

12 February 2015

Benalec Holdings

Waiting For Big Catalyst To Materialize

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- Period**
 - 2Q15
- Actual vs. Expectations**
 - Broadly within expectations. Benalec's 6M15 core net profit of RM15.5m accounts for 24% and 29% of ours and consensus' full-year core net profit forecasts, respectively. We consider the results to be broadly in line as we expect Benalec to report most of the FY15 earnings in 4Q15, which includes 2 pocket land sales in Malacca, which span c.158.1 acres (RM286.6m).
- Dividends**
 - None as expected.
- Key Results Highlights**
 - YoY, 2Q15 revenue and core net profit declined by 37% and 86% respectively due to (i) slower land sales recognition, and (ii) losses in other divisions, i.e. land reclamation and vessel chartering following slower construction works and higher opex.
 - QoQ, despite 2Q15 revenue rose by 26% driven by higher land sales, net profit declined by 71% dragged down by loss in land reclamation division. (Refer overleaf)
- Outlook**
 - **Waiting for big catalyst to materialize.** The recent approval of DEIA for Tg Piai project is seen as a significant milestone for the Group. However, we prefer to see the Group ink the 1,000 acres land sales in Tg Piai with 1MY Strategic Terminal Oil. If BENALEC can secure this deal, we estimate the Group could fetch total revenue of RM2.2b (based on RM50 psf) spanning over 4-5 years. However, we think that it would be challenging to achieve a decent land price considering the weak oil prices, which may cause a drag on off-taker discussions.
- Change to Forecasts**
 - No changes to earnings.
- Rating**
 - **Downgrade to MARKET PERFORM (from OUTPERFORM)**
- Valuation**
 - BENALEC's share price went up 55.8% YTD to RM0.88 exceeding our SOP-based TP of RM0.83. The strong share price performance mainly boosted by the recent DEIA approval to take off Tg Piai's land reclamation.
 - As the share price running ahead of its fair value, we downgrade BENALEC to MARKET PERFORM with unchanged SOP-based TP (40% discount) of RM0.83, implying PER on 10.0x FY16 EPS, in line with small-mid cap construction industry PER range of 8-15x. At this juncture, we are reluctant to expand PERs as we think that the current investors euphoria will subside as investors will be waiting for the ultimate catalyst i.e. securing off-takers for the sizeable 1000 acres of land sales in Tg Piai, which we have yet to see it materializes since March 2013; thus far, there has been 8 times extensions already.
- Risks to Our Call**
 - Higher-than-expected input costs
 - Failure of obtaining land title
 - Slower-than-expected land sales

MARKET PERFORM ↓

Price: RM0.88
Target Price: RM0.83 ↔

Share Price Performance



KLCI	1,798.95
YTD KLCI chg	2.1%
YTD stock price chg	55.8%

Stock Information

Bloomberg Ticker	BHB MK Equity
Market Cap (RM m)	703.1
Issued shares	798.9
52-week range (H)	1.22
52-week range (L)	0.53
3-mth avg daily vol:	4,842,448
Free Float	45%
Beta	1.2

Major Shareholders

OCEANCOVE	47.8%
KUMPULAN WANG PERSAR	5.9%
DIMENSIONAL FUND ADV	1.8%

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
Net Profit (NP)	7.2	65.0	71.2
Core Net Profit	35.3	65.0	71.2
Consensus (NP)	n.a.	53.9	63.2
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	20.2	10.9	10.0
Price/NTA (x)	1.3	1.4	1.4
Gearing (x)	N.C	N.C	N.C
Dividend Yield (%)	0%	2%	2%

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OTHER POINTS

- The loss made by land reclamation division in 2Q15 due to higher overhead costs and slow progress of construction works from external clients. Nonetheless, we understand the substantial works will start in 2H15 onwards. Big bulk of its orderbook is from the Ultra Green which consists of reclamation of 415 acres land that amounted RM204m. This project was secured in May 2014 and it is still at initial stage of construction.
- YTD, 6M14 net profit down by 25% mainly due higher effective tax rate.

