Stock Selection with Fundamental Analysis
What Fund Managers do during Market Correction
The full content of the program is for educational purposes only and should not be used as investment recommendations. We are not responsible for all investment activities conducted by the participants and cannot be held liable for any investment loss.

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

Economic Analysis

Business / Industry Analysis
Financial Statement Analysis
Pricing Analysis
Risk Analysis

Portfolio Strategies

For success in the Stock Market!
Stock Selection Process

What Stock to Buy?
What Price to Buy at?
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!
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
Value and Growth is not mutually exclusive. Companies can be both value and growing!

- Singpost: moving into e-commerce
- DBS: busy acquiring!
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?
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
5 sectors to watch in the decade ahead

- Housing
- Energy
- Health Care
- Agri - Business
- Travel and Tourism
Financial Statements provide various important information about the company... How do we extract the information?

<table>
<thead>
<tr>
<th>Note</th>
<th>2011 $’000</th>
<th>2010 $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ASSETS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>12</td>
<td>740,309</td>
</tr>
<tr>
<td>Investment in subsidiaries</td>
<td>13</td>
<td>-</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>14</td>
<td>6,716</td>
</tr>
<tr>
<td>Other receivables</td>
<td>15</td>
<td>21,360</td>
</tr>
<tr>
<td>Total assets</td>
<td></td>
<td>768,385</td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>16</td>
<td>135</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>17</td>
<td>3,529</td>
</tr>
<tr>
<td>Total current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Financial Statement Analysis
## Is the Company Profitable?

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Profit Attributable to Owners of the Company (US$’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>47,202</td>
</tr>
<tr>
<td>2008</td>
<td>112,791</td>
</tr>
<tr>
<td>2009</td>
<td>112,505</td>
</tr>
<tr>
<td>2010</td>
<td>143,084</td>
</tr>
<tr>
<td>2011</td>
<td>196,416</td>
</tr>
</tbody>
</table>

Source: First Resources 2011 annual report
Financial Statement Analysis

- **Profitability Ratio**: Which company is more efficient in making money?

- **Liquidity Ratio**: Does the company have enough money for the coming year?

- **Solvency Ratio**: Can the company service interest and repay debt?
Is there any where from the financial statement that we should be worried for this company?
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?
### Example:

<table>
<thead>
<tr>
<th>Counter (based on 12 Aug 11 pricing)</th>
<th>Market P/E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capitaland</td>
<td>8.6 x</td>
</tr>
<tr>
<td>Keppel Land</td>
<td>4.5 x</td>
</tr>
<tr>
<td>Ho Bee</td>
<td>3.1 x</td>
</tr>
<tr>
<td>Hiap Hoe</td>
<td>5.6 x</td>
</tr>
<tr>
<td>Guocoland</td>
<td>17.1 x</td>
</tr>
</tbody>
</table>

- 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!)

*Data Source: Share Investment*
How much is the company shares worth?

A collection of Assets (Inventories and Machineries)

Accounting Method

Value of Company Shares = Assets – Liabilities (Loan)

Net Asset Value (NAV)
How much is the company shares worth?

**Price to Book Value**

**Market Decision Method**

Price as traded in the Share Market

A collection of Assets (Inventories and Machineries)
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

Total = $12
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
## Dividend Yields

Based on Stock Price on 16 Dec 2011

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

*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.

Source: Chip Eng Seng 2011 annual report
Credit Risk (Does the company potential has a debt issue?)

- Current Ratio – Current Asset / Current Liability
- Debt / Equity Ratio – Total Debt / Total Equity
- Interest Cover – EBIT / Interest Cost
Market Risk (Is the general market going up or down)?

