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PR Value	RM 77,634		



CAPITAL

SMALL CAPS BACK IN FAVOUR

The FBM Small Cap Index's total return of 15% has outperformed that of most major stock market indices. Analysts see value in selected companies in the space, following a sell-down last year.
See story on **Page 40**.

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Opportunities in oil & gas, construction

BY BILLY TOH

The FBM KLCI may be the only major Asian stock market index to have slipped into the red, year to date, but investors who pivoted to small caps at the end of last year could be in a buoyant mood.

This is because the FBM Small Cap Index's total return of nearly 15% outperformed that of most major stock market indices. With a yield of 20%, only China's Shanghai Stock Exchange Composite Index provided better returns.

Although the FBM KLCI recorded a slight 0.7% decline, Bursa Malaysia as a whole saw an 11.8% gain year to date, adding RM50.4 billion to its market capitalisation.

This marks a strong recovery from the sell-down in the second half of last year, which was led by foreign selling in the aftermath of a historic and unprecedented change in government after the 14th general election.

A total of RM119.3 billion was wiped out of Bursa after GE14 in May until the end of last year.

OUB Asset Management (M) Bhd chief investment officer Francis Eng sees the robust start in the small-cap space this year as a recovery from the sell-down last year.

He says there is value in selected small-cap companies following the decline last year and lists the preferred sectors as technology and manufacturing, particularly semiconductor equipment makers and consumer-related companies. "We also see pockets of opportunity in the beaten-down and unloved sectors, such as oil and gas and construction," Eng tells *The Edge*.

He attributes the performance of the small caps to the low base effect. "Amid the headwinds faced by emerging markets, including Asia, last year, the FBM KLCI was one of the better performing indices with a decline of 5.9%."

"In comparison, the decline in the FBM Small Cap Index was much sharper at 33.7%. Even with the gain year to date, the FBM Small Cap Index is still down 23.9% compared with the start of last year. We attribute the improved performance of the FBM Small Cap Index this year to its relative underperformance last year and improved risk appetite as the headwinds faced by Asia have reduced."

Areca Capital Sdn Bhd CEO Danny Wong also believes last year's sell-down has created openings for investors looking beyond the benchmark index. Among his pick of sectors to invest in is oil and gas, which has seen a turnaround this year, in line with the recovery in Brent crude prices. "We actually returned to the oil and gas space towards the end of last year as we felt most of the downside had been priced in. Of course, the price of oil plays a role in lifting the mood of investors but what's important is that we're also seeing more activities this year," Wong observes.

Coming off last year's "yo-yo trend" — thanks to the uncertainties raised by production cuts led by Opec+ as well as the tweets of US President Donald Trump on oil prices — Brent crude hit a multi-year high of US\$84.93 per barrel in October before slipping to a one-year low of US\$50.47 at the end of last year. Prices had inched up to US\$67.80 per barrel at the time of writing.

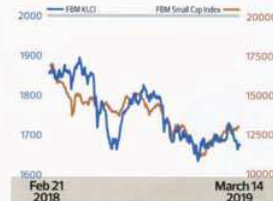
Given its average return of 45.5% year to date, oil and gas is the top performing sector so far this year, its upward trend lifting stocks in the category.

Dayang Enterprise Holdings Bhd returned to the black in its financial year ended Dec 31, 2018, with a net profit of RM97.72 million,



