SINGAPORE EQUITY
Investment Research

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DMG & Partners Research

TECHNOLOGY

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SECTOR UPDATE

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HARD DISK DRIVE

OVERWEIGHT

Riding the wave of recovery

The recent newsflow have indicated that the Hard Disk Drive (HDD) industry has recovered faster than expected following the Thai floods. As such, we believe that the outlook for the Singapore HDD components suppliers have passed their inflection point, embarking on an exciting recovery journey due to 1) strong demand from emerging economies, 2) rising HDD prices and 3) post-consolidation supply chain structural changes. Our top pick in the sector is Broadway Industrial given its broadened customer base and attractive valuation multiples.

Faster than expected recovery. The Thai flood disaster turned out to have a less severe impact on the HDD industry, evidenced from the resilient results produced by the two dominant HDD OEMs. All Singapore HDD components suppliers are poised to benefit. Broadway has an advantage as it possesses sufficient inventory to meet the temporary ramp up in production as Seagate and Western Digital (WD) scramble to put more HDDs on the market.

Demand for HDD to persist. We expect demand for HDD to remain strong in the medium term, mainly supported by emerging economies. Singapore HDD players are expected to recover in 2012 along with the industry. However, we expect the recovery to be modest before embarking on an exciting 2013 when the rollover demand finally get fulfilled.

Rising HDD prices to benefit upstream supplier. Given the rising profitability, OEMs are now more willing to share their profits with their suppliers through better pricing in exchange for longer-term contracts. Consequently, we expect the trio of companies to benefit with less pricing pressure moving forward.

Structural change expected post industry consolidation. Previously, the price pressure which Seagate and WD had exerted on its suppliers had resulted in a single point failure that eventually did much more damage to profitability. Upon the completion of HDD industry consolidation, we expect the supply chain to enjoy a structural change. Given their long-standing track record of servicing the HDD industry, Singapore suppliers are poised to benefit from an increase in selling price and a likely increase in market share in the consolidated market.

Summary of recommendations

Companies	Price (S$)	Rating	TP (S$)	Upside (%)	FY12F EPS (S¢)	FY13F EPS (S¢)	FY12F P/E (x)	FY13F P/E (x)	FY12F P/B (x)	FY13F P/B (x)	FY12F Yield (%)	FY13F Yield (%)
Adampak	0.295	BUY	0.36	22.0	4.3	4.5	6.9	6.6	1.2	1.1	10.2	10.2
Armstrong	0.300	BUY	0.37	23.5	3.4	3.9	11.3	7.7	1.5	1.4	8.3	11.7
Broadway Industrial	0.38	BUY	0.48	26.4	5.5	10.0	7.0	3.8	0.7	0.6	7.9	10.5

Source: Bloomberg and DMG estimates. Prices as of 9 Feb 2012

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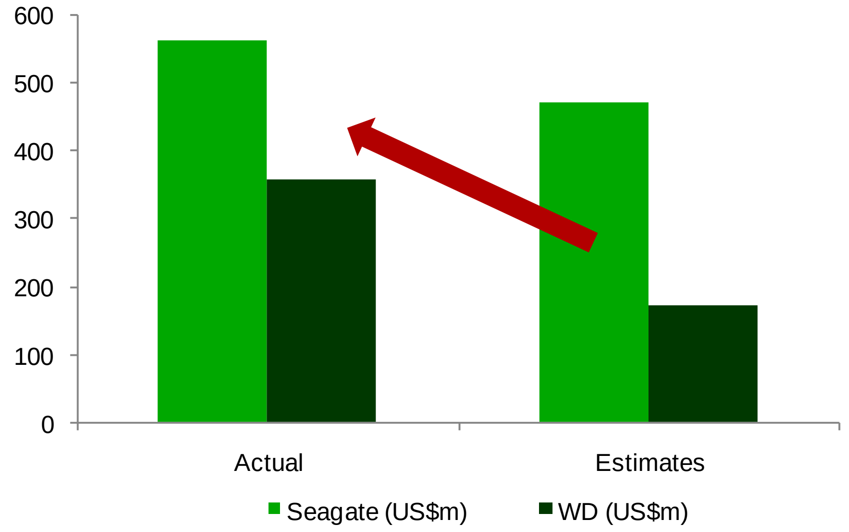
Stock Recommendations

Faster than expected recovery

Thailand accounted for 40 to 45 percent of worldwide Hard Disk Drive (HDD) production. However, the Thai flood disaster, while devastating, turned out to have a less severe impact on the industry than we initially expected, evidenced from the resilient December quarter results produced by the two dominant HDD OEMs, Seagate and Western Digital (WD).

Figure 1: December Quarter Operating Profit (Actual vs. Consensus Estimates)



Source: Bloomberg

Seagate triples profits. Seagate managed to ship 47 million disk drives, in the December quarter, ahead of its earlier guidance of 43 million units. Its geographically diversified production footprint and broad supply chain had provided it with inherent advantages that mitigated the impact of the floods to group's operations. In fact, capitalising on this disaster and the subsequent price increase, Seagate outperformed its rival WD and reported a results that blew away analysts estimates with net profit surging 275% YoY to US$563 million on the back of revenue rising 17.5% from US$2.7 billion to US$3.2 billion. Management also gave a very positive outlook for 2012, expecting the top line to grow by 70% YoY, hitting the US$20 billion milestone.

WD hit, but still better than expected. WD reported HDD unit shipments of 28.5 million (-45.4% YoY), revenue of US$2.0 billion (-20% YoY) and net income of US$145 million (-35.6%), for its second fiscal quarter ended December 30, 2011. Excluding the one-off Thai flood impairment charges of US$199m as well as the planned Hitachi acquisition expenses of US$14m, it would have reported net profit of US$358m that topped analysts estimates of US$170.5m.

