

# Marco Holdings (MARC MK)

Consumer Cyclical - Home & Office Products

Market Cap: USD43.5m

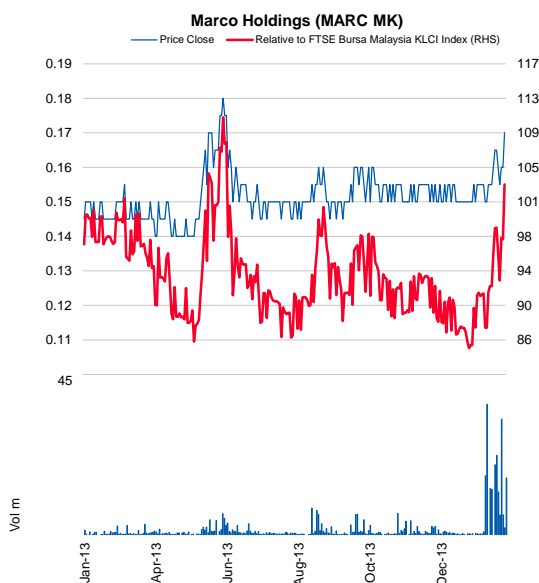
**Not Rated**

Target Price: MYR0.22

Price: MYR0.17

## The Best Of Times

Macro ◆  
 Risks ◆  
 Growth ◆  
 Value ◆◆◆



Source: Bloomberg

Avg Turnover (MYR/USD)	0.56m/0.17m
Cons. Upside (%)	N/A
Upside (%)	31.8
52-wk Price low/high (MYR)	0.14 - 0.18
Free float (%)	69
Shareholders (%)	
Tan Hua Choon	24.4
Peng Ong Huey	6.1

### Shariah compliant

**Kong Heng Siong** +603 9207 7666  
[kong.heng.siong@rhbgroup.com](mailto:kong.heng.siong@rhbgroup.com)

The Research Team +603 9207 7680  
[wan.zahidi@rhbgroup.com](mailto:wan.zahidi@rhbgroup.com)

**MARC is the exclusive Casio consumer electronic products distributor in Malaysia with an established distribution network of >800 customers. Backed by steady 5.5-6.7% annual earnings growth and sturdy balance sheet (Sept 2013: 3.7 sen net cash/share), it offers an attractive annual dividend yield of 9.2-10.2%. MARC is NOT RATED, with a fully diluted MYR0.22 FV. We ascribe a 10x FY14F P/E to value its core business.**

- ◆ **Timepiece distributor.** MARC has been the exclusive distributor of Casio timepieces since 1972, with established series such as *G-Shock*, *Baby-G* and *Edifice* under its umbrella. Over the past 2-3 years, the group started carrying timepieces from other brands to diversify its offerings. These include *Caterpillar*, *Movado*, *Hush Puppies* and *Dunlop*. We estimate the timepiece division as a whole currently makes up >70% of MARC's topline, of which a significant 80-90% is contributed by Casio watches. The remaining 30% of its revenue is mainly sourced from its distribution of Casio Computer Co Ltd (6952 JP, NR) consumer electronic products like calculators, musical instruments, label printers and digital cameras.
- ◆ **Management team.** MARC's operations are currently led by Mr Siau Hock Cheng and Mr Wong Hock Yim. Both are executive directors of the company and have been with MARC for >10 years. Its largest shareholder, Tan Sri Dato' Tan Hua Choon (24.4% stake), sits on its board as a non-executive chairman.
- ◆ **Attractive dividend play.** We are forecasting MARC's FY14F-16F earnings to register reasonable growth of 5.5-6.7% per annum, led by its timepiece division, as we expect continued innovation and creativity under Casio's *G-Shock*, *Baby-G* and *Edifice* series to propel sales. We note that management has declared a hefty YTD DPS of 2.4 sen (which translates into a YTD payout ratio of 150%), given its healthy net cash balance of MYR39.4m as at 3Q13. Going forward, we are forecasting for DPS of 1.5-1.6 sen for FY14F-FY16F, based on a projected payout ratio of 90%. This is in view of its sturdy balance sheet, coupled with potential cash infusion of MYR26m from the conversion of its outstanding warrants. This will translate into a lucrative yield of 8.6-9.6% per annum.

