net research
www.netresearch-asia.com

FY07 RESULTS UPDATE

26/6/2007

Stamford Tyres

PRICE S$0.53

Hold (TP: S$0.56)

Fiscal YE December	2005	2006	2007	2008F	2009F
Profit & Loss					
Revenue (SGD$m)	191.8	254.5	297.6	348.1	387.2
Gross profit (SGD$m)	51.7	73.7	72.3	80.7	89.8
Pretax profit (SGD$m)	11.6	19.7	16.8	16.7	18.4
Net profit (SGD$m)	8.6	15.6	11.6	12.7	14.3
Margins					
Gross margin	26.9%	29.0%	24.3%	23.2%	23.2%
Pre-tax margin	6.0%	7.7%	5.7%	4.8%	4.7%
Net margin	4.5%	6.1%	3.9%	3.6%	3.7%
Split-adjusted per-share					
Basic EPS (SGD cts)	4.2	7.1	5.2	5.5	6.2
Net operating cashflow (SGD cts)	-0.91	-2.10	-2.58	-2.79	-3.00
Net asset value (SGD cts)	28.5	30.2	35.5	38.3	42.1
Common valuation metrics					
PER (x)	13.9	7.8	10.6	9.7	8.6
P/BV (x)	1.8	1.5	1.4	1.3	1.2
P/NTA (x)	1.8	1.5	1.4	1.3	1.2
Dividend yield (%)	3.7%	4.7%	4.7%	3.1%	3.5%
Free cashflow (FCF) metrics					
FCF (SGD$m)	-12.3	-12.9	-13.1	-13.0	-10.0
FCF/shr t.d. (SGD cts)	-5.5	-5.7	-5.6	-5.6	-4.3

Basic information		**Trading & liquidity**	
Shares outstanding (m)	230.6	Listed status	Mainboard
Options outstanding (m)	2.5	Market capital'n (S$m)	122.2
Truly diluted shares (m)	233.0	Estimated free float (%)	51.0%
		Average daily vol (m)	0.5

Major shareholders		**Senior management**	
Wah Holdings Pte Ltd	15.6%	Wee Kwok Wah	CEO
Wee Kok Wah	12.7%	Kwok Wai Ying Dawn	Exec VP
Kwok Wai Ying Dawn	5.9%	Conson Sia	CFO

Sharp fall in net profit negated strong double-digit revenue growth

- Revenue grew 16.9% yoy to S$297.6m but net profit fell 25.54% to S$11.62m due to higher raw material costs, financing costs and higher tax expenses. These were compounded by the stickiness of passing the increased costs to end-users.

- The Group's higher turnover was driven by continual growth in sales of its propriety brands namely Sumo Firenza and SSW wheels as well as the increase in product lines of its major brands Falken, Dunlop and Continental.

- Margins were squeezed with gross margins falling from 29.0% to 24.3% yoy and net margins from 6.1% to 3.9%. Going forward, management expects to maintain gross margins at 23%.

- We do not expect to see the high growth rates in profits and revenue like that in FY06 as the supernormal pricing of OTR earth-mover tyres was eroded by mass production of such tyres in China. However, demand for Stamford's Sumo OTR tyres are still expected to be strong.

- We place a hold recommendation on Stamford Tyres due to its eroding margins. The fair value is pegged at S$0.56, which is supported by our residual income model. At the current price of S$0.53, the counter offers limited upside potential.

David Zhang

Key FY07 Results Highlights

Revenue grew 16.9% yoy to S$297.6m but net profit fell 25.54% to S$11.62m due to higher raw material costs, financing costs and higher tax expenses. These were compounded by the stickiness of passing the increased costs to end-users. Higher aluminum cost continues to be a drag on the Group's cost of goods sold. Management believed that prices of aluminum should stabilise at current levels.

Group's higher turnover was driven by continual growth in sales of its propriety brands of tyres and wheels namely Sumo Firenza and SSW wheels. Turnover was further boasted by the increase in product lines of its major brands Falken, Dunlop and Continental.

Financial Performance

Income statement highlights

Margins were squeezed with gross margins falling from 29.0% to 24.3% yoy and net margins from 6.1% to 3.9%. The fall in net margins was attributable to the 31% increase in finance costs from S$5.36m to S$7.03m. This was the result of the increase use of short term trade financing as well as the increase in interest rates. We do not expect the Group's finance cost to drop in the near future as the Company continues to finance its operations with debt. Tax expenses, which came in 26.3% higher at S $5.2m, also impacted net margins negatively.

Balance sheet highlights

Inventory and receivable turnover days were tolerable at 148 and 110 days respectively. Cash conversion days was relatively high at 206. This means that it took about 206 days for the company to receive cash from selling its purchased inventories. Going forward, we expect receivables to increase at roughly the same rate or slightly faster than sales as the Company takes its propriety brands into new markets. There is no change to the company's credit policy.

Update on Thailand's Second Wheel Plant

The 2nd wheel plant in Thailand has an area of 9,600 square metres and consists of 4 assembly lines with the output of 20,000 wheels per line. 2 of the assembly lines will be operational by FY08 and is expected to double current output of SSW wheels. The remaining two assembly lines will be opened for production depending on customers' demand as well as aluminum prices.

