

**RESULTS REPORT**

29 Jun 2012

Poh Kong Holdings Berhad		Market Price:	RM0.495
		Market Capitalisation:	RM203.1m
		Board:	Main Market
Recommendation:	BUY	Sector:	Consumer Products
Target Price:	RM0.58	Stock Code/Name:	5080 / POHKONG

Analyst: Edmund Tham

KEY FINANCIALS

Key Stock Statistics	2013F
Year end: Jul 31	
Earnings/Share (sen)	13.8
P/E Ratio (x)	3.6
Dividend/Share (sen)	1.4
NTA/Share (RM)	1.09
Book Value/Share (RM)	1.09
Issued Capital (mil shares)	410.4
52-weeks share price (RM)	0.38 – 0.62
Major Shareholder:	%
.Poh Kong S/B / Dato' Choon	63.1

*RM0.50 par value

Ratios Analysis^	2010	2011	2012E	2013F
Year end: Jul 31				
Book Value/Share (RM)	0.76	0.84	0.97	1.09
Earnings/Share (sen)	7.9	10.1	13.6	13.8
Dividend/Share (sen)	1.4	1.4	1.4	1.4
Div. Payout Ratio (%)	17.7	13.8	10.3	10.1
P/E Ratio (x)	6.2	4.9	3.7	3.6
P/Book Value (x)	0.65	0.59	0.51	0.45
Dividend Yield (%)	2.8	2.8	2.8	2.8
ROE (%)	10.5	12.0	14.0	12.7
Net Gearing (or Cash) (x)	0.42	0.41	0.37	0.32

^based on 410.4 million share base

P&L Analysis (RM mil)	2010	2011	2012E	2013F
Year end: Jul 31				
Revenue	561.2	692.5	835.9	868.9
Operating Profit	54.9	67.6	88.5	90.4
Depreciation	(8.5)	(8.6)	(8.9)	(9.2)
Interest Expenses	(10.1)	(10.1)	(11.1)	(12.1)
Pre-tax Profit	44.8	57.5	77.4	78.3
Effective Tax Rate (%)	27.4	27.6	28.1	27.5
Net Profit	32.5	41.6	55.6	56.8
Operating Margin (%)	9.8	9.8	10.6	10.4
Pre-tax Margin (%)	8.0	8.3	9.3	9.0
Net Margin (%)	5.8	6.0	6.7	6.5

*2012-2013 figures are our estimates

PERFORMANCE – 3Q/FY12

3Q/ 30 Apr	3Q12	3Q11	yoy %	2Q12	qoq%
Rev (RMm)	192.3	169.4	13.5	202.4	(5.0)
EBIT (RMm)	18.8	15.4	22.7	20.6	(8.5)
NPAT (RMm)	11.6	9.0	28.0	12.4	(6.8)
EPS (sen)	2.8	2.2	28.0	3.0	(6.8)

9M/ 30 Apr	9M/FY12	9M/FY11	yoy %
Rev (RMm)	625.4	509.4	22.8
EBIT (RMm)	67.4	48.5	38.8
NPAT (RMm)	41.7	29.5	41.7
EPS (sen)	10.2	7.2	41.7

*based on 410.4 million shares

Poh Kong's 3Q/FY12 results (quarter ended 30th April 2012) were generally within our earlier expectations.

“Q3 results within expectations”

The group's 3Q/FY12 revenue of RM192.3 million was higher by 13.5% y-o-y. The increase in revenue was attributed to the upsurge in prices of gold, contribution by new retail outlets and also higher sales from existing stores. The demand for gold-based jewellery, gold bars and wafers had increased y-o-y.

The group's 3Q/FY12 NPAT (net profit after tax) of RM11.6 million was higher by 9.0% y-o-y. The increase in NPAT was mainly due to the higher sale revenue and also an improvement in sales-mix of gem-set jewellery during the quarter.

During 3Q/FY12, Poh Kong's revenue and NPAT had decreased by 5.0% and 6.8% respectively, versus the preceding 2Q/FY12. However, we are not alarmed as 3Q is typically

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a seasonally weaker quarter for the group. This year, the February-April period lacked a very major festival.

OUTLOOK/CORP. UPDATES

Poh Kong's management plans to continue its drive to build market share by enhancing and differentiating its product offerings to its targeted market segments. The group actively evaluates various initiatives and opportunities to attract new customers through the introduction of new product lines/designs and enhanced customer service.

“Gold prices & Eurozone crisis to weigh on sentiment and demand”

Movements in gold price and the cautious sentiment arising from the **Eurozone crisis** will continue to affect the sentiment of buyers of gold and jewellery products. A steady economic growth would also lead to higher consumer optimism and hence assist to raise domestic consumption, including spending on retail gold or jewellery products.

