



AmResearch

## Company report

Hoy Ken Mak

mak-hoy-ken@ambankgroup.com

+603 2036 2294

# BENALEC HOLDINGS

(BHB.MK, BENAL.KL)

7 September 2012

Agreement sealed; now for the big push!

**BUY**

(Maintained)

*Rationale for report: Company Update*

Price	RM1.19
Fair Value	RM2.48
52-week High/Low	RM1.43/RM1.04

### Key Changes

Fair value	unchanged
EPS	unchanged

YE to Jun	FY12	FY13F	FY14F	FY15F
Revenue (RMmil)	155.3	409.4	785.6	840.8
Core net profit (RMmil)	82.8	93.4	109.5	129.8
Core FD EPS (Sen)	10.3	11.6	13.6	16.2
Core FD EPS growth (%)	(16.5)	12.9	17.3	18.5
Consensus EPS (Sen)		17.0	16.0	16.0
DPS (Sen)	4.0	5.0	6.0	7.0
Core FD PE (x)	11.2	10.1	8.6	7.2
EV/EBITDA (x)	7.5	6.8	4.5	3.7
Div yield (%)	3.4	4.2	5.0	5.9
ROE (%)	19.2	16.9	17.5	18.2
Net Gearing (%)	net cash	9.6	11.3	5.0

### Stock and Financial Data

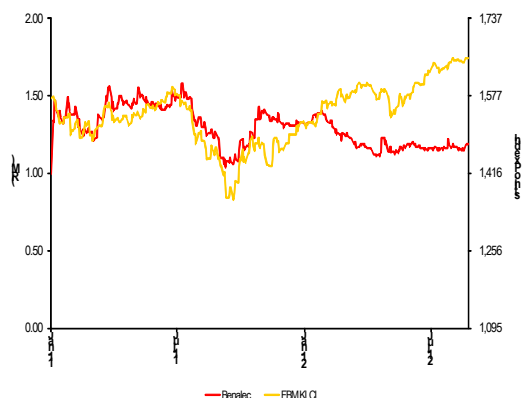
Shares Outstanding (million)	803.0
Market Cap (RMmil)	955.6
Book value (RM/share)	0.64
P/BV (x)	1.9
ROE (%)	19.2
Net Gearing (%)	net cash

Major Shareholders  
 Leow family (52.8%)  
 KWAP (7.4%)

Free Float (%)	39.8
Avg Daily Value (RMmil)	n/a

### Price performance

Absolute (%)	
Relative (%)	



### Investment Highlights

- Maintain BUY on Benalec Holdings, with an unchanged fair value of RM2.48/share. Benalec has announced that its 70%-owned units – Spektrum Budi and Spektrum Kukuh – have each signed development agreements with the Johor government and State Secretary Inc (SSI).
- Benalec will have exclusive rights to reclaim and develop two large tracts of prime seafront land in Johor – at Tg.Piai (3,485 acres) and Pengerang (1,760 acres) – that is earmarked as an integrated petroleum & petrochemical logistic hub and maritime industrial park.
- The land rights are for 99 years for each parcel. In return, the Johor government would be entitled to 3% of gross proceeds from the said land.
- The next step is for Benalec to finalise the:- (i) hydraulic studies/final survey of project land; and (ii) obtain EIA approval before any construction works can start.
- Benalec's near-term focus would be in Tg.Piai (three phases) – strategically located along the straits of Malacca and diagonally across the vibrant petrochemical hub in Jurong, Singapore.
- Significantly, the agreement would solidify Benalec's intensifying efforts to secure off-takers for its much-coveted land.
- Already, Benalec has an ongoing MoU with Singapore's Rotary Engineering Ltd to co-develop an integrated petroleum storage facility for storing, blending and distributing crude oil and its derivatives on 250 acres of reclaimed land at Tg.Piai (capacity: up to 3 mil tonnes).
- Benalec is an early-stage play on the repositioning of south Johor as an emerging oil & gas hub. Valuations are attractive at FD FY12F-14F PEs of only 7x-10x when stacked against its deeply-embedded value.
- Our model is only anchored on land reclamation works on 2,000 acres in Tg.Piai, with maiden contributions to kick in by 4QFY13. This suggests more upside to Benalec's future earnings potential.
- Benalec's balance sheet remains strong at FY13F net gearing of 0.1x, and supported by dividend yields of 4%-6%. To kick-start its Johor project, we understand that the group is planning to raise ~RM100mil in borrowings.
- Ex-Johor, we value Benalec's other businesses – notably its Malacca concession and the TNB coal supply contract – at close to RM0.80/share. However, this does not include future land sales from its Malacca landbank that has yet to be reclaimed.

