



**Stock Selection with
Fundamental Analysis**
What Fund Managers do
during Market Correction

Disclaimer and Declaration

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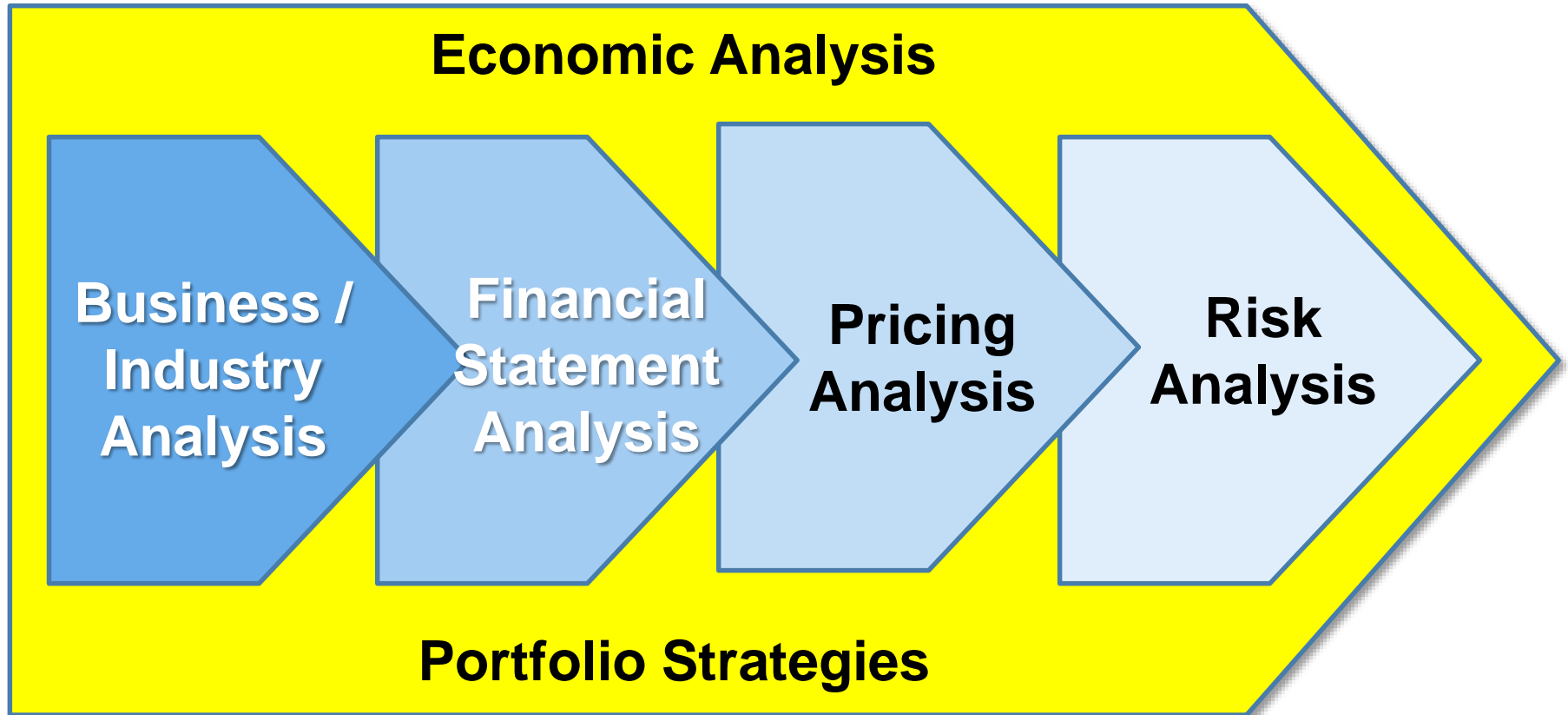
Examples of specific shares may be cited for illustration purposes and the trainer may have personal interest in the particular shares.

Speaker Profile: Chua I-Min, CFA



- ❖ Instructor and Speaker for Shares and Real Estate Investment for Companies including **SGX Academy**:
 - ❖ Investment Coaching Program based on Long Term Share Investing Technique
 - ❖ Valuation Case Study
 - ❖ REITs / Property Stocks

Fundamental Analysis



For success in the Stock Market!

The background features a blue wavy design with three spheres of varying sizes and colors (dark blue, purple, and light blue) positioned at different points. At the bottom, there is a faint, light blue background with binary code (0s and 1s) and a circular graphic element.

Stock Selection Process

**What Stock to Buy?
What Price to Buy at?**



Business Analysis

You are going to put some of your hard earned cash in shares. At least know what business are they in!

Technically speaking, long term share investment is equivalent to starting your own business, you should have similar rigor in the due diligence!

Business Analysis

Investment Theme of the Year



Massive
construction
boom on
the horizon

At least \$55b of transport projects
lined up, plus housing and others

By MARIA ALMENOAR

is currently being built, or will be

What are some of the investment themes that are interesting this year?

How to Seek Value Business?



**Revenue / Profit expected to be
stable over the years**

How to Seek Growth Business?

What kind of product / services will be required more or price will continue to increase in the future?



Classifying the Stocks

Growth Stocks:
Company has potential for high profit growth!

Value Stocks:
Stable profit with stable dividend yield

None of the above:
profit not stable with low growth potential

Points to Note

- ❖ Value and Growth is not mutually exclusive. Companies can be both value and growing!
 - Singpost: moving into e-commerce
 - DBS: busy acquiring!

Points to Note

- ❖ Companies in the same industry can be either Value or Growth!
 - SIA vs Tiger
 - Capitaland vs Ho Bee



Why Invest in Value / Growth?

Capital Gain or Dividend Yield?

Which Type of Higher Risk?

Business Analysis

The key to long term investment:

Look for business with potential growth in profit over long term (5 to 10 years) their share price is very likely to increase! You will pick up dividends along the way too!

Have an investment theme!

What will likely happen in 5 to 10 years?



More Globalization!

Companies that will benefit

❖ Telecommunications

- Check out your overseas call bill!

❖ Hotels

❖ Logistics

❖ Transport

What will likely happen in 5 to 10 years?



Depletion

Companies that will profit

- ❖ Commodities
- ❖ Alternative Energy
 - Oil Palm
- ❖ Water

is rising but which are the growth sectors? In a new report, *Imagining Asia 2020*, a team of researchers and analysts from DBS Bank makes its predictions. **Jonathan Kwok** takes a peek.

2020 VISION

5 sectors to watch in the decade ahead

- Housing
- Energy
- Health Care
- Agri - Business
- Travel and Tourism

pore, has two hospitals in Malaysia and plans to expand both to cater to the growing number of patients

It also has 20 patient representative offices in Indonesia, Cambodia, Malaysia and Singapore to attract patients and medical tourists to its hospitals.

"We are confident about the growth prospects for the health care industry in Asia," said Ms Chit Wei Jia, group general manager at HMI. "In particular, we are excited about the Malaysian health-care market."

4 Agri-business
"There will be plenty of people looking for a good meal in Asia, or rather more people being able to afford to do so," said the DBS report.

Demand for food from the region is expected to more than double by 2020 to nearly US\$3 trillion per year, said DBS.

But even as Asia – and the rest of the world – guzzle more food, supply has not been keeping up, leading to rising prices, which can potentially benefit companies.

