OCBC Investment Research

MITA No. 014/06/2008

7 April 2009

Market Pulse

Key Singapore Indices

	Close	Chg	% Chg
STI	1848.0	27.1	1.5
Catalist	69.7	0.5	0.7
Finance	442.2	11.2	2.6
Property	384.1	10.2	2.7
Electronics	358.4	5.9	1.7
Vol (m)	2002.8	157.6	8.5
Val (S$m)	1564.1	-100.4	-6.0

World Indices

	Close	Chg	% Chg
Dow Jones	7975.9	-41.7	-0.5
Nasdaq	1606.7	-15.2	-0.9
S&P500	835.5	-7.0	-0.8
FTSE	3993.5	-36.1	-0.9
KLCI	923.8	16.8	1.8
Hang Seng	14998.0	452.4	3.1
Nikkei	8857.9	108.1	1.2
SET	446.0	3.1	0.7
KOSPI	1297.9	14.1	1.1
TWSE	5556.2	26.6	0.5

Market Statistics (SG)

STI 52-week range	1,455	3,270
No. of gainers		384
No. of losers		150
No. of unchanged		168

Economic Statistics

	Close	Chg
S$/US$	1.5	0.0
Yen/US$	100.9	-0.1
3-mth S$ SIBOR	0.7	0.0
3-mth US$ SIBOR	1.2	0.0
Crude futures (US$)	51.3	0.3

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Key Idea

Raffles Education Corporation: Seeding the clouds. Initiate with BUY
We are forecasting Raffles Education Corporation (Raffles) to grow its bottomline at a clip of 28% in FY09F. Although long-time investors have been used to higher growth trajectories, we think that Raffles will be using this year to refine its operations in its schools instead of focusing on acquisitions. In our view, OUC is Raffles' prized asset with the land bank, possibility of setting up more private colleges, land sales and ready pool of current students to recruit into its own programs as holding tremendous potential. In a bid to preserve cash, we are forecasting that Raffles will reduce its dividends to 0.75 S cents/quarter (vs 1 S cent currently). We peg our valuation to a blended 12x FY09/10F PER, close to its lower trading band. Our fair value is S$0.60 (46% upside). Initiate with **BUY.** Dividend yield for FY09F is attractive at ~8% despite our 0.75 S cent/ quarter assumptions. Sustained margins that trump our estimates and continued ability to grow student population beyond our forecasts will incentivise us to edge our valuation upwards.

More reports:

- **Sembcorp Marine Ltd: Wins first new build contract.**

News Headlines

- Japan will unveil a 10 trillion yen (S$149.5b) fiscal stimulus on Friday.
- SPC said that gas production from its Oyong field in Indonesia remains on schedule and is expected to commence this year.
- EnGro Corporation is pumping RMB32m into a joint venture to build a cement plant in Hebei.
- First REIT has secured a three-year S$70m multi-currency transferable loan facility.
- SingTel has subscribed for about 3.2m shares in SingTel Global (India) Pte Ltd at 14 rupees per share.
- Fabchem China said profits for 4Q09 are likely to be “significantly lower” compared to the previous year.
- Auditors could not form an audit opinion on China Fashion’s financial statements.
- A-Sonic Aerospace has had its bank credit facility pulled after its capitalization fell below a stipulated minimum S$50m following an impairment writedown.
- NEL Group’s Chief Executive has stepped down with immediate effect, leaving behind a board with mostly new faces.
- Tampines 1, a 260k sq ft mall at Tampines Regional Centre, will open in two days with 100% tenancy.

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

Raffles Education Corporation: Seeding the clouds. Initiate with BUY

30% growth in FY09F. We are forecasting Raffles Education Corporation (Raffles) to grow its bottomline at a clip of 28% in FY09F. While long-time investors have been used to higher growth trajectories, we think that Raffles will be using this year to refine its operations in its schools. The difficult credit and equity situation will not present them cheap financing opportunities as it had in the past. As such, we think Raffles is unlikely to undergo another bout of major acquisitions that will boost its financials. On a quarterly basis for FY09F, Raffles could face resistance to growth due to slower student recruitment and very minor fee hikes (in the light of the difficult economic situation).

Prime asset overlooked. While the market looks at Oriental University City (OUC) as an outsized investment, we are of the view that it is Raffles' prime asset that will drive growth in the next few years, if run properly. The land bank and its possible plot sales, set up of more private colleges on campus and ready pool of current students to recruit into its own programs hold tremendous potential.

