



Mercury Securities Sdn Bhd

L-7-2, No.2, Jalan Solaris, Solaris Mont Kiara, 50480, Kuala Lumpur
Tel: 603-6203 7227 Email: mercurykl@mersec.com.my

COMPANY UPDATES REPORT

17 Jan 2012

Takaso Industries Bhd		Current Price	RM0.22
		Current Market Cap	RM29.75m
		Board:	Main
Recommendation:	Trading Buy	Sector:	Consumer Goods
Target Price	RM0.265 (20.45% upside)	Stock Code/Name	7071/TAKASO

Analyst: Ken Lai

Latest Company Developments

-Takaso had held a media press conference on 11th Jan 2012. The main takeaways from the conference are the company has signed and entered in an agreement with Kayumas Plantation PNG Ltd to **acquire its timber license and concession, and the right to a net loggable area of 42,000 HA** of timber in Inland Pomio, East New Britain Province, **Papua New Guinea**. The management opined that this movement is in accordance to their company's business blueprint to diversify from its core business to other industry.

-According to the management, the acquisition is expected will generate approximately **RM500mil** revenue to the company, with expected **net profit margin of 45%** (RM225mil) over 9-years time start from year 2012.

-The initial working capital requirement for the project is **RM6.5mil**. As for the total purchasing price, the value of the timber's concession and right will be factored into the valuation. However, the terms of the acquisition are still in negotiation and the source of financing are yet to be finalized. The outcome details will be announced in three months time once the due diligence has been conducted. Currently, the outputs from the timber land are mainly exported to Japan, China, Korea, and perhaps to Malaysia in future.

-In addition, the company has proposed a private placement exercise of up to 10% (approximate 19.8 million of shares) of the total issued and paid up capital with a price of not less than RM0.25 per share in 16th Jan 2012. The proceeds from the private placement are mainly use as working capital for its existing rubber business and new business venture (timber business). The proposal is yet to be approved by the shareholders.



Key Financials (13/1/2012)

52 Weeks High Price (RM)	0.630
52 Weeks Low Price (RM)	0.115
EPS (Trailing 12 months) (RM)	-0.030
Book Value Per Share (RM)	0.320
Sales Per Share (Trailing 12 months) (RM)	0.080
P/E (Trailing 12 months) (x)	N/A
P/B (Trailing 12 months) (x)	0.78
P/S (Trailing 12 months) (x)	1.00
Pretax Margin (%)	-12.84
ROE (%)	-18.01
ROA (%)	-7.24
Debt to Total Assets (%)	36.27
Dividend Yield (%)	N/A
Enterprise Value (RM'mil)	21.82
Adjusted Beta	0.928
Financial Year End	July

*Source: Bloomberg, Company, Mercury Estimates

Utilization of Proceed:-	Min. Scenario (RM'000)	Max. Scenario (RM'000)
New Business Venture	1,635	2,405
Working Capital		
- Purchase of raw materials	1,200	1,800
- Other operating expenses	435	605
Private placement expenses	110	140
Total estimated proceed	3,380	4,950



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Analysis of the Events

-According to the management, the acquisition of the concession is still in the exploration stage. However, once the acquisition is materialized, we expect this will fine-tune Takaso's bottom line and turn the company to be profitable as the project is highly lucrative with estimated net margin of 45%.

-We see the synergies to be created by the acquisition are limited as this is merely a conglomerate expansion (expansion in other different industry). But it does help in reducing the company's reliance on its rubber products and condom business, which had incurred losses to the group in past few years.

-The proposed private placement will have a dilutive effect on the existing shareholders. However, instead of spend in some non-productive activities like debt repayment, the proceed from the exercise will be used for its new business venture (timber industry) and working capital purpose, which is expected will create value for the existing shareholders.

Valuation & Recommendation

We set a **TRADING BUY** call for Takaso with a target price of **RM0.265**, and **CUT LOSS** at **RM0.190**. The target price is pegging to P/E and P/B ratio of **3.78x** and **1.02x** times respectively based on our forecast EPS and Book value per share in 2012. The stock is currently trading at an undemanding 3.14x FY2012 PER coupled with high transaction volume lately, indicating a strong investor trading interests. Despite the uncertainty of the negotiation's outcome, we still remain positive on Takaso, at least in the short term. Beside of the new corporate development to venture into the timber industry, Takaso will also benefit from the **softening latex's price** (Takaso main raw materials for its rubber products) and we can expect an improvement in profit margin in coming year. We estimate the purchasing price willing to pay by Takaso for the concession will be ranged between **RM30mil to RM60mil**, based on the discount cash flow model for the project.

P&L Analysis

RM'Mil	7/10	7/11	7/12E	7/13E
Revenue	19.0	16.8	45.00	63.00
Pre-Tax Profit	-1.5	-2.2	12.35	17.64
Effective Tax Rate %	-	-	25.20	25.10
Net Profit	-1.5	-2.2	9.11	13.01
Operating Margin %	-	-	42.40	43.00
EBITDA Margin %	-	-	48.90	49.20
Net Margin %	-	-	20.20	20.70
Adjusted EPS (RM)	-0.01	-0.02	0.07	0.10
Diluted EPS (RM)	-0.01	-0.02	0.07	0.10
Sales Per Share	0.14	0.12	0.33	0.47
DPS (RM)	0.00	0.00	0.00	0.00

*Source: Bursa, Mercury Estimates

*Assume the acquisition is materialized

**Balance Sheet Analysis**

RM'Mil	7/10	7/11	7/12E	7/13E
Total Current Assets	12.70	10.40	42.36	44.48
Total Long Term Assets	19.20	17.40	18.29	20.00
Total Asset	31.90	27.80	60.65	64.48
Total Current Liabilities	17.3	16.7	22.00	24.00
Total Long-Term Liabilities	1.47	0.21	4.00	2.00
Total Liabilities	18.77	16.91	26.00	26.00
Total Shareholders' Equity	13.10	10.90	34.65	38.48
Book Value/Share	0.10	0.08	0.26	0.28
Tangible Book Value/Share	0.10	0.08	0.26	0.28
Debt/Total Asset	0.37	0.36	0.18	0.22

**Source: Bursa, Mercury Estimates*

**Assume the acquisition is materialized*