



Insights SparX

Malaysian Construction Sector

Refer to important disclosures at the end of this report

Malaysia Equity Research

27 Apr 2017

China contractors: Friend or foe?

- **Building contractors and smaller ones worst hit**
- **Beneficiaries – Contractors with strong balance sheet and project management experience**
- **Gamuda – best transportation proxy, IJM to benefit from ECRL**

Influx of Chinese contractors. Chinese participation in Malaysia's construction space has been the most apparent in building jobs with competitive financing packages and flexible payment methods but has also encroached into the infrastructure space. CIDB statistics show that in 2015 foreign contractors clinched 15.4% or RM19bn of the total construction project value. In terms of value, the Chinese contractors lead the way with RM8bn worth of projects.

The litmus test. Two key rail projects totaling RM64bn awarded to Chinese contractors are Gemas-JB double tracking (Consortium of CRCC, CREC and CCC) and the ECRL (CCCC). Both are also part of the AMPC (see our report in June 16). While we acknowledge this creates more competition, these projects are unlikely to take off without the associate funding and hence would still provide orderbook growth via subcontracting roles. Malaysian contractors' meaningful participation in both projects would be the litmus test to ensure continuity for their presence in the HSR project.

Winners and Losers. Contractors which have the highest exposure to private sector condominium projects would be more affected. This will be partly mitigated for contractors which have internal property arms (IJM and Suncon). Contractors with strong execution track record coupled with project management expertise will still be beneficiaries of key government infrastructure projects (Gamuda and IJM). The most impacted would be the smaller-scale ones. A study showed that 89% of the 54,345 local contractors are SMEs, while the only comparable grade contractors to the foreign contractors (Grade 6 and 7) comprise the remaining 11%.

Top BUYs. Our top larger-cap picks are Gamuda and Sunway Construction, both for their positioning in the transportation-related infrastructure arena and reliable execution track record. Proxies to ride on the higher Chinese participation in Malaysia would be IJM. IJM's Kuantan Port will be a key beneficiary of the ECRL.

KLCI : 1,768.92

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STOCKS

	Price	Mkt Cap	Target Price	Performance (%)		
	RM	US\$m	RM	3 mth	12 mth	Rating
Gamuda	5.23	2,920	6.30	6.1	7.6	BUY
IJM Corp	3.51	2,918	3.30	3.5	(1.1)	HOLD
WCT Holdings Bhd	2.07	646	2.00	12.5	24.7	HOLD
Muhibbah	2.86	316	3.10	19.7	21.7	BUY
Sunway Construction	1.97	586	2.13	15.9	23.1	BUY
Kimlun Corp	2.32	166	2.73	10.0	26.1	BUY

Source: AllianceDBS, Bloomberg Finance L.P.
Closing price as of 26 Apr 2017

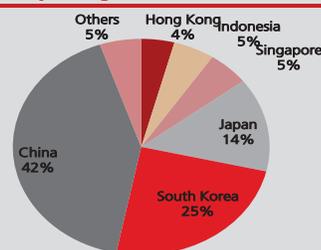
Impact on Selected Listed Companies

Company	Building Works		Infrastructure Works	
	Public sector	Private Sector	Internal Property	Business
Gamuda			x	
IJM		x	x	
WCT		x	x	
Sunway Construction	x		x	
Kimlun		x		
Muhibbah				x
Kejaya		x		
Ahmad Zaki			x	
Gadang	x		x	
Ireka		x	x	
Mudajaya			x	
Mitrajaya	x	x	x	
Bina Puri			x	

Source: AllianceDBS

The table illustrates the exposure selected listed contractors have for building and infrastructure works and also the presence of an internal property business.

Value of projects by foreign contractors in % (2015)



Source: AllianceDBS

The AllianceDBS Insights SparX report is a deep dive look into thematic angles impacting the longer term investment thesis for a sector, country or the region. We view this as an ongoing conversation rather than a one-off treatise on the topic, and invite feedback from our readers, and in particular welcome follow on questions worthy of closer examination.

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Special thanks to.....

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For their contributions on the respective company notes

GROWING CHINESE PARTICIPATION

China provides funding needs in Asia, in line with OBOR

The Asia Development Bank estimates that Asia needs US\$8tr to fund infrastructure construction for the 10 years to 2020. China is well aware its future is closely tied to Asia and naturally is responsive to Asia's infrastructure needs via One Belt, One Road. Since 2009, China has been ASEAN's largest trading partner and ASEAN has been China's third largest trading partner since 2011.

Chinese-based contractors are increasingly becoming more aggressive and dominant in the ASEAN infrastructure landscape. This is certainly welcomed by the ASEAN countries given the high cost associated with executing the ASEAN Master Plan of Connectivity. Based on a study, US\$50bn or US\$10bn per annum are investments associated with Chinese companies from 2013-2017. This forms about 17% of the regional's infrastructure needs in 2015.

China's presence in Malaysian construction is growing – What do they bring with them?

Of late, we are seeing more participation from Chinese contractors in the Malaysian market either directly or through joint ventures with local contractors. In our view, we think the edge that Chinese contractors have over other foreign contractors as well as our local ones are access to funding, cheaper labour, access to materials and fast turnaround construction period.

More importantly, they enjoy strong support from the Chinese government via cheaper source of funding largely from mainland China lenders and the Export-Import Bank of China (China Exim Bank – China's export credit agency). They are also supported by the China Export and Credit Insurance Corporation (SINOSURE) – China's policy-oriented insurance company that provides export credit insurance.

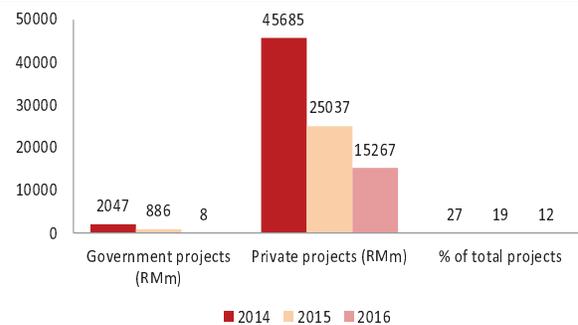
According to my colleague who follows the Chinese contractor space in Hong Kong, the Chinese infrastructure companies are very keen on the ASEAN markets since they already have a sizeable presence in Africa and Middle East.

Most of the time, the initiative is driven by the Chinese government via G-to-G initiatives and will tag along with government agencies when exploring the overseas markets. Generally, the government will appoint the contractors according to the types of projects.

As an example, China Communications Construction Company Limited (CCCC) is perceived to be strong in port-related projects and China Railway Construction Corporation Limited (CRCC) and China Railway Group Limited (CREC) more in terms of rail-based projects. But the individual company will also do its own assessment in terms of the viability of the projects. Generally, the overseas projects generate better margins.

Feedback from local contractors has been mixed in terms of the presence of Chinese contractors in Malaysia. Some believe the competition is healthy and the associated financing these contractors bring are crucial in order for the larger projects to take off. On the other hand, some are of the view the larger infrastructure projects should be earmarked for local players, citing the lower cost base of the Chinese players which are government-owned and are able tolerate lower margins.

Foreign contractors' presence in Malaysia – 2014-2016



Source: CIDB

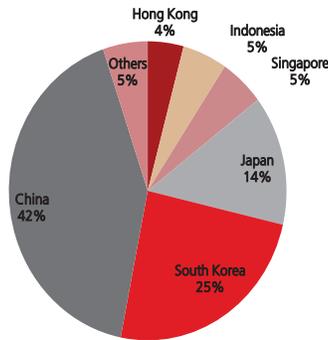
Malaysian Construction Sector

CIDB STATISTICS

CIDB Statistics confirm this changing landscape.

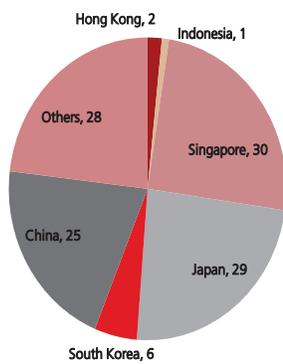
The Construction Industry Development Board (CIDB) statistics below show that in 2015 foreign contractors clinched 15.4% or RM19bn of the total construction project value. The majority of the projects that these foreign contractors participated in are on average RM250m, with the highest value being a RM3.6bn residential project. In terms of value, the Chinese contractors lead the way with RM8bn worth of projects (spread across 25 projects).

Value of projects by foreign contractors in % (2015)



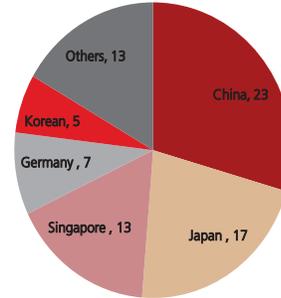
Source: CIDB

Number of projects by foreign contractors (2015)



Source: CIDB

Number of foreign contractors by country (2015)



Source: CIDB

MOU with China skewed towards infrastructure

The signing of 14 agreements worth RM144bn between Malaysia and China in November 2016 is also testament to the closer working relationship between both countries. Of this, the infrastructure related ones are:

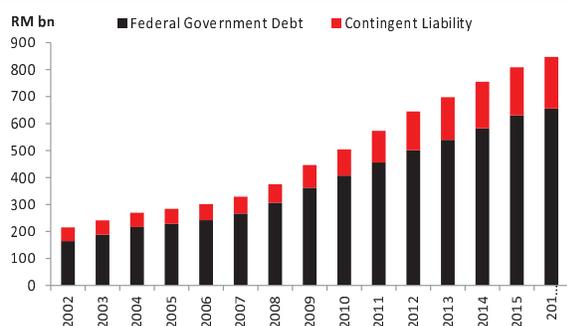
- i) EPCC Agreement between Malaysia Rail Link Sdn Bhd, CCCC and China Communications Construction Company (M) Sdn Bhd (CCCCM)
- ii) Memorandum of Agreement for Investment, Development and Construction of Malacca Gateway Project (KAJ Development and Power China)
- iii) Heads of Agreement between Bandar Malaysia Sdn Bhd and Greenland Holdings Group Overseas Investment Company Limited in respect of the Proposed Purchase of Land and Development thereon in Bandar Malaysia
- iv) Heads of Agreement between Selat PD Sdn Bhd and CCCC Dredging (Group) Co Ltd.
- v) Memorandum of Agreement between KAJ Development Sdn Bhd, Power China, Shenzhen Yantian Port and Rizhao Port for partnership collaboration on Malacca Gateway Port

ENCROACHING IN BOTH BUILDING AND INFRASTRUCTURE SPACE

The two more recent projects awarded to Chinese parties have been in the infrastructure space and are rail-based. These are the Gemas-JB double tracking (Consortium of CRCC, CREC and CCCC) and the ECRL. Both are also part of the ASEAN Master Plan of Connectivity (see our report dated June 2016) and will be integral for bridging trade in and out of Asia.

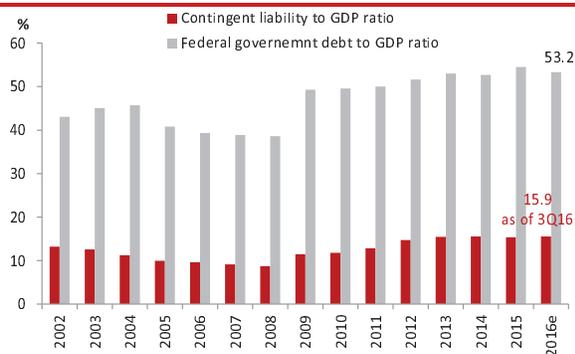
While we acknowledge this creates more competition for local contractors, these projects are unlikely to take off without the associate funding from the Chinese and hence would still provide orderbook growth via subcontracting roles.

Federal government debt



Source: Ministry of Finance

Federal government debt to GDP ratio



Source: Ministry of Finance

Malaysia's government debt to GDP ratio reduced to c.53.3% in 2016 from 54.5% in 2016. The official threshold limit is 55% to GDP while the guidance in 2017 is for it to stabilise at around 53%. Assuming 53%-55% government debt to GDP in 2017, the government can incur an additional RM45.6bn to RM72.1bn net debt this year before breaching the threshold. The guaranteed debt already is at c.15.5% to GDP in 2016 (RM191.1bn).

Hence, the current state of government finances does not provide it with a great amount of flexibility to finance other large-scale projects. It will have to resort to Private Financing Initiatives or foreign-based funding.

Still, we do expect the government to be pragmatic in terms of allowing local contractors to participate via subcontracting roles. This will be the case for the Gemas-to-Johor Bahru double tracking, ECRL and the eventually the HSR. Additionally, for key projects such as MRT, there is the Swiss Challenge which would still allow the PDP to match the lowest bidder.

On the flipside, we understand that the margin tolerance for China contractors is relatively lower and hence are able to bid at a more competitive rate compared to the local players.

Competition more apparent for building jobs...

At the more extreme end, we also understand China-based contractors are particularly aggressive when bidding for private sector building jobs and are even willing to accept part payment for residential units or even market the development overseas.

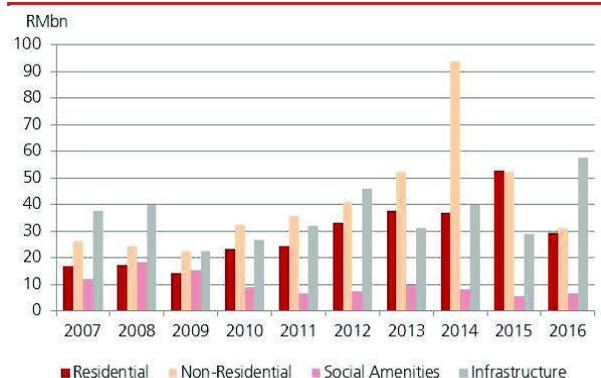
They also offer developers deferred payment schemes and bridging loans which were crucial in ensuring that these projects take off. This is possible given their strong balance sheets and backing by the Chinese government. Some developers have also highlighted besides the attractive financing schemes, the quality and speed of work is also impressive. Having said that, based on media reports, we understand that there also have been cases of collection issues and slower-than-expected progress of work.

MCC Overseas has 14 projects across Malaysia. The more recent contract being a RM1.2bn mixed development project in Selayang

For 2011-2015, residential projects contributed 20-38% of the total construction value in Malaysia.

Malaysian Construction Sector

Residential building jobs still significant portion of construction pie



Source: Department of Statistics

Chinese contractors' presence for property projects

Company	Project	Contractor	Value (RMm)
Titijaya	Shore in Kota Kinabalu	CREC	400
M101 Group	M101 Skywheel KL	China Huashi Enterprise	700
Paramount Blossom	Residential in Seremban	China Railway Liuyuan	500
Titijaya	3rd Avenue Jalan Ampang	CREC	600
TYL Land	Semenyih	MCC Overseas	100
MKH	Saville Cheras	MCC Overseas	130
Mulia Indonesia	Signature KL	China State Construction	
Mah Sing	Lakeville Residence, Kepong	MCC Overseas	
Mah Sing	Meridin Iskandar	MCC Overseas	400
Eastern & Oriental	Land reclamation Penang	CCCC	2320
Tropicana	Tropicana Bora	China State Construction	377
Malton	Elite Pavilion	Beijing Urban Construction	675
RSF Properties	Princess Bay High Rise	China State Construction	1570
Country Garden	Danga Bay Iskandar	MCC Overseas	330
Sunway	Sunway Velocity	MCC Overseas	230
Venus Assets	Four Seasons	China Railway Construction	950
Permata Cemat	Pavilion Hilltop, MK	China Railway Construction	
Tropicana	W Hotel and Residences	MCC Overseas	510
Monday-Off Dev	Mont Kiara	MCC Overseas	240
MYSG Prop	Paragon Suites JB	MCC Overseas	240
Suiwah	Sunshine Tower @ Ayer Itam	MCC Overseas	40
Mah Sing	Medini High Rise	China State Construction	
Tropicana	Tropicana Avenueje	MCC Overseas	250
OSK Property	Damansara Jaya	Beijing Urban Construction	1000

Source: The Edge Weekly

...but also encroaching into the infrastructure space

For Malaysia, Chinese companies in the past have also played a role in various large-scale projects in Malaysia. CCCC and China Harbour Engineering, together with their local counterparts, constructed the Second Penang Bridge which was opened in March 2014. Beijing Urban Construction Group is involved in the tunnel project in Penang that is estimated to cost US\$2.6bn.

CREC has also announced that it will invest US\$2bn to build its own regional centre in Bandar Malaysia. Hence, in our view, CREC stands out in Malaysia to win the High Speed Rail from KL to Singapore. It won the bid with joint-venture partner Iskandar Waterfront Holdings (IWH) to acquire 60% of equity in Bandar Malaysia for RM7.4bn from 1MDB Real Estate. IWH secured the rights in late 2015 as the master developer of the project together with CREC. The site spans 196.7ha and will be the main HSR terminal. In the longer term, Bandar Malaysia will be a purpose-built integrated township featuring residential complexes, subterranean shopping malls, a financial hub and indoor theme parks. Its GDV is estimated at RM160bn over 25 years.

CCCC and its 49% JV partner George Kent had also in August 2016 clinched a package for MRT Line 2. This is for the engineering, procurement, construction, testing and commissioning of trackworks, maintenance vehicles and works trains.

Other JV with local players include Kumpulan Jetson and CCCC for a RM202m subcontracting job for Sungai Besi-Ulu Kelang Highway and Econpile and CCCC for a RM389m project.

Gemas-to-Johor Bahru double tracking.

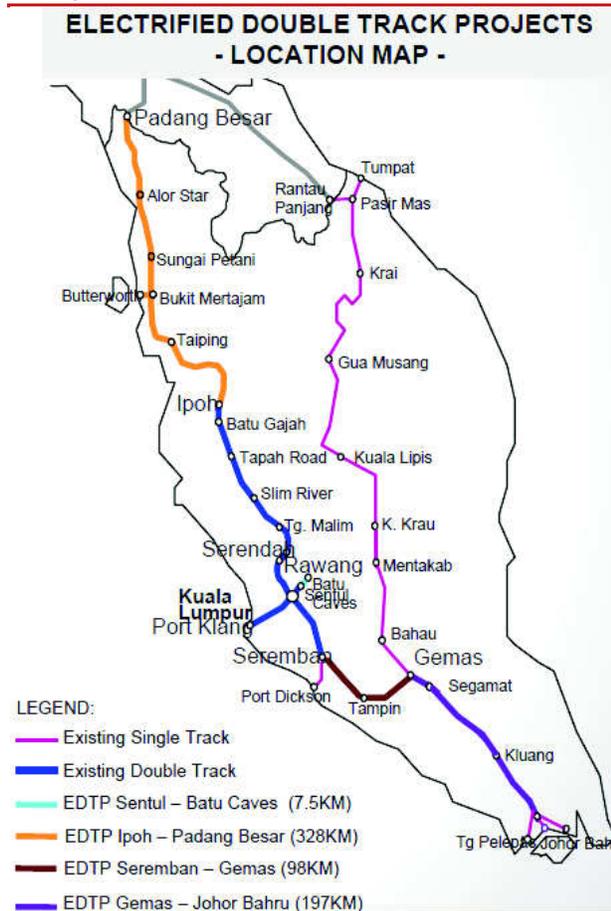
This 197-km stretch represents the last link for the whole double tracking project in Malaysia. The project which is estimated to be worth RM8.9bn has already been awarded to a consortium of three China-based companies — CRCC, Corp CREC and CCCC in October 2016. CRCC holds a 40% stake, while CREC and CCCC both have 30% each. Ground breaking is expected to start soon and the project will take up to four years.

Recent media articles have mentioned that SIPP Railway Sdn Bhd (SIPP), a private vehicle controlled by Sultan of Johor Sultan Ibrahim Sultan Iskandar, has been set up and is expected to be a beneficiary and the first contractor for the project.

It remains to be seen how the project will be awarded but local players are expected to benefit from subcontracting roles. This is similar to the central double tracking which was awarded to Ircon and an Indian contractor but local players also benefited. We understand CRCC and its partners may also award contracts to local players separately, instead of under the consortium.

For a protracted period of time, Gamuda has spoken on bidding for this contract and is aiming for RM1bn worth of work. Local contractors who have done work with the three Chinese parties could also benefit. These include George Kent, IJM and Vivocom. Additionally, contractors which won subcontracting roles for the central double tracking such as Fajarbaru Builders could also benefit.

Electrified double tracking in Malaysia – part of Pan-Asia Railway Network



Source: Internet, AllianceDBS

East Coast Railway Link

The 620km East Coast Rail Link (ECRL) EPC contract has been awarded to CCC while the financing agreement will be inked with the Export Import Bank of China (EXIM).

The RM55bn project is expected to start construction in July 2017 but 2018 would be more realistic given possible land acquisition issues. The alignment will start from Port Klang, connecting townships such as ITT Gombak, Bentong, Mentakab, Kuantan, Kemaman, Kerteh, Kuala Terengganu,

Kota Bharu and will end in Tumpat. We understand priority will be given to the portion that connects Kuantan Port to Klang.

While the project has been awarded to CCC, as much as 30% of the project value may be earmarked for local contractors.

The completion of the ECRL would bridge connectivity and trade in and out of Asia particularly for China. It would also create alternative routes to boost trade for ASEAN, with Malaysia as the base.

We think a key hurdle for this project would be land acquisition in Selangor where opposition parties have expressed concerns.

IJM a key beneficiary of ECRL

Kuantan Port

IJM owns 60% of Kuantan Port Consortium (KPC) Sdn Bhd, while the rest is owned by Guangxi Beibu Gulf International Group (Guangxi). Being a strategic investor, Guangxi will be responsible for leveraging its wide network to enhance the capacity utilisation. It is also working with IJM to build an industrial park near Kuantan Port.

Kuantan port is undergoing an expansion plan to enhance the existing New Deep Water Terminal (NDWT). This will more than double its existing capacity via two phases where works started in 2015. This will bring total capacity up to 52m FWT and there will a new 60-year concession (30 plus 30, first 30 until 2045 and next 30 until 2075) for the port and the NDWT. Phase 1A is slated for completion at the latest by 1QCY18. This will add another 10m FWT where Alliance Steel will eventually take up 70% or 7m of this additional throughput.

Alliance Steel is a subsidiary of Guangxi Beibu Gulf Iron and Steel Co Ltd from China and its plant takes up 710 acres out of the 1,200 acres for Phase 1 of Malaysia-China Kuantan Industrial Park (MCKIP). The plant, which will produce high carbon steel and H-shaped steel, is scheduled to become operational in 2017, with an annual production capacity of 3.5m tonnes. Phase 1B for Kuantan Port has yet to be awarded but the timeline for completion is by end-CY18.

KPC is targeting shipments from China because of the short four-to-five-day travel time. It is anticipating more shipments from Australia when the commodity business improves where Kuantan Port will be the transit point before moving on to China.

Malaysian Construction Sector

Malaysia-China Kuantan Industrial Park (MCKIP)

MCKIP is the first industrial park in Malaysia to be jointly developed by both Malaysia and China and to be accorded the "National Industrial Park" status. Together with its sister park, China-Malaysia Qinzhou Industrial Park (CMQIP), the two parks have been identified by both governments as an "Iconic Project for Bilateral Investment Cooperation" that will drive the development of industrial clusters in both countries.

IJM has a 40% stake in Kuantan Pahang Holdings Sdn Bhd which, in turn, owns 51% of the 607ha of MCKIP land in Gebeng. The other shareholders of Kuantan Pahang Holdings are Sime Darby Property (30%) and Pahang State Government (30%). The balance is owned by Guangxi where it has committed to source more than US\$20bn worth of investments to this new growth area by 2020.

The MCKIP has attracted RM13.4bn in investments, while construction works to build primary infrastructure at the park and the construction of an integrated steel mill by Alliance Steel (M) Sdn Bhd are ongoing.

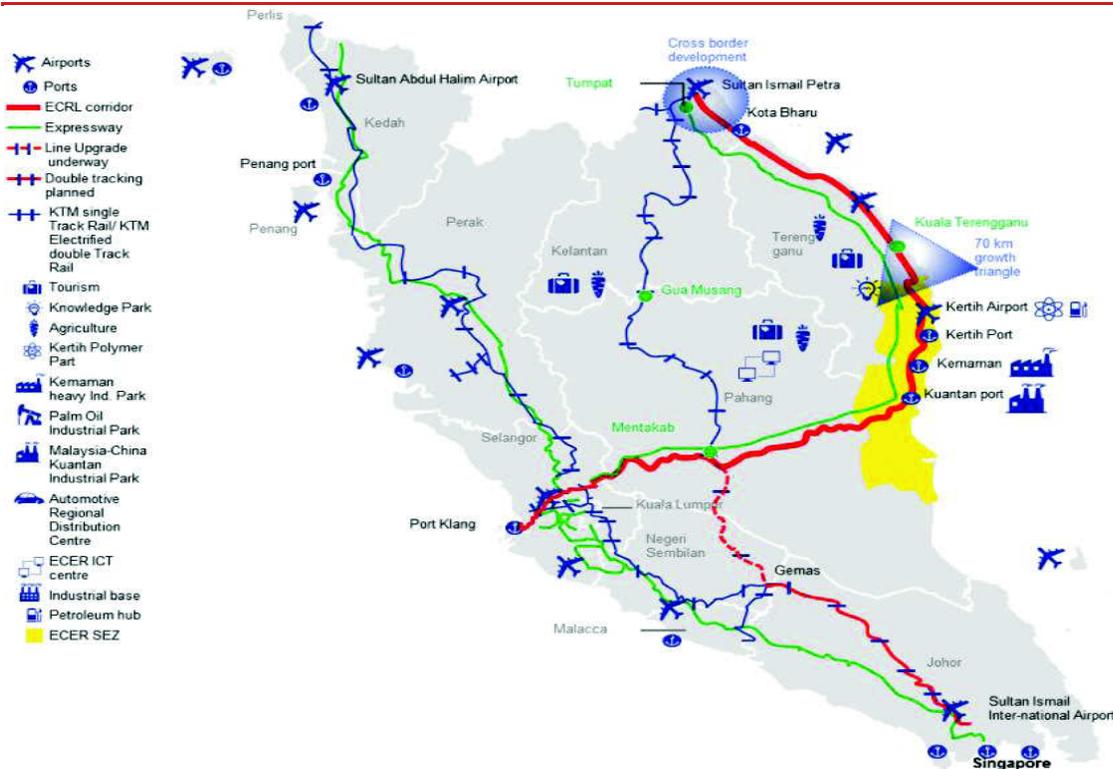
Target industries for MCKIP include energy-saving and environment-friendly technologies, alternative and renewable energies, high-end equipment manufacturing and the manufacture of advanced materials.

Muhibbah also an indirect beneficiary.

Muhibbah announced in June 2016 it has entered into an agreement with Perbadanan Setiausaha Kerajaan Pahang for the proposed acquisition of a 99-year leasehold land measuring 500 acres in Kuantan, Pahang, for RM26.4m. This translates into just RM1.21 psf. The land is earmarked to be developed into the proposed Kuantan Maritime Hub over a period of 10 years. The acquisition provides an opportunity to develop industrial activities for ship building, ship repair works and major fabrication offshore structure in Kuantan.

The land is strategically located about 20km from Kuantan town, and just 5km from Kuantan Port.

East Coast Railway Link



Source: ECRL, AllianceDBS

CONCLUSION – Winners and Losers

Chinese contractors appear to be the most aggressive in private sector residential high-rise developments with their attractive financing schemes and ability to accept part payment in residential units. While Chinese contractors are making inroads in the infrastructure space which have largely been in government-related transportation jobs, there will be orderbook opportunities via subcontracting or JV roles for local players. These large-scale projects usually come with associated funding.

