



**RESULTS REPORT**

13 May 2011

<b>Tomei Consolidated Berhad</b>		<b>Market Price:</b>	RM0.735
		<b>Market Capitalisation:</b>	RM101.9m
		<b>Board:</b>	Main
<b>Recommendation:</b>	BUY	<b>Sector:</b>	Consumer Products
<b>Target Price:</b>	RM0.95	<b>Stock Code/Name:</b>	7230 /TOMEI

Analyst: Edmund Tham

**KEY FINANCIALS**

<b>Key Stock Statistics</b>	<b>2011E</b>
Earnings/Share (sen)	21.0
P/E Ratio (x)	3.5
Dividend/Share (sen)	4.2
NTA/Share (RM)	1.25
Book Value/Share (RM)	1.25
Issued Capital (mil shares)	138.6
52-weeks share price (RM)	0.495 – 0.795
<b>Major Shareholders:</b>	<b>%</b>
-Teck Fong Corp SB / Ng Teck Fong	60.1
-Lembaga Tabung Amanah Warisan Negeri Terengganu	7.2

<b>Per Share Data</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011E</b>
Book Value/Sh. (RM)	0.88	1.01	1.08	1.25
Earnings/Sh. (sen)	12.3	14.5	15.4	21.0
Dividend/Sh. (sen)	3.3	3.0	3.3	4.2
Payout Ratio (%)	20.3	20.7	21.4	20.0
P/E Ratio (x)	6.0	5.1	4.8	3.5
P/Book Value (x)	0.8	0.7	0.7	0.6
Dividend Yield (%)	4.5	4.1	4.5	5.7
ROE (%)	13.9	14.4	14.3	16.8
Net Gearing (or Cash) (x)	0.89	0.74	0.72	0.66

<b>P&amp;L Analysis (RM mil)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011E</b>
<b>Year end: Dec 31</b>				
Revenue	289.4	300.9	356.3	405.5
Operating Profit	27.6	32.5	37.1	47.5
Depreciation	(5.6)	(4.9)	(5.2)	(5.5)
Interest Expenses	(6.4)	(6.2)	(6.6)	(7.0)
Pre-tax Profit	21.2	26.3	30.4	40.5
Effective Tax Rate (%)	26.7	28.3	27.7	26.2
Net Profit	15.5	18.2	21.4	29.1
Operating Margin (%)	9.5	10.8	10.4	11.7
Pre-tax Margin (%)	7.3	8.7	8.5	10.0
Net Margin (%)	5.4	6.1	6.0	7.2

\* 50 sen par value

**PERFORMANCE – 1Q/FY11**

<b>1Q/ 31 Mar</b>	<b>1Q11</b>	<b>1Q10</b>	<b>yoy %</b>	<b>4Q10</b>	<b>qoq%</b>
Rev (RMm)	115.2	87.7	31.5	93.7	23.0
EBIT (RMm)	11.4	9.5	19.5	8.2	39.5
NPAT^(RMm)	8.2	7.1	15.7	4.9	65.8
EPS (sen)*	5.9	5.1	15.7	3.6	65.8

\*assuming share base of 138.6 mil shares

^NPATMI

Tomei's 1Q/FY11 (quarter ended 31<sup>st</sup> March 2011) results (annualized) were above our earlier expectations. We note that the Chinese New Year festival occurred during the quarter. Festival periods typically lead to better jewellery sales.

**“Strong Q1 results”**

The group's 1Q/FY11 revenue was RM115.2 million, an increase of 31.5% y-o-y. The increase was mainly due to the improved consumer spending especially on gold investment products and also the higher retail gold price. As a result, the group's net profit after tax and minority interest (NPATMI) increased by 15.7% y-o-y to RM8.2 million.

The group's revenue for 1Q/FY11 had increased by 23.0% to RM115.2 million as compared to the preceding 4Q/FY10 due to an increase in demand from consumers, brought about by the bullish gold commodity prices. Accordingly, the group's NPATMI had increased by 65.8% q-o-q to RM8.2 million.

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## OUTLOOK/CORP. UPDATES

Tomei's group revenues have been on the uptrend since the past recession. The domestic economy has been growing at a reasonable rate during the past year and we expect the group's revenues to grow at a comfortable rate as well.

### “Steady economic growth”

The latest available Malaysian economic data (March 2011) revealed positive growth rates in y-o-y percentage terms, for instance: IPI (+2.4 y-o-y), Manufacturing Sales (+14.1% y-o-y), Exports (+7.8% y-o-y) and Imports (+12.1% y-o-y). Malaysia had reported a very respectable 4Q/2010 GDP growth of +4.8% (+7.2% for full year 2010 GDP), stable 4Q/2010 unemployment rate of 3.2% and manageable CPI of 3.0% (March 2011). Meanwhile, Bank Negara Malaysia (BNM) had raised its overnight policy rate (OPR) of 2.75% to 3.0% and the statutory reserve requirement (SRR) of 2% to 3% to rein-in inflationary pressures.

