HD Capital:Brokers Digest

BY Compiled by Isabelle Francis

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Keppel Corp Ltd

TD

Target price: S$13.35 BUY

CITI RESEARCH (APRIL 28): Our target price is based on a marginal discount to our RNAV estimate of S$13.47 per share and applying a 20% discount to the value of Keppel's investments in M1 and K1 ventures, Dyna-Mac and K-Green Trust as we see Keppel as a passive investor in most of these ventures.

For the group's offshore and marine (O&M) business, we use 17 times average FY14 to FY16 PER, close to +1 standard deviation of SMM's historical mean (since 2001) to account for stronger execution and order win prospects. For infrastructure, we use a slightly below peer average FY14 PER of seven times to reflect modest growth expectations and our conservative stance. We value the group's 55% stake in Keppel Land based on Citi's target price.

Key downside risks to our investment thesis on the group are: 1) sharp decline in oil prices or severe credit tightening, which could affect demand for offshore drilling equipment and earnings at the O&M unit; 2) an economic slowdown, any government policy changes or sharp interest rate increases in Singapore or China, which could affect Keppel's property business in these countries; 3) slippages in offshore or infrastructure contracts under execution, which could lead to penalties/losses; and 4) overpaying for acquisitions.

Ho Bee Land Ltd

Target price: S$2.51 ACCUMULATE

PHILLIP CAPITAL (APRIL 30): Revenue and profit after tax and minority interest in 1Q14 have underperformed our expectations, meeting only 14% and 6% of our FY14 estimates respectively. The rental income from The Metropolis had yet to come in fully as some of the tenants will only be moving into the premises later this year. The situation should improve in coming quarters as The Metropolis is currently 94% leased and contribution will also come from the new London office acquisition, 1 St Martin Le Grand.

We believe the sentiment for high-end residential sales will remain sluggish and there will be no significant residential sales contribution for Ho Bee this year. We expect the company to launch its China and Australia residential projects (Pearl, Melbourne and Rhapsody, Gold Coast) this year, and development income from these projects to contribute significantly to Ho Bee's earnings in FY15/16.

Ho Bee is expected to explore investment opportunities overseas (Australia and London) in the near term to grow its property development and investment business.

As the expected occupancy rate for The Metropolis this year is lower than previously assumed, we revise the revenue and net profit downwards by 15% and 24% respectively. We maintain our "accumulate" rating, with a target price of $2.51, pegged to 35% discount to RNAV.

PT Bank Negara Indonesia (Persero) Tbk

Target price: IDR5,600 **BUY**

RHB RESEARCH (APRIL 29): Bank Negara Indonesia posted net earnings of IDR2.39 trillion in 1Q14, representing 25% of our and consensus' full-year estimates. Net interest income was within expectations, with net interest margin relatively flat (+5 basis points) on a q-o-q basis. Lower operating cost drove its cost-to-income ratio down to 45% (FY13: 51%), but this was offset by a sharp increase in provision to IDR1.23 trillion, which we believe was precautionary.

Credit cost had been the highest in a quarter since 2Q10, but management maintains its full-year outlook of below IDR3 trillion. Consolidated loan-to-deposit ratio hit 90% as loans growth (23% y-o-y) continued to outpace deposits growth (13% y-o-y). Corporate loans (45% of total loans) led with 32% y-o-y loan expansion, followed by medium loans. Consumer loans growth slowed to 12% y-o-y. Current and savings deposits have grown at the slowest annual pace (10% y-o-y) since 2Q11 while time deposit (TD) growth rose to 18% y-o-y, the fastest pace since 4Q09. This could spur the bank to be more aggressive in TD pricing in the near future.

Pre-non-performing loans (NPLs) rose 16% q-o-q (-12% y-o-y) while gross NPL ratio inched up slightly to 2.3% (4Q13: 2.2%) on small NPLs. Provisioning should improve as restructuring and sales of NPLs are underway, and written-off asset recovery (IDR445 **billion** in 1Q14) should pick up in 9M14.

China LESSO **Group** Holdings Ltd

Target price: HK$7.20 **BUY**

KIM ENG SECURITIES (APRIL 29): Trading at 40% discount to A-share listed peers and being a constituent of the Hang Seng Composite MidCap Index, we expect the discount to narrow under the upcoming "through train" scheme. We foresee higher demand for plastic pipes, driven by increasing urbanisation, government-led municipal pipeline construction and water conservation projects. We believe **China** LESSO can grow its home building material sales by leveraging its market leadership in plastic pipes. We also expect its margins to improve.

Controlling shareholder and founder Wong Luen Hei recently raised his **stake** in the **company**, reflecting his strong confidence in its prospects amid favourable policies, in our view. Our latest meeting with management assures us of our bullish earnings forecast, as supported by its on-schedule capacity expansion progress in Yunnan and Hainan, an improving utilisation rate, more new customers and deeper sales penetration.

We anticipate the **company**'s free cash flow position will improve and therefore support a dividend yield of 4% to 5%. We forecast the **company** will be net cash position in FY16F. **China** LESSO trades at 6.4 times FY14 PER, compared with 10.8 times for A-share listed plastic pipe manufacturing peers and 8 times for HK-listed construction material producers. Key risks are weaker-than-expected construction activity, a surge in raw material cost, threat of substitutes such as stainless steel pipes, and margin dilution from its home building material business.

