



AmResearch

## Company report

## BENALEC

(BHB MK EQUITY, BENL.KL)

19 Nov 2014

## Submits DEIA for Tg. Piai

BUY

(Maintained)

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Rationale for report: Company result

Price	RM0.79
Fair Value	RM1.25
52-week High/Low	RM1.22/RM0.78

## Key Changes

Fair value	↔
EPS	↔

YE to Jun	FY14	FY15F	FY16F	FY17F
Revenue (RM mil)	211.0	307.3	492.8	779.2
Core net profit (RM mil)	32.8	47.9	50.4	91.9
FD Core EPS (sen)	4.0	5.9	6.2	11.3
FD Core EPS growth (%)	(46.6)	46.2	5.3	82.2
Consensus Net Profit (RM mil)	-	56.1	65.0	80.2
DPS (sen)	-	2.5	4.5	4.5
PE (x)	19.6	13.4	12.7	7.0
EV/EBITDA (x)	11.8	8.4	5.7	3.2
Div yield (%)	-	2.6	4.6	4.6
ROE (%)	1.3	8.4	8.3	13.9
Net Gearing (%)	nm	20.8	20.9	4.6

## Stock and Financial Data

Shares Outstanding (million)	811.4
Market Cap (RMmil)	641.0
Book Value (RM/share)	0.67
P/BV (x)	1.2
ROE (%)	1.3
Net Gearing (%)	-
Major Shareholders	(47.8%) OceanCove Sdn Bhd (5.9%) KWAP
Free Float	46.3
Avg Daily Value (RMmil)	2.1

Price performance	3mth	6mth	12mth
Absolute (%)	(21.8)	(28.2)	(30.1)
Relative (%)	(19.3)	(25.1)	(30.7)



## Investment Highlights

- We maintain our BUY call on Benalec Holdings with an unchanged fair value of RM1.25/share, pegged at a 45% discount to its sum-of-parts value. Benalec recorded improved results for 1QFY15, with net profit surging to RM12mil from a RM5mil loss a year ago. Results were in line with expectations, constituting c.25% of our FY15F net profit forecast of RM48mil.
- The better results YoY was mainly due to higher land sales of RM45mil for its Malacca concessions that was booked in 1QFY15 compared with ~RM4mil in 1QFY14. For the quarter under review, the land sales generated substantial pre-tax margins of c.64%.
- Core earnings were up 21% QoQ on higher revenue base of RM48mil (+52% QoQ). The improved results were largely due to two key reasons:- (1) impairment charges on vessels and receivables totalling RM19mil that were incurred in 4QFY14; and (2) absence of land sales in 4QFY14.
- We take comfort that Benalec's near-term earnings visibility has improved, thanks to c.RM312mil (173 acres) worth of land sales with SPAs that are to be recognised between FY15F and FY17F. The group has already secured buyers for its net entitlement of 158 acres at its DMDI concession in Kota Laksamana, Malacca.
- The resulting profits from the concession – sold to the Faithview Group and Ultra Harmoni respectively for a combined RM287mil – would however only be recognised upon completion of the land disposals. The land sale to Faithview (~30 acres) should be completed by 3QFY15, while it has reclaimed c.73 acres out of the 128 acres that is deliverable to Ultra Harmoni.
- Outstanding orderbook stands at ~RM450mil, including a RM203mil job that was recently awarded by the Boon Siew group in May.
- Benalec has recently submitted the Detailed Environmental Impact Assessment (DEIA) to the Department of Environment (DOE) for its Tg. Piai Integrated Petroleum & Petrochemical Hub and Maritime Industrial Park project in Johor (3,485 acres). This comes after it had submitted plans to raise RM200mil via convertible bonds.
- Approvals aside, we believe Benalec's key re-rating catalyst still largely hinges on its ability to secure a trailblazer off-taker for its ambitious plans in Tg.Piai.
- Notably, the extended deadline to complete a proposed deal with 1MY Strategic Oil Terminal Sdn Bhd for 1,000 acres at Tg.Piai expires on 11 December 2014.

