

**RESULTS-1Q/FY11**

(for the period Aug-Oct 2010)

15 Dec 2010

Poh Kong Holdings		Price:	RM0.49
		Market Capitalisation:	RM201.1m
		Board:	Main
Stock Code/Name:	5080 /POHKONG	FBM Index:	Emas Shariah Small Cap
Recommendation:	HOLD	Sector:	Consumer Products

Analyst: Edmund Tham

Key Stock Statistics	2011E
EPS (sen)	9.1
P/E (x)	5.4
Dividend/Share (sen)	1.9
NTA/Share (RM)	0.83
Book Value/Share (RM)	0.83
Issued Capital (mil shares)	410.4
52- weeks share price (RM)	0.35 – 0.51
Major Shareholder:	%
Poh Kong SB	58.3

1Q/ 31 Oct	1Q11	1Q10	yov %	4Q10	qoq%
Rev (RMm)	169.5	152.4	11.2	131.9	28.5
EBIT (RMm)	17.5	16.3	7.5	11.2	56.2
NPAT(RMm)	10.9	9.9	10.4	7.8	39.7
EPS (sen)	2.7	2.4	10.4	1.9	39.7

PERFORMANCE

Poh Kong's 1Q/FY11 revenue and net profit after tax (NPAT) both **came in above** our earlier expectations. This strong performance was aided by the Hari Raya Aidilfitri festivities during the quarter.

“Results came in above expectations”

Poh Kong's group revenue for 1Q/FY11 ended 31st October 2010 was higher at RM169.5 million as compared to the revenue in the corresponding quarter last year of RM152.4 million. This reflected a y-o-y increase of RM17.1 million, or 11.2%. The increase in revenue was mainly due to the group's existing retail stores registering higher sales volumes.

“Strong Q1 performance”

The group's profit before tax (PBT) in 1Q/FY11 at RM15.2 million was higher as compared to the profit before tax of RM13.7 million in the corresponding 1Q/FY10, which was an increase of RM1.5 million. The increase in profit before tax was mainly due to the higher sales registered during 1Q/FY11.

Comparing q-o-q versus the preceding 4Q/FY10, the group's 1Q/FY11 revenue of RM169.5 million was higher by 28.5%. Meanwhile, the group's 1Q/FY11 profit before tax (PBT) of RM15.2 million was higher q-o-q by an impressive 58.1% versus the PBT generated in 4Q/FY10.

Per Share Data	2008	2009	2010	2011E
Book Value (RM)	0.64	0.69	0.75	0.83
Earnings (sen)	7.0	7.0	7.7	9.1
Dividend (sen)	1.9	1.9	1.9	1.9
Payout Ratio (%)	20.0	20.1	18.2	15.6
PER (x)	7.0	7.0	6.4	5.4
P/Book Value (x)	0.77	0.71	0.65	0.59
Dividend Yield (%)	3.9	3.8	3.9	3.9
ROE (%)	11.0	10.1	10.2	11.0
Net Gearing [^] (cash) (x)	0.68	0.49	0.43	0.36

[^] including loan from director & holding co

P&L Analysis (RM mil)	2008	2009	2010	2011E
Year end: Jul 31				
Revenue	509.4	541.6	561.2	596.8
Operating Profit	50.1	49.2	54.7	62.3
Depreciation	(7.0)	(7.9)	(8.6)	(9.3)
Interest Expenses	(10.2)	(10.6)	(10.4)	(10.4)
Pre-tax Profit	40.0	38.6	44.3	51.9
Effective Tax Rate (%)	28.0	26.2	28.7	28.0
Net Profit	28.7	28.5	31.6	37.4
Operating Margin (%)	9.8	9.1	9.8	10.4
Pre-tax Margin (%)	7.8	7.1	7.9	8.7
Net Margin (%)	5.6	5.3	5.6	6.3

* RM0.50 par value

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CORP. UPDATES/OUTLOOK

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.

The Malaysian economy had expanded in 3Q/2010 with a reasonable **GDP growth** of 5.3% y-o-y. Inflation, as measured by the consumer price index (CPI), usually moves in tandem with GDP growth. The latest **CPI** of +2.0% for September 2010 shows that the economic recovery is well on-track, with manageable price pressures. Meanwhile, on 12th November 2010, the **overnight policy rate (OPR)** had been reaffirmed yet again by BNM at 2.75%. The nation's **unemployment rate** in 3Q/2010 had also dwindled down to 2.0%. 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.

“Economy and consumer sentiment to drive sales”

Retail Group Malaysia (RGM) which tabulates retail data, has revised upward its 2010 growth forecast for the local retail industry to 7.8% this year from 6.1% earlier. This is due to the better-than-expected performance by its retail members in the third quarter of the year. According to RGM, the domestic retail industry is expected to grow by 5% next year, amidst slower recovery in the world economy as well as the continuous rise in the cost of living.

