

Report type: Update

Company Overview

ZIWO Holdings Ltd. is a raw material producer and supplier of import substitution products such as SBR (styrene butadiene rubber) and other foamed materials. These products are used mainly as raw materials in the production of lifestyle consumer products, furniture upholstery and automobile interior lining.

- Issued profit warning of lower profit for 4Q11 and FY2011
- No near term respite in-sight
- Maintain Sell with unchanged target price of S\$0.095

What is the news?

Ziwo issued profit guidance that financial results for 4Q11 and FY2011 will be substantially lower compared to 2010. This is due to slower sales of products, lower gross profit margins and increases in operating expenses. The company also mentioned the potential impairment of trade receivables.

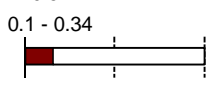
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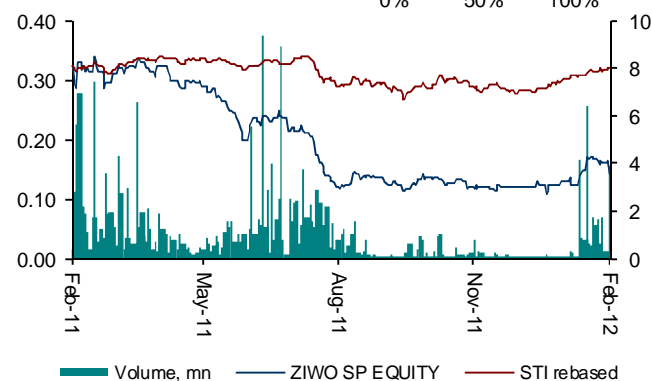
We are not surprised by the profit guidance as we had anticipated poor financial results for 2011 vs 2010. We had highlighted the exact concerns mentioned in the profit guidance in our previous report (dated 11th Nov 2011). We are projecting FY2011 revenue and net profit to fall 7.5% and 39.2% respectively. In 3Q11, receivables spike up 27% despite sales dropping 15% sequentially. Trade receivables days also increased from 52 days (31 Dec 2010) to 73 days (30 Sep 2011). True to our expectations, the company highlighted potential impairment of the receivables.

Investment Actions?

We are maintaining our sell call. Share price had run up from its trough along with the small cap rally before the profit warning announcement which we think is unjustified. On a P/B basis, stock appears cheap at 0.5x with zero debt on its balance sheet and high cash balance of approximately \$0.12/share. However we do not see macro-conditions improving for the industry. We have also not factor in the company giving out dividends. If it does, it's good news. Punters may play on the "delisting/takeover story". For the rest of us salaried worker coping with inflation worries, this is highly speculative and does not justify a risk-return reward for our hard earn money.

Ziwo Holdings Limited

Rating	5	Sell
- Previous Rating	5	Sell
Target Price (SGD)	0.095	
- Previous Target Price (SGD)	0.095	
Closing Price (SGD)	0.142	
Expected Capital Gains (%)	-33.1%	
Expected Dividend Yield (%)	0.0%	
Expected Total Return (%)	-33.1%	
Raw Beta (Past 2yrs weekly data)	1.66	
Market Cap. (USD mn / SGD mn)	34 / 42	
Enterprise Value (USD mn / SGD mn)	6 / 6	
3M Average Daily T/O (mn)	0.5	
52 week range (SGD)	0.1 - 0.34	
Closing Price in 52 week range		



Major Shareholders

1. Chun Yuen Ting	(%) 51.4
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Key Financial Summary

FYE	12/10	12/11F	12/12F	12/13F
Revenue (SGD mn)	103	95	85	77
Net Profit, adj. (SGD mn)	23	14	10	9
EPS, adj. (SGD)	0.08	0.05	0.03	0.03
P/E (X),adj.	1.9	3.1	4.5	5.0
BVPS (SGD)	0.28	0.33	0.36	0.39
P/B (X)	0.5	0.4	0.4	0.4
DPS (SGD)	0.002	0.000	0.000	0.000
Div. Yield (%)	1.4%	0.0%	0.0%	0.0%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

3x FY12e

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FYEMar	FY10	FY11F	FY12F	FY13F
Valuation Ratios				
P/E (X), adj.	1.9	3.1	4.5	5.0
P/B (X)	0.5	0.4	0.4	0.4
EV/EBITDA (X), adj.	0.2	0.3	0.4	0.4
Dividend Yield (%)	1.4%	0.0%	0.0%	0.0%
Per share data (RMB)				
EPS, reported	0.38	0.23	0.16	0.14
EPS, adj.	0.38	0.23	0.16	0.14
DPS	0.01	0.00	0.00	0.00
BVPS	1.40	1.63	1.79	1.93
Growth & Margins (%)				
Growth				
Revenue	41.8%	-7.5%	-11.3%	-9.1%
EBITDA	20.9%	-31.7%	-14.0%	-7.0%
EBIT	20.5%	-41.3%	-28.8%	-10.9%
Net Income, adj.	18.1%	-39.1%	-30.6%	-10.8%
Margins				
EBITDA margin	28.0%	20.7%	20.0%	20.5%
EBIT margin	26.5%	16.8%	13.5%	13.2%
Net Profit Margin	21.9%	14.4%	11.3%	11.1%
Key Ratios				
ROE (%)	31.0%	15.1%	9.3%	7.6%
ROA (%)	28.3%	14.1%	8.8%	7.3%
Net Debt/(Cash)	(214)	(205)	(138)	(164)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash
Income Statement (RMB mn)				
Revenue	513	475	421	382
EBITDA	144	98	84	78
Depreciation & Amortisation	(8)	(18)	(28)	(28)
EBIT	136	80	57	51
Net Finance (Expense)/Income	0	1	(1)	(1)
Other items	0	0	0	0
Associates & JVs	0	0	0	0
Profit Before Tax	136	81	56	50
Taxation	(24)	(12)	(8)	(7)
Profit After Tax	112	68	48	42
Non-controlling Interest	0	0	0	0
Net Income, reported	112	68	48	42
Net Income, adj.	112	68	48	42