## EXHIBIT 1: RESULTS TABLE

YE 30 June (RMmil)	1Q14	1Q15	% YoY	4Q14	1Q15	% QoQ
<b>Turnover</b>	<b>14.4</b>	<b>47.9</b>	<b>232.8</b>	<b>31.5</b>	<b>47.9</b>	<b>52.0</b>
<b>EBIT</b>	<b>(4.3)</b>	<b>18.9</b>	<i>n/m</i>	<b>10.9</b>	<b>18.9</b>	<b>72.7</b>
Interest Expense	(0.7)	(0.5)		(1.2)	(0.5)	
Interest Income	0.1	0.3		0.8	0.3	
Pre-Exceptionals Profit	(4.9)	18.7		10.5	18.7	
Exceptionals	0.0	0.0		(25.5)	0.0	
Pre-Associates/JV Profit	(4.9)	18.7		(15.1)	18.7	
Associates	0.0	0.0		0.0	0.0	
<b>Pretax Profit</b>	<b>(4.9)</b>	<b>18.7</b>	<i>n/m</i>	<b>(15.1)</b>	<b>18.7</b>	<b>(224.1)</b>
Taxation	0.3	(6.7)		(0.6)	(6.7)	
Minority Interest	0.0	0.0		0.0	0.0	
<b>Net Profit</b>	<b>(4.7)</b>	<b>12.0</b>	<i>n/m</i>	<b>(15.6)</b>	<b>12.0</b>	<i>n/m</i>
<b>Core Net profit</b>	<b>(4.7)</b>	<b>12.0</b>	<i>n/m</i>	<b>9.9</b>	<b>12.0</b>	<b>21.2</b>
Core EPS (sen)	(0.6)	1.5		1.2	1.5	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
NA/share (RM)	0.69	0.70		0.67	0.70	
EBIT Margin (%)	<i>n/m</i>	39.3		34.6	39.3	
Pretax Margin (%)	<i>n/m</i>	39.0		<i>n/m</i>	39.0	
Effective Tax (%)	5.5	35.7		<i>n/m</i>	35.7	
<b>Segmental Breakdown</b>						
Marine Construction/Land reclamation	7.5	72.8	<i>n/m</i>	49.9	72.8	45.9
Vessel Chartering	4.5	6.4	<i>n/m</i>	4.9	6.4	29.5
Ship maintenance/building	1.8	0.0	<i>n/m</i>	0.0	0.0	<i>n/m</i>
Investment holdings	3.8	0.0	<i>n/m</i>	25.0	0.0	<i>n/m</i>
Elimination	(3.1)	(31.2)	<i>n/m</i>	(48.3)	(31.2)	<i>n/m</i>
<b>Total Turnover (RMmil)</b>	<b>14.4</b>	<b>47.9</b>	<b>232.8</b>	<b>31.5</b>	<b>47.9</b>	<b>52.0</b>
Marine Construction/Land reclamation	(0.4)	21.6	<i>n/m</i>	0.2	21.6	<i>n/m</i>
Vessel Chartering	(3.4)	(1.7)	<i>n/m</i>	(15.3)	(1.7)	<i>n/m</i>
Ship maintenance/building	(0.9)	(0.7)	<i>n/m</i>	(1.8)	(0.7)	<i>n/m</i>
Investment holdings	(0.2)	(0.5)	<i>n/m</i>	1.8	(0.5)	<i>n/m</i>
Elimination	0.0	0.0	<i>n/m</i>	0.0	0.0	<i>n/m</i>
<b>Total Pre-tax profit (RM mil)</b>	<b>(4.9)</b>	<b>18.7</b>	<i>n/m</i>	<b>(15.1)</b>	<b>18.7</b>	<i>n/m</i>
<b>Pre-tax Margin (%)</b>						
Marine Construction	<i>n/m</i>	<i>n/m</i>		0.4	<i>n/m</i>	
Vessel Chartering	<i>n/m</i>	(26.9)		<i>n/m</i>	(26.9)	
Ship maintenance/building	<i>n/m</i>	<i>n/m</i>		<i>n/m</i>	<i>n/m</i>	
Investment holdings	<i>n/m</i>	<i>n/m</i>		<i>n/m</i>	<i>n/m</i>	
<b>Total</b>	<b><i>n/m</i></b>	<b>39.0</b>		<b><i>n/m</i></b>	<b>39.0</b>	

