2QFY11 RESULTS UPDATE **2 September 2011**

CBSA Berhad

Bursa / Bloomberg Code: 0041 / CBS MK
Shariah-Compliant Stock

Price :	**RM0.325**
Market Capitalization :	**RM77.7 mln**
Market :	**Main Market**
Sector :	**Technology**
Recommendation :	**Buy**

CBSA: 2QFY11 results

FYE Dec		**Quarter-on-Quarter**		**Year-on-Year**		**Year to date**		
(RM m)	**Jun 11**	**Mar 11**	**%chg**	**Jun 10**	**%chg**	**1HFY11**	**1HFY10**	**%chg**
Turnover	9.9	10.2	-2.9%	8.1	21.9%	20.0	19.8	1.3%
Operating profit	1.4	2.8	-50.2%	1.0	35.2%	4.2	4.8	-11.7%
Interest cost	(0.0)	(0.0)		(0.1)		(0.0)	(0.1)	
Pre-tax profit	1.4	2.8	-50.8%	1.0	42.3%	4.2	4.7	-11.0%
Tax	0.0	(0.2)		0.0		(0.2)	(0.2)	
Net profit	1.3	2.6	-48.3%	1.2	11.9%	3.9	4.4	-11.5%
Reported EPS (sen)	0.6	1.1		0.5		1.6	1.9	
Op profit margin	14.2%	27.7%		12.8%		21.1%	24.2%	
Pre-tax margin	14.0%	27.6%		12.0%		20.9%	23.8%	
Net profit margin	13.5%	25.3%		14.7%		19.5%	22.3%	
NA per share (RM)	0.24							

2QFY11 Results Review

- CBSA Berhad (CBSA)'s 2QFY11 results were below our expectations with 1HFY11 net profit of RM3.9 mln accounting for 33% of our full-year forecast of RM11.5 mln. While we expect a stronger 2HFY11 performance due to higher expected recognition of revenue from its Search and Advertising division, we now opine that our existing net profit projection was on the optimistic end.

- 1HFY11 turnover grew modestly by 1.3% y-o-y to RM20.0 mln, with increased contribution from the Search and Advertising division (+6.5% y-o-y) that offset the 1.2% y-o-y decline in the IT segment. The 11.0% y-o-y drop in PBT to RM4.2 mln was largely owing to a RM1.74 mln gain on sale of asset in 1HFY10. Stripping off the gain, 1HFY11 PBT actually rose 41.9% y-o-y on improved performance from both the IT as well as Search and Advertising division. We understand from management that the 2QFY12 Search and Advertising revenue also included maiden contribution from its partnership with Google. To recap, CBSA signed a Content License Agreement with Google Ireland Limited in June 2011 whereby CBSA will receive license fees from providing Google with business listings for Google Maps in Malaysia, Singapore, Indonesia, Thailand, Philippines and Vietnam. The agreement is for 5 years and is renewable thereafter.

- On segmental analysis, the IT division accounted for 67% of 1HFY11 Group revenue and 85% of PBT, with Search and Advertising business contributing the remaining 33% of revenue and 15% of PBT. We note however, that we expect the profitability of the Search and Advertising business to improve in 2HFY11 once CBSA recognizes the bulk of its advertising sales for its printed and online directory services.

- Sequentially, the 50.8% fall in 2QFY11 PBT vs. 2.9% decline in turnover was principally due to lower profit margin achieved in the IT division during the quarter under review. We understand from management that 1QFY11 comprised higher sales of softwares and services while 2QFY11 had more hardware sales that carried lower profit margin.

- We expect CBSA to post a more robust 2HFY11 results when the Search and Advertising division recognizes the bulk of its advertising sales upon the distribution of its printed directory. Nevertheless, given the soft 2QFY11 results, we decided to trim our FY11 projection by 8% to RM10.6 mln from RM11.5 mln. We note that its operations remain supported by a solid balance sheet with a net cash/share of 4 sen and book value/share of 24 sen.

Recommendation

We maintain **Buy** recommendation on CBSA but lower our fair value to **40 sen** (from 43 sen), derived from pegging our revised FY11 net profit against a target PER of 9x. We continue to like CBSA for its i) prospective earnings growth particularly in the overseas markets, ii) recurring income base, iii) earnings potential from the partnership with Google, and iv) healthy balance sheet. Despite the downward adjustment in our earnings estimate, the revised FY11 projection still show a potential 20% y-o-y growth in net profit (after stripping off the gain on disposal in FY10). Valuation, at prospective FY11 PER of 7x, too remains undemanding especially after the recent correction in share price in tandem with the fall in the broader equity market. Meanwhile, moderating factors include internal aspect such as earnings fluctuations from the IT division due to the project-based nature of business, as well as external reasons that include the present weak macroeconomic environment and poor investor sentiment.

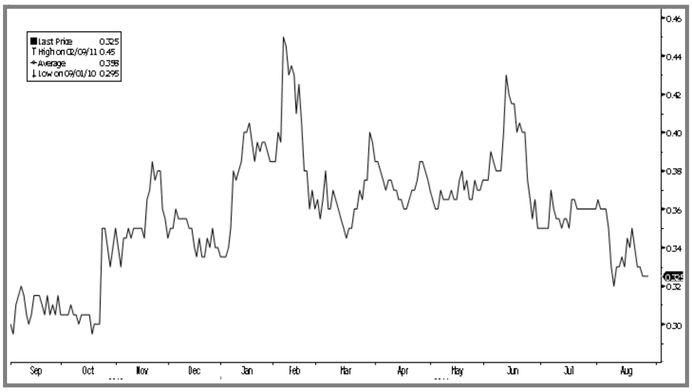
Per Share Data

FYE Dec	FY09	FY10	FY11f
Book Value (RM)	0.18	0.23	0.27
Cash Flow (sen)	5.3	5.4	5.9
Earnings (sen)	4.7	4.4	4.4
Dividend (sen)	-	-	-
Payout Ratio (%)	-	-	-
PER (x)	7.0	7.5	7.4
P/Cash Flow (x)	6.3	6.1	5.6
P/Book Value (x)	1.8	1.4	1.2
Dividend Yield (%)	-	-	-
ROE (%)	25.7%	19.4%	16.3%
Net Gearing (x)	Net Cash	Net Cash	Net Cash

P&L Summary

FYE Dec (RM mln)	FY09	FY10	FY11f
Revenue	45.6	46.6	52.0
Operating profit	**11.8**	**11.6**	**11.7**
Net Int Exp	(0.0)	(0.2)	(0.1)
Pre-tax Profit	11.7	11.4	11.6
Eff. Tax Rate	4.6%	7.0%	8.0%
Net Profit	11.2	10.6	10.6
Op Profit Margin (%)	25.8%	24.9%	22.4%
Pre-tax Margin (%)	25.6%	24.5%	22.2%
Net Margin (%)	24.5%	22.8%	20.4%

CBSA's last 12-month share price chart



source: Bloomberg

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RATING GUIDE

BUY	Price appreciation expected to exceed 10% within the next 12 months
SELL	Price depreciation expected to exceed 10% within the next 12 months
HOLD	Price movement expected to be between -10% and +10% over the next 12 months from current level

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