MITA No. 014/06/2008

11 May 2009

Market Pulse

Key Singapore Indices

	Close	Chg	% Chg
STI	2238.2	-3.4	-0.2
Catalist	90.0	4.3	5.0
Finance	563.8	3.5	0.6
Property	460.9	7.1	1.6
Electronics	501.4	13.3	2.7
Vol (m)	5222.1	1181.6	29.2
Val (S$m)	3052.7	-258.8	-7.8

World Indices

	Close	Chg	% Chg
Dow Jones	8574.7	164.8	2.0
Nasdaq	1739.0	22.8	1.3
S&P500	929.2	21.8	2.4
FTSE	4462.1	63.4	1.4
KLCI	1026.8	3.3	0.3
Hang Seng	17389.9	172.0	1.10
Nikkei	9432.8	47.1	0.5
SET	527.7	4.6	0.9
KOSPI	1412.1	11.1	0.8
TWSE	6583.9	11.0	0.2

Market Statistics (SG)

STI 52-week range	1,455	3,254
No. of gainers		560
No. of losers		146
No. of unchanged		147

Economic Statistics

	Close	Chg
S$/US$	1.5	0.0
Yen/US$	98.6	0.2
3-mth S$ SIBOR	0.7	0.0
3-mth US$ SIBOR	1.0	0.0
Crude futures (US$)	58.3	-0.4

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Key Idea

DBS: Downgrade to HOLD

DBS posted 1Q09 net earnings of S$433m, down 28% YoY and 47% QoQ. Net Interest Income rose 2% YoY, but was down 4% QoQ to S$1076m. With Non-interest Income of S$586m, up 63% QoQ, total income improved 6% YoY and 13% QoQ to S$1662m. Net Interest Margin fell from 2.04% in 1Q08 and 2.09% in 4Q08 to 1.99% in 1Q09. Allowances surged, up 3-fold YoY or 38% QoQ to S$437m. We expect impairment charges to remain high for 2Q and 3Q, although at lower level than 1Q, making full year charges of S$1386m. We have revised our numbers and raised net earnings from S$1328m to S$1572m for FY09 taking into account slightly better 1Q09 performance. Since our last report in Mar 2009, the stock has appreciated some 64% to S$11.90 currently. With the recent re-rating for Singapore banking stocks, with average P/book of 1.4x, we are raising our fair value estimate to S$12.40. But given the limited upside, we are downgrading the stock to **HOLD**

More reports:

- **Sembcorp Marine Ltd: Pricing for Hope**
- **Keppel Land: Extending payment due date to buyer**

News Headlines

- Oceanus Group reported an 85.8% increase in net profit to RMB107.6m for 1Q09.
- Epure International has announced a JV to undertake a Build Operate and Transfer project in Gansu Province, Lanzhou City with an investment value of RMB129m.
- The BT-UniSIM Business Climate Survey's indicators point to a 7.7-9% YoY contraction in GDP 2Q09. Meanwhile, it also shows that 66% of respondents expect sales to pick up by 1Q10.
- SATS reported a 24.7% decline in net profit to S$147m for FY09 and is proposing final ordinary dividend of 6 S-cents per share.
- Sarin Technologies reported a loss of US$2.5m for 1Q09 due to lower demand for its products.
- HTL International reported net profit of S$14.9m for 1Q09, reversing a net loss of S$8.17m a year ago.
- F&N said it is not interested in a rights issue but may tap the equity market if a huge merger and acquisition opportunity were to arise.

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

Please refer to the important disclosures at the back of this document.

DBS: Downgrade to HOLD

Better than expected 1Q09 earnings. DBS posted 1Q09 net earnings of S$433m, down 28% YoY and 47% QoQ. This was above market estimates (with Dow Jones consensus estimate of S$353m). Net Interest Income rose 2% YoY, but was down 4% QoQ to S$1076m. With Non-interest Income of S$586m, up 63% QoQ, total income improved 6% YoY and 13% QoQ to S$1662m. Net Interest Margin fell from 2.04% in 1Q08 and 2.09% in 4Q08 to 1.99% in 1Q09. This was due to a decline in Singapore interbank rates, but partly offset by higher credit spreads and prime-HIBOR spreads in Hong Kong. Fee and commission income fell 10% YoY (but was up 21% QoQ) to S$317m due to weak capital market activities.

Allowances surged 3x YoY. Total expenses fell 3% YoY and 7% QoQ to S$638m, resulting in cost-to-income ratio of 38.4%, down from 42% in 1Q08 and 46.8% in 4Q08. As expected, allowances surged, up 3-fold YoY or 38% QoQ to S$437m. This comprised of specific loan allowances of S$225m. NPL doubled YoY to S$2721m, while NPL ratio rose from 1% in 1Q08 and 1.5% in 4Q08 to 2.0% in 1Q09. This compares with 2.1% for UOB and 1.8% for OCBC in 1Q09. Management has declared a 1Q dividend of 14 cents payable on 4 Jun 2009.