Source: Benalec, AmResearch

EXHIBIT 2: PB BAND CHART

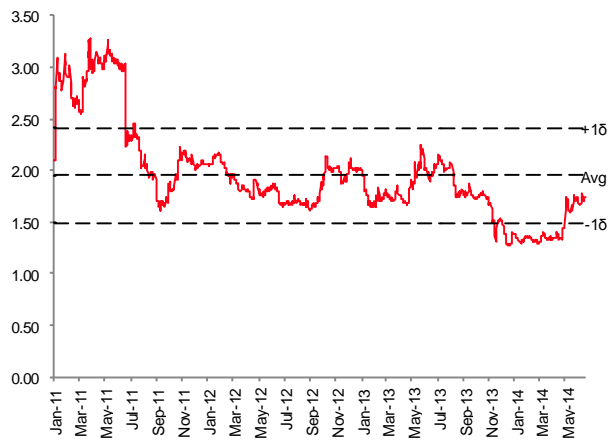


EXHIBIT 3: PE BAND CHART



## EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	FY13	FY14	FY15F	FY16F	FY17F
Revenue	265.8	211.0	307.3	492.8	779.2
EBITDA	82.5	53.7	91.3	135.0	213.4
Depreciation/Amortisation	(10.9)	(10.4)	(15.7)	(17.9)	(20.7)
Operating income (EBIT)	71.6	43.3	75.6	117.1	192.7
Other income & associates	-	-	-	-	-
Net interest	(2.0)	0.6	(7.5)	(13.1)	(11.1)
Exceptional items	(4.7)	(25.5)	-	-	-
<b>Pretax profit</b>	<b>64.9</b>	<b>18.3</b>	<b>68.2</b>	<b>104.0</b>	<b>181.6</b>
Taxation	(9.0)	(11.1)	(17.4)	(26.8)	(45.3)
Minorities/pref dividends	0.1	-	(2.9)	(26.8)	(44.3)
<b>Net profit</b>	<b>56.0</b>	<b>7.2</b>	<b>47.9</b>	<b>50.4</b>	<b>91.9</b>
Core net profit	60.7	32.8	47.9	50.4	91.9
Balance Sheet (RMmil, YE 30 Jun)	FY13	FY14	FY15F	FY16F	FY17F
Fixed assets	214.1	187.6	201.9	234.0	263.3
Intangible assets	-	0.8	0.8	0.8	0.8
Other long-term assets	-	3.7	3.7	3.7	3.7
<b>Total non-current assets</b>	<b>214.1</b>	<b>192.1</b>	<b>206.4</b>	<b>238.5</b>	<b>267.8</b>
Cash & equivalent	21.9	40.8	109.2	81.0	149.9
Stock	190.1	204.0	4.3	6.2	9.8
Trade debtors	491.4	400.0	631.4	850.5	918.0
Other current assets	47.0	71.8	220.2	106.1	129.5
<b>Total current assets</b>	<b>750.3</b>	<b>716.6</b>	<b>965.0</b>	<b>1,043.8</b>	<b>1,207.1</b>
Trade creditors	162.6	94.6	106.5	176.4	279.1
Short-term borrowings	18.7	24.3	46.4	42.4	36.4
Other current liabilities	152.7	213.6	213.6	213.6	213.6
<b>Total current liabilities</b>	<b>334.0</b>	<b>332.4</b>	<b>366.4</b>	<b>432.4</b>	<b>529.0</b>
Long-term borrowings	11.7	7.6	185.5	169.5	145.5
Other long-term liabilities	61.8	22.3	22.3	22.3	22.3
<b>Total long-term liabilities</b>	<b>73.5</b>	<b>29.9</b>	<b>207.8</b>	<b>191.8</b>	<b>167.8</b>
<b>Shareholders' funds</b>	<b>554.0</b>	<b>543.5</b>	<b>591.4</b>	<b>625.6</b>	<b>701.2</b>
Minority interests	2.9	2.9	5.8	32.5	76.9
BV/share (RM)	0.69	0.67	0.73	0.77	0.86
Cash Flow (RMmil, YE 30 Jun)	FY13	FY14	FY15F	FY16F	FY17F
Pretax profit	64.9	18.3	68.2	104.0	181.6
Depreciation/Amortisation	10.9	10.4	15.7	17.9	20.7
Net change in working capital	(249.4)	(14.9)	(168.1)	(37.0)	8.2
Others	108.3	91.5	(9.9)	(13.8)	(34.2)
<b>Cash flow from operations</b>	<b>(65.2)</b>	<b>105.3</b>	<b>(94.2)</b>	<b>71.2</b>	<b>176.2</b>
Capital expenditure	(1.1)	(2.8)	(30.0)	(50.0)	(50.0)
Net investments & sale of fixed assets	10.5	2.9	-	-	-
Others	6.1	(61.2)	1.1	1.4	1.7
<b>Cash flow from investing</b>	<b>15.4</b>	<b>(61.1)</b>	<b>(28.9)</b>	<b>(48.6)</b>	<b>(48.3)</b>
Debt raised/(repaid)	(17.8)	1.5	200.0	(20.0)	(30.0)
Equity raised/(repaid)	5.0	3.1	-	-	-
Dividends paid	(24.1)	(16.1)	-	(16.2)	(16.2)
Others	(2.2)	(12.5)	(8.6)	(14.5)	(12.9)
<b>Cash flow from financing</b>	<b>(39.2)</b>	<b>(24.0)</b>	<b>191.4</b>	<b>(50.7)</b>	<b>(59.1)</b>
<b>Net cash flow</b>	<b>(89.0)</b>	<b>20.1</b>	<b>68.3</b>	<b>(28.1)</b>	<b>68.9</b>
<b>Net cash/(debt) b/f</b>	<b>110.8</b>	<b>21.9</b>	<b>40.8</b>	<b>109.2</b>	<b>81.0</b>
<b>Net cash/(debt) c/f</b>	<b>21.9</b>	<b>40.8</b>	<b>109.2</b>	<b>81.0</b>	<b>149.9</b>
Key Ratios (YE 30 Jun)	FY13	FY14	FY15F	FY16F	FY17F
Revenue growth (%)	(8.0)	(20.6)	45.6	60.4	58.1
EBITDA growth (%)	(28.4)	(34.9)	70.1	47.8	58.0
Pretax margin (%)	24.4	8.7	22.2	21.1	23.3
Net profit margin (%)	21.1	3.4	15.6	10.2	11.8
Interest cover (x)	35.9	nm	10.1	9.0	17.3
Effective tax rate (%)	13.9	60.7	25.5	25.8	25.0
Dividend payout (%)	28.8	-	33.9	32.2	30.9
Debtors turnover (days)	675	692	750	630	430
Stock turnover (days)	439	517	8	7	7
Creditors turnover (days)	375	240	200	200	200

