

# Technical Analysis

## Olam – Hold your shorts

Bloomberg | Reuters | Poems  
OLAM SP | OLI SI | OLI

Phillip Securities Research Pte Ltd  
20 June 2012

**Previous Close** : \$1.96  
**Support region** : \$1.805-1.82  
**Resistance 1** : \$2.00  
**Resistance 2** : \$2.10

Chart 1: Apr 2012 – June 2012 Olam Daily Chart



Source: Bloomberg

### Caveat: It's not wise to short.

**Technical weakness** abounds Olam's chart through the day. The counter closed gap and declines. Olam had dropped ~30%, S\$0.68 due to ~20% y-y decline in 3Q12 net earnings but had since recovered ~60% in share price to close S\$1.96 on 19<sup>th</sup> June. The stock rose on 20<sup>th</sup>, closed gap, touched high of \$2.00. Having risen by 30% since its low of S\$1.53, we saw our favourite long tail candlestick through the day (marred by a strong close at S\$1.96).

### Shares buy back should see lower prices for Olam

Theoretically, market should discount prices for a firm like Olam when it chose to convert its safest cash asset for risky asset – equity. A lower PE should be given to Olam to reflect the change in company's risk profile, especially since it is a highly leverage firm.

Olam announced on 8 June 2012 that it may purchase up to 10% of its total number of issued shares, or up to 244,230,986 shares, at a maximum price of 105% of the average closing price of the last 5 market days at the time of acquisition.

The typical market reaction to shares buy back announcements is rising share prices. Lesser outstanding

shares in the market mean EPS, ROE and ROA are higher, giving the appearance of better ratios thus more attractive to shareholders. Company also uses cash to support share price, thereby giving stability or an upside potential for buyers.

But in Olam's case, share buy backs should not result in rising share price.

### The rationale against buybacks

- Olam is a highly leveraged company. ST and LT debt are S\$7,832 mn. Equity is only S\$3,621mn. D/E is 216%. Buy backs will reduce the equity base resulting in higher leverage.

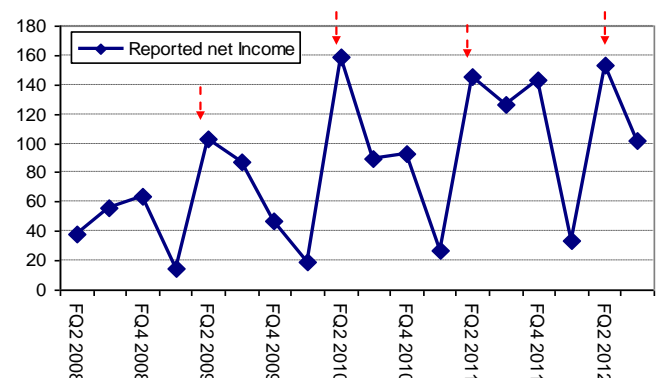
- 9MFY12 cash interest amounts to S\$327mn, with a linear extrapolation to full year gives us interest cost of S\$435.5mn, 5.5% p.a. Dividend yield is only 2.66% indicating that equity is cheaper to hold than debt.

- 9MFY12 net cash inflow is S\$494.9mn and net debt is S\$6,682mn. Supporting prices at an assumed price of S\$1.96 will cost the company S\$479mn if all 244,230,986 shares are bought. The amount is a significant portion of cash inflow (if purchases are all done within the same financial year)

### Lower share price deserve due to poor Financials:

Olam earnings face seasonality issues with Q1 being the weakest quarter and Q2, the strongest. FY11 earnings was S\$441.57mn and Olam had traded within the band of S\$2.10 – S\$3.25. 9MFY12 saw Olam reporting S\$289mn and unless Olam is able to attain S\$152.mn for Q4, which brings earnings on par with FY11, then should it trade above S\$2.10 (our technical resistance point). Given that Q4 earnings were S\$63.4mn, S\$46.7mn, S\$92.6mn and S\$142.9mn through 2008-2012; it appears more likely that Olam has to trade within a new band, which is below S\$2.10.

Fig 2: Olam Net income 2Q08 – 3Q12



Source: Phillip Securities Research, Bloomberg

Given these arguments, we should short when the TA appears weak... but our shorting strategy could be hampered by Olam's aggressive share buybacks. The counter argument to our analysis is that buybacks support share prices. Though this effect is usually temporary and not impactful for highly liquid stocks, Olam just began the buybacks and is full of zest, as evident from the volume of purchases.

