

**AmResearch****Company report**

# BENALEC HOLDINGS

(BHB.MK, BENAL.KL)

13 June 2011

*Moving beyond Malacca***BUY**

(Maintained)

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*Rationale for report: Company Update*

Price	RM1.46
Fair Value	RM1.90
52-week High/Low	RM1.56/RM1.00

**Key Changes**

Fair value	unchanged
EPS	unchanged

YE to Jun	FY10	FY11F	FY12F	FY13F
Revenue (RMmil)	116.5	250.6	345.7	406.1
Core net profit (RMmil)	50.6	92.6	118.8	141.1
EPS (Sen)	8.0	12.7	16.3	19.3
EPS growth (%)	238.1	36.9	28.3	18.7
Consensus EPS (Sen)	n/a	n/a	n/a	n/a
DPS (Sen)	12.4	10.2	10.2	10.2
PE (x)	18.8	11.5	9.0	7.6
EV/EBITDA (x)	13.3	8.3	6.4	5.3
Div yield (%)	8.5	7.0	7.0	7.0
ROE (%)	52.7	37.6	30.4	28.6
Net Gearing (%)	59.9	11.5	6.6	0.7

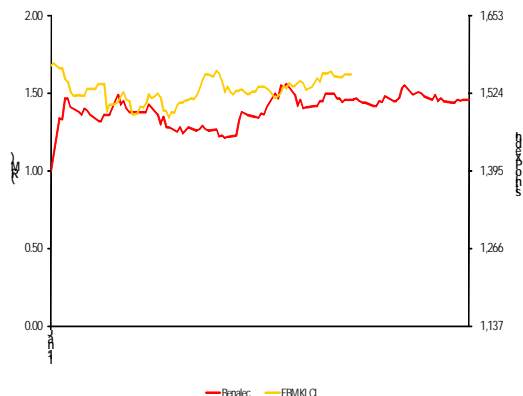
**Stock and Financial Data**

Shares Outstanding (million)	630.0
Market Cap (RMmil)	919.8
Book value (RM/share)	0.24
P/BV (x)	6.1
ROE (%)	52.7
Net Gearing (%)	33.3

Major Shareholders	Leow family (68.5%) KWAP (6.3%)
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Free Float (%)	25.2
Avg Daily Value (RMmil)	n/a

Price performance	3mth	6mth	12mth
Absolute (%)	15.0		
Relative (%)	12.4		

**Investment Highlights**

- **Maintain BUY on Benalec Holdings Bhd with an unchanged sum-of-parts-based fair value of RM1.90/share. An interview by *The Edge Financial Daily* with the management of Benalec further underpins our bullish conviction on the stock.**
- **The interview confirms Benalec's status as the largest land manufacturer in Malacca. This is based on its entitlement to 1,360 acres (550 hectares) of land in Malacca – the bulk of which was secured in the form of payment-in-kind from Oriental Holdings Bhd for reclamation works done.**
- **To date, we learn that Benalec has reclaimed and sold 330 acres. Out of the outstanding 1,030 acres, 270 acres have been reclaimed and already come with land titles.**
- **The balance 760 acres would be reclaimed over the next four to five years. A major portion would consist of a sizeable reclamation contract in Klebang – where reclamation works have commenced three months ago.**
- **Based on the market price of RM28/psf for its recent land sale transaction, this would translate into potential revenue of about RM1.2bil for its outstanding land portion.**
- **We estimate that Benalec could achieve pre-tax gains of between RM808mil and RM897mil (or RM179mil and RM161mil annually) over a five-year period against actual average reclamation cost of RM8psf to RM10psf. Hence, we remain comfortable with our assumptions of RM25mil in pre-tax gains from land sales alone for FY11F-13F.**
- **We had written previously that Benalec is trying to crystallise more value from its Malacca landbank by forging potential JVs with developers to co-develop its prime seafront land in Malacca.**
- **These include 100-acres of its Klebang concession under a commercial/tourism theme and a new Kota Laksamana city centre project that sits on prime seafront land.**
- **Most importantly, we are also encouraged by Benalec's commitment to export its unique business model beyond Malacca into other states, especially in Penang and Johor.**
- **In Penang, it is looking at a few reclamation proposals: (i) Penang airport (500 acres); (ii) Penang Port (1,000 acres) and E&O's Sri Tanjung Penang 2 (>700 acres).**
- **While tenders are not out yet, management said it would be keen to bid for the Sri Tanjung Penang 2 job, whether it is based on progress payment or payment-in-kind.**
- **In Johor, Benalec is seeking state approval to reclaim land for industrial parks near logistics and port facilities.**