In conclusion, we are of the view that contractors which have the highest exposure to private sector building jobs would be the more affected. This would probably be more apparent for the higher-end condominium developments and to a lesser extent the mass-market projects. Contractors which rely on building-related jobs but have internal property arms would be less impacted.

Contractors with strong execution track record in the infrastructure space and have experience in large-scale project

management roles will be beneficiaries of some of the key government infrastructure projects. Gamuda is a prime example, with its track record as the PDP for MRT.

The table below illustrates the exposure selected listed contractors have for building and infrastructure works and also the presence of an internal property business.

In the longer term, we envisage that local contractors will have to venture overseas for new orderbook opportunities. This could be government led where CIDB recently signed six memorandums of understanding (MoUs) with Indian industry partners today on sharing of expertise in infrastructure development in India.

There will also likely be more consolidation among the smaller contractors given the more competitive landscape. A study showed that 89% of the 54,345 local contractors are SMEs, while the only comparable grade contractors to the foreign contractors(Grade 6 and 7) comprise the remaining 11%.

Chinese contractors – Impact on selected listed companies

Company	Building Works		Internal Property Business	Infrastructure Works
	Public sector	Private Sector		
Gamuda			x	x
IJM		x	x	x
WCT		x	x	x
Sunway Construction	x	x	x	x
Kimlun		x		x
Muhibbah				x
Kerjaya		x	x	
Ahmad Zaki			x	x
Gadang	x		x	x
Ireka		x	x	
Mudajaya			x	x
Mitrajaya	x	x	x	x
Bina Puri			x	x

Source: AllianceDBS

LIBERALISATION OF MALAYSIAN CONSTRUCTION INDUSTRY

The liberalisation of the construction sector through various channels such as General Agreement on Trade in Services (GATS) and Free Trade Agreements allows foreign companies intending to operate in Malaysia to own foreign equity holding in a local construction company.

Malaysia allows the entry of foreign contractors through representative offices, regional offices or joint venture companies incorporated in Malaysia. This is subject to foreign equity not exceeding 30%. This means that companies with

foreign equity not exceeding 30% will be treated as local contractors. Contractors that are incorporated abroad are also treated as foreign contractors.

Foreign contractors that want to bid for Malaysian tenders are required to apply in advance to CIDB for temporary registration while foreign contractors incorporated abroad must register with the Companies Commission of Malaysia before applying to CIDB. The registration is granted on a project-by-project basis and is valid only for the project tenure.

China's participation in ASEAN – selected projects

China	
Power and electricity	
China Southern Grid International	Constructing the Nam Tha 1 hydropower dam in Bokeo Province in Lao PDR
China Huadian Corporation	Constructing a 338 MW hydropower dam in Mondul Seima district in Cambodia; developing the \$630 million Phase I of the biggest power plant in Bali, Indonesia
China National Heavy Machinery Corporation	Developing the Phnom Penh–Sihanoukville transmission line and East Phnom Penh–Neakleung–Svay Rieng transmission line in Cambodia
China Datang Corporation	Developing the 120 MW Atai hydropower plant, along with its transmission line, in Cambodia
Hydrolancang International Company	Developing a 1,400 MW hydropower plant along the Thanlwin River in Myanmar
Hanergy Group Holding Limited	Developing a 1,400 MW hydropower plant along the Thanlwin River in Myanmar
Southern Power Grid Company Limited and China Power International Holdings Limited	EPC contract for the \$2 billion, 1,200 MW Vinh Tan 1 coal-fired power plant in Viet Nam
Yingli Energy	Setting up a 5 MW ground-mounted solar photovoltaic project in Thailand
Guangdong No. 3 Water Conservancy	Constructing three hydropower dams on the Nam Ma River in Houaphanh Province in Lao PDR
Transport	
China Railway Group	Constructing a railway link, a steel plant, and a seaport in Cambodia; developing Line 2A of the Hanoi Metro
Guangxi Beibu International Port Group	Expanding the Kuantan Port in Pahang in Malaysia
Changchun Bombardier Railway Vehicles	Supplying 73 units of C951 three-car trains for the driverless Downtown Line of Singapore's MRT
CSR Qingdao Sifang	Contract to supply 91 four-car driverless train sets for the Thomson Line and the Eastern Region Line of the Singapore MRT
China Merchants Group	Developing the Tanjung Sauh Port, Batam Island, in Indonesia
Changchun Railway Vehicles and China Communications Construction Company	Involved in Indonesia's first monorail system in Jakarta
China CAMC Engineering Company Limited	Expanding the Luang Prabang International Airport in Lao PDR
CNR Group's Dalian Locomotive & Rolling Stock Company	Supplying trains for the PhP 3.77 billion Metro Rail Transit Line 3 capacity expansion project
China Harbour Engineering Company Limited	Undertaking Phase I of the Samalaju Port project in Sarawak, Malaysia
Shanghai Tunnel Engineering Company	Constructing 7 km twin tunnels from Woodlands to the Mandai depot on the Thomson Line in Singapore; contract for the Shenton Way station and associated tunnels
China National Petroleum Corporation	Constructing a deep-sea port on Madae Island, in Rakhine State, Myanmar
China Railway No. 5 Engineering Group Company Limited	Building the Fourth Friendship Bridge on the Mekong River across the Lao PDR and Thailand border
Yunnan Sunny Road and Bridge Company Limited	Constructing Road No. 13 North in Lao PDR
Telecommunication	
Huawei and ZTE	Providing telecommunication services in various ASEAN Member States
China Telecom Global Limited; China Telecommunications Corporation; China Mobile International	Developing the 8,900 km Southeast Asia–Japan Cable system linking Brunei Darussalam, mainland China, Hong Kong (China), Japan, Singapore and the Philippines

Source: UNCTAD, based on Southeast Asia Infrastructure Research.

Major Chinese contractors have presence in ASEAN

Company	Selected ASEAN Member State locations of contracts	ASEAN location of selected subsidiaries
China Communications Group	Cambodia, Indonesia, Malaysia, Myanmar, Philippines, Singapore, Viet Nam	Indonesia, Philippines, Singapore, ..
Sinohydro Group	Brunei Darussalam, Indonesia, Lao PDR, Malaysia, Singapore, Thailand, Viet Nam	..
China State Construction Engineering Corporation	Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam	Indonesia, Philippines, Singapore, Thailand, Viet Nam
China National Machinery Industry Corp	Cambodia, Indonesia, Lao PDR, Malaysia, Lao PDR, Philippines, Thailand, Viet Nam	Malaysia
China Railway Group	A number of ASEAN Member States	Singapore, Thailand
CTIC Construction	Indonesia, Philippines, Thailand, Viet Nam	Cambodia, Singapore
China Metallurgical Group	A number of ASEAN Member States	..
China Railway Construction Corporation Limited	A number of ASEAN Member States	..
Sepcoiii Electric Power Construction	Indonesia, Philippines, Singapore, Viet Nam	..
China Gezhouba Group Company	Cambodia, Indonesia, Lao PDR, Myanmar, Thailand	Malaysia, Singapore, Thailand
SEPCO Electric Power Construction	Indonesia	Indonesia
China Civil Engineering Construction	Cambodia, Malaysia, Singapore, Thailand, Viet Nam	Indonesia, Singapore
Shanghai Electric Group	Indonesia, Malaysia, Philippines, Viet Nam	Viet Nam
China General Technology	Indonesia, Myanmar, Viet Nam	Myanmar
China National Chemical Engineering Group	Indonesia, Myanmar, Viet Nam	Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam
China International Water & Electric Corp	Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Thailand, Viet Nam	..
CGC Overseas Construction Group	Indonesia	Indonesia
Sinopec Engineering (Group)	Indonesia, Malaysia, Myanmar, Singapore, Thailand, Viet Nam	Singapore
Dongfang Electric Corp	Indonesia, Malaysia, Viet Nam	..
Qingjian Group	Philippines, Singapore, Thailand, Viet Nam	Singapore
Shanghai Construction Group	Cambodia, Indonesia, Lao PDR, Malaysia, Philippines, Singapore, Thailand, Viet Nam	Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam
China Geo-Engineering	Cambodia, Lao PDR	Lao PDR
China Jiangsu International Econ and Technical	Singapore	..
Beijing Construction Engineering Group	Malaysia, Philippines, Singapore, Thailand, Viet Nam	Malaysia, Philippines, Singapore, Thailand, Viet Nam
China Dalian International Economic and Technical Corp.	Malaysia, Singapore	..
Anhui Construction Engineering Group	Lao PDR, Thailand, Viet Nam	Thailand
China Aluminum International Engineering	Malaysia, Viet Nam	..
China Yunan Construction Engineering Group	Cambodia, Lao PDR, Malaysia, Myanmar, Thailand, Viet Nam	Cambodia, Lao PDR, Thailand
Zhongding International Engineering	Indonesia, Malaysia, Thailand	..
Sinosteel Equipment and Engineering Co	Indonesia, Malaysia, Thailand, Viet Nam	Singapore
China Huanqiu Contracting & Engineering	Indonesia, Singapore	Indonesia, Singapore
Jiangsu Zhongxin Construction	Singapore, Viet Nam	..
Weihai International Economic & Technical Cooperative	Malaysia, Singapore	..
International Co. of Yanjian Group	Malaysia	..
China National Complete Plant Import & Export Corp	Indonesia, Myanmar, Viet Nam	Viet Nam

Source: UNCTAD 2015b,

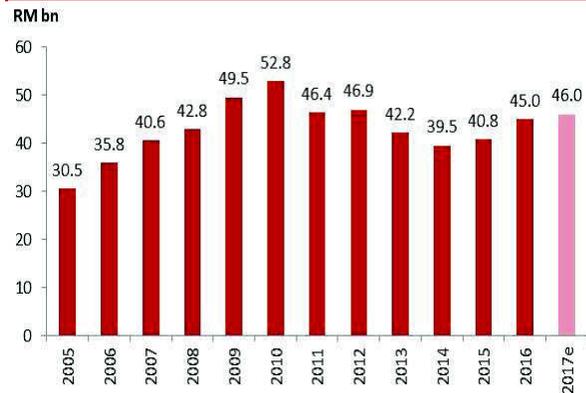
Malaysian Construction Sector

MALAYSIAN CONSTRUCTION SECTOR OVERVIEW – BACKED BY CONSISTENT DEVELOPMENT SPENDING

Government gross development expenditure spending in 2017 is expected to grow marginally to RM46bn (3.5% of GDP) from RM45bn in 2016 (3.7% of GDP). More importantly, the RM260bn allocation under 11MP (vs RM230bn for 10MP) remains intact.

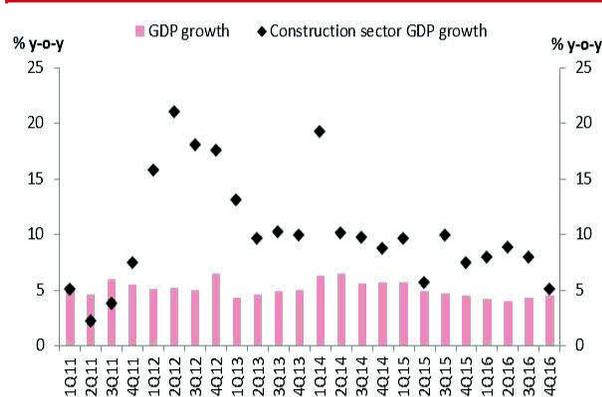
We continue to believe transport-related infrastructure such as MRT, LRT, Pan Borneo, East Coast Railway Link and eventually the High Speed Rail will be of the utmost importance and will see negligible risks of delays or cuts in spending. A potential wildcard is the KL to Bangkok High Speed Rail.

Federal government development spending



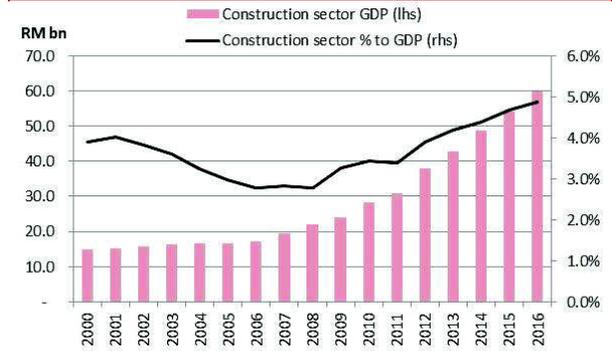
Source: Ministry of Finance

Construction GDP growth



Source: Department of Statistics

Construction GDP growth



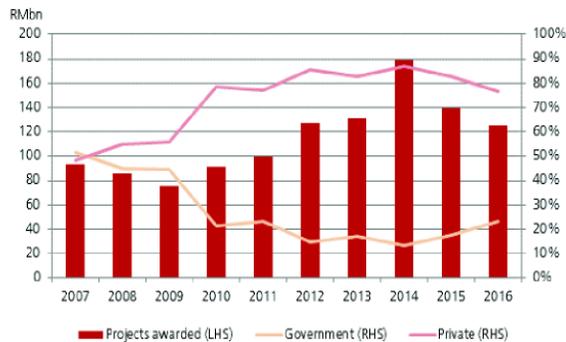
Source: Department of Statistics

Construction spending as a percentage of GDP has been trending higher and stood at 4.9% in 2016. While the percentage is relatively low, the multiplier effect on the economy is huge.

MRT Lines 1 and 2 are expected to create more than 130,000 employment opportunities throughout the 2011-2020 construction and operation period. MRT Corp also highlighted that between RM8bn and RM12bn in spillover benefits are being generated from the 2.5 to 3.5 multiplier impact on Malaysia’s economy. With better mobility expected to spur productivity, an average of RM21bn in GNI is expected to be generated over the next 10 years.

MyHSR Corp projects the potential spillover impact of the HSR to be RM650bn in GNI by 2069. This is based on an unconstrained approach where the government takes over the land and dictates what is to be developed. In a constrained scenario, the figure is about RM200bn.

Public/private sector construction spending



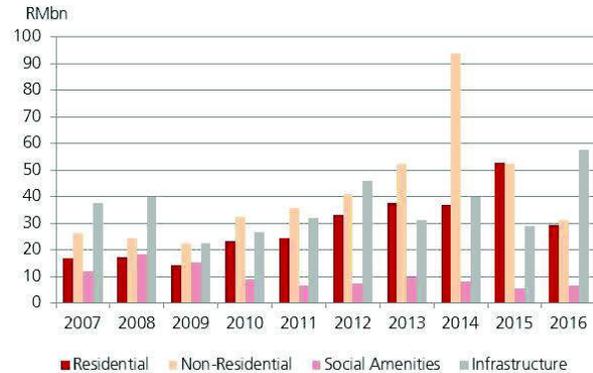
Source: Department of Statistics

2016 saw some resurgence in public sector jobs, coming largely from transport-related projects.

We expect this trend to continue in 2017 and beyond with a slew of key transport-related projects. Government development expenditure will still be relatively intact, more so with the recovery of oil and CPO prices.

During the 2007/08 global financial crisis, development expenditure as a percentage of total budget revenue still remained high.

Surge in infrastructure spending in 2016



Source: Department of Statistics

2016 saw a doubling in infrastructure-related projects to RM58bn. This trend should continue to show positive growth going forward given the government’s focus on transportation-led projects.

In line with a softer property market where developers have been holding back launches, construction-related activities for residential and non-residential fell 45% and 40% y-o-y respectively.

The priority for Malaysian infrastructure projects over the past few years have been more transportation-led, anchored by the MRT project. There will be in total three lines where Line 1 will be completed by July 2017 and Line 2 is already in progress in terms of awards. There has been a concerted effort by the Land Public Transport Commission (SPAD) to achieve a 40% modal share of public transportation by 2030 from c.25% as at end-2015.

The Project Delivery Partner (PDP) approach for large-scale government contracts, which is basically appointing a contractor to take on a supervisory role for a project in return for fees has worked out very well for MRT Line 1. This is as opposed to the government managing the contract on its own where contractors may be more susceptible to not performing optimally. So far, MRT Line 2, LRT 3 and Pan Borneo Highway have taken this PDP route.

MAJOR CONTRACTS UPDATE

Pipeline of major contracts

Projects	Est amount (RM bn)	Est commencement date ^A	Est completion date ^B	Potential winners	Status updates
MRT Line 2 and 3	60.0	Mid-2017 (Line 2); End-2018 (Line 3)	July 2022 (Line 2); 2025/2026 (Line 3)	Gamuda, MMC, IJM, Sunway, various	All viaduct packages awarded for MRT Line 2
Gemas-JB double tracking	8.0	Mid-2017	End-2020	Gamuda, IJM, WCT	Project already awarded to 3 China parties where they will subcontract works out to local players
LRT 3	10.0	Mid-2017	2020	MRCB-George Kent and other local contractors	Tenders underway and awards in 3Q17
Pan Borneo Highway	27.0	End-2017	2022	CMS, Naim, HSL other West Malaysian players	The Sarawak portion has been largely awarded. A few packages for the Sabah portion have been awarded. Total contract value for Sabah is RM12.8bn
East Coast Rail Link	55.0	2018	2022	China Communication Construction Company	Expect local players to reap as much as 30% of total project value
Penang Integrated Transport	27.0	TBA	TBA	Gamuda, IJM likely to have subcon role	Project will likely only take off post-GE
High Speed Rail	60.0	TBA	End-2026	Gamuda, YTL, various	Consortium of WSP Engineering Malaysia, Mott MacDonald Malaysia and Ernst & Young Advisory Services awarded Joint Development Partner Role
Jalan Tun Razak traffic dispersal	0.9	TBA	TBA	Various	Tenders underway
BRT KL to Klang	4.0	TBA	TBA	Various	Project will be via a concession and financed by the private sector
Bandar Malaysia	64.0	2018	2037	Various	Assume 40% of the RM160bn GDV is construction value. Project is over 20 years. CREC committed to spend US\$2bn to build its regional centre
Tun Razak Exchange	16	Started	TBA	Various	Assume 40% of GDV is construction value. Mulia Group, Affin have committed to investing in TRX. A few packages of infra-related works have been awarded.
Duke 3 (Setiawangsa-Pantai Expressway)	3.6	Started	2020	Ekovest	Ekovest has said will sign partners once construction reaches 50%. Ekovest funding it via RM3.64bn Sukuk. RM560m government interest free assistance and RM850m equity

Source: AllianceDBS, Companies

MRT Line 2. So far, all of the ten viaduct packages have been awarded where the more recent three were awarded to TRC Synergy, Gadang and Acre Works.

To recap, MMC-Gamuda has won the RM15.47bn contract without having to exercise the Swiss Challenge, thus implying

that margins should be intact. The PDP fees have been set at 6% (similar to Line 1) but with three additional KPIs which will constitute about 0.5ppt of the 6%. This will be for safety, quality and response to the public. We expect tunnelling margins for MRT Line 2 to be higher than MRT Line 1, given the depreciated tunnel boring machines and experience gained already from the first line.

MRT Line 2 awards so far (selected)

No	Company	Date	Contract Amount (RM)	Package	Scope of works
1	Ahmad Zaki Sdn Bhd	25-Mar-16	1.44bn	V202 (Reserved for Bumi contractor)	Construction and completion of the viaduct guideway and other associated works for a 4.5km stretch of the SSP Line elevated guideway from Persiaran Dagang to Jinjang, Kuala Lumpur
2	Sunway Construction Group	28-Mar-16	1.21bn	V201	Construction and completion of the viaduct guideway and other associated works for a 4.9km stretch of the SSP Line elevated guideway from Sungai Buloh to Persiaran Dagang
5	TRC Synergy Bhd	28-Mar-16	103.8m	N/A (SBK Line)	Construction of Pasar Seni LRT link and other associated works between Pasar Seni LRT station and Kuala Lumpur KTM station. (SBK Line)
3	Kimlun Corp Bhd	29-Mar-16	199m	V201-V205	Supply and delivery of segmental box girders for viaduct packages V201 to V205
4	Acre Works Sdn bhd	29-Mar-16	170m	V206-V210	Supply and delivery of segmental box girders for viaduct packages V206 to V210
6	Potensi Cekal Sdn Bhd	29-Mar-16	62.5m	N/A (SBK Line)	Construction of an MRT feeder bus depot and related supporting buildings and facilities for the SBK Line at Kajang
7	MMC- Gamuda JV (50:50)	31-Mar-16	15.47bn	Tunnelling package	Design, construction and completion of tunnels, underground stations and associated structures such as portals and escape shafts for the SSP Line's 13.5km underground alignment from the Jln Ipoh North Escape Shaft to the Desa Waterpark South Portal
8	IJM	19-May-16	1.47bn	V203	Construction and completion of viaduct gateway from Jinjang to Jalan Ipoh North Portal
9	WCT	14-Nov-16	896.4	V204	Construction and completion of viaduct gateway from Bandar Malaysia South Portal to Kampung Muhibbah
10	MTD Construction	17-Nov-16	678.7	V208	Construction and completion of viaduct gateway from Taman Pinggiran Putra to Persiaran Alpina
11	Mudajaya	15-Dec-16	558	V207	Construction and completion of viaduct gateway from UPM to Taman Pinggiran Putra
12	MRCB	19-May-16	648	V210	Construction and completion of viaduct gateway from Persiaran Apec to Putrajaya Sentral
13	S.N Akmidia Holdings	21-Dec-16	n/a	S202	Construction of elevated stations at Kepong Sentral, Metro Prima, Kepong Baru and Jinjang
14	TSR Bina	5-May-16	n/a	DPT203	Serdang Depot
15	Gadang	10-Mar-17	952	V206	Construction and completion of viaduct gateway from Serdang Raya to UPM
16	Acre Works	10-Mar-17	716	V209	Construction and completion of viaduct gateway from Persiaran Aplinia to Persiaran Apec
17	TRC Synergy Bhd	10-Mar-17	858	V205	Construction and completion of viaduct gateway from Kampung Muhibbah to Serdang Raya

Source: MRT Co, AllianceDBS

Pan Borneo Highway Sabah

Pan Borneo Highway Sabah is a RM12.86bn Federal Government project to upgrade road connectivity in Sabah. Phase 1 of this 706km toll-free four-lane dual carriage way project was launched by Prime Minister on 24 April 2016. The project involves widening the existing roads to four-lane dual carriage way and building a new coastal highway and new expressway/bypass. It is slated to be completed in end-2021.

Borneo Highway PDP Sdn Bhd (BHP) is a government-appointed project delivery partner (PDP) company to implement Phase 1 of the RM12.8bn Sabah's portion of the Pan Borneo Highway. The shareholders of BHP are Warisan Tarang, MMC Corp and UEM. BHP's functions are to implement, supervise, manage and deliver the project within the time and cost allocated. The Pan Borneo Highway Sabah shall be developed in the following manner under Phase 1:

SOUTHEAST REGION: (Tawau-Semporna 5km, Lahad Datu Bypass 7km, Tawau Airport-Sg. Kalumpang 31km, Sg.Kalumpang-Madai 19km, Madai-IGN Estate 19km, IGN Estate-Agri Harvest 19km, Agri Harvest-Sapagaya 18km)

NORTHEAST REGION: (Lahad Datu Bypass-Kg.Sandau 25.5km, Kg.Sandau-Sg.Takala 24.8km, Sg.Tekala-Kg.Perpaduan Datuk Moh 16.4km, Kg.Perpaduan Datuk Moh-Sukau 16.8km, Sukau-Kg.LotM 18km, Kg.Lot M-Sandakan M32, 17.5km)

CENTRAL: (Sandakan Mile 32-Moynod 22km, Mynod-Sapi Nangoh 20km, Sapi Nangoh-Sg.Baoto 22.7km, Sg.Baoto-Telupid 12.3km, Telupid-Kg.Lumou Baru 18.4km, Kg.Lumou Baru-Kg.Toupos 17.6km, Kg.Noupos-Kg.Nabutan 26km, Kg.Nabutan-Ranau 31km)

NORTHWEST: (Tuaran-Pituru 30km, Pituru Rampayan Laut 30km, Rampayan Laut-Sarang 19.4km, Sarang-Temuno 15.6km, Temuno-Bingolon 20km, Bingolon-Simpang Mengayau 20.2km)

KK OUTER RINGROAD: (Donggongon-Inanam 10.9km, Inanam-Sepangar 15.9km, Sepangar-Bulatan Berungis 13.2km)

SOUTHWEST: (Sindumin-Kg.Melalia 29km, Kg.Melalia-Beaufort 31km, Beaufort-Bongawan 25km, Bongawan-Papar 25km, Papar-Donggongon 11.7km)

There will be in total 35 packages. We understand the majority of the packages will be awarded by end-2017 to ensure completion by end-2021.

Construction works commence from point to point, not necessarily in a continuous order from the southeast end in Tawau to southwest in Sindumin or to the northeast end in Simpang Mengayau.

Two of the early commencement packages from Papar to Donggongon and from Tawau to Semporna have been awarded and another one that would be awarded soon is the Lahad Datu Bypass.

High Speed Rail

The KL to Singapore High Speed Rail (HSR) project seems to have evolved over the years to be more in favour of the local Malaysian contractors. When the project was first conceptualised years ago, it was widely expected that a foreign contractor will be involved in all scope of works – civil engineering, piling, rolling stocks, signalling and system works.

While the project details remain sketchy, we understand that the RM60bn project could be broken down to three portions:

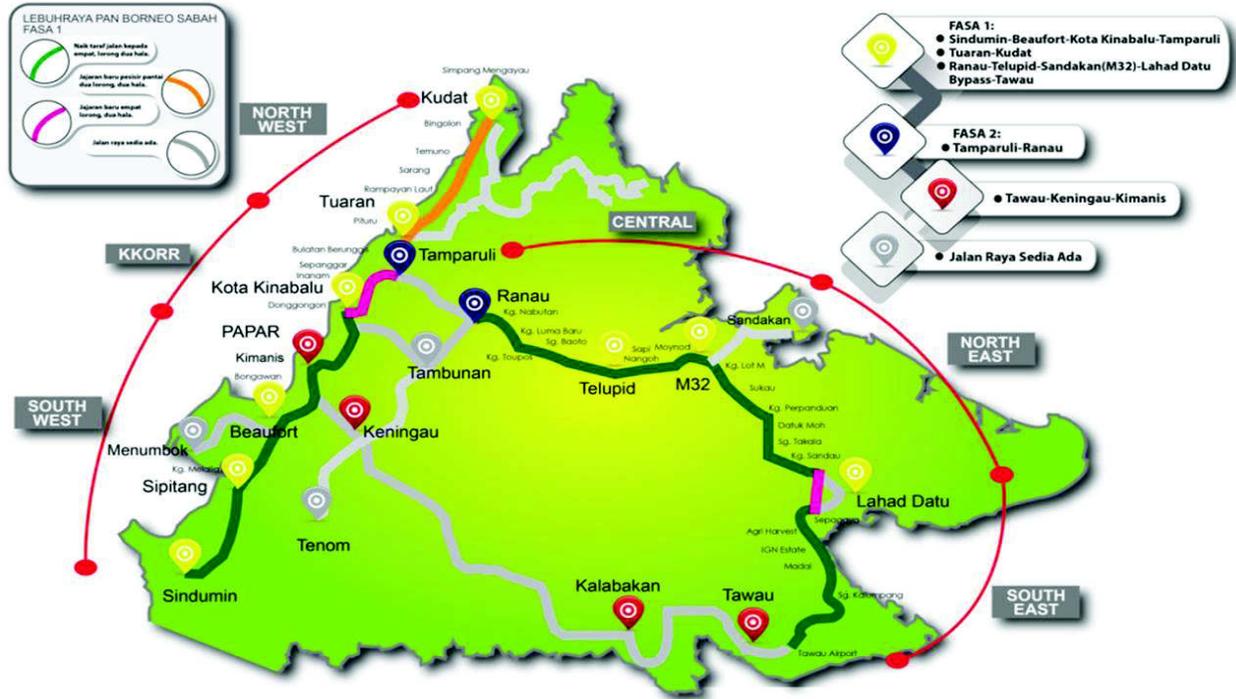
- i) RM35bn civil works for the Malaysian portion which would be reserved for Malaysian contractors
- ii) RM10bn for the Singaporean portion of civil works
- iii) RM15bn for foreign JV partner which will be for rolling stock, systems and signalling works.

