

# Benalec Holdings

## Funds Raising for Future Projects

By Iqbal Zainal | [mdiqbal@kenanga.com.my](mailto:mdiqbal@kenanga.com.my)

### News

- Benalec announced that it is proposing to issue up to RM200m nominal value of 7-year Redeemable Convertible Secured Bonds (CB).
- The conversion price will be at a premium of between 15%-20% to the 5-day VWAMP of Benalec shares on a price-fixing date to be determined later. Interest rate of the CB will also be determined later.
- The proceeds from the CB issuance will be utilized to finance Benalec's ongoing and future land reclamation projects.
- The proposed CB Issue is expected to be completed by the 1HCY15, which is Benalec's 2H15 (FYE: June).

### Comments

- We were not entirely surprised** with the news as the CB is mainly to strengthen its cashflows for smooth execution of its massive reclamation projects in Malacca (543 acres) that was secured in FY14.
- It also mentioned that the proceeds would be used to finance the group's future projects, which we believe is either for the reclamation concessions in Tanjung Piai (3,484 acres) or another project in Pengerang (1760 acres). Once the DEIA is approved for the projects, Benalec might utilize the CB proceeds to start the reclamation's preliminary works.
- Earnings dilution impact.** Assuming CB will be fully converted before FY16 (June 2016) with the assumption of RM1.05 conversion price (15.4% premium of Benalec's share price of RM0.91), our FY16E EPS will be diluted by 20% to 7.2 sen from 8.8 sen currently. This will translate into FY16E PER of 12.9x (still within mid-sized construction PER range) from current implied FY16E PER of 10.5x. However, the quantum of the dilution still depends on the price-fixing and conversion premium (i.e. 15%-20%) which will be determined later.
- On a bright side, our forecasted FY16 EPS might even be accretive if the group inks the 1000 acres of Tg. Piai land sale deal with 1MY Strategic Oil Terminal (1MY SOT) before FY16. Assuming Benalec inks the land sale deal at a price tag of RM60psf or total RM2.6b, and with a 25% net margin, our FY16 net profit estimates may be revised by +92%, exceeding the dilution impact.
- Balance sheet wise**, the group's net gearing will only reverse to 0.32x from net cash position currently. We reckon it is not a big concern for a contractor like Benalec.

### Outlook

- So far, in FY14, Benalec has sold 284.5 acres of land in Malacca amounting close to RM500m in value. All in, Benalec pocketed net gain of RM106m from the land sales, which the group will recognize progressively starting FY15. It also had secured RM204m of reclamation jobs in FY14, which boosted its orderbook to about RM450m currently.
- We understand Benalec has about approximately 400 acres of land in Malacca (340 acres) and Pulau Indah (60 acres) which is "held for sale". These lands could be worth about RM784m (based on an average selling price of RM40 psf).
- Above all, Benalec's further key re-rating catalyst lies in its Johor project and the signing of the SPA with 1MY Strategic Oil Terminal for 1000 acres of land in Tanjung Piai.

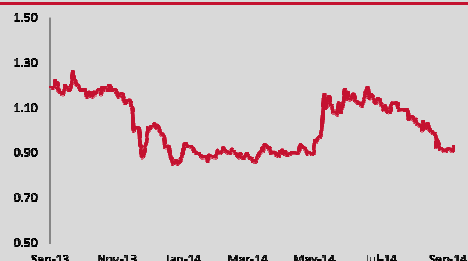
### Forecast

- Maintained for now until the price-fixing and interest rate are finalized.

# OUTPERFORM ↔

**Price: RM0.93**  
**Target Price: RM1.25** ↔

### Share Price Performance



KLCI	1,855.64
YTD KLCI chg	-0.6%
YTD stock price chg	9.4%

### Stock Information

Bloomberg Ticker	BHB MK Equity
Market Cap (RM m)	743.5
Issued shares	799.4
52-week range (H)	1.28
52-week range (L)	0.85
3-mth avg daily vol:	4,114,216
Free Float	43%
Beta	1.2

