MARKET OUTLOOK FOR THE WEEK (18th FEB 2013 – 22th FEB 2013)

Key Events Last Week

- CHF CPI (MoM) at -0.3% as forecasted
- GBP CPI (YoY) at 2.7% as forecasted
- BOE Gov King Spoke together with BOE Inflation Report
- USD Core Retail Sales (MoM) at 0.2% higher than forecast of 0.1%
- USD Retail Sales (MoM) at 0.1% as forecasted
- USD Treasury Sec Nominee Lew Speaks
- JYP Monetary Policy Statement
- BOJ Press Conference
- JYP Overnight Call Rate kept constant at <0.10%
- USD Unemployment Claims at 341k better than expected forecast of 361k
- GBP Retail Sales (MoM) at -0.6% worse than forecast of 0.5%
- USD Prelim UoM Consumer Sentiment at 76.3 beating forecast of 74.8
- G20 Meetings

Key Events to Focus on This Week

- ECB President Draghi Speaks (Monday, 10.30 pm)
- AUD Monetary Policy Meeting Minutes (Tuesday, 8.30 am)
- EUR German ZEW Economic Sentiment (Tuesday, 6.00 pm)
- GBP Claimant Count Change (Wednesday, 5.30 pm)
- GBP MPC Meeting Minutes (Wednesday, 5.30 pm)
- US Building Permits (Wednesday, 9.30 pm)
- US PPI m/m (Wednesday, 11.00 pm)
- US FOMC Meeting Minutes (Thursday, 3.00 am)
- EUR German Flash Manufacturing PMI (Thursday, 4.30 pm)
- Spanish 10-y Bond Auction (Thursday, Tentative)
- US Core CPI m/m (Thursday, 9.30 pm)
- US Unemployment Claims (Thursday, 9.30 pm)
- US Existing Home Sales (Thursday, 11.00 pm)
- US Philly Fed Manufacturing Index (Thursday, 11.00 pm)
- RBA Gov Stevens Speaks (Friday, 6.30 am)
- EUR German Ifo Business Climate (Friday, 5.00 pm)
- CAD Core CPI m/m (Friday, 9.30 pm)
- CAD Core Retail Sales m/m (Friday, 9.30 pm)

Time indicated is in SG Timing

Global Market Summary

Yen weakens

The G20 over the weekend did not single out Japan's Monetary Policy as a problem. This may cause further yen weakness as traders may take such actions as an approval with regards to the strong monetary easing carried out by BOJ. The weakening of the yen had extended Japan's losses, making it the worst performing major currency in the past 3 months. The yen dropped by 0.4% on February 11th and fell further by 0.4% on February 15th.

China's Stock Index Drops

Consumer-staples producers and property developers stocks fell during the Lunar New Year holiday, pulling down China's benchmark stock index. The Kweichow Moutai Co. fell 4.4%, which resulted in the biggest loss for consumer-staples producers and the Gemdale Corp. slumped 5.2% during the holiday. The Shanghai Composite Index fell by 0.5% while the CSI 300 index dropped by 1.2%. The consumer staples had dropped during the festive season because of weak consumer spending.

European Stocks fall as metal slides

Industrial metals fell pulling the European stocks down for a third consecutive day. Stoxx Europe 600 index lost 0.3% while Standard & Poor's 500 Index futures added less than 0.1%. Aluminum, copper and nickel slid by at least 0.9% as China, the biggest metals consumer reopened after the festive season.

Gold climbs from 6 month low

Gold had risen from a six-month low in London due to improve economic health even though there were speculations that the biggest drop since May will spur purchases. Platinum fell 3.4% and holdings in gold-backed exchange-traded products fell the most since July.

Germany's economy to return to growth

The central bank has announced that Germany will avoid a recession and the economy will bounce back in the first quarter of 2013. The German economy fell by 0.6% in the last quarter of 2012 and if the economy fell again, they would be considered in recession. Reports have shown that the German economy will grow slowly for the rest of the year. Germany's GDP have slowed down through 2012 from a 0.5% in the first quarter of 2012 to 0.3% in the second and 0.2% in the third quarter.

Recession in Eurozone gets worse

The recession in the Eurozone deepened towards the end of 2012. The euro shrank by 0.6% in the 4 quarter of 2012 which is the biggest fall since the start of 2009 and it the first time the euro failed to grow in any quarter during the year. This was due to the economies of Germany, France and Italy falling by more than the forecasted.

