

Morning Buzz

Today's Top Ideas

- ❑ Tan Chong International – Fine-tuning Valuation; Buy
- ❑ Small caps – Bargain-hunting season is open

News Headlines

- ❑ ASL Marine: FY08 likely to reach new high
- ❑ MacarthurCook Reit portfolio value up \$30.6m on revaluation
- ❑ Mandarin Oriental arranges loan
- ❑ Shangri-La doubles interim profit to US\$160m
- ❑ Asian Micro to set up car conversion unit
- ❑ Bio-Treat to SGX: steps taken, internal audit team set up
- ❑ Non-renewal of LGT contract fresh blow to Oniontech
- ❑ Creative completes Nasdaq delisting
- ❑ Swiber units sign letters of intent
- ❑ China Angel sets up RMB5m subsidiary
- ❑ Sunshine's financial controller resigns
- ❑ Global expands deal with AMS-IX
- ❑ Telechoice completes HK\$50m JV investment

Top Actives

By Volume	Price (\$)	Change (\$)	Change (%)	Vol ('000)
Baker Technology Ltd	0.345	+0.025	+7.8	63,569
Lottvision Ltd	0.315	+0.020	+6.8	62,683
Alantac Technology Ltd	0.230	+0.025	+12.2	61,618
Magnus Energy Group Ltd	0.125	+0.005	+4.2	47,649
Armarda Group Ltd	0.200	+0.015	+8.1	39,371
By Value				
CapitaMall Trust	3.340	-0.020	-0.6	32,595
United Overseas Bank Ltd	20.500	-0.200	-1.0	3,960
S'pore Telecommunications	3.600	+0.020	+0.6	19,264
DBS Group Holdings Ltd	19.900	+0.200	+1.0	3,248
CapitaLand Ltd	7.300	-0.100	-1.4	7,903

Singapore
5 September 2007

Kim Eng Research Team

US Indices (Previous Session)

Dow	13,448.86	+91.12
Nasdaq	2,630.24	+33.88

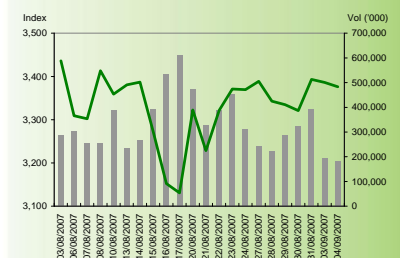
Futures/Regional Indices

S&P	1,488.40	-0.08
Nasdaq	2,024.50	-0.01
Light Crude	75.13	+0.07
Nikkei	16,420.47	-0.63
KOSPI	1,874.74	-0.38
All-Ords	6,272.50	+0.39

ADRs

Chartered	1.05
STATS ChipPAC	1.54
Creative	5.79

STI Chart



Top Actives (<USD250m Mkt Cap)

Stock	Price (\$)	%Chg
Baker Tech	0.345	+7.8
Lottvision	0.315	+6.8
Alantac Tech	0.230	+12.2
Magnus Energy	0.125	+4.2

Broker's Calls

Stock	Rating	Target	By
Innovalue	Buy	\$0.96	CIMB

Tan Chong International



Singapore
Motor
5 Sep 2007

Fine-tuning Valuation

◆ Higher development charge rates weigh on valuation

The upward revision of development charge (DC) rates (effective as of 1 Sep 2007) has affected our valuation of TCIL, as we had earlier factored in a combined redevelopment of two of its properties: Tan Chong Motor Centre and The Wilby Residence. The two properties are situated in Sector 109, where DC rates for land use Group A and Group B2 have increased by 27% (average 42%) and 93% (average 58%), respectively. The higher DC rates resulted in a higher development charge and consequently our valuation for the company's investment properties has decreased from HK\$2591.1m to HK\$2293.8m. The overall impact on our valuation of TCIL is a 4% decrease in our target price from HK\$3.77 to HK\$3.62.

