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Heard in Asia

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By RICHARD BORSUK

Singapore's Small-Cap Stocks Can Be Big Catches for Investors

Singapore
FOR SOME investors in Singapore's slumping stock market, it has proven profitable to think small.

In 2002, during which the benchmark Straits Times Index dropped 17.4%, the shares of several smaller local companies more than doubled in price. And during the past two weeks, some of them have reported strong full-year results for 2002.

The existence of growth stories, at a time when the Singapore Exchange and most others are spooked by war and economic worries, is getting more investors to look at the city-state's smaller counters.

Most of the stocks are too small to appear on the radar screen of global investment banks, especially at a time when research departments have been reduced. But local brokerage houses aren't the only ones that have found it worthwhile to be on the lookout for niche plays and other Singapore companies with market capitalization of less than S\$500 million (US\$287 million).

"It's true that small can be beautiful," says Peter Hames, director of Asian equities at Aberdeen Asset Management Asia. He says "a lot of value" can be found in smaller-cap companies in Singapore—and in Asia in general—and some have "performed extremely well."

Aberdeen's latest addition of a small-cap to its portfolio was Eu Yan Sang, a maker of herbal medicines, whose shares it acquired last year.

Recently, the fund-management firm met with the executives of Hyflux, a water-engineering company that has been in the local headlines since December, to learn about its operations.

Hyflux is one of a number of small companies creating a buzz in Singapore, either because of big contracts or good financial results at a time when many others are struggling.

Two such companies getting attention are **Osim International**, which sells high-tech massage chairs plus other "lifestyle" products, and **Qian Hu**, which breeds and exports ornamental fish.

Last month, Hyflux and a foreign partner won a bid to build Singapore's first desalination plant, a S\$250 million project. Earlier, the company invested in a California outfit that says it can make potable water from water vapor. **Temasek Holdings**, the Singapore government's powerful investment vehicle, in December bought a 5% stake in Hyflux.

Some analysts find Hyflux expensive since its shares surged after

the desalination project was announced Jan. 19. Shares of Hyflux, with a market capitalization of about S\$280 million, closed Friday at S\$1.10, down one Singapore cent. (Singapore's market was closed Monday.) Kerryn Tay, an analyst at G.K. Goh Research, rates Hyflux a "buy," with a 12-month price target of S\$1.43. She calculates Hyflux is trading at a price/earnings ratio of about 17 times prospective 2003 earnings, while the overall Sin-

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gapore market is about 13 times this year's earnings, but Ms. Tay believes the "water play" is worth the premium.

Osim, with about S\$270 million in market capitalization, last week reported a 28% rise in profit to S\$17.1 million and a 43% increase in sales to S\$239.2 million for 2002. DBS Vickers Securities said the achievement of solid results in bad economic times shows Osim's "strong brand positioning." DBS Vickers has a "buy" on the company, with a 12-month price target of S\$1.23. Friday, Osim shares closed at 88 Singapore cents, up from 87 Singapore cents.

The same results led Net-Research Asia to downgrade Osim to "hold" from "buy" in the short-term because of slowed sales during the final quarter of 2002, though the independent-analysis firm continued to recommend "accumulate" for longer-term investors.

A Singapore newspaper described Qian Hu, whose name means "One Thousand Lakes," as a "guppy that aspires to be a whale." On Jan. 20, Qian Hu reported an 84% jump in 2002 profit to S\$6.6 million, with sales rising 52% to S\$62.7 million. Based on the results, Net-Research Asia upgraded the stock to "buy" from "hold," saying the fish breeder "seems to have found the correct growth strategy." One Singapore fund manager says she likes Qian Hu's story, but the company, with a market-cap of about S\$75 million, is too small a fish for her.

Size does matter for many fund managers, and for research departments at global brokerage firms that handle largely institutional investors.

Nearly all Singapore small-caps aren't in global stock indexes, and many are only researched by local brokerage firms.

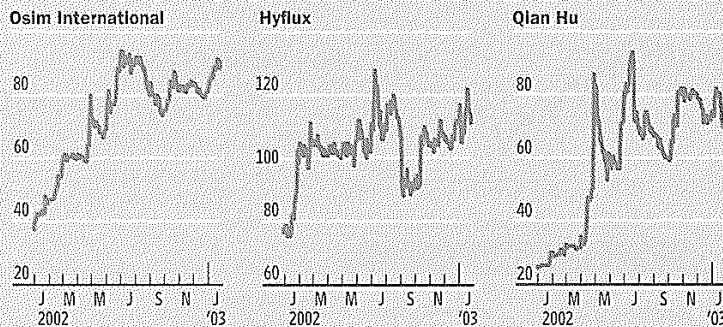
That is no obstacle for Aberdeen. Mr. Hames says his firm cares about value and potential growth, and "we don't care if something is in the index or not." Ng Soo Nam, who manages the Schroder Singapore Trust, says researching small-cap stocks can be a "pretty intensive process" for fund managers, but it can be worthwhile because there are some "good stories."

Mr. Ng and other fund managers say a prime barrier to investing in small-caps can be the problem of quickly getting out of them. Another concern is that while some Singapore small companies are developing good track records, many have floundered after getting a stock-market listing.

A Singapore analyst for an international brokerage firm says following small companies will continue to be left mainly to local stock brokers, because "we just can't do it." Investors who don't look at small-caps, contends DBS Vickers research director Timothy Wong, are "missing out. There's an opportunity to get really good performance."

Little Winners

Performance of three small-cap companies, in Singapore cents



Source: Thomson Datastream