CHART 1 : PB BAND CHART



CHART 2 : PE BAND CHART

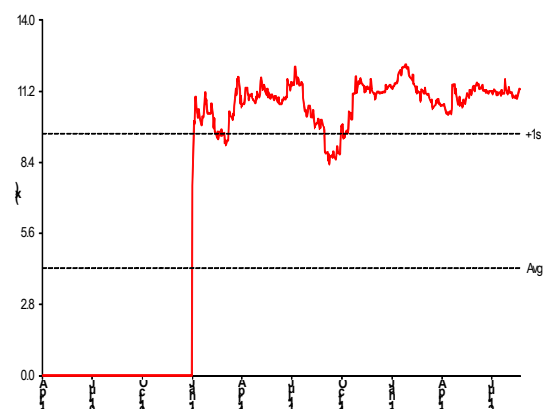


TABLE 1: DERIVATION OF FAIR VALUE

Division	Value (RM)		% of SOP	Details
	mil	/share		
Marine construction	979.7	1.22	49.2	12x 3-year average construction profits
Vessel chartering & transportaton	16.4	0.02	0.8	8x 3-year average construction profits
Land sale from Malacca reclamation project	348.5	0.43	17.5	Based on ave.selling price of RM32 psf
NPV of undeveloped Johor landbank @ 7%	701.2	0.87	35.2	Based on Phase 1 & 2 of Tg. Piai (2,000 acres)
Net debt	(56.2)	(0.07)	(2.8)	FY13F
<b>Sum-Of-Parts value</b>	<b>1,989.5</b>	<b>2.48</b>	<b>100.0</b>	
No.of shares	803.0			
<b>Fair Value</b>	<b>2.48</b>			
<b>Capital gain (%)</b>	<b>115.4</b>			
<b>FY13F dividend yield (%)</b>	<b>4.3</b>			
<b>Total return (%)</b>	<b>119.7</b>			

Source: Benalec, AmResearch

TABLE 2: OUTSTANDING ORDERBOOK

Project	State	Value (RM mil)		Period		Client	Type of contract
		Initial	Unbilled	Start	End		
Construction, completion and maintenance of reclamation and shore protection works for 180 acres at Klebang Besar	Malacca	71.3	6.7	2007	2012	Harun Utama Sdn Bhd	Payment-in-kind
Construction, completion and maintenance of 204 acres (Phase 3) between Kuala Sg. Melaka and Kuala Sg. Seri Melaka	Malacca	114.5	0.5	2008	2012	Oriental Boon Siew	Cash
Construction, completion and maintenance of reclamation and shore protection works for 180 acres at Limbongan Daerah Melaka Tengah	Malacca	77.2	7.6	2009	2012	Strategic Oscar Sdn Bhd	Payment-in-kind
Construction, completion and maintenance of reclamation and shore protection works for 144.2 acres at Pulau Indah Industrial Park, Port Klang	Selangor	75.0	72.1	2011	2013	Oceanfront Land Sdn Bhd, Atlantic Property Sdn Bhd, Oceanic Sdn Bhd, Oceanview Sdn Bhd	Payment-in-kind
Coastal reclamation works from Kuala Sungai Melaka (Phase 3 - VO) for 65 acres	Malacca	32.2	6.1	2010	2012	Oriental Boon Siew (M) Sdn Bhd	Cash
Construction, completion and maintenance of reclamation and shore protection works for 720 acres at Mukim Klebang, Melaka Tengah	Malacca	468.0	340.1	2011	2016	Sentosacove Sdn Bhd	Payment-in-kind, Cash
Proposed earthworks, river protection works & its associated works at Precinct 4, Glenmarie Cove, Port Klang	Selangor	37.0	15.2	2011	2013	Glenmarie Cove	Cash
Reclamation of above 4 acres adjacent to Lot 100, Pulau Melaka, Kawasan Bandar XLIII, Bandar Melaka, Daerah Melaka Tengah	Malacca	4.7	1.4	2011	2012	Arab City Melaka Sdn Bhd	Cash
Reclamation and shore protection works for 60 acres at a portion fo the Coast of Pulau Konet, District of Alor Gajah, Melaka	Malacca	36.6	36.6	2012	2013	Anzeco Coal Terminal Sdn Bhd	Cash
Proposed reclamation of the development of waterfront city measuring 15 acres at the district of Melaka Tengah, Melaka	Malacca	7.7	7.7	2012	2013	Swiss Horizon Sdn Bhd	Cash
Coal supply contract TNB*	Various	67.0	67.0	2012	2015	Tenaga Nasional Bhd	Cash
<b>Total</b>		<b>991.2</b>	<b>561.0</b>				

