

MITA No. 010/06/2008

14 May 2009

Maintain

**HOLD**

Previous Rating: HOLD

**S\$0.37****Fair Value: S\$0.37**

Stock Code:

Reuters: EYSI.SI

ISIN Code: E02

Bloomberg: EYSAN SP

Event:

Results

**General Data**

Issued Capital (m)	360
Mkt Cap (S\$/US\$m)	133/91
Major Shareholder	Euco Invts (19.1%)
Free Float (%)	24.0
NAV per share (S cents)	27.4
Daily Vol 3-mth ('000)	111
52Wk High (S\$)	0.535
52Wk Low (S\$)	0.245

# Eu Yan Sang International

## A seasonally strong quarter

**3Q09 in line with expectations.** Eu Yan Sang International Ltd (EYS) leveraged on its seasonally strong quarter to deliver a credible set of 3Q09 results. Both sales and earnings were in line with our projection, with its 9M09 earnings forming 80% of our full-year estimate. Revenue grew 10.7% YoY to S\$67.9m. Net profit surged 191.7% to S\$3.8m in the absence of impairment charges relating to the disposal of Red White and Pure. Stripping away the impact of one-off items and eliminating the impact of losses from discontinued operations included in 3Q08, core operating profit would have risen by 6.6% but net profit would have fallen by 15.3%. Effective tax rate swelled to 38.7% from 29.5% due to losses at its foreign subsidiaries which could not be offset against group profits.

**Growth in sales across key markets.** The group registered higher sales across all its key markets despite the soft retail climate. In particular, Malaysia turned in an outstanding 17% YoY growth in revenue thanks to strong hamper sales during the Chinese New Year season. Singapore recorded a 7% improvement in sales, while Hong Kong delivered a 4% growth in turnover. The group's robust sales growth was boosted by the opening of new stores. It opened one new store in Malaysia and two in Hong Kong in 3Q09, bringing the net increase in store count for 9M09 to 10 retail outlets.

**Improvement in credit metrics.** Cash flow strengthened significantly thanks to the group's sound performance. Operating cash inflow grew to S\$13.9m from S\$0.4m a year ago. Operational metrics similarly showed encouraging improvements. Cash conversion cycle improved to 90 days from 109 days, inventory days declined to 163 days from 171 days, while net gearing dropped to 6% from 21% on an annualized basis. Management has heightened its vigilance over receivables and cash conservation in light of the tightening credit market. We understand that the group has not had to write off any receivables thus far.

**Maintain HOLD with a higher fair value estimate.** Although EYS has performed reasonably well, management remains cautious over its outlook given the jittery economic conditions, which could dampen consumer spending. We are leaving our estimates intact as the group is on track to meet our S\$13.1m net profit estimate for FY09. Our valuation parameter has been raised to 10x (from 8x) along with the re-rating of its peers, bringing our fair value estimate to S\$0.37 (from S\$0.30). We maintain our **HOLD** rating on the stock.

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Year to 30 Jun	Turnover (S\$m)	Gross Profit (S\$m)	Net Profit (S\$m)	EPS (cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	181.2	91.0	14.7	4.1	2.0	9.1	5.4
FY 08	208.5	104.6	4.9	1.4	-66.5	27.0	5.4
FY 09F	217.2	108.6	13.1	3.6	165.7	10.2	5.4
FY 10F	226.7	113.3	13.7	3.8	4.3	9.7	5.4

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

<b>Eu Yan San Results</b>	<b>3Q08</b>	<b>3Q09</b>	<b>% Chg</b>	<b>2Q09</b>	<b>% Chg</b>
<b>Year Ended 30 Jun (S\$ m)</b>	<b>(S\$m)</b>	<b>(S\$m)</b>	<b>(YoY)</b>	<b>(S\$m)</b>	<b>(QoQ)</b>
Revenue	61.4	67.9	10.7%	53.4	27.1%
Cost of sales	-31.8	-35.4	11.4%	-25.7	38.1%
Gross profit	29.6	32.5	9.9%	27.8	17.0%
Other operating income <sup>1</sup>	1.3	0.2	-86.0%	0.1	138.0%
Distribution and selling expenses	-17.7	-19.7	11.0%	-17.6	11.9%
Administrative and other operating expenses	-5.4	-6.1	13.6%	-5.1	20.0%
Operating profit	7.8	6.9	-11.7%	5.2	33.1%
Foreign exchange gain / (loss)	-0.5	-0.4	-18.1%	0.0	NM
Net interest expense	-0.2	-0.2	-4.1%	-0.2	-1.7%
Impairment of goodwill <sup>2</sup>	-2.9	0.0	NM	0.0	NM
Profit before tax	4.1	6.2	51.2%	5.0	25.0%
Tax	-1.2	-2.4	98.5%	-0.3	689.5%
Profit after tax (from continuing operations)	2.9	3.8	31.3%	4.7	-18.4%
Profit / (loss) from discontinued operations	-1.6	0.0	NM	-1.2	NM
Profit after discontinued operations	1.3	3.8	194.9%	3.5	9.3%
Minority interest	0.0	0.0	NM	0.0	NM
Net profit	1.3	3.8	191.7%	3.5	8.7%

