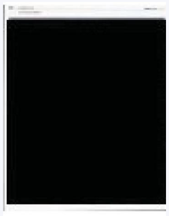


29 JUL, 2019

The stock market is underpricing risks

The Edge, Malaysia

The stock market is underpricing risks

TONG'S VALUE INVESTING PORTFOLIO

In the aftermath of the global financial crisis (GFC), central banks around the world embraced aggressive monetary policies to minimise the fallout and kick-start the recovery process. That includes cutting policy rates to historic lows, even into negative territory, as well as launching massive quantitative easing programmes.

A decade later, the world's biggest central bankers are, once again, poised for a fresh round of monetary easing as global economic growth loses momentum.

By putting a cost on deposits, policymakers hope to push banks-investors further out on the risk spectrum and boost credit expansion. Substantially reducing the cost of borrowings would also encourage businesses to invest and expand.

And companies have taken advantage of this — in advanced countries and even more so in emerging economies. Statistics from the Bank of International Settlements showed that Chinese corporates, in particular, have been on a debt binge, with total borrowings rising more than fourfold in the past decade. Corporate debt-to-GDP stood at 152% at end-2018, up from 98% at end-2008 (see Chart 1 on Page 22).

Borrowings by US corporates too have risen since the GFC, albeit by a smaller quantum. Total borrowings rose 43%, while debt-to-GDP is up from 72.6% at end-2008 to 74.4% last year.

We see a similar rise in overall gearing for companies listed on the Singapore Exchange and, to a lesser extent, in Malaysia. Net gearing for the former more than doubled from 21.5% in 2010 to 43.4%, on average, while that for companies listed on Bursa Malaysia rose from 26.5% to 33% over the same period (see Chart 2 on Page 23).

The danger is that the flood of liquidity and historic low costs have allowed for even companies with weak balance sheets to increase their debt piles. Indeed, the Organisation for Economic Co-operation and Development noted that the share of lowest-rated investment grade bonds (BBB) has almost doubled to nearly 54% of the total outstanding, a historic high.

Yields on government bonds have fallen sharply. There are currently more than US$13 trillion ($17.8 trillion) worth of not just government bonds but also corporate debt that are yielding less than zero returns. The risk premium for corporate bonds has narrowed significantly. This month, Europe saw more than a dozen junk bonds (below investment grade) trading with negative yields.

All of the above suggests that investors may be under discounting risks in the chase for

Malaysian Portfolio

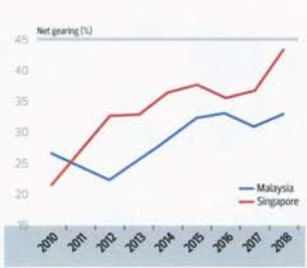
	QUANTITY	AVERAGE COST (RM)	COST OF INVESTMENT (RM)	CURRENT PRICE (RM)	CURRENT VALUE (RM)	GAIN / (LOSS) (RM)	GAIN / (LOSS) (%)
SHARES HELD:							
Ajinomoto (Malaysia) Bhd	1,500	11.81	17,720.0	17.500	26,250.0	8,530.0	48.1%
Y.S.P. Southeast Asia Holding Bhd	10,500	2.33	24,447.5	2.460	25,830.0	1,382.5	5.7%
Formosa Prosonic Industries Bhd	18,000	1.44	25,920.0	1.710	30,780.0	4,860.0	18.8%
Poh Huat Resources Holdings Bhd	13,000	1.47	19,110.0	1.530	19,890.0	780.0	4.1%
Superlon Holdings Bhd	15,000	1.28	19,215.0	0.915	13,725.0	(5,490.0)	(28.6%)
CIMB Group Holdings Bhd	6,000	5.14	30,840.0	5.170	31,020.0	180.0	0.6%
JHM Consolidation Bhd	26,000	1.15	29,770.0	1.300	33,800.0	4,030.0	13.5%
Mega First Corporation Bhd	4,200	3.60	15,120.0	3.89	16,338.0	1,218.0	8.1%
Leong Hup International Berhad	16,000	0.95	15,200.0	0.93	14,800.0	(400.0)	(2.6%)
Total			**197,342.5**		**212,433.0**	**15,090.5**	**7.6%**
Total shares held			**197,342.5**		**212,433.0**	**15,090.5**	**7.6%**
Cash balance (as a % of portfolio)					87,582.6		29.2%
Realised profits / (losses)					84,925.1		
Change since last update July 18, 2019							
Portfolio							1.0%
FBM KLCI							0.5%
Portfolio returns since inception			**200,000.0**		**300,015.6**	**100,015.6**	**50.0%**
Portfolio returns (annualised)							**10.4%**
Portfolio Beta							**0.91**
Risk adjusted returns since inception							**55.0%**

PERFORMANCE COMPARISON	AT PORTFOLIO START	CURRENT	CHANGE	RELATIVE PORTFOLIO OUTPERFORMANCE
FBM KLCI	1,829.7	1,656.6	(9.5%)	59.5%
FBM EMAS	12,700.4	11,763.3	(7.4%)	57.4%

*Current price is as at July 25, 2019

*Portfolio started on Oct 10, 2014 with RM200,000.

