

Equity Beat

25 February 2010

4Q09 Results Review

KFC Holdings (M) Bhd

Still Yummy

Maintain BUY

Increased Target Price (TP): RM8.95 (from RM8.25)

- KFC Holdings (KFCH)' FY09 net earnings of RM130.4m met management guidance of +10%yoy growth. The figure also came within our expectation, accounting for 102.9% of our full year estimate.
- We revised upwards our FY10 profit by +4.1% to RM141.9m, after factoring in more new KFC restaurants assumption (30 outlets vs 25 previously) and higher overall EBIT margin by 0.5%-pts.
- Maintain BUY call with higher target price of RM8.95 per share (RM8.25 previously), derived from on 12.5x EPS10.


STOCK INFO

Price (24 Feb 10)	RM7.94	KLCI	1,270.78
Issued shares (mil)	198.28	Bursa / Bloomberg	3492 / KFC MK
Par Value (RM)	1.00	Board / Sector	Main/ Consumer
Market cap. (RM'm)	1,574.30	Syariah Compliant	Yes
Price over NA	1.99X		
52-wk price Range	RM6.51–RM8.01	Major Shareholders	
Beta (against KLCI)	0.53	QSR	50.25%
3-mth Avg Daily Vol	0.07m	Lembaga Tabung Haji	24.75%
3-mth Avg Daily Value	RM0.55m	Arisaig ASEAN Fund	6.89%

Revenue target achieved. KFCH's FY09 revenue grew +5.4%yoy to RM2.3b, slightly better than ours and management's expectation of 5.2% and 5.0% respectively. This was despite the negative GDP growth of 1.7%yoy during the year. We believe that network expansion of additional 43 KFC restaurants (39 in Malaysia and 4 in Singapore), introduction of new menu, better domestic and export sales of Ayam products, and more importantly support from its loyal patrons attributed to the encouraging performance.

Earnings before interest & tax (EBIT) margin improved marginally by 0.5%-pts% to 8.5% in FY09, translating into +11.7%yoy EBIT growth to RM195.5m. Higher contribution from KFC restaurants division enable it to offset the profit decline in both the integrated poultry and ancillary businesses, which were affected by higher costs of ingredients and packaging materials. Management indicated that better cost efficiency measures are being taken at the production facilities. We expect KFC restaurants division to continue contributing more the 95% of the total company's EBIT.

Final dividend of 16 sen per share gross has been proposed (full year gross = 24 sen), translating into a net yield of 2.3% for the full year.

Maintain BUY call. We are raising our target price for KFCH to RM8.95 from RM8.25 per share, derived from 12.5x EPS10 of 71.6 sen. We continue to like KFCH, underpinned by (i) Proven resilient demand for "Kentucky Fried Chicken"; (ii) Continuous expansion plans especially to the potential market in India, and (iii) Solid balance sheet backed by healthy net operating cash flow. 

FYE Dec	FY07	FY08	FY09	FY10F
Revenue (RM'm)	1,730.4	2,179.8	2,297.4	2,491.8
EBIT (RM'm)	161.9	175.0	195.5	211.0
Pretax Profit (RM'm)	150.6	167.5	190.0	203.0
Net Profit (RM'm)	104.3	118.5	130.4	141.9
EPS (sen)	52.6	59.8	65.8	71.6
EPS growth (%)	6.1%	13.7%	10.0%	8.8%
PER(x)	15.1	13.3	12.1	11.1
Net Dividend (sen)	14.6	16.4	18.0	19.7
Net Dividend Yield (%)	1.8%	2.1%	2.3%	2.5%

