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Recommendation

BUY

Price
RM0.29

Fair Value
RM0.53

Share cap / Par Value
283.5m/ RM0.10

Listing
MESDAQ

Major shareholders
MCSB (75.0%)

Offer Details
Public : 8m shrs
Private : 54.5m shrs
Employees & Directors :
8.5m shrs

Metronic Global

It Did Well , It Will Do Well

- Another quality gem in MESDAQ to brave the market. For close to two decades, Metronic has played in pivotal role in the areas of IBMS, ISMS and e-project management of mechanical and electrical services.
- Metronic has countless number of high-profile clients. Some of the government buildings in Putrajaya are using its products and services. Other clients include Maybank, Berjaya Times Square and etc
- To its credits, Metronic is financially transparent in many ways. Accordingly, there are currently 50 ongoing projects with total contract value of RM373m and the unrecognised revenue is approximately RM190m
- To our best knowledge, there are less than 10 MESDAQ companies which provide profit forecast in the prospectus. Metronic dares to commit to its shareholders. We think the FY04 profit estimate is very prudent and the company should be able to achieve the target.
- Metronic closed yesterday with a 38% premium from its offer price. Nonetheless, even assuming conservative revenue growth and static margins for the next two years, FY05 PER is expected to be only 8.2x. Pegging a FY05 PER of 15x, Metronic is fairly priced at 53 sen

Earnings Table

| Year to 31 Dec | 01A | 02A | 03A | 04F | 05F |
|--------------------|--------|-------|--------|-------|-------|
| Turnover (RMm) | 50.3 | 130.0 | 132.0 | 154.5 | 180.0 |
| YoY change (%) | (38.9) | 158.4 | 1.5 | 17.0 | 16.5 |
| EBITDA (RMm) | 7.2 | 9.1 | 8.0 | 11.5 | 15.0 |
| Pretax (RMm) | 6.6 | 8.5 | 7.3 | 10.4 | 14.0 |
| YoY change (%) | (31.3) | 29.8 | (14.4) | 42.3 | 35.1 |
| Net Earnings | 4.9 | 7.3 | 3.5 | 5.9 | 10.0 |
| EPS (sen) | 2.3 | 3.4 | 1.6 | 2.1 | 3.5 |
| YoY change (%) | (28.2) | 48.6 | (52.6) | 26.7 | 70.4 |
| Gross Div PS (sen) | 0.0 | 0.0 | 0.0 | 0.5 | 0.5 |
| ROE (%) | n.a | n.a | n.a | 15.0 | 21.3 |
| NTA PS (RM) | n.a | n.a | n.a | 0.14 | 0.17 |
| PER (x) | 12.5 | 8.4 | 17.7 | 14.0 | 8.2 |

EPS for FY01-03 is based on 212.5m shrs in issue, FY04-05 is based on 283.5m shrs in issue

Metronic - another quality company in MESDAQ

Metronic has two subsidiaries, namely MESB and MISSB. MESB is a key player in the Integrated Security Management System (ISMS) and Intelligent Building Management System (IBMS) industry, e-project management of mechanical and electrical services and Java based Control monitoring software. Its subsidiary, MESB, is certified with ISO 9001. In Malaysia, the combined market for ISMS and IBMS is estimated at RM182m in 2002 and Metronic commands an estimated 21% market share, which is

basically the third largest player in the industry. However, Metronic is the only homegrown company among the top 4 largest players in Malaysia. In addition, the company has been around the industry for more than 17 years. Throughout these years, it has built up a high profile clientele base. Many buildings in Putrajaya such as Ministry of Defence, Prime Minister Office, Palace of Justice and Putrajaya Convention Centre are using its products and services. Other reputable customers are Maybank and Berjaya Times Square. The company has successfully implemented more than 300 major projects worth in excess of RM700m. In MESDAQ now, there are not many companies manage to grab the headlines as a reliable performer over a period of more than 10 years. **Judging from its profile, we rank Metronic as one of the top quality stocks among the 41 members in MESDAQ.**

Financially transparent

On the financial front, one word will stand out above all others and that is transparent. We know that there are only less than 10 MESDAQ companies which provide financial forecast in the prospectus. They are LNG Resources, UBS and Digistar, to name some of them. Metronic also provides dividend forecast, which is expected to be 5% gross dividend per share for FY04. In addition, in the presentation note, the company clearly listed down the number of secured projects, ongoing projects as well as the unrecognised revenue. Accordingly, there are currently 50 ongoing projects with total contract value of RM373m and the unrecognised revenue is approximately RM190m. Apparently, with so many contracts in hand, Metronic is well positioned for growth and achieve their net profit forecast.

