MODERN: Modernform Group

Thailand: Company Focus
30 November 2009

- **We have a positive view on MODERN as we see earnings growth prospect, attractive yields, undemanding valuation and strong financials. We preliminarily value the stock at Bt37 per share based on DDM.**
- **The rise in purchasing power, the recovery in residential demand and the expansion in economy are key factors that will drive MODERN's earnings growth, expected at 16% in 2010 and 11% in 2011.**
- **Short-term catalysts includes expected strong earnings growth in 4Q09-1Q10 and expectedly large dividend payment of Bt1.51/share for the 2H09 operation, implying annualized dividend yield of 12%. Historically, final dividends go XD in May.**

Buy

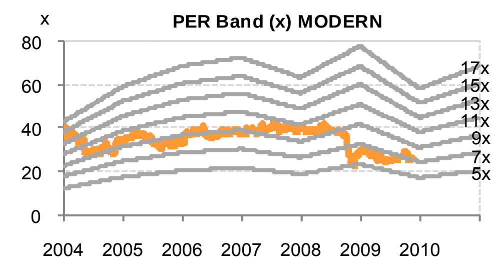
Event	**Company Update**
Fair price (Bt)	**37.00**
Stock price (Bt)	25.75
Upside/Downside (%)	44.0
Valuation approach	DDM
Market Cap (Btbn)	2,143.3
6M avg. daily value (Btmn)	3.2
Free float (%)	31.4
Warrant (Dilution %)	None
Industry	Consumer Products
Bloomberg/Reuters	MODERN.TB / MODERN.BK
CG Score by IOD (2008)	

Pass	Satisfactory	Good	Very Good	Excellent

Recommendation of local peers
BUY: -
SELL: -

YE Dec 31	2008	2009E	2010E	2011E
Company Earnings & Financials				
EBITDA (Btmn)	486	335	396	461
Core profit (Btmn)	383	275	318	353
Core EPS (Bt)	4.55	3.44	3.98	4.41
DPS (Bt)	3.25	2.51	2.99	3.31
Core EPS growth (%)	27.87	-24.47	15.79	10.81
ROE (%)	15.39	11.05	12.63	13.38
Net D/E (x)	-0.03	-0.04	-0.03	-0.04
Valuation				
Core PER (x)	5.66	7.49	6.47	5.84
Dividend yield (%)	12.62	9.75	11.59	12.85
Price / Book (x)	0.84	0.84	0.80	0.76
EV/EBITDA (x)	4.82	5.77	4.93	4.18
Relative to Consensus [(Co. value/Cons.value)*100)]				
Core PER (x)	88.2	100.4	101.7	n.a.
Dividend yield (%)	n.a.	100.4	95.5	n.a.
Price / Book (x)	87.1	103.1	99.4	n.a.
ROE (%)	99.8	100.7	98.9	n.a.

PER Band



Source: Bloomberg, KS

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Fully furnished

Capitalize on residential market recovery

Weak demand and rising competition since late 2008 have adversely impacted MODERN both on sales and gross margin. However, the rise in purchasing power the recovery in residential demand from the pent-up demand in 2009 and the economic recovery are key factors driving MODERN's performance in 2010-11. Furthermore, the company's new products and new markets will also support its sales growth, which we expect to be at 10% in 2010 falling to 8% in 2011compared to -15% in 2009. Meanwhile, gross margin is projected to broaden to 36.8% (2010) and 37.3% (2011) from 36.3% in 2009 mainly due to a drop in fixed cost per unit rather than higher selling price.

Robust earnings growth in 4Q09-1Q10

At present, MODERN has a backlog order book of Bt600mn which is higher than its normal level of Bt400mn. Such high backlog has been caused by the delays of property transfer due to economic slowdown. Thanks to the economic improvement and the end of tax incentive on property transfer in March 2010, MODERN estimates that a half of its current order book will be delivered to customers in 4Q09 and the rest will be in 1Q10. This will boost MODERN's sales and gross margin in these 2 quarters. We estimate a profit of Bt98 in 4Q09, up 22% YoY and 56% QoQ.

Healthy financial status and good dividend yield

MODERN enjoys a solid financial status. Thanks to the company's net-cash position, its net debt-to-equity was -0.1x at end-3Q09. Low capex of less than Bt100mn a year and its expected gradual increase in EBITDA, estimated at Bt339mn, Bt400mn and Bt466mn during 2009 to 2011 respectively, will enable MODERN to maintain or raise its dividend payout ratio from an already high level at 69% in 2008. MODERN paid 1H09 interim dividend of Bt1/share and We estimate it will pay Bt1.51 for 2H09 operation and Bt3 for 2010, implying annualized dividend yield of 11.7% and 11.6% respectively.

Undemanding valuation; Buy

We estimate MODERN's earnings growth of 16% in 2010 and 11% in 2011 after falling by 28% in 2009. With strong earnings growth prospects both in the short and long term, solid financial status, double-digit yield and undemanding valuation of 6.5x on 2010 earnings compared to historical PER of 5x-17x in 2004-08 and the sector PER of 11.2x, the stock is attractively priced yet having strong prospects of a turn around. MODERN is not a stock in our core coverage list but we have positive view of the stock.

