

17 April 2009

Market Pulse

Key Singapore Indices			
	Close	Chg	% Chg
STI	1891.8	-14.2	-0.7
Catalist	80.1	0.1	0.1
Finance	455.5	-1.7	-0.4
Property	391.0	-8.2	-2.1
Electronics	396.2	-2.5	-0.6
Vol (m)	3818.1	263.5	7.4
Val (S\$m)	1892.4	196.7	11.6

World Indices			
	Close	Chg	% Chg
Dow Jones	8125.4	95.8	1.2
Nasdaq	1670.4	43.6	2.7
S&P500	865.3	13.2	1.6
FTSE	4053.0	84.6	2.1
KLCI	961.3	4.6	0.5
Hang Seng	15583.0	-86.6	-0.6
Nikkei	8755.3	12.3	0.1
SET	453.0	-0.9	-0.2
KOSPI	1336.7	3.6	0.3
TWSE	5997.2	122.0	2.1

Market Statistics (SG)		
STI 52-week range	1,455	3,270
No. of gainers		305
No. of losers		326
No. of unchanged		195

Economic Statistics		
	Close	Chg
S\$/US\$	1.5	0.0
Yen/US\$	99.4	0.1
3-mth S\$ SIBOR	0.7	0.0
3-mth US\$ SIBOR	1.1	0.0
Crude futures (US\$)	49.9	-0.1

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Key Idea

Ascott Residence Trust: Long term growth, albeit with near-term volatility

We are re-initiating coverage on Ascott Residence Trust (ART). ART owns a portfolio of serviced residence and rental housing properties in the pan-Asian region. We like ART's parentage, strong brand reputation and geographical diversification. We expect RevPAU to remain volatile (and on a downtrend) with demand for corporate travel impacted by the current macroeconomic turmoil. We estimate that DPU will decline 24% YoY in FY09F and 7% YoY in FY10F to 6.6 S cents and 6.2 S cents respectively. In our view, current share prices reflect a belief that business conditions deteriorate to a certain extent and then stay that way. We believe ART is a viable investment option for investors who can accept the near-term yield volatility and judge ART on the basis of its long-term prospects (which we think are sound). Our fair value estimate for ART is S\$0.57, at a 25% discount to our SOTP estimate of S\$0.76. This incorporates our assumption of an equity issue of S\$160m at current price levels. Re-initiate with **BUY** rating

More reports:

- **MobileOne Ltd: 1Q09 results within expectation**
- **Pacific Shipping Trust: Charterer CSAV seeking rate reduction**
- **CapitaMall Trust: Suburban malls turn in weaker performance**

News Headlines

- Construction proper of Singapore's underground oil storage project is set to start with Hyundai Engineering & Construction clinching the main S\$890m "design and build" contract this week.
- City Developments said it achieved about S\$190m sales from selling about 150 units at The Arte at Thomson since Mar 21.
- NOL expects its 1Q09 results to show an estimated net loss of US\$240m but said the estimate is subject to finalization.
- C&G Industrial Holdings plans to acquire CUGU Environmental Protection International for RMB359m to explore opportunities in the waste-to-energy sector.
- BH Global Marine reported a 7% YoY fall in revenue to S\$22.8m and a 31% drop in net attributable profit to S\$3.4m for 1Q09.
- Group President and CEO of SembCorp Marine, Mr. Tan Kwi Kin, will retire next month.
- A unit of Singapore Power will sell S\$100m of bonds for working capital.
- Fibrechem Technologies said one of its loan facility lenders is seeking repayment for about US\$5.7m.

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

Ascott Residence Trust: Long term growth, albeit with near-term volatility

Part of a strong franchise. We are re-initiating coverage on Ascott Residence Trust (ART). ART owns a portfolio of serviced residence and rental housing properties in the pan-Asian region. The REIT's properties are managed by The Ascott Group (Ascott), the serviced residence arm of 47.2% stakeholder CapitalLand. Ascott is the world's largest international serviced residence owner-operator and has a 25-year industry track record. Its serviced residence brands enjoy world-wide recognition and strong award-winning reputations. ART's highly diversified portfolio spans 11 cities in seven countries with no country contributing more than 25% of total FY08 revenue. ART trades at one of the highest forward yields within the S-REIT sector. It is also trading at a 68% discount to last reported NAV.