Reduce dividends? We think more investors may opt out of the scrip dividend scheme. Although Raffles has not indicated so, we anticipate that Raffles could reduce its dividends to 0.75 S cents/quarter (vs current 1 S cent/quarter) to preserve more cash. We are assuming that the scrip program will continue indefinitely with a 50% subscription rate. This will translate to about 4-5% dilution every year.

Attractive valuation, initiate with BUY. We are using a PER-type valuation for Raffles as we think that earnings growth will drive its share price. Raffles has traded in a wide spectrum, ranging from ~34-78x in 2007 to its recent 52-week low of ~8x PER during the Oriental Century scandal. Concomitant with the volatile equity market conditions, we think recent lows have primarily factored in the funding needs for its expansion (especially OUC's RMB2b price tag), cloudy sentiments of S-chips, its slowing growth in student numbers and ability to operationally execute well with an enlarged geographical footprint. As such, we peg our valuation to a blended 12x FY09/10F PER, closer to its lower trading band. Our fair value is S$0.60 (46% upside). Initiate with **BUY**. Dividend yield for FY09F is attractive at ~8% despite our 0.75 S cent/quarter assumptions. Sustained margins that trump our estimates and continued ability to grow student population beyond our forecasts will incentivise us to edge our valuation upwards.***(Kelly Chia)***

For more details, please refer to full report.

Sembcorp Marine Ltd: Wins first new build contract.

US$247.m new build contract win. Sembcorp Marine (SMM) has secured a rig order from Gander Drilling Limited, a wholly-owned subsidiary of SeaDragon Offshore Limited, to complete and deliver a Moss Maritime Full Dynamically Positioned (DP-3) Semi-submersible drilling unit with an option for an additional unit. SMM will complete the build after the bare-deck hull arrives (latest by Apr 2009) from a Russian shipyard which constructed the hull. SMM has experience with bare-deck hulls from a similar contract with Noble Drilling in May 2007. This semi is scheduled for delivery by end 2010.

Financial reasons to like it. This contract is not a speculative build as it comes with a US$958m five-year contract with Mexico's National Oil Company, Pemex. A check with industry research site, Rigzone, indicates that the rig has full asset financing arranged by Lloyds TSB Bank. Moreover, SMM has received a deposit for the rig as well as a "favourable schedule" of regular payments. This reduces the risk of bullet payments and will smoothen out the contribution to SMM's earnings.

Operational reasons to like it. Rigzone has also indicated that the original yard slated to finish the work was to be the Haverton Hill Yard. In obtaining this contract (and its option for the second rig) from Haverton Hill, SMM effectively authenticates its strength as one the leading rig yards in the world, providing on-schedule, on-budget deliveries of new generation rigs. While SMM has not constructed this particular rig design, it has experience with finishing bare-hulled jobs, evident from its May 07 contract with Noble Drilling. Completing this project will add another feather to its cap for building experience in an array of rig models. To top it off, SeaDragon is a new customer.

Better sentiments but remain cautious. This win puts some ease into our estimates but SMM still has another S$1b worth of wins to catch up with our forecasts for FY09. We have bumped up our valuation peg to 11x FY09 PER (prev. 10x) as positive sentiments on the Oil and Gas sector have somewhat returned. While our fair value is now raised in tandem to S$2.02 (prev. S$1.85), we remain cautious on the 68% rise in share price since its low on 3 Mar 09. As such, we are downgrading our rating to **HOLD**, purely based on valuations. Sustained rise oil prices along with an accelerated pace of contract wins will incentivise us to nudge our valuations upwards. ***(Kelly Chia)***

Monday	Tuesday	Wednesday	Thursday	Friday
06-Apr	**07-Apr**	**08-Apr**	**09-Apr**	**10-Apr**
		Ezra 2H09 Thomson med 1H09 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 Miyoshi 1H09	US Mar PPI US Mar Advance Retail Sales	SGX 3Q09 SG Feb Retail Sales US Mar CPI US Mar Indust Production	M1 1Q09 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**
Evergro Prop/Keppel T&T/SPC 1Q09 US Mar Leading Indicators	K-REIT Asia 1Q09	Keppel Land 1Q09	Keppel Corp 1Q09 SG Mar CPI	CSM 1Q09
27-Apr	**28-Apr**	**29-Apr**	**30-Apr**	**01-May**
			Venture 1Q09 SG Mar Money Supply SG Mar Bank Loans & Advances SG 1Q Umployment Rate	
04-May	**05-May**	**06-May**	**07-May**	**08-May**
	Noble 1Q09			

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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