Gearing trends higher for Malaysia and Singapore companies



Corporate debt rising around the world

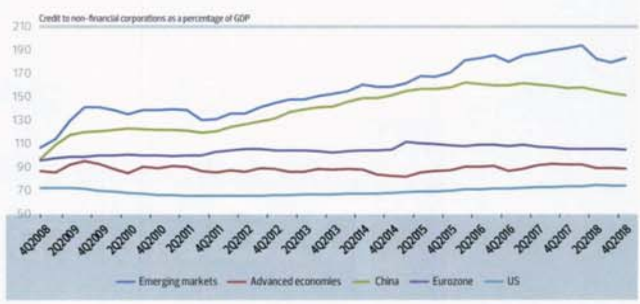


Table 1

ABSOLUTELYSTOCKS.COM

Select Singapore Exchange companies with weak interest coverage and negative cash flows from operations

NAME	CASH FLOW FROM OPERATION (MIL) 2015	2016	2017	2018	NET DEBT/(CASH) (MIL) 2018	NET DEBT/(CASH) FOUR-YEAR CAGR (%)	GEARING (%)	INTEREST COVERAGE (TIMES)	MARKET CAP AS AT JULY 19 (MIL)	REPORTING CURRENCY	TTM PER (TIMES)
Sembcorp Marine	(989.1)	566.5	49.6	(169.4)	3,391.7	7.2	146.7	1.4	3113.1	SGD	NA
GSH Corp	26.1	(11.7)	17.4	(13.6)	317.7	-15.8	84.3	1.8	783.6	SGD	155.6
Halcyon Agri Corp	(1.5)	(70.9)	(63.8)	(59.6)	786.8	26.2	111.3	1.1	773.6	USD	NA
Yoma Strategic Holdings	(21.3)	11.8	59.8	(17.4)	188.8	220.1	35.1	1.6	729.9	USD	60.7
Roxy-Pacific Holdings	313.5	(2.6)	(34.6)	(147.3)	751.3	22.1	151.4	1.6	508.6	SGD	23.7
Banyan Tree Holdings	(109.9)	(14.0)	118.7	19.5	339.6	-11.2	52.6	0.9	407.1	SGD	NA
GK Goh Holdings	9.3	(83.4)	104.0	(0.3)	102.1	59.3	23.6	0.1	277.7	SGD	NA
Serial System	31.1	14.2	(20.0)	(1.4)	155.9	4.1	114.0	1.9	71.7	USD	3.5
TEE Land	(0.8)	7.3	(18.6)	(60.3)	204.2	7.1	134.7	0.5	71.5	SGD	NA
TEE International	(7.5)	2.3	(11.9)	(63.2)	271.4	5.0	307.4	0.5	66.0	SGD	NA
Blumont Group	(8.5)	(1.5)	(2.2)	(0.2)	4.9	-41.7	145.6	1.7	55.1	SGD	NA
Eneco Energy	(8.0)	(5.7)	(4.8)	(1.5)	1.0	-151.7	8.2	-13.2	44.0	SGD	NA
Addvalue Technologies	(0.6)	(0.7)	(3.4)	(3.6)	1.6	-22.7	21.1	-53.6	43.0	USD	NA
Kencana Agri	(19.5)	(7.2)	(10.4)	16.4	253.9	0.9	1,146.5	0.4	37.3	USD	NA
Enviro-Hub Holdings	(6.2)	6.4	(0.6)	(5.4)	92.7	-40.7	192.2	0.8	30.0	SGD	2,725.5
Federal International (2000)	41.1	(11.7)	(12.5)	8.6	5.5	-201.7	6.8	-4.4	28.0	SGD	NA
Green Build Technology	(18.6)	(142.4)	(205.5)	18.4	401.0	-970.0	573.9	1.5	27.1	RMB	11.2
AVIC International Maritime Holdings	(106.4)	(188.1)	(1,569.1)	(35.4)	2,237.2	77.3	1,259.5	1.7	26.0	RMB	5.2
Cosmosteel Holdings	(10.9)	(1.2)	(5.8)	3.7	15.0	-3.4	20.4	-45.1	24.1	SGD	NA
3Cnergy	(3.0)	(5.4)	(10.1)	(5.6)	40.2	-595.8	47.9	-9.9	18.4	SGD	NA
Sinocloud Group	(43.1)	(16.7)	2.1	5.8	62.5	-419.6	22.2	-0.8	14.3	HKD	NA
Casa Holdings	(2.0)	(1.2)	(0.2)	0.6	4.7	-43.2	7.5	1.7	14.3	SGD	21.1
Asiaphos	5.3	(2.3)	(1.0)	0.3	3.9	-196.5	5.1	-23.9	11.4	SGD	NA
Hor Kew Corp	(2.9)	(1.5)	5.9	5.9	33.6	5.5	56.7	-15.3	7.8	SGD	NA
Regal International Group	(12.4)	(36.9)	(29.0)	(1.7)	70.2	42.1	386.4	-4.6	6.1	RM	NA
Acma	(0.2)	(0.4)	4.2	(5.1)	7.2	-258.1	29.1	0.8	5.9	SGD	NA
Leader Environmental Tech	(46.3)	26.3	(11.4)	(11.9)	53.4	0.3	82.7	-0.9	4.9	RMB	NA
CFM Holdings	(2.2)	2.1	(0.0)	0.0	2.5	-8.0	22.8	0.1	3.2	SGD	NA
Joyas International Holdings	(20.7)	(14.8)	(23.2)	(0.5)	10.6	-4.8	29.3	-1.6	1.9	HKD	NA

