

## 4Q FYE JUL 2016 RESULTS REPORT

29 September 2016

<b>Name of PLC:</b> Poh Kong Holdings Berhad (PKHB)	<b>Target Price:</b>	RM 0.78
<b>Business Summary :</b> Retailing and manufacturing of gold jewellery, gems, diamonds, precious stones and gold investment products in Malaysia		
<b>Major Shareholders :</b>	Dato' Choon Yee Seiong and family	63.98%
	Yeoman Capital Management Pte Ltd	7.24%
<b>PLC Website :</b> <a href="http://www.pohkong.com.my">www.pohkong.com.my</a>	<b>Recommendation:</b>	BUY
	<b>Market Capitalisation:</b>	RM 197.0m
	<b>Current Price :</b>	RM 0.48
	<b>Market / Sector:</b>	Consumer
	<b>Stock Code:</b>	5080
<b>Analyst :</b> Lim Boon Ngee Tel : +603 2163 3200; Email : <a href="mailto:bnlim@bcta.com.my">bnlim@bcta.com.my</a>		

Key Stock Statistics	2014	2015	2016	2017F
EPS (sen)	3.2	3.5	2.7	3.5
P/E (x)	14.8	13.6	17.9	13.7
Dividend/Share (sen)	1.0	1.0	1.0	1.0
NTA/Share (RM)	1.09	1.12	1.13	1.16
Book Value/Share (RM)	1.09	1.12	1.14	1.16
Issued Capital (mil shares)	410.4	410.4	410.4	410.4
52-weeks Share Price Range (RM)			0.44 - 0.58	

Per Share Data	2014	2015	2016	2017F
Year-end 31 Jul				
Book Value (RM)	1.09	1.12	1.14	1.16
Operating Cash Flow (sen)	(2.1)	21.6	4.5	5.1
EPS (sen)	3.2	3.5	2.7	3.5
Dividend/Share (sen)	1.0	1.0	1.0	1.0
Payout Ratio (%)	30.8	28.3	37.2	28.6
P/E (x)	14.8	13.6	17.9	13.7
P/Cash Flow (x)	(23.2)	2.2	10.6	9.4
P/Book Value (x)	0.4	0.4	0.4	0.4
Dividend Yield (%)	2.1	2.1	2.1	2.1
ROE (%)	3.0	3.2	2.4	3.0
Net Gearing (%)	57.5	41.7	42.7	39.0

P&L Analysis (RM mil)	2014	2015	2016	2017F
Revenue	798.94	805.71	776.53	770.29
EBITDA	45.81	48.02	40.84	38.12
Depreciation	(10.38)	(9.84)	(9.12)	(8.90)
Net interest income	(13.56)	(12.05)	(14.22)	(10.33)
Pre-tax Profit	21.87	26.13	17.51	18.89
Tax	(8.56)	(11.65)	(6.48)	(4.53)
Net Profit	13.31	14.48	11.03	14.35
EBITDA Margin (%)	5.7	6.0	5.3	4.9
Pre-tax Margin (%)	2.7	3.2	2.3	2.5
Net-Margin (%)	1.7	1.8	1.4	1.9

### Share Price Chart



### 1. 4QFY16 Results Highlight

	4Q FY16	4Q FY15	Chg
	RMm	RMm	%
Revenue	198.35	184.96	7.2
Operating Profit	9.40	1.99	372.4
Finance cost	(3.87)	(4.00)	(3.1)
Pre-tax Profit	5.53	(2.01)	n.m.
Net Profit	2.84	(5.05)	n.m.
Operating Margin (%)	4.7	1.1	
Pre-tax Margin (%)	2.8	(1.1)	
Net-Margin (%)	1.4	(2.7)	

- In 4QFY16, turnover grew by 7.2% to RM198.35m due to improving market sentiment and gradual recovery in consumer demand after the market has slowly absorbed the impact of GST implemented since Apr-15.

- As the company benefited from operating leverage, the increase in topline turnover resulted in a PBT of RM5.53m in 4QFY16 as compared with pretax loss of RM2.01m in 4QFY15. This is attributed to the nature of retailing business whereby certain expenses such as rental and staff are mostly constant.
- Consequently, it also posted a net profit of RM2.84m (4QFY16) as compared with net loss of RM5.05m (4QFY15).

