

## ELCI Ideas

# Overview

### Fundamental Overview

- Recent optimism towards Fed stimulus and ECB bond purchase program looks likely to provide support for equities.
- For clients with high risk appetites, they may like to consider investing in **cyclical equities with earning visibility** (Financials, Commodities and Oil & Gas).
- More conservative clients may wish to **take on risk slowly**, opting for **defensive, dividend-yielding blue-chip equities** (REITs and Telecoms) in the interim.

## Summary of our ELCI Ideas

Company	Suggested Strike Level	Sector	Sector highlights
United Overseas Bank	97%	Financial	Strong credit ratings and balance sheet will position it well for the medium term
Keppel Corp	98%	Oil & Gas	Strong order books and positive outlook from management about the offshore market
SembCorp Marine	98%	Oil & Gas	Strong order book and positive industry outlook will continue to provide support
Noble Group	96%	Commodity	Strong liquidity position can provide it the opportunity to invest in attractive assets
Wells Fargo & Co.	95.5%	Financial	Improving balance sheet will position it well for the medium term

Some notes:

- Prices and strike levels are indicative depending on spot prices of the relevant shares on prevailing trade date. Please refer to your Relationship Manager for an updated pricing.

**ELCI Ideas**

## Idea 1: United Overseas Bank Ltd (UOB SP)

OCBC Investment Research issued a buy call on 08 Aug 2012

Consensus Rating	No. of Analysts
Buy	11
Hold	11
Sell	7

Source: Bloomberg

Upcoming Events	Date/Amount
Ex-Dividend	07 May 2013/SGD 0.45
Q3 2012 Quarterly Result	08 Nov 2012

### Fundamental

- **Management Focus** – offers a full range of commercial banking and financial services. The company offers private banking, trust services, venture capital investment, merchant banking, brokerage services, insurance, fund management, derivatives trading, precious metal trading, factoring, hire purchase and life insurance.
- **Q2 2012 Earnings** – Net earnings of S\$713m, up 3.3% QoQ and 11.9% YoY. Net Interest Income was flat QoQ and up 20% YoY to S\$629m. Fee and Commission Income did well, rising 7% QoQ to \$386m, a new quarterly high. Net Interest Margin decreased in line with the industry from 1.98% in 1Q12 to 1.92% in 2Q12.
- **Challenges ahead** – Uncertainties remain, especially from Europe, and this will continue to reduce near- to medium-term earnings visibility with margin compression likely to remain. However, the growth prospects for trade finance and wealth still looks promising. Management has shared that it has focused on raising fee income with competition from its consumer and corporate segments.
- **Dividend Yield** - Dividend yield about 3.03% p.a. can help limit some downside risk in terms of renewed economic slowdown.

# ELCI Ideas

## Technical

- Indicators remain neutral to positive with both the RSI and MACD staying above their respective 50-neutral and zero lines and prices held up by the 100-day exponential moving average (EMA) since July 2012.
- Support can be seen at \$19.16 where the 100-day EMA resides, before \$18.92 where the 23.6% Fibonacci retracement resides.
- Any further weakness will see support at \$18.67 where the 200-day EMA resides – this is a stronger support and has been holding prices up since Mid-Jun 2012.

## Trade Idea

- Clients can look to strike 97% at \$19.21 or lower (preferably closer to \$19.16 or lower)
- Clients who are more conservative can wait for any price dip to strike at \$18.67 or lower.

## Risks

- Any renewed global slowdown may affect its income and business activities.



## ELCI Ideas

### Idea 2: Keppel Corp (KEP SP)

OCBC Investment Research issued a buy call on 05 Oct 2012

Consensus Rating:	No. of Analysts:
Buy	22
Hold	2
Sell	1

Source: Bloomberg

Upcoming Events:	Date/Amount:
Ex-Dividend	29 Apr 2013/SGD 0.209091
Q3 2012 Quarterly Result	18 Oct 2012

#### Fundamental

- **Core Business** – Offshore and marine infrastructure, property investment and development, telecommunications and transportation, energy and engineering.
- **Macro Environment** – Medium term positive outlook for commodities will continue to benefit the oil & gas industry. The search for oil goes into deeper waters and amidst harsher conditions will also increase demand for high-spec jack-ups with better operational capabilities, benefiting Keppel.
- **Strong Q2 12 Results** – Reported a 52.2% YoY rise in revenue to S\$3.5b and a 35.4% increase in net profit to S\$520.9m in 2Q12. Lumpy earnings from the property division boosted net profit, which is not expected to recur in 2H12. Operating margin in the O&M division continued to normalize to about 12% in the quarter, in line with management's guidance.
- **Strong Order Book and Positive Outlook** – The group's net order book stands at about S\$13.9b, with deliveries extending to 2015. KEP remains optimistic about the return of semi-submersible orders, given the tight supply of deepwater rigs.



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## Idea 3: SembCorp Marine (SMM SP)

OCBC Investment Research issued a buy call on 05 Oct 2012

Consensus Rating:	No. of Analysts:
Buy	22
Hold	2
Sell	1

Source: Bloomberg

Upcoming Events:	Date/Amount:
Ex-Dividend	22 Apr 2013/SGD 0.06
Q3 2012 Quarterly Result	05 Nov 2012

### Fundamental

- **Core Business** – Operates ship building, ship owning, ship repair and conversion. Through its subsidiaries, the company provides equipment rental, cleaning and maintenance services, marine, general electronics and electric works. It also trades copper slag, processes copper slag for grit blasting and building, as well as fabricates metal structures.
- **Q2 2012 Results** - Reported a 46.4% YoY rise in revenue but saw a 4.6% fall in net profit to S\$142.8m in 2Q12. Operating margin improved from 12.8% in 1Q12 to 13.1% in 2Q12 but was lower compared to 2Q11 which registered a high margin of 21.6%.
- **Positive Outlook** – OCBC Investment Research (OIR) expects SMM's earnings to pick up in 2H12 as higher margin contracts contribute to the group's results.
- **Strong Order Book**- Enquiries for newbuilds remain healthy and the group is seeing interest for various products, such as semi-submersibles, jack-ups and FPSOs. SMM has recently secured contracts worth about US\$4.0b from Sete Brasil for the design and construction of five drillships. With these orders, SMM has secured about S\$9.1b worth of new orders YTD (vs. S\$5.1b as at end 2011).



