Highlights

Banks

Earnings reduced by 4-5% in 2002-03 – Maintain Overweight

In line with the downward revision in Singapore's GDP forecasts (3% and 5.5% in 2002/03, compared to 4% and 7% previously), we have trimmed our expectations for bank earnings in 2002 and 2003, by 2% and 5%, respectively. We were previously looking for 18% profit growth this year, followed by a robust 33% jump the following year. This has been cut to a more modest 16% growth projection in 2002, but the projected improvement in 2003 remains a healthy 29%. Our 12-month price target for UOB and OCBC have been revised down to S$16.30 and S$12.40, though the upside potential remains an attractive 33% and 26%, respectively. Maintain Overweight.

United Overseas Bank

Divestment of stake in Haw Par – Maintain Buy

UOB is divesting 31.1% of its 41.1% stake in Haw Par Corp. This will be effected through a distribution in specie to UOB's shareholders. Minority shareholders of UOB will receive between 408.17-408.84 shares of Haw Par Corp for every 10,000 UOB shares held. After this exercise, the Wee family's stake in Haw Par will rise to 18.5% from 15% previously. UOB will make an exceptional gain of S$90m from the divestment, based on the current share price of Haw Par Corp. This transaction could provide the precedence for the divestment of UOB's other non-core equity holdings. However, the fact that UOB did not concurrently propose a similar upstreaming of shares (in the case of Haw Par) for UOL and OUE could suggest that Wee Cho Yaw may be adopting a different approach for these two companies.

Qian Hu

Flying fish – Upgrade to Buy

Qian Hu reported a resilient nine-month net profit of S$4.8m, on track to achieve record profit of S$5.8m for the full year. We like Qian Hu for its diversifying business (into both fish distribution and pet accessories) and geographic spread. Qian Hu's share price has corrected in the past three months, in line with market, underpinning an attractive valuation at 11x on FY02 earnings vs market of 16x. We are upgrading Qian Hu to a BUY on the back of strong profit growth and a counter cyclical business model. Our price target remains at S$0.96.

Singapore Airlines

Sept load factor preview - Maintain Hold

SIA load factors for Sept, due out after the market closes Tuesday, should show an acceleration in passenger traffic and basic maintenance of high cargo growth. The windfall we expect on cargo due to the US port shutdown will not impact operating data until Oct statistics are released in a month’s time.
Our forecasts for load factors, based on information gathered from company contacts, are 75% for passenger, 71.8% for cargo and 72.2% overall. If we assume that capacity grows in Sept (y-o-y) at the same rate it grew in Aug, this gives the following traffic y-o-y growth rates 5.3% for passenger, 21% for cargo and 11.7% overall.

These are good numbers marking an improvement in conditions. The passenger number in particular is impressive, the highest growth in three months. Cargo traffic growth is high, but has been at levels like this all (fiscal) year. What this says is that actually the top line at SIA is very healthy. With first-half earnings coming out a week Friday, the picture is better than many market players may be willing to acknowledge at the moment, owing to adverse circumstances.

Whatever uncertainties exist for SIA in terms of war, or the loss of Bali tourist traffic, these uncertainties go up against a large weight of positive developments that should allow the company to absorb them with poise. Load factors are high, traffic is high, yields are improving. (It also bears noting that we are entering the slow season for air travel, and the adverse impact of Bali and of the prospects for war will be played out on a smaller total market anyway.) The opportunity to buy shares at levels we may not see again for a while may prove attractive, even compelling to some investors. Maintain Hold, price target S$14.00.
**Daily Focus**

### Top Large-Cap Picks*

<table>
<thead>
<tr>
<th>Co/Share</th>
<th>Shares / Transaction</th>
<th>Date / Price</th>
<th>Price PE (02F)</th>
<th>Mkt Cap (S$m)</th>
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* Market cap above $1,000m

### Top Small- and Mid-Cap Picks*

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* Market cap below $1,000m

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* for stocks under coverage only

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**DBS Vickers Research Star Rating System**

- Strong Buy (>30% upside over the next 6 months)
- Buy (>20% upside over the next 12 months)
- Hold (10-20% upside over the next 12 months)
- Fully Valued (Trade within a +/-10% range over the next 12 months)
- Sell (>10% downside over the next 12 months)

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Banking

Earnings reduced by 4-5% in 2002-03

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- Lower forecasts mainly due to cut in non-interest income. We cut 2002’s operating income by 2% (mainly due to a larger 12% reduction in non-interest income), and at the same time trimmed operating expenses by 3%. For 2003, we reduced operating income by a more aggressive 7% (again, mainly due to lower non-interest income, which we cut by 26%). We also reduced expenses by 10% due to the weaker growth outlook.

