

BUY S\$4.50 STI : 3,594.94

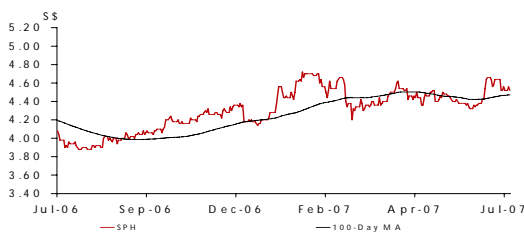
Price Target : 12-month S\$ 5.45 (Prev S\$ 5.25)

Reason for Report : 3Q07 Results

Potential Catalyst: Earnings growth & execution

ANALYSTPaul Yong CFA +65 6398 7951
pauyong@dbsvickers.com**FORECASTS AND VALUATION**

FY Aug (\$\$ m)	2005A	2006A	2007F	2008F
Turnover	1,007.5	1,021.4	1,059.5	1,326.1
EBITDA	425.3	431.3	448.8	622.9
Pre-tax Profit	558.4	509.4	544.7	622.9
Net Profit	488.3	428.5	468.9	511.8
Net Pft (Pre Ex.)	522.0	372.3	468.9	511.8
EPS (\$ cts)	30.6	27.2	29.7	32.5
EPS Gth (%)	0	(11)	9	9
Diluted EPS (\$ cts)	30.6	26.8	29.4	32.1
Net DPS (\$ cts)	23.1	24.3	25.0	30.0
BV Per Share (\$ cts)	103.0	129.8	135.3	142.8
PE (X)	14.7	16.6	15.1	13.9
P/Cash Flow (X)	13.2	14.8	13.7	12.8
EV/EBITDA (X)	16.7	16.1	15.3	10.8
Net Div Yield (%)	5.1	5.4	5.6	6.7
P/Book Value (X)	4.4	3.5	3.3	3.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	31.5	23.4	22.4	23.3

SHARE PRICE CHART**AT A GLANCE**

Issued Capital (m shrs)	1,588
Mkt. Cap (\$\$m/US\$m)	7,145 / 4,713
Major Shareholders	
Free Float (%)	100.0
Avg. Daily Vol. ('000)	5,822

Earnings Rev (%)	2007: 6.5	2008: 1.9
Consensus EPS (\$ cts)	2007: 27.4	2008: 30.7
Variance vs Cons (%)	2007: 8.6	2008: 5.7

Sector : Consumer Services

Bloomberg/Reuters Code: SPH SP/SPRM.SI

Principal Business: Publishes newspapers in Singapore and owns the Paragon

SPH**Impressive ad revenue growth in 3Q07**

➤ **Story:** SPH reported a good set of results in 3Q07, with operating earnings up 15% y-o-y to S\$109m on topline growth of 8% to S\$288m.

➤ **Point:** In addition to combined double-digit revenue growth for display and classified ads driving the core publishing business' 15% PBT growth in this quarter, a firm domestic equities market and a capital reduction exercise by M1 also helped boost the Group's investment portfolio to S\$1.1bn. We believe that SPH's publishing business is beginning to show good traction to the robust Singapore economy and should continue to do better as advertisers spend more under the current buoyant local consumer sentiment.

➤ **Relevance:** We maintain our BUY recommendation, with a raised sum-of-the-parts valuation to S\$5.45, as we factor in a) higher Paragon valuation of S\$1.82bn and b) a higher investment portfolio. SPH offers investors >20% capital appreciation potential as well as an attractive prospective dividend yield of 5.8%.

Strong display and classifieds revenue in 3Q07. Display revenue grew by 12% y-o-y to S\$106m and classifieds revenue grew by 7% y-o-y to S\$76m to lead the core publishing business to its strongest revenue growth in 10 quarters by 8% y-o-y to S\$256m. This led to a 15% y-o-y growth in PBT to S\$100m. Property revenue also grew by 7% y-o-y to S\$26m, led by higher rentals at Paragon.

Firm investment gains. Net income for the quarter rose by 140% y-o-y to S\$75m, due mainly to gains on sale of investments, as well as a capital reduction exercise by M1. Excluding a gain on write-back of impairment charges relating to Paragon of S\$69.1m in 3Q06, net earnings for the quarter rose by 51% y-o-y to S\$160m.

Strong results underscore robust outlook for SPH. We believe that this set of good results is an indication of better things to come for the Group. We continue to like SPH as a proxy for the Singapore economy, given its dominant position in print advertising, as well as its exposure to the firm domestic property and equities markets.

