

SIS Distribution (Thailand) (SIS)

BUY

2Q08 earnings to set another record high

◆ 2Q08 earnings expected to continue to set new highs

SiS Distribution (Thailand) (SIS) is expected to announce another record high for 2Q08 with a net profit of Bt52mn (EPS Bt0.26), up 2% qoq and 83% yoy. This very strong result will mainly be due to strong IT sales of PDA phones and notebook computers resulting the a high sales figures of Bt3,035mn for the second quarter, up 5% qoq and 12% yoy. SIS management said recently that sales in 1H08 will grow by around 22%. The gross margin is expected to remain high at 6%, although softer than the previous quarter at 7% and up from last year at 5% caused by a higher portion of high margin products. In addition, earnings are expected to be supported by lower selling and administrative expenses at Bt112mn, down 23% qoq from lower provisioning for account receiveables and 11% yoy higher from sales growth. Interest expenses are expected to remain low at Bt7mn, down 59%, from lower debt.

◆ 2008 sales and profit growth pressured by negative factors

The 1H08 sales and net profit will strongly grow by 20% and 104%, respectively, although pressured by negative factors of political unrest and the economic slowdown. SIS management maintains the SIS 2008 sales growth target at 10% and inline with IT industry growth of 10-15%. We expect the 2008 sales to grow by 10% to Bt11,444mn and the normalised profit to reach Bt136mn, up 16%. The first half normalised profit will account for around 53% of our full year forecast and the second half is usually the better period by a ratio of 45%: 55%. The 2008 earnings are likely to be higher than our forecast. However we are maintaining a very conservative forecast.

◆ Upgrade to BUY as earnings are still strong

The current SIS share price is down to Bt5 from a peak of Bt5.4. However when compared with the market, the SIS share price is down less than the market. As 2Q08 earnings will still be strong although pressured by some negative factors, this year's earnings prospects are likely to be much higher than our forecast. Therefore, we are upgrading our recommendation from HOLD to BUY. We estimate the fair value at Bt5.5 based on a 2008 normalised PER of 8x based on our very conservative earnings forecast.

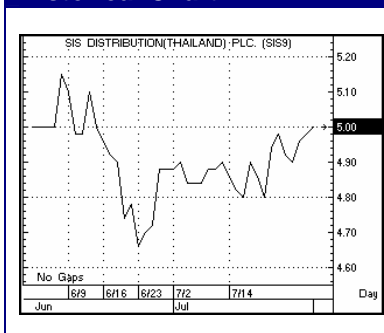
Earnings summary

Year End Dec 31	2005	2006	2007	2008F	2009F
Sales (Btmn)	8,737	9,237	10,417	11,444	12,360
EBITDA (Btmn)	194	201	248	259	265
Normalised earnings (Btmn)	88	81	117	136	141
Earnings (Btmn)	88	93	130	154	141
EPS (Bt)	0.44	0.46	0.64	0.75	0.69
PER (x)	11.4	10.8	7.8	6.7	7.3
EV/EBITDA (x)	9.9	9.2	5.8	5.4	5.3
BVPS (Bt)	2.4	2.8	3.3	3.8	4.2
P/BV (x)	2.0	1.8	1.5	1.3	1.2
DPS (Bt)	0.10	0.14	0.25	0.26	0.27
Dividend yield (%)	2.0%	2.8%	5.0%	5.2%	5.4%
Net debt/equity (x)	1.3	1.0	0.7	0.5	0.4
Total liabilities/equity (x)	3.8	2.7	1.7	1.7	1.5
ROA (%)	4.2%	4.2%	6.7%	8.0%	6.7%
ROE (%)	19.4%	17.6%	21.0%	21.4%	17.3%

Source : Company reports and KELIVE Research estimates.

Price (Bt)	5.00
Target (Bt)	5.50
Set Index	678.66

Historical Chart



Stock Information

Paid up shares (mn)	201.66
Par value (Bt)	1.00
Free Float (%)	26.70
Market Capitalisation (Btmn)	1,015.80
Foreign Limit (%)	100.00

Major Shareholders

SIS Technologies (%)	49.47
Sittichairichart Family (%)	14.14
Pungsrinont Family(%)	8.75

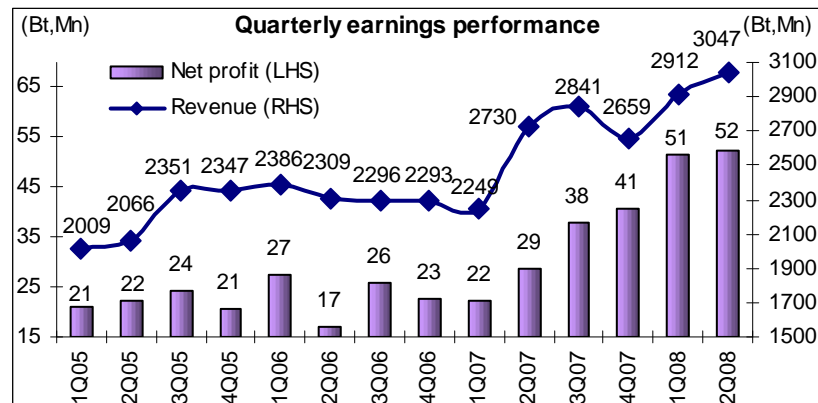
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SIS quarterly earnings

