DMG & Partners SECURITIES

Industry Update

Private Circulation Only

Serene Lim
+65 6232 3897
serene.lim@dmgaps.com.sg

OFFSHORE & MARINE

NEUTRAL

Alarming bells from rigging dwells

Still cautious view: The share prices of the Singapore yards - Keppel Corp (Keppel) and Sembcorp Marine (SCM) - have risen over the past month, outperforming the STI by an average of 25%. Despite this brief rally, the outlook for Singapore yards remains cautious due to the deterioration in capital markets and slower global demand, which have led to E&P capex cuts. We believe any boost of an industry re-rating would originate from the ease of credit capacity restraints in 2009.

Credibility of orderbook – how much would be translated to revenue? Our industry checks revealed that chartering rates for both jack-ups and semi-submersibles could likely fall by another 20% over the next six months. Assuming this to be true, this would imply that the internal rate of return on the newbuilds could be lower, especially on uncontracted vessels. With lingering concerns on longer asset payback period and lower returns, order re-negotiations and cancellations would be sparked off. We surmise this could also mean order backlog erosion, which brings to question the credibility of how much orderbook would be translated into revenue recognition.

Sensitivity analysis on cancellation orders: SCM to suffer a greater impact. Our sensitivity analysis shows that a 10% orderbook cancellation would result in 5-8% reductions in both Keppel O&M's and SCM's FY09-10 net profit. However, being a conglomerate, Keppel's other businesses could provide a buffer, thus affecting only 1-5% of FY09-10 bottomline. This implies that the impact of order cancellation is greater for SCM as the company is highly leveraged on this cyclical sector.

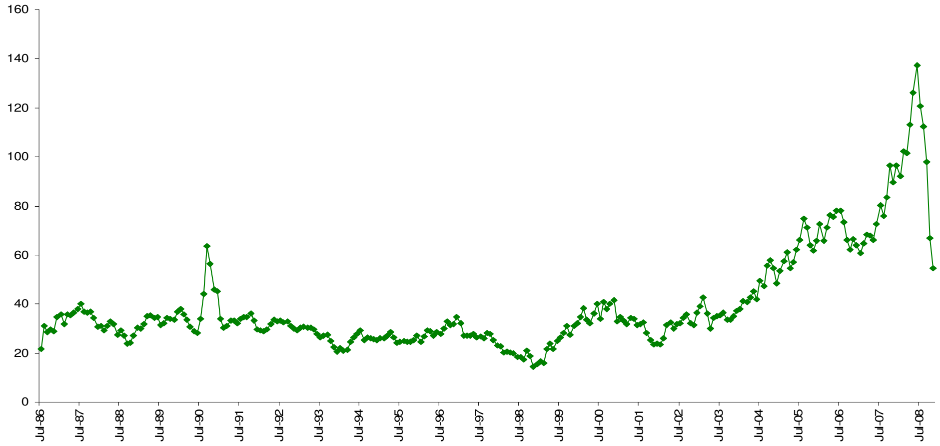
Significant slowdown in new orders. We have incorporated adjustments on new order assumptions for Keppel O&M to S$2.2b in FY09 and S$2.6b in FY10 on the back of low oil prices. Similarly, we have cut our new order assumptions for SCM to S$1.7b and S$2.0b in FY09 and FY10 respectively. We expect extremely slow order flow in 1H09.

Switching to P/B valuations. Should this cyclical downtrend be a protracted one, we believe P/B valuations would continue to lie depressed for a period, as evident in past down cycles between FY98 and FY04. As we opine that near-term catalysts seem to lack in this offshore marine sector, we are maintaining our **Neutral** call on the sector, and downgrading SCM to Neutral (Target price: S$1.75), for we surmise Keppel Corporation (Maintain Neutral, Target Price: S$4.53), as a conglomerate, has a well-fortified portfolio and is less leveraged on this sector. Cosco Corporation (Maintain Sell, Target Price: S$0.74) remains our least preferred yard builder in our coverage.

TABLE OF CONTENTS

What a year 2008 had been! The extreme volatility in oil prices from an average of US$136/bbl in the summer months to US$40/bbl recently (over this winter period) has been an unwelcomed anomaly. In addition, the oil price in 2008 has defied past historical trends; Oil price is generally higher during the winter season, when demand for fuel for heating homes rises in the US and Europe but is currently 65% off the peak of US$147/bbl in mid July. The high oil price experienced just barely three months ago was explained by collective conjectures including commodity price speculation, strong world demand, geopolitical tensions and declining production reserves; the weak oil price seen today is supported by a gloomy outlook for global oil consumption. While the world scrambles to find the equilibrium oil price whereby supply satisfies demand, we feel that the conclusion from this current low oil price climate is that the credit crisis far outweighs the long term fundamentals of oil.

Figure 1: Inflation adjusted crude oil price (2008=100)



Source : Bloomberg, compiled by DMG

Deterioration in capital markets has adverse impact on E&P activities. The highly capital intensive oil & gas industry is facing intense liquidity risk due to the increased difficulty in accessing the financial markets. The rapid deterioration in the credit markets has adversely crippled the E&P companies' ability to borrow money or extend bank debt to fund their planned activities in 2009. We believe any boost of an industry rebound would originate from the ease of credit capacity restraints, including access to capital in 2009.

Significant decline in oil & gas prices and constrained cashflow result in capex cuts. The price volatility has become a major challenge for oil companies, as it impacts the strategic decision-making and evaluation processes for the execution of new projects. When oil price plummeted from the peak of US$147/bbl in July 08 to current price of US$40/bbl, cashflow was constrained as the drilling cost for oil (which includes rig chartering rates) failed to ease correspondingly. According to the most recent upstream capital costs index (UCCI) released by IHS Energy Inc and Cambridge Energy Research Associates (CERA) in Dec 08, continued high activity levels and tightness in the upstream services and equipment markets led drilling costs to increase 9.2% in the past six months – 3.2ppt higher than the previous six months. While the global economic crisis is putting the breaks on global oil demand and causing deceleration of oil drilling activities, there is a time lag for drilling cost to adjust down correspondingly.

There exists a considerable gap between the revenue per barrel of oil and the drilling cost of extracting oil, and this reduces the oil companies' profitability from exploration activities and impacts their ability to finance future spending from current resources. Hence, this has resulted in oil companies scaling back on their capex, especially for higher-cost exploration projects.

For example, in 1998 a drop in world oil prices led to a collapse in exploration and drilling activity. During that time the number of natural gas drilling rigs fell off by 40%, but rebounded by 2001 to produce at record levels, and then declined again. History showed that when oil and gas prices were suppressed, companies scaled back investments and put off projects that were not time critical.

Petrobras is not spared, In a much awaited press announcement released on 19 Dec 2008, Brazilian state oil company Petrobras has yet again indicated it would delay the release of its five-year investment plan, citing 'uncertain and volatile' market conditions as key reason. Its board of directors had unanimously agreed to re-evaluate existing projects and reconsider its 2009-2013 capital spending plan in January. This is the second time Petrobras has revised the capex spending, with the first in October 2008 at the onset of worsening global conditions. Petrobras had earlier planned to spend US$112b over 2008-2012 (or US$22.4b per year) on this mega project.

And so are other national oil companies…. Petrobras is not a unique situation. In fact, the current climate of falling oil prices and credit crunch has ended the euphoria surrounding state-owned oil companies in recent years. Other state-owned oil companies such as CNOOC, Pertamina, PTT E&P and Reliance Industries have also indicated budget cuts.

As well as other international oil companies…. Although widely-known fully-integrated international oil players, which are involved in upstream, midstream refining and downstream retailing activities, such as ExxonMobil and ConocoPhilips have declared commitments to their capex plans for FY09, we believe these companies belong to the minority group having strong balance sheet and recurring cashflow.

