

Degem Bhd (DGEM)		Price:	RM1.00 @ 21 st Aug 07
		Market capitalisation:	RM134.0mn
		Board:	Main
		Sector:	Consumer Products
Stock Code:	7119	Recommendation:	Overweight

<u>Key stock statistics</u>	<u>2006</u>	<u>2007E</u>	<u>Degem 2QFY07</u>	<u>2Q</u>	<u>1Q</u>			
			<u>Quarterly Results</u>	<u>2006</u>	<u>2007</u>	<u>2Q 2007</u>	<u>Change</u>	<u>Change</u>
				RMmn	RMmn	RMmn	QoQ %	YoY %
EPS (sen)	10.28	10.0	Revenue	39.0	33.8	35.9	6.38	(8.02)
P/E (x)	7.4	9.7	Profit from Operations	6.0	13.5	4.6	(66.39)	(24.52)
Dividend/Share (RM)	0.14	0.33	Finance Costs	(0.5)	(0.6)	(0.7)	18.54	(45.23)
NTA/Share (RM)	0.73	0.81	Pre-Tax Profit	5.5	5.0	3.8	(23.58)	(30.72)
Book Value/Share (RM)	0.83	0.86	Taxation	(1.2)	(1.4)	(0.6)	na	na
Issued capital (mn shares)	134.0	134.0	Minority Interest	0.0	0.0	-0.1	na	na
52-weeks Share Price Range (RM)		RM0.64- RM1.68	Net Profit	4.3	3.7	3.2	(12.85)	(26.08)
Government		-	Operating Margin (%)	15.5	40.1	12.7	(68.40)	(17.93)
Qthers (specify)		Legion Master Sdn Bhd (51.72%)	Pre-tax Margin (%)	14.2	14.9	10.7	(28.16)	(24.68)
			Net Margin (%)	11.1	10.9	8.9	(18.08)	(19.63)
			Basic EPS (sen)	2.4	2.7	2.4	(10.19)	0.00

<u>Per Share Data</u>	<u>2005</u>	<u>2006</u>	<u>2007E</u>	<u>2008F</u>
Book Value (RM)	0.8	0.8	0.9	0.9
Cash Flow (RM)	8.6	20.8	0.2	0.2
Earnings (RM)	0.0	0.1	0.1	0.1
Dividend (RM)	0.0	0.1	0.0	0.0
Payout Ratio (%)	58.3	134.2	24.2	19.5
PER (x)	22.3	7.4	9.7	7.8
P/Cash Flow (x)	0.1	0.0	6.6	6.5
P/Book Value (x)	0.9	1.0	1.2	1.1
Dividend Yield (%)	2.6	18.0	2.5	2.5
ROE (%)	0.0	13.1	12.0	13.5
Net Gearing (x)	25.8	24.7	22.5	20.4

<u>P&L Analysis</u>	<u>2005</u>	<u>2006</u>	<u>2007E</u>	<u>2008F</u>
<u>(RMmn)</u>				
Year-end: 31 st Dec				
Revenue	108.2	143.9	160.5	181.4
EBIT	8.2	21.1	21.3	26.2
Depreciation	(1.9)	(1.9)	(1.6)	(1.7)
Interest Expenses	(1.3)	(2.1)	(0.5)	(0.7)
Pre-tax Profit	11.3	17.2	19.2	23.9
Taxation	(2.1)	(3.4)	(5.4)	(6.7)
Net Profit	4.6	13.8	13.9	17.2
EBIT Margin (%)	7.6	14.7	13.3	14.5
Pre-tax Margin (%)	10.4	11.9	12.0	13.2
Net-Margin (%)	4.3	9.6	8.6	9.5
Revenue Growth (%)	(20.0)	33.0	11.5	13.0
EBIT Growth (%)	(53.9)	157.5	1.1	23.0
Pre-tax Growth (%)	(30.2)	51.8	12.1	24.2
Net Growth (%)	(56.6)	199.5	0.5	24.2

<u>Degem 2QFY07</u>	<u>2Q 2006</u>	<u>2Q 2007</u>	<u>Change</u>
<u>YTD Results</u>	<u>RMmn</u>	<u>RMmn</u>	<u>YTD %</u>
Revenue	68.6	69.7	1.6
Profit from Operations	9.4	10.2	8.5
Finance Costs	(0.9)	(1.3)	(46.3)
Pre-Tax Profit	8.5	8.9	4.4
Taxation	(1.9)	(1.9)	(2.2)
Minority Interest	(0.0)	(0.1)	900.0
Net Profit	6.6	6.9	3.9
Operating Margin (%)	13.7	14.6	6.7
Pre-tax Margin (%)	12.4	12.7	2.8
Net Margin (%)	9.6	9.8	2.2
Basic EPS (sen)	4.9	5.1	3.9

1. Results commentary

Within expectation. Degem's 1HFY07 result was within our expectation. Its annualised net profit was only 1% different compared with our estimation. The Group's net earnings for the 1HFY07 marginally increase to RM6.9mn on the back of a relatively flattish revenue of RM69.7mn.

But...lower quarter result. Nevertheless, its three months financial result was generally lower on a yearly comparison. PBT dropped by 31% y-o-y to RM3.8mn while net earnings shrunk to RM3.2mn due to lower sales from retailing business.

2. Earnings Outlook

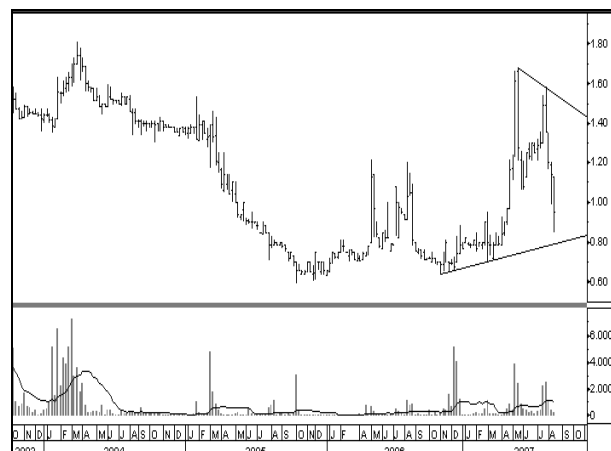
Positive on overseas venture. According to the Singapore Department of Statistics, retailer of telecommunications apparatus & computers, furniture & household equipment, watches & jewellery and motor vehicles enjoyed double-digit growths in June as consumers rushed to buy autos, furniture and jewellery before the government raised a tax on goods and services. Singapore's government increased the goods and services tax, by two percentage points to seven per cent on July 1 to make up for a revenue shortfall after corporate tax rates were reduced.

We are positive on Degem's growth going forward as the Group plans to open more outlets in Singapore's key area. In addition, the Group is also in the midst of carving a presence in Middle East and Vietnam by the end of this year. We expect the international expansion to contribute to the Group's bottom line in near time.

3. Valuation & Recommendation

Maintained OVERWIGHT. We are maintaining our target price for Degem at **RM1.43** pegging on forward PE of 11x. We believe Degem serves as a good proxy to the strong growth in consumption pattern. Maintain **OVERWEIGHT**.

4. Technical Analysis



DEGEN (Stock code: 7119) – Technical rebound

Resistance : 1.30 1.40
Support : 0.85

Share price is at 1.00 on 22/8/07. The sharp sell down from 1.58 in July, has bottomed at the low of 0.85. Technical indicator, such as On Balance Volume, has signalled a positive divergence pointing to a technical rebound to 1.30. Resistance is at the overhead trendline of 1.40.