

30 June 2017 | Initiate Coverage

Fima Corporation Berhad

Mixed Outlook For Two Divisions

Initiate with NEUTRAL

Target Price (TP): RM2.50

INVESTMENT HIGHLIGHTS

- **Lacklustre outlook for manufacturing division**
- **Long term positive on plantation division**
- **High dividend yield of 5.4%.**
- **Initiate with NEUTRAL and TP of RM2.50**

Business Overview:

Fima Corporation Berhad (FIMACORP) is mainly involved in the business of manufacturing (63% revenue contribution) and plantation (36% revenue contribution). For the manufacturing division, FIMACORP produces and sells security and confidential documents. For the plantation division, FIMACORP owns planted area of 6,922 ha (93% in Kalimantan and the rest in Peninsular Malaysia).

Investment Theses:

- 1. Lacklustre outlook for manufacturing division.** Historically, Manufacturing division registered consistent earnings with Profit Before Tax (PBT) of RM51.0m/RM54.0m/RM59.6m in FY15/FY16/FY17 respectively. However, the outlook is lacklustre for the division in view of the expiration of the contract to supply certain travel documents from 3QFY2017 onwards.
- 2. Long term positive on plantation division.** Historically, Plantation division registered Core PBT of RM34.4m/RM21.9m/RM32.1m in FY15/FY16/FY17 with CPO price average of RM2207/RM2064/RM2625 per MT. Our Core PBT estimate excludes the impairment of property, plant and equipment and biological assets of subsidiary in Indonesia. The outlook for the plantation division is good due to our long term bullish view on CPO price. In the near term, we also expect higher CPO price of RM2725 per MT in FY18.
- 3. High dividend yield of 5.4%.** The Company balance sheet is robust with cash of RM336.3m and no borrowings. In view of its high operating cash flow (>RM50m expected) and low capex (estimated at RM10m), we expect FY18 and FY19 dividend at 12.50 sen each representing a good dividend yield of 5.4%.

Initiate with NEUTRAL and TP of RM2.50 based on Sum-Of-Parts (SOP). Our SOP is PE driven with Manufacturing division at 10.5x Forward PER and plantation at 11.5x Forward PE (Refer Exhibit 4 for Details). Overall, we are Neutral on FIMACORP. Despite the unexciting outlook for its manufacturing division, the Company's plantation division long term outlook is positive while its dividend yield is high at 5.4% supported by strong cash flow.

RETURN STATS

Price (29 th June 2017)	RM2.32
Fair Value	RM2.50
Expected Share Price Return	+7.8%
Expected Dividend Yield	+5.4%
Expected Total Return	+13.2%

STOCK INFO

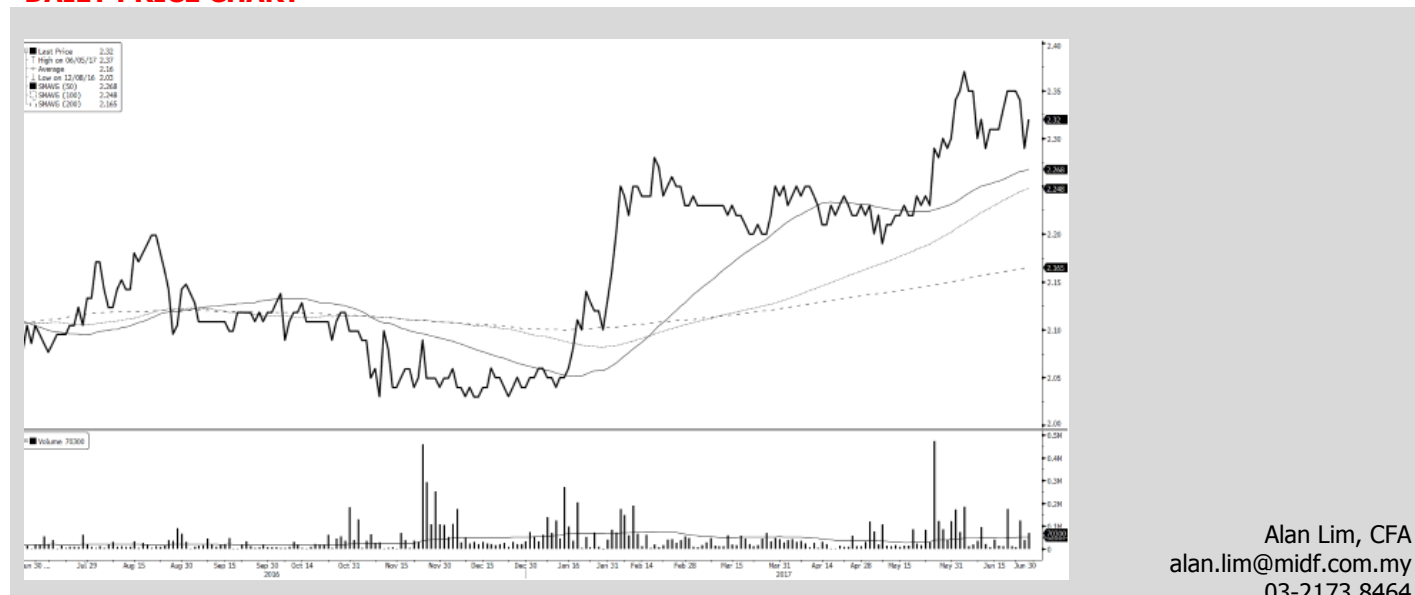
KLCI	1771.36	
Bursa / Bloomberg	FIMACORP / FMB MK	
Board / Sector	Industrial / Support Services	
Syariah Compliant	Yes	
Issued shares (m)	241.09	
Market cap. (RM'm)	559.33	
Price over NA	1.00	
52-wk price Range	RM2.02 – RM2.37	
Beta (against KLCI)	0.55	
3-mth Avg Daily Vol	0.05	
3-mth Avg Daily Value	RM0.12m	
Major Shareholders (%)		
Fima Metal Box Sdn Bhd	61.08	
Price Performance (%)	Absolute	Relative
1 month	0.9	0.5
3 months	3.6	3.3
12 months	5.5	-2.2

