

MITA No. 014/06/2008

3 March 2009

Market Pulse

Key Singapore Indices			
	Close	Chg	% Chg
STI	1594.9	-22.6	-1.4
Catalist	68.2	1.1	1.6
Finance	372.3	-6.4	-1.7
Property	313.2	0.7	0.2
Electronics	349.7	-2.6	-0.7
Vol (m)	1227.3	332.4	37.1
Val (S\$m)	1392.3	672.8	93.5

World Indices			
	Close	Chg	% Chg
Dow Jones	7062.9	-119.2	-1.7
Nasdaq	1377.8	-13.6	-1.0
S&P500	735.1	-17.7	-2.4
FTSE	3830.1	-85.6	-2.2
KLCI	890.7	-2.8	-0.3
Hang Seng	12811.6	-83.4	-0.6
Nikkei	7568.4	110.5	1.5
SET	431.5	-0.4	-1.0
KOSPI	1063.0	8.2	0.8
TWSE	4557.2	38.6	0.9

Market Statistics (SG)			
STI 52-week range	1,474	3,270	
No. of gainers		184	
No. of losers		229	
No. of unchanged		192	

Economic Statistics		
	Close	Chg
S\$/US\$	1.5	0.0
Yen/US\$	97.7	0.1
3-mth S\$ SIBOR	0.7	0.0
3-mth US\$ SIBOR	1.3	0.0
Crude futures (US\$)	44.8	-0.5

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Key Idea

UOB: Protracted slowdown, cut in earnings

UOB posted below-expectation 4Q net earnings of S\$332m (down 30% QoQ and down 34% YoY), giving full year earnings of S\$1937m, down 8%. The variance between our and actual earnings was largely due to higher-than-expected impairment charges, which rocketed to S\$381m, more than doubled 3Q08's level of S\$158m. Management has declared a final dividend of 40 S cents, bringing full year dividend to 60 S cents. Management reaffirmed its market leadership in SME financing, especially in view of the recent Singapore's government moves to help SMEs under the risk-sharing schemes. In view of the protracted and still uncertain economic outlook, we have cut our FY09 earnings forecast to a 13% YoY decline to S\$1683m, taking into account lower capital market activities, lower fee income as well as still-high impairment charges. In terms of valuation, we have looked at several estimators (1x book, 9x earnings, >6% yield and DDM) to derive at an average price of S\$9.30. We maintain our **HOLD** rating of this stock and will look to be buyers at S\$9.30 or lower.

More reports:

- **Golden Agri-Resources Ltd: Prudent strategy for 2009**
- **Hotel Grand Central: Forex hit bottomline**
- **Cacola Furniture International Ltd: Poor 4Q08; bleak outlook**
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- **Li Heng Chemical Fibre: Incurs 4Q08 loss as guided**
- **Foreland Fabrictech: Big dividend disappointment**
- **Sino-Environment: Incurs 4Q08 MTM loss as expected**

News Headlines

- United Engineers saw net profit plunged to S\$6m in FY08 from S\$173m in FY07 although revenue rose 16% to S\$625m.
- Pacific Healthcare turned in a net loss of S\$11.8m for FY08 largely due to a S\$13.3m writedown on its investment in the Singapore Heart Stroke and Cancer Centre. Revenue rose 8.1% to S\$81.2m for FY08.
- M1 announced that Mr. Lim Chee Onn will step down as chairman and resign as director from 1 Mar 09. Mr. Teo Soon Hoe will be appointed chairman on the same day.
- Telechoice International saw 4Q08 net profit fell 27.9% YoY to S\$3.6m while revenue fell 37.3% YoY to S\$78.8m.
- Samudera Shipping Line reported a 29.1% rise in net profit to US\$26.8m while revenue increased 17.5% to US\$443.3m as container volume and freight rates rose at its container shipping business.
- DMX Technologies saw net profit dropped by a third to US\$6.4m although revenue rose 6.9% to US\$172.7m, partly due to higher amortization expenses, forex losses, higher allowances for trade and receivables and an investment impairment loss.

Source: MasNet, Bloomberg, Business Times, Straits Times and others

UOB: Protracted slowdown, cut in earnings

4Q below market expectation. UOB posted 4Q net earnings of S\$332m (down 30% QoQ and down 34% YoY) which were below market estimate of S\$428m (from Bloomberg) and our estimate of S\$405m. FY08 earnings came in at S\$1937m, down 8%, and also below market estimate of S\$2033m. For FY08, UOB topped the three banks with net earnings of S\$1937m, followed by DBS at S\$1929m and OCBC at S\$1749m.

