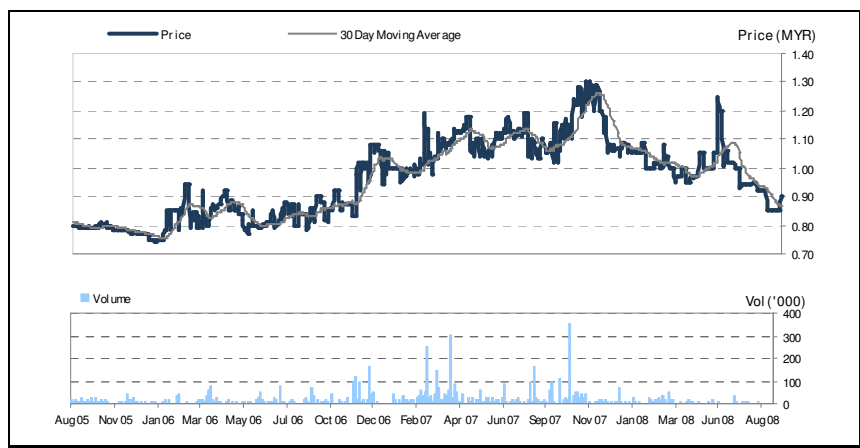


Lysaght Galvanized Steel

Recommendation: **BUY**Stock Code: **9199**Bloomberg: **LYSA MK**Price: **MYR0.90**12-Month Target Price: **MYR1.25**Date: **August 29, 2008****Board:** Second**Sector:** Industrial Products**GICS:** Materials/Steel**Market Value - Total:** MYR37.4 mln

Summary: Lysaght Galvanized Steel (Lysaght) is one of two domestic manufacturers of poles and masts. Its products are utilized in a variety of industries, in particular in road and highway lighting, traffic gantry, air and sea port terminals as well as telecommunication antennas. The group has an annual production capacity of 24,000 tpa.

Analyst: Su Peng Ng

Results Review & Earnings Outlook

- Lysaght's 1H08 results were within expectations. Although 1H08 net profit of MYR6.2 mln accounted for almost 60% of our full-year forecast, we consider it in line as we believe 2H08 results may not be as robust compared with 1H08.
- 2Q08 revenue saw strong growth of 21% QoQ led by local sales which grew 24% QoQ. However, the higher cost of hot-rolled coils (HRC) (+20% QoQ) and administration charges (+68%) eroded margins (to 12.6% from 21.2% in 1Q08) and caused operating profit to decline 28% QoQ.
- Revenue for 1H08 rose 27% YoY on the back of improved domestic sales, which rose 46% YoY. Higher HRC costs (+45% YoY) were partially mitigated by lower zinc prices (-35% YoY) and this helped the group to contain costs and improve their operating margin to 16.7% from 14.9% in 1H07.
- We expect 2H08 to be less robust as this is historically the case. We maintain our 2008 net profit estimate but reduce 2009's to MYR10.1 mln (from MYR11.9 mln). We think the HRC price may rise slightly in 2009 while the zinc price could have found a bottom at these levels. Our assumption calls for Lysaght to absorb the higher costs, given the lackluster domestic construction industry.

Recommendation & Investment Risks

- We maintain our Buy recommendation on Lysaght with a lower 12-month target price of MYR1.25 (from MYR1.55). The lower target price is a result of lowering our target PER multiple.
- We continue to benchmark Lysaght to our target PER for small- to mid-sized contractors within our coverage ranging from 8x-10x (from 10x-12x). Our target PER multiple of 5x (from 6x) is applied against 2009 (rolled over from 2008) EPS and we add our estimated 12-month tax-exempt DPS of 4 sen to arrive at our target price. The target multiple is at a 40% (unchanged) discount to the lower end of our PER range for small- to mid-sized contractors to reflect Lysaght's relatively small market capitalization and thin traded volumes.
- Currently trading at a 2008 PER of 3.6x, we think Lysaght's share price has discounted the risk of sustained high raw material costs and potentially slower domestic sales. Share price catalysts could come from the onset of the implementation of key infrastructure projects such as the 2nd Penang Bridge, double tracking rail project and Iskandar Malaysia project.
- Risks to our recommendation and target price include slower-than-expected implementation of infrastructure projects and higher-than-expected raw material costs.

Key Stock Statistics

FY Dec.	2007	2008E
Reported EPS (sen)	19.7	25.1
PER (x)	4.6	3.6
Dividend/Share (sen)	4.0	4.0
NTA/Share (MYR)	1.60	1.81
Book Value/Share (MYR)	1.60	1.81
No. of Outstanding Shares (mln)	41.6	
52-week Share Price Range (MYR)	0.85 - 1.30	
Major Shareholders:	%	
Lysaght (Malaysia) Sdn Bhd	55.1	
Ingli Sdn Bhd	10.6	

* Stock deemed Shariah compliant by the Securities Commission

Per Share Data

FY Dec.	2005	2006	2007	2008E
Book Value (MYR)	1.34	1.45	1.60	1.81
Cash Flow (sen)	14.0	18.2	24.1	29.8
Reported Earnings (sen)	8.5	13.9	19.7	25.1
Dividend (sen)	3.0	4.0	4.0	4.0
Payout Ratio (%)	35.3	28.9	20.3	15.9
PER (x)	10.6	6.5	4.6	3.6
P/Cash Flow (x)	6.4	4.9	3.7	3.0
P/Book Value (x)	0.7	0.6	0.6	0.5
Dividend Yield (%)	3.3	4.4	4.4	4.4
ROE (%)	6.5	10.0	13.0	14.7
Net Gearing (%)	0.0	0.0	0.0	0.0

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Lysaght Galvanized Steel

Recommendation: **BUY**Stock Code: **9199**Bloomberg: **LYSA MK**Price: **MYR0.90**12-Month Target Price: **MYR1.25**Date: **August 29, 2008****Quarterly Performance**

FY Dec. / MYR mln	2Q08	2Q07	% Change
Reported Revenue	28.4	23.1	23.3
Reported Operating Profit	3.6	3.8	-4.7
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	0.0	0.0	NA
Reported Pre-tax Profit	3.6	3.8	-4.7
Reported Net Profit	2.0	2.7	-25.3
Reported Operating Margin (%)	12.6	16.3	-
Reported Pre-tax Margin (%)	12.6	16.3	-
Reported Net Margin (%)	7.2	11.9	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	66.6	82.9	85.1	82.7
Reported Operating Profit	7.6	11.2	14.1	13.4
Depreciation & Amortization	-1.8	-1.8	-1.9	-1.8
Net Interest Income / (Expense)	0.0	0.0	0.0	0.0
Reported Pre-tax Profit	7.7	11.2	14.1	13.4
Effective Tax Rate (%)	25.3	26.5	26.0	25.0
Reported Net Profit	5.8	8.2	10.5	10.1
Reported Operating Margin (%)	11.5	13.5	16.6	16.2
Reported Pre-tax Margin (%)	11.6	13.5	16.6	16.2
Reported Net Margin (%)	8.7	9.9	12.3	12.2

Source: Company data, S&P Equity Research

Standard & Poor's Equity Research Services

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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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Shariah-compliant stock - As defined by the Shariah Advisory Council of Malaysia's Securities Commission

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Buy	1.25
22-May-08	Buy	1.55
27-Mar-08	Hold	1.10