- We expect provisions to decrease by a substantial 42-48% in 2003. After the cut in forecasts, we expect income before goodwill and provisions to grow 22% this year (including the one-off impact of consolidating the performance of acquisitions made in 2001), and a healthy 14% next year. However, including the impact of lower provisions next year (we forecast a substantial 46% drop in 2003 as the economy recovers), operating profit is expected to rise a robust 30%.

- 5-8% drop in operating income in 2002 if not for contribution from acquisitions. The revised forecast for net profit growth in 2002 includes an estimated S$550m-580m from the full year consolidation of acquisitions made in 2001. Thus, excluding the impact of the acquisitions, operating profit would have contracted by 5-8%.

**UOB – Forecasts and Valuation**

<table>
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<tr>
<th>FY Dec ($Sm)</th>
<th>2001</th>
<th>2002F</th>
<th>2003F</th>
<th>2004F</th>
<th>FY Dec ($Sm)</th>
<th>2001</th>
<th>2002E</th>
<th>2003F</th>
<th>2004F</th>
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<tr>
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<td>2,224</td>
<td>3,076</td>
<td>3,351</td>
<td>3,660</td>
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<td>2,155</td>
<td>2,382</td>
<td>2,563</td>
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<tr>
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<td>2,947</td>
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<td>1,499</td>
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<td>EBITDA</td>
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<td>2,472</td>
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**OCBCBank Stock Code:**

Bloomberg: OCBC SP

Reuters: OCBC.SI

**Stock Rating:**

Buy

**Price Target:**

1-year S$12.40

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*In accordance with internal policy, DBS Vickers Research does not comment or offer a recommendation on DBS Group Holdings, its ultimate parent company.*
Highlights

- Earnings in 2002 and 2003 have been revised downwards to reflect the more subdued economic outlook. We were previously looking for 18% profit growth for the sector this year, followed by a robust 33% jump the following year. This has been cut to a more modest 16% growth projection in 2002 (-2% cut in estimates, which was boosted by UOB’s exceptional gain of an estimated S$90m due to the divestment of S$31.1% stake in Haw Par Corp). However, the projected improvement in 2003 remains a healthy 29% (-5% cut in estimates) due to the reduced base in the current year. Half of the growth is due to organic growth (12-13% increase in operating profit before goodwill and provisions), with the other half coming from a substantial 42-48% drop in provisions from this year’s peak.

<table>
<thead>
<tr>
<th>DBSV Variance vs Consensus</th>
<th>% Variance 2002F</th>
<th>% Variance 2003F</th>
</tr>
</thead>
<tbody>
<tr>
<td>DBSV 02F</td>
<td>DBSV 03F</td>
<td>vs Avg</td>
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<tr>
<td>UOB</td>
<td>1,334</td>
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</tr>
<tr>
<td>OCBC</td>
<td>693</td>
<td>1,004</td>
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</table>

Source: DBS Vickers, IBES

- After our revision in earnings, our forecasts are in line with consensus for 2002 (except for UOB, which we have revised today to factor in its Haw Par Corp divestment), but still above average estimates for 2003. This underscores our positive outlook going forward. For UOB, our previous forecast 2002 profit of S$1.26bn was 3% (S$40m) above IBES consensus, and taking into consideration the most recent five forecasts (which provides an indication of trend), we are actually 1% below consensus. However, with today’s revision, we are 9% above consensus, and 5% higher than the five most recent estimates.

- As for OCBC, our revised S$693m forecast is 2% below consensus (S$13m), though the recent trend has been down. Using the latest five estimates, our current forecast is 1% (S$9m) above consensus.

