

Equity Beat

01 March 2010

FY09 Results Review

Kulim (Malaysia) Berhad

Growth via acquisition

Maintain NEUTRAL

Revised Target Price (TP): RM7.28 (from RM7.00)

- Kulim registered FY09 net earnings of RM142.1m or equivalent to 106% and 84% of ours and consensus estimates. The actual FY09 figure slightly exceeded our expectation (due to better than expected plantation performance in 4QFY09) but way short of consensus.

- The plantation division recorded lower operating profit due to the decline in CPO prices. Oleochemicals division reported a loss due to lower output prices. On the other hand, the foods & restaurants business remained profitable and expanded locally as well as abroad.

- The historical mean PER of Kulim is 7.7x, with a lower and an upper band of around 5x and 11x respectively. In view of the better growth prospects engendered by the recent acquisition, we expect the PER rating of Kulim to hover within the premium half of its PER band. At 75-percentile point, we arrived at a value of RM7.28 on FY10 earnings. We thereby maintain our Neutral recommendation on the stock with a revised target price of RM7.28.

STOCK INFO

Price (25 Feb 10)	RM7.11	KLCI	1,270.78
Issued shares (mil)	318.7	Bursa / Bloomberg	2003/KULMK
Par Value (RM)	0.50	Board / Sector	Main/Plantation
Market cap. (RM'm)	2,265.7	Syariah Compliant	Yes
Price over NTA	0.73		
52-wk price Range	RM4.76–RM7.90	Major Shareholders	
Beta (against KLCI)	1.07	Johor Corp	50.57%
3-mth Avg Daily Vol	0.20m	EPF	4.83%
3-mth Avg Daily Value	RM1.38m	Fidelity	1.11%

Kulim recorded a 45.5% higher revenue at RM5.80 billion for FY09 compared to RM3.99 billion in the corresponding period of FY08. The increase was almost entirely contributed by QSR Brands Berhad (QSR) arising from revenue at KFC Holding Berhad (KFC) consolidated in its first year into Kulim's consolidated revenue. Kulim's earnings however recorded a 59.5% decline to RM142.1 million for FY09 compared to RM351.2 million for FY08.

Lower palm products prices contributed to lower plantation revenue and profit. Kulim's total FFB production for FY09 was at 1,468,412 metric tonnes (mt) [Malaysia: 592K mt; Papua New Guinea (PNG)/Solomon: 876K mt] which was 8.3% higher compared to the total FFB production for FY08. The Malaysian plantation operation achieved CPO cumulative price averages of RM2,284/mt in FY09, 10.3% lower compared to RM2,543/mt realised in FY08. The PNG/Solomon operation (operated under a 51%-owned subsidiary, New Britain Palm Oil Limited or NBPOL) achieved CPO cumulative price average of USD706/mt in FY09, 23.8% lower compared to USD927/mt in FY08. The Plantation division total revenue in FY09 decreased by RM1,608.3 million or 5.0% compared to its revenue of RM1,692.5 million in FY08. It also recorded an 18.2% lower total operating profit of RM368.0 million in FY09 vis-à-vis RM450.0 million in FY08. Lower palm products prices contributed to the drop in total plantation revenue and profit.

Lower glycerine and fatty acid prices tipped the Oleochemicals division into the red. Kulim's Oleochemicals

FYE 31 Dec	FY07	FY08	FY09	FY10F
Revenue (RM'm)	2,741.5	3,866.1	5,801.9	5,900.8
EBIT (RM'm)	703.8	722.0	600.8	881.2
Pretax Profit (RM'm)	641.0	667.7	532.8	826.2
Net Profit (RM'm)	426.8	364.0	142.1	247.9
EPS (sen)	150.9	121.3	44.6	77.8
EPS growth (%)		-19.6%	-63.2%	74.4%
PER(x)	4.7	5.9	15.9	9.1
Net Dividend (sen)	11.1	11.3	7.5	11.3
Net Dividend Yield (%)	1.6%	1.6%	1.1%	1.6%


Source: Company, Forecasts by MIDFR

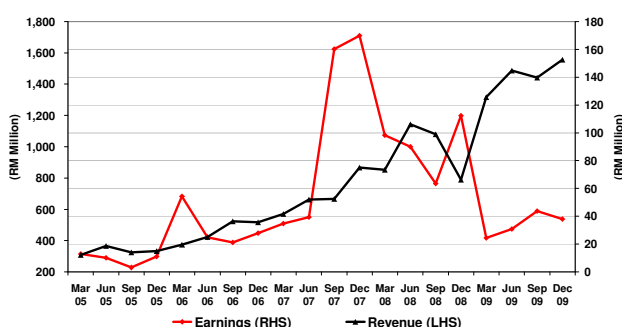
division revenue for FY09 stood at RM1,169.8 million, 25.2% lower compared to the RM1,563.5 million recorded in FY08. The division reported a loss of RM38.4 million in FY09 compared to a profit of RM29.7 million in FY08. Lower glycerine and fatty acid prices contributed to the decline in divisional revenue and tipped the division into the red.