Source: Benalec, AmResearch

TABLE 1 : FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	2011	2012	2013F	2014F	2015F
Revenue	211.0	155.3	409.4	785.6	840.8
EBITDA	143.9	115.4	146.4	225.3	262.8
Depreciation	(20.9)	(10.8)	(16.9)	(17.7)	(18.8)
Operating income (EBIT)	123.0	104.6	129.5	208	244.0
Other income & associates	0.0	0.0	0.0	0.0	0.0
Net interest	(2.9)	(4.2)	(4.4)	(8.2)	(7.9)
Exceptional items	6.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>126.1</b>	<b>100.3</b>	<b>125.1</b>	<b>199.4</b>	<b>236.1</b>
Taxation	(30.0)	(17.6)	(24.3)	(43.7)	(51.7)
Minorities/pref dividends	0.0	0.0	(7.4)	(46.2)	(54.6)
<b>Net profit</b>	<b>96.1</b>	<b>82.8</b>	<b>93.4</b>	<b>109.5</b>	<b>129.8</b>
Core net profit	90.1	82.8	93.4	109.5	129.8
<b>Balance Sheet (RMmil, YE 30 Jun)</b>	<b>2011</b>	<b>2012</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>
Fixed assets	241.7	240.1	233.2	235.5	236.7
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	0.0	0.0	0.0	0.0	0.0
<b>Total non-current assets</b>	<b>241.8</b>	<b>240.1</b>	<b>233.2</b>	<b>235.5</b>	<b>236.7</b>
Cash & equivalent	69.8	130.5	111.8	103.1	125.1
Stock	12.2	20.2	174.4	270.2	243.9
Trade debtors	207.0	199.6	583.3	1,011.6	1,151.7
Other current assets	107.5	181.5	158.5	303.9	348.4
<b>Total current assets</b>	<b>396.4</b>	<b>531.8</b>	<b>1,028.0</b>	<b>1,688.7</b>	<b>1,869.1</b>
Trade creditors	170.0	139.3	451.9	979.3	1,027.7
Short-term borrowings	19.2	30.9	29.6	31.6	28.6
Other current liabilities	19.6	1.7	1.7	1.7	1.7
<b>Total current liabilities</b>	<b>208.8</b>	<b>171.8</b>	<b>483.2</b>	<b>1,012.6</b>	<b>1,058.0</b>
Long-term borrowings	43.7	17.3	118.5	126.5	114.5
Other long-term liabilities	39.0	66.3	66.3	66.3	66.3
<b>Total long-term liabilities</b>	<b>82.7</b>	<b>83.6</b>	<b>184.8</b>	<b>192.8</b>	<b>180.8</b>
<b>Shareholders' funds</b>	<b>346.8</b>	<b>516.5</b>	<b>585.8</b>	<b>665.2</b>	<b>758.9</b>
Minority interests	0.0	0.0	7.4	53.6	108.1
BV/share (RM)	0.48	0.64	0.73	0.83	0.95
<b>Cash Flow (RMmil, YE 30 Jun)</b>	<b>2011</b>	<b>2012</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>
Pretax profit	126.1	100.3	125.1	199.4	236.1
Depreciation	(80.0)	2.8	(84.4)	36.1	97.3
Net change in working capital	(63.1)	(105.3)	(202.4)	(142.0)	(109.9)
Others	(82.4)	(17.9)	(22.0)	(37.3)	(45.7)
<b>Cash flow from operations</b>	<b>1.5</b>	<b>(12.0)</b>	<b>(82.4)</b>	<b>37.9</b>	<b>99.2</b>
Capital expenditure	(29.3)	(10.2)	(10.0)	(20.0)	(20.0)
Net investments & sale of fixed assets	3.6	10.6	0.0	0.0	0.0
Others	(35.6)	(2.4)	2.0	1.8	1.9
<b>Cash flow from investing</b>	<b>(61.3)</b>	<b>(2.0)</b>	<b>(8.0)</b>	<b>(18.2)</b>	<b>(18.1)</b>
Debt raised/(repaid)	22.9	(14.7)	100.0	10.0	(15.0)
Equity raised/(repaid)	100.0	95.8	0.0	0.0	0.0
Dividends paid	0.0	(14.6)	(24.1)	(30.1)	(36.1)
Others	(24.3)	5.9	(4.4)	(8.2)	(7.9)
<b>Cash flow from financing</b>	<b>98.6</b>	<b>72.3</b>	<b>71.6</b>	<b>(28.3)</b>	<b>(59.0)</b>
<b>Net cash flow</b>	<b>38.7</b>	<b>58.3</b>	<b>(18.8)</b>	<b>(8.7)</b>	<b>22.1</b>
<b>Net cash/(debt) b/f</b>	<b>15.3</b>	<b>54.3</b>	<b>110.8</b>	<b>92.0</b>	<b>83.3</b>
Exchange rate effects	0.3	(1.8)	0.0	0.0	0.0
<b>Net cash/(debt) c/f</b>	<b>54.3</b>	<b>110.8</b>	<b>92.0</b>	<b>83.3</b>	<b>105.4</b>
<b>Key Ratios (YE 30 Jun)</b>	<b>2011</b>	<b>2012</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>
Revenue growth (%)	n/a	n/a	163.7	91.9	7.0
EBITDA growth (%)	1.8	n/a	26.9	53.9	16.6
Pretax margins (%)	59.8	64.6	30.6	25.4	28.1
Net profit margins (%)	45.5	53.3	22.8	13.9	15.4
Interest cover (x)	31.6	18.1	20.3	20.9	24.9
Effective tax rate (%)	23.8	17.5	19.4	21.9	21.9
Net dividend payout (%)	15.2	29.1	32.2	33.0	32.5
Debtors turnover (days)	331	478	349	371	470
Stock turnover (days)	11	38	87	103	112
Creditors turnover (days)	242	363	264	332	436