Prospects

- We are looking for a healthy 11% increase in operating income next year, underpinned by a 11% rise in net interest income (6% loan growth, and 26bps improvement in NIM to 2.5% as interest rates move upwards gradually over 2003). We expect non-interest income to grow 10%, although we have projected slower growth in fee and commission (+8% growth) as a result of the cut in economic projections, which should result in weaker capital market activity (lower stockmarket turnover, fewer IPOs) that previously anticipated.

- However, we have also kept our cost projections under control, with total expenses expected to grow by a moderate 6% (6% increase in staff costs, and 7% rise in other operating expenses), as banks continue to keep costs under control. Until economic growth becomes more broad-based, costs will not escalate upwards.

Action

- Maintain Overweight. Despite the cut in earnings projections, we expect exceptionally strong earnings growth in 2003, driven not only by lower provisions, but also by higher operating profits. As a result of our cut in earnings forecasts, we have also trimmed our 12-month price target for UOB and OCBC to S$16.30 and S$12.40, at around 15-16x prospective earnings, and 2-2.5x 2003 net tangible assets. Nevertheless, the upside potential remains an attractive 33% and 26%, respectively. Maintain Overweight.
### OCBC Revised Forecasts – 2002-04

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<thead>
<tr>
<th></th>
<th>2002E</th>
<th>2003F</th>
<th>2004F</th>
<th>02-%chg</th>
<th>03-%chg</th>
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### UOB Revised Forecasts – 2002-04

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<tr>
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<tr>
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<td>6%</td>
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<tr>
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<td>Associates / Others</td>
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<td>165</td>
<td>173</td>
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<tr>
<td>Pre-Tax Profit</td>
<td>1,646</td>
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<tr>
<td>(Taxation)</td>
<td>(346)</td>
<td>(453)</td>
<td>(504)</td>
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<td>31%</td>
<td>11%</td>
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Source: Company, DBS Vickers
## Singapore Bank – Key Earnings Data

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<th>UOB</th>
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<tbody>
<tr>
<td>Inc bef Goodwill / Provisions ($m)</td>
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<tr>
<td>FY 02E</td>
<td>1,316</td>
<td>2,021</td>
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<tr>
<td>FY 03F</td>
<td>1,488</td>
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<td>FY 04F</td>
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<tr>
<td>Net Profit ($m)</td>
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<tr>
<td>FY 02E</td>
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<td>1,334</td>
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<td>Net Profit Growth (% y-o-y)</td>
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<td>44%</td>
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<td>FY 04F</td>
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<tr>
<td>Loan Growth (% y-o-y)</td>
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<td>-3%</td>
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<td>Deposit Growth (% y-o-y)</td>
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Source: Companies, DBS Vickers
## Singapore Bank – Comparative Valuations

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<tbody>
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<td>Share Price (S$)</td>
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<td>Fully diluted EPS Growth (% y-o-y)</td>
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<td>0.20</td>
</tr>
<tr>
<td>FY 03F</td>
<td>0.21</td>
<td>0.20</td>
</tr>
<tr>
<td>FY 04F</td>
<td>0.21</td>
<td>0.20</td>
</tr>
<tr>
<td>Dividend Yield (%)</td>
<td></td>
<td></td>
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<tr>
<td>FY 02E</td>
<td>2.1%</td>
<td>1.6%</td>
</tr>
<tr>
<td>FY 03F</td>
<td>2.1%</td>
<td>1.6%</td>
</tr>
<tr>
<td>FY 04F</td>
<td>2.1%</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

Source: Companies; Bloomberg; DBS Vickers
Banking Sector Focus

DBS Vickers Research Star Rating System

★ ★ ★ ★ ★ - Strong Buy (>30% upside over the next 6 months)
★ ★ ★ ★ ★ - Buy (>20% upside over the next 12 months)
★ ★ ★ ★ - Hold (10-20% upside over the next 12 months)
★ ★ ★ - Fully Valued (Trade within a +/-10% range over the next 12 months)
★ ★ - Sell (>10% downside over the next 12 months)

