# 2011 Trading Ideas

## *11 value Stock Picks for 2011*

## Introduction

The year 2011 is expected to be positive for the stock market especially Malaysia. Strong economic indicators like government led initiatives with proactive partnerships with the private sector will spur economic growth and expansion. The need for more capital will augur well for the capital market especially the stock market. Malaysia has launched the Economic Transformation Programme (ETP) with attractive entry point projects (EPPs) to propel it to reach the goal of a higher income nation.

In tandem with the anticipated growth, SJ Securities has identified eleven stocks to watch for 2011.

## Property Sector

2010 has been a very successful year for properties and developers. We have seen significant price rises and rushes for project launches throughout the year. To prevent excessive speculation the government had raised interest rates and implemented the loan-to-value (LTV) ratio. However, the property market remains strong and the policies would provide for longer term stability of the property market. Most property stocks have increased in tandem with the positive market. However there are some counters which still offer tremendous value and growth potential.

## Plantation

The plantation sector has picked up recently with the rise of CPO prices. However, increase in stock prices has currently lagged the increase in CPO prices substantially. Currently CPO prices are traded at around RM3600 per metric tonne. At RM3600, profits from plantation operations could potentially double up from the previous RM2500 levels. However, actual share price increase has only been around 15-20%. We believe there is still good upside potential.

## Construction

The sector has been relatively positive especially with the strong focus on construction in Budget 2010 while the ETP had also focused a lot on property development. Moreover, current property development launches has been extremely high which therefore provides demand from even private initiatives. As for the MRT and LRT projects, they would provide for some of the largest orders domestically in the coming years. Risk to the sector would be slow rollout of projects or potential spikes in raw material costs especially to players with limited margins.

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## Mah Sing (8583)

Mah Sing is one of the top developers in Malaysia with dozens of awards under its belt such as Best Development, Best Property, Best Developer etc. Mah Sing focuses on 3 key areas including the Klang Valley, Penang and Johor. Mah Sing is an experienced developer in all 3 key fields including commercial, residential and factories for both landed and high rise developments.

**Strategic land banking**. Mah Sing has been on a land acquisition spree and had acquired many strategic plots of land at very attractive prices. In the middle of the year, Mah Sing acquired 126 acres of land in Kinrara at RM32.55psf and 17.82 acres of land near the RRI for RM84.91 psf. The Kinrara Residences and Star Avenue were successfully launched in these plots with high GDVs of RM770mil and RM280mil respectively. At that time, Mah Sing had also acquired more land in Shah Alam for its very successful range of I-Parc factories with a GDV of RM82mil.

More recently, Mah Sing had continued to clinch even more strategic land pieces. Mah Sing Had on November acquired 61 acres of prime freehold land in Batu Ferringhi for only RM157.3mil. Mah Sing has planned resort style bungalows, semi-ds and condominiums for a total GDV of RM800mil. Mah Sing had also acquired 34.86 acres of land in Cyberjaya for RM51.6mil. Mah Sing plans to build Semi-Ds there for an estimated GDV of RM280mil.

**Excellent innovator**. Mah Sing is an excellent innovator that is able to bring much value and award winning designs to its developments. As such Mah Sing's properties are highly popular and are able to bring about great value from acquired land. Some of the many premier developments include the M Suites, Icon Residence, Garden Residence, Kemuning Residence, Damansara Lagenda and the up and coming M-City. Mah Sing is one of the top developers and has bagged dozens of awards for its developments.

**Amazing earnings visibility**. Mah Sing has an unbilled sales of RM1.2bil and a total GDV and unbilled sales of RM9.4bil. This is extremely high as compared to Mah Sing's FY2009 revenue of RM0.7bil. This existing pipeline alone would keep Mah Sing busy and growing for the next 5-10 years.

**Recommendation**. Mah Sing trades at a forward PER of only 9x. We believe Mah Sing is highly undervalued. This is considering the fact that Mah Sing is one of the top developers with excellent product innovation, exceptional land banking abilities, amazing earnings visibility and repays shareholders with dividends. Mah Sing has taken upon itself to be a leader in property development. We value Mah Sing at RM2.60 based on a forward PER of 13.0x.

| Mah Sing Group Bhd | | | | | | |
|---|---|---|---|---|---|---|
| | Units | FQ3-10 | FQ2-10 | FQ1-10 | FQ4-09 | FQ3-09 |
| Revenue | Mn | 283.5 | 289.1 | 238.3 | 248.9 | 135.1 |
| Gross Profit | Mn | 83.1 | 78.8 | 70.5 | 43.4 | 47.5 |
| Operating Income | Mn | 49.4 | 48.4 | 42.1 | 48.7 | 32.8 |
| Pretax Income | Mn | 49.0 | 48.0 | 41.7 | 48.5 | 32.4 |
| Net Income | Mn | 29.7 | 29.2 | 27.9 | 25.1 | 23.5 |
| Basic EPS | RM | 0.04 | 0.04 | 0.03 | 0.03 | 0.03 |
| | | | | | | |
| Gross Margin | % | 29.3 | 27.3 | 29.6 | 17.4 | 35.2 |
| Operating Margin | % | 17.4 | 16.7 | 17.7 | 19.6 | 24.2 |
| Profit Margin | % | 10.5 | 10.1 | 11.7 | 10.1 | 17.4 |

*Sourced: Bloomberg

## Glomac (5020)

Glomac has today become one of the top developers in the country. We see Glomac as one of the most improved developers over the recent years with very prime and innovative developments. Glomac has proven to very sharp and strategic in its landbanking. Moreover, Glomac has in recent years shown a very impressive ability to derive and bring value to its developments.

