28 August 2008

SINGAPORE EQUITY
Investment Research
Morning Insight

DMG & Partners SECURITIES

Top Buys

Company	Price (S$)	Target Price (S$)	Percent Upside
CapitaMall Trust	2.73	3.84	41%
Comfort-Delgro	1.51	1.85	23%
Jardine C&C	17.30	20.09	16%
SPH	4.11	5.00	22%
StarHub	2.65	3.09	17%

On the Platter

- China Farm Equipment: New plant could drive sales ahead (BUY\S$0.345\Target S$0.56)
- Saizen REIT: FY08 In Line With IPO Prospectus' Forecast (Unrated\S$0.55)

Media Highlights

- UOB offering $1b of preference shares
- Koda earnings dive 41.9% to US$4.2m

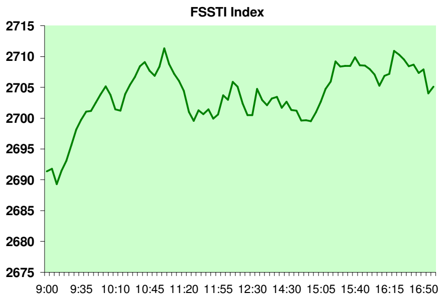
Economic Highlights

- Fed hints at interest rate hike to slow inflation

Insider Trades Highlights 27 Aug 08

Diary of Events

Intraday Chart



Market Report

Singapore share prices closed little changed on Wednesday. The STI lost 2.10 points to 2,705.09. Volume totalled 759m shares worth S$905m. There were 197 rising issues, 262 losers, while 922 issues stayed unchanged. SIA closed two cents lower at S$15.02, but SingTel added one cent to S$3.48 and NOL was unchanged at S$2.19. In the property sector, CapitaLand ended flat at S$4.40, CDL gained 10 cents to S$10.50, and Keppel Land dropped five cents to S$3.86. The Banking sector saw, DBS rise 12 cents to S$17.74, UOB fell eight cents to S$18.76 and OCBC lost one cent at S$8.04.

Key Market Indices

	Value	Change	% Change
Dow Jones	11,502.51	+89.64	+0.79
S&P 500	1,281.66	+10.15	+0.80
Nasdaq	2,382.46	+20.49	+0.87
S&P/TSX	13,530.65	+231.58	+1.74
FTSE 100	5,528.10	+57.40	+1.05
CAC 40	4,373.08	+4.53	+0.10
DAX	6,321.03	-19.49	-0.31

Key Statistics

	Value	Change	% Change
Nikkei	12,752.96	-25.75	-0.20
Hang Seng	21,464.72	+408.06	+1.94
Shanghai	2,342.15	-7.94	-0.34
TWSE	7,080.97	+116.37	+1.67
KOSPI	1,493.92	+3.67	+0.25
STI	2,705.09	-2.10	-0.08
KLCI	1,067.65	-2.85	-0.27

China Farm Equipment: New plant could drive sales ahead (BUY\S$0.345\Target S$0.56)

Lee Shaun Tzen (62323894, shaun-tzen.lee@dmgaps.com.sg)

Thailand offers CFE potential revenue growth in the near future. Since the release of China Farm Equipment's (CFE) 2Q08 results, management have revealed to us that several small orders have been made through their Thailand distribution, expected to be delivered in the next few months. Recently about 45 machines (25 combined harvesters and 20 plough machines) have been purchased, and based on the positive feedback the company remains optimistic that more orders will be made in the near future. In our view we view these new developments as a positive sign going forward, which will help build CFE's brand name and global presence.

New diesel engine plant on track for completion by end of FY08. Management has also updated us that their new diesel engine plant is on track with construction. They expect completion by year end and commissioning in mid FY09. Management expects the new plant to offer an additional 100 to 150k units to be produced annually. The current plant is able to produce 200k units per annum.

