UOBKayHian
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PROPERTY SECTOR

MALAYSIA

“ These decisions are some of the immediate action plans designed to increase as well as facilitate investment in Malaysia. At the same time, the long-term imperative to improve the overall investment climate remains.”

Prime Minister Dato' Seri Abdullah bin Haji Ahmad Badawi
Invest Malaysia Conference 2007
22 March 2007

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This report is based on the closing prices of 21 Mar 07

Executive Summary

Signs of a change in policy mindset on the property sector have emerged. The government is exploring new ways (ie. offering incentives, improving approval processes and amending existing laws) to open up the protected sector to attract new sources of foreign direct investment (FDI). This change could be a strong catalyst that would create a boom in the property sector over the next 2-3 years, potentially on a scale never experienced before in Malaysia.

Investors should be more bullish on the property sector for the following reasons:

a) Attracting international property developers, operators and investors to invest in the Malaysian property sector will lead to a big jump in property values, especially land with international development potential. We expect a 50-300% jump over the next 2-3 years.

b) Malaysian property remains one of the cheapest in the region. After a two-year downcycle, the sector is in the early stage of a new upcycle on improving domestic conditions.

c) Reputable international developers have only just started to enter the Malaysian property market. More international players are expected.

Early investors should take this opportunity to buy the largest landowners with landbank that is the most attractive to international developers/operators/investors. Large international developers are expected to focus on sizeable land for commercial projects that can draw international interest (ie. theme parks, international retail malls, good class residential projects). Only these large landowners would be able to offer international developers suitable plots that are large enough for development. As new pricing benchmarks are being set, these companies would experience the biggest RNAV upgrades. Our top picks are:

- **UEM World (Target Price: RM7.00, RNAV: RM7.80)**
- **Malaysian Resources Corporation (MRCB) (Target Price: RM3.00, RNAV: RM3.39)**
- **E&O Property (Target Price: RM6.70, RNAV: RM7.49)**
- **KLCC Property (Target Price: RM5.50, RNAV: RM6.15)**

Figure 1: Relative Comparison

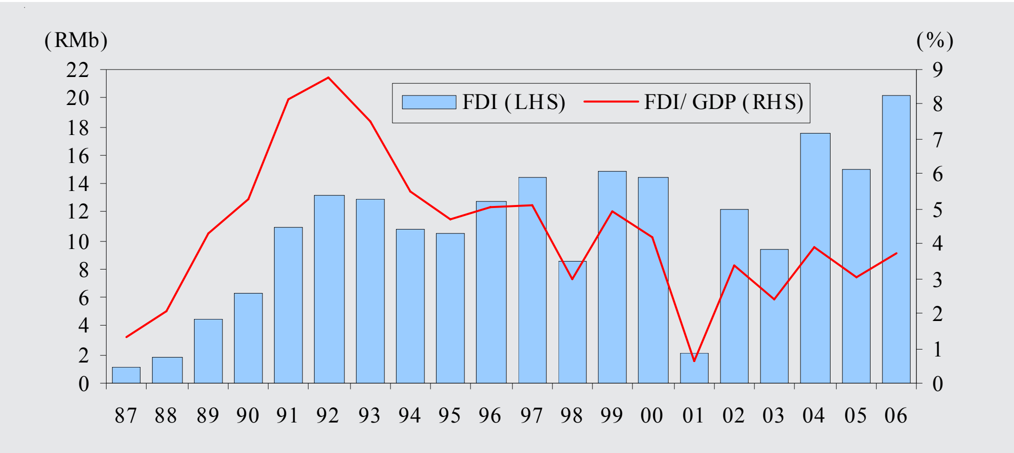
	Recom-mendation	Share Price 21/3/07 (RM)	New Target Price (RM)	Previous Target Price (RM)	Potential Upside (%)	Land Price by 2009 (RM psf)	Current Land Price (RM psf)	Market Cap (RMm)
IDR								
Tebrau Teguh	Buy	0.92	5.00	1.67	443	110	26	616
Mulpha Int'l	Buy	1.76	3.70	2.80	110	80	35	2,209
UEM World	Buy	3.86	7.00	5.51	81	30	8	5,025
Penang								
E&O Property	Buy	2.53	6.70	n.a	165	330	220	1,561
Klang Valley								
KLCC Property	Buy	3.20	5.50	3.80	72	3,000	1,000	2,989
MRCB	Buy	1.85	3.00	n.a	62	2,000	1,400	1,478
YNH Property	Buy	2.18	2.80	n.a	28	GDV 1.25b	GDV 1b	775
Sunway City*	Buy	3.44	3.50	3.20	2	n.m	n.m	1,444
Sunrise	Not Rated	n.a	2.80	n.a	n.a	400	330	1,060
National								
Sime Darby	Buy	7.90	9.90	n.a	25	n.m	n.m	19,807
SP Setia	Buy	7.35	8.60	5.90	17	n.m	n.m	4,944
Hotel								
Shangri-La Hotels	Buy	2.35	3.75	2.80	60	n.m	n.m	1,034

** Before REITs impact*
Source: Bloomberg, UOB Kay Hian

Positive Policy Changes To Attract New FDI

Malaysia has been losing market share to China and India with regards to FDI for manufacturing activities. FDI as a percentage of GDP has fallen from a peak of 8.8x in 1992 to just 3.7x currently. The government is looking seriously into Malaysia's property sector, which remains an untapped magnet for new FDI. The sector is highly protected and domestically-oriented. Foreign and large domestic investors prefer overseas property markets to Malaysia given the more liberal investment rules overseas. Foreigners currently constitute less than 10% of total transaction value in Malaysia (vs Singapore's 25%).

Figure 2: FDI as a Percentage of GDP on Downtrend



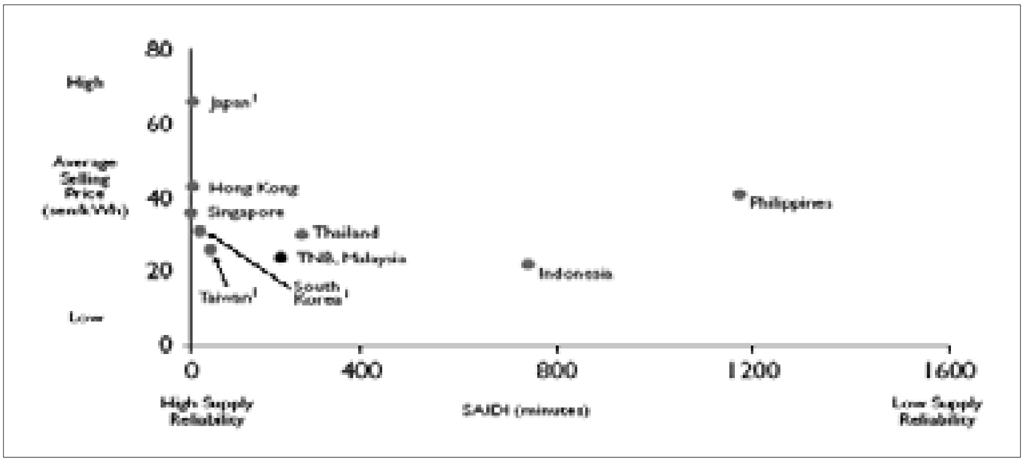
Source: MIDA

Malaysia's property has the following underlying competitive advantages:

a) **Availability of contiguous and sizeable land** for large-scale integrated economic development;

b) **Cost advantage for land, utilities and manpower.** Land prices are at a massive 90% discount to that of Singapore, which is just across the border. Even with the recent 12% tariff hike, Malaysia's utility cost is still at least 20% lower than those in Thailand and Singapore;

Figure 3: Malaysia Has One of the Cheapest Electricity Rates in the Region



[1]: *These countries rely on substantial generation by nuclear power plants*
Source: Tenaga Nasional

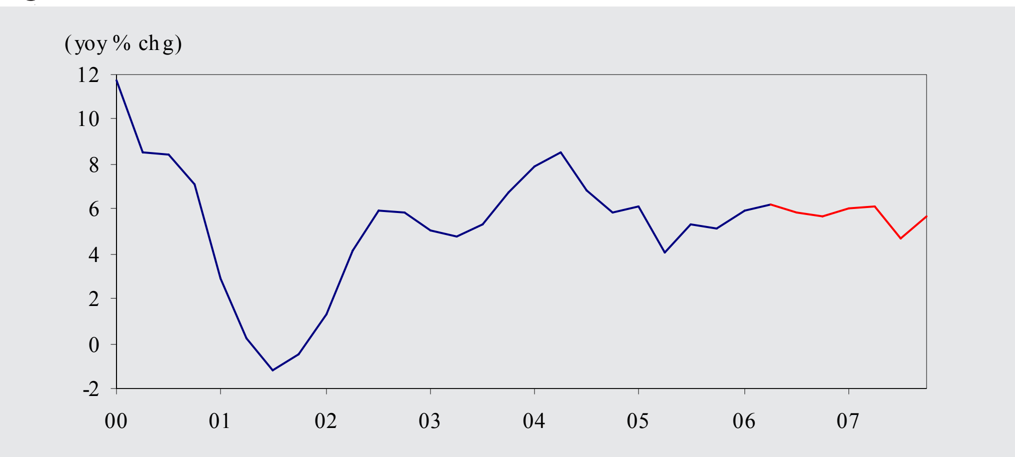
c) **Close proximity to Singapore** which is transforming into a global city. Investors have started to relocate or set up their manufacturing and logistics bases in South Johor, which is adjacent to Singapore. Singapore's two integrated resorts (IRs) will draw high tourist traffic to this part of the region and create new demand for skilled labour;

d) **World-class logistics infrastructure** already in place;

e) **Politically-stable**; and

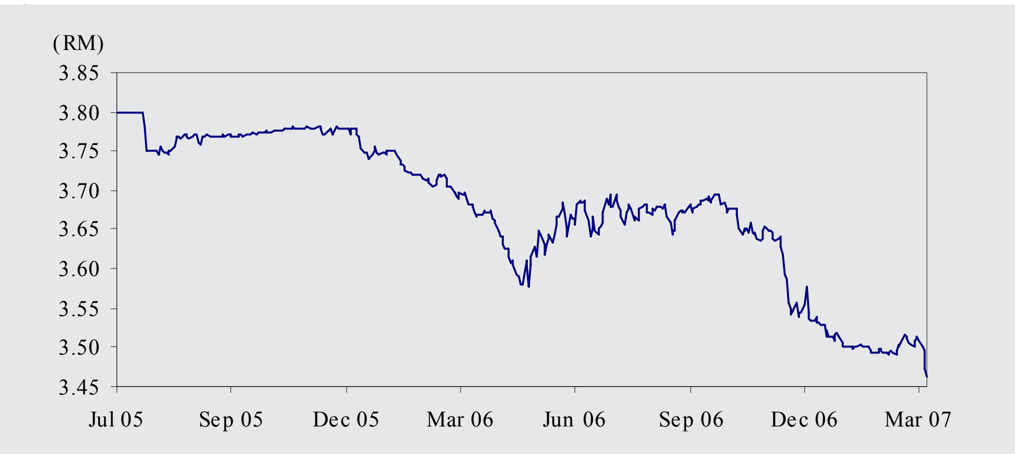
f) **Strong economic growth.** Malaysia is now at a turning point, having seen the end of fiscal tightening, interest rate hikes and inflation momentum in 2006. The government has recently raised its 2007 GDP forecast to 6.0% from 5.5% (2006: 5.9%), and expects average purchasing power to rise by 7% to RM21,168 per capita. Inflation is expected to ease to 3% in 2007 from 3.6% in 2006 while the overnight policy rate should remain stable at 3.5% to allow the monetary policy to support economic growth. The Ringgit has continued to strengthen by 7.9% (since it was depegged in Jul 05) to RM3.49, its highest level in 10 years, and is expected to continue to appreciate to RM3.45 by end-07 (+1.4%).

Figure 4: Stable GDP Growth



Source: CEIC, UOB Kay Hian

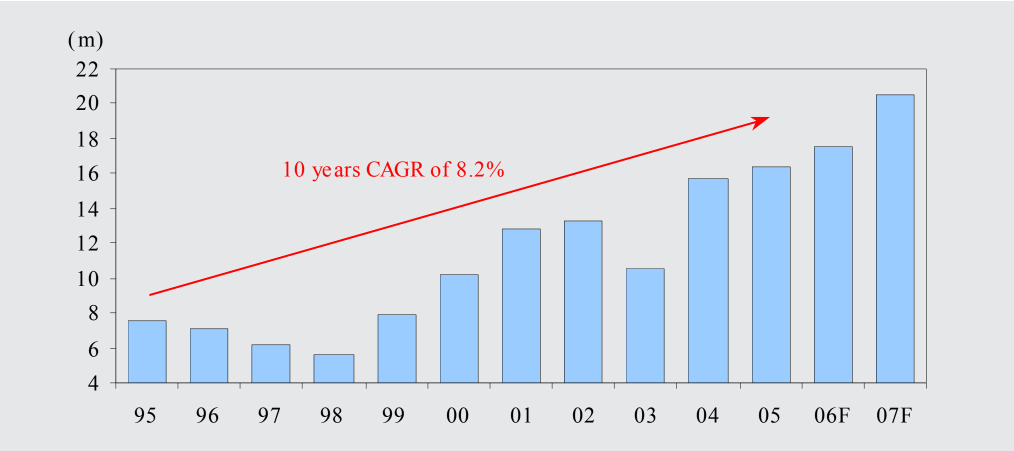
Figure 5: RM/US$ Continues to Appreciate



Source: Bloomberg

g) **Captive tourist market**. Tourist arrivals to Malaysia have been increasing at a 10-year CAGR of 8.2%. The government expects Visit Malaysia Year 2007 to boost tourist arrivals and spending by 15% yoy to 20.1m and 20% yoy to RM45b respectively. Kuala Lumpur has been rated as the least expensive city among 71 cities studied in a UBS worldwide survey. A typical trip to Kuala Lumpur for tourists would cost only RM951, less than half of the RM2,305 for Singapore and just one-third of the RM3,037 for Hong Kong.

Figure 6: Rising Tourist Arrivals to Malaysia



Source: Tourism Malaysia

Figure 7: Kuala Lumpur is Least Expensive City

(RM)	Taxis Fare	City Break*	Restaurant	Hotel	Apartment Rental
Kuala Lumpur	**5.9**	**951**	**44**	**549**	**1,756**
Bangkok	6.2	1,793	99	878	2,269
London	74.0	4,318	234	1,830	22,618
New York	42.0	3,367	183	1,647	21,484
Hong Kong	59.0	3,037	95	1,244	21,008
Singapore	22.7	2,305	106	1,098	7,246
Tokyo	48.0	3,989	281	1,866	15,628
Jakarta	8.0	1,756	44	988	4,099
Manila	5.5	1,207	66	695	3,001
Sydney	45.0	2,415	175	1,134	11,602

* *City break consists of a basket of 10 goods - overnight stay for two in a first-class hotel, two dinners with a bottle of house red wine, one taxi ride, 100km in a rented car, two outings to the theatre by public transport & other small expenditure*

Source: UBS Survey

CURRENT INVESTMENT DETERRANTS IN MALAYSIAN PROPERTY SECTOR

a) **Foreign Investment Committee approval.** All property transactions by foreigners (except residential properties worth more than RM250,000) require Foreign Investment Committee (FIC) approval, which could take 1-3 months.

b) **30% Bumiputra equity ownership requirement.** In addition, FIC requires that a local company with minimum 30% Bumiputra interest to be set up for the following: a) single transactions worth more than RM10m, b) acquisition of entire buildings/property development projects irrespective of value, and c) acquisition of land for redevelopment on a commercial basis. Foreigners find it difficult to find local Bumiputra partners with the same investment objectives, time horizon and risk appetite, and who are capable and can afford to take up the required 30% equity stake. Morever, for foreign companies with strong international brand equities, the requirement to sell away a 30% stake is a huge investment deterrent.

c) **Land Office approval.** In Malaysia, approval from the Land Office will still need to be sought even after FIC approval has been obtained as land is regarded as a state matter. Land Office approval is required for property transfers, land sub-division, conversion, procurement of developers' licences and advertising permits, building plans, etc. This is where the main bottleneck lies – on average, approval could take 6-12 months and longer if leasehold properties are involved. To complicate matters, each state in Malaysia has its own set of rules and regulations which changes from time to time. The investment red tape has resulted in the Malaysian property market being fairly illiquid compared with its regional peers. Other countries in the region only require less than three months for property transfers and property development project approval.

   On 22 Mar 07, the Prime Minister announced that foreign investors in selected zones and sectors within the Iskandar Development Region (IDR) will be exempted from FIC rules, including the 30% Bumiputra equity participation requirement. The location of the zones where the incentives apply and other details will be announced in 3Q07.

Figure 8: Cumbersome Approval Process for Malaysia Properties

	Malaysia	Singapore	Hong Kong
FIC Approval (abolished for residential properties) (time required)	Required for all property acquisitions Property Value must exceed RM250k ↓ Application to FIC ↓ FIC Letter of Approval with conditions (if any) → Appeal ↓ Register new co with ROC ↓ FIC Approval (2-3 months)	n.a (0 month)	n.a (0 month)
Land Office (time required)	Approval required for leasehold properties (6-12 months)	n.a	n.a
Total Time Required for Completion	6-12 months	1-3 months	< 1 month

Source: EPU, Inland Revenue Board, UOB Kay Hian

d) **Uncompetitive tax regime for REIT distribution.** Malaysia has the highest tax rates for REIT distribution in the region (15-27% vs Singapore's 0-18% and Hong Kong's 0%). Singapore and Hong Kong have exempted individual REIT distribution from taxes while Malaysia still imposes a 15% withholding tax. As a result, the Malaysian REIT sector continues to lag behind its regional peers.

Figure 9: High Tax Rates for REIT Distribution in Malaysia

Malaysia		Singapore		Hong Kong
Non-corporate investors (including individuals), local trust bodies & institutional investors*, foreign trust bodies	: Witholding tax of 15%	Individuals	: Tax-exempt	Exempt for both individuals & corporate investors
Foreign institutional investors*	: Witholding tax of 20%	Local institutions	: Own tax rate	
Local corporate investors	: 27%	Non-resident institutional investors	: 10% withholding tax	
Foreign corporate investors	: Witholding tax of 27%			

** Insitutitional investors refer to pension funds, collecitve investment schemes, or such other persons approved by Malaysia's Ministry of Finance*
Source: Ernst & Young

INTERNATIONALISATION OF MALAYSIAN PROPERTY SECTOR

Signs of a change in policy mindset on the property sector have emerged. The government is exploring new ways (ie. offering incentives, improving approval processes and amending existing laws) to open up the protected sector to attract new sources of FDI. This will eventually lead to the internationalisation of the Malaysian property sector and close the widening pricing gap between Malaysian and regional properties. This change could be a strong catalyst that would result in a boom in the property sector over the next 2-3 years, potentially on a scale never experienced in Malaysia before.

Recent positive policy changes introduced in the Malaysian property sector include the following:

a) Exemption for foreigners from FIC approval for purchase of residential properties worth more than RM250,000, with no restriction on usage and volume;

b) Introduction of two Free Access Zones (FAZ) in the IDR, Johor Bahru FAZ and Nusajaya FAZ, which allow seamless movement of people across the border with no limits on duration of stay.

On 22 Mar 07, the Prime Minister further announced:

a) The abolishment of real property gain tax (RPGT) throughout Malaysia, from 1 Apr 07,

Figure 10: Previous RPGT Rates

No. of Years from Acquistion Date	Resident (%)	Non-Resident (%)
< 2 years	30	30
3rd year	20	30
4th year	15	30
5th year	5	30
> 5 years		
- Individual	0	5
- Company	5	5

Source: Inland Revenue Board

b) The introduction of globally competitive incentives to attract FDI into IDR, and

c) The abolishment of the limit placed on the number of residential or commercial property loans that can be obtained by non-residents. Previously, non-residents were only allowed to obtain a maximum of three property loans.

We expect more policy changes on the cards in the next 12 months, including more globally competitive incentives to attract FDI into IDR. In addition, the Deputy Prime Minister has openly expressed his expectation of a significant improvement in the property market, the first time a politician has done so.

Changes that will have the most significant impact:

a) Sale of large tracts of land to international property developers,

b) Entry of international theme park (ITP) operators in IDR, and

c) Further liberalisation of policies.

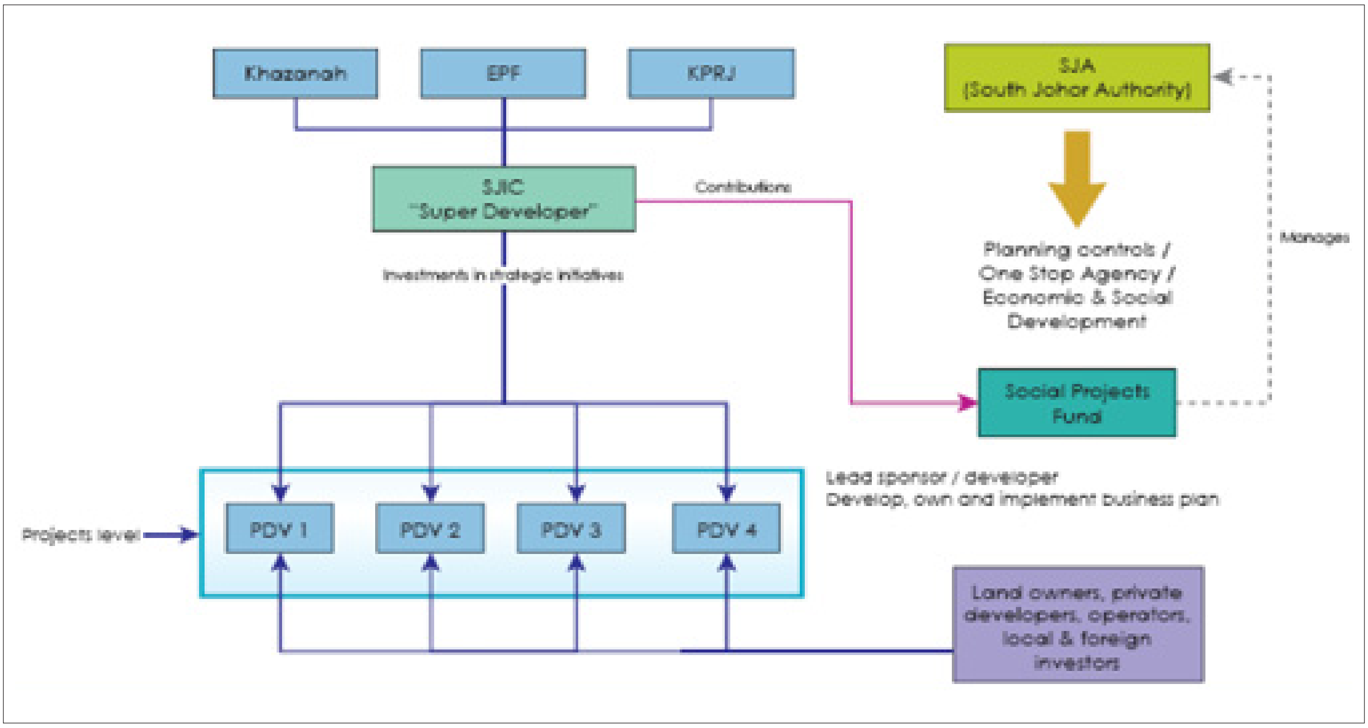
A) **Sale of Large Tracts of Land to International Property Developers**

This will be a first for the Malaysian property sector and is expected to take place in the newly-established IDR in South Johor. The entry of international developers will accelerate the development of IDR and boost the quality of Malaysian real estate to international investment standards, thereby leading to higher property prices. Existing investment laws need to be changed to make it attractive enough for international developers to participate directly in the Malaysian property sector.

Recent revolutionary policy changes introduced in the IDR:

- **"Super developer" model.** South Johor Investment Corporation (SJIC) will act as a strong local partner to fulfill the 30% Bumiputra equity requirement as required by FIC, and to provide financing and large tracts of prime land. SJIC will be owned by Khazanah (60%), Employees Provident Fund (20%) and Kumpulan Prasarana Rakyat Johor (20%).

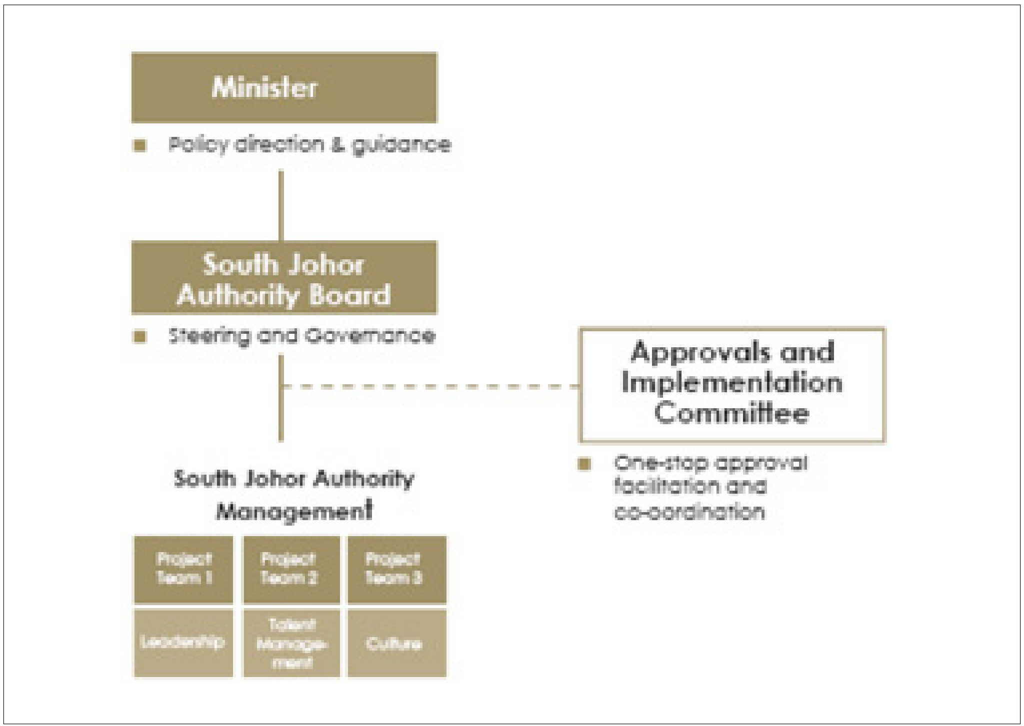
Figure 11: Super Developer Framework



Source: SJER Master Plan

- **One-stop approval centre to reduce investment red tape.** South Johor Authority (SJA) has set aggressive targets for approval turnaround time, to at least match if not beat top global FDI destinations. SJA has two core functions: a) plan and establish policies and strategies for IDR's development, and b) act as a one-stop centre to expedite applications for licences, approvals and fiscal incentives. SJA will be chaired by the Prime Minister and Johor's Menteri Besar.

Figure 12: SJA Organisation Chart



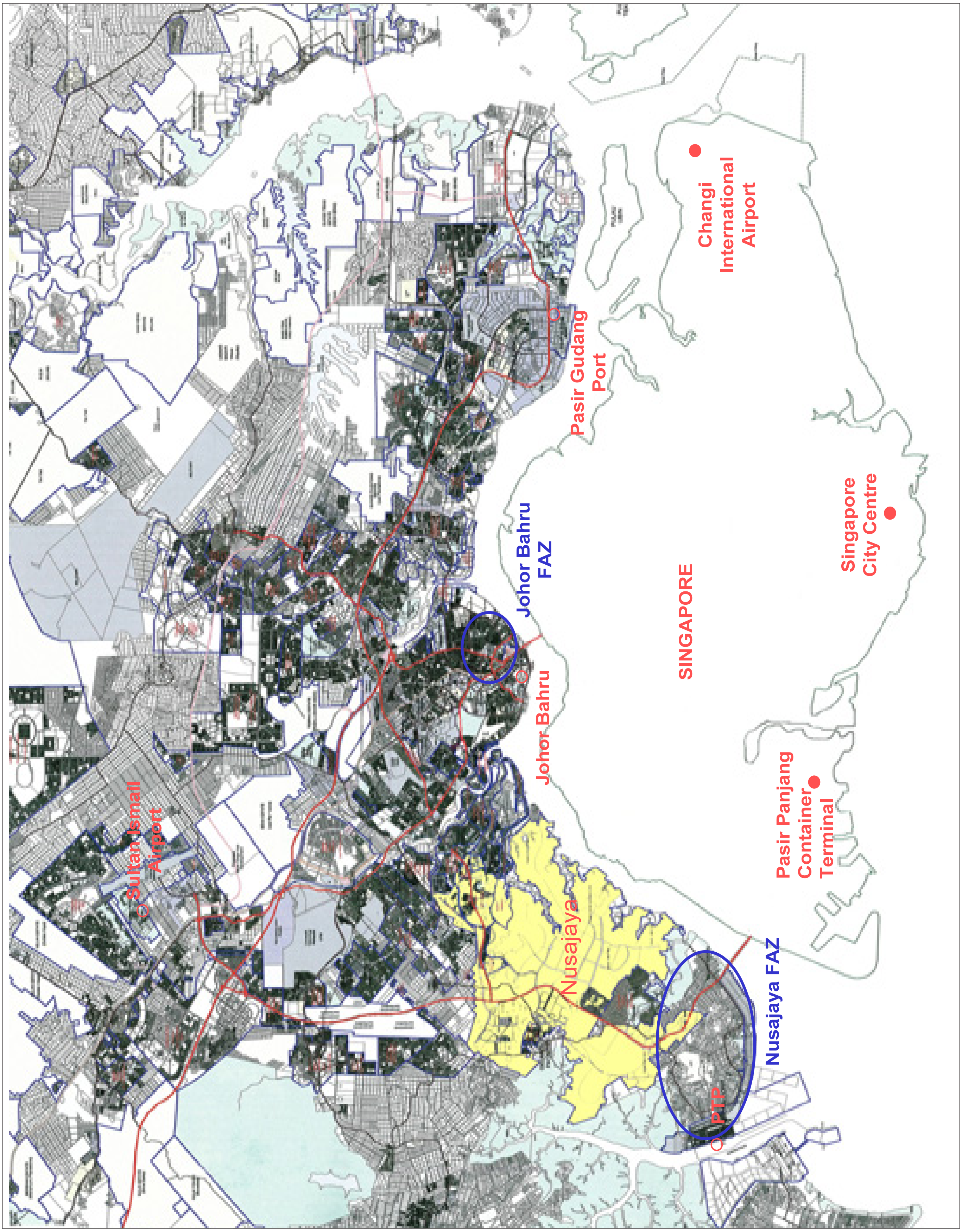
Source: SJER Master Plan

Figure 13: Aggressive Targets for Turnaround Time

Business Process	Target (days)	Processing Time (days)					
		Malaysia	Singapore	Dubai	UK	Australia	USA
Registering a Company	6	30	6	7	18	2	5
Hotel Licence	21	21	21	10	-	-	15
Manufacturing Licence	14	28	14	3	-	38	-
Development Licence	9	20	9	-	-	-	-
Incentives	14	28	12.5	-	-	38	-
Grants	14	28	12.5	-	-	38	-
Loans	14	28	12.5	-	-	38	-
Employment Pass (Professionals)	14	14	14	7	49	30	3
Social Pass	2	2	2	-	1	1	15
Land Sub-division	21-30	510	90	7	60	42	150
Land Conversion	21-30	420	-	-	60	42	150
Planning Permission	14-21	240	21	21	120	60	150
Building Plan	14-21	180	30	21	60	30	7
Certificate of Occupancy	6	14	14	9	20	30	10

Source: SJER Master Plan

Figure 14: Location of FAZs in IDR



Source: SJER Master Plan, UOB Kay Hian

- **FAZs** ie Johor Bahru FAZ (73 acres) and Nusajaya FAZ (1,029 acres). Foreigners, especially those from Singapore, can move in and out of the FAZ with limited or no immigration and custom checks and no limits on duration of stay. Business activities are allowed at all hours.

  Globally competitive incentives to attract FDI into IDR. On 22 Mar 07, the Prime Minister announced the following:

  a) Exemption from corporate income tax for 10 years,

  b) Exemptions from withholding tax on royalty and technical fee payments to non-residents for 10 years,

  c) Exemption from FIC rules, including the 30% Bumiputra equity participation requirement,

  d) Unrestricted employment of foreign employees, and

  e) Freedom to source capital globally.

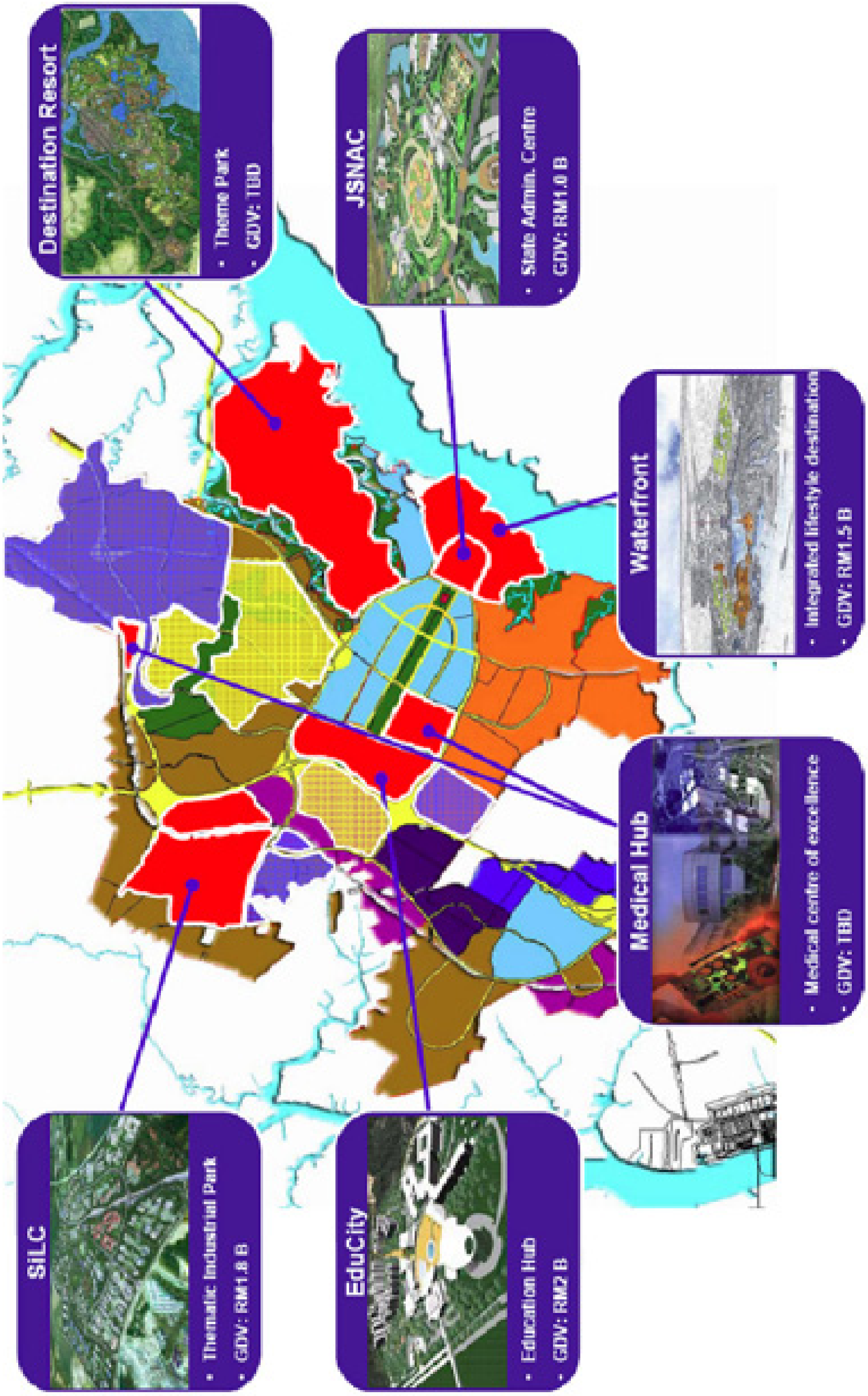
  These incentives will be applicable for selected sectors (creative, educational services, financial advisory and consulting, healthcare, logistics and tourism-related services) and zones. The location of the zones where the incentives apply and other details will be announced in 3Q07.

B) **Entry of ITP Operators in IDR**

ITPs will be Malaysia's first mass-market tourist attractions of international standards. Khazanah has earmarked 2,400 acres in IDR for the construction of two ITPs. Negotiations are going on and the operator are expected to be selected by end-07.

The ITPs will complement Singapore's two IRs (due to open in 2010), increasing the IDR-Singapore corridor's competitiveness in capturing a share of the fast-growing regional tourism pie. The ITPs will attract global real estate players into IDR (as seen in Singapore). The development of world-class hotels and retail malls will boost the quality of Malaysian real estate to international investment standards and raise commercial land values.

Figure 15: Catalyst Projects in Nusajaya



Source: UEM World

C) **Further Liberalisation of Policies**

FIC approvals for the purchase of residential properties by foreigners and RPGT have been abolished. More policy changes are expected in the months ahead to make Malaysia's property sector more attractive to international developers, operators and investors.

Recent media reports have highlighted that the government is seriously considering the following:

a) **Lifting FIC approvals** and switching to a disclosure-based system,

b) **Exempting REIT distribution from tax**, and

c) **Extending the Malaysia My Second Home programme to the retail and services sectors** by granting those with investments of at least RM1m in Malaysia a 10-year visa, with automatic renewal. Currently, only foreign home-buyers who fulfill certain conditions are given multiple entry visas for five years without the one-month limitation of most tourist visas.

Policy changes have been the predominant driver of property cycles. An analysis of previous property cycles shows that government policies are the main drivers. For example, when the government imposed FIC restrictions on property transactions by foreigners in 1995 and curbed lending in 1997, sales growth moderated from a peak of 25% yoy to 16% in 1997 before plunging 36% in 1998 (partly due to the financial crisis). Similarly, house price growth moderated from a peak of 18% yoy to just 2% in 1997 before declining 9% in 1998. Conversely, when the government started easing these restrictions in 1998, sales picked up strongly in the next two years (99: +33% yoy; 00: +18% yoy) while house prices started to accelerate again in 2000 (+6% yoy). Likewise, the introduction of a stimulus package in mid-03, which included stamp duty exemption and RPGT waiver for one year, was the main driver of the strong 27% yoy sales growth in 2004.

Figure 16: Impact of Policy Changes on the Property Sector

Notes:
1 *1995 : FIC restrictions imposed*
2 *1997 : Credit restrictions by BNM*
3 *1998 : FIC rules & lending for housing eased*
4 *1999 : Property lending restricted*
5 *2001 : Further easing of FIC rules*
6 *2003 : Exemption from stamp duty & RPGT for a year*
Source: Various

Strong Uptrend In Property Prices To Emerge

Attracting international property developers, operators and investors to invest in the Malaysian property sector would cause property values to rise significantly. This is especially so for land with international development potential. Aside from Kuala Lumpur City Centre (KLCC) which is Malaysia's property epicentre (100 acres), new hotspots are emerging:

a) IDR in South Johor – an emerging Special Economic Zone (SEZ) (548,000 acres),

b) Tanjung Pinang in Penang – Malaysia's Sentosa Cove (980 acres),

c) KL Sentral – an emerging commercial hub (72 acres), and

We expect a 50-300% jump in land prices for the above areas over the next 2-3 years. Even then, the prices will still be at huge discounts to regional peers' as Malaysian property is coming off a low base.

