

Top Fund sees Bargains in Small Stocks at 39% Discount

The Edge Financial Daily (19 May 2015)

KUALA LUMPUR: The country's top performing fund manager is adding to holdings of small cap stocks, betting that a bull market rally will continue as earnings improve and valuations trail larger peers. Kenanga Investors Bhd. favours exporters and builders as the US economy recovers and Malaysia boosts spending on infrastructure, chief investment officer Lee Sook Yee said in an interview.

The FBM Small Cap Index is valued at 10.2 times estimated earnings, a 39% discount to the FBM KLCI.

Smaller companies are involved in more diverse industries with better prospects than larger peers, which are dominated by banks and commodity producers, Lee said. Profits of companies in the small cap measure will increase 21% in the next 12 months, compared with a 3.5% gain for the KLCI, analyst estimates compiled by *Bloomberg* show.

"Small caps will continue to outperform the narrower KLCI and lead the recovery," said Lee, who helps oversee RM5.6 billion. "Even after the outperformance, we continue to see value within this space."

The small cap index rose 0.3% to a three-week high at the close in Kuala Lumpur. It has surged 11 % this year, more than triple the KLCI's 3.5% gain.

Lee said exporters are benefiting from the weaker ringgit as well as being "indirect proxies" to the recovery in both the technology industry and US consumer confidence.

Inari Amertron Bhd, the semiconductor packager whose main client is US-based Avago Technologies Ltd, is among the best performers on the small cap gauge this year, with a 41% advance. Malaysian Pacific Industries Bhd, a semiconductor company which gets 29% of its revenue from the US, has jumped 48%.

The ringgit has fallen 6.1% against the US dollar in the past six months, the second biggest drop after the rupiah, helping to boost overseas earnings for exporters. The US labour market has continued to strengthen, with data last week showing the fewest jobless claims in 15 years, while the Nasdaq Composite in April topped its 2000 dot-com-era high.

The Kenanga Growth Fund, set up for long-term capital growth and to outperform the KLCI, has returned 21% annually in the past five years to beat 87 peers with assets of more than US\$100 million (RM357 million), according to data compiled by *Bloomberg*. Kenanga's top holdings include builders HM Corp and Gamuda Bhd.

IJM, whose net income doubled in 2014 from a year earlier, has risen 8.4% this year. Gamuda, which is helping to develop the Klang Valley Mass Rail Transit system, posted a 33% increase in 2014 net income.



The government plans to spend RM48.5 billion on development this year, including the Pan-Borneo Highway and other transport links. Malaysia cut its 2015 economic growth target in January to 4.5% to 5.5% from an earlier projection of as much as 6%, citing the dampening effect of an oil price slide. Oil-related contributions make up almost 30% of annual state revenue.

"The larger cap stocks within the KLCI consist mainly of banks, plantation and oil and gas names, and the current macro environment doesn't favour those few sectors aforementioned," Lee said. "On the other hand, the small cap universe consists of companies with very diversified business sectors and some of them offer superior earnings growth profiles."

Malayan Banking Bhd and Tenaga Nasional Bhd, the nation's two biggest listed companies by market value, have gained less than 2% this year. Oil palm planter IOI Corp has fallen 11% in the period after reporting a 75% slump in second-quarter net income.

The gauge of smaller companies entered a bull market last month after rebounding more than 20% from its December low. The measure has since dropped 2.6% from its April 21 high.

"The small cap index has had a good run year-to-date," Lee said. "As long as macro conditions remain intact, any corrections are more likely to represent a mid-cycle consolidation rather than a trend reversal."

— Bloomberg

Source: *The Edge Financial Daily* (19 May 2015)

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Star strategises to reduce print reliance

Plans to expand its reach in Southeast Asia

By SANGHETHA BHARTIYAN

PETALING JAYA—Media group Star Publications (Malaysia) Bhd has drawn up five strategies to reduce its reliance on revenue from print advertising and shift its focus to digital revenue, as well as expand its reach in Southeast Asia.

