

Morning Buzz

Singapore
17 July 2007

Today's Top Ideas

- Rotary Engineering – Bagging yet more orders; Buy
- Valuetronics – Overlooked value; Buy

News Headlines

- SIA's overall load factor rises to 70.2% in June
- Oei, Equation invest further \$16m in Centillion
- Advanced wins contracts worth \$8.7m
- Nobel Design snaps up two more properties
- Labroy Marine gets US\$47.2m of orders
- EDMI H1 sales in 2007 to be lower than previous year
- Superior Fastening Technology to issue \$5m of bonds
- GMG Global sounds profit warning for H1 2007

Top Actives

By Volume	Price (\$)	Change (\$)	Change (%)	Vol ('000)
Jade	0.375	0.055	17.2	292,194
Baker Technology	0.435	0.165	61.1	196,591
Addvalue Technologies	0.160	0.035	28.0	154,062
Armarda Group	0.415	0.080	23.9	137,934
Top Global	0.165	0.000	0.0	134,001
By Value				
Jade	0.375	0.055	17.2	292,194
Capitaland	7.750	0.000	0.0	9,552
Baker Technology	0.435	0.165	61.1	196,591
DBS	23.900	0.000	0.0	2,959
SingTel	3.520	0.040	1.1	18,190

Kim Eng Research Team

US Indices (Previous Session)

Dow	13,950.98	43.73
Nasdaq	2,697.33	-9.67

Futures/Regional Indices

S&P	1,559.50	-0.01
Nasdaq	2,048.00	-0.02
Light Crude	74.29	0.19
Nikkei	18,200.10	-0.21
KOSPI	1,949.51	-0.68
All-Ords	6,425.40	-0.11

ADRs

Chartered	1.30
STATS ChipPAC	1.67
Creative	7.13

Earnings Calendar

Date	Company	Period
18-Jul	K-Reit	2Q
19-Jul	Evergro Properties	2Q
19-Jul	FSL Trust	
19-Jul	SFI	1H
20-Jul	CCT	2Q
23-Jul	MobileOne	2Q
23-Jul	Qian Hu	1H
24-Jul	Keppel Land	2Q
24-Jul	Keppel T&T	2Q
25-Jul	Aztech Systems	2Q
25-Jul	Osim	2Q
25-Jul	SPC	2Q

Top Actives (<USD250m Mkt Cap)

Stock	Price (\$)	%Chg
Jade	0.375	17.2
Baker	0.435	61.1
Addvalue	0.160	28.0
Armarda	0.415	23.9

Stock	Rating	Target	By
Ascott	Buy	\$2.16	DBS

Rotary Engineering Ltd



Singapore
Marine/Oil & Gas
17 July 2007

Bagging Yet More Orders

◆ Won S\$150m worth of contracts; upped EPS forecasts

Rotary Engineering recently secured another S\$150m worth of orders in Singapore and Indonesia. Two contracts were awarded by Shell worth S\$76m as part of the Shell's Houdini project, while a third order valued at S\$74m was awarded by PT Oiltanking Merak in Indonesia for EPC work. The jobs are expected to be completed between 3Q08-1Q09. This will significantly increase Rotary's order book to S\$701m, suggesting that the order momentum continues to be robust. We have consequently upgraded our EPS by 8-9% for FY08-09.

◆ Breaking into the bigger league via the Middle East

With its S\$535m Universal order, this represents a breakthrough for the group into the S\$500m league. (previous orders were around S\$100m). The landmark project will be used as a reference to secure other higher value orders, particularly in the Middle East, which Rotary has identified as its next growth market. Saudi Aramco, Saudi Arabia's national oil company has already pre-qualified Rotary, implying the group can bid directly for its jobs. Rotary intends to set up a yard operation in the Middle East and take on a couple of smaller-value jobs before taking on the larger orders.

