

COMMUNICATIONS (FIJI) LIMITED

Recommendation
Recent Price

Buy to \$2.50
\$1.79

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Communications (Fiji) Limited (CFM) and its subsidiaries form the leading radio broadcasting company in the South Pacific. It is engaged in the operation of five commercial radio stations in Fiji and two in Papua New Guinea. It broadcasts in four different languages to over 3,000,000 people each day. Associated companies 231 Waimanu Rd Holdings Limited (50% owned) is involved in property investment and i-Pac Communications (Fiji) Limited (35% owned), which, is the parent company of Unwired Fiji Limited provides wireless broadband internet services in Fiji.

FINANCIAL DATA

	2007 ^A	2008 ^{A*}	2009 ^A	2010 ^F
Revenue	7.452M	7.772M	8.225M	8.725M
Net Profit	440,806	864,220	1,040,266	1,404,000
ROE (%)	10.13	17.54	17.32	23.37
EPS (cents)	12.39	24.29	29.24	39.46
DPS (cents)	3.00	8.00	8.00	10.00
NA per share	1.22	1.38	1.69	1.98
Dividend %			4.47	5.59
P/E Ratio (x)			6.12	4.54

The data in the above table denoted with ^A are actual results whilst ^F are forecast results

*The 2009 results have been adjusted to exclude the fair value gain in i-Pac Communications (Fiji) Limited of \$371,734

MARKET DATA

SPSE Code	CFM
52 Week Range	1.65 – 1.79
Issued Capital	3,558,000
Market Capitalisation	6,368,820
Marketability	4,758/month

KEY POINTS

- ◆ The Company reported an underlying net profit of \$1,040,266 for the year ended 31 December 2009. This was an increase of \$176,046 or 20.37% compared to the prior year and also the first time that the company has reported a net profit in excess of \$1 million.
- ◆ The Company also recorded a fair value gain of \$371,734, which occurred when Data Nets Ltd acquired a shareholding in i-Pac Communications (Fiji) Limited. This bought the total reported net profit for the year to \$1,412,000.
- ◆ CFM's return on equity has remained strong at 17.32% and is forecast to rise to 23.37% in the 2010 financial year. This indicates that CFM's management has done an excellent job over the last two years in generating returns on the retained profits reinvested in the CFM.

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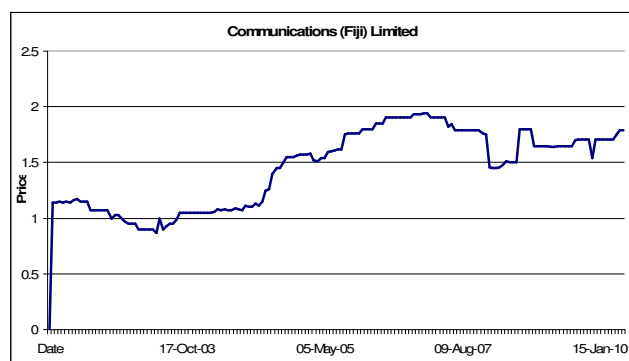
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- ◆ The continued investment in property plant and equipment by CFM has constrained its ability to increase its dividend to shareholders. However the new broadcasting studios in Port Moresby have now been completed, and the company's gearing level of 28 percent as at 31 December 2009 is at the lower end of its stated policy of maintaining the gearing level between 20 percent and 40 percent. With the dividend payout ratio forecast to fall to 25.34 percent, we would expect that CFM would seriously consider raising its dividend.
 - ◆ A significant increase in the level of dividends paid, should result in a positive re-rating of CFM's share price
 - ◆ The ownership of multiple radio stations in the one market enables the company to achieve economies of scale whilst at the same time catering for a diverse listening audience. In Fiji, for example the company's radio stations broadcast in three languages and provide targeted programming that caters for Westernised, traditional Indo Fijian and traditional Fijian audiences whilst in Papua New Guinea the company's radio stations broadcast in two languages to cater for the needs of both Westernised and traditional Papua New Guinea audiences.
 - ◆ The Papua New Guinean businesses are continuing to perform strongly and management is expecting a boom year in 2010. However the Papua New Guinean market is currently experiencing a high level of inflation resulting from the surge in investment related to the launch of the LNG gas project. Given the strong position of CFM's business in Papua New Guinea, we believe that it should be in a position to recover any increased costs that it incurs by raising its advertising rates.
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- ◆ In addition to its radio interests CMF has interests in non radio but complementary businesses. These include the Total Event Company Limited, www.fijivillage.com, and Unwired Fiji Limited.
 - ◆ Management has stated that they expect 2009 to have been a transformational year for the Unwired Fiji business, where their new business partner, Data Nets Limited, has injected fresh capital, and brought special knowledge and expertise in the information technology industry to the business.
 - ◆ In March 2010 Unwired Fiji Limited announced that they had launched a high speed broadband internet service in the Nadi region, using a WiMax service similar to the commercial grade network that had been deployed in Suva. They also announced that they expected to roll out mobile 4G WiMax services later in the year.
 - ◆ Despite this continued expansion of and investment in the Unwired Fiji Limited business, management expects CFM's share of the Unwired Fiji loss for the year to fall significantly to around \$100,000.
 - ◆ In April 2010 CFM announced the launch of its new CinemaADs division. CFM has obtained the exclusive rights to sell cinema advertising in Damodar Village Cinemas, Fiji wide. Damodar operates the largest chain of cinemas in Fiji. CFM expect the CinemaADs division will have an immediate positive impact on CFM's bottom line.
 - ◆ In 2009 the period, the PNG operations moved into a new custom built broadcasting studio in Port Moresby at a cost of K1.2 million.
 - ◆ We believe that all these initiatives will provide a sound basis for continued growth in future sales and profitability.

- ◆ With only 142 shareholders and the directors holding 56.12% of the issued capital of the company, investors wishing to acquire a reasonable size holding should be patient.
- ◆ The major shareholders and the board have had extensive business and management experience. The Chairman of the Board, Hari Punja, OF, OBE, JP who is also a director of Atlantic & Pacific Packaging Company Limited, Flour Mills of Fiji Limited, Kontiki Growth Fund Limited and Rice Company of Fiji Limited.
- ◆ In summary we believe that CFM is a well managed company, with a strong balance sheet, and an excellent portfolio of complimentary businesses with good prospects for future growth.



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