

Company Focus

DBS Group Research . Equity

1 March 2007

BUY Bt40.50 SET: 677.13

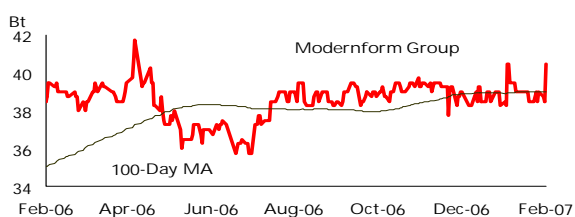
Price Target: 1-year Bt46.30
Reason for Report: 4QFY06 results
Potential Catalyst: Dividend payment

ANALYST

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FORECASTS AND VALUATION

YE Dec (Btm)	2005A	2006A	2007F	2008F
Sales	3,026	2,577	2,862	3,148
Operating profit	336	299	352	402
EBITDA	474	444	505	563
Net profit	322	342	352	387
EPS (Bt)	4.02	4.24	3.91	4.30
EPS growth (%)	15.1	5.4	(7.8)	10.0
P/E (x)	10.1	9.6	10.4	9.4
P/CF (x)	4.1	4.2	4.3	3.8
EV/EBITDA (x)	7.2	7.5	7.1	6.4
DPS (Bt)	3.00	3.00	3.25	3.50
Dividend yield (%)	7.4	7.4	8.0	8.6
ROE (%)	15.4	15.5	14.9	15.5
ROA (%)	11.1	11.7	11.8	12.5
Net gearing (%)	6.6	3.3	cash	cash
BVS (Bt)	26.75	28.03	27.19	28.24
P/BVS (x)	1.5	1.4	1.5	1.4

SHARE PRICE CHART

AT A GLANCE

Issued Capital (m shrs)		81
Market Capital (Btm/US\$m)	3,265/	92
Major Shareholders (%)		
Mellon Bank, N.A.		9.3
Raffles Nominees (Pte) Limited		9.3
Free Float (%)		35.6
Avg Daily Volume ('000 shrs)		31.3

Earnings Rev: FY06: None ; FY07: None
Consensus EPS: FY07: Bt4.30 ; FY08: Bt4.75
Variance vs Cons: FY07: -9.0% ; FY08: -9.4%

Sector: Home & Office Products
Bloomberg/Reuters Code: MODERN TB, MODE.BK
Principal Business: Furniture manufacturer and packaging.

Modernform Group

4QFY06 in line with expectations

➤ **Story:** Modernform Group (MODERN) reported net profit of only Bt97m (down 9% y-o-y, down 12% q-o-q) for 4QFY06, in line with our expectations. It was mainly due to (i) gloomy economic outlook post-coup, and (ii) de-consolidation of Thai Plaspac (TPAC). For 2006, the company charted net profit of Bt342m (up 6.21% y-o-y).

➤ **Point:** We are still optimistic about MODERN's sales for FY07-08F, to be led by growing demand for office furniture. But sales of residential furniture are expected to be slow, due to weakening consumer confidence. And TPAC had been de-consolidated following its listing on MAI (Market for Alternative Investment) last year. Hence, we maintain our forecasts on MODERN's sales and profit for FY07-08F, as mentioned earlier.

➤ **Relevance:** Due to sluggish economic growth and higher effective tax rate (30% in FY07), we project the company's net profit for 2007 to grow slightly (by 2.9% y-o-y). Our target price is still kept at Bt46.30 (12x 2007 PE). We retain our BUY rating, as MODERN still offers 16% upside potential to our target price, and generous 8% dividend yield for FY07F.

Weak 4Q06 results, as expected. Net profit for 4Q06 was released at Bt97m (down 9% y-o-y; down 12% q-o-q). 4Q06 sales fell 18% y-o-y and 5% q-o-q to Bt690m, largely due to declining consumer confidence during the period. Specifically, residential furniture sales should have fallen more than office furniture sales. Gross margin was better than expected in 4Q06 to 37.5% (vs 38.7% in 3Q06) because of slower sales.

FY06-07F earnings maintained. Earlier, we had a negative outlook for the Thai economy in late 2006 and in 2007, which would result in stronger competition in the industry. Hence, we lowered our estimates on FY07-08F earnings to Bt347m and Bt382m, respectively. Additionally, MODERN will be subject to 30% tax rate from FY07 onwards (from 25% last year). Currently, MODERN's outlook in the longer-term remains unchanged.

High dividend yield. As expected, MODERN declared Bt3.0 DPS for FY06, implying 7.4% yield at the current share price. Note that MODERN has paid interim dividend for 1H06 of Bt1.25 per share, so 2H06 dividend is Bt1.75 per share (XD: 10 May 2007).

BUY maintained. MODERN is now trading at FY07F fully-diluted PE of 10.3x and P/BV of 1.5x. It still offers 16% upside potential to our new target price, and generous 8% dividend yield for FY07F.

