

The Star Biz

14-12-2006: Lower liners the next shining stars

By Leong Hung Yee

PETALING JAYA: Investors could be looking to invest in small undervalued companies on Bursa Malaysia as these may offer better capital appreciation than the usually favoured blue-chip companies.

Analysts said the lower liners could be next shining stars. They tend to be undervalued because people do not know much about them.

"Despite their shares not performing to expectation, some of the lower liners' fundamentals, return on equity and valuations remain intact," an analyst said.



SJ Securities head of research Cheah King Yoong said the buying interest over the past few weeks highlighted the increased retail participation in lower liners.

"Although they (lower liners) do not have the profile of some of the blue-chip counters, some of them are trading at much more attractive valuations.

"However, the downside to investing in lower liners is that we sometimes have to wait a long time to buy their shares," he added.

Cheah said the benchmark Kuala Lumpur Composite Index (KLCI) had been doing very well in the past three weeks and he expected the positive momentum to continue.

"There was increased in retail participation in lower liners and warrants in recent weeks. More retail investors were interested in the stock markets compared with the same period last year before the correction," he said, adding that the fall on KLCI was a healthy correction.

"A number of big cap stocks had gone up sharply and some of the gains would have been too fast and too soon," he said.

Cheah expected retail investors to continue to focus on laggards should the KLCI be sustained above 1,000 points. Going forward, he said trading volume would continue to improve.

SJ Securities' stock picks include FSBM Holdings Bhd, Malaysian Resources Corp Bhd, Eksons Corp Bhd, Jaya Tiasa Holdings Bhd, Puncak Niaga Holdings Bhd, LBS Bina Group Bhd, Malaysian AE Models Holdings Bhd (Maemode) and Metro Kajang Holdings Bhd.

Cheah said FSBM offered a very attractive valuation. FSBM is a provider of education-related information technology products and services.

The counter is currently trading below its net tangible assets and book value. Cheah said FSBM, which has "very healthy net cash", was trading at single-digit price-earnings multiples. The only problem with FSBM was that it was on the second board, and thus not visible to many investors, he said.

Laggard Jaya Tiasa is less visible compared with its peers in the sector. Its share price has been appreciating, thanks to higher plywood prices on stronger demand from China, India and Japan.

The positive outlook for the timber industry augurs well for the group.

Of late, many commodities analysts have reiterated their "buy" calls on this niche timber producer, given its sound fundamentals.

There have also been encouraging developments for Eksons such as rising demand from Japan and East Asia and timber supply shortage in Indonesia that led to plywood being traded at above US\$400 per cu m.

Analysts said the group's healthy balance sheet, with net cash position of about RM28mil as at March 31, together with RM60mil cashflow generated from plywood manufacturing per year, allowed it to comfortably finance its maintenance capital expenditure of less than RM5mil per year.

Eksons was expected to register 10% to 15% growth in earnings per share for financial year (FY) ending March 31, 2007, based on projected higher average plywood prices of around US\$450 per cu m from US\$350 to US\$400 per cu m in the first quarter.

However, analysts cautioned against risk factor such as weakening US dollar against the ringgit (since Ekson sells its products in US dollars).

The 15% water tariff hike announced by the Selangor government is expected to help Puncak Niaga defray the cost of works to reduce non-revenue water levels.

TA Securities said in its research report the catalyst for Puncak Niaga's share price ahead was underpinned by the 15% increase in tariff hike, its capital restructuring exercise, an upside for dividend payout, and long term business opportunity as the government would embark on an aggressive capacity expansion programme.

One of the reasons Puncak has been consistently under-rated vis-à-vis other regulated business modelled stocks was its perceived rich price-earnings ratio valuation.

"The full year impact from the tariff hike will flow into bottomline in FY07. We estimate the higher tariff could generate about RM160mil in additional revenue to Puncak in FY07. Consequently, we forecast a 27% increase in net profit next year, reversing the expected earnings contraction this year," the brokerage said.

Cheah said Maemode had been overlooked. A fundamentally sound company, its shares should be seeing more trading volume, but somehow investor interest was still lacking, he said.

The low-profile automated material handling manufacturer has taken steps to raise its profile by expanding its overseas operations, especially in China, give higher dividend payouts and go on roadshows to highlight its business activities.

Meanwhile, OSK Securities' stock picks included Asiatic Development Bhd, Hexagon Holdings Bhd and Ahmad Zaki Resources Bhd.

Head of research Kenny Yee said the brokerage favoured Asiatic for its attractive valuation. "With the size of its landbank, the plantation company should receive better valuation," he said.

Hexagon is a multi-discipline engineering services group with interest in engineering, petrol retail, electronics manufacturing and trading and services.

The group recently secured a five-year RM500mil contract to supply corporate identity visual products for a major global oil corporation's petrol stations.

Yee said the share price had yet to fully reflect the value of the new contract.

This article was adapted from www.thestar.com.my

Article's URL: <http://thestar.com.my/services/printerfriendly.asp?file=/2006/12/14/business/16314415.asp&sec=business>