

BUY S\$0.78 STI : 2,457.65

Price Target : 12-Month S\$ 1.15

Reason for Report : 2Q06 Results

Potential Catalyst: Earnings growth and execution.

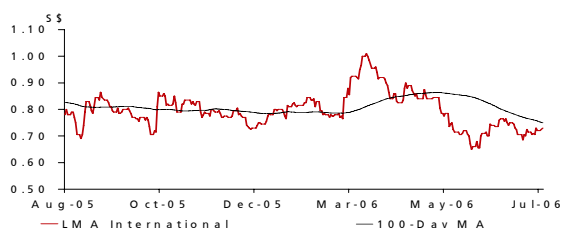
ANALYST

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FORECASTS AND VALUATION

FY Dec (US\$ m)	2004A	2005A	2006F	2007F
Turnover	78.2	86.3	94.1	102.1
EBITDA	25.1	28.4	33.4	37.2
Pre-tax Profit	24.2	(2.1)	31.6	35.7
Net Profit	22.4	(2.5)	27.7	31.0
Net Pft (Pre Ex.)	22.4	24.8	27.7	31.0
EPS (S cts)	nm	(0.8)	7.5	8.4
EPS Gth (%) (Pre-Ex.)	20	(101)	-14	12
Diluted EPS (S cts)	nm	(0.8)	6.8	7.6
DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	0.0	13.4	20.9	29.4
PE (X)	1.2	(86.5)	11.3	10.1
P/Cash Flow (X)	1.1	(819.4)	8.7	7.8
EV/EBITDA (X)	0.6	7.2	6.4	4.9
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	nm	5.2	3.3	2.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	395.6	(8.8)	43.9	33.5

SHARE PRICE CHART**AT A GLANCE**

Issued Capital (m shrs)	581
Mkt. Cap (S\$m/US\$m)	453 / 287
Major Shareholders	
Venner Capital SA (%)	32.1
Credit Suisse First Boston (Singapore) Limited	7.3
Aranda Investments Pte Ltd (%)	6.3
Free Float (%)	48.3
Avg. Daily Vol. ('000)	1,091

Earnings Rev :	FY06: -2.3%	FY07: -0.9%
Consensus EPS :	FY06: 7.6 S cts	FY07: 8.1 S cts
Variance vs Cons :	FY06: -1.3%	FY07: +3.7%

Sector : HEALTH CARE

Bloomberg/Reuters Code: LMA SP EQUITY/LMAI.SI

Principal Business: LMA designs, develops, markets and distributes medical equipment.

LMA International**Back on a growth path**

➤ **Story:** LMA reported 2Q06 earnings that were within expectations, as the Group returned to its growth path. 2Q06 earnings grew 19% yoy to S\$7.5m on revenue growth of 13% over the same period to S\$24.4m.

➤ **Point:** This reinforces our view that the weak 1Q06 result was merely a hiccup as the Group realigned its distribution channels to accelerate sales efforts. We expect to see further growth in next 2 quarters to help lift earnings growth for LMA in 2006 (in terms of core earnings) into the teens. We are projecting 12% core profit growth for LMA in 2006 to US\$27.7m. Sales from new products such as LMA CTrach (launched in 1Q06) and LMA Stonebreaker (planned for launch in 2H06) should also help to bolster Group results.

➤ **Relevance:** Maintain BUY with a target price of S\$1.15, based on 15x FY07 earnings.

Back to growth path in 2Q06. Despite a 36% decline in sales in Germany, where a prolonged strike by surgeons adversely affected demand, Rest-Of-World sales grew 17% yoy in 2Q06 whilst US sales grew 11%. This is a vast improvement from 1Q06, where sales were affected by the Group's initiatives to realign its distribution channels. Gross margin in 2Q06 fell 3.7ppt yoy to 72.2% due to higher sales mix of single-use products, but was flat from 1Q06. At half time, earnings stood at US\$11.8m vs. a loss of US\$14.8m last year (which included US\$27.3m exceptional charges relating to stock compensation). Excluding exceptional items, earnings at 1H06 fell 5% yoy due to weak 1Q06.

Firm outlook for 2H06. Looking ahead, we expect LMA to continue to post y-o-y growth in 3Q and 4Q as the Group's earlier initiatives in 1Q begin to bear fruit. In addition to the growth of existing products, sales from new products such as LMA CTrach (launched in 1Q06) and LMA Stonebreaker (planned for launch in 2H06) should help to bolster Group results. We believe LMA is on track to post double-digit growth this year.

Maintain BUY, and 1-year target price of S\$1.15. LMA is currently trading at undemanding valuations of 11.3x FY06 and 10.1x FY07 PER, compared to peers in the U.S. that are trading at 15x-20x earnings. Our target price of S\$1.15 is based on 15x FY07 earnings and a USD/SGD rate of 1.60. Maintain BUY.