Btmn	2Q08F	1Q08	%qoq	2Q07	%yoy	1H08F	1H07	%yoy
Sales	3,035	2,900	5%	2,710	12%	5,935	4,947	20%
Other Income	12	12	0%	20	-39%	24	32	-25%
COGS	2,849	2,693	6%	2,562	11%	5,542	4,692	18%
Depreciation & amortisation	4	4	11%	5	-13%	8	9	-18%
Gross profit	182	203	-10%	144	27%	385	246	57%
Gross margin (%)	6%	7%	-	5%	-	6%	5%	-
SG&A	112	146	-23%	101	11%	258	175	47%
SG&A/Sales (%)	4%	5%	-	4%	-	4%	4%	-
EBITDA	86	73	18%	67	29%	159	112	41%
EBITDA margin (%)	3%	3%	-	2%	-	3%	2%	-
Interest expense	7	7	7%	17	-59%	14	33	-59%
Net profit before tax	75	63	20%	45	66%	138	70	96%
Income tax	22	29	-23%	16	36%	51.77	23	125%
Tax rate (%)	30%	47%		36%		38%	33%	
Net profit before extra item	52	33	58%	29	83%	86	47	83%
Extra item	-	18	nm	-	nm	18	4	357%
Net profit	52	51	2%	29	83%	104	51	104%
EPS (Bt) before extra item	0.26	0.17	56%	0.14	81%	0.42	0.20	110%
EPS (Bt)	0.26	0.26	1%	0.14	81%	0.51	0.22	132%

Source : Company reports and KELIVE Research estimates.
/ Note: COGS does not include depreciation and amortisation

Record high earnings continues in 2Q08

Source : Company reports and KELIVE Research estimates.

Thailand ICT Industry 2006-2007 and forecast of 2008

Product	Value (Btmn)			Growth (%)	
	2006	2007	2008	06/07	07/08
1. Computer Hardware	62,571	68,719	73,387	9.8	6.8
2. Computer Software	50,064	57,178	67,262	14.2	17.6
3. Computer Services	17,689	20,703	26,264	17.0	26.9
4. Communications	363,295	391,218	441,548	7.7	12.9
Total ICT	493,620	537,818	608,460	9.0	13.1

Source : NECTEC.

Income Statement

Btmn	2005	2006	2007	2008F	2009F
Sales	8,737	9,237	10,417	11,444	12,360
Other income	36	46	63	65	70
Total revenues	8,773	9,283	10,480	11,509	12,430
Cost of Goods sold	8,258	8,751	9,812	10,804	11,683
Depreciation and Amortisation	17	19	18	18	17
SG&A and Others Expenses	321	331	419	446	482
EBIT	177	183	230	241	248
Interest expenses	44	63	56	36	34
EBT	133	119	173	205	214
Equity Acc. + Extraordinary Gains	-	12	13	18	-
Net profit	88	93	130	154	141

Source : Company reports and KELIVE Research estimates.

Balance Sheet

Btmn	2005	2006	2007	2008F	2009F
ASSETS					
Cash & Deposits	23	94	61	50	50
Accounts receivable	1,213	1,079	1,070	1,319	1,390
Inventory	672	488	566	600	623
Other current assets	81	72	29	29	29
Total current assets	1,989	1,733	1,726	1,998	2,091
Investments	-	-	-	-	-
Property, Plant and Equipment	47	38	25	27	30
Other assets	310	310	28	26	26
Total Assets	2,346	2,080	1,779	2,052	2,148
LIABILITIES					
OD + Current portion of L-T debt	938	946	497	434	434
Account payable + Trust Receipt	835	490	499	732	740
Other current liabilities	77	79	115	115	115
Total current liabilities	1,850	1,515	1,112	1,282	1,290
Long term debts	5	-	-	-	-
Debentures + CDs	-	-	-	-	-
Other liabilities	-	-	-	-	-
Total liabilities	1,855	1,515	1,112	1,282	1,290
Minority Interest	-	-	-	-	-
SHAREHOLDERS' EQUITY					
Shares + Warrants	201	201	201	201	201
Premium on shares	128	129	129	129	129
Retained earnings + Revaluation	162	235	336	440	527
Total shareholders' equity	491	566	667	770	858
Total liabilities and equity	2,346	2,080	1,779	2,052	2,148

Source : Company reports and KELIVE Research estimates.

Statement of Cash Flow

Btmn	2005	2006	2007	2008F	2009F
Net profit	88	93	130	154	141
+ Depreciation & Amortisation	17	19	18	18	17
- Sales of fixed assets	-	-	-	-	-
+ Decrease in working capital	(198)	(16)	20	(50)	(85)
+ Others	-	(12)	(13)	(18)	-
Operating cash flows	(93)	84	154	103	73
Purchase of fixed assets	(57)	(9)	277	(19)	(20)
Investment in affiliated	-	-	-	-	-
Other investing activities	-	-	-	-	-
Investing cash flows	(57)	(9)	277	(19)	(20)
Payment of dividend	(15)	(20)	(28)	(50)	(53)
Equity Increase	2	2	-	-	-
Other debt financing	15	(59)	46	29	-
Internal financing cash flows	2	(78)	18	(21)	(53)

Source : Company reports and KELIVE Research estimates.

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