SJ SECURITIES SDN BHD

RESULTS UPDATE

Degem Bhd (DGEM)		***Price:***	*RM 0.79 @ Feb 06*
		Market capitalisation:	*RM105.86mn*
		Board:	*Main*
		Sector:	*Consumer Products*
Stock Code:	7119	***Recommendation:***	*SELL*

Key stock statistics	2004	2005
EPS (sen)	8.38	3.60
P/E (x)	16.11	18.34
Dividend/Share (RM)	0.02	0.02
NTA/Share (RM)	0.76	0.81
Book Value/Share (RM)	0.76	0.83
Issued capital (mn shares)	126.00	134
52-weeks Share Price Range (RM)	RM0.60-RM1.44	RM1.34-RM1.75
Government	-	
Qthers (spesify)	Legion Master Sdn Bhd (51.72%)	

Quarterly Results	1Q 2005 RMmn	4Q 2005 RMmn	1Q 2006 RMmn	Change QoQ %	Change YoY %
Revenue	25.9	26.2	29.5	12.6	13.8
EBIT	2.8	0.0	3.4	8959.5	19.3
Interest Expenses	(0.3)	(0.3)	(0.4)	40.1	29.4
Pre –tax Profit	2.5	(0.3)	2.9	1054.1	18.0
Net Profit	2.0	(0.1)	2.3	1725.6	17.0
EBIT Margin (%)	10.8	0.1	11.4	7943.9	4.8
Pre-tax Margin (%)	9.6	(1.0)	10.0	924.7	3.7
Net Margin (%)	7.5	(0.5)	7.7	1521.0	2.8
Basic EPS (sen)	1.46	(0.09)	1.7	1788.9	16.4

Per Share Data	**2003**	**2004**	**2005**	**2006E**
Book Value (RM)	0.70	0.76	0.83	0.85
Cash Flow (RM)	-	-	0.00	0.02
Earnings (RM)	0.10	0.08	0.04	0.04
Dividend (RM)	0.03	0.02	0.02	0.02
Payout Ratio(%)	23.99	23.86	60.34	50.43
PER (x)	14.01	16.11	18.34	13.00
P/Cash Flow (x)	-	-	567.74	25.78
P/Book Value (x)	2.09	1.77	0.80	0.61
Dividend Yield (%)	1.71	1.48	3.29	3.88
ROE (%)	14.88	11.00	4.36	4.71
Net Gearing (x)	0.14	0.24	0.26	0.07

Cumulative Quarterly Results	1Q05 RMmn	1Q06 RMmn	Change YTD %
Revenue	25.9	29.5	13.8
EBIT	2.8	3.4	19.3
Interest Expenses	(0.3)	(0.4)	29.4
Pre – tax Profit	2.5	2.9	18.0
Net Profit	2.0	2.3	17.0
EBIT Margin (%)	10.8	11.4	4.8
Pre-tax Margin (%)	9.6	10.0	3.7
Net Margin (%)	7.5	7.7	2.8
Basic EPS (sen)	1.46	1.7	16.4

P&L Analysis (RMmn)	**2003**	**2004**	**2005**	**2006E**
Year-end: 31st Dec				
Revenue	114.0	135.3	108.2	112.0
EBIT	20.6	17.8	8.2	9.0
Depreciation	(1.6)	(1.8)	(1.9)	(1.5)
Interest Expenses	(1.3)	(1.6)	(1.3)	(0.4)
Pre-tax Profit	19.4	16.2	11.3	7.5
Taxation	(4.6)	(4.0)	(2.1)	(2.1)
Net Profit	13.1	10.6	4.8	5.3
EBIT Margin (%)	18.1	13.1	7.6	8.0
Pre-tax Margin (%)	17.0	12.0	6.4	6.7
Net-Margin (%)	11.5	7.8	4.4	4.7
Revenue Growth (%)	11.5	18.7	(20.1)	3.5
EBIT Growth (%)	15.2	(13.9)	(53.6)	9.2
Pre-tax Growth (%)	14.6	(16.3)	(57.2)	8.5
Net Growth (%)	11.9	(19.6)	(54.6)	10.8

1.0 Results Commentary

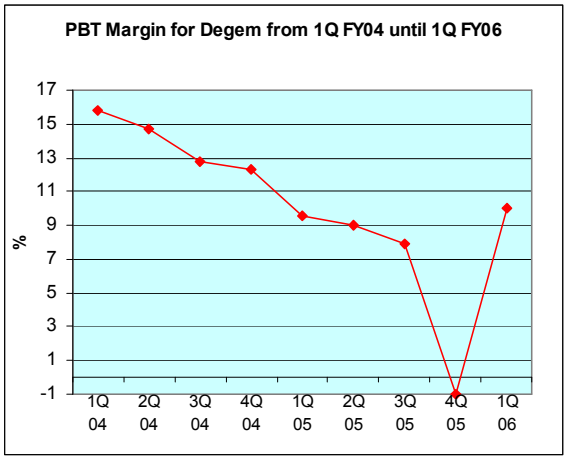
Degem reported an increase of 17.0% in net profit to RM2.3mn in 1Q FY06 from RM2.0mn a year ago, backed by a double digit growth of 13.8% in revenue from RM25.9mn to RM29.5mn.

Compared to the preceding quarter, the Group recorded a 12.6% growth in revenue and a robust growth of 1725.6% in net profit from negative RM0.1mn to RM2.3mn.

2.0 Outlook and Recommendation

The 1Q FY06 result was above our expectation. Net profit for this quarter represented 57.1% of our full year FY06 forecast.

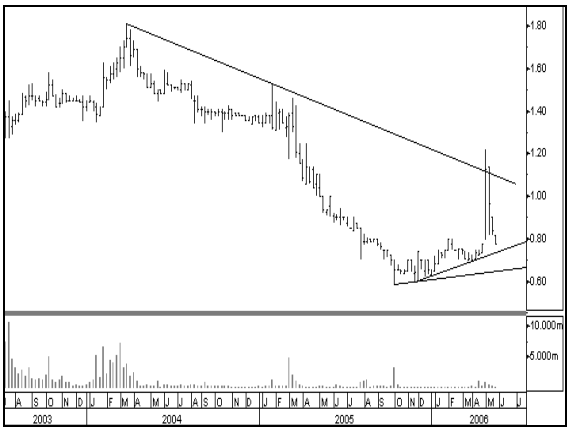
This is the first time the Group recorded an improvement in PBT margin since 2004. The Group had completed the disposal of two showrooms, namely Petaling Jaya SS2 Showroom and Subang Jaya Showroom early last month. We believe the operating cost will be reduced significantly starting 2Q FY06.



However, we are not revising our FY06 earnings forecast as profitability and growth have been weakening since two years ago. In addition, the Group does not have a good distribution network and geographical coverage throughout Malaysia after shutting down a Diamond & Platinum outlet and two showrooms as compared to its competitors.

Maintain Sell recommendation at target price of RM0.52, based on a weighted average PE in jewellery industry of 13x.

3.0 Share Price Chart



DEGEM (Stock code: 7119) – Base Forming

Resistance : 1.00
Support : 0.68, 0.74

Share price is at 0.79 on 30/5/06. Following the upward push to 1.22 in May 2006, it took a sharp correction. With a support level at 0.74, it is likely to be base forming in the region of 0.74 – 0.68. Upside is likely to be capped at 1.00.

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