NOMURA
NOMURA SINGAPORE LIMITED

Jit Soon Lim, CFA +65 6433 6969 jitsoon.lim@nomura.com

TOP DOWN

Action

The Singapore market has recovered 6% from its mid-March lows, but is still 3% down year-to-date. The market looks undervalued relative to history and poised to rerate, in our view, given persistent negative real interest rates. A strong S$ (+5% by year-end) and attractive market dividend yield (3%) should also boost returns for dollar-based investors. Our view: Buy Banks, Commodities, Offshore and Office stocks.

Anchor themes

A strong currency, reasonable valuations and negative real interest rates will likely support Singapore's market outlook in 2011. While we expect GDP growth to slow to 5.3%, this is consistent with Singapore's long-term sustainable growth.

Greater cooperation within ASEAN will improve trade and FDI across ASEAN, while better Singapore-Malaysia relations could accelerate cross-border investments.

Stocks for action

Sean Darby is bullish on Singapore as a play on US recovery. We are positive on sectors that benefit from reflation and higher commodity prices.

Stock	Rating	Price (S$)	Price target
OCBC (OCBC SP)	BUY	9.46	11.80
DBS (DBS SP)	BUY	14.52	16.70
Keppel Land (KPLD SP)	BUY	4.45	5.56
CCT (CCT SP)	BUY	1.40	1.81
Golden Agri (GGR SP)	BUY	0.70	0.90
Noble (NOBL SP)	BUY	2.14	2.80
Keppel Corp (KEP SP)	BUY	12.26	15.00
Yangzijiang (YZJ SP)	BUY	1.81	2.30
Fraser & Neave (FNN SP)	BUY	5.93	7.60

Note: 30 March 2011 prices

Springing back

① Looking more attractive

The Singapore market looks attractive at forward P/B of 1.5x and P/E of 13x on EPS growth of 10%. Our Asia strategist Sean Darby turned bullish recently on Singapore as a play on US recovery. With negative real interest rates likely to persist for the rest of the year, we continue to favour reflationary sectors such as Banks and Commodities. We also like the Offshore Marine and Office Property sectors.

② Offshore sees strong orders; upstream valuations look attractive

Regulatory change and firmer oil price have spurred fresh orders for oil rigs, supporting our positive views on Keppel Corp and SembCorp Marine. Valuations for upstream CPO names like Golden Agri (BUY) and Indofood Agri (BUY) have lagged the rise in the CPO price, which Nomura expects to be 23% higher in 2011, on average. We also like midstream names like Noble and Olam (BUY).

③ Bank EPS growth underpinned by loan growth

Loan growth remains strong (+10-12%) and non-interest income and regional operations provide additional growth. OCBC looks positioned to grow in ASEAN while DBS is underpinned by a high dividend yield with an optionality on higher rates.

④ Still bullish on office, and cautious on residential

We remain cautious on residential on policy risks and are more positive on the office sector as rents move higher on favourable demand-supply factors. Our preferred picks are Keppel Land, CCT and KREIT (BUY).

⑤ Margin pressures something to monitor

A stronger S$ and higher costs in an inflationary environment may put pressure on margins and are worth monitoring. We expect minimal impact from Japan, and do not expect the forthcoming Singapore elections to impact the market materially.

Analysts

Jit Soon Lim, CFA
+65 6433 6969
jitsoon.lim@nomura.com

and the Singapore team

Contents

Singapore strategy: 2Q11

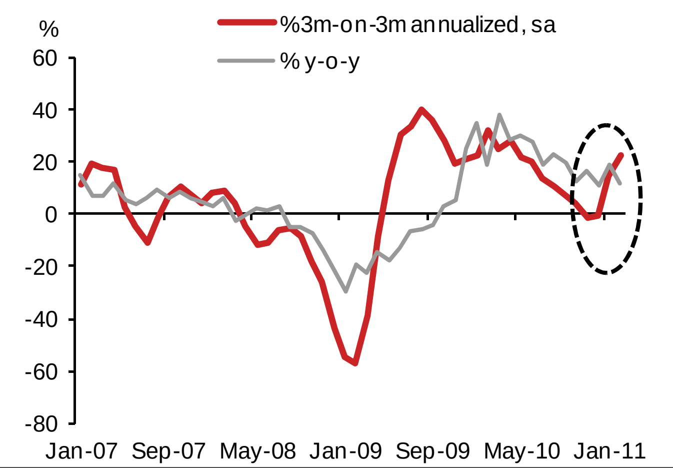
Springing back

Overview

The Singapore market has been one of the poorer-performing markets in Asia year to date. Although sentiment had been impacted by unrest in the Middle East and, more recently, the earthquake in Japan, the 3% pullback year-to-date may not be entirely justified, in our view. While there have been concerns about the impact of the earthquake in Japan on corporate profits due to supply disruption, we find the impact is likely to be small (see page 9).

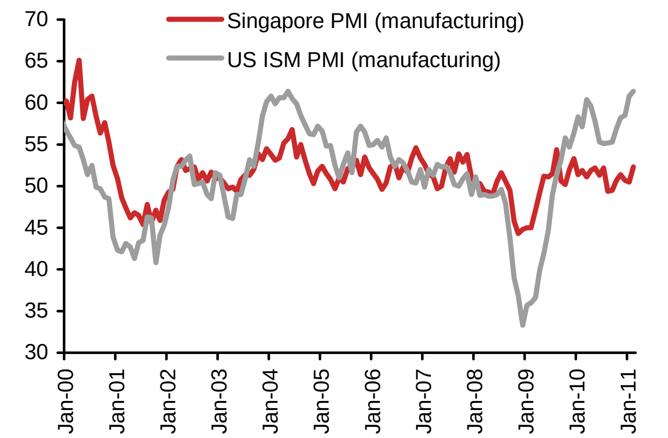
Meanwhile, Sean Darby, our Asia strategist, recently turned bullish on Singapore as a play on US economic recovery (*Reverberations*, 3 March, 2011). The fundamentals for Singapore remain solid, with loan growth accelerating and electronics exports holding steady.

Exhibit 1. Industrial output ex-biomed



Source: CEIC, Nomura Global Economics

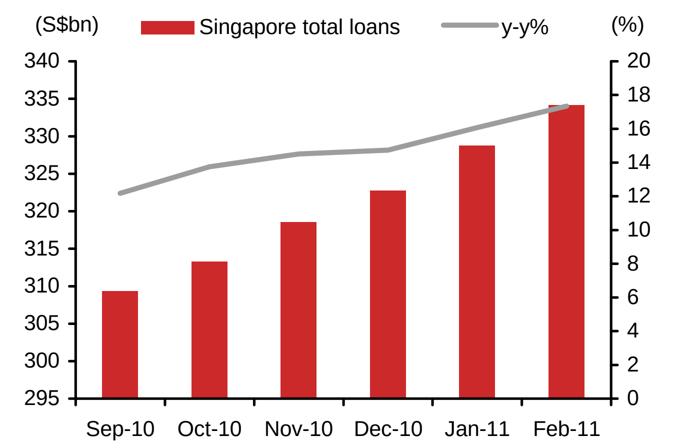
Exhibit 2. PMI – Singapore vs US



Source: Thomson Reuters Datastream, Nomura research

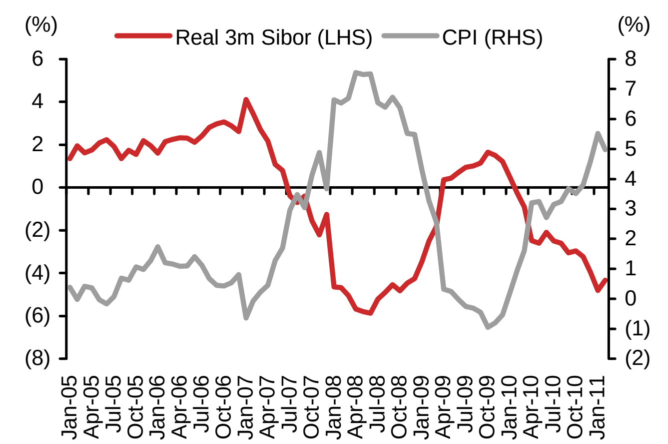
Moreover, the negative real interest rate environment in Singapore should at least provide support, if not help the market to rerate. In our view, the market's valuation is looking more compelling with the pullback, with the market forward P/E of 13x below the historical long-term average of 15x.

Exhibit 3. Singapore loan growth



Source: CEIC

Exhibit 4. Singapore: real interest rate vs CPI



Source: Thomson Reuters Datastream, Nomura research

To be sure, there are still headwinds on the horizon. A sharply higher oil price fuelled by inflationary expectations and political unrest in North Africa may undermine global recovery. At home, higher costs and a strong S$ may put pressure on margins for companies. While there have been concerns about the impact of the earthquake on corporate profits due to supply disruption, we find the impact is likely to be small (see page 9).

From a policy perspective, inflation remains a key concern. While we note that inflation may have peaked in January, the government is likely to stay vigilant. The Monetary Authority of Singapore (MAS) is therefore likely to remain in tightening mode when it refreshes its policy stance in April. Meanwhile, the government's rhetoric on the residential sector remains hawkish even after the set of more stringent policy measures announced on 13 January.

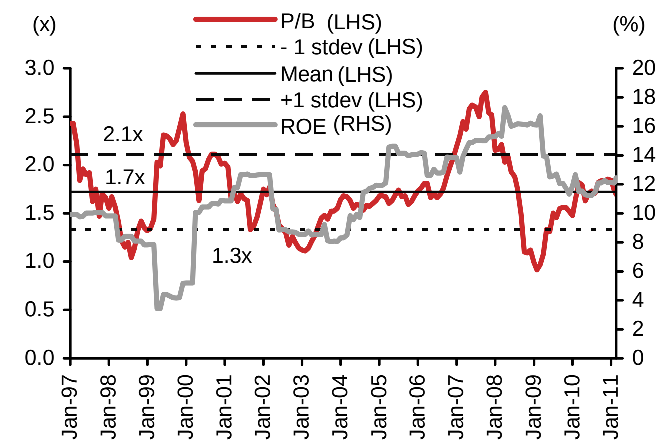
Meanwhile, the incumbent PAP government looks set to call fresh elections as it has started to introduce its new candidates for the forthcoming elections. As with past elections, we do not expect this election to have a major impact on the stock market (see page 16).

On balance, we believe that the micro- and macro-economic fundamentals are supportive of a higher valuation for the Singapore stock market by the end of this year, with a net 10-15% positive return by year-end. The market pullback has created better entry levels and valuations still look reasonable, in our view, at P/BV of 1.6x and P/E of 13x. For dollar-based investors, a stronger S$ (5% appreciation expected this year) is another source of returns.

Also see Asia Pacific Strategy — *Reverberations* (3 March, 2011)

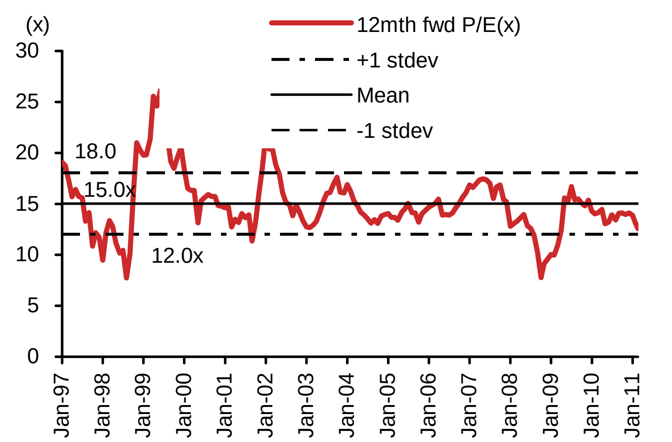

Strategy | ASIA PACIFIC
NOMURA
Reverberations

Exhibit 5. Singapore market trailing P/B vs ROE



Source: Nomura research

Exhibit 6. Singapore market 12-month fwd P/E



Source: Nomura research

We favour Banks, Commodities, Offshore and Office Property

The factors affecting our sector strategy remain a positive outlook for commodity prices, a steepening yield curve and policy response to inflationary pressures. This environment of negative real interest rates will, we believe, support the reflationary sectors such as Banks and Commodities. We still favour the Offshore Marine sector on continued new order flows and the Office Property sector given the momentum of rising rents and capital values. We are less positive on Telcos and bearish on the Gaming sector, given what we see as rich valuations for Genting Singapore (REDUCE).

Exhibit 7. Summary of sector views – Nomura coverage

Sector	Nomura sector view	Stock picks (BUY)
Bullish		
Banks/Financials	Valuations for the Singapore banks are attractive, with P/Bs of 1.2-1.4x FY11F on ROEs of 10-13% and attractive dividend yields of 4%. In addition, we expect earnings growth for the banks to range between 10% and 15% in 2011. Banks are also seen as proxies for the market in a reflationary environment. **OCBC** and **DBS** are Anand Pathmakanthan's preferred picks among the Singapore banks. OCBC has managed to chalk up strong loan-growth momentum, while its distinctive wealth management/insurance franchise differentiates it from its peers. DBS is starting to show signs of focusing on its core franchises to drive growth and profitability.	OCBC, DBS
Commodities	Ken Wong, our ASEAN plantations analyst, is positive on the upstream plays such as **Golden Agri** and **Indofood Agri** based on an average CPO price of RM$3,400 for 2011. Tanuj Shori likes **Noble** for its upstream coal asset and strong earnings rebound in 2011 as its mid-stream assets contribute more materially. His BUY on **Olam** reflects his positive view on the group's long-term prospects with optionality on its fertiliser investment in Gabon. He also likes mid-cap **Mewah** for its inexpensive valuation, stable CPO processing margin profile and strong consumer pack distribution franchise in West Africa.	Golden Agri, Indofood Agri, Noble, Olam, Mewah
Neutral		
Property	**REITs:** Min Chow Sai remains positive on the outlook for commercial property but is cautious towards the developers. He likes **Keppel Land** and **CCT** for their office exposure. Min Chow remains cautious towards developers given the headwinds of more supply, downward pressure on rents and the potential of higher interest rates. He is defensively positioned in developers with attractive valuations and office exposure like **UOL**.	Keppel Land, CCT, UOL
Conglomerates	Lisa Lee's bullishness on the Offshore & Marine sector has been supported by the flow of new orders announced by **Keppel** and **SembCorp Marine**. While the sector is well held, continuing order flows will likely sustain the outperformance of the sector. Jitsoon Lim likes **F&N** for its growing F&B business and potential alliances with new shareholder Kirin Holdings.	Keppel, SMM , F&N
Transport	**Airlines. SIA** looks well positioned to benefit from the recovery in the aviation cycle as premium travel recovers. Jim Wong has a BUY on SIA and believes the momentum of improving premium traffic will cushion rising fuel costs. **Land transport.** As the government changes its public transport policies to increase usage of public transport, changes in the short term may affect operators' profitability. Lisa Lee is NEUTRAL on **SMRT** and recently upgraded **Comfort Delgro (BUY)** on favourable valuations. **Shipping.** Andrew Lee, our regional shipping analyst, is positive on **NOL**, which is seen a beneficiary of recovery in container traffic across the Asia-Pacific routes.	SIA, NOL
Bearish		
Gaming	Choong Wai Kee believes analysts have generally overestimated the potential of the gaming market in Singapore, as borne out by **Genting Singapore**'s results. He believes the stock is overvalued and maintains a REDUCE. Min Chow Sai is negative on **CDL H-REIT** on valuation grounds, as the shares have priced in optimistic scenarios for occupancies and room rates.	
Telco	Sachin Gupta believes that while the telco sector offers stability of cashflow, strong balance sheets, and potential for capital management, there are few catalysts to help rerate. He is NEUTRAL on **Singtel** and maintains REDUCE on **Starhub** given the erosion in its core business. He likes **M1** for its yield.	M1

Source: Nomura research

Exhibit 8. Top picks for the Singapore market

	Price (S$) 30 Mar 11	Rating	Price target (S$)	P/E (x) FY11F	P/BV (x) FY11F	Yield (%) FY11F	Nomura comment
Reflation							
OCBC (OCBC SP)	9.46	BUY	11.80	12.8	1.4	3.6	Private banking platform will diversify earnings, while capital ratios are strong. Relatively larger overseas platform compared with peers'.
DBS (DBS SP)	14.52	BUY	16.70	11.5	1.2	4.0	Increasingly tangible traction in leveraging core franchise strength and building an execution base for regional growth initiatives should deliver substantial restructuring gains over the medium term.
NOL (NOL SP)	1.96	BUY	2.60	11.1	1.1	1.8	Container freight rates close to bottoming, with quarterly earnings set to rebound after 1Q11; NOL is our top pick in the container shipping sector.
Property-related exposure							
Keppel Land (KPLD SP)	4.45	BUY	5.56	16.6	1.4	2.0	Defensive stock notwithstanding our cautious view on residential property; high exposure to the Singapore office market, trading at an implied EV of S$1,181psf for its SG office portfolio, which we think is conservative.
CCT (CCT SP)	1.40	BUY	1.81	19.7	0.9	5.1	CCT remains the dominant office landlord in Singapore in terms of International Grade-A (IGA) office space, with 2.3mn sf, equal to 72% of its total office portfolio and 62.6% of its commercial portfolio.
Commodity and Energy related exposure							
Golden Agri (GGR SP)	0.70	BUY	0.90	11.9	1.0	1.7	We believe Golden Agri offers strong growth potential on the back of its strong mature hectarage increases in the coming years. GGR's problems with environmentalists could start to wane as it starts to meet conditions set by the RSPO.
Noble (NOBL SP)	2.14	BUY	2.80	14.4	2.2	1.5	Commodity price upcycle, along with strong performance in agri (oilseeds and sugar), energy (coal), and locked margins in FY11F should ensure a good FY11 for the company.
Mewah (MII SP)	0.98	BUY	1.34	10.5	1.8	0	Strong consumer pack oil franchise with majority market share in W Africa and offers stable margin exposure on the refining side; trading at 25% to Singapore-listed peers.
Keppel Corp (KEP SP)	12.26	BUY	15.00	11.3	2.4	3.4	Strong offshore order momentum to underpin stock outperformance. Optionality on Brazil contracts. Stock has also correlated well with oil price.
Situational and M&A							
Yangzijiang (YZJ SP)	1.81	BUY	2.30	10.5	2.9	2.5	Well-entrenched containership-building franchise in China; key catalyst: potential US$2.2bn order from Seaspan (22 10,000 TEU containerships to be confirmed in batches).
Biosensors* (BIG SP)	1.15	BUY	1.50	16.5	2.7	0	Strong growth for its stent sales in EU and Asia, continued growth in China and potential revenue share from Japan underpin prospects. Recent positive clinical trial data at TCT could provide impetus for new products. New shareholder Hony Capital could help enhance its China presence.
Fraser and Neave (FNN SP)	5.93	BUY	7.60	13.9	1.2	2.9	Strong F&B growth outlook with optionality on its property assets. Potential split of F&B and property may unlock value. New shareholder Kirin could help create new products for its F&B business.
Venture Corp (VMS SP)	9.56	BUY	11.50	13.1	1.4	5.8	Successfully restructured its business mix with less reliance on printing and imaging. Test & Measurement and Retail Systems solutions now provide greater balance. Strong cashflows, improving margins, and strong dividend yield make Venture an attractive company, we believe.

* March FYE; FY12F estimates

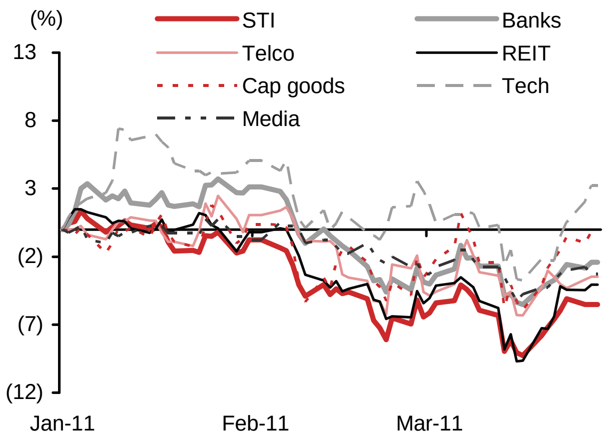
Note: see respective company reports in this document for valuation methodology and investment risks

Source: Bloomberg, Nomura estimates

2Q11 outlook

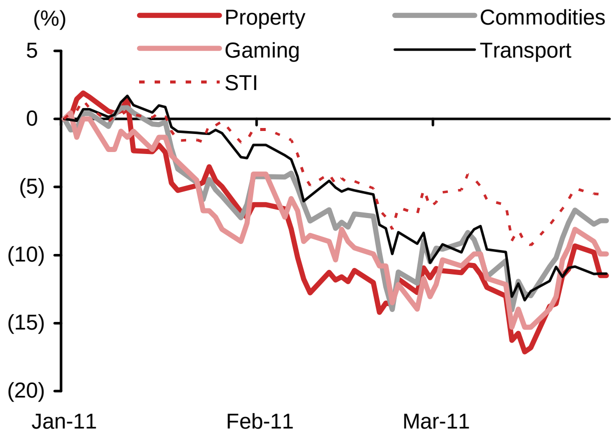
Although the Singapore market started the year promisingly, inflationary concerns in Asean, unfolding unrest in North Africa and the fallout from the earthquake in Japan saw the ST Index pull back to a low of 2,935 before ending the quarter 3% lower from the start of the year.

Exhibit 9. Outperformers in 1Q11



Source: Bloomberg, Nomura research

Exhibit 10. Underperformers in 1Q11



Source: Bloomberg, Nomura research

Offshore and Telco outperformed, while Commodities and Property Developers underperformed

While the Offshore sector outperformed and REITs and Banks traded in line, the higher beta Commodities sector underperformed. Property Developers also underperformed, while the more defensive Telco sector outperformed.

While we have a constructive view for the market for the rest of the year, we assess the outlook for the market by addressing some questions that may be relevant for the market.

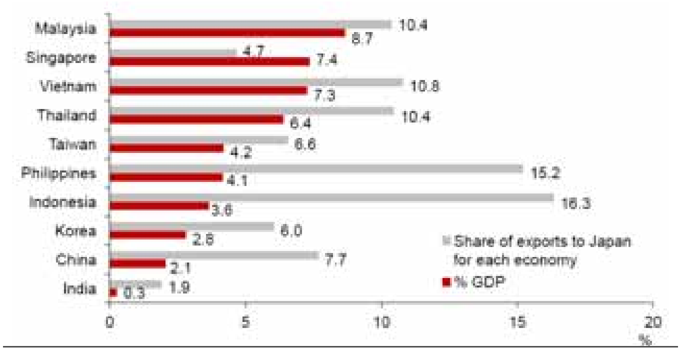
1. What is the impact of the recent earthquake in Japan on Singapore?

The impact from the earthquake in Japan can be seen from two angles:

- Direct trade and investments with Japan;
- Disruption in supply impacting companies relying on components from Japan and the rise in raw materials/commodity prices as a result of temporary production disruptions in Japan.

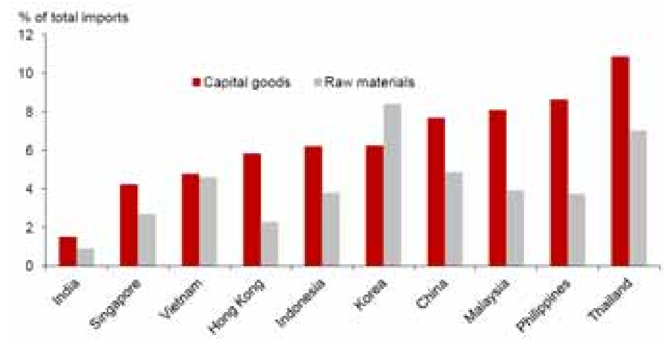
Although Japan is a major trading partner for Singapore, it has become less important as Singapore has diversified its end markets. As a percentage of total exports, Japan accounts for about 4.7% of total exports, compared with 7.7% for China in 2010 (source: CEIC). In this regard, the impact on Singapore's exports from the earthquake may not be as material.

Exhibit 11. Asia exports to Japan as % of total exports and % of GDP (2010)



Source: CEIC, Nomura Global Economics

Exhibit 12. Asia's imports from Japan as % of total imports by type of imports (2009)

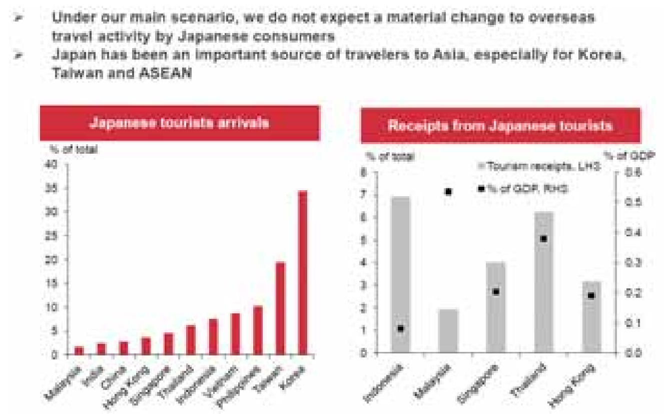


Source: UN COMTRADE, Nomura Global Economics

Japanese tourists accounted for a significant 5% of total tourist arrivals into Singapore in 2010 (next Exhibit, left). However, since the advent of the integrated resorts, tourist arrivals have become more diversified and this will lessen the impact of fewer Japanese tourists coming to Singapore in the near term.

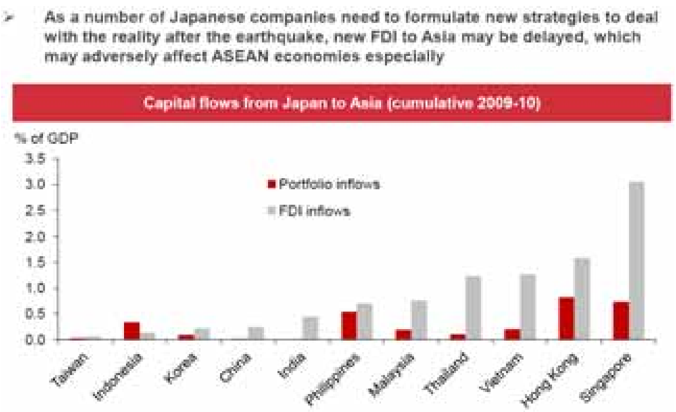
From an FDI perspective, Japanese FDI into Singapore remains significant and a delay in FDI decisions due to the earthquake may have an impact on Singapore's economy. However, we do not expect such delays to result in cancellation or reduction in FDI.

Exhibit 13. Impact on tourism in Asia



Source: UN COMTRADE, OECD, Nomura Global Economics

Exhibit 14. Capital flows from Japan to Asia (2009-10)



Source: CEIC, Nomura Global Economics

Our Japanese strategist, Mr Iwasawa, has highlighted the potential impact to Japan's corporate earnings as a result of production disruptions arising from power shortages as well as reduction in supply of critical components like microcontroller units (MCU) used in cars for which Japan is a global supplier (see *Automotive Microcontroller production stoppage: impact on Japanese equities,* 22 March). Also, the chemicals industry in Japan has been affected by the earthquake, with production of upstream oil refining to downstream chemical manufacturing disrupted.

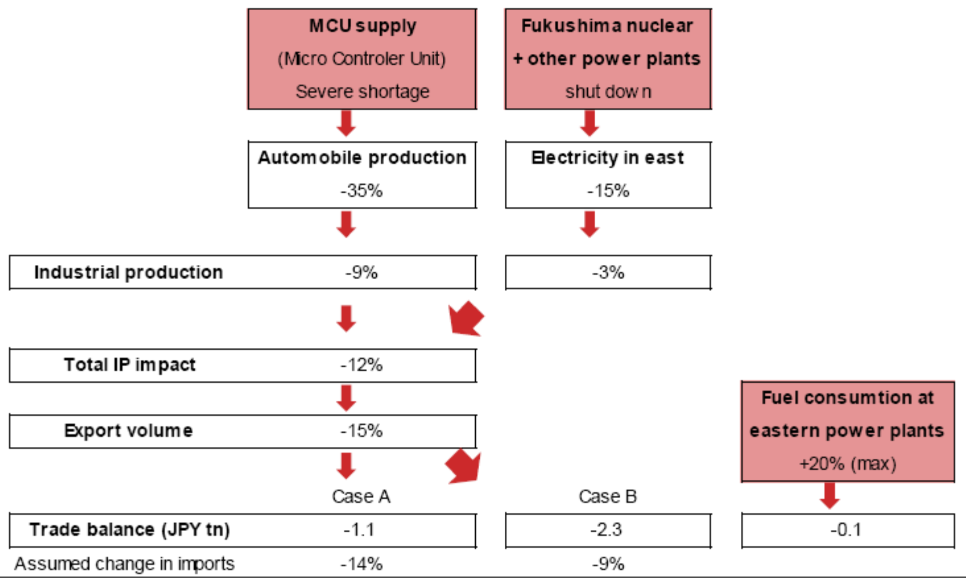
While the supply chain disruptions will likely impact economic growth in Japan this year, our economists expect Japan to see stronger growth in 2012 (GDP forecast raised to 2.8%) as a result of the reconstruction. The direct impact on Singapore for this year is small, in our view.

From a company-specific perspective, we highlight in the next Exhibit but one companies that may be impacted positively or negatively from the quake. GLP, which has significant properties in Japan, has confirmed that its properties are largely unaffected. However, it may have to incur repair costs of up to US$38.8mn, according

Also see our automotive report (22 March, 2011)

to the company's official announcement on 14 March. Noble is a potential beneficiary from supply disruptions as it is a major energy trader. While SATS has exposure to Japan via its 51% stake in Japan Airlines Catering, we understand that there has been minimal disruption. The disruption in the refineries in Japan and the manufacturing of wafers and electronic components may have an impact on the electronics supply chain. It is plausible that Venture may be impacted if its inventory is drawn down and supply does not resume in the coming months.

Exhibit 15. Potential impact of the disaster on Japan's trade balance over six months



Source: Nomura research

Exhibit 16. Singapore corporate – Japan exposure

Company	Japan exposure	Impact
Keppel	Has JV with Nippon Steel to manufacture legs for jack ups.	No impact from quake. Facilities not affected.
SATS	Owns 51% of JAL catering.	No impact. May have seen near-term boost
Genting Singapore	Japanese tourists accounted for 4.5% of the 11.6mn arrivals in 2010.	May affect Singapore's hotel sector but probably negligible impact on GENS' gaming revenue.
Golden Agri	No direct exposure to Japan. Japan palm oil consumption amounts to 1.2% of global consumption. We do not expect this to drop, although there may be delays, depending on any damage to ports which could slow trade.	No direct impact.
IndoFood Agri	No direct exposure to Japan. Japan palm oil consumption amounts to 1.2% of global consumption. We do not expect this to drop though there may be delays, depending on any damage to ports which could slow trade.	No direct impact.
Parkway Life REITs	About 30% of NPI comes from Japan.	Management issued a statement to say that most properties are located at Kansai and Kyushu, which are less affected and there is no major damage to its properties reported so far.
Mapletree Logistics	About 30% of NPI comes from Japan.	Management issued a statement to say that only one out of the 14 properties in Japan, the Sendai Centre, is damaged and this property accounts for only 0.7% of total gross revenue.
Starhill Global REITs	About 5% of NPI comes from Japan.	Management has yet to issue any statement.
Global Logistics Properties	About 86% of EBIT (ex revaluation gain/loss) comes from Japan.	According to the company's statement, the preliminary repair cost is estimated at US$47.5mn (0.8% of portfolio value) and loss of rental income of US$10.8mn (EBIT ex revaluation = US$300mn in 9MFY11).
CapitaMalls Asia	About 2% of income comes from Japan.	Minimum impact.
Ascott REITs	About 6% of income comes from Japan.	Minimum impact.

Source: Nomura research

2. What is the impact of recent policy measures on corporate profitability?

The government has adopted an appreciating S$ policy to manage inflation and moderate economic growth amid full employment in Singapore, easy global liquidity and inflation. To enhance productivity, the government announced more measures to reduce employers' dependence on cheap unskilled foreign workers by raising the foreign worker levies. The government also announced an increase in the employer CPF contribution by 0.5pp effective September 2011. These measures together may have the unintended consequence of impacting corporate profitability.

Measures to reduce dependence on cheap unskilled foreign workers may have the unintended consequence of impacting corporate profitability

Competitiveness:

With a strong S$ policy, our forex strategists forecast the Singapore dollar to appreciate to S$1.21 by year-end or a 6% progress from last year (Exhibit 48). Singapore companies with significant revenues denominated in USD could see adverse translation effects from a stronger S$. On the other hand, those who buy inputs in USD but sell domestically could see better margins. The impact of a strong S$ is summarised below.

Exhibit 17. Impact of stronger S$ vs US$ on Singapore companies

	% of earnings in US$	Net profit in 2011F	Nomura comment: % impact on net profit if S$ strengthens by 10% vs USD in 2011
DBS	20% of earnings are from its Hong Kong subsidiary.	S$2,911mn	-2%.
SPH	Newsprint in US$ and forms about 18% of total costs.	S$308.4mn	+3%.
Keppel Corp	Offshore & marine contracts are in US$ and account for 60% of earnings.	S$1,156mn	As materials and equipment for its offshore & marine contracts are in US$, there is a natural hedge. These account for about 70-75% of total costs.
SembCorp Ind	Exposure to US$ mainly at SMM level. The bulk of utilities are in S$, UK sterling and other currencies.	S$621.6mn	Exposure to US$ is mainly at SMM level. The bulk of utilities are in S$, UK sterling and other currencies.
ST Engineering	Exposure to US$ from its US facilities in aerospace and marine divisions.	S$571.4mn	Every +/- US$1ct against will have +/-S$1.3mn impact on net profit.
SembCorp Marine	While the bulk of SMM's rig building and conversion orders are in US$, also depends on country of origin of the customer.	S$569.6mn	Materials and equipment for its offshore contracts are in US$, providing a natural hedge. These account for 70-75% of total costs. The remainder is hedged and impact depends on hedging position.
City Developments	15.	S$675mn	-2%
Keppel Land	15.	S$390mn	-2%.
Biosensors	USD functional ccy.	US$40.5mn	-4%.
Venture Corp	>95% sales in US$ offset by 90% COGS in US$.	S$206.7mn	10% USD depreciation to SGD will result in a 0.8~1pp shrink in GMs. Net operating profit will shrink by 25~30% (all else maintained).
SIA	-247%.	S$1,259mn	+12%.

Source: Nomura research

Higher costs:

The increase in foreign worker levies proposed in 2011 is on top of higher levies already announced in the 2010 budget. Although the increase in levies is staggered to give time for employers to adjust, margins may be pressured by: 1) higher costs of retaining foreign workers; and 2) the need to pay more for local employees who are in short supply amid full employment. The higher worker levies and the 0.5pp CPF adjustment will, on the government's estimates, raise labour costs by 1.7% and 0.5% respectively, by 2012.

Increase foreign worker levies proposed in 2011 is on top of higher levies already announced in the 2010 budget

Exhibit 18. Singapore budget 2010 and 2011 – foreign worker levies

Budget 2010:
Levy rates raised by S$10~S$30 for most Work Permit holders on 1 July 2010, with further adjustments in 2011 and 2012 with a total increase of about S$100 in average levies per worker in manufacturing and services over three years.
S Pass workers will have two levy tiers with the rates for the first and second tiers at S$100 and S$120 in July 2010, up from a single rate of S$50 currently. This will be raised to reach S$150 and S$250 by July 2012.

