AmResearch

Company report

BENALEC HOLDINGS

(BHB MK, BENAL.KL) **26 November 2013**

Despite headwinds, long-term appeal of Tg.Piai remains

BUY

(Maintained)

Hoy Ken Mak
mak-hoy-ken@ambankgroup.com
+603 2036 2294

Rationale for report: Company Result

Price	RM1.01
Fair Value	RM1.31
52-week High/Low	RM1.55/RM1.00

Key Changes

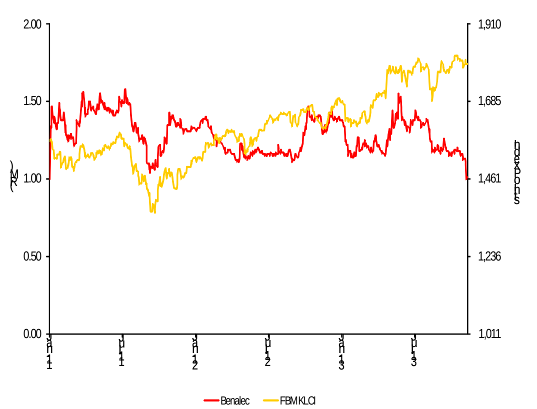
Fair value	
EPS	

YE to Jun	FY13	FY14F	FY15F	FY16F
Revenue (RMmil)	265.8	205.2	595.1	1,104.3
Core net profit (RMmil)	56.0	35.0	67.5	120.0
Core FD EPS (Sen)	7.0	4.4	8.4	14.9
Core FD EPS growth (%)	(32.2)	(37.5)	92.6	77.9
Consensus EPS (Sen)		9.6	11.0	13.7
DPS (Sen)	2.5	1.5	2.5	4.5
Core FD PE (x)	17.9	23.2	12.0	6.8
EV/EBITDA (x)	13.1	11.0	6.0	3.5
Div yield (%)	2.0	1.5	2.5	4.5
ROE (%)	10.1	6.2	10.8	16.6
Net Gearing (%)	1.5	net cash	35.5	23.0

Stock and Financial Data

Shares Outstanding (million)	803.0
Market Cap (RMmil)	811.0
Book value (RM/share)	0.69
P/BV (x)	1.5
ROE (%)	10.5
Net Gearing (%)	n/a
Major Shareholders	OceanCove Sdn Bhd (52.9%) KWAP (7.0%)
Free Float (%)	40.1
Avg Daily Value (RMmil)	n/a

Price performance	3mth	6mth	12mth
Absolute (%)	(19.8)	(26.8)	(27.9)
Relative (%)	(24.2)	(27.4)	(38.4)



PP 12247/06/2013 (032380)

Investment Highlights

- **Maintain BUY on Benalec Holdings with a lower fair value of RM1.31/share. This pegs the stock at a steeper discount of 45% to its sum-of-parts value (previously 15%) to mainly account for:- (i) timing risk associated with its Johor concessions; and (ii) shift in recognition from recent land sales in Malacca to 2QFY14 onwards.**

- **In this report, we strive to address a few issues that may have weighed the stock down in recent months despite its core fundamentals remaining intact.**

- **Firstly, we see the recent management shake-up (in light of a civil suit filed against two of its directors last week) as having minimal impact on Benalec's operations. Group MD Dato' Vincent Leaw and his professional team are very hands-on in managing the group, especially in regards to the Johor operations. Furthermore, senior management personnel have been re-deployed to take active charge of the duties left vacant.**

- **Secondly, Benalec's repositioning of Tg. Piai as a future oil hub still have deep appeal over the mid- to longer-term. Back in March, the group had signed a binding term sheet with 1MY Strategic Oil Terminal Sdn Bhd. The deadline for the binding term sheet has since been pushed back by six months to 11 December 2013 until all the terms and conditions of the SPA are finalised.**

- **While we would not preclude a further extension to this timeline given the sheer size, complexity and magnitude of this project, its investment merit and dynamics remain firmly entrenched with a potentially sizeable reclamation contract in the pipeline (c.RM2bil).**

- **Thirdly, we do not see any delays in the rollout of PETRONAS' RAPID to have an impact Benalec's plans in Johor. Benalec's immediate focus is to develop its Tg. Piai landbank (3,485 acres), which targets the established oil & gas giants already operating at Jurong's vibrant petrochemical hub (~7 nautical miles away).**