Since early December 2011, WD managed to resume production in one of its affected plant in Bang Pa-in (BPI), Thailand. CEO John Coyne believed that the group had made substantial progress in restoring its production capacity, ahead of the original schedule. He was confident that the output will be back to pre-flood level in the quarter ending September 2012.

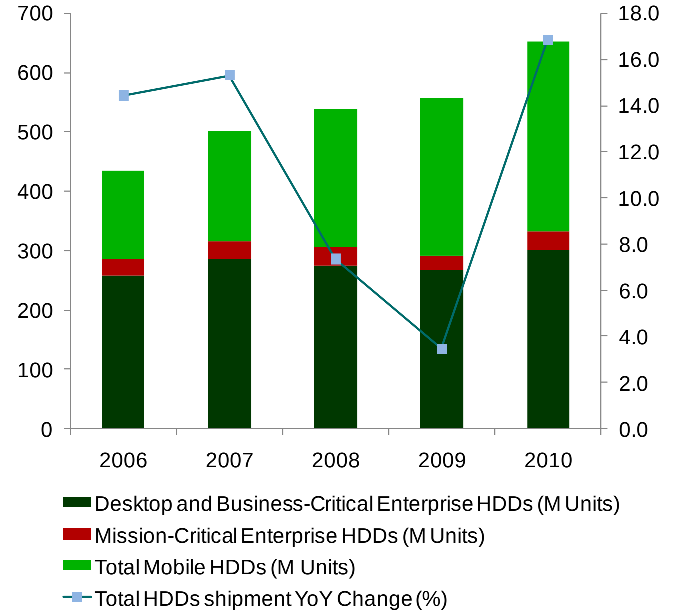
Benefiting the suppliers, more so for the stockist. Singapore upstream HDD component suppliers are poised to benefit from the earlier-than-expected recovery of their customers. Management from all three companies gave stronger-than-expected outlook, indicating a recovery in order flow from their respective customers. **We opine that those companies which hold inventories or have their production capabilities unaffected will gain additional advantage, capitalising immediately on the temporary ramp up in production as Seagate and WD scramble to put more HDDs on the market.** However, we do not foresee the situation to last long as stocks in other component suppliers will dry up while production will not return to normal levels till next year.

Demand for PC and HDD will persist

Emerging markets continue to hold up surprisingly well. In view of the HDD shortages caused by the Thai floods, emerging-market PC shipments will experience a dip in 1Q12 but subsequently rebound quickly. In the short-term, emerging market economic prospects have dimmed somewhat due to the lower expectations for the US and Western European economic performance. However, we expect the demand to be sustained by rising disposable income and low PC penetration rate especially in the rural areas. According to Boston Consulting Group, as of 2010, only 16% of the rural residents in China have access to household PC in contrast to 70% in tier-1 cities such as Beijing and Shanghai. As the emerging economies' government continue to focus on rural development, we believe that HDD will have the cost advantage to ride on this growing demand.

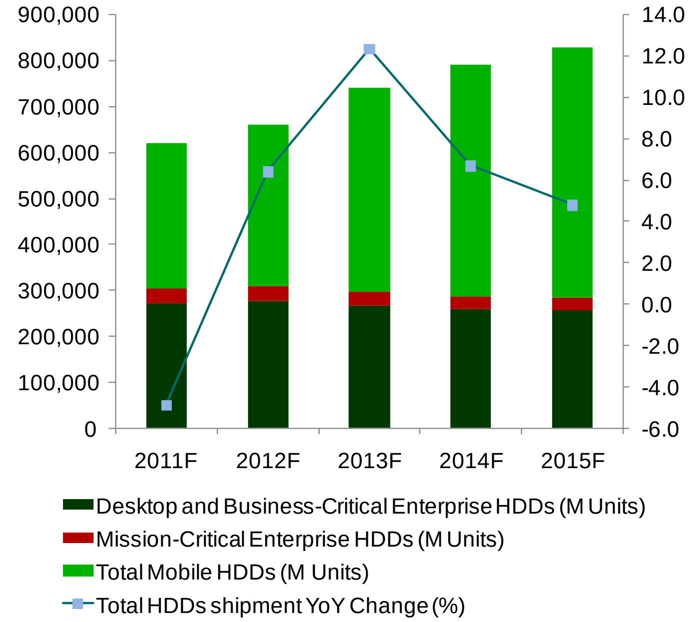
Lingering effects of the Thai floods on HDD supply. Due to the massive destruction that the Thai flood had on the HDD supply chain, shortage of HDDs is expected to persist in the global market for a couple more quarters. According to Gartner, estimates of HDD production capacity were immediately reduced by around 60 million units, or about a third. It was also estimated that the floods would "cost" the HDD industry roughly 125 million units shipped between 4Q11 and 2Q12. As such, we expect growth for HDD unit shipments to drop by 4.9% for 2011 before rising 6.4% for 2012. However, prices for HDD had been on an uptrend, which should help compensate for the fall in volume. For example, WD shipments for the quarter were down about 51% from the prior quarter (28.5m vs. 57.8m) but the ASP was 50% higher (US$69 vs. US$46), resulting in only 19.4% fall in revenue (US$2.0 billion vs. US$2.7 billion)

Figure 2: Historical HDD shipments breakdown



Source: Gartner and DMG estimates

Figure 3: HDD shipments forecast breakdown



Source: Gartner and DMG estimates

True excitement awaits in 2013. Now with the disaster behind us, Singapore HDD players are expected to recover in 2012 along with the industry. But the fact remains that the entire HDD supply chain will be constrained through 2012. As such, **we expect 2012 to be a modest year of recovery, before embarking on an exciting 2013 when the rollover demand finally get fulfilled.** In the medium term, we remain cautiously optimistic over the HDD sector despite of the challenges it faces from the Solid State Drive (SSD) mainly due to the fact that the former's cost advantage remain highly regarded by emerging economies.