Forecasts and Valuations	Dec-12	Dec-13F	Dec-14F	Dec-15F	Dec-16F
Total turnover (MYRm)	115	116	119	122	126
Reported net profit (MYRm)	14.9	16.3	17.4	18.3	19.3
Recurring net profit (MYRm)	14.9	16.3	17.4	18.3	19.3
Recurring net profit growth (%)	na	9.4	6.7	5.6	5.5
Recurring EPS (MYR)	0.02	0.02	0.02	0.02	0.02
DPS (MYR)	0.01	0.02	0.01	0.02	0.02
Recurring P/E (x)	8.32	8.15	7.64	7.24	6.86
P/B (x)	1.24	1.31	1.37	1.35	1.33
P/CF (x)	33.3	8.2	7.8	7.5	7.1
Dividend Yield (%)	8.2	14.2	8.6	9.1	9.6
EV/EBITDA (x)	4.39	4.28	3.64	3.42	3.21
Return on average equity (%)	21.0	15.9	14.7	13.8	14.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (%)		0.0	0.0	0.0	0.0

Source: Company data, RHB estimates

## The Best Of Times

**Brief history.** MARC is the exclusive distributor of *Casio* timepieces, calculators, electronic musical instruments and digital still cameras in Malaysia. The partnership first started in the 1970s when the company was established. As of today, MARC distributes *Casio*'s products to over 800 customers in Malaysia. *Casio*-related sales made up >90% of 2012 sales.

**Management team.** MARC was listed on Bursa Malaysia in 1999 when it took over the listing status of Khong Guan via a backdoor listing. Operations are currently led by Siau Hock Cheng and Wong Hock Yim. Both are executive directors of the company and have been with MARC for over 10 years. Its largest shareholder, Tan Sri Dato' Tan Hua Choon (24.4% stake), sits on the company's board as a non-executive chairman. Tan Sri Tan is a fairly well-known entrepreneur with several reported holdings in listed companies like Goh Ban Huat (GBH MK, NR), FCW (FCW MK, NR), and PDZ (PDZ MK, NR).

**Mass market pricing.** The jewel in the crown of MARC's operation is its distribution of *Casio* timepieces, which made up >60% of the company's sales in FY12. Among the well-known brands of *Casio* timepieces that the group distributes are the *G-Shock*, *Baby-G* and *Edifice* series. Based on our on-the-ground survey, *Casio* watches carry a MYR50-MYR2,000 per piece price range, with the latter price point representative of some of its limited edition timepieces. Judging from the pricing, we believe *Casio* watches are mainly catered for the mass to middle-upper income markets.

**Sunset industry? Not quite.** While some may argue that the watch industry could soon be a sunset industry, given the increasing prevalence of smart phones, we foresee a relatively stable demand growth for *Casio* watches. We like the brand's three-pronged approach of:

- i. being a must-have fashionable item for the youth market on its *Baby-G* series, which are typically priced at MYR150-MYR350 per piece;

Figure 1: *Baby-G* series timepieces distributed by MARC



Source: Company

- ii. having a relatively more stylish adult series in *G-Shock* and *Edifice*, with retail prices starting from MYR250 and going up to as high as MYR2,000 per piece for some of its limited edition models;

Figure 2: *G-Shock* series timepieces distributed by MARC



Source: Company

Figure 3: *Edifice* series timepieces distributed by MARC



Source: Company

- iii. and a professional series with prices in the MYR500-MYR2,500 per piece range that emphasises on performance-driven watches branded under *G-Shock* and *Pro-Trek*.