**Very prime upcoming launches**. In 2011 Glomac would be launching two very prime condominiums in Glomac Damansara and Mutiara Damansara. We see very strong uptake in these two development. We are anticipating sales of above RM500mil from these two launches alone. We expect units to be easily snapped up with the markets strong interest and prime locations of these developments.

**Strong earnings visibility**. A total of over RM1bil of projects would be launched in 2011. We are positive with the expected demand for the upcoming launches. The group has strong unbilled sales of around RM572mil. This alone is enough to sustain earnings of over a year for Glomac. We expect 2011 launches to both grow revenue and unbilled sales even further.

**Strong balance sheet**. RM177.5mil cash positions and net gearing of only 10.4%. (As at October 2010). Net assets of RM1.96 per share. The share price is currently below Glomac's net assets and substantially below its RNAV.

**Strong growth**. Revenue for 1H FY11 has increased 98.5% as compared to 1H FY10 while net profits has increased 78.4% correspondingly (FYE April 30th). Glomac has secured strong sales and have more upcoming strong developments which we expect to contribute further to growth.

**Recommendation**.Glomac trades at a forward PER of only 7.5x. Glomac is also one of the best dividend players in the industry with dividend yields of 5-5.5%. We like Glomac for its strong growth prospects, consistent dividends and deep value. We believe there is much upside to Glomac considering its significant undervaluation. We value Glomac at RM2.30 based on a forward PER of 10x.

| Glomac Bhd | Units | FQ2-11 | FQ1-11 | FQ4-10 | FQ3-10 | FQ2-10 |
|---|---|---|---|---|---|---|
| Revenue | MN | 140.9 | 126.3 | 104.5 | 78.8 | 75.6 |
| Operating Income | MN | 31.6 | 29.6 | 22.5 | 16.2 | 14.5 |
| Pretax Income | MN | 32.0 | 29.5 | 24.2 | 17.3 | 16.4 |
| Net Income | MN | 15.9 | 15.6 | 12.5 | 10.6 | 9.3 |
| Basic EPS | RM | 0.05 | 0.05 | 0.04 | 0.04 | 0.03 |
| | | | | | | |
| Operating Margin | % | 22.4 | 23.4 | 21.5 | 20.5 | 19.1 |
| Pretax Margin | % | 22.7 | 23.3 | 23.2 | 22.0 | 21.6 |
| Profit Margin | % | 11.3 | 12.3 | 11.9 | 13.5 | 12.3 |


*Sourced: Bloomberg

## Mulpha International (3905)

Mulpha International is a diversified conglomerate with focus in property development and investments. Mulpha is also a very large real estate investor with significant investments in Australia and holds very large landbanks in Malaysia.

**Sale of Hilton Melbourne Airport Hotel**. The group is selling its Hilton Melbourne Airport Hotel to unlock the significant appreciation of the property. The property was previously acquired at AUD40.0mil and is now being sold for AUD108.9mil (approx RM327mil). The property is a 4 ½ star hotel comprising of 276 rooms. The sale will result in a one-off pre-tax gain of AUD 77mil (approx RM231mil). The gain is equivalent to an earnings per share of 9.8sen.

**Strong exposure to Australia**. Mulpha owns a 24.8% stake in FKP Property Group which is an Australian based developer. FKP has substantial assets in Australia and through it, Mulpha has exposure to the large capital appreciation in Australian assets and currency. Recently there has been speculation that FKP may become an acquisition target by Stockland, a leading Australian property developer due to its assets. A potential acquisition could raise Mulpha's share price. Goldman Sachs has estimated that the cost of acquisition of by Stockland could cost A$1.37bil (RM4.25bil).

**The group had performed stronger over the year**. The contribution was from the Group's associates namely FKP Property Group and Mudajaya Group Bhd. Mulpha owns about 20-25% of Mudajaya. Mudajaya is a largely involved in construction and it has recently seen a recovery in its share price.

**Improved balance sheet**. Mulpha's balance sheet has improved substantially with the rights issue. Mulpha's previously large short term borrowings has been reduced and is now under non-current liabilities. Mulpha's cash position has also increased substantially to over RM300mil.

**Hidden value in landbank and property**. The group has very large landbanks in Selangor and Johor that has not been revalued since the 90's. Considering that the group's NTA is RM1.17 while the share price is only RM0.53, an unlocking of value in the land would significantly boost its NTA. The group also has landbank in Australia that has not been revalued since the 90's as well. The group also has a few 5 star hotels.

