CIMB

CIMB Research Report

SECTOR UPDATE

22 June 2011

MALAYSIA

Small Caps

Still a treasure trove

OVERWEIGHT Maintained

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- **Still see value in selected small caps.** Small caps continued to disappoint during the 1QCY11 reporting season as 53% of the companies under our coverage failed to meet our expectations. The deterioration that began in 4Q10 continued in 1QCY11 as companies were hobbled by rising production costs, particularly for raw materials. Not surprisingly, the FBM Small Cap Index (SCI) eked out just a 0.4% gain in the first five months, slightly underperforming the KLCI which rose 2.1%. We continue to OVERWEIGHT the sector as we still see values in selected small caps. CI Holdings replaces Perisai Petroleum as our top pick this month.
- **Small caps continued to disappoint in 1QCY11.** Small caps continued to disappoint in the 1QCY11 reporting season. Some 53% of the companies in our coverage failed to meet our expectations compared to 41% in 4Q10 and 27% in 3Q10, which was probably the best quarter for small caps.
- **Range-bound trading.** It has basically been a sideways trend for both the KLCI and the FBM Small Cap Index (SCI) in the first five months of the year. The KLCI gained 2.1% up to end-May while the SCI edged up 0.4%. The SCI has generally been outperforming the KLCI since the start of the year but the KLCI started to outperform in late May.
- **CI Holdings is our new top pick.** Although we still like Perisai, CI Holdings replaces it as our top pick this month. We like CIH for these factors 1) Market leadership – Only three years after its launch, Tropicana is now the leader in the total juice market with a 25% share. 2) An increasingly marketable product line – A new non-carbonated drink will be launched next month. In 3Q11, non-carbonated drinks accounted for 43% of beverage sales from 20% a few years ago. CIH is aiming for a 50:50 sales split between carbonated and non-carbonated in the next few years. 3) An M&A angle – Management is open to M&A opportunities, especially in the snack segment.

Comparison of small caps

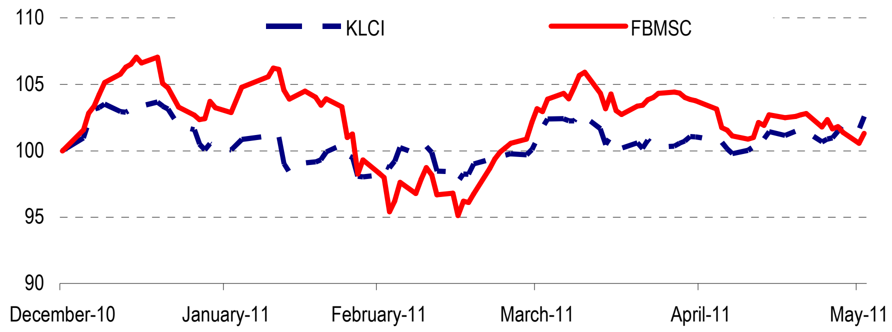
	Bloomberg ticker	Recom.	Price (Local)	Target price (Local)	Mkt cap (US$ m)	Core P/E (x) CY2011	Core P/E (x) CY2012	3-yr EPS CAGR (%)	P/BV (x) CY2011	ROE (%) CY2011	Div yield (%) CY2011
Adventa	ADV MK	U	2.08	2.43	104	11.6	7.8	2.7	1.1	10.7	3.5
Asia File	AF MK	N	3.93	4.13	149	8.9	8.0	10.1	1.2	13.8	7.5
Cocoaland	COLA MK	U	2.05	1.88	116	21.8	14.3	27.3	1.9	8.9	2.1
CI Holdings	CIH MK	O	2.71	4.78	146	10.5	9.3	8.8	3.6	33.3	3.9
Daibochi	DPP MK	O	2.60	3.92	65	8.6	6.7	21.8	1.3	16.1	7.9
Eksons	EKSON MK	O	1.22	1.87	66	5.9	4.8	35.6	0.5	9.3	7.6
JobStreet	JOBS MK	O	2.90	3.77	307	19.6	17.4	14.7	4.8	26.1	3.4
Latexx	LTX MK	TB	2.17	2.60	158	7.2	6.9	3.6	1.6	25.0	3.7
Genomics	MGRC MK	U	0.76	0.55	24	23.0	14.1	NM	4.6	18.1	-
MTD ACPI	ACP MK	U	0.57	0.53	43	33.7	12.7	181.4	0.8	2.4	1.6
Muhibbah	MUHI MK	TB	1.53	2.75	202	8.4	7.5	39.3	1.0	12.0	2.6
Pelikan	PELI MK	N	1.02	1.12	172	9.1	5.9	47.8	0.5	6.3	2.0
Perisai	PPT MK	O	0.77	1.40	172	12.5	7.9	87.9	1.8	15.9	0.0
RGB	RGB MK	U	0.09	0.05	34	27.9	13.7	152.8	1.3	4.7	0.0
Tomypak	TOMY MK	O	0.96	1.52	34	5.5	3.8	22.3	1.0	20.0	7.8
Uchi	UCHI MK	O	1.39	1.62	172	10.9	9.9	7.7	2.7	25.5	9.8
UM Land	UML MK	O	1.88	2.53	150	8.8	6.2	22.0	0.5	6.3	1.9
Wellcall	WELL MK	N	1.16	1.28	50	8.8	7.9	11.2	1.9	22.1	13.6
Xingquan	XISH MK	O	1.12	2.05	113	2.9	2.5	11.0	0.7	26.9	5.3
Simple average						**13.0**	**8.8**	**37.2**	**1.7**	**16.0**	**4.4**

O = Outperform, N = Neutral, U = Underperform, TB = Trading Buy and TS = Trading Sell
Source: Company, CIMB Research

Share price performance

Range-bound trading for both KLCI and SCI. It has basically been a sideways trend for both the KLCI and the FBM Small Cap Index (SCI) in the first five months of the year. Up to end-May, the KLCI gained only 2.1% while the SCI inched up 0.4%. Both indices were range-bound, trading within 4-5% of their start-of-the-year levels. The SCI has generally been outperforming the KLCI since the start of the year but the KLCI started to outperform in late May.

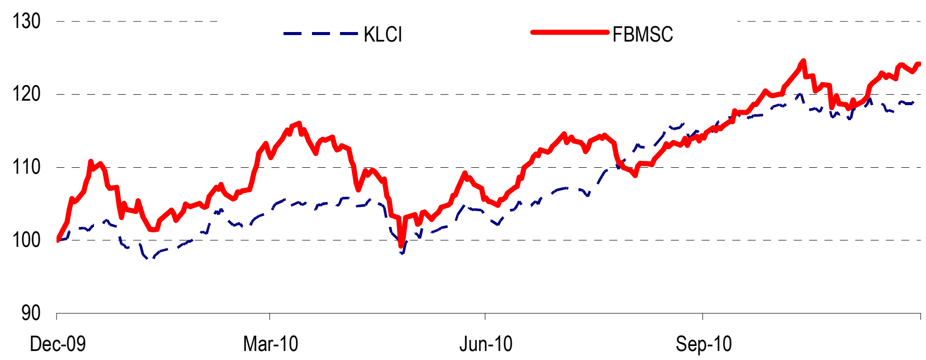
Figure 1: Performance of SCI and KLCI (Jan-May 2011)



Source: Bloomberg, CIMB Research

2010 performance. In 2010, the SCI outperformed the KLCI, gaining 24.2% compared to a 19.3% gain for the KLCI. The SCI outperformed for most of the months in 2010, other than the Aug-Nov period when the major index-linked stocks rallied.