INVESTMENT STATISTICS

FYE March	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue	378.0	375.2	372.1	339.3	355.5
EBIT	84.5	75.8	58.7	73.4	79.0
PBT	87.8	77.3	61.3	76.3	82.0
Net Income	55.8	51.3	37.7	54.9	59.0
Core Net Income	55.9	49.6	71.5	54.9	59.0
EPS (sen)	23.17	20.55	29.64	22.78	24.47
Core EPS (sen)	23.17	20.55	29.64	22.78	24.47
Net DPS (sen)	12.50	12.50	17.50	12.50	12.50
Net Dvd Yield	5.4%	5.4%	7.5%	5.4%	5.4%
Core PER	10.0	11.3	7.8	10.2	9.5
NTA/share (RM)	2.20	2.29	2.33	2.43	2.55
P/NTA	1.06	1.01	1.00	0.95	0.91
ROE	10.5%	9.3%	6.7%	9.4%	9.6%
ROA	7.8%	7.5%	5.3%	7.5%	7.7%

Source: Company, MIDF Research

DAILY PRICE CHART



Source: Bloomberg

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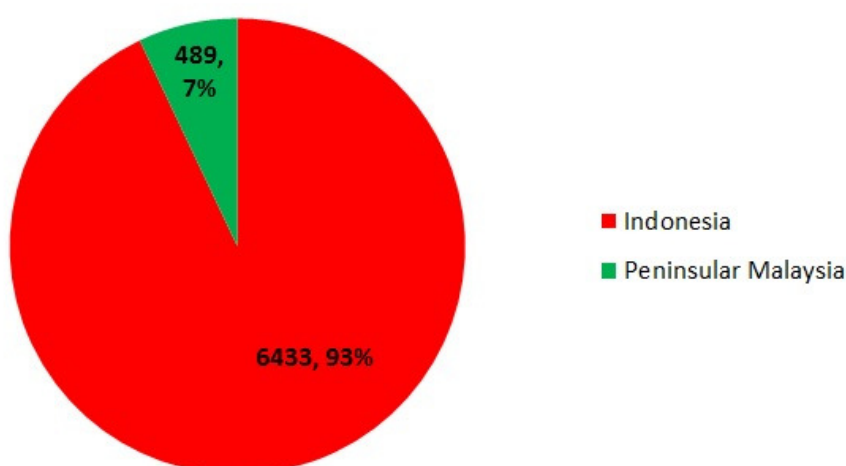
A. KEY INVESTMENT THESES

Fima Corporation Berhad (FIMACORP) was established in 1974 and was subsequently listed on the Main Board of Bursa Malaysia in 1976. The Company is mainly involved in the business of manufacturing and plantation. For the manufacturing division, FIMACORP produces and sells security and confidential documents. In FY17, manufacturing division contributed revenue of RM233.3m (or 63%) to the Group. For the plantation division, FIMACORP owns planted area of 6,922 ha (93% in Kalimantan and the rest in Malaysia). In FY17, plantation division contributed revenue of RM133.2m (or 36%) to the Group. FIMACORP also has very small exposure to property management business but its revenue contribution is small at less than 1% of the Group. Lastly, FIMACORP owns a 20% associate stake in Giesecke & Devrient Malaysia Sdn Bhd which operates Malaysia's only banknote printing plant.

