



MALAYSIA EQUITY (CBRS)

Investment Research
Daily News

WATER

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1QFY09 Results Review

Private Circulation Only

PBA Holdings

NEUTRAL	Maintain
Price Target	RM0.95
	RM0.89

Stock Profile/Statistics

Bloomberg Ticker	PBAH MK
KLCI	Equity 1023.02
Issued Share Capital (m)	331.21
Market Capitalisation (RMm)	314.65
52 week H L Price (RM)	1.05 0.78
Average Volume (3m) '000	13.56
YTD Returns (%)	0.09
Net gearing (x)	0.01
Altman Z-Score	1.68
ROCE/WACC	0.22
Beta (x)	0.55
Book Value/share (RM)	1.88

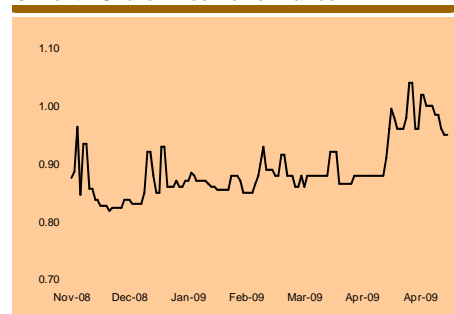
Major Shareholders (%)

Penang State Secretary	55.0
EPF	10.5
Perbadanan Pembangunan P.Pinang	10.0

Share Performance (%)

Month	Absolute	Relative
1m	7.96	-0.66
3m	5.56	-9.15
6m	8.63	-9.14
12m	1.88	20.07

6-month Share Price Performance



PBA Holdings is a holistic water supplier which sources, treats, distributes and bills for water supply in Penang.

Double squeeze

Results for PBA Holdings (PBA) came in below our expectations. Hit with lower water consumption in the Penang state, rising operating cost and lower operating income, PBA's earnings weakened for both top line and bottom line levels. Thus, factoring for a revised higher raw material cost and lower revenue from the sales of water, we tone down our revenue projections for PBA by 9.2% and 10.3% for FY09 and FY10 respectively. On the back of higher operating cost, we also lower our net earnings projections by 53.3% and 42.2% for both respective years. Nonetheless, we only slightly reduce our FCFE derived target price for PBA from RM0.97 to RM0.89. This is due to lower capex spending which stems from reduced water consumption.

Starting slow. On a y-o-y comparison, overall sales was down by 2.1% whilst PBT weakened by 78.1%. A weaker bottom line was seen here as gross operating cost margins jumped from 69.3% to 78.4% y-o-y. However, due to an over provision of tax in the previous year, net earnings declined at slightly weaker pace than PBT at 65.7%.

Lower consumption in Penang. Aside from conservative consumer spending that led to the reduction in water revenue for PBA, we also reckon that the recent Penang state government initiative to reduce water consumption by 10% also contributes to this decline. Although the initiative will result in PBA's earnings weakening this year, nonetheless management opines that this will bode well for PBA in the long run as lower water consumption will translate to lower Capex spending - in the form of lesser water infrastructure replacement and upgrade expenditure.

"Clean" water assets. PBA's debts only account for approximately 12% of its water related asset value. As of its latest reported quarter, water related assets are valued at approximately RM660m whilst liabilities tied to this component stand at only RM80m. This is compared to most of its industry peers whereby corresponding debts account for 80-100% of its water related assets value.

NEUTRAL maintained... but at a slightly lowered target price from RM0.97 to RM0.89. We see this year to be challenging for PBA but we note some re-rating catalyst for PBA if i) an upward revision in water tariff rates to occur (which is unlikely); ii) a decline in chemical cost, iii) and/or news of further synergistic ventures that could boost future earnings (PBA is currently exploring into this option).

FYE Dec(RMm)	FY07	FY08	FY08	FY09f	FY10f
Total Revenue	172.1	181.5	187.9	182.4	188.0
Net Profit	39.3	42.6	31.3	12.1	14.9
% chg YoY	20.0	8.5	(26.6)	(61.4)	23.5
Consensus EPS (sen)	-	-	-	-	-
EPS (sen)	11.9	12.9	9.5	3.6	4.5
Gross DPS (sen)	7.0	7.1	4.0	1.5	1.9
Gross Div. Yield (%)	7.3	7.5	4.2	1.6	2.0
PER (x)	8.0	7.4	10.1	26.1	21.1
P/BV (x)	0.6	0.6	0.5	0.5	0.5
EV/EBITDA (x)	5.5	3.8	5.7	7.1	5.9
ROE (%)	7.4	7.8	5.3	1.9	2.3
ROA (%)	4.7	5.1	3.8	1.4	1.7

KEY HIGHLIGHTS

Quarterly Results Table						
FYE Dec (RMm)	1QFY09	4QFY08	% chg	YTD FY09	YTD FY08	% chg
Turnover	44.3	45.3	-2.1%	44.3	48.1	-7.9%
EBITDA	5.5	9.9	-44.5%	5.5	14.2	-61.4%
Depreciation	(5.4)	(5.4)	0.0%	(5.4)	(9.0)	-40.4%
Net interest expense	0.4	0.6	-32.4%	0.4	0.8	-47.3%
Associates	0.0	0.0		0.0	0.0	
PBT	2.1	5.1	-58.1%	2.1	9.8	-78.1%
Tax	0.9	5.1	-82.7%	0.9	(1.0)	-192.6%
MI	0.0	0.0		0.0	0.0	
Net Profit	3.0	10.2	-70.4%	3.0	8.8	-65.7%
EPS (sen)	0.9	3.1		0.9	2.7	
Gross DPS (sen)	0.0	4.0		0.0	0.0	
EBITDA margin	12.4%	21.8%		12.4%	29.5%	
NTA/share (RM)	1.89	1.88		1.89	1.88	

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Published and printed by :-

OSK RESEARCH SDN. BHD. (206591-V)

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