


**TECHNOLOGY**

**James Lim**  
 +65 6232 3892  
 james.lim@dmgaps.com.sg

**Terence Wong, CFA**  
 +65 6232 3896  
 terence.wong@dmgaps.com.sg

**Stock Profile/Statistics**

	ARMS SP
Bloomberg Ticker	STI
STI	1,692.55
Issued Share Capital (m)	514.80
Market Cap (S\$m)	54.05
52 week H   L Price (S\$)	0.415   0.105
Average Volume (6m) '000	1,165
YTD Returns (%)	-72.2
Net gearing (x)	Net cash
Altman Z-Score	3.8
ROCE/WACC	2.3
Beta (x)	0.9
Book Value/share (S¢)	16.69

**Major Shareholders (%)**

Ong Peng Koon	38.41
Chow Goon Chau Patricia	5.54
Legg Mason Asset Mgt Asia	5.45

**Share Performance (%)**

Month	Absolute	Relative
1m	-12.0	-1.7
3m	-50.0	-12.5
6m	-67.2	-21.1
12m	-72.5	-23.7

**6-month Share Price**

**3Q08 Results Review**

Private Circulation Only

**Armstrong Industrial**

<b>BUY</b>	<b>Maintain</b>
<b>Price</b>	<b>S\$0.105</b>
<b>Target</b>	<b>S\$0.17</b>

**Hit by currency fluctuations**

**Affected by forex losses.** 3Q08 revenue was almost flat at S\$48.5m while net earnings fell 26.7% to S\$2.4m mainly due to a S\$2.6m mark-to-market derivative loss that in turn resulted from unfavourable FX movements. Additionally, Armstrong's operating profit was also hit due to the high raw materials costs which have not yet abated while increased admin expenses attributed to the new factories in Wuhan (China) and Thailand was also a factor.

**Dragged down by translation losses.** Turnover and net profit would have stood at S\$52.1m and S\$3.8m respectively should the S\$ stay stable against the various Asian currencies and the US\$ – this in turn equates to a 6% and 19% gain in top and bottomline in 3Q08. For 9M08, sales and net earnings would actually have been higher by 13% and 41% respectively.

**Consumer Electronics, the star performer.** Among the company's various business segments, sales from Consumer Electronics increased 8% to S\$18m and accounted for 37.1% of 3Q08 revenue. Growth in Data Storage, which now mainly consists of Armstrong's higher-margined rubber business, inched up 2% to S\$12.4m.

Due to a drop in automotive demand from the US, however, sales from Armstrong's Automotive segment fell 6% to S\$11.2m. Additionally, the company's Office Automation business also continued to contract as sales fell 19% to S\$5.9m in 3Q08, inline with Armstrong's focus on margin enhancement and resource management strategy.

**Figure 1: Financial performance**

FYE 31 Dec (S\$m)	3Q08	3Q07	Chg YoY	9M08	9M07	Chg YoY
Revenue	48.5	48.7	-0.5%	140.5	133.2	5.4%
Gross profit	12.4	13.6	-9.0%	38.0	35.1	8.3%
Gross margin (%)	25.5%	27.8%	-2.3 ppt	27.0%	26.3%	+0.7 ppt
EBIT	5.6	8.1	-29.9%	19.8	19.2	2.7%
EBIT margin (%)	11.6%	16.5%	-4.9 ppt	14.1%	14.4%	-0.3 ppt
EBITDA	6.9	9.1	-24.9%	23.3	22.4	4.0%
EBITDA margin (%)	14.1%	18.7%	-4.6 ppt	16.6%	16.8%	-0.2 ppt
Profit before tax	3.4	4.9	-29.2%	16.2	16.4	-1.1%
PBT margin (%)	7.1%	10.0%	-2.9 ppt	11.5%	12.3%	-0.8 ppt
Net Profit	2.4	3.3	-26.7%	11.6	11.4	2.5%
Net margin (%)	4.9%	6.7%	-1.8 ppt	8.3%	8.5%	-0.2 ppt

Source: Company

**Healthy cash flows and balance sheet.** Armstrong remained operationally positive in 3Q08 as it generated free cash flows of S\$2.7m. Given that the company intends to limit its capex for the next 15 months, we believe that Armstrong should continue to be cash generative going forward.

Currently in a net cash position of S\$17.5m which translates to net cash per share of S\$0.034, we note that this represents 32.3% of its current share price.

**Key concern 1 – Automotive.** While management admitted that the automotive industry is presently experiencing a downturn, the company nevertheless believes that there remain opportunities for its Automotive segment in China to grow due to vast market size in the country. We also note that Armstrong's exposure to the troubled Big Three (General Motors, Ford and Chrysler) in Detroit is relatively contained, currently accounting for less than 10% of its Automotive sales in China.

