

**RESULTS REPORT**

26 Feb 2013

Tomei Consolidated Berhad		Market Price:	RM0.71
		Market Capitalisation:	RM98.4m
		Board:	Main
Recommendation:	HOLD	Sector:	Consumer Products
Target Price:	RM0.73	Stock Code/Name:	7230 /TOMEI

Analyst: Edmund Tham

KEY FINANCIALS

Key Stock Statistics	2013F
Earnings/Share (sen)	14.6
P/E Ratio (x)	4.9
Dividend/Share (sen)	3.0
NTA/Share (RM)	1.45
Book Value/Share (RM)	1.45
Issued Capital (mil shares)	138.6
52-weeks share price (RM)	0.65 – 0.90
Major Shareholders:	%
-Teck Fong Corp SB / Ng Teck Fong	60.4
-Lembaga Tabung Amanah Warisan Negeri Terengganu	7.2

PERFORMANCE – 4Q/FY12

4Q/ 31 Dec	4Q12	4Q11	yoy %	3Q12	qoq%
Rev (RMm)	141.5	137.1	3.2	136.2	3.9
EBIT (RMm)	4.3	12.1	(64.6)	6.3	(32.2)
NPAT^(RMm)	0.03	6.2	(99.5)	2.8	(98.8)
EPS (sen)*	0.02	4.5	(99.5)	2.0	(98.8)

12M/ 31 Dec	FY12	FY11	yoy %
Rev (RMm)	583.2	505.4	15.4
EBIT (RMm)	30.0	50.0	(40.0)
NPAT^(RMm)	14.2	31.2	(54.3)
EPS* (sen)	10.3	22.5	(54.3)

^NPATMI (net profit after tax and minority interest)

*using share base of 138.6 mil shares

Ratios Analysis	2010	2011	2012	2013F
Book Value/Sh. (RM)	1.08	1.28	1.34	1.45
Earnings/Sh. (sen)	15.4	22.5	10.3	14.6
Dividend/Sh. (sen)	3.3	3.5	3.0	3.0
Div. Payout Ratio (%)	21.4	15.5	29.2	20.5
P/E Ratio (x)	4.6	3.2	6.9	4.9
P/Book Value (x)	0.66	0.56	0.53	0.49
Dividend Yield (%)	4.6	4.9	4.2	4.2
ROE (%)	14.3	17.6	7.7	10.1
Net Gearing (or Cash) (x)	0.72	0.86	0.95	0.90

*2013 figures are our estimates

P&L Analysis (RM mil)	2010	2011	2012	2013F
Year end: Dec 31				
Revenue	356.3	505.4	583.2	594.8
Operating Profit	37.1	54.1	33.3	42.8
Depreciation	(5.2)	(5.5)	(5.9)	(6.2)
Interest Expenses	(6.6)	(8.3)	(11.7)	(13.5)
Profit before Tax (PBT)	30.4	45.7	21.7	29.3
Effective Tax Rate (%)	27.7	29.0	32.0	28.7
Net Profit after Tax & MI	21.4	31.2	14.2	20.4
Operating Margin (%)	10.4	10.7	5.7	7.2
PBT Margin (%)	8.5	9.0	3.7	4.9
NPATMI Margin (%)	6.0	6.2	2.4	3.4

* 50 sen par value

Tomei's 4Q/FY12 revenue (for quarter ended 31st December 2012) was within our earlier expectations. However, group NPATMI was below our expectations for the third consecutive quarter.

“Q4 – Revenue within, NPATMI below”

During 4Q/FY12, the group recorded revenue of RM141.5 million and NPATMI of RM0.03 million. Group revenue was up by 3.2% y-o-y while NPATMI was significantly lower by 99.5%. The better revenue was due to an increase in its number of retail outlets and also higher sales volume. Profits were affected by lower operating margins and higher interest expenses. The fluctuation in gold prices resulted in lower gross profit margins and higher operating costs.

“Fluctuations in gold prices still a concern”

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During the year, the group's "Manufacturing and Wholesales" segment enjoyed better sales volume to third party jewellery retailers. This was aided by the incorporation of O.M. Design S/B. which is involved in wholesales of jewellery in the year 2011.

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 doing alright"

Malaysia's official government figures show a full year 2012 GDP growth of 5.1% and an expected 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.

"Gold prices now below US\$1600/ounce"

The spot price for gold traded on the NYMEX (New York Mercantile Exchange) is currently around the US\$1580/roy 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

"Gold investments"

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.

"Online business"

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.

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“De Beers Diamonds”

In December 2012, the group had, via its wholly-owned subsidiary company, Tomei Retail S/B, acquired 2 shares of RM2 each representing 100% equity interest in De Beers Diamond Jewellers S/B (“DBSB”) for a total cash consideration RM2. This company is dormant as at the date of acquisition.

In the same month, DBSB has entered into a Franchise Agreement with De Beers Diamond Jewellers Ltd (DBL) for an exclusive right to retail De Beers jewellery under the brand “De Beers” in 1 retail store in Malaysia for a period of 7 years (with an option to renew for an additional 7 years). The Franchise Agreement also provides DBSB with the first right of refusal to operate on exclusive basis additional De Beers retail stores in Malaysia, Indonesia, Thailand, Singapore and Vietnam.

De Beers’ name is synonymous with diamonds in the world, and can be considered the world’s leading company that is engaged in diamonds. Since 1888, De Beers has been engaged in the exploring, mining and marketing of diamonds. DBL, a company incorporated in the UK was formed by the De Beers Group of companies in 2001 to undertake the retail of De Beers diamond jewellery. Today DBL has 45 diamond jewellery retail stores in 15 countries worldwide, including in Asia, Europe and the U.S.

The Franchise Agreement with DBL will allow Tomei to retail one of the most renowned diamond brand in the world. It provides the group’s customers a wider choice of jewellery selection and serves as the group strategy to elevate its image to a higher level in the jewellery industry.

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. At the time of this report, the group has not proposed dividends for its FY12.

Thus far in 2013, Tomei is up slightly by 1.4% YTD, while the KLCI is lower by 3.8% YTD. Market conditions have also been volatile during the past year, impacted by the Arab Spring uprisings, Europe sovereign debt issue, and US Debt Ceiling & Fiscal Cliff issues. 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 5 times, we set a **FY13-end Target Price (TP) of RM0.73**. This TP represents a mild 2.8% 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 0.5 times over its FY13F BV/share.

“Undemanding valuations”

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

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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, and slow inventory turnover. Going forward, the group's earnings upside would be largely dependent on its management's marketing, expansion and growth strategy, and also on the overall consumer sentiment and economic conditions.

Tomei: Share Price



Source: NextView

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