OCBC Investment Research

MITA No. 014/06/2010

30 July 2010

Market Pulse

Key Singapore Indices	Close	Chg	% Chg
STI	2997.7	12.3	0.4
Catalist	124.6	0.3	0.2
Finance	746.3	1.3	0.2
Property	681.0	1.7	0.3
Electronics	746.5	9.6	1.3
Vol (m)	1438.6	-217.9	-13.2
Val (S$m)	1618.5	136.2	9.2

World Indices	Close	Chg	% Chg
Dow Jones	10467.2	-30.7	-0.3
Nasdaq	2251.7	-12.9	-0.6
S&P500	1101.5	-4.6	-0.4
FTSE	5314.0	-5.7	-0.1
KLCI	1358.4	3.2	0.2
Hang Seng	21093.8	2.6	0.0
Nikkei	9696.0	-57.3	-0.6
SET	854.6	0.8	0.1
KOSPI	1770.9	-2.6	-0.1
TWSE	7799.0	14.2	0.1

Market Statistics (SG)		
STI 52-week range	2,521	3,038
No. of gainers		281
No. of losers		197
No. of unchanged		278

Economic Statistics	Close	Chg
S$/US$	1.4	0.0
Yen/US$	86.9	0.1
3-mth S$ SIBOR	0.6	0.0
3-mth US$ SIBOR	0.5	0.0
Crude futures (US$)	78.3	-0.1

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Key Idea

SATS Limited: Strong execution in 1QFY11

SATS Limited reported its 1QFY11 results last evening. Revenue came in at S$382.1m (+8.6% YoY, -2.2% QoQ), forming 24.1% of our FY11 sales forecast (22.9% of consensus), while PATMI reached S$44.3m (+9.7% YoY, -4.7% QoQ), representing 22.8% of full-year earnings estimate (21.6% of consensus). We note that the group enjoyed broad-based growth over the quarter, with aviation revenue (+9.1% YoY) driven by higher cargo throughput and passenger traffic, and non-aviation food business (+8.4% YoY) boosted by higher drinks and fruit sales from its UK operations. Going forward, management expects its aviation business segment to improve further, in tandem with the economic recovery in Asia. We are revising our FY11 forecasts upwards by 2.1-2.7% as we incorporate the quarterly results into our full-year projections. This raises our DCF-based fair value to S$3.30 from S$3.27 previously. Despite the share price jumping by 16.5% since our last report on 10 June, we continue to see an attractive upside potential of 11.5% on SATS. As such, we maintain our **BUY** rating on the stock.

More reports:

- **CPO Sector: Near-term outlook positive**
- **DBS: 2Q net earnings of S$718m before charge**
- **LMIR Trust: 2Q10 DPU 14% below our estimate on higher tax expense**
- **Keppel Corporation: Achieves more in the offshore wind energy sector**

News Headlines

- Construction demand in Singapore from Jan to May was S$8.17b, compared to BCA's full year forecast of S$21-27b.
- A unit of SingTel has established a S$10b guaranteed euro MTN programme.
- Stamford Land lifted its net earnings more 10 times to S$38m in 1Q11 compared to S$3.2m in 1Q10, helped by gains on fair value of investment properties.
- GMG Global posted net profit of S$9.5m in 2Q10, reversing its net loss of S$3.8m in 2Q09.
- AIMS AMP Capital Industrial REIT posted a 3.9% YoY rise in income available for distribution to S$8.1m in 1Q11.
- China Sunsine reported a 11% YoY rise in net profit to RMB28.3m in 2Q10.
- Surface Mount Technology posted net loss of HK$6.6m in 1Q11 compared to net loss of HK$16.4m in 1Q10.
- Transcu Group has extended the deadline for announcing its 1Q11 results to 1 Oct 2010.

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

SATS Limited: Strong execution in 1QFY11

1QFY11 results driven by broad-based growth. SATS Limited reported its 1QFY11 results last evening. Revenue came in at S$382.1m (+8.6% YoY, -2.2% QoQ), forming 24.1% of our FY11 sales forecast (22.9% of consensus), while PATMI reached S$44.3m (+9.7% YoY, -4.7% QoQ), representing 22.8% of full-year earnings estimate (21.6% of consensus). We note that the group enjoyed broad-based growth over the quarter, with aviation revenue (+9.1% YoY) driven by higher cargo throughput and passenger traffic, and non-aviation food business (+8.4% YoY) boosted by higher drinks and fruit sales from its UK operations. Better performances were also recorded by its ground handling associates in Hong Kong and Indonesia, leading to a strong 61.5% growth in contribution from overseas associates. As such, bottomline grew at a relatively faster pace than its topline, notwithstanding the absence of S$6.1m jobs credit benefit seen in 1QFY10. Excluding this benefit, we estimate that PATMI would have grown by 29.2% YoY (vs. 9.7% YoY growth as reported).