29 JUL, 2019

The stock market is underpricing risks

The Edge, Malaysia

Table 2

ABSOLUTELYSTOCKS.COM

Select Bursa Malaysia companies with weak interest coverage and negative cash flows from operations

NAME	CASH FLOW FROM OPERATION (MIL) 2015	2016	2017	2018	NET DEBT/(CASH) (MIL) 2018	NET DEBT/(CASH) FOUR-YEAR CAGR (%)	GEARING (%)	INTEREST COVERAGE (TIMES)	MARKET CAP AS AT JULY 19 (MIL)	REPORTING CURRENCY	TTM PER (TIMES)
Lafarge Malaysia	386.3	282.3	(110.0)	(173.4)	496.0	155.6	19.5	(4.8)	2,855.0	RM	NA
Ekovest	(138.4)	116.1	(59.6)	(144.1)	2,588.9	39.9	129.9	2.0	2,243.3	RM	18.9
WCT Holdings	(536.0)	(258.2)	(137.3)	(205.1)	3,258.2	16.3	102.2	2.0	1,649.1	RM	14.5
YNH Property	(8.8)	(29.3)	(0.4)	37.6	757.3	-0.5	83.3	1.9	1,418.4	RM	80.2
Berjaya Corp	(18.9)	683.2	(182.6)	222.4	4,412.9	-8.8	64.8	1.1	1,317.1	RM	NA
KNM Group	(12.1)	(218.6)	(111.4)	(70.5)	1,059.5	26.8	68.8	(5.1)	942.0	RM	NA
Iskandar Waterfront City	115.9	(51.9)	(79.2)	(67.1)	199.4	31.8	24.6	0.0	833.2	RM	NA
Malayan United Industries	-	(7.1)	30.8	(15.4)	597.5	Na	112.2	1.0	674.5	RM	NA
Hextar Global	8.1	1.9	(14.1)	(1.7)	37.8	33.3	60.8	(4.3)	640.1	RM	NA
Rapid Synergy	(6.5)	5.8	(11.2)	6.4	144.4	1.1	102.2	1.6	614.7	RM	251.7
WCE Holdings	(35.5)	9.3	(0.3)	(1.7)	988.2	Na	141.3	(64.1)	566.6	RM	27.7
Kumpulan Perangsang Selangor	(27.2)	(16.3)	(55.3)	(1.1)	444.7	Na	39.2	1.7	524.0	RM	NA
JAKS Resources	118.5	47.3	(8.9)	(37.6)	267.6	-17.1	32.7	0.0	504.9	RM	19.5
Iris Corp	(79.7)	(47.8)	54.5	34.4	67.4	-44.6	34.8	(12.6)	459.8	RM	12.0
Green Packet	(7.8)	11.2	15.6	(44.1)	202.4	16.3	118.9	(1.8)	454.3	RM	NA
Amcorp Properties	63.2	(5.0)	62.9	(39.4)	195.4	52.3	18.8	0.1	325.5	RM	7.5
YTL Land & Development	(135.5)	(138.0)	(98.4)	(23.3)	2,108.9	10.0	272.0	0.7	277.8	RM	NA
Parkson Holdings	608.9	(94.3)	293.6	(871.5)	341.3	Na	15.3	1.7	266.8	RM	NA
Ahmad Zaki Resources	(262.3)	(370.6)	(193.0)	(266.8)	2,003.5	42.2	434.1	1.9	250.4	RM	27.0
T7 Global	(23.0)	(9.4)	31.5	(62.3)	2.9	Na	2.0	1.5	246.4	RM	41.4
Symphony Life	(99.9)	8.9	(49.2)	(58.3)	421.7	22.3	66.5	(0.2)	238.7	RM	3.1
Landmarks	(26.0)	(23.8)	(47.9)	(6.2)	17.2	-8.9	1.0	(1.5)	238.0	RM	NA
Petra Energy	39.8	(5.4)	(86.9)	(24.9)	29.2	-39.0	8.7	1.4	237.5	RM	NA
Nextgreen Global	10.1	(3.9)	(7.7)	(0.8)	5.3	Na	4.5	1.1	224.3	RM	172.2
Carimin Petroleum	15.0	(21.0)	12.2	(5.0)	5.2	Na	3.9	(2.5)	203.5	RM	64.3
