OSK | DMG

Morning Matters

Figure of the Day

Source: google.com

First Resources - Upgrading TP on good numbers. See 'Scoop of the Day'.

Market Indices

	Value	Chg	% Chg
Dow Jones	12,981.51	-1.44	-0.01
S&P 500	1,367.59	+1.85	+0.14
Nasdaq	2,966.16	+2.41	+0.08
FTSE 100	5,915.55	-19.58	-0.33
Nikkei	9,633.93	-13.45	-0.14
Hang Seng	21,217.86	-189.00	-0.88
Shanghai	2,447.06	+7.43	+0.30
KOSPI	1,991.16	-28.73	-1.42
STI	2,946.78	-31.30	-1.05
KLCI	1,559.04	+0.27	+0.02

Key Indicators

	Value	Chg	% Chg
Oil Price* (US$/bbl)	107.98	+11.43	+11.84
Gold Price** (US$/oz)	1767.41	+74.01	+4.37
US$/S$	1.2553	-0.0534	-4.08

* WTI Crude Future
** Gold Spot

While You Were Sleeping

US markets: Mixed
Dow futures: +5 (as at 8am Singapore Time)

US Wrap: US stocks closed mixed on Monday. The Dow dipped 1.4pts (-0.1%), the S&P500 advanced 1.8pts (+0.1%) while the Nasdaq gained 2.4pts (+0.1%). The S&P500 closed at its highest level since mid-2008, boosted by falling oil prices as well as further improvement in the US housing market. Oil recently rallied amidst worries over supply disruptions due to sanctions against Iran. However, it retreated by ~1% to US$124 on Monday, alleviating worries that the high energy prices could hurt the fragile economy. An industry group reported that contracts for home resales had nearly hit a two year high, lifting the Dow Jones home construction index up 1.5%.

The Day Ahead…

Scoop of the Day: First Resources' (FR) 4Q11 core earnings (excluding fair value changes in biological assets) leapt 37.2% YoY, coming in at US$49.8m, attributable to higher asp and sales volume for CPO and PK. FY11 core earnings was up 54.6% YoY, hitting US$168.4m – a record year for the company. Our fair value for FR is raised from S$2.05 to S$2.39, following a 9.1% increase in FY12 earnings forecast, on the back of marginally higher FFB production (+0.4%), increased contribution from refining segment and lower expenses. FR remains our top sector pick, with strong production growth, low cost of production (FY11's cash cost of production: US$221/tonne), undemanding valuation and balance sheet strength. FR, with its refinery operating now, is benefiting from the reduction of Indonesia's export duty for refined palm oil. FR's refining capacity would triple by 1Q13 upon completion of its Integrated Processing Complex in Riau. Maintain BUY, with a higher TP of S$2.39, based on mid-cycle P/E of 16x FY12 earnings. *(Selena Leong)*

WHAT'S INSIDE?

Analysing the News

On the Platter

ANALYSING THE NEWS

Armstrong's 4Q results in line with expectation (SGX)

Edison Chen (6232 3892, edison.chen@sg.oskgroup.com)

The news: For 4Q11, Armstrong's earnings came in at S$1.9m (-69.0% YoY) on the back of sales of S$49.2m (+25.7%). Full year core PATMI fell by 67.3% YoY to S$8.1m due to the temporary shutdown of operations at two of the Group's four factories in Thailand and reduction in sales to customers who are affected by the regional supply chain disruption. Moving on, the group observed gradual increase in orders from these customers, but cited weakness in the first 2Q of FY12 as the disruption in regional supply chain persist.

Our thoughts: Results are largely in line with our estimates as we take into account of the Thai flood disruption to the business. Insurance claim of S$4.7m as a result of property damaged was recognised in 4QFY11, earlier than expected. Moving on, we expect the group to embark on a journey of recovery with its production capacity restoring faster than expected. However, supply chain constraint will continue to weigh on the performance before industry-wide production normalises in 2013. We have a BUY on the counter with TP of S$0.37.