In terms of Net Interest Margin (NIM), UOB saw an improvement from 1.94% in 4Q07 to 2.21% in 3Q08 to 2.45% in 4Q08. Net interest income grew 29% YoY and 7% QoQ to S\$957m in 4Q08. Non-interest income fell 26% YoY, or +22% QoQ, to S\$391m. Total income amounted to S\$1348m in 4Q08.

Variance was due to impairment charges. The variance between our projection and the actual earnings was largely due to higher-than-expected impairment charges, which rocketed to S\$381m, more than doubled 3Q08's level of S\$158m, and also the highest of the three banks with DBS at S\$316m and OCBC at S\$243m. Management said this was due to a few chunky accounts, mainly in general commerce, financial institutions and manufacturing. Management has declared a final dividend of 40 S cents, bringing full year dividend to 60 S cents.

Back to basic. Management reaffirmed its market leadership in SME financing, especially in view of the recent Singapore's government moves to help SMEs under the risk-sharing schemes. Customer loans accounted for 55% of assets, of which 44% are corporates, 36% consumers and the balance is to SMEs. It mentioned that it has minimal exposure to small developers and that the average loan-to-value (LTV) is less than 60%. Investment portfolio accounted for another 14% of assets and is mainly in government securities and investment grade bonds. It is focusing on back to "basics" banking.

Tough conditions, cutting estimates. In view of the protracted and still uncertain economic outlook, we have cut our FY09 earnings forecast to a 13% YoY decline to S\$1683m, taking into account lower capital market activities, lower fee income as well as still-high impairment charges. In terms of valuation, we have looked at several estimators (1x book, 9x earnings, >6% yield and DDM) to derive at an average price of S\$9.30. We maintain our **HOLD** rating of this stock and will look to be buyers at S\$9.30 or lower. (*Carmen Lee*)

Golden Agri-Resources Ltd: Prudent strategy for 2009

FY08 results slightly disappointing. Golden Agri-Resources (GAR) saw its FY08 revenue rise 59.4% to US\$2985.9m (8.6% > our estimate), and while core net profit (excluding bio-asset fair value gains) rose 32.0% to US\$376.8m (11% < our full-year figure). GAR did not declare a final dividend (versus 0.5 S cent in 2007) in an effort to conserve cash in these uncertain times. Instead, it plans to reward shareholders with a bonus issue (1 bonus share for every 25 shares held), and it will capitalise US\$10.0m to its share premium account. According to management, the bonus issue works out to an equivalent cash dividend of 1.0 S cents/share, assuming investors can sell the bonus shares at S\$0.25 each.

Prudence rules in 2009. Going forward, GAR expects the operating environment to remain challenging in 2009, given the still uncertain economic outlook and volatile commodity prices. And on its part, GAR will strive to manage its costs as well as focus its growth on the sale of various palm-based products to selected key regions in China. Other prudent measures include maintaining a strong balance sheet (net gearing just 0.09x) and careful spending. For 2009, GAR expects to cap its capex to US\$200m (versus US\$244m in 2008), where it will cautiously expand its oil palm plantations (includes building new mills) and add to its downstream processing/refining capacity to support its plantation operations.

Worst may be over. Meanwhile, we believe that the worst may be over. For one, GAR should benefit from the easing fertiliser prices, although we expect the bulk of the impact to come in 2Q09. Secondly, management believes that its CPO production should increase by around 7-10%, aided by its recent new planting as well as easing tree stress (typically lasts about two years). We have correspondingly raised our FY09 revenue estimate by 4.3%. Although CPO prices have been pretty stable around the current levels for some time now and CPO demand has remained fairly stable, we note that the biggest price influence is actually weather and its impact on all the edible oil crops - is probably the hardest to predict.

