

MITA No. 014/06/2008

13 May 2009

# Market Pulse

Key Singapore Indices			
	Close	Chg	% Chg
STI	2178.1	12.0	0.6
Catalist	90.8	2.0	2.2
Finance	548.2	9.6	1.8
Property	448.5	5.5	1.2
Electronics	497.6	8.7	1.8
Vol (m)	2716.1	-1353.7	-33.3
Val (S\$m)	2136.0	-294.8	-12.1

World Indices			
	Close	Chg	% Chg
Dow Jones	8469.1	50.3	0.6
Nasdaq	1715.9	-15.3	-0.9
S&P500	908.4	-0.9	-0.1
FTSE	4425.5	-10.0	-0.2
KLCI	1023.0	-2.5	-0.2
Hang Seng	17153.6	65.7	0.4
Nikkei	9298.6	-153.4	-1.6
SET	544.5	9.4	1.7
KOSPI	1403.5	-11.7	-0.8
TWSE	6432.6	-215.0	-3.2

Market Statistics (SG)			
STI 52-week range	1,455	3,254	
No. of gainers		295	
No. of losers		230	
No. of unchanged		177	

Economic Statistics		
	Close	Chg
S\$/US\$	1.5	0.0
Yen/US\$	96.6	0.1
3-mth S\$ SIBOR	0.7	0.0
3-mth US\$ SIBOR	0.9	0.0
Crude futures (US\$)	59.3	0.4

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## Key Idea

### UOL Group: Strong results aided by UIC acquisition

UOL Group reported strong 1Q09 results that were aided by its acquisition of UIC shares. Revenue increased to S\$196.7m due to progressive recognition of revenue from development projects and higher rental income. Contribution from hotel operations was weak in 1Q09. Reported PATMI jumped 674.3% YoY to S\$331.8m but excluding one-offs, we estimate that the underlying PATMI would have increased by 57% YoY. Investments in UIC had been reclassified from available-for-sale assets to associated companies, which contributed to the 13% increase in NAV to S\$4.82 per share. Profit contribution from UIC should also increase in the next quarter, when UIC will make its full quarterly contributions. We have revised our FY09 revenue and PATMI estimates to S\$818.7m and S\$540.8m respectively. Our RNAV estimate for UOL has now been raised to S\$3.57 per share and our fair value has also been raised to S\$2.91. We are now downgrading UOL from BUY to **HOLD** on valuation grounds

### More reports:

- **Neptune Orient Lines Ltd: Still in the red**
- **Noble Group Ltd: Marginal dilution from placement**
- **Avi-Tech Electronics Limited: Soft 3QFY09, but fundamentals remain sound**
- **Silverlake: Extremely Disappointing 3Q09 Results**
- **Pan-United Corporation: Good business volume but difficult pricing environment**
- **Rotary Engineering: Doubtful debts impacts bottomline**

## News Headlines

- Sembcorp posted a 8.6% YoY rise in 1Q09 net profit to S\$133.6m, driven mainly by increased contribution from its marine business. Turnover stayed flat at S\$2.15b.
- Local authorities will raise their annual IT budget to S\$1.73b this fiscal year. More than 392 government IT tenders will be up for grabs.
- Thakral Corporation reported a net profit of S\$0.79m for 1Q09 compared to a net loss of S\$0.54m in 1Q08.
- Cerebos Pacific's 2Q09 net profit fell 21% YoY to S\$12.4m while turnover slipped 4% to S\$183.7m. A foreign exchange loss of S\$17.5m was incurred.
- Helped by higher selling prices for the company's high-end projects, Yanlord Land Group's net profit more than doubled to S\$24.3m for 1Q09.
- WBL Corporation reported a 21% YoY fall in net income to S\$9.3m even though revenue rose 0.5% to S\$484.3m for 2Q09.
- Super Coffeemix posted a 2% YoY rise in earnings to S\$6.15m in 1Q09 despite a 10% fall in revenue to S\$64.4m resulting from lower sales in Thailand, Mongolia and South Africa.

