

## Company Update

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Bloomberg : MIG MK

KLCI : 1,297.93

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## Melewar Industrial Group Bhd

## Shareholders' Windfall

Stock Code: MELEWAR (3778)

Price : RM 1.68

Target Price : RM2.70

Market Capitalisation : RM 380.7m

Board : Main

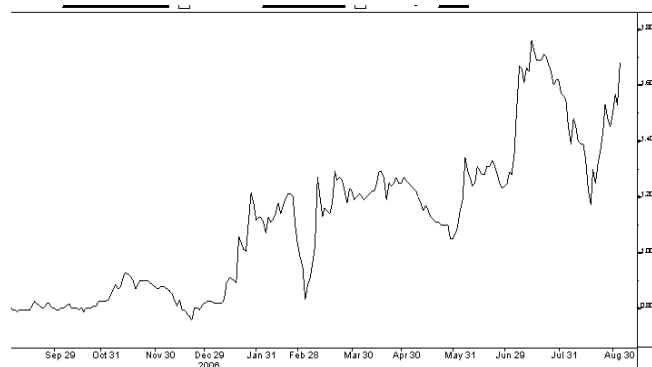
Sector : Industrial Product

Recommendation : BUY

## KEY STOCK STATISTICS

		2007#	2008F
EPS (est.)	(sen)	20.3	25.8
P/E (est.)	(x)	8.1	8.3
Dividend/Share	(sen)	22	
NTA/Share	(RM)	3.01	
Book Value/Share	(RM)	2.74	
Issued Capital	(mil shares)	169.9	
52-weeks Share Price Range	(RM)	1.37/0.86	
Major Shareholders:			
	HDM Nominees (Tempatan) Sdn Bhd (23.29%)		
	EPF (14.01%)		
	HDM Nominees (Asing) Sdn Bhd (5.11)		

## SHARE PRICE



Source: Bloomberg

## PER SHARE DATA

FYE 31 Jun	2005**	2006**	2007#	2008F	2009F
Revenue	598.7	566.9	810.2	644.2	676.4
Operating Profit	75.6	42.9	216.9	83.1	90.6
Depreciation	-15.4	-9.0	-15.0	-6.8	-10.1
Interest Expense	-3.0	-8.1	-12.7	-7.1	-7.8
Pretax Profit	72.7	35.5	189.2	78.9	86.7
Effective Tax Rate (%)	25%	-16%	40%	-31%	26%
Net Profit	46.5	46.9	114.4	103.4	64.2
Adjusted Net Profit *	46.3	46.9	46.0	103.4	64.2
Operating Margin (%)	12.6%	7.6%	9.4%	12.9%	13.4%
Pre-tax Margin (%)	12.1%	6.3%	8.8%	12.3%	12.8%
Net Margin (%)	7.8%	8.3%	3.2%	16.1%	9.5%

## P&amp;L ANALYSIS (RM mil)

FYE 31 Jun	2005**	2006**	2007#	2008F	2009F
Book Value (RM)	2.2	2.8	3.0	3.3	3.5
Cash Flow (sen)	15.3	22.2	32.4	38.3	38.0
Earnings (sen)	20.5	20.7	20.3	45.4	28.3
Adjusted Earnings* (sen)	20.4	20.7	20.3	25.8	28.3
Net Dividend (sen)	9.4	3.0	3.0	16.7	9.0
Payout Ratio (%)	46%	14%	15%	37%	32%
PER (x)	8.2	8.1	8.3	3.7	5.9
Adjusted PER * (x)	8.2	8.1	8.3	6.5	5.9
P/Cash Flow (x)	11.0	7.6	5.2	4.4	4.4
P/Book Value (x)	0.8	0.6	0.6	0.5	0.5
Dividend Yield (%)	5.6%	1.8%	1.8%	9.9%	5.4%
ROE (%)	13%	10%	10%	10%	11%
Net Gearing (%)	27%	30%	44%	38%	35%

