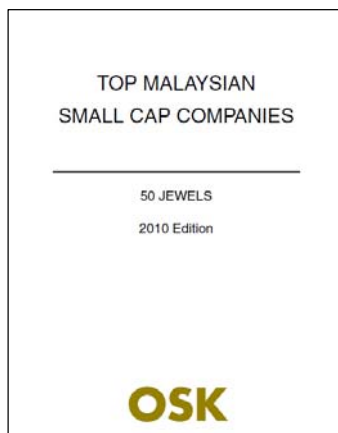


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Strategy

Small Caps

The 2010 Jewels Unveiled

We recently launched the latest edition of our Top Malaysian Small Cap Companies (50 Jewels) handbook. The full day event was attended by some 70 fund managers and investors. As with previous years, the Top 5 companies selected were invited for a short presentation followed by a corporate luncheon. These were followed by exclusive break-out sessions with investors. This year's Top 5 companies are Alam Maritim, C.I. Holdings, Leader Universal, Freight Management and Naim Holdings, which have market capitalisation ranging from RM97m-RM905m. We believe the 2010 jewels offer fair play in terms of risk and reward given the market volatility. We advocate trading on smaller caps in the medium term to capitalize on their still attractive valuations, thematic opportunities and to ride on the improving earnings momentum.

19 new companies (and more). For the 2010 edition, we raised the market capitalisation eligibility bar to RM1.5bn from RM1bn previously so as to maintain the breadth of coverage and to ensure that undervalued companies continue to be represented. Two new industry classifications, namely 'financial services' and 'conglomerate', were introduced for stocks in these categories featured for the first time. A total of 19 new companies (see Table 1) handpicked by our research analysts for their positive share price characteristics, attractive valuations and strong/improving fundamentals were introduced.

Naim, Freight and C.I Holdings garnered the biggest interest among the Top 5. The presentation on Alam was delivered by Encik Azmi Bin Ahmad (Managing Director/CEO), C.I. Holdings was represented by Encik Syed Khalil Bin Syed Ibrahim (Vice-President, Corporate Finance & Planning), Leader by Mr. Kon Ted Liuk (Deputy Managing Director), Freight Management by Mr. Chew Chong Keat (Group Managing Director) and Naim by Ricky Kho (Senior Director, Corporate Services & Human Resources). We gather that most investors were comfortable with our choice of top picks as many were familiar names with good credentials and track records. Companies that garnered the most interest were Naim, C.I. Holdings and Freight Management. Naim is OSK's top construction pick for exposure to the Sarawak theme and SCORE. We like Freight Management's unique asset light business model, C.I. Holdings for robust earnings growth underpinned by its bottling line expansion to meet insatiable demand, and Leader for the twin drivers of strong cable demand and as an emerging power play in Cambodia.

Figure 1: Snapshots of the launch



Source: OSK

Insightful breakout sessions. While pre-bookings for the Top 5 breakout slots were initially slow, registrations picked up after the individual corporate presentations. This is hardly surprising as investors would have had more time to digest the key messages and takeaways from the presentations before forming an opinion on the individual companies. The break-out sessions served as a good focal point for investors to uncover new ideas and obtain the latest updates given that meeting requests are sometimes hard to come by for smaller cap companies. We note that the meeting slots for Naim and Freight Management were all taken up and extended into the late afternoon, which reflected their popularity with the investment community. Meanwhile, the meetings featuring C.I. Holdings, Leader and Alam were no less well-attended, as 80% of their slots were taken up. The major takeaways from the individual breakout sessions are included in the appendix to this report.

Figure 2: Snapshots taken during the launch



Source: OSK

Plant tours provided good eye candy. A sweetener for the book launch this year were the site visits, which offered OSK clients the opportunity to get up close with the production facilities at 4 chosen companies. We toured the bottling and F&B facility of Permanis (subsidiary of C.I. Holdings) in Bangi which produces carbonated beverages under the PepsiCo umbrella, as well as the popular ready-to-drink *Tropicana* range of fruit drinks. At Mamee's factory in Subang, the group witnessed the production of its yoghurt drink, *Nutrigen*, and its potato crisps under the Mister Potato brand. The CEO of Notion VTec provided an update on the latest corporate developments and played host to the tour of the company's plant in Klang, where our entourage witnessed first hand the fabrication of moulds and component parts used in the manufacture of hard disk drive and camera components. Lastly, a tour of Kossan Rubber's rubber glove production facilities made the visits more complete.

