

Financial Year End	31/12/2010
Report Period Ending	31/12/2010

## MALAYSIA EQUITY NPC RESOURCES BHD

### INITIATION REPORT

<b>Recommendation</b>	<b>BUY</b>
Target Price (MYR)	2.80
Current Price (MYR)	2.16

<b>Industry Group</b>	Agriculture
<b>Industry Sub Group</b>	Agricultural Operations

#### Key Company Statistics

Bloomberg Ticker	NPC MK
Bursa Stock Code	5047
Issued Share Capital (mn)	120.0
Market Capitalisation (MYR mn)	259.2
52 week High (MYR)	2.50
52 week Low (MYR)	1.76
Average Volume (3 month) '000	11.1
1 Yr Return (%)	10.3

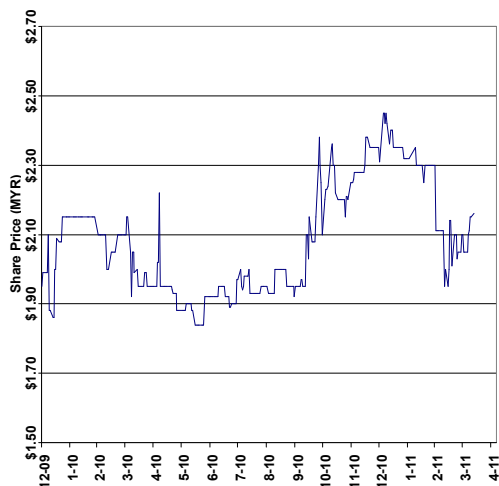
#### Major Shareholders (%)

Jubilant Ventures Sdn Bhd	32.0
Koh Kin Lip	16.5
Loo Pang Kee	8.5

### REPORT INDEX

Contents	Page
Investment Summary	1
Company Profile, Management	2
Corporate Structure	3
Sales By Segment, Region	4
Production Capacity	5
Financial Statements, 2Yr Actual, Forward	6
Sales, Profits, Margins, D/E Last 8 yrs	7
Competition, Peer Group Analysis	8
Share Price Last 8 yrs, Valuation Metrics	9
Investment Risks	10
Industry Sales, Cost Drivers	11
Analyst's Disclosure, Prior Recommendations	12

#### SHARE PRICE LAST 12 MONTHS (MYR)



NPC's major line of business is the cultivation and refining of palm oil. The roots of the company began in 1981 with a plantation of 162 ha; today the company owns over 7,200 ha of mature acreage in Malaysia. The company recently added an additional 8,400 ha of plantation land in Indonesia. FFB will be increased significantly as other estates in Indonesia come on line. NPC converted to a public limited company in May 2000, prior to listing in May 2002.

### INVESTMENT RISKS

Risks to our recommendation and target price include: i) a sharp reversal in CPO prices, ii) further increases in the MYR exchange rate, iii) an increase in the general level of interest rates, and iv) a sharp slowdown in the general level of economic activity in Malaysia or among the economies of the major CPO importers: China, India, Europe and Pakistan. Investors can take some comfort in the fact that vegetable oils are among the most resilient of food related commodities.

### RECOMMENDATION

We maintain our BUY recommendation on NPC Resources Bhd ("NPC") with a fair value estimate of MYR 2.80. Value investors will be attracted by the combination of steady revenue growth and stability of operating margins. Looking ahead, average ROE is likely to be maintained at levels of 12-13%, whilst P-BV stands on 1.0x trailing book value and 0.8x current year book value.

Compared to its peers in sales and market cap, NPC offers a higher ROE at lower multiples of profit and book value. With revenue growth expected to remain at or above Malaysia's GDP on the back of firm long run international demand for vegetable oils, NPC shares have reasonably good upside with limited downside risk. At current prices, investors can expect a total return somewhere in the neighbourhood of 10-15% pa for the next few years.