Maintain HOLD. So barring a strong recovery in crude oil prices and the global economy, we see no pressing need to raise our conservative US\$500/ton CPO assumption yet. Hence we maintain our **HOLD** rating and S\$0.30 fair value (based on an undemanding 6x FY09 PER). We would turn buyers closer to S\$0.20. *(Carey Wong)*

Hotel Grand Central: Forex hit bottomline

Forex ate into bottomline. Hotel Grand Central (GRAN) posted a 74% decline in FY08 earnings to S\$14.6m. This was mainly due to losses in 4Q08 of S\$2.4m (versus a profit of S\$12.4m in 4Q07). The culprit was the ballooning in foreign exchange losses which swelled to S\$16.9m in FY08 (or S\$8.2m in 4Q08). We were earlier going for total foreign exchange losses of S\$11.1m and the difference of S\$5.8m was mainly the reason behind the differential between our forecast and the actual profits. The unrealised foreign exchange loss was mainly due to the translation of fixed deposits denominated in AUD, NZD and MYR versus the SGD.

On the operational side, the decline in revenue, down 21% YoY to S\$126m in FY08, was due to lower sales, fewer hotels in 2008 and the weakening of the NZD (down an average of 11%) and the AUD (down an average of 5%) versus the SGD. Last year's revenue included a gain on the sale of a hotel in Perth for S\$21.9m. Fortunately, its overall results was partially mitigated by better performance from its flagship Singapore hotel, which enjoyed higher room rates in 1H2008.

Hurt by economic slowdown. With the deteriorating economic outlook, and with the Singapore economy slipping into recession this year, its Singapore operations will offer no comfort to support the already weaker operations in Australia, New Zealand and Malaysia. Most hotels are seeing sharply lower occupancy and room rates and GRAN is no exception. Already, the latest numbers from the Singapore Tourism Board (STB) are bleak and showed a 12.9% YoY decline in visitor arrivals in Jan 2009. In addition, the average room rate (ARR) fell 11.7% YoY to S\$209, while average occupancy rate (AOR) reached only 67% in Jan 2009, a decline of 17.7 ppt from Jan 2008. Revenue per available room (Revpar) plunged 30.2% to \$140 in Jan 2009.

Maintain HOLD, but no price drivers. The outlook is not pleasant, and the tourism dependent industry is equally vulnerable. We expect the outlook for the rest of the year to remain difficult. We are retaining our **HOLD** rating and fair value estimate of S\$0.48 based on 0.4x book. We see no major price drivers for the near future, but a good dividend yield of 7% (at current price) should provide some share price support. *(Carmen Lee)*

(OCBC Investment Research Pte Ltd (OIR) produced this report under the SGX Research Incentive Scheme. OIR is compensated S\$7,500 per annum for each company covered under the scheme.)

Cacola Furniture International Ltd: Poor 4Q08; bleak outlook

Weak 4Q08, no dividends. Cacola Furniture International Ltd (Cacola) turned in a dismal set of 4Q08 results with a net loss of RMB11.4m vs. a profit of RMB28.5m a year ago. Revenue declined 12.5% YoY and 18.0% QoQ to RMB129.9m as weak consumer discretionary spending continued to take a toll on the group's sales. The group reported a 14.8% slump in full year earnings to RMB105.0m despite a 16.4% gain in sales to RMB656.9m. The results were way below expectations. A further negative surprise came from the lack of dividends, which we had anticipated given the group's net cash position.

Hit by bad debt. 4Q08 earnings were tainted by a RMB36.2m bad debt provision, excluding which the group would have managed to remain in the black with a RMB24.9m net profit (-12.8% YoY). We suspect that the bad debts arose from defaults among the specialty stores that folded in 4Q08. According to management, fierce competition and weak demand resulted in 22 store closures during the quarter. More shops are expected to fold in 1H09. Cacola has RMB66.6m worth of trade receivables outstanding on its balance sheet, and we think that part of this could come under risk of further defaults as the credit crunch paralyses its distributors.

Margins could come under pressure. Cacola managed to keep its gross profit margin intact in 4Q08 thanks to the stability of raw material costs. Gross profit margin inched up by 0.4ppt YoY and 3.3ppt QoQ to 34.8%. Nevertheless, margins could come under pressure in FY09 as fierce competition, oversupply and weak demand weighs on selling prices. Further margin compression could arise from rapidly ballooning selling expenses, which soared by 80.7% in FY08 as the group embarked on aggressive advertising and promotional activities.

