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19 March 2009

Market Pulse

Key Singapore Indices			
	Close	Chg	% Chg
STI	1575.9	16.9	1.1
Catalist	64.2	-0.8	-1.2
Finance	361.4	6.8	1.9
Property	310.6	4.1	1.3
Electronics	291.0	1.9	0.6
Vol (m)	906.6	-95.8	-9.6
Val (S\$m)	753.5	-76.2	-9.2

World Indices			
	Close	Chg	% Chg
Dow Jones	7486.6	90.9	1.2
Nasdaq	1491.2	29.1	2.0
S&P500	794.4	16.2	2.1
FTSE	3805.0	-52.1	-1.4
KLCI	848.0	6.1	0.7
Hang Seng	13117.2	239.1	1.9
Nikkei	7972.2	23.0	0.3
SET	426.2	3.9	0.9
KOSPI	1170.0	6.1	0.5
TWSE	5047.5	6.2	0.1

Market Statistics (SG)			
STI 52-week range	1,455	3,270	
No. of gainers		252	
No. of losers		137	
No. of unchanged		173	

Economic Statistics		
	Close	Chg
S\$/US\$	1.5	0.0
Yen/US\$	96.2	0.0
3-mth S\$ SIBOR	0.7	0.0
3-mth US\$ SIBOR	1.3	0.0
Crude futures (US\$)	49.4	1.2

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Key Idea

Singapore Petroleum Company Ltd: Holds promise for the longer term

Singapore Petroleum Company Ltd (SPC) is a regional oil and gas company with businesses in oil and gas exploration, refining, terminalling and distribution, marketing and trading of crude and refined petroleum products. Formed in 1969, it is the only independent oil refiner in Singapore. Profits are highly dependent on refining margins which can be pretty volatile but its upstream diversification should help cushion any ill-performance in the downstream sector. Looking ahead, demand for refined products are likely to remain weak with the global economy in doldrums. However, any oil discoveries in its E&P assets should be a positive share price catalyst. Using sum of the parts valuation, we initiate coverage on SPC with a **HOLD** recommendation and S\$2.45 fair value estimate. We will turn buyers of the stock around S\$2.20, barring a sudden deterioration in economic environment.

News Headlines

- F&N yesterday issued S\$108.25m of fixed-rate notes, the ninth series of a S\$2b multi-currency medium-term note programme established in May 07.
- Corrosion prevention services provider Beng Kuang Marine has set up a S\$2m joint venture with Quill Far East.
- Sembcorp Marine has bought the remaining 30% in JPL Corporation Pte Ltd for S\$13.4m to streamline its operations and shareholding structure.
- Hyflux said financial close for a project in Algeria, which is the world's largest reverse osmosis desalination plant, has been completed today.
- Saizen Reit has obtained approval-in-principle from the SGX for its rights-cum-warrants issue.
- SinoTel has won six new orders worth RMB32.9m to provide network optimization solutions for six of China Unicom's branches.
- Food and beverage group Etika has embarked on a joint venture in New Zealand through its newly incorporated subsidiary.
- C&G Industrial Holdings warned its 1Q09 results would show significantly lower profits compared to the previous year, mainly due to no production for PET and its downstream products during a revamp.
- Contel Corp expects to incur a net loss for FY09, based on a preliminary assessment of the business environment, market conditions and company performance over the past few months.
- BreadTalk Group will sell its 70% shareholding interest in Twin Peaks Venture Singapore Pte Ltd for around S\$400k.

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

Singapore Petroleum Company Ltd: Holds promise for the longer term

Established home-grown refiner. Formed in 1969, Singapore Petroleum Company Ltd (SPC) is the only independent oil refiner in Singapore. The group has grown over the years to become an international oil refiner and trader and engages in oil and gas exploration, refining, terminalling and distribution, marketing and trading of crude and refined petroleum products. In FY08, SPC achieved a 26.9% YoY rise in revenue to S\$11.1b but incurred a 55.5% fall in net profit to S\$229.2m, mainly due to volatile refining margins and inventory write-down due to lower oil prices in 2H08.

At the mercy of volatile refining margins. Being an oil refiner, SPC is greatly affected by swings in refining margins which arise from the interplay of demand and supply for crude oil and refined products. Margins can go into negative territory, as 4Q08 and previous oil shocks have shown. It is beyond SPC's control when that happens, and inventory write-downs have to be taken when crude oil prices fall drastically. However, assuming that oil prices will not fall much further given last year's dramatic drop, the likelihood of another extensive inventory write-down is low. Finally, with Singapore being a swing centre, refineries in Singapore may feel the effects of low product demand even more.

Upstream growth as a form of diversification. SPC ventured into upstream operations in 2000 and has three producing assets out of its portfolio of nine assets. Upstream production is a natural hedge against its exposure to downstream refining and marketing, and assuming that crude oil prices maintain above breakeven levels in this current dismal environment, this would ensure more steady and sustainable earnings for the group.

Initiate with HOLD. We initiate coverage on SPC with a **HOLD** recommendation and fair value estimate of S\$2.45 using sum of the parts valuation. The refining business is valued using 8x FY09F PER, lower than the regional average considering the refinery's lower complexity rating and taking into account that earnings may be relatively more affected in swing-centre Singapore. The E&P business is valued using 7X FY09F PER, similar to the regional average. We will turn buyers of the stock around S\$2.20, barring a sudden deterioration in economic environment. Any oil discoveries may be a potential share price catalyst, but the general outlook for the group and the industry is muted for now. *(Low Pei Han)*

For more details, please refer to full report.

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 Unemployment 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

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.

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