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Phillip Securities Research

MICA (P) 027/06/2008

Singapore • Consumer Goods Sector • Results Update

SGX–MAS
Research Investment Scheme

Recommendation:

HOLD

Previous call: HOLD

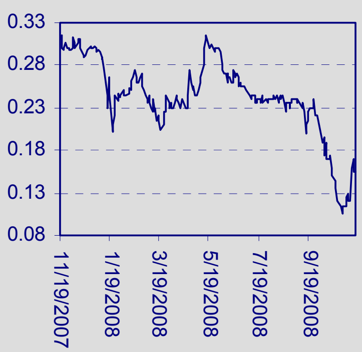
Price

Previous close	**S$0.155**
Fair value	**S$0.230**
Share price return	**48.39%**

Share Statistics

Shares	666.20 mil
Market Cap.	S$103.26 mil
Trailing PER	2.79x
Forward PER	2.26x
P/BV	0.87x
52-week Price Range	S$0.1000 - S$0.3175
52-week PER Range	1.80 – 5.71x
Listing Bourse	SGX-Mainboard
Major Shareholder	Man Wah Investments (57.17%)

Price Chart



Company Profile

MWH, a home furnishing group, has become the manufacturing base of "CHEERS" sofa in Asia and also exports to over 50 countries through its extensive distribution channels in the United States of America, Europe and other international markets.

Analyst

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Man Wah Holdings Limited

19 November 2008

Maintain HOLD. In view of the Group's recent half year financial results and the current economic situation, we have since revised our estimates and revalued our fair value estimate to S$0.23 per share derived from 1x peg to the Group's FY2009 book value per share, translating to 48.39% upside. Despite >20% upside, we remain concerned and cautious of the Group's exposures in the North American and European market, hence maintaining a HOLD.

Continued growth in earnings. Man Wah Holdings Limited reported a 40.72% growth (year-on-year) in revenue from HKD 684.28 million in 1HFY2008 to HKD 962.92 million in 1HFY2009, contributed by growth in all the Group's geographical segments. The Group also report net profit growth of 35.94% (year-on-year) from HKD 86.95 million in 1HFY2008 to HKD 118.20 million in 1HFY2009.

Profit margins. The Group's gross profit margin improved by 3.70ppts (year-on-year) from 30.41% in 1HFY2008 to 34.11% in 1HFY2009. The Group attributes the improvement in gross profit margins to better product mix and higher economies. However, net profit margin fell 0.44ppts (year-on-year) from 12.71% in 1HFY2008 to 12.27% in 1HY2009, due to higher income taxes which resulted from the cessation of tax exemption from some of their PRC subsidiaries.

Rewarding shareholders. The Group announced an interim dividend of HKD 0.0653 per ordinary share.

Estimates. Despite the growth in 1HFY2009, we remain concerned of the Group's exposures in the North American and European market. In view of the current economic situation and uncertainty, we continue to take a conservative stance and have since further lowered our estimates, by forecasting revenue growth of 16.18% for FY2009 and 10.48% for FY2010. In addition, with easing raw material prices, we have forecasted gross margins of 33.00% and 33.50%, and net margins of 13.41% and 13.88% for FY2009 and FY2010 respectively.

Key Financial Data (Financial Year Ended 31 March)	1H2008	1H2009	% chg	2009E	2010E
Turnover (HK$ mil)	684.28	962.92	40.72	1,725.99	1,906.91
EBITDA (HK$ mil)	99.34	146.85	47.83	301.53	341.98
EBIT (HK$ mil)	91.44	132.75	45.18	255.64	292.00
Net profit (HK$ mil)	86.95	118.20	35.94	231.51	264.63
Net profit margin (%)	12.71	12.28	(0.43)ppts	13.41	13.88
EPS (SG cents)	2.57	3.50	35.94	6.85	7.83
Book value per share (SG cents)	-	8.12	N.M.	23.93	30.84
ROE (%)	-	-	N.M.	28.63	25.39
P/E (x)	6.03	4.43	(26.44)	2.26	1.98
P/Book	-	1.91	N.M.	0.65	0.50

Source: Company, Phillip Securities Estimates *N.M = Not Meaningful*
(1 SGD = 5.07856 HKD)

Financials

Income Statement (HK m)	2007	2008	2009E	2010E
Revenue	852.49	1,485.57	1,725.99	1,906.91
Cost of goods sold	(631.19)	(1,021.96)	(1,156.41)	(1,268.09)
Gross Profit	221.31	463.61	569.58	638.81
Other operating income	11.39	27.83	32.28	35.66
Selling and distribution expenses	(91.74)	(222.95)	(258.90)	(286.04)
Administrative expenses	(43.52)	(70.67)	(86.30)	(95.35)
Other operating expenses	(0.03)	(1.12)	(1.38)	(1.53)
Finance costs	(2.04)	(4.61)	(5.35)	(5.91)
Share of profit of a jointly-controlled entity	0.00	0.30	0.36	0.44
Share of loss of an associate	(0.20)	0.00	0.00	0.00
Profit before income tax	95.17	192.38	250.29	286.09
Income tax expense	(4.43)	(4.59)	(18.77)	(21.46)
Profit for the year	90.74	187.79	231.51	264.63
EPS (basic, post-except) (HKD cents)	27.42	28.19	34.75	39.72
EPS (basic, post-except) (SG cents)	5.40	5.56	6.85	7.83