Kingsmen achieves net profit growth of 6.7% YoY in 4Q11 (SGX)

Lynette Tan (6232 3895, lynette.tan@sg.oskgroup.com)

The news: Kingsmen recorded a growth of 6.7% YoY in 4Q11 PATMI to S$6.0m, on the back of a 48.4% YoY increase in revenue to S$81.1m. The results were in line with our expectations. The strong revenue growth was largely from its Interiors division, which saw revenue jump by 58% YoY. Margins for 4Q11 were lower than that in 4Q10, due to the lower margins from its interior fit-out projects and its fixtures export business (i.e. the Interiors division). Kingsmen declared a final dividend of 2.5 S¢ / share. Including the 1.5 S¢ / share interim dividend, total dividend for FY11 was 4.0 S¢. This translates into a yield of 6.5%.

Our thoughts: Kingsmen continues to secure projects and grow its order books. Its current order books stand at S$106m (vs S$84m a year ago), all of which is expected to be recorded in FY12. On-going works for its thematic and scenic construction business include Gardens by the Bay, Hong Kong Disneyland and USS (new contract worth S$18.0m). As international brands continue to roll out new stores in Asia, we believe Kingsmen is in a good position to continue to secure orders for its Interiors division. At S$0.615, Kingsmen is currently trading at 7.2x FY11 P/E. We are putting our TP of S$0.76 under review, pending management's results briefing on 1 March.

Orchard Parade receives booster from property

Goh Han Peng (6232 3893, hanpeng.goh@sg.oskgroup.com)

The News: OPH reported record net profit of S$124.2m (+51%) for FY11, boosted by strong profit contribution from its Floridian residential project and improvement in its hospitality business on the back of steady tourist arrivals to Singapore. The company declared a final dividend of 3 cts and a special dividend of 6 cts, bringing full year payout to 9 cts, a 50% increase over FY10's 6 cts. NAV/share, meanwhile, rose 9% from $2.72 to $2.97. At the last traded price, the stock is trading at a 45% discount to NAV.

Our thoughts: Floridian has been the money spinner for OPH due to its low land price (breakeven:S$750 psf) and high margins. We estimate a net development surplus of $200m for the project, of which OPH has been progressively recognising over the past two years. Going forward, contribution will likely to taper off with the project's TOP. In the meantime, OPH has three other JV projects with its parent Far East Organization, which includes a 30% interest in 7 and 11 Bassein Road, a 20% stake in EuHabitat and a 20% stake in the land parcel at Robinson/Cecil Street. Among these, EuHabitat has sold well with 651 units taken up out of a total of 748 units. These projects are unlikely to contribute meaningfully in the next 1-2 years, however, given the early stages of construction.

The catalyst for OPH's stock remains its hospitality portfolio, which is benefitting from a tourist boom from the opening of the integrated resorts. OPH has over 700 rooms spread across its Orchard Parade hotel, Albert Court Village hotel and serviced residences units at Central Square. If market conditions remain conducive, FEO is likely to bundle together a portfolio of hotels for a hospitality REIT listing. In our view, this is likely to include some or all of OPH's hotels, which will enable the group to monetise its assets at a good valuation.

ON THE PLATTER

Banking Sector: Loans growth slowed, and expect more FY12 provisions

Leng Seng Choon, CFA (6232 3890, sengchoon.leng@sg.oskgroup.com)

Expect FY12 earnings contraction for all three banks. DBS and OCBC 4Q11 earnings were ahead of consensus expectations on the back of lower taxes and strong trading income respectively. However, UOB's earnings fell short of consensus expectations as provisions more than doubled sequentially. In respect of recurring income, we view all the three sets of results as fair, as the variance against consensus were largely non-core. For net interest income, all three banks recorded 5-7% sequential growth, on the back of loan expansion. UOB was the only bank with a sequential 6 bps widening of NIM, whilst its two peers recorded QoQ flat NIMs. We forecast sharply higher loan loss provisioning in FY12, which led to our expectations of FY12 earnings contraction for all three banks. Our assumption of FY12 provisions to loans ratio of 45-54 bps is higher than FY11, but a small fraction of the 207-275 bps during the Asian Financial Crisis in 1998, and the 53-121 bps during the Global Financial Crisis in 2009.