Figure 17: Expectations of Land Prices in the Next 2-3 Years

Location	Current Market Value (RM)	Future Market Value (RM)	Increase (%)
Klang Valley			
KLCC	1,000	3,000	200
KL Sentral	1,400	2,000	50
South Johor			
Nusajaya	7.50	30	300
Penang			
Georgetown	220	330	50

Source: UOB Kay Hian

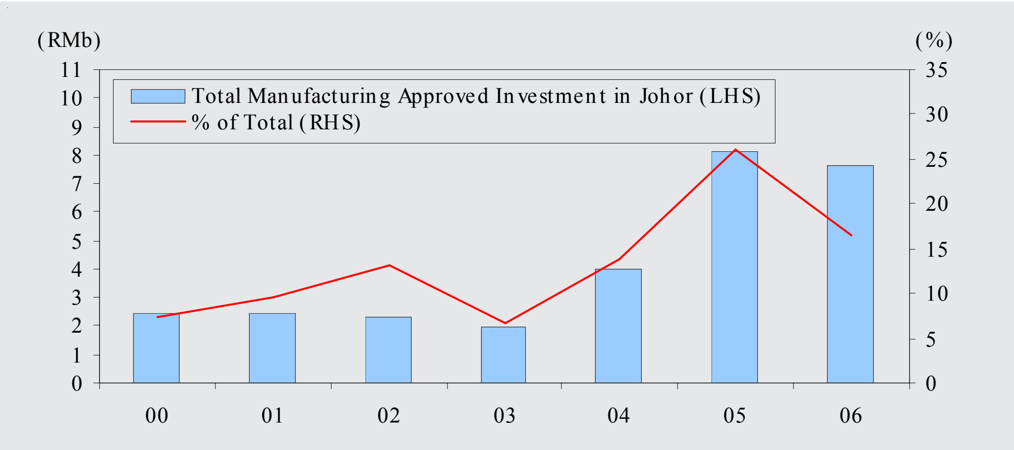
IDR, SOUTH JOHOR – AN EMERGING SEZ

The Prime Minister plans to develop IDR into an "emerging special economic zone (SEZ), in the likes of Shenzhen, Dubai and Mumbai where the best brains from around the world come to live, work and do business in a global growth centre". IDR has the potential to attract international developers due to three factors:

a) **Close proximity to Singapore.** IDR can leverage on the following:

- **Singapore's transformation into a global city**. Singapore, which is next to South Johor, is fast emerging as an international financial and services hub. Foreign investors have started relocating or setting up their manufacturing and logistics bases in South Johor, eg Flextronics (Netherlands), OSI System (US) and JST Connectors (Japan), where large contiguous parcels of land are available at low prices and come equipped with world-class infrastructure. Rising FDI will lead to various spin-offs in Johor's economy and create new demand for properties. IDR could be the next Shenzhen which capitalised on Hong Kongs' emergence as a global city.

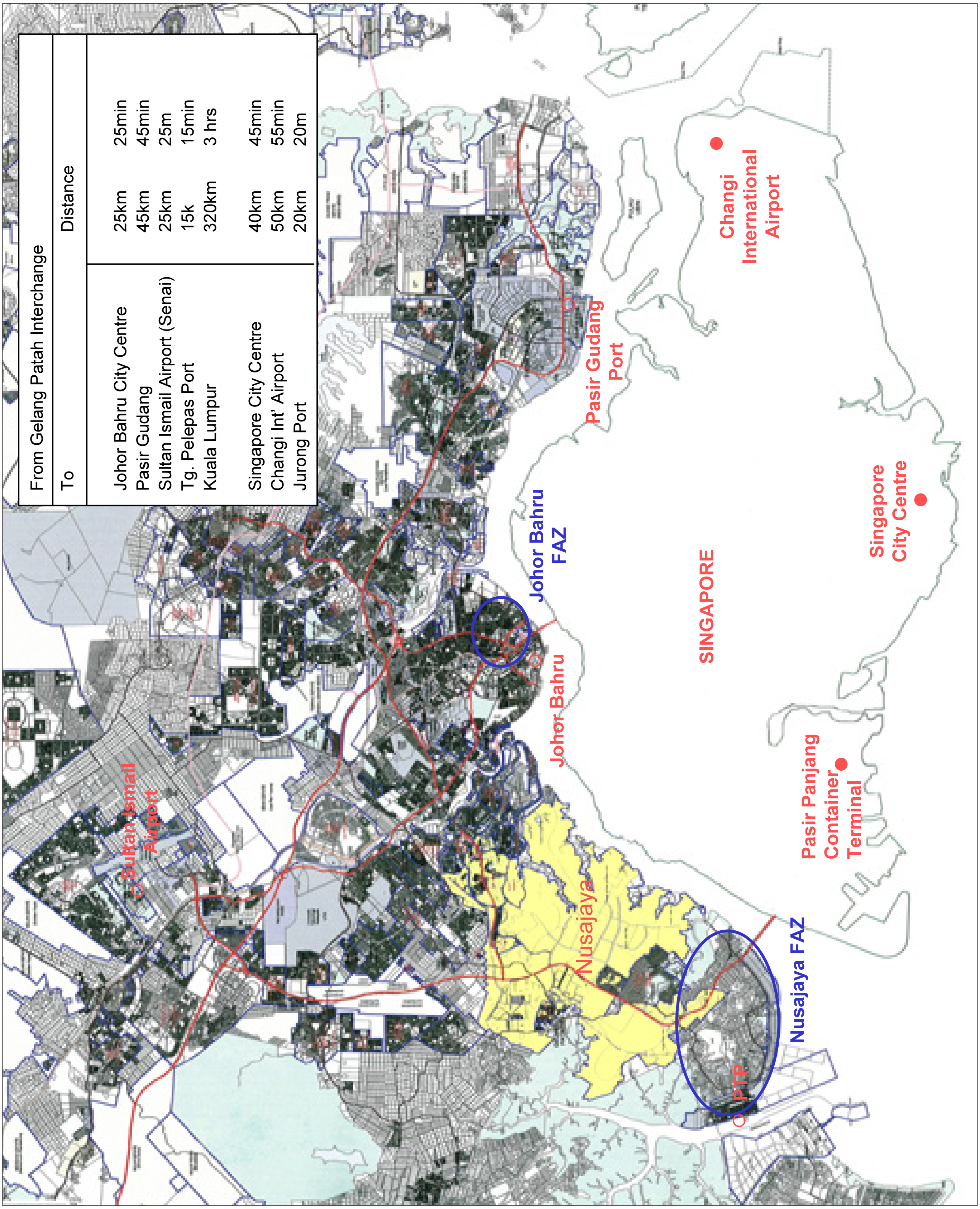
Figure 18: FDI in IDR Setting A New Higher Base



Source: MIDA

- **The two Singapore IRs** are projected to attract 17m tourists to Singapore by 2010 (from 9m currently) and create 100,000 new job opportunities. The recent introduction of two FAZs in IDR, which allow seamless movement of people across the border, will allow IDR to tap Singapore's high tourist traffic and enhance IDR's attractiveness as a place to stay for Singaporeans or foreigners working in Singapore. Property prices and the cost of living in IDR are only a small fraction of Singapore's.

Figure 19: IDR Strategically Located Near A Global City ie Singapore



From Gelang Patah Interchange		
To	Distance	
Johor Bahru City Centre	25km	25min
Pasir Gudang	45km	45min
Sultan Ismail Airport (Senai)	25km	25m
Tg. Pelepas Port	15k	15min
Kuala Lumpur	320km	3 hrs
Singapore City Centre	40km	45min
Changi Int' Airport	50km	55min
Jurong Port	20km	20m

Source: Ho Chin Soon Research, UOB Kay Hian

b) **Entry of ITP operators.** The ITPs will complement Singapore's IRs, increasing the IDR-Singapore corridor's competitiveness in capturing a share of the fast-growing regional tourism pie. ITPs will attract global real estate players to develop world-class hotels and retail malls in IDR to capitalise on the rising tourist arrivals.

c) **Policy changes to attract FDI.** The government is exploring new ways (ie. offering incentives, improving approval processes and amending existing laws) to attract FDI into IDR. To date, the government has introduced the following: a) two FAZs in IDR which will allow seamless cross-border mobility, b) a "super developer" model to fulfill the 30% Bumiputra equity requirement, and c) a one-stop approval centre to reduce investment red tape. In addition, on 22 Mar 07, the Prime Minister announced a set of globally competitive incentives to attract FDIs into IDR:

   a) Exemption from corporate income tax for 10 years,

   b) Exemptions from withholding tax on royalty and technical fee payments to non-residents for 10 years,

   c) Exemption from FIC rules,

   d) Unrestricted employment of foreign employees, and

   e) Freedom to source capital globally.

Government's initial projections show that IDR could attract a total of US$105b (RM370b) in 20 years. In the short term, it is supposed to attract some RM50b in investments within the next five years, out of which RM20b in concrete development plans has already been committed. The government will invest RM12.2b in catalytic developments in IDR under the Ninth Malaysia Plan (9MP).

Figure 20: Catalytic Developments in IDR

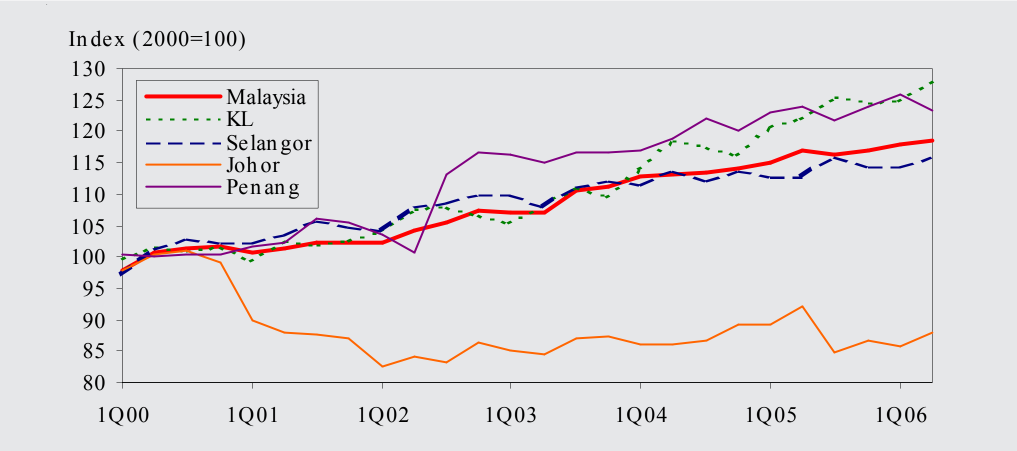
Projects	Value (RMm)	Size (acres)	Remarks
Integrated Leisure Resort (with theme park)	3,500	2,400	In talks with a major international theme park operator Negotiations expected to be completed by end-07
Southern Industrial & Logistics Cluster (SiLC)	4,000	1,300	Identified clusters: advanced technology (bio & nano), agro-based industries & logistics
Education City	2,100	n.a	Regional education hub, expecting at least four foreign universities and student population of more than 20,000. a) Signed heads of agreement to establish an iCarnegie-managed university (JV agreement to be signed within two months) b) Foreign universities (Newcastle, Nottingham, Purdue & Warrick) have expressed interest to participate in a multi-university campus with shared facilities c) Al-Bukhary University (300 acres)
Waterfront Precinct	1,500	600	Water transport terminal & new Customs, Immigration & Quarantine (CIQ) Complex
Medical City	1,500	360	Regional hospital group with operations in Malaysia interested to set up a hospital facility
Johor New State Administrative Centre Phase 1	402	320	Relocation of various state government departments to Bandar Nusajaya, to be completed in Aug 07
Coastal Highway	1,200	n.a	Links Nusajaya with Johor Bahru
Bullet-train/ High-speed Rail Link	10,000	n.a	Kuala Lumpur-Singapore bullet train

Source: 9MP, UEM World, UOB Kay Hian

Strong Land Price Appreciation (+300%) in IDR Over Next 2-3 Years

- **Coming off a low base.** Land prices in IDR are depressed as Johor property prices have been underperforming those of other states for the past six years (-12% compared with Kuala Lumpur's 26% and Penang's 23%). This is largely due to high oversupply risk where demand has been predominantly local. The entry of international property developers, operators and investors will change IDR's property landscape dramatically. Real estate of international standards will see the creation of new demand and give property values a big boost.

Figure 21: House Price Index



Source: NAPIC

- **Cheapest SEZ land in the world.** We expect land prices in IDR to appreciate sharply by 300% to RM30 psf from RM7.50 psf in the next 2-3 years. Given IDR's huge potential to attract international investors, we believe land value there should at least match that of Bayan Lepas in Penang (Bayan Lepas has an existing Free Trade Zone and is Malaysia's semi-conductor hub, attracting the likes of Intel, Dell, Motorola and Seagate.). Even at RM30 psf, land prices in IDR would still be below that of its neighbour Singapore, as well as other SEZs in the world eg Shenzhen, Mumbai, Bangalore and Dubai. These SEZs have seen exponential growth in land prices with the entry of international developers after positive policy changes (average four-year CAGR of 51%).

Figure 22: Land Price Comparison Among SEZs

	Land Price (US$'000/acre)	Johor Discount to Others SEZs (%)	4-year CAGR (%)
Johor	373*	-	-
Bangalore	2,015	81	45
Dubai	2,966	87	62
Shenzhen	4,705	92	61
Mumbai	6,953	95	37
Average			**51**

** RM30 psf (assuming 300% increase from current RM7.50 psf)*
Source: Various

- **Anectodal evidence of land prices moving up.** Since the IDR masterplan was revealed in Nov 06, the asking price for raw land has been on an uptrend. Frequency of sale transactions has also increased in the past six months since the last transaction in Aug 05. New price benchmarks were recently set for industrial land (RM21 psf) and commercial land (RM65 psf) in Nusajaya, significantly above the RM7.50 psf transacted for mixed-development land in the last two years. Middle Eastern investors are reportedly keen to acquire land in IDR and may be willing to pay up to RM20-30 psf for large contiguous parcels of land which are not readily available in more established countries in the region.

Figure 23: Land Transactions in Nusajaya

Date	Size (acres)	Value (RMm)	Valuation (RM psf)	Purchaser	Seller
Jun 04	342	106	7.15	Crescendo (option to buy)	UEM World
Jun 05	290	86	6.80	Country View	UEM World
Jun 05	41	12	6.50	Crescendo	UEM World
Jun 05	1,200	391	7.50	UEM Land-Gamuda JV	UEM World
Aug 05	907	261	6.60	Gagasan Kencana S/B	UEM World
Oct 06	4,500	1,430	7.30	Khazanah	UEM World
Feb 07	26	24	21.00	Singapore-listed HG Metal Manufacturing	UEM World
Feb 07	38	107	65.00	Aeon	SP Setia
		2,417			

Source: UEM World, SP Setia

Large landlords at southern tip of IDR will be prime beneficiaries. Landbank at the sourthern tip of IDR will have the biggest price upside given limited supply there compared with the abundant supply of plantation land in mid-northern Johor, which could be converted for mixed developments. Within South Johor, super-prime locations are those with the following characteristics: a) within a 10km radius of Johor Causeway and the Second Link, b) southernmost and closest to the bridges leading to Singapore, c) sea- or river-fronting to maximise the potential commercial value, especially when commercial developments of international standards are undertaken, and d) closest to the ITPs and FAZs in Johor Bahru and Nusajaya. Based on these characteristics, UEM World (10,336 acres), Mulpha International (800 acres) and Tebrau Teguh (1,012 acres) own the most valuable real estates in South Johor. Other key owners include Khazanah (5,500 acres) and the Johor Royal family (1,000 acres).

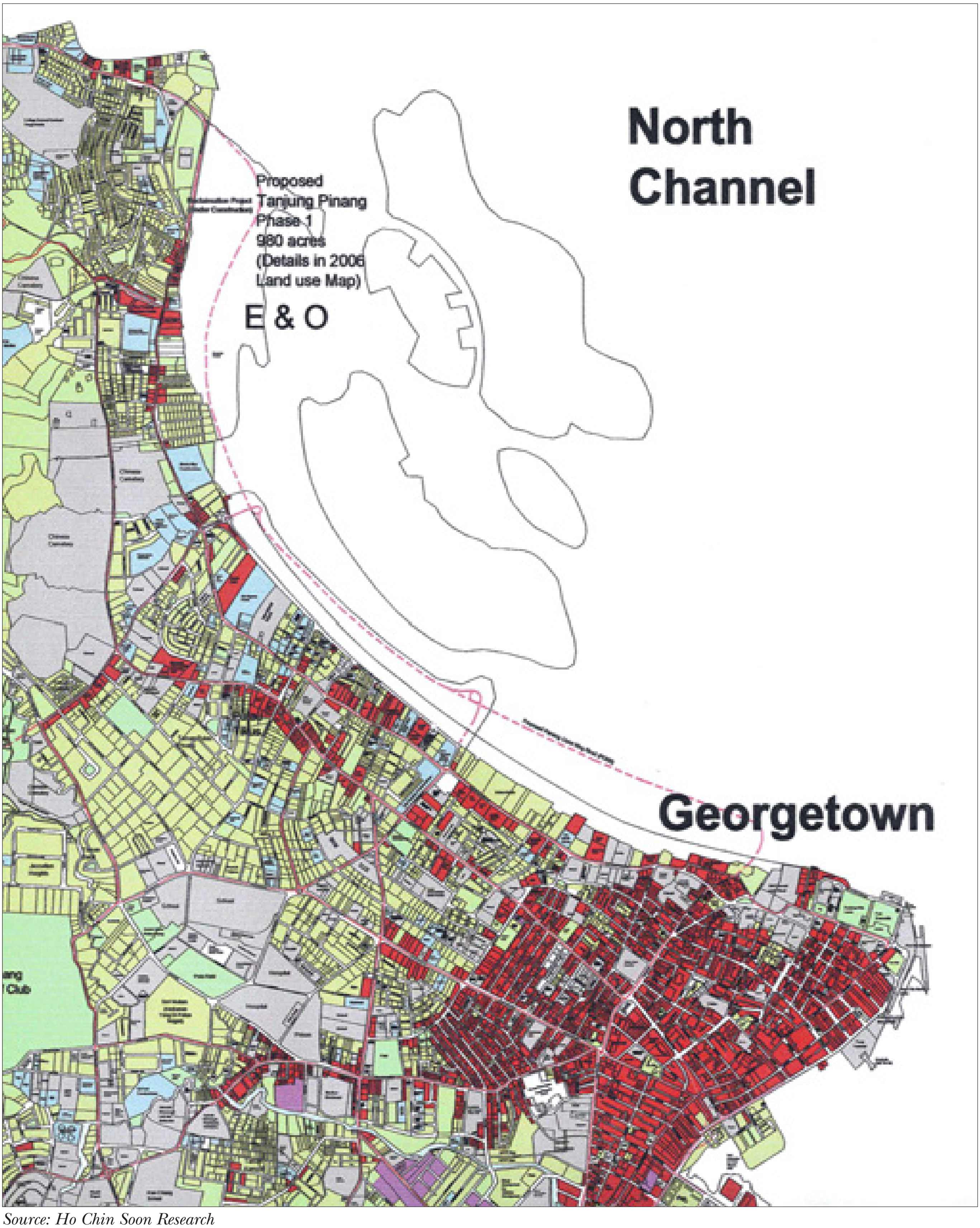
Figure 24: Key Landowners in South Johor

Location	Definition	Players	Size (acres)	Ownership
Tier 1 – Super prime (within 10km radius from Causeway)	Sea/River fronting	UEM World Danga Bay Tebrau Teguh KPRJ Johor Royalty	15,343 1,380 1,012 1,148 1,000	GLC - Khazanah Danga Bay S/B State-linked co. (41.2% subsidiary of KPRJ) State property investment arm Royalty
	No Water Frontage	Gamuda Mulpha Int'l Khazanah	1,200 800 1,000	Dato' Lin Yun Ling (6.2%) Lee Seng Huang (5.6%) GLC – Ministry of Finance
Tier 2 – Outer prime (11-15km)	Within IDR	SP Setia KSL Holdings	1,510 388	Tan Sri Liew Kee Sin (10.4%) Khoo Family (55.5%)
Tier 3 – Suburban (16-25km)	Within IDR	UM Land Johor Land Pelangi Group Crescendo Corp KSL Holdings SP Setia	3,762 3,091 3,000 1,100 996 760	Wawasan Perangsang Mewah S/B (24.6%) State-linked co. – Johor Corp (60.0%) GLC – PNB Gooi Family (66.5%) Khoo Family (55.5%) Tan Sri Liew Kee Sin (10.4%)
Tier 4 – Outskirts (26-40km)	Outside IDR	Asiatic Development IOI Properties Crescendo Corp	6,000 5,667 1,390	Genting (54.8%) IOI Group (67%) Gooi Family (66.5%)
Outskirts (> 40km)	Outside IDR	LBS Glomac	718 450	Family of Dato' Lim Hock San (44.8%) Dato' Mohamed Mansor (29.3%)

Source: Respective companies, UOB Kay Hian

TANJUNG PINANG, PENANG – MALAYSIA'S SENTOSA COVE

Figure 25: Strategically Located Near Georgetown & Tanjung Bungah



Source: Ho Chin Soon Research

Tanjung Pinang is Penang's largest integrated sea-front development (980 acres) located just off the northeast coast of Penang island and 5km from Georgetown, a mature commercial centre. The project is conceptualised by world-renowned architecture firm Wimberly, Allison, Tong & Goo (WATG) based in the US. Some of their unique and highly-regarded projects include the Four Seasons Resorts and Hyatt Regency Maui Resorts & Spa in Hawaii, The Lost City in South Africa, Hotel Bora Bora in Polynesia and The Ritz-Carlton in Bali. Tanjung Pinang has the potential to attract international developers due to the following reasons:

a) **Leveraging on Penang's tourism potential.** For the past 10 years, Penang has welcomed more than 3m visitor arrivals p.a., out of which more than 1m are international visitors, with 37% being repeat visitors. According to a survey by Penang Tourism Board, Penang is a favourite second destination for tourists who have visited Singapore (44%) and Thailand (36%). This is an encouraging trend as Singapore is expected to see its tourist arrivals leapfrog from 9m to 17m by 2010 with the opening of two IRs. Tourists are attracted to Penang's beaches, rich heritage, large variety of local delicacies and cost advantage. The opening of Asia's third Hard Rock Hotel in Penang by end-08 (after Bali and Pattaya) by Singaporean tycoon Ong Beng Seng is a good show of confidence in Penang's tourism potential. Penang has also made its maiden entry into the Top 10 most liveable Asian City list. It is no surprise that Penang is the state with the highest number of foreigners living in Malaysia registered under the Malaysia My Second Home programme.

   Tanjung Pinang is strategically located near tourist hotspots – a mere 5 minutes away from Gurney Drive, Penang's famous dining belt, and 15 minutes from the Tanjung Bungah-Batu Feringghi beach strip where most of the five-star hotels are located. Tanjung Pinang itself has the potential to draw tourists given its unblocked sea view, the presence of a marina within the development which will provide a festive retail venue, and wind-swept esplanades.

b) **Minimal restriction on foreign ownership of freehold land.** The Malaysian government generally does not restrict foreigners from owning freehold land (except for Malay reserve land and homestead agriculture land) as long as the necessary approvals have been obtained. This gives Tanjung Pinang a competitive edge over other island resort destinations in the region (eg Phuket and Bali). The Thai and Indonesian governments only allow foreigners to own leasehold land of short tenures (30 and 25 years respectively). The Thai government has also recently stepped up its enforcement in restricting foreign asset ownership to 49%.

c) **Large new infrastructure developments over the next five years.** Penang will receive 37% higher allocation under the 9MP (RM6.6b) than 8MP. 9MP includes large infrastructure developments (Penang Bridge, Monorail, Outer Ring Road) and additional road upgrading work. The Penang Monorail and Outer Ring Road will link Tanjung Pinang to the town centre and Penang International Airport, which has been identified as Malaysia's northern air hub under 9MP. The entry of two new airlines, ie Asmara Air and Firefly (MAS' budget airline), in addition to MAS and AirAsia will improve connectivity.

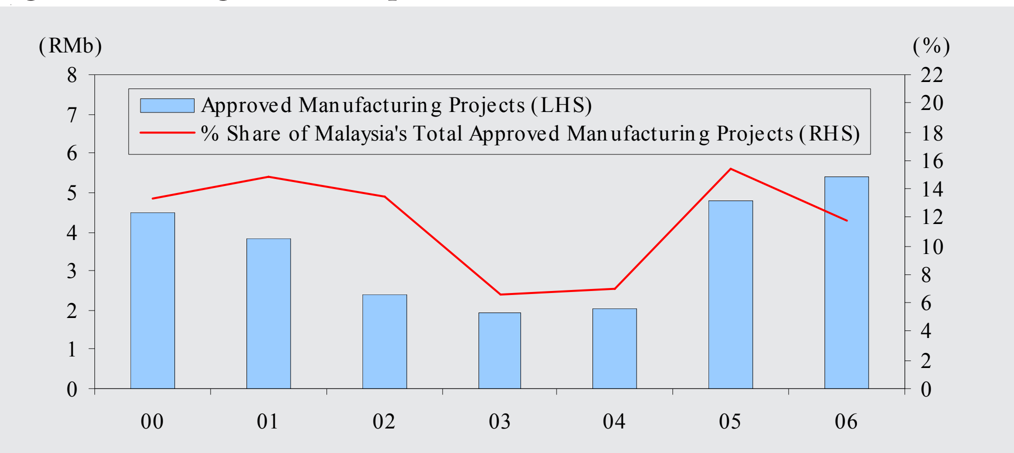
Figure 26: New Infrastructure Projects in Penang

Project	Value (RMb)	Remarks
Second Penang Bridge	3.0	24km bridge from Batu Kawan, Seberang Prai to Batu Maung, Penang Island
Penang Outer Ring Road	1.1	17km stretching from Tanjung Tokong to Gelugor
Penang Monorail	1.6	
	5.7	

Source: 9MP

d) **Leveraging on Penang's captive FDI market.** Penang is Malaysia's semiconductor hub. Since the introduction of a free trade zone in the 1970s, Penang has served as an offshore base to technology giants eg Intel, Motorola, Agilent Technologies, Dell, Seagate, Komag, Robert Bosch and Osram. In 2005, Bayan Lepas was also awarded the Multimedia Super Corridor (MSC) Cybercity status, which provides various tax incentives mainly designed to encourage the setting up of research and development (R&D) facilities, software development businesses or call centres within the area to support factory operations. Penang's FDI rose from RM1b in 2004 to RM4b in 2006, ranking it joint third in Malaysia in attracting FDI. 75% of Penang's FDI is largely in the electrical and electronic sector, with 40% contributed by US companies.

Figure 27: Penang's FDI On Uptrend



Source: MIDA

e) **Pent-up demand for landed properties, especially waterfront developments and well-planned township.** Previous launches near Georgetown have been predominantly high-rise and land ownership is generally fragmented. Tanjung Pinang's appeal lies in its landed property offerings and large township concept as the development is spread over a massive 980 acres. Just on domestic demand alone, Tanjung Pinang managed to chalk up more than 70% take up within six months despite a generally soft property market in the last two years.

Tanjung Pinang can continue to ride on Penang's strong property market. Penang has the highest sales growth in Malaysia (five-year CAGR 11% vs average of 8%). House prices on the island have risen to almost match Klang Valley's, growing at a five-year CAGR of 4.3% vs national average of 2.9%. Penang has the best demand-supply balance among the developed states (only 1.2% oversupply based on 9MP demand projections and approved future supply). Increasingly, more developers are seeing the potential of Penang and diversifying there, eg SP Setia, Sunway City and Mah Sing Group. These incoming supply is largely in Bayan Lepas at the southern part of the island (near the Penang International Airport and proposed Second Penang Bridge).

Figure 28: Most Favourable Demand-Supply Dynamics in Penang

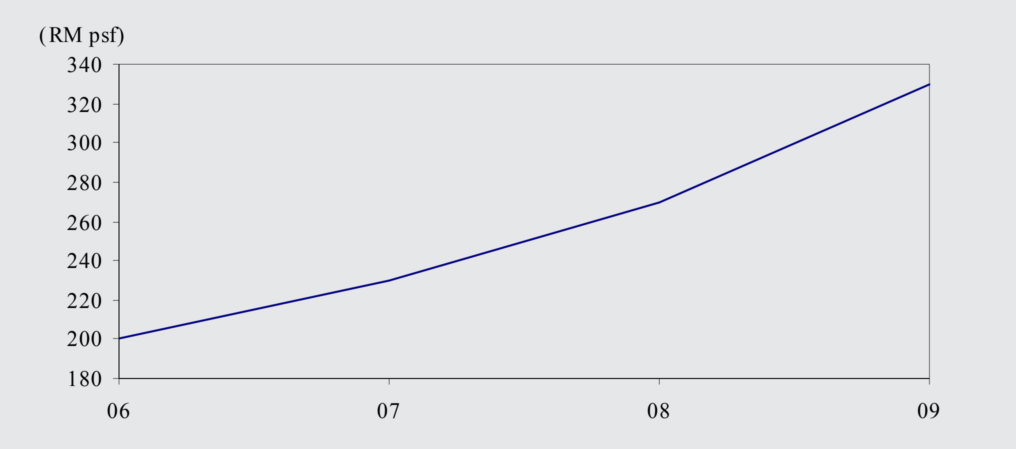
	Malaysia	**Klang Valley**	**Johor**	**Penang**
Planned Supply	631,443	183,265	131,512	33,207
Existing Supply	3,734,280	1,352,653	595,895	293,019
% of Existing Supply	16.9	13.5	22.1	11.3
Housing Requirements (2006-2010):				
- New Requirements	658,500	167,000	86,100	30,900
- Replacements	50,900	1,400	5,400	1,900
Total Housing Needs	**709,400**	**168,400**	**91,500**	**32,800**
Surplus/(Deficit)	**(77,957)**	**14,865**	**40,012**	**407**
% of Total Housing Needs	**(11.0)**	**8.8**	**43.7**	**1.2**

Source: 9MP, NAPIC

International investors have started to move in. Singapore's Mapletree Trust and Al Salam Bank of Bahrain (who share shareholders with Emaar Properties, the world's largest property development company listed on the Dubai financial market) have entered into a RM225m JV with E&O Property, the developer for Tanjung Pinang, to develop bungalows. This is a good first step and we expect more JVs with foreign developers in the near future to accelerate the development.

Land Prices to Appreciate by 50% in Tanjung Pinang Over Next 2-3 Years

Figure 29: Tanjung Pinang Land Price



Source: E&O Property, UOB Kay Hian

One of the cheapest island resort destinations in the region. Villas in Phuket, Thailand and Bali, Indonesia are fetching up to US$3m and US$1.5m respectively each. Tanjung Pinang has yet to launch any bungalows but indicative pricing points to only US$0.9m, huge 80% and 40% discounts to Phuket and Bali respectively. Bungalow lots in Sentosa Cove, Singapore have been sold at prices starting from S$1,000 psf (RM2,300 psf). This is more than 10x of the prices of bungalow lots transacted in Tanjung Pinang (RM220 psf).

Still cheapest even after assuming 50% appreciation. Over the next 2-3 years, we expect Tanjung Pinang land prices to rise by 50% to RM330 psf with the entry of more international developers. Already, Singapore Mapletree Trust and Al-Salam Bank of Bahrain have a presence via a JV with E&O Property to develop bungalows there. We believe our assumption for price appreciation is reasonable for two reasons: a) land prices in Penang have risen by at least 30% over the last two years, just on domestic demand alone; and b) Tanjung Pinang will still offer a discount to other more established island resort destinations in the region.

Figure 30: Penang Property is Cheapest Among Island Resorts in Region

	Villas (US$m)	Discount to Regional (%)
Tanjung Pinang		
- @ Existing Land Price of RM220 psf	0.9	Base
- @ Expected Land Price of RM330 psf	1.3	(33)
Phuket	1.5	(43)
Bali	3.0	(71)
Sentosa Cove	3.0	(71)

Source: Various

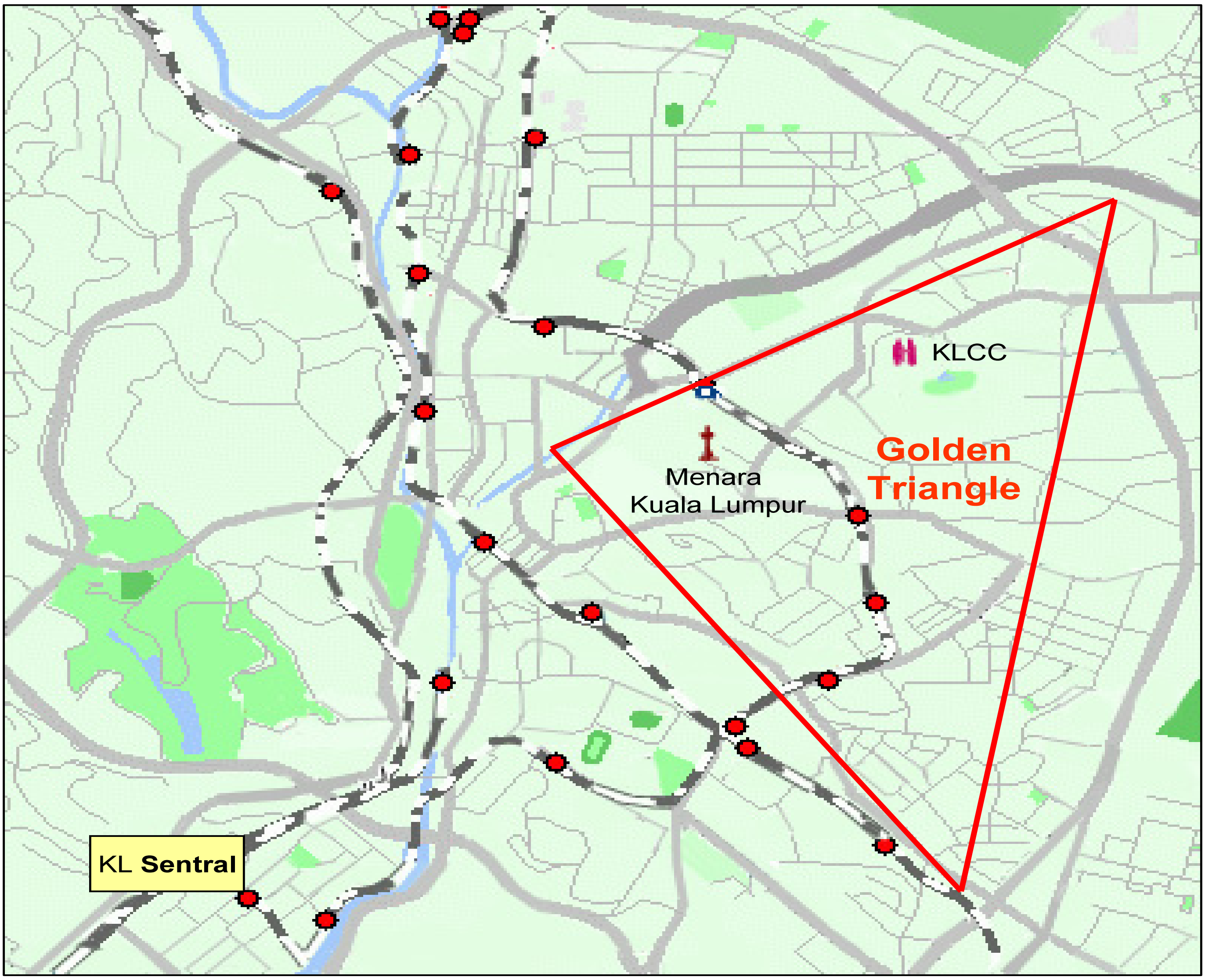
Biggest beneficiary is E&O Property, developer for Tanjung Pinang. Other owners of large landbank near Georgetown are Equine Capital (existing 256-acre Penang Turf Club site) and IJM Corporation (324 acres of reclamation land). Tanjung Pinang has greater potential to attract foreign interest given its waterfront feature and close proximity to tourist hotspots ie Gurney Drive and the Tanjung Bungah-Batu Feringghi beach strip. Landbank near Georgetown is generally more prime than that in the southern and western parts of the island given the scarcity of land around Georgetown and its close proximity to a matured commercial centre.

Figure 31: Large Landbank Owners in Penang

Source: UOB Kay Hian

KL SENTRAL – AN EMERGING COMMERCIAL HUB

Figure 32: KL Sentral just 10 minutes away from KLCC



Source: UOB Kay Hian

KL Sentral, Klang Valley's transport hub is just a 10-minute drive away from KLCC. KL Sentral is a RM9b mixed-development project, spanning over 72 acres of freehold with 21m sf of planned gross floor area (upon completion in 2015). To date, RM2.4b has been completed and another RM2b development is in progress. It has the potential to attract international investors due to the following reasons:

a) **Largest commercial development nearest to Kuala Lumpur Golden Triangle.** KL Sentral appeals to corporations that want to set up bases in decentralised Kuala Lumpur where good transport infrastructure is readily available. KL Sentral benefits from spillover demand as incoming supply of quality office space in KL Golden Triangle is limited due to an ongoing ban on office developments and conversion of commercial plots for residential developments. Rentals in KL Sentral have increased by 10% to RM5 psf currently, comparable to that of Grade A offices in KL Golden Triangle. Similarly, capital values have also increased by 22% over the last three years to RM525 psf from RM430 psf.

b) **Tax incentives as MSC Cybercentre.** KL Sentral was granted MSC status in early-06, the only area in Kuala Lumpur after KLCC. Corporations setting up offices in KL Sentral will enjoy various tax incentives. KL Sentral is also equipped with broadband infrastructure, fibre optics connectivity and an independent power supply.

