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8 April 2009

Market Pulse

Key Singapore Indices			
	Close	Chg	% Chg
STI	1802.4	-45.6	-2.5
Catalist	70.1	0.4	0.6
Finance	425.0	-17.2	-3.9
Property	364.2	-19.9	-5.2
Electronics	346.2	-12.1	-3.4
Vol (m)	1227.0	-775.9	-38.7
Val (S\$m)	1094.3	-469.8	-30.0

World Indices			
	Close	Chg	% Chg
Dow Jones	7789.6	-186.3	-2.3
Nasdaq	1561.6	-45.1	-2.8
S&P500	815.6	-19.9	-2.4
FTSE	3930.5	-63.0	-1.6
KLCI	919.8	-3.9	-0.4
Hang Seng	14929.0	-69.1	-0.5
Nikkei	8832.9	-25.1	-0.3
SET	442.6	-3.5	-0.8
KOSPI	1300.1	2.3	0.2
TWSE	5576.9	20.6	0.4

Market Statistics (SG)			
STI 52-week range	1,455	3,270	
No. of gainers		144	
No. of losers		316	
No. of unchanged		162	

Economic Statistics		
	Close	Chg
S\$/US\$	1.5	0.0
Yen/US\$	100.7	0.3
3-mth S\$ SIBOR	0.7	0.0
3-mth US\$ SIBOR	1.2	0.0
Crude futures (US\$)	48.4	-0.7

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Key Idea

Market Update: Weak earnings could dampen sentiment

Global equity indices rebounded recently, and some indices are now in positive territory (year-to-date) including the STI. However, most economic numbers pointed to significantly lower economic activities and this will continue to weigh on consumer confidence and demand, and corporates have cut-back on capital expenditures and investments. While the worst appears to be over, aided by recent mega economic stimulus packages and the G20's pledge of more than US\$1 trillion in aid, the recovery process is still slow. Job cuts remain and in the most recent release, US employers cut 663,000 jobs in March, bringing the total since Dec 2007 to 5.1m. Based on the S&P 500 companies, analysts are expecting 1Q earnings to drop 37% (-31% expected for 2Q and -18% in 3Q). In Singapore, dividend payments for blue chips in the coming 1-3 weeks should help to provide some temporary share price support in Singapore, but May could see weakness from weak corporate results. We see some near term correction ahead, but on price weakness, our picks are Ezra, Golden Agri, Hyflux, Midas, MobileOne, Pacific Andes, Raffles Education, SingTel, SMRT, Spore Post, StarHub, Straits Asia Resources, Suntec and UOL.

More reports:

- **Singapore Property: Outperformers in recent market rally**
- **CapitaLand Ltd: Looks fairly-valued now**
- **Keppel Land Ltd: Risk fairly reflected in current market value**
- **SingTel: Australia cans NBN RFP**

News Headlines

- SGX will launch the SGXAccess API platform, a faster access platform, with a new service called Securities Market Direct Feed.
- The World Bank has held out China as a 'ray of hope' for a turnaround in East Asia - but added that a sustainable recovery still hinges on growth in the advanced economies.
- M1 will launch Singapore's first prepaid mobile broadband service today, offering unlimited data usage.
- Thomson Medical reported a 6.7% YoY rise in revenue to S\$15.6m for 2Q09 while attributable net profit rose 4.8% to S\$3.1m.
- Parkroyal Serviced Residences Singapore, a unit of UOL, has completed a S\$3.1m refurbishment, with 40 of the 90 units given a facelift over the past four months.
- Pacific Healthcare has opened its third specialist and wellness centre in Mumbai, India.
- KTL Global has utilized S\$7.35m of the net proceeds from its IPO offering in Dec 07.

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

Market Update: Weak earnings could dampen sentiment

Global indices have rallied in recent weeks. In the last few weeks, most key indices rebounded, with some indices now in positive territory for the year. For example, the STI rebounded from the trough of -17.4% to be up 2.3% for the year now. Others have erased some losses, for example, the Dow is now down 11.2% versus down 26.3% at 2009 trough.

Global recession is deeper than anticipated; confidence remains frail. Most economic numbers have pointed to significantly lower economic activities. This has hurt consumer demand and corporates have cut-back on capital expenditures and investments. While the worst appears to be over, aided by recent mega economic stimulus packages and the G20's pledge of more than US\$1 trillion in aid, the recovery process is still slow. The pace of decline may have also bottomed, but the coming 1-2 quarters are likely to continue to show signs of economic deterioration. The spectre of more job cuts remains and in the most recent release, US employers cut 663,000 jobs in March, bringing the total since Dec 2007 to 5.1m.