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

### UOL Group: Strong results aided by UIC acquisition

**Underlying profit up by 57% YoY.** UOL Group reported a set of strong 1Q09 results that was aided by its acquisition of UIC shares. Revenue increased by 21.6% YoY to S\$196.7m due to progressive recognition of revenue from development projects and higher rental income from investment properties. Contribution from hotel operations was weak, with revenue declining by 16.9% YoY to S\$69.6m as occupancy rates and average room rates declined across most of its hotels. Finance expenses jumped significantly by 330.9% YoY to S\$20.4m but this was largely due to a one-off facility fee of S\$14.1m incurred for the offer for UIC shares. Contributions from associated companies were also higher with the inclusion of its share of UIC profits. A one-off negative goodwill of S\$277.7m arising from the acquisition of UIC shares was recognized. As such, reported PATMI jumped 674.3% YoY to S\$331.8m. Excluding one-offs, we estimate that the underlying PATMI would have increased by 57% YoY.

**Reaping benefits from UIC acquisition.** As UOL's stake in UIC now reached 31.6%, investments in UIC had been reclassified from available-for-sale assets to associated companies, which contributed to the 13% increase in NAV from end-FY08 level to S\$4.82 per share. Profit contribution from UIC should also increase in the next quarter, when UIC will make its full quarterly contributions to UOL's bottomline. UOL's balance sheet remains healthy after the acquisition, with net gearing ratio increasing from 0.4x at end FY08 to 0.44x at the end of 1Q09.

**Re-adjusting our forecasts.** Hotel segment was the underperformer in 1Q09 and our outlook for the segment has been revised downwards as we expect conditions to remain challenging in light of the weak macro outlook and potential threat from the H1N1 virus. As such, our FY09 revenue estimate has been lowered by 5.6% to S\$818.7m (previously S\$867.2m). However, our FY09 PATMI estimate has now been raised by 105.8% to S\$540.8m (previously S\$262.8m), after accounting for the negative goodwill gain and contribution from UIC. Taking away one-off items, our FY09 underlying PATMI estimate has increased by 14.4% to S\$300.5m (previously S\$262.8m).

**Downgrading to HOLD.** Our RNAV estimate for UOL has now been raised to S\$3.57 per share (previously S\$3.25) and our fair value has also been raised to S\$2.91 (previously S\$2.58). In light of the recent increase in its share price, we are now seeing limited upside potential of 9.6% in UOL's share price. While we continue to like UOL for its diversified earnings and mass market exposure, we are now downgrading UOL from BUY to **HOLD** on valuation grounds. (*Foo Sze Ming*)

### Neptune Orient Lines Ltd: Still in the red

**Deeper in the red.** Neptune Orient Lines Ltd (NOL) turned in a poor set of 1Q09 results. The group reported a net loss of US\$244.6m vs. a US\$120.7m profit a year ago. 1Q09 losses were wider than the US\$148.5m loss incurred in 4Q08. Revenue slumped 35.9% YoY and 32.6% QoQ to US\$1.5b. Key culprits for NOL's weak performance were the slump in global trade flows coupled with deteriorating freight rates across all trade lanes. A reduction in non-recurring gains from asset disposals (US\$3m in 1Q09 vs. US\$18m in 1Q08) magnified the slump in earnings. The group's poor performance led to a net operating cash outflow of US\$139.4m in 1Q09 as compared to an inflow of US\$212.9m a year ago.

**Revenue declined across all segments.** Container Shipping, the group's key revenue contributor, saw revenue slide 35.9% YoY to US\$1.3b on the back of depressed freight rates and lower demand for container freight. Average revenue per FEU (Forty-foot Equivalent Unit) has fallen 16% YTD owing to lower bunker recovery and core freight rates, while volume handled has slumped 27% as a result of the global economic downturn. Utilisation of its container shipping network continued heading south despite the group's capacity reduction efforts, coming in at just 80% in 1Q09 as compared to 95% in 1Q08 and 83% in 4Q08 (exhibit 1). This brings the group's utilisation rate down to levels seen during the previous crisis in 2002. The Logistics and Terminals segments similarly suffered revenue contraction as a result of lower throughput volumes. Revenue from Logistics declined 33.6% YoY to US\$241m while that from Terminals fell 22.8% to US\$112m.

