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A fiscal cliff deal in the US proves positive for world equities. We present 10 local stocks worth looking at.

BY **LEE WEN AI**

It is a happy new year. Indeed, the first week of 2013 had all the ingredients of a better year ahead.

The year 2012 was rife with uncertainty and noise over the continued eurozone crisis, a slowdown in China as well as the US elections and the country's fiscal woes.

A deal struck at the eleventh hour to avert the much-feared fiscal cliff in the US has chased away some of the concerns and given the first hint that things may be looking up at last.

On Jan 2, the US managed to stave off the conundrum it would have faced when the terms of the Budget Control Act of 2011 came into effect. A bloc of Republicans reluctantly joined the Democrats in passing a bill by a comfortable 257 to 167 to impose higher taxes on the wealthy and postpone the start of spending cuts.

The bad news is, they will need to do it all over again as the focus turns to discussions on spending cuts and raising the US$16.4 trillion debt ceiling by late February, Jefferies Hong Kong Ltd says in a Jan 2 research note.

Danny Wong, CEO of Areca Capital Sdn Bhd, says he had expected the US to avoid the fiscal cliff, just like in the debt ceiling issue of 2011.

"The Senate and House of Representatives prevented any negative impact (stemming from these issues), although in last-minute deals. In the latest case, it is a higher tax bracket of US$450,000 [the tax hike on wealthy individuals] instead of Obama's proposed US$250,000," he tells *The Edge*.

"It is a compromise. Although not a perfect deal, it is a better move than going over the cliff."

But it is not the end of the line for the bipartisan deal passed in the House.

"There must be a concrete deal to bring down the US deficit or the country will face a risk-on risk-off situation again and again," Wong observes.

Maybank Asset Management Sdn Bhd CEO and managing director Nor Azamin Salleh echoes Wong's views.

"The fiscal cliff has not been fully avoided. Now, with the easy part done, the US will have to tackle the more complicated issues — reducing long-term spending, raising additional revenue and increasing the legal debt limit, all by the end of February."

Still, investors say the initial deal reached between the Democrats and Republicans is positive for equities as major markets closed higher last week on renewed optimism.

"The current market rally clearly shows that the fiscal cliff resolution has boosted investor confidence in the US economy," Azamin says.

"However, the reality of the situation is that the can has simply been kicked down the road ... yet again. In a little more than a month and a half, all eyes will be on how the US negotiates the debt ceiling and possible 'entitlement' reforms that cover government healthcare programmes like Medicare, Medicaid and Social Security for a longer-term resolution to curb its growing deficit and national debt."

Despite the noise and political brinkmanship, the US economy showed signs of improvement in 2012.

Says Areca Capital's Wong, "Recent data reveal an improved US economic situation, especially in the job market, housing and the manufacturing Purchasing Managers Index.

"This, if sustained, could encourage consumer spending, which is key to the US economy. Together with measures such as high income tax and lower budget spending, the US deficit can be reduced."

As the US is the world largest consumer market, Wong says its economic growth would boost imports, thus promoting global exports, especially from Europe, China and other emerging markets.

"Decent US economic growth will benefit the global investment market, especially risky assets such as equities and commodities," he adds.

Hong Leong Asset Management Bhd CEO Geoffrey Ng concurs. "The fiscal cliff deal reached on Jan 1 is positive for risk-taking as it is a clear sign that both parties agree to support the US economic recovery," he tells *The Edge*.

But he cautions that the US deficit could continue to rise as the current package of spending cuts and increased taxes on the wealthy are insufficient to reduce the snowballing deficit and the risk of further credit rating downgrades.

"One of the implications of the deal is the weakening of the US dollar, as seen in the foreign exchange markets since the end of 2012. Investors have already taken the fiscal cliff deal as a sign of the continuation of the easy monetary and government spending environment. There could be an increased flow of portfolio capital and hot money into emerging markets and Asia," he adds.

In fact, things are looking good for China, the world's second largest economy. The

HSBC China manufacturing PMI rose to a 19-month high of 51.5 last December from 50.5 in November, indicating a rebound in the country, which is likely to boost investor confidence in its economy.

"The new leadership in China is expected to come up with measures soon to boost the economy," Raymond Kong, co-chief investment officer of Libra Invest Bhd, tells *The Edge*.

The European economy, meanwhile, is not getting any better or worse and continues to struggle over sovereign debt and currency issues. But as what most market experts say about Europe, it will "muddle through".

