

21 February 2018 | 3QFY18 Results Review

## Fima Corporation Berhad

*Weaker than expected earnings*

**Maintain BUY**

**Unchanged Target Price (TP): RM2.60**

### INVESTMENT HIGHLIGHTS

- **9MFY18 Core Net Income is below expectation**
- **Weaker than expected earnings in the “production of security and confidential documents” (PSCD) division**
- **Improved performance from the plantation division**
- **Completed acquisition of Java Plantations**
- **Earnings estimate reduced**
- **Maintain BUY with unchanged TP of RM2.60 as we roll forward our valuation to FY19**

**9MFY18 Core Net Income is below expectation.** Fima Corporation Berhad (FIMACOR) 9MFY18 Core Net Income (CNI) of RM32.2m is below expectation as it made up 57% of our full year earnings estimate. Core net income excludes RM1m provision and other one off items. As expected, no dividend is announced in the third quarter of the financial year.

**Weaker than expected earnings in the “production of security and confidential documents” (PSCD) division.** Note that PSCD division profit before tax (PBT) has declined by 60% yoy to RM19.2m as its revenue decreased 44% yoy to RM108.9m (against our previous assumption of 15% decline yoy for FY18). The decline in revenue is mainly caused by expiration of the contract to supply certain travel documents.

**Improved performance from the plantation division.** The plantation division PBT surged by 95% yoy to RM32.5m as its FFB volume surged by 39% to 133,966 tonnes. This has more than offset the lower CPO price of RM2292 per tonne (down 9% yoy). The strong FFB volume growth is caused by the recovery from El Nino which affected the production of FFB in the past.

**Completed acquisition of Java Plantations.** Separately, FIMACORP announced that it has completed the acquisition of Java Plantations which holds 80% stake in a 1331 ha of leasehold plantation land in Jeli, Kelantan. We are long term positive on the news as FIMACORP total planted landbank will be increased by 18% and it is earnings accretive from FY20 onwards. There is synergy to be realized as this landbank is located near FIMACORP existing plantation estates in Gua Musang and Kuala Krai, Kelantan.

**Earnings estimate reduced.** We have revised down our revenue and earnings assumption for the PSCD division. As a result, our FY18 CNI forecast is cut by 29% to RM40.5m. FY19 CNI forecast is lowered by 21% to RM50.3m.

RETURN STATS	
Price (20 Feb 2018)	RM2.00
Fair Value	RM2.60
Expected Share Price Return	+30.0%
Expected Dividend Yield	+6.3%
<b>Expected Total Return</b>	<b>+36.3%</b>

STOCK INFO		
KLCI	1,855.99	
Bursa / Bloomberg	FIMACOR / FMB MK	
Board / Sector	Industrial / Support Services	
Syariah Compliant	Yes	
Issued shares (m)	241.07	
Market cap. (RM'm)	482.14	
Price over NA	0.89	
52-wk price Range	RM2.00 - 2.36	
Beta (against KLCI)	0.52	
3-mth Avg Daily Vol	0.02	
3-mth Avg Daily Value	0.04	
Major Shareholders (%)		
Fima Metal Box Sdn Bhd	61.08	
<b>Price Performance (%)</b>	<b>Absolute</b>	<b>Relative</b>
1 month	-5.2	-6.6
3 months	-3.8	-14.6
12 months	-8.7	-16.0

**Maintain BUY with unchanged TP of RM2.60 as we roll forward our valuation to FY19.** Our TP is based on Sum-Of-Parts valuation (Refer Below). Although we have reduced our earnings estimates, our Target Price is unchanged as we have rolled forward our valuation to FY19. We believe that FIMACORP earnings growth should resume from FY19 onwards as it will be dominated by plantation division. Its valuation is attractive at 9.6x Forward PE for FY19 and high dividend yield of 6.3%. Its balance sheet is strong with net cash position.

## INVESTMENT STATISTICS

FYE March	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue	378.0	375.2	372.1	285.3	310.9
EBIT	84.5	75.8	58.7	63.4	75.3
PBT	87.8	77.3	61.3	66.4	78.2
Net Income	55.8	51.3	37.7	40.5	50.3
Core Net Income	55.9	49.6	71.5	40.5	50.3
EPS (sen)	23.17	20.55	29.64	16.78	20.87
Core EPS (sen)	23.17	20.55	29.64	16.78	20.87
Net DPS (sen)	12.50	12.50	17.50	12.50	12.50
Net Dvd Yield	6.3%	6.3%	8.8%	6.3%	6.3%
Core PER	8.6	9.7	6.7	11.9	9.6
NTA/share (RM)	2.20	2.29	2.33	2.37	2.45
P/NTA	0.91	0.87	0.86	0.84	0.81
ROE	10.5%	9.3%	6.7%	7.1%	8.5%
ROA	7.8%	7.5%	5.3%	5.7%	6.7%

