



CONSUMER

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Stock Profile/Statistics

Bloomberg Ticker	DGEM Equity
KLCI	884.06
Issued Share Capital (m)	134.00
Market Capitalisation (RMm)	100.50
52 week H L Price (RM)	1.24 0.68
Average Volume (3m) '000	2.08
YTD Returns (%)	-0.43
Net gearing (x)	0.21
Altman Z-Score	3.33
ROCE/WACC	1.23
Beta (x)	1.02
Book Value/share (RM)	0.84

Major Shareholders (%)

Legion Master Sdn	51.72
Diamond Landmark	7.82
M Taib Hasan Bin	2.24

Share Performance (%)

Month	Absolute	Relative
1m	-6.25	-4.01
3m	-	3.36
6m	-	19.94
12m	-36.85	-3.58

6-month Share Price Performance



Degem is involved in the manufacture and trading of gold and non-gold jewellery.

9MFY08 Results Review

Private Circulation Only

Degem

NEUTRAL	Maintain
Price Target	RM0.75
	RM0.81

Still Glittering

Degem's 9M08 results were within expectation, with sales and earnings up 51.6% y-o-y and 15.8% y-o-y respectively on better sales from its domestic and overseas outlets. EBITDA margin inched higher q-o-q on higher selling prices but was down 4.4% YTD due to the change in product mix. We maintain our forecast but reduce target price to RM0.81, pegged at lower 5.6x FY09 EPS.

Within expectation. Degem's 9MFY08 results came in within our expectations, representing 75.4% of our full-year forecast. Revenue was up 2.9% q-o-q and 51.6% YTD while net profit rose 26.3% q-o-q and 15.8% YTD as sales of both Malaysian and overseas outlets continued to fare well. Sales from the domestic and overseas markets grew 42.5% and 173.6% respectively YTD, attributed to the Hari Raya festival in September. As expected, EBIT margin inched higher q-o-q as management had opted to increase selling prices in 3Q to compensate for the margin erosion in 2Q. EBIT margin declined 4.4% y-o-y due to the change in product mix.

Tough times ahead. The decent earnings in 3Q08 do not reflect the company's more defensive earnings compared with its competitors (whose sales are more inclined towards gold products). However, with the increasing economic uncertainties, we expect sales to be hit in the upcoming quarters given that apart from the middle income wage group, the higher income earners are also expected to clamp down on consumption spending. We would expect margins to come under further pressure going forward as consumers scale down spending on luxury goods.

Fewer outlets, less capex. While we were concerned that its slow outlet expansion would slow down its growth going forward, DeGem's growing sales underscore its management's ability to execute and perform with just 20 outlets. This compares with its peers, whose number of outlets drive sales but more investment is required.

Maintain NEUTRAL. Given the expectation that consumer sentiment and consumption would remain weak as the global economic turmoil worsens, we maintain our NEUTRAL recommendation. Our FY08 and FY09 forecasts remain unchanged at RM18.3m and RM19.3m respectively.

FYE Dec (RMm)	FY05	FY06	FY07	FY08f	FY09f
Turnover	108.2	143.9	157.9	176.4	194.8
Net Profit	4.6	13.8	17.8	18.3	19.3
% chg YoY	-56.4	198.8	29.0	3.1	5.3
Consensus	-	-	-	-	-
EPS (sen)	3.4	10.3	13.3	13.7	14.4
DPS (sen)	2.5	19.0	2.5	2.5	2.5
Div Yield	2.4	18.2	2.5	2.5	2.5
ROE (%)	4.2	13.1	14.8	13.4	12.6
ROA (%)	2.8	7.5	9.0	8.7	8.3
PER (x)	21.8	7.3	5.7	5.5	5.2
P/BV (x)	0.9	1.0	0.8	0.7	0.7
EV/EBITDA (x)	6.8	6.0	0.8	0.9	0.8

KEY HIGHLIGHTS

FYE Dec (RMm)	3QFY08	2QFY08	% chg	YTD FY08	YTD FY07	% chg
Turnover	53.4	51.9	2.9	164.5	108.5	51.6
EBIT	6.4	5.7	12.8	20.0	17.8	
Net interest expense	-0.3	-0.5	1.0	-1.2	-2.0	-42.3
Associates	0.0	0.0		0.0	0.0	
PBT	6.1	5.3	16.9	18.8	15.7	19.7
Tax	-1.1	-1.4	-18.5	-4.8	-3.7	29.0
MI	-0.2	-0.1	192.9	-0.3	-0.2	100.0
Net Profit	4.8	3.8	26.3	13.8	11.9	15.8
EPS (sen)	3.6	2.9		10.3	8.9	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
EBIT margin	12.1%	11.0%		12.2%	16.4%	
NTA/share (RM)	0.93	0.91		0.93	0.80	

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