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## Kumpulan Fima Berhad

Results Within Expectation

TP: RM1.89 (+16.7%)

Last Traded: RM1.62

Buy

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### Review

- KFIMA's 2QFY18 results came in within expectations. Excluding unrealised forex and other non-core items, 2QFY18 core net profit increased by 19.9% YoY to RM12.4mn. The improvement in earnings was mainly due to favourable profit mix resulted in lower minority interest in the quarter under review. At PBT level, the adjusted earnings dropped by 4.5% YoY, which we believe it was due to expiry of passport printing contract.
- IHFY18 core net profit decreased by 7.8% YoY to RM20.4mn, accounting for 54% of our full-year earnings estimates.
- **Manufacturing:** IHFY18 revenue plunged 40.6% YoY to RM75.5mn, mainly due to decrease in sales volume of travel document. On the back of lower revenue, PBT decreased by 54.3% YoY to RM14.8mn.
- **Plantation:** This division registered a 53.7% YoY growth in PBT in IHFY18, as a result of higher sales of CPO, FFB and pineapple. CPO and CPKO sales volume increased 5.5% and 14.6% YoY to 25,257 tonnes and 2,378 tonnes, respectively. The average selling price of CPO was flattish YoY at RM2,376/tonne while the CPKO price decreased by 19.8% to RM4,069/tonne.
- **Bulking:** IHFY18 PBT dropped 20.0% YoY to RM9.1mn, in tandem with 11% drop in revenue. The decrease was mainly due to lower contribution from most of the products segments. This division was also impacted by the effects of low palm oil inventories nationwide.
- **Food:** IHFY18 revenue increased by 19.0% YoY to RM60.8mn, driven by higher local sales of canned mackerel and tuna as well as exports of tuna products. Nonetheless, PBT decreased to RM1.4mn (-32.5% YoY) mainly due to forex loss.
- There was no dividend declared for the quarter under review.

### Impact

- No change to our earnings forecasts.

### Outlook

- Following the expiration of a supply contract for Malaysian passport, management will realign its efforts to focus on establishing new strategic alliances by developing new products and solutions.
- FFB yield is recovering and is expected to improve further. We expect FFB production growth to accelerate over the next three years, mainly due to new estates coming into maturity in Sarawak and Peninsular Malaysia.
- The lower contribution from the manufacturing division will be partly offset

### Stock Return Information

KLCI	1717.23
Expected Share Price Return (%)	16.5
Expected Dividend Return (%)	5.6
Expected Total Return (%)	16.5

### Share Information

Bloomberg Code	FIMA MK
Stock Code	6491
Listing	Main Market
Issued Share (mn)	282
Market Cap (RMmn)	457.2
Par Value (RM)	1.00
52-wk Hi/Lo (RM)	1.96/1.60
Estimated Free Float (%)	36
Beta (x)	0.5
3-Month Average Volume ('000)	83.0

### Top 3 Shareholders (%)

BHR Enterprise	52.2
Subur Rahmat	7.02
Teo Tin Lun	3.01

### Share Performance (%)

Price Change	KFIMA	FBM KLCI
1 mth	(4.1)	(1.7)
3 mth	(13.4)	(2.9)
12 mth	(8.5)	5.5

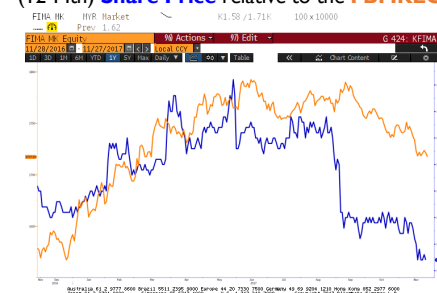
### Financial Info

	FY18	FY19
Debt to Equity Ratio	Net Cash	Net Cash
ROA (%)	3.0	3.2
ROE (%)	4.8	5.2
NTA/Share (RM)	3.8	3.9
Price/NTA (x)	0.4	0.4

### Scorecard

	% of FY	
vs. TA	54.0	Within
vs. Consensus	N/A	N/A

### (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

by higher profit from the plantation division.

### Valuation

- Maintain KFIMA's target price at **RM1.89**, based on DDM valuation with cost of equity of 8.5% and terminal growth rate of 4.0%. The TP implies a forward CY18 PER of 13.3x. As the share price retreated to a levels which generate decent dividend yield (5.3%), we upgraded the stock to **BUY** from Hold.

