KDN: PP 10744/04/2010

midf RESEARCH

# Equity Beat

24 February 2010

4Q09 Results Review

## NCB Holdings

*A place to anchor in uncertain times*

*Maintain* NEUTRAL

*Revised* Target Price (TP): RM3.41 (from RM3.09)

**STOCK INFO**

| | | | |
|---|---|---|---|
| Price (23 February 2010) | RM3.24 | KLCI | 1,266.43 |
| Issued shares (mil) | 470.3 | Bursa / Bloomberg | 5509 / NCB MK |
| Par Value (RM) | 1.00 | Board / Sector | Trading / Services |
| Market cap. (RM'm) | 1,523.6 | Syariah Compliant | Yes |
| Price over NA | 0.9 | | |
| 52-wk price Range | RM2.54 – RM3.24 | Major Shareholders | |
| Beta (against KLCI) | 0.54 | PNB | 48.8% |
| 3-mth Avg Daily Vol | 0.1m | MISC | 15.7% |
| 3-mth Avg Daily Value | RM0.3m | | |

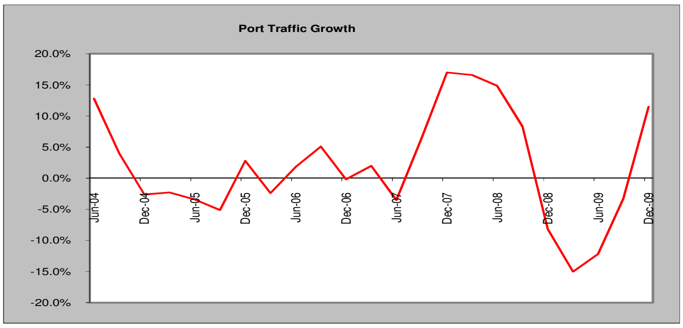
- **Net profit was 10.5% lower than expected as we overestimated the haulage revenue and its profit margins. Net profit for FY09 was down by 9.4% compared to FY08 due to the decrease in haulage business.**
- **A healthy recovery for throughput (measured by Twenty-foot Equivalent Units or TEUs), with an increase of 11.5% yoy and 5.0% qoq as global economic recovery begins to take hold.**
- **We are encouraged by the fact that NCB could still declare a dividend payout of 70% despite a disappointing FY09. We expect this trend to continue as global recovery impact positively on earnings. However, industry experts remain cautious for FY10, as the recovery is still fragile. Therefore, we maintain our NEUTRAL recommendation and revise our target price to RM3.41 using a Dividend Discount Model, discounted with a WACC of 8.25%.**

**Net profit for FY09 was below expectation.** NCB's FY09 net profit was RM141.0m, which was below our expectation by 10.5%. The variance is mainly due to lower than expected haulage revenue, which is RM229.7m, a decrease of 18.9% from FY08. The overall decrease in the haulage revenue can be attributed to slower demands in 1H09 on the back of a global economic crisis.

**Throughput traffic has rebounded.** The recovery of throughput traffic is expected to continue, albeit cautiously, in tandem with global economic recovery. NCB has managed a complete turnaround, registering a container traffic increase of 11.5%yoy. This is a continuation of growth from 3Q09 yoy increase of 3.3%.

| FYE 31 Dec | FY08 | FY09 | FY10F | FY11F |
|---|---|---|---|---|
| Revenue (RM'm) | 946.2 | 831.4 | 986.7 | 1,020.4 |
| EBIT (RM'm) | 144.0 | 151.5 | 174.9 | 183.5 |
| Pretax Profit (RM'm) | 164.2 | 168.0 | 193.9 | 203.5 |
| Net Profit (RM'm) | 155.6 | 141.0 | 160.3 | 168.2 |
| EPS (sen) | 33 | 30 | 34 | 36 |
| EPS growth (%) | 3 | 0 | 14 | 5 |
| PER(x) | 9.8 | 10.8 | 9.5 | 9.1 |
| Net Dividend (sen) | 25 | 21 | 17.9 | 18.8 |
| Net Dividend Yield (%) | 7.7 | 6.5 | 5.5 | 5.8 |

Source: Company, Forecasts by MIDFR




**Prospect for 2010.** Although, the 4Q09 results were disappointing, we do see some positive with the increase throughput. It is possible that these are signs that the global recovery is starting to take hold, which NCB will benefit. However, industry experts remain cautious for FY10, as the recovery is still fragile.

