

MITA No. 014/06/2008

16 March 2009

Market Pulse

Key Singapore Indices			
	Close	Chg	% Chg
STI	1577.5	84.0	5.6
Catalist	63.0	0.3	0.4
Finance	358.9	24.0	7.2
Property	311.6	20.9	7.2
Electronics	281.3	9.6	3.5
Vol (m)	1393.2	326.5	30.6
Val (S\$m)	1105.5	482.1	77.3

World Indices			
	Close	Chg	% Chg
Dow Jones	7224.0	53.9	0.8
Nasdaq	1431.5	5.4	0.4
S&P500	756.6	5.8	0.8
FTSE	3753.7	41.6	1.1
KLCI	843.5	5.1	0.6
Hang Seng	12525.8	524.3	4.4
Nikkei	7569.3	371.0	5.2
SET	424.8	9.8	2.3
KOSPI	1126.0	-2.4	-0.2
TWSE	4897.4	142.7	3.0

Market Statistics (SG)			
STI 52-week range	1,455	3,270	
No. of gainers			318
No. of losers			139
No. of unchanged			164

Economic Statistics		
	Close	Chg
S\$/US\$	1.5	0.0
Yen/US\$	97.8	-0.2
3-mth S\$ SIBOR	0.7	0.0
3-mth US\$ SIBOR	1.3	0.0
Crude futures (US\$)	44.1	-2.2

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Key Idea

Suntec REIT: Focus on cash calls and cash flows.

The Business Times reported on Friday that the entire 32nd floor of Suntec City Tower 1 has been sold for about S\$1300 per square foot of strata area. However, Suntec REIT's current market value already reflects an implied asset value of S\$885 psf for Suntec City Office (our estimate). In our opinion, the refinancing of the S\$825m in debt due this year is less of a problem than the potential need for an equity issue. As a non-sponsored REIT, any rights issue by Suntec could require the backing of investment banks or sub-underwriting arrangements with substantial shareholders. The biggest concern today is how deeply earnings - and consequently distributions - will be affected by deteriorating economic conditions. Our new DPU estimates for FY09-10 are 6-10% below consensus. This still translates to reasonable distribution yields of 18.6% and 16.1% in FY09F and FY10F respectively. Maintain **BUY** with S\$0.80 fair value (prev: S\$0.90).

News Headlines

- Fed Chairman Ben Bernanke believes there is a reasonable prospect that the current recession will end in 2009 and that 2010 will be a year of recovery.
- China Hongxing has secured about RMB800m worth of orders at the 2009 autumn/winter collection trade fairs at the end of February, a 20% YoY rise compared to the trade fair held in Mar 08.
- EcoWise reported a 3.1% YoY fall in revenue to S\$5.13m for 1Q09 and an attributable loss of S\$50k compared to a profit of S\$58k in 1Q08.
- Creative Technology said it will incur restructuring charges of about US\$10m for 3Q09 and expects to reduce headcount by about 300 worldwide.
- Popular Holdings has utilized about 12.4% of its S\$19.7m rights issue proceeds. The group also reported a 3% YoY rise in revenue to S\$138m for 3Q09 and a 40% drop in net profit to S\$5.2m.
- Lifebrandz reported a 27% YoY fall in revenue to S\$8.2m and a loss of S\$1.1m for 2Q09 compared to a S\$248k loss in 2Q08.
- Freight Links Express posted a 10.1% YoY fall in revenue to S\$31.9m for 3Q09 but enjoyed a 190.4% rise in net profit to S\$784k.
- Sunright reported a 28% YoY fall in turnover to S\$42.2m and incurred a S\$3.4m net loss for 1H09 compared to a S\$5.0m net profit in 1H08.
- China Flexible Packaging posted a 33.9% YoY fall in revenue to RMB179m and a 86.8% fall in net attributable profit to RMB5.8m for 1Q09.
- Beyonics Technology reported a 31.1% YoY rise in revenue to S\$334.3m and a 90.1% fall in net attributable profit to S\$0.4m for 1H09.