Chairman Daniel Fu Ah Keng said the strategies that Star Publications would adopt, which include making strategic investments and introducing an audience interest marketing database system next month that allows the customisation of target markets.

"The others are expanding its advertising and event management segment that organises exhibitions, enhancing corporate governance, and improving efficiency and productivity."

Fu said this transition is important at a time when news needs to be distributed in the fastest manner possible through various channels.

"While the print segment contributes about 70% to the group's revenue, we cannot be overdependent on it to move forward. We are looking at a digital transformation, which entails the presentation of news and content in the right format," he told reporters after the company's annual general meeting (AGM) yesterday.

"We will increase our video content and deliver it in the fastest manner possible via print, radio, online and television," he said.

The portal in September, a site that will aggregate and collate videos from all its websites, to expand its footprint in Southeast Asia through present working relationship with foreign publications.

In Hush! Star Online and RACE portals will be revamped to include news content, he said.

Fu, however, declined to reveal the capital expenditure and revenue growth from the strategies.

"Star Publications, which will announce its first-quarter results today, reported a 23% drop in net profit to RM11.42 million for the financial year ended December 2014

from RM142.80 million in FY13. Revenue was flat at RM1.01 billion versus RM1 billion in the same period.

Last month, the group announced to 64% owned Singapore-listed unit Citicross Holdings Ltd was buying Singapore-based Victory Hill Exhibitions Pte Ltd, an exhibition services provider which holds the rights to provide exhibition services to 100 countries.

Fu said the proposed acquisition is expected to be completed in the next few months and will contribute "substantially" to group revenue.

Meanwhile, Star Publications group managing director Daniel See Yong Chen said the group remains "cautiously optimistic" about financial performance for FY15.

Earlier at the AGM, Star Publications shareholders approved the group's change of name to Star Media Group Bhd.

GEMFIVE.com aims to go regional in three years

KUALA LUMPUR—Local online e-commerce platform GEMFIVE.com is poised to go regional in the next three years and targeting Indonesia, Vietnam and Singapore as potential high growth markets.

"Some of the countries we think where we have potential for strong growth are Indonesia, Vietnam and Singapore. We hope to have a strong presence in the Southeast Asian market," GEMFIVE.com chief executive officer Mory Tan told reporters after the official launch of GEMFIVE.com yesterday. She said Singapore has one of the highest rates of online retail consumer spend (1% to 2%) among Southeast Asian countries — still low — while Malaysia is at less than 1%.

GEMFIVE.com is owned and operated by Card for e-commerce, a subsidiary of Hong Leong Group, which is the principal investor in GEMFIVE.com. The e-commerce site offers more than 300 brands, with products that include clothing, baby products, home decor and electronics.

"GEMFIVE focuses on curating high quality and simple, trendy products and exciting brands — many of which are emerging or are not easily accessible locally," she said.

She said a GEMFIVE mobile app will be launched soon.



Mory Tan is expected to be completed in the next few months and will contribute "substantially" to group revenue.

RESULTS IN BRIEF

Pharmaniaga IQ net profit up 21.3%

KUALA LUMPUR—Pharmaniaga Bhd's net profit rose 21.3% on-year to RM1.75 million or 12.28 sen per share for the first quarter ended March (Q1'15) from RM1.42 million or 10.13 sen per share on higher manufacturing profit margins.

Revenue was flat at RM4.2 million against RM4.68 million in Q1'14. The group also declared a first interim dividend of seven sen per share for the financial year ending December (FY14), payable on June 25.

In a statement, Pharmaniaga (fundamental 0.95, valuation 1.70) said its manufacturing division recorded a pre-tax profit of RM428 million compared with RM2 million in Q1'14 due to the group's ongoing efforts to strengthen operational efficiencies and reduce manufacturing costs.

Chairman Tan Sri Lodha Wok Kamaruddin said Pharmaniaga will maintain its drive to strengthen organic growth while implementing cost optimisation measures. He said manufacturing will remain a key driver of growth for the group as it scales up manufacturing capabilities in Malaysia and Indonesia.

