3QFY11 RESULTS UPDATE **25 November 2011**

K-One Technology Berhad

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

Price :	**RM0.325**
Market Capitalization :	**RM111.1 mln**
Market :	**ACE Market**
Sector :	**Technology**
Recommendation :	**Downgrade to Hold**

K1: 3QFY11 results

FYE Dec		**Quarter-on-Quarter**		**Year-on-Year**		**Year to date**		
RM mln	**Sep 11**	**Jun 11**	**%chg**	**Sep 10**	**%chg**	**9MFY11**	**9MFY10**	**%chg**
Turnover	36.5	34.1	7.0%	41.9	-12.9%	101.7	100.0	1.7%
Operating profit	2.4	2.5	-4.5%	3.4	-28.4%	7.4	7.7	-4.4%
Interest cost	(0.4)	(0.3)		(0.3)		(1.1)	(0.9)	
Pre-tax profit	2.0	2.2	-9.6%	3.1	-35.2%	6.3	6.8	-8.1%
Tax	-	(0.0)		-		(0.0)	-	
Net profit	2.0	2.2	-8.9%	3.0	-33.7%	6.2	6.9	-9.5%
Reported EPS (sen)	0.6	0.6	-9.4%	0.9	-33.8%	2.1	2.0	3.5%
Op profit margin	6.6%	7.4%		8.0%		7.2%	8.0%	
Pre-tax margin	5.4%	6.4%		7.3%		6.1%	7.3%	
Net profit margin	5.4%	6.4%		7.2%		6.1%	7.2%	
NA per share (RM)	0.18							

Note: FY10 figures adjusted to reflect the 2-for-1 bonus issue effective Feb 2011

3QFY11 Results Review

- K-One Technology Bhd (K1)'s 3QFY11 results were disappointing with net profit falling 33.7% y-o-y to RM2.0 mln. 9MFY11 net profit of RM6.2 mln trails far behind our previous optimistic projection of RM14.2 mln.

- Our earlier expectation for the robust 2HFY11 performance did not materialize in 3QFY11 results. 3QFY11 revenue dropped 12.9% y-o-y to RM41.9 mln mainly due to lower sales of USB cables, which is one of the key products of the Group. To recap, K1's performance in 1HFY11 was lower-than-expected due to the earthquake in Japan in March 2011 that disrupted the operations of its key customer. We had anticipated the normalization of business in 3QFY11, but misfortune struck again in the form of serious floods in Thailand, affecting the operations of its MNC customers that have plants in the vicinity of Bangkok. Additionally, performance was also impaired by delays on some of its new product launches due to quality issues.

- 3QFY11 net profit, meanwhile, was down 33.7% y-o-y to RM2.0 mln from RM3.0 mln in 3QFY10 as profitability was nipped by rising cost and lower selling price on some of its long running products that resulted in lower gross margin.

- 9MFY11 revenue rose 1.7% y-o-y to RM101.7 mln on higher contributions from the mass production of new network cameras and electronic sports headlamps as well as sales from the household appliances and hygiene-care categories, which made up for the slack in USB cable sales. Net profit, nevertheless, was 9.5% lower y-o-y at RM6.2 mln chiefly due to cost pressures. We note that the Group's effective tax expense is largely negligible as K1 is awarded the MSC status which exempts its business income from taxation.

- On balance sheet strength, the Group's NTA/share is at 18 sen while net gearing improved to 0.4x as at end-September, from 0.5x in June 2011.

- In view of the weaker-than-expected results, we slash our FY11 revenue and net profit projections by 22% and 42% to RM140.0 mln and RM8.2 mln respectively. We also introduce our FY12 projections with revenue at RM169.4 mln and net profit at RM11.0 mln, on the assumptions of normalization of USB cable sales, as well as higher sales from rollout of new products and contributions from the household appliances and hygiene-care clients.

- For K1, FY11 was a year plagued by natural disasters that had material adverse indirect impact on its business. Nevertheless, management is still positive that FY11 net profit would surpass that of FY10. In fact, its results would have been much better had it not been affected by the catastrophe that hit Japan and Thailand.

- Noting that our earlier projections were overly optimistic, we now anticipate a more modest growth in FY12. Earnings growth will be driven by higher USB cable sales, planned rollouts of a number of new products in the consumer electronics and mobile phone accessory categories, as well as increased contribution from the household appliances and hygiene-care clients. As for the quality issues that affected the new product launches, management clarified that it has resolved some of them and is positive of overcoming the problem by next year.

- While there are encouraging developments within the company, we are nevertheless cognizant that its operating environment remains challenging as the macroeconomic picture is still weak arising from the unsolved European debt issues, slowdown in the Chinese economy and frail recovery of the US economy.

Recommendation

We lower our recommendation to **Hold** with a revised fair value of **36 sen** (from 46 sen), having rolled over our valuation to FY12 where we ascribe an unchanged target PER of 11x against our FY12 net profit forecast. Share price outperformance in the near term is likely to be muted, in our opinion, until the Group's performance reflects significant improvement in profitability and the investors' sentiments on the broader equity market improve.

Per Share Data

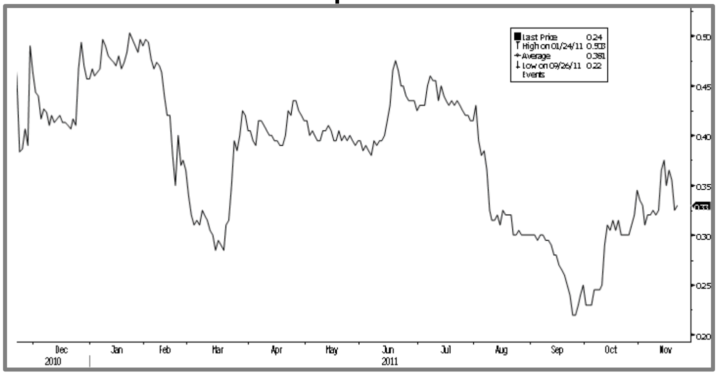
FYE Dec	FY09	FY10	FY11f
Book Value (sen)	14.0	16.4	18.9
Cash Flow (sen)	1.0	2.7	2.9
Earnings (sen)	0.3	2.3	2.4
Net Dividend (sen)	-	-	-
Payout Ratio (%)	-	-	-
PER (x)	108.3	14.1	13.5
P/Cash Flow (x)	32.9	12.1	11.2
P/Book Value (x)	2.3	2.0	1.7
Dividend Yield (%)	-	-	-
ROE (%)	2.1%	14.0%	12.7%
Net Gearing (x)	0.4	0.3	0.5

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

P&L Summary

FYE Dec (RM mln)	FY09	FY10	FY11f	FY12f
Revenue	84.1	132.8	140.0	169.4
Operating profit	2.1	9.2	9.8	13.0
Net Int Exp	(1.1)	(1.2)	(1.5)	(2.0)
Pre-tax Profit	1.1	8.0	8.3	11.1
Eff. Tax Rate	nm	1.6%	1.0%	1.0%
Net Profit	1.1	7.9	8.2	11.0
Op Profit Margin (%)	2.5%	6.9%	7.0%	7.7%
Pre-tax Margin (%)	1.3%	6.0%	5.9%	6.5%
Net Margin (%)	1.3%	5.9%	5.9%	6.5%

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

DISCLAIMER

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