

**RESULTS REPORT**

15 Jun 2011

Poh Kong Holdings Berhad		Market Price:	RM0.44
		Market Capitalisation:	RM180.6m
		Board:	Main Market
Recommendation:	HOLD	Sector:	Consumer Products
Target Price:	RM0.51	Stock Code/Name:	5080 / POHKONG

Analyst: Edmund Tham

KEY FINANCIALS

Key Stock Statistics	2011E
Year end: Jul 31	
Earnings/Share (sen)	9.2
P/E Ratio (x)	4.8
Dividend/Share (sen)	1.8
NTA/Share (RM)	0.83
Book Value/Share (RM)	0.83
Issued Capital (mil shares)	410.4
52-weeks share price (RM)	0.36 – 0.515
Major Shareholder:	%
.Poh Kong S/B / Dato' Choong	63.1

*RM0.50 par value

Ratios Analysis^	2008	2009	2010	2011E
Year end: Jul 31				
Book Value/Share (RM)	0.64	0.69	0.75	0.83
Earnings/Share (sen)	7.0	7.0	7.7	9.2
Dividend/Share (sen)	1.4	1.4	1.4	1.8
Div. Payout Ratio (%)	20.0	20.1	18.2	19.5
P/E Ratio (x)	6.3	6.3	5.7	4.8
P/Book Value (x)	0.69	0.64	0.58	0.53
Dividend Yield (%)	3.2	3.2	3.2	4.1
ROE (%)	11.0	10.1	10.2	11.1
Net Gearing (or Cash) (x)	0.68	0.49	0.43	0.39

*2011E figures are our estimates

^based on 410.4 million share base

P&L Analysis (RM mil)	2008	2009	2010	2011E
Year end: Jul 31				
Revenue	509.4	541.6	561.2	654.5
Operating Profit	50.1	49.2	54.7	63.2
Depreciation	(7.0)	(7.9)	(8.6)	(9.8)
Interest Expenses	(10.2)	(10.6)	(10.4)	(10.2)
Pre-tax Profit	40.0	38.6	44.3	53.0
Effective Tax Rate (%)	28.0	26.2	28.7	28.6
Net Profit	28.7	28.5	31.6	37.9
Operating Margin (%)	9.8	9.1	9.8	9.7
Pre-tax Margin (%)	7.8	7.1	7.9	8.1
Net Margin (%)	5.6	5.3	5.6	5.8

*2011E figures are our estimates

PERFORMANCE – 9M/FY11

3Q/ 30 Apr	3Q11	3Q10	yoy %	2Q11	qoq%
Rev (RMm)	169.4	132.7	27.7	170.5	(0.6)
EBIT (RMm)	15.4	11.7	30.9	15.6	(1.8)
NPAT (RMm)	9.0	6.5	39.9	9.5	(5.0)
EPS (sen)	2.2	1.6	39.9	2.3	(5.0)

*based on 410.4 million shares

9M/ 30 Apr	9M/FY11	9M/FY10	yoy %
Rev (RMm)	509.4	429.3	18.6
EBIT (RMm)	48.5	41.7	16.4
NPAT (RMm)	29.5	23.8	23.6
EPS (sen)	7.2	5.8	23.6

*based on 410.4 million shares

Poh Kong's 3Q/FY11 results (quarter ended 30th April 2011) were largely in-line with our earlier expectations.

“Q3 results in-line”

Poh Kong's 3Q/FY11 revenue of RM169.4 million was 27.7% higher y-o-y than the revenue in 3Q/FY10. The increase in revenue was mainly attributed to the effect of the group's 35th Anniversary promotional activities, the increase in gold price and also higher sales at the group's existing stores. The group's 3Q/FY11 net profit after tax (NPAT) of RM9.0 million was 39.9% higher y-o-y than the NPAT in 3Q/FY10. The increase in net profit after tax was mainly due to the higher sales registered during the quarter.

Comparing the nine-month period ending 30th April 2011 (9M/FY11) versus 9M/FY10, the group's revenue and NPAT were higher by 18.6% and 23.6%, respectively.

All information, views and advice are given in good faith but without legal responsibility. Mercury Securities Sdn. Bhd. or companies or individuals connected with it may have used research material before publication and may have positions in or may be materially interested in any stocks in the markets mentioned.

This report has been prepared by Mercury Securities Sdn Bhd for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Mercury Securities Sdn Bhd has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at: http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/



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.