The civil engineering portions will be managed independently in each country. If this model comes to fruition, Gamuda will be the best proxy to the HSR given its track record for the MRT project and more so, if the project were to adopt the PDP approach. There could also be two levels of funding – the civil engineering portion funded by the respective countries government and foreign funding for the other works.

We expect local contractors which have some of expertise in rail-related works gathered from the LRT and MRT to have a role. In particular, we think Gamuda and YTL would be the frontrunners to lead the local contractors.

Pan Borneo Sabah

JAJARAN KESELURUHAN LEBUHRAYA PAN BORNEO SABAH



Source: Pan Borneo Sabah, AllianceDBS

EARNINGS MOMENTUM AND CONSENSUS CHANGE

The 4QCY16 reporting period for contractors was met with not many surprises, with only WCT disappointing in terms of earnings delivery. The only surprises came from Kimlun and Muhibbah. In general, over the past one year, consensus has gradually cut earnings for our universe, apart from Kimlun. This trend is similar for FY17 where the only positive earnings revisions have come from Kimlun and Sunway Construction.

Generally, we have seen a strong correlation between quarterly earnings delivery and guidance from management, and the corresponding share price performance. However, this appears to have decoupled of late where the share prices of our universe have been lifted by renewed interest in Malaysian equity as well as expectations of more project flows. On balance, we think there will be less room for earnings disappointment this year as contractors gradually run down their peak orderbooks. Hence, the execution of projects would be a key factor to monitor.

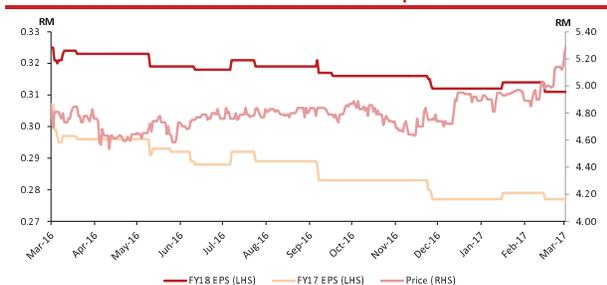
For FY17F, our earnings for Sunway Construction and Muhibbah are generally in line with consensus. For Gamuda, IJM and WCT we are below consensus, while for Kimlun we have a more bullish earnings forecast. The deviation for Gamuda is largely due to the dilutive effect of its warrants, as we have factored in RM3.5bn worth of new jobs for FY17-18F (Y/E July) which is fair at this juncture. For WCT, in spite of its peak orderbook which is largely skewed towards infrastructure-related jobs now, it has continued to disappoint in terms of construction earnings delivery.

Summary of EPS revisions and DBSV vs consensus for 1-year

	GAM	IJM	WCTHG	SCGB	MUHI	KICB
FY16 EPS Revision			-24.1%	-8.4%	-9.5%	30.9%
FY17 EPS Revision	-10.1%	-25.3%	-16.4%	2.5%	-10.2%	18.4%
FY18 EPS Revision	-4.3%	-19.6%				
DBSV vs. consensus (FY17)	88.8%	75.2%	91.0%	98.4%	98.7%	107.3%
DBSV vs. consensus (FY18)	84.6%	99.5%	86.8%	108.7%	99.6%	118.0%

Source: Bloomberg Finance L.P, AllianceDBS

Gamuda's consensus EPS trend vs. share price



Source: Bloomberg Finance L.P, AllianceDBS

IJM's consensus EPS trend vs. share price



Source: Bloomberg Finance L.P, AllianceDBS

WCT's consensus EPS trend vs. share price



Source: Bloomberg Finance L.P, AllianceDBS

Sunway Construction's consensus EPS trend vs. share price



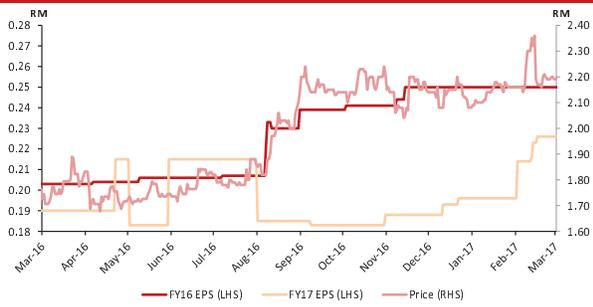
Source: Bloomberg Finance L.P, AllianceDBS

Muhibbah's consensus EPS trend vs. share price



Source: Bloomberg Finance L.P, AllianceDBS

Kimlun's consensus EPS trend vs. share price



Source: Bloomberg Finance L.P. AllianceDBS

VALUATION AND SECTOR COMPARISON

Sector Comparison

	Market Cap	Rec.	TP	Diluted PE (x)		P/NTA (x)		Div Yield (%)		ROE (%)	
	(USDm)		(Local currency)	CY17	CY18	CY17	CY18	CY17	CY18	CY17	CY18
Malaysia											
Gamuda	2,860.9	BUY	6.30	20.5	19.3	1.9	1.8	1.7	1.7	9.7	9.6
IJM	2,850.8	HOLD	3.30	18.8	17.6	1.3	1.3	3.2	3.2	7.1	7.4
WCT	633.3	HOLD	2.00	20.5	20.0	1.2	1.1	1.6	1.6	5.9	5.8
Muhibbah Eng	307.0	BUY	3.10	12.5	11.4	1.4	1.2	1.6	1.8	11.4	11.4
Kimlun	156.1	BUY	2.73	10.7	8.8	1.2	1.0	2.2	2.7	13.1	14.4
SunCon	525.0	BUY	2.13	15.4	13.4	4.8	3.5	2.9	3.3	29.0	28.4
Simple Average				16.4	15.1	2.0	1.7	2.2	2.4	12.7	12.8

Source: AllianceDBS, Bloomberg Finance L.P.

DBSV KL Construction – PE trading ranges



Source: AllianceDBS, Bloomberg Finance L.P.

On a market-weighted basis, our construction universe is now trading at a rolling 1-year forward PE of 18.8x and P/BV of 1.4x. This is above mean levels but below +1SD. Sector valuation has re-rated significantly from its 5-year low in January 2014 where it tested -2SD below mean but is still below the peak of c.20x in May 2016.

As the sector is relatively well owned, any further re-rating will likely hinge on better earnings delivery this year given the already apparent estimate cuts last year, more newsflow from the award of other large-scale projects and higher foreign fund inflows as investors relook Malaysia from an equity standpoint.

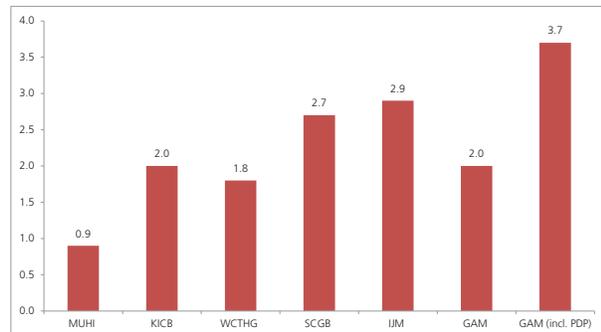
DBSV KL Construction – P/BV trading ranges



Source: AllianceDBS, Bloomberg Finance L.P.

The sector also commanded premium valuations during periods of more aggressive contract flows and pump-priming such as the 9MP and 10MP. During the onset of the 10MP in 2011, the sector traded at a high of >+2SD above mean or 2.3x PE and 3.3x P/NTA. But it subsequently de-rated to -1SD in late 2011 due to an overall soft equity market. Similarly from January 2007 to September 2008, when the 9MP projects were rolled out, the sector traded at up to 24x PE and 2.2x P/NTA.

Malaysia – Revenue visibility (orderbook/historical construction revenue [x])



Source: AllianceDBS

Based on the chart above, large-cap contractors Gamuda and IJM have the best revenue visibility at 3.7x and 2.9x prior years construction revenue respectively. We have included Gamuda's PDP orderbook in our calculation. Stripping this out, the number is 2.0x. This is followed closely by Sunway Construction at 2.7x. In our view, all three companies have also the least earnings risk, given their strong execution track record and higher-margin orders – comprising infrastructure-related or design-and-build projects.

Gamuda's RM8.3bn orderbook comprises predominantly the tunnelling works for MRT Line 2 worth RM7.7bn. We expect the project's pretax margins to be at least 12-13%, similar to MRT Line 1. On a cost per km basis, MRT Line 2's total contract value of RM15.47bn is 30% higher than MRT Line 1. We understand Gamuda has factored in a generous yearly increase in steel cost over a five-year period.

IJM's RM8.7bn orderbook comprises largely three key projects – which are the recently won building job for Bukit Bintang City Centre worth RM1.16bn, V203 package for MRT Line 2 worth RM1.47bn and the RM2.8bn WCE contract. Pricing for the V203 package is 79% higher on a RMbn/km basis as compared to IJM's MRT Line 1 (V5 package).

Sunway Construction's orderbook now stands at RM4.9bn which is at its peak. The largest projects are Putrajaya Parcel F and MRT Line 2 (V201 package) which form about half of its orderbook. It also recently won the station package for its MRT V201 viaduct package worth RM212m, thus implying that margins for its overall MRT V201 package will not be diluted. We think the pretax margins for its other two key projects will also be at least 7-8%. For Putrajaya Parcel F, Sunway Construction has already locked in 50% of the steel requirements at an average price of roughly RM1,800 to RM2,000/tonne. As this is a design-and-build project that incorporates the criterion of utilising its Virtual Design and Construction (VDC) technology, there is room to achieve higher margins. For MRT Line 2 (V201 package), pricing is 30% higher on a per km basis as compared to its V4 package for MRT Line 1, while all raw material requirements are borne by the government.



Company Guides

Company Guide

Gamuda

Version 8 | Bloomberg: GAM MK | Reuters: GAMU.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

24 Mar 2017

BUY

Last Traded Price (23 Mar 2017): RM5.25 (KLCI : 1,747.00)

Price Target 12-mth: RM6.30 (20% upside) (Prev RM5.80)

Potential Catalyst: Multi-year contract wins, stronger property sales

Where we differ: Our earnings are fully diluted for its warrants issue

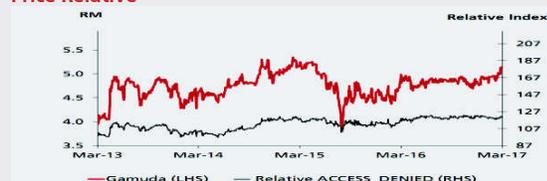
Analyst

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What's New

- 1HFY17 net profit was in line with expectations, driven by stronger construction earnings
- MRT Line 2 well on track with all viaduct packages awarded. Gamuda to benefit from PDP fees.
- Awaiting sale of Splash and special dividends
- BUY, TP raised to RM6.30

Price Relative



Forecasts and Valuation

FY Jul (RM m)	2016A	2017F	2018F	2019F
Revenue	2,122	4,498	5,784	6,727
EBITDA	470	641	702	760
Pre-tax Profit	781	917	977	1,034
Net Profit	626	691	739	785
Net Pft (Pre Ex.)	626	691	739	785
Net Pft Gth (Pre-ex) (%)	(8.2)	10.3	6.9	6.2
EPS (sen)	22.3	24.6	26.3	28.0
EPS Pre Ex. (sen)	22.3	24.6	26.3	28.0
EPS Gth Pre Ex (%)	(21)	10	7	6
Diluted EPS (sen)	22.3	24.6	26.3	28.0
Net DPS (sen)	8.88	8.88	8.88	8.88
BV Per Share (sen)	245	262	281	302
PE (X)	23.5	21.3	19.9	18.8
PE Pre Ex. (X)	23.5	21.3	19.9	18.8
P/Cash Flow (X)	140.2	67.9	60.9	56.3
EV/EBITDA (X)	39.2	28.8	26.4	24.4
Net Div Yield (%)	1.7	1.7	1.7	1.7
P/Book Value (X)	2.1	2.0	1.9	1.7
Net Debt/Equity (X)	0.5	0.4	0.4	0.4
ROAE (%)	9.5	9.7	9.7	9.6

Earnings Rev (%): 0 0 0
 Consensus EPS (sen): 27.8 31.5 36.5
 Other Broker Recs: B: 19 S: 1 H: 4

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

Best transportation proxy

Best proxy to transportation infrastructure. Gamuda is our top large-cap pick in the sector, as it is the best proxy to a slew of upcoming transportation-related projects. Its strong reputation for MRT Line 1 and PDP appointment for Penang Transport Master Plan (PTMP) provide it with leverage for other large-multiplier projects such as LRT 3, Gemas-JB double tracking and Pan Borneo Highway Sabah.

Large multi-year projects ensure strong earnings visibility.

Gamuda's outstanding orderbook now stands at RM8.3bn which does not include the PDP fees for MRT Line 2 aboveground works. With the award of all the 10 viaduct packages already done, we expect Gamuda to be able to gradually recognise the PDP fees of 6%. FY17F will mark the start of a new earnings growth cycle as maiden contribution from MRT Line 2 starts to filter through. We expect margins for MRT Line 2 tunnelling to at least match that of MRT Line 1 given its depreciated tunnel boring machines while the project value is also higher on a per km basis. The medium-term pipeline also looks promising with the High Speed Rail, MRT Line 3 and East Coast Railway Link.

Potentially special dividends now from Splash sale? There are expectations for the Splash deal to be concluded in 2QCY17 at close or a small discount to its book value of c.RM3bn. There could be special dividends now especially if there are further delays in the Penang Transport Master Plan (PTMP). This would somewhat compensate investors for the earnings void. Over the longer term, the PTMP will be positive as Gamuda could secure long-term construction earnings and a firm footing in Penang's property market.

Valuation:

We maintain our BUY rating with a new SOP-derived TP of RM6.30. We have accounted for the dilution of warrants and corresponding increase in cash raised from full conversion while also assuming some new wins outside of MRT 2.

Key Risks to Our View:

High raw material price. The tunnelling portion of MRT Line 2 is its largest project and is susceptible to fluctuations of raw material prices, particularly for steel. Nonetheless, we think this is partly mitigated by the higher contract value on a per km basis.

At A Glance

Issued Capital (m shrs)	2,426
Mkt. Cap (RMm/US\$m)	12,737 / 2,877
Major Shareholders (%)	
EPF	9.8
KWAP	6.8
Free Float (%)	78.8
3m Avg. Daily Val (US\$m)	5.4

ICB Industry : Industrials / Construction & Materials

WHAT'S NEW

No surprises

In-line 1HFY17 results: Pick-up in construction earnings made up for slower property earnings.

Splash sale and new contract wins: We expect both events to buoy interest in the stock.

BUY, raising TP to RM6.30: Our new TP factors in higher new jobs and new property launches.

No surprises. Gamuda posted a 2QFY17 net profit of RM166m (+4% y-o-y, +3% q-o-q), bringing 1HFY17 net profit to RM328m (+2% y-o-y) which was in line with our and consensus estimates. 1HFY17 construction pretax profit surged 50% y-o-y to RM123m, driven by higher contribution from MRT Line 2 as well as the tail-end contribution of MRT Line 1. 1HFY17 margins were 8% vs 6% in 1HFY16. KV MRT Line 1 is on track for full completion in July 2017, with cumulative progress at 98% for both underground and elevated works. The testing of trains for Phase 2 of MRT Line 1 is on-going.

Property presales picking up. 2QFY17 property presales stood at RM353m, a decline from 1QFY17's RM430m – bringing 1HFY17 presales to RM783m (+103% y-o-y). This should still be on track to hit its FY17F presales target of RM2.1bn (RM0.79bn local and RMRM1.33bn overseas) assuming stronger sales for its newer launches. There are two key launches this financial year, which are Gamuda Gardens (June 2017) and Kundang Estates (December 2016), both in Rawang and will have good MRT accessibility. We understand its existing projects such as Horizon Hills and Jade Hills have shown improvement while Kundang Estates' sales have also been promising.

1HFY17 pretax profit for its property division fell 15% y-o-y to RM84m. Unbilled sales now stand at RM2bn, giving earnings visibility of about two years.

Progress of MRT Line 2 awards. For MRT Line 2, utilities relocation, earthworks, piling and pier construction are in progress for Packages V201, V202, V203 and V210. For the tunnelling portion, some preparatory work such as soil investigation, ground treatment, site establishment works and utilities relocation are being done before the actual tunnel boring. So far, 31 work packages for MRT line 2 have been awarded including the tunnelling package of RM15.47bn. All ten viaduct packages have been awarded, which will ensure gradual recognition of its PDP fees.

Key catalysts to watch out for – Splash and near-term contract wins. The near-term key catalysts remain unchanged, which are the potential sale of Splash and up to RM4bn of new contract wins in CY17. In our view, the recent share price rally has been driven by a combination of higher foreign interest in Malaysia as well as expectations of a conclusion for the sale of its water concession, Splash.

Splash sale by 2QCY17. The media highlighted recently that there has been a high-level meeting between the Federal and State governments to discuss the sale of Splash. Key issues believed to be discussed are the State government's contribution of as much as 40% towards the takeover price and a potential water tariff increase. The later would be a thorny issue given expectations of a general election to be called this year. In any case, there is high likelihood now that there will payment of special dividends from the sale. Assuming a sale price of RM3bn, Gamuda's 40% stake and half of the proceeds is paid in special dividends, investors stand to reap a one-time yield of 5%.

Near-term project flows. Gamuda is aiming to add another RM3-4bn worth of new orders over the next one year. This will come from largely three projects – Gemas-JB double tracking, LRT 3 and Pan Borneo Sabah. Over the medium to longer term, Gamuda is also poised to further beef up its orderbook from projects such as MRT 3, High Speed Rail and East Coast Railway Link. It is also exploring potential projects for the MRT in Singapore for tunnelling work.

Raising TP to RM6.30. We raise our SOP-derived to RM6.30 to factor in i) higher new order wins of RM3.5bn over FY17-18F vs RM2.5bn previously, and ii) incorporating some of its newer launches such as Gamuda Gardens and Kundang Estates.

Quarterly / Interim Income Statement (RMm)

FY Jul	2Q2016	1Q2017	2Q2017	% chg yoy	% chg qoq
Revenue	527	505	854	61.9	69.1
Cost of Goods Sold	(454)	(406)	(738)	62.8	81.8
Gross Profit	73.9	98.7	116	56.4	17.1
Other Oper. (Exp)/Inc	35.6	35.0	52.7	47.8	50.5
Operating Profit	110	134	168	53.6	25.9
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	112	98.5	79.5	(28.9)	(19.3)
Net Interest (Exp)/Inc	(29.2)	(26.5)	(29.1)	0.4	(9.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	192	206	219	13.8	6.3
Tax	(22.2)	(30.6)	(39.4)	77.9	28.8
Minority Interest	(9.9)	(12.9)	(12.9)	(30.5)	0.3
Net Profit	160	162	166	3.8	2.5
Net profit bef Except.	160	162	166	3.8	2.5
EBITDA	221	232	248	11.9	6.7
Margins (%)					
Gross Margins	14.0	19.5	13.5		
Opg Profit Margins	20.8	26.5	19.7		
Net Profit Margins	30.4	32.1	19.5		

Source of all data: Company, AllianceDBS

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

On track for next earnings upcycle. FY17F will be the start of a new earnings upcycle for Gamuda as MRT Line 2 starts to contribute. This does not take into account the potential sale of Splash. We also expect stronger local property sales in FY17 coming also from the launch of two new projects while its overseas projects will likely remain firm.

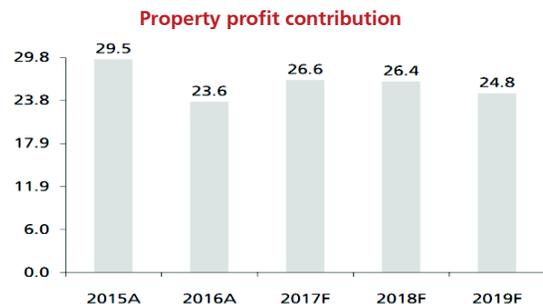
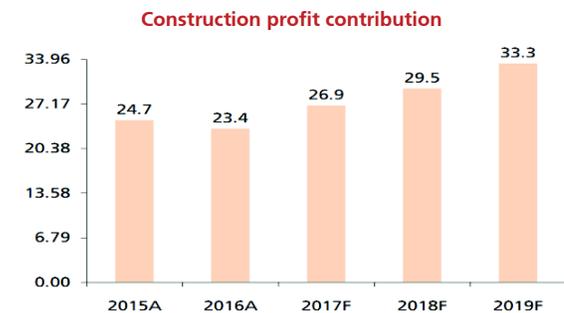
MRT Line 2 to contribute in FY17. There is low risk of the project being delayed or shelved because it is deemed a high-multiplier and top priority ETP project. The PDP fee remains at 6%, similar to MRT Line 1. The only difference is MRT Co. has introduced three additional KPIs (safety, quality and public response) which will constitute half a percentage point out of the 6%. The MMC-Gamuda JV has returned as the tunnelling contractor with a total contract value of RM15.47bn or RM7.7bn per contractor.

Confident of more jobs. It remains confident of another RM3-4bn worth of new orders over the next 12 months. This will come from largely three projects – Gemas-JB double tracking, LRT 3 and Pan Borneo Sabah. We have assumed a total of RM3.5bn worth of new orders over FY17-18F.

Sale of Splash. The sale of Splash remains the biggest overhang for Gamuda. There are higher expectations that the deal will be concluded soon, with pricing likely at a slight discount to its book value of c.RM3bn. There may be special dividends now from the sale especially if there are delays in the PTMP.

Awaiting approvals for Penang Transport Master Plan (PTMP). Gamuda has received a Letter of Award (LOA) – via SRS Consortium – from the Penang State Government to be the PDP for the Roads and Public Transport Projects in Penang (Penang Transport Master Plan Strategy 2013-2030). The key hurdle for this project is obtaining the federal government’s approval for land reclamation and for the LRT. Gamuda is hoping to have two bites of the cherry – PDP, and also as turnkey contractor for some key components – but these are uncertain at this stage. The two main components of the project are LRT from George Town to Bayan Lepas and the Pan Island Link highway. The railway scheme has been submitted to SPAD while the environmental and social impact assessment studies are on-going. In our view, this project will only take off post the next general elections.

Property sales driven by overseas projects. FY17F presales target has been set at RM2.1bn (RM0.79bn local and RMRM1.33bn overseas) with two key launches planned – Gamuda Gardens (March 2017) and Kundang Estates (December 2016), both in Rawang and will have good MRT accessibility.



Source: Company, AllianceDBS

Balance Sheet:

Manageable net gearing. Net gearing remained manageable at 0.56x as at 31 January 2017. More recent land bank purchases include its maiden project in Toa Payoh, Singapore for S\$345.9m (Gamuda has a 50% share), a small parcel of freehold land in Melbourne for AUD40m, an 18-acre land in Kota Kinabalu for RM100m, and a 257-acre parcel located just 2km from Kota Kemuning for RM392m.

Further land banking still possible. Gamuda is still seeking to land bank further in choice locations despite the softening property market. But it will be more selective now given its aggressive land banking over the past year or so. Also, the sale of Splash will help bring down gearing levels.

Share Price Drivers:

Proxy to transportation-related projects. Besides having a strong reputation, it also has ample capacity and the technical know-how to bid for large upcoming transport-related projects such as MRT Line 2, LRT 3, PTMP, and High Speed Rail. Thus far, execution for MRT Line 1 has been smooth. Gamuda has also expressed interest in bidding for LRT 3 civil works, Pan Borneo Highway Sabah and also the Gemas-JB double tracking. It is making a concerted effort to beef up its orderbook and to diversify its project risk.

Resolution for Splash. A successful resolution for Splash would remove the overhang on the stock. Investors could now potentially look forward to special dividends to compensate for the earnings void.

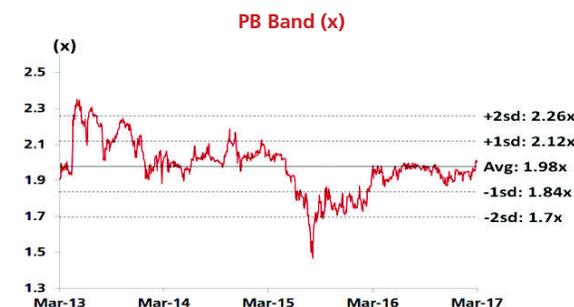
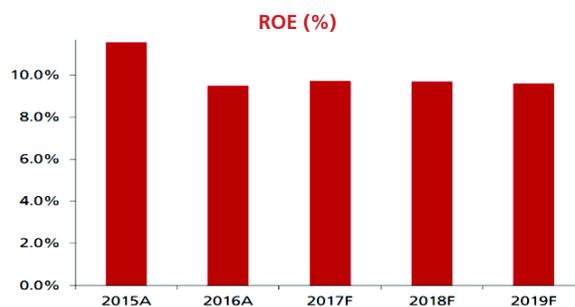
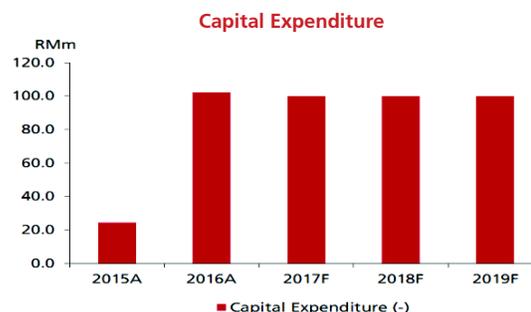
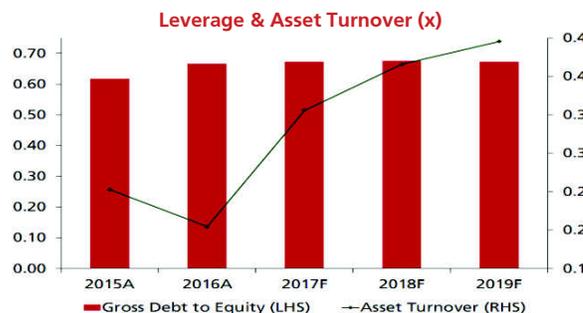
Key Risks:

Macroeconomic factors. Generally, an economic slowdown could adversely affect the group because this could defer or halt some projects, especially infrastructure projects. This could result in slower order book replenishment.

Slowdown in property market. The various tightening policies for the Malaysian property sector could reduce the demand for property (i.e. residential and commercial) in the near future.

Company Background

Gamuda's core businesses focus on three segments which are engineering & construction, infrastructure concessions, and property development.