### Major Shareholders

OCEANCOVE	47.8%
KUMPULAN WANG PERSAR	5.9%
CIMB-PRINCIPAL ASSET	3.7%

### Summary Earnings Table

FY June (RM'm)	2014A	2015E	2016E
Turnover	211.0	247.5	274.6
EBIT	21.2	96.1	104.6
PBT	18.3	87.9	95.0
<b>Net Profit (NP)</b>	<b>7.2</b>	<b>65.0</b>	<b>71.2</b>
<b>Core Net Profit</b>	<b>35.3</b>	<b>65.0</b>	<b>71.2</b>
Consensus (NP)	n.a.	56.1	65.0
Earnings Revision	n.a.	n.a.	n.a.
EPS(sen)	4.4	8.0	8.8
DPS (sen)	0.0	2.0	2.0
NTA/Share (RM)	0.69	0.70	0.72
PER	21.2	11.5	10.5
Price/NTA (x)	1.4	1.4	1.4
Gearing (x)	-	-	-
Dividend Yield (%)	0%	2%	2%

15 September 2014

### Rating

#### Maintain OUTPERFORM

- While waiting for the ultimate catalyst to materialize (Tg Piai), which we believe would only occur in the medium-to-longer-term, we believe Benalec's near-term catalyst would be land sales in Malacca and Pulau Indah as it still has about 400 acres of ready land held for sale.

### Valuation

- We are maintaining our SoP-based Target Price of RM1.25, implying PER of 12.2x on FY15E EPS, in line with mid-cap construction industry PER average of 12-15x. Assuming a conversion price of RM1.05 (15.4% premium on Benalec's share price of RM0.91) our SoP will be adjusted to RM1.21, which is not material. We will adjust our SoP once Benalec's CB conversion price is fixed.

### Risks to Our Call

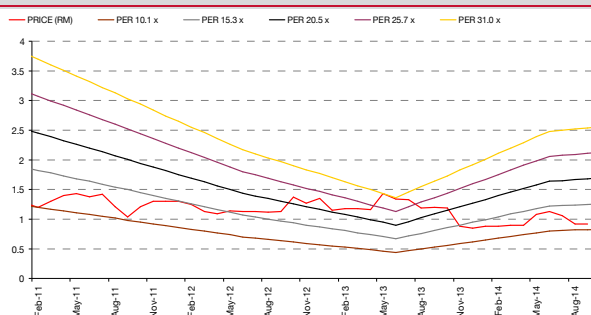
- Higher-than-expected input costs.
- Failure to get an approval for the DEIA and hydraulic study and final survey for its Johor project.
- Slower-than-expected land sales.

### Sum-of-parts valuation

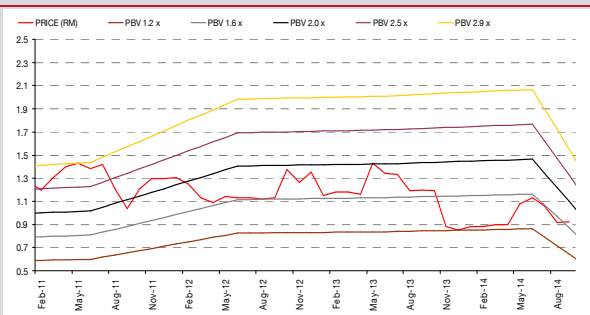
Segment	RMm	WACC	PE(x)	RM/share
Construction	148.5		9	0.18
Vessel chartering	117.0		9	0.14
Remaining landbank in Malacca and P.Klang (average selling price at RM40 per sqf)	278.8			0.35
Johor land development (70% stake)	574.6	10%		0.71
<b>Target price (after 10% discount)</b>				<b>1.25</b>

