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Challenger Technologies Ltd

Foraying into the heartlands

Not Rated

S\$0.26

Stock Code:
 Reuters: CHAL.SI
 Bloomberg: CHLG SP
 Event: Company Visit

General Data

Issued Capital (m)	203
Mkt Cap (S\$m/US\$m)	53/36
Major Shareholders	Loo Leong Thye (41.9%)
Free Float (%)	22.9%
NTA per share (S\$)	0.10
Historical PER (x)	10.4
Net Dividend Yield (%)	7.7
Daily Vol 3-mth ('000)	412
52Wk High (S\$)	0.285
52Wk Low (S\$)	0.151

Market View

Consensus EPS (cents)	-
Forward PER (x)	-
Number of "BUY"	-
Number of "HOLD"	-
Number of "SELL"	-

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Heartland push bears fruit. We met up with Challenger for an update and the key takeaway from our meeting was that the outlook for its electronics/IT retail business is not only upbeat for 2H07 but is also expected to remain so for the next 2-3 years. One reason for the optimism is that its recent initiative to extend its reach into the HDB heartlands (suburbs) has started to bear fruits. In the past, Challenger derived its sales from its Megastore and Superstore, both located in well-known IT shopping malls like Funan Centre and Sim Lim Square, but it also meant that Challenger has to compete with other IT shops there. But by moving into the heartlands, Challenger is able to be closer to the consumers and also faces less competition.

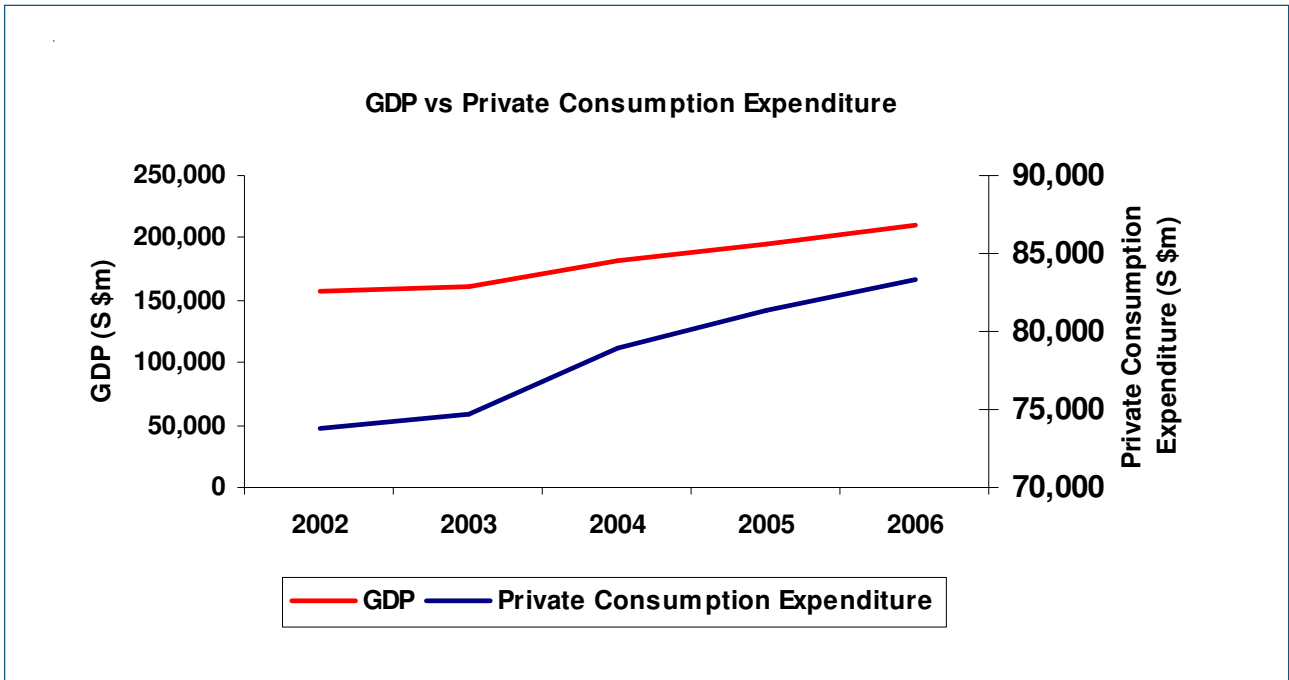
As of 30 June 2007, Challenger operates 1 Megastore, 7 Superstores and 8 Specialty stores, as compared to just 1 Megastore, 2 Superstores and 4 Specialty stores a year ago. And the expansion was largely responsible for the 56% YoY jump in 1H07 revenue to S\$65.3m. Net profit, on the other hand, surged nearly 71% to S\$3.8m aided by a forex gain of S\$0.5m versus a loss of S\$0.3m a year ago.

