



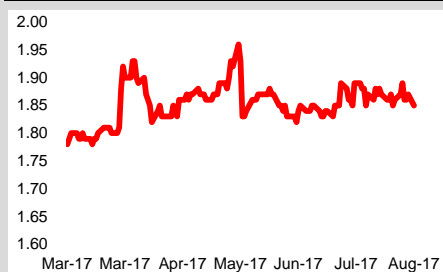
#### DESCRIPTION

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	RM1.72
Previous Target Price	RM1.85
Current Price	RM1.85
Expected Return	-7.0%

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

#### SHARE PRICE CHART



52 Week Range (RM)	1.69 – 1.96
3-Month Average Vol ('000)	145.5

#### SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	0.5	-3.1	3.9
Relative Returns	-2.2	-3.5	-1.1

#### KEY STOCK DATA

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

#### MAJOR SHAREHOLDERS

	%
BHR Enterprise Sdn Bhd	52.2
Subur Rahmat Sdn Bhd	7.0
Halley Asian Prosperity	2.2

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## Slow Start for FY18

Kumpulan Fima (KFima) reported a weak 1QFY18 net profit of RM4.9m (-58.7% YoY), which only met 10% of our FY18 estimates. 1QFY18 group revenue decreased 2.9% YoY, attributed to mixed performance of each division. Plantation and food divisions recorded higher revenue, while manufacturing and bulking's declined. Though we like KFima for its long-term growth prospects, strong cash position and attractive dividends, we are concerned over the manufacturing and bulking divisions' challenging outlook. We revise our earnings estimates by -38% to -40% for FY18F-20F to account for near-term operational challenges in these two divisions. We maintain our **Neutral** call, but with a lower SOP-based TP of RM1.72 (RM1.85 previously) pegged to our FY18F estimates.

§ **Manufacturing.** 1QFY18 revenue declined 31.9% YoY to RM36.2m, while 1QFY18 PBT dropped to RM5.2m (-61.9% YoY), primarily due to decrease in sales volume of travel documents. On the back of challenging sector outlook, growing competition and expiry of a contract for travelling documents, we expect sales to be lower this year.

§ **Plantation division's** 1QFY18 revenue was 40.6% higher YoY at RM45.0m, attributed to higher CPO sales quantity (+30.1% YoY) and lower cost of FFB produced. Average CPO price was higher for the period, at RM2,570/mt for 1QFY18 (1QFY17: RM2,204/mt). 1QFY18 PBT jumped more than 100% to RM8.2m. PBT margin for the segment increased to 18.2% from 11.1% in 1QFY17. Plantation division is expected to drive long-term growth, as new plantings move into productive age and increase crop performance.

§ **Bulking** revenue declined to RM10.2m for 1QFY18 (-30.1% YoY). Subsequently, PBT was lower by 52.5% YoY to record RM3.6m. The weaker performance was due to lower sales by all products segment, on top of effects of lower palm oil inventories nationwide during the quarter. PBT margin also decreased to 35.7% from 52.6% in 1QFY17.

§ **Food division's** revenue improved for 1QFY18, up by 20.6% YoY to RM28.9m, due to higher local sales of canned mackerel and tuna, and tuna exports. However, pretax loss was slightly wider at RM0.3m compared to RM0.2m pretax loss in 1QFY17, attributed to higher overhead expenses and unrealised forex loss.

