UOBKayHian

Singapore Daily

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KEY HIGHLIGHTS

Sector

Regional Plantation **Page 2**

CPO price breaches RM3,000 level, emergence of the price uptrend cycle. Maintain MARKET WEIGHT with trading BUY opportunity.

Update

Raffles Medical Group (BUY/S$2.21/Target: S$2.57) **Page 4**

Key takeaways from analyst briefing. Maintain BUY.

Singapore Exchange (BUY/S$8.95/Target: S$9.60) **Page 7**

Cost savings positive; need to see more top-line synergies.

AT A GLANCE

Corporate Page 10

Wing Tai Holdings (BUY/S$1.79/Target: S$2.30)

1QFY11: Expect a better second half.

DBS: Eyeing Indonesian acquisition.

MCL Land: 3Q10 net profit dives 91% yoy to US$8.84m.

GMG Global: Turns around with S$16.4m net profit in 3Q10.

Sector Page 11

Property: Cardiff Court up for sale with a price tag of S$25m.

Economics/Politics Page 11

September inflation reaches 20-month high.

Key Indices

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	11164.1	0.3	0.2	2.8	7.1
S&P 500	1185.6	0.2	0.1	3.2	6.3
FTSE 100	5752.0	0.2	0.2	2.7	6.3
AS30	4780.6	1.3	1.2	2.8	(2.1)
CSI 300	3481.1	3.0	5.3	21.8	(2.6)
FSSTI	3182.1	0.3	0.0	2.9	9.8
HSCEI	13626.1	1.0	1.5	11.5	6.5
HSI	23627.9	0.5	0.7	6.8	8.0
JCI	3643.5	1.3	2.1	7.2	43.8
KLCI	1491.4	0.1	0.7	2.8	17.2
KOSPI	1915.7	1.0	2.1	3.7	13.8
Nikkei 225	9401.2	(0.3)	(1.0)	(0.7)	(10.9)
SET	992.2	0.3	(0.5)	4.2	35.1
TWSE	8307.0	1.7	3.1	1.7	1.5
BDI	2748	0.8	(0.3)	12.4	(8.6)
CPO (RM/mt)	2998	0.2	2.4	9.9	15.8
Nymex Crude (US$/bbl)	82	(0.3)	3.5	7.6	3.7

Source: Bloomberg

Top Volume

Stock	Price (S$)	Chg (%)	Volume ('000)
Golden Agri-Resources	0.70	5.3	156,395
Genting Singapore	2.24	0.9	107,918
Global Logistic Properties	2.24	(0.4)	45,067
Singapore Exchange	8.95	(6.2)	44,253
GMG Global	0.31	0.0	29,271

Top Gainers

Stock	Price (S$)	Chg (%)	Volume ('000)
Indofood Agri Resources	2.74	6.6	12,752
First Resources	1.31	5.6	7,515
Golden Agri-Resources	0.70	5.3	156,395
Straits Asia Resources	2.37	3.9	9,122
Mandarin Oriental Intl	1.92	3.8	399

Top Losers

Stock	Price (S$)	Chg (%)	Volume ('000)
Singapore Exchange	8.95	(6.2)	44,253
AFP Properties	0.61	(2.4)	4,043
Ezra Holdings	1.78	(2.2)	23,006
Straits Trading Co	4.03	(2.2)	6
Jardine Strategic Hldgs	25.50	(1.9)	301

Note: Based on top 100 stocks by market capitalisation

Key Assumptions

		2009	2010F	2011F
GDP (% yoy)				
US		(2.40)	3.10	2.70
Euro Zone		(4.10)	1.10	1.30
Japan		(5.23)	3.25	1.70
Singapore		(1.25)	9.00	5.00
Malaysia		(1.70)	6.10	5.10
Thailand		(2.30)	5.50	4.70
Indonesia		4.50	6.00	6.20
Hong Kong		(2.70)	5.50	4.50
China		9.10	10.10	8.30
Brent Crude Oil	(US$/bbl)	62	75	85
Aluminium *	(US$/mt)	1,671	2,137	2,194
Copper *	(US$/mt)	5,178	7,102	7,508
Gold Price London *	(US$/ounce)	974	1,161	1,225
Iron Ore *	(USc/dmtu)	85	120	106
CPO	(US$/mt)	670	776	716
BDI		2,617	3,000	3,300

** Bloomberg*
Source: UOB, UOB Kay Hian

Plantation – Regional

CPO price breaches RM3,000 level

MARKET WEIGHT
(Maintained)

Sector Update

What's New

- Crude palm oil (CPO) prices breached the RM3,000 level due to the price width with soy oil.
- Strengthening of La Nina increases supply risk.

Action

- **Maintain MARKET WEIGHT** with Trading Buy opportunity given the strong liquidity in commodity and related stocks. We upgrade our target prices based on the upcycle valuation. We still prefer pure plantation plays which have higher leverage to CPO prices.
- **Picks for pure plays: Kuala Lumpur Kepong (KLK MK/Target: RM21.60), Indofood Agri (IFAR SP/Target: S$3.70) and Astra Agro Lestari (AALI IJ/Target: Rp28,000).**
- **Soft commodity proxy: Wilmar International (WIL SP/Target: S$7.30)** is the best proxy to rising edible oils and grain prices.

Sector Catalysts

- Strengthening of La Nina increases supply risk.

Assumption Changes

- Higher CPO prices in 4Q10 within expectation. We maintain CPO average selling price at RM2,600/tonne for 2010 and 2011 with expectation of a stronger 1H11, to be followed by price weakness in 2H11 due to rising supply.

Risks

- Potential demand rationing if high prices (above US$1,000/tonne) persist for the next 4-6 months, as seen back in 2H08 when prices surged.

