

MITA No. 014/06/2008

3 March 2009

# Market Pulse

Key Singapore Indices			
	Close	Chg	% Chg
STI	1533.4	-61.5	-3.9
Catalist	66.8	-1.5	-2.2
Finance	350.0	-22.4	-6.0
Property	296.3	-16.9	-5.4
Electronics	334.9	-14.9	-4.2
Vol (m)	1147.9	-79.4	-6.5
Val (S\$m)	1057.4	-334.9	-24.1

World Indices			
	Close	Chg	% Chg
Dow Jones	6763.3	-299.6	-4.2
Nasdaq	1322.9	-55.0	-4.0
S&P500	700.8	-34.3	-4.7
FTSE	3625.8	-204.3	-5.3
KLCI	876.6	-14.1	-1.6
Hang Seng	12317.5	-494.1	-3.9
Nikkei	7280.2	-288.3	-3.8
SET	416.5	-15.0	-3.5
KOSPI	1018.8	-44.2	-4.2
TWSE	4425.8	-131.3	-2.9

Market Statistics (SG)		
STI 52-week range	1,474	3,270
No. of gainers		124
No. of losers		365
No. of unchanged		132

Economic Statistics		
	Close	Chg
S\$/US\$	1.6	0.0
Yen/US\$	97.1	-0.3
3-mth S\$ SIBOR	0.7	0.0
3-mth US\$ SIBOR	1.3	0.0
Crude futures (US\$)	40.2	-4.6

## Research Team

(65) 6531 9800

e-mail: info@ocbc-research.com

## Key Idea

### Li Heng Chemical Fibre: Incurs 4Q08 loss as guided

Although Li Heng Chemical Fibre (LHCF) has seen a modest recovery in margins and stronger orders in Jan and Feb, management believes it is still too early to call a bottom yet, given the still sluggish global economy. Instead, management intends to work with both suppliers and customers to ensure the longevity of the whole nylon value chain; this will be at the expense of margins in the near-term. Meanwhile, management is likely to go ahead with the expansion plan of its nylon production capacity (decision is expected by end 1Q09), although it does not rule out a slight delay. But funding is not expected to be an issue as it has already budgeted for it with its IPO proceeds. We are assuming that the expansion will go ahead in our earnings model. And in light of the slightly poorer near-term to medium-term business outlook, we cut our FY09 estimates by another 18-29%; this in turn lowers our DCF-based fair value from S\$0.44 to S\$0.31. Maintain **BUY** for its long-term potential; value is also emerging as it is trading at just 0.3x its FY08 NTA and at 21% discount to net cash/share.

### More reports:

- **Swiber Holdings: Late vessels delivery led to a loss in 4Q08**

## News Headlines

- Two of Singapore's three refineries (ExxonMobil and Singapore Refining Co) are shutting down for six to eight weeks of maintenance, cutting the island's 1.4m bpd refining capacity amid slow demand for oil products.
- The US-Singapore trade gap in goods last year widened to US\$12.9b compared to US\$7.9b in 2007 as the US widened its surplus with Singapore.
- Ocean International and Sunmoon Food Company warned that they might be placed on the SGX watch-list.
- Healthway Medical Corp has posted a 13.4% fall in 4Q08 earnings despite a 52.8% jump in revenue to S\$24.4m.
- Yongnam Holdings has been awarded its second contract, valued at around S\$53m, for the new Marina Coastal Expressway.
- F&N said it has appointed Chia Khong Shoong as the CFO of its property arm, Frasers Centrepoint Ltd.
- Novo Group reported that net profit for 3Q09 fell to US\$905k from US\$2.95m in 3Q08 as demand and prices of steel remained low.
- Lindeteves-Jacoberg reported net loss of S\$25.1m for FY08 compared with a net loss of S\$32.6m for FY07 although sales rose 7.9% to S\$321.18m.
- Darco Water Technologies reported a net loss of S\$4.1m despite a 10% rise in sales to S\$96m in FY08. The group was hit by higher cost of sales, and provision for impairment on trade receivables.

