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Bargains from the Tsunami Wreckage

"*A long-term growth investor, made most of his gains through traditional cyclical recovery and value plays.*" Peter Lynch

Catastrophe in US
Investors have been deserting equity markets in droves in recent months on growing concerns that global economic growth will suffer from the financial catastrophe in the US and across Europe. In the last couple of months, investors were bombarded by a series of negative developments in the US financial market. Firstly on the bail out of Bear Stern. Thereafter, Fannie Mae & Freddie Mac, the two mortgage giants were 'nationalised'. Soon after, the FED rescued insurance giant AIG from the brink of bankruptcy at a cost of USD85bil. This was followed in rapid succession by news on the collapsed of Lehman Brothers and Wachovia closing down. Weary investors dumped stocks, commodities and emerging market assets to salvage their eroded wealth.

Global central banks on a coordinated move, failed in their battle to stop the bleeding in the equity markets despite injecting trillions of dollars to help eased the credit crunch. The US government provided funds to distress US corporate and approved a US$700bn rescue scheme to spur financial activities, while European governments followed suit with similar rescue packages. European as well as Asian corporate also took equity stakes in ailing US investment banks to stop them from going bust. However, all the measures undertaken failed to shove up confidence and global equities headed south.

Asian Bourses Suffered Too
The months long slide in global stocks has wiped out trillion of dollars in wealth globally, as investors have been dumping stocks, commodities and emerging market assets on growing concerns that global economic growth will suffer from higher inflation, lower consumption and slowing business activities. Asian bourses were not spared the battering although its financial systems are much healthier and are not facing similar credit problems. Asian banks are also affected by a much lesser magnitude by the subprime defaults and suffered lesser writedowns.

Our local bourse, the Kuala Lumpur Composite Index (KLCI) suffered the same brutal downturn like its peers and has slipped 42% year to date. Selling by foreign funds and to a certain extent local institutions drove stocks deep into the red and we see bargains among this wreckage. Withdrawal of funds by foreigners exacerbated the fear when the currency depreciated causing further fear among foreign investors.

Asian Economies to Weather Storm
We concurred that global slowdown looks inevitable and global recession a possibility but we believe Asian economies are unlikely to suffer the fate similar to the 1997 crisis. Asian economies should be able to weather through the storm less scattered. Asian reserves are much healthier now as compared to back then and the factors driving growth in most Asian countries are more domestic in nature. Furthermore, intra-Asian trades especially with China have increased progressively over the past 10 years.

Though we do not possess the crystal ball to foretell when the market will bottom out and how long the sell-off will go but we do reckon the sharp declines in equities in the past few months have somewhat discounted much of the bad news. We also reckon that current share prices have taken care of a good deal of slower earnings growth ahead and the current weakness present investor a decent entry level to position one's fund for excellent returns in the long term. As it is near impossible to catch the market bottom, we therefore suggest to gradually accumulating on market weakness.

Set Accumulation Strategy

We listed below a baggage of downtrodden, blue chips, low PE, high discount to NTA and high dividend yield stocks for possible purchases. We reiterate that economic pains remain ahead and market volatility will likely to remain going forward. Henceforth, investors are advised to look at investment horizon of 2-3 years and gradually accumulate on market dips.

Rather than trying to time or guess where is the bottom, one should set in place an accumulation strategy to spread the investments over time either by buying on a regular basis, say monthly or to buy whenever the market dips say by 3% or when KLCI fell by 30 points.

Listed below are the house's top picks.

