

7 May 2009

Market Pulse

Key Singapore Indices			
	Close	Chg	% Chg
STI	2179.0	104.7	5.1
Catalist	84.3	3.3	4.1
Finance	538.0	28.0	5.5
Property	423.8	7.8	1.9
Electronics	491.6	44.4	9.9
Vol (m)	3975.3	856.2	27.4
Val (S\$m)	2767.5	359.0	14.9

World Indices			
	Close	Chg	% Chg
Dow Jones	8512.3	101.6	1.2
Nasdaq	1759.1	5.0	0.3
S&P500	919.5	15.7	1.7
FTSE	4396.5	59.6	1.4
KLCI	1024.0	15.1	1.5
Hang Seng	16834.6	404.5	2.5
Nikkei	8977.4	149.1	1.7
SET	523.1	16.9	3.3
KOSPI	1393.5	-4.5	-0.3
TWSE	6566.7	186.8	2.9

Market Statistics (SG)			
STI 52-week range	1,455	3,268	
No. of gainers		568	
No. of losers		115	
No. of unchanged		142	

Economic Statistics		
	Close	Chg
S\$/US\$	1.5	0.0
Yen/US\$	98.4	0.1
3-mth S\$ SIBOR	0.7	0.0
3-mth US\$ SIBOR	1.0	0.0
Crude futures (US\$)	56.3	0.0

Research Team

(65) 6531 9800

e-mail: info@ocbc-research.com

Key Idea

UOB: Good 1Q, but valuations looking stretched

UOB delivered net earnings of S\$409m, up 23% QoQ but down 23% YoY, ahead of market and our estimates. Net interest income flat QoQ at S\$949m and with non-interest income of S\$434m, total income amounted to S\$1384m, up 3% QoQ and 9% YoY. As expected, total impairment charges were higher, up from S\$89m in 1Q08 to S\$378m. Customer loans grew 5.6% YoY (flat QoQ) to S\$99.7b. NPL increased from S\$1602m in 1Q08 and S\$2062m in 4Q08 to S\$2185m in 1Q09. NPL ratio also rose from 1.6% in 1Q08 to 2.1% in 1Q09. Management expects to be able to price in stable margin in Singapore, but expects challenges in overseas market, especially Thailand. While we continue to believe that UOB's asset quality is healthy, we believe that valuation is high after yesterday's 13% gain, bringing it to 1.5x book. This could mean the possibility of near-term selling pressure. We raised our fair value estimate from S\$9.30 (1x book) to S\$11.80 (1.2x) book. At yesterday's price of S\$14.88, we maintain our **SELL** rating.

More reports:

- **City Developments: Weak M&C earnings a prelude to CDL 1Q09 results**
- **AusGroup: 3Q revenue falls 23.5% QoQ but gross margin improves over 2Q**

News Headlines

- Hyflux Water Trust reported a 2% YoY drop in revenue to S\$14.05m for 1Q09 but distributable cash jumped 91% YoY to S\$3.4m.
- Fortune Reit reported a 10.4% YoY rise in revenue to HK\$168.2m for 1Q09, lifting DPU 14.4% to 10.06 HK cents.
- According to BT, Sembcorp's lead in its bid for the US\$1b-plus Salalah project in Oman may be derailed.
- Trading of shares in Advance SCT has been voluntarily suspended. The group said it was consulting its legal advisers on the findings of a review report by Ernst & Young Advisory Services Sdn Bhd.
- The LTA has awarded a S\$368m contract for 22 new trains to a consortium of manufacturers including Japanese and Chinese companies.
- SP Ausnet has successfully executed three 3-year bank debt facilities to raise a total of A\$275m.
- Otto Marine has utilized S\$82.2m out of its S\$97.7m net IPO proceeds.
- Sinopipe Holdings expects to report a lower net profit for 1Q09 compared to 1Q08, mainly due to a decline in gross profit margin and impairment loss on doubtful trade receivables.
- Aspiat Corporation has entered into an agreement to purchase properties in the East Coast area for S\$10.6m.

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

UOB: Good 1Q, but valuations looking stretched

Better-than-expected 1Q09 results. UOB delivered net earnings of S\$409m, up 23% QoQ but down 23% YoY, though still ahead of market and our estimates. The group was able to maintain its net interest income flat QoQ or +11% YoY to S\$949m. With non-interest income of S\$434m, total income amounted to S\$1384m, up 3% QoQ and 9% YoY. Better fee and commission income and higher other income were the main variants for the better-than-expected results. Total operating expenses fell 1% YoY and 8% QoQ to S\$491m, resulting in improved cost-to-income ratio from 39.2% (1Q08) and 39.4% (4Q08) to 35.5% (in 1Q09).

Impairments remained high, close to 4Q level. As expected, total impairment charges were higher, up from S\$89m in 1Q08 to S\$378m, but down marginally from S\$381m in 4Q08. The group has set aside S\$174m for loans and investments in view of the global economic uncertainties (versus S\$104m in 4Q08 and S\$48m in 1Q08), while individual impairment on loans and other assets amounted to S\$203m (versus S\$276m in 4Q08 and S\$42m in 1Q08).