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**Company Focus**

**Singapore Equity Research**

15 October 2002

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## UOB Group

### Divestment of UOB’s stake in Haw Par

UOB is divesting 31.1% of its 41.1% stake in Haw Par Corp. This will be effected through a distribution in specie to UOB’s shareholders. Minority shareholders of UOB will receive between 408.17-408.84 shares of Haw Par Corp for every 10,000 UOB shares held. After this exercise, the Wee family’s stake in Haw Par will rise to 18.5% from 15.0% previously. UOB will make an exceptional gain of S$90m from the divestment, based on the current share price of Haw Par Corp. This transaction could provide the precedence for the divestment of UOB’s other non-core equity holdings. However, the fact that UOB did not concurrently propose a similar upstreaming of shares (in the case of Haw Par) for UOL and OUE, could suggest that Wee Cho Yaw may be adopting a different approach for these two companies.

- **UOB will make S$90m exceptional gain.** The Monetary Authority of Singapore (MAS) announced in Jun 00 that local banks had to separate their financial from non-financial activities and unwind the cross-shareholdings between the two. Thus, UOB had to reduce its holdings in UOL, Haw Par, OUE and Hotel Negara to no more than 10% each. The first step has been taken with the divestment of a 31.1% stake in Haw Par Corp, reducing its stake to 10%. UOB will make an exceptional gain of S$90m from the divestment, based on the current share price of Haw Par Corp. Maintain Buy on UOB.

- **Downgrading Haw Par to a Sell.** Our earlier expectation of a privatisation by the Wee family after buying UOB’s stake in Haw Par is unlikely to happen in the near-term following the latest dividend by specie move. We feel that Haw Par’s share price will experience near-term price weakness, as the liquidity of shares in the market will rise following the dividend in specie. The free float for Haw Par will increase to 61% from 31% previously, excluding Peter Cundill's 10.5% stake.

---

### Forecasts and Valuation

<table>
<thead>
<tr>
<th>FY UOB ($m)</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
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<td>1.07b</td>
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<td>2.26</td>
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<td>EBITDA</td>
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<td>1.90</td>
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<td>2.42</td>
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<td>1.198</td>
<td>1.736</td>
<td>2.059</td>
<td>2.291</td>
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<td>1,565</td>
<td>1,745</td>
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<td>EPS ($)</td>
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<td>EPS Gth (%)</td>
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<td>17</td>
<td>11</td>
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<tr>
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<td>11.1</td>
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<td>P/CF (x)</td>
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<td>1.8</td>
<td>1.6</td>
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<td>EV/EBITDA (x)</td>
<td>10.2</td>
<td>12.3</td>
<td>10.1</td>
<td>9.1</td>
</tr>
<tr>
<td>Div Yield (%)</td>
<td>1.7</td>
<td>1.6</td>
<td>1.6</td>
<td>1.6</td>
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<tr>
<td>Net Gearing (%)</td>
<td>cash</td>
<td>cash</td>
<td>cash</td>
<td>cash</td>
</tr>
<tr>
<td>ROE (%)</td>
<td>9.4</td>
<td>10.1</td>
<td>10.9</td>
<td>11.2</td>
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<td>1.2</td>
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<td>6.41</td>
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<td>8.36</td>
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<tr>
<td>P/Book Value (x)</td>
<td>2.1</td>
<td>1.9</td>
<td>1.7</td>
<td>1.5</td>
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</table>

### General Data

- **Issued Capital (m shrs)**: 1,572
- **Mkt Cap ($m/US$m)**: 19,336 / 10,748
- **Major Shareholders**
  - **Wee Cho Yaw (%)**: 10.2
  - **Lien Ying Chow (%)**: 5.2
  - **Free Float (%)**: 89.8
- **Avg Daily Vol (’000 shrs)**: 2,966

### Consensus Analyst Poll

<table>
<thead>
<tr>
<th>Curr</th>
<th>1Wk</th>
<th>1Mth</th>
<th>2Mth</th>
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<tbody>
<tr>
<td>Strong buy</td>
<td>$b</td>
<td>$b</td>
<td>$b</td>
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<tr>
<td>Buy</td>
<td>$b</td>
<td>$b</td>
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</tr>
<tr>
<td>Hold</td>
<td>$b</td>
<td>$b</td>
<td>$b</td>
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<tr>
<td>Sell</td>
<td>$b</td>
<td>$b</td>
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<tr>
<td>Strong sell</td>
<td>$b</td>
<td>$b</td>
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<tr>
<td>Total</td>
<td>30</td>
<td>40</td>
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</tbody>
</table>

