

## Hing Yiap Group

Recommendation: **BUY**

Stock Code: 7722

Bloomberg: HYGB MK

Price: MYR1.16

12-Month Target Price: MYR1.35

Date: March 1, 2010

Board: Main

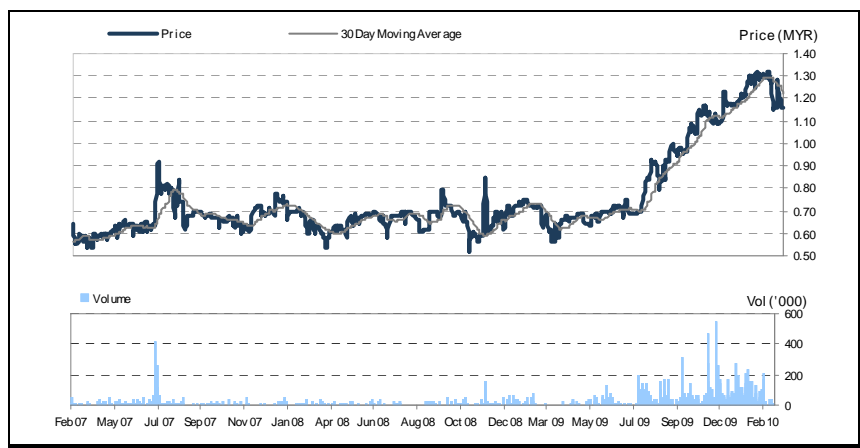
Sector: Consumer Products

GICS: Consumer Discretionary/Apparel, Accessories &amp; Luxury Goods

Market Value - Total: MYR48.5 mln

**Summary:** Hing Yiap Group (HYG) manufactures garments and is also involved in retailing apparel, footwear and other related accessories of its in-house brands and international labels through consignment outlets or its own retail stores.

Analyst: Desmond Ch'ng, ACA



## Results Review &amp; Earnings Outlook

- HYG's 2QFY10 (June) results were within expectations, with cumulative six-month net profit of MYR9.2 mln (up 4.2% YoY) coming in a tad ahead of our full-year forecast of MYR9.1 mln (we are expecting a seasonally much weaker 2HFY10 due to a lower concentration of sales during the period).
- 6MFY10 revenue fell 7.6% YoY on the back of more muted consumer spending. Operating profit fell a slower 1.6% YoY to MYR12.9 mln, driven by better efficiency following the store and brand revamp as well as improved merchandise design and tighter inventory control. Revenue from the food and beverage segment (the *theobroma Chocolate Lounge* operations) is up more than double YoY (to MYR2.7 mln) while operating losses are down 21%, in line with our expectations.
- On a QoQ basis, 2QFY10 revenue is down 28.2% QoQ to MYR31.6 mln, unsurprising, in the absence of the 1QFY10's Mega Sales and Hari Raya festive sales. On a YoY basis, 2QFY10's operating profit is down 16.7% YoY to MYR3 mln on the back of a 7.7% drop in revenue.
- We are maintaining our earnings forecast for HYG and continue to expect FY10 net profit forecast to reduce by 4.3% to MYR9.1 mln on the back of muted revenue growth and higher retail discounts.

## Recommendation &amp; Investment Risks

- We maintain our Buy recommendation on HYG and raise our 12-month target price to MYR1.35 (from MYR1.25 previously) due to higher overall relative valuations.
- Our target price pegs HYG's FY10 EPS to a PER of 6x (vs. 5.4x previously) and is based on peer valuations and adds our projected net DPS. The change in our target PER comes following the removal of the 10% discount, which was previously applied to peer valuations, to reflect HYG's then much-smaller capitalization and domestic-centric operations. While the latter is still true, it is to some extent countered by HYG's stronger financial position as well as margins that are better than that of its peers.
- We are encouraged by HYG's efforts at improving efficiency, enhancing merchandise design and with it increasing profitability in the process. We continue to view HYG's brand-building exercise positively, which has significantly improved visibility for its brand domestically. Share price going forward should also be supported by the expected gross dividend of 9.6 sen in FY10 (yield of 8.3%) and its net cash position (of MYR8.3 mln as at end 2QFY10 or 20 sen per share).
- Risks to our recommendation and target price include: (i) inflationary pressures affecting consumer sentiment and purchasing power, (ii) higher-than-expected stock write-downs and (iii) fashion risk.

## Key Stock Statistics

FY Jun.	2009	2010E
Reported EPS (sen)	22.7	21.7
PER (x)	5.1	5.4
Dividend/Share (sen)	10.0	9.6
NTA/Share (MYR)	1.72	1.86
Book Value/Share (MYR)	1.93	2.07
No. of Outstanding Shares (mln)	41.8	
52-week Share Price Range (MYR)	0.56 - 1.32	
Major Shareholders:	%	
Chi Kuei Yung & Sons Realty Sdn Bhd	42.2	
Chi Oi Meng	7.4	
Dato' Azizi Bin Yom Ahmad	4.9	

## Per Share Data

FY Jun.	2007	2008	2009	2010E
Book Value (MYR)	1.63	1.78	1.93	2.07
Cash Flow (sen)	19.1	26.3	30.7	29.4
Reported Earnings (sen)	10.8	18.8	22.7	21.7
Dividend (sen)	5.0	7.5	10.0	9.6
Payout Ratio (%)	34.2	39.6	35.9	36.0
PER (x)	10.7	6.2	5.1	5.4
P/Cash Flow (x)	6.1	4.4	3.8	3.9
P/Book Value (x)	0.7	0.7	0.6	0.6
Dividend Yield (%)	4.3	6.5	8.6	8.3
ROE (%)	6.8	11.1	12.2	10.9
Net Gearing (%)	16.9	12.2	0.0	0.0

\* Stock deemed Shariah compliant by the Securities Commission.

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**Quarterly Performance**

FY Jun. / MYR mln	2Q10	2Q09	% Change
Reported Revenue	31.6	34.3	-7.7
Reported Operating Profit	3.0	3.7	-16.7
Depreciation & Amortization	-0.8	-0.8	-9.1
Net Interest Income / (Expense)	-0.1	-0.2	-38.1
Reported Pre-tax Profit	2.9	3.5	-15.5
Reported Net Profit	2.1	2.4	-12.7
Reported Operating Margin (%)	9.6	10.6	-
Reported Pre-tax Margin (%)	9.2	10.1	-
Reported Net Margin (%)	6.7	7.1	-

Source: Company data

**Profit & Loss**

FY Jun. / MYR mln	2008	2009	2010E	2011E
Reported Revenue	141.7	136.7	132.2	139.4
Reported Operating Profit	12.5	14.2	13.7	14.2
Depreciation & Amortization	-3.1	-3.4	-3.2	-3.4
Net Interest Income / (Expense)	-0.8	-0.7	-0.7	-0.7
Reported Pre-tax Profit	11.5	13.4	12.9	13.4
Effective Tax Rate (%)	31.0	29.2	30.0	30.0
Reported Net Profit	7.9	9.5	9.1	9.4
Reported Operating Margin (%)	8.8	10.3	10.4	10.2
Reported Pre-tax Margin (%)	8.1	9.8	9.8	9.6
Reported Net Margin (%)	5.6	6.9	6.9	6.7

Source: Company data, S&amp;P Equity Research

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**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.

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Buy	1.35
26-Nov-09	Buy	1.25
28-Aug-09	Buy	1.05
2-Mar-09	Hold	0.77
1-Dec-08	Hold	0.75
18-Jul-08	Hold	0.79