Source: Company, AllianceDBS

Gamuda

Key Assumptions

FY Jul	2015A	2016A	2017F	2018F	2019F
Construction margins	7.60	8.50	10.5	9.10	8.89
Property launches Malaysia	950	900	850	1,330	1,000
Construction profit contribution	24.7	23.4	26.9	29.5	33.3
Property profit contribution	29.5	23.6	26.6	26.4	24.8
New order wins		7,735	1,500	2,000	2,000

Segmental Breakdown

FY Jul	2015A	2016A	2017F	2018F	2019F
Revenues (RMm)					
Construction	1,158	905	2,765	3,741	4,580
Property development	842	758	660	790	815
Infrastructure	401	459	468	477	487
Overseas property	0.0	0.0	605	775	845
Total	2,400	2,122	4,498	5,784	6,727
Pretax profit (RMm)					
Construction	242	212	291	341	407
Property development	289	214	198	204	193
Infrastructure	450	481	503	508	513
Overseas property	0.0	0.0	89.6	101	110
Net interest expense	(124)	(126)	(164)	(177)	(189)
Total	858	781	917	977	1,034
Pretax Margins (%)					
Construction	20.9	23.4	10.5	9.1	8.9
Property development	34.4	28.2	30.0	25.8	23.7
Others	N/A	N/A	(27.1)	(22.8)	(22.4)
Total	35.7	36.8	20.4	16.9	15.4

Income Statement (RMm)

FY Jul	2015A	2016A	2017F	2018F	2019F
Revenue	2,400	2,122	4,498	5,784	6,727
Cost of Goods Sold	(1,820)	(1,685)	(3,788)	(4,961)	(5,810)
Gross Profit	580	437	710	823	917
Other Opng (Exp)/Inc	(10.4)	10.9	(95.7)	(152)	(192)
Operating Profit	570	448	614	671	725
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	375	413	417	421	425
Net Interest (Exp)/Inc	(86.6)	(79.7)	(114)	(115)	(116)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	858	781	917	977	1,034
Tax	(133)	(112)	(183)	(195)	(207)
Minority Interest	(43.3)	(42.6)	(42.6)	(42.6)	(42.6)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	682	626	691	739	785
Net Profit before Except.	682	626	691	739	785
EBITDA	590	470	641	702	760
Growth					
Revenue Gth (%)	7.6	(11.6)	112.0	28.6	16.3
EBITDA Gth (%)	22.7	(20.4)	36.6	9.5	8.2
Opg Profit Gth (%)	23.9	(21.4)	37.1	9.3	8.0
Net Profit Gth (Pre-ex) (%)	(5.2)	(8.2)	10.3	6.9	6.2
Margins & Ratio					
Gross Margins (%)	24.2	20.6	15.8	14.2	13.6
Opg Profit Margin (%)	23.7	21.1	13.7	11.6	10.8
Net Profit Margin (%)	28.4	29.5	15.4	12.8	11.7
ROAE (%)	11.6	9.5	9.7	9.7	9.6
ROA (%)	5.8	4.6	4.7	4.7	4.6
ROCE (%)	4.6	3.2	3.7	3.8	3.8
Div Payout Ratio (%)	31.3	39.8	36.1	33.7	31.8
Net Interest Cover (x)	6.6	5.6	5.4	5.8	6.3

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RMm)

FY Jul	2Q2016	3Q2016	4Q2016	1Q2017	2Q2017
Revenue	527	467	614	505	854
Cost of Goods Sold	(454)	(377)	(478)	(406)	(738)
Gross Profit	73.9	89.9	136	98.7	116
Other Oper. (Exp)/Inc	35.6	16.8	32.4	35.0	52.7
Operating Profit	110	107	169	134	168
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	112	109	78.3	98.5	79.5
Net Interest (Exp)/Inc	(29.2)	(29.7)	(37.0)	(26.5)	(29.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	192	186	210	206	219
Tax	(22.2)	(20.7)	(49.4)	(30.6)	(39.4)
Minority Interest	(9.9)	(12.5)	(8.6)	(12.9)	(12.9)
Net Profit	160	153	152	162	166
Net profit bef Except.	160	153	152	162	166
EBITDA	221	215	247	232	248

Growth

Revenue Gth (%)	2.9	(11.4)	31.5	(17.8)	69.1
EBITDA Gth (%)	(0.6)	(2.7)	14.7	(6.0)	6.7
Opg Profit Gth (%)	0.4	(2.6)	58.1	(20.8)	25.9
Net Profit Gth (Pre-ex) (%)	(0.7)	(4.6)	(0.4)	6.6	2.5

Margins

Gross Margins (%)	14.0	19.2	22.2	19.5	13.5
Opg Profit Margins (%)	20.8	22.8	27.5	26.5	19.7
Net Profit Margins (%)	30.4	32.7	24.8	32.1	19.5

Balance Sheet (RMm)

FY Jul	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	312	420	492	561	627
Invt in Associates & JVs	2,621	2,881	3,298	3,719	4,144
Other LT Assets	5,163	5,529	5,529	5,529	5,529
Cash & ST Invt	1,438	1,473	1,831	2,226	2,652
Inventory	186	117	135	155	178
Debtors	1,377	1,441	1,657	1,905	2,191
Other Current Assets	2,230	2,297	2,297	2,297	2,297
Total Assets	13,326	14,158	15,239	16,392	17,618
ST Debt	777	640	1,040	1,440	1,840
Creditor	1,355	1,046	1,203	1,383	1,591
Other Current Liab	327	413	413	413	413
LT Debt	3,358	4,169	4,169	4,169	4,169
Other LT Liabilities	815	676	676	676	676
Shareholder's Equity	6,337	6,878	7,360	7,890	8,466
Minority Interests	356	336	379	421	464
Total Cap. & Liab.	13,326	14,158	15,239	16,392	17,618
Non-Cash Wkg. Capital	2,110	2,395	2,472	2,560	2,662
Net Cash/(Debt)	(2,698)	(3,335)	(3,377)	(3,383)	(3,356)
Debtors Turn (avg days)	235.2	242.3	125.7	112.4	111.1
Creditors Turn (avg days)	226.8	263.5	109.1	95.7	94.0
Inventory Turn (avg days)	48.7	33.2	12.2	10.7	10.5
Asset Turnover (x)	0.2	0.2	0.3	0.4	0.4
Current Ratio (x)	2.1	2.5	2.2	2.0	1.9
Quick Ratio (x)	1.1	1.4	1.3	1.3	1.3
Net Debt/Equity (X)	0.4	0.5	0.4	0.4	0.4
Net Debt/Equity ex MI (X)	0.4	0.5	0.5	0.4	0.4
Capex to Debt (%)	0.6	2.1	1.9	1.8	1.7
Z-Score (X)	2.0	2.0	2.1	2.1	2.1

Source: Company, AllianceDBS

Gamuda

Cash Flow Statement (RMm)

FY Jul	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	858	781	917	977	1,034
Dep. & Amort.	20.2	21.6	27.2	31.0	34.6
Tax Paid	(882)	(124)	(183)	(195)	(207)
Assoc. & JV Inc/(loss)	(375)	(413)	(417)	(421)	(425)
Chg in Wkg.Cap.	164	(228)	(76.7)	(88.2)	(101)
Other Operating CF	818	67.3	(50.4)	(61.2)	(73.6)
Net Operating CF	604	105	217	242	262
Capital Exp.(net)	(24.3)	(102)	(100.0)	(100.0)	(100.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	83.5	189	0.0	0.0	0.0
Other Investing CF	(1,473)	(743)	50.4	61.2	73.6
Net Investing CF	(1,413)	(656)	(49.6)	(38.8)	(26.4)
Div Paid	(285)	(289)	(209)	(209)	(209)
Chg in Gross Debt	1,561	650	400	400	400
Capital Issues	219	27.3	0.0	0.0	0.0
Other Financing CF	(167)	198	0.0	0.0	0.0
Net Financing CF	1,328	586	191	191	191
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	518	35.2	358	394	427
Opg CFPS (sen)	18.3	11.9	10.5	11.8	12.9
Free CFPS (sen)	24.1	0.10	4.17	5.06	5.77

Source: Company, AllianceDBS

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	25 Mar 16	4.93	5.80	BUY
2:	01 Apr 16	4.85	5.80	BUY
3:	04 Apr 16	4.88	5.80	BUY
4:	04 May 16	4.75	5.80	BUY
5:	17 May 16	4.72	5.80	BUY
6:	03 Jun 16	4.86	5.80	BUY
7:	24 Jun 16	4.82	5.80	BUY
8:	30 Jun 16	4.86	5.80	BUY
9:	11 Jul 16	4.91	5.80	BUY
10:	05 Aug 16	4.85	5.80	BUY
11:	02 Sep 16	4.85	5.80	BUY
12:	29 Sep 16	4.90	5.80	BUY
13:	06 Oct 16	4.85	5.80	BUY
14:	21 Oct 16	4.93	5.80	BUY
15:	24 Oct 16	4.95	5.80	BUY
16:	07 Nov 16	4.87	5.80	BUY
17:	06 Dec 16	4.69	5.80	BUY
18:	19 Dec 16	4.82	5.80	BUY
19:	10 Jan 17	4.95	5.80	BUY
20:	12 Jan 17	4.94	5.80	BUY
21:	07 Feb 17	4.93	5.80	BUY
22:	03 Mar 17	4.90	5.80	BUY

Source: AllianceDBS

Analyst: Chong Tjen-San

Company Guide

IJM Corp

Version 7 | Bloomberg: IJM MK | Reuters: IJMS.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

15 Mar 2017

HOLD

Last Traded Price (14 Mar 2017): RM3.35 (KLCI : 1,722.47)

Price Target 12-mth: RM3.30 (-1% downside) (Prev RM3.30)

Potential Catalyst: Better earnings delivery, stronger property sales

Where we differ: Below consensus on more conservative property sales

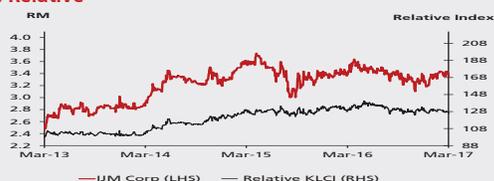
Analyst

Chong Tjen-San, CFA +60 3 26043972 tjensan@alliancedbs.com

What's New

- Feeling more positive post meeting with CEO
- Given its diversified nature and record orderbook, incremental new wins unlikely to rerate the stock
- Better earnings delivery needed but difficult to achieve in near to medium term
- HOLD, TP RM3.30

Price Relative



Forecasts and Valuation

FY Mar (RM m)	2016A	2017F	2018F	2019F
Revenue	5,128	7,345	8,220	8,282
EBITDA	1,145	1,268	1,456	1,547
Pre-tax Profit	1,156	880	1,016	1,055
Net Profit	794	599	687	716
Net Pft (Pre Ex.)	492	599	687	716
Net Pft Gth (Pre-ex) (%)	2.2	21.9	14.6	4.3
EPS (sen)	22.1	16.7	19.2	20.0
EPS Pre Ex. (sen)	13.7	16.7	19.2	20.0
EPS Gth Pre Ex (%)	2	22	15	4
Diluted EPS (sen)	22.1	16.7	19.2	20.0
Net DPS (sen)	11.1	11.1	11.1	11.1
BV Per Share (sen)	252	257	265	274
PE (X)	15.1	20.0	17.5	16.8
PE Pre Ex. (X)	24.4	20.0	17.5	16.8
P/Cash Flow (X)	15.8	14.5	12.8	12.4
EV/EBITDA (X)	15.2	14.2	12.7	12.3
Net Div Yield (%)	3.3	3.3	3.3	3.3
P/Book Value (X)	1.3	1.3	1.3	1.2
Net Debt/Equity (X)	0.4	0.4	0.5	0.5
ROAE (%)	9.1	6.6	7.3	7.4

Earnings Rev (%):		0	0	0
Consensus EPS (sen):		17.0	20.4	21.9
Other Broker Recs:		B: 17	S: 2	H: 5

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

Stronger construction franchise

Better earnings delivery needed. We acknowledge IJM's strong management and execution track record. Its strong balance sheet enables it to fund and participate in larger-scale projects without having to raise equity. Nonetheless given its diversified nature and record orderbook, additional incremental wins may not be an added catalyst for the stock. We think better earnings delivery would be a more important catalyst for the stock. But this may be difficult to achieve in the near to medium term given a still soft property market, lower throughput for Kuantan Port given the moratorium on bauxite and drag from additional amortisation charges for its newer concessions.

Peak orderbook but will continue to grow marginally. Its peak quality orderbook of RM8.7bn incorporates the recent Bukit Bintang City Centre (BBCC) development project win and can provide solid earnings visibility over the next 2-3 years; but this may also limit the group's ability to take on other large-scale projects. Going forward, we expect incremental project wins to be sizeable at a minimum of RM500m per contract and are likely to be margin enhancing. The company's diversified and defensive nature also makes it a less attractive bet to potentially capitalise on more contract flows with the rollout of the 11MP. We estimate every RM1bn increase in new contract wins (vs our base case) would only raise FY18F EPS by <2%.

No visible recovery for property. The focus for property will be on selling existing inventory by offering rebates while future launches will be targeting the more affordable segment. This may be a dampener on margins in the near term. We expect IJM to end FY17F with property sales of RM1.4bn, flat y-o-y. It still has unbilled sales of RM1.76bn, which implies decent visibility over the next 1-2 years.

Valuation:

Our valuation for IJM is based on sum-of-the-parts valuation given its diversified business portfolio. We value the construction business based on a combination of DCF and PE valuation methodologies, while its property and concession businesses are valued based on DCF.

Key Risks to Our View:

Better earnings delivery. We think upside risk for the stock is better earnings delivery. But this will be difficult to achieve given still weak property sales and higher amortisation for its concessions.

At A Glance

Issued Capital (m shrs)	3,609
Mkt. Cap (RMm/US\$m)	12,091 / 2,717
Major Shareholders (%)	
EPF	11.8
KWAP	5.0
Free Float (%)	70
3m Avg. Daily Val (US\$m)	3.5

ICB Industry : Industrials / Construction & Materials

WHAT'S NEW

A longer-term story

More positive post meeting: We feel more positive on IJM post meeting with its CEO but key catalysts are for the longer term.

Better earnings delivery needed: Given its diversified nature and orderbook, incremental new wins unlikely to rerate the stock. In our view, better earnings are needed.

HOLD, TP RM3.30: No changes in our rating and TP.

We had a meeting with IJM's CEO and MD, Dato' Soam and came away feeling more convinced on the group's longer-term prospects. But we think the main catalysts such as the ECRL's impact on IJM's exposure to Kuantan Port may be some years away.

We also acknowledge IJM's strong management and execution track record. Its strong balance sheet enables it to fund and participate in larger-scale projects without having to raise equity. Its status as an FBM KLCI 30 component stock may also lend some supportive interest on the stock.

Nonetheless, given its diversified nature and record orderbook, additional incremental wins may not be an added catalyst for the stock. We estimate every RM1bn increase in new contract wins (vs our base case) would only raise FY18F EPS by <2%.

Hence, we think better earnings delivery would be a more important catalyst for the stock. But this may be difficult to achieve in the near to medium term given the still soft property market, lower throughput for Kuantan Port given the moratorium on bauxite, and drag from additional amortisation charges for Kuantan Port and West Coast Expressway once it comes on stream.

Construction – Moving the needle higher

IJM's current outstanding orderbook now stands at RM8.7bn with the RM1.16bn contract win for the Bukit Bintang City Centre (BBCC) development project. Of this amount, 38% comprises road-related works (mostly WCE), 30% other infrastructure-related works and 33% building jobs. YTD wins for FY17F (Y/E March) have reached RM3bn where major wins have been Kuantan Breakwater with JV partner China Harbour Engineering (RM176m), MRT V203 (RM1.47bn), BBCC (RM1.16bn) and Dewas Bypass Tollway in India (RM185m).

We expressed some concerns on its BBCC project in terms of raw material management given its long project duration of 40 months. IJM explained that it took on this project as it had additional capacity for more building jobs. Additionally, the project value has priced in current steel prices and it is of the view that prices should remain at this level in the medium term. The nominated subcontractor portion for this project is also relatively smaller than usual.

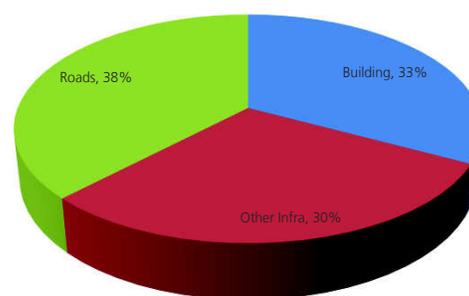
Judging by the Dewas Bypass win in Madya Pradesh, IJM is looking to get its foot back into the Indian market after many

years. It remains focused on the domestic market, citing potential new orderflows for LRT 3, government building jobs, Gemas-JB double tracking and ECRL but also believes it may be opportunistic to revisit the Indian market given the changing conditions there compared to almost a decade ago. With lower interest rates and inflation, commodity prices, better political climate and progressive changes in the land acquisition process, IJM's interest will be more for BOT tollway projects.

The progress of some of IJM's existing projects have been as planned. For example, its MRT V203 package has started some piling work and relocation of utility cables. Its New Deep Water Terminal project Phase 1A is on track for completion by 1QCY18. Its Equatorial Plaza project is running ahead of schedule while there are just two packages left for WCE yet to be awarded. The better progress is reflected in the quarterly burn rate for its construction which was up 32% y-o-y for 3QFY17.

Going forward, incremental project wins will be sizeable at a minimum of RM500m per contract and IJM will definitely be more selective and not tie up resources in lower-margin projects.

Breakdown of orderbook



Source: Company

Potential new orderbook

Internal
Phase 2 of NDWT
Light Phase II - JV with Perennial
Other IJM Land developemnts
External
LRT 3
Gemas-JB double tracking
Government building jobs
ECRL

Source: AllianceDBS

Proxy to ECRL?

IJM is probably the closest listed proxy to the ECRL given its 60% stake in Kuantan Port and also 20% effective stake in the Malaysia-China Kuantan Industrial Park (MCKIP).

IJM owns 60% of Kuantan Port Consortium (KPC) Sdn Bhd, while the rest is owned by Guangxi Beibu Gulf International Group (Guangxi). The MCKIP is the first industrial park in Malaysia to be jointly developed by both Malaysia and China and to be accorded the "National Industrial Park" Status. Together with its sister park, China-Malaysia Qinzhou Industrial Park (CMQIP), the two parks have been identified by both governments as an "Iconic Project for Bilateral Investment Cooperation" that will drive the development of industrial clusters in both countries.

The 620-km East Coast Rail Link (ECRL) EPC contract has been awarded to China Communication Construction Company Ltd (CCCC). The RM55bn project may start construction this year but 2018 would be more realistic given possible land acquisition issues. The alignment will start from Port Klang, connecting townships such as ITT Gombak, Bentong, Mentakab, Kuantan, Kemaman, Kerteh, Kuala Terengganu, Kota Bharu and will end in Tumpat. We understand priority will be given to the portion that connects Kuantan Port to Klang. While the project has been awarded to CCCC, as much as 30% of the project value may be earmarked for local contractors.

Kuantan Port is undergoing an expansion plan to enhance the existing NDWT. This will more than double existing capacity via two phases where works started in 2015. This will bring total capacity up to 52m FWT and there will a new 60-year concession (30 plus 30, first 20 until 2045 and next 30 until 2075) for the port and the NDWT. As mentioned, Phase 1A is slated for completion at the latest by 1QCY18. This will add another 10m FWT where Alliance Steel will eventually take up 70% or 7m of this additional throughput. Alliance Steel is a

subsidiary of Guangxi Beibu Gulf Iron and Steel Co Ltd from China and its plant takes up 710 out of 1,200 acres for Phase 1 of MCKIP. Phase 1B for Kuantan Port has yet to be awarded but the timeline for completion is by end-CY18.

Property – No visible recovery

IJM believes the market will remain subdued for the rest of this year. The focus will be on clearing existing inventory where rebates are being offered and to launch smaller-sized products for its existing townships which have a lower absolute value. It is of the view that products priced at between RM500,000-RM800,000 still have ample demand.

Property sales for 9MFY17 was RM1bn and is on track to reach its RM1.4bn sales target for FY17F. This will be flat y-o-y. Of the sales achieved so far for 9MFY17, 74% is from the central region, 7% from the northern region and the remaining 19% from southern and eastern regions. Its more recent launch in January 2017 for Light Phase 2 in Penang, known as Waterside Residence and priced at RM750 psf for a c.1,000 sqft condominium, has been 60% sold.

To recap, 9MFY17 property revenue was down by 2% y-o-y to RM835m but pretax profit margin (stripping out the effects of forex) was just 10% in 9MFY17 vs 12% in 9MFY16. The lower margin was due to a shift in product mix to focus more on affordable housing as well as incentives offered. Going forward, we expect margins should trend higher, likely in the 13-15% range as its existing inventory is cleared.

Industry – Sitting pretty

Industrial Concrete Products (ICP) currently has an orderbook of RM1.1bn or visibility of close to eight months which is at its peak. Pretax margin of 13.5% in 3QFY17 should be sustainable given the bulk of the orders are for larger diameter piles for NDWT, Kuantan Port, Temburong Bridge in Brunei and RAPID project in Johor. More recently, it has also been exporting more to Myanmar and Singapore.

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

Construction division has never been stronger. IJM’s construction division has never been stronger. Its current orderbook of c.RM8.7bn has surpassed its peak of RM6.7bn in 2007 with the recent BBCC win of RM1.16bn and also the MRT V203 contract worth RM1.47bn. More importantly, the quality of its orderbook is solid now with predominantly local jobs. This compares to 2007 when half of its orderbook comprised legacy overseas projects and raw material costs were also high. It has started to get its foot back into the India market but is extremely selective.

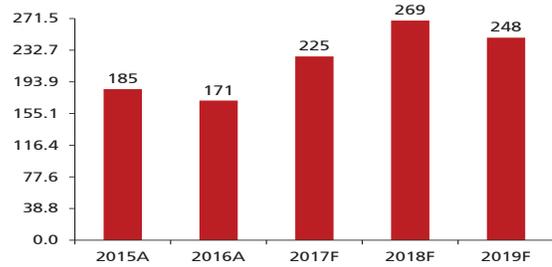
But needs stronger earnings delivery. We acknowledge IJM’s strong management and execution track record. Its strong balance sheet enables it to fund and participate in larger scale projects without having the raise equity. Nonetheless, given its diversified nature and record orderbook, additional incremental wins may not be an added catalyst for the stock. We think better earnings delivery would be more important but this may be difficult to achieve in the near to medium term given a still soft property market, lower throughput for Kuantan Port given the moratorium on bauxite, and drag from additional amortisation charges for Kuantan Port and West Coast Expressway once it comes on stream.

Still a strong contender for 11MP jobs. We expect IJM to be more selective when bidding for new projects given its peak orderbook. The company is still eyeing various projects from the 11MP but will be more selective. It will also try to free capacity by accelerating progress of works in order to capitalise on more flows. We also think it may get a decent portion of works for the Penang Integrated Transport project as and when it kicks off, and is a strong contender for LRT 3, Southern double tracking and ECRL.

Manufacturing division to also benefit from surge in project flows. IJM’s presence in the infrastructure space in Malaysia is twofold – construction, and manufacturing via Industrial Concrete Products. With a 50% market share in the spun piles market, we expect the latter to also benefit from projects such as WCE and Kuantan Port.

Scomi overhang. IJM has raised its stake in Scomi via converting the nominal value of RM110m of convertible redeemable secured bonds. This brings its stake to 24.4% (RM0.365/Scomi share) compared to its initial 7.7% stake (RM0.33/share) in late 2012. In our view, the conversion of the bonds to equity does not represent IJM’s optimism in Scomi but due more to lack of choice. We understand IJM is exploring various options for its oil and gas exposure but for now it will have to equity account for its 24.4% stake.

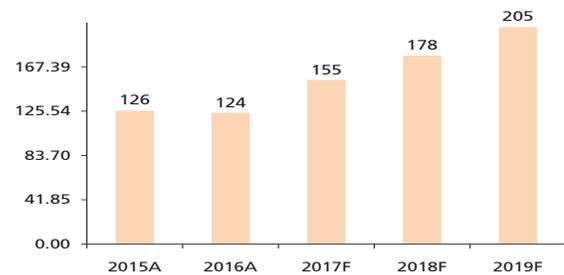
Construction profit contribution



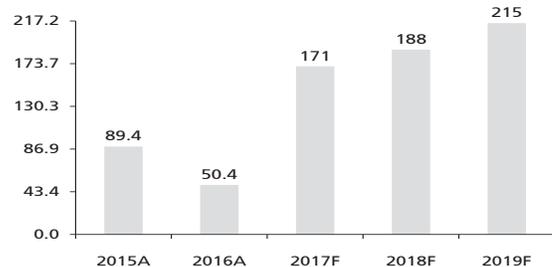
Property profit contribution



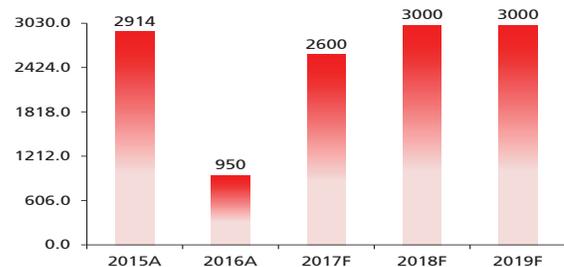
Manufacturing profit contribution



Plantations profit contribution



New order wins



Source: Company, AllianceDBS

Balance Sheet:

Strong balance sheet. IJM's net gearing as at 31 December stood at 0.41x, with net debt of RM4.3bn. While this seems on the high side, about 82% of the outstanding debt is ring-fenced against cash flows from its concession assets.

Special dividends. IJM has declared a special dividend of 3 sen for FY16, bringing its total dividends to 10 sen. It also paid a special dividend of 10 sen in 4QFY14 when it sold its stake in Trichy highway, Kuantan Port and Kemaman Port.

Share Price Drivers:

Less leveraged bet to surge in project flows. Although IJM is a conglomerate, its share price exhibits more correlation to news of new contract wins. But IJM's peak orderbook and more diversified earnings base makes it a less leveraged proxy to the expected surge in contract flows. It stands a good chance of clinching works for other infra-related works but this may not be enough to move the share price. We estimate every RM1bn increase in new contract wins (vs our base case) would only raise FY18F EPS by <2%.

East Coast Railway Link proxy. IJM's Kuantan Port will be a direct beneficiary of the proposed East Coast Railway Link (ECRL) which will connect Port Klang to Kuantan Port in the first phase. The port has the potential to be the main gateway to China and to be positioned as the transshipment hub in the region. It is also undergoing an expansion to double its capacity to 52m FWT from 26m FWT currently. IJM Land also has a 40% stake in the Malaysia Consortium which holds a 51% stake in Malaysia-China Kuantan Industrial Park (MCKIP). MCKIP which has already seen higher total committed investments and will benefit further from the expected increase in economic activity once ECRL is completed.