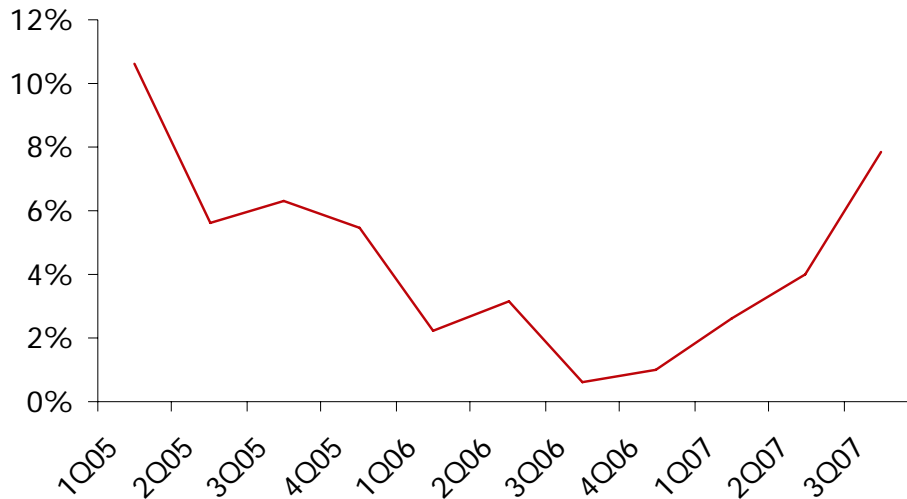
SPH offers attractive valuations. Stripping out the Group's net cash and investments as well as properties, SPH's core publishing business is trading at an undemanding 16.2x FYE Aug 07 PER and 15x FY08 PER.

Results Summary and Comments

FYE Aug (S\$m)	3Q06	3Q07	YoY Chg	9M06	9M07	YoY Chg	Comments on 3Q07 basis
Operating Revenue							
Newspaper and magazine	237.2	255.7	8%	682.2	715.3	5%	Strongest growth in 10 quarters Riding on firm Singapore economy
<i>Display</i>	94.5	105.9	12%	285.8	299.5	5%	
<i>Classified</i>	71.2	76.3	7%	188.8	200.6	6%	
<i>Magazines and Others</i>	11.4	13.3	17%	35.7	40.6	14%	
<i>Circulation</i>	53.7	53.5	0%	154.9	156.5	1%	
<i>Other Sales</i>	6.5	6.8	5%	17.0	18.1	7%	
Others	4.1	6.4	54%	11.3	16.6	47%	
Property	24.3	26.0	7%	73.3	78.8	8%	Higher rentals at Paragon
Total Revenue	265.7	288.1	8%	766.8	810.7	6%	
Materials, consumables & broadcasting costs	(44.2)	(45.0)	2%	(125.7)	(129.8)	3%	Due to increased newsprint and production costs
Staff Costs	(68.5)	(76.7)	12%	(201.2)	(218.5)	9%	Led by pay increases, bonuses and an extra 100 headcount for new businesses
Depreciation	(13.4)	(12.4)	-7%	(36.6)	(37.6)	3%	
Other Operating Expenses	(42.3)	(42.8)	1%	(113.6)	(117.1)	3%	
Other Operating Income	2.4	2.9	23%	6.6	8.1	23%	
Operating Profit	99.7	114.0	14%	296.3	315.9	7%	In line with expectations
Finance Costs	(5.2)	(5.2)	0%	(15.6)	(15.8)	1%	
Net Income from investments	31.5	75.3	139%	70.5	136.6	94%	Better than expected
Associates	(0.4)	2.0	-546%	(0.0)	3.4	na	
Exceptional Items	69.1	0.0	na	69.1	0.0	na	Write-back of impairment charges for Paragon in 3Q06
PBT	194.7	186.1	-4%	420.3	440.1	5%	
Tax	(20.1)	(26.7)	33%	(62.7)	(60.4)	-4%	
Minority Interests	0.1	0.4	604%	0.0	0.3	1121%	
PATMI	174.6	159.8	-9%	357.6	380.1	6%	
PATMI ex Exceptionals	105.5	159.8	51%	288.5	380.1	32%	
PBT							
Newspaper and magazine	87.6	100.3	15%	247.7	264.2	7%	Driven by firm ad revenue growth
Others	(7.1)	(4.0)	-44%	(7.1)	(5.7)	-20%	
Treasury and Investment	31.4	75.1	140%	70.1	136.0	94%	Capital reduction exercise from M1 and healthy domestic equities market
Property	82.8	14.7	-82%	109.6	45.5	-58%	
Total	194.7	186.1	-4%	420.3	440.1	5%	
Newsprint Costs	31.5	31.4	0%	88.6	89.9	1%	
Ave Monthly Consumption (MT)	11166	11323	1%	10444	10720	3%	Higher consumption... ... and newsprint prices... ... mitigated by lower US\$
Ave Charge-out price (US\$)	586	608	4%	577	605	5%	
Ave US/SGD	1.6	1.5	-5%	1.63	1.54	-6%	
Other consumables and broadcasting costs	12.7	13.5	7%	37.1	39.9	8%	

