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**MALAYSIA EQUITY**

**20**

**Under a Billion  
Under a Billion**

**2016 EDITION**

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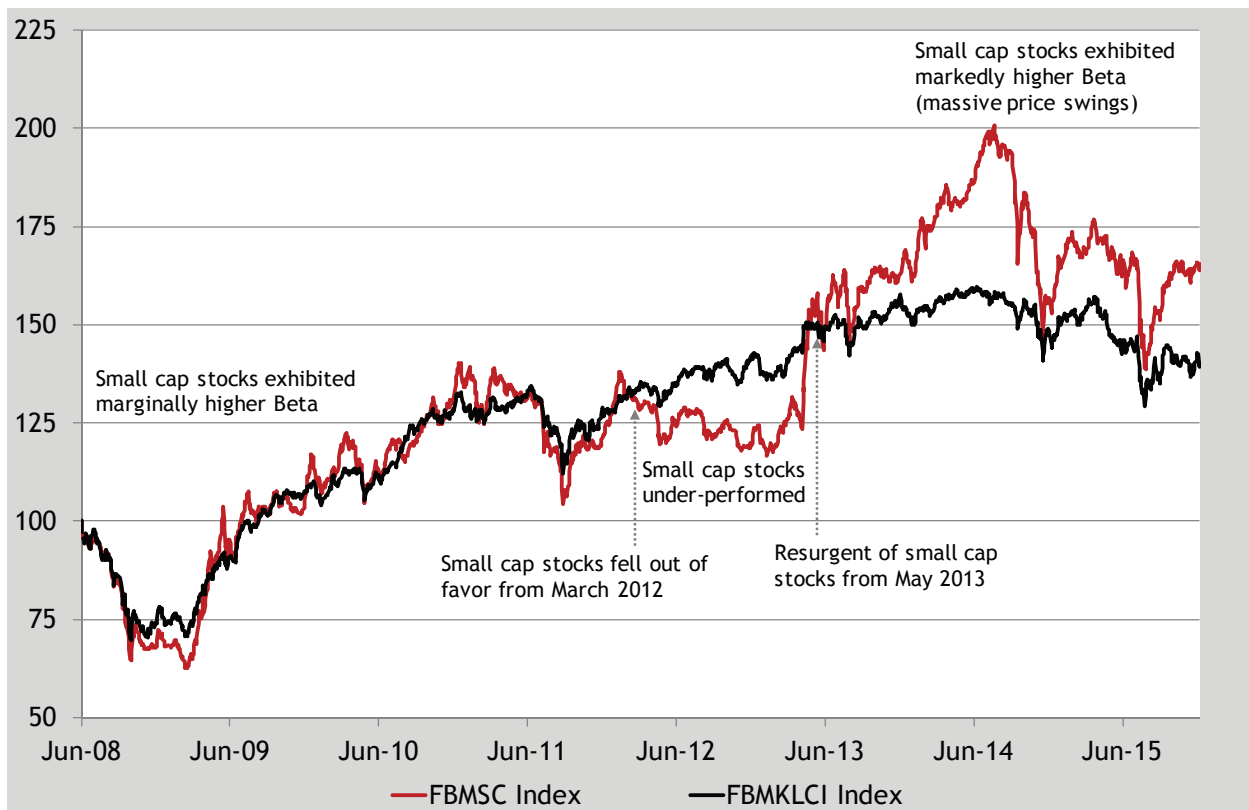
**KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES**

# 20 UNDER A BILLION

## I. SMALL CAP SWINGS

- **Small cap stocks exhibited markedly higher Beta since mid-2013...** The massive relative price swings among small capitalised stocks (as represented by FBMSC Index) began in earnest since May 2013 which happened to coincide with the post-GE13 'relief' rally. On this score, it must be highlighted that while the broader market momentum (as represented by FBMKLCI Index) was relatively modest and started to ebb not long after, the price movements of many FBMSC constituents continued on to exhibit markedly higher Beta which at times bordering euphoria.