Rising HDD prices to benefit upstream supplier

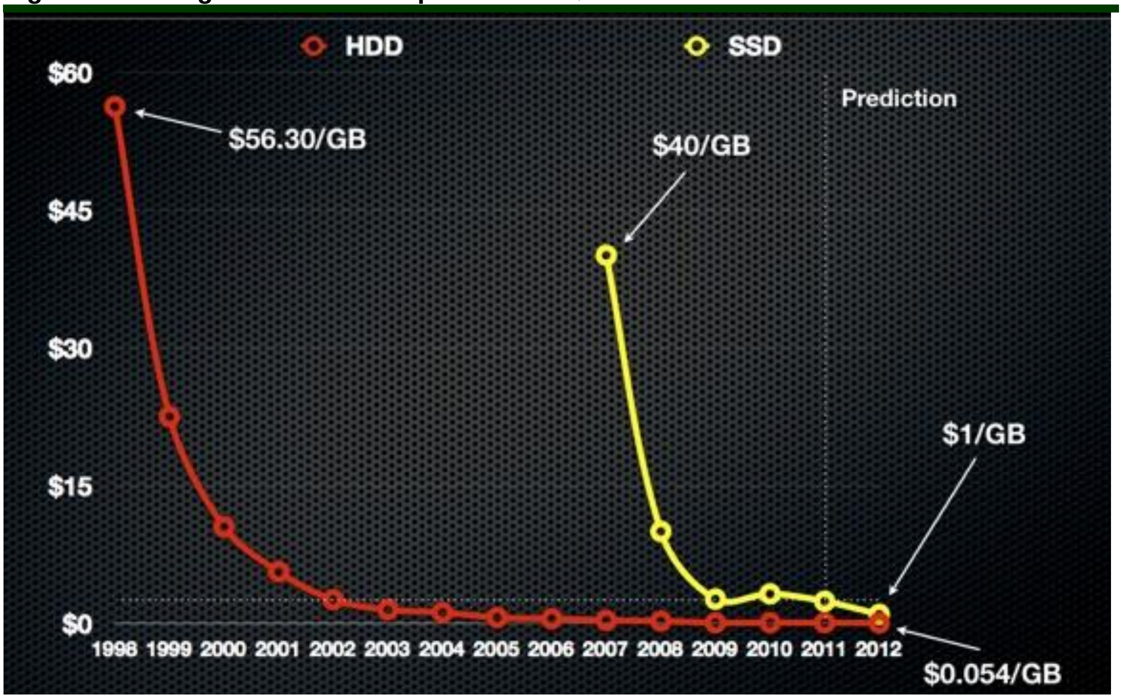
The shortage of HDD as a result of the Thai flooding has inflated prices over the last couple of months. Just in December quarter alone, the ASP reported by both Seagate and WD had, on average, increased by 50% QoQ. However, Steve Luczo, CEO of Seagate has mentioned that its strategy would not be just maximising profits. Though ASP was $13 higher, costs incurred were $2.50 higher as well as Seagate shared the profit with its suppliers through giving them better pricing in exchange for longer-term contracts. The strategy is expected to pay off in both the short and long runs.

Moving on, though prices are expected to normalise once production ramp up, we still expect the HDD OEMs to deploy similar strategies in securing supply chain stability. **Consequently, we expect the three component suppliers we cover to benefit with less pricing pressures moving forward.**

…but there are risks involved. According to Pingdom, as of end 2011, the lowest per GB price for a SSD was $1.50, 32x as much as the price of HDD ($0.053). We believe that HDD still holds a clear cost advantage at the moment which is an important consideration for the mass market in emerging economies.

However, we can see that the cost advantage of HDD is slowly dissipating. Back in 2007, SSD cost 120 times as much as HDD. Over time, the pricing gap between the two have narrowed down and we expect the trend to continue. Furthermore, according to an analysis performed by Dell, SSDs have already surpassed HDD in price performance ratio back in 2010 in terms of supporting random workload (e.g. key corporate functions such as email servers). In the long run, SSD will likely cannibalise HDD's market share and ultimately take over HDD's position as market leader.

Figure 4: Average HDD and SSD prices in US$/GB



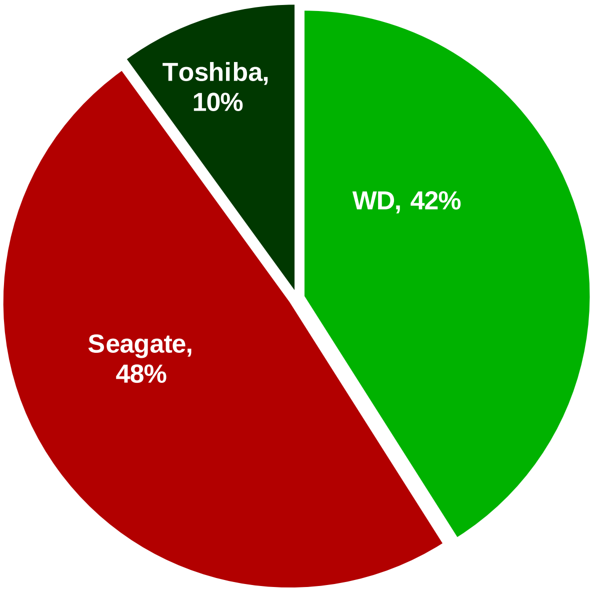
Source: Mkomo.com, Gartner and Pingdom

Adampak still our top-pick in view of the long-term risk. Given the long-term risk of SSD cannibalising the magnetic market share, we still prefer Adampak as its product such as adhesive labels will still be used regardless of technology. Nonetheless, we expect all three companies to benefit from the increase in ASP as well as the on-going consolidation happened within the HDD industry.