Source: Kenanga Research

### Fwd PER Band



### Fwd PBV Band



Source: Bloomberg, Kenanga Research



15 September 2014

Income Statement						Financial Data & Ratios					
FY Jun (RM m)	2012A	2013A	2014A	2015E	2016E	FY Jun (RM m)	2012A	2013A	2014A	2015E	2016E
Revenue	155.9	265.8	211.0	247.5	274.6	<b>Growth</b>					
EBITDA	106.0	68.8	21.2	118.0	130.6	Turnover (%)	-26.1	70.6	-20.6	17.3	11.0
Other Income	68.8	4.4	16.1	36.6	27.1	EBITDA (%)	-18.4	-35.1	-69.2	457.3	10.7
Exceptional Items	0.0	-4.7	-28.1	0.0	0.0	PBT (%)	-20.5	-35.2	-71.8	380.5	8.1
PBT	100.2	64.9	18.3	87.9	95.0	Net Profit (%)	-14.0	-32.2	-87.2	805.7	9.6
Taxation	-17.6	-9.0	-11.1	-22.8	-23.7	<b>Profitability (%)</b>					
Minority Interest	0.0	0.1	0.0	0.0	1.0	EBITDA Margin	68.0	25.9	10.0	47.7	47.6
Net Profit	82.7	56.0	7.2	65.0	71.2	PBT Margin	64.3	24.4	8.7	35.5	34.6
<b>Core Net Profit</b>	<b>82.7</b>	<b>60.7</b>	<b>35.3</b>	<b>65.0</b>	<b>71.2</b>	Net Margin	53.0	21.1	3.4	26.3	25.9
<b>Balance Sheet</b>						Effective Tax Rate	17.5	13.9	60.7	26.0	25.0
<b>FY Jun (RM m)</b>	<b>2012A</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	ROA	11.5	7.8	1.0	8.3	8.5
Fixed Assets	241.6	241.6	242.5	243.3	242.5	ROE	19.1	11.2	1.3	10.8	10.6
Other FA	0.0	0.0	0.0	0.0	0.0	<b>DuPont Analysis</b>					
Inventories	18.5	23.4	22.9	22.8	23.0	Net Margin (%)	53.0	21.1	3.4	26.3	25.9
Receivables	209.0	187.9	138.7	171.3	166.0	Assets Turnover (x)	0.2	0.4	0.3	0.3	0.3
Other CA	179.6	177.4	312.3	312.3	267.3	Leverage Factor (x)	1.7	1.4	1.3	1.3	1.2
Cash	70.4	86.2	-22.2	36.1	33.4	ROE (%)	19.1	11.2	1.3	10.8	10.6
Total Assets	720.4	717.7	695.5	787.1	842.2	<b>Leverage</b>					
Payables	202.2	147.8	144.6	144.1	145.5	Debt/Asset (x)	0.1	0.1	0.1	0.1	0.1
ST Borrowings	19.2	19.2	19.2	19.2	25.0	Debt/Equity (x)	0.1	0.1	0.1	0.1	0.1
Other ST Liability	9.0	9.0	10.0	10.0	9.6	(Net Cash)/Debt	-0.1	-0.4	1.4	0.4	0.5
LT Borrowings	43.7	43.7	43.7	43.7	43.7	Net Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
Other LT Liability	10.2	10.2	10.2	10.2	10.2	<b>Valuations</b>					
Minorities Int.	0.0	0.0	0.0	0.0	0.0	EPS (sen)	10.6	8.5	4.7	8.1	8.9
<b>Net Assets</b>	<b>431.9</b>	<b>499.9</b>	<b>537.8</b>	<b>602.8</b>	<b>675.2</b>	NDPS (sen)	3.2	4.6	1.4	2.4	11.5
Share Capital	182.5	182.5	182.5	182.5	182.5	NTA (RM)	0.5	0.6	0.7	0.8	0.0
Reserves	328.9	396.9	434.8	499.8	0.0	PER (x)	8.1	10.2	18.2	10.6	9.7
<b>Equity</b>	<b>431.9</b>	<b>499.9</b>	<b>537.8</b>	<b>602.8</b>	<b>675.2</b>	Div. Yield (%)	3.7	5.3	1.6	2.8	13.4
<b>Cashflow Statement</b>						P/NTA (x)	1.6	1.4	1.3	1.4	1.4
<b>FY Jun (RM m)</b>	<b>2012A</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	EV/EBITDA (x)	6.5	5.3	13.2	6.1	6.8
Operating CF	133.8	119.1	213.9	298.2	210.4						
Investing CF	-30.0	-100.0	-160.4	-160.4	-140.3						
Financing CF	-85.5	-96.7	-71.4	-79.5	-82.5						
Change In Cash	18.3	-77.6	-17.9	58.3	-12.4						
Free CF	103.8	19.1	52.5	136.8	69.5						