Budget 2011:
Higher foreign worker levies from 1 January 2012 to July 2013 – for the construction sector, the levy will increase by a further S$200. For services and manufacturing, it will increase by S$180 and S$100 respectively. S pass holder will see levies increase to S$300-450.

Source: Ministry of Finance, Nomura research

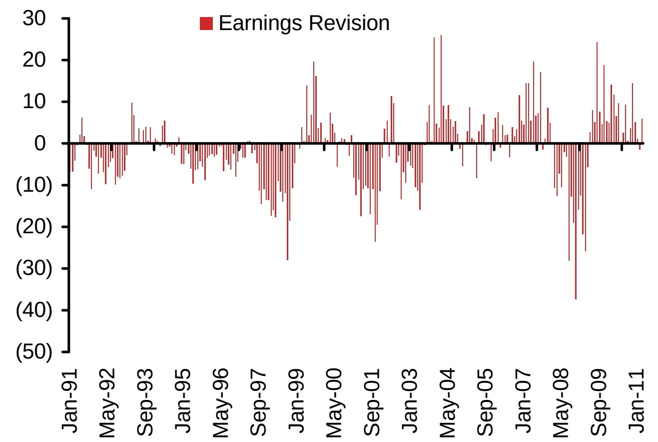
3. What is the outlook for Singapore corporate earnings, and are market valuations reflecting this outlook?

Earnings outlook:

Earnings revision index shows a slowing in momentum

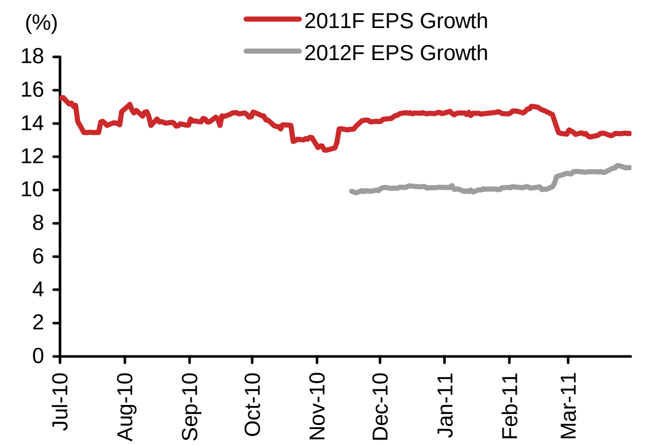
The 4Q10 reporting season saw 45% of companies under our coverage exceed our expectations, while 32% met expectations and 17% fell behind. The earnings revision index however has seen a slowing in momentum as analysts build in more realistic assumptions against the backdrop of potential margin pressure from higher costs.

Exhibit 19. Singapore market earnings revisions



Source: Nomura research

Exhibit 20. Singapore market EPS growth trend

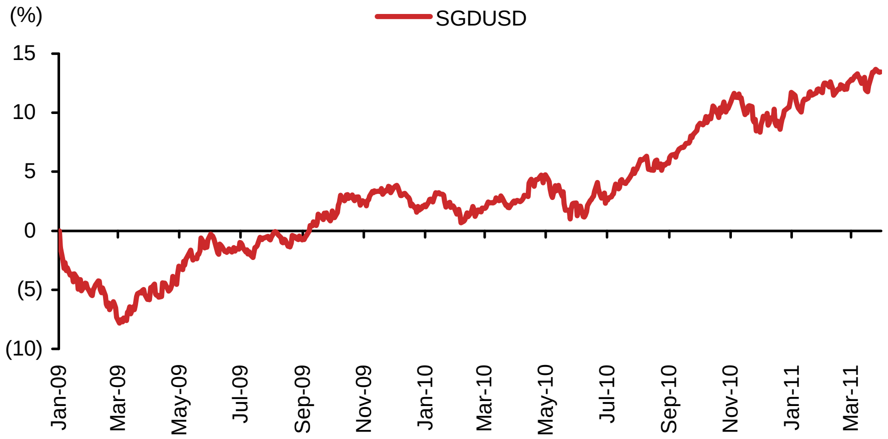


Source: Bloomberg estimates, Nomura research

43% of companies under our coverage reported FX losses

We also note that 43% of companies under our coverage reported foreign exchange losses, albeit mainly due to translation losses as a result of the strong Singapore dollar. This issue bears monitoring considering the continued strength of the Singapore dollar expected for the rest of the year, compounded by margin pressures due to cost increases.

Exhibit 21. SGD/USD performance since 2009



Source: Bloomberg

Nomura's market EPS estimates suggest growth of 11% for FY2011 and 9% FY2012, respectively. We expect this growth to be underpinned by the **Banks** which we forecast will show low double-digit growth. **Commodities** are the other key driver for market EPS growth, in our view, on a weak base in 2010 but also with the top line of the CPO companies likely to be driven by higher yields and higher prices.

Conglomerates, mainly the offshore companies, will likely see a drag in 2011 as profit recognition from old contracts tapers off before new contracts start to contribute. Elsewhere, we expect **Property Developers** to see steady EPS growth this year on presold projects, but growth is likely to be volatile going forward due to the property measures put in place in January.

Exhibit 22. Market valuation – Nomura coverage

	P/E (x)		EPS growth (%)		P/BV (x)		ROE (%)		Div yield (%)	
	2011F	2012F	2011F	2012F	2011F	2012F	2011F	2012F	2011F	2012F
Banks	11.7	10.4	9.4	12.7	1.3	1.2	11.2	11.8	4.1	4.6
Capital Goods/Conglo	15.2	13.8	(4.8)	9.8	1.8	1.6	11.9	11.5	3.2	3.2
Commodities	15.5	13.1	36.9	18.0	2.3	2.1	15.4	16.2	1.4	1.8
Media	16.6	16.0	(15.7)	3.7	2.9	3.0	18.3	18.6	5.4	5.4
Gaming	24.8	23.5	49.4	5.4	4.0	3.5	16.6	14.7	0.0	0.0
Property - developers	16.1	17.0	3.5	(5.1)	1.0	1.0	6.2	6.9	1.5	1.6
Property – REITs	17.6	17.4	(0.2)	2.4	1.0	1.0	5.8	6.0	5.6	5.7
Technology	12.8	11.6	7.9	9.6	1.4	1.3	10.7	11.3	5.7	5.7
Telecom	12.7	12.2	0.6	3.8	2.1	2.0	16.9	16.9	5.3	6.0
Transport – land	11.1	8.5	29.8	11.3	1.1	1.0	10.0	12.0	4.1	5.3
Transport – air	14.5	13.1	8.8	11.3	2.2	2.0	15.1	15.6	4.0	4.3
Transport - shipping	11.3	8.8	(30.8)	27.8	1.1	1.0	12.8	14.8	1.8	2.3
Total market	**12.9**	**12.1**	**11.3**	**8.8**	**1.5**	**1.5**	**11.4**	**12.0**	**3.3**	**3.7**

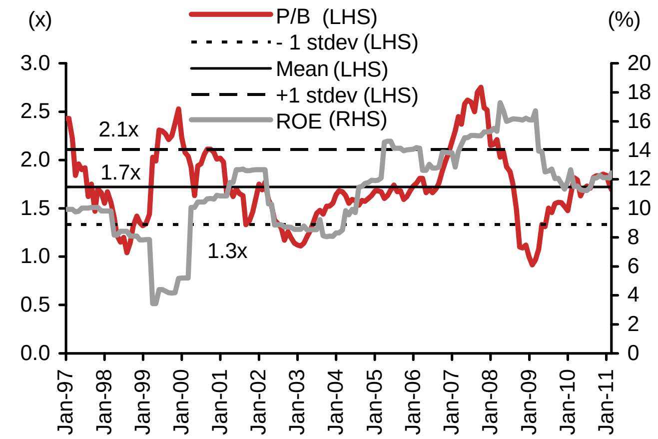
Source: Nomura estimates

Valuations appear undemanding

Market valuation looks undemanding relative to growth

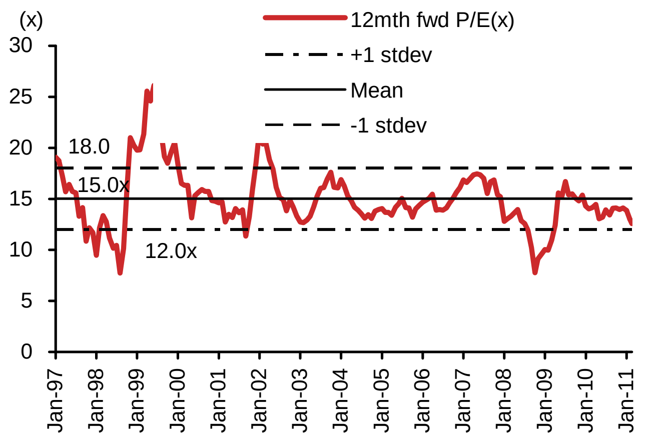
With EPS growth of 11% forecast for Singapore (based on Nomura estimates), the market P/E of 13x looks undemanding relative to growth and historical trading ranges of between 10x and 20x since 1997. Looking at the market's trading pattern since mid 2010, it would appear that it has undergone a slight de-rating. This is possibly attributed to the Banks which underperformed the market for much of last year on concerns about margin pressures. However, these concerns are well flagged and we believe priced in given the attractive valuation of the Banks at 11.7x P/E, P/B of 1.3x and dividend yield averaging 4.1% on FY11F forecasts. On price to book as well, the market looks attractive, in our view, with a trailing price to book of 1.7x and ROE of 12%.

Exhibit 23. Singapore market trailing P/B vs ROE



Source: Nomura research

Exhibit 24. Singapore market 12-mth fwd P/E



Source: Nomura research

Regional valuation comparison

From a regional perspective, we believe Singapore's valuation on P/B looks attractive, at 1.5x FY11F and ranks among the lowest in the region. However, from a P/E perspective, we think it looks fairly valued at 14x (EPS growth of 8%) compared with the region, on consensus estimates.

Exhibit 25. Regional consensus valuation

Country	Index universe	P/E (x)		P/BV (x)		EPS growth (%)		Dividend yield (%)		ROE (%)	
		FY11F	FY12F	FY11F	FY12F	FY11F	FY12F	FY11F	FY12F	FY11F	FY12F
Australia	AOI	12.9	11.3	1.9	1.7	18.8	13.0	4.3	4.7	14.7	15.7
China	CSI 300	12.9	10.9	2.1	1.8	22.1	17.1	2.4	3.0	17.1	18.0
Hong Kong	HSI	12.0	10.5	1.7	1.5	11.5	14.5	3.5	3.9	14.0	15.1
India	SENSEX	15.2	13.0	2.5	2.2	17.3	17.0	1.5	1.7	17.6	18.1
Indonesia	JCI	14.2	12.2	3.0	2.6	28.8	16.3	2.8	3.3	22.4	22.8
Korea	KOSPI	10.4	9.2	1.4	1.2	30.6	13.7	2.0	2.3	14.1	14.7
Malaysia	KLCI	14.8	13.4	2.2	2.0	14.9	10.2	3.8	4.1	14.6	15.0
Philippines	PASHR	13.1	11.7	2.1	1.8	14.3	13.2	3.1	3.3	16.2	16.2
Singapore	FSTAS	13.6	12.3	1.5	1.4	8.1	10.6	3.0	3.3	10.2	10.8
Taiwan	TWSE	13.0	11.4	1.9	1.8	12.2	15.0	4.5	4.9	14.2	15.6
Thailand	SET	12.4	10.7	1.9	1.8	8.6	16.2	3.8	4.3	16.1	16.9

Source: Bloomberg, Thomson Reuters Datastream, IBES, Nomura International (Hong Kong) Limited – Quantitative research

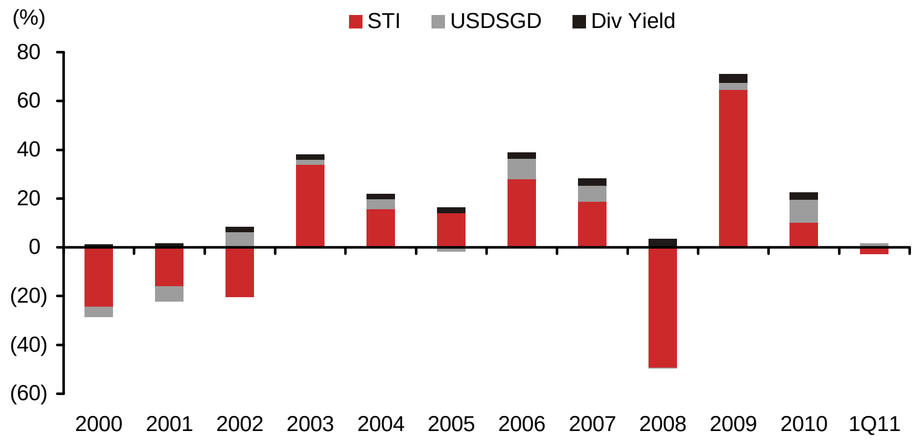
Dividends (3% FY11F yield) and the expected strength of the Singapore dollar (+6% for 2011 per Nomura forecast) should provide another source of returns for dollar-based investors, in our view.

Dividends and strong S$ provide another source of returns for US$-based investors

An important trend in the 4Q10 results is the willingness of Singapore corporates to reward shareholders with higher dividends. For example we noted OCBC increased its payout ratio, while Keppel announced a 1-for-10 bonus and a higher dividend for the year. SembCorp Marine announced a 25-cent special dividend. Special dividends or higher payouts would support additional returns.

Special dividends or higher payouts will support additional returns

Exhibit 26. Singapore market – total returns for US$-based investors



Source: Bloomberg, Nomura research

4. Will the high oil price and inflation affect the stock market?

A rising oil price is a greater threat to market performance than rising interest rates

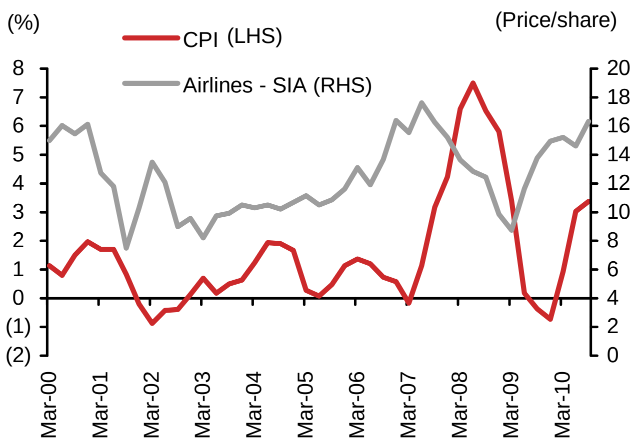
Our global strategist Ian Scott notes that while inflation will likely have a significant impact on equities in emerging markets, he thinks that at the aggregate level, inflation should not be a major concern for developed markets. However he adds that inflation may have an impact on relative sector and stock level performance. (See *Global Strategy Weekly*, 23 January 2011.)

We looked at recent history to understand the effect of inflation on stock market performance by sectors. The most recent history that would be relevant would be the inflation episode back in 2007 to 2008.

Exhibit 27 shows that the airlines sector not surprisingly was affected by inflation as the surging oil price and commodity prices resulted in fears of demand destruction. Interestingly as shown in Exhibit 31, the property developers pulled back as inflation progressed from March 2007 to mid 2008. However part of the pullback could be attributed to the government putting in measures to curb speculative activity in the residential sector by withdrawing deferred payment terms in October 2007.

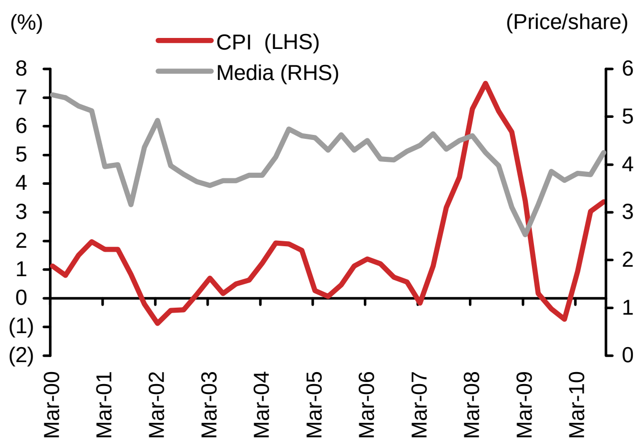
The media and telco sectors were the more resilient sectors (Exhibits 28 and 30) while commodities not surprisingly benefitted from the inflation environment then.

Exhibit 27. CPI vs airlines (SIA)



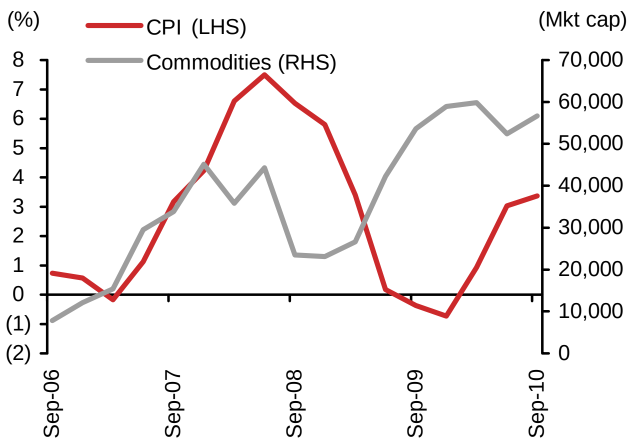
Source: Nomura research

Exhibit 28. CPI vs media (SPH)



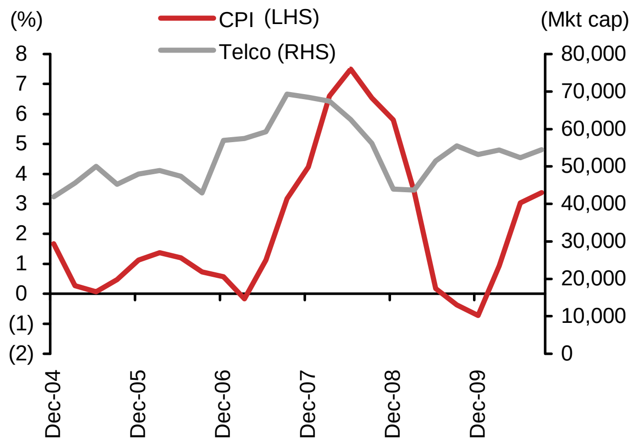
Source: Nomura research

Exhibit 29. CPI vs commodities



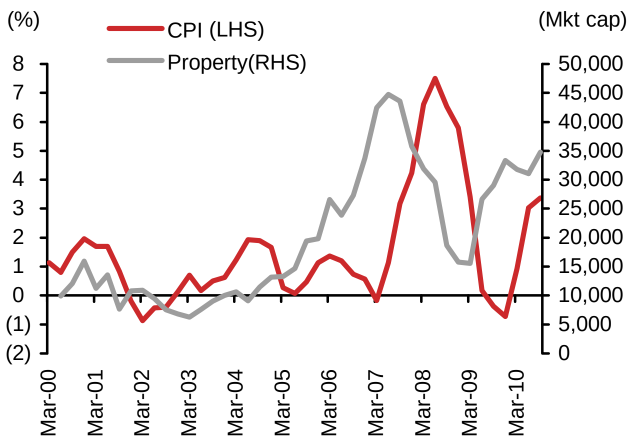
Source: Nomura research

Exhibit 30. CPI vs telcos



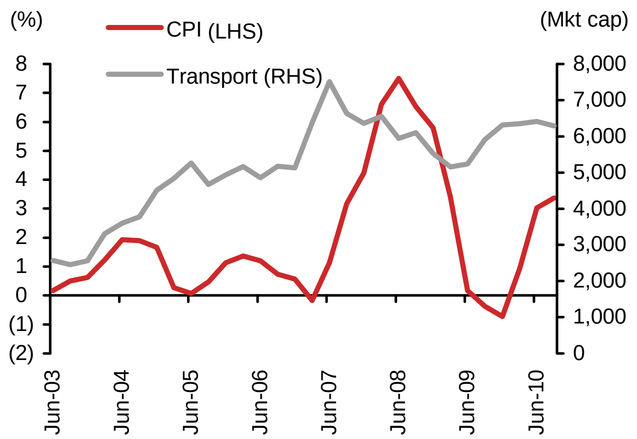
Source: Nomura research

Exhibit 31. CPI vs property



Source: Nomura research

Exhibit 32. CPI vs transport



Source: Nomura research

5. Will the general elections have an impact on the market?

Elections will likely be called after the next Parliamentary session

With the redrawing of the electoral boundaries and the introduction of new election candidates by the PAP government, indications are that elections will likely be called possibly after the next Parliamentary session scheduled for 11 April 2011. Once Parliament is prorogued, nomination and polling dates will be announced.

Exhibit 33. Past elections in Singapore

Year	Polling day	New Parliament convention	% Vote*
1984	22-Dec-84	25-Feb-85	64.8
1988	3-Sep-88	9-Jan-89	63.2
1991	31-Aug-91	6-Jan-91	61.0
1997	2-Jan-97	26-May-97	65.0
2001	3-Nov-01	25-Mar-02	75.0
2006	6-May-06	2-Nov-06	66.6

* percentage of votes secured by the PAP

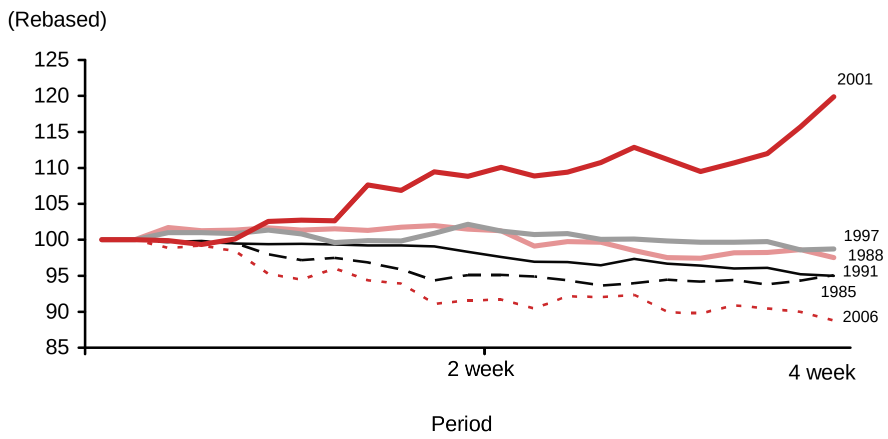
Source: Singapore Elections website

For this forthcoming election, we believe the PAP is likely to focus on leadership renewal and sustaining Singapore's growth while sharing the fruits of growth with everyone. The 2011 budget reinforced the government's promise with generous handouts to the man on the street. As always, the PAP is looking for a strong mandate to continue with its strategy to sustain Singapore's long-term progress.

In the last election, the PAP secured 66.6% of the votes and won 82 of the 84 Parliamentary seats contested. The market's reaction to that election was mostly muted with the market edging up only slightly. In the 2001 elections, however, the market posted a strong 20% rise over four weeks after polling day — outperforming the MSCI Asia Ex-Japan Index. The strong market performance was probably due to the rebound in global markets post the 11 September attacks. The Fed Reserve had also cut interest rates aggressively to stabilize the US economy. However part of Singapore's outperformance relative to the region could be attributed to the strong showing by the PAP in the 2001 elections. Given that the PAP is widely expected to retain power in the coming elections, we do not expect material market reaction to the elections.

We do not expect material market reaction

Exhibit 34. STI performance after election



Source: Bloomberg, Nomura research

Also see our Global Strategy Weekly (23 January, 2011)


Global Strategy Weekly

NOMURA

Emerging inflation worries

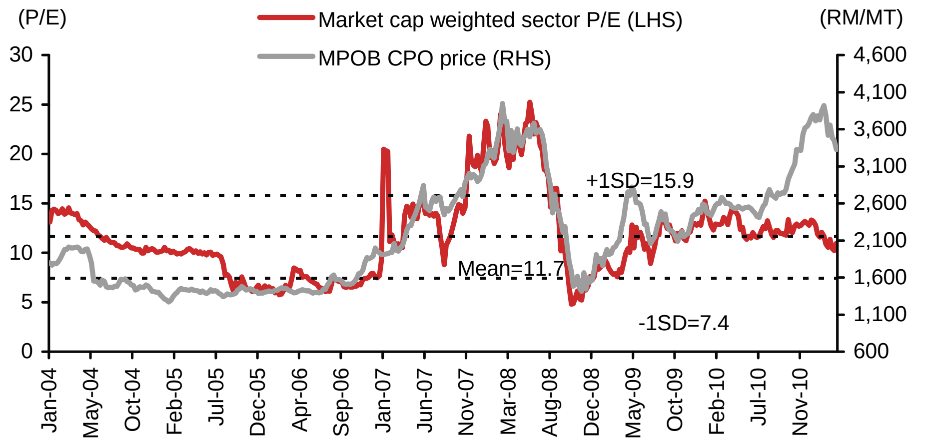
Sector views

Commodities (Bullish) — Tanuj Shori/Ken Arief Wong

BUY Indo Agri and Golden Agri

Upstream planters severely punished – offer 'deep value'. We still believe that CPO prices will be supported at least through 1H11 and believe that the market has taken too negative a view on CPO upstream plays – having punished names like IndoAgri and Golden Agri, down 22-27% from the peaks. Even at an assumption of RM3,000/tonne (below consensus view of RM3,100/tonne based on a Reuters poll published on 9 March 2011), these names offer good value and upside in our view. BUY **Indo Agri** and **Golden Agri**, after the recent sell-down, in our view. We like IndoFood Agri for its strong CPO production growth, coupled with higher leverage to CPO prices (being a purer plantation play), while Golden Agri is the most liquid CPO name in our coverage, with pure leverage to CPO prices.

Exhibit 35. Sector P/E vs CPO price



Source: Nomura research

Noble is our top pick in midstream

Midstream – selective. Among the midstream space, our top pick is **Noble**, as we think that the current commodity price upcycle, along with strong performance in agri, energy and locked margins in FY11F should ensure a good FY11 for the company. The company also stands to benefit from high coal prices due to Australian floods, as its mines in NSW are relatively insulated from the floods. It should also be a net beneficiary of any rising coal prices due to higher Japanese demand post the earthquake.

We like **Olam**, as its asset strategy continues to surprise positively and it is trading at extremely attractive valuations post the recent correction on concerns about its export incentives in our view. Its recent investments (e.g. Gabon fertiliser project, sugar refinery in Nigeria), if executed well, could act as a substantial boost to the bottom line, in our view. Olam also reiterated the recent uptick in its growth guidance helped by faster-than-expected contributions of various assets, such as almonds, tomato processing and wheat milling. Although we think there is inherent dilution risk (to fund expansion), we believe the recent correction is overdone and presents buying opportunity. It is now trading at 16.5x CY11F P/E, de-rating from peak of ~21x CY1 P/E, and at an all-time low discounting the time during financial crisis.

We are NEUTRAL on **Wilmar**, as we expect a shrinking valuation premium due to investors' concerns about its property foray. We think that the stock should remain rangebound in the near term in the absence of catalysts. During our recent marketing, we saw a great deal of interest in the stock at current levels, with investors getting positive vibes from recent insider buying. We also like **Mewah** as valuations look oversold and should bounce back, in our view. Though low liquidity remains a concern, we like the business for its leadership in West Africa pack oil, scale in palm refining and likely high capex intensity.

Banks and Financials (Bullish) — Anand Pathmakanthan

Earnings growth to slow to 10-15% in FY11F on normalised P&L drivers, lack of NIM traction

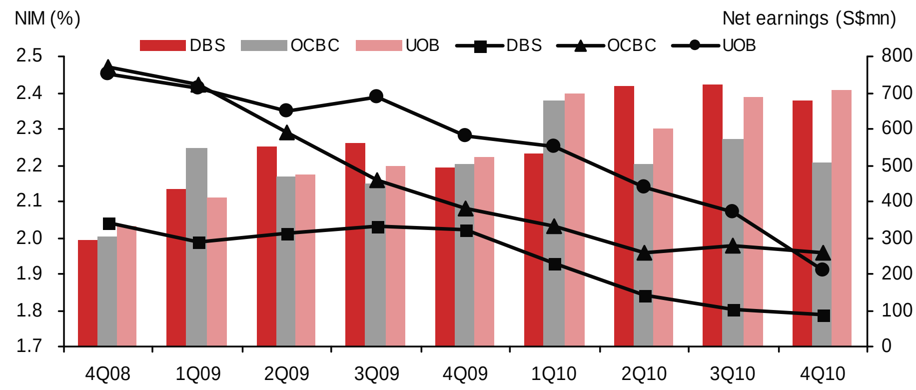
Strong earnings recovery over FY10 (15-30%) was underpinned by a post-credit crisis stabilisation of the operating environment with loan growth regaining momentum, loan loss provisioning declining and largely market-driven trading income rebounding. Sector earnings are seen to expand by a more normalised 10-15% over FY11F – against a backdrop of solid balance sheets and lack of interest rate (and hence, NIM) traction, it is the quality of earnings growth and underlying ROA, ROE traction that will be key in our view. Issues that will influence these are:

- **Loan volumes:** sector loan growth is set to slow to 10-12% in FY11 (FY10: +15%), primarily due to housing loans decelerating. Indications are corporate and SME credit demand is picking up across the region – if sustained, this represents a welcome diversification for the Sing banks which are guiding for low-mid teens loan growth, underpinned by faster-growing offshore franchises.
- **Fee income:** all Singapore banks are pursuing fee-generative synergies – **OCBC** via integrated wealth management platform, **UOB** via pan-ASEAN distribution infrastructure, **DBS** via Sing-Greater China treasury flows – which is crucial in reducing dependence on the pressured S$ loan space and raising ROA.
- **Capital:** regulator MAS is expected to clarify its position on BASEL III by mid-2011. Swiss-like capital "top-up" requirements i.e. Swiss regulator is proposing 10% core equity ratio minimum (vs BASEL III minimum of 7%) with another 9ppts in Cocos (contingent convertible bonds), are possible but unlikely to be as punitive. Singapore banks already have 12-14% core equity ratios but higher minimums would limit ROE-enhancing M&A and capital management potential.

Catalysts lacking but priced into now attractive quality-valuation dynamic; OCBC is our top pick

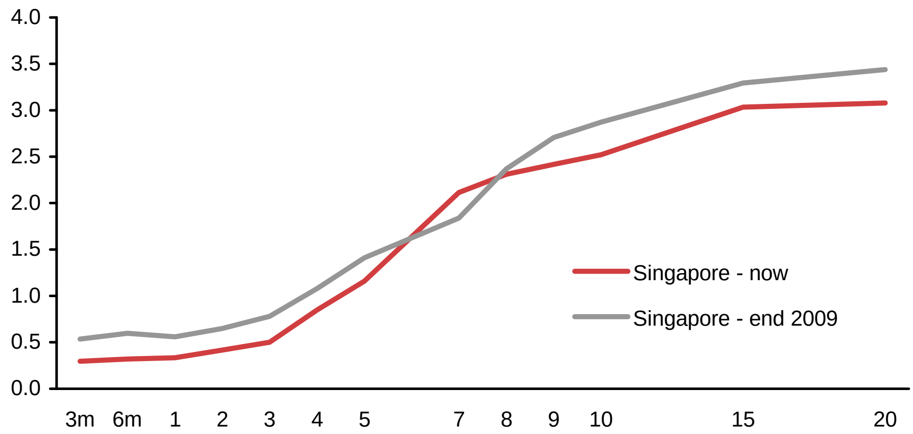
While near-term catalysts are lacking, Singapore banks have significantly underperformed regional peers already and now offer a very attractive combination of quality and valuations i.e. 4.0% high-conviction yield, stable (retail-sourced) liquidity, ample core capital and relatively low valuations (1.2-1.4x P/BV with FY11F PE approaching single-digits) in our view. Maintain sector Overweight with OCBC our top structural pick for its diversified and increasingly fee income-driven ASEAN-centric franchise.

Exhibit 36. Singapore banks – NIM vs profits



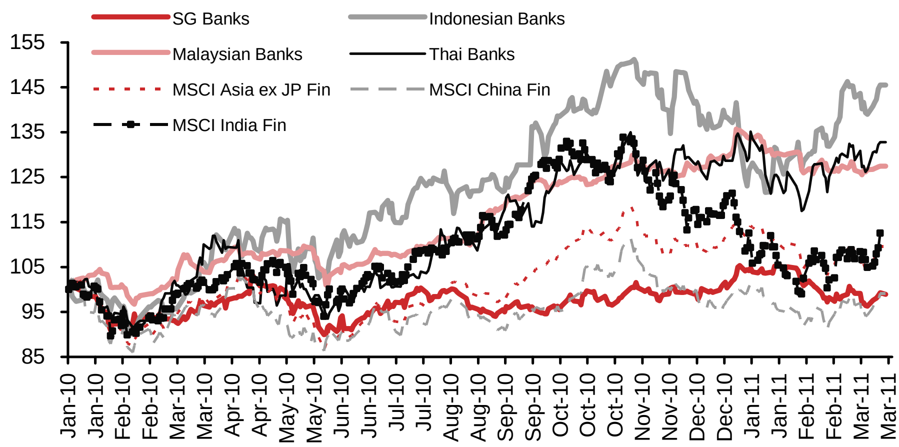
Source: Company data, Nomura research

Exhibit 37. Singapore yield curve



Source: Thomson Reuters Datastream, Nomura research

Exhibit 38. Relative regional performance



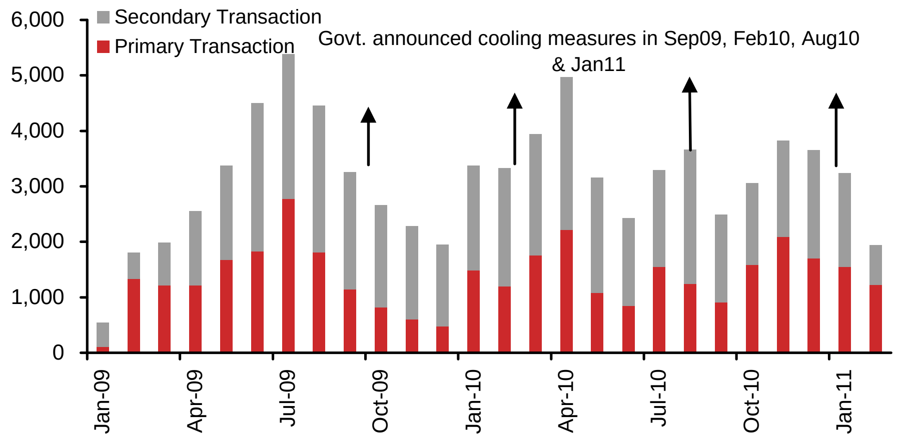
Source: Company data, Nomura research

Property (Office: Bullish; Residential: Neutral) — Min Chow Sai

We continue to favour the office property sector over residential

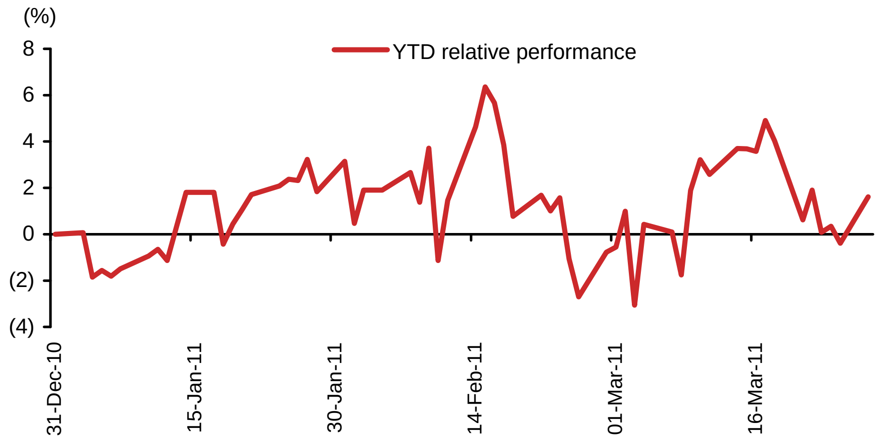
We continue to favour the office property sector over the residential sector. The former continues to see improving rents and capital values while the latter is starting to feel the effects of the government's administrative measures. While developers have underperformed the broader market over the past three months and are currently trading at 24% below NAV, we do not foresee the physical market providing catalysts for the discount to narrow.