Loans grew, but NPL rising. Customer loans grew 5.6% YoY (flat QoQ) to S\$99.7b. NPL increased from S\$1602m in 1Q08 and S\$2062m in 4Q08 to S\$2185m in 1Q09. NPL ratio also rose from 1.6% in 1Q08 to 2.1% in 1Q09. Net interest margin declined from 2.45% in 4Q08 to 2.41% in 1Q09. Total capital adequacy ratio stayed healthy at 17.3% as at Mar 2009.

Raised fair value to \$11.78. Equities rallied strongly in the past few days on the green shoots theory despite the H1N1 outbreak (which appears to be more contained than the SARS episode in Asia in 2003). Liquidity in the money market is improving despite earlier stress test concerns. Management expects to be able to price in stable margin in Singapore, but expects challenges in overseas market, especially Thailand. While we continue to believe that UOB's asset quality is healthy, we believe that valuation is high after yesterday's 13% gain, bringing it to 1.5x book. This could mean near-term selling pressure as economic recovery is still unclear. We have marginally raised our FY09 earnings estimate from S\$1655m to S\$1713m, taking into account the better 1Q earnings but mitigated by higher impairments. We also raised our fair value estimate from S\$9.30 (1x book) to S\$11.80 (1.2x) book. At yesterday's price of S\$14.88, we maintain our **SELL** rating. (*Carmen Lee*)

City Developments: Weak M&C earnings a prelude to CDL 1Q09 results

M&C pre-tax earnings down 50% YoY in 1Q09. Millennium & Copthorne (M&C), the hotel subsidiary of City Developments (CDL), reported its 1Q09 yesterday. Revenue declined by 1.9% YoY to £50.7m but on a constant currency basis, it would have fallen 18.2% YoY. Hotels in New York and Singapore were the underperformers in 1Q09, as RevPAR fell by 37.8% and 30.6% YoY respectively. Headline operating profit before tax plunged 50% YoY to £11m. On a constant currency basis, it was down 58.6% YoY. For April, RevPAR continued to deteriorate sharply, falling by 22.9% YoY.

Weak GBP-SGD exchange rate could further weigh on results. We believe that the weakness in M&C's 1Q09 results could be further compounded on the financials of CDL due to the weakness in Pound sterling (GBP) (M&C's reported currency) against SGD (CDL's reported currency). During 1Q09, GBP was trading at a band of S\$2.0734-S\$2.2510 per £, which was 17.5%-27.5% lower than the band of S\$2.7289-S\$2.861 per £ in 1Q08. On a QoQ comparison, GBP stayed weak against the SGD in 1Q09, trading at the lower half of the GBP-SGD band of S\$2.0709-S\$2.5701 per £ in 4Q08.

Influenza H1N1 virus. The hospitality industry had already been badly affected by the financial crisis and economic slowdown. With the recent outbreak of Influenza H1N1 virus, the hospitality industry could sink into deeper woes as we expect to see a further decline in global travel if the virus outbreak worsens. In a situation whereby the virus outbreak turns for the worse from current status, CDL's earnings could be negatively affected as it has significant exposure to the hospitality segment (63.4% of FY08 revenue and 29.4% of FY08 pre-tax profit coming from hotel operations). This was evident during the SARS period in 2003 when M&C reported pre-tax loss of £6.3m for 1H03.

Downgrading to SELL. As CDL is announcing its 1Q09 results next Monday, we are now keeping our earnings estimates unchanged for now. Its share price has now surged 85.2% from its March low of S\$4.05 and base on yesterday's closing price of S\$7.50, CDL is now trading at Price/Book of 1.26x and Price/RNAV of 0.99x, which is already at the upper band of its historical downcycle Price/RNAV band. We are keeping our fair value of S\$5.53 unchanged, implying a downside potential of 26.3%. While we still like CDL for its strong balance sheet and prudent management, we are now downgrading CDL from HOLD to **SELL** on its heightened risk profile and valuation concerns. *(Foo Sze Ming)*

AusGroup: 3Q revenue falls 23.5% QoQ but gross margin improves over 2Q

AusGroup Ltd posted A\$99.6m in 3Q09 revenue, up 28.3% YoY but down 23.5% QoQ. The company achieved a gross margin of 15.2% for the quarter - lower than the 16.9% achieved in 3Q08 but a significant achievement over the 11.8% achieved in 2Q09. AusGroup's 3Q net profit of A\$4.1m represents a 17.1% QoQ decline. The company's results were better than expected as our estimates had included a fairly bearish provision for further contract cancellations. AusGroup's current order book stands at A\$230m. AusGroup management made several comments on the outlook for 4Q09-FY10 in the earnings release. They guided that reduced activity in the minerals resources sector has started to impact the company's "results and is expected to continue over the next 12 months". For 4Q09, management said it expects lower revenues, but that earnings should benefit from the close out of claim/variation negotiations on completed projects. For FY10, management expects "market trends and operating conditions to result in lower revenues and earnings." We will be meeting with management today to get more color on what has been guided and on operating conditions. Our fair value estimate and recommendation are currently under review. *(Meenal Kumar)*

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) 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 NOL 1Q09 China Apr Trade Bal US Mar Trade Bal	Midas/Rotary/Wilmar/ Eu Yan Sang 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/Mercator FY09/ Olam 3Q09 Tsit Wing 1Q09 (est) 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

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Co.Reg.no.: 198301152E



Carmen Lee
Head of Research

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