India's inflation rate falls to 3 year low

The falling of the inflation rate has allowed policymakers to take the necessary procedures to revive the lethargic economy. The Wholesale Price Index which is India's main gauge of inflation fell to 6.62% by the end of December. The growth rate has slowed due to sluggish exports, fall in investment as well as decline in domestic demand.

FA Trade Idea

King Wan Corporation Limited
Current Stock Price (as of 15/2/13): $0.295
Target Price: $0.34 (Dividend yield: 5.5%)

Background
The Group is principally in the business of providing mechanical and electrical (M&E) engineering services. Its customers are mainly contractors in Singapore who are engaged in property development in public and private residential sectors. M&E systems offered by the Group include:-

(a) plumbing and sanitary systems;
(b) electrical engineering systems;
(c) fire protection and alarm systems;
(d) air-conditioning and mechanical ventilation systems;
(e) communications and security systems; and
(f) underground pipeline communication systems.

The Group currently owns 714 portable lavatories, commonly referred to as mobile toilets which are leased out to main contractors and event organisers. It is currently also involved in some high-end property developments.

Fundamentals

Balance Sheet				
	2009	**2010**	**2011**	**2012**
Current Assets	34,728,567	47,416,907	48,587,561	49,429,774
Cash and cash equivalents	2,209,534	13,457,397	23,405,991	28,690,341
Trade and other receivables	7,622,069	10,743,798	8,761,210	9,285,830
Inventories	1,644,511	1,439,360	767,501	1,269,500
Other receivables and prepayments	11,955,221	10,854,635	9,645,212	2,202,023
Held-for-trading investments	-	43,540	78,973	301,938
Construction work-in-progress	11,261,709	5,928,674	5,928,674	7,680,142
Non-current Assets	50,789,308	51,993,886	52,336,624	57,597,295
Other receivables	-	-	-	17,441,315
Property, plant and equipment	6,928,426	6,552,371	5,818,204	5,916,328
Investment property	6,600,794	6,145,563	5,690,336	-
Investment in associates	37,260,088	39,295,952	40,828,084	34,239,652
Total Assets	50,789,308	99,410,793	100,924,185	107,027,069
Current Liabilities	24,626,124	31,602,964	23,734,008	22,566,195
Total Liabilities	24,715,770	34,596,944	25,639,936	23,389,904
Net Assets	26,073,538	64,813,849	75,284,249	83,637,165
NAV/S (in dollars)	0.074	0.185	0.215	0.239

Income				
	2009	**2010**	**2011**	**2012**
Revenue	44,656,249	70,518,435	70,362,238	57,211,850
Total Expenses	39,426,813	61,033,616	55,881,468	43,202,721
Operating Income	5,229,436	9,484,819	14,480,770	14,009,129
Other Comprehensive Income	829,555	(38,278)	(1,265,840)	(1,116,914)
Total Comprehensive Income	6,058,991	9,446,541	13,214,930	12,892,215
EPS[1](in dollars)	0.014	0.027	0.041	0.040
EPS[2](in dollars)	0.017	0.027	0.037	0.037

[1] Calculated based on operating income
[2] Calculated based on total comprehensive income

Valuation

In order to arrive at a *conservative* valuation of the firm, we would like to highlight the following points which we consider to be most significant to our cause.

1. King Wan's relatively low value of "Property, plant and equipment" indicates to us a business model (less than 10% of net assets) which requires low amount of capital expenditure. This tends to result in a business with **very strong cash flows** which can either be reinvested or returned to shareholders as dividends. Indeed, King Wan has had positive cash flow for the past 4 years. A dividend of 1.5 cents in 2012 represents a respectable dividend yield of about 5.5% at its current price.

2. With **$176m worth of contracts** spanning from FY2013 to FY2015, its **highest order book on record**, revenue is expected to be *at the very least* stable for the next 2 years. In addition, the government's intention to increase population and the supply of homes bodes favourably for King Wan which has secured contracts with HDB projects in the past (Aug 2012). Therefore, we expect the 1.5 cent dividend to be easily maintained.

3. There is also further upside potential stemming from its property development projects. Construction of The Starlight Suites (a 35-storey building at River Valley with 105 units) is under progress and should be completed by 2014. In September 2012, King Wan was also jointed awarded the tender for a residential site at Diary Farm Road targeted for TOP in 2017. Last month, King Wan purchased a 30% stake in a 58,000 dwt Supramax bulk carrier costing U$21m.Given our lack of expert knowledge in the shipping and property industry (not to mention their volatility), we refrain from attaching any value to these development but instead maintain that they lend further confirmation to the stability (not growth) of future earnings.

