

**RESULTS REPORT**

18 May 2012

PBA Holdings Berhad		Market Price:	RM0.895
		Market Capitalisation:	RM296.5m
		Board:	Main Market
Recommendation:	BUY	Sector:	Trading / Services
Target Price:	RM1.09	Stock Code/Name:	5041 / PBA

Analyst: Edmund Tham

KEY FINANCIALS

Key Stock Statistics	2012E
Earnings/Sh. (sen)	16.8
P/E Ratio (x)	5.3
Dividend/Share (sen)	4.7
NTA/Share (RM)	2.09
Book Value/Share (RM)	2.09
Issued Capital (mil shares)	331.3
52-weeks share price (RM)	0.86 – 1.23
Major Shareholders:	%
.State Secretary, Penang	55.0
.Perbadanan Pembangunan P.P.	10.0
.EPF Board funds	5.1

*RM0.50 par value

*2012 figures are our estimates

Ratios Analysis	2009	2010	2011	2012E
Book Value/Sh. (RM)	1.90	1.96	2.06	2.09
Earnings/Sh. (sen)	4.5	7.9	13.8	16.8
Dividend/Sh. (sen)	4.0	4.0	4.7	4.7
Div. Payout Ratio (%)	67.1	37.9	25.4	20.9
P/E Ratio (x)	20.0	11.3	6.5	5.3
P/Book Value (x)	0.47	0.46	0.44	0.43
Dividend Yield (%)	4.5	4.5	5.2	5.2
ROE (%)	2.3	4.0	6.7	8.0
Net Gearing (or Cash)(x)	0.03	0.01	(0.01)	(0.00)

*Our Net Gearing figure still includes the amount owed by PBA to the Penang State government

P&L Analysis (RM mil)	2009	2010	2011	2012E
FY end: Dec 31				
Revenue	184.7	198.5	236.3	253.5
Operating Profit	15.8	29.5	39.9	45.2
Depreciation	(36.9)	(38.2)	(49.7)	(52.0)
Interest Expenses	(0.03)	(0.02)	(0.05)	0.00
Pre-tax Profit (PBT)	15.8	30.8	42.4	47.6
Effective Tax Rate (%)	6.3	14.9	n.m.	n.m.
Net Profit after Tax	14.8	26.2	45.7	55.6
Operating Margin (%)	8.6	14.8	16.9	17.8
Pre-tax Margin (%)	8.6	15.5	17.9	18.8
Net Margin (%)	8.0	13.2	19.3	21.9

*n.m.=not meaningful due to tax credits

*Op.profit=EBIT+Other Income

PERFORMANCE – 1Q/FY12

1Q/ 31 Mar	1Q12	1Q11	yoy %	4Q11	qoq%
Rev (RMm)	61.0	56.3	8.4	56.1	8.7
EBIT (RMm)	6.4	9.1	(29.6)	(3.8)	269.0
NPAT (RMm)	8.4	11.0	(23.9)	16.7	(49.8)
EPS* (sen)	2.5	3.3	(23.9)	5.1	(49.8)

*EBIT excludes Other Income

*based on 331.3 million shares

PBA's 1Q/FY12 results (for quarter ended 31st March 2012) were in-line with our earlier expectations.

“Q1 results within expectations”

Group revenue for 1Q/FY12 was RM61.0 million while group NPAT (net profit after tax) was RM8.4 million. Group revenue had increased by 8.4% y-o-y while group NPAT had decreased by 23.9% y-o-y.

“Increase in water consumption”

The increase in revenue was mainly due to the increase in water consumption. The decrease in group NPAT was mainly due to the increase in the cost of sales from administrative and depreciation expenses.

Comparing q-o-q versus the preceding 4Q/FY11, group revenue had increased by 8.7% q-o-q. Nevertheless, group NPAT was 49.8% lower q-o-q despite of a higher PBT q-o-q. This was because during 4Q/FY11, the group had **utilized its deferred tax assets** to offset against its income tax expenses.

All information, views and advice are given in good faith but without legal responsibility. Mercury Securities Sdn. Bhd. or companies or individuals connected with it may have used research material before publication and may have positions in or may be materially interested in any stocks in the markets mentioned.

This report has been prepared by Mercury Securities Sdn Bhd for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Mercury Securities Sdn Bhd has produced this report independent of any influence from CBRS 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/



OUTLOOK/CORP. UPDATES

In tandem with growth in the domestic economy (in GDP terms), we expect that the group's water revenues would grow as well. Water is a relatively inexpensive expenditure, and we foresee that the demand would grow steadily, including for trade (commercial / industry) users. Nevertheless, PBA's management is aware and mindful of both **economic conditions and escalating costs**.

“Steady domestic demand growth”

Malaysia had reported a reasonable inflation figure (CPI) of 2.3% (1Q/2012). Bank Negara Malaysia (BNM) had still maintained its overnight policy rate (OPR) at an accommodative 3.0%. Meanwhile, Malaysia recorded a reasonably positive 4Q/2011 GDP growth of 5.2%, amidst weak economic growth in the developed regions (US, EU and Japan).

According to the Malaysian Department of Statistics' March 2012 data, the country recorded the following – Manufacturing Sales (+3.1% y-o-y), Industrial Production Index (IPI) (+0.6% y-o-y), Exports (-0.1% y-o-y) and Imports (+1.6% y-o-y). Export growth seems weak currently. The influx of FDI (foreign direct investment) into various high-tech and manufacturing sectors within the state of Penang would lead to higher water usage by trade consumers.

