

Benalec Holdings Bhd

The Land Supplier

Initiating Coverage

BUY

Current Price RM 1.31
Target Price RM 2.66
Consensus Price RM 1.87

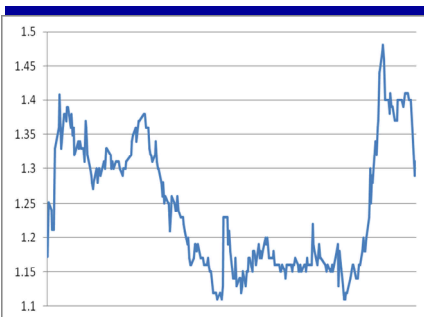
Key Statistics

Bloomberg Ticker	BHB MK
Masa Ticker / Stock Code	BENALEC/ 5190
Shares Issued (m)	803.0
Market Capitalisation (RM'm)	1053.3
52 Week Hi/Lo Price (RM)	1.49/1.09
YTD Returns (%)	-2.96%
3-mth Average trading Vol.	3.67m
Est free float (m)	316.2m
Beta (x)	1.09

Major Shareholders (%)

Oceancove	53.08
KWAP	6.07

1-Year Share Price Performance



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Highlights:

- ◆ **Benalec Holdings Bhd** is backed by 20 years' experience in marine construction, providing creative and innovative all-round solutions to infrastructure engineering in marine and coastal regions. Benalec's primary business activity is in marine construction services which includes: i) Land reclamation, dredging and beach nourishment; ii) Rock revetment works, shore protection works and breakwater construction; iii) Pre-bore and marine pilling; iv) Construction of marine structure, bridges, jetties, ports and other offshore and ancillary structure.
- ◆ **Melaka – Bounty from the Sea:** Currently, Benalec owns a land bank of ~300 acres of reclaimed land in Melaka, with another 850 acres left to work on. Upon completion of the Melaka Coastal Highway, selling prices for its land may rise higher than the recent transacted RM45 psf price for a 9-acre plot. A conservative value on its Melaka land bank at RM30psf will imply significant upside potential.
- ◆ **Johor – Gearing up for a more ambitious scale of operations:** On 6th September 2012, Benalec announced that its 70%-owned units – have each signed Development Agreements (DA) with the Johor Government and the State Secretary Inc (SSI) to reclaim and develop two large tracts of prime seafront land in Johor – at Tanjung Piai (3,485 acres) and Pengerang (1,760 acres).
- ◆ **Valuation:** Our recommendation is BUY Benalec Holdings Bhd with a target price at RM2.66 based on a Sum-of-Parts valuation. We believe there remains a significant further upside despite the fact the stock price has risen to 52-week highs. Our target price also implies a P/E of 11.5x for FY13, which is reasonable across the construction sector.

Investment Highlights

FYE 30 th June (RM m)	2010	2011	2012	2013F	2014F
Revenue (m)	308.64	210.96	155.28	259.89	304.45
Pretax Profit (m)	121.53	126.09	100.24	123.42	141.07
Net Profit (m)	105.82	96.08	82.67	98.00	114.19
EPS (sen)	13.18	11.97	10.30	12.20	14.22
Pretax margin (%)	39.38	59.77	64.55	47.49	46.34
Net Profit margin (%)	34.29	45.54	53.24	37.71	37.51
PER (x)	10.40	11.45	13.29	11.23	9.63
DPS (sen)	0	2.00	3.00	3.00	3.00
Dividend Yield (%)	0.00	1.43	2.14	2.14	2.14
ROE (%)	69.00	27.71	16.01	17.57	18.93
ROA (%)	32.84	15.05	10.71	11.49	12.75
Net Gearing Ratio	0.0238	net cash	net cash	net cash	net cash
BV/Share (sen)	19.1	47.5	64.3	69.5	75.1
Price/Book Ratio (x)	7.17	3.17	2.13	1.97	1.82
NTA/share (sen)	19.1	47.5	64.3	69.5	75.1

Background

The history of Benalec Holdings Bhd can be traced back to 1978. Benalec Sdn Bhd, a wholly owned subsidiary was founded by the late Mr. Leaw Eng Chang as an earthworks and general contractor under the name Leaw Eng Chang Construction Co. Sdn Bhd. Benalec Sdn Bhd is a Class A Civil and Marine Engineering Contractor registered with Pusat Khidmat Kontraktor (PKK) and a Grade G7 with the Construction Industry Development Board Malaysia (CIDB). Based in Alor Setar, they provided services to JPS (Jabatan Pengairan Saliran), MADA (Muda Agriculture Development Authority) and JKR (Jabatan Kerja Raya). Subsequently the other Leaw siblings: Datuk Leaw Tua Choon, Leaw Ah Chye and Leaw Seng Hai got involved in the business. In 1993, the company made its first foray into the marine construction business. They were awarded 2 coastal protection work projects by JPS for Sg Belukang and Sg Tiang. In 1996, the company changed its name to Benalec Sdn Bhd. In 1998, Benalec was awarded to construct offshore beacons at Endau and Tompok, Johor. In year 2000, they were engaged by JKR to construct a helipad and jetty on the remote island of Pulau Perak to facilitate the Royal Malaysian Navy's offshore border control patrols. They completed Pantai Kok Wave Breaker project in Pulau Langkawi, commissioned by LADA (Langkawi Development Authority) which was followed by another contract awarded by Jabatan Perkhidmatan Pembetulan for land reclamation in Jelutong, Penang.

In 2002, OG Marine Sdn Bhd was incorporated to own, operate and charter vessels which consequently enhanced their ability to carry out land reclamation projects efficiently. 2003 was a significant year for Benalec as they gained a foothold in Melaka. They reclaimed 180 acres of land in Melaka first and with subsequent reclamation projects in Melaka, they have reclaimed a cumulative 1,500 acres to date. In the same year, Benalec undertook their first turnkey design & build project for beach nourishment works in Port Dickson and reclamation works in Teluk Gong, Port Klang.