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### Price Target:

**S$12.30**

At a Glance

- **Price Target:** 1-year S$18.80
- **Stock Code:** Bloomberg: UOB SP
- **Reuters:** UOB.SI
- **Sector:** Financial services
- **STI:** 1,494.69
- **Stock Rating:** ★★★★☆
- **Sector Rating:** ★★★★☆
- **Technical Rating:** ★★★★☆

### Reason for Report:

Corporate development

### Implications:

Positive for UOB

### Earnings Revision:

- **FY 02 up 6%**
- **FY 03 down 5%**
- **FY04 new**

### Consensus EPS:

- **FY02 76.6 S cts**
- **FY03 92.0 S cts**
- **FY04 107.0 S cts**

---

**DBSV vs Consensus EPS (% variance):**

- **FY02 +11.0%**
- **FY03 +8.7%**
- **FY04 -3.7%**

---

**Lim Beng Eu, CFA • 65-6398 7208 • bengeu@dbsvickers.com**

---

**BUY**

(Re)Maintained

---

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- **Price Target:** 1-year S$18.80
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---

**DBSV vs Consensus EPS (% variance):**

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- **FY03 +8.7%**
- **FY04 -3.7%**

---

**Lim Beng Eu, CFA • 65-6398 7208 • bengeu@dbsvickers.com**
Highlights

- Ultimate control of Haw Par (S$4.28), and its 4% stake in UOB. Given that UOB is reducing its stake to 10%, interest is now focussed on ultimate control of Haw Par, and consequently, its 4% cross shareholding in UOB. With an 18.5% stake, Wee Cho Yaw is now Haw Par’s largest shareholder. We would not rule out the Wee family's continued purchase of more shares in Haw Par. However, it is unlikely that they will pay a high price (closer to RNAV) given that the shares could be bought cheaper from the market from minority shareholders of UOB selling their odd lots of Haw Par shares received after the dividend in specie. While the probability of some form of privatisation of Haw Par appears remote over the short term, we are not ruling it out entirely especially when the share price of Haw Par becomes depressed. This may be a more cost effective way for Wee Cho Yaw to gain control of Haw Par’s 4% stake in UOB (market value S$773m) by making a partial takeover offer or general offer for the company (costing S$740m at Haw Par’s current market price).

- Possibility of different approach to UOB’s stakes in UOL and OUE. The fact that UOB has not proposed a similar upstreaming of shares (in the case of Haw Par) for UOL and OUE could suggest that Wee Cho Yaw may be adopting a different approach for these two companies. Possible scenarios for UOL could still include (i) privatisation by Haw Par at a later stage (before Jul 04), (ii) merger of UOL with Singland/UIC, or (iii) a straight dividend in specie to UOB shareholders. An upstreaming of UOL will result in Wee Cho Yaw owning ~5% of UOL, which is not meaningful for him as compared to his 18.5% eventual stake in Haw Par.

- Maintain Buy on UOL (S$1.62), OUE (S$5.80). On a fundamental basis, we believe that the share price of UOL should still be supported by its 45% discount to its RNAV of S$2.86. We are maintaining our Buy rating for UOL for the moment. We are still holding on to the possibility of the Lien family buying out UOB’s stake and hence inclined to retain our Buy for OUE for now.

Background to divestment of non-core assets.

In Jun 00, the Monetary Authority of Singapore (MAS) announced new rules for local banks to separate their financial from non-financial activities, and unwind the cross-shareholdings between the two. These steps were undertaken to limit the risks of contagion to the banks from non-banking businesses, improve corporate governance through a more transparent ownership and control structure, and ensure that the resources of the banks are rightfully focused on their banking business in an increasingly competitive environment. Amendments to the Banking Bill to effect the changes were passed in Jul 01. Based on the three-year time frame to divest their non-core assets, the local banks will have up till Jul 04 to comply with the new measures.

