

# **EQUITYWATCH**

## Market Recommendation Report 2012/1

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## Macroeconomic update

### USA

- USA has posted the largest budget deficit since WWII. This report has sparked fresh concerns that American economic recovery will be hampered. Even though Federal Reserve Chairman, Ben Bernanke, has promised the injections of funds via Quantative Easing, recovery has been slow. Many doubt the effectiveness of this third round of easing.
- With the Presidential elections occurring in Nov 2012, politicians seem to have overlooked the upcoming fiscal cliff that the US economy faces. Bush-era spending cuts are to expire in Dec 2012. If the new President does not come up with a viable plan to substantially reduce government debt by 2020, automatic spending cuts will kick in.
- Both business and consumer confidence in the economy seems to remain low when compared to 2011 levels.
- **EW:** expects Obama to win. This might mean a continuation of education and healthcare policies, but we think Mitt Romney would be in a better position to save the economy.

### EUROPE

- Swedish Finance Minister, Anders Borg, has said that Greece will most likely leave the Eurozone within the next 6 months. However, he reassured that a Greek exit today would not have as major an impact when compared to three years ago. His opinions reflect a growing sentiment that the impact of a Greek exit would not be substantial. What is more of a concern now, is the contagion effects that it might have.

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- Earlier this week, the IMF reported its global forecasts for 2013, projecting a slight decrease in global economic growth (3.5% in July to 3.3%).

### ASIA

- The world's second-largest economy grew at the fastest pace in 3 months in the month of September, stemming concerns of a slump in the Global economy.
- Japan and China have agreed to talks over the territorial dispute that had caused a stir in previous weeks.

**EW:** The Chinese are very proud of their culture (who isn't?). Zhong Guo literally translates into 'Middle Kingdom' or 'Centre of the World'. Even if you disregard this, and the fact that China and Japan were never best friends, this dispute (like all other territorial disputes) is expected to drag on in the next few years.

## Stock Market

EW is putting more weight into defensive stock holdings. These companies have stable incomes and growth, and ride out uncertain times relatively better than most.

### General

STOCK	Period	EPS (cts)	Share Price	Yield	PE	Remarks
SPH	FY12 (Aug)	23	\$4.070	5.897%	17.70	

### Aviation

STOCK	Period	EPS (cts)	Share Price	Yield	PE	Remarks
SATS	FY12 (Mar)	15.40	\$2.780	9.353%	18.05	

### Telco

STOCK	Period	EPS (cts)	Share Price	Yield	PE	Remarks
Singtel	FY12 (Mar)	25.04	\$3.150	5.016%	12.58	Excludes special dividend of \$0.10
M1	FY11 (Dec)	18.10	\$2.650	5.472%	14.64	
Starhub	FY11 (Dec)	18.40	\$3.680	5.435%	20.00	

Regarding Telcos, M1 is expected to announce interim dividends in the month of Oct 2012. This amount is expected to maintain at FY11 levels or lower.

### Singtel

In the first few months of 2012, Singtel share price had hovered between S\$3.05-S\$3.20. This climbed to a high of S\$3.58 in August, before falling again towards the end of the year.

On 14 Oct 2012, Singtel's CEO, Chua Sock Koong, exercised her stock options, increasing her personal share interest in the business.

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**EW:** Despite missing average analysts' earnings estimates, Singtel continues to maintain stable earnings.

**EW Target Price:** BUY. TP under S\$3.100

## Gold/Silver

Since the announcement of QE3, spot Gold and Silver have surged to a 2012 high of just under US\$1,800/oz and US\$35/oz respectively in September. However, with the current global uncertainty, investors have turned to the US for a safe haven (causing the USD to increase in the week of 8 Oct 2012). Investors simply think that spot Gold is currently overpriced, as it is near its all time high of US\$1,900/oz.

Currently, Gold price is on a slow downward trend as we head towards the close of 2012.

Factors of change:

- Any poor economic report signaling a declining US economy. ↑Gold
- Improving Eurozone situation and consequently Euro/USD ↑. ↑Gold
- China growth ↑. ↑Gold
- Indian Rupee ↑ resulting in ↑ Indian demand for Gold. ↑Gold

**EW:** HOLD. Expect Gold to trend downwards towards the remaining months of 2012. However, we are expecting a rebound in the first few months of 2013. Stay cash rich in the meantime, and jump at the opportunity.

Resistance levels:

- Gold: maintain US\$1,800.
- Silver: US\$35

Support levels:

- Gold: -
- Silver: ~US\$29-30 at YE2012.

## Miscellaneous

Some other entities to look at:

1. Olam International Limited (OLAM.SI)
2. Singapore Airlines Limited (C6L.SI)
3. Wilmar International Limited (F34.SI)