Positive outlook. Going forward, management expects its aviation business segment to improve further, in tandem with the economic recovery in Asia. Notably, passenger traffic is anticipated to grow in the coming quarters as full-service carriers continue to improve their yields and add more flights. In addition, cargo volumes are expected to grow, albeit at slower rate, mirroring the moderating economic growth projected in 2HCY10. Despite rising costs, SATS also added that its Singapore and UK food business are expected to remain stable in 2010.

Update on Coolport. On its perishable cargo handling centre, Coolport@Changi, management updated that the facility has commenced operations since 17 Jun and that the group is now in discussion with prospective customers for business opportunities in this area. Management currently expects Coolport to breakeven in 2-3 years. However, if it manages to secure big customers (where revenue is expected to be lumpy), the facility may break even as early as end-FY11.

Maintain BUY. We continue to like SATS for its growth opportunities, consistently strong operating cashflows and generous dividend payouts. We are revising our FY11 forecasts upwards by 2.1-2.7% as we incorporate the quarterly results into our full-year projections. This raises our DCF-based fair value to S$3.30 from S$3.27 previously. Despite the share price jumping by 16.5% since our last report on 10 Jun, we continue to see an attractive upside potential of 11.5% on SATS. As such, we maintain our **BUY** rating on the stock. ***(Kevin Tan)***

CPO Sector: Near-term outlook positive

Potential curb in supply in 2H10. Crude palm oil prices have recovered quite nicely to hover around US$750/ton, after dipping to a low of US$682/ton in early Jul; this amidst weather uncertainties for the palm crop and potentially tight near-term supplies. A Dow Jones Newswire article noted that Jul production numbers - with just a single-digit gain - have been below expectations as erratic weather conditions lowered yields at key palm growing regions even as the trees go into high production season. And with demand still likely to outpace supply, industry watchers expect a draw-down in CPO inventory levels. But most note that it is too early to say whether the "La Niña" phenomenon - which is causing heavier-than-usual rainfall in Asia - will persist until the end of the year. Nevertheless, we believe that our US$750/ton CPO assumption is still very much in the ballpark.

Wilmar remains our top sector pick. Our top sector pick is Wilmar International Limited (WIL), which operates an integrated business model (from plantations to consumer packs) with a well-established distribution network in China. WIL also possesses a strong management team and is a market leader in the downstream edible oils and oilseeds industry. Given its extensive network, we believe WIL is well-positioned to ride on the still fast-growing economies in China, India and Indonesia (demand for CPO is likely to be exponentially boosted by urbanization and the corresponding demand for processed food). We also like its recent expansion into the lucrative sugar and oleo-chemical industries, which should further increase the value proposition of its China business. Hence we have a **BUY** rating on WIL with S$7.15 fair value. Potential overhang - unresolved tax issues in Indonesia.

We also like Golden Agri. With CPO prices likely to remain firm, we believe that one of the key beneficiaries would be Golden Agri Resources (GAR), which is one of the largest oil palm plantation owners in the world with some 430k hectares (ha). GAR is also looking to expand its acreage by 50k ha this year either through new planting or acquisition of existing plantations; to build up milling capacity in line with the fruit production growth; and to add more downstream processing capacity and logistics facilities in both Indonesia and China. We note it is already in the process of acquiring a food processing business in China. We have a **BUY** rating on GAR with S$0.72 fair value. Potential overhang - Greenpeace allegations of illegal clearing of peatland in Indonesia. ***(Carey Wong)***

DBS: 2Q net earnings of S$718m before charge

DBS Group posted 2QFY10 net earnings of S$718m, up 30% YoY and 35% QoQ. This was before a goodwill charge of S$1.02b for DBS Hong Kong, which dragged the net level number down to a loss of S$300m. At the operational level, its performance actually showed improvement and earnings were ahead of street estimates (consensus estimate of S$572.9m based on a Bloomberg poll). Net income was almost flat QoQ at S$1.07b, while non-interest income rose 16% QoQ to S$748m. This led to a total income of S$1815m, up 6% QoQ. Loans grew 9% from the previous quarter. Net Interest Margin (NIM) fell from 2.01% in 2Q09 and 1.93% in 1Q10 to 1.84% in 2Q10. Management said the goodwill impairment charge was taken as "there have been noticeable and persistent strains in wholesale funding markets," and that these changes meant that the interest margin compression in Hong Kong "will persist". Management has declared a 2Q dividend of 14 cents and shares will be quoted ex-divided on 20 Aug 2010. There is an analyst briefing this evening and we will provide more updates after the briefing. Meantime, our rating for the stock before the 2Q results was a **BUY** with fair value estimate of S$16.60, and this is now under review as we may look to revise our estimates following recent global indications of softer 2H10 prospects. ***(Carmen Lee)***

