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28 April 2009

Market Pulse

Key Singapore Indices			
	Close	Chg	% Chg
STI	1818.6	-34.2	-1.8
Catalist	74.9	-2.5	-3.2
Finance	431.4	-8.1	-1.8
Property	363.0	-10.3	-2.8
Electronics	383.4	-28.8	-7.0
Vol (m)	1770.2	331.0	23.0
Val (S\$m)	1170.6	106.4	10.0

World Indices			
	Close	Chg	% Chg
Dow Jones	8025.0	-51.3	-0.6
Nasdaq	1679.4	-14.9	-0.9
S&P500	857.5	-8.7	-1.0
FTSE	4167.0	11.0	0.3
KLCI	980.1	-12.6	-1.3
Hang Seng	14840.4	-418.4	-2.7
Nikkei	8726.3	18.4	0.2
SET	475.0	0.9	0.2
KOSPI	1339.8	-14.3	-1.1
TWSE	5705.1	-175.7	-3.0

Market Statistics (SG)			
STI 52-week range	1,455	3,270	
No. of gainers		117	
No. of losers		448	
No. of unchanged		127	

Economic Statistics		
	Close	Chg
S\$/US\$	1.5	0.0
Yen/US\$	96.5	-0.2
3-mth S\$ SIBOR	0.7	0.0
3-mth US\$ SIBOR	1.1	0.0
Crude futures (US\$)	49.9	-0.2

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Key Idea

Market Update: Swine flu and the impact on the Singapore Market

The WHO (World Health Organization) has just raised the influenza pandemic alert from 3 to 4 and warned that the swine flu outbreak in America (Mexico, US and now spreading to Canada) could develop into another pandemic like the SARS outbreak we saw in 2002-2003. During that period, the STI dropped nearly 38% over a one-year period. However, in the aftermath of SARS, we also saw the index staging a remarkable recovery of 58% in the 10 months following the incident. On the basis that the flu hits the Asian region but does not evolve into a worldwide pandemic, we think that **Telcos** could benefit as companies curb travel plans and use tele- and video-conferencing instead. Other businesses that offered an **alternative source of food** (such as fish) also performed admirably during the SARS period. As the valuations for most of these alternative food stocks have fallen sharply due to the economic crisis, there may be room for capital appreciation.

More reports:

- **Micro-Mechanics: Posted 3QFY09 loss, maintains cautious view on 4QFY09**

News Headlines

- Singapore's government yesterday unveiled a blueprint for sustainable development for the next 10 to 20 years. S\$1b will kickstart the plan for energy-efficient buildings, lower emissions, cleaner transport amongst other solutions.
- Further measures to liberalise Malaysia's financial services industry were announced, including the issue of nine new banking and insurance licenses and the raising of foreign equity thresholds.
- Babcock and Brown Global Investments said it has repaid A\$15.55m of the total CBA facility of A\$32.55m. Repayment of the other A\$17m has been delayed due to assertions of Bank of Ireland regarding music copyright asset issues.
- A unit of ST Engineering has been awarded a contract worth about 8m euros by the Swedish Defense Materiel Administration.
- GMG Global saw its net profit fell to S\$3.9m in 1Q09 from S\$8.3m in 1Q08 as turnover dropped 51% YoY to S\$29.2m with softer commodity prices and slower economic growth in Europe and the Americas.
- Starhill Global Reit has announced DPU for 1Q09 of 1.87 S cents, 6.3% higher YoY.
- Sunpower Group reported a near doubling of net earnings to RMB7.13m for 1Q09 despite a 2.6% YoY drop in revenue to RMB105.4m.
- Del Monte Pacific reported a 32.3% YoY fall in net profit to US\$4.08m for 1Q09, due in part to a 16% dip in sales to US\$60.4m.

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

Market Update: Swine flu and the impact on the Singapore Market

Swine flu could turn into another SARS. The WHO (World Health Organization) has just raised the influenza pandemic alert from 3 to 4 and warned that the swine flu outbreak in America (Mexico, US and now spreading to Canada) could develop into another pandemic like the SARS outbreak we saw in 2002-2003. During that period, the STI dropped nearly 38% over a one-year period. However, in the aftermath of SARS, we also saw the index staging a remarkable recovery of 58% in the 10 months following the incident.

Stocks likely to be affected. During the last SARS outbreak, businesses that were affected included food stocks (especially those which dealt with pork-related products), travel-related companies, as well as retail-related companies (shoppers stayed home as the virus was easily spread through close contact). This time around, we believe that the same businesses will also be affected, although the extent of the impact may be lessened by the fact that many of these companies have already been sold down sharply due to the economic downturn. In fact, current valuations are already relatively close to the valuations seen during the height of the SARS scare.