Over the past year, the prices of agricultural commodities have already outperformed industrial metals and stock indexes such as the Dow Jones Industrial Average and the Straits Times Index, though precious metals have fared better.

Companies that can benefit include those in palm oil and rubber – two commodities that rely on Asia to produce the vast majority of global supply.

Palm oil companies like Golde Agri-Resources, Wilmar International, Indofood Agri Resources, First Resources and Kencana Agri are listed in Singapore.

They run plantations, and many are also involved in related activities like processing. Sri Tran Agro-Industry, also listed here, deals in parts of the rubber value chain.

Olam International sells 2



PHOTO: JOSEPH NAI FOR THE STRAITS TIMES

newly-wealthy people like to travel and cities like Hong Kong and Singapore, where Universal Studios opened last year, are popular destinations.



Financial Statement Analysis

	Note	Group	
		2011 \$'000	2010 \$'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	740,309	320,374
Investment in subsidiaries	13	—	—
Deferred tax assets	14	6,716	16,840
Other receivables	15	21,360	16,054
		<u>768,385</u>	<u>353,268</u>
Current assets			
Inventories	16	135	—
Trade receivables	17	3,529	1,506
Other receivables			
Prepayments			
Amounts receivable			
Derivatives			
Cash and cash equivalents			
Total assets		<u>772,049</u>	<u>355,274</u>

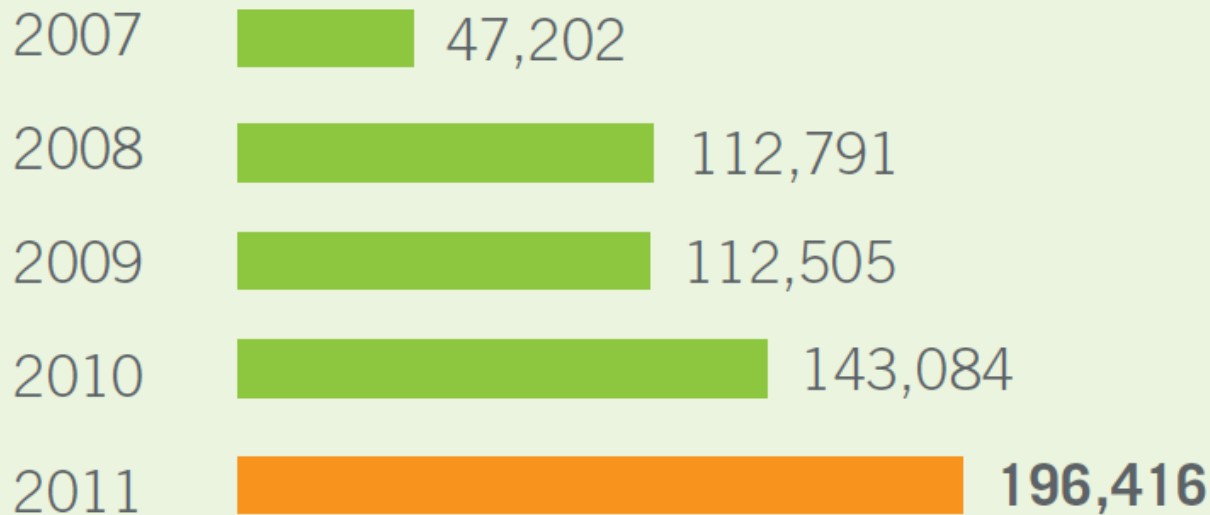
Financial Statements provide various important information about the company... How do we extract the information?

Financial Statement Analysis

Is the Company Profitable?

NET PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

(US\$'000)



Source: First Resources 2011 annual report

Financial Statement Analysis

- ❖ **Profitability Ratio:** Which company is more efficient in making money?
- ❖ **Liquidity Ratio:** Does the company has enough money for the coming year?
- ❖ **Solvency Ratio:** Can the company service interest and repay debt?

Credit Analysis

Is there any where from the financial statement that we should be worried for this company?

	Note	2012 \$'000
Sale of goods and services	4	17,093,751
Other income	5	51,473
		17,145,224
Cost of goods sold	6	(13,866,578)
Shipping and logistics		(1,439,984)
Commission and claims		(127,287)
Net gain from changes in fair value of biological assets	12	110,874
Employee benefits expenses	29	(426,170)
Depreciation	10	(128,691)
Net measurement of derivative instruments	7	21,163
Other operating expenses	7	(450,557)
Finance costs	8	(437,550)
		(16,744,780)
Share of results from jointly controlled entities and associates	14	37,466
Profit before taxation		437,910
Income tax expense	9	(34,085)

Pricing Analysis

❖ Discounted Cashflow

- How much money can the company make?

❖ Price to Earnings

- Number of times the share is priced as compared to earnings

❖ Price to Book Value

- Market Price as compared to what accountant says

❖ Dividend Yield:

- Is the dividend attractive?

Price to Earnings

Example:

Counter (based on 12 Aug 11 pricing)	Market P/E
Capitaland	8.6 x
Keppel Land	4.5 x
Ho Bee	3.1 x
Hiap Hoe	5.6 x
Guocoland	17.1 x

-Need a very good reason to invest in Guocoland

- if a real estate company want to IPO at P/E 20x, got to think twice before investing! (real case!)

Price to Book Value

How much is the company shares worth?

Company



A collection of Assets
(Inventories and
Machineries)

Accounting Method

**Value of Company Shares =
Assets – Liabilities (Loan)**

Net Asset Value (NAV)

Price to Book Value

How much is the company shares worth?

Company



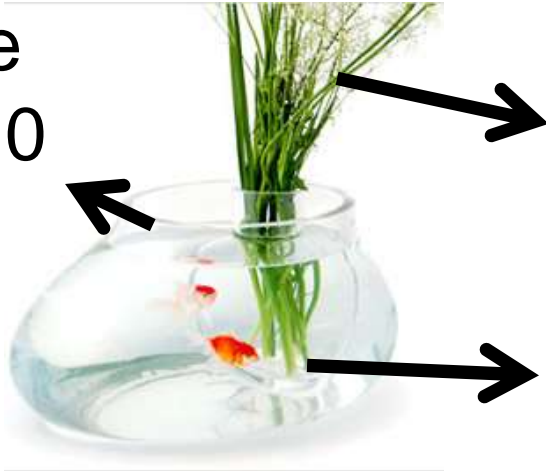
A collection of Assets
(Inventories and
Machineries)

Market Decision Method
**Price as traded in the Share
Market**

Price to Book Value

Is the share worth buying if the Net Asset Value (NAV) is higher than the market price?

Vase
= \$10



Plant
= \$3

Fish
= \$5



Ho Bee

Total shareholders' funds as at financial year ended 31st December 2011 rose to S\$1.645 billion, representing a net asset value per share of S\$2.34, an

Ho Bee
H13.SI



Source: Ho Bee 2011 Annual Report, finance.yahoo.com

Dividend Yields

Based on Stock Price on 16 Dec 2011

REIT	Dividend Yield
Lippo-Mall Indonesia Retail Trust	13.1%
AIMS AMP CAP Industrial Trust	10.6%
Cambridge Industrial Trusts	10.3%
Sabana REIT*	9.9%
Ascendas India Trust	9.6%
Suntec Real Estate Investment Trust	9.0%
First Real Estate Investment Trust	8.8%
Perennial China Retail Trust*	7.8%
Frasers Commercial Trust	7.8%

Disclaimer: Based on most recent annual dividend payout which may not continue going forward. Figures are taken from third party sources (Share Investment) without verification. Invest at your own risk!