Essentials

- **Return of big buyers driving prices up.** Based on ground checks, the surge in prices since last week was driven by the rush in buying from three major markets - China, India and Europe. The key reasons were attributed to:

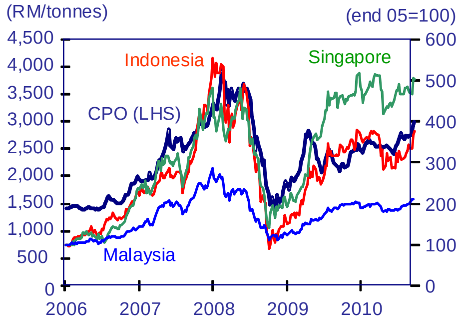
a) Widening of price gap between CPO and soybean oil encourages the switch from soybean oil to CPO for price-sensitive demand (especially from India and Pakistan).

Top Sector Picks

Company	Rec	Target Price (Lcl Crcy)	Share Price (Lcl Crcy)
Wilmar International	BUY	7.30	6.47
Astra Agro	BUY	28,000	25,800
Indofood Agri	BUY	3.70	2.74
BW Plantations	BUY	1,080	1,060
Sampoerna Agro	BUY	3,500	3,125
KL Kepong	BUY	21.60	18.94

Source: UOB Kay Hian

Singapore Plantation Stocks Outperformed



Source: Bloomberg

Analyst

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Peer Comparison

Company	Ticker	Rec	Price 5 Oct 10	Target Price	Market Cap	------------PE------------ 2009	2010F	2011F	ROE	P/NTA	Div	Div Yield
			(RM)	(RM)	(US$m)	(x)	(x)	(x)	(%)	(x)	(sen)	(%)
KL Kepong	KLK MK	BUY	18.94	21.60	6,535	33.0	19.1	15.8	11.0	3.7	65.0	3.4
IJM Plantations	IJMP MK	HOLD	2.78	3.00	720	22.1	17.7	17.5	7.8	1.9	8.0	2.9
Genting Plantations	GENP MK	HOLD	8.53	9.00	2,092	28.1	19.7	19.3	9.6	2.5	10.0	1.2
Sime Darby	SIME MK	HOLD	8.84	9.70	17,170	73.1	20.2	18.6	3.5	2.6	22.0	2.5
IOI Corporation	IOI MK	HOLD	5.80	6.30	12,522	27.8	24.7	20.7	21.3	3.6	13.1	2.3
			(S$)	(S$)		(x)	(x)	(x)	(%)	(x)	(cents)	
Wilmar Int'l	WIL SP	BUY	6.47	7.30	32,032	20.2	17.7	16.4	18.3	4.0	10.2	1.6
Indofood	IFAR SP	BUY	2.74	3.70	3,072	22.4	20.1	16.1	17.6	3.7	1.6	0.6
Golden Agri-Res	GGR SP	SELL	0.70	0.70	6,533	29.9	20.1	17.8	12.1	1.1	0.3	0.5
First Resources	FR SP	HOLD	1.31	1.40	1,490	14.8	16.8	14.9	24.6	2.4	0.0	0.0
Kencana Agri	KAGR SP	BUY	0.42	0.45	373	19.4	36.3	25.2	13.2	2.0	0.3	0.6
			(Rp)	(Rp)		(x)	(x)	(x)	(%)	(x)	(Rp)	
Astra Agro	AALI IJ	BUY	25,800	28,000	4,561	24.4	21.3	18.2	29.2	6.7	603.1	2.3
BW Plantations	BWPT IJ	BUY	1,060	1,080	480	20.9	17.9	14.9	28.4	4.7	4.1	0.4
London Sumatra	LSIP IJ	HOLD	11,500	11,000	1,762	22.2	17.5	16.6	20.2	4.0	131.5	1.1
Sampoerna Agro	SGRO IJ	BUY	3,125	3,500	663	19.8	15.2	13.6	17.0	3.3	40.8	1.3
Bakrie Sumatera	UNSP IJ	SELL	410	320	610	6.1	24.1	19.3	9.8	2.1	2.5	0.6

Source: Bloomberg, UOB Kay Hian

b) Inventory replenishment in China and drawing down of inventory to stabilise domestic prices prior to the Golden Week holidays.

c) Higher demand for heating from Europe's power industry as it enters the winter season.

- **Oct 10 - Production peak month but might be below expectation.** Based on our conversations with upstream players, we get mixed signals for Oct 10 production trend. The conclusion is that Oct 10 will still see an increase of 10-15% mom vs Oct 09's +27% mom. Besides minor labour problems, fewer fruit formations could also be behind the low production. Thus, Oct 10 inventory is likely to peak at 1.75-1.80m tonnes and dip thereafter as trees enter the low-yielding season.

- **Slight dip in Malaysian palm oil exports, but buying coming in.** Exports for 1-25 October fell 4.7% to 1.11m tonnes, according to Intertek, with the EU, India and China being the biggest buyers. However, we still expect another strong month of exports in October as China is likely to replenish its inventory after the recent stockpile release to stabilise domestic cooking oil prices. The potential hike in Indonesia's export tax to 10% could again see priority to channel vessels to Indonesian ports to ship out the inventory.

- **La Nina: It'll get worse before it gets any better.** According to the 18 October report of the Climate Prediction Center, La Nina is to become a major episode in Nov 10/Jan 11 before it begins to weaken. The La Nina phenomenon is still affecting our markets due to its unusual strength and because it may last longer throughout 1H11 than the initial expectation of 2H10. This has increased the risk of below-average rainfall in key soybean planting areas in South America (delayed planting) and too much rain in palm areas affecting harvesting and pollination.

