

Degem Bhd (DGEM)		Price:	RM1.18 @ 25 th May 07
		Market capitalisation:	RM158.12mn
		Board:	Main
		Sector:	Consumer Products
Stock Code:	7119	Recommendation:	Neutral

Key stock statistics	2005	2006
EPS (sen)	8.38	9.45
P/E (x)	18.34	8.10
Dividend/Share (RM)	0.02	0.33
NTA/Share (RM)	0.76	0.72
Book Value/Share (RM)	0.83	0.78
Issued capital (mn shares)	126.00	134.00
52-weeks Share Price Range (RM)	RM0.64- RM1.68	
Government	-	
Qthers (specify)	Legion Master Sdn Bhd (51.72%)	

Per Share Data	2004	2005	2006	2007F
Book Value (RM)	0.76	0.83	0.78	0.86
Cash Flow (RM)	-	-	20.82	0.15
Earnings (RM)	0.08	0.04	0.09	0.09
Dividend (RM)	0.02	0.02	0.33	0.33
Payout Ratio(%)	23.86	60.34	349.21	379.12
PER (x)	16.11	18.34	8.10	9.42
P/Cash Flow (x)	-	-	0.04	5.40
P/Book Value (x)	1.77	0.80	0.98	0.95
Dividend Yield (%)	1.48	3.29	43.14	43.14
ROE (%)	11.00	4.36	12.09	10.09
Net Gearing (x)	0.24	0.26	24.79	22.47

P&L Analysis (RMmn)	2004	2005	2006	2007F
Year-end: 31 st Dec				
Revenue	135.3	108.2	144.2	163.9
EBIT	17.8	8.2	20.4	18.3
Depreciation	(1.8)	(1.9)	(1.9)	(1.6)
Interest Expenses	(1.6)	(1.3)	(1.2)	(0.5)
Pre-tax Profit	16.2	11.3	17.3	16.2
Taxation	(4.0)	(2.1)	(4.7)	(4.5)
Net Profit	10.6	4.8	12.7	11.7
EBIT Margin (%)	13.1	7.6	14.2	11.2
Pre-tax Margin (%)	12.0	6.4	12.0	9.9
Net-Margin (%)	7.8	4.4	8.8	7.1
Revenue Growth (%)	18.7	(20.1)	33.3	13.6
EBIT Growth (%)	(13.9)	(53.6)	149.0	(10.4)
Pre-tax Growth (%)	(16.3)	(57.2)	53.4	(6.5)
Net Growth (%)	(19.6)	(54.6)	163.8	(7.9)

Degem 1QFY07 Quarterly Results	1Q 2006	4Q 2007	1Q 2007	Change	Change
	RMmn	RMmn	RMmn	QoQ %	YoY %
Revenue	29.5	42.3	33.8	(20.2)	14.4
Profit from Operations	9.3	14.0	13.5	(3.3)	46.2
Finance Costs	(0.4)	(0.6)	(0.6)	0.0	(47.7)
Pre-Tax Profit	2.9	3.7	5.0	37.2	70.6
Taxation	(0.7)	(0.8)	(1.4)	(68.9)	(105.8)
Minority Interest	0.0	0.0	0.0	(101.7)	5800.0
Net Profit	2.3	2.9	3.5	23.8	55.5
Operating Margin (%)	31.4	33.1	40.1	21.2	27.8
Pre-tax Margin (%)	10.0	8.7	14.9	72.0	49.2
Net Margin (%)	7.7	6.8	10.5	55.2	36.0
Basic EPS (sen)	1.7	2.1	2.7	23.8	55.0

Degem 1QFY07, YTD Results	1Q 2006	1Q 2007	Change
	RMmn	RMmn	YTD %
Revenue	29.5	33.8	14.4
Profit from Operations	9.3	13.5	46.2
Finance Costs	(0.4)	(0.6)	(47.7)
Pre-Tax Profit	2.9	5.0	70.6
Taxation	(0.7)	(1.4)	(105.8)
Minority Interest	0.0	0.0	5800.0
Net Profit	2.3	3.5	55.5
Operating Margin (%)	31.4	40.1	27.8
Pre-tax Margin (%)	10.0	14.9	49.2
Net Margin (%)	7.7	10.5	36.0
Basic EPS (sen)	1.7	2.7	55.0

