

GICS: Industrials/Trading Companies & Distributors

Business Summary: Kian Ann is an independent distributor of parts and components for heavy machinery and diesel engines - including excavators, bulldozers, wheel loaders, motor graders, trucks, power generation sets and marine engines. The Group stocks over 1.3 mln item lines for over 270 brands, distributing to a global customer base in over 50 countries.

Country of Incorporation: Singapore

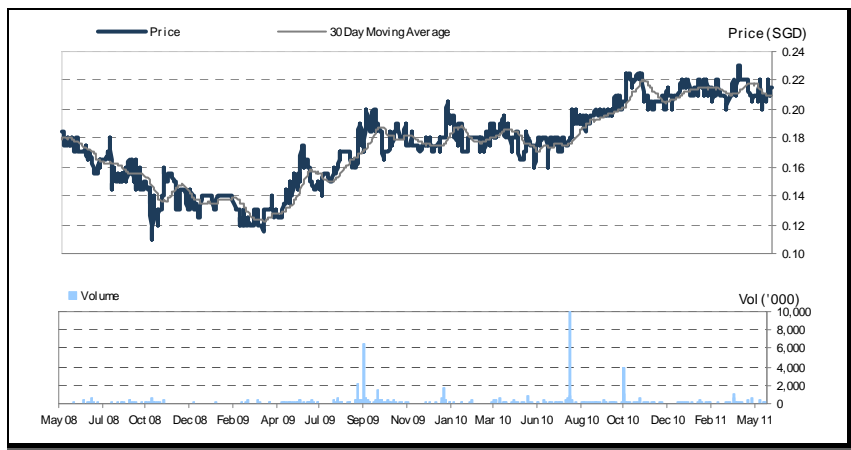
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Place of Operations: Singapore

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Results Review

- 3QFY11 (Jun.) of SGD4.6 mln (up 64% YoY, 12% QoQ) was above our expectations, due to wider-than-expected margins. 3Q and 9M net profit accounted for 31% and 84% of our previous FY11 estimate.
- Revenue grew 19% YoY to SGD40.4 mln in 3QFY11 and 10% YoY to SGD118.7 mln in 9MFY11. The primary driver was improved demand from the forestry, mining and infrastructure sectors. Malaysia, Kian Ann's biggest market, was the key growth contributor, with sales there growing 33% YoY to SGD12.9 mln in 3QFY11. Indonesia sales rose 6% YoY to SGD5.7 mln.
- Gross margin rose to 28.6% in 3QFY11 from 24.8% in 3QFY10 and to 28.5% in 9MFY11 from 24.2% in 9MFY10. The strong demand had allowed Kian Ann to raise selling prices in 4QFY10, and it has been able to maintain prices at the higher levels through 9MFY11.
- Balance sheet and cash flow stayed strong, despite reversing into a net debt position of SGD1.7 mln at end-3QFY11 from net cash of SGD10.5 mln three months earlier. This came after Kian Ann issued a long-term convertible loan of SGD13 mln to a key supplier of undercarriage and repair parts for earthmoving machines and equipment. The loan pays 6% p.a., which explains why interest income shot up to SGD144,000 in 3QFY11 from an average of SGD17,000 in the preceding four quarters.

Earnings Outlook / Estimates Revision

- The outlook for Kian Ann remains positive, despite the current uncertainty is global economic environment. Demand for parts in the various sectors that Kian Ann serves, particularly forestry, mining and infrastructure. Management is optimistic of the group's prospects, and is confident that it is able to exploit the strong demand with its wide and deep inventory of parts.
- We have raised our FY11-FY12 earnings estimates by 7%-8% to account for the strong sales and higher margins. Our new forecasts call for earnings growth of 20% in FY11 and 5% in FY12.

Investment Risks

- A reversal of the global economic recovery would be negative for Kian Ann's business. Attention will be focused on China, which is a key market for the group, and the government's efforts to cool the economy and deal with rising inflation. A hard landing there would have adverse effects.
- Exchange rate volatility is also a factor. Weakness in the IDR, MYR and USD against the SGD would have some adverse impact.

Key Stock Statistics

52-week Share Price Range (SGD)	0.16 - 0.23
Avg Vol - 12 months ('000 shares)	204.0
Price Performance (%)	
- 1 month	4.9
- 3 month	2.4
- 12 month	30.3
No. of Outstanding Shares (mln)	438.1
Free Float (%)	42.0
Market Cap (SGD mln)	94.2
Enterprise Value (SGD mln)	95.9
Major Shareholders (%)	
Low Hung Swee & Sons Pte Ltd	27.2
Lau Hwee Beng	10.0
Low Han Cheong	12.5

Per Share Data

FY Jun.	2009	2010	2011E	2012E
Book Value (SG cents)	27.21	29.43	32.06	34.85
Cash Flow (SG cents)	3.0	3.4	4.0	4.1
Reported Earnings (SG cents)	2.6	3.0	3.6	3.8
Dividend (SG cents)	0.7	1.0	1.0	1.0
Payout Ratio (%)	26.7	33.1	28.2	26.9
PER (x)	8.2	7.1	5.9	5.6
P/Cash Flow (x)	7.3	6.4	5.4	5.2
P/Book Value (x)	0.8	0.7	0.7	0.6
Dividend Yield (%)	3.3	4.7	4.8	4.8
ROE (%)	10.0	10.7	11.8	11.4
Net Gearing (%)	6.9	0.0	2.7	0.0

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Earnings Performance

FY Jun. / SGD mln	3Q11	3Q10	% Change
Reported Revenue	40.4	33.9	19.0
Reported Operating Profit	5.8	3.8	53.6
Depreciation & Amortization	-0.4	-0.4	-0.8
Net Interest Income / (Expense)	0.0	-0.2	-97.0
Reported Pre-tax Profit	5.7	3.6	57.2
Reported Net Profit	4.6	2.8	64.3
Reported Operating Margin (%)	14.4	11.2	-
Reported Pre-tax Margin (%)	14.0	10.6	-
Reported Net Margin (%)	11.3	8.2	-

Source: Company data

Profit & Loss

FY Jun. / SGD mln	2009	2010	2011E	2012E
Reported Revenue	134.8	149.4	162.5	169.1
Reported Operating Profit	13.7	17.3	20.5	21.2
Depreciation & Amortization	-1.5	-1.4	-1.4	-1.5
Net Interest Income / (Expense)	-1.3	-0.6	-0.5	-0.4
Reported Pre-tax Profit	12.3	16.6	19.8	20.8
Effective Tax Rate (%)	5.8	17.9	17.0	17.0
Reported Net Profit	11.5	13.2	15.9	16.7
Reported Operating Margin (%)	10.2	11.6	12.6	12.6
Reported Pre-tax Margin (%)	9.1	11.1	12.2	12.3
Reported Net Margin (%)	8.5	8.9	9.8	9.9

Source: Company data, S&P Equity Research

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