Valuation

- Although we maintain our CPO price expectation and MARKET WEIGHT call, we expand the sector valuation to capture the rising liquidity into commodities on the imbalanced supply-demand outlook and hedging against a weakening US dollar. We upgrade our PEs for the stocks based on the past PE band during the upcycle. We have yet to be convinced this would be a super cycle given higher supply in the future.

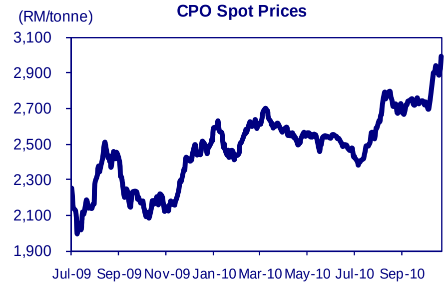
- We also upgrade IJM Plantations to HOLD from SELL.

Revised Target Prices

Company	Rec	Revised FY12 PE (x)	Price 25 Oct 10 (RM)	Previous Target Price (RM)	Revised Target Price (RM)	Potential Upside (%)
KL Kepong	BUY	18	18.94	19.20	21.60	14.0
Sime Darby	HOLD	18	8.84	8.55	9.70	9.7
IOI Corporation	HOLD	20	5.80	5.70	6.30	8.6
IJM Plantations	HOLD	18	2.78	2.40	3.00	7.9
Genting Plantations	HOLD	18	8.53	7.40	9.00	5.5
			(S$)	**(S$)**	**(S$)**	**(x)**
Indofood	BUY	18	2.74	2.60	3.70	35.0
Wilmar Int'l	BUY	18	6.47	7.00	7.30	12.8
Kencana Agri	BUY	15	0.42	0.43	0.45	7.1
First Resources	HOLD	13	1.31	1.13	1.40	6.9
Golden Agri (Res)	SELL	16	0.70	0.53	0.70	0.7
			(Rp)	**(Rp)**	**(Rp)**	**(x)**
Sampoerna Agro	BUY	13	3,125	2,950	3,500	12.0
Astra Agro	BUY	18	25,800	24,000	28,000	8.5
BW Plantations	BUY	13	1,060	940	1,080	1.9
London Sumatra	HOLD	15	11,500	9,700	11,000	(4.3)
Bakrie Sumatera	SELL	13	410	260	320	(22.0)

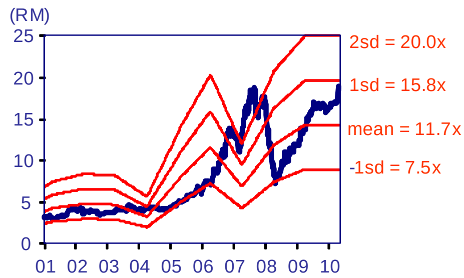
Source: UOB Kay Hian

CPO Price Surged Strongly On Supply Concern And Market Liquidity



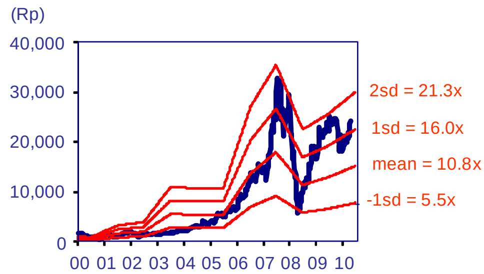
Source: Bloomberg, UOB Kay Hian

KLK's PE Band



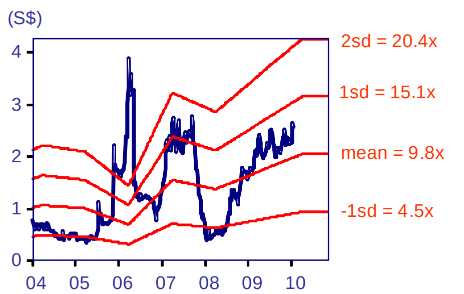
Source: Bloomberg, UOB Kay Hian

ALLI's PE Band



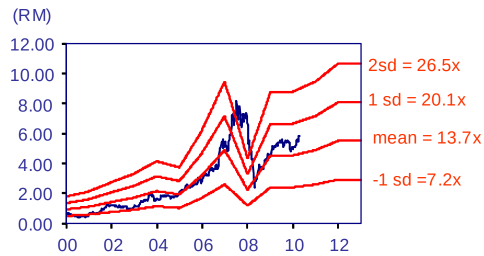
Source: Bloomberg, UOB Kay Hian

IFAR's PE Band



Source: Bloomberg, UOB Kay Hian

IOI's PE Band



Source: Bloomberg, UOB Kay Hian

Raffles Medical Group – Singapore

Key takeaways from analyst briefing. Buy maintained.

What's New

- Raffles Medical Group (RMG) hosted an analyst briefing after the release of its 3Q10 results to provide updates on its operations.

Stock Impact

- **No surprises in 3Q10 results.** There were no surprises in its 3Q10 results. Net profit ytd of 30.5m was up 17% yoy and accounted for 69% of our full-year estimates. We forecast a stronger 4Q to lift earnings closer to our full-year estimates. The 17% rise in net profit was driven by improved operating leverage, a wider range of medical specialties, higher patient load and recruitment of more specialists. Excluding the impact of the Jobs Credit subsidy received by the Group in 3Q09, the 3Q10 net profit would have grown 22%. Between the two main divisions, the turnover of hospital services grew at a higher pace of 15% yoy compared to healthcare's growth of 4%.

- **Update on hospital expansion.** The Group has recently secured the approval from Urban Redevelopment Authority (URA) to build an additional 102,408sf (+33%) to expand its premises to 410,283sf. This will allow RMG to expand its existing services and to develop new specialist treatment areas. Management is currently finalising the design and hopes to commence construction in 2Q11. The construction cost is estimated at S$80m, with another S$20m for equipment purchase.

