SINGAPORE **Company Update**

OCBC Investment Research

MITA No. 010/06/2008

15 May 2009

Tsit Wing International

Maintain
HOLD
Previous Rating: HOLD

S$0.20

Fair Value: S$0.22

Stock Code:
Reuters: TSWN.SI
ISIN Code T26
Bloomberg: TWI SP

Event: Results

General Data	
Issued Capital (m)	193
Mkt Cap (Sm/USm)	38.6/25.0
Major Shareholder	Wong's Brother Consortium Inc. (50.5%)
Free Float (%)	28.6
NAV per share (HK$)	1.30
Daily Vol 3-mth ('000)	1
52Wk High (S$)	0.325
52Wk Low (S$)	0.195

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1Q09 below expectations

Earnings disappointed on high operating costs. Tsit Wing International Holdings Ltd's (TWI) 1Q09 results came in below expectations. Revenue contracted by 4.7% YoY to HK$93.0m, gross profit declined 9.7% to HK$32.6m, and net profit slumped 49.4% to HK$4.4m. While its sales performance was within expectations, rapidly ballooning distribution costs and to a smaller extent, administrative expenses, eroded the group's bottom line. TWI recognised a HK$1.5m gain on derivative financial instruments during the quarter, without which, core earnings would have fallen by a larger 66.9% to HK$2.9m.

Profit margins declined. Gross profit margin contracted by 1.9ppt YoY and 1.0ppt QoQ to 35.1% in 1Q09. This was due mainly to the higher cost of coffee beans purchased during the commodity boom last year. The decline in net profit margin was more severe. Core net profit margin (excluding gains or losses on derivative financial instruments recognised during the respective periods) slumped by 5.9ppt YoY and 8.3ppt QoQ to just 3.1%, bringing the group's profitability below its track record range of 5.0% to 12.5% over the past four years. The decline in net profit margin arose from high operating expenses. In particular, the increased expenditure was attributed to higher marketing expenses for brand building, coupled with increased headcount in China.

Big plans in China. TWI will continue investing in China, which it has identified as its key growth driver. The group is building up its human capital and infrastructure, and plans to reorganise its sales and marketing units in order to fully leverage on China's growth in the catering and retail markets. These plans imply that operating cost pressure may persist. Thankfully, the group expects raw material costs to abate in the coming quarters, and this may take some pressure off the group's net profit margin.

Maintain HOLD rating and S$0.22 fair value estimate. TWI's core 1Q09 earnings have met only 14% of our full year estimate. Nevertheless, we are leaving our projections unchanged as demand is likely to pick up in the coming quarters in line with improvements in the economy. TWI remains in a net cash position and offers stable dividends which are yielding approximately 5.5% at current levels. We maintain our **HOLD** rating on the stock, and our fair value estimate remains at S$0.22 based on 0.9x FY09F NTA.

Year to 31 Dec	Turnover (HK$m)	Gross Profit (HK$m)	Net Profit (HK$m)	EPS (HK cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	362.8	139.7	35.4	18.4	3.2	5.9	10.1
FY 08	402.4	140.1	20.0	10.4	-43.5	10.5	5.5
FY 09F	390.6	134.8	20.5	10.6	2.5	10.3	5.5
FY 10F	395.0	138.2	22.3	11.6	9.0	9.4	5.5

Tsit Wing's Key Financial Data

Tsit Wing Results Year Ended 31 Dec (HK$ m)	1Q08 (HK$m)	1Q09 (HK$m)	% Chg (YoY)	4Q08 (HK$m)	% Chg (QoQ)
Revenue	97.7	93.0	-4.7%	107.1	-13.1%
Cost of sales	-61.5	-60.4	-1.8%	-68.4	-11.7%
Gross profit	36.1	32.6	-9.7%	38.7	-15.6%
Other operating income	0.7	2.1	221.4%	3.1	-31.3%
Distribution costs	-14.8	-17.0	14.6%	-18.1	-6.3%
Administrative expenses	-11.8	-12.2	3.4%	-11.9	3.1%
Other operating expenses	0.0	0.0	NM	-9.7	-100.0%
Finance cost	0.0	0.0	NM	0.0	NM
Profit before tax	10.1	5.5	-45.3%	2.0	172.8%
Tax	-1.4	-1.1	-19.6%	0.4	NM
Profit for the period	8.7	4.4	-49.4%	2.5	80.3%
Profit attributable to shareholders	8.7	4.4	-49.4%	2.5	80.3%