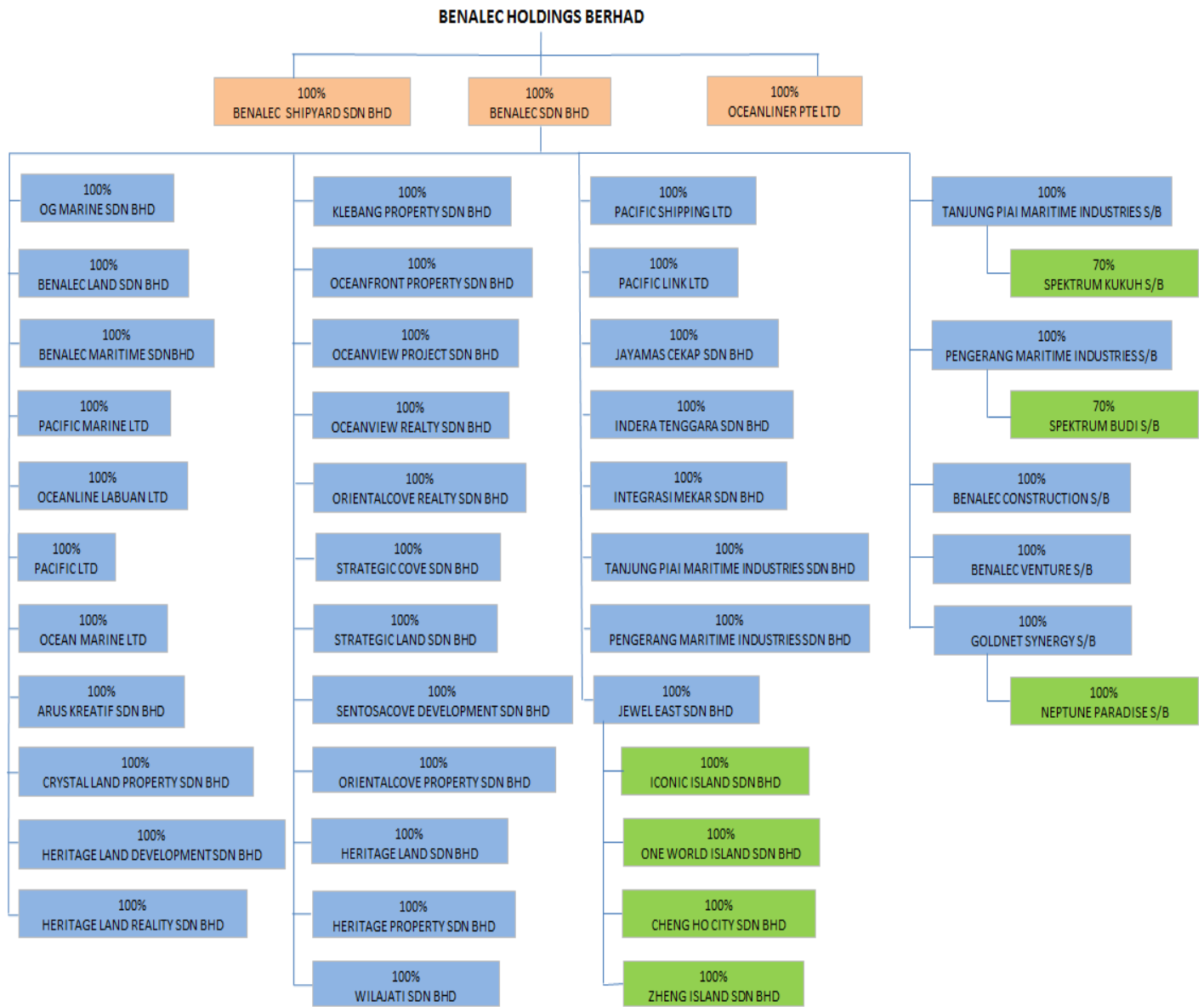
In year 2005, Benalec obtained ISO 9001:2000 for the provision of marine engineering, construction works, provision of marine vessel and equipment chartering services. This ISO certification was upgraded to the ISO 9001:2008 in year 2009. In addition, Benalec Sdn Bhd, Singapore branch has obtained OHSAS 18001:2007 in year 2010 and ISO 9001:2008 in year 2010 and is registered with the Building and Construction Authority (BCA) Singapore under CW02-B1 and under SY01-L6.

In year 2008, they secured land reclamation and dredging project for a man-made marina called Puteri Harbour in the Waterfront Precinct in Nusajaya, Johor. The same year, Benalec secured another 204-acre prime seafront land reclamation and shore protection project in Melaka. They set up a shipbuilding business via Benalec Shipyard (BenShip) to establish an integrated one-stop marine construction service provider based in Sijangkang Shipyard, Klang.

In 2011, Benalec marked a major milestone when they went public, by way of which ~RM100m in funds was raised. Benalec's issued and paid-up capital expanded to 730 million from 630 million shares, making its way into Bursa Malaysia with a market capitalization of RM730m. In November 2011, Benalec obtained approval from UPENJ (Unit Perancang Ekonomi Negeri Johor) to undertake reclamation works on portions of the Johor coast at Pengerang, measuring 1,760 acres and at Tanjung Piai, measuring 3,485 acres.

In December 2011, Benalec has entered into a Memorandum of Understanding (MoU) with Rotary Engineering Limited to collaborate in the development of an independent storage terminal for oil products in Tanjung Piai, Johor in southern Malaysia. The terminal will be a tank facility for storing, blending and distributing crude oil and petroleum products with deepwater port facilities capable of handling very large crude carriers (VLCC).

Corporate Structure



Business activities

Benalec's primary business activity is marine construction services which include:

- i) Land reclamation, dredging and beach nourishment;
- ii) Rock revetment works, shore protection works and breakwater construction;
- iii) Pre-bore and marine piling;
- iv) Construction of marine structures, bridges, jetties, ports and other offshore & ancillary structures.

Benalec is also engaged in vessel chartering, marine transportation business on a time or voyage charter basis as well as towage services to third parties. To support their marine activities, Benalec built up ownership of a fleet of 94 vessels to spearhead their marine construction activities and chartering services. They undertake earthworks and also build roads, drainage, irrigation systems and infrastructure. Benalec also operates a shipyard to build offshore support vessels and carry out ship repairs, ship maintenance, shipbuilding, fabrication and refurbishment of their own fleet of vessels and also for external clients. For FY12, the marine construction business contributed about 97% to group revenue, while their vessel chartering business generated about 3% of group revenues.

Marine Construction Services

Benalec is one of the leading contractors for marine construction services in Malaysia. Marine construction works comprise land reclamation and ancillary works which complement/support land reclamation operations. Prior to the commencement of works, much planning and design needs to be conducted which include: 1) the type of project and scope of works to be undertaken; 2) cost and expenses, volume of material to be removed and scheduling for the project; 3) equipment, manpower and vessels required to undertake the project. Approaches to project execution differ according to water depth, sea conditions, thickness of sand and size of the dredging sites. Site preparation as well as geological and hydrographic survey is conducted to assess soil conditions, wave climate and characteristics of water and the coastal line. Works and services such as pre-boring, sea-piling, hydrographic & topographic survey work, and lifting & offshore standby duties can be conducted efficiently at lower cost because of Benalec's comprehensive range of marine equipment.