Table 1: OSK Small Cap 50 Jewels (2010 Edition)- Top 10 companies

| Companies | Sector | Share price [^] (RM) | Target price (RM) | Div Yield [^] (%) |
|--------------------|---------------------|-------------------------------|-------------------|----------------------------|
| Alam Maritim | Oil & Gas | 1.75 | 2.99 | 1.1 |
| C.I. Holdings | Consumer | 2.26 | 3.40 | 2.8 |
| Faber Group | Conglomerate | 2.26 | 2.75 | 3.1 |
| Freight Management | Logistics | 0.78 | 0.95 | 7.1 |
| Glomac | Property | 1.35 | 1.83 | 5.2 |
| Hai-O Enterprise | Consumer | 4.08 | 5.04 | 5.9 |
| KPJ Healthcare | Healthcare | 2.83 | 3.92 | 3.4 |
| Leader Universal | Industrial Products | 0.94 | 1.13 | 3.9 |
| Lion Industries | Steel | 1.65 | 2.51 | 0.6 |
| Naim Holdings | Construction | 3.20 | 4.21 | 2.3 |

Source : OSK ^ as at May 5 2010

Table 2: Number of stocks listed by sector and new additions for the 2010 edition

| Sector classification | No of stocks featured | New additions |
|-----------------------|-----------------------|---|
| Automotive | 4 | Delloyd Ventures, EP Manufacturing (EPMB) |
| Building Materials | 4 | Evergreen Fibreboard |
| Conglomerate^ | 1 | Faber |
| Construction | 4 | Sunway, Protasco C.I. Holdings, Mamee, Multi-Sports, Signature Int., Zhulian |
| Consumer | 11 | |
| Education* | 1 | - |
| Financial Services^ | 1 | AEON Credit |
| Healthcare | 1 | - |
| Industrial Products | 1 | - |
| Logistics | 3 | - |
| Oil and Gas | 3 | Handal |
| Others | 1 | Salcon |
| Property | 2 | Glomac |
| REIT | 2 | Axis REIT |
| Rubber Gloves | 2 | - |
| Steel | 4 | Southern Steel |
| Technology | 4 | Engtek, Notion VTec, |
| Toll Concession | 1 | - |

[^] new categories in 2010 edition
Source : OSK

2010 selection offers fair play in terms of risk and reward. We believe our stock selection in the latest edition would whet the appetite of the more sophisticated investors looking for value plays within a volatile external environment, as well as the risk seekers. For the more risk-averse investors, we have introduced new yield plays to supplement the conventional and already familiar names. By virtue of their business models, most of the stocks featured in our Top 10 offer fair play on both themes - presenting growth prospects as well as commanding defensive attributes that would mitigate earnings downside risks. Some of the new inclusions that fulfill the dividend-defensive theme are Mamee, Zhulian and Freight Management, which ranks alongside Hai-O, Yi-Lai and Hektar REIT, which have appeared in our past editions. Naim and Leader are thematic names which we recommend as proxy plays for exposure to our advocated Sarawak theme and for rising energy demand in the region respectively. Our Top 5 is a selection of stocks that straddle both the risk-reward thresholds and hence offers investors a more balanced investment proposition. The valuation of these stocks are undemanding and are at attractive forward PERs of 5x-8x and dividend yields that are not only on par with their bigger cap peers but in many instances, even above.

Continue to trade small caps. Our investment strategy for small caps does not deviate much from the broader house view espoused in our 3 May strategy report on the outlook for May in which we advocated a trading stance on smaller caps in the medium-term. We expect the key share price re-rating catalysts to come from: (i) better earnings to be reported during the current reporting season which has just commenced; (ii) announcement of new or additional contracts; and (iii) positive corporate developments, including value accretive capital exercises.

