

**RESULTS REPORT**

23 May 2011

PBA Holdings Berhad		Market Price:	RM1.00
		Market Capitalisation:	RM331.3m
		Board:	Main Market
Recommendation:	BUY	Sector:	Trading / Services
Target Price:	RM1.26	Stock Code/Name:	5041 / PBA

Analyst: Edmund Tham

KEY FINANCIALS

Key Stock Statistics	2011E
Earnings/Sh. (sen)	11.5
P/E Ratio (x)	8.7
Dividend/Share (sen)	4.7
NTA/Share (RM)	2.04
Book Value/Share (RM)	2.04
Issued Capital (mil shares)	331.3
52-weeks share price (RM)	0.80 – 1.10
Major Shareholders:	%
.State Secretary, Penang	55.0
.Perbadanan Pembangunan P.P.	10.0
.EPF Board	5.3

*RM0.50 par value

Per Share Data	2008	2009	2010	2011E
Book Value/Sh. (RM)	1.88	1.90	1.96	2.04
Earnings/Sh. (sen)	9.4	4.5	7.9	11.5
Dividend/Sh. (sen)	5.0	4.0	4.0	4.7
Div. Payout Ratio (%)	39.7	67.1	38.0	30.6
P/E Ratio (x)	10.6	22.4	12.7	8.7
P/Book Value (x)	0.53	0.53	0.51	0.49
Dividend Yield (%)	5.0	4.0	4.0	4.7
ROE (%)	5.0	2.3	4.0	5.6
Net Gearing (or Cash)(x)	0.01	0.03	0.01	(0.02)

*2011 figures are our estimates

P&L Analysis (RM mil)	2008	2009	2010	2011E
Year end: Dec 31				
Revenue	187.9	184.7	198.5	214.2
Operating Profit	27.6	15.8	29.4	45.2
Depreciation	(33.8)	(36.9)	(38.0)	(39.0)
Interest Expenses	(0.0)	(0.0)	(0.0)	(0.0)
Pre-tax Profit	27.8	15.8	30.7	46.9
Effective Tax Rate (%)	n.a.	6.3	15.0	19.2
Net Profit	31.3	14.8	26.1	37.9
Operating Margin (%)	14.7	8.6	14.8	21.1
Pre-tax Margin (%)	14.8	8.6	15.5	21.9
Net Margin (%)	16.7	8.0	13.2	17.7

PERFORMANCE – 1Q/FY11

1Q/ 31 Mar	1Q11	1Q10	yoy %	4Q10	qoq%
Rev (RMm)	56.3	48.9	15.3	50.4	11.8
EBIT (RMm)	9.1	3.4	168.2	4.8	90.1
NPAT (RMm)	11.0	5.4	105.3	12.6	(12.3)
EPS* (sen)	3.3	1.6	105.3	3.8	(12.3)

*based on 331.3 million shares

PBA's 1Q/FY11 (quarter ended 31st March 2011) results were largely within our earlier expectations.

“Results within expectations”

PBA's group revenue of RM56.3 million for 1Q/FY11 ended 31st March 2011 had increased by 15.3% y-o-y as compared to the preceding year's 1Q/FY10. Group 1Q/FY11 net profit after tax (NPAT) of RM11.0 million was higher by 105.3% y-o-y. This increase was mainly due to the improved water revenue from trade consumers.

“Improved contribution from Trade consumers”

PBA's 1Q/FY11 group revenue had increased by 11.8% q-o-q from RM50.4 million in the preceding 4Q/FY10. Group 1Q/FY11 net profit after tax (NPAT) was nevertheless lower by 12.3% q-o-q from RM12.6 million in the preceding 4Q/FY10. This was mainly due to an increase in tax expenses during the quarter.

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OUTLOOK/CORP. UPDATES

In tandem with the improving domestic economy (GDP terms), we expect that the group's water revenues would grow as well. Water is a relatively inexpensive consumer expense, and we foresee that the demand would grow steadily, especially for trade/industry users. The influx of FDI (foreign direct investment) into various high tech and manufacturing sectors would lead to higher water usage by trade consumers.

“Steady economic growth”

Malaysia had reported a very respectable 1Q/2011 GDP growth of +4.6%, stable 4Q/2010 unemployment rate of 3.2% and CPI of 3.2% (April 2011). Meanwhile, Bank Negara Malaysia (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.

“Infrastructure planning”

Over the past 10 years, water consumption had risen by 30% in Penang. As such, the state needs to develop new raw water resources. PBA would need to upgrade its existing treatment plants, reservoirs, pumping stations, mains, pipelines and water supply equipment. PBA is also planning to expand capacity at its Mengkuang Dam.

Presently, 80% of Penang's raw water supply comes from Sungai Muda. The new tariffs introduced last year will assist PBA in funding key water infrastructure projects for the period 2011-2013. PBA's management is mindful on escalating costs, which may include fuel, chemical and pipe replacement costs.

“Additional overseas venture”

In April 2011, the group had entered into a Memorandum of Agreement (MOA) with Perusahaan Daerah Air Minum Tirta Dharma Kota Pekalongan (“PDAM Tirta Dharma”) and Asian Development Bank (ADB) in order to

cooperate on enhancing water supply services in Kota Pekalongan, Central Java, Indonesia. ADB will provide financial and technical support through a partnership grant up to USD50,000 (around RM150,000) to fund the activities to be undertaken by PBA group.

VALUATION/CONCLUSION

PBA had declared a total of 3 sen tax exempt dividend per share (DPS) (or equivalent to 4 sen gross DPS) for its FY10 ended 31st December 2010. The final dividend of 1.5 sen (or 3% tax exempt) would be paid after the approval of shareholders at its AGM. In recent years, PBA had consistently implemented dividend payouts of at least 30% of its annual net earnings. We expect that PBA would be maintaining this level of dividend payout for its FY11.

“Reasonable dividends”

With an adjusted beta (correlation factor) of just 0.64 to the KLCI, PBA (+11.2%) has outperformed the KLCI (+1.7%) 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 major Tohoku tsunami/earthquake in Japan. Nevertheless, as PBA is not an especially large market-cap stock, this may put a dampener on its market visibility and trading volume.

“Maintain Buy Call”

Based on our forecast of PBA's FY11 EPS and an estimated P/E of 11 times (within its historical range), we set a FY11-end Target Price (TP) of RM1.26. This TP offers 26.0% upside from its current market price. Our TP for PBA reflects a P/BV of just 0.6 times over its FY11F BV/share. Meanwhile, the local Water service sector's average P/E and P/BV is 15.4 times and 1.0 times, respectively.

“Planning Ahead”

PBA's management has planned well for the coming years, with the implementation of new trade tariffs and WCS (Water Conservation Surcharge). It has also planned ahead in terms of capital expenditure (capex) and measures needed to lower NRW levels.

We find that PBA's P/E and P/BV valuations are quite undemanding within its sector, while it has reasonable dividend yields and ROEs. Meanwhile, the group's gearing levels are very minimal, and it may very well turn into a net cash position during its FY11.

Nevertheless, PBA's businesses also face routine risks such as a possible slower rate of economic growth, weak trade consumer demand, foreign exchange fluctuations and rising costs (e.g. electricity, oil/gas, water treatment (chemicals), pipe replacement (steel/ductile iron/others) and bottling (plastic)).

PBA: Share Price



Source: NextView

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