Land reclamation, dredging and beach nourishment

Land reclamation activities comprise dredging of sand, transport of sand to reclamation site, discharging of sand and performing reclamation works. Sand is spread and leveled on the land reclamation site using shovels, bulldozers and back pushers. The project supervisors will conduct a survey to assess the level of the land. To prevent flooding, a drainage system is put in place in the reclaimed land. If required, Benalec will undertake infrastructure, road and earth works as final measures to prepare the reclaimed land for handover to the client. Dredging activities can be broadly categorised into 1) dredging works for clay, silt, sand, gravel, rocks which includes chiselling or underwater blasting; 2) preparation of site for major construction such as jetties, port berths and bridges; 3) maintenance dredging of ports, harbours, wharf fronts, river mouths and navigational channels/waterways. Benalec also renders service for beach nourishment services to restore eroded beaches and shorelines, which involves replacing sand on the affected area and creating a new shoreline.



Rock revetment works, shore protection works and breakwater construction

As part of their marine construction services, Banelec also undertakes design, planning and construction of rock revetment, shore protection structures and breakwater construction. Rock revetment is done by placing rocks inland for coastal protection. The revetments are sloping structures placed on banks or cliffs in such a way to dissipate the energy of incoming waves. An under-layer of filter rocks, about 300mm to 400mm in diameter, is laid onto geotextile to act as a cushion between the sand and the armour rocks. Once the desired thickness of filter rocks is reached, a top layer of amour rocks is laid onto the filter rocks. To further protect coastlines and river embankments against erosion, Benalec also constructs breakwater structures to reduce the intensity of wave action in inshore waters and thereby reduce coastal erosion or provide safe harborage. Breakwater structures, which consist of a long mound of sand and rocks, are constructed some distance away from the coast or built with one end linked to the coast.



Marine Transportation and support services

Benalec owns a large and diversified fleet of 91 vessels to support the Group's marine construction activities. For the purpose of prompt and cost effective maintenance and reparation on the fleet of the 91 vessels, Benalec acquired a full-service 20-acre Sijangkang shipyard in 2008 to carry out work such as hull repair, inspection and maintenance of machinery and equipment, replacement of corroded or faulty structure, parts and pipes, modifying and altering parts, structure and fittings. Aside from these, it also managed to successfully construct and commission 4 tugboats in the past two years that are now plying in South East Asia waters. Going forward, we anticipate that Benalec will need to acquire more vessels and equipment to increase its fleet's technical ability, operating efficiency and productivity to prepare for the Tg. Piai and Pengerang projects.

Key Competitive Advantages

Strong Foothold in a Niche Market

Land reclamation is a niche business and not many companies can boast of having the specialty skill-sets. The barriers to entry for marine construction are high, as large capital expenditures can be required, more so during periods when prices of raw material are escalating. Financial strength needed for ownership of vessels, dredgers and imported equipment can be potential constraints for new players. In Malaysia, there are only 5 active marine engineering players namely:

- a) Hock Seng Lee Bhd (HSL)
- b) Benalec Holdings Bhd
- c) Inai Kiara Sdn Bhd
- d) See Song & Sons Sdn Bhd
- e) Tidalmarine Dredging Sdn Bhd

Benalec Holdings ranks second with a market share of ~18% in Malaysia in marine construction projects for the period between 2006-2009. Marine construction business will remain resilient over the long-term as land is scarce in selected prime coastal areas.

Integration Marine Construction one-stop solutions provider

Equipped with 20 years of marine construction experience, Benalec is able to provide creative and innovative all-round solutions to infrastructural challenges in marine and coastal region. Besides, Benalec has a fleet of 91 vessels to support the marine construction projects and ship chartering activities, being owner of a shipyard for repair and maintenance works. Benalec is also a design and build turnkey contractor, capable of engaging in the initial design of projects through to the planning and completion stages. This enables Benalec to undertake large-scale turnkey contracts whilst at the same time, retaining a measure of control of the ongoing development.

Unique Revenue Model - The Icing on the Cake

In respect of Benalec's land reclamation contracts, Benalec accepts settlement either in kind by way of a portion of the land or by way of cash or a combination of both. By offering the payment in-kind option to their clients in respect of reclamation works, Benalec is able to sustain its flow of business activities during an economic downturn as their clients do not need to incur costs upfront when undertaking land reclamation projects. Besides, the in-kind land portion can be re-sold at higher than reclamation cost and this enables Benalec to crystallize gains from disposal of land at a later date. Revenue and profits are recognized progressively based on the percentage of completion method. The concessionaire will apply to the local land office for issuance of the Document of Title for the Land Portion directly to the entity nominated by Benalec. Following the alienation process, the Land Portion will be reclassified as "Land Held for Sale" in Benalec's balance sheet. Benalec can commence disposal of the Land Portion prior to completing the alienation process. Pursuant to the SPA, the consideration will be generally settled in stages. Final disposal can only be completed upon completion of alienation process, which usually takes between 7 to 12 months to complete.

Lean Cost Structure

Over the years, Benalec has maintained an impressive earnings margin (PBT margin for FY11 and FY12: 46% and 53% respectively). The main cost components for marine construction are diesel, sand and rocks. In Malaysia, the market price of sea sand for land reclamation use is stable and it ranges between RM1-RM3/m³. As for fuel, Centistoke Bunker Fuel is currently trading at US\$611/mt, and is very much correlated to crude oil prices. We take cognizance of the fact that Benalec's cost structure may be affected by the fluctuation of diesel prices. Hence, hedging of fuel prices is currently being considered. Benalec does not face any difficulty in sourcing for sand as there are several sand sources located near to its reclamation sites. The group signs long term contracts with sand concessionaires to extract the required sand ex-seabed. The lean cost structure is certainly one of its success factors for achieving a high margin earnings record.

Sustainable Order Book

The order book remains healthy. The latest order book stands at RM586m, which will keep Benalec occupied for the next 3 years. The bulk of its order book is driven by its ongoing Klebang Melaka Tengah project with unbilled works amounting to RM353m. We understand that Benalec is currently negotiating to sell the first 250 acres of yet-to-be reclaimed-land in Tg.Piai to a foreign tank farm operator. Reclamation works for Tanjung Piai is likely to commence in CY 2H2013. The marine construction sector outlook remain healthy and encouraging as growth prospects are bright based on the projects that are in the pipeline, particularly in Penang, Melaka, Iskandar, Port Klang and SCORE (Sarawak Corridor of Renewable Energy). The marine construction industry in Malaysia has shown steady growth for the past 5 years.

