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23 April 2009

# Market Pulse

Key Singapore Indices			
	Close	Chg	% Chg
STI	1843.4	-43.8	-2.3
Catalist	76.8	0.4	0.5
Finance	440.0	-7.4	-1.6
Property	375.6	-6.6	-1.7
Electronics	421.0	-12.5	-2.9
Vol (m)	1739.1	100.5	6.1
Val (S\$m)	1391.4	120.6	9.5

World Indices			
	Close	Chg	% Chg
Dow Jones	7886.6	-83.0	-1.0
Nasdaq	1646.1	2.3	0.1
S&P500	843.6	-6.5	-0.8
FTSE	4030.7	43.2	1.1
KLCI	968.6	2.0	0.2
Hang Seng	14878.5	-407.4	-2.7
Nikkei	8727.3	16.0	0.2
SET	460.6	-5.8	-1.2
KOSPI	1356.0	19.2	1.4
TWSE	5886.1	4.7	0.1

Market Statistics (SG)			
STI 52-week range	1,455	3,270	
No. of gainers		178	
No. of losers		318	
No. of unchanged		201	

Economic Statistics		
	Close	Chg
S\$/US\$	1.5	0.0
Yen/US\$	98.1	0.1
3-mth S\$ SIBOR	0.7	0.0
3-mth US\$ SIBOR	1.1	0.0
Crude futures (US\$)	48.6	-0.3

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## Key Idea

### Keppel Land: Results below expectations

Keppel Land's 1Q09 results fell short of our expectations. Revenue declined to S\$145.7m largely due to the completion of trading projects in FY08. However, the decline in bottom-line was mitigated by the increase in contributions from Marina Bay Residences and Reflections at Keppel Bay. Property sales improved in 1Q09 as KepLand managed to sell 15 units in Park Infinia at ~S\$1,200psf and 15 units in The Tresor at ~S\$1,300psf. Average selling price for the remaining units of these two projects had exceeded our price forecasts. On top of its cash holding, unutilised credit facilities of S\$1.8bn should provide sufficient buffer to fund its development projects over the mid term. We are now lowering our FY09 revenue and shareholders' profit forecasts to S\$720.3m and S\$222.7m respectively. Our RNAV estimate of KepLand has now been lowered to S\$3.62 (previously S\$3.70) and fair value has also been lowered to S\$1.76 (previously S\$1.79). We maintain our **HOLD** recommendation on KepLand.

### More reports:

- **Hotel Grand Central: Market conditions remain challenging**
- **Ascott Residence Trust: 1Q falls, but within expectations**
- **FSL Trust: Reinvestment scheme in play for 1Q09 distributions**
- **Pacific Shipping Trust: Pays out 0.98 US cents for 1Q09**

## News Headlines

- US Treasury Secretary Tim Geithner said that there is enough money left for economic initiatives with US\$110b remaining in the federal financial rescue fund and US\$25b more coming this year.
- According to the Energy Market Company, power demand here continued to fall last month, dropping 4.3% YoY.
- SGX and NYSE Euronext (NYX) will terminate their American Stock Exchange-SGX joint venture at the end of this month, following NYX's acquisition of the American Stock Exchange last October.
- Sunpower Group said it has won a RMB63.7m contract to manufacture and install pressure vessel equipment for Henan Longyu International Trading.
- After more than a month without having a single independent director on its board, Guangzhao Industrial Forest Biotechnology has appointed three independent directors.
- Allied Technologies warned it will record a loss for 1Q09, caused by significantly weaker demand resulting in lower sale orders. However foreign exchange gains may mitigate losses.
- Shanghai Allied Cement reported a 31% YoY rise in turnover to HK\$552.8m and a net profit of HK\$10.5m for FY08 compared to a net loss of HK\$15.2m for FY07.

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

**Keppel Land: Results below expectations**

**Results below expectations.** Keppel Land (KepLand) turned in a set of 1Q09 results that was below our expectations. Revenue fell 46.6% YoY and 26.2% QoQ to S\$145.7m largely due to the completion of trading projects in Singapore and overseas in FY08. Operating profit fell by a larger 55.1% YoY and 43.7% QoQ due to higher staff costs and forex loss. There was also a write-back of costs amounting to S\$5.3m that boosted operating profit in 1Q08. However, the decline in its bottom-line was mitigated by the increase in contributions from associates, mainly from Marina Bay Residences and Reflections at Keppel Bay. As such, net profit fell 38.8% YoY and 46.2% QoQ to S\$36.5m.

**Lagging behind in recent home sale frenzy.** Buying sentiment in the property market improved in 1Q09 but KepLand was unable to fully capitalise on it as its unsold inventories and landbank are catered towards the mid-high end housing segments. Nevertheless, sales were still better than 4Q08 as KepLand managed to sell 15 units in Park Infinia at ~S\$1,200psf and 15 units in The Tresor at ~S\$1,300psf. Average selling price for the remaining units of these 2 projects had exceeded our forecasts of S\$1,100 psf (Park Infinia) and S\$1,000 psf (The Tresor). No new projects were launched in 1Q09 as we believe that the conservation of resources for its office developments is now the key priority.

