▶ TANJONG PLC	2010	2011F	2012F	2013F
REVENUE (RM mil)	3,898.1	3,748.1	3,725.0	3,703.3
NET PROFIT (RM mil)	665.7	612.7	622.5	635.6
EPS (sen)	165.1	151.9	154.4	157.6
P/E (x)	10.6	11.5	11.3	11.1

Tanjong's stock expected to outperform in volatile markets

▶ **Recommendation: Buy**
Target Price: RM18.66
By ECMLibra Investment Research (July 1)

Within Expectations

TANJONG Plc recorded 1QFY11 net profit of RM177.2 million (-7% YoY) which was within expectations as it comprised 25% of our earnings estimate and 26% of consensus estimate. 1QFY11 revenue of RM945.8 million (-3% YoY) was also within expectations at 24% of our FY11 estimate.

The 1QFY11 DPS of 20 sen less 25% tax (1QFY10: 17.5 sen less 25%) declared was a pleasant surprise given the YoY easing in earnings.

1QFY11 power generation EBIT declined 10% YoY to RM238.4m due to the stronger ringgit against the US$ which caused its overseas power plants to contribute RM15 million less and non-recurrence of RM10 million in warranty claims received in 1QFY10.

Sequentially, 1QFY11 net profit surged 54% QoQ because of the lower prize payout ratio of 63% (4QFY10: 69%) and improved visitorship and cost control at Tropical Island.

At the theoretical prize payout ratio of 65% to 66%, we do not believe 1QFY11's results will be repeated in 2QFY11.

Also, we trim our earnings estimates to reflect a stronger exchange rate of RM3.30 (RM3.50 previously).

The net impact is to trim our earnings estimates by 12% per annum.

Despite trimming our earnings estimates, we tweak our DCF based TP higher by 3% to RM18.66 (previously RM18.08) for housekeeping changes post the release of its latest annual report.

Coupled with an expected 75.8 sen net DPS for FY11, we expect Tanjong to yield 11% returns. Thus, we upgrade Tanjong from 'Hold' to 'Buy.'

Going forward, rerating catalysts include securing a new lotto game and overseas power plants. At only 0.9x net gearing, Tanjong is able to embark on mergers and acquisitions.

We expect low beta and high dividend yielding stocks like Tanjong to outperform in volatile markets.