

Brokers' Take

9 April 2008

Singapore Marine Sector DBS Group Research, April 8

WE RECENTLY completed a three- week global investment roadshow on the marine sector, presenting to 74 fund managers based in Singapore, Hong Kong, and the US.

We found that while most of the funds have generally maintained their interest in the sector and believed that values are emerging from current levels, they were sticking to the cash-is-king maxim amidst a still volatile market. Almost all agreed with our view that we have to be selective on the stock picks even if the general market is to pick up from here.

A ballpark 10 per cent of all funds preferred to stay out of the marine sector, as they were concerned that we might have already reached the peak of the cycle for both the shipbuilders and the players in the oil and gas sub-sector. We shared our views that the rig builders and offshore Epic (engineering, procurement, installation and construction) players may benefit from the longer-than-expected upcycle, due to their exposure to the production phase of an oil field's life-cycle. However, we believe that investors will need to be cautious on the ability of shipbuilders to translate record order backlogs and revenue visibility into actual earnings growth from 2009 onwards. This is due to rising execution risks amidst a depreciating US dollar, higher labour cost, and rising steel prices.

We prefer stocks like Ezra and Swiber, with exposure to offshore Epic works, as well as SembCorp Marine, a beneficiary of rising demand for production platforms. We also like Cosco Corp, and investors who have dumped its shares like any other Chinese shipyards are largely ignoring its more diversified earnings in ship repair and the growing offshore business. We also like Jaya and Swissco, which are seen as attractive asset and value plays. Sector - NEUTRAL

Pacific Healthcare April 8 close: S\$0.325 CIMB-GK Research, April 8

PACIFIC Healthcare has signed a consultancy and management agreement with Bangkok Mediplex Co (BMC).

Under the agreement, Pacific Healthcare will help to conceptualise and manage Bangkok Mediplex, the first non-hospital complex in Thailand focusing on integrated multi-disciplinary specialist healthcare services. The group will also assist Bangkok Mediplex to establish a compounding pharmacy as part of its anti-ageing medicine unit, and provide advanced training in implant and cosmetic dentistry. It expects to reap more than \$500,000 from this maiden contract in Thailand.

Bangkok Mediplex, which is expected to open in June, aims to service local residents as well as medical tourists to Thailand. It will occupy 70,000 square feet across four floors of commercial space in downtown Sukhumvit, in a 33-storey condominium development called Nusasiri Grand Condo Sukhumvit-Ekkamai with direct access to the Ekkamai BTS Station.

We view this contract positively as management contracts are very lucrative. Such arrangements give healthcare providers additional and recurring revenue streams without heavy sinking costs.

We have increased our FY2008-10 net profit estimates by 0.3-0.5 per cent to account for the additional revenue from the management contract. Accordingly, our target price rises to \$0.40 from \$0.39, still based on 13 times calendar year 2009 PE, or a 20 per cent discount to the average for Singapore healthcare players. Upgrade to 'neutral' from 'underperform', on account of growing momentum in its consultancy business. NEUTRAL

Sino-Environment Technology April 8 close: S\$1.43 CIMB-GK Research, April 8

SINO-ENVIRONMENT has, through fully-owned Fujian Thumb Environmental Facilities Co, secured an agreement with Catalysts & Chemicals Industries Co (CCIC) for the transfer of technology related to the production of honey-comb-type catalysts used in the denitrogenation process in coal-fired power plants.

An initial production plant with an annual capacity of 6,000 cu m will be set up within Sino-Environment's premises in Fuzhou city, Fujian province. The plant is expected to start operations in Q1 2009. Under the agreement, Sino-Environment will be able to produce and sell the catalysts in China.

In return for the technology transfer, Sino-Environment will have to pay CCIC a fixed royalty fee based on the amount of catalysts sold.

Maintain 'outperform': FY2009-10 EPS forecasts have been raised by 10-11 per cent, to account for the new income stream from the catalyst business. We have kept our FY2008 numbers unchanged. Overall, our target price has been raised marginally from \$1.86 to \$1.87. OUTPERFORM

Glossary:

EPS - earnings per share Ebit - earnings before interest & tax Ebitda - earnings before interest, tax, depreciation & amortisation FY - fiscal/financial year H1, H2 - first or second half NAV - net asset value 9M - nine months P/B - price/book value (ratio) PE - price/earnings (ratio) Q1, Q2, Q3 - first, second, or third quarter q-o-q - quarter-on-quarter ROE - return on equity RNAV - revised net asset value TP - target price y-o-y - year-on-year YTD - year to date - Compiled by CONRAD TAN

Disclaimer: All analyses, recommendations and other information herein are published for general information. Readers should not rely solely on the information published and should seek independent financial advice prior to making any investment decision. The publisher accepts no liability for any loss whatsoever arising from any use of the information published herein. Brokers who wish to send in their reports can email us at btnews@sph.com.sg