Specialised manufacturer in security and confidential documents. Percetakan Keselamatan Nasional Sdn. Bhd. (PKNSB) is a wholly owned subsidiary of FIMACORP. We gather that PKNSB is the largest domestic security printer in Malaysia and its services include printing of travel documents, licenses, and other security and confidential documents for the local and overseas markets. Historically, Manufacturing division registered consistent earnings with Profit Before Tax (PBT) of RM51.0m/RM54.0m/RM59.6m in FY15/FY16/FY17 respectively. However, the outlook is lacklustre for the division in view of the expiration of the contract to supply certain travel documents from 3QFY2017 onwards.

Plantation division has planted area of 6,922 ha. For the plantation division, FIMACORP biggest oil palm plantation landbank is in Kalimantan Timur, Indonesia (Total size 20,089 ha out of which 6,433 ha is planted). This is followed by Malaysia (Total size 3,440 ha out of which 489 ha is planted). Historically, Plantation division registered Core PBT of RM34.4m/RM21.9m/RM32.1m in FY15/FY16/FY17 with CPO price average of RM2207/RM2064/RM2625 per MT respectively. Our Core PBT estimate excludes the impairment of property, plant and equipment and biological assets of subsidiary in Indonesia. The outlook for the plantation division is good due to our long term bullish view on CPO price. In the near term, we also expect higher CPO price of RM2725 per MT in FY18.

Exhibit 1: Breakdown of landbank for plantation division



Source: Company

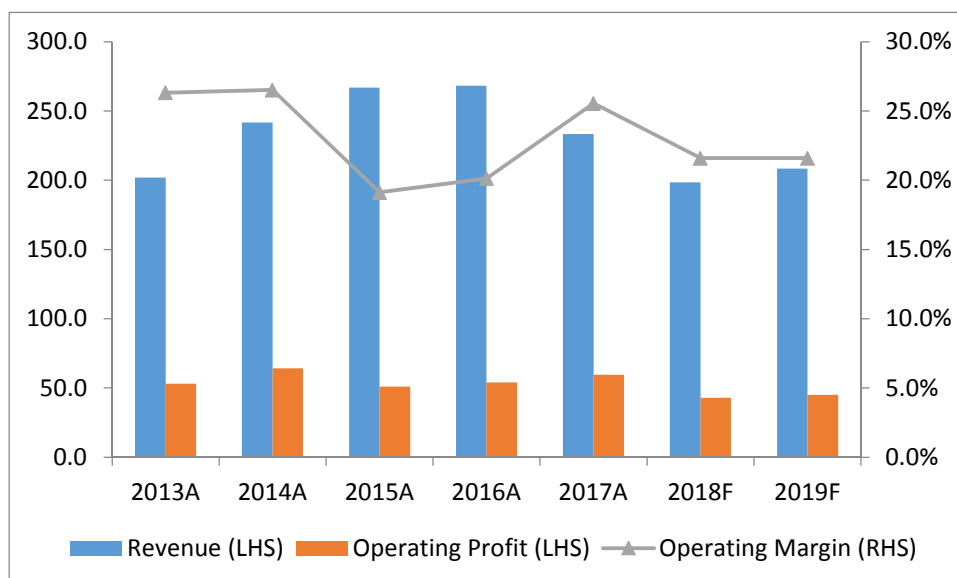
Strong balance sheet with net cash of RM336.3m. FIMACORP balance sheet is very strong with cash of RM336.3m and no borrowing. Its cash has grown steadily from RM172.6m in FY15 to RM336.3m in FY17. We expect the net cash position to continue into FY18F and FY19F as we expect strong operating cash flow exceeding RM50m with limited capex at around RM10m.

Attractive dividend yield of 5.4%. We expect FY18 and FY19 dividend at 12.50 sen each representing a good dividend yield of 5.4%. Our forecast is deemed conservative given the Company's strong cash flow and strong balance sheet as highlighted previously. In the short term, we expect the FY17 final dividend of 7.50 sen and special dividend of 5.0 sen to be approved in the upcoming Annual General Meeting expected in August-2017.

