



Modernform Plc. (MODE.BK/MODERN TB)

3Q10 earnings preview: Expect impressive result

Bt50.75
Outperform
Earnings preview

Maintained

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- **Anticipate strong 3Q10 earnings of Bt95mn, up 51.2% YoY**
- **Substantial growth in 4Q10 to help boost full-year net profit to a record high Bt400mn**
- **Surprise DPS in 1H10, giving a 1H10 yield of 4.9%**
- **Maintain Outperform with a 2011 target price of Bt64.00**

Maintain Outperform with impressive dividend yield of 9.36% p.a.

The expiration of the government's incentive tax rate on property in 1Q10 and the recovery in the economy have led to an upbeat property market, which in turn has helped boost demand for residential furniture. We anticipate MODERN to post strong earnings in 2010 and with the addition of an extra gain from selling shares in an affiliated company for Bt68.6mn (before tax) we forecast the company to post a record full-year net profit of Bt400mn. This solid outlook and MODERN's cash flow allowed it to announce a surprise interim dividend of Bt2.50 for 1H10 and we forecast a 2H10 DPS of Bt2.25. With a total DPS in 2010 of Bt4.75, we believe it is worthwhile to invest in the counter as it generates an attractive dividend yield of 9.36% p.a.

Figure 1: 3Q10 earnings preview

Bt mn	3Q10F	3Q09	YoY (%)	2Q10	QoQ (%)
Sales	667	574	16.4	638	4.6
Costs of Sales	(424)	(371)	14.5	(420)	1.1
Gross Profit	243	203	19.8	218	11.4
SG&A Expense	(189)	(176)	7.1	(176)	6.9
EBIT	54	27	103.6	42	30.2
Depreciation Expense	(26)	(26)	(0.7)	(27)	(1.9)
EBITDA	80	53	51.9	68	17.8
Interest Expense	1	1	(6.3)	1	5.4
Other Income (Exp.)	35	22	61.6	34	4.3
Pre-tax Profit	89	47	87.1	75	18.8
Corporate Tax	21	11	90.2	18	16.5
Pre-exceptional Profit	67	36	86.1	56	19.5
Gn (Ls) from affiliates	29	28	4.1	30	(2.5)
Net Profit	95	63	51.2	86	10.5
Normalized Profit	95	63	51.2	86	10.5
EPS (Bt)	1.18	0.79	49.7	1.08	9.3
Percent	3Q10F	3Q09	YoY (ppts)	2Q10	QoQ (ppts)
Gross margin	36.4	35.4	1.0	34.2	2.2
EBIT margin	8.2	4.7	3.5	6.5	1.6
EBITDA margin	12.0	9.2	2.8	10.7	1.3
Net margin, exd FX	14.2	11.0	3.3	13.5	0.8

Source: Company data; KGI Securities (Thailand) estimates

Key assumptions for 3Q10 earnings forecast

- **Sustainable backlog of over Bt1bn to help boost sales 16.4% YoY.** The residential furniture market has been on the rise while office furniture demand has remained constant, increasing MODERN's backlog on hand to a record Bt1bn, up from Bt700mn last year.

Meanwhile, we expect the company to realize revenue from a midyear grand sale, which should help sales rise 16.4% YoY to Bt667mn during the quarter.

- **Favoring GPM at 36.4% pushes net profit to grow 51.2% YoY.** Even though there is a delay in projects expected to be delivered in 4Q10, MODERN still has a massive backlogs on hand to recognize in 3Q10. This helps create economy of scale and reduce operating costs per unit. Furthermore, consistent launches of new products that have higher margins allows MODERN to offset rising materials costs. Hence, we expect gross profit margin to increase from 35.4% in 3Q09 to 36.4% and result in net profit growth of 51.2% YoY to Bt95mn.

Substantial growth in 4Q10 due to extra gain and hefty result

Residential furniture sales, which make up 50.0% of its total sales, should continue to rise in 4Q10 thanks to robust growth in the housing market. In addition, we expect MODERN to realize extra gain of Bt68.6mn (before tax) from selling its 30.0% stake in Interface Modernform Co.,Ltd. (IMC), an affiliated company, back to Interface Overseas Holding Inc. This would allow its 4Q10 net profit to hit the peak for the year at Bt134mn and would help the company to post a record full-year net profit of Bt400mn.

Surprise DPS in 1H10, giving a 1H10 yield of 4.9%

With its solid cash flow, MODERN announced an interim dividend of Bt2.50, which is composed of i) Bt1.50 from its operation, and ii) Bt1.00 from extra gain of selling IMC. The XD date is October 8, 2010, and the payment date is October 21, 2010. Besides this high yield of 4.9% in 1H10, we anticipate the dividend in 2H10 to be Bt2.25. This total DPS in 2010 of Bt4.75 is very attractive with a high dividend yield of 9.36% p.a.