Exhibit 39. Monthly residential transaction



Source: URA, Nomura research

Exhibit 40. Office landlords/developers – performance YTD



Note: office landlords: CCT, KREIT, Suntec, Keppel Land; Developers: Capitaland, City Dev, Allgreen & Wing Tai

Source: Nomura research

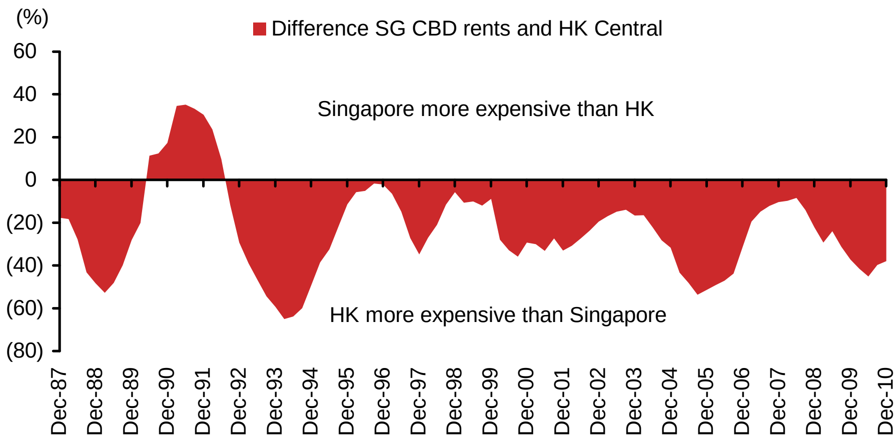
Transaction volumes have started to slow post the 13 January measures

Post the 13 January measures, transaction volumes have started to slow – the number of pre-sales (including ECs) in February was down 20% m-m to 1,228 units while the secondary market appears more pronounced – based on caveats lodged as of 21 March, there were 1,001 secondary transactions (re-sales and sub-sales) in February, compared to 2,315 in January (Exhibit 39).

Considering transaction volume typically leads home prices by six to nine months, and nearly half of this year's completions are in the prime luxury segment, our forecast for home prices in the mass-/mid-market to remain flat and prime luxury segment to correct by 8% by end-2011 remains unchanged.

On the other hand, recent transactions suggest investors' appetite for commercial properties remains strong – NTUC, which paid S$2,249psf for a 999-year LH office building on top of Raffles Place MRT (Hitachi Tower) in January, has paid S$2,300psf for a 99-year LH office building at Church Street (Capital Square) in March. It was also reported that a REIT was doing due diligence to buy One Finlayson Green for S$221mn but the building was subsequently sold for S$227mn (*One Finlayson Green sold to private group for S$227mn*, Business Times, 22 March 2011).

Exhibit 41. Comparative value – Singapore vs Hong Kong



Source: Jones Lang LaSalle, Nomura research

Pre-commitments provided the catalysts for office landlords to perform last year and while leasing momentum is expected to slow this year the asking rents remain firm. For example we believe MBFC tower 3 and Ocean Financial Centre are 66% and 80% pre-committed. Asking rents in these IGA buildings have also increased to about S$13 to 15 psf. We believe transactional benchmarks will provide the catalysts for the office landlords to continue their performance, as competition for investment grade assets keeps cap rates low.

Against this backdrop, we prefer stocks with high exposure to the office market and low exposure to the residential market. We like **Keppel Land (KPLD SP)** for its office exposure and the commercial office REITS **CCT SP**, **KREIT SP** and **SUN SP**. Among the developers, we like **UOL SP** for its office exposure and given that it has divested most of its property projects and looks well positioned to replenish its land bank are reasonable prices.

Offshore (Bullish) — Lisa Lee

We maintain Bullish stance on Offshore

We maintain our bullish stance in 2Q11F, and believe that these stocks will continue to outperform the market, underpinned by a more pronounced rig-building cycle upturn. We look for semi-sub order momentum to return in 2Q/3Q along with the uptrend in drillship ASPs and a potential tightening of the charter market led by spill-over demand from Petrobras.

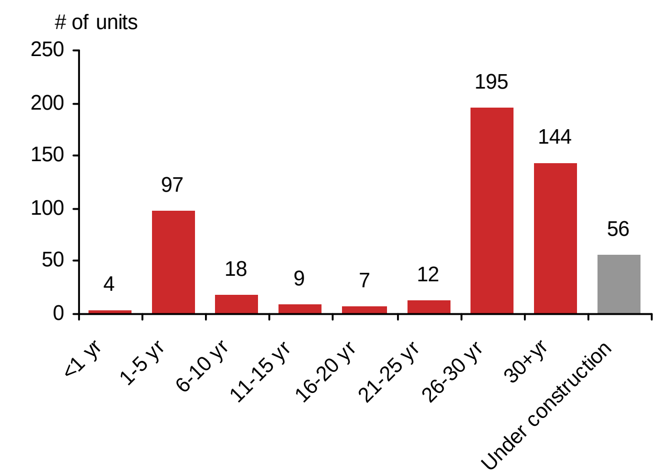
Exhibit 42. Vessel deliveries

	Vessels delivered								Delivery schedule beginning 3Q12							
	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
Keppel FELS	3JU	1JU, 2SS	2JU, 1SS	2JU, 2SS	2SS		1JU, 2SS	2JU, 1SS	1 JU in 4Q12 4 JU in 2H12 1SS in 3Q12		2JU	3JU	1JU	2JU		1JU
												(15 outstanding JU options)				
Keppel AmFELS	1JU				1JU	1JU	1JU	1JU			1 JU					
Jurong Shipyard (SMM)		1SS	1SS	1SS	1SS	2SS				2JU	1JU	1JU	2 JU		1 JU	
												(6 outstanding JU options)				
PPL Shipyard (SMM)	1JU	1JU	1JU		1JU	2JU	3JU		1 JU	1JU		1JU				
												(2 outstanding JU options)				

JU: Jack-up, SS: Semisub; DS: Drillship

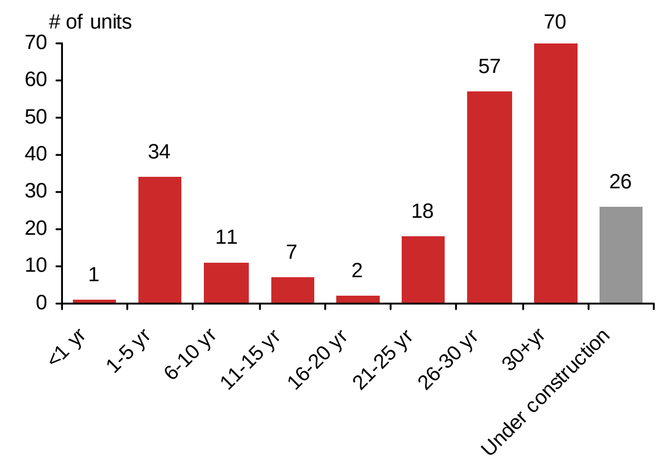
Source: Nomura research

Exhibit 43. Global jackup age profile



Source: Rigzone, Nomura research

Exhibit 44. Global semisub age profile



Source: Rigzone, Nomura research

We believe the tightening of shipyard capacity is supportive of a potential ASP uptrend (hence margin expansion beyond 2013), which is a key sign of a more pronounced rig-building cycle upturn. Notably, the pricing of **Keppel**'s KFELS B class jack-ups has increased by 17% over a short span (October 2010 – March 2011), reaching a level close to the 2007/08 boom. While the specifications of the newer generation rigs are higher, we believe any incremental cost increase will be partially offset by continued efficiency gains. Barring any significant currency, material and equipment price fluctuations, we look for overall rig-building margins to be restored in 2013F after the imminent dip in 2011/12.

While Korean shipyards have been aggressive in pursuing orders for drillships, which have an edge over semisubs in terms of flexibility, we believe semisub orders will materialize in 2H11 owing to: 1) a further increase in drillship ASP (+11% since 4Q10); and 2) potential tightening of the underlying charter market, driven by Petrobras' spill-over demand and the resumption of drilling permit approvals in Gulf of Mexico.

We reiterate our top BUY – Keppel. Management believes order momentum could be sustained over several years on the back of replacement demand and remains optimistic on taking on more orders as its capacity is only starting to see the recovery.

The group is refreshing its strategy to optimize capacity and capabilities across the globe.

BUYs: KEP, SMM, YZJ

While **SMM** has lagged KEP in terms of new orders in 1Q (S$1.6bn vs Keppel's S$4.4bn), we believe SMM remains very competitive. In particular, we highlight that its PPL Shipyard offers capacity upside for jack-up deliveries in 2013, which is a positive for order negotiations in the next two quarters. Its Tuas yard will come into partial operations in 2H12, potentially raising the group's dock capacity by 62% by 2013, which will allow SMM to take on more ship-repair and newbuilding work.

Within the China shipbuilding space, we continue to like **YZJ** which stands out for its well-entrenched containership franchise. Its discussions with Seaspan for a potential US$2.2bn order (22x 10,000TEU containerships, including options) are arguably well-known to the market but not priced in as we believe investors remain sceptical on the risk-reward. While margins will be low, we believe a potential win will be a significant breakthrough for YZJ, which positions it well for an eventual shipbuilding upturn as the industry trending towards large, fuel-efficient ships.

Telcos – Sachin Gupta

Singaporean telcos will see relatively higher competition

In the regional context, the Singaporean telcos will see relatively higher competition - be that from the NBN (National Broadband Network) rollout or from the impact of content cross-carriage measures in our view. Moreover, we think subsidies will likely remain high in order to win and attract the incremental wireless and broadband subscribers.

SingTel: NEUTRAL

While **SingTel** remains a solid defensive franchise with good cash generation, earnings volatility will be high in most of its key markets in our view. India, Indonesia and the Philippines are seeing much more competition this year, as is Singapore and Optus from a reinvigorated **Telstra** (NEUTRAL). It is not a given that SingTel and its associates will lose share — but defending share will cost some profitability in our view. We think a large capital return in May 2011 will be a key event; otherwise, we don't see other catalysts to break the trading range of S$2.80-3.40. Maintain NEUTRAL with S$3.35 price target.

M1: BUY

We think 2011 will be a key year for **M1 —** it has the potential to transition from a pure wireless carrier to become a more integrated fixed broadband and pay-TV player with regulations in its favour. We expect M1 to surprise on net-adds without significant incremental costs. We think execution will be the biggest challenge and no doubt the incumbents won't cede share easily, but we think M1 will use a low-price strategy to win stand-alone broadband customers. Acquiring customers who are seeking bundled products could be a more difficult task. Either way, however, we see little revenue cannibalisation risks and incremental customers should add to the bottom line. Maintain BUY with S$2.95 price target.

StarHub — REDUCE

It is difficult to see **StarHub** matching its strong outperformance of 2010 in 2011. Its strong 7.4% dividend yield (FY11–12F) could be overshadowed by earnings risks from: 1) NBN impact on retail broadband prices; 2) risks to bundled pay-TV subs from competition along with the possible impact of content cross-carriage measures; and 3) expensive-looking valuations of 16.4x FY11F P/E. We do expect it to win enterprise revenue share from NBN, but it is more likely to make meaningful contribution only from 2012F onwards. Maintain REDUCE with S$2.30 PT.

Exhibit 45. VMs and risks – telcos

	Valuation method	Investment risks
SingTel (ST SP)	DCF SOTP – average WACC of 8.26% for Singapore and Optus businesses, with terminal growth rate of 2.5%. Our discount rates for its associates are 10-12%, with terminal growth rates ranging from 2 to 4%	Downside: more aggressive competition in the domestic market and a macro slowdown, further appreciation of the Singapore dollar and slowing growth at associates. Upside: better-than-expected operational trends and any capital management initiatives
StarHub (STH SP)	DCF (WACC: 8.1%, terminal growth = 1%)	Upside: lower-than-expected loss of pay-TV subscribers, limited ARPU dilution, higher-than-expected capital management
M1 (M1 SP)	DCF (WACC: 7.7%, Ke=10%, Kd=3%, terminal growth = 1%)	Downside: more aggressive competition in Singapore, limited ability to offer fixed mobile bundles, macro slowdown in Singapore

Source: Nomura research

Economics

Inflation fighting

Euben Paracuelles / Yougesh Khatri

The government has adopted tighter policies including measures to cool the property market and a contractionary fiscal stance. We expect another FX policy move in April.

For Singapore, Q1 GDP flash estimates (which we expect to be released around the week of 11 April) are likely to post growth of 5.6% y-y from 12% in the previous quarter. The industrial production index (IPI) eased to 4.8% in February after rising 11% in January. The slowdown was again driven by a decline in biomed on a y-y basis. Excluding biomed, IPI seems to be holding up – our momentum indicator shows a considerable pickup starting in January (next Exhibit, left), in line with a significant pickup in manufacturing PMI and strong non-electronics exports.

Q1 GDP flash estimates (which we expect to be released around the week of 11 April) are likely to post growth of 5.6% y-y from 12% in the previous quarter

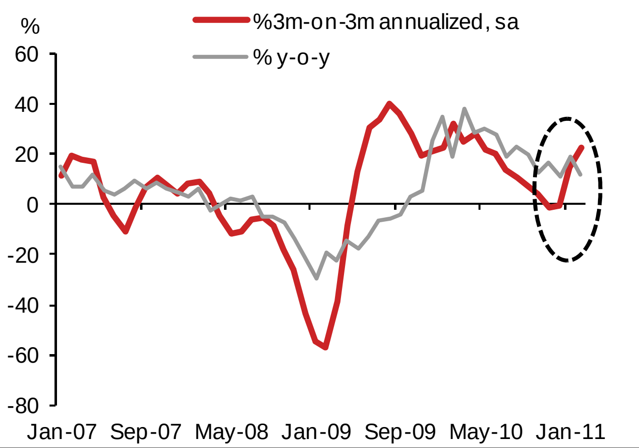
This remains consistent with our full year 2011 growth forecast of 5.3% (versus the government's 4-6% target). After a stellar recovery, the economy is likely operating at or close to full potential and we expect growth to revert to the 5-6% medium-term trend which, for an advanced economy, is still impressive. However, taking into account the potential impact of the Japan earthquake, we have revised the path of our quarterly growth forecast for this year: we now see weaker Q2 growth owing to possible supply disruption but stronger Q4 growth as Japan starts reconstruction.

Given the relatively robust growth picture, the authorities are focused on containing inflation from several fronts. The Monetary Authority of Singapore (MAS) announced moves to appreciate the SGD nominal effective exchange rate (NEER) both in April and October last year. These moves put further downward pressure on record-low SGD short-term rates, likely contributing to property price pressures (and asset bubble concerns). On 13 January, in a bid to cool property markets, the government introduced further — and more stringent than expected — measures, including increasing the holding period to impose the seller's stamp duty (SSD) to four years, raising maximum SSD rates to 16% and reducing limits to loan-to-value ratios further. The most recent property price indices suggest these cooling measures may be beginning to work.

The authorities are focused on containing inflation from several fronts

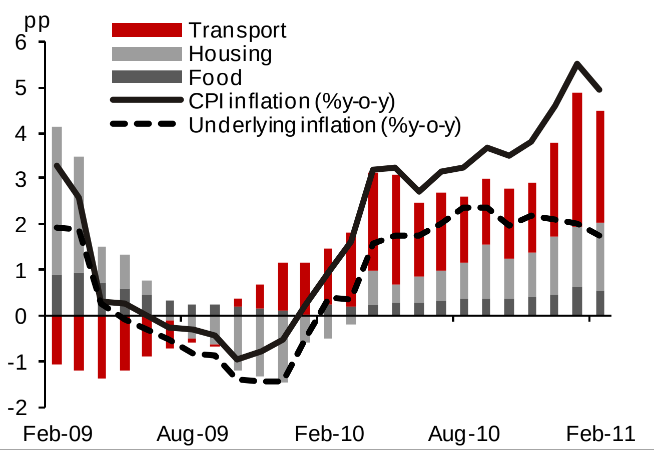
But there is likely more tightening of monetary conditions ahead, in our view. After surging to 5.5% in January, headline CPI inflation eased to 5.0% in February. We believe inflation has peaked but it is still likely well above the authorities' comfort zone. We maintain our 2011 CPI inflation forecast of 4.5%, above the MAS 3-4% forecast range. The trajectory of our forecast suggests that inflation will remain persistently high in H1 before easing in H2. Even so, we do not expect inflation to fall as sharply to range 2.5-3.0% in H2 implied by MAS' forecast for the year.

Exhibit 46. Industrial output ex-biomed



Source: CEIC, Nomura Global Economics

Exhibit 47. Headline and underlying CPI inflation



Source: CEIC, Nomura Global Economics

There are also upside risks to inflation from developments in the Middle East and the related impact on oil prices, and from supply-side bottlenecks in Japan, lifting the prices of electronic goods. Brent crude oil prices have averaged USD105/bbl in Q1 so far (Bloomberg data), exceeding our assumption of USD102. Electricity tariffs for Q2 have been raised another 6.5%, nearly twice the 3.3% increase in Q1. Car COE prices also bounced back in March auctions by an average 4.0%, despite their tendency to remain stable (if not decline) after the Chinese New Year holiday. Food, housing and transport costs are likely to remain large contributors to headline inflation.

We expect the MAS to further appreciate the SGD NEER in April, albeit with a probability of still around 55%

Against this backdrop we continue to expect the MAS to move to further appreciate the SGD NEER in April, albeit with a probability of still around 55% (see *SGD – Half-time (policy)* report, 20 January 2011). Underlying inflation has eased and is now below the MAS' 2-3% forecast range and we flag uncertainty about the external environment; these are key risks to this view (and therefore make it a close call). But we judge that because of the impact on inflation expectations, headline inflation remains the key policy consideration. The other risk is if the string of property market measures hurts growth sharply, although any evidence of this will likely come with a significant lag.

The 2011 budget envisages an overall fiscal surplus of 0.1% of GDP from a smaller-than-budgeted deficit of 0.3% of GDP in FY10

The 2011 budget envisages an overall fiscal surplus of 0.1% of GDP from a smaller-than-budgeted deficit of 0.3% of GDP in FY10, unveiling measures that build on the theme of raising long-term productivity, but also providing one-off transfers to households and SMEs ahead of a likely election this year. On our estimates, this would imply a slightly contractionary fiscal stance, consistent with the government's efforts to contain inflation, in concert with monetary tightening and other property sector measures.

Risks: Downside risks are a renewed slump in the global economy, a further surge in oil prices, prolonged unrest in the Middle East and a sustained supply-chain disruption after the earthquake in Japan. Potential large-scale capital inflows raise the risk of asset bubbles.

Exhibit 48. Singapore: economic forecasts

% y-y growth unless otherwise stated	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	2010	2011	2012
Real GDP	**10.6**	**12.0**	5.6	4.1	5.6	6.1	4.8	5.0	**14.5**	5.3	5.8
Private consumption	**5.2**	**4.3**	5.5	4.7	5.0	5.0	4.1	5.7	**4.2**	5.0	6.1
Government consumption	**7.5**	**11.3**	5.0	7.0	5.0	5.0	9.1	14.6	**11.0**	5.4	10.4
Gross fixed capital formation	**5.6**	**5.7**	12.0	12.0	11.0	11.0	4.7	6.9	**5.1**	11.5	10.2
Exports (goods & services)	**20.4**	**12.1**	7.0	7.0	7.8	8.1	6.0	6.1	**19.2**	7.5	6.6
Imports (goods & services)	**17.4**	**12.8**	8.2	8.6	9.2	9.2	8.0	9.0	**16.6**	8.8	9.2
Contributions to GDP:											
Domestic final sales	**4.2**	**4.3**	5.8	4.9	4.9	5.0	4.1	4.8	**4.2**	5.2	5.9
Inventories	**(3.7)**	**5.2**	0.1	(0.1)	0.7	0.6	2.2	1.5	**1.1**	0.3	2.4
Net trade (goods & services)	**11.4**	**2.6**	(0.3)	(0.7)	(0.1)	0.4	(2.4)	(3.8)	**10.5**	(0.2)	(3.1)
Unemployment rate (sa, %)	**2.1**	**2.2**	1.9	1.8	1.7	1.8	2.0	2.0	**2.2**	1.8	2.0
Consumer prices index	**3.4**	**4.0**	5.7	5.1	4.1	3.2	2.1	3.3	**2.8**	4.5	3.4
Exports	**27.3**	**22.5**	16.5	14.4	12.0	6.5	13.7	12.6	**30.4**	12.1	12.8
Imports	**22.5**	**17.3**	25.6	20.9	24.2	14.4	13.7	13.5	**26.4**	21.1	13.8
Merchandise trade balance (US$bn)	**11.7**	**13.0**	1.9	5.6	3.2	7.4	2.1	5.5	**41.1**	18.1	16.8
Current account balance (% of GDP)	**23.4**	**19.0**	14.5	18.2	24.0	17.5	13.3	15.5	**22.0**	18.4	16.5
Fiscal balance (% of GDP)									**(0.1)**	0.0	0.4
3 month SIBOR (%)	**0.51**	**0.44**	0.40	0.40	0.40	0.40	0.40	0.40	**0.44**	0.40	0.40
Exchange rate (SG$/US$)	**1.32**	**1.28**	1.25	1.23	1.22	1.21	1.20	1.19	**1.28**	1.21	1.16

Notes: Numbers in bold are actual values; others forecast. Interest rate and currency forecasts are end of period; other measures are period average. All forecasts are modal forecasts (i.e., the single most likely outcome). Table last revised 25 March 2011.

Source: CEIC and Nomura Global Economics

OCBC OCBC SP

FINANCIALS/BANKS | SINGAPORE

Maintained

BUY

NOMURA
NOMURA SINGAPORE LIMITED

Anand Pathmakanthan, CFA +65 6433 6986 anand.pathmakanthan@nomura.com

Action

We reaffirm our recommendation of OCBC as a core holding, underpinned by its continued diversification from the growth- and margin-challenged S$ loan space, and given increasingly tangible synergies between its wealth management and commercial bank platforms. With management execution and balance-sheet trends strong, we think OCBC has the sector's best premium-generating growth-quality balance. BUY.

Catalysts

Seamless integration of, and tangible synergies from, Bank of Singapore; market re-rating of Great Eastern; raising of Bank of Ningbo stake to 20% (from 13.7%).

Anchor themes

Incentives to transform Singapore into a global city and diversify the economy, eg, development of integrated resorts and broadening of services and manufacturing sectors, remain well-supported and broadly complemented by substantial fiscal and monetary support, which has supported employment and broad domestic demand.

Closing price on 30 Mar	S$9.46
Price target	**S$11.80**
	(set on 11 Aug 10)
Upside/downside	24.7%
Difference from consensus	9.3%
FY12F net profit (S$mn)	2,830
Difference from consensus	5.2%

Source: Nomura

Nomura vs consensus

Capacity to extract revenue and cost synergies from an expanding wealth management platform, and maintain a sector-low NPL ratio, loan-loss provisioning may be underestimated.

All the right trends

① Operating platform: positive structural evolution

We forecast loan growth will moderate to 14% in FY11F, after a jump of 30% in FY10 (23% ex consolidation of Bank of Singapore [BOS]) — credit demand indicators are broadly healthy, particularly in targeted sectors, eg, oil & gas, plantations. Group NIM stability is underpinned by more efficient (higher) LDR, faster growth in higher-margin Malaysian and Indonesian loans, and sustained pick-up in CASA share of deposits, the latter having shown a consistent q-q increase since 1Q08 to the current record of 49.5%. The wealth management division, underpinned by Great Eastern (GE) and private bank BOS, is generating tangible cross-platform revenue and cost synergies, and has strong momentum — BOS grew AUM by 18% in FY10 to US$26bn, with a target of US$45bn by FY14F, while GE is reinforcing its ASEAN leadership with rapid growth in Indonesia and a Takaful JV in Malaysia.

② Balance sheet: capital overhang lifted

A well-received scrip dividend scheme and more efficient risk-weighted asset (RWA) modelling have resulted in core equity ratio rising 50bps y-y to 12.5% as of 4Q10, despite an 18% y-y increase in group assets. With the full BASEL III impact to amount to a c.200bp deduction, on our estimates, capital does not appear to be a constraint, with confidence underscored by OCBC being the only Singapore bank to raise ordinary dividends in FY10.

③ Valuation: adjusted earnings, maintaining PT

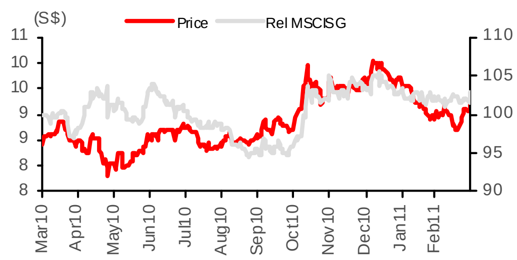
Following the FY10 results, we adjusted earnings 1-6% lower (29 March), primarily to account for extended NIM sluggishness as interest rates remain near lows. Our SOTP-based PT (methodology unchanged: valuing GE at 1.5x embedded value and the commercial bank at 1.8x book) is S$11.80, or 2.0x FY11F adjusted book (1.8x stated book) or 16x FY11F earnings. Key risk: weak execution in integrating the various operating platforms could hurt profitability and asset quality.

Key financials & valuations

31 Dec (S$mn)	FY10	FY11F	FY12F	FY13F
PPOP	-	-	-	-
Reported net profit	2,253	2,472	2,830	3,122
Normalised net profit	2,253	2,472	2,830	3,122
Normalised EPS (S$)	0.68	0.74	0.85	0.93
Norm. EPS growth (%)	10.5	8.2	14.5	10.3
Norm. P/E (x)	14.0	12.8	11.2	10.1
Price/adj. book (x)	1.67	1.58	1.46	1.35
Price/book (x)	1.52	1.43	1.33	1.24
Dividend yield (%)	3.2	3.6	4.0	4.4
ROE (%)	11.3	11.5	12.3	12.7
ROA (%)	1.06	1.02	1.05	1.06
Earnings revisions				
Previous norm. net profit		2,472	2,830	3,122
Change from previous (%)		-	-	-
Previous norm. EPS (S$)		0.74	0.85	0.93

Source: Company, Nomura estimates

Share price relative to MSCISG



	1m	3m	6m
Absolute (S$)	2.3	(5.4)	6.9
Absolute (US$)	3.0	(3.3)	11.3
Relative to Index	0.6	(0.8)	7.9
Market cap (US$mn)			24,997
Estimated free float (%)			70.0
52-week range (S$)			10.32/8.10
3-mth avg daily turnover (US$mn)			38.45
Stock borrowability			Easy
Major shareholders (%)			
Lee Family			31.0

Source: Company, Nomura estimates

Financial statements

Profit and Loss (S$mn)					
Year-end 31 Dec	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
Interest income	4,184	4,363	5,033	6,114	6,996
Interest expense	(1,359)	(1,416)	(1,573)	(2,102)	(2,397)
Net interest income	**2,825**	**2,947**	**3,460**	**4,011**	**4,599**
Net fees and commissions	730	994	1,122	1,262	1,422
Trading related profits	285	433	459	506	555
Other operating revenue	975	951	1,000	1,112	1,239
Non-interest income	**1,990**	**2,378**	**2,581**	**2,881**	**3,216**
Operating income	**4,815**	**5,325**	**6,042**	**6,892**	**7,814**
Depreciation	(58)	(73)	(79)	(85)	(92)
Amortisation	(47)	(55)	(55)	(55)	(55)
Operating expenses	(1,737)	(2,181)	(2,509)	(2,864)	(3,239)
Employee share expense					
Op. profit before provisions	2,972	3,016	3,399	3,888	4,429
Provisions for bad debt	(429)	(134)	(183)	(214)	(370)
Other provision charges	**-**	**-**	**-**	**-**	**-**
Operating profit	2,543	2,882	3,216	3,674	4,059
Other non-operating income	-	-	-	-	-
Associates & JCEs	(1)	(2)	2	4	8
Pre-tax profit	**2,543**	**2,880**	**3,218**	**3,678**	**4,067**
Income tax	(389)	(433)	(523)	(597)	(658)
Net profit after tax	**2,154**	**2,447**	**2,694**	**3,081**	**3,408**
Minority interests	(192)	(194)	(222)	(251)	(286)
Other items	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Normalised NPAT	**1,962**	**2,253**	**2,472**	**2,830**	**3,122**
Extraordinary items	21	-	-	-	-
Reported NPAT	**1,983**	**2,253**	**2,472**	**2,830**	**3,122**
Dividends	(909)	(1,002)	(1,136)	(1,270)	(1,403)
Transfer to reserves	**1,074**	**1,251**	**1,337**	**1,560**	**1,719**

PPOP growth set to regain momentum as NIM and cost base stabilise, even as loan growth and fee income show sustained strong expansion

Valuation and ratio analysis					
FD normalised P/E (x)	15.6	14.0	12.8	11.2	10.1
FD normalised P/E at price target (x)	19.5	17.5	15.9	13.9	12.6
Reported P/E (x)	15.1	13.8	12.8	11.2	10.1
Dividend yield (%)	3.0	3.2	3.6	4.0	4.4
Price/book (x)	1.6	1.5	1.4	1.3	1.2
Price/adjusted book (x)	1.7	1.7	1.6	1.5	1.4
Net interest margin (%)	2.23	2.03	2.02	2.07	2.14
Yield on interest earning assets (%)	3.30	3.00	2.94	3.15	3.25
Cost of interest bearing liabilities (%)	1.13	1.04	0.98	1.17	1.23
Net interest spread (%)	2.17	1.96	1.96	1.98	2.02
Non-interest/operating income (%)	41.3	44.7	42.7	41.8	41.2
Cost to income (%)	37.3	42.3	42.8	42.8	42.6
Effective tax rate (%)	15.3	15.0	16.3	16.2	16.2
Dividend payout (%)	45.8	44.5	45.9	44.9	44.9
ROE (%)	11.4	11.3	11.5	12.3	12.7
ROA (%)	1.06	1.06	1.02	1.05	1.06
Operating ROE (%)	14.6	14.5	15.0	16.0	16.5
Operating ROA (%)	1.35	1.36	1.32	1.36	1.38

Cost-to-income ratio to remain around post-BOS stepped-up level due to higher related opex and capex cost base

Growth (%)					
Net interest income	1.5	4.3	17.4	15.9	14.6
Non-interest income	35.4	19.5	8.6	11.6	11.6
Non-interest expenses	(3.1)	25.5	15.1	14.1	13.1
Pre-provision earnings	26.4	1.5	12.7	14.4	13.9
Net profit	32.0	14.8	9.7	14.5	10.3
Normalised EPS	28.8	10.5	8.2	14.5	10.3
Normalised FDEPS	25.7	11.5	9.7	14.5	10.3

Source: Nomura estimates

Balance Sheet (S$mn)					
As at 31 Dec	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
Cash and equivalents	7,244	6,321	8,229	9,756	8,573
Inter-bank lending	15,821	18,569	20,426	22,469	24,716
Deposits with central bank	5,927	5,172	6,733	7,982	7,014
Total securities	28,166	31,357	35,918	40,878	45,975
Other interest earning assets	-	-	-	-	-
Gross loans	82,341	106,449	121,352	135,914	149,506
Less provisions	(1,465)	(1,460)	(1,705)	(1,915)	(2,114)
Net loans	**80,876**	**104,989**	**119,647**	**133,999**	**147,392**
Long-term investments	7,453	9,035	9,757	10,538	11,381
Fixed assets	2,374	2,358	2,338	2,318	2,298
Goodwill	3,362	3,996	3,941	3,886	3,831
Other intangible assets	-	-	-	-	-
Other non IEAs	43,077	47,486	49,385	51,361	53,415
Total assets	**194,300**	**229,283**	**256,375**	**283,188**	**304,596**
Customer deposits	100,633	123,300	142,012	159,621	176,521
Bank deposits, CDs, debentures	14,877	21,070	21,755	22,280	22,857
Other interest bearing liabilities	6,863	6,853	6,853	6,854	1,094
Total interest bearing liabilities	**122,373**	**151,224**	**170,621**	**188,755**	**200,472**
Non interest bearing liabilities	50,148	54,414	60,544	67,405	75,085
Total liabilities	**172,521**	**205,638**	**231,165**	**256,160**	**275,557**
Minority interest	2,808	2,855	3,077	3,328	3,614
Common stock	6,210	7,045	7,045	7,045	7,045
Preferred stock	1,166	1,166	1,166	1,166	1,166
Retained earnings	9,103	10,592	11,935	13,501	15,227
Proposed dividends	-	-	-	-	-
Other equity	2,492	1,987	1,987	1,987	1,987
Shareholders' equity	**18,971**	**20,790**	**22,133**	**23,699**	**25,425**
Total liabilities and equity	**194,300**	**229,283**	**256,375**	**283,188**	**304,596**
Non-performing assets (S$)	*1,384*	*995*	*1,095*	*1,314*	*1,708*
Balance sheet ratios (%)					
Loans to deposits	81.8	86.3	85.5	85.1	84.7
Equity to assets	9.8	9.1	8.6	8.4	8.3
Asset quality & capital					
NPAs/gross loans (%)	1.7	0.9	0.9	1.0	1.1
Bad debt charge/gross loans (%)	0.52	0.13	0.15	0.16	0.25
Loss reserves/assets (%)	0.75	0.64	0.66	0.68	0.69
Loss reserves/NPAs (%)	105.9	146.7	155.7	145.8	123.8
Tier 1 capital ratio (%)	16.0	16.3	16.0	15.9	16.4
Total capital ratio (%)	16.5	17.6	17.5	17.7	18.3
Growth (%)					
Loan growth	1.3	29.8	14.0	12.0	10.0
Interest earning assets	6.8	22.4	14.1	12.4	9.6
Interest bearing liabilities	3.8	23.6	12.8	10.6	6.2
Asset growth	7.1	18.0	11.8	10.5	7.6
Deposit growth	7.0	22.5	15.2	12.4	10.6
Per share					
Reported EPS (S$)	0.63	0.68	0.74	0.85	0.93
Norm EPS (S$)	0.62	0.68	0.74	0.85	0.93
Fully diluted norm EPS (S$)	0.60	0.67	0.74	0.85	0.93
DPS (S$)	0.28	0.30	0.34	0.38	0.42
PPOP PS (S$)	0.94	0.92	1.02	1.16	1.33
BVPS (S$)	5.85	6.22	6.62	7.09	7.61
ABVPS (S$)	5.72	5.65	6.01	6.48	6.99
NTAPS (S$)	4.81	5.03	5.45	5.93	6.46

Source: Nomura estimates

CASA share has consistently grown q-q to a record 49.5% currently (vs 28% in FY06; overtook UOB in 2Q10)

Improved despite rapid asset growth, underpinned by scrip dividend scheme (>80% rate of acceptance) and relatively moderate risk-weighted asset (RWA) growth

DBS Group Holdings DBS SP

FINANCIALS/BANKS | SINGAPORE

NOMURA
NOMURA SINGAPORE LIMITED

Anand Pathmakanthan, CFA +65 6433 6986 anand.pathmakanthan@nomura.com

Maintained

BUY

Action

Tangible traction leveraging core franchise strengths (ie, S$ deposits, Greater China integration) and building the execution platform for regional growth initiatives (ie, SME, wealth management) should deliver substantial restructuring gains over the medium term. With its NIM bottoming out and balance sheet solid, DBS looks overly discounted, with the lowest P/BV multiple and top-tier yield vs ASEAN peers.