Separately, Pharmaniaga said its proposed joint venture agreement with Modern Healthcare Solutions Co Ltd to build a pharmaceutical manufacturing plant in South Arabia lapsed last Friday. "Both parties (Pharmaniaga and Modern) have not determined the next extension date," said Pharmaniaga. — by Supriya Saravanan

I-Bhd IQ earnings jump 68%

KUALA LUMPUR—I-Bhd's net profit jumped 67.7% on-year to RM11.24 million or 0.56 sen a share for the first quarter ended March (Q1'15) from RM6.7 million or 0.27 sen a share, driven by its property development segment.

Revenue grew 65% on-year to RM72.35 million from RM44.51 million. In a statement, I-Bhd deputy chairman Daniel Fu Hong Chee said he expects both the property development and leisure segments to continue with their positive contributions to the group's profit margin.

"The results are in line with the group's growth plan to achieve revenue of RM500 million per year come 2018. By then, we expect the leisure segment's revenue to be double that of 2014, while having completed our RM1 billion investment property programme," he said.

Fu said the group has now reached a stage where property development will continue to be the main contributor for the group. He noted that the I-Bhd's IPO (valuation: 2.4, fundamental: 3) launched the Paris-listed "Parisian Tower" service residence, which is the second of three thematic residential lease collections to be rolled out within the 71-acre (28ha) freehold City urban plots in Shah Alam, Selangor. The launch of the "Paris Tower" is a prelude for the second half of the year. — by Justina Lim

Top fund sees bargains in small stocks at 39% discount

KUALA LUMPUR—The country's top performing fund manager is adding holdings of small cap stocks, betting that a bull market rally will continue as earnings improve and valuations fall further. Kenanga Investment Bhd's investors expect and believe the US economy recovers and Malaysia booms spending on infrastructure, chief investment officer Lee Suk said in an interview.

The RIM Small Cap Index is valued at 10.7 times estimated earnings, a 39% discount to the RIM KLCI.

Smaller companies are involved in more diverse industries with better prospects than larger peers, which are dominated by banks and commodity producers, Lee said. Profits of companies in the small cap measure will increase 21% in the next 12 months, compared with a 3.5% gain for the KLCI, analyst estimates compiled by Bloomberg show.

"Small caps will continue to outperform the narrower KLCI and lead the recovery," said Lee, who helps oversee RM5.8 billion. "Even after the outperformance, we continue to see value within this space."

The small cap index has risen 27% over the past three weeks, the Kuala Lumpur It has surged 11% this year, more than triple the KLCI's 3.5% gain. Lee said operators are benefiting from the weaker target as well as being "highly prudent" in the recovery in both the technology industry and US consumer confidence.

Investment Bhd, the semi-conductor package whose main client is Intel, is among the best performers on the small cap gauge this year, with a 41% advance. Malaysian Pacific Industries Bhd, a semi-conductor company which gets 70% of its revenue from the US, has jumped 48%.

"The target has fallen 1% against the US dollar in the past six months, the second biggest drop after the rupiah, helping to boost overseas demand for exports. The US labor market has continued to strengthen, with data last week showing the lowest jobless claims in 15 years, while the S&P 500 composite index topped its 2000 dot-com era high."

The Kenanga Growth Fund, set up for long-term capital growth and to outperform the KLCI, has returned 21% annually in the past five years to beat 47 peers with assets of RM357 million, according to data compiled by Bloomberg. The fund's top holdings include holders IBM Corp and Cisco Systems Bhd.

IBM, whose net income doubled in 2014 from a year earlier, has risen 48% this year. Cisco, which has risen 45% this year, is helping to develop the Klang Valley. Cisco's net income rose 38% in 2014 and its revenue rose 38%.

The government plans to spend RM48.5 billion on development this year, including the Pan-Borneo Highway and other transport links.