

IPO Price **RM 0.54***

Stock Data

Board / Sector Main / Construction
Post-IPO issued shares 535
Post-IPO market cap (RM)* 288.9m

Financial Forecast

(RMm)	12A	13A	14F	15F
Revenue	305.8	386.1	425	400
Pretax profit	23.9	38.6	35.5	43
Net profit	17.2	27.9	31	33.1
DPS (sen)**	-	-	1.4	1.5
EPS (sen)**	3.2	5.2	5.8	6.2
PER (X)	16.8	10.4	9.3	8.7
ROE (%)	25.7	31.5	20.3	19.7

Important Balance Sheet Items (proforma FY14)

NA / share (RM)	0.29
Net Assets (RM)	152.7m
Net Cash/(Debt) (RM)	31.7m
Current Ratio (times)	2.1
Gearing (times)	Net Cash
Debt/Asset (times)	0.47

* final IPO price will equal the lower of: i) the IPO price of RM0.54 per share and ii) the institutional price to be determined by way of bookbuilding.

** based on enlarged share cap.

Important dates (indicative)

Events	
Opening of applications	11 June 2014
Closing of applications	18 June 2014
Balloting of applications	20 June 2014
Allotment of shares	25 June 2014
Listing	30 June 2014

(Source: Company prospectus)

The Research Team

research.dept@jfapex.com.my
603 8736 1118 (ext: 754)

Investment Highlights

- **The piling specialist** - Econpile Holdings Bhd (EHB), founded in 1987, is the leading player in piling and foundation services in the local construction industry. The Group provides a comprehensive range of piling solutions, earthworks services and substructure and basement construction works. The Group is ISO 9001:2008 accredited for quality management and holds a Grade 7 license that enables its participation in tenders for projects with unlimited value.
- **Expertise in the property segment** - Outstanding order book stands at RM450m comprising RM400m in property projects and RM50m in infrastructure projects. Meanwhile, the Group is targeting RM300m of order book replenishment on the back of RM2b worth of projects it is tendering, with more focus being aimed at the property segment, which is the Group's forte and thus giving EHB better margins as compared to infrastructure works.
- **Piling and foundation is a safe bet** – As piling and foundation works are usually in the early stage of construction works, payment and cash flow risks are substantially reduced. Besides, the segment, which constitutes 10-15% of the total construction value, provides better profit margins of more than 10%, which is relatively higher than the 6-10% from civil works. The Group has delivered more than RM2b worth of local projects and its foothold can be seen all over Malaysia.
- **Partnering the big names** - The Group has been working together with established developers in town including Selangor Dredging Bhd, Putrajaya Perdana Bhd, Tropicana Corp, and Glomac for more than 10 years and also enjoy close relationship with IOI Properties Bhd. With near term growth strategies focussed in getting the right product mix by concentrating in the property segment, the Group, however adopts conservative and selective approach in prioritising the right project with lower risk and working with the right partner.
- **Backed by sturdy balance sheet** – Net gearing is low at 0.05x as of 9MFY2014 while the Group is expected to be in net cash position post-IPO with the proceeds projected to increase the cash level to RM54m or 10sen/share. That would pave the way for the Group to declare decent dividend to shareholders with the Group promising to pay out not less than 20% of its Profit After Tax. We estimate DPS of 1.5sen/share in FY2015 by assuming a payout ratio of 25%, translating into a yield of 2.8%.

Key Risks

- **Low floating of shares post-IPO.**
- **Health of the construction/property industry**
- **Failure in securing new contracts**
- **Availability/Fluctuations in prices of raw materials**
- **Dependence on foreign labour**
- **Changes in government regulation**

Recommendation

- **Subscribe with fair value of RM0.68** - We derived our fair value by ascribing 11x PER to its FY2015F EPS of 6.2 sen, which is in line with the multiples we peg to other small-cap construction counters. However, the valuation is a slight discount against its closest peer, Pintaras Jaya, which is currently trading close to 12x forward PE as the latter has bigger market capitalization of c.RM700m and commands better profit margin. The fair value offers 26% upside from the IPO price of RM0.54, which suggests a forward PE of 8.7x, thus providing investors cheap entrance opportunity to exposure in the piling and foundation industry.