**Recommendation**. Mulpha's share price is highly undervalued as compared to its revalued NTA. Corporate exercises or businesses that could unlock its value could boost Mulpha's share price.

**Mulpha International Bhd**

| | Units | FQ3-10 | FQ2-10 | FQ1-10 | FQ4-09 | FQ3-09 |
|---|---|---|---|---|---|---|
| Revenue | Mn | 182.1 | 189.4 | 147.9 | 235.9 | 135.4 |
| Operating Income | Mn | 13.1 | -16.0 | 26.9 | 58.2 | -5.8 |
| Pretax Income | Mn | 17.0 | -22.9 | 43.6 | 61.4 | -6.9 |
| Net Income | Mn | 21.3 | -18.9 | 48.3 | 61.8 | 20.3 |
| Basic EPS | RM | 0.01 | -0.01 | 0.04 | 0.05 | 0.02 |
| | | | | | | |
| Operating Margin | % | 7.2 | -8.5 | 18.2 | 24.7 | -4.3 |
| Pretax Margin | % | 9.3 | -12.1 | 29.5 | 26.0 | -5.1 |
| Profit Margin | % | 11.7 | -10.0 | 32.7 | 26.2 | 15.0 |

*Sourced: Bloomberg

## Century Logistics (7117)

Century Logistics is one of Asia's leading providers of integrated logistic services. Century provides integrated logistic solutions to clients covering land logistics, warehousing, management of the supply chain, international freight forwarding and so forth.

**Growth**. Century is in a good position to cross sell its various services to customers while gradually offering integrated services to the clients. Century Logistics is currently expanding its warehousing capacity and is looking to attract large companies while providing cross-selling opportunities. Century Logistics is continuing its climb further up the value chain with its strong branding and reputation. The strong branding and reputation is enabling Century to expand even further by enabling Century to bid and participate in larger international deals.

**Diversification into favourable segments**. Century Logistics is a very vibrant group which has constantly strived to improve itself. It has over the years diversified into a few other activities. Some of these diversifications had been grown very successfully and now contributes to the success and growth of the group.

Successful diversifications includes operating Ship-to-Ship transfer of bunker fuels. Century operates in Tanjung Pelepas and Pasir Gudang. Another diversification which has become a staple to Century includes assembling and managing the logistics of electronic appliances for domestic and export markets. This is highly synergistic to Century's existing operations.

**Strong outperformance**. Century has frequently outperformed expectations with its strong drive for growth. YTD, Century's revenue has grown by 34.4% while net profit have grown a massive 55.4%.

**Recommendation.** Despite its strong growth, Century currently only trades at a forward PER of 4.5x on a diluted basis. We have a target price of RM2.62 for Century Logistics based on a conservative forward PER of 7.0x.

**Century Logistics Holdings Bhd**

| | Units | FQ3-10 | FQ2-10 | FQ1-10 | FQ4-09 | FQ3-09 |
|---|---|---|---|---|---|---|
| Revenue | MN | 71.6 | 75.3 | 59.8 | 57.1 | 67.3 |
| Operating Income | MN | 10.5 | 10.6 | 8.7 | 9.4 | 11.4 |
| Pretax Income | MN | 9.9 | 9.5 | 7.6 | 8.3 | 10.3 |
| Net Income | MN | 8.1 | 7.5 | 6.6 | 7.1 | 8.8 |
| Basic EPS | RM | 0.10 | 0.10 | 0.08 | 0.09 | 0.12 |
| | | | | | | |
| Operating Margin | % | 14.7 | 14.1 | 14.5 | 16.5 | 17.0 |
| Pretax Margin | % | 13.8 | 12.6 | 12.7 | 14.6 | 15.2 |
| Profit Margin | % | 11.3 | 10.0 | 11.0 | 12.5 | 13.1 |

*Sourced: Bloomberg

## DRB-Hicom (1619)

DRB-Hicom is one of the more dynamic conglomerates with interest spanning across many sectors. The company has recently caught the attention of investors.

**Financial Performance**. For the 2nd quarter of 2010, revenue grew 6% from RM1554mil toRM1647mil from its preceding quarter. Profit before tax and profit after tax substantially increased from its year on year corresponding quarter of more than 100%. Cumulative earnings per share up to 2nd quarter are at 15 sen. Possibility of dividends of 4 sen per share for 2010F.

**Privatization rumours**. Unnamed sources reported by Business Times dated 9th December says that Syed Mokthar is planning to take DRB-Hicom private thru its 55% stake in the unit by Etika Strategi S/B, however DRB's management has deny that they are aware of the offer. It is also rumoured that Syed Mokthar is planning to merge Bank Muamalat (70% stake) with Pos Malaysia, if he succeeds in acquiring Khazanah's 32.2% stake in the national postal as Bank Muamalat can use Pos Malaysia's extensive network.

**Automation growth.** DRB-Hicom and VW will invest RM1b to assemble cars locally. VW will provide the technology know-how on assembling possibly 1 or 2 models and subsequently sold to VW Malaysia S/B. VW has plans to make Malaysia as its Asian hub for exports complementing its Indonesia plan. Expected numbers to be assemble in the Pekan plant in the future possibly 2014 of 45,000 vehicles.