◆ Expecting slight decline in Nissan sales

We remain cautious about the future sales of Nissan vehicles in Singapore and continue to forecast a slight decline in view of the competition from other authorised car distributors and parallel importers. Honda agent Kah Motor had recently revamped and expanded its showroom. Furthermore, Singapore's strong economic growth is also likely to steer prospective car buyers towards more prestigious brands. Tellingly, unit Nissan vehicle sales in Singapore fell from 10,045 in 1H06 to 6,746 in 2H06 and to 6,106 in 1H07.

◆ Revving up future earnings: Subaru and heavy commercial vehicles

We are, however, upbeat about the regional distribution of Subaru and Nissan Diesel heavy commercial vehicles. For instance, unit Subaru car sales have been rising consistently from 1,836 in 1H06 to 2,323 in 2H06 and to 3,185 in 1H07. We reckon that this points to high consumer interest in the Subaru brand, aided by an effective marketing strategy. In addition, Singapore's construction sector is picking up, which bodes well for the future sales of heavy commercial vehicles. In view of the above, we estimate that FY07 core operating profit would decline from FY06, but would rebound from FY08 onwards, buoyed by increasing sales of Subaru and heavy commercial vehicles.

◆ Still a worthy investment

We continue to value TCIL based on the sum-of-the-parts of its vehicle distribution business (10x FY08 PER), its high net cash position (HK\$0.41 per share), and the estimated market values of its investment and held-for-sale (HFS) properties. As such, we arrived at our new target price of HK\$3.62 (Figure 1). Reiterate BUY.

Year End Dec 31	2005	2006	2007F	2008F	2009E
Sales (\$ m)	6002.4	5853.0	5952.8	6370.8	6850.1
Pre-tax (\$ m)	560.5	711.4	571.1	631.7	683.0
Net profit (\$ m)	444.9	573.9	456.3	504.8	545.7
EPS (cts)	22.1	28.5	22.7	25.1	27.1
EPS growth (%)	30.8	29.0	-20.5	10.6	8.1
PER (x)	10.4	8.1	10.1	9.2	8.5
Yield (%)	2.8	2.8	2.8	2.8	2.8

BUY

Company Update

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Price	HK\$2.30
Target	HK\$3.62
ST Index	3,376.06

Historical Chart

Performance	1m	3m	6m
Absolute (%)			
Relative (%)			

Stock Information

Ticker code	TCIL.SI
	TCI.SP
Market Cap (US\$m)	591.4
52-week high (\$)	
52-week low (\$)	
Shares issued (m)	2013.3
6m avg. daily vol (US\$m)	
Free float (%)	43.7
Major Shareholders (%)	
	Tan Chong Consol (45.3)
	Guoco Group (11.0)

Key Indicators

ROE (%)	12.0
Net gearing (%)	Net cash
NTA (\$)	2.6
Interest cover (x)	35.1

Small caps

Bargain-hunting season is open

▪ Selldown presents buying opportunity

The recent market sub-prime rout has led to a 20% sell-off in the STI index and an even larger 25% drop in Sesdaq - a proxy for smallcaps. While market conditions are still volatile, Fed Chairman Bernanke's statement at the Fed's annual Jackson Hole conference that it is prepared to 'act as needed' has assuaged fears of a protracted meltdown. More importantly, we view that the market action over the last three weeks has brought valuations down to attractive levels and we believe that opportunities are emerging for investors to bargain hunt.

▪ Follow the smart money

As a criterion, we highlight securities where insider buying activities, either in the form of directors' purchases or corporate share buybacks, have stepped up significantly. Our primary focus here is on under-researched small cap stocks with sustainable earnings growth, strong balance sheets and where valuations are trading at deep discounts to the broad market.