Structural change expected post industry consolidation

As mentioned previously in our last HDD sector update, Seagate has successfully acquired Samsung's HDD business. Meanwhile, WD's deal with Hitachi GST is also expected to be completed by March 2012, leaving only three major players in HDD industry, with Seagate and WD taking the lead, followed by Toshiba.

Figure 5: Post consolidation market share



Source: DMG estimates

OEM gains bargaining power. This industry consolidation is expected to reduce competition, benefiting the remaining players with an increase in market share and better economies of scale. It also puts them in a favourable bargaining position over their customers. This can be seen from Seagate reporting that 60% of its 2012 production capacity is covered by long term purchasing agreements (LTAs). These will eventually result in improved profitability for the entire industry.

Suppliers will not be left out. Following this consolidation, we also expect the HDD supply chain to enjoy a structural change. Previously, the price pressure which Seagate and WD had exerted on its suppliers had effectively pushed them to concentrate production facilities on cost-effective location such as Thailand, resulting in a single point failure that eventually did much more damage to profitability. As such **we expect the heavyweights to align strategically with chosen suppliers, ensuring their long-term profitability so as to achieve a win-win situation.**

Given their long-standing track record of servicing the HDD industry, Singapore suppliers are poised to benefit from an increase in selling price and the likely improved market share in the consolidated market. For instance, our channel checks show that Broadway had secured maiden contract from WD, boosting its prospects**.**

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TECHNOLOGY

Asia's leading manufacturer of high-quality labels, radio frequency identification (RFID) tags, seals and other die-cut components that serves customers from the electronics, pharmaceutical, petroleum, and other industries.

Stock Profile/Statistics

Bloomberg Ticker	AMPK SP
STI	2,981.2
Issued Share Capital (m)	263.6
Market Capitalisation (S$m)	77.8
52 week H | L Price (S$)	0.38 | 0.22
Average Volume ('000)	91.5
YTD Returns (%)	5.4
Net gearing (x)	Net cash
Altman Z-Score	7.7
ROCE/WACC	2.0
Beta (x)	0.7
Book Value/share (S¢)	16.7

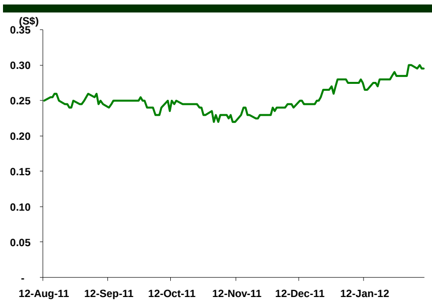
Major Shareholders (%)

Tay Song Seng	32.2
Ong Hock Leng	9.0

Share Performance (%)

Month	Absolute	Relative
1m	7.3	(3.5)
3m	28.3	23.9
6m	20.4	17.0
12m	(14.5)	(9.1)

6-month Share Price Performance



Corporate Update

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ADAMPAK

BUY	
Price	**S$0.295**
Previous	**S$0.31**
Target	**S$0.36**

In safe hands

While FY11 results are marginally impacted by the Thai flood, the group will ride the wave of industry recovery, on track to report a record performance this year. Since we reinstated our BUY stance in October 2011, the price of this counter has risen substantially by 22.4%, touching our TP of S$0.31. Given the long-term demand for Adampak's products remaining firm, we reaffirm our BUY recommendation with a higher TP of S$0.36 based on Discount Dividend Mode valuation (Key assumptions: WACC: 8.6%, Terminal growth rate: 0.0%).

Thai flood damages are contained. Adampak is currently setting up a new plant located at the Amata Nakorn Industrial Estate, Chonburi Province. The additional capex is estimated at US$5m. We expect the work to be completed in three months time, restoring the group's production capacity. Meanwhile, management is working closely with the insurance company and is expected to receive the claims for both of the property damages as well as the loss of income in 1QFY12.

Long-term prospects robust. In view of the long term risks that the cost advantage of HDD may eventually dissipate, Adampak is the only HDD player which will see demand for its products will continue growing regardless of which technology (HDD or SSD) dominate the storage industry.

Dividend yield may be temporarily impacted Historically, Adampak payout 40% to 60% of its profits as dividends. As FY11 results is expected to be weaker, we lower down our dividend expectations to S$0.02/share for FY11.