Figure 33: MSC Cybercentre Benefits

		MSC - Status					
10-Point MSC Bill of Guarantees (BoGs)		**Company**		**Incubator**		**IHL/Faculty**	
1	World-class physical and information infrastructure	✓	P	✓	P	✓	P
2	Unrestricted employment of knowledge workers	✓	✓	✓	✓	✓	✓
3	Freedom of ownership	✓	✓	✓		X	X
4	Freedom of sourcing capital globally for MSC infrastructure & borrowing funds	✓	✓	✓	✓	✓	✓
5	Competitive financial incentives, including no income tax or an investment tax allowance for up to 10 years and no duties on import of multimedia equipment	✓	✓	✓	✓	✓	✓
6	Regional leader in Intellectual Property protection and cyberlaws	✓	✓	✓	✓	✓	✓
7	No censorship on Internet	✓	✓	✓	✓	✓	✓
8	Globally competitive telecoms tariffs	✓	✓	✓	✓	✓	✓
9	Tender key MSC infrastructure contracts to leading companies willing to use MSC as their regional hub	✓	X	X	X	✓	X
10	High powered implementation agency to act as an effective one-stop super-shop	✓	✓	✓	✓	✓	✓

Cybercity
Cybercentre
P Partial BoG/Best endeavour basis
Source: MSC website

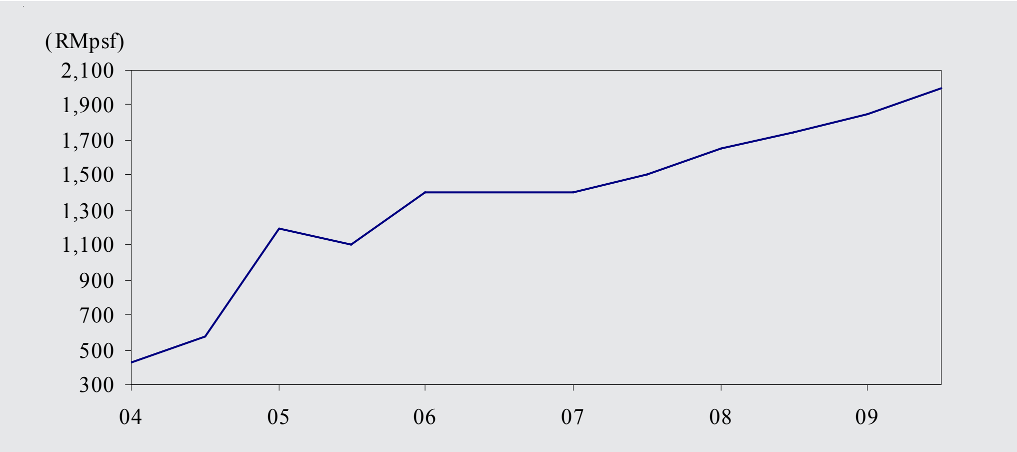
c) **MIDA one-stop approval centre to be located at KL Sentral.** Malaysian Industrial Development Authority (MIDA) assists foreign companies that want to invest in the manufacturing and related services sectors in Malaysia. It also facilitates the implementation and operation of their projects. The wide range of services provided by MIDA includes providing information on opportunities for investment and facilitating companies that are looking for JV partners.

d) **Existing transport hub with potential to go regional.** KL Sentral is the main interchange for six rail networks. KL Sentral is also the alternative check-in point for airline passengers and is directly linked to KL International Airport via an express rail link. There is a strong underlying demand for serviced apartments/condominiums in KL Sentral by frequent international travellers and airline staff. Yields are an attractive 10% (vs sector 7%) while property prices have risen by 50% over the last five years to RM500 psf. KL Sentral has the potential to be a regional transport hub should the government approve the RM10b Kuala Lumpur-Singapore bullet train project. Travelling time between both cities will be reduced to just 90 minutes each way from 4-5 hours by land or air (including travelling time to airport and check-in time). This will boost visitor arrivals to KL Sentral. Offices in Singapore may even relocate here given the cost advantage.

International investors have started to take notice. CapitaLand already has a presence in KL Sentral, having jointly developed a condominium block and is developing another two. Two existing hotels in KL Sentral (the 6-star Hilton KL and Le Meridien KL) were also bought by Japanese investors. We expect more international investors to come, especially when the Kuala Lumpur-Singapore bullet train project takes off.

Land Prices to Rise 50% in KL Sentral Over Next 2-3 Years

Figure 34: Land Transactions in KL Sentral



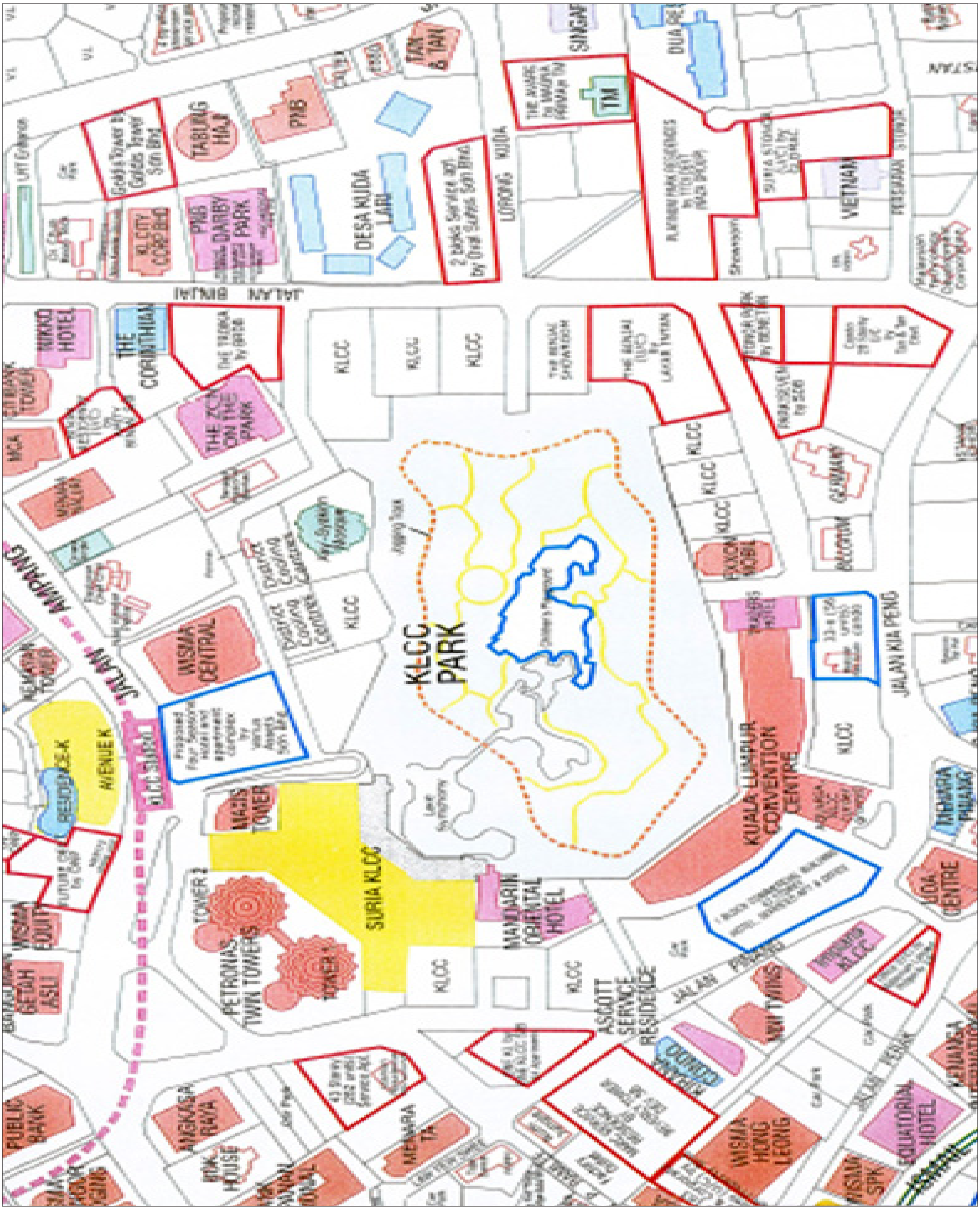
Source: MRCB

Still cheap compared with land in city centres. Land prices in KL Sentral have risen by 150% over the last three years to RM1,400 psf on domestic demand alone. We expect land prices to continue to rise further to RM2,000 psf (+50%) over the next 2-3 years given the favourable supply-demand dynamics for office space in Kuala Lumpur and the potential entry of more international investors. Even then, KL Sentral's land prices will still be at a 33% discount to KLCC's RM3,000 psf (based on our expectation of future land prices in the next 2-3 years). There would be more potential upside should the government approve the Kuala Lumpur-Singapore bullet train project.

Largest landlord in KL Sentral is MRCB (remaining undeveloped landbank: 25 acres). MRCB obtained the concession to develop the entire KL Sentral project after helping the government to construct a transport hub. The other landbank owner in the vicinity is YTL Corporation (5 acres).

KLCC – MALAYSIA'S COMMERCIAL EPICENTRE

Figure 35: Most Prime Real Estate in KLCC



Source: Ho Chin Soon Research

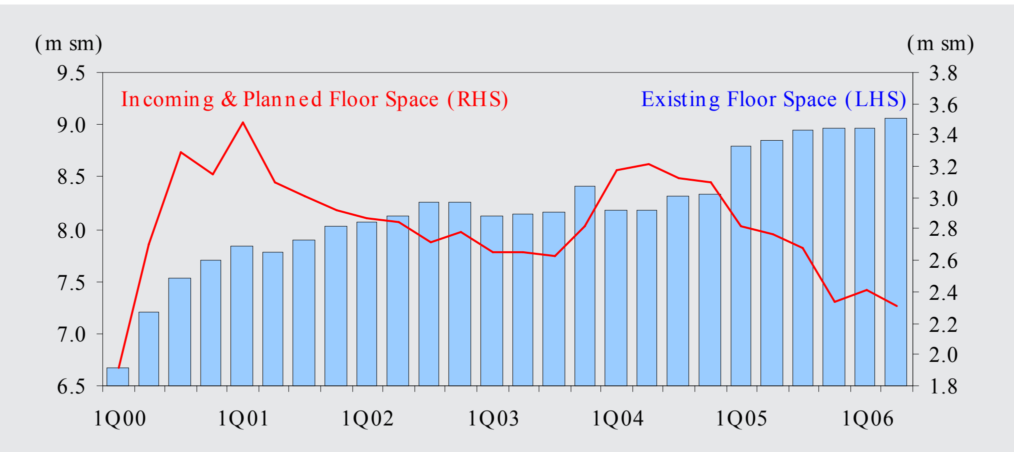
The KLCC is a 100-acre site with a 50-acre landscaped public park within the KL Golden Triangle. KLCC houses the most prime real estate in Malaysia, including the iconic Petronas Twin Towers. Commercial assets tend to gravitate towards KLCC, making it the commercial epicentre of Malaysia. KLCC has the potential to attract international investors due to the following:

a) **Early part of office cycle given favourable supply-demand dynamics.** Jones Lang Wotton regards Kuala Lumpur as one of the most attractive office markets in the region. Incoming supply is limited due to the following: a) ongoing ban in Kuala Lumpur since the financial crisis, and b) conversion of commercial projects to high-end residential in the last three years. Meanwhile, strong underlying demand is seen from upgraders who want to relocate closer to the epicentre, as well as businesses in the oil & gas, financial services and IT sectors. Kuala Lumpur Grade A office rentals have been rising 10% yoy on average to RM5 psf. Strongest growth was seen in KLCC where rentals doubled to RM13 psf in two years.

Figure 36: JLW Regional Rental Growth Cycle

Source: Jones LangWotton

Figure 37: Limited Incoming Supply in KL



Source: NAPIC

b) **Cost advantage and tax incentives.** The recent global real estate boom has sent regional office rental and capital values soaring. Foreign corporations may start to consider relocating or setting up offices in Kuala Lumpur given the relatively lower rental, utility and manpower costs there. In the recent Global Office Occupancy Costs Survey 2007, Kuala Lumpur occupied the 126th position with an annual office cost per workstation of US$2,790 (+17% yoy). Kuala Lumpur is significantly cheaper than Singapore (55th, US$7,860) and is even cheaper than less developed cities like Ho Chi Minh City (109th, US$4,320). Already, we are seeing regional call centres and share services setting up base here. KLCC has an existing captive market of international tenants eg oil & gas companies tend to set up base here to be closer to Petronas, Malaysia's national oil & gas body. Given the numerous discoveries in East Malaysia and some movement into the production stage, we expect oil & gas companies to expand and demand more office space in Kuala Lumpur. KLCC also appeals to foreign investors given its MSC Cybercity status that offers various tax incentives to corporations based in KLCC.

Figure 38: KL Cheapest Office Occupancy Costs in Region

			Total Occupancy Cost (US$/workstation p.a.)		
	Countries/Territories	**Location**	**2007**	**2006**	**yoy % chg**
1	Hong Kong SAR	Hong Kong	19,730	15,440	27.8
2	India	Mumbai	11,400	8,490	34.3
3	Japan	Tokyo (Outer Wards)	8,780	7,870	11.6
4	India	New Delhi	8,150	6,650	22.6
5	Singapore	Singapore	7,860	4,770	64.8
6	Mainland China	Shanghai (Pudong)	7,630	6,080	25.5
7	Mainland China	Shanghai (Puxi)	6,610	6,300	4.9
8	Taiwan	Taipei	6,090	4,600	32.4
9	Mainland China	Beijing	5,830	5,740	1.6
10	Vietnam	Ho Chi Minh City	4,320	3,840	12.5
11	Vietnam	Hanoi	4,080	3,720	9.7
12	Mainland China	Guangzhou	3,830	3,440	11.3
13	India	Bangalore	3,680	3,290	11.9
14	Mainland China	Shenzhen	3,360	3,050	10.2
15	India	Chennai	3,160	2,310	36.8
16	Malaysia	Kuala Lumpur	2,790	2,390	16.7

Source: DTZ Research

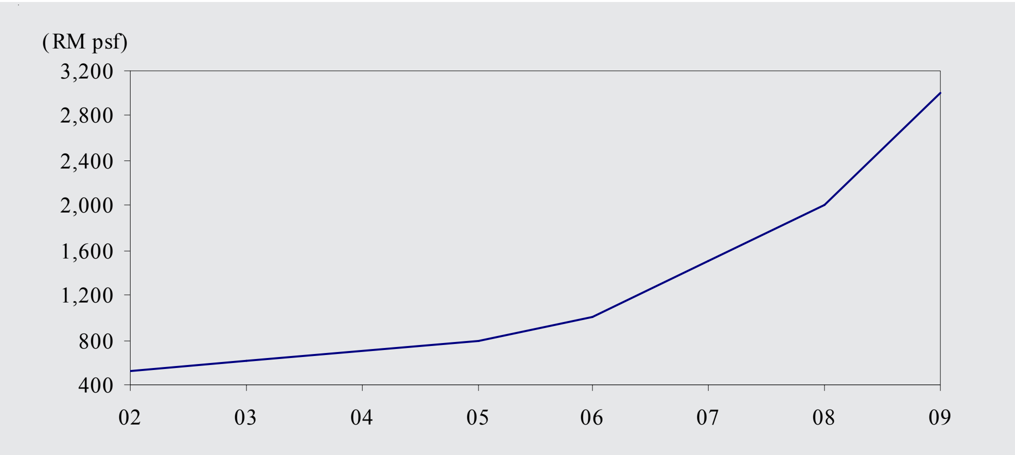
c) **Strong tourist attraction, augurs well for retail and hotel segments.** Petronas Twin Towers was once the tallest building in the world and is Malaysia's top tourist attraction. Tourist arrivals to Malaysia have been increasing at a 10-year CAGR of 8.2%. The government expects Visit Malaysia Year 2007 to boost tourist arrivals to 20m. Kuala Lumpur has been rated as the least expensive city of the 71 cities included in a UBS worldwide survey. A typical trip to Kuala Lumpur for tourists would cost only RM951, less than half of the RM2,305 for Singapore and just 1/3 of the RM3,037 for Hong Kong. KLCC could also leverage on Singapore's high tourist traffic, especially if the government approves the Kuala Lumpur-Singapore bullet train project.

d) **New influx of high-end residents.** Since 2004, there has been numerous launches of high-end condominiums/serviced apartments around the KLCC area. In the next three years, we would see the delivery of more than 5,000 units which would provide, for the first time, a catchment population of 10,000 within the city centre. The large influx of high net worth residents are estimated to have a cumulative annual income of more than RM1b, providing a strong target market for the retail segment.

International investors have started to set up base in KLCC. Four Seasons will be building its first hotel and serviced apartments in Malaysia next to the Petronas Twin Towers (GDV: RM1.5b). Four Seasons' presence in KLCC is a good show of confidence in Malaysia's tourism potential. Increasingly more foreign investors are entering into JVs with local developers to acquire land around KLCC for commercial development (eg Glomac-Al Batha Real Estate JV, CapitaLand-YNH Property JV, Kuwait Finance House-Pavillion JV). The ongoing ban on office space in Kuala Lumpur which caps incoming supply is the main reason why commercial development in KLCC is hotter than residential.

Land Prices to Appreciate by 200% in KLCC Over Next 2-3 Years

Figure 39: KLCC Land Price on Uptrend



Source: Various

- Two high-end development will be setting new pricing benchmarks in KLCC, leading to a re-rating of land prices in the area:

    a) **Four Seasons** by Singaporean tycoon Ong Beng Seng. Its serviced apartments may be launched at a record RM2,000 psf, doubling the RM1,000 psf record set last year.

    b) **Binjai by KLCC Holdings.** Currently under construction, it will be sold on a build-and-sell basis. Preview by invitation only. Reported to have a long waiting list consisting of who's who in Malaysia, as well as foreign interests. Previous pricing indication was RM1,300 psf but the selling price will rise likely further upon completion next year.

Even at these new benchmark prices, high-end property in KLCC is still at a huge discount to Singapore's S$3,000 psf (RM6,900 psf).

Figure 40: Major Asian Cities (Super Prime)

	Capital Value (US$ psf)	Discount to Regional (%)
Kuala Lumpur		
- @ Existing Land Price of RM1,000 psf	286	Base
- @ Expected Land Price of RM3,000 psf	857	(67)
Singapore	1,961	(85)
Hong Kong	5,000	(94)

Source: Various

- **Cheapest prime city centre land in the region.** Land prices in KLCC had doubled over the last five years to hit a record RM1,000 psf in 2006. Even then, we expect prices to continue to strengthen by another 200% to RM3,000 psf over the next 2-3 years due to scarcity of land and entry of more international developers. We believe KLCC's land prices will at least catch up with, if not beat, KL Sentral's recent land transaction of RM1,300 psf. KLCC remains the cheapest prime city centre in the region – land in Orchard Road, Singapore was recently tendered for S$7,850 psf, or RM18,050 psf!

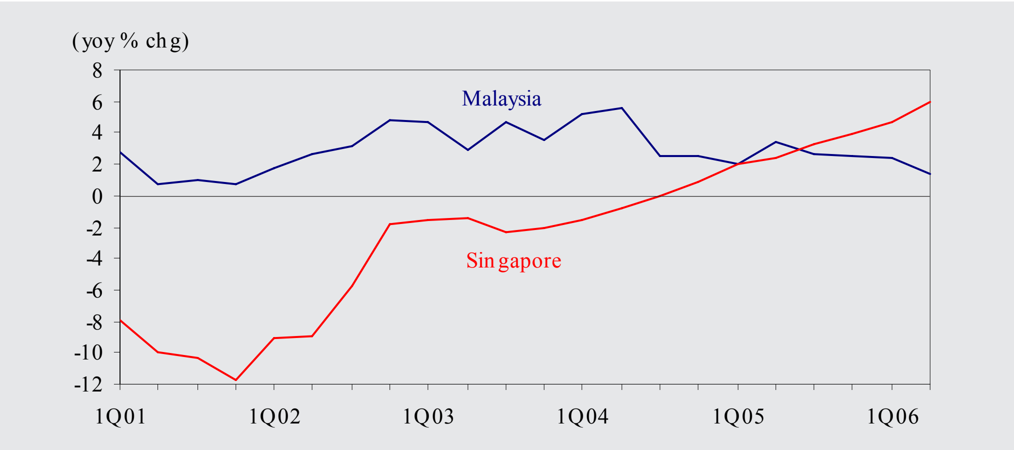
- **Largest landlord is KLCC Holdings,** unlisted holding company of KLCC Property. Both KLCC Holdings and KLCC Property virtually monopolise the super prime assets surrounding the KLCC Park. KLCC Holdings owns eight plots of undeveloped super prime land while KLCC Property owns all the existing commercial properties surrounding the KLCC Park. TA Enterprise also owns four acres of commercial land opposite the Petronas Twin Towers.

Malaysia Property Remains Cheapest In The Region

LAGGING BEHIND REGIONAL PEERS

The recent global real estate boom has widened Malaysia's price and yield differentials with regional peers. Rising liquidity from a multi-year bull market, strong commodity prices and rising foreign participation have lifted asset prices in the region. Nearest neighbour Singapore experienced average house price growth of 11% over the last two years while Malaysia only saw its house price index grow 4.8% on the back of lacklustre domestic demand. Foreign interest constituted less than 10% of total transactions (vs Singapore's 10%). Compared with properties in Singapore and Thailand, Malaysian properties are trading at attractive discounts of more than 75% and more than 20% respectively. Malaysian properties have become too cheap to ignore, especially when more positive policy changes have been introduced to attract FDI and domestic conditions have improved.

Figure 41: Malaysia House Price Index Lagging Behind



Source: CEIC

Figure 42: Malaysia One of the Cheapest Property Markets in Region

Cities	Capital Value (US$ psf)	KL Discount to Regional (%)	Yield (%)
Jakarta	121	24	10.8
Makati	142	6	7.4
KL	150	0	8.3
Bangkok	209	(28)	4.9
Singapore	1,176	(87)	3.0
Hong Kong	1,555	(90)	3.3

Source: Jones Lang Wotton

DOMESTIC DEMAND SET TO IMPROVE

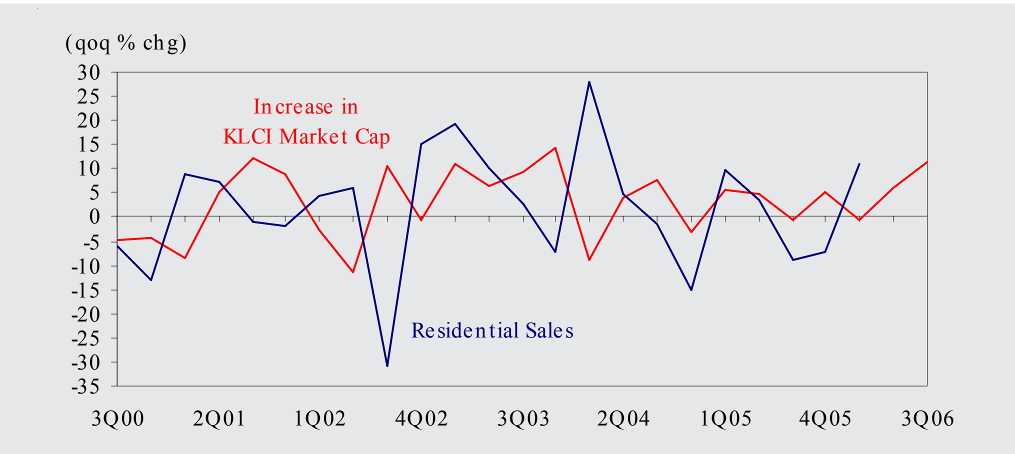
The last two years marked a downcycle for the Malaysian property sector where sales (especially for residential property) fell 7.6% and house price growth was sluggish. Domestic demand was affected by a general decline in consumer sentiments as a result of government policies to reduce the budget deficit and cut back on subsidies. A 75-bp hike in interest rates, combined with hikes in petrol, electricity and water tariffs, affected the purchasing power of consumers.

However, government policies have started to turn pro-growth with the 9MP, which aims to put money into the pockets of the ordinary man in the street. We believe the Malaysian property sector is in the early stage of a new upcycle on improving domestic conditions. Domestic demand should pick up in the next 12 months on the back of the following:

a) **Positive policy changes** that could lead to improvement in sales and huge jumps in property prices.

b) **New wealth created in stockmarket.** KLCI has rallied by 25% in the last six months, with market capitalisation rising by RM740b to RM950b. In view of the limited investment alternatives, we expect some of this new wealth to flow into the property sector. Every 1% of this increase in wealth will create RM7b new demand (25% of 2005 sales), assuming a 70% financing margin. Historically, residential sales lag the growth in KLCI market capitalisation by six months. The previous bull run in 1993-97 was a major catalyst for the property sector as sales and house prices rose 20% and 13% p.a. respectively.

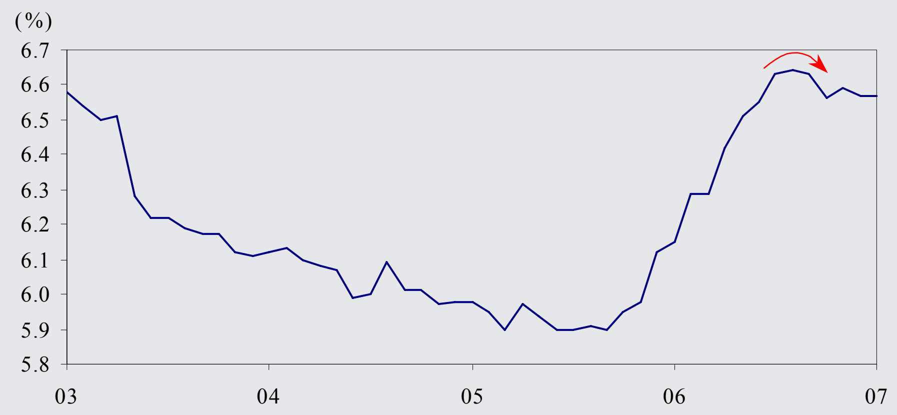
Figure 43: Property Sales Positively Correlated to KLCI Market Cap



Source: NAPIC, Bloomberg

c) **Peaking domestic interest rates** as inflation is expected to be more benign (2007F: 3.0%; 2006: 3.6%). Malaysia's Overnight Policy Rate has remained steady at 3.5% since its last hike in Apr 06. Intense competition among banks as Malaysia moves towards liberalising the financial services sector will drive mortgage rates lower. Every 1% decrease in interest rates will boost the affordability ratio by 13%.

Figure 44: Average Lending Rate



Source: BNM

Figure 45: Affordability Ratio & Sensitivity Analysis

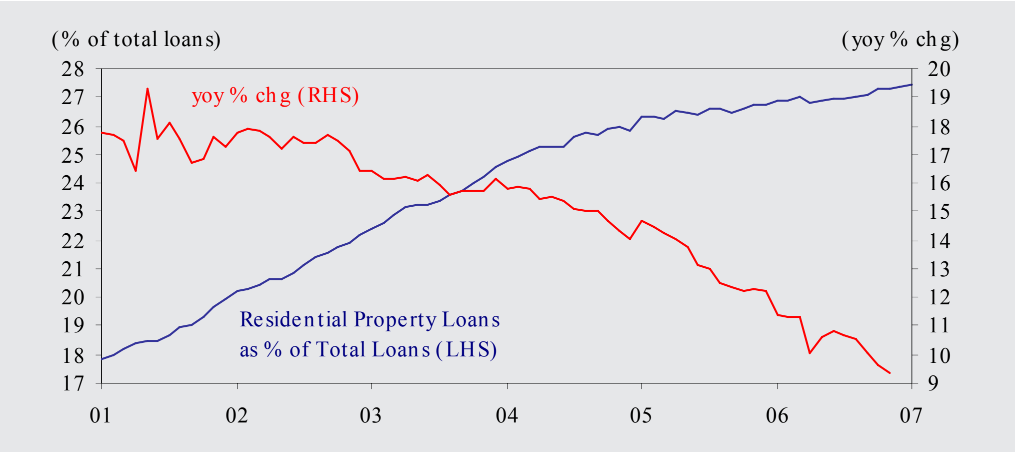
	% Change in FY07 Affordability Ratio
1% Change in:	
Interest Rates	13.0
House Prices	(1.0)
Income	1.0

Source: UOB Kay Hian

d) **Implementation of 9MP.** The return of mega infrastructure projects will lead to various spin-offs in the economy. The government has raised its 2007 GDP forecast to 6.0% from 5.5%, and expects average purchasing power to rise by 7% to RM21,168 per capita.

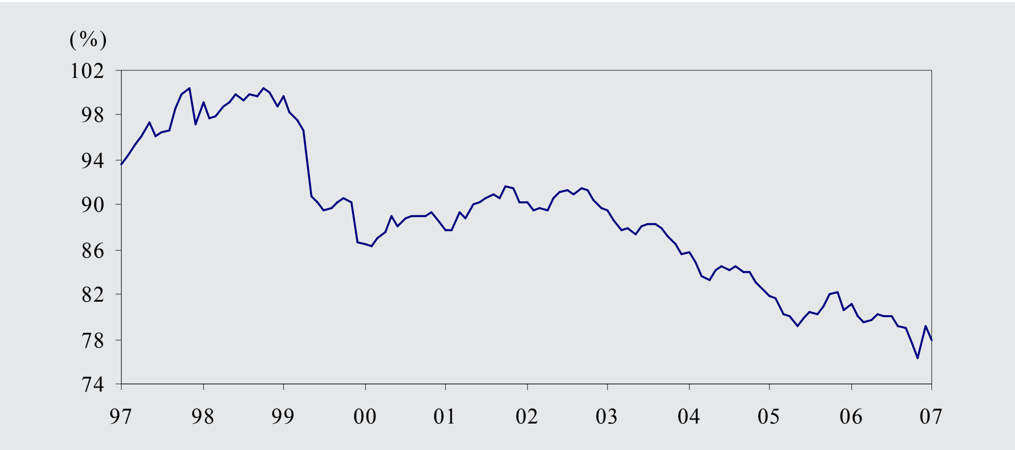
e) **Ample liquidity to continue to support mortgage loans growth**. Malaysia's banking sector continues to face a declining loan-deposit ratio which should translate into high loan availability and margin of financing for property transactions that constitute the bulk of banking sector loans. Due to the recent downcycle, property loans growth has halved to 7% yoy from 15% in 2004.

Figure 46: Residential Loan Growth Moderating



Source: BNM, UOB KayHian

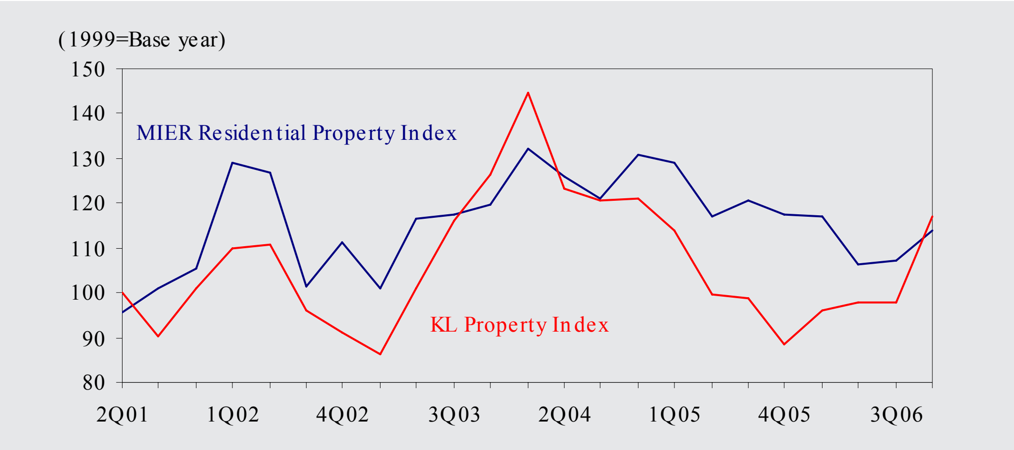
Figure 47: Banking Sector Loan-Deposit Ratio on Downtrend



Source: BNM, UOB Kay Hian

Sector indicators turning positive. Sales momentum has improved over the last six months. Recent launches of high-end condominiums/serviced apartments in prime locations in Kuala Lumpur saw strong take-up (more than 70% sales within three months of launch). MIER Residential Property Index, a leading indicator of Malaysian property sector performance, has also started to turn positive.

Figure 48: MIER Residential Property Index Turning Up



Source: Bloomberg

Reputable International Investors Moving In

Reputable international investors have only just started to enter the Malaysian property market. The likes of CapitaLand, Ong Beng Seng, Macquarie and Kuwait Finance House have started to acquire commercial assets or are entering into JVs with local developers in mainly commercial projects within KL Golden Triangle. Transactions by foreign investors had grown three-fold to RM12.6b in 2006, coming off a low base in 2005 (vs Singapore's RM48b in 2006).

The entry of reputable international investors will boost the quality of Malaysian real estate to international investment standards, leading to new price benchmarks. For example, Singaporean tycoon Ong Beng Seng's Four Seasons apartments are expected to be launched at a record RM2,000 psf, doubling the highest launch price of RM1,000 psf set last year. Government approval has just been obtained for Four Seasons' first hotel in Kuala Lumpur which will be located next to the iconic Petronas Twin Towers (GDV: RM1.5b). We expect new benchmarks for average room rates to be set.

With more positive policy changes to be expected in the next 12 months, we can expect the following developments:

a) **More international developers to come.** To date, only CapitaLand has been the more active Singaporean developer in Malaysia while Middle Eastern interests have largely concentrated on the financial services sector,

b) **Other hotspots that can draw international interest** eg IDR and Penang to start attracting foreign developers, and

c) **FDI broadening out to other segments** eg good class residential. The entry of an ITP operator in the IDR will also attract global real estate players to invest in retail and hotel developments.

Figure 49: Rising International Interest in Malaysian Property Sector

International Investor	Nationality	Acquisition/ Development Project	Segment	Location	Value/ GDV (RMm)	Seller/JV Partner
Kuwait Finance House (20%)	Middle East	South Quay, Sunway	Mixed	Suburban	3,800	JV with SunCity (31%) EPF (20%)
Kuwait Finance House (49%)	Middle East	Pavillion, Bukit Bintang	Retail	Central Business District	3,000	JV with private land owner
Ong Beng Seng, CapitaLand	Singapore	Four Seasons	Retail, Hotel	Golden Triangle	1,500	JV with Sultan Selangor
Macquarie (via Affluent Impact S/B)	Australia	City Square Centre	Commercial	Decentralised Area	680	Asia Pacific Land
CapitaLand (39%)	Singapore	Lot D, KL Sentral	Service Apartment	Decentralised Area	650	JV with MRCB (51%) Quill (10%)
Thai Brewery	Thailand	Westin Hotel	Hotel	Golden Triangle	455	Ireka Corp
Al Batha Real Estate Co (49%)	Middle East	Commercial, near KLCC	Commercial	Golden Triangle	350	JV with Glomac (51%)
CapitaLand (49%)	Singapore	Lot J, KL Sentral	Office	Decentralised Area	300	JV with Quill Group (51%)
CapitaLand (30%)	Singapore	QuillCapita Trust	REIT	n.a	280	Quill Group (30%)
Al-Salam Bank of Bahrain	Middle East	Tanjung Pinang, Penang	Residential	Sub-urban	220	JV with E&O Property (35%)
Saudi Prince	Middle East	Four Seasons Resort Langkawi	Hotel	Suburban	435	MAS
					12,595	

Source: Newspaper articles, Respective companies

Emerging Middle Eastern investors. Middle Eastern investors' maiden investments in 2006 amounted to RM7b, constituting 62% of total foreign investments in the Malaysian property market. Already, we are seeing positive impact on property prices and take-up rates:

a) **New price benchmarks.** Glomac-Al Batha Real Estate Co JV acquired a 1.3 acre land parcel in KLCC for RM1,000 psf (20% higher than the previous transaction). Recently, a Saudi prince acquired the five-star Four Seasons Resort Langkawi for RM435m, or RM4.4m for each of the 91 villas – a new price benchmark for hotel pricing in Malaysia.

b) **Higher launch prices, strong take-up.** Ever since Kuwait Finance House took a 49% stake in the RM3b Pavillion mixed-development project, construction of the project has accelerated. The serviced apartments were launched in mid-06 at 40% higher prices (RM1,000 psf vs RM600 psf planned previously) while take-up was a strong 70% (within six months) despite the expensive price tag and soft property market.

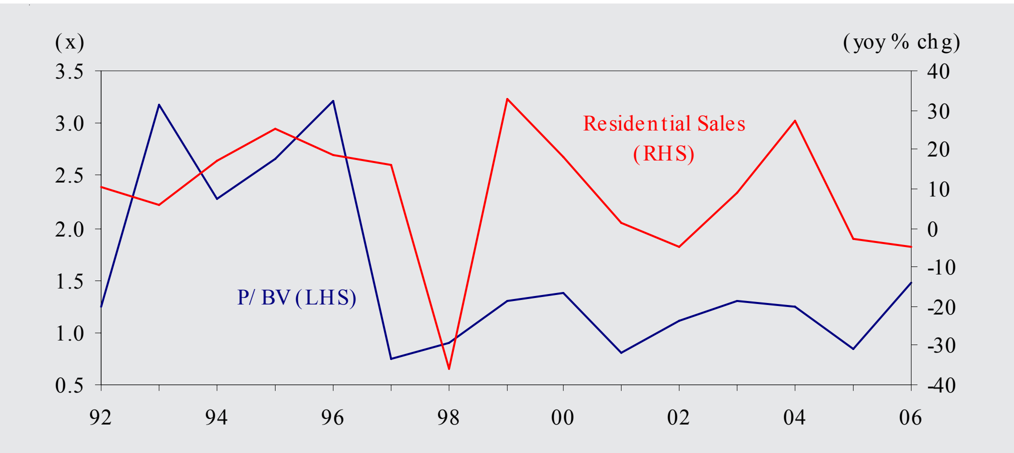
Attractive Valuations

Current price levels have only factored in a sector recovery. Discount to RNAV has bottomed out to match the level seen in 2004 prior to the onset of the property downcycle. We are seeing some re-rating of Malaysian property counters on the back of positive policy changes (eg lifting of FIC approvals for residential properties) and encouraging sales performances recently. The big caps appreciated the most, namely SP Setia and KLCC Property. Mid caps with large foreign shareholding eg Mah Sing Group, IGB Corporation, E&O Property, YNH Property and Sunrise also moved up but on a smaller scale. The recent correction has reduced overall risk levels.

Yet to price in a potential multi-year property boom. Positive policy changes to attract FDI could lead to the entry of international property developers, operators and investors to Malaysian property sector. This is unprecedented as the sector in the past was highly protected and domestically-oriented. This change could be a strong catalyst that would create a boom in the property sector over the next 2-3 years, potentially on a scale never experienced before in Malaysia. In addition, domestic demand is set to improve on the back of positive policy changes (eg abolishment of RPGT), new wealth created in the stockmarket, peaking interest rates and positive spin-offs from the implementation of 9MP.

Current valuations are very modest compared with the valuations seen during the last property boom in 1993-97 when discounts to RNAV narrowed to just 5-10%. P/BV touched 3.2x in both 1993 and 1996 and averaged 2.8x over the period. Hot property counters were valued at 5-7x P/BV. The sector is trading at just 1.3x P/BV, a huge 60% discount to peak valuations.

Figure 50: Current P/BV Valuation Significantly Below Previous Property Boom



Source: Bloomberg, Respective companies

Valuing Malaysian property counters based on future land prices: a) emerging change in policy mindset is a very powerful valuation catalyst, and b) taking the cue from Singapore and Hong Kong where property counters command a premium to RNAV as investors price in expectations of higher property prices. Attracting international property developers, operators and investors to invest in the Malaysian property sector will lead to a big jump in property values, especially land with international development potential. We expect a 50-300% jump over the next 2-3 years.

Figure 51: Expected Land Prices in Next 2-3 Years

Location	Current Market Value (RM)	Future Market Value (RM)	Increase (%)
Klang Valley			
KLCC	1,000	3,000	200
KL Sentral	1,400	2,000	50
South Johor			
Nusajaya	7.50	30	300
Penang			
Georgetown	220	330	50

Source: UOB Kay Hian

Owners of large landbank with international potential have the biggest RNAV upgrade potential. Tebrau Teguh ranks at the top (+323%) along with UEM World (+202%). We expect land prices in IDR to rise by 300% to RM30 psf from RM7.50 psf currently over the next 2-3 years. E&O Property, which owns Tanjung Pinang, Malaysia's Sentosa Cove, will also see strong RNAV upside (+66%) on the back of an expected 50% increase in land prices to RM330 psf in the next 2-3 years. In Kuala Lumpur, companies with high exposure to commercial development will benefit the most ie KLCC Property (+62%) and MRCB (+38%) where we expect land prices to triple to RM3,000 psf and increase 50% to RM2,000 psf respectively.