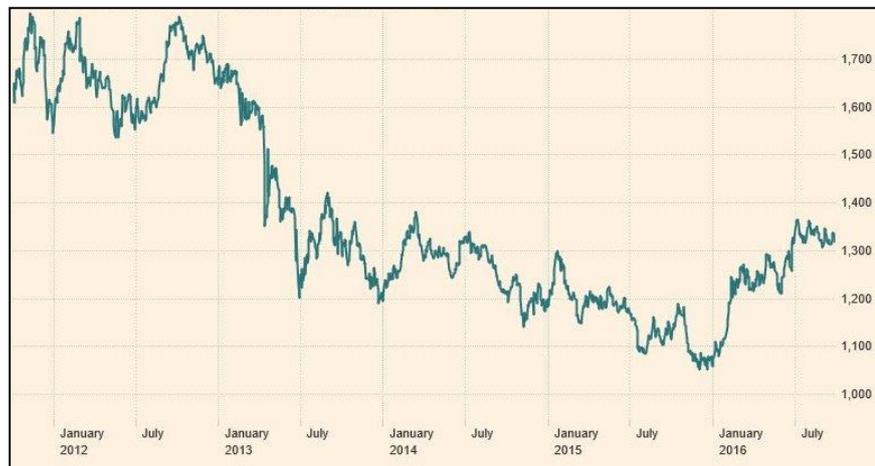
### **FY16 Results Highlight**

	<b>FY16</b>	<b>FY15</b>	<b>Chg</b>
	<b>RMm</b>	<b>RMm</b>	<b>%</b>
Revenue	776.53	805.71	(3.6)
Operating Profit	32.08	38.47	(16.6)
Finance cost	(14.57)	(12.33)	18.1
Pre-tax Profit	17.51	26.13	(33.0)
Net Profit	11.03	14.48	(23.8)
Operating Margin (%)	4.1	4.8	
Pre-tax Margin (%)	2.3	3.2	
Net-Margin (%)	1.4	1.8	

- For the full year FY16, while turnover only declined marginally by 3.6% to RM776.53m, PBT declined by 33.0% to RM17.51m. This reflects the nature of retailing business whereby a higher proportion of its costs is in the form of fixed overheads. As such, the decline in turnover has a more profound impact on its profitability due to lower absorption of costs.

## **2. Earnings Outlook**

- PKHB is an integrated one-stop jeweller, from manufacturer to retailer of gold jewellery, gems, diamonds, precious stones and gold investment products in Malaysia. As at end-FY15, it operates 101 retail outlets located in shopping malls to sub-urban centres nationwide.
- After years of store expansion, PKHB is putting in place cost control initiatives and streamlining its store network. The company is consolidating non-performing outlets to drive the productivity of individual store. Longer-term, the continuous store expansion will largely depend on the pace of development for new shopping malls in the areas PKHB operates in.
- After the implementation of GST in Apr-15, PKHB has been recording negative revenue growth since 4QFY15 for quarter May-Jul-15 (financial year ending Jul). There is sign of recovery in revenue as the rate of decline slowed in the recent quarters while in 4QFY16, it posted a positive topline revenue growth. This could reflect the improving consumer demand and market sentiment.
- Since early-2016, gold prices have been trending higher from low of US\$1,050 per troy ounce to the current US\$1,300-1,400 range. This is in part attributed to the continued low interest rate environment and even the negative interest rate policy as implemented in several countries. The global economic uncertainty and market volatility could provide the sustaining momentum to the rising gold prices. This would indirectly sustain the profitability of PKHB as its selling price is pegged against the prevailing market price of gold.

Historical gold price (US\$ per troy ounce)**3. Valuation and Recommendation**

- The reported FY16 net profit is within our earnings forecast. While the actual timing of the recovery of consumer spending is uncertain, sign of improving trend is underway. Due to the positive operating leverage and higher gold price, its profitability is likely to improve going forward.
- We are maintaining our Buy recommendation on valuations ground. We think that its depressed share price performance has already factored in the current negative news.
- Valuations are undemanding considering its rich assets backing. Share price of RM0.48 is still sharply below its book value of RM1.14, it is also lower than its cash backing (inclusive of gold inventory) of around RM0.78.

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**Disclosures/Disclaimer**

Investment ratings:

Buy (generally >10% upside over the next 12 months)

Hold (generally negative 10% downside to positive 10% upside over the next 12 months)

Sell (generally >10% downside over the next 12 months)

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