FYE 31 Dec (US$m)	FY09	FY10	FY11F	FY12F	FY13F
Turnover	54.1	62.7	59.5	65.8	69.1
Reported PATMI	6.5	9.3	5.2	10.7	9.1
Core PATMI	6.7	9.3	6.1	8.6	9.1
% chg YoY	2.2	38.6	(34.2)	41.9	5.0
Consensus	Na	Na	Na	Na	Na
Core EPS (S¢)	3.3	4.6	3.0	4.3	4.5
DPS (S¢)	2.3	3.0	2.0	3.0	3.0
Div Yield (%)	7.6	10.2	6.8	10.2	10.2
ROE (%)	16.9	21.1	11.4	21.4	17.2
ROA (%)	13.1	17.5	9.8	18.6	14.9
Core P/E (x)	9.0	6.5	9.8	6.9	6.6
P/B (x)	1.6	1.4	1.3	1.2	1.1

Source: Company data, DMG Estimates

FINANCIAL TABLES

Year End 31 Dec (US$m)

Income Statement	2010	2011F	2012F	2013F
Revenue	**62.7**	**59.5**	**65.8**	**69.1**
Cost of sales	(41.9)	(42.3)	(44.7)	(46.3)
Gross profit	**20.8**	**17.3**	**21.1**	**22.8**
Other income	0.6	0.6	3.3	0.0
Selling and distribution expenses	(3.9)	(4.0)	(4.5)	(4.7)
Administrative expenses	(5.5)	(5.4)	(6.1)	(6.4)
Other expenses	(0.5)	(1.8)	0.0	0.0
EBIT	**11.5**	**6.6**	**13.8**	**11.7**
Depreciation and amortisation	1.8	2.4	2.4	2.3
EBITDA	**13.3**	**9.0**	**16.2**	**14.1**
Finance costs	(0.0)	(0.0)	(0.0)	(0.0)
Share of gain / (loss) of associate	0.0	0.0	0.0	0.0
Profit before income tax	**11.4**	**6.6**	**13.8**	**11.7**
Income tax expense	(2.1)	(1.5)	(2.5)	(2.1)
Net profit attributed to shareholders	**9.3**	**5.2**	**11.3**	**9.6**

Balance sheet	2010	2011F	2012F	2013F
Plant and equipment	15.2	19.8	19.4	19.1
Others	1.2	0.5	0.5	0.5
Total non-current assets	**16.3**	**20.3**	**19.9**	**19.6**
Inventories	8.6	8.3	9.0	9.3
Trade receivables	15.0	14.9	16.5	17.2
Other receivables and prepayments	0.7	0.7	0.7	0.7
Cash and cash equivalents	12.8	8.5	13.2	16.2
Total current assets	**37.1**	**32.4**	**39.3**	**43.4**
Total assets	**53.4**	**52.7**	**59.2**	**63.0**
Share capital	15.5	15.5	15.5	15.5
Reserves	3.1	3.1	3.1	3.1
Retained earnings	25.5	26.6	32.9	36.4
Total Equity	**44.1**	**45.2**	**51.5**	**55.1**
Borrowings	0.0	0.0	0.0	0.0
Deferred taxation	0.5	0.5	0.5	0.5
Total non-current liabilities	**0.8**	**0.8**	**0.8**	**0.8**

Source: Company and DMG estimates

Balance sheet	2010	2011F	2012F	2013F
Trade payables	5.4	5.1	5.4	5.6
Other payables and provisions	1.0	1.0	1.0	1.0
Borrowings	0.9	0.0	0.0	0.0
Income tax payable	1.2	1.2	1.2	1.2
Total current liabilities	**8.5**	**7.3**	**7.6**	**7.8**
Total liabilities	**9.3**	**8.1**	**8.4**	**8.6**

Cash flows	2010	2011F	2012F	2013F
Profit before income tax	**11.4**	**6.6**	**13.8**	**11.7**
Adjustments for:				
Depreciation	1.8	2.4	2.4	2.3
Others	(0.0)	(0.1)	(0.1)	0.9
Operating profit before working capital changes	**13.2**	**8.9**	**16.1**	**15.0**
Inventories	(2.3)	0.3	(0.7)	(0.3)
Trade and other receivables	2.3	0.1	(1.5)	(0.8)
Trade and other payables	(1.8)	(0.3)	0.3	0.2
Cash generated from operations	**11.5**	**9.0**	**14.2**	**14.1**
Income taxes paid	(2.1)	(1.5)	(2.5)	(2.1)
Cash flows from operating activities	**9.3**	**7.5**	**11.7**	**12.0**
Interest received	0.1	0.1	0.1	(0.9)
Purchase of plant, property and equipment	(3.3)	(7.0)	(2.0)	(2.0)
Others	0.1	0.0	0.0	0.0
Cash flows from investing activities	**(3.1)**	**(6.9)**	**(1.9)**	**(2.9)**
Interest paid	(0.0)	(0.0)	(0.0)	(0.0)
Others	(0.5)	(0.9)	0.0	0.0
Dividends paid	(4.8)	(4.1)	(5.1)	(6.1)
Cash flows from financing activities	**(5.3)**	**(5.0)**	**(5.1)**	**(6.1)**
Net increase/(decrease) in cash and cash equivalents	**1.0**	**(4.3)**	**4.7**	**3.0**
Effect of exchange rate changes on cash and cash equivalents	0.4	0.0	0.0	0.0
Cash and cash equivalents at the end of the period	**12.8**	**8.5**	**13.2**	**16.2**

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TECHNOLOGY

Armstrong Industrial Corporation Limited manufactures and sells precision die-cut foam and rubber molded components.

