

**RESULTS – 1QFY10**

29 Jan 2010

For period Sep-Nov 2009

Milux Corporation		Price:	RM1.65
		Market Capitalisation:	RM76.9m
		Board:	Main
Stock Code/Name:	7935/MILUX	FBM Index:	N/A
Recommendation:	HOLD	Sector:	Consumer Products

Analyst: Edmund Tham

Key Stock Statistics	2011F
EPS (sen)	28.8
P/E (x)	5.7
Dividend/Share (sen)	8.0
NTA/Share (RM)	1.82
Book Value/Share (RM)	2.00
Issued Capital (mil shares)	46.6
52- weeks share price (RM)	1.00 – 1.65
Major Shareholders:	%
Tan Poay Teik	12.2
Dato' Tan Chan Chuy	10.6
@Tan Chin Huat	
Koh Pee Seng	9.5

1Q/ 30 Nov	1Q10	1Q09	yoy %	4Q09	qoq%
Rev (RMm)	20.7	29.2	(29.1)	24.6	(15.9)
EBIT (RMm)	1.5	2.5	(42.4)	1.0	43.6
NPAT (RMm)	1.1	2.0	(46.3)	0.8	38.9
EPS (sen)	2.3	4.3	(46.3)	1.7	38.9

PERFORMANCE

Milux's annualized 1Q/FY10 revenues and net profits were way below our earlier expectations. The group have yet to start delivering regulators and supply hoses to Indonesia as expected earlier.

“Sales volume dampened”

The group had recorded a lower turnover of RM20.7 million for 1Q/FY10 compared to RM29.2 million recorded in the preceding year's corresponding quarter. Its profit before tax (PBT) for the quarter amounted to RM 1.5 million compared to a profit before tax of RM2.5 million achieved in the preceding year's corresponding quarter. The dampened economic sentiment worldwide had affected the group's sales turnover which resulted in a reduction of profits over the quarter.

Comparing q-o-q versus 4Q/FY09, the group's revenue of RM20.7 million was also lower than the revenue of RM24.7 million recorded in the immediate preceding quarter. Nevertheless, its profit before tax during 1Q/FY10 of RM1.5 million was higher compared to the immediate preceding quarter's profit before tax of RM1.0 million, mainly due to the higher gross margins achieved.

Per Share Data	2008	2009	2010E	2011F
Book Value (RM)	1.61	1.66	1.77	2.00
Earnings (sen)	16.9	11.9	21.4	28.8
Dividend (sen)	7.0	6.0	7.0	8.0
Payout Ratio (%)	31.1	37.8	24.6	20.9
PER (x)	9.8	13.9	7.7	5.7
P/Book Value (x)	1.0	1.0	0.9	0.8
Dividend Yield (%)	4.2	3.6	4.2	4.8
ROE (%)	10.5	7.2	12.1	14.4
Net Gearing (x)	0.23	0.28	0.21	0.16

P&L Analysis (RM mil)	2008	2009	2010E	2011F
Year end: Aug 31				
Revenue	119.6	112.2	171.9	231.4
Operating Profit	10.4	8.6	17.7	24.0
Depreciation	(2.2)	(2.5)	(2.8)	(3.1)
Interest Expenses	(1.4)	(1.7)	(2.1)	(2.4)
Pre-tax Profit	9.0	6.9	15.7	21.6
Effective Tax Rate (%)	21.4	26.5	23.6	24.0
Net Profit	7.1	5.0	10.0	13.4
Operating Margin (%)	8.7	7.7	10.3	10.4
Pre-tax Margin (%)	7.5	6.1	9.1	9.3
Net Margin (%)	6.0	4.5	5.8	5.8

*RM1.00 par

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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 weak. Consumer spending and demand for household products is expected to be muted, perhaps with the exception of festive seasons.

“Economy: Recovery stage”

The latest inflation measure, **CPI** for December 2009 was +1.1% y-o-y, an improvement from the deflationary environment earlier last year. This indicates a slight recovery from the state of 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 nation’s **unemployment rate** for 3Q/2009 was 3.6%, which was the same as in 2Q/2009. Employment levels (jobs recovery) typically follow suit after some months of economic growth.

“Indonesia contract – faces possible delays?”

In terms of revenue expansion, Milux is concentrating on export markets. Milux had in June 2009 and December 2009 announced the contracts for the supply of regulators, gas stoves or rubber hoses for the sums of USD26.4 million and USD75.4 million (this contract is with the Ministry of State Owned Enterprises, Republic of Indonesia) respectively to various parties in Indonesia. The latter contract is for the delivery period February till November 2010.

The group’s management had also visited the Indonesian parties numerous times to re-affirm the contracts. However, no delivery had been made as at the last quarterly reporting date. We prefer to err on the side of being prudent and cautious, as there may be further delays in the contract execution and delivery of the items. As such, we have not accounted for the latest contract in our FY10-FY11 earnings projection.

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 or better its current

profit levels. A&P costs and stiff price-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 domestic durable household consumer demand during Milux’s FY10 and FY11 would be weak but gradually recovering in tandem with the country’s GDP growth. In terms of its Indonesian contracts, we have decided to be cautious in terms of revenue projections. Nevertheless, as the Indonesian revenues start to stream-in later on, we would re-look our projections.

“Cautious in our projections”

Milux has a relatively low adjusted beta (correlation) to the KLCI of merely 0.45. This means this stock has low volatility compared to overall market movements. In 2010 thus far, Milux is higher by 11.52% YTD versus KLCI’s -1.8%. Milux is up 26.9% from the date of our last report in October 2009. Based on our forecast of Milux’s FY10 EPS and P/E of 8 times, we set a FY10-end target price of RM1.71, which approximates Milux’s current market price. In addition to our prudent and cautious view, we are changing our call on Milux to **Hold Call** partly due to the stock’s price appreciation in recent months.

Milux: 6-month Share Price



Source: NextView

Results Coverage

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