Many companies, notably Hess Corporation and Canadian explorer Husky Energy, have declared lower capital and exploratory expenditure budget for 2009 as compared to 2008. For example, Hess Corporation has recently cut its projected capex spending of US$3.2b for 2009 as compared to US$4.4b for 2008 while Husky Energy has reduced its 2009 capex budget by 28% from C$3.6b in 2008.

Others, such as SandRidge Energy, are reducing earlier proposed budgets to weather low oil prices and economic turmoil. For example, SandRidge Energy has cut its 2009 capex to US$500m from an earlier budget of US$1b.

Pure-play E&P companies such as Santos Australia and Apache Corporation have also declared deferment of development projects.

Slowing E&P activities translates to lower demand for rig chartering and reduced rig utilisation and rates.

Recap of the rig market – current datapoints not reflective of industry's outlook. The rig demand is a derived demand from the oil and gas E&P cycle. We have previously provided our view of the rig demand based on two important data points – rig rates and rig utilisation – as the critical indicators to our rigbuilders' thesis. However, we opine that these data points present significant lag time and are not reflective of the forward looking situation.

High rig rates and rig utilisation due to shortage in supply of rigs. Driven by increasing oil prices and huge profit per barrel incentives, major oil companies and national oil companies piled on capex activities over the past four years. The surge in oil activities spurred on demand for oil rigs which reached record day rates of over US$250k/day for jack-ups and US$650k/day for semi-submersibles in 2008. While demand for rigs remained strong, the insufficient supply of rigs to meet this demand was the main contributor to the high chartering rates.

But this shortage in rig supply is short-lived. With nearly 63 new jack-up rigs due to enter the market by 2010, of which approximately 59% of them would join the market in 2009, shallow water drilling rigs could be at the risk of an over-supply situation. Hence, we opine that these jack-up rigs are not able to renew the chartering rates at record day rates. Industry checks revealed that chartering rates are expected to fall approximately 20% off the current rate of US$200k/day over the next six months.

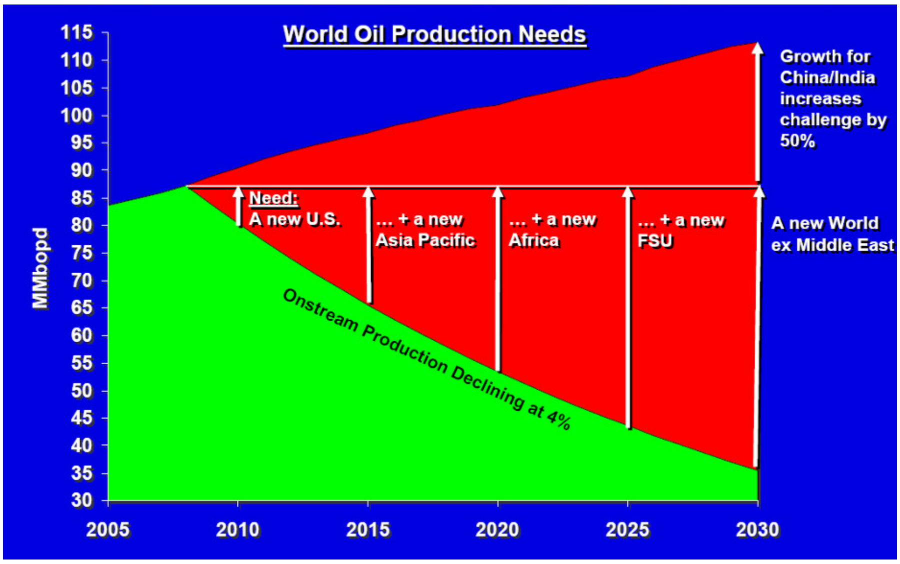
Furthermore, global oil consumption is expected to decline in this deep global recession. On the macroeconomic front, as financial chaos propagated through the global markets and the world entered into a global recession, global oil consumption is expected to slow. According to the International Monetary Fund World Economic Outlook released in Nov 08, world GDP growth would be just 3.1% in 2009, nearly 200 basis points down from the 5% growth in 2007. Slower GDP growth would result in reduced demand for oil consumption, which in turn, is depressing oil prices. In the short run, world oil consumption is expected to drop by 0.5% to 85.3 m bopd, according to a report by the US Energy Department on 9 Dec 08. This view is echoed by OPEC which predicted a 0.2% decline to 85.68m bopd for global consumption in 2009 on 15 Dec 08.

Nonetheless, this gives rise to the dilemma of capex spending vs long term needs. Let us mull over the Petrobras example again. The implications of a repeated procrastination on the part of Petrobras' management with capex spending announcement clearly suggests the dilemma faced by Petrobras to address short term skyrocketing E&P costs with long term energy needs. Large reserves of natural gas discovered in the Santos basin located 800km away from the Brazilian coast would greatly reduce dependence on gas imports from Bolivia. The giant gas finds is followed by the discovery of massive reserves of light crude in reservoirs five kilometres beneath the sea and under thick layers of rock. The location of the oil & gas reservoirs poses extreme technical difficulties and would be costly to extract. However, the reserves are estimated to be at least 50b barrels (or more than four times Brazil's current reserves) and could possibly meet domestic needs for 25 years. Similarly, we believe this reflects the dilemma of an oil company's short-term capex spending vs. long term energy needs. Even more seemingly so for state-owned companies in resource-rich countries.

Because we do not deny that the world still needs energy in the long term horizon,… Over the past few months, it is noted that the financial crisis has had a much greater impact on the price of crude than geopolitical uncertainty. This was demonstrated when the 13-nation OPEC announced a cut of 1.5m barrels of oil per day (bopd) production in late Oct and the price of crude failed to increase. When OPEC further reduced production by 2.2m bopd bolster prices in mid Dec, crude oil price continued to fall, amplifying yet again that demand for energy is likely to erode.

While we opine oil price would trend towards US$65/bbl eventually in 2H09 for economic and political reasons, we believe oil price is likely to stay depressed under US$65/bbl in the near term.

Figure 2: World oil production needs



Source : US Department of Energy data

CONCERNS IN 2009:

Yards: Keppel Corporation, Sembcorp Marine and Cosco Corporation

Concern #1: Order backlog erosion

Looming order cancellation concerns to take centrestage. Our industry checks revealed that chartering rates for both jack-ups and semi-submersibles could likely fall by 20% over the next six months. Assuming this to be true, this would imply that the internal rate of return (IRR) on the newbuilds could be lower, especially on uncontracted vessels. With longer asset payback period and lower returns, order re-negotiations and/or cancellations have been sparked off. These are especially prevalent amongst owners that are highly-leveraged and have less stable cashflow.

Credibility of orderbook – how much would be translated to revenue? We believe one way to resolve this could be order re-negotiations as this subtle way would maintain the relationship between the yard owner and vessel owner. We surmise this could also mean order backlog erosion, which brings to question the credibility of how much orderbook would be translated into revenue recognition.

Yards taking on asset pricing risk – another possibility and concern. Another way to minimise occurrence of order cancellations, many yard owners have resorted to assisting the rig owners in the phase of rig construction – a trend we believe would likely to continue into 2009. However, this is not without its risk. Yard financing of the vessel would imply that the yard owners take on asset pricing risk – a true concern in times when the asset prices are falling.

Singapore yards are not spared. In late Nov 08, Keppel Corporation (Keppel) issued a press release that its offshore and marine division is currently reviewing the contracts of three customers, namely Scorpion Offshore, Seadrill Limited and Lewek Shipping (wholly owned subsidiary of Ezra Holdings). The contracts under review were Scorpion's semi-submersible (Semi TBN), Seadrill's two jack-up rigs (West Callisto and West Juno) and Lewek's Multi-Functional Support Vessel (MFSV). The values of these contracts totalled US$875.4m, or 10% of Keppel's orderbook of S$12.5b (orderbook status as of 30 Sept 08).