### FTSE-BURSA INDEX MEMBERSHIP

FBM KLCI	FBM 70	FBM EMAS	FBM HIJRAH
No	No	No	No

### ANNUAL RESULTS AND METRICS (MYR mn)

FY Dec	2009	2010	2011F	2012F
Revenue	314.6	396.7	446.5	487.1
Revenue g (%)	-21.7	26.1	12.6	9.1
Net Profit	32.4	35.0	40.3	43.7
Net Profit g (%)	-18.0	8.0	15.0	8.5
Dividends	7.2	3.6	3.6	3.6
Equity	242.9	271.3	308.0	348.1
Total Liabilities	113.1	132.3	147.7	165.0
Debt/Equity (%)	46.6	48.8	48.0	47.4
EPS (sen)	27.0	29.2	33.6	36.4
P-S (x)	0.7	0.7	0.6	0.5
P-E (x)	7.2	7.4	6.4	5.9
P-BV (x)	1.0	1.0	0.8	0.7
ROE %	13.4	12.9	13.1	12.6

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**MALAYSIA EQUITY  
NPC RESOURCES BHD**

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**COMPANY PROFILE**

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NPC Resources Berhad ("NPC") was incorporated in 1999 and listed on the Main Board of Bursa Malaysia in May 2002. It is an investment holding company whilst its subsidiaries are principally engaged in investment holding, provision of management services, operation of oil palm plantations and palm oil mills, trading in fresh fruit bunches, provision of transportation services, property letting, fish rearing and operation of hotel.

NPC owns more than 8,000 hectares of plantation land in Malaysia. It also owns two palm oil processing mills, both of which are in Sabah. Currently more than 7,500 hectares are planted with oil palms out of which 97% are mature trees of four years or older. Almost 60% of the total planted area comprises prime mature trees of 8 to 16 years old with peak yield and oil extraction rate.

The company recently made its final progress payment on an additional 8,400 hectares of plantation land in Indonesia. The new land bank improves the growth outlook for NPC considerably.

NPC intends to expand its oil palm plantation activities in Indonesia by acquiring a total of three Indonesian companies which own in aggregate plantation land area of 27,650 hectares.

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**BOARD OF DIRECTORS, MANAGEMENT**

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**BOARD OF DIRECTORS**

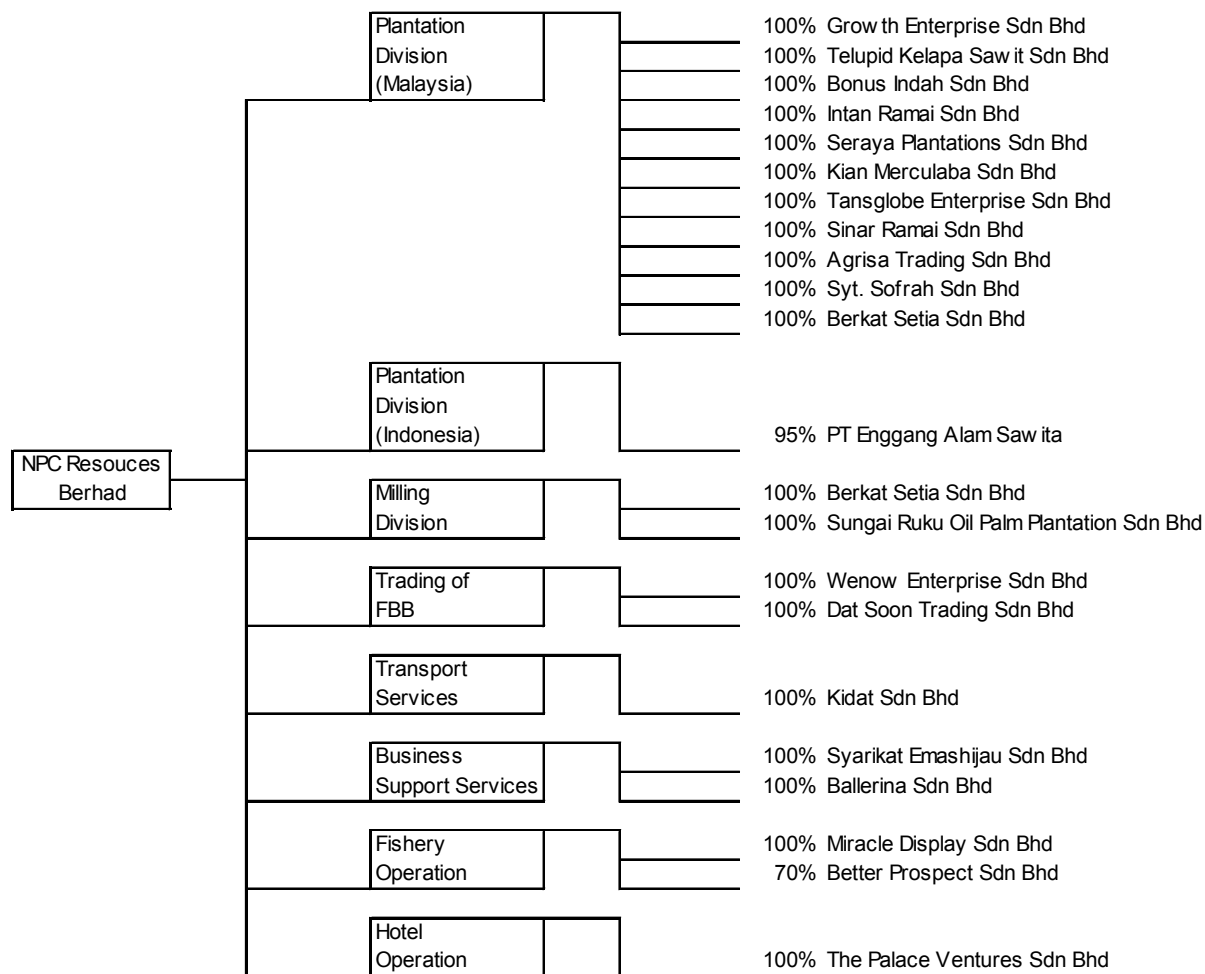
Loo Ngin Kong	Executive Chairman
Dato' Seri Tengku Dr Zainal Adlin bin Tengku Mahamood	Independent Non-Executive Deputy Chairman
Dato' Loo Pang Kee	Executive Director/Group Managing Director
Wong Siew Ying	Executive Director
Lim Ted Hing	Independent Non-Executive Director
Dr Edmond Fernandez	Independent Non-Executive Director
Dato' Sri Koh Kin Lip, JP	Non-Independent Non-Executive Director
Tan Vun Su	Executive Director