Stock Profile/Statistics

Bloomberg Ticker	ARMS SP
STI	2,981.2
Issued Share Capital (m)	501.8
Market Capitalisation (S$m)	152.7
52 week H | L Price (S$)	0.43|0.215
Average Volume ('000)	1514.9
YTD Returns (%)	33.3
Net gearing (x)	Net cash
Altman Z-Score	3.6
ROCE/WACC	1.3
Beta (x)	1.1
Book Value/share (S¢)	19.5

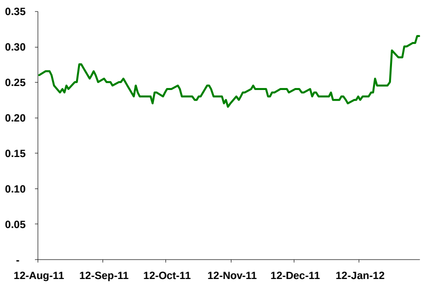
Major Shareholders (%)

Ong Peng Koon	39.1
Chow Goon Chau	5.6

Share Performance (%)

Month	Absolute	Relative
1m	33.3	23.7
3m	39.5	32.6
6m	11.1	5.4
12m	(29.4)	(25.5)

6-month Share Price Performance



Corporate Update

Private Circulation Only

ARMSTRONG INDUSTRIAL

BUY	
Price	**S$0.315**
Previous	**S$0.195**
Target	**S$0.37**

A lukewarm 2012 recovery

Armstrong will be releasing its FY11 results on 27 of February 2012. We expect its 4QFY11 results to dip slightly into the red, dragging down its full year performance. Reported earnings are expected to fall by 77.1% to S$7.1m, after taking into account of the one-off impairment charges and the unrealised forex losses. Moving on, we expect the group to embark on a journey of recovery with its production capacity restoring faster than expected. However, supply chain constraint will continue to weigh on the performance before industry-wide production normalises in 2013. Upgrade to BUY with a new TP of S$0.37 base on +1 SD of 14x forward P/E which the counter traded above during the 2010 upturn.

Restoration work ahead of schedule. Since December 2011, Armstrong had commenced to restore two of its badly affected plants in Ayutthaya, Thailand. Subsequently, the recovery work had made significant progress with 40% of the production capacity already back online, earlier than what we originally anticipated. As such, full operations are now expected to resume as early as March 2012.

However, supply chain constraint will persist. Although Armstrong manages to restore its facilities faster than expected, we do not expect other HDD components suppliers to achieve the same. Supply chain disruption is expected to persist through 2012. This will push back OEMs' demand which in turn limit Armstrong's performance. Consequently, FY12 core profit is forecasted to be S$13.3m, which is still some way off from FY10's historical high of S$24.8m. Nevertheless, the excitement will come in 2013 when industry-wide production returns to normal.

FYE 31 Dec (S$m)	FY09	FY10	FY11F	FY12F	FY13F
Turnover	173.7	225.4	205.4	215.6	248.2
Reported PATMI	14.1	24.9	7.2	17.1	19.6
Core PATMI	14.2	24.8	13.2	13.3	19.6
% chg YoY	11.3	75.2	(47.2)	1.2	47.5
Consensus	Na	Na	7.2	14.1	18.8
Core EPS (S¢)	2.8	5.0	1.4	3.4	3.9
DPS (S¢)	1.6	3.6	2.0	2.5	3.5
Div Yield (%)	5.3	12.0	6.7	8.3	11.7
ROE (%)	15.0	24.7	7.3	16.7	18.7
ROA (%)	9.4	15.1	4.5	10.7	11.8
Core P/E (x)	10.6	6.1	11.4	11.3	7.7
P/B (x)	1.6	1.5	1.5	1.5	1.4

Source: Company data, DMG Estimates

FINANCIAL TABLES

Year End Dec (S$m)

Income Statement	2010	2011F	2012F	2013F
Turnover	**225.4**	**205.4**	**215.6**	**248.2**
Cost of sales	(163.4)	(155.1)	(162.8)	(183.7)
Gross profit	**62.0**	**50.3**	**52.8**	**64.5**
Other operating income	1.0	2.4	5.4	0.0
Distribution and selling expenses	(7.1)	(9.2)	(9.7)	(11.2)
Administrative expenses	(21.3)	(22.6)	(23.7)	(24.8)
Other operating expenses	(1.0)	(8.2)	0.0	0.0
EBIT	**33.6**	**12.7**	**24.8**	**28.5**
Depreciation and amortisation	5.4	5.2	5.8	5.9
EBITDA	**39.0**	**17.8**	**30.6**	**34.5**
Finance expenses	(0.5)	(0.4)	(0.2)	(0.2)
Finance income	0.1	0.6	0.4	0.3
Others	0.0	0.0	0.0	0.0
Profit before income tax	**33.3**	**13.0**	**25.1**	**28.7**
Income tax expense	(6.8)	(4.5)	(6.3)	(7.2)
Net profit attributed to shareholders	**24.9**	**7.2**	**17.1**	**19.6**
Minority interests	1.6	1.3	1.7	1.9

Balance sheet	2010	2011F	2012F	2013F
Fixed assets	40.2	39.0	44.6	45.7
Others	1.3	1.3	1.3	1.3
Total non-current assets	**41.5**	**40.3**	**45.9**	**47.0**
Stocks	36.7	34.1	35.8	40.4
Trade debtors	55.4	47.2	51.2	58.7
Others	4.7	4.7	4.7	4.7
Fixed deposits	4.8	5.0	5.0	5.0
Cash and bank balances	21.4	26.9	17.0	10.7
Total current assets	**123.1**	**118.0**	**113.7**	**119.5**
Total assets	**164.6**	**158.4**	**159.7**	**166.6**
Share capital	49.6	49.6	49.6	49.6
Others	(6.3)	(6.3)	(6.3)	(6.3)
Revenue reserve	57.5	54.6	59.2	61.2
Shareholders' Equity	**100.8**	**97.9**	**102.5**	**104.5**
Minority interests	7.6	8.9	10.6	12.6
Total Equity	**108.4**	**106.9**	**113.1**	**117.1**