The key divestment rules are:

1. Focus on financial activities. Non-financial activities must be segregated from the banking group and divested while all financial activities of each banking group will have to be grouped together under the bank or financial holding group (FHC). MAS reserves the right to declare any company that owns a substantial share of the bank, directly or indirectly, as a FHC. The FHC will be regulated by the MAS and will not be allowed to own non-financial activities.

2. Cross shareholdings will have to be unwound. Within the financial arm, shareholdings should only be one-directional e.g. mutual shareholdings (e.g. OCBC and GE Holdings cross-own stakes in each other) will not be allowed. More time will however be given to non-financial entities to unwind their holdings in the Bank (e.g. Haw Par and UOL’s holdings of UOB shares).

3. Holdings of investment properties allowed, subject to 20% of capital funds. Holdings of immovable properties will be limited to investment properties. The revised section 33 limit for holdings of investment properties, excluding bank premises, is now 20% of capital funds vs 40% previously.
(4) Holdings of non-financial equity investments should generally not exceed 10% of the share capital of the investee company, based on the new section 32. To limit concentration risk, the new section 31 will limit equity investments in any single company to 2% of the bank’s capital funds.

(5) Management of financial entities of banking group to be separate from non-financial entities. There is to be no sharing of executive directors and management staff between the financial and non-financial entities. The majority of the board of directors of the financial entity cannot sit on the board of directors of the non-financial entities.

(6) Sharing of names and logos between financial and non-financial entities not allowed.

(7) Capital gains tax and stamp duty waived. To ease the restructuring process, capital gains arising from the required disposal of shares and properties will be non-taxable, provided they have been held for more than ten years. Stamp duty will also be waived.

**Action**

- In accordance with MAS’ directive, UOB had to reduce its holdings in UOL, Haw Par, OUE and Hotel Negara to no more than 10% each. The first step has been taken with this divestment of a 31.1% stake in Haw Par Corp, reducing its stake to 10%. UOB will make an exceptional gain of $90m from the divestment, based on the current share price of Haw Par Corp. Maintain Buy on UOB.

- We are downgrading Haw Par to a Sell. Our earlier expectation of a privatisation offer by the Wee family after buying UOB’s 45% stake in Haw Par, is unlikely to happen now following the latest dividend in specie move. We feel that Haw Par Corp’s share price will fall near-term, as the liquidity of Haw Par Corp shares in the market will rise after the dividend in specie, increasing the free float of Haw Par’s share to 61% from 31% previously. While the probability of some form of privatisation of Haw Par appears remote in the short term, we are not ruling it out entirely especially when the share price of Haw Par becomes depressed.

- Maintain Buy on UOL, OUE. On a fundamental basis, we believe that the share price of UOL should still be supported by its 45% discount to its RNAV of S$2.86. We are maintaining our Buy rating for UOL for the moment. We are still holding on to the possibility of the Lien family buying out UOB’s stake in and hence inclined to retain our Buy for OUE for now.
Company Focus

Singapore Equity Research

15 October 2002

Qian Hu
Flying fish

Qian Hu is on track to achieve record profit of S$5.8m in 2002. We like Qian Hu for its diversifying business (into both fish distribution and pet accessories) and geographic spread. Valuation remains attractive at 11x on FY02 earnings vs market PE of 16x. We are upgrading Qian Hu to a BUY on the back of strong profit growth and a counter cyclical business model. Our price target remains at S$0.96.

- Stronger than expected nine-month results. Qian Hu reported a resilient nine-month net profit of S$4.8m, on track to meet our full year net profit of S$5.8m. This was led by strong expansion in the accessories business in 3Q02. Sales of accessories business expanded 141% to S$9.4m in 3Q02, with operating margins widening to 24.6% from 20% in 1H02. The expansion in margin was largely due to Qian Hu’s backward integration into manufacturing.

- A diversified leisure services provider. Over the last nine months, Qian Hu continued to diversify from the fish distribution business. Pet accessories accounts for more than 80% of operating profits in the first nine months when compared with 59% same period a year ago.

- Maintaining our full year net profit of S$5.8m. We are optimistic that Qian Hu will more than achieve our full year net profit forecast of S$5.8m. Growth will be underpinned by strong sale of pet accessories as a result of rising domestic distribution in Malaysia and Thailand. Management is also expecting fish distribution business to grow stronger in the 4Q as sales in the European market recover post summer holiday.

