

Sector Strategy

Enter The Dragon

Report type: Update

- Expects economy in 1Q2012 to expand, however macro conditions are still weak
- FSSTI strong start in Jan, need more positives to push ahead
- Take some profits if you can, turn neutral on the Telcos and maintain overweight on aviation services (excludes airlines) sector

Dragon is considered the most auspicious animal in the Chinese zodiac and Dragon years are usually associated with all things good. This is especially a timely Dragon year which brought cheers to the market.

Manufacturing output rebounds in Dec

Manufacturing output grew 12.6% in Dec on y-y basis, boosted mainly by the volatile biomedical sector. Excluding biomedical, output would have contracted 9.0%. Nonetheless, this sets up 1st quarter 2012 for an on-quarter expansion after a contraction in 4th quarter 2012. From a larger macro picture, external conditions are still weak.

Greater premium on positives, lesser discount on negatives

One month on, the FSSTI is up an impressive 10%. Market is rallying on positive economic data coming out of the US while ignoring negative developments from Europe. Average daily volume has also increased almost 61% from Dec low. T12M PE has crossed over the -ve 1 s.d while forward PE has bounce off -ve 1 s.d to touch the 4-year mean. While we try to balance the positives and negatives, market is certainly ascribing greater premium to the positives and less discount to the negatives.


Look out for profit taking opportunity in O&M

The oil and gas sector seems to us to be at an overbought level. The FTSE Oil & Gas sub index has outperformed the broad market, rising almost 50% from its trough.

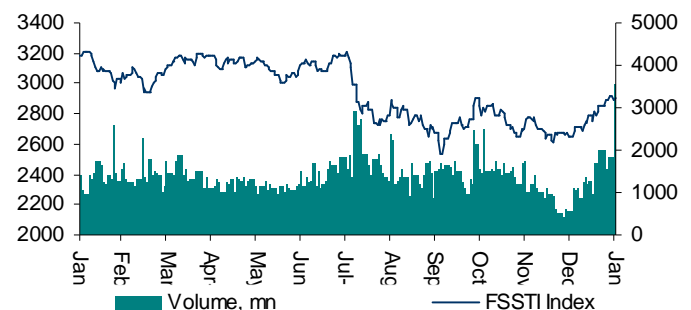
Sectors outlook

We turn neutral (previously overweight) on the Telcos as market shifts towards a higher beta mode. Valuations we feel are on the high side. Maintain overweight on the aviation services (exclude airlines) sector.

FSSTI

Closing	2907
Expected Dividend Yield (%)	3.3%
P/E	7.2
Market Cap. (USD mn)	520,794
3M Average Daily T/O (mn)	1,188.2
52 w week range (SGD)	2521.95 - 3232.99
Closing Price in 52 w week range	