Figure 4: *Pro-Trek* series timepieces distributed by MARC



Source: Company

**Increasing brand awareness.** To further increase *Casio* watches' brand awareness, MARC has embarked on a partnership with one of its major customers, Time Galerie (M) SB, to develop the *G-Factory* concept store, which only carries premium and limited edition *Casio* timepieces. Currently there are 10 *G-Factory* stores nationwide. The outlets are sited in premier shopping malls at high foot traffic locations. Based on our experience of visiting three out of the 10, we noted that the outlets had a very modern interior layout and an eye-catching exterior. Reflective of their strategic locations, we believe these concept stores are targeted mostly at the younger and fashion conscious demographics, as well as the growing upper-middle class consumer segment.

Figure 5: *G-Factory* outlet in Fahrenheit 88, Kuala Lumpur



Source: Company

**Casio to set up presence in Malaysia.** Earlier this year, Casio set up a wholly-owned subsidiary in Malaysia called Casio Malaysia SB. The local unit will enable the Japanese electronics manufacturer to customise its products for the domestic market by gathering in-depth market research, as well as increasing promotional, sales and marketing activities in Malaysia. We expect the collaboration between MARC and Casio Malaysia to have a positive impact on the former, as we expect Casio to introduce more exclusive and limited edition products in the near future. Going forward, we are forecasting for MARC's timepiece division to grow at a steady 4-5% for FY14F-FY16F, driven by a larger distribution network and the introduction of more exclusive products resulting from a maturing collaboration between the company and Casio Malaysia.

**Moving into other brands.** To diversify its brand offerings, MARC now also distributes timepieces from other brands to complement its existing *Casio* timepieces portfolio. It has introduced timepieces by *Caterpillar*, *Movado*, *Hush Puppies* and *Dunlop*. At this juncture, however, non-*Casio* contribution to the company's consolidated sales are relatively insignificant at <10% of total sales.

**Figure 6: *Caterpillar*, *Hush Puppies* and *Movado* timepieces distributed by MARC**

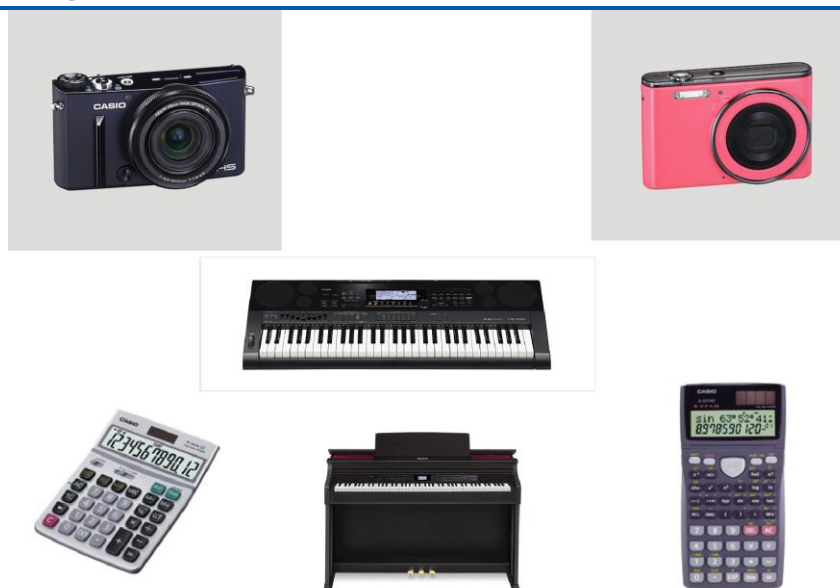


Source: Company

**Other Casio segments.** MARC also distributes other consumer electronic products from Casio. Apart from the timepieces, the company has also been distributing *Casio* calculators since the 1970s. Calculator sales have been increasing due to the MYR250 *1Malaysia* Book Vouchers handed out by the Ministry of Education. These vouchers can be redeemed at any book store for books and stationery. The continuation of this programme is expected to be beneficial to MARC, as we believe *Casio* calculators are popular and widely used amongst tertiary students due to their ease of use as well as their durability. Apart from calculators, the company also distributes musical instruments, label printers and Casio's *Exilim* digital cameras. 30% of MARC's revenue comes from the distribution of such products. Going forward, we see this division growing at a steady 2-3% growth y-o-y for FY14F-16F on higher distribution.