Decline in corporate earnings. Based on the S&P 500 companies, analysts are expecting 1Q earnings to drop 37% (-31% expected for 2Q and -18% in 3Q). This could mean more job cuts, extending even to Asia. Other lingering concerns include the decline in asset prices and tight credit conditions. If S&P500 outlook is any indication, Singapore corporates could also see similar double-digit decline in earnings.

What about M&A? Merger and acquisitions should technically be rife at current valuations, but unfortunately, funding is difficult to come by. In addition, offers may not be attractive enough for sellers to bite (IBM's recent offer for Sun Microsystems was rejected). Meanwhile, US banks are still in a bad shape, as most are burdened with toxic assets and there is still no clear resolution and some may have to ultimately write-off these assets.

Earnings will dominate in coming weeks. Key government actions have supported the market in recent weeks. Risk aversion is likely to remain (as seen from the still anaemic trading volume), although early signs of tentative recovery should help to cheer the market. Overall, the soon-to-be dished out dividend payments for blue chips in the coming 1-3 weeks should help to provide some temporary share price support in Singapore, but May could see weakness from weak corporate results.

Near term correction ahead. As the STI has recovered some 24% from recent lows in less than a month, we see near-term resistance ahead. In addition, most of the stocks with BUY ratings under our coverage have also appreciated quite significantly. For example, SembCorp Marine rose 64% from 2009 trough to peak, and we downgraded it recently to a HOLD. Similarly, DBS was raised to a BUY on 4 Mar 2009, and it has appreciated 22% since. We see some near term correction ahead, but on price weakness, our picks are Ezra, Golden Agri, Hyflux, Midas, MobileOne, Pacific Andes, Raffles Education, SingTel, SMRT, Spore Post, StarHub, Straits Asia Resources, Suntec and UOL. (*Carmen Lee*)

For more details, please refer to full report.

Singapore Property: Outperformers in recent market rally

Developers outperform in recent market rally. After hitting a 52-week low on 9th March, the STI has since recovered strongly and gained 24% to yesterday's close of 1,802.39. The FTSE Real Estate Holding and Development Index (FSTREH) outperformed the STI and gained 31.1% over the same period. Gains were largely driven by the large and mid-cap developers as their share prices increased by an average of 24.5% and 24.2%, respectively. Among the large-cap developers, gains were not widespread, with CapitaLand, City Developments and Keppel Land being the best performers. Small-cap developers continued to underperform the FSTREH, gaining 14.4% during the period, as the market remains cautious over the health of their balance sheets and financing capabilities.

Fundamentals still look fragile. Last week, URA's release of its 1Q08 flash estimate for the private property price index showed that property prices fell by 13.8% QoQ, which is a record quarterly decline since the index was started in 1975. Sharp decline in prices had brought about improvement in developers' sales figure in 1Q09, but we believe that this could be driven by the pent-up demand in the market after months of slowing sales and also, the narrowing of price gap between HDB flats and mass market properties. Sustainable demand will still have to depend on the economy, wages and unemployment, which are still looking fragile at the moment.

Downgrading CapitaLand and Keppel Land to HOLD. In light of the recent run-up in share prices of property developers, we now re-look at our ratings for the developers. With no catalyst in sight for a sustainable recovery in the property market, we prefer to remain conservative and maintain the current discount rates (30% for CapitaLand and City Developments, 40% for UOL Group, 50% for Soilbuild and 60% for Keppel Land) to our valuations of the developers' residential projects, landbank and investment properties. Differences in discount rate reflect our perception of risk exposure of the developers and the differences in their balance sheet strength. However, we have adjusted our fair value of the developers to reflect the change in the market valuation of their investments in listed REITs and companies. With reference to our new fair value (refer to table below), we maintain **BUY** recommendations for **UOL Group** and **Soilbuild** and **HOLD** for **City Developments**. As we see limited share price upside potential for **CapitaLand** and **Keppel Land**, we are now downgrading them to **HOLD**. (*Foo Sze Ming*)

For more details, please refer to full report.

CapitaLand Ltd: Looks fairly-valued now

Strong recovery in share price. The recent market rally had seen the share price of CapitaLand (CapLand) staging a significant recovery. While the STI has now gained 23.7% after hitting its 52-week closing low of 1,456.95, CapLand has surged 43.6% over the same period. With no catalyst in sight for a sustainable recovery in the property market, we believe that the recent spike in share price is largely sentiment-driven, rather than fundamentally-driven one.