Downgrade to HOLD, but raising fair value estimate to S$12.40. Management expects NPL to remain high (2% currently), although deterioration appeared to have stopped. We expect impairment charges to remain high for 2Q and 3Q, although at lower level than 1Q, making full year charges of S$1386m. We have revised our numbers and raised net earnings from S$1328m to S$1572m for FY09 taking into account slightly better 1Q09 performance. As the worst appears to be over for the global economy, we have also raised our expectations for FY10, increasing net earnings from S$1723m to S$1965m. Since our last report in Mar 2009, the stock has appreciated some 64% to S$11.90 currently. With the recent re-rating for Singapore banking stocks, with average P/book of 1.4x, we are raising our fair value estimate to S$12.40 (based on 1.2x book, the discount being for the still cautious economic environment). However, until we see clearer increase in regional trades and activities, price upside looks limited at current price level. As such, we are downgrading the stock to **HOLD**. ***(Carmen Lee)***

Sembcorp Marine Ltd: Pricing for Hope

Good results. Sembcorp Marine Ltd (SMM) reported its 1Q09 results with topline came in at S$1.36b (+49% YoY, -16% QoQ). PATMI registered S$120.2m (+32% YoY, +73% QoQ). SMM did well when compared to a weak 1Q08 which had project revenue recognition timing issues. The group also experienced a better gross margin this quarter as it started reaping from the better priced contracts signed during the peak 2007-2008 phase. The group's net cash position stood at S$1.89b while order book stood at S$8.4b.

Repair activities seem peak-ish. SMM's ship repair activities seem to have come to a plateau with a net change in ships repair growing in the high single digits this quarter. While SMM iterates that a base load (~80%) of its repairs consists of exclusive agreements with major shipping/oil companies that are regulars at its docks, we are waiting to see if this should tail off as companies anchor vessels as demand for goods and raw materials slows down. A slew of LNG tankers coming on stream could affect SMM's repair of this vessel class as the recession takes demand off fuel.

No clarity with Petrobras... yet. Management has indicated that discussions with Petrobras are ongoing and are confident of some positive newsflow in the future. With about half of the 28 drilling assets slated to be semi-subs, it translates to about US$7.7b worth of orders (14 x US$550m). However, there is no clarity on the quantum and timing of contracts being discussed. The bug-bear issue with Petrobras is its requirements for the use of "local content" to sustain employment in Brazil's yards. SMM's jointly operated MacLaren yard is its only presence in Brazil. MacLaren is currently building a new dock (ready 2H09) capable of drydocking the largest of semi-submersible rigs.

Pricing for hope. We have upped our estimates in view of a more aggressive recognition of higher valued projects from FY07/08. However, SMM still has another S$1b worth of wins to catch up with our forecasts for FY09. Oil prices have run up in tandem with equity markets and we bump up our valuation peg to 13x FY09F PER (prev. 11x). While our fair value is now raised in tandem to S$2.65 (prev. S$2.02), we find the hope of the sustained oil price rise of the recent magnitude to lack fundamentals. As such, we are maintaining our **HOLD** rating. ***(Kelly Chia)***

Keppel Land: Extending payment due date to buyer

Keppel Land (KepLand) announced that it had extended the payment due date to an en-bloc buyer who purchased 51 units in its 157-unit The Suites at Central (KepLand holds 60% stake). The 51 units were sold at an average price of S$1,806 psf to the buyer under the Deferred Payment Scheme in June 2007. 20% of the purchase price (S$361 psf) had been paid by the buyer, with the remaining balance of S$1,445 psf due after TOP. Assuming an average size of 1280 sq ft per unit, we estimate that the remaining outstanding payment from the buyer could be around S$94m. Terms for the extension include an additional monthly payment of S$0.5m during the extension period. The first S$0.5m payment has been made. This is a gesture of goodwill that the buyer remains committed to the purchase but the quantum is small in comparison to the outstanding amount due to KepLand. In the event that the buyer defaults, impact on our valuation will not be significant as the estimated total attributable profit from this project is ~2.6% of our RNAV estimate. In view of the recent aggressive rally, we are holding our fair value of S$2.07 for KepLand but are reviewing our **BUY** recommendation. ***(Foo Sze Ming)***

Monday	Tuesday	Wednesday	Thursday	Friday
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/ EYS/MIIF/Li Heng 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		
08-Jun	**09-Jun**	**10-Jun**	**11-Jun**	**12-Jun**
	SG 3Q Manpower Survey China 3Q Manpower Survey	China May PPIChina May CPI	China May Trade Bal	China May Retail Sales China May Ind Production

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.

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