Catalysts

Tangible delivery on new CEO's strategic initiatives, interest rate uptrend, greater regional operational integration, especially HK-China, and synergistic acquisitions.

Anchor themes

Incentives to transform Singapore into a global city and diversify the economy, such as development of integrated resorts, broadening of services and manufacturing sectors, remain well-supported and broadly complemented by substantial fiscal and monetary support, which has supported employment and broad domestic demand.

Closing price on 30 Mar	S$14.52
Price target	S$16.70
	(set on 28 Mar 11)
Upside/downside	15.0%
Difference from consensus	-1.8%
FY12F net profit (S$mn)	3,307
Difference from consensus	5.2%

Source: Nomura

Nomura vs consensus

Ability to sustain group cost-income ratio below the guided 45% mark may be underestimated given strong operating income drivers, especially loan volumes and treasury-driven trading income.

Closing the execution gap

① Operational momentum: picking up across a broad front

A broad regional capex activity pick-up and rising intra-Asia investment flows look to dovetail with DBS' regional infrastructure, underpinning our forecast for low/mid-teen FY11F loan growth (FY10: +16%). With over 80% of its S$ funding base composed of sticky, relatively interest rate-insensitive CASA, DBS is leveraging this competitive edge to grow higher-margin, fixed-rate mortgage and corporate lending, boosting market share, customer acquisition and ROA as LDR gains traction. Long-suffering DBS (HK), 20% of total group assets, is enjoying the tailwinds of surging financing demand from mainland Chinese corporates and RMB-linked treasury income. Revamped regional SME and wealth management operations are slated to launch in 2H11.

② Margin, costs: still some pain before gain

With S$ interest rates remaining soft, management expects multi-year margin (NIM) weakness to bottom out in mid-2011. In our view, improving asset-liability dynamics and an uptrend in rates from 2H11 should lift NIM into FY12. We estimate a 100bps rise in SIBOR boosts FY11F PBT by 12% on an annualised basis. While the cost-income ratio looks set to rise given the regional investments, we expect it to top out below the guided 45% level on a robust operating income outlook.

③ Valuations: overly discounted, with top-tier yield

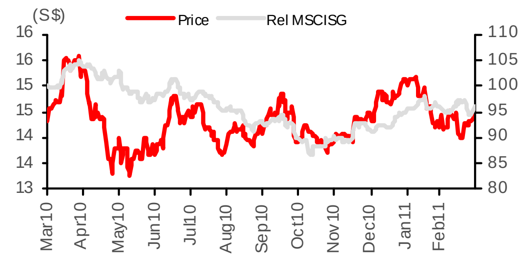
Following the FY10 results, our forecasts are little changed as NIM and cost pressures are mitigated by better volume and non-interest income trends. We maintain our Gordon growth PT (12% sustainable ROE, 9.5% cost of capital and 5% long-term growth) of S$16.70 or 1.6x FY11F adjusted book value (1.4x stated book value), or 15x FY11F earnings. Key risk: a double-dip scenario that erodes loan growth, NIM and asset quality, and upsets execution on strategic initiatives.

Key financials & valuations

31 Dec (S$mn)	FY10	FY11F	FY12F	FY13F
PPOP	-	-	-	-
Reported net profit	1,632	2,911	3,307	3,688
Normalised net profit	2,650	2,911	3,307	3,688
Normalised EPS (S$)	1.15	1.26	1.43	1.60
Norm. EPS growth (%)	6.3	9.2	13.6	11.5
Norm. P/E (x)	12.7	11.5	10.1	9.1
Price/adj. book (x)	1.47	1.38	1.28	1.19
Price/book (x)	1.26	1.20	1.12	1.05
Dividend yield (%)	3.9	4.0	4.4	4.8
ROE (%)	6.3	10.7	11.4	11.9
ROA (%)	0.60	0.99	1.03	1.07
Earnings revisions				
Previous norm. net profit		2,911	3,307	3,688
Change from previous (%)		-	-	-
Previous norm. EPS (S$)		1.26	1.43	1.60

Source: Company, Nomura estimates

Share price relative to MSCISG



	1m	3m	6m
Absolute (S$)	2.5	0.1	3.1
Absolute (US$)	3.2	2.3	7.3
Relative to Index	0.9	4.9	3.9
Market cap (US$mn)			26,556
Estimated free float (%)			72.0
52-week range (S$)			15.58/13.26
3-mth avg daily turnover (US$mn)			57.3
Stock borrowability			Easy
Major shareholders (%)			
Temasek Holdings			30.0

Source: Company, Nomura estimates

Financial statements

Profit and Loss (S$mn)					
Year-end 31 Dec	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
Interest income	6,114	5,699	6,187	7,069	7,968
Interest expense	(1,660)	(1,381)	(1,542)	(1,839)	(1,980)
Net interest income	**4,454**	**4,319**	**4,645**	**5,230**	**5,988**
Net fees and commissions	1,394	1,397	1,490	1,591	1,699
Trading related profits	687	1,205	1,376	1,592	1,809
Other operating revenue	68	145	159	173	189
Non-interest income	**2,149**	**2,747**	**3,025**	**3,356**	**3,697**
Operating income	**6,603**	**7,066**	**7,670**	**8,586**	**9,685**
Depreciation	(157)	(173)	(181)	(190)	(200)
Amortisation	-	-	-	-	-
Operating expenses	(2,447)	(2,752)	(3,078)	(3,373)	(3,700)
Employee share expense					
Op. profit before provisions	3,999	4,141	4,410	5,022	5,785
Provisions for bad debt	(1,529)	(911)	(736)	(854)	(1,139)
Other provision charges	**-**	**-**	**-**	**-**	**-**
Operating profit	2,470	3,230	3,674	4,168	4,646
Other non-operating income	-	-	-	-	-
Associates & JCEs	66	102	112	123	136
Pre-tax profit	**2,536**	**3,332**	**3,786**	**4,291**	**4,782**
Income tax	(285)	(454)	(625)	(709)	(790)
Net profit after tax	**2,251**	**2,878**	**3,161**	**3,583**	**3,992**
Minority interests	(187)	(228)	(251)	(276)	(303)
Other items	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Normalised NPAT	**2,064**	**2,650**	**2,911**	**3,307**	**3,688**
Extraordinary items	(23)	(1,018)	-	-	-
Reported NPAT	**2,041**	**1,632**	**2,911**	**3,307**	**3,688**
Dividends	(1,278)	(1,294)	(1,340)	(1,478)	(1,616)
Transfer to reserves	**763**	**338**	**1,571**	**1,829**	**2,073**

PPOP momentum sustained as loan and non-interest income volumes stay strong even as NIM bottoms out

Valuation and ratio analysis					
FD normalised P/E (x)	16.0	12.7	11.5	10.1	9.1
FD normalised P/E at price target (x)	18.5	14.6	13.2	11.7	10.5
Reported P/E (x)	13.5	20.4	11.5	10.1	9.1
Dividend yield (%)	3.9	3.9	4.0	4.4	4.8
Price/book (x)	1.3	1.3	1.2	1.1	1.0
Price/adjusted book (x)	1.4	1.5	1.4	1.3	1.2
Net interest margin (%)	2.06	1.82	1.79	1.86	1.97
Yield on interest earning assets (%)	2.82	2.41	2.39	2.51	2.62
Cost of interest bearing liabilities (%)	0.86	0.65	0.66	0.72	0.72
Net interest spread (%)	1.96	1.75	1.72	1.79	1.90
Non-interest/operating income (%)	32.5	38.9	39.4	39.1	38.2
Cost to income (%)	39.4	41.4	42.5	41.5	40.3
Effective tax rate (%)	11.2	13.6	16.5	16.5	16.5
Dividend payout (%)	62.6	79.3	46.0	44.7	43.8
ROE (%)	9.0	6.3	10.7	11.4	11.9
ROA (%)	0.79	0.60	0.99	1.03	1.07
Operating ROE (%)	10.9	12.4	13.5	14.4	15.0
Operating ROA (%)	0.96	1.19	1.24	1.30	1.35

Medium-term ROE target is 12%. DBS (HK) has a more aggressive 12-15% target, with underlying ROA to be lifted to 1.3% (FY10: 1.1%)

Growth (%)					
Net interest income	3.6	(3.1)	7.6	12.6	14.5
Non-interest income	22.6	27.9	10.1	11.0	10.2
Non-interest expenses	(0.2)	12.5	11.8	9.6	9.7
Pre-provision earnings	16.1	3.6	6.5	13.9	15.2
Net profit	(0.7)	28.4	9.8	13.6	11.5
Normalised EPS	(20.5)	6.3	9.2	13.6	11.5
Normalised FDEPS	(33.8)	26.8	9.8	13.6	11.5

Source: Nomura estimates

Balance Sheet (S$mn)					
As at 31 Dec	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
Cash and equivalents	2,252	3,120	3,414	3,693	3,840
Inter-bank lending	22,203	20,306	18,275	16,448	14,803
Deposits with central bank	20,264	28,083	29,556	30,186	29,421
Total securities	52,948	48,275	52,137	56,308	60,813
Other interest earning assets	-	-	-	-	-
Gross loans	132,809	154,325	172,844	193,586	212,946
Less provisions	(2,837)	(2,628)	(2,842)	(3,239)	(3,522)
Net loans	**129,972**	**151,697**	**170,002**	**190,347**	**209,424**
Long-term investments	6,155	6,481	6,999	7,559	8,164
Fixed assets	1,532	1,383	1,433	1,483	1,533
Goodwill	5,847	4,802	4,802	4,802	4,802
Other intangible assets	-	-	-	-	-
Other non IEAs	17,471	19,562	20,499	21,484	22,517
Total assets	**258,643**	**283,709**	**307,119**	**332,311**	**355,317**
Customer deposits	183,432	193,692	213,061	234,367	253,117
Bank deposits, CDs, debentures	9,108	18,811	19,940	21,136	22,405
Other interest bearing liabilities	8,617	9,159	9,971	10,037	10,095
Total interest bearing liabilities	**201,157**	**221,662**	**242,972**	**265,540**	**285,617**
Non interest bearing liabilities	27,986	28,945	29,407	29,899	30,426
Total liabilities	**229,144**	**250,607**	**272,379**	**295,440**	**316,044**
Minority interest	4,126	6,503	6,754	7,030	7,334
Common stock	8,369	8,533	8,533	8,533	8,533
Preferred stock	66	247	66	66	66
Retained earnings	10,173	10,819	12,388	14,243	16,341
Proposed dividends	-	-	-	-	-
Other equity	6,765	7,000	7,000	7,000	7,000
Shareholders' equity	**25,373**	**26,599**	**27,987**	**29,842**	**31,940**
Total liabilities and equity	**258,643**	**283,709**	**307,119**	**332,311**	**355,317**
Non-performing assets (S$)	*3,876*	*2,878*	*2,936*	*3,229*	*3,875*
Balance sheet ratios (%)					
Loans to deposits	72.4	79.7	81.1	82.6	84.1
Equity to assets	9.8	9.4	9.1	9.0	9.0
Asset quality & capital					
NPAs/gross loans (%)	2.9	1.9	1.7	1.7	1.8
Bad debt charge/gross loans (%)	1.15	0.59	0.43	0.44	0.54
Loss reserves/assets (%)	1.10	0.93	0.93	0.97	0.99
Loss reserves/NPAs (%)	73.2	91.3	96.8	100.3	90.9
Tier 1 capital ratio (%)	13.1	15.1	15.1	15.3	15.5
Total capital ratio (%)	16.7	18.4	18.3	18.4	18.5
Growth (%)					
Loan growth	3.3	16.7	12.1	12.0	10.0
Interest earning assets	8.6	10.2	8.7	8.6	7.2
Interest bearing liabilities	10.0	10.2	9.6	9.3	7.6
Asset growth	0.7	9.7	8.3	8.2	6.9
Deposit growth	12.3	5.6	10.0	10.0	8.0
Per share					
Reported EPS (S$)	1.07	0.71	1.26	1.43	1.60
Norm EPS (S$)	1.09	1.15	1.26	1.43	1.60
Fully diluted norm EPS (S$)	0.91	1.15	1.26	1.43	1.60
DPS (S$)	0.56	0.56	0.58	0.64	0.70
PPOP PS (S$)	2.10	1.80	1.91	2.18	2.51
BVPS (S$)	11.13	11.52	12.12	12.92	13.83
ABVPS (S$)	10.15	9.90	10.51	11.31	12.22
NTAPS (S$)	8.56	9.44	10.04	10.84	11.75

Source: Nomura estimates

DBS took a S$1.02bn one-off impairment charge for DBS (HK) in 2Q10; write-off has no impact on capital ratios or operational capacity while the decline in book is mitigated by the parallel ROE increase

With the Middle East-related loan loss provisioning completed, credit costs look set to decline towards guided normalised 40bps level

Keppel Land KPLD SP

PROPERTY | SINGAPORE

NOMURA

NOMURA SINGAPORE LIMITED

Maintained

BUY

Min Chow Sai +65 6433 6959 minchow.sai@nomura.com

Action

Despite our cautious residential view, we highlight the stock's defensiveness – high exposure to the SG office market and low exposure to the SG residential market. The stock is trading at an implied EV of S$1,181psf for its SG office portfolio, which we think is conservative. Maintain BUY.

Catalysts

We expect Keppel Land to put its under-leveraged balance sheet to work for NAV-accretive opportunities over the next 12 months.

Anchor themes

Besides policy concerns, supply is a significant overhang on home prices, especially in the prime luxury segment in the near term. Against such a physical market outlook, residential developers are unlikely to outperform. Investors should focus on stocks with specific drivers/catalysts and trading at attractive valuations.

Closing price on 30 Mar	S$4.45
Price target	S$5.56
	(set on 17 Feb 11)
Upside/downside	24.9%
Difference from consensus	33.7%
FY12F net profit (S$mn)	480.0
Difference from consensus	4.1%

Source: Nomura

Nomura vs consensus

Consensus valuations of KREIT in KPLD's NAV may be pegged to its current market price, which we believe undervalues its Singapore office portfolio.

Undervalued office assets

① Cautious home price assumptions

We are expecting mass-/mid-market home prices to remain largely flat in 2011-12F, before a 15% correction in 2013F, and prime luxury prices to fall 10% in 2011-12F (flat in 2013F).

② NAV recently raised S$0.06/share to S$5.56/share

We raised our NAV estimate for Keppel Land by S$0.06/share to S$5.56/share on 17 Feb 11. The impact from the changes in our home price assumptions (-S$0.09/share) is more than offset by the following changes: 1) a higher fair value for KREIT (from S$1.62 to S$1.76; adds S$0.06/share to Keppel Land's NAV), 2) estimated gains from the recent divestment of Keppel Digihub to the 30:70 data centre JV with Keppel T&T (+S$0.05/share), 3) a higher valuation for the fund management business (+S$0.02/share) and 4) better than expected sales in China in 2010 (+S$0.02/share).

③ Maintain BUY with a PT of S$5.56

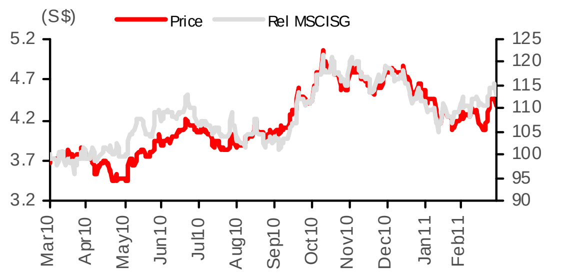
Our valuation methodology remains unchanged, pegging our price target to NAV, which translates into a FY11F P/B multiple 1.8x, vs the stock's historical average 1.4x. Considering its high exposure to the SG office market and low exposure to the SG residential market (with about half of projected development profits secured by sales), we believe the premium is justified. On an implied EV basis, we estimate the market is currently valuing the stock at c. S$1,181psf for its SG office portfolio, 80% of which is made up of OFC and MBFC Phase 2, while the 49% stake at Hitachi Tower recently transacted at S$2,249psf. Maintain BUY with a PT of S$5.56. **Risks to our investment view:** A worse-than-expected economic performance is likely to cause housing demand and leasing demand to slow, which is likely to widen the discount to NAV at which the stock trades, in our view.

Key financials & valuations

31 Dec (S$mn)	FY10	FY11F	FY12F	FY13F
Revenue	792	1,120	1,450	1,750
Reported net profit	1,046	390	480	563
Normalised net profit	244	390	480	563
Normalised EPS (S$)	0.17	0.27	0.33	0.39
Norm. EPS growth (%)	(26.2)	58.6	23.1	17.2
Norm. P/E (x)	26.3	16.6	13.5	11.5
EV/EBITDA (x)	18.4	13.8	11.0	9.1
Price/book (x)	1.5	1.4	1.3	1.2
Dividend yield (%)	4.0	2.0	2.0	2.0
ROE (%)	22.5	7.9	9.1	9.8
Gearing (%)	30.2	27.7	25.3	23.2
Earnings revisions				
Previous norm. net profit		390	480	563
Change from previous (%)		-	-	-
Previous norm. EPS (S$)		0.27	0.33	0.39

Source: Company, Nomura estimates

Share price relative to MSCISG



	1m	3m	6m
Absolute (S$)	3.7	(8.2)	9.9
Absolute (US$)	4.5	(6.2)	14.4
Relative to Index	2.1	(3.7)	11.0
Market cap (US$mn)			5,112
Estimated free float (%)			46.0
52-week range (S$)			5.05/3.44
3-mth avg daily turnover (US$mn)			13.03
Stock borrowability			Easy
Major shareholders (%)			
Keppel Corp			52.4

Source: Company, Nomura estimates

Financial statements

Income statement (S$mn)					
Year-end 31 Dec	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
Investment properties	75	70	75	80	85
Property development	721	580	900	1,220	1,510
Hotels/serviced apartments	128	142	145	150	155
Other Revenue	-	-	-	-	-
Revenue	**924**	**792**	**1,120**	**1,450**	**1,750**
EBIT contributions					
Investment properties	44	44	50	53	57
Property development	125	122	219	299	371
Hotels/serviced apartments	(4)	1	1	1	1
Other income	21	46	37	40	43
Management expenses					
EBITDA	**196**	**222**	**315**	**401**	**480**
Depreciation and amortisation	(9)	(9)	(8)	(8)	(8)
EBIT	**187**	**213**	**307**	**393**	**472**
Net interest expense	(7)	(8)	(1)	0	5
Associates & JCEs	164	176	214	247	273
Other income					
Earnings before tax	**344**	**381**	**520**	**640**	**750**
Income tax	(59)	(123)	(99)	(121)	(140)
Net profit after tax	**285**	**258**	**421**	**519**	**610**
Minority interests	(19)	(15)	(31)	(39)	(47)
Other items					
Preferred dividends					
Normalised NPAT	**266**	**244**	**390**	**480**	**563**
Extraordinary items	14	802	-	-	-
Reported NPAT	**280**	**1,046**	**390**	**480**	**563**
Dividends	(11)	(44)	(131)	(131)	(131)
Transfer to reserves	**269**	**1,001**	**259**	**349**	**432**
Valuation and ratio analysis					
FD normalised P/E (x)	19.4	26.3	16.6	13.5	11.5
FD normalised P/E at price target (x)	24.2	32.8	20.7	16.9	14.4
Reported P/E (x)	18.4	6.1	16.5	13.4	11.5
Dividend yield (%)	1.8	4.0	2.0	2.0	2.0
Price/cashflow (x)	10.0	na	26.6	16.7	14.6
Price/book (x)	1.9	1.5	1.4	1.3	1.2
EV/EBITDA (x)	20.1	18.4	13.8	11.0	9.1
EV/EBIT (x)	20.6	18.8	14.0	11.1	9.2
EBIT margin (%)	20.2	26.9	27.4	27.1	27.0
Effective tax rate (%)	17.2	32.2	19.1	18.9	18.7
Dividend payout (%)	4.0	4.2	33.5	27.2	23.2
ROA (pretax %)	6.3	6.3	7.4	8.3	8.8
Growth (%)					
Revenue	9.7	(14.2)	41.4	29.5	20.7
EBITDA	(5.0)	13.3	42.0	27.3	19.6
EBIT	(6.0)	14.2	44.1	28.1	20.0
Normalised EPS	(7.6)	(26.2)	58.6	23.1	17.2
Normalised FDEPS	(7.4)	(26.3)	58.2	23.1	17.2
Per share					
Reported EPS (S$)	0.24	0.73	0.27	0.33	0.39
Norm EPS (S$)	0.23	0.17	0.27	0.33	0.39
Fully diluted norm EPS (S$)	0.23	0.17	0.27	0.33	0.39
Book value per share (S$)	2.36	2.97	3.14	3.39	3.68
DPS (S$)	0.08	0.18	0.09	0.09	0.09

Source: Nomura estimates

Associates earnings are mainly driven by sales at Reflections at Keppel Bay and Marina Bay Suites in Singapore, as well as Botanica and Central Park City in China

Cashflow (S$mn)					
Year-end 31 Dec	FY09	FY10	FY11F	FY12F	FY13F
EBITDA	196	222	315	401	480
Change in working capital	289	(1,122)	(106)	(53)	(71)
Other operating cashflow	28	(258)	34	38	34
Cashflow from operations	**513**	**(1,158)**	**243**	**387**	**443**
Capital expenditure	(63)	12	(8)	(8)	(8)
Free cashflow	**450**	**(1,146)**	**235**	**379**	**435**
Reduction in investments					
Net acquisitions	(319)	644	(71)	(75)	(78)
Reduction in other LT assets					
Addition in other LT liabilities					
Adjustments	35	30	50	51	56
Cashflow after investing acts	**165**	**(472)**	**213**	**355**	**413**
Cash dividends	(11)	(44)	(131)	(131)	(131)
Equity issue	701	3	-	-	-
Debt issue	(395)	790	4	-	-
Convertible debt issue					
Others	(161)	437	(50)	(50)	(50)
Cashflow from financial acts	**134**	**1,185**	**(177)**	**(181)**	**(181)**
Net cashflow	**299**	**714**	**36**	**174**	**232**
Beginning cash	640	938	1,652	1,688	1,862
Ending cash	938	1,652	1,688	1,862	2,094
Ending net debt	789	865	832	658	426

Source: Nomura estimates

Include investments in the development of MBFC Phases I& II and OFC

Balance sheet (S$mn)					
As at 31 Dec	FY09	FY10	FY11F	FY12F	FY13F
Cash & equivalents	938	1,652	1,688	1,862	2,094
Properties held for sale	1,245	2,201	2,505	2,756	3,007
Accounts receivable	295	587	829	1,074	1,296
Other current assets					
Total current assets	**2,478**	**4,440**	**5,022**	**5,692**	**6,397**
Investment properties	2,414	2,257	2,370	2,489	2,613
Other fixed assets (net)	228	207	207	207	207
Associates	1,432	1,420	1,491	1,565	1,644
Other LT assets	-	-	-	-	-
Total assets	**6,552**	**8,323**	**9,090**	**9,953**	**10,860**
Short-term debt	823	317	320	320	320
Accounts payable	715	894	1,264	1,637	1,975
Other current liabilities	223	170	240	311	375
Total current liabilities	**1,761**	**1,381**	**1,824**	**2,267**	**2,670**
Long-term debt	904	2,200	2,200	2,200	2,200
Convertible debt					
Other LT liabilities	99	103	145	188	227
Total liabilities	**2,763**	**3,683**	**4,169**	**4,655**	**5,097**
Minority interest	413	339	360	387	421
Preferred stock					
Shareholders' Equity	3,376	4,301	4,561	4,910	5,342
Other equity and reserves					
Total shareholders' equity	**3,376**	**4,301**	**4,561**	**4,910**	**5,342**
Total equity & liabilities	**6,552**	**8,323**	**9,090**	**9,953**	**10,860**
Leverage					
Interest cover	27.9	25.1	363.9	na	na
Gross debt/property assets (%)	26.4	30.2	27.7	25.3	23.2
Net debt/EBITDA (x)	4.02	3.89	2.64	1.64	0.89
Net debt/equity (%)	23.4	20.1	18.2	13.4	8.0
Dupont decomposition					
Net margin (%)	30.4	132.0	34.8	33.1	32.1
Asset utilisation (x)	0.1	0.1	0.1	0.1	0.2
ROA (%)	4.3	12.6	4.3	4.8	5.2
Leverage (Assets/Equity x)	1.7	1.8	1.8	1.9	1.9
ROE (%)	7.4	22.5	7.9	9.1	9.8

Source: Nomura estimates

CapitaCommercial Trust CCT SP

PROPERTY | SINGAPORE

Maintained

BUY

NOMURA

NOMURA SINGAPORE LIMITED

Min Chow Sai +65 6433 6959 minchow.sai@nomura.com

Action

CCT's recent 4Q10 results confirmed that the REIT's core portfolio continues to perform ahead of our expectations, underpinned by firm occupancy. While acquisition opportunities in the IGA office market may prove elusive, we see unit price performance driven by higher office capital values underpinning our expectations of further revaluations of CCT's book value during 2011. BUY.

Catalysts

With yields in the physical office market at 3.5-4.0%, valuations remain attractive prompting further capital inflows, higher asset prices and higher REIT book values.

Anchor themes

A faster-than-expected pick-up in rents and capital values has been supported by a squeeze in "reported" vacancy. Stronger demand, coupled with anticipated stock demolitions, will likely see lower-than-expected peak vacancy underpinning the current momentum in rental growth.

Closing price on 30 Mar	S$1.40
Price target	**S$1.81**
	(set on 1 Feb 11)
Upside/downside	29.2%
Difference from consensus	15.2%
FY12F net profit (S$mn)	213.9
Difference from consensus	6.3%

Source: Nomura

Nomura vs consensus

We believe the market continues to focus on relative yields rather than the underlying asset value of CCT's portfolio and the potential for asset revaluations.

Asset play II

① 4Q10: core portfolio performing as expected

CCT's FY10 results released 19 January 2010 highlighted that the office portfolio continued to perform marginally ahead of our expectations, with net property income boosted by lower operating expenses. Underpinning gross income in FY10, notwithstanding negative reversions in Six Battery Rd (revenues in 4Q10 were S$17.5mn vs S$21.4mn in 3Q10), was income resilience from Capital Tower and One George St due to the nature of the underlying lease structures/rental guarantees and higher occupancy. Portfolio occupancy in 4Q10 rose to 99.3% (vs 98.2% in 3Q10) on the back of strong occupancy in Wilkies Edge. CCT's flagship buildings of Six Battery Rd, Capital Tower and One George Street saw occupancy remain broadly unchanged during 4Q10 at circa 100%.

② Rental uplift to cushion negative reversions

With office rents up 19.9% y-y in 2010 the expected 2011 negative office rental reversions have, in part, been mitigated. Given strong demand, rising pre-commitment and a marginally a lower forecast peak CBD office vacancy in 2011, we look for IGA/Grade A office space to rise by 7.5-10.0% in 2011F and 5.0% in 2012F.

③ Reiterate BUY with PT of S$1.81.

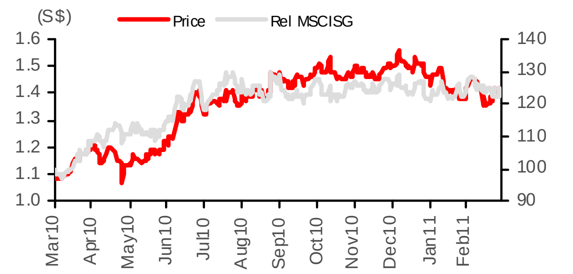
We maintain BUY with PT of S$1.81 (based on DCF, discount rate: 7~7.5%, terminal yield: 4~7.25% for various assets). We see value in the CCT portfolio in the context of the physical market with CCT's enterprise value suggesting that its office portfolio is trading at circa S$1,752/psf — attractive given recent transactions in the physical market. Risks to our investment view: an unexpected decline in economic activity or office demand could affect our rental and occupancy expectations, which could adversely impact our DPU estimates.

Key financials & valuations

31 Dec (S$mn)	FY10	FY11F	FY12F	FY13F
Revenue	391.9	364.2	374.7	386.4
Income for distribution	529	201	214	223
Normalised dist income	221	201	214	223
Normalised DPU (S$)	0.078	0.071	0.075	0.078
Norm. DPU growth (%)	10.9	(9.1)	6.0	4.1
Norm. P/E (x)	17.9	19.7	18.5	17.8
BVPU (S$)	1.51	1.51	1.50	1.49
Price/book (x)	0.9	0.9	0.9	0.9
DPU yield (%)	5.6	5.1	5.4	5.6
ROE (%)	1.5	1.4	1.4	1.4
Gearing (%)	2.9	4.0	4.4	4.6
Earnings revisions				
Previous norm. net profit		201.3	213.9	223.1
Change from previous (%)		-	-	-
Previous norm. DPU (S$)		0.071	0.075	0.078

Source: Company, Nomura estimates

Share price relative to MSCISG



	1m	3m	6m
Absolute (S$)	(2.1)	(6.0)	(5.4)
Absolute (US$)	(1.4)	(3.9)	(1.5)
Relative to Index	(3.8)	(1.4)	(4.9)
Market cap (US$mn)			3,134
Estimated free float (%)			0.0
52-week range (S$)			1.56/1.07
3-mth avg daily turnover (US$mn)			8.20
Stock borrowability			Easy
Major shareholders (%)			
CapitaLand			30.5
Capital			8.2

Source: Company, Nomura estimates

Financial statements

Income statement (S$mn)					
Year-end 31 Dec	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
Rental income	403	392	364	375	386
Other Revenue					
Revenue	**403**	**392**	**364**	**375**	**386**
Land rent & property tax	(38)	(32)	(35)	(36)	(37)
Property management fees	(11)	(11)	(11)	(11)	(11)
Other operating expenses	(54)	(50)	(50)	(51)	(52)
Management expenses	(20)	(19)	(20)	(20)	(20)
Trust expenses	(1)	(2)	(2)	(2)	(2)
Other operating expenses					
EBITDA	**281**	**283**	**251**	**260**	**269**
Depreciation	(3)	(6)	(6)	(6)	(6)
Amortisation of intangible assets					
EBIT	**278**	**278**	**245**	**254**	**263**
Net property income	**300**	**299**	**269**	**277**	**287**
Net interest expense	(86)	(94)	(61)	(57)	(58)
Associates & JCEs	4	7	7	7	8
Other income					
Earnings before tax	**196**	**190**	**191**	**204**	**213**
Income tax	0	0	0	0	0
Net profit after tax	**196**	**190**	**191**	**204**	**213**
Minority interests					
Other & non tax deductible items	3	31	10	10	10
Preferred dividends					
Normalised income for distn	**199**	**221**	**201**	**214**	**223**
Extraordinary items	(1,035)	308	-	-	-
Income for distribution	**(836)**	**529**	**201**	**214**	**223**

Decline in revenue reflects 2010 asset disposals

Valuation and ratio analysis					
FD normalised P/E (x)	9.8	17.9	19.7	18.5	17.8
FD normalised P/E at price target (x)	12.7	23.1	25.4	24.0	23.0
Reported P/E (x)	na	7.5	19.7	18.5	17.8
Dividend yield (%)	5.0	5.6	5.1	5.4	5.6
Price/book (x)	1.0	0.9	0.9	0.9	0.9
EV/EBITDA (x)	19.9	17.5	19.8	19.3	18.8
EV/EBIT (x)	20.1	17.9	20.3	19.7	19.2
EBIT margin (%)	69.0	70.9	67.2	67.8	68.1
Effective tax rate (%)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
ROA (pretax %)	4.5	5.0	4.5	4.7	4.8
Growth (%)					
Revenue	20.3	(2.8)	(7.1)	2.9	3.1
EBITDA	38.2	1.0	(11.6)	3.7	3.5
EBIT	37.5	(0.2)	(11.8)	3.7	3.6
Normalised EPU	29.7	(45.2)	(9.2)	6.0	4.1
Normalised FDEPU	29.7	(45.2)	(9.2)	6.0	4.1
DPU	(35.6)	10.9	(9.1)	6.0	4.1

Per unit					
Reported EPU (S$)	(0.60)	0.19	0.07	0.08	0.08
Norm EPU (S$)	0.14	0.08	0.07	0.08	0.08
Fully diluted norm EPU (S$)	0.14	0.08	0.07	0.08	0.08
Book value per unit (S$)	1.41	1.51	1.51	1.50	1.49
DPU (S$)	0.07	0.08	0.07	0.08	0.08

Source: Nomura estimates

Cashflow (S$mn)					
Year-end 31 Dec	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
EBITDA	281	283	251	260	269
Change in working capital	(182)	224	(9)	3	4
Other operating cashflow	96	(276)	(35)	(56)	(57)
Cashflow from operations	**195**	**231**	**206**	**207**	**215**
Capital expenditure	(27)	(30)	(20)	(36)	(34)
Free cashflow	**168**	**201**	**186**	**171**	**181**
Acquisition of investment properties	-	-	-	-	-
Net acquisitions	(2)	579	-	-	-
Reduction in other LT assets	-	-	-	-	-
Addition in other LT liabilities	(2)	(2)	24	(1)	(1)
Adjustments	(8)	15	(24)	1	1
Cashflow after investing acts	**156**	**793**	**186**	**171**	**181**
Cash dividends	(175)	(215)	(201)	(214)	(223)
Equity issue	828	-	-	-	-
Debt issue	(577)	(115)	(200)	175	-
Convertible debt issue	13	(140)	-	(183)	-
Others	(0)	-	0	(0)	0
Cashflow from financial acts	**89**	**(470)**	**(401)**	**(222)**	**(223)**
Net cashflow	**246**	**323**	**(215)**	**(51)**	**(42)**
Beginning cash	67	312	636	420	369
Ending cash	312	636	420	369	328
Ending net debt	1,711	1,133	1,148	1,191	1,233

Source: Nomura estimates

Balance sheet (S$mn)					
As at 31 Dec	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
Cash & equivalents	312	636	420	369	328
Accounts receivable	9	6	6	6	6
Other current assets	195	11	11	11	11
Total current assets	**516**	**653**	**437**	**386**	**345**
Investment properties	6,359	5,550	5,476	5,496	5,532
Acquisitions	-	(267)	-	-	-
Capital expenditure	1	1	20	36	34
Net appreciation in value	(839)	193	-	-	-
Associates	63	67	67	67	67
Other LT assets					
Total assets	**6,100**	**6,196**	**6,001**	**5,986**	**5,978**
Short-term debt	235	859	859	834	834
Accounts payable	71	103	95	98	101
Other current liabilities	20	24	23	23	24
Total current liabilities	**326**	**986**	**977**	**956**	**959**
Long-term debt	1,425	686	486	686	686
Convertible debt	363	224	224	40	40
Other LT liabilities	29	27	51	50	49
Total liabilities	**2,144**	**1,922**	**1,738**	**1,732**	**1,735**
Minority interest					
Preferred stock					
Common stock	3,956	4,274	4,274	4,274	4,274
Retained earnings					
Proposed dividends					
Other equity and reserves	-	-	(10)	(20)	(30)
Non convertible prefs					
Total unitholders' funds	**3,956**	**4,274**	**4,264**	**4,254**	**4,243**
Total units' funds & liabilities	6,100	6,196	6,001	5,986	5,978
Leverage					
Interest cover	3.2	2.9	4.0	4.4	4.6
Gross debt/property assets (%)	36.2	31.9	28.2	27.9	27.7
Net debt/EBITDA (x)	6.1	4.0	4.6	4.6	4.6
Net debt/equity (%)	43.2	26.5	26.9	28.0	29.0
Dupont decomposition					
Net margin (%)	(207.37)	134.90	55.26	57.09	57.74
Asset utilisation (x)	0.1	0.1	0.1	0.1	0.1
ROA (%)	(12.9)	8.6	3.3	3.6	3.7
Leverage (Assets/Equity x)	1.6	1.5	1.4	1.4	1.4
ROE (%)	(20.6)	12.8	4.7	5.0	5.2

Source: Nomura estimates

Golden Agri-Resources GGR SP

CONSUMER RELATED/AGRI-RELATED | SINGAPORE

Maintained

BUY

NOMURA

NOMURA SECURITIES MALAYSIA SDN. BHD

Ken Arieff Wong +60 3 2027 6895 kenarieff.wong@nomura.com
Tushar Mohata (Associate)

Action

Golden Agri has corrected 13.1% over the past three months (vs STI down 4.4%), in line with the correction in CPO prices. However, we think this fall is overdone, as our calculations suggest significant upside (26%) even at a more conservative CPO price assumption of RM3,000/mT for FY11F (vs our current assumption of RM3,400/mT). GGR is the most liquid proxy to CPO prices regionally and is one of the key stocks to ride this upcycle, in our view. Further, it has been proactive in its sustainability plans of late, which we view positively. Maintain BUY.