Figure 2: Relative performance of SCI and KLCI in 2010



Source: CIMB Research

Sideways but long-term uptrend intact. The SCI's weekly chart shows that the index has been in a strong uptrend channel since 2009. The key support trendline is at 12,500 while the 200-day SMA is at 12,449. As long as these two key support levels are not broken, the medium-term uptrend will be intact.

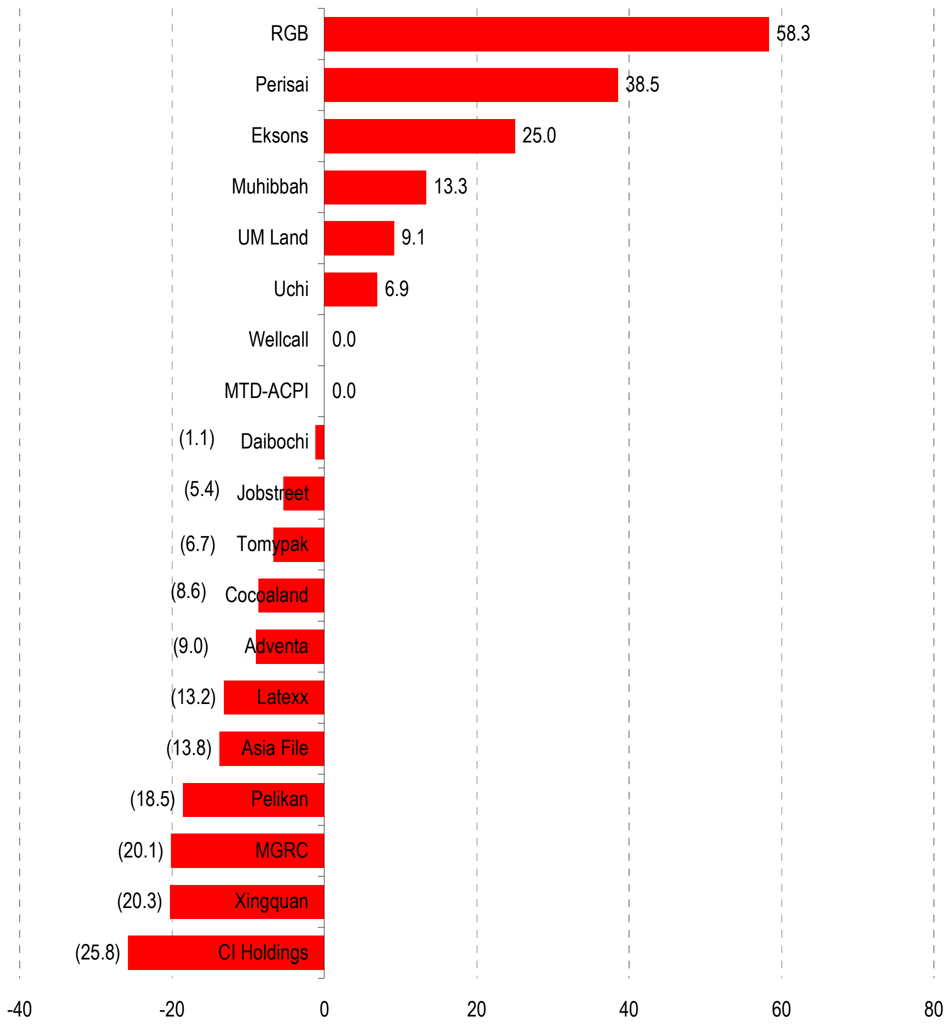
More losers YTD. The share price performance of our small-cap universe in the 1st five months of the year has not been impressive. Out of the 19 stocks, only six are in positive territory. The biggest gainer YTD is surprisingly RGB, which surged 58%. However, it is 90% down from its 2007 peak. The second best performer is Perisai, which is up 38.5% YTD end-May. Perisai was our top small-cap pick in Mar.

Figure 3: SCI's weekly chart (12,534)

Source: CIMB Research, Bloomberg

CI Holdings the biggest loser to date. The biggest loser YTD end-May is CI Holdings, which was down 25.8%. After a 114% price rally in 2010, its share price came under pressure from 1QCY11 onwards due to concerns over margin squeeze from rising prices for commodities, particularly sugar. China-based casual shoe producer, Xingquan, was the second largest loser, losing 20% YTD. Again, commodity price escalation was the main culprit as investors were spooked by margin compression from record prices for rubber and cotton in 1QCY11.

Figure 4: Share price performance for Jan-May 2011 (%)



Source: CIMB Research, Bloomberg

Analysis of 1QCY11 results season

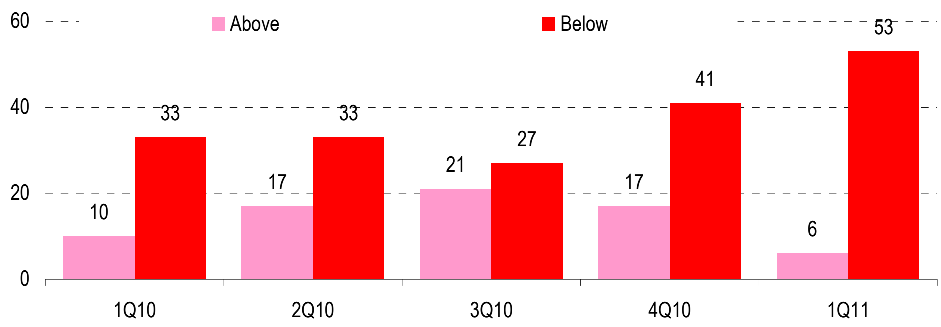
Another letdown in 1QCY11. Small caps continued to disappoint in the 1QCY11 reporting season as 53% of the companies in our coverage failed to meet our expectations. This compares to 41% in 4Q10 and 27% in 3Q10.

Figure 5: Comparing small caps' recent 4QCY10 quarterly results with our and consensus expectations						
	vs.our forecast			vs.consensus		
	Above	In line	Below	Above	In line	Below
Adventa			√			√
Asia File		√			√	
Cocoaland		√			√	
CI Holdings			√			√
Daibochi		√			√	
Eksons			√			√
Jobstreet		√			√	
Latexx			√			√
MGRC			√		NA	
Muhibbah	√			√		
MTD-ACPI			√		NA	
Perisai		√			√	
Uchi		√			√	
UM Land		√			NA	
Wellcall			√			√
Xinquan			√			√

Source: Bloomberg & CIMB Research

3Q10 the best quarter. It looks like 3Q10 was the best quarter for small caps. Deteriorating results started emerging in 4Q10 and worsened in 1QCY11 when companies were hobbled by rising production costs, particularly the sharp rise in raw material prices during the quarter.