Prefer conservative banks such as UOB at this point of the economic cycle. Whilst we are NEUTRAL weight the banking sector, we like UOB (BUY/TP:S$19.60), given its stronger balance sheet quality. UOB has a GP to loan ratio of 1.5%, ahead of the 1.0% average for its other two peers - the "excess" GP represents 26% of UOB's FY12 PBT. There is therefore scope for UOB to make lower provisions as its loan book expand. UOB's less aggressive lending over the past 3 years – 12.2% loan CAGR versus DBS' 15.5% and OCBC's 18.4% - is also an asset, particularly since we are in the midst of an economic downcycle. Banks that are more conservative in lending just prior to an economic downturn should be better able to maintain their asset quality. UOB's greater percentage exposure to housing loans of 28% (versus DBS' 21% and OCBC's 24%) should contribute to better-than-peers asset quality, as Singapore housing loan NPL ratio tends to stay low even in an economic downturn.

Our target P/B are lower than historical norms, given the unexciting earnings outlook. After the strong 2011 loan growth of 25-28% for the three banks, we expect a slower low-teens growth for 2012, on the back of weaker business loans. In addition, NIM is expected to remain subdued, as SIBOR remains soft. Against this backdrop, we do not expect the banks to trade at P/B close to their historical norms. Our banks' target prices are all pegged to lower P/B ratios, with DBS (NEUTRAL/TP:S$13.31) expected to trade at a lower 1.1x – DBS has historically traded at a lower P/B than peers. We do not see any catalyst driving OCBC's (NEUTRAL/TP:S$8.30) share price.

CNA Group: A stronger than expected 4Q (NEUTRAL, S$0.145, TP S$0.16)

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Terence Wong, CFA (6232 3896, terence.wong@sg.oskgroup.com)

CNA's 4Q11 net profit was above expectations, coming in at S$1.6m, versus a loss of S$25.2m a year ago. This was mainly attributable to a 52.4% YoY surge in revenue, with growth from its Singapore, China and Vietnam operations, as well as the absence of a S$21.6m loss on disposal of an associate. CNA's order book of S$53.9m is expected to sustain revenue in upcoming quarters. Following the share placements to Mitsui and Mitsubishi, CNA is tapping on their business network to expand. On the back of a stronger performance in the various key markets, we raised our FY12 earnings by 15.8% to S$3.7m and upgrade our recommendation to a NEUTRAL from a SELL. We derive a higher TP of S$0.16 (S$0.14 previously), based on 11.9x FY12 earnings (6-year historical average).

Tapping on strategic partners. Mitsubishi Electric Corporation (Mitsubishi) has recently identified CNA as its strategic partner in the Asean market to target growth in infrastructure solutions, with Singapore as its headquarters. Both Mitsubishi and Mitsui & Co, together with the company have already commenced exploring new markets and CNA believes it will have a positive contribution to its earnings in FY12.

Focusing on overseas markets. CNA's focus in China would be to continue to invest in wastewater treatment projects, the train information system and high-end home automation projects. Upcoming projects include the Phase II of Dongying's industrial waste water treatment plant with a capacity of 30k MT/day to be completed by end 2012. Collection of tariffs from the Dongying project is expected to commence in 2H12. In Vietnam, CNA would be focusing on securing MEP/EPC projects. CNA is also venturing into other Southeast Asian countries like Thailand, Indonesia and Philippines and is confident of its expertise in ICT and MEP relating to airports will be one of its key revenue drivers moving ahead.

