

MITA No. 010/06/2008

14 May 2009

# Midas Holdings Ltd

## Better margins but currently fairly valued

Downgrade to

# HOLD

Previous Rating: BUY

## S\$0.67

## Fair Value: S\$0.64

Stock Code:

Reuters: MIDA.SI

ISIN Code: 5EN

Bloomberg: MIDAS SP

Event:

Results

### General Data

Issued Capital (m)	845
Mkt Cap (S\$m/US\$m)	566 /386
Major Shareholder	Chen Wei Ping (20.69%)
Free Float (%)	62
NAV per share (S\$)	0.27
Daily Vol 3-mth ('000)	12,919
52Wk High (S\$)	1.110
52Wk Low (S\$)	0.250

**Better bottomline.** Midas Holdings (Midas) posted 13% YoY decline in 1Q09 topline to S\$31.4m but bottomline delivered a 11% YoY uptick to S\$8.5m. The bottomline improvement was on the back of better margins from the all its divisions. In particular, aluminium prices continued to stay low while the ASP of its products have still not tailed off in the same magnitude. Midas' associate, Nanjing Puzhen (NPRT), did not have any accretive contribution due to the timing of delivery of train car bodies. However, with its backlog order of 768 train cars, management is confident of meeting expectations for FY09 contributions.

**Cost-plus vs. back-to-back.** Midas signs two types of contracts with its customers. For back-to-back contracts, Midas locks the prices of raw materials in after securing the contract thus profit margins are protected. However, these contracts come with a premium which is required by the aluminium suppliers. Cost-plus approaches profitability in absolute terms where Midas marks up its profits with an absolute amount instead of a margin. As aluminium prices remain low, either contract types could lead to lower absolute dollars for Midas, translating to a lower topline but possibly better margins.

**Competition?** Recently, China Zhongwang Holdings (Zhongwang) was listed in the Hong Kong and have garnered a significant amount of interest, raising US\$1.26b (world's largest IPO YTD). Although the Zhongwang had indicated that it has been engaged in the rail industry, we understand that it currently has a lower grading certification from only one of the three major train manufacturers which it obtained in end 2008. Midas has indicated that it has not encountered Zhongwang in their past bids for projects in a significant way. As such, we think that Zhongwang is positioning to enter the rail industry but currently does not pose a significant challenge to Midas at this juncture. However, we acknowledge Zhongwang's significantly stronger balance sheet and do not discount a faster-than-anticipated penetration into the market.

**Downgrade to HOLD on valuation.** Despite higher margins, the net effect of low ASPs edges our estimates downwards. However, we are rolling our valuation forward to FY09/10F (prev: FY09F) with a similar peg of 12x and our fair value is now S\$0.64 (prev. S\$0.63). With its aggressive share price run up, we are downgrading Midas to a **HOLD**. 2010 will see earnings kicker from its 3rd line, bigger and better margined NPRT contributions and margin enhancers from its complementary downstream activities.

**Kelly Chia**

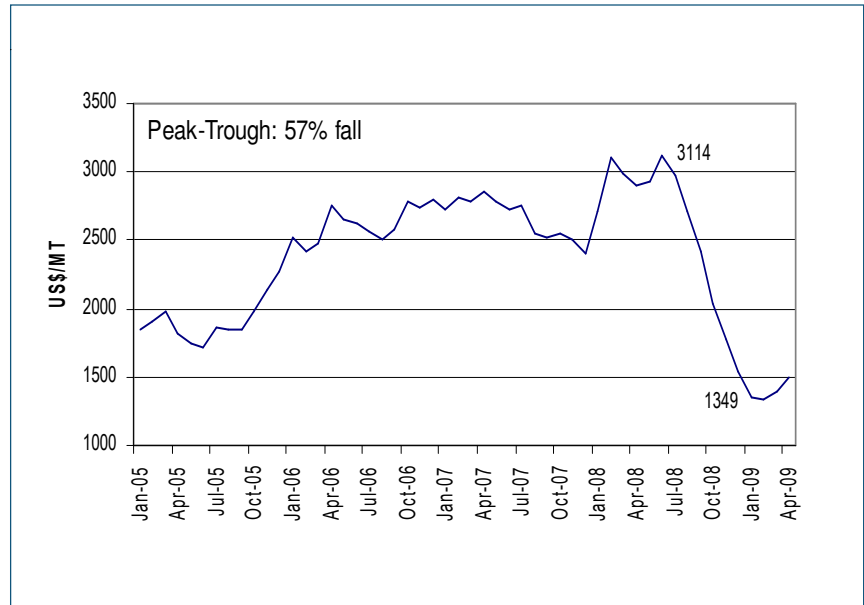
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Year to 31 Dec	Turnover (S\$m)	Gross Profit (S\$m)	Net Profit (S\$m)	EPS (cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	140.4	45.1	31.9	3.8	18.8	17.7	3.0
FY 08	144.5	50.9	32.7	3.9	2.4	17.3	1.9
FY 09F	127.4	48.6	34.8	4.1	6.5	16.3	1.9
FY 10F	168.3	58.8	42.8	5.1	22.9	13.2	2.2