Result Highlight								
Y/E : June(RM mn)	2Q15	1Q15	QoQ Chg	2Q14	YoY Chg	6M15	6M14	YoY Chg
Turnover	60.2	47.9	26%	95.1	-37%	108.2	109.5	-1%
EBIT	7.7	19.2	-60%	34.5	-78%	26.9	30.3	-11%
Interest expense	(0.2)	(0.5)	-58%	(0.5)	-57%	(0.7)	(1.2)	-41%
Other income	1.6	0.6	168%	9.9	-84%	2.2	10.3	-79%
Exceptional items	0.0	0.0	N.A	0.0	N.A	0.0	0.0	N.A
Pretax profit	7.5	18.7	-60%	34.0	-78%	26.2	29.1	-10%
Taxation	(4.1)	(6.7)	-39%	(8.7)	-53%	(10.7)	(8.4)	28%
Profit after tax	3.5	12.0	-71%	25.3	-86%	15.5	20.7	-25%
Minority interest	0.0	(0.0)	-100%	(0.0)	-100%	(0.0)	(0.0)	-71%
Net profit	3.5	12.0	-71%	25.3	-86%	15.5	20.7	-25%
Core net profit	3.5	12.0	-71%	25.3	-86%	15.5	20.7	-25%
EPS (sen)	0.4	1.5	-71%	3.1	-86%	1.9	2.6	-25%
EBIT margin	13%	40%		36%		25%	28%	
Pretax margin	12%	39%		36%		24%	27%	
Effective tax rate	54%	36%		26%		41%	29%	
Net Margin	6%	25%		27%		14%	19%	

Source: Company, Kenanga Research

Sum-of-parts valuation				
Segment	RMm	WACC	PE(x)	RM/share
Construction	148.5		9	0.18
Vessel chatering	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 developement (70% stake)	574.6	10%		0.71
Target price (after 40% discount)				0.83

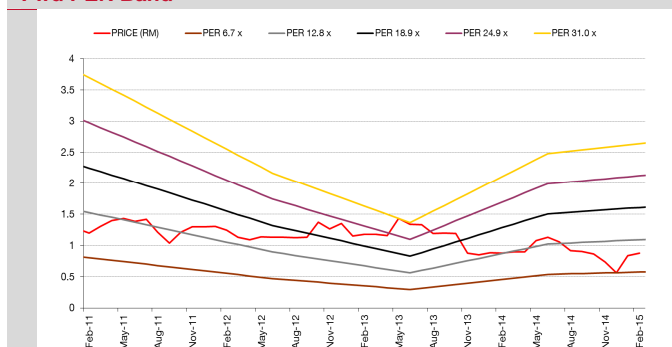
Source: Kenanga Research

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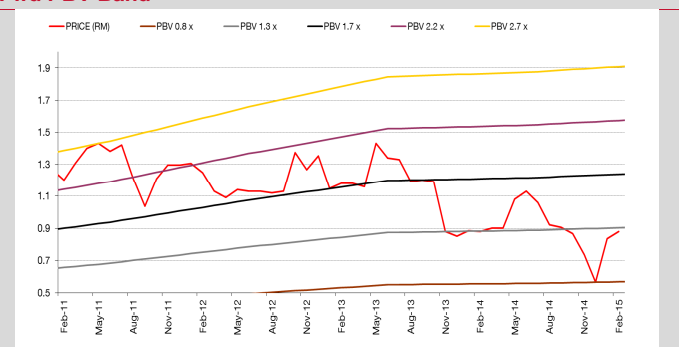
Income Statement						Financial Data & Ratios					
FY Jun (RM m)	2012A	2013A	2014A	2015E	2016E	FY Jun (RM m)	2012A	2013A	2014A	2015E	2016E
Revenue	155.9	265.8	211.0	247.5	274.6	Growth					
EBITDA	106.0	68.8	21.2	96.1	104.6	Turnover (%)	-26.1	70.6	-20.6	17.3	11.0
Other Income	68.8	4.4	16.1	36.6	27.1	EBITDA (%)	-18.4	-35.1	-69.2	35.2	8.8
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	Profitability (%)					
Minority Interest	0.0	0.1	0.0	0.0	1.0	EBITDA Margin	68.0	25.9	10.0	38.9	38.1
Net Profit	82.7	56.0	7.2	65.0	71.2	PBT Margin	64.3	24.4	8.7	35.5	34.6
Core Net Profit	82.7	60.7	35.3	65.0	71.2	Net Margin	53.0	21.1	3.4	26.3	25.9
						Effective Tax Rate	17.5	13.9	60.7	26.0	25.0
						ROA	11.5	7.8	1.0	8.3	8.5
						ROE	19.1	11.2	1.3	10.8	10.6
						DuPont Analysis					
						Net Margin (%)	53.0	21.1	3.4	26.3	25.9
						Assets Turnover (x)	0.2	0.4	0.3	0.3	0.3
						Leverage Factor (x)	1.7	1.4	1.3	1.3	1.2
						ROE (%)	19.1	11.2	1.3	10.8	10.6
						Leverage					
						Debt/Asset (x)	0.1	0.1	0.1	0.1	0.1
						Debt/Equity (x)	0.1	0.1	0.1	0.1	0.1
						(Net Cash)/Debt	-0.1	-0.4	1.4	0.4	0.5
						Net Debt/Equity (x)	N.C	N.C	N.C	N.C	N.C
						Valuations					
						EPS (sen)	10.6	8.5	4.4	8.0	8.8
						DPS (sen)	3.0	3.0	0.0	2.0	2.0
						NTA (RM)	0.54	0.62	0.69	0.70	0.72
						PER (x)	8.1	10.2	20.2	10.9	10.0
						Div. Yield (%)	3.7	5.3	0.0	2.0	2.0
						P/NTA (x)	1.6	1.4	1.3	1.4	1.4
						EV/EBITDA (x)	-0.1	-0.2	1.4	0.2	6.8