Stocks that could benefit. On the other hand, we also saw that some businesses benefited indirectly from the SARS incident. Some of these businesses included telcos (as corporates curbed their air travel and relied on teleconferencing and video calls to conduct their meetings). Other businesses that offered an alternative source of food (such as fish) also performed admirably during the SARS period. On the valuation front, most of these stocks have fallen sharply due to the economic crisis and we believe there may be room for capital appreciation.

More time needed to assess impact on economy. Given that the outbreak is still in its early stage and health experts are themselves learning more about the virus, more time will be needed to ascertain the extent of impact on the global economy. If the virus turns out to be less virulent than expected, investor sentiment may recover quickly, supporting share prices. As it is, we have already seen the earlier signs of market reaction yesterday, and this is a situation that warrants close monitoring to ascertain the impact and extend of the spread in the coming days. *(Research Team)*

For more details, please refer to full report.

Micro-Mechanics: Posted 3QFY09 loss, maintains cautious view on 4QFY09

Larger-than-expected 3QFY09 loss. Micro-Mechanics (MMH) reported a 40.4% YoY decline (-39.0% QoQ) in its 3QFY09 revenue to S\$5.5m, as the ongoing global financial turmoil and economic recession had led to an unprecedented drop in customer orders across all its worldwide manufacturing locations. This in turn resulted in the group suffering its first-ever quarterly loss of S\$1.4m (3QFY08: S\$2.1m profit, 2QFY09: S\$171k profit). The biggest drag came mainly from its CMA (Custom Machining & Assembly) manufacturing plant in US, which accounted for ~67% of its operating loss in 3QFY09. For 9MFY09, however, MMH remained in the black with net profit of S\$873k on revenue of S\$26.1m. While we have always held to our view that MMH's profitability would be afflicted by the exceptionally harsh market conditions, and that the group is likely to sink into the red amid the shorter/slower quarter, the magnitude of the impact appears to be larger than expected. Notably, 9MFY09 revenue makes up 73.2% of our FY09 sales forecast, while the net income constitutes 72.8% of our earnings estimate.

Credit management, cost reduction measures paid off. Since the start of 2009, fortunately, MMH has embarked on various initiatives to structurally lower its cost base, including a combination of pay, benefits and working-hour reductions. These measures had helped the group to achieve cost savings of ~S\$790k and alleviated its net loss in 3QFY09. On its operational front, we note that MMH has also been keeping a steady hand on its credit management. As of 31 March 2009, only S\$91k (or 2.6%) of its total trade receivables of S\$3.5m was outstanding for >90 days, while its bad debt expenses for 9MFY09 was a minimal S\$4.8k. If not for these proactive measures, MMH would not have been able to maintain its strong financial position, with cash balances of S\$8.6m (S\$10.1m as at end-2008) and no borrowings.

Maintain HOLD. While MMH has seen some improvements in orders in March, it is maintaining a cautious view on its 4QFY09 performance. On our side, we have also conservatively adjusted our FY09F earnings to reflect a possible loss for the fiscal year. However, as earnings and business activity is likely to remain uncertain and volatile, we are now switching our valuation to 0.8x FY10F NTA from 7x FY10F EPS. This pares our fair value to S\$0.19 from S\$0.24 previously. Nevertheless, we are keeping our **HOLD** rating on MMH as negatives seem to be priced in. *(Kevin Tan)*

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Monday	Tuesday	Wednesday	Thursday	Friday
27-Apr	28-Apr	29-Apr	30-Apr	01-May
China XLX 1Q09 Cambridge Ind Trust 1Q09 Starhill Global REIT 1Q09	Suntec REIT 1Q09 Ascendas India Trust 4Q09 Allgreen Properties 1Q09	Indofood 1Q09 MCL Land 1Q09 Elec & Eltek 1Q09	Venture/CCT/Spore Post 1Q09 CDL Hospitality 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/STE 1Q09 GE 1Q09 RLS 3Q09	OCBC 1Q09 UOB 1Q09 Ausgroup 3Q09 (est)	StarHub 1Q09 Sino Env 1Q09 (est)	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 MIIF 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				
25-May	26-May	27-May	28-May	29-May
SG Apr CPI	SG Apr Indust Production	CitySpring 4Q09 (est) Willas Array FY09	Tat Hong 4Q09	SG Apr Money Supply SG Apr Bank Loans & Advances

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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