Chart 1: FBMSC Index versus FBMKLCI (since the onset of 2008 crisis)



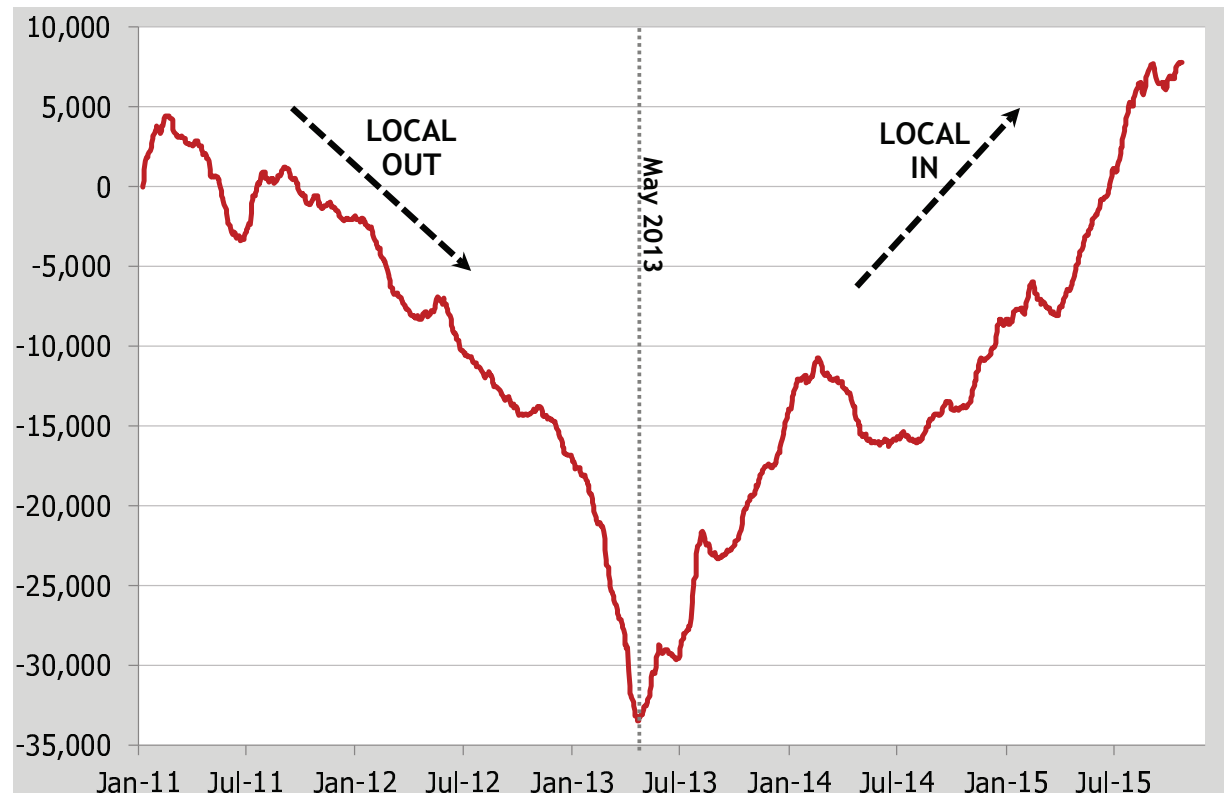
- **...which was in stark contrast to its earlier behavior.** The exuberance among small capitalised stocks hitherto is in stark to its pre-May 2013 behavior. Recall that the relative price of both the FBMSC and FBMKLCI moved almost in tandem (albeit with marginally higher volatility in the former) through the downtrend in 2008 as well as during the ensuing recovery in 2009 onwards. Even more significant, since the month of March 2012, the FBMSC began to fall relatively out of favour. In fact, the FBMSC price underperformance persisted in the ensuing 14 months and was at its widest by more than minus 20%-points against FBMKLCI in early 2013.

## II. LOCAL LIQUIDITY FACTOR

- **FBMSC tepid performance pre-May 2013 can be linked to net outflows among local investors.** A plausible explanation to the tepid performance of FBMSC prior to May 2013 can be associated with then increasingly risk-off mood amongst local equity investors possibly due to the uncertainty over the outcome of GE13.

- This was evident by the almost incessant net outflows of local investments from the domestic equity market during that period. Furthermore, while the local net outflows pre-May 2013 were obviously matched by the same exact amount of net inflows from foreign funds, it is not inconceivable that foreign equity investors would generally shy away from investing in small capitalised stocks in non-developed equity markets.

Chart 2: Cumulative changes in local equity net purchases, since end-Jan 2011 (RMm)



Source: Bursa, MIDFR

- **But a reversal in liquidity dynamics post-May 2013 arguably favoured the small caps.** Nevertheless, it is notable that a reversal in liquidity dynamics emerged post-May 2013 which was arguably triggered initially by the post-GE13 rally but later prolonged by US Fed's tightening policies, i.e. taper and liftoff. From this point forward, we instead saw almost incessant net inflows of local money into the domestic equity market which we reckon led to the heightened interest in small capitalised stocks thenceforth.