### “Gold prices around US\$1500/ounce”

Amidst political upheaval in North Africa and the Middle East, gold spot prices have reached US\$1500/troy ounce level recently. The spot rate for gold traded on the NYMEX (New York Mercantile Exchange) is currently around US\$1495/troy ounce. If global gold prices keep go higher, this could lead to a slight increase in Tomei's revenues, given that the group sells gold bars and gold wafers (in denominations between 5g and 1kg). Gold bars, which are 999.9% pure gold, are commonly available in 5g, 10g, 20g, 50g and 100g weight denominations.

Gold wafers, gold bars and gold-based jewellery are seen by some as a viable inflation-hedge or long-term investment option (e.g. as an alternative to term-deposits and government-issued bonds). Consumers nowadays have the option of investing in gold via commercial banks (via “gold investment accounts”) or even via MLM (multilevel-marketing) companies that may offer gold-based investment products (e.g.

gold coins and gold bars). In some countries, gold-related investments could also be done via gold ETFs (exchange traded funds), gold certificates and gold-based derivatives. Nevertheless, gold jewellery are bought largely for ornamental usage e.g. for wedding dowry, ceremonial/formal functions and as gifts to spouses or close family members.

### “Unique business model”

Tomei is unique in the sense that the group is an integrated designer, manufacturer, exporter and retailer in gold and jewellery. Excitingly, the group has also ventured into China and Vietnam, and would be exploring other regional markets as well. The group also has a balanced focus on both gold and jewellery products. Its management also focuses on maintaining strong relationships with mall operators, which gives them an upper hand in securing choice store locations within popular shopping malls. The group also typically launches around 400 new designs per year and plans to spend around RM4 million for A&P (advertising and promotion) campaigns during 2011.

Going forward, Tomei plans to make inroads into increasingly affluent suburban locations, including in East Malaysia. According to Tomei's group MD's statement to the press, the group is aiming to expand further by opening at least 10 retail outlets this year, comprising four in Malaysia, two in Vietnam and four in China. Meanwhile, the group intends to invest RM25 million in capital expenditure for the new outlets. Currently, the group has 64 retail outlets nationwide, eight kiosks in China and seven in Vietnam.

### “Acquisitions”

In March 2011, Tomei had acquired 1 share of RM 1.00 each representing 50% equity interest in O M Design Sdn Bhd for a total cash consideration RM 1.00. The principal activity of OM Design is wholesaling of jewellery. Subsequently, Tomei subscribed for an additional 2,749,999 shares of RM 1.00 each in

OM Design at par for cash. Thereafter, OM Design became a 55%-owned subsidiary Tomei.

In the same month, the group via its wholly-owned subsidiary company, Tomei Gold & Jewellery Holdings (M) Sdn Bhd had entered into a Sale & Purchase Agreement with Goldheart Jewelry Sdn Bhd to acquire Goldheart's retail operations in Malaysia for a total cash consideration of RM5.6 million.

Goldheart is a renowned brand for retail jewellery in Malaysia. As at the date of the acquisition, Goldheart has 4 retail outlets located in major shopping malls in Malaysia. The acquisition is part of Tomei's business plan and expansion strategy to improve its market share in the retail jewellery industry. We believe that the group is still on the lookout for synergistic M&A opportunities within its industry.

## VALUATION/CONCLUSION

Tomei declared a first and final single tier dividend of 3.3 sen per share, amounting to RM4.6 million for its FY10 ended 31<sup>st</sup> December 2010. This dividend had been approved by shareholders in the just concluded Annual General Meeting (AGM) and will be paid to shareholders on 6<sup>th</sup> June 2011. Tomei has managed to pay out dividends of at least 20% of its net earnings, and we foresee that Tomei would have no difficulties in keeping to this payout ratio.

### “Steady dividend payout”

With an adjusted beta (correlation factor) of 0.75 to the KLCI, Tomei (+3.5%) has slightly outperformed the KLCI (+1.4%) this year. Market conditions have also been volatile in recent months, impacted by the political uprisings in the Middle East/North Africa and the major Tohoku tsunami/earthquake in Japan. Nevertheless, as Tomei is not a particularly large market-cap stock, this may put a dampener on its market visibility and trading volume.

### “Maintain Buy Call”

Based on our forecast of Tomei's FY11 EPS and estimated P/E of 4.5 times, we set a **FY11-end Target Price (TP) of RM0.95**. This TP represents a 28.6% upside from its current market price. Our TP for Tomei reflects a P/BV of 0.76 times over its FY11F BV/share. Meanwhile, the domestic “Clothing & Accessories” sector's average P/E and P/BV is 8.2 times and 0.92 times, respectively. Tomei's P/E and P/BV valuations are very undemanding indeed.

We like Tomei due to its diversified business model (in terms of segment and location), reputable brand name, wide product range, strong design expertise, large retail network, calculated expansion strategy and solid ROE. In March 2011, Tomei had successfully made an early full redemption for its ICP/IMTN (Islamic Commercial Papers/Islamic Medium Term Notes) Programme, ahead of the maturity date of March 2014.

In terms of business risks, Tomei does face routine risks from any economic downturn, consumer pessimism, uneven monthly sales (due to festive seasons), stiff peer competition, rapidly fluctuating gold prices and foreign exchange rates.

### Tomei: Share Price



Source: NextView

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