


**TRANSPORT & MOTORS**

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**FY07 Results Review**

Private Circulation Only

**STAMFORD TYRES**

**NEUTRAL**                      **Maintained**  
**Price**                              **SGD0.63**  
**Target**                              **SGD0.70**

***FY(Apr)07 results marginally below expectation***
**Stock Profile/Statistics**

Bloomberg Ticker	STC SP
STI	3628.7
Issued Share Capital (m)	230.5
Market Capitalisation (SGDm)	129.1
52 week H   L Price (SGD)	0.635   0.42
Average Volume ('000)	584
YTD Returns (%)	35.5%
Net gearing (x)	0.5
Altman Z-Score	2.47
ROCE/WACC	1.52
Beta (x)	0.77
Book Value/share (SGD cents)	38.54

**Major Shareholders (%)**

Wah Holdings Pte Ltd	15.58%
Wee Kok Wah	12.39%
Wee Wai Ying	5.92%

**Share Performance (%)**

Month	Absolute	Relative
1m	17.8%	14.5%
3m	48.2%	31.8%
6m	34.0%	9.8%
12m	21.2%	-34.8%

**6-month Share Price**


Net profit of S\$11.6m for FY(Apr)07 was below our forecast of S\$13.2m and market expectation of S\$13.8m. The shortfall is attributed to higher cost of goods, resulting in lower gross margin. Margins are expected to rebound in current financial year as management pursues several business strategies to focus on services and high-performance products. Maintain NEUTRAL as we raise our price target to S\$0.70 as valuation of comparable auto-related companies in the region has risen in recent months.

**FY07 results.** Management attributed the 25% fall in net profit to a challenging business environment. Rapid increase in commodity prices resulted in higher cost of tyres and manufacturing cost of wheels. The competitive business environment limited management's ability to pass on the cost increase to customers. Consequently, gross profit margin declined from 26.6% in FY06 to 23.9% in FY07.

**Outlook is positive.** For FY08, management expects to report a double digit increase in turnover and higher net profit than that achieved in FY07. We expect a recovery in gross profit margin as management gradually passes through tyre cost increases to customers. The costs of territorial expansion in FY07 are expected to bear fruits in FY08 or at least be reduced. Management intends to pursue the distribution of high-performance tyres and wheels whose profit margins are higher. Similarly, more emphasis will be on retail distribution and services / truck maintenance in order to raise margins.

**Valuation and recommendation.** Valuation for regional auto-related stocks has improved in recent months in line with the general equity market. A simple average PE of the regional markets that Stamford Tyres operate in is 20x, adjusted for the lofty valuation of Chinese stocks. After accounting for the smaller market capitalization and sales, we ascribe a 12-month PE target of 10x or price target of S\$0.70. Maintain NEUTRAL.

FYE Mar (S\$ m)	FY05	FY06	FY07	FY08f	FY09f
Turnover	191.6	254.0	297.6	344.5	391.5
Net Profit	8.6	15.6	11.6	16.3	21.3
% chg	(25%)	81%	(25%)	40%	31%
Basic EPS (SGD cts)	4.1	7.1	5.0	7.1	9.2
DPS (SGD cts)	2.0	2.5	3.0	3.0	3.25
Div Yield	3.2%	4.0%	4.8%	4.8%	5.2%
ROE	13.1%	20.9%	13.7%	17.4%	20.3%
ROA	6.1%	8.9%	6.6%	6.9%	7.4%
PER (x)	15.4	8.8	12.5	8.9	6.8

**DMG & Partners Research Guide to Investment Ratings****Buy:** Share price may exceed 10% over the next 12 months**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months**Take Profit:** Target price has been attained. Look to accumulate at lower levels**Sell:** Share price may fall by more than 10% over the next 12 months**Not Rated:** Stock is not within regular research coverage

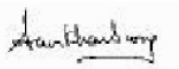
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