

2Q FYE JUL 2016 RESULTS REPORT

24 March 2016

Name of PLC: Poh Kong Holdings Berhad (PKHB)	Target Price:	RM 0.78
Business Summary : Retailing and manufacturing of gold jewellery, gems, diamonds, precious stones and gold investment products in Malaysia		
Major Shareholders :	Dato' Choon Yee Seiong and family	63.98%
	Yeoman Capital Management Pte Ltd	6.99%
PLC Website : www.pohkong.com.my	Recommendation:	BUY
	Market Capitalisation:	RM 217.5m
	Current Price :	RM 0.53
	Market / Sector:	Consumer
	Stock Code:	5080
Analyst : Lim Boon Ngee Tel : +603 2163 3200; Email : bnlim@nra.com.my		

Key Stock Statistics	2013	2014	2015	2016F
EPS (sen)	8.3	3.2	3.5	4.4
P/E (x)	6.4	16.3	15.0	12.0
Dividend/Share (sen)	1.4	1.0	1.0	1.0
NTA/Share (RM)	1.07	1.09	1.12	1.15
Book Value/Share (RM)	1.08	1.09	1.12	1.15
Issued Capital (mil shares)	410.4	410.4	410.4	410.4
52-weeks Share Price Range (RM)			0.41 - 0.60	

Per Share Data	2013	2014	2015	2016F
Year-end 31 Jul				
Book Value (RM)	1.08	1.09	1.12	1.15
Operating Cash Flow (sen)	1.5	(2.1)	21.6	6.4
Earnings (sen)	8.3	3.2	3.5	4.4
Dividend (sen)	1.4	1.0	1.0	1.0
Payout Ratio (%)	16.9	30.8	28.3	22.6
PER (x)	6.4	16.3	15.0	12.0
P/Cash Flow (x)	36.2	(25.6)	2.5	8.2
P/Book Value (x)	0.5	0.5	0.5	0.5
Dividend Yield (%)	2.6	1.9	1.9	1.9
ROE (%)	8.2	3.0	3.2	3.9
Net Gearing (%)	50.5	57.5	41.7	36.6

P&L Analysis (RM mil)	2013	2014	2015	2016F
Revenue	975.8	798.9	805.7	790.2
EBITDA	64.3	45.8	48.0	43.9
Depreciation	(10.1)	(10.4)	(9.8)	(9.5)
Net interest income	(13.7)	(13.6)	(12.1)	(10.4)
Pre-tax Profit	40.6	21.9	26.1	23.9
Effective Tax Rate (%)	(16.3)	(39.1)	(44.6)	(24.0)
Net Profit	34.0	13.3	14.5	18.2
EBITDA Margin (%)	6.6	5.7	6.0	5.5
Pre-tax Margin (%)	4.2	2.7	3.2	3.0
Net-Margin (%)	3.5	1.7	1.8	2.3

Share Price Chart

1. 2QFY16 Results Highlight

	2Q FY16 RMm	2Q FY15 RMm	Chg %
Revenue	203.37	216.45	(6.0)
Operating Profit	6.29	13.73	(54.2)
Finance cost	(3.80)	(3.64)	4.3
Pre-tax Profit	2.49	10.09	(75.3)
Net Profit	1.77	7.71	(77.0)
Operating Margin (%)	3.1	6.3	
Pre-tax Margin (%)	1.2	4.7	
Net-Margin (%)	0.9	3.6	

- In 2QFY16, turnover declined by 6.0% to RM203.37m. Its lower sales performance was due to weak market sentiment and the implementation of GST in Apr-15, which resulted in reduced demand for gold jewellery products.
- However, on a sequential basis, turnover performance was on a gradual recovery trend as turnover in 2QFY16 was 18.0% higher qoq.

- As a results of lower turnover, both PBT and net profit declined by 75-77% to RM2.49m and RM1.77m respectively. This reflects the nature of retailing business whereby a higher proportion of its costs is in the form of fixed overheads. These include expenses such as staff and rental. In FY15, staff and rental expenses amounted to RM111.69m as compared with FY15's turnover of RM805.71m (14% of total turnover). As such, the decline in turnover has a more profound impact on its profitability due to lower absorption of costs.
- Its profitability is also susceptible to sharp fluctuations in gold prices between the time of purchases of gold and gold jewellery and its subsequent sales to consumers.

Historical gold price (US\$ per troy ounce)



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.

As at end-FY15, PKHB has a total of 101 stores as compared with 106 stores (as at end-FY14). While 7 new stores were opened in FY15, it also closed 7 stores while another 4 stores were renovated and refurbished. In FY16, it plans to open another 3-5 stores with an estimated total capex including inventory of about RM3-5m each store.

- PKHB plans to drive a larger market share by enhancing and differentiating its product offerings to each target market segment. Against the backdrop of a weak consumer sentiment, PKHB also plans to introduce more affordable products and organise more in-store promotions.
- Its profit margin should normalise once its stock is replenished at prevailing lower market price, PKHB only keeps a gold inventory of 3-4 months.

3. Valuation and Recommendation

- We have downgraded our earnings forecast for FY16 by 34% to reflect its weak market sentiment and lower average sales/store. However, we are still maintaining our Buy recommendation which is based on its strong asset backing. We still like its market-leading position, strong management team, wide retail coverage and strong branding.

- Valuations are undemanding considering its rich assets backing. Share price of RM0.53 is still sharply below its book value of RM1.11, it is also lower than its cash backing (inclusive of gold inventory) of around RM0.78.

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)

This report has been prepared by Netresearch-Asia Sdn Bhd for purposes of CMDF-Bursa Research Scheme (“CBRS”) III, administered by Bursa Malaysia Berhad (“Administrator”) and has been compensated to undertake the scheme. Netresearch-Asia Sdn Bhd has produced this report independent of any influence from the Administrator 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/eResearch.jsp

The information and opinion in this document has been obtained from various sources believed to be reliable. This publication is for information purpose only, and must not be relied upon as authoritative or taken in substitution for the exercise of judgment. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. Opinions expressed in this publication are subject to change without notice and any recommendation herein does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. No representation, express or implied, is made with respect to the accuracy, completeness or reliability of the information or opinions in this publication. Accordingly, neither we nor any of our affiliates nor persons related to us accept any liability whatsoever for any direct, indirect or consequential losses (including loss and profit) or damages that may arise from the use of information or opinions in this publication.

Netresearch-Asia Sdn Bhd and its related companies, their associates, directors, connected parties and/or employees may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add or dispose of or may materially be interested in any such securities. Netresearch-Asia Sdn Bhd and its related companies may from time to time perform advisory, investment, communications or other services for, or solicit such advisory, investment, communications or other services from any entity mentioned in this report. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.