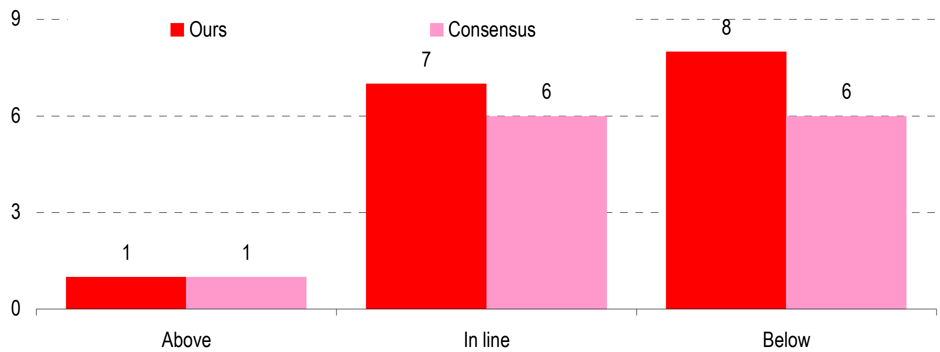
Figure 6: Small caps' quarterly results relative to our expectations (%)



Source: Bloomberg & CIMB Research

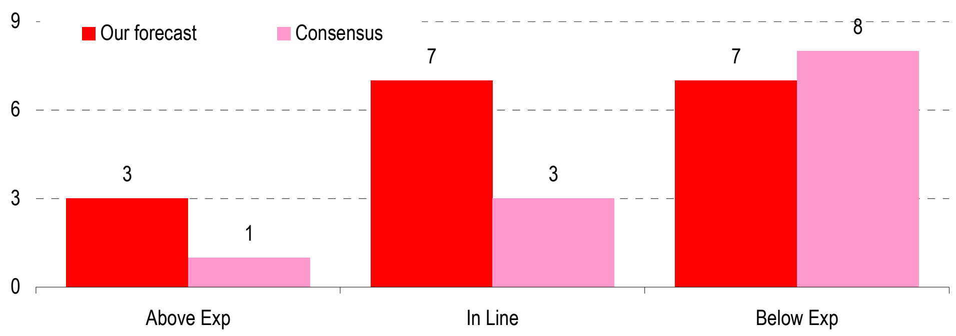
Marginally better results vs. consensus. Against consensus, the results trend in 1QCY11 was only marginally better than 4QCY10. Among the 13 companies, six or 46% failed to meet consensus numbers, down from 67% in 4QCY10 but higher than the 33% recorded in 3Q10. Only one company outdid consensus expectations in 1QCY11, similar to 4QCY10.

Figure 7: Small caps' 1QCY11 results vs. our and consensus expectations



Source: Bloomberg & CIMB Research

Figure 8: Small caps' 4QCY10 results vs. our and consensus expectations



Source: Bloomberg & CIMB Research

Changes in our stock universe in 2011

No new coverage in the past two months. There were no changes in our stock universe in Apr-May. In Feb-Mar, we initiated coverage on two stocks. The first one was Malaysian Genomics Resource Centre (MGRC) which we downgraded from Hold to Sell by end-May in view of its disappointing quarterly results and lack of new projects. The other stock we initiated coverage on in early Mar was our previous small-cap pick, Perisai Petroleum which remains an Outperform.

Mix of downgrades and upgrades. At end-May, we downgraded small-cap glove stock, Adventa from Outperform to Underperform mainly because of rising cost pressure from an increase in electricity and gas tariff rates. However, in early Jun, we upgraded Latexx from Neutral to Trading Buy after the company announced a proposed merger exercise with YTY, which will transform Latexx into the world's largest producer of nitrile gloves. At that time, we raised our target price from RM2.28 to RM2.60, after reducing the valuation target from 30% to 20% discount to Top Glove's 13x target P/E.

Figure 9: Recommendation changes (Mar-Jun2011)

Downgrades			
31-May	Adventa	O to U	TP cut from RM2.98 to RM2.43, FY11-13 EPS cut 5-12%, valuation target maintained at 30% discount to Top Glove's 13x
30-May	MGRC	N to UP	TP cut from RM0.93 to RM0.55, FY11-13 EPS cut 38-61% , valuation target maintained at 40% discount to target market
Upgrades			
9-Jun	Latexx	N to TB	Proposed merger with YTY, TP raised from RM2.28 to RM2.60, maintain FY11-13 EPS, reduce valuation target from 30% to 20% discount to Top Glove's 13x target P/E

Source: CIMB Research

Figure 10: Changes in target price (Mar-Jun 2011)

Date	Company	Recom-mendation	Comments
31-May	Latexx	Maintain N	TP cut from RM2.73 to RM2.28, FY11-EPS cut by 5-7% valuation target maintained at 30% discount to Top Glove 13x
31-May	Pelikan	Maintain N	TP cut from RM1.40 to RM1.12, FY11-12 EPS cut 12-23%, valuation target discount raised from 45% to 50% to regional sector 13x P/E target
31-May	UM Land	Maintain O	TP raised from RM2.11 to RM2.53, discount to RM4.22 RNAV/share reduced from 50% to 40%.
30-May	Asia File	Maintain N	TP cut from RM4.84 to RM4.13, raised discount from 30% to 40% to 13x regional sector target P/E
26-May	Muhibbah	Maintain TB	TP raised from RM2.60 to RM2.75, 10% discount to RNAV, FY11-13 EPS raised by 11-13%
24-May	Uchi	Maintain O	TP cut from RM1.68 to RM1.62, FY11-13 EPS cut 3-4%, target maintained at 20% discount to 14.5x target market P/E
18-May	Latexx	Maintain N	TP cut from RM3.10 to RM2.73, FY11-13 EPS cut 14-22% target valuation from takeover offer to 30% discount to 14.5x target market P/E
6-May	Tomypak	Maintain O	TP cut from RM1.80 to RM1.53, FY12-13 EPS cut 2-7% target valuation discount raised from 30 to 40% discount to Daibochi's 10.1x target P/E
21-Apr	CI Holdings	Maintain O	TP cut from RM5.15 to RM4.78, FY11-13 EPS cut 6-8%, target valuation maintained at 14.5x target market P/E
8-Apr	Eksons	Maintain O	TP raised from RM1.32 to RM1.87, FY12-13 EPS up 20-24%, valuation changed from 0.6x PBV to 40% discount to 12x P/E timber sector target
30-Mar	Perisai	Maintain O	TP raised from RM0.80 to RM1.40, FY11-13 EPS raised 23-77% post Garuda Energy acquisition, target valuation maintained at 14.5x target market P/E

Source: CIMB Research

On the hunt for value

In our hunt for undervalued small-cap stocks, we uncovered a few interesting stocks in the past few months. Below are some of the small-cap stocks which we highlighted:

Hua Yang (HYB MK, RM1.49, Not Rated) on 29 Mar. Hua Yang is a very small property stock in terms of market cap. But it has big ambitions and plans to expand its profits several fold over the next 3-5 years. Should it manage to deliver its targets of RM500m-600m turnover and RM75m-90m net profit, P/E would plunge to below 2x. The high targets are not unrealistic as the group has landbank with RM2.23bn GDV potential and is always on the lookout for more. Also, it has exceeded its FY3/11 sales target of RM300m. Including bookings, it has unbilled sales of over RM400m, nearly 4x FY10’s turnover. Using a blend of 40% discount to its RM4.30 RNAV in view of its small size and illiquid shares and a similar discount to our 14.5x FY12 target market P/E, we arrive at a value of RM2.76.

Berjaya Food (BFD MK, RM0.86, Not Rated) on 5 Apr. B-Food is a stock to watch as there could be an M&A angle given that Berjaya Corp is likely to use it as its listed vehicle for F&B. First in line could be Berjaya’s 50% stake in the Starbucks operator in Malaysia. Next could be Papa John’s pizza, Wendy's and the overseas operations of Kenny Rogers Roasters. B-Food is trading at a 30% discount to our RM1.24 SOP estimate, which suggests 44% appreciation potential. Furthermore, 22% of its share price is backed by RM0.19 net cash. Any asset injection that could enhance its EPS in the near future would be viewed positively by investors and would bring the company one step closer to its 5-year target of RM1bn market cap.