Background

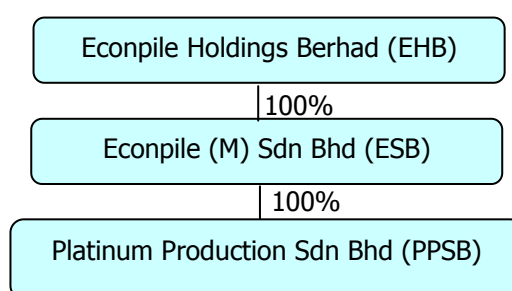
Established in 1987, Econpile is one of the leading players in the piling & foundation services industry in Malaysia. The business started off with driven pilings works and later progressed to bored pilings services. Today the company's revenue base is largely driven by its competency in bored piling.

Among the company's many undertakings, its main principal activities include piling solutions, foundation services, earthworks, and substructure and basement construction works.

The group's principal market of operations is the Malaysian market. Currently, all customers and projects are domestically based. Econpile continues to focus on its expertise, track record and capacity in the domestic market.

Figure 1: Group Structure

The present corporate structure of the group as set below:



Source: Prospectus

Principal activities

The principal activities of Econpile mainly comprises of two main categories made up of its Piling Solutions and Foundation Services.

Piling and foundation services	Piling Solutions	Bored Piles
		Driven Piles
		Jack-in piles
	Foundation Services	Earth retaining system
		Earthworks
		Substructure and Basement Construction System

Piling Solutions

Econpile's Piling Solutions division provides services such as:

- a.) **Bored Piles** are essentially a type of pile that is concreted at a permanent location at the holes bored into the ground. Bore Pilings makes up a major part of the revenue generated by the group yearly.
- b.) **Driven Piles** are piles that are pre-manufactured or precast piles that are driven into the ground with the help of a hydraulic hammer mounted on a crawler rig, which is a rig mounted on a continuous mechanical track.

- c.) **Jack-in-Piles** are pre-manufactured or precast piles that are jacked into the ground by exerting a large amount of force through the use of a hydraulic or mechanical jack-in machine.

Foundation Services.

Econpile's Foundations services cover Earth Retaining Systems, Earthworks, and Substructure/ Basement Construction works. They are broken down as below:

Earth Retaining Systems

- a.) **Contiguous Bored Pile Walls** are essentially bored piles constructed with a close spacing and can be incorporated as a permanent structure forming the basement wall.
- b.) **Diaphragm walls** are reinforced rectangular concrete walls constructed as an earth retaining system to serve a permanent structure to be incorporated as a basement wall system.
- c.) **Steel Sheet Pile Walls** are commonly used as a temporary retaining system, an alternative to diaphragm walls.
- d.) **Lateral Support System** is also a form of retaining system but able to withstand a free standing height.

Earthworks

- a.) **Excavation Works** involves excavating the earth and transporting them within the site to a make up level or to an off-site dumping ground.
- b.) **Temporary Steel Platform and Staging** - Congested sites featuring deep basement excavation requires that temporary steel platforms be constructed to facilitate movement of machinery and lorries. Staging areas on the other side of things comprises of the construction of designated areas for logistical reasons.

Substructure & Basement Construction Works

- a.) **Conventional (Bottom-Up) Construction Method** - The conventional method which allows for excavation works after the completion of piling works and retaining systems at the lowest slab level. As the name suggests, work starts at the bottom level working up to the ground level.
- b.) **Top Down Construction Method** - Effectively the direct opposite of the conventional bottom-up method. Often this method is preferred in congested areas where shorter construction periods are allocated.

Future Developments

Continued Expansion within the Piling & Foundation Services Market - The group seeks to continue expanding within the piling and foundation services market by leveraging its expertise, track record and reputation to secure new and the greater projects, capabilities and resources. Plans to increase penetration rate is focused at the moment to provide piling and foundation services to projects in Penang and Johor Darul Takzim.

Upgrading Internal Capabilities - In the quest to upgrade the internal capabilities of the group, Econpile would be investing in more new and higher grade technology equipment that are mostly automated to increase its human resource efficiency. Aside from this the group will also be diverting resources to increasing its pool of skilled human labor by looking at foreign skilled labor to mitigate the shortage locally.

Implementing an ISO 14001:2004-compliant Environment Management System - Econpile is in the midst of implementing an environmental management system in compliance with ISO 14001:2004 standards. They are gradually adapting the necessary measures to be ISO 14001:2004 compliant and hope to be fully accredited by 2014. The acquisition of the ISO 14001:2004 will enable the group to benefit from a reduction of operational costs, increase in workplace productivity and improved waste management. Aside from the savings and safer working environment for work, being ISO 14001:2004 also increases competitiveness in an industry with increasing demand for GBI certified buildings.