4. The most significant factor in King Wan's valuation would be its **sale of two of its Thai associates for $50m** to Kaset Thai Industry Sugar (KTIS) in the form of 5% cash and 95% in shares of KTIS upon its IPO. These two associates are **recorded at cost of $12.3m** on the balance sheet. Recognising the gain would result in a **NAV of $0.34 per share**. While we are aware that the share payment might be risky if it does not perform well, we feel that such a likelihood is low because 1) KTIS is the third largest sugar miller in Thailand and 2) King Wan has full flexibility on timing the sale of shares and can sell its KTIS shares immediately on IPO. On the other side of the coin, there is also possible upside potential on the value of KTIS

shares, however, we feel it would be unwise to speculate on such an uncertainty and therefore will not be factoring any upside value into the valuation of King Wan.

The worst case scenario would be if KTIS fails to list and the Thai associates are returned to King Wan. In this regard, we would like highlight that this is only a **marginally unfavourable** event, **provided** KTIS is **not** overpaying for the two Thai associates. With \$5.5m of net profit attributable to the two Thai associates at 31 Dec 2011, we feel that the price of \$50m is a fair price (9.09x P/E). Therefore, from a value perspective, this \$50m valuation will be retained regardless of whether the sale goes through.

Summary

Given the numerous upside potential and the fact that the bulk of King Wan's balance sheet are from relatively liquid (low percentage of plant and equipment assets) and hence are accurately represented quantitatively, we feel that the NAV of \$0.34 is a conservative and plausible target price. Lastly, the current dividend yield of 5.5% adds the icing to the cake.

TA Trade Idea

USD/JPY, H4: Short

Past Occurrences

On Monday, 18th February 2013, the yen weakened across the board, dipping to a 33-month low against the dollar. Japan had previously been accused of devaluating the yen in order improve export competiveness. However, at the recent G20 meeting held on Saturday, 16th February 2013, accusations of currency manipulations were dismissed – G20 countries interpreted the yen's dip as an adjustment from excessive strength. Pertinently, Japan announced plans to buy foreign bonds (anticipated increase in the supply of yen) – thereby causing the yen to dip.

Mean Reversion

Mean reversion theory works on the basis that prices would eventually revert or move back towards the mean (average). In the chart above, 3 exponential moving averages (EMA) are utilized as "means" in which the mean reversion theory is based upon. The 100-period EMA (i.e. purple line) is important in the trend-following process and serves as a rather solid support during mean reversion (i.e. when prices reverted back to the 100-period EMA – see the blue circles in the chart above as illustrations). In contrast, the shorter period EMAs aid in timing entry and exit points.

In the above chart (look at the blue circle to the right), USD bounced from the near low at 92.20, which coincidentally bounces off the 100-period EMA. It is predicted that prices will continue to rise further above the shorter-period EMAs before reversion occurs. The first probable sign of a reversion will be when prices dip back down to the 55-period EMA (i.e. red line). However, this may not be anytime soon.

It is recommended that traders enter sell limit orders at approximately 94.5 (upon reaching the yellow resistance – see the blue circle with red parameter), because that is a probable point in which a price correction may occur. However, prices may continue to rise because of news-driven events, which may overwhelm the signals on the price action. Therefore, limit orders should be placed above 94.5 so as to generate some lag time for the trader to see if prices do continue to rise or fall. Conversely, placing the limit order below the 94.5 resistance will not offer an escape route for traders if prices do continue on an uptrend.

Bearish divergence

Bearish divergence is usually characterized by higher highs on the price action chart and lower highs on the oscillator chart (in this case, the *slow stochastic*). This is present on the chart and precedes the current price action by a week (see the period between 4 Feb and 11 Feb). Bearish divergence, which often occurs at the market top, is an impending sign of price reversal. This is one reason why shorting USD/JPY may be a good idea.

Currently, the *stochastic* indicator is going on an uptrend and it may therefore take some time before a confirmed short signal is seen – when the *stochastic* enters the overbought region above 80.

Head and shoulders

The head and shoulders is a major reversal pattern that can be found at market tops. The yellow horizontal line (*in fact*, it is a slight up slope – negligible to the eye) on the price chart indicates the neckline of the pattern. The neckline is clearly tested twice (by the 2 *shoulders*). It is therefore predicted that the rising prices will return to the neckline and consequently revert to the mean. Prices, as in usual head and shoulders patterns, may breakout of the neckline and begin a downtrend. Conservative traders should take profit at the neckline support if prices *do* fall for a short opportunity.

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