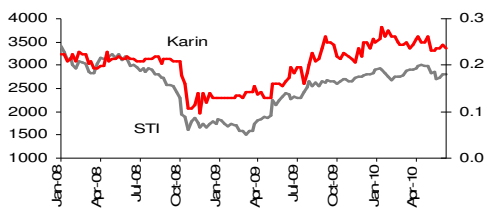


17 June 2010

Maintain

BUY

Previous Rating: BUY

Current Price: S\$0.22
Fair Value: S\$0.28


Reuters Code	KARI.SI
ISIN Code	K29
Bloomberg Code	KTH SP
Issued Capital (m)	205
Mkt Cap (S\$m / US\$m)	45 / 32
Major Shareholders	
Yuk Wing Ng	35.2%
Free Float (%)	63.2%
Daily Vol 3-mth ('000)	145
52 Wk Range	0.142 - 0.240

(HK\$ m)	FY08	FY09	FY10F	FY11F
Revenue	1893.9	1566.3	1578.2	1684.1
Gross Profit	182.3	142.7	147.0	160.0
P/NTA (x)	1.0	1.0	0.9	0.9
EPS (cts)	30.4	16.0	13.5	18.8
PER (x)	3.9	7.4	8.8	6.3

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Karin Technology Hldgs

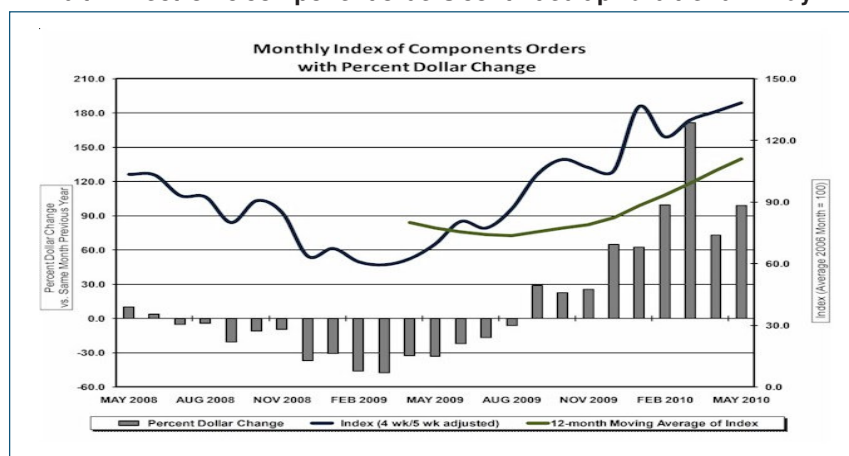
Likely beneficiary of electronics industry uptrend

Strong demand for electronics in 1Q10. Since our update on Karin Technology's 1HFY10 results in Feb, we note that the global electronics industry has continued to show improvements, in line with our expectations and management's guidance. For one, the mobile handset market, which had declined by 16.6% YoY in 1Q09 amid the global recession, rebounded strongly in 1Q10 with 21.7% YoY growth, according to market research firm IDC. The global PC market, on the other hand, raked up its highest YoY growth in 1Q10 with shipments up 22.7% YoY to 81.5m units, based on statistics by iSuppli Corp. This strong recovery, together with robust growth in other consumer electronics, is likely to spur the demand for Karin's component distribution and IC application design segments, and give its financial performance a boost in 2HFY10 in our view.

Enterprise IT spending to return to positive growth in 2010. In addition, we note from IDC that the worldwide server market had finally posted its first YoY revenue growth (4.6%) in seven quarters in 1Q10, led by sharply higher demand around the world as corporations refreshed their IT infrastructures. In terms of unit shipments, the market grew by an even faster pace of 23.2% YoY, representing the fastest quarterly shipment growth in more than five years. We view this development positively, as this may translate to a YoY rebound in Karin's IT Infrastructure segment (which has been lacklustre for the past year). In fact, according to a May report by Gartner, the worldwide enterprise IT spending is projected to grow by 4.1% to US\$2.4t in 2010, reversing a 5.6% decline in 2009. As such, we are optimistic of its segmental performance in 2010.

Maintain BUY with S\$0.28 fair value. We are maintaining our FY10 forecasts on Karin, as the improvements in business conditions were consistent with our expectations. While we acknowledge that its earnings may be impacted by unfavourable forex rates and higher operating costs (possibly from higher raw material and staff costs) as evidenced by a 5.9% rise in China's producer prices for first five months of 2010, we believe the increase in expenses have been adequately factored into our projections. With the current share price presenting an attractive 34.6% total expected return to our fair value of S\$0.28, we maintain our **BUY** rating on Karin.

