

Luks Group

Results: Snap reaction

24 September 2007

PRICE HK\$10.56	REUTERS 0366.HK	REPORTING PERIOD H1 2007	MEETING TIME/PLACE None	CONF. CALL DETAILS Caz: 5pm 27/9	NEXT NEWS Land acquisitions
MARKET CAP HK\$6,053m	BLOOMBERG 366 HK	FREE FLOAT	12 MONTH RANGE HK\$14.78 – 5.53		CHANGE IN EPS (%) 2007E n/a 2008E n/a
STOCK RECOMMENDATION OUTPERFORM			CHANGE IN STOCK RECOMMENDATION n/a		

ANALYST

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COMMENT

Results largely in line with expectations – adj EPS up 62% YoY driven by Vietnamese operations (cement and Saigon Trade Centre). Following the recent jump, the shares are trading at near parity to our value of existing assets of HK\$10.93. However further newsflow is expected on land bank acquisitions (per results statement: “it is expected that the Group shall obtain some prospective property projects in the second half of the year”) and this should, in our view, drive the shares towards our fair value of HK\$14.52. Outperform maintained.

Results summary

Year end: December	H1 06	H2 06	H1 07	YoY (%)	HoH (%)
Turnover (HK\$m)	178.6	195.1	243.3	+36%	+25%
Earnings (HK\$m)	38.5	161.9	62.4	+62%	-61%
Earnings – adj (HK\$m)	35.7	44.12	61.8	+73%	+40%
EPS (adj) (HK\$)	0.073	0.087	0.118	+62%	+36%
DPS (HK\$)	0.030	0.050	0.030	+0%	-40%
NAV per share (HK\$)	2.16	2.44	3.53	+63%	+44%

Source: Company

Results: key points

- **Cement operations:** Lower utilisation (76% v 109%) on enlarged capacity (+88%) resulted in a net increase in cement volume sold of 32% YoY to 572,000 tonnes. Management are optimistic that with this capacity now bedded-down that utilisation rates / volumes will increase in H2. ASP/tonne increased 4% YoY to US\$41.1 and gross (41%) and EBIT (27%) margins remained stable, resulting in a 38% YoY increase in cement EBIT and a 44% increase in PBT contribution.
- **Property investment:** Contributions from the non-Vietnamese element of the portfolio, whilst not quantified, are described as being stable (estimated at 13% of revenue in FY06), with the 38% growth in divisional EBIT purely as a result of higher rents and occupancy (now 100%) at the Saigon Trade Centre. Management expect two more years of positive rental reversions, with new space coming onto the market suffering delays (our current forecasts are based on only one more year of positive rental reversions).
- **Other operations:** As forecast by management, the level of loss contributed by the Traditional Chinese Medicine operations continues to decline (HK\$1.7m v's HK\$4.4m). This, and the 38% increase in the EBIT contributions from cement and investment property, has resulted in overall group EBIT increasing by 57%. A lower effective tax charge has increased this to growth of 62% at the reported earnings level.
- **EPS and DPS:** The lower rate of growth in fully diluted reported EPS (+54%) reflects the impact of the 60m new shares placed during the period. Adjusting for non-trading items we estimate operating FD EPS grew by 62% on the back of 73% adjusted earnings growth. The dividend remains unchanged, with funds retained for investment opportunities.
- **Balance sheet:** Net cash at the end of June totals HK\$687m, which includes HK\$743m of net placing proceeds. Working capital ratios remain solid with inventory days unchanged YoY at 8 days and trade working capital to sales down from the December 2006 level of 6.5% to 5.7% as at June 2007.

Recommendation and valuation

- We are refraining from making any adjustments to our forecasts until we have had a chance to discuss these results in greater detail with management. We would note however that based on our initial assessment we would expect any adjustments to our forecasts to be very minimal / immaterial.

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- With property development earnings not expected to start contributing until FY2008 (and building thereafter), short term PER multiples look high: FY2007E 37.6x / FY2008E 21.1x. These however, in our view, fail to capture the economic benefit that Luks will derive from its existing assets and future expansion in Vietnam. Our valuation of the group's existing assets remains HK\$10.93 and our fair value, which includes some value for projects that we anticipate will 'go-live' is HK\$14.52 (see published note dated 9 September for more details).
- In terms of outlook management expect to secure more land bank during H2 2007, with vendors reported to have become more realistic on pricing of late. This, in our view, will be one of the main catalysts for share price performance. Partially offsetting is this potential delays in commencement of property projects / booking of sales (as detailed in our recent note, although this should purely be a timing rather than economic value issue) and delays in clearing the land for the cement grinding station in HCMC. The addition of a further 1.3m tonnes of clinker capacity at Hue remains on track (scheduled for completion Q2 08).

Cement division summary

	H1 06	H2 06	H1 07	YoY (%)	HoH (%)
Capacity	400,000	487,500	750,000	+88%	+54%
Utilisation	109%	91%	76%		
Volume sold	434,000	446,000	572,000	+32%	+28%
ASP (US\$/tonne)	39.7	40.4	41.1	+4%	+2%
EBIT (US\$/tonne)	10.8	11.7	11.2	+4%	-4%
EBIT margin (%)	27%	29%	27%		
Revenue (HK\$m)	134.2	140.4	183.4	+37%	+31%
EBIT (HK\$m)	36.5	40.5	50.1	+38%	+24%

Source: Company

Results summary

	H1 06	H2 06	H1 07	YoY (%)	HoH (%)
Cement	134.2	140.4	183.4	+37%	+31%
Property Inv	41.1	50.0	54.2	+32%	+8%
TCM	1.8	2.3	2.6	+40%	+13%
Other	1.4	2.5	3.2	+123%	+29%
Revenue	178.6	195.1	243.3	+36%	+25%
Cement	36.5	40.5	50.1	+38%	+24%
Property Inv	22.9	34.2	31.6	+38%	-7%
TCM	-4.4	-3.7	-1.7	-60%	-54%
Other	-11.2	-17.7	-11.3	+2%	-36%
EBIT	43.8	53.2	68.7	+57%	+29%
Other	3.7	168.5	2.6	-30%	
Net interest	-3.5	-2.1	-3.8	+10%	
JCE	-1.2	-1.4	-1.0	-23%	
PBT	42.9	218.3	66.5	+55%	
Tax	-4.4	-58.5	-4.1	-6%	
MI	0.0	2.1	0.0		
Earnings	38.5	161.9	62.4	+62%	
FD EPS	0.08		0.12	+54%	
DPS	0.03		0.03	+0%	

Source: Company

APPENDIX

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RECOMMENDATION HISTORY

12 months recommendation changes for Luks Industrial (Group) Ltd;

10–Sep–2007 OUTPERFORM

19–Apr–2007 IN–LINE

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