B. FINANCIAL HIGHLIGHTS

Consistent earnings from manufacturing division. FIMACORP's manufacturing division revenue are consistently above RM200m in the past five financial years. Operating margin is healthy at above 20% historically. However, the outlook is lacklustre for the division in view of the expiration of the contract to supply certain travel documents from 3QFY2017 onwards.

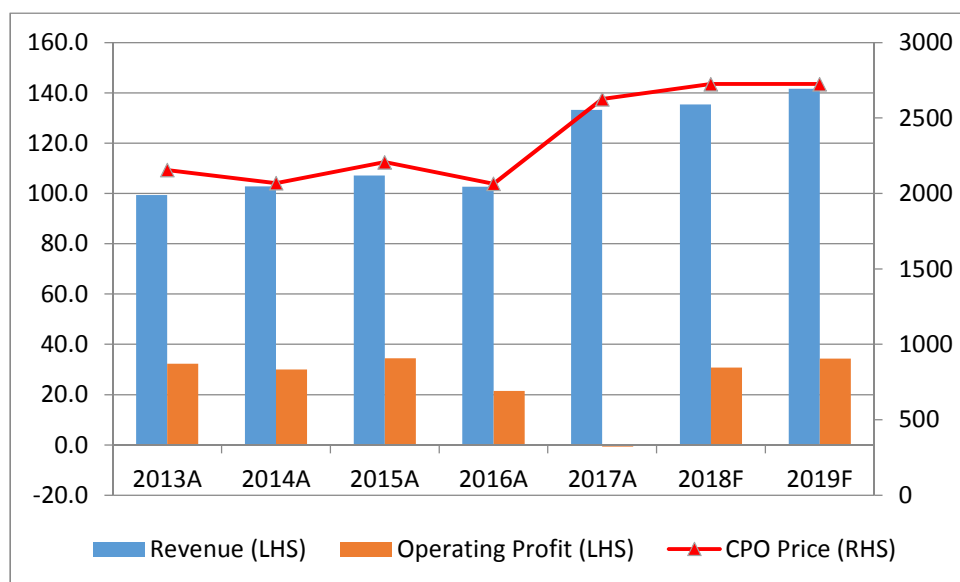
Exhibit 2: Earnings performance for manufacturing division



Source: Company, MIDF Research Estimate

Plantation division earnings is correlated with CPO price. FIMACORP's plantation division earnings are linked to Crude Palm Oil (CPO) price as it is a pure upstream plantation Company. Historically, the division is consistently profitable with the exception of FY17 in which there is an impairment of property, plant and equipment and biological assets of subsidiary in Indonesia. Despite the temporary blip in FY17, the outlook for the plantation division is good due to our long term bullish view on CPO price.

Exhibit 3: Earnings performance for plantation division



Source: Company, MIDF Research Estimate

A cash cow with robust balance sheet. The Company balance sheet is robust with cash of RM336.3m and no borrowing. Its cash has grown steadily from RM172.6m in FY15 to RM336.3m in FY17. We expect the net cash position to continue into FY18F and FY19F as we expect strong operating cash flow exceeding RM50m with limited capex at around RM10m. In view of its high operating cash flow and low capex, we expect FY18 and FY19 dividend at 12.50 sen each representing a good dividend yield of 5.4%.

Expecting FY18 core net profit of RM54.9m. For the manufacturing division, we expect the earnings to decline as the impact of the expiration of the contract to supply certain travel documents will be reflected in FY18. However, the earnings for the plantation division should recover as we expect higher average CPO price of RM2725 per MT in FY18 (against RM2625 per MT registered in FY17).

C. INDUSTRY OUTLOOK

The industry of manufacturing of security and confidential documents is facing increased competition due to the emergence of new digital technologies. This has changed the industry's landscape through the introduction of mobile applications and digital IDs which has effectively replaced the use of paper-based security documents. Overall, the outlook for the industry is unexciting as intense competition is expected to result in low revenue growth and compressed margins for the existing players.

Plantation division outlook is good in the long term. We are long term positive on CPO price outlook as the increase in the world population bodes well for the demand outlook of CPO. On the supply side, the limited landbank suitable for oil palm plantation should limit the supply in the long run.