Source: Kenanga Research

15 September 2014

### Peer Comparison

#### CORE COVERAGE

NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd				(%)	(%)	(x)	Actual	1 Yr Fwd			
BENALEC HOLDINGS	0.93	739.5	20.9	11.4	10.4	2.2	11.6	1.3	35.3	65.0	71.2	84.1	9.54	1.25	Outperform	9.4
EVERSENDI CORP	0.96	739.1	14.5	22.1	7.3	2.1	3.9	0.9	50.9	33.5	101.4	-34.2	202.69	1.11	Outperform	-7.7
GAMUDA BHD	4.83	11224.4	17.2	17.1	15.3	2.5	10.0	1.7	652.1	656.0	731.3	0.6	11.48	5.52	Outperform	0.8
IJM CORP BHD	6.50	9561.1	17.7	13.3	11.1	2.3	9.8	1.3	539.1	717.2	860.1	33.0	19.92	7.57	Outperform	12.2
KIMLUN CORP	1.49	447.9	12.3	11.5	8.6	2.2	10.8	1.2	36.4	39.1	52.3	7.4	33.76	1.57	Underperform	-11.1
MUHIBBAH	3.07	1301.9	15.1	14.9	13.0	1.6	10.4	1.6	86.4	87.4	100.1	1.2	14.53	3.55	Outperform	38.6
HOCK SENG LEE	1.88	1033.5	12.1	11.0	8.9	2.1	15.6	1.7	85.2	94.2	116.2	10.6	23.35	2.31	Outperform	1.6
NAIM HOLDINGS	3.79	898.0	22.0	9.4	8.9	1.8	9.0	0.8	40.9	95.6	101.3	133.7	5.96	4.18	Outperform	3.8
WCT HOLDINGS	2.09	2282.5	15.9	10.6	8.6	3.6	13.9	1.5	143.8	216.3	266.2	50.4	23.07	2.32	Market Perform	3.5
<b>Average</b>			16.4	13.5	10.2											

#### NOT RATED/ON OUR RADAR

NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd				(%)	(%)	(x)	Actual	1 Yr Fwd			
MUDAJAYA	2.07	1114.8	6.4	20.8	9.4	3.1	3.8	0.8	173.7	53.5	118.1	-69.2	120.6	N.A.	Not Rated	-29.0
PROTASCO	1.73	579.0	7.9	9.6	7.3	4.6	15.0	1.4	73.0	60.3	79.1	-17.5	31.3	2.25	TRADING BUY	26.1
PINTARAS JAYA	4.50	721.5	13.8	14.5	11.9	3.1	16.5	2.4	52.3	49.9	60.7	-4.6	21.5	4.78	TRADING BUY	57.3
GABUNGAN AQRS	1.75	682.5	13.3	15.2	13.8	1.8	N.A.	N.A.	51.2	44.9	49.3	-12.4	9.9	N.A.	Not Rated	59.4
GADANG HOLDINGS	1.77	383.0	18.7	7.5	5.4	3.4	19.8	1.5	20.5	51.3	71.4	150.6	39.2	2.00	TAKE PROFIT	69.5
MITRAJAYA HOLDINGS	0.95	372.4	14.8	9.7	7.5	4.2	10.8	1.1	25.1	38.3	49.9	52.6	30.3	1.13	TRADING BUY	89.1
AZRB	0.77	371.2	65.3	22.5	12.3	1.3	N.A.	N.A.	5.7	16.5	30.1	190.3	82.4	N.A.	Not Rated	2.0
TRC SYNERGY	0.52	246.8	23.1	13.4	8.6	2.3	4.8	0.6	10.7	18.4	28.9	72.4	56.6	N.A.	Not Rated	-2.8
BINA PURI	0.67	118.3	20.3	17.7	7.3	3.0	N.A.	N.A.	5.8	6.7	16.3	15.1	143.3	N.A.	Not Rated	-8.3
<b>Average</b>			20.4	14.5	9.3											

Source: Kenanga Research

15 September 2014

**Stock Ratings are defined as follows:****Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**Sector Recommendations\*\*\***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

---

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

---

Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**  
8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia  
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: [www.kenanga.com.my](http://www.kenanga.com.my)



Chan Ken Yew  
Head of Research