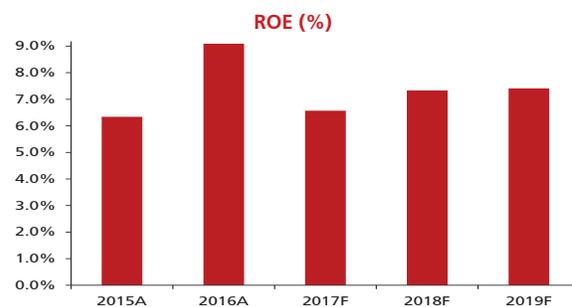
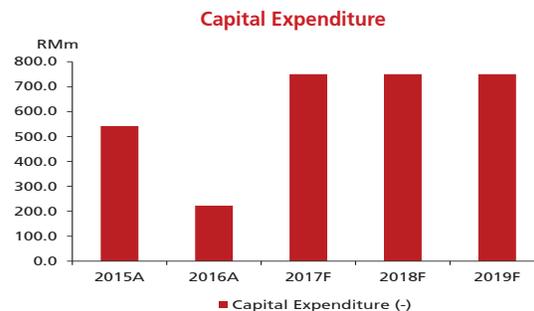
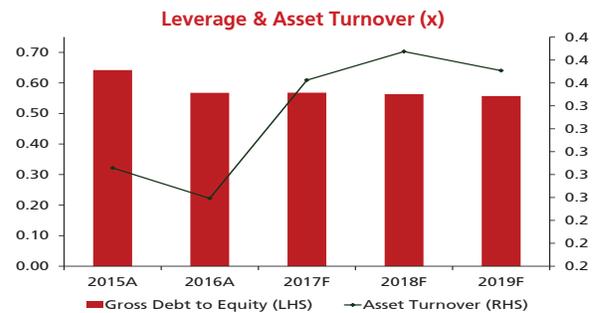
Also a proxy to IJM Land. With the privatisation of IJM Land, investors wanting exposure to its property arm will have to be invested in IJM. Given the lack of listed large-cap township developers, IJM may also appeal when interest returns to the property market.

Key Risks:

Stronger-than-expected wins. We believe IJM will be more selective when bidding for projects, given its peak orderbook. But IJM remains a reputable contractor with a strong execution track record and balance sheet, and may still be present in other projects such as LRT 3.

Company Background

IJM is a conglomerate involved in construction, property development, plantations, industrial products, toll concessions and ports.



Source: Company, AllianceDBS

Key Assumptions

FY Mar	2015A	2016A	2017F	2018F	2019F
Construction profit	185	171	225	269	248
Property profit	495	159	198	244	243
Manufacturing profit	126	124	155	178	205
Plantations profit	89.4	50.4	171	188	215
New order wins	2,914	950	2,600	3,000	3,000

Segmental Breakdown

FY Mar	2015A	2016A	2017F	2018F	2019F
Revenues (RMm)					
Construction	950	1,414	2,828	3,312	3,059
Property	2,116	1,185	1,497	1,542	1,619
Manufacturing & quarry	922	980	1,078	1,186	1,304
Plantation	668	558	851	980	980
Others	792	992	1,091	1,200	1,320
Total	5,448	5,128	7,345	8,220	8,282
PBT (RMm)					
Construction	185	171	225	269	248
Property	495	159	198	244	243
Manufacturing & quarry	126	124	155	178	205
Plantation	89	50	171	188	215
Others	125	651	130	137	144
Total	1,019	1,156	880	1,016	1,055
PBT Margins (%)					
Construction	19.5	12.1	8.0	8.1	8.1
Property	23.4	13.4	13.3	15.8	15.0
Manufacturing & quarry	13.6	12.7	14.4	15.0	15.7
Plantation	13.4	9.0	20.1	19.2	21.9
Others	15.8	65.7	11.9	11.4	10.9
Total	18.7	22.5	12.0	12.4	12.7

Income Statement (RMm)

FY Mar	2015A	2016A	2017F	2018F	2019F
Revenue	5,448	5,128	7,345	8,220	8,282
Cost of Goods Sold	(3,767)	(3,695)	(5,543)	(6,149)	(6,140)
Gross Profit	1,681	1,434	1,802	2,071	2,142
Other Opng (Exp)/Inc	(389)	(434)	(711)	(820)	(828)
Operating Profit	1,292	999	1,091	1,251	1,314
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(30.3)	23.6	24.8	26.0	27.3
Net Interest (Exp)/Inc	(243)	(169)	(236)	(261)	(287)
Exceptional Gain/(Loss)	0.0	302	0.0	0.0	0.0
Pre-tax Profit	1,019	1,156	880	1,016	1,055
Tax	(306)	(274)	(220)	(254)	(264)
Minority Interest	(232)	(88.0)	(60.7)	(75.0)	(75.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	481	794	599	687	716
Net Profit before Except.	481	492	599	687	716
EBITDA	1,470	1,145	1,268	1,456	1,547
Growth					
Revenue Gth (%)	(9.3)	(5.9)	43.2	11.9	0.8
EBITDA Gth (%)	(24.3)	(22.1)	10.7	14.9	6.2
Opg Profit Gth (%)	(27.7)	(22.7)	9.2	14.6	5.1
Net Profit Gth (Pre-ex) (%)	(42.0)	2.2	21.9	14.6	4.3
Margins & Ratio					
Gross Margins (%)	30.9	28.0	24.5	25.2	25.9
Opg Profit Margin (%)	23.7	19.5	14.9	15.2	15.9
Net Profit Margin (%)	8.8	15.5	8.2	8.4	8.6
ROAE (%)	6.3	9.1	6.6	7.3	7.4
ROA (%)	2.5	4.0	3.0	3.2	3.2
ROCE (%)	5.4	4.4	4.6	5.2	5.3
Div Payout Ratio (%)	82.7	50.1	66.4	57.9	55.6
Net Interest Cover (x)	5.3	5.9	4.6	4.8	4.6

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RMm)

FY Mar	3Q2016	4Q2016	1Q2017	2Q2017	3Q2017
Revenue	1,440	1,167	1,313	1,486	1,597
Cost of Goods Sold	(1,071)	(874)	(1,030)	(1,132)	(1,251)
Gross Profit	369	293	283	354	346
Other Oper. (Exp)/Inc	(87.7)	(169)	(99.6)	(99.6)	(104)
Operating Profit	281	124	184	254	242
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(1.1)	24.6	22.0	35.0	(6.9)
Net Interest (Exp)/Inc	(40.9)	(13.9)	(31.1)	(30.2)	(34.0)
Exceptional Gain/(Loss)	133	0.0	0.0	0.0	0.0
Pre-tax Profit	373	135	175	259	201
Tax	(78.3)	(92.9)	(44.7)	(68.7)	(51.8)
Minority Interest	(38.1)	2.29	(14.4)	(26.7)	(10.7)
Net Profit	256	44.2	116	164	138
Net profit bef Except.	123	44.2	116	164	138
EBITDA	280	149	206	289	235

Growth

Revenue Gth (%)	7.5	(19.0)	12.5	13.2	7.4
EBITDA Gth (%)	(1.0)	(46.9)	38.3	40.7	(18.8)
Opg Profit Gth (%)	(0.8)	(55.8)	47.9	38.6	(5.0)
Net Profit Gth (Pre-ex) (%)	(21.5)	(64.0)	161.1	41.9	(15.6)

Margins

Gross Margins (%)	25.6	25.1	21.6	23.8	21.7
Opg Profit Margins (%)	19.5	10.6	14.0	17.1	15.1
Net Profit Margins (%)	17.8	3.8	8.8	11.0	8.7

Balance Sheet (RMm)

FY Mar	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	1,727	1,813	2,255	2,668	3,054
Invt in Associates & JVs	1,268	1,550	1,575	1,601	1,628
Other LT Assets	5,552	5,252	5,384	5,516	5,647
Cash & ST Invt	2,034	1,679	1,270	946	625
Inventory	784	1,092	1,311	1,573	1,888
Debtors	2,428	2,256	2,708	3,249	3,899
Other Current Assets	5,937	6,192	6,192	6,192	6,192
Total Assets	19,731	19,835	20,694	21,744	22,932
ST Debt	1,989	1,477	1,477	1,477	1,477
Creditor	2,020	2,258	2,710	3,252	3,902
Other Current Liab	291	34.9	34.9	34.9	34.9
LT Debt	4,158	4,334	4,484	4,634	4,784
Other LT Liabilities	1,697	1,495	1,495	1,495	1,495
Shareholder's Equity	8,430	9,028	9,224	9,508	9,821
Minority Interests	1,146	1,208	1,269	1,344	1,419
Total Cap. & Liab.	19,731	19,835	20,694	21,744	22,932
Non-Cash Wkg. Capital	6,839	7,248	7,466	7,728	8,042
Net Cash/(Debt)	(4,114)	(4,132)	(4,691)	(5,165)	(5,637)
Debtors Turn (avg days)	159.0	166.7	123.3	132.3	157.5
Creditors Turn (avg days)	209.2	220.0	169.0	183.1	221.0
Inventory Turn (avg days)	70.0	96.5	81.7	88.6	106.9
Asset Turnover (x)	0.3	0.3	0.4	0.4	0.4
Current Ratio (x)	2.6	3.0	2.7	2.5	2.3
Quick Ratio (x)	1.0	1.0	0.9	0.9	0.8
Net Debt/Equity (X)	0.4	0.4	0.4	0.5	0.5
Net Debt/Equity ex MI (X)	0.5	0.5	0.5	0.5	0.6
Capex to Debt (%)	8.8	3.8	12.6	12.3	12.0
Z-Score (X)	0.0	0.0	0.0	0.0	0.0

Source: Company, AllianceDBS

Cash Flow Statement (RMm)

FY Mar	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	1,019	1,156	880	1,016	1,055
Dep. & Amort.	178	145	176	205	232
Tax Paid	(306)	(274)	(220)	(254)	(264)
Assoc. & JV Inc/(loss)	30.3	(23.6)	(24.8)	(26.0)	(27.3)
Chg in Wkg.Cap.	(376)	102	(218)	(262)	(314)
Other Operating CF	4.87	(347)	236	261	287
Net Operating CF	550	759	829	941	969
Capital Exp.(net)	(542)	(222)	(750)	(750)	(750)
Other Invt.(net)	(236)	(563)	0.0	0.0	0.0
Invt in Assoc. & JV	(149)	386	0.0	0.0	0.0
Div from Assoc & JV	11.2	8.37	0.0	0.0	0.0
Other Investing CF	99.4	210	0.0	0.0	0.0
Net Investing CF	(816)	(180)	(750)	(750)	(750)
Div Paid	(430)	(328)	(403)	(403)	(403)
Chg in Gross Debt	625	(468)	(85.7)	(111)	(137)
Capital Issues	298	49.4	0.0	0.0	0.0
Other Financing CF	(417)	29.0	0.0	0.0	0.0
Net Financing CF	76.5	(718)	(489)	(514)	(540)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(189)	(139)	(410)	(324)	(321)
Opg CFPS (sen)	25.8	18.3	29.2	33.5	35.8
Free CFPS (sen)	0.23	15.0	2.21	5.31	6.11

Source: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	13 May 16	3.55	3.30	HOLD
2:	27 May 16	3.41	3.30	HOLD
3:	24 Jun 16	3.44	3.30	HOLD
4:	11 Jul 16	3.44	3.30	HOLD
5:	25 Aug 16	3.43	3.30	HOLD
6:	06 Sep 16	3.40	3.30	HOLD
7:	29 Nov 16	3.25	3.30	HOLD
8:	24 Feb 17	3.36	3.30	HOLD

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Chong Tjen-San

Company Guide

Sunway Construction Group

Version 7 | Bloomberg: SCGB MK | Reuters: SCOG.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

24 Feb 2017

BUY

Last Traded Price (23 Feb 2017): RM1.80 (KLCI : 1,704.48)

Price Target 12-mth: RM2.13 (18% upside) (Prev RM1.92)

Potential Catalyst: Higher construction and manufacturing wins

Where we differ: We are broadly in line with consensus

Analyst

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What's New

- In-line 4Q16 results; expect better FY17 showing
- Strong orderbook to anchor 2017 earnings growth
- Potential jobs win include LRT 3 and BRT
- Maintain BUY, raising TP to RM2.13

Price Relative



Forecasts and Valuation

FY Dec (RM m)	2015A	2016A	2017F	2018F
Revenue	1,917	1,789	2,321	2,739
EBITDA	178	185	231	259
Pre-tax Profit	141	154	194	222
Net Profit	127	124	155	178
Net Pft (Pre Ex.)	127	124	155	178
Net Pft Gth (Pre-ex) (%)	1.9	(2.9)	25.6	14.7
EPS (sen)	9.84	9.55	12.0	13.8
EPS Pre Ex. (sen)	9.84	9.55	12.0	13.8
EPS Gth Pre Ex (%)	2	(3)	26	15
Diluted EPS (sen)	9.84	9.55	12.0	13.8
Net DPS (sen)	4.00	4.00	5.40	6.19
BV Per Share (sen)	34.9	38.1	44.7	52.3
PE (X)	18.3	18.8	15.0	13.1
PE Pre Ex. (X)	18.3	18.8	15.0	13.1
P/Cash Flow (X)	9.9	29.1	15.2	11.2
EV/EBITDA (X)	11.2	10.8	8.4	7.2
Net Div Yield (%)	2.2	2.2	3.0	3.4
P/Book Value (X)	5.2	4.7	4.0	3.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	33.2	26.2	29.0	28.4
Earnings Rev (%):		0	0	0
Consensus EPS (sen):		9.90	12.3	12.8
Other Broker Recs:		B: 10	S: 0	H: 3

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

Executing on peak orderbook

Malaysia's leading pure construction player. Sunway Construction Group (SCG) is the largest listed pure play construction company in Malaysia. Given its strong track record with MRT, LRT and BRT jobs previously, we are of the view that SCG is on a strong footing to bag several key infrastructure packages such as LRT3 and BRT as well as other infrastructure-related and building projects. SCG has also established itself as the only construction specialist to be involved in all three Rapid Line infra projects (MRT, LRT and BRT). This makes the group one of the strongest contenders to win the pipeline of 11MP projects.

Riding on Singapore's public housing development. Its precast division is a strong proxy to the growing demand for HDB residences in Singapore, where the government is targeting to build an additional 88,000 units of public housing in FY16-FY19. With premium EBIT margins recorded over the past few years, the business is ROE-enhancing and also synergistic to its construction business. We estimate that for every incremental RM200m new wins will raise our FY17F forecast by 6% vs 1% for construction wins.

More modest RM2bn order win guidance for FY17F. Not one to rest on its laurels, SCG will be bidding for LRT 3 (already prequalified), private and public sector building jobs and the internal projects from the property arm of its holding company. 2016 wins reached RM2.7bn (including precast) which exceeded its RM2.5bn guidance. For FY17F, it is guiding for RM2bn worth of new wins which should come from a combination of LRT3, internal jobs, precast projects and some other private sector building jobs.

Valuation:

BUY, TP raised to RM2.13. Our TP is based on sum-of-parts (SOP) valuation to reflect the growing contribution from its high-margin precast business. We have ascribed a 10% discount to our new SOP value of RM3.1bn or RM2.34/share to arrive at our target price of RM2.13.

Key Risks to Our View:

The timely execution of its peak orderbook of RM5bn is crucial to minimise the risk of any earnings cuts. With its strong execution track record and experience, we believe the group is able to execute the projects in a timely manner.

At A Glance

Issued Capital (m shrs)	1,293
Mkt. Cap (RMm/US\$m)	2,327 / 523
Major Shareholders (%)	
Sunway Berhad	55.6
Tan Sri Jeffrey Cheah & Family	7.6
Free Float (%)	37.9
3m Avg. Daily Val (US\$m)	0.57

ICB Industry : Industrials / Construction & Materials

WHAT'S NEW

Decent finish, expect much better 2017

4Q16 profit was in-line: A pick-up in precast revenue and profit was seen in 4Q.

RM2bn new orders look achievable: Suncon has already secured 23% of this with an internal win from parent company.

BUY, TP raised to RM2.13. This is to reflect a higher construction orderbook and margins but this is offset by a lower precast orderbook.

In-line. SCG reported a 4Q16 net profit of RM32m (+9% y-o-y, +2% q-o-q), bringing FY16 net profit to RM124m (-3% y-o-y). This is on the back of a 7% decline in FY16 revenue to RM1,789m. The decline in revenue is expected as certain large-scale projects like MRT Line 2 have not filtered through. Additionally, 2015 earnings were buoyed by LRT and MRT V4 package. We expect the earnings momentum to pick up in FY17F as it executes on its strong orderbook.

Construction margins improved for FY16. 4Q16 construction pretax margin was 4.4% vs 3Q16's 9.3% and 4Q15's 2.2%. The lower margin for this quarter was due to certain preparatory costs incurred for MRT Line 2 without recognising the corresponding revenue. On a full-year basis, FY16 margin was 6.4% vs 3.8% in FY15. The better margins for the full year was due to the absence of loss recognition and adjustment for lower margin for its KLCC project last year while there was also better margin recognition for some ongoing projects. Construction turnover for FY16 fell 10% y-o-y to RM1,502m due to the completion of certain projects last year while its foundation and geotechnical engineering services also recorded lower turnover. Its total construction orderbook now stands at RM4.5bn.

Precast revenue picked up. For 4Q16, its precast division recorded turnover and pretax profit of RM87m (+65% y-o-y) and RM17m (14% y-o-y) respectively. On a full-year basis, revenue increased by 13% to RM287m but pretax profit fell by 24% to RM58m. The higher turnover was due to higher average selling prices while the lower profit was due to the finalisation of accounts of certain projects and better pricing of some earlier jobs. Hence, FY16 precast pretax margins normalised to 20% vs 30% in FY15. The outstanding precast orderbook as at 31 December 2016 stood at RM245m, sufficient for more than a year of revenue visibility.

BUY, raising TP to RM2.13. We raise our TP to RM2.13 by assuming a similar 10% discount to its upgraded SOP value. Our higher TP now reflects a higher sustainable orderbook of RM4bn (vs RM3.5bn previously) on the back of margins of 7% (vs 6% previously). This is offset by a lower sustainable precast orderbook of RM300m (vs RM450m previously) to reflect the slower orderbook replenishment for this division.

Quarterly / Interim Income Statement (RMm)

FY Dec	4Q2015	3Q2016	4Q2016	% chg yoy	% chg qoq
Revenue	470	381	553	17.6	45.2
Cost of Goods Sold	0.0	0.0	0.0	N/A	N/A
Gross Profit	470	381	553	17.6	45.2
Other Oper. (Exp)/Inc	(443)	(342)	(516)	16.6	51.1
Operating Profit	27.6	39.6	37.0	34.4	(6.4)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	0.0	0.0	0.0	nm	nm
Net Interest (Exp)/Inc	1.84	0.84	0.60	(67.4)	(28.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	29.4	40.4	37.6	28.0	(6.8)
Tax	0.97	(9.1)	(5.7)	(684.0)	(38.0)
Minority Interest	(1.0)	(0.2)	0.0	99.4	(95.5)
Net Profit	29.4	31.1	32.0	9.0	2.7
Net profit bef Except.	29.4	31.1	32.0	9.0	2.7
EBITDA	27.6	39.6	37.0	34.4	(6.4)
Margins (%)					
Opg Profit Margins	5.9	10.4	6.7		
Net Profit Margins	6.2	8.2	5.8		

Source of all data: Company, AllianceDBS

CRITICAL DATA POINTS TO WATCH

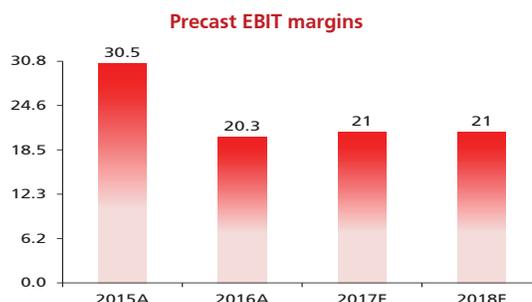
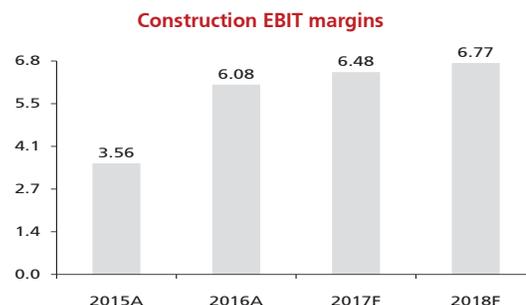
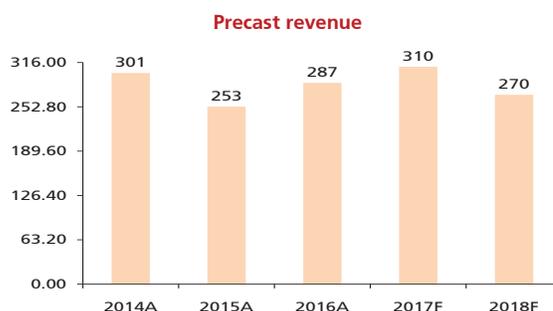
Earnings Drivers:

Sweet spot ahead. We think SCG’s construction segment is entering a ‘sweet spot’ on the back of the expected upturn in Malaysia’s construction industry. Given its notable brand name and strong execution track record, we believe the group is one of the strongest contenders to bag several key projects under the Eleventh Malaysia Plan (11MP). We are of the view that SCG is on a strong footing to bag several key infrastructure packages such as LRT3, BRT and other private sector building jobs.

Stronger infrastructure orderbook. With MRT2 viaduct package (V201) being the major infra win in 2016, its construction orderbook now stands at RM4.5bn (RM4.8bn including precast). For 2016, the company’s new contract wins of RM2.7bn exceeded its initial guidance of RM2.5bn. The quality of its orderbook is also strong and we think margins should also be relatively intact. About half of its outstanding orderbook comes from two key projects – MRT Line 2 V201 and Putrajaya Parcel F where the raw material requirements for MRT aboveground works are borne by the government while it has also locked in half of the steel requirements for the Putrajaya job at lower prices.

Highly profitable precast segment. SCG’s precast segment should be sturdy in contributing a larger share of earnings to the group. SCG’s precast division made up 13-16% of revenue in FY12-FY16. It was the largest earnings contributor in FY15, accounting for 57% of the group’s overall EBIT. The group believes the normalised margin lies in the 20-25% range. This is supported by sustainable orders from the Singapore market. Its Tampines plant will be returned in April 2017 but will be compensated by an additional four lines for its Iskandar plant by 2Q17 and better capacity for its Senai plant. This will increase the capacity of both its Johor plants to c.170,000 m3/year.

What’s in store for 2017? SCG is guiding for a more modest RM2bn worth of new wins, inclusive of precast, in FY17F. Our current forecast is RM2.1bn. This would likely come from one package for LRT 3, in-house projects, private sector building jobs and a pick-up in orders for its precast division. It has already achieved 23% of the RM2bn forecast with an in-house win from its parent company. At this point, it is unlikely to bid for the Pan Borneo Sabah highway project, citing its experience with Pan Borneo Sarawak as a key reason for its non-participation. It is exploring jobs overseas in two countries, Myanmar and Indonesia, but works are just in the preliminary stages.



Source: Company, AllianceDBS

Balance Sheet:

Strong balance sheet and cash generation ability. As at 31 December 2016, the company has a net cash position of RM29m, with no long-term borrowings and minimal working capital requirements going forward. We estimate the group will retain its strong balance sheet with a net cash position in FY17F and FY18F. Meanwhile, its ROAE is expected to hover around the 27-29% level.

Share Price Drivers:

Executing on peak orderbook. SCG's outstanding orderbook now stands at RM4.8bn which is at its peak. This will give it two and a half years' visibility. The largest projects are Putrajaya Parcel F and MRT Line 2, V201 package which form about half of the orderbook. More importantly, we think pretax margins for these two key projects will also be at least 7-8%. Recall that 2015 pretax margin was low at 3.6% due to MRT Line 1 and KLCC project (NEC and Package 2 and 2A) where certain losses and provisions were fully provided for.

Dividend payout policy of at least 35%. SCG is committed to distribute a minimum 35% of its core profit to shareholders, which is rare among construction players. This could be attributable to its sizeable operations with a large asset base that requires little capex spending going forward. We have imputed a 45% dividend payout ratio, based on our strong net cash forecasts. This translates into decent yields of c.3-4%.

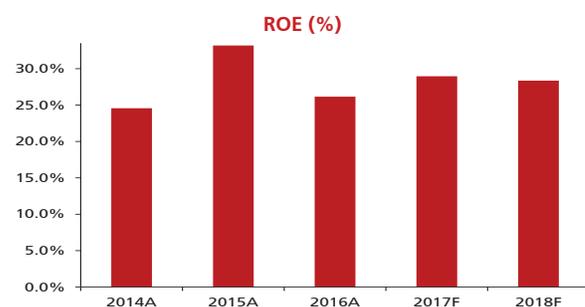
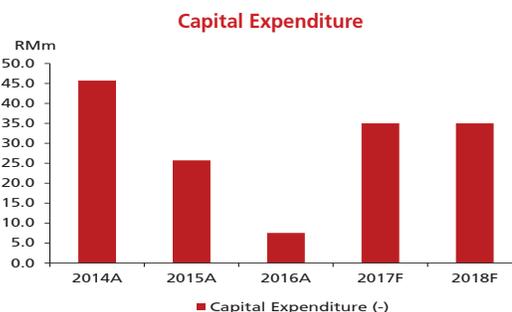
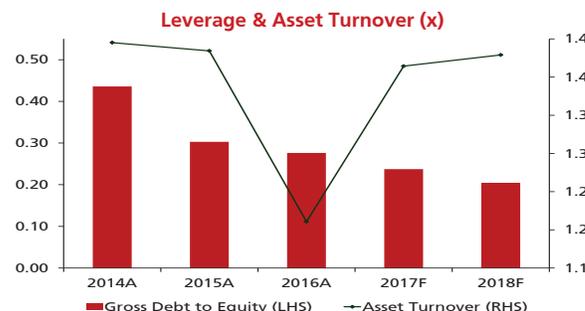
Key Risks:

Delays in construction. There may be project cost overruns due to several factors such as design and engineering issues and soil conditions.

Fluctuating prices of raw materials. The construction business typically requires a wide range of raw materials including steel bars, ready-mixed concrete, diesel, electrical cables and fittings, which are all subject to price fluctuations.

Company Background

An established player with >30 years of heritage, Sunway Construction Group (SCG) is one of Malaysia's largest construction companies. It adopts an integrated business model that covers various phases of construction activities, from project design to completion.