Year-end 31 Dec

Income Statement (Btmn)	2007A	2008A	2009E	2010E	2011E
Revenue	2,446	2,676	2,275	2,502	2,703
Cost of sales and services	-1,537	-1,653	-1,449	-1,581	-1,694
Gross profit	**909**	**1,024**	**826**	**921**	**1,009**
SG&A	-680	-707	-682	-726	-757
Operating profit	**229**	**317**	**144**	**196**	**252**
Other income	61	65	87	92	96
EBIT	**290**	**382**	**231**	**287**	**348**
EBITDA	**387**	**486**	**335**	**396**	**461**
Interest expense	-15	-14	-6	-4	-4
Equity earnings	102	115	107	110	114
EBT	**377**	**484**	**333**	**393**	**457**
Income tax	-87	-100	-56	-74	-103
NPAT	**290**	**384**	**276**	**320**	**354**
Minority interests	1	-1	-1	-1	-1
Core profit	**291**	**383**	**275**	**318**	**353**
Extraordinary items	13	0	0	0	0
FX gain (loss)	0	0	0	0	0
Reported net profit	**304**	**383**	**275**	**318**	**353**
Balance Sheet (Btmn)					
Cash & equivalents	243	130	140	120	140
Accounts receivable	479	465	395	435	469
Inventories	761	829	727	793	850
Total current assets	**1,505**	**1,458**	**1,298**	**1,388**	**1,502**
Investment in subsi & others					
Fixed assets-net	867	840	836	827	814
Total assets	**3,058**	**3,065**	**2,959**	**3,098**	**3,257**
Short-term debt	26	57	37	32	28
Accounts payable	249	220	193	211	226
Total current liabilities	**600**	**551**	**498**	**518**	**561**
Long-term debt	0	0	0	0	0
Total liabilites	**600**	**551**	**498**	**518**	**561**
Paid up capital	840	832	800	800	800
Share premium	734	734	702	702	702
Retained earnings	873	965	975	1,092	1,206
Minority interests	5	6	7	8	10
Total shareholders' equity	**2,453**	**2,509**	**2,454**	**2,572**	**2,686**
Total equity & liabilities	**3,058**	**3,065**	**2,959**	**3,098**	**3,257**
Key Assumption					
Average sale growth (%)	-5.0	9.4	-15.0	10.0	8.0
Gross profit margin (%)	37.2	38.2	36.3	36.8	37.3

Cashflow (Btmn)	2007A	2008A	2009E	2010E	2011E
Net profit	304	383	275	318	353
Depreciation & amortization	97	104	104	109	114
Change in working capital	111	-83	145	-88	-76
Others	59	-63	-7	5	31
CF from operation activities	**570**	**341**	**517**	**344**	**421**
Capital Expenditure	-85	-77	-100	-100	-100
Investment in subsi and affiliate	-78	-104	-50	-50	-50
Others	0	0	0	0	0
CF from investing activities	**-164**	**-181**	**-150**	**-150**	**-150**
Cash dividends	-243	-271	-265	-201	-239
Net proceeds from debt	-153	32	-20	-5	-5
Capital raising	125	-8	-64	0	0
Others	-61	-130	-58	-58	-57
CF from financing activities	**-332**	**-377**	**-407**	**-264**	**-301**
Net change in cash	**74**	**-217**	**-40**	**-70**	**-30**
Key Statistic & Ratio					
Per share (Bt)					
Reported EPS	3.72	4.55	3.44	3.98	4.41
Core EPS	3.56	4.55	3.44	3.98	4.41
DPS	3.00	3.25	2.51	2.99	3.31
BV	29.24	30.82	30.77	32.26	33.70
EV	37.34	28.63	24.46	24.66	24.35
Free Cash Flow	5.22	3.89	5.30	2.99	3.63
Valuation analysis					
Reported P/E (X)	6.92	5.66	7.49	6.47	5.84
Core P/E (X)	7.23	5.66	7.49	6.47	5.84
P/BV (X)	0.88	0.84	0.84	0.80	0.76
EV/EBITDA (X)	7.77	4.82	5.77	4.93	4.18
Price / Cash Flow (X)	4.94	6.61	4.86	8.62	7.10
Dividend Yield (%)	11.65	12.62	9.75	11.59	12.85
Profitability ratio					
Gross margin (%)	37.16	38.24	36.32	36.82	37.32
EBITDA margin (%)	15.81	18.17	14.72	15.83	17.07
EBIT margin (%)	11.85	14.27	10.16	11.48	12.86
Net profit margin (%)	12.42	14.29	12.09	12.73	13.06
Core ROA (%)	9.67	12.49	9.13	10.51	11.11
Core ROE (%)	12.31	15.39	11.05	12.63	13.38
Liquidity Ratio					
Current ratio (X)	2.51	2.65	2.61	2.68	2.68
Quick ratio (X)	1.24	1.14	1.15	1.15	1.16
Leverage ratio					
D/E Ratio (X)	0.24	0.22	0.20	0.20	0.21
Net debt/EBITDA (X)	-0.67	-0.17	-0.42	-0.29	-0.31
Net debt/equity (X)	-0.09	-0.03	-0.04	-0.03	-0.04
Int. coverage ratio (X)	26.39	35.89	59.74	93.88	123.89
Growth					
Revenue (%)	-5.07	9.41	-15.00	10.00	8.00
EBITDA (%)	-14.83	27.18	-32.10	18.15	16.39
Reported net profit (%)	-11.16	25.92	-28.10	15.79	10.81
Reported EPS (%)	-12.11	22.33	-24.47	15.79	10.81
Core profit (%)	-15.01	31.63	-28.10	15.79	10.81
Core EPS (%)	-15.92	27.87	-24.47	15.79	10.81

Source: MODERN, KS