◆ Process(onsite) plant capabilities – another growth driver

In addition to its key strengths which have been built around its offsite storage facilities and tanks, Rotary has started to move into process modules (onsite plant) beginning with its S\$24m Engineering, Procurement and Construction (EPC) biodiesel process plant for Nexsol. For the larger plants, the onsite contract value could equal that of the offsite facilities.

◆ Expected downstream spending increase bodes well for Rotary

Shell is building a US\$3bn petrochemical cracker in Singapore, while ExxonMobil is also planning to add another cracker unit to the current one. Investment is expected to be confirmed probably in 2Q07. A total of US\$6-8bn in capex could be added to the Singapore oil refinery sector over the next few years. International Energy Agency (IEA) estimates that new-build cracking refinery cost has risen from around US\$3.0bn to approximately US\$4.0bn for a 200 kb/d refinery and that the refinery construction firms have full order books for the next three years. A total of about 15.1 mb/d (equivalent of US\$302bn) of new capacity has been announced for completion before 2011. Rotary is poised to benefit from these flows.

◆ Raised target price to S\$1.57

We rate Rotary as one of the better proxies to the region and Singapore's increasing refinery/oil terminal capex cycle. Due to having upgraded our forward EPS forecasts, we have also raised our target price to S\$1.57 from S\$1.30. We believe the stock deserves a minimum ex-cash multiple of 17.5x 2007 PE (based on 0.8x PEG). Reiterate BUY.

Year End Dec 31	2005	2006	2007F	2008F	2009F
Sales (\$ m)	206.1	437.4	570.6	667.4	730.8
Pre-tax (\$ m)	13.4	47.8	59.5	72.1	79.8
Net profit (\$ m)	9.3	35.2	47.5	57.6	63.7
EPS (cts)	1.6	6.2	8.4	10.1	11.2
EPS growth (%)	69.3	276.6	34.8	21.4	10.6
PER (x)	83.2	22.1	16.4	13.5	12.2
EV/EBITDA (x)	18.3	5.1	4.3	3.3	2.8
Yield (%)	0.7	2.3	2.7	3.2	3.6

BUY

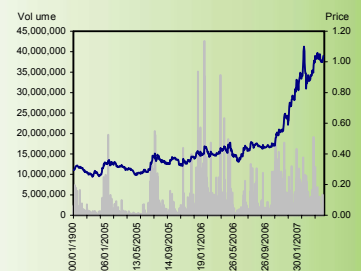
Company Update

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Price	\$1.37
Target	\$1.57
ST Index	3,663.9

Historical Chart



Performance	1m	3m	6m
Absolute (%)	1.0	16.2	98.1
Relative (%)	1.3	7.7	26.3

Stock Information

Ticker code	ROTE.SI RTRY.SP
Market Cap (US\$m)	515.5
52-week high (\$)	1.10
52-week low (\$)	0.35
Shares issued (m)	567.8
6m avg. daily vol (US\$m)	2.80
Free float (%)	69.0
Major Shareholders (%)	
	Mr Chia Kim Piow & family (34.4)
	Mr Wong Liang Feng & family (21.4)

Key Indicators

ROE (%)	25.6
Net gearing (%)	Net Cash
NTA (\$)	0.34
Interest cover (x)	NA

Valuetronics

Overlooked value

BUY

■ Premier EMS service provider for the big boys

Valuetronics is an integrated EMS provider for customers in the telecommunications, industrial and commercial electronic products, and consumer electronic product industries. Currently, its client portfolio includes market leaders in their respective fields such as Philips, Dymo, and KitchenAid. 100% of its active customers are repeat customers.

■ Leveraging on the buoyant EMS industry

According to In-Stat research, Asia's EMS market is projected to grow by 132% from US\$121.5b in 2006 to US\$281.8b by 2011; of which, China will account for 76% of the Asian market (US\$214.2b in value). With its facilities in the PRC, Valuetronics is in a sweet position to capitalise on this outsourcing trend; leveraging on its extensive network, and consistently upgrading its manufacturing expertise through its design and development (D&D) capabilities.