Upping earnings estimates. We have lifted our FY12 earnings by 15.8% to S$3.7m, largely on the back of lower expenses with the scaling back of CNA's loss-making Middle East operations. This, together with the growth in its key markets namely China, Vietnam and Singapore, we upgrade our recommendation from a SELL to NEUTRAL. Based on 11.9x FY12 earnings (6-year historical average), our new TP is S$0.16 (S$0.14 previously).

FYE Dec (S$m)	FY09	FY10	FY11	FY12F	FY13F
Turnover	125.2	83.3	100.1	119.9	138.9
Net profit	11.5	-22.7	3.3	3.7	4.3
% chg YoY	80.9%	-297.8%	N.M	10.8%	16.3%
EPS (S¢)	6.1	-11.2	1.3	1.4	1.6
DPS (S¢)	0.0	1.3	0.0	0.0	0.0
Div Yield (%)	0.0%	8.6%	0.0%	0.0%	0.0%
ROE (%)	17.7%	-39.0%	6.3%	5.8%	6.3%
ROA (%)	7.4%	-12.8%	1.8%	1.8%	2.0%
P/E (x)	2.4	-1.3	11.3	10.7	9.2
P/B (x)	0.4	0.7	0.7	0.6	0.6

Source: Company data and DMG estimates

Venture Corp: Signs of improved sentiment (BUY, S$7.87, TP S$9.04)

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Terence Wong, CFA (6232 3896, terence.wong@sg.oskgroup.com)

Venture's 4Q earnings of S$38.0m (-29.8% YoY, +7.3% QoQ) and sales of S$632.5m (+13.9% YoY, +8.4% QoQ) were in line with our estimates. For the full year, earnings fell 16.8% to S$156.5m, mainly attributable to 1) strengthening of SGD against USD and 2) higher employee benefits expenses. Moving on, 1HFY12 results are expected to remain weak as management continues to see tepid growth in business spending. Nonetheless, given improved traction with Venture's key customers, we are cautiously optimistic towards the group's FY12 performance. Upgrade to BUY with a TP of S$9.04 pegged to 14.6x FY12 earnings (5-yr historical average forward P/E).

1H results to remain weak. All three business segments - Printing & Imaging, PC & Data Storage and Networking & Communication - registered decline in FY11. We expect this trend to continue given the on-going supply chain disruption caused by the Thai floods as well as the weakening European economies. Furthermore, the recent appreciation of SGD against the USD will also weigh on the group's results as it does not hedge its forex exposure. As such, we won't expect Venture's results to improve significantly until the second half of the year.

Signs of improved sentiment. Some of Venture's key customers in the group's Retail Solution & Industrials and Test & Measurements businesses have indicated positive 2012 outlook. For instance, both Agilent and IBM have guided around 10% earnings growth for 2012 while Intermec, which just turned around in 2011, is expected to double its profit this year.

Strong financial position provides comfort. Despite paying a hefty 55.0 S¢/share of dividends (89% of its FY12 earnings), we still forecast Venture to register a net cash inflow of S$56.8m for FY12. By then, the group will possess a net cash of S$321.8m, equivalent to S$1.20/share.

FYE Dec (S$ m)	FY09	FY10	FY11	FY12F	FY13F
Turnover	3,412.5	2,675.8	2,432.4	2,572.7	2,811.6
Net profit	143.7	188.1	156.5	169.9	192.1
% chg YoY	(13.8)	30.9	(16.8)	8.6	13.0
Consensus net profit	na	na	na	167.9	184.3
EPS (S¢)	52.4	68.6	57.1	61.9	70.0
DPS (S¢)	50.0	55.0	55.0	55.0	55.0
Div Yield (%)	6.4	7.0	7.0	7.0	7.0
ROE (%)	7.7	10.1	8.4	9.0	10.0
ROA (%)	5.2	7.4	6.1	6.6	7.2
P/E (x)	15.0	11.5	13.8	12.7	11.2
P/B (x)	1.2	1.2	1.2	1.1	1.1