- **Foreign drive for hospital services.** 3Q10 turnover from hospital services improved 15% yoy, driven by an increase of more than 20% in foreign patients, Other than rising affluence, the rise in foreign patients have been driven by RMG's good track record and transparent pricing policy

- **Steady growth from healthcare.** For its healthcare division, RMG plans to grow its clinics by 3-5 per year from its current 74 clinics. Other than the number of clinics, management targets to raise contributions by focusing on strategic locations and offering more services at its existing clinics.

- **Solid earnings prospects.** In our view, RMG is on track to register a 3-year EPS CAGR of 16%, driven by rising revenue intensity, higher patient load and operational efficiencies. The improvement in revenue intensity has been underpinned by higher admission of foreign patients and the offering of more sub-specialisation services.

Key Financials

Year to 31 Dec (S$)	2008	2009	2010F	2011F	2012F
Net turnover	200.8	218.6	244.8	273.5	313.6
EBITDA	45.6	52.3	60.3	68.7	79.1
Operating profit	39.0	45.5	53.9	62.3	72.7
Net profit (rep./act.)	31.5	37.9	44.2	51.1	59.7
Net profit (adj.)	31.5	37.9	44.2	51.1	59.7
EPS (S$ cent)	6.0	7.2	8.4	9.8	11.4
P/E (x)	36.7	30.6	26.2	22.7	19.4
P/BV (x)	5.1	4.6	4.1	3.6	n.a.
EV/EBITDA (x)	23.6	20.6	17.9	15.7	13.6
Dividend yield (%)	1.1	1.4	1.4	1.4	1.4
Net margin (%)	15.7	17.3	18.1	18.7	19.0
Net debt/(cash) to equity (%)	(8.1)	(20.0)	(30.7)	(40.3)	(49.6)
Interest cover (x)	73.2	127.7	n.a.	n.a.	n.a.
ROE (%)	14.9	16.1	16.7	17.2	17.7
Consensus net profit	-	-	43.9	51.7	59.1

Source: Raffles Medical Group, Bloomberg, UOB Kay Hian

BUY
(Maintained)

Company Update

Share Price	**S$2.21**
Target Price	**S$2.57**
Upside	**+16.1%**

Company Description

Raffles Medical Group Limited is a health care provider. The Company operates medical clinics, imaging centers, and medical laboratories. Raffles provides general and specialised medical, medical evacuation, medical advisory, and dental services.

Stock Data

GICS sector	Health Care
Bloomberg ticker:	RFMD SP
Shares issued (m):	525.4
Market cap (S$m):	1,161.0
Market cap (US$m):	898.5
3-mth avg daily t'over (US$m):	0.6

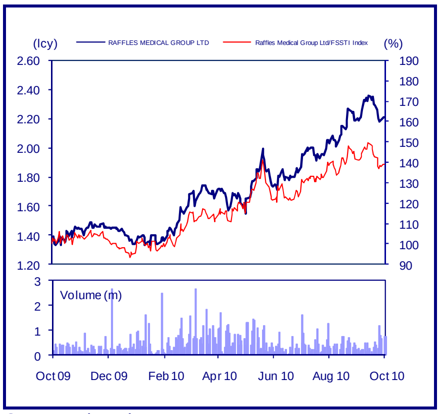
Price Performance (%)

52-week high/low S$2.36/S$1.33

1mth	3mth	6mth	1yr	YTD
0.9	20.8	32.3	61.3	52.4

Major Shareholders	**%**
Dr Loo Choon Yong	40.0
FY10 NAV/Share (S$)	0.54
FY10 Net Cash/Share (S$)	0.17

Price Chart



Source: Bloomberg

Analyst

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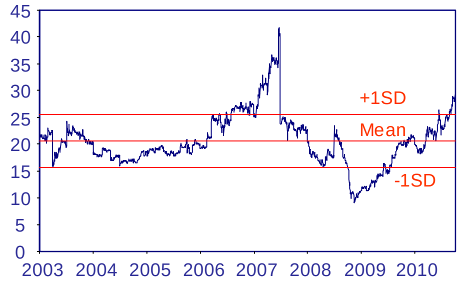
- **Proxy to strong demand for quality healthcare.** RMG remains on our BUY list due to its exposure to Singapore's strong domestic consumption and management's ability to tap regional healthcare demand. As an indication, we estimate that Indonesians account for 20-25% of its foreign patients, with Russians and Malaysians accounting for 5-7% each and 1-2% each from countries such as UK, US, Australia and Japan.

Raffles Medical PE Band (2003-present)



Source: Bloomberg, UOB Kay Hian

Earnings Revision/Risk

- **No change in earnings forecast** after its recent 3Q10 results, which were in line with expectations. We forecast its EPS to grow 17% yoy in 2010F and 16% yoy in 2011F.
- **Key risks.** Key downside risks include delays in the expansion of its hospital, difficulty in retaining quality doctors as well as an economic downturn, which could affect demand for premium private healthcare.

Valuation/Recommendation

- **BUY for quality healthcare exposure.** Our target price of S$2.57 (unchanged) is based on a DCF valuation which assumes a long-term growth rate of 3.5%. At our target price, the implied 2011F target PE is 25.9x, which is at a 1+ standard deviation to RMG's mean PE of 20.6x (between 2003-present). We think the premium is deserved since RMG is well-positioned to benefit from rising demand for quality healthcare in the region through its good reputation and transparent pricing policy.
- **Profit-taking offers a buying opportunity.** We see the recent share price weakness (6% from its peak) as a buying opportunity. At our target price, the potential capital upside is estimated at 16%.