DRB-Hicom stirs on defence contract where it entails the delivery of 12 variants of the Malaysian AV-8 armoured vehicle bringing in more automotive revenue. They are key distributor of Honda, Mitsubishi and Audi marque in Malaysia. They also have a contract with Tenaga Nasional Bhd to provide RM70mil worth of vehicles from DRB's subsidiaries. They have renewed contract with Proton-Edar and continues to run 32 EON Sales and Service Center.

**Value in its land.** In its property development, there will be a gross development value of RM2.7bill in the upcoming 3 financial years from its property developments in Glenmarie, Shah Alam and Johor. Its Glenmarie and Shah Alam land and developments have strong potential as developments add pace in the area.

**Banking.** In its banking arm, their Bank Muamalat's 30% is up for sale. Concessions are being renewed and more services revenue are in the pipeline.

**Recommendation**.DRB current trades at 6 times trailing PER. Our fair value of DRB is RM2.50 with an estimated EPS of 28sen and PER of 9 times which is at a discount to the industry PER of 11.5 times.

| DRB-Hicom Bhd | | | | | | |
|---|---|---|---|---|---|---|
| | Units | FQ2-11 | FQ1-11 | FQ4-10 | FQ3-10 | FQ2-10 |
| Revenue | MN | 1647.7 | 1553.6 | 1590.1 | 1573.1 | 1531.7 |
| Gross Profit | MN | 124.1 | 72.3 | 100.5 | 135.7 | 40.7 |
| Operating Income | MN | 144.9 | 174.6 | 95.1 | 145.2 | 68.6 |
| Pretax Income | MN | 186.2 | 223.5 | 318.8 | 175.5 | 76.7 |
| Net Income | MN | 132.2 | 157.8 | 259.4 | 103.5 | 61.7 |
| Basic EPS | RM | 0.07 | 0.08 | 0.13 | 0.05 | 0.03 |
| | | | | | | |
| Gross Margin | % | 7.5 | 4.7 | 6.3 | 8.6 | 2.7 |
| Operating Margin | % | 8.8 | 11.2 | 6.0 | 9.2 | 4.5 |
| Profit Margin | % | 8.0 | 10.2 | 16.3 | 6.6 | 4.0 |


*Sourced: Bloomberg

## TH Plantations (5112)

**Financial performance.** TH Plantations Bhd posted a 67.5% year-on-year increase in net profit to RM21.53 million from RM12.85 million a year ago for the third quarter ended Sept 30, 2010 on the back of higher commodity prices. Meanwhile, revenue for 3QFY10 rose 16.7% to RM84.23 million from RM72.13 million a year earlier. Net profit soared 156% to RM34.7 million from RM13.5 million previously, driven by higher revenue, lower cost of sales and a higher gross profit margin.

Earnings per share for the quarter were 4.41 sen from 2.63 sen previously while net assets per share were 96 sen from 93 sen as at the preceding financial year's end.

For the cumulative nine-month period, net profit was up 50% to RM46.9 million from RM31.3 million the previous year, while revenue was 9.4% higher to RM237.4 million from RM217 million.

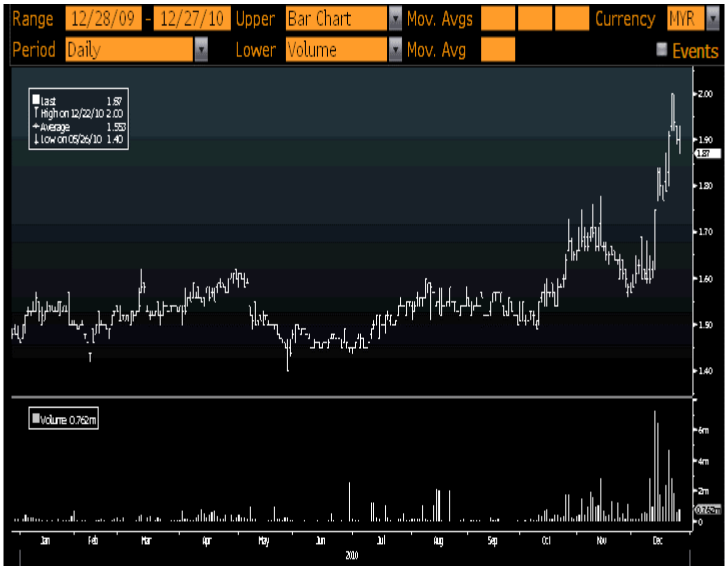
**Cash.** As at Sep 30, TH Plantations 3rd quarter, its cash balance is at 46million. Expected dividend yield is 4.5%. The group declares dividend in the 2nd quarter of its financial year. THP is expected to maintain its official dividend payout of 50% of annual net profit.

