

Degem Bhd (DGEM)		Price:	RM0.80 @ 28 Feb 07
		Market capitalisation:	RM109.88mn
		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- RM1.22	
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 4QFY06 Quarterly Results	4Q 2005	3Q 2006	4Q 2006	Change	Change
	RMmn	RMmn	RMmn	QoQ %	YoY %
Revenue	26.2	33.4	42.3	26.9	61.5
Profit from Operations	9.2	12.3	14.0	13.7	52.7
Finance Costs	(0.5)	(0.6)	(0.6)	(5.2)	(11.6)
Pre-Tax Profit	(0.3)	5.2	3.7	(29.4)	1535.7
Taxation	0.1	(2.0)	(0.8)	59.7	(657.6)
Minority Interest	0.0	0.0	0.0	163.6	50.0
Net Profit	(0.1)	3.2	2.9	(9.9)	3053.6
Operating Margin (%)	35.0	36.9	33.1	(10.4)	(5.4)
Pre-tax Margin (%)	(1.0)	15.5	8.7	(44.3)	989.2
Net Margin (%)	(0.4)	9.5	6.8	(29.0)	1929.3
Basic EPS (sen)	(0.1)	2.4	2.1	(9.7)	3157.1

Degem 4QFY06 YTD Results	4Q 2005	4Q 2006	Change
	RMmn	RMmn	YTD %
Revenue	108.2	144.2	33.3
Profit from Operations	38.6	45.2	17.2
Finance Costs	(1.3)	(2.1)	(65.1)
Pre-Tax Profit	8.0	17.3	117.4
Taxation	(3.3)	(4.7)	(41.6)
Minority Interest	0.1	0.0	94.2
Net Profit	4.6	12.7	174.8
Operating Margin (%)	35.6	31.3	(12.1)
Pre-tax Margin (%)	7.4	12.0	63.1
Net Margin (%)	4.3	8.8	106.1
Basic EPS (sen)	3.5	9.5	173.1

1. Results commentary

Degem's revenue increased by 26.9% for the 4QFY06 to RM42.3mn compared with RM33.4mn in the previous quarter. Nonetheless, the Group posted a 9.9% decline in net profit from RM3.2mn to RM2.9mn this quarter.

For the twelve month cumulative period, the Group's revenue and net profit increased by 33.3% and 174.8% to RM144.2mn and RM12.7mn respectively. The better financial performance was due to the favourable economic condition and the gain of RM2.8mn net profit from a restructuring exercise which was completed in April 2006. Basic earning per share rose to 9.5sen versus 3.5sen a year ago.

2. Earnings Outlook

In view of the good results posted by Degem for the financial year of 2006, 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.

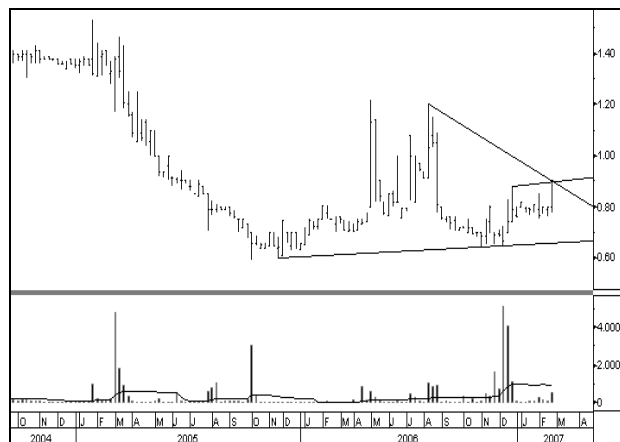
The completion of the Group's restructuring exercise would put the Group on stronger ground to endure stiff competition in the industry and weak consumer demand. The Group will continue to focus on strengthening its relatively new Degem's Diamond and Platinum (D&P) brands which should help to mitigate 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 **RM0.81** based on prospective FY07 EPS of 9sen, pegging it at a PER of 9x.

4. Technical Analysis



DEGEM (Stock code: 7119) – Range Bound

Resistance : 0.95

Support : 0.75

Share price is at 0.83 on 1/3/07. The expected technical rebound has ended at the high of 0.95 in February 2007. And the correction from 0.95 has also ended at 0.70 in late February. It is now likely to be on a sideways mode, ranging between 0.90 and 0.75.