Source: Benalec, AmResearch

## Published by

**AmResearch Sdn Bhd (335015-P)**  
(A member of the AmInvestment Bank Group)  
15th Floor Bangunan AmBank Group  
55 Jalan Raja Chulan  
50200 Kuala Lumpur  
Tel: (03)2070-2444 (research)  
Fax: (03)2078-3162

## Printed by

**AmResearch Sdn Bhd (335015-P)**  
(A member of the AmInvestment Bank Group)  
15th Floor Bangunan AmBank Group  
55 Jalan Raja Chulan  
50200 Kuala Lumpur  
Tel: (03)2070-2444 (research)  
Fax: (03)2078-3162

The information and opinions in this report were prepared by AmResearch Sdn Bhd. The investments discussed or recommended in this report may not be suitable for all investors. This report has been prepared for information purposes only and is not an offer to sell or a solicitation to buy any securities. The directors and employees of AmResearch Sdn Bhd may from time to time have a position in or with the securities mentioned herein. Members of the AmInvestment Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. The information herein was obtained or derived from sources that we believe are reliable, but while all reasonable care has been taken to ensure that stated facts are accurate and opinions fair and reasonable, we do not represent that it is accurate or complete and it should not be relied upon as such. No liability can be accepted for any loss that may arise from the use of this report. All opinions and estimates included in this report constitute our judgement as of this date and are subject to change without notice.

For AmResearch Sdn Bhd



**Benny Chew**  
Managing Director