

Sky One Holdings

25 Nov 2008

Olympics Games Affected 1H09 Results

Snapshot		P&L (HK\$m)			Key Ratios (FY09F)		
Recommendation	Hold	(Y/E Mar)	FY08	FY09F	FY10F	PER	6.0x
Current Price	S\$0.07	Revenue	125.2	138.8	150.0	P/BV	1.1x
Target Price	S\$0.07	Gr Profit	55.0	58.5	62.7	Div Yield	2.3%
No of Shares	243.2m	Op Income	23.8	17.6	20.8	ROE	18.3%
Market Cap	S\$15.8m	Earnings	19.0	14.4	16.6	Net Gearing	Cash
Year Hi/Lo	S\$0.42/0.035	EPS (HK cts)	7.8	5.9	6.8	Current Ratio	3.4x

Source: SIAS Research, Bloomberg

Note: Financial results of Sky One

1H09 Results

Rev (HK\$m)	1H08	2H08	1H09
Express Land Transport	55.3	63.5	62.1
Airfreight	2.1	4.3	2.7
Gross Profit (HK\$m)	1H08	2H08	1H09
Express Land Transport	24.4	30.0	24.2
Airfreight	0.2	0.4	0.4
Gross Margin (%)	1H08	2H08	1H09
Express Land Transport	44.0	47.2	39.0
Airfreight	10.3	10.3	16.1

Source: Company

- **Margins Dropped:** Sky One (a Hong Kong based specialist in express courier and freight forwarding services between Hong Kong and China) was successfully listed on Catalyst after the reverse take-over of Semitech Electronics in January 2008.
- For the half year ended 30 Sep 08, revenue rose 13% (YoY) to \$64.8m driven by growth in China's import market. The express land transport division (that provides logistics services for the import of factory inputs and finished goods into China) grew 12.3% to \$62.14m and the newly established airfreight division (that provides services catering to export of goods from China to the rest of the world) increased 28% to \$2.68m.
- While gross profit maintained around \$24.6m, gross margin slid 4.7 percentage-points to 38% caused by temporary increases in customs handling charges and customs taxes during the Beijing Olympics period (from June to

October 2008) to discourage movement of goods into China for security reason.

HK\$m	1H09	1H08	%Chg	2H08
Revenue	64.82	57.42	12.9	67.83
Gross profit	24.68	24.57	0.42	30.43
Other Income	1.04	0.25	311.1	0.29
Earnings	5.60	7.08	-20.9	11.88
Gr Margin	38.1%	42.8%		44.9%
Net Margin	8.6%	12.3%		17.5%

Source: Company, SIAS Research

- Coupled with higher administrative expenses (due to increase in staff strength and corporate expenses arising from being listed) but partially offset by higher other income (due to gains on disposal of motor vehicles), earnings declined 20% to \$5.6m and net margin eased 3.7 percentage points to 8.6%.
- Relative to 2H08, 1H09 results were weaker due to slow down during Olympics period.

Balance Sheet (HK\$m)	Sep08	Mar08
Non-current Assets	32.86	32.66
Current Assets	55.39	53.16
Current Liabilities	17.74	20.28
Non-current Liabilities	1.76	0.64
Total Equity	68.74	64.90
Cash & Equivalent	3.32	5.59

Source: Company

- **Lower Cash:** For this period, Sky One paid HK\$6.59m of tax for current period and prior years as well as \$1.8m of dividend. Coupled with higher working capital and partially offset by higher debt, cash and equivalent reduced from \$5.59m to \$3.32m. Total debt increased from

\$0.73m to \$3.267m while gearing ratio rose 3.7 percentage-points to 4.8%.

policies to reduce operating cost and boost domestic demand.