**Plantation land.** The Group has a total plantation land bank of approximately 39,113 ha of which 36,677 ha has been planted. The estates are located in Pahang, Johor, Negeri Sembilan, Terengganu, Sarawak and Sabah whilst the mills are located in Johor, Pahang, Negeri Sembilan and Sabah. The group currently has five mills for oil extraction. As of May 2010, 24,178ha of the plantation is matured and 12,266ha is immature.

**Landbanking.** THP is scouting for landbank the group is eyeing opportunities in Indonesia. THP has decided to look abroad due to the high cost of brownfield landbank in Malaysia. Lembaga Tabung Haji, would continue to inject its landbank assets into THP in the future. However, we understand that the timing of the asset injection is not yet certain.

**Recommendation.**The industry PER is at 16x while TH Plantation is at 13.6x and offers good dividend payouts. Our fair value on TH plantations is RM2.80 based on a forward PER of 14x.

| TH Plantations Bhd | | | | | | |
|---|---|---|---|---|---|---|
| | Units | FQ3-10 | FQ2-10 | FQ1-10 | FQ4-09 | FQ3-09 |
| Revenue | Mn | 84.2 | 76.0 | 77.2 | 87.4 | 72.1 |
| Gross Profit | Mn | 39.3 | 17.8 | 32.2 | 41.5 | 19.1 |
| Pretax Income | Mn | 34.7 | 12.5 | 27.2 | 36.2 | 13.5 |
| Net Income | Mn | 21.5 | 7.6 | 17.8 | 22.5 | 12.8 |
| Basic EPS | RM | 0.04 | 0.02 | 0.04 | 0.05 | 0.03 |
| Gross Margin | % | 46.6 | 23.4 | 41.8 | 47.5 | 26.4 |
| Operating Margin | % | 44.2 | 19.6 | 38.0 | 43.6 | 21.8 |
| Profit Margin | % | 25.6 | 10.0 | 23.0 | 25.8 | 17.8 |



*Sourced: Bloomberg

## Hap Seng Plantation (5138)

**Financial performance.** 3Q revenue rose 26% yoy, thanks to higher FFB production and selling price. FFB output increased 8% yoy as yields in Sabah recovered from the poor weather and biological tree stress which had affected the region a year ago. CPO sales in 3Q increased at a higher rate of 13% due possibly to a higher extraction rate and sales of inventory. On top of that, revenue was boosted by higher selling price achieved for its palm products.

HSP's 3Q10 ASP for CPO crept up 5.5% yoy to RM2,487 per tonne while PK prices surged 54% yoy to RM1,575 per tonne. Operating costs grew at a slower rate of 2.7% yoy due to lower fertiliser costs. The higher sales, coupled with the smaller rise in operating costs and lower effective tax rate, led to an 80% yoy jump in 3Q net profit. We expect the current high CPO price of RM3,200 per tonne and lower operating costs to boost 4Q results. ASP for 4Q is expected to be higher on both qoq and yoy basis. However, production should be lower yoy due to poorer weather experienced by its estates in the early part of this year.

**High Efficiency.** HSP is one of the most efficient planters in the industry with FFB yields of 21.5 metric tons per hectare and an OER of 21.6%. Moreover, HSP has a contiguous plantation which offers far more efficiency and scale than planters with plots of land in various locations.

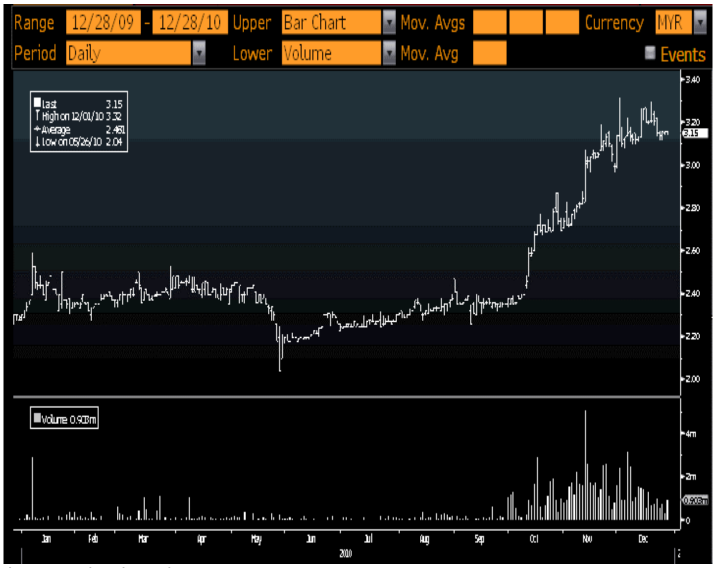
**Share purchase.** Hap Seng Consolidated has been raising its stake in HSP, which is positive news and suggests that the major shareholder sees value in HSP at this level. We estimate that it bought 7.856m shares between 2 and 19 November 2010, raising its stake in HSP by around 1% to 52.53%.

Dividend yields forecasted to be 4%. It is currently trading at 16 times PER, versus 15 times for industry average. At 1.5 Price to book it is slightly cheaper that the industry average of 1.7. Its profit margins are strong at 26% versus industry average of 17%. 9% return on equity.