### III. PROFITING FROM THE SMALL CAP SWINGS

- **Continuation of small cap swings may be dependent on liquidity dynamics.** We reckon continued net purchases among local investors are necessary to support the small capitalization swings as without which the market momentum may eventually narrow down again towards higher capitalised stocks. Hence for as long as the suitable liquidity dynamics remain present, we foresee among the small capitalised stocks (i) recurring interest in the forerunners, as well as (ii) rotational plays that may lift some of the laggards. On this score, we expect the liquidity dynamics to remain supportive of the small capitalised stocks at least up to after the initial or even a few US Fed rate hikes.
- **Sustainable gains via careful stock picking.** While the markedly higher Beta among small capitalised stocks may result in massive outperformance during a cyclical market upturn, however the reverse

is equally true in a market correction phase. Thus sustainable gains may only be achieved via fruitful short-term trading or careful stock picking. With regard to the latter, it must be highlighted that small capitalised stocks generally trade at comparatively lower valuations vis-à-vis its bigger peers. Hence judicious stock selection may unearth compelling bargains which would be able to generate more genuine gains and that are less susceptible to the possible adverse shift in underlying liquidity dynamics.

- **Small caps trade at comparatively lower PER and PBR multiples despite higher growth.** By comparison, the FBMKLCI is now trading at current year Price Earnings Ratio (PER) of 15.63x whereas FBMSC is trading at a lower 10.69x. Additionally, the Price to Book Ratio (PBR) of FBMSC is also comparatively lower at 0.90x vis-à-vis 1.76x for the FBMKLCI.

#### Comparative Valuations \*

	FBMSC Index	FBMKLCI Index
PER	10.69	15.63
PBR	0.90	1.76

Source: Bloomberg, MIDFR;

\* based on Bloomberg consensus numbers

- As mentioned earlier, we expect the liquidity dynamics to remain favourable for the small capitalised stocks at least up to after the initial or even a few US Fed rate hikes. Furthermore, the prevailing valuation discount of the small capitalised stocks vis-à-vis the blue chips may continue to attract bargain seekers in the former. With these in mind, we present a list of 20 small capitalised (under a billion ringgit) stocks with favourable fundamental justifications and which we believe may outperform its broader category going forward.

# THE 20

- The “20 under a billion stocks” were selected largely based on bottom-up screenings.
- Each of the 20 companies possesses its own unique company-specific factors (refer to ‘Investment highlights’ of the 20 stocks in following pages). These so-called Alpha factors, we believe, will help to propel the stock to achieve relative outperformance vis-à-vis the broader market going forward.

**Table 1: 20 Under a Billion**

	Mkt Cap (RM mn)	Price (RM) 6-Jan	Fair Value (RM)	PER	PBR	Debt/Asset	Beta	Sector
PIE INDUSTRIAL	806.49	10.50	11.34	16.82	2.37	17.23	0.98	Semiconductor
VITROX CORP	793.64	3.45	3.57	16.24	3.97	2.01	1.10	Technology
FAVELLE FAVCO	674.91	3.00	2.87	6.99	1.25	6.82	1.19	Oil and Gas
UCHI TECH	655.38	1.70	1.80	14.81	2.82	0.00	0.57	Technology
SAM ENG & EQUIP	638.60	7.64	9.03	10.83	1.60	1.95	0.70	Semiconductor
GLOMAC	634.38	0.88	1.08	6.90	0.66	33.75	0.64	Property
EA TECH	544.32	1.07	1.79	29.19	2.27	52.95	n.a.	Port
HARBOUR-LINK	535.08	2.95	3.60	10.45	1.92	14.01	0.77	Logistics
PINTARAS JAYA	527.40	3.32	3.39	11.10	1.55	0.00	0.93	Construction
KKB ENG	466.60	1.81	1.96	12.16	1.53	7.18	1.09	Construction
APOLLO FOOD	460.80	5.76	6.15	12.95	1.71	0.00	0.69	Consumer
ELSOFT RESEARCH	374.57	2.10	2.15	16.11	4.56	0.00	0.94	Technology
Y.S.P.	335.15	2.53	2.90	11.23	1.35	7.38	0.69	Consumer
HOMERITZ CORP	333.00	1.12	1.27	14.15	3.29	1.51	0.77	Consumer
CENTURY LOG	312.04	0.85	1.06	7.18	1.10	17.26	1.09	Logistics
SPRITZER	310.84	2.22	2.41	12.63	1.41	13.55	0.90	Consumer
LTKM	199.06	1.51	2.50	5.18	0.89	5.95	0.69	Consumer
XIN HWA	192.60	1.06	1.43	12.23	n.a.	24.02	n.a.	Logistics
WILLOWGLEN	175.22	0.73	1.02	10.53	1.53	0.00	1.10	Technology
FEDERAL FURNITURE	79.80	0.97	1.12	17.42	1.90	15.21	1.48	Consumer