Utilisation of Proceeds

Figure 2: Utilisation of IPO Proceeds

Description	Estimated timeframe upon listing	Amount (RM'000)	% of total gross proceeds
Purchase of machinery and equipment	Within 18 months	14,580	30.0%
Repayment of bank borrowings	Within 24 months	12,150	25.0%
Working capital	Within 24 months	18,160	37.4%
Estimated listing expenses	Upon listing	3,710	7.6
Total gross proceeds		48,600	100.0%

Source: Prospectus

Investment Merits

- The piling specialists** - Econpile Holdings Bhd (EHB), founded in 1987, is the leading player in piling and foundation services in the local construction industry. The Group provides a comprehensive range of piling solutions, earthworks services and substructure and basement construction works. The Group is ISO 9001:2008 accredited for quality management and holds a Grade 7 license that enables its participation in tenders for projects with unlimited value.
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- Piling and foundation is a safe bet** – As piling and foundation works are usually in the early stage of construction works, payment and cash flow risks are substantially reduced. Besides, the segment, which constitutes 10-15% of total construction value, provides better profit margins of more than 10%, which is relatively higher than the 6-10% from civil works. The Group has delivered more than RM2b worth of local projects and its foothold can be seen all over Malaysia.
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- Backed by sturdy balance sheet** – Net gearing was low at 0.05x as of 9MFY2014 while the Group is expected to be in net cash position post-IPO with the proceeds projected to increase the cash level to RM54m or 10sen/share. That would pave the way for the Group to declare a decent

dividend to shareholders with the Group promising to pay out not less than 20% of its Profit After Tax. We estimate DPS of 1.5sen/share in FY2015 by assuming a payout ratio of 25%, translating into a yield of 2.8%.

Risks

Low floating of shares post-IPO – Major shareholders, Mr The Cheng Eng and Mr Pang Sar would hold 72.9% in combined stake in the company after the listing, potentially reducing the liquidity and floating of the trading of the shares.

Reliance on Approvals, Licenses & Permits - The group is bound by the term of conditions of the licenses issued by government bodies and the CIDB. Under the LPIP act, all contractors must be registered with the CIDB before any construction work can be carried out in Malaysia. Econpile has been awarded a grade 7 registration, the highest grade of registration grade achievable. This allows the company to tender for construction works without limit to the values. A failure to renew or a revoke of the license would sorely affect the company's ability to carry out any business.

Possible Delays in Completion of Construction Projects - Any delay of time in any project undertaken would result in project cost overruns, increasing negative reputation or legal enforcement of the LAD. The timely completion of any construction project is dependent on various external factors, which may include securing the necessary permit/approval, adequate supply of raw materials and stable flow of foreign labour, of which the group has no control over.

Availability & Fluctuations in Prices of Raw Materials - Raw materials are generally price sensitive in this industry. There is always the risk of being unable to secure the necessary raw materials required for the projects undertaken. Aside from this there is also the risk of the company financials taking a hit due to these availability & price fluctuations.

Dependence on the services of Econpile's Subcontractors - The group relies heavily on sub-contractors to provide various labor intensive works for projects that deal with the piling & foundations services. Any failure of a subcontracted to provide its contracted services may lead to damages and penalties made against the group.

Dependence on the Construction & Property Development Industry - Piling and foundations services are a subset of construction and property development activities. As such the group is highly dependent on the health of the construction & property development industry in Malaysia. This being said, the health of the industry rests on the fate of political, economic stability, inflation and labor availability. Other risks the group faces in the Malaysian property development industry are rising financing costs, fluctuating demand for real estate properties and government/state cooling measures.

Dependence on Foreign Workers - Construction works are highly dependent on the employment of foreign workers due to the shortage of local workers in the local construction industry. These workers can only be sourced from specific countries pending approval from the Malaysian Government. Any amendments in policies relating to employment will affect the labor supply, hence the group's ability to deliver. Unforeseen increase in levy, minimum wage policy for foreign workers, or additional costs to the Malaysian Government will eat into the group's financial performances.

Financial Review & Outlook

Healthy growth in sight - 9MFY2014 net profit of RM24.6m accounted for 88% of FY2013 full-year net profit (RM27.9m), indicating that the Group is well on track to surpass the FY2013 figures, backed by the order book in hand. We forecast the Group to record net profit growth of 11% to achieve RM31m in FY2014. Meanwhile, FY2015 is projected to register net profit of RM33.1m according to the forecast as we expect the Group to focus more on expanding the profit margins instead of growing its top line.