**Landbank.** MARC has two pieces of undeveloped land under its belt: i) 15 acres in Melaka, and ii) 2.5 acres in Setapak, Kuala Lumpur. The company inherited the Melaka land via its reverse takeover (RTO) of Khong Guan, while the land in Setapak was acquired by MARC in 1998. We estimate that the Melaka land could fetch around MYR5-6 psf while the Setapak land is valued at MYR180-200 psf. The 15 acre land in Melaka could potentially be earmarked for MARC's maiden property development foray while the company has not made any decision yet on the existing vacant land in Setapak.

**Figure 7: Casio digital cameras, keyboards and calculators distributed by MARC**



Source: Company

**Earnings projections.** We are forecasting for MARC to achieve net profit growth of 5.5-6.7% for FY14F-16F, with earnings in the MYR17.4m-19.3m range for the next three years. The higher bottomline will be driven by the company's increased distribution and market penetration as MARC introduces more exclusive products tailor-made for the local market via its collaboration with Casio Malaysia.

**Attractive yield.** We note that management has declared a hefty YTD DPS of 2.4 sen – which translates into a YTD payout ratio of 150% – given its healthy net cash balance of MYR39.4m as at 3Q13. Going forward, we are forecasting for DPS of 1.5-1.6 sen for FY14F-16F, based on a projected payout ratio of 90%. This is in view of MARC's sturdy balance sheet coupled with potential cash infusion of MYR26m from its outstanding warrants conversion. This translates into lucrative yield of 8.6-9.6% per annum.

**Investment risk.** MARC generates 90% of its total revenue by distributing Casio products, with 70% contributed by the Casio timepiece division. Although the barriers to entry in the timepiece industry are low, we believe given MARC's long and excellent track record of distributing not only Casio's timepieces, but also other products on offer, this fruitful partnership with the Japanese electronics manufacturer will be continued into the long term future.

**Valuation.** As there is a lack of listed peers, we are comparing MARC to Padini (PAD MK, BUY, MYR1.95), Bonia (BON MK, NEUTRAL, MYR3.14) and Esthetics International (EIG MK, BUY, MYR1.78), as their exclusive distributorship business models are almost similar to the company's. We arrive at a FV of MYR0.22, derived from an SOP estimate – ascribing a 10x P/E (a 30% discount to its peers, which we deem fair) to the company's FY14 earnings to value its core business and also capturing its existing net cash balance and potential cash infusion from outstanding warrants conversion. The stock is NOT RATED.

**Figure 8: SOP valuation (MYR m)**

	Value (MYR m)	Per share (MYR)
FY14F 10x P/E pegged to net profit	173.59	0.16
Potential cash infusion from warrants conversion	25.98	0.02
Existing cash balance as of Sept 2013	39.44	0.04
Total equity value	239.01	0.22

Source: RHB estimates

**Figure 9: Outstanding share base (m)**

Current share base	807.3
Potential new shares to be issued post warrants conversion (based on 1-to-1 conversion at exercise price of MYR0.10 per warrant with expiry date of May 2014)	259.8
<b>Total outstanding share base</b>	<b>1,067.1</b>

Source: RHB estimates

**Figure 10: Comparison of local peers**

Company	Bloomberg Ticker	Price (MYR)	Mkt Cap (MYRm)	P/E (x)			EV/EBITDA (x)			DY (%)		
				CY13	CY14F	CY15	FY13	FY14F	FY15F	FY13	FY14F	FY15F
Padini Holdings	PAD MK	1.76	1,157.9	13.1	12.1	12.1	6.7	5.7	5.4	4.5	5.9	7.1
Bonia Corp	BON MK	3.70	745.8	13.4	12.8	11.5	7.7	7.1	6.9	1.4	1.5	1.5
Esthetics International	EIG MK	1.25	69.3	14.9	13.0	10.9	8.7	8.0	7.6	2.5	3.1	3.8
Marco Holdings	MARC MK	0.17	144.9	8.2	7.6	7.2	4.3	3.6	3.4	14.2	8.6	9.1
<b>Simple Average (ex-Marco)</b>				<b>13.8</b>	<b>12.7</b>	<b>11.5</b>	<b>7.7</b>	<b>6.9</b>	<b>6.6</b>	<b>2.8</b>	<b>3.5</b>	<b>4.1</b>