Top Picks	
Blue Chips	Commerce, Tanjong
Big Discount to NTA	Insas, Kulim
High Yield Stocks	Evergreen, TA Ent, Uchitec
Low PE Stocks	Evergreen, Faber Group, Kossan
Stocks that Fell Sharply	EPIC, Sino Hua-An

_(a)_ Blue Chips

Name	Financial Year-End	Price @ 31/12/07 (RM)	Price @ 28/10/08 (RM)	Percentage Drop YTD (%)	PE (x)	Premium/ (Discount) from NTA (%)	Gross Dividend Yield (%)
BUMIPUTRA-COMMERCE	Dec'07	11.00	5.85	-46.8	7.7	83.4	4.8
GENTING	Dec'07	7.90	3.94	-50.1	9.1	90.3	1.9
IOI CORPORATION	Jun'08	7.75	2.19	-71.7	6.5	65.9	6.9
MALAYAN BANKING	Jun'08	9.20	5.00	-45.7	7.1	27.6	7.8
RESORTS WORLD	Dec'07	3.88	2.23	-42.5	9.7	55.9	2.9
RHB CAPITAL	Dec'07	5.85	3.00	-48.7	6.4	71.4	5.4
SIME DARBY	Jun'08	11.90	5.80	-51.3	10.0	61.6	5.0
TANJONG PLC	Jan'08	18.50	10.00	-45.9	6.1	24.1	8.9
TENAGA NASIONAL	Aug'08	9.60	6.15	-35.9	8.7	56.9	6.3
YTL POWER INTERNATIONAL	Jun'08	2.63	1.70	-35.5	7.4	56.0	7.4

Sources: Bloomberg, PCM

Blue chips are best for long term investment especially when their share prices have fallen by 40-60% from their recent high. We like stocks with recurring cashflow such as gaming counters, Genting and Resorts World; power producer, Tanjong; and water/power utilities YTL Power. IOI is also attractive due to strong management. It is also the proxy to palm oil price which has fallen sharply where as Commerce is suitable for long term investment due to the change in political climate.

We will not recommend buying Maybank at this level, as impairment losses from its recent overvalued foreign purchases will dampen the share price for quite some time.

Among the blue chips Tanjong stands out strongly on strong cashflow, low PE, high dividend yield and excellent management.

(b) Big Discount to NTA

Name	Financial Year-End	Price @ 31/12/07 (RM)	Price @ 28/10/08 (RM)	Percentage Drop YTD (%)	PE (x)	Premium/ (Discount) from NTA (%)	Gross Dividend Yield (%)
LION DIVERSIFIED HOLDINGS	Jun'08	1.92	0.31	-83.9	4.9	-87.3	3.2
INSAS	Jun'08	0.64	0.24	-62.5	9.4	-80.3	0.0
DRB-HICOM	Mar'08	1.59	0.71	-55.3	2.5	-74.8	7.0
TA ENTERPRISE	Jan'08	1.28	0.54	-57.8	6.0	-64.0	13.9
EVERGREEN FIBREBOARD	Dec'07	1.70	0.43	-74.7	1.9	-60.2	15.1
LEADER UNIVERSAL	Dec'07	1.09	0.41	-62.8	2.5	-59.1	7.4
KULIM MALAYSIA	Dec'07	7.95	3.88	-51.2	3.8	-50.6	4.7
SCOMI MARINE	Dec'07	0.96	0.28	-70.8	3.8	-50.1	8.1
PADIBERAS NASIONAL	Dec'07	2.11	1.05	-50.2	4.8	-49.0	9.5
SUPERMAX CORP	Dec'07	2.18	0.93	-57.3	3.3	-26.5	5.4

Sources: Bloomberg, PCM

Lion Div share price has fallen sharply, following the drop in steel prices. However, LionD is guaranteed of US$38 per tonne for its 1.54m tpy DRI plant which supplies solely to its associated company, MegaSteel. That will work out to be RM0.54 per share over a tax-exempted period of 4-5 years. Nevertheless, cashflow uncertainties exist should MegaSteel fail to pay LionD. The other concerns are their large capital commitment for the proposed blast furnace and acquisitions of Amsteel bonds (RM400m) and further stakes in MegaSteel (RM338m). We recommend speculative buy at best.