Valuation and Recommendation

With the promising outlook and impressive dividend yield of 9.36%, we rate the counter Outperform with our target price rolled over to 2011 at Bt64.00 (DDM, Payout Ratio of 75.0%, Re 10.74%, growth of 3.5%).

Year to Dec	Sales (Bt mn)	Sales growth (%)	EBITDA (Bt mn)	NP (Bt mn)	EPS (Bt)	EPS growth (%)
2008	2,676	9.4	421	383	4.60	27.1
2009	2,288	(14.5)	265	300	3.60	(21.7)
2010F	2,620	14.5	315	400	4.81	33.5
2011F	2,864	9.3	330	376	5.22	8.7
2012F	3,132	9.4	356	410	5.69	9.0

Year to Dec	GM (%)	EV/EBITDA (X)	PBV (X)	PER (X)	Dividend Yield (%)	ROAE (%)
2008	38.2	9.9	1.7	11.0	6.4	15.4
2009	36.4	15.0	1.7	14.1	5.9	11.9
2010F	36.8	12.7	1.6	10.6	9.4	14.9
2011F	37.0	10.5	1.4	9.7	7.9	14.7
2012F	37.1	9.7	1.4	8.9	8.4	15.3

Sector	Home & Office Products	52-week trading range (Bt)	25.8 - 50.8
12M target price (Bt/shr)	64.00	Mkt cap-Bt bn/US\$ bn	4.2/13
Upside/downside (%)	26.1	Outstanding shares (mn)	83
The percentile of excess return (%)	81.9	Free floating shares (mn)	35
Dividend yield-12/10F (%)	9.4	Foreign ownership (mn)	18
Book value/shr-12/10F (Bt)	32.0	3M avg. daily trading (mn)	0.3
P/B-12/10F (x)	1.6	Abs. performance (3,6,12M)(%)	31; 49.3; 73.5
Net debt/equity-12/10F (%)	(8.4)	Rel. performance (3,6,12M)(%)	8.9; 22.7; 31.4

*The Company may be issuer of Derivative Warrants on these securities.


Balance Sheet

As of 31 Dec (Bt mn)	2008	2009	2010F	2011F	2012F
Total Assets	3,065	3,171	3,402	3,478	3,716
Current Assets	1,458	1,552	1,724	1,723	1,857
Cash & ST Investments	130	266	274	245	257
Inventories	0	0	0	0	0
Accounts Receivable	465	497	574	581	592
Others	863	790	875	898	1,008
Non-current Assets	1,607	1,619	1,678	1,755	1,859
LT Investments	679	732	847	962	1,087
Net fixed Assets	840	800	780	756	726
Others	88	86	50	38	46
Total Liabilities	551	613	718	926	1,040
Current Liabilities	551	613	718	926	1,040
Accounts Payable	220	260	249	272	275
ST Borrowings	57	25	50	50	50
Others	273	329	419	604	715
Long-term Liabilities	0	0	0	0	0
Long-term Debts	0	0	0	0	0
Others	0	0	0	0	0
Shareholders' Equity	2,509	2,545	2,668	2,536	2,658
Common Stock	832	832	832	720	720
Capital Surplus	756	761	734	734	734
Retained Earnings	920	951	1,102	1,083	1,204
Preferred Stock	0	0	0	0	0

Source: Company data; KGI Securities (Thailand) estimates

Key Ratios & Drivers

Year to 31 Dec (Bt mn)	2008	2009	2010F	2011F	2012F
Forecast Drivers					
Utilization Rate (%)	81.9	70.4	90.0	95.0	95.0
Growth (% YoY)					
Sales	9.4	(14.5)	14.5	9.3	9.4
OP	38.1	(49.6)	28.1	5.1	10.3
EBITDA	29.1	(37.0)	18.6	4.8	8.1
NP	25.9	(21.7)	33.5	(6.0)	9.0
EPS	27.1	(21.7)	33.5	8.7	9.0
Profitability (%)					
Gross Margin	0.0	0.0	0.0	0.0	0.0
Operating Margin	38.2	36.4	36.8	37.0	37.1
Operating Margin	11.8	7.0	7.8	7.5	7.6
EBITDA Margin	15.7	11.6	12.0	11.5	11.4
Net Profit Margin	14.3	13.1	15.3	13.1	13.1
ROAA	9.1	6.3	7.4	7.8	8.1
ROAE	15.4	11.9	14.9	14.7	15.3
Stability					
Gross Debt/Equity (%)	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity (%)	3.5	7.4	8.6	12.9	14.5
Net Debt/Equity (%)	(2.9)	(9.5)	(8.4)	(7.7)	(7.8)
Interest Coverage (x)	35.7	70.4	121.3	118.1	129.0
Interest & ST Debt Coverage (x)	7.0	12.3	9.0	8.7	9.6
Cash Flow Interest Coverage (x)	17.3	81.9	68.3	129.4	85.0
Cash Flow/Interest & ST Debt (x)	3.4	14.3	5.1	9.6	6.3
Current Ratio (x)	2.6	2.5	2.4	1.9	1.8
Quick Ratio (x)	2.6	2.5	2.4	1.9	1.8
Net Debt (Bt mn)	(73.1)	(240.8)	(224.4)	(194.9)	(207.3)
Per Share Data (Bt)					
EPS	4.6	3.6	4.8	5.2	5.7
CFPS	2.0	4.5	2.2	5.9	3.5
BVPS	30.1	30.6	32.0	35.2	36.9
SPS	9.8	8.4	9.6	10.5	11.5
EBITDA/Share	5.1	3.2	3.8	4.6	4.9
DPS	3.3	3.0	4.8	4.0	4.3
Activity					
Asset Turnover (x)	0.9	0.7	0.8	0.8	0.9
Days Receivables	64.4	76.8	74.6	73.6	68.3
Days Inventory	175.6	198.0	173.3	168.2	165.3
Days Payable	51.8	60.2	56.1	52.7	50.7
Cash Cycle	188.2	214.5	191.8	189.1	183.0