1. Results commentary

Degem's earnings came above our expectation. The Group's net profit rose by 55.5% to RM3.5mn on the back of 14.4% increase in revenue for the 1QFY07 compared to a year ago. Management guided that the improved performance was attributable to the brand and marketing strategies adopted by the Group from 3QFY06. In addition, favourable economic conditions and consumer sentiment have also contributed positively to the Group's performance.

Compared to the preceding quarter, the Group recorded a 20.2% dipped in revenue and a growth of 23.8% in net profit from RM2.9mn to RM3.5mn.

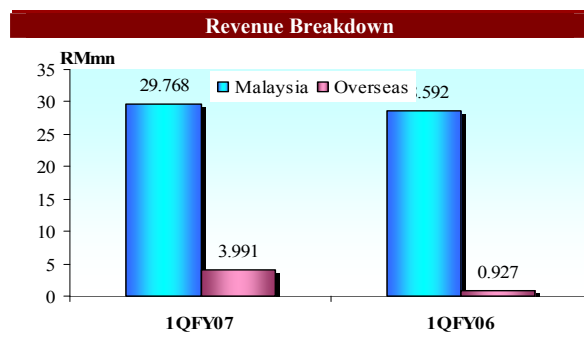
The higher net profit despite a lower revenue in 1QFY07 was mainly due to higher year-end related expenses such as bonuses incurred in 4QFY06.

2. Earnings Outlook

In view of the good set of financial results posted by Degem for the 1QFY07, we are confident that the Group is able to meet the expected earnings for FY07 as sales pick up during the second half of the year due to the upcoming festive seasons.

We expect the completion of the Group's restructuring exercise to put the Group on stronger ground to endure stiff competition in the industry.

Degem has already penetrated into Indonesia, Singapore and Brunei markets and now it is in the midst of carving a presence in Middle East and Vietnam. In addition, the Group also ventured into high end niche market which focuses on gemstones and lifestyle jewelry. The Group will continue to focus on strengthening its relatively new Degem's Diamond and Platinum (D&P) brands which should help to mitigate weak consumer demand.

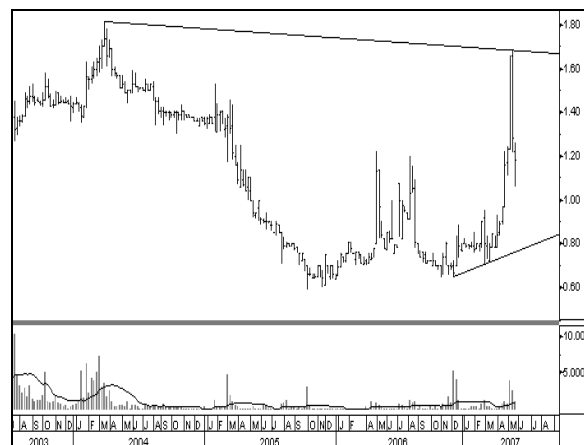


3. Valuation & Recommendation

We are confident that Degem will continue to post better results as the improvement of the economic situation and the growth in consumer demand.

We are maintaining our **NEUTRAL** recommendation, with a target price of **RM1.08** based on prospective FY07 EPS of 9sen, pegging it at a PER of 12x.

4. Technical Analysis



DEGEM (Stock code: 7119) – Technical rebound

Resistance : 1.44

Support : 0.85 1.00

Share price is at 1.18 on 28/5/07. A technical rebound from the current level is likely. The sharp sell down from 1.68 in mid May to 1.06 in late May has turned technicals oversold. The upside is likely to be capped at 1.44. Support is at the 61.8% retracement level of 1.00. Near term outlook is for a sideways mode, ranging between 1.00 and 1.44.