

Sector Focus

Malaysia Equity Research PP 12942/7/2008

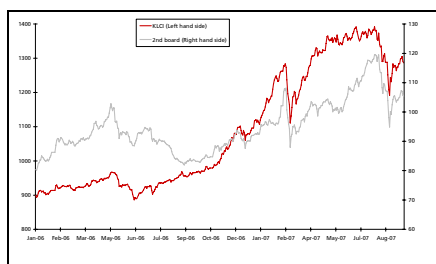
12 Sep 2007

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Upcoming company visits

KLCI Vs Second Board Index



KLCI	1,286.33
Second Board Index	105.43

An asymmetrical perspective

This week's edition of *Small/Mid Caps* features five companies with attractive dividend yields. We highlight two Real Estate Investment Trusts (REIT) companies which are: Atrium REIT, a logistic REIT, and Boustead REIT, a beneficiary of higher CPO prices. In addition, we have Penang-based P.I.E Industrial, a manufacturer of cable and wire for the electronics industry, leading newspaper publisher Star Publications, and property developer Crescendo which has 60% of its landbank in the Iskandar Development Region.

Face to Face

◆ **Atrium REIT (Not Rated) – Attractive yield.** Atrium is a focused logistic REIT with portfolio of four custom-built properties in Shah Alam, Rawang and Puchong. Atrium is offering attractive gross yield of 7.3% for FY07-08, which is above the sector average gross yield of 6.3% for FY07 and 6.5% for FY08.

◆ **Al-Hadharah Boustead REIT (Not Rated) – High leverage to CPO price.** BREIT is a beneficiary of rising CPO prices. Apart from the stable yield of 5.8% from rental income, BREIT is likely to declare bonus dividend in 2H07 given the strong CPO prices. BREIT offers attractive gross yield of 7.0%, based on consensus FY07 DPU of 9.0 sen.

◆ **P.I.E Industrial (Not Rated) – One-stop electronic manufacturer.** Earnings growth remains on a positive trend, especially in the manufacturing division. Has potential of higher dividend yield due to its strong balance sheet.

◆ **The Star (Not Rated) - Attractive dividend play.** We expect full year net dividend for 2007 to increase to 20.6sen/ share (5.8% yield) given Star's strong balance sheet (45.8sen net cash/ share) and minimal capex requirement. Based on consensus estimates, Star is trading at 15.1x 2008 PE. Star is the largest in the newspaper adex market with 23% market share.

◆ **Crescendo (Not Rated) – Finding niche in industrial segment.** Holding 3,300 acres of land in Johor with 60% within the IDR. Crescendo is trading at 0.72x NTA or 12.6x normalised earnings with a net gearing is 0.22x.

Face to Face...

From the scratch pad

Not Rated

Price Target: NA

Sector: Real estate investment trust.

When: Aug 2007

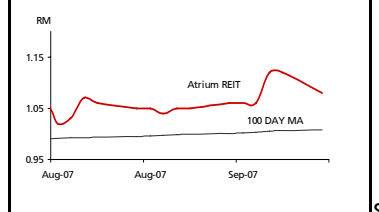
Why: Attractive yield with potential upside from new acquisitions

How Big: RM131.5m

Principal business: Real estate investment trust

FY Dec (RMm)	07A*	08A*	09A*
Net profit	7.5	10.1	10.1
DPU (sen)	7.8	7.9	7.9
PE (x)	13.5	13.3	13.3
Div Yield (%)	7.4	7.5	7.5
P/Book Value (x)	1.1	1.1	1.1

* based on prospectus



Source: Bloomberg, Company

Atrium REIT (ATRM MK: RM1.05)

◆ **Focused logistic REIT.** Atrium is a focused logistic REIT with portfolio of four custom-built properties – Atrium Shah Alam 1 (Excel Logistics), Atrium Shah Alam II (CEVA Logistics), Atrium Puchong and Atrium Rawang with total NLA of 809,668 sf and total asset value of RM158m. These buildings are fully tenanted to global logistic companies and multinationals in fast moving consumer goods. The lease duration is about five years with average rental at between RM1.30-1.40 psf.

◆ **Growth from new asset acquisitions.** Atrium plans to increase its asset size to above RM220m by acquiring two buildings in Senai Johor by end 2007. There are also plans to acquire assets from the promoters - Gloria Blitz SB and Sparkle Skyline SB - for three logistic buildings at Bukit Jelutong and another warehouse in Shah Alam. Other asset pipelines from the promoters also include properties in China and Vietnam. Given the asset pipeline, Atrium's asset size may grow to above RM500m in FY09. Atrium plans to fund these new acquisitions by borrowings (gearing at 28% against the maximum limit of 50%) as well as issuance of new units.

◆ **Riding on the outsourcing trend.** Future growth of Atrium will be driven by the local logistic industry that will benefit from the improved transportation system and infrastructure network to service the rising consumer demand in Asia. The growing outsourcing trend and the establishment of regional logistic hubs in Malaysia will also support the future demand for logistic buildings. We expect stable rental growth of 2-5% p.a for well-located logistic buildings such as those in Shah Alam and Klang.