**Not out of the woods yet.** While NOL has been taking proactive measures to contain costs and improve asset utilisation, these have not been sufficient to mitigate the group's rapid revenue decline. Management has put in place cost-reduction initiatives that could result in US\$550m of cost savings for the year, and we expect these to take some pressure off the group's earnings in subsequent quarters. Notwithstanding this, NOL expects operating conditions to remain challenging for the year ahead, and has reiterated its projection of full year losses for FY09, which we had already taken account into our estimates. NOL's revival hinges on the recovery of global trade flows, which remains uncertain at this juncture. We are keeping our estimates and **SELL** rating unchanged. Our fair value estimate remains at S\$0.815. *(Kelly Chia)*

**Noble Group Ltd: Marginal dilution from placement**

**Placement to have minimal dilutive impact.** Noble Group Ltd (Noble) has announced a placement of 84.7m new shares at S\$1.52 per share. The new shares will enlarge the group's existing share base by a marginal 2.6%, and will raise net proceeds of US\$86.2m, which will be used for general corporate purposes. Concurrent with the placement, major shareholder Noble Temple Trading Inc (in which Noble's CEO Mr Richard Elman has a deemed interest) will place out 36.3m vendor shares, representing 1.1% of Noble's issued capital. The placement shares have been priced at a 2.5% discount to the weighted average price from 11 to 12 May 09 prior to trading halt. Dilutive impact from the new share placement is insignificant - our FY09F EPS has been trimmed to 11.3 US cents from 11.6 US cents. NAV is expected to increase to 59 US cents from 58 US cents.

**No pressing need for additional funds.** Looking at its strong balance sheet, Noble has no urgent need for additional funds. The group's adjusted net cash position (cash and readily marketable inventories less debt) improved to US\$376m in 1Q09 from US\$358m in 4Q08. Available credit facilities remained ample at US\$4.2b. According to management, funds raised from this placement will be used for general working capital purposes, and will come in handy should commodity prices rise. We reckon that additional funds will also strengthen Noble's position for future acquisition opportunities, such as its ongoing bid for Gloucester Coal Ltd, which could cost the group US\$281.4m. In addition, this placement, which was largely targeted at institutional investors, will serve to diversify the group's institutional shareholder base.

**Reduce to HOLD on valuations.** Noble has demonstrated its ability to manoeuvre harsh operating conditions by delivering a strong set of 1Q09 results with volume growth seen across all its segments. Nevertheless, its outlook remains highly dependent on the recovery of the real economy, which remains unconvincing at this juncture. In view of the recent rally, we are adopting a more cautious stance on the stock. We have tweaked our fair value estimate to S\$1.62 (from S\$1.66) to account for dilution. Given the limited upside to our fair value estimate, we reduce our rating to **HOLD.***(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.)

**Avi-Tech Electronics Limited: Soft 3QFY09, but fundamentals remain sound**

**Soft 3QFY09 performance as expected.** Avi-Tech Electronics announced its 3QFY09 results last evening. Revenue came in lower than expected at S\$5.4m, down 69.2% YoY (-47.4% QoQ), due to a scale-back in capital spending among its customers in the face of weakening economic climate. Net profit of S\$0.6m, down 78.8% YoY (-70.1% QoQ), was however within our expectation, helped mainly by smaller-than-expected administrative expenses (-61.5% YoY and -38.6% QoQ) arising from forex gains of S\$0.4m, lesser depreciation expenses and effective cost reduction measures. For 9MFY09, revenue had decreased by 59.5% to S\$24.8m, meeting 71.5% of our FY09 revenue forecast, while net profit slid 58.2% to S\$4.3m, or 82.7% of our earnings projection. This downbeat performance (as well as its guidance to remain profitable) is largely in line with management's outlook given during its 2QFY09 results.

**Strong financial position to tackle downturn.** As the current recessionary economic condition has significantly eroded consumer and business confidence, and slowed down its major customers' business activities, Avi-Tech still expects to face difficult operating environment and downward pressure on its revenue going forward. Notwithstanding that, the group believes that it is in a strong position to weather any prolonged downturn. Over the quarter, we note that Avi-Tech had successfully implemented stringent cost containment measures to stay competitive and kept its bad debt provision at minimal levels. Its net cash position, as of 31 March 2009, also remained strong at S\$45.8m (2QFY09: S\$46.6m), even after an interim dividend payment of S\$1.7m and share buyback of S\$0.3m. With still sound financials, Avi-Tech said that it will remain alert to new growth opportunities and seize them as and when they arise.

