

Recommendation: **SELL**

Stock Code: 5000

Bloomberg: NARR MK

Price: MYR0.91

12-Month Target Price: MYR0.82

Date: May 23, 2007

Board: Main

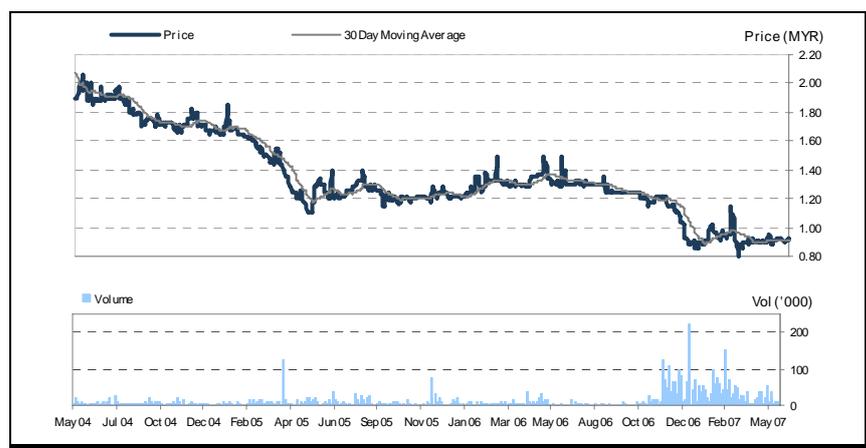
Sector: Industrial Products

GICS: Consumer Discretionary/Home Furnishings

Market Value - Total: MYR56.6 mln

Summary: Narra Industries (Narra) is a manufacturer of mid- to high-end wood-based furniture for export. It is part of the Hong Leong group of companies and its major shareholder is Bursa Malaysia-listed Hume Industries (HUM MK, MYR4.80, Not Ranked).

Analyst: Sharon Wong, CFA



Results Review & Earnings Outlook

- Narra continued to disappoint with a reported net loss of MYR1.2 mln in 3QFY07 (Jun.). On a nine-month cumulative basis, Narra is in a net loss of MYR0.9 mln (vs. a net profit of MYR3.9 mln in 9MFY06). Both revenue and margins were lower than our expectations in 3QFY07.
- No interim dividend was declared for 3QFY07 vs. a 4.5 sen tax-exempt dividend in the previous corresponding period.
- 3QFY07 revenue was up 32% YoY (from a low base in 3QFY06), but down 26% QoQ. On a cumulative basis, revenue was flat YoY in 9MFY07. Narra does not appear to have made much headway with its drive to penetrate the hospitality industry while competition is stiff for its traditional furniture products.
- Margins were impacted by higher raw material costs and appreciation in the Ringgit. Competition from China and Vietnam has led to price erosion and the inability to pass on higher costs to customers. Gross margin declined to 2% in 3QFY07 from 14.1% in 3QFY06 and 12.1% in 2QFY07.
- The operating environment remains tough and management does not expect Narra's financial performance to improve in 4QFY07. As such, we have lowered our FY07 profit forecast to a net loss of MYR1.6 mln from a net profit of MYR4.1 mln previously. And we have cut our FY08 net profit forecast to MYR1.0 mln from MYR5.9 mln previously.

Key Stock Statistics

FY Jun.	2006	2007E
Reported EPS (sen)	6.5	-2.5
PER (x)	14.0	NM
Dividend/Share (sen)	12.0	0.0
NTA/Share (MYR)	0.46	0.44
Book Value/Share (MYR)	1.05	1.02
No. of Outstanding Shares (mln)	62.2	
52-week Share Price Range (MYR)	0.80 - 1.49	
Major Shareholders:	%	
Hume Industries	61.6	

Recommendation & Investment Risks

- Although Narra's results disappointed, we are raising our recommendation by one notch to Sell (from Strong Sell) after revising our valuation methodology. While we expect the share price to remain weak, we believe that its book value of MYR1.02/share and clean balance sheet (zero gearing) will offer some support. Our 12-month target price is raised to MYR0.82 (from MYR0.69).
- Given that we expect Narra to be in the red in FY07 and near-term earnings visibility is low, we are now valuing the stock on a P/BV basis from a PER basis previously. We ascribe a target P/BV of 0.8x to our estimated FY07 book value per share of MYR1.02. The target multiple is at about a 20% discount to Narra's historical average and the discount reflects the recent deterioration in its operations.
- Risk to our recommendation and target price includes overwhelming success in penetrating the hospitality sector that provides a significant boost to its order book.

Per Share Data

FY Jun.	2004	2005	2006	2007E
Book Value (MYR)	1.07	1.08	1.05	1.02
Cash Flow (sen)	13.3	15.9	9.6	-1.2
Reported Earnings (sen)	10.6	12.6	6.5	-2.5
Dividend (sen)	10.0	12.0	12.0	0.0
Payout Ratio (%)	81.4	88.7	151.9	0.0
PER (x)	8.6	7.2	14.0	NM
P/Cash Flow (x)	6.8	5.7	9.5	NM
P/Book Value (x)	0.9	0.8	0.9	0.9
Dividend Yield (%)	11.0	13.2	13.2	0.0
ROE (%)	NA	11.7	6.1	-2.4
Net Gearing (%)	0.0	0.0	0.0	0.0

All required disclosures and analyst certification appear on the last two pages of this report. Additional information is available upon request.

Redistribution or reproduction is prohibited without written permission. Copyright © 2007 The McGraw-Hill Companies, Inc.