0% 50% 100%



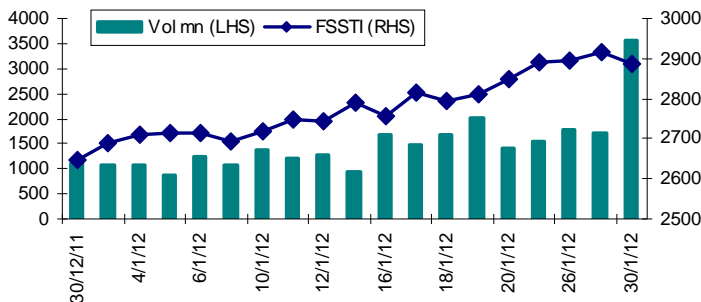
Analyst

Lee Kok Joo CFA
leekj@phillip.com.sg
+65 6531 1685

Greater premium on positives, lesser discount on negatives

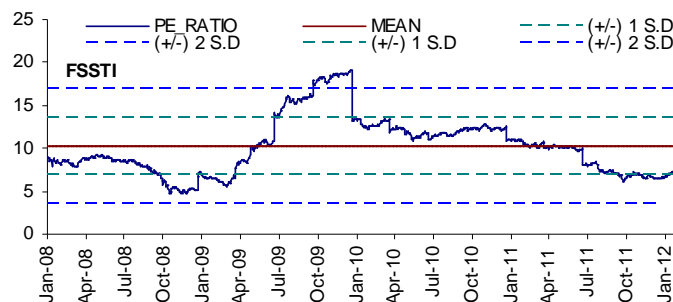
One month on, the FSSTI is up an impressive 10%. Market is rallying on positive economic data coming out of the US while ignoring negatives developments from Europe. Average daily volume has also increased almost 61% from Dec low. T12M PE has crossed over the -ve 1 s.d while forward PE has bounce off -ve 1 s.d to touch the 4-year mean. On the final trading day in Jan, index closed above the 200 days moving average (DMA) convincingly with high volume not seen in the last 1 year. Amid the optimism, we take note of some signs of market fatigue. The index first crossed over the 200 DMA of 2900 but subsequently closed lower consecutively in the next 2 days. T12M PE has traded around the -ve1 s.d in the past 4 months, signaling uncertainty in outlook. Forward PE is already trading ahead of earnings and may regress if earnings disappoint. However we think the market would like to go higher and is looking for reasons to do so. For the market to sustain its upward motion, we'll need more positive news flow. While we try to balance the positives and negatives, market is certainly ascribing greater premium to the positives and less discount to the negatives. Austerity in Europe is common knowledge by now and the bickering over who should take the losses are simply tabloid news for the fodder.

Fig 1. Market vol and FSSTI



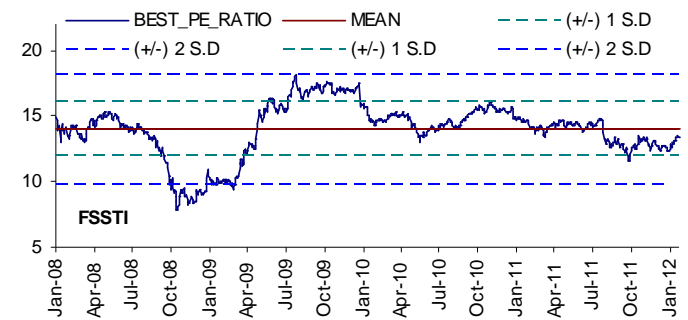
Source: Bloomberg, Phillip Securities Research

Fig 2. T12M PE



Source: Bloomberg, Phillip Securities Research

Fig 3. Forward PE

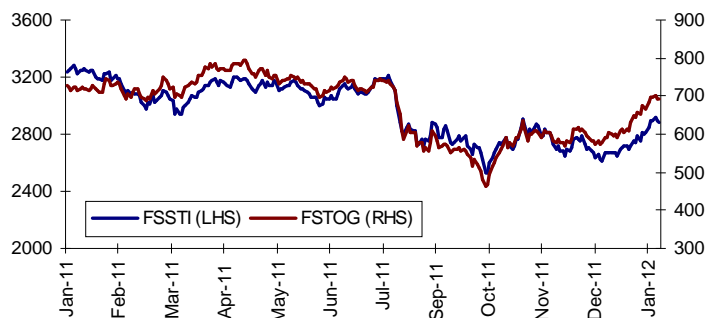


Source: Bloomberg, Phillip Securities Research

Look out for profit taking opportunity in O&M

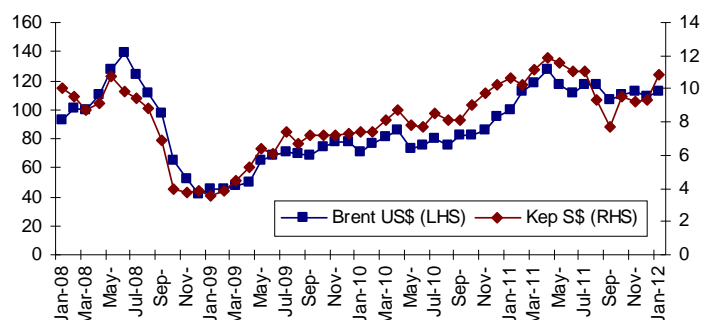
The oil and gas sector seems to us to be at an overbought level. The FTSE Oil & Gas sub index has outperformed the broad market, rising almost 50% from its trough. The charts of the 2 biggest component stocks (Keppel Corp, Sembcorp Marine) of the index plotted against oil price show a close correlation and the 2 companies tend to move ahead of oil price movement. Although oil price has remained relatively unchanged in the last 6 months, tensions over the Straits of Hormuz have fuel anticipation of higher oil price. Meanwhile both Keppel Corp and Sembcorp Marine have climb up substantially over the same period especially in the last month. Fundamentally expectations of further rig order wins and strong order books are catalyst to the stock price. Keppel Corp FY11 results came in in-line with our expectations. We keep our neutral rating on the offshore & marine sector with bias on the downside.

