

**RESULTS – 4QFY09**

30 Oct 2009

For period Jun-Aug 2009

<b>Milux Corporation</b>		<b>Price:</b>	RM1.30
		<b>Market Capitalisation:</b>	RM55.1m
		<b>Board:</b>	Main
<b>Stock Code/Name:</b>	7935/MILUX	<b>FBM Index:</b>	N/A
<b>Recommendation:</b>	BUY	<b>Sector:</b>	Consumer Products

Analyst: Edmund Tham

Key Stock Statistics	2010F
EPS (sen)	27.9
P/E (x)	4.7
Dividend/Share (sen)	7.0
NTA/Share (RM)	1.69
Book Value/Share (RM)	1.89
Issued Capital (mil shares)	42.4
52-weeks share price (RM)	0.85 – 1.58
Major Shareholders:	%
Tan Poay Teik	13.1
Dato' Tan Chan Chuy @Tan Chin Huat	11.7
Koh Pee Seng	9.9

4Q/ 31 Aug	4Q09	4Q08	yoy %	3Q09	qoq%
Rev (RMm)	24.6	29.8	(17.4)	22.3	10.3
EBIT (RMm)	1.0	1.5	(32.8)	1.2	(13.3)
NPAT (RMm)	0.8	1.9	(58.1)	0.7	15.7
EPS (sen)	1.8	4.4	(58.1)	1.6	15.7

12M/ 31 Aug	12M09	12M08	yoy %
Rev (RMm)	112.2	119.6	(6.2)
EBIT (RMm)	6.9	9.1	(24.6)
NPAT (RMm)	5.0	7.1	(29.5)
EPS (sen)	11.9	16.9	(29.5)

Per Share Data	2007	2008	2009	2010F
Book Value (RM)	1.46	1.61	1.66	1.89
Earnings (sen)	3.3	16.9	11.9	27.9
Dividend (sen)	6.0	7.0	6.0	7.0
Payout Ratio (%)	133.4	31.1	37.8	18.8
PER (x)	39.6	7.7	10.9	4.7
P/Book Value (x)	0.9	0.8	0.8	0.7
Dividend Yield (%)	4.6	5.4	4.6	5.4
ROE (%)	2.3	10.5	7.2	14.8
Net Gearing (x)	0.14	0.23	0.28	0.24

P&L Analysis (RM mil)	2007	2008	2009	2010F
<b>Year end: Aug 31</b>				
Revenue	87.5	119.6	112.2	190.7
Operating Profit	3.8	10.4	8.6	17.9
Depreciation	(2.4)	(2.2)	(2.5)	(2.8)
Interest Expenses	(0.8)	(1.4)	(1.7)	(2.1)
Pre-tax Profit	3.0	9.0	6.9	15.8
Effective Tax Rate (%)	47.2	21.4	26.5	25.2
Net Profit	1.4	7.1	5.0	11.8
Operating Margin (%)	4.3	8.7	7.7	9.4
Pre-tax Margin (%)	3.4	7.5	6.1	8.3
Net Margin (%)	1.6	6.0	4.5	6.2

\*RM1.00 par

**PERFORMANCE**

Milux's annualized FY08 revenues were within our earlier expectations while its net profits after tax were 14.6% below our earlier expectations.

The group's revenue for 4Q/FY09 ended 31<sup>st</sup> Aug 2009 at RM24.6 million was 17.4% or RM5.2 million lower compared to that of the preceding year's corresponding 4Q/FY08 revenue of RM29.8 million. Its profit before tax (PBT) for the three months ended 31<sup>st</sup> Aug 2009 amounted to RM1.0 million compared to a profit before tax of RM2.4 million recorded in the preceding year's 4Q/FY08.

**"Slightly better q-o-q performance"**

The group's revenue for the 12 months ended 31<sup>st</sup> August 2009 was slightly lower than that of the preceding FY08's revenue. This was mainly attributed to the economic and demand weakness during that period. The drop in revenue had resulted in lower net profits for FY09 for the 12 months ended 31<sup>st</sup> August 2009 compared to the figure in the preceding FY08 ended 31<sup>st</sup> August 2008.

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For 4Q/FY09, the group recorded revenue of RM24.6 million as compared to a revenue of RM22.3 million in the preceding 3Q/FY08. This represented an increase of 10.3% or RM2.3 million q-o-q. Its profit before tax during 4Q/FY09 at RM1.03 million was about the same as compared to the preceding 3Q/FY09.

## OUTLOOK/CORPORATE UPDATES

Although various economies around the world have reached their trough and are now on the recovery path, business and consumer sentiment is still not bullish at all. Consumer spending and demand for household products is expected to be muted.

### “Consumers still cautious”

The latest inflation measure, **CPI** for September 2009 was negative 2.0% y-o-y, indicating the prevailing weak demand and prices in the economy. BNM had also recently reaffirmed the **overnight policy rate** (OPR) at 2.0%, which is conducive in promoting economic growth. The **Budget 2010** released recently had contained some additional tax reliefs for the public. However, any positive sentiment from that may have been negated by the government’s plan to impose additional fees on each credit card in circulation.

In October 2009, Milux had announced that it has fixed an issue price of RM1.11 per share for 4.2 million **private placement shares**. The issue price represents a discount of approximately 9.9% to 5-day volume weighted average market price of Milux at that point of time. The private placement exercise is proceeding as planned.

In June 2009, Milux had announced that T.H. Hin SB, its wholly-owned subsidiary had accepted a Letter of Award for the supply of regulator and rubber hose at a total contract sum of USD26.4 million (about RM90 million) over a contract period of 1 year to the **Indonesian market**. Delivery would have commenced during Milux’s 4Q/FY09.

Milux would have to innovate, launch new products and find new markets in order to keep up with the stiff competition. Additionally, it would have to intensify its advertising and promotion (A&P) efforts. Milux’s management would have to focus on having better operational cost control, higher efficiency levels and astute cash-flow management measures in order to maintain its current profit levels.

On the plus side, the prices of energy and metal based commodities have fallen from the highs of the year before, and this would alleviate pressures on production costs. A&P costs and stiff pricing competition from other product brands would nevertheless impose pressures on profit margins.

Milux’s management recognizes the need for **corporate social responsibility** (CSR) as an integral part of a business’s operations and practices. The CSR initiatives undertaken by Milux include those for the community (flood victims), environment (product design, wastes) and “health & safety” (staffs, contractors).

## VALUATION

We expect that consumer demand during Milux’s FY09 would be weak. Nevertheless, FY10 should be better, especially considering the large Indonesian contract. Milux has a relatively low adjusted beta (correlation) to the KLCI of merely 0.41. This means this stock has low volatility compared to overall market movements. In 2009 thus far, Milux is higher by 18.2% YTD versus KLCI’s +42.0%. We noticed that Milux’s stock price has not been able to maintain the highs reached after the announcement of its huge Indonesian contract. The euphoria and excitement over the huge contract has apparently tapered off.

Based on our forecast of Milux’s FY10 EPS, P/E of 8 and discount of 20% (due to both consumer and equity market uncertainties), we set a FY10-end target price of RM1.79, 37.5% higher than its current market price. We are maintaining our **Buy Call** on Milux on the basis that the Indonesian contract boosts its FY10 topline substantially. The strength of Milux’s FY11 results would largely depend on whether this major contract is renewed or otherwise.

### Milux: Share Price



### Results Coverage

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