Malaysia had reported a mild inflation (CPI) level of +2.1% (Jan-May 2012). Bank Negara Malaysia (BNM) has still maintained its accommodative overnight policy rate (OPR) at 3.0%. Meanwhile, Malaysia recorded a slower 1Q/2012 GDP growth of +4.7% (versus 5.2% in 4Q/2011), amidst weak export numbers arising from dismal economic growth in the developed regions (US, EU and Japan).

The **spot price for gold** traded on the NYMEX (New York Mercantile Exchange) is currently around the **US\$1590-1600/troy ounce** level. This is a significant decline from the peak highs of above the US\$1900/troy ounce level. Strong global gold prices could lead to an increase in group revenues. Gold wafers, gold bars and gold-based jewellery are seen as a viable inflation-hedge or long-term investment option.

Large jewellers like Poh Kong do have revenues coming from sales of gold bars, though its

management has not given any guidance on the quantum. The group's “Bunga Raya” gold bars, which are 999.9% pure gold, are available in 1g, 5g, 10g, 20g, 50g and 100g weight denominations. Gold wafers are typically sold in the denominations of 25g, 50g and 100g.

In terms of revenue, about 80% of Poh Kong's revenue is derived from gold, with the remainder 20% from gem stones (e.g. diamonds). From the gold-revenue segment, about 75% is derived from yellow-gold sales while 25% is from white-gold sales. The ‘Malay and Indian’ market clientele traditionally prefers yellow-gold based ornamental products.

“Corporate Updates”

Earlier on, Poh Kong had proposed an **Islamic Commercial Papers/Islamic Medium Term Notes (ICP/IMTN)** Programme (up to RM150 million in nominal value). The IMTN with tenure of 7 years, matures in November 2018. Under this programme, the group had issued RM100 million in nominal value of IMTN thus far. Poh Kong Jewellers S/B, wholly-owned by the group, has granted a corporate guarantee to Danajamin Nasional Bhd for the ICP/IMTN programme up to RM150 million in accordance with the Shariah principle of Commodity Murabahah.

Additionally, as at 30th April 2012, a total of RM121,185,999 corporate guarantee has been given in support of banking facilities granted to subsidiary companies; a total of RM8 million corporate guarantee has been given to a third party (for leasing and hire purchase facilities); a total of RM7,474,928 corporate guarantee has been given to a third party (for operating lease arrangements).

To recap – Poh Kong has embarked on a group-wide internal reorganisation exercise that would consolidate the group's existing businesses into **6 core activities**, namely Retail, Wholesale & Distribution, Manufacturing, Property Investment, Franchise, and Overseas Investment. Currently, Poh Kong does not have any retail or manufacturing operations overseas. The internal

Results Report

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reorganisation will result in the winding up of non-key/dormant subsidiaries, and the acquisition of all 99 retail businesses by Poh Kong Jewellers S/B, which will be the sole entity managing all the 99 retail outlets.

VALUATION/CONCLUSION

“Steady DPS but dwindling dividend payout ratio”

Poh Kong’s first and final dividend per share (DPS) of 1.4 sen single tier for its FY11 ended 31st July 2011 was duly paid out on 9th March 2012. Poh Kong’s future dividends would be largely determined by the performance and cash-flow needs of the group. We note that the group’s **dividend payout ratios have been dwindling** over the past few years due to its constant annual DPS in spite of its rising annual earnings.

Despite of weaker prices during April-May 2012, Poh Kong has recovered slightly (now +15.1% YTD) and has still outperformed the KLCI (+4.5% YTD) during 2012 thus far. Market conditions have also been volatile during the past year, impacted by the Arab Spring uprisings, Europe sovereign debt issue, US debt ceiling issue and the Tohoku natural disaster in Japan. As Poh Kong is not an especially large market-cap stock, this may put a dampener on its market visibility and trading volume.

“Maintain Buy Call, with a more ‘cautious’ Target Price”

Based on our forecast of Poh Kong’s FY13 EPS and an estimated P/E of 4.2 times, we set a FY13-end **Target Price (TP) of RM0.58**. This “cautious” TP still offers a 17.4% upside from its current market price. Our TP for Poh Kong reflects a P/BV of 0.53 times over its FY13F BV/share.

“Strong y-o-y FY12 growth unlikely to be repeated in FY13”

We do not think that Poh Kong’s strong y-o-y growth in revenue and NPAT achieved during

its FY12 can be repeated in FY13. This is mainly due to the current “off-peak” gold prices and also the cautious sentiment arising from the dismal global economic outlook. Nevertheless, we find that Poh Kong’s FY13F P/E and P/BV **valuations are still seriously undemanding**, while it has reasonable levels of net gearing ratio and ROE.

Meanwhile, the group also face routine business risks such as any future economic downturn, consumer pessimism, uneven monthly sales (due to festive seasons), fluctuating raw material prices and foreign exchange rates, and strong competition from its peers. Going forward, the group’s upside would be largely dependent on its management’s marketing and growth strategy, and also on the overall economic conditions.

Poh Kong: Share Price



Source: NextView

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