



<b>Poh Kong Holdings</b>		<b>Market Price:</b>	<b>RM0.375</b>
		<b>Market Cap:</b>	<b>RM153.9mil</b>
		<b>Board:</b>	<b>Main</b>
<b>Stock Code/Name:</b>	<b>5080 / POHKONG</b>	<b>Sector:</b>	<b>Consumer Products</b>
<b>Steady Results - Business As Usual</b>			

Analyst: Edmund Tham



Source: Poh Kong website

2Q/ 31 Jan	2Q10	2Q09	yoy %	1Q10	qoq%
Rev (RMm)	144.2	134.2	7.4	152.4	(5.4)
EBIT (RMm)	13.7	8.9	54.0	16.3	(16.3)
NPAT(RMm)	7.5	4.5	64.8	9.9	(24.0)
EPS (sen)	1.8	1.1	64.8	2.4	(24.0)

6M/ 31 Jan	1H10	1H09	yoy %
Rev (RMm)	296.6	296.2	0.1
EBIT (RMm)	30.0	24.8	21.1
NPAT (RMm)	17.4	14.9	16.4
EPS (sen)	4.23	3.63	16.4

## 2Q/FY10 RESULTS

Poh Kong's annualized 1H/FY10 revenue and net profit after tax (NPAT) both came in within our expectations for FY10. The group's 1H results are usually better than its 2H results, given the seasonal factor of the timing of festivals. Poh Kong's 2Q results for the 3-month period of November 2009 till January 2010 incorporated part of strong sales volumes during Christmas and part of the early sales for both Chinese New Year and Valentines' Day.

### "Festive cheer leads to higher y-o-y revenue"

Poh Kong's revenue for 2Q/FY10 ended 31<sup>st</sup> January 2010 was higher at RM144.2 million as compared to the revenue in the corresponding quarter last year of RM134.2 million. This was an increase of almost RM10.0 million. The increase in group revenue was mainly due to its existing retail stores registering higher sales volume during the festive season.

The group's 2Q/FY10 profit before tax (PBT) at RM11.3 million was higher as compared to the profit before tax of RM6.2 million recorded during the corresponding quarter last year. This reflected a strong increase of RM5.2 million or 87.3% y-o-y. The increase in group profit before tax was mainly due to the higher sales volume registered during 2Q/FY10.

However, the group's 2Q/FY10 performance was not as strong as in the preceding 1Q/FY10 ended 31<sup>st</sup> October, which had included the Hari Raya Aidilfitri and Deepavali sales period. Comparing versus the preceding 1Q/FY10, the group's 2Q/FY10 revenue and net profit after tax were lower by 5.4% and 24.0% q-o-q, respectively.

Compared to the corresponding 1H/FY09 last year, the group's 1H/FY10 ended 31<sup>st</sup> January 2010 recorded a flattish revenue growth of just 0.1%. Nevertheless, Poh Kong managed to improve its 2H/FY10 net profit after tax by a remarkable 16.4%, as compared to the corresponding period in its FY09.



## **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 company is actively evaluating various initiatives and opportunities to attract new customers through the introduction of new product designs and enhanced customer service. Poh Kong is also constantly evaluating its operational efficiency, capital expenditure, outlet-expansion plans, operating costs, gearing and gold inventory levels.

The Malaysian economy had grown in 4Q/2009 with a **GDP growth** of 4.5% y-o-y. For 1Q/2010, the market is expecting an even more robust GDP growth of 9.3%. Inflation, as measured by the **consumer price index** (CPI), usually moves in tandem with GDP growth. The latest CPI of 1.3% for March 2010 shows that the economic recovery is well on track.

### **“Economic recovery augurs well for consumer demand”**

Currently the **overnight policy rate** (OPR) has been maintained at 2.0% for quite a number of months. Nevertheless, BNM has indicated that it plans to raise the OPR sooner or later, in order to rein-in inflationary pressures. As such, the market is expecting that BNM would raise the OPR to 2.5% at its next meeting on 13<sup>th</sup> May, which is next week.

This trend in GDP growth, OPR and CPI all points to a 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. Meanwhile, Poh Kong's sales growth would be driven by promotional activities during festive seasons or road shows.

According to Retail Group Malaysia (RGM) which tabulates retail data, spending in the retail industry in Malaysia was expected to grow 1%-3% by the end of 2009 in view of the sluggish economic conditions. However, RGM is more optimistic for 2010 and projected annual retail sales growth at about 5% in 2010.