**MANAGEMENT**

Loo Ngin Kong	Executive Chairman
Dato' Loo Pang Kee	Executive Director/Group Managing Director
Wong Siew Ying	Executive Director
Tan Vun Su	Executive Director

**MALAYSIA EQUITY  
NPC RESOURCES BHD**

**CORPORATE STRUCTURE**



**MALAYSIA EQUITY  
NPC RESOURCES BHD**

**SALES BY SEGMENT (MYR mn)**

	2006	2007	2008	2009	2010	5 Yr CAGR*
Plantation & Milling	205.5	309.8	395.5	307.4	389.1	13.6%
Hotel	0.0	3.9	4.4	6.4	6.0	11.4%
Fishery	0.0	0.1	1.8	0.8	1.6	101.2%
<b>Total</b>	<b>205.5</b>	<b>313.8</b>	<b>401.8</b>	<b>314.7</b>	<b>396.7</b>	<b>14.1%</b>
Plantation & Milling	100.0%	98.7%	98.4%	97.7%	98.1%	
Hotel	0.0%	1.2%	1.1%	2.0%	1.5%	
Fishery	0.0%	0.0%	0.5%	0.3%	0.4%	
*4 Yr CAGR for Hotel, Fishery						

**ESTATE HECTARAGE BY REGION**

Hectarage	2006	2007	2008	2009	2010	5 Yr CAGR
Malaysia	8,774	8,774	8,774	8,774	8,774	0.0%
Indonesia	0	0	0	0	8,482	na
<b>Total</b>	<b>8,774</b>	<b>8,774</b>	<b>8,774</b>	<b>8,774</b>	<b>17,256</b>	<b>14.5%</b>

**MALAYSIA EQUITY  
NPC RESOURCES BHD**

**PRODUCTION CAPACITY**

	2006	2007	2008	2009	2010E	5 Yr CAGR
Mature Area (ha)*	6,975	7,102	7,153	7,335	7,217	0.7%
Immature (ha)*	558	431	380	268	327	-10.1%
Total (ha)	7,533	7,533	7,533	7,603	7,544	0.0%
Total FFB Processed	568,892	513,318	564,291	538,743	565,665	-0.1%
Own FFB Production	158,835	161,608	166,887	149,583	149,261	-1.2%
Other FFB Production	410,057	351,710	397,404	389,160	416,404	0.3%
Yield/ha (tons FFB)	22.8	22.8	23.3	20.4	20.7	-1.9%
Extraction Rate (%)	20.8	21.0	20.8	21.3	21.4	0.5%

