

## Results Report

Wednesday, 29 August 2007



Bloomberg : MIG MK

KLCI : 1,278.95

Analyst : Kamarulzaman Hassan

E-mail : kamarul@ta.com.my

Phone : 20721277 ext 1614

## Melewar Industrial Group Bhd

## Mar-Jun FY2007 Result Highlights

Stock Code: MELEWAR (3778)

Price : RM1.48

Target Price : RM2.70

Market Capitalisation : RM335.6m

Board : Main

Sector : Industrial Product

Recommendation : BUY

## KEY STOCK STATISTICS

		2007#	2008F
EPS (est.)	(sen)	20.3	25.8
P/E (est.)	(x)	7.1	7.3
Dividend/Share	(sen)	6.0	
NTA/Share	(RM)	3.01	
Book Value/Share	(RM)	2.74	
Issued Capital	(mil shares)	169.9	
52-weeks Share Price Range	(RM)	1.37/0.86	
Major Shareholders:		HDM Nominees (Tempatan) Sdn Bhd (23.29%)	
		EPF (14.01%)	
		HDM Nominees (Asing) Sdn Bhd (5.11)	

## PER SHARE DATA

FYE 31 Jun		2005**	2006**	2007#	2008F	2009F
Book Value	(RM)	2.2	2.8	3.0	3.3	3.5
Cash Flow	(sen)	15.3	22.2	32.4	38.3	38.0
Earnings	(sen)	20.5	20.7	20.3	25.8	28.3
Adjusted Earnings*	(sen)	20.4	20.7	20.3	25.8	28.3
Net Dividend	(sen)	9.4	3.0	3.0	8.0	9.0
Payout Ratio	(%)	46%	14%	15%	31%	32%
PER	(x)	7.2	7.1	7.3	5.7	5.2
Adjusted PER *	(x)	7.2	7.1	7.3	5.7	5.2
P/Cash Flow	(x)	9.7	6.7	4.6	3.9	3.9
P/Book Value	(x)	0.7	0.5	0.5	0.5	0.4
Dividend Yield	(%)	6.4%	2.0%	2.0%	5.4%	6.1%
ROE	(%)	13%	10%	10%	10%	11%
Net Gearing	(%)	27%	30%	44%	38%	35%

## P&amp;L ANALYSIS (RM mil)

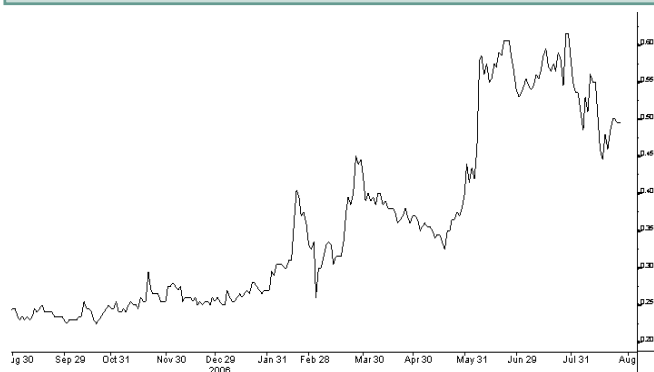
FYE 31 Jun		2005**	2006**	2007#	2008F	2009F
Revenue		598.7	566.9	810.2	644.2	676.4
Operating Profit		75.6	42.9	216.9	83.1	90.6
Depreciation		-15.4	-9.0	-15.0	-6.8	-10.1
Interest Expense		-3.0	-8.1	-12.7	-7.1	-7.8
Pretax Profit		72.7	35.5	189.2	78.9	86.7
Effective Tax Rate (%)		25%	-16%	40%	26%	26%
Net Profit		46.5	46.9	114.4	58.4	64.2
Adjusted Net Profit *		46.3	46.9	46.0	58.4	64.2
Operating Margin (%)		12.6%	7.6%	9.4%	12.9%	13.4%
Pre-tax Margin (%)		12.1%	6.3%	8.8%	12.3%	12.8%
Net Margin (%)		7.8%	8.3%	3.2%	9.1%	9.5%

note: \* Adjusted for extraordinary gain on sale of investment

\*\* FYE Jan

# 17 months to June

## SHARE PRICE



Source: Bloomberg

## MAR-JUN FY2007 RESULT HIGHLIGHTS (RM'm)

	Mar-Jun 2007	Mar - Jun 2006	% Change
Revenue	158.0	NA	NM
Operating Profit	137.5	NA	NM
Non cash item	65.1	NA	NM
Interest Expense	-3.7	NA	NM
Pre-tax Profit	132.2	NA	NM
Net Profit	67.3	NA	NM
Operating Margin	87.0%	NA	
Pre-tax Margin	83.7%	NA	
Net Margin	42.6%	NA	

## Results Comments

Melewar Industrial Group Berhad reported a net profit of RM104.4mn in the 17-month FY07 as compared to our earnings estimates of RM48.5mn. Upon further scrutinizing, the huge discrepancy between reported earnings and our estimate was due to recognition of investment surplus amounting to RM65.1mn following the adoption of FRS accounting standard. Stripping this off and adjusting the M3nergy's exceptional loss of about RM18.4mn (Melewar's portion is 22.6%), the group's FY07 core net earnings is estimated at RM45.9mn, which is still within the 5% variance.

The group's revenue for FY07 improved by 42.9% to RM810.2mn, (however note that this consists 17-month of revenue due to change in financial year end) as compared to last financial year revenue of RM566mn. Comparing apple to apple, the group's revenue growth were merely 0.9% YoY. On QoQ basis, revenue improved 3.1% following a much stronger growth of 17% QoQ registered in the last quarter. However, for the quarter, the profit from operation improved by 34.2% as we believe the pressure from sticky high raw material prices is finally dissipating.

Its associate performance remains volatile swinging from red to black and vice versa on quarterly basis. M3nergy's 4Q results were a major disappointment as the group registered a loss of RM11.4mn due to a write-off of goodwill in Maveric amounting to RM18.4mn. Earlier in the 2Q, M3nergy was hit by impairment loss of RM11.1mn. In the coming quarters, expect the group to report exceptional gain of RM17.8mn as a result of disposing its 28.7% associate company Malaysian Marine Merchant for RM35mn.

### Outlook

Despite some hiccup in its associate companies, the outlook for Melewar is bright as the group has successfully diversified into several exciting industries, mainly oil and gas and power. Meanwhile, the group's bread and butter remained in the steel sector and is further enhanced upstream with the purchase of listed iron ore mining company, Gindalbie.

### Recommendation

There is no change in our earnings estimate of RM58.4mn for FY08 and RM64.2mn for FY09 which translate to EPS of 25.8 sen and 28.3 sen respectively. Our target price remains at RM2.70 based on sum-of-parts. Based on the last closing price of RM1.48, the group offers a potential upside of 82.4%, which warrants a BUY recommendation.

### DISCLAIMER

The information in this report has been obtained from sources believed to be reliable. Its accuracy or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

*Other disclosure : CMDF-Bursa Research Scheme ("CBRS") - This report has been prepared by TA Securities Holdings Bhd for purposes of CBRS administered by Bursa Malaysia Berhad, independent from any influence from CBRS or the subject company. TA Securities Holdings Bhd has been compensated to undertake the scheme.*

for **TA SECURITIES HOLDINGS BERHAD**  
Yaw Chun Soon, Executive Director - Operations

**TA Securities Holdings Berhad** (14948-M)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)  
Menara TA One, 22 Jalan P Ramlee, 50250 Kuala Lumpur, Malaysia  
Tel : 603 - 2072 1277. Fax : 603 - 2032 5048