Malaysia Steel Works (MSW MK, RM1.19, Not Rated) on 11 Apr. Masteel is on an expansion programme that is set to double its earnings to RM80m-90m by FY12, lowering its FD P/E to below 5x or 60% below the KLCI P/E. We believe the target is achievable as it is expanding capacity to meet rising demand from property launches and ETP infrastructure project starts. On P/NTA basis, the stock is cheap at 0.5x CY10, 40% below the sector. We value Masteel at 10.2x forward P/E, 30% below our 14.5x target market P/E. This works out to RM2.95. Masteel's valuation discount is wider than Ann Joo's 10%.

Harrisons Holdings (HHM MK, RM3.81, Not Rated) on 11 May. Harrisons is a distributor of consumer goods and building materials in both Peninsular and East Malaysia, boasting blue-chip customers such as Nestle, F&N and Kao. The stock is not on the radar screens of institutional investors or even retail research houses, mainly because of its tight free float and an average 3-month daily trading volume of only 0.05m shares. It is, therefore, not surprising that the stock is undervalued, trading at a huge discount to its RM9.27 SOP/share. A 30% discount to its SOP value to reflect its poor trading liquidity pegs the stock at RM6.49. At this price, P/E would still be an attractive 9.9x CY12.

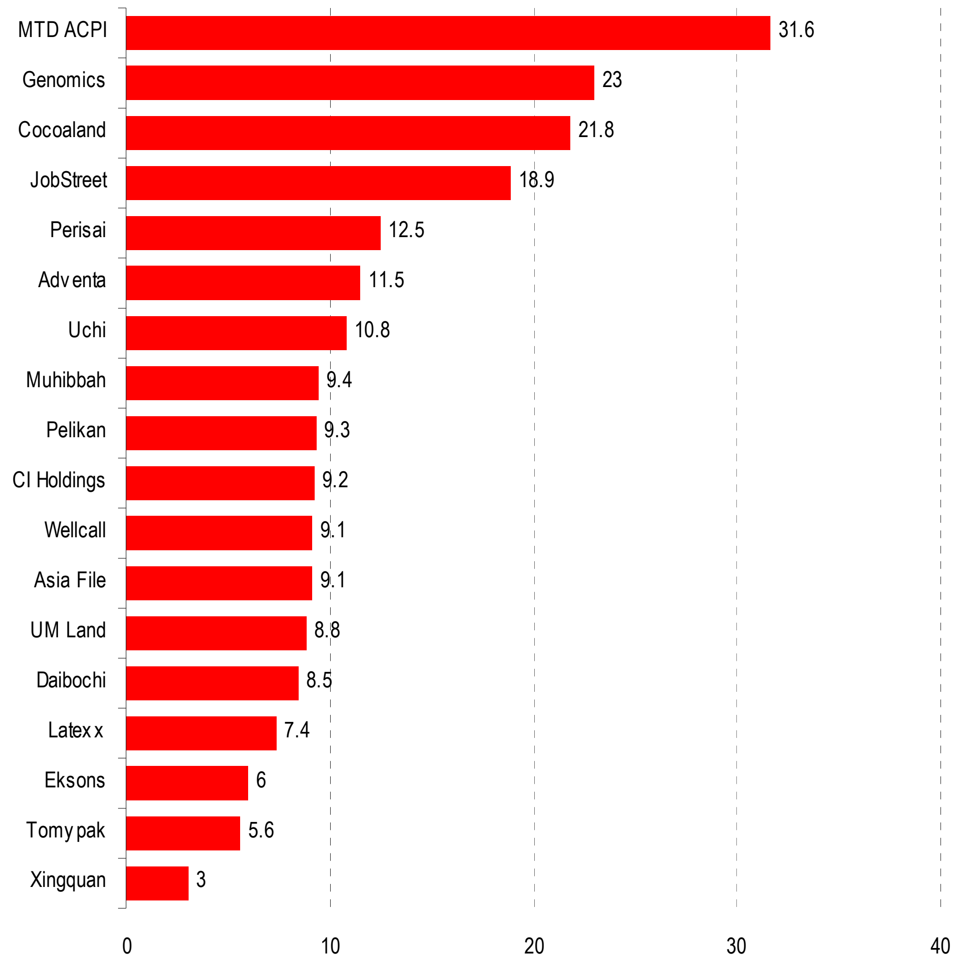
Digistar (DICB MK, RM0.46, Not Rated) on 16 May. Digistar is an undervalued small-cap play in the media sector. With expertise in broadcast services/infrastructure, telecommunications and IPTV, the group provides exposure to the rising demand for media and communication systems integration. Despite a tripling of its share price YTD, ratings are still cheap at 5.6x CY12 FD P/E compared to 11-12x for the media stocks under our coverage. Although it is a small-cap stock, Digistar should not trade at a hefty discount given its high liquidity averaging 7.6m shares over the past five months, 3-year EPS CAGR of 93.6% and 9.4 sen net cash per share. Applying a 30% discount to our 14.5x target P/E for other media stocks, we arrive at a target P/E of 10.2x, which suggests a share price of 86 sen. Potential re-rating catalysts include project wins and rising investor awareness.

Asia Media (AMGB MK, RM0.28, Not Rated) on 7 Jun. Asia Media, Malaysia'a largest transit TV operator, offers a good growth story in a small but fast-growing media segment. Another key attraction is the group's exposure to the public transportation upgrade in the Klang Valley which will allow it to expand its services to the LRT and MRT systems. Tagging a 40% discount to our 14.5x target P/E for the larger media companies under our coverage, we get a CY12 P/E of 8.7x. Based on an estimated CY12 EPS of 6 sen, the stock could be worth 53 sen. The stock is trading at cheap CY12-13 P/Es of 4-5x and could be catalysed by strong quarterly numbers or success in securing the licence to operate on the LRT.

Valuations

Attractive valuations in small caps. Valuations of our small-cap stock universe do not look cheap, averaging 13x CY11 P/E currently compared to around 15x for the KLCI. However, if we strip out the outliers, i.e. the three with the highest P/Es, all of which are Underperforms, the average P/E drops to 9.2x CY11. All the stocks with P/Es below 7x, i.e. Xingquan, Eksons and Tomypak, are Outperforms.

