Maemode set for re-rating on earnings growth

KUALA LUMPUR: SJ Securities Research is maintaining its overweight call on Malaysian AE Models Bhd (Maemode) as it is set for a re-rating by investors for its strong fundamentals, earnings growth and current low valuations.

The research house values Maemode at RM2.05 or about 10 times its forecast financial year (FY07) earnings per share (EPS) of 20.6 sen. Maemode produces conveyor systems for logistics and manufacturing activities.

Its venture into China since 1997 will be the key earnings driver for the group and it expects China's contribution to total revenue to increase from 23% in FY06 to 38% by FY10.

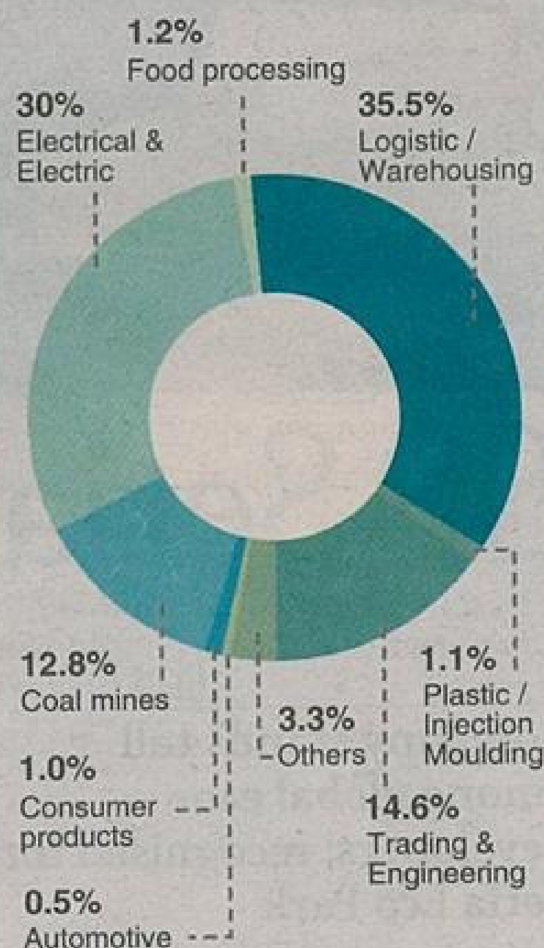
SJ Research is upbeat on Maemode's investment in Kalimantan where coal mining is expanding because of higher coal prices, which increases the use of bulk-handling systems.

One concern on Maemode's balance sheet is its large debtor position and high gearing, but it said this is largely unfounded.

"We gather that more than RM100 million of its high project-based trade debtors are essentially contract work-in-progress.

Furthermore, the group has written off actual bad debts of less than RM90,000 over the past few years indicating that bad debt risk is low," it said.

1QFY07 Revenue breakdown



Source: Company, Maemode

Although Maemode's net gearing was 97.2% as at Feb 28, it was balanced by the fact at it had a net interest coverage ratio of 4.1 times for FY07.

SJ Research said Maemode is trading at a single-digit forward PER and discount to its forward net tangible asset (NTA).