Benalec's Outstanding Orderbook

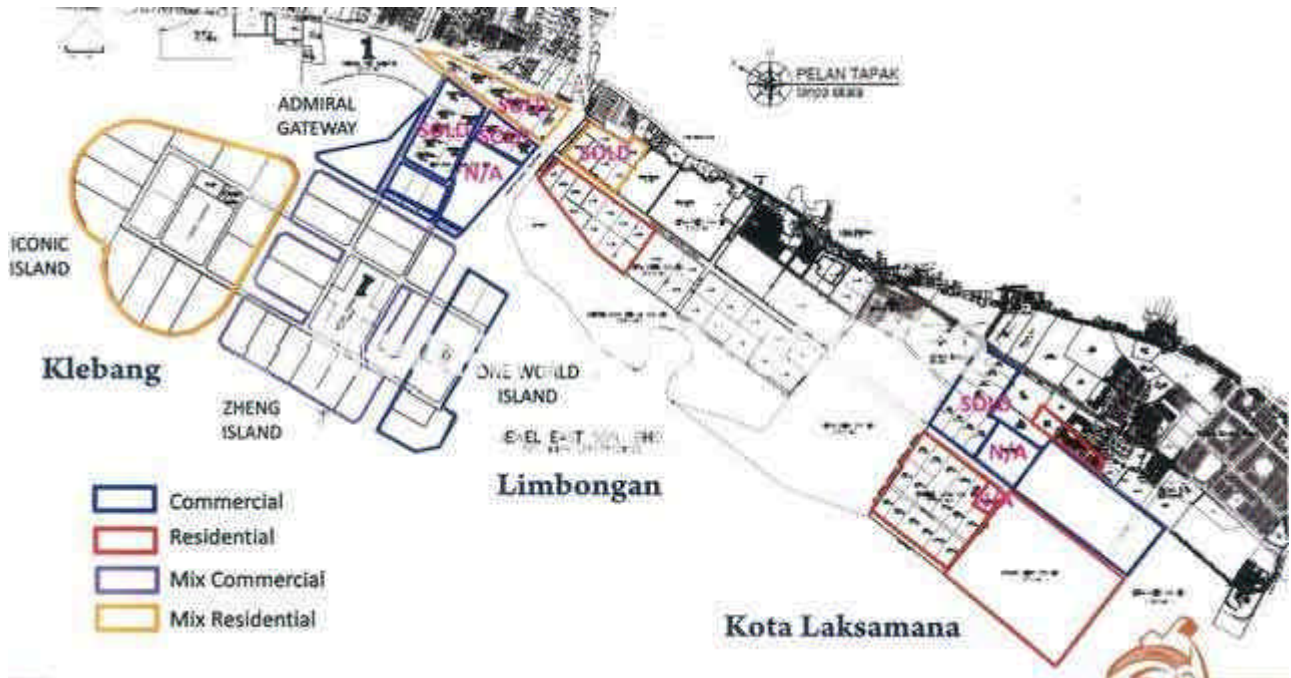
	Current Order Book to-date	Client	Total Contract Value (RM'm)	Unbilled Amount (RM'm) as at 31 Mar 2012	Year of Commencement & est. Completion
1	Proposed Construction, Completion & Maintenance of Reclamation & Shore Protection Works for 180 acres at Klebang Besar, Melaka (" HUSB Project ")	Haruman Utama Sdn Bhd*	71.3	1.4	2007-2012
2	Proposed Construction, Completion & Maintenance of Reclamation & Shore Protection Works for 204 acres (Phase 3) between Kuala Sungai Melaka and Kuala Sungai Seri Melaka (" Oriental Project ")	Oriental Boon Siew (M) Sdn Bhd	114.2	0.8	2008-2012
4	Proposed Construction, Completion & Maintenance of Reclamation & Shore Protection Works for 180 acres at Pantai Limbongan Pekan Klebang, Seksyen IV Daerah Melaka Tengah, Melaka (" SOSB Project ")	Strategic Oscar Sdn Bhd*	77.2	6.4	2009-2012
5	Proposed Construction, Completion & Maintenance of Reclamation & Shore Projection Works for 144 acres at Pulau Indah Industrial Park, Pork Klang, Klang	Oceanfront Land/ Atlantic Property / Oceanview Property / Oceanic Sdn Bhd	75.0	75.0	2011-2013
6	Coastal Reclamation Works from Sungai Melaka (Phase 1A) for 65 acres	Oriental Boon Siew (M) Sdn Bhd	32.2	17.4	2010-2012
7	Proposed Construction, Completion & Maintenance of Reclamation & Shore Protection Works for 720 acres at Mukim Klebang, Melaka Tengah	Sentosacove Sdn Bhd.	468.0	353.0	2011-2016
8	Proposed Earthworks, River Protection Works and its Associated Works at Precinct 4 for "Cadangan Pembangunan Di Atas Lot 19(77175), 77170 & 77174, Mukim Klang, Daerah Klang, Selangor Darul Ehsan	Comtrac Sdn Bhd	37.0	19.0	2011-2013
9	Proposed Reclamation of above 4 acres adjacent to Lot 100, Pulau Melaka, Kawasan Bandar XLIII, Bandar Melaka, Daerah Melaka Tengah (Note 2)	Arab City Melaka Sdn Bhd	4.7	1.4	2011-2012
10	Proposed Reclamation and Shore Protection Works for 60 acres at that portion of the coast of Pulau Konet, District of Alor Gajah, Melaka	Anzeco Coal Terminal Sdn Bhd	36.6	36.6	2012-2013
11	Proposed Reclamation for the Development of Waterfront City measuring 15 acres at the District of Melaka Tengah, Melaka	Grandbell Corporation Sdn Bhd	7.7	7.7	2012-2013
12	Contract of Affreightment for Carriage of Bulk Coal	TNB Fuel Services S/B	67.4	67.4	2012-2015
	TOTAL		991.3	586.1	
*	<i>The aforementioned engagements relate to land reclamation and related works granted by the respective State Government to the concessionaires who have then contracted our Group to undertake the said reclamation activities.</i>				

Melaka- A Sound Track Record

During the 1990s, the Melaka State Government implemented a policy to encourage participation from the private sector to undertake various state development projects and awarded a few concessionaires the right to undertake land reclamation works in Melaka. In 2003, Benalec was awarded a RM62m project by Pembinaan Kota Laksamana for Reclamation and Associated Works for 180 acres of land in Kota Laksamana, Melaka. Later in 2005, Benalec secured another RM64m project for coastal reclamation works for 210 acres of land (Phase 1) in Kuala Sungai, Melaka. Subsequently in 2006, Benalec secured a contract for Phase 2 of the same project involving 210 acres of land in Kuala Sungai, Melaka. On July 2007, Benalec was appointed sub-contractor by Haruman Utama Sdn Bhd for the construction, completion and reclamation of works for 180 acres in Klebang Besar, Melaka in return for the payment-in-kind of 142.5 acres of the reclaimed land.

