

|                             |      |                               |                   |
|-----------------------------|------|-------------------------------|-------------------|
| <b>Degem Bhd<br/>(DGEM)</b> |      | <b>Price:</b>                 | RM0.69 @ 1 Dec 06 |
|                             |      | <b>Market capitalisation:</b> | RM92.46mn         |
|                             |      | <b>Board:</b>                 | Main              |
|                             |      | <b>Sector:</b>                | Consumer Products |
| <b>Stock Code:</b>          | 7119 | <b>Recommendation:</b>        | Neutral           |

|                                 |                                |             |
|---------------------------------|--------------------------------|-------------|
| <b>Key stock statistics</b>     | <b>2004</b>                    | <b>2005</b> |
| EPS (sen)                       | 8.38                           | 3.60        |
| P/E (x)                         | 16.11                          | 18.34       |
| Dividend/Share (RM)             | 0.02                           | 0.03        |
| NTA/Share (RM)                  | 0.76                           | 0.81        |
| Book Value/Share (RM)           | 0.76                           | 0.83        |
| Issued capital (mn shares)      | 126.00                         | 134.00      |
| 52-weeks Share Price Range (RM) | RM0.61 - RM1.22                |             |
| Government                      | -                              |             |
| Qthers (specify)                | Legion Master Sdn Bhd (51.72%) |             |

|                       |             |             |              |              |
|-----------------------|-------------|-------------|--------------|--------------|
| <b>Per Share Data</b> | <b>2004</b> | <b>2005</b> | <b>2006E</b> | <b>2007F</b> |
| Book Value (RM)       | 0.76        | 0.83        | 0.84         | 0.86         |
| Cash Flow (RM)        | -           | -           | 0.13         | 0.15         |
| Earnings (RM)         | 0.08        | 0.04        | 0.07         | 0.09         |
| Dividend (RM)         | 0.02        | 0.02        | 0.02         | 0.02         |
| Payout Ratio(%)       | 23.86       | 60.34       | 27.1         | 23.0         |
| PER (x)               | 16.11       | 18.34       | 9.34         | 7.93         |
| P/Cash Flow (x)       | -           | -           | 5.12         | 4.54         |
| P/Book Value (x)      | 1.77        | 0.80        | 0.82         | 0.80         |
| Dividend Yield (%)    | 1.48        | 3.29        | 2.86         | 2.90         |
| ROE (%)               | 11.00       | 4.36        | 8.78         | 10.0         |
| Net Gearing (x)       | 0.24        | 0.26        | 0.07         | 0.08         |

|                                    |             |             |              |              |
|------------------------------------|-------------|-------------|--------------|--------------|
| <b>P&amp;L Analysis<br/>(RMmn)</b> | <b>2004</b> | <b>2005</b> | <b>2006E</b> | <b>2007F</b> |
| Year-end: 31 <sup>st</sup> Dec     |             |             |              |              |
| Revenue                            | 135.3       | 108.2       | 135.2        | 163.9        |
| EBIT                               | 17.8        | 8.2         | 9.30         | 18.3         |
| Depreciation                       | (1.8)       | (1.9)       | (1.5)        | (1.6)        |
| Interest Expenses                  | (1.6)       | (1.3)       | (0.4)        | (0.5)        |
| Pre-tax Profit                     | 16.2        | 11.3        | 14.9         | 16.2         |
| Taxation                           | (4.0)       | (2.1)       | (4.8)        | (4.5)        |
| Net Profit                         | 10.6        | 4.8         | 9.9          | 11.7         |
| EBIT Margin (%)                    | 13.1        | 7.6         | 6.9          | 11.2         |
| Pre-tax Margin (%)                 | 12.0        | 6.4         | 11.0         | 9.9          |
| Net-Margin (%)                     | 7.8         | 4.4         | 7.3          | 7.1          |
| Revenue Growth (%)                 | 18.7        | (20.1)      | 25.0         | 21.2         |
| EBIT Growth (%)                    | (13.9)      | (53.6)      | 12.8         | 96.8         |
| Pre-tax Growth (%)                 | (16.3)      | (57.2)      | 114.6        | 8.7          |
| Net Growth (%)                     | (19.6)      | (54.6)      | 106.9        | 17.8         |

|   |                |                |                |               |               |
|---|----------------|----------------|----------------|---------------|---------------|
| <b>Degem 3QFY06<br/>Quarterly Results</b> | <b>3Q 2005</b> | <b>2Q 2006</b> | <b>3Q 2006</b> | <b>Change</b> | <b>Change</b> |
|   | <b>RMmn</b>    | <b>RMmn</b>    | <b>RMmn</b>    | <b>QoQ %</b>  | <b>YoY %</b>  |
| Revenue                                   | 29.99          | 39.04          | 33.36          | -14.55        | 11.3          |
| Profit from Operations                    | 10.45          | 12.85          | 12.33          | -4.08         | 18.0          |
| Finance Costs                             | (0.39)         | (0.49)         | (0.57)         | 17.14         | 46.8          |
| Pre-Tax Profit                            | 2.36           | 5.54           | 5.19           | -6.41         | 119.7         |
| Taxation                                  | (0.84)         | (1.21)         | (1.99)         | 64.71         | 138.7         |
| Minority Interest                         | 0.01           | -0.01          | 0.01           | na            | na            |
| Net Profit                                | 1.52           | 4.32           | 3.18           | -26.37        | 109.6         |
| Operating Margin (%)                      | 34.84          | 32.91          | 36.95          | 12.25         | 6.0           |
| Pre-tax Margin (%)                        | 7.87           | 14.19          | 15.54          | 9.52          | 97.5          |
| Net Margin (%)                            | 5.06           | 11.07          | 9.54           | -13.83        | 88.4          |
| Basic EPS (sen)                           | 1.14           | 3.23           | 2.37           | -26.63        | 107.9         |

