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Recommendation:

HOLD

Previous call: HOLD at S\$0.495
on 7 December 2006

Price

Previous close **S\$0.56**
Fair value **S\$0.53**

Share Statistics

Shares	230.6m
Market Cap.	S\$129.1m
Historical PER	10.9x
Forward PER	9.4x
P/NTA	1.5x
52-week Price Range	0.42-0.635
52-week PER Range	5.8x – 11.1x
Listing Bourse	Mainboard
	Mr Wee Kok Wah
Major Shareholders	(33.9%) Lim & Tan Securities (7.0%)

Source: Bloomberg, Phillip Securities
Research

Price Chart



Company Profile

Established in the 1930s, Stamford Tyres is today a global tyre and light alloy wheel specialist. The company provides integrated value-added services including global distribution, retail operations, and fleet and mining management services. It also has manufacturing services through its alloy wheel manufacturing and tyre outsource contract manufacturing.

Stamford Tyres Corporation

Earnings bogged down by lower margins

22 June 2007

FY07 results below expectation. Stamford Tyres Corporation ("STC") posted higher revenue of S\$296.0 million (+17% YoY) in FY07, driven by the continued growth of its major brands - Falken, Dunlop and Continental tyres, and increased sales of its proprietary brands - Sumo Firenza tyres and SSW wheels. Net profit, however, fell by a steeper than expected 25% YoY to S\$11.6 million (17% below our estimate), due mainly to lower gross margin of 23.9% (-4.7 ppt YoY) in the face of rising raw material costs. While STC seeks to adjust selling prices on a semi-annual basis to mitigate margin pressure, the competitive environment in the tyre distribution business limits its ability to fully pass on the cost increases to its customers. STC has declared a net dividend per share of 1.64 cents.

Revenue should continue to grow on healthy demand and higher capacity. STC continues to see healthy demand for its range of products and aims to improve revenue and earnings in FY08. It has already secured greater allocation of its Sumo Firenza tyres for FY08 and FY09 through its outsource contract manufacturing arrangements. In addition, its second wheel plant in Thailand will commence operations in early 2008. These should underpin our expectation of double-digit revenue growth in FY08 and FY09.

Volatility in raw material prices remains a concern; maintain HOLD. We have lowered our net profit forecast for FY08 by 24% on lower gross margin assumptions and introduced FY09 estimates. Based on our forecasts, we expect STC to resume earnings growth (albeit from a lower base) at a CAGR of 21% in FY08 and FY09, on the assumption that raw material costs remain stable. A stronger than expected take-up of STC's proprietary brands and easing raw material prices could provide upside surprises to our estimates.

Although we continue to rate management highly, we think that the share price is fully valued at current levels. We marginally raise our Fair Value Estimate from S\$0.525 to S\$0.53, based on a relative valuation of 8x blended FY08/09 PER. We peg our Fair Value Estimate to a higher earnings multiple of 8x (instead of 7.5x) to reflect a slightly more positive view of STC's medium term outlook. Maintain HOLD.

Key Financial Data

(Financial Year Ended 30 April)

	FY06A	FY07A	%ch	FY08E	FY09E
Revenue (S\$m)	253.2	296.0	16.9	368.1	433.5
Gross Profit (S\$m)	72.4	70.7	-2.4	70.7	86.3
EBIT (S\$m)	24.7	23.1	-6.7	23.1	25.1
Profit Before Tax (S\$m)	19.7	16.8	-14.7	18.1	22.5
Net Profit (S\$m)	15.6	11.6	-25.3	13.7	17.1
Net Profit Margin (%)	6.1	3.9	-2.2 ppt	3.7	3.9
ROE (%)	19.3	13.1	-6.2 ppt	13.9	15.2
EPS (cents)	7.3	5.2	-29.1	6.0	7.4
Net DPS (cents)	2.0	1.6	-18.0	1.6	1.6
NTA per Share (cents)	37.0	38.5	4.2	42.9	48.6

Source: Company, Phillip Securities Research

Financials

Income Statement

In S\$'000	FY05A	FY06A	FY07A	FY08E	FY09E
Revenue	191,293	253,223	296,014	368,070	433,512
Cost of goods sold	(140,103)	(180,812)	(225,346)	(281,755)	(331,174)
Gross profit	51,190	72,411	70,668	86,316	102,338
Other revenue	400	1,125	1,308	368	434
Employee benefits	(14,811)	(19,478)	(21,557)	(26,501)	(31,646)
Marketing and promotion	(5,579)	(8,630)	(8,184)	(10,122)	(11,922)
Utilities, repairs and maintenance	(4,583)	(5,427)	(5,902)	(7,361)	(8,887)
Depreciation and amortization	(3,799)	(4,035)	(4,958)	(5,807)	(6,586)
Operating lease rentals	(1,783)	(2,663)	(3,613)	(4,049)	(4,552)
Other operating expenses	(5,972)	(8,604)	(4,710)	(7,729)	(9,104)
Profit from Operations	15,063	24,699	23,052	25,114	30,075
Interest income	81	163	274	271	305
Finance costs	(2,944)	(5,364)	(7,027)	(8,059)	(9,063)
Share of profits / (losses) of associates	(642)	223	517	776	1,163
Profit before taxation	11,558	19,721	16,816	18,102	22,480
Income tax expense	(2,893)	(4,112)	(5,193)	(4,344)	(5,395)
Net profit attributable to minority interests	62	54	2	10	10
Net profit attributable to shareholders	8,603	15,555	11,621	13,748	17,075

Balance Sheet

In S\$'000	FY05A	FY06A	FY07A	FY08E	FY09E
Current assets	144,959	184,522	209,223	244,092	279,103
Non-current assets	54,629	58,736	59,476	68,585	69,919
Current liabilities	86,522	122,889	142,236	172,178	190,132
Non-current liabilities	44,699	39,509	37,314	41,373	46,461
Minority Interest	227	283	289	299	309
Shareholders equity	68,168	80,577	88,860	98,826	112,120

Cash Flow Statement

In S\$'000	FY05A	FY06A	FY07A	FY08E	FY09E
Profit before tax	11,558	19,721	16,816	18,102	22,480
Depreciation and amortisation	4,429	5,868	7,377	8,667	9,829
Operating profit before working capital changes	19,456	30,603	30,368	33,781	39,904
Net cash flow from operating activities	(1,804)	(4,783)	(6,023)	(5,046)	7,690
Net cash flow from investing activities	(10,262)	(8,126)	(7,077)	(15,811)	(10,000)
Net cash flow from financing activities	5,313	18,680	14,408	14,230	13,456
Net increase/(decrease) in cash/cash equivalents	(6,753)	5,771	1,308	(6,627)	11,146
Cash and cash equivalents at beginning of year	20,828	13,817	19,580	20,341	13,714
Exchange rate changes and other adjustments	(258)	(8)	(547)	0	0
Cash and cash equivalents at end of year	13,817	19,580	20,341	13,714	24,860

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BUY	>15% upside from the current price
HOLD	Trade within \pm 15% from the current price
SELL	>15% downside from the current price

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