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Recommendation:

BUY

Previous call: Buy at \$0.16

Price

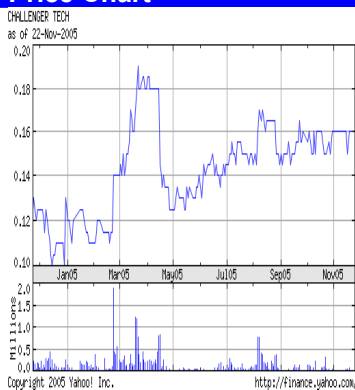
Previous close :S\$0.16
Target :S\$0.205

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	1.9x
52-week Price Range	\$0.10-\$0.19
52-week PER Range	5.4x-10.2x
Listing Bourse	SGX Sesdaq
Major Shareholders	Mr Loo Leong Thye (42.80%) 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

Challenger Technologies Ltd

Update

Singapore

Increasing our dividend forecast

25th November 2005

We had visited Challenger recently to find out more about the outlook for the rest of the year. Business appears robust and we are conservatively confident that Challenger will be able to meet our full year forecast.

Still searching for overseas opportunities: The Management is still actively searching for opportunities for expansion, although nothing is firm at the moment. Progress will be gradual as the Management is adopting a conservative approach and is looking at a possibility of franchise rather than a direct capital investment. Focus is mainly in the Southeast Asia region with Malaysia the most likely target.

Management also does not rule out any potential expansion locally, either through the establishment of a new outlet or through acquisitions. High rental is the main concern when it comes to establishing a new outlet, as the Management does not want expansion at the expense of margins.

Not idling in the meantime: While searching for more growth opportunities, Challenger is also working to improve its margins as well as to grow its revenue. Besides exploring various cost-cutting projects to improve margins, it is also working to establish a strong base of loyal customers through initiatives, such as its customers' reward programme, and new display concepts, such as specialty sections for popular brands like Apple, to boost the top line.

Rising our dividend forecast for FY05: We are increasing our dividend forecast for FY05 to 2 cents. This implies a final dividend payment of 1 cent, matching the interim dividend. Assuming a dividend of 2 cents, based on the share price of \$0.16, dividend yield will be at an attractive 12.5%. Based on FY06 forecast dividend of 1.5 cents, dividend yield will be at 9.4%, still attractive by any measure.

A dividend play like the REITs, less the volatility: Unlike the recent volatility seen in the REITs, share price of Challenger has stabilized within the \$0.15 to \$0.16 range in the past 2 months. Although we have increased the dividend pay out for FY05 to 2 cents, we believe an annual dividend pay out of 1.5 cents is more sustainable in the long run. This will translate into a decent yield of more than 9% per annum. Although dividend pay out may decline if Challenger decides to expand, Management should be more prudent this time round and we will not be expecting a huge capital expenditure. We continue to like Challenger for its dividend policy. Maintain BUY.

Key Financial Data (Financial Year Ended 31st Dec)

	1H04	1H05	%ch	FY05F	FY06F
Turnover (S\$ m)	37.1	37.3	1	75.2	76.7
EBITDA (S\$ m)	1.9	2.6	33	4.5	3.9
EBIT (S\$ m)	1.7	2.4	42	3.9	3.4
Net Profit (S\$ m)	1.4	2.0	44	3.3	2.7
ROE (%)	18.6	29.6	59	25.9	20.6
Diluted EPS (cents)	0.9	1.3	47	2.2	1.8
Book value per Share (cents)	9.5	8.4	-12	8.2	8.5
Dividend per Share (cents)	0.7	1.0	43	2.0	1.5

Source: Company, Phillip Securities Research



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

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