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INVESTING STRATEGY

5 underperforming small and mid caps to bet on

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SINGAPORE (Dec 13): DBS Group Research is sticking to its top stock picks for small- and mid-cap companies, even as the research house's conviction picks

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underperformed last month.

These are: China Aviation Oil, Cityneon Holdings, CNMC Goldmine, Katrina Group, and Singapore O&G.

Of the five, only China Aviation Oil saw its share price climb, gaining 4.9% in Nov.

Cityneon, CNMC Goldmine, and Katrina Group saw their share prices fall 5.0%, 9.5%, and 6.4%, respectively.

Meanwhile, Singapore O&G traded flat in Nov.

“We recommend sticking with [these] well-managed, cash-generative companies with clear catalysts for growth over the near-to-medium term,” says DBS lead analyst Paul Yong in a Tuesday report.

China Aviation Oil

DBS is keeping its “buy” call on China Aviation Oil with a target price of \$1.70.

CAO’s 3Q16 results came in above expectations, with net profit surging 31% y-o-y to US\$23.2 million (\$33.1 million).

During the quarter, the group saw several associates benefitting from one-off gains such as mark-to-market inventory gains and favourable currency movements, says Yong.

DBS lifted its FY16 earning forecast by 4% in view of slightly higher supply and trading volumes.

As at 3.23pm, China Aviation Oil is trading one cent higher at \$1.41.

Cityneon Holdings

DBS is maintaining its “buy” recommendation on Cityneon Holdings with a target

price of \$1.37.

Cityneon has evolved to become a creator of innovative and interactive exhibitions since its acquisition of Victory Hill Exhibitions (VHE) in 2015.

It has so far secured intellectual property rights to run Marvel Entertainment's Avengers S.T.A.T.I.O.N. and HASBRO Studios' Transformers.

DBS analyst Ling Lee Keng there is the potential for a third IP, which would be a catalyst for Cityneon.

In addition, Cityneon could be boosted by the entry of strategic investors.

"We would not rule out further collaboration with CMC Holdings or other strategic investors as the business is still in the growth phase," Ling says.

As at 3.16pm, Cityneon is trading flat at \$1.00.

CNMC Goldmine

DBS in Nov initiated coverage on CNMC Goldmine with a "buy" call and a target price of 65 cents.

Yong says the Kelantan-based miner is attractive as a less-risky gold proxy with low production cost.

"[CNMC Goldmine's] flagship Sokor project is already in production and highly cash generative, while the proposed acquisition of a 51% stake in Pulai Mining could propel earnings growth for CNMC," says Yong.

As at 3.19pm, CNMC Goldmine is trading 1 cent higher at 42 cents.

Katrina Group

DBS in Sept initiated coverage on Katrina Group with a "buy" rating and a target price of 43 cents.

DBS analyst Alfie Yeo says Katrina's growth is underpinned by its new outlets,

regional expansion, and online business which is expected to ride on the growing ecommerce market.

Looking ahead to FY17-FY18F, Yeo forecasts Katrina's earnings growth of between 13-17%.

As at 3.20pm, Katrina is trading flat at 22 cents.

Singapore O&G

DBS is keeping Singapore O&G on "buy" and raised its target price to \$1.50 on the back of "strong growth on all fronts".

Singapore O&G's net profit in 1H16 almost doubled to \$5.2 million, climbing 91% y-o-y on the back of strong organic growth as well as the consolidation of Dr Joyce Lim's dermatology medical practice.

DBS lead analyst Rachel Tan says in a report in Aug that the stock is also attractive due to its high dividend payout.

"SOG has a high dividend payout policy of 90%, to align the interests of its medical practitioners (who together own a 78% stake), offering dividend yields of 3-4%," Tan says.

The management also continues to explore new expansion opportunities, both in new specialisations and new markets, she adds.

As at 3.21pm, Singapore O&G is trading flat at \$1.145.

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CNMC GOLDMINE KATRINA GROUP SINGAPORE O&G