VALUATION/CONCLUSION

In December 2011, PBA's Board of Directors (BOD) had paid out an interim tax exempt dividend per share (DPS) of 3.5% (1.75 sen gross) amounting to approximately RM5.8 million for its FY11 ending 31st December 2011. Group BOD had proposed a final FY11 tax exempt DPS of 3.5% (1.75 sen gross) amounting to approximately RM5.8 million as well. The final dividend will be subject to shareholders' approval at the next AGM. Meanwhile, we expect that PBA would maintain its DPS level for its FY12.

“We expect same DPS in FY12”

In 2012, PBA (-4.3%) has slightly underperformed the KLCI (+0.1%) thus far. Market conditions have also been volatile during the past year, impacted by the Arab Spring uprisings in the Middle East/North Africa, sovereign debt issue in Europe, debt ceiling issue in the US and Tohoku natural disaster in Japan. Nevertheless, as PBA is not a 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 FY12 EPS and an estimated P/E of 6.5 times, we set a FY12-end Target Price (TP) of RM1.09 and maintain our Buy Call. This TP offers 21.8% upside from its market price at the date of this report. Our TP for PBA reflects a P/BV of just 0.52 times over its FY12F BV/share.

“Undemanding valuations”

We find that PBA's P/E and P/BV valuations are quite undemanding, while it has reasonable ROEs and dividend yields. The group's gearing levels were very minimal, subsequently turning into a **net cash position** during its FY11. Currently, our Net Gearing computation still includes the amount owed by PBA to the Penang State government.

“Unknown variable – management stance on when to utilize deferred tax assets”

Our FY12E NPAT forecast takes into account our assumption that PBA's management plans to recognize RM16.6 million of deferred tax assets to offset against its income tax expenses. Currently, we are unaware of PBA's actual management stance on this matter.

To recap – the deferred tax assets were derived from the group's unutilised reinvestment allowances. According to the group's latest Interim Financial Report, the unutilised reinvestment allowance of the group available indefinitely for off-setting against future taxable

Results Report

This report has been prepared by Mercury Securities Sdn Bhd for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Mercury Securities Sdn Bhd has produced this report independent of any influence from CBRS 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/



profits still amounted to a huge amount of RM349 million.

“Concern - impact of new major expenditures”

We are also naturally concerned on the **impact of the new major expenditures** – Water Intake Fees (to Penang State government), Leasing Charges (to PAAB) and License Fees (to SPAN - Suruhanjaya Perkhidmatan Air Negara). The timing and quantum of these payments could cause lumpiness in its quarterly earnings.

PBA’s management had prepared-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 are pleased that PBA practises an open-tender system for its infrastructure maintenance work, IT services, machinery procurement, pipe-laying and even for the printing of its annual report. In the long run, this practice usually leads to improved cost savings.

PBA’s businesses also face routine **risk factors** such as a possible slower rate of economic growth, weak trade consumer demand, foreign exchange fluctuations and rising costs — e.g. electricity tariffs, oil/gas fuel, water treatment (chemicals), pipe replacement (probably using steel/ductile iron/copper/others) and bottling (plastic). We also note that PBA holds investments in the equity markets that are managed by external fund management companies. As in any investment, there would be risks from equity market fluctuations as well.

PBA: Share Price



Source: NextView

All information, views and advice are given in good faith but without legal responsibility. Mercury Securities Sdn. Bhd. or companies or individuals connected with it may have used research material before publication and may have positions in or may be materially interested in any stocks in the markets mentioned.

This report has been prepared by Mercury Securities Sdn Bhd for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Mercury Securities Sdn Bhd has produced this report independent of any influence from CBRS 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/



APPENDIX

Water Intake Fees

In June 2011, PBAPP, a wholly-owned subsidiary company of PBA, had been charged by the Penang State Government for **Water Intake Fees** at RM0.03 per cubic metre of production volume with effect from 1st January 2011 (i.e. backdated). The amount of water intake fees incurred for the year by PBA is approximately RM10.4 million. This fee is payable for the period 2011-2013.

License Fees

PBAPP had been awarded by the Suruhanjaya Perkhidmatan Air Negara (SPAN) on 2nd June 2011 for **Service & Facility Licenses** issued pursuant to Section 9 of the Water Services Industry Act (WISA) 2006. The License shall be effective from 1st June 2011 to 31st May 2014. The License Fee is calculated based on 1% of the revenue from the sale of water by the subsidiary.

Leasing Charges

On 2nd June 2011, PBAPP had entered into a **Facility Agreement and a Leasing Agreement with Pengurusan Asset Air Bhd (PAAB)** to enable PBAPP to carry out water supply services on the land leased from PAAB. The amount of leasing charges is RM14.56 million per annum for a period of 45 years with effect from 1st August 2011. The land leased has a net book value of RM655.3 million at the date of the agreements. To recap, PAAB would act as the “debtor” for federal loans. In return, the State of Penang would alienate its water assets to PAAB and in-turn, PAAB would lease it back to PBAPP and thus PBAPP would pay an annual lease to PAAB.

Upon notification by PAAB and subject to PBAPP's ability to secure the costs of fund equivalent or lower than that secured by PAAB

and provided the approval of Suruhanjaya Perkhidmatan Air Negara (SPAN) has been obtained, PBAPP shall have the first right to construct, upgrade, and refurbish at its own costs and expense the Water Assets and New Water Assets for water supply services. PBAPP, being the state water operator, would be allowed to focus solely on providing water treatment and distribution services, while the Malaysian Federal Government will be fully responsible for the source work of water supply projects.

Results Report

This report has been prepared by Mercury Securities Sdn Bhd for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Mercury Securities Sdn Bhd has produced this report independent of any influence from CBRS 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/