In January 2008, Benalec was awarded a RM123m project by Oriental Boon Siew (M) Sdn Bhd for the construction, completion and maintenance of reclamation works for 204 acres between Kuala Sungai Melaka and Kuala Sungai Seri Melaka for a contract sum of approximately RM124m. In July 2009, Benalec secured a contract for RM77m with Strategic Oscar Sdn Bhd for the construction, completion and maintenance of reclamation and shore protection works for 180 acres in Pantai Limbongan, Melaka Tengah. In 2010, Benalec entered into an agreement with Sentosacove Sdn Bhd for the construction of reclamation and shore protection works for 720 acres in Klebang, Melaka Tengah for a contract sum RM468.0m, which is to be satisfied by the allocation of approximately 570 acres of the reclaimed land. Between 2003 to the present, Benalec has secured 2,400 acres of land reclamation projects in Melaka from various concessionaires, of which, 1,500 acres have been successfully reclaimed and have either been paid for in cash by clients or sold to third-party developers. Currently, Benalec has ~300 acres of land bank in Melaka, with another 830 acres to work on. Assuming Benalec will sell 70 acres of reclaimed land a year to raise working capital, we estimate Benalec will have accumulated a land bank in Melaka of about 850 acres by 2016.

The management foresees tremendous potential upside in the prime sea-fronting land in Melaka, as it is located on the fringes of Melaka City Centre. Upon completion of the Melaka Coastal Highway, the selling price could command higher prices than the recently transacted price for a 9-acre plot of land of RM45 psf. For now, we conservatively value its Melaka land bank at RM30psf.



Overall Reclamation Melaka Layout Plan for mixed development – 2,400 acres



Cheng Ho City: A proposed Malaysia premier tourism & duty free business centre with a UNESCO World Heritage City address in Malacca.

Johor – Gearing up for a much larger and ambitious scale of operations

On 6th September 2012, Benalec announced that its 70%-owned units – Spektrum Budi Sdn Bhd (SBSB) and Spektrum Kukuh Sdn Bhd (SKSB) – each signed Development Agreements (DA) with the Johor Government and State Secretary Inc (SSI) to reclaim and develop two large tracts of prime seafront land in Johor – at Tg.Piai (3,485 acres) and Pengerang (1,760 acres).

Tanjung Piai Project

In Nov 2011, UPENJ (Unit Perancang Ekonomi Negeri Johor) approved in principle SKSB's undertaking of the reclamation works of all those lands to be reclaimed along the shorelines of Tanjung Piai in the District of Pontian over a gross area of about 3,485 acres and thereafter to develop the Project Land into the Integrated Petroleum & Petrochemical Hub Logistic and Maritime Industrial Park of Tanjung Piai, District of Pontian, Johor. In return, the Johor Government will get an undisclosed amount of upfront premium plus 3% of the gross proceeds from the sale of the net saleable area of the Project Land.

Tanjung Piai located strategically at southwestern tip of Johor - 17km from Petroleum and Petrochemical (P&P) Hub of Jurong Island. It has potential to be developed into another P&P Hub akin to those in Rotterdam or Houston. Tg Piai has more than 7km of seafront land, which is an excellent anchorage area with a natural water depth of >20m, which allows even VLCCs to comfortably navigate.

The 3,485-acre reclamation area in Tg. Piai is separated into 3 phases: Phase 1 - 2,000 acres; Phase 2 & 3 – 1,485 acres. The entire project will take 10 to 15 years to complete. The proposed oil terminal will have an initial capacity of 1m m³ and this may be increased to 3m m³ in subsequent developments. The project will undertaken by a Joint Venture company.

We do not foresee Tg. Piai to post a threat to Singapore's Jurong Island but instead act as a complementary hub. There is currently an immediate shortage of Oil Storage facilities in the region to the extent some VLCCs are being used as floating storage, anchored off the coast of Johor by Singapore oil traders. We believe Tg. Piai will enjoy the spillover effect from Singapore's Jurong Island Intergrated Petroleum and Petrochemical Hub particularly from current oil terminal operators in Jurong Island who are in an expansion mode. Jurong Island is now fully developed and there is very limited space for expansion, we anticipate Tg Piai will be the best next-port-of-call option in light of its close proximity to Jurong Island.

Benalec, being a land reclamation specialist, would prefer to partner other EPC (Engineering, Procurement and Construction) specialists who are experienced in oil tanking, and can boast a strong regional clientele base. For this purpose, Benalec identified Rotary Engineering and on December 2012 entered into a Memorandum of Understanding to jointly develop the first 250 acres of Phase 1 Tg. Piai for use as an oil terminal with tank facility for storing, blending and distributing crude oil and petroleum products with deepwater port facilities.

Rotary Engineering is a leading Singapore-based oil and gas infrastructure services company offering fully integrated engineering design, procurement, construction and maintenance (EPCM) services to the oil and gas, petroleum and petrochemical industries. Currently, the primary business focus is on storage tanks and terminals. It has more than 50% market share in the O&G terminal construction segment in Singapore. Besides, a key consequential element in respect of their involvement is their strong existing clientele base of oil terminal operators, oil traders and petrochemical cracker, which are mostly multinationals. There is no reason to doubt their abilities in oil tank construction, being the regional pioneer, having started out with engineering works in Jurong.

