

MITA No. 014/06/2008

22 April 2009

Market Pulse

Key Singapore Indices			
	Close	Chg	% Chg
STI	1887.3	12.4	0.7
Catalist	76.5	-1.7	-2.1
Finance	447.4	-2.5	-0.6
Property	382.2	-4.8	-1.2
Electronics	433.5	-3.8	-0.9
Vol (m)	1638.6	-124.3	-7.1
Val (S\$m)	1270.8	192.0	17.8

World Indices			
	Close	Chg	% Chg
Dow Jones	7969.6	127.8	1.6
Nasdaq	1643.9	35.6	2.2
S&P500	850.1	17.7	2.1
FTSE	3987.5	-3.4	-0.1
KLCI	966.6	-1.8	-0.2
Hang Seng	15285.9	-465.0	-3.0
Nikkei	8711.3	-213.4	-2.4
SET	466.4	0.1	0.0
KOSPI	1336.8	0.4	0.0
TWSE	5881.4	99.8	1.7

Market Statistics (SG)		
STI 52-week range	1,455	3,270
No. of gainers		150
No. of losers		385
No. of unchanged		161

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	1.1	0.0
Crude futures (US\$)	48.9	0.3

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Key Idea

UOB: Downgrade on valuation grounds

UOB has rallied 40% from the March 2009 trough. In 4Q08, UOB posted higher than expected impairment charges of S\$381m. For 1Q09, we expect impairment charges to remain high for all the three banks, and project charges of S\$280m for UOB, +215% YoY and -26% QoQ. Overall, we are expecting 1Q net earnings of S\$316m, down 40% YoY and 5% QoQ. We continue to like UOB for its healthy asset quality and its continual profitability. However, with the global economic recession and the resultant weakness in the Singapore economy, trading activities will decline sharply and hurt earnings for the banks. This will be seen in higher NPLs and high impairment charges. This will also mean that for the medium term, share price appreciation may be capped until a more convincing return to sustained profitability and a bottoming-out is seen for new NPLs. We retain our fair value estimate of S\$9.30, but downgrade to **SELL** purely on valuation as we see limited near term price upside and possible near term weakness.

More reports:

- **CapitaCommercial Trust: Looking beyond the weak office market outlook**
- **SSH Corporation Ltd: Waiting for signs of a sustained recovery**
- **M1: Appoints CFO as new CEO**
- **Ascott Residence Trust: 1Q Revenue falls 11.7% QoQ**

News Headlines

- A day after announcing a new investment in India, Raffles Education said it will pump in RMB5m into a new school in China.
- K-Reit Asia said DPU fell to 2.38 S cents in 1Q09, down 48% YoY on an enlarged share base after a rights issue.
- Beauty China said it has received an offer from investors holding a combined 27.45% stake in the group to sub-underwrite a proposed rights issue to raise S\$32m.
- Texchem-Pack Holdings (S) said it expects to report a net loss for 1Q09 against a net profit of RM2.25m in 1Q08.
- Valuetronics said its profit for FY09 is expected to be lower than that of FY08 with the severe global economic slowdown.
- China Sky Chemical Fibre warned it will report a net loss for 1Q09 due to factors such as relatively high raw material costs and weak demand from customers.
- A unit of China Precision Technology has entered into a conditional business transfer agreement with MAHK Co Ltd to acquire some its businesses and assets for S\$13.7m.
- Resorts World at Sentosa is expecting strong demand for its hotels from potential corporate clients, based on the positive response to sneak peaks of its designer hotel rooms.

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

UOB: Downgrade on valuation grounds

UOB rallied 40% from 2009 trough. Since our last report on 2 March 2009 where we recommended accumulating at less than \$9.30, UOB hit a 2009 low of S\$8.07, but rallied 40% recently to a high of S\$11.32. While the worst appears to be over for the equity market, the same cannot be said about the local economy. Recently, Singapore's 2009 growth was revised down to a range of -6% to -9%. Over in the US, while equity prices rallied in recent weeks, the economic numbers continued to show weakness, and high unemployment rate remains a concern. Valuations for the STI are also starting to look a bit stretched, especially in view of expected dismal 1Q and 2Q earnings. Recently, there was also a spate of smaller-cap companies in Singapore issuing profit warnings and all these point to still bearish operating environment. Against this backdrop, we expect provisions for banks to be a key item to watch out for in the upcoming results of the three banks. UOB and OCBC will be releasing 1Q results on 6 May 2009, while DBS will be issuing its 1Q report card on 8 May.