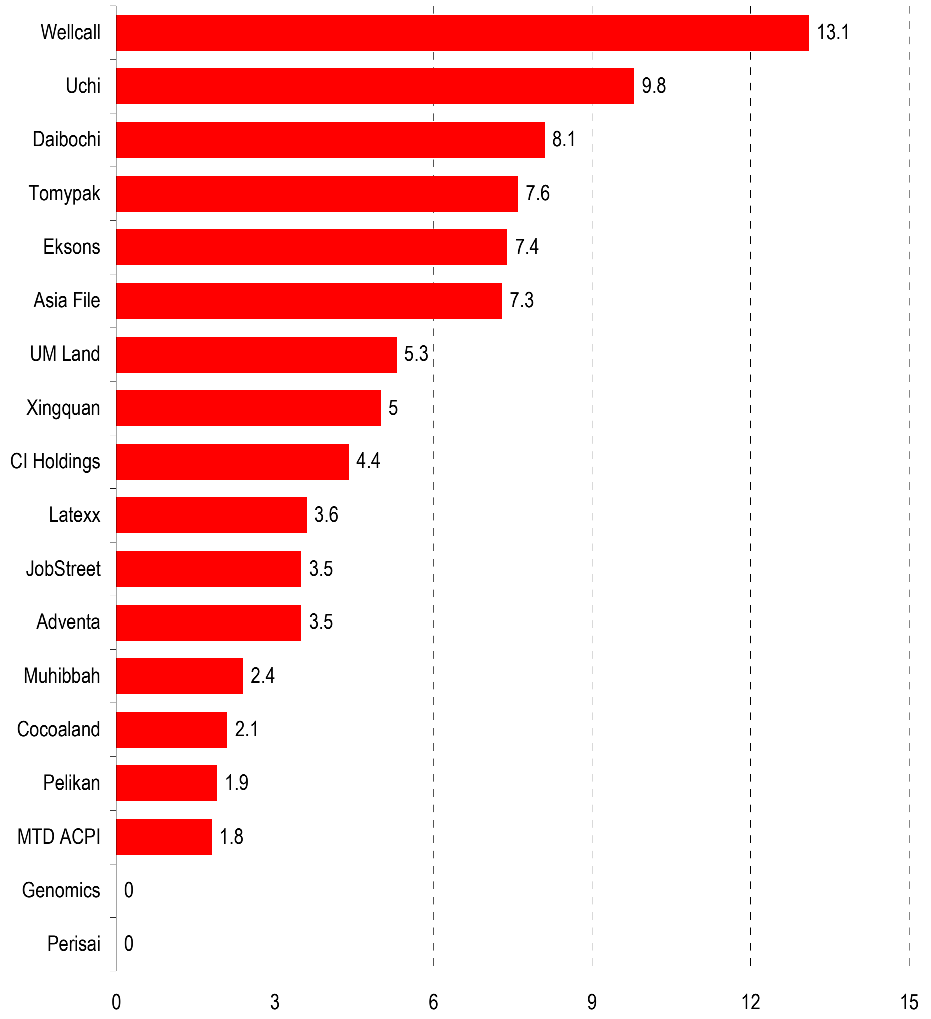
Figure 11: CY11 P/E for selected small caps (x)



Source: CIMB Research

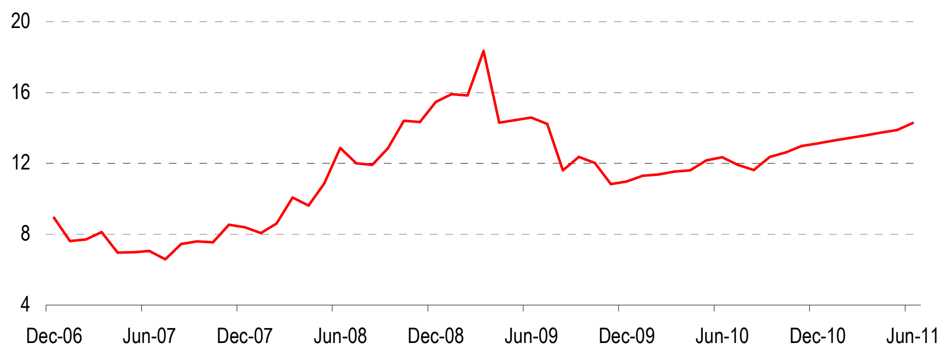
Double-digit dividend yields from some small caps. The average dividend yield of our small cap universe is 4.4%, with the top four (Wellcall, Uchi, Daibochi and Tomypak) offering yields of above 7%. The top four were the same top four in our previous update in Mar. Leading the pack is Wellcall, which continues to offer the highest yield of 13.1% for 2011. Uchi, Tomypak and Daibochi are Outperforms while Wellcall is a Neutral, mainly because of its limited earnings growth prospects due to the absence of major capex in the past two years.

Figure 12: CY11 gross dividend yield for selected small caps (%)



Source: CIMB Research

Figure 13: Wellcall's 1-year forward gross dividend yield forecast



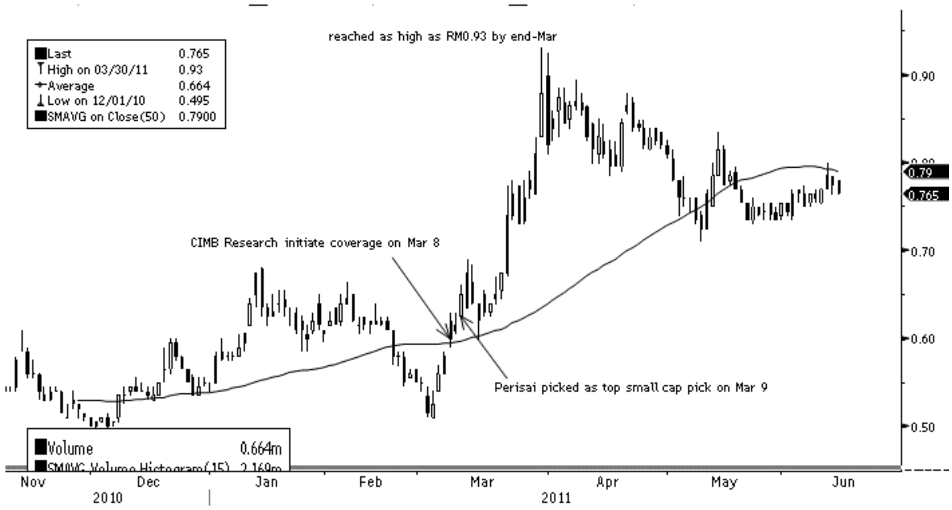
Source: CIMB Research

This month's top pick

How did our last stock pick perform? In our last Small Cap update in early Mar, our top pick was Perisai Petroleum which we began covering on 8 Mar. On the following day, we picked Perisai as our top pick among the small caps. Perisai's share price has done very well, reaching as high as RM0.93 by end-Mar, an impressive 60% gain from the day we started coverage.

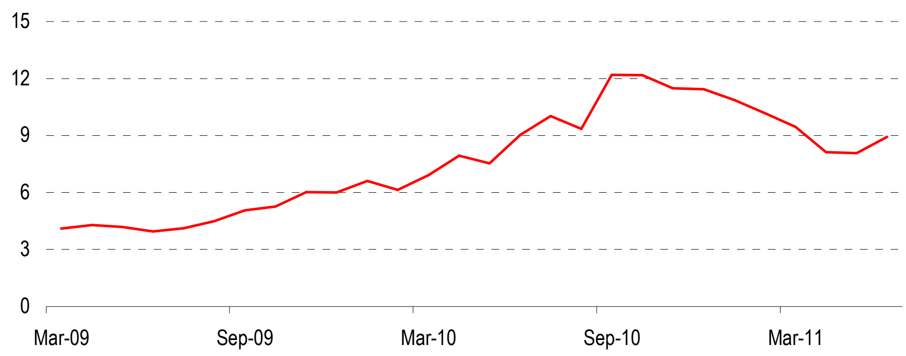
CI Holdings our new top pick. Although we still like Perisai, CI Holdings replaces it as our top pick this month. We like CIH for these factors 1) Market leadership – Only three years after its launch, Tropicana is now the leader in the total juice market with a 25% share. 2) An increasingly marketable product line – A new non-carbonated drink will be launched next month. In 3Q11, non-carbonated drinks accounted for 43% of beverage sales from 20% a few years ago. CIH is aiming for a 50:50 sales split between carbonated and non-carbonated in the next few years. 3) Attractive investment proposition – CIH offers undemanding FY11-13 P/Es of 9-12x and a decent dividend yield of 3.9%. 4) An M&A angle – Management is open to M&A opportunities, especially in the snack segment.