Exhibit 1: Electronic component orders continued upward trend in May



Source: Electronic Components Association

Exhibit 2: Worldwide IT spending by industry vertical market

Industry	2010 total IT Spending (US\$m)	2009 total IT spending (US\$m)	Growth (%)
Banking and Securities	396,867	379,570	4.6
Communications Media and Services	394,171	377,537	4.4
Education	63,992	61,463	4.1
Healthcare	88,626	86,191	2.8
Insurance	157,771	151,858	3.9
Local and Regional Government	184,451	176,828	4.3
Manufacturing and Natural Resources	428,856	416,111	3.1
National and International Government	248,726	234,218	6.2
Retail	149,216	142,552	4.7
Transportation	106,406	103,427	2.9
Utilities	124,451	120,387	3.4
Wholesale Trade	84,063	80,754	4.1
Total	2,427,596	2,330,895	4.1

Source: Gartner

Karin Technology's Key Financial Data

EARNINGS FORECAST					BALANCE SHEET				
Year Ended 30 Jun (HK\$m)	FY08	FY09	FY10F	FY11F	As at 30 Jun (HK\$m)	FY08	FY09	FY10F	FY11F
Revenue	1,893.9	1,566.3	1,578.2	1,684.1	Bank and cash balances	52.6	57.4	67.5	82.3
Gross profit	182.3	142.7	147.0	160.0	Other current assets	591.5	310.8	327.7	348.2
Other income	8.8	6.6	4.9	6.7	Property, plant, and equipment	49.7	53.1	86.0	82.2
Selling and distribution costs	-52.9	-50.1	-54.1	-55.6	Total assets	702.3	449.8	490.7	522.2
Administrative expenses	-56.8	-55.2	-56.6	-58.9	Debt	160.9	4.9	34.7	34.7
Net other operating gain	-4.7	-6.2	-5.9	-5.1	Current liabilities excluding debt	298.5	189.9	191.1	200.7
Profit from operations	76.7	37.8	35.2	47.2	Total liabilities	464.0	199.9	230.9	240.5
Profit before tax	73.8	36.4	35.0	46.8	Shareholders equity	236.6	249.9	259.8	281.5
Income tax expense	-11.6	-5.8	-7.6	-8.2	Total equity	238.3	249.9	259.8	281.7
Profit attributable to shareholders	61.3	32.4	27.4	38.4	Total equity and liabilities	702.3	449.8	490.7	522.2
CASH FLOW					KEY RATES & RATIOS				
Year Ended 30 Jun (HK\$m)	FY08	FY09	FY10F	FY11F		FY08	FY09	FY10F	FY11F
Op profit before working cap. chg.	86.9	47.6	41.5	53.7	EPS (HK cents)	30.4	16.0	13.5	18.8
Working cap, taxes and int	-174.4	133.6	-40.6	-35.8	NTA per share (HK cents)	116.0	122.5	126.3	136.9
Net cash from operations	-87.5	181.2	0.9	17.9	EBIT margin (%)	4.1%	2.4%	2.2%	2.8%
Purchase of PP&E	-3.6	-2.3	-40.0	-3.5	Net profit margin (%)	3.2%	2.1%	1.7%	2.3%
Other investing flows	18.4	-18.2	19.4	0.4	PER (x)	3.9	7.4	8.8	6.3
Investing cash flow	14.8	-20.5	-20.6	-3.1	Price/NTA (x)	1.0	1.0	0.9	0.9
Financing cash flow	93.8	-155.0	30.2	0.0	EV/EBITDA (x)	4.2	4.3	5.0	3.6
Net cash flow	21.1	5.7	10.5	14.8	Dividend yield (%)	11.1%	8.9%	6.9%	7.3%
Cash at beginning of year	27.0	51.3	57.1	67.5	ROE (%)	29.4%	12.6%	10.8%	14.3%
Cash at end of year	52.6	57.4	67.5	82.3	Net gearing (%)	45.8%	Net Cash	Net Cash	Net Cash

Source: Company data, OIR estimates

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

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- For companies with less than S\$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

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For OCBC Investment Research Pte Ltd



Carmen Lee
Head of Research

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