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Searching for Values

KLCI: 1,877.05

Sub-par PEGs among the Top 100 stocks

(2014 Year-end Target: 1,900 points)

- The market is expensive looking at it top-down... The current year PER multiple of FBM KLCI now stands at 16.6x. With a standard deviation (SD) of 0.92 and Price Earnings Growth (PEG) of 1.93, the valuations of FBM KLCI are relatively stretched against its historical benchmark. Furthermore, on the PEG valuation yardstick in particular, the local benchmark surpassed most other regional markets including the broader MSCI Asia-Pacific ex-Japan (MSCI-APxJ) Index.

Valuations of FBM KLCI against regional markets

	FBM KLCI	Singapore FSSTI	Jakarta JCI	Bangkok SET	MSCI-APxJ
PEG	1.93	1.58	0.94	1.07	1.22
SD	0.92	0.30	1.08	1.52	-0.27
PER	16.6	14.6	16.5	15.0	13.0

Source: Bloomberg, MIDFR Note: Data for SD calculations from Jan 2006 to present

- ...but bottom-up analysis uncovers some values. An acceptable rule of thumb with regard to the PEG valuation is that 1.0 being the parity with anything below considered as a bargain, and vice versa. Therefore, applying the same PEG yardstick on individual stocks among the Top 100 market capitalized companies on Bursa Malaysia helped to reveal some compelling valuation laggards.

List of stocks with PEG of less than 1.0 among the Top 100

Name	Mkt Cap (RM mn)	Price 24-Jul-14	Price (%YTD)	PER *	2-y CAGR **	PEG
AirAsia	6,651.31	2.40	9.1%	10.44	23.3%	0.45
IOI Properties	8,097.54	2.51	-20.3%	16.67	33.6%	0.50
DRB-Hicom	4,253.12	2.21	-21.6%	12.22	22.9%	0.53
Mah Sing Group	3,439.00	2.39	5.8%	10.54	16.6%	0.64
Press Metal	2,852.75	5.25	126.3%	13.19	20.4%	0.65
SP Setia	9,078.04	3.60	19.6%	18.37	27.1%	0.68
Coastal Contracts	2,688.82	5.07	47.8%	13.49	18.0%	0.75
MBSB	6,125.59	2.30	4.1%	9.35	12.3%	0.76
Tan Chong Motor	3,505.61	5.38	-13.1%	13.73	17.4%	0.79
MRCB	2,992.20	1.71	32.6%	44.74	56.3%	0.79
MMC Corp	7,369.04	2.45	-14.9%	24.95	29.0%	0.86
Boustead Holdings	5,336.36	5.16	-8.2%	12.74	13.9%	0.92
Cahaya Mata Sarawak	4,135.39	4.00	74.7%	19.95	21.8%	0.92
CIMB Group	57,772.07	6.91	-9.3%	12.29	13.3%	0.92
Bumi Armada	9,648.39	3.34	-17.1%	18.91	19.7%	0.96
IJM Corp	9,768.91	6.70	13.9%	14.54	15.1%	0.97
UMW Oil & Gas	8,842.58	4.07	1.5%	31.95	32.9%	0.97
Affin Holdings	6,839.18	3.52	-10.2%	9.51	9.7%	0.98


Source: Bloomberg, MIDFR; Notes: * based on earnings of FY1 (current), ** based on earnings growth of FY2 (next) & FY3 (subsequent)

- **AirAsia came on top...** It should be noted that the above PER and PEG calculations were respectively based on consensus earnings estimates for current (FY1) financial year as well as the compounded annual growth of consensus forecasted earnings for next (FY2) and subsequent (FY3) financial years. The final tally shows AirAsia came on top with PEG of 0.45, a whopping 77% discount to 1.93 for the benchmark FBM KLCI.
- **...with no one sector over represented.** In total, there are 18 stocks among the Top 100 which currently trade at below the valuation parity. Moreover, no one sector dominates the list with Property, Auto, Oil & Gas and Bank/Finance each having 3 representatives on the table.
- **The price potential of these stocks may be further refined** by looking at their respective 12-month target prices. Based on the list below, we can deduce that stocks such as AirAsia, IOI Properties and DRB-Hicom are potential winners in both short- and medium-term while SP Setia and MBSB may face short-term resistance but should break above thereafter.

List of stocks with 12-month TP and % upside

Name	Price 24-Jul-14	Target Price (TP)	% upside
AirAsia	2.40	3.14	30.8%
IOI Properties *	2.51	3.31	32.0%
DRB-Hicom *	2.21	3.08	39.3%
Mah Sing Group	2.39	2.53	5.9%
Press Metal *	5.25	5.73	9.2%
SP Setia	3.60	3.11	-13.6%
Coastal Contracts *	5.07	5.93	17.1%
MBSB	2.30	1.88	-18.3%
Tan Chong Motor	5.38	5.80	7.8%
MRCB	1.71	2.16	26.3%
MMC Corp *	2.45	3.39	38.5%
Boustead Holdings *	5.16	5.93	14.9%
Cahaya Mata Sarawak *	4.00	4.03	0.6%
CIMB Group	6.91	7.80	12.9%
Bumi Armada	3.34	4.51	35.0%
IJM Corp	6.70	7.26	8.4%
UMW Oil & Gas *	4.07	4.18	2.6%
Affin Holdings	3.52	3.80	8.0%

Source: Bloomberg, MIDFR; Note: * Bloomberg consensus TP (MIDFR otherwise)

- **Reiterate FBM KLCI 2014 year-end top-down target at 1,900 points.** Despite the existence of some pockets of value, the prevailing reality is that the overall valuation picture is not too attractive. At 112.66, the 2014 estimated FBM KLCI earnings denote a modest 7.4%yoy growth over 2013 figure. With such tepid earnings growth level and coupled with the already high valuation, we foresee rather limited fundamental impetus for the FBM KLCI to chart substantially higher ground. Hence we reiterate our FBM KLCI 2014 year-end target of 1,900 points, which is equivalent to 16.9x PER multiple of 2014 earnings. 

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.