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6 March 2009

Market Pulse

Key Singapore Indices			
	Close	Chg	% Chg
STI	1518.6	-25.7	-1.7
Catalist	64.6	-1.4	-2.1
Finance	343.0	-6.6	-1.9
Property	292.1	-5.8	-2.0
Electronics	330.0	-7.0	-2.1
Vol (m)	1074.6	-7.9	-0.7
Val (\$m)	883.6	-85.3	-8.8

World Indices			
	Close	Chg	% Chg
Dow Jones	6594.4	-281.4	-4.1
Nasdaq	1299.6	-54.2	-4.0
S&P500	682.6	-30.3	-4.3
FTSE	3529.9	-116.0	-3.2
KLCI	869.2	2.3	0.3
Hang Seng	12211.2	-119.9	-1.0
Nikkei	7433.5	142.5	2.0
SET	417.1	-0.8	-0.2
KOSPI	1058.2	-1.1	-0.1
TWSE	4637.2	95.8	2.1

Market Statistics (SG)		
STI 52-week range	1,474	3,270
No. of gainers		147
No. of losers		257
No. of unchanged		173

Economic Statistics		
	Close	Chg
S\$/US\$	1.6	0.0
Yen/US\$	98.0	-0.1
3-mth S\$ SIBOR	0.7	0.0
3-mth US\$ SIBOR	1.3	0.0
Crude futures (US\$)	43.6	-1.8

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Key Idea

Strategy Update: Sees 17% decline in 2009 earnings

We have cut 2009 corporate earnings to a decline of 17% for the year, down from -10% a month ago. We have grown increasingly negative as guidance and forward statements from corporates, big or small, were not positive and not helped by deteriorating economic indicators. With dismal newsflow, the equity market is likely to stay volatile. The STI has dropped 60% from recent high or 14% YTD. While further downside cannot be discounted, selective stock pick strategy at lower price levels is worth considering. On the technical side, we 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 further downgrades and continue to be a drag on sentiment. For the near term, downside risk remains.

More reports:

- **Singapore Property: 4Q08 report card**
- **Sino-Environment: Major shareholder in default**

News Headlines

- Chinese Premier Wen Jiabao promised that China would do all it takes to achieve its growth target of 8% this year with a programme of massive government spending and employment creation.
- The number of government-backed loan approvals jumped to 729 last month - a 77% MoM and almost tripling last year's monthly average of 250 loans.
- Hongkong Land Holdings reported a net loss of US\$109m for FY08, after taking into account revaluation of its properties, compared with a profit of US\$2.84b in FY07.
- Olam said that settlement of its bond exchange offer took place on 4 Mar 09. The aggregate principal amount of existing bonds accepted for exchange was US\$136m whereas US\$106.08m new bonds were issued.
- Mandarin Oriental said profit fell 38% to US\$67.1m for FY08 after it did not repeat gains from asset sales and fewer tourists stayed at its properties amid the global recession.
- Dairy Farm posted a 29% rise in FY08 net profit to US\$333m while revenue rose 13% to US\$7.7b. The US\$333m profit included gains of US\$13m arising from asset disposals.
- Tuan Sing Holdings' 50%-owned Australian unit Grand Hotel Group has sold its five-star Hyatt Regency Adelaide Hotel to TCC Land for A\$75m.
- A unit of Artivision has entered into an agreement with a video portal in the UK to offer its Target-Ad solution.

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

Strategy Update: 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.
(Carmen Lee)

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

Singapore Property: 4Q08 report card

A mixed bag of 4Q08 results. Property developers came under heavy scrutiny as they reported their 4Q08 results. Much of the focus had been placed on issues like fair value loss in investment properties, potential write-down in landbank, defaults by property buyers under the Deferred Payment Scheme (DPS) and recapitalization of developers' balance sheets. Taking out one-off gains, UOL Group performed above our 4Q08 expectation due to higher revenue recognition from development properties. Performance of Keppel Land was in line. CapitaLand and Soilbuild Group failed to meet our expectation due to slower-than-expected construction schedule.

Asset write-downs and financing remain key issues for developers. No surprises from the bleak outlook guided by the developers. For the big-cap developers, they continue to exhibit strong financial health and we see asset write-downs as the key threat to them, especially those with substantial exposure to office properties and acquired landbank late in the upcycle. Small-cap developers do not have the financial prowess of the big-cap developers and we see financing as their key concern going forward. The weak property market has delayed new launches and a prolonged inability to move inventories could ultimately affect their debt servicing ability.

Reality check on the risk of buyers defaulting. With the weak economic outlook and rising unemployment rate in Singapore, risk of defaults by property buyers will remain a lingering concern. However, we believe that earlier assumptions of increasing risk of property buyers under DPS defaulting at 10-20% loss threshold, which is equivalent to the amount that they had put up as down-payment, may have been overstated. The sale and purchase agreement is a legally binding document and most developers said that they will take a tough stance, possibly legal actions, against those buyers who can afford the properties but would want to walk out of the deal.

Weak outlook but cheap valuations. Although the outlook of the property sector remains weak, valuations of some developers have already fallen below their previous troughs. Our sector strategy is to stay defensive and stick with developers with strong balance sheet, diversified earnings stream, low exposure to the high-end residential segment and now trading at valuation beyond previous trough. In these aspects, **UOL Group (BUY, FV: S\$2.59)** meets our criteria and remains our top pick for the property sector. We also have **BUY** recommendations on CapitaLand (FV: S\$2.42), Keppel Land (FV: S\$1.77) and Soilbuild Group (FV: S\$0.79). (*Foo Sze Ming*)

Sino-Environment: Major shareholder in default

Controlling shareholder in default. Sino-Environment Technology Group (SINE) has announced last night that its controlling shareholder - Thumb (China) Holdings (TCH) which is wholly and beneficially owned by SINE chairman and CEO Sun Jiangrong - is in default of certain financing obligations owing to hedge funds. It appears that TCH has pledged 190.8m shares (56.29% of SINE) as collateral for notes amounting to S\$120m; although TCH has repaid some S\$55m well before maturity, the S\$65m has come due on 16 Feb 2009. But due to the current global financial crisis, TCH has not been able to raise sufficient cash to repay the hedge funds. And to make matters worse, talks between the parties have failed as they were unable to reach an agreement on the hedge funds' demands for additional collateral.

Possible forced sale of SINE shares. As such, the hedge funds have given notice to TCH that they intend to enforce their security interests - including the possible forced sale of part or all of the 190.8m shares. While the forced share sale will have an immediate adverse impact on the share price, there are other more serious implications. Besides the possibility of losing the services of Sun, the current business contracts may also be adversely affected - the company warns that it cannot rule out the possibility that these uncertainties could lead to the cancellation of contracts by its customers.

Doesn't rain but pours. And importantly, the possible change in control could also put the company's ability to continue to operate as a going concern into doubt - such action is likely to trigger the convertible bond (CB) holders' rights to ask for conversion or redemption of the outstanding S\$149m debt as well as crystallize the default on the corresponding swap arrangement with the CB holders (SINE already booked RMB226m (S\$49m) of MTM losses). As of end-Dec, the company's encashable assets (cash + receivables - S/T debt) stand at RMB1118m (S\$243m).

Suspending coverage. Although the board is assured by TCH that Sun will use his best endeavours to protect shareholders' interest, it warns that there is no certainty that such efforts will be successful given the current credit crunch. In light of the above adverse developments, we are suspending our coverage on the company until we get more information. *(Carey Wong)*

The analyst who wrote this report holds 2,000 shares in the Sino-Environment Technology Group.

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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- 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.

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