High impairment charges. In 4Q08, UOB posted higher than expected impairment charges of S\$381m, more than doubled 3Q08's level of S\$158m, and the highest of the three banks. For 1Q09, we expect impairment charges to remain high for the three banks, and project charges of S\$280m for UOB, +215% YoY and -26% QoQ. Overall, we are expecting 1Q net earnings of S\$316m, down 40% YoY and 5% QoQ.

Maintain fair value of S\$9.30, but cutting to SELL. We continue to like UOB for its healthy asset quality and its continual profitability. However, with the global economic recession and the resultant weakness in the Singapore economy, trading activities will decline sharply and hurt earnings for the banks. This will be seen in higher NPLs and high impairment charges. This will also mean that for the medium term, share price appreciation may be capped until a more convincing return to sustained profitability and a bottoming-out is seen for new NPLs. We are maintaining our earnings estimates and retaining our fair value estimate of S\$9.30, but downgrading to **SELL** purely on valuation as we see limited near term price upside and possible near term weakness at the current level. (*Carmen Lee*)

CapitaCommercial Trust: Looking beyond the weak office market outlook

Wide tenant base mitigates tenancy risk. Tenancy risk for CCT is well-managed, with a wide base of 540 tenants. CCT's maximum exposure to a single tenant is ~13% of its monthly gross rental income and this comes from RC Hotels. The top ten tenants contribute approximately 50% of monthly gross rental income. Other than RC Hotels and Standard Chartered Bank, the remaining tenants each contribute $\leq 5\%$ of CCT's monthly gross rental income.

Strong landlord-tenant relationship minimizes tenant turnover. CCT has maintained good relationship with its tenants. This is seen from the long term relationship between CCT and some tenants who have stayed with CCT since its establishment. Some tenants, such as Standard Chartered Bank, have also taken up long term lease contracts with CCT.

S\$282.3m of gross rental locked in for FY09. CCT's income visibility remains very healthy for FY09. At the end of FY08, CCT had already locked in 79% (~S\$282.3m) of its forecast gross rental income for FY09. As prime and Grade A office average rents continue to decline, rental upside from lease renewals is expected to decline but the impact is mitigated by the small % of expiring lease in FY09.

An equity fund raising may be needed by 2011. While we do not foresee major issues with the refinancing of borrowings due in FY09 and FY10, chances of an equity fund raising appear to be higher in FY11 with the significant liquidity needs. Total borrowings due for refinancing in FY11 could increase to S\$1,006m if convertible bonds holders exercise early redemption option. With the declining valuation of its properties, gearing level is expected to trend upwards and CCT may also have to consider equity fund raising to keep its gearing level in line with the S-REITs sector's gearing level.

Go for the yield and assets; re-initiate with BUY. We advise investors to look beyond the weak office market outlook and focus on the quality of CCT's assets and the DPU yield of CCT over the next 2 years. For FY09 and FY10, we still expect CCT to deliver DPU yields of 12.3% and 10.5%, respectively. Having a strong sponsor in CapitaLand could also provide support to CCT if there is any need for fund raising. We derive a RNAV estimate of S\$1.06 per share for CCT and we peg our fair value estimate at S\$1.06, which is at par to its RNAV. We re-initiate coverage on CCT with a **BUY** rating. *(Foo Sze Ming)*

For more details, please refer to full report.

SSH Corporation Ltd: Waiting for signs of a sustained recovery

Steel prices continue to fall. Global steel prices have more than halved since peaking in Jul 08 due to a dramatic decline in demand. Producers such as ArcelorMittal and mills in China have cut back on production, hoping for de-stocking to run its path and waiting for recovery. Indeed, China's iron ore and carbon steel imports experienced a month-on-month increase for the first time in February this year since July last year. As China is a major player in the steel industry, its recovery is likely to boost steel prices. However with the still-murky global economic outlook and languishing US market whose auto industry is on the edge, having high expectations on the steel industry is asking too much from China.

