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2Q FYE JUL 2017 RESULTS REPORT ***17 March 2017***

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	*7.45%*	
PLC Website : *www.pohkong.com.my*		***Recommendation:***	*BUY*
		Market Capitalisation:	*RM 192.9m*
		Current Price :	*RM 0.47*
		Market / Sector:	*Consumer*
		Stock Code:	*5080*

Analyst : Lim Boon Ngee *Tel : +603 2163 3200; Email : bnlim@bcta.com.my*

Key Stock Statistics	**2015**	**2016**	**2017F**	**2018F**
EPS (sen)	3.5	2.7	3.8	4.3
P/E (x)	13.3	17.5	12.4	10.9
Dividend/Share (sen)	1.0	1.0	1.0	1.0
NTA/Share (RM)	1.12	1.13	1.16	1.19
Book Value/Share (RM)	1.12	1.14	1.16	1.20
Issued Capital (mil shares)	410.4	410.4	410.4	410.4
52-weeks Share Price Range (RM)				0.45 - 0.55

Per Share Data	**2015**	**2016**	**2017F**	**2018F**
Year-end 31 Jul				
Book Value (RM)	1.12	1.14	1.16	1.20
Operating Cash Flow (sen)	21.6	4.6	5.4	5.8
EPS (sen)	3.5	2.7	3.8	4.3
Dividend/Share (sen)	1.0	1.0	1.0	1.0
Payout Ratio (%)	28.3	37.3	26.5	23.2
P/E (x)	13.3	17.5	12.4	10.9
P/Cash Flow (x)	2.2	10.2	8.7	8.0
P/Book Value (x)	0.4	0.4	0.4	0.4
Dividend Yield (%)	2.1	2.1	2.1	2.1
ROE (%)	3.2	2.4	3.3	3.6
Net Gearing (%)	41.7	42.5	38.5	35.0

P&L Analysis (RM mil)	**2015**	**2016**	**2017F**	**2018F**
Revenue	805.71	776.53	803.77	835.92
EBITDA	48.02	39.67	42.63	45.41
Depreciation	(9.84)	(9.15)	(8.94)	(8.86)
Net interest income	(12.05)	(13.04)	(13.01)	(12.99)
Pre-tax Profit	26.13	17.48	20.68	23.56
Tax	(11.65)	(6.47)	(5.17)	(5.89)
Net Profit	14.48	11.01	15.51	17.67
EBITDA Margin (%)	6.0	5.1	5.3	5.4
Pre-tax Margin (%)	3.2	2.3	2.6	2.8
Net-Margin (%)	1.8	1.4	1.9	2.1

1. 2QFY17 Results Highlight

	2Q FY17	**2Q FY16**	**Chg**
	RMm	**RMm**	**%**
Revenue	226.32	203.37	11.3
Operating Profit	11.82	6.29	88.0
Finance cost	(3.38)	(3.80)	(11.1)
Pre-tax Profit	8.45	2.49	239.4
Net Profit	6.07	1.77	243.1
Operating Margin (%)	5.2	3.1	
Pre-tax Margin (%)	3.7	1.2	
Net-Margin (%)	2.7	0.9	

- Growth momentum continued into 2QFY17 after signs of recovery first emerged in 4QFY16. In 2QFY17, turnover grew by 11.3% to RM226.32m.

- Due to operating leverage, both PBT and net profit jumped significantly to RM8.45m and RM6.07m respectively.

- The better performance was attributed to increased demand for gold jewellery and gold investment products, higher retail gold prices and additional revenue contribution from new outlets.

- The higher turnover was key to improved profitability. This is attributed to the nature of retailing business whereby certain expenses such as rental and staff are mostly constant. As a result, PBT margin expanded to 3.7% (2QFY17) from 1.2% (2QFY16).

1HFY17 Results Highlight

	1H FY17 RMm	1H FY16 RMm	Chg %
Revenue	411.79	375.67	9.6
Operating Profit	17.44	10.45	66.8
Finance cost	(6.56)	(7.48)	(12.2)
Pre-tax Profit	10.88	2.98	265.5
Net Profit	7.84	2.11	272.4
Operating Margin (%)	4.2	2.8	
Pre-tax Margin (%)	2.6	0.8	
Net-Margin (%)	1.9	0.6	

- In 1HFY17, turnover improved by 9.6% to RM411.79m due to better demand, higher retail gold prices and additional contribution from new outlets.