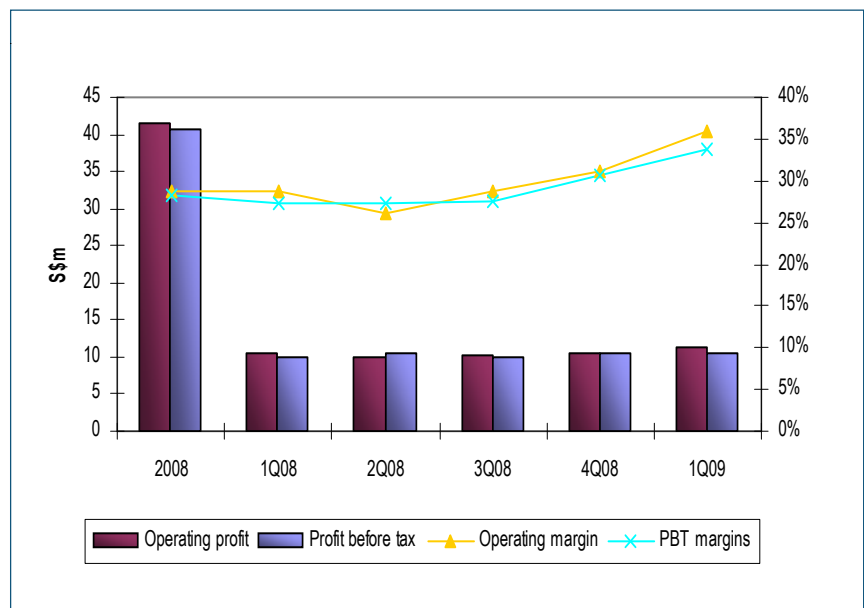
Please refer to the important disclosures at the back of this document.

Exhibit 1: Aluminium price trends



Source: Bloomberg, LME, compiled by OIR

Exhibit 2: Midas profit and margin trend



Source: Company, OIR estimates

**Midas' Key Financial Data**

<b>Midas Results</b> Year Ended 31 Dec (S\$ m)	<b>1Q08</b> (S\$m)	<b>1Q09</b> (S\$m)	<b>% Chg</b> (YoY)	<b>4Q08</b> (S\$m)	<b>% Chg</b> (QoQ)
Total Revenue (S\$m)	36.2	31.4	-13.1%	33.9	-7.4%
Aluminium division	30.3	29.7	-1.8%	33.2	-10.5%
PE pipe division	3.1	1.5	-52.2%	1.8	-15.3%
Agency and Procurement	2.8	0.2	-92.7%	-1.1	nm
Cost of Sales	-23.2	-18.2	-21.4%	-20.4	-11.0%
Gross Profit	13.0	13.2	1.6%	13.5	-1.9%
Other operating income	0.4	0.9	150.8%	2.4	-61.6%
Selling and distribution expenses	-0.8	-0.7	-10.4%	-1.6	-54.2%
Admin expenses	-2.2	-2.1	-1.8%	-3.6	-41.9%
Profit from operations	10.4	11.3	8.4%	10.6	6.5%
Financial income (expense), net	-0.6	-0.6	1.8%	-1.0	-37.4%
Share of associates & JVs	0.1	-0.1	nm	0.8	nm
Profit before income tax	9.9	10.6	6.8%	10.4	1.6%
Income Tax	-2.3	-2.1	-9.0%	-2.0	5.4%
Profit after tax and MI	7.6	8.5	11.5%	8.5	0.7%