<sup>1</sup> Includes one-off gains from administration of subsidiary in 3Q08

<sup>2</sup> One-off impairment charges arising from Red White and Pure in 3Q08

**EARNINGS FORECAST**

Year Ended 30 Jun (S\$ m)

	FY07	FY08	FY09F	FY10F
Revenue	181.2	208.5	217.2	226.7
Cost of sales	-90.2	-103.9	-108.6	-113.3
Gross profit	91.0	104.6	108.6	113.3
Other operating income	3.6	0.6	0.4	0.5
Distribution and selling expenses	-52.9	-63.7	-67.3	-70.3
Administrative and other operating expenses	-17.9	-22.5	-23.9	-24.9
Operating profit	23.7	19.0	17.8	18.6
Foreign exchange gain / (loss)	-0.2	-0.8	0.0	0.0
Net interest expense	-0.6	-0.9	-1.0	-1.0
Impairment of goodwill	0.0	-3.9	0.0	0.0
Share of associated companies' earnings	0.0	0.0	0.0	0.0
Other non-operating gains / expenses	1.8	1.8	0.0	0.0
Profit before tax	24.7	15.2	16.8	17.5
Tax	-5.2	-5.0	-3.7	-3.9
Profit after tax (from continuing operations)	19.6	10.2	13.1	13.7
Profit / (loss) from discontinued operations	-4.9	-5.3	0.0	0.0
Profit after discontinued operations	14.7	4.9	13.1	13.7
Minority interest	0.0	0.0	0.0	0.0
Net profit	14.7	4.9	13.1	13.7
Earnings per share (S cents)	4.1	1.4	3.6	3.8
<i>Excluding one-offs, FY08 net profit was S\$14.1m.</i>				
<b>Profitability Ratios</b>				
Gross margin (%)	50.2	50.1	50.0	50.0
EBIT margin (%)	13.1	9.1	8.2	8.2
PBT margin (%)	13.7	7.3	7.7	7.7
Net profit margin (%)	8.1	2.4	6.0	6.0

**BALANCE SHEET****As at 30 Jun (S\$ m)**

	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
Cash, bank balances & fixed deposits	15.5	15.2	19.1	23.6
Inventories	38.9	48.6	52.1	54.4
Trade and other receivables	21.5	21.4	22.8	23.8
Other current assets	0.6	0.5	0.0	0.0
Current assets	76.6	85.7	94.0	101.8
Property, plant, and equipment	60.5	62.2	61.7	61.4
Other non-current assets	12.4	9.4	9.4	9.4
Non-current assets	72.9	71.6	71.2	70.8
Total assets	149.4	157.3	165.2	172.5
Debt	25.2	34.4	34.2	34.3
Current liabilities less debt	29.2	30.6	32.8	33.4
Other long term liabilities	3.9	4.5	4.4	4.6
Total liabilities	58.2	69.4	71.4	72.3
Share capital	34.9	34.9	34.9	34.9
Reserves	56.2	52.8	58.7	65.2
Minority interests	0.1	0.1	0.1	0.1
Total equity	91.2	87.9	93.8	100.3
Total equity and liabilities	149.4	157.3	165.2	172.5
NTA per share (S cents)	25.3	24.3	26.0	27.8

**CASH FLOW**

Year Ended 30 Jun (S\$ m)	FY07	FY08	FY09F	FY10F
Operating profit before working cap. changes	20.6	19.8	25.4	26.1
Working capital changes	-4.3	-7.5	-5.0	-2.0
Interest and tax paid	-5.7	-5.0	-3.2	-5.3
Net cash from operations	10.7	7.3	17.2	18.7
Purchase of property, plant and equipment	-15.6	-11.1	-7.0	-7.0
Other investing flows	7.4	1.6	0.0	0.0
Investing cash flow	-8.2	-9.5	-7.0	-7.0
Net change in debt	3.7	8.7	0.0	0.0
Dividends paid	-7.2	-7.2	-7.2	-7.2
Other financing flows	-0.3	0.0	1.4	0.0
Financing cash flow	-3.8	1.5	-5.8	-7.3
Net cash flow	-1.3	-0.7	4.3	4.5
Cash at beginning of period	16.7	15.5	14.8	19.1
Cash at end of period	15.5	14.8	19.1	23.6
Add back: Bank overdrafts	0.0	-0.5	0.0	0.0
Cash and cash equivalents at end of period	15.5	15.2	19.1	23.6

**Key Ratios**

PER (x)	9.1	27.0	10.2	9.7
Price/NTA (x)	1.5	1.5	1.4	1.3
EV/EBIT (x)	6.0	8.0	8.3	7.8
Dividend yield (%)	5.4	5.4	5.4	5.4
ROE (%)	16.2	5.6	14.0	13.7
Net gearing (%)	10.6	21.9	16.2	10.7
PE to growth (x)	4.5	-0.4	0.1	2.3

*Source: Company data, OIR estimates*

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