

2 April 2009

# Market Pulse

Key Singapore Indices			
	Close	Chg	% Chg
STI	1702.3	2.3	0.1
Catalist	67.6	1.3	1.9
Finance	398.1	0.4	0.1
Property	344.4	0.1	0.0
Electronics	347.6	-0.1	0.0
Vol (m)	825.6	-502.0	-37.8
Val (S\$m)	779.7	-488.6	-38.5

World Indices			
	Close	Chg	% Chg
Dow Jones	7761.6	152.7	2.0
Nasdaq	1551.6	23.0	1.5
S&P500	811.1	13.2	1.7
FTSE	3955.6	29.5	0.8
KLCI	884.2	11.6	1.3
Hang Seng	13519.5	-56.5	-0.4
Nikkei	8351.9	242.4	3.0
SET	430.1	-1.4	-0.3
KOSPI	1233.4	27.1	2.2
TWSE	5314.5	103.6	2.0

Market Statistics (SG)		
STI 52-week range	1,455	3,270
No. of gainers		207
No. of losers		182
No. of unchanged		171

Economic Statistics		
	Close	Chg
S\$/US\$	1.5	0.0
Yen/US\$	98.6	0.1
3-mth S\$ SIBOR	0.7	0.0
3-mth US\$ SIBOR	1.2	0.0
Crude futures (US\$)	48.6	0.2

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## Key Idea

### Commodities: Positioning for a recovery

Commodities-related shares recently staged a rally and outperformed the broad market in anticipation of an economic recovery. While we think it could be too early to call a bottom given the mixed economic signals, we highlight Noble as our preferred choice within the commodities sector as it is best poised to participate in the global economic recovery. Olam's earnings are expected to be more resilient than Noble's in the near term, but these may already be reflected in its premium valuations. We maintain our **BUY** ratings on Noble Group Ltd (fair value S\$1.33) and Straits Asia Resources (fair value S\$1.15). We are downgrading Olam to **HOLD** on valuation grounds given the recent run-up, but raising our fair value estimate to S\$1.51 (from S\$1.37). Catalysts for the sector include: (i) economic recovery, (ii) improvement in credit markets, and (iii) pump-priming initiatives.

### More reports:

- **Olam Int'l Ltd: Downgrading to HOLD on valuations**
- **Rickmers Maritime: Lender invokes market disruption clause**
- **Singapore Property: Record quarterly decline in 1Q09 property prices**

## News Headlines

- Singapore Airlines will implement a shorter work month for senior management effective immediately, while a wage freeze will be implemented at management level.
- The island-wide average office occupancy rate slid 2.1ppt QoQ to 93.6% in 1Q09, according to DTZ.
- Falling risk appetite has dragged global private equity fund-raising activity to its lowest level since 2004, according to a survey by data provider Preqin.
- Energy and environmental solutions provider Sunpower Group said it has won a RMB21.6m contract to supply pressure vessels.
- Tritech Group has received a claim from Koon Construction and Transport Co over the failure of a cofferdam sheet-pile wall, with preliminary costs for remedial work about S\$2.2m.
- Transcu Group Limited has proposed to acquire 45% equity interest in Bio Mass Energy Inc, a gasification technology company, for a total consideration of US\$277.6k.
- Moody's Investors Service has downgraded Saizen REIT's corporate family rating to Ba3 from Ba1. Meanwhile, Saizen hopes to resume its dividend payments by June 2010 at the latest.
- Moody's Investors Service downgraded Macarthurcook Industrial Reit's corporate family rating from B1 to B2.

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

### Commodities: Positioning for a recovery

**Optimism over economic recovery sparks re-rating.** Commodities-related shares have staged a strong rally in recent weeks, driven by hopes of resurgence in demand, as measures taken by US policy-makers spurred optimism that a global economic recovery could be in sight. Commodities stocks surged by an average of 18% during the month of March, outperforming the Straits Times Index's (STI) 11% return. In particular, Olam Int'l (Olam) outperformed its peers with an impressive 27% gain.

**The haze has yet to clear.** In our view, it could be premature to call a bottom at this juncture. Economic indicators remain mixed - while inflation has been tapering off and commodity prices have somewhat stabilized, weakness in global trade persists, credit markets are still in the process of thawing and growing unemployment could continue to weigh on demand. A sustainable improvement in demand and supply fundamentals must be backed by a convincing recovery of the real economy, which we have yet to see. In the near term, potential earnings disappointment could create more downside risk.

