

Malaysian AE Models Holdings Bhd (MAEMODE)		Price:	RM1.03 @ July 26,2006
		Market capitalisation:	RM98.72mn
		Board:	Main
		Sector:	Industrial Automation
Stock Code:	7075	Recommendation:	STRONG BUY

<u>Key Stock Statistics</u>	2005	2006
EPS (sen)	12.79	12.95
P/E (x)	8.20	7.95
Dividend/Share (RM)	0.005	0.015
NTA/Share (RM)	1.47	1.59
Book Value/Share (RM)	1.49	1.64
Issued Capital (mn shares)	95.12	95.12
52-wks Share Price Range	RM0.69-RM1.19	
<u>Major Shareholders:</u>		
Government		
<i>Others (specify)</i>	: Aemnic Corp (M) Sdn Bhd (33.86%) : Lim Kee Sinn (0.46%)	

<u>Per Share Data</u>	2004	2005	2006E	2007F
Book Value (RM)	1.56	1.47	1.59	1.71
Cash Flow (sen)	24.7	23.2	19.6	26.0
Earnings (sen)	56.2	12.8	12.9	17.9
Dividend (sen)	0.01	0.01	0.02	0.03
Payout ratio (%)	0.89	3.91	11.58	16.63
PER (x)	1.83	8.20	7.95	5.75
P/Cash Flow (sen)	4.05	4.31	5.10	3.85
P/Book Value (sen)	0.66	0.70	0.65	0.60
Dividend yield (%)	0.5	0.5	1.5	3.0
ROE (%)	35.33	8.29	10.23	12.39
Net Gearing (%)	58.82	51.25	43.71	36.38

<u>P&L Analysis (RMmn)</u>	2004	2005	2006	2007E
Year-end: 31 st May				
Revenue	159.46	186.04	286.78	329.8
EBITDA	29.96	36.83	39.05	45.82
Depreciation	(7.09)	(7.48)	(6.73)	(7.07)
Interest Expenses	(6.10)	(9.68)	(8.71)	(9.14)
Profit before Tax	11.46	12.60	18.81	22.15
Taxation	(3.42)	(3.56)	(6.25)	(4.85)
Minority Interest	0.26	0.08	0.25	0.25
Net Profit	8.31	9.12	12.32	17.04
EBITDA Margin (%)	18.8	19.8	13.6	13.9
Pre-tax Margin (%)	18.8	19.8	4.4	5.2
Net-Margin (%)	7.2	6.8	4.3	5.2

<u>MAEMODE 4QFY06</u>	<u>4Q 2005</u>	<u>3Q 2006</u>	<u>4Q 2006</u>	<u>Change QoQ %</u>	<u>Change YoY %</u>
Revenue	62.78	67.34	114.02	69.31	81.60
Profit from Operations	6.36	5.30	11.66	120.12	83.25
Finance Costs	(2.62)	(1.69)	(3.06)	81.60	16.79
Share of profit/(loss) of assoc. Companies	0.14	0.10	(0.10)	(200.00)	(171.53)
Pre-Tax Profit	3.88	3.71	8.50	129.16	119.12
Taxation	(1.00)	(1.03)	(3.47)	238.05	247.89
Minority Interest	(0.41)	0.39	(0.62)	(258.97)	53.1
Net Profit	2.48	3.08	4.42	43.64	78.18
Operating Margin (%)	10.13	7.87	10.23	30.01	0.91
Pre-tax Margin (%)	6.18	5.51	7.46	35.35	20.66
Net Margin (%)	3.95	4.57	3.87	(15.16)	(1.89)
Basic EPS (sen)	2.61	3.23	4.64	43.65	77.78