Metrod Holdings	(38.7)	(85.8)	(95.8)	93.2	512.4	18.0	121.3	1.6	198.0	RM	27.8
Omesti	(39.4)	(29.5)	3.5	(29.0)	50.4	10.5	32.6	(12.5)	196.1	RM	NA
Enra Group	(10.6)	(28.6)	48.8	(25.5)	29.7	-41.4	19.5	(0.7)	182.1	RM	NA
Mudajaya Group	(152.1)	(7.2)	102.9	1.8	562.3	5.7	260.4	(2.7)	174.0	RM	NA
Menang Corp (M)	(141.3)	(0.9)	(7.8)	6.7	242.2	-25.6	76.3	0.8	165.9	RM	19.6
Pasdec Holdings	6.7	(16.2)	10.2	(39.6)	71.5	-3.8	20.5	0.4	150.1	RM	NA
Puncak Niaga Holdings	53.3	(102.2)	(306.7)	160.7	388.6	Na	28.5	(2.0)	149.8	RM	NA
JMR Conglomeration	6.0	(0.4)	3.3	(0.8)	14.8	24.9	15.6	(0.6)	145.8	RM	NA
Advance Synergy	0.5	(21.3)	13.4	(10.0)	2.3	Na	0.5	0.2	134.7	RM	NA
Box-Pak (Malaysia)	30.5	0.4	(46.1)	(4.5)	243.0	55.2	97.1	1.7	132.1	RM	NA
Protasco	(31.5)	(142.3)	392.7	(52.0)	95.9	5.7	28.8	0.2	131.5	RM	NA
PLB Engineering	(1.0)	3.3	(6.8)	26.0	215.6	31.6	143.5	1.8	129.3	RM	NA
Avillion	15.3	(8.9)	5.0	(16.4)	99.1	-6.5	35.6	0.8	128.8	RM	NA
Olympia Industries	(3.3)	29.0	(32.8)	6.7	95.8	-20.2	23.5	0.4	127.9	RM	29.0
Sumatec Resources	(3.1)	(50.2)	(15.3)	(1.1)	22.2	1.2	4.3	(26.5)	127.6	RM	NA
Bina Darulaman	23.1	(10.9)	268.4	(30.7)	96.4	-22.8	21.0	(2.9)	112.4	RM	NA
GSB Group	(16.9)	(2.0)	1.1	(12.3)	62.0	29.7	115.9	0.6	110.5	RM	NA
WZ Satu	12.2	19.5	(37.3)	(49.6)	58.4	Na	24.9	(3.8)	107.0	RM	NA
Sarawak Cable	(39.0)	(83.6)	117.5	17.8	527.9	0.1	217.2	0.6	104.6	RM	NA
Meridian	(0.4)	(8.5)	13.5	(6.3)	36.4	-17.2	30.8	(5.2)	99.0	RM	NA
Lien Hoe Corp	(0.7)	8.6	(25.0)	(42.1)	29.1	-21.9	6.1	(1.9)	96.4	RM	NA
Rex Industry	-	(7.0)	13.8	(0.6)	9.5	Na	7.5	(6.5)	96.2	RM	NA
Minda Global	(32.1)	(3.0)	(14.3)	6.1	25.8	Na	11.2	(4.3)	86.8	RM	NA
Sarawak Consolidated Industries	1.0	1.0	(2.1)	(1.6)	20.9	15.5	42.8	(1.8)	83.3	RM	NA
DBE Gurney Resources	(10.4)	(5.5)	(6.4)	(1.2)	0.4	-74.4	0.6	(17.4)	80.4	RM	NA
Kim Teck Cheong Consolidated	-	(40.4)	(24.0)	(17.0)	180.1	Na	220.2	0.9	79.1	RM	6.5
OCR Group	(13.8)	(13.3)	(30.4)	(44.4)	51.8	Na	45.9	(4.8)	78.4	RM	NA
Global Oriental	(82.8)	427.7	(121.0)	(123.5)	88.5	-22.1	23.6	(3.2)	75.0	RM	NA
Acoustech	(15.1)	(6.4)	0.4	(14.6)	7.8	Na	7.6	(130.6)	74.9	RM	NA
Integrated Logistics	2.2	(13.2)	(9.8)	4.7	52.7	Na	27.6	(9.6)	69.9	RM	NA
Leweko Resources	(6.7)	(16.4)	(2.2)	(4.0)	16.3	-17.0	19.3	(1.9)	69.2	RM	NA
Eden	(7.7)	(4.1)	(9.5)	14.7	70.1	-15.5	28.6	0.5	65.2	RM	NA
Chuan Huat Resources	62.2	(10.1)	(28.6)	1.2	211.0	18.1	66.5	1.6	64.1	RM	7.7