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

**Li Heng Chemical Fibre: Incurs 4Q08 loss as guided**

**1H09 outlook remains murky.** Although Li Heng Chemical Fibre (LHCF) has seen a modest recovery in margins and stronger orders in Jan and Feb, management believes it is still too early to call a bottom yet, given the still sluggish global economy. As a recap, its gross margin plunged from 34.0% in 4Q07 and 31.0% in 3Q08 to just 9.3% in 4Q08, hit by rapidly declining ASPs (Average Selling Prices); we understand that ASPs have fallen by as much as 40% in the quarter alone. While customers are still ordering, LHCF notes that they are doing so in smaller quantities albeit more frequently as the ASPs are still on a decline. To combat this, management has greatly reduced its own inventory to less than one month from the usual two months to minimize exposure to falling raw material prices. Management has also decided not to keep to a strict margin policy (usually 30%) but will continue to work with both its suppliers and customers to ensure the longevity of the whole value chain.

**Expansion is likely to go ahead.** Meanwhile, management is likely to go ahead with the expansion plan of its nylon production capacity (decision is expected by end 1Q09), although it does not rule out a slight delay. LHCF is already in the process of building its PA (polyamide) chip plant and that is expected to be completed by 3Q09. LHCF says it is building for the future as the new capacity will take as long as nine months to come, meaning it will come online in 2010, which is when the nylon industry is expected to recover. With the expansion, capex could hit RMB450m (already covered using its IPO proceeds); otherwise it would just need to spend RMB100m or so. We are assuming that the expansion will go ahead in our earnings model.

**Maintain BUY with lower S\$0.31 fair value.** No doubt that we can expect to see more near-term volatility, but we continue to believe in the long-term viability of LHCF's business, its market leadership position and sound financial position. Nevertheless, in light of the slightly poorer near-term to medium-term business outlook, we cut our FY09 estimates by another 18-29%; this in turn lowers our DCF-based fair value from S\$0.44 to S\$0.31. Maintain **BUY** for its long-term potential; value is also emerging as it is trading at just 0.3x its FY08 NTA and at 21% discount to net cash/share. *(Carey Wong)*

**Swiber Holdings: Late vessels delivery led to a loss in 4Q08**

**Earnings below expectations.** Swiber Holdings (Swiber) reported a 183.4% rise in revenue to US\$428.4m but 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 market's expectations. This was due to a poor showing of results in 4Q08 as the group experienced a gross loss of US\$12.3m compared to a profit of US\$14.6m in 4Q07.

**Unexpected delayed delivery of vessels the main reason.** There was an unexpected delay in the delivery of two vessels, Swiber Concorde (pipelay barge) and Swiber Supporter (dive-support work barge). Higher costs were incurred due to multiple mobilizations and de-mobilizations of vessels from project to project. We had noted in our earlier report that hiccups in project executions is a risk for the group given its tight schedule that allocates specific time slots at specific work sites for specific vessels but are still disappointed to see that the group's contingency plans were unable to stem the higher costs.

**FY09 earnings likely to be impacted too.** Cost of sales for 4Q08 was 148% YoY higher at US\$115.3m due to the absence of both vessels as well as higher subcontractor costs relating to a project involving fabrication of offshore structures for British Gas India. Since certain work could not be completed with the absence of both vessels, the delay in the group's overall schedule may impact future work and subsequently affect the bidding of new contracts.

**US\$70m contract wins, but execution risks remain.** Swiber announced that it was awarded US\$70m of new contracts in 1Q09, on top of its outstanding US\$596m order book as at 31 Dec 08. The group will be kept busy with its present contracts but the risk lies more in execution and operational hiccups. It is critical that Swiber takes timely delivery of its future vessels as it uses the proceeds from a sale and leaseback strategy for these vessels to pay down part of its debt.

**Downgrading to HOLD.** We are revising our FY09/10 estimates lower and as a result, our revenue and net profit estimates drop by 6.3% and 19.1% respectively. We are also concerned over the group's ability to control margins and are pegging the stock at 2x FY09F instead of the earlier 3x. We therefore lower our fair value estimate to S\$0.35 from S\$0.66 previously and downgrade the stock to a **HOLD**. We will re-look our valuation peg when Swiber demonstrates margin stability. (*Low Pei Han*)

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

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

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Carmen Lee  
Head of Research

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