Source: Company data and DMG Estimates

INSIDER TRADES HIGHLIGHT FOR 27 Feb 12

Company	Insider	No. of Shares	Share Price (S$)	% Stake before transaction	% Stake after transaction
Purchase					
FCT	Schroder Investment Management	1,113,000	na	5.874	6.010
Mapletree Industrial	Schroder Investment Management	992,000	1.156	4.940	5.000
Innotek	Share Buy-Back	383,000	0.510	na	9.800
LMA	Share Buy-Back	133,000	0.415	na	1.190
LC Development	Share Buy-Back	151,000	0.155	na	0.240
MIIF	Share Buy-Back	764,000	0.585	na	7.960
SIA	Share Buy-Back	482,000	10.850	na	1.660
Company	**Insider**	**No. of Shares**	**Share Price (S$)**	**% Stake before transaction**	**% Stake after transaction**
Sale					
Fortune REIT	Lim Hwee Chiang	2,508,000	3.957	0.558	0.409

Exercise of Rights issue / Share Options / Convertibles / Warrants / Share Issuance.
Married deal.

DIARY OF EVENTS

27-Feb	28-Feb	29-Feb	1-Mar	2-Mar
US Data Pending Home Sales MoM (Jan) Pending Home Sales YoY (Jan)	**US Data**	**US Data** MBA Mortgage Applications (Feb 24)	**US Data** Initial Jobless Claims (Feb 25) Continuing Claims (Feb 18)	**US Data**
SG Data	**SG Data**	**SG Data** Credit Card Bad Debts (Jan) Credit Card Billings (Jan) Bank Loans & Advances (YoY) (Jan)	**SG Data**	**SG Data**
SG Results SembCorp Industries Ltd QAF Ltd InnoTek Ltd Armstrong Industrial Corp First Resources CSE Global	**SG Results** Treasury China Trust Mewah International Singapore Reinsurance Corp Ho Bee Investment Jardine Cycle & Carriage	**SG Results** EMS Energy Indofood Agri Resources City Developments	**SG Results**	**SG Results**

5-Mar	6-Mar	7-Mar	8-Mar	9-Mar
US Data	**US Data**	**US Data** MBA Mortgage Applications (Mar 2)	**US Data** Initial Jobless Claims (Mar 3) Continuing Claims (Feb 25)	**US Data**
SG Data	**SG Data**	**SG Data** Automobile COE Open Bid Cat A (Mar 7) Automobile COE Open Bid Cat B (Mar 7) Automobile COE Open Bid Cat E (Mar 7)	**SG Data**	**SG Data**
SG Results	**SG Results** Cape PLC	**SG Results**	**SG Results**	**SG Results**

12-Mar	13-Mar	14-Mar	15-Mar	16-Mar
US Data	**US Data**	**US Data** MBA Mortgage Applications (Mar 9) Import Price Index (MoM) (Feb) Import Price Index (YoY) (Feb)	**US Data** Initial Jobless Claims (Mar 10) Continuing Claims (Mar 3)	**US Data**
SG Data	**SG Data**	**SG Data**	**SG Data** Retail Sales Ex Auto (YoY) (Jan) Retail Sales (YoY) (Jan) Retail Sales (MoM) sa (Jan)	**SG Data**
SG Results	**SG Results**	**SG Results**	**SG Results**	**SG Results**

DMG & Partners Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months
Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral: Share price may fall within the range of +/- 10% over the next 12 months
Take Profit: Target price has been attained. Look to accumulate at lower levels
Sell: Share price may fall by more than 10% over the next 12 months
Not Rated: Stock is not within regular research coverage

As of the day before 28 February 2012, DMG & Partners Securities Pte Ltd and its subsidiaries, including DMG & Partners Research Pte Ltd, do not have proprietary positions in the subject companies, except for:
a) Nil
b) Nil

As of the day before 28 February 2012, none of the analysts who covered the stock in this report has an interest in the subject companies covered in this report, except for:

	Analyst	Company
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b)	Leng Seng Choon	OCBC

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