

MITA No. 014/06/2008

6 May 2009

Market Pulse

| Key Singapore Indices | | | |
|-----------------------|--------|-------|-------|
| | Close | Chg | % Chg |
| STI | 2074.4 | 45.6 | 2.3 |
| Catalist | 81.0 | 2.0 | 2.5 |
| Finance | 510.1 | 10.9 | 2.2 |
| Property | 416.0 | 8.4 | 2.1 |
| Electronics | 447.2 | 17.9 | 4.2 |
| Vol (m) | 3119.1 | 269.2 | 9.4 |
| Val (S\$m) | 2408.6 | 38.0 | 1.6 |

| World Indices | | | |
|---------------|---------|-------|-------|
| | Close | Chg | % Chg |
| Dow Jones | 8410.7 | -16.1 | -0.2 |
| Nasdaq | 1754.1 | -9.4 | -0.5 |
| S&P500 | 903.8 | -3.4 | -0.4 |
| FTSE | 4336.9 | 93.7 | 2.2 |
| KLCI | 1008.9 | -0.5 | 0.0 |
| Hang Seng | 16430.1 | 48.0 | 0.3 |
| Nikkei | 8977.4 | 149.1 | 1.7 |
| SET | 506.3 | 14.6 | 3.0 |
| KOSPI | 1397.9 | 28.6 | 2.1 |
| TWSE | 6379.9 | 49.5 | 0.8 |

| Market Statistics (SG) | | | |
|------------------------|-------|-------|--|
| STI 52-week range | 1,455 | 3,268 | |
| No. of gainers | | 400 | |
| No. of losers | | 154 | |
| No. of unchanged | | 204 | |

| Economic Statistics | | |
|----------------------|-------|-----|
| | Close | Chg |
| S\$/US\$ | 1.5 | 0.0 |
| Yen/US\$ | 99.0 | 0.2 |
| 3-mth S\$ SIBOR | 0.7 | 0.0 |
| 3-mth US\$ SIBOR | 1.0 | 0.0 |
| Crude futures (US\$) | 54.1 | 0.3 |

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Key Idea

Raffles Education Corporation: Key asset to be securitised

Raffles Education Corporation (Raffles) reported a loss-making quarter (-S\$16.5m) as it had decided to book in S\$33.1m as allowance for impairment charges for its associate Oriental Century (ORIC). Excluding this non-cash charge and land sales (to pay for Oriental University City, or OUC), Raffles' 3Q09 net profit would have come in at S\$14.7m. Management also updated on its plans for securitising Oriental University City (OUC) through a listing in early 2011. Executing this securitisation plan with its creditors (mainly the provincial government) will enable Raffles to pay a majority part of the asset through shares. Raffles has terminated its Dividend Re-Investment Scheme due to a poor take-up and will not be paying dividends this quarter to conserve cash. With the ORIC write-down behind it, coupled with a securitisation plan for lesser cash payments for OUC, we think it would more fair to value Raffles from FY10F where earnings are less skewed. We have rolled our valuation forward to 12x FY10F PER and obtain a fair value of S\$0.59. Maintain **BUY**.

More reports:

- **Noble Group Ltd: Good performance despite harsh operating conditions**
- **Singapore Technologies Engineering: Slow start to the year. Downgrade on valuation**

News Headlines

- SingTel has been given the deadline of April 2014 to divest more than 75% of its local Internet assets.
- The Ascott Group, a unit of CapitaLand, has been awarded a contract by Shanghai Li Xing Real Estate Development to manage a serviced residence property in Shanghai.
- Ascott International is aiming for a bigger slice of the European leisure travel pie, as corporate business shrinks amid the weak global economy.
- Creative Technology reported a net loss of US\$41.8m for 3Q09, against a profit of US\$3m for 3Q08. The results include restructuring charges of US\$11.2m.
- The majority shareholder of ChungHong Holdings is seeking to delist the company from SGX.
- Mercator Lines (Singapore) has taken delivery of its Very Large Ore Carrier, increasing the group's total operating fleet capacity to about 1.1m dwt.
- Advance SCT said it has not yet identified a suitable candidate for its CFO position and will continue its search.
- Ouhua Energy expects to report a loss for 1Q09, mainly due to fierce competition from domestic distributors and lower gross profit margin.
- The SGX has set up an Investor Education Fund to benefit investors in its securities and derivatives market.