Source: Benalec, AmResearch

## EXHIBIT 5: SUM-OF-PARTS

Division	Value (RM)		% of SOP	Details
	mil	/share		
Marine construction	351.4	0.43	19.1	8x 3-year average construction profits
Vessel chartering & transportaton	8.3	0.01	0.5	NPV@12%
Market value of Malacca landbank	487.9	0.60	26.5	Based on ave.selling price of RM28 psf
NPV of undeveloped Johor landbank @ 12%	651.8	0.80	35.4	Based on only 3,000 acres at Tg.Piai
Net cash	8.9	0.01	0.5	As at 30 June 2014
Est.land sale proceedw with SPA	334.7	0.41	18.2	Transacted at RM40psf-RM48psf
<b>Sum-Of-Parts value</b>	<b>1,843.0</b>	<b>2.27</b>	<b>100.0</b>	
No.of shares	811.4			
<b>SOP/share</b>	<b>2.27</b>			
<b>Fair Value (RM/share) - less 45% discount</b>	<b>1.25</b>			
<b>Capital gain (%)</b>	<b>56.2</b>			
<b>FY14F dividend yield (%)</b>	<b>3.1</b>			
<b>Total return (%)</b>	<b>59.3</b>			
<b>Discount to SOP (%)</b>	<b>64.8</b>			

Source: Benalec, AmResearch

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**Benny Chew**  
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