Page 1 of 4

Quarterly Performance

FY Jun. / MYR mln	3Q07	3Q06	% Change
Reported Revenue	16.0	12.2	31.7
Reported Operating Profit	-1.6	0.1	NM
Depreciation & Amortization	-0.3	0.0	NM
Net Interest Income / (Expense)	0.0	0.1	-59.7
Reported Pre-tax Profit	-1.6	0.1	NM
Reported Net Profit	-1.2	1.4	NM
Reported Operating Margin (%)	-9.9	0.5	-
Reported Pre-tax Margin (%)	-9.7	1.1	-
Reported Net Margin (%)	-7.4	11.2	-

Source: Company data

Profit & Loss

FY Jun. / MYR mln	2005	2006	2007E	2008E
Reported Revenue	109.1	71.2	71.2	85.4
Reported Operating Profit	9.6	3.4	-2.2	1.0
Depreciation & Amortization	-2.0	-1.9	-0.8	-0.7
Net Interest Income / (Expense)	0.2	0.2	0.2	0.2
Reported Pre-tax Profit	9.9	3.6	-1.9	1.3
Effective Tax Rate (%)	20.8	NM	NM	20.0
Reported Net Profit	7.8	4.1	-1.6	1.0
Reported Operating Margin (%)	8.8	4.8	-3.0	1.2
Reported Pre-tax Margin (%)	9.1	5.1	-2.7	1.5
Reported Net Margin (%)	7.2	5.7	-2.2	1.2

Source: Company data, S&P Equity Research

Standard & Poor's Equity Research Services

Standard & Poor's Equity Research Services U.S. includes Standard & Poor's Investment Advisory Services LLC; Standard & Poor's Equity Research Services Europe includes Standard & Poor's LLC- London and Standard & Poor's AB (Sweden); Standard & Poor's Equity Research Services Asia includes Standard & Poor's LLC's offices in Hong Kong, Singapore and Tokyo, Standard & Poor's Malaysia Sdn Bhd, and Standard & Poor's Information Services (Australia) Pty Ltd.

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.

Required Disclosures

All of the views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of analyst compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Additional information is available upon request.

Other Disclosures

This report has been prepared and issued by Standard & Poor's and/or one of its affiliates. In the United States, research reports are prepared by Standard & Poor's Investment Advisory Services LLC ("SPIAS"). In the United States, research reports are issued by Standard & Poor's ("S&P"), in the United Kingdom by Standard & Poor's LLC ("S&P LLC"), which is authorized and regulated by the Financial Services Authority; in Hong Kong by Standard & Poor's LLC which is regulated by the Hong Kong Securities Futures Commission, in Singapore by Standard & Poor's LLC, which is regulated by the Monetary Authority of Singapore; in Japan by Standard & Poor's LLC, which is regulated by the Kanto Financial Bureau; in Sweden by Standard & Poor's AB ("S&P AB"), in Malaysia by Standard & Poor's Malaysia Sdn Bhd ("S&PM") which is regulated by the Securities Commission, in Australia by Standard & Poor's Information Services (Australia) Pty Ltd ("SPIS") which is regulated by the Australian Securities & Investments Commission and in Korea by SPIAS, which is also registered in Korea as a cross-border investment advisory company.

The research and analytical services performed by SPIAS, S&P LLC, S&P AB, S&PM, SPIS and SPIAS LLC (Korea) are each conducted separately from any other analytical activity of Standard & Poor's.

A reference to a particular investment or security by Standard & Poor's and/or one of its affiliates is not a recommendation to buy, sell, or hold such investment or security, nor is it considered to be investment advice.

CMDF-Bursa Research Scheme ("CBRS")

This report has been prepared by S&PM for purposes of CBRS administered by Bursa Malaysia Berhad, independent from any influence from CBRS or the subject company. S&P will receive total compensation of RM15,000 each year for each company covered by it under CBRS. For more information about CBRS, please visit Bursa Malaysia's website at: <http://www.bursamalaysia.com/website/bm/>

Disclaimers

This material is based upon information that we consider to be reliable, but neither S&P nor its affiliates warrant its completeness, accuracy or adequacy and it should not be relied upon as such. With respect to reports issued by S&P LLC-Japan and in the case of inconsistencies between the English and Japanese version of a report, the English version prevails. Neither S&P LLC nor S&P guarantees the accuracy of the translation. Assumptions, opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Neither S&P nor its affiliates are responsible for any errors or omissions or for results obtained from the use of this information. Past performance is not necessarily indicative of future results.

This material is not intended as an offer or solicitation for the purchase or sale of any security or other financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue. Prices, values, or income from any securities or investments mentioned in this report may fall against the interests of the investor and the investor may get back less than the amount invested. Where an investment is described as being likely to yield income, please note that the amount of income that the investor will receive from such an investment may fluctuate. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. The information contained in this report does not constitute advice on the tax consequences of making any particular investment decision. This material does not take into account your particular investment objectives, financial situations or needs and is not intended as a recommendation of particular securities, financial instruments or strategies to you. Before acting on any recommendation in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.

For residents of the U.K. This report is only directed at and should only be relied on by persons outside of the United Kingdom or persons who are inside the United Kingdom and who have professional experience in matters relating to investments or who are high net worth persons, as defined in Article 19(5) or Article 49(2) (a) to (d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, respectively.

For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Lee Leng Hoe or Ching Wah Tam.

Recommendation and Target Price History

Date	Recommendation	Target Price
New	Sell	0.82
22-Dec-06	Strong Sell	0.69
9-Oct-06	Sell	1.12
30-May-06	Hold	1.34
15-Feb-06	Hold	1.41
14-Oct-05	Hold	1.30

