

LMA International

Market leader with firm growth prospects

The dominant market leader in its industry, LMA is a beneficiary of the increasing adoption of laryngeal masks, of which it is the pioneer, over endotracheal tubes as an airway management product in the health industry worldwide. We expect growth to be in the teens for years to come, as the Group's products continue to replace legacy products and as a replacement cycle towards disposable laryngeal masks perpetuate. We have a BUY recommendation and a target price of S\$1.11 (15x FY06 earnings), which implies 31% upside from the share current price.

- **Recent developments are positive for LMA** Over the last month, LMA announced that it had (i) won a cross-border injunction in its court action against Tyco Healthcare for patent infringement in the Netherlands; and (ii) been awarded a three-year National Agreement for its Laryngeal Mask Airways Products with HealthTrust Purchasing Group. These announcements should help allay investors' concerns over the ability of the Group to protect and enforce its intellectual property rights and also boost confidence over the Group's growth path.

- **Expect consistent growth as laryngeal masks continue to win market share.** We reiterate our belief that LMA's earnings should continue to grow as its products continue to win market share from legacy endotracheal tubes and as the replacement cycle towards disposable laryngeal masks perpetuates. Revenue growth has been at a CAGR of 18.8% from FY01 to FY04, and is expected to remain firm at a CAGR of 13.1% over the next three years. At the same time, profit (before non-recurring charges) has also been growing at a CAGR of 15.5% over FY01 to FY04. We forecast CAGR over FY04-FY07 to remain firm at 12.8%. LMA also has plans to expand its direct sales force, which are dedicated to selling LMA products, to increase the Group's penetration rate in airway management products

- **Maintain BUY, target price raised to S\$1.11 (15x FY06 PE).** We raised our FY06 earnings forecast by 8.3%, as the HPG contract win has strengthened our conviction of LMA's prospects. At 11.3x FY06 PE, we believe there is more upside for a company that is the dominant player in its industry and that sells a product that is consistently gaining wider acceptance and usage. Our target price of S\$1.11 is based on 15x FY06 PE.

BUY

S\$0.84

At a Glance

Price Target:
1-year S\$1.11

Stock Code:
Bloomberg: LMA SP
Reuters: LMAI.SI

Sector: Medical Devices

STI: 2,295.54

Reason for Report:
Company Update

Implications:
Positive

Earnings Revision:
FY05 na
FY06 +8.3%

Consensus EPS:
FY05 4.3 S cts
FY06 4.9 S cts
FY07 6.5 S cts

DBSV vs Consensus EPS (% variance):
FY05 -7.0%
FY06 -8.2%
FY07 -23.1%

Principal Business:
LMA International is a medical device company, whose products support the airway.

Forecasts and Valuation

FYE Dec (US\$m)	04	05F	06F	07F
Sales	78.2	89.8	99.4	113.2
EBITDA	25.1	30.6	34.6	39.3
Net Profit	22.4	-1.7	29.0	32.2
Net Profit Ex One-Offs	22.4	25.7	29.0	32.2
EPS - FD (US cts)	4.3	-0.3	4.5	5.0
EPS - FD, Ex One-Offs	4.3	4.0	4.50	5.0
EPS Growth (%)	20.4	-7.7	13.0	10.9
BVps (US\$)	0.02	0.08	0.13	0.19
DPS (US cts)	3.4	0.0	0.0	0.0
P/Sales (x)	3.4	3.3	3.0	2.6
EV/EBITDA (x)	10.1	8.8	7.0	5.4
P/E (x)	11.8	12.8	11.3	10.2
P/BV (x)	32.2	6.3	3.9	2.7
Div Yield (%)	6.7	0.0	0.0	0.0
ROAE (%)	396	93	47	35

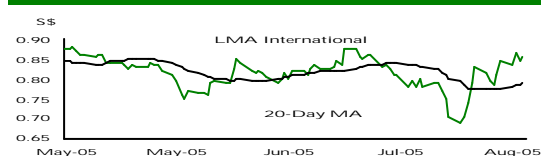
General Data

Issued Capital (m shrs)	581
Mkt Cap (S\$m/US\$m)	488 / 290
Major Shareholders	
Robert Gaines-Cooper (%)	32.0
Dr. Archie Brain (%)	13.0
Free Float (%)	51.0
Avg Daily Vol ('000 shrs)	5,636

Consensus Analyst Poll

	Avg Rating	Buy	Hold	Sell
3 Mth	4.50	2	-	-
6 Mth	4.50	2	-	-
12 Mth	4.50	2	-	-
Market	3.60			
Sector	-			
Source: Bloomberg				
Avg Rating: 1 = Sell, 3 = Hold, 5 = Buy				

Share Price Chart



Share Price Performance

	Share Price	Rel STI	Rel Sector
Past 1 mth	8%	11%	4%
Past 3 mths	11%	5%	4%
Past 6 mths	na	na	na
Past 12 mths	na	na	na

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