

<b>Cymao Holdings Bhd</b>		<b>Price:</b>	RM1.29
		<b>Market Capitalisation:</b>	RM93.75m
		<b>Board:</b>	Main Board
		<b>Sector:</b>	Industrial Products
<b>Stock Code:</b>	5082	<b>Recommendation:</b>	BUY

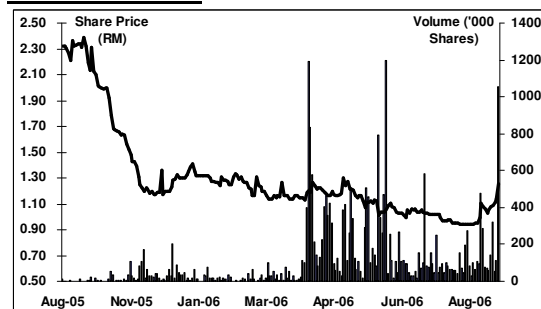
Key Stock Statistics	FY05	FY06F	FY07F
EPS (sen)	27.1	27.1	40.1
P/E on EPS (x)	4.8	4.8	3.2
Dividend/Share (sen)	7.5	10.0	10.0
NTA/Share (RM)	0.87	1.10	1.40
Book Value/Share (RM)	1.20	1.43	1.73
Issued Capital (m shares)	60.0	75.0	75.0
52-weeks Share Price Range (RM)	0.94-2.99		

Major Shareholders:	%
Lin Tsai-Rong	28.13
Tsay Chung-Wen	9.33
Stichting Shell Pensioenfonds	5.78
Hsu How-Tong	5.58

Per Share Data	FY04	FY05	FY06F	FY07F
Year-end 31 Dec				
Book Value (RM)	1.86	1.50	1.43	1.73
Cash Flow (sen)	28.2	(14.2)	8.8	12.6
Earnings (sen)	34.9	27.1	27.1	40.1
Dividend (sen)	7.5	7.5	10.0	10.0
Payout Ratio (%)	15.7	20.2	26.9	18.2
PER (x)	3.7	4.8	4.8	3.2
P/Cash Flow (x)	4.6	(9.1)	14.7	10.2
P/Book Value (x)	0.7	0.9	0.9	0.7
Dividend Yield (%)	5.8	5.8	7.8	7.8
ROE (%)	17.7	12.9	16.5	21.0
Net Gearing (%)	n.c.	4.4	11.3	13.5
<i>n.c.: net cash</i>				

P&L Analysis (RMm)	FY04	FY05	FY06F	FY07F
Year-end 31 Dec				
Revenue	195.1	245.8	281.4	318.1
Operating Profit	25.2	13.2	18.4	27.6
Depreciation	(6.6)	(8.6)	(9.8)	(11.1)
Net Interest	(0.2)	0.2	0.2	(0.2)
Pre-tax profit	25.3	13.4	18.5	27.4
Effective Tax Rate (%)	17.3	(21.4)	(10.0)	(10.0)
Net Profit	21.0	16.2	20.4	30.1
Operating Margin (%)	12.9	5.4	6.5	8.7
Pre-tax margin (%)	13.0	5.4	6.6	8.6
Net margin (%)	10.7	6.6	7.2	9.5

### Share Price Chart



### 1. 2QFY06 Results Highlights:

Year-ended 31 Dec	2Q06 (RMm)	2Q05 (RMm)	Chg (%)
Revenue	72.9	56.3	29.5
Operating Profit	6.6	3.2	106
Net Interest Income	(0.4)	(0.1)	300
Pre-tax Profit	6.2	3.1	100
Net Profit	6.2	3.2	93.8
Operating Margin (%)	9.0	5.7	
Pre-tax Margin (%)	8.5	5.5	
Net-Margin (%)	8.5	5.7	
Effective tax rate (%)	1.4	(2.1)	

- Cymao's 2Q06 net profits were ahead of our expectations due to higher-than-expected average plywood selling prices and a lower-than-expected effective tax rate, as a result of double tax deductions on freight charges.
- 2Q06 revenues increased by 29.5% yoy, on the back of a 49% yoy increase in volume sales to 56,679m<sup>3</sup>. Sales were boosted by deliveries to Middle East markets to support infrastructure development in that region.
- 2Q06 profits at the pre-tax and net levels doubled versus 2Q05, reflecting the surge in margins from a strong recovery in plywood selling prices, which have increased by nearly 20% up to 2Q06. Higher plywood prices should continue to support Cymao's performance in 2H06.

