



Johan Holdings		Market Price:	RM0.385
		Market Cap:	RM239.4mil
		Board:	Main
Stock Code/Name:	3441 / JOHAN	Sector:	Finance
<i>Intriguing Stock with Solid Trading Volume</i>			

Analyst: Edmund Tham



Source: Diners Club website

4Q/FY10 RESULTS

For 4Q/FY10 ended 31st January 2010, the group had registered a lower revenue of RM129.4 million as compared to last year's corresponding quarter of RM130.2 million, marginally lower by 0.6%. Lower revenue was recorded for Johan's Diners card businesses, health food, engineering business, hotel and property development business segment. Nevertheless, higher revenue was recorded from its ceramic tiles business segment.

Despite of the lower revenue, the group recorded a higher profit before tax (PBT) of RM11.0 million against last year's corresponding quarter profit before tax of RM10.6 million, an increase of 4%. The group's operating companies in the ceramic tiles and Diners card business had performed satisfactorily. Group net profit after tax (NPAT) was RM9.8 million compared to last year's corresponding quarter profit of RM8.8 million, an increase of 12%.

“Satisfactory performance from Diners and ceramics”

The group's total revenue for 4Q/FY10 was RM129.4 million, up 2% when compared to preceding 3Q/FY10's RM127.4 million. Group net profit after tax for the quarter was RM9.8 million compared to preceding quarter's net profit after tax of RM4.4 million, up by 122%. The higher profit in 4Q/FY10 was mainly due to the group's lower operating costs.

BACKGROUND

Johan began its activities in 1920 as Johan Tin Dredging Ltd. It operated a mining lease off the Sungei Johan in the Kinta District of Perak. In 1979, the company was renamed Johan Holdings Bhd. Since 1979, Johan diversified away from its tin mining business and through acquisitions and organic growth, the group today has diversified operations and business dealings in Malaysia, Singapore, Brunei, Australia and New Zealand. Its subsidiary, Jacks International Limited is listed on the Singapore Exchange Securities Trading Limited.

Kuala Lumpur-based Johan group's current principal activities are manufacturing of ceramics tiles, distribution and retailing of health foods and supplements (Nature's Farm), Diners Club charge and credit cards, travel and tours, property development, resorts and hotels. Johan has been reclassified as a Finance Sector (from Trading/Services) stock on Bursa's Main Market in March 2010.



CORP. UPDATES/OUTLOOK

A recovering economic climate augurs well for Johan's core businesses of manufacturing of ceramics tiles, distribution and retailing of health foods and supplements (Nature's Farm), Diners Club charge and credit cards, travel and tours, property development, resorts and hotels. The group's revenues are mainly derived via its Malaysia and Singapore operations, with the rest mainly from Australia and New Zealand.

“Economic recovery augurs well”

The Malaysian economy registered a strong **GDP growth** of 10.1% in 1Q/2010, led by the continued expansion in domestic demand and stronger external demand. The expansion in domestic demand was supported by higher private consumption and sustained public sector spending. On the supply side, all economic sectors recorded positive growth during the quarter, led by strong growth in the manufacturing and services sectors

The headline inflation rate, as measured by the change in the **Consumer Price Index (CPI)**, increased to 1.3% y-o-y in 1Q/2010 (4Q/2009: -0.2%). The increase in consumer prices was attributed mainly to the price increase in food and non-alcoholic beverages (1Q/2010: 1.4%; 4Q/2009: 0.9%).

BNM raised the **Overnight Policy Rate (OPR)** by 25 basis points to 2.25% on 4th March 2010. The adjustment reflected the improvement in the economic outlook as well as the need to prevent the build-up of financial imbalances in the economy. The overall stance of monetary policy, however, remains supportive of growth.

The uptrend in GDP growth, OPR and CPI all points to a solid phase of economic recovery. Economic recovery would also lead to better consumer optimism and hence assist to raise domestic consumption, including spending on retail products, health foods, travels and property.