Tiger Synergy	(14.8)	(9.5)	(4.4)	(5.6)	7.4	Na	3.2	(3.0)	63.5	RM	NA
Concrete Engineering Products	12.1	(3.9)	(0.0)	(5.7)	54.2	22.8	50.2	0.4	63.1	RM	NA
TH Heavy Engineering	(112.2)	60.6	32.6	(159.5)	88.0	-35.6	161.4	(86.7)	61.7	RM	4.2
Adventa	2.9	4.5	(1.2)	(1.1)	19.9	6.6	36.0	(13.9)	61.1	RM	NA
Zelan	(119.0)	(36.4)	(5.9)	(4.2)	536.3	21.5	1,211.8	(0.1)	59.1	RM	NA
Prinsiptek Corp	(19.9)	(0.9)	-	15.8	64.3	-7.9	33.0	1.8	56.5	RM	55.4
Versatile Creative	(59.1)	(10.7)	0.4	(0.2)	16.8	0.6	32.2	(2.2)	46.1	RM	NA
Komarkcorp	12.5	11.1	(8.8)	(14.4)	10.9	-37.3	17.7	(13.9)	45.5	RM	NA
Pinehill Pacific	0.9	3.7	(3.3)	(1.6)	124.6	0.0	139.1	0.9	44.9	RM	NA
Perak Corp	(8.5)	(114.3)	45.0	77.1	494.5	Na	175.9	(2.3)	41.5	RM	NA
Pasukhas Group	(4.7)	(0.9)	(55.9)	(10.9)	24.2	Na	32.5	0.1	40.7	RM	NA
Berjaya Media	1.3	(1.2)	(4.2)	(4.2)	4.5	Na	24.6	(45.0)	40.0	RM	NA
Zecon	(61.8)	157.9	(99.9)	(262.2)	416.6	38.1	147.8	(1.8)	39.6	RM	1.7
Bertam Alliance	(26.6)	39.9	91.9	(13.4)	8.7	-54.4	4.7	(24.2)	39.3	RM	NA
DPS Resources	(20.5)	9.5	2.4	(3.4)	2.3	-29.7	2.1	(0.7)	38.2	RM	NA
Pegasus Heights	10.2	2.5	(2.8)	(9.1)	12.8	5.5	13.7	(17.9)	36.0	RM	NA
Bintai Kinden Corp	(69.5)	8.2	5.9	(54.3)	50.2	-35.4	68.6	(1.6)	36.0	RM	107.3
South Malaysia Industries	8.7	(4.3)	(1.9)	(5.6)	7.8	Na	4.4	(2.2)	31.5	RM	NA
Eastland Equity	0.0	(4.6)	1.9	(8.4)	53.2	3.1	30.2	(0.9)	31.0	RM	NA
Ipmuda	(4.0)	(2.0)	-	2.9	59.9	-5.3	50.1	(4.1)	30.4	RM	NA
GETS Global	(1.1)	1.2	-	(12.9)	18.5	18.4	41.4	(5.9)	30.2	RM	NA
K-Star Sports	(29.0)	(68.3)	(5.3)	4.0	34.0	24.2	72.7	(5.7)	29.8	RMB	NA
Digistar Corp	(95.3)	(81.7)	14.9	7.3	213.4	17.4	335.4	0.5	29.3	RM	NA
Euro Holdings	(1.4)	(17.6)	(8.8)	12.5	35.0	16.6	46.9	1.2	28.1	RM	NA
YLI Holdings	6.3	(9.4)	12.7	(8.1)	1.6	Na	1.1	(1.9)	27.8	RM	NA
LFE Corp	(2.1)	(19.3)	2.0	(0.4)	0.2	-75.5	0.5	(10.9)	27.6	RM	NA
Grand Hoover	3.3	1.5	(0.2)	(0.9)	7.2	31.6	15.5	(0.4)	23.4	RM	NA
Plastrade Technology	4.7	(0.3)	0.1	(3.9)	2.0	63.4	6.6	(14.5)	23.3	RM	NA
Green Ocean Corp	0.0	0.3	(6.6)	(10.0)	12.8	Na	63.6	(15.8)	23.2	RM	11.8
MESB	4.5	(9.8)	3.1	(1.3)	0.5	Na	0.6	(1.5)	22.5	RM	7.6
Asdion	(0.9)	(1.7)	0.1	2.0	1.3	2.2	13.8	(16.2)	21.1	RM	NA
CME Group	(14.1)	1.4	-	(19.9)	29.8	8.2	44.2	(3.4)	20.5	RM	NA
BTM Resources	(2.9)	1.4	(0.6)	(0.2)	2.4	Na	8.4	(1.3)	15.6	RM	NA
Malaysia Pacific Corp	(0.1)	3.2	(2.0)	1.5	147.8	17.4	108.2	0.9	12.9	RM	NA