- **Benalec is trading at a deep discount of 58% to our revised SOP, which only includes 3,000 acres of its Tg. Piai landbank (total concession: 5,485 acres including another 1,760 acres in Pengerang). While sentiments may be muted in the near-term, the stock could materially rerate if there are tangible developments in the group's forays in Johor.**

- **Other positive factors are:- (1) strong balance sheet (net cash position of RM87mil for FY14F); (2) share price support via 30% dividend payout (gross yields of 2% to 6% over the next three years); and (3) beyond the 1MY deal, Benalec is actively scouting for more investees to realise Tg. Piai's potential as a future oil hub. It is also on the lookout for more cash jobs/reclamation concessions.**

MAINTAIN BUY ON BENALEC

- ***Fair value reduced to RM1.31/share***

We maintain our **BUY** recommendation on Benalec Holdings with a lower fair value of **RM1.31/share**, based on a sum-of-parts methodology.

The lower fair value mainly takes into account the following:-

(i) Deferral in the kick-off of the Johor project to FY15F from 2QFY14F previously, along with a wider discount of 45% to its NAV (previously 15%) to account for any further delays to the rollout of its Johor concessions;

(ii) Shift in recognition of land sales in Malacca; and

(iii) Slightly lower average land valuation for its Malacca concessions (from RM30psf to RM28psf) to reflect a slew of cooling measures introduced by the Malaysian government on the local property market.

CORE FUNDAMENTALS, POTENTIAL STILL INTACT

Benalec's share price has been under some pressure over the last three months, and it is currently hovering close to its IPO price of RM1.00/share.

However, we believe that the group's long-term fundamentals remain largely intact as its prime seafront land concessions - measuring 5,485 acres - may still provide leverage to the nascent potential of Johor as a future oil hub.

In this report, we strive to address a few issues that may have dampened sentiment on the stock.

- ***Minimal impact operationally despite changes in management***

Benalec had just last week, launched a civil suit against several parties for various alleged breaches. The group had earlier on 8 October, proposed to terminate the services of its executive directors, Datuk Leaw Tua Choon and Datuk Leaw Ah Chye, for breaching the terms of their respective service agreements.

Both are siblings of Benalec's managing director Dato' Leaw Seng Hai. The former previously headed the Benalec group's Malacca operations while the latter handled its shipyard operations.

Together with another family member, the Leaw brothers hold a controlling stake of c.53% in Benalec via Oceancove Sdn Bhd.

While we view this development as an unnecessary distraction from the group's oil & gas moves in Johor, the impact on the group's operational front would likely be minimal.

For one, Dato' Vincent Leaw and the professional team are very hands-on in managing the group, especially in regards to the Johor operations.

Furthermore, senior management personnel have been re-deployed to take active charge of the duties left vacant by the said directors mentioned above.

- ***Main value proposition still lies with Johor landbank earmarked for oil hub***

Benalec's key appeal lies with its sea-fronting land concession in South Johor that is being repositioned as a future oil hub.

Benalec had in March signed a binding term sheet with 1MY Strategic Oil Terminal Sdn Bhd and the Johor government to develop an oil & petroleum storage facility at Tg.Piai. Benalec's role is to reclaim some 1,000 acres, on which the facility will be located.

The deadline for the binding term sheet had since been pushed back by six months to 11 December 2013 until all the terms and conditions of the SPA are finalised.

While we would not preclude a further extension to this timeline given the sheer size, complexity and magnitude of this project, its investment merit and dynamics remain firmly entrenched with a potentially sizeable reclamation contract in the pipeline (c.RM2bil).

The Star reported last March that the Abu Dhabi government was to forge a JV with 1MY to invest RM21bil in a petroleum storage facility in Tg.Piai. The storage capacity for the facility was touted at up to 60 million barrels of crude oil.

Moreover, management had proactively moved to secure more potential off-takers of its Johor concessions; discussions with two parties have been encouraging. Among the options are an outright sale of land and leasing.

- ***Delays in rollout of RAPID would not affect Tg.Piai***

To recap, Benalec holds exclusive rights to develop 5,485 acres of prime sea-fronting land in South Johor. This is made up of Tg.Piai (3,485 acres) and Pengerang.

Our recent conversations with management reaffirm our view that Benalec's immediate focus is to develop its Tg.Piai landbank, which targets the established oil & gas giants already operating at Jurong's vibrant petrochemical hub (~ 7 nautical miles away).

