MITA No. 023/06/2011

27 September 2011

Market Pulse

Key Singapore Indices	Close	Chg	% Chg
STI	2654.32	-44.5	-1.6
Catalist	97.9	-2.4	-2.4
Finance	621.0	-14.3	-2.2
Property	553.9	-14.4	-2.5
Electronics	544.9	-17.4	-3.1
Vol (m)	1738.8	49.8	2.9
Val (S$m)	1681.8	-84.0	-4.8

World Indices	Close	Chg	% Chg
Dow Jones	11043.9	272.4	2.5
Nasdaq	2516.7	33.5	1.3
S&P500	1163.0	26.5	2.3
FTSE	5089.4	22.6	0.4
KLCI	1331.8	-34.1	-2.5
Hang Seng	17407.8	-261.0	-1.5
Nikkei	8374.1	-186.1	-2.2
SET	904.1	-54.1	-5.6
KOSPI	1652.7	-44.7	-2.6
TWSE	-	-169.1	-2.4

Market Statistics (SG)		
STI 52-week range	2,627	3,314
No. of gainers		87
No. of losers		497
No. of unchanged		89

Economic Statistics	Close	Chg
S$/US$	1.3	0.0
Yen/US$	76.4	0.1
3-mth S$ SIBOR	0.4	0.0
3-mth US$ SIBOR	0.4	0.0
Crude futures (US$)	81.4	1.1

Key Idea

Hyflux: Paring fair value to S$1.81 - Maintain BUY

Since reporting a slightly muted set of 1H11 results in early Aug, Hyflux Ltd's share price has taken quite a tumble, falling some 23% to hit a low of S$1.50 yesterday, effectively pricing it at 13.6x forward PER. We believe that the sell-down over the past few weeks has been slightly overdone. Although Hyflux saw its forward PER drop to around 10x during the global financial crisis, we note that the situation is slightly different now. For one, the company's order book has improved significantly since then. Secondly, the demand for clean, potable water is likely to increase in China and MENA, raising the need for more water treatment and desalination facilities. Hence even in a downturn, we believe that the water industry should continue to be quite resilient, given that clean water is an essential commodity. That said, due to the lower overall market, we still see the need to pare our valuation peg from 22.5x to 18x (-0.5 SD from mean) blended FY11/FY12F EPS, bringing our fair value lower from S$2.26 to S$1.81. Maintain **BUY.**

News Headlines

- ECB said that the risks to euro zone growth are now 'substantially' to the downside due to continued deterioration in the economic environment.
- Commodity prices went on a roller-coaster ride in Asia yesterday amid efforts to contain Greece's debt crisis and save Europe and the world economy from another recession.
- Singapore's industrial production rose 21.7% YoY per cent in Aug, far exceeding market expectations, due to a 146% surge in pharmaceuticals output which offset a 21.9% fall in electronics.
- SGX is named as a potential suitor for London Metal Exchange (LME), together with CME Group and IntercontinentalExchange (ICE), according to an article in the Financial Times.
- Centurion Corporation said that it aims to be the region's premier builder and operator of workers' dormitories, housing some 100,000 beds in Singapore, Malaysia and China.
- IPO aspirants that have lined up to go public in Singapore and Hong Kong this year are turning hesitant for now as investors' appetite for stocks vanishes and the window for new share-sales closes.

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

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Please refer to the important disclosures at the back of this document.

Hyflux: Paring fair value to S$1.81 - Maintain BUY

Stock likely oversold. Since reporting a slightly muted set of 1H11 results in early Aug, Hyflux Ltd's share price has taken quite a tumble, falling some 23% to hit a low of S$1.50 yesterday. As a recap, Hyflux saw its 1H11 revenue fall 18% to S$197.9m, while net profit fell 35% to S$21.9m. While we had expected the negative knee-jerk reaction, we believe that the sell-down over the past few weeks has been slightly overdone. This as the market is currently only ascribing a forward PER of 13.6x to the stock, which is already below one standard deviation (SD) below its mean of 21.0x. Although the stock has previously fallen to as low as 10x forward PER (-2 SD from the mean) during the global financial crisis, we note that the situation is slightly different now.

Order book is stronger than before. For one, the company's order book has improved significantly since then. As of end-Jun, its order book stood at S$2.1b - also the highest ever recorded - which it expects to deliver through to end 2012; this versus just S$1.48b at end-Dec 2008. We further note that the bulk of the S$1.16b EPC (Engineering, Procurement and Construction) contracts mainly comes from the S$750m TuasSpring project, which in our view, is also a significant improvement in the project risk. Meanwhile, the remaining S$940m comes from O&M (Operation & Maintenance) contracts, which typically stretch up to 25 years. And management intends to focus on beefing up its O&M segment to provide more recurring income to offset its otherwise lumpy EPC revenue.

Clean water is an essential commodity. While Hyflux is taking it slow in MENA at the moment (mainly due to the uncertain political climate), we continue to recognize the potential in that region as the need for clean, potable water would only escalate in the future. According to the World Bank , per capita water availability in MENA will fall by half by 2050, with serious consequences for the region's already-stressed aquifers and natural hydrological systems. Meanwhile, China is another area that holds good potential for Hyflux, as the government intends to double its budget for environmental protection and water resource development to US$450b for 2011 to 2015.

Maintain BUY. Hence even in a downturn, we believe that the water industry should continue to be quite resilient, given that clean water is an essential commodity. Nevertheless, due to the lower overall market, we still see the need to pare our valuation peg from 22.5x to 18x (-0.5 SD from mean) blended FY11/FY12F EPS, bringing our fair value lower from S$2.26 to S$1.81. Maintain **BUY.** ***(Carey Wong)***

Monday	Tuesday	Wednesday	Thursday	Friday
26-Sep	**27-Sep**	**28-Sep**	**29-Sep**	**30-Sep**
SG Aug Ind Production MoM				SG Aug M1 Money Supply YoY China Sep PMI Mfg (1st Oct)
03-Oct	**04-Oct**	**05-Oct**	**06-Oct**	**07-Oct**
				China Aug Exports YoY (9th Oct)
10-Oct	**11-Oct**	**12-Oct**	**13-Oct**	**14-Oct**
China Sep Exports YoY	China Sep Money Supply YoY			China Sep CPI YoY
17-Oct	**18-Oct**	**19-Oct**	**20-Oct**	**21-Oct**
SGX 1Q SG Sep NODX YoY	China Sep Industrial Production YoY			
24-Oct	**25-Oct**	**26-Oct**	**27-Oct**	**28-Oct**

All US Tech results dates have been adjusted to Singapore Date

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

Please refer to the individual company's full report for additional disclosures

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