Figure 3: Financial Highlights

FYE 30 June (RM'm)	FY2011	FY2012	FY2013	9MFY2014	FY2014F	FY2015F
Revenue	207.6	305.8	386.1	318.9	425	400
Gross profit	25.2	34.6	57.7	47.5	60.5	63.5
Operating income	16.3	24.7	39.7	36.8	44.5	46.5
PBT	15.7	23.9	38.6	35.5	43.0	46.0
Net profit	11.3	17.2	27.9	24.6	31.0	33.1
EPS (sen)	2.1	3.2	5.2	4.6	5.8	6.2
PE (x)	25.6	16.8	10.4	11.7	9.3	8.7
Margins						
Gross	12.1%	11.3%	14.9%	14.9%	14.2%	15.9%
Operating	7.9%	8.1%	10.3%	11.5%	10.5%	11.6%
PBT	7.6%	7.8%	10.0%	11.1%	10.1%	11.5%
Net	5.4%	5.6%	7.2%	7.7%	7.3%	8.3%

Source: Company and JF Apex estimates

Valuation and Recommendation

Subscribe with fair value of RM0.68 - We derived our fair value by ascribing 11x PER to its FY2015F EPS of 6.2 sen, which is in line with the multiples we peg to other small-cap construction counters. However, the valuation is a slight discount against its closest peer, Pintaras Jaya, which is currently trading close to 12x forward PE as the latter has bigger market capitalization of c.RM700m and commands better profit margin. The fair value offers 26% upside from the IPO price of RM0.54, which suggests a forward PE of 8.7x, thus providing investor cheap entrance opportunity to exposure in the piling and foundation industry.

Figure 4: Peers Comparison

Company	Price	Market	-----PE (x)-----			ROE	P/B
	16/6/2014 (RM)	cap (RM'm)	Historical	Current	Forward	(%)	(x)
Econpile	0.54	288.9	10.4	9.3	8.7	31.5	3.9
Gamuda	4.57	10565.8	19.9	15.2	13.1	10.8	2.1
IJM Corp	6.62	9698.3	22.1	11	12.5	12	1.1
Gadang	1.87	367.8	20.8	8.1	5.2	7.7	1.4
Crest Builder	1.53	250.3	4.8	7	5.3	15.7	0.7
TRC	0.545	260.2	34.1	11.1	7.7	3.3	0.8
Pintaras*	4.34	694.8	13.2	13.2	11.7	19.3	2.6

* Consensus earnings

Source: Bloomberg and JF Apex

JF APEX SECURITIES BERHAD – CONTACT LIST
JF APEX SECURITIES BHD
Head Office:

6th Floor, Menara Apex
Off Jalan Semenyih
Bukit Mewah
43000 Kajang
Selangor Darul Ehsan
Malaysia

General Line: (603) 8736 1118
Facsimile: (603) 8737 4532

PJ Office:

15th Floor, Menara Choy Fook On
No. 1B, Jalan Yong Shook Lin
46050 Petaling Jaya
Selangor Darul Ehsan
Malaysia

General Line: (603) 7620 1118
Facsimile: (603) 7620 6388

DEALING TEAM
Head Office:

Kong Ming Ming (ext 3237)
Shirley Chang (ext 3211)
Norisam Bojo (ext 3233)
Wong Wing Haur, Alvin (ext 3226)

Institutional Dealing Team:

Lim Teck Seng
Sanusi Bin Mansor (ext 740)
Fathul Rahman Buyong (ext 741)
Ahmad Mansor (ext 744)
Lum Meng Chan (ext 743)
Zairul Azman (ext 746)

PJ Office:

Mervyn Wong (ext 363)
Mohd Hanif Wan Said (ext 111)
Fong Jia Wen (ext 822)
Nursyazaleen Hazwani (ext 362)

RESEARCH TEAM
Head Office:

Lee Chung Cheng (ext 758)
Lee Cherng Wee (ext 759)
Jessica Low Jze Tieng (ext 756)
Soong Wei Siang (ext 754)
Elliya Harisna binti Junaedi (ext 752)
Norsyafina binti Mohamad Zubir (ext 755)
Teo Chee Chung (ext 753)

JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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