◆ **Potential new investor?** Gloria Blitz SB and Sparkle Skyline SB hold collectively c.50% in Atrium and there are plans to reduce the shareholding gradually. We understand that Atrium is talking to a few potential strategic investors but the discussions are still at the preliminary stages. Atrium is offering attractive gross yield of 7.3% for FY07-08, which is above the sector average gross yield of 6.3% for FY07 and 6.5% for FY08.

Not Rated

Price Target: NA

Sector: Real estate investment trust

When: Jul 2007

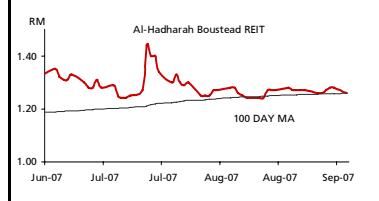
Why: Attractive gross yield of at least 5.8%

How Big: RM590.0m

Principal business: Real estate investment trust

FY Dec (RMm)	07F*	08F*	09F*
Net profit	32.9	34.5	34.5
DPU (sen)	8.8	8.2	8.0
PE (x)	14.2	15.2	15.6
Div Yield (%)	7.0	6.5	6.4
P/Book Value (x)	1.3	1.3	1.3

* based on consensus



Source: Bloomberg, Company

Al-Hadharah Boustead REIT (BIRT MK: RM1.26)

◆ **The first Islamic plantation REIT in Malaysia.** Al-Hadharah Boustead REIT (BREIT) owns eight plantation estates and two palm oil mills in Peninsular Malaysia with 95% of matured planted area. BREIT's plantation assets are leased to subsidiaries of the Boustead group for a three-year renewable tenancy for up to 30 years with rental of RM41.3m p.a. for the first three years, till 1 Jan 2010.

◆ **High leverage to CPO price.** Apart from the stable rental income, BREIT enjoys a 50% annual profit sharing of the net incremental income based on the actual CPO price realised for the year above the reference price of RM1,500/MT. The new rental rate and pegged CPO price are subject to negotiation upon renewal after three years. BREIT offers an alternative investment to plantation stock given the 85% hike in CPO price over the last twelve months from RM1400/MT to RM2600/MT.

◆ **Strong growth potential.** We believe that BREIT offers strong growth potential from new acquisitions given its zero gearing, against maximum gearing limit of 50% for MREITs. BREIT's second phase of acquisition is likely to involve Boustead group's plantation portfolio in excess of RM1b. There are also potential bonus yield from sale of plantation land for development purposes over the longer term.

◆ **Attractive yield.** We favour BREIT for its leverage to CPO price and its yield protected feature as BREIT will not bear any downside risk if CPO price is below RM1,500/MT. BREIT's yield is supported by stable rental income of RM41m, which provides FY07 DPU of at least 7.4 sen or gross yield of 5.8%. BREIT is likely to declare bonus dividend in 2H07 given the strong CPO prices in 2007. According to a sensitivity study by BREIT, a RM100/MT increase in CPO price would enhance FY07 net earnings by RM2m or 6.1%. BREIT offers attractive gross yield of 7.0%, based on consensus FY07 DPU of 8.8 sen.

Face to Face...

Not Rated

Price Target: NA

Sector: Technology

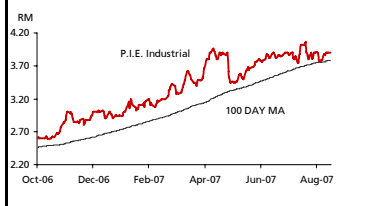
When: 17 Aug 2007

Why: Attractive dividends

How Big: RM248.3m

Principal business: Manufactures cable and wires for communication and consumer electronic industry.

FY Dec (RMm)	04A	05A	06A
Net profit	11.1	16.9	26.2
EPS (sen)	18.3	27.4	41.9
PE (x)	21.2	9.3	9.3
Div Yield (%)	3.1	4.6	6.7
P/Book Value (x)	1.8	1.6	1.5



Source: Bloomberg, Company

P.I.E. Industrial Berhad (PIE MK: RM3.88)

◆ **One-stop electronic manufacturer.** PIE core businesses include: (i) provision of contract electronic manufacturing (CEM) services, (ii) manufacturing of raw cable and wire, and (iii) trading of 3C (computer, communication, consumer electronic) products. The CEM division contributes about 50% to the Group's FY06 revenue, while raw cable and wire manufacturing and trading activities contribute 36%, and 14% respectively.

◆ **Niche in electronic products' market.** Most of the Group's CEM services cater to the industrial electronic products, medical accessories and 3C products (computer, communication and consumer electronics). Currently PIE has OEM orders from its major single customer which generates 30% of the group revenue. The company also trades electronic products, such as Bluetooth handset earphones, optical disc drives and PC peripherals.