■ Sturdy organic growth

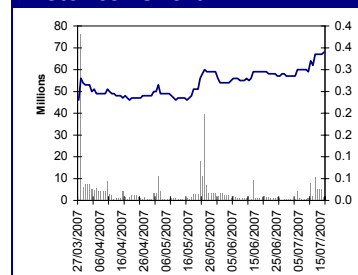
We are forecasting Valuetronics to deliver 21% bottomline CAGR over FY07-FY10F with strong orders from existing and new customers. We are also anticipating steady net margin expansion underpinned by economies of scale as orderbook is expected to grow 17% in FY08 and 25% in FY09, and management's continued focus on maintaining healthy gross margins of between 18-20%.

■ Compelling valuation; Initiate with a Buy

We are initiating coverage on Valuetronics with a Buy recommendation. We see fair value at \$0.49 based on 8x FY09 PE, implying a 42% upside potential. Valuetronics trades at a compelling 5.7x FY09 PE (3.4x ex-cash) and at a steep 36% discount to local ODM/OEM peers. With cash of HK\$176.6m (representing 29% of market capitalization), sustainable margins, superior ROE of ~33%, and an A-list customer portfolio, we believe the market has overlooked the intrinsic worth of Valuetronics. Management is confident of keeping to its 30% dividend payout ratio; implying a FY09 dividend yield of 5.3%. Key risks include exposure to the volatile electronics industry and a slowdown in orders from key customers.

Price	\$0.345
Target	\$0.49
ST Index	3653.23

Historical Chart



Stock Information

Bloomberg ticker code	VALUE SP
Reuters ticker code	BN2.SI
Market cap (S\$m)	122.5
52-week high (\$)	0.345
52-week low (\$)	0.230
Shares issued (m)	355.0
6m avg. daily vol (m)	0.73
Free float (%)	23.5
Major Shareholders (%)	
Tse Chong Hin – Manag. Dir (22.0)	
Chow Kok Kit – Exe. Dir (20.6)	

Key Indicators – FY07

Gross Margin (%)	20.2
Operating Margin (%)	11.8
ROE (%)	49.8
ROA (%)	20.5
Current Ratio (x)	1.7
Net Debt/Equity (%)	(79.1)
Interest cover (x)	261.4
BVPS (HK \$)	62.85
P/B (x)	2.6

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Year End Mar	2006	2007	2008F	2009F	2010F
Sales (HK\$m)	601.9	723.9	848.6	1060.8	1219.9
Pretax profit (HK\$m)	66.3	85.4	94.7	125.4	150.1
Net profit (HK\$m)	58.7	74.2	85.2	109.1	130.6
EPS (HK cts)	21.7	20.9	24.0	30.7	36.8
EPS (S cts)	4.3	4.1	4.7	6.1	7.2
EPS growth (%)	191.3	(3.8)	14.8	28.1	19.7
PER (x)	8.1	8.4	7.3	5.7	4.8
Non cash PER (x)	9.5	6.3	4.7	3.4	2.0
EV/EBITDA (x)	16.0	7.0	4.6	3.5	2.4
DPS (cts)	0.0	1.2	1.4	1.8	2.2
Yield (%)	0.0	3.6	4.1	5.3	6.3

Market / Corporate News

Singapore Airlines (SIA) - Overall load factor rose to 70.2% in June from 68.9% a year earlier. It filled 82.4% of its seats and 62.7% of its cargo space last month, up from 79.9% passenger load and 62.1% cargo load in June 2006. SIA said yesterday it achieved 1.7% Y/Y growth in revenue passenger kilometres, but that capacity as measured in available seat kilometres fell 1.4%. The number of passengers carried rose 3.9% Y/Y last month to 1.57m. The Y/Y capacity change arose from a reduction in the number of Boeing 747-400 aircraft in the operating fleet. Also, the introduction of the new premium seating on Boeing 777-300ER aircraft on long-haul routes, in place of B747-400 aircraft, reduced the available number of seats. But the capacity reduction was mitigated by additional flights to Seoul, Ho Chi Minh City, Hong Kong, Male, Bangalore, Johannesburg, Cape Town, Cairo and Dubai.

