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InsiderAsia's model portfolio
OBG appoints new editorial manager for Malaysia

InsiderAsia's model portfolio

THE local stock market fell last week, mirroring the trend on Wall Street and regional markets. Sentiment was dampened by Wall Street's weak performance amid a slew of weaker-than-expected economic data. With concerns emerging over the strength of the recovery, investors are using this as an excuse to take profit.

For the week, the FBM KLCI declined a total of 11.2 points or 0.9% to end at 1,206.3 points.

Global equities have chalked up very strong gains over the past six months, since mid-March 2009. The rally was largely uninterrupted and supported by nascent signs of an economic recovery, large liquidity, low interest rates and the coordinated global stimulus programmes which helped stemmed the slowdown.

Since then, there has been a lack of fresh catalysts to lead markets higher. With stock prices already factoring in a strong recovery ahead, investors will need new data or evidence confirming the strength of the recovery. Over the longer term, investors are also concerned over the eventual withdrawal of stimulus programmes.

While almost all economic data confirm the worst has passed and the recession is largely over, the strength of the recovery remains debatable. And that is likely to be the biggest challenge to a continued uptrend in global stock prices.

Indeed, the recent clutch of mixed economic readings from the US is making investors more nervous. This is more so since there are already views that global stock prices may have run a little ahead of recovery expectations, especially in the US.

In the preceding week, we had weaker-than-expected figures on US existing home sales and orders for durable goods. Last week, we had a larger number of weaker-than-expected numbers.

The US consumer confidence index dropped to 53.1 in September, after rising strongly from 47.4 in July to 54.5 in August.

The Chicago Purchasing Managers Index (PMI) dipped from a reading of 50 in August to 46.1 in September, back below the 50 level that signals the difference between expansion and contraction. Over in the UK, manufacturing activity also declined for a second consecutive month in September with the PMI slipping to 49.5 from 49.7.

On Thursday, the Dow Jones Industrial Average index plunged 2.1% and the Nasdaq index by 3%, their biggest fall in about three months, after another slew of weak data, including The Institute for Supply Management's monthly index of US manufacturing activity, which fell to 52.6 in September from 52.9 in August, and weaker-than-expected weekly jobless claims.

The all-important September unemployment report, released on Friday, will set the tone for trading in the coming week.

To sustain current gains in global equity markets, investors will need to obtain more evidence of the strength of the recovery ahead. Otherwise, more profit-taking activities will emerge.

Portfolio review

Over the last week, our model portfolio fell very marginally, and outperformed the FBM KLCI.

Our basket of 16 stocks declined by 0.28%, less than the FBM KLCI's 0.92% fall. Including our large cash reserves (for which no interest is imputed), the total portfolio value fell by a smaller margin of 0.18% to RM492,042.

Our model portfolio's total value and returns represent a significant achievement compared with our initial capital of just RM160,000. We started the model portfolio on March 3, 2003.

Our total profits are very substantial at RM332,042. Of this amount, RM222,366 has already been realised from earlier sales and the rest are unrealised.

This represents a hefty return of 207.5% compared with our capital of RM160,000. We continue to outperform the FBM KLCI significantly, which is up by 86.5% in the same period. This was achieved even though the benchmark index is less representative of the broader market, and our portfolio holds a large amount of interest-free cash at all times for prudence reasons.

Last week, seven of our stocks rose, seven fell and two were unchanged (Pantech and Notion VTec).

Our biggest gainers were Dufu Technology (up 4.9%), 3A Resources (up 3.1%) and Tanjong plc (up 2.3%). Losers include Muhibbah (down 5.3%) and Bursa (down 2.4%).

Shares of Genting Malaysia traded ex for a three-sen dividend last week, which we have adjusted accordingly. The stock is yielding us a total gain of 47.3% since we bought them in March 2009.

Buying shares of MY EG Services

We are buying 25,000 shares of MY EG Services (MyEG), at Friday's closing price of 44.5 sen, for a total of RM11,125. After this, we are 69% equity invested and still have sizeable cash of RM154,622 for future investments.

In these more uncertain investing times, MyEG offers a unique combination of resilient and recession-proof earnings, yet with strong growth prospects. The company has an attractive business model and a strong cash-rich balance sheet — making it ideal for investors who want a good balance of defensive and growth qualities

MyEG is Malaysia's dominant e-services provider, providing a wide range of government-to-citizen (G2C) services via the Internet (www.myeg.com.my) and through its network of physical e-service centres. It offers services from the Road Transport Dept (JPJ), the Police, the Insolvency Dept, Kuala Lumpur City Hall and utilities, among others.

The company's earnings are poised to continue growing rapidly in the next few years, driven by increasing acceptance of its range of services (particularly the road tax renewal service and ancillary premiums), an expanding network, as well as a pipeline of new services to be rolled out.

We expect net profit to rise 45% to RM24.9 million in FY2010 and 28% to RM31.9 million in FY2011. The stock's price-to-earnings (P/E) valuations are inexpensive at 10.7 and 8.4 times for FY2010-2011 earnings, more so given its strong growth prospects. We expect net dividends of 1.5 sen per share in FY2010-2011,

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which translates into a decent net yield of 3.4%.

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InsiderAsia's Model Portfolio – Week 345

Stock	Shares held	Share prices Average cost^ (RM)	Current	Total cost of shares (RM)	Market value (RM)	Profit/ loss (RM)	Change in value since acquisition (%)
Existing stocks:							
DiGi*	2,000	-	21.66	-	43,320	43,320	>1,000
Tanjung Offshore	15,000	1.065	1.25	15,968	18,750	2,782	17.4
Tanjong plc	3,000	10.69	15.32	32,055	45,960	13,905	43.4
Masteel	20,000	0.71	0.92	14,230	18,400	4,170	29.3
Muhibbah Engineering	20,000	0.242	1.24	4,840	24,800	19,960	412.4
Notion VTec	20,000	0.337	0.43	6,733	8,600	1,867	27.7
Dijaya Corp	8,000	1.33	1.21	10,640	9,680	(960)	-9.0
Dufu Technology Corp	13,000	0.481	0.43	6,256	5,590	(666)	-10.6
Bursa Malaysia	4,000	6.56	8.07	26,254	32,280	6,026	23.0
Ireka Corp	12,000	0.92	0.82	11,040	9,840	(1,200)	-10.9
Pantech	15,000	0.680	0.90	10,203	13,425	3,222	31.6
HELP International Corp	25,000	1.32	1.45	33,100	36,250	3,150	9.5
Selangor Properties	5,000	2.37	3.25	11,850	16,250	4,400	37.1
3A Resources	10,000	0.315	0.825	3,150	8,250	5,100	161.9
Genting Malaysia	5,000	1.86	2.74	9,300	13,700	4,400	47.3
CSC Steel	20,000	1.05	1.06	21,000	21,200	200	1.0
Total carried forward				216,620	326,295	109,675	50.6
New purchases:							
MY EG Services	25,000	0.445	0.445	11,125	11,125	-	0.0
Share sales:							
Nil							
Stock investments + unrealised gains				227,745	337,420	109,675	48.2
Realised profits						222,366	
Cash balance				154,622	154,622		
Grand total (cash & shares)				**160,000**	**492,042**	**332,042**	**207.5**
KLCI					646.8	1,206.3	86.5
Capital, adjusted for capital repayment = RM160,000 on March 3, 2003, KLCI at 646.8							

Prices as of Friday, Oct 2, 2009
^ Adjusted for dividends
* Our effective cost after EON restructuring exercise
** Our effective cost is zero after dividends received. All future dividends to be recognised as profits