Source : Company, DBS Vickers

Quarterly Newspaper & Magazine Revenue Y-o-Y Growth (%)



Source : Company, DBS Vickers

Strongest newspaper & magazine revenue growth in 10 quarters. SPH's core publishing business grew the fastest in 10 quarters, posting a 7.8% y-o-y gain in 3Q07, led by a 12% y-o-y growth in display revenues and 7% y-o-y growth in classified revenues.

Sum-of-Parts Valuation and Implied valuation for Publishing Business

	Methodology	Value (\$m)	Value per SPH Share (\$)
Core Newspaper business	20x PER	5802.0	3.68
Properties	DBSV RNAV Estimate	2148.8	1.36
Cash and Investment Holdings	DBSV RNAV Estimate	1247.1	0.79
<i>less: debt at end FY07F</i>		<i>(611.4)</i>	<i>(0.39)</i>
Total		8586.5	5.45
Current Value			4.50
Less Revalued cash and investment holdings			<i>(0.79)</i>
Add Debt			0.39
Less Property RNAV			<i>(1.36)</i>
Implied Value of Publishing Operations			2.73
	EPS (Cts)		PER
Publishing PER FY07	16.8		16.2
Publishing PER FY08	18.4		14.9

Source : Company, DBS Vickers

Company Focus

SPH

Income Statement (\$\$ m)

FY Aug	2005A	2006A	2007F	2008F
Turnover	1,007.5	1,021.4	1,059.5	1,326.1
Cost of Goods Sold	(500.1)	(485.8)	(502.8)	(589.2)
Gross Profit	507.4	535.5	556.7	736.9
Other Opg (Exp)/Inc	(133.0)	(153.8)	(157.1)	(160.4)
EBIT	374.4	381.7	399.6	576.5
Other Non Opg (Exp)/Inc	218.6	0.0	0.0	0.0
Associates & JV Inc	(3.6)	(0.2)	2.0	4.0
Net Interest (Exp)/Inc	7.5	61.1	143.2	42.4
Exceptional Gain/(Loss)	(38.5)	66.8	0.0	0.0
Pre-tax Profit	558.4	509.4	544.7	622.9
Tax	(70.0)	(81.1)	(75.8)	(111.2)
Minority Interest	(0.1)	0.1	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0
Net Profit	488.3	428.5	468.9	511.8
Net profit before Except.	522.0	372.3	468.9	511.8
EBITDA	425.3	431.3	448.8	622.9
Sales Gth (%)	3.9	1.4	3.7	25.2
EBITDA Gth (%)	9.1	1.4	4.0	38.8
EBIT Gth (%)	10.8	1.9	4.7	44.3
Effective Tax Rate (%)	12.5	15.9	13.9	17.8

Cash Flow Statement (\$\$ m)

FY Aug	2005A	2006A	2007F	2008F
Pre-Tax Profit	558.4	509.4	544.7	622.9
Dep. & Amort.	50.9	49.6	49.2	46.4
Tax Paid	(67.9)	(88.3)	(104.9)	(75.8)
Assoc. & JV Inc/(loss)	3.6	0.2	(2.0)	(4.0)
Chg in Wkg. Capital	(45.5)	(1.9)	0.5	(13.0)
Other Operating CF	(180.6)	(105.7)	0.0	0.0
Net Operating CF	318.7	363.3	487.5	576.6
Capital Exp.(net)	(3.4)	(17.6)	(27.7)	(27.7)
Other Invts.(net)	85.2	124.5	0.0	0.0
Invts in Assoc. & JV	(33.6)	(44.2)	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0
Net Investing CF	48.2	62.7	(27.7)	(27.7)
Div Paid	(381.3)	(363.2)	(382.4)	(394.1)
Chg in Gross Debt	(136.5)	(59.2)	0.0	0.0
Capital Issues	28.4	7.5	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0
Net Financing CF	(489.4)	(414.8)	(382.4)	(394.1)
Net Cashflow	(122.4)	11.2	77.4	154.8