Financial highlights for 2Q08

FYE Dec (RMBm)	2Q08	2Q07	Chg YoY	1H08	1H07	Chg YoY
Revenue	168.7	140.8	19.8%	230.5	183.4	25.6%
Gross Profit	46.9	43.5	8.0%	60.2	54.9	9.7%
Pretax Profit	37.1	33.4	10.8%	41.8	37.1	12.8%
Net Profit	37.0	33.4	10.7%	41.8	37.1	12.7%
EPS (RMB¢)	15.3	14.7	4.4%	17.3	16.2	6.3%
GP margin (%)	*27.8%*	*30.9%*	*-3.1 ppt*	*26.1%*	*29.9%*	*-3.8ppt*
PBT margin (%)	*22.0%*	*23.8%*	*-1.8 ppt*	*18.1%*	*20.2%*	*-2.1 ppt*
Net margin (%)	*22.0%*	*23.8%*	*-1.8 ppt*	*18.1%*	*20.2%*	*-2.1 ppt*

Source: Company

Higher raw material costs in 2Q08 offset revenue growth. Management indicated to us that they saw 2Q08 revenue climb 19.9% YoY to RMB168.7m while net profit increased by 10.7% YoY to RMB37.0m. However, they said that the greatest impact to the company was its cost of sales which increased 25.2% YoY to RMB121.8m, largely due to its raw material cost. Gross profit margins fell the most for the quarter dropping 3.1 ppt at 27.8%.

Strong 1H08 revenue growth but margins remain a concern. The company further indicated to us that their 1H08 topline rose by 25.6% YoY to RMB230.5m, and its net profit rose 12.7% YoY to RMB41.8m. However, margins were further squeezed with GP margins dropping 3.8ppt and PBT and net profit margins coming down 2.1ppt.

Maintain BUY. CFE is currently trading at 5.0x FY08 P/E and 4.4x FY09 P/E. We have lowered our price target from S$0.88 to S$0.56 due to general P/E compression for S-shares. However, we maintain our earnings forecast at RMB85.7m for FY08F and RMB95.7m for FY09F. Our price target of S$0.56 is pegged to 8x FY08 P/E which is a 0.4x PEG. Given the uncertainty in the financial markets, we expect volatility to remain high for CFE.

FYE Dec (RMBm)	FY05	FY06	FY07	FY08F	FY09F
Turnover	236.5	279.0	396.0	515.5	628.5
Net Profit	33.9	50.0	71.3	85.7	95.7
% chg YoY	157.8%	47.5%	42.5%	20.3%	11.6%
EPS (S ¢)	3.7	5.5	5.8	7.0	7.8
Div Yield	0.0%	3.3%	2.8%	3.5%	3.6%
ROE	48.2%	58.1%	43.8%	33.5%	30.5%
ROA	19.5%	26.1%	33.7%	32.3%	30.4%
P/E (x)	9.3	6.3	6.0	5.0	4.4
P/B (x)	3.8	3.6	1.8	1.5	1.2

Source: Company and DMG Estimates

Saizen REIT: FY08 In Line With IPO Prospectus' Forecast (Unrated\S$0.55)

Brandon Lee (62323891, brandon.lee@dmgaps.com.sg)

Saizen REIT (SZR), a Japan-based residential REIT with 166 properties across 13 Japanese cities, posted FY08 DPU of S$0.0467, which was in line with its IPO prospectus's stated forecasts. Topline jumped 87.2% YoY to JPY3.6b, mainly attributable to a 64.4% increase in the number of properties under management. However, on the back of property revaluation losses, one-time IPO expenses and forex losses, SZR posted a net loss of JPY3.7b, as compared to FY07's net income of JPY2.1b.

Looking ahead for FY09, management foresees continued tightness within the credit markets, accompanied by a stifled Japanese real estate arena. Although the emergence of attractive investment opportunities cannot be ruled out, SZR should be placing emphasis on loan refinancing and establishment of banking relationships, in lieu of more acquisitions. As such, we guess that FY09 DPU should remain flat, as any organic upside from improving its portfolio occupancy (currently 91.4%) could be mitigated by a spike in financing costs.

Along with the broad market sell-off, SZR has fallen 38.2% YTD, and its current unit price of S$0.55 is still a far cry from its IPO price of S$1.00. Based on SZR's FY07 DPU of S$0.0467, it is currently trading at a yield of 8.5%, against a market-weighted 7.8% of S-REITs. At the moment, we do not have a rating for SZR, but the counter is under our SGX Scheme's coverage of stocks.

Source: DMG & Partners Securities Pte Ltd

MEDIA HIGHLIGHTS

UOB offering $1b of preference shares

United Overseas Bank will offer $1 billion worth of preference shares that will pay a fixed dividend of 5.05 per cent per annum. It said $800 million worth of the shares will be offered to institutional investors and the rest to retail investors. The shares are rated Aa3 by Moody's Investors Services and A- by Standard & Poor's.