Figure 52: RNAV Upgrade Potential

	RNAV Upgrade Potential (%)	RNAV Based on Expected Land Prices by 2009 (RM)	RNAV Based on Existing Land Prices (RM)	Expected Land Price by 2009 (RM psf)	Current Land Price (RM psf)	Discount to Future RNAV (%)
Tebrau Teguh	323	7.06	1.67	110	26	(87.0)
UEM World	202	7.80	2.58	30	8	(50.5)
E&O Property	66	7.49	4.48	330	220	(65.9)
KLCC Property	62	6.15	3.79	3,000	1,000	(48.0)
MRCB	37	3.39	2.47	2,000	1,400	(45.4)
SP Setia	37	10.73	7.79	n.m	n.m	(31.5)
Mulpha Int'l	33	4.13	3.11	80	35	(57.4)
Sunrise	14	3.55	3.11	400	330	(32.1)
Sunway City	12	4.35	3.89	n.m	n.m	(21.8)
YNH Property	12	3.41	3.04	GDV 1.25b*	GDV 1b*	(36.1)
Shangri-La Hotels	39	4.72	3.39	n.m	n.m	(31.5)

** GDV for office JV project with CapitaLand*
Source: UOB Kay Hian

Raising target prices. In setting our new target price, we have applied a discount to RNAV based on our expectations of land prices in the next 2-3 years. The discount applied varies depending on several factors:

a) Large landowner of international potential which will benefit the most from entry of international developers (10% discount),

b) Strong management but less attractive landbank (20% discount), and

c) Either one of the above but with poorer-quality management/higher execution risk (30% discount).

Figure 53: Target Price

	RNAV (RM)	Target Price (RM)	Basis (% Discount to RNAV)
UEM World	7.80	7.00	(10)
MRCB	3.39	3.00	(10)
E&O Property	7.49	6.70	(10)
KLCC Property	6.15	5.50	(10)
Mulpha Int'l	4.13	3.70	(10)
SP Setia	10.73	8.60	(20)
YNH Property	3.41	2.80	(20)
Sunway City	4.40	3.50	(20)
Shangri-La Hotels	4.72	3.75	(20)
Tebrau Teguh	7.06	5.00	(30)

Source: UOB Kay Hian

Sector Earnings To Grow At Strong Three-year CAGR Of 35%

2006 marks first earnings decline since financial crisis... (-7% yoy to RM1.1b) as property sales declined 7.6% to RM28b over the last two years on the back of lacklustre domestic demand. Revenue and profits are recognised based on construction progress (generally two years for landed properties and three years for high-rise and commercial properties). SP Setia continued to outperform despite its large earnings base – its net profit rose to a new high of RM240m (FY06: +18% yoy) as sales grew steadily by 20% p.a. to a record RM1.4b. SP Setia was able to leverage on its strong brand name and astute management. The worst performer was MK Land – its net profit plummeted 75% from a peak of RM188m in 2004 to just RM47m as sales plunged 74% to RM235m (from RM904m), and construction delays created negative publicity and required total provisions of RM36m.

...but earnings momentum set to pick up significantly in the next three years (35% CAGR), on the back of an improvement in sales (FY07F: +15% yoy, FY08F: +35% yoy and FY09F: +20% yoy) and margin expansion (FY07F: 31%, FY08F: 34% and FY09F: 40% from FY06's 27%). This can be attributed to the following:

a) **Positive policy changes to attract FDI.** The entry of international investors would lead to a big jump in property values and create new demand as foreign participation currently constitute less than 10% of total transactions.

b) **Recovery in domestic demand** driven by positive policy changes (eg abolishment of RPGT), new wealth created in the stockmarket, peaking interest rates and positive spin-offs from the implementation of 9MP.

During the last property boom in 1993-97, sales growth was as high as 25% yoy and averaged 19% yoy over the period (could have been higher if not for the FIC and lending restrictions imposed by the government in 1995 and 1997 respectively). Sales were largely driven by new wealth created in the stockmarket. A similar trend was seen when the stockmarket performed strongly in 1999-2000 and 2004 which incidentally coincided with the general elections. We expect history to repeat itself given the recent bull-run since Nov 06 and a potential early general elections in end-07/early-08. Sales growth could even surpass the previous peak given positive policy changes and the unprecedented entry of international developers which would drive up property prices. We have conservatively assumed for now that property sales for the sector would grow 15% in 2007 before picking up to 35% and 20% in 2008 and 2009 respectively. We expect sales growth in IDR to outperform the sector from next year onwards (FY08F: +53%, FY09F: +40%) with the entry of international developers.

Our sales growth assumption could be broken down further to improvements in

a) Property prices (FY07F: +10% yoy, FY08F: +22% yoy and FY09F: +10% yoy), and

b) Volume (FY07F: +5% yoy, FY08F: +11% yoy and FY09F: +9% yoy).

The previous property boom saw price growth of 9-13% yoy and volume growth of 3-12% yoy. Rising property prices will lead to expansion in EBIT margin (FY07F: 31% yoy, FY08F: 34% yoy and FY09F: 40% yoy vs FY06's 27%), even after factoring in a 5% yoy increase in construction costs. Material price index growth was below 5% for the last 10 years.

There could be potential upside to our earnings estimates as we have yet to factor in any impact of land sales by companies with large landbank.

Above consensus. Our earnings growth expectation (three-year CAGR of 35%) is more than double consensus' 15% which has yet to factor in expected policy changes and its impact. Sentiments are still cautious after a two-year downcycle and not many would even dare to dream of a potential property boom in the next 2-3 years.

Investment Strategy

Investors have reason to be more bullish on the property sector:

a) Positive policy changes to attract international property developers, operators and investors to the Malaysian property sector will lead to big jumps in property values, especially land that will appeal to international players. We expect a 50-300% jump over the next 2-3 years.

b) Malaysian property remains one of the cheapest in the region. After a two-year down cycle, the sector is in the early stage of a new upcycle on improving domestic conditions.

c) Reputable international developers have just started to enter the Malaysian property market. More international players are expected.

Early investors should take the opportunity to buy the largest landowners with landbank that is the most attractive to international interest. Large international developers are expected to focus on sizeable land with the potential to be used for international commercial developments (ie. theme parks, international retail malls, good class residential projects). Only these large landowners would be able to offer international developers suitable plots large enough for development. We have identified the following hotspots and the largest landowners in those areas:

a) Southern tip of IDR, South Johor – an emerging SEZ (**UEM World**),

b) Tanjung Pinang – Malaysia's Sentosa Cove (**E&O Property**),

c) KL Sentral – an emerging commercial hub (**MRCB**), and

d) KLCC – Malaysia's commercial epicentre (**KLCC Holdings**, unlisted holding company of KLCC Property).

Figure 54: Land Sales Required for PEs to Fall to 5x

Large Landbank Owners	Current Price (RM)	2008 Net Profit (RMm)	Required Net Profit for PE to Fall to 5x (RMm)	Additional Net Profit Required (RMm)	Landbank Sale Required (acres)	Landbank in Hotspots with International Potential in Malaysia (acres)	% of Landbank	Expected Selling Price (RM psf)	RNAV (RM)
E&O Property	2.53	185.3	312.2	126.9	18	509*	3.5	330	7.49
Tebrau Teguh	0.92	2.4	123.3	120.9	39	1,012	3.8	110	7.06
UEM World	3.86	243.3	1,071.5	828.2	984	10,336	9.5	30	7.80
MRCB	1.85	107.3	284.2	176.9	5	25	18.3	2,000	3.39
Mulpha Int'l	1.76	58.3	441.8	383.5	158	800	19.7	80	4.13

** Based on net landbank*
Source: Respective companies, UOB Kay Hian

We prefer landowners to traditional developers for several reasons:

a) Higher RNAV upgrade potential, especially owners of large landbank that can attract international investors,

b) PEs can easily fall to 5x PE with small land sales - UEM World, E&O Property and Tebrau Teguh only need to sell less than 10% of their prime landbank for 2008 PE to fall to 5x. Current high PEs are not a concern,

b) Rising land prices would put a squeeze on developers with small landbank, who would need to replenish landbank, and

c) Increased competition with entry of more international developers.

Our top picks in the sector are **UEM World, MRCB** (initiate coverage), **E&O Property** (initiate coverage) and **KLCC Property.** These companies are the largest owners of landbank with international development potential and would experience the most sizeable RNAV upgrades as new pricing benchmarks are set. Other value plays include Tebrau Teguh and Mulpha International that own large tracts of land in IDR.

Our other BUYs include SP Setia, Sunway City, YNH Property (initiate coverage), Shangri-La Hotels and Sime Darby.

Figure 55: Relative Comparison

	Recom-mendation	Share Price 21/3/07 (RM)	New Target Price (RM)	Previous Target Price (RM)	Potential Upside (%)	Land Price by 2009 (RM psf)	Current Land Price (RM psf)	Market Cap (RMm)
IDR								
Tebrau Teguh	Buy	0.92	5.00	1.67	443	110	26	616
Mulpha Int'l	Buy	1.76	3.70	2.80	110	80	35	2,209
UEM World	Buy	3.86	7.00	5.51	81	30	8	5,025
Penang								
E&O Property	Buy	2.53	6.70	n.a	165	330	220	1,561
Klang Valley								
KLCC Property	Buy	3.20	5.50	3.80	72	3,000	1,000	2,989
MRCB	Buy	1.85	3.00	n.a	62	2,000	1,400	1,478
YNH Property	Buy	2.18	2.80	n.a	28	GDV 1.25b	GDV 1b	775
Sunway City*	Buy	3.44	3.50	3.20	2	n.m	n.m	1,444
Sunrise	Not Rated	2.41	n.a	n.a	n.a	400	330	1,060
National								
Sime Darby	Buy	7.90	9.90	n.a	25	n.m	n.m	19,807
SP Setia	Buy	7.35	8.60	5.90	17	n.m	n.m	4,944
Hotel								
Shangri-La Hotels	Buy	2.35	3.75	2.80	60	n.m	n.m	1,034

** Before REITs impact*
Source: Bloomberg, UOB Kay Hian

Risk Factors

Slower-than-expected pick-up in sales. The last two years was a downcycle for the Malaysian property sector as sales declined 7.6% to RM28b on the back of a lacklustre domestic demand. Sentiments remained cautious although sales are starting to pick up again. We believe the government will go all out to ensure a robust property market for several reasons: a) the property sector remains an untapped source of FDI and engine of growth, and b) looming general elections in end-07/early-08. With more policy changes on the cards, we expect the creation of new demand ie foreign demand which has been missing since the financial crisis, as well as a pick-up in domestic demand.

Perceived unsold units. Although stock overhang units have tripled in the last three years, the volume remains insignificant (3% of projected demand for Malaysia). Most of the stock overhang is due to mismatch of products and prices in less prime areas – about 90% of the products have remained unsold for more than 24 months and 65% are priced below RM150,000. Developers that have a strong brand name, have projects in prime areas and are targetting the upper mid-range to high-end market should not be affected. (Note: Stock overhang is defined as completed property that has a certificate of fitness and is still on the market after nine months.)

Minimal government control on supply given the ample availability of land and low barriers of entry for developers**.** Supply can increase relatively fast as it only takes developers a year to submit approval plans and launch new products after acquiring readily convertible land. Nevertheless, developers will time launches according to supply-demand dynamics. Those with strong brand names and products in prime locations will face smaller risks of unsold properties.

Sector At A Glance

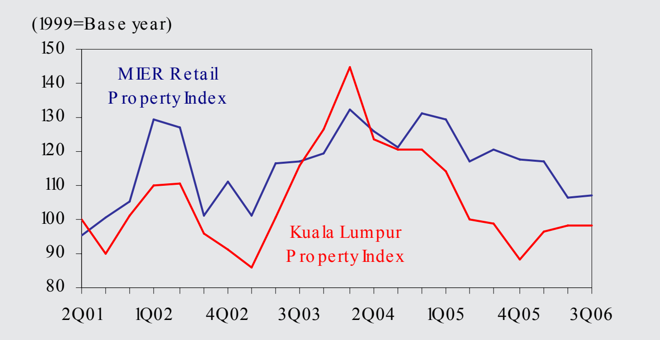
Figure 56: Sector Statistics

Company	Rec.	Price 21/3/07 (RM)	YE	Net Profit (RMm) 2006	Net Profit (RMm) 2007F	Net Profit (RMm) 2008F	EPS (sen) 2006	EPS (sen) 2007F	EPS (sen) 2008F	PE (x) 2006	PE (x) 2007F	PE (x) 2008F	ROE (%)	Market Cap. (RMm)	NTA – per Share – (RM)	Price/NTA – per Share – (x)
E&O Property	Buy	2.53	3/06	63.6	91.1	121.4	10.3	14.8	19.7	24.5	17.1	12.9	9.9	1,561.2	1.19	2.1
Island & Peninsular	Buy	1.64	1/06	74.9	84.7	95.0	8.9	10.1	11.3	18.3	16.2	14.5	3.4	1,374.3	2.79	0.6
KLCC Property	Buy	3.20	3/06	189.4	219.5	243.4	14.6	17.4	19.1	21.9	18.4	16.8	7.6	2,989.0	2.46	1.3
MRCB	Buy	1.85	12/06	40.7	98.4	107.3	5.1	12.3	13.4	36.3	15.0	13.8	6.6	1,477.5	0.67	2.8
Mulpha Int'l	Buy	1.76	12/06	27.6	33.2	58.3	2.2	2.6	4.6	80.0	66.5	37.9	2.8	2,208.8	1.62	1.1
SP Setia	Buy	7.35	10/06	240.2	260.1	379.2	35.7	38.7	56.4	20.6	19.0	13.0	14.7	4,943.6	2.54	2.9
Sunway City	Buy	3.44	6/06	166.5	118.4	145.2	39.7	28.2	34.6	8.7	12.2	9.9	18.3	1,443.9	2.63	1.3
Tebrau Teguh	Buy	0.92	12/06	1.0	0.8	2.2	0.0	0.1	0.3	n.a	770.2	280.7	0.2	616.1	0.71	1.3
YNH Property	Buy	2.18	12/06	71.8	93.8	177.0	20.2	26.4	49.8	10.8	8.3	4.4	15.4	775.4	1.36	1.6
Sector				**875.7**	**1,000.0**	**1,329.0**				**22.3**	**20.6**	**15.0**	**7.7**	**17,389.9**		**1.5**

Note: If year-end is before June, the earnings are shown in the previous period
Source: UOB Kay Hian

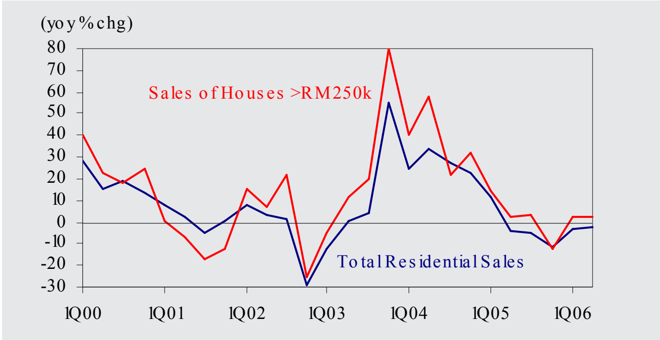
Sector At A Glance – Residential

Figure 57: MIER Residential Property Turning Positive



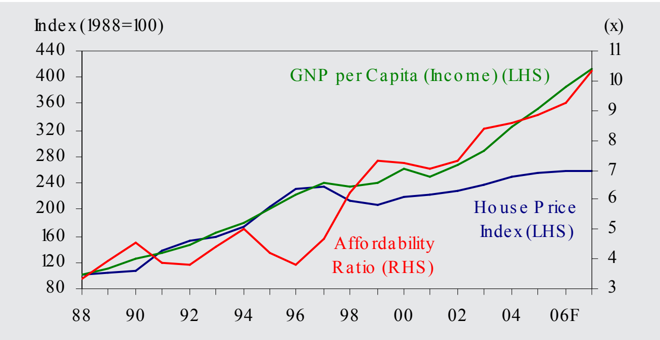
Source: Bloomberg

Figure 58: Demand for Properties >RM250k



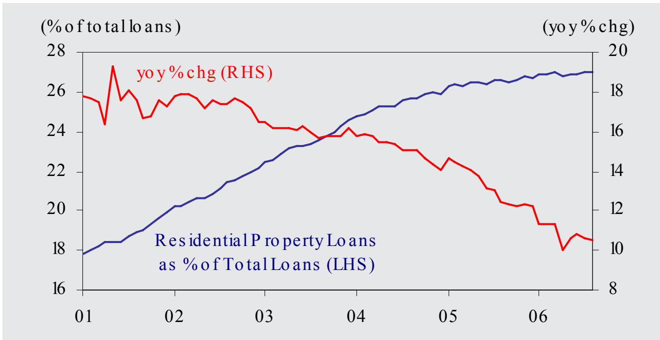
Source: NAPIC

Figure 59: Rising Affordability



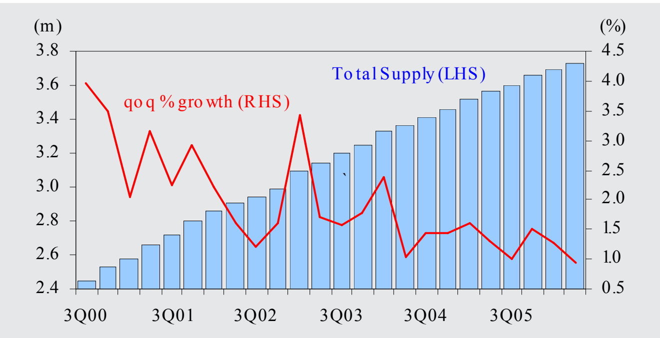
Source: CEIC

Figure 60: Residential Loans Growth



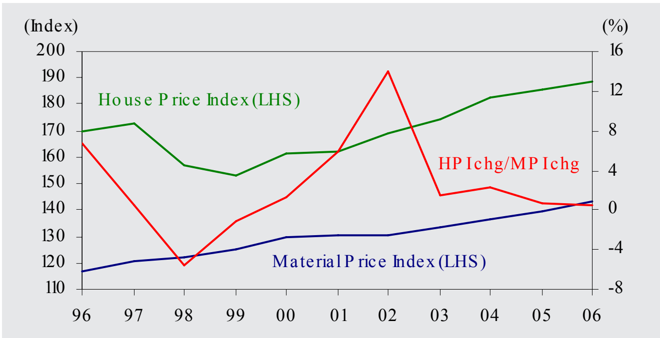
Source: BNM, UOB KayHian

Figure 61: Supply Growth Moderating



Source: NAPIC

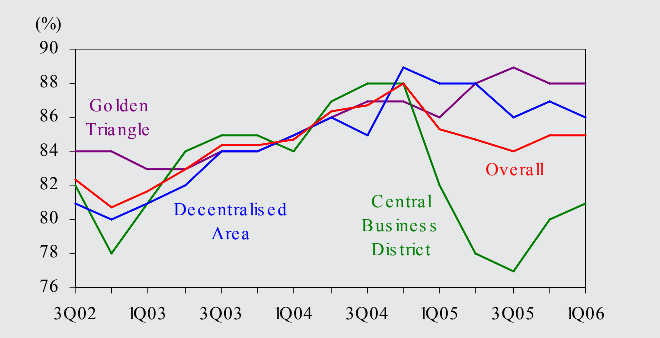
Figure 62: Material Price Index vs House Price Index



Source: CEIC

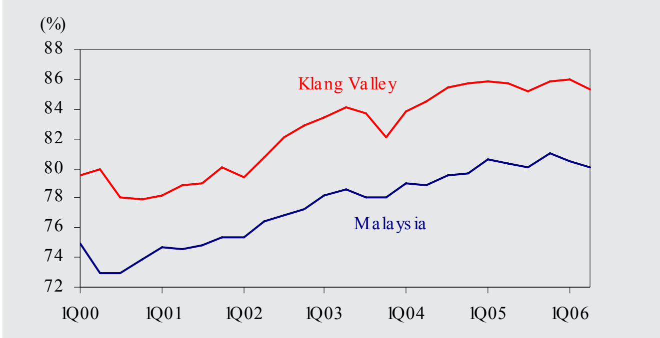
Sector At A Glance – Office & Retail

Figure 63: Office Occupancy Rate



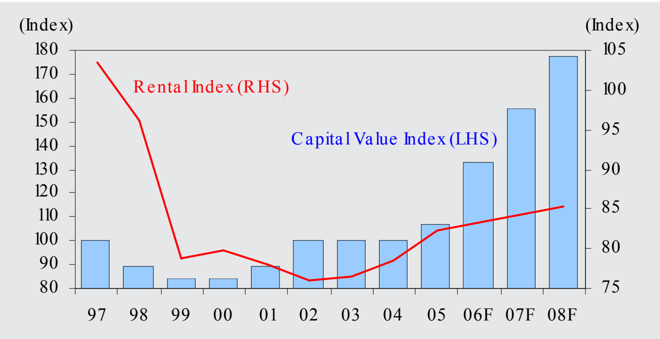
Source: the Edge

Figure 64: Retail Occupancy Rate



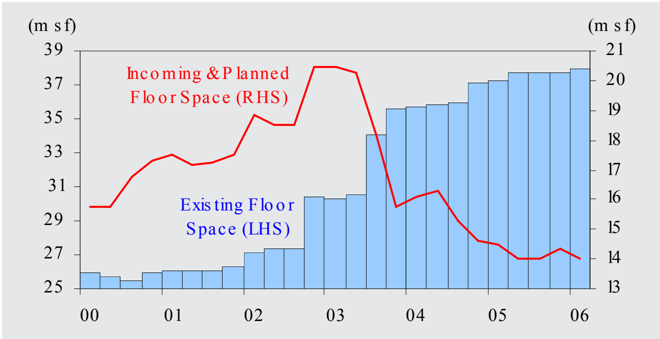
Source: NAPIC

Figure 65: Office Capital Values & Rentals Rising



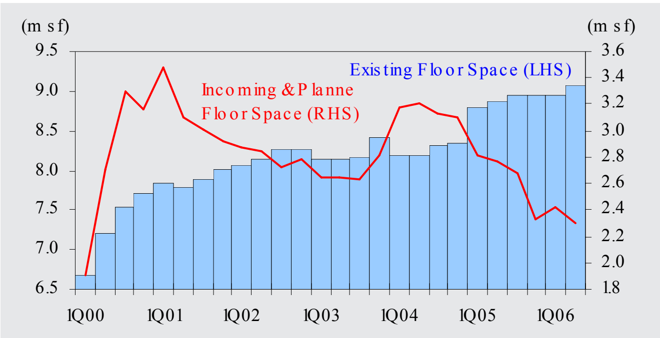
Source: the Edge, UOB Kay Hian

Figure 66: Klang Valley Supply of Retail Space



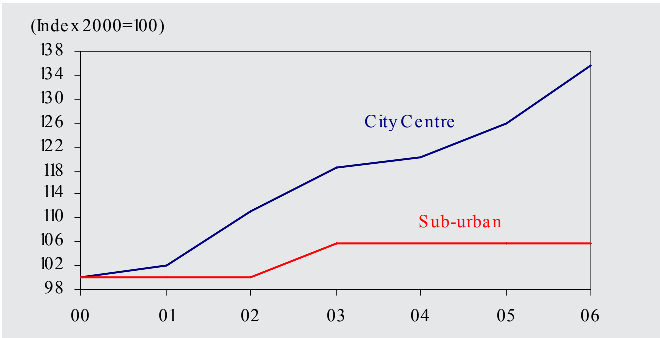
Source: NAPIC

Figure 67: Klang Valley Supply of Office Space



Source: NAPIC

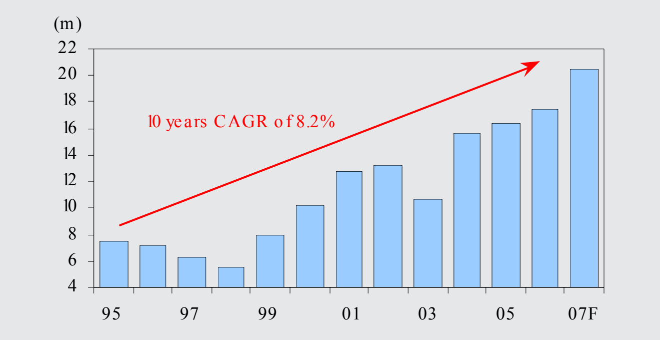
Figure 68: Klang Valley Retail Index



Source: Property Market Report

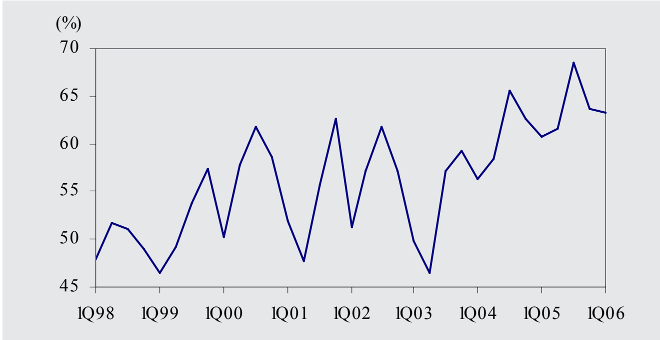
Sector At A Glance – Hotels

Figure 69: Rising Tourist Arrivals



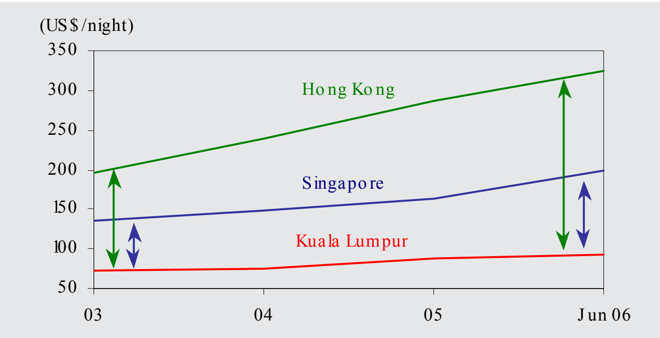
Source: Tourism Malaysia

Figure 70: Malaysian Hotel Occupancy Rate



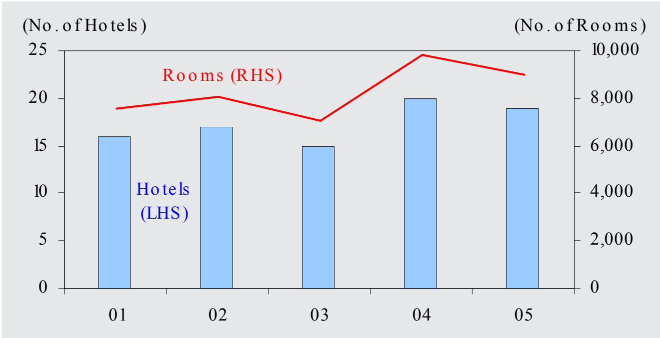
Source: NAPIC

Figure 71: Average Room Rate Discounts Are Widening



Source: Shangri-La Asia Ltd

Figure 72: Supply of 5-star Hotels & Room Stock



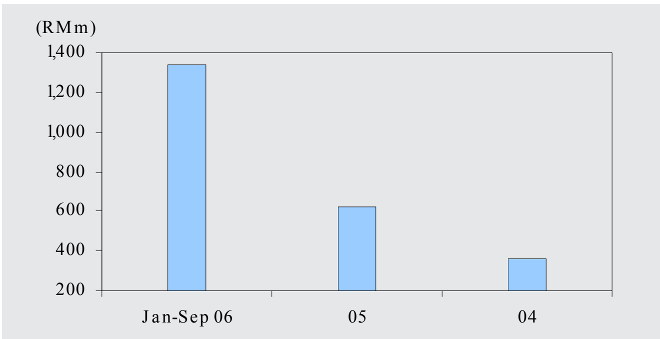
Source: NAPIC

Figure 73: Limited Incoming Supply of 5-star Hotels in KL

Hotels	Rooms	Star Rating	Com-pletion	Location
5-star Hotels at end-05	9,031			
2006				
Traders Hotel	571	5^	Jul 06	Jalan Pinang
Total Room Stocks at end-06	**9,602**			
2007 & 2008				
Total Room Stocks at end-07 & end-08	**9,602**			
2009				
Four Seasons	150	5*	2009	Jalan Ampang
The Gardens	350#	5^	2009	Mid Valley City
Total Room Stocks at end-09	**10,102**			

*^ Lower-tier; * Upper-tier; # Estimated no. of rooms*
Source: Jones Lang LaSalle Hotels, UOB Kay Hian

Figure 74: Malaysian Hotel Investment Activity Increasing



Source: Various companies, UOB Kay Hian

E&O Property Development

Current : RM2.53
Target (12-mth) : RM6.70

BACKGROUND

E&O Property Development (E&OP) is the developer for the 980-acre Tanjung Pinang (TP) mixed-development project in Penang. TP is the largest integrated sea-front development, strategically located near Georgetown, an existing commercial area.

RECOMMENDATION/OUTLOOK

- **Riding on Penang's tourism potential.** TP is strategically located near tourist hotspots Gurney Drive, Penang's famous dining belt, and the Tanjung Bungah-Batu Feringghi beach strip. TP itself has the potential to draw tourists given its unblocked sea view and the presence of a marina within the development. Every year, more than 1m international tourists visit Penang, the third favourite destination after Singapore and Thailand. Tourist arrivals are expected to be boosted by the opening of Hard Rock Hotel in Penang by end-08 and spillover tourists from Singapore's integrated resorts (IR) that will open in 2010.
- **Competitive against other island resort destinations in the region** given the following: a) minimal restriction on foreign ownership of land as long as the necessary approvals are obtained, unlike Bali and Phuket where foreigners can only own leasehold land of short tenures (30 and 25 years respectively), and b) cost advantage (more than 45% discount to other island resort hotspots in the region). Also, new infrastructure developments under the Ninth Malaysia Plan (9MP) especially Penang Monorail and Outer Ring Road, will improve TP's accessibility, linking it to the town centre and Penang International Airport.
- **TP land prices expected to increase by 50% to RM330 psf in 2-3 years**, with the entry of more international developers. Already, Singapore's Mapletree Trust and Al-Salam Bank of Bahrain have agreed to jointly develop bungalows there. We believe our assumption for price appreciation is reasonable for two reasons: a) land prices in Penang have risen by at least 30% over the last two years, just on domestic demand alone, and b) TP will still offer 14-57% discounts to other more established island resort destinations in the region.
- **Strong RNAV upgrade potential.** Should TP's land prices increase to RM330 psf, E&OP's fully-diluted RNAV will increase by 66% to RM7.49. Every 10% appreciation in TP's land prices will boost E&OP's RNAV by 10.5%.

We initiate coverage with a BUY AND a target price of RM6.70, based on a 10% discount to RNAV of RM7.49. We expect strong earnings growth (three-year CAGR of 43%) on the back of the following: a) entry of more international investors, and b) pent-up local demand for landed properties in Penang, especially waterfront and well-planned townships.

BUY

Sector	Property
Bloomberg	EONP MK
Website	www.eoprop.com
Exchange Rate	3.470/US$
52-Wk Range (RM)	3.00/1.04
52-Wk Avg Daily Vol. ('000)	525
No. of Shares (m)	617.0
Market Cap (RMm)	1,561.0
(US$m)	511.0
Major Shareholders (%)	
Eastern & Oriental	73.8
NTA per Share (RM)	1.19
ROE (%)	9.9
Net Debt per Share (RM)	0.69
Alternative Instruments	
Warrant Nov 07	Ex-Price: RM1.08
Results Due	
1Q: Aug	1H: Nov
3Q: Feb	Final: May
Market PE - KLCI (x)	
2006	15.9
2007F	14.3

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Year to 31 Mar	Turnover (RMm)	EBIDTA (RMm)	Net Profit (RMm)	EPS* (sen)	EPS Growth (%)	PE (x)	EV/ EBIDTA (x)	DPS (sen)
2005	443.8	74.1	38.1	6.1	220.0	41.6	26.1	0.0
2006	762.5	118.6	63.6	10.2	67.1	24.9	16.6	0.0
2007F^	486.8	161.0	91.1	14.5	43.2	17.4	11.6	0.0
2008F	559.3	198.6	121.4	19.4	33.2	13.1	9.3	6.0
2009F	624.1	269.8	185.3	29.6	52.6	8.6	6.6	9.0

Consensus net profit – FY07: RM105.1m
– FY08: RM118.0m

** Fully-diluted*
^ Ex-exceptionals

Balance Sheet

Year to 31 Mar (RMm)	2005	2006	2007F	2008F	2009F
Fixed Asset	24.6	26.4	23.8	21.4	19.3
Associates	18.7	14.8	12.7	28.7	83.2
Intangibles	0.0	0.0	0.0	0.0	0.0
Investments	38.0	32.5	32.5	32.5	32.5
Investment Properties	33.8	10.9	10.9	10.9	10.9
Development Land	774.1	816.1	775.3	736.6	699.7
Others	16.2	20.1	20.1	20.1	20.1
Current Assets	**662.8**	**871.9**	**872.3**	**889.2**	**1,033.5**
Stocks	41.2	43.2	31.9	36.6	40.9
Trade Debtors	227.4	234.5	147.5	169.4	189.1
Bank Deposits & Cash	83.8	194.1	244.4	103.6	108.2
Development properties	310.4	311.5	358.2	483.6	580.3
Loans to Subsidiaries/Associates/Holdings	0.0	7.2	7.2	7.2	7.2
Others	0.0	81.4	83.1	88.8	107.9
Total Assets	**1,568.2**	**1,792.6**	**1,747.6**	**1,739.4**	**1,899.3**
Current Liabilities	**393.5**	**522.0**	**357.2**	**287.7**	**314.1**
Trade Creditors	314.5	306.3	198.2	227.7	254.1
Borrowings	46.6	166.2	159.0	60.0	60.0
Others	32.4	49.5	0.0	0.0	0.0
Long Term Loans	412.6	437.9	397.6	337.6	277.6
Bonds	0.0	0.0	0.0	0.0	0.0
Other Long Term Liabilities	56.4	50.9	50.9	50.9	50.9
Total Debt	**459.2**	**604.1**	**556.6**	**397.6**	**337.6**
Net Cash/(Debt)	**(375.3)**	**(410.0)**	**(312.1)**	**(293.9)**	**(229.4)**
Shareholders' Funds	**610.2**	**674.9**	**818.1**	**903.1**	**1,032.8**
Share Capital	568.6	568.6	568.6	568.6	568.6
Reserves	41.5	106.3	249.5	334.5	464.2
Share Premium & Capital Reserves	10.6	11.7	11.7	11.7	11.7
Retained Profits & General Reserves	30.9	94.6	237.7	322.7	452.4
Minority Interests	95.6	106.9	123.9	160.2	224.0
Total Equity & Liabilities	**1,568.2**	**1,792.6**	**1,747.6**	**1,739.4**	**1,899.3**

Profit & Loss

Year to 31 Mar (RMm)	2005	2006	2007F	2008F	2009F
Total Turnover	443.8	762.5	486.8	559.3	624.1
Property Development	147.5	372.7	409.1	558.4	623.3
Construction	293.2	388.8	76.8	0.0	0.0
Others	3.1	0.9	0.8	0.8	0.8
Less: COGS	(369.7)	(643.9)	(325.7)	(360.7)	(354.4)
EBITDA	74.1	118.6	161.0	198.6	269.8
Less: Depreciation	(2.6)	(2.6)	(2.6)	(2.3)	(2.1)
EBIT (Operating Profit)	71.5	116.0	158.4	196.2	267.7
Property Development	34.2	89.0	147.6	207.9	279.3
Construction	31.0	39.7	22.5	0.0	0.0
Others	16.2	(7.2)	(11.7)	(11.7)	(11.7)
Net Interest & Investment Income	(10.4)	(9.3)	(7.4)	(4.7)	(4.8)
Interest Expense	(17.2)	(14.9)	(16.2)	(11.7)	(9.0)
Interest Income	6.9	5.6	8.8	7.0	4.3
Exceptional Items	0.0	0.0	52.0	0.0	0.0
Associates	2.5	(4.0)	(2.9)	21.6	73.7
Pre-tax Profit	**63.6**	**102.7**	**200.1**	**213.1**	**336.6**
Less: Taxation	(14.6)	(28.0)	(40.0)	(55.4)	(87.5)
Effective Tax Rate (%)	(23.0)	(27.3)	(27.0)	(26.0)	(26.0)
Profit After Tax	49.0	74.7	160.1	157.7	249.1
Minorities	(10.9)	(11.0)	(17.0)	(36.3)	(63.8)
Net Profit	**38.1**	**63.6**	**143.1**	**121.4**	**185.3**
Net Profit (ex-Exceptionals)	**38.1**	**63.6**	**91.1**	**121.4**	**185.3**

Cash Flow

Year to 31 Mar (RMm)	2005	2006	2007F	2008F	2009F
Operating	**(153.6)**	**(51.8)**	**57.1**	**15.9**	**83.3**
EBIT	71.5	116.0	158.4	196.2	267.7
Depreciation	2.6	2.6	2.6	2.3	2.1
Working Capital	(86.6)	(7.5)	(56.5)	(122.6)	(94.2)
Income Tax Paid	(26.6)	(25.1)	(40.0)	(55.4)	(87.5)
Interest Paid	(14.2)	(14.9)	(16.2)	(11.7)	(9.0)
Interest Received	6.9	5.6	8.8	7.0	4.3
Others	(107.2)	(128.5)	0.0	0.0	0.0
Investing	**4.3**	**18.1**	**40.8**	**38.8**	**36.8**
CAPEX	(4.5)	(7.1)	0.0	0.0	0.0
Acquisitions/Associates	4.6	0.0	0.0	0.0	0.0
Proceeds from Sale of Fixed Assets	2.5	23.3	0.0	0.0	0.0
Others	1.6	1.9	40.8	38.8	36.8
Financing	**163.6**	**141.4**	**(47.5)**	**(195.4)**	**(115.6)**
Share Issue	13.7	0.0	0.0	0.0	0.0
Debt Repayment	(157.7)	(104.3)	(424.0)	(159.0)	(60.0)
Proceed from Borrowings	307.6	245.7	376.5	0.0	0.0
Dividends Paid	0.0	0.0	0.0	(36.4)	(55.6)
Others	(0.0)	0.0	0.0	0.0	0.0
Net Cash Inflow/(Outflow)	**14.3**	**107.7**	**50.4**	**(140.8)**	**4.5**
Beginning Cash & Cash Equivalent	**(151.2)**	**83.8**	**194.1**	**244.4**	**103.6**
Ending Cash & Cash Equivalent	**(136.9)**	**191.5**	**244.4**	**103.6**	**108.2**
Adjustments	(220.8)	(2.6)	0.0	0.0	0.0
Ending Cash After Adjustments	**83.8**	**194.1**	**244.4**	**103.6**	**108.2**

Ratios

Year to 31 Mar (%)	2005	2006	2007F	2008F	2009F
Growth					
Turnover	(7.8)	71.8	(36.2)	14.9	11.6
EBITDA	42.6	60.1	35.8	23.3	35.9
Pre-tax Profit	39.4	61.4	44.3	43.9	57.9
Net Profit (ex-Exceptionals)	220.0	67.1	43.2	33.2	52.6
EPS	220.0	67.1	43.2	33.2	52.6
Profitability					
EBITDA Margin	16.7	15.6	33.1	35.5	43.2
Pre-tax Margin	14.3	13.5	30.4	38.1	53.9
Net Margin (ex-Exceptionals)	8.6	8.3	18.7	21.7	29.7
ROA (ex-Exceptionals)	2.5	3.8	5.1	7.0	10.2
ROE (ex-Exceptionals)	6.4	9.9	12.2	14.1	19.1
Leverage					
Total Debt/Total Asset	29.3	33.7	31.8	22.9	17.8
Total Debt/Equity	75.3	89.5	68.0	44.0	32.7
Net Cash (Debt)/Equity	(61.5)	(60.8)	(38.2)	(32.5)	(22.2)
Interest Cover (x)	4.1	7.8	9.8	16.8	29.7

Price Range

	2004	2005	2006	2007*
Price (RM)				
High	1.82	1.31	2.00	2.96
Low	1.02	0.96	0.98	1.90
PE (x)				
High	96.0	21.6	19.7	20.3
Low	53.7	15.8	9.7	13.1

** Forecast PE*

RNAV Sensitivity Analysis

Tanjung Pinang Land Prices (RM psf)	RNAV (RM)
220	4.89
330	7.49
400	9.15
500	11.57
600	13.87

RNAV

	(RMm)
NPV of Existing Projects @ 11% WACC	191.1
Surplus on Revaluation of Undeveloped Landbank	3,867.8
Gain on Divestment of Putrajaya Perdana	52.0
	4,110.9
FY06 NTA (Net Construction Segment)	510.3
RNAV	4,621.2
Add: Proceeds from Exercise of Warrants	73.1
Fully-diluted RNAV	**4,694.3**
Fully-diluted No. of Shares (m)	66.6
Fully-diluted RNAV/Share (RM)	**7.49**

NPV of Existing Projects

Existing Project	Location	NPV (RMm)
Klang Valley		
Dua Residency	Jalan Tun Razak	18.5
Seventy Damansara	Damansara Heights	3.3
Idamansara	Damansara Heights	35.6
The Peak	Damansara Heights	25.7
JV with Lion Corp	Golden Triangle KL	50.1
JV with Selangor Property	Damansara Heights	34.3
		167.6
Penang		
Tanjung Pinang	Tanjung Tokong	23.5
		191.1

Valuation of Undeveloped Landbank

Project	Location	Acres	% Owned	Cost (RM psf)	NBV (RMm)	Market Value (RM psf)	Revalued Amount (RMm)	Effective Surplus/(Deficit) (RMm)
Istana Kelantan Land	Jalan Conlay	1.4	100	544	33.2	1,400	85.4	52.2
Kemensah Heights	Ulu Klang	309.5	88	8	106.0	35	471.9	320.1
Putrajaya	Putrajaya	31.5	49	34	46.9	34	46.9	0.0
Ukay Heights, Ulu Kelang & Ampang	Kuala Lumpur	15.2	100	53	35.2	53	35.2	0.0
Potential Land Sale	Jalan Mayang	0.4	100	26	0.5	1,400	24.4	23.9
Tanjung Pinang Phase 1*	Tanjung Tokong	102.0	70	78	348.7	330	1,466.2	782.3
Tanjung Pinang Phase 2 & 3*	Tanjung Tokong	407.0	53	110	1,950.2	330	5,850.5	2,574.2
Gertak Sanggul	Daerah Barat Daya	365.0	100	8	123.5	15	238.5	115.0
		1,232			**2,644.1**		**5,780.1**	**3,136.0**

** Based on net landbank*

WACC

	(%)
Risk-free Rate	4.3
Market Risk Premium	7.0
Total Market Return	11.3
Beta (x)	145.0
Cost of Equity (%)	**14.5**
Gross Cost of Debt	7.0
Tax Rate	27.0
Net Cost of Debt	**5.1**
Gross Debt/Capital	40.0
WACC	**10.7**

KLCC Property Holdings

Current : RM3.20
Target (12-mth) : RM5.50

BUY

Sector	Property
Bloomberg	KLCC MK
Website	www.klcc.com.my
Exchange Rate	3.470/US$
52-Wk Range (RM)	3.82/2.00
52-Wk Avg Daily Vol. ('000)	1,499
No. of Shares (m)	934.1
Market Cap (RMm)	2,989.0
(US$m)	861.4
Major Shareholders (%)	
KLCC Holdings	31.7
Petronas	19.3
NTA per Share (RM)	2.46
ROE (%)	7.6
Net Debt per Share (RM)	2.21
Alternative Instruments	
Nil	
Results Due	
1Q: Aug	1H: Nov
3Q: Feb	Final: May
Market PE - KLCI (x)	
2006	15.9
2007F	14.3

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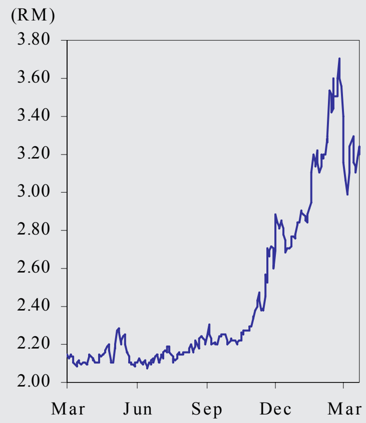

BACKGROUND

KLCC Property (KLCCP) is the largest owner of commercial properties in KLCC, Malaysia's commercial epicentre. KLCCP owns the most prime real estate in Malaysia, including the iconic Petronas Twin Towers, Suria Mall, Mandarin Oriental Hotel, Maxis Tower and Exxon-Mobil Tower.