The initial funding for the reclamation work for Tg. Piai is estimated more than RM400m, of which RM120m will be internally funded, to be met via a capital-raising exercise and the balance RM300m via debt financing. Portions of the 250 acre development is to be presold and upon the signing of Sale and Purchase Agreement, a 30% upfront payment is to be received, with the rest to be drawn down progressively according to stages of completion. The group is currently working on a hydraulic study and final survey of the land as well as an Environmental Impact Assessment (EIA). We anticipate the group will firm up all the necessary approvals by early next year and kick-start the reclamation works at Tg. Piai by 2H CY2013. From the JV-development of Tg. Piai, we understand that Benalec has the intention to diversify its earnings sources as well as to extract maximum value from the reclamation works by co-owning and operating the Integrated Petroleum Hub. We laud this approach as it enables Benalec to have a sustainable and recurring income source. We understand that Benalec is currently in negotiations with several foreign tank farm operators from the Middle East, Europe and China. Depending on the negotiations, Benalec may possibly start with not just 250 acres but as much as 500 acres in Tg. Piai, if they able to secure 2 or more major buyers for the land.

Pengerang Project

Apart from the concession to reclaim 3,485 acres in Tg.Piai, SBSB Benalec has also been given the exclusive rights to reclaim 1,760 acres of land in Pengerang to develop the Project Land into an integrated Petroleum & Petrochemical Hub Logistic and Maritime Industrial Park at Pengerang.

Similar to the Tg. Piai development, Benalec intends to turn the 1,760 acre land into a sustainable energy park and a leading oil and gas services hub for oil & chemical storage, logistics, trading and production process. The land demarcated for reclamation has good sea frontage and accessibility to sea transport, and enjoys a natural water depth of 15-18m. With 3 km of seafront land suitable for the construction of a port that allow VLCCs and other large vessels to berth, a port is indeed part of Benalec's plan.



Legend	
	Midstream (Processing/Petrochemical Plant) 294.28 ha
	Utilities Clusters 20.00 ha
	Logistics Terminal 75.01 ha
	Warehousing Logistics 113.23 ha
	Warehousing Logistics 32.84 ha
	Warehousing Logistics 99.00 ha

Land Info	
Land Concept	: Peninsular reclamation
Total Land Area	: 1,760 acres 712.00 ha
Natural Water Depth	: 15 m - 18 m
Total Leasable Land	: 650.00 ha
Total Road Reserve	: 27.50 ha
Total Pipeline Corridor	: 34.50 ha

Proposed Layout of Pengerang Petroleum & Maritime Industrial Park

We see great potential in Benalec’s Pengerang Petroleum & Maritime Industrial Park as it is positioned within the Masterplan of the Pengerang Integrated Petroleum Complex (PIPC) operated by Johor Petroleum Development Corp Bhd (JPDC).

The PIPC is one of the largest investments in Pengerang district and is located on a single plot measuring about 8,100 hectares. The project will house oil refineries, naphtha crackers, petrochemical plants as well as a liquefied natural gas (LNG) import terminal and a re-gasification plant, marking a big step in creating value in the downstream oil and gas value chain in Johor. In PIPC, oil refining facilities will undertake value-added activities for crude oil imported via the Pengerang Independent Deepwater Petroleum Terminal (PIDPT). Refined petroleum products and synthetic petrochemical products, such as polymers, pharmaceutical products and plastics, will be manufactured from the downstream products feedstock. Thus, Malaysia’s petrochemical complexes will be able to generate greater value and investments from its oil and gas sector.

As of June 2012, two major catalytic projects have been committed within the PIPC area. One is the RM5 billion Pengerang Independent Deepwater Petroleum Terminal (PIDPT), a JV between Malaysia's DIALOG Group, Royal Vopak of Netherlands and the Johor State Secretary Incorporated (SSI). This project will include LNG storage, loading and re-gasification facilities to be developed in two phases over 10 years. Construction of Phase 1 of the project has already started and is slated for completion by 1Q CY2014. The PIDPT is part of Central Utility Facilities (CUF) of Petronas' RAPID offsite and tankage areas, which include intermediate tanks, day tanks, slop tanks, blending facilities for Crude Storage, Petrochemical Feedstock and Final Product. Upon completion by the year 2020, the total storage capacity available at PIDPT is estimated to be 5m m³.

The second mega-project within PIPC is PETRONAS' RM60 billion Refinery and Petrochemical Integrated Development (RAPID) Project. The proposed RAPID refinery will have a capacity of 300,000 barrels per standard day and will supply feedstock for the RAPID petrochemical complex as well as producing gasoline and diesel that meet European specifications.

Major production facilities within RAPID are the proposed refinery with a refining capacity of 300,000 barrels-per-day and petrochemical complexes with a combined annual production of approximately 3,000,000 tonnes of ethylene, propylene, C4 and C5 olefins. On top of the main production plants, there will also be other facilities to support RAPID operational requirements. These facilities are the Pengerang Cogeneration Plant (PCP), the LNG Re-gasification Facility (RGT-2 Terminal) and the centralised facility such as wastewater treatment, utility water supply and centralized flaring. The RAPID project is expected to be commissioned by 2016 and it aims to capitalise on the growing need for specialty chemicals and to meet the demand for petroleum and commodity petrochemical products in the Asia Pacific region.

A detailed feasibility study on the proposed project was undertaken, and was completed in October 2011. Additionally, Integrated Envirotech Sdn Bhd (IESB) has been appointed as the Environmental Consultant to carry out the Detailed Environmental Impact Assessment (DEIA), a report that was completed in May 2012.