Stamford Wheel plants possess the manufacturing capability for both the replacement market as well as the OE market (vehicle makers). Some OE manufacturers in Thailand have already approached Stamford and depending on their pricing, the possibility of Stamford producing wheels for the OE markets cannot be rule out.

Outlook and Future Prospects

Stamford Tyres's sales mix comprises of 90% tyre distribution and 10% wheel manufacturing and thus it is largely a tyre dealer. Having a sizeable portion of revenue coming from the distribution of its major brands Falken, Dunlop and Continental AG, Stamford's performance will be largely dependent on the success of these tyre manufacturers.

In 2006, tyre manufacturing saw a gradual shift from low-cost broad-market tyres towards high-performance tyres. In this high performance segment, the top three players Goodyear, Michelin and Bridgestone took 38% of the market share whereas Falken, Dunlop and Continental took a combined stake of only 13.5%. Falken and Continental have been aggressively expanding their market share in this segment since 2004. We believe that more product lines will be added to their product mix in FY08 which will in turn benefit the Company's top line.

Competition is keen in the tyre manufacturing industry as these global major brands tried to wrestle market share from each other. This situation is exacerbated by the increase in cost of raw materials.

The major tyre manufacturers are able to pass on these increases in costs to the dealers. Due to their limited capability to match the aforesaid costs at the retail level, dealers will find their gross margins being squeezed.

Major brands can also dictate and limit the regions of distribution for the dealers and thus, the room for a dealer to grow its top-line is constrained if it only depends on these major brands.

To mitigate its revenue-reliance on major brands, Stamford developed its own proprietary brand of products: Sumo Firenza, Sumo Tire and SSW wheels. Sumo Firenza is a series of high performance tyres manufactured in China under stringent criteria. We expect these proprietary brands to continue to contribute strongly to top line in FY08 as Stamford penetrates new markets.

Valuation

The fair value of Stamford Tyres is pegged at S$0.56 based on our residual income model. FY08 revenue is estimated to be S$348.1m. We factor in the contribution from the second wheel plant in our revenue forecast. Output will nearly doubled as 2 more assembly lines are added. We expect the revenue generate from its major brands Continental and Falken to continue at a slower but steady pace as the two brands continue to introduce new product lines.

Net profits for FY08 and FY09 are estimated to be S$12.7m and S$14.33m respectively. In arriving at our net profit estimates, we assume that operating costs are based on a percentage of revenue. We also expect finance costs to remain relatively stable for FY08 and FY09.

At the current price of S$0.525, Stamford Tyres is trading at a PER of about 9.7x our forward earnings for FY08. Comparing to locally listed peer YHI International which is trading at a forward PER of 8.68x, Stamford appears to be trading at a slight premium. However, investors should note that YHI has a sales mix of about 60% tyre distribution and 40% wheel manufacturing. Peer comparison using PER should thus be used only as a rough gauge due to their different business models.

We place a hold recommendation on Stamford Tyres due to its eroding margins. At the current price of S$0.53 and our target price of S$0.56, the counter offers limited upside potential. Future margin improvements through the successful passing of costs over to end-users and the scaling down in the heavy use of short term-debt financing could be possible catalysts for re-rating in the future.

Balance sheet

As at April	2004	2005	2006	2007
Fixed assets (SGD$m)	45.7	51.8	54.4	54.9
Intangible assets (SGD$m)	0.03	0.03	0.04	0.00
Inventories (SGD$m)	52.7	62.3	82.8	92.4
Trade receivables (SGD$m)	56.7	63.8	73.2	90.9
Trade payables (SGD$m)	19.2	24.9	31.4	31.8
Inventory days	136.6	160.2	164.8	147.6
Receivable days	107.4	119.8	103.5	109.9
Payable days	49.8	64.0	62.5	50.8
Cash cycle days	194.2	215.9	205.8	206.7
Current ratio (x)	1.6	1.7	1.5	1.5
Borrowings and h/p (SGD$m)	81.5	86.7	112.1	132.0
Cash & equivalents (SGD$m)	18.7	8.8	18.3	20.3
Net gearing/(cash) (%)	98.0	113.5	115.1	124.3
Net cash/(debt) per shr (SGDcts)	-28.0	-34.3	-40.9	-47.6
Shrhldrs' equity + MI (SGD$m)	63.5	68.2	80.9	89.1
Return on equity (%)	18.2%	12.6%	19.2%	13.0%
Return on total assets (%)	6.4%	4.4%	6.4%	4.3%

FY07 P & L

Year Ending April	2007 SGD$m	2006 SGD$m	YoY chg %
Revenue	296.01	253.22	17%
Cost of Goods sold	(225.35)	(180.81)	25%
Gross Profit	70.67	72.41	-2%
Selling and Marketing Expenses	(8.18)	(8.63)	-5%
Administrative Expenses	(31.07)	(27.57)	13%
Other Expenses net of income	(9.67)	(12.64)	-24%
Operating Profit	21.74	23.57	-8%
Other non-operating income	1.58	1.29	23%
Share of profit of associates	0.52	0.22	132%
Finance Cost	(7.03)	(5.36)	31%
Profit before taxation	16.82	19.72	-15%
Income tax	(5.19)	(4.11)	26%
Net Profit to Shareholders	11.62	15.56	-25%
Operating Margin	7.35%	9.31%	
Net Margin	3.9%	6.1%	