- Both PBT and net profit surged significantly to RM10.88m and RM7.84m due to operating leverage.

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-FY16, it operates 102 retail outlets located in shopping malls to sub-urban centres nationwide.

- FY16 was not a good year for PKHB where it reported a 24% decline in net profit. In FY15, turnover was additionally boosted by a surge in demand for gold investment and jewellery products in anticipation of the implementation of GST. However, in FY16 and post-GST, market demand has consequently been dampened.

- The recovery trend that started in 4QFY16 could reflect improving consumer demand and market sentiment.

- As at end-FY16, its store counts remained unchanged at 102 stores with opening of 5 new stores while 4 stores were closed. The pace of stores' closure has slowed from FY15 where 12 stores were closed. This is an ongoing exercise for PKHB to drive store's productivity of its distribution network. Longer-term, the continuous store expansion will largely depend on the pace of development for new shopping malls in the areas PKHB operates in.

- Despite the weak sentiment, PKHB is continuing with its brand building activities via advertising, promotions, roadshows to create and reinforce awareness, innovative products at affordable prices. In this context, PKHB has won numerous awards including an 8th position among Malaysia's Top 10 Retailers according to a research survey conducted by Retail Asia Publishing Magazine.

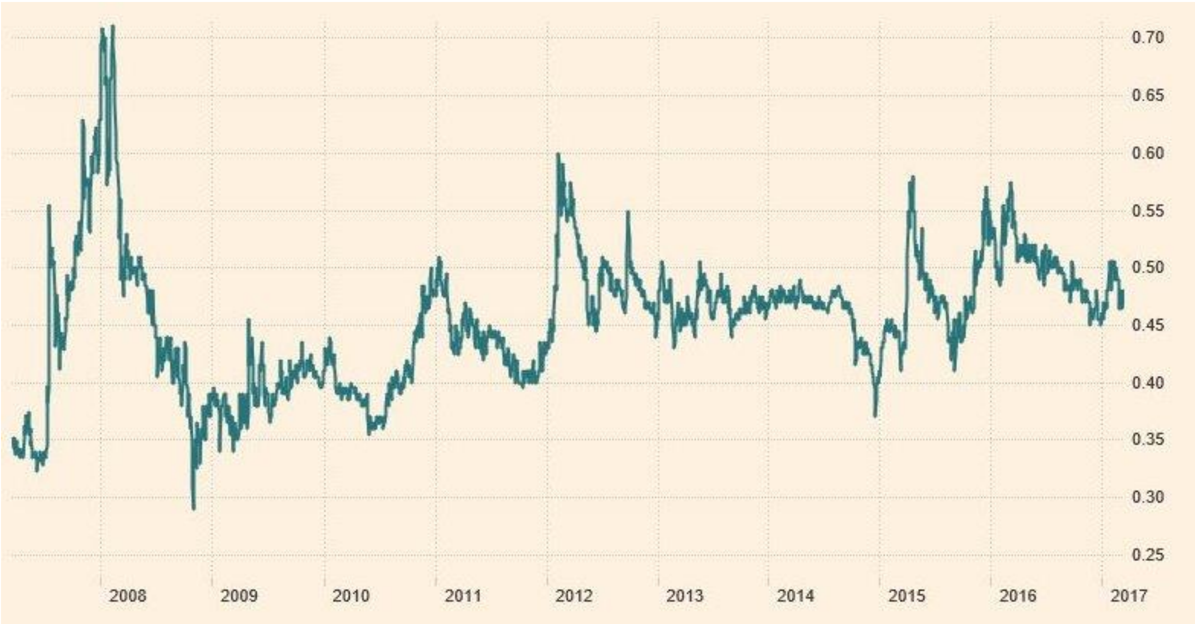
- Other cost reduction initiatives include streamlining of businesses, better inventory and procurement management. PKHB also strives to widen its customer base with more affordable prices and good mix of jewellery products, including its inhouse brands.

3. Valuation and Recommendation

- The challenges remain in the domestic retailing of jewellery market amidst the uncertain consumer spending and confidence. The growth trend that sustained into 2QFY17 is a positive sign for improving demand in FY17.

- We are maintaining our Buy recommendation for its rich assets backing. Its share price of RM0.47 is sharply below its book value of RM1.14, it is also lower than its cash backing (inclusive of gold inventory) of around RM0.84.

Share Price Chart



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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