

**RESULTS REPORT**

14 Nov 2012

<b>Tomei Consolidated Berhad</b>		<b>Market Price:</b>	RM0.715
		<b>Market Capitalisation:</b>	RM99.1m
		<b>Board:</b>	Main
<b>Recommendation:</b>	HOLD	<b>Sector:</b>	Consumer Products
<b>Target Price:</b>	RM0.77	<b>Stock Code/Name:</b>	7230 /TOMEI

Analyst: Edmund Tham

**KEY FINANCIALS**

Key Stock Statistics	2013F
Earnings/Share (sen)	16.1
P/E Ratio (x)	4.4
Dividend/Share (sen)	3.0
NTA/Share (RM)	1.51
Book Value/Share (RM)	1.51
Issued Capital (mil shares)	138.6
52-weeks share price (RM)	0.62 – 0.945
Major Shareholders:	%
-Teck Fong Corp SB / Ng Teck Fong	60.4
-Lembaga Tabung Amanah Warisan Negeri Terengganu	7.2

**PERFORMANCE – 3Q/FY12**

3Q/ 30 Sep	3Q12	3Q11	yoy %	2Q12	qoq%
Rev (RMm)	136.2	135.3	0.6	149.9	(9.2)
EBIT (RMm)	6.3	17.0	(62.9)	7.7	(18.2)
NPAT^(RMm)	2.8	10.4	(73.0)	3.8	(26.2)
EPS (sen)*	2.0	7.5	(73.0)	2.8	(26.2)

9M/ 30 Sep	9M/FY12	9M/FY11	yoy %
Rev (RMm)	441.7	368.3	19.9
EBIT (RMm)	25.7	37.9	(32.1)
NPAT^(RMm)	14.2	25.0	(43.2)
EPS* (sen)	10.3	18.0	(43.2)

^NPATMI (net profit after tax and minority interest)

\*using share base of 138.6 mil shares

Ratios Analysis	2010	2011	2012E	2013F
Book Value/Sh. (RM)	1.08	1.28	1.39	1.51
Earnings/Sh. (sen)	15.4	22.6	14.4	16.1
Dividend/Sh. (sen)	3.3	3.5	3.0	3.0
Div. Payout Ratio (%)	21.4	15.5	20.8	18.6
P/E Ratio (x)	4.6	3.2	5.0	4.4
P/Book Value (x)	0.66	0.56	0.51	0.47
Dividend Yield (%)	4.6	4.9	4.2	4.2
ROE (%)	14.3	17.7	10.4	10.6
Net Gearing (or Cash) (x)	0.72	0.86	0.96	0.89

\*2012-2013 figures are our estimates

P&L Analysis (RM mil)	2010	2011	2012E	2013F
<b>Year end: Dec 31</b>				
Revenue	356.3	505.4	592.5	639.2
Operating Profit	37.1	54.1	37.4	43.5
Depreciation	(5.2)	(5.5)	(6.0)	(6.4)
Interest Expenses	(6.6)	(8.3)	(11.0)	(13.6)
Profit before Tax (PBT)	30.4	45.7	26.4	29.9
Effective Tax Rate (%)	27.7	29.0	22.3	22.8
Net Profit after Tax & MI	21.4	31.3	20.0	22.5
Operating Margin (%)	10.4	10.7	6.3	6.8
PBT Margin (%)	8.5	9.0	4.5	4.7
NPATMI Margin (%)	6.0	6.2	3.4	3.5

\* 50 sen par value

Tomei's 3Q/FY12 revenue (for quarter ended 30<sup>th</sup> September 2012) was within our earlier expectations. However, group NPATMI was below our expectations for the second consecutive quarter.

**“Q3 – Revenue within, NPATMI below”**

During 3Q/FY12, the group recorded revenue of RM136.2 million and NPATMI of RM2.8 million, which was an increase of 0.6% and decrease of 73.0% y-o-y, respectively. The minimal increase in revenue reflected that sales volume during the Hari Raya Aidilfitri festivities were probably similar to last year.

**“Gold price fluctuations still affecting margins”**

However, the group's dismal NPATMI was mainly due to the higher composition of gold sales (which relatively have lower margin compared to jewellery) and also the fluctuation in gold prices. We also noted the higher y-o-y

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“Selling & Distribution” expense and Finance Costs.

Revenue for the group’s **Retail segment** revenue decreased slightly y-o-y mainly due to the lower sales volume. Due to the fluctuation in gold prices and higher operating costs, profits were lower y-o-y. The group’s **“Manufacturing and Wholesales” segment** reported higher y-o-y revenue, mainly due to the better sales volume to third party jewellery retailers. However, due to the fluctuation in gold prices, profits were affected.

Compared with the preceding 2Q/FY12, the group’s 3Q/FY12 revenue and NPATMI had decreased by 9.2% and 26.2% q-o-q, respectively. This was due to a decrease in sales together with higher operating costs.