**MALAYSIA EQUITY  
NPC RESOURCES BHD**
**PROFIT & LOSS (All figures in MYR mn unless otherwise indicated)**

FY Dec	2009	2010	2011F	2012F
Revenue	314.6	396.7	446.5	487.1
Operating Profit	48.5	53.2	53.6	58.4
Other Income	1.6	3.0	3.0	3.0
Share of Associates	0.0	0.0	0.0	0.0
Depreciation/Amortization	-8.6	-10.1	-12.5	-13.0
Finance Costs	-1.9	-2.1	-2.2	-2.4
Pre Tax Profit	46.6	51.2	54.4	59.0
Tax	-9.7	-13.7	-13.6	-14.7
Minority Interest	4.5	2.5	0.5	0.5
Net Profit to Shareholders	32.4	35.0	40.3	43.7
Operating Margin (%)	15.4	13.4	12.0	12.0
PBT Margin (%)	14.8	12.9	12.2	12.1
Net Margin (%)	10.3	8.8	9.0	9.0
Effective Tax Rate (%)	20.9	26.7	25.0	25.0

**BALANCE SHEET (All figures in MYR mn unless otherwise indicated)**

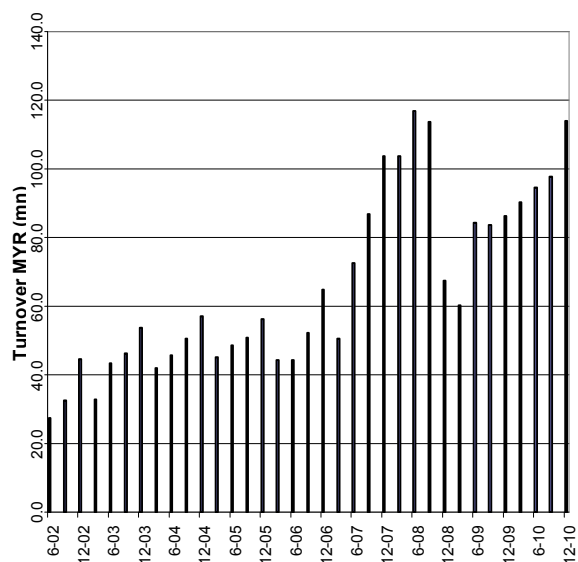
FY Dec	2009	2010	2011F	2012F
Total Assets	356.0	403.6	455.7	513.1
Fixed Assets	181.1	182.6	190.0	197.7
Current Assets	49.6	52.9	64.0	75.7
Other LT Assets	125.3	168.1	201.7	239.7
Current Liabilities	64.4	70.3	78.5	87.6
LT Liabilities	48.7	62.0	69.3	77.4
Total Liabilities	113.1	132.3	147.7	165.0
Share Capital	120.0	120.0	120.0	120.0
Minority Interest	5.6	3.4	3.4	3.4
Owner's Equity	237.3	267.9	304.6	344.7
Total Equity	242.9	271.3	308.0	348.1
Total Liabilities & Equity	356.0	403.6	455.7	513.1

**PER SHARE DATA (All figures in sen unless otherwise indicated)**

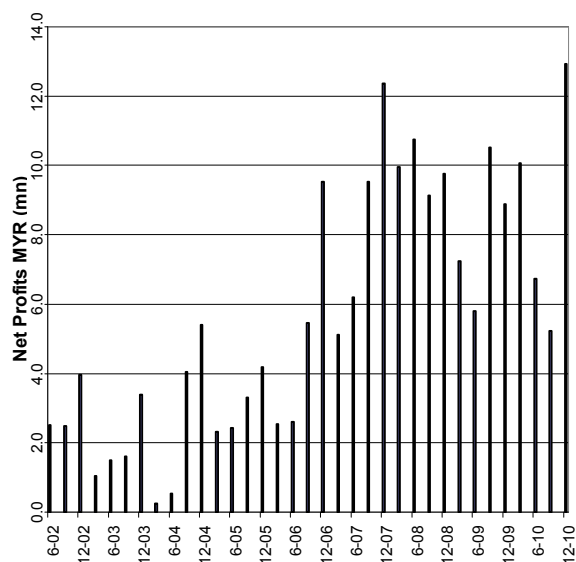
FY Dec	2009	2010	2011F	2012F
Revenue	262.2	330.5	372.1	405.9
Cash Flow	34.2	37.6	44.0	47.2
Earnings	27.0	29.2	33.6	36.4
Dividends	6.0	3.0	3.0	3.0
Book Value	202.4	226.1	256.7	290.1
Payout (%)	22.2	10.3	8.9	8.2
P-S (x)	0.7	0.7	0.6	0.5
P-CF (x)	5.7	6.1	4.9	4.6
P-E (x)	7.2	7.9	6.4	5.9
P-BV (x)	1.0	1.0	0.8	0.7
Dividend Yield (%)	3.1	1.3	1.4	1.4
ROE (%)	13.4	12.9	13.1	12.6
Total Debt/Equity (%)	46.6	48.8	48.0	47.4