RECOMMENDATION/OUTLOOK

- **Best supply-demand dynamics for commercial development in KLCC.** Kuala Lumpur's office segment is at the early stage of a rental upcycle. Incoming supply is limited for two reasons: a) ongoing ban in Kuala Lumpur since the financial crisis, and b) conversion of commercial projects to high-end residential developments in the last three years. Underlying demand continues to be strong from upgraders who want to relocate closer to the epicentre and businesses in the oil & gas, financial services and IT sectors. Given KLCC's status as an MSC Cybercity, corporations setting up base there will enjoy various tax incentives. KLCC will also benefit from rising traffic, with strong tourist arrival growth during Visit Malaysia Year 2007 and as more than 5,000 high-end condominium/serviced apartment units are delivered over the next three years, providing a catchment population of 10,000 in the city centre.

- **Parent company is largest landlord in KLCC.** KLCCP's holding company, KLCC Holdings (KLCCH), owns eight plots of undeveloped land (estimated 20 acres) and investment properties (KLCC Convention Centre, Traders Hotel, Impiana Hotel and Price Court Medical Centre) worth RM2b around KLCC Park. Should KLCCH inject these assets into KLCCP, KLCCCP has the potential to control up to RM20b of super prime assets, a 30% boost to its current asset portfolio.

- **Land prices to jump 200% to RM3,000 psf in 2-3 years.** Two new high-end developments, Four Seasons and Binjai, will set new pricing benchmarks, potentially doubling existing launch prices. Increasingly international investors are acquiring land around KLCC for commercial development (Ong Beng Seng, CapitaLand, Middle Easterners). At RM3,000 psf, KLCC land will still be at a huge 83% discount to Singapore's Orchard Road (recent land auction done at S$7,840, or RM18,000 psf).

- **Strong RNAV upgrade potential.** As land prices rise to RM3,000 psf and the value of investment properties doubles, RNAV is likely to surge 62% to RM6.15. Every 10% rise in KLCCP's asset value will boost RNAV by 11.3%. We raise our target price from RM3.80 to RM5.50, based on a 10% discount to our revised RNAV. Downside risk is mitigated by strong earnings (three-year CAGR of 13%) which constitute mainly rental income, providing a base value of RM3.40 (fully-diluted DCF value/share assuming 8% WACC, 1.5% long-term earnings growth).

Year to 31 Mar	Turnover (RMm)	EBIDTA (RMm)	Net Profit (RMm)	EPS* (sen)	EPS Growth (%)	PE* (x)	EV/ EBIDTA (x)	DPS (sen)
2005	716.4	504.5	137.2	10.6	13.7	30.2	11.8	9.5
2006	748.3	557.8	177.1	13.7	29.1	23.4	9.0	10.0
2007F	809.5	611.8	189.4	14.6	6.9	21.9	7.8	12.0
2008F	871.9	664.9	219.5	17.4	18.7	18.4	7.0	15.0
2009F	914.8	699.8	243.4	19.3	11.4	16.5	6.5	18.0

Consensus net profit – FY07: RM425.7m
– FY08: RM475.1m

** Fully-diluted*

Balance Sheet

Year to 31 Mar (RMm)	2005	2006	2007F	2008F	2009F
Fixed Asset	642.4	794.7	786.8	779.2	771.8
Associates/ JV	106.5	115.1	124.4	134.9	145.8
Deferred Tax Assets	25.5	16.1	16.1	16.1	16.1
Investment Properties	4,982.0	4,844.3	4,964.3	5,144.3	5,324.3
Current Assets	**638.4**	**642.4**	**678.8**	**630.1**	**571.1**
Inventories	0.3	0.3	0.3	0.4	0.4
Trade Debtors	51.2	58.5	63.3	68.1	71.5
Bank Deposits & Cash	561.0	583.6	615.2	561.6	499.2
Amounts Due from Related Companies	8.5	0.0	0.0	0.0	0.0
Others	17.4	0.0	0.0	0.0	0.0
Total Assets	**6,394.8**	**6,421.7**	**6,570.5**	**6,704.7**	**6,829.2**
Current Liabilities	**384.2**	**407.9**	**493.4**	**534.4**	**450.7**
Trade Creditors	120.9	173.0	187.1	201.6	211.5
Borrowings	210.6	203.7	272.5	296.4	201.0
Amount Due to Related Companies	46.9	0.0	0.0	0.0	0.0
Others	5.9	31.2	33.8	36.4	38.2
Long Term Loans	2,484.2	2,283.6	1,992.6	1,796.2	1,695.2
Long Term Liabilities	111.5	152.9	152.9	152.9	152.9
Others	93.3	33.3	155.9	180.9	205.9
Total Debt	**2,806.3**	**2,640.1**	**2,418.0**	**2,245.5**	**2,049.1**
Net Cash/(Debt)	**(2,951.8)**	**(2,056.5)**	**(1,802.8)**	**(1,683.8)**	**(1,549.8)**
Shareholders' Funds	**2,274.0**	**2,383.9**	**2,526.8**	**2,690.2**	**2,865.5**
Share Capital	934.1	934.1	934.1	934.1	934.1
Reserves	1,340.0	1,449.8	1,592.8	1,756.1	1,931.5
Share Premium & Capital Reserves	1,255.9	1,255.9	1,255.9	1,255.9	1,255.9
Retained Profits & General Reserves	84.1	193.9	336.9	500.2	675.6
Minority Interests	1,075.9	1,160.2	1,248.9	1,350.2	1,459.1
Total Equity & Liabilities	**6,394.8**	**6,421.7**	**6,570.5**	**6,704.7**	**6,829.2**

Cash Flow

Year to 31 Mar (RMm)	2005	2006	2007F	2008F	2009F
Operating	**341.1**	**353.2**	**335.6**	**383.1**	**417.4**
EBIT	491.5	544.8	585.7	639.1	674.2
Depreciation	13.1	13.1	26.0	25.8	25.5
Working Capital	(1.8)	64.1	11.9	12.1	8.3
Income Tax Paid	(10.7)	(89.4)	(121.8)	(134.4)	(149.0)
Interest Paid	(162.9)	(195.9)	(183.3)	(176.2)	(156.8)
Investing	**(237.9)**	**(18.2)**	**(138.2)**	**(198.2)**	**(198.2)**
CAPEX	(28.9)	(18.2)	(18.2)	(18.2)	(18.2)
Acquisitions/Associates	(210.0)	0.0	0.0	0.0	0.0
Development of Investment Properties	0.0	0.0	(120.0)	(180.0)	(180.0)
Others	0.9	0.0	0.0	0.0	0.0
Financing	**512.2**	**(301.8)**	**(230.9)**	**(238.6)**	**(281.6)**
Share Issue	743.5	0.0	0.0	0.0	0.0
Debt Repayment	0.0	(234.5)	(255.6)	(272.5)	(296.4)
Proceeds from Borrowings	(201.0)	0.0	100.0	125.0	125.0
Dividends Paid	(30.3)	(67.3)	(75.3)	(91.1)	(110.2)
Beginning Cash & Cash Equivalent	**615.4**	**33.3**	**(33.5)**	**(53.6)**	**(62.4)**
Ending Cash & Cash Equivalent	**0.0**	**615.4**	**648.7**	**615.2**	**561.6**
Ending Cash After Adjustments	**615.4**	**648.7**	**615.2**	**561.6**	**499.2**

Price Range

	2004	2005	2006	2007*
Price (RM)				
High	1.80	2.27	2.88	3.70
Low	1.60	1.77	2.06	2.84
PE (x)				
High	14.0	21.4	21.1	25.3
Low	12.4	16.7	15.1	19.4

** Forecast PE*

Profit & Loss

Year to 31 Mar (RMm)	2005	2006	2007F	2008F	2009F
Total Turnover	716.4	748.3	809.5	871.9	914.8
Less: COGS	(211.8)	(190.4)	(197.8)	(207.1)	(215.1)
EBITDA	504.5	557.8	611.8	664.9	699.8
Less: Depreciation	(13.1)	(13.1)	(26.0)	(25.8)	(25.5)
EBIT (Operating Profit)	491.5	544.8	585.7	639.1	674.2
Net Interest & Investment Income	(183.8)	(179.4)	(166.3)	(159.5)	(141.7)
Interest Expense	(198.1)	(190.4)	(183.3)	(176.2)	(156.8)
Interest Income	14.4	11.0	17.0	16.7	15.1
Exceptional Items	0.0	0.0	0.0	0.0	0.0
Associates	10.8	11.0	9.4	10.5	10.9
Pre-tax Profit	**318.5**	**376.4**	**428.8**	**490.1**	**543.4**
Less: Taxation	(93.7)	(89.4)	(121.8)	(134.4)	(149.0)
Effective Tax Rate (%)	29.4	29.4	28.4	27.4	27.4
Profit After Tax	224.8	287.0	307.0	355.8	394.4
Minorities	(87.6)	(109.9)	(117.5)	(136.2)	(151.0)
Net Profit	**137.2**	**177.1**	**189.4**	**219.5**	**243.4**

Ratios

Year to 31 Mar (%)	2005	2006	2007F	2008F	2009F
Growth					
Turnover	14.0	4.4	8.2	7.7	4.9
EBITDA	5.9	10.6	9.7	8.7	5.2
Pre-tax Profit	12.3	18.2	13.9	14.3	10.9
Net Profit	13.7	29.1	6.9	15.9	10.9
EPS	13.7	29.1	6.9	18.7	11.4
Profitability					
EBITDA Margin	70.4	74.6	75.6	76.3	76.5
Pre-tax Margin	44.5	50.3	53.0	56.2	59.4
Net Margin	19.1	23.7	23.4	25.2	26.6
ROA	2.1	2.8	2.9	3.3	3.6
ROE	6.1	7.6	7.7	8.4	8.8
Levera.ge					
Total Debt/Total Asset	43.9	41.1	36.8	33.5	30.0
Total Debt/Equity	123.4	110.7	95.7	83.5	71.5
Net Cash (Debt)/Equity	(129.8)	(86.3)	(71.3)	(62.6)	(54.1)
Interest Cover (x)	2.7	3.0	3.5	4.0	4.8

RNAV Sensitivity Analysis

Asset Value (%)	RNAV (RM)
0	6.15
5	6.51
10	6.86
15	7.20
20	7.55
25	7.90

RNAV

Assets	Stake (%)	Net Book Value (RMm)	Valuation (RM psf)	Market Value (RMm)	Surplus (RMm)	Attributable Surplus (RMm)
Menara ExxonMobil	100	202.9	1,400	531.9	329.0	329.0
Vacant Land - Lot D1	100	67.6	3,000	184.9	117.3	117.3
Vacant Land - Lot C	100	86.0	3,000	138.9	52.9	52.9
Dayabumi	100	278.1	600	405.3	127.2	127.2
Mandarin Oriental	75	590.6	2,000,000*	1,286.0	695.4	521.6
Suria KLCC	60	1,121.7	4,000	4,031.5	2,909.8	1,745.9
Petronas Twin Towers	51	2,814.5	2,500	7,988.9	5,174.4	2,613.1
Menara Maxis	33	470.0	1,800	950.4	480.4	158.5
		5,631.4		**15,517.7**	**9,886.4**	**5,665.4**
NTA						**2,311.1**
RNAV						**7,976.5**
No. of Shares – After Full Conversion of RCULS (m)						**1,294.8**
RNAV/Share (RM)						**6.15**

** Per room*

Malaysian Resources Corporation

Current : RM1.85
Target (12-mth) : RM3.00

BACKGROUND

Malaysian Resources Corporation (MRCB) is the developer (64% stake) for the RM9b KL Sentral mixed-development project. The 72-acre site is Klang Valley's transport hub, strategically located just 10 minutes away from KLCC. The whole development is expected to be completed by 2015, and will boast a total planned gross floor area of about 15m sf. MRCB also has a construction arm with a total orderbook of RM2.2b.

RECOMMENDATION/OUTLOOK

- **Largest commercial development nearest to KL Golden Triangle.** KL Sentral benefits from spillover demand for quality office space as incoming supply in KL Golden Triangle is limited due to an ongoing ban on office developments and conversion of commercial plots for residential developments in the last three years. KL Sentral's competitive advantage lies in its good transport links and Multimedia Super Corridor (MSC) status (which offers various tax incentives). Rental rates in KL Sentral have increased by 10% yoy to RM5 psf, comparable with that of Grade A offices in KL Golden Triangle.

- **Land prices to rise by 50% to RM2,000 psf in the next 2-3 years,** given the tight supply of commercial land in the prime areas of Kuala Lumpur. KL Sentral's land prices have appreciated by 183% to RM1,400 psf over the last three years, just on domestic demand alone. Upside will come from two potential developments: a) entry of international developers given more positive policy changes, and b) RM10b Kuala Lumpur-Singapore bullet train project which is awaiting the government's approval.

- **Strong RNAV upgrade potential.** Should KL Sentral's land prices increase to RM2,000 psf, MRCB's RNAV will increase by 40% to RM3.39. Even at RM2,000 psf, KL Sentral will still be cheaper than KLCC (RM3,000 psf based on our expectation of land prices for the next 2-3 years) and Singapore's Orchard Road (recent land auction completed at S$7,840, or RM18,000 psf). Every 10% appreciation in KL Sentral land price will boost MRCB's RNAV by 8.4%.

- **Three-year earnings CAGR of 44%**. We expect 2006 earnings to double to RM120.9m by 2009 on the back of strong contributions from land sales (at high prices) and construction projects. We have included new contract wins of RM1b in 2007 and assumed RM700m p.a. for 2008-09. This has yet to include the impact of MRCB winning the RM1b Eastern Dispersal Link concession in Johor and RM1.2b Penang Monorail project for which it is one of the front-runners.

We initiate coverage of MRCB with a target price of RM3.00, based on a 10% discount to our RNAV of RM3.39. Our RNAV assumes a land price of RM2,000 psf for KL Sentral and a modest 2008 PE of 10x for its construction segment.

BUY

Sector	Property
Bloomberg	MRC MK
Website	www.mrcb.com.my
Exchange Rate	3.470/US$
52-Wk Range (RM)	2.27/0.58
52-Wk Avg Daily Vol. ('000)	1,255.6
No. of Shares (m)	798.7
Market Cap (RMm)	1,477.5
(US$m)	425.8
Major Shareholders (%)	
EPF	28.5
NTA per Share (RM)	0.67
ROE (%)	6.6
Net Debt per Share (RM)	0.13
Alternative Instruments	
Nil	
Results Due	
1Q: May	1H: Aug
3Q: Nov	Final: Feb
Market PE - KLCI (x)	
2006	15.9
2007F	14.3

Malaysia Research Team
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Year to 31 Dec	Turnover (RMm)	EBIDTA (RMm)	Net Profit (RMm)	EPS (sen)	EPS Growth (%)	PE (x)	EV/ EBIDTA (x)	DPS (sen)
2005	323.8	66.9	13.8	5.2	24.1	35.9	35.5	0.0
2006	529.5	83.6	32.8	4.3	(17.1)	43.3	27.8	0.0
2007F	938.1	231.6	123.4	16.1	276.3	11.5	9.3	0.0
2008F	1,089.8	202.8	107.3	14.0	(13.0)	13.2	9.8	0.0
2009F	1,272.6	235.8	120.9	15.7	12.7	11.8	7.6	0.0

Consensus net profit – FY07: RM47.4m
– FY08: RM77.6m

Balance Sheet

Year to 31 Dec (RMm)	2005	2006	2007F	2008F	2009F
Fixed Asset	52.5	42.1	49.3	57.8	67.8
Associates/ JV	282.4	35.1	51.9	66.3	76.6
Intangibles	10.0	0.0	0.0	0.0	0.0
Investments	8.2	29.5	29.5	29.5	29.5
Deferred Tax Assets	3.9	4.9	4.9	4.9	4.9
Investment Properties	144.4	109.3	109.3	109.3	109.3
Land Held for Development	869.6	805.2	765.0	726.7	690.4
Current Assets	**664.0**	**966.9**	**912.3**	**912.3**	**955.1**
Inventories	24.2	95.4	94.8	119.0	139.1
Trade Debtors & Other Receivables	181.0	269.8	312.7	311.4	318.1
Bank Deposits & Cash	251.7	181.3	70.1	31.5	30.1
Amounts Due from Associates	0.0	0.0	0.0	0.0	0.0
Development Properties	173.2	143.2	157.5	173.2	190.6
Others	33.8	277.2	277.2	277.2	277.2
Total Assets	**2,034.9**	**1,992.9**	**1,922.2**	**1,906.9**	**1,933.5**
Current Liabilities	**445.8**	**664.8**	**655.4**	**699.5**	**832.3**
Trade Creditors	164.2	186.7	268.0	272.5	282.8
Borrowings	104.1	162.3	162.3	162.3	162.3
Bond	80.0	200.0	150.0	150.0	220.0
Others	97.4	115.8	75.1	114.7	167.2
Bond	714.7	515.7	365.7	215.7	0.0
Long Term Loans	293.7	195.3	102.3	52.3	0.0
Long Term Liabilities	10.3	10.3	10.3	10.3	10.3
Others	3.0	1.9	1.9	1.9	1.9
Total Debt	**1,202.9**	**1,083.6**	**790.6**	**590.6**	**392.6**
Net Cash/(Debt)	**(951.2)**	**(902.3)**	**(720.6)**	**(559.1)**	**(362.5)**
Shareholders' Funds	**480.0**	**513.5**	**636.9**	**744.2**	**865.1**
Share Capital	768.2	768.2	768.2	768.2	768.2
Reserves	(288.2)	(254.7)	(131.3)	(24.0)	96.9
Share Premium & Capital Reserves	79.3	0.7	0.7	0.7	0.7
Retained Profits & General Reserves	(367.5)	(255.4)	(132.0)	(24.7)	96.2
Minority Interests	87.4	91.4	149.6	183.0	223.9
Total Equity & Liabilities	**2,034.9**	**1,992.9**	**1,922.2**	**1,906.9**	**1,933.5**

Cash Flow

Year to 31 Dec (RMm)	2004	2006	2007F	2008F	2009F
Operating	**(21.5)**	**14.8**	**260.8**	**123.2**	**162.2**
EBIT	59.4	76.1	224.3	194.3	225.8
Depreciation	7.5	7.5	7.3	8.5	10.0
Working Capital	(73.4)	(137.5)	24.7	(34.2)	(33.9)
Income Tax Paid	15.9	(1.9)	2.9	(45.4)	(39.7)
Others	(31.0)	70.6	1.6	0.0	0.0
Investing	**56.6**	**34.6**	**40.3**	**38.2**	**36.3**
CAPEX	(8.1)	0.0	0.0	0.0	0.0
Acquisitions/Associates	0.0	0.0	0.0	0.0	0.0
Land acquisition	0.0	0.0	0.0	0.0	0.0
Proceeds from Sale of Fixed Assets	1.6	56.8	0.0	0.0	0.0
Others	63.0	(22.3)	40.3	38.2	36.3
Financing	**(30.5)**	**(65.3)**	**(293.0)**	**(200.0)**	**(200.0)**
Share Issue	0.0	0.0	0.0	0.0	0.0
Net borrowing	65.1	(119.8)	(293.0)	(200.0)	(200.0)
Dividends Paid	(2.8)	0.0	0.0	0.0	0.0
Others	(94.8)	54.5	0.0	0.0	0.0
Net Cash Inflow/(Outflow)	**4.5**	**(15.9)**	**8.1**	**(38.6)**	**(1.4)**
Forex Translations	1.0	0.0	0.0	0.0	0.0
Beginning Cash & Cash Equivalent	**73.4**	**77.9**	**62.0**	**70.1**	**31.5**
Ending Cash & Cash Equivalent	**78.9**	**62.0**	**70.1**	**31.5**	**30.1**
Adjustments	(172.8)	0.0	0.0	0.0	0.0
Ending Cash After Adjustment	**251.7**	**62.0**	**70.1**	**31.5**	**30.1**

Price Range

	2004	2005	2006	2007*
Price (RM)				
High	1.11	0.80	1.07	2.18
Low	0.685	0.41	0.54	1.03
PE (x)				
High	26.4	15.5	25.1	13.6
Low	16.3	8.0	12.7	6.4

** Forecast PE*

Profit & Loss

Year to 31 Dec (RMm)	2005	2006	2007F	2008F	2009F
Total Turnover	323.8	529.5	938.1	1,089.8	1,272.6
Engineering & Construction	43.9	212.6	387.9	625.5	782.7
Property Development	255.0	232.7	461.8	371.5	392.4
Multimedia	0.0	0.0	0.0	0.0	0.0
Infrasturcture	12.7	67.0	70.3	73.8	77.5
Building Services	12.3	17.0	17.8	18.7	19.7
Investment Holding	0.0	0.2	0.2	0.3	0.3
Less: COGS	(256.9)	(445.9)	(706.5)	(887.0)	(1,036.8)
EBITDA	66.9	83.6	231.6	202.8	235.8
Less: Depreciation	(7.5)	(7.5)	(7.3)	(8.5)	(10.0)
EBIT (Operating Profit)	59.4	76.1	224.3	194.3	225.8
Net Interest & Investment Income	(52.2)	(55.4)	(45.4)	(33.4)	(23.8)
Exceptional Items	1.1	(7.9)	25.0	0.0	0.0
Associates	10.4	21.0	23.1	19.4	13.8
Pre-tax Profit	**18.6**	**33.9**	**227.0**	**180.3**	**215.8**
Engineering & Construction	(9.8)	(27.1)	48.7	71.4	81.5
Property Development	76.2	83.7	147.3	102.6	127.6
Multimedia	0.0	0.0	0.0	0.0	0.0
Infrasturcture	(0.3)	5.8	0.0	0.0	0.0
Building Services	2.0	2.2	2.4	2.5	2.6
Investment Holding	(2.7)	3.6	3.7	3.9	4.1
Others	(46.7)	(34.3)	25.0	0.0	0.0
Less: Taxation	(1.9)	2.9	(45.4)	(39.7)	(54.0)
Effective Tax Rate (%)	(10.2)	8.6	(20.0)	(22.0)	(25.0)
Profit After Tax	16.7	36.8	181.6	140.6	161.9
Minorities	(2.9)	(4.0)	(58.2)	(33.4)	(41.0)
Net Profit	**13.8**	**32.8**	**123.4**	**107.3**	**120.9**
Net Profit - ex-Exceptionals	**12.8**	**40.7**	**98.4**	**107.3**	**120.9**

Ratios

Year to 31 Dec (%)	2004	2006	2007F	2008F	2009F
Growth					
Turnover	72.0	63.5	77.2	16.2	16.8
EBITDA	16.5	24.9	177.1	(12.4)	16.2
Pre-tax Profit	(16.6)	82.0	569.9	(20.6)	19.7
Net Profit	(58.9)	137.4	276.0	(13.0)	12.7
EPS	24.1	(17.1)	276.3	(13.0)	12.7
Profitability					
EBITDA Margin	20.7	15.8	24.7	18.6	18.5
Pre-tax Margin	5.8	6.4	24.2	16.5	17.0
Net Margin	4.3	6.2	13.2	9.8	9.5
ROA	0.7	1.6	6.3	5.6	6.3
ROE	3.0	6.6	21.5	15.5	15.0
Leverage					
Total Debt/Total Asset	59.1	54.4	41.1	31.0	20.3
Total Debt/Equity	250.6	211.0	124.1	79.4	45.4
Net Cash (Debt)/Equity	(198.2)	(175.7)	(113.1)	(75.1)	(41.9)
Interest Cover (x)	1.0	1.4	4.9	5.8	9.5

RNAV Sensitivity Analysis

KL Sentral Land Prices (RM psf)	RNAV (RM)
1,400	2.47
2,000	3.39
2,500	4.10
3,000	4.81

RNAV

	Ownership (%)	Size (acres)	Market Value (RM psf)	RNAV (RMm)
Property Development				
KL Sentral	64	25	2,000	2,178.0
Mukim Kajang, Hulu Langat (Mixed Housing Development)	100	12	25	12.5
Mukim Ulu Kelang, Gombak (Mixed Housing Development)	100	17	25	19.0
Shah Alam (Mixed Commercial Development)	100	3	60	7.8
Bandar Seri Iskandar, Perak	70	142	2	12.4
Mukim Rantau, Negeri Sembilan (Industrial Development)	100	1,285	0.4	22.9
				2,252.6
Investment Properties		(sf)		
Plaza Alam Sentral (Shopping Complex), Shah Alam	60	734,187	200	146.8
Menara MRCB, Shah Alam	60	275,897	200	55.2
Sentral Plaza Corp Office Suite	100	7,823	900	7.0
Segambut Resource Complex - 6-storey Industrial Buildings/Flatted Factories & Warehouses	100	775,774	100	77.6
				286.6
Associate		**Share Cap (m)**	**VGO Price (RM/share)**	
UDA Holdings	25	352.9	3.00	**264.7**
Construction (10x FY08 PE)				**528.0**
Net Debts				**(914.3)**
Net Proceeds from Sale of Land*				**185.0**
RNAV				**2,602.6**
No. of Shares (m)				768.2
RNAV/Share (RM)				**3.39**

Mulpha International

Current : RM1.76
Target (12-mth) : RM3.70

BACKGROUND

Mulpha International (MIT) owns Leisure Farm, a 1,765-acre enclave in Nusajaya, which is nearest to the Johor-Singapore Second Crossing and the proposed Nusajaya Free Access Zone (FAZ). Leisure Farm is an integrated resort development with a 36-hole golf course and equestrian park. MIT has 800 acres of remaining landbank in Leisure Farm with a gross development value of RM1.6b.

OUTLOOK/RECOMMENDATION

- **Strong repricing potential.** As the owner of a contiguous and sizeable tract of land in South Johor, MIT is set to benefit from rising foreign direct investment (FDI) into Johor and RM12.2b investment in Iskandar Development Region (IDR) under the Ninth Malaysia Plan (9MP). Leisure Farm has strong repricing potential given its high-end development and proximity to Singapore (just 11km away and 40 minutes from Singapore's Orchard Road). Leisure Farm's landbank is valued at RM4.50 psf in MIT's book, although land prices have trended up significantly (bungalow lots are now going for RM40-50 psf). Assuming land prices rise from the present RM40 psf to RM80 psf, MIT's RNAV will increase 28.4% to RM3.93 from RM3.06.
- **Only developer with strong track record overseas.** Given its experience in an international established market such as Australia, MIT is best positioned to be the first to launch high-end residential properties when IDR takes off. MIT is the largest Malaysian real estate investor and developer in Australia with 80% of its assets based there, providing a strong earnings base. The company owns world-class assets that include Sanctuary Cove and Hyatt Regency Sanctuary Cove Hotel in Queensland, InterContinental Hotel in Sydney, Hilton Melbourne Airport, Norwest Business Park in Sydney, and the world-renowned and award-winning Hayman Island at the Great Barrier Reef. Leisure Farm is modelled after the successful Sanctuary Cove and won Fiabci's Malaysia Property Awards under the Masterplan Category in 2005.
- **Downside risk mitigated by distressed valuation and aggressive capital management.** MIT trades at a 56% discount to our RNAV of RM3.93 (vs sector average of 49%). MIT has been aggressively buying back its shares for cancellation (213.9m shares to date), and cancelled 139.4m Treasury shares in May 05 (11.1% of its issued share capital).
- **Maintain BUY; target price raised to RM3.70.** We raise our target price for MIT to RM3.70 (previous: RM2.80). This is based on a 10% discount to its RNAV of RM4.13, which values its remaining 800-acre landbank in Leisure Farm at RM80 psf. MIT has started to attract the interest of international funds. For example, MacKenzie Cundill Investment Management recently took a 7.6% stake.

BUY

Sector	Property
Bloomberg	MIT MK
Website	www.mulpha.com.my
Exchange Rate	3.470/US$
52-Wk Range (RM)	1.94/0.685
52-Wk Avg Daily Vol. ('000)	2,171
No. of Shares (m)	1,255.0
Market Cap (RMm)	2,208.8
(US$m)	636.5
Major Shareholders (%)	
Nautical Investment Ltd	22.2
NTA per Share (RM)	1.64
ROE (%)	2.8
Net Debt per Share (RM)	0.47
Alternative Instruments	
Warrant Jul 10	Ex-Price: RM1.50
Results Due	
1Q: May	1H: Aug
3Q: Nov	Final: Feb
Market PE - KLCI (x)	
2006	15.9
2007F	14.3
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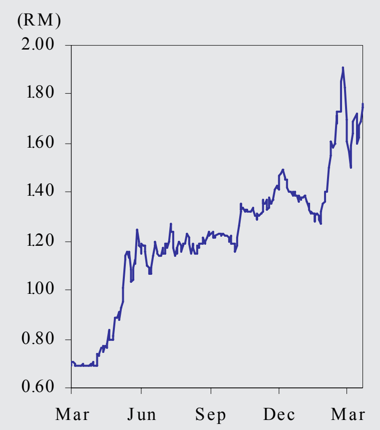

Year to 31 Dec	Turnover (RMm)	EBIDTA (RMm)	Net Profit (RMm)	EPS (sen)	EPS Growth (%)	PE (x)	EV/ EBIDTA (x)	DPS (sen)
2005*	1,233.0	153.8	(19.0)	(1.5)	n.a	n.a	18.5	0.0
2006*	846.6	76.8	27.6	2.2	n.a	79.9	36.4	0.0
2007F	873.3	90.0	33.2	2.6	20.1	66.5	31.2	0.0
2008F	942.7	123.1	58.3	4.6	75.5	37.9	22.7	0.0
2009F	1,018.7	161.0	87.2	7.0	49.7	25.3	17.1	0.0

** Ex-exceptionals*

Balance Sheet

Year to 31 Dec (RMm)	2005	2006	2007F	2008F	2009F
Fixed Asset	1,382.4	1,366.5	1,346.0	1,326.3	1,307.6
Associates	195.2	234.9	234.9	234.9	234.9
Intangibles	11.3	13.1	13.1	13.1	13.1
Investments	208.6	297.1	297.1	297.1	297.1
Land Under Development	612.9	612.4	606.3	600.2	594.2
Others	67.5	16.1	16.1	16.1	16.1
Current Assets	**887.4**	**936.7**	**860.7**	**901.1**	**973.0**
Stocks	75.9	95.0	96.9	104.6	113.0
Trade Debtors	296.9	302.4	309.1	333.7	360.6
Bank Deposits & Cash	249.0	280.0	235.6	221.8	234.3
Property Development Cost	231.0	199.2	219.1	241.0	265.1
Loans to Subsidiaries/Associates/Holdings	0.0	0.0	0.0	0.0	0.0
Others	34.6	60.2	0.0	0.0	0.0
Total Assets	**3,365.3**	**3,476.9**	**3,374.3**	**3,389.0**	**3,436.1**
Current Liabilities	**308.9**	**353.9**	**343.6**	**359.3**	**376.4**
Trade Creditors	171.8	210.0	196.9	212.6	229.7
Borrowings	106.7	127.7	127.7	127.7	127.7
Others	30.4	16.2	19.0	19.0	19.0
Long Term Loans	778.6	736.2	708.2	680.1	652.1
Bonds	0.0	0.0	0.0	0.0	0.0
Other Long Term Liabilities	133.6	186.2	123.5	124.1	123.3
Total Debt	**885.4**	**863.9**	**835.9**	**807.8**	**779.8**
Net Cash/(Debt)	**(636.4)**	**(583.9)**	**(600.2)**	**(586.0)**	**(545.5)**
Shareholders' Funds	**1,946.9**	**2,072.7**	**2,067.3**	**2,086.9**	**2,135.6**
Share Capital	627.5	627.5	627.5	627.5	627.5
Reserves	1,319.5	1,445.2	1,439.8	1,459.5	1,508.1
Share Premium & Capital Reserves	940.9	945.8	945.8	945.8	945.8
Retained Profits & General Reserves	378.6	499.4	494.0	513.6	562.2
Minority Interests	137.4	127.9	131.7	138.5	148.7
Total Equity & Liabilities	**3,305.5**	**3,476.9**	**3,374.3**	**3,389.0**	**3,436.1**

Cash Flow

Year to 31 Dec (RMm)	2005	2006	2007F	2008F	2009F
Operating	**117.0**	**107.1**	**61.7**	**92.2**	**118.5**
EBIT	89.6	15.5	29.5	63.5	102.3
Depreciation	64.2	61.3	60.5	59.6	58.8
Working Capital	114.9	110.3	(21.8)	(16.6)	(18.2)
Income Tax Paid	7.6	(9.1)	(6.5)	(14.3)	(24.3)
Others	(159.4)	(70.9)	0.0	0.0	0.0
Investing	**659.9**	**(9.3)**	**(40.0)**	**(40.0)**	**(40.0)**
CAPEX	(42.2)	(38.0)	(40.0)	(40.0)	(40.0)
Acquisitions/Associates	254.2	0.0	0.0	0.0	0.0
Proceeds from Sale of Fixed Assets	534.1	10.5	0.0	0.0	0.0
Others	(86.1)	18.2	0.0	0.0	0.0
Financing	**(678.9)**	**(73.7)**	**(66.0)**	**(66.0)**	**(66.0)**
Share Issue	(19.9)	0.0	0.0	0.0	0.0
Debt Repayment	(643.6)	(28.0)	(28.0)	(28.0)	(28.0)
Proceed from Borrowings	0.0	0.0	0.0	0.0	0.0
Dividends Paid	(7.5)	(8.0)	(8.0)	(8.0)	(8.0)
Others	(7.8)	(37.6)	(30.0)	(30.0)	(30.0)
Net Cash Inflow/(Outflow)	**98.0**	**24.2**	**(44.4)**	**(13.8)**	**12.5**
Forex Translations	0.0	0.0	0.0	0.0	0.0
Beginning Cash & Cash Equivalent	**137.6**	**249.0**	**280.0**	**235.6**	**221.8**
Ending Cash & Cash Equivalent	**235.5**	**273.1**	**235.6**	**221.8**	**234.3**
Adjustments	(13.4)	(6.9)	0.0	0.0	0.0
Ending Cash After Adjustments	**249.0**	**280.0**	**235.6**	**221.8**	**234.3**

Price Range

	2004	2005	2006	2007*
Price (RM)				
High	0.87	0.67	1.49	1.91
Low	0.46	0.495	0.60	1.27
PE (x)				
High	24.9	n.a	67.7	72.2
Low	13.1	n.a	27.2	48.0