Malaysia's retail industry had recorded a strong sales growth of 9.8% in the third quarter, easily beating RGM's earlier estimate of 6.8%. The members of the retailers' association have expected sales to rise by 12.7% for the last three months of the year, which would be significantly higher than RGM's earlier estimate of 3.5%. This would be mainly due to the year-end festivities and sales period.

“Gold prices reaching US\$1400/ounce”

Gold spot prices have held steadily above the US1300/troy ounce level during Q4/2010. The spot rate for gold traded on the NYMEX (New York Mercantile Exchange) is currently around US\$1395/troy ounce. If global gold prices keep going higher, this could lead to a short-term increase in Poh Kong's profit margins (if it raises product prices) but

this could in turn dampen consumer demand (affecting affordability).

We believe that 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. Gold bars, which are 999.9% pure gold, are commonly available in 1g, 5g, 10g, 20g, 50g and 100g weight denominations. More often than not, gold jewellery are bought largely for ornamental usage e.g. for wedding dowry, ceremonial/formal functions and as gifts to spouses or close family members.

Gold wafers, gold bars and gold-based jewellery are seen by some as a viable inflation-hedge or long-term investment option (e.g. as an alternative to term-deposits and government-issued bonds). Consumers nowadays have the option of investing in gold via commercial banks (via “gold investment accounts”) or even via MLM (multilevel-marketing) companies that may offer gold-based investment products (e.g. gold coins and gold bars). In some countries, gold-related investments could also be done via gold ETFs (exchange traded funds), gold certificates and gold-based derivatives.

Poh Kong constantly evaluates its operational efficiency/costs, capital expenditure, outlet-expansion plans, gearing, cash levels and gold inventory levels. Meanwhile, the group continues to place strong emphasis and commitment on design, craftsmanship, reputation, premium quality and competitive pricing. On the marketing side – the group's intensified efforts in advertising and promotions (A&P) (especially during festivals), merchandising and product launches, sponsorships and road shows during the year would help to maintain the group's market leading position.

VALUATION

Generally, we expect that Poh Kong's FY11 results would hold up in view of the current economic conditions and consumer buying trends.

“Room for better dividend payout”

Earlier on, Poh Kong had proposed a first and final tax exempt dividend of 1.4 sen (equivalent to 1.9 sen gross DPS) for its FY10 ended 31st July 2010, which is the same as its FY09 gross DPS. The proposed dividend will be subject to shareholders' approval at

Results Report

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the group's next AGM (on 6th January 2011) and is estimated to amount to RM5.7 million.

Poh Kong's gross dividend payout ratio has dropped to below the 20% level for its FY10. The group has also been successfully paring-down its net gearing levels. We view that Poh Kong has ample room to declare a better dividend payout in the future. Economic conditions and consumer sentiment have also improved from 1-2 years ago. Nevertheless, we acknowledge that the group may choose to conserve or accumulate cash for any future business expansion and also possibly M&As (mergers and acquisitions).

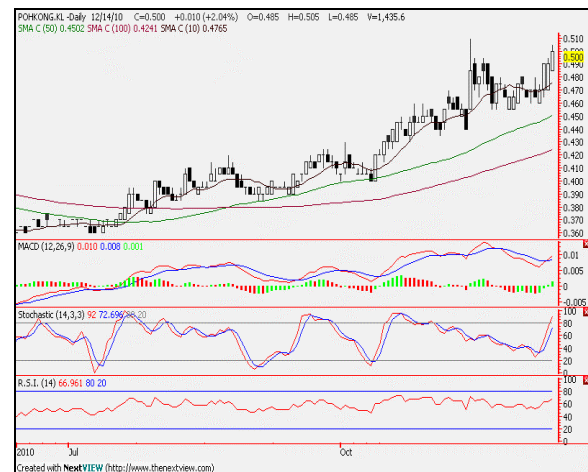
With share capital worth RM205.2 million consisting of 410.4 million shares of RM0.50 each, the group's market capitalization amounts to RM201.1 million. It has an adjusted beta (correlation factor) to the KLCI of 0.95 and the stock is up by 19.5% YTD, slightly outperforming the KLCI (KLCI: +18.4% YTD). Its 52-week trading range is between RM0.35–0.51.

“Very undemanding valuations”

Based on our forecast of Poh Kong's FY11 EPS and an estimated P/E of 6 times, we set a FY11-end target price (TP) of RM0.55, which is 11.5% (or merely 6 sen) above its current market price. This TP values Poh Kong at just 0.66 times its FY11 book value (BV) per share. As such, its valuations appear very undemanding compared to many of the domestic listed retailers' P/E and P/BV. We note that the average P/E and P/BV for domestic specialty retailers is at 13.6 times and 1.9 times, respectively.

Eventhough Poh Kong's 1Q/FY11 were above our earlier expectations, we **maintain our Hold Call** on Poh Kong, given that its single-digit revenue (top-line) growth and trading volume limits its stock price upside. During 2011, if Poh Kong possesses “catalysts” such as higher revenue growth rate, better profit margins and stronger share trading volumes, we may consider upgrading our view on Poh Kong to a Buy Call.

Poh Kong – 6 month price chart



Source: NextView

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