Newbuilds under review do not have back-to-back contracts. We note that the three of the newbuilds (West Callisto, West Juno, Lewek's MFSV) under review do not have back-to-back drilling contracts with National Oil Companies/Major Oil Companies, which imply that these vessels could be speculative builds. Upstream reported that Scorpion's semi-submersible was due to commence construction in 3Q09, but Scorpion warned of a termination of contract after struggling to secure financing. A quick calculation suggests that in the worst-case scenario whereby if all the contracts mentioned above were to be cancelled, FY09 revenue and net profit would be reduced by 4% and 5% respectively.

Sensitivity analysis on cancellation orders: SCM to suffer a greater impact. Our sensitivity analysis shows that a 10% orderbook cancellation would result in 5-8% reductions in both Keppel O&M's and SCM's FY09-10 net profit. However, being a conglomerate, Keppel's other businesses could provide a buffer, thus affecting only 1-5% of FY09-10 bottomline. This implies that the impact of order cancellation is greater for SCM as the company is highly leveraged on this cyclical sector.

Concern # 2: New rig order momentum slowing

Oversupply of rigs could possibly occur. Compounding the drop in global oil demand is an influx of rig supply when a total of 63 jack-ups (of which 37 in FY09 and 26 in FY10) and 36 semi-submersibles would enter the market between 2009 and 2010. We expect orders for new jack-up rigs to slow down drastically.

Incorporating lower new order estimates for both Keppel and SCM. We have incorporated adjustments on new order assumptions of S$2.2b for FY09 and S$2.6b for FY10 on the back of slowing order momentum for Keppel. Similarly, we have cut our new order assumptions for SCM to S$1.7b and S$2.0b (from S$2.0b and S$2.5b previously) for FY09 and FY10 respectively.

Concern #3: Possible downward revisions – dividends could be affected

Possible round of earnings downgrades after 1Q09. A slowdown in new order momentum, coupled with potential order cancellations could possibly lead to another round of analysts' earnings downgrades, which inevitably see dividends for FY10 on a downtrend. We believe this could be possible in the event that oil price be significantly lower than the current oil price, which we cannot rule out entirely given the extreme oil price volatility in the past year.

Liquidity could possibly take priority over dividends. While we believe that dividends are very much part of Keppel's and SCM's long term strategy, we opine that Keppel and SCM may cutback on dividends to ensure sufficient liquidity, in light of a protracted downturn in this O&M industry. Nonetheless, we feel that the Singapore yards are preferred over Cosco, based on their track record to weather through the previous down cycles.

Concern #4: Forex volatility

Closure of forex saga, but important lesson must be learnt. On 24 Dec 08, SCM announced that it has reached full and final settlement with BNP Paribas for a full and amicable settlement of a claim of US$50.7m. The settlement will result in a charge of US$30m in 4Q08 and brings complete closure to the forex fiasco that first created panic waves in Oct 07. We believe FY09 could be a year of forex volatility and are cautious about companies with net exposure to foreign currencies.

Concern #5: Resource nationalism may be more apparent.

Rise of National Oil Companies. As each country progresses, the high oil and gas prices have fuelled fears over long-term security of supply. This has led to the resurgence of resource nationalism and in the internationalisation of National Oil Companies (NOCs). In 2000, there were only a few NOCs with operations outside of their home country. Today this number is closer to 40, and rising. This is fundamentally changing the balance of power in the industry, as these NOCs seek to enforce stricter regulations, legislative framework and higher taxes to restrict the foreign companies of their national reserves. The changing role of the national governments, especially where nationalist sentiments tend to be strongest, may result in the development of more domestic yards. This phenomenon poses intense competition to the Singapore yards, in our view.

Resource nationalism will lead to margins erosion and loss of future contracts. In the bid to protect this money-spinning industry, the government may impose regulations, forbidding the foreign companies to enjoy the entire fruit of oil prosperity. Highly capital intensive equipment for rigbuilding may be steered towards increasing local content percentage (in a bid to create jobs for the local people and impart knowledge) should the rig be used to drill in these giant and lucrative oil fields.

This is best exemplified by Petrobras' P51 semisubmersible which was built by Keppel and now drilling in Brazilian waters. Petrobras noted in the 1Q08 presentation that the topside and hull were built in Brazil leading to a total local content element of 70%. We believe this trend is likely to persist into 2009.

Intensifying competition from Chinese, Indian and Middle Eastern yards. Chinese, Indian and Middle Eastern yards, which previously focus on shipbuilding, are venturing into rigbuilding, and extending their capabilities beyond constructing hull structures. As these countries are able to accept lower pricing due to cheaper labour and administrative expenses, we believe margin pressures and erosion of market share to surface in the near future. In addition, the learning curve and catch-up rate of these yards seem to progress at an astonished pace, noteworthy the Chinese and Middle Eastern yards which are already garnering an increasing pie in the offshore market.

WHAT TO LOOK OUT FOR IN 2009?

Conversion and shiprepair projects to dominate. We believe the silver lining for the yards is the conversion and shiprepair projects. While conversion and shiprepair projects have lower contract value, they garner higher margins. Nonetheless, we believe the share price will remain pressured, as the lack of long-term earnings visibility for conversion and repair projects is investors' top concern due to the ad-hoc nature of these projects.

Interesting opportunities could emerge. With strong operating cashflows, well capitalised balance sheets and healthy gearing levels, we believe 2009 could be a year of opportunities for yard expansions and/or joint ventures to increase the yards' market share.

More downside than upside risk to our estimates. The cutback in capex would assert downward pressure on rig rates and rig utilisation as the number of idling rigs increases. Rigs on existing chartered contracts could possibly lead to re-negotiation on lower rates, while rigs on speculative built could experience order cancellations as a decline in chartering rates translates to a lower return (and longer payback period) on the vessels previously acquired at hefty prices. While both the Singapore yards have order backlog stretching till 2012, we believe there is still more downside than upside risk to our estimates.

Our sector outlook and stock preference. We have presented several case studies of P/E and P/B trading valuations in the years FY99-FY08. From the perspective of P/E valuations, we do not deny that these key STI component stocks are currently trading at trough valuations, and do appear attractive. However, P/B valuations tell a different story. And should this cyclical downtrend be a protracted one, we believe P/B valuations would continue to lie depressed for a period, as evident in past cycles. As we opine that near-term catalysts seem to lack in this offshore marine sector, we are maintaining our **Neutral** call on the sector, and downgrading SCM to Neutral (Target price: S$1.75), for we surmise Keppel (Maintain Neutral, Target Price: S$4.53), as a conglomerate, has a well-fortified portfolio and is less leveraged on this sector. Cosco (Maintain Sell, Target Price: S$0.74) remains our least preferred yard builder under our coverage.

VALUATIONS: YARDS

Shipyards de-rated. Over the past year, shipyards have been significantly de-rated. They are now trading at an average of 8.7x FY09 P/E and 1.8x FY09 P/B, versus 10.6x FY07 P/E and 2.7x FY07 P/B as well as 10.0x FY08 P/E and 1.8x FY08 P/B.

Singapore-listed yard players are still trading at a premium. As leading yard owners with reputable track records for contracts deliverables, both Keppel and SCM are trading at an average of 10.0 FY08 P/E and 8.7 FY09 P/E, a premium to the global peers (9.5x FY08 P/E and 6.1x FY09 P/E). Cosco is currently trading at a premium to the Chinese peers (8.2x FY08 P/E and 9.1x FY09 P/E vs 5.7x FY08 P/E and 5.0x FY09 P/E).

Switching valuations to P/B. In light of the potential protracted industry downturn, bleak economic outlook, volatile operating environment and multiple risks (including order cancellations, high forex volatility risks), we are switching our valuation methodology to P/B.