|                                     |                |                |               |
|-------------------------------------|----------------|----------------|---------------|
| <b>Degem 3QFY06<br/>YTD Results</b> | <b>3Q 2005</b> | <b>3Q 2006</b> | <b>Change</b> |
|                                     | <b>RMmn</b>    | <b>RMmn</b>    | <b>YTD %</b>  |
| Revenue                             | 81.97          | 101.92         | 24.3          |
| Profit from Operations              | 29.44          | 31.19          | 5.9           |
| Finance Costs                       | (1.02)         | (1.48)         | 44.8          |
| Pre-Tax Profit                      | 7.21           | 13.67          | 89.6          |
| Taxation                            | (2.20)         | (3.86)         | 75.3          |
| Minority Interest                   | 0.02           | 0.01           | na            |
| Net Profit                          | 4.98           | 9.80           | 96.5          |
| Operating Margin (%)                | 35.91          | 30.60          | (14.8)        |
| Pre-tax Margin (%)                  | 8.79           | 13.41          | 52.5          |
| Net Margin (%)                      | 6.08           | 9.61           | 58.1          |
| Basic EPS (sen)                     | 3.71           | 7.31           | 97.0          |

## 1. Results commentary

Degem's revenue has increased by 11.3% for the third quarter ended Sept 30, 2006 from RM30.0mn a year ago, to RM33.4mn this quarter. The Group reported an increase of 109.6% in net profit to R3.2mn in 3Q FY06 from RM1.5mn a year ago, mainly due to better sales during the quarter.

For the nine month cumulative period, the Group's revenue and net profit increased by 24.3% and 97% to RM101.9mn and RM9.8mn respectively. This was due to heavy promotion and marketing activities and the wider range of products launched during the year. Basic earning per share rose to 7.31sen versus 3.71sen in the previous corresponding period in FY05.

## 2. Earnings Outlook

Revenue and net profit achieved by Degem for the nine months to date represents 75% and 99% respectively of our forecast for FY06. We are confident that the Group is able to meet the expected earnings for FY06 as it will see a busier final quarter as sales pick up during the second half of the year due to the upcoming festive seasons.

The recent completion of the Group's restructuring exercise would put the Group on stronger ground to endure stiff competition in the industry and weak consumer demand. The Group will continue to focus on strengthening its relatively new Degem's, Diamond and Platinum (D&P) brands which should help mitigate weak consumer demand.

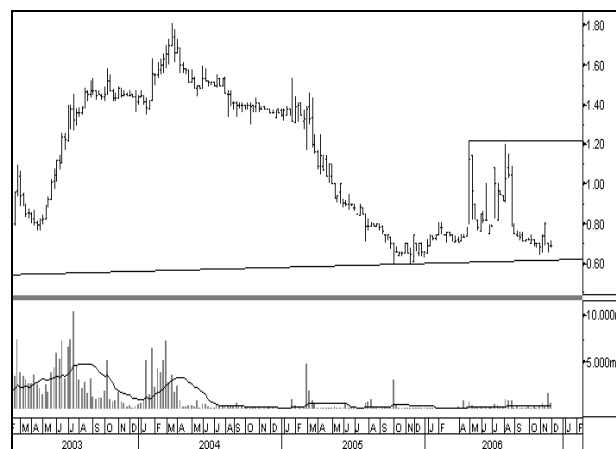
In addition, DeGem plans to expand its retail and wholesale businesses overseas, particularly in other South-East Asian countries and the Middle East, hoping to draw 30% of its revenue from abroad by the end of next year.

## 3. Valuation & Recommendation

We are confident that Degem will continue to post better results as it has streamlined its business despite the slump in share prices after the Group declared a special interim dividend of 16.5sen gross for financial year FY06.

We are maintaining our **NEUTRAL** recommendation, with a target price of RM 0.78 based on prospective FY07 EPS of 8.7sen, pegging it at a PER of 9x.

## 4. Technical Analysis



### **DEGEN (Stock code: 7119) – Rebound to 0.77**

Resistance : 0.77, 0.84

Support : 0.60

Share price is at 0.69 on 1/12/06. The sell down from 0.80 in November 2006 may have hit a low at 0.65 as it is oversold now. A technical rebound to test 0.77 is likely. Resistance is at 0.84.

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