Personal IT spending to remain robust. And another reason for the upbeat outlook is the overall improvement in the economy - a key determinant in personal consumption and IT spending. In the past, personal consumption tends to lag GDP growth but that gap has been narrowing in recent years. In addition, PC penetration into Singapore households has hit 78%, suggesting that there is a strong replacement market out there. And with the Singapore economy expected to grow by 5% for the next few years, management believes that Challenger should be able to achieve 10-15% growth. Management also expects to continue to enjoy continued support from its 100k-member strong loyalty program which contributed as much as 2/3 of its 1H07 revenue.

Focused IT retailer. Challenger also intends to expand its offering with products like LCD TVs, mobile phones and other consumer electronic devices, and use its domain knowledge and branding to stand out in the highly competitive retail market. Compared to other listed retailers, Challenger has the higher net margin and does not appear to be expensive on a historical PER basis. We do not have a rating on the stock.

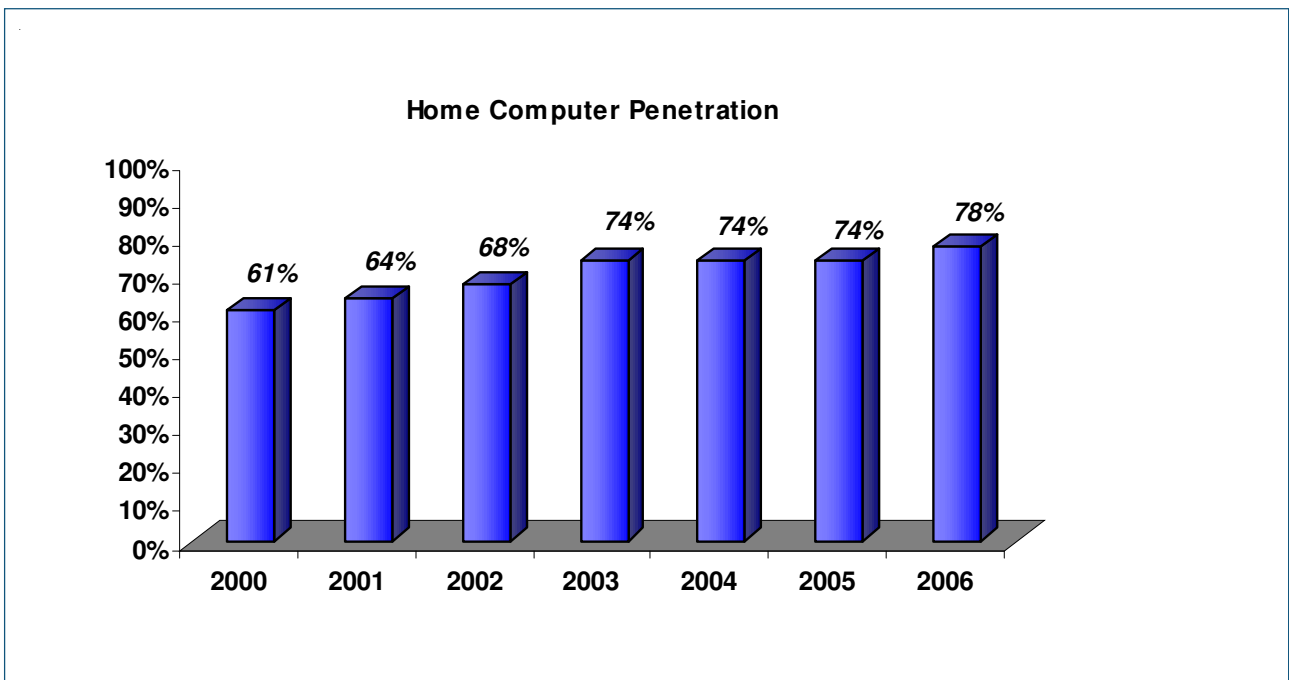
Company	Last Price (S\$)	Market Cap (S\$m)	PE Ratio (X)	Net Margin (%)	P / Book (X)
Challenger Technologies	0.26	52.2	10.4	4.9	3.4
Achieva Limited	0.22	90.7	23.1	0.7	1.4
Ban Leong Technologies	0.27	32.8	7.6	4.1	1.6
TT International Limited	0.23	183.7	10.0	1.7	0.8
ECS Holdings Limited	0.65	237.3	10.7	0.9	1.2
Pertama Holdings Limited	0.50	117.2	11.1	2.6	1.1
Average			12.5	2.0	1.2