Figure 14: Perisai Petroleum's daily price chart (RM0.76)



Source: CIMB Research

Figure 15: CI Holdings' 1-year forward P/E (x)



Source: CIMB Research

Investment highlights of our other small-cap stocks

OUTPERFORM recommendations

Daibochi

For the first time in a few quarters, management is upbeat about its prospects for next year. Daibochi is making good progress with its electrostatic discharge (ESD) product called Tribosafe, which was co-developed with US-based Lubrizol. Launched last Sep, Daibochi is trying to get the product qualified by the world's seven major E&E companies such as Seagate and Pozzetta. In addition, the company is seeing good progress in its negotiations with MNCs such as Pepsico Thailand and cigarette giant, BAT and could secure some major contracts later this year. Our target price is unchanged at RM3.92, based on 10.2x CY12 P/E, a 30% discount to our 14.5x target market P/E. We continue to rate Daibochi an Outperform and our top pick in the packaging sector. Factors that could spark a re-rating are major contracts secured from the F&B and E&E sectors and a reversal of raw material costs.

Figure 16: Daibochi's 1-year forward P/E (x)

Source: CIMB Research

Eksons

Even before the Japanese Mar earthquake, industry plywood supply was tight in Japan. Industry sources say Japan trading houses have been slowly sourcing more logs and plywood ahead of the rebuilding which is expected to start next year. Eksons currently does not export its plywood directly to Japan but is likely to start doing so over the next year given the strong demand and limited industry supply. This should lead to higher profit margins for Eksons as plywood prices in Japan are 10-15% higher than in other markets. Our target price remains at RM1.87, based on 7.2x CY12 P/E, a 40% discount to our 12x target for the timber sector to reflect Eksons's small market cap and lack of timber concessions. The stock remains an Outperform. Potential share price triggers include a plywood price rebound and a further sales pick-up for its property project. 25% of Eksons's share price is supported by its net cash per share.

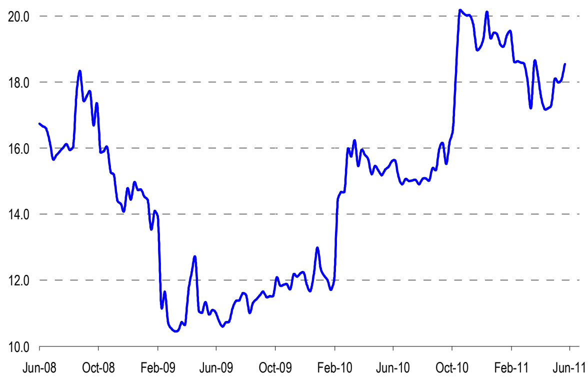
Figure 17: Eksons's 1-year forward P/E (x)

Source: CIMB Research

Jobstreet

Jobstreet has been benefitting from the tailwinds of a tight labour market, strong demand, resumption of hiring activities, more movement among jobseekers and the recovering economy. Although competition has ratcheted up over the past couple of months especially in pricing, Jobstreet has been able to capture market share by driving up volumes across its three core markets and has, in fact, closed the gap between itself and JobsDB over in Singapore. We maintain our EPS forecasts and target price of RM3.77, still pegged to an unchanged 22.6x CY12 P/E, which is on par with its peers. Jobstreet remains an Outperform and our top pick for the wider tech sector on the back of the potential re-rating catalysts of further market share gains and earnings momentum.

Figure 18: Jobstreet's 1-year forward P/E (x)



Source: CIMB Research

Perisai Petroleum

Perisai enjoys clearer earnings visibility following last year's restructuring. It is set to benefit from opportunities in deepwater and marginal fields. Furthermore, skilled new management is firmly in place and is backed by major shareholder Ezra's (EZRA SP, Outperform) operational strength. Currently, Perisai's only revenue-generating asset is a pipelay barge, Enterprise 3, which is chartered to SapuraCrest until Jun 2013. An ongoing asset injection of a vessel operator, Intan Offshore, by asset-rich Ezra will give Perisai a new revenue stream come Jun. The acquisition of Garuda, which owns a mobile offshore production unit (MOPU), will enlarge Perisai's asset base further. We maintain our target price of RM1.40, based on our target market P/E of 14.5x. Perisai remains an Outperform, with the potential re-rating catalysts being 1) a marginal field venture, and 2) fleet expansion.

Figure 19: Perisai's 1-year forward P/E (x)

Source: CIMB Research

Tomypak

90% of Tomypak's revenue is derived from the food & beverage sector, which is resilient even in a poor economic climate. In the long term, this sector should form a stable revenue base for Tomypak. MNCs currently contribute around 40-45% of the group's revenue. Nestle is Tomypak's largest MNC customer. Our target price remains at RM1.53, based on 6x CY12 P/E, a 40% discount to our 10.1x CY12 target P/E for Daibochi. The stock remains an Outperform and could be catalysed by a sharp fall in raw material prices and generous dividend yields.

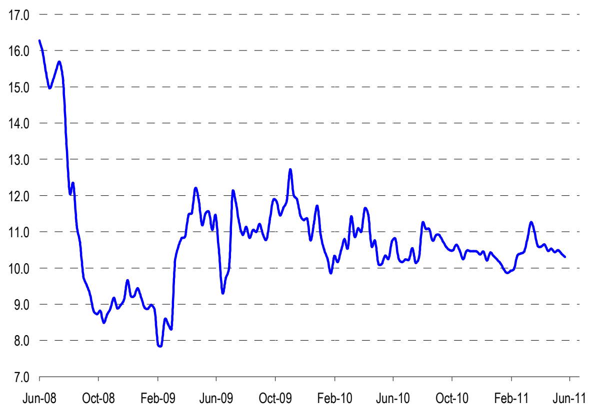
Figure 20: Tomypak's 1-year forward P/E (x)

Source: CIMB Research

Uchi

Uchi has provided a more downbeat assessment as its customers now expect single-digit growth in US$ revenue for 2011 due to softer demand, weaker greenback, the effects of component shortage and cost pressures. The stronger Swiss franc has also prompted its customer, coffee machine assembler Eugster to relocate its operations, which could result in some deferment of orders. The component or supply shortage from Japan could result in the deferment of two of the four new modules that Uchi has planned for 2H11. On the plus side, Uchi's biotech division has made a major breakthrough that should lead to more order flows and potentially design opportunities for more complex products. We maintain our earnings forecasts and price objective of RM1.62, pegged to an unchanged 11.6x CY12 P/E, or a 20% discount to our target market P/E. We continue to rate Uchi an Outperform given its attractive valuations and strong yields of 10-12% for FY11-FY13. The stock could be catalysed by stronger-than-expected order flow and any relief from margin pressure.

Figure 21: Uchi's 1-year forward P/E (x)

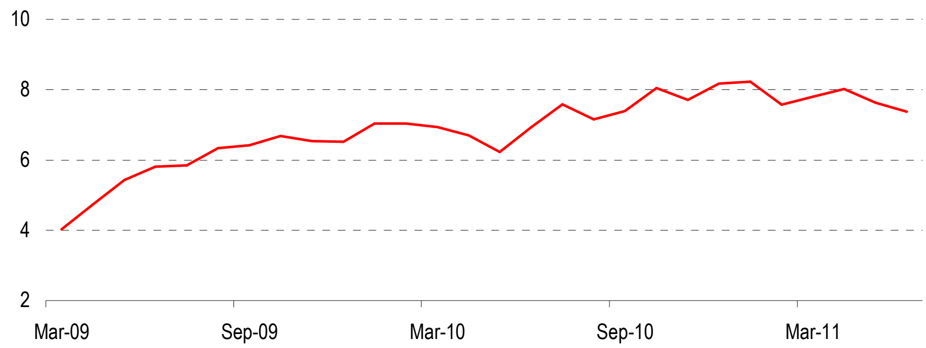


Source: CIMB Research

UM Land

UM Land's 1Q11 net profit was broadly in line, at 27% of our full-year forecast. Future quarters may not be as strong depending on the timing of the Puteri Harbour launch and the response to it. We made no changes to our earnings forecasts or Buy recommendation but raised our target price from RM2.11 to RM2.53 post results after lowering the discount to its RM4.22 RNAV from 50% to 40%. The lower discount factors in the likely improvement in liquidity after the proposed 1-for-4 bonus issue as well as the group's improving earnings prospects. Potential share price catalysts include 1) the buoyant property market, 2) more land acquisitions and 3) strong sales for new condo projects.