<u>MAEMODE 4QFY06 Cumulative</u>	<u>4Q05</u>	<u>4Q06</u>	<u>Change YTD %</u>
Revenue	RMmn 186.04	RMmn 286.78	54.15
Profit from Operations	21.88	28.58	30.59
Finance Costs	(9.68)	(9.85)	1.81
Share of profit/(loss) of assoc. Companies	0.39	0.09	(78.15)
Pre-Tax Profit	12.60	18.81	49.35
Taxation	(3.56)	(6.25)	75.53
Minority Interest	0.81	(0.25)	(130.6)
Net Profit	8.96	12.32	37.46
Operating Margin (%)	11.76	9.97	(15.29)
Pre-tax Margin (%)	6.77	6.56	(3.12)
Net Margin (%)	4.82	4.30	(10.83)
Basic EPS (sen)	12.79	12.95	1.02

1. Results Review

For the financial year ended 31 May 2006, Maemode has exceeded our pretax profit forecast of RM16.0mn, achieving a 49% increase in pretax profit of RM18.8mn as compared to RM12.6mn in the previous year. Revenue rose to RM286.8mn from RM186.0mn a year ago, while basic earning per share rose to 12.95sen compared with 12.79sen in the corresponding period last year.

The astounding results were attributed to the substantial increase in the overall sales performance of the Group's bulk handling material systems, and the better than expected overseas sales.

As mentioned earlier during the 3Q, the Group had written off approximately RM5mn as operating expenses incurred in securing the RM200mn Islamic Commercial/Islamic Medium Term Notes Programmes. Besides this the Group has also incurred non deductible tax expenses of RM1.4mn resulting in a higher tax rate of 35% than the normal 28% the Group is accustomed. Stripping out these one off exceptional items, the Group's net profit would have increased by 89% to RM16.9mn from RM9.0mn a year ago.

On the q-o-q basis, the Group posted a higher pre-tax profit of RM8.5mn compared to RM3.7mn in 3QFY06. Revenue increased by 69% to RM114.0mn in 4QFY06 as compared to RM67.3mn in the previous quarter. The significantly better results were attributed to the completion of several projects during the quarter under review.

2. Earnings Outlook

Maemode's current order book stood at about RM235mn which should keep the Group busy for the next 12 months and we expect this to contribute positively towards the Group's FY07 earnings. These contracts include maintenance and technical contracts that provide an average annual recurring income of approximately RM75mn per annum for duration of at least 5 years.

In order to replenish its order book, Maemode has tendered for more than RM600mn worth of projects, with approximately 80% of the projects based in overseas. We are confident that the Groups will be able to secure a sizeable amount in view of its earlier move to strategically position itself by setting up regional offices in China, Indonesia, Thailand and Singapore. The regional expansion coupled with the Group's reputation as a reliable and leading service provider especially in the logistics, warehousing and distribution segments will allow its order book to be replenished.

In the past, the Group faced difficulties in passing on higher cost to customers. The surge in prices of steel parts and components which collectively make up approximately 60% of the Group's total production cost has eroded its margins in the past. In order to mitigate the risk of escalating raw material prices, Maemode is now looking closely at its raw material requirements before tendering for projects, in addition to inserting a price escalation clause in its contract.

As the Group is poised to develop new market in Asia and develop new product range, we expect Maemode to perform better and able to sustain its performance for the coming financial year, since it provides clients with total solutions and more importantly customized systems control.

Maemode's outstanding financial results for FY06 have strengthened our belief that the Group's earnings are on the rise and will be in line with our earnings expectations for the coming financial year. Furthermore, we expect the Group's continuous focus on overall cost control, productivity and efficiency to help improving its profit margin going forward.

3. Valuation and Recommendation

We have left our forecast unchanged on Maemode as **STRONG BUY** as it demonstrates outstanding earnings performance and based on its strengths in materials handling and automation systems, strong support from overseas clients, and strong working capital. Hence, we are maintaining our target price of **RM2.15** based on a prospective basic EPS for FY07 of 17.9sen pegging at a PER of 12x.

4. Technical Analysis



MAEMODE (Stock code: 7075) – Targeting 1.40

Resistance : 1.40

Support : 0.92

Share price is at 1.05 on 31/7/06. Following the June – August 2005 rebound to 0.93 from 0.69, it staged a pullback to 0.73 low in mid December 2005. It resumed its upward move, and broke through the immediate short term down trend line at 0.99 in March 2006. The next target will be at overhead trend line at 1.40. Good support at 0.92.