Recent Development & Outlook

- **Proposed Acquisition:** Sky One has entered into a Sales and Purchase Agreement in October to acquire 50.1% of Jet International Courier Group Holdings, including 7.515m shares (or 50.1%) of China Jet Express Group Limited and 3.557m shares (or 50.1%) of 亨達航空貨運承攬股份有限公司 in Taiwan.
- The acquisition price is the lower of (i) 5.01 times of FY08 Profits and (ii) HK\$65m. 45% will be paid in cash in Hong Kong dollar, and the balance to be paid by issuance of Sky One shares at S\$0.15 each (capped at 45.62m shares) at the exchange rate of HK\$5.2243/S\$.
- Jet is the largest private courier group in mainland China with operations in China, Hong Kong and Taiwan. The proposed acquisition will not only speed up Sky One's expansion in China, but also gain access into the lucrative Taiwan market.
- **Slow Growth:** In the last few months, some factories in China were shut down due to lower export (amid economic slow down and appreciating Chinese Yen) and higher operating costs (arising from higher interest rate, new labour law, environmental protection and lower export-tax incentives). While financial crisis in US will impact China and Hong Kong economies, the growth will continue but at a slower pace. In addition, Chinese Government has announced a series of

Reasonable Valuation

- Sky One first half performance was affected by the Beijing Olympics Games. We expect profit margin to improve with the reversal of custom clearance charges and lower transportation cost (following lower oil price).
- With its broad base of customers in various industries, Sky One is less susceptible to economic downturns in any one industry. The company may also benefit from its new Air-freight division, new computerised system and logistics centre. Nevertheless, management should closely monitor its receivable collection situation and adjust its credit policy accordingly.
- With relationship warming between China and Taiwan, trade is likely to increase across the Straits. Hence, the proposed acquisition of Jet International Courier Group may boost its future performance despite dilutive effect on Sky One's stock with the issuance of new shares.

	FY09F	FY10F
Revenue (HK\$m)	138.8	150.0
Earnings (HK\$m)	14.4	16.6
EPS(HK cts)	5.9	6.8

Source: SIAS Research

- For FY09, we have lowered earnings by 26% to \$14.4m following first half results. Based on 6x FY09 EPS, we arrive at the fair value of 7 cents and recommend **HOLD. (Koh Chin Lek)**

Company	Last Px (\$)	PER (08)	PER (09)	Div Yld (%) (07)	ROE (%) (07)
CWT	0.315	2.9	3.6	6.3	20.3
ENG KONG HOLDINGS	0.120	4.4	3.4	5.0	13.0
FREIGHT LINKS EXPRESS	0.035	N.A.	N.A.	7.1	16.2
GOODPACK	1.060	10.3	9.2	2.9	19.8
SKY ONE	0.070	6.0	5.2	2.1	N.A.
POH TIONG CHOON	0.145	N.A.	N.A.	13.8	17.4
Average		5.9	5.4		31.8