Figure 22: UM Land's 1-year forward P/E (x)



Source: CIMB Research

Xingquan International

Xingquan has entered a new growth phase as its new plant is up and running, allowing management to focus on expanding its business and opening new retail outlets across China. Last year, the shoe plant was already operating at close to full capacity. We retain our target price of RM2.05, based on an unchanged 70% discount to our large-cap regional peers' 14x target P/E. The stock remains an Outperform in view of its low CY12 P/E of below 3x. Potential re-rating catalysts are better-than-expected trade fair orders and a sharp decline in raw material prices.

Figure 23: Xingquan's 1-year forward P/E (x)

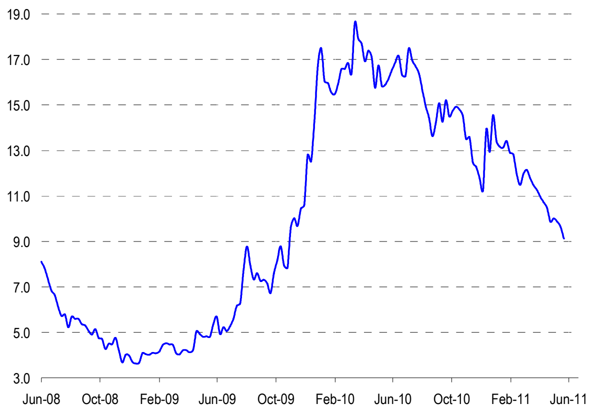
Source: CIMB Research

TRADING BUY recommendations

Latexx Partners

Latexx recently accepted YTY's offer to merge their glovemaking businesses in return for RM1.25bn in cash and shares. This works out to 9x FY12 P/E, in line with the sector. We view this positively as Latexx's EPS will increase by an estimated 16% and it will become the world's largest nitrile glovemaker and the third most profitable in our universe. We rate Latexx a Trading Buy with a target price of RM2.60, based on 10.44x CY12 P/E, which is at a 20% discount to Top Glove's 13.05x benchmark P/E. The stock could be catalysed by this news and prospects of enhanced results post merger. However, we caution that there are merger negotiation and execution risks.

Figure 24: Latexx's 1-year forward P/E (x)

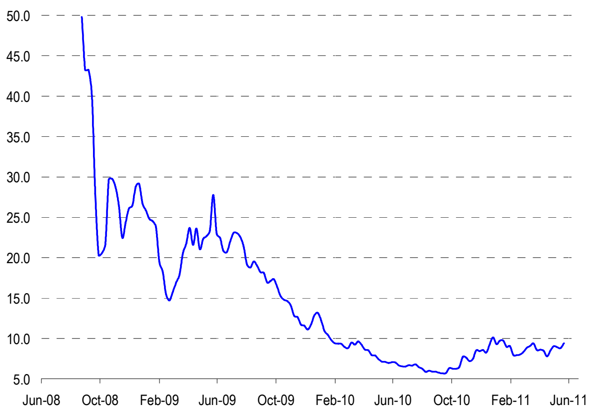


Source: CIMB Research

Muhibbah Engineering

Muhibbah's share price had a rollercoaster ride last week after news of receivership for the Asia Petroleum Hub (APH) project, for which it is a major contractor and is owed RM371m. We think it may not be all that bad for Muhibbah as it all hinges on the lifting of the receivership status, which depends on whether APH can line up RM2.4bn new funds. According to Muhibbah, APH maintains that its talks with the new investor are at an advanced stage and there are grounds for lifting of its receivership status. We maintain our TRADING BUY call, EPS forecasts and RM2.75 target price, which we continue to peg to a 10% discount to RNAV. The stock has been bashed down and could be re-rated in the event of positive news on APH or project flows for both the construction and oil & gas segments.

Figure 25: Muhibah Engineering's 1-year forward P/E (x)



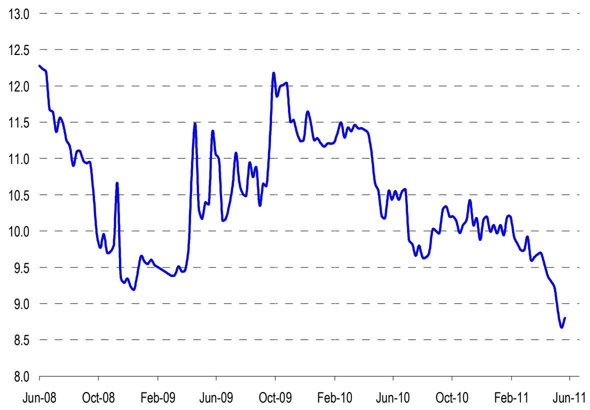
Source: CIMB Research

NEUTRAL recommendations

Asia File

Europe remains Asia File's main market, contributing an estimated 60% of group revenue in FY11. Plastoreg plays an important role for Asia File, turning the latter into the world's largest OEM producer of dividers and indices. Size has opened doors for Asia File, enabling it to do business with major stationery suppliers in the US and Europe. Asia File's balance sheet remains strong with RM49m (RM0.43/share) net cash. This will enable the company to acquire financially troubled stationery companies with strong distribution networks in the US and Europe when the opportunity arises. Our target price remains at RM4.13, based on a 40% discount to the 13x target P/E for the sector. Asia File remains a Neutral in our books despite its attractive gross dividend yield of 7%.

Figure 26: Asia File's 1-year forward P/E (x)



Source: CIMB Research

Pelikan

There are still no signs of cost savings or synergies from Herlitz even though it has been more than a year since Herlitz came under Pelikan's wings. This suggests that the two companies have not integrated well. To make matters worse, market conditions in major European countries remain sluggish. Sales to Latin America and Asia are also showing signs of fatigue. Our biggest fear is the possibility of a sharp deterioration in demand if there is an economic crisis in Europe, which contributes more than 80% of Pelikan's revenue. We cannot discount this concern in these economic and market conditions. We maintain our target price of RM1.12, based on an unchanged 50% discount to our 13x sector target P/E. We remain Neutral on the stock until there are strong signs of cost savings and demand recovery in Europe. But the price downside could be limited as the stock is only trading at 0.5x P/BV.