Share Price Catalyst

- Potential share price catalysts include: a) better-than-expected earnings growth in 2011-12F, b) further M&A newsflow in the sector, which could further re-rate healthcare companies.

Peer Comparison

Company	Ticker	Price 25 Oct 10	Market Cap (US$m)	-----PE----- 2009 (x)	2010 (x)	2011 (x)	2012 (x)	Yield 2010 (%)	ROE 2010 (%)	P/B (x)
Raffles Medical Group Ltd	RFMD SP	2.21	898	30.3	26.3	22.7	19.5	1.4	16.7	4.3
Healthway Medical Corp Ltd	HMED SP	0.155	224	15.3	51.7	19.4	22.1	0.6	2.7	1.5
Health Management Intl Ltd	HMI SP	0.125	47	n.a.	n.a.	31.3	20.8	0.0	(4.3)	2.1
Singapore Medical Group Ltd	SMG SP	0.225	25	20.5	n.a.	n.a.	n.a.	n.a.	n.a.	5.7
Thomson Medical Centre Ltd	THOM SP	1.01	229	23.1	19.1	17.1	15.3	2.6	13.3	2.6
Bangkok Dusit Med Service	BGH TB	36.25	1,475	25.5	21.7	18.3	15.9	2.2	14.2	3.1
Bumrungrad Hospital Pub Co	BH TB	33.75	824	19.7	20.3	17.8	16.4	2.6	21.7	4.3
Kpj Healthcare Berhad	KPJ MK	3.67	658	17.8	15.8	14.0	12.2	3.3	18.6	2.8
Sector average				22.4	27.8	21.1	18.3	1.6	10.7	3.4

Source: Bloomberg, UOB Kay Hian

Profit & Loss

Year to 31 Dec (S$m)	2009	2010F	2011F	2012F
Net turnover	218.6	244.8	273.5	313.6
EBITDA	52.3	60.3	68.7	79.1
Deprec. & amort.	6.9	6.4	6.4	6.4
EBIT	45.5	53.9	62.3	72.7
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(0.4)	0.0	0.0	0.0
Pre-tax profit	45.0	53.9	62.3	72.8
Tax	(7.0)	(9.7)	(11.2)	(13.1)
Minorities	(0.2)	0.0	0.0	0.0
Net profit	37.9	44.2	51.1	59.7
Net profit (adj.)	37.9	44.2	51.1	59.7

Balance Sheet

Year to 31 Dec (S$m)	2009	2010F	2011F	2012F
Fixed assets	231.4	230.0	228.6	227.2
Other LT assets	0.9	0.9	1.0	1.1
Cash/ST investment	74.4	87.4	128.6	179.8
Other current assets	30.1	34.1	38.0	43.5
Total assets	336.8	352.4	396.3	451.6
ST debt	4.5	2.0	2.0	2.0
Other current liabilities	60.7	70.0	78.0	89.0
LT debt	20.0	0.0	0.0	0.0
Other LT liabilities	1.4	1.6	1.7	1.9
Shareholders' equity	249.8	278.5	314.2	358.4
Minority interest	0.4	0.4	0.4	0.4
Total liabilities & equity	336.8	352.4	396.3	451.6

Cash Flow

Year to 31 Dec (S$m)	2009	2010F	2011F	2012F
Operating	52.8	53.4	60.7	70.6
Pre-tax profit	45.0	53.9	62.3	72.8
Tax	(7.0)	(9.7)	(11.2)	(13.1)
Deprec. & amort.	6.9	6.4	6.4	6.4
Working capital changes	0.6	4.4	3.2	4.4
Other operating cashflows	7.3	(1.6)	0.1	0.2
Investing	(5.0)	(5.0)	(5.0)	(5.0)
Capex (growth)	(5.0)	(5.0)	(5.0)	(5.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	(17.5)	(35.5)	(14.5)	(14.5)
Dividend payments	(15.5)	(15.5)	(15.5)	(15.5)
Issue of shares	0.0	0.0	1.0	1.0
Proceeds from borrowings	(2.1)	(20.0)	0.0	0.0
Others/interest paid	0.0	0.0	0.0	0.0
Net cash inflow (outflow)	30.3	13.0	41.3	51.2
Beginning cash & cash equivalent	44.1	74.4	87.4	128.6
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	74.4	87.4	128.6	179.8

Key Metrics

Year to 31 Dec (%)	2009	2010F	2011F	2012F
Profitability				
EBITDA margin	23.9	24.6	25.1	25.2
Pre-tax margin	20.6	22.0	22.8	23.2
Net margin	17.3	18.1	18.7	19.0
ROA	11.7	12.8	13.7	14.1
ROE	16.1	16.7	17.2	17.7
Growth				
Turnover	8.9	12.0	11.7	14.7
EBITDA	14.8	15.1	14.0	15.2
Pre-tax profit	17.5	19.7	15.6	16.7
Net profit	20.1	16.7	15.6	16.7
Net profit (adj.)	20.1	16.7	15.6	16.7
EPS	20.1	16.7	15.6	16.7
Leverage				
Debt to total capital	9.8	0.7	0.6	0.6
Debt to equity	9.8	0.7	0.6	0.6
Net debt/(cash) to equity	(20.0)	(30.7)	(40.3)	(49.6)
Interest cover (x)	127.7	n.a.	n.a.	n.a.

