

8 February 2010

Infrastructure

Backed by robust pipelines

Macroeconomic jitters emphasize the need for earnings visibility. Potential policy reforms in the US, credit fears in Europe and China's monetary tightening moves have recently sent chills down global equity markets. The Dow has fallen 4.1% since the start of the year, the Hang Seng Index (HSI) has tumbled by 10.1%, while the Straits Times Index (STI) has shed 7.4% over the same period. Against this backdrop of macroeconomic uncertainty, the importance of earnings visibility and sturdy order books has never been more critical. We advocate companies whose valuations are well-supported by resilient earnings and strong order books.

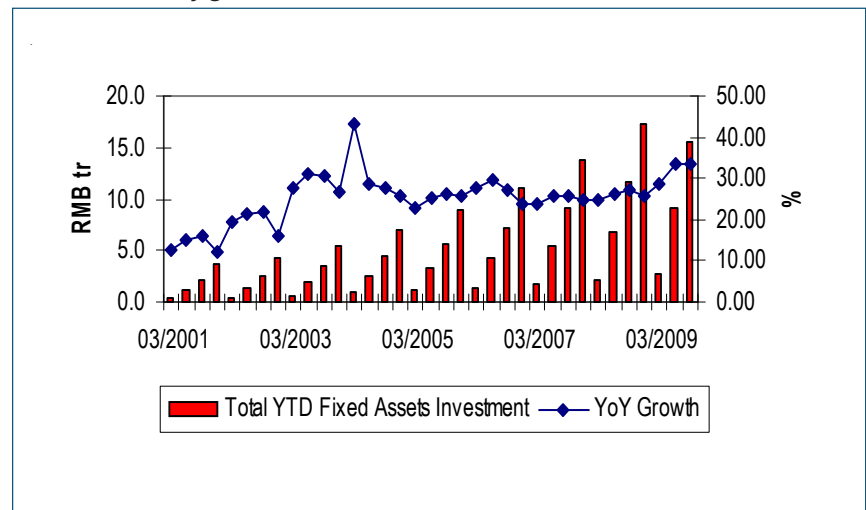
Strong pipeline of infrastructural investments. Stocks with exposure to regional infrastructural investments offer healthy earnings prospects amid economic uncertainty. Demand for capital goods remains robust, backed by pump-priming initiatives as well as a healthy pipeline of infrastructural-related investments. For instance, we are still seeing flow-through effects of China's RMB4tr stimulus plan in the form of fresh orders for rail-related projects. Similarly, the oil and gas scene is flourishing in the Middle East with a robust pipeline of projects and new tenders; while Australia's massive Gorgon project has just taken off and is expected to spur demand for an array of equipment and services over the medium term.

Midas, Rotary and Tat Hong provide exposure to infrastructural investments. Beneficiaries of such investments include Midas Holdings (Midas), Rotary Engineering (Rotary), and Tat Hong Holdings (Tat Hong). **Midas [BUY, fair value S\$1.30]** is among the key players supplying aluminium extrusions for train cars in China, and is currently sitting on an order book of approximately RMB1.6b. It has recently clinched a string of contracts and is poised for more order wins in the near future. **Rotary [BUY, fair value S\$1.37]** provides engineering, procurement, construction and maintenance services to the oil and gas industry. It clinched a landmark US\$0.7b SATORP deal last July, and is poised for more contract wins especially from the Middle East. Rotary's earnings are backed by its S\$1.36b-strong order book, which we expect will boost earnings till 2012. **Tat Hong [HOLD, fair value S\$1.12]** is poised to ride the recovery of regional infrastructural activities, especially in China. It is already involved in Australia's Gorgon project and we expect contributions to increase as the project advances over the next few years. Near term earnings, however, may be muted on weak equipment sales. Overall, we expect healthy infrastructural investments to buoy earnings of these companies. Key risks include execution risk and project delays.

	Price	Rating	Fair Value	FY10 PER	FY10 Div Yield
	(S\$)		(S\$)	(x)	(%)
Midas	0.945	BUY	1.30	18.1	1.1%
Rotary	0.920	BUY	1.37	8.8	4.3%
Tat Hong	0.935	HOLD	1.12	13.2	3.0%

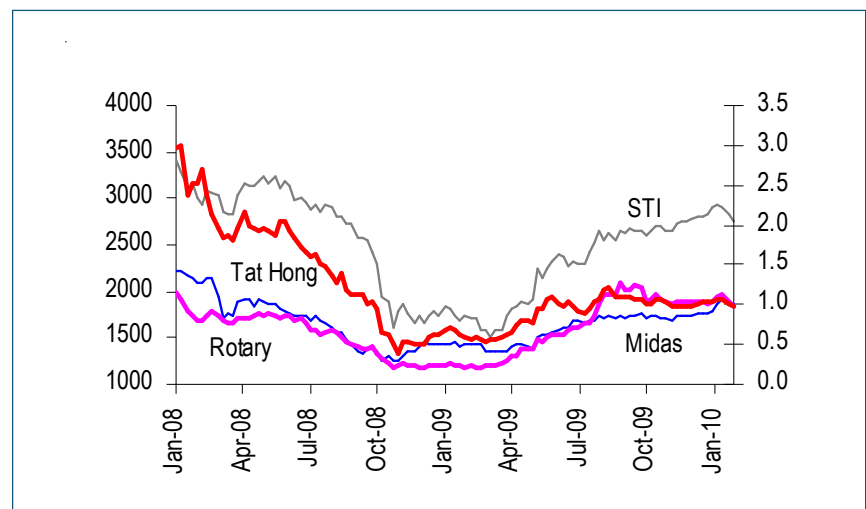
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Exhibit 1: Sturdy growth in China's fixed asset investments



Source: CEIC

Exhibit 2: Price chart



Source: Bloomberg

About Australia's Gorgon Project ¹

The Gorgon Project is Australia's single biggest resource project with an estimated resource base of more than 40 trillion cubic feet of gas and a nominal development life of around 60 years.

The Gorgon Project proposes to build a Liquefied Natural Gas (LNG) production facility on Barrow Island, 70kms off the Pilbara coast of Western Australia.

The Project is being pursued by the Australian subsidiaries of three leading international energy companies: Chevron, ExxonMobil and Shell. Chevron is operator of the Project with a 50% interest while ExxonMobil and Shell each hold 25%.

¹ www.projectconnect.com.au

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