## OUTLOOK/CORP. UPDATES

### “Euro Zone woes affecting sentiment”

The economic and political volatility in the Euro Zone is affected the overall consumer and business sentiment around the world. Nevertheless, economic growth in some regions, particularly Asia is still driving international trade. Currently, Malaysia’s domestic consumer demand and investment levels remain supportive of GDP growth. In light of the challenging environment, the group’s management will continue to be vigilant and will adopt a more conservative approach in opening new outlets and expanding overseas operations.

### “Domestic economy holding up”

Malaysia’s government expects 2012 GDP growth of 4.5-5.0% and 2013 GDP growth of 4.5-5.5%. Bank Negara Malaysia (BNM) has still maintained its accommodative overnight policy rate (OPR) at 3.0%. The external environment (particularly in the US, Japan and Europe) has remained lackluster. Nevertheless, the latest-available September 2012 y-o-y numbers look somewhat promising – Exports +7.6%, Imports +9.9%, Manufacturing Sales +3.3% and IPI +4.9%.

### “Gold prices now above US\$1700/ounce”

The spot price for gold traded on the NYMEX (New York Mercantile Exchange) is currently around the US\$1725/troy ounce level. The weak global economic sentiment may lead to an increased demand in gold investment products due to the “flight to safety” factor – gold is viewed as a safe and tangible investment product. However, if world gold prices continue to trend lower, this may impact Tomei’s margins. Our house view is that gold prices have probably bottomed for now.

### Gold prices – past 1 year



Source: Kitco

Tomei sells gold bars, gold coins and gold wafers (in denominations between 10g and 1kg). Gold wafers, gold bars and gold-based jewellery can be viewed as a viable inflation-hedge or long-term investment option. Nevertheless, gold jewellery are bought largely for ornamental usage e.g. for wedding dowry, ceremonial/formal functions and as gifts to spouses or close family members.

Consumers nowadays also have the option of investing in gold via commercial banks (via “gold investment accounts”) or multilevel-marketing companies that offer gold-based investment products (e.g. gold coins and gold bars). In some countries, gold-related investments could be conducted via gold ETFs (exchange traded funds), gold certificates and gold-based derivatives.

In October 2012, as part of its internal group restructuring plan, the group had acquired

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500,000 shares of RM1 each in its indirect subsidiary company, **Emas Assayer S/B** (f.k.a. Tomei Gold & Jewellery (IOI) S/B), for a total cash consideration of RM500,000. The acquisition was from the group's subsidiary Tomei Gold & Jewellery (MJ) S/B. Thereafter, Emas Assayer S/B becomes a wholly-owned subsidiary company of the group.

**GoldSilver2u.com** is Tomei's e-commerce platform, specially designed for customers who are interested in pursuing gold and silver investment opportunities. This portal offers the convenience of buying gold and silver (bars and coins) in comfort at anytime anywhere. The website offers Tomei's exclusive design (Twin Tower Visionary Gold and Silver Bar Collection) and also PAMP Suisse gold bars.

## VALUATION/CONCLUSION

### “Cautious DPS outlook”

In May 2012, the group had paid out a first and final single tier 3.5 sen dividend per share (DPS), amounting to RM 4.85 million for its FY11. However, given the cautious outlook and volatile gold prices, we expect that the group might **conserve more cash** and this may impact its DPS level for its FY12 and FY13.

Thus far, Tomei (-4.7% YTD) has **underperformed the KLCI** (+6.6% YTD) in 2012. Market conditions have also been volatile during the past year, impacted by the Arab Spring uprisings, Europe sovereign debt issue, US debt ceiling issue and the Tohoku disaster in Japan. As Tomei is not a particularly large market-cap stock, this may put a dampener on its market visibility and trading volume.

### “Maintain Hold Call”

Based on our forecast of Tomei's FY13 EPS and an estimated P/E of 4.8 times, we set a **FY13-end Target Price (TP) of RM0.77**. This TP represents a 7.7% upside from its current market price and reflects our cautious stance (given the cautious external sentiment and weak gold prices). Our TP for Tomei reflects a P/BV of 0.51 times over its FY13F BV/share.

Tomei's P/E and P/BV valuations appear quite undemanding, while its dividend yield and ROE are at reasonable levels. The group's borrowings amount has been growing y-o-y, but we are not unduly worried yet as the borrowings are probably used mainly for gold inventory purchases and outlet expansion. In order to maintain an optimal capital structure, the group may, from time to time, adjust dividend payout to shareholders, return capital to shareholders, issue new shares, redeem debts or sell assets to reduce debts, where necessary.

Tomei is an integrated designer, manufacturer, exporter and retailer in gold and jewellery. The group has a balanced focus on both gold and jewellery product segments. The group has 5 major umbrella brands namely Tomei, My Diamond, TH Jewelry, Le Lumiere and Goldheart. The group has a diversified business model (in terms of segment and location), a reputable brand name, a wide product range, strong design expertise, a large retail network, a calculated expansion strategy.

We believe that the group is continually on the lookout for synergistic M&A opportunities within the industry. In terms of **possible risk factors**, Tomei does face routine risks from any economic downturn, consumer pessimism, uneven monthly sales (due to festive seasons), stiff peer competition, rapidly fluctuating precious metals/gold/gem prices and foreign exchange rates.

### Tomei: Share Price



Source: NextView

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