▪ Our Top 10 choice picks

Our ten stock picks offer a mix of earnings growth and asset-revaluation themes; notably, many of these companies have reported sterling interim results. In the manufacturing sector, companies such as **Techcomp**, **Viz Branz** and **Sing Lun** are enjoying booming sales coupled with market share gains, a result of superior business models. **Kingsmen Creatives** is a play on the MICE and interior fit-out markets while **Eng Kong** and **Sinwa** are net beneficiaries of the burgeoning marine and offshore trade, specifically in the intra-Asian merchant shipping routes. **Advanced Holdings**, a niche provider of process equipment, is enjoying robust orderbook growth from the PRC oil majors for clean-fuel solutions. FY07 earnings are poised for a sharp turnaround following a dismal FY06 due to a postponement in orders. We are also optimistic on the small cap property counters such as **Superbowl** where price catalysts are supported by en-bloc potential of the company's commercial properties holdings. **Lee Kim Tah** which owns 50% of Jurong Point mall and arguably one of the best suburban malls in Singapore, should continue to enjoy double-digit earnings growth from rental reversion and asset enhancement initiatives. **Hotel Grand Central**, a mid-market hotel developer and operator with hotel assets in Australia, Singapore and Malaysia, is in a sweet spot with rising Revpar amid the current hotel room supply crunch.

▪ A platform for sustainable growth

Faced with a limited domestic market, many Singapore SMEs have ventured abroad in search of growth and quite a number have been successful in carving out profitable niches. Having gone through the tough recession years of 2001-2003, these companies have re-invented themselves, fine-tuned their business models and emerged stronger in the process.

▪ Attractively priced for above average growth

We believe the aforementioned stock highlights have the potential to outperform the market on a 6-12 months timeframe. Not only are these stocks attractively priced both on relative and absolute basis, many are also trading at low single digit P/Es or huge discounts to their revalued NAV potential. With rising ROE trend, we expect these stocks to re-rate as they continue to deliver on the earnings front. Accumulate.

OVERWEIGHT

Stock picks	Target Price
1. Techcomp	S\$0.75
2. Viz Branz	S\$0.58
3. Singlun	S\$0.37
4. Kingsmen Creatives	S\$1.25
5. Eng Kong	S\$0.30
6. Sinwa	S\$0.80
7. Advanced Holdings	S\$0.54
8. Superbowl	S\$0.52
9. Lee Kim Tah	S\$0.80
10. Hotel Grand Central	S\$1.40

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Market / Corporate News

ASL Marine – Expects a sixth straight year of record earnings in fiscal 2008, thanks to strong shipbuilding orders and higher charter rates. Managing director Ang Kok Tian is anticipating a “record year” as enquiries have been increasing for ASL's shipbuilding, repair and chartering services, bolstered by the need for renewal of ageing vessels and the need to switch to double-hull vessels ahead of an International Maritime Organisation deadline of 2010. 'Besides the AHTS (Anchor Handling Tug Supply) contracts that we have been active in bidding for, now we are also very keen in offshore construction vessels,' said Mr Ang. 'We foresee greater demand for this kind of vessel.' For FY07, ASL reported a 74.5% in net profit to a record \$40.25m as group revenue jumped 61% to \$318.4m, fuelled by broad-based growth across its business segments.

MacarthurCook Industrial Reit (MI-Reit) – Said independent revaluations of six of its properties have resulted in the total value of its initial portfolio of 12 properties standing now at \$346.8m, a rise of \$30.6m or 9.7%. MacarthurCook Investment Managers (Asia), the manager of MI-Reit, has a policy of revaluing properties in the portfolio on a rolling basis throughout the financial year and in accordance with the property fund guidelines. The initial portfolio of the real estate investment trust, which was listed on 19 April this year, comprises 12 industrial assets across Singapore with a combined value of \$316.2m at the date of listing. The largest rise in valuation came from UE Technology Park - MI-Reit's largest property by value - which saw a revaluation gain of \$23.9m, or 21%. The revaluations of all the six properties were conducted by CB Richard Ellis.

Mandarin Oriental International – The hotel arm of Jardine Matheson Holdings said it has arranged a US\$450m loan to refinance borrowings and provide working capital. CFO John Witt said the seven-year, HK\$3.5bn equivalent syndicated loan facility with 19 international banks is 'competitively priced' and will 'increase significantly' the average term of the luxury hotel operator's bank debt. The facility, which comprises two tranches, increases the average tenor of Mandarin Oriental's bank loans to six years from about three years now. The first tranche is a seven-year term loan amounting to US\$257m, while the second tranche is a seven-year revolving credit facility amounting to US\$193m.