LMIR Trust: 2Q10 DPU 14% below our estimate on higher tax expense

LMIR Trust (LMIR) reported 92% YoY and 72.5% QoQ gains in 2Q revenue to S$40.1m; this as LMIR collected additional income from services charges receipt and utilities cost recovery on seven of its retail malls with the 31 Dec expiry of the operating costs agreement in place at listing. That additional income was offset by the additional costs incurred, relating to the maintenance and operation of the malls. 2Q10 reflects the full six months effect for 1H10 due to a delay in the transfer of operations. Net property income of S$21.6m was up 17% YoY and 6% QoQ, boosted by the strong Indonesian Rupiah (IDR) against the Singapore Dollar (SGD). NPI was in line with our S$21.6m estimate in both SGD and IDR terms. Conversely, DPU fell 20% YoY and 13% QoQ to 1.04 S cents. The manager attributed this to the appreciation in the IDR, which has caused the gap between the hedged rate on distributions and the physical rate to reverse unfavorably in the last four quarters. LMIR booked a realized (cash) forex loss this quarter of S$2.4m versus a loss of S$1.7m in 1Q10 and a realized gain of S$1.2m in 2Q09. DPU was 14% below our 1.21 S cents estimate due to actual tax expense of S$5.5m versus our S$3.6m estimate. We will be speaking with the REIT manager later this morning. We are likely to adjust our DPU estimates downwards and place our **BUY** rating and S$0.55 fair value estimate **UNDER REVIEW** in the meantime. ***(Meenal Kumar)***

Keppel Corporation: Achieves more in the offshore wind energy sector

The offshore marine arm of Keppel Corporation has formed a joint venture with Seafox Group to build and own a new-generation, wind turbine installation vessel worth US$220m. Keppel FELS will own 75% of the JV, but Seafox has the option of acquiring Keppel's stake. This vessel can operate in some 45%-deeper waters compared with existing wind turbine installation vessels and can carry up to 12 turbines at a time, enhancing work efficiency. As it can withstand harsh conditions in the North Sea, it is not surprising that it can also support offshore oil and gas activities such as accommodation, well intervention and other related areas. This vessel follows Keppel's S$117.6m contract from Wetfeet Offshore to build a mobile offshore application barge for a North Sea offshore wind farm (announced 23 Mar). The vessel is scheduled for delivery in 2H12, and should not have a material impact on Keppel's EPS in FY10. We maintain our **BUY** rating on Keppel with S$11.22 fair value estimate. ***(Low Pei Han)***

Monday	Tuesday	Wednesday	Thursday	Friday
26-Jul	**27-Jul**	**28-Jul**	**29-Jul**	**30-Jul**
Starhill/FSLT 2Q10 Spore Airlines 1Q11 Mercator 1Q11 First REIT 2Q10	GP Batteries 1Q11 (est) Raffles Med/OKP 2Q10 (est) Europtronic 2Q10 (est)	CDL Hospitality 2Q10 Broadway 2Q10 Spore Post 1Q11	Transcu / LMRT 2Q10 (est) SATS 1Q11 Dairy Farm 1H10 / Mandarin Oriental 1H10 AIMS AMP Cap/Cache Logistics 2Q10	SMRT 1Q11/DBS 2Q10 SG Jun Bank Loans & Advances SG 2Q Unemployment Rate (31st Jul) China Jul PMI Mfg (1st Aug) Jardine Matheson 1H10 / Jardine Strategic 1H10
02-Aug	**03-Aug**	**04-Aug**	**05-Aug**	**06-Aug**
SGX FY10 Viking 1H10 OCBC 2Q10	SMM/ ST Engrg/Hi-P 2Q10 CapitaMalls Asia 2Q10 Oceanus 2Q10 (est) SG Jul Purchasing Managers Index	CapitaLand 2Q10 CSC 1Q11 (est) Eucon 2Q10 (est) UMS 2Q10 (est)	Tiger Airways 1Q11 Venture/StarHub/Hyflux 2Q10	NOL 2Q10 Rotary 2Q10 UOL 2Q10 Pan Pacific Hotels 2Q10
09-Aug	**10-Aug**	**11-Aug**	**12-Aug**	**13-Aug**
	UOB 2Q10 China Jul Trade Balance	YZJ/Golden Agri 2Q10 China Jul CPI China Jul Retail Sales China Jul Ind Production	SCI/Ezion/City Dev 2Q10 Noble/Kingsmen 2Q10 Vicom 2Q10 Soilbuild/Li Heng 2Q10 (est) CitySpring/Sing Tel 1Q11	Ho Bee/SAR 2Q10 Tat Hong 1Q11 (est) Midas 2Q10 (est)
16-Aug	**17-Aug**	**18-Aug**	**19-Aug**	**20-Aug**
	SG Jul NODX			
23-Aug	**24-Aug**	**25-Aug**	**26-Aug**	**27-Aug**
	Raffles Edu FY10		Olam FY10	

All US Tech results dates have been adjusted to Singapore Date

Note: US Initial jobless claims released every Friday. MBA mortgage applications released every Wednesday

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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Published by OCBC Investment Research Pte Ltd