

Stamford Tyres Corp

31 Jul 2007

Caught in a spiral of debt?

Snapshot		P&L				Key ratios (FY08F)	
Recommendation	Avoid	(Y/E Apr)	FY2007	FY2008F	FY2009F	PER	8.7x
Current Price	S\$0.52	Sales (S\$m)	297.6	339.9	383.8	P/BV	1.2x
Target Price	S\$0.52	Sales growth (%)	16.9	14.2	12.9	Div yield	3.8%
No of Shares	230.6m	Earnings	11.6	13.7	15.3	ROE	13.7%
Market Cap	S\$119.9m	EPS (Scts)	5.2	6.0	6.6	Net gearing	1.24x
Year Hi/Lo	S\$0.635/0.42	EPS growth (%)	(29.1)	15.7	11.1	Current ratio	1.5x

Source: SIAS Research, Bloomberg

Event summary – FY07 Results

- **Net profit falls 25.5%:** Stamford Tyres reported a net profit of S\$11.6m for FY07, a 25.5% decrease compared to FY06's net profit of S\$15.6m. The fall in net profit came on the back of a 16.9% rise in revenue from S\$254.5m in FY06 to S\$297.6m.
- The higher turnover in FY07 was fuelled by increased sales of Stamford's major brands which include Falken, Dunlop and Continental. The growth in sales of Stamford's proprietary brands (Sumo Firenza and SSW Wheels) also contributed to the higher turnover.
- Despite the increased turnover, higher raw material costs resulted in a lower gross margin in FY07. YoY, gross margin fell from 28.6% to 23.9%. The Group was unable to pass on the increased costs to customers due to the competitive nature of the business environment. Apart from the costs of goods, the Group also faced a substantial increase in finance costs, lease rentals and taxes.

Financial Highlights			
S\$m	FY07	FY06	Chng %
Revenue	297.6	254.5	16.9
COGS	225.3	180.8	24.6
Lease rentals	3.6	2.7	35.7
Finance costs	7.0	5.4	31.0
Taxation	5.2	4.1	26.3
Net profit	11.6	15.6	(25.3)

Source: Company

- **Balance sheet and cashflow:** At the end of FY07, Stamford's net debt, inclusive of trust receipts, stood at S\$110.8m. On a per share basis, this translated into net debt per share of S\$0.49. Net gearing at the end of FY07 was 124.3%.
- Stamford Tyres has a long cash conversion cycle of slightly over 200 days. This is one of the reasons for Stamford's continual need for short term financing. Amongst its locally listed peers, Stamford has the longest cash conversion cycle.

Cash conversion cycle comparison	
Stamford Tyres (FY07, Y/E Apr)	209.6 days
YHI (FY06, Y/E Dec)	103.6 days
China Wheel (FY06, Y/E Dec)	59.0 days
Junma (FY06, Y/E Dec)	93.4 days

Source: Bloomberg, SIAS Research

- Over the past four years, Stamford Tyres' operating activities consumed more cash than it produced. Due to heavy expenditure on investing activities over the same period, Stamford had to rely rather substantially on debt to finance its capital expenses. With capital expenditure expected to remain high in FY08 and FY09, unless Stamford is able to generate positive cashflow from operations, the Group is likely to require more financing.

Stamford Tyre's cashflow				
S\$m	FY07	FY06	FY05	FY04
Operations	(6.0)	(4.8)	(2.1)	(1.5)
Investing	(7.0)	(8.1)	(10.3)	(10.6)
Financing	10.9	12.3	2.4	19.9
Chg in cash	(2.2)	(0.6)	(9.9)	7.8

Source: Company

Outlook

- **2nd SSW Wheel Plant:** Stamford Tyres' second SSW wheel plant in Bangkok is expected to be operational in FY08. With a building area of 9,600 square metres, the new plant will double the Group's current production capacity to 720,000 wheels per year. The Group has been approached by potential OEM customers in Thailand.
- In the near future, the bulk (90%) of Stamford Tyres' revenue will still come from its distribution business. Management aims to deliver double digit revenue growth by increasing sales of its proprietary brands, as well as leveraging on new product lines from its major brands.

Risks

- **Liquidity concerns:** Although Stamford Tyres ended FY07 with cash and bank deposits of S\$20.3m, S\$14.9m of it was derived from short term debt. Excluding the short term loan, the Group would have S\$5.4m in cash. This is a concern given that its total short term loans and trust receipts amount to S\$95.8m. Even though Stamford's current ratio at the end of FY07 was roughly 1.5x, excluding inventories, its quick ratio was 0.8x.

Financial Highlights	FY07 (S\$m)
Inventories	92.4
Trade receivables	90.9
Cash and deposits	20.3
Total current assets	209.2
Trade payables	31.8
Trust receipts (secured)	72.4
Short term loans (secured)	23.4
Total current liabilities	142.2
Long term loans (secured)	35.3

Source: Company

- **High interest expense:** Stamford's finance cost in FY07 was S\$7.0m, up 31% from S\$5.4m in FY06. With the decline in net profit in FY07, interest coverage ratio for the year was 3.4x.