Rights issue completed. Since our last report in February, CapitaLand has completed its Rights issue and with that, it had successfully raised gross proceeds of S\$1,835.5m. For CapitaMall Trust's (CMT) Rights issue, CapLand subscribed for a total of 446.1m Rights units and the capital commitment for the subscription amounted to S\$365.8m. Upon the completion of its Rights issue and its subscription for CMT's Rights shares, CapLand now has a cash hoard of ~S\$5,698.1m and its net gearing has fallen from 0.46x to 0.3x. Focus will now be on the deployment of the funds raised, which could be a potential catalyst to the re-rating of CapLand's shares.

Limited impact on landbank write-down. As the property market continues to deteriorate, we are seeing increasing risks of write-down in landbank, especially those acquired during the later stage of the property upcycle. For CapLand, its acquisition of Char Yong Garden (at S\$1,788 psf ppr) and Farrer Court (at ~S\$780 psf ppr) could be at risk of write-down. Taking into consideration CapLand's effective stakes in these two acquisitions (50% in Char Yong Gardens and 35% in Farrer Court), CapLand's total exposure is ~S\$877m and the exposure on CapLand's book value is limited as these account for ~6.3% of CapLand's book value.

Downgrading to HOLD on valuations; Fair value S\$2.51. To reflect the increase in market valuation of its listed REITs and investments, our RNAV estimate of CapLand has now been raised to S\$3.06 (previously S\$3.00). At current share price of S\$2.57, CapLand is trading at price/book of 0.87x and price/RNAV of 0.84x. We maintain our 30% discount on our valuation of CapLand's development profits and investment properties and no discount for its listed investments. Our fair value of CapLand has now been raised to S\$2.51. While fundamentals remain solid, valuation looks rich now. Purely on valuation, we are now downgrading CapLand to **HOLD**. (*Foo Sze Ming*)

Keppel Land Ltd: Risk fairly reflected in current market value

Top share price performer among large-cap developers. Among the large-cap developers, Keppel Land (KepLand) was the best performer in terms of share price performance during the recent market rally, rising 43.9% from its closing price on 9th March. It outperformed the 23.7% gain in the STI and the average gain of 24.5% for the large-cap developers during the same period. Prior to the market rally, KepLand's share price had underperformed its peers and we believe that the outperformance in KepLand's shares could be driven by oversold buying.

Slow sales expected for FY09. Property sale for KepLand is expected to remain slow in 2009 as its unsold properties and landbank are catered more towards the high-end segment. In light of the weak demand for high-end properties, we believe that KepLand will continue to hold back its new launches and allocate the resources to its two ongoing office developments - Marina Bay Financial Centre and Ocean Financial Centre. Nevertheless, earnings in the property development segment will continue to be driven by the progressive profit recognition of sold projects in Singapore (Marina Bay Residences, The Sixth Avenue Residences, The Suites at Central and Reflections at Keppel Bay) and overseas. Risk of write-down in landbank is minimal as the carrying value of KepLand's landbank is low and it had not acquired during the property upcycle.

Downgrading to HOLD on valuations; Fair value of S\$1.79. To reflect the increase in market valuation of K-REIT and Evergro, our RNAV estimate of KepLand has now been raised marginally to S\$3.70 (previously S\$3.67). At current share price of S\$1.64, KepLand is trading at price/book of 0.48x and price/RNAV of 0.44x. Risk for KepLand is relatively higher than its peers, given its higher RNAV exposure (~38% of RNAV, inclusive of K-REIT) to the Singapore office sector that faces significant headwind going forward, and the limited scale of diversification in its operations in comparison to peers. To reflect its higher risk profile, we have pegged a 60% discount to our valuation of KepLand's development profits and investment properties and no discount has been ascribed to its listed investments. Our fair value of KepLand has now been raised to S\$1.79. We believe that current market value fairly reflects the risk of KepLand. With a limited upside potential of 9.2%, we are now downgrading KepLand to **HOLD**. (Foo Sze Ming)

SingTel: Australia cans NBN RFP

SingTel's Australian unit Optus announced yesterday morning that the Australian government has formally terminated the RFP (request for proposal) for companies to roll out and operate a National Broadband Network (NBN) for Australia; this as an independent panel found that none of the national proposals offered value for money. Instead, the government will establish a new company that will invest up to A\$43b over eight years to build and operate the NBN, which may involve private sector investment. In any case, the news should alleviate any worries that investors have over the need for additional funding (would have been massive) should Optus be picked as the NBN winner. The setting up of a new government-owned NBN company should also help to level the playing field against the incumbent Telstra, allowing Optus and other telcos better access to the networks; however, the boost is likely to be more in the long term. Nevertheless, we still like SingTel for its defensive earnings. Maintain **BUY** with S\$3.09 fair value. (*Carey Wong*)

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 Employment Rate	
04-May	05-May	06-May	07-May	08-May
	Noble 1Q09		StarHub 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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