Shangri-La Asia – Reported a near-doubling in H107 net profit to US\$159.7m from US\$82m. The results were helped by improved operating performance, fair-value and disposal gains, and better contributions from associates. First half sales rose 18.7% to US\$557.7m, while EPS were 6.196 US cents - up from 3.241 US cents a year earlier. Operating profit jumped 33% to US\$160.2m. This was helped by gross profit rising 20% Y/Y to US\$344.4m. The group also saw a 31% rise in net 'other gains' to US\$42m, helped by fair-value gains on derivative financial instruments and gains from disposal of partial interests in subsidiaries. The better earnings were also helped by a surge in share of profits of associates to US\$51.4m from US\$11.4m. Most of the group's own hotels benefited from the continuing robust demand from both leisure and business travel.

Asian Micro Holdings – The recycling firm is setting up its first centre in Singapore to convert vehicles running on petrol or diesel into those using natural gas. Managing director Victor Lim said that while he does not expect the business to be profitable immediately, he wants to 'raise awareness' here about natural gas as a cleaner alternative fuel to diesel or petrol. The company said yesterday that it has established a new subsidiary to operate the conversion centre in the Jurong area, which is expected to be ready by the end of the year. The subsidiary is 49%-owned by Asian Micro while the remaining 51% is held by two Thai shareholders, who also hold stakes in the firm's natural gas vehicle joint venture business in Thailand.

Bio-Treat Technology – Has set up an internal audit team and taken other measures to improve its corporate governance. In a statement to the SGX, it said 'a dedicated team has been appointed . . . to perform independent checks, highlight system weaknesses and provide recommendations as well as follow-up action' to raise the level of its corporate governance and internal controls. Bio-Treat was responding to the request by SGX on Wednesday last week for it to list some of the measures it had brought in after an independent review taskforce said earlier this year that it had observed 'weaknesses' in governance and communications at the firm.

Oniontech – The loss-making Korean mobile software solutions provider has been dealt another blow. It announced yesterday that its contract to provide FeelRing and its related contents services to LG Telecom (LGT) - a business which contributed more than 60% to its group revenue - will not be renewed when it expires at the end of this year. The company said its wholly owned subsidiary Oniontech Co (OT Korea) had on 31 Aug received notice of the non-renewal from LGT. OT Korea, however, agreed to operate its Ring Back Tone (RBT) service for LGT until February 2008 and its RBT contents service until June 2008, said Oniontech. 'The non-renewal by LGT of OT Korea's FeelRing and its contents service agreement is expected to have a material adverse impact on the company's EPS for the financial year ending 31 Dec 2008,' Oniontech said.

Creative Technology – Has completed its voluntary delisting from Nasdaq, it said yesterday. Its sole stock exchange listing is now on the SGX.

Swiber Holdings – Said that two of its units have signed letters of intent to sell and lease back four vessels and a barge with RS Platou Finans Shipping. The transactions are subject to approval by Swiber's shareholders at a later date.

China Angel Food – Has set up a new subsidiary in Shenzhen with a registered capital of RMB5m to manufacture and sell bread, cakes, biscuits and pastries as part of the company's plans to expand its market presence and distribution channels in China.

Sunshine Holdings – Financial controller Stephen Yeo Soon Hock has resigned with effect from 31 Aug. Finance director Zhao Zhanmei will continue to oversee the company's finance and accounting function.

Global Voice Group – Said it has expanded its existing agreement with the Amsterdam Internet Exchange (AMS-IX) to provide new services and facilities to the exchange.

Telechoice International – Telechoice and Hong Kong partner Fortune Telecom have completed their investments in their 40-60 joint venture company TeleFortune (China) Investments. TeleChoice said it paid HK\$50m (S\$9.8m) for its 40% stake in TeleFortune.

(Sources: Company, SGX, Business Times, Dow Jones)

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