

# Trading Idea

December 21, 2010

Share price: RM0.845

6-month Technical target: RM1.10

## SMIS Corporation Bhd

A leading carpeting and autoparts manufacturer in Malaysia

Riding on the positive TIV sales

Net cash/share of RM0.72 is 85% of current market price

ACCUMULATE with a 6M technical target of RM1.10

- SMIS was listed on Bursa Malaysia in Apr 02. The group is an established carpeting manufacturers and autoparts producer in Malaysia.
- SMIS's products are supplied mainly to the major automotive assemblers such as Proton, Perodua, Honda, Toyota, Nissan etc. It is a major beneficiary of Ringgit appreciation as its sales are mainly RM denominated whilst major raw materials are valued in US\$.
- As at Oct 10, YTD TIV stood at 505,546 units, achieving 89% of MAA's forecast. Annualized, the Malaysian TIV will reach 606,655 units for FY10, representing a 13% yoy increase from the TIV recorded in FY09 (536,905 units).
- Drivers of the better demand for motor vehicles have been: 1) Recovery in economic growth; 2) Attractive new models launched; and 3) The acceleration in replacement cycle for motor vehicles to 3 years, instead of 5-7 years previously.
- Given the positive outlook, SMIS recorded a turnover of RM73.1m in 9MFY10 (+52% yoy). Net cash also jumped to RM30.5m (+100% yoy).
- SMIS net cash/share (excluding treasury shares) of RM0.72 (85% of market price) provides a solid platform for SMIS to declare its 2<sup>nd</sup> dividend (or even capital repayment) since the maiden dividend of 5 sen in 2002, on the assumption of no expansion or potential M&As.
- SMIS is trading at trailing 5.1x P/E (based on cumulative four quarters EPS of 16.4 sen), which is greatly undervalued against its peers P/E of 8.2x. In addition, SMIS is trading at P/B of 0.52x against its peers' 1.5x. Excluding its net cash, SMIS valuations are even more compelling at 0.8x trailing P/E and 0.08x P/B.
- Our 6M target price is RM1.10, implying a 6.7x trailing P/E.
- SMIS share price tumbled from RM1.60 in 2002 to as low as RM0.20 in Mar 09. We believe the selldown was mainly owing to its earnings volatility and dividend disappointment as no dividend was paid since listing.
- After hitting the trough, SMIS started to consolidate upwards before closing at RM0.845 yesterday, thanks to its improved earnings, solid net cash and expectations of dividend in 4QFY10 results (in Feb 11).
- MACD histogram bars and RSI are gradually turning up, suggesting that price is likely to firm up soon. Immediate resistance levels are RM0.90 (50% FR) and RM0.93 (52-week high). Upon breakout from these resistance levels, share price could trade higher towards the RM1.00-1.10 zones.
- Immediate support levels are RM0.815 (40-d SMA) RM0.80 and RM0.78 (38.2% FR). Cut loss below RM0.78.

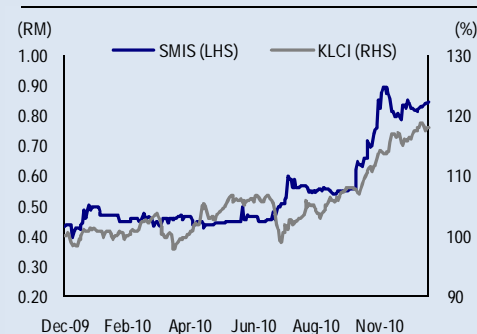
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KLCI	1495.9
Share price (RM)	0.845
Expected share price return (RM)	1.10
Expected dividend return (RM)	0.00
Expected total return (%)	30.2

Share price vs FBM KLCI



### Information

Bloomberg Ticker	SMIS MK
Bursa Code	7132
Issued Shares (m)	44.8
Market cap (RMm)	37.9
Netcash/shr (end Sep 10)	RM0.72
52-week High/Low (RM)	0.93/0.395
3-mth avg volume ('000)	181

Price Performance	1M	3M	12M
Absolute performance	4.3	53.6	94.3
Relative to KLCI	5.0	51.6	63.1

### Major shareholders

MIYES	35.0
Bin Osman Mohd Raini	5.3
Yap Siew Foong	2.8

### Summary Earnings Table

FYE Dec (RM m)	2006	2007	2008	2009
Turnover	77.1	71.2	81.3	67.8
Net profit	0.5	(0.9)	0.8	4.6
Issued shrs (m)*	42.3	42.3	42.3	42.3
EPS (sen)	1.2	(2.1)	1.9	10.9
DPS (sen)	-	-	-	-
BV/shr (RM)	1.44	1.42	1.42	1.51
Netcash & other investment (RM'm)	16.0	15.4	17.4	27.3
Netcash/shr (RM)	0.38	0.37	0.41	0.65
P/E (x)	70.0	(39.8)	45.5	7.8
P/B (x)	0.6	0.6	0.6	0.6
Yield (%)	-	-	-	-

BURSA \*Excluding 2.55 treasury shares

WEEKLY CHART: POISED TO RECHALLENGE THE RM1.02-1.16 RESISTANCE ZONES IN THE MID TO LONG TERM



DAILY CHART: CONSOLIDATING UPWARDS TOWARDS THE UPPER CHANNEL



Source: HLebroking

## PEERS COMPARISON

Company	FYE	Issued shrs (m)	Price (RM)	Mkt cap (RM'm)	Cumulative four quarters EPS (sen)	P/E (x)	Netcash/shr (RM)	% to shr price	Latest BV (RM)	P/BV (x)
SMIS	31-Dec	44.80	0.845	37.9	16.4	5.1	0.7	85%	1.63	0.5
TSM	31-Jan	63.70	3.94	251.0	53.2	7.4	1.1	28%	2.83	1.4
APM	31-Dec	201.60	5.55	1,118.9	61.1	9.1	1.7	30%	3.61	1.5
<b>Average</b>						<b>8.2</b>				<b>1.5</b>

Source: Bursa

## Earnings &amp; valuations profile

FYE 31 Dec	2003	2004	2005	2006	2007	2008	2009	9MFY09	9MFY10	Chgs
Sales (RM'm)	62.2	63.6	73.0	77.1	71.2	81.3	67.8	48.3	73.1	51.5%
Net profit (RM'm)	2.5	0.5	1.4	0.5	(0.9)	0.8	4.6	3.0	5.3	79.5%
No of shares (m)*	42.3	42.3	42.3	42.3	42.3	42.3	42.3	42.3	42.3	42.3
EPS (sen)	5.9	1.2	3.3	1.2	(2.1)	1.9	10.9	7.0	12.6	79.5%
DPS (sen)	-	-	-	-	-	-	-	-	-	-
Book value (RM)	1.34	1.35	1.39	1.44	1.42	1.42	1.51	1.51	1.63	7.9%
Netcash & other investments (RM'm)	13.3	14.3	13.0	16.0	15.4	17.4	27.3	15.3	30.5	99.7%
Netcash/shr (RM)	0.31	0.34	0.31	0.38	0.37	0.41	0.65	0.36	0.72	99.7%
PER (x)	14.4	73.2	25.5	70.0	(39.8)	45.5	7.8	n/m	n/m	
P/BV	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.5	
Yield (%)	-	-	-	-	-	-	-	-	-	-

Source: Bursa

\*After deducting 2.55m treasury shares

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<b>BUY</b>	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
<b>TRADING BUY</b>	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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