* Using projected dividend provided at IPO

Data Source: Share Investment

Risk Analysis

Construction Company going into Commercial / Overseas / Hotel, Is that Risky?

Property Investments

As part of a strategic move to diversify and broaden its earnings base, the Group increased its investment property portfolio. In December 2011, the Group was awarded a 7,946.2 square metres land parcel at Jalan Bukit Merah/ Alexandra Road by Urban Redevelopment Authority ("URA") for hotel and retail development. In September 2011,

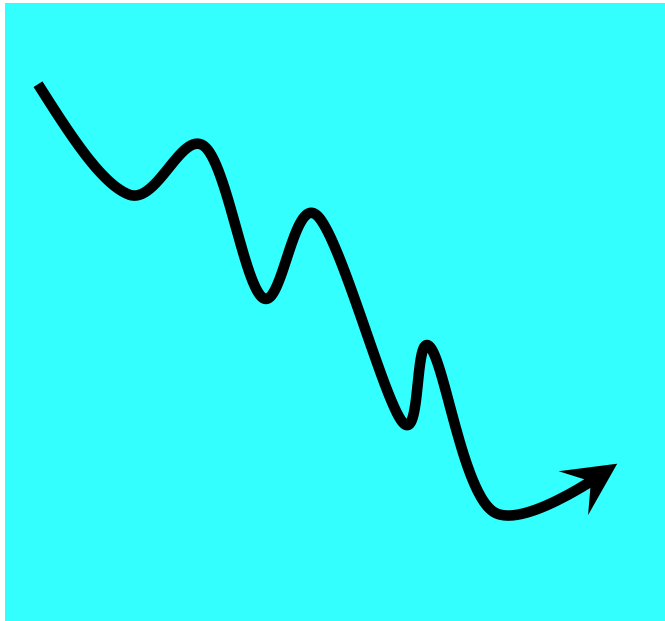
it acquired a commercial building at 150 Queen Street, Melbourne, Australia. The building has a site area of 913 square metres and provides opportunity for significant upgrading, or for potential redevelopment as a residential project.

Risk Analysis

- ❖ Credit Risk (Does the company potential has a debt issue?)
 - Current Ratio – $\text{Current Asset} / \text{Current Liability}$
 - Debt / Equity Ratio – $\text{Total Debt} / \text{Total Equity}$
 - Interest Cover – $\text{EBIT} / \text{Interest Cost}$

Risk Analysis

- ❖ Market Risk (Is the general market going up or down?)
 - Economic Analysis



- Cautious Investment
- Aggressive Investment
- Divestment

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Portfolio Management

When to Buy / Sell?

How much of you money should be invested?

Economic Analysis

THE BUSINESS TIMES

THE STRAITS TIMES

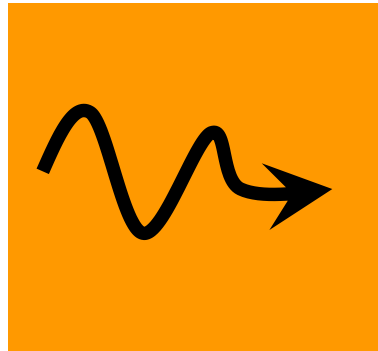
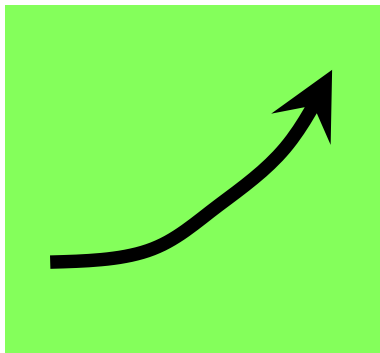
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What are the major economic news today?

Economic Analysis

❖ Which is a more likely scenario?



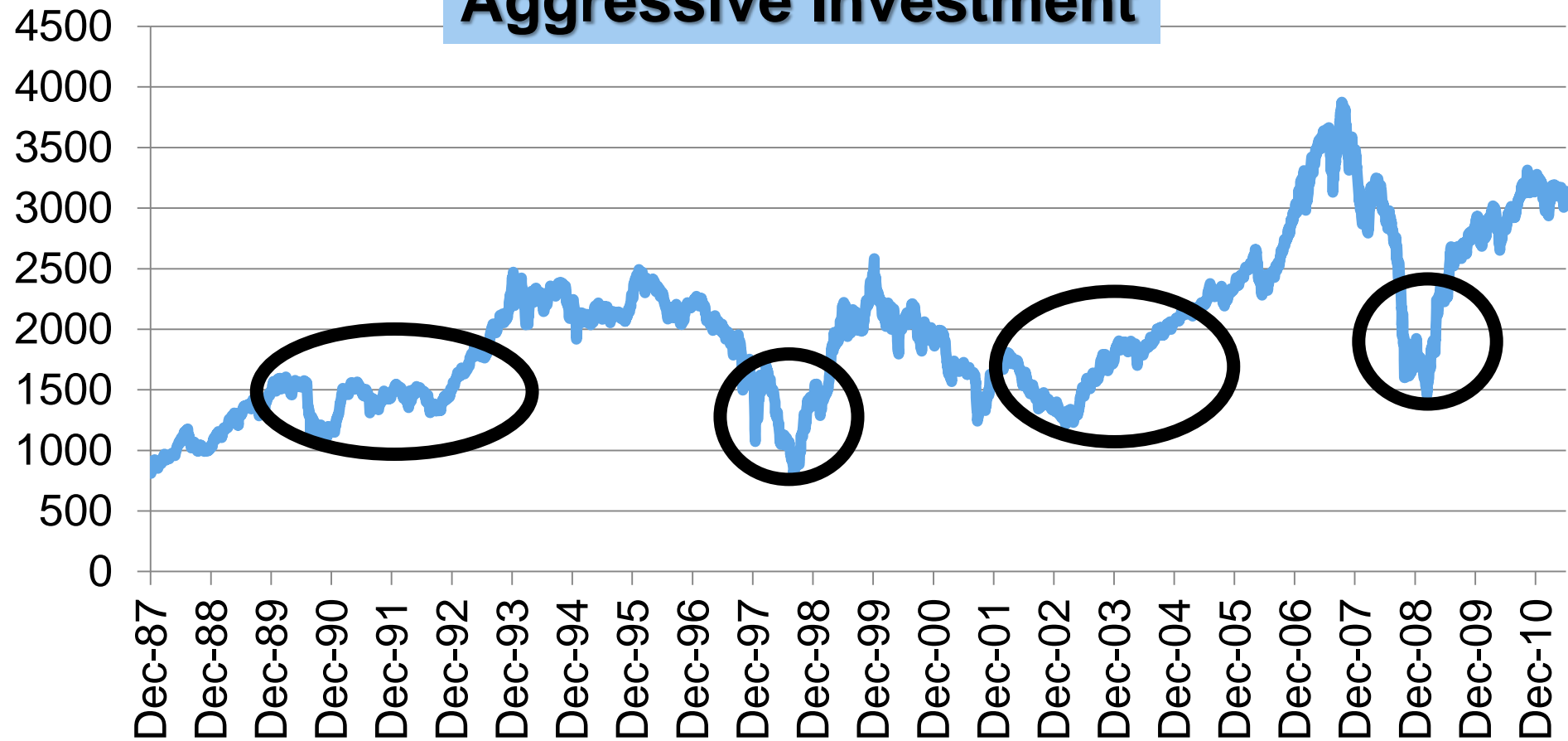
More importantly, what is the investment strategy for such scenario?