No catalysts in sight. We note that Cacola trades below its S\$0.10/share cash value. However, the group's cash position could continue to deteriorate in FY09 given its weak operating cash flows and continued investing outflows. As such, cash levels may not offer much support to share price. The global recession, weak property markets and subdued consumer discretionary spending are likely to weigh on China's furniture industry. Given the bleak outlook, we do not identify any near term price drivers ahead and are suspending our coverage on the stock. *(Lee Wen Ching)*

Singapore Property: Downwards revision in DC charges

Last Friday, the Ministry of National Development announced changes to the development charges (DC) after carrying out its half-yearly review. On average, the DC rates declined by 4% for commercial use, 15% for non-landed residential, use 10% for hotel/hospital use and 10% for business zone commercial use. For the remaining 6 use groups that include landed residential and industrial uses, there is no change in their DC rates. In the non-landed residential segment, the decline in DC rates was the most significant in the high end segments (District 9, 10 and Sentosa), where the DC rates have been cut by as much as 30%. Despite the sharp revision, we believe that the impact on the property market will be muted as developers are unlikely to acquire now in light of the weak sentiment in the high end property segment and tight credit market. We maintain **NEUTRAL** on the property sector. *(Foo Sze Ming)*

WesTech Electronics: Huge FY08 losses due to provisions of doubtful debts

WesTech Electronics (WTE) reported its FY08 results over the weekend, with revenue from continuing operations declining 6.4% to S\$123.5m due to the downturn in the semiconductor and electronics industry. On a segmental basis, sales from its Components segment remained relatively flat at S\$104m (84% of turnover), while sales from its Systems segment fell 26.5% to S\$19.5m (16% of turnover). Despite recording a profit of S\$3.7m from continuing operations (-23.5%), WTE suffered hefty provisions for doubtful debts of S\$65.1m from its discontinued operations, due to default by major customers in the Display segment. Consequently, FY08 earnings came in at a net loss of S\$63.6m, as compared to S\$7.5m profit in FY07. This dragged the group into a negative equity position of S\$18.1m. WTE had since made an insurance claim of around US\$13.5m on the default and is currently still in the process of liaising with the insurer. In addition, it had entered into a standstill agreement with certain financial institutions on 19 Dec 2008, which will be in force for a period of six months. We will have more updates after speaking to management. Our rating and fair value on WTE is currently under review. *(Kevin Tan)*

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Swiber Holdings: Negative impact from late vessels delivery

Swiber Holdings (Swiber) reported a 182.4% rise in revenue to US\$428.4m but incurred a 20.6% fall in net profit to US\$39.5m for FY08. Though revenue was in line with our expectations, net profit was about 30% lower than ours and the street's expectations. This was due to a poor showing of results in 4Q08 as an unexpected delayed delivery of two vessels (a pipelay and dive-support work barge) meant that higher costs had to be incurred due to demobilizations and mobilizations of existing vessels for project work. A significant amount of work slotted for completion was also not completed. Higher subcontractor costs for a fabrication project in India also impacted the bottomline. Though we had noted in our earlier report that hiccups in project executions is a risk for the group given its tight schedule, it is still disappointing to see that contingency plans were unable to stem the higher costs. On a positive note, Swiber's outstanding order book as at 31 Dec 08 is strong at US\$596m and new construction projects amounting to about US\$70m were awarded in 1Q09. We are putting our **BUY** rating and fair value of S\$0.66 under review and will provide updates after an analysts' briefing this afternoon. (*Low Pei Han*)

Li Heng Chemical Fibre: Incurs 4Q08 loss as guided

As guided, Li Heng Chemical Fibre (LHCF) posted a 4Q08 loss of RMB8.7m (versus profit of RMB214.4m in 4Q07 and RMB258.7m in 3Q08), hit by the slowdown in demand for its nylon fibre (revenue +8.8% YoY but down 31.3% QoQ at RMB704.0m), as well as unrealised forex losses of RMB48.1m due to the translation of its SGD deposits into RMB. Excluding the forex impact, LHCF would have posted a net profit of RMB37.3m, which is still down 82.2% YoY and 85.6% QoQ. As mentioned in our earlier reports, the rapidly declining ASPs (Average Selling Price) were also responsible for the poor sales; ASP fell ~40% in 4Q08 and has severely impacted its gross margin, which eased from 34.0% in 4Q07 and 31.0% in 3Q08 to just 9.3% for the quarter. For the full year, revenue rose 34.2% to RMB3700.9m, or 7.1% above our estimate, while net profit dropped 10.0% to RMB814.5m, just 0.5% above our estimate. Meanwhile, LHCF has also proposed a final dividend of S\$0.01/share, bringing the full year payout to S\$0.04. We will be meeting with management later to get a clearer picture of its prospects this year, especially about its expansion plans. Until then, our **BUY** rating and DCF-based fair value of S\$0.44 is under review. (*Carey Wong*)