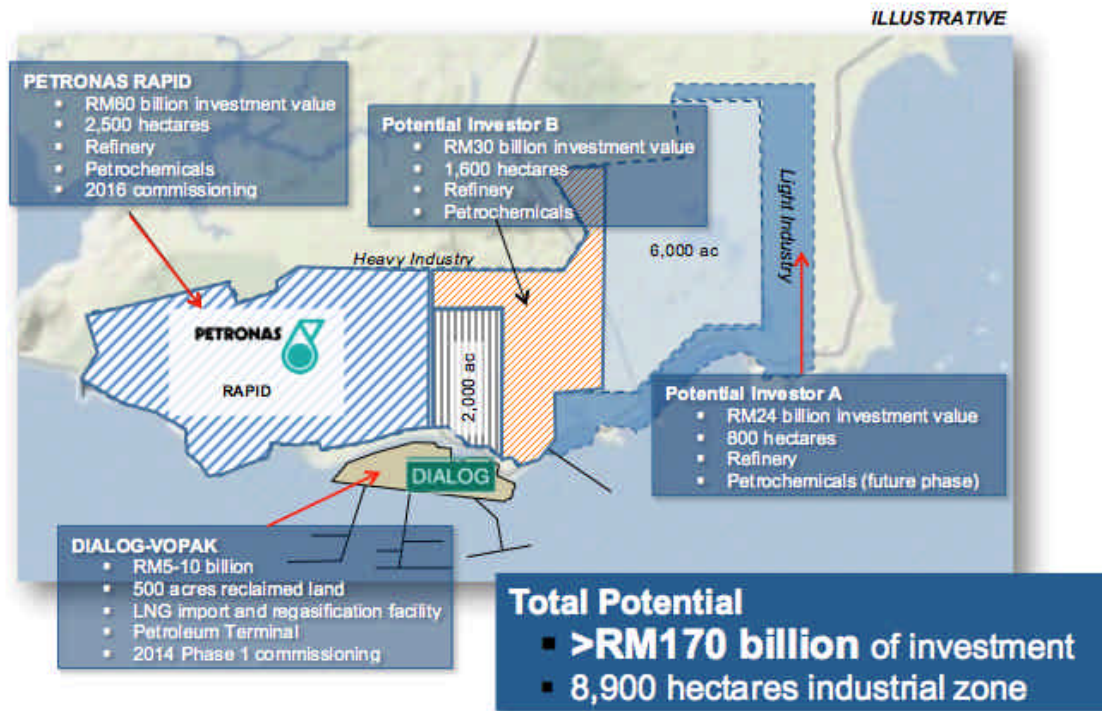
One of the key milestones of the project, the Front-End Engineering Design (FEED) stage was undertaken by Technip at the same time as PETRONAS was finalizing the selection of potential partners and licensors for the various facilities within the project. The site topographical survey and soil investigation works have been completed.



Project RAPID is listed as one of the Entry Point Projects (EPP) under business opportunities identified in the National Key Economic Areas (NKEA) that will contribute to growth of Gross National Income (GNI). Project RAPID will contribute to sustaining oil production and enhancing downstream activities whilst positioning Malaysia as the leading oil services hub in Asia. To ensure that various oil and gas projects within PIPC are managed and administered efficiently, a new dedicated Federal Government agency - Johor Petroleum Development Corporation (JPDC) - was incorporated to coordinate the PIPC development as well as act as a one-stop information centre to assist investors, oil and gas players and local community. Both the Malaysian Federal Government and Johor State Government are well represented in the JPDC Board of Directors to align government efforts in making PIPC a success.

The Pengerang Integrated Petroleum Complex (PIPC) project involves the development of 8,000 hectares in Pengerang, of which about 2,549.51ha were acquired by Petronas for the development of the Refinery and Petrochemical Integrated Development project, which will involve an investment of RM60 billion. Furthermore, we understand the Johor State Government has given the green light to CPC Corporation – a Taiwan-based company to undertake the construction of a RM35 billion oil refinery in Pengerang. The project involves the building of a petroleum refinery complex capable of handling load of up to 150,000 barrels-a-day and a naphtha cracker with an annual capacity of 800,000 tonnes. We believe the Taiwanese company is likely to commit to the RM35b refinery investment as the word among industry players is that the Taiwanese company’s plant in Kaohsiung, Taiwan will be

shuttered within 3 years. We believe that Benalec will be able to carve out a niche in the midst of all the ongoing developments in the 8,000 hectare Pengerang Integrated Petroleum Complex (PIPC) project.



PIPC layout Plan

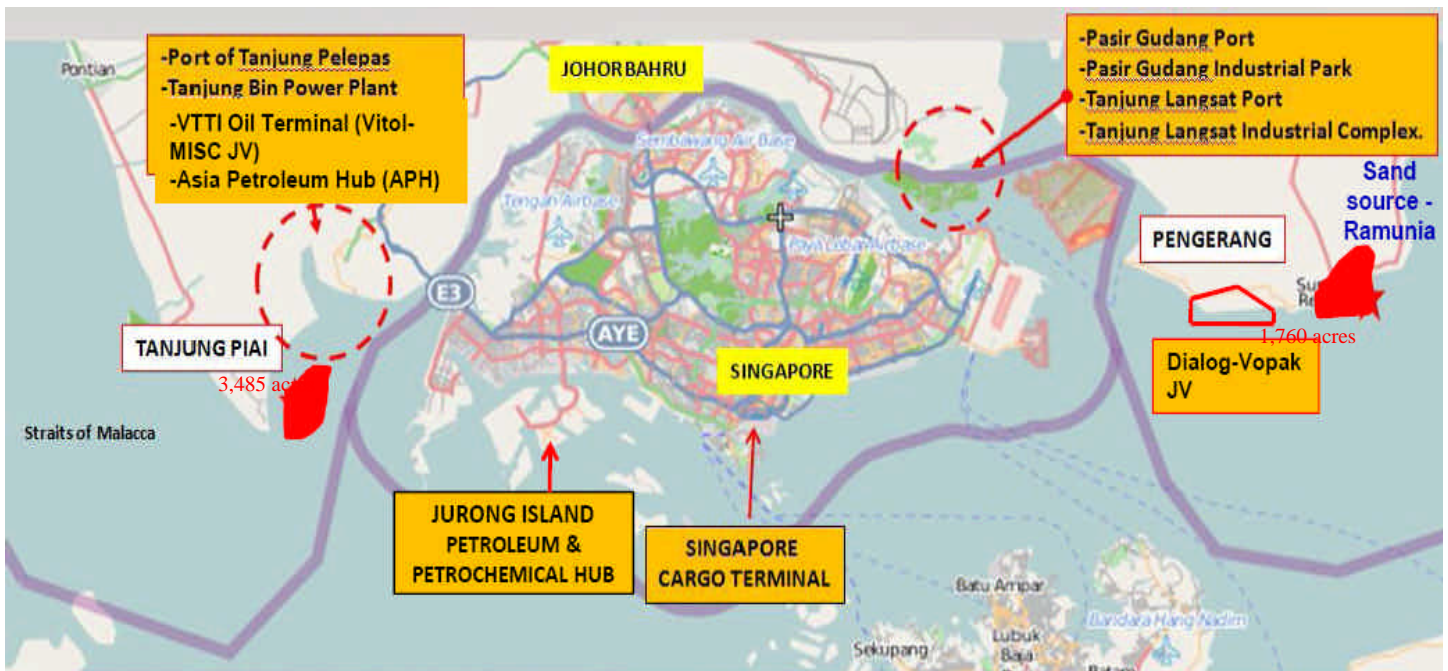


HRH Sultan of Johor Sultan Ibrahim Sultan Iskandar together with Prime Minister Datuk Seri Najib Razak being briefed on Petronas Refinery and Petrochemical Integrated Development project.