Growth & margins (%)	2007	2008	2009E	2010E
Sales growth	59.04	74.26	16.18	10.48
EBITDA growth	14.20	74.52	17.70	10.44
EBIT growth	10.57	74.26	16.18	10.48
Net income growth	36.09	109.48	22.86	12.16
EPS growth	8.81	2.81	23.28	14.31
Gross margin	25.96	31.21	33.00	33.50
EBITDA margin	12.59	14.60	17.47	17.93
EBIT margin	11.40	13.26	14.81	15.31

Cash flow statement (HK m)	2007	2008	2009E	2010E
Net income pre-preferred dividends	95.17	192.38	250.29	286.09
D&A add-back	10.15	19.90	45.89	49.97
Net (inc)/dec working capital	(91.39)	(80.52)	(41.63)	(31.30)
Other operating cash flow	(2.55)	(10.36)	(19.14)	(21.89)
Cash flow from operations	11.39	121.40	235.42	282.87
Capital expenditures	(122.94)	(167.92)	(80.00)	(60.00)
Acquisitions	(0.83)	(23.78)	0.00	0.00
Divestitures	0.00	0.00	0.00	0.00
Others	0.28	(2.30)	0.00	0.00
Cash flow from investments	(123.50)	(194.00)	(80.00)	(60.00)
Dividends paid (common & pref)	(22.61)	(32.31)	(25.25)	(31.14)
Inc/(dec) in debt	(3.00)	78.50	87.47	70.05
Common stock issuance	113.09	0.00	0.00	0.00
Other financing cash flows	30.12	1.63	3.18	0.00
Cash flow from financing	117.60	47.82	65.40	38.91
Total cash flow	5.49	(24.78)	220.82	261.78

Balance Sheet (HK m)	2007	2008	2009E	2010E
Current Assets:				
Cash and bank balances	48.62	29.58	246.51	508.30
Other investments	3.34	3.52	3.52	3.52
Trade receivables	77.60	161.34	187.45	207.10
Other receivables and prepayments	39.45	77.63	90.18	99.63
Inventories	183.38	220.39	249.37	273.46
Other financial assets	0.00	41.00	41.00	41.00
Lease premium for land	0.93	1.00	0.97	0.95
Non-current assets:				
Other receivables and prepayments	0.83	23.78	27.62	30.51
Lease premium for land	43.42	45.51	44.52	43.52
Property, plant and equipment	221.76	392.74	428.56	439.61
Investment properties	15.99	19.58	19.58	19.58
Interests in a jointly controlled entity	0.00	3.62	3.98	4.42
Deferred tax assets	0.03	0.22	0.22	0.22
Current Liabilities:				
Bank loans and overdrafts	45.13	87.98	67.17	175.45
Trade payables	55.66	99.50	112.60	123.47
Other payables	72.87	127.26	144.00	157.90
Other financial liabilities	0.00	31.01	31.01	31.01
Income tax payable	2.17	4.01	4.01	4.01
Non-current liabilities:				
Bank loans	26.00	67.17	175.45	137.22
Deferred tax liabilities	1.34	0.53	0.53	0.53
Capital and reserves:				
Share capital	133.24	266.48	266.48	266.48
Reserves	298.95	335.98	542.24	775.74
BVPS (SG cents)	25.57	17.82	23.93	30.84

Key Ratios	2007	2008	2009E	2010E
ROE (%)	21.00	31.17	28.63	25.39
ROA (%)	14.28	18.41	17.23	15.83
Inventory days	75.97	72.11	74.14	75.24
Receivables days	37.58	46.76	60.06	61.49
Payable days	54.18	65.83	78.24	78.92
Net debt(cash)/equity (%)	5.21	20.84	(0.48)	(18.77)

Valuation	2007	2008	2009E	2010E
P/E basic (X)	2.87	2.79	2.26	1.98
P/B (X)	0.61	0.87	0.65	0.50

Source: Company, Phillip Securities Research

** In FY2008, HKD 3.89 million of bank overdrafts was undertaken by the Group resulting in HKD 29.58 million of cash and cash equivalents at the end of the year in the balance sheet.*

Ratings History

Man Wah Holdings Limited

Legend	Rating	Date	Closing price (S$)	Fair value (S$)	Remarks
H	HOLD	19 November 2008	0.155	0.230	1HFY2008 Results Update
H	HOLD	23 July 2008	0.235	0.230	FY2008 Results Update
S	SELL	22 October 2007	0.710	0.410	Announcement Update
S	SELL	7 September 2007	0.415	0.360	Initiating coverage

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	HOLD	Trade within ± 15% from the current price
	SELL	>15% downside from the current price
	We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation	

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