Quarterly Results Summary

Unit : Btm	4Q05	3Q06	4Q06	%chg.YoY	%chg.QoQ
Sales	843	726	690	-18%	-5%
cost of sales	(543)	(445)	(431)	-21%	-3%
Gross profit	300	281	259	-14%	-8%
Selling admin.expenses	(176)	(174)	(179)	2%	3%
Operating profit	124	106	80	-36%	-25%
Rental & other income	18	19	17	-7%	-9%
Interest expense	(3)	(2)	(1)	-58%	-40%
Director' remuneration	1	(0)	1	-36%	-319%
Equity income from subsidiaries	10	19	25	145%	27%
EBT	150	142	121	-20%	-15%
Tax expense	(41)	(32)	(25)	-40%	-22%
Minority interest	(3)	(0)	0	-110%	-178%
Net profit	106	110	97	-9%	-12%
EPS (Btm)	1.33	1.36	1.20	-10%	-12%
Gross margin	35.6%	38.7%	37.5%		
Operating margin	14.7%	14.6%	11.6%		
Net profit margin	12.6%	15.1%	14.0%		
SGA/sales	-20.9%	-24.0%	-26.0%		
Tax rate	-27.0%	-22.3%	-20.3%		

Source: Company, DBS Vickers

Company Focus

Modernform Group

Income Statement (Btm)

YE Dec	2005A	2006A	2007F	2008F
Turnover	3,026	2,577	2,862	3,148
EBITDA	474	444	505	563
Depr/Amort	137	145	153	161
Operating Profit	336	299	352	402
Asso & Others Inc	129	142	156	156
Net Interest Exp	(15)	(9)	(6)	(5)
Pre-Tax Profit	450	432	502	552
Tax	(113)	(91)	(151)	(166)
Minority Interest	(15)	1	-	-
Net Profit	322	342	352	387
Sales Growth (%)	8.8%	-14.8%	11.1%	10.0%
Net Profit Gr (%)	15.3%	6.1%	2.9%	10.0%
EBITDA Margin (%)	15.6%	17.2%	17.7%	17.9%
Opg Mgn (%)	11.1%	11.6%	12.3%	12.8%
Tax Rate (%)	-25.1%	-21.0%	-30.0%	-30.0%

Balance Sheet (Btm)

YE Dec	2005A	2006A	2007F	2008F
Fixed Assets	930	879	828	777
Other LT Assets	553	606	648	687
Cash/ST Investments	91	103	90	95
Other Current Assets	1,310	1,366	1,453	1,600
Total Assets	2,884	2,954	3,019	3,159
ST Debts	231	179	27	35
Other Current Liabilities	502	511	541	579
LT Debts	-	-	-	-
Minority Interest	4	2	4	4
Shareholders' Equity	2,146	2,262	2,447	2,541
Total Capital	2,884	2,954	3,019	3,159
Share Capital	802	807	900	900
Net Cash (Debt)	(141)	(75)	63	60
Working Capital	667	780	975	1,082
Net Gearing (%)	0.07	0.03	cash	cash

Interims Income Statement (Btm)

YE Dec	Mar-06	Jun-06	Sep-06	Dec-06
Turnover	570	591	726	690
EBITDA	72	85	128	161
Depr/Amort	21	22	21	81
Operating Profit	50	63	106	80
Asso & Others Inc	22	39	38	43
Net Interest Exp.	(3)	(2)	(2)	(1)
Pre-Tax Profit	69	100	142	121
Tax	(13)	(21)	(32)	(25)
Minority Interest &	1	-	(0)	0
Net Profit	56	79	110	97
Sales Growth (%)	-19.0%	-9.8%	-11.9%	-18.2%
Net Profit Gr (%)	-8.4%	29.8%	17.1%	-8.8%
EBITDA Margin (%)	12.5%	14.3%	17.6%	23.3%
Opg Mgn (%)	8.8%	10.7%	14.6%	11.6%
Tax Rate (%)	19.4%	21.3%	22.2%	20.3%

Cash Flow Statement (Btm)

YE Dec	2005A	2006A	2007F	2008F
Pretax Profit	450	432	502	552
Tax paid	(113)	(91)	(151)	(166)
Depr/Amort	137	145	153	161
Change in Wkg Cap	62	(109)	(120)	(171)
Other Non-Cash	-	-	-	-
Operational CF	536	378	385	377
Capex	(76)	(80)	(80)	(80)
Assoc, MI, Invsmt,	-	-	-	-
Investment CF	(76)	(80)	(80)	(80)
Net chg in Debt	(132)	(53)	(151)	7
New Capital	-	-	-	-
Dividend	(220)	(241)	(242)	(293)
Financing CF	(352)	(293)	(393)	(285)
Chg in Cash	108	4	(88)	12
Cash beginning	57	91	103	90
Cash ending	91	103	90	95

Segmental Breakdown (Btm)

YE Dec	2005A	2006A	2007F	2008F
Revenue Breakdown				
-Office - Domestic	32%	39%	39%	39%
-Office - Export	3%	4%	4%	4%
Residential	24%	31%	31%	31%
Accessories	12%	14%	14%	14%
Total Furniture Sales	78%	99%	99%	99%
Thai Plaspac	18%	0%	0%	0%
Tower	2%	3%	3%	3%
Décor Metall	2%	0%	0%	0%
Elimination	0%	-2%	-2%	-2%
Total Sales Value	100%	100%	100%	100%

Rates & Ratios

YE Dec	2005A	2006A	2007F	2008F
ROE (%)	15.4%	15.5%	14.9%	15.5%
ROA (%)	11.1%	11.7%	11.8%	12.5%
Net Margin (%)	10.7%	13.3%	12.3%	12.3%
Dividend Cover (%)	134.0%	141.2%	120.3%	122.8%
Interest Cover (%)	563.7%	n.m.	n.m.	n.m.
Asset Turnover (%)	104.9%	87.2%	94.8%	99.7%
Asset/Debt (X)	12.5	n.m.	n.m.	n.m.
Gearing (%)	cash	cash	cash	cash
Net Gearing (%)	6.6%	3.3%	cash	cash
Debt/EBITDA (X)	0.5	0.4	0.1	0.1
Debt/MktCap (X)	0.1	0.1	0.0	0.0
Capex/Sales (X)	0.0	0.0	0.0	0.0
EV (Btm)	3,389	3,344	3,582	3,585
EV/EBITDA (X)	7.16	7.52	7.09	6.37

Source: DBS Vickers

ANALYST CERTIFICATION

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