In table 1, Olam has been buying shares almost on a daily basis. Average purchases amount to 3mn shares a day at average price of S\$1.80. The formula for purchases is :105% of the average closing price of the last 5 market days at the time of acquisition, meaning, if prices rise too fast, Olam cannot participate in the buybacks but when prices fall, the shares will be within its reach, thereby giving it the ability to support prices.

**Table 1: Olam Share buyback transactions.**

Maximum limit	244,230,986
No. of shs bought	20,990,000
Available limit	223,240,986
<b>Amount (\$) spent</b>	<b>\$ 37,856,170.03</b>
<b>Average price paid per share</b>	<b>\$ 1.80</b>
<b>Average volume bought per day</b>	<b>2,998,571</b>
No. of days	7.00

Date	Purchase	Ave	Highest	Lowest	Total consideration
8-Jun-12	3,183,000	\$1.6271	\$1.6271	\$1.6200	5,184,838.36
12-Jun-12	1,738,000	\$1.7246	\$1.7300	\$1.7050	3,001,203.96
13-Jun-12	516,000	\$1.7812	\$1.7850	\$1.7700	920,476.01
14-Jun-12	4,697,000	\$1.8009	\$1.8150	\$1.7850	8,468,520.25
15-Jun-12	3,353,000	\$1.8165	\$1.8300	\$1.8000	6,097,883.57
18-Jun-12	6,074,000	\$1.8856	\$1.8900	\$1.8700	11,466,031.25
19-Jun-12	1,429,000	\$1.8990	\$1.9100	\$1.8800	2,717,216.63

Source: Phillip Securities Research, Company

Olam's buyback is aggressive, accounting for as much as 30% of market volume on each of the 3 consecutive days. The company has spent S\$37.9mn on share purchases and given a billion worth of cash on its books, it has the financial strength to continue on in the short term.

**Table 2: Olam Transactions % Mkt volume**

Date	Close	Daily Volume	Purchase	% of mkt vol
8-Jun-12	\$1.67	19,575,000	3,183,000	16.3%
11-Jun-12	\$1.77	34,134,000	0	0.0%
12-Jun-12	\$1.81	37,492,000	1,738,000	4.6%
13-Jun-12	\$1.80	19,216,000	516,000	2.7%
14-Jun-12	\$1.80	15,592,000	4,697,000	30.1%
15-Jun-12	\$1.83	11,199,000	3,353,000	29.9%
18-Jun-12	\$1.88	20,990,000	6,074,000	28.9%
19-Jun-12	\$1.96	25,387,000	1,429,000	5.6%
20-Jun-12	\$1.96	18,704,000	not available	0.0%

Source: Phillip Securities Research, Company, Bloomberg

**Analyst**  
**Magdalene Choong**  
magdalenechoongss@phillip.com.sg  
+65 6531 1791

### A very compelling TA which says "sell"

Armed with the knowledge of Olam's aggressive buy backs, we are likely to hold our shorts and refrain from using Olam as a testing ground to check market sentiment. But when a compelling technical indicator appears, we will advise traders to short because in a liquid stock, the general market can and has been proven to overwhelm company's buybacks.

## Important Information

---

This publication is prepared by Phillip Securities Research Pte Ltd., 250 North Bridge Road, #06-00, Raffles City Tower, Singapore 179101 (Registration Number: 198803136N), which is regulated by the Monetary Authority of Singapore ("Phillip Securities Research"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this document by mistake, please delete or destroy it, and notify the sender immediately. Phillip Securities Research shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources, which Phillip Securities Research has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this publication are based on such information and are expressions of belief of the individual author or the indicated source (as applicable) only. Phillip Securities Research has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete, appropriate or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, (i) be liable in any manner whatsoever for any consequences (including but not limited to any special, direct, indirect, incidental or consequential losses, loss of profits and damages) of any reliance or usage of this publication or (ii) accept any legal responsibility from any person who receives this publication, even if it has been advised of the possibility of such damages. You must make the final investment decision and accept all responsibility for your investment decision, including, but not limited to your reliance on the information, data and/or other materials presented in this publication.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

Past performance of any product referred to in this publication is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This publication should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this research should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this publication, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this publication.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold a interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this publication. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, which is not reflected in this material, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited its officers, directors, employees or persons involved in the preparation or issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this material.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Section 27 of the Financial Advisers Act (Cap. 110) of Singapore and the MAS Notice on Recommendations on Investment Products (FAA-N01) do not apply in respect of this publication.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

Please contact Phillip Securities Research at [65 65311240] in respect of any matters arising from, or in connection with, this document.