Forecasts and Valuation

<table>
<thead>
<tr>
<th>FY Dec (S$m)</th>
<th>2001A</th>
<th>2002F</th>
<th>2003F</th>
<th>2004F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
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<td>58.1</td>
<td>68.0</td>
<td>74.3</td>
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<td>EBITDA</td>
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<td>8.9</td>
<td>11.5</td>
<td>13.6</td>
</tr>
<tr>
<td>Pretax Profit</td>
<td>4.3</td>
<td>7.3</td>
<td>9.8</td>
<td>11.7</td>
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<tr>
<td>Net Profit</td>
<td>3.4</td>
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<td>8.9</td>
</tr>
<tr>
<td>EPS (cts)</td>
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<td>5.9</td>
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<td>EPS 6th (%)</td>
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<td>P/E Ratio (x)</td>
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<td>11.0</td>
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<tr>
<td>P/B Ratio (x)</td>
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<td>Div Yield (%)</td>
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<td>1.1</td>
<td>1.4</td>
<td>1.7</td>
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<tr>
<td>ROA (%)</td>
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<td>17.5</td>
<td>18.1</td>
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General Data

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<tbody>
<tr>
<td>M kt Cap ($m/$US$m)</td>
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<tr>
<td>Major Shareholders</td>
<td>Qian Hu Holdings (%)</td>
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<tr>
<td></td>
<td>Yap family (%)</td>
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<tr>
<td>Free Float (%)</td>
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<tr>
<td>Avg Daily Vol (’000 shrs)</td>
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Consensus Analyst Poll

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<th>1Wk</th>
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<th>2M th</th>
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<tbody>
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<td>Strong buy</td>
<td>U</td>
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<td>U</td>
</tr>
<tr>
<td>buy</td>
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<td>U</td>
<td>U</td>
</tr>
<tr>
<td>Hold</td>
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<td>1</td>
<td>1</td>
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<td>Seri</td>
<td>U</td>
<td>U</td>
<td>U</td>
</tr>
<tr>
<td>Strong sell</td>
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Share Price Chart

Share Price Performance

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<th>Rel Sector</th>
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<tbody>
<tr>
<td>Past 1 mth</td>
<td>2%</td>
<td>6%</td>
<td>4%</td>
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<tr>
<td>Past 3 mths</td>
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<td>-7%</td>
<td>-6%</td>
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<tr>
<td>Past 6 mths</td>
<td>94%</td>
<td>116%</td>
<td>108%</td>
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<tr>
<td>Past 12 mths</td>
<td>15%</td>
<td>150%</td>
<td>144%</td>
</tr>
</tbody>
</table>

Chua Piang Sze (65) 6398-79556 piangsze@dbsvickers.com

BUY
(Previously Hold)

S$0.65

At a Glance

Price Target:
1-year S$0.96

Stock Code:
Bloomberg: QIAN SP
Reuters: QIAN.SI

Sector: Consumer

STI: 1,378.44

Stock Rating:
★★★★★

Sector Rating:
★★★★

Technical Rating:
★★★★

Reason for Report:
3Q result

Implications:
Positive

Earnings Revision:
None

Consensus EPS:
FY02 5.9 S cts
FY03 6.9 S cts
FY04 8.3 S cts

DBSV vs Consensus
EPS (% variance):
FY02 -
FY03 +7.2%
FY04 +7.2%
Highlights

- Stronger than expected nine-month results. Qian Hu reported a resilient nine-month net profit of $4.8m, on track to meet our full year net profit of $5.8m. This was led by strong expansion in the accessories business in 3Q02. Sales of accessories business expanded 141% to $9.4m in 3Q02, with operating margins widening to 24.6% from 20% in 1H02. The expansion in margin was largely due to Qian Hus's backward integration into manufacturing of accessories. Qian Hu currently manufactures about 10% of the accessories.

- But margins for fish distribution narrowed to 6% in 3Q vs 14% in 1H. The contraction was one-off, as Qian Hu provided losses for delivery of two Dragon fishes from Indonesia as a result of unhealthy conditions due to improper packing. Management expects margins to resume back to 1H level in 4Q.