Company Focus

LMA International

Results Summary and Comments

FYE Dec (US\$m)	2Q05	2Q06	% Chg YoY	1H05	1H06	% Chg YoY	Comments
Net Sales	21.5	24.4	13	42.1	44.8	7	Back to growth path in 2Q06.
Less: Cost of Sales	5.2	6.8	31	9.9	12.5	26	Change in sales mix towards disposable products, which has lower gross margins but higher volumes.
Gross Profit	16.3	17.6	8	32.2	32.4	1	G.P. margin down 3.7ppt in 2Q06.
Less: Selling and administrative expenses	8.5	9.6	14	17.0	18.9	11	Includes start-up costs for LMA Urology.
Less: Research and Development	0.3	0.4	13	0.5	0.8	46	
Less: Amortisation of Intangible Assets	0.0	0.0	367	0.0	0.0	133	
Operating Profit	7.5	7.6	1	14.6	12.7	(13)	Slightly below expectations.
Finance Costs (Income)	0.5	(0.7)	(232)	0.8	(0.7)	(194)	LMA has net cash of US\$22m.
Profit Before Tax	7.0	8.2	17	13.9	13.4	(3)	
Associates	0.0	0.2	nm	0.0	0.2	nm	Contribution from Australian distribution associate.
Tax (Writeback)	0.7	0.7	4	1.4	1.3	(3)	
Less: Minority Interests	0.0	(0.2)	nm	0.0	(0.3)	(1340)	Share of losses from LMA Urology.
Exceptional Items	0.0	(0.4)	nm	(27.3)	(0.7)	(97)	
PATMI	6.3	7.5	19	(14.8)	11.8	(180)	In line with expectations.
Gross Margin	75.9%	72.2%		76.4%	72.2%		Stable sequentially.
Operating Margin	34.9%	31.0%		34.7%	28.3%		
Net Mgn	29.3%	30.7%		-35.3%	26.3%		
Tax Rate	10.1%	9.0%		10.0%	10.0%		

Segmental and Operational Data

FYE Dec (US\$m)	2Q05	2Q06		1H05	1H06		
Reusable Units Sold ('000)	66.6	68.6	3	132.9	124.7	(6)	
ASP (US\$)	178.8	169.4	(5)	358.8	349.8	(3)	Sustained trend towards disposable products.
Single-Use Units Sold ('000)	871.7	1293.8	48	1649.9	2284.8	38	Aggressive price discounting due to competition. Also due to higher % of sales being in ROW vis-à-vis U.S.
ASP (US\$)	10.5	8.8	(16)	21.1	18.4	(13)	
Reusable Units	11.9	11.6	(2)	23.8	21.7	(9)	
Single-Use Units	9.1	11.4	25	17.4	20.9	20	Growth due mainly to LMA CTrach that was launched in 1Q06.
Others	0.5	1.3	183	0.9	2.2	150	
Total Revenues	21.5	24.4	13	42.1	44.8	7	
US Sales	13.0	14.4	11	25.7	27.2	6	Germany sales down >30% in 2Q due to surgeon strike. Excluding Germany, ROW sales grew 41%.
R.O.W. Sales	8.5	10.0	17	16.4	17.7	8	

Source: Company, DBS Vickers

Company Focus

LMA International

Income Statement (US\$ m)

FY Dec	2004A	2005A	2006F	2007F
Turnover	78.2	86.3	94.1	102.1
Cost of Goods Sold	(18.4)	(22.3)	(24.5)	(26.7)
Gross Profit	59.7	64.0	69.6	75.3
Other Opg (Exp)/Inc	(35.9)	(37.9)	(38.6)	(40.8)
EBIT	23.8	26.1	31.0	34.5
Other Non Opg (Exp)/Inc	0.6	(0.8)	0.1	0.1
Associates & JV Inc	0.0	0.0	0.5	0.6
Net Interest (Exp)/Inc	(0.2)	(0.1)	(0.1)	0.5
Exceptional Gain/(Loss)	0.0	(27.3)	0.0	0.0
Pre-tax Profit	24.2	(2.1)	31.6	35.7
Tax	(1.7)	(0.4)	(3.8)	(4.6)
Minority Interest	(0.1)	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0
Net Profit	22.4	(2.5)	27.7	31.0
Net profit before Except.	22.4	19.3	27.7	31.0
EBITDA	25.1	28.4	33.4	37.2
Sales Gth (%)	24	10	9	8
EBITDA Gth (%)	24	13	18	11
EBIT Gth (%)	25	9	19	11
Effective Tax Rate (%)	6.9	N/A	12.0	13.0

Cash Flow Statement (US\$ m)

