

Degem Bhd (DGEM)		Price:	RM 0.64 @ 1 Nov 06
		Market capitalisation:	RM85.76mn
		Board:	Main
		Sector:	Consumer Products
Stock Code:	7119	Recommendation:	NEUTRAL

Key stock statistics	2004	2005
EPS (sen)	8.38	3.60
P/E (x)	16.11	16.1
Dividend/Share (RM)	0.02	0.03
NTA/Share (RM)	0.76	0.81
Book Value/Share (RM)	0.76	0.85
Issued capital (mn shares)	126.00	134.00
52-weeks Share Price Range (RM)	RM0.60- RM1.22	
Government	-	
Others (specify)	Legion Master Sdn Bhd (51.72%)	

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	50.4
PER (x)	14.01	16.11	18.34	16.1
P/Cash Flow (x)	-	-	567.74	32.0
P/Book Value (x)	2.09	1.77	0.80	0.76
Dividend Yield (%)	1.71	1.48	3.29	3.13
ROE (%)	14.88	11.00	4.36	4.71
Net Gearing (x)	0.14	0.24	0.26	0.07

P&L Analysis (RMmn)	2003	2004	2005	2006E
Year-end: 31 st Dec				
Revenue	114.0	135.3	108.2	135.2
EBIT	20.6	17.8	8.2	9.30
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	14.9
Taxation	(4.6)	(4.0)	(2.1)	(4.8)
Net Profit	13.1	10.6	4.8	9.9
EBIT Margin (%)	18.1	13.1	7.6	6.9
Pre-tax Margin (%)	17.0	12.0	6.4	11.0
Net-Margin (%)	11.5	7.8	4.4	7.3
Revenue Growth (%)	11.5	18.7	(20.1)	25.0
EBIT Growth (%)	15.2	(13.9)	(53.6)	12.8
Pre-tax Growth (%)	14.6	(16.3)	(57.2)	114.6
Net Growth (%)	11.9	(19.6)	(54.6)	106.9

1. Recent Development

After completing its reorganizations in July 2006, Degem has declared a special interim dividend of 16.5sen gross for financial year FY06. The reorganisation which involved the disposal of two showrooms, some fixed assets and inventories worth some RM20.5mn has increased the Group's coffers substantially. Initially the proceeds from the sale of assets which was planned to be used for working capital is now going to end up in the hands of shareholders.

The Group had only recently announced the entitlement and payment dates for the FY05 dividend of 2.5sen gross. Due to the healthy cash flows from the proceeds on disposal, the Group is in a position to pay the FY05 dividend and the FY06 special interim dividend, amounting to RM18.4mn and the balance will be utilised as working capital.

2. Earnings Outlook

In view of the astounding results posted by Degem for the first half, we are confident that the Group's business will see a busier second half as sales tend to pick during the festive seasons.

The Group which faces stiff competition in the industry and weak consumer demand, will continue to focus on building on strengthening its relatively new Degem's, Diamond and Platinum (D&P) brands. The new brand which revolves around high-end fashion jewellery and affordable contemporary jewellery respectively 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

Despite the slump in the price after announcing its special dividend, we believe that the market has fully absorbed all positive news in relation to the Groups and is now remains wary of the future direction of the Group. However we are confident that Degem will continue to post better results as it has streamlined its business.

We are maintaining our **NEUTRAL** recommendation, with a target price of RM 0.96 based on prospective FY07 EPS of 7.4sen pegging a weighted average PE in jewellery industry of 13x.

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