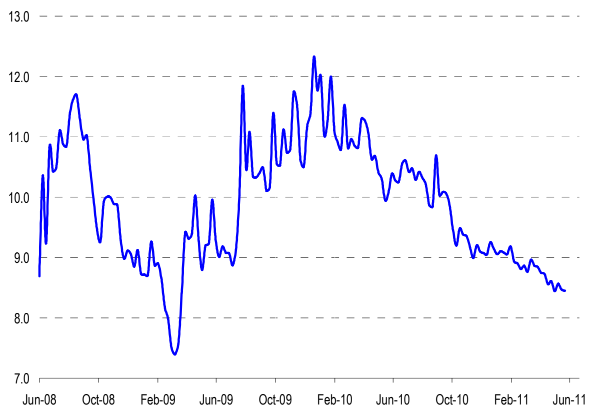
Figure 27: Pelikan's 1-year forward P/E (x)

Source: CIMB Research

Wellcall

Demand for its products remains strong, with an order backlog of 2-3 months for extrusion hoses and around two months for mandrel. The company is already operating on two shifts to meet demand. But it is concerned that orders may slow down in the near future if the global economy slows signs of further slowdown in the near future. We maintain our target price of RM1.28 as we continue to value the stock at a 40% discount to Top Glove's target CY12 P/E. Despite its very generous gross dividend yields of 12-13%, Wellcall remains a Neutral given the lack of share price catalysts.

Figure 28: Wellcall's 1-year forward P/E (x)



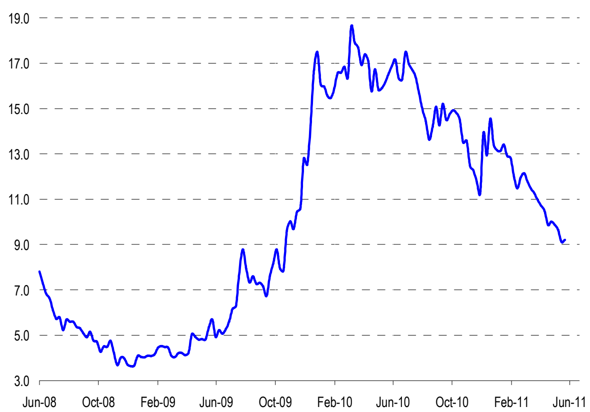
Source: CIMB Research

UNDERPERFORM recommendations

Adventa

Tenaga recently raised electricity tariffs while Petronas raised gas prices to the manufacturing sector, prompting us to raise our electricity cost assumption by 10% and gas prices by 17% which resulted in FY11-13 EPS cuts of 5-12% for Adventa. We also reduced our target price from RM2.98 to RM2.43, still based on a 9.14x forward P/E or a 30% discount to Top Glove's target P/E of 13.05x. The rise in latex price has taken its toll on the company. We rate Adventa an Underperform. De-rating catalysts include higher energy costs, high switching costs and poor results. We prefer Kossan for exposure to the glove sector.

Figure 29: Adventa's 1-year forward P/E (x)



Source: CIMB Research

Cocoaland Holdings

We estimate that sugar accounts for 30-40% of total raw material costs, which, in turn, make up 25% of Cocoaland's production costs. Commercial sugar price has soared 60% yoy to RM2.62/kg. Although Cocoaland is not one of the 13 beverage producers that lost their entitlement to sugar subsidies in Jan 11, the company started paying RM2.30/kg for sugar in May following an increase in the price of subsidised sugar. The subsidised price is currently only 13% lower than the commercial selling price. We think that it is only a matter of time before the subsidy is scrapped altogether. Our target price is kept at RM1.88, based on 13.1x P/E, a 10% discount to our target market P/E of 14.5x. The stock remains an Underperform given the potential downside triggers of i) a further rise in raw material and packaging costs, ii) larger-than-expected losses for its bottling operations and iii) delays in construction of its new factory.

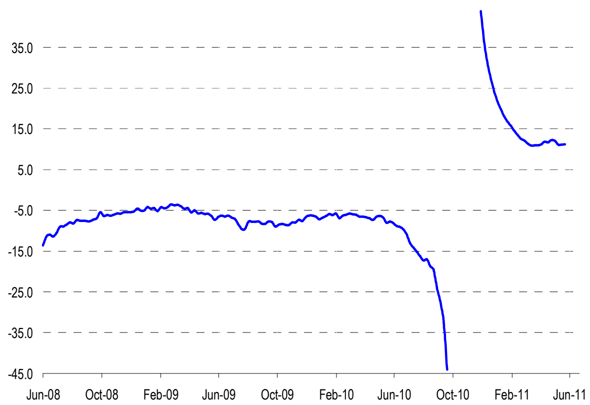
Figure 30: Cocoaland's 1-year forward P/E (x)

Source: CIMB Research

MTD-ACPI

MTD-ACPI has not secured any major construction jobs over the past few years. This has been a major disappointment. Its outstanding order book of only RM500m can sustain it for another year or so. The stock remains an Underperform with a target price of RM0.53, based on the unconditional takeover offer price. This works out to 1x P/NTA. We prefer mid-cap construction plays such as Muhibbah.

Figure 31: MTD-ACPI's 1-year forward P/E (x)

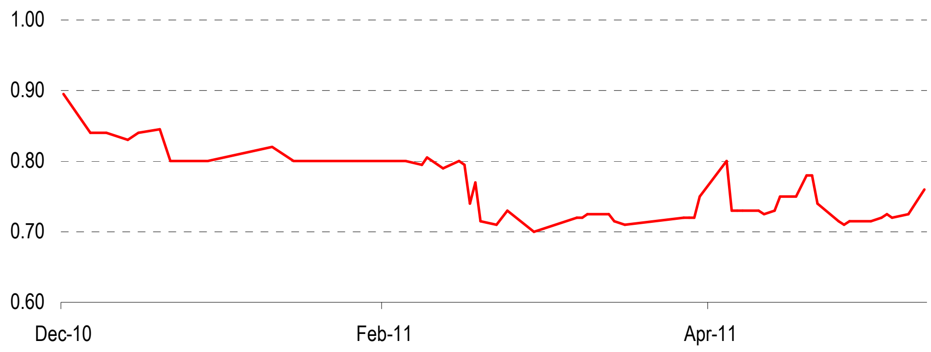


Source: CIMB Research

Malaysian Genomics

Malaysian Genomics Resource Centre's RM1.3m net profit for 9MFY6/11 was below expectations as it came in at only 16% of our full-year forecast. The negative surprises were the severe margin contraction and dearth of new sequencing projects. Delays in the current Proboscis project did not help matters. We have a target price of RM0.55, based on an unchanged 8.7x CY12 P/E, a 40% discount to our target market P/E of 14.5x. The stock remains a Sell, with the potential downside catalysts being the recent poor results and lack of new projects.

Figure 32: Malaysian Genomics's daily chart



Source: CIMB Research

Appendix: Technical Outlook

CI Holdings – *Downtrend channel for now*

CI Holdings' weekly share price chart shows a medium-term downtrend from the Nov 2010 peak at RM4.00. But the weekly technical indicators suggest the stock could have already bottomed out, at least in the immediate term. The weekly RSI broke out from its resistance trendline while the weekly MACD is on the verge of confirming its bullish "golden cross". The major resistance trendline is now at RM3.30, which is also its 200-day SMA. A breakout above this trendline would be medium-term bullish for the stock. Until that happens, the stock will remain in a downtrend channel.

Figure 1: CI Holdings' weekly chart (RM3.12)

Source: Bloomberg, CIMB Research

Figure 2 : CI Holdings' daily chart (RM3.12)

Source: Bloomberg, CIMB Research

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NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.	**NEUTRAL:** The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.
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TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.	**TRADING SELL:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

** This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand and Jakarta Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*

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NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.	**NEUTRAL:** The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next 12 months.
UNDERPERFORM: Expected negative total returns of 15% or more over the next 12 months.	**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 12 months.
TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.	**TRADING BUY:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 3 months.
TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.	**TRADING SELL:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 3 months.

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