Figure 1 : Market Share (IBMS & ISMS)

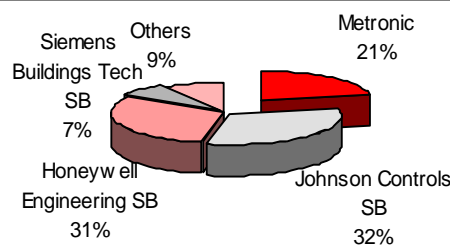
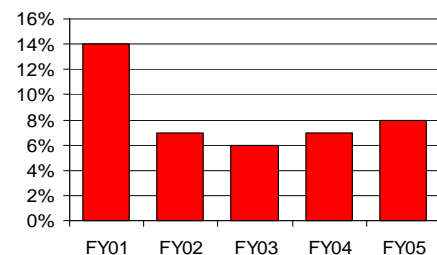


Figure 2 : EBITDA Margin Trend



Source: OSK Research

A low margin business

Metronic is in fact operating one of the lowest margin business comparing to the other companies in MESDAQ. EBITDA margin since FY02 has been hovering at around the 6%-7% level. Though its revenue in FY03 was as high as RM132m but the net profit was only RM3.5m. We believe the “high revenue low net profit” phenomena was partially due to many of its sales were involved with the hardware. The main components of the ISMS are the hardware and the software solutions. The hardware portion includes security devices such as CCTV, the video recording, access control and the intrusion devices while the software solution is to ensure that the equipment communicates and works coherently in a common personal base environment. We know that the PBT margin of hardware could be as low as 5%. Nonetheless, the company’s focus on increasing the revenue from the maintenance contracts should be able help sustaining the margins at the current level. It has always been trying to secure and retain maintenance contracts for the completed projects after expiry of the warranty period, which ranges from 1 to 2 years.

Tremendous growth opportunity

One major setback about the IPO is that the industry growth rate is not included in prospectus. Nonetheless, according to an industry survey, it has been increasingly popular that the companies outsource the building management function to a third party such as Metronic. To ensure that Metronic will remain at the top of industry, the management intends to appoint more distribution agents in order to cover a larger geographical area and to expand through acquisition of companies with existing technology in China, Thailand and other countries.

Valuation

Buy – attractively priced

Unlike many MESDAQ companies with short operating history, the management has proved that Metronic has chugged along well over the past 17 years. We believe its leading position in the industry is going to remain intact. Based on currently targeted market opportunities for building automation system and the contracts it has in hand now, we are confident that Metronic could sustainably grow its revenue proximate to our forecasts. In addition, the management clearly stated down in the presentation note that **Metronic intends to sustain a healthy dividend policy over the long-term** but also leaving adequate reserves for operational growth and expansion. Though the dividend yield in only 2.4% in FY04, this is in fact the first time we came across a MESDAQ company which emphasises on the company's dividend payout policy. In this case, we think Metronic's shares are likely to continue enjoying strong investors support over the long-term.

The prospective FY05 PER is expected to be only 8.2x and bear in mind that we have factored in only conservative revenue growth rate and static margins for the next two years. In addition, on a proforma basis after the IPO, Metronic is expected to have net cash hoard of RM14.4m. Comparing to other companies such as Redtone, GHL System and Dreamgate, which have a reputation in MESDAQ and share capital of over 200m shares, they are now trading at an average FY05 PER of 17x based on the consensus estimates. Pegging a fair PER of 15x based on FY05 net profit, Metronic is worth 53 sen per share, which translates to a potential upside of 82% from its closing price yesterday.

Figure 3 : IPO Proforma balance sheet & Utilisation of proceeds

| BALANCE SHEET | | UTILISATION OF PROCEEDS | | | |
|--------------------------|-------------|--------------------------|-------------|----------------------------|-------------|
| As at 31 Dec 2003 (RM'm) | | (RMm) | | | |
| Current assets | 101.7 | Share Capital | 28.4 | Repayment bank borrowings | 5.0 |
| Current liabilities | (69.5) | Share Premium | 7.8 | CAPEX - office expansions | 2.6 |
| Net current assets | 32.2 | Accumulated losses | (0.0) | R & D expenditure | 3.0 |
| Non current assets | 7.4 | Shareholders' funds | 36.2 | Working capital | 3.1 |
| | | Reserve on consolidation | 1.6 | Estimated listing expenses | 1.2 |
| | | Term loan & others | 1.9 | | |
| | <u>39.6</u> | | <u>39.6</u> | | <u>14.9</u> |

Source: OSK Research

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