Meanwhile, Singapore's economy expanded at a faster pace than initially estimated in 1Q/2010 as the rising global demand boosted manufacturing and the opening of the island's first casino spurred tourism.

Singapore's GDP grew by an annualized 38.6% q-o-q from the previous three months in the first quarter, compared with an April estimate of 32.1%. That was more than the market consensus estimates. Singapore has raised its growth forecast twice this year and the central bank said last month it will allow the currency to strengthen. The higher projection came before an escalation of Europe's debt crisis, which forced the European Union (EU) and the International Monetary Fund (IMF) to offer financial assistance worth as much as 750 billion euros to the affected countries.

“Diners card segment records strong card-base growth”

Johan's cards and hospitality segment contributed more than 70% of its revenue in FY10. The group holds the Diners Club card franchise for Malaysia, Singapore, Brunei and New Zealand (including the Fiji Islands, Samoa and Tonga). Globally, card members have access to over 14 million merchants in a wide range of businesses, such as airlines, hotels, car rental, dining and top-end retail outlets.

In FY09, Diners Club (Malaysia) SB (DCM) had recorded a net growth of 29% in its total card base, 20% higher than the industry growth of 9% due to its aggressive card acquisition effort. The growth is mainly contributed by various existing co-brand programmes with Metrojaya, Secret Recipe, Sushi King and Blooming Florist. With the enlarged card base, it recorded a revenue growth of 8% despite of the economic conditions.

Meanwhile, Diners Club Singapore Pte Ltd (DCS) had achieved significant growth in its cardmember acquisition of 89.2 thousand new cards. This growth represents 59.4% increase in cardbase which closed at 239.3 thousand cards for the financial year. This growth was achieved through various new initiatives which include the new co-brand card partnerships with key retailers such as Courts Superstore, Jacks Place Group of Restaurants and Delifrance Restaurants. DCS also re-launched existing co-brand card programs (ie. Challenger and Secret Recipe) and reinitiated the acquisition initiative at AXS bill payment stations. With the increased card base, the business turnover had grown by 15.8%.

**“Noteworthy political and business links?”**

The group Chairman and CEO, **Tan Sri Dato’ Tan Kay Hock** holds 44.9% of Johan Holdings Bhd. His wife, the group MD, Puan Sri Datin Tan Swee Bee has a direct interest of 10.3% and deemed interest of 34.5%. The couple are both also directors of George Kent (Malaysia) Bhd and Jacks International Ltd (in Singapore).

Tan Sri Tan is also a Member of the Iskandar Regional Development Authority (IRDA) and a Committee Member of the Malaysian Phillipines Business Council. Tan Sri Tan has even been reputed in the news media to be a personal friend and golf buddy of the current Malaysian Prime Minister **Datuk Seri Najib Tun Razak**.

A renowned politician **Tan Sri Dato’ Seri Dr. Ting Chew Peh** and Dato’ Ahmad Khairummuzammil bin Mohd Yusoff are both directors in Johan Holdings and also entities under the MUI Group. The founder of the MUI Group is **Tan Sri Dato’ Khoo Kay Peng**, who had recently increased its deemed stake slightly to 8.4% in Johan Holdings. Looking at George Kent, Tan Sri Tan is the company’s Chairman and holds a 41.5% controlling stake. Meanwhile, Tan Sri Dato’ Khoo Kay Peng controls a 8.7% stake in George Kent. The percentage stakes were obtained from sources such as the annual reports and Bursa website and thus may not be the latest figures.

FINANCIALS

Johan Holdings Bhd’s subsidiary Diners Club (M) SB has completed its **RM150 million medium term notes (MTN) programme** from the securitisation of charge and credit cards receivables.

The asset-backed securities (ABS) issued out of the programme are envisaged to support and compliment Diners’ business objectives. Diners is an established charge card issuer since 1960 and plans to expand into credit card business in the course of this financial year.

