

**Chang Kok Keong**  
 ☎ 65-6531 1295  
 FAX 65-6536 4435  
 ✉ changkk@phillip.com.sg

Result  
Singapore

## Challenger Technologies Ltd

(SGX-MAS Research Incentive Scheme)

### Recommendation:

**BUY**

Previous call: Buy at \$0.14

### Price

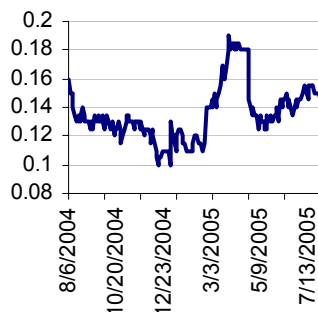
**Mid-day close :S\$0.16**  
**Target :S\$0.205**

### Share Statistics

Shares	153.5m
Market Cap.	\$24.6m
Trailing PER	8.6x
Forward 2005 PER	7.3x
Forward 2006 PER	8.9x
P/NTA	1.5x
52-week Price Range	\$0.10-\$0.19
52-week PER Range	5.3x-10.2x
Listing Bourse	SGX Sesdaq
Major Shareholders	Mr Loo Leong Thye (41.93%) Mr Ng Leong Hai (24.64%) Mdm Ong Sock Hwee (9.13%)

Source: Bloomberg; Phillip Securities Research

### Price Chart



### Company Profile

Challenger Technologies Ltd is a retailer of IT products, which has two superstores and two small format outlets in Singapore. Challenger offers a diverse range of IT products and services. It also invests in electronic signage and anti-virus businesses

## Better than REITs

05 August 2005

### Flat revenue h-o-h while profit surged 44%

Revenue for 1H05 is at \$37.3M, comparable to the \$37.1M achieved in 1H04. Profit for 1H05 surged 44% from \$1.4M to \$2.0M. The higher profit is due to several factors:- i) Challenger clocked in a \$0.5M gain from the disposal of a subsidiary, OA Supplies Pte Ltd ii) an exchange gain of \$55,000 on the conversion of fixed deposits in Australian dollar iii) an increase of \$0.1M in interest income from its Australian dollar fixed deposits.

### Dividend Policy

Challenger has declared an interim dividend of 1 cent per ordinary share. Based on the last done share price of \$0.16, the dividend translates into a yield of 6.25%.

### Recommendation

Challenger continues to be an attractive buy for investors looking for high dividend play. We are confident that Challenger will be able to meet, or even exceed, our forecast of a 1.5 cent dividend payout for FY05. This translates into a dividend yield of more than 9% based on the last done share price of \$0.16. We maintained our BUY recommendation on Challenger with a price target of \$0.205. We have also revised our forecast upwards in view of the gain from the exceptional items and the higher than expected revenue.

### Key Financial Data

(Financial Year Ended 31<sup>st</sup> December)

	1H04	1H05	%ch	FY05F	FY06F
<b>Turnover (S\$ m)</b>	37.1	37.3	0.5%	75.2	76.7
<b>EBITDA (S\$ m)</b>	1.9	2.6	32.6%	4.5	3.9
<b>EBIT (S\$ m)</b>	1.7	2.4	41.7%	3.9	3.4
<b>Net Profit (S\$ m)</b>	1.4	2.0	44.2%	3.3	2.7
<b>Net Profit Margin (%)</b>	3.7%	5.2%	-	4.4%	3.5%
<b>ROE (%)</b>	18.6%	29.6%	-	20.0%	20.5%
<b>EPS (cents)</b>	0.9	1.3	47.4%	2.2	1.8
<b>Book value per share (cents)</b>	9.5	8.6	-9.4%	8.9	8.6
<b>Gross Dividend per share (cents)</b>	0.7	1.0	42.9%	1.5	1.5

Source: Company, Phillip Securities Research

## Revenue and Profit / Dividend policy

Revenue for 1H05 is at \$37.3M, comparable to the \$37.1M achieved in 1H04. This is achieved despite the disposal of a subsidiary, OA Supplies Pte Ltd, which contributed \$1.4M in revenue for the previous corresponding period. Profit for 1H05 surged 44% from \$1.4M to \$2.0M. Cost of goods purchased increased by 3% or \$0.9M h-o-h due to an increase in inventory. Gross margin remain relatively stable at about 19%. Staff cost, premises expenses, selling and distribution costs and other operating cost increased by \$0.3M due to the expansion of electronic business in Malaysia and minor cost increase in the Singapore operation.

The higher profit for 1H05 is due to several factors:- i) Challenger clocked in a \$0.5M gain from the disposal of a subsidiary, OA Supplies Pte Ltd ii) an exchange gain of \$55,000 on the conversion of fixed deposits in Australian dollar as compared to a exchange loss of \$305,000 for the corresponding period last year iii) an increase of \$0.1M in interest income due to the higher rates from placement of fixed deposits in Australian dollar. Challenger currently has about 65% of its cash holding in short-term Australian dollar deposit due to the attractive interest rate. The Management has indicated that they are monitoring the movement of the exchange rate closely and will consider converting the deposit into Singapore dollar at the right time.

Challenger has declared an interim dividend of 1 cent per ordinary share. Based on the last done share price of \$0.16, the dividend translates into a yield of about 6%. We are confident that the total dividend payout from Challenger for FY05 will meet, or even exceed, our forecast of 1.5 cents per ordinary share.

