

Company Focus

Econpile Holdings

Refer to important disclosures at the end of this report

Malaysia Equity Research

17 June 2014

OFFER PRICE: RM0.54
FAIR VALUE: RM0.63

Closing date : 18 June 2014

Listing date : 30 June 2014

Analyst

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AT A GLANCE

LISTING DETAIL

Issue manager	RHB Investment Bank
Funds raised (RM m):	48.6
Shares on offer (m):	145.0
New shares (m):	90.0
Vendor shares (m):	55.0
Placement shares (m):	27.0
Public shares (m):	114.5

POST LISTING

Ordinary share cap (m shares):	535.0
Par value (sen):	20
Mkt Cap (RM m):	288.9
Est Free Float %:	27.1

USE OF PROCEEDS (RM m)

Capital expenditure:	12.2
Working capital:	14.6
Repayment of borrowings	18.2
Estimated listing expenses:	3.7

Forecasts and Valuation

FY June (RM m)	2013A	2014F	2015F	2016F
Revenue	386	431	453	473
EBITDA	52	58	63	66
Pre-tax Profit	39	43	47	48
Net Profit	28	31	34	35
Net Pft (Pre Ex.)	28	31	34	35
EPS (sen)	5.2	5.7	6.3	6.6
EPS Pre Ex. (sen)	5.2	5.7	6.3	6.6
EPS Gth (%)	62	10	10	5
EPS Gth Pre Ex (%)	62	10	10	5
Net DPS (sen)	-	1.1	1.3	1.3
PE (X)*	10.4	9.4	8.5	8.2
PE Pre Ex. (X)*	10.4	9.4	8.5	8.2
Net Div Yield (%)	-	2.1	2.3	2.4

*Based on offer price of RM0.54

Source of all data: Company, AllianceDBS, Bloomberg

Substantial Shareholders:

The Cheng Eng	36.4
Pang Sar	36.4

INITIAL PUBLIC OFFERING – Main Market

- Pilling and foundation player with 13% market share
- Industry to grow at 9% CAGR between 2013-2018
- Heavy orderbooks of main contractors will support demand for subcontractors
- Fair value of RM0.63 based on 10x FY15 PE

Key pilling player. Econpile is a key player in the Malaysian pilling and foundation field with a 13% market share. While it's pilling works are mainly for buildings, Econpile has also undertaken pilling works for power plants, rail structures, elevated roads, LRT extension and the MRT. The bulk of its jobs are secured via subcontracts from main contractors.

Key construction element. Pilling and foundation works made up 10% of the overall construction industry in value terms. An independent market research by Protégé estimates that the pilling and foundations sub-segment is projected to grow at a CAGR of 9% between 2013 and 2018.

Spillovers to subcontractors. While main contractors can undertake pilling and foundation works themselves, most subcontract out as it requires specialist skills and heavy investment in equipment. Following a record high domestic contract awards in the past 2 years, we believe that the demand for pilling and foundations subcontractors will remain strong as main contractors are tied down with heavy orderbook commitments.

Orderbook growth. Econpile's orderbook stands at RM450m, implying 1.2x cover over FY13 revenue. Historically, it managed to bag RM300-400m in new jobs annually. Given its plans to add on capacity (currently 80-85% utilized) via new machinery, its orderbook replenishment potential should grow and we have assumed RM400-450m in new job wins for FY15-16.

Fair value of RM0.63. We forecast FY14/15/16 earnings to grow 10%/10%/5% underpinned by (i) stronger orderbook replenishment, (ii) margin expansion once the MRT pilling is completed in Dec and (iii) interest savings from debt repayments. Our fair value of RM0.63 is based on 10x FY15 PE. This reflects a discount to its closest listed peer, Pintaras Jaya (11.3x FY15 PE), given Econpile's smaller market capitalization.