Foods and Restaurant division expanded both locally and abroad. The Foods and Restaurants division recorded revenue of RM2,760.7 million for FY09, representing an increase of 418.2% over prior year corresponding period in 2008. Revenue for FY09 period included that of KFC which became its subsidiary with effect from 2 January 2009. KFC adds in RM2,220.0 million to Kulim's revenue for FY09. On a comparative basis (i.e. excluding KFC), the division turned in revenue of RM545.0 million in FY09 representing an increase of 2.3% over the corresponding period last year. The Foods and Restaurants division registered an operational profit of RM241.9 million for FY09 compared to the corresponding period in 2008 of RM105.6 million, a 129.0% increase. KFC generated better results in FY09 with improved sales at its restaurants with a pre-tax profit of RM190.0 million as compared to RM167.5 million in the prior year's corresponding period. This represented a 13.4% increase in year-on-year profitability. The Foods and Restaurants division continued to expand its network in FY09 where 21 and 39 new outlets (net of closures) were open in Malaysia for Pizza Hut and KFC respectively. During FY09, KFC Cambodia also increased its network of stores from 4 to 7 outlets.

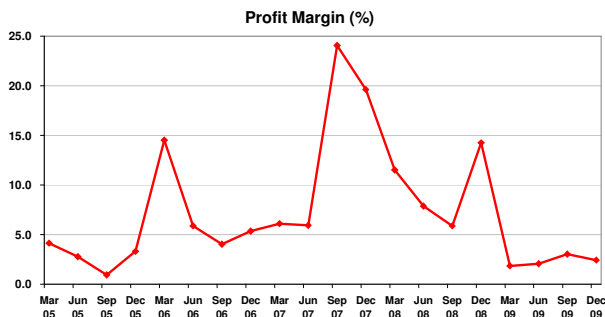
Recent developments. NBPOL, Kulim's 51%-owned subsidiary, announced on 24 February 2010 that it has agreed to acquire 80% of the shares in CTP PNG Limited (CTP) from Cargill Inc (the world's largest agribusiness company), and Temasek Holdings (the Singapore government investment arm). In its filing to the Bursa Malaysia, Kulim said the deal is expected to close by end-April. CTP is an established oil palm plantation company operating in PNG with over 25,000 hectares of producing oil palm plantations with five mills, producing CPO and other palm products for the international market. This acquisition will increase NBPOL plantation area by almost 50% to about 75,000 hectares. CTP will be acquired for USD175 million (or RM595 million @USD/MYR3.40) payable in cash, plus additional USD25 million (or RM85 million) in relation to stocks and capital expenditure at the three estates, namely Higaturu, Milne Bay and Poliamba. NBPOL will borrow USD200 million (or RM680 million) to finance the purchase and capital expenditure. Based on the consideration of USD175 million, the acquisition equates to a price of USD8,670 (or RM29,478) per planted hectare with full management control by NBPOL. At about USD0.08/square feet (sf) (or MYR0.27/sf), the acquisition price is very reasonable for producing oil palm plantations with mills. While this acquisition will increase Kulim's gearing by 0.21x, it is expected to be earnings accretive since the plantations are already income-generating.

Prospects. CPO prices are expected to remain firm in 2010 with mean average price of RM2,450/mt. This would have a direct positive impact on plantation performance barring any adverse weather impact on plantation yields. Kulim's plantation operation in PNG/Solomon is expanding with newly acquired plantation assets and new planting/replanting areas which are gradually bringing in more crops as they age into prime and expected to contribute to higher output. Barring the unforeseen, the Plantation division performance in FY10 is expected to surpass the performance recorded in FY09. The Food and Restaurants division is also expected to sustain and better its FY09 performance in view of the continued economic recovery and favourable employment situation. Except for the Oleochemicals division which is suffering from soft product prices, we foresee a buoyant overall outlook for Kulim in FY10.

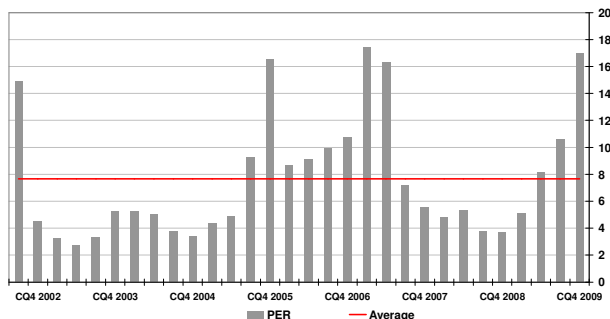
We recommend a Neutral rating with target price of RM7.28. The historical mean PER of Kulim is 7.7x, with a lower and an upper band of around 5x and 11x respectively (see PER chart below). Applying that empirical measures on FY10 earnings, we arrived at lower, mean and upper band prices of RM3.89, RM6.00 and RM8.56 respectively. In view of the improving growth prospects engendered by the recent acquisition, we expect the PER rating of Kulim to hover within the premium half of its PER band. At 75-percentile point, we arrived at a value of RM7.28. We thereby maintain our **Neutral** recommendation on the stock with a revised target price of RM7.28. 