But plantation sector outlook is NEUTRAL in the near term. We expect CPO price to weaken in 2H2017 against the 1H2017 due to strong production recovery expected in the 2H2017 as oil palm trees recover from the impact of El Nino. Hence, plantation companies' earnings should decline in the 2H2017 as their earnings are strongly correlated to CPO price performance. For June-2017, we expect the Malaysia inventory of palm oil to ease 2% mom to 1.52m MT assuming: i) production increase of 2% mom and ii) export growth of 3% mom.

D. VALUATION

Initiate with NEUTRAL and TP of RM2.50. We have chosen Sum-Of-Parts valuation due to the different business model of manufacturing and plantation division. For manufacturing division, we have ascribed 10.5x Forward PER valuation which is in line with FBM Small Cap Forward PE for FY18. Plantation division is valued at 11.5x Forward PE. The 11.5x Forward PE represents a 40% discount to average Target PE of 19.1x for mid cap planters under our coverage. Note that the 40% discount is to reflect the small landbank size and the risk for its landbank in Indonesia.

Exhibit 4: Sum-Of-Parts Valuation for FIMACORP

Divisions	Valuation	Note	Fair Value (RM 'm)
Manufacturing	10.5x FY17E 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	337
Plantation	11.5x FY18E earnings		266
Sum-Of-Parts (RM m)			603
No of shares (m)			241
TP (RM)			2.50

Source: MIDF Research Estimate

E. RISKS

Manufacturing division is facing competition from the digital technologies. FIMACORP's Security Document Manufacturing (SDM) division is facing competition from the new digital technologies which has introduced mobile applications and digital IDs to replace paper-based security documents. The Company recognize this as an emerging trend and is currently in the midst of developing new revenue streams. This could be achieved via expansion into new markets with strategic partners.

Plantation division is exposed to CPO price volatility. As plantation division contributed 36% to FIMACORP revenue, the movement in CPO price is expected to affect FIMACORP earnings. For every RM100 change in CPO price, we expect FIMACORP FY18 core earnings to move in the similar direction by 5.6%. CPO price volatility could be partially managed through forward selling of CPO.


High concentration of landbank in one area. Out of the 6,922 ha of planted landbank, 6,433 ha (or 93%) of is located in Kalimantan, Indonesia. As a result, any change in Indonesia land regulation or policy on oil palm industry will affect FIMACORP operations. Recently, FIMA subsidiary in Indonesia (PT Nunukan Jaya Lestari or "PTNJL") application to annul an order by the Menteri Agraria dan Tata Ruang/Kepala Badan Pertanahan Nasional ("Ministerial Order") to revoke PTNJL's land title Hak Guna Usaha ("HGU") has been dismissed. Having said that, FIMACORP has submitted its appeal to Indonesia Court Of Appeal. 