**MALAYSIA EQUITY  
NPC RESOURCES BHD**

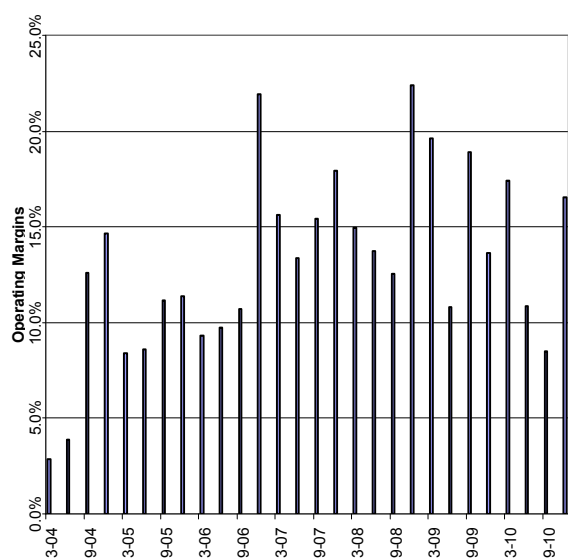
**REVENUE (QUARTERLY, LAST 8 YEARS, MYR mn)**



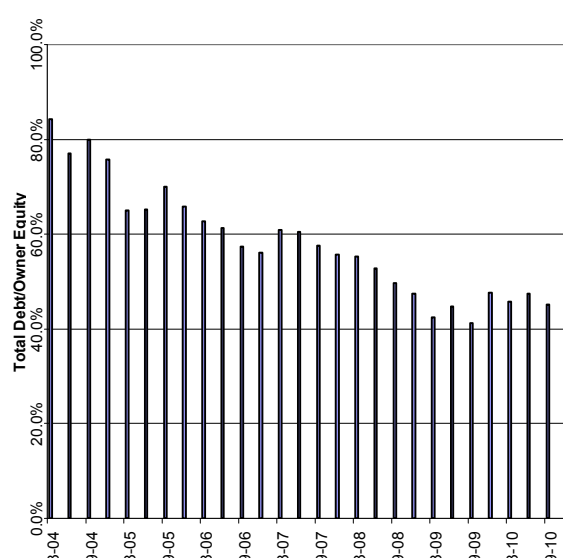
**NET PROFIT (Q'TERLY, LAST 8 YRS, MYR mn)**