List of selected contract completed by Econpile

Project
Various works for Putrajaya administrative centre (Government buildings and apartments)
Piling & foundation works for Pavillion shopping centre (incl. bored pile installation up to 92m deep)
Piling, diaphragm, earthworks, substructure and basement works for The Troika @ Jln. Binjai, Kuala Lumpur
Piling & foundation works for apartments and basement carpark @ Jalan Menerung and extension of shopping complex in Jalan Maarof, Bangsar
Bored piling for Package N3 of electrified double-tracking project between Ipoh and Padang Besar
Piling for infrastructure development at Tanjong Agas Oil & Maritime Industrial Park, Pekan, Pahang
Bored piling works for terminal approach (elevated) road for new airport in Sepang, Selangor
Piling, substructure, and basement works for the 30-sty Menara Hap Seng 2, Kuala Lumpur



Bored Piling: Pavilion KL shopping centre



Bored Piling: Ipoh-Padang Besar double-tracking



Bored Piling: Elevated terminal approach road for new airport in Sepang, Selangor

Source: Company

Orderbook summary of Econpile and list of selected contracts

Project
Klang Valley MRT (Packages V1 and V6)
Piling and substructure works for the 50-sty Pavilion Residences @ Jalan Bukit Bintang
Piling works, diaphragm wall and basement construction works for 55-sty W Hotel and The Residences @ Jalan Ampang
Piling works for 2-block apartment and podium carpark @ Jalan Medang Serai, Bangsar
Bored piling works for development of power plant in Johor

Orderbook[^]

	RM ('mil)
Contracts/Orders brought forward from the 7-mth FPE 31.1.2014	331.52
New contracts/orders secured from 1.2.2014 till LPD of 15.4.2014	118.36
	449.88

[^]Excludes value of completed work in respect of ongoing projects which have been recognized in revenue



Bored Piling: Klang Valley MRT Package V6



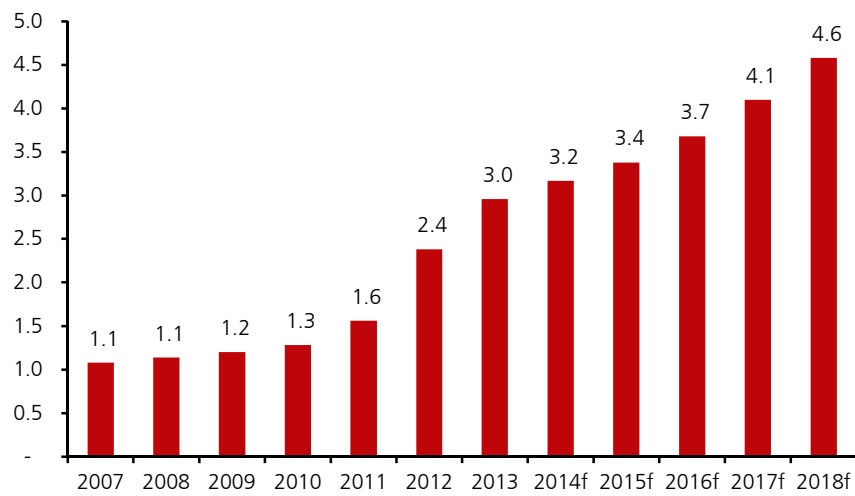
Bored Piling: Jalan Medang Serai, Bangsar high-end apartments



Bored Piling: Tanjung Bin Power Plant

Source: Company

Market size and growth projection for the piling and foundation industry in Malaysia (RM bn)



Source: Independent market research by Protégé

Piling solutions offered by Econpile



Bored Piles

- Entails boring a hole into soil or rock to the required depth and placing reinforcement and concrete into the bored hole.
- Supports higher vertical column loads; widely used for high-rise buildings, bridge piers, etc.
- Reliable and economical solution for adverse ground conditions, especially limestone bedrock areas.

Driven Piles

- Uses pre-manufactured/precast piles which are driven into the ground by hydraulic hammers
- Conventional method for medium rise buildings and structures.



Jack-In-Piles

- Involves pre-manufactured/precast piles being jacked into the ground by exerting large force using hydraulic or mechanical jack-in machine.
- Creates lesser vibrations and noise vs driven piles; suited for densely-populated areas

Source: Company

Econpile Holdings**Peer comparison (as at 16 June 2014)**

Company	Target price	Share Price	Market Cap	EPS Growth (%)		P/E (x)		ROE (%)		Net Dividend Yield (%)	
	(RM)	(RM)	(RM m)	FY14	FY15	FY14	FY15	FY14	FY15	FY14	FY15
Econpile Holdings	0.63	0.54	288.9	9.9	10.4	9.4	8.5	18.9	17.9	2.1	2.3
Pintaras Jaya	NR	4.34	695.0	1.1	12.1	13.2	11.7	18.1	18.3	3.0	3.0
Simple Average				5.0	11.3	11.3	10.1	18.5	18.1	2.6	2.7

Note: FYE for both companies is June

Sources: AllianceDBS, Bloomberg

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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