◆ **Improvement in 2Q07 earnings.** Net profit for 2Q07 came in at RM7m, a 45% improvement y-o-y. This was largely on higher margin from manufacturing revenue and lower income tax expenses. YTD, total manufacturing revenue grew by 23% y-o-y to RM124m largely on higher CEM orders from its expanded client base. In contrast, trading activities posted a y-o-y drop of 78% in revenue to RM4m. At end of Jun 2007, net cash stood at RM58m.

◆ **Fairly undemanding.** The stock is trading at 10.3x PER based on annualised earnings for FY07. PIE provides attractive dividend yield of 6.7% at current prices.

Not Rated

Price Target: NA

Sector: Media

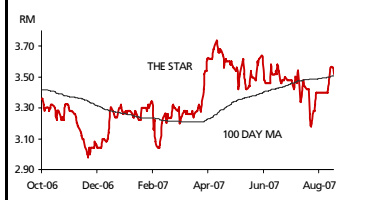
When: Jun 2007

Why: The largest in newspaper adex market and an attractive dividend play.

How Big: RM2.6b

Principal business: Newspaper publisher

FY Dec (RMm)	04A	05A	06A
Net profit	141.3	155.5	161.1
EPS (sen)	19.1	21.1	21.8
PE (x)	18.6	16.9	16.3
Div Yield (%)	7.1	8.9	4.4
P/Book Value (x)	3.1	2.4	2.3



Source: Bloomberg, Company

Star Publications (STAR MK: RM3.56)

◆ **The largest in the newspaper adex market** with 22.5% market share in 2006. In 1H07, Star's market share further inched up to 23.1%. The company also dominates the English newspaper segment.

◆ **Star's adex set to grow by 5-6% in 2007**, in line with the expected GDP growth. We expect 2007 adex to be driven by: (i) improved consumer sentiment, (ii) recovery in property sector, (iii) spillover from 9MP initiatives, and (iv) major events i.e. Visit Malaysia Year 2007, and 50th anniversary celebration. The Olympic Games may drive 2008 adex. Star's 1H07 yoy adex growth is estimated at 8.4%. This is driven by higher adex volume as well as recent average 3% increase in adex rate.

◆ **Benefiting from declining newsprint prices.** Newsprint prices are on a downward trend since it peaked between mid-May and early-Sep 05. This is largely attributed to weakening newsprint demand in the US due to declining newspaper circulation and advertising. YTD, prices declined by 11% to US\$561 per tonne. This bodes well for Star given that newsprint costs accounts 40-50% of its total operating costs. In addition, the strengthening Ringgit against the USD would reduce newsprint costs. However, we expect the impact to come in at a later stage as Star keeps one year of newsprint stockpile.

◆ **Attractive dividend play.** Higher dividend is likely given Star's strong balance sheet (45.8sen net cash/share) and minimal capex requirement. We expect full year net dividend for 2007 to increase to 20.6sen/share (5.8% yield) from 15.8sen/share (4.4% yield) in 2006. For 1H07, Star declared first net interim dividend of 8.4sen/share (2.4% yield). Based on consensus estimates, Star is trading at 15.1x 2008 EPS.

Face to Face...

Not Rated

Price Target: NA

Sector: Property

When: May 2007

Why: Landbank near IDR

How Big: RM248.3m

Principal business: Property development

FY Jan (RMm)	05A	06A	07A
Net profit	16.7	19.3	18.6
EPS (sen)	11.8	13.2	13.0
PE (x)	12.9	11.5	11.8
Div Yield (%)	6.3	8.3	7.0
P/Book Value (x)	0.8	0.7	0.7



Source: Bloomberg, Company

Crescendo Corporation Berhad (CCDO MK: RM1.53)

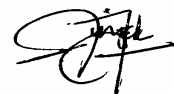
◆ **Strong foothold in Johor.** Crescendo has a landbank of approximately 3,300 acres with an estimated GDV of more than RM4b (inclusive of development rights over 463 acres of industrial land) in Johor. Its residential projects include Desa Cemerlang, Bandar Cemerlang, Taman Tiram Jaya and Taman Dato Chellam which are located about 20 km away from Johor Baharu. Meanwhile, another forte of Crescendo is industrial development which include Taman Perindustrian Cemerlang and Nusa Cemerlang Industrial Park. A total of 1,975 acres of land is within the boundary of Iskandar Development Region (IDR).

◆ **Nusa Cemerlang Industrial Park (NCIP),** which is located within the IDR has an land area of about 527 acres. The land has been approved for development of approximately 353 units of factories. We understand that most of the purchasers are Singaporeans due to its competitive pricing and good infrastructure. To date, 46 units of detached and semi-detached factories with GDV of RM74.7m have been sold. The GDV for the NCIP is RM1b.

◆ **1QFY08.** Crescendo's 1QFY08 net profit increased 27.7% y-o-y to RM4.0m due to increase in sales of commercial and industrial properties with revenue of RM22.3m (+26.5% y-o-y).

◆ **Valuations.** Crescendo is trading at 0.72x NTA and 12.6x normalised earnings. Crescendo's net gearing is 0.22x. The company has paid an average of 7 sen per share for the past three years. This implies gross dividend yield of 4.4%.

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