**OPERATING PROFIT MARGINS**



**TOTAL DEBT/OWNER EQUITY**

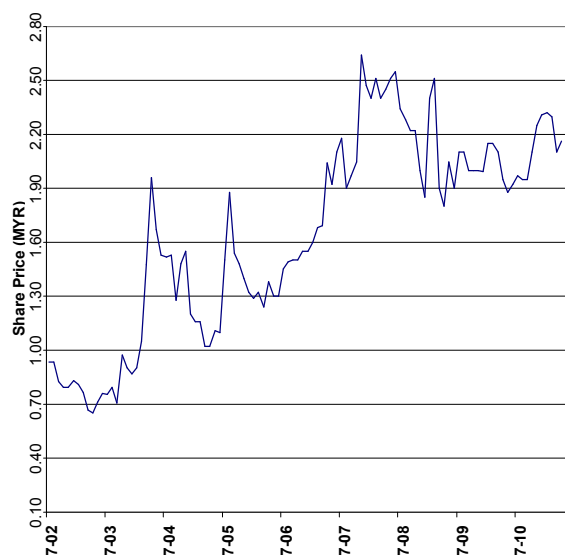
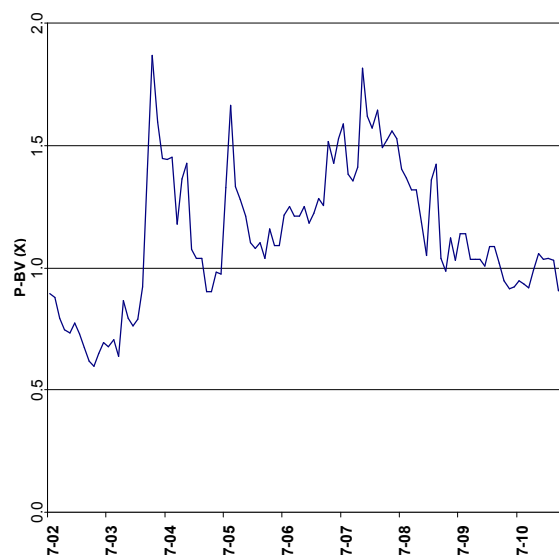


**MALAYSIA EQUITY  
NPC RESOURCES BHD**

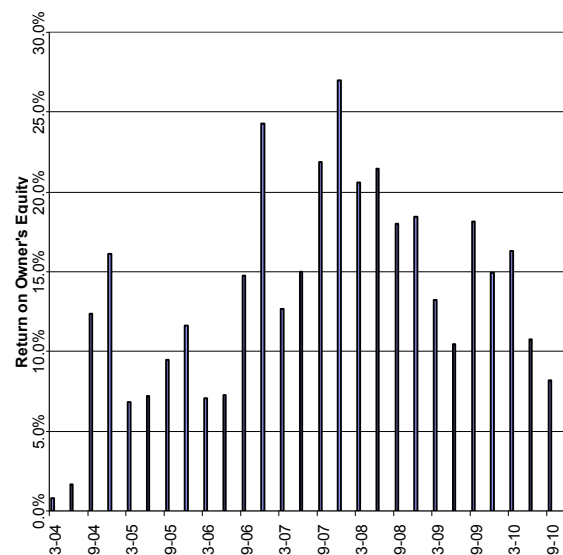
**COMPETITOR'S METRICS (All figures in MYR mn unless otherwise indicated)**

<b>FY1* Ending</b>	<b>NPC Resources Bhd Dec-11</b>	<b>United Malacca Bhd Apr-11</b>	<b>Sarawak Plantations Bhd Dec-11</b>	<b>Cepatwawa san Group Bhd Dec-11</b>
<b>Revenue</b>	446.5	197.0	370.9	241.1
<b>Net Profit</b>	40.3	78.0	36.5	25.9
<b>Equity</b>	308.0	941.0	581.9	383.9
<b>Dividends</b>	3.6	40.0	26.6	4.5
<b>Market Cap</b>	259.2	1,416.1	649.6	288.7
<b>P-S (x)</b>	0.6	7.2	1.8	1.2
<b>P-E (x)</b>	6.4	18.2	17.8	11.1
<b>P-BV (x)</b>	0.8	1.5	1.1	0.8
<b>Div Yield (%)</b>	1.4	2.8	4.1	1.6
<b>Net Margins (%)</b>	9.0	39.6	9.8	10.7
<b>ROE (%)</b>	13.1	8.3	6.3	6.7
<b>Payout Ratio (%)</b>	8.9	51.3	72.9	17.4

\*Consensus data used for peers where available

**MALAYSIA EQUITY  
NPC RESOURCES BHD**
**SHARE PRICE (MONTHLY, LAST 8 YEARS, MYR)**

**P-BV (X) (MONTHLY, LAST 8 YEARS)**

**VALUATION METRICS**

Current Year Dec 2011	Current Year Metrics	Apply Historic P-BV to Current BV	Apply Historic ROE to Current BV	Our Fair Value*
Sales (MYR mn)	446.5			
Book Value (MYR mn)	304.6			
Earnings (MYR mn)	40.3		42.6	
ROE	13.2%		14.0%	
P-BV (x)	0.9	1.2		
P-E (x)	6.4		8.0	
Market Cap (MYR mn)	259.2	365.5	341.1	
Price (MYR)	2.16	3.05	2.84	2.80
<b>Average Fair Value Estimate (MYR) **</b>	<b>2.90</b>			

