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1 April 2009

# Market Pulse

Key Singapore Indices			
	Close	Chg	% Chg
STI	1700.0	26.9	1.6
Catalist	66.4	0.4	0.6
Finance	397.8	10.0	2.6
Property	344.4	13.1	3.9
Electronics	347.6	7.5	2.2
Vol (m)	1327.5	259.7	24.3
Val (S\$m)	1268.3	366.4	40.6

World Indices			
	Close	Chg	% Chg
Dow Jones	7608.9	86.9	1.2
Nasdaq	1528.6	26.8	1.8
S&P500	797.9	10.3	1.3
FTSE	3926.1	163.2	4.3
KLCI	872.6	3.2	0.4
Hang Seng	13576.0	119.7	0.9
Nikkei	8109.5	-126.6	-1.5
SET	431.5	1.9	0.4
KOSPI	1206.3	8.8	0.7
TWSE	5210.8	4.8	0.1

Market Statistics (SG)		
STI 52-week range	1,455	3,270
No. of gainers		253
No. of losers		171
No. of unchanged		161

Economic Statistics		
	Close	Chg
S\$/US\$	1.5	0.0
Yen/US\$	99.0	0.0
3-mth S\$ SIBOR	0.7	0.0
3-mth US\$ SIBOR	1.2	0.0
Crude futures (US\$)	48.9	-0.8

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## Key Idea

### S-REITs: Class gap implies different valuation catalysts

Consensus forward yields, ranging from 7-38%, are showing a wide divergence in valuations across the S-REIT sector. Our thesis is that the S-REIT sector is now broadly segregated into two camps and valuation catalysts also vary accordingly. Negative refinancing news may further widen the valuation gap between the two S-REIT classes. For the stronger camp, we believe the market focus is on earnings and the likelihood of equity issues. Most S-REITs should report 1Q CY09 earnings over the last two weeks in April. We believe that 1H09 earnings are worth watching as the impact of macroeconomic events slowly filters through to the S-REIT bottom-line. Specifically, we will be looking at data on achieved rents and vacancy levels. We maintain our **NEUTRAL** call on the sector and leave our estimates and ratings for individual S-REITs unchanged in anticipation of 1Q results.

### More reports:

- **Z-OBEE Holdings: Proposed disposal of wholly-owned subsidiaries**

## News Headlines

- The World Bank expects global GDP to shrink 1.7% this year - the first fall on record - and notes that even a modest recovery in 2010 is uncertain.
- The SGX is taking three steps to further develop the options market, including the launch of the SGX MSCI Singapore Index Options contract.
- The SGX has introduced a practice note spelling out the situations in which a Catalist-listed company needs to engage a sponsor.
- MI-Reit said its lenders, National Australia Bank and Commonwealth Bank of Australia, have granted it a 60-day extension for its existing S\$220.8m loan facility.
- TPV Technology reported a 9.4% rise in revenue to US\$9.2b for FY08 but net profit almost halved to US\$97.6m.
- Nera Telecommunications has received purchase orders worth S\$18m for work in Vietnam and Indonesia.
- Global Voice Group said it delivered a 1Gbps euFreedom Ethernet service to 3, Ireland's mobile operator, in only three working days.
- CNA Group will develop and install an environmentally sustainable solution for the Grand Hyatt Singapore.
- Sarin Technologies will offer the Galaxy 1000 scanner service to diamond manufacturers starting today, a service the group believes is highly promising.

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

### S-REITs: Class gap implies different valuation catalysts

**Class gap between S-REITs.** Consensus forward yields, ranging from 7-38%, are showing a wide divergence in valuations across the S-REIT sector. Our thesis is that the S-REIT sector is now broadly segregated into two camps - the "haves" (large, blue-chip sponsored REITs with strong balance sheets) and the "have-nots" (smaller, non-sponsored REITs with high gearing). Valuation catalysts also vary accordingly - we believe the market focus for the weaker "have-nots" is still on their ability to secure refinancing but the focus for the "haves" is on 1) how the macroeconomic picture affects earnings and 2) the need for equity issues to recapitalize balance sheets. Investors can expect some key data points on both the refinancing and the earnings fronts in the coming months.

