline:		65%	Average Decline:		75%	Average Decline:		55%

Source: Bloomberg

Exhibit 2: US Unemployment Rate (%)



Source: Bloomberg

Exhibit 3: Loss in Market Capitalisation of Key US Financial Institutions

As of 5 Mar 09	Last Done (US\$m)	Recent 2007 High (\$)	High Date	Current Mkt Cap (US\$m)	Loss in Market Cap (US\$m)
Citigroup	1.02	56.28	03-Jan-07	5,586	-302,616
Bank of America	3.17	54.21	15-Feb-07	20,292	-326,727
Goldman Sachs	81.72	250.7	31-Oct-07	37,737	-78,032
JP Morgan	16.6	53.25	09-May-07	112,182	-247,678
Total				175,797	-955,053

Source: Bloomberg

Exhibit 4: Performance of STI and DJIA

Indices	Last Done	Recent 2007 High	High Date	Decline from 2007 high	YTD decline
Straits Times Index	1,518.64	3,831.19	11-Oct-07	-60.4%	-13.8%
Dow Jones Ind Ave	6,594.44	14,198.10	11-Oct-07	-53.6%	-24.9%

Source: Bloomberg

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