Source: SIAS Research, Bloomberg

Financial Tables and Ratios

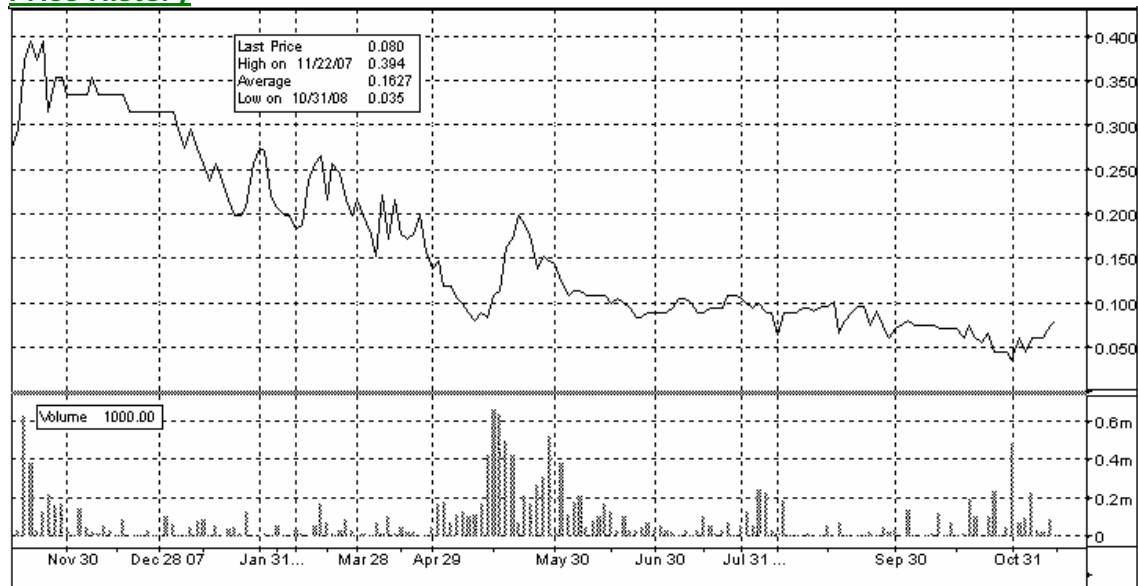
Year End Mar	FY06	FY07	FY08	FY09F	FY10F
Profit & Loss (HK\$m)					
Revenue	72.8	105.8	125.2	138.8	150.0
Gross Profit	41.5	45.2	55.0	58.5	62.7
EBITDA	20.2	22.6	26.6	21.0	23.9
Operating Profit	18.3	20.5	23.8	17.6	20.8
Pretax	18.8	21.2	24.0	17.9	20.6
Earnings	15.4	17.5	19.0	14.4	16.6
EPS (fully diluted – HK cts)	6.4	7.2	7.8	5.9	6.8
Balance Sheet (HK\$m)					
Long Term Assets	7.7	8.7	32.7	34.2	35.8
Current Assets	33.8	35.4	53.2	63.3	74.1
Current Liabilities	14.4	14.0	20.3	18.6	15.8
Long Term Liabilities	0.4	0.1	0.6	0.6	0.6
Total Equity	26.7	30.0	64.9	78.3	93.5
Cash Flow (HK\$m)					
Operating Cash Flow	8.8	20.4	-0.8	9.5	15.1
Investing Cash Flow	-2.2	-4.1	-0.8	-3.9	-4.8
Financing Cash Flow	-1.1	-18.7	0.3	-0.8	-1.3
Net Cash Increase/(Decrease)	5.5	-2.4	-1.3	4.8	8.9
Cash & Equivalent	9.3	6.9	5.6	10.4	19.3
Financial Ratios					
Revenue Growth (%)	32.5	45.2	18.4	10.8	8.1
Gross Profit Growth (%)	46.2	8.9	21.8	6.3	7.2
Earnings Growth (%)	29.5	13.1	8.5	-24.3	15.5
EPS Growth (%)	29.5	13.1	8.3	-24.3	15.5
Gross Margin (%)	57.0	42.7	43.9	42.1	41.8
Net Margin (%)	21.2	16.5	15.1	10.3	11.1
Current Ratio (x)	2.3	2.5	2.6	3.4	4.7
Book value per share (HK cts)	11.0	12.4	26.7	32.2	38.4
Net Cash/(Debt) per sh (HK cts)	2.3	2.7	2.0	3.9	7.5
Net Debt / Equity (%)	Cash	Cash	Cash	Cash	Cash
Dividend per share (HK cts)	0.0	0.0	0.8	0.8	0.8
Dividend payout ratio (%)	0.0	0.0	10.0	13.6	11.7
Return on Equity (%)	57.9	58.2	29.2	18.3	17.7
Return on Asset (%)	37.2	39.6	22.1	14.7	15.1
Return on Invested Capital (%)	57.5	58.1	29.0	18.3	17.7
Debtor Days	52.7	63.6	105.8	109.5	105.8
Creditor Days	25.6	6.3	33.5	32.9	31.0
Valuations					
Price to sales (x)	1.2	0.8	0.7	0.6	0.6
PER (x)	5.6	4.9	4.5	6.0	5.2
Price to book (x)	3.2	2.9	1.3	1.1	0.9
Dividend Yield (%)	0.0	0.0	2.2	2.3	2.3

Source: Company, SIAS Research
 Note: Financial results of Sky One

About the Company

Sky One Holdings Limited, headquartered in Hong Kong, is principally engaged in the freight forwarding and express delivery business. It provides express courier services as well as door-to-door transportation of air and sea cargo. It also specialises in customs declaration and delivery of goods from Hong Kong to China. The company was successfully listed on SGX-Catalist after the reverse take-over of loss making Semitech Electronics Ltd in January 08.

Price History



Source: Bloomberg

SGX Research Incentive Scheme

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