Economic Analysis

- ❖ Aggressive Investment
 - close to full investment of investible assets
- ❖ Cautious Investment
 - cap at about 50% of investible assets
- ❖ Aggressive Divestment
 - Maintained cap of 10% of investible assets

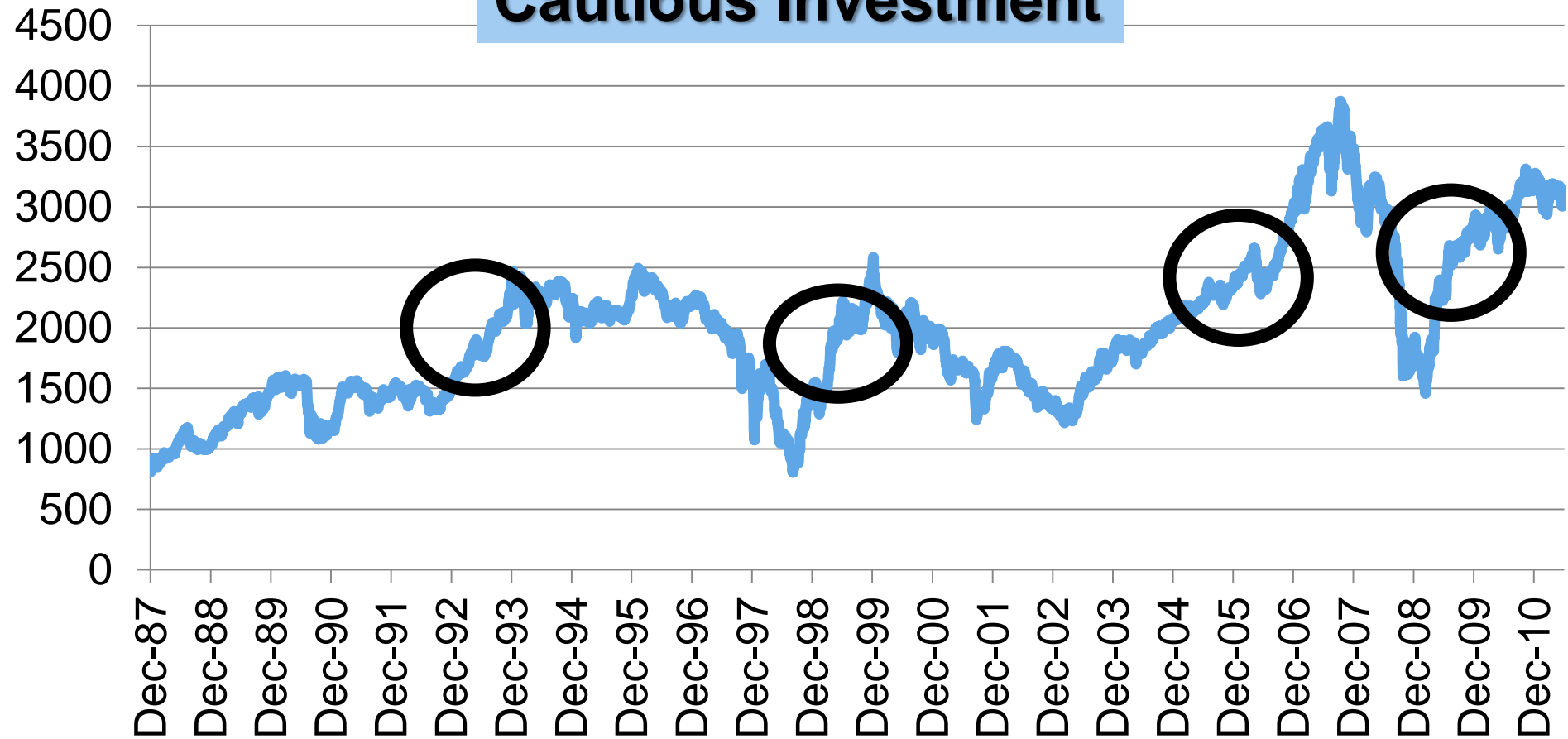
Portfolio Management

Aggressive Investment



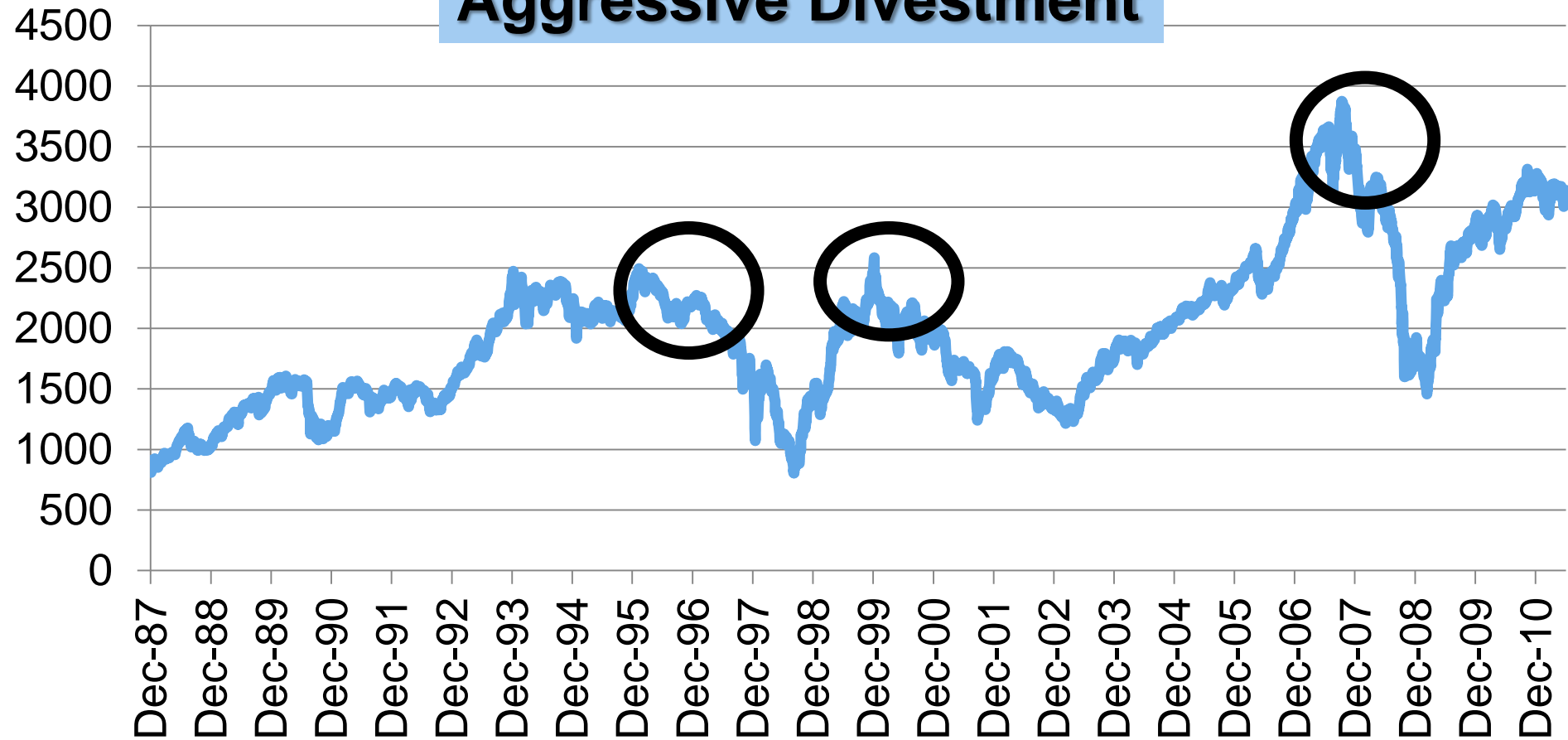
Portfolio Management

Cautious Investment



Portfolio Management

Aggressive Divestment

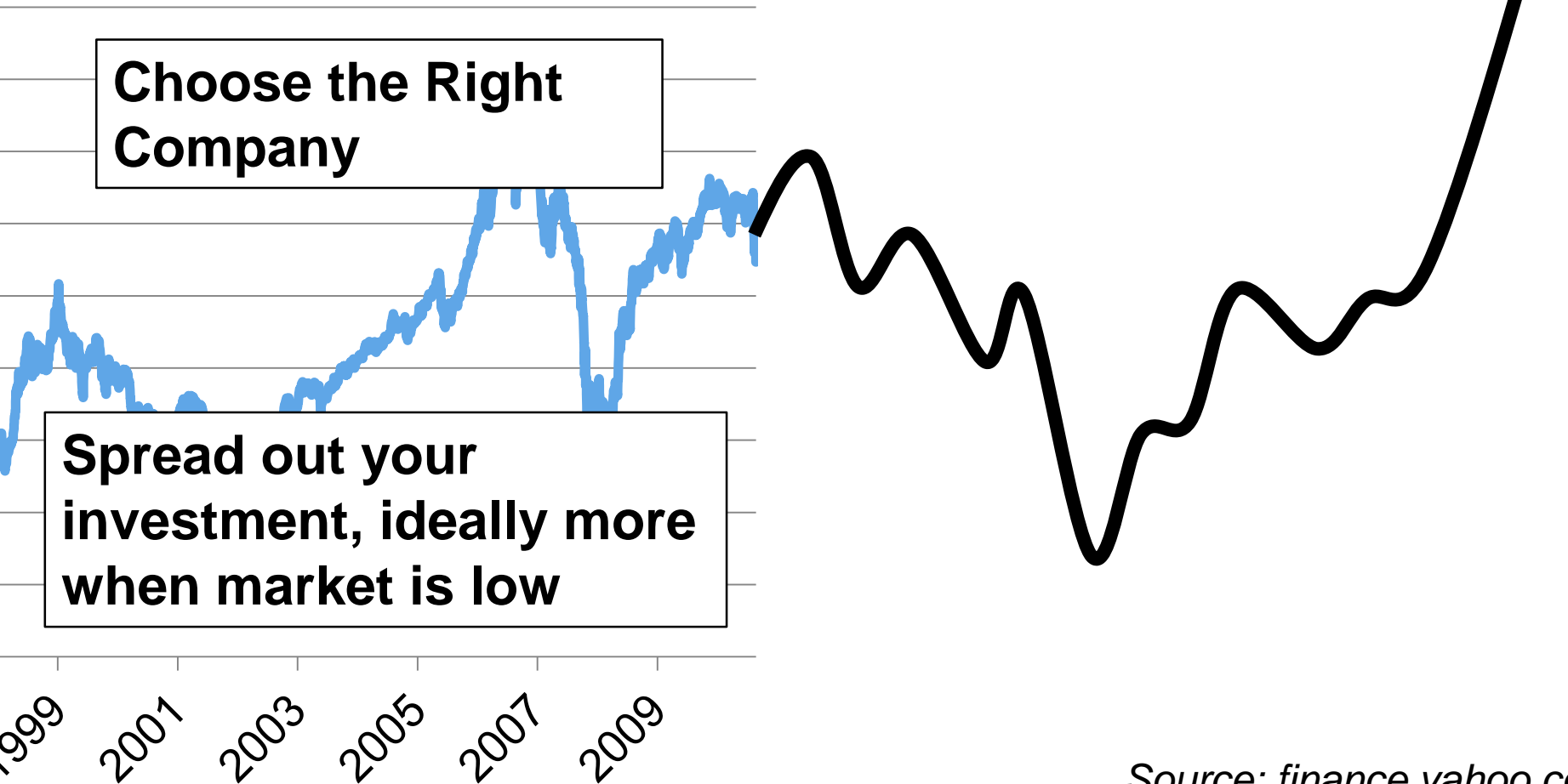


In short...

As long term investors, We believe that the next peak will be higher

Choose the Right Company

Spread out your investment, ideally more when market is low





Real Results...

CONTRACT STATEMENT

The Central Depository (Pte) Limited

Company Reg No. 198003912M

(a wholly-owned subsidiary of Singapore Exchange Limited)

MEMBER OF SGX-ST (BROKER) AND MEMBER OF CDP

LIM AND TAN SECURITIES PTE LTD

20 CECIL STREET
#09-00 EQUITY PLAZA
SINGAPORE 049705

CO. REG. NO.: 197301030W

CDP REGISTRATION NO: N2-0016025-6

Today's price = \$0.90
24% increase in 16 months!

NAME

CHUA I-MIN (CAI YIMING)

TRADING ACCOUNT
12/YA /012795

CONTRACT NO

SECURITY

PRICE

QUANTITY

SETTLEMENT DATE

CURRENCY

PROCEEDS

FOREIGN TRADING FEE

BROKERAGE RATE

CONTRACT 1

697538/001 BUY

OVERSEASEDU

S\$ 0.725

2,000

24/07/2013

S\$

1,450.00

CONTRACT 2

----- N.A. -----

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MEMBER OF SGX-ST (BROKER) AND MEMBER OF CDP

LIM AND TAN SECURITIES PTE LTD

20 CECIL STREET

#09-00 EQUITY PLAZA

SINGAPORE 049715

CO. REG. NO.: 19730103BW

GST REGISTRATION NO: MZ-0016026-6

Today's price = \$1.25
71% increase in 18 months!