Source: RHB estimates

## Financial Exhibits

Profit & Loss (MYRm)	Dec-12	Dec-13F	Dec-14F	Dec-15F	Dec-16F
Total turnover	115	116	119	122	126
Cost of sales	(90)	(89)	(90)	(92)	(95)
<b>Gross profit</b>	<b>25</b>	<b>27</b>	<b>29</b>	<b>30</b>	<b>32</b>
Gen & admin expenses	2	2	2	2	2
Other operating costs	(7)	(8)	(8)	(8)	(8)
<b>Operating profit</b>	<b>19</b>	<b>22</b>	<b>23</b>	<b>24</b>	<b>25</b>
Operating EBITDA	20	22	23	24	26
Depreciation of fixed assets	(0)	(0)	(0)	(0)	(0)
Amortisation of intangible assets	(1)	-	-	-	-
<b>Operating EBIT</b>	<b>19</b>	<b>22</b>	<b>23</b>	<b>24</b>	<b>25</b>
Interest expense	(0)	(0)	-	-	-
<b>Pre-tax profit</b>	<b>19</b>	<b>22</b>	<b>23</b>	<b>24</b>	<b>25</b>
Taxation	(4)	(5)	(5)	(6)	(6)
<b>Profit after tax &amp; minorities</b>	<b>15</b>	<b>16</b>	<b>17</b>	<b>18</b>	<b>19</b>
<b>Reported net profit</b>	<b>15</b>	<b>16</b>	<b>17</b>	<b>18</b>	<b>19</b>
<b>Recurring net profit</b>	<b>15</b>	<b>16</b>	<b>17</b>	<b>18</b>	<b>19</b>

Source: Company data, RHB estimates

Cash flow (MYRm)	Dec-12	Dec-13F	Dec-14F	Dec-15F	Dec-16F
<b>Operating profit</b>	<b>19</b>	<b>22</b>	<b>23</b>	<b>24</b>	<b>25</b>
<b>Depreciation &amp; amortisation</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Change in working capital</b>	<b>(9)</b>	<b>(0)</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>
Other operating cash flow	(3)	-	-	-	-
<b>Operating cash flow</b>	<b>8</b>	<b>22</b>	<b>22</b>	<b>23</b>	<b>25</b>
Interest received	1	-	-	-	-
Interest paid	(0)	(0)	-	-	-
Tax paid	(5)	(5)	(5)	(6)	(6)
<b>Cash flow from operations</b>	<b>4</b>	<b>16</b>	<b>17</b>	<b>18</b>	<b>19</b>
Capex	(0)	(0)	(0)	(0)	(0)
Other investing cash flow	(0)	-	-	-	-
<b>Cash flow from investing activities</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>
Dividends paid	(6)	(20)	(16)	(16)	(17)
Proceeds from issue of shares	1	7	26	-	-
Increase in debt	2	(6)	-	-	-
Other financing cash flow	0	0	-	-	-
<b>Cash flow from financing activities</b>	<b>(3)</b>	<b>(18)</b>	<b>10</b>	<b>(16)</b>	<b>(17)</b>
Cash at beginning of period	41	42	40	67	68
<b>Total cash generated</b>	<b>1</b>	<b>(2)</b>	<b>27</b>	<b>1</b>	<b>1</b>
<b>Implied cash at end of period</b>	<b>42</b>	<b>40</b>	<b>67</b>	<b>68</b>	<b>69</b>

