MITA No. 014/06/2008

4 March 2009

Market Pulse

Key Singapore Indices	Close	Chg	% Chg
STI	1528.5	-4.9	-0.3
Catalist	67.0	0.2	0.3
Finance	347.3	-2.7	-0.8
Property	296.2	-0.1	0.0
Electronics	335.5	0.6	0.2
Vol (m)	1058.4	-89.5	-7.8
Val (S$m)	1118.7	61.4	5.8

World Indices	Close	Chg	% Chg
Dow Jones	6726.0	-37.3	-0.6
Nasdaq	1321.0	-1.8	-0.1
S&P500	696.3	-4.5	-0.6
FTSE	3512.1	-113.7	-3.1
KLCI	868.7	-7.8	-0.9
Hang Seng	12033.9	-283.6	-2.3
Nikkei	7229.7	-50.4	-0.7
SET	413.1	-3.4	-0.8
KOSPI	1025.6	6.8	0.7
TWSE	4435.3	9.5	0.2

Market Statistics (SG)		
STI 52-week range	1,474	3,270
No. of gainers		183
No. of losers		263
No. of unchanged		168

Economic Statistics	Close	Chg
S$/US$	1.6	0.0
Yen/US$	98.3	0.1
3-mth S$ SIBOR	0.7	0.0
3-mth US$ SIBOR	1.3	0.0
Crude futures (US$)	41.5	1.3

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Key Idea

Strategy: Realigning dividend expectations

With the bears out in full force, investors will be looking to flee to safe harbours of high yield stocks for their money. However, some of the "stalwarts of defence", ranging from media companies and healthcare, that were a refuge for yield seeking investors have also been hammered. Of the companies that OIR covers, 32 of 51 companies missed our FY08 dividend payout estimates. We believe it is better to stick with Singapore's blue chips as these have largely maintained the stance of paying dividends as long as cash flow is strong and if cash is not required for major acquisitions. Cyclical sectors such as Property, Commodities, Tech and Oil & Gas may face difficulties in maintaining payouts as cash flow will be affected if earnings fail to hold up to expectations. Zooming in on the quality of payouts, we prefer **Banks, Telcos** and **selected REITS** (CMT, MLT and SUN) as these are likely to maintain their payout ratios and yields (for REITS)

More reports:

- **DBS: Valuations close to trough levels**
- **Foreland Fabrictech: FY09 outlook still "okay"**
- **UOL Group Ltd: Failure to achieve majority control in UIC**

News Headlines

- The SGX has pushed for more disclosure on profit guarantees and the use of funds raised by listed companies in a set of new rules.
- First Ship Lease said all its eight lessees have been prompt in their lease payments and reaffirmed its 1Q09 DPU guidance of 2.45 US cents. The group said it is in full compliance with loan covenants and there is no current requirement for additional funding.
- Midas Holdings and Noble Group have obtained in-principle approval for the scrip dividend scheme, making them the first two companies to take advantage of the increased flexibility.
- Liang Huat Aluminium issued a correction to say that contrary to its “no dividend” statement last week, it will be paying out a final cash dividend of 0.03 S cents per share after all.
- A unit of China Paper Holdings plans to produce coated paper and intends to construct additional facilities and capital expenditure is expected to be about S$47m.
- Informatics Education and Ocean International Holdings have been placed on the SGX watch-list with effect from today.
- China XLX Fertiliser plans to add additional compound fertilizer capacity to its second plant. Capital expenditure is expected to be about S$11m.
- Omega Navigation reported a 8% increase in revenue to US$20.1m for FY08 and a net loss of US$4.4m compared to a net profit of US$3.9m in FY07.

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

Strategy: Realigning dividend expectations

Really defensive? The bears are out and will be trashing about for the foreseeable future. Inevitably, investors are fleeing to safe harbours for their money and high yield dividend stocks come to mind. Some of the "stalwarts of defence" that were a refuge for yield seeking investors have also been hammered. These range from media conglomerates commanding near monopolies to previously perceived recession "havens" such as the healthcare sector. Most companies have missed our and the street's dividend expectations this year. Of the companies that OIR covers, 32 of 51 companies missed our FY08 dividend payout estimates. While yields remain high in view of the carnage of the equity markets, the absolute dollar terms have largely been mitigated down as companies' earnings take flak from a crumbling worldwide economy.

But M&As might throw dividends off. While blue chips are historically more dependable in surviving a down economy, these companies are also the ones that have more financial muscle to pick up good companies that are trading at low valuations. Presently, this primarily points to companies that are over leveraged due to the frozen credit situation since Lehman's collapse. A once in a decade opportunity like this is hard to pass up and companies might choose to bite the bullet to lower dividends in favour of acquisitions. In such instances, investors must be prepared for lower payouts.

Lighter dividends for longevity. At current prices, the STI components are yielding 7.1%. Our forecasts indicate a similar tone of an average of 7%. OIR expects companies to hunker down and preserve cash as visibility on the credit thaw and the final verdict on global financial institutions have yet to crystallise. Scrip dividend programs will find resurgence as companies seek to preserve cash yet reward shareholders in a bear market.