**Recommendation**. Currently Hap Seng Plantations is trading at a PER of 16 times trading at the industry average PER. Our fair value on Hap Seng Plantations is RM3.80 based on a forward PER of 16x.

**Hap Seng Plantations Holdings Bhd**

| | Units | FQ3-10 | FQ2-10 | FQ1-10 | FQ4-09 | FQ3-09 |
|---|---|---|---|---|---|---|
| Revenue | MN | 114.1 | 100.8 | 101.4 | 116.8 | 90.4 |
| Operating Income | MN | 53.7 | 49.4 | 49.6 | 54.7 | 31.6 |
| Pretax Income | MN | 53.4 | 48.9 | 49.0 | 54.4 | 31.0 |
| Net Income | MN | 41.7 | 36.3 | 36.5 | 40.2 | 23.1 |
| Basic EPS | RM | 0.05 | 0.05 | 0.05 | 0.05 | 0.03 |
| Operating Margin | % | 47.1 | 49.0 | 48.9 | 46.8 | 35.0 |
| Pretax Margin | % | 46.8 | 48.5 | 48.3 | 46.5 | 34.3 |
| Profit Margin | % | 36.5 | 36.0 | 36.0 | 34.4 | 25.6 |




*Sourced: Bloomberg

## Gamuda (5398)

Gamuda is a leader in turnkey and B.O.T. civil engineering infrastructure and township development, with projects and investments in South East and Far East Asia, Indochina, South Asia and the Middle East. The main revenue driver for the 1st quarter is its property division at RM90mill net profit. As at 28th September, Gamuda's order book stands at RM6billion.

**MRT.** Gamuda and MMC have been appointed as Project Delivery Partner by the government for MRT project worth of RM40 Bill. The role of PDP in this project is to ensure the MRT project completed "on time and within budget". Gamuda and MMC will be rewarded in 2 ways. They would be paid in fees plus extra profit if they manage to complete the project below the estimated cost.

MMC-Gamuda JV is still eyeing to bid the tunneling projects under MRT projects worth of 30% of the total project cost. MMC-Gamuda JV also will likely still have the first right of refusal to match any competing bids under a 'Swiss Challenge', should the government open up the tunneling package to foreign parties. Gamuda and its joint-venture partner MMC Corp Bhd have submitted proposals to the federal government to be the chief contractor in the RM36 billion Greater Kuala Lumpur MRT projects, the country's biggest infrastructure project to date.

The project is scheduled to start in July 2011, spanning over a period of five to six years. Gamuda also re-affirmed its intention to bid for the tunneling portion worth 30% of the project's cost or RM12bil-RM13bil.

**Qater MRT.** Abroad, it is eyeing the US$45bil Qatar MRT project, where tenders could be out next year after the Gulf nation won the rights to host the 2022 Fifa World Cup.

**Vietnam projects.** Its Vietnam property projects are delayed again where its Celadon City which was supposed to be launched in October 2010 have been delayed until February 2011 as Gamuda wanted to avoid the hassle of having to submit the complete list of buyers to the authority if the project launching takes place before the foundation stage. The launch of Gamuda City in Hanoi has been rescheduled from Feb 2011 to Apr 2011 due to the delay in the transfer of land titles to Gamuda.

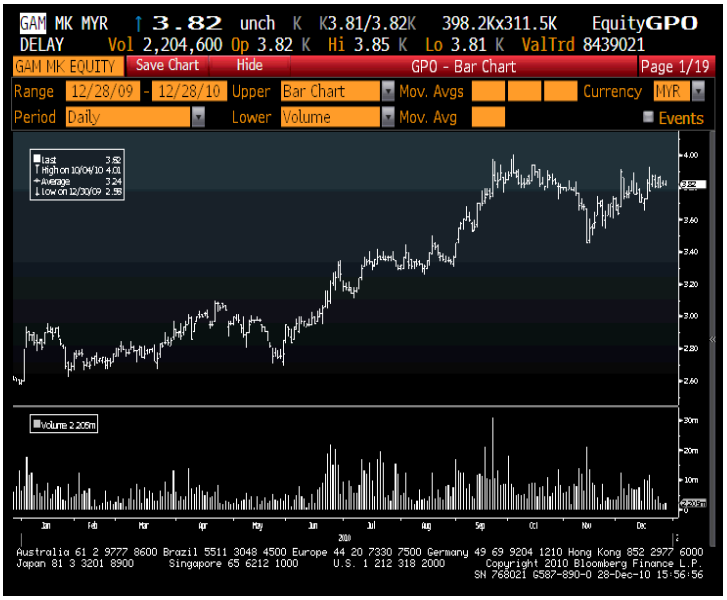
**EPF purchases**. In a corporate exercise worth noting is that EPF raised its stake in GAMUDA to 7.3% by acquiring another 1 Mill shares in Gamuda.

**Toll boost**. In its expressways division, they will receive a boost from a 31% rise in toll rates on the Lebuhraya Damansara-Puchong in early-2011 improving its earnings stability.