**Maintain HOLD.** Despite the soft quarterly results, we feel that Avi-Tech has outperformed its semicon peers (most of which had dipped into the red in this exceptionally weak 1Q09) by staying profitable and cash flow accretive. Regarding an improvement in orders from March onwards as cited by some industry players, however, we prefer to stay conservative as the global economy has yet to show any real sign of a sustainable recovery. Accordingly, we have again eased our FY09 forecasts by 5.6-12.1% to reflect a protracted slowdown. Due to limited earnings visibility, we now peg our fair value to 0.65x FY10F NTA from 6x FY10F EPS previously, but our fair value remains unchanged at S\$0.11 (still ~15% discount to its net cash/share of S\$0.13). Maintain **HOLD** as strong cash position is likely to provide some support for share price. *(Kevin Tan)*

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### Silverlake: Extremely Disappointing 3Q09 Results

Silverlake Axis Limited (SAL) reported a very disappointing set of 3Q09 results last night. Revenue fell 40.7% YoY to just MYR15.0m, particularly hard hit by the decrease in the licensing of its SIBS core banking software. Also plagued by losses of MYR0.9m by its associates (versus a MYR0.6m profit in 3Q08), net profit plunged 96.7% YoY to MYR0.7m. On a sequential basis, revenue slipped 7.7%, while net profit fell 94.4%. For 9M09, revenue fell 66.9% to MYR44.0m, meeting about 74.8% of our FY09 forecast, while net profit tumbled 83.5% to MYR16.1m, which barely came up to 50% of our full-year estimate (even after already slashing our FY09 earnings forecast by >40% previously). In any case, we still see the need to further slash our FY09 and probably even FY10 estimates. We will be speaking with management later and until then, we are putting our **HOLD** rating and S\$0.12 fair value under review. *(Carey Wong)*

### Pan-United Corporation: Good business volume but difficult pricing environment.

Pan-United Corp (PAN) reported 1Q09 revenue of S\$128.3m (+10% YoY, -12% QoQ) and PATMI of S\$9.9m (-15% YoY, -22% QoQ). The topline YoY growth was contributed mainly by greater volume of Ready Mixed Concrete (RMC) sold but softening prices took a toll on PAN's profit margin. Cargo volumes at its 51.3%-owned Changshu port was reported to crater in Jan 09 but managed to pick up for the rest of the quarter in view of China's RMB4t domestic stimulus package. A bright spot was seen in its shipping division where it took delivery of more tugs and barges while utilisation and charter rates are reported to have sustained pricing levels. Moreover, Shipping is expected to have a better impact on bottomline as it is exempted from taxes if the vessels operate in international waters. Management will be holding an analyst briefing later in the afternoon and we will be reviewing our estimates after we obtain better business and pricing clarity, especially on the RMC segment. As such, we are putting our fair value of S\$0.47 and **BUY** rating under review. *(Kelly Chia)*

**Rotary Engineering: Doubtful debts impacts bottomline**

Rotary Engineering (Rotary) reported its 1Q09 this morning with topline rising 13% YoY to S\$131.9m but net profit fell 57% YoY to S\$4m. The bad bottomline was primarily due to lower gross margins as compared to 1Q08 and a S\$5.7m bad debt provision as one of its customers has run into financial difficulties. Rotary is negotiating with the administrators with the aim of reaching a scheme of arrangement. Reflecting the difficult operating environment, the company also reported securing only S\$15.2m in orders for the quarter vs. S\$188m in 4Q08. On the bright side, Rotary continues to stay in a strong net cash position of S\$145.6m (S\$0.256/share). Management will be holding a briefing later this morning. Until we obtain better clarity on its Middle East plans and overall business, we are putting our fair value of S\$0.29 and **BUY** rating under review. *(Kelly Chia)*

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/MIF/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 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		
08-Jun	09-Jun	10-Jun	11-Jun	12-Jun
	SG 3Q Manpower Survey China 3Q Manpower Survey	China May PPI/China 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*

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**Please refer to the individual company's full report for additional disclosures**

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Published by OCBC Investment Research Pte Ltd