P/B trends of the global yards. From the charts presented as follows, we note that the Japanese yards traded below 1.5x P/B and Korean shipbuilders traded below 1.0x P/B during the prolonged slump from FY98 to FY05. The Chinese yards seemed more volatile, with Guangzhou Shipyard trading below 1x P/B, whereas China State Shipbuilding Co trading between 2x and 4x P/B during the same period.

The P/B trend of the Singapore yards mirrored those of the global yards. Keppel was trading at below 0.5x P/B from FY97 to FY02, before trending up gradually. SCM did not trade above 1.2x P/B from FY98 to FY04. Notwithstanding that the Singapore yards have stronger balance sheets today as compared to a decade ago, we remain cautious of the outlook.

We have pegged both Keppel O&M and SCM to 2.0x FY10 P/B, to be in line with the Korean peers. As a conglomerate, Keppel's P/B could not fully appreciate the offshore rally, and hence, has always been lower than SCM. Nonetheless, as the offshore industry enters a cyclical downturn, we now prefer Keppel as the company is less leveraged on this sector. We have revised Keppel's target price to S$4.53 (from S$4.52 previously) and SCM's target price to S$1.75 (from S$2.49 previously).

We expect Cosco to trend around 1x P/B, as the shipping industry faces turbulent times. Order cancellations and credit problems have already surfaced, especially in the recent two months. We have rolled forward our valuations to FY10 estimates, and derived a target price of S$0.74 (from S$0.68 previously based on 1x FY09 P/B) for Cosco based on 1x FY10 P/B.

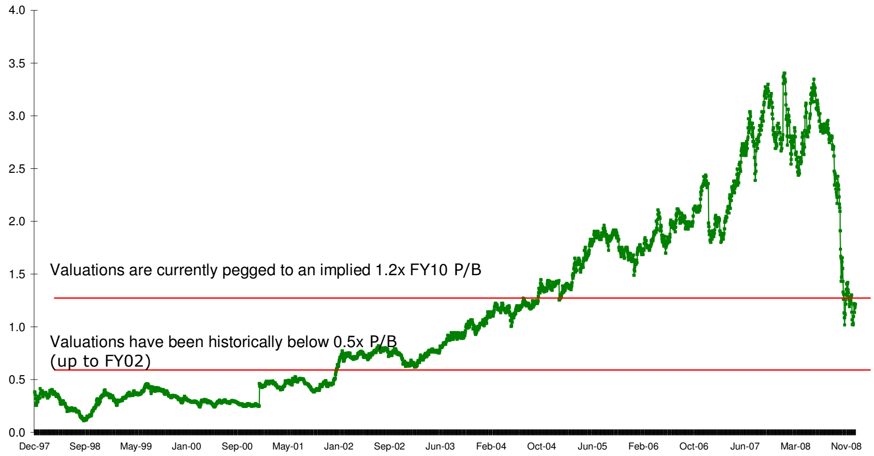
Figure 3: Peer Comparison Table – Global Yards

	Currency	Last Price ($) (6 Jan 09)	Market Cap ($'m) (6 Jan 09)	P/E FY08F	P/E FY09F	P/B FY08F	P/B FY09F	ROE (%)	Dvd Yield %	PEG FY08F
Keppel Corp	SGD	5.25	8,364	9.0	8.3	1.5	1.5	16.8	7.2	-0.9
Sembcorp Marine	SGD	1.97	4,081	11.0	9.0	2.1	2.0	19.9	8.9	0.4
Singapore Average				**10.0**	**8.7**	**1.8**	**1.8**	**18.4**	**8.1**	**-0.2**
Cosco Corp	SGD	1.00	2,239	8.2	9.1	2.0	1.7	24.4	5.7	0.3
Yangzijiang	SGD	0.51	1,845	5.2	4.7	1.8	-	-	-	0.1
JES International	SGD	0.13	152	5.0	3.3	0.4	0.4	8.2	-	-
China State Shipbuilding	CNY	41.19	27,291	6.3	4.5	2.9	-	-	4.0	0.1
Guangzhou Shipyard	HKD	9.50	6,732	4.0	3.5	1.6	0.8	38.7	7.4	0.1
China Average				**5.7**	**5.0**	**1.8**	**1.0**	**23.8**	**5.7**	**0.2**
Hyundai Heavy	KRW	220,000.00	16,720,000	8.2	6.8	2.5	3.3	30.5	3.8	0.4
Hyundai Mipo	KRW	148,500.00	2,970,000	5.5	5.2	0.9	1.0	14.6	5.1	0.7
Daewoo Shipbuilding	KRW	20,100.00	3,846,954	17.1	6.2	2.2	2.6	46.4	3.0	0.1
Samsung Heavy	KRW	27,150.00	6,268,267	10.3	7.7	3.3	3.1	25.0	2.4	0.3
Hanjin Heavy	KRW	30,800.00	1,472,566	9.0	4.4	1.6	1.4	13.5	-	-
Korea Average				**10.0**	**6.1**	**2.1**	**2.3**	**26.0**	**3.6**	**0.4**
Mitsui Engineering	JPY	170.00	141,268	18.9	-	1.0	-	-	2.4	-
Kawasaki Heavy	JPY	209.00	348,953	16.6	-	1.1	-	-	2.4	-
IHI Corp	JPY	126.00	184,849	8.4	-	0.9	-	-	3.3	-
Japan Average				**14.6**	**-**	**1.0**	**-**	**-**	**2.7**	**-**

Market closing price as of 6 Jan 09.

Source : Bloomberg, DMG Estimates

Figure 4: Keppel Corp – Valuations pegged to an implied 1.2x FY10 P/B

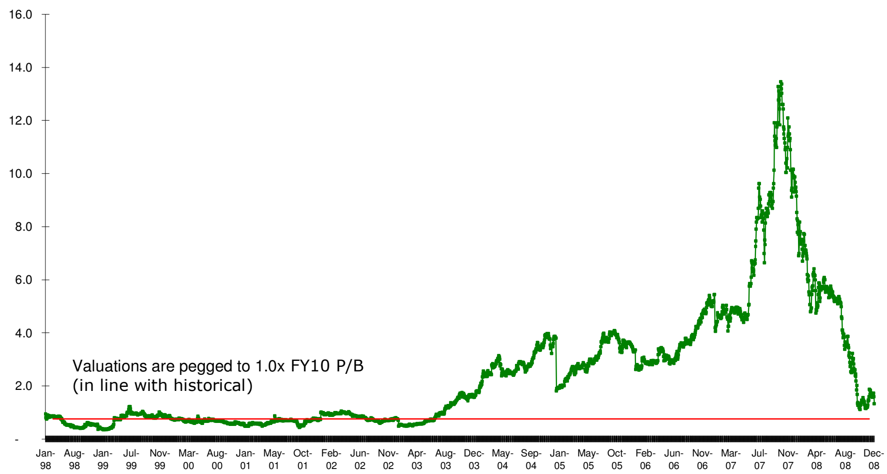


Source: Thomson Reuters, Bloomberg, Company Sources, DMG estimates

Figure 5: Sembcorp Marine – Valuations pegged to 2x FY10 P/B

Source: Thomson Reuters, Bloomberg, Company Sources, DMG estimates

Figure 6: Cosco Corp – Valuations pegged to 1.0x FY10 P/B

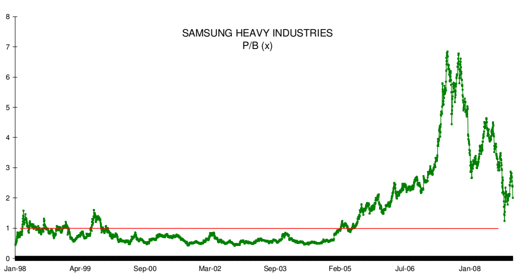


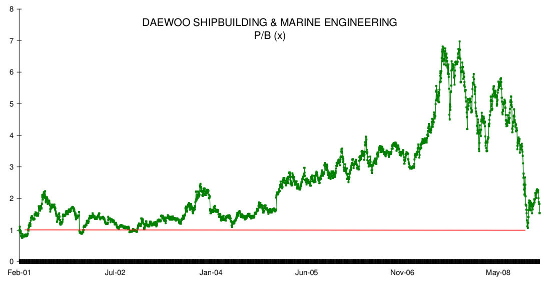
Source: Thomson Reuters, Bloomberg, Company Sources, DMG estimates