Source: Company, MIDF Research

## Sum-Of-Parts Valuation for FIMACORP

Divisions	Valuation	Note	Fair Value (RM 'm)
Manufacturing	10.5x FY19E earnings	In line with FBM Small Cap Forward PE for FY18 40% discount to average Target PE of 19.1x for mid cap planters under our coverage	262
Plantation	11.5x FY19E earnings		365
<b>Sum-Of-Parts (RM m)</b>			<b>627</b>
No of shares (m)			241
<b>TP (RM)</b>			<b>2.60</b>

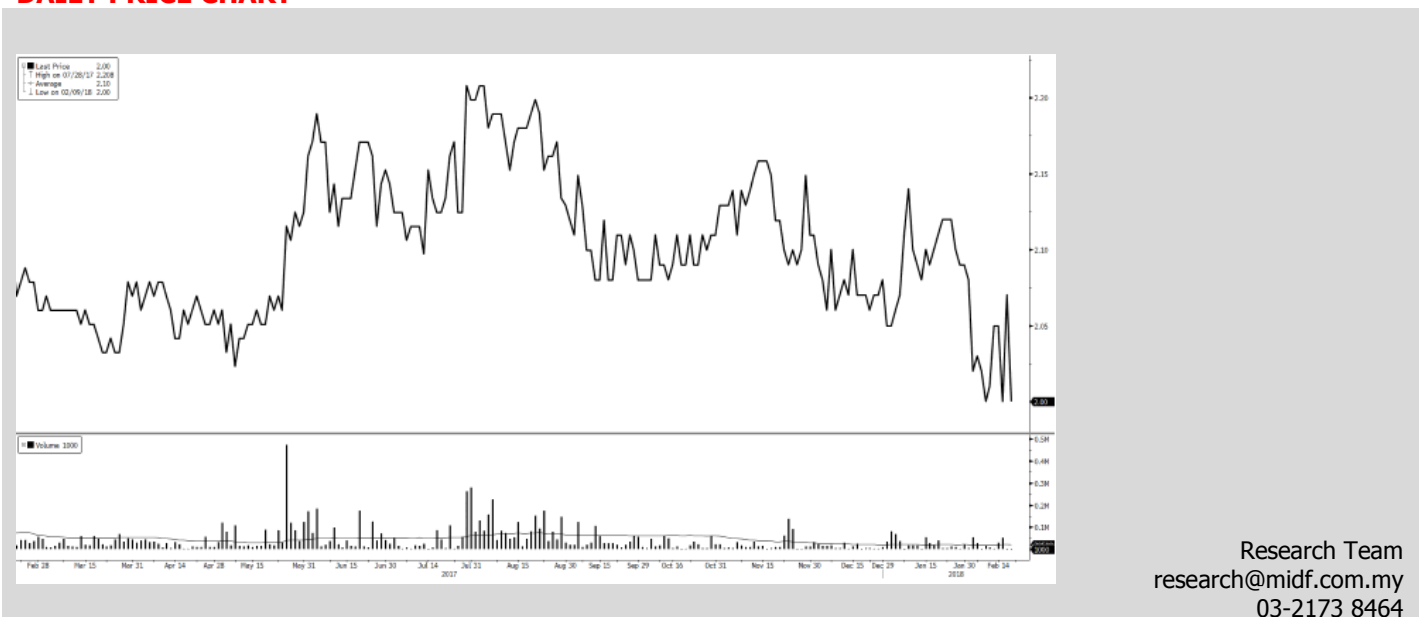
Source: MIDF Research Estimate

## FIMACOR: 3QFY18 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	3QFY18	%YoY	%QoQ	9MFY18	%YoY	
Revenue	62.4	-34%	-9%	210.3	-28%	Lower revenue from the "production of security and confidential documents" division by 44% yoy to RM108.9m. This has more than offset the increase in plantation division revenue by 3% yoy to RM98.3m.
EBIT	11.8	-39%	-30%	43.1	-30%	
PBT	14.6	-31%	-25%	50.0	-26%	
Net Income	8.5	-55%	-34%	30.4	-36%	Lower PBT from the "production of security and confidential documents" division by 60% yoy to RM19.2m. This has more than offset the increase in plantation division PBT by 95% yoy to RM32.5m.
Core Net Income	8.5	-56%	-36%	32.2	-33%	Core net income exclude RM1m provision and other one off items.
EPS (sen)	3.51	-44%	-34%	12.60	-35%	
Core EPS (sen)	3.51	-46%	-36%	13.34	-32%	
Net DPS (sen)	0.0	NA	NA	5.0	0%	
EBIT Margin	19.0%	NA	NA	20.5%	NA	
PBT Margin	23.5%	NA	NA	23.8%	NA	

Source: Company, MIDF Research Forecast

## DAILY PRICE CHART



Source: Bloomberg

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#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.