In Malaysia, 2013 looks likely to be a tricky year as the local market will face a wild card in the first half — the long-awaited general election (GE13). That said, one of the top worries of local investors is an unexpected poll outcome.

"As in 2008, investors are staying on the sidelines, waiting for the dust to settle on the political outcome," says Ng. "A surprise outcome of the general election could create uncertainty over government policy as well as government-related projects and companies."

Azamin is also cautious about GE13 and other risks in 2013. "Uncertainty arising from the election can be a potential risk for global and local investors. We see investors relocating funds to neighbouring countries. There could be selling pressure on political risk if the incumbent wins by a small margin."

In the new year, Azamin says the threat of a credit rating downgrade in Malaysia could heighten concerns about foreign funds leaving the domestic market for safe havens.

"Our high public debt-to-GDP, currently at 53%, and increasing issuance of government-guaranteed paper may result in negative assessments of Malaysia by foreign rating agencies. Foreign holdings of Malaysian government securities stood at a record high of RM127 billion or 29.4% of the total outstanding as at October 2012."

Defensive stocks are likely to remain an investor favourite, at least until GE13 is over.

"In 1H2013, we are positive about yield play and defensive counters that generate strong free cash flow, such as REITs, oil and gas, telecoms and consumer products, due to their resilience in view of the upcoming GE13. We will reposition our portfolio with cyclical stocks post-election in 2H2013," says Azamin.

Wong is of the same mind. "I prefer large-cap defensive high-yield stocks until GE13 is over. Any sharp correction from now would be an opportunity to accumulate quality fundamental stocks. I would pick index-linked stocks if their prices slump during this period.

"When there is more certainty about GE13, I will switch to high-growth stocks, in particular, high beta names. My top three sectors are banking, plantation and telecoms. I am also looking at mid to small caps like Can-One Bhd, Kumpulan Fima Bhd and Hartalega Holdings Bhd."

Bursa Malaysia largely trailed key liquidity-driven regional bourses in 2012. Many primary Asian indices posted double-digit growth last year, including the Thai Stock Exchange Index and the Philippine Stock Exchange Index. The FBM KLCI gained only 5% over the past 11 months in contrast with the MSCI Asia ex-Japan Index, which rose 16% in the same period.

Nonetheless, Wong believes Bursa's underperformance is temporary. "The Malaysian market will eventually start trending upwards when there is more certainty on the outcome of GE13.

"If the global economic outlook continues to improve and regional markets sustain their bullish trend, Malaysian equities will be become the stars, provided there are no major surprises in GE13." ■

10 stocks to watch

BY SIOW CHEN MING, KATHY FONG AND MAX KOH

Activity picked up strongly in global equity markets in the first week of 2013. With the US Congress having avoided going over the cliff on Jan 2 and strong economic data coming out of China, the bulls are starting to make a comeback, although the general election remains a wild card at home.

Nevertheless, market experts say the time is ripe for investors to shift from being risk-off to risk-on. After consulting analysts, fund managers and private investors, we have compiled 10 stocks to watch this year. They are a mix of small and medium caps and bombed-out big caps that are under-appreciated or are expected to benefit from certain corporate or industry developments in 2013.

The company will benefit from the booming oil and gas sector amid an increase in exploration and production activities at home and abroad. It is a one-stop flow system provider whose pipes and fittings are used by global oil majors to transmit gas and liquid. Its products were used in recent projects, such as Petroliam Nasional Bhd's (Petronas) regasification terminal and refinery in Melaka and Dialog Bhd's Pengerang project in Johor.

Petronas' commitment to spend RM170 billion by 2017 on boosting oil and gas production implies stronger demand for new pipes and fittings for oil rigs, liners and refiners. This bodes well for Pantech.

It is the only local player that produces induction long bends — custom-made fittings — that yield high margins. It currently has an order book of RM300 million, which will keep it busy until year-end. Pantech expanded its portfolio last year by acquiring UK-based Nautic Group for £9.2 million (RM45.4 million). Nautic manufactures high-value copper nickel and nickel alloy pipes that are approved and used in over 55 countries. As few companies have such capabilities, Pantech is able to command margins of 30% to 40% for these products.

It sees more opportunities in Brazil as Nautic has already secured jobs from its national oil company Petrobas. Thus, it is spending around £1.4 million on automation and factory space in the UK.

Apart from good prospects of securing more jobs locally and in Brazil, analysts also like Pantech for its dividend play. Based on last Friday's closing price of 69 sen, TA Research and Insider Asia are projecting a dividend yield of between 7% and 6.5% for FY2013 ending Feb 28. TA Research forecasts 52% growth in EPS for FY2013 and has a target price of 82 sen, pegged to a PER of nine times for CY2013.

