

Recommendation: **HOLD**

Stock Code: 0043

Bloomberg: MEGB MK

Price: MYR0.405

12-Month Target Price: MYR0.42

Date: June 27, 2007

Board: Mesdaq

Sector: Technology

GICS: Information Technology/Systems Software

Market Value - Total: MYR114.8 mln

Summary: Metronic Global (Metronic) provides system integration services for Intelligent Building Management System (IBMS), Integrated Security Management System (ISMS) and Java Based Control Monitoring (JBCM) projects, and e-Project management of mechanical and electrical services. Metronic was listed on Mesdaq on May 24, 2004.

Analyst: Ching Wah Tam



Results Review & Earnings Outlook

- Metronic's 1Q07 results were below our expectations with its revenue and net profit of MYR17.1 mln and MYR1.6 mln (-33% and -1% YoY) accounting for only 12% and 14% of our full-year 2007 revenue and net profit forecasts of MYR145.3 mln and MYR11.4 mln respectively. The variance was due to fewer project completions in 1Q07.
- The 33% YoY drop in 1Q07 revenue was caused by many of its newly secured projects that are at the "low-income" initiation stage. The slight decline in 1Q07 net earnings was due to higher-margin jobs done in 1Q07 as indicated by the rise in operating margin to 15% in 1Q07 from 9.9% in 1Q06.
- No dividend was declared in 1Q07. We believe that Metronic may have decided not to pay out any dividends to conserve capital to fund its acquisition of a 12.5% stake in Unilink and a 100% stake in Hong Kong Broadway. (Please refer to our note dated August 21, 2006, for detailed information regarding the proposed acquisitions).
- Despite its lower-than-expected 1Q07 results, we maintain our 2007 earnings forecast as Metronic should perform better over the next three quarters. We also maintain our 2008 forecast.

Recommendation & Investment Risks

- We maintain our 12-month target price of MYR0.42, and downgrade our recommendation to Hold from Buy given the limited upside. Our target price is based on 11x PER and 1.7x P/BV (unchanged) on our unchanged EPS and BVPS estimates for 2007.
- Metronic's rolling PER and P/BV are below its historical trading averages since the IPO in 2004. We believe the current valuations are not reflecting the possible earnings enhancement from the proposed acquisitions of a 12.5% equity stake in Unilink and a 100% equity stake in Hong Kong Broadway.
- Metronics has an order book of MYR300 mln currently and it is bidding for some MYR600 mln worth of jobs. It expects its overseas revenue contribution to rise to 60% by 2008 from current 20%.
- Risks to our recommendation and target price include lower-than-expected replacement demand for IBMS and ISMS in Malaysia, and lower-than-expected contributions from overseas businesses. Other earnings risks include limited visibility of sales and project flow, and a volatile track record that results in low predictability of earnings.

Key Stock Statistics

FY Dec.	2006	2007E
Reported EPS (sen)	3.3	4.0
PER (x)	12.4	10.1
Dividend/Share (sen)	0.0	0.6
NTA/Share (MYR)	0.22	0.25
Book Value/Share (MYR)	0.22	0.25
No. of Outstanding Shares (mln)	283.5	
52-week Share Price Range (MYR)	0.23 - 0.55	
Major Shareholders:	%	
Dato' Abd Gani Bin Yusof	26.4	
Metronic Corporation	15.0	

Per Share Data

FY Dec.	2004	2005	2006	2007E
Book Value (MYR)	0.16	0.19	0.22	0.25
Cash Flow (sen)	4.3	3.7	3.9	4.6
Reported Earnings (sen)	4.3	3.3	3.3	4.0
Dividend (sen)	0.6	0.6	0.0	0.6
Payout Ratio (%)	22.1	13.2	0.0	10.8
PER (x)	9.4	12.4	12.4	10.1
P/Cash Flow (x)	9.4	11.1	10.3	8.8
P/Book Value (x)	2.6	2.2	1.9	1.6
Dividend Yield (%)	1.5	1.5	0.0	1.5
ROE (%)	16.7	18.9	16.2	17.1
Net Gearing (%)	0.0	0.0	0.0	0.0

* FY03-04 Proforma

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Quarterly Performance

FY Dec. / MYR mln	1Q07	1Q06	% Change
Reported Revenue	17.1	25.4	-32.8
Reported Operating Profit	2.6	2.5	1.6
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	0.0	0.0	>100
Reported Pre-tax Profit	2.5	2.5	0.7
Reported Net Profit	1.6	1.6	-0.8
Reported Operating Margin (%)	15.0	9.9	-
Reported Pre-tax Margin (%)	14.8	9.9	-
Reported Net Margin (%)	9.4	6.4	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2005	2006	2007E	2008E
Reported Revenue	84.5	110.9	145.3	158.4
Reported Operating Profit	12.8	12.6	15.7	17.3
Depreciation & Amortization	-1.1	-1.8	-1.7	-2.2
Net Interest Income / (Expense)	0.3	0.1	0.3	0.3
Reported Pre-tax Profit	12.8	12.7	16.0	17.5
Effective Tax Rate (%)	27.8	28.4	30.0	28.0
Reported Net Profit	9.2	9.3	11.4	12.8
Reported Operating Margin (%)	15.1	11.4	10.8	10.9
Reported Pre-tax Margin (%)	15.1	11.5	11.0	11.1
Reported Net Margin (%)	10.9	8.4	7.8	8.1

* FY04 Proforma

Source: Company data, S&P Equity Research

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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.

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For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Desmond Ch'ng or Ching Wah Tam.

Recommendation and Target Price History

Date	Recommendation	Target Price
New	Hold	0.42
1-Mar-07	Buy	0.42
1-Feb-07	Hold	0.47
30-Nov-06	Hold	0.42
1-Sep-06	Hold	0.37
22-Aug-06	Hold	0.40
5-Jun-06	Buy	0.29
2-Mar-06	Hold	0.30
2-Dec-05	Sell	0.27
28-Oct-05	Sell	0.30