TABLE 1: MAJOR INFRASTRUCTURE PROJECTS IN MALAYSIA LIKELY TO BE AWARDED IN 2011

PROJECT	Value (RMmil)	Contractor/ Potential Contractor	Award date/ Expected award date	Clients/ Owners
Pahang-Selangor raw water transfer > Kelau dam	200	Loh&Loh	end-2H11	PAAB
Klang Valley Public Transportation upgrade (Construction portion) Balance of works: Facilities Package B - Kelana Line - Ampang Line M&E/Systems Work package	805 883	> 17 for main contractors > 15 sub-contractors for supply/installation of SBGs Civil (UEM, MMC, Gamuda, UJM, WCT, M&E (Bombardier, Siemens, Balfour Beatty, Ansaldo Systems) Sub-contractor: Scomi, Global Rail Sdn Bhd Fajarbaru builder	End-2011	SPNB
Part of the Sg.Buluh Damansara MRT (Blue Line) - Assume tunnelling works (30% of project value) and half of 70% balance non-tunnelling works to be awarded by end-2011.	11,700	Tunnelling (30%) - Gamuda-MMC JV Non Tunnelling (70%): Main Con (UJM, UEM) Builders M&E (Bombardier, Siemens, Balfour Beatty, Ansaldo Systems, Scomi) Sub-contractor: WCT, MRCB, Loh&Loh Fajarbaru builder	End-2011 End-2011	
Langat 2 Water Supply Scheme (Phase 1) (WTP, piping, reservoir works)	2,400	Local consortium: Gamuda, Loh & Loh WCT, JAKS, KDE	end-2011	PAAB
New LCCT Terminal: > Parking apron & Runway	400	Gamuda, WCT, UJM, Fajar	end-1H11	MAHB
Mengkuang Dam, Penang	1,200	Chinese contractors	2011	Federal Government
New Mukah airport	600	Global Upline, Sarawak contractors	1H11	STIDC
Tanjung Manis port extension works	350	HSL	2011/2012	STIDC
Kota Kinabalu Water Supply Scheme (Sabah)	2,800	WCT	2011	Sabah state govt
SCORE road projects (E.g. Access road to Balleh hydro dam - 73km)	2,000	HSL, Sarawak contractors	2Q11	Federal Government
Sibu Airport Expansion	150	UJM, Gamuda, TRC, Muhibbah, Musyati	2H11	MAHB
West Coast Expressway	3,600	UJM-K Euro (WCE)	2011	Konsortium LPB
Janamanjung Coal-fired Plant (1000MW)	2,300	Mudajaya, Zelan	2011	TNB
NKVE/NSE Fourth Lane Expansion	1,100	UJM, UEM	end-2011	PLUS
<b>Total</b>	<b>30,489</b>			

