

# NPC Resources

Recommendation: **HOLD**

Stock Code: **5047**

Bloomberg: **NPC MK**

Price: **MYR1.88**

12-Month Target Price: **MYR2.20**

Date: **May 27, 2010**

**Board:** Main

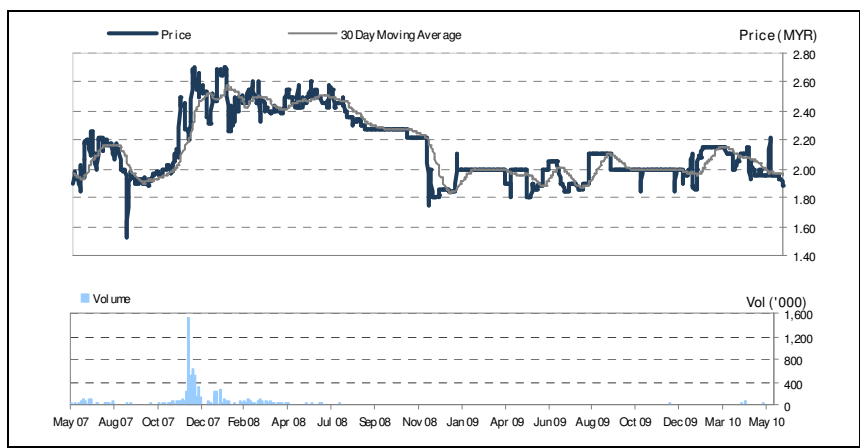
**Sector:** Plantation

**GICS:** Consumer Staples/Agricultural Products

**Market Value - Total:** MYR225.6 mln

**Summary:** NPC Resources (NPC) has 8,774 hectares (ha) of oil palm plantations in Sabah and is in the midst of expanding its plantations to Indonesia. NPC also owns the Berjaya Palace Hotel Kota Kinabalu.

**Analyst:** Siti Rudziah Salikin



## Results Review & Earnings Outlook

- NPC turned in stronger-than-expected results for 1Q10. Net profit rose 38.7% YoY to MYR10.1 mln, which accounted for 30.4% of our original full-year forecast.
- NPC produced 31,024 tons of CPO in 1Q, an increase of 24.9% YoY which was much higher than our expectations of 15% and the total production growth of 10% YoY recorded in Sabah. The higher production was attributable to a recovery in FFB yields and oil extraction rates in Sabah. Recall that 1Q09 harvest was severely impacted by excessive rainfalls, which also resulted in lower OER due to high moisture content. Increased supply of FFB from external purchase also contributed to NPC's production growth. Margin improvement, following the increase in sales volume and selling prices, was also better than our projections.
- We raise our projected 2010-2011 net profit estimates by 12.1% and 11.2% respectively, after raising our projected CPO production and fine-tuning our estimated margins. We expect stronger production in 2Q & 3Q due to seasonal factors. We remain positive on the outlook of palm oil prices due to anticipated sustained demand and slow oil palm production arising from the biological yield downcycle and dry weather. The significant increase in soybean production in South America remains a concern, but we expect the supply risk to be reduced by the growing domestic usage of soybean oil for biodiesel production. Our forecast assumes an average CPO price of MYR2,400/ton-MYR2,500/ton.

## Recommendation & Investment Risks

- We maintain our Hold recommendation on NPC. Although a very small planter (NPC has only 8,774 ha of oil palm plantations in Sabah), NPC is quite efficient with ROEs that are among the highest for small planters. Being a low-beta stock, NPC could be viewed as being relatively defensive amid market volatility.
- We maintain our 12-month target price of MYR2.20 despite the earnings revision. We lower our target PER to 7x from 8x in line with the lower valuations of plantation stocks following the soft broader market. The assigned multiple is equivalent to the stock's 2-year average forward multiple.
- NPC is expanding its plantations to Indonesia. It is acquiring: (i) a 90% stake in PT Enggang Alam Sawita (which has been issued a Hak Guna Usaha certificate on 8,482 ha of land), (ii) a 95% stake in PT Agronusa Bumi Sejahtera (which has a location permit for 8,338 ha of land), and (iii) a 95% stake in PT Nala Palma Cadudasa (which has a location permit for 10,830 ha of land). As these are greenfield projects, any impact from the venture can only be expected in the long term.
- Risks to our recommendation and target price include palm oil price volatility, which could be caused by crude oil price movements and increased supply of palm oil and soybean oils. The share trading illiquidity is an added risk.