Hence, we do not see any delays in the rollout of RAPID that will impact Benalec's plans in Johor.

In any case, management had previously stressed that it would only kick-off its Pengerang project when PETRONAS' RAPID takes off.

OTHER POSITIVE FACTORS

(1) As highlighted earlier, Benalec's balance sheet remains strong with a projected net cash position of RM87mil for FY14F.

(2) The group's share price is supported by a dividend payout ratio of 30%. Grossed-up, this equates to a gross yields of 2% to 6% over the next three years.

(3) Beyond the 1MY deal, management is actively scouting for more investees to realise Tg.Piai's potential as a future oil hub. It is also on the lookout for more cash jobs or reclamation concessions.

FINANCIAL HIGHLIGHTS

- ***Slight blip in 1QFY14; subsequent quarters to improve***

We expect Benalec's upcoming 1QFY14 results (scheduled to be released later today) to be weak. Apart from lower work progress during the Ramadan period, we understand that the sale of ~80 acres of reclaimed land worth RM97mil would now be realised in 2QFY14 (as opposed to 1QFY14) previously as the agreements were only finalised last month.

We also expect Benalec to book in another two land deals over the next one to two quarters. More recently, a proposed land sale to Heritage Land Realty for c.RM51mil is set to be concluded by 3QFY15.

The land sales were realised at average prices of RM28psf to RM30psf.

Note also that Benalec's earnings recognition from its Malacca concessions have somewhat changed. For instance, contributions from the DMDI landbank at Kota Laksamana that was acquired some two years ago would only be recognised only when the land is sold.

This compares with profit recognition for some of its earlier concessions which is split in two portions; i.e. marine construction/vessel chartering and land disposals.

- ***Strong balance sheet before taking on Johor***

Combined, we estimate Benalec to rake in gross proceeds of c.RM254mil from the four land deals mentioned above. This translates into a net gain on disposal of RM55mil.

Anchored with sustainable land sales from its Malacca concessions, we project Benalec's balance sheet to remain strong with a net cash position of RM87mil for FY14F.

CHART 1 : PB BAND CHART

CHART 2 : PE BAND CHART

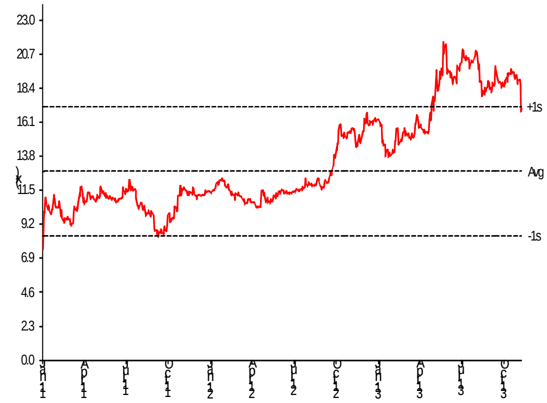


TABLE 1: DERIVATION OF FAIR VALUE

Division	Value (RM) mil	/share	% of SOP	Details
Marine construction	807.7	1.01	42.1	10x 3-year average construction profits
Vessel chartering & transportaton	3.8	0.00	0.2	8x 3-year average construction profits
Market value of Malacca landbank	289.6	0.36	15.1	Based on ave.selling price of RM28 psf
NPV of undeveloped Johor landbank @ 8%	626.2	0.78	32.7	Based on only 3,000 acres at Tg.Piai
Net cash	46.2	0.06	2.4	FY13F
Land sales in Malacca (targeted in FY14F)	143.7	0.18	7.5	Transacted at RM28psf-RM30psf
Sum-Of-Parts value	1,917.1	2.39	100.0	
No.of shares	803.0			
SOP/share	2.39			
Fair Value (RM/share) - less 45% discount	1.31			
Capital gain (%)	30.0			
FY14F dividend yield (%)	1.5			
Total return (%)	31.5			
Discount to SOP (%)	57.7			