Source: Various, AmResearch

CHART 1 : PB BAND CHART

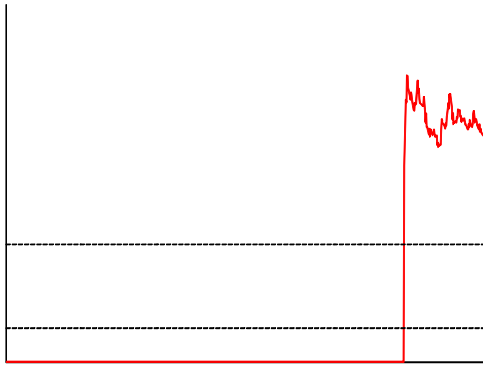


CHART 2 : PE BAND CHART

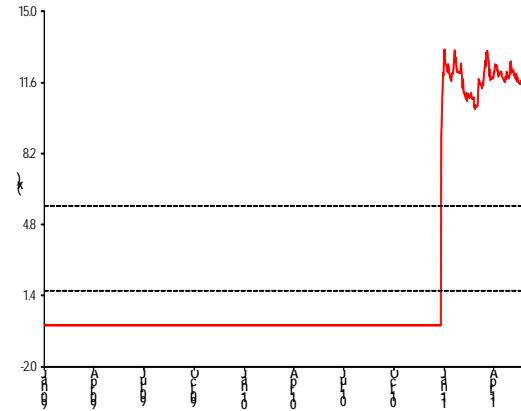


TABLE 2: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	2009	2010	2011F	2012F	2013F
Revenue	120.9	116.5	250.6	345.7	406.1
EBITDA	30.3	74.6	131.4	168.8	197.7
Depreciation	(8.7)	(11.1)	(13.5)	(16.2)	(17.9)
Operating income (EBIT)	21.6	63.5	117.9	153	179.8
Other income & associates	0.0	0.0	0.0	0.0	0.0
Net interest	(3.1)	(2.6)	(5.3)	(4.8)	(4.3)
Exceptional items	5.3	7.7	0.0	0.0	0.0
<b>Pretax profit</b>	<b>23.9</b>	<b>68.6</b>	<b>112.6</b>	<b>147.8</b>	<b>175.5</b>
Taxation	(6.6)	(10.2)	(20.0)	(29.0)	(34.5)
Minorities/pref dividends	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>17.3</b>	<b>58.4</b>	<b>92.6</b>	<b>118.8</b>	<b>141.1</b>
Core net profit	11.9	50.6	92.6	118.8	141.1
<b>Balance Sheet (RMmil, YE 30 Jun)</b>	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>
Fixed assets	104.8	222.2	213.8	242.6	239.7
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	0.2	0.2	0.2	0.2	0.2
<b>Total non-current assets</b>	<b>105.0</b>	<b>222.4</b>	<b>213.9</b>	<b>242.7</b>	<b>239.9</b>
Cash & equivalent	20.2	31.5	92.9	117.8	133.1
Stock	9.8	8.8	35.9	64.0	75.3
Trade debtors	249.5	164.5	329.5	454.6	545.1
Other current assets	53.1	27.3	61.1	90.6	106.7
<b>Total current assets</b>	<b>332.5</b>	<b>232.1</b>	<b>519.4</b>	<b>727.0</b>	<b>860.3</b>
Trade creditors	259.4	172.5	251.5	373.2	408.1
Short-term borrowings	7.6	36.2	23.4	26.4	24.4
Other current liabilities	1.1	9.0	9.0	9.0	9.0
<b>Total current liabilities</b>	<b>268.1</b>	<b>217.7</b>	<b>283.8</b>	<b>408.6</b>	<b>441.5</b>
Long-term borrowings	42.0	70.8	93.6	105.6	97.6
Other long-term liabilities	57.1	14.9	14.9	14.9	14.9
<b>Total long-term liabilities</b>	<b>99.1</b>	<b>85.7</b>	<b>108.5</b>	<b>120.5</b>	<b>112.5</b>
<b>Shareholders' funds</b>	<b>70.3</b>	<b>151.2</b>	<b>341.1</b>	<b>440.7</b>	<b>546.2</b>
Minority interests	0.0	0.0	0.0	0.0	0.0
BV/share (RM)	0.11	0.24	0.47	0.60	0.75
<b>Cash Flow (RMmil, YE 30 Jun)</b>	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>
Pretax profit	23.9	68.6	112.6	147.8	175.5
Depreciation	(4.7)	(95.7)	(38.4)	73.4	73.6
Net change in working capital	(19.2)	24.8	(147.0)	(60.9)	(83.1)
Others	(10.8)	(100.9)	(16.1)	(26.9)	(33.5)
<b>Cash flow from operations</b>	<b>2.6</b>	<b>3.7</b>	<b>(37.0)</b>	<b>76.2</b>	<b>76.9</b>
Capital expenditure	(5.0)	(20.0)	(5.0)	(45.0)	(15.0)
Net investments & sale of fixed assets	0.0	0.0	0.0	0.0	0.0
Others	7.0	53.6	1.4	2.7	3.3
<b>Cash flow from investing</b>	<b>2.0</b>	<b>33.6</b>	<b>(3.6)</b>	<b>(42.3)</b>	<b>(11.7)</b>
Debt raised/(repaid)	27.2	57.3	10.0	15.0	(10.0)
Equity raised/(repaid)	0.0	0.0	25.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	(19.2)	(35.6)
Others	(25.0)	(84.0)	66.9	(4.8)	(4.3)
<b>Cash flow from financing</b>	<b>2.1</b>	<b>(26.7)</b>	<b>101.9</b>	<b>(8.9)</b>	<b>(49.9)</b>
<b>Net cash flow</b>	<b>6.7</b>	<b>10.6</b>	<b>61.4</b>	<b>24.9</b>	<b>15.3</b>
<b>Net cash/(debt) b/f</b>	<b>0.2</b>	<b>6.2</b>	<b>16.4</b>	<b>77.8</b>	<b>102.7</b>
Exchange rate differences	0.0	(0.4)	0.0	0.0	0.0
<b>Net cash/(debt) c/f</b>	<b>6.9</b>	<b>16.4</b>	<b>77.8</b>	<b>102.7</b>	<b>118.0</b>
<b>Key Ratios (YE 30 Jun)</b>	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>
Revenue growth (%)	63.3	n/a	115.1	37.9	17.5
EBITDA growth (%)	31.0	146.2	76.0	28.5	17.1
Pretax margins (%)	19.7	58.9	44.9	42.8	43.2
Net profit margins (%)	14.3	50.1	37.0	34.4	34.7
Interest cover (x)	6.2	21.6	17.6	20.4	23.6
Effective tax rate (%)	27.7	14.9	17.7	19.6	19.6
Net dividend payout (%)	340.5	100.7	60.3	47.0	39.6
Debtors turnover (days)	622	649	360	414	449
Stock turnover (days)	21	29	33	53	63
Creditors turnover (days)	673	677	309	330	351

Source: Benalec, AmResearch

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