** Forecast PE*

Profit & Loss

Year to 31 Dec (RMm)	2005	2006	2007F	2008F	2009F
Total Turnover	1,233.0	846.6	873.3	942.7	1,018.7
Property	505.8	273.6	288.8	329.2	374.6
Hospitality	441.7	358.2	364.5	382.7	401.8
Manufacturing	189.4	130.7	135.0	141.7	148.8
General Trading	89.3	81.1	81.7	85.8	90.1
Others	6.8	3.1	3.2	3.3	3.4
Less: COGS	(1,079.2)	(769.8)	(783.3)	(819.6)	(857.6)
EBITDA	153.8	76.8	90.0	123.1	161.0
Less: Depreciation	(64.2)	(61.3)	(60.5)	(59.6)	(58.8)
EBIT (Operating Profit)	89.6	15.5	29.5	63.5	102.3
Property	38.6	(6.8)	4.0	35.0	70.5
Hospitality	53.8	45.1	47.4	49.8	52.2
Manufacturing	26.4	11.6	12.4	13.1	13.8
General Trading	(4.2)	0.8	1.0	1.0	1.0
Others	(24.9)	(35.3)	(35.3)	(35.3)	(35.3)
Net Interest & Investment Income	(48.4)	(16.1)	(14.6)	(14.3)	(12.2)
Interest Expense	(83.7)	(68.7)	(66.8)	(64.6)	(62.4)
Interest Income	11.0	17.8	17.3	15.4	15.3
Investment Income	24.3	34.9	34.9	34.9	34.9
Exceptional Items	313.4	29.5	0.0	0.0	0.0
Associates	14.3	27.3	28.7	30.1	31.7
Pre-tax Profit	**368.9**	**56.2**	**43.6**	**79.3**	**121.7**
Less: Taxation	(67.9)	7.5	(6.5)	(14.3)	(24.3)
Effective Tax Rate (%)	(18.4)	13.4	(15.0)	(18.0)	(20.0)
Profit After Tax	301.0	63.8	37.1	65.1	97.4
Minorities	(6.6)	(6.7)	(3.9)	(6.8)	(10.2)
Net Profit	**294.3**	**57.1**	**33.2**	**58.3**	**87.2**
Net Profit - ex-Exceptionals	**(19.0)**	**27.6**	**33.2**	**58.3**	**87.2**

Ratios

Year to 31 Dec (%)	2005	2006	2007F	2008F	2009F
Growth					
Turnover	(6.9)	(31.3)	3.1	8.0	8.1
EBITDA	(6.5)	(50.0)	17.1	36.8	30.8
Pre-tax Profit	288.0	(84.8)	(22.5)	81.9	53.5
Net Profit	290.3	(80.6)	(41.9)	75.5	49.7
EPS	n.a	n.a	n.a	75.5	49.7
Profitability					
EBITDA Margin	12.5	9.1	10.3	13.1	15.8
Pre-tax Margin	29.9	6.6	5.0	8.4	12.0
Net Margin	23.9	6.7	3.8	6.2	8.6
ROA	7.9	1.7	1.0	1.7	2.6
ROE	16.0	2.8	1.6	2.8	4.1
Leverage					
Total Debt/Total Asset	26.3	24.8	24.8	23.8	22.7
Total Debt/Equity	45.5	41.7	40.4	38.7	36.5
Net Cash (Debt)/Equity	(32.7)	(28.2)	(29.0)	(28.1)	(25.5)
Interest Cover (x)	1.1	0.2	0.4	1.0	1.6

RNAV Sensitivity Analysis

Johor Land (RM psf)	Fully-diluted RNAV (RM)	Mixed Development Land Price For
40	3.22	Mulpha's bungalow lot prices
60	3.68	Damansara-Sungai Buloh, Selangor
80	**4.13**	
110	4.82	Johor Bahru commercial
200	6.87	
300	9.14	Singapore

RNAV

	(RMm)
Surplus/(Deficit)	
Listed Companies	273.8
Malaysian Properties	2,633.6
Australian Properties	818.6
	3,726.0
Net Asset @ 30/6/06	2,072.7
	5,798.7
Adjusted No. of Shares (m)	1,187.0
RNAV/Share (RM)	**4.91**
Fully-diluted RNAV	
RNAV	5,798.7
Warrant Conversion Proceeds @ RM1.50	522.9
	6,321.6
Adjusted No. of Shares (m)	1,187.0
Warrants	348.6
Fully-diluted No. of Shares (m)	1,529.6
Fully-diluted RNAV/Share (RM)	**4.13**

RNAV of MIT's Listed Subsidiaries

Listed Companies	Country	Stake (%)	Share Price (local currency)	Market Cap (RMm)	Attributable Market Value (RMm)	Cost/ Net Asset Value (RMm)	Difference (RMm)
Mulpha Land (formerly Mega Pascal)	Malaysia	50.6	1.00	60.5	30.6	50.2	(19.6)
Mudajaya	Malaysia	24.0	2.95	401.2	96.3	35.9	60.4
Greenfield Chemical Holdings	Hong Kong	75.0	1.32	147.8	110.8	78.9	31.9
FKP Ltd	Australia	11.7	7.00	4,082.9	477.7	261.1	216.6
				4,738.0	**711.3**		**289.3**
Less: Goodwill							(15.5)
							273.8

RNAV of MIT's Landbank

	Acres	Cost (RMm)	Cost (RM psf)	Market Value (RMm)	Market Value (RM psf)	Difference (RMm)
Malaysian Properties						
Leisure Farm, Gelang Patah (Johor)	800	154.2	4.50	2,787.8	80	2,633.6

	Stake (%)	Acres	Cost (RMm)	Market Value (RMm)	Difference (RMm)	Attributable Difference (RMm)
Australian Properties						
Sanctuary Cove	100	859.4	330.9	821.1	490.1	490.1
Norwest Business Park	50	440.3	164.2	821.1	656.9	328.4
Hayman Island Resort, Great Barrier Reef	100	722.7	229.6	229.6	-	-
Intercontinental Hotel Sydney (509 rooms)	100	n.a	581.6	581.6	-	-
Hilton Melbourne Airport (276 rooms)	100	n.a	104.4	104.4	-	-
			1,410.8	**2,557.8**		**818.6**

Shangri-La Hotels Malaysia

Current : RM2.35
Target (12-mth) : RM3.75

BUY

Sector	Services
Bloomberg	SHMB MK
Website	www.shangri-la.com
Exchange Rate	3.470/US$
52-Wk Range (RM)	2.90/1.33
52-Wk Avg Daily Vol. ('000)	136
No. of Shares (m)	440.0
Market Cap (RMm)	1,034.0
(US$m)	297.9
Major Shareholders (%)	
Shangri-La Asia	52.8
Landmarks	26.6
NTA per Share (RM)	1.53
ROE (%)	5.4
Net Debt per Share (RM)	0.42
Alternative Instruments	
Nil	
Results Due	
1Q: May	1H: Aug
3Q: Nov	Final: Feb
Market PE - KLCI (x)	
2006	15.9
2007F	14.3

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BACKGROUND

Shangri-La Hotels Malaysia is the largest listed hotel group in Malaysia with a market capitalisation of RM1.0b. With five luxury hotels and resorts in the tourist hotspots of Kuala Lumpur, Penang and Sabah, Shangri-la is the prime beneficiary of the upcycle in the Malaysian hotel industry. Shangri-la is 52.8% owned by Shangri-La Asia Limited, Asia's largest luxury hotel group, and ultimately owned by Malaysian tycoon Robert Kuok.

OUTLOOK/RECOMMENDATION

- **Moves into super-high end with re-introduction of Rasa Sayang.** After a two-year redevelopment, Shangri-La's Rasa Sayang Resort in Penang reopened in Sep 06 as one of the most luxurious resorts in Malaysia with 304 rooms and an average room rate of RM1,008/night (+245% vs pre-closure). Assuming an occupancy rate of 50%, Rasa Sayang is expected to contribute RM20.5m to Shangri-La's net profit in 2007.

- **Biggest beneficiary of RevPAR upcycle.** The upcycle in revenue per available room (RevPAR) will be the strongest in Kuala Lumpur, Penang and Sabah. Shangri-La will benefit the most as it is present in these three locations: Shangri-La Hotel in Kuala Lumpur, Traders Hotel, Golden Sands Resort and Rasa Sayang Resort in Penang, and Rasa Ria Resort in Sabah.

- **Strong earnings momentum.** With the full-year contribution from Rasa Sayang Resort and strong RevPAR growth, we forecast Shangri-La's net profit to jump 85.5% and 46.8% yoy in 2007 and 2008 respectively. With the major portion of its capex programme completed, Shangri-La is expected to generate strong free cash flows of RM98.8m (22.4 sen/share) in 2007 and RM160.4m (36.5 sen/share) in 2008.

- **Maintain BUY.** The upcycle in the Malaysian hotel industry is gaining momentum from rising occupancy, more tourist arrivals, limited room supply and ageing hotels. The rising average room rates in the region have also improved the pricing power of domestic hotels. Target price has been raised from RM2.70 to RM3.75, based on 20% to its RNAV of RM4.72.

Year to 31 Dec	Turnover (RMm)	EBIDTA (RMm)	Net Profit (RMm)	EPS (sen)	EPS Growth (%)	PE (x)	EV/ EBIDTA (x)	DPS (sen)
2005*	280.1	76.2	25.1	5.7	(47.6)	41.1	15.4	8.0
2006	330.5	88.1	35.7	8.1	41.9	29.0	13.8	8.0
2007F	448.8	152.8	66.2	15.0	85.5	15.6	7.5	8.5
2008F	534.5	200.7	97.2	22.1	46.8	10.6	5.1	9.5
2009F	617.6	245.5	131.5	29.9	35.3	7.9	3.5	10.5

Consensus net profit – FY07: RM71.6m
– FY08: RM92.6m

** Ex-exceptionals*

Balance Sheet

Year to 31 Dec (RMm)	2005	2006	2007F	2008F	2009F
Fixed Asset	580.4	646.1	638.0	605.1	575.0
Associates	21.2	17.1	13.3	9.6	5.9
Intangibles	(2.9)	0.0	0.0	0.0	0.0
Investments Properties	262.5	262.5	262.5	262.5	262.5
Deferred Tax Assets	0.7	0.0	0.0	0.0	0.0
Hotel Properties	0.0	0.0	0.0	0.0	0.0
Others	11.6	11.6	11.6	11.6	11.6
Current Assets	**61.6**	**73.5**	**116.9**	**219.7**	**354.8**
Stocks	8.6	9.8	11.2	11.8	12.4
Trade Debtors	24.3	32.8	38.8	46.2	53.3
Bank Deposits & Cash	14.5	12.1	48.1	143.0	270.3
Investments	0.0	0.0	0.0	0.0	0.0
Loans to Subsidiaries/Associates/Holdings	0.0	0.0	0.0	0.0	0.0
Others	14.1	18.8	18.8	18.8	18.8
Total Assets	**935.2**	**1,010.8**	**1,042.3**	**1,108.6**	**1,209.8**
Current Liabilities	**164.0**	**172.8**	**155.4**	**141.1**	**126.4**
Trade Creditors	51.5	69.9	82.5	98.2	113.5
Borrowings	111.5	102.1	72.1	42.1	12.1
Others	1.0	0.8	0.8	0.8	0.8
Long Term Loans	44.5	94.4	94.4	94.4	94.4
Bonds	0.0	0.0	0.0	0.0	0.0
Other Long Term Liabilities	25.1	24.0	34.1	44.3	54.6
Total Debt	**156.0**	**196.5**	**166.5**	**136.5**	**106.5**
Net Cash/(Debt)	**(141.4)**	**(184.3)**	**(118.4)**	**6.5**	**163.8**
Shareholders' Funds	**657.9**	**671.1**	**699.8**	**755.2**	**840.5**
Share Capital	440.0	440.0	440.0	440.0	440.0
Reserves	217.9	378.6	259.8	315.2	400.5
Share Premium & Capital Reserves	252.0	252.0	104.5	104.5	104.5
Retained Profits & General Reserves	(34.2)	126.6	155.3	210.7	296.0
Minority Interests	43.7	48.5	58.7	73.6	93.9
Total Equity & Liabilities	**935.2**	**1,010.8**	**1,042.3**	**1,108.6**	**1,209.8**

Cash Flow

Year to 31 Dec (RMm)	2005	2006	2007F	2008F	2009F
Operating	**63.5**	**87.0**	**138.8**	**180.4**	**215.1**
EBIT	40.5	54.4	104.7	147.8	195.4
Depreciation	35.8	33.7	48.2	52.8	50.2
Working Capital	(13.9)	8.8	5.1	7.8	7.6
Income Tax Paid	(1.0)	(10.0)	(19.1)	(28.0)	(37.9)
Others	2.2	0.1	0.0	0.0	0.0
Investing	**(1.4)**	**(98.2)**	**(40.0)**	**(20.0)**	**(20.0)**
CAPEX	(37.1)	(99.6)	(40.0)	(20.0)	(20.0)
Acquisitions/Associates	32.9	1.3	0.0	0.0	0.0
Proceeds from Sale of Fixed Assets	2.6	0.0	0.0	0.0	0.0
Others	0.2	0.1	0.0	0.0	0.0
Financing	**(54.2)**	**8.6**	**(63.0)**	**(65.7)**	**(68.0)**
Share Issue	0.0	0.0	0.0	0.0	0.0
Debt Repayment	(39.4)	(30.0)	(30.0)	(30.0)	(30.0)
Proceed from Borrowings	15.1	41.6	0.0	0.0	0.0
Dividends Paid	(23.8)	(26.1)	(27.3)	(30.9)	(34.2)
Others	(6.2)	(6.9)	(5.7)	(4.8)	(3.8)
Net Cash Inflow/(Outflow)	**7.9**	**(2.6)**	**36.7**	**94.7**	**127.1**
Forex Translations					
Beginning Cash & Cash Equivalent	**6.5**	**14.5**	**12.1**	**48.1**	**143.0**
Ending Cash & Cash Equivalent	**14.4**	**11.9**	**47.9**	**142.8**	**270.1**
Adjustments	0.2	0.2	0.2	0.2	0.2
Ending Cash After Adjustments	**14.5**	**12.1**	**48.1**	**143.0**	**270.3**

Price Range

	2004	2005	2006	2007*
Price (RM)				
High	1.33	1.43	2.30	2.88
Low	1.05	1.15	1.24	2.12
PE (x)				
High	12.2	25.0	28.4	19.2
Low	9.6	20.1	15.3	14.1

** Forecast PE*

Profit & Loss

Year to 31 Dec (RMm)	2005	2006	2007F	2008F	2009F
Total Turnover	280.1	330.5	448.8	534.5	617.6
Hotels, Resorts & Golf Course	267.1	314.5	434.4	519.8	602.7
Investment Properties	11.8	14.7	13.1	13.4	13.7
Others	1.2	1.3	1.3	1.3	1.3
Less: COGS	(203.9)	(242.4)	(296.0)	(333.8)	(372.1)
EBITDA	76.2	88.1	152.8	200.7	245.5
Hotels, Resorts & Golf Course	51.9	70.8	143.6	191.1	235.7
Investment Properties	7.8	8.8	8.4	8.6	8.9
Others	0.9	8.5	0.9	0.9	0.9
Less: Depreciation	(35.8)	(33.7)	(48.2)	(52.8)	(50.2)
EBIT (Operating Profit)	40.5	54.4	104.7	147.8	195.4
Hotels, Resorts & Golf Course	32.0	37.1	95.4	138.3	185.6
Investment Properties	7.7	8.8	8.4	8.6	8.9
Others	0.7	8.5	0.9	0.9	0.9
Net Interest & Investment Income	(5.8)	(5.4)	(5.5)	(3.9)	(2.0)
Interest Expense	(6.0)	(5.6)	(5.7)	(4.8)	(3.8)
Interest Income	0.2	0.1	0.3	0.9	1.9
Investment Income	0.0	0.0	0.0	0.0	0.0
Exceptional Items	12.2	0.0	0.0	0.0	0.0
Associates	(2.1)	(3.7)	(3.7)	(3.7)	(3.7)
Pre-tax Profit	**44.7**	**45.2**	**95.5**	**140.2**	**189.7**
Less: Taxation	(5.4)	(4.0)	(19.1)	(28.0)	(37.9)
Effective Tax Rate (%)	(12.1)	(8.9)	(20.0)	(20.0)	(20.0)
Profit After Tax	39.3	41.2	76.4	112.1	151.8
Minorities	(1.9)	(5.5)	(10.2)	(15.0)	(20.3)
Net Profit	**37.3**	**35.7**	**66.2**	**97.2**	**131.5**
Net Profit - ex-Exceptional Items	**25.1**	**35.7**	**66.2**	**97.2**	**131.5**

Ratios

Year to 31 Dec (%)	2005	2006	2007F	2008F	2009F
Growth					
Turnover	(10.0)	18.0	35.8	19.1	15.6
EBITDA	(2.5)	15.6	73.4	31.3	22.4
Pre-tax Profit	27.5	1.2	111.2	46.8	35.3
Net Profit	20.6	(4.4)	85.5	46.8	35.3
EPS	20.6	(4.4)	85.5	46.8	35.3
EPS (ex-Exceptional Items)	(47.6)	41.9	85.5	46.8	35.3
Profitability					
EBITDA Margin	27.2	26.7	34.0	37.5	39.8
Pre-tax Margin	15.9	13.7	21.3	26.2	30.7
Net Margin	13.3	10.8	14.7	18.2	21.3
ROA	3.1	3.7	6.4	9.0	11.2
ROE	4.2	5.4	9.7	13.4	16.5
Leverage					
Total Debt/Total Asset	16.7	19.4	16.0	12.3	8.8
Total Debt/Equity	23.7	29.3	23.8	18.1	12.7
Net Cash (Debt)/Equity	(21.5)	(27.5)	(16.9)	0.9	19.5
Interest Cover (x)	6.7	9.8	18.3	30.9	51.0

RNAV Sensitivity Analysis

Increase in Asset Value (%)	RNAV (RM)
0	4.72
5	4.99
10	5.27
15	5.54
20	5.82
25	6.09

Sime Darby

Current : RM7.90
Target (12-mth) : RM9.90

BACKGROUND

Synergy Drive (SD) will be taking over Sime Darby, Golden Hope Plantation, Kumpulan Guthrie and their subsidiaries. It will then become the largest natural resources play in Malaysia and can leverage on the country's competitive strengths in palm oil and hydro power. Sime Darby is the best proxy for the yet-to-be-listed Synergy Drive (Sime Darby makes up 56% of SD). Besides being the largest palm oil producer in Malaysia, it is also the largest property landbank owner. It will become the second-largest independent power producer (IPP) if Sime Darby is awarded the Bakun Hydroelectric Dam project. Upon SD's listing, its market capitalisation could top US$12b.

OUTLOOK/RECOMMENDATION

- **Largest property landbank owner.** SD could become the largest property developer with a combined landbank of 30,000 acres available for immediate development. Of these, about 70 acres are in super prime areas – Mont Kiara and Federal Hill – and could have the highest leverage to the policy changes designed to attract foreign investments. This change could be a strong catalyst that would create a boom in the property sector over the next 2-3 years. Potential future landbank injection could come from SD's huge and cheap plantation land. We expect the RNAV for SD's enlarged landbank to rise from RM7.2b (RM1.20/share) to RM7.5b (RM1.25/share).

- **Riding on rising CPO price.** SD will become the largest palm oil plantation company after the completion of the mega merger by Nov 07. It will have 660,000ha of plantation landbank and control of 6% of global crude palm oil (CPO) supply. With these, SD will be able to ride on high CPO prices. CPO is trading at above RM1,900/tonne. With SD's annual production of at least 1.9m tonnes/year, every RM100/tonne increase in CPO price would translate into pre-tax profit of RM190m (or 5.6% of FY07's pre-tax profit and 4.4% of FY08's pre-tax profit).

- **Potential to be second-largest IPP.** SD has the potential to become the second-largest IPP if the RM15b Bakun Hydroelectric Dam project is awarded to Sime Darby. With the Bakun project, Sime Darby's total power generation capacity will increase from 750 MW to 3,000 MW, with the potential to go up to 20,000 MW in the next 20 years. Winning the lucrative 35-year concession could add 40% to SD's FY08 earnings.

In our pro-forma forecast for SD, we expect a net profit of RM2.3b (EPS: 40.3 sen) and RM3.0b (EPS: 51.9 sen) for FY07 and FY08 respectively. Pegging it to the plantation sector's FY08 PE of 16x, SD's target price will be RM8.00. Based on SD's target price and the share exchange ratio of 1:1.23, Sime Darby's target price is RM9.90. Winning the Bakun project could boost its target price to RM11.00.

BUY

Sector	Plantation
Bloomberg	SDY MK
Website	www.simedarby.com
Exchange Rate	3.470/US$
52-Wk Range (RM)	8.60/5.30
52-Wk Avg Daily Vol. ('000)	3,031
No. of Shares (m)	2,507.2
Market Cap (RMm)	19,806.6
(US$m)	5,707.9
Major Shareholders (%)	
Skim Amanah Saham	33.2
NTA per Share (RM)	3.54
ROE (%)	9.8
Net Debt per Share (RM)	0.06
Alternative Instruments	
Call Warrant Sep 07*	Ex-Price: RM5.90
Results Due	
1Q: May	1H: Aug
3Q: Nov	Final: Feb
Market PE - KLCI (x)	
2006	15.9
2007F	14.3
Malaysia Research Team	
	☎ (603) 2143 1180

** 2 warrants for 1 share*

Year to 31 Dec	Turnover (RMm)	EBIDTA (RMm)	Net Profit (RMm)	EPS (sen)	EPS Growth (%)	PE (x)	EV/ EBIDTA (x)	DPS (sen)
2005	18,645.7	1,766.7	801.2	32.3	13.5	24.5	11.1	26.0
2006	20,162.1	1,958.9	1,120.6	45.2	(12.8)	17.5	10.1	30.0
2007F*	25,163.1	3,667.7	2,297.1	38.4	n.a	18.1	n.a	19.0
2008F*	28,016.2	5,016.8	3,025.3	50.6	31.7	13.7	n.a	25.0
2009F*	33,783.3	5,755.6	3,248.0	54.3	7.4	12.8	n.a	27.0

** Synergy Drive Proforma*

Balance Sheet

Year to 31 Dec (RMm)	2004	2005	2006
Fixed Asset	4,343.4	4,396.8	4,655.6
Associates	615.3	815.7	545.2
Goodwill	69.9	72.6	71.5
Land for Property Development	251.5	309.6	262.5
Investments	886.3	155.8	348.4
Deferred Tax Assets	331.0	368.0	364.9
Others	421.9	465.4	455.2
Current Assets	**8,618.6**	**221.0**	**385.9**
Stocks	2,374.7	3,306.1	3,381.3
Trade Debtors	2,591.3	2,856.0	3,318.6
Bank Deposits & Cash	2,860.2	2,591.2	3,212.4
Investments	0.0	0.0	26.8
Property Development Costs	726.1	765.4	787.3
Others	792.4	132.3	108.1
Total Assets	**15,537.9**	**16,235.0**	**17,537.8**
Current Liabilities	**3,926.4**	**4,963.8**	**5,425.8**
Trade Creditors	2,962.3	3,752.7	3,794.6
Borrowings	637.6	837.0	1,256.6
Amounts Due to Related Companies	9.7	14.2	14.2
Others	326.5	374.1	374.0
Long Term Loans	1,733.2	1,854.0	2,083.2
Deferred Taxation	243.7	233.0	234.8
Total Debt	**2,370.8**	**2,691.0**	**3,339.8**
Net Cash/(Debt)	**489.4**	**(99.8)**	**(127.4)**
Shareholders' Funds	**8,424.7**	**8,005.1**	**8,803.8**
Share Capital	1,177.9	1,195.1	1,232.8
Reserves	7,246.8	6,810.0	7,571.0
Share Premium & Capital Reserves	3,421.2	3,704.1	4,041.3
Retained Profits & General Reserves	3,825.6	3,105.9	3,529.7
Minority Interests	1,209.9	1,179.1	990.2
Total Equity & Liabilities	**15,537.9**	**16,235.0**	**17,537.8**

Cash Flow

Year to 31 Dec (RMm)	2004	2005	2006
Operating	**638.3**	**723.0**	**1,159.8**
EBIT	1,265.6	1,421.7	1,406.1
Depreciation	343.7	333.9	360.6
Net Interest	(24.9)	(27.1)	(6.9)
Working Capital	365.0	(644.1)	(847.0)
Income Tax Paid	(339.5)	(328.2)	(439.9)
Others	(751.1)	(117.9)	250.1
Investing	**(424.0)**	**(817.3)**	**(581.5)**
CAPEX	(1,037.5)	(543.3)	(738.2)
Acquisitions/Associates	0.0	(1,472.5)	(240.4)
Proceeds from Sale of Fixed Assets	332.1	1,031.8	210.8
Others	281.4	166.7	186.3
Financing	**(98.4)**	**(308.4)**	**194.6**
Share Issue	146.0	172.7	178.6
Debt Repayment	269.8	213.7	701.9
Procced from Borrowings	15.7	0.0	0.0
Dividends Paid	(508.7)	(598.3)	(562.5)
Others	(21.2)	(96.5)	(123.4)
Net Cash Inflow/(Outflow)	**115.9**	**(402.7)**	**772.9**
Forex Translations	13.2	14.1	(5.9)
Beginning Cash & Cash Equivalent	**2,412.9**	**2,542.0**	**2,153.4**
Ending Cash & Cash Equivalent	**2,542.0**	**2,153.4**	**2,920.4**
Adjustments	(318.2)	(437.8)	(292.0)
Ending Cash After Adjustments	**2,860.2**	**2,591.2**	**3,212.4**

Price Range

	2004	2005	2006	2007*
Price (RM)				
High	6.15	6.65	7.50	8.55
Low	5.15	5.70	5.35	7.30
PE (x)				
High	16.6	20.6	16.6	22.3
Low	13.9	17.6	11.8	19.0

** Forecast PE*

Profit & Loss

			– Synergy Drive Proforma –		
Year to 31 Dec (RMm)	**2005**	**2006**	**2007F**	**2008F**	**2009F**
Turnover	18,645.7	20,162.1	25,163.1	28,016.2	33,783.3
Less: COGS	(16,879.0)	(18,203.2)	(21,495.4)	(22,999.4)	(28,027.7)
EBITDA	1,766.7	1,958.9	3,667.7	5,016.8	5,755.6
Less: Depreciation	(360.6)	(376.7)	(162.6)	(489.4)	(478.0)
EBIT (Operating Profit)	1,406.1	1,582.2	3,505.2	4,527.4	5,277.6
Net Interest & Investment Income	(6.9)	(32.3)	(109.1)	(164.4)	(618.6)
Interest Expense	(95.2)	(121.8)	(205.3)	(265.2)	(735.8)
Interest Income	88.3	89.5	96.1	100.8	117.2
Investment Income	0.0	0.0	0.0	0.0	0.0
Exceptional Items	0.0	0.0	0.0	0.0	0.0
Associates	40.0	90.8	0.0	0.0	0.0
Jointly Controlled Entities	(74.4)	1.5	0.0	0.0	0.0
Pre-tax Profit	**1,364.8**	**1,642.2**	**3,396.0**	**4,363.0**	**4,659.0**
Less: Tax	(431.4)	(439.1)	(933.9)	(1,156.2)	(1,211.3)
Effective Tax Rate (%)	(31.6)	(26.7)	(27.5)	(26.5)	(26.0)
Profit After Tax	933.4	1,203.1	2,462.1	3,206.8	3,447.7
Minorities	(132.2)	(82.5)	(165.0)	(181.5)	(199.7)
Net Profit	**801.2**	**1,120.6**	**2,297.1**	**3,025.3**	**3,248.0**

Ratios

			– Synergy Drive Proforma –		
Year to 31 Dec (%)	**2004**	**2005**	**2006F**	**2007F**	**2008F**
Growth					
Turnover	8.6	25.1	n.a	11.3	20.6
EBITDA	9.1	0.6	n.a	36.8	14.7
Pre-tax Profit	12.3	(1.1)	n.a	29.2	16.6
Net Profit	4.6	1.6	n.a	28.5	6.8
EPS	13.5	(12.8)	n.a	31.7	7.4
Profitability					
EBITDA Margin	11.8	9.5	14.6	17.9	17.0
Pre-tax Margin	9.0	7.3	13.5	15.6	13.8
Net Margin	6.2	4.3	9.1	10.8	9.6
ROA	6.1	5.0	10.7	9.4	8.1
ROE	11.2	9.8	11.1	9.1	9.3
Leverage					
Total Debt/Total Asset	15.3	16.6	22.8	13.9	12.6
Total Debt/Equity	28.1	33.6	17.8	15.9	14.6
Net Cash (Debt)/Equity	5.8	(1.2)	(7.6)	(1.1)	3.4
Interest Cover (x)	(16.3)	(15.3)	(17.1)	(17.1)	(7.2)

Enlarged Synergy Drive Property Assets

	Landbank (acres)	NBV (RMm)	Market Value (RMm)
Landbank			
Sime Darby	13,247.7	1,376.3	4,682.2
Kumpulan Guthrie	6,968.4	398.4	1,483.9
Golden Hope	9,856.5	185.9	185.9
	30,072.5	**1,960.6**	**6,352.1**
Investment Properties			
Sime Darby		930.9	930.9
Kumpulan Guthrie		187.5	187.5
Golden Hope		2.4	2.4
		1,120.7	**1,120.7**
Total	**30,072.51**	**3,081.30**	**7,472.75**

SP Setia

Current : RM7.35
Target (12-mth) : RM8.60

BUY	
Sector	Property
Bloomberg	SPSB MK
Website	www.spsetia.com.my
Exchange Rate	3.470/US$
52-Wk Range (RM)	7.60/3.46
52-Wk Avg Daily Vol. ('000)	2,004
No. of Shares (m)	672.6
Market Cap (RMm)	4,943.7
(US$m)	1,424.7
Major Shareholders (%)	
Dato' Sri Liew Kee Sin	10.2
EPF	8.8
NTA per Share (RM)	2.54
ROE (%)	14.7
Net Debt per Share (RM)	0.42
Alternative Instruments	
Nil	
Results Due	
1Q: Mar	1H: Jun
3Q: Sep	Final: Dec
Market PE - KLCI (x)	
2006	15.9
2007F	14.3
Malaysia Research Team	
	☎ (603) 2143 1180

BACKGROUND

SP Setia is the largest residential developer in Malaysia. It has 4,745 acres of land in Klang Valley (58% of RNAV, 1,496 acres), Johor (34%, 2,200 acres) and Penang (8%, 179 acres).

RECOMMENDATION/OUTLOOK

- **Astute management.** SP Setia has consistently been ahead of the market. It was among the first to launch high-end properties in 2002, and to acquire large landbank (3,929-acre Setia Alam in Klang, Selangor) in preparation for a pick-up in mass residential in 2004. Despite the softer property market in the last two years, SP Setia has consistently met its target of RM1b sales annually, outperforming all the other developers. Based on its strong track record, SP Setia is likely to leverage on its strength to benefit from a pick-up in property demand, especially in attracting new international buyers.

- **Knack for acquiring cheap landbank; quick land turnaround.** SP Setia's acquisitions in Puchong, Setia Alam and recently Setia Eco Garden (Nusajaya, Johor) are testament to its ability to negotiate good land deals which will lead to RNAV upgrades. SP Setia has the fastest land turnaround in the sector (6-9 months vs 12 months on average), giving it the upper hand in launching new projects to capitalise on rising demand.

- **RNAV upgrade from higher land prices in IDR and Penang.** We expect land prices in Iskandar Development Region (IDR) to rise by 300% to RM30 psf in the next 2-3 years with the entry of international developers as more positive policy changes are introduced to attract foreign direct investment (FDI). We also expect land prices in Bayan Lepas (Penang) to rise 50% to RM60 psf on the back of RM6b new infrastructure projects under the Ninth Malaysia Plan (9MP), including the RM3b Second Penang Bridge. This would boost SP Setia's RNAV to RM10.73. Every 10% increase in its landbank value would boost its RNAV by 3%.

We are raising our target price for SP Setia from RM5.90 to RM8.60, based on a 20% discount to our RNAV of RM10.73. We expect SP Setia's earnings to grow at a three-year CAGR of 27% on the back of the following: a) higher sales (new demand from foreigners and pick-up in local demand), and b) margin expansion from higher property prices and new focus on commercial developments.

Year to 31 Oct	Turnover (RMm)	EBIDTA (RMm)	Net Profit (RMm)	EPS (sen)	EPS Growth (%)	PE (x)	EV/ EBIDTA (x)	DPS (sen)
2005	1,262.4	276.9	203.4	31.1	6.4	24.2	18.4	25.0
2006	1,154.6	282.3	240.2	35.9	18.1	20.5	18.4	30.0
2007F	1,204.7	256.8	261.2	39.0	8.7	18.8	20.0	33.0
2008F	1,655.9	458.9	379.2	56.6	45.2	13.0	11.0	47.0
2009F	1,362.4	554.8	488.2	72.9	28.7	10.1	9.0	61.0

Consensus net profit – FY07: RM250.1m
– FY08: RM296.7m

Balance Sheet

Year to 31 Oct (RMm)	2005	2006	2007F	2008F	2009F
Fixed Asset	123.4	140.3	132.8	125.8	119.1
Associates/JV	178.1	210.5	264.4	299.2	371.7
Investments	15.1	17.7	17.7	17.7	17.7
Deferred Tax Assets	1.1	0.6	0.6	0.6	0.6
Land Held for Development	692.1	735.8	699.0	664.1	630.9
Current Assets	**1,425.3**	**1,521.0**	**1,504.8**	**1,678.8**	**1,665.0**
Inventories	19.7	25.4	24.5	30.9	20.9
Trade Debtors	264.3	419.0	356.5	490.0	403.1
Bank Deposits & Cash	403.8	303.9	258.8	256.7	240.4
Amounts Due from Associate	17.1	19.4	21.4	23.5	25.9
Development Properties	675.1	715.7	787.2	865.9	952.5
Others	45.4	37.6	56.4	11.7	22.2
Total Assets	**2,435.2**	**2,625.9**	**2,619.4**	**2,786.2**	**2,805.1**
Current Liabilities	**380.0**	**398.3**	**387.8**	**503.7**	**428.3**
Trade Creditors	273.2	319.8	309.4	425.2	349.9
Borrowings	92.3	63.4	63.4	63.4	63.4
Others	14.5	15.1	15.1	15.1	15.1
Long Term Loans	476.7	520.3	420.3	320.3	220.3
Long Term Liabilities	1.4	1.4	1.4	1.4	1.4
Others	1.4	2.2	2.2	2.2	2.2
Total Debt	**570.4**	**585.1**	**485.1**	**385.1**	**285.1**
Net Cash/(Debt)	**(166.6)**	**(281.2)**	**(226.3)**	**(128.4)**	**(44.7)**
Shareholders' Funds	**1,574.3**	**1,702.4**	**1,806.3**	**1,957.2**	**2,151.5**
Share Capital	490.7	498.5	498.5	498.5	498.5
Reserves	1,083.6	1,203.9	1,307.8	1,458.7	1,653.0
Share Premium & Capital Reserves	398.6	416.7	416.7	416.7	416.7
Retained Profits & General Reserves	685.0	787.2	891.1	1,042.0	1,236.3
Minority Interests	1.4	1.3	1.3	1.3	1.3
Total Equity & Liabilities	**2,435.2**	**2,625.9**	**2,619.4**	**2,786.2**	**2,805.1**

Cash Flow

Year to 31 Oct (RMm)	2005	2006	2007F	2008F	2009F
Operating	**469.4**	**211.3**	**202.6**	**197.4**	**354.2**
EBIT	269.7	275.1	249.4	451.9	548.1
Depreciation	7.2	7.2	7.5	7.1	6.7
Working Capital	350.9	37.6	39.6	(164.9)	(67.4)
Income Tax Paid	(101.6)	(28.7)	(93.8)	(96.6)	(133.2)
Others	(56.8)	(79.9)	0.0	0.0	0.0
Investing	**13.2**	**(217.3)**	**13.8**	**60.0**	**(35.8)**
Capex	0.0	0.0	0.0	0.0	0.0
Acquisitions/Associates	(1.6)	(2.0)	0.0	0.0	0.0
Land acquisition	14.8	(215.3)	(23.0)	(136.0)	(69.0)
Proceeds from Sale of Fixed Assets	0.0	0.0	0.0	161.0	0.0
Others	0.0	0.0	36.8	35.0	33.2
Financing	**(272.9)**	**(98.3)**	**(254.7)**	**(259.4)**	**(334.7)**
Share Issue	0.0	0.0	0.0	0.0	0.0
Net debt repayment	(251.6)	13.8	(100.0)	(100.0)	(100.0)
Dividends Paid	(21.2)	(112.2)	(154.7)	(159.4)	(234.7)
Others	0.0	0.0	0.0	0.0	0.0
Net Cash Inflow/(Outflow)	**209.7**	**(104.3)**	**(38.3)**	**(2.1)**	**(16.3)**
Beginning Cash & Cash Equivalent	**191.7**	**401.5**	**297.1**	**258.8**	**256.7**
Ending Cash & Cash Equivalent	**401.5**	**297.1**	**258.8**	**256.7**	**240.4**
Adjustments	0.0	0.0	0.0	0.0	0.0
Ending Cash After Adjustments	**401.5**	**297.1**	**258.8**	**256.7**	**240.4**

Price Range

	2004	2005	2006	2007*
Price (RM)				
High	4.29	4.25	5.20	7.50
Low	3.29	3.16	3.30	5.00
PE (x)				
High	15.1	13.7	14.5	19.2
Low	11.5	10.2	9.2	12.8

** Forecast PE*

Profit & Loss

Year to 31 Oct (RMm)	2005	2006	2007F	2008F	2009F
Total Turnover	1,262.4	1,154.6	1,204.7	1,655.9	1,362.4
Construction	131.7	150.8	201.4	201.4	153.6
Property Development	1,058.7	929.2	925.0	1,372.2	1,122.5
Property & Investment Holding	72.1	74.6	78.3	82.3	86.4
Less: COGS	(985.5)	(872.3)	(947.8)	(1,197.0)	(807.6)
EBITDA	276.9	282.3	256.8	458.9	554.8
Less: Depreciation	(7.2)	(7.2)	(7.5)	(7.1)	(6.7)
EBIT (Operating Profit)	269.7	275.1	249.4	451.9	548.1
Net Interest & Investment Income	17.0	16.1	14.0	13.6	13.6
Interest Expense	(2.3)	(1.8)	(1.6)	(1.3)	(1.0)
Interest Income	11.9	10.8	8.6	7.9	7.6
Investment Income	7.4	7.0	7.0	7.0	7.0
Exceptional Items	0.0	0.0	20.5	0.0	0.0
Associates	3.1	42.9	73.9	47.0	98.0
Pre-tax Profit	**289.8**	**334.1**	**357.8**	**512.5**	**659.8**
Construction	2.4	19.3	8.0	8.0	19.3
Property Development	268.0	292.9	306.8	481.3	616.6
Property & Investment Holding	9.8	12.8	13.5	14.1	14.8
Others/Eliminations	9.6	9.0	29.5	9.0	9.0
Less: Taxation	(86.4)	(93.8)	(96.6)	(133.2)	(171.5)
Effective Tax Rate (%)	(29.8)	(28.1)	(27.0)	(26.0)	(26.0)
Profit After Tax	203.4	240.2	261.2	379.2	488.2
Minorities	0.0	0.0	0.0	0.0	0.0
Net Profit	**203.4**	**240.2**	**261.2**	**379.2**	**488.2**

Ratios

Year to 31 Oct (%)	2005	2006	2007F	2008F	2009F
Growth					
Turnover	23.2	(8.5)	4.3	37.5	(17.7)
EBITDA	26.6	1.9	(9.0)	78.7	20.9
Pre-tax Profit	23.5	15.3	7.1	43.2	28.7
Net Profit	26.2	18.1	8.7	45.2	28.7
EPS	6.4	18.1	8.7	45.2	28.7
Profitability					
EBITDA Margin	21.9	24.5	21.3	27.7	40.7
Pre-tax Margin	23.0	28.9	29.7	30.9	48.4
Net Margin	16.1	20.8	21.7	22.9	35.8
ROA	8.1	9.5	10.0	14.0	17.5
ROE	13.7	14.7	14.9	20.2	23.8
Leverage					
Total Debt/Total Asset	23.4	22.3	18.5	13.8	10.2
Total Debt/Equity	36.2	34.4	26.9	19.7	13.3
Net Cash (Debt)/Equity	(10.6)	(16.5)	(12.5)	(6.6)	(2.1)
Interest Cover (x)	115.8	156.9	31.1	69.2	109.0

RNAV Sensitivity Analysis

Appreciation in Land Value (%)	RNAV/Share (RM)
0	10.73
5	11.03
10	11.34
15	11.64
20	11.94
25	12.24

RNAV

	Stake (%)	Tenure	Attributable Acres	Cost (RM psf)	NBV (RMm)	Market Value (RM psf)	Market Value (RMm)	Surplus (RMm)
Klang Valley								
Bandar Setia Alam – Residential	100	Freehold	1,294	3.49	196.7	25	1,409.2	1,212.4
Bandar Setia Alam – Commercial	100	Freehold	162	3.49	24.6	80	564.5	539.9
Setia Eco Park	50	Freehold	596	9.90	257.0	50	1,298.1	1,041.1
Setia Hills Ampang	100	Leasehold	15	19.29	12.2	120	75.8	63.6
Pusat Bandar Puchong	100	Freehold	15	39.36	25.7	150	98.0	72.3
Putrajaya	50	Freehold	275	-	-	-	-	-
			2,357		**516.3**		**3,445.6**	**2,929.3**
Johor								
Bukit Indah 1&2 – Residential	100	Freehold	492	6.40	137.1	30	642.9	505.9
Bukit Indah 1&2 – Commercial	100	Freehold	30	31.00	40.4	80	104.5	64.1
Setia Indah – Residential	100	Freehold	70	5.89	18.1	30	92.0	73.9
Setia Indah – Commercial	100	Freehold	12	20.25	10.2	80	40.4	30.2
Setia Tropika	100	Freehold	609	7.05	187.0	30	795.8	608.8
Setia Eco Gardens	70	Freehold	949	4.80	198.4	30	1,240.2	1,041.7
			2,162		**591.2**		**2,915.9**	**2,324.7**
Penang								
Setia Pearl Island	100	Freehold	113	29.00	144.8	60	295.3	150.5
Setia Vista	100	Freehold	21	40.00	36.4	60	54.9	18.5
Setia View	50	Freehold	45	-	57.7	40	86.2	28.6
			179		**238.9**		**467.8**	**228.9**
			4,698		**1,346.4**		**6,829.3**	**5,483.0**
Shareholders' Funds @ 31/10/06								**1,702.4**
RNAV								**7,185.4**
No. of Shares (m)								**669.7**
RNAV/Share (RM)								**10.73**

Sunrise

Current : RM2.41

BACKGROUND

Sunrise is a niche developer in high-end condominiums in the prime Mont' Kiara area. Sunrise's brand name is synonymous with Mont' Kiara, which it single-handedly transformed into a much sought after luxury condominium enclave and, more recently, a decentralised commercial centre.