Potential risks for the stock include deferred orders for steel pipes due to volatile nickel prices and Pantech's need to gear up for its expansion. It had a net gearing of 0.4 times as at end-August.

Uchi Technologies Bhd stands above the rest in a volatile environment where high yields are highly sought after. The Taiwanese-owned firm has been paying out between 80% and 90% of its net profit as dividends in the past few years, signaling solid financial foundation and a firm commitment to rewarding shareholders. Uchi is an original design manufacturer that produces electronic control modules used in high-end coffee makers, such as Krups, Nespresso and Jura, that are mainly sold in Europe and biotech equipment.

In 2011, Uchi paid out 12 sen in total dividends or 90.6% of its earnings per share of 13.25 sen. Based on Uchi's closing price of RM1.08 at end-2011, this represented a dividend yield of 11%.

For the nine-month period ended Sept 30, 2012 (9MFY12), Uchi declared five sen in dividends or 60% of its earnings per share. It is likely to dish out more as it has a 70% payout dividend policy. Affin Research is forecasting an 11 sen dividend for FY12, which translates into a yield of 9.5% based on last Friday's closing price of RM1.16.

While its 9MFY12 net profit has fallen 15% to RM30.7 million from a year earlier due to weaker demand for coffee machines in Europe, Affin Research says Uchi will remain profitable and sustain its high dividend payout trend. Investors are also advised to accumulate Uchi shares as it has fallen 11% from its 52-week high of RM1.29 in June.

Apart from its dividend appeal, Uchi is liked for its prudent management. Due to the economic headwinds in Europe, Uchi shifted its product mix from coffee machines to biotech equipment, which commands higher margins. As a result, Ebitda margins improved to 48.3% for the 9MFY2012 period against 46.5% a year earlier.

The company is also in a net cash position of RM124 million with no borrowings, but analysts say downside risks include its illiquidity and a further fall in earnings.

A bombed-out stock among the FBM KLCI components, MISC's share price has halved since January 2011 — from a peak of RM8.47 to RM4.06 last Friday. Its market capitalisation is RM18.12 billion.

With a valuation in the trough and substantially below its net assets per share of RM4.84, MISC — the world's largest LNG vessel operator — warrants a second look.

The shipping giant is still sailing in choppy waters, as reflected by its earnings that have been trending downwards over the past five years amid prolonged overcapacity and low freight rates.

Nonetheless, most of the negative news has been factored into the stock. "We believe the market has oversold the stock on the back of negative news from MHB (Malaysia Marine Heavy Engineering Holdings Bhd)," says Kenanga Research in a financial results review.

MISC has 66.5% equity interest in MHB, the earnings of which have not met expectations.

In such a tough operating environment, MISC has made valiant efforts to strengthen its financial footing.

The group took the bold step of exiting the liner business in which it had been making losses.

It also sold its 50% equity interest in the Gumusut-Kakap semi-floating production system to a wholly-owned subsidiary of Petronas Carigali Sdn Bhd, pocketing RM5.29 billion cash. Analysts expect the deal to reduce MISC's gearing to 30% from 50%.

In terms of price-earnings ratio, MISC will not appeal to investors as analysts have slashed its earnings forecast in view of the gloomy prospects for the shipping industry. However, MISC, which owns the biggest fleet of LNG vessels in the world, is trading at the trough of its price/book value of below one times. Its share price weakness could thus be an opportunity to accumulate.

The property developer's smallish market capitalisation of RM103.2 million is just one-third the estimated gross development profit of its upcoming RM1.22 billion project in Johor Baru, where real estate is getting hot.

The company also had zero borrowings as at Sept 30, 2012, and was sitting on RM58.23 million, which would have enabled it to acquire the 9.28ha land in JB for cash.

KEN wrapped up the takeover of a 100% stake in Gadini Sdn Bhd from Malaysia Building Society Bhd (MBSB) for RM56.17 million cash last November. The price, which was sharply below the RM97 million MBSB had paid to acquire Gadini in 1997, includes the settlement of all liabilities.

The takeover gives KEN four parcels for a mixed-use development, comprising residential, commercial, serviced suites, corporate offices and retail lots, with a total gross development value of RM1.22 billion over six to seven years and an estimated gross profit of RM301 million.

This is a feat for KEN as it has been dealing in mostly niche projects. Nonetheless, while the JB project will have a major positive impact on the company's market cap, the lack of liquidity in the company's shares is an impediment for investment funds.