Sands **China** Ltd

Target price: HK$82 **BUY**

CITI RESEARCH (APRIL 29): Our target price is derived by assigning equal weights to the **equity** values derived from our SOP and discounted cash flow (DCF)-based valuation methodologies. Our SOP valuation yields an **equity** value of HK$78.52 per share. We value the **group**'s casinos in Cotai at 16 times 2015 EV/Ebitda and Sands Macao at 14 times 2015 EV/Ebitda. We value The Parisian at a lower 12 times 2017 EV/Ebitda as we expect the **property** to deliver first full-year of **operations** in 2017.

We value the Four Seasons Serviced **Apartment** at US$1 **billion**. We believe it is prudent not to factor in the **group**'s potential development project of Phase 3 of Cotai Central and potential sales of the **group**'s shopping mall, given the uncertainty as to whether the sales will materialise.

Our DCF-based valuation produces an **equity** value of HK$85.94. Our assumed weighted average cost of capital of 9% is derived from a cost of **equity** of 10% and an after-tax cost of debt of 2.2%; we use a 14 times multiple to estimate the terminal value. Key downside risks to our investment thesis on the **company** are: 1) slowdown in the **China** economy; 2) unfavourable changes in visa policies in **China**; and 3) delay in The Parisian construction.

PT Telekomunikasi Indonesia Tbk

Fair value: IDR2,650 **Buy**

INDO PREMIER (APRIL 29): Telkom Indonesia posted a net profit of IDR3.7 trillion in 1Q14, representing 23% of our FY14 forecast and 24% of consensus estimates. Quarterly net income growth was driven by lower salary, operational and maintenance costs as well as a one-time write-off in 4Q13. We expect costs to go up in the coming quarters. We also expect full-year Ebitda margin to drop to 50.7% versus 51.7% in 1Q14. Total revenue was IDR21.3 trillion in 1Q14 with strong data growth (IDR5.2 trillion), relatively stable voice (IDR10.3 trillion) and SMS (IDR3.2 trillion). Contribution from data increased to 28% of revenue in 1Q14 versus 25% in FY13. Total subscribers stood at 132 **million** as at March 31, 2014.

During 1Q14, consolidated cash spend reached IDR5.1 trillion, representing 26% of our expected capital expenditure for FY14.

Telkom's capex of IDR900 **billion** was used to deploy access and backbone infrastructure to support broadband service. Telkomsel's capex of IDR2.5 trillion was used to develop radio access network. Still, Telkom remains cash positive with balance of IDR20.7 trillion as at March 31, 2014.

Blended average revenue per user in 1Q14 was IDR37,000, up 2.7% y-o-y but down 5.3% q-o-q. ARPU was lower q-o-q due to seasonality, as usage tends to be higher in 4Q (holiday season). Industry consolidation has also helped reduce price competition, leading to a relatively stable ARPU.

Lenovo **Group** Ltd

Target price: HK$11.40 **BUY**

SUN HUNG KAI FINANCIAL (APRIL29): We are revising our estimates for 2014 downwards slightly and reducing our pro forma FY15 and FY16 EPS by 5% to 8.7 US cents and 12.6 US cents respectively. Management is guiding for a four to six-quarter turnaround schedule for Motorola; we have reduced our expectation from three quarters to five. We maintain our "**buy**" rating and reduce our target price to HK$11.40 on FY15 PER of 17 times and FY16 PER of 11.7 times.

Key risks are: (1) increased competition in PC and mobile hardware, eroding gross margins; (2) inability to control rising operating cost to support growth; (3) unable to deliver innovative mobile products at the right price to consumer markets; and (4) unable to realise synergies from IBM x86 and Motorola Mobility acquisitions.

Our investment thesis is based on **company**-specific opportunities that will allow it to grow revenue at a 25% CAGR for FY14E/16E, driven by: 1) sales of tablets, smartphones and servers; 2) continued PC penetration in emerging markets and market-share gains in developed markets; and 3) growth from the recent IBM and Motorola acquisitions.

We estimate the **company** will achieve an EPS CAGR of 25% over the same period, benefiting from margin expansion of 40 basis points.

China Petroleum and Chemical Corp (Sinopec)

Target price: HK$8 OVERWEIGHT

JP MORGAN (APRIL 28): We forecast Sinopec's upstream operating profit at RMB13.2 **billion**, up 64% q-o-q but down 20% y-o-y, on lower **oil** prices. We forecast **oil** and gas production to go up 5% y-o-y. We expect the refining segment's operating profit to be at RMB3 **billion**, up 55% q-o-q and 37% y-o-y, reflecting the positive impact of fuel specification reform partly offset by lower demand for **oil** products. We expect refining margins to be at US$1 per barrel (ex-inventory impacts), similar to that in 4Q13, and a gradual improvement in 2Q with maintenance tightening **oil** product supply.

We see the marketing segment's operating profit at RMB9.1 **billion**, slightly higher than the previous quarter. Investor focus is likely to be on the timing for retail reform, with potential investors being invited to take part in the retail segment. We expect the chemicals segment to report an operating loss of RMB1.4 **billion** due to lower margins from oversupply, particularly commodity chemicals (PE/PX/BD).

The chemical business remains challenging, with increased competition (the Middle East and the US), although demand seems to be robust. As SPC highlighted, Sinopec may report higher negative net financing charges from foreign exchange impact as well as some impact from the **company**'s A-share convertible bond.

CO kepel : Keppel Corporation Limited

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