Singapore Exchange – Singapore

Cost savings positive; need to see more top-line synergies

What's New

- Singapore Exchange (SGX) plans to offer US$8.2b to buy ASX, the operator of the Australian Stock Exchange.
- **PE-accretive but lower combined PE likely.** SGX will offer A$48 (US$47.11) for each ASX share, with a combined offer of A$22 in cash and A$26 in SGX shares. SGX will raise up to US$3.5b in a bridge loan to finance to deal.
- Since SGX as a bidder is trading at 26x PE and ASX at 17x, the deal is PE- accretive.
- **Increasing bargaining power to technology provider.** Both SGX and ASX subscribe to the Nasdaq OMX platform. As the strategic focus will be on high-frequency traders in the future, the Nasdaq OMX platform is considered a critical resource of the business. By combining the two companies, the entity will become the largest customer of the technology which will help enhance the bargaining advantage with the supplier.
- **Cost savings present but not significant.** Management believes that US$30m (S$40m) in savings can be realised by end-13 from various cost synergies but the savings are not the main motive of the deal as the operating expenditure of SGX alone is about S$250m. Factor in contingency for cost savings, execution risk and some probability of a failure in the merger deal, bottom-line contribution is negligible.
- **Need more top-line growth to prove with products remaining separate.**
- The key proposition as envisioned by the management of the companies is to achieve synergies by marketing the entities as the premium international exchanges of the Asia Pacific. We believe this is a long road to go due to structural disadvantages.
- First, both exchanges will maintain their separate product offerings for the purpose of primary listing platform even though marketing activities are combined. Second, while both exchanges having different strengths in sector exposure is an apparent strength, it also means that the combined entity may not help a potential offering generate a high level of incremental interest.

Key Financials

Year to 31 Dec (S$m)	2009	2010	2011F	2012F	2013F
Net turnover	594.8	639.7	774.2	797.1	821.2
EBITDA	370.1	386.6	527.3	556.5	592.2
Operating profit	368.6	382.7	523.7	552.6	587.8
Net profit (rep./act.)	305.7	320.1	435.9	460.0	489.4
Net profit (adj.)	305.7	320.1	435.9	460.0	489.4
EPS (S$ cent)	28.6	29.9	40.8	43.0	45.8
P/E (x)	31.3	29.9	22.0	20.8	19.6
P/BV (x)	12.3	11.8	11.2	10.6	10.1
EV/EBITDA (x)	24.1	23.1	16.9	16.0	15.1
Dividend yield (%)	0.0	0.0	0.0	0.0	n.a.
Net margin (%)	51.4	50.0	56.3	57.7	59.6
Net debt/(cash) to equity (%)	(82.9)	(82.6)	(98.9)	(101.9)	(104.8)
ROE (%)	36.6	40.3	52.4	52.5	53.0
Consensus net profit	-	-	387.3	447.0	512.3
UOBKH/Consensus (x)	-	-	1.13	1.03	0.96

Source: Singapore Exchange Ltd., Bloomberg, UOB Kay Hian

BUY
(Maintained)

Company Update

Share Price	**S$8.95**
Target Price	**S$9.60**
Upside	**+7.3%**

Company Description

Singapore Exchange Ltd own and operates Singapore securities and derivatives exchange and their related clearing houses.

Stock Data

GICS sector	Financials
Bloomberg ticker:	SGX SP
Shares issued (m):	1,071.2
Market cap (S$m):	9,586.8
Market cap (US$m):	7,423.6
3-mth avg daily t'over (US$m):	29.3

Price Performance (%)

52-week high/low S$10.12/S$7.11

1mth	3mth	6mth	1yr	YTD
0.8	20.3	7.2	8.6	7.4

Major Shareholders	%
SEL	23.4

FY11 NAV/Share (S$)	0.80
FY11 Net Cash/Share (S$)	0.79

Price Chart

Source: Bloomberg

Analyst

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Stock Impact

- We expect that the deal may be seen as a short-term negative due to the perceived high valuation of ASX accorded by SGX. In the long term, the sheer increase in size, geographic reach and brand reputation may deliver value given that various regulatory impediments can be overcome, but at this stage, we remain conservative and will not assign value to the synergy.

Earnings Revision/Risk

- We factor in cost savings of US$10m per year from the potential merger starting 2011 and increase the savings to US$30m in 2013. As a result, we raise our 2011 EPS forecast from 39.6 cents to 40.8 cents, and 2013 EPS forecast from 42 cents to 46 cents.

Valuation/Recommendation

- **Maintain BUY.** Although there were rumours of potential mergers before the announcement, we believe very little were priced in beforehand; therefore our argument of not pricing in synergy value will not result in a deduction of valuation. We also believe that, synergies or not, SGX is benefitting from Asian fund inflow in the short term and the merger move is a reasonable action by management to address the need to remain competitive and to defend its market share.

- We upgrade slightly our 12-month target price from S$9.40 to S$9.60 to reflect the prevailing upcycle 2011F PE of 23.6x. Note there may be some short-term price pressure related to perceived premium valuations paid by SGX.

Key Statistics

	SGX	ASX	Combined entity
Turnover (US$)	451.98	513.61	965.59
Net profit	227.57	289.5	517.07
SHareholders funds	583.89	2473.46	3057.35
Total assets	1002.66	5605.83	6608.49
Net gearing	Net cash	Net cash	
Market cap	7418.11	7270.98	14689.09
ROE (%)	40.16	11.52	16.91

Note - Merger related accounting not taken into account in combined entity estimates
Source: Bloomberg