- A diversify leisure services provider. Over the last nine months, Qian Hu continued to diversify from the fish distribution business. Pet accessories account for more than 80% of operating profits in the first nine months when compared with 59% same period a year ago.

Nine month net profit

<table>
<thead>
<tr>
<th>FY Dec (S$m)</th>
<th>1H 02</th>
<th>3Q 02</th>
<th>1H 01</th>
<th>3Q 01</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Ornamental fish</td>
<td>12.0</td>
<td>6.3</td>
<td>9.3</td>
<td>4.2</td>
</tr>
<tr>
<td>Accessories</td>
<td>12.6</td>
<td>9.4</td>
<td>7.7</td>
<td>3.9</td>
</tr>
<tr>
<td>Plastic &amp; other</td>
<td>3.3</td>
<td>1.7</td>
<td>2.8</td>
<td>1.7</td>
</tr>
<tr>
<td>Total sales</td>
<td>27.8</td>
<td>17.5</td>
<td>19.9</td>
<td>9.8</td>
</tr>
<tr>
<td>Operating profit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ornamental fish</td>
<td>1.6</td>
<td>0.4</td>
<td>1.1</td>
<td>0.4</td>
</tr>
<tr>
<td>Accessories</td>
<td>2.5</td>
<td>2.3</td>
<td>1.1</td>
<td>0.5</td>
</tr>
<tr>
<td>Plastic &amp; other</td>
<td>0.2</td>
<td>0.0</td>
<td>0.2</td>
<td>0.5</td>
</tr>
<tr>
<td>Unallocated expenses</td>
<td>-0.1</td>
<td>-0.3</td>
<td>-0.1</td>
<td>-0.5</td>
</tr>
<tr>
<td>Total Operating profit</td>
<td>4.3</td>
<td>2.4</td>
<td>2.3</td>
<td>0.9</td>
</tr>
<tr>
<td>Margin</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ornamental fish</td>
<td>13.7%</td>
<td>6.0%</td>
<td>11.7%</td>
<td>8.9%</td>
</tr>
<tr>
<td>Accessories</td>
<td>20.2%</td>
<td>24.6%</td>
<td>14.1%</td>
<td>13.4%</td>
</tr>
<tr>
<td>Plastic &amp; other</td>
<td>5.0%</td>
<td>1.6%</td>
<td>7.1%</td>
<td>31.4%</td>
</tr>
<tr>
<td>Total Operating profit</td>
<td>15.3%</td>
<td>14.0%</td>
<td>11.6%</td>
<td>9.2%</td>
</tr>
</tbody>
</table>

Source: Company

- Cashflow management continues to improve. Cash generated from operating activities improved in the third quarter, with a net of S$3.1m being generated when compared with a net outflow of S$0.6m.

Prospects

- Maintaining our full year net profit of $5.8m. We are optimistic that Qian Hu will more than achieve our full year net profit forecast of $5.8m. Growth will be underpinned by strong sale of pet accessories as a result of rising domestic distribution in Malaysia and Thailand. Management also expects the fish distribution business to grow stronger in 4Q as sales in the European market recover post summer holiday.

Action

- Upgrade to BUY rating. Qian Hu’s share price has corrected over the last three months in line with the general market. In spite of the economic downturn in Singapore, Qian Hu is expected to
Qian Hu

Company Focus

register strong forward earnings growth on the back of overseas expansion and backward integration in the accessories business. Valuations remain undemanding at 11x on FY02 earnings declining to 9x on FY03 earnings. This is low compared with a market PE of 16x on FY02 earnings and 13x on FY03 earnings. We are upgrading Qian Hu to a BUY with a 12-month price target of S$0.96. Our 12-month price target is based on fisheries and wholesale industry PE of 14.5x. Qian Hu is trading at a low PEG of 0.4x.

DBS Vickers Research Star Rating System

★ ★ ★ ★ ★ - Strong Buy (>30% upside over the next 6 months)
★ ★ ★ ★ - Buy (>20% upside over the next 12 months)
★ ★ ★ - Hold (10-20% upside over the next 12 months)
★ ★ - Fully Valued (Trade within a +/-10% range over the next 12 months)
★ - Sell (>10% downside over the next 12 months)

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