Catalysts

Continued strong prices from global agri-commodities should sustain higher prices for CPO and lead to a further re-rating for plantation companies.

Anchor themes

Continued tight global vegetable oils outlook, a stronger crude oil price, weaker US dollar (relative to Asian currencies), and bullish outlook for global agri-commodities (including non-oil crops) should sustain higher CPO prices and drive earnings.

Closing price on 30 Mar	S$0.70
Price target	**S$0.90**
	(set on 9 Feb 11)
Upside/downside	28.8%
Difference from consensus	**9.2%**
FY11F net profit (US$mn)	530
Difference from consensus	**11.9%**

Source: Nomura

Nomura vs consensus

We are more bullish in our FY11-12F forecasts for CPO prices, which translates into higher earnings forecasts for the plantation companies under our coverage.

Too harshly punished

① 26% upside even at CPO price of RM3,000/t - compelling

Golden Agri has corrected 13.1% over the past three months (vs STI down 4.4%), in line with the correction in CPO prices. However, we think this correction is overdone, because even if we build in a lower CPO price assumption of RM3,000/mT for FY11F (vs our current assumption of RM3,400/mT and YTD 2011 average of RM3,673/mT), there is still ~26% upside to the current share price, based on our calculations. We value the company at 16x FY11F P/E (rolling-forward), a valuation of +0.8x SD above its mean, which we think is reasonable on our bullish CPO view.

② More proactive in managing sustainability issues

2010 was a difficult year for GGR with regard to its public relations, given the battles waged against the group by environmentalists. We think 2011 will be very different, however, since we believe GGR's clashes with environmentalists may have peaked with the RSPO's public reprimand late last year. In our view, GGR has been more proactive in its sustainability plans, with provisional RSPO membership and targets for certification by December 2015, and even jointly sharing plans for forest conservation and sustainable palm oil with the Forest Trust this month, which we see as positive for sentiment.

③ Most liquid CPO play, highest CPO leverage; strong increase in hectarage

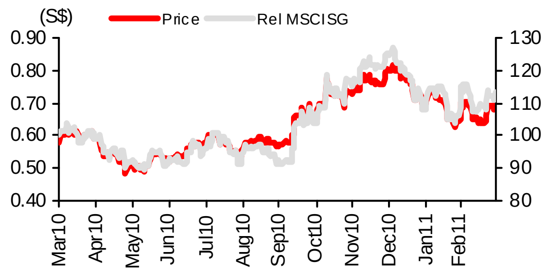
GGR is the most liquid upstream CPO play in the region, with the highest correlation to CPO prices (0.93x) among our covered stocks. It offers a healthy mature hectarage growth of 6-8% pa. It intends to increase its hectarage by 20-30,000ha pa through organic and inorganic routes, which we think may be somewhat aggressive owing to environmental issues, but would still be among the highest in the region.

Key financials & valuations

31 Dec (US$mn)	FY09	FY10F	FY11F	FY12F
Revenue	2,294	2,920	3,733	4,018
Reported net profit	203	358	530	588
Normalised net profit	203	358	530	588
Normalised EPS (US$)	0.018	0.031	0.046	0.051
Norm. EPS growth (%)	(43.5)	76.7	48.0	10.9
Norm. P/E (x)	31.1	17.6	11.9	10.7
EV/EBITDA (x)	18.0	11.1	8.0	7.1
Price/book (x)	1.2	1.1	1.0	0.9
Dividend yield (%)	0.9	1.1	1.7	1.9
ROE (%)	4.0	6.3	8.4	8.4
Net debt/equity (%)	7.3	6.3	5.1	2.4
Earnings revisions				
Previous norm. net profit		358	530	588
Change from previous (%)		-	-	-
Previous norm. EPS (US$)		0.031	0.046	0.051

Source: Company, Nomura estimates

Share price relative to MSCISG



	1m	3m	6m
Absolute (S$)	1.5	(13.1)	21.9
Absolute (US$)	2.2	(11.2)	26.9
Relative to Index	(0.2)	(8.7)	23.5
Market cap (US$mn)			6,682
Estimated free float (%)			51.4
52-week range (S$)			0.82/0.48
3-mth avg daily turnover (US$mn)			50.2
Stock borrowability			Easy
Major shareholders (%)			
Flambo International			48.6

Source: Company, Nomura estimates

Valuation methodology. We value the company at 16x FY11F P/E. We believe this mid-cycle valuation of +0.8x SD above the stock's mean is reasonable in the context of our bullish CPO view. Our PT is S$0.90.

Risks to our investment view. Downside risks include lower-than-expected production, a sharp fall in CPO prices, or any further environmental pushbacks against the group.

Financial statements

Income statement (US$mn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Revenue	2,986	2,294	2,920	3,733	4,018
Cost of goods sold	(2,110)	(1,784)	(2,073)	(2,613)	(2,812)
Gross profit	**876**	**509**	**847**	**1,120**	**1,205**
SG&A	(347)	(195)	(307)	(346)	(355)
Employee share expense					
Operating profit	**529**	**315**	**540**	**774**	**850**
EBITDA	**587**	**383**	**625**	**869**	**954**
Depreciation	(58)	(68)	(85)	(95)	(104)
Amortisation					
EBIT	**529**	**315**	**540**	**774**	**850**
Net interest expense	(35)	(41)	(60)	(63)	(62)
Associates & JCEs	5	7	5	5	6
Other income	5	13	-	-	-
Earnings before tax	**504**	**293**	**486**	**716**	**794**
Income tax	(120)	(88)	(121)	(179)	(199)
Net profit after tax	**384**	**205**	**364**	**537**	**596**
Minority interests	(7)	(3)	(6)	(7)	(7)
Other items					
Preferred dividends					
Normalised NPAT	**377**	**203**	**358**	**530**	**588**
Extraordinary items					
Reported NPAT	**377**	**203**	**358**	**530**	**588**
Dividends	(97)	(57)	(72)	(106)	(118)
Transfer to reserves	**280**	**145**	**286**	**424**	**470**
Valuation and ratio analysis					
FD normalised P/E (x)	17.6	31.1	17.6	11.9	10.7
FD normalised P/E at price target (x)	22.6	40.1	22.7	15.3	13.8
Reported P/E (x)	17.6	31.1	17.6	11.9	10.7
Dividend yield (%)	1.5	0.9	1.1	1.7	1.9
Price/cashflow (x)	15.5	18.2	12.5	11.2	9.7
Price/book (x)	1.4	1.2	1.1	1.0	0.9
EV/EBITDA (x)	11.9	18.0	11.1	8.0	7.1
EV/EBIT (x)	13.2	21.8	12.8	8.9	7.9
Gross margin (%)	29.3	22.2	29.0	30.0	30.0
EBITDA margin (%)	19.7	16.7	21.4	23.3	23.8
EBIT margin (%)	17.7	13.7	18.5	20.7	21.2
Net margin (%)	12.6	8.8	12.3	14.2	14.6
Effective tax rate (%)	23.9	29.9	25.0	25.0	25.0
Dividend payout (%)	25.8	28.2	20.0	20.0	20.0
Capex to sales (%)	8.2	11.2	10.9	8.5	7.9
Capex to depreciation (x)	4.2	3.8	3.7	3.3	3.0
ROE (%)	9.5	4.0	6.3	8.4	8.4
ROA (pretax %)	9.2	4.5	6.9	9.2	9.4
Growth (%)					
Revenue	59.4	(23.2)	27.3	27.8	7.6
EBITDA	12.3	(34.8)	63.3	38.9	9.8
EBIT	11.7	(40.5)	71.6	43.3	9.8
Normalised EPS	31.9	(43.5)	76.7	48.0	10.9
Normalised FDEPS	31.9	(43.5)	76.7	48.0	10.9
Per share					
Reported EPS (US$)	0.03	0.02	0.03	0.05	0.05
Norm EPS (US$)	0.03	0.02	0.03	0.05	0.05
Fully diluted norm EPS (US$)	0.03	0.02	0.03	0.05	0.05
Book value per share (US$)	0.38	0.47	0.52	0.57	0.64
DPS (US$)	0.01	0.00	0.01	0.01	0.01

Source: Nomura estimates

Low ROE mainly due to mandatory asset revaluations pushing up book value

Cashflow (US$mn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
EBITDA	587	383	625	869	954
Change in working capital	31	(11)	23	(97)	(34)
Other operating cashflow	(191)	(25)	(146)	(207)	(269)
Cashflow from operations	**427**	**347**	**503**	**565**	**651**
Capital expenditure	(244)	(256)	(317)	(317)	(317)
Free cashflow	**183**	**91**	**186**	**248**	**334**
Reduction in investments	(36)	(36)	77	-	(1)
Net acquisitions	(502)	(135)	(129)	(151)	(151)
Reduction in other LT assets					
Addition in other LT liabilities	441	(53)	(136)	(69)	(53)
Adjustments	-	-	91	119	148
Cashflow after investing acts	**86**	**(133)**	**89**	**147**	**277**
Cash dividends	(92)	(57)	(72)	(106)	(118)
Equity issue	-	215	-	-	-
Debt issue	17	129	217	50	-
Convertible debt issue					
Others	(2)	-	-	-	-
Cashflow from financial acts	**(78)**	**287**	**145**	**(56)**	**(118)**
Net cashflow	**9**	**154**	**235**	**91**	**160**
Beginning cash	124	133	288	522	613
Ending cash	133	288	522	613	773
Ending net debt	421	396	378	337	177

Source: Nomura estimates

Balance sheet (US$mn)					
As at 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash & equivalents	133	288	522	613	773
Marketable securities	5	66	30	30	31
Accounts receivable	322	332	423	541	582
Inventories	248	420	399	510	549
Other current assets	-	-	-	-	-
Total current assets	**707**	**1,106**	**1,374**	**1,694**	**1,935**
LT investments	216	191	150	150	150
Fixed assets	5,766	6,460	6,966	7,481	8,008
Goodwill	116	116	110	105	99
Other intangible assets	20	28	28	28	28
Other LT assets	-	-	-	-	-
Total assets	**6,825**	**7,900**	**8,628**	**9,458**	**10,220**
Short-term debt	310	314	500	500	500
Accounts payable	205	372	473	605	651
Other current liabilities	33	38	30	30	30
Total current liabilities	**548**	**724**	**1,003**	**1,135**	**1,181**
Long-term debt	244	369	400	450	450
Convertible debt	-	-	-	-	-
Other LT liabilities	1,326	1,273	1,138	1,069	1,016
Total liabilities	**2,119**	**2,367**	**2,541**	**2,654**	**2,647**
Minority interest	93	96	132	181	229
Preferred stock	-	-	-	-	-
Common stock	249	303	303	303	303
Retained earnings	3,409	4,014	4,531	5,199	5,921
Proposed dividends	-	-	-	-	-
Other equity and reserves	955	1,120	1,120	1,120	1,120
Total shareholders' equity	**4,614**	**5,438**	**5,954**	**6,623**	**7,344**
Total equity & liabilities	**6,825**	**7,900**	**8,628**	**9,458**	**10,220**
Liquidity (x)					
Current ratio	1.29	1.53	1.37	1.49	1.64
Interest cover	14.9	7.6	9.1	12.2	13.7
Leverage					
Net debt/EBITDA (x)	0.72	1.03	0.60	0.39	0.19
Net debt/equity (%)	9.1	7.3	6.3	5.1	2.4
Activity (days)					
Days receivable	38.9	52.0	47.2	47.1	51.1
Days inventory	48.5	68.3	72.1	63.5	68.9
Days payable	37.5	59.0	74.4	75.3	81.8
Cash cycle	50.0	61.3	44.9	35.3	38.3

Source: Nomura estimates

Growing cash balances could mean higher dividend payout ratio if the group is not able to make sizeable capex additions

Noble Group NOBL SP

BASIC MATERIALS | SINGAPORE

Maintained

BUY

Tanuj Shori +65 6433 6981 tanuj.shori@nomura.com
Tushar Mohata (Associate)

NOMURA
NOMURA SINGAPORE LIMITED

Action

Noble is down 2% YTD due to sector headwinds (commodity price correction) and the recent ~5% dilution. However, we believe the stock's stagnant performance belies strong 4Q10 results and management's bullish FY11F outlook. The stock looks attractive at ~14.4x FY11F P/E. Noble is directionally long on sugar and coking coal, and the current price environment of these commodities should flow to the bottom line, in our view. We also think the potential listing of other players such as Glencore should help the stock re-rate. Maintaining BUY.

Catalysts

Enhanced volumes/margins on maturing pipeline; growth opportunities through its association with CIC; asset acquisitions; potential coal asset restructuring.

Anchor themes

Commodity price volatility implies balance sheet strength and this merits a premium. Also, strong demand prompts a favourable stance toward stocks leveraged to recovery.

Closing price on 30 Mar	S$2.14
Price target	**S$2.80**
	(set on 1 Mar 11)
Upside/downside	30.8%
Difference from consensus	5.7%
FY12F net profit (US$mn)	845
Difference from consensus	0.0%

Source: Nomura

Nomura vs consensus

Our higher-than-consensus PT reflects the impact of recent deals (Berau Coal stake and Cerradinho acquisition); we think Noble deserves a higher multiple in the current strong macro environment.

Poised for a strong FY11F

① Stock down YTD in spite of strong 4Q10

Noble is down 2% YTD due to sector headwinds (commodity price correction) and ~5% dilution announced in March. However, we believe the stock's stagnant performance belies strong 4Q10 results and management's bullish FY11F outlook. Even after the impact of dilution, there will just be a ~4% impact to our PT, which still leaves much room for upside, in our view.

② Outlook remains strong on Agri and Energy

As per Noble, 2010 was the year of expenses to build long-term assets, and the steady-state contribution of these new assets is still a few quarters away, implying continued strong earnings growth. It expects Agri to do well on volumes/strong margins, while Energy's performance should pick up as 4Q was impacted by provisions in carbon credits. It reaffirmed its commitment of targeting 20% RoE on new investments and reaching an earnings base of US$1bn by 2013F.

③ Balance sheet priority – to maintain investment grade

Noble's balance sheet continues to look good with ~70%+ debt long term and an adj cash cycle of ~12 days. Though net gearing is ~100%, it is still sitting on ~US$1.6bn in cash as per the latest results, which would rise further on the recent equity raising of ~US$488mn. This will also help Noble in retaining investment grade ratings due to improved debt ratios.

④ We believe momentum will continue; re-affirm BUY

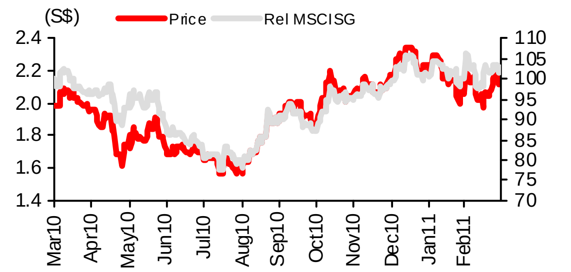
The stock looks attractive at ~14.4x FY11F P/E (implied FY11F earnings growth of ~40% achievable as new assets such as Sempra and Brazilian sugar will contribute). Noble is directionally long on sugar and coking coal, and the current price environment of these commodities should flow to the bottom line, in our view. Plus, we think the potential listing of other supply chain players such as Glencore should help the stock re-rate.

Key financials & valuations

31 Dec (US$mn)	FY10	FY11F	FY12F	FY13F
Revenue	56,696	73,536	87,363	102,517
Reported net profit	606	732	845	960
Normalised net profit	527	732	845	960
Normalised EPS (US$)	0.088	0.122	0.141	0.160
Norm. EPS growth (%)	4.8	38.9	15.4	13.7
Norm. P/E (x)	19.9	14.4	12.4	10.9
EV/EBITDA (x)	14.2	10.3	9.5	8.7
Price/book (x)	2.5	2.2	1.9	1.7
Dividend yield (%)	1.3	1.5	2.1	2.5
ROE (%)	17.5	17.2	17.4	17.4
Net debt/equity (%)	113.7	113.3	111.6	108.4
Earnings revisions				
Previous norm. net profit		732	845	960
Change from previous (%)		-	-	-
Previous norm. EPS (US$)		0.122	0.141	0.160

Source: Company, Nomura estimates

Share price relative to MSCISG



	1m	3m	6m
Absolute (S$)	(2.3)	(1.4)	13.2
Absolute (US$)	(1.6)	0.8	17.8
Relative to Index	(4.0)	3.3	14.4
Market cap (US$mn)			10,748
Estimated free float (%)			51.6
52-week range (S$)			2.34/1.56
3-mth avg daily turnover (US$mn)			50.3
Stock borrowability			Easy
Major shareholders (%)			
Noble Temple Trading			24.2
China Investment Corp			14.8

Source: Company, Nomura estimates

Valuation: We value Noble using a residual dividend model, with an 8.75% cost of equity, 2.5% terminal growth rate and long-term ROE of 12%. Our price target is S$2.80.

Risks to our call: The key company-specific risk in our view would be execution of its targeted processing facilities to generate more trading volumes. For example, it is targeting ~3mn MT of crushing capacity in Argentina (which would imply roughly 8% of Argentina's crushing market) — the key risk in our view here would be tapping demand for these additional volumes of soy meal and soy oil. China currently satisfies most of its soy meal and soy oil requirements from soybeans crushed domestically, and thus, exporting crushed soy meal from Argentina to Europe or China is prone to demand risks. Similarly, the sugar industry in Brazil is burdened by various regulations, and competition is heating up with global giants such as Bunge entering the market. Sustaining volumes with good profitability will remain a challenge, in our view.

Noble is the most leveraged name to the commodity cycle in our universe. If commodity prices correct, the company's earnings potential will be negatively impacted. To add, working capital may be a concern with rising commodity prices.

On the funding side, interest costs can be a swing factor because of high leverage.

Financial statements

Income statement (US$mn)					
Year-end 31 Dec	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
Revenue	31,183	56,696	73,536	87,363	102,517
Cost of goods sold	(30,078)	(55,064)	(71,475)	(85,027)	(99,866)
Gross profit	**1,105**	**1,632**	**2,061**	**2,337**	**2,651**
SG&A	(402)	(692)	(783)	(888)	(1,008)
Employee share expense					
Operating profit	**703**	**940**	**1,278**	**1,449**	**1,644**
EBITDA	**840**	**1,076**	**1,534**	**1,737**	**1,971**
Depreciation	(116)	(118)	(217)	(247)	(240)
Amortisation	(22)	(18)	(39)	(41)	(87)
EBIT	**703**	**940**	**1,278**	**1,449**	**1,644**
Net interest expense	(163)	(306)	(404)	(440)	(497)
Associates & JCEs	(25)	(6)	-	-	-
Other income	105	95	-	-	-
Earnings before tax	**620**	**723**	**874**	**1,008**	**1,146**
Income tax	(65)	(116)	(140)	(162)	(184)
Net profit after tax	**555**	**607**	**734**	**847**	**963**
Minority interests	1	(1)	(2)	(2)	(2)
Other items	(116)	(78)	-	-	-
Preferred dividends					
Normalised NPAT	**440**	**527**	**732**	**845**	**960**
Extraordinary items	116	78	-	-	-
Reported NPAT	**556**	**606**	**732**	**845**	**960**
Dividends	(108)	(130)	(155)	(216)	(249)
Transfer to reserves	**448**	**476**	**577**	**629**	**711**
Valuation and ratio analysis					
FD normalised P/E (x)	19.2	19.9	14.4	12.4	10.9
FD normalised P/E at price target (x)	25.2	26.1	18.8	16.3	14.3
Reported P/E (x)	14.9	16.7	13.8	11.9	10.5
Dividend yield (%)	1.3	1.3	1.5	2.1	2.5
Price/cashflow (x)	na	na	19.8	15.5	13.6
Price/book (x)	3.0	2.5	2.2	1.9	1.7
EV/EBITDA (x)	15.3	14.2	10.3	9.5	8.7
EV/EBIT (x)	18.3	16.3	12.4	11.4	10.4
Gross margin (%)	3.5	2.9	2.8	2.7	2.6
EBITDA margin (%)	2.7	1.9	2.1	2.0	1.9
EBIT margin (%)	2.3	1.7	1.7	1.7	1.6
Net margin (%)	1.8	1.1	1.0	1.0	0.9
Effective tax rate (%)	10.5	16.0	16.0	16.0	16.0
Dividend payout (%)	19.4	21.4	21.2	25.5	25.9
Capex to sales (%)	2.4	1.1	0.7	0.6	0.5
Capex to depreciation (x)	6.5	5.5	2.5	2.0	2.1
ROE (%)	23.1	17.5	17.2	17.4	17.4
ROA (pretax %)	8.2	7.3	7.7	7.8	7.8
Growth (%)					
Revenue	(13.6)	81.8	29.7	18.8	17.3
EBITDA	(5.4)	28.1	42.5	13.3	13.4
EBIT	(9.9)	33.8	35.8	13.4	13.5
Normalised EPS	(19.5)	4.8	38.9	15.4	13.7
Normalised FDEPS	(19.5)	2.9	38.9	15.4	13.7
Per share					
Reported EPS (US$)	0.11	0.10	0.12	0.14	0.16
Norm EPS (US$)	0.08	0.09	0.12	0.14	0.16
Fully diluted norm EPS (US$)	0.08	0.08	0.12	0.14	0.15
Book value per share (US$)	0.56	0.66	0.76	0.86	0.98
DPS (US$)	0.02	0.02	0.03	0.04	0.04

Source: Nomura estimates

On track to achieve solid earnings growth

Cashflow (US$mn)					
Year-end 31 Dec	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
EBITDA	840	1,076	1,534	1,737	1,971
Change in working capital	(2,044)	(914)	(1,004)	(1,042)	(1,150)
Other operating cashflow	394	(1,506)	(20)	(43)	(79)
Cashflow from operations	**(810)**	**(1,343)**	**510**	**652**	**742**
Capital expenditure	(753)	(652)	(546)	(502)	(497)
Free cashflow	**(1,562)**	**(1,995)**	**(36)**	**150**	**245**
Reduction in investments	39	(400)	-	-	-
Net acquisitions	(267)	-	-	-	-
Reduction in other LT assets	(8)	(674)	(0)	0	(0)
Addition in other LT liabilities	3	428	(0)	(0)	0
Adjustments	(151)	62	(495)	(26)	(26)
Cashflow after investing acts	**(1,947)**	**(2,579)**	**(531)**	**124**	**218**
Cash dividends	(108)	(130)	(155)	(216)	(249)
Equity issue	736	724	-	-	-
Debt issue	928	2,517	1,150	301	800
Convertible debt issue	-	-	-	-	-
Others	9	136	(498)	(533)	(576)
Cashflow from financial acts	**1,566**	**3,247**	**497**	**(447)**	**(24)**
Net cashflow	**(381)**	**668**	**(35)**	**(324)**	**194**
Beginning cash	1,318	937	1,606	1,571	1,247
Ending cash	937	1,606	1,571	1,247	1,441
Ending net debt	2,604	4,519	5,154	5,779	6,385

Source: Nomura estimates

Balance sheet (US$mn)					
As at 31 Dec	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
Cash & equivalents	937	1,606	1,571	1,247	1,441
Marketable securities					
Accounts receivable	1,141	2,061	2,418	2,872	3,370
Inventories	3,415	3,968	4,504	5,358	6,293
Other current assets	3,016	4,734	5,241	6,235	7,323
Total current assets	**8,508**	**12,369**	**13,734**	**15,712**	**18,427**
LT investments	90	489	489	489	489
Fixed assets	1,726	3,156	3,366	3,580	3,750
Goodwill	35	35	35	35	35
Other intangible assets	6	324	324	324	324
Other LT assets	290	964	964	964	964
Total assets	**10,655**	**17,338**	**18,913**	**21,105**	**23,990**
Short-term debt	609	1,528	1,533	1,527	1,727
Accounts payable	3,866	6,105	6,462	7,687	9,029
Other current liabilities	71	110	148	183	213
Total current liabilities	**4,546**	**7,743**	**8,144**	**9,397**	**10,969**
Long-term debt	2,652	4,285	5,192	5,500	6,100
Convertible debt	280	311	0	0	-
Other LT liabilities	139	567	567	567	567
Total liabilities	**7,617**	**12,906**	**13,903**	**15,464**	**17,635**
Minority interest	83	458	460	462	464
Preferred stock					
Common stock	1,321	1,406	1,406	1,406	1,406
Retained earnings	1,809	2,270	2,846	3,475	4,187
Proposed dividends					
Other equity and reserves	(174)	298	298	298	298
Total shareholders' equity	**2,955**	**3,973**	**4,550**	**5,179**	**5,890**
Total equity & liabilities	**10,655**	**17,338**	**18,913**	**21,105**	**23,990**
Liquidity (x)					
Current ratio	1.87	1.60	1.69	1.67	1.68
Interest cover	4.3	3.1	3.2	3.3	3.3
Leverage					
Net debt/EBITDA (x)	3.10	4.20	3.36	3.33	3.24
Net debt/equity (%)	88.1	113.7	113.3	111.6	108.4
Activity (days)					
Days receivable	12.1	10.3	11.1	11.1	11.1
Days inventory	31.4	24.5	21.6	21.2	21.3
Days payable	44.7	33.0	32.1	30.5	30.5
Cash cycle	(1.2)	1.7	0.7	1.9	1.9

Source: Nomura estimates

Gearing to remain stable

Mewah International MII SP

CONSUMER RELATED/AGRI-RELATED | SINGAPORE

Tanuj Shori +65 6433 6981 tanuj.shori@nomura.com
Tushar Mohata (Associate)

NOMURA
NOMURA SINGAPORE LIMITED

Maintained
BUY

Action

Mewah has corrected 17.5% after rebounding 30% post a disappointing IPO, and now trades at a 25% discount to Singapore-listed peers. It is a strong consumer pack oil franchise with majority market share in W Africa, and offers stable margin exposure on the refining side. Its business mix is changing toward the high-margin branded business, and greater access to capital markets post listing should unlock a new wave of asset and capex investments. We believe valuations will re-rate on sustainable earnings growth and growing information flow going forward. BUY.

Catalysts

Any new capex/asset investments across the value chain, change in mix towards high-value consumer pack business.

Anchor themes

Africa is fast becoming popular for exposure to Agri commodities, and players having a significant presence should be able to better capture the opportunities.

Closing price on 30 Mar	S$0.98
Price target	S$1.34
	(set on 25 Feb 11)
Upside/downside	36.7%
Difference from consensus	0.8%
FY12F net profit (US$mn)	127.3
Difference from consensus	3.0%

Source: Nomura

Nomura vs consensus

We are broadly in line with consensus. We think the earnings trajectory will rise once new projects come on line post FY11F.

Attractive after the correction

① Trading at an attractive discount to peers

Mewah has corrected 17.5% (vs 4.7% decline in STI) after having rebounded 30% post a disappointing IPO, without any negative catalysts. We see valuations as attractive at ~10.5x FY11F P/E vs Wilmar's ~18.5x and Ruchi Soya's ~12.4x. We believe greater access to capital markets, now that it is listed, and growing information flow should help re-rate the stock.

② Reiterate BUY: growing margins, balance sheet, Africa

As we see it, the key drivers are Mewah's exposure to African distribution markets, growing high-margin consumer pack business, integrated operations with a stable refining margin profile, and strong balance sheet. On reasonable valuations, potential for re-rating given a strong franchise in Africa, and possible capex/M&A, we reiterate BUY.

③ Near-term earnings growth may look muted

Near-term earnings growth may look muted and will likely depend on margin expansion; we believe organic growth in volume will mostly come as new projects come on line by end-FY11/early-FY12. Overall, we forecast a core earnings CAGR of ~14% for FY10-13F, driven equally by volume and margin growth. On the upside, Mewah may use its strong balance sheet to fund new asset investments.

④ Exposure to African markets: long-term driver

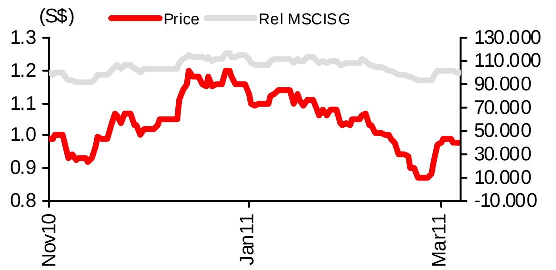
Some 40% of Mewah's consumer pack earnings come from Africa; it is a leader in West Africa, where it aims to accelerate expansion. We see this as a long-term positive, since it can leverage its distribution franchise to capture incremental growth in Africa. Also, we expect its earnings mix to turn more profitable, with sales in the high-margin, high-P/E consumer pack segment seen rising from 41% in FY10 to 49% in FY13F, which should boost both earnings and valuations.

Key financials & valuations

31 Dec (US$mn)	FY10	FY11F	FY12F	FY13F
Revenue	3,533	4,086	4,767	5,443
Reported net profit	92.4	108.6	127.3	143.1
Normalised net profit	97.1	108.6	127.3	143.1
Normalised EPS (US$)	0.074	0.072	0.084	0.095
Norm. EPS growth (%)	6.9	(3.2)	17.3	12.4
Norm. P/E (x)	10.1	10.5	8.9	7.9
EV/EBITDA (x)	9.8	8.4	7.0	6.1
Price/book (x)	1.9	1.8	1.5	1.3
Dividend yield (%)	2.2	0.0	0.0	0.0
ROE (%)	24.8	19.3	18.7	17.6
Net debt/equity (%)	21.8	26.5	23.1	16.1
Earnings revisions				
Previous norm. net profit		108.6	127.3	143.1
Change from previous (%)		-	-	-
Previous norm. EPS (US$)		0.072	0.084	0.095

Source: Company, Nomura estimates

Share price relative to MSCISG



	1m	3m	6m
Absolute (S$)	(4.9)	(6.7)	na
Absolute (US$)	(4.2)	(4.6)	na
Relative to Index	(6.6)	(2.1)	na
Market cap (US$mn)			1,170
Estimated free float (%)			17.0
52-week range (S$)			1.20/0.87
3-mth avg daily turnover (US$mn)			3.84
Stock borrowability			Hard
Major shareholders (%)			
Extended Promoter Family			83.0

Source: Company, Nomura estimates

Valuation methodology: We value Mewah on an SOTP basis, ascribing 13x (unchanged) to its bulk segment FY11F earnings (at a 20% discount to Wilmar) and 16x (unchanged) to its consumer pack FY11F earnings (at a 25% discount to Wilmar and Chinese downstream companies) and build in our new earnings estimates to arrive at our price target of S$1.34.

Investment risks: Lower-than-expected volume growth, muted margin expansion, or a de-rating in valuation multiples on macro slowdown are risks to our estimates and PT.