### 2QFY18 Results Analysis (RMmn)

FYE Mar (RMmn)	2QFY17	1QFY18	2QFY18	QoQ %	YoY %	1HFY17	1HFY18	YoY %
<b>Revenue</b>	<b>154.6</b>	<b>121.1</b>	<b>117.4</b>	<b>(3.1)</b>	<b>(24.1)</b>	<b>279.4</b>	<b>238.6</b>	<b>(14.6)</b>
- Manufacturing	73.9	36.2	39.3	8.5	(46.8)	127.1	75.5	(40.6)
- Plantation	41.9	45.0	32.9	(26.8)	(21.5)	73.9	77.9	5.4
- Bulking	10.8	10.2	12.4	21.7	14.9	25.3	22.5	(11.0)
- Food	27.1	28.9	31.9	10.3	17.5	51.1	60.8	19.0
- Others	6.2	3.3	5.8	76.6	(6.3)	9.8	9.1	(7.7)
- Elimination	(5.3)	(2.4)	(4.8)	>-100	8.8	(7.8)	(7.2)	8.0
<b>EBIT</b>	<b>25.7</b>	<b>17.2</b>	<b>23.9</b>	<b>39.2</b>	<b>(6.9)</b>	<b>50.2</b>	<b>41.8</b>	<b>(16.7)</b>
Net interest	1.7	1.1	2.2	>100	32.7	3.1	3.3	5.1
El & Forex	4.3	(2.3)	(1.6)	31.5	(136.6)	4.5	(4.6)	nm
<b>PBT</b>	<b>31.6</b>	<b>16.0</b>	<b>24.5</b>	<b>53.6</b>	<b>(22.4)</b>	<b>57.8</b>	<b>40.5</b>	<b>(29.9)</b>
- Manufacturing	18.8	5.2	9.6	86.3	(48.7)	32.4	14.8	(54.3)
- Plantation	7.0	8.2	8.0	(2.4)	14.5	10.5	16.1	53.7
- Bulking	3.8	3.6	5.5	51.4	46.3	11.4	9.1	(20.0)
- Food	2.4	(0.3)	1.8	nm	(25.1)	2.1	1.4	(32.5)
- Others	0.5	(0.2)	(0.1)	50.7	nm	0.9	(0.3)	nm
- Associates	(0.8)	(0.5)	(0.3)	40.9	65.9	0.4	(0.7)	nm
<b>Adj PBT</b>	<b>27.3</b>	<b>18.3</b>	<b>26.1</b>	<b>42.9</b>	<b>(4.5)</b>	<b>53.3</b>	<b>45.1</b>	<b>(15.4)</b>
Tax	(8.8)	(6.6)	(8.3)	(26.4)	5.9	(17.5)	(14.9)	14.9
MI	(8.1)	(4.5)	(5.4)	(19.9)	34.1	(13.7)	(9.8)	28.4
<b>Net Profit</b>	<b>14.6</b>	<b>4.9</b>	<b>10.9</b>	<b>&gt;100</b>	<b>(25.9)</b>	<b>26.6</b>	<b>15.8</b>	<b>(40.6)</b>
<b>Core Net Profit</b>	<b>10.4</b>	<b>7.2</b>	<b>12.4</b>	<b>72.1</b>	<b>19.9</b>	<b>22.1</b>	<b>20.4</b>	<b>(7.8)</b>
Core EPS (sen)	1.2	0.8	1.4			2.5	2.3	
<b>GDPS (sen)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>			<b>0.0</b>	<b>0.0</b>	
EBIT Margin	16.6%	14.2%	20.3%			18.0%	17.5%	
Adj PBT Margin	17.7%	15.1%	22.2%			19.1%	18.9%	
Core Net Margin	6.7%	6.0%	10.6%			7.9%	8.5%	
Tax rate	32.3%	35.9%	31.8%			32.7%	32.9%	

## Plantation Statistic

	2QFY17	1QFY18	2QFY18	QoQ %	YoY %	1HFY17	1HFY18	YoY %
FFB (tonne)	38,127	47,564	51,051	7.3	33.9	74,459	98,615	32.4
FFB yield/ha (tonne)	5.150	6.25	5.21	(16.6)	1.2	10.05	11.46	14.0
CPO produced (tonne)	11,086	13,165	13,823	5.0	24.7	21,766	26,988	24.0
OER (%)	23.21	22.44	22.57	0.6	(2.8)	23.21	22.57	(2.8)
Cost of FFB produced (RM/tonne)	324.93	222.19	244.58	10.1	(24.7)	324.93	244.58	(24.7)
CPO Sales (tonne)	12,924	14,334	10,923	(23.8)	(15.5)	23,940	25,257	5.5
CPKO Sales (tonne)	1,053	1,388	990	(28.7)	(6.0)	2,075	2,378	14.6
<b>ASP (RM/tonne)</b>								
CPO	2,431	2,570	2,121	(17.5)	(12.8)	2,358	2,376	0.8
CPKO	5,642	4,170	3,972	(4.7)	(29.6)	5,075	4,069	(19.8)

## Earnings Summary (RMmn)

FYE March 31 (RMmn)	FY16	FY17	FY18E	FY19F	FY20F
Revenue	541.1	547.2	522.0	559.8	607.0
Adjusted EBITDA	135.9	135.6	103.5	110.6	122.8
EBITDA margin (%)	25.1	24.8	19.8	19.8	20.2
Pretax profit	111.7	114.0	90.5	98.8	112.2
Reported Net Profit	56.7	29.8	37.5	40.9	46.5
Core Net Profit	56.7	56.1	37.5	40.9	46.5
Reported EPS (sen)	20.1	10.6	13.3	14.5	16.5
Core EPS (diluted) (sen)	20.1	19.9	13.3	14.5	16.5
Core EPS growth (%)	(3.1)	(1.0)	(33.2)	9.2	13.5
PER (x)	8.5	8.5	12.8	11.7	10.3
GDPS (sen)	9.0	9.0	9.0	9.0	9.0
Div yield (%)	5.3	5.3	5.3	5.3	5.3
Core ROE (%)	7.7	7.4	4.8	5.2	5.8

## Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.  
**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.  
**SELL** : Total return is lower than the required rate of return.  
**Not Rated**: The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Monday, November 27, 2017, the analyst, Angeline Chin, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

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