EARNINGS FORECAST Year Ended 31 Dec (HK$ m)	FY07	FY08	FY09F	FY10F
Revenue	362.8	402.4	390.6	395.0
Cost of sales	-223.1	-262.3	-255.8	-256.7
Gross profit	139.7	140.1	134.8	138.2
Other operating income	4.7	5.0	0.0	0.0
Distribution costs	-56.4	-63.8	-62.5	-63.2
Administrative expenses	-45.2	-47.4	-46.9	-47.4
Other operating expenses	0.0	-9.7	0.0	0.0
Finance cost	-0.1	-0.1	-0.4	-0.4
Profit before tax	42.7	24.0	25.0	27.3
Tax	-7.3	-4.0	-4.5	-4.9
Profit for the period	35.4	20.0	20.5	22.3
Profit attributable to shareholders	35.4	20.0	20.5	22.3
Minority interest	0.0	0.0	0.0	0.0
Earnings per share (HK cents)	18.4	10.4	10.6	11.6
Profitablity Ratios				
Gross margin (%)	38.5	34.8	34.5	35.0
PBT margin (%)	11.8	6.0	6.4	6.9
Net profit margin (%)	9.8	5.0	5.2	5.7

BALANCE SHEET **As at 31 Dec (HK$ m)**	**FY07**	**FY08**	**FY09F**	**FY10F**
Cash and cash equivalents	67.6	76.6	103.9	124.0
Inventories	57.4	73.2	66.4	59.2
Other current assets	82.0	74.4	64.5	65.2
Property, plant, and equipment	69.5	65.2	61.9	59.3
Other non-current assets	10.6	0.7	0.7	0.7
Total assets	287.1	290.1	297.4	308.4
Trust receipts and other loans	1.9	4.4	4.4	4.4
Cuurent liabilities less trust receipts	33.7	35.7	34.0	34.3
Long term liabilities	4.6	4.0	4.0	4.0
Total liabilities	40.3	44.1	42.4	42.7
Shareholders equity	246.8	246.1	255.0	265.8
Minority interests	0.0	0.0	0.0	0.0
Total equity	246.8	246.1	255.0	265.8
Total equity and liabilities	287.1	290.1	297.4	308.4
NAV per share (HK cents)	127.9	127.5	132.2	137.7

CASH FLOW **Year Ended 31 Dec (HK$ m)**	**FY07**	**FY08**	**FY09F**	**FY10F**
Operating profit before working cap. changes	53.1	41.7	38.7	40.3
Working capital changes	0.9	-29.2	8.8	6.7
Dividends paid	-21.2	-21.2	-11.6	-11.6
Interests and taxes paid	-4.1	-5.8	-4.9	-5.3
Net cash from operations	28.7	-14.6	31.1	30.1
Investing cash flow	6.8	21.6	-3.8	-10.0
Financing cash flow	-0.7	2.4	0.0	0.0
Net effect of exchange rate changes	1.8	-0.4	0.0	0.0
Net cash flow	36.6	9.0	27.3	20.1
Cash at beginning of period	31.0	67.6	76.6	103.9
Cash at end of period	67.6	76.6	103.9	124.0
Key Ratios				
PER (x)	5.9	10.5	10.3	9.4
Price/NAV (x)	0.9	0.9	0.8	0.8
EV/EBIT (x)	3.4	5.7	4.4	3.3
Dividend yield (%)	10.1	5.5	5.5	5.5
ROE (%)	14.4	8.1	8.0	8.4
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash
PE to growth (x)	1.8	-0.2	4.2	1.0

Source: Company data, OIR estimates

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