

27 January 2010

BUY
RM1.47

Target Price: RM2.21

HPI Resources

In line with expectations
Stock data

| | |
|-------------------------|---------------|
| Market cap (RMm): | 81.4 |
| Issued shares (m): | 53.2 |
| 52-week range: | RM0.48-RM1.65 |
| 3-mth avg daily volume: | 333,172 shrs |
| Bloomberg code: | HPI MK |
| YTD price chg: | +18.6% |
| YTD KLCI chg: | +1.9% |
| Est. free float: | 59.3% |
| Major shareholders: | |
| <i>Lucrabase S/B:</i> | 40.7% |

| | | | | |
|-------------|--------------|---------------|----------------|---------------|
| KLCI | FBM70 | FBM100 | Syariah | Hijrah |
| No | No | No | No | No |

Consensus

| | | |
|-------------------|--------------|--------------|
| FYE 31May | 2010E | 2011E |
| Net profit (RMm): | 22.0 | 22.9 |
| EPS (sen): | 41.0 | 45.0 |

Forecast revision

| | | |
|---------------------------|--------------|--------------|
| FYE 31May | 2010E | 2011E |
| Prev. net profit (RMm): | 23.1 | 23.8 |
| Revision (%): | - | - |
| Revised net profit (RMm): | 23.1 | 23.8 |

Share price chart

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- **1H10 results within expectations.** 6M revenue of RM176.4m was 48% of our forecast while net profit of RM12.5m came in at 54%. The slightly higher net profit as compared to our forecast was driven mainly by higher than expected gross margins (18.5% versus 18% forecasted) and lower effective taxes at 13.1% versus 19% as per our forecast.
- **QoQ, revenue was flat, dipping a marginal 0.3% to RM88.1m.** Pretax however was up 8.5% driven by continuing contribution from its Perak subsidiary and paper mill. At the net level, profit was 3.4% lower on higher effective taxes at 17.8% (1Q10 : 8%)
- **YoY, revenue for the six months was 7.9% lower** but net was 31.6% higher driven mainly by better cost management as well as heightened productivity and efficiency.
- **Outlook remains positive basing on the recent economic data and forecast.** With global economic recovery becoming sustained, demand for the group's key products will likely to remain encouraging in the near to medium term.
- **Forecast is maintained but target price raised to RM2.21** from RM1.77 previously, ascribing a 5x CY2010F as opposed to 4x earlier. The recent multiple expansion experienced by our driven by an improving economic outlook prompts us to use a higher multiple to value the stock. **BUY** maintained.

Results Highlights

| FYE 31 May (RMm) | 2Q09 | 3Q09 | 4Q09 | 1Q10 | 2Q10 | QoQ% | YoY% | 1H10 | 1H09 | YoY% |
|------------------|--------|--------|--------|--------|--------|-------|-------|---------|---------|-------|
| Revenue | 91.5 | 77.1 | 76.7 | 88.3 | 88.1 | -0.3% | -3.7% | 176.4 | 191.6 | -7.9% |
| Cost of Sales | (79.1) | (65.8) | (60.2) | (72.4) | (71.4) | | | (143.8) | (165.3) | |
| Gross Profit | 12.4 | 11.4 | 16.5 | 15.9 | 16.7 | 4.7% | 35.0% | 32.6 | 26.3 | 24.2% |
| GP% | 13.5% | 14.8% | 21.5% | 18.0% | 18.9% | | | 18.5% | 13.7% | |
| PBT | 6.5 | 2.7 | 8.2 | 7.0 | 7.6 | 8.5% | 16.0% | 14.5 | 11.8 | 22.7% |
| PBT% | 7.1% | 3.5% | 10.7% | 7.9% | 8.6% | | | 8.2% | 6.2% | |
| Tax | (1.5) | (1.2) | (0.3) | (0.6) | (1.3) | | | (1.9) | (2.3) | |
| Tax % | -22.5% | -44.2% | -3.1% | -8.0% | -17.8% | | | -13.1% | -19.7% | |
| MI | (0.0) | (0.0) | (0.0) | (0.1) | (0.1) | | | (0.1) | (0.0) | |
| Net Profit | 5.0 | 1.5 | 7.9 | 6.3 | 6.1 | -3.4% | 21.4% | 12.5 | 9.5 | 31.6% |
| Net % | 5.5% | 1.9% | 10.3% | 7.2% | 7.0% | | | 7.1% | 4.9% | |
| EPS (sen) | 9.5 | 2.8 | 14.9 | 11.9 | 11.5 | | | 23.4 | 17.8 | |

Earnings Estimates

| FYE 31 May (RMm) | 2008A | 2009A | 2010F | 2011F |
|-------------------|-------------|-------------|-------------|-------------|
| Revenue | 329.6 | 345.4 | 370.1 | 382.1 |
| Cost of Sales | (273.3) | (291.2) | (303.5) | (313.3) |
| GP Profit | 56.2 | 54.2 | 66.6 | 68.8 |
| GP % | 17.1% | 15.7% | 18.0% | 18.0% |
| EBITDA | 28.7 | 38.9 | 46.0 | 46.5 |
| EBITDA % | 8.7% | 11.3% | 12.4% | 12.2% |
| Pretax | 14.1 | 22.8 | 28.5 | 29.4 |
| Pretax % | 4.3% | 6.6% | 7.7% | 7.7% |
| Tax | (2.5) | (3.7) | (5.4) | (5.6) |
| Tax % | -17.6% | -16.3% | 19.0% | 19.0% |
| MI | 0.0 | (0.1) | 0.0 | 0.0 |
| Net Profit | 11.6 | 19.0 | 23.1 | 23.8 |
| EPS (sen) | 27.3 | 35.6 | 43.4 | 44.7 |
| Net % | 3.5% | 5.5% | 6.2% | 6.2% |
| EPS Growth | 2.7% | 30.8% | 21.8% | 2.9% |
| PER(x) | 5.4 | 4.1 | 3.4 | 3.3 |
| EV/EBITDA(x) | 5.6 | 4.1 | 3.7 | 3.1 |

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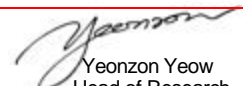
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