This report is only for the purpose of distribution in Singapore.

### **Contact Information (Singapore Research Team)**

---

**Chan Wai Chee**  
CEO, Research  
Special Opportunities  
+65 6531 1231  
yebo@phillip.com.sg

**Lee Kok Joo, CFA**  
Head of Research  
S-Chips, Strategy  
+65 6531 1685  
leekj@phillip.com.sg

**Joshua Tan**  
Strategist  
+65 6531 1249  
joshuatan@phillip.com.sg

**Magdalene Choong**  
Investment Analyst  
Gaming, US  
+65 6531 1791  
magdalenechoongss@phillip.com.sg

**Go Choon Koay, Bryan**  
Investment Analyst  
Property  
+65 6531 1792  
gock@phillip.com.sg

**Derrick Heng**  
Investment Analyst  
Transportation, Telecom.  
+65 6531 1221  
derrickhengch@phillip.com.sg

**Ken Ang**  
Investment Analyst  
Financials  
+65 6531 1793  
kenangwy@phillip.com.sg

**Travis Seah**  
Investment Analyst  
REITS  
+65 6531 1229  
travissehkhk@phillip.com.sg

**Peter Lee**  
Research Assistant  
General Enquiries  
+65 6531 1240 (Phone)  
+65 6336 7607 (Fax)  
research@phillip.com.sg

**Contact Information (Regional Member Companies)**

---

**SINGAPORE**

**Phillip Securities Pte Ltd**  
Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101  
Tel : (65) 6533 6001  
Fax : (65) 6535 6631  
Website: [www.poems.com.sg](http://www.poems.com.sg)

**HONG KONG**

**Phillip Securities (HK) Ltd**  
Exchange Participant of the Stock Exchange of Hong Kong  
11/F United Centre 95 Queensway  
Hong Kong  
Tel (852) 22776600  
Fax (852) 28685307  
Websites: [www.phillip.com.hk](http://www.phillip.com.hk)

**INDONESIA**

**PT Phillip Securities Indonesia**  
ANZ Tower Level 23B,  
Jl Jend Sudirman Kav 33A  
Jakarta 10220 – Indonesia  
Tel (62-21) 57900800  
Fax (62-21) 57900809  
Website: [www.phillip.co.id](http://www.phillip.co.id)

**THAILAND**

**Phillip Securities (Thailand) Public Co. Ltd**  
15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangrak,  
Bangkok 10500 Thailand  
Tel (66-2) 6351700 / 22680999  
Fax (66-2) 22680921  
Website [www.phillip.co.th](http://www.phillip.co.th)

**UNITED KINGDOM**

**King & Shaxson Capital Limited**  
6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS  
Tel (44-20) 7426 5950  
Fax (44-20) 7626 1757  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA**

**Octa Phillip Securities Ltd**  
Level 12, 15 William Street,  
Melbourne, Victoria 3000, Australia  
Tel (03) 9629 8288  
Fax (03) 9629 8882  
Website: [www.octaphillip.com](http://www.octaphillip.com)

**MALAYSIA**

**Phillip Capital Management Sdn Bhd**  
B-3-6 Block B Level 3 Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450  
Kuala Lumpur  
Tel (603) 21628841  
Fax (603) 21665099  
Website: [www.poems.com.my](http://www.poems.com.my)

**JAPAN**

**PhillipCapital Japan K.K.**  
Nagata-cho Bldg.,  
8F, 2-4-3 Nagata-cho,  
Chiyoda-ku, Tokyo 100-0014  
Tel (81-3) 35953631  
Fax (81-3) 35953630  
Website: [www.phillip.co.jp](http://www.phillip.co.jp)

**CHINA**

**Phillip Financial Advisory (Shanghai) Co. Ltd**  
No 550 Yan An East Road,  
Ocean Tower Unit 2318,  
Postal code 200001  
Tel (86-21) 51699200  
Fax (86-21) 63512940  
Website: [www.phillip.com.cn](http://www.phillip.com.cn)

**FRANCE**

**King & Shaxson Capital Limited**  
3rd Floor, 35 Rue de la Bienfaisance 75008  
Paris France  
Tel (33-1) 45633100  
Fax (33-1) 45636017  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**UNITED STATES**

**Phillip Futures Inc**  
141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel +1.312.356.9000  
Fax +1.312.356.9005