NAME

CHUA I-MIN (CAI YIMING)

TRADING ACCOUNT
12/YA /012797

CONTRACT 1

547130/502 SELL

UE E&C

S\$ 0.735

1,000

14/05/2013

CONTRACT NO

SECURITY

PRICE

QUANTITY

SETTLEMENT DATE

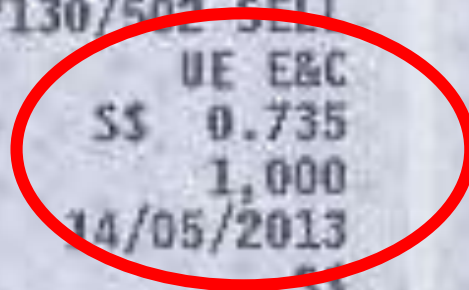
CURRENCY

PROCEEDS

FOREIGN TRADING FEE

CONTRACT 2

----- N.A. --



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20 CECIL STREET

#09-00 EQUITY PLAZA

SINGAPORE 049705

CO. REG. NO.: 197301030W

GST REGISTRATION NO: M2-0016026-6

Today's price = \$1.84
67% increase in 26 months!

NAME

CHUA I-MIN (CAI YIMING) OR
CHEN JUEMING

TRADING ACCOUNT
12/YA /00596

CONTRACT 1

CONTRACT 2

CONTRACT NO

131901/001 BUY

SECURITY

SINGPOST

PRICE

S\$ 1.10

QUANTITY

1,000

SETTLEMENT DATE

28/09/2012

CURRENCY

S\$

PROCEEDS

1,100.00

FOREIGN TRADING FEE

BOOKING FEE

MTM

----- N.A. -----



What to do during Market Correction?



Case Study

Virtual Porfolio

www.sharesinvestcoach.com > blog (Malaysia Stocks)

	A	B	C	D	E	F	G
1							
2	Cash	\$75,190.00		Total Purchase Price	\$24,810		
3	Stock Value @ 15 Oct 14	\$23,370.00					
4	Portfolio Value	\$98,560.00					
5							
6							
7	Stock	Purchase Price	Quantity	Date of Purchase	Cost	Current Price	Current Value
8	Media Prima Bhd	\$2.24	2,000	17-Sep-14	\$4,480	\$2.02	\$4,040
9	CCM Duopharma Biotech	\$3.17	1,000	18-Sep-14	\$3,170	\$3.01	\$3,010
10	Cypark Resources Bhd	\$2.65	2,000	23-Sep-14	\$5,300	\$2.46	\$4,920
11	Protasco Bhd	\$1.68	2,000	29-Sep-14	\$3,360	\$1.48	\$2,960
12	Tropicana Corporation Bhd	\$1.24	3,000	2-Oct-14	\$3,720	\$1.22	\$3,660
13	Apollo Food Holdings	\$4.78	1,000	15-Oct-14	\$4,780	\$4.78	\$4,780

Assumption

- ❖ Virtual fund of \$100,000
- ❖ Started in 17 Sep 2014
- ❖ Completed 1st phase with 20% invested
- ❖ All in red due to recent correction

What will I do now?



What is my market outlook?