## Cash flow / Balance Sheet

Cash flow for Challenger remains healthy. Cash holding drops from \$12.7M in 1H04 to \$9.5M in 1H05 mainly due to the dividend of \$3.7M paid in April 2005. Balance sheet is also healthy, inventory days for 1H05 improved slightly as compared to 1H04.

### Inventory Turn

Ratio	1H05	1H04
Inventory Turn	10.2	9.8
Inventory Days	35.8	37.2

Source: Company, Phillip Securities Research

## Plans for FY2005

With the disposal of its offices supplies subsidiary, Challenger will now be more focus on its main IT retail business. Challenger has recently embarked on several new initiatives, such as a customers' reward programme, in an effort to attract and retain customers. Challenger is also on the lookout for potential location in Singapore for expansion.

Besides Singapore, Challenger is also sourcing for potential partners in a bid to expand into Malaysia. Franchising is another option that Challenger is looking into. We believe that the Management will be prudent in terms of its expansion plans after the setback from its past failed expansion attempts.

## Valuation and Recommendation

---

Challenger continues to be an attractive buy for investors looking for high dividend play. We believed that profitability for Challenger is sustainable in the long run. We are confident that Challenger will be able to meet, or even exceed, our forecast of a 1.5 cent dividend payout for FY05. This translates into a dividend yield of more than 9% based on the last done share price of \$0.16. We maintained our BUY recommendation on Challenger with a price target of \$0.205. We have also revised our forecast upwards in view of the gain from the exceptional items and the higher than expected revenue.



Signed

**Phillip Research Stock Selection Systems**

BUY	>15% upside from the current price
HOLD	Trade within $\pm 15\%$ from the current price
SELL	>15% downside from the current price

**GENERAL DISCLAIMER**

The addressee of this publication, as identified by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), agrees to be bound by the terms and limitations set out below (the "designated recipient"). If you have received this publication and are not a designated recipient as defined above, then in addition and without prejudice to the following, Phillip Securities Research shall not owe any duty of care to you.

This publication is confidential and is only available to and intended for the reference of designated recipients and shall not be reproduced in whole or in part, distributed or published by such designated recipient for any purpose. Phillip Securities Research shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities Research has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities Research has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication are subject to change, and Phillip Securities Research shall not have any responsibility to maintain the data and services made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities Research be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the data or services made available, even if it has been advised of the possibility of such damages.

**Non-applicability of Section 27 of the Financial Advisers Act (Act 43 of 2001) and the MAS Notice on Recommendations on Investment Products**

Section 27 of the Financial Advisers Act (Act 43 of 2001) and the MAS Notice on Recommendations on Investment Products of 1 October 2002 do not apply in respect of this publication.

This material has been prepared for informational purposes only, and opinions contained in this publication have been made on a general basis. In the preparation of this publication, no consideration has been given to any particular individual or specific investment objectives, financial situations or other circumstances. As such, this publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Statement Pursuant to Section 36 of the Financial Advisers Act. Phillip Securities Research Pte Ltd and its directors and employees may have interest in the securities recommended herein from time to time, and its associates and connected persons may also have positions from time to time. Opinions and views expressed in this report are subject to change without notice.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation which would subject Phillip Securities Research to any registration or licensing requirement or penalty for contravention of such requirements within such jurisdiction.

© 2005 Phillip Securities Research Private Limited

## PhillipCapital – Regional Member Companies

### SINGAPORE

#### Phillip Securities Pte Ltd

Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101  
Tel : (65) 6531 6003  
Fax : (65) 6535 6631  
Website : [www.poems.com.sg](http://www.poems.com.sg)

### MALAYSIA

#### Phillip Capital Management Sdn Bhd

B-2-6 Megan Phileo Avenue  
12 Jln Yap Kwan Seng  
50450 Kuala Lumpur  
Tel : (603) 2166 8099  
Fax : (603) 2166 5099  
Website : [www.poems.com.my](http://www.poems.com.my)

### HONG KONG

#### Phillip Securities (HK) Ltd

11-12/F United Centre  
95 Queensway, Hong Kong  
Tel : (852) 2277 6600  
Fax : (852) 2868 5307  
Website : [www.poems.com.hk](http://www.poems.com.hk)

### THAILAND

#### Phillip Securities (Thailand) Public Co Ltd

15/F, Vorawat Building  
849 Silom Road  
Bangkok Thailand 10500  
Tel : (622) 635 7100  
Fax : (622) 635 1616  
Website : [www.poems.in.th](http://www.poems.in.th)

### JAPAN

#### The Naruse Securities Co Ltd

4-2, Nihonbashi Kabutocho  
Chuo Ku, Tokyo  
Japan 103-0026  
Tel : (81) 03-3666-2101  
Fax : (81) 03-3664-0141  
Website : [www.naruse-sec.co.jp](http://www.naruse-sec.co.jp)

### UNITED KINGDOM

#### Phillip Securities (UK) Ltd

3<sup>rd</sup> Floor Mansell Street  
London E1 8AN  
Tel : (44) 207 553 8280  
Fax : (44) 207 954 9910  
Website : [www.phillip-uk.com](http://www.phillip-uk.com)