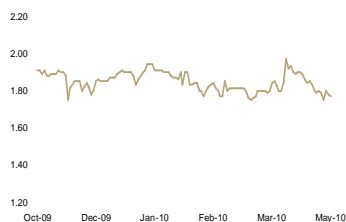
OSK SMALL CAP TOP 5 PICKS

| Stock | Price (RM)^ | Fair Value (RM) | Mkt Cap (RMm) | PER (x) | | FY1 DY % | P/NTA (x) | Rating |
|--------------------|-------------|-----------------|---------------|---------|-----|----------|-----------|--------|
| | | | | FY1 | FY2 | | | |
| Alam Maritim | 1.78 | 2.99 | 904.8 | 7.2 | 6.8 | 0.6 | 0.5 | BUY |
| C.I. Holdings | 2.26 | 3.40 | 316.7 | 9.3 | 8.1 | 3.1 | 2.4 | BUY |
| Freight Management | 0.80 | 0.95 | 97.3 | 6.1 | 5.7 | 6.9 | 1.2 | BUY |
| Leader Universal | 0.975 | 1.13 | 425.6 | 6.2 | 5.5 | 3.9 | 0.7 | BUY |
| Naim Holdings | 3.420 | 4.21 | 855.0 | 9.1 | 7.7 | 2.2 | 1.3 | BUY |

[^] as at 30 April 2010

APPENDIX 1

6-month Share Price Performance



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ALAM MARITIM (BUY, TP: RM2.99)

Key takeaways

- Its offshore support vessels are mostly on long- term charter to Petronas and PSC contractors at attractive charter rates of USD1.70-USD2.40/bhp.
- Management expects more new vessel contracts to be awarded in 2H10 to support the installation of pipelines and facilities, revival of existing oilfields and platforms, and for deepwater fields.
- Alam is moving into becoming a 1-stop vessel solution provider through vertical integration such as the expansion into the pipelay business via a JV with Swiber and the vessel repair business.
- Going forward, its business direction is to focus on new but related offshore support businesses rather than vessel chartering.
- Management is looking to address the issue of liquidity through a bonus issue or placement by owners.

Maintain Buy. Our target price for Alam of RM2.99 is premised on 12x FY10 earnings.. We like the company for its JV strategy to penetrate new businesses (pipelay barge) and new geographical markets (Middle East and India) as well as the financing of new vessels (via a JV with CIMB Private Equity and Tabung Haji). This will not only safeguard its gearing but also instills greater investor confidence in the company.

6-month Share Price Performance



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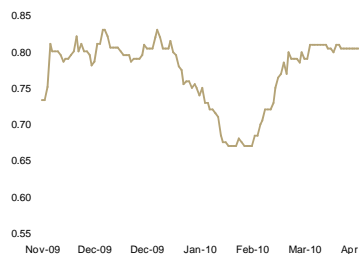


C.I. HOLDINGS (BUY, TP: RM3.40)

Key takeaways

- Sustainable long-term relationship with PepsiCo
- Expect revenue growth from new capacity in the non carbonated drinks category to drive FY2011 earnings
- Extensive and growing distribution network
- Management has guided for a decent double digit growth for FY11
- Undemanding valuation at 12x FY11 EPS

Maintain Buy. We have a price target of RM3.40 based on 12x FY11 earnings. We expect stronger contribution from its non carbonated drinks segment from mid- FY11 given that the new hot-filled production line would be commissioned then. The target of 42,000 licensed outlets by year-end will also continue to support topline growth. We believe the long term relationship with PepsiCo would ensure sustainability in earnings with little business risks. C.I. Holdings is our top buy in the consumer food sector.

6-month Share Price Performance**Ahmad Maghfur Usman**

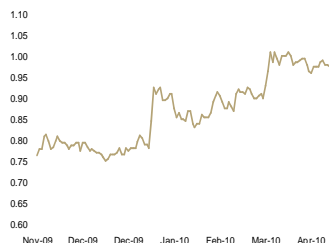
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**FREIGHT MANAGEMENT (BUY, TP: RM0.95)****Key takeaways**

- Management is guiding for earnings growth of 15%-20% for FY10 vs our projection of 17.6%
- Pending the outcome of due diligence, few new ventures including a pharmaceutical distribution contract could be announced
- Freight rates have inched up and profit spreads have started to narrow. The impact will nonetheless be compensated by a larger revenue base given the pick-up in shipment volume
- Thailand's railway operation has come to a standstill due to the country's political unrest. However, it is business as usual for truck operations
- Management is targeting Vietnam to strengthen its client base going forward

Maintain BUY. Our TP of RM0.95 is premised on its 12M rolling EPS, which we have pegged at a forward sector average of 7x. Going forward, Freight Management's strong network of forwarding agents worldwide, clientele base, heightening trade activities and volume should continue to propel earnings. Despite the volatile economic conditions over the past 5 years, Freight Management has continued to impress with double digit earnings growth alongside superior ROEs (16%-17%), thanks to its asset light business model.