The programme is established by Domayne Asset 2 Corporation Bhd with a tenure of up to 7.25 years. Domayne is a special-purpose

vehicle (SPV) incorporated to undertake the issuance of notes. The issuance proceeds will be used to partially fund the purchase of eligible charge and credit card receivables from Diners, pay initial transaction expenses and fund the programme’s reserve account. RAM Ratings Services Bhd has assigned a rating of A2, A3 and BBB2 to Domayne’s RM110 million Class A Notes, RM2.5 million Class B Notes and RM3.5 million Class C Notes (collectively known as the Senior Notes).

The Senior Notes are supported by Domayne’s RM34 million subordinated notes which account for 22.7% of the programme size. It acts as a buffer for the Senior Notes against losses arising from the securitised pool of charge and credit card receivables. The transaction also incorporates a reserve account that will act as a liquidity support, to capture and maintain proceeds equivalent to 1% of the Senior Notes’ face value at all times.

The group did not propose or pay out any dividends for its FY09 and FY10. With the share capital worth RM311.5 million consisting of 622.9 million shares of RM0.50 each, its market capitalization amounts to a reasonable size of RM239.4 million.

It has an adjusted beta (correlation factor) to the KLCI of 1.63 and the stock is now up by a substantial 32.8% YTD, strongly outperforming the KLCI (KLCI: 2.4% YTD). Its 52-week trading range is between RM0.26–0.50. The stock price had surged last month before dropping back, due to recent weak stock market conditions.

“Strong price surge YTD, but valuation still reasonable”

Based on its current market price of RM0.385, FY10 basic EPS of 4.14 sen and latest available BV/share of RM0.345, we derive a P/E of 9.3 times and P/BV of 1.1 times. Its valuation is not far of from the sector P/E and P/BV of 8.0 times and 1.4 times, respectively. Other domestic consumer finance (non-bank) peers are companies such RCE Capital and Aeon Credit.



“Upside dependent on Diners growth or any new projects”

The Diners card and hospitality segment is the main contributor to Johan’s revenues. The recovering economic climate would be conducive for most, if not all of the group’s business segments. We expect organic growth from the Diners business segment to drive growth, going forward. Nevertheless, with the group having extensive political and business links to prominent local personalities, it would not be surprising if in the future, the group manages to obtain any substantial new contract or project locally.

JOHAN [3441]

RM0.385



Source: NextView

APPENDIX

FY10 revenue composition (FYE ended 31st January, 2010):

Segment	Revenue (RMm)	Contribution (%)
Cards & hospitality	370.7	73.7
Engineering & building materials	77.0	15.3
General trading	61.8	12.3
Property	7.3	1.5
Investment holding & secretarial services	0.2	0.0004
(Elimination)	(13.9)	(2.8)
Total	503.3	100.0

Source: Johan

JOHAN - PRINCIPAL OPERATING COMPANIES

CHARGE/CREDIT CARDS SERVICES & HOSPITALITY

Diners Club (Malaysia) Sdn Bhd
Diners Club (Singapore) Pte Ltd
Diners Club (New Zealand) Ltd
Diners World Travel (Malaysia) Sdn Bhd
Diners World Travel (Singapore) Pte Ltd
The Orient Star Resort, Lumut (owned by Lumut Park Resort Sdn Bhd)
Lumut International Yacht Club (owned by Lumut Marine Resort Bhd)

ENGINEERING AND BUILDING MATERIALS

Skinner Engineering Pty Ltd (in Australia)
Prestige Ceramics Sdn Bhd (in Puchong)
George Kent (Singapore) Pte Ltd

PROPERTY

Lumut Park Resort Sdn Bhd

TRADING/OTHERS

Nature's Farm Pte Ltd (in Singapore)
Nature's Farm (Health Foods) Sdn Bhd (in Petaling Jaya)
Jacks International Ltd (in Singapore)

Source: Johan