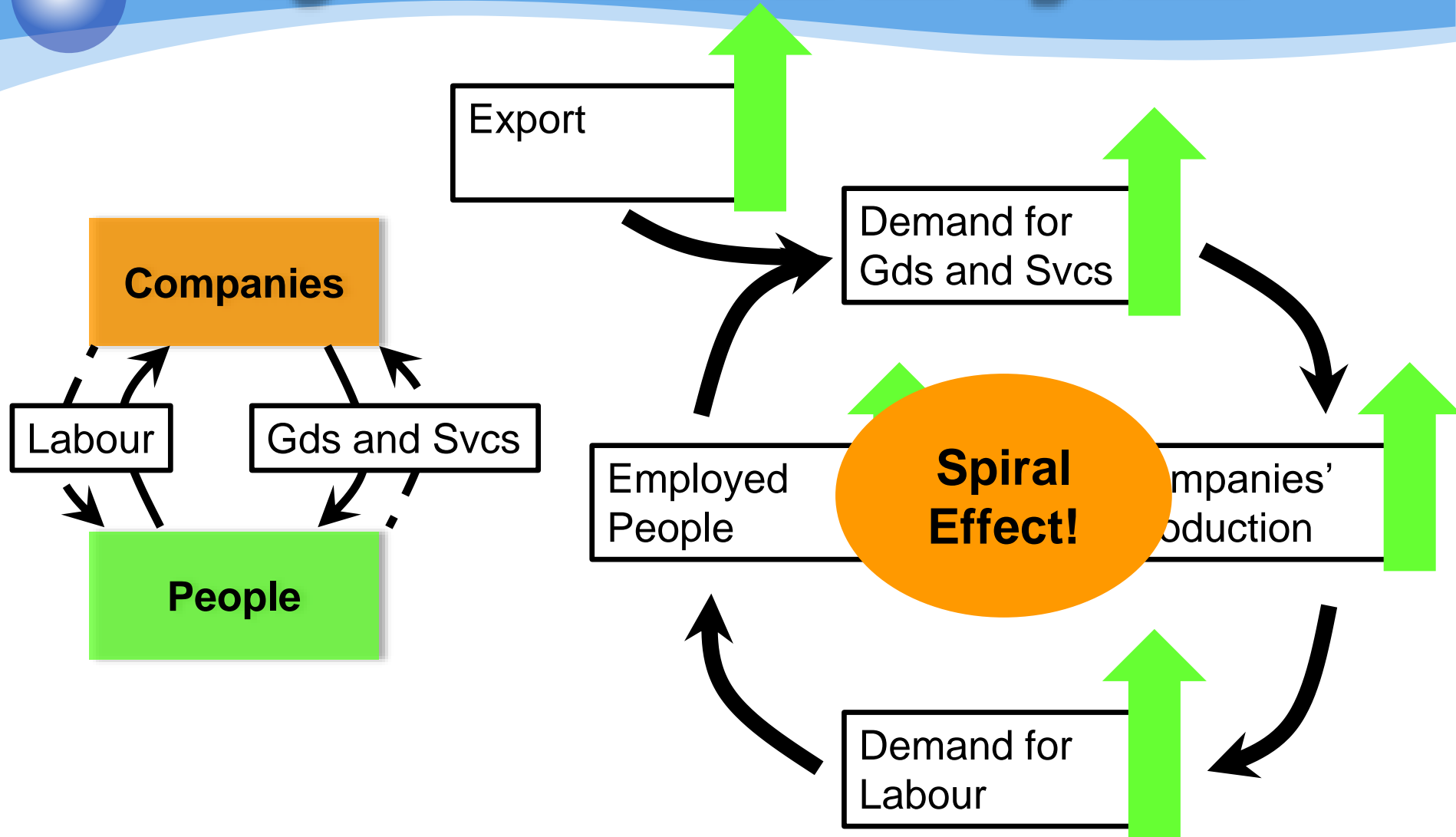


Market Outlook

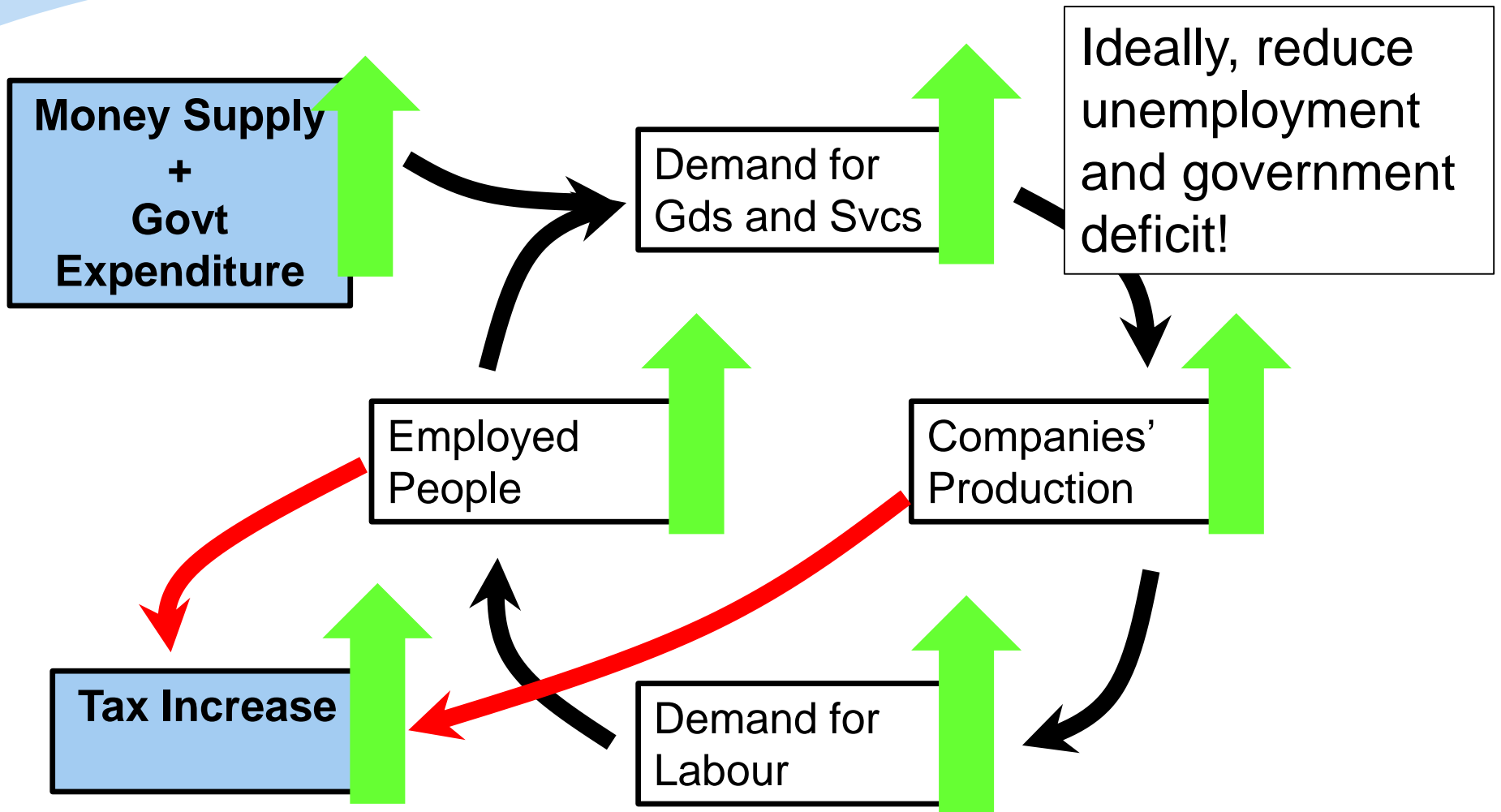
Remain Positive!

Expect market to close higher
by end this year

Cyclical Effect in the System



Stimulus Package



Consumers in US spent more in August

Rise a positive sign for economy in which bosses are also hiring more

WASHINGTON - Rising incomes helped consumers in the United States spend more in August, a positive sign for the economy which appears to be shifting into a higher gear.

The Commerce Department yesterday said consumer spending rose 0.5 per cent last month after being unchanged in July. The growth in August was just above the median forecast in a Reuters poll of a 0.4 per cent gain.

Spending was 0.5 per cent higher even after adjusting for inflation. Some of the strength in spending came from a drop in the personal saving rate, which fell to 5.4 per cent from 5.6 per cent.

Personal income rose 0.3 per cent following a 0.2 per cent increase the month before.

Employers are cutting back on dismissals and adding to headcounts, helping underpin sentiment and sustaining the purchases that make up almost 70 per cent of the economy. Bigger wage gains would help provide an additional push and propel sales.

Department store operator Macy's yesterday said it planned to hire about 86,000 workers for the holiday shopping season, up from about 83,000 last year. Rival Kohl's Corp said this month that it would hire more than 67,000 workers for the holiday shopping



The American consumer looks to be in a fairly healthy position, says an economist and forecaster. Data just out shows personal income rose 0.3 per cent in August following a 0.2 per cent increase the month before, and spending was 0.5 per cent higher even after adjusting for inflation. PHOTO: AGENCE FRANCE-PRESSE

season, about 34 per cent more than last season.

"The consumer looks to be in a fairly healthy position," said Mr Robert Stein, deputy chief economist at First Trust Portfolios and the second-best forecaster of consumer spending over the last two years. "The labour market is the key behind the income growth that we're seeing."

The data reinforces the view that the economy will finish this year firing on nearly all cylinders and that the Fed

could raise interest rates next year to keep inflation in check.

Some policymakers at the US central bank remain concerned that inflation is stuck well below their 2 per cent target. Chicago Fed president Charles Evans said on CNBC television yesterday that the Fed should patiently seek to push inflation up to its target so it does not have to "backtrack" after raising rates.

A report last Friday showed the

2½ years as companies stepped up investment and households boosted spending. Gross domestic product climbed at a revised 4.6 per cent annualised rate, up from a previous estimate of 4.2 per cent, official data showed.

Yesterday's report also showed prices tied to consumer spending rose 1.5 per cent in the year ended August. The core price measure, which excludes fuel and food, rose 0.1 per cent in August from

MARKETS INSIGHT

Last updated: September 2, 2014 5:43 pm

QE best way to mend Europe financial fragmentation

By Gene Frieda

Bond purchases by ECB would eliminate yield differences, writes Gene Frieda



THE WALL STREET JOURNAL. MARKETS

TOP STORIES IN MARKETS

1 of 12

 Stock Markets Could Use Some Separation...

2 of 12

 Walgreen Looks Healthy to Investors

 Intel's China Call Quick Payoff

ASIA STOCKS

Asian Shares Gain on China Stimulus

China's Central Bank Injects \$81 Billion Into Top Banks to Counter Slowdown

 Email  Print  Comments



A

A

By CHAO DENG [CONNECT](#)

Updated Sept. 17, 2014 5:55 a.m. ET

Dow Yearly Normalized P/E Ratio



Source: Observations (ObservationsAndNotes.blogspot.com)