Centillion Environment & Recycling - Tycoon Oei Hong Leong and Sesdaq-listed Equation Corp are sinking a further \$16.1m into the e-waste recycler. They will do so by exercising an option given to them when they first invested in Centillion, then known as Citiraya Industries, last year. Centillion announced yesterday that both parties had given it notice that they would be exercising their option to fully take up the new shares in the company. The option is expected to be exercised on Friday. This would result in Mr Oei and Equation each owning 42.86% of Citiraya's new enlarged share capital. The exercise of the option will also mean that Mr Oei and Equation would be sitting on some hefty paper gains. The option would allow the investors to buy the new Centillion shares at about \$0.0085 a share. Assuming that their options were exercised yesterday, it would mean that the total stakes held by Mr Oei and Equation are sitting on paper profits of some \$364m each.

Advanced Holdings - The local player in the rapidly expanding petrochemical and ethylene market said that it has secured three key contracts with a combined worth of \$8.7m. The contracts will see Advanced team up with two major oil companies in China, Sinopec and Petrochina, as well as local chemical manufacturer Lucite International. Advanced will be engaged in the provision of process equipment and engineering services to various petrochemical plants and refineries. Advanced is looking at tapping into the rapidly expanding chemical industry in China, which is forecast to grow at an annual average rate of 10.4% till 2016. The new contracts follow \$26.7m worth of contracts Advanced secured in April this year. Advanced also announced that the new contracts are expected to have a material impact on the company's earnings in the current financial year.

Nobel Design Holdings - Said it will acquire another two properties at Jalan Lim Tai See - in addition to a property it bought on the same street earlier this year. The three properties, which will give a combined land area of about 63,100 sq ft, will be redeveloped into a cluster of 35-40 semi-detached houses and bungalows for sale. The company said that the cost of the three properties - at 69, 71 and 71A Jalan Lim Tai See - comes to \$48.5m. The effort represents the company's further expansion into niche property developments which is intended to be a key contributor to the profitability of the company, Nobel Design said.

Labroy Marine - Has announced new contracts worth US\$47.2m. The two shipbuilding contracts, each worth US\$23.6m, were awarded by a German customer for two platform supply vessels. The ships are scheduled to be delivered in 2009. With the latest orders, Labroy said its total outstanding order book stands at S\$2.30bn. Labroy has been riding the current bullishness in the offshore and marine sector. Improved margins at its shipbuilding and offshore engineering division had earlier led to an 81% surge in first-quarter net profits at the company. The company reported net earnings of \$34.25m for the three months ended 31 March 2007, compared with the \$18.87m in the previous corresponding period. Revenue rose 60% to \$188.31m.

EDMI - Said that its sales and profits for the first half of its 2007 financial year ended 20 June 2007 will be lower than in the first half of 2006. However, the company expects to remain profitable for 2007. EDM I was hit by delays in the finalisation of significant orders from Thailand, Malaysia and the United Kingdom and also design and supply issues which delayed production. It said that at the close of the first half, these problems have mostly been addressed or resolved. The company will announce its results on Aug13.

Superior Fastening Technology - Said that it had on 16 July entered into a conditional subscription agreement to issue \$5m worth of three-year convertible bonds to OCBC Capital Investment, an indirectly wholly owned subsidiary of OCBC Bank. The proceeds will be used for working capital requirements, to refinance existing bank borrowings, and other purposes.

GMG Global - Said that it does not expect the level of performance seen in 2006 to be maintained in 2007 as sales and revenue in the first half ended 30 June 2007 were hit by lower yield and field production. GMG was also hit by higher operating costs. It will be announcing its unaudited half-year results for FY2007 before 14 Aug.

(Sources: Company, SGX, Business Times, Dow Jones)

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