Financial statements

Income statement (US$mn)					
Year-end 31 Dec	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
Revenue	2,865	3,533	4,086	4,767	5,443
Cost of goods sold	(2,617)	(3,272)	(3,776)	(4,403)	(5,030)
Gross profit	**248**	**262**	**310**	**364**	**413**
SG&A	(128)	(147)	(170)	(199)	(227)
Employee share expense					
Operating profit	**120**	**114**	**140**	**166**	**186**
EBITDA	**131**	**128**	**154**	**186**	**210**
Depreciation	(11)	(13)	(15)	(21)	(25)
Amortisation					
EBIT	**120**	**114**	**140**	**166**	**186**
Net interest expense	(3)	(6)	(4)	(6)	(7)
Associates & JCEs	-	0	0	0	0
Other income					
Earnings before tax	**117**	**109**	**136**	**159**	**179**
Income tax	(27)	(16)	(27)	(32)	(36)
Net profit after tax	**90**	**92**	**109**	**127**	**143**
Minority interests	(0)	(0)	(0)	(0)	(0)
Other items	-	5	-	-	-
Preferred dividends					
Normalised NPAT	**89**	**97**	**109**	**127**	**143**
Extraordinary items	-	(5)	-	-	-
Reported NPAT	**89**	**92**	**109**	**127**	**143**
Dividends	(48)	(22)	-	-	-
Transfer to reserves	**41**	**70**	**109**	**127**	**143**

Valuation and ratio analysis					
FD normalised P/E (x)	9.7	10.1	10.5	8.9	7.9
FD normalised P/E at price target (x)	13.3	13.8	14.3	12.2	10.9
Reported P/E (x)	9.7	10.6	10.5	8.9	7.9
Dividend yield (%)	5.5	2.2	-	-	-
Price/cashflow (x)	41.8	na	19.6	16.8	12.9
Price/book (x)	3.8	1.9	1.8	1.5	1.3
EV/EBITDA (x)	9.1	9.8	8.4	7.0	6.1
EV/EBIT (x)	9.9	10.9	9.3	7.9	6.9
Gross margin (%)	8.7	7.4	7.6	7.6	7.6
EBITDA margin (%)	4.6	3.6	3.8	3.9	3.9
EBIT margin (%)	4.2	3.2	3.4	3.5	3.4
Net margin (%)	3.1	2.6	2.7	2.7	2.6
Effective tax rate (%)	23.4	14.9	20.0	20.0	20.0
Dividend payout (%)	53.8	23.9	-	-	-
Capex to sales (%)	0.7	1.3	3.0	1.6	1.1
Capex to depreciation (x)	2.0	3.5	8.3	3.7	2.4
ROE (%)	41.7	24.8	19.3	18.7	17.6
ROA (pretax %)	18.7	13.6	12.5	12.6	12.5
Growth (%)					
Revenue	(12.5)	23.3	15.7	16.7	14.2
EBITDA	(2.4)	(2.9)	20.9	20.9	12.8
EBIT	(3.2)	(5.1)	22.0	18.7	12.2
Normalised EPS	0.5	6.9	(3.2)	17.3	12.4
Normalised FDEPS	0.5	6.9	(3.2)	17.3	12.4
Per share					
Reported EPS (US$)	0.07	0.07	0.07	0.08	0.09
Norm EPS (US$)	0.07	0.07	0.07	0.08	0.09
Fully diluted norm EPS (US$)	0.07	0.07	0.07	0.08	0.09
Book value per share (US$)	0.19	0.39	0.41	0.49	0.59
DPS (US$)	0.04	0.02	-	-	-

Source: Nomura estimates

Strong EPS growth expected

Cashflow (US$mn)					
Year-end 31 Dec	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
EBITDA	131	128	154	186	210
Change in working capital	(60)	(135)	(66)	(81)	(80)
Other operating cashflow	(51)	(23)	(31)	(38)	(43)
Cashflow from operations	**21**	**(31)**	**58**	**68**	**88**
Capital expenditure	(21)	(46)	(122)	(76)	(59)
Free cashflow	**(1)**	**(77)**	**(64)**	**(8)**	**29**
Reduction in investments	-	(0)	-	-	-
Net acquisitions					
Reduction in other LT assets	-	(4)	-	-	-
Addition in other LT liabilities	(12)	(9)	-	-	-
Adjustments	18	24	12	(0)	0
Cashflow after investing acts	**5**	**(66)**	**(53)**	**(8)**	**29**
Cash dividends	(48)	(22)	-	-	-
Equity issue	-	187	-	-	-
Debt issue	26	105	-	-	-
Convertible debt issue					
Others	15	(27)	-	-	-
Cashflow from financial acts	**(8)**	**244**	**-**	**-**	**-**
Net cashflow	**(2)**	**178**	**(53)**	**(8)**	**29**
Beginning cash	40	37	215	163	154
Ending cash	37	215	163	154	184
Ending net debt	183	111	163	172	143

Source: Nomura estimates

Balance sheet (US$mn)					
As at 31 Dec	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
Cash & equivalents	37	215	163	154	184
Marketable securities					
Accounts receivable	280	427	494	576	658
Inventories	142	244	282	328	375
Other current assets	71	120	120	120	120
Total current assets	**530**	**1,006**	**1,058**	**1,178**	**1,336**
LT investments	-	0	0	0	0
Fixed assets	173	218	314	369	403
Goodwill	-	5	5	5	5
Other intangible assets					
Other LT assets	-	4	4	4	4
Total assets	**704**	**1,234**	**1,381**	**1,557**	**1,749**
Short-term debt	207	308	308	308	308
Accounts payable	134	253	292	340	389
Other current liabilities	86	130	130	130	130
Total current liabilities	**427**	**691**	**730**	**778**	**826**
Long-term debt	14	18	18	18	18
Convertible debt					
Other LT liabilities	24	15	15	15	15
Total liabilities	**465**	**724**	**763**	**812**	**860**
Minority interest	1	1	2	2	2
Preferred stock					
Common stock	0	187	187	187	187
Retained earnings	259	330	439	566	709
Proposed dividends					
Other equity and reserves	(21)	(10)	(10)	(10)	(10)
Total shareholders' equity	**237**	**508**	**616**	**744**	**887**
Total equity & liabilities	**704**	**1,234**	**1,381**	**1,557**	**1,749**
Liquidity (x)					
Current ratio	1.24	1.46	1.45	1.51	1.62
Interest cover	35.2	20.3	38.0	26.3	27.6
Leverage					
Net debt/EBITDA (x)	1.40	0.87	1.06	0.92	0.68
Net debt/equity (%)	77.3	21.8	26.5	23.1	16.1
Activity (days)					
Days receivable	34.1	36.5	41.1	41.1	41.4
Days inventory	15.7	21.5	25.4	25.3	25.5
Days payable	20.6	21.6	26.3	26.3	26.4
Cash cycle	29.2	36.5	40.2	40.2	40.5

Source: Nomura estimates

Stable cash cycle

Keppel Corp KEP SP

CONGLOMERATES | SINGAPORE

Maintained

BUY

NOMURA
NOMURA SINGAPORE LIMITED

Lisa Lee +65 6433 6979 lisa.lee@nomura.com
Yuan Yiu Tsai +65 6433 6964 yuanyiu.tsai@nomura.com

Action

We reiterate our BUY on Keppel, with an above-consensus PT of S$15. During our NDR in March, management maintained a positive outlook for new offshore orders against the backdrop of increased regulation and firm oil prices. Meanwhile, property earnings remain steady while the contribution from infrastructure should improve. Keppel is our top pick within the sector, as we see scope for further re-rating upon new order momentum given undemanding valuations.

Catalysts

A resurgence in new jack-ups, semi-subs and production contract awards, on the back of firm and rising oil prices, plus a robust take-up in office property projects.

Anchor themes

We maintain our positive view on Singapore offshore rig builders as oil prices trade within capex-positive levels. We believe robust financials built in the upcycle in 2005-08 will stand them in good stead to replenish orderbooks going forward.

Closing price on 30 Mar	S$12.26
Price target	S$15.00
	(set on 28 Jan 11)
Upside/downside	22.3%
Difference from consensus	15.4%
FY11F net profit (S$mn)	1,156
Difference from consensus	-9.0%

Source: Nomura

Nomura vs consensus

Our FY12F earnings forecast and price target are above consensus, on a more positive outlook for the offshore & marine and office property segments.

Order momentum to continue

① Look for recovery of semisub orders in 2Q/3Q11

Management believes the strong recovery in rig orders since 4Q10 reflects a pick-up in replacement demand as heightened regulatory requirements prompt oil majors to invest in new rigs rather than extend old obsolete structures. Order enquiries remain healthy and management expects 2011F to be a strong year for rig orders. We look for semisub order momentum to return in 2Q/3Q along with the ASP uptrend for drillships and a potential tightening of the charter market led by spill-over demand from Petrobras.

② Optimising shipyard capacity globally

Keppel remains optimistic on taking more orders as its capacity is only starting to see the recovery. The group is refreshing its strategy to optimise its capacity and capabilities across the globe. For example, it is looking at converting some ship repair capacity in the Philippines to fabricate pontoons and modules of jack-ups and semisubs. We highlight that its AmFELS yard in Brownsville, Texas, has capacity to execute more jack-up orders for delivery in 2013.

③ Looking beyond the EPS decline in FY11F

We believe the anticipated EPS decline in FY11F (-19% y-y, on our estimates) reflects the lull in new orders won over 4Q08-2Q10 and has been well flagged. The market should be looking towards more robust growth in FY12F and beyond with the recent strong inflow of new orders, in our view.

④ Reiterate BUY – above-consensus PT of S$15

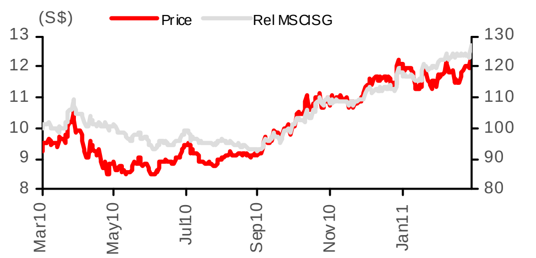
We highlight our above-consensus PT of S$15 for 22% potential upside. Despite its 3-month outperformance of 14% relative to MSCI Singapore, we expect a continued re-rating underpinned by O&M order momentum. We believe valuations remain attractive, with both P/E and P/BV trading near the five-year mean.

Key financials & valuations

31 Dec (S$mn)	FY09	FY10	FY11F	FY12F
Revenue	12,247	9,783	9,572	10,721
Reported net profit	1,625	1,623	1,156	1,350
Normalised net profit	1,265	1,419	1,156	1,350
Normalised EPS (S$)	0.79	0.89	0.73	0.85
Norm. EPS growth (%)	15.9	12.2	(18.5)	16.8
Norm. P/E (x)	15.4	13.8	16.9	14.5
EV/EBITDA (x)	9.3	9.1	11.3	9.8
Price/book (x)	2.5	2.3	2.4	2.2
Dividend yield (%)	3.1	3.4	3.4	3.4
ROE (%)	30.7	25.5	17.1	19.0
Net debt/equity (%)	net cash	net cash	1.8	0.8
Earnings revisions				
Previous norm. net profit		1,419	1,156	1,350
Change from previous (%)		-	-	-
Previous norm. EPS (S$)		0.89	0.73	0.85

Source: Company, Nomura estimates

Share price relative to MSCISG



	1m	3m	6m
Absolute (S$)	6.6	9.1	36.5
Absolute (US$)	7.3	11.5	42.1
Relative to Index	5.0	14.0	38.7
Market cap (US$mn)			15,680
Estimated free float (%)			68.4
52-week range (S$)			12.26/8.37
3-mth avg daily turnover (US$mn)			48.24
Stock borrowability			Easy
Major shareholders (%)			
Temasek Holdings			21.6

Source: Company, Nomura estimates

Valuation and risks

Our SOTP valuation and PT for Keppel Corp are unchanged.

Exhibit 49. Keppel Corp: SOTP valuation

SOTP valuation of group businesses (S$mn)	Value	Comments	Value per KCL share (S$)	% of SOTP
Offshore/rig-building (100%)	17,012.5	Based on NPV of O&M earnings	10.60	67.0
Infrastructure (includes Kgreen Trust)	2,308.2	DCF Cogen/NPVQatar. KGT market.	1.44	9.1
Property - KepLand	4,373.8	Fair value of KepLand	2.72	17.2
Property - trust	128.3	Market value of K-Reit	0.08	0.5
Keppel Bay devt	1,067.5	NPV of Keppel Bay	0.66	4.2
KepT&T (81%)	169.1	Market value of Kep T&T (less M1)	0.11	0.7
k1 Ventures (42%)	100.7	Market value of k1 Ventures	0.06	0.4
M1 stake	537.2	Price target of M1	0.33	2.1
Estimated net cash/investments	(300.0)		(0.19)	(1.2)
Total value of KCL group	25,397.3			
RNAV of Keppel Corporation	**S$15.82**	S$ per share	15.82	100
Price target (based on 5% discount to RNAV)	**S$15.00**	S$ per share (rounded from S$15.03)		

Source: Company data, Nomura estimates

Risks to our price target

Our price target could be negatively affected by: 1) a larger-than-expected fall in the group's O&M margins; 2) a significant and continued decline in orderbook build-up; 3) a bigger-than-expected decline in the asset values and rents/sales at its property division; and/or 4) a collapse in margins or revenue at its infrastructure division.

Financial statements

Income statement (S$mn)					
Year-end 31 Dec	FY08	FY09	FY10	FY11F	FY12F
Revenue	11,805	12,247	9,783	9,572	10,721
Cost of goods sold	(8,633)	(8,809)	(6,211)	(6,700)	(7,735)
Gross profit	**3,173**	**3,438**	**3,572**	**2,872**	**2,986**
SG&A	(1,934)	(1,934)	(1,816)	(1,549)	(1,431)
Employee share expense					
Operating profit	**1,238**	**1,505**	**1,756**	**1,322**	**1,556**
EBITDA	**1,378**	**1,679**	**1,941**	**1,518**	**1,763**
Depreciation	(139)	(174)	(185)	(196)	(208)
Amortisation	-	-	-	-	-
EBIT	**1,238**	**1,505**	**1,756**	**1,322**	**1,556**
Net interest expense	4	29	55	64	65
Associates & JCEs	354	322	215	250	258
Other income	-	(38)	457	-	-
Earnings before tax	**1,597**	**1,817**	**2,483**	**1,636**	**1,879**
Income tax	(288)	(348)	(581)	(260)	(283)
Net profit after tax	**1,309**	**1,469**	**1,903**	**1,375**	**1,596**
Minority interests	(223)	(205)	(484)	(220)	(246)
Other items	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Normalised NPAT	**1,085**	**1,265**	**1,419**	**1,156**	**1,350**
Extraordinary items	13	361	204	-	-
Reported NPAT	**1,098**	**1,625**	**1,623**	**1,156**	**1,350**
Dividends	(555)	(602)	(666)	(666)	(666)
Transfer to reserves	**543**	**1,023**	**957**	**490**	**684**
Valuation and ratio analysis					
FD normalised P/E (x)	17.9	15.4	13.8	16.9	14.5
FD normalised P/E at price target (x)	21.9	18.9	16.8	20.7	17.7
Reported P/E (x)	17.7	12.0	12.0	16.9	14.5
Dividend yield (%)	2.9	3.1	3.4	3.4	3.4
Price/cashflow (x)	8.8	8.7	20.2	9.9	8.1
Price/book (x)	2.6	2.5	2.3	2.4	2.2
EV/EBITDA (x)	11.3	9.3	9.1	11.3	9.8
EV/EBIT (x)	12.3	10.2	10.0	12.7	11.0
Gross margin (%)	26.9	28.1	36.5	30.0	27.9
EBITDA margin (%)	11.7	13.7	19.8	15.9	16.4
EBIT margin (%)	10.5	12.3	18.0	13.8	14.5
Net margin (%)	9.3	13.3	16.6	12.1	12.6
Effective tax rate (%)	18.0	19.1	23.4	15.9	15.1
Dividend payout (%)	50.5	37.1	41.0	57.6	49.3
Capex to sales (%)	3.4	3.9	9.9	7.2	6.4
Capex to depreciation (x)	2.9	2.7	5.3	3.5	3.3
ROE (%)	22.4	30.7	25.5	17.1	19.0
ROA (pretax %)	11.1	12.7	12.7	9.2	10.3
Growth (%)					
Revenue	13.2	3.7	(20.1)	(2.2)	12.0
EBITDA	17.1	21.9	15.6	(21.8)	16.1
EBIT	17.9	21.5	16.7	(24.7)	17.6
Normalised EPS	91.7	15.9	12.2	(18.5)	16.8
Normalised FDEPS	91.7	15.9	12.2	(18.5)	16.8
Per share					
Reported EPS (S$)	0.69	1.02	1.02	0.73	0.85
Norm EPS (S$)	0.68	0.79	0.89	0.73	0.85
Fully diluted norm EPS (S$)	0.68	0.79	0.89	0.73	0.85
Book value per share (S$)	4.72	4.81	5.25	5.19	5.58
DPS (S$)	0.35	0.38	0.42	0.41	0.41

Source: Nomura estimates

FY11F EBIT declines based on lower O&M due to gap year in new orders in 2009 and in 2Q/3Q10

Cashflow (S$mn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
EBITDA	1,378	1,679	1,795	1,514	1,679
Change in working capital	691	399	152	88	357
Other operating cashflow	140	175	185	196	234
Cashflow from operations	**2,208**	**2,252**	**2,133**	**1,798**	**2,270**
Capital expenditure	(400)	(480)	(580)	(690)	(690)
Free cashflow	**1,808**	**1,772**	**1,553**	**1,108**	**1,580**
Reduction in investments	382	(198)	(79)	33	(302)
Net acquisitions	(300)	637	(250)	(250)	(300)
Reduction in other LT assets	39	116	(1)	235	(160)
Addition in other LT liabilities	(8)	231	212	213	213
Adjustments	(56)	(650)	(673)	(646)	(385)
Cashflow after investing acts	**1,865**	**1,908**	**762**	**693**	**646**
Cash dividends	(1,098)	(602)	(602)	(602)	(602)
Equity issue	-	-	-	-	-
Debt issue	-	-	-	-	-
Convertible debt issue	-	-	-	-	-
Others	(124)	(615)	(746)	(208)	-
Cashflow from financial acts	**(1,222)**	**(1,217)**	**(1,348)**	**(810)**	**(602)**
Net cashflow	**644**	**690**	**(587)**	**(117)**	**44**
Beginning cash	1,601	2,245	2,936	2,349	2,231
Ending cash	2,244	2,935	2,349	2,232	2,275
Ending net debt	(275)	(1,177)	(238)	(5)	(49)

Source: Nomura estimates

Balance sheet (S$mn)					
As at 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash & equivalents	2,245	2,936	2,349	2,231	2,276
Marketable securities	331	457	502	527	676
Accounts receivable	1,971	1,727	1,779	1,797	1,621
Inventories	3,319	3,178	3,004	3,063	2,883
Other current assets	327	288	288	288	288
Total current assets	**8,192**	**8,586**	**7,921**	**7,906**	**7,744**
LT investments	3,131	3,203	3,237	3,178	3,332
Fixed assets	1,947	2,157	2,637	3,117	3,597
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other LT assets	3,477	3,361	3,362	3,127	3,287
Total assets	**16,746**	**17,307**	**17,158**	**17,329**	**17,960**
Short-term debt	226	841	1,009	1,125	1,125
Accounts payable	3,940	4,052	3,971	4,022	3,941
Other current liabilities	825	688	799	913	996
Total current liabilities	**4,990**	**5,581**	**5,779**	**6,059**	**6,062**
Long-term debt	1,745	918	1,102	1,102	1,102
Convertible debt	-	-	-	-	-
Other LT liabilities	381	412	424	437	450
Total liabilities	**7,116**	**6,911**	**7,305**	**7,598**	**7,614**
Minority interest	2,152	2,727	2,782	2,837	2,894
Preferred stock	-	-	-	-	-
Common stock	825	833	833	833	833
Retained earnings	3,772	5,152	4,538	4,577	5,203
Proposed dividends	2,882	1,683	1,700	1,483	1,416
Other equity and reserves					
Total shareholders' equity	**7,478**	**7,669**	**7,071**	**6,893**	**7,452**
Total equity & liabilities	**16,746**	**17,307**	**17,158**	**17,329**	**17,960**
Liquidity (x)					
Current ratio	1.64	1.54	1.37	1.30	1.28
Interest cover	na	na	na	na	na
Leverage					
Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Activity (days)					
Days receivable	57.7	55.1	59.6	57.5	51.6
Days inventory	129.5	134.6	146.5	131.7	119.8
Days payable	148.6	165.6	190.1	173.6	160.4
Cash cycle	38.6	24.1	16.0	15.6	11.0

Source: Nomura estimates

Healthy balance sheet, net cash allows strategic investment opportunities, in our view

Yangzijiang Shipbuilding YZJ SP

INDUSTRIALS/CAPITAL GOODS | SINGAPORE

Maintained

BUY

Yuan Yiu Tsai +65 6433 6964 yuanyiu.tsai@nomura.com
Lisa Lee +65 6433 6967 lisa.lee@nomura.com

Action

We believe YZJ is undervalued on an SOTP basis (non-core assets at book value on our estimates) and the market has underappreciated the potential of a ~US$2.2bn containership order from Seaspan. While margins will likely be low, a successful execution of the potential order would be a significant technological breakthrough for YZJ. Reiterate BUY and PT of S$2.30.

Catalysts

Containership order momentum and shipyard M&A (at a reasonable valuation)

Anchor themes

The Chinese shipbuilding industry is an attractive long-term investment theme, in our view. Besides strong government support, Chinese shipyards enjoy a natural advantage in competitive labour cost, steel supply, abundance of coastal land and a large pool of domestic owners/carriers as a customer base.

Closing price on 30 Mar	S$1.81
Price target	**S$2.30**
	(set on 7 Mar 11)
Upside/downside	27.3%
Difference from consensus	-1.1%
FY12F net profit (RMBmn)	3,735
Difference from consensus	na

Source: Nomura

Nomura vs consensus

While our PT is largely in line, we back our BUY call with a detailed valuation methodology which strengthens our conviction in its attractive valuation.

Undervalued, underappreciated

① LOI signed with Seaspan – US$2.2bn order potential

We believe the market has underappreciated the US$2.2bn order potential from Seaspan for up to 22 units of 10,000 TEU containerships (*The well-publicized order from Seaspan*, 16 March 2011). While margins will likely be muted and confirmation of orders will be staged in batches, a successful execution of the potential order would be a significant technological breakthrough for YZJ, which will position it well to win the next batch of large containership orders with better margins upon a more pronounced recovery in the container shipping market over the medium term.

② Reiterate BUY – focus on SOTP valuation

Although the market does not appear to favour management's diversification strategy (ie plans to enter property development and growing investment income), we believe the current share price (down 12% from its recent peak vs STI's -5%) presents an attractive entry level, with 27% potential upside, as implied by our PT. Our Street-differentiating SOTP methodology values the company's core shipbuilding franchise at 2.5x FY13F P/B (reflecting normalised ROE post-crisis) and its excess net cash/investments at book value.

③ Catalysts: containership orders, offshore M&A

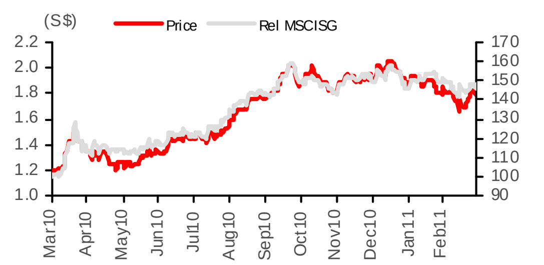
Seaspan's newbuild strategy reflects the current containership order dynamics, in our view – supply/demand is more balanced relative to bulk carriers and shipowners are taking advantage of the attractive pricing (-25% from peak in 2007/08) to position themselves for a more pronounced recovery in freight rates over the medium term. In this regard, we believe YZJ is well-placed to benefit from the order momentum. With a net-cash balance sheet and strong government support, YZJ is also well-positioned to acquire, we believe. If Cosco's premium valuation (FY11F: 18x P/E, 3.4x P/B) is any guide, we believe acquisition of a meaningful offshore exposure at a reasonable valuation would be a key re-rating factor for YZJ.

Key financials & valuations

31 Dec (RMBmn)	FY10	FY11F	FY12F	FY13F
Revenue	12,923	16,338	20,601	22,863
Reported net profit	2,955	3,398	3,735	3,442
Normalised net profit	2,955	3,398	3,735	3,442
Normalised EPS (RMB)	0.80	0.89	0.97	0.90
Norm. EPS growth (%)	32.3	10.9	9.9	(7.8)
Norm. P/E (x)	10.4	10.5	9.5	10.4
EV/EBITDA (x)	9.1	9.8	7.8	7.7
Price/book (x)	3.5	2.9	2.3	2.0
Dividend yield (%)	2.8	2.5	2.5	2.5
ROE (%)	28.7	25.7	23.5	18.5
Net debt/equity (%)	net cash	net cash	net cash	net cash
Earnings revisions				
Previous norm. net profit		3,398	3,735	3,442
Change from previous (%)		-	-	-
Previous norm. EPS (RMB)		0.89	0.97	0.90

Source: Company, Nomura estimates

Share price relative to MSCISG



	1m	3m	6m
Absolute (S$)	0.6	(6.2)	2.8
Absolute (US$)	1.2	(4.2)	7.0
Relative to Index	(1.1)	(1.6)	3.6
Market cap (US$mn)			5,305
Estimated free float (%)			46.5
52-week range (S$)			2.05/1.16
3-mth avg daily turnover (US$mn)			23.98
Stock borrowability			Hard
Major shareholders (%)			
Ren Yuanlin			29.2
Lido Point Investments			14.0

Source: Company, Nomura estimates

Reiterate BUY

Undervalued, underappreciated

Valuation: SOTP is key to identifying its value

Although the market does not appear to favour management's diversification strategy, we argue that these diversification efforts will only materialise over the medium term, and the stock (down 12% from its recent peak touched in November 10 vs the STI's 5% decline over the same period) is undervalued at the current level.

As YZJ's non-shipbuilding income grows, we think investors should view its stock valuation on an SOTP basis. We highlight our Street-differentiating SOTP valuation for YZJ (methodology unchanged):

We value YZJ on an SOTP basis, while most of the Street values it with a target P/E or P/B multiple

- **DCF valuation of existing high-margin orderbook.** We conservatively value the remaining outstanding payments of YZJ's existing high-margin orders at RMB2.4bn by DCF (vs. orderbook value of ~RMB 21bn, a portion of which has been monetised as deposits).
- **Core shipbuilding franchise at 2.5x FY13F P/B (at normalised ROE of 17.5%).** As YZJ delivers all its high-margin orders by end-2012, we expect its core ROE to fall from 35% in FY11F to 17.5% in FY13F, reflecting the normalised gross margins and increase in working capital as payment terms deteriorate. We derive a target P/B of 2.5x based on the Gordon Growth model (17.5% ROE, 10% cost of equity and 5% growth rate).

Our methodology captures the imminent fall in margins, another key investor concern

- **Excess net cash/non-core investments at book value.** We value the company's excess net cash and non-core investments at book value, notwithstanding the high returns generated by the financial products.

Exhibit 50. YZJ: SOTP valuation

Revenue in FY13F (RMBmn)	**22,863**
Operating profit	3,217
EBIT margin (%)	14.1
(Net Interest)	166
(Tax)	(406)
Net profit	2,977
2013F Shareholders equity (ex investments)	16,979
Sustainable core ROE	**17.5%**
Cost of Equity	10.0%
Growth rate	5%
Target P/B multiple (2013F)	**2.5**
2013F core book value (ex-cash/investments)	16,979
Equity value 2013F	42,784
SOTP valuation	
PV (2013F Equity value)	39,116
DCF Value of existing orderbook	2,365
Excess net-near cash & investments at book value	4,048
Total (RMBmn)	**45,529**
Total (S$mn)	8,841
Price target	**2.30**
2011 P/E (implied)	13.3
2011F ROAE	30.0

Source: Nomura research

Key risks include: 1) input cost pressure (steel, labour); and 2) RMB appreciation, which would impact margins as shipbuilding contracts are denominated in USD.

Financial statements

Income statement (RMBmn)					
Year-end 31 Dec	FY09	FY10	FY11F	FY12F	FY13F
Revenue	10,624	12,923	16,338	20,601	22,863
Cost of goods sold	(8,389)	(10,015)	(13,048)	(16,683)	(19,413)
Gross profit	**2,235**	**2,908**	**3,291**	**3,918**	**3,450**
SG&A	(213)	(221)	(226)	(233)	(233)
Employee share expense	-	-	-	-	-
Operating profit	**2,022**	**2,687**	**3,065**	**3,685**	**3,217**
EBITDA	**2,152**	**2,855**	**3,237**	**3,867**	**3,403**
Depreciation	(130)	(169)	(172)	(182)	(186)
Amortisation	-	-	-	-	-
EBIT	**2,022**	**2,687**	**3,065**	**3,685**	**3,217**
Net interest expense	352	851	971	759	868
Associates & JCEs	(3)	(2)	-	-	-
Other income	93	93	100	100	100
Earnings before tax	**2,464**	**3,629**	**4,136**	**4,544**	**4,185**
Income tax	(260)	(677)	(744)	(818)	(753)
Net profit after tax	**2,205**	**2,952**	**3,391**	**3,726**	**3,432**
Minority interests	-	3	7	8	10
Other items	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Normalised NPAT	**2,205**	**2,955**	**3,398**	**3,735**	**3,442**
Extraordinary items					
Reported NPAT	**2,205**	**2,955**	**3,398**	**3,735**	**3,442**
Dividends	(639)	(858)	(889)	(889)	(889)
Transfer to reserves	**1,565**	**2,098**	**2,509**	**2,845**	**2,553**
Valuation and ratio analysis					
FD normalised P/E (x)	15.0	10.4	10.5	9.5	10.4
FD normalised P/E at price target (x)	19.1	13.3	13.4	12.2	13.2
Reported P/E (x)	15.0	10.4	10.5	9.5	10.4
Dividend yield (%)	1.9	2.8	2.5	2.5	2.5
Price/cashflow (x)	14.9	8.4	na	192.9	12.2
Price/book (x)	5.6	3.5	2.9	2.3	2.0
EV/EBITDA (x)	13.1	9.1	9.8	7.8	7.7
EV/EBIT (x)	13.9	9.6	10.3	8.2	8.1
Gross margin (%)	21.0	22.5	20.1	19.0	15.1
EBITDA margin (%)	20.3	22.1	19.8	18.8	14.9
EBIT margin (%)	19.0	20.8	18.8	17.9	14.1
Net margin (%)	20.8	22.9	20.8	18.1	15.1
Effective tax rate (%)	10.5	18.7	18.0	18.0	18.0
Dividend payout (%)	29.0	29.0	26.2	23.8	25.8
Capex to sales (%)	1.3	6.0	18.4	3.9	3.3
Capex to depreciation (x)	1.1	4.6	17.4	4.4	4.0
ROE (%)	28.3	28.7	25.7	23.5	18.5
ROA (pretax %)	15.4	16.2	14.5	15.9	14.0
Growth (%)					
Revenue	44.4	21.6	26.4	26.1	11.0
EBITDA	66.5	32.7	13.4	19.5	(12.0)
EBIT	68.1	32.9	14.1	20.2	(12.7)
Normalised EPS	48.5	32.3	10.9	9.9	(7.8)
Normalised FDEPS	48.5	32.3	10.9	9.9	(7.8)
Per share					
Reported EPS (RMB)	0.60	0.80	0.89	0.97	0.90
Norm EPS (RMB)	0.60	0.80	0.89	0.97	0.90
Fully diluted norm EPS (RMB)	0.60	0.80	0.89	0.97	0.90
Book value per share (RMB)	1.73	2.68	3.24	3.98	4.65
DPS (RMB)	0.18	0.23	0.23	0.23	0.23

Source: Nomura estimates

Earnings decline in FY13F as most of its high-margin orders are delivered in FY11/12

Cashflow (RMBmn)					
Year-end 31 Dec	FY09	FY10	FY11F	FY12F	FY13F
EBITDA	2,152	2,855	3,237	3,867	3,403
Change in working capital	501	692	(4,141)	(2,268)	590
Other operating cashflow	(437)	109	(828)	(1,414)	(1,070)
Cashflow from operations	**2,216**	**3,656**	**(1,732)**	**185**	**2,924**
Capital expenditure	(139)	(778)	(3,000)	(800)	(750)
Free cashflow	**2,077**	**2,878**	**(4,732)**	**(615)**	**2,174**
Reduction in investments	(1,661)	(3,843)	2,919	1,501	1,548
Net acquisitions					
Reduction in other LT assets	(199)	(547)	(1,334)	167	(213)
Addition in other LT liabilities	151	264	21	22	24
Adjustments	634	283	1,155	1,455	1,284
Cashflow after investing acts	**1,003**	**(964)**	**(1,971)**	**2,531**	**4,816**
Cash dividends	(311)	(618)	(889)	(889)	(889)
Equity issue	-	1,283	-	-	-
Debt issue	415	109	-	-	-
Convertible debt issue	-	-	-	-	-
Others	0	152	-	-	-
Cashflow from financial acts	**104**	**925**	**(889)**	**(889)**	**(889)**
Net cashflow	**1,108**	**(39)**	**(2,860)**	**1,641**	**3,927**
Beginning cash	5,679	6,787	6,747	3,887	5,529
Ending cash	6,787	6,748	3,887	5,528	9,456
Ending net debt	(5,849)	(5,521)	(2,660)	(4,302)	(8,229)

Source: Nomura estimates

Balance sheet (RMBmn)					
As at 31 Dec	FY09	FY10	FY11F	FY12F	FY13F
Cash & equivalents	6,787	6,747	3,887	5,529	9,456
Marketable securities	1,715	5,213	4,170	3,336	2,669
Accounts receivable	5,301	5,042	7,035	8,011	7,621
Inventories	837	1,277	1,087	1,390	1,618
Other current assets	70	641	1,121	1,334	1,447
Total current assets	**14,710**	**18,920**	**17,300**	**19,601**	**22,810**
LT investments	3,080	3,424	1,548	881	-
Fixed assets	1,967	2,630	5,458	6,076	6,640
Goodwill	-	-	-	-	-
Other intangible assets	0	0	0	0	0
Other LT assets	655	1,202	2,536	2,369	2,582
Total assets	**20,411**	**26,176**	**26,841**	**28,926**	**32,032**
Short-term debt	907	906	906	906	906
Accounts payable	1,400	3,609	4,024	4,731	5,262
Other current liabilities	11,600	10,834	8,560	7,078	7,088
Total current liabilities	**13,907**	**15,349**	**13,491**	**12,716**	**13,256**
Long-term debt	30	320	320	320	320
Convertible debt	-	-	-	-	-
Other LT liabilities	164	428	450	472	496
Total liabilities	**14,101**	**16,097**	**14,261**	**13,508**	**14,072**
Minority interest	-	150	143	135	126
Preferred stock	-	-	-	-	-
Common stock	4,980	6,263	6,263	6,263	6,263
Retained earnings	3,669	5,680	8,189	11,034	13,587
Proposed dividends	-	-	-	-	-
Other equity and reserves	(2,339)	(2,015)	(2,015)	(2,015)	(2,015)
Total shareholders' equity	**6,310**	**9,928**	**12,437**	**15,282**	**17,835**
Total equity & liabilities	**20,411**	**26,176**	**26,841**	**28,926**	**32,032**
Liquidity (x)					
Current ratio	1.06	1.23	1.28	1.54	1.72
Interest cover	na	na	na	na	na
Leverage					
Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Activity (days)					
Days receivable	183.6	146.1	134.9	133.7	124.8
Days inventory	50.3	38.5	33.1	27.2	28.3
Days payable	53.0	91.3	106.8	96.0	93.9
Cash cycle	180.9	93.3	61.2	64.8	59.1

Source: Nomura estimates

Neptune Orient Lines NOL SP

TRANSPORT/LOGISTICS | SINGAPORE

Andrew Lee +852 2252 6197 andrew.lee@nomura.com
Cecilia Chan +852 2252 6181 cecilia.chan@nomura.com

NOMURA
NOMURA INTERNATIONAL (HK) LIMITED

Maintained

BUY

Action

As we estimate container freight rates are close to bottoming and quarterly earnings are set to rebound after 1Q11, we remain optimistic on the container shipping sector. NOL is our preferred pick due to slightly better pricing power from being a premium carrier and lack of capacity growth in 2011. With 33% potential upside to our S$2.60 target price, we reiterate our BUY rating.

Catalysts

Catalysts include: 1) rebound in freight rates, 2) continued strong economic indicators such as ISM, retail sales, consumer spending and lower unemployment.

Anchor themes

With share prices driven by directional movement in freight rates, we believe freight rates are bottoming, especially as we approach the early peak season period. In fact, we expect rates and quarterly earnings to bottom in 1Q11. Furthermore, inventory levels remain low, as highlighted by US inventory-to-sales ratios.

Closing price on 30 Mar	S$1.96
Price target	S$2.60
	(set on 24 Jan 11)
Upside/downside	32.7%
Difference from consensus	11.1%
FY12F net profit (US$mn)	451.5
Difference from consensus	-20.6%

Source: Nomura

Nomura vs consensus

Our earnings forecast is in line with consensus, but our higher price target reflects the S$0.36/share value we attach to NOL's terminal business.

