

MITA No. 014/06/2008

12 March 2009

Market Pulse

Key Singapore Indices			
	Close	Chg	% Chg
STI	1505.5	19.8	1.3
Catalist	63.8	-0.4	-0.7
Finance	338.6	5.1	1.5
Property	295.0	2.6	0.9
Electronics	275.2	-5.5	-2.0
Vol (m)	1043.1	69.5	7.1
Val (S\$m)	950.4	198.6	26.4

World Indices			
	Close	Chg	% Chg
Dow Jones	6930.4	3.9	0.1
Nasdaq	1371.6	13.4	1.0
S&P500	721.4	1.8	0.2
FTSE	3693.8	-21.4	-0.6
KLCI	850.4	-4.9	-0.6
Hang Seng	11930.7	236.6	2.0
Nikkei	7376.1	321.1	4.6
SET	414.4	-3.0	-0.7
KOSPI	1127.5	35.3	3.2
TWSE	4760.0	88.9	1.9

Market Statistics (SG)			
STI 52-week range	1,455	3,270	
No. of gainers		233	
No. of losers		172	
No. of unchanged		189	

Economic Statistics		
	Close	Chg
S\$/US\$	1.5	0.0
Yen/US\$	97.4	0.1
3-mth S\$ SIBOR	0.7	0.0
3-mth US\$ SIBOR	1.3	0.0
Crude futures (US\$)	42.9	0.5

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Key Idea

Olam International Ltd: Gravity-defying growth

Olam International Ltd (Olam) has been delivering consistent revenue and earnings growth since its listing in 2005, and growth momentum is expected to sustain despite the global recession. Earnings are relatively recession-proof given demand inelasticity of food, which forms the bulk of Olam's product portfolio. In addition, growth opportunities are expected to arise from market share gains as well as potential acquisitions of distressed assets. The equity market meltdown has brought Olam down to its trough valuations. We see value emerging at current levels although near-term volatility could persist. We initiate coverage on the stock with a **BUY** rating and S\$1.37 fair value estimate based on 10x FY10 PER. Key risks include high gearing, counter-party risk, and dilution risk from its convertible bonds.

News Headlines

- China's exports in February tumbled 25.7% YoY, dwarfing forecasts of a 5% fall, while imports fell 24.1%, close to projections of a 25% decline.
- SGX said that material price sensitive information on recent fund-raising exercises may have been leaked before it was announced by the issuers.
- Iconic Holdings, which sold off its core business last year, has received a mandatory general offer from its controlling shareholder valuing the company at about S\$11.2m.
- Property group Sing Holdings plans to raise about S\$13m in net proceeds to finance the group's property development expenses through a rights issue.
- Healthway Medical Group has decided to defer a proposed Middle East joint venture and will also not proceed with the reorganization of a subsidiary that was announced earlier.
- A unit of Hyflux would borrow RMB617m for a tenure of 15 years from the Bank of China for its seawater desalination plant in Dagang City, Tianjin province.
- NOL said that Brian Lutt, president of its APL Logistics business, is leaving to pursue an opportunity outside the group.
- Advanced Info Service, 21.4% owned by SingTel, said it is likely to miss its 2009 revenue growth target if the global economic crisis worsened.
- Stamford Tyres reported a 21% YoY fall in 3Q09 revenue to S\$62.9m and a 94.9% fall in net profit to S\$0.1m.
- Xpress Holdings reported a 22% YoY fall in 2Q09 revenue to S\$12.8m and a 86.9% drop in net profit to S\$490k.

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

Olam International Ltd: Gravity-defying growth

Resilient to recession. Olam International Ltd (Olam) has been delivering consistent revenue and earnings growth since its listing in 2005, and growth momentum is expected to sustain despite the global recession. Management has guided for 16% to 20% topline CAGR and 25% to 30% earnings CAGR over the next three years. These goals are achievable, given that demand for food is relatively inelastic and earnings are therefore less vulnerable to the global economic downturn. Olam has already proven its resilience by delivering a 32.9% growth in 1H09 core earnings despite the recent collapse of commodity prices, demonstrating its ability to perform under difficult conditions.

Growth opportunities abound. The global economic turmoil has presented Olam with organic and inorganic growth opportunities. The group has been expanding its market share at the expense of weaker competitors who have been ousted as a result of the credit crunch and economic downturn. At the same time, distressed assets have emerged following the financial meltdown, presenting the group with M&A opportunities. Management has articulated its interest to pursue bite-sized acquisitions, but remains cautious to contain its gearing levels.

But gearing is relatively high. Olam's key weakness, in our view, is its high gearing ratio. It is more heavily geared than its peers, with total debt to equity ratio of 4.67x, substantially higher than its peers, whose gearing ratios range from 0.48x to 1.38x. Even after adjusting for its hedged inventories and receivables, gearing remains above that of its peers'. The group's reliance on debt could pose refinancing risks in the event of a protracted credit crunch. Rising interest costs could also erode profit margins should the group find itself unable to pass on these higher costs to its customers.

Valuations near historical trough; initiate with BUY. The equity market meltdown has brought Olam down to its trough valuations. We see value is emerging at current levels although the volatility could persist in the near term. Olam's key investment merit lies in its resilient earnings growth profile against a climate of earnings contraction. We initiate coverage on the stock with a **BUY** rating and S\$1.37 fair value estimate based on 10x FY10 PER. Key risks include high gearing, counter-party risk, and dilution risk from its convertible bonds. *(Lee Wen Ching)*

For more details, please refer to full report.

Monday	Tuesday	Wednesday	Thursday	Friday
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			
06-Apr	07-Apr	08-Apr	09-Apr	10-Apr
				China Mar Trade Bal(11 Apr)

**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:

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