Chart 1: GDP vs. Private Consumption Expenditure



Source: Singapore Department of Statistics

Chart 2: Home PC Penetration in Singapore



Source: Infocomm Development Authority (IDA)

Note: Households with at least 1 computer - desktop/laptop

Challenger Technologies Ltd



Source: Bloomberg

Key Technical Considerations

- Challenger continues to trade within an ascending trend channel despite the correction in August.
- Also the still rising 50, 100 and 200-day moving averages indicate the underlying sentiment in Challenger remains positive.
- However in the near-term, we anticipate some weakness, given that the stochastic indicator remains in a downwards trend and the negative divergence shown by the MACD.
- Resistance set at S\$0.285 and support set at S\$0.24. Should Challenger break through its support at S\$0.24, we could witness the price head towards the lower band of the ascending trend channel.

Challenger's Key Financial Data

Challenger Results Year Ended 31 Dec (S\$ m)	1H06 (S\$m)	1H07 (S\$m)	% Chg (YoY)
Revenue	42.0	65.3	55.7%
COGS	-33.4	-53.1	59.0%
Gross profit	8.6	12.3	42.9%
EBITDA	3.1	4.8	57.4%
Depreciation & amortisation	-0.2	-0.8	279.0%
Operating profit	2.9	4.1	41.6%
Net interest	0.0	0.8	nm
Associates	0.0	0.0	nm
Exceptionals	0.0	0.0	nm
Pre-tax profit	2.9	4.9	70.8%
Tax	-0.6	-1.1	69.9%
Minority interests	0.0	0.0	nm
Net profit	2.2	3.8	70.2%
Net Margin	5.4%	5.9%	9.3%

BALANCE SHEET

As at 31 Dec (S\$ m)	Dec-06	Jun-07
Cash	11.4	18.2
Other current assets	10.8	12.1
Fixed assets	3.1	4.4
Other long term assets	1.2	1.3
Total assets	26.5	36.1
Current liabilities less debt	12.0	15.1
Debt	0.0	0.0
Other long term liabilities	0.4	0.6
Total liabilities	12.5	15.7
Shareholders equity	14.0	20.4
Minority interests	0.0	0.0
Total equity and liabilities	26.5	36.1
NTA per share (cents)	7.0	10.0

CASH FLOW		
Year Ended 31 Dec (S\$ m)	1H06	1H07
Operating profit before working cap. changes	2.9	5.3
Working capital changes	-0.3	1.9
Interest and tax	-0.2	-0.8
Net cash from operations	2.4	6.4
Capex	-1.1	-2.1
Other investing flows	0.0	0.0
Investing cash flow	-1.0	-2.1
Change in equity	0.0	4.7
Net change in debt	0.0	0.0
Dividends paid	-2.5	-2.0
Others	0.0	-0.2
Financing cash flow	-2.5	2.5
Forex	0.0	0.0
Net cash flow	-1.1	6.9
Cash at beginning of year	10.6	11.4
Cash at end of year	9.6	18.2

Source: Company data, OIR estimates

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The analyst/analysts who wrote this report holds NIL shares in the above security.

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