Peer Comparison

Company	Ticker	Reporting Curr	Country	Price 22 Oct 10	Market Cap (US$m)	---------PE--------- 2010 (x)	2011 (x)	2012 (x)	---------Yield--------- 2010 (%)	2011 (%)	2012 (%)	ROE 2010 (%)	BV ps ($)	PB (x)
ASX Ltd	ASX AU	AUD	Australia	34.96	6,097	18.4	17.3	15.9	5.0	5.2	5.7	11.5	16.83	2.1
NSX Ltd	NSX AU	AUD	Australia	0.185	18	n.a.	n.a.	n.a.	0.0	n.a.	n.a.	(36.9)	0.06	3.0
BM&Fbovespa SA	BVMF3 BZ	BRL	Brazil	13.84	16,583	20.7	17.4	14.5	3.2	4.1	4.5	6.7	10.06	1.4
Plus Markets Group Plc	PMK LN	GBP	Britain	1.53	9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.21	0.0
TMX Group Inc	X CN	CAD	Canada	32.08	2,340	11.1	10.5	10.1	4.7	4.8	4.7	22.9	10.93	2.9
Bolsa De Valores De Valparai	VALORES CI	CLP	Chile	12,000,000	1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	10,988,550	1.1
Bolsa De Comercio Santiago	COMER CI	CLP	Chile	2E+09	197	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	375,116,500	5.3
Bolsa De Valores De Colombia	BVC CB	COP	Colombia	46.6	480	46.6	33.3	n.a.	n.a.	n.a.	n.a.	n.a.	4.91	9.5
Deutsche Boerse Ag	DB1 GR	EUR	Germany	52.28	14,304	14.4	11.4	10.1	4.0	4.4	4.8	20.8	15.56	3.4
Hellenic Exchanges Sa Holding	EXAE GA	EUR	Greece	5.82	534	15.0	13.6	13.0	3.4	3.8	4.0	16.3	2.10	2.8
Hong Kong Exchanges & Clear	388 HK	HKD	HK	173.4	24,085	38.5	32.1	27.3	2.3	2.8	3.3	59.1	7.43	23.3
Osaka Securities Exchange Co	8697 JP	JPY	Japan	426,500	1,430	11.8	16.4	15.4	2.3	2.4	2.5	18.7	179,367	2.4
Bursa Malaysia Bhd	BURSA MK	MYR	M'sia	8.24	1,415	33.5	28.3	25.3	2.7	3.2	3.6	15.5	1.52	5.4
Bolsa Mexicana De Valores Sa	BOLSAA MM	MXN	Mexico	21.23	1,024	22.2	19.1	16.5	7.8	6.2	4.1	11.0	8.76	2.4
NZX Ltd	NZX NZ	NZD	New Zealand	1.55	143	17.4	13.7	11.9	4.8	5.5	6.3	11.1	0.75	2.1
Bolsa De Valores De Lima-A	BVLAC1 PE	PEN	Peru	10	160	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.77	5.7
Philippine Stock Exchange In	PSE PM	PHP	Philippines	390	278	38.0	26.1	20.3	2.1	3.1	4.4	16.1	57.50	6.8
Singapore Exchange Ltd	SGX SP	SGD	S'pore	9.54	7,908	31.7	26.3	22.8	2.8	3.4	4.0	40.2	0.80	12.0
JSE Ltd	JSE SJ	ZAR	S. Africa	7,942	982	1,607.4	1,325.9	1,124.6	0.0	0.0	0.0	26.2	1,891	4.2
Finbond Group Ltd	FGL SJ	ZAR	S. Africa	20	11	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	65.14	0.3
Dubai Financial Market	DFM UH	AED	UAE	1.76	3,834	70.4	45.1	28.4	1.3	2.2	3.4	2.5	0.95	1.9
Intercontinentalexchange Inc	ICE US	USD	US	116.84	8,651	20.8	18.4	16.1	0.0	0.0	3.3	15.9	35.63	3.3
NYSE Euronext	NYX US	USD	US	30.29	7,906	14.2	11.6	10.0	4.0	4.0	4.1	8.4	24.04	1.3
Nasdaq OMX Group/The	NDAQ US	USD	US	20.6575	4,187	10.8	9.2	8.4	0.0	0.0	1.7	8.1	23.10	0.9

Source: Bloomberg

Profit & Loss

Year to 31 Dec (S$m)	2010	2011F	2012F	2013F
Net turnover	639.7	774.2	797.1	821.2
EBITDA	386.6	527.3	556.5	592.2
Deprec. & amort.	3.9	3.5	4.0	4.4
EBIT	382.7	523.7	552.6	587.8
Associate contributions	(1.7)	(1.7)	(1.7)	(1.7)
Pre-tax profit	383.3	522.0	550.8	586.0
Tax	(63.2)	(86.1)	(90.8)	(96.6)
Minorities	0.0	0.0	0.0	0.0
Net profit	320.1	435.9	460.0	489.4
Net profit (adj.)	320.1	435.9	460.0	489.4

Balance Sheet

Year to 31 Dec (S$m)	2010	2011F	2012F	2013F
Fixed assets	118.7	118.7	118.7	118.7
Other LT assets	83.4	83.4	83.4	83.4
Cash/ST investment	669.0	844.3	916.5	993.9
Other current assets	610.8	628.1	628.1	628.1
Total assets	1,481.9	1,674.5	1,746.7	1,824.0
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	663.1	812.1	838.3	866.7
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	8.7	8.7	8.7	8.7
Shareholders' equity	810.1	853.7	899.7	948.6
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	1,481.9	1,674.5	1,746.7	1,824.0

Cash Flow

Year to 31 Dec (S$m)	2010	2011F	2012F	2013F
Operating	343.6	567.7	504.8	535.8
Pre-tax profit	320.1	435.9	460.0	489.4
Deprec. & amort.	22.4	22.9	23.4	23.8
Working capital changes	1.0	108.8	21.4	22.6
Non-cash items	0.0	0.0	0.0	0.0
Investing	(22.4)	(22.9)	(23.4)	(23.8)
Capex (maintenance)	(22.4)	(22.9)	(23.4)	(23.8)
Investments	0.0	0.0	0.0	0.0
Financing	(297.3)	(369.5)	(409.3)	(434.7)
Dividend payments	(297.3)	(369.5)	(409.3)	(434.7)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	n.a.	n.a.	n.a.	n.a.
Net cash inflow (outflow)	23.9	175.3	72.2	77.4
Beginning cash & cash equivalent	645.2	669.0	844.3	916.5
Ending cash & cash equivalent	669.0	844.3	916.5	993.9