Analysts see pockets of opportunity in the beaten-down oil & gas sector

FBM KLCI vs FBM Small Cap Index



Top gainers on Bursa Malaysia YTD

NAME	PRICE (RM) (MARCH 13, 2019)	MARKET CAP (RM MIL) (MARCH 13, 2019)	TOTAL RETURN SINCE GE14 (%)	TOTAL RETURN YTD (%)
Zetan Bhd	0.1	84.49	25.00	300.00
Dayang Enterprise Hldgs Bhd	1.69	1,630.53	116.67	212.96
Petra Energy Bhd	1.17	375.50	87.20	188.89
Naim Holdings Bhd	1.2	600.89	33.33	169.66
Focus Point Holdings Bhd	0.41	67.65	124.97	156.25
SC Estate Builder Bhd	0.025	22.08	-16.67	150.00
Damansara Realty Bhd	0.53	168.74	11.58	135.56
IFCA MSC Bhd	0.445	270.11	61.77	122.50
PIBumi Bhd	0.32	16.00	33.33	113.33
Perdana Petroleum Bhd	0.45	350.31	95.65	109.30
HB Global Ltd	0.115	53.82	-14.81	109.09
Barakah Offshore Petroleum	0.125	104.47	-16.67	108.33
PCCS Group Bhd	0.395	82.97	67.81	107.89
Carimin Petroleum Bhd	0.835	195.29	169.35	106.17
MAA Group Bhd	1.01	276.25	51.88	104.04
TH Heavy Engineering Bhd	0.06	67.28	-7.69	100.00
Seacera Group Bhd	0.375	167.56	-34.21	97.37
Hari Len Corp Bhd	0.66	114.33	13.79	94.12
Seremban Engineering Bhd	0.38	30.28	5.56	90.00
Alam Maritim Resources Bhd	0.15	138.67	20.00	87.50
Uzma Bhd	1.05	336.03	-22.22	82.61
Kuantan Flour Mills Bhd	0.2	13.65	81.82	81.82
KUB Malaysia Bhd	0.425	236.50	10.96	80.85
K Seng Seng Corp Bhd	0.54	51.84	33.33	80.00
Sinmah Capital Bhd	0.2	43.76	-45.43	73.91
Scope Industries Bhd	0.215	120.50	65.16	72.00
Bio Osmo Bhd	0.06	47.72	20.00	71.43
VSolar Group Bhd	0.205	79.14	86.36	70.83
T7 Global Bhd	0.545	225.89	17.20	70.31
Iskandar Waterfront City Bhd	0.715	598.02	0.00	70.24

and has since been rewarded with a 213% surge in its share price.

Also impressive is Petra Energy Bhd's 189% gain after bouncing back into positive territory in its fourth quarter ended Dec 31, 2018, with a net profit of RM20.88 million.

Other players trending upwards include Uzma Bhd, Velesto Energy Bhd, T7 Global Bhd, Bumi Armada Bhd, Hibiscus Petroleum Bhd and Sapura Energy Bhd.

Notable improvements have also been seen in construction, whose average return is 24.8%

year to date. David Loh, senior portfolio manager at Affin Hwang Asset Management, says a possible revival of the East Coast Rail Link has lifted sentiments on the sector, which was hit by a slew of project cancellations last year.

"Judging from public statements made by Prime Minister Tun Dr Mahathir Mohamad, the project's cost should drop substantially to below RM30 billion. This can be achieved by tweaking ECRL's design and lowering its specifications. If you assume 30% local content, the jobs available to Malaysian

contractors is only RM9 billion," he says, adding that as competition for the tender packages is expected to be intense, margins are unlikely to be great.

His firm has taken positions in selective construction stocks that are trading far below their asset value. "We believe there is potential in these companies to monetise assets and unlock value for shareholders. Should that happen, management can use the sale proceeds to pay special dividends and pare down borrowings."

There are also signs of interest in companies that were previously shunned by investors for their perceived links with the previous Barisan Nasional (BN) government.

KUB Malaysia Bhd, MYEG Services Bhd, Media Prima Bhd and George Kent (M) Bhd are some of the counters that have seen a surge in buying volume.

Rakuten Trade Sdn Bhd vice-president of research Vincent Lau believes small caps will continue to enjoy an uptick but he also points to external risks, including the ongoing US-China trade talks as well as Brexit negotiations.

FBM KLCI not reflective of market

To Areca Capital's Wong, the FBM KLCI is not reflecting Bursa and has been dragged down by a few notable decliners this year, namely Petronas Dagangan Bhd, Petronas Gas Bhd, Tenaga Nasional Bhd, Hartalega Holdings Bhd and Top Glove Corp Bhd.

"The benchmark index only consists of 30 companies and it was dragged down by a few heavyweights while the banking sector, which dominates the index, has been relatively flat so far," he says.

For instance, TNB, which has about 9.95% weightage on the FBM KLCI, is down 6.6% year to date while CIMB Group Holdings Bhd (7.38% weightage) has shed 4.6%.

An analyst with a local investment bank agrees, saying newcomers to the benchmark index, such as the glove manufacturers as well as Press Metal Aluminium Holdings Bhd, which have done well in the past few years, have been affected by profit-taking activities as their valuations are near historical highs.

The top decliners so far among the index's component stocks are Hartalega (25%), Top Glove (22%) and Sime Darby Bhd (10%).

Genting Bhd and Genting Malaysia Bhd, on the other hand, are the top gainers with a total return of 16.1% and 14.6% respectively, followed by IHH Healthcare Bhd at 9.6%.

Despite their strong gains, the total weightage of the three counters only makes up 8% of the benchmark index — less than TNB on its own.

With the year just a fortnight shy of its quarter mark, investors are likely to have more to cheer about than to moan, given that 356 counters have posted double-digit gains, 265 counters are on a positive trend and only 224 counters are in the red.