Source: Company data and DMG estimates

Balance sheet	2010	2011F	2012F	2013F
Total non-current liabilities	**2.2**	**2.0**	**1.8**	**1.6**
Trade creditors	25.3	24.8	26.0	29.2
Other creditors and accruals	10.3	10.3	10.3	10.3
Others	5.8	5.8	5.8	5.8
Short-term loans and lease obligations, current portion	12.6	8.6	2.6	2.6
Total current liabilities	**54.0**	**49.5**	**44.7**	**47.9**
Total liabilities	**56.2**	**51.5**	**46.5**	**49.5**

Cash flows	2010	2011F	2012F	2013F
Profit before taxation	**33.3**	**13.0**	**25.1**	**28.7**
Adjustments for:				
Others	(0.5)	4.7	(4.3)	(0.2)
Depreciation of fixed assets	5.4	5.2	5.4	5.9
Operating profit before working capital changes	**38.1**	**22.8**	**26.2**	**34.4**
Stocks	(9.7)	2.6	(1.7)	(4.6)
Trade debtors	(7.7)	8.2	(4.0)	(7.5)
Trade creditors	2.2	(0.5)	1.2	3.2
Others	(0.1)	0.0	0.0	0.0
Cash generated from operations	**22.3**	**33.1**	**21.8**	**25.5**
Interest received	0.1	0.6	0.4	0.3
Interest paid	(0.5)	(0.4)	(0.2)	(0.2)
Income taxes paid	(6.4)	(4.5)	(6.3)	(7.2)
Net cash generated from operating activities	**16.5**	**28.9**	**15.8**	**18.5**
Purchase of fixed assets	(6.6)	(9.0)	(7.0)	(7.0)
Others	0.5	0.0	0.0	0.0
Net cash used in investing activities	**(6.2)**	**(9.0)**	**(7.0)**	**(7.0)**
Proceeds from loans	9.2	1.0	1.0	1.0
Others	0.6	0.0	0.0	0.0
Dividend paid	(18.0)	(10.0)	(12.5)	(17.6)
Repayment of loans	(5.6)	(5.2)	(7.2)	(1.2)
Net cash used in financing activities	**(13.9)**	**(14.2)**	**(18.7)**	**(17.8)**
Net increase/(decrease) in cash and cash equivalents	(3.6)	5.7	(9.9)	(6.3)
Cash at the end of the year	**24.3**	**29.9**	**20.0**	**13.7**

SINGAPORE EQUITY
Investment Research

OSK | DMG

DMG & Partners Research
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TECHNOLOGY

Broadway is the No. 2 manufacturer of actuator arms for the HDD industry, with a market share of around 18%.

Stock Profile/Statistics

Bloomberg Ticker	BWAY SP
STI	2,981.2
Issued Share Capital (m)	414.9
Market Capitalisation (S$m)	158.1
52 week H | L Price (S$)	0.58| 0.25
Average 3-Mth Volume ('000)	2706.9
YTD Returns (%)	31.0
Net Gearing (x)	0.1
Altman Z-Score	2.5
ROCE/WACC	0.9
Beta (x)	1.0
Book Value/Share (S¢)	53.0

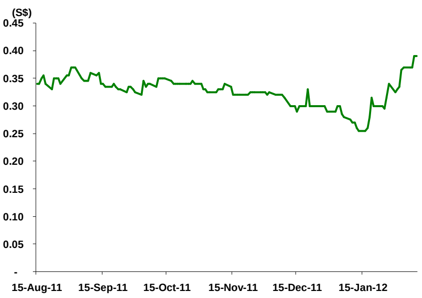
Major Shareholders (%)

Wong Sheung Sze	36.1
Lew Syn Pau	9.5
Aegis Portfolio	6.0
Delta Lloyd Asset	5.0

Share Performance (%)

Month	Absolute	Relative
1m	40.7	31.1
3m	15.2	8.2
6m	13.4	7.8
12m	(22.8)	(18.9)

6-month Share Price Performance



Corporate Update

Private Circulation Only

BROADWAY INDUSTRIAL

BUY	
Price	**S$0.38**
Previous	**S$0.30**
Target	**S$0.48**

Hitting the inflection point

Broadway's recent profit warning indicated that not only would the group suffer from one-off impairment charges and unrealised forex losses; it would also incur operational losses in the coming 4QFY11 results announcement (20 Feb 2012). Consequently, we expect Broadway to register a full year net loss of around S$10m on the back of S$4.8m operational profit for full year FY11. Nevertheless, we do foresee a major turnaround starting 1QFY12 as Broadway managed to ramp up its production in China, gaining first mover advantage in capturing the immediate demand generated from the severe shortage in components. The group also managed to secure its maiden contract from WD, further enhancing its prospects. Upgrade to BUY with the key risk being cost overflow. Our new TP of S$0.480 is derived based on 5-yr historical average of 8.8x FY12 earnings.

Expecting a strong 1QFY12. Broadway's ramping up of its Wuxi plant has placed the group in a favorable position in capturing the immediate demand arising from the severe shortage in HDD components. Our channel check shows that the facilities had been running at full capacity, piling up the inventory in anticipation of a demand uptick starting 1Q2012. We are thus expecting a strong 1QFY12.

Maiden contract win from WD. Benefiting from the on-going HDD industry consolidation, Broadway had already secured its very first order win from WD. Though the job is currently at its trial production stage, given Broadway's established track record, we are confident that the group will pass the stringent inspection, establishing a long-term strategic partnership with WD.

Reducing dividend payout. In view of the poor operational performance as additional capex incurred, there is likelihood that Broadway will scrap its final dividend payment for FY11.

