Capital protected funds = risk-free? Well …

INVESTORS looking for a safe way to grow their money may get attracted to capital protected funds under the mistaken impression that they are risk-free.

This is not always true.

The capital protection offered by certain funds relies almost exclusively on the instrument upon which the fund is based. Hence a capital protected fund based on high quality investment grade bonds has a higher level of protection compared to another fund which may be based on instruments of a lower grade.

This means that the chances of an investor getting his principal back falls significantly with the quality of the underlying asset.

Mr David Gerald, president and chief executive officer of the Securities Investors Association Singapore (Sias) – a watchdog for small investors – thinks that investors need to fully understand what they are getting into before they buy a capital protected fund.

"Before you buy such a fund, ask about the kind of investments it will be undertaking and make sure you understand the downside risk," said Mr Gerald.

"For example, some capital protected funds are linked to structured products like collateralised debt obligations (CDOs). But average investors may not fully understand what CDOs are and the risks associated with them."

Mr Gerald is not the only one with reservations.

Mr Andrew Kwek, executive director of the Investment Management Association of Singapore, explained that CDOs are debt securities linked to a pool of corporate issuers.

"If the issuer goes bust, then an investor stands to suffer losses. Does the average investor have the ability to assess which issuer may go bust? The answer is no, most of them don't", said Mr Kwek.

"Don't let a salesperson or a financial advisor pressure you into buying an investment product," he said.

"If you cannot understand the underlying investments and the associated risks, then it's best not to buy the product."

Mr Michael Lim of Mercer, a reputed global investment consultant, also warned that investors need to be wary of capital protected funds which are invested in complicated derivatives designed to offer attractive yields.

"Often these products are able to offer higher yields, only because they also come with higher risks," said Mr Lim.

"The danger is that when the underlying investments become too complex, people may buy without understanding the complexity of the structure and risks."

With the plethora of investment instruments on sale today, the average investor has to arm himself with the knowledge that capital protection does not always mean a complete return of principal at maturity. The experts agree, however, that being aware of what constitutes the underlying asset will help investors make a more informed decision when it comes to such products.

Before buying capital protected funds, investors must make sure they understand the downside risks, said Mr Gerald.

AusGroup launches IPO in Singapore

AUSTRALIA-based AusGroup expects to raise about $8.1 million in net proceeds from an initial public offer (IPO) that would give local investors a play into the oil and gas industry.

The marine engineering company's IPO will total 52 million shares priced at 22 cents each, with 50 million shares for placement and the remainder available to the public.

The IPO opens today and will close on April 25, the company said in a statement yesterday.

AusGroup plans to list on the Singapore Exchange's (SGX) Sesdaq board.

AusGroup provides integrated multi-disciplinary engineering services that support oil and gas, liquefied natural gas and mining-related industries.

The IPO shares comprise 45 million new shares and 7 million vendor shares and are priced at a price/earnings multiple of 7.42 times AusGroup's historical earnings per share of 2.29 Australian cents (2.91 cents) for the 2004 fiscal year.

For the 12 months ended June 30, 2004, the company registered a revenue of A$115.5 million from A$53.2 million in the previous year.

The company's net profit last year rose to A$5.8 million from A$1.4 million.

As at Feb 28, AusGroup's order book for this year stood at A$135.4 million, and its orders for 2006 and 2007 amount to A$71.8 million and A$15.1 million, respectively.

The company plans to use $5 million from its net proceeds to secure larger scale projects for its engineering division, pay for additional costs from increasing engineering operations and develop an operating presence in Southeast Asia.

The remaining $3.1 million will be used as working capital requirements.

Following the IPO, AusGroup expects its net tangible assets to rise to 6.07 Australian cents a share from 4.67 Australian cents.

Westcomb Capital is the lead manager and underwriter and Westcomb Securities is the placement agent for the offer, AusGroup said. – *Dow Jones*

> The IPO shares are priced at a price/earnings multiple of 7.42 times AusGroup's historical earnings per share of 2.29 Australian cents (2.91 cents) for fiscal 2004.

STOCK calls

Singapore Airlines ($11.10) — Neutral

JP Morgan keeps "Neutral" on SIA, on the carrier's disappointing March load factor.

It said that the airline's overall March load factor of 67.5 per cent was 1.4 percentage points lower than JP Morgan's forecast.

The passenger load factor of 71.7 per cent was below a 73-per-cent forecast. Cargo load factor of 65.3 per cent was 0.7 percentage points below forecast.

JP Morgan said that the stock remains under pressure from record-high jet fuel prices and competition from local budget carriers.— *Dow Jones*

Keppel Land ($2.40) — Hold

Keppel Land is expected to report a net profit of $33 million for the first quarter of this year, due to be released on April 25. This represents a 10-per-cent year-on-year rise but a 19-per-cent quarter-on-quarter decline.

The better performance is likely to be led by higher overseas contributions — which are estimated to account for 40 per cent of earnings — derived from China developments, 1 Park Avenue (Shanghai), Seasons (Beijing) and Waterfront (Chengdu). Also In addition, contributions from Villa Acadia in Thailand are expected to gather momentum.

In Singapore, the group would recognise contributions from Caribbean at Keppel Bay and Urbana.

The outlook remains positive as demand for residential units in China, Thailand and Vietnam remains strong. The group is scheduled to release 5,230 homes for sale at its overseas projects this year.

In Singapore, it aims to market 1,399 units from five projects this year.

Maintain "Hold" on account of the 25-per-cent premium to the revalued net asset value of $2.00. — *Kim Eng Securities*

Hotel Properties ($1.53) — Hold

Since November last year, Hotel Properties (HPL) had enjoyed a meteoric rise of 49 per cent compared to the ST Index's 9 per cent.

The rise could be attributed to the market's recognition of the recovering global hospitality industry and HPL's bid for the integrated resort and casino project, which will include gaming. It submitted a solo bid, but could tie up with Las Vegas Sands as they have worked together in Macau. — *DBS Vickers*

A-Reit ($1.93) — Market perform

BNP Paribas keeps "Market Perform" on A-Reit after its better-than-expected FY05 results. BNP expects the company to buy more yield-accretive properties and improve occupancy rates to enhance yield further, which is now at 6.5-7.0 per cent. As a result, BNP raised the target price to $2.10 from $1.86.

It also raised the FY06 earnings forecast to $159.2 million from $91.5 million, FY07 to $163.5 million from $94.0 million. — *Dow Jones*