yields. How will this end and are we headed into another financial meltdown?

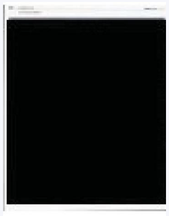
Tables 1 and 2 show select companies listed on Bursa and SGX that have poor interest coverage and cash flows from operations. We are not saying these companies are in financial trouble or bound for failure. Some may be taking advantage of cheap debt while rewarding shareholders with higher dividends and buybacks. These discretionary payouts can be reduced in case of financial distress.

Notably, borrowing to fund business expansions, investment in productive assets and value-accretive mergers and acquisitions is positive, as these would generate greater incomes down the road.

On the other hand, cheap money could also lull businesses into investments with too-low returns or allow bad companies to survive far longer than they should. These zombie companies are a waste of precious resources that would be better applied elsewhere in the economy.

Companies with high levels of borrowings

CONTINUES NEXT PAGE



29 JUL, 2019

The stock market is underpricing risks

The Edge, Malaysia

PE for many highly geared companies is higher than those with net cash

FROM PREVIOUS PAGE

and/or generate insufficient cash flow to cover interest expenses would be particularly vulnerable when the economy turns down or if inflation and interest rate start to rise, particularly if the debt needs to be refinanced.

It does appear that, by and large, listed Singapore companies have used their debt wisely. There are only 29 companies that met our cash-flow criteria, many of which are smaller-cap stocks. The list of Malaysian companies is longer, triple the number. This could be a reflection of what I wrote about some weeks back — Malaysian companies have generally not done as well over the past five years.

To quickly recap, total net profit for companies listed on the Bursa throughout 2014 to 2018 fell at a compounded rate of 6.8% a year while net profit margin contracted, from an average of 11.3% in 2014 to 7.7% in 2018. On the other hand, profits for Singapore companies showed an average compound annual growth rate of 2% over the same period. Average net margin trended higher, from an average of 7.1% in 2014 to 8.8% in 2018.

Given the prevailing low returns on bank deposits and bond yields, stocks present an attractive alternative. But one must evaluate the underlying fundamentals of each company.

We also did a back-of-the-envelope calculation comparing the price-to-earnings valuations of highly geared companies against those with net cash, within the same sector and with similar market caps, on average.

The results show that within the construction, consumer, property and industrial product sectors, the average PE valuations for highly geared companies are higher than those with net cash, while the reverse is true for the plantation sector. This is counter-intuitive, as one would expect companies with stronger balance sheets to be valued more.

There is nothing wrong with buying risky stocks, but do so with eyes wide open and do not under-discount the risks. I believe the equity market is currently underpricing risks, perhaps inevitably, given the current "liquidity stimulated" growth. This imbalance in returns and risks presents arbitrage opportunities. Next week, I will look at whether the bond market is also "underpricing" risks.