Source: Company, AllianceDBS

Sunway Construction Group

Key Assumptions

FY Dec	2014A	2015A	2016A	2017F	2018F
New order wins	800	2,600	2,700	2,100	2,100
Construction revenue	2,032	1,664	1,502	2,012	2,469
Precast revenue	301	253	287	310	270
Construction EBIT margins		3.56	6.08	6.48	6.77
Precast EBIT margins		30.5	20.3	21.0	21.0

Segmental Breakdown

FY Dec	2014A	2015A	2016A	2017F	2018F
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Revenues (RMm)

Construction	2,032	1,664	1,502	2,012	2,469
Precast Concrete	301	253	287	310	270
Consolidated Adjustments	(452)	0.0	0.0	0.0	0.0
Total	1,881	1,917	1,789	2,321	2,739

EBIT (RMm)

Construction		59.2	91.4	130	167
Precast Concrete		77.1	58.2	65.1	56.7
Total	120	136	150	195	224

EBIT Margins (%)

Construction		3.6	6.1	6.5	6.8
Precast Concrete		30.5	20.3	21.0	21.0
Total	6.4	7.1	8.4	8.4	8.2

Income Statement (RMm)

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenue	1,881	1,917	1,789	2,321	2,739
Cost of Goods Sold	(1,485)	(1,514)	(1,413)	(1,875)	(2,262)
Gross Profit	395	403	376	447	477
Other Opng (Exp)/Inc	(275)	(267)	(227)	(251)	(253)
Operating Profit	120	136	150	195	224
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	30.4	(0.1)	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.72	4.54	4.08	(1.4)	(1.4)
Exceptional Gain/(Loss)	(10.6)	0.0	0.0	0.0	0.0
Pre-tax Profit	141	141	154	194	222
Tax	(26.5)	(13.0)	(30.0)	(38.8)	(44.5)
Minority Interest	0.05	(0.6)	(0.1)	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	114	127	124	155	178
Net Profit before Except.	125	127	124	155	178
EBITDA	162	178	185	231	259
Growth					
Revenue Gth (%)	2.2	1.9	(6.7)	29.8	18.0
EBITDA Gth (%)	90.0	10.1	4.0	24.6	12.3
Opg Profit Gth (%)	183.7	13.4	9.7	30.6	14.6
Net Profit Gth (Pre-ex) (%)	86.5	1.9	(2.9)	25.6	14.7
Margins & Ratio					
Gross Margins (%)	21.0	21.0	21.0	19.2	17.4
Opg Profit Margin (%)	6.4	7.1	8.4	8.4	8.2
Net Profit Margin (%)	6.1	6.6	6.9	6.7	6.5
ROAE (%)	24.6	33.2	26.2	29.0	28.4
ROA (%)	8.5	9.2	8.0	9.1	9.0
ROCE (%)	21.8	25.3	20.9	22.8	23.0
Div Payout Ratio (%)	0.0	40.7	41.9	45.0	45.0
Net Interest Cover (x)	NM	NM	NM	143.6	159.8

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RMm)

FY Dec	4Q2015	1Q2016	2Q2016	3Q2016	4Q2016
Revenue	470	424	430	381	553
Cost of Goods Sold	0.0	0.0	0.0	0.0	0.0
Gross Profit	470	424	430	381	553
Other Oper. (Exp)/Inc	(443)	(389)	(393)	(342)	(516)
Operating Profit	27.6	35.4	37.6	39.6	37.0
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	1.84	2.14	0.51	0.84	0.60
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	29.4	37.5	38.1	40.4	37.6
Tax	0.97	(8.5)	(6.8)	(9.1)	(5.7)
Minority Interest	(1.0)	0.0	0.0	(0.2)	0.0
Net Profit	29.4	29.1	31.3	31.1	32.0
Net profit bef Except.	29.4	29.1	31.3	31.1	32.0
EBITDA	27.6	35.4	37.6	39.6	37.0

Growth

Revenue Gth (%)	4.4	(9.8)	1.4	(11.4)	45.2
EBITDA Gth (%)	(2.4)	28.4	6.3	5.2	(6.4)
Opg Profit Gth (%)	(2.4)	28.4	6.3	5.2	(6.4)
Net Profit Gth (Pre-ex) (%)	14.4	(1.0)	7.8	(0.6)	2.7

Margins

Gross Margins (%)	100.0	100.0	100.0	100.0	100.0
Opg Profit Margins (%)	5.9	8.3	8.7	10.4	6.7
Net Profit Margins (%)	6.2	6.8	7.3	8.2	5.8

Balance Sheet (RMm)

FY Dec	2014A	2015A	2016A	2017F	2018F
Net Fixed Assets	179	163	135	134	134
Invt in Associates & JVs	24.2	0.0	0.0	0.0	0.0
Other LT Assets	10.8	17.4	15.2	15.2	15.2
Cash & ST Invt	222	468	467	516	610
Inventory	20.2	17.3	24.0	23.3	27.6
Debtors	790	835	912	1,132	1,336
Other Current Assets	8.52	14.4	14.9	14.9	14.9
Total Assets	1,254	1,515	1,567	1,836	2,137
ST Debt	135	137	137	138	139
Creditor	791	913	925	1,107	1,309
Other Current Liab	13.2	9.26	11.4	11.4	11.4
LT Debt	0.07	0.0	0.0	0.0	0.0
Other LT Liabilities	4.29	4.10	0.61	0.61	0.61
Shareholder's Equity	315	451	493	579	676
Minority Interests	(5.2)	0.63	0.76	0.76	0.76
Total Cap. & Liab.	1,254	1,515	1,567	1,836	2,137
Non-Cash Wkg. Capital	14.1	(56.1)	14.2	52.2	57.5
Net Cash/(Debt)	86.4	332	331	379	471
Debtors Turn (avg days)	175.7	154.7	178.2	160.7	164.4
Creditors Turn (avg days)	192.4	211.3	243.6	201.6	198.0
Inventory Turn (avg days)	5.8	4.6	5.5	4.7	4.2
Asset Turnover (x)	1.4	1.4	1.2	1.4	1.4
Current Ratio (x)	1.1	1.3	1.3	1.3	1.4
Quick Ratio (x)	1.1	1.2	1.3	1.3	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	33.8	18.8	5.5	25.5	25.3
Z-Score (X)	3.5	3.2	3.4	3.2	3.0

Source: Company, AllianceDBS

Sunway Construction Group

Cash Flow Statement (RMm)

FY Dec	2014A	2015A	2016A	2017F	2018F
Pre-Tax Profit	151	141	154	194	222
Dep. & Amort.	41.6	41.9	35.7	35.6	35.4
Tax Paid	(26.5)	(13.0)	(30.0)	(38.8)	(44.5)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	297	79.9	(71.9)	(38.0)	(5.4)
Other Operating CF	(279)	(13.6)	(7.6)	0.0	0.0
Net Operating CF	184	236	79.9	153	208
Capital Exp.(net)	(45.7)	(25.7)	(7.5)	(35.0)	(35.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	395	(38.8)	86.1	0.0	0.0
Net Investing CF	349	(64.5)	78.5	(35.0)	(35.0)
Div Paid	(429)	(70.0)	(84.0)	(69.8)	(80.1)
Chg in Gross Debt	46.5	1.64	(0.3)	1.00	1.00
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(85.5)	65.7	1.25	0.0	0.0
Net Financing CF	(468)	(2.6)	(83.1)	(68.8)	(79.1)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	65.5	169	75.3	48.9	93.9
Opg CFPS (sen)	(8.7)	12.1	11.7	14.8	16.5
Free CFPS (sen)	10.7	16.3	5.60	9.11	13.4

Source: Company, AllianceDBS

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 Mar 16	1.67	1.92	BUY
2:	29 Mar 16	1.67	1.92	BUY
3:	13 May 16	1.64	1.92	BUY
4:	27 May 16	1.52	1.92	BUY
5:	24 Jun 16	1.55	1.92	BUY
6:	11 Jul 16	1.63	1.92	BUY
7:	23 Aug 16	1.63	1.92	BUY
8:	26 Aug 16	1.62	1.92	BUY
9:	02 Sep 16	1.64	1.92	BUY
10:	06 Oct 16	1.70	1.92	BUY
11:	18 Oct 16	1.67	1.92	BUY
12:	21 Oct 16	1.74	1.92	BUY
13:	24 Oct 16	1.69	1.92	BUY
14:	08 Nov 16	1.65	1.92	BUY
15:	23 Nov 16	1.62	1.92	BUY
16:	06 Dec 16	1.62	1.92	BUY
17:	10 Jan 17	1.70	1.92	BUY
18:	16 Jan 17	1.68	1.92	BUY
19:	07 Feb 17	1.76	1.92	BUY

Source: AllianceDBS

Analyst: Chong Tjen San

Company Guide

WCT Holdings

Version 5 | Bloomberg: WCTHG MK | Reuters: WCTE.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

24 Feb 2017

HOLD

Last Traded Price (23 Feb 2017): RM1.91 (KLCI : 1,708.08)

Price Target 12-mth: RM2.00 (5% upside) (Prev RM2.00)

Potential Catalyst: New order wins, REIT, higher property sales, degearing balance sheet

Where we differ: Our earnings are fully diluted for its warrants

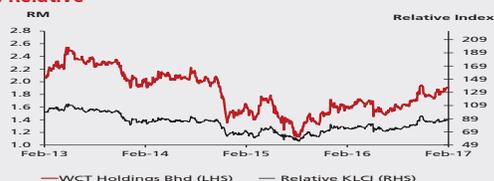
Analyst

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What's New

- 4Q16 below due to impact of FRS139 on trade receivables and fair value losses on JV
- Another disappointing quarter for construction
- Property sales remained weak
- Maintain HOLD and TP of RM2.00

Price Relative



Forecasts and Valuation

FY Dec (RM m)	2015A	2016A	2017F	2018F
Revenue	1,668	1,934	2,594	2,394
EBITDA	234	178	313	323
Pre-tax Profit	272	122	219	228
Net Profit	219	68.4	166	170
Net Pft (Pre Ex.)	161	68.4	166	170
Net Pft Gth (Pre-ex) (%)	33.7	(57.6)	142.6	2.5
EPS (sen)	18.3	4.14	10.0	10.3
EPS Pre Ex. (sen)	13.4	4.14	10.0	10.3
EPS Gth Pre Ex (%)	34	(69)	143	3
Diluted EPS (sen)	16.8	4.14	10.0	10.3
Net DPS (sen)	3.38	3.38	3.38	3.38
BV Per Share (sen)	218	167	175	182
PE (X)	10.5	46.2	19.0	18.6
PE Pre Ex. (X)	14.2	46.2	19.0	18.6
P/Cash Flow (X)	nm	nm	24.6	9.8
EV/EBITDA (X)	18.2	32.1	18.5	17.7
Net Div Yield (%)	1.8	1.8	1.8	1.8
P/Book Value (X)	0.9	1.1	1.1	1.0
Net Debt/Equity (X)	0.7	0.9	0.9	0.8
ROAE (%)	9.0	2.5	5.9	5.8
Earnings Rev (%):		(42)	(1)	(2)
Consensus EPS (sen):		9.00	11.8	13.1
Other Broker Recs:		B: 5	S: 4	H: 10

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

Awaiting changes at the top

New shareholder brings fresh start

WCT's founding shareholder WCT Capital, which owned 245.7m shares or a 19.7% stake, has sold its entire holdings to Tan Sri Desmond Lim Siew Choon (Tan Sri Desmond). His name is synonymous with the Pavilion Group and he owns stakes in Pavilion REIT and Malton. The sale price of RM2.50/share or RM614m translates into 25x and 1.4x FY17PE and P/BV, respectively, based on our estimates.

Deserves narrower property discount. Our key concerns for WCT were its deteriorating property franchise and high gearing levels. In our view, its new shareholder is able to transform its property franchise particularly for key strategic parcels which have strong transport connectivity such as its OUG and TRX land bank. We think the solid brand equity of the Pavilion Group will enable better pricing power while we also do not discount possible JVs to alleviate cash flow constraints. A case in point is the Pavilion Damansara Heights project which managed to draw in the Canada Pension Plan Investment Board as a JV partner. Additionally, its property investments should also trade at parity to its market value given the readily available Pavilion REIT for asset injection. On its gearing levels, this has already started with the disposal of Ascent Paradigm to EPF for RM347m and the recently announced private placement.

Higher margin orderbook. Its outstanding orderbook is now c.RM4.8bn with the most recent win being MRT 2, V204 package worth RM896m. We are encouraged that the majority of its orderbook now constitutes engineering and infrastructure works, which give it more flexibility for margin enhancement. However, note that RM755m of this orderbook relates to TRX infra work which does not generate any cash flow as profits will be used to acquire a plot of land in TRX. WCT has not disclosed new order guidance for 2017 but will likely be at RM2bn.

Valuation:

We have a HOLD rating for WCT and SOP-based TP of RM2.00. We value its construction business using PE, while its property development and property investment units are valued based on DCF and market value respectively.

Key Risks to Our View:

With a stronger construction orderbook and pipeline ahead, we think the key risk now is the lack of clear direction from the new shareholder given that he owns other listed vehicles.

At A Glance

Issued Capital (m shrs)	1,254
Mkt. Cap (RMm/US\$m)	2,395 / 538
Major Shareholders (%)	
Tan Sri Desmond Lim	19.8
EPF	7.7
Free Float (%)	44
3m Avg. Daily Val (US\$m)	0.94

ICB Industry : Industrials / Construction & Materials

WHAT'S NEW**Still no earnings recovery**

4Q16 results below: 4Q earnings impacted by FRS 139 on trade receivables and fair value losses for JV

No meaningful pick-up in construction earnings: This was disappointing as we expected some of its higher margin infrastructure works to have contributed to earnings.

Maintain HOLD and TP of RM2.00. No change in our SOP-derived TP for now.

Another disappointing quarter. 4Q16 headline net profit of RM4m (-95% y-o-y and -86% q-o-q) brought FY16 net profit to RM68m. Included in FY16 earnings was i) impact of FRS139 on trade receivables of RM15m; ii) fair value loss of RM29m on a JV, and iii) RM13m in unrealised forex gain. Stripping these items out, FY16 net profit would have been RM100m which is still below our and consensus forecasts.

No meaningful pick-up in construction earnings. 4Q16 construction EBIT was RM23m vs 3Q16's RM1m and 2Q16's RM30m. Stripping out the effects of forex, we estimate that 4Q16 construction EBIT was marginally profitable at c.RM1m vs 3Q16 loss of RM3m. We had expected some pick-up in construction earnings from its higher margin infrastructure contracts. We will seek more clarification at the analyst briefing.

No improvement for property. 4Q16 property EBIT was RM19m vs 3Q16's RM28m and 2Q16's RM19m. This was on the back of a 25% y-o-y and 30% q-o-q decline in revenue to RM65m. We do not yet have data on FY16 property sales but we think WCT did not meet its FY16F sales target of RM600m unless the sale of Ascent Paradigm is taken into account.

Quarterly / Interim Income Statement (RMm)

FY Dec	4Q2015	3Q2016	4Q2016	% chg yoy	% chg qoq
Revenue	522	414	453	(13.2)	9.4
Cost of Goods Sold	(481)	(365)	(389)	(19.0)	6.7
Gross Profit	41.6	49.6	64.0	53.7	28.9
Other Oper. (Exp)/Inc	(33.4)	(13.9)	(16.0)	(52.2)	14.8
Operating Profit	8.17	35.7	48.0	487.0	34.4
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	73.0	7.21	(23.8)	nm	nm
Net Interest (Exp)/Inc	2.90	(7.3)	(12.8)	nm	(76.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	84.1	35.7	11.4	(86.5)	(68.1)
Tax	(15.4)	(10.8)	(13.2)	(14.0)	22.8
Minority Interest	0.22	0.0	0.0	nm	0.0
Net Profit	68.9	24.9	3.51	(94.9)	(85.9)
Net profit bef Except.	68.9	24.9	3.51	(94.9)	(85.9)
EBITDA	81.2	42.9	24.2	(70.2)	(43.6)
Margins (%)					
Gross Margins	8.0	12.0	14.1		
Opg Profit Margins	1.6	8.6	10.6		
Net Profit Margins	13.2	6.0	0.8		

Source of all data: Company, AllianceDBS

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

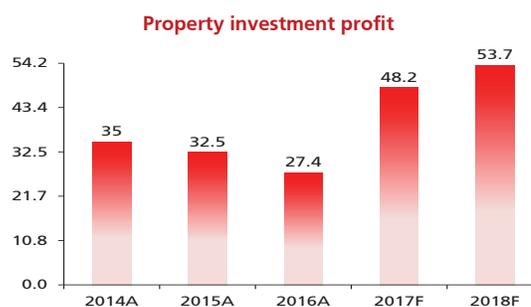
Stronger construction franchise. WCT's construction division has now an outstanding orderbook (including internal jobs) of c.RM4.8bn. We are encouraged that c.75% of its orderbook now constitutes engineering and infrastructure works, which give more flexibility in margin accretion. However, note that RM755m of this orderbook relates to TRX infra work which does not generate any cash flow as profits will be used to acquire a plot of land in TRX. Its guidance of RM2bn worth of new orders in 2016 was largely met with the MRT V204 and assuming it does 70% of works for the Pan Borneo Sarawak project. Projects in the pipeline could come from RAPID, TRX and LRT 3. The revival of its KK Water Supply scheme project will be an added boost to its orderbook, while it will also continue to focus on projects in Qatar.

Softer property sales to offset better construction earnings.

WCT recorded property sales of RM373m in 2015 (vs RM460m in 2014). The key launch for 2016 was its OUG project known as Paradigm Garden City. While the pricing of RM800-850psf is lower than its Azure Residences at RM1000psf, we are concerned that the take-up rates will be lacklustre with the still poor sentiment on the sector. The first phase of Paradigm Garden City is known as R2 (419 units with a GDV of RM418m). Average built-ups are between 941 and 1,619 sq ft. The next phase is slated for end-2016 and will have bigger built-ups of 1,000-2,900 sq ft and comprise 940 units. WCT will likely have to rejig the other components of its OUG project so it does not overlap with the nearby Pavilion Bukit Jalil which is owned by the majority shareholder.

Property investment assets have ready REIT platform. It is more than likely that Paradigm Mall in Kelana Jaya and AEON BBT Mall in Klang will be injected into Pavillion REIT, which is controlled by Tan Sri Desmond. The combined asset size is c.RM1.2bn. The two malls generate positive EBITDA of RM40-45m and RM30m respectively. Although Gateway@KLIA2 has received the extension of its concession period to 25 years (which lowers the yearly amortisation), we think that it will be difficult to inject this asset into the REIT given its concession structure and WCT also only owns 70% of the concession. Post the completion of the renewal of tenancies for Paradigm Mall, WCT has managed to achieve a 10% increase in base rental rates to RM7.50 psf. This is on the back of occupancy rates of 94%.

At a later stage, other assets such as Paradigm Johor Bahru (1.25m sq ft) and Paradigm Mall OUG (1.5m sq ft) may be injected. Paradigm Johor Bahru is slated to open in 1Q17. So far, it has managed to clinch 50% tenancy of the total NLA of 1.25m sq ft and has targeted an average rental rate of RM7.50 psf.



Source: Company, AllianceDBS

Balance Sheet:

Balance sheet to be degeared. WCT is a net debt position of RM3.0bn (net gearing of 1.1x) as at 31 December 2016, inclusive of debt at JV level (Paradigm Mall and Gateway@KLIA2). WCT is looking to dispose of some other assets which could raise up to RM600m. This has begun with the sale of Ascent Paradigm to EPF for RM347m, which is close to the last valuation price of RM355m in December 2015. It remains to be seen if the listing of its construction division will still happen. WCT has proposed a private placement of up to 125m new shares representing 10% of its issued and paid-up share capital. Based on illustrative price of RM1.70/share, proceeds raised could amount to RM213m.

Share Price Drivers:

Stronger contract flows. WCT has yet to give guidance for 2017 new orders but it will likely be at RM2bn.

Resurgence in property sales in 2017. WCT has not been meeting its sales target for the past two years. We await direction on the potential restructuring of its property business which may include sale of less strategic land bank.

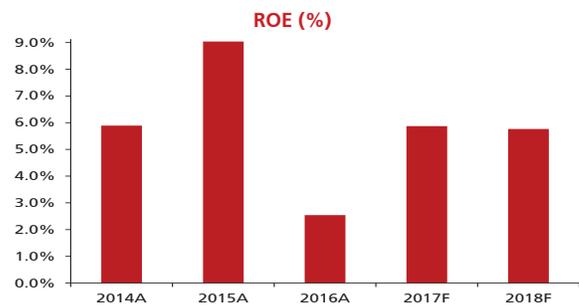
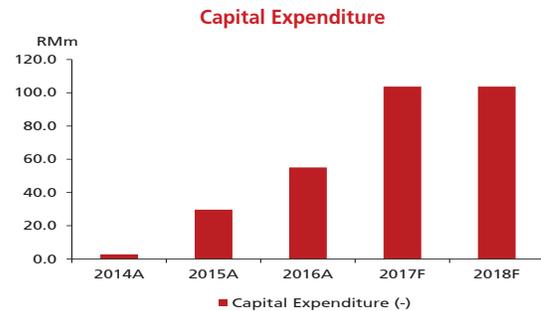
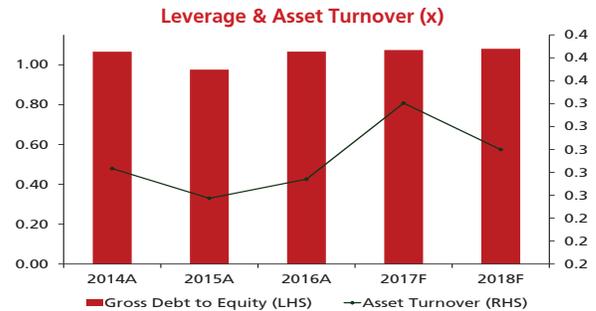
Special dividends? Investors hoping for a bumper special dividend from the successful arbitration for the Dubai race course project will be disappointed. The timeline for completion is expected to be long (two years) while WCT's capex requirements over the next few years are high given the expansion of its retail malls. The arbitral tribunal under the Dubai International Arbitration Centre (DIAC) has ruled in favour of the group in a dispute with the Meydan Group. The total amount to be paid is AED1.1bn (c.RM1.2bn) for work done, repayment of performance bond, loss of profit, damages and interest, arbitration fees and legal costs. The carrying value of performance security deposits and receivables under dispute in WCT's books was c.AED318m (RM330m). Hence, this will translate into a net gain of RM860m or RM0.47/share.

Key Risks:

Execution risks. WCT has been beefing up its orderbook with more civil engineering jobs, which is positive. What is pertinent now is the ability to execute these orders now and deliver better-margin construction earnings. We think this is crucial for a sustained re-rating of the stock.

Company Background

WCT is primarily involved in construction, property development and property investment. Its construction division is involved in a wide array of civil infrastructure and building works. The property division has developments in the Klang Valley, Iskandar Malaysia and Sabah. WCT also owns three malls and a hotel as part of its property investment assets.



Source: Company, AllianceDBS

Key Assumptions

FY Dec	2014A	2015A	2016A	2017F	2018F
Construction new orders	994	3,100	1,932	1,500	1,500
Construction margins	4.85	5.94	3.50	5.28	5.53
Construction profit	93.9	140	56.8	98.8	98.8
Property development profit	73.5	69.0	83.1	85.3	79.8
Property investment profit	35.0	32.5	27.4	48.2	53.7

Segmental Breakdown

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenues (RMm)					
Construction	1,935	2,117	2,984	1,869	1,787
Property Development	399	336	309	577	449
Property Investment	59.9	61.1	61.8	148	157
Others	(732)	(846)	(1,421)	0.0	0.0
Total	1,662	1,668	1,934	2,594	2,394
Pretax profit (RMm)					
Construction	93.9	140	56.8	98.8	98.8
Property Development	73.5	69.0	83.1	85.3	79.8
Property Investment	35.0	32.5	27.4	48.2	53.7
Others	(51.3)	30.4	(45.2)	(13.5)	(4.0)
Total	151	272	122	219	228
Pretax Margins (%)					
Construction	4.9	6.6	1.9	5.3	5.5
Property Development	18.4	20.5	26.9	14.8	17.8
Property Investment	58.4	53.2	44.3	32.7	34.1
Total	9.1	16.3	6.3	8.4	9.5

Income Statement (RMm)

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenue	1,662	1,668	1,934	2,594	2,394
Cost of Goods Sold	(1,429)	(1,467)	(1,695)	(2,129)	(1,909)
Gross Profit	234	201	239	465	485
Other Opng (Exp)/Inc	(215)	(287)	(188)	(195)	(211)
Operating Profit	157	207	144	270	274
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	15.4	30.2	1.03	1.13	1.25
Net Interest (Exp)/Inc	(20.9)	(23.9)	(23.1)	(52.3)	(47.1)
Exceptional Gain/(Loss)	10.0	58.0	0.0	0.0	0.0
Pre-tax Profit	161	272	122	219	228
Tax	(28.5)	(54.9)	(56.8)	(57.7)	(64.1)
Minority Interest	(2.1)	2.49	3.21	4.81	6.01
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	131	219	68.4	166	170
Net Profit before Except.	121	161	68.4	166	170
EBITDA	184	234	178	313	323
Growth					
Revenue Gth (%)	(0.6)	0.3	15.9	34.1	(7.7)
EBITDA Gth (%)	(34.9)	27.0	(23.8)	75.6	3.2
Opg Profit Gth (%)	(38.0)	32.2	(30.5)	87.5	1.5
Net Profit Gth (Pre-ex) (%)	(39.0)	33.7	(57.6)	142.6	2.5
Margins & Ratio					
Gross Margins (%)	14.1	12.0	12.4	17.9	20.3
Opg Profit Margin (%)	9.4	12.4	7.4	10.4	11.4
Net Profit Margin (%)	7.9	13.1	3.5	6.4	7.1
ROAE (%)	5.9	9.0	2.5	5.9	5.8
ROA (%)	2.2	3.4	1.0	2.2	2.1
ROCE (%)	2.6	3.0	1.3	3.1	2.9
Div Payout Ratio (%)	31.0	18.5	81.6	33.6	32.8
Net Interest Cover (x)	7.5	8.7	6.2	5.2	5.8

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RMm)

FY Dec	4Q2015	1Q2016	2Q2016	3Q2016	4Q2016
Revenue	522	485	581	414	453
Cost of Goods Sold	(481)	(419)	(522)	(365)	(389)
Gross Profit	41.6	66.4	58.9	49.6	64.0
Other Oper. (Exp)/Inc	(33.4)	(36.9)	(4.7)	(13.9)	(16.0)
Operating Profit	8.17	29.5	54.1	35.7	48.0
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	73.0	9.15	8.46	7.21	(23.8)
Net Interest (Exp)/Inc	2.90	(13.4)	(12.8)	(7.3)	(12.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	84.1	25.2	49.8	35.7	11.4
Tax	(15.4)	(15.1)	(17.8)	(10.8)	(13.2)
Minority Interest	0.22	(1.3)	0.0	0.0	0.0
Net Profit	68.9	8.83	32.0	24.9	3.51
Net profit bef Except.	68.9	8.83	32.0	24.9	3.51
EBITDA	81.2	38.6	62.6	42.9	24.2

Growth

Revenue Gth (%)	40.4	(7.1)	19.8	(28.7)	9.4
EBITDA Gth (%)	(33.6)	(52.4)	62.0	(31.4)	(43.6)
Opg Profit Gth (%)	(93.2)	260.6	83.6	(34.0)	34.4
Net Profit Gth (Pre-ex) (%)	(19.8)	(87.2)	263.1	(22.4)	(85.9)

Margins

Gross Margins (%)	8.0	13.7	10.1	12.0	14.1
Opg Profit Margins (%)	1.6	6.1	9.3	8.6	10.6
Net Profit Margins (%)	13.2	1.8	5.5	6.0	0.8

Balance Sheet (RMm)

FY Dec	2014A	2015A	2016A	2017F	2018F
Net Fixed Assets	1,232	1,434	1,714	1,774	1,829
Invt in Associates & JVs	528	664	651	652	653
Other LT Assets	1,723	1,966	2,344	2,344	2,344
Cash & ST Invt	952	665	456	510	750
Inventory	506	695	825	870	856
Debtors	1,022	1,156	1,082	1,461	1,368
Other Current Assets	240	183	278	278	278
Total Assets	6,201	6,762	7,348	7,888	8,077
ST Debt	584	520	823	823	823
Creditor	1,025	936	977	1,248	1,166
Other Current Liab	13.2	9.24	13.1	13.1	13.1
LT Debt	1,846	2,073	2,159	2,309	2,459
Other LT Liabilities	452	566	579	579	579
Shareholder's Equity	2,228	2,621	2,763	2,887	3,014
Minority Interests	52.8	36.8	33.9	29.1	23.0
Total Cap. & Liab.	6,201	6,762	7,348	7,888	8,077
Non-Cash Wkg. Capital	729	1,088	1,195	1,348	1,323
Net Cash/(Debt)	(1,479)	(1,928)	(2,526)	(2,622)	(2,532)
Debtors Turn (avg days)	231.8	238.3	211.2	179.0	215.7
Creditors Turn (avg days)	243.3	248.5	210.3	194.7	236.9
Inventory Turn (avg days)	115.4	152.1	167.0	148.2	169.3
Asset Turnover (x)	0.3	0.3	0.3	0.3	0.3
Current Ratio (x)	1.7	1.8	1.5	1.5	1.6
Quick Ratio (x)	1.2	1.2	0.8	0.9	1.1
Net Debt/Equity (X)	0.6	0.7	0.9	0.9	0.8
Net Debt/Equity ex MI (X)	0.7	0.7	0.9	0.9	0.8
Capex to Debt (%)	0.1	1.1	1.8	3.3	3.2
Z-Score (X)	1.2	1.2	1.3	1.3	1.2