6-month Share Price Performance**Vincent Lim Vi Ming**

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**LEADER UNIVERSAL (BUY, TP: RM1.13)****Key takeaways**

- Cables and wires revenue to increase in tandem with rising copper and aluminum prices.
- Volume sales to strengthen post 2H on intensifying SCORE region developments.
- Cambodian PT systems to contribute to earnings next year while its 100MW coal-fired power plant should contribute in 2012.
- 17%-owned associate Sarawak Cable, which is en route to an IPO, will unlock further value

Maintain BUY recommendation based on a SOP-derived target price of RM1.13. At current levels, Leader is trading at an undemanding forward PE of 6.2x, below the building materials sector PE of 7x-10x. Our forecast is unchanged pending the release of its upcoming 1QFY10 results and a further update from management.

6-month Share Price Performance**Jeremy Goh, CFA**

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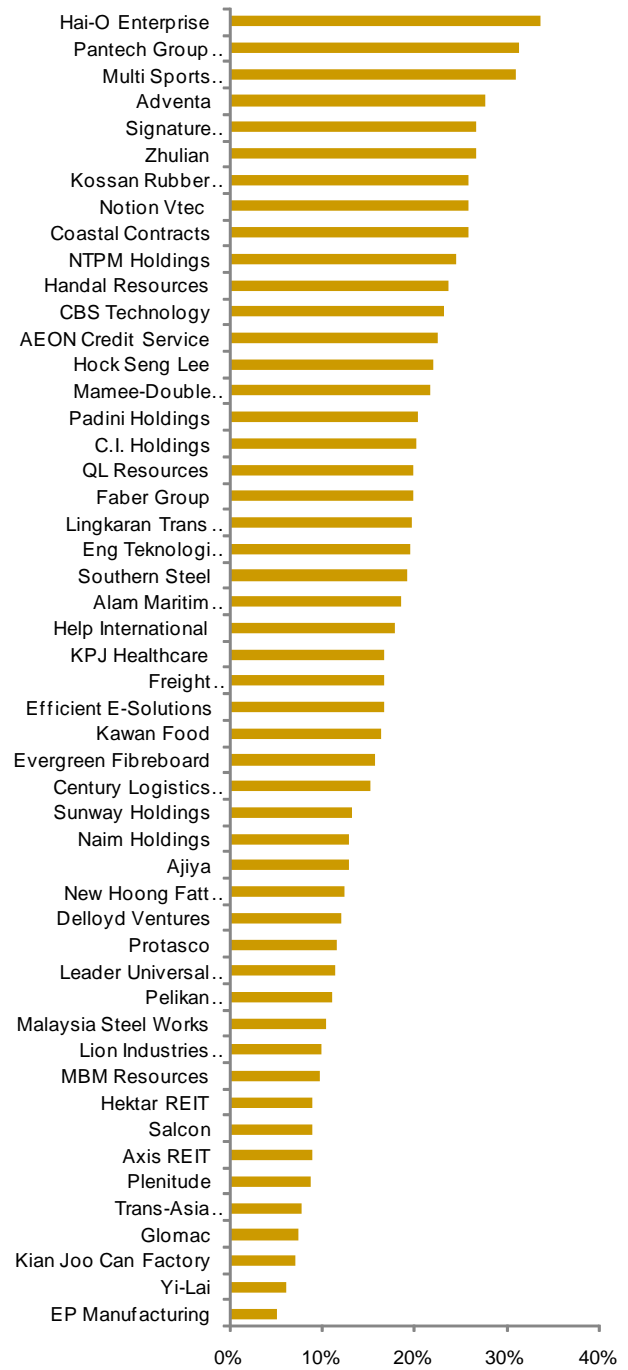
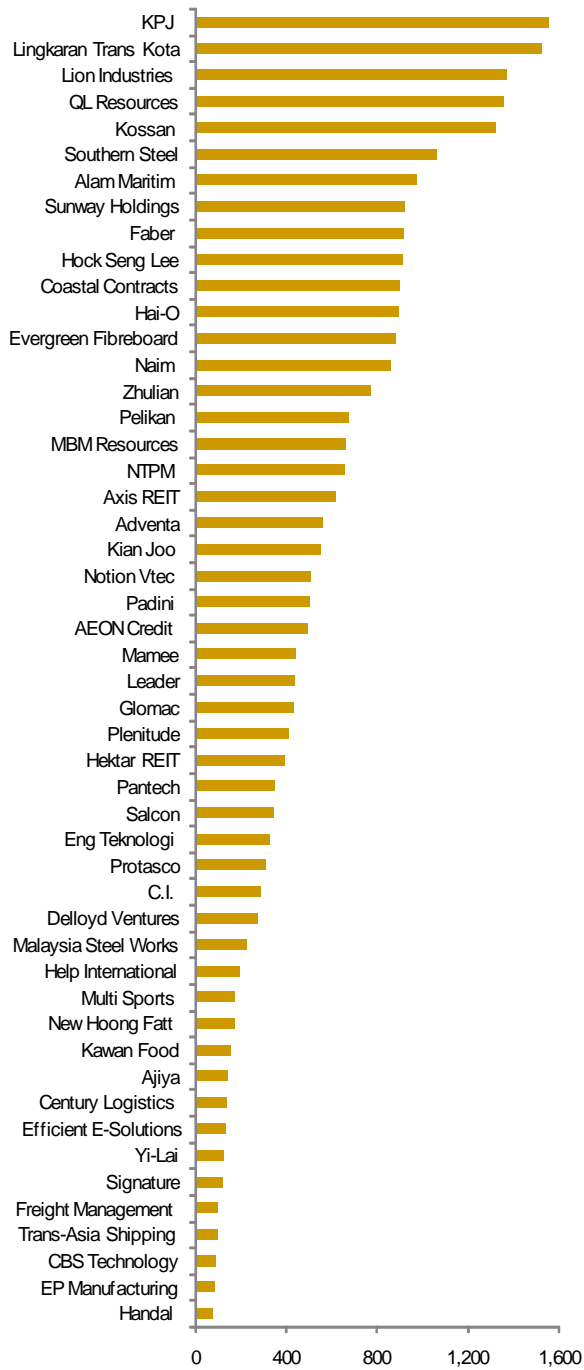
**NAIM HOLDINGS (BUY, TP: RM4.21)****Key takeaways**