Exhibit 5: FIMACORP Financials

Income Statement (RM m)						Balance Sheet (RM m)					
	FY15A	FY16A	FY17A	FY18F	FY19F		FY15A	FY16A	FY17A	FY18F	FY19F
Revenue	378.0	375.2	372.1	339.3	355.5	PPE	110.9	125.9	97.9	108.1	110.3
EBIT	84.5	75.8	58.7	73.4	79.0	Biological Assets	44.9	49.6	33.0	33.0	33.0
PBT	87.8	77.3	61.3	76.3	82.0	Others	110.3	113.4	113.2	112.6	87.4
Net Profit	55.8	51.3	37.7	54.9	59.0	Non-current Asset	266.1	288.9	244.0	253.8	230.7
Core Net Profit	55.9	49.6	71.5	54.9	59.0	Cash	172.6	177.6	336.3	345.2	383.9
Core EPS (sen)	23.17	20.55	29.64	22.78	24.47	Inventories	91.2	51.0	37.4	33.9	33.8
Core PER (x)	10.01	11.29	7.83	10.18	9.48	Receivables	182.9	167.1	97.5	88.2	88.9
Net DPS (sen)	12.50	12.50	17.50	12.50	12.50	Others	0.0	0.0	0.0	10.8	30.7
Net Dvd Yield	5.4%	5.4%	7.5%	5.4%	5.4%	Current Asset	446.7	395.7	471.3	478.2	537.3
Cash Flow Statement (RM m)						TOTAL ASSETS					
	FY15A	FY16A	FY17A	FY18F	FY19F		FY15A	FY16A	FY17A	FY18F	FY19F
PBT	87.83	77.30	61.26	76.31	81.98	Share capital	122.7	122.7	122.7	122.7	122.7
Depreciation	20.69	21.49	16.58	17.41	18.28	Reserves	407.9	431.6	438.7	463.5	492.4
Finance cost / income	-7.18	-5.68	-7.68	-7.83	-7.99	Minority Interest	30.0	28.1	25.4	25.4	25.4
Others	0.95	2.20	35.53	0.00	0.00	TOTAL EQUITY	560.5	582.4	586.8	611.6	640.5
OP before Δ in WC	102.29	95.30	105.70	85.88	92.27	Borrowings	0.0	0.0	0.0	0.0	0.0
Δ in receivables	-78.13	16.87	65.21	9.33	-0.66	Others	17.7	28.9	21.3	21.3	21.3
Δ in inventory	-23.94	40.14	10.26	3.50	0.16	Non-current liabilities	17.7	28.9	21.3	21.3	21.3
Δ in payables	53.68	-64.25	33.28	-8.12	7.12	Borrowings	0.0	0.0	0.0	0.0	0.0
Others	7.92	5.04	7.66	7.83	7.99	Payables	127.9	49.7	82.8	74.6	81.8
Tax	-29.16	-29.21	-25.77	-21.37	-22.95	Others	6.7	23.6	24.5	24.5	24.5
Cash from Operations	32.67	63.89	196.33	77.06	83.92	Current liabilities	134.6	73.3	107.3	99.1	106.2
Purchase of PPE	-10.79	-10.80	-5.30	-1.00	-1.01	TOTAL LIABILITIES	152.3	102.2	128.5	120.4	127.5
Additions to biological assets	-4.41	-6.99	-8.68	-4.00	-4.04	Ratios	FY15A	FY16A	FY17A	FY18F	FY19F
Others	-6.62	-3.82	1.22	0.00	0.00	Profitability ratios (%)					
Cash from Investment	-21.82	-21.60	-12.77	-5.00	-5.05	Return on Equity	10.5	9.3	6.7	9.4	9.6
Net Borrowings	0.00	0.00	0.00	0.00	0.00	Return on Assets	7.8	7.5	5.3	7.5	7.7
Dividend Paid	-28.17	-30.17	-30.14	-30.15	-30.15	Liquidity ratios (x)					
Others	-3.63	-8.10	-23.39	-10.00	-10.00	Current ratio	3.3	5.4	4.4	4.8	5.1
Cash from Financing	-31.80	-38.27	-53.54	-40.15	-40.15	Quick ratio	2.6	4.7	4.0	4.4	4.5
Δ in cash	-20.95	4.00	129.98	31.91	38.73	Debt-to-equity	0.0	0.0	0.0	0.0	0.0
Beginning cash	195.20	172.64	177.59	313.31	345.22	Profit margin (%)					
Ending Cash	172.64	177.59	313.31	345.22	383.95	PBT Margin	23.2	20.6	16.5	22.5	23.1
						Net profit margin	14.8	13.7	10.1	16.2	16.6