Source: Bloomberg, MIDFR

# SAM Engineering and Equipment (M)

*Strong and Magnificent (SAM)*

**RM7.64**

**Fair value: RM9.03**

## INVESTMENT HIGHLIGHTS

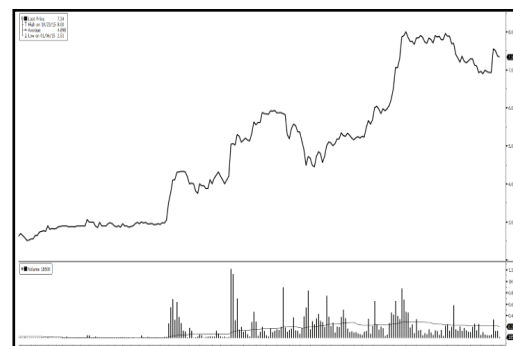
- SAM Malaysia is a subsidiary of Singapore Aerospace Manufacturing (SAM) Pte Ltd, a leading manufacturer of critical aero-engine components. The Group is now a global brand and competing against established companies in U.S., Europe and other parts of Asia.
- They specialize in precision machining of niche products of complex geometry such as stainless steels, titanium and nickel-based alloys, which used in aerospace.
- The positive outlook is supported by stronger growth in air traffic volumes as well as lower fuel costs. This augurs well for the Group which has long term contracts to supply its products to meet the growing needs for new aircrafts to the manufactured. This provides an impetus to the Group to reach RM1b in revenue in the coming years.
- Also offered is system integration services to global multinational companies in the Hard Disk Drive, solar, front-end semiconductor equipment and LED industries.
- We expect growth in local semiconductor exports to outpace that of the global semiconductor sales in 2016. This is mainly attributable to: (i) focus on niche growing segments such as automotive and wireless communications and; (ii) weaker domestic currency against USD.
- While its net profit has been growing steadily at 5-year revenue CAGR of 6% during 2010-2015, margin has improved to 7.7%. We expect a whopping 50% growth in FY16EPS, underpinned by a RM3.1b aerospace order backlog.
- Aside from the above, the Group has healthy net cash of RM115.5m.

## VALUATION

- Hence, we are valuing SAM at RM9.03 based on FY16E EPS of 39.2sen pegged to PER multiple of 23.0x, a 20% discount to global peer's PER.



## Price Chart



## Stock Info

Bursa / Bloomberg	9822 / SEQB MK
Board / Sector	Main / Industrial products
Shariah Compliant	Yes
Issued shares (m)	86.3
Par Value (RM)	1.00
Market cap. (RMm)	633.42
Price over NA	1.68
52-wk price Range (RM)	2.22 - 8.28
Beta (against KLCI)	0.70
3-mth Avg Daily Vol (m)	0.25
3-mth Avg Daily Value (RMm)	1.54
Major Shareholders (%)	
Temasek Holdings Private	67.03
Kumar Siva	4.87

## Financial Statistics

FYE Mar (RMm)	FY2013	FY2014	FY2015	FY2016F
Revenue	383.4	452.8	451.5	537.9
Operating Profit	22.8	33.7	40.1	60.4
PBT	21.6	32.4	39.5	59.5
Net Profit	20.0	28.3	34.6	53.0
Net profit margin (%)	5.2	6.2	7.7	9.9
EPS (sen)	19.8	21.8	26.1	39.2
EPS Growth (%)	-20.5	10.1	19.7	50.2
PER (x)	8.2	8.5	7.0	18.7
DPS (sen)	8.3	10.2	11.9	15.7
Dividend Yield (%)	3.6	3.1	4.0	2.1

Sources: MIDFR, Bloomberg and company