

Malaysian AE Models Holdings

Recommendation:

STRONG BUY

Stock Code: 7075

Bloomberg: MAE MK

Price: MYR1.03

12-Month Target Price: MYR1.51

Date: July 31, 2006

Board: Main**Sector:** Industrial Products**GICS:** Industrials / Industrial Machinery**Market Capitalization:** MYR98.0 mln

Summary: Malaysian AE Models Holdings (MAE) is involved in the design, manufacture, installation and marketing of materials handling and factory automation systems and components. MAE 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**

- MAE's 4QFY06 (May) and full-year net profit of MYR4.4 mln (+78.2% YoY) and MYR12.3 mln (+37.5% YoY) respectively, was within our expectations.
- 4QFY06 revenue jumped 81.6% YoY. Management attributed this to the completion of several projects during the quarter, which were mainly overseas projects for its bulk handling system. As a result, its full-year revenue of MYR286.8 mln grew 54.2% YoY and was 16.7% ahead of our expectations.
- MAE's FY06 pre-tax margin remained relatively flat at 6.6% (FY05: 6.8%) as the lower average borrowing cost was offset by a higher depreciation charge and the one-off expense relating to the issuance of its debt instrument in 1HFY06 (as at May 31, 2006, the nominal value of the commercial papers issued was MYR99 mln). Excluding the issuance cost, we estimate FY06 EBITDA margin remained stable at around 14.5%. In addition, MAE's FY06 effective tax rate was higher at 33.2% (FY05: 26.6%) as the issuance cost was not allowable for deduction. As such, net profit growth for the financial year, while impressive, lagged revenue growth.
- As expected, MAE has proposed a final gross dividend per share (DPS) of 1.5 sen. This translates to a payout ratio and gross yield of 8.3% and 1.5%, respectively.

Key Stock Statistics

	2006	2007F
FY May		
EPS (sen)	13.0	19.5
PER (x)	8.0	5.3
Dividend/Share (sen)	1.5	3.0
NTA/Share (MYR)	1.59	1.77
Book Value/Share (MYR)	1.59	1.77
Issued Capital (mln shares)	95.1	
52-week Share Price Range (MYR)	0.74 – 1.19	
Major Shareholders:	%	
Aemnic Corporation	33.9	
Atlantis Investment Management	7.9	

Recommendation & Investment Risks

- We revised our FY07 revenue forecast upwards by 11% in lieu of the stronger-than-expected reported revenue for FY06. Together with a higher depreciation forecast and some other minor adjustments, we raised our FY07 net profit forecast by 9.2% to MYR18.5 mln. We introduce our FY08 numbers.
- We are maintaining our Strong Buy recommendation on MAE with a revised 12-month target price of MYR1.51 (previously MYR1.39) on account of the abovementioned revision in earnings forecast. This offers a potential upside of 46.6%.
- Our 12-month target price was derived after applying an unchanged PER of 9.5x on the projected FY07 earnings (adjusted for outstanding warrants) and adding the estimated FY07 net DPS of 2 sen.
- 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 puts MAE at risk in an unexpected downturn in business conditions, in our view.

Per Share Data

	2004	2005	2006	2007F
FY May				
Book Value (MYR)	1.56	1.47	1.59	1.77
Cash Flow (sen)	24.7	23.1	23.3	30.2
Earnings (sen)	13.4	12.9	13.0	19.5
Dividend (sen)	0.5	0.5	1.5	3.0
Payout Ratio (%)	2.7	3.8	8.3	11.1
PER (x)	7.7	8.0	8.0	5.3
P/Cash Flow (x)	4.2	4.5	4.4	3.4
P/Book Value (x)	0.7	0.7	0.6	0.6
Dividend Yield (%)	0.5	0.5	1.5	2.9
ROE (%)	8.9	7.5	8.5	11.6
Net Gearing (%)	99.0	73.5	92.9	99.2

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Quarterly Performance

FY May / MYR mln	4QFY06	4QFY05	% Change
Revenue	114.0	62.8	81.6
Operating Profit (EBIT)	11.7	5.9	96.8
Depreciation	-2.8	-2.1	33.2
Net Interest Expense	-3.1	-2.2	40.3
Pre-tax Profit	8.5	3.9	119.1
Net Profit	4.4	2.5	78.2
Operating Margin (%)	10.2	9.4	-
Pre-tax Margin (%)	7.5	6.2	-
Net Margin (%)	3.9	3.9	-

Source: Company data

Profit & Loss

FY May / MYR mln	2005	2006	2007F	2008F
Revenue	186.0	286.8	329.8	379.3
Operating Profit (EBIT)	21.1	27.8	34.2	41.1
Depreciation	-7.1	-9.8	-10.2	-10.8
Net Interest Income / (Expense)	-8.9	-9.1	-9.1	-10.5
Pre-tax Profit	12.6	18.8	25.0	30.6
Effective Tax Rate (%)	26.6	33.2	24.0	24.0
Net Profit	9.0	12.3	18.5	22.2
Operating Margin (%)	11.3	9.7	10.4	10.8
Pre-tax Margin (%)	6.8	6.6	7.6	8.1
Net Margin (%)	4.8	4.3	5.6	5.9

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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