Revenue continued to rise with the inclusion of KFC sales after it became a subsidiary in January 2009. Earnings were prominently influenced by the ups and downs in CPO prices.



Profit margin was also influenced by the CPO prices.



Comparatively low historical average PER of 7.7x.

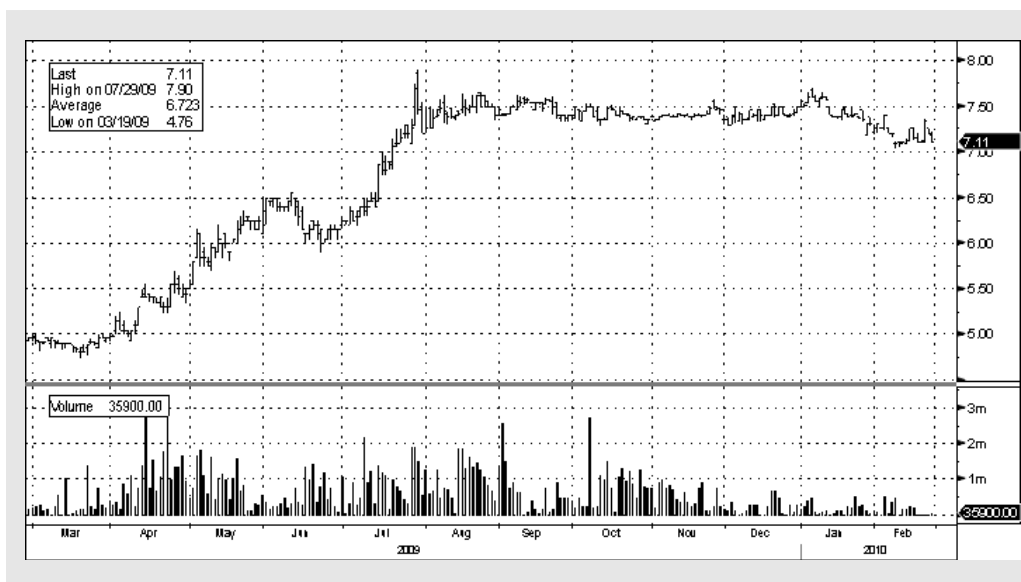
Kulim (Malaysia) Berhad: FY09 RESULTS SUMMARY

FYE Dec (RM m)	Quarterly Results			Cumulative		Comments
	4Q09	%YoY	%QoQ	FY09	%YoY	
Revenue	1,556.4	70.7%	8.0%	5,801.9	45.4%	Big revenue increase due to the inclusion of KFC Holdings' sales as it became an indirect subsidiary
Operating profit	178.0	1178.0%	13.1%	590.9	-10.5%	Lower profit mainly due to lower CPO prices and shrinkage in manufacturing margin
Interest income	0.3	-91.1%	-83.5%	5.4	-68.2%	
Interest expense	-17.7	-14.2%	11.0%	-68.0	-3.7%	
Pre-tax profit	160.6	24.2%	12.1%	532.8	-20.2%	As above
Tax	-74.3	1843.4%	132.4%	-172.4	22.0%	
Net Profit	37.9	-61.9%	-13.3%	142.1	-59.5%	
EPS (sen)	12.3	-63.0%	-13.2%	46.0	-60.7%	
		+/- ppts	+/- ppts		+/- ppts	
Op margin (%)	11.4%	9.9	0.5	10.2%	-6.4	
Tax rate (%)	46.2%	43.3	23.9	32.4%	11.2	
Segmental						
<u>Revenue:</u>						
Plantation	431.1	9.0%	11.0%	1,608.3	-5.0%	Lower CPO prices
Manufacturing	307.8	-11.5%	5.1%	1,169.8	-25.2%	Lower glycerine and fatty acids prices
Restaurants	755.2	435.9%	8.8%	2,760.7	418.2%	Full contribution from KFC Holdings as an indirect subsidiary
<u>Operating Profit:</u>						

Plantation	118.6	128.6%	51.4%	368.0	-18.2%	Lower CPO prices
Manufacturing	-11.8	-69.3%	447.5%	-38.4	-229.6%	Lower glycerine and fatty acids prices
Restaurants	73.1	166.7%	22.7%	241.9	129.0%	Full contribution to operating profit from KFC Holdings as an indirect subsidiary
Operating Margin:		+/- ppts	+/- ppts		+/- ppts	
Plantation	27.5%	14.4	7.3	22.9%	-3.7	Lower plantation margin due to lower CPO prices
Manufacturing	-3.8%	7.2	-3.1	-3.3%	-5.2	Smaller decline in major feedstock costs but bigger decline in prices of output
Restaurants	9.7%	-9.8	1.1	8.8%	-11.1	

Source: Company, MIDFR

DAILY PRICE CHART



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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.