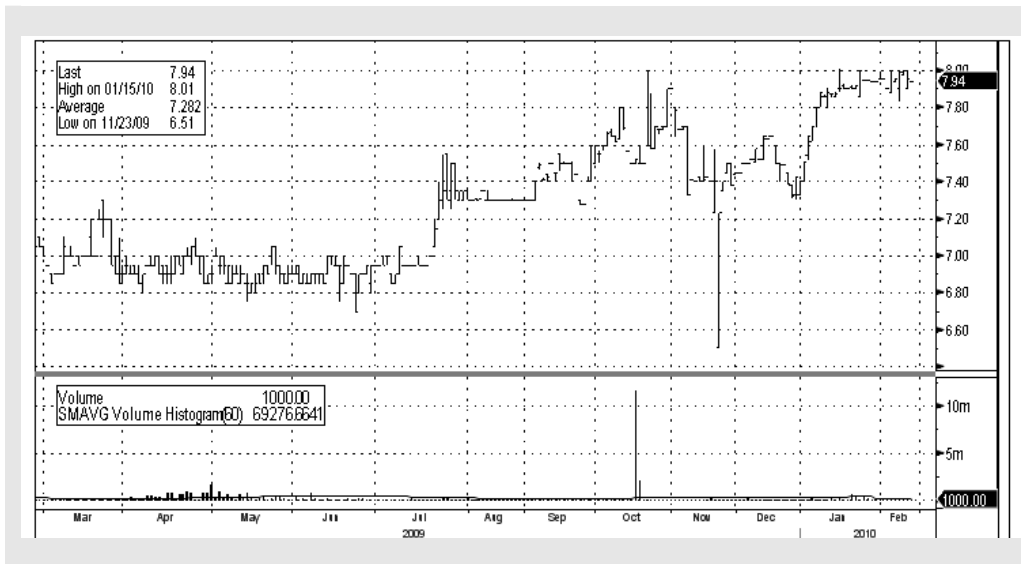
Source: Company, Forecasts by MIDFR

KFCH: 4QFY09 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results			Cumulative		Comments
	4QFY09	%YoY	%QoQ	FY09	%YoY	
Revenue	624.2	3.7%	6.7%	2,297.4	5.4%	Year-on-year performance in FY09 was driven by 8.2% and 8.8% growth in KFC restaurants business and integrated poultry business respectively.
Operating Expenses	-569.3	1.5%	6.4%	-2,105.3	4.7%	
EBIT	55.7	32.8%	10.3%	195.5	11.7%	Margin improvement for KFC restaurant division.
Finance costs	-1.0	-49.5%	-10.0%	-5.4	-28.0%	
Pre-tax profit	54.7	36.8%	10.7%	190.0	13.5%	
Tax	-19.2	70.0%	38.3%	-57.2	21.5%	
Net profit	35.0	23.4%	0.1%	130.4	10.0%	
EPS (sen)	17.7	23.4%	0.1%	65.8	10.0%	
		+/- ppts	+/- ppts		+/- ppts	
EBIT margin (%)	8.9%	2.0	0.3	8.5%	0.5	As above.
Tax rate (%)	35.1%	6.9	7.0	30.1%	2.0	
<u>Revenue Breakdown</u>	4Q09	%YoY	%QoQ	FY09	%YoY	
KFC Malaysia	376.7	4.2%	8.5%	1,365.6	6.3%	Attributed to: (i) Opening of 43 new outlets during the quarter; (ii) Introduction of new products such as Zinger Tower, Colonel Chicken Wings, Jom Jimat promotions, Fiery Lime Crunch, Shrimp Stix, Cheesy Chickaroni, Chicken Pepper Burger and etc.
KFC Foreign	96.7	8.0%	5.5%	358.1	3.9%	New products launching.
Integrated Poultry	125.9	4.3%	1.3%	484.1	8.8%	Better sales to KFC restaurants and improvement in its local and export market sales.
Ancillary	24.9	-17.5%	13.7%	89.6	-15.4%	
<u>EBIT breakdown</u>						
KFC Malaysia	49.7	12.2%	15.3%	170.9	14.4%	As above.
KFC Foreign	6.3	>100%	34.0%	18.1	33.1%	As above
Integrated Poultry	-1.1	-67.6%	>-100%	1.1	-84.5%	Margin squeeze on higher ingredient and packaging costs.
Ancillary	-0.2	-94.4%	-33.3%	-0.1	-96.2%	Margin squeeze on higher raw materials costs.
<u>EBIT margin</u>		+/- ppts	+/- ppts		+/- ppts	
KFC Malaysia	13.2%	0.9	0.8	12.5%	0.9	
KFC Foreign	6.5%	3.5	1.4	5.1%	1.1	
Integrated Poultry	-0.9%	1.9	-2.4	0.2%	-1.4	
Ancillary	-0.8%	11.1	0.6	-0.1%	n.m	

Source: Company, MIDFR

DAILY PRICE CHART



Zulkifli Hamzah
Belford Chang
Chang.kz@midf.com.my
03-2173 8392

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell 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.