Source: Company, AllianceDBS

Cash Flow Statement (RMm)

FY Dec	2014A	2015A	2016A	2017F	2018F
Pre-Tax Profit	161	272	122	219	228
Dep. & Amort.	27.4	26.7	34.3	43.2	49.3
Tax Paid	(58.8)	(60.4)	(44.5)	(57.7)	(64.1)
Assoc. & JV Inc/(loss)	(15.4)	(30.2)	(1.0)	(1.1)	(1.3)
Chg in Wkg.Cap.	(503)	(531)	(274)	(153)	24.5
Other Operating CF	(30.5)	(231)	(0.3)	78.3	85.3
Net Operating CF	(419)	(554)	(164)	128	322
Capital Exp.(net)	(2.8)	(29.7)	(55.1)	(104)	(104)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(96.1)	(106)	(183)	0.0	0.0
Net Investing CF	(98.8)	(136)	(239)	(104)	(104)
Div Paid	(48.8)	(22.6)	(25.0)	(42.6)	(42.6)
Chg in Gross Debt	498	142	381	150	150
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(66.7)	(57.8)	(46.3)	(78.3)	(85.3)
Net Financing CF	383	61.6	310	29.1	22.1
Currency Adjustments	46.7	202	23.3	0.0	0.0
Chg in Cash	(88.3)	(427)	(69.3)	53.8	240
Opg CFPS (sen)	6.99	(1.9)	6.69	17.0	18.0
Free CFPS (sen)	(35.1)	(48.6)	(13.2)	1.50	13.2

Source: Company, AllianceDBS

Target Price & Ratings History

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	26 Feb 16	1.58	1.55	HOLD
2:	26 May 16	1.54	1.55	HOLD
3:	24 Jun 16	1.54	1.55	HOLD
4:	11 Jul 16	1.49	1.55	HOLD
5:	26 Jul 16	1.58	1.55	HOLD
6:	24 Aug 16	1.60	1.55	HOLD
7:	02 Nov 16	1.83	1.55	HOLD
8:	22 Nov 16	1.91	2.00	HOLD
9:	19 Jan 17	1.79	2.00	HOLD

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Chong Tjen San

Company Guide

Muhibbah Engineering

Version 7 | Bloomberg: MUHI MK | Reuters: MUHI.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

1 Mar2017

BUY

Last Traded Price (28 Feb 2017): RM2.50 (KLCI : 1,693.77)

Price Target 12-mth: RM3.10 (24% upside) (Prev RM3.10)

Potential Catalyst: Higher orders for construction and cranes, stronger passenger arrivals for airports

Where we differ: Our EPS for FY17-18F assumes dilution from the proposed private placement

Analyst

Chong Tjen San, CFA +60 3 26043972 tjensan@alliancedbs.com

What's New

- 4Q16 results slightly above expectations
- Infrastructure orderbook on stronger footing
- FY16 Cambodian airport traffic volume grew 9% y-o-y
- Maintain BUY and TP of RM3.10, based on SOP

Price Relative



Forecasts and Valuation

FY Dec (RM m)	2015A	2016A	2017F	2018F
Revenue	1,605	1,919	1,770	1,689
EBITDA	251	259	263	286
Pre-tax Profit	165	171	171	192
Net Profit	86.0	106	117	128
Net Pft (Pre Ex.)	86.0	106	117	128
Net Pft Gth (Pre-ex) (%)	5.4	22.8	10.5	9.7
EPS (sen)	18.2	21.9	22.5	24.7
EPS Pre Ex. (sen)	18.2	21.9	22.5	24.7
EPS Gth Pre Ex (%)	5	20	3	10
Diluted EPS (sen)	18.2	21.9	22.5	24.7
Net DPS (sen)	5.10	4.97	4.50	4.94
BV Per Share (sen)	175	202	207	227
PE (X)	13.7	11.4	11.1	10.1
PE Pre Ex. (X)	13.7	11.4	11.1	10.1
P/Cash Flow (X)	38.3	7.6	25.0	8.3
EV/EBITDA (X)	8.5	8.5	8.9	8.0
Net Div Yield (%)	2.0	2.0	1.8	2.0
P/Book Value (X)	1.4	1.2	1.2	1.1
Net Debt/Equity (X)	0.6	0.4	0.4	0.3
ROAE (%)	11.7	11.7	11.4	11.4
Earnings Rev (%):		0	0	0
Consensus EPS (sen):		22.0	23.6	25.0
Other Broker Recs:		B: 5	S: 0	H: 1

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

Scarcity premium contractor

Scarcity premium. Muhibbah is an ideal proxy to the 11th Malaysian Plan given its expertise in three core areas: i) civil engineering; ii) marine-based construction, and iii) offshore and onshore fabrication works, where its Petronas licence offers an advantage. Other contractors do not have this combination to vie in the competitive civil engineering space.

Cash cow: Cambodia airport concession. Siam Reap and Phnom Penh airports have doubled their capacity to 12m passengers. Passenger arrivals grew 9% to 7.0m in FY16. We estimate its 21% stake in the Cambodia airport concession to be worth RM677m (DCF, WACC 10% and average passenger traffic growth of 5% p.a. until 2040), which is already about two-thirds of the stock's market capitalisation. Revenues are also in USD which can help boost its earnings given the weak MYR.

Still needs more wins. Contract flows for its infrastructure division 2016 have been slow with just two wins, a RM137m building contract from PETRONAS Carigali, in which it has a 70% stake, implying a contract value of RM96m and a smallish contract for the Phnom Penh airport expansion. It started 2017 firmer with a QAR356.7m (c.RM438m) win for infrastructure-related works in Qatar. Though it has a 49% interest in the JV which won this contract, it will do most of the work. For its crane division, it has also replenished orders by RM64m early this year, largely coming from tower related cranes. Its total outstanding orderbook as at February is now RM1.7bn, of which RM1bn comes from infrastructure.

Valuation:

Muhibbah is a BUY with a SOP-derived TP of RM3.10. We value the stock based on SOP as we think this better reflects its diversified business while also capturing its cash-generating Cambodian concession.

Key Risks to Our View:

Delays in project flows and sudden spikes in raw material costs could dampen its earnings outlook.

At A Glance

Issued Capital (m shrs)	480
Mkt. Cap (RMm/US\$m)	1,201 / 270
Major Shareholders (%)	
Mac Ngan Boon	22.1
Lembaga Tabung Haji	9.6
Free Float (%)	60.7
3m Avg. Daily Val (US\$m)	0.44

ICB Industry : Industrials / Construction & Materials

WHAT'S NEW

4Q16 slightly above expectations

4Q16 results slightly above expectations: This was due to higher associate earnings and a lower tax rate.

Construction profits offset lower crane earnings: Its construction division still has an orderbook of RM1bn, which is sufficient for visibility of about a year.

BUY, TP RM3.10: Muhibbah still represents an all-round 11MP proxy in Malaysia with experience in most parts of the infrastructure value chain.

Beat expectations. 4Q16 headline net profit came in at RM32m (+61% y-o-y, +44% q-o-q), bringing its FY16 net profit to RM106m. This was slightly above our forecast and consensus estimate, due to higher associate earnings and a lower effective tax rate (export incentive allowance for crane division).

Higher construction offset lower crane earnings. For FY16, the construction division registered a pretax profit of RM99m, which represents 12% growth on a y-o-y basis. With a RM1bn infrastructure orderbook (as at February 2017), this should ensure decent earnings visibility for about another year.

The crane business under Favelle Favco posted a decline of 33% y-o-y in FY16 pretax profit to RM80m. We understand there was a net impairment of RM14m in 3Q16 for its crane business which the company highlights was done prudently and will be written back when the amount is gradually collected. Its total outstanding orderbook stood at RM620m (as at February 2017) which is sufficient for earnings visibility until 2017. Out of this amount, c.63% comes from offshore cranes (vs peak of 95%). It is quite commendable that it has managed to reduce its dependency on offshore cranes by increasing the exposure to tower cranes.

Higher associate earnings. FY16 associate earnings jumped 46% to RM88m. The strong growth is likely from higher earnings from Roadcare from the concession renewal while there was billings recognised for the construction portion of the Phnom Penh airport concession. FY16 traffic volume grew by 9% to 7.0m passengers. Phnom Penh and Siem Reap airports showed passenger growth of 10% and 6% to 3.4m and 3.5m, respectively, while Silhanoukville passengers grew by 66% to 157k (coming from a low base).

Infrastructure division – strong start to the year. Muhibbah started 2017 on a firm footing with a contract win in Qatar worth QAR356.7m (c.RM438m). Muhibbah has a 49% stake in the JV and its JV partner is Manateq, a leading developer and operator of specialised economic zones, logistic parks, and warehousing parks in Qatar. While a 49% stake for Muhibbah would imply a contract value of RM215m, we understand Muhibbah will be doing the majority of works. Hence, the total contract value could be a lot higher.

Muhibbah Engineering

Quarterly / Interim Income Statement (RMm)

FY Dec	4Q2015	3Q2016	4Q2016	% chg yoy	% chg qoq
Revenue	432	385	646	49.5	67.7
Other Oper. (Exp)/Inc	(403)	(363)	(614)	52.5	69.1
Operating Profit	29.0	21.7	31.6	8.7	45.3
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	20.0	12.2	20.8	4.1	70.7
Net Interest (Exp)/Inc	(8.0)	(6.6)	(3.6)	54.5	45.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	41.0	27.3	48.7	18.8	78.5
Tax	(1.5)	5.29	0.16	(110.6)	(96.9)
Minority Interest	(19.4)	(10.0)	(16.5)	15.0	64.5
Net Profit	20.1	22.6	32.4	61.3	43.6
Net profit bef Except.	20.1	22.6	32.4	61.3	43.6
EBITDA	62.9	33.9	52.4	(16.7)	54.4
Margins (%)					
Opg Profit Margins	6.7	5.6	4.9		
Net Profit Margins	4.6	5.9	5.0		

Source of all data: Company, AllianceDBS

CRITICAL DATA POINTS TO WATCH

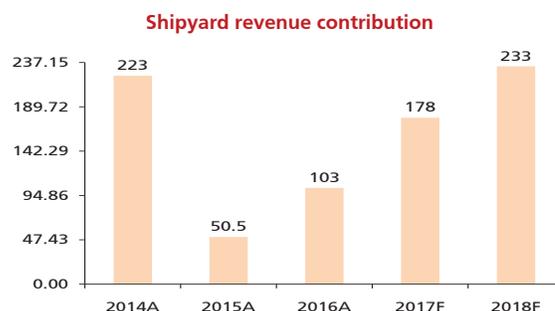
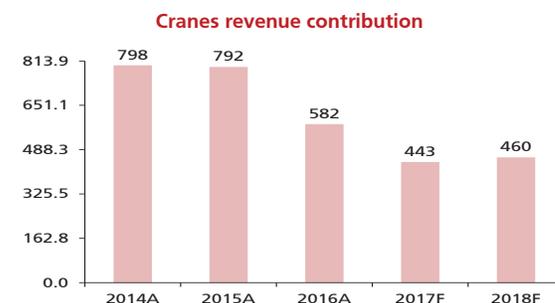
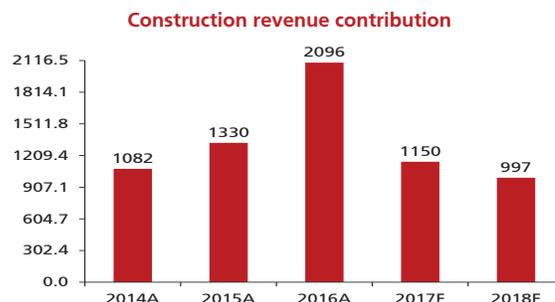
Earnings Drivers:

Still a well-rounded 11MP proxy. Muhibbah’s construction franchise differs from the other bread and butter contractors given its varied expertise in the whole spectrum of the infrastructure chain. With its Petronas licence and marine-based expertise, Muhibbah is poised to clinch more ports and potentially RAPID contracts. Within our construction universe, Muhibbah stands out as an excellent proxy to the 11MP projects. Overall orderbook stood at RM1.7bn (as at February 2017). We believe this will grow further on the back of its strong execution track record while also anchored by its ability to replenish its orderbook.

Infrastructure division most promising. Muhibbah believes the infrastructure sector is on a multi-year upcycle with potentially RM153bn worth of projects up for grabs (RM100bn RAPID, RM50bn Infrastructure Construction and RM3bn Marine/Ports). Muhibbah will be bidding for major projects such as RAPID, MRT Line 2, LRT 3 and WCE, and is quietly confident of clinching other marine-based projects. 2016 order wins have been slow relative to 2015 with just two job wins, one from Petronas Carigali and the other for the Phnom Penh airport expansion. For 2017, it has started the year strongly with a sizeable win in Qatar.

Cambodia airports to double capacity. Effective July 2016, the Siam Reap and Phnom Penh airports will double their existing capacity to 12m passengers. The US\$85m capex has been financed by only one year of operating cashflow, which suggests the airports are cash cows. Passenger arrivals reached 7.0m in 2016 (+9 % y-o-y), led by the recovery in Chinese tourists. Phnom Penh and Siem Reap airports showed passenger growth of 10% and 6% to 3.4m and 3.5m, respectively, while Silhanouville passengers grew by 66% to 157k (coming from a low base). We estimate its 21% stake is worth RM677m (DCF, WACC 10%, RM/USD 4.15, and average passenger growth of 5% p.a. until 2040).

Favco capitalising on other revenue streams. Total outstanding orderbook now stands at RM620m (as at February 2017) which is sufficient for earnings visibility until 2017. Out of this amount, c.63% comes from offshore cranes (vs a peak of 95%). It is quite commendable that it has managed to reduce its dependency on offshore cranes by increasing the exposure to tower cranes. Locally, Favelle Favco has won a total of RM64m new orders so far this year largely for tower cranes. Note that Favelle Favco's cranes have been used to build 12 out of the 14 tallest buildings in the world. We understand there may be M&A opportunities given its strong balance sheet.



Source: Company, AllianceDBS

Muhibbah Engineering

Balance Sheet:

Needs bigger balance sheet. Muhibbah's shareholder's funds as at 31 December 2016 stood at RM1.4bn (including minority interest). The proposed private placement of up to 10% of new shares will help Muhibbah strengthen its capital base. It has received approval until 9 May 2017 to complete this. This will help lower its net gearing while its cash-generating Cambodia airport concession should provide adequate cash flow. Based on the minimum and maximum scenario, this is expected to raise up to RM109-112m. The majority of the proceeds amounting to RM75m will be used to pare down borrowings while the balance will be for working capital purposes.

Share Price Drivers:

Complete proxy to Malaysia infrastructure. Muhibbah is a complete proxy to the Malaysian infrastructure space because of its experience in bread-and-butter civil engineering works, as well as niche marine infrastructure, and onshore and offshore fabrication works. Hence, we expect it to clinch works from RAPID, MRT Line 2, LRT 3, highway and port projects.

Premium for recurring base. In our view, the market continues to discount the strong cash flow of its concession business, particularly the Cambodian airport concession. Contractors which have a higher degree of relatively assured income, such as IJM and Gamuda which own sizeable toll portfolios, should command premium valuations.

Capitalising on Petronas fabrication licence. Muhibbah was awarded the much sought-after Petronas licence to take on offshore facility construction and major onshore fabrication works. This suggests a higher chance of bagging more Petronas-related jobs (downstream works). It has a 57-acre fabrication yard with a total capacity of 25,000 MT per year, making it the third largest among Petronas-licensed fabricators.

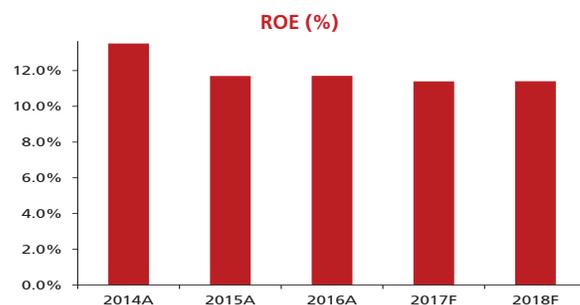
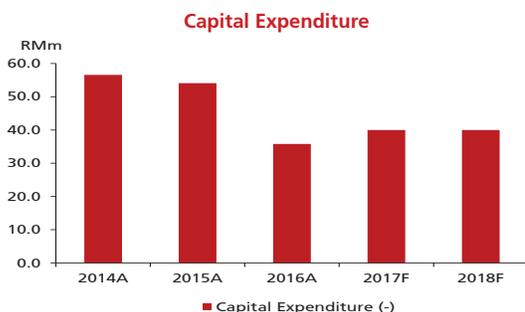
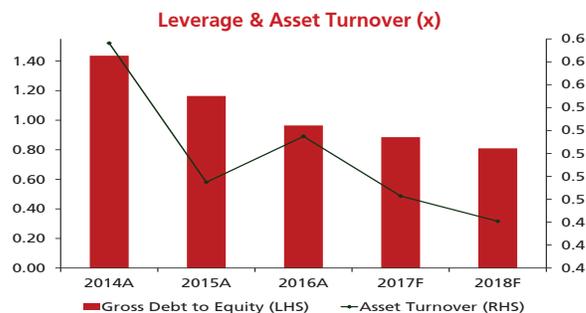
Completed landmark projects. Muhibbah has an impressive track record, having completed a list of landmark projects locally and abroad. Of significance is the LNG Regasification project for Petronas Gas in Melaka and South Klang Valley Expressway.

Key Risks:

Delays in project flows and sudden spikes in raw material costs could dampen its earnings outlook.

Company Background

Muhibbah is primarily involved in construction, fabrication of cranes and shipbuilding. These three core divisions cater largely for the O&G sector. It also holds a 21% associate stake in two concessions, namely the Cambodian airports and Federal road maintenance in Malaysia.



Source: Company, AllianceDBS

Key Assumptions

FY Dec	2014A	2015A	2016A	2017F	2018F
New orders for construction	539	1,267	122	850	1,000
New orders for cranes	435	139	250	400	450

Segmental Breakdown

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenues (RMm)					
Construction	1,082	1,330	2,096	1,150	997
Cranes	798	792	582	443	460
Ships	223	50.5	103	178	233
Inter-segment	(369)	(568)	(862)	0.0	0.0
Total	1,734	1,605	1,919	1,770	1,689

Income Statement (RMm)

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenue	1,734	1,605	1,919	1,770	1,689
Cost of Goods Sold	(1,479)	(1,343)	(1,743)	(1,505)	(1,406)
Gross Profit	254	262	175	266	284
Other Opng (Exp)/Inc	(131)	(138)	(69.4)	(145)	(146)
Operating Profit	123	124	106	121	138
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	49.2	62.2	83.8	77.5	81.4
Net Interest (Exp)/Inc	(28.5)	(20.7)	(18.3)	(27.3)	(26.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	144	165	171	171	192
Tax	(24.8)	(27.8)	(10.8)	(23.3)	(27.8)
Minority Interest	(37.3)	(51.3)	(55.1)	(30.8)	(36.7)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	81.6	86.0	106	117	128
Net Profit before Except.	81.6	86.0	106	117	128
EBITDA	228	251	259	263	286
Growth					
Revenue Gth (%)	(10.5)	(7.4)	19.6	(7.8)	(4.6)
EBITDA Gth (%)	10.9	10.1	3.3	1.5	8.7
Opg Profit Gth (%)	17.2	0.5	(14.3)	13.7	14.4
Net Profit Gth (Pre-ex) (%)	(5.6)	5.4	22.8	10.5	9.7
Margins & Ratio					
Gross Margins (%)	14.7	16.3	9.1	15.0	16.8
Opg Profit Margin (%)	7.1	7.7	5.5	6.8	8.2
Net Profit Margin (%)	4.7	5.4	5.5	6.6	7.6
ROAE (%)	13.5	11.7	11.7	11.4	11.4
ROA (%)	2.8	2.5	2.8	3.1	3.3
ROCE (%)	2.8	2.8	3.4	3.1	3.4
Div Payout Ratio (%)	23.4	27.9	22.7	20.0	20.0
Net Interest Cover (x)	4.3	6.0	5.8	4.4	5.1

Source: Company, AllianceDBS

Muhibbah Engineering

Quarterly / Interim Income Statement (RMm)

FY Dec	4Q2015	1Q2016	2Q2016	3Q2016	4Q2016
Revenue	432	482	406	385	646
Other Oper. (Exp)/Inc	(403)	(464)	(372)	(363)	(614)
Operating Profit	29.0	18.1	34.5	21.7	31.6
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	20.0	18.3	14.1	12.2	20.8
Net Interest (Exp)/Inc	(8.0)	(2.5)	(5.6)	(6.6)	(3.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	41.0	34.0	43.1	27.3	48.7
Tax	(1.5)	(8.1)	(8.2)	5.29	0.16
Minority Interest	(19.4)	(2.1)	(8.1)	(10.0)	(16.5)
Net Profit	20.1	23.8	26.8	22.6	32.4
Net profit bef Except.	20.1	23.8	26.8	22.6	32.4
EBITDA	62.9	36.5	48.7	33.9	52.4

Growth

Revenue Gth (%)	9.7	11.6	(15.7)	(5.3)	67.7
EBITDA Gth (%)	(4.6)	(42.0)	33.4	(30.3)	54.4
Opg Profit Gth (%)	(26.6)	(37.5)	90.4	(37.1)	45.3
Net Profit Gth (Pre-ex) (%)	(12.8)	18.3	12.9	(15.9)	43.6

Margins

Opg Profit Margins (%)	6.7	3.8	8.5	5.6	4.9
Net Profit Margins (%)	4.6	4.9	6.6	5.9	5.0

Balance Sheet (RMm)

FY Dec	2014A	2015A	2016A	2017F	2018F
Net Fixed Assets	725	785	804	784	762
Invt in Associates & JVs	236	257	437	510	587
Other LT Assets	31.0	52.8	48.1	48.1	48.1
Cash & ST Invt	601	578	735	723	816
Inventory	226	301	268	247	250
Debtors	1,334	1,601	1,544	1,455	1,389
Other Current Assets	12.5	18.1	22.4	22.4	22.4
Total Assets	3,165	3,594	3,859	3,790	3,874
ST Debt	1,168	1,221	1,260	1,260	1,260
Creditor	966	1,136	1,058	866	809
Other Current Liab	38.8	33.6	19.0	19.0	19.0
LT Debt	69.3	48.9	73.1	73.1	73.1
Other LT Liabilities	61.9	64.2	66.8	66.8	66.8
Shareholder's Equity	644	826	978	1,070	1,175
Minority Interests	217	265	405	435	472
Total Cap. & Liab.	3,165	3,594	3,859	3,790	3,874
Non-Cash Wkg. Capital	567	751	757	840	834
Net Cash/(Debt)	(636)	(692)	(597)	(610)	(517)
Debtors Turn (avg days)	253.7	333.8	299.1	309.2	307.2
Creditors Turn (avg days)	245.4	300.2	239.2	243.9	228.2
Inventory Turn (avg days)	55.5	75.3	62.1	65.3	67.8
Asset Turnover (x)	0.6	0.5	0.5	0.5	0.4
Current Ratio (x)	1.0	1.0	1.1	1.1	1.2
Quick Ratio (x)	0.9	0.9	1.0	1.0	1.1
Net Debt/Equity (X)	0.7	0.6	0.4	0.4	0.3
Net Debt/Equity ex MI (X)	1.0	0.8	0.6	0.6	0.4
Capex to Debt (%)	4.6	4.3	2.7	3.0	3.0
Z-Score (X)	1.2	1.1	1.3	1.3	1.4

Source: Company, AllianceDBS

Cash Flow Statement (RMm)

FY Dec	2014A	2015A	2016A	2017F	2018F
Pre-Tax Profit	144	165	171	171	192
Dep. & Amort.	55.8	65.2	69.4	64.9	66.7
Tax Paid	(24.8)	(27.8)	(10.8)	(23.3)	(27.8)
Assoc. & JV Inc/(loss)	(49.2)	(62.2)	(83.8)	(77.5)	(81.4)
Chg in Wkg.Cap.	(258)	(174)	13.4	(82.9)	6.37
Other Operating CF	59.9	64.1	(0.6)	0.0	0.0
Net Operating CF	(72.9)	30.8	159	51.9	156
Capital Exp.(net)	(56.6)	(54.1)	(35.8)	(40.0)	(40.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	(45.6)	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	66.6	60.7	13.1	0.0	0.0
Net Investing CF	(35.6)	6.56	(22.7)	(40.0)	(40.0)
Div Paid	(18.9)	(19.1)	(24.0)	(24.0)	(23.3)
Chg in Gross Debt	362	32.9	63.2	0.0	0.0
Capital Issues	(13.7)	19.6	5.76	0.0	0.0
Other Financing CF	(46.4)	(93.5)	(23.8)	0.0	0.0
Net Financing CF	283	(60.2)	21.2	(24.0)	(23.3)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	175	(22.8)	157	(12.1)	93.0
Opg CFPS (sen)	39.3	43.4	30.2	26.0	28.9
Free CFPS (sen)	(27.5)	(5.0)	25.5	2.30	22.5

Source: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	01 Mar 16	2.25	2.90	BUY
2:	04 Apr 16	2.37	2.90	BUY
3:	04 May 16	2.28	2.90	BUY
4:	12 May 16	2.27	3.10	BUY
5:	01 Jun 16	2.14	3.10	BUY
6:	03 Jun 16	2.25	3.10	BUY
7:	24 Jun 16	2.20	3.10	BUY
8:	11 Jul 16	2.21	3.10	BUY
9:	05 Aug 16	2.19	3.10	BUY
10:	01 Sep 16	2.24	3.10	BUY
11:	30 Nov 16	2.20	3.10	BUY
12:	11 Jan 17	2.39	3.10	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Chong Tjen San

Company Guide

Kimlun Corp

Version 9 | Bloomberg: KICB MK | Reuters: KICB.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

10 Mar 2017

BUY

Last Traded Price (9 Mar 2017): RM2.19 (KLCI : 1,717.42)

Price Target 12-mth: RM2.73 (25% upside) (Prev RM2.87)

Potential Catalyst: LRT 3 wins, higher manufacturing wins

Where we differ: Likely broadly in line after cut

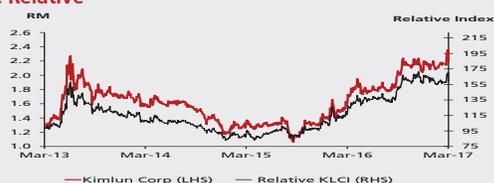
Analyst

Chong Tjen San, CFA +60 3 26043972 tjensan@alliancedbs.com

What's New

- 2017 will be transition year for earnings due to timing of manufacturing orders
- This is exacerbated by high degree of operating leverage. We cut FY17-18F earnings by 13%/4%
- LRT 3 win crucial to beat order win forecast
- BUY with lower TP of RM2.73

Price Relative



Forecasts and Valuation

FY Dec (RM m)	2015A	2016A	2017F	2018F
Revenue	1,054	941	1,068	1,065
EBITDA	124	136	124	147
Pre-tax Profit	86.4	109	98.3	120
Net Profit	63.8	81.9	74.7	91.3
Net Pft (Pre Ex.)	70.7	81.9	74.7	91.3
Net Pft Gth (Pre-ex) (%)	56.8	15.9	(8.8)	22.2
EPS (sen)	21.2	27.3	24.9	30.4
EPS Pre Ex. (sen)	23.5	27.3	24.9	30.4
EPS Gth Pre Ex (%)	57	16	(9)	22
Diluted EPS (sen)	17.7	22.7	20.7	25.3
Net DPS (sen)	3.80	5.80	4.97	6.07
BV Per Share (sen)	153	179	199	224
PE (X)	10.3	8.0	8.8	7.2
PE Pre Ex. (X)	9.3	8.0	8.8	7.2
P/Cash Flow (X)	21.0	10.8	27.1	6.1
EV/EBITDA (X)	5.9	5.1	5.7	4.4
Net Div Yield (%)	1.7	2.6	2.3	2.8
P/Book Value (X)	1.4	1.2	1.1	1.0
Net Debt/Equity (X)	0.1	0.1	0.1	CASH
ROAE (%)	14.8	16.4	13.1	14.4
Earnings Rev (%)			(13)	(4)
Consensus EPS (sen):			26.3	25.8
Other Broker Recs:	B: 6	S: 0	H: 1	

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

A transition year

Still a cheap infrastructure proxy. Within our construction universe, Kimlun Corp (Kimlun) stands out as the most direct small-cap proxy to the sector which also boasts an under-appreciated manufacturing division. 2017 will be a transition year for earnings given the timing of manufacturing orders. Valuation remains cheap at single-digit PE on the back of promising new order replenishment.