### Key Stock Statistics

FY Dec.	2009	2010E
Reported EPS (sen)	27.0	30.9
PER (x)	7.0	6.1
Dividend/Share (sen)	6.5	7.0
NTA/Share (MYR)	1.95	2.21
Book Value/Share (MYR)	1.98	2.25
No. of Outstanding Shares (mln)	120.0	
52-week Share Price Range (MYR)	1.85 - 2.22	
Major Shareholders:	%	
Jubilant Ventures Sdn Bhd	32.0	
Dato' Koh Kin Lip	15.5	
Dato' Loo Pang Kee	6.7	

### Per Share Data

FY Dec.	2007	2008	2009	2010E
Book Value (MYR)	1.53	1.77	1.98	2.25
Cash Flow (sen)	34.6	39.7	34.3	37.6
Reported Earnings (sen)	27.7	33.0	27.0	30.9
Dividend (sen)	6.0	9.0	6.5	7.0
Payout Ratio (%)	21.6	27.3	24.0	22.7
PER (x)	6.8	5.7	7.0	6.1
P/Cash Flow (x)	5.4	4.7	5.5	5.0
P/Book Value (x)	1.2	1.1	0.9	0.8
Dividend Yield (%)	3.2	4.8	3.5	3.7
ROE (%)	19.5	20.0	14.4	14.6
Net Gearing (%)	13.0	13.6	12.3	12.0

\* Stock deemed Shariah compliant by the Securities Commission

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**Quarterly Performance**

FY Dec. / MYR mln	1Q10	1Q09	% Change
Reported Revenue	90.3	60.2	49.9
Reported Operating Profit	15.7	11.8	33.1
Depreciation & Amortization	-2.5	-2.3	7.8
Net Interest Income / (Expense)	-0.4	-0.4	13.7
Reported Pre-tax Profit	15.3	11.4	33.7
Reported Net Profit	10.1	7.3	38.7
Reported Operating Margin (%)	17.4	19.6	-
Reported Pre-tax Margin (%)	16.9	19.0	-
Reported Net Margin (%)	11.1	12.0	-

Source: Company data

**Profit & Loss**

FY Dec. / MYR mln	2008	2009	2010E	2011E
Reported Revenue	401.8	314.6	361.2	361.8
Reported Operating Profit	60.9	48.5	58.9	61.6
Depreciation & Amortization	-8.9	-9.7	-9.1	-9.1
Net Interest Income / (Expense)	-2.0	-1.8	-1.9	-1.9
Reported Pre-tax Profit	58.8	46.6	57.0	59.5
Effective Tax Rate (%)	26.8	20.9	25.0	25.0
Reported Net Profit	39.6	32.4	37.0	38.7
Reported Operating Margin (%)	15.2	15.4	16.3	17.0
Reported Pre-tax Margin (%)	14.6	14.8	15.8	16.5
Reported Net Margin (%)	9.8	10.3	10.3	10.7

Source: Company data, S&amp;P Equity Research

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**Strong Buy:** Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

**Buy:** Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

**Hold:** Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

**Sell:** Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

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**Recommendation and Target Price History**

Date	Recommendation	Target Price
1-Jun-09	Hold	2.20
26-Nov-08	Sell	1.80
2-Sep-08	Hold	2.30
9-Jul-08	Hold	2.72
23-Oct-07	Not Ranked	
28-May-07	Buy	2.18