Top pick in container shipping

① Container sector close to bottoming

1Q11 margins and earnings are likely to continue their sequential declines given average spot rates declined 6% and bunker prices were 25% q-q higher. However, we believe quarterly earnings are set to rebound, as we estimate freight rates are close to bottoming as we begin to approach the beginning of the peak season, while carriers are beginning to collect fuel surcharges (BAF). We remain optimistic on demand driven by global economic growth and improving consumer spending as a result of declining unemployment. Furthermore, the US inventory-to-sales ratio has fallen back to its recent lows. With 1Q volumes tracking below expectations and our positive view on demand, this could lead to pent-up demand and higher-than-expected peak season surcharges. A key risk, in our view, is irrational carrier pricing behaviour.

② NOL – preferred pick within sector

Within the container shipping sector, we prefer premium carriers and a lack of new additional capacity, as this allows slightly better pricing power and a less aggressive pricing discounting strategy. We view NOL as a premium carrier with no newbuilds slated to be delivered this year. Amongst the different routes, we estimate transpacific freight rates to be the only route to increase (+1.4% y-y) in 2011 due to annual contracts. NOL has relatively higher exposure to transpacific routes (53% revenue compared to 38% for the sector).

③ Buy with 33% potential upside to S$2.60 PT

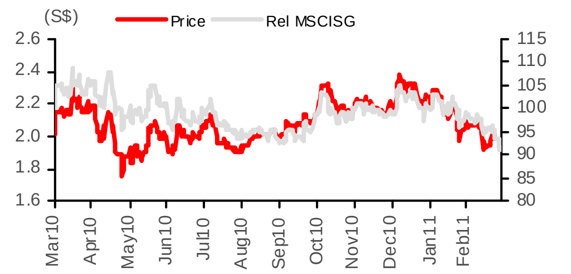
With 33% potential upside to our current S$2.60 target price, we maintain our Buy rating. Our target price is based on a sum-of-the-parts analysis, with the shipping business valued at mid-cycle 1.1x P/B and an 8x EV/EBITDA multiple for the port business. Key company and industry risks include potential terminal divestment and a global economic slowdown, respectively.

Key financials & valuations

31 Dec (US$mn)	FY10	FY11F	FY12F	FY13F
Revenue	9,422	10,517	12,514	14,377
Reported net profit	460.9	353.3	451.5	494.2
Normalised net profit	510	353	451	494
Normalised EPS (US$)	0.198	0.137	0.175	0.191
Norm. EPS growth (%)	na	(30.8)	27.8	9.5
Norm. P/E (x)	7.4	11.1	8.7	8.1
EV/EBITDA (x)	4.6	5.7	4.9	4.3
Price/book (x)	1.2	1.1	1.0	0.9
Dividend yield (%)	2.3	1.8	2.3	2.5
ROE (%)	15.3	10.5	12.3	12.2
Net debt/equity (%)	11.9	7.4	11.5	3.4
Earnings revisions				
Previous norm. net profit		353.3	451.5	494.2
Change from previous (%)		-	-	-
Previous norm. EPS (US$)		0.137	0.175	0.191

Source: Company, Nomura estimates

Share price relative to MSCISG



	1m	3m	6m
Absolute (S$)	(4.4)	(11.7)	(1.0)
Absolute (US$)	(3.7)	(9.7)	3.1
Relative to Index	(7.5)	(8.6)	(1.8)
Market cap (US$mn)			4,014
Estimated free float (%)			32.5
52-week range (S$)			2.38/1.76
3-mth avg daily turnover (US$mn)			19.80
Stock borrowability			Hard
Major shareholders (%)			
Temasek Holdings			67.0

Source: Company, Nomura estimates

Financial statements

Income statement (US$mn)					
Year-end 31 Dec	FY09	FY10	FY11F	FY12F	FY13F
Revenue	6,516	9,422	10,517	12,514	14,377
Cost of goods sold	(5,655)	(7,054)	(8,064)	(9,586)	(11,035)
Gross profit	**860**	**2,368**	**2,452**	**2,928**	**3,342**
SG&A	(1,414)	(1,764)	(2,016)	(2,397)	(2,759)
Employee share expense					
Operating profit	**(553)**	**604**	**436**	**531**	**583**
EBITDA	**(267)**	**889**	**732**	**882**	**968**
Depreciation	(286)	(285)	(296)	(351)	(385)
Amortisation					
EBIT	**(553)**	**604**	**436**	**531**	**583**
Net interest expense	(35)	(30)	(34)	(30)	(35)
Associates & JCEs	3	5	5	5	5
Other income					
Earnings before tax	**(585)**	**579**	**408**	**507**	**554**
Income tax	(39)	(66)	(51)	(52)	(56)
Net profit after tax	**(624)**	**513**	**356**	**455**	**497**
Minority interests	(2)	(3)	(3)	(3)	(3)
Other items					
Preferred dividends					
Normalised NPAT	**(626)**	**510**	**353**	**451**	**494**
Extraordinary items	(115)	(49)	-	-	-
Reported NPAT	**(741)**	**461**	**353**	**451**	**494**
Dividends	-	(88)	(71)	(90)	(99)
Transfer to reserves	**(741)**	**373**	**283**	**361**	**395**
Valuation and ratio analysis					
FD normalised P/E (x)	na	7.4	11.1	8.7	8.1
FD normalised P/E at price target (x)	na	9.8	14.7	11.6	10.8
Reported P/E (x)	na	8.2	11.1	8.7	8.1
Dividend yield (%)	-	2.3	1.8	2.3	2.5
Price/cashflow (x)	na	5.4	5.5	5.0	4.5
Price/book (x)	1.3	1.2	1.1	1.0	0.9
EV/EBITDA (x)	na	4.6	5.7	4.9	4.3
EV/EBIT (x)	na	6.8	9.4	8.2	7.1
Gross margin (%)	13.2	25.1	23.3	23.4	23.2
EBITDA margin (%)	(4.1)	9.4	7.0	7.0	6.7
EBIT margin (%)	(8.5)	6.4	4.1	4.2	4.1
Net margin (%)	(11.4)	4.9	3.4	3.6	3.4
Effective tax rate (%)	na	11.4	12.6	10.3	10.2
Dividend payout (%)	na	19.2	20.0	20.0	20.0
Capex to sales (%)	1.4	5.0	4.8	7.2	3.5
Capex to depreciation (x)	0.3	1.7	1.7	2.6	1.3
ROE (%)	(27.9)	15.3	10.5	12.3	12.2
ROA (pretax %)	(11.0)	11.6	7.9	8.9	8.9
Growth (%)					
Revenue	(29.8)	44.6	11.6	19.0	14.9
EBITDA	(141.1)	na	(17.7)	20.6	9.7
EBIT	(243.0)	na	(27.8)	21.8	9.8
Normalised EPS	(241.7)	na	(30.8)	27.8	9.5
Normalised FDEPS	(241.7)	na	(30.8)	27.8	9.5
Per share					
Reported EPS (US$)	(0.37)	0.18	0.14	0.17	0.19
Norm EPS (US$)	(0.31)	0.20	0.14	0.17	0.19
Fully diluted norm EPS (US$)	(0.31)	0.20	0.14	0.17	0.19
Book value per share (US$)	1.08	1.25	1.35	1.50	1.65
DPS (US$)	-	0.03	0.03	0.03	0.04

Source: Nomura estimates

Earnings recovering into 2012

Cashflow (US$mn)					
Year-end 31 Dec	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
EBITDA	(267)	889	732	882	968
Change in working capital	(241)	4	66	(17)	14
Other operating cashflow	(43)	(200)	(83)	(80)	(89)
Cashflow from operations	**(551)**	**693**	**714**	**785**	**893**
Capital expenditure	(89)	(471)	(500)	(900)	(500)
Free cashflow	**(640)**	**222**	**214**	**(115)**	**393**
Reduction in investments	(11)	(15)	-	-	-
Net acquisitions	26	35	-	-	-
Reduction in other LT assets	(5)	(19)	(0)	-	-
Addition in other LT liabilities	40	8	-	-	-
Adjustments	(35)	13	0	-	-
Cashflow after investing acts	**(624)**	**243**	**214**	**(115)**	**393**
Cash dividends	(39)	-	(92)	(71)	(92)
Equity issue	965	1	-	-	-
Debt issue	(388)	407	(21)	(20)	(371)
Convertible debt issue					
Others	(11)	(7)	0	-	-
Cashflow from financial acts	**527**	**401**	**(113)**	**(91)**	**(463)**
Net cashflow	**(96)**	**644**	**102**	**(206)**	**(70)**
Beginning cash	429	333	977	1,079	873
Ending cash	333	977	1,079	873	803
Ending net debt	607	382	259	445	144

Source: Nomura estimates

Capex primarily for fleet expansion

Balance sheet (US$mn)					
As at 31 Dec	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
Cash & equivalents	333	977	1,079	873	803
Marketable securities					
Accounts receivable	815	1,082	1,059	1,260	1,447
Inventories	197	244	244	293	317
Other current assets	159	100	100	100	100
Total current assets	**1,504**	**2,402**	**2,481**	**2,525**	**2,667**
LT investments	77	91	91	91	91
Fixed assets	3,509	3,691	3,896	4,445	4,560
Goodwill	158	154	154	154	154
Other intangible assets					
Other LT assets	92	112	112	112	112
Total assets	**5,341**	**6,451**	**6,734**	**7,327**	**7,584**
Short-term debt	21	21	18	19	20
Accounts payable	252	294	313	372	429
Other current liabilities	1,085	1,302	1,325	1,498	1,667
Total current liabilities	**1,358**	**1,616**	**1,655**	**1,889**	**2,116**
Long-term debt	919	1,338	1,321	1,300	927
Convertible debt					
Other LT liabilities	223	231	231	231	231
Total liabilities	**2,500**	**3,185**	**3,207**	**3,419**	**3,274**
Minority interest	44	43	43	43	43
Preferred stock					
Common stock	1,810	1,815	1,815	1,815	1,815
Retained earnings	986	1,319	1,599	1,959	2,353
Proposed dividends	-	88	71	90	99
Other equity and reserves					
Total shareholders' equity	**2,797**	**3,222**	**3,484**	**3,864**	**4,266**
Total equity & liabilities	**5,341**	**6,451**	**6,734**	**7,327**	**7,584**
Liquidity (x)					
Current ratio	1.11	1.49	1.50	1.34	1.26
Interest cover	(15.6)	19.9	12.8	17.7	16.6
Leverage					
Net debt/EBITDA (x)	na	0.43	0.35	0.50	0.15
Net debt/equity (%)	21.7	11.9	7.4	11.5	3.4
Activity (days)					
Days receivable	46.0	36.7	37.1	33.9	34.4
Days inventory	11.5	11.4	11.0	10.2	10.1
Days payable	16.5	14.1	13.7	13.1	13.3
Cash cycle	41.0	34.0	34.5	31.1	31.2

Source: Nomura estimates

Biosensors International BIG SP

HEALTH CARE & PHARMACEUTICALS | SINGAPORE

NOMURA
NOMURA SINGAPORE LIMITED

Maintained

BUY

Jit Soon Lim, CFA +65 6433 6969 jitsoon.lim@nomura.com
Yuan Yiu Tsai +65 6433 6964 yuanyiu.tsai@nomura.com

Action

We reaffirm our BUY for BIG on the back of imminent approval for Terumo's Nobori stent and strong earnings momentum in 3Q, in our view. With a US$1.3bn market cap, BIG is no longer a start-up. The S$200mn placement has further strengthened the group's balance sheet, enabling it to evaluate potential M&A opportunities.

Catalysts

Continued momentum in its forthcoming results, the potential value-unlocking of its 50% stake in domestic drug-eluting stent (DES) manufacturer in China, JWMS, and Japanese approval of Terumo's Nobori, whose technology is licensed from BIG.

Anchor themes

The US$5bn DES industry is one of the most profitable segments in the medical technology space, with market share changes driven by innovation. Biosensors, with its leading-edge technology, could be M&A targets for incumbents.

Closing price on 30 Mar	S$1.15
Price target	**S$1.50**
	(set on 8 Mar 11)
Upside/downside	30.4%
Difference from consensus	22.0%
FY12F net profit (US$mn)	77.9
Difference from consensus	na

Source: Nomura

Nomura vs consensus

We believe consensus has not recognised the potential of Terumo's accelerating royalties to BIG.

Japan – the next leg of growth

① Robust EPS growth in FY12/13F

We highlight the robust EPS growth of 26%/63% in FY12/13F on the back of the higher contribution from Japan upon the imminent approval for Nobori. We believe Nobori's market share in Japan will be initially boosted by the 3,200-patient clinical trial, enrolment for which is expected to begin in May this year, and should continue to gain momentum into FY13F.

② Strong revenue momentum for 9MFY11

The group saw strong revenue momentum for 9MFY11 (+34% y-y), driven by further market share gains for BioMatrix/Nobori. We believe this momentum can be sustained with organic market share gains in Asia, and the introduction of new products such as the bifurcation stent and BioFreedom stent. We believe the market has yet to fully appreciate the significance of BioFreedom — CE Mark approval is expected in FY12, according to the company, and this would be a strong endorsement of BIG's ability to grow.

③ JWMS continues to be a key contributor

3QFY11 JWMS contributions remain robust (+43%y-y), despite market concerns over ASP pressure. We continue to expect strong performance from the JV, underpinned by volume growth; according to Millennium Research, the Chinese DES market could overtake Japan's DES market this year, and is estimated to be worth US$900mn by 2014.

④ Reiterate BUY – three pillars of growth

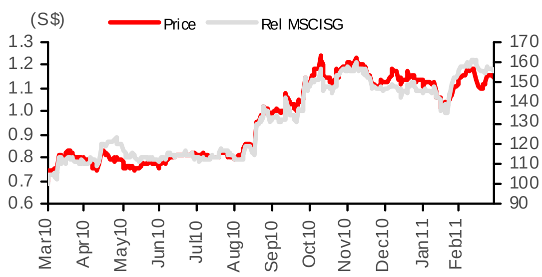
BIG is no longer a start-up company. In our view, its growth is underpinned by: 1) a core franchise with a significant market share (~15%); 2) 50%-owned JWMS, the No 2 player in China; and 3) accelerating royalties from Terumo (upon Nobori's approval in Japan). With net cash of US$188mn, the group is well positioned to drive M&A, further boosting earnings and competitiveness, in our view. BUY.

Key financials & valuations

31 Mar (US$mn)	FY10	FY11F	FY12F	FY13F
Revenue	116.2	154.3	206.8	273.1
Reported net profit	31.4	40.5	77.9	126.8
Normalised net profit	31.4	51.4	77.9	126.8
Normalised EPS (US$)	0.029	0.047	0.060	0.097
Norm. EPS growth (%)	na	60.8	26.2	62.8
Norm. P/E (x)	32.7	21.6	16.5	10.2
EV/EBITDA (x)	30.5	16.2	10.5	6.0
Price/book (x)	6.3	2.7	2.7	2.1
Dividend yield (%)	0.0	0.0	0.0	0.0
ROE (%)	25.3	16.1	19.6	25.3
Net debt/equity (%)	net cash	net cash	net cash	net cash
Earnings revisions				
Previous norm. net profit		51.4	77.9	126.8
Change from previous (%)		-	-	-
Previous norm. EPS (US$)		0.047	0.060	0.097

Source: Company, Nomura estimates

Share price relative to MSCISG



	1m	3m	6m
Absolute (S$)	-	1.8	16.2
Absolute (US$)	0.7	4.0	20.9
Relative to Index	(1.7)	6.5	17.5
Market cap (US$mn)			1,296
Estimated free float (%)			78.9
52-week range (S$)			1.24/0.70
3-mth avg daily turnover (US$mn)			6.38
Stock borrowability			Hard
Major shareholders (%)			
Hony Capital			21.1
Atlantis Invesments			8.2

Source: Company, Nomura estimates

Japan — the next leg of growth

Exhibit 51. SOTP valuation; risks to our PT

	(US$mn)	Nomura comment
DES franchise	676	DCF of BioMatrix over 6 years (WACC: 9.7%), terminal value at 15x P/E (previously 12x) of trough earnings of BioMatrix to reflect BIG's recent acquisitions (CardioMind, AXXESS) and BioFreedom's pending CE mark approval
Base business	106	DCF (WACC: 9.7%, terminal value: 0%)
JWMS	434	20x FY11/12F P/E (previously 22x)
PV of Terumo royalties	231	DCF value (WACC: 9.7%) over five-year licensing agreement
Net cash/(debt)	214	End-FY11F
Total (US$mn)	1,660	
Total (S$mn)	**2,125**	
Diluted # of shares ('000)	1,422	Assuming full dilution of outstanding options and warrants
Price target (S$/share)	**1.50**	Rounded off from 1.49 **Key risks to PT:** 1) Weakness in euro, ASP pressure worldwide. 2) Execution amid strong competition. Notwithstanding our positive view, BIG is still a small independent DES company, which will continue to see competition from dominant competitors and face execution issues per most small start-ups.

Source: Nomura estimates

Key catalyst: Nobori's approval in Japan – anytime now

Nobori has received preliminary regulatory clearance from the Ministry of Health and Welfare of Japan, paving the way for the imminent approval of the stent

Nobori has received preliminary regulatory clearance from the Ministry of Health and Welfare of Japan, paving the way for the imminent approval of the stent (see our report, *Nobori – one step closer to approval in Japan*, 3 March 2011). The Nobori stent, which is marketed by Terumo, has licensed Biosensors' proprietary technology, including the stent with biodegradable polymer and its proprietary Biolimus A-9 drug.

We estimate the DES market in Japan is worth approximately US$600mn, currently dominated by the four US medtech giants (Johnson & Johnson, Boston Scientific, Medtronic and Abbott). There is no locally made DES offered by Japanese medtech companies. According to Millennium Research, Nobori's market share will be significant upon its launch given Japanese physicians' loyalty to local companies (*Abbott Vascular Targets Asia Pacific*, 22 April 2010). In its recent 4Q10 results, Boston Scientific (BSX) warned of potential market share loss in Japan on the back of the launch of a new product by a "Japanese competitor" in early 2011 (presumably Terumo, in our view).

Moreover, Kyoto University has announced that it will conduct a 3,200 patient DES trial with Nobori, measuring it against Abbott's Xience V stent. We think this trial could provide a lift to the initial market share gain momentum as doctors enrol their patients into this trial.

Financial statements

Strong contributions from JWMS

Income statement (US$mn)					
Year-end 31 Mar	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
Revenue	74	116	154	207	273
Cost of goods sold	(29)	(32)	(35)	(44)	(49)
Gross profit	**44**	**84**	**119**	**163**	**224**
SG&A	(68)	(64)	(74)	(90)	(94)
Employee share expense					
Operating profit	**(23)**	**21**	**45**	**73**	**130**
EBITDA	**(20)**	**24**	**48**	**77**	**133**
Depreciation	(3)	(3)	(3)	(3)	(3)
Amortisation	(1)	(0)	(0)	(0)	(0)
EBIT	**(23)**	**21**	**45**	**73**	**130**
Net interest expense	(3)	(4)	(5)	(4)	(1)
Associates & JCEs	7	15	19	21	23
Other income	(6)	1	(1)	1	1
Earnings before tax	**(24)**	**33**	**58**	**92**	**153**
Income tax	(10)	(2)	(6)	(14)	(26)
Net profit after tax	**(34)**	**31**	**51**	**78**	**127**
Minority interests	-	-	-	-	-
Other items					
Preferred dividends	-	-	-	-	-
Normalised NPAT	**(34)**	**31**	**51**	**78**	**127**
Extraordinary items	33	-	(11)	-	-
Reported NPAT	**(1)**	**31**	**40**	**78**	**127**
Dividends	-	-	-	-	-
Transfer to reserves	**(1)**	**31**	**40**	**78**	**127**
Valuation and ratio analysis					
FD normalised P/E (x)	na	32.7	21.6	16.5	10.2
FD normalised P/E at price target (x)	na	42.6	28.1	21.6	13.2
Reported P/E (x)	na	29.0	24.3	15.2	9.3
Dividend yield (%)	-	-	-	-	-
Price/cashflow (x)	77.2	71.0	28.0	27.3	12.3
Price/book (x)	8.1	6.3	2.7	2.7	2.1
EV/EBITDA (x)	na	30.5	16.2	10.5	6.0
EV/EBIT (x)	na	33.1	17.0	10.9	6.1
Gross margin (%)	60.2	72.6	77.1	78.8	82.1
EBITDA margin (%)	(26.7)	20.5	30.9	37.0	48.7
EBIT margin (%)	(31.5)	17.9	28.9	35.5	47.5
Net margin (%)	(1.5)	27.0	26.2	37.7	46.4
Effective tax rate (%)	na	4.9	11.0	15.1	17.1
Dividend payout (%)	na	-	-	-	-
Capex to sales (%)	6.4	1.8	1.4	1.1	0.8
Capex to depreciation (x)	1.6	0.8	0.7	0.8	0.7
ROE (%)	(1.1)	25.3	16.1	19.6	25.3
ROA (pretax %)	(11.9)	23.3	33.9	42.7	59.5
Growth (%)					
Revenue	66.9	57.1	32.8	34.1	32.1
EBITDA	na	na	99.5	60.8	73.8
EBIT	na	na	114.1	64.9	76.9
Normalised EPS	na	na	60.8	26.2	62.8
Normalised FDEPS	na	na	61.1	30.5	62.8
Per share					
Reported EPS (US$)	(0.00)	0.03	0.04	0.06	0.10
Norm EPS (US$)	(0.03)	0.03	0.05	0.06	0.10
Fully diluted norm EPS (US$)	(0.03)	0.03	0.04	0.05	0.09
Book value per share (US$)	0.10	0.14	0.33	0.33	0.43
DPS (US$)	-	-	-	-	-

Source: Nomura estimates

Cashflow (US$mn)					
Year-end 31 Mar	FY09	FY10	FY11F	FY12F	FY13F
EBITDA	(20)	24	48	77	133
Change in working capital	(3)	(8)	(9)	(17)	(11)
Other operating cashflow	33	(3)	(4)	(17)	(26)
Cashflow from operations	**11**	**13**	**35**	**43**	**96**
Capital expenditure	(5)	(2)	(2)	(2)	(2)
Free cashflow	**6**	**11**	**33**	**41**	**94**
Reduction in investments	3	0	-	-	-
Net acquisitions	-	-	-	-	-
Reduction in other LT assets					
Addition in other LT liabilities	-	-	-	-	-
Adjustments	(1)	(0)	(7)	-	-
Cashflow after investing acts	**8**	**11**	**26**	**41**	**94**
Cash dividends	-	-	-	-	-
Equity issue	0	1	157	-	-
Debt issue	-	-	-	-	-
Convertible debt issue	(0)	(45)	4	(0)	(33)
Others	(3)	33	-	-	-
Cashflow from financial acts	**(3)**	**(11)**	**161**	**(0)**	**(33)**
Net cashflow	**6**	**0**	**187**	**41**	**61**
Beginning cash	54	60	60	247	288
Ending cash	60	61	247	288	349
Ending net debt	(13)	(31)	(214)	(255)	(349)

Source: Nomura estimates

Balance sheet (US$mn)					
As at 31 Mar	FY09	FY10	FY11F	FY12F	FY13F
Cash & equivalents	60	60	247	288	349
Marketable securities	-	-	-	-	-
Accounts receivable	19	26	35	41	49
Inventories	13	18	22	29	34
Other current assets	5	7	9	10	11
Total current assets	**98**	**111**	**313**	**369**	**444**
LT investments	0	-	-	-	-
Fixed assets	10	10	11	11	10
Goodwill	11	12	17	17	17
Other intangible assets	1	1	1	1	1
Other LT assets	78	94	109	130	153
Total assets	**198**	**228**	**452**	**528**	**624**
Short-term debt	47	0	-	-	-
Accounts payable	2	2	3	3	4
Other current liabilities	43	49	54	52	54
Total current liabilities	**92**	**51**	**57**	**55**	**58**
Long-term debt	-	29	33	33	-
Convertible debt	-	-	-	-	-
Other LT liabilities	2	3	3	3	3
Total liabilities	**95**	**83**	**92**	**91**	**60**
Minority interest	-	-	-	-	-
Preferred stock	-	-	-	-	-
Common stock	160	162	339	339	339
Retained earnings	(77)	(45)	(4)	73	200
Proposed dividends	-	-	-	-	-
Other equity and reserves	21	28	25	25	25
Total shareholders' equity	**104**	**145**	**359**	**437**	**564**
Total equity & liabilities	**198**	**228**	**452**	**528**	**624**
Liquidity (x)					
Current ratio	1.06	2.17	5.51	6.69	7.69
Interest cover	(8.4)	5.5	9.4	18.9	128.0
Leverage					
Net debt/EBITDA (x)	na	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Activity (days)					
Days receivable	67.5	70.1	71.9	67.7	60.4
Days inventory	159.4	180.6	204.6	212.5	237.3
Days payable	36.4	26.0	25.7	25.4	26.8
Cash cycle	190.4	224.7	250.9	254.8	270.8

Source: Nomura estimates

Fraser and Neave FNN SP

CONGLOMERATES | SINGAPORE

Jit Soon Lim, CFA +65 6433 6969 jitsoon.lim@nomura.com

NOMURA
NOMURA SINGAPORE LIMITED

Maintained

BUY

Action

Following a 7.5% YTD pullback (3% decline for STI), F&N's valuation looks attractive at 1.2x P/B and a 22% discount to our new SOTP-based PT of S$7.60. Despite rising material costs, the strong performance from soft drinks and breweries has cushioned margin pressure at its dairies division. The change in accounting for the Australian properties to the completion method resulted in 2% and 10% cuts to FY11F and FY12F EPS, respectively but an 11% lift in FY13F (revised on 28 March 2011). Reiterating BUY.

Catalysts

The advent of Kirin Holdings as a shareholder and a potential business partner could result in more product launches, leveraging the channels of both companies.

Anchor themes

F&N is growing its F&B business to be as large as its property business via organic growth and M&A. The group could eventually demerge its property and F&B activities.

Closing price on 30 Mar	S$5.93
Price target	S$7.60
	(set on 28 Mar 11)
Upside/downside	28.2%
Difference from consensus	17.5%
FY12F net profit (S$mn)	612
Difference from consensus	-13.9%

Source: Nomura

Nomura vs consensus

FY12F profit is below consensus, likely due to our recognition of the change in accounting rules for Australia; PT is above, as we recognise the value of F&N's growing F&B franchise.

Managing costs well

① Soft drinks and breweries see strong momentum

The group's soft drink and brewery divisions continue to see solid momentum, underpinned by volume gains. We believe rising material costs have been cushioned by manufacturing efficiencies and strong volume growth.

② Dairies hit by higher raw materials

Rising milk powder prices have had a negative impact on the group's dairy margins, resulting in a 28% decline in 1Q operating profit for the unit. However, F&N has put through price increases to claw back margins in 2H.

③ Singapore property offers good visibility

With many of its projects pre-sold, visibility for Singapore looks good, although the level of profits may pull back on the high base achieved last year. Due to an accounting change, profits from Australia will only be recognised on completion. This has the effect of cutting our FY11F and FY12F earnings forecasts by 2% and 10%, respectively, but lifting our FY13F number by 11% (revised on 28 March 2011).

④ Group rationalisation continues

The company's brewery unit, APB, recently announced the sale of its 21.5% Kingway Brewery stake in China to focus on the premium segment. This, in our view, reflects ongoing rationalisation to focus on group strengths.

⑤ Attractive valuation

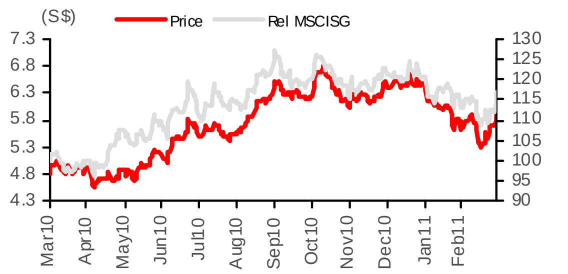
The stock is trading at a 22% discount to our SOTP-based PT of S$7.60 and at 1.2x FY11F P/B, with a dividend yield of 3%. Possible catalysts for re-rating include: 1) divestment of Times Publishing; and 2) Kirin accumulating more shares.

Key financials & valuations

30 Sep (S$mn)	FY10	FY11F	FY12F	FY13F
Revenue	5,697	5,972	6,226	7,852
Reported net profit	660	694	612	856
Normalised net profit	583	592	612	856
Normalised EPS (S$)	0.42	0.43	0.44	0.61
Norm. EPS growth (%)	62.7	1.7	3.3	39.9
Norm. P/E (x)	14.2	13.9	13.5	9.7
EV/EBITDA (x)	9.3	9.0	8.2	6.0
Price/book (x)	1.3	1.2	1.2	1.1
Dividend yield (%)	2.9	2.9	2.9	2.9
ROE (%)	10.7	10.5	8.8	11.3
Net debt/equity (%)	46.8	37.6	29.7	19.6
Earnings revisions				
Previous norm. net profit		592	612	856
Change from previous (%)		-	-	-
Previous norm. EPS (S$)		0.43	0.44	0.61

Source: Company, Nomura estimates

Share price relative to MSCISG



	1m	3m	6m
Absolute (S$)	3.9	(8.9)	(8.8)
Absolute (US$)	4.6	(6.9)	(5.0)
Relative to Index	2.2	(4.4)	(8.5)
Market cap (US$mn)			6,602
Estimated free float (%)			75.0
52-week range (S$)			6.80/4.55
3-mth avg daily turnover (US$mn)			10.86
Stock borrowability			Easy
Major shareholders (%)			
Kirin Holdings			15.0
Great Eastern Limited			10.0

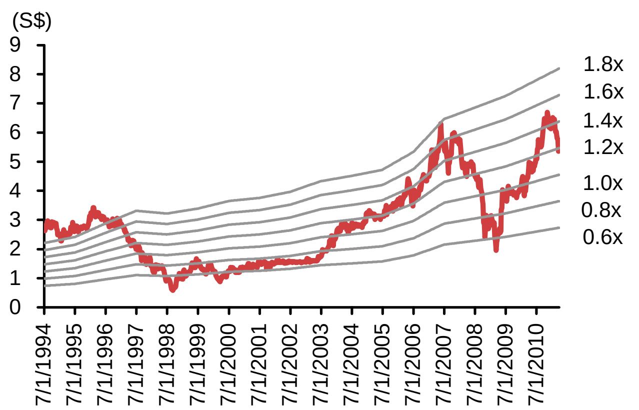
Source: Company, Nomura estimates

Reiterate BUY

Attractive valuation, in our view

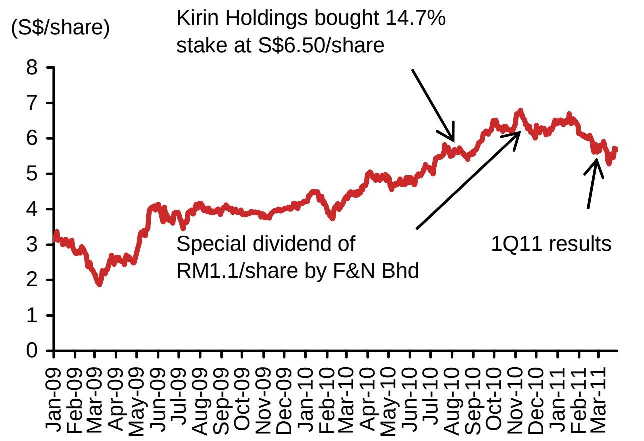
With the recent share price pullback, we believe F&N looks more attractive at 1.2x P/B and a 22% discount to our SOTP-based PT of S$7.60.

Exhibit 52. F&N: 12M forward P/B



Source: Bloomberg, Nomura research

Exhibit 53. F&N: price performance since Jan 2009



Source: Bloomberg, Nomura research

Exhibit 54. F&N: SOTP-based valuation

Listed companies	Stake (%)	Value (S$mn)	Remarks
F&N Malaysia (FNH MK)	57.3	1,351	Marked-to-market
Asia Pacific Breweries (APB SP)	39.7	2,343	Marked-to-market
Fung Choi Media (FUNG SP)	29.5	37	Marked-to-market
Frasers Centrepoint Trust (FCT SP)	42.7	478	Marked-to-market
China Dairy (CDG SP)	29.5	12	Marked-to-market
Vinamilk (VNM VN)	10.0	105	Marked-to-market
Frasers Commercial Trust (FCOT SP)	23.2	110	Marked-to-market
Valuation of listed investments		4,347	
Unlisted assets			
Times Publishing		310	5x FY11F EV/EBITDA
Myanmar Brewery		60	Book Value
FNN Foods Singapore		102	9x FY11F EV/EBITDA
Royalties for soft drinks/dairies brands		740	Capitalized at 10%
FCOT Convertible perpetual units		343	Following sale of Alexandra Technocentre to FCOT
AFS quoted investments		33	Book value
Property portfolio			
Development properties		5,387	DCF of development profits
Investment properties (includes serviced residence)		2,024	Book value
Property held for development (Bedok/Changi)		137	Book value
REIT management business		96	3% of REIT assets managed
Adjusted net debt		(2,447)	Adjusted for net debt of APB and FNH
SOTP Valuation		**11,222**	
Price Target (S$/share)		**7.60**	5% conglomerate discount to SOTP, rounded from 7.59

Source: Nomura estimates

Risks to our price target:

- Changes to equity market risk premiums.
- Unexpected deterioration in the economic and physical real estate market outlooks.
- Movements in the value of its listed entities.