Near-term yield volatility. RevPAU is the key metric driving ART's earnings and distributions performance. 4Q08 RevPAU showed the first impact of global economic events. ART's China properties saw a 43% drop in 4Q RevPAU to S\$127, as rates and occupancy fell post-Olympics. ART's Singapore properties saw a 12% decline in 4Q08 RevPAU to S\$230. We expect RevPAU to remain volatile (and on a downtrend) with demand for corporate travel impacted by the current macroeconomic turmoil. We are estimating DPU of 6.6 S cents for FY09F (down 24% YoY) and 6.2 S cents for FY10F (down 7% YoY). These figures are roughly 6-7% below consensus.

A viable investment option. While we agree that yields will decline in FY09-10F, ART's current valuation seems to be pricing in a perpetual bear case. In our view, current share prices reflect a belief that business conditions deteriorate to a certain extent and then stay that way. The investment question then breaks down into two components: 1) A volatile (but still comfortable) yield over the next two years, and 2) A very low "floor" valuation that leaves ample room on the upside. We believe ART is a viable investment option for investors who can accept the near-term yield volatility and judge ART on the basis of its long-term prospects (which we think are sound).

Re-initiating with BUY rating. Our SOTP value of the trust is S\$0.76. This incorporates our assumption of an equity issue of S\$160m at the S\$0.45 price level. Our fair value estimate for ART is S\$0.57, at a 25% discount to our SOTP value. Key risks to our estimates include a worse-than-expected deterioration in the economic outlook in ART's operating markets, a larger-than-expected cash call or more-than-expected dilution, and higher debt costs. *(Meenal Kumar)*

For more details, please refer to full report.

MobileOne Ltd: 1Q09 results within expectation

1Q09 results mostly within expectation. MobileOne (M1) reported its 1Q09 results last evening, with revenue down 8.6% YoY and 4.3% QoQ at S\$186.4m, meeting 24% of our FY09 forecast. Management noted that this decline was due to a combination of the economic slowdown and higher competition. But due to an improvement in operating expenses (mainly due to lower staff costs), profit before tax declined by a smaller 5.7% YoY and 2.2% QoQ to S\$44.1m. Meanwhile, net profit jumped 10.4% YoY and 14.5% QoQ to S\$41.9m, or around 29.1% of our full-year estimate, aided by a sharp drop in taxes; this was due to one-off accounting adjustment for the reduction in corporate tax rate from 18% to 17%.

Loses post-paid market share as expected. On the business front, M1 felt both the impact of the economic slowdown - leading to lower roaming revenue - as well as stiffer competition. More importantly, M1 saw a near-12k QoQ drop in subscribers in 1Q09, where its post-paid segment lost nearly 4k subscribers, which reduces its market share from 27.2% to 26.8%; this despite a drop in its monthly churn rate from 1.7% in 4Q08 to 1.6%. We had previously articulated that M1 faces a slight disadvantage due to its lack of bundling abilities as compared to the other telcos, and this could continue to be a concern until it can become an integrated services provider when the NBN (National Broadband Network) comes online from next year onwards. In the meantime, M1 intends to defend and reverse the decline in its post-paid market share. We expect this to result in higher S&P expenses and reverse the decline in average acquisition and retention costs (See Exhibit 1).

Guides for stable operations for FY09. M1 continues to expect 2009 to remain challenging, mainly due to the economic downturn, but it maintains its guidance of stable operations; management later clarified that the stability will be in terms of profitability (See Exhibit 2), citing continued cost discipline and improvements in operating efficiency. We are leaving our FY09 estimates unchanged (already expecting drops of 2.7% and 4.1% in revenue and earnings, respectively). And against the still uncertain economic backdrop, we like M1 for its defensive and strong free cash flow-generating business, and dividend paying ability (80% payout ratio). We also see M1 as one of the biggest beneficiaries of the NBN initiative. As such, we maintain **BUY** and S\$2.12 fair value. *(Carey Wong)*

Pacific Shipping Trust: Charterer CSAV seeking rate reduction

Charterer CSAV seeking rate reduction. Pacific Shipping Trust's (PST) customer CSAV is asking ship owners (such as PST) for a temporary reduction in charter hire payments. Two PST vessels (out of a 12 vessels fleet) are chartered to CSAV on 5-year time charters. These charters contribute 30% of PST's annual revenue.

Expect PST will agree. We expect PST to agree to the renegotiation request. The reality is that accepting this reduction is probably the best option PST has in today's environment. PST's manager acknowledged that vessels of comparable size to the two PST vessels are currently unemployed and while the current market rate would cover operating costs, it would likely not be enough to cover both interest expenses and debt repayments. Lower cash flows from CSAV are better than no cash flows at all, in our view.