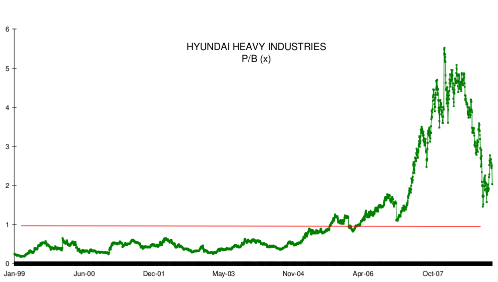
Figure 7: Global Peers – P/B Trend (Years 1999-2008)

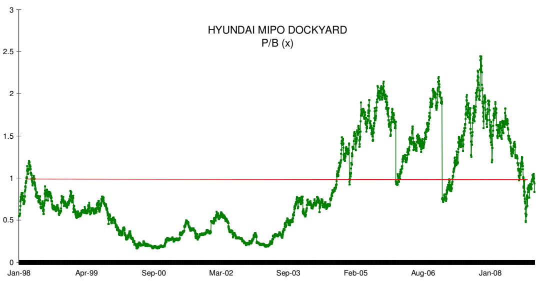
The Chinese Yards presented conflicting P/B valuations

The Korean Yards traded below 1.0x P/B (on average) during the protracted slump (except for Daewoo)

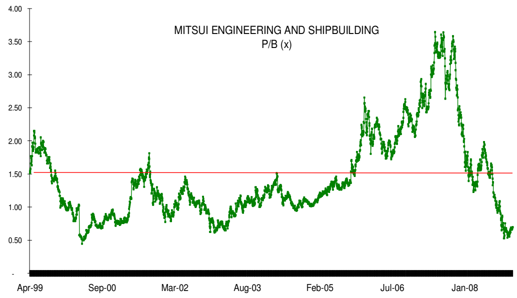


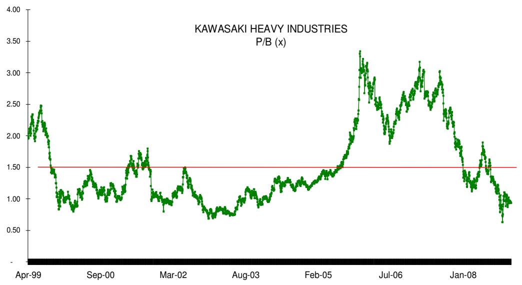






The Japanese Yards traded below 1.5x P/B (on average) during the protracted slump





Source: Thomson Reuters, Bloomberg, Company Sources, DMG estimates

SINGAPORE EQUITY
Investment Research

DMG & Partners SECURITIES

Corporate Update

Private Circulation Only

MARINE & SHIPPING

Serene Lim
+65 6232 3897
serene.lim@dmgaps.com.sg

COSCO CORP

SELL	**Maintain**
Price	**S$1.00**
Target	**S$0.74**

Downside risk still persist

Stock Profile/Statistics

Bloomberg Ticker	COS SP
STI	1,913.7
Issued Share Capital (m)	2,239.2
Market Cap (S$m)	2,239.2
52 week H L Price (S$)	5.7| 0.605
Average Volume (3m) 'mil	33.7
YTD Returns (%)	5.3
Net gearing (x)	Net cash
Altman Z-score	1.48
ROCE/WACC	2.30
Beta	1.47

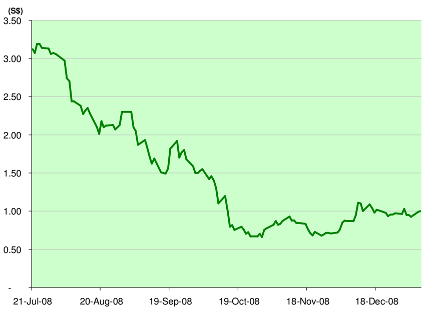
Major Shareholders

China Ocean Shipping	53.4%

Share Performance (%)

Month	Absolute	Relative
1m	14.9%	-0.4%
3m	-31.5%	-19.4%
6m	-68.4%	-33.6%
12m	-82.6%	-40.0%

6-month Share Price



4Q08 profit guidance issued. Cosco issued a profit guidance on 30 Dec 08 to notify that FY08 results would be lower than FY07's. Cosco reported net profit of S$337m for FY07 and posted S$326m for 9M08. Hence, it is likely that the bottomline of 4Q08 would register a net loss, or at most S$11m. Cosco attributed the dismal 4Q08 performance to bad debts provision and higher cost.

Provision of doubtful debts – One-off or more to come? Cosco would be making provisions for doubtful debts as the company has recently received requests for payment delays from several ship owners. We have previously expressed our concerns that a heavy concentration of bulk carrier newbuilds in its order backlogs could possibly be from smaller ship owners with weak balance sheets and poor financing means. Cosco has not disclosed if this provision of doubtful debts would be a one-off incident or onset of more credit problems, should capital markets remain weak.

Higher material costs. Cosco has incurred higher material costs arising from steel procured during the boom times. We understand that procurement of steel is typically made six months prior to the start of construction of the vessels. Given that the management has previously guided that 40 bulk carriers are scheduled for delivery in 2009, we believe Cosco's current steel inventory cost is significantly higher than the market prices of steel today. Furthermore, with vessel asset prices coming off following the sharp plunge in the BDI rates, we believe Cosco is fully incapable of passing the higher material costs to the customers, hence giving rise to lower margins.

Downside risk still persist – Cosco also announced that its first dry bulk carrier has been completed and is currently undergoing tests and sea-trials, before delivery to the owner. We note that this delivery has been delayed by more than six months (originally planned in Jun 08). Going forward, execution risk remains our biggest concern, as vessel delivery delays could invoke payment for penalties.

Further cuts in earning estimates. We have pared down our topline estimates by 10.9% and 12.2% for FY08 and FY09 respectively. As we incorporate higher cost assumptions, our net profit forecasts are subsequently down by 25.8% and 35.7% for FY08 and FY09 respectively. We have also introduced our FY10 estimates.

Maintain Sell, target price revised slightly up to S$0.74. We roll over our 1.0x P/B valuation from FY09 P/B to FY10 P/B, deriving a target price of S$0.74 (from S$0.68 previously). Maintain SELL. Upside to our estimates include lower steel prices and easing of the capital markets.