- Final project value for Kuching Flood mitigation could be RM1.7bn-RM1.8bn. Management expects an award for Phase 2 in the coming months
- Other potential jobs are a resettlement village (RM200m), road works (RM250m) and affordable housing (RM150m)
- Plans to JV with Bintulu Development Authority to construct housing for workers in Similajau
- Property division to remain focused on affordable housing, RM80m in unbilled sales

Maintain Buy. Our TP for Naim is based on a 2-stage SOP. We value Naim's earnings (ex. Dayang) at 12x FY10 earnings and its share of Dayang's earnings at 9x. Naim remains our preferred pick for Sarawak play. We expect to see increasing contract flows within Sarawak moving closer to the state elections.

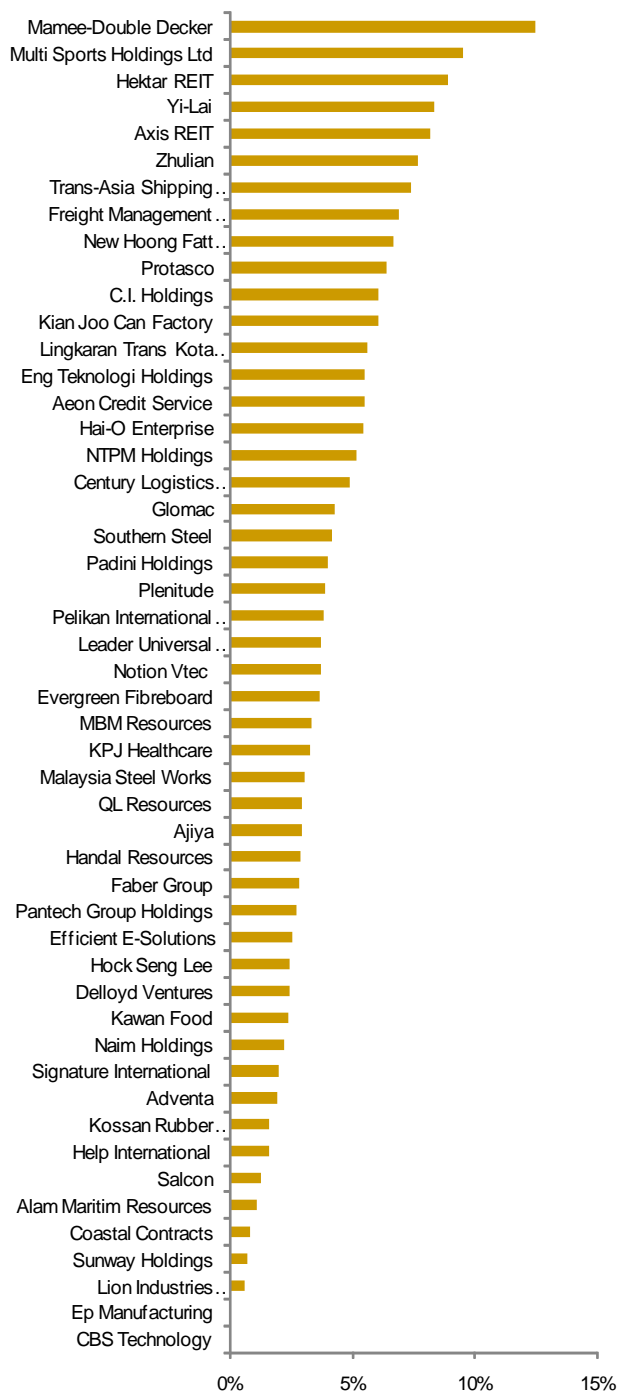
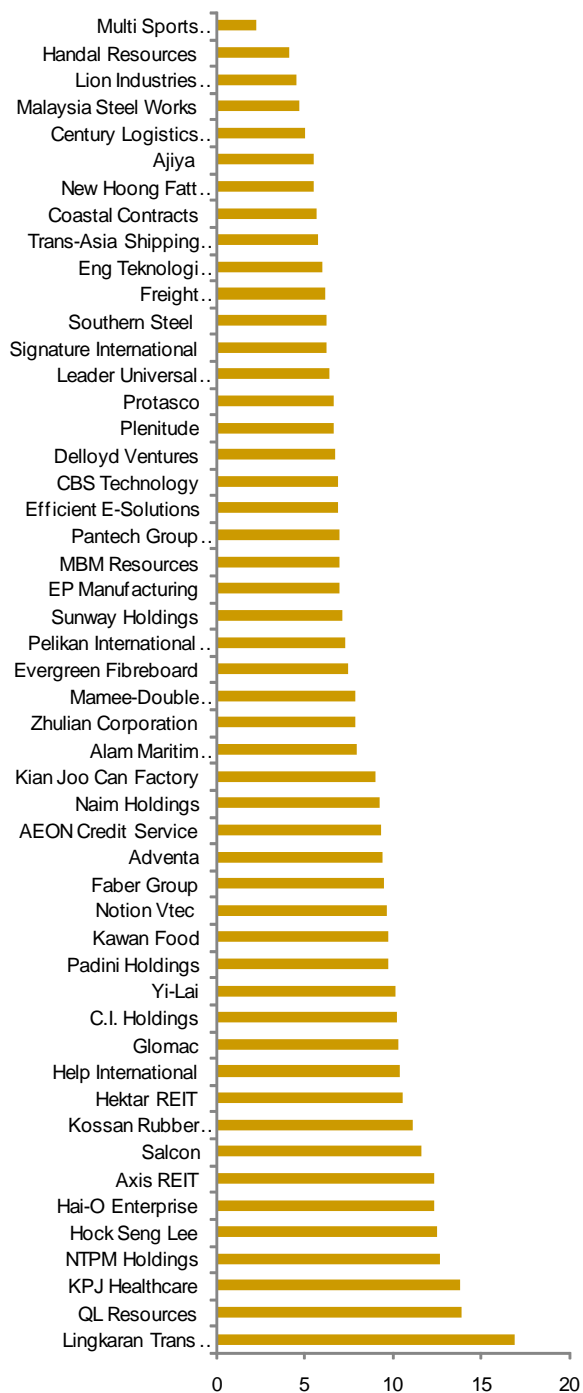
Market capitalisation of the Top 50 (RMm)

Return on equity (ROE) of the Top 50 (%)



FY10 PER of the Top 50 (x)

FY10 Dividend yields of the Top 50 (%)



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