- Economic Analysis

- Cautious Investment
- Aggressive Investment
- Divestment
Portfolio Management

When to Buy / Sell?
How much of you money should be invested?
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

Dec-87 to Dec-10

0 - 4500

Dec-87: 1000
Dec-88: 1500
Dec-89: 2000
Dec-90: 2500
Dec-91: 3000
Dec-92: 3500
Dec-93: 4000
Dec-94: 4500
Dec-95: 5000
Dec-96: 5500
Dec-97: 6000
Dec-98: 6500
Dec-99: 7000
Dec-00: 7500
Dec-01: 8000
Dec-02: 8500
Dec-03: 9000
Dec-04: 9500
Dec-05: 10000
Dec-06: 10500
Dec-07: 11000
Dec-08: 11500
Dec-09: 12000
Dec-10: 12500

Circles indicate significant events or changes in investment performance.
Portfolio Management

Cautious Investment
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...
Today’s price = $0.90
24% increase in 16 months!
Today’s price = $1.25
71% increase in 18 months!
Today's price = $1.84
67% increase in 26 months!

<table>
<thead>
<tr>
<th>CONTRACT NO</th>
<th>SECURITY</th>
<th>PRICE</th>
<th>QUANTITY</th>
<th>SETTLEMENT DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SINGPOST</td>
<td>$1.10</td>
<td>1,000</td>
<td>28/09/2012</td>
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</tbody>
</table>
What to do during Market Correction?
Virtual Portfolio

www.sharesinvestcoach.com > blog (Malaysia Stocks)

<table>
<thead>
<tr>
<th>Stock</th>
<th>Purchase Price</th>
<th>Quantity</th>
<th>Date of Purchase</th>
<th>Cost</th>
<th>Current Price</th>
<th>Current Value</th>
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<tbody>
<tr>
<td>Media Prima Bhd</td>
<td>$2.24</td>
<td>2,000</td>
<td>17-Sep-14</td>
<td>$4,480</td>
<td>$2.02</td>
<td>$4,040</td>
</tr>
<tr>
<td>CCM Duopharma Biotech</td>
<td>$3.17</td>
<td>1,000</td>
<td>18-Sep-14</td>
<td>$3,170</td>
<td>$3.01</td>
<td>$3,010</td>
</tr>
<tr>
<td>Cypark Resources Bhd</td>
<td>$2.65</td>
<td>2,000</td>
<td>23-Sep-14</td>
<td>$5,300</td>
<td>$2.46</td>
<td>$4,920</td>
</tr>
<tr>
<td>Protasco Bhd</td>
<td>$1.68</td>
<td>2,000</td>
<td>29-Sep-14</td>
<td>$3,360</td>
<td>$1.48</td>
<td>$2,960</td>
</tr>
<tr>
<td>Tropicana Corporation Bhd</td>
<td>$1.24</td>
<td>3,000</td>
<td>2-Oct-14</td>
<td>$3,720</td>
<td>$1.22</td>
<td>$3,660</td>
</tr>
<tr>
<td>Apollo Food Holdings</td>
<td>$4.78</td>
<td>1,000</td>
<td>15-Oct-14</td>
<td>$4,780</td>
<td>$4.78</td>
<td>$4,780</td>
</tr>
</tbody>
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Total Purchase Price: $24,810

Portfolio Value: $98,560.00

Cash: $75,190.00

Stock Value @ 15 Oct 14: $23,370.00
Assumption

- Virtual fund of $100,000
- Started in 17 Sep 2014
- Completed 1\textsuperscript{st} 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

- Export
- Demand for Gds and Svcs
- Employed People
- Demand for Labour

Companies

Labour

Gds and Svcs

People

Spiral Effect!
Demand for Goods and Services (Gds and Svcs)

Demand for Labour

Employed People

Companies’ Production

Money Supply + Govt Expenditure

Ideally, reduce unemployment and government deficit!

Tax Increase

Demand for Labour
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 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 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 near full capacity 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 Source: The Straits Times, 30 Sep 2014.
QE best way to mend Europe financial fragmentation

By Gene Frieda

Bond purchases by ECB would eliminate yield differences, writes Gene Frieda
Asian Shares Gain on China Stimulus

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

By CHAO DENG

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

PE = 15.0

Source: finance.yahoo.com
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…

Increase up to 30% now
Increase up to 40% @ 1,780
Increase up to 50% @ 1,750

1,800
1,750

Source: finance.yahoo.com
Stock Selection

Defensive
Or
Aggressive?
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
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Thank You! 😊

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www.facebook.com/myinvestcoach