8 May 2009

Market Pulse

Key Singapore Indices	Close	Chg	% Chg
STI	2241.6	62.6	2.9
Catalist	85.7	1.4	1.6
Finance	560.3	22.3	4.1
Property	453.8	30.1	7.1
Electronics	488.1	-3.4	-0.7
Vol (m)	4040.5	65.2	1.6
Val (S$m)	3311.5	544.0	19.7

World Indices	Close	Chg	% Chg
Dow Jones	8409.9	-102.4	-1.2
Nasdaq	1716.2	-42.9	-2.4
S&P500	907.4	-12.1	-1.3
FTSE	4398.7	2.2	0.1
KLCI	1023.5	-0.5	0.0
Hang Seng	17217.9	383.3	2.3
Nikkei	9385.7	408.3	4.5
SET	527.7	4.6	0.9
KOSPI	1401.1	7.6	0.5
TWSE	6572.9	6.2	0.1

Market Statistics (SG)		
STI 52-week range	1,455	3,254
No. of gainers		445
No. of losers		208
No. of unchanged		181

Economic Statistics	Close	Chg
S$/US$	1.5	0.0
Yen/US$	99.2	0.1
3-mth S$ SIBOR	0.7	0.0
3-mth US$ SIBOR	1.0	0.0
Crude futures (US$)	56.5	-0.3

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Key Idea

StarHub Ltd: Commendable 1Q09 Results
StarHub reported its 1Q09 results last night, with revenue down 0.8% YoY at S$530.6m, almost smack on our S$530.0m forecast, while net profit rose 3.1% to S$82.6m, or shy of our S$82.9m estimate. It also declared a dividend of S$0.045/share. On its key business segment, mobile revenue came off 3.1% YoY and 2.8% QoQ to S$264.7m, mainly due to lower revenue from its post-paid segment, which fell 4.8% YoY and 3.5% QoQ. But overall mobile EBITDA margin improved from 36.6% in 1Q08 to 37.4%, thanks to lower acquisition cost as well as quantity of equipment sold. Going forward, StarHub guides for stable service revenue and has bumped up its service EBITDA margin from 31% to 32%. It has also kept its capex guidance to 11% of operating revenue and S$0.045/quarter dividend policy. Overall, StarHub posted a pretty commendable set of results, despite the economic slowdown. As 1Q09 results were well within expectations, we are leaving our FY09 estimates intact; we may see room for upward revision should the economy recovers faster than expected. Maintain **BUY** with S$2.88 fair value

More reports:

- **AusGroup Ltd: Stronger but external risks remain**
- **Hyflux: Still upbeat about the water sector**

News Headlines

- Cosco Corporation has been hit by the cancellation of an order for one vessel and rescheduled deliveries for two others, on top of posting lower 1QFY09 profits.
- China Sun Bio-chem's chairman/CEO Sun Guiji has been suspended from his duties.
- Sino-Environment chairman/CEO Sun Jiangrong - who recently resigned - has lost all his shares in the group.
- Reversing six straight months of demand decline since last October, Singapore's electricity demand has started climbing again in early-April, latest Energy Market Company figures show.
- Wing Tai Holdings has reported a 19% YoY drop in 3QFY09 revenue to S$89.6m and a 23% drop in net profit to S$21.4m.
- CapitaLand said payment has been collected for 98% of the 542 condo units sold at its RiverGate project since Temporary Occupation Permit (TOP) was obtained in March.
- Asia Pacific Breweries reported a 5.8% YoY increase in net profit to S$46.2m for 2QFY09.
- Foundation engineering specialist PSL Holdings has bagged projects amounting to S$29m, most of which will be completed within this year.

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

StarHub Ltd: Commendable 1Q09 Results

1Q09 results within expectations. StarHub reported its 1Q09 results last night, with revenue down 0.8% YoY at S$530.6m, almost smack on our S$530.0m forecast, while net profit rose 3.1% to S$82.6m, or shy of our S$82.9m estimate; this included a tax credit of S$0.8m due to the corporate tax rate cut from 18% to 17%. On a sequential basis, revenue fell 1.1%, reflecting the economic slowdown, while net profit declined by 5.6%. But we note that the sharper earnings QoQ decline was due to a lower effective tax rate in 4Q08; otherwise, pre-tax profit rose 2.5% to S$101.5m, thanks to lower cost of sales and operating expenses. It also declared a dividend of S$0.045/share.

Drop in mobile revenue. On its key business segment, mobile revenue came off 3.1% YoY and 2.8% QoQ to S$264.7m, mainly due to lower revenue from its post-paid segment, which fell 4.8% YoY and 3.5% QoQ. Although it managed to grow its post-paid subscriber base by 9k users, we note that ARPU (average revenue per user) eased from S$71 in 4Q08 to S$67, hit by lower voice usage, IDD and outbound roaming services, while monthly usage also dropped from 469 to 442 minutes. A higher mix of customers on the discounted MaxMobile Data plans also had a diluting effect on post-paid ARPU. On the other hand, pre-paid revenue rose 2.7% YoY (down 0.5% QoQ), as the base grew by 40k to 914k users, though ARPU slipped from S$25 in 4Q08 to S$24. Mobile EBITDA margin improved from 36.6% in 1Q08 to 37.4%, thanks to lower acquisition cost and quantity of equipment sold.

Guides for stable service revenue. StarHub is guiding for stable service revenue (excludes non-core equipment sales), which management considers as "recurring revenue". Earlier, management guided for a low single-digit growth in total revenue. On the other hand, it has bumped up its service EBITDA margin from 31% to 32%. It has also kept its capex guidance to 11% of operating revenue. More importantly, based on its projected profitability and cash flow, StarHub intends to continue to pay S$0.045/ cent dividend every quarter, totalling S$0.18 for the full year.