Dow Jones

Week of Oct 15, 2012: ■ ^DJI 13343.51

PE = 15.0



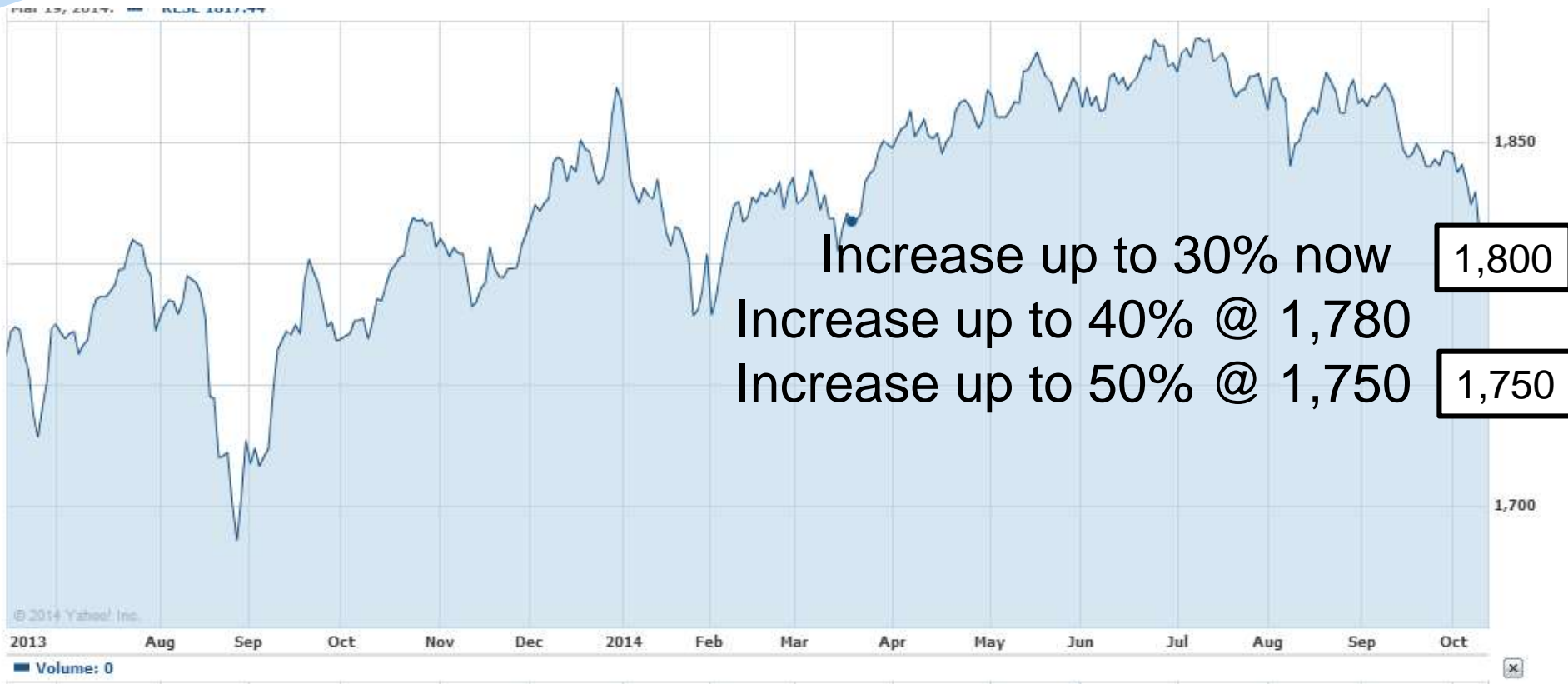


How should I buy?

Fighting Irrationality

- ❖ Current correction is irrational
- ❖ 2 Unknown
 - Where is the bottom of this correction?
 - When will the rebound come?

Buy in Phases!



If rebound, won't rush in! watch what happen then...



Stock Selection

**Defensive
Or
Aggressive?**

Defensive

❖ Blue Chip

- Attractive price – Dividend Yield $> 5\%$
- Fair price with growth story

❖ Mid Cap Dividend Stocks

- Attractive price – Dividend Yield $> 6\%$
- Growth story

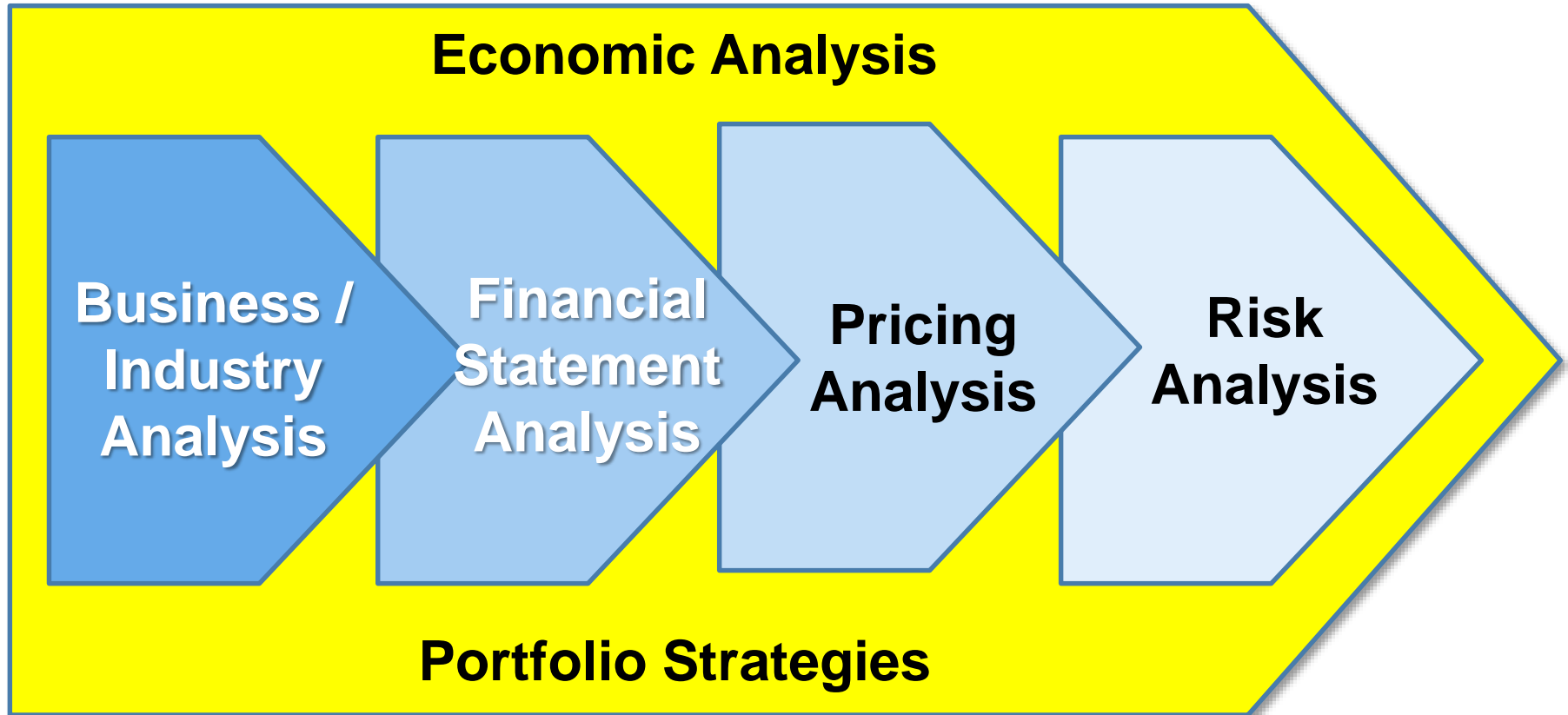
❖ Growth Stocks

Growth Story

❖ E & M Commerce



Long Term Shares Investing Technique



For success in the Stock Market!

Track Our Virtual Portfolio!

www.sharesinvestcoach.com > blog (Malaysia Stocks)

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Thank You! 😊

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regular investment views! 😊**

www.facebook.com/myinvestcoach