#### KEY FORECAST TABLE

FYE Mar (RM m)	2016A	2017A	2018F	2019F	2020F	CAGR
Revenue	541.1	547.2	484.5	520.2	549.6	0.4%
Gross Profit	110.5	82.6	71.0	75.3	78.8	-8.1%
Pre-tax Profit	111.7	84.7	73.2	78.1	81.6	-7.5%
Net Profit	56.7	29.8	34.2	36.9	38.5	-9.3%
EPS (Sen)	20.3	10.7	12.2	13.2	13.7	-9.3%
P/E (x)	9.1	17.3	15.1	14.0	13.5	
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

**Table 1: Results Summary**

<u>FY Mar (RMm)</u>	<u>1Q18</u>	<u>1Q17</u>	<u>4Q17</u>	<u>YoY chg (%)</u>	<u>QoQ chg (%)</u>	<u>YTD FY17</u>	<u>YTD FY16</u>	<u>YoY chg (%)</u>	<u>Comments</u>
<b>Revenue</b>	<b>121.1</b>	<b>124.8</b>	<b>127.3</b>	<b>-2.9</b>	<b>-4.8</b>	<b>121.1</b>	<b>124.8</b>	<b>-2.9</b>	Decreased due to mixed performance of each division
Cost of sales	-77.7	-78.1	-72.4	-0.4	7.4	-77.7	-78.1	-0.4	
Gross Profit	43.4	46.7	54.9	-7.1	-21.0	43.4	46.7	-7.1	
Other operating income/ (expenses)	-26.8	-21.1	-32.5	27.1	-17.5	-26.8	-21.1	27.1	
<b>Operating profit/(loss)</b>	<b>16.6</b>	<b>25.6</b>	<b>22.4</b>	<b>-35.4</b>	<b>-26.1</b>	<b>16.6</b>	<b>25.6</b>	<b>-35.4</b>	
Finance costs	-0.1	-0.7	-0.2	-79.5	-35.3	-0.1	-0.7	-79.5	
Share of profits of associates	-0.5	1.2	2.0	-137.0	-122.3	-0.5	1.2	-137.0	
<b>Profit/ (loss) before tax</b>	<b>16.0</b>	<b>26.2</b>	<b>24.2</b>	<b>-39.0</b>	<b>-34.1</b>	<b>16.0</b>	<b>26.2</b>	<b>-39.0</b>	
Income tax expense	-6.6	-8.6	-12.1	-24.1	-46.0	-6.6	-8.6	-24.1	
Non-controlling Interests	-4.5	-5.6	-6.8	-20.1	-33.7	-4.5	-5.6	-20.1	
<b>PATAMI</b>	<b>4.9</b>	<b>11.9</b>	<b>5.3</b>	<b>-58.7</b>	<b>-7.6</b>	<b>4.9</b>	<b>11.9</b>	<b>-58.7</b>	<b>Below expectations, at only 10% of our estimates</b>
Operating Margin (%)	14	21	18	-33	-22	14	21	-33	
Pre-tax Margin (%)	13	21	19	-37	-31	13	21	-37	
Core Net Margin (%)	4	10	4	-57	-3	4	10	-57	
<b>Segment Revenue</b>									
Manufacturing	36.2	53.2	40.2	-31.9	-9.9	36.2	53.2	-31.9	
Plantation	45.0	32.0	40.7	40.6	10.4	45.0	32.0	40.6	Plantation growth attributed to higher CPO sales quantity (+30.1% YoY) and lower cost of FFB produced
Bulking	10.2	14.5	10.1	-30.1	0.9	10.2	14.5	-30.1	Lower sales by all products segment
Food	28.9	23.9	33.9	20.6	-14.8	28.9	23.9	20.6	Higher local sales of canned mackerel and tuna, and tuna exports
<b>Segment Pre-tax Profit</b>									
Manufacturing	5.2	13.6	11.2	-61.9	-53.7	5.2	13.6	-61.9	
Plantation	8.2	3.5	8.6	130.9	-5.4	8.2	3.5	130.9	
Bulking	3.6	7.7	3.3	-52.5	11.7	3.6	7.7	-52.5	
Food	-0.3	-0.2	-1.6	38.3	-79.0	-0.3	-0.2	38.3	Pretax loss attributed to higher overhead expenses and unrealised forex loss