Foreland Fabrictech: Big dividend disappointment

Foreland Fabrictech posted its FY08 results on Friday, with revenue rising 9.7% to RMB460.7m, or about 9.6% above our forecast, while net profit climbed 5.9% to RMB106.9m, or 14.9% above our estimate. This was thanks to a stronger performance in 4Q08, where revenue rose 15.7% QoQ (+3.1% YoY) to RMB134.6m, and although net profit slipped 26.9% QoQ (-2.7% YoY) to RMB31.1m, it was still admirable amid the sluggish economic environment; gross margin also recovered from 36.6% in 3Q08 to 37.0% in 4Q08, thanks to the launch of new functional fabrics as well as higher-grade functional fabrics. Meanwhile, Foreland has declared a final dividend of RMB0.012/share (versus RMB0.069 in FY07), where shareholders have the option of receiving either in cash or ordinary shares in lieu of cash; this also amounts to just 5% of its FY08 net profit, versus the 20% recommended in its IPO prospectus, which management noted was merely a statement of its intention then and did not constitute a legally binding obligation. Foreland said this conservative approach was to reserve its financial resources (RMB213.2m of cash now) for its operating capital and create more long-term value for its shareholders. While we respect the more prudent measure, we suspect there will be some disappointment over its final dividend, which translates to just 2.3% yield. We will be speaking with management later and until then, we put our **BUY** rating and S\$0.20 fair value under review. *(Carey Wong)*

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Sino-Environment: Incurs 4Q08 MTM loss as expected

Sino-Environment Technology Group (SINE) reported its 4Q08 results on Friday, with revenue up 44.3% YoY (down 6.3% QoQ) at RMB201.6m. And as expected, SINE saw red with a net loss of RMB111.7m, after booking a marked-to-market (MTM) loss of RMB126.2m for its equity swap deal with Morgan Stanley. For the full year, revenue rose 67.3% to RMB775.8m, just 0.7% shy of our estimate, while net loss came in at RMB45.0m (versus RMB147.2m in FY07), which was much wider than our RMB10.3m loss estimate; again, the culprits were margin compression and convertible bond interest expense. Excluding exceptional items, SINE would have posted a net profit of RMB181.4m, or +30.5% higher than FY07, although still 24.3% below our forecast. Going forward, SINE maintains a fairly optimistic outlook, citing several factors: 1) order book in excess of RMB1b; 2) stricter PRC laws for environmental protection; and 3) the PRC government's RMB4t stimulus package with a large portion set aside for infrastructure projects. But its convertible bond and the equity swap are concerns that will continue to weigh on its share price. We will be speaking with management later to get more clarity on this issue. Until then, we put our **BUY** rating and S\$0.97 fair value under review. *(Carey Wong)*

Monday	Tuesday	Wednesday	Thursday	Friday
02-Mar	03-Mar	04-Mar	05-Mar	06-Mar
US Personal Spending US Feb ISM Manufacturing	SG Feb PMI/Electronics sector Index	SG Mar 4 COE US Feb ISM Non-Manf Composite	US Jan Factory Orders	US Feb Change in Nonfarm Payrolls US Feb Unemployment Rate
09-Mar	10-Mar	11-Mar	12-Mar	13-Mar
	SG 2Q Manpower Survey China 2Q Manpower Survey/China Feb PPI China Feb CPI US Jan Wholesale Inventories	China Feb Trade Balance	China Feb Retail Sales China Feb Ind Production US Feb Advance Retail Sales	SG Jan Retail Sales US Jan Trade Balance US Mar U. of Michigan Confidence
16-Mar	17-Mar	18-Mar	19-Mar	20-Mar
US Feb Industrial Production	SG Feb NODX US Feb PPI US Feb Housing Starts			
23-Mar	24-Mar	25-Mar	26-Mar	27-Mar
SG Feb CPI				
30-Mar	31-Mar	01-Apr	02-Apr	03-Apr
	SG Feb Money Supply SG Feb Bk Loans			

**Note: US Initial jobless claims released every Friday. MBA mortgage applications released every Wednesday*

All US Tech results dates have been adjusted to Singapore Date

Please refer to the individual company's full report for additional disclosures

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