

## Milux Corporation

Recommendation: **HOLD**

Stock Code: 7935

Bloomberg: MILUX MK

Price: MYR1.49

12-Month Target Price: MYR1.50

Date: April 29, 2010

Board: Main

Sector: Consumer Products

GICS: Consumer Discretionary/Household Appliances

Market Value - Total: MYR69.5 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 &amp; Earnings Outlook

- Milux's 2QFY10 (Aug) disappointed again with sales and net profit falling 41% and 99% YoY to MYR21.4 mln and MYR16,000 respectively. 1HFY10 net profit of MYR1.1 mln reached only 22% of our previous FY10 estimates.
- The poor performance in 2QFY10 was attributed to: (i) lower sales, (ii) spike in raw material (steel) cost and (iii) higher provisions. The group incurred losses at its overseas operations in India as the tendered projects from the government agencies did not provide for increase in steel prices. Meanwhile, its operations in China did not fare well too, due to plant relocation which affected production in January and February 2010. Domestically, Milux has been clearing its inventory of water heaters at discounted prices in preparation for the launching of new models, slated for early May 2010.
- We understand management is taking proactive steps to improve the performance at its overseas operations, and is targeting for breakeven in 3QFY10. On the local front, we anticipate sales to pick up with the rollout of new products and continued recovery in consumer spending.
- In view of the lackluster 1HFY10 results, we slash our FY10 and FY11 net profit estimates by 37% and 50% to MYR3.2 mln and MYR6.8 mln respectively to account for lower sales and higher operating costs.

## Recommendation &amp; Investment Risks

- We maintain our Hold recommendation on Milux but lower our 12-month target price to MYR1.50 (from MYR1.70).
- We continue to derive our target price by ascribing a peer-benchmarked target PER of 10x (unchanged) against FY11 earnings (rollover from FY10). As Milux did not declare any dividend for FY09, and given the dismal YTD performance, we have also removed our dividend forecast for FY10.
- Milux's longer term prospect remains positive, but its near-term outlook remains uncertain. It has clinched two large contracts in June and December 2009 respectively to supply regulator sets and gas stoves to Indonesia, with a combined value of approximately USD100 mln. However, shipments have yet to commence due to some unresolved issues. The group was further affected when it could not raise prices for the government projects secured in India despite escalating raw materials costs. We understand management is mitigating the risk in the future by focusing on contracts from the private sectors. Given the current issues, we believe the stock is fully-valued presently at FY11 PER of 10x, offering limited upside to its share price in the near-term.
- Risks to our recommendation and target price include higher-than-expected rise in raw material prices and inability to pass on costs increase to customers.

## Key Stock Statistics

	2009	2010E
FY Aug.		
Reported EPS (sen)	11.4	6.8
PER (x)	13.1	22.0
Dividend/Share (sen)	0.0	0.0
NTA/Share (MYR)	1.46	1.49
Book Value/Share (MYR)	1.66	1.67
No. of Outstanding Shares (mln)	46.6	
52-week Share Price Range (MYR)	1.06 - 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

	2007	2008	2009	2010E
FY Aug.				
Book Value (MYR)	1.46	1.60	1.66	1.67
Cash Flow (sen)	10.2	22.3	17.4	13.7
Reported Earnings (sen)	4.2	16.7	11.4	6.8
Dividend (sen)	6.0	7.0	0.0	0.0
Payout Ratio (%)	46.1	31.5	0.0	0.0
PER (x)	35.2	8.9	13.1	22.0
P/Cash Flow (x)	14.6	6.7	8.6	10.9
P/Book Value (x)	1.0	0.9	0.9	0.9
Dividend Yield (%)	4.0	4.7	0.0	0.0
ROE (%)	6.6	10.9	6.9	4.3
Net Gearing (%)	13.7	22.8	27.9	15.1

\*Stock deemed Shariah compliant by the Securities Commission.

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## Quarterly Performance

FY Aug. / MYR mln	2Q10	2Q09	% Change
Reported Revenue	21.4	35.9	-40.5
Reported Operating Profit	0.8	2.8	-70.6
Depreciation & Amortization	-0.6	-0.6	10.3
Net Interest Income / (Expense)	-0.4	-0.5	-17.4
Reported Pre-tax Profit	0.4	2.3	-81.6
Reported Net Profit	0.0	1.6	-99.0
Reported Operating Margin (%)	3.8	7.8	-
Reported Pre-tax Margin (%)	2.0	6.4	-
Reported Net Margin (%)	0.1	4.3	-

Source: Company data

## Profit &amp; Loss

FY Aug. / MYR mln	2008	2009	2010E	2011E
Reported Revenue	118.3	111.4	107.7	138.1
Reported Operating Profit	10.1	8.2	5.8	10.8
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	4.3	9.1
Effective Tax Rate (%)	20.9	28.9	26.0	26.0
Reported Net Profit	7.1	4.8	3.2	6.8
Reported Operating Margin (%)	8.6	7.4	5.4	7.8
Reported Pre-tax Margin (%)	7.5	6.0	4.0	6.6
Reported Net Margin (%)	6.0	4.3	2.9	4.9

Source: Company data, S&amp;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	1.50
2-Feb-10	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