**Availability of funding sources eases fund raising concerns.** Net gearing ratio remains stable at 0.52x at end 1Q09 (end 4Q08: 0.52x). Cash balance remains healthy at S\$627m, with outstanding borrowings of S\$2.2bn. There is no near term refinancing risk as only 7% of total borrowings (~S\$160m) is due for refinancing in FY09. On top of its cash holding, unutilised credit facilities of S\$1.8bn (MTN Programme: S\$909m, Bank facilities: S\$925m) should provide sufficient buffer to fund its development projects over the mid term.

**Maintain HOLD.** We are now lowering our FY09 revenue and shareholders' profit forecasts to S\$720.3m (previously S\$843.6m) and S\$222.7m (previously S\$241.4m) respectively, after lowering our take-up rate assumptions for its development projects as we do not foresee a sustainable recovery in demand for properties. Our RNAV estimate of KepLand has now been lowered to S\$3.62 (previously S\$3.70) and fair value has also been lowered to S\$1.76 (previously S\$1.79). We maintain our **HOLD** recommendation on KepLand. *(Foo Sze Ming)*

### Hotel Grand Central: Market conditions remain challenging

**Weak tourism numbers.** We met with management recently for an update. It came as no surprise that the business outlook has deteriorated over the last 12 months. This meant that both room and occupancy rates have weakened in recent months. In terms of room rates for its Singapore hotel, the decline is by as much as 30%, while occupancy rates have eased by about 10-15 ppt to around 70%. This is in line with the recent weak tourism numbers released by the Singapore Tourism Board (STB). Visitor arrivals to Singapore fell 15.2% YoY to 689,000 in Feb 2009. Average Room Rate (ARR) fell 20.6% to S\$205, and Average Occupancy Rate (AOR) dipped 3.3 ppt to 76% in Feb. Revenue per available room also declined 24% to S\$156.

**Delay of Little India project.** In Singapore, the development of its second hotel is on-going, but the opening is now pushed back from the original 4Q2009 to 1Q2010. When completed, this S\$120m project will add 328 rooms and is also aiming at the more budget-conscious travellers. With the present weak occupancy and room rates, the postponement is a right decision. Meanwhile, its 65%-owned 216-room hotel at SiHui in China is on track for opening in Jun 2009.

**Weakness in other markets.** Both its New Zealand and Australian operations are similarly hit by weaker tourism numbers in these counties. In addition, this means that sales of assets (which featured prominently in past financial years) are unlikely to happen this year. Room rates have further weakened in 1Q09 by between 4-5% YoY in New Zealand and Australia. In Malaysia, the market conditions are even more challenging and prospects do not look good for its hotel operations there. Fortunately, contribution from Malaysia has always been small, at 3% of revenue in 2008.

**Lack of positive factors.** In view of the global economic recession and the direct impact on tourism, the operating environment is challenging and likely to remain so for the rest of the year. Some positive factors included the recent strengthening of the AUD and NZD from March which could translate into some forex gains. Assuming same dividend payout of 3.5 cents, yield is fairly decent at 6.5% based on current price. We are maintaining our FY09 earnings estimates for now and our **HOLD** rating with fair value estimate of S\$0.48 based on 0.4x book. **(Carmen Lee)**

(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.)

### Ascott Residence Trust: 1Q falls, but within expectations

**Revenue falls 11.7% QoQ.** Ascott Residence Trust (ART) posted S\$42.1m in 1Q revenue, down 8% YoY and 11.7% QoQ. Gross profit fell 16% YoY and 5.1% QoQ to S\$19.9m. Gross margin stood at 47.2%, lower than the 51.4% recorded a year ago but an improvement over the preceding quarter's 43.9%. 1Q09 DPU came in at 1.77 S cents (down 24% YoY), or an annualized yield of 15%. Distributions are paid semi-annually. Overall RevPAU for the quarter was S\$120 per day, a 15% decline versus 1Q08 and a 9.8% decline versus 4Q08. We note that contributions from the Somerset West Lake acquisition, completed on April 1st, will only start to flow through in 2Q09. The results bore the full brunt of the global economic crisis and were in line with our expectations.

**Singapore and China worst performers.** As expected, Singapore and China were the worst performers in ART's portfolio. In Singapore, RevPAU fell 32.7%YoY and 26.5% QoQ to S\$169/day. The manager attributed the decline to lower occupancy due to weaker demand from business travelers. China, meanwhile, recorded a 18.7% YoY and 11% QoQ decline in RevPAU to S\$113/day. The manager attributed the fall to lower business traveler traffic coupled with over-supply in the Beijing and Shanghai markets. The manager said that while demand for serviced residences was "significantly weaker" in these two markets, the performance of Indonesia, Vietnam and the rental housing business in Japan "continues to be relatively stable". As we noted in our re-initiation report last week, ART's diversified portfolio is a key strength as different markets are feeling the impact of the global crisis to differing degrees.

