

MITA No. 139/06/2005

4 August 2005

Ban Leong Technologies

Maintain

BUY

Previous Rating: BUY

S\$0.245

Fair Value: S\$0.29

Stock Code:

Reuters: BANL.SI

Bloomberg: BLT SP

Event:

Results

General Data

| | |
|------------------------|------------------------|
| Issued Capital (m) | 100 |
| Mkt Cap (S\$m/US\$) | 25/15 |
| Major Shareholder | Ronald Teng (39.4%) |
| Free Float (%) | 28.4 |
| NTA per share (S\$) | 0.17 |
| Daily Vol 3-mth ('000) | - |
| 52Wk High (S\$) | 0.255 |
| 52Wk Low (S\$) | 0.215 |

Simple strategy, excellent execution

Good maiden results. Ban Leong (BL) reported a good set of 1H05 results that were marginally above our expectations. Sales rose 19.6% YoY to S\$37.5m (vs forecast: S\$35.0m) in 1H05 while net income grew 30.8% YoY to S\$1.8m (vs S\$1.7m). The sales growth was largely a result of BL's wider product range as well as contribution from the distributorship of Epson products secured in late 2004. Keeping a tight rein on expenses, the group managed to grow its bottomline by a larger magnitude as net margin rose from 4.4% in 1H04 to 4.8% in 1H04. BL declared a surprise interim dividend of 1.25 cents.

Three distributorships secured in past month. Following its listing in late June, BL has been appointed by three distributors namely Targus, Razer and Cooler Master to distribute their range of IT products. While the group will market Targus and Razer's products only in Singapore, its arrangement with Cooler Master enables it to sell the latter's products in Malaysia and Thailand as well. While not expected to have a material impact this year, we are nonetheless impressed with BL's ability to expand its range of innovative products at such breakneck speed. We believe this wider product range, coupled with the expansion of its geographical reach in Malaysia and Thailand should drive growth for BL going forward. In view of the better than expected results, we have raised our FY05/FY06 sales and net income forecasts by 4.8%/8.0% and 4.8%/7.9% respectively.

Likely upside in dividend payout, maintain Buy. As mentioned earlier, we were pleasantly surprised with an interim dividend payout of 1.25 cents. With our expectations of a stronger second half and continued efficient working capital management, we believe BL could match its 1H05 dividend payment in 2H05. This would translate into an attractive dividend yield of 10.2%. At current price, BL is trading at undemanding valuations of 5.9x FY05F and 5.1x FY06F PERs. With the marginal revision in our earnings, our new fair value stands at S\$0.29 (from S\$0.28) based on 7x FY05F PER. With total return upside of 28.6%, we maintain our **BUY** recommendation.

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| Year to 31 Dec | Turnover (S\$m) | Gross Profit (S\$m) | Net Profit (S\$m) | EPS (cents) | EPS Growth (%) | Consensus EPS (cents) | PER (x) | Net Div Yield (%) |
|-------------------|--------------------|------------------------|----------------------|----------------|-------------------|--------------------------|------------|----------------------|
| FY 03 | 50.4 | 6.2 | 2.4 | 3.2 | - | - | 7.6 | - |
| FY 04 | 63.2 | 8.5 | 3.2 | 4.2 | 30.7 | - | 5.8 | - |
| FY 05F | 83.3 | 11.2 | 4.1 | 4.1 | -2.2 | - | 5.9 | 8.2 |
| FY 06F | 98.4 | 13.1 | 4.8 | 4.8 | 17.4 | - | 5.1 | 8.2 |

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

Table 1: Ban Leong Technologies' Key Financial Data

Interim Results

| Year to 31 Dec (In S\$m) | 1H04 | 1H05 | % change (YoY) | 2H04 | % change (HoH) |
|--------------------------|-------|-------|-------------------|-------|-------------------|
| Revenue | 31.4 | 37.5 | 19.6% | 31.9 | 17.7% |
| Gross profit | -27.4 | -32.8 | 19.4% | -27.2 | 20.2% |
| Operating expenses | 29.2 | 35.1 | 20.2% | 29.3 | 19.9% |
| Operating profit | 1.8 | 2.4 | 33.2% | 2.0 | 15.8% |
| Net interest | 0.0 | 0.0 | 194.2% | 0.0 | 41.3% |
| Pre-tax profit | 1.8 | 2.3 | 32.1% | 2.0 | 15.5% |
| Tax | -0.4 | -0.5 | 28.5% | -0.2 | 120.4% |
| Minority interests | 0.0 | 0.0 | nm | 0.0 | 222.8% |
| Net profit | 1.4 | 1.8 | 30.8% | 1.8 | 1.3% |

