

<b>Talam Corporation Berhad</b> Analyst: Thong Yong Ling/Teoh Cheng Guan		<b>Price:</b>	RM0.11
		<b>Market Capitalisation:</b>	RM70.5m
		<b>Board:</b>	Main
		<b>Sector:</b>	Property
<b>Stock Code:</b>	2259	<b>Recommendation:</b>	HOLD

**Table 1: Key Stock Statistics**

Y/E: 31 Jan.	<u>2006</u>	<u>2007E</u>
EPS (est.)	-120.4	8.0
P/E (est.)	N/M	1.4
Dividend/Share (sen)		0.0
NTA/Share (RM)		0.51
Book Value/Share (RM)		0.51
Issued Capital (mil shares)		641.0
52-weeks Share Price Range	RM0.43-RM0.10	
<b>Major Shareholders:</b>		
Government		N/A
Tan Sri Dato' Chan Ah Chye via Kumpulan Europlus Berhad's		42.7%

**Table 2: Per Share Data**

Y/E: 31 Jan.	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007E</u>
Book Value (RM)	1.83	1.80	0.89	0.73
Cash Flow (sen)	59.5	97.3	-761.6	-82.4
Earnings (sen)	9.8	15.4	-120.4	-14.5
Dividend (sen)	5.0	4.0	0.0	0.0
Payout Ratio	36.6	18.7	0.0	0.0
P/E (x)	1.1	0.7	N/M	N/M
P/Cash Flow (x)	0.2	0.1	N/M	N/M
P/Book Value (x)	0.06	0.06	0.13	0.15
Dividend Yield (%)	45.5	36.4	0.0	0.0
ROE (%)	6.8	8.8	N/M	N/M
Net Gearing (%)	44.5	0.6	1.4	1.2

**Table 3: P&L Analysis**

Y/E: 31 Jan. (RM m)	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007E</u>
Revenue	911.9	1000.3	254.0	532.3
Operating Profit	50.6	106.3	-534.6	-118.8
Depreciation	10.2	9.9	10.2	10.4
Interest Expenses	10.3	14.5	-48.6	-38.0
Pre-tax Profit	71.1	130.7	-500.8	-89.5
Effective Tax Rate (%)	28.7	36.0	2.9	1.5
Net Profit	54.0	92.0	-771.8	-92.8
Operating Margin (%)	5.6	10.6	-210.4	-22.3
Pre-tax Margin (%)	7.8	13.1	-197.2	-16.8
Net-Margin (%)	5.9	9.2	-303.8	-17.4

**Figure 1: Share Price Chart - Talam Corporation Berhad**


Source: Quickchart

**1. 1Q FY07 Result Highlights:**

Y/E: 31 Jan	<u>1QFY07</u>	<u>1QFY06</u>	<u>% Change</u>
Revenue	71.6	176.0	-59.3
Operating Profit	5.7	-21.6	-126.4
Depreciation	n/a	n/a	n/a
Interest Expenses	-8.4	-5.0	70.2
Pre-tax Profit	-2.8	-26.5	-89.6
Net Profit	-5.0	-19.2	-73.9
Operating Margin	7.9	-12.2	
Pre-tax Margin	-3.9	-15.1	
Net-Margin	-7.0	-10.9	

Talam Corporation Berhad ("Talam") reported a better-than-expected set of 1QFY07 results. On an annualized basis, FY07 revenue was 46.2% below our estimate, but loss before tax and net loss were 87.6% and 78.2% lower than our estimates, respectively.

1QFY07 turnover recorded a 59.3% y-y decline to RM71.6m due to lower locked in sales and general weakness in the property market. However, loss before tax and net loss were 89.6% and 73.9% lower y-y due to lower administrative and operating expenses. 1QFY06 results suffered from a one-off provision for impairment of inventory amounting to RM28m.

In terms of q-q comparison, Talam reported a positive 1QFY07 revenue of RM71.6m compared with a “negative” 4QFY06 revenue of RM43.4m caused by reversal of management fees amounting to RM40m as a result of cancellation of contra-sales amounting to RM52m.

1QFY07 loss before tax and net loss registered a q-q decline of 98.8% and 98.0%, respectively, due to lower provisions made for liquidated damages and doubtful debts.

Despite the better than expected results, Ernst & Young, Talam’s external Auditor, has expressed doubt about Talam’s ability to continue to operate as a going concern in view of its worsening financial position. Talam has defaulted on payment of various financial obligations.

## 2. Recommendation

We doubt the smaller-than-expected losses in 1QFY07, both y-y and q-q, will bring much cheers to investors as they were driven mainly by absence of write-offs and impairment losses rather than a fundamental business turnaround.

Medium term outlook remains highly uncertain as Talam undertakes a group debt restructuring exercise (“GDRS”) to settle its debts. More cash infusion may be needed to complete its outstanding property projects.

We are leaving our earnings estimates unchanged for now pending disclosure of the GDRS-details and management guidance.

At RM0.11, we believe the market has fully discounted most of the bad news. We are maintaining our HOLD -rating on Talam with a revised target price of 0.15 (-44.4%) – a 70% discount to its NTA/share of RM0.51 as at 30 April 2006.

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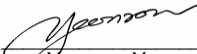
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