

MITA No. 010/06/2008

28 August 2008

# Koda Limited

Maintain

## BUY

Previous Rating: BUY

### S\$0.18

### Fair Value: S\$0.285

Stock Code: KODA.SI  
 Reuters: 5BK  
 SIN Code: 5BK  
 Bloomberg: KODA SP

Event: Results

#### General Data

Issued Capital (m)	134
Mkt Cap (S\$m/US\$m)	24 / 17
Major Shareholder	James Koh Jyh Gang (20.67%)
Free Float (%)	31
NAV per share (US cents)	21.0
Daily Vol 3-mth ('000)	59
52Wk High (S\$)	0.900
52Wk Low (S\$)	0.180

## Oversold on subprime woes

**Weak FY08 exacerbated by one-off charges.** Koda Ltd (Koda) reported a contraction in its FY08 earnings in accordance with management's guidance. Net profit fell 41.9% US\$4.2m on the back of a 8.5% decline in revenue to US\$54.9m. Headline figures included one-off expenses totaling US\$1.1m, of which S\$0.7m were non-cash items. Stripping these away, earnings would have contracted by a smaller 26.7% to US\$5.3m, short of our US\$6.0m forecast. Management has declared a final dividend of 0.5 S cent less tax, bringing FY08 dividend payout to 1.0 S cent or a yield of 4.6%.

**Hit by a confluence of challenges.** Key reasons for Koda's lackluster performance include prolonged weaknesses in the US and UK housing markets, one-off expenses relating to start-up costs for new showrooms and operations, and a surprise imposition of taxes by Vietnamese authorities in 4Q08. Furthermore, inflation contributed to margin pressure at the operating level, resulting in higher distribution and administrative expenses. Although Koda successfully defended its gross profit margin at 29.1% (vs 29.0% in FY07), its net profit margin deteriorated to 7.6% (vs 12.0% in FY07) as a result of these challenges.

**Operating environment remains challenging.** Sub-prime woes continue to weigh on the US economy, as data from various sources paint a similarly bleak outlook for the US market. For instance, expectations of near-term US home sales is at a trough with the confidence index hovering at an all-time low since 2000 (Exhibit 1). Adding to this, the UK market has shown signs of weakness and is expected to head for a slowdown. As the US and UK markets together account for 74% of Koda's sales, we remain cautious on its outlook until we see signs of recovery in these markets. Management seeks to mitigate this by growing via new markets including Asia.

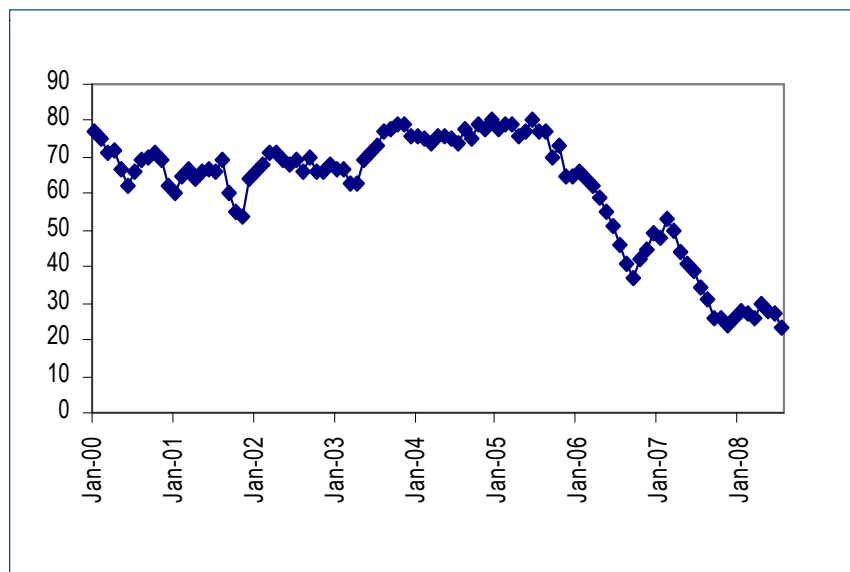
**Trading at discount to book.** We have eased our forecasts to account for the uncertain outlook, higher operating cost environment, and new Vietnamese tax regime. We anticipate a 15% contraction in FY09 earnings to US\$3.6m on the back of flat revenue. Evidence of a recovery in consumer confidence and housing markets will prompt us to revisit our numbers. Koda is in the midst of obtaining credit protection from banks, which will allow it to grow its orders by extending credit facilities to its customers. The stock is trading at a steep 58% discount to its NTA. As such, we maintain our **BUY** rating, with a lower fair value estimate of S\$0.285 (from S\$0.565) pegged at 1x NTA.

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Year to 30 Jun	Turnover (US\$m)	Gross Profit (US\$m)	Net Profit (US\$m)	EPS (US cents)	EPS Growth (%)	PER (x)	Net Div Yield (%)
FY 07	60.1	17.4	7.2	5.4	27.8	2.4	6.8
FY 08	54.9	16.0	4.2	3.1	-41.9	4.0	4.6
FY 09F	55.1	15.4	3.6	2.7	-15.4	4.8	4.6
FY 010F	59.6	16.7	4.7	3.5	31.1	3.7	4.6

Please refer to the important disclosures at the back of this document.