Among the cash rich stocks, Insas' cash per share is RM0.32 (net of RM17m borrowings and excluding RM161m clients & remisiers deposits & also RM80m quoted investment) which is higher than the market price of RM0.24 per share, even after taking into consideration the conversion of all the 103m ICULS at RM1.00. The out-of-money warrants (567m) will not be converted and have been ignored.

Among the stocks with huge discount to NTA, we also like Kulim for its strong asset backing due to its large land bank in Johor.

(c) High Yield Stocks

Name	Financial Year-End	Price @ 31/12/07 (RM)	Price @ 28/10/08 (RM)	Percentage Drop YTD (%)	PE (x)	Premium/ (Discount) from NTA (%)	Gross Dividend Yield (%)
UCHI TECHNOLOGIES	Dec'07	2.67	0.95	-64.4%	5.1	102.1%	19.6%
EVERGREEN FIBREBOARD	Dec'07	1.70	0.43	-74.7%	1.9	-60.2%	15.1%
TA ENTERPRISE	Jan'08	1.28	0.54	-57.8%	6.0	-64.0%	13.9%
GLOBETRONICS	Dec'07	0.27	0.15	-46.3%	7.3	-14.7%	11.0%
SINO HUA-AN	Dec'07	0.78	0.21	-72.9%	2.02	-61.1%	11.0%
MULTI-PURPOSE HOLDINGS	Dec'07	2.32	1.02	-56.0%	5.0	-5.6%	10.3%
EPIC	Dec'07	2.62	0.77	-70.6%	3.42	-50.6%	10.1%
KIM LOONG RESOURCES	Jan'08	2.34	1.34	-42.8%	4.1	3.1%	9.6%
PADIBERAS NASIONAL	Dec'07	2.11	1.05	-50.2%	4.8	-49.0%	9.5%
PUBLIC BANK	Dec'07	11.00	8.20	-25.5%	10.8	274.4%	9.0%

Sources: Bloomberg, PCM

Based on past dividend payment, Uchitech's dividend yield is the highest. Its share price has plunged from RM3 to RM1 after the company guided lower earnings due to slower intake by its main customer, Jura, a coffee machine producer, following the change in energy savings requirements. Nevertheless, Uchitech is one of the few stocks quoted on Bursa with little capex requirement or its business and hence its ability to pay high dividend from its strong cashflow. Its pioneer status has just been renewed for another 5 years from Jan 2008. Despite the regular purchases by Lembaga Tabung Haji (7.3% stake now), the share price continues to fall under the selling pressure by foreign institutions.

Other than Uchitech, Evergreen and TA Enterprise (TA) also provide high dividend yield.

The sustainability of dividend payment by TA is better due to its strong cash position, limited capital requirement and good dividend payment history even during bad times. Out of the RM1.57 NTA, the net cash per share is RM0.17. The value excludes RM450m cash held in transit for clients and remisiers. TA is asset rich with prime land bank in KL which were bought many years ago.

Evergreen's pay-out might be affected by global economic slowdown but the recent strengthening of US$ will help to boost its margin from the export of fiberboard. Its gearing of 22% is reasonable.

(d) Low PE Stocks

Name	Financial Year-End	Price @ 31/12/07	Price @ 28/10/08	Percentage Drop YTD	PE	Premium/ (Discount) from NTA	Gross Dividend Yield
		(RM)	(RM)	(%)	(x)	(%)	(%)
EVERGREEN FIBREBOARD	Dec'07	1.70	0.43	-74.7	1.9	-60.2	15.1
SUNWAY HOLDINGS	Jun'08	1.84	0.57	-69.3	2.1	-35.1	2.8
LEADER UNIVERSAL	Dec'07	1.09	0.41	-62.8	2.5	-59.1	7.4
RCE CAPITAL	Mar'08	0.84	0.28	-66.7	2.8	0.0	3.6
FABER GROUP	Dec'07	1.39	0.52	-62.6	2.9	-52.3	5.8
SCOMI GROUP	Dec'07	1.39	0.30	-78.8	3.0	1.7	5.4
SUPERMAX CORP	Dec'07	2.18	0.93	-57.3	3.3	-26.5	5.4
PANTECH GROUP HOLDINGS	Feb'08	1.20	0.50	-58.2	3.7	-2.0	4.0
SCOMI MARINE	Dec'07	0.96	0.28	-70.8	3.8	-50.1	8.1
KOSSAN RUBBER	Dec'07	3.90	2.14	-45.1	4.5	36.3	4.4