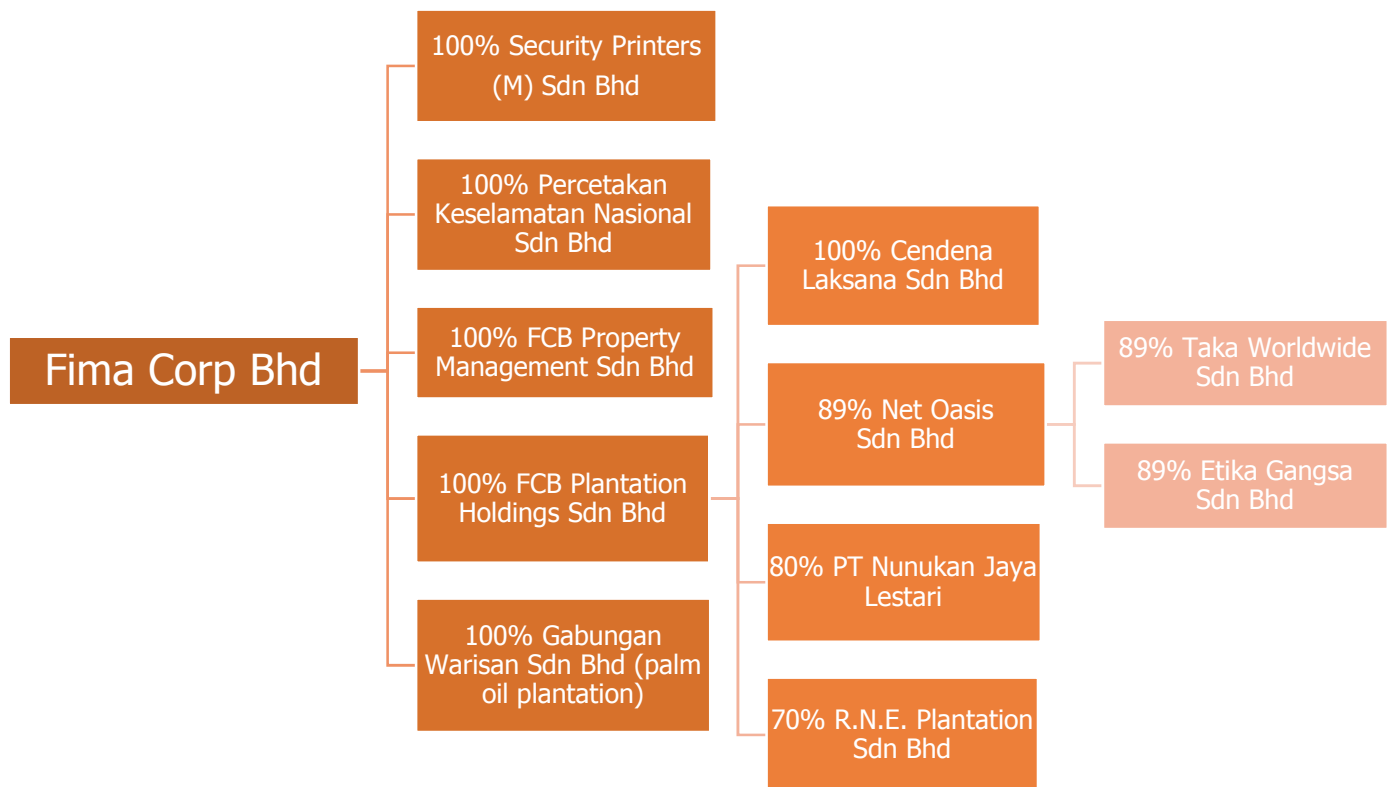
Source: Company, MIDF Research

F. APPENDIX
Exhibit 6: Major Corporate Milestones

Year	Achievements
1974	Established on 5 December 1974 under the name of Metal Box Holdings Malaysia Sendirian Berhad to acquire the Malaysian subsidiaries of Metal Box Company of Malaysia Limited.
1976	Became a public listed company and changed its name to Metal Box Berhad.
1976	Listed on the Main Board of KLSE (now known as Bursa Malaysia Securities Bhd).
1977	Acquired Security Printers (M) Sdn Bhd, a security printing company.
1981	Kumpulan Fima Berhad became the controlling shareholder.
1981	Changed its name to Fima Metal Box Berhad.
1990	Fimacorp's 100% subsidiary, Percetakan Keselamatan Nasional Sdn Bhd ("PKN") took over the entire ownership, control and management of Cawangan Percetakan Keselamatan, the security printing arm of the Malaysian Government, pursuant to the Privatisation Agreement entered into between the Malaysian Government, Fimacorp (known then as "Fima Metal Box Berhad) and PKN.
1993	Divested the entire equity interest in its metal and packaging business to Carnaudmetalbox.
1993	Changed its name to Fima Corporation Berhad.
2002	Entered into a joint venture with Giesecke & Devrient GmbH for the establishment of Giesecke & Devrient Malaysia Sdn Bhd whose principal activities are in the printing and production of banknotes.
2006	Via a subsidiary, FCB Plantation Holdings Sdn Bhd, completed the acquisition of 80% equity interest in PT Nunukan Jaya Lestari, an Indonesian plantation company.
2014	Via a subsidiary, Cendana Laksana Sdn Bhd, completed the acquisition of 2 parcels of agricultural leasehold lands in Kemaman, Negeri Terengganu.
2014	Completed the acquisition of 2,000,000 ordinary shares of RM1.00 each, representing the entire equity interest of Gabungan Warisan Sdn Bhd which has been granted a 99 year lease to undertake the development of approximately 617.3 acres agricultural land in Kuala Krai, Kelantan.
2015	Via a subsidiary, FCB Plantation Holdings Sdn Bhd, completed the acquisition of two parcels of agricultural leasehold lands in Gua Musang, Kelantan via the acquisition of 89% of equity interest in Next Oasis Sdn Bhd.
2016	Via subsidiary, FCB Plantation Holdings Sdn Bhd, acquired 70% equity interest in R.N.E. Plantation Sdn Bhd which has been granted a sub-lease over a parcel of land situated in Sg. Siput, Perak.