KEN's chairman Tan Boon Kang controls 50.11% of the company.

10 stocks to watch

Scope Industries

The printed circuit board (PCB) maker aims to become a small to medium palm oil player with 50,000 acres of landbank within the next few years. Led by Seremban businessman Jim Lee Min Huat, Scope attracted attention late last year after making a deal with MCA-backed Matang Holdings Bhd, which will be injecting 2,700 acres of oil palm estate into the company. The deal will see individual shareholders of Matang, who are members of MCA Johor, becoming shareholders in Scope.

The asset injection by Matang as well as Benua Mutiara Sdn Bhd, a firm controlled by several oil palm agronomists turned entrepreneurs, will immediately double Scope's plantation landbank from 3,500 acres currently to 7,000 acres.

But according to Lee, Scope's executive director who is related to IOI group's Tan Sri Lee Shin Cheng, this is just the beginning as the company is targeting 50,000 acres as the "comfortable size".

Being late to the game and to avoid competing with the big boys, Lee tells *The Edge* his strategy is to acquire small and sometimes poorly managed family-owned estates at bargain prices and turn them around. He has been successful with some of the estates bought earlier and still sees a lot of bargain in the sector.

Nonetheless, Lee is wary of the lukewarm interest in small-cap plantation firms, which attract lower price-earnings ratio due to lack of growth and being family-oriented. But he said his offering is a professionally managed firm with the eagerness to expand and open to asset injection from third parties as an option for fast growth.

Scope's market capitalisation is RM132.6 million with its shares having attracted decent trading volume since the Matang exercise.

Benalec

This stock may attract interest as the company's target is to close a few deals in the first phase of its 5,245-acre land reclamation project in Johor and begin reclamation works in the second half of the year as scheduled.

The securing of off-takers for the Johor parcels will strengthen investor confidence in Benalec. In fact, managing director Datuk Vincent Leaw has said there will be strong demand for the reclaimed land as national oil company Petroliam Nasional Bhd is undertaking the development of a petrochemical hub in Johor.

Last September, Benalec entered into agreements with the Johor government via two 70%-owned subsidiaries to reclaim 3,485 and 1,760 acres in the coastal areas of Tanjung Piai and Pengerang respectively. The group is awaiting EIA (environmental impact assessment) approval, which it hopes to obtain by the second half of the year.

According to AmResearch, the first phase of Benalec's Tanjung Piai landbank alone with 2,000 net saleable acres is worth RM1.4 billion, which translates into RM1.72 per Benalec share. This is substantially higher than the stock's closing price last Friday of RM1.39, which gives the company a market capitalisation of RM1.12 billion.

The downside risk of the stock is probably a delay in securing off-takers for the reclaimed land. AmResearch, which has a "buy" rating on Benalec, has a fair value of RM2.48 derived from its sum-of-parts value for the group of RM1.99 billion.

Apart from the over 5,000 acres in Johor, the marine construction outfit also has 500 yet-to-be-reclaimed acres in Klebang, Melaka.

Globetronics

The Penang-based electronics component maker is trading at almost 10% dividend yield and has exposure to the smartphones and tablets segment for growth.

Founded in 1991, Globetronics has diversified from assembling integrated circuits (IC) to manufacturing high-margin key components used in tablets and smartphones.

Its exposure to these fast-growing segments saw its net profit for the nine months ended Sept 30, 2012, swell 39% to RM30.2 million or 11.18 sen per share from a year earlier. The group, which has a market capitalisation of RM403 million, had zero borrowings and was sitting on RM105.7 million cash as at Sept 30, 2012.

Globetronics began supplying power management devices and optical lenses used in smartphones and tablets last year. These new products will contribute in full to the group from 2013 onwards, said OSK Research.

Globetronics has been paying dividends exceeding its dividend policy of 50% of net earnings, dishing out 8.5 sen per share or 85% of net earnings in 2011. OSK Research is forecasting dividends of 11 sen and 14 sen for FY2012 and FY2013. Based on last Friday's closing price of RM1.48, these translate into attractive dividend yields of 7.5% and 9.5% respectively.

Nonetheless, the downside risk for the stock would be a supply chain disruption in the industry, like what happened to the PC segment following the Thai floods last year.

OSK Research has a "buy" call on the stock and a target price of RM1.91, pegged to a five-year average PER of 11.6 times.

Dayang Enterprise

A strong order book that offers good earnings visibility, healthy balance sheet and promising prospects to secure more jobs has made Dayang a sexy oil and gas stock.