Sources: Bloomberg, PCM

Evergreen's low PE is partly due to the RM30m fire insurance claim received in 1Q08 for its Indonesian plant. Although its margin was affected by weak US$, higher rubber and glue prices in the past two quarters, the tide has turned now. Even though, the global credit crunch will see a slowdown in exports of Evergreen's medium density fiberboards which are manufactured in Malaysia, Thailand and Indonesia plants, the higher margin from the aforementioned factors and better economies of scale should offset the lower sales.

Among the other lower PE stocks, we like Faber for their recurring hospital maintenance concession. After the disposal of Sheraton Hanoi Hotel, Faber is now in the process of redeeming 115m RCPS. After which it still has net cash of RM46m. We also like Pantech for the niche business in pipe distribution for the oil & gas industry.

We recommend Kossan for long term investment due to the steady rubber glove demand even during recession. Although Supermax (another examination gloves producer) has cheaper valuation, the stock is technically weaker and higher risk due to higher gearing of 85% against Kossan's 63%.

(e) Stocks that Fell Sharply

Name	Financial Year-End	Price @ 31/12/07	Price @ 28/10/08	Percentage Drop YTD	PE	Premium/ (Discount) from NTA	Gross Dividend Yield
		(RM)	(RM)	(%)	(x)	(%)	(%)
LION DIVERSIFIED HOLDINGS	Jun'08	1.92	0.31	-83.9%	4.9	-87.3%	3.2%
SCOMI GROUP	Dec'07	1.39	0.30	-78.8%	3.0	1.7%	5.4%
EVERGREEN FIBREBOARD	Dec'07	1.70	0.43	-74.7%	1.9	-60.2%	15.1%
SINO HUA-AN INTERNATIONAL	Dec'07	0.78	0.21	-72.9%	2.02	-61.1%	11.0%
IOI CORPORATION	Jun'08	7.75	2.19	-71.7%	6.5	65.9%	6.9%
EPIC	Dec'07	2.62	0.77	-70.6%	3.42	-50.6%	10.1%
RCE CAPITAL	Mar'08	0.84	0.28	-66.7%	2.8	0.0%	3.6%
UCHI TECHNOLOGIES	Dec'07	2.67	0.95	-64.4%	5.1	102.1%	19.6%
LEADER UNIVERSAL	Dec'07	1.09	0.41	-62.8%	2.5	-59.1%	7.4%
FABER GROUP	Dec'07	1.39	0.52	-62.6%	2.9	-52.3%	5.8%

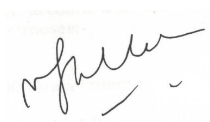
Sources: Bloomberg, PCM

Some of the stocks which fell sharply this year include Lion Div, Scomi Group, Evergreen, Sino Hua-An and EPIC.

Certain stocks that fell sharply could be due to specific reasons. We have specifically excluded property, construction, building material stocks and most of plantation stocks.

We like cash rich stocks like Sino Hua-An and EPIC. Despite the recent completion of 50% expansion of its metallurgy coke costing RM177m, Hua-An has a strong balance sheet and will be able to weather the recent slowdown of coke demand. As for EPIC, it has strong cashflow from its Kemaman port operations. Its cash per share is already RM0.22 which will allow the company to maintain its 7.8 sen dividend going forward.

For Phillip Capital Management Sdn Bhd



Nona Salleh
Executive Chairperson