Source: Company data, RHB estimates



## Financial Exhibits

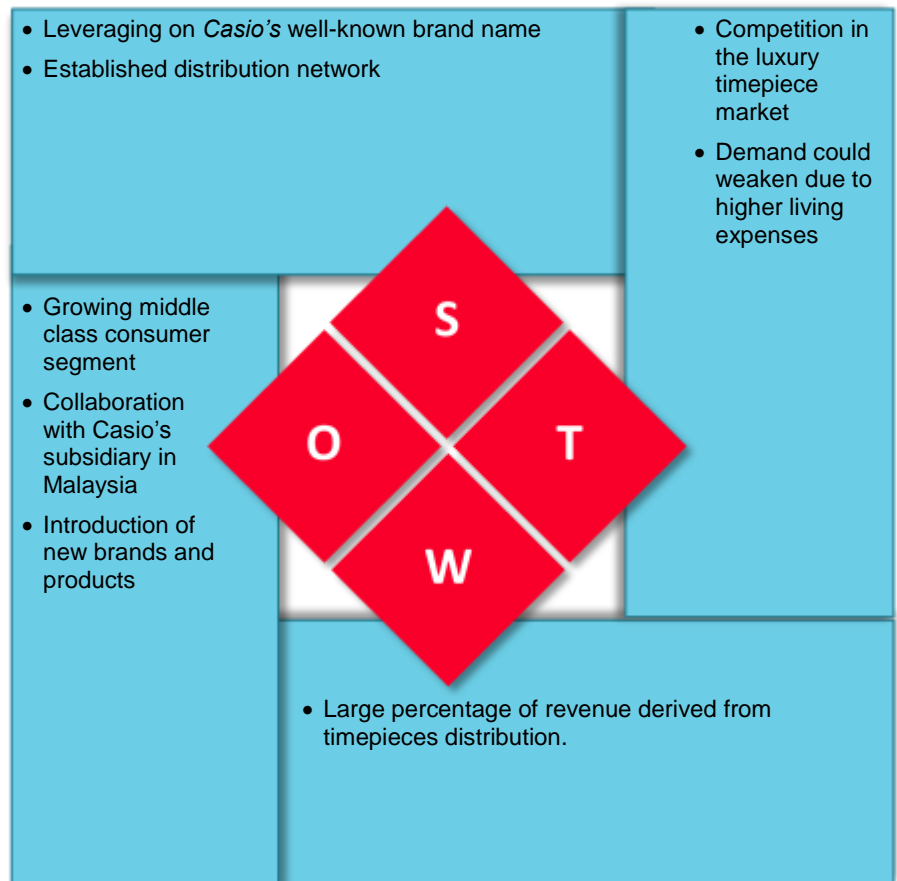
<b>Balance Sheet (MYRm)</b>	<b>Dec-12</b>	<b>Dec-13F</b>	<b>Dec-14F</b>	<b>Dec-15F</b>	<b>Dec-16F</b>
Total cash and equivalents	42	40	67	68	69
Inventories	13	13	13	14	14
Accounts receivable	19	19	19	20	21
Other current assets	0	0	0	0	0
<b>Total current assets</b>	<b>74</b>	<b>72</b>	<b>100</b>	<b>102</b>	<b>104</b>
Tangible fixed assets	44	44	44	44	43
Intangible assets	0	0	0	0	0
Total other assets	1	1	1	1	1
Total non-current assets	44	44	44	44	44
<b>Total assets</b>	<b>118</b>	<b>116</b>	<b>144</b>	<b>146</b>	<b>148</b>
Short-term debt	6	-	-	-	-
Accounts payable	6	6	6	6	7
Other current liabilities	6	6	6	6	6
<b>Total current liabilities</b>	<b>18</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>12</b>
<b>Total liabilities</b>	<b>18</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>12</b>
Share capital	73	81	107	107	107
Retained earnings reserve	0	(3)	(1)	1	2
Other reserves	27	27	27	27	27
<b>Shareholders' equity</b>	<b>100</b>	<b>104</b>	<b>132</b>	<b>134</b>	<b>136</b>
<b>Total equity</b>	<b>100</b>	<b>104</b>	<b>132</b>	<b>134</b>	<b>136</b>
<b>Total liabilities &amp; equity</b>	<b>118</b>	<b>116</b>	<b>144</b>	<b>146</b>	<b>148</b>