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

Suntec REIT: Focus on cash calls and cash flows.

New office asset value reality is already priced in. The Business Times reported on Friday that the entire 32nd floor of Suntec City Tower 1 has been sold for about S\$1300 per square foot of strata area. This is about 40% lower than previous strata floor transactions completed about seven months ago (above the S\$2000 psf level). We believe this new deal is important as it gives an indication of the current market value for office space. However, Suntec REIT's current market value already reflects an implied asset value of S\$885 psf for Suntec City Office (our estimate) - or a 32% discount to this latest transaction. Our valuation prices Suntec City Office at about S\$1106 psf.

Potential risk of cash call. In our opinion, the refinancing of the S\$825m in debt due this year is less of a problem than the potential need for an equity issue. In 4Q CY08, Suntec REIT saw property values fall 7% against its 3Q CY08 revaluation. We believe cap rates used by independent valuers still do not fully reflect downward trends in S-REIT capital values. For example, we understand that Suntec City Office was valued at S\$1900 psf, or 46% higher than this latest transaction. This scepticism towards the accuracy of these valuations is creating downward pressure on share prices - Suntec's current share price of S\$0.505 is at a 75% discount to reported NAV. As capital values fall, we estimate that Suntec could eventually need up to S\$480m in fresh equity to maintain gearing at 40% levels. In the current environment, rights issues may need to be underwritten in order to succeed. As a non-sponsored REIT, any rights issue by Suntec could require the backing of investment banks or sub-underwriting arrangements with substantial shareholders.

Focus on cash flows. There are inherent strengths in Suntec's portfolio and we continue to believe in the merit of our **BUY** call on Suntec. The biggest concern today is how deeply earnings - and consequently distributions - will be affected by deteriorating economic conditions. We have adjusted our earnings and valuation assumptions, with a fairly conservative assessment of rents and occupancy levels. Our new DPU estimates for FY09-10 are 6-10% below consensus. This still translates to reasonable distribution yields of 18.6% and 16.1% in FY09F and FY10F respectively. Our SOTP value for Suntec falls 10% to S\$0.95. Maintaining the 15% discount to SOTP, our fair value estimate falls from S\$0.90 to S\$0.80. *(Meenal Kumar)*

Monday	Tuesday	Wednesday	Thursday	Friday
16-Mar	17-Mar	18-Mar	19-Mar	20-Mar
US Feb Industrial Production	SG Feb NODX US Feb PPI US Feb Housing Starts	US CPI US 4Q Current Account Balance	US Mar FOMC Rate Decision US Feb Leading Indicators	
23-Mar	24-Mar	25-Mar	26-Mar	27-Mar
SG Feb CPI	US Jan House Price Index	US Feb Durable Goods Orders	SG Feb Indust Production US 4Q GDP QoQ	US Mar U of Michigan Confidence China Feb Indust Profits YoY
30-Mar	31-Mar	01-Apr	02-Apr	03-Apr
	SG Feb Money Supply SG Feb Bank Loans & Advances US Mar Consumer Confidence	US Mar ISM Manufacturing	US Feb Factory Orders	US Mar Umemployment Rate US Mar ISM Non-Manf Composite
06-Apr	07-Apr	08-Apr	09-Apr	10-Apr
		US Feb Wholesale Inventories	US Feb Trade Balance	China Mar Trade Bal(11 Apr)
13-Apr	14-Apr	15-Apr	16-Apr	17-Apr
SPH 2Q09	US Mar PPI US Mar Advance Retail Sales	SG Feb Retail Sales US Mar CPI US Mar Indust Production	China 1Q Real GDP US Mar Housing Starts	SG Mar NODX/SG Mar Electronic Exports China Mar PPI/China Mar CPI China Mar Retail Sales/China Mar Ind Prod China Mar Fixed Assets Inv US Apr U of Michigan Confidence

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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Published by OCBC Investment Research Pte Ltd