

**GICS:** Industrials/Commercial Printing

**Business Summary:** Xpress is a one-stop print management solutions provider with key strength in time-sensitive printing. Its print-related services range from pre-press design & layout, printing to global distribution & delivery. It has a network of more than 30 print stations and 6 print facilities across 21 cities in Asia-Pacific.

**Country of Incorporation:** Singapore

**Head Office Location:** No.1, Kallang Way 2A, Singapore 347495

**Place of Operations:** Singapore, China, Hong Kong, Malaysia, Philippines, Vietnam, Australia

**Website:** www.xpress.com.sg

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**Results Review**

- For 3QFY10 (Jul), Xpress reported revenue of SGD15.3 mln (+14.5% YoY) and net profit of SGD1.7 mln (-15.3% YoY). While the revenue and operating profit were in line, the net profit was slightly below our expectations.
- Revenue for the quarter was driven by time-sensitive printing, improving 39.9% YoY to SGD9.3 mln. Improved business and capital market sentiment during 3QFY10 increased demand for financial printing, particularly during the annual report season. However, its print management revenue (which is fully dependent on the PRC market) declined 71.9% YoY to SGD0.4 mln, partly due to the timing of the 2010 Chinese New Year (CNY), which fell in 3QFY10 (vs. 2QFY09 in 2009).
- Despite the higher revenue, Xpress' 3QFY10 net profit was lower YoY due to: (i) lower gross profit margin of 48.0% (3QFY09: 54.5%) as a result of higher paper cost; (ii) the absence of profit contribution from associate (3QFY09: SGD0.2 mln) after reducing its stake in Shenzhen Jiaxinda; (iii) tax effect (3QFY10: tax expense of SGD49,000 vs. 3QFY09: tax credit of SGD274,000); and (iv) lower income from sale of scrap materials amounting to SGD49,000 (3QFY09: SGD304,000).

**Earnings Outlook / Estimates Revision**

- In view of higher paper cost and taxation, we lower our FY10 and FY11 net profit forecasts by 7.3% and 8.2% respectively. While time-sensitive printing demand has recovered in FY10, forward demand may be dampened by increased market volatility and cooling of the PRC's high economic growth rate.
- Management has indicated that FY10 operating profit will be better than FY09, helped by improved economic growth in its key PRC, Hong Kong and Singapore markets. Nevertheless, the group is cautious about the potential adverse impact from the Eurozone financial crisis, as well as the PRC government's policy to slow down credit.
- Xpress appointed its founder, Mr Fong Kah Kuen, as the new CEO from May 16, 2010. Mr Fong had served as COO since 2006, and has more than 30 years of experience in the print industry.

**Investment Risks**

- Risks to earnings include: (i) increasing competition and threat from electronic and online media, and (ii) higher raw materials costs, in particular paper cost, which can erode Xpress' margin. In addition, we see potential credit risk from rising trade receivables days, which is estimated to have increased from 142 days in FY09 to 206 days in 3QFY10 (annualized). Xpress uses trade credit as a strategic tool to gain key large-volume printing clients.

**Key Stock Statistics**

52-week Share Price Range (SGD)	0.07 - 0.10
Avg Vol - 12 months ('000 shares)	1,142.2
Price Performance (%)	
- 1 month	0.0
- 3 month	-6.7
- 12 month	-26.3
No. of Outstanding Shares (mln)	1,544.5
Free Float (%)	72.6
Market Cap (SGD mln)	108.1
Enterprise Value (SGD mln)	110.5
Major Shareholders (%)	
Tseng An Hsiung, Andy	9.7
Dr Lee Tsu-Der	8.9
Fong Kah Kuen @ Foong Kah Kuen	7.0

**Per Share Data**

FY Jul.	2008	2009	2010E	2011E
Book Value (SG cents)	8.02	9.38	9.56	9.81
Cash Flow (SG cents)	0.9	1.2	0.5	0.6
Reported Earnings (SG cents)	0.7	0.9	0.3	0.4
Dividend (SG cents)	0.1	0.2	0.1	0.1
Payout Ratio (%)	24.9	29.1	33.6	33.3
PER (x)	9.5	7.5	21.4	19.4
P/Cash Flow (x)	7.5	6.1	13.2	12.2
P/Book Value (x)	0.9	0.7	0.7	0.7
Dividend Yield (%)	1.9	2.1	1.6	1.7
ROE (%)	6.8	6.2	3.5	3.7
Net Gearing (%)	4.2	0.2	0.0	0.0

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**Earnings Performance**

FY Jul. / SGD mln	3Q10	3Q09	% Change
Reported Revenue	15.3	13.4	14.5
Reported Operating Profit	1.9	1.8	5.2
Depreciation & Amortization	-0.8	-0.8	-6.7
Net Interest Income / (Expense)	-0.2	0.1	NM
Reported Pre-tax Profit	1.7	1.7	1.5
Reported Net Profit	1.7	2.0	-15.3
Reported Operating Margin (%)	12.2	13.3	-
Reported Pre-tax Margin (%)	11.1	12.6	-
Reported Net Margin (%)	10.8	14.6	-

Source: Company data

**Profit & Loss**

FY Jul. / SGD mln	2008	2009	2010E	2011E
Reported Revenue	61.3	55.0	54.9	56.7
Reported Operating Profit	7.4	5.4	6.0	6.7
Depreciation & Amortization	-2.7	-3.2	-3.1	-3.3
Net Interest Income / (Expense)	-0.7	-0.9	-0.5	-0.6
Reported Pre-tax Profit	10.3	10.3	5.3	5.9
Effective Tax Rate (%)	0.9	NM	5.0	5.0
Reported Net Profit	10.2	13.0	5.1	5.6
Reported Operating Margin (%)	12.0	9.9	10.9	11.7
Reported Pre-tax Margin (%)	16.8	18.7	9.7	10.4
Reported Net Margin (%)	16.7	23.7	9.2	9.8

\*2009: one-off gain of SGD5.1 mln from JXD disposal and SGD2.7 mln tax credit

Source: Company data, S&P Equity Research

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