Koda earnings dive 41.9% to US$4.2m

Hit by the US sub-prime crisis, furniture maker Koda posted a 41.9 per cent slump in fiscal full-year net profit to US$4.2 million as orders from North America and the United Kingdom slowed and group expenses rose. Koda, which said that it had not anticipated the extent of the US property meltdown, assured concerned stakeholders that its Vietnam manufacturing and retail segment remains sound and that the group has seen encouraging demand for the Christmas season as new and existing customers seek to 'lock in' prices. It also declared a final cash dividend of 0.37 US cents per share. Revenue fell 8.5 per cent to US$54.9 million for the 12 months ended 30 June 2008. Sales from the UK and America markets - which make up about half of its total revenue - fell some 13 per cent to US$30 million. Administrative expenses rose 24.7 per cent to US$7.1 million due to higher spending for Koda's new operations in China, New Zealand and Australia.

The company also adjusted salaries in Singapore, Vietnam, China and Malaysia, as well as boosted provision for severance allowance in Vietnam as a result of higher factory wages. Earnings per share fell to 3.1 US cents from 5.4 US cents. 'While Vietnam has been experiencing problems most notably due to its trade balance . . . Vietnam remains the best manufacturing site. It has a cost-efficient pool of young and enthusiastic workers with logistics now comparable to China,' said Koda in its financial statement yesterday. Despite dampening consumer spending, its Vietnamese unit Rossano continues to do well on the back of rising affluence and the burgeoning middle-class, said Koda. The firm also said that it has insured against risks through natural hedging.

Source: Business Times

ECONOMIC HIGHLIGHTS

Fed hints at interest rate hike to slow inflation

(New York) Federal Reserve policymakers expect to eventually raise their benchmark interest rate in an effort to slow inflation, but they have not agreed to a timetable for the move, according to minutes of the Fed's last meeting in early August. 'Members generally anticipated that the next policy move would likely be a tightening' of interest rates, according to the minutes, which were released on Tuesday. But 'the timing and extent of any change in policy stance would depend on evolving economic and financial developments and the implications for the outlook for economic growth and inflation'. Although members of the Fed's policymaking body, the Federal Open Market Committee, are not tethered to the comments, their remarks reinforced a sense on Wall Street that the US central bank is carefully watching the trend of rising prices, and is more likely to raise rates than lower them by the beginning of next year. Inflation is running at the fastest pace in decades, despite a recent retrenchment in petrol and energy prices.

Several members of the Fed board 'worried about the possibility that core inflation might fail to moderate next year unless the stance of monetary policy was tightened sooner than currently anticipated by financial markets'. Still, the prevailing view among Fed governors at the Aug 5 meeting appeared to be that inflation would taper off next year. Echoing public comments made by Fed officials in recent weeks, the members of the Open Market Committee anticipated a significant economic slowdown over the next several quarters. 'Economic activity was likely to remain damped,' the minutes said, and the officials believed growth may not pick up until the second half of 2009. 'The labour market continued to weaken significantly, financial conditions remained unfavourable, consumer and business confidence was downbeat, and manufacturing activity was contracting,' the minutes said. US economic growth from April to June, however, was faster than the bankers had anticipated. Officials remained concerned that the tight credit market and the housing slump would continue to slow the economy. They also worried about 'possible further deterioration in financial conditions'. But they seemed to consider a further rise in inflation as an equal obstacle to growth.

Some members were particularly concerned that Americans would become inured to higher prices, which could make it more difficult to shake off inflation in the long term. At the meeting's conclusion, the committee decided to hold its benchmark interest rate steady at 2 per cent. Richard Fisher, president of the Federal Reserve Bank of Dallas, dissented, saying he preferred an increase. 'He saw a greater risk to the economy from upward pressures on inflation,' the minutes said, referring to Mr Fisher. 'In his view, businesses had become more inclined to raise prices to pass on the higher costs of imported goods and higher energy costs, the latter of which were well above their levels of late 2007.' Investors who bet on the Fed's actions do not expect the central bank to raise rates until early next year.