FYE Dec (S$m)	FY06	FY07	FY08F	FY09F	FY10F
Turnover	1215.5	2261.7	3192.6	3689.5	4096.3
Net Profit	205.4	336.6	273.2	245.5	256.8
% Chg YoY	28.0%	63.9%	-18.8%	-10.1%	4.6%
EPS (S ¢)	9.2	15.0	12.2	11.0	11.5
DPS (S ¢)	4.0	7.0	5.5	5.0	5.8
Div Yield	4.0%	7.0%	5.5%	5.0%	5.8%
ROE	30.6%	35.8%	24.4%	18.0%	15.3%
ROA	10.9%	8.5%	5.7%	4.1%	4.0%
P/E (x)	10.9	6.7	8.2	9.1	8.7

Delivery schedule of Cosco's newbuilds

Delivery Schedule

	FY08	FY09	FY10	FY11	Total *
Original Delivery Schedule	10	40	51	23	**124**
Revised Delivery Schedule **	1	49	53	26	**129**

Note:

* Includes of Bulk Carriers, Car Carriers and Heavy Lift Vessels

** Includes 3 Bulk carriers and 2 windmill turbine installation vessels awarded on 30 Oct 08.

Source: Company (Nov 2008)

Income Statement

Year to 31 Dec (In S$ 'm)	FY06	FY07	FY08F	FY09F	FY10F
Revenue	1,215.5	2,261.7	3,192.6	3,689.5	4,096.3
Cost of Sales	(776.1)	(1,570.9)	(2,522.1)	(3,025.4)	(3,359.0)
Gross Profit	439.4	690.8	670.4	664.1	737.3
EBITDA	355.2	547.2	539.5	527.6	585.8
Depreciation & amortisation	(61.7)	(80.6)	(104.8)	(136.2)	(177.0)
Net interest	(17.9)	(11.4)	(9.2)	(7.3)	(8.8)
Non-operating Exceptionals	26.8	42.9	29.7	35.6	39.1
Pre-tax profit	302.3	498.1	455.4	419.6	439.0
Tax	(23.0)	(19.5)	(52.4)	(54.6)	(57.1)
Minority interests	(74.0)	(142.0)	(129.8)	(119.6)	(125.2)
PATMI	205.4	336.6	273.2	245.5	256.8
EPS (cents)	9.2	15.0	12.2	11.0	11.5
Fully diluted EPS (cents)	9.2	15.0	12.2	11.0	11.5

Balance Sheet

Year to 31 Dec (In S$ 'm)	FY06	FY07	FY08F	FY09F	FY10F
Cash	277.9	1,082.8	773.5	1,093.8	851.7
Other current assets	470.1	1,349.0	2,114.1	2,394.8	2,256.2
Fixed assets	1,110.2	1,478.5	1,922.0	2,498.6	3,248.2
Other long term assets	25.6	56.9	18.6	17.2	16.1
Total assets	1,883.7	3,967.2	4,828.2	6,004.4	6,372.2
Current liabilities less debt	547.9	2,445.5	3,025.7	3,843.6	3,798.1
Debt	412.1	176.4	141.2	112.9	90.3
Other long term liabilities	3.8	42.5	50.9	71.2	71.1
Total liabilities	963.7	2,664.4	3,217.7	4,027.6	3,959.5
Shareholders equity	670.1	939.9	1,117.8	1,364.5	1,675.2
Minority interests	249.9	362.8	492.7	612.3	737.4
Total equity and liabilities	1,883.7	3,967.2	4,828.2	6,004.4	6,372.2

Cashflow Statement

Year to 31 Dec (In S$ 'm)	FY06	FY07	FY08F	FY09F	FY10F
Operating profit before working cap.	357.5	606.2	522.4	522.5	586.6
Working capital changes	46.6	1,033.0	(217.6)	530.7	86.4
Interest, tax	(23.0)	(19.5)	(52.4)	(54.6)	(57.1)
Net cash from operations	381.1	1,619.7	252.4	998.7	615.9
Investing cash flow	(243.8)	(447.9)	(443.5)	(576.6)	(749.6)
Net change in debt	22.9	(235.6)	(35.3)	(28.2)	(22.6)
Dividends paid	(48.6)	(118.7)	(73.8)	(66.3)	(77.0)
Interest paid	(16.9)	(12.6)	(9.2)	(7.3)	(8.8)
Financing cash flow	(19.8)	(366.9)	(118.2)	(101.8)	(108.4)
Net cash flow	117.4	804.9	(309.3)	320.3	(242.1)
Cash at beginning of year	160.4	277.9	1,082.8	773.5	1,093.8
Cash at end of year	277.9	1,082.8	773.5	1,093.8	851.7

Source: Company, DMG Estimates

SINGAPORE EQUITY
Investment Research

DMG & Partners SECURITIES

Corporate Update

Private Circulation Only

OFFSHORE & MARINE

Serene Lim
+65 6232 3897
serene.lim@dmgaps.com.sg

KEPPEL CORP

NEUTRAL	**Maintain**
Price	**S$5.25**
Target	**S$4.53**

Resilient in rough waters

Stock Profile/Statistics

Bloomberg Ticker	KEP SP
STI	1,913.7
Issued Share Capital (m)	1,593.1
Market Cap (S$m)	8,363.9
52 week H L Price (S$)	12.8 | 3.35
Average Volume (3m) 'mil	11.2
YTD Returns (%)	21.2
Net gearing (x)	Net cash
Altman Z-score	2.74
Beta	1.28
ROCE/WACC	0.90
Book Value/share (S$)	3.50

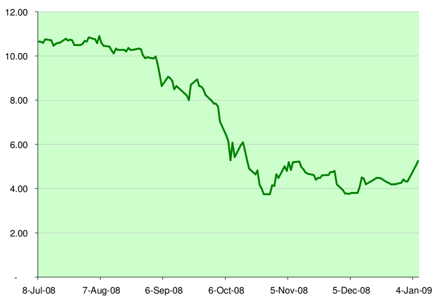
Major Shareholders

Temasek Holdings	21.2%

Share Performance (%)

Month	Absolute	Relative
1m	37.8%	22.5%
3m	-14.6%	-2.5%
6m	-51.2%	-16.4%
12m	-56.9%	-14.3%

6-month Share Price



Negative sentiments lingering from possible order cancellations – our main concerns. Negative precedent on Keppel Offshore & Marine (KOM)'s contract re-negotiations could spark off more cases of contract reviews and order cancellations, leading to possible erosion of KOM's orderbook of S$12.5b (as at 30 Sept 08). The contracts under review are Scorpion's semi-submersible (Semi TBN), Seadrill's two jack-up rigs (West Callisto and West Juno) and Lewek's Multi-Functional Support Vessel (MFSV). The values of these contracts totalled US$875.4m, or 10% of its existing orderbook of S$12.5b. A quick calculation suggests that in the worst-case scenario whereby if all the contracts mentioned above were to be cancelled, FY09 revenue and net profit would be reduced by 4% and 5% respectively.

In addition, our sensitivity analysis shows that a 10% orderbook cancellation would result in 5-8% reduction in Keppel O&M's but only 1-5% of Keppel's FY09-10 bottomline.

Our net profit estimates for FY09 and FY10 are 7% and 23% lower than consensus. We are introducing our FY10 estimates for Keppel whilst incorporating adjustments on new order assumptions of S$2.2b for FY09 and S$2.6b for FY10 on the back of slowing order momentum. We have also factored in lower contributions from Keppel Land and SPC. We expect FY09's revenue to grow by 23% to S$11.6b from recognition of O&M's orderbook and Qatar's infrastructure investments before declining by 14% to S$9.9b in FY10, on the back of lower O&M revenue. We are expecting Keppel to reap a net profit of S$1.0b and S$914m in FY09 and FY10 respectively.

Recommendation stays at NEUTRAL, target price revised to S$4.53 (from S$4.52 previously). We have revised our sum-of-the-parts valuation, after incorporating the following adjustments:

1. Switching valuation methodology from 8x P/E FY09 to 2.0x P/B FY10 in the face of slowing order momentum and peaked earnings for KOM.
2. DMG's target price of S$2.00 for Keppel Land
3. Rolling forward 9x P/E valuation to FY10, for Infrastructure
4. Updated market values for Keppel's listed entities (closing price as at 29 Dec 08).

Price catalysts include 1. Sustained high oil prices to drive deepwater drilling, 2. Streamlining of assets (which could reap one-time gain from disposal of assets/subsidiaries) 3. Improved execution efficiency and early newbuild deliveries.

Our target price is revised to S$4.53 (from S$4.52 previously). We maintain our recommendation at NEUTRAL.

