

**RESULTS REPORT**

16 May 2013

| | | | |
|----------------------------------|--------|-------------------------------|-------------------|
| Tomei Consolidated Berhad | | Market Price: | RM0.71 |
| | | Market Capitalisation: | RM98.4m |
| | | Board: | Main |
| Recommendation: | HOLD | Sector: | Consumer Products |
| Target Price: | RM0.77 | Stock Code/Name: | 7230 /TOMEI |

Analyst: Edmund Tham

KEY FINANCIALS

| Key Stock Statistics | 2013E |
|-------------------------------------------------------|-------------|
| Earnings/Share (sen) | 12.9 |
| P/E Ratio (x) | 5.5 |
| Dividend/Share (sen) | 2.0 |
| NTA/Share (RM) | 1.44 |
| Book Value/Share (RM) | 1.44 |
| Issued Capital (mil shares) | 138.6 |
| 52-weeks share price (RM) | 0.65 – 0.83 |
| Major Shareholders: | % |
| -Teck Fong Corp SB / Ng Teck Fong | 60.5 |
| -Lembaga Tabung Amanah . Warisan Negeri Terengganu | 7.2 |

PERFORMANCE – 1Q/FY13

| 1Q/ 31 Mar | 1Q13 | 1Q12 | yoy % | 4Q12 | qoq% |
|------------|-------|-------|--------|-------|---------|
| Rev (RMm) | 151.2 | 155.7 | (2.9) | 141.5 | 6.9 |
| EBIT (RMm) | 5.8 | 11.7 | (50.4) | 4.3 | 36.6 |
| NPAT^(RMm) | 2.4 | 7.6 | (68.8) | 0.03 | 6,852.9 |
| EPS (sen)* | 1.7 | 5.5 | (68.8) | 0.02 | 6,852.9 |

^NPATMI (net profit after tax and minority interest)

*using share base of 138.6 mil shares

Tomei's 1Q/FY13 revenue (for quarter ended 31st March 2013) was within our earlier expectations. However, group NPATMI was below our expectations again.

| Ratios Analysis | 2010 | 2011 | 2012 | 2013E |
|---------------------------|------|------|------|-------|
| Book Value/Sh. (RM) | 1.08 | 1.28 | 1.34 | 1.44 |
| Earnings/Sh. (sen) | 15.4 | 22.5 | 10.3 | 12.9 |
| Dividend/Sh. (sen) | 3.3 | 3.5 | 2.0 | 2.0 |
| Div. Payout Ratio (%) | 21.4 | 15.5 | 19.5 | 15.5 |
| P/E Ratio (x) | 4.6 | 3.2 | 6.9 | 5.5 |
| P/Book Value (x) | 0.66 | 0.56 | 0.53 | 0.49 |
| Dividend Yield (%) | 4.6 | 4.9 | 2.8 | 2.8 |
| ROE (%) | 14.3 | 17.6 | 7.7 | 8.9 |
| Net Gearing (or Cash) (x) | 0.72 | 0.86 | 0.95 | 0.90 |

*2013 figures are our estimates

“Q1 – Revenue within, NPATMI below”

During 1Q/FY13, the group recorded revenue of RM151.2 million and NPATMI of RM2.4 million. Group revenue was lower by 2.9% y-o-y while NPATMI was lower by 68.8%. This slight drop in revenue was due to lower sales volume. The lower NPATMI was mainly due to the reduction in gold prices which had resulted in lower gross profit (GP) margins and higher operating costs. This was compounded by the effects of lower Other Income and higher Depreciation and Finance Costs.

“Gold prices still a concern”

Both the group's Retail and “Manufacturing & Wholesales” segments recorded slightly lower y-o-y sales. Furthermore, the “Manufacturing & Wholesales” segment recorded lower sales to third party jewellers.

| P&L Analysis (RM mil) | 2010 | 2011 | 2012 | 2013E |
|---------------------------|-------|-------|--------|--------|
| Year end: Dec 31 | | | | |
| Revenue | 356.3 | 505.4 | 583.2 | 595.1 |
| Operating Profit | 37.1 | 54.1 | 33.3 | 38.0 |
| Depreciation | (5.2) | (5.5) | (5.9) | (6.1) |
| Interest Expenses | (6.6) | (8.3) | (11.7) | (12.7) |
| Profit before Tax (PBT) | 30.4 | 45.7 | 21.7 | 25.3 |
| Effective Tax Rate (%) | 27.7 | 29.0 | 32.0 | 27.7 |
| Net Profit after Tax & MI | 21.4 | 31.2 | 14.2 | 18.0 |
| Operating Margin (%) | 10.4 | 10.7 | 5.7 | 6.4 |
| PBT Margin (%) | 8.5 | 9.0 | 3.7 | 4.2 |
| NPATMI Margin (%) | 6.0 | 6.2 | 2.4 | 3.0 |

* 50 sen par value

All information, views and advice are given in good faith but without legal responsibility. Mercury Securities Sdn. Bhd. or companies or individuals connected with it may have used research material before publication and may have positions in or may be materially interested in any stocks in the markets mentioned.

