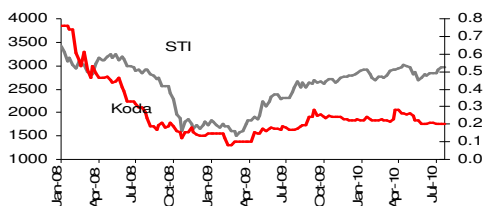


28 July 2010

Maintain

**BUY**

Previous Rating: BUY

**Current Price: S\$0.200**
**Fair Value: S\$0.275**


Reuters Code	KODA.SI
ISIN Code	5BK
Bloomberg Code	KODA SP
Issued Capital (m)	134
Mkt Cap (S\$/US\$m)	27 / 20
Major Shareholders	
James Koh Jyh Gang	19.5%
Free Float (%)	42.2%
Daily Vol 3-mth ('000)	28
52 Wk Range	0.175 - 0.290

(US\$m)	FY08	FY09	FY10F	FY11F
Revenue	54.9	37.8	42.8	49.5
Gross profit	16.0	9.9	11.1	13.4
EPS (cts)	3.1	-0.2	0.2	1.1
PER (x)	4.5	N.A.	60.3	12.5
Price/NAV (x)	0.7	0.7	0.7	0.7

**Lee Wen Ching**  
 (65) 6531 9806  
 e-mail: wenching@ocbc-research.com

## Koda Limited

### Value emerging following sell-down over US economic concerns

**US economy: moderating - not negative - growth.** Disappointing US economic data in recent weeks have raised concerns that the economic recovery could be tapering off. For instance, unemployment claims have been climbing, consumer confidence has been on a decline, and home sales recently hit an all-time low in May. Although home sales have since rebounded by 23.6% MoM to 330,000 units in Jun, it is still down 16.7% as compared to a year ago and market watchers have cautioned that sales could decline in the near future on the back of persistent unemployment. Nevertheless, while recent data suggests that the US economy's recovery has softened, economists do not expect a renewed downturn.

**Negatives priced in at current valuations.** Such lackluster economic data has weighed on Koda Ltd's (Koda) shares, which have retreated by 13% over the past two months vs. the STI's 3% gain over the same period. With the stock trading at just 0.7x NTA, we believe that negatives have been more than sufficiently priced in. In fact, we highlight that Koda is poised for a return to profitability in FY10 with the worst of the sub prime crisis behind it. The group has chalked up 9M10 earnings of US\$0.4m, reversing its US\$0.2m loss a year ago. We expect earnings recovery to gain momentum from FY11 onwards on the back of its enlarged capacity. Nevertheless, we acknowledge that renewed weakness in consumer spending could potentially dampen its recovery, and have toned down our projections to allow for a softer rebound in earnings.

**BUY in anticipation of earnings rebound in FY11.** We have trimmed our FY10 net profit forecast to US\$0.3m (from US\$0.7m) as we anticipate margin pressure in 4Q10 arising from operational inefficiencies associated with the start up of its new factory. Koda's FY10 results are expected around 26 Aug, during which we will be seeking updates on its order book and management's assessment of the impact of a slowdown in the US and UK on the group's earnings. Beyond what could be a muted set of 4Q10 results, we are forecasting a five-fold jump in FY11 earnings to US\$1.5m on improved operating margins. We maintain our **BUY** rating on Koda in view of its undemanding valuations and anticipated strong earnings rebound in FY11. Our fair value estimate, still based on NTA, has been trimmed to S\$0.275 (previously S\$0.30) following revisions to our projections.

## Koda's Key Financial Data

EARNINGS FORECAST					BALANCE SHEET				
Year Ended 30 Jun (US\$m)	FY08	FY09	FY10F	FY11F	As at 30 Jun (US\$m)	FY08	FY09	FY10F	FY11F
Revenue	54.9	37.8	42.8	49.5	Cash and cash equivalents	5.1	3.5	2.3	1.8
Cost of sales	-38.9	-27.9	-31.7	-36.1	Other current assets	17.1	16.5	15.8	18.3
Gross profit	16.0	9.9	11.1	13.4	Property, plant, equipment	13.5	13.3	13.3	13.3
Net op expenses	-10.7	-9.9	-10.7	-11.7	Total assets	37.7	35.2	33.8	35.9
EBIT	5.3	0.0	0.4	1.7	Debt	2.3	1.6	1.2	1.2
Finance costs	-0.2	-0.1	-0.1	-0.1	Current liabilities excluding debt	6.2	5.8	5.1	6.0
PBT	5.1	-0.1	0.3	1.6	Total liabilities	8.5	7.5	6.3	7.3
Tax	-0.8	-0.1	0.0	0.0	Shareholders equity	28.1	26.7	26.5	27.6
PAT	4.3	-0.3	0.3	1.5	Total equity	29.2	27.7	27.5	28.6
Net profit	4.2	-0.3	0.3	1.5	Total equity and liabilities	37.7	35.2	33.8	35.9

CASH FLOW					KEY RATES & RATIOS				
Year Ended 30 Jun (US\$m)	FY08	FY09	FY10F	FY11F		FY08	FY09	FY10F	FY11F
Op profit before working cap.	6.1	0.6	1.3	2.6	EPS (US cents)	3.1	(0.2)	0.2	1.1
Working cap, taxes and interest	-3.0	-1.3	-0.5	-2.1	NAV per share (US cents)	21.0	20.0	19.9	20.6
Net cash from operations	3.1	-0.7	0.8	0.5	EBIT margin (%)	9.6%	0.0%	1.0%	3.4%
Purchase of PP&E	0.0	0.0	-1.0	-1.0	PBT margin (%)	9.2%	-0.4%	0.8%	3.2%
Other investing flows	-3.3	-0.2	-0.5	0.0	Net profit margin (%)	7.6%	-0.8%	0.7%	3.1%
Investing cash flow	-3.3	-0.2	-1.5	-1.0	PER (x)	4.5	N.A.	60.3	12.5
Financing cash flow	-0.6	-0.7	-0.5	0.1	Price/NAV (x)	0.7	0.7	0.7	0.7
Net cash flow	-0.7	-1.6	-1.2	-0.5	Dividend yield (%)	4.1%	2.5%	2.5%	2.5%
Cash at beginning of year	5.8	5.1	3.5	2.3	ROE (%)	15.0%	-1.1%	1.2%	5.5%
Cash at end of year	5.1	3.5	2.3	1.8	Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, OIR estimates

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**SHAREHOLDING DECLARATION:**

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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