Income Statement

| Year to 31 Dec (In S\$m) | FY03 | FY04 | FY05F | FY06F |
|--|-------|-------|-------|-------|
| Revenue | 50.4 | 63.2 | 83.3 | 98.4 |
| Gross profit | 6.2 | 8.5 | 11.2 | 13.1 |
| Operating expenses | (3.1) | (4.7) | (6.0) | (7.0) |
| Operating profit | 3.1 | 3.8 | 5.3 | 6.1 |
| Net interest | (0.0) | (0.0) | (0.0) | 0.0 |
| Associates | 0.0 | 0.0 | 0.0 | 0.0 |
| Exceptionals | 0.0 | 0.0 | 0.0 | 0.0 |
| Pre-tax profit | 3.1 | 3.8 | 5.3 | 6.1 |
| Tax | (0.7) | (0.6) | (1.1) | (1.1) |
| Minority interests | 0.0 | (0.0) | (0.1) | (0.2) |
| Net profit | 2.4 | 3.2 | 4.1 | 4.8 |
| Earnings per share (cents) | 3.2 | 4.2 | 4.1 | 4.8 |
| Fully diluted earnings per share (cents) | 3.2 | 4.2 | 4.1 | 4.8 |

Balance Sheet

| As at 31 Dec (In S\$m) | FY04 | FY05F | FY06F |
|-------------------------------|------|-------|-------|
| Cash | 3.5 | 9.6 | 10.5 |
| Other current assets | 14.0 | 21.2 | 25.0 |
| Fixed assets | 0.4 | 0.7 | 0.9 |
| Other long term assets | 0.2 | 0.2 | 0.2 |
| Total assets | 18.1 | 31.7 | 36.5 |
| Current liabilities less debt | 9.3 | 14.2 | 16.5 |
| Debt | 0.1 | 0.2 | 0.2 |
| Other long term liabilities | 0.0 | 0.0 | 0.0 |
| Total liabilities | 9.4 | 14.4 | 16.7 |
| Shareholders equity | 8.7 | 17.2 | 19.5 |
| Minority interests | 0.0 | 0.1 | 0.3 |
| Total equity and liabilities | 18.1 | 31.7 | 36.5 |
| NTA per share (cents) | 8.5 | 17.0 | 19.3 |

Cash Flow Statement

| Year to 31 Dec (In S\$m) | FY04 | FY05F | FY06F |
|--|-------------|--------------|--------------|
| Operating profit before working cap. changes | 3.9 | 5.6 | 6.4 |
| Working capital changes | (2.0) | (2.4) | (1.4) |
| Interest and tax | (0.6) | (1.0) | (1.1) |
| Net cash from operations | 1.3 | 2.2 | 3.9 |
| Capex | (0.2) | (0.6) | (0.5) |
| Other investing flows | 0.0 | 0.0 | 0.0 |
| Investing cash flow | (0.2) | (0.6) | (0.5) |
| Change in equity | 0.0 | 6.9 | 0.0 |
| Net change in debt | (0.1) | 0.1 | (0.0) |
| Dividends paid | (0.3) | (2.5) | (2.5) |
| Financing cash flow | (0.4) | 4.5 | (2.5) |
| Other adjustments | 0.0 | 0.0 | 0.0 |
| Net cash flow | 0.7 | 6.1 | 0.8 |
| Cash at beginning of year | 2.4 | 3.5 | 9.6 |
| Short term deposits held as security | 0.4 | - | - |
| Cash at end of year | 3.5 | 9.6 | 10.5 |

Key Ratios

| | FY03 | FY04 | FY05F | FY06F |
|-----------------------|-------------|-------------|--------------|--------------|
| PER (x) | 7.60 | 5.81 | 5.94 | 5.06 |
| Price/NTA (x) | na | 2.88 | 1.44 | 1.27 |
| EV/EBITDA (x) | na | 5.37 | 2.70 | 2.22 |
| Gross margin (%) | 12.4% | 13.5% | 13.5% | 13.3% |
| Net profit margin (%) | 4.8% | 5.0% | 5.0% | 4.9% |
| Dividend yield (%) | 0.0% | 0.0% | 10.2% | 10.2% |
| ROIC (%) | na | 35.9% | 23.7% | 24.5% |
| ROE (%) | na | 36.4% | 24.0% | 24.8% |
| Net gearing (%) | na | Net Cash | Net Cash | Net Cash |
| PE to growth (x) | na | 0.19 | (2.74) | 0.29 |

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

The analyst/analysts who wrote this report holds NIL shares in the above security.

RATINGS AND RECOMMENDATIONS:

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