

MITA No. 010/06/2008

13 April 2009

Upgrade to

HOLD

Previous Rating: SELL

S\$0.07**Fair Value: S\$0.06**

Stock Code:

Reuters:

IBloomberg:

WLAR.SI

WAE SP

Event:

Update

General Data	
Issued Capital (m)	310
Mkt Cap (S\$m/US\$m)	22/14
Major Shareholder	
HSBC Holdings Plc	(17.56%),
Global Success Intl	(10.61%),
Yeo Seng Chong	(8.52%),
Yeoman Capital	(7.92%),
Advisor Profits	(6.77%),
Optimist Profits	(6.94%)
Free Float (%)	49.3
NTA per share (HK\$)	1.17
Daily Vol 3-mth ('000)	11
52Wk High (S\$)	0.205
52Wk Low (S\$)	0.060

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Willas-Array Electronics

Negatives largely priced in

2HFY09 may sink into red. Willas-Array Electronics (WAE) recently updated that the group had encountered a very soft 2HFY09 amid a fall-off in the global electronics demand. The worst was seen in Jan-Feb 2009, where the group suffered not only from a seasonally weak quarter but also from long holidays during Chinese New Year. Among the components, the industrial segment had held up the best. However, WAE is not expected to withstand the broad-based downturn in other segments. Consequently, WAE warns that 2HFY09 may not be profitable.

Outlook remains uncertain. Like many industry players, WAE has been aggressively cutting its inventory to a low level by selling excess inventory at lower ASPs. This reduction process had recently stabilized, and the group is starting to see orders returning after months of capacity reduction among its principals. While the group hopes that demand would pick up from April, it notes that the improvement in orders may not be sustainable and that the outlook remains uncertain. In addition, it believes that the recovery, if it occurs in FY10, is likely to be slow and gradual.

Financial position still healthy. On a brighter note, WAE assures that its financial position is still healthy. Thanks to its specialized team for credit checks, the amount of bad debts WAE incurred over the period is not expected to exceed that of last year (~47% of receivables are insured). To keep its costs down, the group is also embarking on a four-day week and other cost-cutting measures such as salary reduction and no pay leave. In the near-term, WAE is looking to benefit from the economic stimulus package rolled out by the Chinese government (for example, 3G telecommunications), and a strong, major customer who is taking the opportunity to expand its market share in China amid the downturn.

Upgrade to HOLD. We have adjusted our FY09F earnings to reflect a possible loss for the fiscal year. Due to the uncertain outlook, we now deem it inappropriate to base our fair value on earnings forecasts. As such, we adopt a price multiples based on NTA and peg it to 0.25x FY10F BV, near to its lowest-ever 0.24x P/BV since listing. This in turn yields a fair value of S\$0.06 (S\$0.04 on 4x blended FY09/10F EPS previously). As the share price has maintained around its current level lately, we believe the bulk of negatives have been priced in. Hence, we upgrade WAE from SELL to **HOLD**.

Year to 31-Mar	Turnover (HK\$m)	Gross Profit (HK\$m)	Net Profit (HK\$m)	EV/EBITDA (x)	EPS (HK cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	2,204.6	251.47	41.253	2.86	13.4	69.0	2.7	18.7
FY 08	2,548.5	298.1	45.9	4.2	14.8	10.8	2.4	21.0
FY 09F	2,101.5	199.8	-18.0	17.7	-5.8	nm	nm	-
FY 10F	2,058.8	212.1	8.3	7.1	2.7	nm	13.3	3.8

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

Willas-Array's Key Financial Data
EARNINGS FORECAST

Year Ended 31 Mar (HKD m)	FY07	FY08	FY09F	FY10F
Revenue	2,204.6	2,548.5	2,101.5	2,058.8
Gross profit	251.5	298.1	199.8	212.1
EBITDA	75.4	87.4	18.0	42.0
Depreciation & amortisation	-7.6	-10.3	-10.2	-10.9
Operating Profit	67.7	77.1	7.9	31.1
Interest expense	-17.6	-20.2	-21.0	-20.2
Associates	0.0	0.0	-1.2	-0.8
Pre-tax profit	50.1	56.9	-14.2	10.0
Tax	-10.2	-10.2	-5.5	-2.8
Minority interests	-1.3	0.8	-1.7	-1.1
Net profit	41.3	45.9	-18.0	8.3
Earnings per share (cents)	13.4	14.8	-5.8	2.7
Fully diluted earnings per share (cents)	12.2	13.7	-5.4	2.5

BALANCE SHEET

As at 31 Mar (HKD m)	FY07	FY08	FY09F	FY10F
Cash	194.9	196.2	387.8	362.4
Other current assets	689.1	856.9	677.1	663.6
Fixed assets	41.2	36.0	32.3	78.1
Other long term assets	31.7	38.7	86.4	31.9
Total assets	956.8	1,127.8	1,183.6	1,135.9
Current liabilities less debt	296.0	294.0	245.0	234.8
Debt	288.2	437.2	585.0	540.3
Other long term liabilities	3.9	3.4	3.4	3.4
Total liabilities	588.1	734.6	833.4	778.5
Shareholders equity	356.5	380.1	338.9	347.2
Minority interests	12.2	13.0	11.3	10.2
Total equity and liabilities	956.8	1,127.8	1,183.6	1,135.9
NTA per share (cents)	108.9	116.9	104.8	108.6

CASH FLOW				
Year Ended 31 Mar (HKD m)	FY07	FY08	FY09F	FY10F
Operating profit before working cap. changes	98.1	104.6	16.0	38.7
Working capital changes	-19.7	-197.6	133.2	3.3
Interest and tax	-24.0	-21.5	-24.0	-20.5
Net cash from operations	54.4	-114.4	125.1	21.5
Capex	-2.7	-2.3	-3.0	-2.2
Other investing flows	-17.4	-10.9	-55.0	0.0
Investing cash flow	-20.1	-13.2	-58.0	-2.2
Change in equity	0.0	0.0	0.0	0.0
Dividend paid	-18.2	-25.4	-23.2	0.0
Net change in debt	-19.3	62.9	114.7	-25.7
Others	44.5	86.9	33.1	-18.9
Financing cash flow	7.0	124.4	124.6	-44.7
Effect of exchange rate fluctuations	0.4	4.5	0.0	0.0
Net cash flow	41.6	1.3	191.7	-25.4
Cash at beginning of year	153.3	194.9	196.2	387.8
Cash at end of year	194.9	196.2	387.8	362.4
Key Ratios				
PER (x)	2.7	2.4	nm	13.3
Price/NTA (x)	0.3	0.3	0.3	0.3
EV/EBITDA (x)	2.9	4.2	17.7	7.1
Dividend yield (%)	18.7	21.0	0.0	3.8
ROIC (%)	5.7	5.0	-9.3	1.5
ROE (%)	11.4	12.3	-5.3	2.0
Net gearing (%)	26.2	63.4	58.2	51.2
PE to growth (x)	0.0	0.2	0.0	-0.1

Source: Company data, OIR estimates

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