FY Dec	2004A	2005A	2006F	2007F
Pre-Tax Profit	24.2	(2.1)	31.6	35.7
Dep. & Amort.	1.3	2.3	2.4	2.7
Tax Paid	0.0	0.0	0.0	(3.8)
Assoc. & JV Inc/(loss)	0.0	0.0	(0.5)	(0.6)
Non-Cash Wkg.Cap.	(1.9)	(7.1)	(1.8)	(1.8)
Other Operating CF	(1.4)	23.9	0.0	0.0
Net Operating CF	22.1	17.0	31.7	32.2
Capital Exp.(net)	(4.6)	(1.7)	(2.0)	(2.0)
Other Invts.(net)	0.0	(5.1)	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0
Other Investing CF	0.0	(0.5)	0.0	0.0
Net Investing CF	(4.6)	(7.2)	(2.0)	(2.0)
Div Paid	(18.9)	(3.5)	0.0	0.0
Chg in Gross Debt	(0.2)	6.5	0.0	0.0
Capital Issues	0.2	16.4	0.0	0.0
Other Financing CF	0.1	(14.2)	0.0	0.0
Net Financing CF	(18.8)	5.2	0.0	0.0
Net Cashflow	(1.2)	14.9	29.7	30.2

Quarterly / Interim Income Statement (US\$ m)

FY Dec	1Q2005	2Q2005	3Q2005	4Q2005
Turnover	20.6	21.5	21.0	23.3
Cost of Goods Sold	(4.7)	(5.2)	(5.5)	(6.9)
Gross Profit	15.8	16.3	15.5	16.4
Other Oper. (Exp)/Inc	18.6	(8.8)	(9.0)	(38.7)
EBIT	34.4	7.5	6.4	(22.3)
Associates & JV Inc	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.0	(0.1)	0.0	0.0
Exceptional Gain/(Loss)	(27.3)	0.0	0.0	0.0
Pre-tax Profit	6.9	7.0	6.5	(22.4)
Tax	(0.7)	(0.7)	(0.6)	1.5
Minority Interest	0.0	0.0	0.0	0.0
Net Profit	6.2	6.3	5.9	(20.9)
Net profit bef Except.	30.8	6.3	5.9	(20.9)
EBITDA	34.9	8.0	6.9	(21.4)
Sales Gth (%)	(7)	4	(3)	11
EBITDA Gth (%)	423	(77)	(14)	(411)
EBIT Gth (%)	446	(78)	(14)	(446)
Gross Margins (%)	76.9	75.9	73.7	70.5
EBIT Margins (%)	167.3	34.9	30.7	(95.6)

Source: Company, DBS Vickers

Balance Sheet (US\$ m)

FY Dec	2004A	2005A	2006F	2007F
Net Fixed Assets	5.9	5.6	5.2	4.5
Invts in Assocs & JVs	0.0	0.0	0.5	1.1
Other LT Assets	4.0	12.3	12.3	12.3
Cash & ST Invts	10.7	25.7	55.4	85.6
Other Current Assets	26.1	26.4	28.3	30.2
Total Assets	46.7	70.0	101.7	133.7
ST Debt	0.0	2.0	2.0	2.0
Other Current Liab	38.1	10.6	14.5	15.5
LT Debt	0.0	8.0	8.0	8.0
Other LT Liabilities	0.0	0.1	0.1	0.1
Shareholder's Equity	8.2	49.3	77.1	108.1
Minority Interests	0.3	0.0	0.0	0.1
Total Cap. & Liab.	46.7	70.0	101.7	133.7
Non-Cash Wkg. Cap	(12.0)	15.8	13.8	14.8
Net Cash/(Debt)	10.7	15.7	45.4	75.6

Rates & Ratios

FY Dec	2004A	2005A	2006F	2007F
Gross Margin (%)	76.4	74.2	74.0	73.8
EBITDA Margin (%)	32.1	32.9	35.5	36.5
EBIT Margin (%)	30.5	30.2	33.0	33.8
Net Profit Margin (%)	28.7	(2.9)	29.5	30.4
ROAE (%)	395.6	(8.8)	43.9	33.5
ROA (%)	57.5	43.9	37.5	30.8
ROCE (%)	377.4	107.8	43.4	32.5
Div Payout Ratio (%)	78.6	N/A	0.0	0.0
Interest Cover (x)	98.1	248.5	360.4	N/A
Debtors Turn (days)	43.5	49.2	47.4	47.5
Creditors Turn (days)	7.3	6.7	7.2	7.3
Inventory Turn (days)	112.1	130.7	140.0	139.3
Current Ratio (x)	1.0	4.1	5.1	6.6
Quick Ratio (x)	0.8	3.4	4.5	6.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	17.0	20.0	20.0
N.Cash/(Debt)PS (US cts.)	0.0	2.7	7.8	13.0
Opq CFPS (US cts.)	40.1	4.86	5.76	5.86
Free CFPS (US cts.)	29.24	3.08	5.11	5.21