Fig 4. FSSTI vs FTSE Oil&Gas index



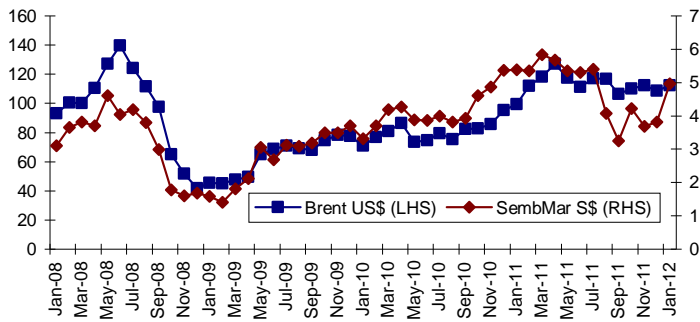
Source: Bloomberg, Phillip Securities Research

Fig 5. Brent crude vs Kep Corp



Source: Bloomberg, Phillip Securities Research

Fig 5. Brent crude vs Semb Marine



Source: Bloomberg, Phillip Securities Research

We now turn neutral on the Telcos, down from overweight, as market shifts towards a higher beta mode. Ex-dividends, we think valuations are on the high side. We remain overweight on the Aviation services sector.

Sector	Rating	Change from previous
Aviation services	Overweight	↔
O&M	Neutral	↔
Telcos	Neutral	↓
Commodities	Neutral	↔
Properties	Neutral	↔
REITS	Neutral	↔
Land Transport	Neutral	↔
S-chips	Underweight	↔
Airlines	Underweight	↔
Financials	Underweight	↔

Important Information

This publication is prepared by Phillip Securities Research Pte Ltd., 250 North Bridge Road, #06-00, Raffles City Tower, Singapore 179101 (Registration Number: 198803136N), which is regulated by the Monetary Authority of Singapore ("Phillip Securities Research"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this document by mistake, please delete or destroy it, and notify the sender immediately. Phillip Securities Research shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources, which Phillip Securities Research has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this publication are based on such information and are expressions of belief of the individual author or the indicated source (as applicable) only. Phillip Securities Research has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete, appropriate or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, (i) be liable in any manner whatsoever for any consequences (including but not limited to any special, direct, indirect, incidental or consequential losses, loss of profits and damages) of any reliance or usage of this publication or (ii) accept any legal responsibility from any person who receives this publication, even if it has been advised of the possibility of such damages. You must make the final investment decision and accept all responsibility for your investment decision, including, but not limited to your reliance on the information, data and/or other materials presented in this publication.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

Past performance of any product referred to in this publication is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This publication should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this research should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this publication, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip

Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this publication.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this publication. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, which is not reflected in this material, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this material.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Section 27 of the Financial Advisers Act (Cap. 110) of Singapore and the MAS Notice on Recommendations on Investment Products (FAA-N01) do not apply in respect of this publication.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

Please contact Phillip Securities Research at [65 65311240] in respect of any matters arising from, or in connection with, this document.

This report is only for the purpose of distribution in Singapore.

Contact Information (Singapore Research Team)

Chan Wai Chee
CEO, Research
Special Opportunities
+65 6531 1231
yebo@phillip.com.sg

Magdalene Choong
Investment Analyst
SG & US Financials, Gaming
+65 6531 1791
magdalenechoongss@phillip.com.sg

Nicholas Low, CFA
Investment Analyst
Commodities, Offshore & Marine
+65 6531 1535
nicholaslowkc@phillip.com.sg

Lee Kok Joo, CFA
Head of Research
S-Chips, Strategy
+65 6531 1685
leekj@phillip.com.sg

Go Choon Koay, Bryan
Investment Analyst
Property
+65 6531 1792
gock@phillip.com.sg

Travis Seah
Investment Analyst
REITS
+65 6531 1229
travisseahhk@phillip.com.sg

Joshua Tan
Strategist
+65 6531 1249
joshuatan@phillip.com.sg

Derrick Heng
Investment Analyst
Transportation, Telecom.
+65 6531 1221
derrickhengch@phillip.com.sg

Peter Lee
Research Assistant
General Enquiries
+65 6531 1240 (Phone)
+65 6336 7607 (Fax)
research@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG

Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website www.phillip.co.th

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia
Level 37, 530 Collins Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96298380
Fax (613) 96148309
Website: www.phillipcapital.com.au

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN

PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel (86-21) 51699200
Fax (86-21) 63512940
Website: www.phillip.com.cn

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED STATES

Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005