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

Raffles Education Corporation: Key asset to be securitised

Imputing impairment in 3Q09. Raffles Education Corporation (Raffles) reported a loss-making quarter (-S\$16.5m) as it had decided to book in S\$33.1m as allowance for impairment charges for its associate Oriental Century (ORIC). Excluding this non-cash charge and land sales (as continued payment for Oriental University City, or OUC), Raffles' 3Q09 net profit would have come in at S\$14.7m. Student numbers held steady instead of a marginal increase as we anticipated as recruitment drive slowed.

Securitising OUC. Management continues to be optimistic about OUC and shares our sentiments that it is a well worth investment to embark on its next phase of growth. We were updated on the plan to pay for this asset by securitising it. To do that, management hopes to list OUC in China/HK (earliest in 2011) due to listing rules requiring operating history of three years under Raffles' jurisdiction. Currently, the majority of the debt (~S\$320m) owed by Raffles for OUC is primarily to the provincial government supporting this University City project. While Raffles will continue to pay down this debt, we expect it to fulfil a significant part through the listing. As such, post listing, it will remain a major shareholder along with the provincial government.

No dividends. Raffles will not be paying any dividends this quarter. The Dividend Re-Investment Scheme (DRIS) has also been terminated in view of the volatile share price and poorer-than-expected take-up rate. We had earlier forecast that Raffles would cut its dividend to 0.75 S cents/quarter to preserve cash and pay off its debts.

Trough reached, next year will be better. Raffles has undergone a winter season in the last months with the ORIC scandal coupled with a tight liquidity situation that has prohibited the company in embarking on an M&A route to grow the business. However, we think that the next year would start bearing the first fruit of its labour when it finalises the securitisation plan for OUC, aggressively pay down its other debt and refocuses on student recruitment for its new schools. While the share price might take a tumble in view of its loss-making position this quarter, we look past this event and set our valuations to FY10F where the company will resume its growth trajectory. We roll our valuation to FY10F based on the same 12x PER, still close to its lower historical trading band. Our fair value is edged down slightly to S\$0.59 (prev. S\$0.60). Maintain **BUY**. *(Kelly Chia)*

Noble Group Ltd: Good performance despite harsh operating conditions

Laudable market share gains. Noble Group Ltd's (Noble) 1Q09 results exceeded expectations. The group managed to grow its volume across all business segments despite challenging operating conditions, demonstrating its ability to expand market share by delivering superior service quality. Total tonnage rose 26% to a record 49.3m MT. Revenue and earnings fell as a result of the slump in commodities prices, but this was to be expected. Revenue declined by 36.0% YoY to US\$6.1b while net profit contracted 46.0% to US\$90.2m, forming 24% of our full year earnings estimate. Stripping away the impact of one-off gains in 1Q08, core net profit would have contracted by a smaller 24.4%.

Agriculture - a steady pillar of support. Not surprisingly, the Agriculture segment helped to steady the group's earnings, turning in a 11.7% YoY growth in gross profit. All other segments registered lower gross profits as the global recession crimped demand for energy and hard commodities. Gross profit from the Energy segment declined by 64.0%, while that from Metals, Minerals & Ores (MMO) fell by 75.5%. This resulted in the group's total gross profit falling 37.3% to US\$222.7m. On the bright side, the MMO segment returned to profitability in 1Q09 after suffering two quarters of losses, suggesting that the worst may be over and that markets could be normalising.

Balance sheet remains healthy. Noble maintained a healthy balance sheet with cash position stable at US\$1.2b (vs. US\$1.3b in 4Q08). The group remained in a net cash position after adjusting for readily marketable inventories. Cash conversion cycle improved to 11 days from 14 days a year ago, while proportion of hedged inventories remained robust at 93%. More significantly, operating cash inflow improved to US\$77.4m vs. an outflow of US\$120.3m a year ago, thanks to lower commodity prices. Lower commodity prices have helped to reduce the group's working capital requirements and need for debt, allowing it to retire US\$45m of long term debt in 1Q09, and in turn, easing finance costs.

Poised to benefit from economic recovery. Having gained its foothold with greater market share, Noble is well poised to leverage on the global economic recovery as well as pump-priming activities. We are keeping our earnings estimate intact, and raising our fair value estimate to S\$1.66 (from S\$1.33) as we lift our valuation parameter to 10x from 8x to account for heightened risk appetite for cyclical recovery stocks. Maintain **BUY**. (*Lee Wen Ching*)

(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.)

Singapore Technologies Engineering: Slow start to the year. Downgrade on valuation.