**For investors taking the long view.** While the 1Q decline was within our expectations, significant uncertainty remains. We expect RevPAU to remain volatile (and on a downtrend) as corporate demand for travel and extended-stay accommodation is "rationalized" in line with the current macroeconomic turmoil. Visibility is low and ART's quarter-to-quarter performance may vary considerably. Nevertheless, we continue to believe ART is a compelling valuation play for investors who can withstand the near-term yield volatility. ART has minimal refinancing needs, with S\$96m in loans maturing in 2009. Our valuation incorporates our assumption of a S\$160m equity issue at the S\$0.45 price level. Maintain **BUY** with S\$0.57 fair value. Key risks to our estimates include a worse-than-expected deterioration in the economic outlook for ART's operating markets. *(Meenal Kumar)*

**FSL Trust: Reinvestment scheme in play for 1Q09 distributions**

**Results in line.** FSL Trust (FSLT) posted US\$24.8m in revenue, down 3.3% QoQ and up 49.5% YoY thanks to acquisitions made over the course of 2008. Note that, as previously guided, this is the first quarter where FSLT will not distribute 100% of cash earnings. Instead, the trust will distribute about 73% of cash earnings, or 2.45 US cents per unit, down 5.4% YoY and 20.4% QoQ because of the lower payout. The results were in line with our expectations. The trust guided for a 2Q09 DPU of 2.45 US cents as well.

**Voluntarily prepaying loans.** FSLT used US\$4m of the retained US\$4.6m to voluntary prepay loans. We have noted previously that shipping trusts have to re-align their debt tolerance and business model in light of a 'new world order' of falling asset values and low lender risk appetite. FSLT's decision to voluntarily reduce its payout ratio is in that vein - a preemptive gesture of good faith to lenders. FSLT is geared at a still high 1.38x debt-to-equity. A US\$4m per quarter prepayment is a small number compared to the absolute US\$509m outstanding loan amount. This is a gesture - not a game-changer, in our view.

**Reinvestment scheme in play.** The distribution reinvestment scheme (DRS) will apply in 1Q09, giving unitholders the option to receive 1Q09 distributions in units instead of cash. Any proceeds from the DRS (that is, the saved cash earnings) will also be used to prepay loans. This scheme is an attempt to balance the needs of investors demanding cash yield against concerns of sustainability and gearing. But it is unclear just how many investors will voluntarily "do the right thing" for the trust and elect to receive units instead of cash. The success of the scheme in 1Q09 may significantly affect FSLT's course of action going forward - if the DRS fails and market conditions persist, FSLT may ultimately have to cut the distribution payout further, effectively making the "right" choice for unitholders.

**Valuation.** FSLT has a diversified portfolio with exposure to different shipping sub-sectors, and with no charterer contributing more than 20% of annual revenue. Our key concern is counterparty performance and any resulting disruption of cash flows. The current share price is quite clearly pricing in a distressed scenario, in our opinion. However, we would prefer to wait until the shipping industry shows concrete signs of stabilizing before we turn buyers. Our fair value estimate is S\$0.45 (previously under review). Maintain **HOLD.** (*Meenal Kumar*)

**Pacific Shipping Trust: Pays out 0.98 US cents for 1Q09**

Pacific Shipping Trust (PST) posted 1Q09 results last night, recording US\$15.2m in gross revenue - up 72% YoY and 4.9% QoQ. Cash earnings (net profit adjusted for non-cash items, before debt repayment) rose 63% YoY and 4.8% QoQ to US\$10.8m. The trust will pay out 0.98 US cents per unit, up 5.4% QoQ and 1% YoY (on the enlarged unit-holder base after last year's preferential offering). The results were in line with our expectations. We will be attending an analyst briefing later today and will have more then. Our main focus continues to be on the CSAV saga, with the trust customer seeking charter rate renegotiations. As we noted in our report last week, we expect PST to agree to the renegotiation request but details are still unclear on the extent of the cut and the reaction of PST's lenders to these events. Maintain **HOLD** with US\$0.16 fair value. *(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) MMH 3Q09 (26 Apr)
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/STE 1Q09 GE 1Q09 RLS 3Q09	OCBC 1Q09 UOB 1Q09	StarHub 1Q09	Koda 3Q09 (est) DBS 1Q09 SMM 1Q09
11-May	12-May	13-May	14-May	15-May
CDL 1Q09 SIA EC 4Q09 China Apr PPI/China Apr CPI	Food Empire/NOL/Pan Utd 1Q09 SP Ausnet FY09 China Apr Trade Bal	Midas/Rotary/Wilmar 1Q09 China Apr Retail Sales China Apr Ind Production	SIA FY09 Olam 3Q09	SIA 4Q09 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**

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

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