“Steady economic growth”

Malaysia had reported a respectable 1Q/2011 GDP growth of +4.6%, stable 4Q/2010 unemployment rate of 3.2% and CPI of 3.2% (April 2011). BNM had raised its overnight policy rate (OPR) of 2.75% to 3.0% and the statutory reserve requirement (SRR) of 2% to 3% to rein-in inflationary pressures. 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.

According to **Retail Group Malaysia (RGM)** which tabulates retail data, Malaysia's retail industry recorded sales growth of 8.5% in the fourth quarter of 2010, higher than the earlier estimate of 6% by RGM. The rising prices of retail goods and year-end holidays contributed to the strong growth during the last three months of 2010, according to data in RGM's Malaysia Retail Industry Report. For full-year 2010, the domestic retail industry had increased by 8.4% compared to 2009.

“Gold prices steadily above US\$1500/ounce”

The spot rate for gold traded on the NYMEX (New York Mercantile Exchange) is now steadily above the US\$1500/troy ounce level. According to the World Gold Council, robust market fundamentals, including evidence of stronger demand for gold jewellery in China and India, have continued to support the gold prices performance. Gold plays a role in hedging and has been regarded as a safe, long term investment that provides protection against unforeseen risks in the economic cycle.

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. Gold wafers are sold in the denominations of 25g, 50g and 100g. 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.

Besides gold wafers, gold bars and gold-based jewellery, there are also other gold-investment options. 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.

At the moment, Poh Kong has no plans to expand its outlets to overseas locations. 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.

Poh Kong practices the 4 core business principles of quality, value, trustworthiness and choice, to target its market segments. This incorporates values such as design, craftsmanship, reputation, and competitive pricing. The group constantly evaluates its operational efficiency/costs, capital expenditure, outlet-expansion plans, gearing, cash flow needs and gold inventory levels.

The group constantly selects stores to refurbish and also find strategic locations for outlets across the country which has the best potential for higher revenue growth and consumer demand. 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.

In May 2011, Poh Kong announced a proposal to undertake an **Islamic Commercial Papers/Islamic Medium Term Notes (ICP/IMTN)** Programme (up to RM150 million in nominal value), to be guaranteed by Danajamin Nasional Berhad. Pursuant to this announcement, Danajamin Nasional Berhad will provide a guarantee facility to Poh Kong's payment obligations under the proposed ICP/IMTN Programme.

VALUATION/CONCLUSION

Poh Kong had obtained shareholders' approval at its 8th AGM in January 2011 to declare a first and final dividend of 1.4 sen single tier dividend per share for its financial year ended 31st July 2010 (FY10). The net dividend amount of RM5.7 million was paid in March 2011 to the entitled shareholders.

“Consistent dividends”

Poh Kong's future dividends would be largely determined by the performance and cashflow needs of the group. The group's dividend payout ratios have been quite consistent near the 20% level. As such, we expect that Poh Kong would be able to maintain a reasonable dividend payout ratio of around 20% of its annual net earnings for its FY11.

Even with a close adjusted beta (correlation factor) of 0.85 to the KLCI, Poh Kong (-10.2% YTD) has underperformed the KLCI (+2.3% YTD) this year. Market conditions have also been volatile in recent months, impacted by the political uprisings in the Middle East/North Africa, sovereign debt issue in Europe and the Tohoku tsunami/earthquake disaster in Japan. As Poh Kong is not a particularly large market-cap stock, this may put a dampener on its market visibility and trading volume.

“Hold Call, with Upward Bias”

Based on our forecast of Poh Kong's FY11 EPS and an estimated P/E of 5.5 times (within its historical range), we set a FY11-end **Target Price (TP) of RM0.51**. This TP offers a 15.3% upside from its current market price, and represents a Hold Call, albeit with an upward bias. Our TP for Poh Kong reflects a P/BV of 0.61 times over its FY11F BV/share. Meanwhile, the local “Clothes & Accessories” sector's average P/E and P/BV is 7.6 times and 0.88 times, respectively.

“Undemanding Valuations”

We find that Poh Kong's FY11F P/E and P/BV valuations are undemanding, while it has reasonable net gearing ratio, dividend yield and ROE. We are pleased with Poh Kong's positive performance in its 9M/FY11. If the group can maintain the strong performance in its upcoming quarters, we may consider upgrading our Target Price and Hold Call on the group.

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

All information, views and advice are given in good faith but without legal responsibility. Mercury Securities Sdn. Bhd. or companies or individuals connected with it may have used research material before publication and may have positions in or may be materially interested in any stocks in the markets mentioned.

This report has been prepared by Mercury Securities Sdn Bhd for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Mercury Securities Sdn Bhd has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at: http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/