RECOMMENDATION/OUTLOOK

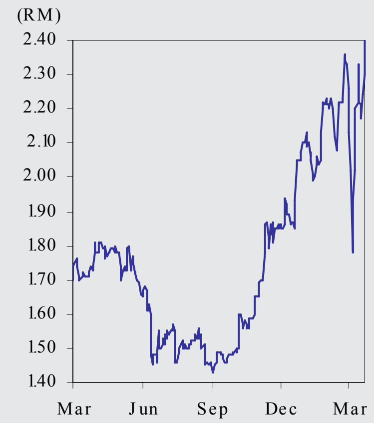
- **Strategic landbank and strong brand name – magnet for foreign interest.** Sunrise has the biggest and most prime landbank in Mont' Kiara (80 acres), which has one of the largest foreign communities in a single area in Malaysia (estimated 50% of population). Mont' Kiara is strategically located near other high-end areas (Bangsar, Bukit Tunku, Damansara Heights) and boasts many "foreigner-friendly" amenities ie two international schools, a vibrant commercial square and tight security. Despite the large incoming supply of property over the next three years and entry of new developers diversifying into Mont' Kiara, Sunrise still has competitive advantages: a) first-mover advantage – cheap landbank purchased more than 10 years ago, b) strong brand name, and c) superior quality. Sunrise's launches have been achieving strong take-up rates (70% in less than six months), the soft property market notwithstanding. The recently-launched 10@Mont' Kiara saw 85% of its units sold in three months despite its benchmark price of RM500 psf.

- **First mover in commercial properties, virtual monopoly in Mont' Kiara.** Sunrise diversified into commercial properties in 2004 to take advantage of the pent-up demand for shophouses since the financial crisis and to mitigate the impact of increasing competition in the residential segment. Sunrise launched Solaris Mont' Kiara shophouses (GDV: RM463m) in 2004, which were all snapped up in less than six months. This was followed by the Solaris Dutamas mixed-development project, the company's largest to date (GDV: RM1.5b; 2.7m sf net lettable area). About two-thirds of the project have already been launched, with the remaining office space worth RM330m likely to be sold en-bloc. We expect the take-up rate to remain high given the underlying strength in the commercial segment, where the incoming supply of office blocks remains limited due to an ongoing ban in Kuala Lumpur, and the strong demand from upgraders.

- **Earnings visibility for next two years; highest unbilled sales in sector.** We expect Sunrise to have a respectable three-year earnings CAGR of 25%, supported by its high unbilled sales of RM1.1b (covering 82% of FY07 and FY08 sales combined). Sunrise has one of the highest unbilled sales in the sector (67% of FY07 sales).

NOT RATED

Sector	Property
Bloomberg	SUN MK
Website	www.sunrisebhd.com
Exchange Rate	3.470/US$
52-Wk Range (RM)	2.43/1.42
52-Wk Avg Daily Vol. ('000)	797
No. of Shares (m)	439.8
Market Cap (RMm)	1,060.0
(US$m)	305.5
Major Shareholders (%)	
Casa Unggul Sdn Bhd	31.0
NTA per Share (RM)	1.20
ROE (%)	17.7
Net Debt per Share (RM)	0.47
Alternative Instruments	
Nil	
Results Due	
1Q: Nov	1H: Feb
3Q: May	Final: Aug
Market PE - KLCI (x)	
2006	15.9
2007F	14.3
Malaysia Research Team	
	☎ (603) 2143 1180



Year to 30 Jun	Turnover (RMm)	EBIDTA (RMm)	Net Profit (RMm)	EPS (sen)	EPS Growth (%)	PE (x)	EV/ EBIDTA (x)	DPS (sen)
2005	367.7	159.6	104.7	24.8	58.2	9.7	7.2	12.0
2006	359.2	137.7	94.5	22.4	(9.7)	9.7	8.5	11.0
2007F	489.5	189.0	130.1	30.8	37.7	7.8	5.8	15.0
2008F	827.3	257.6	180.2	42.6	38.4	5.7	4.1	20.0
2009F	1,183.9	368.5	254.1	60.1	41.1	4.0	2.6	30.0

Consensus net profit – FY07: RM117.8m
– FY08: RM134.1m

Balance Sheet

Year to 30 Jun (RMm)	2005	2006	2007F	2008F	2009F
Fixed Asset	213.0	97.4	94.1	92.0	90.0
Associates	0.1	0.0	0.0	0.0	0.0
Intangibles	0.0	0.0	0.0	0.0	0.0
Investments	0.5	46.8	46.6	46.6	46.6
Deferred Tax aAssets	0.8	2.4	2.4	2.4	2.4
Land Held for Development	50.7	362.4	349.2	331.7	315.1
Current Assets	**672.4**	**426.6**	**562.2**	**723.4**	**903.8**
Inventories	15.3	19.4	23.1	40.7	54.4
Trade Debtors	179.5	180.8	195.8	236.4	263.1
Bank Deposits & Cash	69.7	23.6	112.1	136.2	215.2
Investments	4.5	2.6	2.7	2.7	2.7
Development properties	403.3	196.2	255.6	304.6	365.5
Others	0.1	4.0	2.9	2.9	2.9
Total Assets	**937.5**	**935.7**	**1,054.6**	**1,196.3**	**1,358.0**
Current Liabilities	**208.8**	**276.8**	**305.3**	**361.2**	**347.3**
Trade Creditors	145.9	194.7	195.8	236.4	263.1
Borrowings	43.2	56.2	79.6	83.6	22.1
Others	19.7	25.9	30.0	41.2	62.1
Long Term Loans	161.9	119.5	112.0	100.5	130.5
Loan Stock	0.0	0.0	0.0	0.0	0.0
Other Long Term Liabilities	0.6	31.0	31.0	31.0	31.0
Total Debt	**205.1**	**175.7**	**191.6**	**184.1**	**152.6**
Net Cash/(Debt)	**(135.4)**	**(152.1)**	**(79.5)**	**(47.9)**	**62.6**
Shareholders' Funds	**562.2**	**506.9**	**603.8**	**696.4**	**827.0**
Share Capital	422.7	422.7	424.5	424.5	424.5
Treasury Shares	(28.2)	(28.2)	(28.2)	(28.2)	(28.2)
Reserves	139.5	112.4	179.3	271.9	402.5
Share Premium & Capital Reserves	5.8	9.0	9.0	9.0	9.0
Retained Profits & General Reserves	133.7	103.4	170.2	262.8	393.4
Minority Interests	4.0	1.5	2.5	7.2	22.3
Total Equity & Liabilities	**937.5**	**935.7**	**1,054.6**	**1,196.3**	**1,358.0**

Profit & Loss

Year to 30 Jun (RMm)	2005	2006	2007F	2008F	2009F
Total Turnover	367.7	359.2	489.5	827.3	1,183.9
Property Development	339.4	335.1	464.5	801.3	1,156.8
Interior Designing & Consultancy	7.5	3.8	4.0	4.2	4.5
Property Management	4.5	5.1	5.3	5.6	5.9
Property Investment	11.2	10.2	10.7	11.2	11.8
Education	5.1	5.0	5.0	5.0	5.0
Others/Eliminations	0.0	0.0	0.0	0.0	0.0
Less: COGS	(208.1)	(221.5)	(300.5)	(569.7)	(815.4)
EBITDA	159.6	137.7	189.0	257.6	368.5
Less: Depreciation	(2.3)	(3.4)	(3.3)	(2.0)	(2.0)
EBIT (Operating Profit)	157.3	134.4	185.7	255.5	366.5
Net Interest & Investment Income	(6.9)	(5.0)	(6.1)	(5.6)	(2.8)
Interest Expense	(9.1)	(8.5)	(8.8)	(8.0)	(7.7)
Interest Income	2.2	3.5	2.7	2.4	4.9
Exceptional Items	0.0	(87.4)	0.0	0.0	0.0
Associates	(0.2)	(0.6)	0.0	0.0	0.0
Pre-tax Profit	**150.2**	**41.7**	**179.6**	**249.9**	**363.8**
Property Development	137.7	139.4	185.2	254.9	365.8
Interior Designing & Consultancy	0.4	0.1	0.1	0.1	0.1
Property Management	0.8	0.0	0.0	0.0	0.0
Property Investment	1.9	(3.5)	2.1	2.2	2.3
Education	(1.5)	(1.7)	(1.7)	(1.7)	(1.7)
Other/Eliminations	10.9	(5.1)	(6.1)	(5.6)	(2.8)
Less: Taxation	(45.9)	(37.2)	(48.5)	(65.0)	(94.6)
Effective Tax Rate (%)	(30.5)	(89.1)	(27.0)	(26.0)	(26.0)
Profit After Tax	104.4	4.5	131.1	184.9	269.2
Minorities	0.3	2.6	(0.9)	(4.8)	(15.0)
Net Profit	**104.7**	**7.1**	**130.1**	**180.2**	**254.1**
Net Profit - ex-Exceptionals	**104.7**	**94.5**	**130.1**	**180.2**	**254.1**

Cash Flow

Year to 30 Jun (RMm)	2005	2006	2007F	2008F	2009F
Operating	**45.0**	**152.9**	**93.5**	**96.1**	**199.3**
EBIT	157.3	134.4	185.7	255.5	366.5
Depreciation	2.3	3.4	3.3	2.0	2.0
Working Capital	(112.0)	72.8	(47.0)	(96.5)	(74.6)
Income Tax Paid	(10.8)	(12.7)	(48.5)	(65.0)	(94.6)
Others	8.2	(44.9)	0.0	0.0	0.0
Investing	**(66.3)**	**(107.2)**	**0.0**	**0.0**	**0.0**
CAPEX	(68.0)	(13.7)	0.0	0.0	0.0
Acquisitions/Associates	5.8	5.2	0.0	0.0	0.0
Proceeds from Sale of Fixed Assets	0.5	0.2	0.0	0.0	0.0
Others	(4.6)	(98.8)	0.0	0.0	0.0
Financing	**14.3**	**(59.5)**	**(34.8)**	**(70.8)**	**(119.1)**
Share Issue	1.9	2.7	0.0	0.0	0.0
Debt Repayment	(20.0)	(40.9)	(34.1)	(57.5)	(61.5)
Proceed from Borrowings	50.0	43.2	50.0	50.0	30.0
Dividends Paid	(16.7)	(36.3)	(50.7)	(63.3)	(87.6)
Others	(0.9)	(28.2)	0.0	0.0	0.0
Net Cash Inflow/(Outflow)	**(7.1)**	**(13.8)**	**58.6**	**25.3**	**80.3**
Forex Translations	(0.2)	(1.2)	(1.2)	(1.2)	(1.2)
Beginning Cash & Cash Equivalent	**77.0**	**69.7**	**54.6**	**112.1**	**136.2**
Ending Cash & Cash Equivalent	**69.7**	**54.6**	**112.1**	**136.2**	**215.2**
Adjustments	0.0	31.0	0.0	0.0	0.0
Ending Cash After Adjustments	**69.7**	**23.6**	**112.1**	**136.2**	**215.2**

Ratios

Year to 30 Jun (%)	2005	2006*	2007F	2008F	2009F
Growth					
Turnover	41.9	(2.3)	36.3	69.0	43.1
EBITDA	156.8	(13.7)	37.2	36.3	43.1
Pre-tax Profit	186.1	(14.0)	39.0	39.2	45.5
Net Profit	214.6	(9.7)	37.7	38.4	41.1
EPS	58.2	(19.7)	37.7	38.4	41.1
Profitability					
EBITDA Margin	43.4	38.3	38.6	31.1	31.1
Pre-tax Margin	40.9	36.0	36.7	30.2	30.7
Net Margin	28.5	26.3	26.6	21.8	21.5
ROA	11.9	10.1	13.1	16.0	19.9
ROE	20.2	17.7	24.3	27.7	33.4
Leverage					
Total Debt/Total Asset	21.9	18.8	18.2	15.4	11.2
Total Debt/Equity	36.5	34.7	31.7	26.4	18.5
Net Cash (Debt)/Equity	(24.1)	(30.0)	(13.2)	(6.9)	7.6
Interest Cover (x)	17.4	15.8	21.0	31.9	47.8

** Ex-exceptionals*

Price Range

	2004	2005	2006	2007*
Price (RM)				
High	2.06	1.82	2.10	2.41
Low	1.25	1.14	1.18	1.78
PE (x)				
High	13.1	7.3	9.4	7.8
Low	8.0	4.6	5.3	5.8

** Forecast PE*

RNAV Sensitivity Analysis

Increase in Mont' Kiara Land Price (%)	RNAV (RM)
0	3.55
5	3.69
10	3.84
15	3.98
20	4.12
25	4.27

RNAV

	(RMm)
Surplus on Revaluation of Undeveloped Landbank	889.0
Surplus on Revaluation of Investment Properties	104.0
	993.0
FY06 NTA	506.9
RNAV	**1,499.9**
No. of Shares (m)	422.7
RNAV/Share (RM)	**3.55**

Valuation of Undeveloped Landbank

	Tenure	Stake (%)	Landbank (acres)	NBV (RM psf)	NBV (RMm)	Market Value (RM psf)	Market Value (RMm)	Surplus (RMm)
Mont' Kiara (Prime)	Freehold	100	39.5	70	120.4	400	688.2	567.9
Mont' Kiara (Sub-prime)	Freehold	100	25.0	45	49.0	200	217.8	168.8
Jalan Duta	Freehold	100	15.8	147	101.0	260	178.9	77.9
South Lakes (Mines)	Leasehold	100	60.3	52	136.6	52	136.6	-
Mersing	Freehold	100	431.0	1	20.3	1	20.3	-
Sydney, Australia	Freehold	80	3.5	116	17.7	116	17.7	-
Plaza Mont Kiara	Freehold	100	6.0		54.8		129.3	74.4
- Office (net lettable area, sf)			85,789	187	16.0	420	30.0	
- Retail (net lettable area, sf)			76,145	223	17.0	600	38.1	
- Carpark (bays)			1,529	14,388	22.0	48,000	61.2	
			575.1		**499.8**		**1,418.8**	**889.0**

Valuation of Investment Properties (Under Construction)

	Tenure	Stake (%)	Landbank (acres)	NBV (RM psf)	NBV (RMm)	Market Value (RM psf)	Market Value (RMm)	Surplus (RMm)	DCF @ 11% (RMm)
Solaris Dutamas (Completion FY10)	Freehold	100			243.0		337.4	94.4	69.0
- Retail (net lettable area, sf)			354,448	268	95.0	600	177.4		
- Carpark (bays)			4,000	37,000	148.0	48,000	160.0		
Solaris Mont' Kiara (Completion FY08)	Freehold	100			42.0		80.8	38.8	35.3
- Retail (net lettable area, sf)			17,611	454	8.0	600	8.8		
- Carpark (bays)			1,800	18,889	34.0	48,000	72.0		
Total					**285.0**		**418.2**	**133.2**	**104.0**

WACC

	(%)
Risk-free Rate	4.3
Market Risk Premium	7.0
Total Market Return	11.3
Beta (x)	1.1
Cost of Equity (%)	**12.0**
Gross Cost of Debt	4.5
Tax Rate	27.0
Net Cost of Debt	**3.3**
Gross Debt/Capital	25.0
WACC	**9.8**

Sunway City

Current : RM3.44
Target (12-mth) : RM3.50

BACKGROUND

Sunway City (SunCity) owns 2,380 acres of land, with its RNAV concentrated in Klang Valley. Property development contributes about 80% of earnings while property investment, hospitality, leisure and healthcare make up the balance. GIC has a 25% stake in the company.

OUTLOOK/ RECOMMENDATION

- **Attracting international developers to RM3.5b South Quay project.** Kuwait Finance House has a 20% stake in the entire 124-acre mixed-development South Quay project. Recently, CI Korea Co, a South Korean developer, acquired the right to buy a block of condominiums in South Quay and is interested in another block. There could be more on the cards as SunCity aims to build an international community within the development, attracting the Middle Easterners, Japanese and Koreans. The entry of international developers would boost property values and create new demand.

- **Asset monetisation with largest REIT in Malaysia.** SunCity is planning for a RM3b REIT in 2008, which could bring in RM600m net cash (RM1.44/share) and estimated gains on disposal of RM300m (2x of FY08 net profit). The proceeds would be used to pare down debts (FY06 net debt: RM775m), acquire new landbank and fund property development projects, with any excess returned to shareholders. Both SunCity and GIC will likely hold a 33% stake each in the REIT.

- **Moving into commercial development in Kuala Lumpur,** given attractive demand-supply dynamics due to an ongoing ban on office development in Kuala Lumpur. Recently, SunCity acquired a RM1.5b commercial project in Cheras and is looking at acquiring an office tower and commercial land in Ampang (RM700m). This would lead to margin expansion and create a pipeline of projects for its REIT.

- We raise our target price for SunCity from RM3.20 to RM3.50, based on a 20% discount to RNAV of RM4.35 (using estimated land prices in the next 2-3 years where we have assumed a 20% growth). We estimate SunCity's three-year CAGR at 33%, mainly driven by higher sales, especially from its RM3.5b South Quay project. We have yet to factor in the impact from the REIT which could triple FY08 net profit and mitigate the effect of a possible earnings dilution due to a proposed placement and warrant issue (number of shares up 50% to 625m).

BUY

Sector	Property
Bloomberg	SCITY MK
Website	www.sunway.com.my
Exchange Rate	3.470/US$
52-Wk Range (RM)	3.44/1.50
52-Wk Avg Daily Vol. ('000)	185
No. of Shares (m)	419.7
Market Cap (RMm)	1,443.9
(US$m)	416.1
Major Shareholders (%)	
Sungei Way Corporation S/B	24.3
GSI	24.1
NTA per Share (RM)	2.63
ROE (%)	17.3
Net Debt per Share (RM)	2.14
Alternative Instruments	
Nil	
Results Due	
1Q: Nov	1H: Feb
3Q: May	Final: Aug
Market PE - KLCI (x)	
2006	15.9
2007F	14.3

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Year to 30 Jun	Turnover (RMm)	EBIDTA (RMm)	Net Profit (RMm)	EPS* (sen)	EPS Growth (%)	PE (x)	EV/ EBIDTA (x)	DPS (sen)
2004	992.5	154.7	66.9	32.2	162.4	10.7	12.3	5.0
2006*	1,590.6	412.9	166.5	80.2	148.8	4.3	5.6	7.5
2007F	1,388.4	412.3	118.4	57.1	n.a	6.0	5.3	7.5
2008F	1,287.6	429.4	145.2	70.0	22.8	4.9	5.3	10.0
2009F	1,540.3	513.3	255.4	123.3	76.0	2.8	4.0	12.0

Consensus net profit – FY07: RM124.7m
– FY08: RM138.3m

** 18-month results*

Balance Sheet

Year to 30 Jun (RMm)	2004	18-mth 2006	2007F	2008F	2009F
Fixed Asset	473.4	942.7	1,170.1	1,237.4	1,203.6
Associates/JV	26.0	53.8	67.7	130.0	259.3
Intangibles	13.7	42.1	40.6	39.1	37.6
Investments	466.2	0.0	0.0	0.0	0.0
Deferred Tax Assets	12.3	28.3	28.3	28.3	28.3
Investment Properties	320.2	1,128.7	1,298.7	1,298.7	1,298.7
Land Held for Development	358.7	367.5	349.1	331.7	315.1
Current Assets	**1,064.1**	**1,061.7**	**1,579.4**	**1,595.6**	**1,969.3**
Inventories	45.1	38.6	39.0	34.3	41.1
Trade Debtors	163.8	167.9	198.3	183.9	220.0
Bank Deposits & Cash	386.6	371.9	811.2	660.6	848.1
Amounts Due from Associate	0.1	0.0	0.0	0.0	0.0
Development Properties	465.0	461.6	530.9	716.7	860.0
Others	3.5	21.6	0.0	0.0	0.0
Total Assets	**2,734.6**	**3,624.7**	**4,533.9**	**4,660.7**	**5,111.8**
Current Liabilities	**708.0**	**878.4**	**1,105.1**	**1,040.1**	**1,177.2**
Trade Creditors	182.3	561.6	771.3	715.3	855.7
Borrowings	54.1	301.0	301.0	301.0	301.0
Redeemable Preference Shares	32.8	0.0	0.0	0.0	0.0
Others	438.7	15.8	32.8	23.8	20.5
Long Term Loans	631.8	371.6	663.0	631.4	599.9
Long Term Liabilities	16.4	597.4	597.4	597.4	597.4
Redeemable Preference Shares	129.8	0.0	0.0	0.0	0.0
Others	76.0	175.6	175.6	175.6	175.6
Total Debt	**864.8**	**1,269.9**	**1,561.3**	**1,529.8**	**1,498.2**
Net Cash/(Debt)	**(478.3)**	**(898.0)**	**(750.2)**	**(869.2)**	**(650.1)**
Shareholders' Funds	**839.0**	**1,082.5**	**1,363.8**	**1,450.4**	**1,632.5**
Share Capital	410.5	414.9	624.7	624.7	624.7
Reserves	428.4	667.5	739.1	825.7	1,007.8
Share Premium & Capital Reserves	198.9	195.8	195.8	195.8	195.8
Retained Profits & General Reserves	229.6	471.7	543.2	629.8	812.0
Minority Interests	333.8	519.3	629.1	765.8	929.2
Total Equity & Liabilities	**2,734.6**	**3,624.7**	**4,533.9**	**4,660.7**	**5,111.8**

Cash Flow

Year to 30 Jun (RMm)	2004	18-mth 2006	2007F	2008F	2009F
Operating	**130.8**	**205.1**	**345.0**	**49.3**	**296.7**
EBIT	113.3	364.2	339.8	346.8	429.4
Depreciation	41.4	48.6	72.6	82.7	83.8
Working Capital	(17.3)	381.8	109.6	(222.7)	(45.8)
Interest paid	(37.8)	(71.3)	(84.9)	(92.7)	(90.8)
Income Tax Paid	(45.3)	(94.2)	(92.0)	(64.7)	(80.0)
Investing	**(30.7)**	**(226.0)**	**(283.6)**	**(134.5)**	**(35.4)**
Capex	(83.0)	(208.2)	(300.0)	(150.0)	(50.0)
Proceeds from Disposal of Fixed Assets	157.8	1.2	0.0	0.0	0.0
Acquisition/Disposal of Associate	(14.6)	(5.4)	0.0	0.0	0.0
Land Acquisitions/Disposal	(73.4)	(14.3)	(2.0)	(2.0)	(2.0)
Acquisition/Disposal of Investment Properties	(18.3)	0.0	0.0	0.0	0.0
Others	0.9	0.8	18.4	17.5	16.6
Financing	**142.9**	**0.4**	**399.0**	**(65.3)**	**(73.7)**
Share Issue/Redemption	11.8	4.7	130.0	0.0	0.0
Debt Repayment	0.0	0.0	(81.6)	(31.6)	(31.6)
Proceed from Borrowings	166.7	(38.9)	373.0	0.0	0.0
Redemption of Preference Shares	(32.7)	(108.1)	0.0	0.0	0.0
Dividends Paid	(2.9)	(25.3)	(22.4)	(33.7)	(42.2)
Others	0.0	168.1	0.0	0.0	0.0
Net Cash Inflow/(Outflow)	**243.0**	**(20.5)**	**460.4**	**(150.6)**	**187.5**
Beginning Cash & Cash Equivalent	**128.3**	**371.3**	**350.8**	**811.2**	**660.6**
Ending Cash & Cash Equivalent	**371.3**	**350.8**	**811.2**	**660.6**	**848.1**
Adjustments	0.0	0.0	0.0	0.0	0.0
Ending Cash After Adjustments	**371.3**	**350.8**	**811.2**	**660.6**	**848.1**

Price Range

	2004	2005	2006	2007*
Price (RM)				
High	2.32	2.24	2.22	3.44
Low	1.04	1.02	1.28	2.15
PE (x)				
High	7.2	4.2	2.8	6.0
Low	3.2	1.9	1.6	3.8

** Forecast PE*

Profit & Loss

Year to 30 Jun (RMm)	2004	18-mth 2006	2007F	2008F	2009F
Total Turnover	992.5	1,590.6	1,388.4	1,287.6	1,540.3
Property Development	626.3	960.6	768.8	520.6	696.2
Property Investment	107.0	168.3	176.7	270.3	309.7
Leisure	93.0	103.8	79.7	83.7	87.9
Hospitality	127.1	228.6	268.9	313.9	342.6
Healthcare	72.1	129.3	94.3	99.0	104.0
Others	0.0	0.0	0.0	0.0	0.0
Less: COGS	(837.7)	(1,177.7)	(976.1)	(858.2)	(1,027.1)
EBITDA	154.7	412.9	412.3	429.4	513.3
Less: Depreciation	(41.4)	(48.6)	(72.6)	(82.7)	(83.8)
EBIT (Operating Profit)	113.3	364.2	339.8	346.8	429.4
Net Interest & Investment Income	5.7	12.7	(65.9)	(69.1)	(66.6)
Interest Expense	(47.7)	(64.9)	(84.9)	(92.7)	(90.8)
Interest Income	5.9	12.2	19.0	23.6	24.2
Investment Income	47.5	65.4	0.0	0.0	0.0
Exceptional Items	50.3	0.0	0.0	0.0	0.0
Associates	(0.1)	39.4	19.0	84.2	174.7
Pre-tax Profit	**169.2**	**416.3**	**292.9**	**361.9**	**537.5**
Property Development	162.4	333.9	238.6	244.2	392.6
Property Investment	51.9	78.3	84.8	129.8	148.7
Leisure	(28.5)	(14.0)	0.0	0.0	0.0
Hospitality	2.9	10.7	26.9	47.1	51.4
Healthcare	5.3	8.5	8.5	9.9	11.4
Others	(24.8)	(1.1)	(65.9)	(69.1)	(66.6)
Less: Taxation	(42.6)	(92.0)	(64.7)	(80.0)	(118.8)
Effective Tax Rate (%)	(25.2)	(22.1)	(22.1)	(22.1)	(22.1)
Profit After Tax	126.5	324.3	228.2	281.9	418.7
Minorities	(59.6)	(157.8)	(109.8)	(136.7)	(163.4)
Net Profit	**66.9**	**166.5**	**118.4**	**145.2**	**255.4**

Ratios

Year to 30 Jun (%)	2004	18-mth 2006	2007F	2008F	2009F
Growth					
Turnover	36.2	60.3	(12.7)	(7.3)	19.6
EBITDA	84.4	166.8	(0.1)	4.1	19.5
Pre-tax Profit	57.9	146.1	(29.6)	23.6	48.5
Net Profit	162.4	148.8	(28.9)	22.6	75.9
EPS	162.4	148.8	(28.9)	22.6	75.9
Profitability					
EBITDA Margin	15.6	26.0	29.7	33.4	33.3
Pre-tax Margin	17.0	26.2	21.1	28.1	34.9
Net Margin	6.7	10.5	8.5	11.3	16.6
ROA	2.7	5.2	2.9	3.2	5.2
ROE	8.4	17.3	9.7	10.3	16.6
Leverage					
Total Debt/Total Asset	31.6	35.0	34.4	32.8	29.3
Total Debt/Equity	103.1	117.3	114.5	105.5	91.8
Net Cash (Debt)/Equity	(57.0)	(83.0)	(55.0)	(59.9)	(39.8)
Interest Cover (x)	2.4	5.6	4.0	3.7	4.7

RNAV

	Acres	Stake (%)	Tenure	Cost (RM psf)	Cost (RMm)	Market Value (RM psf)	Market Value (RMm)	Surplus/ (Deficit) (RMm)	Effective Surplus/ (Deficit) (RMm)
South Quay, Bandar Sunway	124	31	Leasehold	16	85.0	85	459.1	374.1	116.0
Sunway Damansara	64	60	Leasehold	26	72.1	85	237.0	164.9	98.9
Sunway SPK, Sri Damansara	60	50	Freehold	32	84.5	85	222.2	137.6	68.8
Kiara Hills, Mont' Kiara	8	88	Freehold	161	56.0	400	139.4	83.4	73.4
Melawati	57	100	Freehold	19	46.0	20	49.7	3.7	3.7
Sunway Cheras	20	100	Leasehold	20	17.7	20	17.7	-	-
Kayangan, Shah Alam	21	60	Leasehold	16	14.8	16	14.8	-	-
Semenyih	39	70	Freehold	5	8.5	5	8.5	-	-
Penang	51	100	Freehold	58	129.7	60	133.3	3.6	3.6
Ipoh	1,155	65	Freehold	1	59.6	2	100.6	41.0	26.7
Sydney, Australia	148	30	Freehold	1	5.1	20	128.9	123.8	37.1
	1,877				**579.0**		**1,524.2**	**932.2**	**428.2**
Investment Properties									
Sunway Pyramid	945,000 sf	52	Leasehold	403 sf	381.2	950	897.8	516.6	268.6
Pyramid Tower Hotel	534 rooms	52	Leasehold	196,573 rooms	105.0	540,000	288.4	183.4	95.4
Sunway Medical Centre	175 beds	61	Leasehold	274,131 beds	48.0	-	48.0	-	-
Sunway Lagoon Theme Park	177,507 sf	51	Leasehold	285 sf	50.6	-	50.6	-	-
Apartments	350,809 sf	100	Leasehold	150 sf	52.5	300	105.2	52.7	52.7
					637.2		**1,389.9**	**752.7**	**416.7**
Shareholders' Funds (FY06)									980.1
RNAV									**1,825.0**
No. of Shares (m)									420.0
RNAV/Share (RM)									**4.35**

Tebrau Teguh

Current : RM0.92
Target (12-mth) : RM5.00

BACKGROUND

Tebrau Teguh owns the last piece of large undeveloped land (1,012 acres) near Johor Bahru city centre. Situated at the Tebrau-Plentong River Basin, the land is adjacent to the Johor-Singapore Causeway and accessible via the North-South Highway. Tebrau Teguh is one of the few companies that own contiguous and sizeable waterfront landbank in Johor Bahru. Its major shareholder (42% stake) is Kumpulan Prasarana Rakyat Johor (KPRJ), Johor's state government development arm.

OUTLOOK/RECOMMENDATION

- **High redevelopment potential and commercial value.** Tebrau Teguh's landbank is the nearest to the proposed Johor Bahru Free Access Zone (FAZ) in the Iskandar Development Region (IDR), which allows free cross-border mobility, one of only two such gazetted areas in Malaysia (the other being Nusajaya FAZ). A recent transaction of commercial land in Johor Bahru city centre was done at RM110 psf. In addition, the Johor State Government is asking for RM380m, or RM221 psf, from the Federal Government for a 16ha land in Bukit Chagar, Johor Bahru. Current market values are significantly above Tebrau Teguh's book value of RM13.40 psf. Its land value is further enhanced by the waterfront feature (stretching 26km) that allows its properties to be priced at a premium. Management is reviewing its old masterplan to take advantage of IDR and its valuable landbank.

- **Greatest RNAV upgrade potential in sector.** Tebrau Teguh's landbank is entirely in Johor, constituting 93% of its total revalued assets. If land prices rise to Johor Bahru city centre's RM110 psf, Tebrau Teguh's RNAV will jump more than three-fold to RM7.06, from its present RNAV of RM1.67. The Ninth Malaysia Plan's (9MP) infrastructure projects, including the Eastern Dispersal Link (which passes through Bayou Bay) and Johor Mass Rapid Transit system, are set to improve accessibility and boost land value further.

- **Attractive M&A candidate.** Tebrau Teguh is trading at a 87% discount to our RNAV of RM7.06, vs a 49% discount for the property sector. The valuation is attractive more so because of Tebrau Teguh's strategic landbank and debt-free balance sheet. There is another 1,150-acre landbank parked under KPRJ. This could represent potential upside for Tebrau Teguh if KPRJ decides to inject the land into Tebrau Teguh for development.

- **Maintain BUY, target price raised to RM5.00.** We raise Tebrau Teguh's target price to RM5.00 (previous: RM1.67). This is based on a 30% discount to its RNAV of RM7.06, which values its 1,012-acre landbank at RM110 psf.

