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FY10 Results Review

PBA Holdings

Cost Reduction Bodes Well for 4Q

Excluding a land disposal amounting to RM3.8m, earnings for PBA came above our expectations by 40%. On the back of a sharp reduction in 4Q operating costs, PBA managed to chart a 50% earnings growth despite a weak 3Q. Not making any major earnings adjustment, we maintain our Buy recommendation for the stock with its target price intact at RM1.35.

A sharp turnaround. Excluding for a one-off gain stemming from a land disposal amounting at RM3.8m, full year earnings for PBA still surged 51% on a y-o-y basis. Better earnings in FY10 are largely due to its 4Q when net profits for the quarter increased by 350% y-o-y. Despite 4Q revenue increased by only 6%, a reduction in operating costs by 17% (y-o-y) has lifted its bottom line earnings. To a slight extend we also reckon 4Q earnings came in stronger on the back of an increase in trade consumer (business establishment) water tariff rates which has risen by 27% effective 1 November 2010

Margins back to healthy. After a weak 3Q when an onslaught of high operating costs during the period squeezed margins, a turnaround in 4Q has led us to believe PBA is 'back on track'. EBITDA margins we observed improved to 35% from 23% a quarter ago. On a net basis, net margins were lifted to 17.4% from 4.9% during the corresponding period.

Higher tariffs and lower cost. In view of PBA's cost structure which has seen improvements, we reinforce our positive outlook on the company. Coupled with a water tariff hike of 27% on trade consumers, we project earnings for PBA in FY11 to grow by 33%. However, we will continue to monitor closely PBA's operating costs which seem to be erratic in the past 2 quarters.

Maintain BUY. We make very marginal adjustment to our earnings upon updating our balance sheet figures. Thus we maintain our BUY recommendation for the stock with its FCFE derived target price intact at RM1.35. Our BUY recommendation is maintained in view of the stock's upside potential of 52%. To-date PBA has declared net dividends totaling to 3sen per share or a net yield of 3.4%.

Get your facts before you invest

BUY ↔

Target **RM1.35**
Previous **RM1.35**
Price **RM0.89**

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)	294.8
52 week H L Price (RM)	1.10 0.80
3mth Avg Vol ('000)	108.2
YTD Returns	0.0
Beta (x)	0.62

Major Shareholders (%)

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

Share Performance (%)

Month	Absolute	Relative
1m	-1.7	1.4
3m	2.2	-2.9
6m	7.7	-2.0
12m	7.7	-14.2

6-month Share Price Performance



FYE Dec (RMm)	FY08	FY09	FY10	FY11f	FY12f
Revenue	187.9	184.7	198.5	216.8	223.2
Net Profit	31.3	14.8	22.3	32.8	35.2
% chg y-o-y	-26.6	-52.7	50.7	47.0	7.1
Consensus	-	-	-	-	-
EPS (sen)	9.5	4.5	6.7	9.9	10.6
DPS (sen)	3.8	3.0	3.0	4.0	4.5
Dividend yield (%)	4.2	3.4	3.4	4.5	5.1
ROE (%)	5.3	2.4	3.5	5.0	5.2
ROA (%)	3.8	1.8	2.6	3.8	4.0
PER (x)	9.4	19.9	13.2	9.0	8.4
BV/share (RM)	1.88	1.90	1.96	2.02	2.08
P/BV (x)	0.5	0.5	0.5	0.4	0.4
EV/ EBITDA (x)	5.4	6.3	6.4	4.7	4.4

Notes: FY10 profits excludes for a land disposal gain amounting to RM3.8m

Results Table (RMm)

FYE Dec	4Q10	3Q10	Q-o-Q chg	YTD FY10	YTD FY09	Y-o-Y chg	Comments
Revenue	50.4	49.1	2.6%	198.5	184.7	7.5%	Higher sales on better water billings
EBIT	7.8	0.7	1012.8%	25.6	4.3	499.1%	
Net interest expense	1.4	0.0	n.m	1.4	1.9	-28.4%	
Associates	0.0	0.0	n.m	0.0	0.0	n.m	
PBT	9.1	3.9	135.8%	26.9	15.8	70.2%	
Tax	-0.3	-1.5	-77.3%	-4.6	-1.0	358.2%	
MI	0.0	0.0	n.m	0.0	0.0	n.m	
Net profit	8.8	2.4	264.3%	22.3	14.8	50.7%	
EPS (sen)	2.7	0.7		6.7	4.5		
DPS (sen)	0.0	0.0		0.0	3.0		
EBIT margin							Steep change in cost structure leading to difference in margins
NTA/share (RM)	15.4%	1.4%		12.9%	2.3%		
	1.96	1.93		1.96	1.90		

EARNINGS FORECAST

FYE Dec (RMm)	FY08	FY09	FY10	FY11f	FY12f
Turnover	187.9	184.7	198.5	216.8	223.2
EBITDA	57.8	50.8	56.9	77.1	79.6
PBT	27.8	15.8	26.9	37.9	40.6
Net Profit	31.3	14.8	22.3	32.8	35.2
EPS (sen)	9.5	4.5	6.7	9.9	10.6
DPS (sen)	3.8	3.0	3.0	4.0	4.5
Margin					
EBITDA (%)	30.8%	27.5%	28.7%	35.6%	35.7%
PBT (%)	14.8%	8.6%	13.6%	17.5%	18.2%
Net Profit (%)	16.7%	8.0%	11.2%	15.1%	15.7%
ROE (%)	5.34%	2.36%	3.49%	4.99%	5.18%
ROA (%)	3.77%	1.77%	2.61%	3.75%	3.96%
Balance Sheet					
Fixed Assets	690.2	719.2	746.5	743.4	750.0
Current Assets	141.0	120.5	125.1	134.2	148.0
Total Assets	831.2	839.6	871.6	877.6	898.0
Current Liabilities	99.0	105.5	118.3	107.9	111.2
Net Current Assets	42.1	15.0	6.8	26.3	36.8
LT Liabilities	108.1	103.4	105.1	101.9	98.6
Shareholders Funds	624.2	630.8	648.3	667.9	688.1
Net Gearing (%)	0.92	2.54	0.83	Net Cash.	Net Cash.

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