# Cymao keeps pace with the big boys

**BY LIM AI LEEN**

"A plywood manufacturer with a difference" — this is how RHB Research describes Cymao Holdings Bhd in its report dated Aug 19.

Unlike the big timber boys of Sarawak, whose control extend from owning forest concessions all the way down to selling speciality wood products, Tawau-based Cymao is solely involved in the downstream.

Normally, this state of affairs rings a warning bell with timber analysts. Being unable to control its supply of raw materials puts a plywood manufacturer's margins at the mercy of timber companies. In short, a plywood company's earnings can fluctuate with shifts in log prices. However, some analysts say there are mitigating factors.

RHB Research, for example, believes Cymao is different. It says that despite the timber supply factor, the company can still stand head-to-head with the larger, more integrated timber players like Jaya Tiasa Holdings Bhd, Lingui Developments Bhd and Ta Ann Holdings Bhd.

The RHB analyst explains: "The company stands out when benchmarked against its peers, particularly with the larger timber players in Sarawak. Despite its lack of timber concessions, it was able to weather the timber trough in 2001 and 2002, reporting higher earnings versus lower earnings and losses reported by its peers."

OSK Research has a "buy" call on Cymao's stock. Nevertheless, its analyst Chris Eng says: valuations, because it does not own any timber concessions."

The years 2001 and 2002 were trying ones for the industry, as demand (particularly from the Japanese housing sector) slid and average plywood prices fell to US$200 per cu m. Jaya Tiasa saw its net losses more than double, from RM39.1 million in 2001 to RM105.8 million in 2002. Lingui also underperformed, with net profit falling from RM104.8 million to RM5 million over the same period.

In contrast, says RHB Research, Cymao maintained its earnings in those years. Net profit came in at RM14.7 million and RM14.4 million for 2001 and 2002, respectively. This was also a better performance than that of its pure plywood peers. Eksons Corp Bhd, for example, suffered losses of RM10.4 million in 2002, while Evermaster Bhd saw its net profits halve to RM3.4 million in the same year.

Another mitigating factor is the company's timber supply agreements. According to OSK Research, Cymao has perpetual supply agreements with Country-Forests Industries Sdn Bhd and Sabah Forest Industries Sdn Bhd for an annual supply of 30,000 cu m of veneer and 17,000 cu m of plywood, respectively. It also has a 10-year agreement with Sapulut Forest Development Sdn Bhd, which supplies logs from Tawau, and a 10-year agreement with Syarikat Hung Enterprise, which has been granted seven timber concessions and which are renewable yearly. Temperate logs are sourced from Taiwan and China, with

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Not all its supply is taken care of though. "Looking at the figures for 2004, Cymao has an assured supply of 47,000 cu m of plywood and 110,000 cu m of hardwood logs. Looking at its estimated production figures of 148,250 cu m of plywood and its derivatives, we estimate a shortfall of approximately 56,000 cu m of hardwood logs which Cymao will have to secure from the open market," says the research house in its March 17 report.

Cymao also distinguishes itself from the rest of the plywood pack by focusing on research and development (R&D) and making higher-margin, more value-added plywood.

"They are very experienced as far as technology and R&D are concerned," says an industry insider. According to one analyst, the efficiency benefits of high-end machinery help safeguard margins. "There is no wood wastage at their factories," she observes.

The focus on R&D has another benefit — new products. These include premium-priced items like fire-retardant plywood and scratch-resistant or polyester plywood, which are due to be launched in 2005 and 2006, respectively.

With a product range that includes veneer, plain plywood, fancy plywood, and speciality plywood comprising lay-on, engineered wood flooring, decorative medium-density fibreboard, concrete-forming panel and marine plywood, it is little wonder that the company aspires to be a one-stop centre in marketing plywood.

Timber prices have been climbing since the second half of last year, supported by Indo-

in demand, particularly from Japan. Average plywood prices were US$235 per cu m last July, and are now trading in the US$330 per cu m band. While Cymao's exports to Japan only make up 0.1% of total sales, the higher prices worldwide will boost its earnings from the US, its prime export market that contributes to 63% of its sales revenue.

RHB also expects Cymao to gain from the growing divide between log and plywood prices.

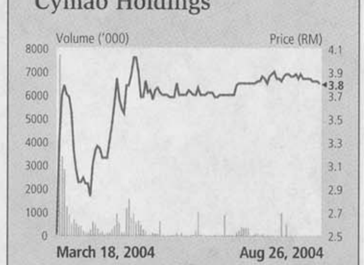
"With plywood prices rising at a faster rate than the increase in log prices, it is well placed to enjoy wider profit margin despite its sourcing of logs from external parties at market prices. Aside from the larger quantum of increase in prices of its end products versus raw material cost, it also benefits from increase in volume sales with wider acceptance of its products," explains RHB's analyst.

Cymao has spent just six months on the Main Board of Bursa Malaysia, but it is already attracting investor interest, both local and foreign. Last Thursday, some two million shares crossed off market at RM3.80 each. It by a foreign fund manager. OSK Research's target price for the stock is RM3.84, while RHB Research pegs fair value at RM4.68. The counter closed at RM3.82 last Tuesday.

Its listing in March this year raised RM22.5 million in gross proceeds, and flipped it into a net cash position of RM12.1 million. The company recently announced an interim dividend payment of 7.5 sen per share, on the back of RM10 million in net profits for the first six months of this financial year. This, say analysts, is a good sign of things to come.

"Given its underlying financial strength and management's indication of managing ROE [return on equity] to enhance shareholders' value, we believe the company is likely to provide good dividend payout going forward," says RHB Research.

## Cymao Holdings




Price: RM3.8 (Aug 26)
Issued shares: 60 million
Estimated free float: 28.3%
Major shareholders: Lin Tsai-Rong (28.1%), Tsay Chung-Wen (11.0%), Hsu How-Tong (8.25%), Chang Huei-May (4.4%), Mendu Sdn Bhd (10.0%), Forum Timber Sdn Bhd (10.0%)

### Profit projections year-end Dec 31

| | NET PROFIT (RM MIL) FY2004 | FY2005 | EPS (SEN) FY2004 | FY2005 |
|---|---|---|---|---|
| RHB Research | 21.1 | 23.4 | 35.2 | 39 |
| OSK Research | 21.2 | 24.8 | 35.4 | 41.3 |