BUY

Sector	Property
Bloomberg	TEB MK
Website	NIL
Exchange Rate	3.470/US$
52-Wk Range (RM)	1.27/0.135
52-Wk Avg Daily Vol. ('000)	1,864.8
No. of Shares (m)	699.7
Market Cap (RMm)	616.2
(US$m)	177.6
Major Shareholders (%)	
Kumpulan Prasarana & Rakyat Johor	42.4
NTA per Share (RM)	0.71
ROE (%)	0.2
Net Debt per Share (RM)	0.003
Alternative Instruments	
Nil	
Results Due	
1Q: May	1H: Aug
3Q: Nov	Final: Feb
Market PE - KLCI (x)	
2006	15.9
2007F	14.3
Malaysia Research Team	
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Year to 31 Dec	Turnover (RMm)	EBIDTA (RMm)	Net Profit (RMm)	EPS (sen)	EPS Growth (%)	PE (x)	EV/ EBIDTA (x)	DPS (sen)
2005	34.2	0.5	(0.3)	(0.0)	n.a	n.a	n.a	0.0
2006	64.5	4.4	1.0	0.2	n.a	351.1	83.4	0.0
2007F	67.7	1.5	0.8	0.1	(20.1)	439.5	246.1	0.0
2008F	73.5	3.7	2.4	0.4	194.0	149.5	99.9	0.0
2009F	82.9	8.3	5.8	0.9	139.8	62.3	43.9	0.0

Balance Sheet

Year to 31 Dec (RMm)	2005	2006	2007F	2008F	2009F
Fixed Asset	4.3	3.6	3.9	4.2	4.4
Associates	2.7	0.0	0.0	0.0	0.0
Intangibles	0.0	0.0	0.0	0.0	0.0
Investments	1.7	1.1	1.1	1.1	1.1
Land Under Development	189.0	189.0	189.0	189.0	189.0
Others	0.0	0.0	0.0	0.0	0.0
Current Assets	**481.2**	**469.7**	**472.4**	**474.5**	**481.8**
Stocks	0.7	0.5	0.7	0.7	0.8
Trade Debtors	32.5	28.1	31.8	34.5	38.9
Bank Deposits & Cash	22.2	14.6	13.6	12.9	15.6
Property Development Cost	401.9	402.1	402.1	402.1	402.1
Loans to Subsidiaries/Associates/Holdings	0.0	0.0	0.0	0.0	0.0
Others	24.0	24.3	24.3	24.3	24.3
Total Assets	**678.8**	**663.5**	**666.5**	**668.9**	**676.3**
Current Liabilities	**51.6**	**35.7**	**40.7**	**43.5**	**48.0**
Trade Creditors	34.5	27.6	32.6	35.4	40.0
Borrowings	5.6	2.4	2.4	2.4	2.4
Others	11.5	5.7	5.7	5.7	5.7
Long Term Loans	14.7	14.7	14.7	14.7	14.7
Bonds	0.0	0.0	0.0	0.0	0.0
Other Long Term Liabilities	139.8	139.6	136.8	133.9	131.0
Total Debt	**20.3**	**17.1**	**17.1**	**17.1**	**17.1**
Net Cash/(Debt)	**1.8**	**(2.4)**	**(3.5)**	**(4.2)**	**(1.5)**
Shareholders' Funds	**472.5**	**473.5**	**474.4**	**476.8**	**482.6**
Share Capital	334.9	334.9	334.9	334.9	334.9
Reserves	137.6	138.7	139.5	141.9	147.7
Share Premium & Capital Reserves	225.8	225.8	225.8	225.8	225.8
Retained Profits & General Reserves	(88.2)	(87.2)	(86.3)	(83.9)	(78.1)
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Equity & Liabilities	**678.6**	**663.5**	**666.5**	**668.9**	**676.3**

Profit & Loss

Year to 31 Dec (RMm)	2005	2006	2007F	2008F	2009F
Total Turnover	34.2	64.5	67.7	73.5	82.9
Property Development	18.6	10.1	10.6	13.6	20.0
Construction	14.8	57.5	60.3	63.4	66.5
Revenue from Hotel Operations	0.0	0.0	0.0	0.0	0.0
Property Management	0.8	1.6	1.7	1.7	1.8
Others	(0.0)	(4.7)	(4.9)	(5.2)	(5.4)
Less: COGS	(33.8)	(60.1)	(66.2)	(69.8)	(74.7)
EBITDA	0.5	4.4	1.5	3.7	8.3
Less: Depreciation	(0.6)	(0.6)	(0.5)	(0.6)	(0.6)
EBIT (Operating Profit)	(0.2)	3.8	1.0	3.1	7.7
Net Interest & Investment Income	(0.1)	0.2	0.2	0.2	0.2
Exceptional Items	0.0	0.0	0.0	0.0	0.0
Associates	0.4	(2.6)	0.0	0.0	0.0
Pre-tax Profit	**0.1**	**1.4**	**1.1**	**3.3**	**7.8**
Property Development	1.6	5.2	1.9	3.9	8.4
Construction	0.6	1.3	1.3	1.4	1.5
Property Management	(0.2)	(0.4)	(0.4)	(0.4)	(0.4)
Consolidation Adjustment	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)
Less: Taxation	(0.3)	(0.4)	(0.3)	(0.9)	(2.0)
Effective Tax Rate (%)	(492.4)	(28.1)	(27.0)	(26.0)	(26.0)
Profit After Tax	(0.3)	1.0	0.8	2.4	5.8
Minorities	0.0	0.0	0.0	0.0	0.0
Net Profit	**(0.3)**	**1.0**	**0.8**	**2.4**	**5.8**

Cash Flow

Year to 31 Dec (RMm)	2005	2006	2007F	2008F	2009F
Operating	**13.1**	**(4.2)**	**2.3**	**2.8**	**6.3**
EBIT	(0.2)	3.8	1.0	3.1	7.7
Depreciation	0.6	0.6	0.5	0.6	0.6
Working Capital	3.6	(2.4)	1.2	0.0	0.0
Income Tax Paid	(0.3)	(0.4)	(0.3)	(0.9)	(2.0)
Others	9.4	(5.8)	0.0	0.0	0.0
Investing	**0.4**	**0.2**	**(0.3)**	**(0.3)**	**(0.3)**
CAPEX	(0.2)	0.0	(0.8)	(0.8)	(0.8)
Acquisitions/Associates	0.0	0.0	0.0	0.0	0.0
Proceeds from Sale of Fixed Assets	0.4	0.0	0.3	0.3	0.3
Others	0.2	0.2	0.2	0.2	0.2
Financing	**(0.8)**	**(3.6)**	**(3.1)**	**(3.2)**	**(3.2)**
Share Issue	0.0	0.0	0.0	0.0	0.0
Debt Repayment	(3.7)	(3.6)	(3.1)	(3.2)	(3.2)
Proceed from Borrowings	3.0	0.0	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Others	(0.1)	0.0	0.0	0.0	0.0
Net Cash Inflow/(Outflow)	**12.7**	**(7.5)**	**(1.1)**	**(0.7)**	**2.7**
Forex Translations	0.0	0.0	0.0	0.0	0.0
Beginning Cash & Cash Equivalent	**9.4**	**22.2**	**14.6**	**13.6**	**12.9**
Ending Cash & Cash Equivalent	**22.2**	**14.6**	**13.6**	**12.9**	**15.6**
Adjustments	0.0	(0.0)	0.0	0.0	0.0
Ending Cash After Adjustments	**22.2**	**14.6**	**13.6**	**12.9**	**15.6**

Ratios

Year to 31 Dec (%)	2005	2006	2007F	2008F	2009F
Growth					
Turnover	(43.7)	88.3	4.9	8.6	12.9
EBITDA	(101.4)	868.3	(66.0)	146.8	125.8
Pre-tax Profit	n.a	n.a	(21.3)	190.1	139.8
Net Profit	n.a	n.a	(20.1)	194.0	139.8
EPS	n.a	n.a	(20.1)	194.0	139.8
Profitability					
EBITDA Margin	1.3	6.8	2.2	5.0	10.0
Pre-tax Margin	0.2	2.2	1.7	4.4	9.5
Net Margin	(0.8)	1.6	1.2	3.3	7.0
ROA	(0.0)	0.2	0.1	0.4	0.9
ROE	(0.1)	0.2	0.2	0.5	1.2
Leverage					
Total Debt/Total Asset	3.0	2.6	2.6	2.6	2.5
Total Debt/Equity	4.3	3.6	3.6	3.6	3.5
Net Cash (Debt)/Equity	0.4	(0.5)	(0.7)	(0.9)	(0.3)
Interest Cover (x)	n.a	n.a	n.a	n.a	n.a

Price Range

	2004	2005	2006	2007*
Price (RM)				
High	0.455	0.25	0.67	1.20
Low	0.19	0.105	0.12	0.51
PE (x)				
High	n.a	n.a	436.0	977.0
Low	n.a	n.a	78.0	45.1

** Forecast PE*

RNAV Sensitivity Analysis

Land Price (RM psf)	RNAV (RM)	Remarks
50	3.11	
110	7.06	Johor Bahru Centre commercial land
150	9.69	
200	12.98	
300	19.56	Singapore land prices

RNAV

	Acres	NBV (RMm)	Market Value (RMm)	Market Value (RM psf)	Surplus/ (Deficit) (RMm)
Plentong-Tebrau	1,011.6	590.9	4,847.0	110	4,256.1
Shareholders' Funds @ 31/12/06					473.5
RNAV					**4,729.6**
No. of Shares (m)					669.7
RNAV/Share (RM)					**7.06**

UEM World

Current : RM3.62
Target (12-mth) : RM7.00

BACKGROUND

UEM World (UEMW) is the largest landbank owner (10,336 acres) in Iskandar Development Region (IDR), South Johor. It is also involved in construction, manufacturing of cement and pharmaceuticals. Its major shareholder is Khazanah Nasional, which owns 50.8% of it.

OUTLOOK/RECOMMENDATION

- **Transforming IDR into international metropolis.** Under the Ninth Malaysia Plan (9MP), the government plans to invest RM12.2b to develop IDR into an international metropolis, on a par with Shenzen, Dubai and Bangalore. Spearheaded by Khazanah, IDR is a high-priority national project and receives the personal attention of the Prime Minister. Major policy changes in the coming months will include unprecedented sale of large tracts of land to international developers and the entry of international theme park operators. To date, several revolutionary policies have been introduced, including the creation of the following: a) two Free Access Zones (FAZ) that will allow for seamless cross-border mobility, b) a one-stop approval centre to cut red tape, and c) a "super-developer" model to fulfill the 30% bumiputra requirement.

- **Land price to jump 300% in 2-3 years time.** UEMW's Nusajaya landbank is expected to attract international developers given its strengths: a) strategic location next to a global city, i.e. Singapore, b) ability to offer large, contiguous parcels of land for large-scale development, and c) lower-cost advantage in terms of land, labour and utilities. The entry of international developers will attract developments of international standards to Nusajaya. We expect this to boost land prices in Nusajaya by 300% to an average of RM30 psf in the next 2-3 years from RM7.50 psf currently.

- **One of the greatest RNAV upgrade potential in the sector from land price appreciation, being the largest listed landowner in IDR.** Based on land price of RM30 psf, UEMW's RNAV is RM7.80. Every RM1 psf (+3.3%) increase in land price would raise our RNAV/share by 23 sen (+2.9%).

- **Three-year earnings CAGR of 32%.** Excluding land disposal gains, UEMW's earnings are expected to grow at a three-year CAGR of 32% to RM297.5m in 2009. This will be driven by an almost four-fold jump in property earnings to RM130.9m in 2009. There is upside to our earnings forecasts in 2008 and 2009 as we have yet to include land disposal gains. If UEMW sells 1,224 acres of land (11.8% of its total landbank) to international developers at RM30 psf, 2008 PE will plunge from 20.1x to just 5x.

- **Target price raised to RM7.00.** Applying a 10% discount to its RNAV, we raise our target price for UEMW to RM7.00 from RM5.51 previously (based on RM20 psf).

BUY

Sector	Construction
Bloomberg	UEM MK
Website	www.uemworld.com
Exchange Rate	3.470/US$
52-Wk Range (RM)	4.28/0.695
52-Wk Avg Daily Vol. ('000)	1,164.1
No. of Shares (m)	1,388.1
Market Cap (RMm)	5,024.9
(US$m)	1,448.1
Major Shareholders (%)	
Khazanah	53.2
NTA per Share (RM)	0.55
ROE (%)	11.7
Net Debt per Share (RM)	3.04
Alternative Instruments	
Nil	
Results Due	
1Q: May	1H: Aug
3Q: Nov	Final: Feb
Market PE - KLCI (x)	
2006	15.9
2007F	14.3

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Year to 31 Dec	Turnover (RMm)	EBIDTA (RMm)	Net Profit (RMm)	EPS (sen)	EPS Growth (%)	PE (x)	EV/ EBIDTA (x)	DPS (sen)
2005*	3,257.3	466.5	(110.9)	(7.4)	n.a	n.a	18.5	1.0
2006*	4,784.4	713.7	129.7	9.3	n.a	38.7	13.0	1.5
2007F	6,331.9	1,285.4	559.1	40.3	331.0	9.0	5.4	2.0
2008F	6,209.9	919.5	243.3	17.5	(56.5)	20.6	6.9	2.5
2009F	6,803.9	1,041.0	297.5	21.4	22.3	16.9	5.7	3.0

Consensus net profit – FY07: RM558.9m
– FY08: RM267.6m

** Ex-exceptionals*

Balance Sheet

Year to 31 Dec (RMm)	2005	2006	2007F	2008F	2009F
Fixed Asset	1,241.8	1,236.5	1,267.5	1,294.6	1,318.2
Investment & Real Properties	2,275.3	2,362.0	1,412.9	1,412.9	1,412.9
Development properties	15.6	0.0	0.0	0.0	0.0
Concession Asset	784.4	804.6	804.6	804.6	804.6
Associates/Joint Ventures	322.8	179.6	179.6	179.6	179.6
Intangibles	276.0	500.8	500.8	500.8	500.8
Investments	66.3	66.3	66.3	66.3	66.3
Others	175.5	277.8	277.8	277.8	277.8
Current Assets	**3,380.6**	**4,190.5**	**4,972.5**	**5,276.8**	**6,023.4**
Stocks	338.9	348.7	534.8	524.5	574.6
Trade Debtors	1,555.8	2,118.2	2,431.2	2,384.3	2,612.4
Bank Deposits & Cash	931.4	995.0	1,278.0	1,639.4	2,107.8
Development Properties	497.9	507.6	507.6	507.6	507.6
Loans to Subsidiaries/Associates/Holdings	35.7	130.3	130.3	130.3	130.3
Others	21.1	90.7	90.7	90.7	90.7
Total Asset	**8,538.3**	**9,618.1**	**9,482.0**	**9,813.3**	**10,583.6**
Current Liabilities	**2,503.4**	**2,608.9**	**2,797.1**	**2,570.2**	**2,701.0**
Trade Creditors	1,002.3	1,104.3	1,394.0	1,367.1	1,497.9
Borrowings	1,034.8	1,082.2	982.2	782.2	782.2
Provisions	340.7	317.5	317.5	317.5	317.5
Loans from Subsidiaries/Associates/Holdings	97.7	73.3	73.3	73.3	73.3
Others	28.0	31.5	30.0	30.0	30.0
Long Term Loans	1,606.0	2,199.2	2,199.2	2,199.2	2,199.2
Bonds	1,916.8	1,935.7	0.0	0.0	0.0
Other Long Term Liabilities	340.3	395.7	840.9	977.2	1,115.0
Total Debt	**4,557.6**	**5,217.1**	**3,181.4**	**2,981.4**	**2,981.4**
Net Cash/(Debt)	**(3,626.2)**	**(4,222.2)**	**(1,903.4)**	**(1,342.0)**	**(873.6)**
Shareholders' Funds	**948.2**	**1,265.7**	**1,804.6**	**2,022.3**	**2,289.0**
Share Capital	1,388.1	1,388.1	1,388.1	1,388.1	1,388.1
Reserves	(439.9)	(122.4)	416.5	634.2	900.9
Share Premium & Capital Reserves	381.9	382.7	382.7	382.7	382.7
Retained Profits & General Reserves	(821.8)	(505.0)	33.8	251.5	518.2
Minority Interests	1,223.6	1,211.9	1,840.3	2,044.5	2,279.5
Total Equity & Liabilities	**8,538.3**	**9,618.1**	**9,482.0**	**9,813.3**	**10,583.6**

Cash Flow

Year to 31 Dec (RMm)	2005	2006	2007F	2008F	2009F
Operating	**110.9**	**(129.5)**	**810.9**	**792.5**	**706.5**
EBIT	310.7	546.4	1,116.4	746.5	864.7
Depreciation	155.8	167.3	169.0	172.9	176.4
Working Capital	(578.4)	(589.2)	(209.3)	30.3	(147.5)
Income Tax Paid	(42.5)	(92.0)	(265.1)	(157.2)	(187.1)
Others	265.2	(162.0)	0.0	0.0	0.0
Investing	**(378.3)**	**(131.1)**	**1,739.3**	**(196.4)**	**(196.4)**
Capex	(114.0)	(140.5)	(200.0)	(200.0)	(200.0)
Investment in real properties	(13.3)	(8.3)	0.0	0.0	0.0
Concession Assets	(13.0)	(23.1)	0.0	0.0	0.0
Acquisitions/Associates	(238.9)	(25.3)	505.3	0.0	0.0
Proceeds from Sale of Fixed Assets	13.0	29.4	1,430.4	0.0	0.0
Others	(12.1)	36.8	3.6	3.6	3.6
Financing	**120.7**	**355.8**	**(2,063.5)**	**(234.7)**	**(41.6)**
Share Issue	469.7	0.0	0.0	0.0	0.0
Debt Repayment	(1,704.4)	(782.6)	(2,235.7)	(400.0)	(200.0)
Proceed from Borrowings	1,585.7	1,302.1	200.0	200.0	200.0
Dividends Paid	(13.9)	(13.9)	(27.8)	(34.7)	(41.6)
Others	(216.4)	(149.9)	0.0	0.0	0.0
Net Cash Inflow/(Outflow)	**(146.7)**	**95.1**	**486.8**	**361.4**	**468.4**
Forex Translations	(0.8)	11.5	0.0	0.0	0.0
Beginning Cash & Cash Equivalent	**832.0**	**684.5**	**791.2**	**1,278.0**	**1,639.4**
Ending Cash & Cash Equivalent	**684.5**	**791.2**	**1,278.0**	**1,639.4**	**2,107.8**
Adjustments	246.8	203.8	203.8	203.8	203.8
Ending Cash After Adjustmentss	**931.4**	**995.0**	**1,481.8**	**1,843.2**	**2,311.6**

Price Range

	2004	2005	2006	2007*
Price (RM)				
High	1.71	1.00	2.08	4.18
Low	0.95	0.31	0.35	1.73
PE (x)				
High	37.2	n.a	23.3	10.4
Low	20.7	n.a	3.7	4.3

** Forecast PE*

Profit & Loss

Year to 31 Dec (RMm)	2005	2006	2007F	2008F	2009F
Total Turnover	3,257.3	4,784.4	6,331.9	6,209.9	6,803.9
Engineering & Construction (UEM Builders & Opus)	1,983.4	2,490.2	2,836.0	4,011.6	4,412.5
Healthcare (Pharmaniaga)	400.1	1,057.9	1,096.2	1,151.0	1,208.6
Environmental Services	104.4	123.2	123.2	123.2	123.2
Property	208.4	453.1	1,631.5	257.7	380.4
Manufacturing (CIMA)	561.1	656.8	645.0	666.3	679.2
Others	0.0	3.1	0.0	0.0	0.0
Less: COGS	(2,790.8)	(4,070.7)	(5,046.6)	(5,290.4)	(5,762.9)
EBITDA	466.5	713.7	1,285.4	919.5	1,041.0
Less: Depreciation	(155.8)	(167.3)	(169.0)	(172.9)	(176.4)
EBIT (Operating Profit)	310.7	546.4	1,116.4	746.5	864.7
Net Interest & Investment Income	(128.4)	(157.6)	(184.5)	(191.8)	(195.0)
Exceptional Items	(346.7)	(1.7)	0.0	0.0	0.0
Associates	(9.5)	(91.7)	50.0	50.0	50.0
Pre-tax Profit	**(173.9)**	**295.5**	**981.9**	**604.7**	**719.6**
Engineering & Construction (UEM Builders & Opus)	(181.4)	84.0	295.3	385.5	417.4
Healthcare (Pharmaniaga)	20.8	20.5	43.2	49.5	52.0
Environmental Services	10.3	19.0	19.0	19.0	19.0
Property	47.5	109.4	512.2	60.1	130.9
Manufacturing (CIMA)	(14.8)	55.2	102.3	113.0	122.8
Investment	(22.2)	29.8	32.3	0.0	0.0
Eliminations	(27.1)	(22.4)	(22.4)	(22.4)	(22.4)
Less: Taxation	(41.4)	(97.1)	(265.1)	(157.2)	(187.1)
Effective Tax Rate (%)	23.8	(32.9)	(27.0)	(26.0)	(26.0)
Profit After Tax (PAT)	(215.3)	198.4	716.8	447.5	532.5
PAT from Discount Operations	(1.6)	(1.9)	0.0	0.0	0.0
Minorities	106.0	(66.8)	(157.6)	(204.2)	(235.0)
Net Profit	**(110.9)**	**129.7**	**559.1**	**243.3**	**297.5**

Ratios

Year to 31 Dec (%)	2004	2005	2006F	2007F	2008F
Growth					
Turnover	13.8	46.9	32.3	(1.9)	9.6
EBITDA	43.9	53.0	80.1	(28.5)	13.2
Pre-tax Profit	n.a	n.a	232.2	(38.4)	19.0
Net Profit	n.a	n.a	331.0	(56.5)	22.3
EPS	n.a	n.a	331.0	(56.5)	22.3
Profitability					
EBITDA Margin	14.3	14.9	20.3	14.8	15.3
Pre-tax Margin	(5.3)	6.2	15.5	9.7	10.6
Net Margin	(3.4)	2.7	8.8	3.9	4.4
ROA	(1.4)	1.4	5.9	2.5	2.9
ROE	(10.7)	11.7	36.4	12.7	13.8
Leverage					
Total Debt/Total Asset	53.4	54.2	33.6	30.4	28.2
Total Debt/Equity	480.7	412.2	176.3	147.4	130.3
Net Cash (Debt)/Equity	(382.4)	(333.6)	(105.5)	(66.4)	(38.2)
Interest Cover (x)	2.4	3.5	6.1	3.9	4.4

RNAV Sensitivity Analysis

Land Prices (RM psf)	RNAV/Share (RM)	Mixed Development For
7.50	2.58	Johor
10.00	3.16	-
20.00	5.48	Shah Alam-Klang, Selangor
30.00	**7.80**	**Bayan Lepas, Penang**
60.00	14.76	Damansara-Sungai Buloh, Selangor
100.00	24.04	Singapore*
300.00	70.42	Singapore^

Note: Based on 71.5% ownership of Nusajaya land, through UEM Land
** Industrial land; ^ Mixed development land*

RNAV

Surplus/(Deficit)	(RMm)
UEM Builders @ RM1.51	480.8
CIMA @ RM5.55	60.8
Opus International @ RM1.93	21.5
Pharmaniaga @ RM3.90	71.9
Nusajaya Landbank @ RM30 psf	8,403.0
Net Surplus/(Deficit)	**9,038.1**
Shareholders' Funds (Post-Degearing Exercise)	1,791.5
RNAV	**10,829.6**
No. of Shares (m)	1,388.1
RNAV/Share (RM)	**7.80**

YNH Property

Current : RM2.18
Target (12-mth) : RM2.80

BACKGROUND

YNH Property is an up-and-coming mid-cap developer from Perak. It aims to make its mark in Klang Valley via a RM1b JV, its biggest project to date, with CapitaLand. YNH is the largest property developer in Manjung (65-70% market share) that sees steady demand from Lumut Naval Base's 1,000 new recruits p.a. YNH owns 1,000 acres of land in Perak and has secured 18 acres in Golden Triangle Kuala Lumpur and Hartamas in the last 2½ years.

RECOMMENDATION/OUTLOOK

- **Diversifying to Kuala Lumpur via JVs.** To date, YNH has entered into six JVs in prime areas in Klang Valley (Golden Triangle and Mont' Kiara), with a total GDV of RM1.9b. It recently made its foray into commercial properties via a RM1b JV with CapitaLand to develop a Grade A office tower in Golden Triangle Kuala Lumpur. We estimate the Kuala Lumpur projects' contributions to YNH's bottom line will increase significantly to 89% in 2009 from 34% in 2006.

- **JV with CapitaLand a good strategic move to raise profile.** YNH can leverage on CapitaLand's strengths: a) strong brand name, b) international marketing network, and c) access to cheaper project financing. Given the limited incoming supply in Kuala Lumpur due to an ongoing ban and strong demand for quality office space, the commercial project is likely to achieve strong take-up rates and benchmark pricing (RM800 psf, or 27% premium to the existing market value). There could be upside to our RM1b GDV assumption as YNH is negotiating en-bloc sales with a few interested parties (including CapitaLand-Maybank Malaysian Commercial Development Fund). We believe the JV with CapitaLand is just the beginning and more JVs with foreign partners are on the cards.

- **Continuous strong earnings growth.** Since its listing in 2003, YNH has chalked up a respectable three-year earnings CAGR of 33% driven by high EBITDA margins (more than 40%) due to its cheap landbank. This has put YNH on a par with IOI Properties as property developers with the highest margins. We expect earnings growth in 2007-09 to stay strong (three-year CAGR 43%), driven by its Kuala Lumpur launches over the next two years, especially that for the office tower.

We initiate coverage of YNH with a BUY call and a target price of RM2.80 based on a 20% discount to our RNAV of RM3.41. Every 10% increase in the gross development value (GDV) of the office JV with CapitalLand, will boost its RNAV by 3.5%.

BUY

Sector	Property
Bloomberg	YNHB MK
Website	nil
Exchange Rate	3.470/US$
52-Wk Range (RM)	2.50/1.20
52-Wk Avg Daily Vol. ('000)	1,205
No. of Shares (m)	355.7
Market Cap (RMm)	775.4
(US$m)	223.5
Major Shareholders (%)	
Dato' Dr Yu Kuan Chon	19.3
NTA per Share (RM)	1.36
ROE (%)	15.4
Net Debt per Share (RM)	0.23
Alternative Instruments	
Nil	
Results Due	
1Q: May	1H: Aug
3Q: Nov	Final: Feb
Market PE - KLCI (x)	
2006	15.9
2007F	14.3
Malaysia Research Team	
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Year to 31 Dec	Turnover (RMm)	EBIDTA (RMm)	Net Profit (RMm)	EPS (sen)	EPS Growth (%)	PE (x)	EV/ EBIDTA (x)	DPS (sen)
2005	168.7	77.9	53.6	15.3	39.8	14.3	10.9	8.0
2006	265.3	99.7	71.8	20.5	34.1	10.6	8.5	6.0
2007F	389.7	132.9	93.8	26.7	30.5	8.2	6.3	8.0
2008F	786.6	301.9	177.0	50.5	88.8	4.3	2.6	15.0
2009F	1,102.2	412.0	209.6	59.8	18.4	3.6	1.5	18.0

Consensus net profit – FY07: RM102.3m
– FY08: RM117.0m

Balance Sheet

Year to 31 Dec (RMm)	2005	2006	2007F	2008F	2009F
Fixed Asset	166.1	147.8	147.1	146.4	145.6
Associates	0.0	0.0	0.0	0.0	0.0
Intangibles	17.6	17.6	17.6	17.6	17.6
Investments	0.0	0.0	0.0	0.0	0.0
Defferred Tax	1.5	6.4	6.4	6.4	6.4
Land Held for Development	107.2	126.9	120.6	114.6	108.8
Others	0.0	0.0	0.0	0.0	0.0
Current Assets	**333.3**	**369.9**	**485.8**	**645.9**	**882.9**
Stocks	7.0	18.4	26.0	39.3	36.7
Trade Debtors	142.9	119.9	129.9	196.7	220.4
Bank Deposits & Cash	33.6	15.3	22.9	71.2	262.4
Investments	0.0	0.0	0.0	0.0	0.0
Loans to Subsidiaries/Associates/Holdings	0.3	0.0	0.0	0.0	0.0
Development Properties	109.5	79.1	90.9	122.8	147.3
Others	149.6	216.0	216.0	216.0	216.0
Total Assets	**625.8**	**668.8**	**777.5**	**931.0**	**1,161.5**
Current Liabilities	**128.5**	**129.7**	**202.2**	**188.6**	**180.4**
Trade Creditors	18.8	11.6	22.3	45.0	63.1
Borrowings	88.2	75.3	75.3	75.3	75.3
Others	21.5	42.8	104.6	68.3	42.0
Long Term Loans	28.6	21.6	21.6	21.6	21.6
Bonds	0.0	0.0	0.0	0.0	0.0
Other Long Term Liabilities	29.3	24.5	24.5	24.5	24.5
Total Debt	**116.7**	**96.9**	**96.9**	**96.9**	**96.9**
Net Cash/(Debt)	**(83.2)**	**(81.6)**	**(73.9)**	**(25.7)**	**165.5**
Shareholders' Funds	**439.4**	**493.0**	**529.2**	**653.2**	**799.9**
Share Capital	350.6	354.0	354.0	354.0	354.0
Reserves	88.8	109.6	175.2	299.2	445.8
Share Premium & Capital Reserves	19.1	19.1	19.1	19.1	19.1
Retained Profits & General Reserves	69.8	90.5	156.2	280.1	426.8
Minority Interests	0.0	0.0	0.0	43.1	135.1
Total Equity & Liabilities	**625.8**	**668.8**	**777.5**	**931.0**	**1,161.5**

Cash Flow

Year to 31 Dec (RMm)	2005	2006	2007F	2008F	2009F
Operating	**(30.1)**	**26.9**	**29.4**	**95.3**	**248.3**
EBIT	77.2	99.0	132.1	301.2	411.3
Depreciation	0.7	0.8	0.7	0.7	0.7
Working Capital	166.4	34.9	(18.8)	(89.2)	(27.7)
Income Tax Paid	(20.1)	(26.9)	(34.7)	(77.3)	(106.0)
Others	(254.3)	(80.8)	(50.0)	(40.0)	(30.0)
Investing	**(73.7)**	**(3.5)**	**6.3**	**6.0**	**5.7**
CAPEX	(65.7)	0.0	0.0	0.0	0.0
Acquisitions/Associates	0.0	0.0	0.0	0.0	0.0
Proceeds from Sale of Fixed Assets	2.2	0.0	0.0	0.0	0.0
Others	(10.2)	(3.5)	6.3	6.0	5.7
Financing	**115.4**	**5.2**	**(28.1)**	**(53.1)**	**(62.9)**
Share Issue	107.4	0.0	0.0	0.0	0.0
Debt Repayment	(12.9)	0.0	0.0	0.0	0.0
Proceed from Borrowings	18.0	30.0	0.0	0.0	0.0
Dividends Paid	(25.1)	(25.4)	(28.1)	(53.1)	(62.9)
Others	28.0	30.6	0.0	0.0	0.0
Net Cash Inflow/(Outflow)	**11.7**	**28.6**	**7.6**	**48.2**	**191.2**
Beginning Cash & Cash Equivalent	**(33.5)**	**33.6**	**15.3**	**22.9**	**71.2**
Ending Cash & Cash Equivalent	**(21.9)**	**62.2**	**22.9**	**71.2**	**262.4**
Adjustments	(55.4)	46.9	0.0	0.0	0.0
Ending Cash After Adjustments	**33.6**	**15.3**	**22.9**	**71.2**	**262.4**

Price Range

	2004	2005	2006	2007*
Price (RM)				
High	1.62	1.39	2.07	2.50
Low	1.08	1.07	1.15	1.81
PE (x)				
High	15.0	9.1	10.1	9.3
Low	10.0	7.0	5.6	6.8

** Forecast PE*

Profit & Loss

Year to 31 Dec (RMm)	2005	2006	2007F	2008F	2009F
Total Turnover	168.7	265.3	389.7	786.6	1,102.2
Less: COGS	(90.8)	(165.6)	(256.9)	(484.8)	(690.2)
EBITDA	77.9	99.7	132.9	301.9	412.0
Less: Depreciation	(0.7)	(0.8)	(0.7)	(0.7)	(0.7)
EBIT (Operating Profit)	77.2	99.0	132.1	301.2	411.3
Property development	86.8	115.9	146.8	319.6	431.8
Construction	5.8	0.0	4.0	2.0	2.0
Others	(15.4)	(16.9)	(18.6)	(20.5)	(22.5)
Net Interest & Investment Income	(2.5)	(4.1)	(3.7)	(3.7)	(3.7)
Interest Expense	(2.5)	(4.1)	(3.7)	(3.7)	(3.7)
Interest Income	0.0	0.0	0.0	0.0	0.0
Investment Income	0.0	0.0	0.0	0.0	0.0
Exceptional Items	0.3	1.2	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**75.0**	**98.7**	**128.4**	**297.4**	**407.5**
Less: Taxation	(21.4)	(26.9)	(34.7)	(77.3)	(106.0)
Effective Tax Rate (%)	(28.6)	(27.2)	(27.0)	(26.0)	(26.0)
Profit After Tax	53.6	71.8	93.8	220.1	301.6
Minorities	0.0	0.0	0.0	(43.1)	(92.0)
Net Profit	**53.6**	**71.8**	**93.8**	**177.0**	**209.6**

Ratios

Year to 31 Dec (%)	2005	2006	2007F	2008F	2009F
Growth					
Turnover	38.3	57.3	46.9	101.8	40.1
EBITDA	58.4	28.0	33.2	127.2	36.5
Pre-tax Profit	47.0	31.6	30.1	131.6	37.0
Net Profit	39.8	34.1	30.5	88.8	18.4
EPS	39.8	34.1	30.5	88.8	18.4
Profitability					
EBITDA Margin	46.2	37.6	34.1	38.4	37.4
Pre-tax Margin	44.5	37.2	33.0	37.8	37.0
Net Margin	31.8	27.1	24.1	28.0	27.4
ROA	9.9	11.1	13.0	20.7	20.0
ROE	14.4	15.4	18.3	29.9	28.8
Leverage					
Total Debt/Total Asset	18.7	14.5	12.5	10.4	8.3
Total Debt/Equity	26.6	19.6	18.3	14.8	12.1
Net Cash (Debt)/Equity	(18.9)	(16.6)	(14.0)	(3.9)	20.7
Interest Cover (x)	30.4	24.1	35.6	81.0	110.7

RNAV Sensitivity Analysis

Increase in GDV of office JV with CapitaLand (RMm)	RNAV/Share (RM)
1,000	3.17
1,250	3.41
1,500	3.66
1,750	3.89
2,000	4.14

RNAV

	(RMm)
NPV of Projects @ 8% WACC	601.3
Surplus on Revaluation of Undeveloped Landbank	123.5
	724.8
FY06 NTA	470.1
RNAV	**1,194.9**
No. of Shares (m)	350.6
RNAV/Share (RM)	**3.41**

Undeveloped Landbank

Project	Location	Acres	% Owned	Cost (RM psf)	NBV (RMm)	Market Value (RM psf)	Revalued Amount (RMm)	Effective Surplus/(Deficit) (RMm)
Manjung, Sitiawan, Lumut, Teluk Intan	Perak	1,007	100	2	95.9	5	219.4	123.5

WACC

	(%)
Risk-free Rate	4.3
Market Risk Premium	7.0
Total Market Return	11.3
Beta (x)	0.8
Cost of Equity (%)	**9.6**
Gross Cost of Debt	2.6
Tax Rate	27.0
Net Cost of Debt	**1.9**
Gross Debt/Capital	20.0
WACC	**8.1**

Appendices

FIC Guidelines on Property Acquisition by Foreign Interests

General Rule	Existing	Exemptions
1) Approval required for	- All acquisitions - Leases >10 years - Charging of property to foreign bank located outside Malaysia (totally not allowed if the purpose is for providing financing to projects located outside Malaysia)	a) Purchase of residential properties >RM250k b) Acquisition of property in MSC by local co (owned by foreign interest which has MSC status) for own operational activities (including employees' residence) c) Transfer of property pursuant to will & court order
2) Min value	RM250k	- Permanent Resident: RM60k-RM150k allowed if a) Married to Malaysian citizen b) Applying for Malaysian citizenship - Acquisition of property >RM60k by local manufacturing co (owned by foreign interest) solely for employees & not built on Malay reserve land/Bumi-allocated lots - No minimum floor for industrial properties - Agricultural land >RM250k & min 5 acres & must be for agricultural activities on a commercial scale using modern/ high tech, or agro-tourism project, or for the production of export goods (relaxation of equity conditions may be considered)
3) Restrictions	a) Low-medium cost b) Properties on Malay reserve land c) Bumi lots d) Stall & service workshops e) 1- & 2-storey shophouses from non-property developers/owners f) "Homestead" agriculture land	
4) Acquisition of property registered under local co with min 30% Bumi interest & share cap >RM250k required for	a) Single transaction >RM10m b) Acquisition of entire buildings/ property development projects irrespective of value c) Acquisition of land for redevelopment on a commercial basis	a) Property acquired for own residence b) Listed co which has complied with equity conditions upon listing c) Acquisition of industrial property for own manufacturing operations not subjected to min 30% Bumi quota (for locally incorporated co)
5) Others	- Min 75% total value of building materials & fittings should be local materials	

Source: FIC

Government Policies on Property

Date	Policies	Impact
24 Jun 95	Restrictions on property imposed by FIC	Foreigners can only buy residential properties worth above RM250k & are not allowed to purchase link houses, low to medium cost houses, Malay reserve land or Bumiputra quotas.
17 Oct 95	Revision of credit guidelines by BNM	Purchasers can take mortgages up to 60% of the value of non-owner-occupied residential & retail properties worth above RM150k & RM300k respectively.
27 Oct 95	Imposed foreign property ownership restrictions under 1996 budget	RM100k levy on transfers of ownership in properties to foreign purchasers. RPGT increased by 5% to 10% depending on the disposal dates & a fixed 30% on foreigners.
01 Nov 95	Foreign ownership guidelines	Foreigners are not allowed to buy any type of properties other than industrial land worth RM250k or below. Foreigners are not allowed to purchase double-storey link houses, low to medium cost houses & flats, Malay reserve land, Bumiputra quotas or a second house.
28 Mar 97	Credit restrictions imposed by BNM	Banks are required to observe a limit on credit facilities extended to the property sector of 20% of their total outstanding loans. Exemption from the limit include residential properties worth RM150k & below, infrastructure projects & industrial buildings.
22 Apr 98	FIC eased rules on foreign purchases	Foreigners can purchase residential & commercial properties worth above RM250k for projects that are at least 50% in progress.
07 Sep 98	Lending for housing eased	Lending for construction or purchase of residential properties worth below RM250k are exempted from the 20% limit on the property sector.
06 Jan 99	Property lending restricted	Banks are not allowed to finance hotels, resorts, office buildings, golf courses, clubs & shopping complexes & the development of houses & shophouses costing above RM250k. This rule is applicable to yet-to-be-approved applications & for those already approved, banks can disburse for the completion of the current purchase of development.
27 Mar 01	Incentives to help reduce property overhang	To reduce property overhang, the government reinstated in 2001 incentives provided during the Housing Campaign which also include exemption from stamp duty, waiver of processing fee & higher margin of financing.
04 May 01	FIC eased rules on property	Foreigners can purchase all types of properties worth above RM250k plus with domestic bank financing. Under the Silver-Haired Programme, foreign senior citizens can purchase residential properties worth above RM150k in certain areas.
26 Jun 01	Stamp duty for Danaharta waived	To clear property overhang & to speed up bank debt restructuring, stamp duties for properties bought from Danaharta are waived from 5 Jun to 31 Dec 2001.
26 Oct 01	Foreign property ownership rules further eased under 2001 budget	FIC approval is now required for properties worth above RM10m (previously RM5m). Foreigners can purchase commercial property worth above RM250k with domestic financing. Qualified retirees can also buy residential properties above RM150k.
20 Nov 01	Property lending eased	No restrictions on financing for housing & shophouses. The restrictions remain unchanged for financing commercial properties & shophouses worth above RM250k that are not located within residential areas.
19 Mar 02	Extension of stamp duty waiver	The primary residential properties sold by developers registered under the Real Estate & Housing Developers' Association between 1 Jan 1 & 30 Jun 2002 are exempted from stamp duty.
3Q02	Repatriation of illegal workers	Repatriation of illegal workers effective.

Government Policies on Property (continued)

Date	Policies	Impact
20 May 03	The third stimulus package	Ceiling price for foreign purchase of properties is reduced to RM150k per unit (from RM250k previously). Low interest rates or maximum of RM600 payment for first year for houses worth below RM100k. Tax exemption of RM5k on loan interest in 2003, RM3k in 2004 & RM2k in 2005 for houses that worth RM100k-180k. Exemption from stamp duty for houses worth below RM180k. Exemption from RPGT for 1 year.
09 Oct 04	Budget 2005 – revision of REIT tax structure	REIT distribution no longer taxed at source but at unit holders' level.
29 Oct 04	Repatriation of illegal workers	Repatriation of illegal workers.
03 Jan 05	New REIT Guidelines	Supersedes guidelines on property trust funds 2002. Liberalisation of the borrowing limits for REIT (35% of asset value), relaxation on acquisitions of leasehold properties & flexibility accorded to acquisitions of real estates that were encumbered by financial charges.
03 Oct 05	Budget 2006: RPGT exemption, RM2b Bumi property trust fund	RPGT exemption on a residential property given to both husband & wife (vs either one previously). To increase Bumiputra's wealth & participation in the property sector, RM2b Yayasan Amanah Hartanah Bumiputera will be established to invest in commercial properties.
22 Nov 05	Islamic REIT Guidelines	Global first, complements earlier REIT guidelines. Syariah compliance criteria for Islamic REITs including permissible & non-permissible rental & investment activities of the fund.
01 Jan 06	Lower legal fees for standard Sale & Purchase Agreements (SPAs)	Fees for standard SPA & related financing documentation reduced to a fixed RM250 for property costing up to RM45,000, a 25% discount for between RM45,000 & RM100,000, a 30% discount for between RM100,000 & RM500,000 & 35% discount for unit of more than RM500,000. Previously, a fee of RM2,550 is charged for property worth RM300,000, (1% for the first RM150,000 & 0.7% for the next RM150,000).
10 Apr 06	Change in EPF withdrawal	EPF contributors can now withdraw their Account II savings yearly (from once every three years previously) to reduce or settle their housing loans.
20 Jul 06	New incentives under the build-and-sell concept	1) Speedy approval of land matters & development plans from 1 to 2 years, to 4 to 6 months. 2) Exemption from paying the RM200,000 deposit & stamp duties for developers. 3) Developers in areas with surplus or enough low-cost houses have the flexibility to build low-medium cost houses. 4) Allows buyers to pay 10% of the price first & the balance payable upon completion of the property (including a permanent certificate of fitness being issued).
01 Sep 06	Budget 2007- revision of REIT tax structure	1) REITs would be fully exempted from tax if they distribute at least 90% of income to investors. Previously, any undistributed incomes are taxed at REIT level. 2) For five years, effective from Jan 1, 2007, individual REIT investors would be subject to a withholding tax of 15%, while foreign institutional investors are subject to 20% (from 28% previously).
13 Nov 06	FAZ at IDR	Foreigners can live in designated areas & travel to work in Singapore without having to go through Customs checks & local immigration. Activities would be allowed round the clock.
11 Dec 06	Deferment of stamp duties withdrawn	Buyers now have to pay up within 14 days from date of agreement vs previously where payment could be deferred until the property was built.
21 Dec 06	Liberalisation of FIC approvals	Effective 21 Dec 06, foreigners can purchase residential properties valued above RM250,000 each without the FIC's approval. Restrictions on usage & number of units are also lifted.

Source: Various

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As of 21 March 2007, the analyst and his/her immediate family do not hold positions in the securities recommended in this report.

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