**Recommendation**.Currently Gamuda is trading at 25 times PER. Our fair value for Gamuda is RM4.30 based on an estimated EPS of 18.7sen and PER of 23 times. The industry is trading at an average PER of 23 with dividend yields of 3.1%.

**Gamuda Bhd**

| | Units | FQ1-11 | FQ4-10 | FQ3-10 | FQ2-10 | FQ1-10 |
|---|---|---|---|---|---|---|
| Revenue | Mn | 634.2 | 714.8 | 511.2 | 603.2 | 624.0 |
| Operating Income | Mn | 73.1 | 79.6 | 65.2 | 59.6 | 55.5 |
| Pretax Income | Mn | 109.7 | 105.1 | 91.3 | 90.2 | 94.5 |
| Net Income | Mn | 88.5 | 76.6 | 73.0 | 68.0 | 74.0 |
| Basic EPS | RM | 0.04 | 0.04 | 0.04 | 0.03 | 0.04 |
| Operating Margin | % | 11.5 | 11.1 | 12.8 | 9.9 | 8.9 |
| Pretax Margin | % | 17.3 | 14.7 | 17.9 | 14.9 | 15.1 |
| Profit Margin | % | 14.0 | 10.7 | 14.3 | 11.3 | 11.9 |




*Sourced: Bloomberg

## TRC Synergy (5054)

TRC Synergy is a group which is involved in construction and property. TRC Synergy is an experienced and skilled contractor which had been involved in various buildings including airports, hospitals, infrastructure works and so forth. The group's development arm is a smaller segment and has been developing in Ulu Klang Selangor and Johor Bahru.

**LRT**. TRC had been nominated as the main contractor for the first phase of the Kelana Jaya LRT line extension project. The extension measures 9.2Km stretching from Kelana Jaya station to the Summit Shopping Centre in Subang Jaya.

TRC would be responsible for all the guideway sub-structure and main structure works, foundation work for stations and traction power substations, segmental box girders, parapets and noise barriers.

**Massive orderbook replenishment**. The LRT project more than tripled TRC's orderbook from RM0.4bil to RM1.35bil. This provides for much renewed earnings visibility of the group over the next few years. Current orders alone would sustain the group for an estimated 3 years. The group has continued to tender for projects of over a billion. The group is active in bidding for the SCORE projects. There could be good upside given the SCORE's prospects, viability and election factor.

**Large Cash Positions**. The group has enormous cash positions of around RM150mil with borrowings of less than RM3mil. It's current market cap is only RM264mil. This translates to a cash per of RM0.79 as compared to its share price of RM1.38.

**Risk**. Risk to the group's performance is on the execution of the LRT project. The group's growth potential is largely tied to this project.

**Recommendation**.We are expecting a large growth in revenue with the secured projects. The shares trade at 7.5x forward PER which is a large discount to the industry. Moreover, the group pays modest dividends which would sustain the long term holdings of the share. We value TRC at RM1.66 based on a forward PER of 9x.

**TRC Synergy Bhd**

| | Units | FQ3-10 | FQ2-10 | FQ1-10 | FQ4-09 | FQ3-09 |
|---|---|---|---|---|---|---|
| Revenue | Mn | 84.3 | 97.0 | 108.8 | 72.3 | 117.9 |
| Gross Profit | Mn | 6.5 | 14.1 | 16.8 | 4.5 | 15.8 |
| Pretax Income | Mn | 2.6 | 9.8 | 6.1 | -1.4 | 11.1 |
| Net Income | Mn | 2.2 | 7.5 | 3.1 | -2.6 | 8.1 |
| Basic EPS | RM | 0.01 | 0.04 | 0.02 | -0.01 | 0.04 |
| Gross Margin | % | 7.7 | 14.5 | 15.5 | 6.2 | 13.4 |
| Operating Margin | % | 3.3 | 9.9 | 5.9 | -1.7 | 9.8 |
| Profit Margin | % | 2.6 | 7.7 | 2.8 | -3.5 | 6.9 |

*Sourced: Bloomberg

## Sunway Holdings (4308)

Sunway Holdings is an investment operations arm with core businesses in construction, building materials, trading, manufacturing, and quarry while SunCity is involved in the areas of property development and property investment that also comprises hospitality industries. The Group's flagship development is the flourishing 800-acre Sunway Integrated Resort City in Bandar Sunway.

**M&A**. A merger proposal with sister company, Sunway City, was made by Jeffrey Cheah and his family which will create the 4th largest listed developer with market capitalisation of RM3.6bn. the proposal will not only yield operational benefits but also increase the appeal of the merged entity among investors. The new merged entity is to be renamed as Sunway Bhd.

**Upcoming orders**. Sunway Holdings announced on Nov 29, that it entered into a memorandum of understanding with the Jiangsu Changshu Economic Development Zone Authority to acquire two pieces of land measuring 50,000 sqm and 100,000 sqm to build factories to manufacture undercarriage parts and hoses. The proceeds has yet to be announced by Sunway.