**EARNINGS FORECAST**

<b>Year Ended 31 Dec (S\$ m)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
Revenue	140.4	144.5	127.4	168.3
Gross profit	45.1	50.9	48.6	58.8
Operating expenses	-9.1	-9.5	-8.5	-11.8
Operating profit	36.0	41.4	40.1	47.0
Other expenses	-2.0	-2.6	-1.9	-2.2
Profit/(Loss) from associates and JVs	1.3	1.9	5.2	12.2
Pre-tax profit	35.3	40.7	43.4	57.0
Tax	-3.4	-8.0	-8.6	-14.3
Net profit	31.9	32.7	34.8	42.8
Earnings per share (S\$cents)	3.8	3.9	4.1	5.1
Fully diluted earnings per share (S\$cents)	3.8	3.9	4.1	5.1
EPS growth	18.8%	2.4%	6.5%	22.9%
<b>Revenue revision</b>	<b>NA</b>	<b>NA</b>	<b>-17.3%</b>	<b>-18.1%</b>
<b>Net profit revision</b>	<b>NA</b>	<b>NA</b>	<b>-6.5%</b>	<b>-13.0%</b>
<b>Profitability ratios</b>				
Gross profit margin (%)	32.1	35.2	38.1	34.9
EBIT margin (%)	25.7	28.6	31.4	27.9
Net profit margin (%)	22.7	22.6	27.3	25.4

**BALANCE SHEET**

<b>As at 31 Dec (S\$ m)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
Cash and equivalents	51.7	32.4	33.6	25.5
Other current assets	59.6	82.2	56.1	74.0
Fixed assets	70.5	111.9	151.8	173.1
Other long term assets	39.0	38.0	40.8	40.6
Total assets	220.7	264.4	282.2	313.3
Debt (ST and LT)	18.4	21.1	25.0	25.0
Current liabilities ex debt	20.8	33.1	24.8	26.5
Other long term liabilities	0.0	0.4	0.0	0.0
Total liabilities	39.2	54.6	49.8	51.5
Shareholders equity (incl reserves)	181.6	209.8	232.4	261.7
Total equity and liabilities	220.7	264.4	282.2	313.3
NTA per share (S\$ cents)	21.5	24.8	27.5	31.0
NAV per share (S\$ cents)	21.5	24.8	27.5	31.0

**CASH FLOW**

<b>Year Ended 31 Dec (S\$ m)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
Profit/(Loss) before working cap. changes	43.8	48.9	54.8	65.3
Working capital changes	-9.8	-17.1	10.4	-23.4
Net cash from operations	34.0	31.8	65.2	41.9
Capex	-12.7	-43.2	-55.0	-40.0
Other investing flows	7.1	-3.4	-2.9	0.0
Total investing cash flow	-5.7	-46.6	-57.9	-40.0
Change in equity	1.7	0.2	0.0	0.0
Dividends paid	-12.7	-16.9	-10.0	-10.0
Net change in debt	1.7	1.6	3.9	0.0
Other financing cash flow	-6.2	-0.5	0.0	0.0
Total financing cash flow incl forex effect	-19.7	-4.4	-6.1	-10.0
Net cash flow	8.7	-19.3	1.2	-8.1
Cash at beginning of year	43.0	51.7	32.4	33.6
Cash at end of year	51.7	32.4	33.6	25.5

**Key Ratios**

PER (x)	17.7	17.3	16.3	13.2
Price/NTA (x)	3.1	2.7	2.4	2.2
Gross profit margin (%)	32.1	35.2	38.1	34.9
Net profit margin (%)	22.7	22.6	27.3	25.4
Dividend yield (%)	3.0	1.9	1.9	2.2
ROA (%)	14.5	12.4	12.3	13.7
ROE (%)	17.6	15.6	15.0	16.3
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash
PE growth (x)	0.9	7.8	2.5	0.6

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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