Exhibit 1: Confidence of US home builders on future sales



Source: National Association of Home Builders, US

### Koda's Key Financial Data

<b>Koda Results</b>	<b>4Q07</b>	<b>4Q08</b>	<b>% Chg</b>	<b>3Q08</b>	<b>% Chg</b>
<b>Year Ended 30 Jun (US\$ m)</b>	<b>(US\$m)</b>	<b>(US\$m)</b>	<b>(YoY)</b>	<b>(US\$m)</b>	<b>(QoQ)</b>
Revenue	14.0	10.3	-26.3%	9.7	6.2%
Cost of sales	-9.2	-7.4	-20.0%	-6.8	8.6%
Gross Profit	4.8	2.9	-38.6%	2.9	0.6%
Other operating income	0.3	0.2	-23.5%	0.1	105.3%
Distribution costs	-0.7	-1.0	34.0%	-0.9	6.2%
Administrative expenses	-1.3	-2.3	74.6%	-1.3	71.3%
Other operating expenses	-0.2	0.0	NM	-0.1	NM
EBIT	2.8	-0.1	NM	0.7	NM
Finance costs	-0.1	-0.1	-3.5%	0.0	27.9%
Profit before tax	2.7	-0.2	NM	0.6	NM
Tax	0.1	-0.5	NM	0.0	NM
Profit after tax	2.8	-0.7	NM	0.6	NM
Minority interest	-0.1	0.2	NM	0.0	NM
Profit attributable to shareholders	2.7	-0.5	NM	0.5	NM

**EARNINGS FORECAST**

<b>Year Ended 30 Jun (US\$ m)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
Revenue	60.1	54.9	55.1	59.6
Cost of sales	-42.7	-38.9	-39.7	-42.9
Gross Profit	17.4	16.0	15.4	16.7
Other operating income	0.5	0.6	0.6	0.6
Distribution costs	-3.6	-4.1	-4.1	-4.5
Administrative expenses	-5.7	-7.1	-7.4	-7.1
Other operating expenses	-0.4	-0.2	-0.3	-0.3
EBIT	8.2	5.3	4.1	5.4
Finance costs	-0.3	-0.2	-0.2	-0.2
Profit before tax	8.0	5.1	4.0	5.2
Tax	-0.2	-0.8	-0.3	-0.4
Profit after tax	7.8	4.3	3.7	4.8
Minority interest	-0.5	-0.1	-0.1	-0.1
Profit attributable to shareholders	7.2	4.2	3.6	4.7
Earnings per share (US cents)	5.4	3.1	2.7	3.5

*Excluding one-off expenses, FY08 net profit attributable to shareholders would have been US\$5.3m (vs US\$4.2m reported).*

**Profitability Ratios**

Gross margin (%)	29.0	29.1	28.0	28.0
EBIT margin (%)	13.7	9.6	7.5	9.0
PBT margin (%)	13.3	9.2	7.2	8.7
Net profit margin (%)	12.0	7.6	6.5	7.8

**BALANCE SHEET**

<b>As at 30 Jun (US\$ m)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
Cash	5.9	5.1	7.8	12.8
Other current assets	17.2	17.1	18.7	20.3
Property, plant, and equipment	10.8	13.5	12.6	11.8
Other non-current assets	1.9	2.1	2.5	2.5
Total assets	35.8	37.9	41.6	47.3
Current liabilities less debt	7.0	6.2	7.6	9.4
Debt	3.0	2.3	2.2	2.2
Other non-current liabilities	0.1	0.1	0.1	0.1
Total liabilities	10.0	8.7	9.8	11.6
Shareholders equity	25.8	29.2	31.9	35.6
Minority interest	1.1	1.1	1.2	1.3
Total equity and liabilities	35.8	37.9	41.6	47.3
NAV per share (US cents)	18.4	21.0	22.9	25.7
NTA per share (US cents)	17.9	20.1	22.0	24.8

**CASH FLOW****Year Ended 30 Jun (US\$ m)**

	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
Operating profit before working cap. changes	9.1	6.0	5.4	6.5
Working capital changes	-2.4	-1.2	0.0	0.2
Dividends paid	-0.7	-1.4	-1.0	-1.0
Taxes paid	0.0	-0.4	-0.6	-0.4
Other operating flows	0.0	0.0	0.0	0.0
Net cash from operations	5.9	3.1	3.8	5.4
Capex	-1.6	-4.1	-0.5	-0.5
Other investing flows	0.9	0.8	-0.4	0.0
Investing cash flow	-0.7	-3.3	-0.9	-0.5
Net change in debt	-1.9	-0.6	0.0	0.0
Other financing flows	0.0	0.0	-0.1	0.0
Financing cash flow	-1.9	-0.6	-0.2	0.1
Net cash flow	3.4	-0.7	2.7	4.9
Cash at beginning of year	2.5	5.8	5.1	7.8
Cash at end of year	5.8	5.1	7.8	12.8
Add back: Bank overdrafts	-0.1	0.0	0.0	0.0
Cash and cash equivalents at end of year	5.9	5.1	7.8	12.8

**Key Ratios**

PER (x)	2.4	4.0	4.8	3.7
Price/NTA (x)	0.7	0.6	0.6	0.5
EV/EBIT (x)	1.7	2.7	2.7	1.2
Dividend yield (%)	6.8	4.6	4.6	4.6
ROE (%)	28.1	14.4	11.2	13.1
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash
PE to growth (x)	0.1	-0.1	-0.3	0.1

**Source: Company data, OIR estimates**

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