Apart from that, it has secured a RM14.7m piling and pilecap works for various buildings and facilities in UCSI University and UCSI Resort in Bandar Springhill, Port Dickson. The latest contract has boosted Sunway's YTD new contracts secured to RM622m and its outstanding construction orderbook to RM2.1bn. Assuming an EBIT margin of 5-7%, the contract will fetch a total EBIT of RM0.7-1.0m over the construction period ending Feb/Mar 2011.

The Arzanah development gains pace while the group begins revenue recognition from its largest property project in Singapore, the Peak @ Toa Payoh. The group's Vacanza @ East project that was launched in November has seen a favourable take up rate within the first month. Significant earnings are also expected from The Peak @ Toa Payoh project. Construction order book currently stands at RM2.3bn while unbilled sales amount to RM400m.

**Recommendation**.Currently Sunway is trading at a PER of 8 times. We value Sunway at RM2.99 based on an estimated EPS of 23sen and PER of 13 times. Industry PER is trading at 18 times. Sunway as one of the biggest players in the industry should trade closer to the industry PER given its brand name and strength. The merger proposal is expected to provide more liquidity to the stock which would be a catalyst for its movement to a fairer value.

| Sunway Holdings Bhd | | | | | | |
|---|---|---|---|---|---|---|
| | Units | FQ3-10 | FQ2-10 | FQ1-10 | FQ4-09 | FQ3-09 |
| Revenue | Mn | 489.0 | 509.2 | 501.7 | 501.6 | 411.5 |
| Operating Income | Mn | 39.8 | 34.0 | 42.9 | 25.4 | 16.3 |
| Pretax Income | Mn | 61.0 | 59.2 | 50.4 | 36.7 | 23.5 |
| Net Income | Mn | 48.5 | 48.6 | 39.9 | 24.1 | 18.0 |
| Basic EPS | RM | 0.08 | 0.08 | 0.07 | 0.04 | 0.03 |
| Operating Margin | % | 8.1 | 6.7 | 8.5 | 5.1 | 4.0 |
| Pretax Margin | % | 12.5 | 11.6 | 10.0 | 7.3 | 5.7 |
| Profit Margin | % | 9.9 | 9.5 | 8.0 | 4.8 | 4.4 |


*Sourced: Bloomberg

## United U-Li Corporation(7133)

United U-Li Corporation is involved in manufacturing value added steel related products for various products. Key products include cable support systems, cable management systems, integrated ceiling systems and light fitting systems. Their products are used in buildings and constructions.

**Strong competitive advantage.** United U-Li is the largest local player for cable support and management systems. These products are very important in buildings and structures as they are used for the cabling systems and wiring. United U-Li has the large competitiveness of scale, strong balance sheets, more advanced technology and high automation. It also has high lead time and logistical advantage against foreign competitors. United U-Li had previously won several large projects against foreigners in Singapore including the Casino resorts.

**Strong upcoming demand.** Demand for United U-Li's products are expected to be very strong as there are many catalysts and upcoming construction projects. Being the leading player in the industry, United U-Li has a competitive advantage in winning biddings. Strong catalysts include the LRT, MRT projects and the massive development of buildings in the Klang Valley.

**Recommendation.**United U-Li trades very cheaply at only 4.5x trailing PER currently. We value United U-Li at RM0.99 based on a forward PER of 6x.

| United U-Li Corp Bhd | | | | | | |
|---|---|---|---|---|---|---|
| | Units | FQ3-10 | FQ2-10 | FQ1-10 | FQ4-09 | FQ3-09 |
| Revenue | Mn | 30.7 | 36.9 | 29.4 | 37.0 | 35.8 |
| Gross Profit | Mn | 9.9 | 14.9 | 13.6 | 12.8 | 16.5 |
| Operating Income | Mn | 4.9 | 8.1 | 6.0 | 8.0 | 11.1 |
| Pretax Income | Mn | 4.8 | 7.7 | 5.7 | 7.7 | 10.9 |
| Net Income | Mn | 3.5 | 5.9 | 4.3 | 5.4 | 7.8 |
| Basic EPS | RM | 0.03 | 0.04 | 0.03 | 0.04 | 0.06 |
| | | | | | | |
| Gross Margin | % | 32.2 | 40.3 | 46.2 | 34.6 | 45.9 |
| Operating Margin | % | 16.0 | 21.9 | 20.5 | 21.6 | 30.9 |
| Profit Margin | % | 11.4 | 16.0 | 14.8 | 14.5 | 21.9 |


*Sourced: Bloomberg

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**Stock rating definitions**

**Buy** – The stock is expected to perform positively. Expected return including both capital appreciation and dividends is expected to exceed 15% over 12 months.

**Hold** – The stock is expected to stay sidelined. Expected return including both capital appreciation and dividends is expected to range between negative 5% to positive 15% over 12 months.

**Sell** – The stock is expected to perform negatively. Expected return including both capital appreciation and dividends is expected to be negative 5% or lower over 12 months.

**Not Rated** – The stock is not under research coverage and the reports serves for purely informational purposes only.

**Trading Buy** – The stock is expected to be volatile while providing for near term positive trading opportunities. This is under the high risk category with near term catalysts.