Outlier quarter. Singapore Technologies Engineering's (STE) 1Q09 topline was flat at S\$1.32b while PATMI shrunk by 30% YoY to S\$85.2m. The quarter was primarily marred by STE's Aerospace division as it did not deliver any MD-11 conversions. STE grew its order book to S\$11b where S\$2.88b (52% of our FY09F revenue) will be delivered over the next three quarters. Management has indicated that the next three quarters should see improvements in margins and better spaced out deliveries that will provide comparable annual performance vs. FY08.

Sticking to its guidance. STE continues to iterate its guidance for a "comparable" PBT for this year while turnover has been downgraded from "higher" to "comparable". For 1Q09, "nil" deliveries of the very mature and profitable MD-11 Passenger-to-Freighter (PTF) conversion created the gap between our forecasts and actual earnings. While Aerospace has contributed to significant drag in the previous quarters, the 757 PTF conversions are expected to be accretive in FY09F after its loss-making year in FY08. This should kick in during 2H09. We have adjusted our estimates to factor in a weaker 1H09 and are giving STE a chance to perform for its 2H09.

Still vague with order book. With the exception of Land division, management maintained its enigmatic view of the division that has driven the order book to its record highs. The remainder of the 48% of our topline can be fulfilled from recurrent businesses that are not reflected in the order book.

Defensive but not growth. STE's share price initially saw its share price trade in a tight range (S\$2.00-S\$2.50) without large contract wins or accretive acquisitions that typically served as share price catalysts. While its S\$1.38b of cash equivalents puts STE in good stead to make acquisitions, we doubt that significant ones that will give major earnings accretion to the group will occur this year. We have rolled our valuation forward to a blended 16x FY09/10F PER (prev. 15x FY09F PER) and our fair value is bumped up to S\$2.46 (prev. S\$2.31). However, the recent 30% surge with the market rally since our upgrade on the 13 Feb seems to have factored in a growth story vs. our estimates which show a decline for FY09F. In view of the limited upside, we are downgrading our rating to a **HOLD**. Sustained improvements in margins and accretive contract wins will incentivise us to re-peg our valuation. *(Kelly Chia)*

| Monday | Tuesday | Wednesday | Thursday | Friday |
|---|---|--|---|--|
| 04-May | 05-May | 06-May | 07-May | 08-May |
| | Noble/STE 1Q09 GE 1Q09 RLS 3Q09 US Apr ISM Non-Manf Composite | OCBC 1Q09 UOB 1Q09 Ausgroup 3Q09 (est) | StarHub/Hyflux 1Q09 Sino Env 1Q09 (est) Hyflux 1Q09 Cosco 1Q09 | DBS/Parkway 1Q09 SMM 1Q09 US Apr Unemployment Rate |
| 11-May | 12-May | 13-May | 14-May | 15-May |
| CDL 1Q09/SATS FY09 SIA EC 4Q09 Synear 1Q09 China Apr PPI/China Apr CPI | NOL/Pan Utd/SCI 1Q09 SP Ausnet FY09 China Apr Trade Bal US Mar Trade Bal | Midas/Rotary/Wilmar 1Q09 MIIF 1Q09 China Apr Retail Sales/China Apr Ind Prod US Mar Biz Inventories US Apr Imp Price Ind/US Apr Adv Retail Sales | SIA FY09 Olam 3Q09 Foreland/Food Empire/Soilbuild 1Q09 Comfort Delgor 1Q09 US Apr PPI | SIA 4Q09/Koda 3Q09 Golden Agri 1Q09 SG Mar Retail Sales US Apr Ind Production/US Apr CPI US May U of Michigan Confidence |
| 18-May | 19-May | 20-May | 21-May | 22-May |
| SG Apr NODX SG Apr Electronic Exports | US Apr Housing Starts | | US May Philadelphia Fed | |
| 25-May | 26-May | 27-May | 28-May | 29-May |
| SG Apr CPI | SG Apr Ind Production | CitySpring 4Q09 (est) Willas Array FY09 US Apr Existing Home Sales | Tat Hong 4Q09 US Apr Durable Good Orders US Apr New Home Sales | SG Apr Money Supply SG Apr Bank Loans & Advances US 1Q GDP US May U of Michigan Confidence |
| 01-Jun | 02-Jun | 03-Jun | 04-Jun | 05-Jun |
| US Apr Personal Income US May ISM Manufacturing | | US May Total Vehicle Sales US May ISM Non-Manf Composite US Apr Factory Orders | | |

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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