Source: Benalec, AmResearch

TABLE 2: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	2012	2013	2014F	2015F	2016F
Revenue	289.0	265.8	205.2	595.1	1,104.3
EBITDA	115.3	77.8	69.9	172.0	279.0
Depreciation	(10.8)	(10.9)	(16.3)	(17.7)	(19.9)
Operating income (EBIT)	104.5	66.9	53.6	154	259.1
Other income & associates	0.0	0.0	0.0	0.0	0.0
Net interest	(4.2)	(2.0)	(1.5)	(8.4)	(14.5)
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	100.2	64.9	52.1	145.9	244.6
Taxation	(17.6)	(9.0)	(16.3)	(38.2)	(62.1)
Minorities/pref dividends	0.0	0.1	(0.8)	(40.3)	(62.6)
Net profit	82.7	56.0	35.0	67.5	120.0
Core net profit	82.7	56.0	35.0	67.5	120.0

Balance Sheet (RMmil, YE 30 Jun)	2012	2013	2014F	2015F	2016F
Fixed assets	240.1	214.1	217.8	230.1	260.2
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
Total non-current assets	240.1	214.1	217.8	230.1	260.2
Cash & equivalent	130.5	39.3	104.0	36.3	71.7
Stock	19.4	19.9	26.5	48.5	67.2
Trade debtors	238.0	503.9	413.3	896.8	1,301.0
Other current assets	183.5	187.1	195.7	318.8	435.3
Total current assets	571.4	750.2	739.5	1,300.4	1,875.1
Trade creditors	141.8	163.2	130.5	408.1	870.5
Short-term borrowings	18.9	18.7	8.1	48.1	44.1
Other current liabilities	39.5	152.7	152.7	152.7	152.7
Total current liabilities	200.2	334.5	291.3	608.8	1,067.3
Long-term borrowings	29.3	11.7	32.3	192.3	176.3
Other long-term liabilities	65.6	61.9	61.9	61.9	61.9
Total long-term liabilities	94.9	73.6	94.2	254.2	238.2
Shareholders' funds	516.4	553.3	568.1	623.5	723.3
Minority interests	0.0	2.9	3.7	44.0	106.5
BV/share (RM)	0.64	0.69	0.71	0.78	0.90

Cash Flow (RMmil, YE 30 Jun)	2012	2013	2014F	2015F	2016F
Pretax profit	100.2	64.9	52.1	145.9	244.6
Depreciation	33.1	58.6	94.8	(218.7)	139.0
Net change in working capital	(142.4)	(248.7)	42.8	(351.0)	(76.9)
Others	15.8	106.7	(15.5)	(30.6)	(48.1)
Cash flow from operations	(15.5)	(66.2)	95.6	(217.9)	139.5
Capital expenditure	(10.2)	(1.1)	(20.0)	(30.0)	(50.0)
Net investments & sale of fixed assets	11.0	10.5	0.0	0.0	0.0
Others	6.5	2.3	0.8	0.8	0.5
Cash flow from investing	7.3	11.7	(19.2)	(29.2)	(49.5)
Debt raised/(repaid)	(14.7)	(17.8)	10.0	200.0	(20.0)
Equity raised/(repaid)	95.8	0.0	0.0	0.0	0.0
Dividends paid	(16.1)	(24.1)	(20.2)	(12.1)	(20.2)
Others	(0.6)	8.5	(1.5)	(8.4)	(14.5)
Cash flow from financing	64.4	(33.4)	(11.7)	179.5	(54.7)
Net cash flow	56.3	(87.9)	64.7	(67.7)	35.4
Net cash/(debt) b/f	54.3	110.8	21.9	86.6	18.9
Exchange rate effects	0.2	(0.9)	0.0	0.0	0.0
Net cash/(debt) c/f	110.8	21.9	86.6	18.9	54.3

Key Ratios (YE 30 Jun)	2012	2013	2014F	2015F	2016F
Revenue growth (%)	37.0	n/a	n/a	190.0	85.6
EBITDA growth (%)	n/a	n/a	n/a	146.0	62.2
Pretax margins (%)	34.7	24.4	25.4	24.5	22.2
Net profit margins (%)	28.6	21.1	17.1	11.3	10.9
Interest cover (x)	18.0	17.3	22.7	16.8	17.2
Effective tax rate (%)	17.5	13.9	31.2	26.2	25.4
Net dividend payout (%)	29.1	35.8	34.4	29.8	30.1
Debtors turnover (days)	281	509	816	402	363
Stock turnover (days)	20	27	41	23	19
Creditors turnover (days)	197	209	261	165	211

Source: Benalec, AmResearch

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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

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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

For AmResearch Sdn Bhd

Benny Chew
Managing Director