**Refi news impacts "have-nots" more.** MacarthurCook Industrial REIT [NOT RATED] announced yesterday that it has received a 60 day extension for its loan facility worth S\$220.8m maturing on 18 April. MI-REIT is geared at almost 40% and this facility constitutes the bulk of its borrowings. The extension buys MI-REIT some time to continue negotiations with its lenders, National Australia Bank and Commonwealth Bank of Australia. Its inability to secure a resolution by April is a disappointment, in our view. MI-REIT's refinancing efforts will likely be benchmarked against the Dec 2008 refinancing completed by peer Cambridge Industrial Trust [NOT RATED] as both S-REITs are relatively smaller, non-sponsored and industrial focused. We expect negative refinancing news to further widen the valuation gap between the two S-REIT classes. For the broader sector, such refinancing news may be indicative of lender risk appetite. Tighter loan-to-value demands may trigger a sector-wide overhaul of capital structures, potentially via equity issues.

**Watch rents & vacancy data points for the "haves".** Most S-REITs should report 1Q CY09 earnings over the last two weeks in April. We believe that 1H09 earnings are worth watching as the impact of macroeconomic events slowly filters through to the S-REIT bottom-line. For the office sector, we will be watching the pace of the decline in achieved rents as well as any change in occupancy levels. Given the economic slowdown, occupancy levels will be the key metric to watch in the industrial space. We are also looking out for an update on the post-CNY retail landscape and validation of the consensus 'suburban means defensive' view. We maintain our **NEUTRAL** call on the sector and leave our estimates and ratings for individual S-REITs unchanged in anticipation of 1Q results. *(Meenal Kumar)*

**Z-OBEE Holdings: Proposed disposal of wholly-owned subsidiaries**

**Proposed disposal of subsidiaries.** Z-OBEE Holdings yesterday announced that it had entered into a Sale and Purchase Agreement with an independent third party for the disposal of the entire interests in its wholly-owned subsidiaries State Tech International Limited and CCDH Technology (Shenzhen) Limited (collectively Disposal Group). The total cash consideration of the proposed disposal was US\$458k, and was agreed upon based on arms' length negotiations.

**Rationale for disposal.** State Tech was engaged in the development sales and marketing of mobile appliances solution and mobile handset hardware, and held the entire issued capital in CCDH Technology. The latter was engaged in the development, sales and marketing of software and solution for mobile appliances. However, due to overlapping of functions within the group, a substantial part of the assets and liabilities of the Disposal Group were transferred to other subsidiaries during an internal restructuring to streamline the group's overall business operations. According to Z-OBEE, the disposal would not only save the group from recurring administrative costs, amortization charges/possible write-offs, but also enable it to use the proceeds for working capital. As the Disposal Group is left with assets and liabilities that are not critical to its core business, Z-OBEE is not expecting any impact in the research and development, manufacture and sale of mobile handsets solutions and its proprietary handsets.

**Expecting to book loss pertaining to disposal.** Based on the most recent 9MFY09 results, the net profit attributable to the Disposal Group amounted to US\$546k (13.8% of overall profit of US\$3,959k), while these assets were valued at US\$905k (1.7% of group's NAV of US\$53,985k). At a cash consideration of US\$458k, we note that Z-OBEE would incur a loss of US\$447k resulting from the disposal.

**Maintain HOLD and S\$0.03 fair value.** With the transaction projected to complete around 30 April 2009, we have made several adjustments to our FY09 estimates to reflect the anticipated loss - this lowers our FY09F net income (excluding extraordinary items) by 27.9% to US\$2,663k. For FY10, however, we are keeping our estimates intact as we await clearer direction on the China handset marketplace via its upcoming full-year results. Accordingly, our fair value remains unchanged at S\$0.03, based on 2x FY10F EPS. As the stock appears to be fairly priced, we maintain our **HOLD** rating on Z-OBEE. *(Kevin Tan)*

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Monday	Tuesday	Wednesday	Thursday	Friday
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
20-Apr	21-Apr	22-Apr	23-Apr	24-Apr
US Mar Leading Indicators			SG Mar CPI	
27-Apr	28-Apr	29-Apr	30-Apr	01-May
			SG Mar Money Supply SG Mar Bank Loans & Advances SG 1Q Employment Rate	

*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

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**Please refer to the individual company's full report for additional disclosures**

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