Source: Business Times and NYT

INSIDER TRADES HIGHLIGHTS FOR 27 Aug 08

Company	Insider	No. of Shares	Share Price (S$)	% Stake before transaction	% Stake after transaction
Purchase					
Advance Modules Group	Vincent Tan Hian Chong	8,000,000	0.21	10.48	10.54
Asia Environment Holdings	Tee Yih Jia Food Manufacturing Pte Ltd	348,000	na	8.17	8.25
BBR Holdings	BBR Holding	1,090,000	na	18.40	18.48
Food Empire Holdings	Universal Integrated Corporation Consumer Products Pte Ltd	531,000	na	21.70	21.80
GuocoLand Ltd	GuocoLand Assets	312,000	2.04	67.10	67.13
Hiap Hoe Ltd	Teo Ho Beng	100,000	0.230	69.50	69.53
Hong Fok Corporation	Cheong Pin Chuan	125,000	0.49	16.83	16.85
Pacific Healthcare Holdings	Credit Suisse (Hong Kong) Limited	3,361,000	na	6.15	4.95
Thai Beverage Public Co	Maxtop Management Corp.	2,000,000	0.22	0	0.01
TPV Technology	FMR LLC	1,934,000	na	6.95	7.04
Yongnam Holdings	Tan Tin Nam	2,047,000	0.14	5.4	5.57
Advance Holdings	Share Buy-back	228,000	0.19	na	0.42
Financial One Corporation	Share Buy-back	300,000	0.40-0.41	na	0.06
First Resources	Share Buy-back	1,000,000	0.67-0.70	na	0.30
L.C. Development Ltd	Share Buy-back	250,000	0.150	na	0.15
Midas Holdings	Share Buy-back	300,000	0.505-0.510	na	0.12
Sale					
Advance Modules Group*	Vincent Tan Hian Chong	8,000,000	0.10	50.00	45.30
Alantac Technology	Luong Andy	150,000	na	9.94	9.89
China Powerplus Ltd	JEL Corporation	280,000	na	5.09	5.03
Venture Corporation	Templeton Worldwide Inc	2,712,300	na	9.95	8.97

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

Married deal.

DIARY OF EVENTS

25-Aug	26-Aug	27-Aug	28-Aug	29-Aug
US Data	**US Data**	**US Data**	**US Data**	**US Data**
Existing Home Sales (Jul)	ABC Consumer Confidence (Aug 24)	Durable Goods Orders (Jul)	GDP (2Q)	Personal Income (Jul)
	New Home Sales (Jul)	MBA Mortgage Applications (Aug 22)	Personal Consumption (2Q)	PCE Core (Jul)
	Minutes of FOMC Meeting		Initial Jobless Claims (Aug 23)	Chicago PMI (Aug)
SG Data	**SG Data**	**SG Data**	**SG Data**	**SG Data**
CPI (Jul)	Industrial Production (Jul)			
SG Results	**SG Results**	**SG Results**	**SG Results**	**SG Results**
	Tiong Woon Corporation Hldg (FY08)			

1-Sep	2-Sep	3-Sep	4-Sep	5-Sep
US Data	**US Data**	**US Data**	**US Data**	**US Data**
	Construction Spending (Jul)	MBA Mortgage Applications (Aug 29)	ADP Employment Change (Aug)	
	ABC Consumer Confidence (Aug 31)	Challenger Job Cuts (Aug)	Nonfarm Productivity (2Q)	
		Factory Orders (Jul)	Initial Jobless Claims (Aug 30)	
		Fed's Beige Book	Continuing Claims (Aug 23)	
			ISM Non-Manf. Composite (Aug)	
			ICSC Chain Store Sales (Aug)	
SG Data	**SG Data**	**SG Data**	**SG Data**	**SG Data**
	Purchasing Managers Index (Aug)	Automobile COE Open Bid Cat A		Foreign Reserves (Aug)
	Electronics Sector Index (Aug)	Automobile COE Open Bid Cat B		
		Automobile COE Open Bid Cat C		
SG Results	**SG Results**	**SG Results**	**SG Results**	**SG Results**
				Lasseters International (4Q08)

8-Sep	9-Sep	10-Sep	11-Sep	12-Sep
US Data	**US Data**	**US Data**	**US Data**	**US Data**
Consumer Credit (Jul)	Pending Home Sales MoM (Jul)	MBA Mortgage Applications (Sep 5)	Trade Balance (Jul)	Producer Price Index (Aug)
	IBD/TIPP Economic Optimism (Sep)		Import Price Index (Aug)	PPI Ex Food & Energy MoM (Aug)
	Wholesale Inventories (Jul)		Initial Jobless Claims (Sep 6)	Advance Retail Sales (Aug)
	ABC Consumer Confidence (Sep 7)		Continuing Claims (Aug 30)	U. of Michigan Confidence (Sep)
			Monthly Budget Statement (Aug)	Business Inventories (Jul)
SG Data	**SG Data**	**SG Data**	**SG Data**	**SG Data**
Singapore Manpower Survey (4Q)				
SG Results	**SG Results**	**SG Results**	**SG Results**	**SG Results**
		Jacks International (1H09)		
		Popular Holdings (1Q09)		

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

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