# ELCI Ideas

## Technical

- Indicators are turning neutral, entering into a consolidation mode, although underlying medium term trend continues to be firm (as seen by the upward sloping trendline in bold white – established since Oct 2011).
- Support can be seen at the cluster region of \$4.84-\$4.92 where the 23.6% Fibonacci retracement coincides with the 200-day exponential moving average.
- Any further weakness will see support at \$4.78 where the trendline resides.

## Trade Idea

- Clients can look to strike 98% at \$4.89 or lower.
- Clients who are more conservative can wait for any price dips to strike closer to \$4.78 or lower.

## Risks

- Any continued global slowdown and uncertainty may risk orders cancel and affect its earnings.



**ELCI Ideas**

## Idea 4: Noble Group Ltd (NOBL SP)

OCBC Investment Research issued a buy call on 14 Aug 2012

Consensus Rating:	No. of Analysts:
Buy	16
Hold	1
Sell	2

Source: Bloomberg

Upcoming Events:	Date/Amount:
Ex-Dividend	17 May 2013/USD 0.017115
Q3 2012 Quarterly Result	08 Nov 2012

### Fundamental

- **Core Business** – Provides global supply chain management services. The company specializes in bulk commodities in the agricultural, industrial and energy sectors, particularly coal and coke, soybeans, iron ore, oil and gas, petrochemicals, sugar and ethanol.
- **Q2 12 Results** – Reported 1H12 revenue rising 19% to US\$47,069.0m, driven by its Energy and MMO (Metals, Minerals and Ores) segments. Interim net profit slipped 11% to US\$304.9m, which included US\$100.3m gain from the Gloucester-Yancoal deal and a tax credit of US\$10.5m.
- **Strong Liquidity Position** - It currently has about US\$6.2b worth of debt headroom, which management believes “eliminates any refinancing risk in the short and medium term”. It adds that it expects to receive some US\$800m in 2H12 from the Gloucester-Yancoal merger and sale of a tank farm asset in Brazil.
- **Opportunities** - Noble believes the market volatility will continue to provide it the opportunity to attract talent and invest in attractively priced assets.



ELCI Ideas

Technical

- Indicators remain neutral after recent attempt to break above the \$1.34 resistance did not materialize. However prices continue to be held up by a gentle upward sloping trendline since Aug 2012.
- Key support can be seen at the cluster region of \$1.25-\$1.27 where the 38.2% Fibonacci retracement coincides with the 50, 200-day exponential moving average (EMA) as well as an upward sloping trendline (in bold white).
- If the above resistance-turned-support line failed to hold, the next support will be at \$1.18 where the 23.6% Fibonacci retracement resides.

Trade Idea

- Clients can look to strike 96% at \$1.25 or lower.
- Clients who are more conservative can strike below \$1.25 towards \$1.18.

Risks

- Any renewed global economic concerns may dampen sentiment, pulling back commodity prices.



**ELCI Ideas**
**Idea 5: Wells Fargo & Co (WFC US)**

Consensus Rating	No. of Analysts
Buy	28
Hold	9
Sell	1

Source: Bloomberg

Upcoming Events	Date/Amount
Ex-Dividend	31 Oct 2012/USD 0.22
Q3 2012 Quarterly Result	12 Oct 2012

**Fundamental**

- **Core Business** – Diversified financial services company providing banking, insurance, mortgage, leasing, credit cards, and consumer finance. The company operates through physical stores, the Internet, and other distribution channels cross North America and elsewhere internationally.
- **Strong Q2 2012 Earnings** – Q2 Net Income of \$4.6 billion; EPS of \$0.82, up 17% from prior year and up 35% (annualized) from prior quarter. Revenue of \$21.3 billion, compared with \$21.6 billion in prior quarter. Strong total loans of \$775.2 billion, up from \$766.5 billion at 31 Mar 12.
- Tier 1 common equity under Basel I increased \$2.2 billion to \$101.7 billion, with Tier 1 common equity ratio of 10.08% under Basel I at June 30, 2012.
- **Improving Credit Quality** – Net charge-offs were \$2.2 billion, a decline of \$195 million from prior quarter. Non-performing assets of \$24.9 billion, down \$1.8 billion from prior quarter.

**ELCI Ideas**

**Technical**

- Indicators are positive with both the RSI and MACD above their respective 50-neutral and zero lines, with positively placed directional indicators and a rising ADX – hinting at possible further upside ahead.
- Support can be seen at \$34.42 where the 50-day exponential moving average (EMA) resides, before \$33.69 where the 100-day EMA is.
- Any further weakness will see stronger support at the cluster region of \$32.40-\$33.08 where the 23.6% Fibonacci retracement and 200-day EMA coincide.

**Trade Idea**

- Clients can look to strike 95.5% at \$34.35 or lower
- Clients who are more conservative can wait for any price dip to strike at \$33.69 or lower.

**Risks**

- Any global economic slowdown will likely result in slower activities, lower income and margins.



## **ELCI Ideas**

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