Key Metrics

Year to 31 Dec (%)	2010	2011F	2012F	2013F
Profitability				
EBITDA margin	60.4	68.1	69.8	72.1
Pre-tax margin	59.9	67.4	69.1	71.4
Net margin	50.0	56.3	57.7	59.6
ROA	22.1	27.6	26.9	27.4
ROE	40.3	52.4	52.5	53.0
Growth				
Turnover	7.5	21.0	3.0	3.0
EBITDA	4.4	36.4	5.6	6.4
Pre-tax profit	4.0	36.2	5.5	6.4
Net profit	4.7	36.2	5.5	6.4
Net profit (adj.)	4.7	36.2	5.5	6.4
EPS	4.7	36.2	5.5	6.4
Leverage				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(82.6)	(98.9)	(101.9)	(104.8)

Corporate

Wing Tai Holdings (BUY/S$1.79/Target: S$2.30)

1QFY11: Expect a better second half

Results			EPS Data			
Year to 30 Jun	3Q10 (S$m)	yoy % chg		EPS (cents)	% Chg	PE (x)
Turnover	131.0	(52)	FY10	20.2	207.8	8.8
EBITDA	55.6	(71)	FY11	26.7	31.9	6.7
Pre-tax Profit	41.7	(51)	FY12	29.7	11.0	6.0
Tax	8.3	(51)	FY13	25.1	(15.4)	7.1
PATMI	30.2	(35)				
EPS (¢)	3.86	(35)				
EBITDA Margin (%)	42.4					

Source: Wing Tai, UOB Kay Hian

Results: Wing Tai Holdings reported 1QFY11 net profit of S$30.2m (-35% yoy).The results came in below our expectations mainly due to lower-than-expected recognition from its Ascentia Sky and Belle Vue Residences developments. We leave our FY11 net profit estimate unchanged as we expect higher contribution from subsequent quarters. Revenue for the quarter declined 52% yoy to S$131.0m on lower recognition from development properties in Singapore. Net gearing stood at 0.45x as at end- 1QFY11.

Impact: During 1QFY11, the Group re-launched its luxury apartments, Belle Vue Residences, a 176-unit condominium in Oxley Walk, and sold another 28 units at S$2,300-2,800psf. To-date, the project is 65% sold. Wing Tai also acquired a residential site at Petir Road for S$177.4m or S$345psfppr in Singapore, after a long hiatus of three years (last acquisition was Ascentia Sky in Dec 07). We believe Wing Tai will market this as a mid-tier project, in line with its focus on mid- to high-end developments. We expect the project to rake in a net profit of S$67m or ~3% accretion to our RNAV/share. Wing Tai is waiting for the results of its two bids for the commercial site along Stamford Road. Going forward, the Group is expected to launch its prime Ardmore Park area projects- Le Nouvel Ardmore (43 units) and Anderson 18 site (150 units) in 1H11.

Recommendation: We raise our FY12 and FY13 net profit estimates by 5.5% and 21.8% respectively and our RNAV estimate by 3% to S$2.72/share, factoring in the acquisition of a residential site at Petir Road and marking to market its listed entities. We like Wing Tai for its exposure to the high-end segment and alternative recurrent income stream from its retail and investment properties. Maintain BUY with a target price of S$2.30, pegged at a discount of 15% to its RNAV (20% discount to residential portfolio and 20% premium to commercial portfolio).

DBS: Eyeing Indonesian acquisition. DBS CEO Piyush Gupta said the bank is open to buying Indonesian assets that offer good returns but is not interested in Chinese banks for now where it can only get minority stakes. He also added that lower interest rates in Singapore were having a negative but not dramatic impact on the Group's net interest income. (*Source: The Business Times)*

MCL Land: 3Q10 net profit dives 91% yoy to US$8.84m, bringing net profit for 9M10 to US$171.8m (+28% yoy). The results included a US$51m reversal of a write-down on its development, The Estuary. Revenue for the quarter was down 83% yoy to US$46.6m as the Group recorded less revenue from completed projects. The developer said the 30 August policy measures have moderated demand and price expectations in the Singapore residential market. MCL Land is currently en route to being delisted from the Singapore Exchange. (*Source: The Business Times)*

GMG Global: Turns around with S$16.4m net profit in 3Q10. The turnaround was mainly due to a 23% yoy jump in natural rubber sales volume to 26,651 tonnes and a 74.7% surge in average selling price to S$4,141/tonne. The results were also boosted by net gain of S$1.75m on financial derivatives. Net profit for 9M10 stood at S$32.2m compared with a loss of S$270,165 for 9M09. (*Source: The Business Times)*

Sector

Property: Cardiff Court up for sale with a price tag of S$25m. The price works out to S$519psfppr including the estimated development charges of S$6.63m to top-up the lease to 99 years. Some 96 apartments of about 600sf each can be built on the site. The tender closes on 18 November. (*Source: The Business Times)*

Economics/Politics

September inflation reaches 20-month high. Data from the Department of Statistics showed the consumer price index rose 3.7% yoy in September. On a seasonally adjusted basis, the CPI was also 0.2% higher than in August. The inflation rate raced to a 20-month high in September on higher housing, food and transport costs, justifying the central bank's surprise monetary tightening earlier this month. (*Source: The Business Times)*

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