My Global Portfolio gained 0.5% for the week ended July 25. Shares in defence contractor Northrop Grumman surged after reporting better-than-expected earnings. Last week's gains lifted total returns since inception to 11.4%. The portfolio is outperforming the benchmark index, which is up 8.8% over the same period.

Stocks on the Bursa Malaysia remained caught in a tight trading range in the absence of fresh catalyst. My Malaysian Portfolio was up 1% last week, thanks to strong gains from JHM. This lifted total portfolio returns to 50% since inception. The portfolio continues to outperform the benchmark index, FBM KLCI, which is down 9.5% over the same period, by a long way. E

Table 3

Valuations for highly geared versus net-cash companies — Construction

	GEARING (%)	PER (TIMES)	MARKET CAP (RM MIL)		GEARING (%)	PER (TIMES)	MARKET CAP (RM MIL)
Ekovest	129.9	18.9	2,243.3	Sunway Construction Group	-	19.2	2,681.9
WCT Holdings	102.2	14.5	1,649.1	Kerjaya Prospek Group	-	12.3	1,738.4
Muhibbah Engineering (M)	39.9	9.2	1,304.3	Hock Seng Lee	-	13.9	752.8
WCE Holdings	141.3	27.7	566.6	George Kent (M)	-	8.3	641.0
Eversendai Corp	111.5	6.4	351.5	Vizione Holdings	-	8.8	553.9
Mitrajaya Holdings	41.3	15.0	315.8	Pintaras Jaya	-	33.4	431.3
Ahmad Zaki Resources	434.1	27.0	250.4	Brem Holdings	-	18.1	257.0
Ho Hup Construction Co	94.2	8.6	206.2	GDB Holdings	-	7.3	206.3
Crest Builder Holdings	86.2	2.4	175.3	Inta Bina Group	-	6.5	149.9
Pesona Metro Holdings	51.9	19.6	166.8	Pimpinan Ehsan	-	0.4	60.1
Advancecon Holdings	49.4	16.1	162.6	Melati Ehsan Holdings	-	23.7	54.0
Average	**116.5**	**15.0**	**672.0**	**Average**	**-**	**13.8**	**684.2**

Table 4

Valuations for highly geared versus net-cash companies — Consumer

	GEARING (%)	PER (TIMES)	MARKET CAP (RM MIL)		GEARING (%)	PER (TIMES)	MARKET CAP (RM MIL)
British American Tobacco (M)	78.6	18.5	8,543.1	AirAsia Group	-	9.9	9,658.3
Berjaya Sports Toto	101.0	13.3	3,663.8	Dutch Lady Milk Industries	-	31.7	4,096.0
Guan Chong	83.6	8.7	1,763.1	Padini Holdings	-	14.6	2,375.1
7-Eleven Malaysia Holdings	107.6	31.2	1,667.8	Ajinomoto (M)	-	18.5	1,048.2
MSM Malaysia Holdings	56.3	64.5	822.5	Amway (M) Holdings	-	17.7	1,012.6
Malayan Flour Mills	116.8	19.2	691.3	Mynews Holdings	-	32.3	955.0
Berjaya Food	64.0	21.5	566.6	Magni-Tech Industries	-	8.2	844.2
CAB Cakaran Corp	74.1	15.8	331.9	Hup Seng Industries	-	17.8	748.0
Perak Transit	64.3	8.2	291.7	Kawan Food	-	25.0	524.9
Lay Hong	67.7	39.8	280.6	Poh Huat Resources Holdings	-	6.2	341.1
Pelikan International Corp	80.7	29.6	178.2	Apollo Food Holdings	-	18.2	320.0
				Bonia Corp	-	16.6	244.9
				Classic Scenic	-	16.2	124.1
Average	**81.3**	**24.6**	**1,709.1**	**Average**	**-**	**17.9**	**1,714.8**

Table 5

Valuations for highly geared versus net-cash companies — Property

	GEARING (%)	PER (TIMES)	MARKET CAP (RM MIL)		GEARING (%)	PER (TIMES)	MARKET CAP (RM MIL)
UEM Sunrise	50.1	12.8	3,652.6	UOA Development	-	9.9	4,037.8
Eco World Development Group	75.3	13.0	2,326.1	Mah Sing Group	-	8.4	2,197.1
OSK Holdings	42.3	5.4	1,942.2	KSL Holdings	-	4.0	864.6
IGB	87.8	7.5	1,894.8	Ideal United Bintang International	-	12.8	621.2
YNH Property	83.3	80.2	1,418.4	Karambunai Corp	-	60.9	577.7
Paramount Corp	71.3	11.0	1,031.4	SHL Consolidated	-	9.0	569.0
LBS Bina Group	80.8	10.5	835.3	Plenitude	-	13.8	534.2
HCK Capital Group	79.0	78.4	519.5	Amverton	-	5.8	419.8
Naim Holdings	34.9	5.2	425.8	MCT	-	4.4	408.0
Ibraco	57.6	10.9	337.6	I-Bhd	-	8.8	360.1
Malton	40.4	21.3	290.5				
Symphony Life	66.5	3.1	238.7				
Ecofirst Consolidated	65.0	9.7	237.9				
Ewein	34.6	4.5	195.9				
Menang Corp (M)	76.3	19.6	165.9				
Average	**63.0**	**19.5**	**1,034.2**	**Average**	**-**	**13.8**	**1,058.9**

