

Malaysian AE Models Holdings

Recommendation: **STRONG BUY**

Stock Code: 7075

Bloomberg: MAE MK

Price: MYR1.36

12-Month Target Price: MYR1.80

Date: April 27, 2007

Board: Main

Sector: Industrial Products

GICS: Industrials / Industrial Machinery

Market Value - Total: MYR131.2 mln

Summary: Malaysian AE Models Holdings (Maemode) is involved in the design, manufacture, installation and marketing of materials handling and factory automation systems and components. Maemode was listed on the Second Board of Bursa Malaysia in May 1999 and subsequently transferred to the Main Board in Aug. 2003.

Analyst: David Chong, CA



Results Review & Earnings Outlook

- Maemode's 3QFY07 (May) net profit of MYR6.7 mln (+119.3% YoY) was ahead of expectations due to a stronger-than-expected revenue growth. Although the group's 9MFY07 net profit of MYR13.9 mln (+75.5% YoY) accounted for 75.4% of our original net profit forecast, we believe our forecast would be exceeded as Maemode's 4Q tends to be strong quarter. No dividend was declared.
- 3QFY07 revenue rose 56.9% YoY while 9M revenue was up 46.2% YoY. According to management, the strong headline growth was due to the completion of some large projects during the quarter and stronger overseas demand for Maemode's bulk materials handling and logistics, sorting and warehousing systems.
- Maemode's 9M operating margin expanded by 1.4 ppt YoY to 10.8%. This YoY expansion was largely due to the write-off of expenses relating to the issuance of its debt instrument in 3QFY06. Together with a lower effective tax rate of 24% (9MFY06: 27%) as the debt issuance expenses in the previous financial year were not tax deductible, Maemode's 9MFY07 net profit jumped 75.5% YoY to MYR13.9 mln.
- In view of the stronger-than-expected results, we have raised our FY07 revenue and net profit forecasts by 6.4% and 8.7%, respectively. We have also raised our FY08 net profit forecast by 3.9% on the back of a 4.7% upward revision in our revenue forecast.

Recommendation & Investment Risks

- Our Strong Buy recommendation on Maemode remains unchanged. However, we are raising our 12-month target price to MYR1.80 (from MYR1.71) on the back of our earnings upgrade. Our target price suggests a potential upside of about 32%.
- Our valuation method remains unchanged, i.e. PER multiples and adding the projected net dividend per share (DPS). Applying an unchanged target PER of 9.5x (one standard deviation above its historical average) on the estimated CY07 EPS (adjusted for outstanding warrants), we obtain a value of MYR1.78. After adding the projected FY07 net DPS of 2 sen (unchanged), we obtain our 12-month target price of MYR1.80.
- Risks to our recommendation and target price include a sharp surge in raw material prices, which may erode margins. In addition MAE's net gearing as at May 31, 2006 stood at 0.9x (May 31, 2005: 0.7x), which we believe puts MAE at risk in an unexpected downturn in business conditions. Nevertheless, we forecast net gearing to remain stable as at end-FY07 while net interest coverage is expected to improve slightly to 4.2x (from 4x for FY06).

Key Stock Statistics

	2006	2007E
FY May.		
Reported EPS (sen)	12.5	21.0
PER (x)	10.9	6.5
Dividend/Share (sen)	1.5	3.0
NTA/Share (MYR)	1.59	1.79
Book Value/Share (MYR)	1.59	1.79
No. of Outstanding Shares (mln)	96.4	
52-week Share Price Range (MYR)	0.91 - 1.39	
Major Shareholders:	%	
Aemnic Corporation	31.8	
Atlantis Investment Management	7.8	

Per Share Data

	2004	2005	2006	2007E
FY May.				
Book Value (MYR)	1.56	1.47	1.59	1.79
Cash Flow (sen)	24.7	23.1	22.9	31.7
Reported Earnings (sen)	13.4	12.9	12.5	21.0
Dividend (sen)	0.5	0.5	1.5	3.0
Payout Ratio (%)	2.7	3.8	8.6	10.4
PER (x)	10.2	10.5	10.9	6.5
P/Cash Flow (x)	5.2	4.1	3.8	4.3
P/Book Value (x)	0.9	0.9	0.9	0.8
Dividend Yield (%)	0.4	0.4	1.1	2.2
ROE (%)	8.9	7.5	8.2	12.5
Net Gearing (%)	99.0	73.5	93.2	92.8

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Quarterly Performance

FY May. / MYR mln	3Q07	3Q06	% Change
Reported Revenue	105.6	67.3	56.9
Reported Operating Profit	11.8	5.3	>100
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-2.6	-1.6	59.3
Reported Pre-tax Profit	9.2	3.7	>100
Reported Net Profit	6.7	3.1	>100
Reported Operating Margin (%)	11.2	7.9	-
Reported Pre-tax Margin (%)	8.7	5.5	-
Reported Net Margin (%)	6.4	4.6	-

Source: Company data

Profit & Loss

FY May. / MYR mln	2005	2006	2007E	2008E
Reported Revenue	186.0	286.8	351.0	397.1
Reported Operating Profit	22.0	28.4	38.3	43.9
Depreciation & Amortization	-7.1	-9.8	-10.2	-10.7
Net Interest Income / (Expense)	-8.9	-9.1	-11.0	-11.1
Reported Pre-tax Profit	12.6	18.6	27.0	32.5
Effective Tax Rate (%)	26.6	35.1	24.0	24.0
Reported Net Profit	9.0	11.9	20.0	23.7
Reported Operating Margin (%)	11.8	9.9	10.9	11.1
Reported Pre-tax Margin (%)	6.8	6.5	7.7	8.2
Reported Net Margin (%)	4.8	4.1	5.7	6.0

Source: Company data, S&P Equity Research

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Glossary

Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

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For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Lee Leng Hoe or Ching Wah Tam.

Recommendation and Target Price History

Date	Recommendation	Target Price
New	Strong Buy	1.80
24-Jan-07	Strong Buy	1.71
31-Oct-06	Strong Buy	1.71
31-Jul-06	Strong Buy	1.51
28-Jul-06	Strong Buy	1.39
28-Apr-06	Strong Buy	1.30
14-Oct-05	Strong Buy	1.20