**Key concern 2 – Rubber.** Turnover from Armstrong's Rubber business has increased from 16% to 21% to account for total Group revenue. While projections from the company's HDD customers are still forecasting growth for 2009, Armstrong believes that the growth for its Rubber sales within its Data Storage segment will be tapered down.

**Key concern 3 – Currency fluctuations.** Management revealed that the S\$2.6m loss on its FX derivatives was incurred when the US\$/S\$ was going at around 1.42 (end-Sep 08). Should the S\$ continue to weaken against the US\$ – a heightened probability now that the MAS has relaxed its "gradual and modest appreciation" stance on the S\$ during early Oct – we believe that Armstrong may have to sustain additional unrealised FX losses which would hit its bottomline.

**Valuation & Recommendation.** We have lowered our earnings forecast in FY08 by 28% to S\$14.8m. Given the rapid pace of decline in the global economy, we are also slashing our FY09 earnings estimates by 59% to S\$10.8m, as customers are currently seeing signs of cut-backs. We continue to believe that it will be able to dish out 1.6 Scts in dividends, giving an attractive yield of 15.2%. At S\$0.105, it is trading at 3.6x FY08 and 5.0x FY09 P/E. Based on industry average of 6x P/E, we attain a revised target price of S\$0.17 (S\$0.33 previously). Maintain BUY.

<b>FYE Dec (S\$m)</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08f</b>	<b>FY09f</b>
Turnover	127.9	141.9	183.0	185.2	166.7
Net Profit	8.1	10.2	17.6	14.8	10.8
% chg YoY	37.9%	25.9%	71.5%	-15.8%	-26.9%
EPS (S¢)	1.6	2.0	3.5	2.9	2.1
DPS (S¢)	1.00	1.05	1.60	1.6	1.3
Div Yield	9.5%	10.0%	15.2%	15.2%	12.4%
ROE	12.7%	15.1%	22.2%	23.5%	26.4%
ROA	8.1%	9.2%	13.6%	14.9%	17.8%
P/E (x)	6.7	5.3	3.0	3.6	5.0
P/B (x)	0.84	0.78	0.68	0.61	0.52

*Source: Company and DMG Estimates*

### DMG & Partners Research Guide to Investment Ratings

**Buy:** Share price may exceed 10% over the next 12 months

**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated:** Stock is not within regular research coverage

This research is for general distribution. It does not have any regard to the specific investment objectives, financial situation and particular needs of any specific recipient of this research report. You should independently evaluate particular investments and consult an independent financial adviser before making any investments or entering into any transaction in relation to any securities or investment instruments mentioned in this report.

The information contained herein has been obtained from sources we believed to be reliable but we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness or correctness. Opinions and views expressed in this report are subject to change without notice.

This report does not constitute or form part of any offer or solicitation of any offer to buy or sell any securities, DMGAPS and its affiliates, their directors, connected person and employees may from time to time have interest and/or underwriting commitment in the securities mentioned in this report.

DMG & Partners Securities Pte Ltd is a participant in the SGX Research Incentive Scheme and receives a compensation of S\$7,500 per stock per annum covered under the Scheme.

DMG & Partners Securities Pte Ltd is a joint venture between OSK Securities Berhad (a subsidiary of OSK Investment Bank Berhad) and Deutsche Asia Pacific Holdings Pte Ltd (a subsidiary of Deutsche Bank Group). DMG & Partners Securities Pte Ltd is a Member of the Singapore Exchange Securities Trading Limited.

**DMG & Partners Securities Pte. Ltd. (RCB Reg. No. 198701140E)**

#### Kuala Lumpur

**Malaysia Headquarters**  
OSK Investment Bank Bhd.  
20<sup>th</sup> Floor, Plaza OSK  
Jalan Ampang  
50450 Kuala Lumpur  
Malaysia  
Tel : + (60) 3 2333 8333  
Fax : + (60) 3 2175 3333

#### Hong Kong

**Hong Kong Office**  
OSK Asia Securities Ltd.  
1201-1203, 12/F,  
World-Wide House  
19 Des Voeux Road  
Central, Hong Kong  
Tel : + (852) 2525 1118  
Fax : + (852) 2537 1332

#### Singapore

**Singapore Office**  
DMG & Partners Securities Pte. Ltd.  
#22-01 Ocean Towers  
20 Raffles Place  
Singapore 048620  
Tel : +(65) 6438 8810  
Fax : +(65) 6535 4809

#### Shanghai

**Shanghai Office**  
OSK Asia Securities Ltd.  
Room 6506, Plaza 66  
No. 1266 Nanjing Road (West)  
Shanghai 200040  
China