FYE Dec (S$m)	FY06	FY07	FY08F	FY09F	FY10F
Turnover	7,601	10,431	9,426	11,613	9,949
Net Profit	751	1,025	927	1,002	914
% Chg YoY	33.2%	36.6%	-9.6%	8.1%	-8.8%
EPS (S ¢)	47.2	64.5	58.3	63.0	57.5
DPS (S ¢)	25.5	64.0	37.8	40.9	37.3
Div Yield	4.9%	12.2%	7.2%	7.8%	7.1%
ROE	17.9%	19.7%	16.8%	17.6%	15.3%
ROA	5.4%	6.5%	5.9%	5.8%	5.5%
P/E (x)	11.1	8.1	9.0	8.3	9.1

Sum-of-the-parts valuation

Business Divisions	Direct stake (%)	Valuation Metric	Value (S$m)	Value per Share (S$/share)
Offshore & Marine				
Keppel Offshore & Marine Ltd	100%	2.0x FY10 P/B	3,225	2.0
Property				
Keppel Bay Reflections projects	70%	RNAV	1,104	0.69
Keppel Land Ltd	53%	DMG Target Price	759	0.48
Infrastructure				
Keppel Telecommunications & Transportation Ltd	80%	Market value	348	0.22
Keppel Infrastructure	100%	9x FY10 PE	744	0.47
Investments				
Singapore Petroleum Company Ltd	45%	Market value	514	0.32
K1 Ventures Ltd	36%	Market value	108	0.07
K-REITS Asia	31%	Market value	141	0.09
Sub-Total			**6,942**	**4.36**
Add: Other Assets			**260**	**0.16**
Fair Value (S$/share)			**7,202**	**4.53**

Source: DMG Estimates

Income Statement

Year to 31 Dec (In S$ 'm)	FY06	FY07	FY08F	FY09F	FY10F
Total revenue	7,600.9	10,431.0	9,425.7	11,613.0	9,948.8
Materials and subcontract costs	(5,570.2)	(8,037.4)	(7,097.4)	(8,765.3)	(7,516.3)
Staff costs	(931.3)	(1,132.1)	(1,100.8)	(1,283.6)	(1,048.6)
Other operating expenses	(167.9)	(85.4)	(45.3)	(73.3)	(27.5)
EBITDA	931.5	1,176.1	1,182.2	1,490.8	1,356.4
Depreciation and amortisation	(127.4)	(125.7)	(106.0)	(145.1)	(134.3)
EBIT	804.1	1,050.4	1,076.2	1,345.7	1,222.1
Investment income	3.8	2.9	0.6	0.7	0.6
Interest income	79.8	88.5	70.2	61.5	55.7
Interest expenses	(62.5)	(62.7)	(61.6)	(69.7)	(39.8)
Associated companies	314.7	476.9	403.4	242.0	254.1
Exceptional expenses	7.3	564.9	-	-	-
Pre-tax profit	1,147.1	2,120.9	1,488.8	1,580.3	1,492.8
Tax	(257.4)	(468.6)	(279.7)	(284.5)	(268.7)
Minority interest	(139.1)	(521.8)	(282.0)	(294.0)	(310.0)
Net profit	750.7	1,025.5	927.1	1,001.8	914.1
Earnings per share (cents)	47.2	64.5	58.3	63.0	57.5

Source: Company and DMG Estimates

Balance Sheet

As at 31 Dec (In S$' m)	FY06	FY07	FY08F	FY09F	FY10F
Cash	1,618.6	1,597.0	1,468.8	1,796.7	1,890.5
Other current assets	5,028.2	5,688.9	5,405.9	6,417.7	5,477.8
Fixed assets	1,740.8	1,698.2	1,792.3	1,847.1	1,912.9
Other non-current assets	5,428.7	6,812.3	6,941.0	7,281.7	7,458.7
Non-current assets	7,169.5	8,510.5	8,733.2	9,128.8	9,371.6
Total assets	13,816.2	15,796.4	15,607.9	17,343.3	16,739.9
Current liabilities less debt	5,103.4	6,138.6	5,307.4	6,060.9	5,100.7
Debt	2,957.1	502.9	602.2	722.5	865.6
Other long term liabilities	157.9	2,120.5	2,057.5	2,476.9	2,092.1
Total liabilities	8,218.5	8,762.0	7,967.1	9,260.3	8,058.4
Shareholders equity	4,205.1	5,203.9	5,528.4	5,676.4	5,965.0
Minority interest	1,392.6	1,830.5	2,112.5	2,406.5	2,716.5
Total equity and liabilities	13,816.2	15,796.4	15,607.9	17,343.3	16,739.9

Source: Company and DMG Estimates

Cashflow Statement

Year to 31 Dec (In S$ 'm)	FY06	FY07	FY08F	FY09F	FY10F
Operating profit before working cap.	951.5	1,190.2	1,182.2	1,491.8	1,358.4
Working capital changes	1,004.0	640.2	(513.0)	(143.3)	(147.5)
Other operating cash flow	(394.6)	89.2	(343.2)	(325.3)	(187.0)
Net cash from operations	1,853.9	1,696.6	326.0	1,023.2	1,023.9
Capex	(391.0)	(200.0)	(200.0)	(200.0)	(200.0)
Other investing flows	16.7	(346.1)	274.7	(98.7)	77.1
Investing cash flow	(374.3)	(546.1)	74.7	(298.7)	(122.9)
Net change in debt	(887.4)	(722.7)	73.8	458.2	(179.7)
Other financing cash flow	(371.0)	(319.7)	(602.6)	(854.8)	(627.5)
Financing cash flow	(1,258.4)	(1,042.4)	(528.8)	(396.6)	(807.2)
Net cash flow	207.7	(21.6)	(128.2)	327.9	93.9
Cash at beginning of year	1,410.9	1,618.6	1,597.0	1,468.8	1,796.7
Cash at end of year	1,618.6	1,597.0	1,468.8	1,796.7	1,890.5

Source: Company and DMG Estimates

DMG & Partners SECURITIES

Corporate Update

Private Circulation Only

OIL & GAS

Serene Lim
+65 6232 3897
serene.lim@dmgaps.com.sg

SEMBCORP MARINE

NEUTRAL	**Downgrade**
Price	**S$1.97**
Target	**S$1.75**

Sailing into the down cycle

Stock Profile/Statistics

Bloomberg Ticker	SMM SP
STI	1,913.7
Issued Share Capital (m)	2,071.4
Market Capitalisation (S$m)	4,080.7
52 week H L Price (S$)	4.730│ 1.150
Average Volume (3m) 'mil	15.7
YTD Returns (%)	17.7
Net gearing (x)	Net cash
Altman Z-score	3.61
ROCE/WACC	0.89
Beta	1.47
Book Value/share (S$)	0.94

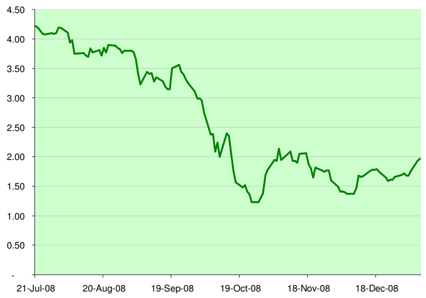
Major Shareholders

SembCorp Industries	60.8%

Share Performance (%)

Month	Absolute	Relative
1M	43.8%	28.5%
3M	-17.6%	-5.5%
6M	-54.6%	-19.8%
12M	-52.6%	-10.0%

6-mth Share Price Performance



We are downgrading Sembcorp Marine to Neutral. With the tightening of the capital markets and easing oil price, coupled with potential influx of newbuilds entering the market in 2009, the drastic slowdown in new orders is certain. We believe there is still more downside to upside, as news of further order re-negotiations and cancellations could emerge and lower profitability as a result of asset devaluation and impairment.