**RETURN ON EQUITY**


\*Proprietary Fair Value Model

\*\* A check on our Proprietary Fair Value Model Price

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**INVESTMENT RISKS**

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Risks to our recommendation and target price include:

i) Increases in the general level of interest rates would dampen the outlook for NPC. With a total debt/equity ratio below 50%, however, NPC is fairly well insulated from all but very sharp increases in interest rates. In addition, Bank Negara Malaysia so far seems intent on mitigating inflationary pressures with a strong ringgit, rather than relying on interest rate policy.

ii) Increases in the level of oil and food prices pose another risk to palm oil demand. Energy prices, especially fossil fuels such as crude oil and coal are reaching painful levels in many countries around the world. In addition, food prices are also at very elevated levels which may well lead to lower levels of consumption. If crude oil prices rise another 20-30% from the current level of USD 120-130 per barrel we may well see another major economic shock and with it a more pronounced drop in demand for both oil and food.

iii) A slowdown in the economies of the major palm oil importers, such as India, China, Europe and Pakistan would also be a negative. In the case of India, China and Pakistan, the middle and lower income classes are already reeling from elevated food prices.

Against these risks there are two 'favourable' trends: a) food demand has shown itself to be very resilient even during sharp downturns, and b) the growth rate of palm oil supply is slowing down, and this will tend to put a floor under prices.

**MALAYSIA EQUITY  
NPC RESOURCES BHD**

**INDUSTRY SALES AND COST DRIVERS**

**SALES DRIVERS - GLOBAL CPO PRODUCTION\*, PRICES FOR PALM OIL**

CPO MT (MN)	2006	2007	2008	2009	2010	5 Yr CAGR
Indonesia	15.9	17.0	18.0	21.1	21.0	5.7%
Malaysia	15.9	16.0	17.5	17.6	17.8	2.3%
<b>Total</b>	<b>36.8</b>	<b>38.7</b>	<b>43.1</b>	<b>45.4</b>	<b>44.8</b>	<b>4.0%</b>

Avg Prices, MYR Per Tonne	2006	2007	2008	2009	2010	2011	6 Yr CAGR
CPO Prices	\$1,563.08	\$2,519.08	\$2,793.50	\$2,285.00	\$2,798.33	\$3,589.33	14.9%
Annual Price Change	11.8%	61.2%	10.9%	-18.2%	22.5%	28.3%	

\*Indonesia and Malaysia account for 85% of Global CPO Production

**COST DRIVERS - POTASH PRICES, PROXY FOR FERTILISER COSTS\*\***

Avg Prices, USD/Tonne	2006	2007	2008	2009	2010	2011	5 Yr CAGR
Potash Prices	\$204.92	\$286.17	\$760.42	\$618.33	\$397.50	\$430.00	16.0%
Annual Price Change	-3.2%	39.7%	165.7%	-18.7%	-35.7%	8.2%	

Avg Prices, MYR/Tonne	2006	2007	2008	2009	2010	2011	5 Yr CAGR
Fertiliser Prices	\$743.54	\$980.27	\$2,540.08	\$2,178.93	\$1,275.74	\$1,313.62	12.1%
Annual Price Change	251.3%	31.8%	159.1%	-14.2%	-41.5%	3.0%	

\*\* Estimates of Industry Average Prices


**ANALYST'S DISCLOSURE**

**BUY:** Share price may exceed 10% over the next 12 months

**TRADING BUY:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**NEUTRAL:** Share price may fall within the range of +/- 10% over the next 12 months

**TAKE PROFIT:** Target price has been attained. Look to accumulate at lower levels

**SELL:** Share price may fall by more than 10% over the next 12 months

**NOT RATED (NR):** Stock is not within regular research coverage

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J Charles Wilson  
Head of Research

**ANALYST'S RECOMMENDATION RECORD**

Ticker	Date	Recommendation	Fair Value	Price At Date of Recommendation	% Price Change Since Prior Recommendation
NPC MK Equity	28-Feb-11	BUY	2.80	2.30	
NPC MK Equity	11-Apr-11	BUY	2.80	2.16	-6.1%

**QUESTIONS?**
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