**Olam offers earnings stability, but Noble is better poised to ride economic recovery.** Among the realm of commodities-related companies, Olam will continue to gain favour in the near term for its resilient earnings growth profile amid an environment of earnings contraction. However, in the medium term, Noble Group Ltd (Noble) is better poised to reap the benefits of economic recovery. Our view stems from their respective product portfolios - Olam deals solely in agricultural commodities (mainly food, for which demand is relatively inelastic), whereas Noble's portfolio encompasses a broader spectrum of commodities spanning agriculture, energy, metals, minerals and ores. Metals and energy expose the group's earnings to more cyclical volatility, but also enable the group to participate in governments' pump-priming initiatives.

**Noble is our preferred choice.** We are anticipating positive earnings growth from Olam and Straits Asia Resources Ltd (SAR) and negative growth from Noble for 1Q CY09. Nevertheless, Noble remains our top pick in the sector as it will be the key beneficiary of macroeconomic recovery. In addition, Noble enjoys the healthiest balance sheet and is trading at a substantial discount to Olam. We retain our **BUY** ratings on Noble (fair value S\$1.33) and Straits Asia Resources (fair value S\$1.15). We are downgrading Olam to **HOLD** on valuation grounds given the recent run-up, but raising our fair value estimate to S\$1.51 (from S\$1.37). Catalysts for the sector include: (i) economic recovery, (ii) improvement in credit markets, and (iii) pump-priming initiatives. *(Lee Wen Ching)*

**Olam Int'l Ltd: Downgrading to HOLD on valuations**

Olam International Ltd's (Olam) shares have surged 21% since we initiated coverage on the company with a BUY rating on 12 Mar 09. At current levels, it is trading at 13.3x current PER and 3.9x NAV, substantially higher than its peer Noble Group Ltd which is commanding just 7.2x PER and 1.5x NAV, and also richer than the STI's 11.4x PER and 1.0x NAV. We continue to see merit in Olam's defensive earnings trait and ability to grow profits amid a recessionary environment, but are of the view that price valuation could have run ahead of its strong fundamentals. We raise our fair value estimate to S\$1.51 (from S\$1.37) on 11x FY10 PER (previously 10x) as we realign our valuations with the STI. Given the limited upside to our fair value estimate, we are downgrading Olam to **HOLD**. (*Lee Wen Ching*)

**Rickmers Maritime: Lender invokes market disruption clause**

Rickmers Maritime Trust (RMT) announced that one of its lenders has invoked the market disruption clause (MDC) in the loan terms and will subsequently charge a higher interest rate on its loan. To recap, the MDC clause is invoked if the lender cannot borrow at the previously agreed upon benchmark rate (in this case, the US LIBOR). RMT said that the increase in interest cost amounts to about US\$47,000 for this fixing period (which, we expect is quarterly). We estimate that this translates to a less than 1% impact on RMT's total interest costs for the quarter. RMT also said that the other lenders (RMT has credit lines with nine other banks) have not invoked the MDC. We note that it is hard to tell if RMT's other lenders would also need to invoke the MDC as it really depends on each lender's individual ability to borrow at the benchmark rate, which varies. As an indication, when FSL Trust's lenders all invoked the MDC for the 4Q08 period, its interest costs increased by US\$680,000 and its DPU slipped about 0.03 cents. Our primary concern remains the overhang from RMT's committed vessel orders and the addressing of the consequent funding gap. Maintain **HOLD** with S\$0.40 fair value. (*Meenal Kumar*)

**Singapore Property: Record quarterly decline in 1Q09 property prices**

URA released its flash estimate for 1Q09 private property price index (PPI) yesterday. Decline in property prices accelerated in 1Q09, with the PPI plunging 13.8% QoQ to 140.3, bringing it back to the level in 1Q07. By region, Core Central Region (CCR) and Rest of Central Region (RCR) saw steep declines of 15.2% and 17.2% in property prices, respectively. Property prices in Outside Central Region (OCR) declined by a smaller 7.5% as mass market property prices continued to be supported by the resilient HDB resale prices, which fell marginally by 0.6% in 1Q09. Narrowing gap between mass market property prices and HDB resale prices should continue to fuel near-term demand for these projects and we are generally more positive over the outlook of financially strong developers with greater mass market exposure, such as UOL Group (BUY, FV: S\$2.59) and City Developments (HOLD (on valuation grounds), FV: S\$5.43). We remain **NEUTRAL** on the property sector. *(Foo Sze Ming)*

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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- 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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