Support from industry diversification. SSH services the oil and gas, marine and petrochemical industries. The industry diversification will help cushion underperformance in any one sector, such as shipbuilding which has seen minimal new order flow. Shiprepair, though not immune in a recession, is likely to be less affected given that ships typically have to come in for repairs every 2.5 years. On the oil and gas front, though the EIA forecasts lower oil demand this year, there are still companies such as PT Perusahaan Gas Negara (Persero) Tbk that expect to raise capital expenditure by 33% to US\$200m this year. Finally, if SSH is able to increase its exposure to the infrastructure industry (one of the few sectors left in Singapore that is enjoying robust growth), the more support it will have during this recession.

Waiting for signs of a sustained recovery. Market sentiment has improved, but we note that economic indicators are pointing otherwise. As such, the recent rally in smaller-cap stocks is unlikely to be fundamentally driven, and signs of a sustained recovery have to be present before we turn more bullish on the stock.

Maintain HOLD. SSH has a good business model and its tripartite relationship with KS Energy and Aqua-Terra Supply should result in synergies and increased business opportunities compared to a stand-alone stockist. Though there are early signs that demand in China may be picking up, SSH's main industries still require a sustained recovery in other parts of the world. We maintain our **HOLD** rating and fair value estimate of S\$0.11. *(Low Pei Han)*

(OCBC Investment Research Pte Ltd (OIR) produced this report under the SGX Research Incentive Scheme. OIR is compensated S\$7,500 per annum for each company covered under the scheme.)

M1: Appoints CFO as new CEO

MobileOne (M1) has formally appointed its CFO – Karen Kooi – as its new CEO after an extensive internal and external search and review by its nominating committee. In the meantime, she will step down as the CFO and the appointment of her replacement will be announced at a later date. The appointment of Kooi – who is a veteran with the telco since Aug 1995 – should help M1 get on with its business and direction without any time lag (a new CEO may need time to get to know the company, etc) and we believe that the news should be good for the market. We maintain our **BUY** rating and S\$2.12 fair value. *(Carey Wong)*

Ascott Residence Trust: 1Q Revenue falls 11.7% QoQ

Ascott Residence Trust (ART) released 1Q results this morning, which bore the brunt of the global economic crisis. ART posted a 8% YoY and 11.7% QoQ decline in 1Q revenue to S\$42.1m, and a 16% YoY and 5% QoQ decline in gross profit to S\$19.9m. Overall RevPAU for the quarter came in at S\$120 per day, a 15% decline versus 1Q08 and a 9.8% decline versus 4Q08. The decline in RevPAU was mainly due to a decline in occupancy at the REIT's serviced residences. The manager said that demand for serviced residences was "significantly weaker" in China and Singapore but the performance of Indonesia, Vietnam and the rental housing business in Japan "continues to be relatively stable". 1Q09 DPU came in at 1.77 S cents (down 24% YoY), or an annualized yield of 15%. Note that distributions are paid half-yearly. Maintain **BUY** with S\$0.57 fair value estimate. *(Meenal Kumar)*

Monday	Tuesday	Wednesday	Thursday	Friday
20-Apr	21-Apr	22-Apr	23-Apr	24-Apr
Evergro Prop/Keppel T&T/SPC 1Q09 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 Lippo Mapletree/RMT 1Q09 (est)
27-Apr	28-Apr	29-Apr	30-Apr	01-May
China XLX 1Q09 Cambridge Ind Trust 1Q09 Starhill Global REIT 1Q09	Suntec REIT 1Q09 (est) Ascendas India Trust 4Q09 Allgreen Properties 1Q09	Indofood 1Q09	Venture/CCT 1Q09 CDL Hospitality 1Q09 (est) 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 GE 1Q09	OCBC 1Q09 UOB 1Q09	StarHub 1Q09	Koda 3Q09 (est) DBS 1Q09
11-May	12-May	13-May	14-May	15-May
CDL 1Q09 China Apr PPI/China Apr CPI	Food Empire/NOL 1Q09 SP Ausnet FY09 China Apr Trade Bal	China Apr Retail Sales China Apr Ind Production	SIA FY09 Olam 3Q09	SG Mar Retail Sales
18-May	19-May	20-May	21-May	22-May
SG Apr NODX SG Apr Electronic Exports				

*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

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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. **D RECOMMENDATIONS:**

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