Source: Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Kenanga Research

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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)					
BENALEC HOLDINGS	0.88	703.1	19.9	10.8	9.9	2.3	11.6	1.3	35.3	65.0	71.2	84.1	9.5	0.83	Market Perform	55.75
EVERSENDAI CORP	0.63	487.6	9.6	16.5	8.9	6.3	3.6	0.6	50.9	29.6	54.6	-41.8	84.5	0.60	Underperform	-19.23
GAMUDA BHD	5.15	12094.6	16.8	17.6	17.4	2.3	14.6	2.6	719.4	687.2	694.3	-4.5	1.0	5.29	Outperform	2.79
IJM CORP BHD	7.00	10468.6	19.4	16.1	13.6	2.1	8.8	1.4	539.1	648.7	770.4	20.3	18.8	7.68	Outperform	6.54
KIMLUN CORP	1.26	378.7	10.4	11.6	8.3	2.4	9.0	1.0	36.4	32.6	45.4	-10.4	39.3	1.28	Underperform	5.88
MUHIBBAH	2.14	923.9	10.7	10.5	10.7	2.3	10.3	1.1	86.4	87.7	86.4	1.6	-1.5	2.80	Outperform	14.44
HOCK SENG LEE	1.67	917.7	10.8	11.5	9.0	2.4	12.9	1.5	85.2	80.1	101.6	-6.0	26.8	2.20	Outperform	-1.76
NAIM HOLDINGS	3.06	725.0	17.7	5.9	7.2	2.3	11.4	0.7	40.9	123.7	101.3	202.4	-18.1	3.62	Outperform	2.68
WCT HOLDINGS	1.62	1744.4	12.1	13.2	11.3	4.6	7.3	1.0	143.8	132.5	154.3	-7.9	16.5	2.02	Market Perform	1.89
MMC CORP BHD	2.54	7734.4	33.3	36.0	21.4	0.0	2.9	1.1	232.6	214.7	361.5	-7.7	68.4	3.21	Outperform	6.28
Average			16.1	15.0	11.8											
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)					
MUDAJAYA	1.68	904.5	5.2	19.9	10.0	1.8	3.2	0.6	173.7	45.5	90.6	-73.8	99.1	N.A.	Not Rated	15.86
PROTASCO	1.69	566.6	7.8	9.6	6.5	5.9	11.7	1.1	73.0	58.8	86.8	-19.6	47.7	2.25	TRADING BUY	19.01
PINTARAS JAYA	4.29	692.8	12.8	11.4	10.5	3.5	17.8	2.0	54.2	60.6	66.1	11.7	9.1	4.78	TRADING BUY	15.01
GABUNGAN AQRS	1.22	473.8	9.2	9.0	6.8	2.8	n.a.	n.a.	51.4	52.5	69.3	2.2	32.0	N.A.	Not Rated	-2.40
GADANG HOLDINGS	1.46	315.9	7.1	3.9	2.8	6.2	27.0	1.0	44.4	81.7	114.0	84.1	39.5	2.00	TAKE PROFIT	8.15
MITRAJAYA HOLDINGS	1.29	508.4	17.7	4.8	3.3	3.0	27.7	1.3	28.7	107.0	152.5	273.4	42.5	1.13	TRADING BUY	31.63
AZRB	0.71	339.9	62.9	29.6	12.6	1.4	n.a.	n.a.	5.4	11.5	26.9	112.8	133.9	N.A.	Not Rated	4.44
TRC SYNERGY	0.41	194.6	19.5	12.7	7.0	3.0	4.0	0.5	10.0	15.3	27.9	54.0	81.7	N.A.	Not Rated	6.58
BINA PURI	0.57	104.7	18.0	11.6	6.2	3.5	n.a.	n.a.	5.8	9.0	17.0	54.7	88.9	N.A.	Not Rated	4.63
Average			17.8	12.5	7.3											

Source: Kenanga Research

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.**

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