Zooming in on "quality" dividends. We believe it is better to stick with Singapore's blue chips as these have largely maintained the stance of paying dividends as long as cash flow is strong and if cash is not required for major acquisitions. Cyclical sectors such as Property, Commodities, Tech and Oil & Gas may face difficulties in maintaining payouts as cash flow will be affected if its earnings fail to hold up to expectations. Zooming in on the quality of payouts, we prefer **Banks, Telcos** and **selected REITS** (CMT, MLT and SUN) as we believe these are likely to maintain their payout ratios and yields (for REITS).***(Research Team)***

DBS: Valuations close to trough levels

Weakness in banking stocks. Banking stocks have taken a severe beating this week. The market capitalisation of the three local banks fell 21%, where about S$11.2b was wiped off since the start of the year (or doubled the combined FY08 net profits of S$5.6b for the three local banks). As the unceasing spate of negative news continues to hit, the rapid deterioration in recent weeks, including dismal economic indicators and comments, are signals that provisions will go up. One key area of concern is the exposure to the SME segment, which could translate into more loan provisioning in the months ahead.

Higher impairment charges in 2009. DBS mentioned recently at the results briefing that it has about S$15b of SME loans in Hong Kong and about S$9b in Singapore. In terms of its loans breakdown, the manufacturing sector accounted for about 12% of total loan, and this could pose an issue in terms of loan defaults and bankruptcies. While some market watchers are expecting the NPL rate to go back to the Asian Financial Crisis high (which was around 8-9%, see Exhibit 1), we believe that it was due to the inclusion of DBS Thai Danu Bank (DTDB) then. DBS's NPLs stood at S$1958m as at end 2008 or a NPL ratio of 1.5%. If it were to reach 8%, this would mean an increase in NPLs of S$8.5b and we think this situation is unlikely although the market seems to have priced in a certain portion as DBS's market cap fell $2.7b YTD.

In 4Q08, the specific allowances for loans amounted to $224m or an annualised 70bp (more than double the 33bp for the full year). Taking into account DBS's core exposure to both the Singapore and Hong Kong markets, we have upped the provisions for FY09 and FY10, lowered other expenses, and fine-tuned some of the income estimates. We are now going for FY09 earnings of S$1328m, with a more than doubling in provisions to S$1386m (up from S$561m previously), as we expect another 2-3 quarters of high provisions to the same tune or higher than what was reported in 4Q08 of S$316m.

Upgrade to BUY. Since our last report, the stock has dropped 14% to S$7.24 (with yesterday's low at S$6.94). At current price level, we are raising our rating to a **BUY** with fair value estimate of S$8.20 (prev: $8.60) based on same 0.8x book. ***(Carmen Lee)***

Foreland Fabrictech: FY09 outlook still "okay"

Tougher outlook for 1Q09. Despite posting a better-than-expected 4Q08 results last week, Foreland Fabrictech is guiding for a more muted 1Q09 showing. The main reason is due to the still sluggish economic environment, which saw most of its suppliers and customers taking a longer CNY break of nearly one month (versus five days traditionally); Foreland had to also do the same as it did not make sense to keep its production running during the period. And while raw material prices eased slightly, it is unlikely to give much of a boost due to the lower production volumes. On the bright side, management revealed that it has been able to sustain its ASPs (Average Selling Prices) thus far.

Expansion on track but expects delay. Meanwhile, management revealed that its expansion plan is still on track for completion in 2H09 but the new factory will probably commence operations closer to the end of the year. This effectively means that no increase in its production capacity this year - we have already articulated in our earlier reports that the capacity increase of 40% is likely to be very measured in light of the uncertain economic environment to maximize utilization. Foreland expects to spend around RMB120m on its new factory this year, where the funding has already been secured and it should not face any impact from the ongoing credit crunch situation.

FY09 outlook still "okay". Overall, management believes that the company should still be able to do "okay" for FY09, as it is cautiously optimistic of a recovery in 2H09, led by domestic demand. It believes that there is a growing demand for functional fabrics as Chinese consumers are generally more quality conscious, boosted by the continued modernization, rise of living standards, and the growth in disposable income. And to further increase domestic consumption, China has come up with several measures, including a RMB4t aid package. However, it concedes that ASPs may ease somewhat should competition intensify down the road and that could also affect its margins slightly.

Lower fair value to S$0.16. In view of the tougher 1Q09 outlook and the still anemic demand situation, we see the need to further cut our FY09 estimates for revenue by 20% and earnings by 23%. As we are also lowering our valuation from 4x to 3x FY09F EPS, our fair value eases from S$0.20 to S$0.12. Given the limited upside, we downgrade our rating to **HOLD.** ***(Carey Wong)***

(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.)

UOL Group Ltd: Failure to achieve majority control in UIC

UOL's offer of S$1.20 per UIC share closed yesterday evening and by the closure of the offer, UOL and its related parties only managed to secure a total of 674,184,971 UIC shares (48.94% of issued shares) under their control. As the group failed to gain control of more than 50% of the voting rights, the offer had not become unconditional and had therefore lapsed. As such, no offer will be made for SingLand's shares and 46,463,706 UIC shares (3.37% of issued shares) will be returned to shareholders who had earlier accepted the offer. However, through open market purchases made earlier, UOL had increased its stake in UIC by 15.34% (211,336,465 shares), resulting in UOL now holding an effective stake of 30.78% (423,975,665 shares) in UIC. As a result, UIC will become an associated company of UOL and is expected to contribute to UOL's bottomline going forward. The above outcome was in line with our expectation. Key risk comes from the decline in UIC's share price after the offer, which will negatively affect our RNAV and fair value estimates. We maintain our **BUY** rating on UOL with fair value of S$2.59. ***(Foo Sze Ming)***

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

RATINGS AND RECOMMENDATIONS:

OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented.

- However, OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon. OIR's Buy = More than 10% upside from the current price; Hold = Trade within +/-10% from the current price; Sell = More than 10% downside from the current price.

- 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.

Co.Reg.no.: 198301152E

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Published by OCBC Investment Research Pte Ltd