



KUMPULAN FIMA BERHAD

Neutral

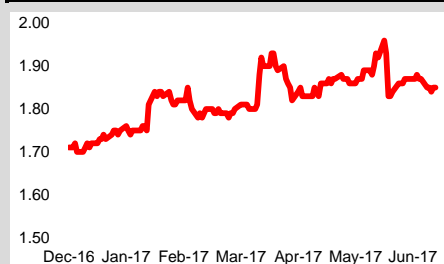
DESCRIPTION

Operating in 5 core segments – manufacturing of mackerel and tuna, cultivation of oil palm plantation, bulking, trading of confidential security documents including bank note printing and property management.

12-Month Target Price RM1.85
Current Price RM1.85
Expected Return 0%

Market Main
Sector Consumer
Bursa Code 6491
Bloomberg Ticker FIMA MK
Shariah-Compliant Yes

SHARE PRICE CHART



52 Week Range (RM) 1.69 – 1.99
3-Month Average Vol ('000) 238.2

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-2.1	2.2	8.2
Relative Returns	-2.2	0.5	-1.6

KEY STOCK DATA

Market Capitalisation (RMm) 522.1
No. of Shares (m) 282.2

MAJOR SHAREHOLDERS

	%
BHR Enterprise Sdn Bhd	52.6
Subur Rahmat Sdn Bhd	7.0
Teo Tin Lun	3.0

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Earnings Risk From Indonesian Plantations

Kumpulan Fima (KFima) announced that there is a deviation of more than 10% between the Group's PATAMI in its unaudited 4QFY17 results and its audited full FY17 financial statement due to a legal proceedings issue on its Indonesian plantation area. After adjusting for impairment losses on biological assets (RM24.8m) and property, plant and equipment (RM4.6m), PATAMI amounted to RM29.8m, down 40.6% from previously reported RM50.3m in the unaudited 4QFY17 results. An appeal has been made against the decision, of which the outcome is pending. KFima assures that the local government in Kabupaten, Nunukan is expected to continue allowing the plantation operations until final decision is made by the authorities. Regardless, we are conservative over this issue, and would like to flag a potential downside risk of c.10% to our earnings forecast going forward, based on our assessment on its contributions, if the appeal is later dismissed. At this juncture, we remain **Neutral** with TP of RM1.85 unchanged.

§ **Details.** The primary cause of the deviation was due to the adjustments made by KFima's subsidiary, Fima Corporation (FimaCorp) in relation to impairment losses made by PT Nunukan Jaya Lestari (PTNJL), its Indonesian subsidiary, as the State Administrative Court decided to dismiss PTNJL's application to annul the order issued by the Menteri Agraria dan Tata Ruang/Kepala Badan Pertanahan Nasional to revoke PTNJL's land title Hak Guna Usaha No. 01/Nunukan Barat (HGU) with immediate effect. The reason for the decision to revoke was that the HGU was improperly issued due to administrative irregularities performed by certain officers of the Badan Pertanahan Nasional Provinsi Kalimantan Timur at the time of the issuance of the HGU in 2003, resulting in parts of the area within the HGU to overlap with forestry areas.

§ **Our view.** PTNJL had appealed to the Pengadilan Tinggi Tata Usaha Negara Jakarta against the decision of the State Administrative Court, of which the outcome is pending. PTNJL also expects the local government in Kabupaten, Nunukan to continue allowing PTNJL to operate its plantation operations until final decision is made on the issue by the authorities. Despite this assurance, we are cautious on the potential hurdle to growth and subsequent downside risk to the Group's earnings as the plantations division is expected to be KFima's growth driver (26.8% of FY17 revenue contribution), together with the food division going forward.

§ **Earnings risk.** Plantations made up c.20% of FY17 PBT based on the unaudited 4QFY17 results. Currently, the size of PTNJL's total planted area is substantial at c.50% of KFima's total planted area. Though we are unable to ascertain the precise effect, based on our assessment, this poses a downside risk of c.10% at PBT level, hence could subsequently affect earnings unfavourably.

KEY FORECAST TABLE

FYE Mar (RM m)	2016A	2017A	2018F	2019F	2020F	CAGR
Revenue	541.1	547.2	563.1	600.2	631.4	3.9%
Gross Profit	110.5	111.9	115.8	123.3	129.7	4.1%
Pre-tax Profit	111.7	84.6	118.1	126.1	132.5	4.4%
Net Profit	56.7	29.8	55.0	59.4	62.6	2.5%
EPS (Sen)	20.3	10.5	19.6	21.2	22.4	2.4%
P/E (x)	9.1	17.5	9.4	8.7	8.3	
DPS (Sen)	9.0	9.0	10.0	11.0	12.0	
Dividend Yield (%)	4.9	4.9	5.4	5.9	6.5	

Source: Company, PublicInvest Research estimates

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Mar (RM m)	2016A	2017A	2018F	2019F	2020F
Revenue	541.1	547.2	563.1	600.2	631.4
Operating expenses	-430.6	-435.3	-447.2	-477.0	-501.8
Operating Profit	110.5	111.9	115.8	123.3	129.7
Other Income/(Expense)	1.7	-26.5	2.9	2.9	2.9
Finance Costs	-0.5	-0.7	-0.7	0.0	0.0
Pre-tax Profit	111.7	84.6	118.1	126.1	132.5
Income Tax	-31.7	-34.2	-35.4	-37.8	-39.8
Effective Tax Rate	28.4%	32.7%	30.0%	30.0%	30.0%
Minorities	-23.3	-20.6	-27.6	-28.9	-30.2
Net Profit	56.7	29.8	55.0	59.4	62.6
Growth					
Revenue (%)	-1%	1%	3%	7%	5%
Gross Profit (%)	-7%	1%	3%	6%	5%
Net Profit (%)	-3%	-47%	9%	8%	5%

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Mar (RM m)	2016A	2017A	2018F	2019F	2020F
Property, Plant & Equipment	344.4	339.1	322.6	305.5	288.3
Cash and Bank Balances	247.6	390.8	447.2	525.3	607.9
Receivables	211.5	141.5	145.7	155.4	163.5
Other Assets	382.1	397.7	391.8	389.0	385.2
Total Assets	1,185.7	1,269.0	1,307.2	1,375.2	1,444.9
Payables	104.6	112.5	109.6	116.7	122.7
Borrowings	15.3	14.5	0.0	0.0	0.0
Deferred tax	47.0	39.8	39.8	39.8	39.8
Other Liabilities	19.5	38.0	38.6	40.0	41.2
Total Liabilities	186.4	204.8	188.0	196.6	203.7
Total Equity	999.3	1,064.2	1,119.2	1,178.6	1,241.2
Total Equity and Liabilities	1,185.7	1,269.0	1,307.2	1,375.2	1,444.9

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Mar	2016A	2017A	2018F	2019F	2020F
Book Value Per Share	2.7	2.8	3.0	3.2	3.5
EPS (Sen)	20.3	10.5	19.6	21.2	22.4
DPS (Sen)	9.0	9.0	10.0	11.0	12.0
ROA (%)	4.8%	4.0%	4.2%	4.3%	4.3%
ROE (%)	5.7%	4.7%	4.9%	5.0%	5.0%

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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