Source: Company

Exhibit 7: Corporate Structure



Source: Company, MIDF Research

Exhibit 8: Management Profile

Management	Profile
<p>Dato' Adnan Bin Shamsuddin Chairman Independent Non-Executive Director</p>	<p>Appointed as Director and member of the Audit Committee, Remuneration Committee and Nomination Committee on 20 May 2003. On 24 February 2010, he was appointed Chairman of the Company.</p> <p>He began his career by joining the Administrative and Diplomatic Service, of the Government of Malaysia in 1971 and was appointed as Assistant Secretary, Ministry of Transport. After four years at the Ministry of Transport, he was awarded a scholarship to pursue post graduate studies in United States.</p> <p>He returned to Malaysia in 1977 and was posted as Director of Air Transport in the Department of Civil Aviation and in 1983, promoted to the post of Deputy Director General of Civil Aviation. When the airport was corporatized in 1992, he opted to join Malaysia Airports Holdings Berhad and served as Executive Director until he retired in 2003.</p> <p>Presently, he is the Chairman of Percetakan Keselamatan Nasional Sdn Bhd, a wholly-owned subsidiary of Fima Corporation Berhad and a Board member of Nationwide Express Courier Services Berhad.</p>
<p>Dato' Roslan Bin Hamir Managing Director / Non-Independent Executive Director</p>	<p>He was appointed to the Board on 8 December 1998. In May 1999, he was made Executive Director and redesignated as Managing Director.</p> <p>He was previously with Ernst & Young Consultants Sdn Bhd as an auditor as well as management consultant from 1993 till 1998 when he joined Kumpulan Fima Berhad as Senior Vice President, Corporate Services.</p> <p>He is presently the Group Managing Director of Kumpulan Fima Berhad, a company listed on Bursa Malaysia Securities Berhad.</p>
<p>Rezal Zain Bin Abdul Rashid Senior Independent Non-Executive Director</p>	<p>He joined the Board on 25 June 2002 and serves as the Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees. He was appointed Senior Independent Non-Executive Director on 21 February 2012.</p> <p>He is a Chartered Public Accountant with ASCPA and also a Public Accountant with the Malaysian Institute of Accountants. He was previously with KPMG Desa Megat & Co as a senior auditor and after 4 years of auditing, he was transferred to Peat Marwick Consultants. He subsequently joined the Corporate Finance Department of Arab Malaysia Merchant Bank, specializing in Mergers and Acquisitions.</p> <p>In 1996, he joined TDM Berhad as the Manager of Corporate & Business Development and was appointed as the Chief Operating Officer in 1999.</p> <p>In July 2000, he left TDM Berhad, pursuant to a management-buy-out of one of its subsidiaries. He is presently a Board member, Audit Committee chairman and a member of the Remuneration and Nomination Committees of YFG Berhad and Matrix Concepts Holding Berhad.</p> <p>He is also the Chairman of FCB Plantation Holdings Sdn Bhd, a wholly-owned subsidiary of Fima Corporation Berhad.</p>
<p>Datuk Alias Bin Ali Independent Non-Executive Director</p>	<p>He was appointed to the Board on 26 August 2004 and serves as the Chairman of the Nomination and Remuneration Committee and a member of the Audit Committee.</p> <p>He began his career in 1970 with the Prime Minister's Department.</p> <p>During the 34 years of service with the Government, he held various senior positions in several Ministries. In 1995, he was appointed Deputy Secretary General (Cabinet) of the Prime Minister's Department and in 2000, he was appointed Secretary General of the Ministry of Health until his retirement in March 2004. He is currently a Board member of Duopharma Biotech Berhad and Melati Ehsan Holdings Berhad</p>

Dr. Roshayati Binti Basir

Non-Independent
Non-Executive Director

A doctor by profession, she was appointed to the Board on 23 November 2009. She did her Internship with Hospital Kuala Lumpur in 1989. She then served as Medical Officer (Surgery) with Universiti Kebangsaan Malaysia in 1990 and later in 1992 as Trainee Radiologist. In 1996, she joined Hospital Kuala Lumpur as a Radiologist. Currently, she is the Consultant Radiologist with Sunway Medical Centre and is a member of the Academy of Medicine (Malaysia).

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.