## 2. 1HFY06 Results Review:

	1HFY06 (RMm)	1HFY05 (RMm)	Change (%)
Revenue	122.7	105.0	16.8
Operating Profit	9.9	7.5	32.0
Net Interest Income	(0.9)	(0.0)	nm
Pre-tax Profit	9.0	7.5	20.0
Net Profit	9.5	9.9	(4.0)
Operating Margin (%)	8.1	7.1	
Pre-tax Margin (%)	7.3	7.1	
Net-Margin (%)	7.7	9.4	

### Turnover

- Turnover in 1H06 registered a 16.8% yoy increase to RM122.7m, reflecting higher sales to existing customers in the US and UK, and also new markets in the Middle East on the back of infrastructure development in the region.

### Earnings

- Pre-tax profits posted a relatively stronger yoy increase of 20% in 1H06, due to a recovery in plywood selling prices towards the later part of 2H06. Improved macro economic conditions in Asian countries and strong and stable demand for plywood products from Japan, China and India, have pushed plywood prices to eight-year highs since April 2006.
- Net profits however showed a slight 4% yoy decline due to a smaller positive tax charge in 1H06 of RM0.5m versus RM2.4m in 1H05.
- Cymao declared a first interim dividend of 5sen/share versus interims of 2.5sen/share in 1H05. Assuming a final dividend of 5.0sen/share similar to 2005 suggests a potential full year dividend payout of 10sen/share for this year. This implies a gross yield of 7.8% based on the current share price, which we believe is attractive.

### Balance Sheet

- Cymao ended 2Q06 with a net debt position of RM14.7m against a marginal net cash position of RM0.5m as at end-2005. The net gearing level however remained comfortable at 9.5% in June 2006.
- On 20 Jan 2006, Cymao completed the acquisition of 100% equity interest in Inovwood for RM16m cash. The company took on US\$ denominated long-term borrowings totalling RM10.8m in 2005.

### Earnings Outlook

- The recovery in plywood selling prices is good news for Cymao, whose earnings have been affected by soft plywood prices since 2005, as a result of the influx of cheap Chinese softwood plywood into its main export market, USA. Management expects the favourable plywood prices to maintain for the rest of 2006 and beyond hence supporting stronger earnings going forward.
- In addition to the recovery in plywood prices, the outlook on the demand side is also promising, with demand coming from the US market on post-Katrina rebuilding activities. The CE marking of the Group products has also enhanced Cymao's entry into the Europe market.
- In the UK market, strong campaigns carried out by the Greenpeace organisation against illegally sourced timber has put the pressure on buyers to procure plywood only from FSC certified manufacturers, thus strengthening Cymao's products' presence in this region and additionally counters competition from China.
- Longer-term earnings should be supported by Cymao's recent move on 1 August 2006, to incorporate a new wholly-owned company under the name Xuzhou Richwood Co Ltd (XRCL) with registered capital of US\$1.4m. The intention is to set up a manufacturing facility to produce plywood products in the Jiangsu Province to cater to the overseas markets mainly the US, UK and Europe.
- The new China subsidiary will be able to leverage on the low cost of production and the availability of raw materials domestically, while boosting Cymao's production capacity by an additional 84,000m<sup>3</sup> eventually to bring the total group annual production capacity to 264,000 m<sup>3</sup>.

- We believe the expansion into China is a positive not only for future growth prospects but also enables Cymao the ability to offer its existing customers a wider product range and to a certain extent, recover some lost ground taken by cheap Chinese imports into Cymao's key markets over the last year or so.
- On the downside however, log prices are not expected to ease and management is continuously looking at alternative sources of supply to supplement the current long-term supply agreements with companies such as Country-Forest Industries, Sabah Forest Industries and Sapulut Forest Development.
- We have upgraded our forecasts to factor in higher average plywood selling prices as well as lower effective tax rates, due to the group's ability to claim double tax deductions for freight charges via its in-house logistic division under a wholly-owned subsidiary, Billion Apex.

### **3. Recommendation**

- We maintain our **BUY** recommendation on Cymao. As a result of our upward earnings revision, our price target is revised to RM2.40/share, based on a 2007F PER of 6x, in line with the industrial sector average 2007F PER, and at a 50% discount to the average 2007F market PER of 13x.

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Investment ratings:

Buy (generally >10% upside over the next 12 months)

Hold (generally negative 10% downside to positive 10% upside over the next 12 months)

Sell (generally >10% downside over the next 12 months)

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