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BUY ↔

Target **RM1.35**
Previous **RM1.22**
Price **RM1.00**

WATER

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

Stock Statistics

Bloomberg Ticker	PBAH MK
Share Capital (m)	331.3
Market Cap (RMm)	328.0
52 week H L Price (RM)	1.10 0.80
3mth Avg Vol ('000)	123.6
YTD Returns	11.2
Beta (x)	0.64

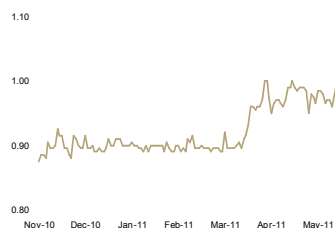
Major Shareholders (%)

State Secretary Penang Perbadanan	55.0
Pembangunan P.Pinang EPF	10.0 5.3

Share Performance (%)

Month	Absolute	Relative
1m	3.1	-0.6
3m	12.4	6.7
6m	11.7	8.0
12m	21.0	-3.4

6-month Share Price Performance



1QFY11 Results Review

PBA Holdings

Strong Earnings on Higher Tariff Rates

1QFY11 earnings beat our estimates with profits accounting for a third of our full year forecast. Higher earnings in this case is driven mainly on higher tariff rates chargeable to trade consumers coupled with the increase of registered trade consumers on a y-o-y basis. Raising our profit estimates to account for the higher earnings base, we also raise our FV for the stock to RM1.35 from RM1.22 previously. We re-iterate our BUY recommendation for the stock. We also raise our dividend estimate for PBA from 5sen per share from 4sen per share.

Higher tariff rates. On the back of higher water tariff rates chargeable to trade consumers (+27% since last November) and a water conservation surcharge (24sen per cu m for consumption exceeding 35cu m per month) to households, PBA recorded strong profits accounting for 34% of our full year forecast. 1Q revenues reached a record high at RM56.3m (+15.3% y-o-y; +11.8% q-o-q) with net profits at RM11.1m (+105% y-o-y; +26% q-o-q). Keeping its operating costs at bay, the higher tariff rates also translated to direct bottom line gains which lifted its net profit margins to 19.7% vs a year ago at 11%.

More gains to be seen. With a water tariff hike increase of 27% chargeable to trade consumers, better earnings are expected to flow in for PBA this year. On a y-o-y comparison, registered trade consumers (for water services) increased by 11% from 2010 to 2009. Since the Penang state has been lauded as the state with the highest FDI at 36% of total national FDI in 2010, we reckon the state's outperformance will continue to attract more businesses and further increase the number of registered trade consumers for PBA. While household consumers in the long run should cut their water consumption, we believe the increase in trade consumption revenue will far offset the household decline given higher tariff rates. We expect trade consumption to be inelastic despite higher tariff charges as water costs often account for less than 5% of the operating costs structure of typical business operation in Penang. As of 2010, trade consumption and domestic household water consumption were at a 50/50 ratio.

Upping the ante. We increase our profit estimates for PBA by 38% upon raising our consumption forecast from a decline of 4% to an increase of 2%. We also project revenues to increase by 19% y-o-y from an increase of 9.2% previously. Premised on higher profits, we reckon PBA could be more generous in its dividend payout and hence raise our forecast to 5sen per share for FY11 from 4sen per share. Our dividend estimate is premised on a payout ratio of 36.7%, ranging close to its previous year's 38%. On higher earnings forecast, we raise our DCF FV for PBA to RM1.35 from RM1.22 previously. We re-iterate our BUY recommendation for the little followed stock.

FYE Dec (RMm)	FY08	FY09	FY10	FY11f	FY12f
Revenue	187.9	184.7	198.5	235.7	241.4
Net Profit	31.3	14.8	26.2	45.2	45.9
% chg y-o-y	-26.6	-52.7	77.0	72.1	1.7
Consensus	-	-	-	-	-
EPS (sen)	9.5	4.5	7.9	13.6	13.9
DPS (sen)	3.8	3.0	3.0	5.0	5.0
Dividend yield (%)	3.8	3.0	3.0	5.0	5.0
ROE (%)	5.3	2.4	4.1	6.8	6.6
ROA (%)	3.8	1.8	3.1	5.1	5.0
PER (x)	10.6	22.4	12.6	7.3	7.2
BV/share (RM)	1.88	1.90	1.96	2.04	2.13
P/BV (x)	0.5	0.5	0.5	0.5	0.5
EV/ EBITDA (x)	6.0	6.9	6.0	4.2	4.1

Results Table (RMm)

FYE Dec	1Q11	4Q10	Q-o-Q chg	YTD FY11	YTD FY10	Y-o-Y chg	Comments
Revenue	56.3	50.4	11.8%	56.3	48.9	15.3%	Higher metered sales to trade consumers driving sales upwards
EBIT	9.1	7.8	17.3%	9.1	3.4	168.3%	
Net interest expense	0.5	1.4	n.m	0.5	0.0	n.m	
Associates	0.0	0.0	n.a	0.0	0.0	n.a	
PBT	13.2	9.1	45.3%	13.2	6.7	99.0%	
Tax	-2.2	-0.3	569.1%	-2.2	-1.3	72.4%	
MI	0.0	0.0	n.a	0.0	0.0	n.a	
Net profit	11.0	8.8	25.6%	11.0	5.4	105.3%	
EPS (sen)	3.3	2.7		3.3	1.6		
DPS (sen)	0.0	0.0		0.0	0.0		
EBIT margin							Steep jump in operating margins mainly due to higher tariff rates chargeable to trade consumers
NTA/share (RM)	16.2%	15.4%		16.2%	7.0%		
	1.99	1.96		1.99	1.93		

EARNINGS FORECAST

FYE Dec (RMm)	FY08	FY09	FY10	FY11f	FY12f
Turnover	187.9	184.7	198.5	235.7	241.4
EBITDA	57.8	51.5	67.6	94.3	95.1
PBT	27.8	15.8	30.8	54.6	55.6
Net Profit	31.3	14.8	26.2	45.2	45.9
EPS (sen)	9.5	4.5	7.9	13.6	13.9
DPS (sen)	3.8	3.0	3.0	5.0	5.0
Margin					
EBITDA (%)	30.8%	27.9%	34.0%	40.0%	39.4%
PBT (%)	14.8%	8.6%	15.5%	23.2%	23.0%
Net Profit (%)	16.7%	8.0%	13.2%	19.2%	19.0%
ROE (%)	5.34%	2.36%	4.10%	6.81%	6.64%
ROA (%)	3.77%	1.77%	3.07%	5.08%	4.98%
Balance Sheet					
Fixed Assets	690.2	719.2	746.5	792.2	817.9
Current Assets	141.0	120.5	125.1	114.7	119.9
Total Assets	831.2	839.6	871.6	906.9	937.8
Current Liabilities	99.0	105.5	118.3	128.1	133.0
Net Current Assets	42.1	15.0	6.8	-13.4	-13.0
LT Liabilities	108.1	103.4	105.1	101.9	98.6
Shareholders Funds	624.2	630.8	648.3	676.9	706.2
Net Gearing (%)	0.92%	2.54%	0.83%	1.86%	0.24%

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