Including the operating lease rentals of S\$3.6m, Stamford's fixed charges coverage ratio is estimated to be about 2.6x. The low ratios suggest that Stamford does not have a comfortable margin to cushion any business risk that might materialise. Since shareholders are the residual owners of the firm, consideration must be given to the proportion of earnings others are laying claim to. In addition to this, Stamford's earnings have not been generating operating cashflow for the Group. Amongst its profit-making peers, Stamford Tyres has the lowest interest coverage ratio.

Interest Coverage Ratio	
Stamford Tyres (FY07, Y/E Apr)	3.4
YHI (FY06, Y/E Dec)	9.6
China Wheel (FY06, Y/E Dec)	9.0
Junma (FY06, Y/E Dec)	n.a.*

* Junma reported losses in FY06

Source: Bloomberg, SIAS Research

Valuation/Recommendation

- For FY08, we are projecting an EPS growth of 15.7%, from 5.2 cents in FY07 to 6.0 cents. We are expecting revenue over the same period to grow 14.2% to S\$339.9m.
- At its current price of S\$0.52, Stamford Tyres is selling at 10.1x its FY07 earnings. Given our FY08 EPS estimate of six cents, this would translate into a forward PE of 8.7x. In light of Stamford's burgeoning debt in relations to its cash position, we believe the company to be fully valued at current prices and would advise more conservative investors to avoid the stock for the moment.
(Goh Si Xian)

About the Company

Stamford Tyres is a global distributor for tyres, representing brands such as Falken, Continental and Toyo. The company was founded in Singapore but has distribution networks in all six major continents. It also sells its own propriety tyre brands Firenza, Sumo and Sumo Firenza, as well as manufactures its own propriety wheel brand, SSW.

Peer comparison

Company	Price	P/E	ROE	Div Yield
Stamford	0.52	10.10	13.72	3.85
YHI	0.45	9.53	19.22	2.67
China Wheel	1.15	17.28	30.51	1.20
Junma	0.34	n.a.	-20.49	n.a.
Average		12.30	21.15	2.57

Source: SIAS Research, Bloomberg

Financial Table and Ratios

Year End Apr	FY06	FY07	FY08F	FY09F
Profit & Loss (\$m)				
Turnover	254.5	297.6	339.9	383.8
Pretax	19.7	16.8	17.2	19.1
Earnings	15.6	11.6	13.7	15.3
EPS (cts)	7.3	5.2	6.0	6.6
EPS (fully diluted - cts)	6.8	5.1	5.9	6.5
Balance Sheet (\$m)				
Long Term Assets	58.7	59.5	60.9	59.7
Current Assets	184.5	209.2	230.8	258.4
Current Liabilities	122.9	142.2	157.5	173.4
Long Term Liabilities	39.5	37.3	36.0	35.7
Total Equity	80.9	89.1	98.3	108.9
Cash Flow (\$m)				
Operating Cash Flow	(4.8)	(6.0)	1.9	3.2
Investing Cash Flow	(8.1)	(7.1)	(10.2)	(7.7)
Financing Cash Flow	12.3	10.9	(0.5)	3.8
Net Cash Increase/(Decrease)	(0.6)	(2.2)	(8.7)	(0.7)
Cash at year end	19.6	20.3	11.6	10.9
Financial Ratios				
Revenue Growth (%)	32.4	16.9	14.2	12.9
Earnings Growth (%)	79.3	(25.3)	18.2	11.1
EPS Growth (%)	74.9	(29.1)	15.7	11.1
Net Margin (%)	6.1	3.9	4.0	4.0
Current Ratio (x)	1.5	1.5	1.5	1.5
Net asset value per share (S cts)	37.0	38.5	42.6	47.2
Net (Debt) / Cash per share (S cts)	(43.6)	(49.1)	(53.8)	(57.9)
LT Net Debt / Equity (%)	0.47	0.40	0.35	0.31
Net Gearing (x)	1.15	1.24	1.26	1.23
Dividend per share (S cts)	2.5	2.0	2.0	2.0
Return on Equity (%)	20.9	13.7	14.7	14.7
Return on Asset (%)	7.0	4.5	4.9	5.0
Inventory Days	167.1	149.6	153.5	153.5
Debtor Days	104.9	111.5	111.3	111.3
Creditor Days	63.4	51.5	54.8	54.8
Cash Conversion Cycle	208.7	209.6	210.1	210.1
Valuations				
Price to sales (x)	0.4	0.4	0.4	0.3
PER (x)	7.2	10.1	8.7	7.9
Price to book (x)	1.4	1.3	1.2	1.1
Dividend Yield (%)	4.8	3.8	3.8	3.8

Source: Company, SIAS Research

Price–Volume Chart



Source: Bloomberg

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