Table 6

Valuations for highly geared versus net-cash companies — Industrial

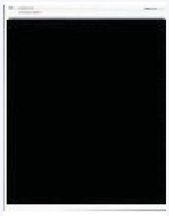
	GEARING (%)	PER (TIMES)	MARKET CAP (RM MIL)		GEARING (%)	PER (TIMES)	MARKET CAP (RM MIL)
Hap Seng Consolidated	53.9	21.6	24,772.2	Petronas Chemicals Group	-	13.1	61,592.3
Press Metal Aluminium Holdings	85.6	30.5	18,153.3	Lotte Chemical Titan Holding	-	11.1	6,614.4
Pestech International	134.8	17.1	1,092.9	Cahya Mata Sarawak	-	11.9	3,175.0
Ann Joo Resources	72.9	10.2	830.3	UEM Edgenta	-	16.2	2,445.0
Cypark Resources	79.9	9.8	701.2	Keck Seng (M)	-	23.6	1,699.5
Can-One	52.0	5.0	655.2	SKP Resources	-	16.1	1,575.2
Chin Hin Group	112.5	17.4	431.8	Uchi Technologies	-	17.7	1,256.8
Malaysia Smelting Corp	73.6	9.1	348.0	SAM Engineering & Equipment	-	14.2	1,115.1
Engtex Group	71.0	122.4	294.3	Favelle Favco	-	8.3	606.7
Dominant Enterprise	56.2	7.8	204.9	Wellcall Holdings	-	16.4	577.6
				APM Automotive Holdings	-	16.3	520.3
				Southern Acids (M)	-	24.9	519.0
				Chin Well Holdings	-	8.1	516.8
				PIE Industrial	-	13.6	499.3
				Supercomnet Technologies	-	32.8	488.7
				Kumpulan Fima	-	8.1	486.7
				Perusahaan Sadur Timah Malaysia	-	11.8	485.6
				Dufu Technology Corp	-	9.5	479.3
Average	**79.2**	**25.1**	**4,748.4**	**Average**	**-**	**15.2**	**4,702.9**

Table 7

Valuations for highly geared versus net-cash companies — Plantation

	GEARING (%)	PER (TIMES)	MARKET CAP (RM MIL)		GEARING (%)	PER (TIMES)	MARKET CAP (RM MIL)
Batu Kawan	41.5	16.2	6,394.7	United Plantations	-	16.2	5,502.4
Sarawak Oil Palms	28.8	29.6	1,290.2	Far East Holdings	-	35.2	1,609.3
TSH Resources	98.2	35.1	1,256.9	Hap Seng Plantations Holdings	-	68.9	1,247.5
Ta Ann Holdings	32.1	12.5	1,022.2	Kim Loong Resources	-	23.3	1,083.0
Sarawak Plantation	8.5	24.3	426.9	Chin Teck Plantations	-	11.0	593.9
MHC Plantations	40.0	44.7	113.0	DutaLand	-	1.0	380.8
				Negri Sembilan Oil Palms	-	25.0	238.7
				Riverview Rubber Estates	-	72.8	190.0
Average	**41.5**	**27.1**	**1,750.7**	**Average**	**-**	**31.7**	**1,355.7**

isentia
AUTHOR: No author available SECTION: CORPORATE PAGE: 10TO12 PRINTED SIZE: 2807.00cm²
REGION: KL MARKET: Malaysia PHOTO: Full Color ITEM ID: MY0036757760



29 JUL, 2019

The stock market is underpricing risks

The Edge, Malaysia

SUMMARIES

N the aftermath of the global financial crisis (GFC), central banks around the world embraced aggressive monetary policies to minimise the fallout and kick-start the recovery process.That includes cutting policy rates to historic lows, even into negative territory, as well as launching massive quantitative easing programmes. A decade later, the world's biggest central bankers are,once again,poised for a fresh round of monetary easing as global economic growth loses momentum.