Source: Company data, RHB estimates

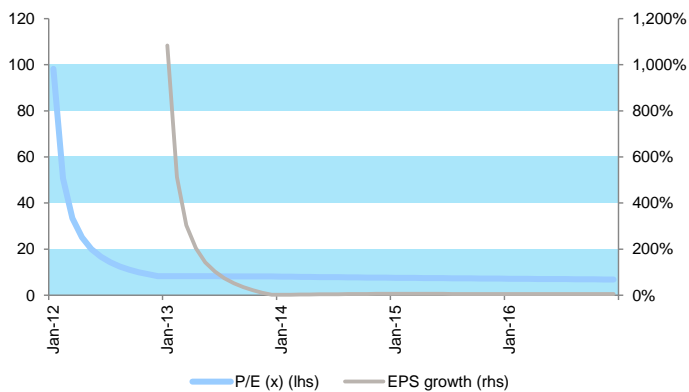
<b>Key Ratios (MYR)</b>	<b>Dec-12</b>	<b>Dec-13F</b>	<b>Dec-14F</b>	<b>Dec-15F</b>	<b>Dec-16F</b>
Revenue growth (%)	0.0	1.2	2.2	3.1	3.1
Operating profit growth (%)	0.0	12.7	4.4	5.6	5.5
Net profit growth (%)	0.0	9.4	6.7	5.6	5.5
EPS growth (%)	0.0	2.0	6.7	5.6	5.5
Bv per share growth (%)	142.5	(5.4)	(4.3)	1.4	1.4
Operating margin (%)	16.9	18.8	19.2	19.7	20.1
Net profit margin (%)	12.9	14.0	14.6	15.0	15.3
Return on average assets (%)	18.7	13.9	13.3	12.6	13.1
Return on average equity (%)	21.0	15.9	14.7	13.8	14.3
Net debt to equity (%)	(35.5)	(37.8)	(50.5)	(50.6)	(50.7)
DPS	0.01	0.02	0.01	0.02	0.02
Recurrent cash flow per share	0.01	0.02	0.02	0.02	0.02

Source: Company data, RHB estimates

## SWOT Analysis

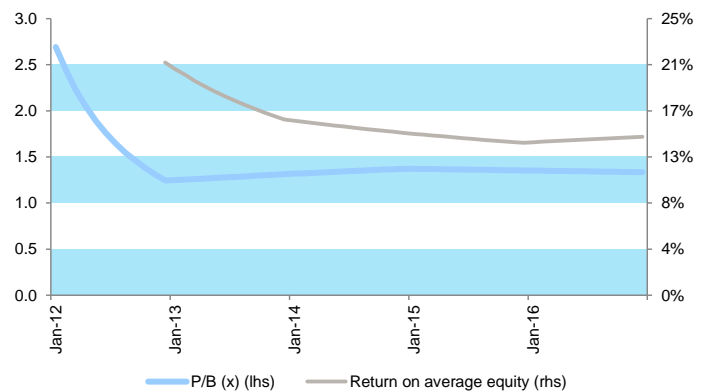


P/E (x) vs EPS growth



Source: Company data, RHB estimates

P/BV (x) vs ROAE



Source: Company data, RHB estimates

## Company Profile

Marco Holdings is the official distributor of Casio products. The company mainly distributes timepiece, calculator and consumer electronic products from Casio.

## Recommendation Chart



Source: RHB estimates, Bloomberg

Date	Recommendation	Target Price	Price
2014-01-30			

Source: RHB estimates, Bloomberg

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- Buy:** Share price may exceed 10% over the next 12 months  
**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain  
**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months  
**Take Profit:** Target price has been attained. Look to accumulate at lower levels  
**Sell:** Share price may fall by more than 10% over the next 12 months  
**Not Rated:** Stock is not within regular research coverage

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Bangkok		
<p><b>RHB OSK Securities (Thailand) PCL (formerly known as OSK Securities (Thailand) PCL)</b> 10th Floor, Sathorn Square Office Tower 98, North Sathorn Road, Silom Bangrak, Bangkok 10500 Thailand Tel: +(66) 2 862 9999 Fax : +(66) 2 108 0999</p>		