The company's order book of about RM1.2 billion will help to sustain earnings growth for three years. Besides, Dayang could be in for a windfall as Petroliam Nasional Bhd (Petronas) is expected to dish out RM10 billion worth of hook-up and commissioning (HUC) jobs for the Pan Malaysia cluster.

OSK Research expects Dayang to land more tenders for brownfield services, which are large in value. "We continue to like Dayang's solid business model, which provides the company with recurring income and a constant cash flow," OSK Research comments.

Dayang's profit has been rising since the fiscal year ended Dec 31, 2010, after a big fall in FY2009 when upstream activities stopped abruptly due to the economic crisis. FY2012 is expected to be a record profit year. OSK Research forecasts net profit of RM95.5 million or 17.4 sen per share for FY2012, and RM116.1 million or 21.1 sen per share for FY2013.

Apart from earnings growth, Dayang has solid balance sheet with net cash of RM106 million, or 19 sen per share. The stock closed at RM2.46 last Friday, giving the company a market capitalisation of RM1.35 billion.

"Dayang is a rare oil and gas player that pays good dividends, which underlines its sound operating track record," says HwangDBS Research, which forecasts a dividend per share of 10 sen.

The company paid out 66% to 81% of its net profit as dividends in the past three years.

Mudajaya

The group could be a key beneficiary of the government's power planting-up programme. It is one of the few local power plant builders and its reputation speaks for itself.

Mudajaya's share price is trading at an undemanding and trailing price-earnings ratio (PER) of 5.5 times and prospective PER of 4.7 times, according to OSK Research.

There are many catalysts for Mudajaya. The group has an order book of RM3 billion, consisting of a balance of RM800 million for an equipment and procurement contract, RM900 million for civil works on the Tanjung Bin power plant extension and RM500 million for civil works on the Janamanjung plant.

Analysts say Mudajaya stands a good chance of bagging the engineering, procurement, construction and commissioning job for Petroliam Nasional Bhd's power plant in its RAPID project in Pengerang, Johor. The company has participated in the pre-qualification exercise for the job, the construction cost of which is estimated to be between RM800 million and RM1 billion.

One outstanding issue for Mudajaya is its Indian unit's fuel contract agreement with Coal India Ltd (CIL). Fortunately, says OSK in a recent note, the lengthy chapter on the coal issue may finally be closing as NTPC Ltd, CIL's biggest customer, is likely to sign its fuel supply agreement (FSA) by this month.

Mudajaya needs to iron out its FSA with Coal India on its 1,440MW power plant in the subcontinent, which is operated by joint-venture company R.K.M Powergem Ltd. Mudajaya owns 26% of the JV while RK Power holds the rest.

The conclusion of the agreement, says OSK, may spark a re-rating of Mudajaya. Hence, it has upgraded its recommendation to a "trading buy" and raised its fair value to RM3.13 based on a FY2013 PER of 4.7 times.

Since last December, the counter has had two "buy", two "trading buy" and one "outperform" recommendations and a target price ranging from RM3.13 to RM4.60. The stock closed at RM2.67 last Friday.

MyEG Services

The stock offers both defensive earnings and good growth potential.

When the company first started in 2000, there were doubts about its business model that offered the public online payment services, for instance road tax renewal and insurance premiums.

But MyEG Services has since proved itself, having achieved a compound annual growth rate of 31% in net profit in the past five financial years ended June 30. Net profit ballooned from RM7.06 million in FY2007 to RM27.3 million in FY2012.

The counter closed at 78.5 sen last Friday, giving the company a market capitalisation of RM467.1 million.

"We continue to like MyEG's business model, defensive qualities and ample scope for earnings growth through new business opportunities and services," says CIMB Research in a note.

InsiderAsia says MyEG is poised to see an acceleration in earnings in the medium term, spurred by the introduction of new JPJ and Immigration Department-related services. It expects MyEG's existing portfolio of services to continue to grow, although growth rates will slow as they near market saturation levels.

MyEG will see the full commercial launch of two new services, the vehicle transfer system and extension of foreign workers' work permit renewals (FWWPR) to other sectors (currently only for foreign maids) early this year.

For FWWPR, the two sectors that MyEG is targeting first are plantation and retail, which employ many foreign workers.

However, political risk is a concern for MyEG as its business is considered a government concession. Also the barrier to entry is not seen as high if the government decides to issue a similar licence to new operators.

But CIMB argues that irrespective of the general election's outcome, MyEG can be expected to continue to offer its services to the public at competitive rates, given the benefits of economies of scale that the company has built over the years.