Shaking off the Iskandar legacy. Its construction orderbook stands at RM1.67bn where the largest project is the Pan Borneo Highway (PBH) Sarawak project. Its total orderbook including manufacturing is RM1.9bn. It has successfully reinvented itself to be a less Johor-centric contractor in the high-rise space and raised its exposure to more infrastructure works. The percentage of public/private sector exposure in 2016 was 53%/47% (vs 4%/96% in 2014) and building/infrastructure related jobs is now 53%/47% (vs 91%/9% in 2014). Some of the strategies for its construction division are to target non-residential projects, bid for more infrastructure-related projects and look for opportunities outside of Iskandar Malaysia.

Under-appreciated manufacturing division. The key differentiating factor for Kimlun vs other contractors is its precast division which boasts gross profit margins of >20%, thanks to less intense competition. The award of the RM199m Segmental Box Girder (SBG) project and RM53m for Tunnel Lining Segment (TLS) for MRT Line 2 has further bolstered the earnings prospects of this division. In addition, this division will benefit from more MRT projects in Singapore, as well as higher adoption of IBS-related works for the affordable housing market.

Valuation:

Our TP is now set at RM2.73, based on 11x FY17F PE. At 11x, this is at +1SD valuation of its historical mean, which we think is fair given its still strong orderbook, higher earnings base and strong balance sheet.

Key Risks to Our View:

Low-margin wins. The biggest risk is its perceived over-reliance on projects in Johor. We think this is mitigated by its stringent bidding process where it only accepts projects from strong clients while also ascertaining the saleability of projects.

At A Glance

Issued Capital (m shrs)	310
Mkt. Cap (RMm/US\$m)	679 / 152
Major Shareholders (%)	
Phin Sdn Bhd	29.1
Tin Pang	6.3
Free Float (%)	64.6
3m Avg. Daily Val (US\$m)	0.22
ICB Industry : Industrials / Construction & Materials	

WHAT'S NEW**Quietly Confident**

Key highlight. 2017 will be a transition year in terms of earnings growth due to timing of manufacturing orders.

Cutting earnings: This is to reflect the timing of manufacturing orders while exacerbated by the high degree of operating leverage.

Room to exceed new order guidance. A win for LRT 3 will ensure it exceeds construction new order win guidance.

BUY, TP lowered to RM2.73. We maintain our BUY rating. Our TP is lowered to RM2.73 to reflect the lowered earnings. We raise our target PE to 11x (vs 10x) at +1SD of historical mean which reflects its higher earnings base, ROE-enhancing manufacturing business which is set to benefit from more mega projects and its still strong orderbook. Yesterday's sell-off in its share price may have adequately reflected the expectation of lower earnings this year.

A transitional year. We believe the key highlight at yesterday's analyst briefing is that FY17 will be transitional year in terms of earnings for Kimlun. This is because of the timing gap of orders for its Singapore MRT and Deep Water Sewerage System (DTSS) project while its Tunnel Lining Segment (TLS) contract for Klang Valley MRT Line 2 may only see delivery towards the later part of 2017. Hence, there may be a build-up in inventory before revenue can be recognised in FY18F.

Hence, for now FY16 will be the temporary peak for the group's earnings which were lifted by recognition of variation orders (VO) for construction and higher-margin manufacturing works.

We cut our FY17-FY18F earnings by 13% and 4% to RM75m and RM91m respectively. This is to factor in:-

- i) Lower orders of RM150m for its manufacturing division vs RM250m previously. This is due to the timing gap for recognition of more MRT TLS orders in Singapore where contracts for the Eastern Region Line as well as the DTSS are only expected in late 2017/early 2018.
- ii) Lower margins for its manufacturing division of 22% for FY17F vs 24% previously. This is to reflect the lower-margin segmental box girders (SBG) orders for MRT Line 2 as well as the higher operating leverage nature of the business.
- iii) This is balanced off by higher FY17F new order wins for construction of RM800m vs RM700m previously as we expect Kimlun to be present in some infrastructure projects apart from its bread-and-butter traditional jobs.

FY17F order win outlook. Guidance for new order wins for FY17F remains unchanged for construction at RM700-800m for traditional jobs excluding LRT while for manufacturing it has been lowered to c.RM100m (vs RM200m which was articulated at our KL Conference) due to reasons mentioned earlier. Every RM300m worth of new orders for construction will raise our FY17F net profit by 8%.

Besides tenders for the precast viaducts and other portions for LRT 3 where Kimlun has submitted for Segmental Box Girders (SBG), pilecap and the Johan depot, it has been invited to bid for the two packages for the civil engineering portion.

Its current outstanding orderbook is RM1.9bn, of which RM1.67bn is from construction and the remaining RM0.26bn from manufacturing. For its outstanding orderbook, the percentage of public/private sector exposure in 2016 was 53%/47% (vs 4%/96% in 2014) and building/infrastructure-related jobs is also 53%/47% (vs 91%/9% in 2014). Its infrastructure-related contract for the Keck Seng group is also testament of its conscious effort to diversify out of building-related works.

List of selected construction contracts

Project	Value (RMm)
Pan Borneo Highway Sarawak - Serian Roundabout to Pantu Junction	1460.8
Service Apartment Johor Bahru, IOI Properties	296.4
Affordable apartment in Johor Bahru, UEM Sunrise	230.7
Selangorku Affordable Apartments Selangor, Kuok Brothers	165.8
Gleneagle Medini Hospital for Pantai Hospital Johor	105
Houses in Johor Bahru, Mah Sing	98.3
Site clearing, earthwork and other infra works for Keck Seng	41.4
Houses in Kota Tinggi, KPRJ Builders	40.9

Source: Company

Lower margins in FY17F. Kimlun registered construction and manufacturing margins of 12.4% and 30.6% for FY16F respectively. This was an improvement from 8.3% and 27.3% in FY15. Its manufacturing margins will trend lower as it recognises the lower margin SBG contract for MRT Line 2. Also due to high operating leverage of this business, the timing gap for orders and the need to cover fixed overheads will put pressure on margins.

Progress of largest contract – Pan Borneo Highway Sarawak.

The largest project in its orderbook currently is its PBH Sarawak project (Serian Roundabout to Pantu Junction) worth RM1,460m. It has a 30% interest in the JV Company which was awarded this contract. Zecon owns the remaining 70%. We understand progress of works have reached about 5% with some earthworks and drainage done. The key challenges

for the project for the group appears to be the swampy nature of the land and dealing with the erratic weather. However, it appears confident in managing its raw material requirements with its own in-house quarry and premix business and strong management team.

Manufacturing division boasts strong international clientele.

Kimlun's manufacturing division boasts of strong clientele for its exposure to the MRT in Singapore. Some of the clients include Shanghai Tunnel Engineering China, Shimizu Corporation Japan, Sinohydro China, CREC and CTCI Taiwan. We think this will put it in good stead when contending for other large transport-related infrastructure projects locally which are won by foreign players.

Its Senawang plant will focus on the SBG and TLS production for MRT Line 2 while also ensuring there is enough capacity should it win orders for LRT 3 and other IBS-related works. Orders for the Singapore Thomson MRT project (supplied by its Ulu Choh plant in Johor) is at its tail end and there will likely be a timing gap before the newer orders come on stream. To bridge this, it is actively bidding for IBS and jacking pipe contracts.

Other potential wins going forward could be for MRT Line 3 locally. The contract amount for MRT Line 3 TLS should be significant higher as two-thirds of the line is supposed to be underground.

The Singapore MRT project offers another avenue for growth where Kimlun has already built a strong track record since 2006. The award of contracts for Eastern Region Line has started and Kimlun has so far won one package worth SGD8m.

This division could also benefit once the HSR is rolled out as it owns the manufacturing facilities where there will be two stations – one in Senawang, Negeri Sembilan and one in Johor.

List of selected manufacturing contracts

Project	Customer	Value (m)
Pre-cast concrete TLS for Singapore MRT		
- 4 packages under Thomson Line and 1 package under Thomson East Coast Line	Shanghai Tunnel Engineering, China	SGD 58.9
	Shimizu Corporation, Japan	
	Sinohydro, China	
	CREC, China	
	Presscrete Engineering, Singapore	SGD 9.7
Precast jacking pipes for sewer projects, Singapore		
Precast sleepers for MRT Singapore	CTCI, Taiwan	SGD 2.22
SBG, MRT Line 2	MRT Corp	RM199
Precast TLS for MRT Line 2	MMC-Gamuda JV	RM52.80

Source: Company

Strong proxy to affordable housing segment. Out of the expected RM700-800m new orders for construction this year, we understand the majority could comprise orders from the affordable housing segment. Besides benefitting from the rollout of more government-backed initiatives such as PPA1M, PRIMA and Syarikat Perumahan Negara Berhad, it is seeing an increased usage of Integrated Building Systems (IBS) from the private sector. This is because of the higher cost and shortage of labour. The government's policy where affordable housing needs are to have no less than 70% of IBS content will ensure the longer-term sustainability of orders from this segment.

It has secured RM560m worth of affordable housing projects from the private sector since 4Q13. Some of the more notable wins were a RM231m contract for UEM Sunrise in January for the construction of affordable apartments and a RM166m contract for Kuok Group in May 2016 for the construction of Selangorku affordable apartments. The percentage of IBS revenue to construction revenue has been rising steadily from 18% in 2010 to 39% in 2015 but fell to 29% in 2016.

We understand GP margins for IBS jobs are in the range of 9-12% vs 7-9% for other normal construction work, making the company an ideal proxy to this space.

CRITICAL DATA POINTS TO WATCH

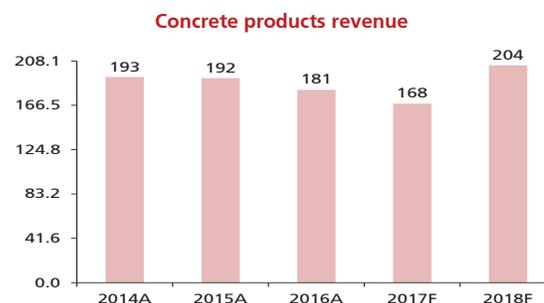
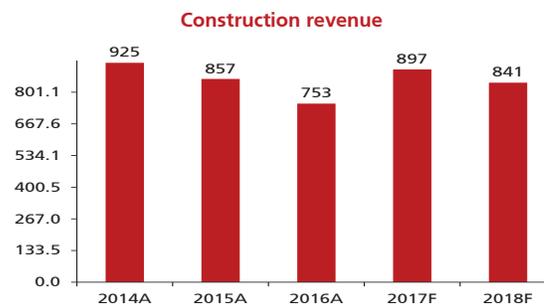
Earnings Drivers:

Construction segment remains a key earnings driver. Kimlun's construction arm made up 79-92% of revenue in FY07-FY16. It was the largest earnings contributor in FY11, peaking at 85% of the group's gross profit. Group gross profit (GP) margins, however, hit a low of 9.5% in FY14 as margins had been declining over the years due to a larger share of Johor high-rise residential projects in the orderbook. Note that these projects have higher M&E portion, on which Kimlun only earns minimal margins. This has since improved to 11.7% in FY15 and 12.5% in FY16.

More selective on jobs. Kimlun will be more selective on jobs in order to be less reliant on high-rise developments in Johor, which is currently seeing a surplus. The group is raising its exposure to the non-residential projects and will be bidding aggressively for more infrastructure projects. Given that it has a strong niche in TLS and SBG works in MRT projects, the group has won the SBG and TLS works packages for MRT2. Previously, for MRT1, it had secured c.50% market share based on overall contracts of RM272m (RM223m: SBG and RM49m: TLS).

Manufacturing generates higher margins. Kimlun operates two manufacturing plants – in Ulu Choh in Johor, and a newer plant in Senawang, Seremban. It manufactures concrete products such as segmental box girders and other reinforced precast concrete products for the infrastructure and building sectors in Malaysia and Singapore. FY15-FY16 manufacturing segment margins were strong at 26-31%, buoyed by larger sales orders for jacking pipes and better TLS margins. But this is expected to fall in FY17F due to recognition of lower-margin orders. In our view, this division sets it apart from other conventional contractors. This division operates in a less competitive environment and hence still boasts superior margins. It will continue to benefit from the expansion of MRT Lines in Singapore and Malaysia.

Property launches on the back burner. Kimlun launched a small property project in Pontian (GDV: RM48m) comprising 131 units. Sales at its maiden property project called the Hyve in Cyberjaya (SOHO and offices; GDV RM235m) has achieved 83% take-up rate with RM6.7m worth of unbilled sales. The softening property market has prompted the group to defer the launch of its residential projects in Iskandar Medini (GDV RM447m) comprising 865 SOHO and retail units. It has also expanded its land bank with the recent purchase of Kota Tinggi Land (currently registered as agriculture land). This was purchased at just RM5psf before land conversion and spans some 141 acres.



Source: Company, AllianceDBS

Kimlun Corp

Balance Sheet:

As at 31 December 2016, the group had RM36m net debt, translating into 0.07x net gearing. There is minimal capex requirement going forward, with the completion of the Senawang plant. We estimate annual capex requirement at RM25m over the next few years. The company completed a one-for-four rights issue in March 2014.

Share Price Drivers:

Capitalising on MRT projects in Malaysia and Singapore.

Kimlun has already won a RM199m contract for SBG and RM53m for TLS for MRT Line 2. Kimlun has been supplying TLS to MRT projects in Singapore since 2006, while also jacking pipe projects for various sewerage projects in Singapore. It had secured 40% of the total TLS share for the Downtown and Thomson Lines and will be aiming for work for the Eastern Region Line. We understand the award of contracts for Eastern Region Line has started and Kimlun has submitted its tenders.

Capitalising on other infra-related projects. Its ability to win the PBH contract validates its potential to clinch more infra projects going forward. It has submitted the tender bid for Central Spine Road, both as a main and sub-contractor. Kimlun has done well in reinventing itself to move away from more building-related projects and increase the exposure to the public sector. For its outstanding orderbook, the percentage of public/private sector exposure in 2016 was 53%/47% (vs 4%/96% in 2014) and building/infrastructure-related jobs is 53%/47% (vs 91%/9% in 2014).

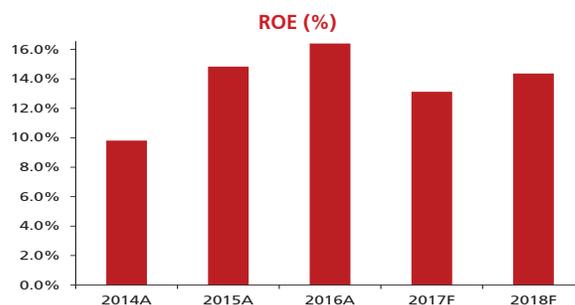
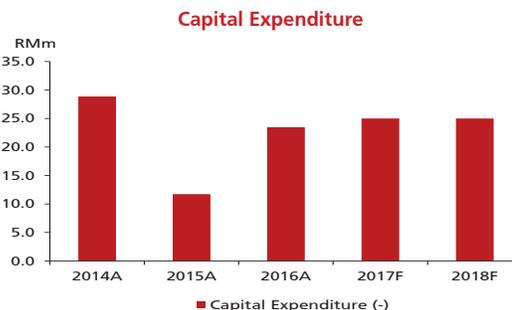
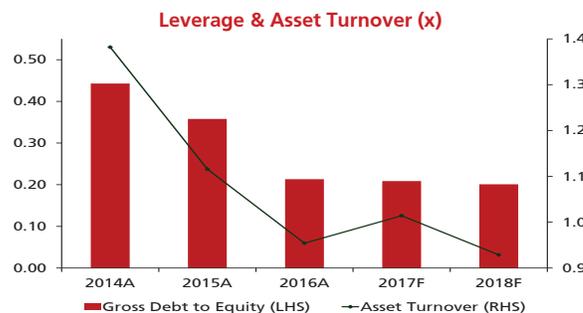
Proxy to affordable housing with richer margins. Kimlun will be a clear beneficiary of more affordable housing programmes by PRIMA, Syarikat Perumahan Negara Berhad and 1Malaysia Civil Servant Housing Scheme given its capability in IBS systems. We understand GP margins for IBS jobs are in the range of 9-12% vs 7-9% for other normal construction work. In our view, this would make it an ideal proxy to the affordable housing market which appears to be a key focus for most developers now.

Key Risks:

Rising material prices and delay in awards. A surge in raw material prices like cement and steel would potentially lead to margin erosion. Also, any delay of government projects under the 11MP would possibly have an adverse impact on the group's earnings performance.

Company Background

Kimlun is primarily involved in construction and the manufacture of concrete products. Its construction division is mainly involved in building jobs for property developments in Johor, while its concrete products are mainly used in the construction of MRT lines.



Source: Company, AllianceDBS

Key Assumptions

FY Dec	2014A	2015A	2016A	2017F	2018F
Construction revenue	925	857	753	897	841
Concrete products	193	192	181	168	204
Construction margins	5.97	8.43	12.5	9.20	9.50
Concrete products	16.4	26.1	30.9	22.0	24.5
Total contract wins	380	870	1,700	950	950

Segmental Breakdown

FY Dec	2014A	2015A	2016A	2017F	2018F
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Revenues (RMm)

Construction	925	857	753	897	841
Concrete products	193	192	181	168	204
Property	101	4.67	6.57	4.00	20.0
Investment	0.27	0.25	0.07	0.0	0.0
Total	1,220	1,054	941	1,068	1,065

Operating profit (RMm)

Construction	55.2	72.2	94.5	82.5	79.9
Concrete products	31.6	50.1	56.0	36.9	50.0
Property	28.7	0.65	0.80	0.40	2.00
Investment	0.27	0.25	0.07	0.0	0.0
Total	116	123	151	120	132

Operating profit Margins

Construction	6.0	8.4	12.5	9.2	9.5
Concrete products	16.4	26.1	30.9	22.0	24.5
Property	28.4	14.0	12.2	10.0	10.0
Total	9.5	11.7	16.1	11.2	12.4

Income Statement (RMm)

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenue	1,220	1,054	941	1,068	1,065
Cost of Goods Sold	(1,104)	(931)	(790)	(948)	(933)
Gross Profit	115	123	151	120	132
Other Opng (Exp)/Inc	(37.6)	(20.1)	(37.8)	(28.8)	(29.7)
Operating Profit	77.8	103	113	90.9	102
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	3.97	13.1	24.1
Net Interest (Exp)/Inc	(12.6)	(9.5)	(7.8)	(5.8)	(6.2)
Exceptional Gain/(Loss)	(10.8)	(6.9)	0.0	0.0	0.0
Pre-tax Profit	54.4	86.4	109	98.3	120
Tax	(16.1)	(22.7)	(27.1)	(23.6)	(28.8)
Minority Interest	(4.1)	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	34.3	63.8	81.9	74.7	91.3
Net Profit before Except.	45.1	70.7	81.9	74.7	91.3
EBITDA	102	124	136	124	147
Growth					
Revenue Gth (%)	28.8	(13.6)	(10.7)	13.6	(0.3)
EBITDA Gth (%)	49.3	20.7	10.2	(9.0)	18.4
Opg Profit Gth (%)	56.7	32.1	9.7	(19.4)	12.4
Net Profit Gth (Pre-ex) (%)	26.3	56.8	15.9	(8.8)	22.2
Margins & Ratio					
Gross Margins (%)	9.5	11.7	16.0	11.2	12.4
Opg Profit Margin (%)	6.4	9.8	12.0	8.5	9.6
Net Profit Margin (%)	2.8	6.1	8.7	7.0	8.6
ROAE (%)	9.8	14.8	16.4	13.1	14.4
ROA (%)	3.9	6.8	8.3	7.1	8.0
ROCE (%)	5.8	10.1	11.6	10.0	11.1
Div Payout Ratio (%)	26.3	17.9	21.3	20.0	20.0
Net Interest Cover (x)	6.2	10.9	14.4	15.8	16.4

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RMm)

FY Dec	4Q2015	1Q2016	2Q2016	3Q2016	4Q2016
Revenue	232	235	246	224	235
Cost of Goods Sold	(197)	(199)	(206)	(193)	(192)
Gross Profit	34.5	35.9	40.3	30.7	43.7
Other Oper. (Exp)/Inc	(5.5)	(11.0)	(7.2)	(6.9)	(8.8)
Operating Profit	29.0	24.9	33.2	23.8	34.9
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(2.3)	(2.2)	(2.1)	(1.9)	(1.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	26.7	22.7	31.1	22.0	33.3
Tax	(5.3)	(5.6)	(6.9)	(5.5)	(9.1)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	21.4	17.1	24.1	16.5	24.2
Net profit bef Except.	21.4	17.1	24.1	16.5	24.2
EBITDA	39.0	29.8	37.9	28.7	34.9

Growth

Revenue Gth (%)	(3.8)	1.2	4.9	(9.0)	5.0
EBITDA Gth (%)	(2.1)	(23.7)	27.3	(24.4)	21.7
Opg Profit Gth (%)	(0.3)	(14.1)	33.1	(28.2)	46.7
Net Profit Gth (Pre-ex) (%)	9.2	(20.1)	41.0	(31.6)	46.5

Margins

Gross Margins (%)	14.9	15.3	16.4	13.7	18.6
Opg Profit Margins (%)	12.5	10.6	13.5	10.6	14.8
Net Profit Margins (%)	9.2	7.3	9.8	7.4	10.3

Balance Sheet (RMm)

FY Dec	2014A	2015A	2016A	2017F	2018F
Net Fixed Assets	161	152	161	167	171
Invts in Associates & JVs	0.0	10.1	17.3	17.3	17.3
Other LT Assets	6.36	2.95	52.0	52.0	52.0
Cash & ST Invts	86.1	96.8	79.0	73.4	148
Inventory	21.1	21.5	18.5	23.4	23.0
Debtors	596	585	480	585	584
Other Current Assets	44.2	105	190	190	190
Total Assets	915	973	999	1,108	1,186
ST Debt	111	102	47.4	50.0	54.0
Creditor	325	342	298	338	332
Other Current Liab	6.75	7.05	43.8	43.8	43.8
LT Debt	67.8	62.7	67.7	75.0	81.0
Other LT Liabilities	0.0	0.0	2.57	2.57	2.57
Shareholder's Equity	400	460	539	599	672
Minority Interests	4.19	0.0	0.0	0.0	0.0
Total Cap. & Liab.	915	973	999	1,108	1,186
Non-Cash Wkg. Capital	330	362	347	417	421
Net Cash/(Debt)	(93.0)	(67.7)	(36.0)	(51.6)	13.4
Debtors Turn (avg days)	175.8	204.6	206.6	182.0	200.3
Creditors Turn (avg days)	108.3	133.8	151.5	124.9	134.0
Inventory Turn (avg days)	6.4	8.5	9.4	8.2	9.3
Asset Turnover (x)	1.4	1.1	1.0	1.0	0.9
Current Ratio (x)	1.7	1.8	2.0	2.0	2.2
Quick Ratio (x)	1.5	1.5	1.4	1.5	1.7
Net Debt/Equity (X)	0.2	0.1	0.1	0.1	CASH
Net Debt/Equity ex MI (X)	0.2	0.1	0.1	0.1	CASH
Capex to Debt (%)	16.1	7.1	20.4	20.0	18.5
Z-Score (X)	3.0	2.9	3.3	3.3	3.3

Source: Company, AllianceDBS

Cash Flow Statement (RMm)

FY Dec	2014A	2015A	2016A	2017F	2018F
Pre-Tax Profit	65.2	93.4	109	98.3	120
Dep. & Amort.	24.7	20.9	19.5	19.9	20.5
Tax Paid	(16.1)	(22.7)	(27.1)	(23.6)	(28.8)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(12.2)	27.8	63.8	(70.3)	(3.4)
Other Operating CF	21.1	(88.0)	(104)	0.0	0.0
Net Operating CF	82.7	31.4	60.8	24.3	108
Capital Exp.(net)	(28.9)	(11.7)	(23.5)	(25.0)	(25.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	10.7	0.03	0.18	0.0	0.0
Net Investing CF	(18.1)	(11.7)	(23.3)	(25.0)	(25.0)
Div Paid	(9.0)	(11.4)	(17.4)	(14.9)	(18.3)
Chg in Gross Debt	(56.1)	(14.6)	(49.5)	10.0	10.0
Capital Issues	30.1	0.0	0.0	0.0	0.0
Other Financing CF	24.4	17.1	11.6	0.0	0.0
Net Financing CF	(10.6)	(8.9)	(55.3)	(4.9)	(8.3)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	54.0	10.8	(17.8)	(5.6)	75.1
Opg CFPS (sen)	31.6	1.17	(1.0)	31.5	37.2
Free CFPS (sen)	17.9	6.53	12.4	(0.2)	27.7

Source: Company, AllianceDBS

Target Price & Ratings History

Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	14 Mar 16	1.71	2.38	BUY
2:	30 Mar 16	1.83	2.38	BUY
3:	04 Apr 16	1.82	2.38	BUY
4:	04 May 16	1.79	2.38	BUY
5:	31 May 16	1.77	2.38	BUY
6:	03 Jun 16	1.78	2.38	BUY
7:	24 Jun 16	1.79	2.38	BUY
8:	11 Jul 16	1.84	2.38	BUY
9:	05 Aug 16	1.80	2.38	BUY
10:	30 Aug 16	1.88	2.38	BUY
11:	22 Sep 16	2.14	2.87	BUY
12:	30 Nov 16	2.07	2.87	BUY
13:	19 Jan 17	2.11	2.87	BUY
14:	28 Feb 17	2.14	2.87	BUY

Source: AllianceDBS

Analyst: Chong Tjen San

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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