note: \* Adjusted for extraordinary gain on sale of investment

\*\* FYE Jan

# 17 months to June  
Melewar Industrial Group Bhd

## Gindalbie Investment - Time to Realise Some Profits

Melewar's investment in Gindalbie is the dream of many investors as the initial investment of RM22mn turned into RM393mn (as at the latest Gindalbie closing price of AU\$1.82) in just 24 months. Gindalbie shares are currently suspended, waiting for material announcement. Based on Bloomberg report, Anshan Steel has purchased 65mn shares or 12.8% stake in Gindalbie at AU\$0.60. Although the purchase price is much lower than the current market price, the entry of Anshan is important as the group is committed to help finance the huge capital outlay, which is estimated to be at AU\$1.7bn and AU\$100mn for the Magnetite and Hematite mining respectively.

In addition, Anshan steel is also committed to buy the whole Hematite and Magnetite productions of Gindalbie. Gindalbie is expected to produce 3mn tonnes p.a for Hematite for 7 years, while the early stage of magnetite production would be 8mn tonnes per annum. The delivery of Hematite is expected by 1Q09 while the Magnetite's first delivery will be in 1Q10.

Gindalbie has also made an announcement to the Australian Stock Exchange on its Bankable Feasibility Studies on the Karara Magnetite and Mundara Hematite projects in Western Australia's Mid West Region, which is being developed in Joint Venture with Anshan Iron & Steel Group Corporation. Based on the studies, the Hematite net present value (NPV) is estimated at AU\$79.6mn while the Magnetite operation NPV is expected to be AU\$2.25bn. This would translate into a NPV of AU\$5.63 per Gindalbie share as compared to current price of AU\$1.82. Based on our source, the official signing ceremony between Gindalbie and Anshan would be on Thursday, which will be witnessed by China's Premier.

With the historic signing and strong potential of Gindalbie's iron ore reserve, we expect the price to continue hitting new highs, which will indirectly be a boon to Melewar. Although the management keeping a tight lip on its Gindalbie investment, based on our sources, Melewar is looking to dispose of part of its stake in Gindalbie to realise some of its investment gains. It is estimated that the Melewar is looking to place out 10-12mn shares out of the 74mn shares the group owns. Assuming the price is transacted at AU\$2.00, the group would recognise RM40-49mn in exceptional gain (after deducting 30% gain tax imposed by the Australian government).

Assuming that the company keeps half of the gain for reinvestment, and pays off 50% of the balance in dividend, Melewar's shareholders is in for additional 10 sen pay out. Coupled with the expected gross dividend of 12 sen (or 9 sen tax-exempt vs. 6 sen tax-exempt in FY07) in FY08, which will be derived from its improving operation, the total distribution will be 22 sen, which translates into a phenomenal dividend yield of 13.1%.

#### Other Developments - SEPCO Progressing Well

To recap, the group holds 70% stake in Siam Power Generation Company Ltd which holds a total licensed capacity of 450MW to built, operate and own power plant in Rayong, Thailand. The group would construct the 1st phase 185MW for US\$230-240mn which is expected to start operation in 2H09 and has signed the PPA with EGAT for 25 years, with fuel pass through agreement that is indexed to the US currency. Based on the current fuel price and currency exchange rate, the average selling price of around US\$0.0753/kwh translates into RM0.26/kwh. The off-take for the 185MW is secured with EGAT taking the majority or 90MW while 70MW is supplied to G-Steel and the balance 25MW to SICOS.

#### Timely Buy for a Windfall

Our core net earnings remain unchanged. However, our dividend estimate is raised from 12 sen to 22 sen on the back of higher distribution arising from the partial realisation of its investment in Gindalbie. Our target price remains at RM2.70 based on sum-of-parts that offers a potential capital appreciation of 60.7%. Additionally, investors would also be reaping a higher dividend yield of 13.1%, which adds up to a total of 73.8%. As such, Melewar remains a BUY.

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