Update on Iskandar Malaysia

Iskandar Malaysia, one of Malaysia's five growth corridors, was officially launched on 9 November 2006. It covers 221,634 hectares (2,217 sq km) within the southern-most part of Johor. The plan is carved out into four phases, which are the building blocks for the Iskandar Regional Development Authority's (IRDA) end goals of achieving RM383b in investments and a GDP of US\$93.3billion by 2025. Since inception in June 2012, Iskandar Malaysia has attracted RM95.5 billion worth of committed investments.

Phase 1 of Iskandar Development, stretching from 2006 to 2010, has been successful. It has laid solid foundations for physical infrastructure and catalyst projects. The real challenge for the development has just begun, as it progresses into Phase 2, covering the period between 2011 and 2015. The top agenda for Phase 2 is to sustain the momentum of investments and to ensure the timely completion and delivery of all committed plans. At this juncture, a total of RM41.4 billion or 43% of the committed investments has been realised, with a number of major projects at various stages of implementation. Domestic investors accounted for 62% of the committed investments worth RM59 billion, while the remaining were from foreign direct investments (FDI). The largest committed investments are in the manufacturing sector (34.3%) followed by the property sector (31.2%).



Investments Merits

Sustainable and Growing Orderbook

Apart from the current outstanding order book of RM586.1m largely driven by the Melaka reclamation works which will keep them occupied until 2016, our optimism is fueled by Benalec having secured the rights to undertake the reclamation works for Tg. Piai (3,485 acres) and Pengerang (1,760 acres). Benalec has identified Melaka as their platform for steady earnings that will support their foray into the development of the unprecedented Integrated Petroleum & Petrochemical Hub in Johor. After all, it is relatively untested in this technically challenging job and certainly requires more resources.

Recurring Earnings Stream coming into the picture

Being a construction based company, they are mainly driven by one-off-type-project-based revenues. Thus, earnings can be cyclical and erratic, as it correlates with many external factors and sentiments. To diversify their earnings as well as to further extract more value from existing products, Benalec would need to convert the raw land for other value-added activities, such as development of infrastructure and innovative design & build solutions. We are positive on Benalec's venture in downstream O&G sector. We understand that Benalec will lease part of the Tg. Piai land and tankage facilities to O&G players instead of selling it off, unlike what they have previously adopted as their business model. Not only will there be steady recurring income from leasing the land and facilities, Benalec will also be able to charge handling fees, throughput charges and other maritime charges. As such, Benalec will add another source of steady and recurrent income component to their earnings stream.

Impressive margins

FY 2012 revenues were lower at RM155.3 million (FYE 2011: RM210.96 million), representing a decrease of approximately RM55.68 million or 26.39% and also lower net profit of RM82.8 million. The decrease was mainly due to one off charges and some delay in accounting recognition such as:-

- a) completion of certain projects located in Melaka;
- b) the new Pulau Indah project has yet to contribute significantly by way of revenues as it is still at initial stages;
- c) the revenue and profit from Project DMDI (one of the Kota Laksamana reclamation plots that is ongoing) will only be recognised upon the subsequent disposal of the land to the end buyers because Jayamas Cekap Sdn. Bhd., a wholly owned subsidiary of Benalec Sdn. Bhd. is the concessionaire for the Project DMDI. Hence, any unrealised profit arising from the land reclamation works in relation to Project DMDI will be eventually recognized in full. Until then, the project will remain in Benalec's books at its RM17.7m cost to-date;
- d) preliminary expenses for various studies have been incurred for the Tanjung Piai and Pengerang reclamation works in Johor. These projects have yet to contribute significant revenue as they are still at preliminary stages.

Despite weaker revenue recorded for FY12, profit margins remain impressive at 53.3%. As mentioned above, the management sees strong potential in Melaka. They may hold back, expanding the Melaka land bank only at a later date in anticipation of higher selling prices. Henceforth, the current earnings of FY12 may not be adequately representative of the business potential. We believe FY13 will be certainly stronger than FY12 as certain projects have taken off smoothly along with the rise in selling prices of its Melaka land.

Valuation

We recommend a **BUY** on Benalec Holdings Bhd with our target price based on a Sum-of-Parts valuation set at RM2.66. We believe there remains significant further upside despite the fact the stock price has already risen to 52-week highs. Our target price also implies a P/E of 11.5x for FY13, which is a reasonable valuation multiple across the construction sector. The signing of the Development Agreement for Tg Piai and Pengerang further fuels our optimism for their future earnings, as the rental income from facilities leasing and charges are recurrent and sustainable for the long term. Nevertheless, both the Johor Development projects are still at infancy stage and their full value requires crystallization of potential over a long period. At this point, our valuation for both the Tg. Piai and Pengerang developments will be taken into account based conservatively on their estimated value as undeveloped vacant land derived based on their NPV at a 12% discount rate. Our target price of RM2.66 may not be achievable in the near term, possibly more than the usual one year investment horizon implied in our target price, as most of the Benalec's projects would require a long gestation period before materializing. Investment in Benalec requires more than the usual dose of patience. A revision of our earnings forecasts for the coming FYs is likely but we leave that for when a clearer picture of the development of the Integrated Petroleum & Petrochemical Hub Logistic and Maritime Industrial Park at Tanjung Piai is obtained.

Sum-of-parts (SOP) Valuation		
Division	Value (RM' m)	Basis of Valuation
Marine construction	1,013.52	P/E @ 9 based on Avg 3 years' earnings
Vessel chartering	3.53	P/E @ 7 based on Avg 3 years earnings
Melaka Land Bank	392.04	based on RM30psf
NPV of undeveloped land in Melaka @ 12%	456.77	~550 acres
NPV of undeveloped in Johor @ 12% (70% stake)	262.972	~ Tg Piai & Pengerang
Net Debt as at FY2013	4.4	LT Debt + ST Debt - Cash
Sum-of-Parts value	2,133.237	
No. of shares	803	
Fair Value/ Share	RM2.66	

Ratings System

Ratings:	Description:
BUY	Total return is expected to exceed 15% in the next 12 months
NEUTRAL	Total return is expected to be between above -15% to 15% in the next 12 months
SELL	Total return is expected to be below -15% in the next 12 months

Abbreviation

Abbreviation	Definition	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
MoM	Month-on-Month	PAT	Profit After Tax
QoQ	Quarter-on-Quarter	EV	Enterprise Value
YoY	Year-on-Year	EBIT	Earnings Before Interest And Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

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