Source: Company data; KGI Securities (Thailand) estimates

Profit & Loss

Year to 31 Dec (Bt mn)	2008	2009	2010	2011	2012
Sales	2,676	2,288	2,620	2,864	3,132
Cost of Goods Sold	1,653	1,455	1,655	1,804	1,971
Gross Profit	1,024	834	964	1,060	1,161
Operating Expenses	707	674	760	845	924
Operating Profit	317	160	205	215	237
Net Interest	(9)	(4)	(3)	(2)	(2)
Interest Income	5	1	1	2	2
Interest Expense	14	5	4	4	4
Net Investment Income/(Loss)	115	111	115	115	125
Net other Non-op. Income/(Loss)	60	101	118	145	156
Net Extraordinaries	(1)	(3)	45	(3)	(4)
Pretax Income	482	364	481	468	512
Income Taxes	100	65	81	92	102
Net Profit	383	300	400	376	410
EBITDA	421	265	315	330	356
EPS (Bt)	4.60	3.60	4.81	5.22	5.69

Source: Company data; KGI Securities (Thailand) estimates

Cash Flow

Year to 31 Dec (Bt mn)	2008	2009	2010F	2011F	2012F
Operating Cash Flow	240	430	273	518	340
Net Profit	383	300	400	376	410
Depreciation & Amortization	104	105	110	115	119
Change in Working Capital	(83)	88	(161)	(2)	(113)
Others	(164)	(63)	(76)	29	(76)
Investment Cash Flow	(69)	14	(40)	(40)	(40)
Net CAPEX	(73)	(57)	(90)	(90)	(90)
Change in LT Investment	0	0	0	0	0
Change in Other Assets	5	71	50	50	50
Free Cash Flow	171	444	233	478	300
Financing Cash Flow	(284)	(309)	(225)	(508)	(288)
Change in Share Capital	(8)	0	0	(112)	0
Net Change in Debt	32	(32)	25	0	0
Change in Other LT Liab.	(307)	(276)	(250)	(395)	(288)
Net Cash Flow	(112)	135	9	(29)	12

Source: Company data; KGI Securities (Thailand) estimates

Rates of Return on Invested Capital

Year	1- $\frac{\text{COGS}}{\text{Revenue}}$	+ $\frac{\text{Depreciation}}{\text{Revenue}}$	+ $\frac{\text{Operating Exp.}}{\text{Revenue}}$	= $\frac{\text{Operating}}{\text{Margin}}$
2008	61.8%	3.9%	26.4%	7.9%
2009	63.6%	4.6%	29.4%	2.4%
2010F	63.2%	4.2%	29.0%	3.6%
2011F	63.0%	4.0%	29.5%	3.5%
2012F	56.9%	4.5%	18.0%	20.6%
Year	1/ $\frac{\text{Working Capital}}{\text{Revenue}}$	+ $\frac{\text{Net PPE}}{\text{Revenue}}$	+ $\frac{\text{Other Assets}}{\text{Revenue}}$	= $\frac{\text{Capital}}{\text{Turnover}}$
2008	0.43	0.31	0.03	1.28
2009	0.46	0.35	0.04	1.18
2010F	0.44	0.30	0.02	1.32
2011F	0.41	0.26	0.01	1.46
2012F	0.40	0.23	0.01	1.54
Year	$\frac{\text{Operating}}{\text{Margin}}$	x $\frac{\text{Capital}}{\text{Turnover}}$	x $\frac{\text{Cash}}{\text{Tax Rate}}$	= $\frac{\text{After-tax Return}}{\text{on Inv. Capital}}$
2008	7.9%	1.3	79.3%	8.1%
2009	2.4%	1.2	82.2%	2.3%
2010F	3.6%	1.3	83.1%	3.9%
2011F	3.5%	1.5	80.3%	4.1%
2012F	3.8%	1.5	80.1%	4.7%

Source: Company data; KGI Securities (Thailand) estimates

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