Buying and holding gold wafers, gold bars and gold-based jewellery could be seen by some as a viable inflation-hedge or long-term investment option (e.g. as an alternative to term-deposits and government-guaranteed bonds). Nevertheless, consumers nowadays also 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 such as gold coins and gold bars. 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 prices holding up well”**

If global gold prices go higher, this could lead to a short-term increase in Poh Kong's profit margins but this could dampen consumer demand as well (in terms of affordability). The spot rate for gold traded on the NYMEX (New York Mercantile Exchange) is currently around US\$1199 per troy ounce. Gold spot prices have been holding up well above the US\$1000 level since October 2009. In some countries, gold-related investments could also be done via gold ETFs (exchange traded funds), gold certificates and gold-based derivatives.

Gold jewellery remains Poh Kong's main revenue contributor although the group has stepped up the sales of diamonds and gems in its advertising and promotion campaigns. The branding strategy of these stores has been adopted so that the company becomes less dependent on its traditional yellow gold jewellery. The group has a total of 95 retail outlets nationwide and it will identify strategic locations for outlets across the country which has the best potential for higher revenue growth and consumer demand.

The group continues to place strong emphasis and commitment on design, craftsmanship, reputation, premium quality and competitive pricing. On the marketing side - the intensified efforts in advertising, merchandising and various product launches, sponsorships, road shows and promotions during the year would help to maintain the group's leading position.



## VALUATION

Generally, we expect that Poh Kong's FY10 and FY11 results would hold up in view of the recovering economic conditions although actual sales growth may be sluggish.

Poh Kong had declared a first and final dividend of 1.4 sen single tier exempt dividend per share (DPS) (equivalent to 1.9 sen gross DPS) for its FY09 ended 31<sup>st</sup> July 2009. This dividend was paid in March 2010 to its shareholders registered as at 9<sup>th</sup> February 2010. The net dividend paid amounted to RM5.7 million. Given a positive business environment and the gradual paring-down of its gearing position, we expect Poh Kong would be able to maintain its current gross dividend per share (DPS) of 1.9 sen in its FY11.

With the share capital worth RM205.2 million consisting of 410.4 million shares of RM0.50 each, its market capitalization amounts to RM153.9 million. It has an adjusted beta (correlation factor) to the KLCI of 1.01 and the stock is down by 8.5% YTD, underperforming the KLCI (KLCI: +4.0% YTD). Its 52-week trading range is between RM0.365–0.47.

### “Undemanding valuations but sluggish top-line growth limits upside”

Based on our forecast of Poh Kong's FY11 EPS and P/E of 4.5 times, we set a FY11-end target price (TP) of RM0.41, approximate to its current market price. This TP values Poh Kong at just 0.5 times its FY11 book value (BV) per share. As such, its valuations appear very undemanding compared to most domestic retailers' P/E and P/BV. Nevertheless, we **maintain our Hold Call** on Poh Kong, given that the sluggish revenue (top-line) growth limits its stock price upside.

## POHKONG [5080]

RM0.375



Source: NextView

## KEY FINANCIALS

Key Stock Statistics	2011F
EPS (sen)	8.5
P/E (x)	4.4
Dividend/Share (sen)	1.9
NTA/Share (RM)	0.82
Book Value/Share (RM)	0.83
Issued Capital (mil shares)	410.4
52- weeks share price (RM)	0.365 – 0.47
Major Shareholder:	%
Poh Kong SB	58.3

Per Share Data	2008	2009	2010E	2011F
Book Value (RM)	0.64	0.69	0.76	0.83
Earnings (sen)	7.0	7.0	7.9	8.5
Dividend (sen)	1.9	1.9	1.9	1.9
Payout Ratio (%)	20.0	20.1	17.8	16.4
PER (x)	5.4	5.4	4.8	4.4
P/Book Value (x)	0.59	0.54	0.50	0.45
Dividend Yield (%)	5.0	5.0	5.0	5.0
ROE (%)	11.0	10.1	10.4	10.3
Net Gearing <sup>^</sup> (cash) (x)	0.68	0.49	0.38	0.32

<sup>^</sup> including loan from director & holding co

P&L Analysis (RM mil)	2008	2009	2010E	2011F
<b>Year end: Jul 31</b>				
Revenue	509.4	541.6	549.6	567.4
Operating Profit	50.1	49.2	55.2	59.0
Depreciation	(7.0)	(7.9)	(8.4)	(8.8)
Interest Expenses	(10.2)	(10.6)	(10.9)	(11.3)
Pre-tax Profit	40.0	38.6	44.2	47.7
Effective Tax Rate (%)	28.0	26.2	27.1	26.6
Net Profit	28.7	28.5	32.2	35.0
Operating Margin (%)	9.8	9.1	10.0	10.4
Pre-tax Margin (%)	7.8	7.1	8.0	8.4
Net Margin (%)	5.6	5.3	5.9	6.2

\* RM0.50 par value