New order assumptions cut to S$1.7b and S$2.0b for FY09 and FY10 respectively. While we expect stronger revenue in 4Q08 (over 3Q08) as we forecast SCM to account for the initial revenue recognition of one semi-submersible and two jack-ups, SCM's press release to account for the US$30m charge in 4Q08 and Cosco Corp's FY08 profit warning will see net profit registering S$372.1m in place of previously forecasted S$453.9m. In the face of the bleak outlook, our new order assumptions are cut to S$1.7b and S$2.0b (from S$2.0b and S$2.5b previously) for FY09 and FY10 respectively. Hence, we are projecting revenue of S$5.7b and S$5.6b while we are expecting net profit to record S$453m and S$430m in FY09 and FY10 respectively.

Over the past three months, consensus earnings estimates had been cut by 1.5% and 5.4% for FY09 and FY10 respectively. We believe there would be another round of earnings estimates downgrade following FY08 full year results. We think potential order cancellations and/or execution pushbacks as well as asset devaluation and impairment charges could impact FY09 earnings, while lower contributions from Cosco Shipyard Group to affect both FY09-10's bottomline. Our net profit forecasts are 10% (FY09) and 17% (FY10) lower than consensus.

Upsides to valuation include: 1. Potential acquisition to expand yard's presence with SCM's healthy cash balances. 2. Improvements in the credit market, allowing for easier access to capital. 3. Higher average oil and gas prices in FY09, hence encouraging more E&P activities. 4. Upside surprise on new order momentum with clinch of higher-value conversion projects.

Target price revised down to S$1.75. Downgrade to Neutral. We switch our valuation methodology from sum-of-the-parts valuation to P/B on the back of lower earnings visibility. We apply a valuation metric of 2.0x P/B to FY10 estimates, (100% premium to SCM's average P/B of 1.0x during FY97-98 crisis period and 50% premium to SCM's average P/B of 1.5x in FY03), which is justified against FY10's ROE of 20.1% and ROA of 7.4%. We then apply a 15% discount (considering SCM's 30% stake in Cosco Shipyard Group), deriving a target price of S$1.75 (from S$2.49 previously). Downgrade to Neutral. We switch our preference to Keppel Corp, as compared to SCM for the latter is more leveraged to the O&M cycle.

FYE Dec (S$m)	FY06	FY07	FY08F	FY09F	FY10F
Turnover	3545.0	4513.1	5110.6	5671.9	5647.5
Net Profit	238.4	241.0	372.1	453.0	429.6
% Chg YoY	96.4%	1.1%	54.4%	21.7%	-5.2%
EPS (S¢)	11.5	11.6	18.0	21.9	20.7
DPS (S¢)	8.9	8.7	13.5	16.4	15.6
Div Yield	5.1%	4.9%	7.7%	9.3%	8.8%
ROE	17.8%	14.3%	19.9%	22.1%	20.1%
ROA	7.0%	5.4%	7.7%	8.4%	7.4%
P/E (x)	17.1	16.9	11.0	9.0	9.5

Income Statement

Year to 31 Dec (In S$ 'm)	FY06	FY07	FY08F	FY09F	FY10F
Revenue	3,545.0	4,513.1	5,110.6	5,671.9	5,647.5
Cost of sales	(3,201.8)	(4,035.2)	(4,532.1)	(5,041.9)	(5,019.4)
Gross profit	343.2	477.9	578.5	630.0	628.1
Other operating income	42.9	55.2	41.0	45.5	45.3
G&A expenses	(74.1)	(92.5)	(92.0)	(102.1)	(101.7)
Other operating expenses	(17.0)	(12.8)	(12.8)	(14.2)	(14.1)
EBITDA	295.0	427.7	514.7	559.2	557.6
Depreciation	(48.2)	(66.4)	(81.9)	(83.6)	(87.2)
EBIT	246.7	361.3	432.8	475.6	470.4
Net interest	10.8	11.3	11.8	14.2	14.1
Associated Companies	44.4	81.8	80.0	78.9	58.7
Exceptional Gains	28.7	(79.7)	(45.0)	-	-
Pre-tax profit	310.9	364.7	479.6	568.7	543.3
Tax	(62.3)	(113.0)	(94.6)	(101.5)	(99.4)
Minority interest	(10.1)	(10.7)	(12.9)	(14.3)	(14.3)
Net profit	238.4	241.0	372.1	453.0	429.6
Earnings per share (S cents)	11.5	11.6	18.0	21.9	20.7

Balance Sheet

As at 31 Dec (In S$ 'm)	FY06	FY07	FY08F	FY09F	FY10F
Cash and cash equivalents	503.5	740.5	829.5	1,243.1	1,553.7
Other current assets	1,683.2	2,105.7	2,268.0	2,296.9	2,280.3
Fixed assets	679.0	675.6	737.7	754.1	766.9
Other non-current assets	563.8	941.0	1,023.5	1,107.0	1,165.5
Total assets	3,429.5	4,462.8	4,857.8	5,401.0	5,766.3
Current liabilities less debt	1,550.5	2,137.0	2,291.0	2,597.5	2,960.9
Debt	391.0	442.3	455.5	483.6	382.4
Other long term liabilities	117.8	177.8	200.2	221.2	220.3
Total liabilities	2,059.3	2,757.1	2,946.7	3,302.3	3,563.5
Shareholders equity	1,338.3	1,680.1	1,872.5	2,045.8	2,135.7
Minority interest	31.9	25.7	38.6	52.9	67.1
Total equity and liabilities	3,429.5	4,462.8	4,857.8	5,401.0	5,766.3

Cashflow Statement

Year to 31 Dec (In S$ 'm)	FY06	FY07	FY08F	FY09F	FY10F
Operating profit before working cap.	299.4	423.9	494.0	536.2	534.6
Working capital changes	(364.3)	90.7	34.4	269.5	360.1
Other operating cash flow	(17.1)	(30.0)	(116.0)	(70.9)	(79.1)
Net cash from operations	(82.0)	484.5	412.4	734.8	815.6
Net payment to banks					
from Unauthorised transactions		(260.6)	(45.0)		
Net Amount		224.0	367.4		
Capex	(126.3)	(103.9)	(144.0)	(100.0)	(100.0)
Other investing flows	60.4	286.0	(1.9)	(4.5)	0.2
Investing cash flow	(65.9)	182.1	(145.9)	(104.5)	(99.8)
Net change in debt	230.8	60.9	13.3	28.1	(101.2)
Other financing cash flow	68.5	(230.0)	(146.8)	(243.8)	(303.9)
Financing cash flow	299.3	(169.1)	(133.5)	(215.7)	(405.1)
Net cash flow	151.5	237.0	88.0	414.5	310.7
Cash & cash eq. at beginning of year	536.2	503.5	740.5	828.5	1,243.0
Cash & cash eq. at end of year	503.5	740.5	828.5	1,243.0	1,553.7

Source: Company and DMG estimates

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

DMG & Partners Securities Pte. Ltd. (RCB Reg. No. 198701140E)

Kuala Lumpur	Hong Kong	Singapore	Jakarta	Shanghai
Malaysia Headquarters OSK Investment Bank Bhd. 20th Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Malaysia Tel : + (60) 3 2333 8333 Fax : + (60) 3 2175 3333	**Hong Kong Office** OSK Asia Securities Ltd. 1201-1203, 12/F, World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : + (852) 2525 1118 Fax : + (852) 2537 1332	**Singapore Office** DMG & Partners Securities Pte. Ltd. #22-01 Ocean Towers 20 Raffles Place Singapore 048620 Tel : +(65) 6438 8810 Fax : +(65) 6535 4809	**Jakarta Office** PT OSK Nusadana Securities Plaza Lippo, 14th Floor, Jl. Jend. Sudirman Kav. 25. Jakarta 12920 Indonesia Tel : + (6221) 520 4599 Fax : + (6221) 520 4505	**Shanghai Office** OSK Asia Securities Ltd. Room 6506, Plaza 66 No. 1266 Nanjing Road (West) Shanghai 200040 China