

**GICS:** Materials/Metal & Glass Containers

**Business Summary:** Founded in 1969, Broadway Industrial Group (BIGL) is a leading manufacturer of precision-machined components and foam plastic products. It was listed on the Main Board of the Singapore Stock Exchange in November 1994.

**Country of Incorporation:** Singapore

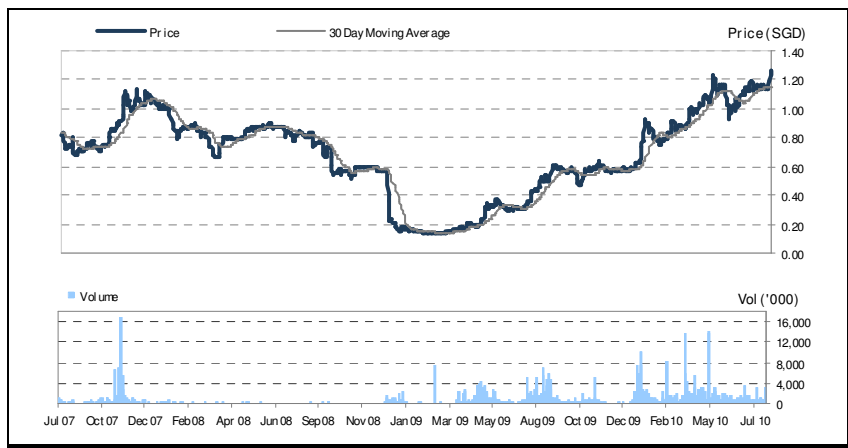
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**Analyst:** Janice Chong



## Results Review

- 2Q10 earnings beat our expectations as well as street estimates, culminating in a 1H10 net profit of SGD22.3 mln (+70.6% YoY) which accounted for 53.6% of our original 2010 forecast. Key variances include stronger margins and lower tax expense, helping offset a lower-than-expected topline and an unrealized forex loss of SGD2.5 mln.
- Amid a seasonally slower quarter for HDD components, the 1.7% YoY quarterly revenue growth (-6.2% QoQ) was mainly fueled by its foam plastics and non-HDD segments. Excluding the unrealized marked-to-market forex loss, EBITDA margin strengthened to 15.8% vs. 14.1% in 1Q10, due to better product mix, improved operating leverage and the turnaround of its previously loss-making non-HDD segment.
- BIGL is raising its capex spending for 2010 to SGD55 mln, from SGD40 mln previously – of which SGD36 mln would go into HDD (to raise capacity by 20%); SGD5 mln into non-HDD and SGD14 mln into foam plastic. This includes its acquisition of a machining facility in Suzhou from Alantac Technology to boost its production capacity for non-HDD components by 30%-40%. Management expects operational assimilation to kick in by 3Q10.
- For the quarter, BIGL is proposing a DPS of 2 cents, up from 1 cent in the previous corresponding quarter. Management reaffirms its dividend policy of up to 20% payout for the year.

## Earnings Outlook / Estimates Revision

- Management expects a sequentially stronger 3Q10 in line with the seasonal uptick in HDD sales. Despite the strong performance in 2Q10, we think greater pricing pressure amid new additions to industry capacity could dent margins in 2H10. Its key customer, Seagate Technology (STX US, USD12.84, 3-STARS) expects lower QoQ gross margins in the September quarter.
- Given China's recently announced minimum wage hike (in June 2010), BIGL estimates an SGD2 mln impact on earnings as a result of increased labor cost. Despite plans to increase the automation process, cost savings are likely to only trickle in over the next few quarters.
- Despite BIGL's strong 1H10, we have lowered our earnings projection for 2010 by 3.3%. We expect greater pricing pressure on HDDs and wage hike to dent margins in 2H10. Our profit estimates for 2011 remained largely unchanged. We expect BIGL's recurring net profit to grow by 26.4% YoY to SGD40.2 mln in 2010 and by 10.5% YoY to SGD44.4 mln in 2011.

## Investment Risks

- Investment risks include the emergence of new technology displacing HDDs, volatile crude oil prices, foreign exchange fluctuations and a prolonged economic downturn which would hurt demand for its products.

### Key Stock Statistics

52-week Share Price Range (SGD)	<b>0.43 - 1.26</b>
Avg Vol - 12 months ('000 shares)	<b>1,504.7</b>
Price Performance (%)	
- 1 month	<b>3.4</b>
- 3 month	<b>7.9</b>
- 12 month	<b>179.5</b>
No. of Outstanding Shares (mln)	<b>207.3</b>
Free Float (%)	<b>41.4</b>
Market Cap (SGD mln)	<b>254.9</b>
Enterprise Value (SGD mln)	<b>290.8</b>
Major Shareholders (%)	
Wong Sheung Sze	<b>36.2</b>
Lew Syn Pau	<b>9.5</b>
Aegis Portfolio Managers & Aegis Private	<b>7.5</b>

### Per Share Data

FY Dec.	2008	2009	2010E	2011E
Book Value (SG cents)	83.07	95.28	111.41	129.87
Cash Flow (SG cents)	29.9	30.0	34.5	39.8
Reported Earnings (SG cents)	10.9	15.4	19.4	21.5
Dividend (SG cents)	2.0	3.0	3.0	3.0
Payout Ratio (%)	16.1	23.0	15.4	14.0
PER (x)	11.3	8.0	6.3	5.7
P/Cash Flow (x)	4.1	4.1	3.6	3.1
P/Book Value (x)	1.5	1.3	1.1	0.9
Dividend Yield (%)	1.6	2.4	2.4	2.4
ROE (%)	15.8	14.6	18.8	17.8
Net Gearing (%)	56.9	25.5	22.6	9.4

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**Earnings Performance**

FY Dec. / SGD mln	2Q10	2Q09	% Change
Reported Revenue	141.7	139.4	1.7
Reported Operating Profit	11.7	9.9	18.3
Depreciation & Amortization	-8.9	-8.7	1.7
Net Interest Income / (Expense)	-0.9	-1.3	-31.9
Reported Pre-tax Profit	10.9	8.7	25.6
Reported Net Profit	10.3	7.7	34.9
Reported Operating Margin (%)	8.3	7.1	-
Reported Pre-tax Margin (%)	7.7	6.2	-
Reported Net Margin (%)	7.3	5.5	-

Source: Company data

**Profit & Loss**

FY Dec. / SGD mln	2008	2009	2010E	2011E
Reported Revenue	617.8	560.2	640.7	700.0
Reported Operating Profit	33.1	42.4	45.8	53.8
Depreciation & Amortization	-35.9	-34.8	-31.0	-37.7
Net Interest Income / (Expense)	-6.7	-5.0	-3.5	-3.1
Reported Pre-tax Profit	26.3	37.4	42.4	50.8
Effective Tax Rate (%)	13.5	14.7	8.0	15.0
Reported Net Profit	22.4	31.8	40.2	44.4
Reported Operating Margin (%)	5.4	7.6	7.1	7.7
Reported Pre-tax Margin (%)	4.3	6.7	6.6	7.3
Reported Net Margin (%)	3.6	5.7	6.3	6.3

Source: Company data, S&amp;P Equity Research

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