

Milux Corporation

Recommendation: **HOLD**

Stock Code: 7935

Bloomberg: MILUX MK

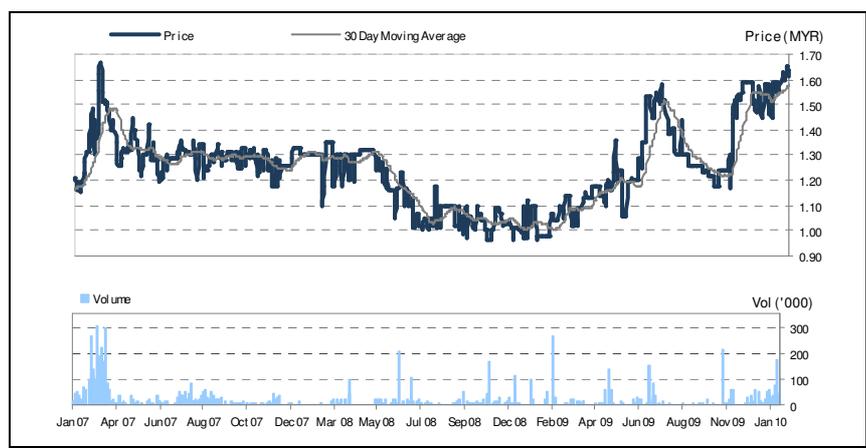
Price: MYR1.61

12-Month Target Price: MYR1.70

Date: February 2, 2010

Board: Main**Sector:** Consumer Products**GICS:** Consumer Discretionary/Household Appliances**Market Value - Total:** MYR75.1 mln

Summary: Milux Corporation (Milux) is the largest manufacturer of gas cookers in Malaysia. It also produces electrical household appliances such as ceiling fans, water heaters, and oven toasters to name a few. Milux supplies to major international brands as well as its own "Milux" and "Euro Uno" brands.

Analyst: Alexander Chia, ACA**Results Review & Earnings Outlook**

- Milux's 1QFY10 (Aug) results were disappointing with net profit falling 46% YoY to MYR1.1 mln. The 1QFY10 net profit accounted for a mere 9% of our previous FY10 estimate.
- The prolonged delay in the trade finance documentations by its customer pertaining to its Indonesian contract was the main factor behind the deviation. To recap, Milux secured a major contract in June 2009 worth USD26.4 mln supplying gas regulators and rubber hoses to Indonesia. However, product shipment has yet to commence due to incomplete paperwork by its customer. While management stated that it has visited the Indonesian customer to reaffirm the contract, it is unable to provide guidance at this juncture as to when the issue may be resolved.
- Consequently, net profit fell, as in the absence of contribution from the Indonesian contract, 1QFY10 revenue contracted 29% YoY to MYR20.7 mln as domestic sales slowed down.
- With the continuing delay of the Indonesian contract, we now assume commencement of shipment in 2HFY10 instead of 1QFY10. As a result, we lower our FY10 revenue and net profit projections by 23% and 39% to MYR147.0 mln and MYR7.5 mln respectively. For FY11, we retain our net profit forecast of MYR13.6 mln, supported by the expected shipments to Indonesia as well as recovery in domestic sales.

Recommendation & Investment Risks

- We lower our recommendation to Hold (from Buy), but retain our 12-month target price of MYR1.70.
- We derive our target price by ascribing a target PER of 10x (from 6x) against FY10 earnings, inclusive of a projected dividend. Our target multiple is benchmarked against Milux's peers, having removed the 40% discount ascribed earlier, to better reflect its longer-term growth prospect and earnings potential.
- The long-term outlook of Milux remains bright, supported by the organic growth from its existing markets and its penetration into the Indonesian market. The group had in December 2009 clinched another contract worth USD75 mln from Indonesia's Ministry of State-Owned Enterprises to supply gas regulators and stoves to the country. Nevertheless, earnings clarity in the short term is low, dragged by the current slowdown in domestic sales and the challenging operating environment in Indonesia. Milux's share price had risen 30% since our last report in October 2009, and we believe most of the positive news had already been priced in. At 10x prospective FY10 PER, Milux is trading at par with its peers and further upside may be limited in the near future, in our opinion.
- Risks to our recommendation and target price include unexpected termination of its Indonesian contracts and higher-than-expected increase in raw material prices.

Key Stock Statistics

FY Aug.	2009	2010E
Reported EPS (sen)	11.4	16.2
PER (x)	14.2	10.0
Dividend/Share (sen)	7.0	7.0
NTA/Share (MYR)	1.46	1.53
Book Value/Share (MYR)	1.66	1.71
No. of Outstanding Shares (mln)	46.6	
52-week Share Price Range (MYR)	1.02 - 1.65	
Major Shareholders:	%	
Dato' Tan Chan Chuy @ Tan Chin Huat	10.6	
Dato' Mohamed Salleh Bin Bajuri	6.4	
Koh Kim Choo	6.1	

Per Share Data

FY Aug.	2007	2008	2009	2010E
Book Value (MYR)	1.46	1.60	1.66	1.71
Cash Flow (sen)	10.2	22.3	17.4	23.1
Reported Earnings (sen)	4.2	16.7	11.4	16.2
Dividend (sen)	6.0	7.0	7.0	7.0
Payout Ratio (%)	46.1	31.5	46.8	32.5
PER (x)	38.1	9.7	14.2	10.0
P/Cash Flow (x)	15.8	7.2	9.3	7.0
P/Book Value (x)	1.1	1.0	1.0	0.9
Dividend Yield (%)	3.7	4.3	4.3	4.3
ROE (%)	6.6	10.9	6.9	10.1
Net Gearing (%)	13.7	22.8	27.9	21.9

*Stock deemed Shariah compliant by the Securities Commission.

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Quarterly Performance

FY Aug. / MYR mln	1Q10	1Q09	% Change
Reported Revenue	20.7	29.2	-29.1
Reported Operating Profit	1.9	2.9	-34.2
Depreciation & Amortization	-0.6	-0.6	6.5
Net Interest Income / (Expense)	-0.4	-0.4	-1.4
Reported Pre-tax Profit	1.5	2.5	-39.9
Reported Net Profit	1.1	2.0	-46.3
Reported Operating Margin (%)	9.2	10.0	-
Reported Pre-tax Margin (%)	7.2	8.5	-
Reported Net Margin (%)	5.2	6.9	-

Source: Company data

Profit & Loss

FY Aug. / MYR mln	2008	2009	2010E	2011E
Reported Revenue	118.3	111.4	147.0	192.8
Reported Operating Profit	10.1	8.2	11.7	20.0
Depreciation & Amortization	-2.4	-2.6	-3.2	-3.4
Net Interest Income / (Expense)	-1.2	-1.5	-1.5	-1.7
Reported Pre-tax Profit	8.9	6.7	10.2	18.3
Effective Tax Rate (%)	20.9	28.9	26.0	26.0
Reported Net Profit	7.1	4.8	7.5	13.6
Reported Operating Margin (%)	8.6	7.4	8.0	10.4
Reported Pre-tax Margin (%)	7.5	6.0	6.9	9.5
Reported Net Margin (%)	6.0	4.3	5.1	7.0

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.

Shariah-compliant stock - As defined by the Shariah Advisory Council of Malaysia's Securities Commission

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Hold	1.70
29-Oct-09	Buy	1.70
22-Jul-09	Buy	2.00
28-Apr-09	Hold	1.30
30-Oct-08	Buy	1.30
1-Aug-08	Buy	1.35
30-Apr-08	Hold	1.44