Still a lot of unknowns. Discussions are still in very preliminary stages. This is a complicated process as CSAV will have to negotiate reductions with all the numerous ship owners. Based on CSAV's targeted savings, PST estimates that it may be asked for a 30% reduction in charter rates. This figure only holds if every owner agrees to similar terms (a big if). Typically, ship owners would demand some sort of compensation in return - revenue clawback or partial payment in CSAV equity - that has yet to be determined. Also unclear is how PST's lenders will react to what likely qualifies as 'material change' in the trust's circumstances. PST's lenders could conceivably tack on a punitive spread to PST's cost of debt (increasing interest expense) or demand higher debt repayments.

Will PIL follow suit? PST derives the remaining 70% of its annual revenue (on original rates) from bareboat charters to its sponsor and 59.2% stakeholder, Pacific International Lines (PIL). PST said it has not received any indications from PIL regarding rate reductions. Despite their strong ties, a request for renegotiation is not unlikely, especially if the container industry's performance continues to deteriorate.

Maintain HOLD. We have reduced our revenue forecasts for FY09-10F by 7% and 9%, and slashed DPU estimates by 17% and 22%. We may need to make further revisions as more details emerge. Counterparty risk (and lender reaction) remains the key risk, and we think this is reflected in our US\$0.16 fair value estimate. PST will release 1Q09 results next week. PST already has a fairly conservative distribution payout policy but the Board may have to be even more prudent in light of recent events. *(Meenal Kumar)*

CapitaMall Trust: Suburban malls turn in weaker performance

CapitaMall Trust (CMT) announced its 1Q09 results this morning. Gross revenue increased by 11.1% YoY to S\$134.5m but was flat QoQ. Net property income increased by a smaller 9.1% YoY and 7.5% QoQ to S\$92.4m due to higher operating expenses from the acquisition of The Atrium and the opening of the Sembawang Shopping Centre. On the operating front, portfolio's occupancy rate has fallen marginally from 99.7% (end FY08) to 99.5% (end 1Q09), but remains above the 98% occupancy rate that we used in our valuation. Rental rates remain under pressure as CMT is seeing a slowing down in the increase of current rental rates to the preceding rental rates. Contrary to the perception of the defensiveness of suburban retail malls, some of these malls - IMM, Lot One, Hougang Plaza and Sembawang Shopping Centre -had experienced declines of between 17.2% and 24.4% in the current rental rates against preceding rents. Nevertheless, CMT has already locked in 90% of FY08 gross revenue (~S\$460m) for FY09 and this will provide strong DPU visibility for FY09. For the quarter, CMT will be distributing 1.97 S-cents, which translates to an annualized dividend yield of 6.2%. Current share price is trading above our previous fair value and with no positive catalyst in the near future, we are now downgrading CMT to **HOLD** (more details later and our fair value estimate for CMT is now under review). *(Foo Sze Ming)*

Monday	Tuesday	Wednesday	Thursday	Friday
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	CMT 1Q09/A-REIT 4Q09 SG Mar NODX/SG Mar Electronic Exports China Mar PPI & CPI/China Mar Ret Sales China Mar Fixed Assets Inv/China Mar Ind Prod 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 FSLT 1Q09	Keppel Land 1Q09 Ascott Residence Trust 1Q09 PST 1Q09 (est)	Keppel Corp 1Q09 SG Mar CPI Aztech/MLT 1Q09 FCT 2Q09 (est)	CSM/CapitaLand 1Q09 SMRT FY09
27-Apr	28-Apr	29-Apr	30-Apr	01-May
China XLX 1Q09 Cambridge Ind Trust 1Q09	Suntec REIT 1Q09 (est) Ascendas India Trust 4Q09	Indofood 1Q09	Venture/CCT 1Q09 SG Mar Money Supply SG Mar Bank Loans & Advances SG 1Q Unemployment Rate	
04-May	05-May	06-May	07-May	08-May
	Noble 1Q09 GE 1Q09	OCBC 1Q09	StarHub 1Q09	Koda 3Q09 (est)
11-May	12-May	13-May	14-May	15-May
CDL 1Q09 China Apr PPI/China Apr CPI	Food Empire 1Q09 China Apr Trade Bal	China Apr Retail Sales China Apr Ind Production	SIA FY09 Olam 3Q09	SG Mar Retail Sales

All US Tech results dates have been adjusted to Singapore Date

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

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OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented.

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