

1QFY11 RESULTS UPDATE

27 May 2011

K-One Technology Berhad

Price : RM0.40

Market Capitalization : RM136.7 mln

Market : ACE Market

Sector : Technology

Recommendation : Buy

Bursa / Bloomberg Code: 0111 / KONE MK
Shariah-Compliant Stock

K1: 1QFY11 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year	
	Mar 11	Dec 10	%chg	Mar 10	%chg
Turnover	31.2	32.8	-4.7%	24.4	28.1%
Operating profit	2.4	1.5	62.4%	1.9	29.1%
Interest cost	(0.4)	(0.3)		(0.3)	
Pre-tax profit	2.1	1.2	76.5%	1.6	30.9%
Tax	(0.0)	(0.1)		(0.0)	
Net profit	2.1	1.2	76.0%	1.6	26.0%
Reported EPS (sen)	1.0	1.0		1.5	
Op profit margin	7.8%	4.6%		7.7%	
Pre-tax margin	6.7%	3.6%		6.5%	
Net profit margin	6.6%	3.6%		6.7%	
NA per share (RM)	0.17				

1QFY11 Results Review

- K-One Technology Berhad (K1) posted a net profit of RM2.1 mln in its 1QFY11 results, which accounted for only 14.5% of our FY11 projection of RM14.2 mln. Nevertheless, we deem the results to be within expectations as 1HFY11 performance is historically weaker. We expect a more robust 2HFY11 to compensate for the gap in 1HFY11.
- 1QFY11 revenue rose 28.1% y-o-y to RM31.2 mln on healthy contributions from sales of several new products such as the network cameras, electronic sports headlamps and USB cables; as well as higher sales from the household appliances and hygiene-care sectors.
- Although turnover was higher y-o-y, 1QFY11 gross profit (GP) growth was nevertheless flat as GP margin fell 5 ppts to 18.0% from 23.3% in 1QFY10. We understand from management that the decline was due to margin squeeze arising from costdown exercise by customers for some of the older products. We note that despite the decline in GP margin, operating margin was largely maintained at 7.7%-7.8% level, as it was cushioned by a 15.4% y-o-y reduction in operating expenses.
- In terms of geographical breakdown, Europe remains the largest market for K1, contributing 55.4% of the Group turnover in 1QFY11, followed by North Asia (32.0%), Malaysia (10.5%) and rest of world (2.1%). Export sales to Europe and North Asia registered robust y-o-y growth of 44.1% and 48.8% respectively.
- Balance sheet-wise, the Group's NTA/share stood at 15.2 sen with net gearing of 0.4x as at end-March 2011.
- While we are cognizant of the challenging operating environment, we understand from management that 2QFY11 results would be better than 1QFY11 as sales momentum continues, with 2HFY11 performance to be much stronger based on the 12-month rolling sales forecasts provided to K1 by its MNC clientele. There are new products in the pipeline to be rolled out in the remaining quarters across all its three business sectors, namely the mobile phone

accessories, computer peripherals and consumer technology products. Additionally, initiatives also are put in place to curtail the decline in GP margin. We note that in the past, the Group's profitability was hit by hedging loss and provision for doubtful debts. K1 now minimizes foreign exchange risk through natural hedge, i.e. using foreign currency to pay for purchases denominated in the same currency.

- With our expectation of a strong rebound in 2HFY11 performance, we leave our existing FY11 net profit estimate of RM14.2 mln unchanged at this juncture. We shall revisit our projections upon the release of 2QFY11 results in August 2011.
- On the corporate front, K1 had in February 2011 completed a 2-for-1 bonus issue which increased its shares base to 341.9 mln from 113.9 mln.
- K1 did not declare any dividend during the quarter under review.

Recommendation

We maintain our Buy recommendation at this juncture with an unchanged fair value of 50 sen. We continue to derive our fair value from pegging a PER of 12x against FY11 EPS of 4.2 sen. The benchmark PER multiple reflects the average PER of selected global peers in the electronics manufacturing industry.

Per Share Data

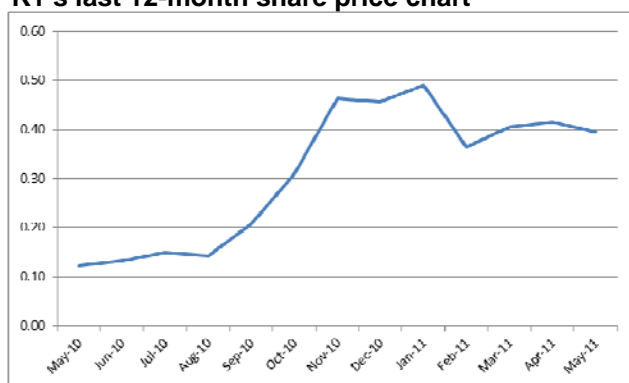
FYE Dec	FY09	FY10	FY11f
Book Value (sen)	14.0	16.4	20.3
Cash Flow (sen)	1.0	2.7	5.6
Earnings (sen)	0.3	2.3	4.2
Net Dividend (sen)	-	-	1.0
Payout Ratio (%)	-	-	24.1
PER (x)	133.3	17.4	9.6
P/Cash Flow (x)	40.5	14.8	7.1
P/Book Value (x)	2.9	2.4	2.0
Dividend Yield (%)	-	-	2.5%
ROE (%)	2.1%	14.0%	20.5%
Net Gearing (x)	0.4	0.3	0.3

P&L Summary

FYE Dec (RM mIn)	FY09	FY10	FY11f
Revenue	84.1	132.8	177.7
Operating profit	2.1	9.2	15.1
Net Int Exp	(1.1)	(1.2)	(1.4)
Pre-tax Profit	1.1	8.0	14.7
Eff. Tax Rate	nm	1.6%	3.0%
Net Profit	1.1	7.9	14.2
Op Profit Margin (%)	2.5%	6.9%	8.5%
Pre-tax Margin (%)	1.3%	6.0%	8.2%
Net Margin (%)	1.3%	5.9%	8.0%

Note: FY09 & FY10 figures adjusted retrospectively to reflect a 2-for-1 bonus issue effective in Feb 2011.

K1's last 12-month share price chart



source: Bloomberg

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RATING GUIDE

BUY	Price appreciation expected to exceed 10% within the next 12 months
SELL	Price depreciation expected to exceed 10% within the next 12 months
HOLD	Price movement expected to be between -10% and +10% over the next 12 months from current level

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