Financial statements

Income statement (S$mn)					
Year-end 30 Sep	FY09	FY10	FY11F	FY12F	FY13F
Revenue	5,333	5,697	5,972	6,226	7,852
Cost of goods sold	(3,558)	(3,709)	(3,894)	(4,089)	(4,294)
Gross profit	**1,775**	**1,988**	**2,078**	**2,137**	**3,559**
SG&A	(990)	(999)	(1,115)	(1,122)	(2,185)
Employee share expense	-	-	-	-	-
Operating profit	**785**	**989**	**963**	**1,015**	**1,373**
EBITDA	**947**	**1,141**	**1,118**	**1,171**	**1,529**
Depreciation	(162)	(152)	(156)	(156)	(156)
Amortisation	-	-	-	-	-
EBIT	**785**	**989**	**963**	**1,015**	**1,373**
Net interest expense	(66)	(62)	(45)	(50)	(66)
Associates & JCEs	12	63	90	92	95
Other income	14	19	12	12	12
Earnings before tax	**744**	**1,009**	**1,019**	**1,070**	**1,414**
Income tax	(173)	(270)	(234)	(246)	(325)
Net profit after tax	**571**	**738**	**785**	**824**	**1,089**
Minority interests	(83)	(242)	(193)	(212)	(233)
Other items	(130)	86	-	-	-
Preferred dividends	-	-	-	-	-
Normalised NPAT	**358**	**583**	**592**	**612**	**856**
Extraordinary items	1	77	102	-	-
Reported NPAT	**360**	**660**	**694**	**612**	**856**
Dividends	(188)	(238)	(238)	(238)	(238)
Transfer to reserves	**172**	**422**	**456**	**374**	**618**
Valuation and ratio analysis					
FD normalised P/E (x)	23.1	14.2	13.9	13.5	9.7
FD normalised P/E at price target (x)	29.6	18.2	17.9	17.3	12.4
Reported P/E (x)	23.0	12.5	11.9	13.5	9.7
Dividend yield (%)	2.3	2.9	2.9	2.9	2.9
Price/cashflow (x)	7.0	19.9	11.5	10.2	10.2
Price/book (x)	1.5	1.3	1.2	1.2	1.1
EV/EBITDA (x)	12.5	9.3	9.0	8.2	6.0
EV/EBIT (x)	15.0	10.7	10.3	9.4	6.7
Gross margin (%)	33.3	34.9	34.8	34.3	45.3
EBITDA margin (%)	17.8	20.0	18.7	18.8	19.5
EBIT margin (%)	14.7	17.4	16.1	16.3	17.5
Net margin (%)	6.7	11.6	11.6	9.8	10.9
Effective tax rate (%)	23.3	26.8	23.0	23.0	23.0
Dividend payout (%)	52.3	36.1	34.3	39.0	27.8
Capex to sales (%)	8.9	(1.4)	4.0	0.4	2.0
Capex to depreciation (x)	2.9	(0.5)	1.5	0.2	1.0
ROE (%)	6.4	10.7	10.5	8.8	11.3
ROA (pretax %)	6.4	8.8	8.8	9.1	11.9
Growth (%)					
Revenue	6.9	6.8	4.8	4.3	26.1
EBITDA	7.7	20.5	(2.0)	4.7	30.6
EBIT	7.6	26.0	(2.7)	5.4	35.3
Normalised EPS	(15.7)	62.7	1.7	3.3	39.9
Normalised FDEPS	(15.7)	62.7	1.7	3.3	39.9
Per share					
Reported EPS (S$)	0.26	0.47	0.50	0.44	0.61
Norm EPS (S$)	0.26	0.42	0.43	0.44	0.61
Fully diluted norm EPS (S$)	0.26	0.42	0.43	0.44	0.61
Book value per share (S$)	4.01	4.41	4.75	5.01	5.46
DPS (S$)	0.13	0.17	0.17	0.17	0.17

Source: Nomura estimates

We see profit growth prospects underpinned by strong contribution from its F&B activities and property

Cashflow (S$mn)					
Year-end 30 Sep	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
EBITDA	947	1,141	1,118	1,171	1,529
Change in working capital	793	(494)	(41)	(134)	(227)
Other operating cashflow	(565)	(233)	(358)	(229)	(491)
Cashflow from operations	**1,176**	**415**	**719**	**808**	**811**
Capital expenditure	(474)	79	(241)	(24)	(154)
Free cashflow	**702**	**494**	**478**	**784**	**657**
Reduction in investments	(26)	(720)	(21)	(44)	(44)
Net acquisitions	-	-	-	-	-
Reduction in other LT assets	(353)	343	(0)	-	-
Addition in other LT liabilities	(20)	48	5	2	3
Adjustments	(303)	(166)	(461)	(743)	(617)
Cashflow after investing acts	**-**	**-**	**-**	**-**	**-**
Cash dividends	(66)	(316)	(238)	(238)	(238)
Equity issue	11	33	17	-	-
Debt issue	(134)	(726)	(390)	(410)	(583)
Convertible debt issue	-	-	-	-	-
Others	799	1,066	610	648	821
Cashflow from financial acts	**610**	**56**	**(1)**	**0**	**(0)**
Net cashflow	**610**	**56**	**(1)**	**0**	**(0)**
Beginning cash	1,033	1,643	1,699	1,698	1,698
Ending cash	1,643	1,699	1,698	1,698	1,697
Ending net debt	3,658	2,876	2,487	2,077	1,494

Source: Nomura estimates

Strong operating cashflow

Balance sheet (S$mn)					
As at 30 Sep	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
Cash & equivalents	1,643	1,699	1,698	1,698	1,698
Marketable securities	-	-	-	-	-
Accounts receivable	971	1,274	1,254	1,308	1,413
Inventories	4,431	4,701	4,891	4,931	5,152
Other current assets	281	270	249	250	250
Total current assets	**7,326**	**7,944**	**8,092**	**8,186**	**8,513**
LT investments	725	1,445	1,467	1,511	1,554
Fixed assets	4,854	3,284	3,331	3,331	3,331
Goodwill	-	-	-	-	-
Other intangible assets	420	650	641	641	641
Other LT assets	542	199	199	199	199
Total assets	**13,868**	**13,523**	**13,731**	**13,869**	**14,240**
Short-term debt	1,693	1,909	1,217	807	223
Accounts payable	1,442	1,489	1,561	1,627	1,727
Other current liabilities	302	323	360	254	254
Total current liabilities	**3,437**	**3,721**	**3,138**	**2,688**	**2,204**
Long-term debt	3,608	2,666	2,968	2,968	2,968
Convertible debt	-	-	-	-	-
Other LT liabilities	139	187	192	195	198
Total liabilities	**7,184**	**6,574**	**6,298**	**5,851**	**5,370**
Minority interest	1,099	806	818	1,030	1,263
Preferred stock	-	-	-	-	-
Common stock	1,342	1,375	1,391	1,391	1,391
Retained earnings	-	-	-	-	-
Proposed dividends	-	-	-	-	-
Other equity and reserves	4,243	4,768	5,224	5,597	6,215
Total shareholders' equity	**5,585**	**6,143**	**6,615**	**6,988**	**7,606**
Total equity & liabilities	**13,868**	**13,523**	**13,731**	**13,869**	**14,240**
Liquidity (x)					
Current ratio	2.13	2.13	2.58	3.05	3.86
Interest cover	11.8	15.9	21.5	20.5	20.8
Leverage					
Net debt/EBITDA (x)	3.86	2.52	2.22	1.77	0.98
Net debt/equity (%)	65.5	46.8	37.6	29.7	19.6
Activity (days)					
Days receivable	67.7	71.9	77.2	75.3	63.2
Days inventory	486.1	449.3	449.5	439.6	428.6
Days payable	137.8	144.2	142.9	142.7	142.6
Cash cycle	415.9	377.0	383.8	372.2	349.2

Source: Nomura estimates

Venture Corp VMS SP

TECHNOLOGY/PC HARDWARE | SINGAPORE

Nitin Kumar +886 2 2176 9968 nitin.kumar@nomura.com

Maintained

BUY

NOMURA

NOMURA INTERNATIONAL (HK) LIMITED
TAIPEI BRANCH

Action

While the Japan earthquake has increased component supply constraints, as seen in rising ASPs, we believe Venture is better positioned than peers given higher inventory levels. With working capital improvements enabling a likely rise in FCF yield from 2% in FY10 to 11% in FY11F, Venture's higher dividends could be sustained. Reiterate BUY on 1) attractive dividend yields and 2) better product mix.

Catalysts

1) Expansion of FCF yields in FY11F, as company resumes focus on working capital management after using cash to improve supply availability in 2010 and 2) recovery in RSS/T&M sales continues.

Anchor themes

Venture has expanded its ODM business from printing to networking, test/ measurement and medical. This strategy provides greater support to margins than pure EMS manufacturing.

Closing price on 30 Mar	S$9.56
Price target	**S$11.50**
	(set on 27 Apr 10)
Upside/downside	20.3%
Difference from consensus	**-1.5%**
FY11F net profit (S$mn)	206.7
Difference from consensus	**-4.6%**

Source: Nomura

Nomura vs consensus

We remain conservative on margin expansion at Venture as it increases its ODM and solutions product mix.

Component constraints in 1H11F

① Component supply constraints post Japan earthquake

The Japanese earthquake has resulted in supply disruptions in multiple segments which primarily impact semi-wafer supply, LCD panel supply and key passives, eg, tantalum components. As such, component ASPs have started to increase — DRAM contract prices have risen 3~6% h-h in March, NAND flash ASPs are up 3~7% h-h.

While Venture, at its earnings call in February, had noted a cautious outlook for 1Q11F, we believe component constraints could have marginally negative pressure on sales and margins. That said, we believe, compared to its peers, Venture is better placed as it still held higher inventories of components exiting 4Q10. We maintain our forecasts, with expectations for uptick in 2H11F from pent-up demand.

② FCF yields should expand as working capital improves

At end-2010, Venture's cash cycle days stood at 90-95 (typical: 70-80 days) as it had used cash to secure inventory of key components amid shortages, which are now behind us. While we see this excess inadvertently benefitting Venture amid current supply constraints, we expect Venture to continue improving working capital management. We forecast Venture's FCF yields will rise from 2% in FY10 to 11%. This is sufficient to support 5.8% dividend yields on higher dividends, in our view.

③ Reiterate BUY with PT maintained at S$11.50

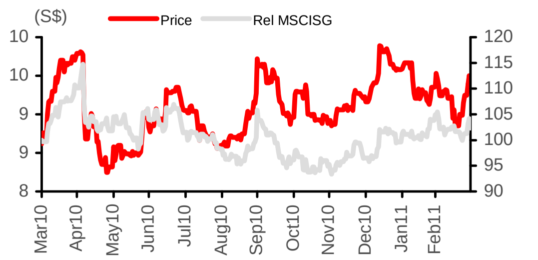
We see FY11/12F gross margins at 14% (+0.2pp y-y) and 14.1% (+0.1pp y-y), respectively. We reiterate our BUY rating and see catalysts from: 1) attractive dividend yield of 6% with FCF improvements ahead and 2) improving product mix, enabling EBIT margin improvements.

Key financials & valuations

31 Dec (S$mn)	FY09	FY10	FY11F	FY12F
Revenue	3,413	2,676	2,903	3,117
Reported net profit	143.3	188.3	206.7	226.8
Normalised net profit	162.2	191.3	206.7	226.8
Normalised EPS (S$)	0.59	0.70	0.75	0.83
Norm. EPS growth (%)	(42.4)	17.9	8.0	9.7
Norm. P/E (x)	16.6	14.1	13.1	11.9
EV/EBITDA (x)	10.6	9.8	8.5	7.5
Price/book (x)	1.4	1.4	1.4	1.3
Dividend yield (%)	5.2	5.8	5.8	5.8
ROE (%)	7.6	10.1	10.9	11.6
Net debt/equity (%)	net cash	net cash	net cash	net cash
Earnings revisions				
Previous norm. net profit		191.3	206.5	226.3
Change from previous (%)		-	-	-
Previous norm. EPS (S$)		0.70	0.75	0.83

Source: Company, Nomura estimates

Share price relative to MSCISG



	1m	3m	6m
Absolute (S$)	-	2.5	(2.6)
Absolute (US$)	0.7	4.8	1.4
Relative to Index	(3.1)	5.9	(3.5)
Market cap (US$mn)			2,078
Estimated free float (%)			54.1
52-week range (S$)			9.99/8.35
3-mth avg daily turnover (US$mn)			2.95
Stock borrowability			Easy
Major shareholders (%)			
Aberdeen Asset Mgmt			21.1
Fidelity Management			8.5

Source: Company, Nomura estimates

Exhibit 55. Venture cash cycle days have room for improvements as inventories are worked down

(days)	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10
Payable	52	53	55	50	53	55	57	56	65	57	65	53
Inventory	66	66	73	62	73	53	51	53	87	88	91	77
Receivable	59	59	59	54	58	63	58	59	59	65	63	68
Cash cycle	73	73	78	66	78	61	52	55	81	95	90	92

Source: Company data, Nomura Singapore

Exhibit 56. Valuation comparison

			Price	P/E (x)		P/BV (x)		Goodwill as	Adjusted P/BV*		Adjusted ROE (%)*	
	Blbg code	Rating	30-Mar-11	FY11F	FY12F	FY11F	FY12F	% of equity	FY11F	FY12F	FY11F	FY12F
Venture	VMS SP	BUY	9.56	12.7	11.6	1.4	1.3	35.3	2.0	1.9	16.0	16.7
Celestica	CLS US	Not rated	10.82	10.1	9.0	1.4	1.3	0.8	1.5	1.3	15.2	14.1
Flextronics	FLEX US	Not rated	7.61	7.4	6.8	2.0	1.5	0.0	2.0	1.5	26.5	22.1
Jabil Circuits	JBL US	Not rated	21.19	9.6	8.5	2.3	1.9	1.7	2.4	1.9	24.8	22.9
Hon Hai Precision	2317 TT	NEUTRAL	104.50	11.6	10.0	1.9	1.7	0.0	1.9	1.7	16.7	17.0
Plexus	PLXS US	Not rated	35.11	15.8	12.9	1.9	1.7	0.0	1.9	1.7	12.3	13.3
Sanmina	SANM US	Not rated	10.96	5.9	4.7	1.1	0.9	0.0	1.1	0.9	19.6	19.9
Average									**1.8**			

Note: Venture and Hon Hai Precision are Nomura estimates; all other companies are Bloomberg consensus estimates.
* Adjusted for goodwill.

Source: Company data, Bloomberg, Nomura Singapore estimates

Valuation methodology. Our PT of S$11.50 is derived from a peer-average FY11F P/BV of adjusted for goodwill to which we add FY11F cash per share of S$1.60 and announced dividend of S$0.55.

Downside risks to our PT include: 1) Sharp appreciation of the Singapore dollar, which may result in an incremental increase in operating expenses (note: both COGS and sales are US dollar denominated); 2) slower-than-expected growth from new higher margins businesses for Venture resulting in slower margin expansion and 3) broader slowdown in capex spending if macro concerns expand.

Financial statements

Income statement (S$mn)					
Year-end 31 Dec	FY08	FY09	FY10	FY11F	FY12F
Revenue	3,784	3,413	2,676	2,903	3,117
Cost of goods sold	(3,315)	(3,087)	(2,308)	(2,498)	(2,678)
Gross profit	**469**	**325**	**368**	**405**	**439**
SG&A	(193)	(170)	(178)	(193)	(208)
Employee share expense					
Operating profit	**277**	**155**	**190**	**212**	**232**
EBITDA	**337**	**215**	**243**	**267**	**288**
Depreciation	(41)	(41)	(35)	(36)	(38)
Amortisation	(20)	(19)	(18)	(19)	(19)
EBIT	**277**	**155**	**190**	**212**	**232**
Net interest expense	8	3	0	2	3
Associates & JCEs	0	(1)	1	-	-
Other income	2	2	2	2	2
Earnings before tax	**288**	**160**	**193**	**215**	**236**
Income tax	(5)	3	(2)	(9)	(9)
Net profit after tax	**283**	**162**	**191**	**207**	**227**
Minority interests	(1)	(0)	-	-	-
Other items					
Preferred dividends					
Normalised NPAT	**282**	**162**	**191**	**207**	**227**
Extraordinary items	(115)	(19)	(3)	-	-
Reported NPAT	**167**	**143**	**188**	**207**	**227**
Dividends	(137)	(137)	(151)	(151)	(151)
Transfer to reserves	**30**	**6**	**37**	**56**	**76**
Valuation and ratio analysis					
FD normalised P/E (x)	9.5	16.6	14.1	13.1	11.9
FD normalised P/E at price target (x)	11.5	20.0	17.0	15.7	14.3
Reported P/E (x)	15.7	18.3	13.9	12.7	11.6
Dividend yield (%)	5.2	5.2	5.8	5.8	5.8
Price/cashflow (x)	7.1	8.1	38.6	8.7	9.3
Price/book (x)	1.4	1.4	1.4	1.4	1.3
EV/EBITDA (x)	7.2	10.6	9.8	8.5	7.5
EV/EBIT (x)	8.8	14.7	12.4	10.7	9.3
Gross margin (%)	12.4	9.5	13.8	14.0	14.1
EBITDA margin (%)	8.9	6.3	9.1	9.2	9.3
EBIT margin (%)	7.3	4.6	7.1	7.3	7.4
Net margin (%)	4.4	4.2	7.0	7.1	7.3
Effective tax rate (%)	1.8	(1.7)	1.1	4.0	4.0
Dividend payout (%)	82.3	95.7	80.1	73.0	66.5
Capex to sales (%)	0.9	0.5	1.0	0.9	0.8
Capex to depreciation (x)	0.8	0.4	0.8	0.7	0.7
ROE (%)	8.8	7.6	10.1	10.9	11.6
ROA (pretax %)	11.2	6.8	9.0	10.2	11.3
Growth (%)					
Revenue	(2.3)	(9.8)	(21.6)	8.5	7.4
EBITDA	(1.5)	(36.3)	12.8	10.1	8.0
EBIT	(0.1)	(43.8)	22.4	11.3	9.3
Normalised EPS	(0.9)	(42.4)	17.9	8.0	9.7
Normalised FDEPS	(2.4)	(42.6)	17.8	8.0	9.7
Per share					
Reported EPS (S$)	0.61	0.52	0.69	0.75	0.83
Norm EPS (S$)	1.03	0.59	0.70	0.75	0.83
Fully diluted norm EPS (S$)	1.00	0.58	0.68	0.73	0.80
Book value per share (S$)	6.91	6.79	6.76	7.01	7.28
DPS (S$)	0.50	0.50	0.55	0.55	0.55

Source: Nomura estimates

FY11F sales to grow 8.5% y-y after the 21.6% y-y decline in 2010 as Venture exited the low-margin printing business

Dividend yield expands to 6% as management raises dividends by 10%

Margins to expand further as product mix improvements continue

Cashflow (S$mn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10**	**FY11F**	**FY12F**
EBITDA	337	215	243	267	288
Change in working capital	46	118	(111)	(4)	(6)
Other operating cashflow	(14)	(8)	(64)	(7)	(5)
Cashflow from operations	**370**	**325**	**68**	**256**	**278**
Capital expenditure	(33)	(16)	(26)	(26)	(26)
Free cashflow	**337**	**309**	**42**	**230**	**252**
Reduction in investments	164	(62)	(17)	-	-
Net acquisitions	(26)	-	-	-	-
Reduction in other LT assets	(1)	96	(0)	-	-
Addition in other LT liabilities	(20)	(4)	(4)	1	1
Adjustments	(111)	(30)	22	(1)	(1)
Cashflow after investing acts	**343**	**308**	**43**	**230**	**252**
Cash dividends	(137)	(137)	(137)	(151)	(151)
Equity issue	-	-	11	-	-
Debt issue	(189)	(102)	(24)	1	1
Convertible debt issue					
Others	4	(15)	(17)	-	-
Cashflow from financial acts	**(323)**	**(255)**	**(168)**	**(150)**	**(150)**
Net cashflow	**20**	**53**	**(125)**	**80**	**102**
Beginning cash	493	514	567	442	522
Ending cash	514	567	442	522	623
Ending net debt	(192)	(343)	(238)	(318)	(420)

Source: Nomura estimates

Balance sheet (S$mn)					
As at 31 Dec	**FY08**	**FY09**	**FY10**	**FY11F**	**FY12F**
Cash & equivalents	514	567	442	522	623
Marketable securities	-	-	-	-	-
Accounts receivable	537	588	524	568	610
Inventories	539	476	513	513	513
Other current assets	195	52	23	23	23
Total current assets	**1,785**	**1,683**	**1,502**	**1,626**	**1,770**
LT investments	43	105	122	122	122
Fixed assets	196	165	145	147	136
Goodwill	642	642	641	624	607
Other intangible assets	137	132	118	116	113
Other LT assets	114	18	18	18	18
Total assets	**2,916**	**2,744**	**2,545**	**2,653**	**2,766**
Short-term debt	202	224	83	83	83
Accounts payable	437	509	353	382	410
Other current liabilities	230	121	111	122	131
Total current liabilities	**869**	**854**	**547**	**588**	**624**
Long-term debt	120	-	120	120	120
Convertible debt					
Other LT liabilities	29	25	21	22	22
Total liabilities	**1,017**	**879**	**688**	**729**	**767**
Minority interest	3	3	3	3	3
Preferred stock					
Common stock	672	672	672	672	672
Retained earnings	1,343	1,350	1,402	1,469	1,545
Proposed dividends					
Other equity and reserves	(119)	(159)	(220)	(220)	(220)
Total shareholders' equity	**1,896**	**1,863**	**1,855**	**1,921**	**1,997**
Total equity & liabilities	**2,916**	**2,744**	**2,545**	**2,653**	**2,766**
Liquidity (x)					
Current ratio	2.05	1.97	2.74	2.77	2.84
Interest cover	na	na	na	na	na
Leverage					
Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Activity (days)					
Days receivable	55.9	60.2	75.9	68.7	69.2
Days inventory	60.0	60.0	78.2	75.0	70.2
Days payable	50.2	55.9	68.2	53.7	54.1
Cash cycle	65.7	64.3	85.9	90.0	85.3

Source: Nomura estimates

Other Team Members:

Tushar Mohata (Associate) — All enquiries arising from this note should be directed to Jit Soon Lim.

Any Authors named on this report are Research Analysts unless otherwise indicated

Analyst Certification

We, Jit Soon Lim, Yuan-Yiu Tsai, Lisa Lee, Anand Pathmakanthan, Tanuj Shori, Ken Arieff Wong, Tushar Mohata, Andrew Kam Wing Lee and Cecilia Chan, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

Important Disclosures

Conflict-of-interest disclosures
Important disclosures may be accessed through the following website: http://www.nomura.com/research/pages/disclosures/disclosures.aspx . If you have difficulty with this site or you do not have a password, please contact your Nomura Securities International, Inc. salesperson (1-877-865-5752) or email grpsupport-eu@nomura.com for assistance.

Online availability of research and additional conflict-of-interest disclosures
Nomura Japanese Equity Research is available electronically for clients in the US on NOMURA.COM, REUTERS, BLOOMBERG and THOMSON ONE ANALYTICS. For clients in Europe, Japan and elsewhere in Asia it is available on NOMURA.COM, REUTERS and BLOOMBERG.
Important disclosures may be accessed through the left hand side of the Nomura Disclosure web page http://www.nomura.com/research or requested from Nomura Securities International, Inc., on 1-877-865-5752. If you have any difficulties with the website, please email grpsupport-eu@nomura.com for technical assistance.

The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by Investment Banking activities.

Industry Specialists identified in some Nomura International plc research reports are employees within the Firm who are responsible for the sales and trading effort in the sector for which they have coverage. Industry Specialists do not contribute in any manner to the content of research reports in which their names appear.
Marketing Analysts identified in some Nomura research reports are research analysts employed by Nomura International plc who are primarily responsible for marketing Nomura's Equity Research product in the sector for which they have coverage. Marketing Analysts may also contribute to research reports in which their names appear and publish research on their sector.

Distribution of ratings (Global)
Nomura Global Equity Research has 2027 companies under coverage.
48% have been assigned a Buy rating which, for purposes of mandatory disclosures, are classified as a Buy rating; 38% of companies with this rating are investment banking clients of the Nomura Group*.
38% have been assigned a Neutral rating which, for purposes of mandatory disclosures, is classified as a Hold rating; 48% of companies with this rating are investment banking clients of the Nomura Group*.
12% have been assigned a Reduce rating which, for purposes of mandatory disclosures, are classified as a Sell rating; 13% of companies with this rating are investment banking clients of the Nomura Group*.
As at 31 December 2010.
**The Nomura Group as defined in the Disclaimer section at the end of this report.*

Explanation of Nomura's equity research rating system in Europe, Middle East and Africa, US and Latin America for ratings published from 27 October 2008
The rating system is a relative system indicating expected performance against a specific benchmark identified for each individual stock. Analysts may also indicate absolute upside to target price defined as (fair value - current price)/current price, subject to limited management discretion. In most cases, the fair value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as discounted cash flow or multiple analysis, etc.

STOCKS
A rating of '**Buy**', indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months.
A rating of '**Neutral**', indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months.
A rating of '**Reduce**', indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months.
A rating of '**Suspended**', indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the company.
Benchmarks are as follows: **United States/Europe**: Please see valuation methodologies for explanations of relevant benchmarks for stocks (accessible through the left hand side of the Nomura Disclosure web page: http://www.nomura.com/research);**Global Emerging Markets (ex-Asia):** MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology.

SECTORS
A '**Bullish'** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months.
A '**Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months.
A '**Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months.
Benchmarks are as follows: **United States**: S&P 500; **Europe**: Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia.

Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Target Price - Current Price) / Current Price, subject to limited management discretion. In most cases, the Target Price will equal the analyst's 12-month intrinsic valuation of the stock, based on an appropriate valuation methodology such as discounted cash flow, multiple analysis, etc.
A **'Buy'** recommendation indicates that potential upside is 15% or more.
A **'Neutral'** recommendation indicates that potential upside is less than 15% or downside is less than 5%.
A **'Reduce'** recommendation indicates that potential downside is 5% or more.
A rating of '**Suspended'** indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the subject company.
Securities and/or companies that are labelled as **'Not rated'** or shown as **'No rating'** are not in regular research coverage of the Nomura entity identified in the top banner. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies.

SECTORS

A **'Bullish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.
A **'Neutral'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.
A **'Bearish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009 (and ratings in Europe, Middle East and Africa, US and Latin America published prior to 27 October 2008)

STOCKS

A rating of '1' or **'Strong buy'**, indicates that the analyst expects the stock to outperform the Benchmark by 15% or more over the next six months.
A rating of '2' or **'Buy'**, indicates that the analyst expects the stock to outperform the Benchmark by 5% or more but less than 15% over the next six months.
A rating of '3' or **'Neutral'**, indicates that the analyst expects the stock to either outperform or underperform the Benchmark by less than 5% over the next six months.
A rating of '4' or **'Reduce'**, indicates that the analyst expects the stock to underperform the Benchmark by 5% or more but less than 15% over the next six months.
A rating of '5' or **'Sell'**, indicates that the analyst expects the stock to underperform the Benchmark by 15% or more over the next six months.
Stocks labeled **'Not rated'** or shown as **'No rating'** are not in Nomura's regular research coverage. Nomura might not publish additional research reports concerning this company, and it undertakes no obligation to update the analysis, estimates, projections, conclusions or other information contained herein.

SECTORS

A **'Bullish'** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next six months.
A **'Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next six months.
A **'Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next six months.
Benchmarks are as follows: **Japan**: TOPIX; **United States**: S&P 500, MSCI World Technology Hardware & Equipment; **Europe**, by sector - *Hardware/Semiconductors*: FTSE W Europe IT Hardware; *Telecoms*: FTSE W Europe Business Services; *Business Services*: FTSE W Europe; *Auto & Components*: FTSE W Europe Auto & Parts; *Communications equipment*: FTSE W Europe IT Hardware; **Ecology Focus**: Bloomberg World Energy Alternate Sources; **Global Emerging Markets**: MSCI Emerging Markets ex-Asia.

Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Fair Value - Current Price)/Current Price, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value. Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.
A **'Strong buy'** recommendation indicates that upside is more than 20%.
A **'Buy'** recommendation indicates that upside is between 10% and 20%.
A **'Neutral'** recommendation indicates that upside or downside is less than 10%.
A **'Reduce'** recommendation indicates that downside is between 10% and 20%.
A **'Sell'** recommendation indicates that downside is more than 20%.

SECTORS

A **'Bullish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.
A **'Neutral'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.
A **'Bearish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

Target Price

A Target Price, if discussed, reflect in part the analyst's estimates for the company's earnings. The achievement of any target price may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.

Disclaimers

This publication contains material that has been prepared by the Nomura entity identified on the banner at the top or the bottom of page 1 herein and, if applicable, with the contributions of one or more Nomura entities whose employees and their respective affiliations are specified on page 1 herein or elsewhere identified in the publication. Affiliates and subsidiaries of Nomura Holdings, Inc. (collectively, the 'Nomura Group'), include: Nomura Securities Co., Ltd. ('NSC') Tokyo, Japan; Nomura International plc, United Kingdom; Nomura Securities International, Inc. ('NSI'), New York, NY; Nomura International (Hong Kong) Ltd., Hong Kong; Nomura Financial Investment (Korea) Co., Ltd., Korea (Information on Nomura analysts registered with the Korea Financial Investment Association ('KOFIA') can be found on the KOFIA Intranet at http://dis.kofia.or.kr); Nomura Singapore Ltd., Singapore (Registration number 197201440E, regulated by the Monetary Authority of Singapore); Capital Nomura Securities Public Company Limited; Nomura Australia Ltd., Australia (ABN 48 003 032 513), regulated by the Australian Securities and Investment Commission and holder of an Australian financial services licence number 246412; P.T. Nomura Indonesia, Indonesia; Nomura Securities Malaysia Sdn. Bhd., Malaysia; Nomura International (Hong Kong) Ltd., Taipei Branch, Taiwan; Nomura Financial Advisory and Securities (India) Private Limited, Mumbai, India (Registered Address: Ceejay House, Level 11, Plot F, Shivsagar Estate, Dr. Annie Besant Road, Worli, Mumbai- 400 018, India; SEBI Registration No: BSE INB011299030, NSE INB231299034, INF231299034, INE 231299034).

THIS MATERIAL IS: (I) FOR YOUR PRIVATE INFORMATION, AND WE ARE NOT SOLICITING ANY ACTION BASED UPON IT; (II) NOT TO BE CONSTRUED AS AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITY IN ANY JURISDICTION WHERE SUCH OFFER OR SOLICITATION WOULD BE ILLEGAL; AND (III) BASED UPON INFORMATION THAT WE CONSIDER RELIABLE.

NOMURA GROUP DOES NOT WARRANT OR REPRESENT THAT THE PUBLICATION IS ACCURATE, COMPLETE, RELIABLE, FIT FOR ANY PARTICULAR PURPOSE OR MERCHANTABLE AND DOES NOT ACCEPT LIABILITY FOR ANY ACT (OR DECISION NOT TO ACT) RESULTING FROM USE OF THIS PUBLICATION AND RELATED DATA. TO THE MAXIMUM EXTENT PERMISSIBLE ALL WARRANTIES AND OTHER ASSURANCES BY NOMURA GROUP ARE HEREBY EXCLUDED AND NOMURA GROUP SHALL HAVE NO LIABILITY FOR THE USE, MISUSE, OR DISTRIBUTION OF THIS INFORMATION.

Opinions expressed are current opinions as of the original publication date appearing on this material only and the information, including the opinions contained herein, are subject to change without notice. Nomura is under no duty to update this publication. If and as applicable, NSI's investment banking relationships, investment banking and non-investment banking compensation and securities ownership (identified in this report as 'Disclosures Required in the United States'), if any, are specified in disclaimers and related disclosures in this report. In addition, other members of the Nomura Group may from time to time perform investment banking or other services (including acting as advisor, manager or lender) for, or solicit investment banking or other business from, companies mentioned herein. Furthermore, the Nomura Group, and/or its officers, directors and employees, including persons, without limitation, involved in the preparation or issuance of this material may, to the extent permitted by applicable law and/or regulation, have long or short positions in, and buy or sell, the securities (including ownership by NSI, referenced above), or derivatives (including options) thereof, of companies mentioned herein, or related securities or derivatives. For financial instruments admitted to trading on an EU regulated market, Nomura Holdings Inc's affiliate or its subsidiary companies may act as market maker or liquidity provider (in accordance with the interpretation of these definitions under FSA rules in the UK) in the financial instruments of the issuer. Where the activity of liquidity provider is carried out in accordance with the definition given to it by specific laws and regulations of other EU jurisdictions, this will be separately disclosed within this report. Furthermore, the Nomura Group may buy and sell certain of the securities of companies mentioned herein, as agent for its clients.

Investors should consider this report as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Please see the further disclaimers in the disclosure information on companies covered by Nomura analysts available at www.nomura.com/research under the 'Disclosure' tab.

Nomura Group produces a number of different types of research product including, among others, fundamental analysis, quantitative analysis and short term trading ideas; recommendations contained in one type of research product may differ from recommendations contained in other types of research product, whether as a result of differing time horizons, methodologies or otherwise; it is possible that individual employees of Nomura may have different perspectives to this publication.

NSC and other non-US members of the Nomura Group (i.e. excluding NSI), their officers, directors and employees may, to the extent it relates to non-US issuers and is permitted by applicable law, have acted upon or used this material prior to, or immediately following, its publication.

Foreign-currency-denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of, or income derived from, the investment. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies, effectively assume currency risk.

The securities described herein may not have been registered under the US Securities Act of 1933, and, in such case, may not be offered or sold in the United States or to US persons unless they have been registered under such Act, or except in compliance with an exemption from the registration requirements of such Act. Unless governing law permits otherwise, you must contact a Nomura entity in your home jurisdiction if you want to use our services in effecting a transaction in the securities mentioned in this material.

This publication has been approved for distribution in the United Kingdom and European Union as investment research by Nomura International plc ('NIPlc'), which is authorized and regulated by the UK Financial Services Authority ('FSA') and is a member of the London Stock Exchange. It does not constitute a personal recommendation, as defined by the FSA, or take into account the particular investment objectives, financial situations, or needs of individual investors. It is intended only for investors who are 'eligible counterparties' or 'professional clients' as defined by the FSA, and may not, therefore, be redistributed to retail clients as defined by the FSA. This publication may be distributed in Germany via Nomura Bank (Deutschland) GmbH, which is authorized and regulated in Germany by the Federal Financial Supervisory Authority ('BaFin'). This publication has been approved by Nomura International (Hong Kong) Ltd. ('NIHK'), which is regulated by the Hong Kong Securities and Futures Commission, for distribution in Hong Kong by NIHK. This publication has been approved for distribution in Australia by Nomura Australia Ltd, which is authorized and regulated in Australia by the Australian Securities and Investment Commission ('ASIC'). This publication has also been approved for distribution in Malaysia by Nomura Securities Malaysia Sdn Bhd. In Singapore, this publication has been distributed by Nomura Singapore Limited ('NSL'). NSL accepts legal responsibility for the content of this publication, where it concerns securities, futures and foreign exchange, issued by their foreign affiliates in respect of recipients who are not accredited, expert or institutional investors as defined by the Securities and Futures Act (Chapter 289). Recipients of this publication should contact NSL in respect of matters arising from, or in connection with, this publication. Unless prohibited by the provisions of Regulation S of the U.S. Securities Act of 1933, this material is distributed in the United States, by Nomura Securities International, Inc., a US-registered broker-dealer, which accepts responsibility for its contents in accordance with the provisions of Rule 15a-6, under the US Securities Exchange Act of 1934.

This publication has not been approved for distribution in the Kingdom of Saudi Arabia or to clients other than 'professional clients' in the United Arab Emirates by Nomura Saudi Arabia, Nomura International plc or any other member of the Nomura Group, as the case may be. Neither this publication nor any copy thereof may be taken or transmitted or distributed, directly or indirectly, by any person other than those authorised to do so into the Kingdom of Saudi Arabia or in the United Arab Emirates or to any person located in the Kingdom of Saudi Arabia or to clients other than 'professional clients' in the United Arab Emirates. By accepting to receive this publication, you represent that you are not located in the Kingdom of Saudi Arabia or that you are a 'professional client' in the United Arab Emirates and agree to comply with these restrictions. Any failure to comply with these restrictions may constitute a violation of the laws of the Kingdom of Saudi Arabia or the United Arab Emirates.
No part of this material may be (i) copied, photocopied, or duplicated in any form, by any means; or (ii) redistributed without the prior written consent of the Nomura Group member identified in the banner on page 1 of this report. Further information on any of the securities mentioned herein may be obtained upon request. If this publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this publication, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

Additional information available upon request

NIPlc and other Nomura Group entities manage conflicts identified through the following: their Chinese Wall, confidentiality and independence policies, maintenance of a Restricted List and a Watch List, personal account dealing rules, policies and procedures for managing conflicts of interest arising from the allocation and pricing of securities and impartial investment research and disclosure to clients via client documentation.

Disclosure information is available at the Nomura Disclosure web page:

http://www.nomura.com/research/pages/disclosures/disclosures.aspx

Nomura Singapore Limited Tel: +65 6433 6288
5 Temasek Boulevard #11-01, Suntec Tower Five, Singapore 038985, Singapore Fax: + 65 6433 6169

MICA (P) 108/07/2010 valid until 1 July 2011 / RCB no: 197201440E

Caring for the environment: to receive only the electronic versions of our research, please contact your sales representative.