Quarterly / Interim Income Statement (\$\$ m)

FY Aug	3Q2005	4Q2005	1Q2006	2Q2006
Turnover	259.8	247.4	261.2	239.9
Cost of Goods Sold	(118.0)	(124.1)	(119.8)	(117.7)
Gross Profit	141.9	123.2	141.4	122.2
Other Oper. (Exp)/Inc	(30.8)	(43.2)	(33.1)	(33.9)
EBIT	111.1	80.1	108.3	88.3
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	(2.8)	(0.6)	(0.7)	1.1
Net Interest (Exp)/Inc	32.4	7.3	14.2	14.3
Exceptional Gain/(Loss)	(11.6)	(13.7)	0.0	0.0
Pre-tax Profit	129.1	73.0	121.9	103.7
Tax	(30.5)	0.2	(23.3)	(19.3)
Minority Interest	0.0	(0.1)	(0.1)	(0.1)
Net Profit	98.6	73.1	98.4	84.3
Net profit bef Except.	107.5	86.8	98.4	84.3
EBITDA	122.3	96.6	119.7	101.2
Sales Gth (%)	10.6	(4.8)	5.6	(8.1)
EBITDA Gth (%)	22.8	(21.0)	23.9	(15.4)
EBIT Gth (%)	25.9	(27.9)	35.2	(18.5)
Gross Margins (%)	54.6	49.8	54.1	50.9
EBIT Margins (%)	42.8	32.4	41.5	36.8

Source: Company, DBS Vickers

Balance Sheet (\$\$ m)

FY Aug	2005A	2006A	2007F	2008F
Net Fixed Assets	530.4	501.9	480.4	461.6
Invts in Assocs & JVs	28.1	69.7	71.7	75.7
Other LT Assets	1,201.8	1,567.0	1,567.0	1,567.0
Cash & ST Invts	723.8	752.6	830.0	984.8
Other Current Assets	145.1	148.4	143.3	176.0
Total Assets	2,629.1	3,039.5	3,092.4	3,265.2
ST Debt	0.0	0.7	0.7	0.7
Other Current Liab	287.8	307.3	273.7	328.8
LT Debt	650.0	610.8	610.8	610.8
Other LT Liabilities	67.8	72.0	72.0	72.0
Shareholder's Equity	1,621.2	2,046.4	2,132.9	2,250.5
Minority Interests	2.3	2.3	2.3	2.3
Total Cap. & Liab.	2,629.1	3,039.5	3,092.4	3,265.2
Non-Cash Wkg. Cap	510.8	512.2	540.8	518.4
Net Cash/(Debt)	73.8	141.1	218.6	373.4

Rates & Ratios

FY Aug	2005A	2006A	2007F	2008F
Gross Margin (%)	50.4	52.4	52.5	55.6
EBITDA Margin (%)	42.2	42.2	42.4	47.0
EBIT Margin (%)	37.2	37.4	37.7	43.5
Net Profit Margin (%)	48.5	41.9	44.3	38.6
ROAE (%)	31.5	23.4	22.4	23.3
ROA (%)	23.7	16.3	18.4	20.2
ROCE (%)	20.6	17.7	16.6	21.8
Div Payout Ratio (%)	74.4	89.3	84.0	92.4
Interest Cover (x)	NM	NM	NM	NM
Debtors Turn (avg days)	32.4	34.5	34.1	30.2
Creditors Turn (avg days)	43.7	48.6	48.1	45.7
Inventory Turn (avg days)	23.0	24.6	24.3	22.6
Current Ratio (x)	3.0	2.9	3.5	3.5
Quick Ratio (x)	2.9	2.8	3.4	3.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Capex to Debt (%)	0.5	2.9	4.5	4.5
N.Cash/(Debt)PS (S cts)	4.7	9.0	13.9	23.7
Opq CFPS (S cts)	22.8	23.2	30.9	37.4
Free CFPS (S cts)	19.8	21.9	29.2	34.8

PE Chart (x)



DBSV recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (0-15% total return over the next 12 months for small caps, 0-10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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DBS Vickers Research (Singapore) Pte Ltd – 8 Cross Street, #02-01 PWC Building, Singapore 048424
 Tel. 65-6533 9688, Fax: 65-6226 8048
 Company Regn. No. 198600295W