FYE 31 Dec (S$m)	FY09	FY10	FY11F	FY12F	FY13F
Turnover	560.2	595.3	510.5	590.8	684.3
Reported PATMI	31.8	45.0	(10.1)	32.7	41.5
Core PATMI	32.0	46.2	4.8	22.6	41.5
% chg YoY	41.7	44.4	(89.7)	375.8	83.4
Consensus	Na	Na	11.5	25.4	33.5
Core EPS (S¢)	6.4	9.9	1.1	5.5	10.0
DPS (S¢)	3.0	4.0	1.0	3.0	4.0
Div Yield (%)	7.9	10.5	2.6	7.9	10.5
ROE (%)	16.2	20.1	(4.8)	14.3	16.3
ROA (%)	7.5	10.3	(2.4)	7.4	9.0
Core P/E (x)	6.0	3.8	33.1	7.0	3.8
P/B (x)	0.4	0.7	0.8	0.7	0.6

Source: Company data, DMG Estimates

FINANCIAL TABLES

Year End Dec (S$m)

Income Statement

	FY10	FY11F	FY12F	FY13F
Turnover	**595.3**	**510.5**	**590.8**	**684.3**
Cost of sales	(505.0)	(453.3)	(515.2)	(586.1)
Gross profit	**90.3**	**57.2**	**75.6**	**98.2**
Other operating income	4.1	(16.3)	11.8	0.0
Distribution and selling expenses	(19.8)	(23.0)	(20.7)	(19.8)
Administrative expenses	(24.4)	(25.5)	(24.8)	(26.0)
Other operating expenses	(0.8)	(17.9)	0.0	0.0
EBIT	**50.2**	**(7.6)**	**41.9**	**52.3**
Depreciation and amortisation	35.2	37.0	39.9	42.1
EBITDA	**85.3**	**29.3**	**81.8**	**94.4**
Finance expenses	(3.0)	(3.7)	(3.7)	(3.7)
Finance income	0.3	0.1	0.1	0.1
Others	0.1	0.1	0.1	0.1
Profit before income tax	**47.6**	**(11.1)**	**38.5**	**48.9**
Income tax expense	(3.1)	1.0	(5.8)	(7.3)
Net profit attributed to shareholders	**45.0**	**(10.1)**	**32.7**	**41.5**
Minority interests	(0.5)	0.0	0.0	0.0

Balance sheet

	FY10	FY11F	FY12F	FY13F
Fixed assets	122.2	136.2	136.8	137.3
Others	84.5	84.5	84.6	84.7
Total non-current assets	**206.7**	**220.7**	**221.4**	**222.0**
Trade and other debtors	139.9	115.5	115.6	111.6
Inventories	53.4	76.6	61.3	66.4
Cash and bank balances	35.7	9.4	41.0	62.9
Total current assets	**229.0**	**201.6**	**217.9**	**240.8**
Total assets	**435.7**	**422.3**	**439.4**	**462.8**
Share capital	103.1	103.1	103.1	103.1
Reserve	(15.3)	(15.3)	(15.3)	(15.3)
Retained earnings	135.4	121.1	141.4	166.3
Shareholders' Equity	**223.2**	**209.0**	**229.2**	**254.1**
Minority interests	1.5	1.5	1.5	1.5
Total Equity	**224.7**	**210.5**	**230.7**	**255.7**

Source: Company data and DMG estimates

Balance sheet

	FY10	FY11F	FY12F	FY13F
Total non-current liabilities	**8.9**	**14.9**	**14.9**	**14.9**
Trade creditors	139.1	127.9	124.8	123.3
Other creditors and accruals	46.7	52.7	52.7	52.7
Current tax payable	16.3	16.3	16.3	16.3
Total current liabilities	**202.1**	**196.9**	**193.7**	**192.2**
Total liabilities	**211.0**	**211.8**	**208.6**	**207.1**

Cash flows

	FY10	FY11F	FY12F	FY13F
Profit before taxation	**47.6**	**(11.1)**	**38.5**	**48.9**
Adjustments for:				
Others	3.3	10.3	3.5	3.4
Depreciation of fixed assets	35.2	39.2	39.4	39.5
Operating profit before working capital changes	**86.0**	**38.4**	**81.3**	**91.8**
Stocks	2.5	(23.2)	15.3	(5.1)
Trade debtors	(23.0)	24.4	(0.1)	4.0
Trade creditors	12.1	(11.2)	(3.2)	(1.5)
Cash generated from operations	**77.6**	**28.4**	**93.3**	**89.3**
Income taxes paid	(5.3)	1.0	(5.8)	(7.3)
Net cash generated from operating activities	**72.3**	**29.4**	**87.6**	**81.9**
Purchase of fixed assets	(29.4)	(60.0)	(40.0)	(40.0)
Others	(4.1)	0.1	0.1	0.1
Net cash used in investing activities	**(34.3)**	**(59.9)**	**(39.9)**	**(39.9)**
Proceeds/(repayment) of loans	(31.1)	12.0	0.0	0.0
Others	(2.3)	(3.7)	(3.7)	(3.7)
Dividend paid	(16.6)	(4.1)	(12.4)	(16.6)
Net cash used in financing activities	**(41.9)**	**4.2**	**(16.1)**	**(20.2)**
Net increase/(decrease) in cash and cash equivalents	(3.9)	(26.3)	31.6	21.8
Cash at the end of the year	**35.7**	**9.4**	**41.0**	**62.9**

DMG & Partners Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months
Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral: Share price may fall within the range of +/- 10% over the next 12 months
Take Profit: Target price has been attained. Look to accumulate at lower levels
Sell: Share price may fall by more than 10% over the next 12 months
Not Rated: Stock is not within regular research coverage

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