This report has been prepared by Mercury Securities Sdn Bhd for purposes of CMDP-Bursa Research Scheme (“CBRS”) administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Mercury Securities Sdn Bhd has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at: <http://www.bursamalaysia.com/market/listed-companies/research-repository/research-reports>

**“Retail segment improved q-o-q”**

Compared to the preceding 4Q/FY12, the group’s revenue improved by 6.9% q-o-q. In tandem with this, group NPATMI increased notably q-o-q from RM0.03 million to RM2.4 million. The improved results were due to an increase in retail sales volumes together with lower operating overheads.

OUTLOOK/CORP. UPDATES**“Euro Zone woes affecting sentiment”**

The economic and political volatility in the Euro Zone is affecting 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.

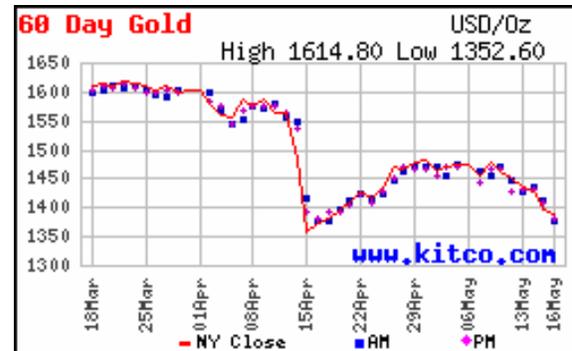
“Domestic economy growing”

Malaysia recorded 2012 GDP growth of 5.6%, and is expected to enjoy GDP growth of 5.0%-6.0% in 2013 (according to official government projections). Bank Negara Malaysia (BNM) has still maintained its accommodative overnight policy rate (OPR) at 3.0%, while inflation (CPI) is at a very manageable 1.6%. We remain wary of the external environment (particularly in the US and Europe), which has remained lackluster.

“Gold prices now below US\$1400/ounce”

The spot price for gold traded on the NYMEX (New York Mercantile Exchange) is currently around the US\$1375/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 2 months

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.

“Gold & Silver 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

Results Report

This report has been prepared by Mercury Securities Sdn Bhd for purposes of CMDF-Bursa Research Scheme (“CBRS”) administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Mercury Securities Sdn Bhd has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia’s website at: <http://www.bursamalaysia.com/market/listed-companies/research-repository/research-reports>



Tower Visionary Gold and Silver Bar Collection) and also PAMP Suisse gold bars.

“A range of Retail Outlets”

Since January 2012, the group has opened an additional 12 new retail outlets in Malaysia, including relocating a few existing ones. The group is currently operating around 71 retail outlets in Malaysia under its 5 brands. Jewelry. Tomei continues to build its branding in both the People’s Republic of China and the Socialist Republic of Vietnam. Currently Tomei has 11 retail kiosks in China while in Vietnam, it has 7 retail kiosks. It also has a manufacturing facility in the AMATA Industrial Park, Vietnam which produces jewellery for its own consumption as well as for export.

Tomei has continued to innovate and offer new offerings and designs to its customers. The group has introduced “Anastasia”, its own gold jewellery masterpiece design. Additionally, the group also has the exclusive distributorship rights for the renowned “Batar Jewellery” from China and “Prima Gold” from Thailand. The group also has the licence to manufacture and sell Baby Looney Tunes gold character in Malaysia from Warner Bros, USA.

“De Beers Diamonds”

In December 2012, the group had entered into a Franchise Agreement with De Beers Diamond Jewellers Ltd (DBL) of London 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 the group 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 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 brands 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”

Given the cautious outlook and the weak gold prices, we had expected that the group’s DPS (dividend per share) given for FY12 would be lower than for its FY11 (3.5 sen single tier). For FY12, the group declared a first and final single tier DPS of 2 sen per share, amounting to around RM 2.8 million. This dividend will be paid out to entitled shareholders on 30th May 2013 (the stock trades ex-dividend on 16th May 2013). For FY13, we tentatively expect a single tier DPS of 2 sen as well.

“Price relatively unchanged”

Thus far in 2013, Tomei is up slightly by 1.4% YTD, while the KLCI is higher by 4.6% YTD. Market conditions have also been volatile during the past year, impacted by the Arab Spring uprisings, Euro Area 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 6 times, we set a **FY13-end Target Price (TP) of RM0.77**. This TP represents an 8.5% upside from its current market price and reflects our cautious stance (given the cautious external sentiment and weak

All information, views and advice are given in good faith but without legal responsibility. Mercury Securities Sdn. Bhd. or companies or individuals connected with it may have used research material before publication and may have positions in or may be materially interested in any stocks in the markets mentioned.

This report has been prepared by Mercury Securities Sdn Bhd for purposes of CMDF-Bursa Research Scheme (“CBRS”) administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Mercury Securities Sdn Bhd has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia’s website at: <http://www.bursamalaysia.com/market/listed-companies/research-repository/research-reports>