Source Company, PublicInvest Research

**Table 2: SOP Valuation**

	<u>FY18F PATAMI</u>	<u>P/E</u>	<u>RM (m)</u>
<b>Manufacturing</b>	9.7	4	34.0
<b>Plantation</b>	16.9	6	101.3
<b>Bulking</b>	7.4	4	27.7
<b>Food</b>	0.3	4	0.9
			163.9
		<b>Net Cash</b>	376.3
		<b>SOP</b>	540.2
		<b>No. of Shares</b>	282.2
		<b>Target Price (10% discount)</b>	1.72

Source: PublicInvest Research

## KEY FINANCIAL DATA

### INCOME STATEMENT DATA

FYE Mar (RM m)	2016A	2017A	2018F	2019F	2020F
Revenue	541.1	547.2	484.5	520.2	549.6
Operating expenses	-430.6	-464.7	-413.6	-444.9	-470.8
Operating Profit	110.5	82.6	71.0	75.3	78.8
Other Income/(Expense)	1.7	2.9	2.9	2.9	2.9
Finance Costs	-0.5	-0.7	-0.7	0.0	0.0
Pre-tax Profit	111.7	84.7	73.2	78.1	81.6
Income Tax	-31.7	-34.2	-22.0	-23.4	-24.5
Effective Tax Rate	28.4%	40.4%	30.0%	30.0%	30.0%
Minorities	-23.3	-20.6	-17.0	-17.8	-18.7
Net Profit	56.7	29.8	34.2	36.9	38.5
<b>Growth</b>					
Revenue (%)	-1%	1%	-11%	7%	6%
Gross Profit (%)	-7%	-25%	-14%	6%	5%
Net Profit (%)	-3%	-47%	15%	8%	4%

Source: Company, PublicInvest Research estimates

### BALANCE SHEET DATA

FYE Mar (RM m)	2016A	2017A	2018F	2019F	2020F
Property, Plant & Equipment	344.4	319.1	326.3	312.8	299.2
Cash and Bank Balances	247.6	390.8	434.8	486.5	541.3
Receivables	211.5	140.7	130.0	140.0	148.4
Other Assets	382.1	373.7	383.8	381.4	377.8
<b>Total Assets</b>	<b>1,185.7</b>	<b>1,224.3</b>	<b>1,274.9</b>	<b>1,320.8</b>	<b>1,366.6</b>
Payables	104.6	112.5	101.0	108.6	114.9
Borrowings	15.3	14.5	0.0	0.0	0.0
Deferred tax	47.0	32.9	39.8	39.8	39.8
Other Liabilities	19.5	38.0	35.5	36.9	38.1
<b>Total Liabilities</b>	<b>186.4</b>	<b>197.9</b>	<b>176.4</b>	<b>185.4</b>	<b>192.8</b>
Total Equity	999.3	1,026.4	1,098.5	1,135.4	1,173.8
<b>Total Equity and Liabilities</b>	<b>1,185.7</b>	<b>1,224.3</b>	<b>1,274.9</b>	<b>1,320.8</b>	<b>1,366.6</b>

Source: Company, PublicInvest Research estimates

### PER SHARE DATA & RATIOS

FYE Mar	2016A	2017A	2018F	2019F	2020F
Book Value Per Share	2.7	2.7	2.9	3.1	3.2
EPS (Sen)	20.3	10.7	12.2	13.2	13.7
DPS (Sen)	9.0	9.0	10.0	11.0	12.0
ROA (%)	4.8%	2.4%	2.7%	2.8%	2.8%
ROE (%)	5.7%	2.9%	3.1%	3.2%	3.3%

Source: Company, PublicInvest Research estimates

## **RATING CLASSIFICATION**

### **STOCKS**

<b>OUTPERFORM</b>	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
<b>NEUTRAL</b>	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
<b>UNDERPERFORM</b>	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>TRADING SELL</b>	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
<b>NOT RATED</b>	The stock is not within regular research coverage.

### **SECTOR**

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

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#### **Published and printed by:**

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