SGX Research Incentive Scheme

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8 May 2009

Sky One Holdings Limited

SKYO SP
SELL; TP: S$0.03

Price @07/05/09: S$0.035
52-week range (SGD): 0.025 – 0.20
Market cap – S$8.51m

Weaker profit guidance for FY09

- Profits for FY09 likely to be lower. Management has issued a profit guidance with respect to Sky One's financial results for FY09. They expect the group's sales and net profit for FY09 to come in lower due to the following reasons:- 1) an increase in the cost of customs clearances during the 2008 Beijing Olympics which squeezed gross margins in 1HFY09; 2) a fall in the volume of goods handled in 2H09 due to the global recession; and 3) an increase in corporate and professional expenses incurred by Sky One following the completion of its reverse acquisition of Sky One Network (Holding) Ltd on 28 January 2008. Greater details of the group's financial performance for FY09 will be released by the end of May.
- Lower unit prices. Average unit prices have fallen by about 20% over the course of the year as the group cuts prices to attract more business amid a waning economy. Coupled with lower cargo volumes, revenue is likely to be hit badly in FY09.
- New Executive Vice President (EVP). Sky One appointed Mr. Simon Wong Kai Chi as its EVP with effect from 1-Apr 2009. Mr. Wong is expected to take charge of the business development aspect of the company as well as implement marketing strategies. Having previously worked with employers such as Jardine Logistics Services (HKG) Limited and Kerry Logistics (Hong Kong) Limited, we believe that Mr. Wong has sufficient industry experience to understand the nature of Sky One's business.

Outlook

- Hong Kong throughput improves. According to *Cargo News Asia*, Hong Kong's port container throughput improved slightly in Mar-09 to 1.625m TEUs as compared to Feb-09 (1.305m TEUs) and Jan-09 (1.612m TEUs). The news is positive for Sky One as it implies there are more goods to be transported around, thus churning revenue. However, the positive turn is unlikely to affect FY09's financial results materially.
- Expansion still taking place in logistics industry. Sky One's proposed acquisition of Jet International (Jet) comes in line with the industry trend. Logistics and delivery companies have been seeking expansionary plans despite lower levels of global trade which has slowed business. Firms such as Sky One see this downturn as an opportunity to grow their business as well as improve their capabilities. Moreover delivery services are always needed, in both good times and bad. The target completion of the acquisition is by Oct-09.
- FY09 likely to stay in the 'green'. With falling goods volumes and higher costs, we expect Sky One to continue facing challenging times ahead and face margin compression. Nonetheless we remain optimistic that the group will still turn in a profit for the year albeit lower, due to its strong positioning in the Hong Kong-China market, and express access into China via 5 Express Clearance Counters situated in Guangdong which gives Sky One an edge over larger players (i.e. DHL) in terms of delivery time.

Recommendation

- Lower earnings forecast. To factor in lower sales volume and unit prices, we have sliced our revenue forecast for FY09 by 25%. As the group's costs have also risen mainly due to increased custom clearance fees as well as higher operating expenses, we cut net profit down to about HK$6m from HK$12m previously.
- Maintain SELL. We are keeping our SELL recommendation given its poor near-term earnings prospect, and have lower our target price from S$0.05 to S$0.03 still based on 5x CY09 P/E. This is based on the historical band of small-cap comparables. This translates to 14% downside.

Share price chart

	2009F			2010F			2011F		
	New	Old	% chg	New	Old	% chg	New	Old	% chg
Sales (HK m)	100	134	-25%	108	144	-25%	116	154	-25%
Net profit (HK m)	6	12	-48%	8	16	-48%	11	18	-39%
EPS (S cts)	0.5	0.9	-44%	0.6	1.2	-50%	0.9	1.4	-36%

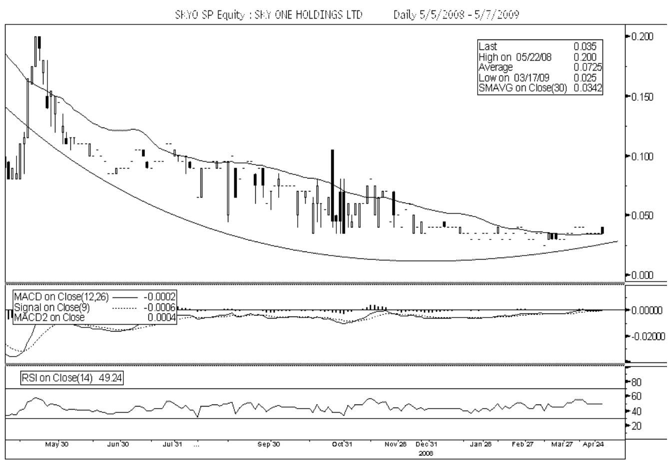
Source: Bloomberg, CIMB-GK Research

Financial summary

FYE Mar	2007	2008	2009F	2010F	2011F
Revenue (HK m)	105.8	125.2	100.0	107.6	115.9
EBITDA (HK m)	22.6	26.6	10.3	12.5	15.8
EBITDA margins (%)	21%	21%	10%	12%	14%
Pretax profit (HK m)	21.2	24.0	7.6	10.2	13.6
Net profit (HK m)	17.5	19.0	6.2	8.4	11.2
EPS (S cts)	2.0	1.9	0.5	0.6	0.9
EPS growth (%)	N/A	3%	-74%	35%	33%
P/E (x)	1.8	1.9	7.3	5.4	4.1
Gross DPS (S cts)	-	0.1	-	-	-
Dividend yield (%)	-	5%	-	-	-
P/NTA (x)	1.0	1.1	0.9	0.8	0.7
ROE (%)	62%	40%	9%	11%	13%
Net cash per share (HK$)	0.01	0.01	0.02	0.02	0.03
P/CF (x)	1.7	1.6	5.2	4.3	3.4
EV/EBITDA (x)	1.1	1.0	2.5	2.0	1.6

Source: Company, CIMB-GK Research

Technical recommendation



Source: Bloomberg, CIMB-GK Research

•Technical BUY. It is forming a rounded saucer bottom. Furthermore, it is now trading above its 30-day SMA. More upside could follow from here. However, the lack of trading volume is a worry.

Its MACD is about to cross over into positive territory. Its RSI, is however, still flat.

•Investors could choose to buy now as the stock could potentially climb to retest the S$0.045 and S$0.06-0.07 resistance levels. Support is at S$0.035 and S$0.025.

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