4 August 2006
 Technical Trades
 Price S\$0.780 / Vol 5.63m

LMA International

TECHNICAL ANALYST

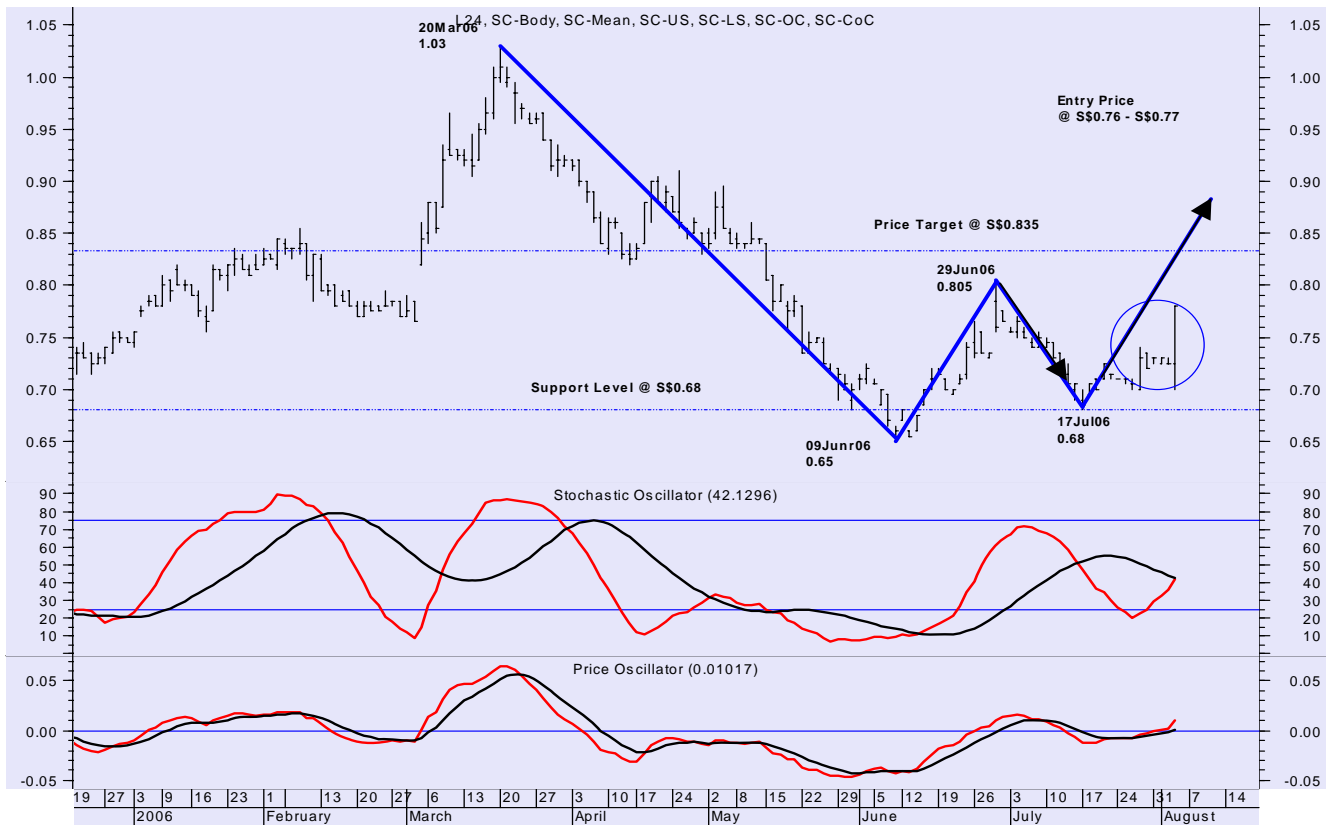
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Ticker Code	Target Price (S\$)	Entry Price (S\$)	Stop Loss (S\$)
LMA SP	0.835	0.760 – 0.770	

Technical Analysis

- **Buy on weakness** – LMA Int’l will likely trend upward towards our projected target price of **S\$0.835** over the next 10 -20 market days. Hence, we recommend an entry range of **S\$0.760 – S\$0.770**. There is resistance at **S\$0.86** and support level at **S\$0.68**.
- **Positive trending indicators** – LMA Int’l looks bullish based on its indicators. The MACD has turned and cut above the neutral line, indicating a sustained up trend. Adding to this, the Stochastics %K has also turned up for the mid-term trend.

Daily Technical Chart



Source: DBS Vickers

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