Maintain BUY. Overall, StarHub posted a pretty commendable set of results, despite the economic slowdown. As 1Q09 results were well within expectations, we are leaving our FY09 estimates intact; we may see room for upward revision should the economy recovers faster than expected. Maintain **BUY** with S$2.88 fair value. ***(Carey Wong)***

AusGroup Ltd: Stronger but external risks remain

Revenue down 23.5% QoQ. AusGroup Ltd posted a 23.5% QoQ decline in 3Q09 revenue to A$99.6m. Despite a higher gross margin of 15.2% (11.8% in 2Q09) due to timing effects, net profit fell 17.1% QoQ to A$4.1m. On a YoY basis, both net profit and revenue (up 28.3% YoY) compared favorably with a net loss of A$3.4m recorded a year ago. The company's results were better than expected as our estimates had provided for revenue drop through additional contract cancellations.

Tough external environment. Financing difficulties and a steep decline in commodity prices have impacted the mineral resources sector's capital expenditure programs. This is also true, to a lesser extent, in the oil & gas sector. The size and availability of future projects is a question mark. Our view is that select blue chips like BHP Billiton will continue to spend and replacement capex should pick up slowly. But the size of the pie appears to have shrunk compared to last year's levels. Additionally, AusGroup's margins may be at risk due to 1) increased competitive pressure and 2) negative operating leverage - a fixed cost/falling volume effect.

But reaping rewards from overhaul of execution capabilities. Over the past year, management has been working on improving AusGroup's tendering process in facets such as selection of opportunities, costing, and ensuring tighter terms and conditions. It has also been focused on improving management oversight on projects and implementing a more robust risk management process. This overhaul is clearly a long-term work in progress but is already producing visible results. We see three key indicators: 1) a more realistic revenue booking process; 2) an impressive decline in receivable days from 103 days to about 50 days over 9M09 (our estimate); and 3) the pay down of A$24.3m in debt in 9M09, taking the company to a net cash position.

Valuation. AusGroup's current order book stands at A$230m, up 37% QoQ. We have adjusted our earnings estimates upwards and now estimate revenues of A$80m in 4Q09F (down 20% QoQ) and A$380m in FY10F (down 13.6% YoY). This implies AusGroup winning another A$230m of orders over the next 14 months. 4Q09 will be a better benchmark of both operating conditions and AusGroup's ability to sustain this improvement in internal processes, in our opinion. AusGroup is up 186% YTD. Recommend **HOLD** with S$0.55 fair value (previously under review). This pegs AusGroup at 13x FY10F earnings - at a slight discount to ASX-listed competitor Monadelphous. ***(Meenal Kumar)***

Hyflux: Still upbeat about the water sector

Seasonally weaker 1Q09 results. Hyflux Ltd posted its 1Q09 results last night. Revenue fell 1.6% YoY at S$88.2m, mainly due to the continued weakness in industrial sales in China (down 35.1%), hit by the challenging economic conditions. But municipal sales managed to grow 7.3% YoY, driven by its still strong order pipeline in that segment. Gross margin also improved from 23.3% in 1Q08 to 33.2%, largely aided by lower raw material prices as well as subcontractor's costs. Nevertheless, due to the absence of a tax credit in 1Q09 (versus S$1.1m in 1Q08), net profit slipped 11.5% to S$5.1m. On a sequential basis, revenue tumbled 50.8%, while net profit tumbled 62.0%, highlighting the usual seasonality of its revenue stream; the first quarter typically records the lowest revenue due to the long Chinese New Year holiday in China (See Exhibit 1).

Upbeat about Algeria, China prospects. Going forward, management believes that the outlook for the water industry remains upbeat, especially in Middle East & North Africa (MENA). Hyflux is particularly bullish about its growth potential in Algeria, as it has just achieved financial close for the US$443m Magtaa Desalination Plant - touted to be the largest in the world with a capacity of 500k m3/day. Construction of the US$200m Tlemcen Plant is also progressing well and is expected to be operational by end 2009. Meanwhile, management is also equally upbeat about its prospects in China, where the company is building and/or operating as many as 30 water treatment plants. One area that Hyflux sees potential is in the growth of water tariffs in China, which are still extremely low by international standards. Although tariffs have grown some 60% between 2003 and 2007, the average is around US$0.20/m3 versus global average of US$3.00/m3.

Expect seasonal uptick in 2Q09. Although management did not provide an update of its order book - EPC jobs last stood at S$1.14b (end Dec 08), the ongoing projects to be completed should ensure that revenue and earnings see the seasonal uptick in 2Q09 and the rest of the year. As such, we are leaving our FY09 estimates unchanged despite 1Q09 revenue and earnings meeting just 14.4% and 8.3% of our full year estimates. And given the recent re-rating of the equity market, we correspondingly raise our valuation from 16x (trough) to 18x FY09F EPS and our fair value from S$1.87 to S$2.11. Maintain **BUY.** ***(Carey Wong)***

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 UOL/Pan Pacific Hotel 1Q09 China Apr Trade Bal US Mar Trade Bal	Midas/Rotary/Wilmar/ Eu Yan Sang/MIIF 1Q09 SSH 3Q09 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/Swiber 1Q09 US Apr PPI	SIA 4Q09/Koda 3Q09 Golden Agri/KSE 1Q09 SG Mar Retail Sales US Apr Ind Production/US Apri 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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