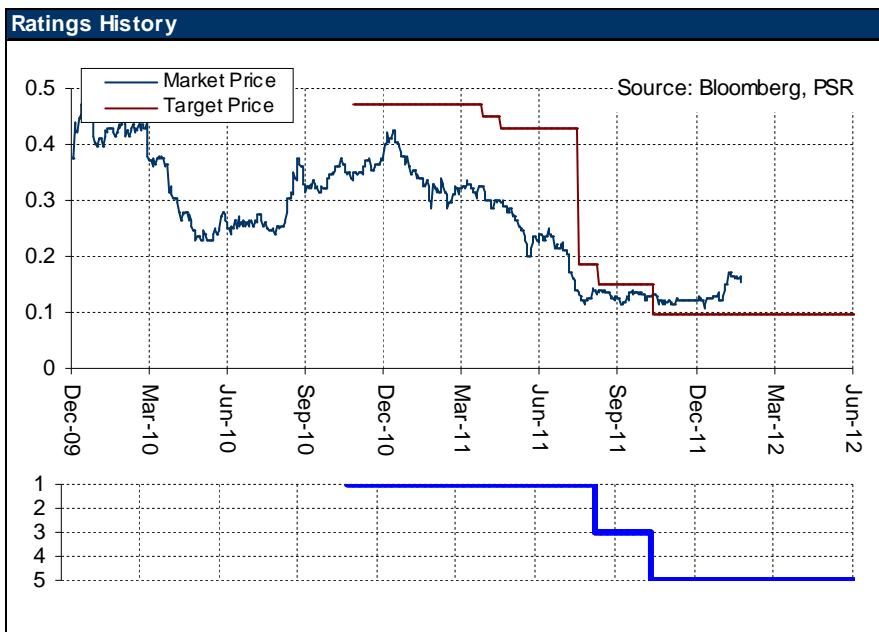
Source: PSR

FYEMar	FY10	FY11	FY12F	FY13F	FY14F
Balance Sheet (RMB mn)					
PPE	102	180	254	229	205
Intangibles	35	34	82	130	176
Associates & JVs	0	0	0	0	0
Investments	0	0	0	0	0
Others	0	0	0	0	0
Total non-current assets	137	214	336	358	380
Inventories	13	20	19	17	17
Accounts Receivables	87	78	69	63	63
Investments	0	0	0	0	0
Cash	214	205	138	164	184
Others	0	1	1	1	1
Total current assets	314	304	227	245	265
Total Assets	451	518	563	603	645
Short term loans	0	0	0	0	0
Accounts Payables	24	25	24	22	22
Others	6	3	2	2	2
Total current liabilities	30	28	26	24	24
Long term loans	0	0	0	0	0
Others	2	2	2	2	2
Total non-current liabilities	2	2	2	2	2
Non-controlling interest	0	0	0	0	0
Shareholder Equity	419	487	535	577	619

Cashflow Statements (RMB mn)

CFO					
PBT	136	81	56	50	50
Adjustments	8	17	28	29	28
Cash from ops before WC changes	144	98	84	78	78
WC changes	(7)	3	9	6	0
Cash generated from ops	137	101	93	84	78
Taxes paid, net	(21)	(15)	(9)	(8)	(7)
Interest paid	0	1	(1)	(1)	(1)
Cashflow from ops	117	87	83	76	70
CFI					
CAPEX, net	(33)	(95)	(150)	(50)	(50)
Dividends from associates & JVs	0	0	0	0	0
Dividends/Interest from Investments	0	0	0	0	0
Purchase/sale of investments	0	0	0	0	0
Investments in subs & associates	0	0	0	0	0
Others	(29)	0	0	0	0
Cashflow from investments	(61)	(95)	(150)	(50)	(50)
CFF					
Share issuance	0	0	0	0	0
Purchase of treasury shares	0	0	0	0	0
Loans, net of repayments	(16)	0	0	0	0
Dividends to minority interests	0	0	0	0	0
Dividends to shareholders & capital reduction	0	0	0	0	0
Others	0	0	0	0	0
Cashflow from financing	(16)	0	0	0	0
Net change in cash	40	(8)	(67)	26	20
Effects of exchange rates	0	0	0	0	0
CCE, end	214	205	138	164	184

Source: PSR



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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