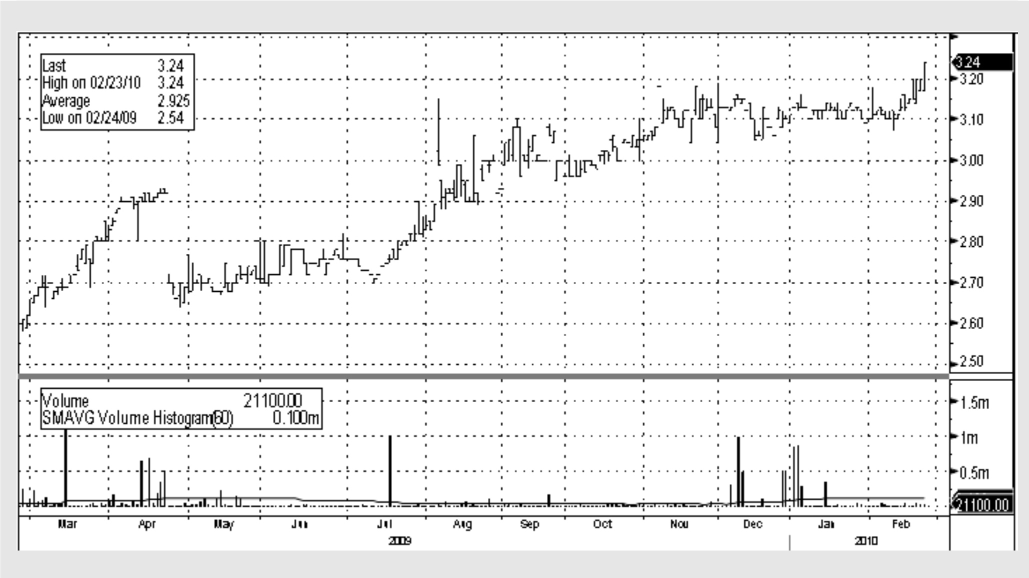
**Valuations.** We are encouraged by the fact that NCB could still declare a dividend payout of 70% despite a disappointing FY09. For FY08, the dividend payout was 75%. We expect this trend to continue as the global recovery would have a positive impact on earnings. Therefore, we based our valuation method on the Dividend Discount Model, discounted at WACC of 8.25%, giving a revised target price of RM3.41. The current price of RM3.24 suggests an upgrade on our recommendation. However, due to cautious prospect of FY10, we maintain NEUTRAL.

### NCB: FY09 RESULTS SUMMARY

| *(All in RM'000 unless stated otherwise)* | **Quarterly Results** | | | **Cumulative** | | **Comments** |
|---|---|---|---|---|---|---|
| FYE Dec | 4Q09 | *%YoY* | *%QoQ* | FY09 | *%YoY* | |
| Port TEU | 798,500.0 | 11.5% | 5.0% | 2,858,341.0 | -4.9% | Port traffic grew as global economic recovery picks up pace. |
| Haulage/Logistic TEU | 71,647.0 | -5.1% | 3.1% | 268,075.0 | -22.2% | Haulage showing signs of recovery with a q-o-q increase. |
| Port Revenue | 170,755.0 | 9.7% | 5.3% | 612,244.0 | -9.0% | The contraction on y-o-y was due to traffic contraction in the previous quarters as the world was in the midst of a recession. |
| Haulage/Logistic Revenue | 58,151.0 | -26.1% | -0.5% | 229,695.0 | -18.9% | Haulage was badly affected by decline in exports in 1H09. |
| Investment Holding | 2,228.0 | 97.7% | 220.6% | 127,942.0 | 3122.7% | |
| Total Revenue | 224,568.0 | -3.3% | 2.9% | 831,415.0 | -12.1% | |
| Expenditure | (190,614.0) | 10.5% | -11.0% | (705,659.0) | 13.2% | |
| Port Profit | 30,718.0 | 41.5% | -40.5% | 148,065.0 | 2.7% | |
| Haulage/Logistics Profit | 5,503.0 | 879.2% | 203.0% | 9,019.0 | 147.3% | |
| Investment Holding Profit | 2,136.0 | -41.5% | -13.3% | 10,200.0 | -36.3% | |
| Profit Before Taxation | 38,534.0 | 48.7% | -31.3% | 167,986.0 | 2.3% | |
| Taxation | (797.0) | 102.8% | -93.1% | (26,916.0) | 224.8% | Taxation is less than the statutory tax rate due to getting Investment Allowance Relief for Northport subsidiary |
| Net Profit | 37,755.0 | -30.7% | -15.3% | 141,043.0 | -9.4% | |

*Source: Company, MIDFR*

**DAILY PRICE CHART**

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| **MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS** | |
|---|---|
| **STOCK RECOMMENDATIONS** | |
| BUY | Total return is expected to be > 5% compared with that of an assigned benchmark over the next 12 months. |
| TRADING BUY | Stock price is expected to rise within 3-months after an investment rating has been assigned due to positive newsflow. |
| NEUTRAL | Total return is expected to be between -5% and +5% compared with that of an assigned benchmark over the next 12 months. |
| SELL | Total return is expected to be < 5% compared with that of an assigned benchmark over the next 12 months. |
| TRADING SELL | Stock price is expected to fall within 3-months after an investment rating has been assigned due to negative newsflow. |
| **SECTOR RECOMMENDATIONS** | |
| OVERWEIGHT | The sector is expected to outperform the overall market over the next 12 months. |
| NEUTRAL | The sector is to perform in line with the overall market over the next 12 months. |
| UNDERWEIGHT | The sector is expected to underperform the overall market over the next 12 months. |