

MITA No. 010/06/2008

1 April 2009

Z-Obee Holdings Ltd

Maintain

HOLD

Previous Rating: HOLD

S\$0.03

Fair Value: S\$0.03

Stock Code:

Reuters: ZOBE.SI

ISIN Code: D5N

Bloomberg: ZBEE SP

Event:

Update

General Data	
Issued Capital (m)	498
Mkt Cap (S\$m/US\$m)	15 / 10
Major Shareholder	
Shih Zen Wang (33.79%),	
Tao Wang (25.57%)	
Free Float (%)	40.6%
NTA per share (USD)	0.10
Daily Vol 3-mth ('000)	389
52Wk High (S\$)	0.130
52Wk Low (S\$)	0.020

Proposed disposal of wholly-owned subsidiaries

Proposed disposal of subsidiaries. Z-OBEE Holdings yesterday announced that it had entered into a Sale and Purchase Agreement with an independent third party for the disposal of the entire interests in its wholly-owned subsidiaries State Tech International Limited and CCDH Technology (Shenzhen) Limited (collectively Disposal Group). The total cash consideration of the proposed disposal was US\$458k, and was agreed upon based on arms' length negotiations.

Rationale for disposal. State Tech was engaged in the development sales and marketing of mobile appliances solution and mobile handset hardware, and held the entire issued capital in CCDH Technology. The latter was engaged in the development, sales and marketing of software and solution for mobile appliances. However, due to overlapping of functions within the group, a substantial part of the assets and liabilities of the Disposal Group were transferred to other subsidiaries during an internal restructuring to streamline the group's overall business operations. According to Z-OBEE, the disposal would not only save the group from recurring administrative costs, amortization charges/possible write-offs, but also enable it to use the proceeds for working capital. As the Disposal Group is left with assets and liabilities that are not critical to its core business, Z-OBEE is not expecting any impact in the research and development, manufacture and sale of mobile handsets solutions and its proprietary handsets.

Expecting to book loss pertaining to disposal. Based on the most recent 9MFY09 results, the net profit attributable to the Disposal Group amounted to US\$546k (13.8% of overall profit of US\$3,959k), while these assets were valued at US\$905k (1.7% of group's NAV of US\$53,985k). At a cash consideration of US\$458k, we note that Z-OBEE would incur a loss of US\$447k resulting from the disposal.

Maintain HOLD and S\$0.03 fair value. With the transaction projected to complete around 30 April 2009, we have made several adjustments to our FY09 estimates to reflect the anticipated loss - this lowers our FY09F net income (excluding discontinued operations) by 27.9% to US\$2,663k. For FY10, however, we are keeping our estimates intact as we await clearer direction on the China handset marketplace via its upcoming full-year results. Accordingly, our fair value remains unchanged at S\$0.03, based on 2x FY10F EPS. As the stock appears to be fairly priced, we maintain our **HOLD** rating on Z-OBEE.

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Year to 31 Mar	Turnover (US\$m)	EBITDA (US\$m)	Net Profit (US\$m)	EPS (US cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	46.3	8.8	8.9	2.2	707.4	0.9	26.9
FY 08	119.6	12.1	10.2	2.3	6.0	0.9	20.5
FY 09F	103.3	5.5	2.7	0.5	-76.8	3.7	-
FY 10F	87.8	6.7	4.3	0.9	59.7	2.3	-

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

Z-Obee's Key Financial Data

EARNINGS FORECAST

Year Ended 31 Mar (US\$ m)	FY07	FY08	FY09F	FY10F
Revenue	46.3	119.6	103.3	87.8
EBITDA	8.8	12.1	5.5	6.7
Depreciation & amortisation	-0.3	-1.1	-1.5	-1.6
Operating Profit	8.5	11.0	4.0	5.2
Net interest	-0.1	-0.8	-0.5	-0.6
Associates	1.0	0.7	0.4	0.4
Pre-tax profit	9.3	10.9	3.9	4.9
Tax	-0.4	-0.8	-0.6	-0.7
Minority interests	0.1	0.1	0.1	0.1
Discontinued operations	0.0	0.0	-0.7	0.0
Net profit	8.9	10.2	2.7	4.3
Earnings per share (cents)	2.2	2.3	0.5	0.9
Fully diluted earnings per share (cents)	2.2	2.3	0.5	0.9

BALANCE SHEET

As at 31 Mar (US\$ m)	FY07	FY08	FY09F	FY10F
Cash	5.9	20.4	25.9	33.4
Other current assets	9.6	35.6	38.7	33.4
Fixed assets	0.5	8.2	7.0	7.1
Other long term assets	4.0	7.1	6.5	6.4
Total assets	20.1	71.3	78.1	80.2
Current liabilities less debt	1.6	13.7	10.3	9.7
Debt	2.2	3.0	12.9	11.3
Other long term liabilities	3.7	2.9	2.2	2.2
Total liabilities	7.4	19.7	25.3	23.2
Shareholders equity	12.6	51.5	52.8	57.0
Minority interests	0.1	0.1	0.0	0.0
Total equity and liabilities	20.1	71.3	78.1	80.2
NTA per share (cents)	2.6	9.9	10.2	11.1

CASH FLOW**Year Ended 31 Mar (US\$ m)**

	FY07	FY08	FY09F	FY10F
Operating profit before working cap. changes	8.9	12.8	5.8	6.6
Working capital changes	-2.7	-13.0	-1.3	3.5
Interest and tax	-0.1	-0.4	-1.0	-1.4
Net cash from operations	6.0	-0.6	3.5	8.7
Capex	-0.6	-2.9	-0.5	-1.0
Other investing flows	-6.1	-4.6	-4.9	1.3
Investing cash flow	-6.6	-7.5	-5.0	0.3
Change in equity	0.0	20.5	0.0	0.0
Net change in debt	2.2	0.9	9.8	-1.6
Dividends paid	0.0	-2.2	-2.0	0.0
Others	3.6	3.8	-0.8	0.0
Financing cash flow	5.8	23.0	7.0	-1.6
Forex adjustments	0.0	0.2	0.0	0.0
Net cash flow	5.2	14.9	5.5	7.4
Cash at beginning of year	0.0	5.3	20.4	25.9
Cash at end of year	5.3	20.4	25.9	33.4

Key Ratios

PER (x)	0.9	0.9	3.7	2.3
Price/NTA (x)	0.8	0.2	0.2	0.2
EV/EBITDA (x)	0.7	-0.6	-0.6	-1.8
Dividend yield (%)	26.9	20.5	0.0	0.0
ROIC (%)	36.1	13.8	4.7	5.9
ROE (%)	128.1	31.6	6.2	7.6
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash
PE to growth (x)	0.0	0.1	0.0	0.0

Source: Company data, OIR estimates

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Head of Research

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